Board of Governors of the Federal Reserve System
Division of Monetary Affairs
FOMC Secretariat

Date: August 31, 2012

To: Governors and Reserve Bank Presidents

From: Deborah J. Danker

Subject: Request for September Projections

As part of the upcoming policy round, FOMC meeting participants are requested to submit projections through 2015. Attached to this cover note is a timeline of the projections process (Attachment 1), a description of the scope of the projections and narrative (Attachment 2), and an updated version of the usual table providing background information on forecast uncertainty (Attachment 3).

Initial projections are due by **5:00 pm ET on Friday, September 7.** (We will be following up with each of your offices to verify contact information in case there is a need to discuss or correct any projections over the weekend of September 8-9.) Any subsequent revisions to your projections should be provided as soon as you have them, but no later than **9:00 pm on Wednesday, September 12**. If absolutely necessary, a revision could be submitted up until the end of the coffee break on the second day of the meeting—or, if it turns out that there is no coffee break, until shortly after the meeting has ended. At that point, however, projections will be finalized.

For the convenience of Bank Presidents and Bank staff, connections to the System IT network will be available in the Special Library on September 13, so that any last-minute revisions could be submitted (please be sure to bring your laptop if you intend to use these connections). Alternatively, we will have paper copies of individual projections available, and participants could write in revisions, if necessary.

Attachment 1

September Projections Timeline

August 31 (Friday)	Request for participants' projections
September 4 (Tuesday)	Projections templates made available via Lotus Notes links.
September 7 (Friday)	Initial projections due by **5:00 pm ET**
September 10 (Monday)	Initial summary projections package distributed to FOMC participants
September 12 (Wed.)	First day of FOMC meeting. Briefings on participants' projections and narratives. Deadline for projection revisions.
September 13 (Thurs.)	Second day of FOMC meeting. Absolute deadline for projection revisions. Summary information on projections will be released at the Chairman's press conference.
September 14 (Friday)	Final summary projections package distributed to FOMC participants
September 21 (Friday)	First draft of the minutes and Summary of Economic Projections (SEP) distributed to participants
September 26 (Wed.)	Second draft of the minutes and SEP distributed to participants
September 28 (Friday)	Final version of the minutes and SEP distributed for notation vote
October 3 (Wednesday)	Voting on minutes and SEP closes at noon ET
October 4 (Thursday)	Minutes and SEP published at 2:00 pm ET

Attachment 2

Scope of the September Projections

Economic Variables:

2012-2015: Please provide your projections of the most likely outcomes for the percent change in real GDP (Q4/Q4), the percent change in the chain-weighted price index for PCE and for core PCE (Q4/Q4), and the level of the unemployment rate (Q4 average) for 2012, 2013, 2014, and 2015; these projections should be based on your assessment of appropriate monetary policy. Please also provide your current estimates for the annualized percent change in real GDP, the total PCE price index, and the core PCE price index in the first half of 2012[1], i.e., $Q2^{2012}/Q4^{2011}$. Please express all of these projections to the nearest tenth of a percentage point (for example, 2.5 percent).

Longer Run: Please provide your best assessment of the rate to which the three variables below would converge over the longer run (say, five to six years from now) in the absence of shocks and assuming appropriate monetary policy. **If you anticipate that the convergence process will take shorter or longer than about five or six years, please indicate your best estimate of the duration of the convergence process.** (If you do not submit any comments regarding the convergence process, it will be assumed that you anticipate the convergence processes for all three of the variables will take about five or six years.) Please provide your estimates as single numbers (that is, not as ranges), rounded to the nearest tenth of a percentage point. You may also include in your submission any explanatory comments that you think would be helpful.

1. Change in real GDP (percent, annual rate)
2. Civilian unemployment rate (percent)
3. Total PCE inflation rate (percent, annual rate)

[1] If your H1 assumptions do not differ from the official published numbers, you can simply enter those numbers: GDP: 1.8 percent, PCE Inflation: 1.6 percent, Core PCE Inflation: 2.0 percent.

Judgments about Uncertainty and Risks:

Please also indicate whether you judge that the uncertainty attached to your projections for each economic variable is higher/lower/broadly similar to levels of uncertainty over the past 20 years, and also whether the risks around your projections for each economic variable are weighted to the upside/downside/broadly balanced. As with your modal projections, these judgments concerning the uncertainty and risks attached to your projections should be based on the assumption that the System pursues an appropriate monetary policy. We have provided an updated table summarizing a range of alternative measures of past forecast uncertainty as background for your judgments (Attachment 3).

Policy Path:

Please provide your assessments of the appropriate level of the **target federal funds rate** at the end of 2012, 2013, 2014, and 2015, and over the longer run. As with the projections for the economic variables, policy projections should reflect your assessment of appropriate monetary policy (that is, a policy that is most likely to achieve paths for economic activity and inflation that best satisfy your interpretation of the dual economic objectives), and the longer-run projection refers to the federal funds rate to which the economy will converge over time.

If you anticipate that, under appropriate monetary policy, the target federal funds rate will not be raised until after 2015, please indicate the year in which the first increase in the target federal funds rate is most likely to occur. In addition, please indicate your projections for the rates of real GDP growth, PCE inflation, and core PCE inflation in that year, your projection for the average unemployment rate in the fourth quarter of that year, and your assessment of the appropriate level of the target federal funds rate at the end of that year.

The online template also asks whether your view of the appropriate path of the **Federal Reserve's balance sheet**, other than the projected timing for implementing the FOMC's exit strategy, differs materially from that assumed in the Tealbook. Please respond "No" if there are no material differences, or if the only differences arise because your liftoff date for the target federal funds rate differs from that in the Tealbook. Please respond "Yes" if your assumptions about LSAPs or MEPs differ from those in the Tealbook, or if you are assuming that the Committee will deviate from its articulated exit principles when scaling back the balance sheet.

Narrative:

The value of the projections process would be increased greatly if you could supply a narrative of the key considerations shaping your outlook. As before, no common assumptions are proposed for fiscal policy and other exogenous factors, such as energy prices; however, if your assumptions for these types of variables differ materially from those in the Tealbook baseline forecast, it would be helpful if this was noted in your narrative. Some possible headings to help structure your narrative are suggested below (and are included in the online template for submitting projections).

- Please describe the key factors shaping your central economic outlook and the uncertainty and risks around that outlook.
- Please describe the key factors causing your forecasts to change since the projections submitted for the **June** FOMC meeting.
- Please describe any important differences between your current economic forecast and the Tealbook.

Attachment 3

Table 1: Historical Projection Errors
Root Mean Squared Errors of Fall Projections for 1992 to 2011[1]

Source	Real GDP (percent change, Q4 to Q4)				Unemployment Rate (Q4 average)				Consumer prices[2] (percent change, Q4 to Q4)			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Monetary Policy Report[3]	0.47	1.29	—	—	0.19	0.91	—	—	—	—	—	—
Federal Reserve staff	0.64	1.48	1.68	—	0.22	0.96	1.56	—	0.33	1.03	1.13	—
Congressional Budget Office	0.58	1.37	1.82[4]	1.82[4]	0.09[5,6]	0.66[5]	1.32[5]	1.79[5]	0.58	0.96	1.10[4]	1.07[4]
Administration	0.70	1.51	1.67	1.60	0.25	1.02	1.63	1.97	0.38	0.89	0.98	0.95
Blue Chip	0.66	1.40	—	—	0.19	0.87	—	—	0.49	0.92	—	—
Survey of Professional Forecasters	0.65	1.40	—	—	0.15	0.86	—	—	0.48	0.89	—	—
Average	0.62	1.41	1.73	1.71	0.20	0.88	1.50	1.88	0.45	0.94	1.07	1.01

1. For methodological details and discussion see “Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors” by David Reifschneider and Peter Tulip (Finance and Economics Discussion Series 2007-60). The table above is updated to include forecasts and outcomes for 2007 through 2011 (data which became available subsequent to the FEDS paper) and minor methodological changes.
2. Based on the total consumer price index. Evidence based on Federal Reserve staff projections suggests that, on average, forecast errors for CPI inflation are slightly larger than those for PCE inflation.
3. Monetary Policy Report projections equal the midpoints of the published central tendency ranges. Results for inflation are not reported because the forecast price measure has changed over time.
4. Percent change, calendar year over calendar year.
5. Annual average.
6. Not included in average.