up at a somewhat faster pace, I do think it's appropriate to acknowledge that the downside risks to the outlook of a gradual return of inflation to 2 percent have diminished somewhat.

To summarize, I think the data flow since our last meeting has been encouraging, and we're making good progress in achieving our goals. I again want to emphasize the importance of signaling to the public that we're taking note of the overall positive tone of the data. If we continue to be surprised by the strength of the labor market and production data and, of course, if inflation moves up by more than we anticipate, then we will need to discuss whether those changes in the outlook are substantial enough to warrant a change in our forward guidance, although at this point, I view such a change as premature. Let me stop there and call on Bill to start us off on the policy round.

MR. ENGLISH.[7] Thank you, Madam Chair. I'll be referring to the exhibits labeled "Material for Briefing on Monetary Policy Alternatives" that were distributed earlier.

As shown in the top panels of your first exhibit, nearly all of the policy rule simulations in the Tealbook (the colored lines to the left), as well as the optimal control policy rate path (the red line to the right), prescribe liftoff in the current quarter—considerably earlier than in the staff baseline projections (the black solid lines).

However, as outlined in the Tealbook and noted in the middle-left panel, there are a number of reasons why you may not want to follow these prescriptions. First, with regard to the rules, you may anticipate that headwinds from the financial crisis and subsequent recession will persist, with the neutral real federal funds rate returning only slowly to its longer-run normal level, calling for a highly accommodative path for policy in order to achieve and maintain the Committee's objectives in the medium term. Second, you may not be confident in the outlook yet, and, in particular, you may be concerned that the risks to the outlook are asymmetric, as a consequence of the effective lower bound on interest rates. As a result, you may see the current policy trajectory as best balancing the risks to achieving your objectives. Third, while the unemployment rate has declined unexpectedly rapidly over the past year or so, you may judge that the full range of labor market indicators suggests significantly less progress on the employment leg of your mandate and still-substantial slack in labor markets. For example, the share of employed persons working part time, shown in the middle-right panel, is still quite elevated, labor force participation is low, and

[7] The materials used by Mr. English are appended to this transcript (appendix 7).