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Date: June 3, 2016
To: Federal Open Market Committee
From: Steven Kamin, Thomas Laubach, and David Wilcox
Subject: A new policy rule for the staff economic and financial forecast

In recent Tealbooks, the staff baseline trajectory for the federal funds rate has been considerably more steeply upward-sloping than the median of Committee participant views as reported in the Summary of Economic Projections. The attached memorandum, prepared by Christopher Erceg, Etienne Gagnon, David López-Salido, Matthias Paustian, and James Trevino, addresses that issue and proposes a new policy rule, which will be implemented in the Tealbook forecast slated for publication next Wednesday. The new rule generates a trajectory for the funds rate that seems to more-closely approximate Committee thinking about the future trajectory of the policy rate. The memo also discusses the extent to which the Tealbook projection will be affected by the new policy rule. The team of authors come from the Divisions of International Finance, Monetary Affairs, and Research and Statistics.

Please let any of us, or any of the authors, know if you have questions you would like to have addressed.