

Table 1: Economic Projections of Federal Reserve Governors and Reserve Bank Presidents ¹

	2008	2009	2010
Central Tendencies			
Real GDP Growth	1.3 to 2.0	2.1 to 2.7	2.5 to 3.0
<i>October projections</i>	<i>1.8 to 2.5</i>	<i>2.3 to 2.7</i>	<i>2.5 to 2.6</i>
Unemployment Rate	5.2 to 5.3	5.0 to 5.3	4.9 to 5.1
<i>October projections</i>	<i>4.8 to 4.9</i>	<i>4.8 to 4.9</i>	<i>4.7 to 4.9</i>
PCE Inflation	2.1 to 2.4	1.7 to 2.0	1.7 to 2.0
<i>October projections</i>	<i>1.8 to 2.1</i>	<i>1.7 to 2.0</i>	<i>1.6 to 1.9</i>
Core PCE Inflation	2.0 to 2.2	1.7 to 2.0	1.7 to 1.9
<i>October projections</i>	<i>1.7 to 1.9</i>	<i>1.7 to 1.9</i>	<i>1.6 to 1.9</i>
Ranges			
Real GDP Growth	1.0 to 2.2	1.8 to 3.2	2.2 to 3.2
<i>October projections</i>	<i>1.6 to 2.6</i>	<i>2.0 to 2.8</i>	<i>2.2 to 2.7</i>
Unemployment Rate	5.0 to 5.5	4.9 to 5.7	4.7 to 5.4
<i>October projections</i>	<i>4.6 to 5.0</i>	<i>4.6 to 5.0</i>	<i>4.6 to 5.0</i>
PCE Inflation	2.0 to 2.8	1.7 to 2.3	1.5 to 2.0
<i>October projections</i>	<i>1.7 to 2.3</i>	<i>1.5 to 2.2</i>	<i>1.5 to 2.0</i>
Core PCE Inflation	1.9 to 2.3	1.7 to 2.2	1.4 to 2.0
<i>October projections</i>	<i>1.7 to 2.0</i>	<i>1.5 to 2.0</i>	<i>1.5 to 2.0</i>

1. Projections of real GDP growth, PCE inflation and core PCE inflation are fourth-quarter-to-fourth-quarter growth rates, i.e. percentage changes from the fourth quarter of the prior year to the fourth quarter of the indicated year. PCE inflation and core PCE inflation are the percentage rates of change in the price index for personal consumption expenditures and the price index for personal consumption expenditures excluding food and energy, respectively. Each participant's projections are based on his or her assessment of appropriate monetary policy. The range for each variable in a given year includes all participants' projections, from lowest to highest, for that variable in the given year; the central tendencies exclude the three highest and three lowest projections for each variable in each year.

Table 1a**Economic Projections for the First Half of 2008¹****Central Tendencies and Ranges**

	Central Tendency	Range
Real GDP Growth	0.6 to 1.1	0.3 to 2.0
Total PCE Inflation	2.5 to 2.6	2.0 to 3.0
Core PCE Inflation	2.1 to 2.3	2.0 to 2.4

Participants' Projections

Projection	Real GDP Growth	Total PCE Inflation	Core PCE Inflation
1	0.7	2.3	2.2
2	1.4	2.7	2.4
3	1.0	2.5	2.0
4	0.3	2.5	2.0
5	0.8	2.8	2.2
6	2.0	2.0	2.0
7	0.9	2.5	2.2
8	1.1	2.5	2.2
9	1.0	2.6	2.3
10	1.0	2.5	2.3
11	0.5	2.2	2.1
12	0.5	2.5	2.1
13	0.7	2.6	2.2
14	0.8	2.5	2.2
15	0.8	3.0	2.3
16	0.6	2.5	2.3
17	1.6	2.6	2.1

1. Growth and inflation are reported at annualized rates.

Table 1b**Implied Economic Projections for the Second Half of 2008¹****Central Tendencies and Ranges**

	Central Tendency	Range
Real GDP Growth	2.0 to 2.8	1.5 to 3.3
Total PCE Inflation	1.9 to 2.2	1.5 to 2.6
Core PCE Inflation	1.9 to 2.1	1.7 to 2.3

Participants' Projections

Projection	Real GDP Growth	Total PCE Inflation	Core PCE Inflation
1	1.9	2.1	2.0
2	2.6	2.3	2.2
3	3.0	1.9	2.0
4	3.3	1.9	1.8
5	2.2	2.2	2.2
6	2.4	2.0	2.0
7	2.1	1.7	1.8
8	2.5	1.9	2.0
9	3.0	2.0	1.9
10	2.4	2.1	2.1
11	2.1	2.0	1.9
12	1.5	2.1	2.1
13	1.5	2.0	2.0
14	2.0	2.3	2.0
15	2.2	2.6	2.3
16	2.0	1.5	1.7
17	2.8	2.2	2.1

1. Projections for the second half of 2008 implied by participants' January projections for the first half of 2008 and for 2008 as a whole. Growth and inflation are reported at annualized rates.

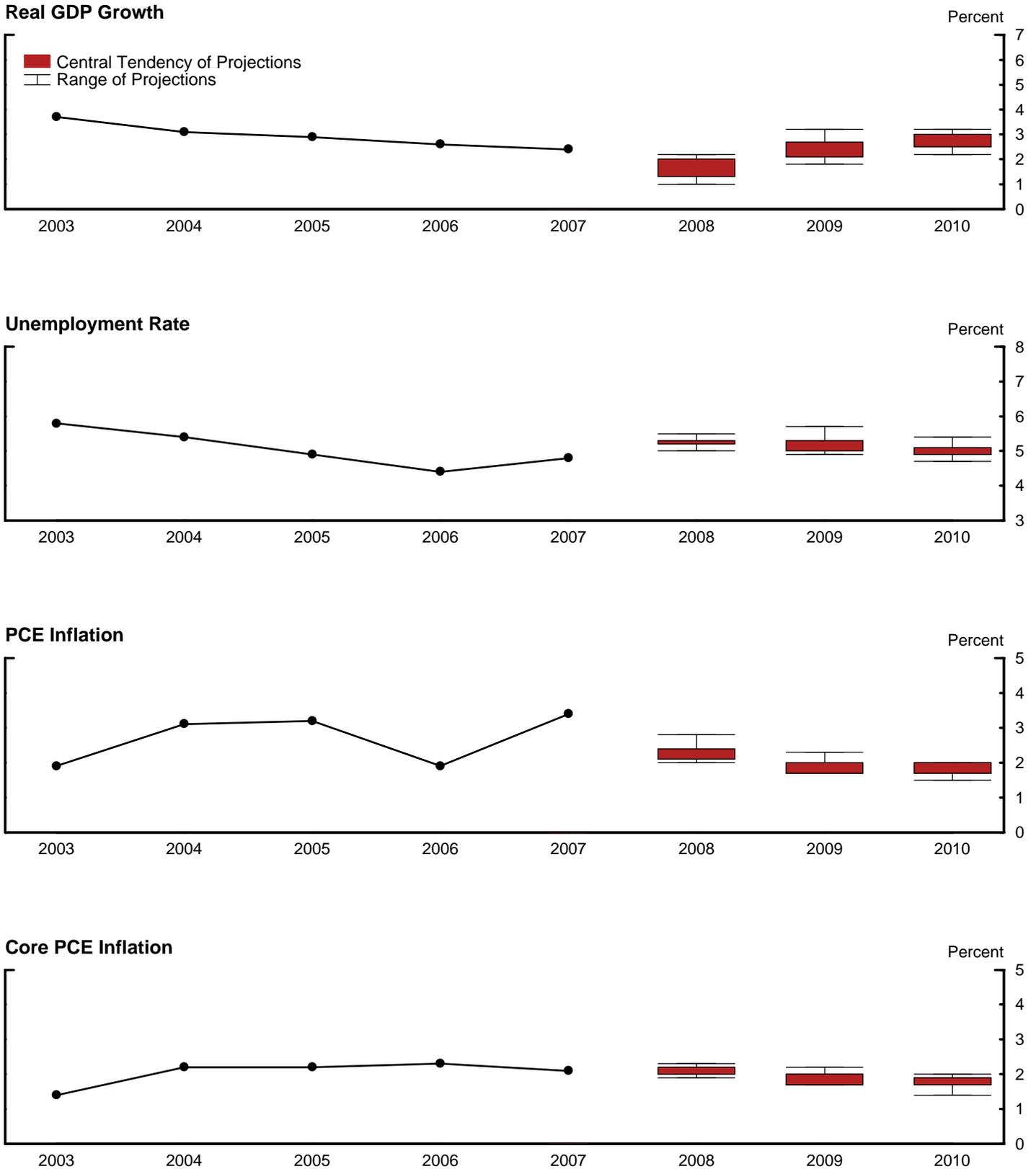
Table 2: January Economic Projections

Respondent	Year		GDP Growth	Unemployment Rate	Total PCE Inflation	Core PCE Inflation
1	2008		1.3	5.3	2.2	2.1
2	2008		2.0	5.2	2.5	2.3
3	2008		2.0	5.2	2.2	2.0
4	2008		1.8	5.3	2.2	1.9
5	2008		1.5	5.3	2.5	2.2
6	2008		2.2	5.2	2.0	2.0
7	2008		1.5	5.2	2.1	2.0
8	2008		1.8	5.3	2.2	2.1
9	2008		2.0	5.2	2.3	2.1
10	2008		1.7	5.0	2.3	2.2
11	2008		1.3	5.2	2.1	2.0
12	2008		1.0	5.3	2.3	2.1
13	2008		1.1	5.5	2.3	2.1
14	2008		1.4	5.3	2.4	2.1
15	2008		1.5	5.2	2.8	2.3
16	2008		1.3	5.3	2.0	2.0
17	2008		2.2	5.2	2.4	2.1
1	2009		2.3	5.3	1.9	1.9
2	2009		2.2	5.0	2.3	2.2
3	2009		2.7	5.1	1.7	1.9
4	2009		3.2	5.0	1.7	1.7
5	2009		2.0	5.2	2.1	2.1
6	2009		2.5	5.0	1.8	1.8
7	2009		2.7	4.9	1.7	1.7
8	2009		2.8	5.2	1.8	2.0
9	2009		2.7	5.2	1.7	1.7
10	2009		2.4	5.0	1.8	2.0
11	2009		2.5	5.1	2.0	2.0
12	2009		2.0	5.5	2.0	2.0
13	2009		1.8	5.7	1.8	1.7
14	2009		2.1	5.2	2.0	1.9
15	2009		2.4	5.1	2.3	2.1
16	2009		2.3	5.4	1.7	1.9
17	2009		2.4	5.1	2.0	2.0

Table 2 (continued): January Economic Projections

Respondent	Year		GDP Growth	Unemployment Rate	Total PCE Inflation	Core PCE Inflation
1	2010		2.4	5.0	1.8	1.7
2	2010		2.2	5.1	2.0	2.0
3	2010		3.0	4.8	1.8	1.8
4	2010		2.6	4.7	1.7	1.7
5	2010		2.5	4.9	1.9	1.9
6	2010		2.5	5.0	1.5	1.5
7	2010		2.5	4.8	1.7	1.7
8	2010		2.6	5.1	2.0	2.0
9	2010		2.7	5.0	1.7	1.7
10	2010		2.6	4.9	1.9	1.9
11	2010		3.1	4.9	2.0	2.0
12	2010		3.0	5.3	1.8	1.8
13	2010		3.2	5.4	1.5	1.4
14	2010		2.7	4.9	1.9	1.9
15	2010		2.7	4.9	2.0	1.8
16	2010		2.6	5.0	1.8	1.9
17	2010		2.5	5.0	1.6	1.6

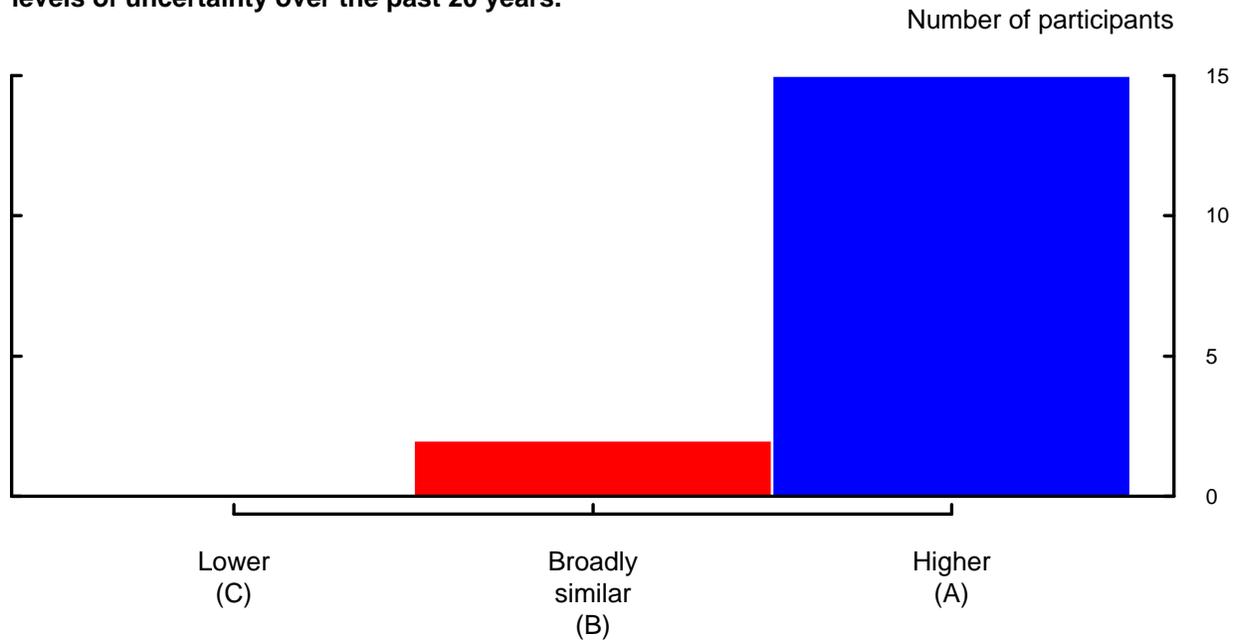
Chart 1: Central Tendencies and Ranges of Economic Projections*



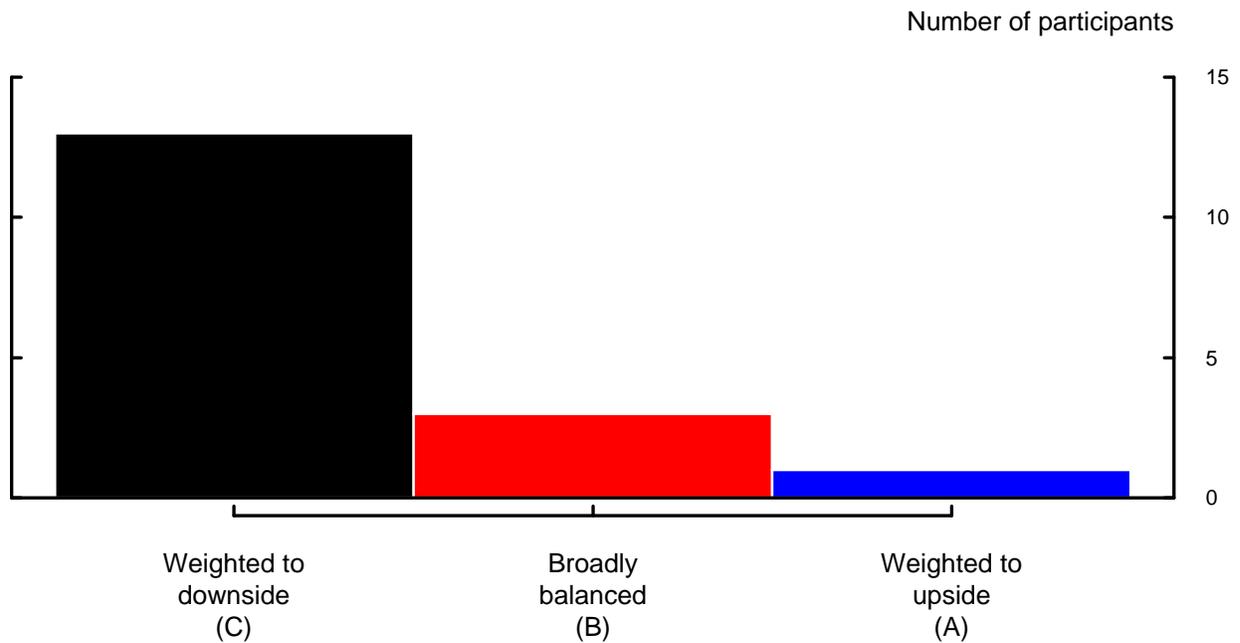
* See notes to Table 1 for variable definitions.

Uncertainty and Risks - GDP Growth

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

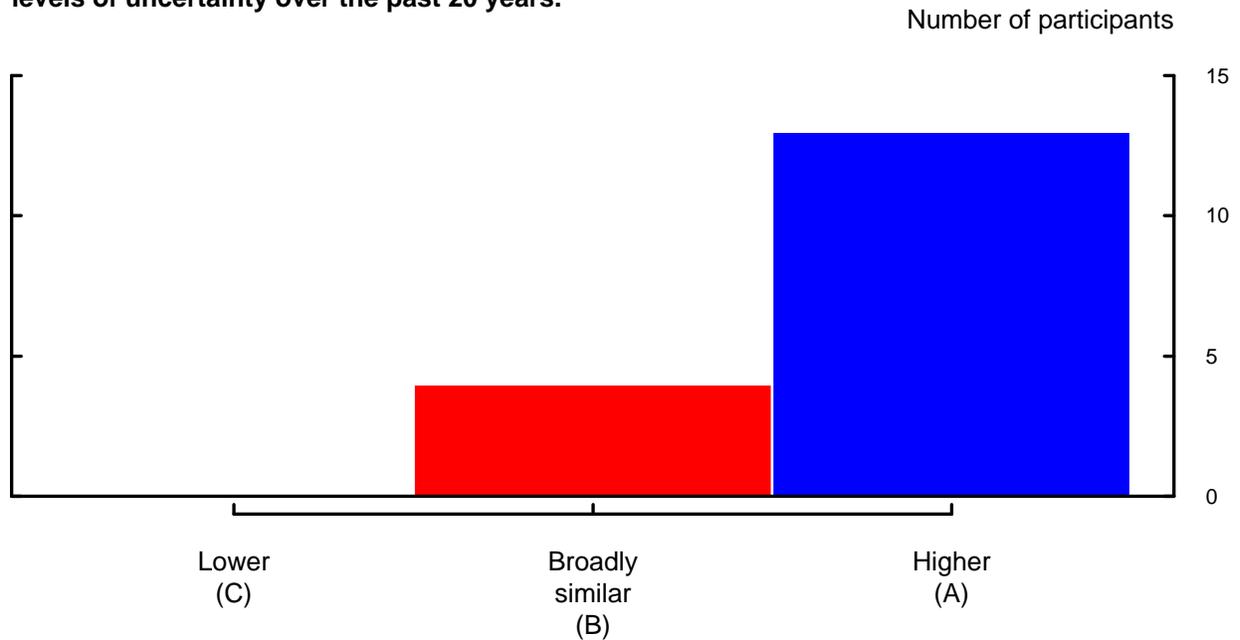


Individual Responses

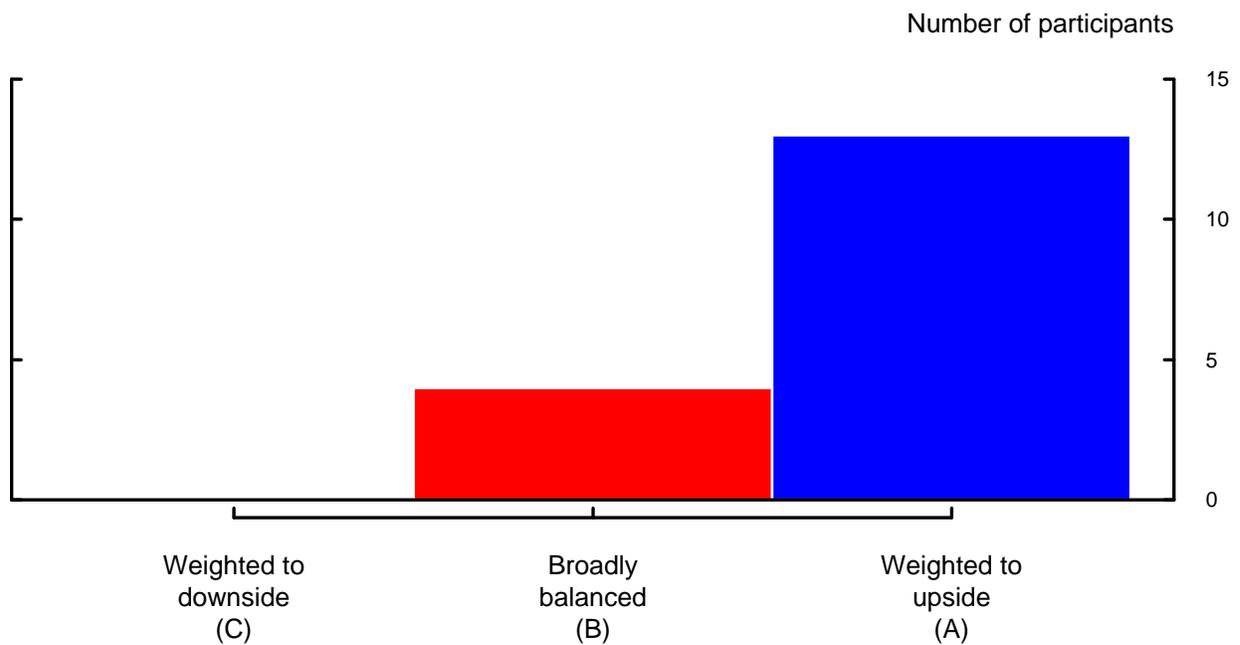
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	A	A	A	A	B	A	A	B	A	A	A	A	A	A	A	A
2(b)	C	A	C	C	C	B	C	C	B	C	C	B	C	C	C	C	C

Uncertainty and Risks - Unemployment Rate

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

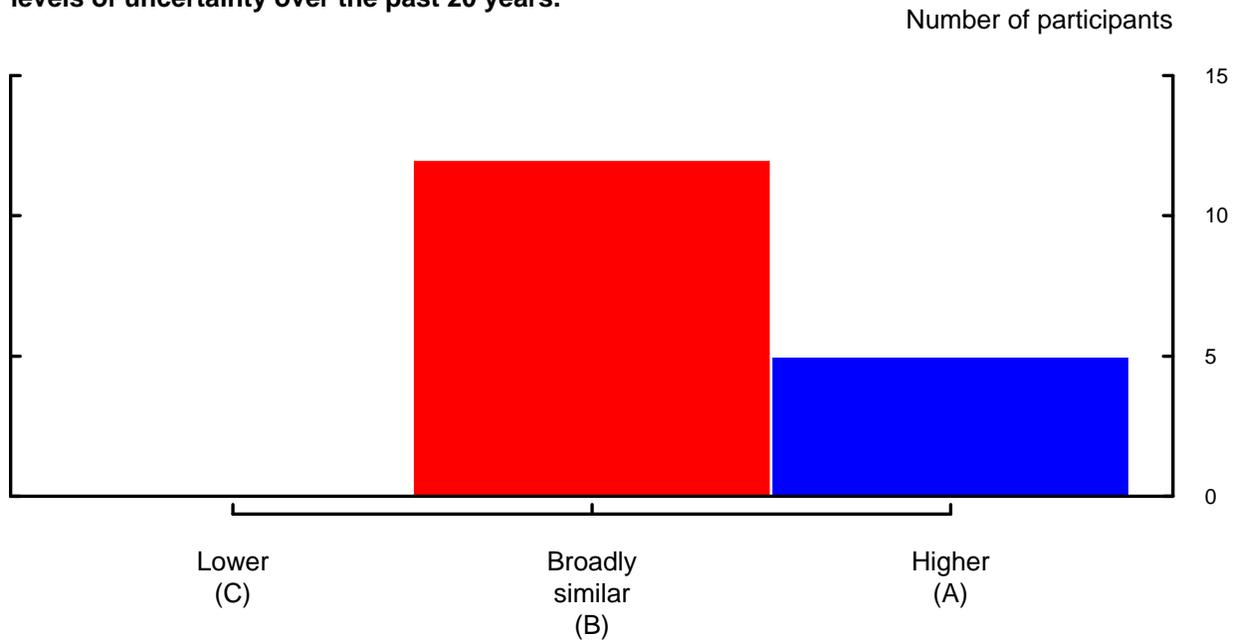


Individual Responses

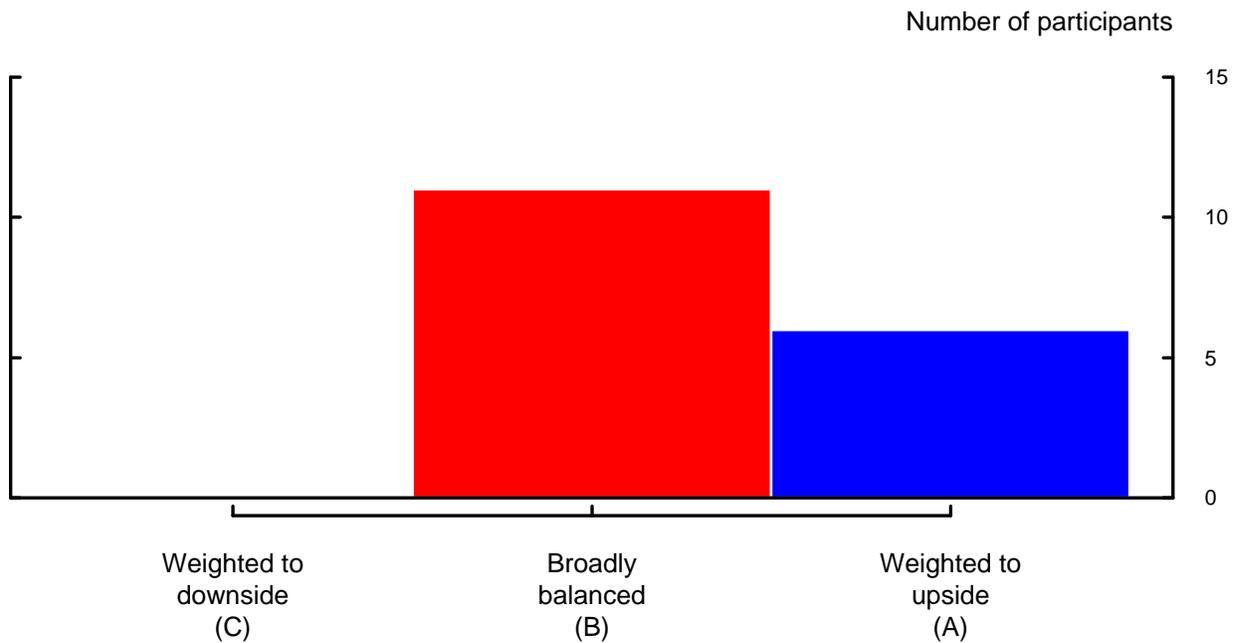
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	B	A	A	A	B	A	A	B	A	A	B	A	A	A	A	A
2(b)	A	B	A	A	A	B	A	A	B	A	A	B	A	A	A	A	A

Uncertainty and Risks - Total PCE Inflation

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

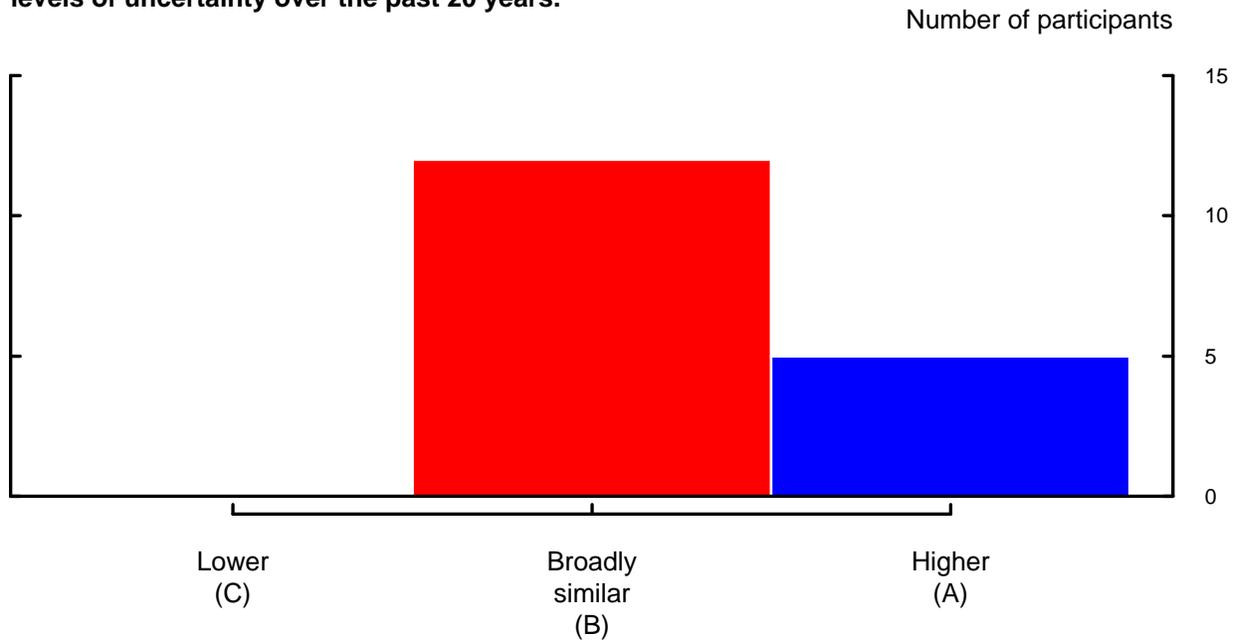


Individual Responses

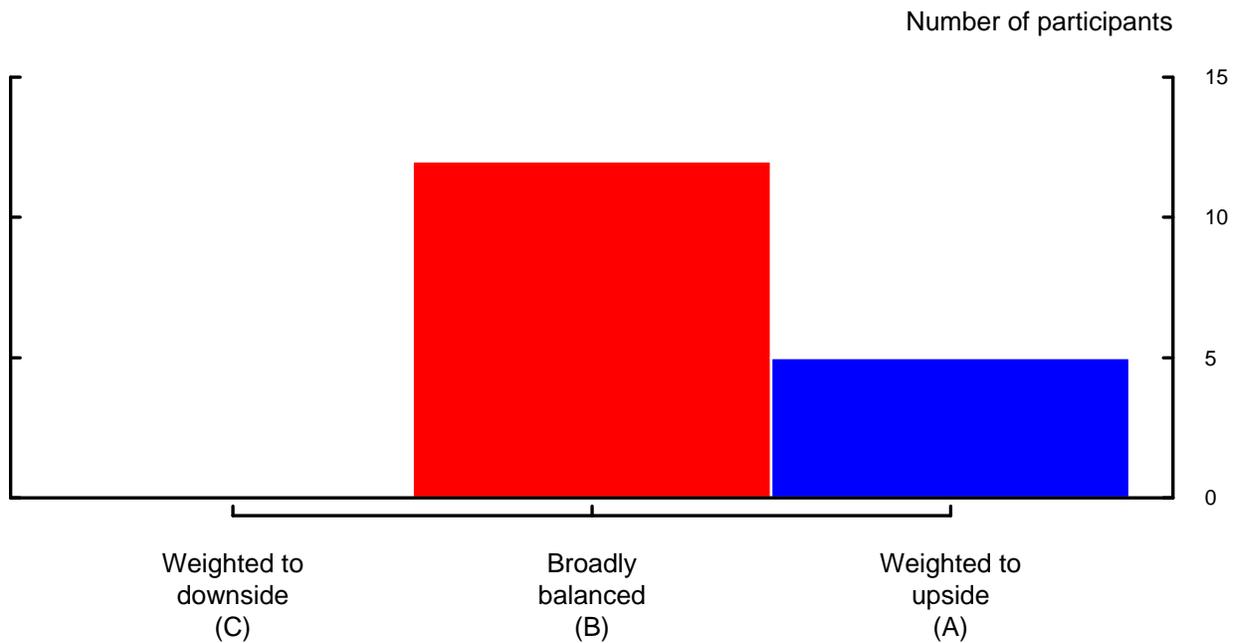
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	B	A	B	A	B	B	B	B	B	B	B	B	B	B	A	A	A
2(b)	B	A	B	B	A	B	B	B	A	B	B	B	B	B	A	A	A

Uncertainty and Risks - Core PCE Inflation

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.



Individual Responses

Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	B	A	B	A	B	B	B	B	B	B	B	B	B	B	A	A	A
2(b)	B	A	B	B	A	B	B	B	A	B	B	B	B	B	B	A	A

Appropriate Monetary Policy

3. Does your view of the appropriate path of interest rates differ materially from the interest rate assumed by the staff in the Greenbook?

YES

NO

13

4

Respondent 1: NO

Assume about 50bp additional easing over next 6 months

Respondent 2: YES

Expect to increase federal funds target rate sooner than anticipated in Greenbook (early-mid 2009)

Respondent 3: YES

The Federal Funds rate is brought down to 2¼ percent over the course of 2008 and kept at that level over the forecast horizon, in order to bring the unemployment rate down to our estimate of the NAIRU by the end of 2010.

Respondent 4: YES

FFR target at 3.00% after the January meeting and 2.50% by the end of 2008Q2 at the latest. Under our central scenario the target rate is renormalized towards 3.50% in 2009 and 4.25% in 2010. The uncertainty around this path is very high with considerable downside risk that rates will have to go below 2%. Similar to the market implied probabilities shown in Chart 7 of the January 2008 Bluebook in this respect.

Respondent 5: NO

Respondent 6: NO

I have very weak priors on the funds rate path -- the policy stance needs to adjust as necessary to reach policy objectives, especially the inflation path.

Respondent 7: YES

I assume that the funds rate is 2-3/4 percent in 2008.Q2 through 2009.Q1, and then rises gradually, reaching 3-3/4 percent in 2009.Q4 and 4-1/4 percent in 2010.Q2.

Respondent 8: YES

Our expectations for policy are the same in 2008, but we expect that it will be appropriate to bring the funds rate up to a neutral range of 4.0 to 4.5 percent starting in the first half of 2009.

Respondent 9: YES

My forecast calls for the funds rate to begin rising in 2008Q4. The funds rate increases over the forecast horizon to 4.5 sometime in 2009Q1. In order to keep inflation from rising, the FOMC needs to be aggressive in taking back the insurance it has put in place.

Respondent 10: YES

Assumed additional 50 basis points of easing over q2 08 to gain some insurance against downside growth risks; policy rate begins to rise in q4 08 as credit restraint abates and ends up at 3-1/2 percent by q4 09.

Respondent 11: YES

I condition on a 75 basis point cut at the upcoming meeting to 2.75, and another 50 basis point cut at the March meeting to 2.25 and back up to 3.0 by the end of 2008

Respondent 12: YES

I think that the Federal funds rate will decline moderately further this year than assumed in the Greenbook but likely will return to approximately the Greenbook level in 2010.

Respondent 13: YES

We assume the funds rate will rise, beginning in the second half of 2008, and reaching 4 percent by the end of 2009.

Respondent 14: YES

I assume additional easing in the near term.

Respondent 15: YES

Achieving an acceptable path for inflation likely requires a somewhat more restrictive policy than is assumed in the Greenbook.

Respondent 16: NO**Respondent 17: YES**

Following a 50 basis point reduction in the federal funds rate at this meeting, I believe it will be necessary to remove the insurance policy later this year and that we will need to begin raising the federal funds rate by the fourth quarter of this year. In addition, we will likely have to move policy to a slightly restrictive stance if we wish to achieve our dual mandate by 2010. I assume the federal funds rate will be back to neutral by 2010.

Forecast Narratives

4(a). Please describe the key factors shaping your central economic outlook and the uncertainty around that outlook

Respondent 1:

The drag from housing and from slower consumption and investment growth implies very slow growth in the first half. In particular, consumption will be weak because of lower house and equity prices, slower growth in real incomes (and high oil prices), and tighter credit conditions. Capital spending will be weak, responding to slower growth, higher uncertainty, and in some cases tighter credit. Lower interest rates and export demand will provide some support. There is a significant possibility that the economy will soon enter (or is in) a technical recession, in which case unemployment will rise by more than I have projected. A fiscal package could raise growth temporarily later this year and early in 2009.

Credit quality is deteriorating, by the most in mortgages (including HELOCs) but also in numerous other categories. A significant slowdown could cause serious credit problems, retrenchment in lending, and intensification of financial market turmoil, which in turn would affect the real economy. Sharper than expected declines in house prices (which might be more likely to occur if growth slows) would also affect credit quality and thus the economy (over and above wealth effects). Credit quality concerns are the most significant source of downside risks to growth.

Stabilizing energy prices, not-too-rapid increases in food prices, and a softer economy and labor market should reduce overall and core inflation. Firms may be able to pass through some of their elevated input costs but this passthrough will be limited by weak demand. A recession, either mild or severe, poses downside risks to inflation. A stronger than expected economy or new increases in oil and commodity prices pose upside risks.

Respondent 2:

Significant uncertainty for 2008 with respect to impact of financial institution weakness on broader economy (credit channel)

Respondent 3:

Growth in the first half of this year slows significantly to an average pace of one percent. Several factors contribute to this very muted projected pace of economic activity. Continued substantial declines in residential investment are expected to subtract at least one full percentage point from real GDP growth in the first two quarters of the year. This weakness is coupled with a noticeable slowdown in consumption expenditures. High oil prices and lower initial conditions for housing and equity wealth weigh heavily on the consumer. In the second half of the year, growth resumes a faster pace as a result of more accommodative monetary policy, less drag from residential investment and an improvement in consumption expenditures. The improvement in consumption expenditures arises from waning effects of oil, more stimulative monetary policy and the recently proposed fiscal stimulus. In 2009, growth accelerates to a pace above potential. Low interest rates, improvements in equity wealth (but not in housing wealth), and standard multiplier effects ensure a broad-based acceleration in demand.

The unemployment rate peaks at 5.3 percent over the summer of this year before declining gradually to 5.1 percent by the end of 2009. The unemployment rate drops an additional three tenths of a percent over the course of 2010 on the heels of still accommodative monetary policy. Since the unemployment rate stays above our estimate of the NAIRU over the forecast horizon, inflation moderates to a pace below two percent in 2009 and 2010.

Risks to economic activity continue to be skewed to the downside. While there have been improvements in financial markets, conditions have yet to return to normal. Tighter credit markets, coupled with the contin-

ually deteriorating housing market, have the potential to exert more restraint on spending than is currently embedded in our baseline forecast. The risks to the inflation outlook are broadly balanced, although a more severe contraction could imply a noticeable decline in core inflation. Emerging slack in the labor market should yield downward pressure on wages and prices. We continue to view the pass-through from oil and the dollar as limited.

Respondent 4:

Our central projection has the US economy growing substantially below its potential rate during the first half of 2008 as the housing correction continues and as the rate of growth of spending by consumers and businesses slows. By the second half of 2008 growth recovers, aided by the preemptive path of monetary policy and a fiscal stimulus package of about \$150 billion, and remains slightly above its potential rate through 2009. Although we see a substantial slowdown as most likely outcome, the chance of a recession is high.

The downturn in housing production and sales has continued to surprise to the downside. Relative to sales, inventories of unsold new homes remain quite elevated. Absent a significant rebound in sales, housing starts and prices will remain under downward pressure. However, with our lower assumed path for the federal funds rate, residential investment is now seen as recovering modestly in 2009.

We project a continued gradual moderation in core inflation. Total inflation runs marginally above core in 2008 due to higher food and energy prices but then moves in line with the core projection. This path for inflation is based on inflation expectations remaining well-contained, our assessment of the FOMC objective, and the opening of an output gap in 2008.

There are a number of risks to our central projection. The first is that trend productivity growth will differ significantly from our conditioning assumption. Our larger concern is that productivity growth will remain below that assumed trend for a considerable period of time. The second is a steeper-than-assumed rise of the personal saving rate resulting from negative housing and stock market wealth effects. The third and most important at the moment is that the recent turmoil in financial markets has produced a sustained tightening of financial conditions that will restrict the supply of credit to U.S. consumers and producers. Aside from direct impacts on current economic activity, the financial turmoil may have a more long-lasting downside impact by amplifying the effects of the first two risks on the downside. The upshot is that we see substantial downside risks to real activity.

For inflation, we see the balance of risks to the downside as a consequence of the substantial downside risks to real activity. However, potential pass-through of higher costs stemming from higher energy/import prices and a possible lower trajectory for productivity raises some upside concern.

The combination of this risk profile and the ongoing volatility in financial markets produces elevated uncertainty around our central projection.

Respondent 5:

The forecast for real GDP predicts below-trend growth throughout 2008. The forecast incorporates further weakness in housing markets and the financial sector spreading to consumer and business spending. Although the supply of unsold homes is expected to edge lower during 2008, recovery in the housing sector is likely to be slow and protracted. As a consequence, only a modest recovery in real output growth is anticipated for later 2008 and into 2009. As a consequence, we expect some increase in the unemployment rate.

We have considered the possibility that conditions in the financial system will further deteriorate, and as a consequence hinder flows of funds from savers to investors and consumers. We consider this to be a serious downside risk to economic growth.

For the inflation outlook, weaker real output growth should mitigate some of the upward price pressure

arising from energy prices, one source of rising headline inflation numbers in recent periods. On the other hand, our outlook also reflects the persistence of inflation apparent in recent years.

Respondent 6:

The U.S. economy is resilient; it will adjust in 2008 to the financial turmoil that began in August 2007, though the speed of adjustment is uncertain.

Respondent 7:

Financial conditions have tightened significantly since October as wealth has shrunk, risk spreads have risen, and the emerging credit crunch has intensified. Housing activity has continued to fall below even very weak expectations, and recently labor market conditions have deteriorated. We have seen early signs of a slowdown in consumer spending; given falling house and equity prices, slower employment growth, high energy prices, and tightening credit conditions, further slowing is likely in coming quarters. In summary, I see the economy as perched on the edge of recession, with substantial downside risks.

Inflation has gradually risen over the period. However, inflationary concerns are mitigated by a number of factors: inflation expectations have been well anchored, energy prices have begun to head down in response to growing concerns about a weakening worldwide economy, and weaker growth in the U.S. economy should generate more slack in product and labor markets, thereby putting some downward pressure on inflation.

I assume that the funds rate is reduced somewhat more in the near term and that policy remains highly accommodative over the next year. In addition, I assume the adoption of a fiscal stimulus package by midyear with a magnitude similar to the one in the Greenbook. While these actions are too late to prevent a significant economic slowdown in the first half of this year, growth gradually begins to pick up in the second half, rising above trend in 2009. The unemployment rate rises gradually through early 2009 and then begins to drop toward the NAIRU of 4-3/4 percent. Core PCE inflation declines gradually to 1-3/4 percent in 2009 and 2010, which I view as consistent with price stability. The funds rate reaches a trough of 2-3/4 percent later this year before rising gradually to its equilibrium rate of 4 percent by the second half of 2010.

Respondent 8:

In the near term, we expect the disappearance of important financing vehicles to further restrain housing demand. This, along with the build up of inventories, will likely lead to further significant reductions in home construction. Tighter financial conditions are also exerting moderate levels of restraint in other sectors of the economy. In addition, labor market conditions are uncertain and may restrain growth in household spending. Over time, financial conditions should improve and monetary and fiscal stimulus should support growth at, and for a time above, potential. The build up of a modest level of resource slack should help to offset the effects on inflation of higher energy and commodity prices and the weaker dollar.

An important risk is that financial restraints could increase, further dampening economic activity. Weaker activity could, in turn, further impair capital positions and decrease lending and borrowing capacities.

Respondent 9:

The incoming data have been somewhat weaker than expected in my October projection: tight credit market conditions led to further deterioration in the housing market, and spillovers to the rest of the economy are somewhat more evident. I assume trend growth of 2.7 percent but remain uncertain about how much of the recent productivity slowdown is transitory and how much is more persistent. I expect the economy to return to near-trend real GDP growth by late 2008 as the housing correction runs its course and the worsening of financial market conditions abates. Monetary policy easing may lead to upward pressure on core inflation in 2009 and 2010. I assume a long-run neutral funds rate of about 4.5 percent. However, a period of an above-neutral funds rate may be necessary to restrain expectations and keep inflation from rising. Thus, I do not rule out the possibility that an above neutral funds rate might be needed early in 2009 in order to

bring inflationary pressures back to a rate consistent with my long-run goal.

Respondent 10:

Declines in housing activity continue to damp output growth considerably in H1 08, and to a gradually lesser extent thereafter. Uncertainty about the outlook, along with reduced availability and tighter nonprice terms of credit exert downward pressure on demand outside of housing in 08; credit terms begin to ease in the second half of 08, but the relaxation is gradual and leaves terms and conditions in 09 much tighter than in 06.

Respondent 11:

Although liquidity considerations have improved, the disruption to the credit market is still severe and has the potential to get much worse. Recent widening of credit spreads and tightening in the Senior Loan Officer Survey is particularly worrisome. As a result the economy will be slowing substantially in H1 and be near recession conditions. The disruption to the credit markets and concerns that consumer spending could deteriorate from the Greenbook forecast suggests that there is substantial downside risk to growth.

Although recent PCE inflation numbers have not been great, there is going to be some slack in the economy, while long-run inflation expectations, a key determinant of inflation, continue to be solidly grounded around 2.0

Respondent 12:

My outlook for '08 and '09 resembles the "persistent weakness" scenario presented in the Greenbook, largely because of problems in financial institutions and markets, the likelihood of further deterioration in credit quality, the time required to work off excess inventories in the housing sector, and the evident lack of positive momentum in the broad economy at the moment. However, by 2010, I expect that many of these conditions will have changed for the better and that the economy will expand at a pace above trend. A key part of this outlook is that performance in the next two years will, akin to the "headwinds" episode following the 90-91 recession, be constrained by the high cost and/or unavailability of credit to some potential borrowers.

Respondent 13:

Weak business investment and further declines in residential investment will depress growth this year. As the risk of recession recedes later in the year, the Committee will need to withdraw stimulus in order to meet its inflation goals. Growth is therefore below trend next year.

Respondent 14:

The potential tail risk of significant economy-wide impacts of the financial markets turmoil and the housing sector could result in a substantial slowing of consumption and more balance sheet pressure for financial institutions, which in turn has a dampening impact on consumption and investment.

Respondent 15:

Persistent strength in global demand generates continuing upward pressure on food and energy prices and upside headline-inflation risk.

Increases in energy, commodity, and other import prices spill over into core inflation as firms pass through higher costs from past increases in such prices.

Policy is biased toward restrictiveness in order to limit the danger of an upward creep in inflation expectations.

The possibility that the economy slips over into a recession dynamic contributes to elevated real-side uncertainty and creates asymmetric GDP and unemployment risk.

Respondent 16:

The decline in consumer sentiment, a substantial decline in equity prices, and a tightening of credit terms leads to a substantive slowdown in consumer spending. Uncertainty about the extent of the decline in housing prices depresses residential construction throughout 2008 and to a lesser extent 2009. Solid growth abroad continues to contribute to improving net exports. Deterioration of business sentiment, and decreases in equity prices accompanied by more restrictive financial conditions, dampen nonresidential investment.

The risks to my outlook include a substantial further deterioration in financial conditions, higher energy prices, a weakening in growth abroad, and a potential upward drift in inflation expectations.

Respondent 17:

(1) The federal funds rate is reduced by 50 basis points at this meeting to 3.0 percent. However, as the economy begins to recover, it will be necessary to begin removing this additional accommodation by the fourth quarter of this year. I assume the federal funds rate rises to 4.5 percent in 2009 and then is reduced to 4.25 percent in 2010.

(2) Growth is below trend in 2008 and then rises back to trend by 2009. Weak growth is due to higher energy prices, a larger drag from housing, a lower level of stock prices, and tighter financial conditions. As these conditions dissipate, along with an accommodative monetary policy and fiscal stimulus, I expect growth will pick up in the second half of this year and approach trend in 2009.

(3) Residential investment continues to decline through the first 3 quarters of 2008, before flattening out in the fourth quarter. It then makes a small contribution to growth in 2009 and 2010.

(4) Greater weakness in consumption, housing, and commercial construction remain downside risks. In addition, the recent global turmoil may increase the risk that export growth may be weaker than projected.

(5) Despite below trend growth, an accommodative monetary policy, higher energy and commodity prices, and greater dollar depreciation pose upside risks to the expected moderation in core and overall inflation.

Forecast Narratives (continued)

4(b). Please describe the key judgements and assumptions affecting your economic projections in the third year.

Respondent 1:

The inflation projections for 2010 reflect my views of the levels of inflation that combine a reasonable approximation to price stability (allowing for measurement error) with some buffer against zero-bound problems.

The growth estimate for 2010 is close to my estimate for potential growth. The unemployment rate for 2010 is above my estimate of the NAIRU, which will not be reached until the end of 2011.

Respondent 2:

On the path of returning to trend levels, but not yet at steady-state. Tax and trade policy uncertainty expected to impact 2010 economic performance negatively

Respondent 3:

Potential GDP growth is 2 percent. The NAIRU is 4 percent. The Federal Funds rate is brought to 2 percent by the end of 2008 and kept at that level over the rest of the forecast horizon.

Respondent 4:

We assume that long-term inflation expectations are well-contained between 2-2.5

Respondent 5:

Our third year forecast for real GDP growth reflects our current estimate of long-run potential growth. On the inflation side, we are assuming that inflation expectations remain well-contained and policy is adjusted as needed to attain a rate of inflation slightly below 2 percent.

Respondent 6:

2010 real growth is a projection that reflects a judgment about potential GDP growth and that the economy will follow approximately along that path. The 2010 inflation rate is a projection that reflects my desired outcome for inflation under an appropriate monetary policy.

Respondent 7:

In 2010, my forecast shows inflation that is consistent with price stability. Real GDP growth, the rate of unemployment, and the real funds rate are all near their long-run sustainable levels.

Respondent 8:

We place potential output growth at 2.6

Respondent 9:

Real output is growing at about a trend pace of 2.7 percent in 2010, the unemployment rate is about at its natural rate of 5 percent and inflation is running slightly above my long-term goal of 1.5 percent. As mentioned in 4(a), monetary policy easing may lead to upward pressure on core inflation and raises the risk that inflation expectations begin to drift upward. If this happens, in contrast to my baseline forecast, monetary policy would have to tighten significantly in 2009 and possibly remain above a neutral rate in 2010, in order to keep inflation from rising,.

Respondent 10:

Inflation of 2 or a little below is an acceptable medium-term objective; potential GDP grows at around 2.5 percent; The NAIRU is in the neighborhood of 4-3/4 percent.

Respondent 11:

Long-run inflation objective at 2.0

Respondent 12:

See the comment about 2010 above; also, expect the economy to be approaching a sustainable path by then, given appropriate policy.

Respondent 13:

Real growth is above trend as the output gap narrows. The FOMC's goal for overall inflation is 1.5 percent.

Respondent 14:

My judgments and assumptions are largely consistent with those described in the Greenbook, with the exception that I assume that after considerable easing in 2008, the FOMC would bring the federal funds rate back up by the final projection year.

Respondent 15:

The drag from housing and the credit crunch fades away. GDP growth is strong enough to put some downward pressure on the unemployment rate. Inflation is contained, but some gap between headline and core rates persists.

Respondent 16:

I have defined appropriate policy over this horizon as one that is consistent with achieving PCE inflation slightly less than 2 percent and I have adopted assumptions for labor productivity and employment growth that are consistent with potential GDP growth of 2.6 percent.

Respondent 17:

The economy returns to potential in 2009 and 2010. Demographic changes contribute to a fall in potential growth in 2009 and 2010. Potential growth is estimated to fall from 2.7 percent currently, to 2.6 percent in 2009 and 2.5 percent in 2010.

Core PCE inflation declines to an appropriate level.

The federal funds rate is close to neutral.

Forecast Narratives (continued)

4(c). Please describe any important differences between your current economic forecast and the Greenbook

Respondent 1:

Slightly more pessimistic on near-term growth, because of weight placed on at least a mild recession, but slightly more optimistic on potential growth, due to higher projection for multifactor productivity growth.

Respondent 2:

Expect greater labor market resiliency in 2008

Respondent 3:

Conditional on the same Federal Funds rate path, the Greenbook and our forecasts are similar, though our forecast implies a bit more underlying strength. Since we are factoring in more easing than in the Greenbook, our forecast envisions faster GDP growth in 2009 and 2010.

Respondent 4:

We project a higher growth rate of hours worked mainly because we assume that the secular decline in the labor force participation rate will occur later and more slowly than assumed in the GB. We assume lower inflation persistence than does the GB. Due to our different assumed path for interest rates we see less real depreciation of the dollar. We project a quicker recovery in residential investment than the GB.

Respondent 5:

Though we see slightly weaker real GDP growth in the near-term, and a somewhat slower recovery of the economy toward its potential, our forecast for real economic growth does not appreciably differ from the Greenbook. Our inflation outlook is somewhat less optimistic than the Greenbook, reflecting our judgment that temporary pressures from energy, food, and import prices will unwind more slowly than the Board staff forecast suggests.

Respondent 6:

Marginally more optimistic than the Greenbook on real GDP growth

Respondent 7:

My forecast for real GDP growth is about the same as the Greenbook in 2008, but shows a more pronounced pickup in 2009. Part of this is due to the assumption of more accommodative monetary policy and part is due to the assumption that the effects of the fiscal package will be longer lasting. Faster real GDP growth pushes the unemployment rate lower than the Greenbook in 2009. Finally, I see core PCE inflation falling to 1-3/4 percent by 2009, slightly lower than in the Greenbook, mainly because I continue to believe that inflation is less persistent than it was a decade or so ago.

Respondent 8:

Our modal forecast is more optimistic about the timing and strength of the cyclical rebound in real activity.

Respondent 9:

I assume the labor force grows at close to 1 percent per year. Private nonfarm payroll employment growth averages about 30 thousand jobs per month in 2008, and rebounds to around 130 thousand jobs per month pace in 2009. In 2009 and 2010, the economy is growing at about trend.

Respondent 10:

N/A

Respondent 11:

Very little difference. I worry about a little weaker growth in 2008 H1 because I worry that the financial factors may be more damaging to economic growth. I have a little stronger growth in 2009 and 2010 because I believe monetary policy can get the output gap back nearer zero by the end of the forecast period, with inflation settling in at my long-run inflation objective.

Respondent 12:

Covered in 4(a) above.

Respondent 13:

Our estimate of trend real GDP growth is 2.7 percent. We believe that the equity premium will shrink as earnings forecasts are lowered, and we are not forecasting rapid stock price appreciation. We expect further declines in housing starts.

Respondent 14:

Broadly similar.

Respondent 15:

I expect higher and more persistent inflation.

Respondent 16:

I have a slightly weaker 2008:H1 growth outlook than the Greenbook. Underlying this weakness is a lower growth path for personal consumption expenditures that is only partially offset by stronger nonresidential fixed investment. Also, I have a weaker consumer reaction to the proposed fiscal stimulus in the second half of 2008. Over the balance of the forecast horizon, my projection is broadly similar to the Greenbook.

Respondent 17:

My near-term outlook is less pessimistic than Greenbook's outlook. In addition, with an accommodative policy, growth returns to trend in 2009. Finally, with policy returning to neutral more quickly, inflation approaches desired levels in 2009 and 2010, rather than 2012 as in Greenbook's long-term outlook.

Forecast Narratives (continued)

4(d). Please describe the key factors causing your forecast to change since the projections submitted ahead of the June FOMC meetings.

Respondent 1:

Data indicate a sharper slowdown than expected in housing, consumption, and employment. Employment particularly concerning, as solid employment conditions have supported consumption growth. Financial turmoil deeper and more persistent, with greater downside risks to credit quality, than anticipated in October.

Respondent 2:

Deeper weakness projected for credit channel

Respondent 3:

Headline GDP projections are not too different, but are conditioned on a much more accommodative path of monetary policy. In addition, the composition of demand has changed somewhat. We now expect weaker residential investment this year and stronger net exports. The outlook for consumption would be noticeably weaker than in October if it were not for the added monetary and fiscal stimulus. Moreover, the starting point for the unemployment rate is higher than what was expected in October. The inflation outlook has not changed materially.

Respondent 4:

Although expenditure data for 2007Q4 and revisions to 2007Q3 were consistent with our projection for GDP in 2007H2, recent forward-looking indicators, the steep increase in energy prices in 2007Q4, and the sustained financial market turmoil have produced a significant change in our projection for GDP in 2008-9. In October we expected some further reduction of housing production, but the decline in housing starts and new home sales has turned out to be more severe than expected. On balance, the excess supply of unsold new homes remains higher than anticipated. Moreover, the ongoing disruptions in the supply of mortgage credit have led us to conclude that the correction in both housing production and valuations will be steeper than previously assumed. In addition the employment report and ISM Manufacturing survey for December as well as the Philly Fed survey for January are consistent with an abrupt decline in business confidence. This interpretation is also consistent with the fall in stock market values and changes in the Treasury yield curve. The larger-than-expected downturn in housing and ongoing financial turmoil has produced large increases in the downside risks to our near-term real activity forecast since October.

Incoming data since October have led us to increase slightly our core inflation projection for 2007Q4 and 2008H1. A range of models of inflation suggest that this higher inflation is unlikely to persist partly due to well-contained inflation expectations and partly due to the projected slowdown in the US economy.

The largest change in our projections since October has been in our assumption for the appropriate path of policy in 2008. We view the continued financial market turmoil and associated effects on credit as having lowered the neutral policy rate at least temporarily by around 75bp. Combining this with the change in our projection for real activity, well-contained inflation expectations and the need to act preemptively against the large increase in downside risk to growth implies an appropriate policy path with a substantially lower real federal funds target rate path in 2008 relative to that of October.

Respondent 5:

The data releases for October and November were mixed. However, the data releases and anecdotal reports for December have been much weaker than anticipated. The spike in the unemployment rate, flatter real personal income less transfers, and the consistently disappointing reports from housing-related sectors support a forecast that suggests negative spillover from the housing market to consumer and business activity.

In addition, the incoming data has caused us to significantly increase our 2008 forecast for headline inflation, with a smaller increase in our projection for core PCE inflation.

Respondent 6:

Information received since October suggests a somewhat lower near-term outlook for growth and a marginally higher near-term outlook for inflation.

Respondent 7:

I have lowered my forecast for real GDP growth and my funds rate path over the next year or so and raised my assessment of the downside risks to growth because of recent financial developments, as well as weaker-than-expected data on housing, employment, and personal consumption expenditures.

Respondent 8:

Reports on housing showed greater deterioration than expected. Declines in equity prices and lower expectations for housing values suggest negative wealth effects on consumption. The weak December employment report also suggested less optimism about the strength of consumption growth. Finally, businesses appear to have increased their caution about hiring and capital spending.

These negative developments were partially offset by expectations of greater monetary policy easing and the prospect of fiscal stimulus.

Recent data on inflation have been somewhat worse than expected and energy and other commodity prices have risen, leading to slightly higher forecasts for core and total inflation.

Respondent 9:

The incoming data have generally been weaker than expected at the time of my October forecast. Tighter lending conditions and a deeper-than-expected housing slump have led me to revise downward my real GDP growth forecast for 2008. The weaker economy led to a downward revision of my near-term funds rate path. However, monetary policy easing risks unanchoring inflation expectations so the funds rate needs to increase to 4.5 percent by early 2009.

Respondent 10:

The effects of deeper housing contraction and tighter credit conditions lasting longer are nearly offset by easier monetary policy. Inflation pressures are a little more intense reflecting increases since October in food and energy prices and in the nonmarket components of PCE inflation.

Respondent 11:

The worsening problems in the credit market and substantially weaker residential construction have led to a substantial markdown in growth and a rise in unemployment. Also the downside risk to growth and upside risk to unemployment have increased appreciably. My inflation forecast is slightly higher in 2008 and 2009 because of the recent higher inflation numbers, but my 2010 forecast is the same because I expect inflation to settle in where long-run inflation expectations are grounded, consistent with my inflation objective, which has not changed.

Respondent 12:

The principal changes are to GDP growth and to unemployment, with unemployment increasing to higher levels because growth is appreciably slower than projected previously, for the reasons already described. The inflation forecast is a touch higher than that presented previously because core inflation has been a bit more stubborn than expected and because of the performance of energy prices.

Respondent 13:

The data on real activity have been weaker than expected, especially data concerning the labor market. Inflation has been higher than expected.

Respondent 14:

We have had a variety of indicators, from the labor market to the housing market, come in softer than anticipated so I have marked down GDP growth and marked up the unemployment rate. Near term inflation numbers, both core and headline, have been a bit higher than I had anticipated and so I have those projections up accordingly.

Respondent 15:

Movements in oil and the prices of other internationally traded commodities have confirmed earlier concerns.

The housing bust has deepened, the credit crunch has broadened, corporate bond financing is more constrained, and investors/lenders/spenders are more risk averse.

Respondent 16:

Tightening of credit terms (especially for households), a substantial decline in equity prices since October, worsening of the housing slump, a deterioration in household and business sentiment, and a higher trajectory for oil prices have lead me to mark down my forecast for output growth in 2008 and 2009. More persistent price pressures from commodities and food resulted in higher near-term inflation.

Respondent 17:

Weaker housing and labor market conditions, greater caution on the part of households and businesses, declines in the stock market, and tighter financial market conditions led to a reduction in my near-term outlook for growth.

Chart 2(a): Distribution of Participants' Projections (percent)

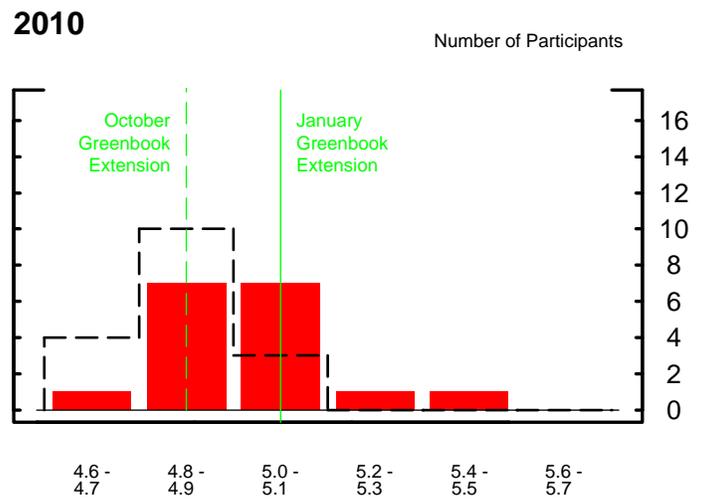
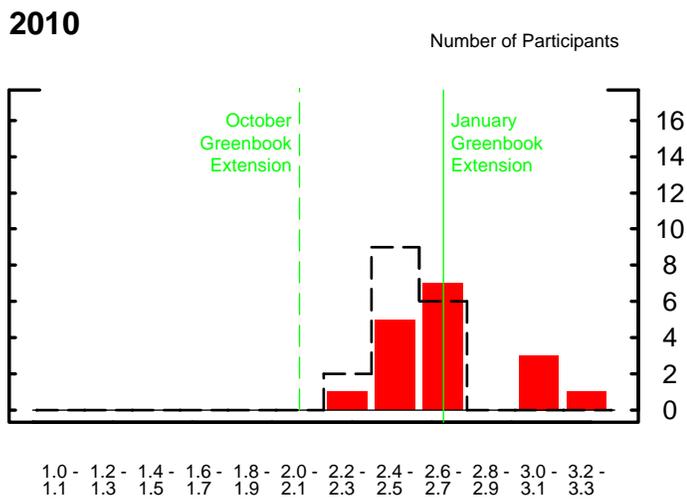
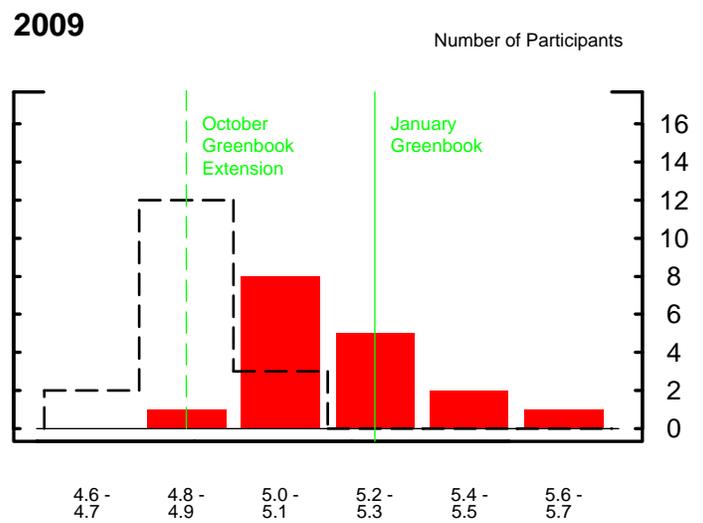
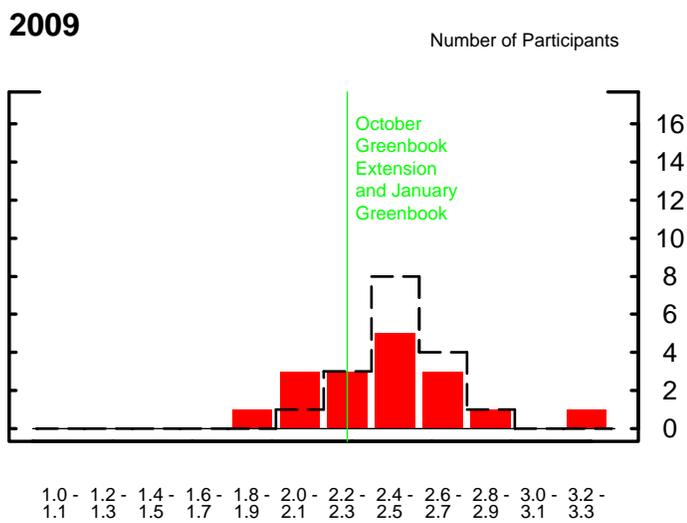
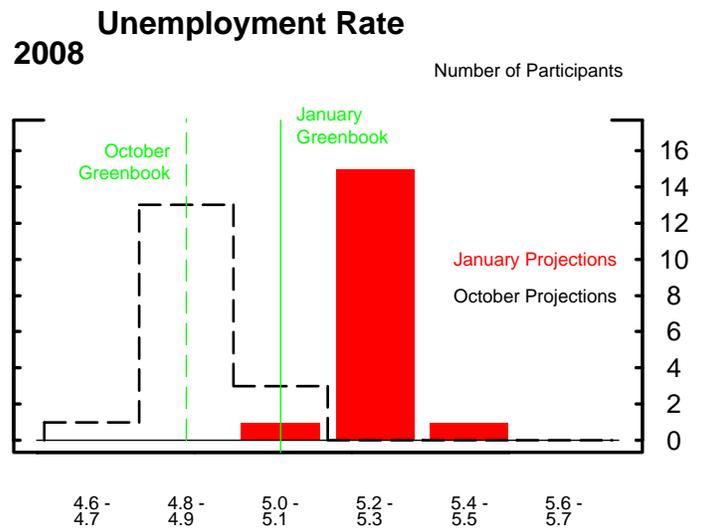
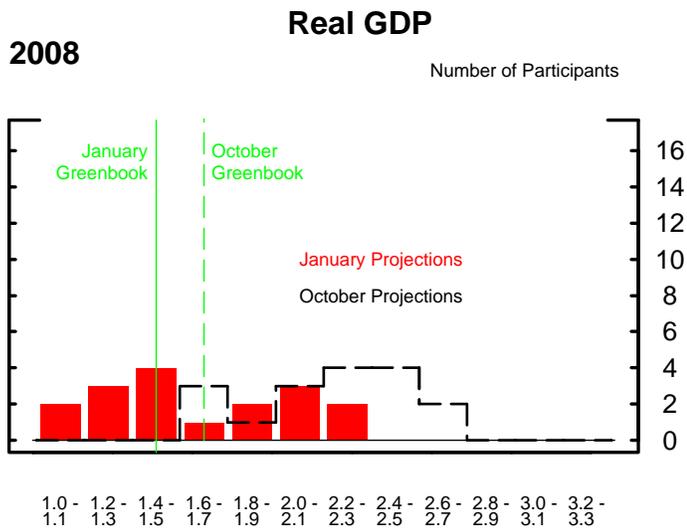


Chart 2(b): Distribution of Participants' Projections (percent)

