

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: December 7, 2004
To: Federal Open Market Committee
From: Vincent Reinhart and David Stockton
Subject: Estimates of the equilibrium real interest rate

We have attached two memos by Flint Brayton and Dave Reifschneider of the Division of Research and Statistics describing a set of new approaches to the estimation of the equilibrium real interest rate. Motivated in part by your responses to the recent survey of Bluebook readers, the authors seek to improve the usefulness of the concept of “the equilibrium real interest rate” both by better defining the question that the concept is intended to answer and by refining the set of models from which it is estimated. In our view, Flint and Dave have made impressive progress toward these objectives, and their work forms the basis of a new exhibit on estimates of the equilibrium real rate that will replace the exhibit that has been included in the Bluebook since 2000.