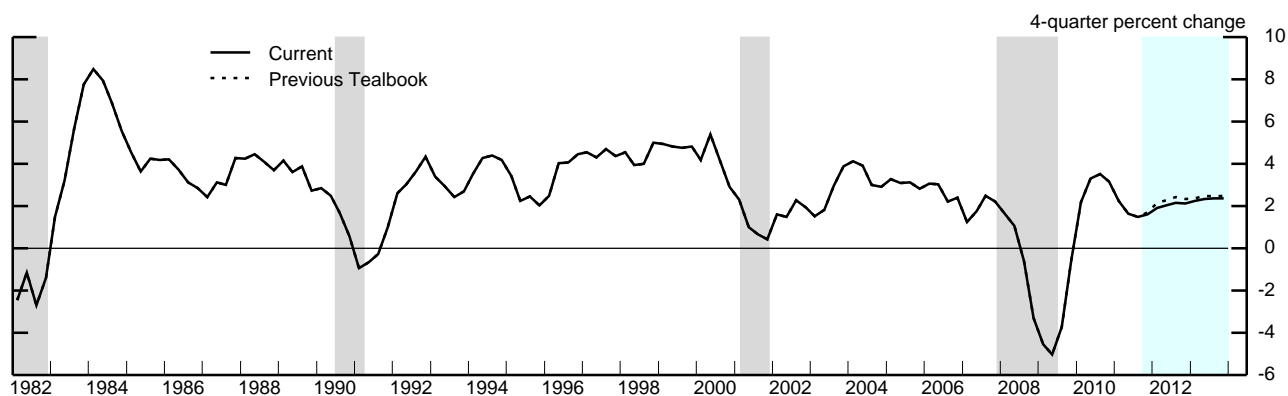


Projections of Real GDP and Related Components
(Percent change at annual rate from final quarter
of preceding period except as noted)

Measure	2010	2011		2012	2013
		H1	H2		
Real GDP	3.1	.8	2.4	2.1	2.4
Previous Tealbook	3.1	.8	2.6	2.3	2.5
Final sales	2.4	.8	2.2	2.0	2.2
Previous Tealbook	2.4	.8	2.7	2.1	2.2
Personal consumption expenditures	3.0	1.4	2.0	2.4	2.4
Previous Tealbook	3.0	1.4	2.2	2.4	2.3
Residential investment	-6.3	.8	5.4	6.6	7.3
Previous Tealbook	-6.3	.8	2.4	5.8	7.9
Nonresidential structures	-1.8	2.5	7.8	-2.1	1.1
Previous Tealbook	-1.8	2.5	10.2	-1.1	.9
Equipment and software	16.6	7.5	9.4	3.8	6.4
Previous Tealbook	16.6	7.5	9.4	3.2	6.4
Federal purchases	2.9	-3.9	-3.9	-1.0	-4.1
Previous Tealbook	2.9	-3.9	-.8	.4	-3.9
State and local purchases	-1.7	-3.1	-1.2	-.5	.7
Previous Tealbook	-1.7	-3.1	-1.2	-.4	.8
Exports	8.8	5.7	4.9	4.8	5.2
Previous Tealbook	8.8	5.7	5.4	5.1	5.5
Imports	10.7	4.8	2.1	3.9	4.1
Previous Tealbook	10.7	4.8	2.3	3.8	4.2
Contributions to change in real GDP (percentage points)					
Inventory change	.7	.0	.1	.1	.2
Previous Tealbook	.7	.0	-.2	.3	.3
Net exports	-.6	-.1	.3	.0	.0
Previous Tealbook	-.6	-.1	.3	.0	.0

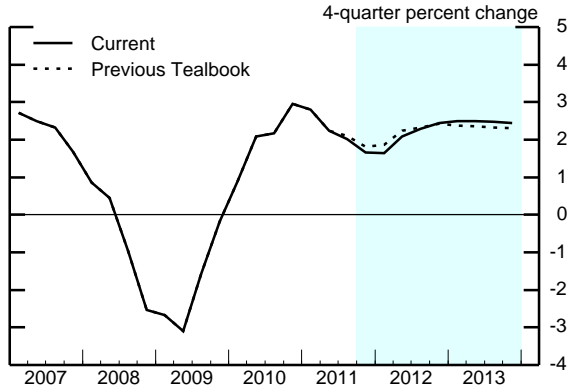
Real GDP



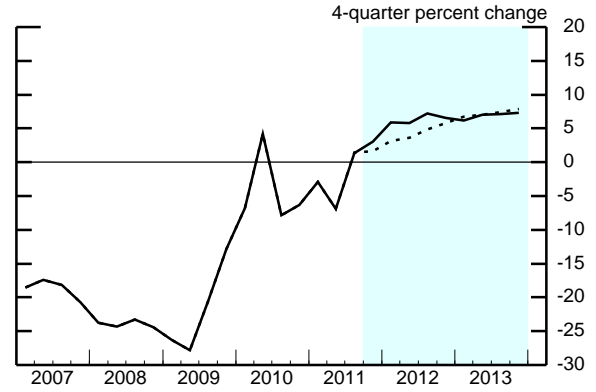
Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Components of Final Demand

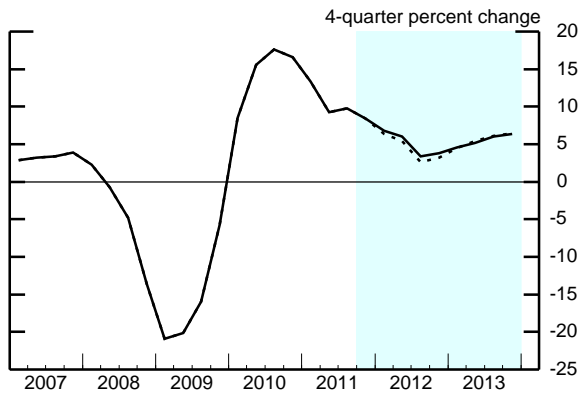
Personal Consumption Expenditures



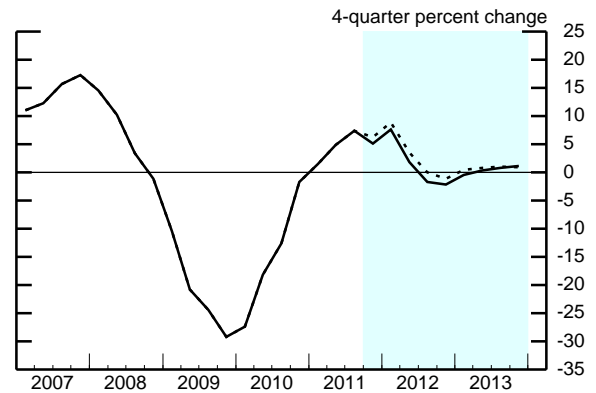
Residential Investment



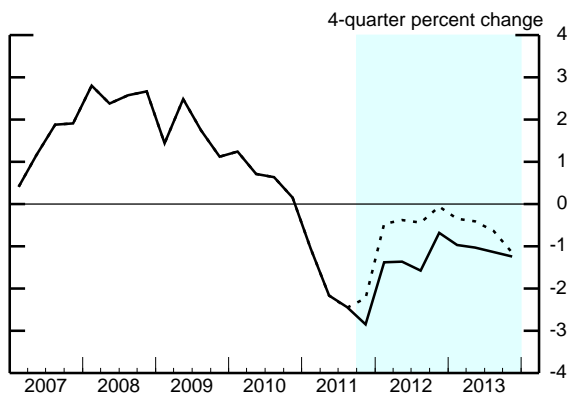
Equipment and Software



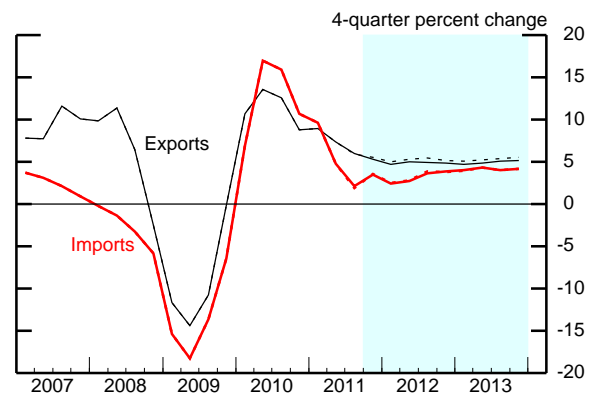
Nonresidential Structures



Government Consumption & Investment



Exports and Imports



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The Role of Surprisingly Weak Income Data in the PCE Projection

Real disposable personal income (DPI) has been considerably weaker than we had expected in the fall. Indeed, real DPI now looks to have edged up just \$40 billion (or ½ percent) over 2011; at the time of the October Tealbook, we anticipated an increase of close to \$160 billion (or 1½ percent), as shown in the table below.¹ The meager gains in personal income—which are also reflected in the very subdued increases in gross domestic income (GDI) over the second and third quarters—have weighed on our projection of consumer spending for this year and next.

Despite the slow growth in real disposable income, consumption expenditures in the second half of last year seem to have held up reasonably well, and, as a result, the personal saving rate fell from 5 percent in the first half of the year to around 4 percent in the second half—a decline that seems out of line with the weaker consumer sentiment and lower household wealth over the same period.

The Board staff's preferred consumption models react to the relatively high level of consumption (given the level of income and other determinants)—and hence the relatively low saving rate—by projecting that future consumption growth will slow enough to bring the level of consumption back in line with income and other observable explanatory variables. In other words, the models imply that surprises in the saving rate are unwound subsequently. The implications of one such model are shown by the blue bars in the figure on the facing page: According to this model, the downward revisions to income over the past two Tealbooks imply, all else being equal, reductions in the growth rate of PCE of close to ½ percentage point in 2012 and about ¼ percentage point in 2013.

In the baseline forecast, we have discounted somewhat the implications of this and similar models for the PCE outlook for the following reasons. For one thing, real-time readings on spending and income are subject to considerable measurement error. One interpretation of the relative strength of consumption recently is that the currently published data may understate the actual level of disposable income. (Indeed, the deceleration in published compensation in the middle of the year seems out of step with

Projections of the 2011 Q4/Q4 Change in Real DPI

(Billions of real dollars)

	Oct 2011 TB	Jan 2012 TB	Revision
DPI	157	38	-120
Selected components			
Compensation	95	69	-27
Transfers	-9	-53	-44
Dividends and interest	50	9	-41

¹ Most of the revision to income (\$85 billion out of \$120 billion) occurred between the October and December Tealbooks.