

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF MONETARY AFFAIRS

Date: April 13, 2018
To: Research Directors
From: Trevor Reeve
Subject: Materials on SEP-implied estimates of r^*

At the March FOMC meeting, questions arose about the methodology used to infer time-varying estimates of r^* from the Committee's SEP submissions; estimates of this sort have been featured previously by Thomas Laubach in his policy briefings. The methodology is described in the attached FEDS Note by Michelle Bongard and Benjamin K. Johannsen.¹

In light of the strengthening in the economic outlook since last year, Ben Johannsen has updated these SEP-implied estimates of r^* . The attached memo summarizes his findings. In short, he finds that the implied values of r^* for 2018 and 2019 rose by a little more than 1 percentage point between the December 2017 and March 2018 vintages of the SEP. Please note that this update is for internal use only.

¹ Bongard, Michelle and Benjamin K. Johannsen (2016). "The Neutral Rate and the Summary of Economic Projections," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, November 28. Available at <https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/neutral-rate-and-the-summary-of-economic-projections-20161128.html>.