Federal Reserve Forecasts and Nominal GDP
Notes and Methodology

• Does the Fed already target NGDP implicitly?

• Examined FOMC meeting material and forecasts from 1980 through today
  – Extracted NGDP, RGDP and CPI/PCE forecasts
    • 1980-2005, 2007: NGDP forecasts available
    • 2006, 2008-current: RGDP + PCE

• Created NGDP forecast graphs
  – Compare with Actual NGDP
What Is The Problem?

- Today the economy is 9.8% below previous NGDP path ($1.65 trillion)
  - Using a 5% growth path, the economy is 11.5% below that ($1.97 trillion)

- The gap between previous NGDP path and current level is partially why to many this does not “feel like a recovery”
  - No cyclical rebound to return to the previous trend
Current Year Forecasts

NGDP Current Year Forecast

E.g. Jan 2010 FOMC meeting’s forecast for 2010 NGDP growth
Current Year Forecasts with Actual

e.g. Jan 2010 FOMC meeting’s forecast for 2010 NGDP growth
1 Year Ahead Forecasts

e.g. Jan 2010 FOMC meeting’s forecast for 2011 NGDP growth
1 Year Ahead Forecasts with Actual

e.g. Jan 2010 FOMC meeting’s forecast for 2011 NGDP growth
2 Year Ahead Forecasts with Actual

NGDP 2 Year Ahead Forecast

Note: 2 Year Ahead forecasts became available beginning with the October 2007 FOMC Meeting
e.g. Jan 2010 FOMC meeting’s forecast for 2012 NGDP growth
Conclusion

• While the Fed uses a flexible central banking philosophy (no explicit target), it’s own forecasts envision roughly 5% NGDP growth

• To date, similar to inflation targeting regimes, the Fed allows for historical errors to remain historical and focuses predominately on future growth rates – “Let bygones be bygones”
  • No catch-up growth to return to the previous trend
More Information, An Incomplete List

- Scott Sumner’s blog The Money Illusion
  - His National Affairs article

- The Wall Street Journal primer on NGDP
  - Includes many other links

- Christina Romer’s NYT Op-Ed

- Data Source:
  - FOMC Meeting Materials, both current and historical