

Forecast Overview

Dick Peach

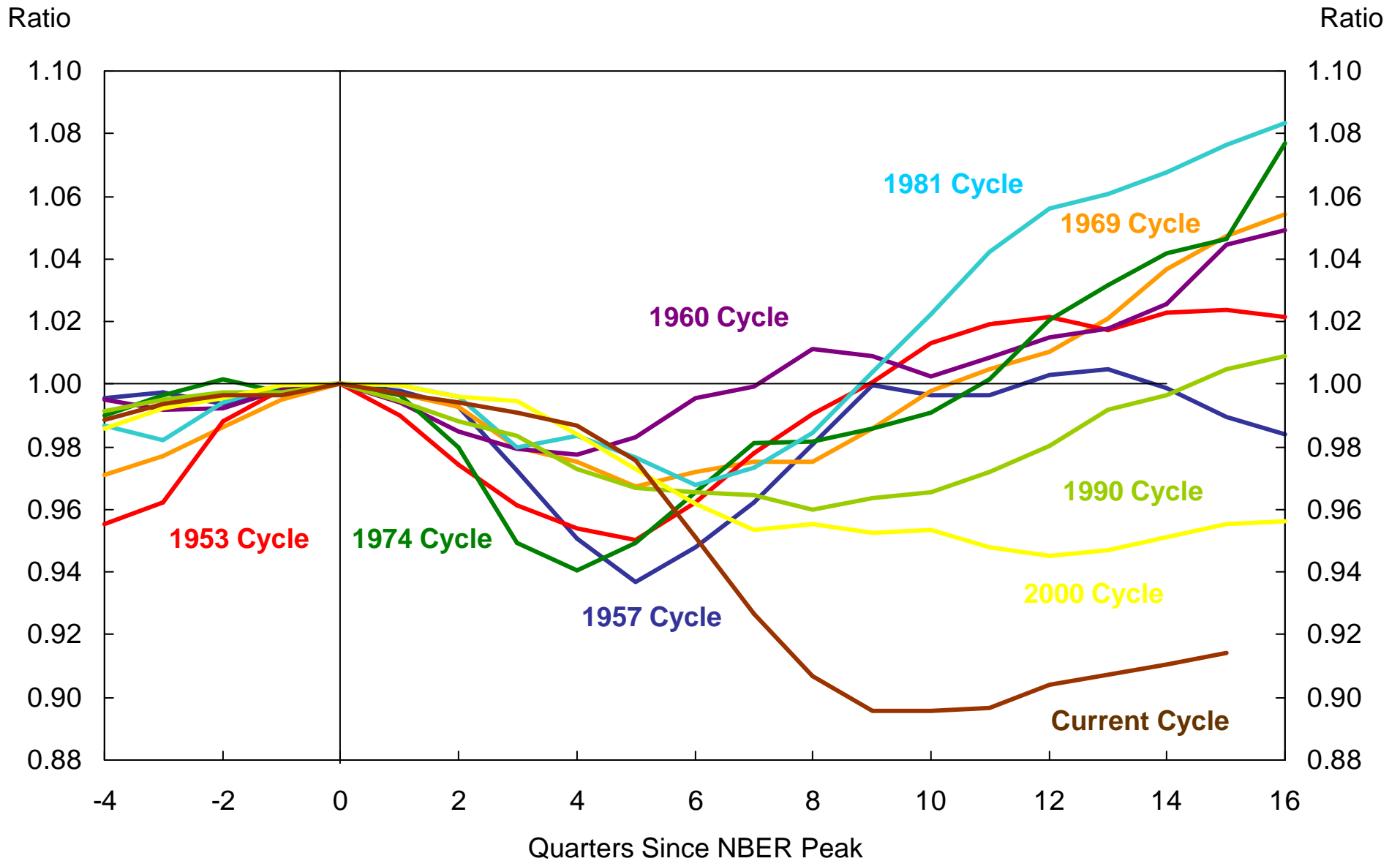


Key Developments Since Our Last Meeting

- Full implementation of second installment of LSAP
- Fiscal agreement at end of 2010
 - Payroll tax cut
 - Expensing of qualified investment
- Upgrading of foreign growth prospects
- Larger than expected decline of exchange value of dollar
- Sharp increase of commodity prices

Nonfarm Business Sector: Hours Worked of all Persons

(Series Set to 1.00 at NBER Peak)



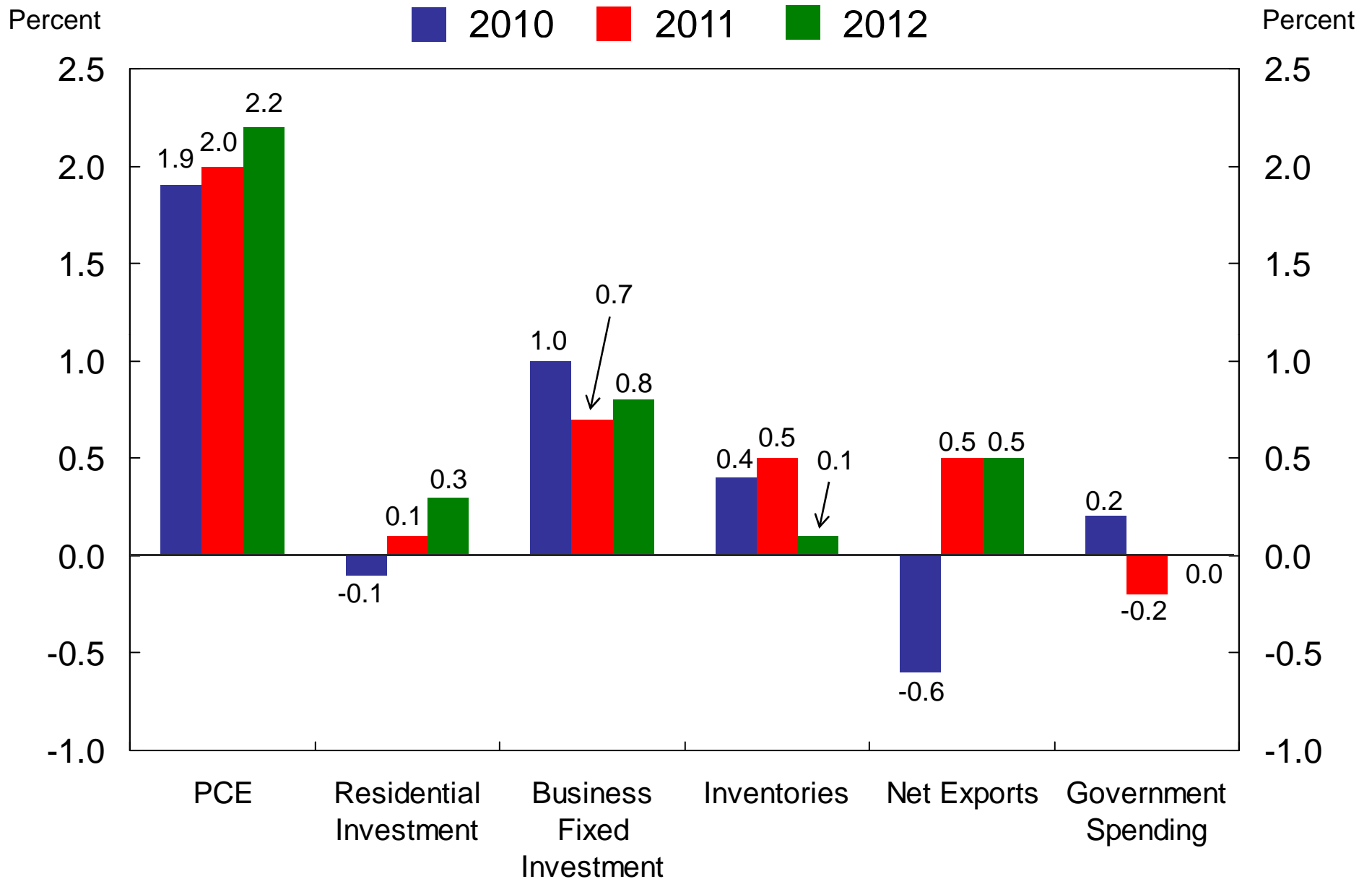
FRBNY Outlook

May '11

(November '10)

<u>Q4/Q4 growth rate</u>	2009	2010	2011	2012
GDP	0.2 (0.2)	2.8 (2.3)	3.7 (4.0)	3.9 (4.5)
Core PCE Inflation	1.7 (1.7)	0.8 (1.0)	1.3 (1.2)	1.5 (1.5)
Unemployment (End of Period Level)	10.0 (10.0)	9.6 (9.9)	7.9 (8.3)	7.1 (7.0)
Personal Saving Rate (End of Period Level)	5.5 (5.5)	5.6 (5.0)	6.2 (5.7)	5.5 (6.4)

Growth Contributions to GDP by Category

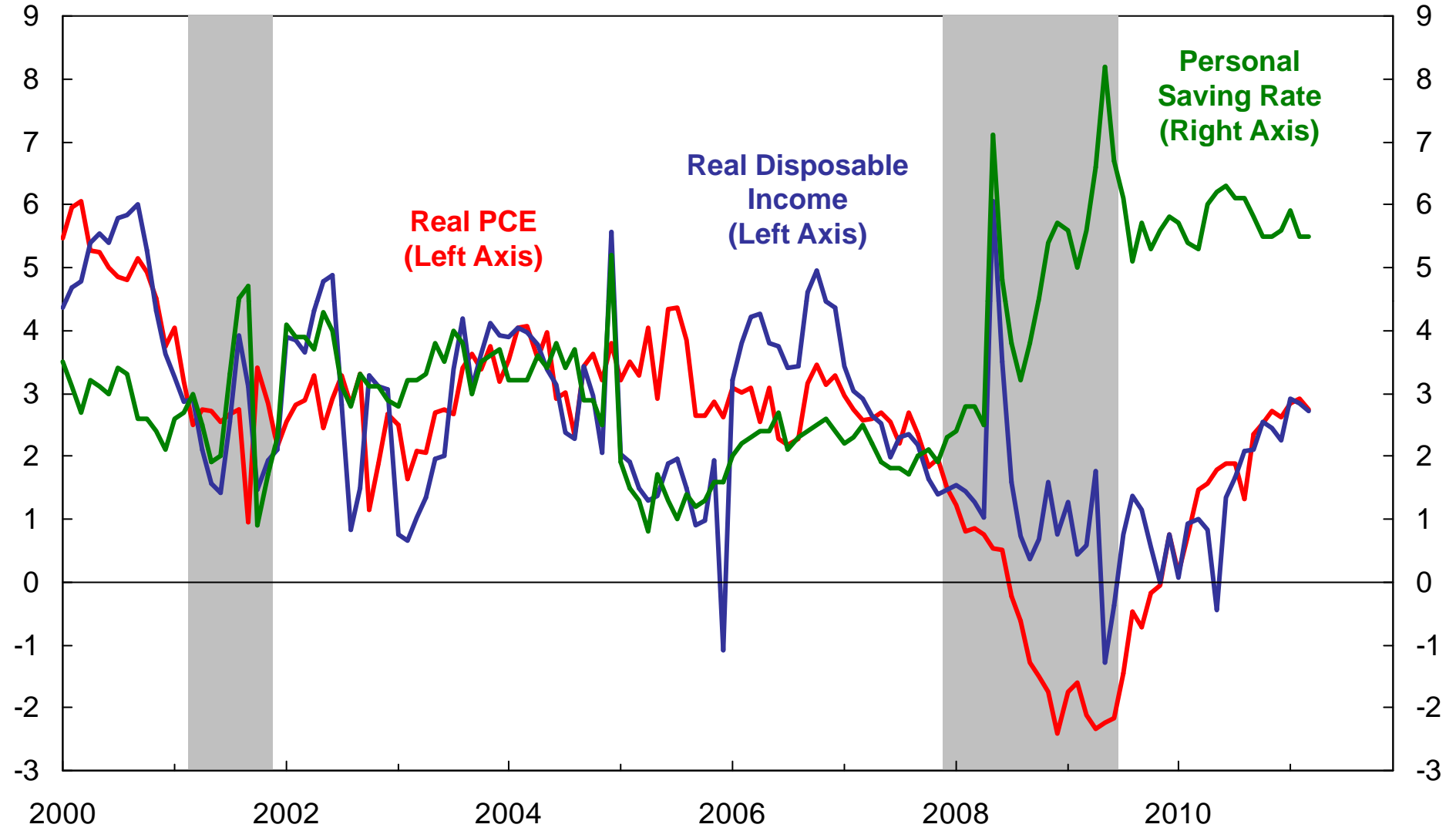


Source: Bureau of Economic Analysis and FRBNY Forecast

Real PCE, Disposable Income and Personal Saving Rate

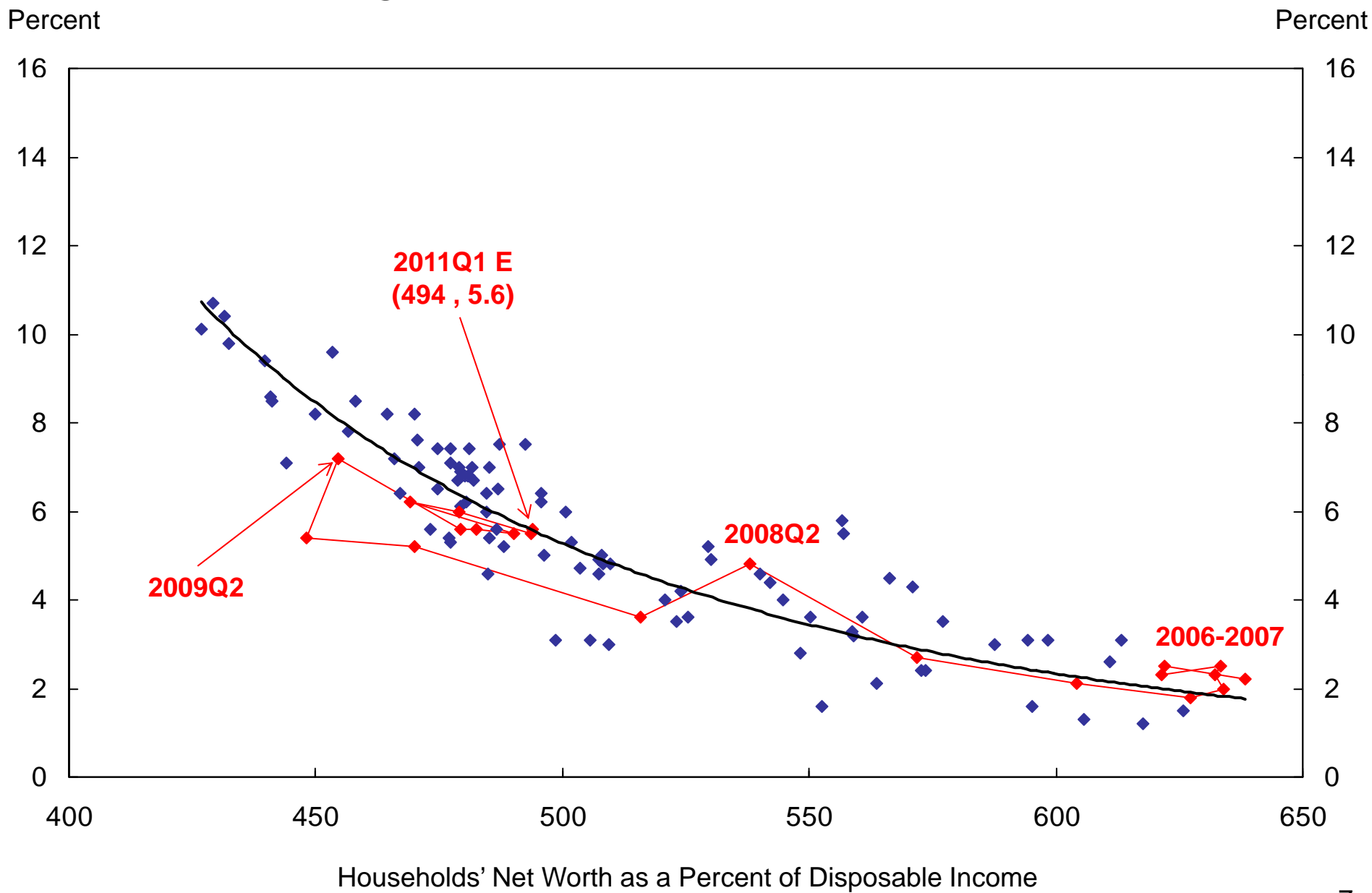
% Change - Year to Year

Percent



Source: Bureau of Economic Analysis

Personal Saving Rate and Household Net Worth



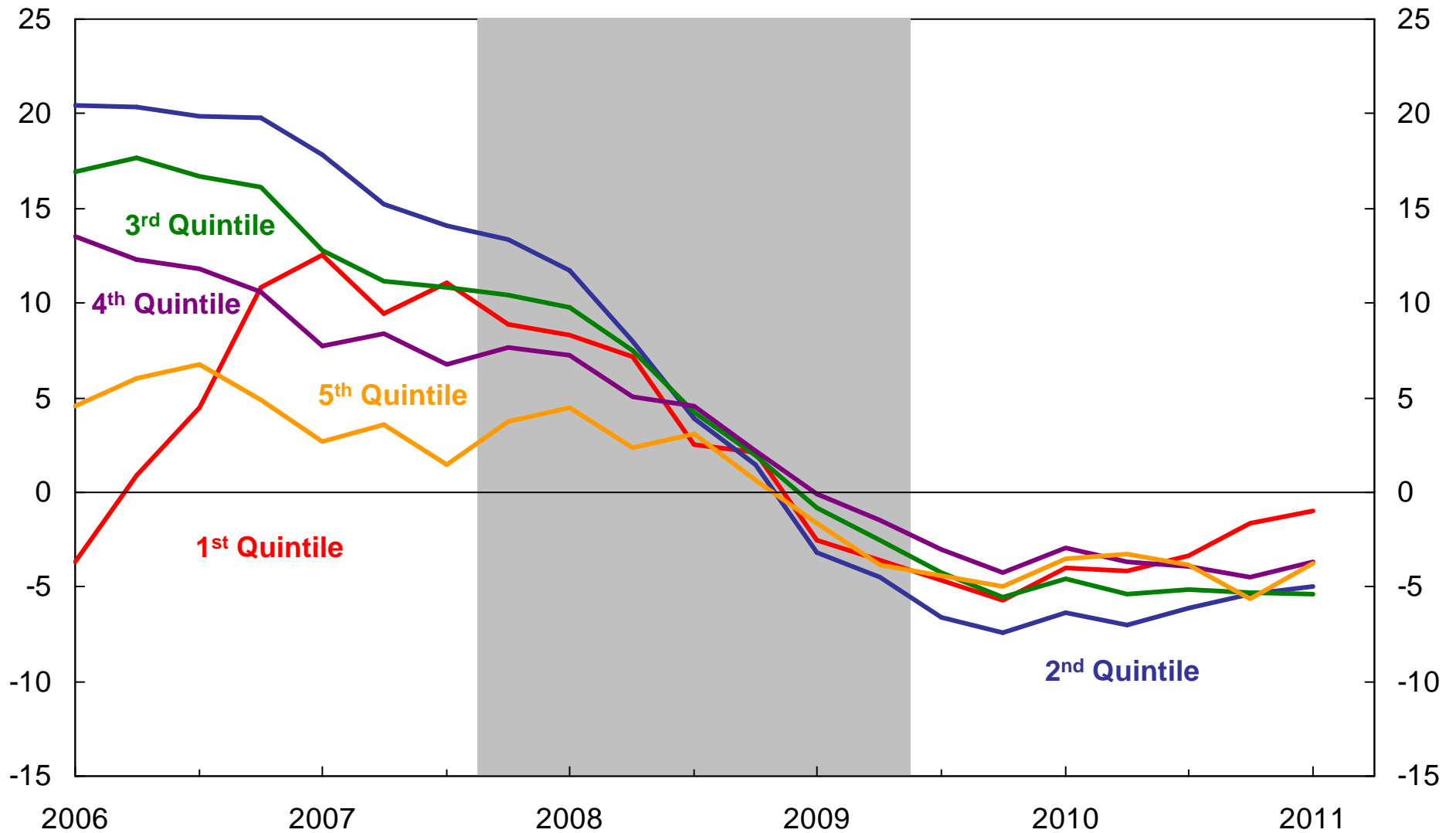
Source: Bureau of Economic Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.

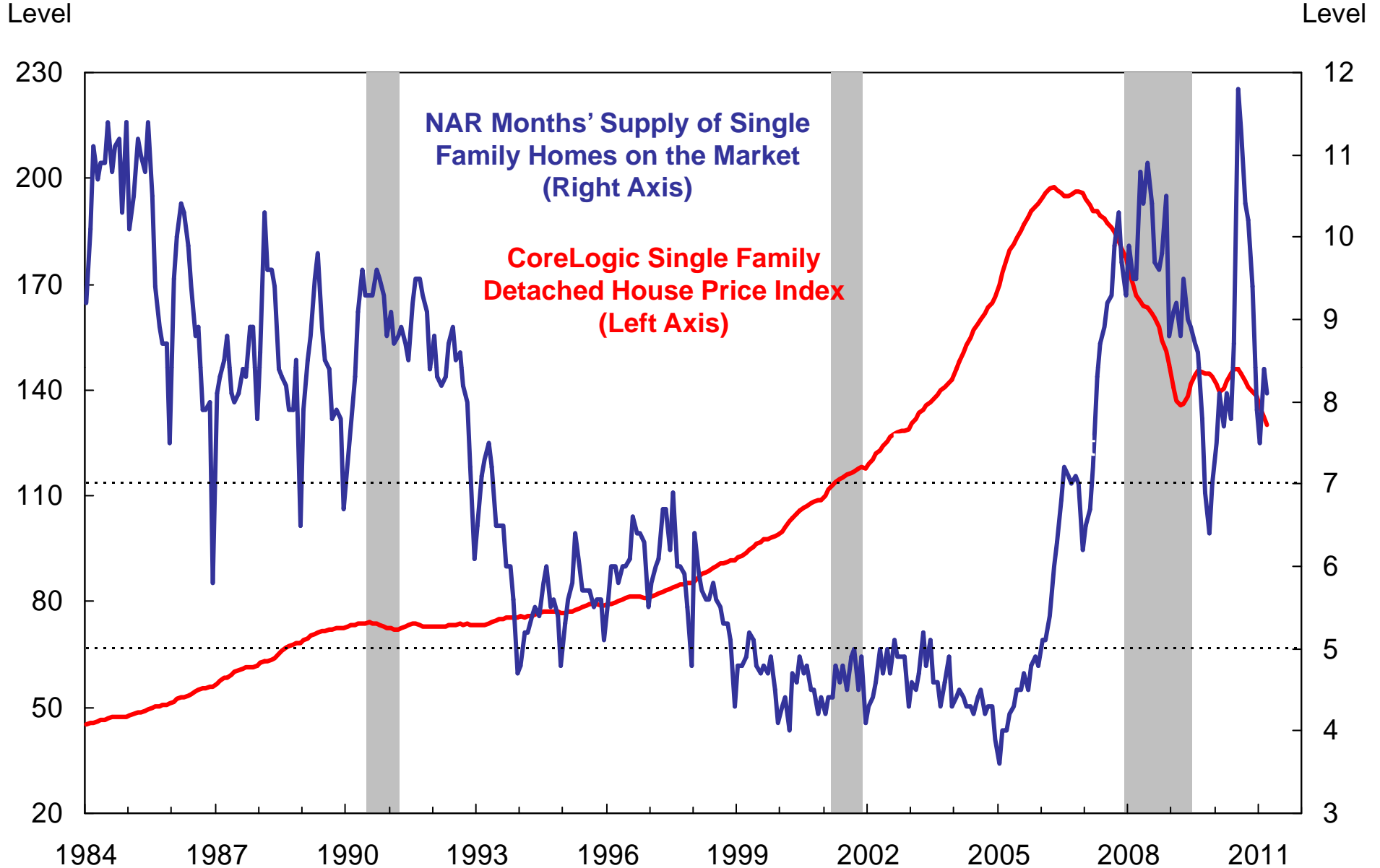
Consumer Debt by Credit Score Quintile

% Change – 4-Quarter

% Change – 4-Quarter



Single Family Housing Market

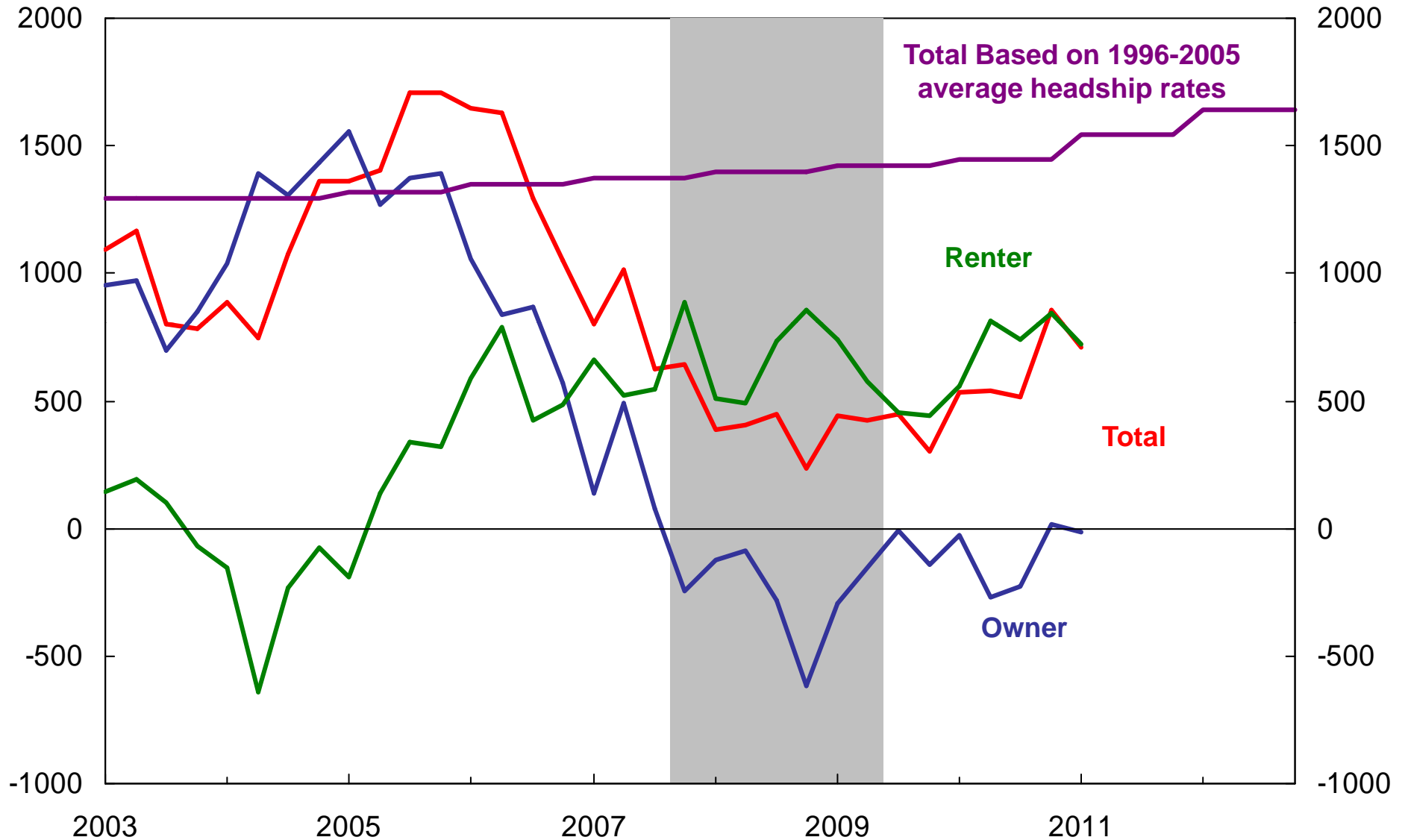


Source: CoreLogic and National Association of Realtors

Household Formations

Annual Rate

Annual Rate

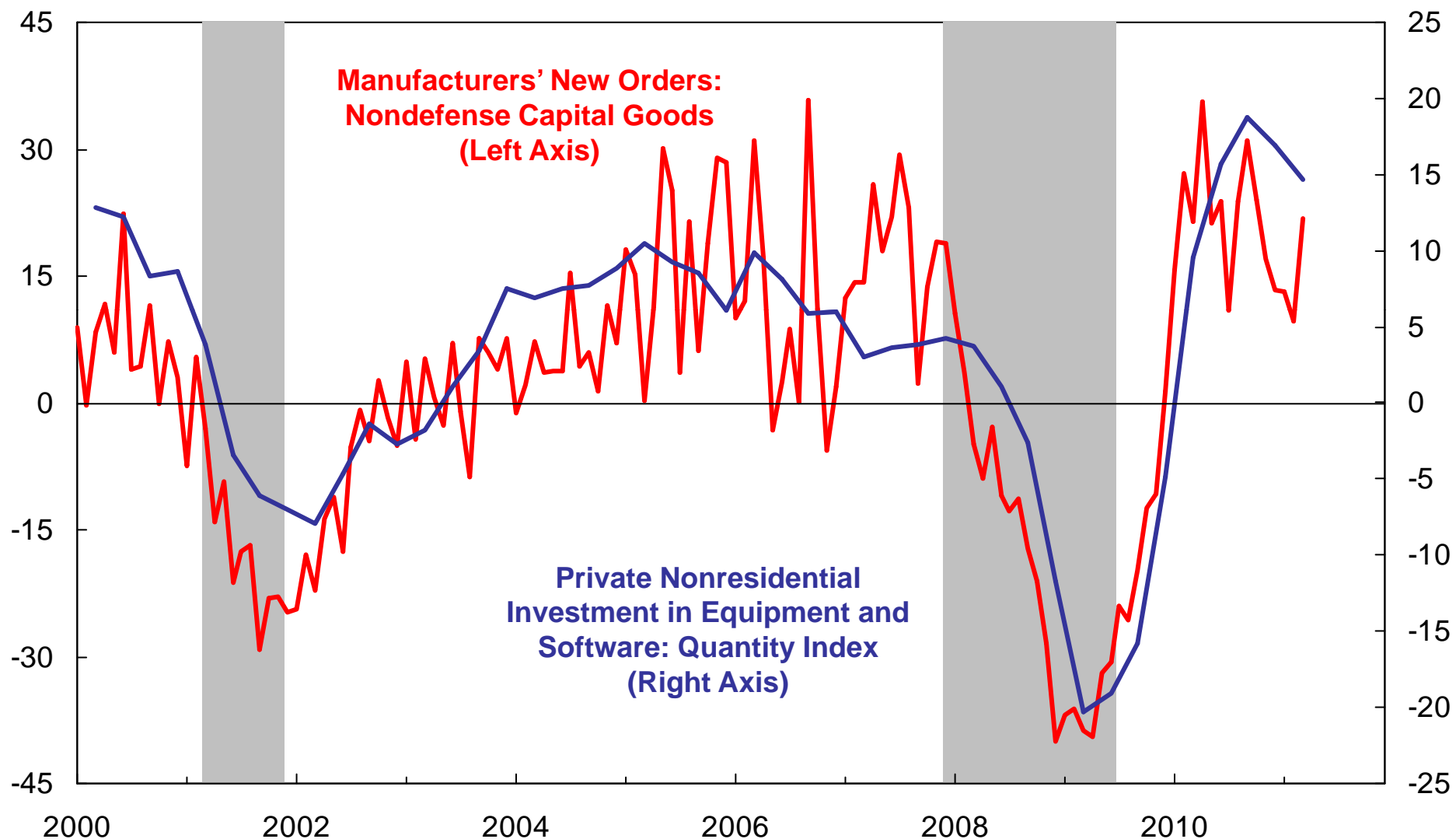


Source: Bureau of the Census

Manufacturers' New Orders and Business Investment

% Change – Year to Year

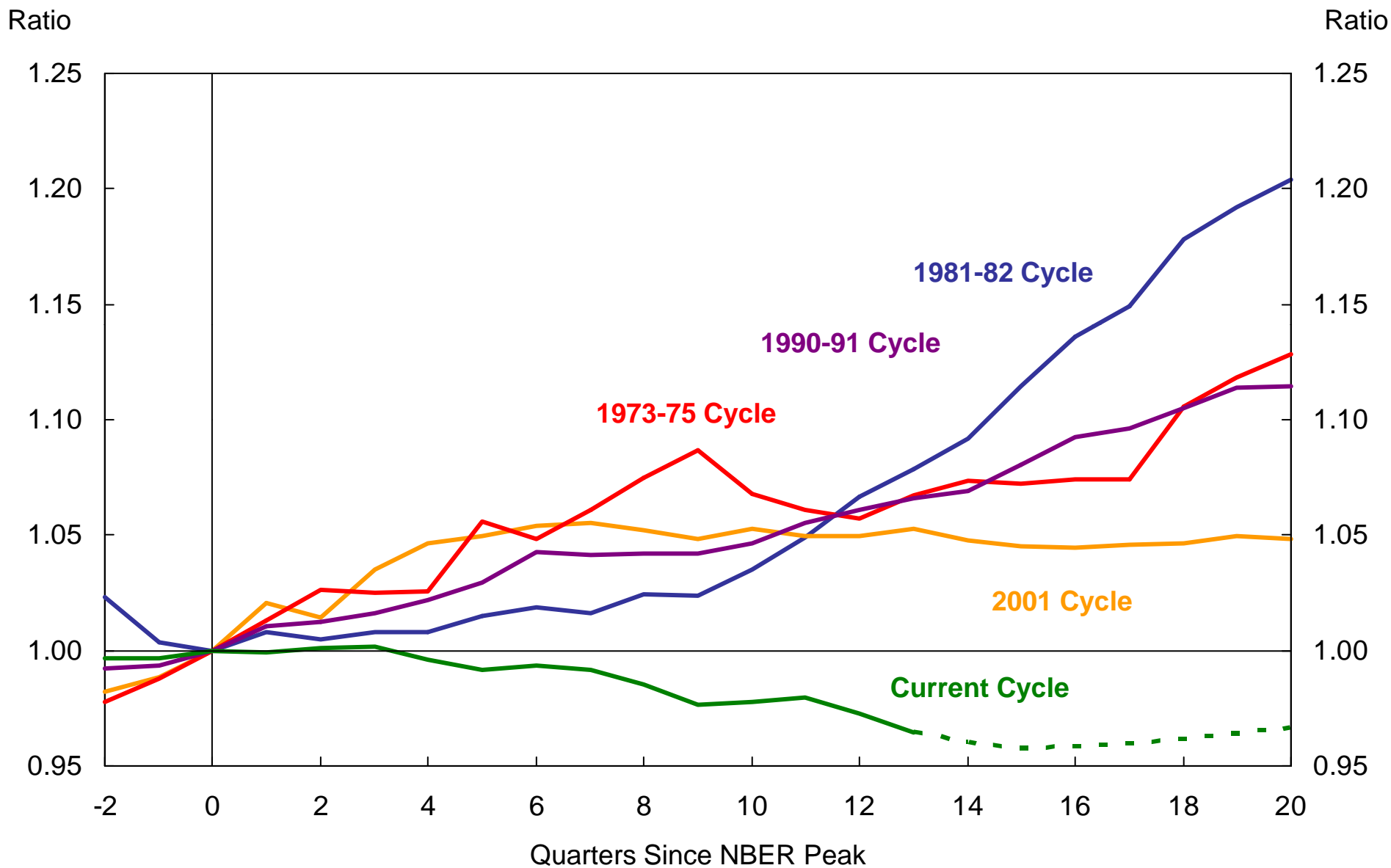
% Change – Year to Year



Source: Census Bureau and Bureau of Economic Analysis

Real State and Local Government

(Series Set to 1.00 at NBER Peak)

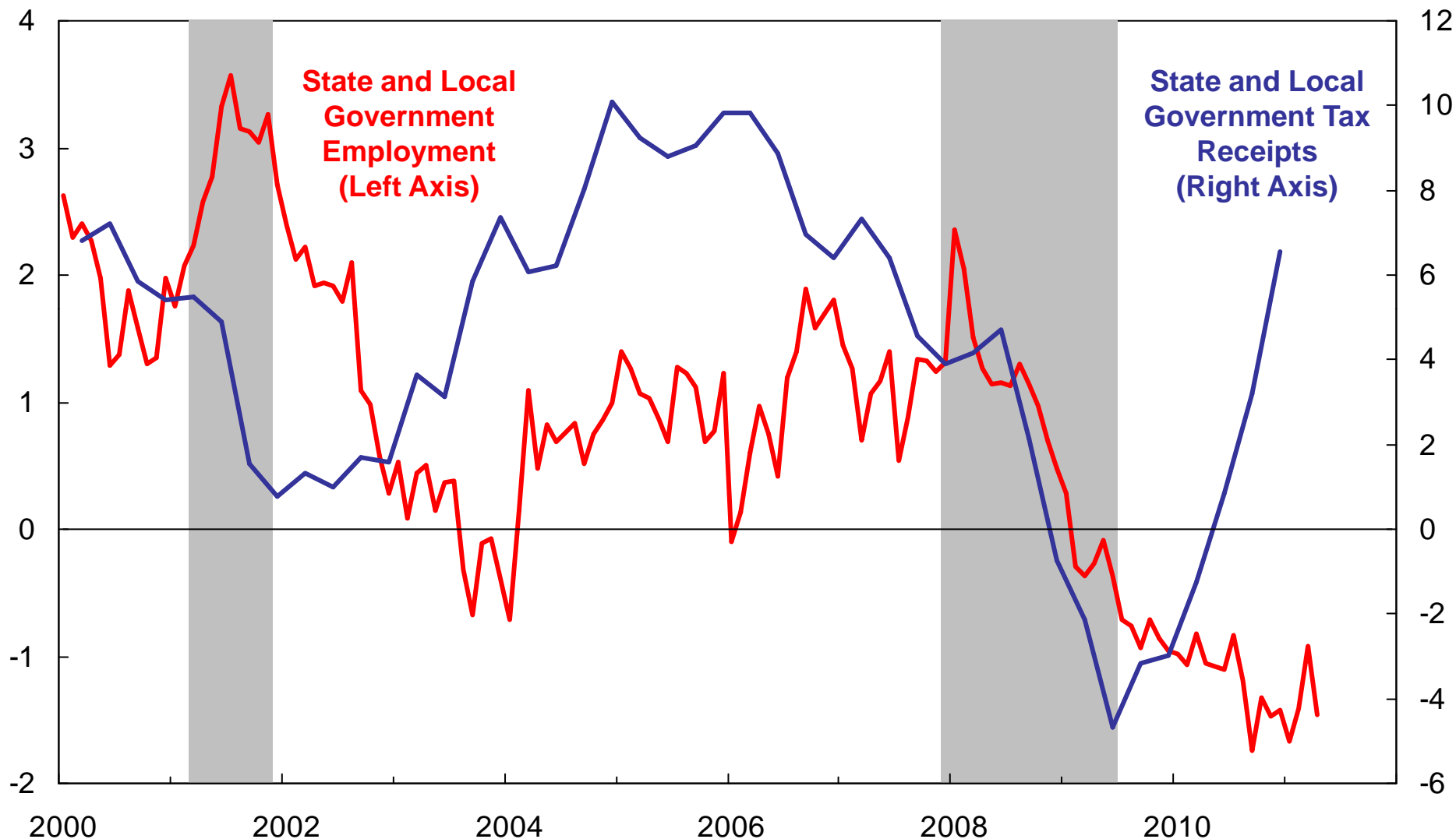


Source: Bureau of Economic Analysis

State and Local Government Employment & Tax Receipts

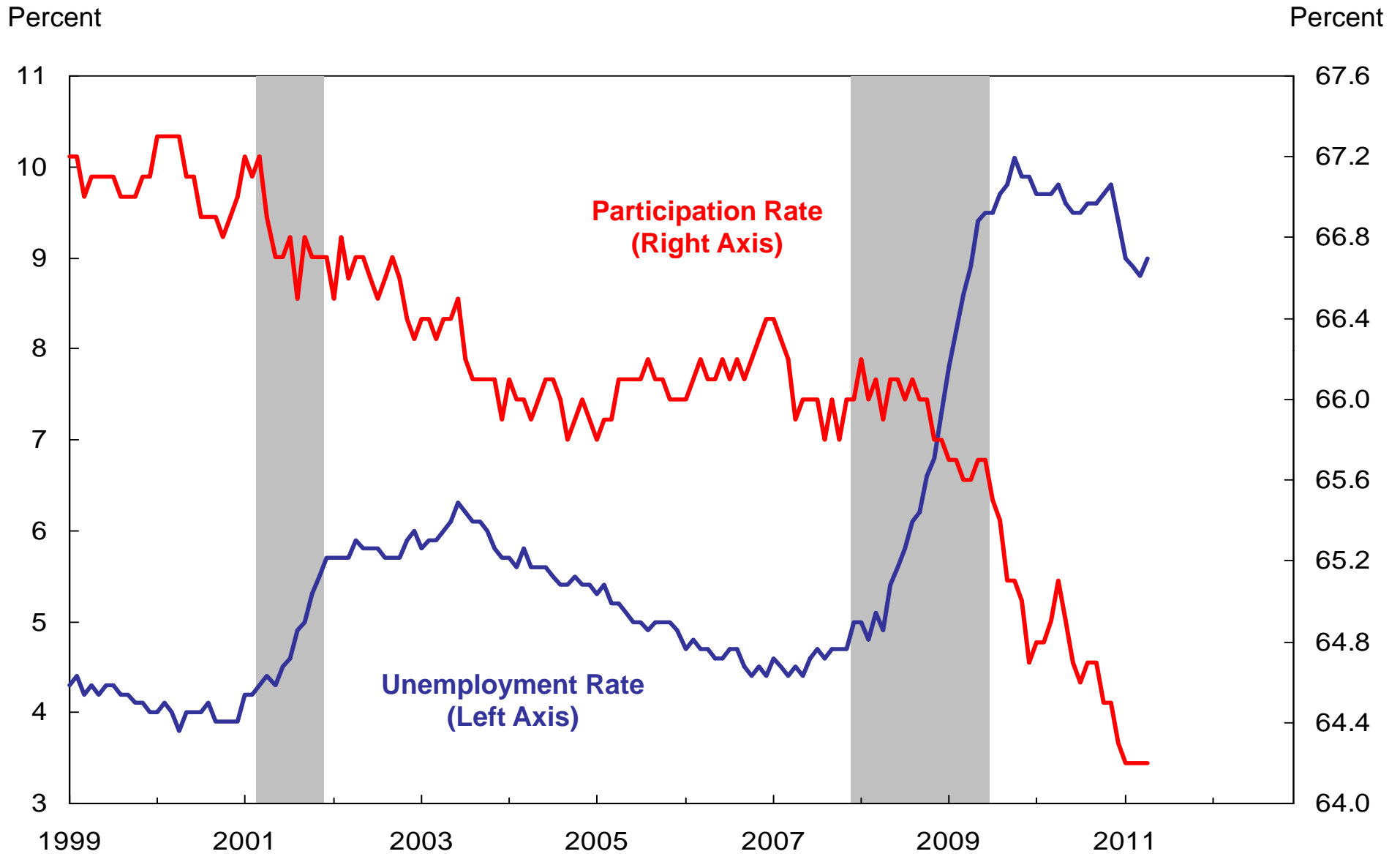
% Change – 6-month Annual Rate

% Change – 6-quarter Annual Rate



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

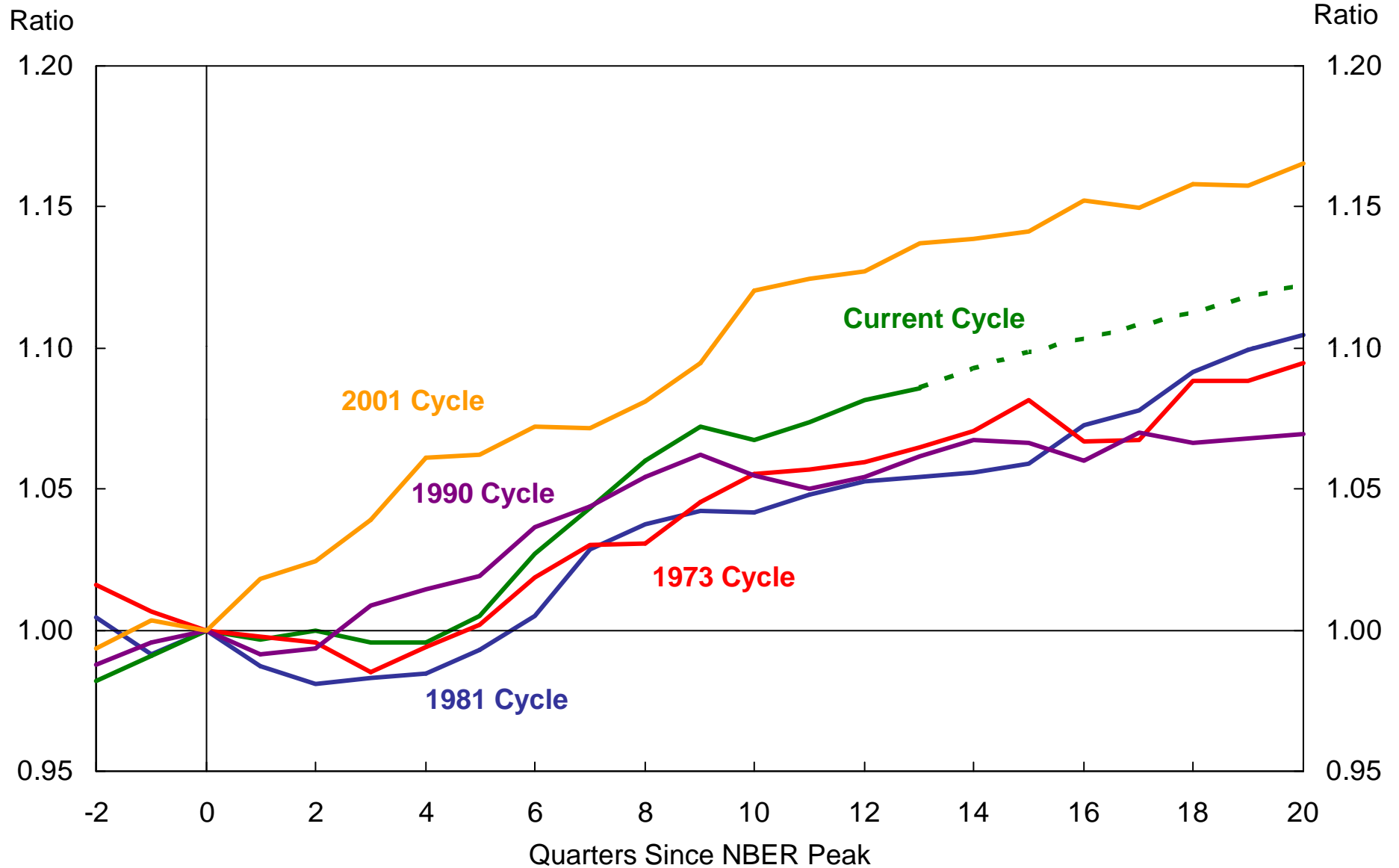
Unemployment and Labor Force Participation Rates



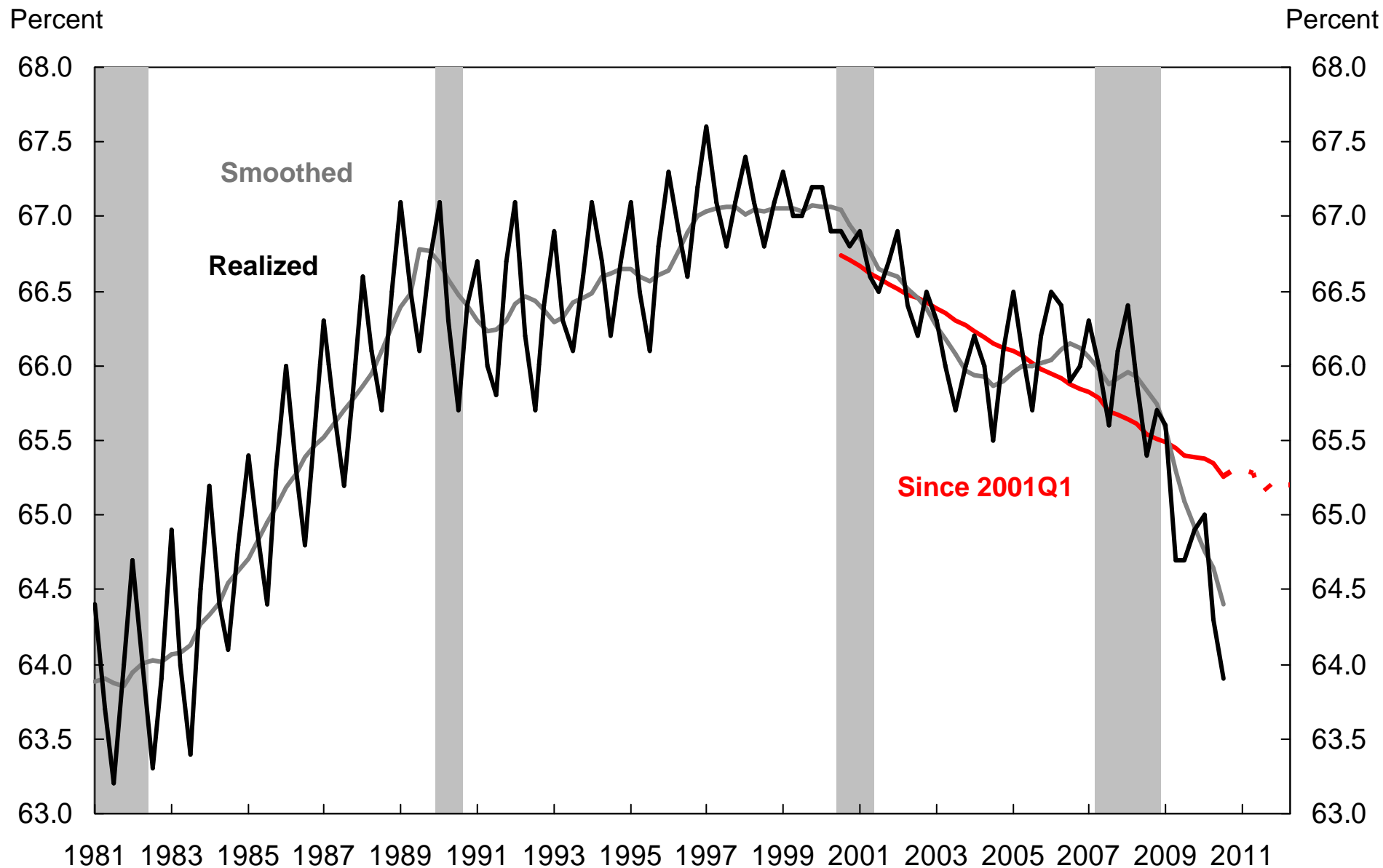
Source: Bureau of Labor Statistics

Real Output Per Hour

(Series Set to 1.0 at NBER Peak)



Realized and Estimated Labor Force Participation Rate

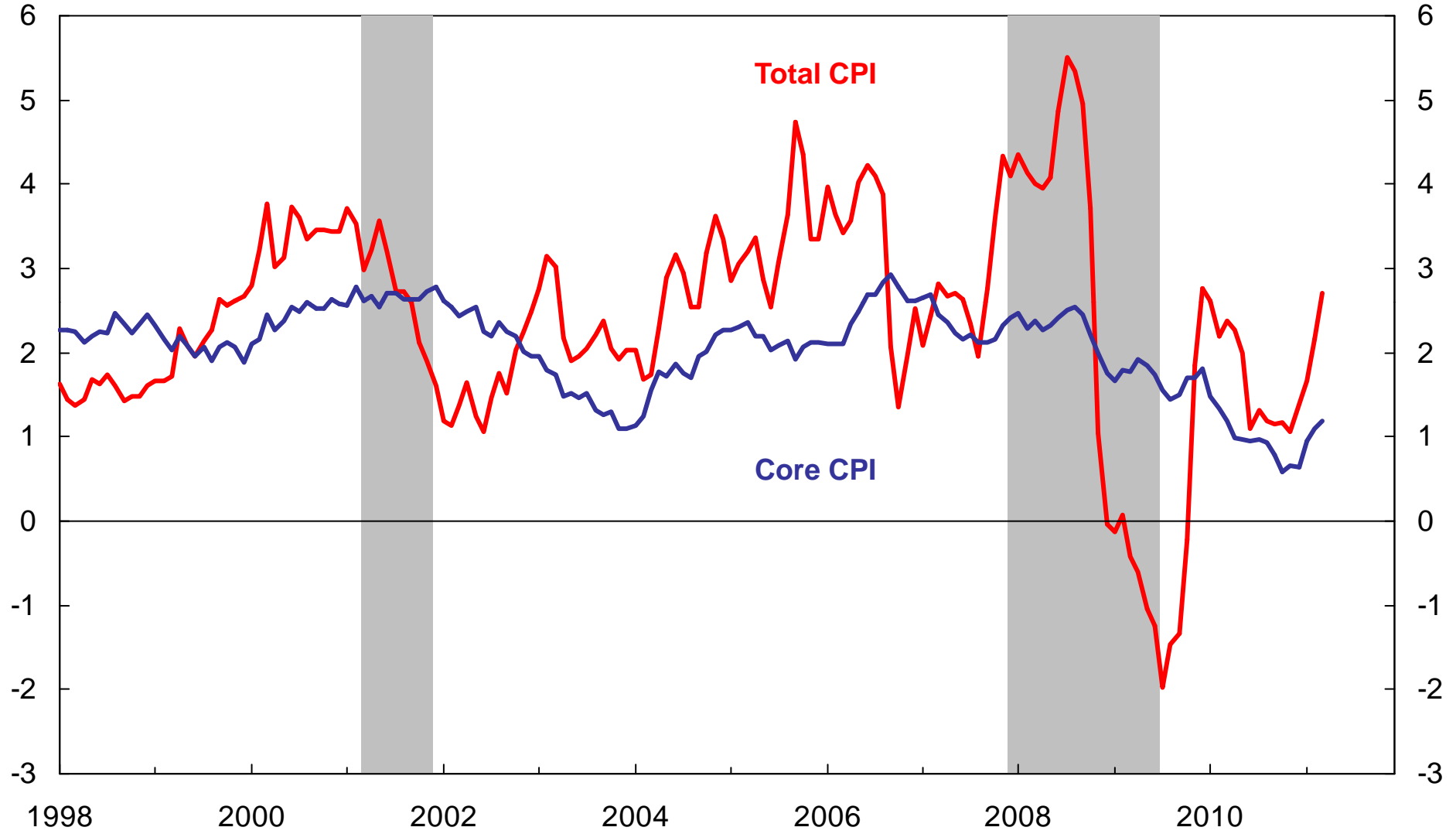


Source: Bureau of Labor Statistics and Authors' Calculations

Total and Core CPI

% Change - Year to Year

% Change - Year to Year

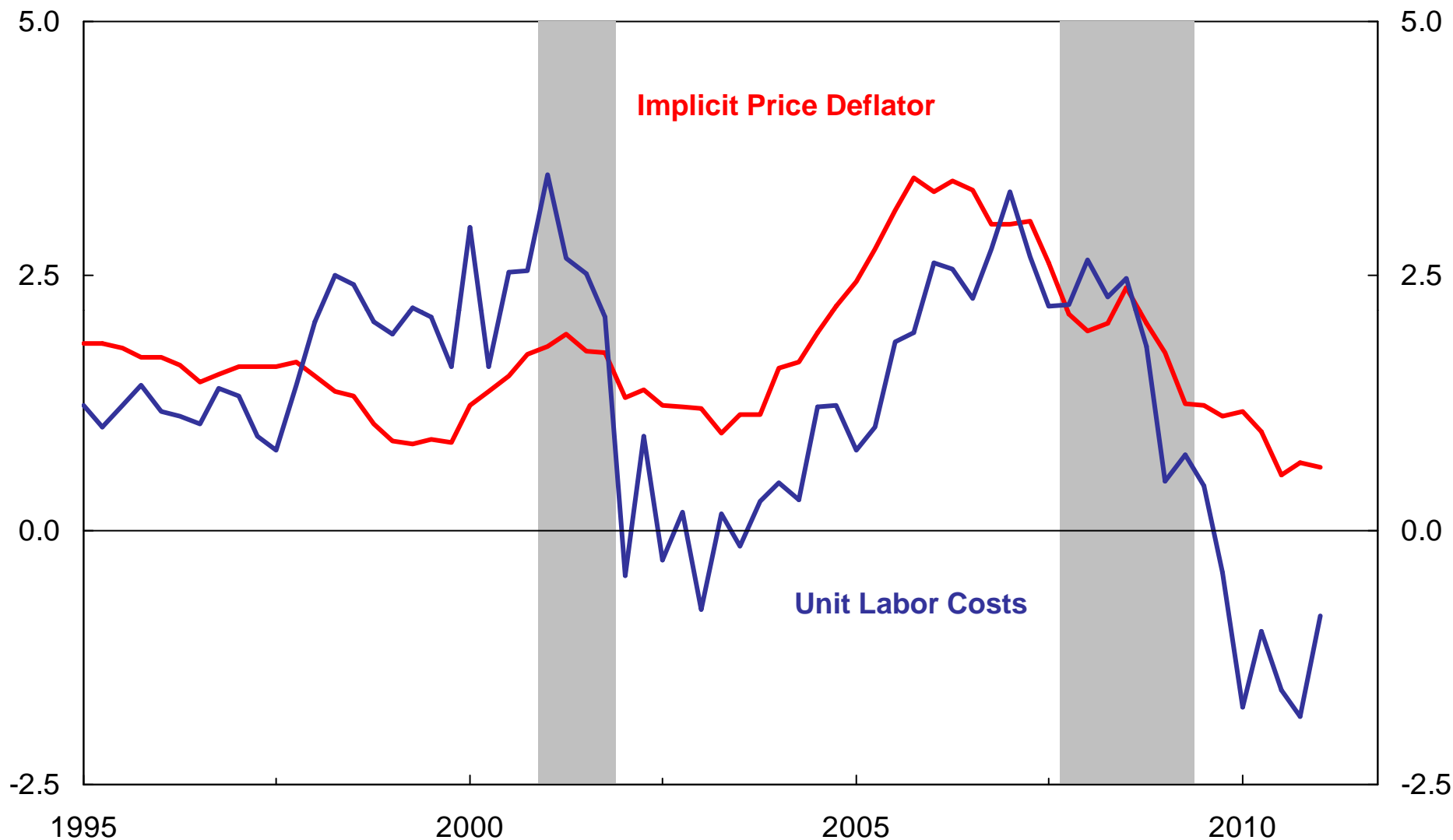


Source: Bureau of Labor Statistics

Implicit Price Deflator and Unit Labor Costs

% Change – 8-Quarter AR

% Change – 8-Quarter AR

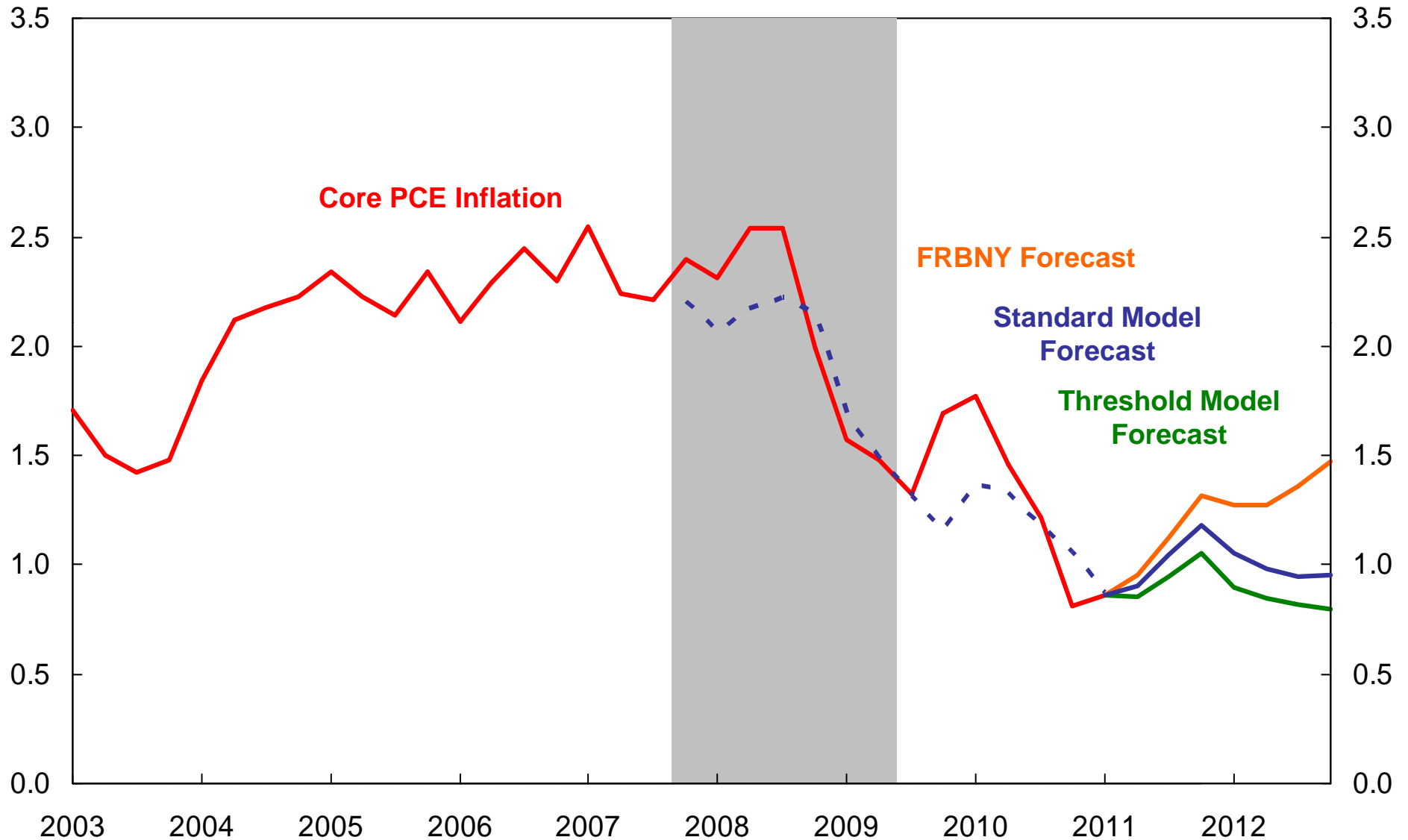


Source: Bureau of Labor Statistics

Core PCE Deflator

% Change – Year to Year

% Change – Year to Year



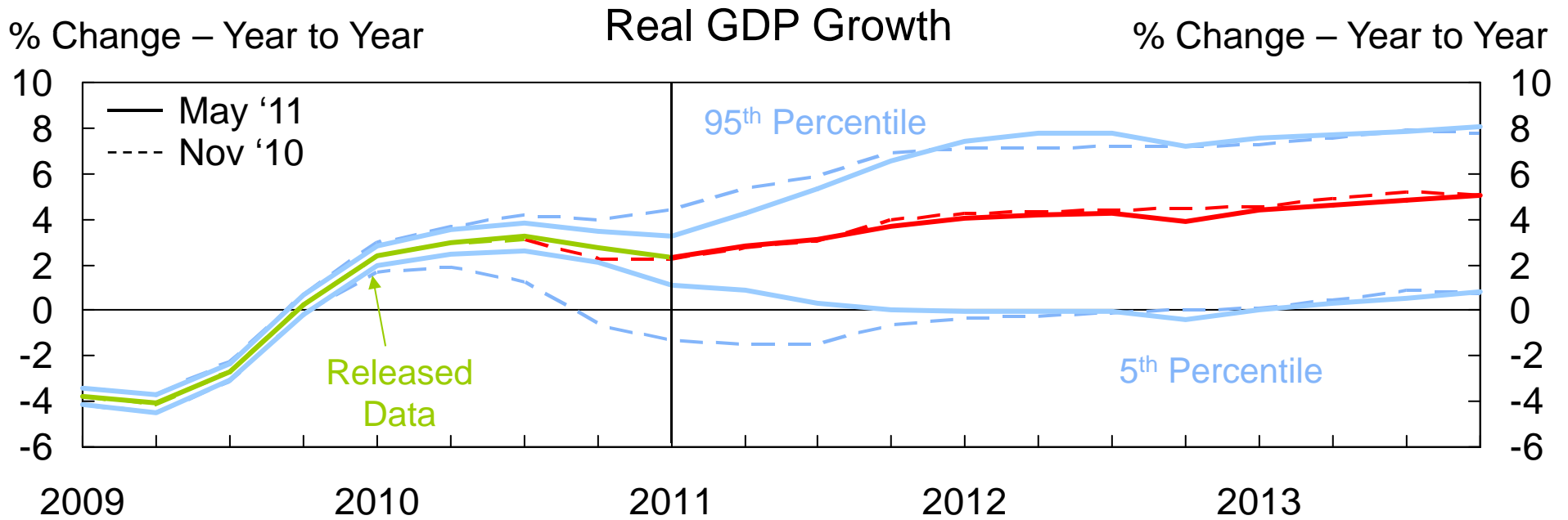
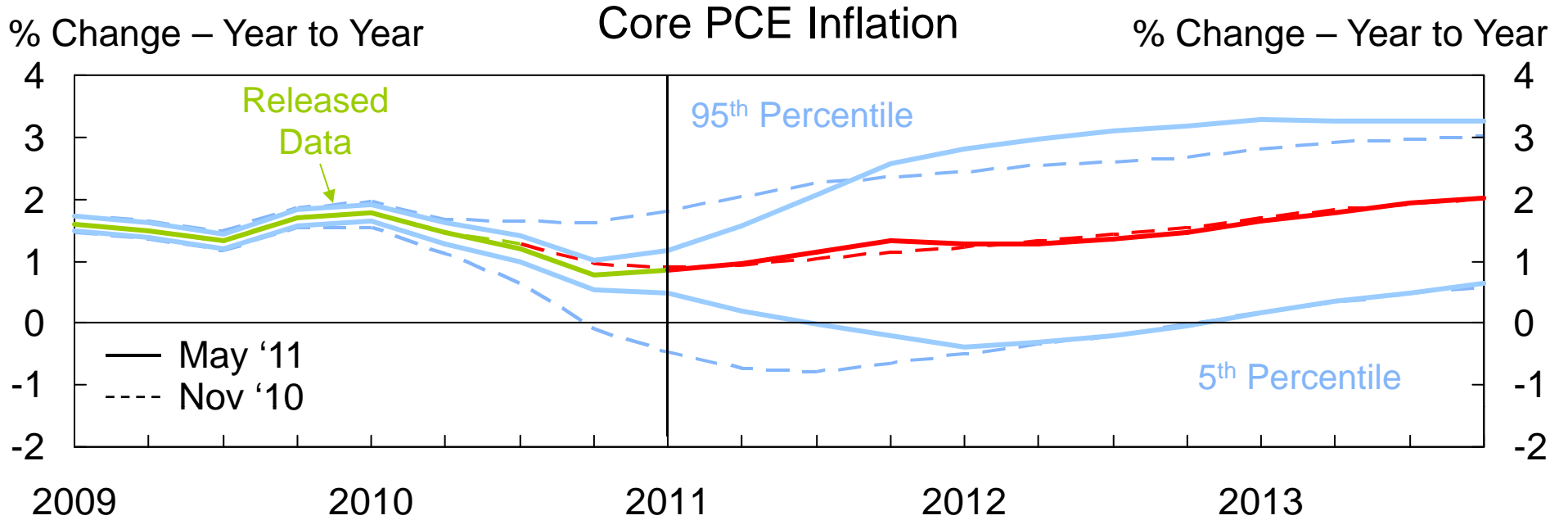
Source: Bureau of Economic Analysis and FRBNY

Risks and Policy Issues

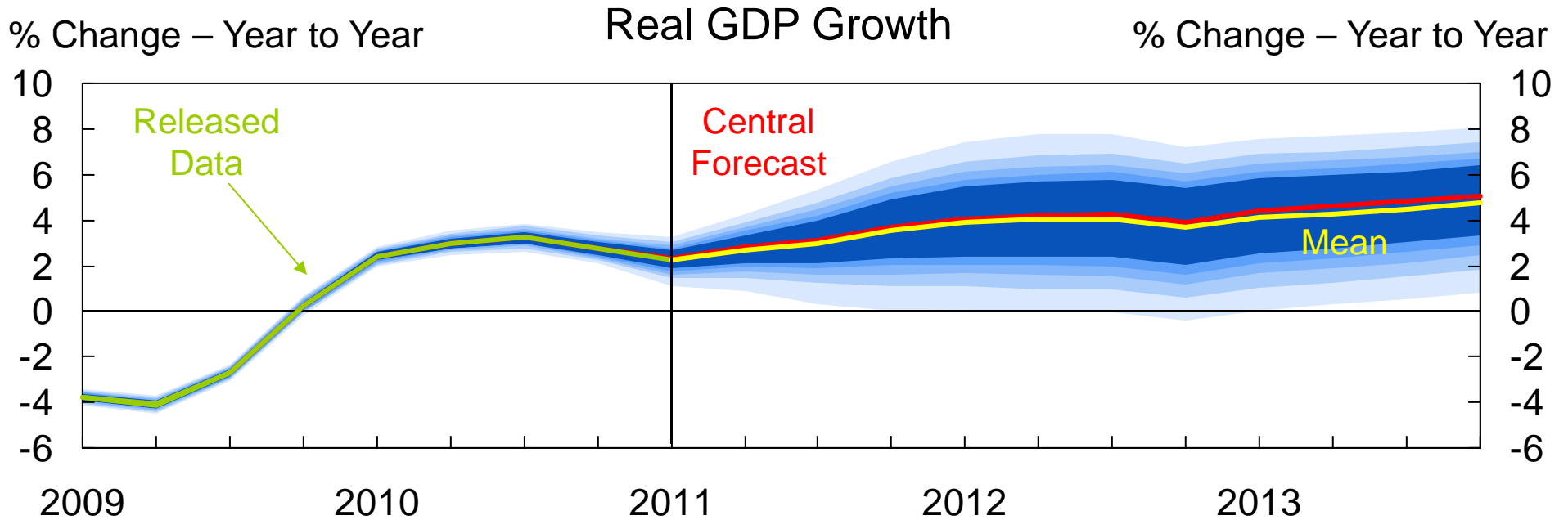
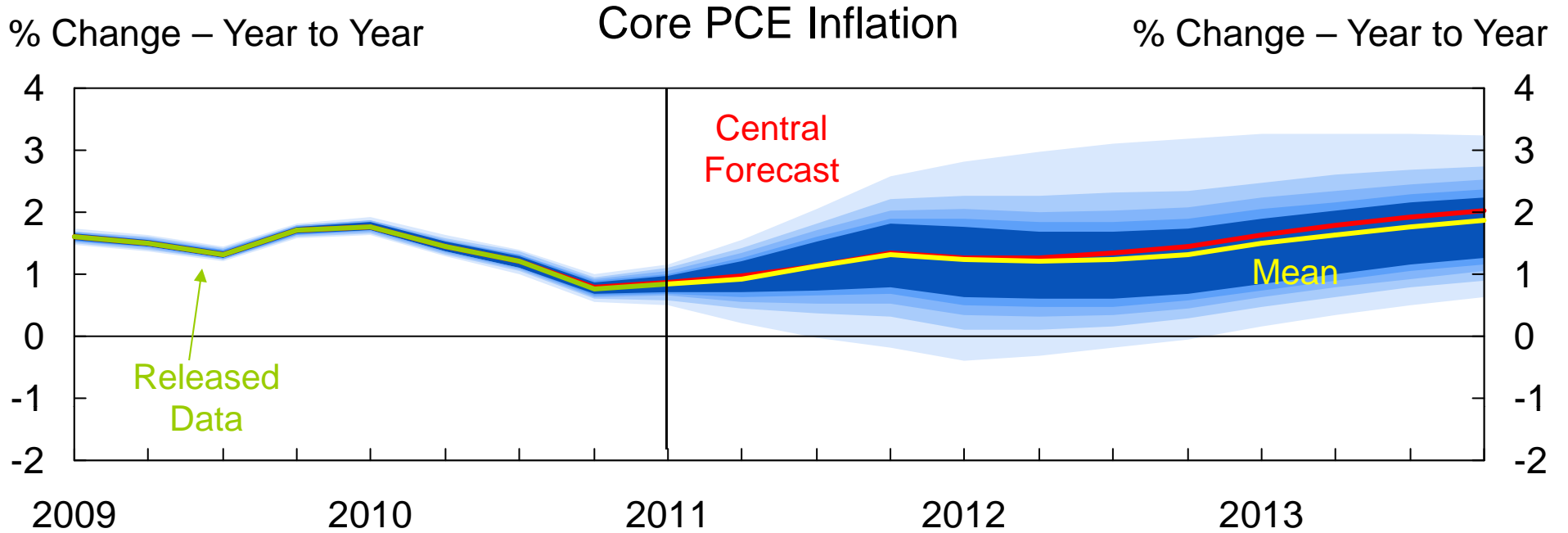
Jonathan McCarthy



Change from Nov '10 to May '11



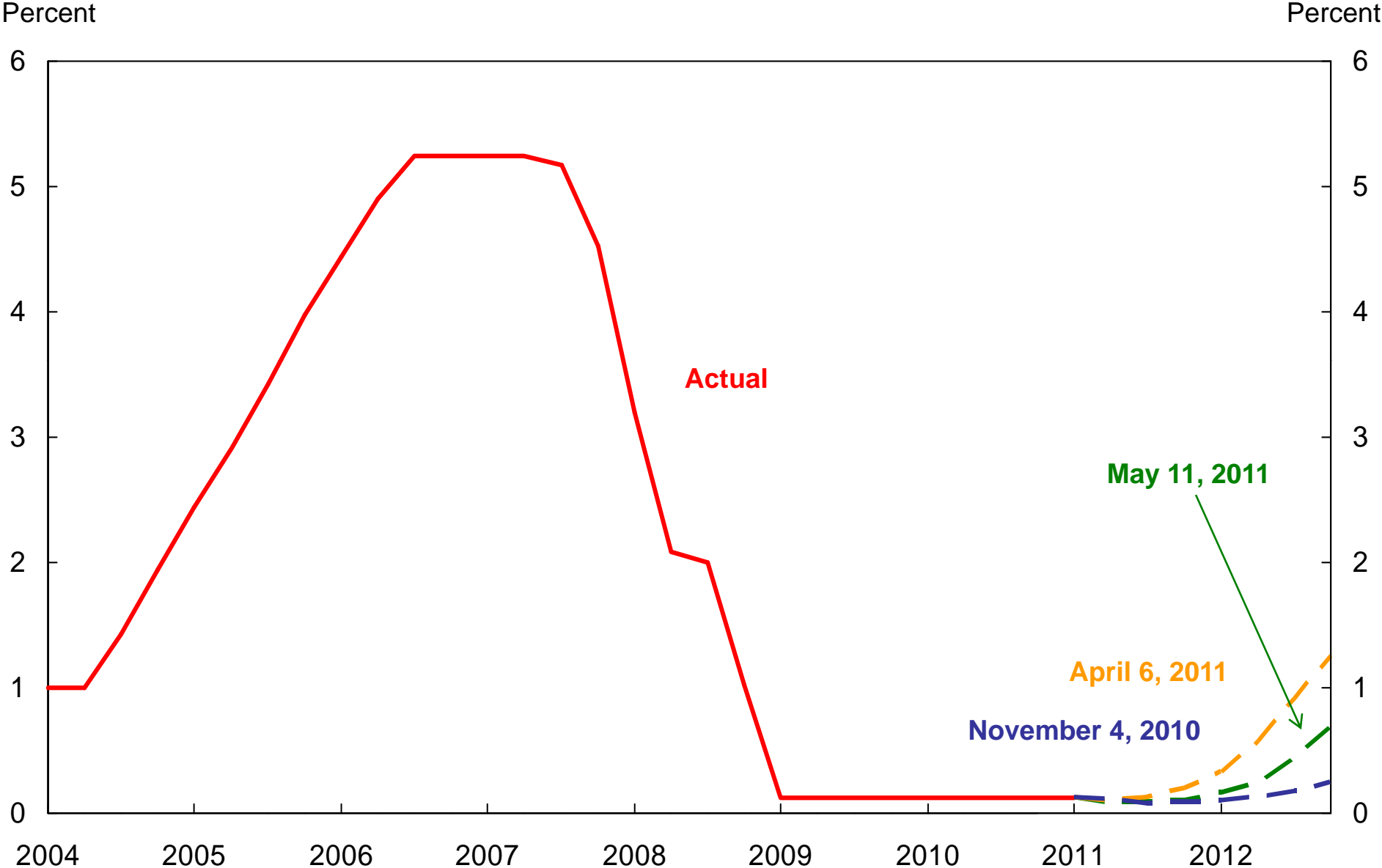
May '11 Forecast Distributions



Some Risks to the Outlook

- Productivity growth significantly different from assumed trend
- Near-term supply shocks (e.g. oil, supply chain disruptions associated with Japan)
- Larger than expected fiscal consolidation
- Renewed financial and credit market stresses
 - e.g. fallout from Europe
- Stronger recovery dynamics
- Further large home price declines
- Unmooring of inflation expectations

Actual and Expected Fed Funds Target



Source: Federal Reserve Board

“Exit Strategy” Issues

- Timing and pace of tightening
 - Extent and pace of balance sheet reductions
- Fed balance sheet as an active policy tool
 - Balance sheet size conditional on economic conditions?
 - Alternatively, place a high bar to use of balance sheet tool?
- Eventual size and composition of the Fed balance sheet
- Eventual framework for conducting monetary policy

Stance of Policy

Policy Rule	Rate Prescription	
	Nov. 2010	May 2011
Taylor Rule, Contemporaneous Feedback*	-2.5 to 0	-2.3 to +0.2
Taylor Rule, Forecast-Based*	-2.0 to +0.5	-0.75 to +1.75
Taylor Rule, Forecast-Based with Risks*	-2.2 to +0.2	-0.8 to +1.7
Taylor Rule, Contemporaneous Feedback with est. neutral rate & output gap**	n.a.	-1.95 to -0.95
Contemporaneous Difference Rule	0.1 decrease	0.7 decrease
Forecast-Based Difference Rule	0.2 decrease	0.4 increase
Counterfactual with FRBNY DSGE	0 to 0.5	0 to 0.5
Optimal Rate in Curdia-Woodford DSGE	0	0

*Taylor rule uses response parameters from Taylor (1993). In first three rows, the equilibrium real rate varies between 0 and 2.5.

**Uses neutral rate and output gap estimated from Curdia-Woodford model. The estimated equilibrium real rate is between -2% and -1% while the estimated output gap is -0.5%.