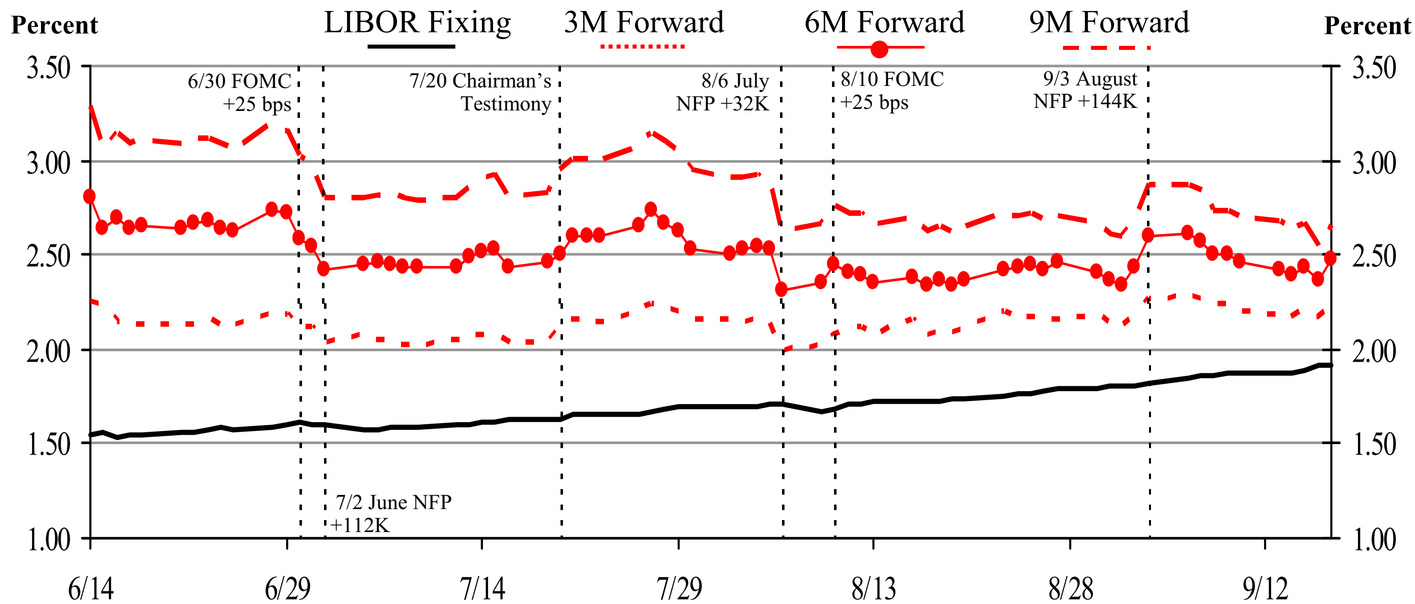
Appendix 1: Materials used by Mr. Kos

Page 1

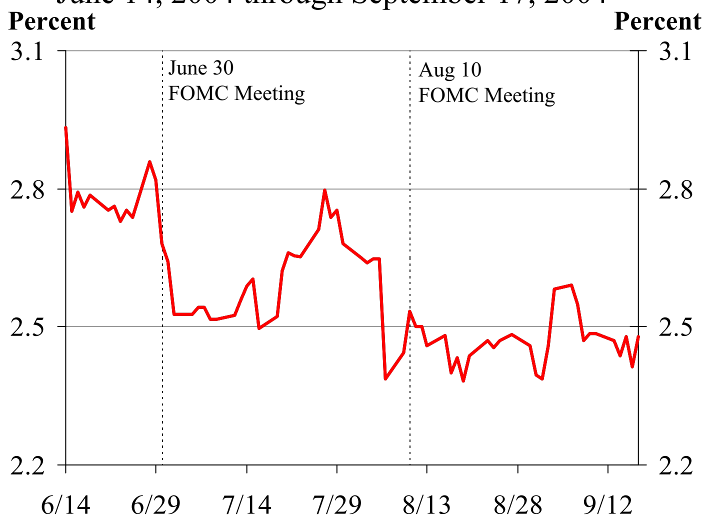
Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

June 14, 2004 – September 17, 2004



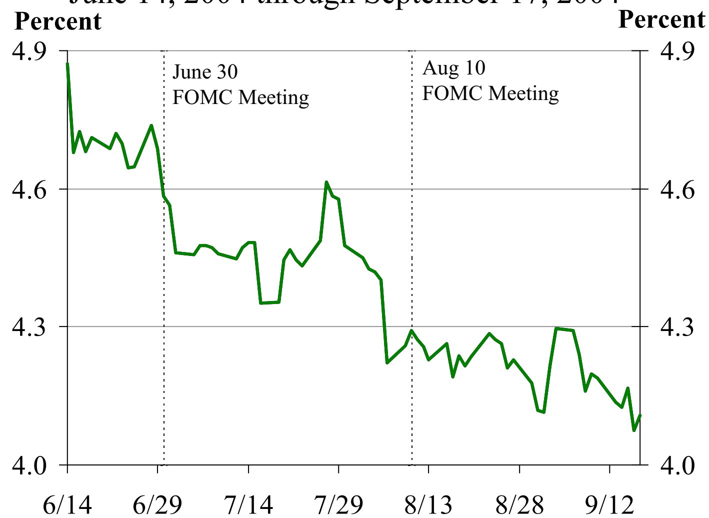
2-Year Treasury Yield

June 14, 2004 through September 17, 2004



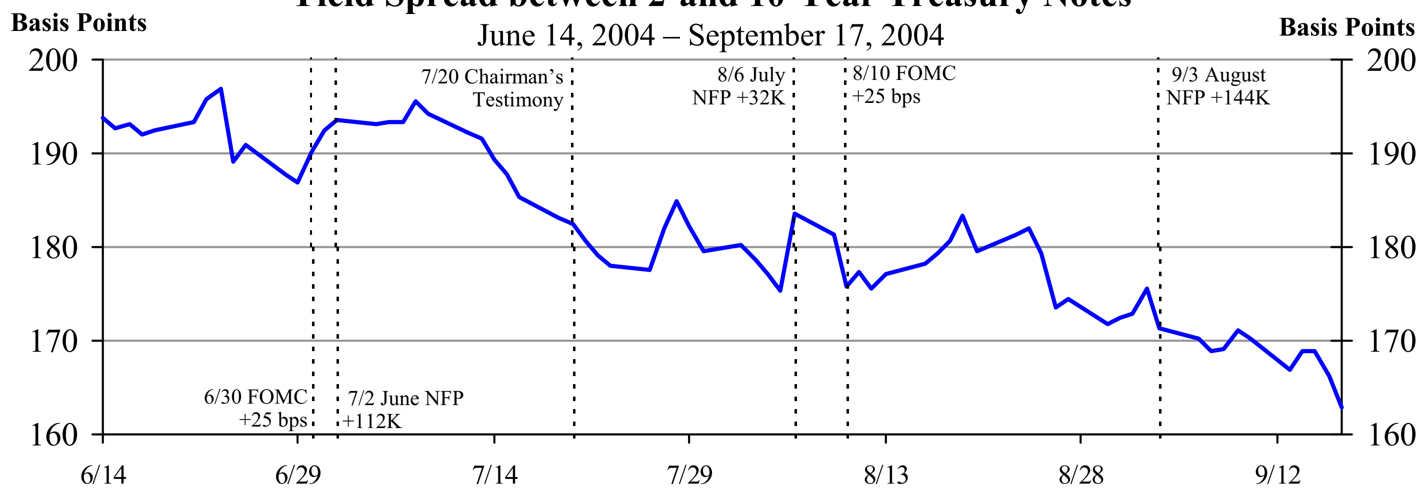
10-Year Treasury Yield

June 14, 2004 through September 17, 2004

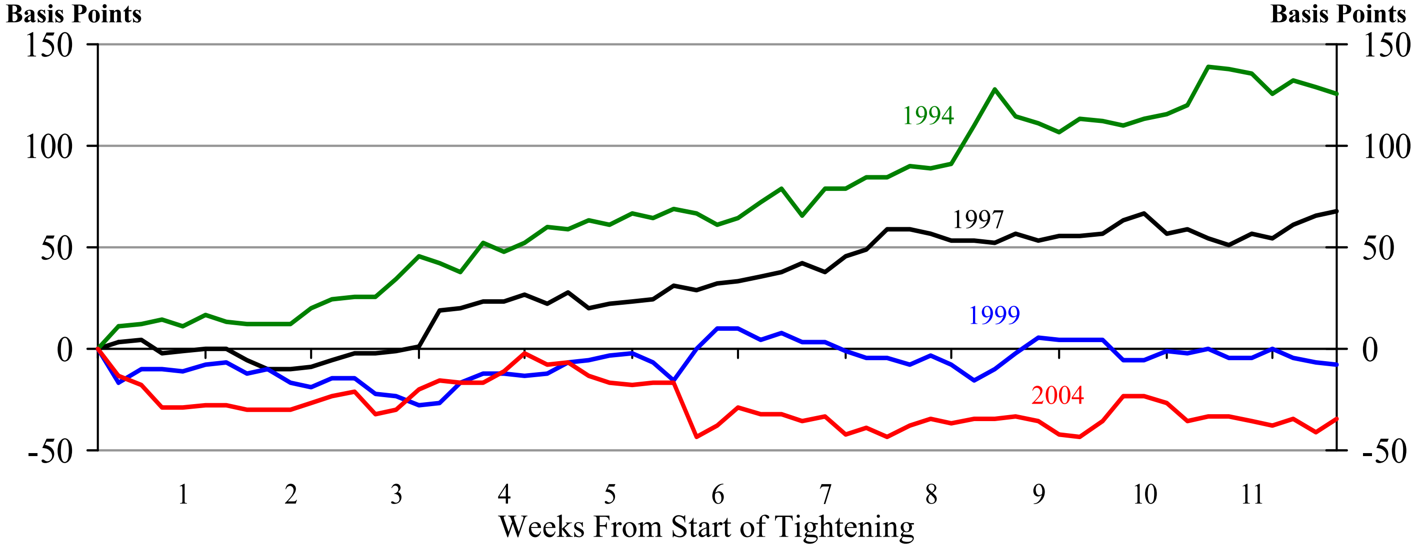


Yield Spread between 2-and 10-Year Treasury Notes

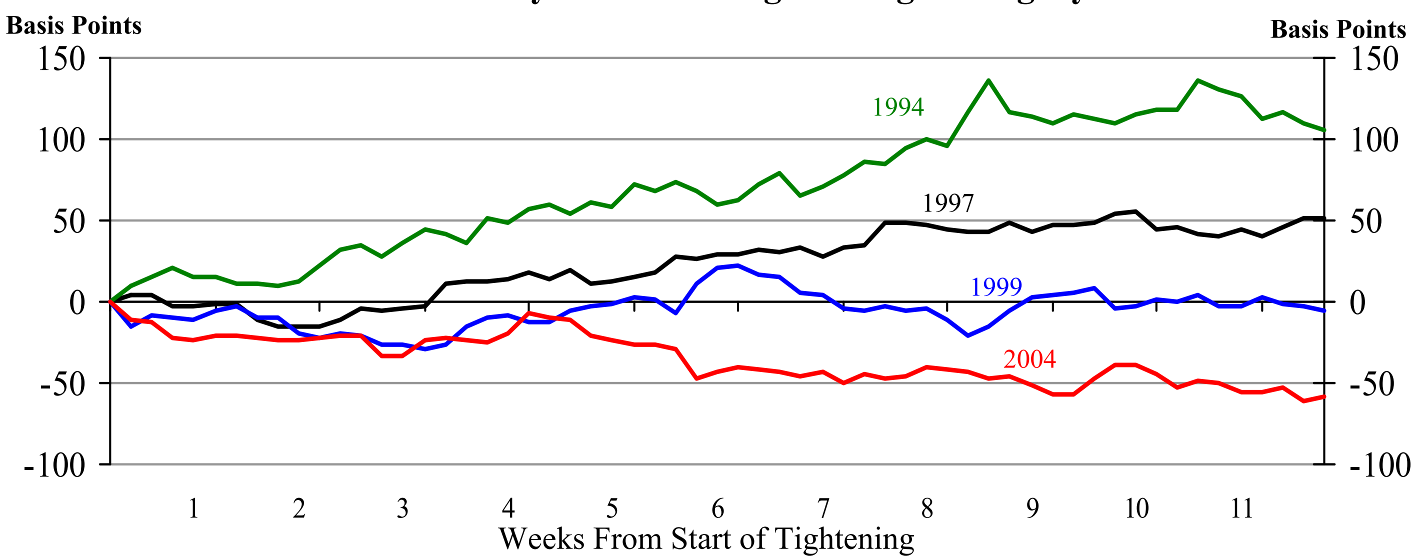
June 14, 2004 – September 17, 2004



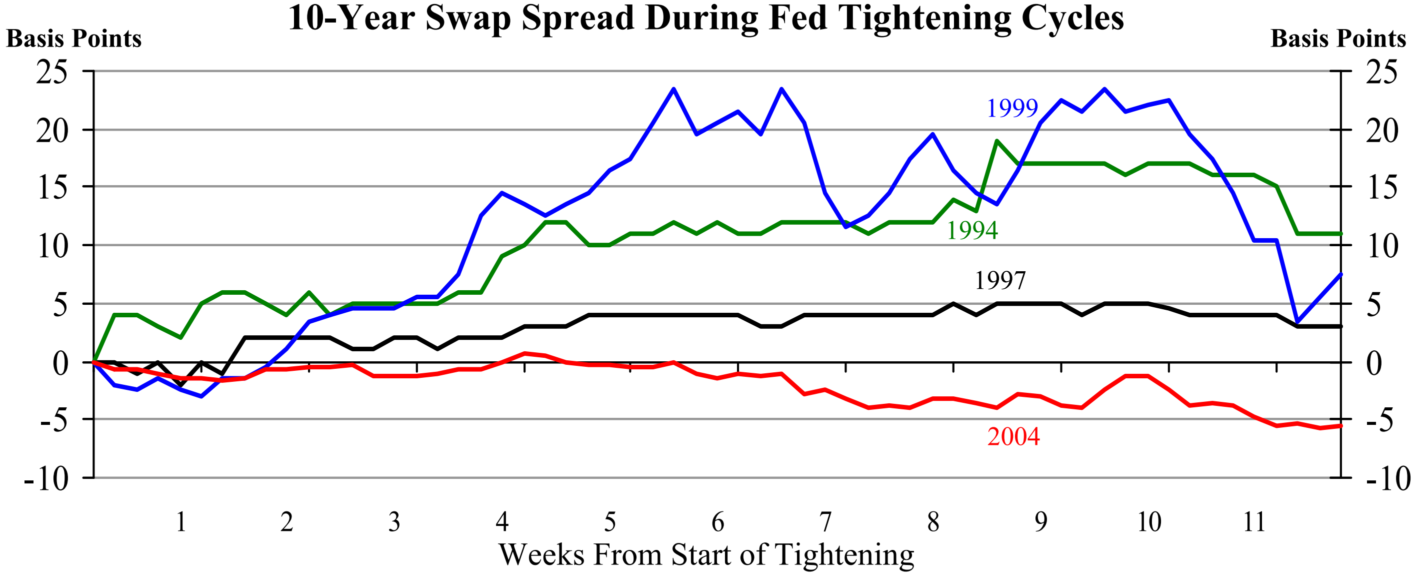
2-Year Treasury Yields During Fed Tightening Cycles



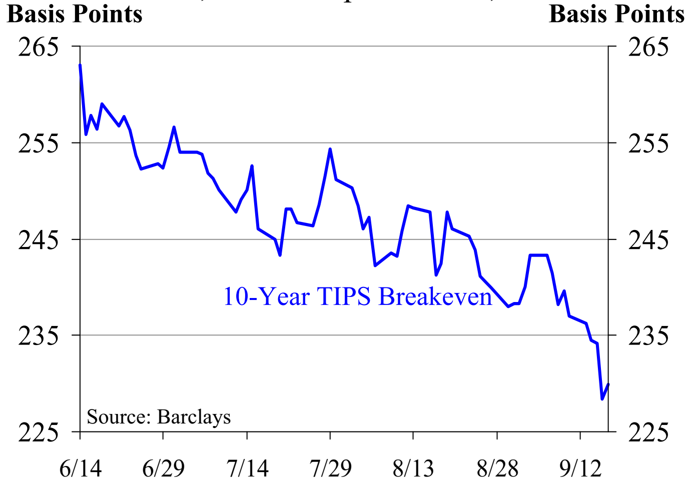
10-Year Treasury Yields During Fed Tightening Cycles



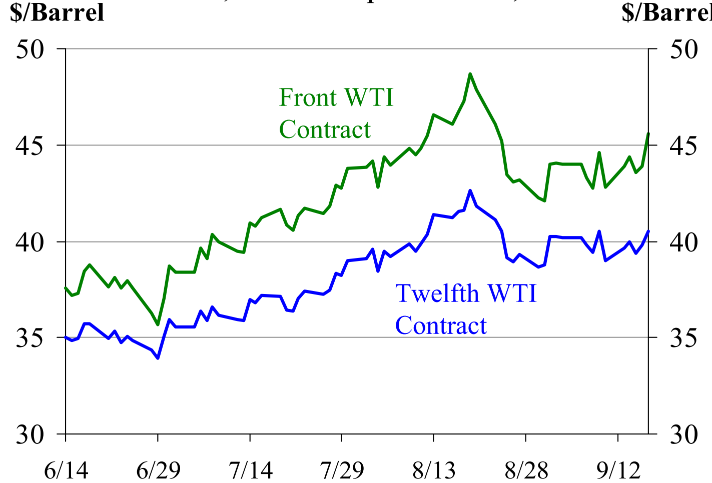
10-Year Swap Spread During Fed Tightening Cycles



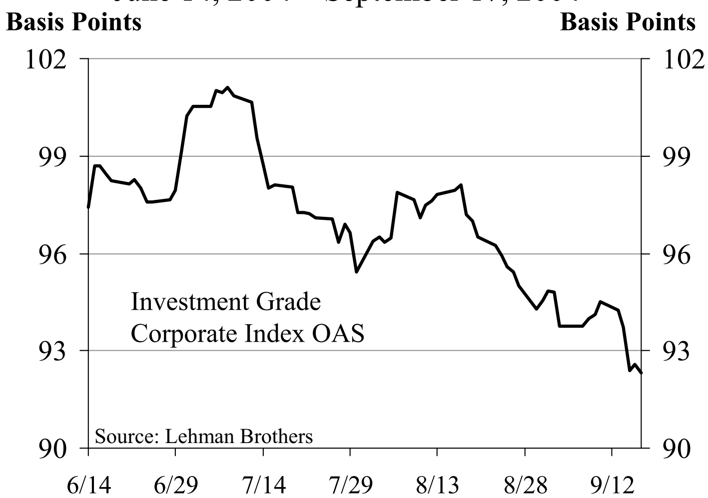
10-Year TIPS Breakeven Rate
June 14, 2004 – September 17, 2004



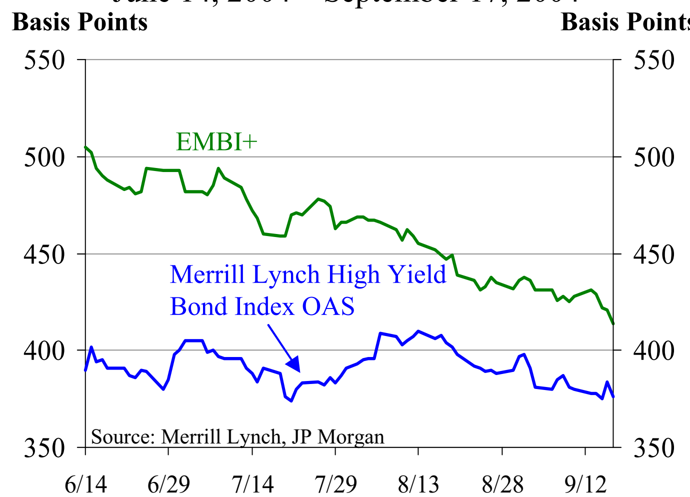
Oil Futures Prices
June 14, 2004 – September 17, 2004



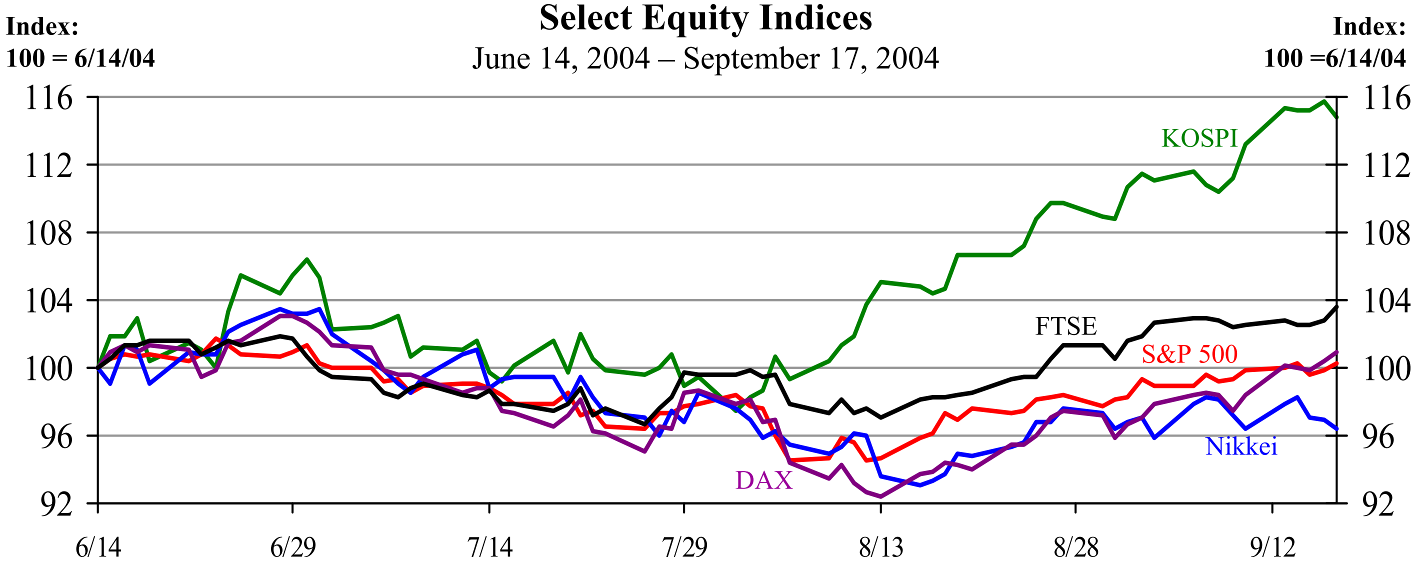
Corporate Debt Spreads
June 14, 2004 – September 17, 2004



High Yield and EMBI+ Spreads
June 14, 2004 – September 17, 2004



Select Equity Indices
June 14, 2004 – September 17, 2004

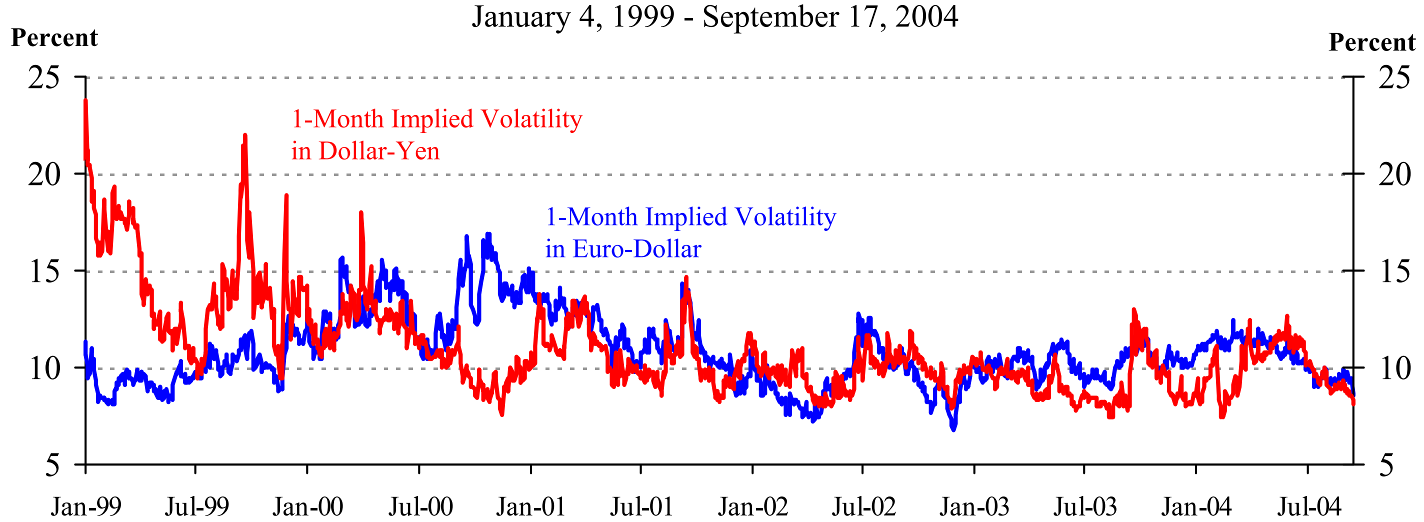


Implied Volatility on S&P500 Index

January 4, 1999 – September 17, 2004

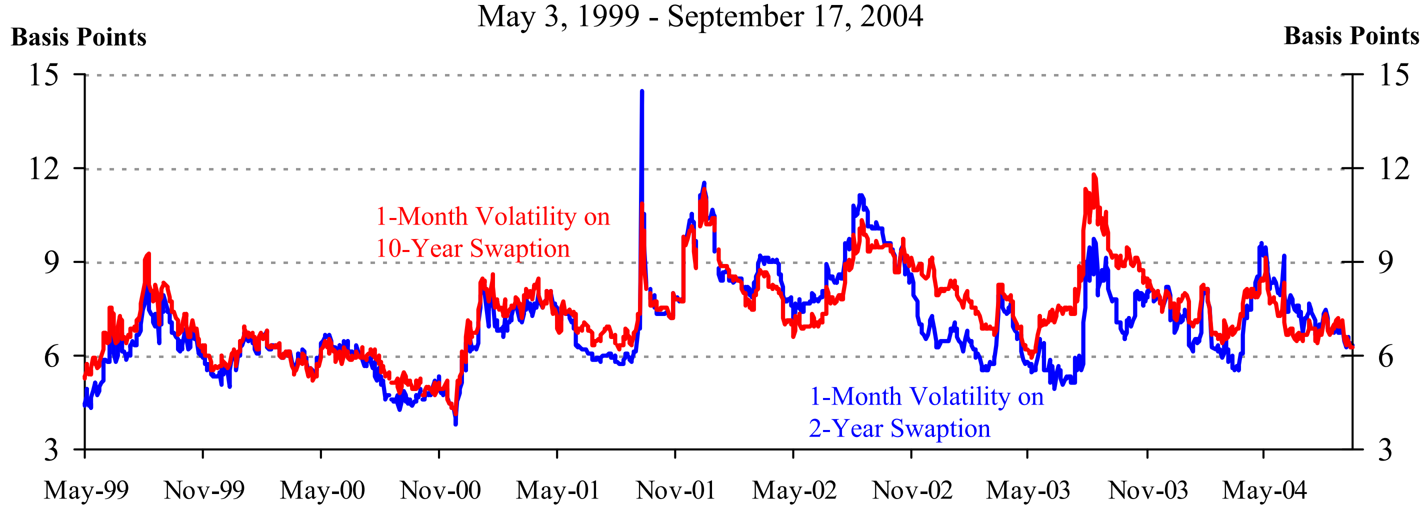
Implied Volatility of Major Currency Pairs

January 4, 1999 - September 17, 2004



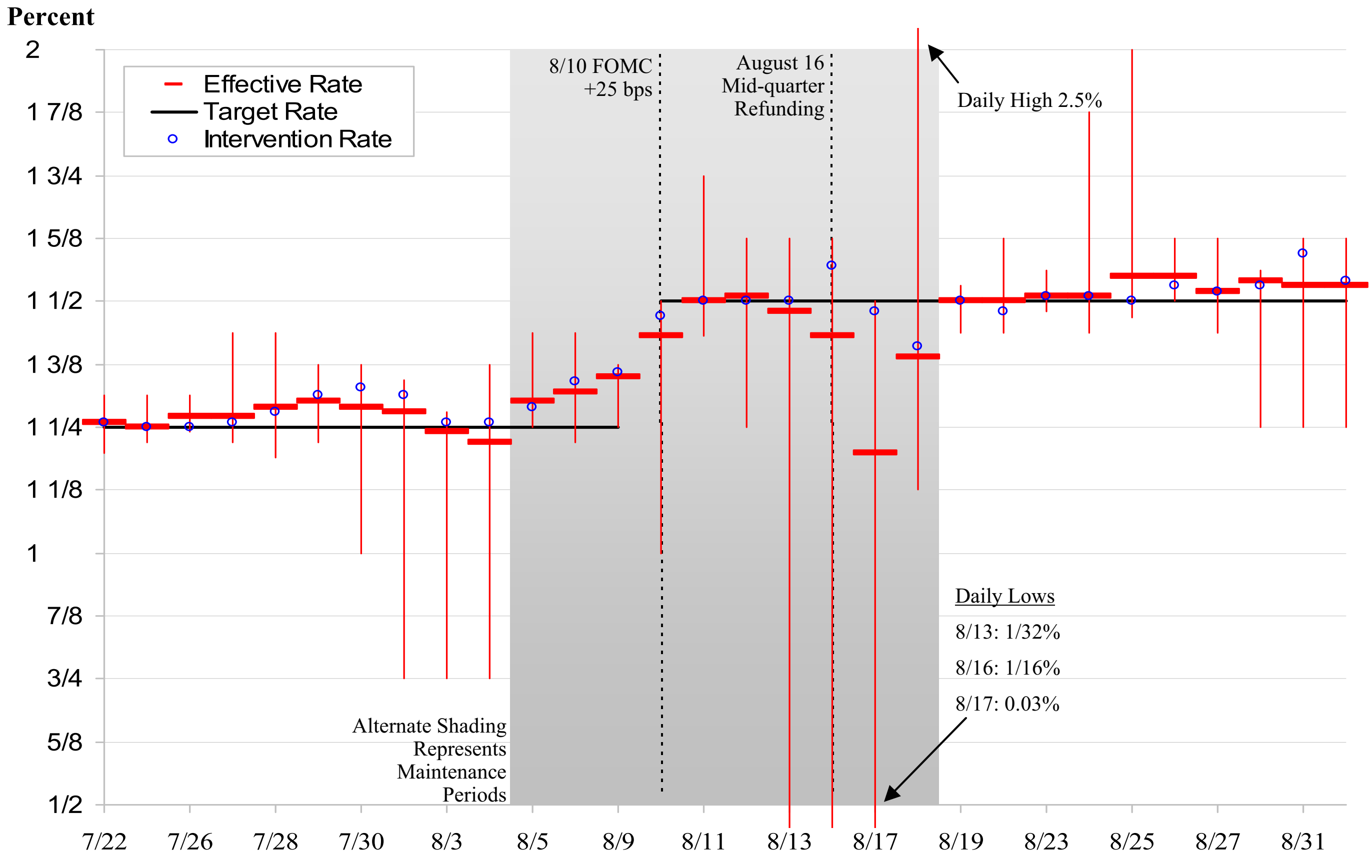
Implied Swaption Volatility

May 3, 1999 - September 17, 2004



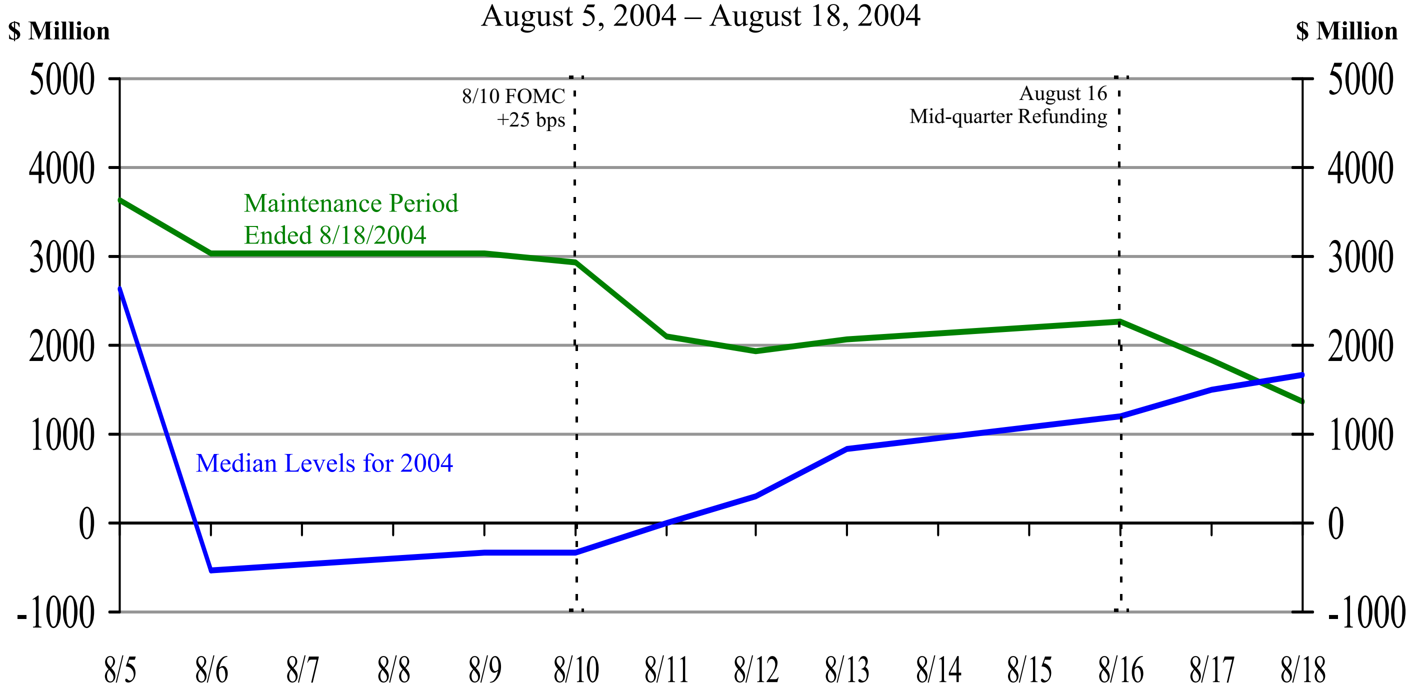
Daily Fed Funds Rates: High, Low and Effective Rates and Target Rate

July 22, 2004 – September 1, 2004



Average Excess Balances to Date

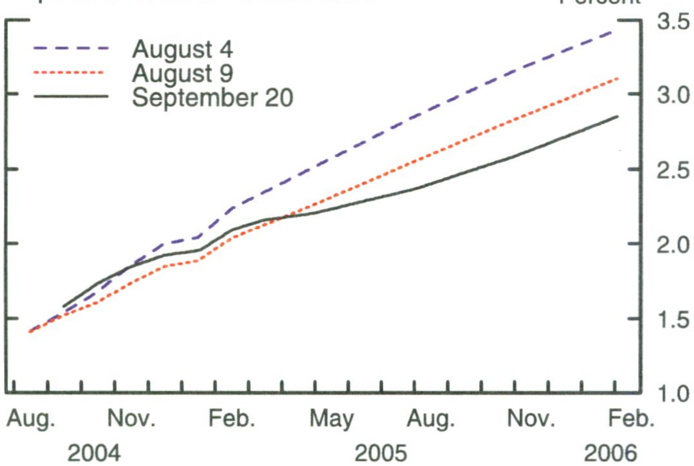
August 5, 2004 – August 18, 2004



Appendix 2: Materials used by Mr. Reinhart

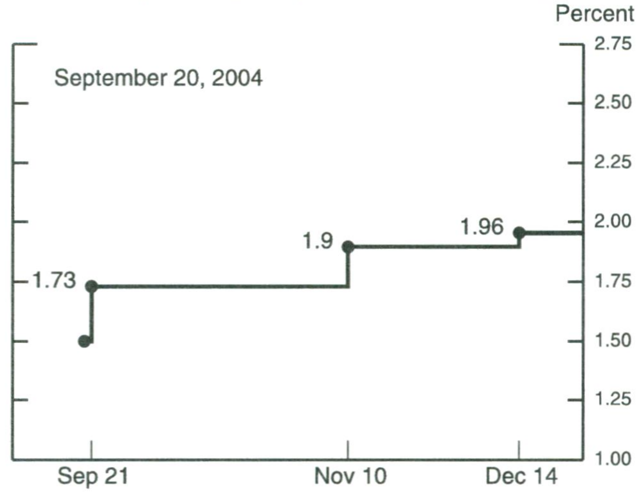
Exhibit 1
Financial Market Developments

Expected Federal Funds Rates*



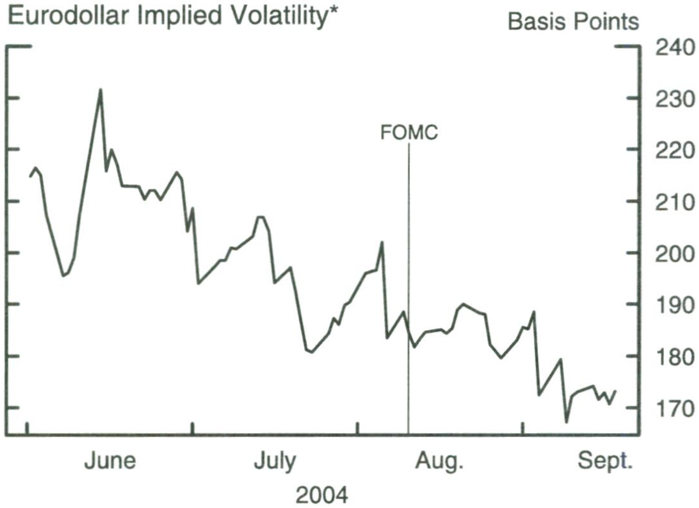
*Estimates from federal funds and eurodollar futures with an allowance for term premia and other adjustments.

Expected Federal Funds Rates Assuming Action Only at Regularly Scheduled Meetings



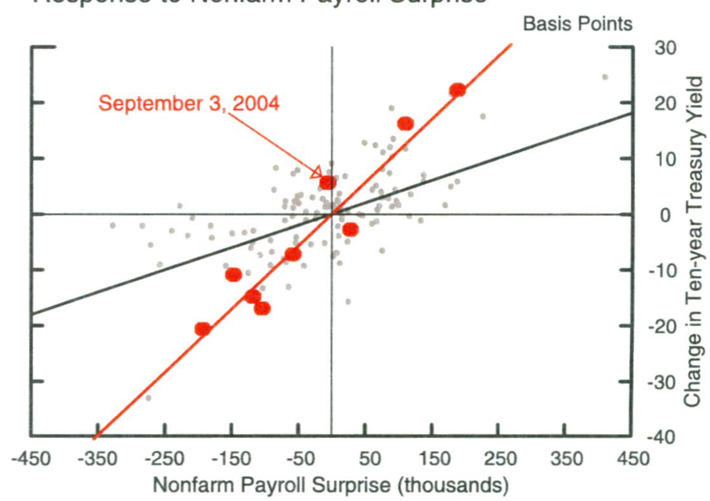
Note. Estimates from federal funds futures with an allowance for term premia and other adjustments.

Eurodollar Implied Volatility*



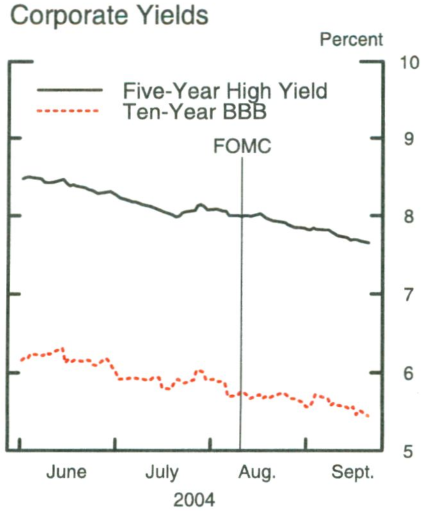
*Eurodollar volatility is calculated on a notional contract with 120 days to expiration.

Response to Nonfarm Payroll Surprise*

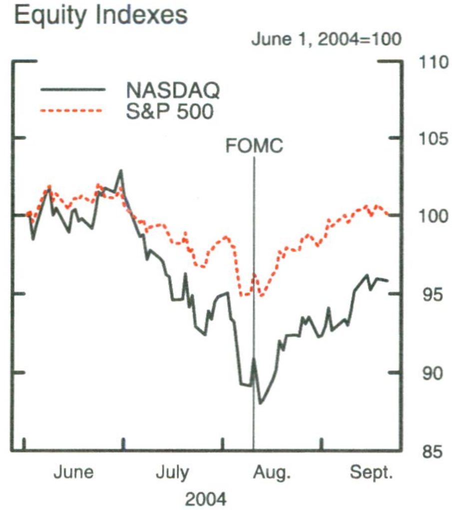


*Based on thirty-minute changes around the data release. The black regression line is based on data for the sample period from 1994-2003. The red regression line is based on data from 2004.

Corporate Yields



Equity Indexes



Major Currencies Index

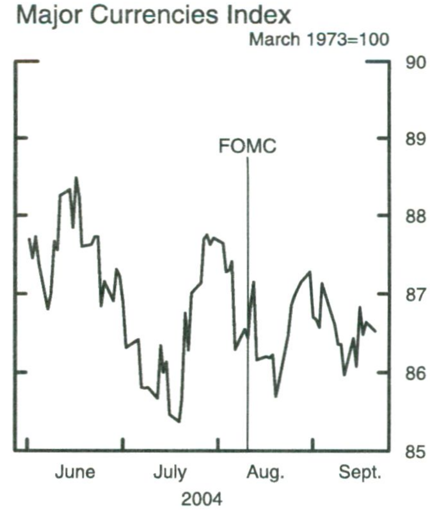
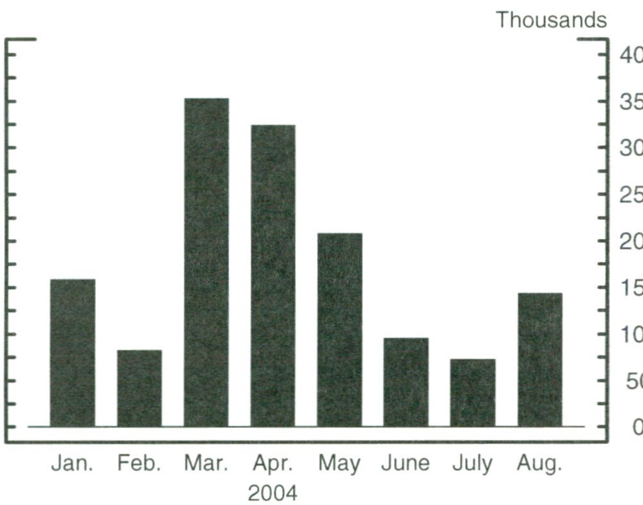


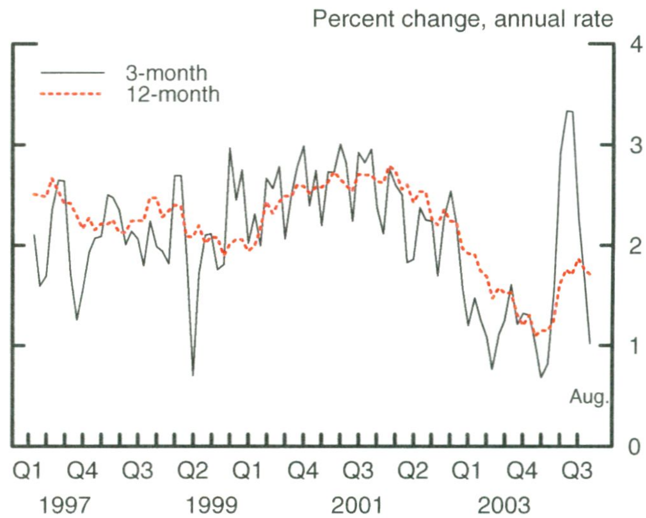
Exhibit 2
The Case for No Change

- The output gap is expected to persist until the end of 2006.
- The Committee may be quite uncertain whether output growth really has "regained traction."
- Recent inflation readings have been quite benign.

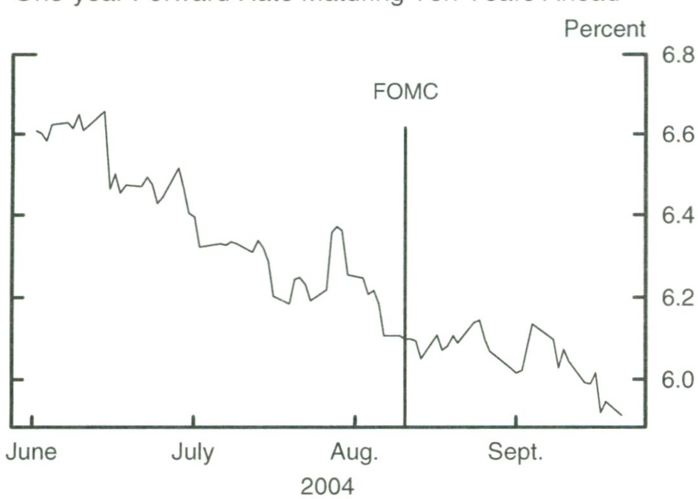
Change in Private Nonfarm Payrolls



Core CPI - Current Methods Basis

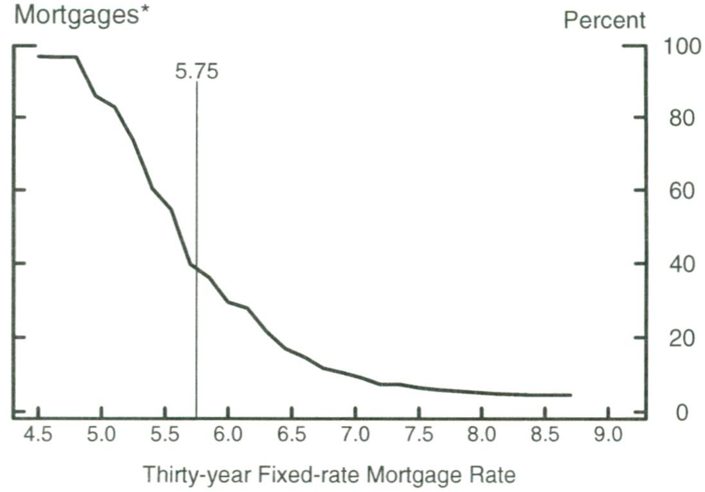


One-year Forward Rate Maturing Ten Years Ahead*



* The one-year forward Treasury rate maturing ten years ahead that is implied by a smoothed Treasury yield curve estimated from off-the-run coupon securities.

Percentage of Economically Refinanceable Mortgages*

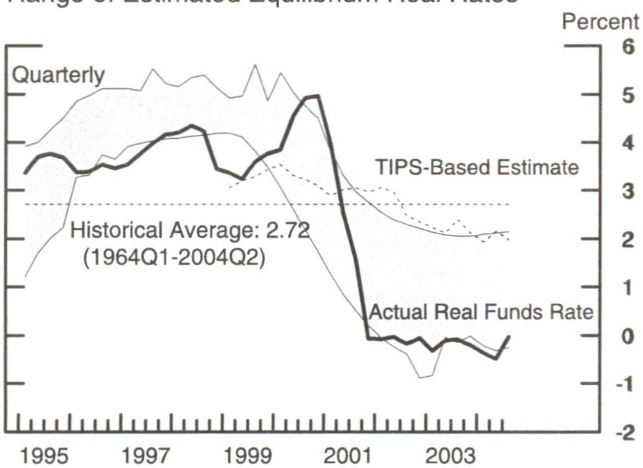


* Vertical line is the thirty-year fixed-rate mortgage rate on September 15, 2004.

Exhibit 3
The Case for Tightening 25 basis points

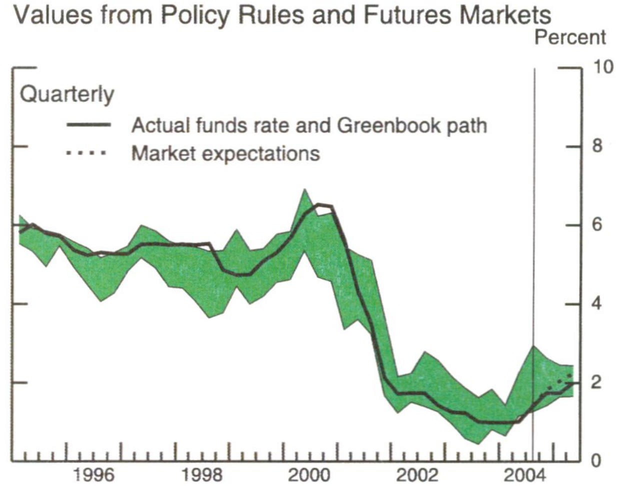
- The current level of the real federal funds rate is still quite accommodative.
- Financial market conditions have eased.
- The upside risks to the inflation outlook may be quite worrisome.
- Drop the last two sentences if...
  → measured pace language is viewed as constraining the scope of future policy action.
- Retain the last two sentences if...
  → measured pace language is viewed as a useful signal of the Committee's economic and policy outlook.

Range of Estimated Equilibrium Real Rates



An explanatory note is provided in Chart 5 of the Bluebook.

Values from Policy Rules and Futures Markets



An explanatory note is provided in Chart 6 of the Bluebook.

Risk Measures

	Change	Level
Ten-year AA spread	-5	65
Ten-year BBB spread	-6	123
Five-year High Yield spread	-17	438
S&P 500 Forward Price-Earnings Ratio	0.81	15.97

Change is over the intermeeting period. Risk spreads are measured in basis points. The level and change for the price-earnings ratio are expressed in index points.

Alternative Simulation: "Less Room to Grow"
Core PCE Inflation

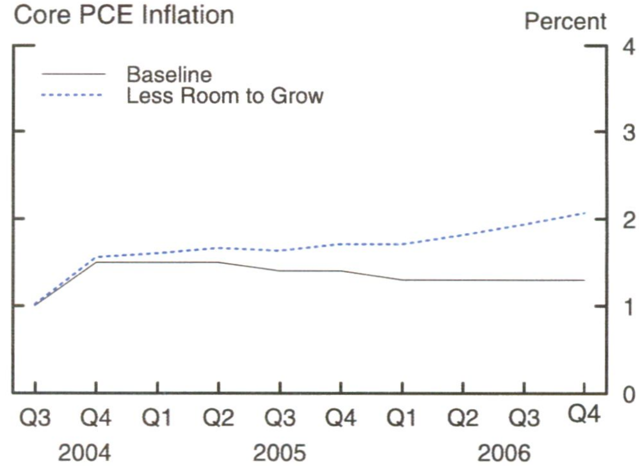


Table 1: Alternative Language for the September FOMC Announcement

	August FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 1-1/2 percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 1-1/2 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 1-3/4 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 1-3/4 percent.
Rationale	2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	The Committee believes that the accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	[Unchanged]	[Unchanged]
	3. In recent months, output growth has moderated and the pace of improvement in labor market conditions has slowed. This softness likely owes importantly to the substantial rise in energy prices. The economy nevertheless appears poised to resume a stronger pace of expansion going forward.	Even though output appears to have regained some traction after moderating earlier this year, the pace of improvement in labor market conditions remains modest.	After moderating earlier this year partly in response to the substantial rise in energy prices, output **growth** appears to have regained some traction, **and labor market conditions have improved modestly**. ~~The pace of improvement in labor market conditions, however, remains modest.~~	Output appears to be regaining traction, and labor market conditions have improved modestly.
	4. Inflation has been somewhat elevated this year, though a portion of the rise in prices seems to reflect transitory factors.	Despite the rise in energy prices, inflation and inflation expectations have eased in recent months.	Despite the rise in energy prices, inflation and inflation expectations have eased in recent months.	Inflation and inflation expectations have eased in recent months, but elevated energy prices continue to put upward pressure on costs and prices.
Assessment of Risk	5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters are roughly equal.	[Unchanged]	The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters **to be** ~~are~~ roughly equal.	[Unchanged]
	6. With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to promote price stability and sustainable growth.	With underlying inflation ~~still~~ expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	[None]