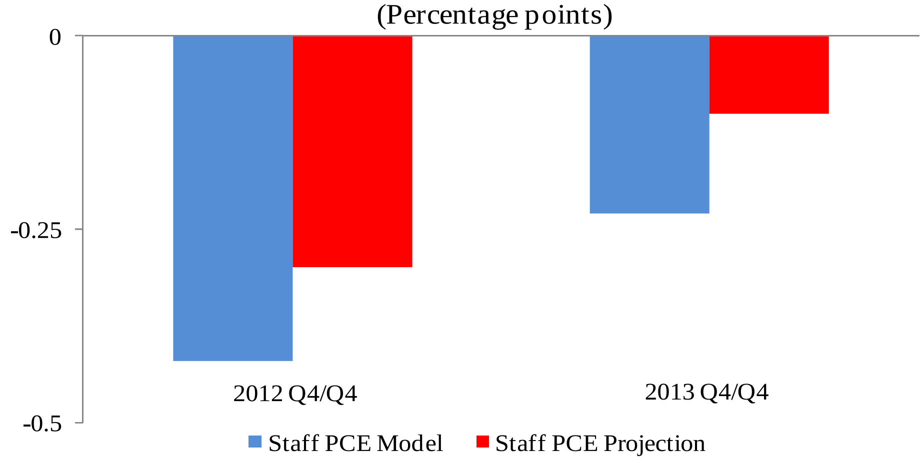
the stability in both employment growth and the unemployment rate observed over the same period.) Moreover, during the past decade, there has been some tendency for large income revisions in a quarter—such as the recent downward revision to second-quarter compensation—to be partially unwound subsequently. To the extent that the currently published estimates of income are too low, the outlook for consumption should be brighter than a mechanical reading of the model results would indicate. Similarly, current estimates of consumption may be too high, in which case the *level* of actual consumption would be better aligned with income than is now apparent; accordingly, there would be less reason to project a slower *growth rate* of consumption going forward.[2]

Even if income and consumer spending were measured without error, a standard PCE model might still overstate the implications of the current estimated imbalance between consumption and income for future consumption growth because these apparent imbalances may instead reflect factors or behavior that the model does not capture. For example, changes in credit conditions, income uncertainty, or the proportion of current income that is perceived to be transitory could all have important influences on the saving rate. However, because we cannot accurately observe or estimate these variables, the ability of our models to condition on them is very limited.

After weighing the various interpretations of the recent income data, we revised down our projection of consumption growth from the October Tealbook to the January Tealbook (the red bars in the figure below) by a little less than our preferred model would have suggested (the blue bars).

Effect of Revision to the Level of 2011:Q4 Income from the October to January Tealbook on Projected Consumption Growth
(Percentage points)



[2] Although understated income and overstated consumption have similar implications for consumption growth over the projection, they have opposite implications for the level of consumption over the projection.

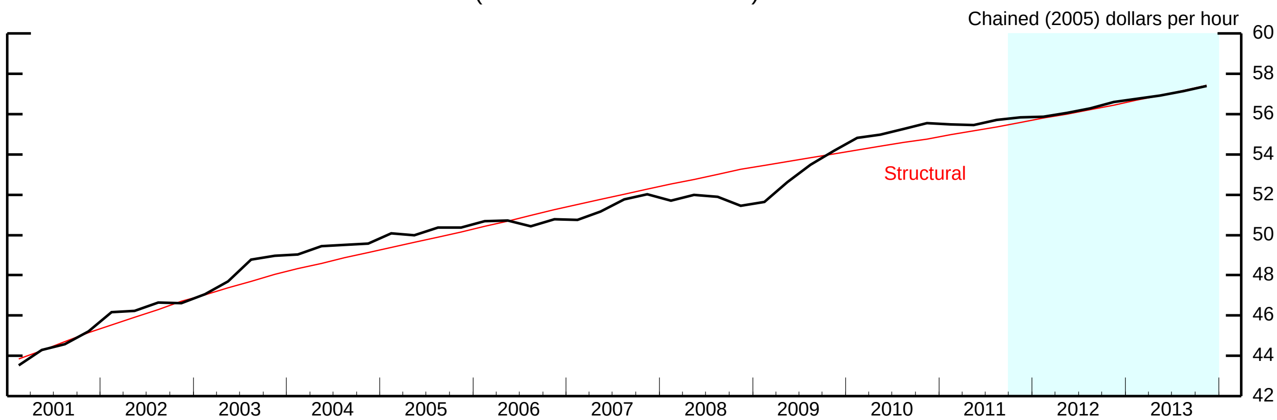
Domestic Econ Devel & Outlook

Decomposition of Potential GDP
(Percent change, Q4 to Q4, except as noted)

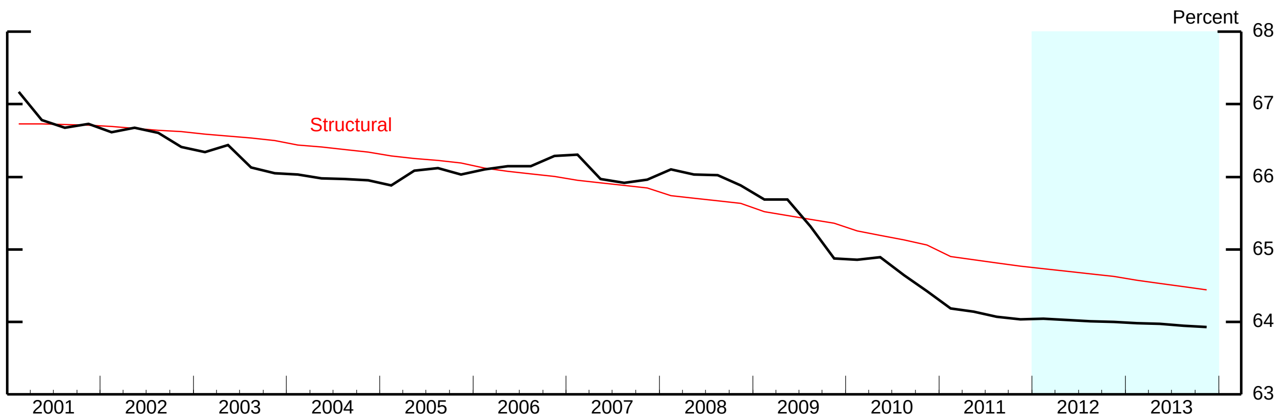
Measure	1974-1995	1996-2000	2001-2009	2010	2011	2012	2013
Potential Real GDP	3.0	3.5	2.4	1.6	1.7	2.0	2.1
Previous Tealbook	3.0	3.5	2.4	1.6	1.7	2.0	2.1
Selected contributions[1]							
Structural labor productivity	1.5	2.7	2.4	1.4	1.5	1.6	1.7
Previous Tealbook	1.5	2.7	2.4	1.4	1.5	1.6	1.7
Capital deepening	.7	1.5	.8	.4	.5	.5	.7
Previous Tealbook	.7	1.5	.8	.4	.5	.5	.7
Multifactor productivity	.5	.9	1.4	.9	.8	.9	.9
Previous Tealbook	.5	.9	1.4	.9	.8	.9	.9
Structural hours	1.5	1.0	.6	.5	.6	.7	.6
Previous Tealbook	1.5	1.0	.6	.5	.6	.7	.6
Labor force participation	.4	.0	-.3	-.4	-.3	-.2	-.3
Previous Tealbook	.4	.0	-.3	-.4	-.3	-.2	-.3

Note: Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last year shown.
1. Percentage points.

Structural and Actual Labor Productivity
(Nonfarm business sector)



Structural and Actual Labor Force Participation Rate



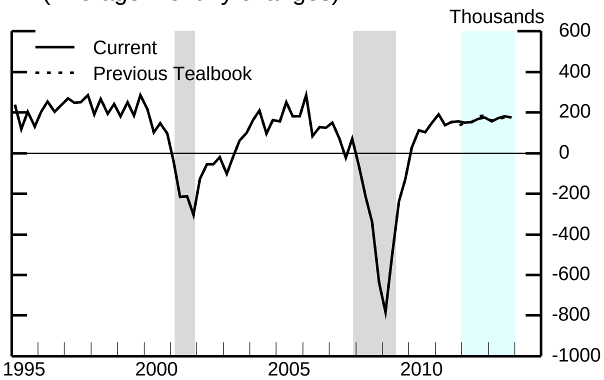
Source: U.S. Department of Labor, Bureau of Labor Statistics; Bureau of Economic Analysis; and staff assumptions.

The Outlook for the Labor Market and Resource Utilization
(Percent change from final quarter of preceding period)

Measure	2010	2011 H1	2011 H2	2012	2013
Output per hour, nonfarm business	2.5	-.4	1.4	1.4	1.4
Previous Tealbook	2.5	-.4	2.1	1.3	1.2
Nonfarm private employment[1]	98	165	155	163	171
Previous Tealbook	98	165	145	168	173
Labor force participation rate[2]	64.4	64.1	64.0	64.0	63.9
Previous Tealbook	64.5	64.1	64.1	64.1	64.0
Civilian unemployment rate[2]	9.6	9.1	8.7	8.6	8.2
Previous Tealbook	9.6	9.1	8.8	8.6	8.2
Memo:					
GDP gap[3]	-5.4	-5.8	-5.5	-5.4	-5.2
Previous Tealbook	-5.4	-5.8	-5.5	-5.2	-4.8

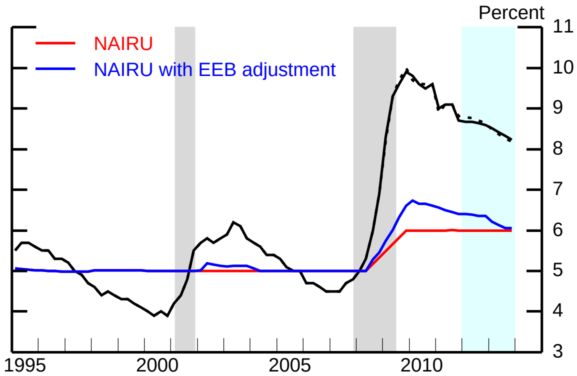
1. Thousands, average monthly changes.
2. Percent, average for the final quarter in the period.
3. Percent difference between actual and potential GDP in the final quarter of the period indicated. A negative number indicates that the economy is operating below potential.
Source: U.S. Department of Labor, BLS; staff assumptions.

Nonfarm Private Employment
(Average monthly changes)



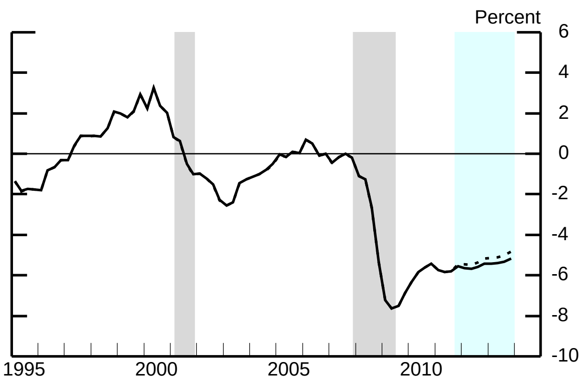
Source: U.S. Dept. of Labor, BLS.

Unemployment Rate



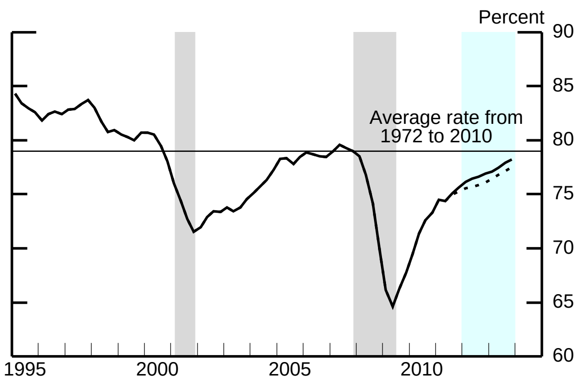
Note: The EEB adjustment is the staff estimate of the effect of extended and emergency unemployment compensation programs on the NAIRU.
Source: U.S. Dept. of Labor, BLS; staff assumptions.

GDP Gap



Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.
Source: U.S. Dept. of Commerce, BEA; staff assumptions.

Manufacturing Capacity Utilization Rate



Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.