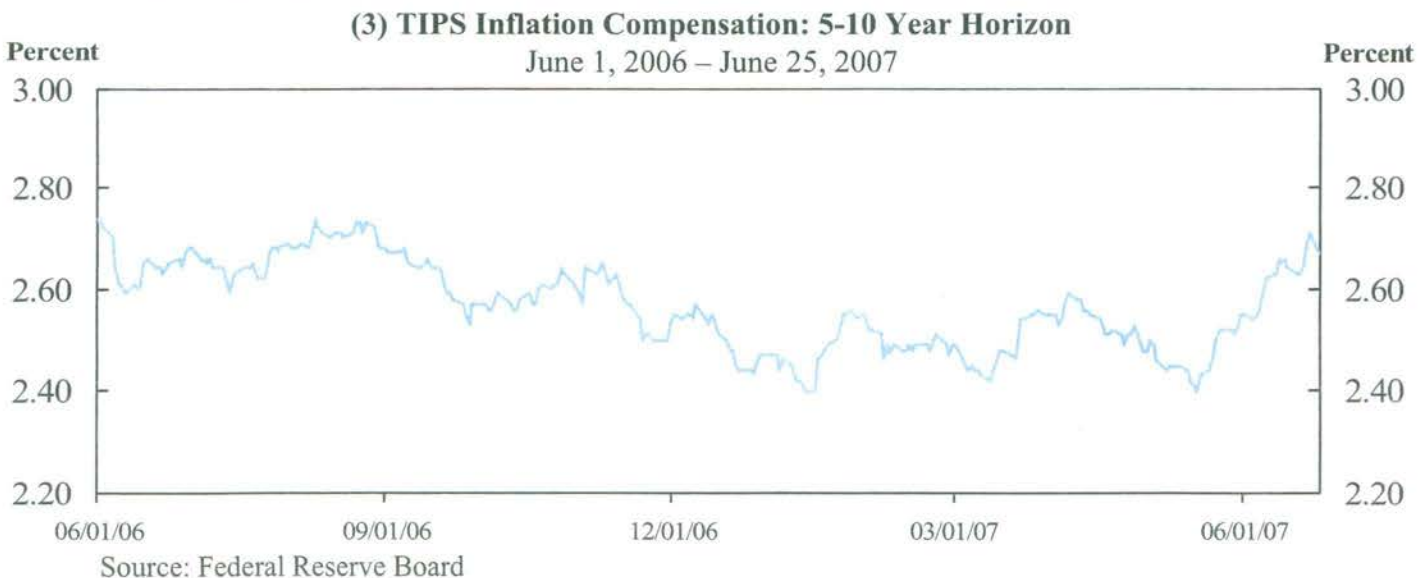
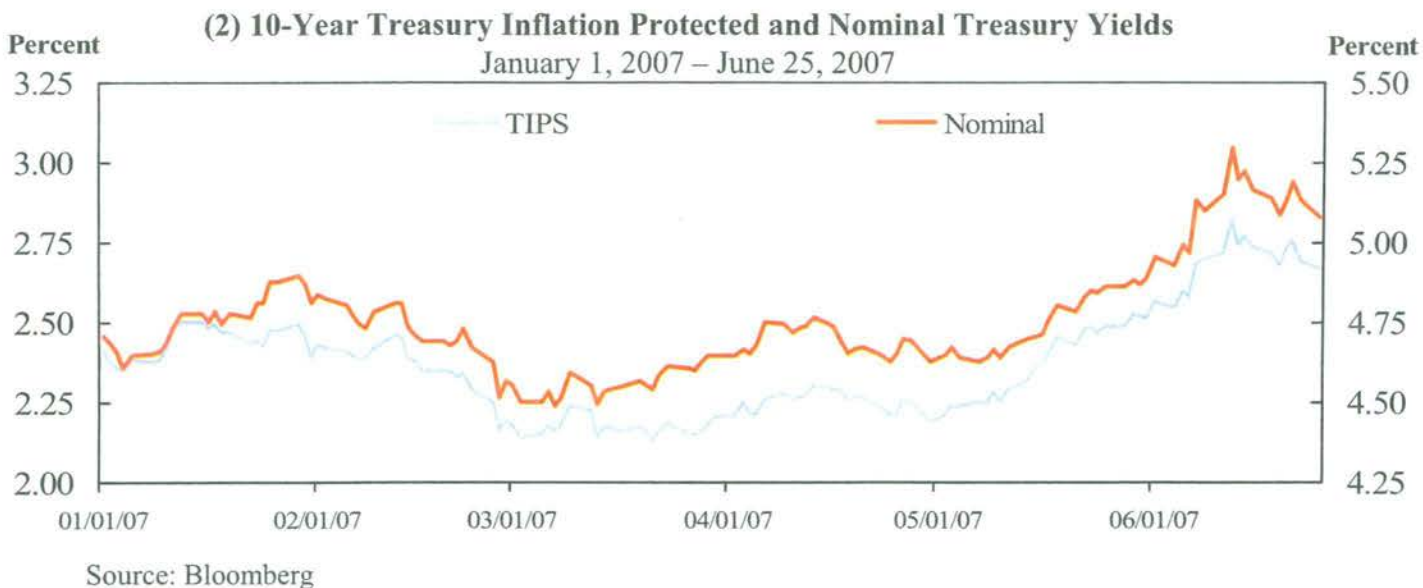
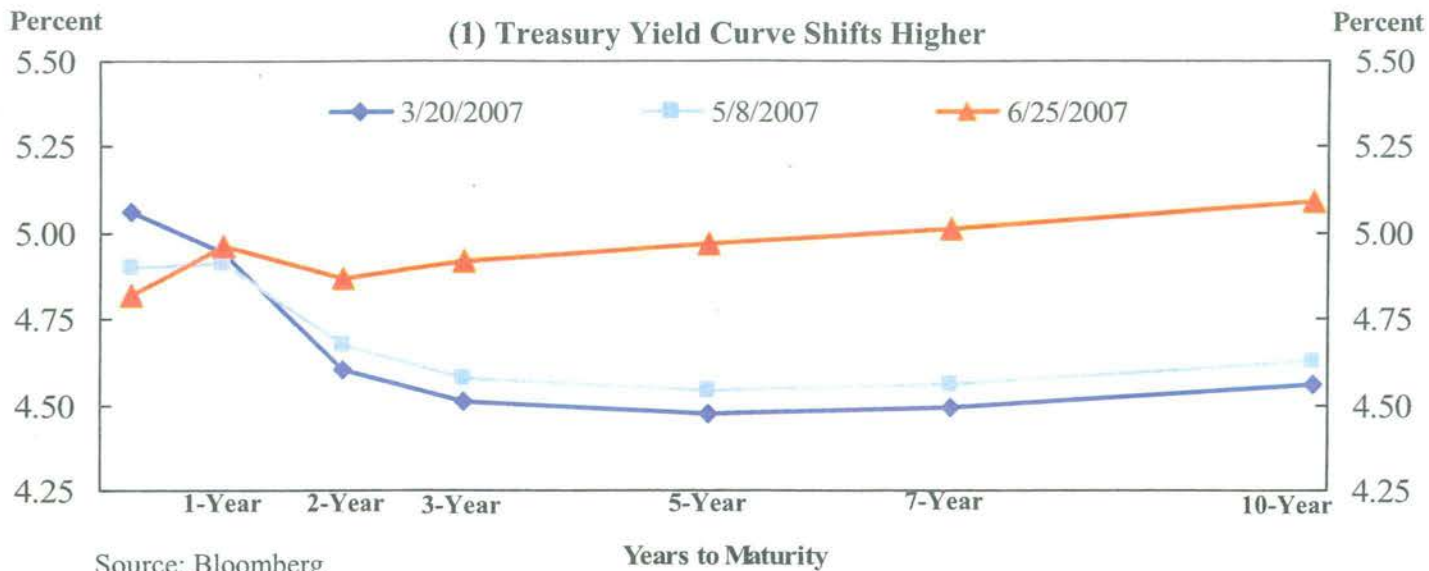
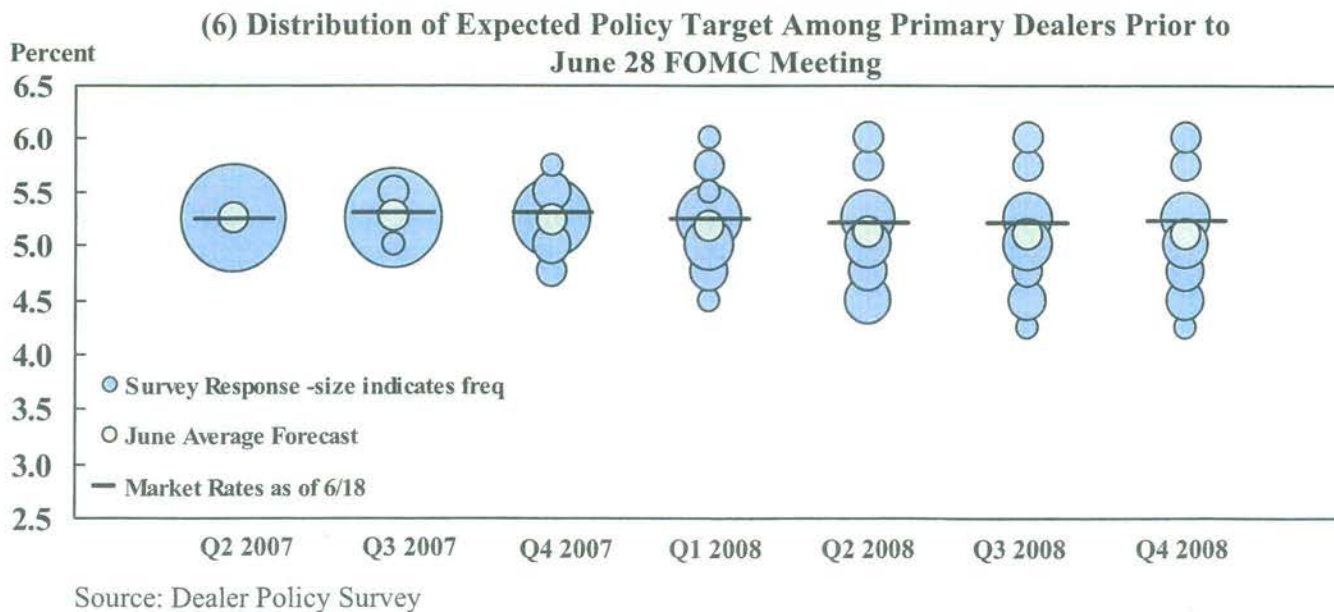
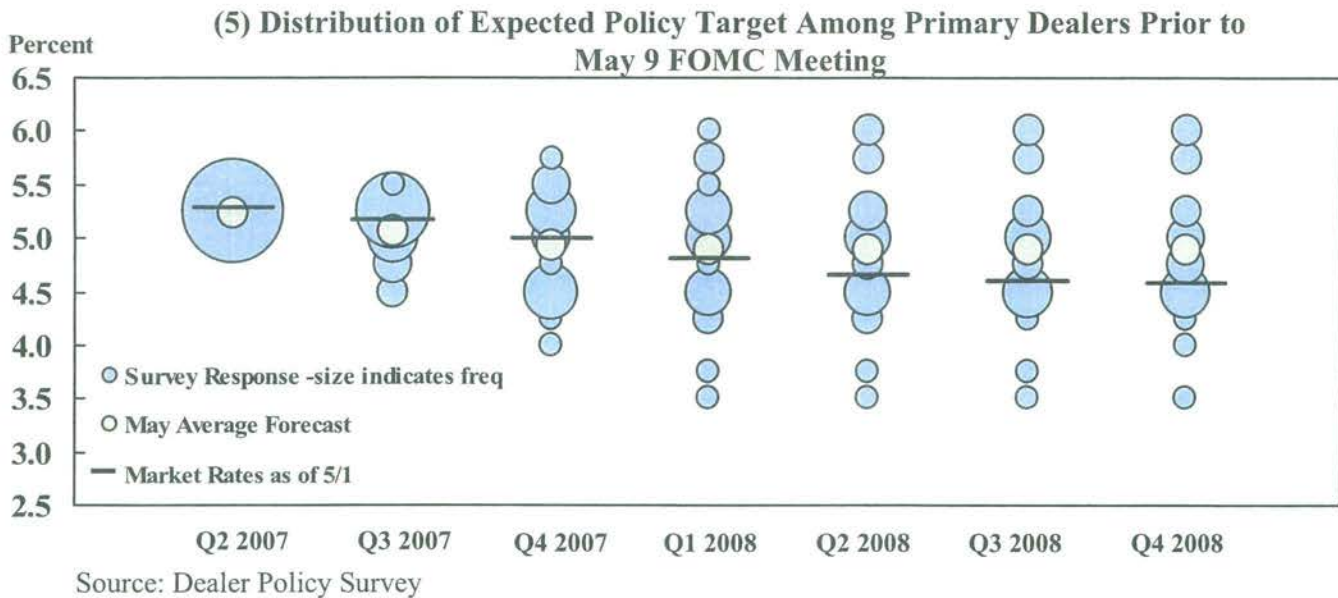
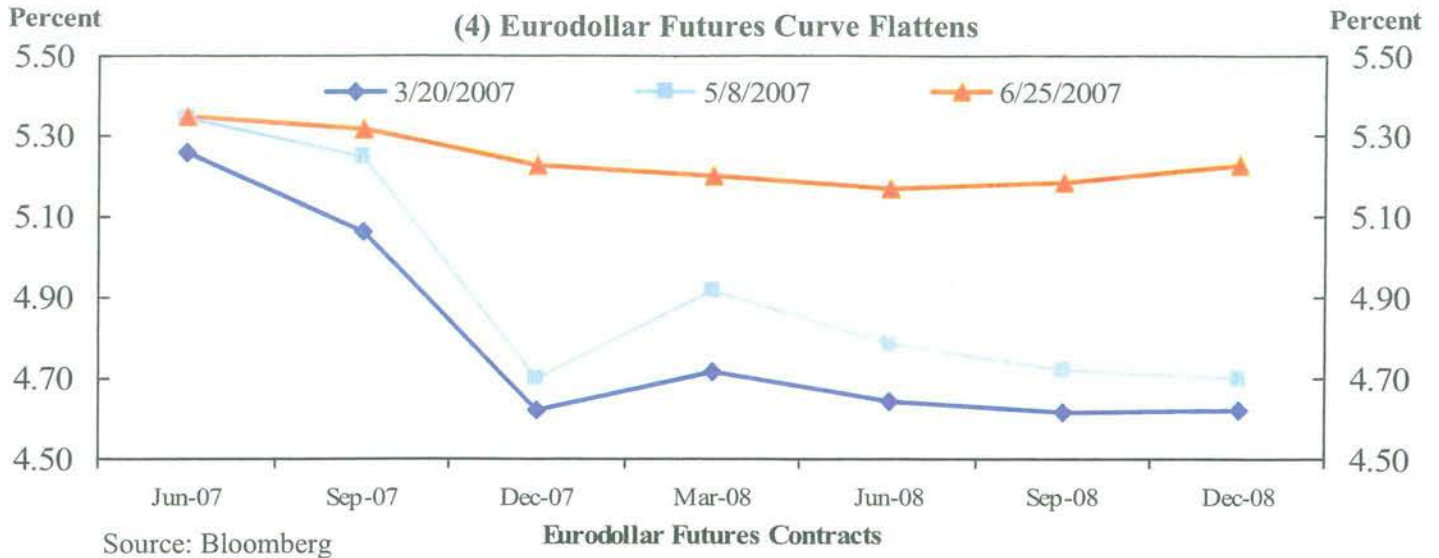
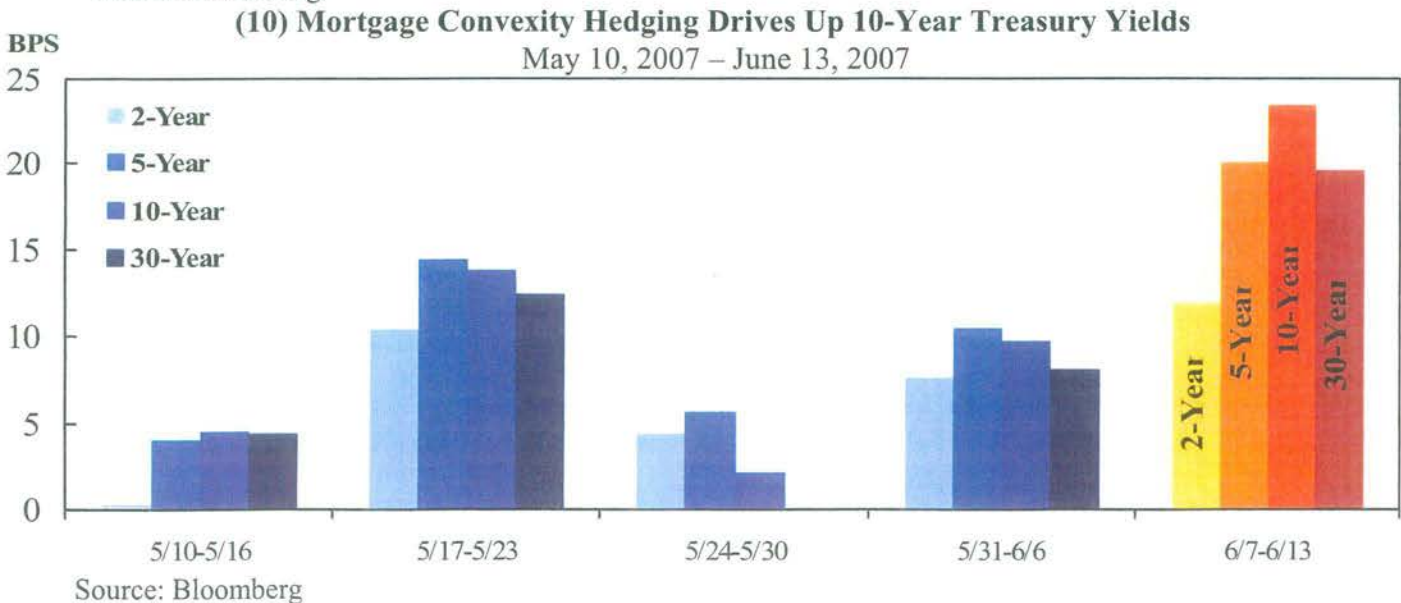
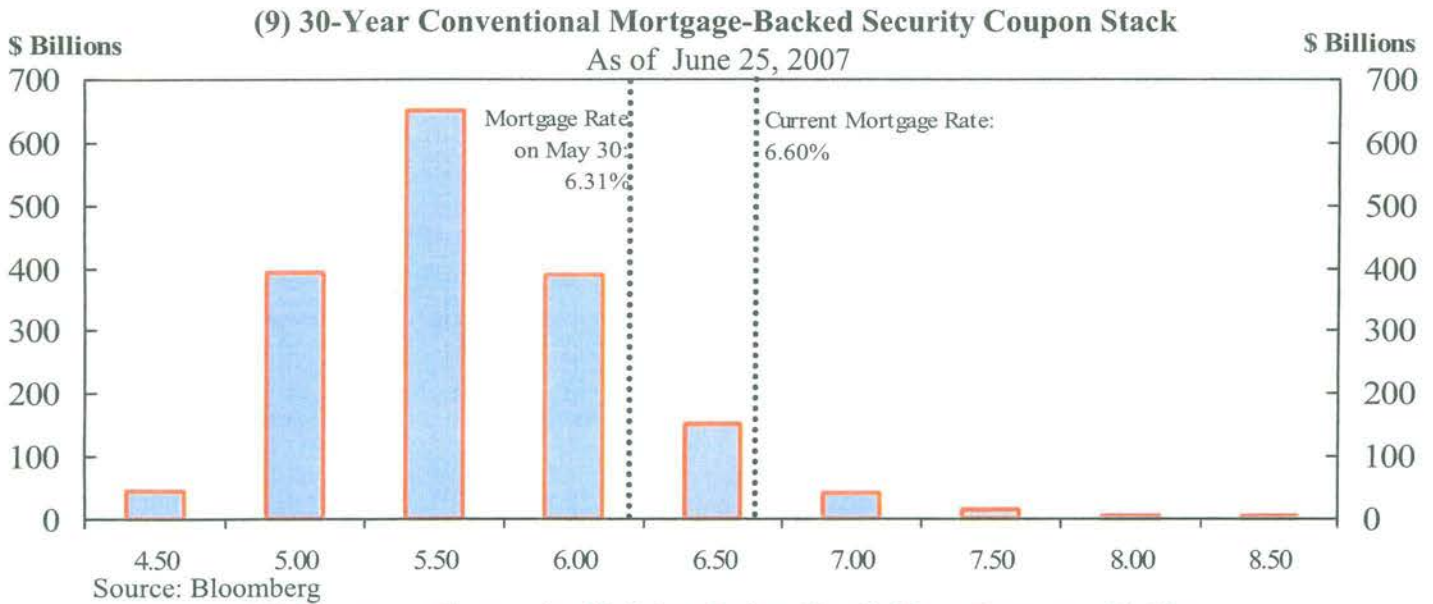
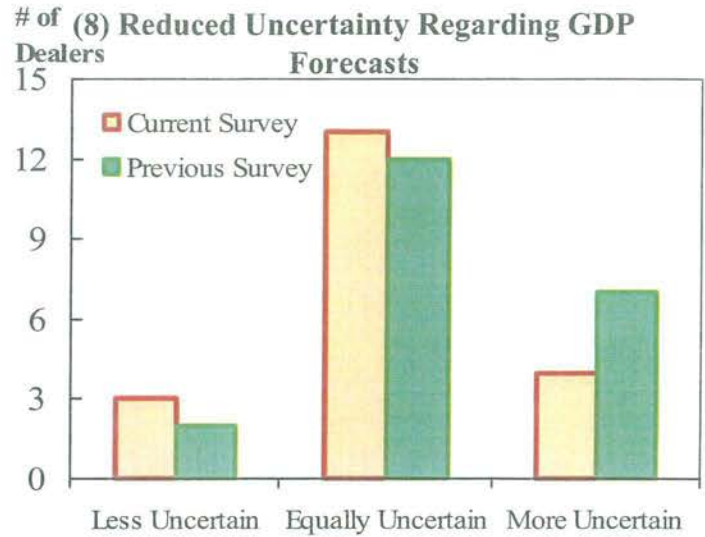
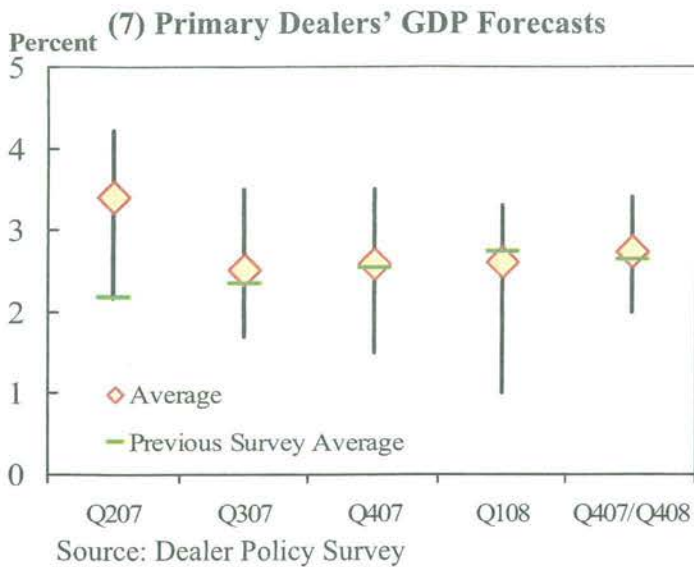
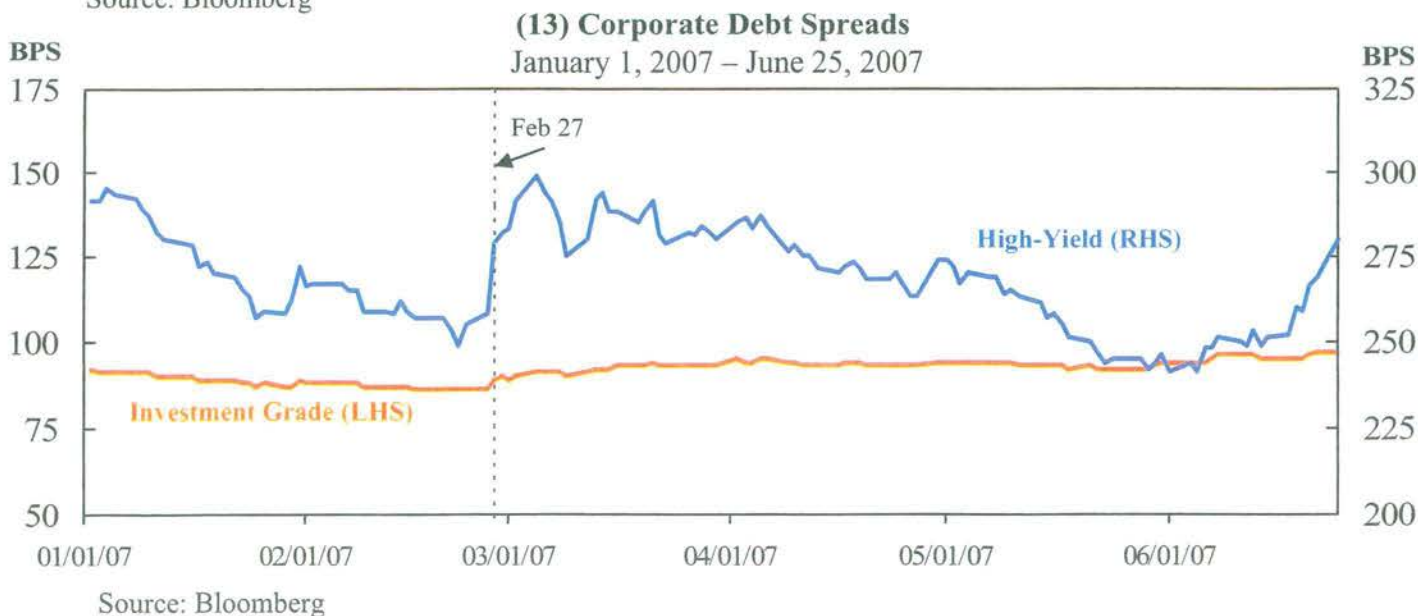
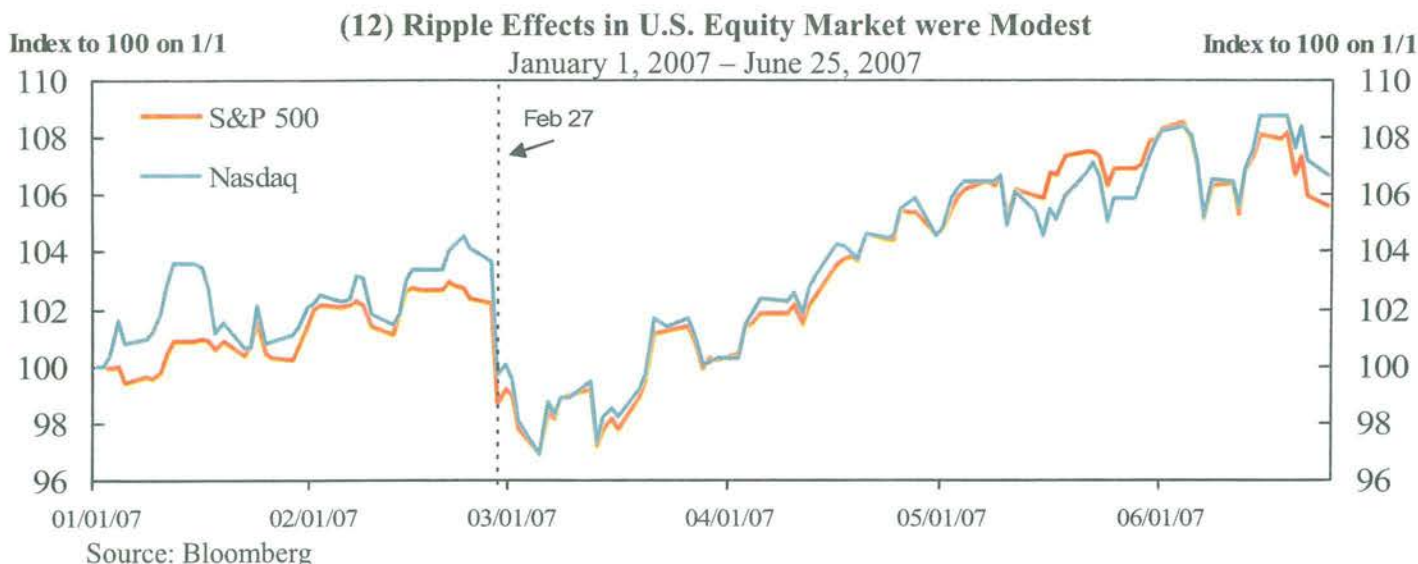
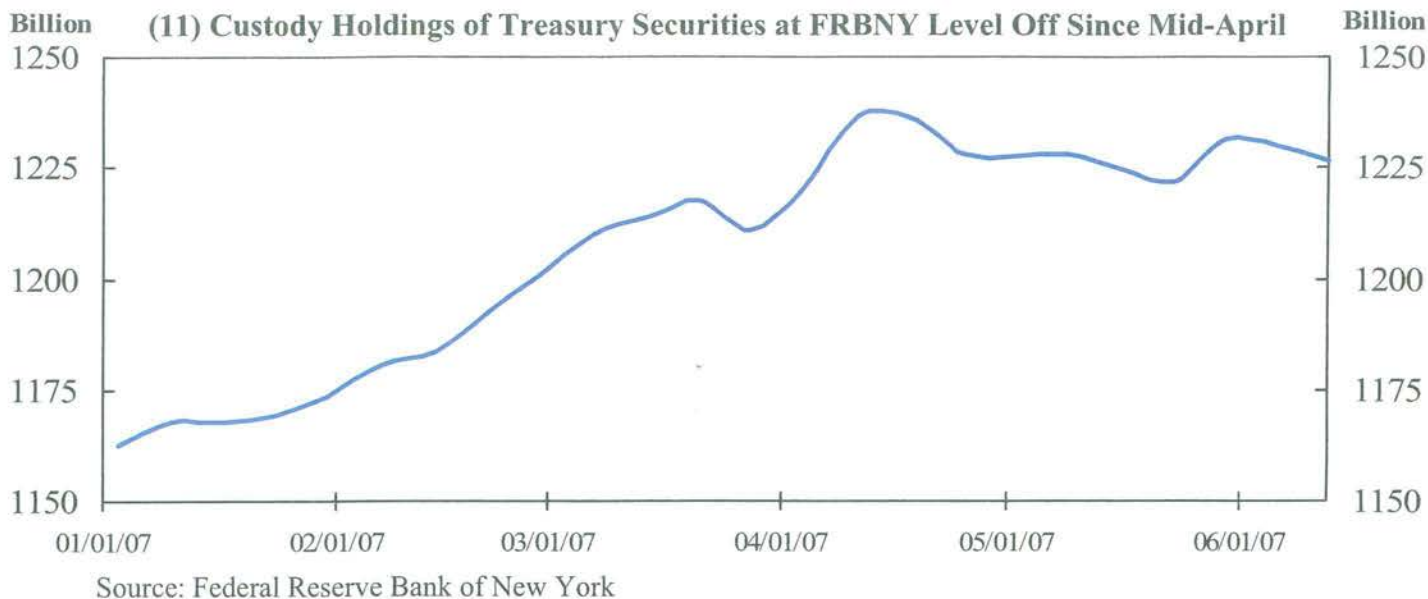


**Appendix 1: Materials used by Mr. Dudley**



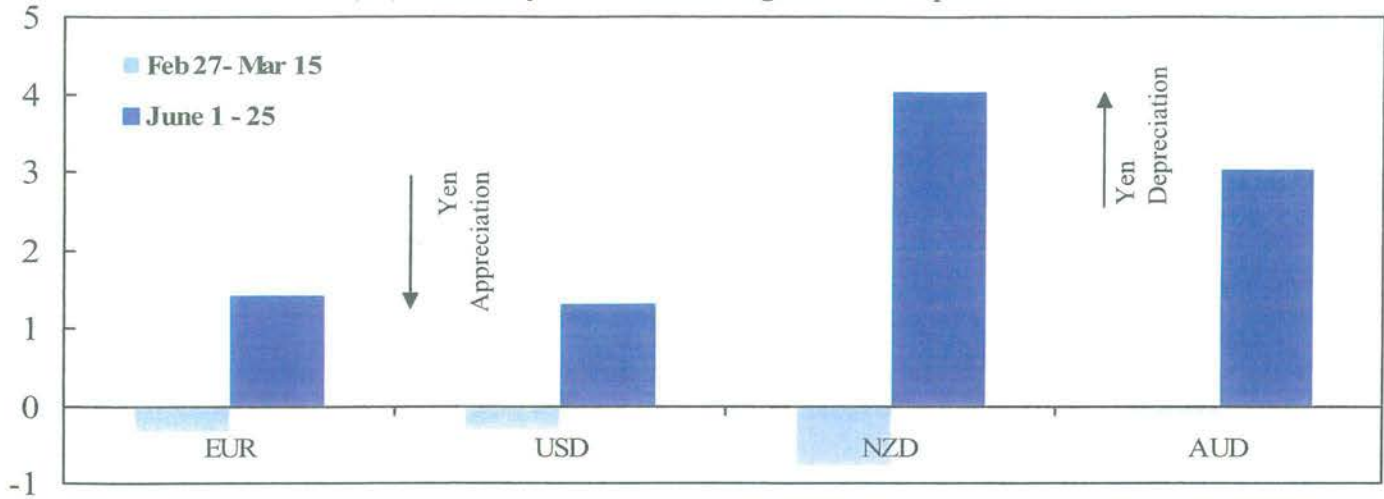






Percent

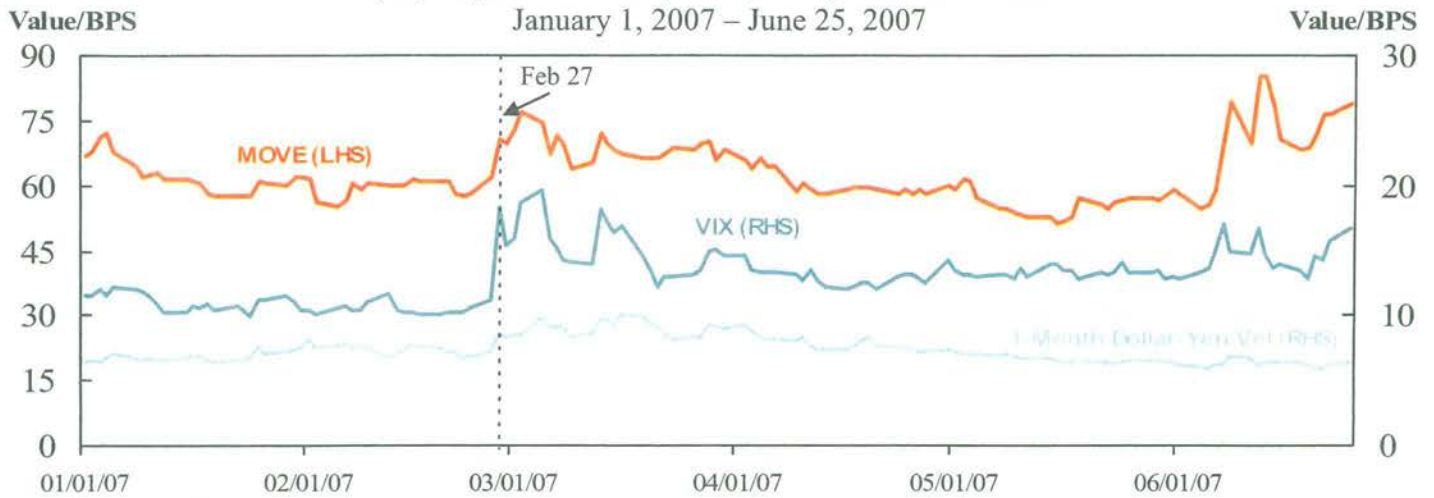
**(14) Currency Performance Against the Japanese Yen**



Source: Bloomberg

**(15) Implied Volatility Low, Except for Treasuries**

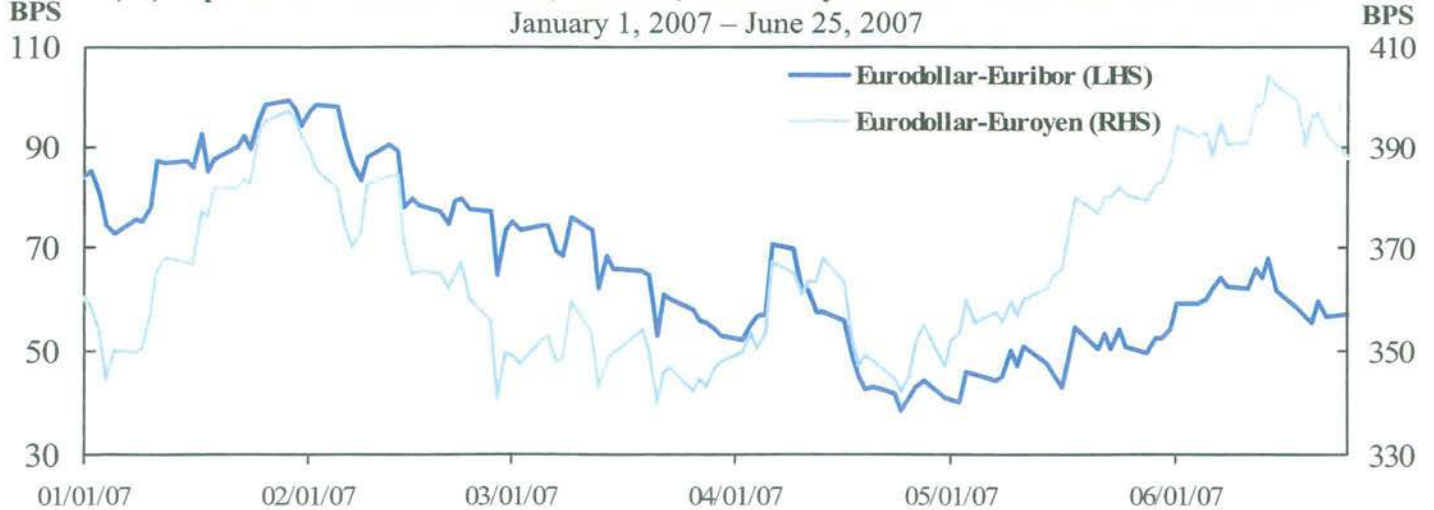
January 1, 2007 – June 25, 2007



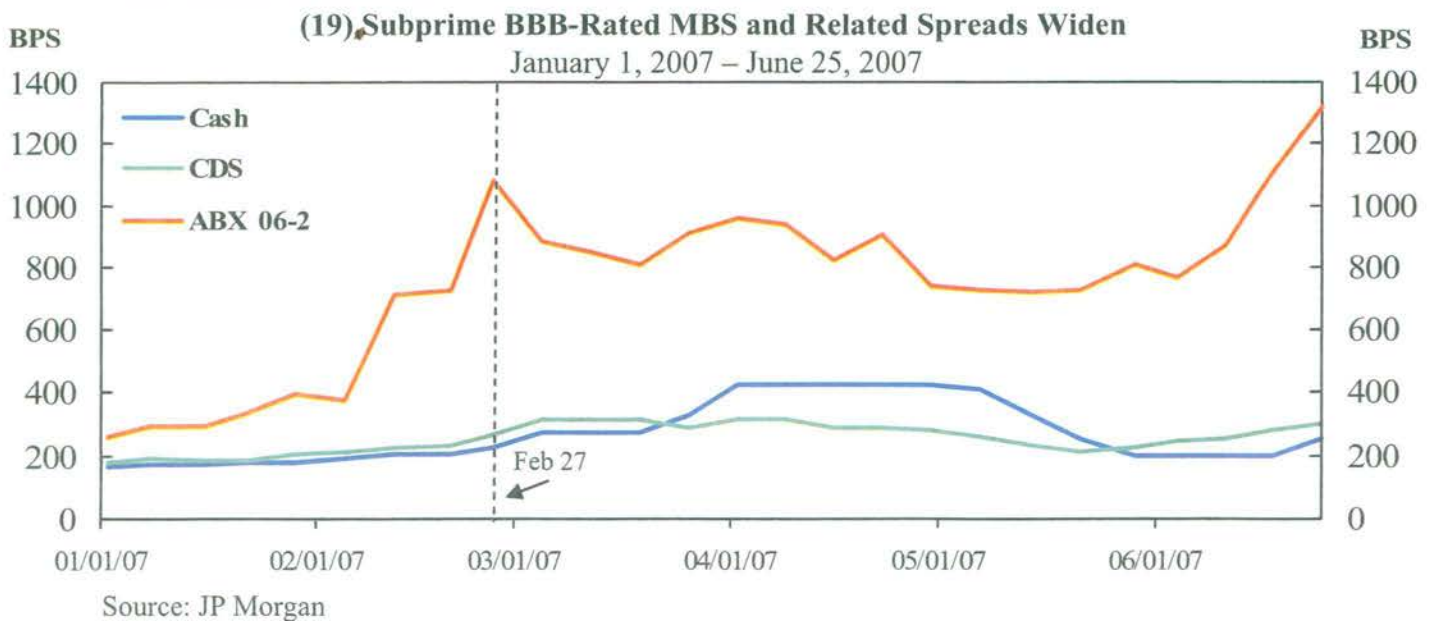
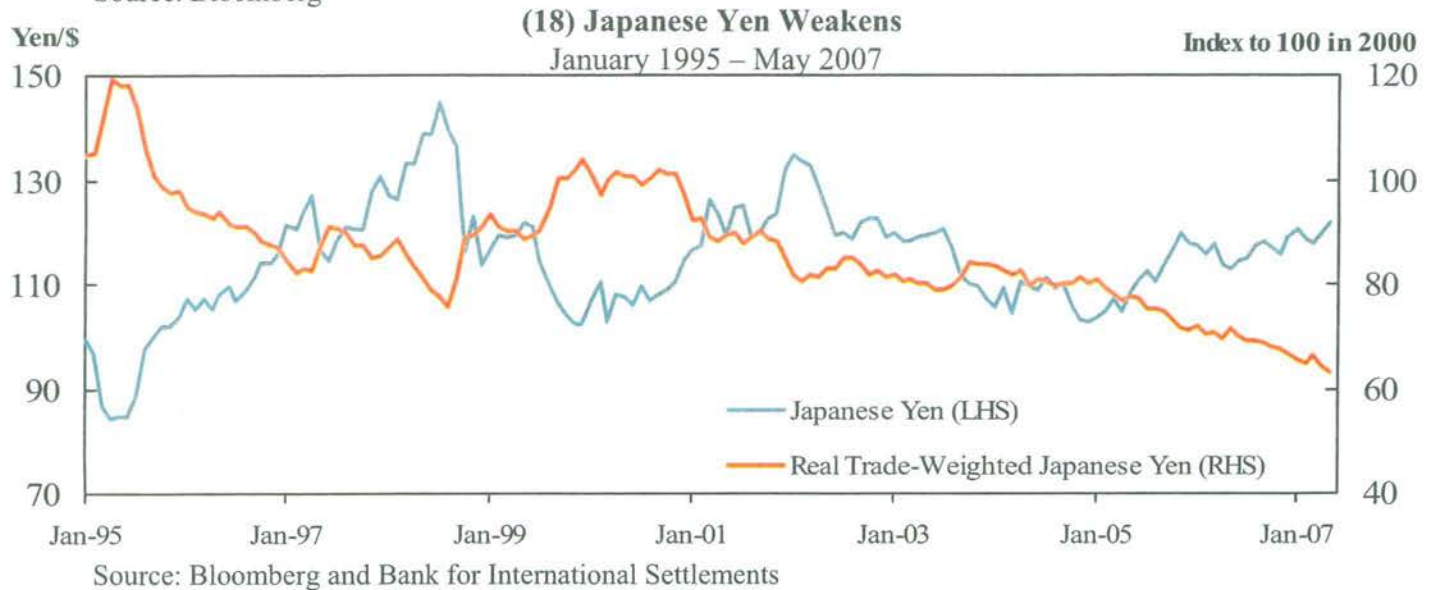
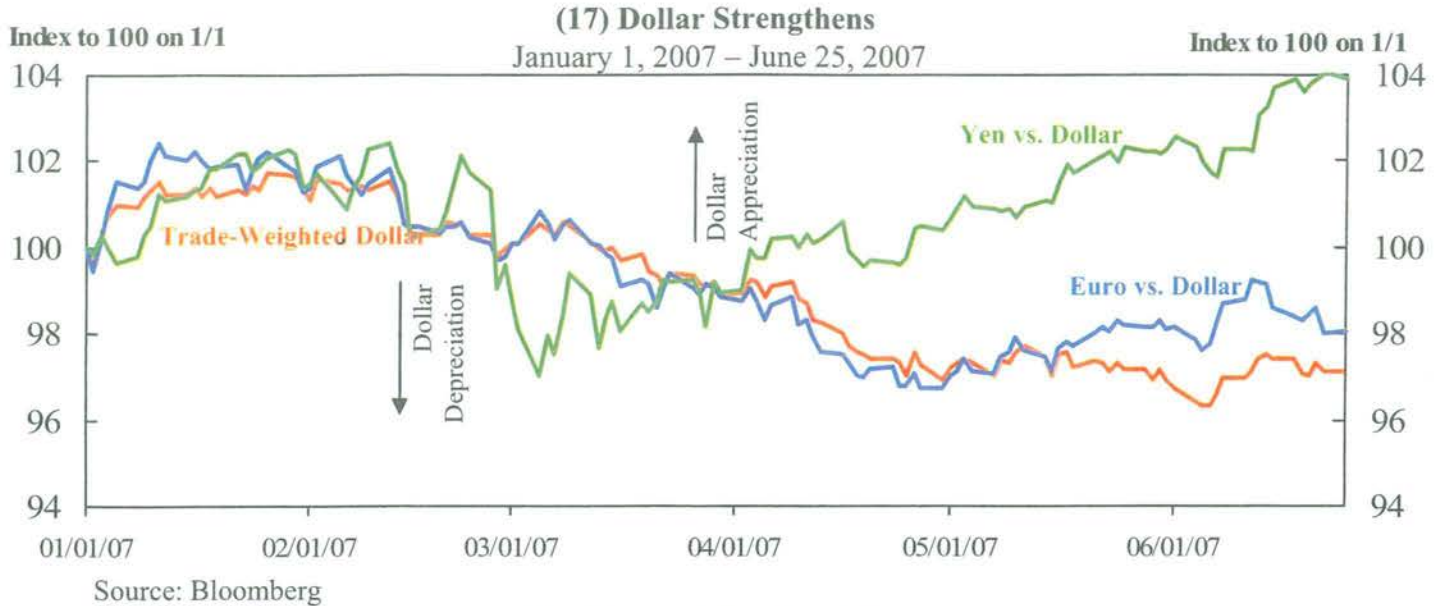
Source: Bloomberg

**(16) September 2008 Eurodollar, Euribor, and Euroyen Interest Rate Futures Contracts**

January 1, 2007 – June 25, 2007



Source: Bloomberg



**Appendix 2: Materials used by Mr. Wilcox, Ms. Liang, and Mr. Leahy**



CLASS II FOMC - Restricted (FR)

*Material for*

*Staff Presentation on the  
Economic Outlook*

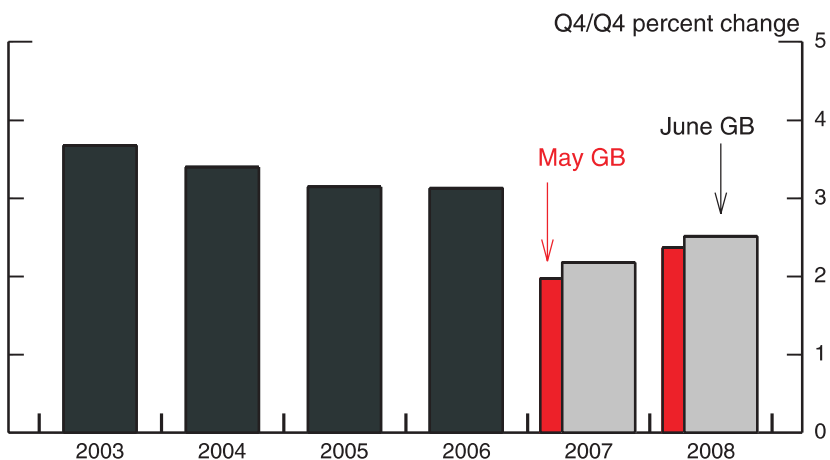
*June 27, 2007*

Class II FOMC - Restricted (FR)

Exhibit 1

### Forecast Summary

#### Real GDP



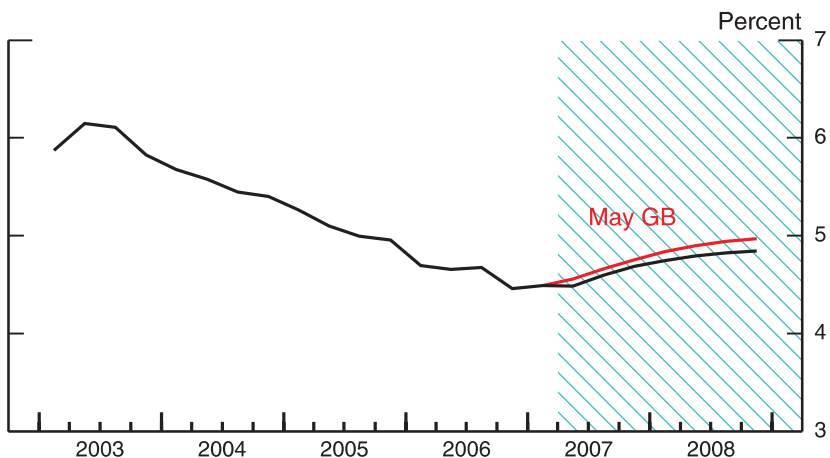
#### Real GDP

Quarterly percent change (annual rate)

	May GB	June GB
2007:Q2	2.6	3.0
Q3	2.0	2.5
Q4	2.1	2.2
2008*	2.4	2.5

\* 2008:Q4 / 2007:Q4

#### Unemployment Rate



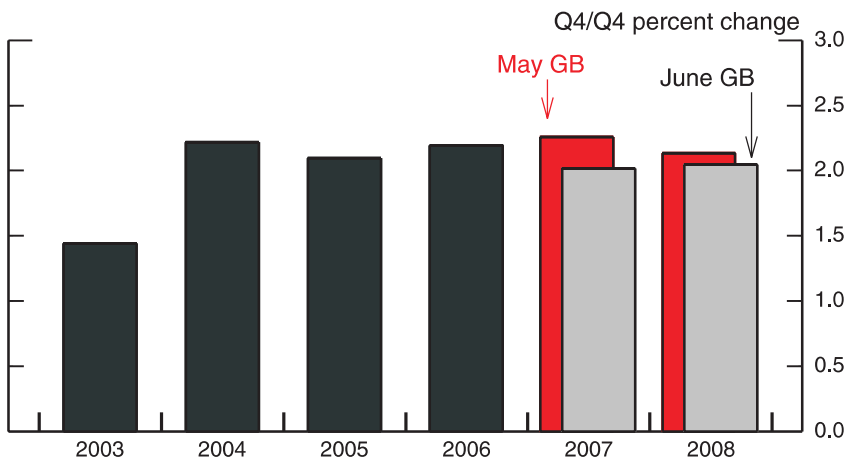
#### Unemployment Rate

Percent

	May GB	June GB
2007:Q2	4.6	4.5
Q3	4.7	4.6
Q4	4.8	4.7
2008*	5.0	4.8

\* Q4

#### Core PCE Prices



#### Core PCE Prices

Quarterly percent change (annual rate)

	May GB	June GB
2007:Q2	2.2	1.4
Q3	2.3	2.2
Q4	2.3	2.2
2008*	2.1	2.0

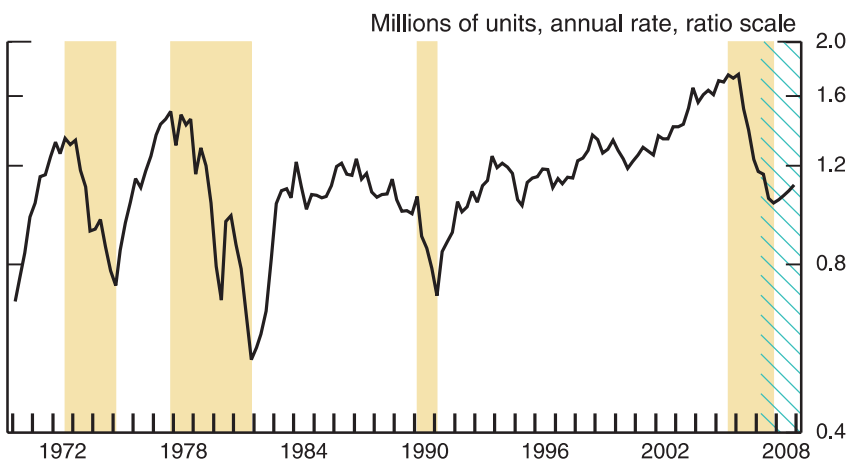
\* 2008:Q4 / 2007:Q4

Class II FOMC - Restricted (FR)

Exhibit 2

### Single-Family Housing

#### Starts

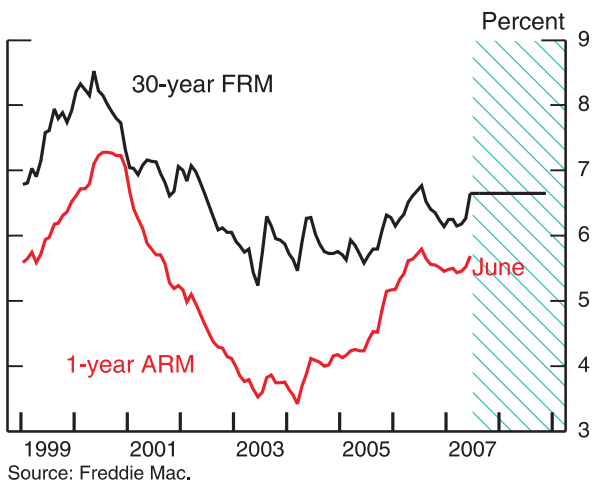


#### Declines in Starts during Major Downturns

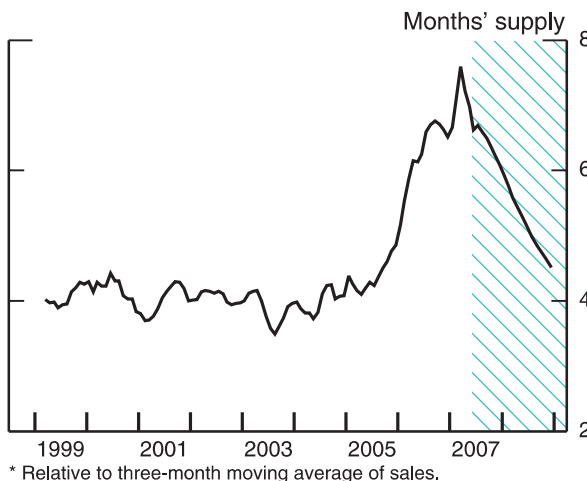
Period	Decline (percent)
72:Q3 - 75:Q1	45
77:Q4 - 81:Q4	64
90:Q1 - 91:Q1	34
05:Q3 - 07:Q4	41 <sup>f</sup>

f - Staff forecast

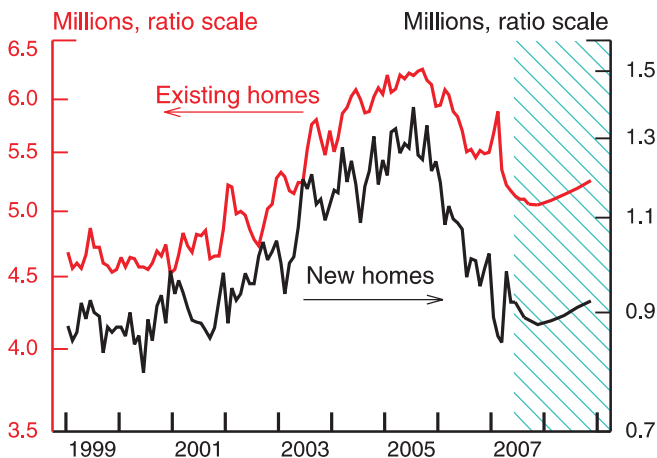
#### Mortgage Rates



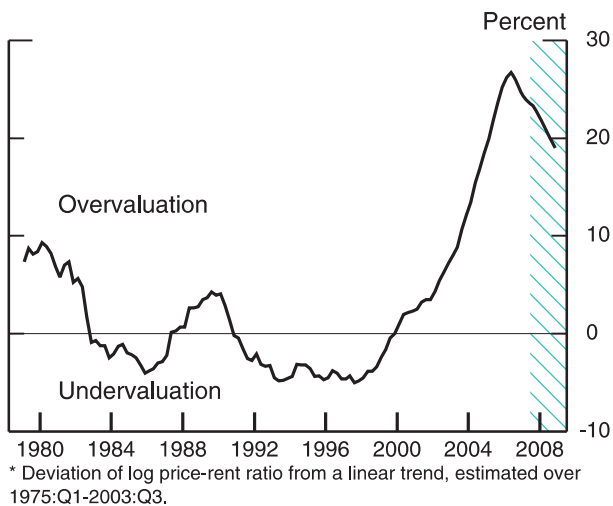
#### Inventory of Unsold New Homes\*



#### Sales



#### Estimated Valuation Errors For Single-Family Homes\*

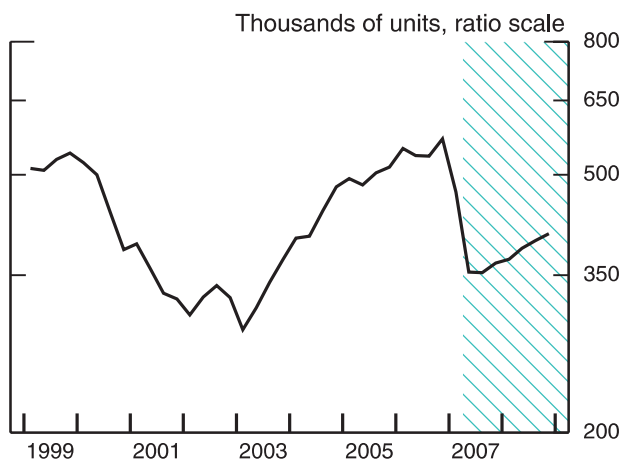


Class II FOMC - Restricted (FR)

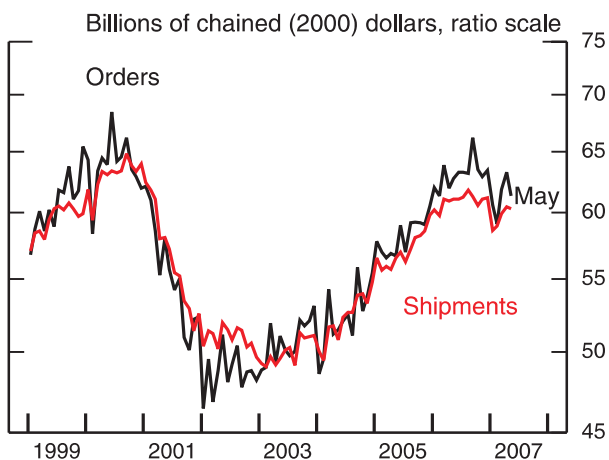
Exhibit 3

### Business Fixed Investment

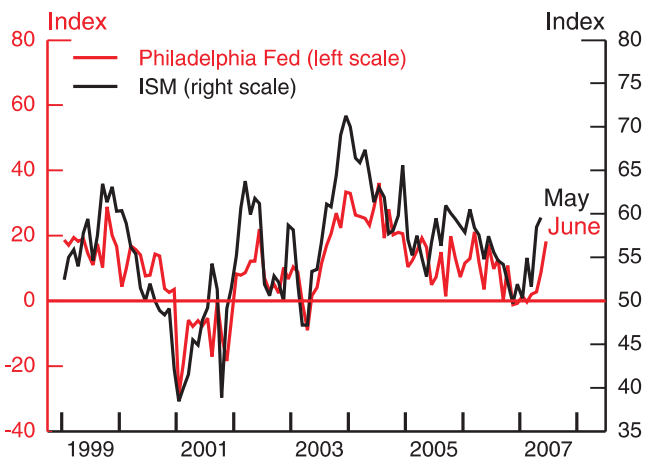
**Sales of Medium and Heavy Trucks**



**Orders and Shipments of Nondefense Capital Goods Excluding Aircraft**



**Indicators of Business Conditions**

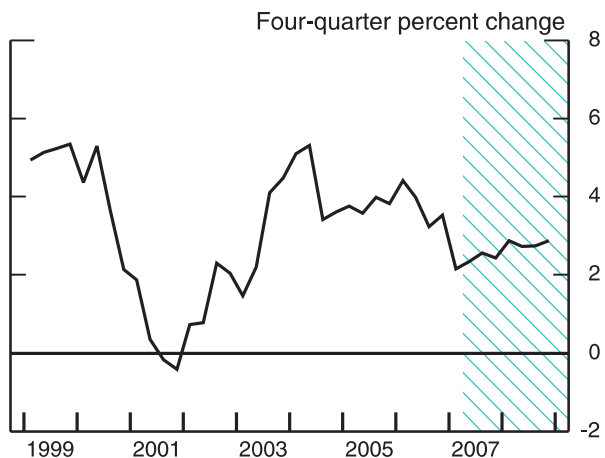


**Outlook for Real E&S**  
(Percent change, annual rate\*)

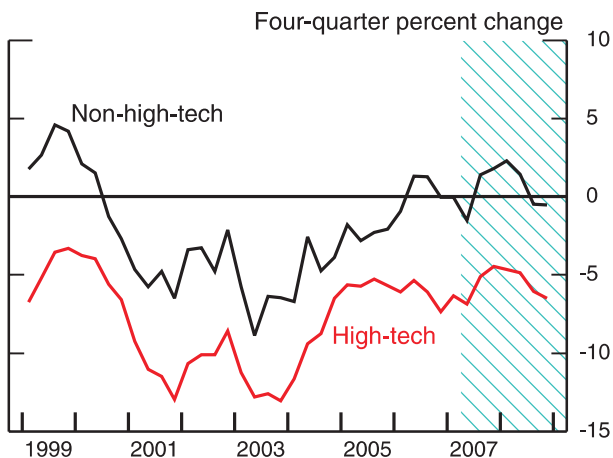
	2007		2008
	H1	H2	
Total	1.3	4.6	5.7
-- contributions --			
Motor vehicles	-4.1	.2	.8
Aircraft	1.2	.2	.1
High-tech	5.1	3.4	3.8
Other	-.9	.9	1.0

\* 2008 is Q4/Q4; half years are either Q4/Q2 or Q2/Q4.  
Contributions for 2007:H2 do not add to total due to rounding.

**Real Business Output**



**User Cost of Capital**

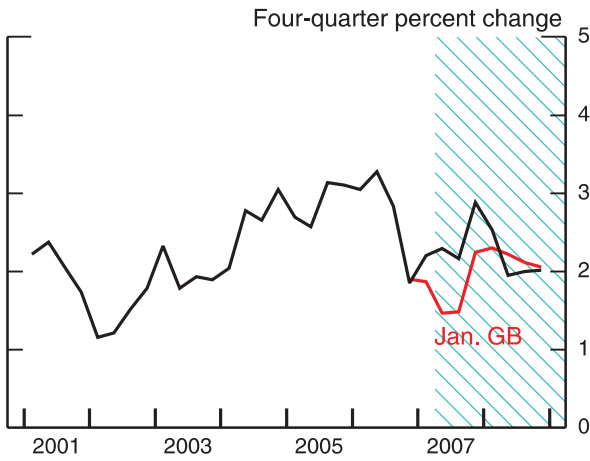


Class II FOMC - Restricted (FR)

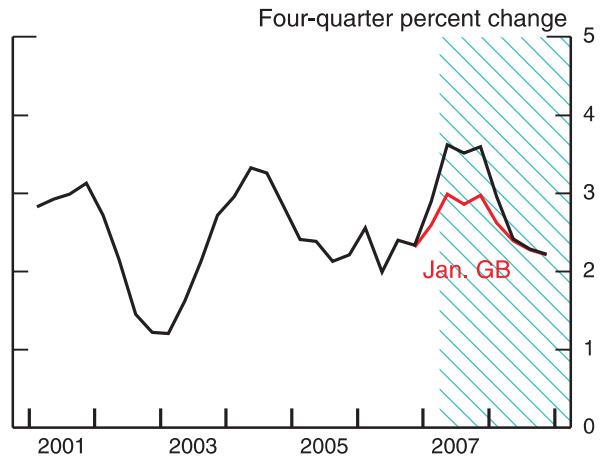
Exhibit 4

### Inflation (Part 1)

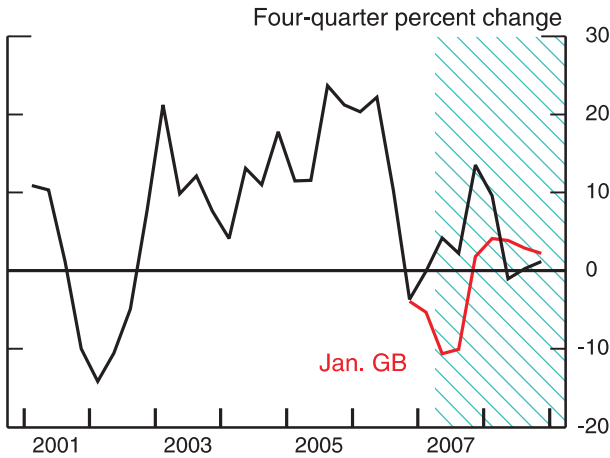
**PCE Total**



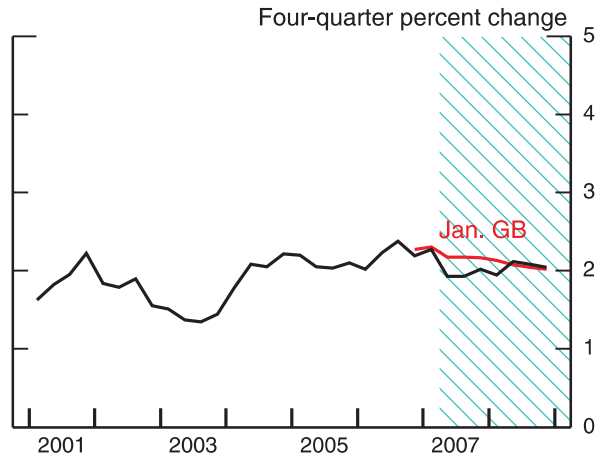
**PCE Food Prices**



**PCE Energy Prices**



**PCE Core Prices**

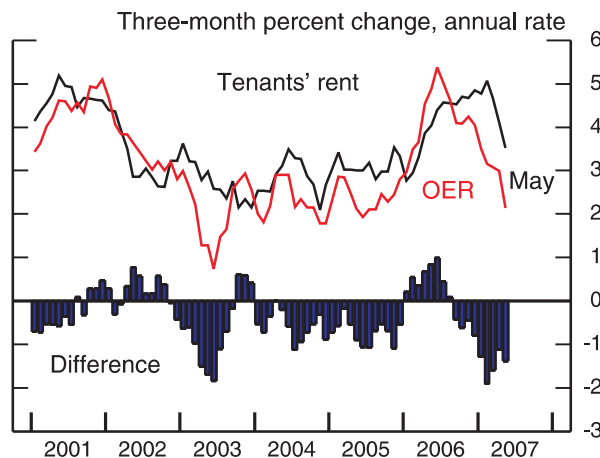


**Non-Market-Based  
PCE Prices**

(Quarterly percent change, annual rate)

	Jan. GB	June GB	Difference
2007:Q1	3.2	2.3	-.9
Q2	3.5	2.6	-.9
H2	3.5	3.4	-.1

**Tenants' Rent and OER**

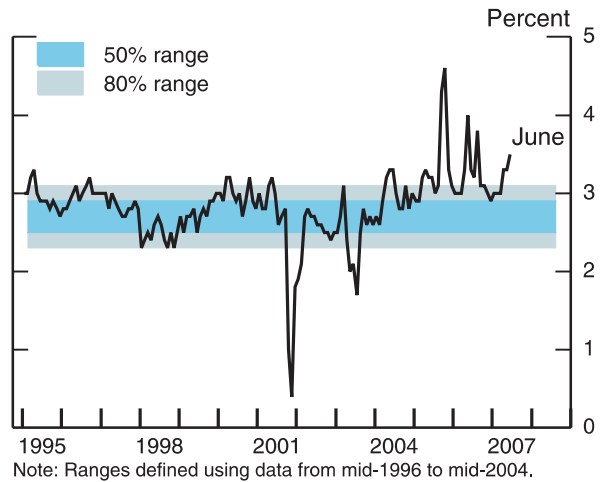


### Inflation (Part 2)

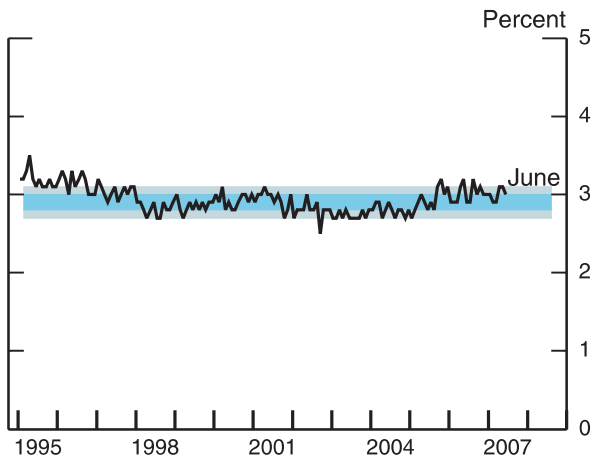
#### Have Inflation Expectations Drifted Up?

- Have inflation expectations moved above levels that were typical from mid-1996 to mid-2004?
  - During that period, core PCE inflation was mostly between 1 percent and 2 percent.
- Answer varies by series.

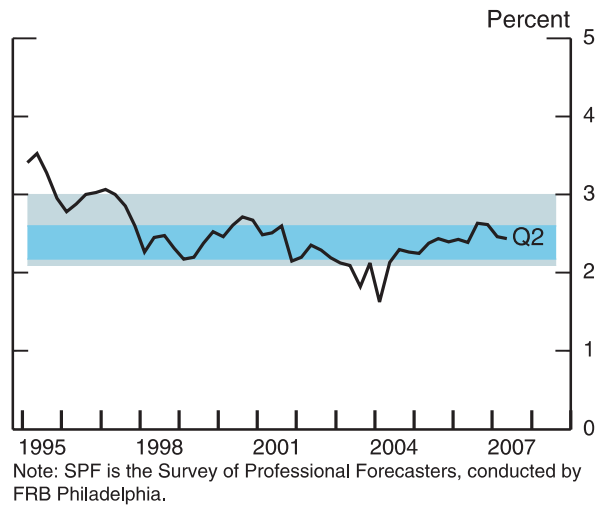
#### Reuters/Michigan Inflation Expectations, Next 12 Months



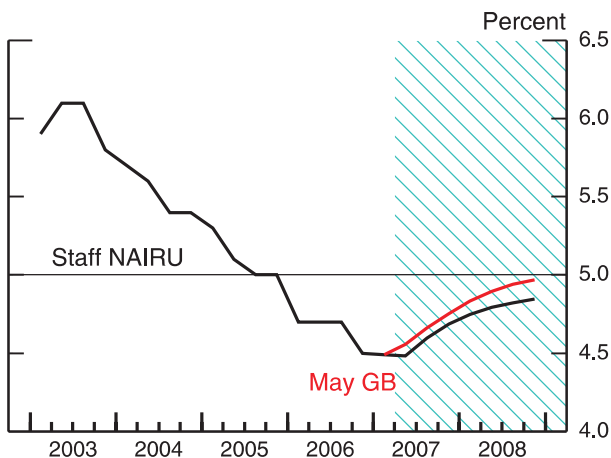
#### Reuters/Michigan Inflation Expectations, Next 5-10 Years



#### SPF CPI Inflation Expectations, 1-Year Ahead



#### Unemployment Rate

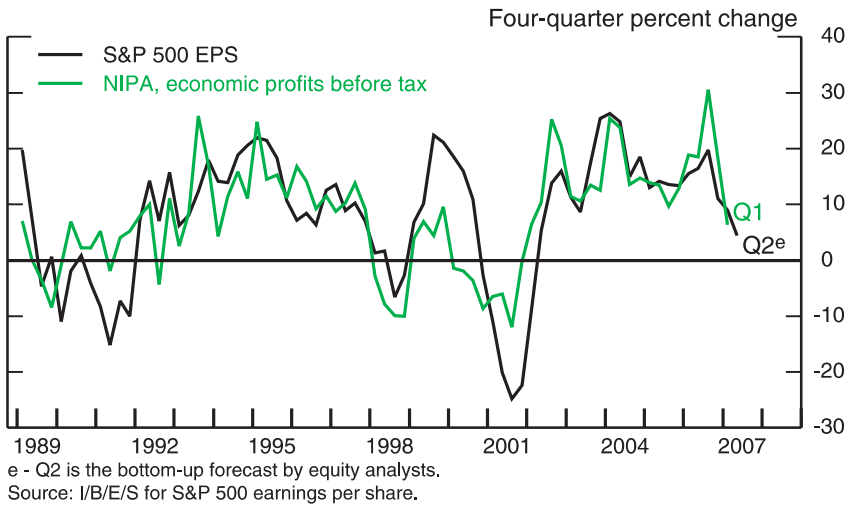


#### PCE Price Projection (Percent change, Q4/Q4)

	2007	2008
1. PCE price index	2.9	2.0
2. <i>May GB</i>	(2.9)	(2.1)
3. Core	2.0	2.0
4. <i>May GB</i>	(2.3)	(2.1)
5. Market based	1.8	1.7
6. <i>May GB</i>	(2.0)	(1.8)

## Corporate Earnings and Securities Prices

### Corporate Earnings Growth

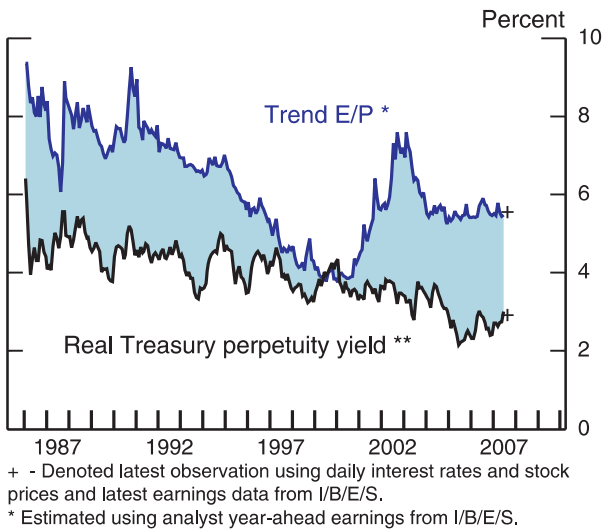


### Earnings Forecast (Percent change)

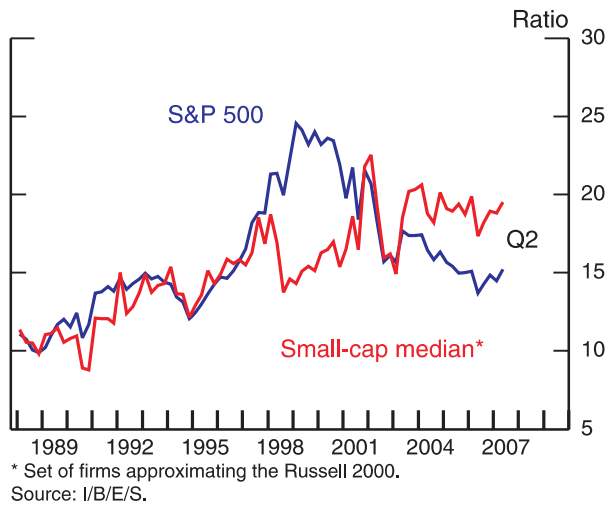
	2007	2008
Analyst		
S&P 500 <sup>1</sup>	8	11
Blue Chip	5	5
Staff		
NIPA <sup>2</sup>	5	1

1. Operating earnings per share  
2. Economic profits before tax

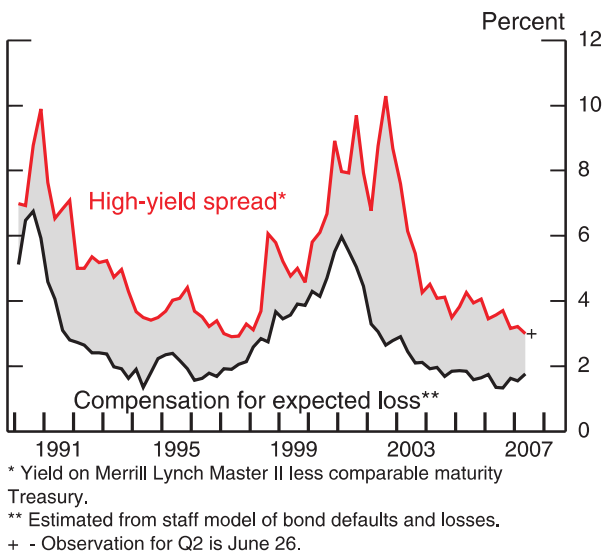
### Equity Valuation for S&P 500



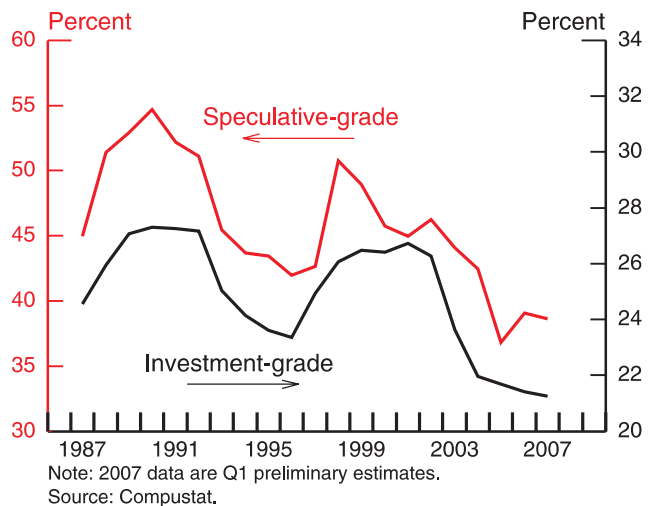
### 12-Month Forward Price-Earnings Ratio



### Decomposition of High-Yield Spread

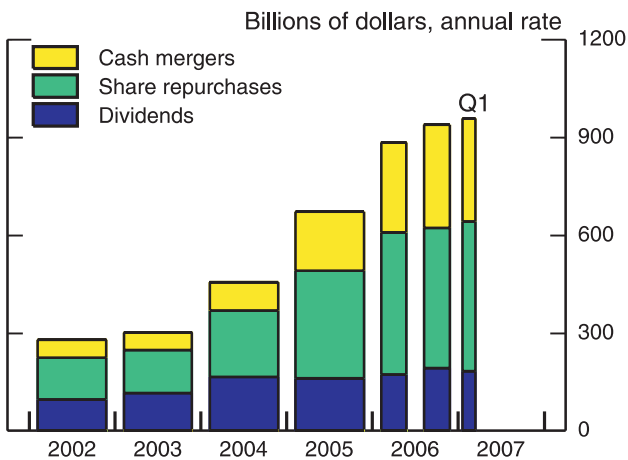


### Debt-to-Assets for Nonfinancial Corporations



## Leveraging of Nonfinancial Corporations

### Shareholder Payouts



Note: Dividend and share repurchases for 2006:H2 and 2007:Q1 are preliminary.

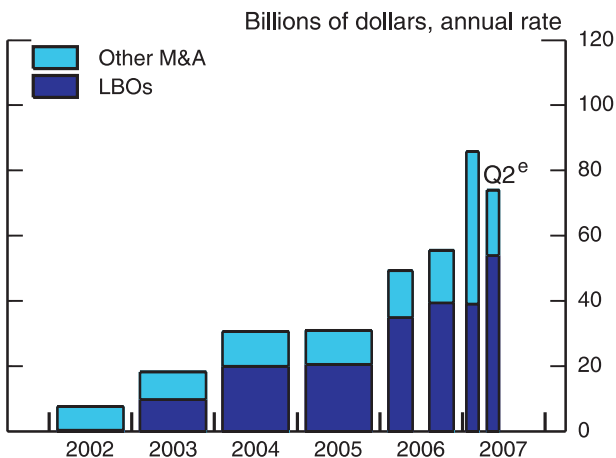
### Share Repurchases, 2005 - 2006

(Ratios to assets, percent)

	Repurchases	
	Greater than 5	0 to 5
Earnings	9	6
Change in debt	2	-1
Debt	22	26

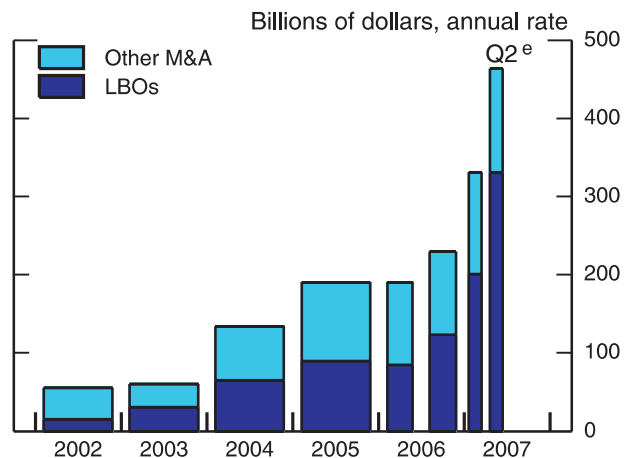
Note: Sample of 1,900 firm-year observations for repurchases of 0 to 5 percent and 350 for greater than 5 percent.  
Source: Compustat.

### Speculative-Grade Bond Issuance for M&A



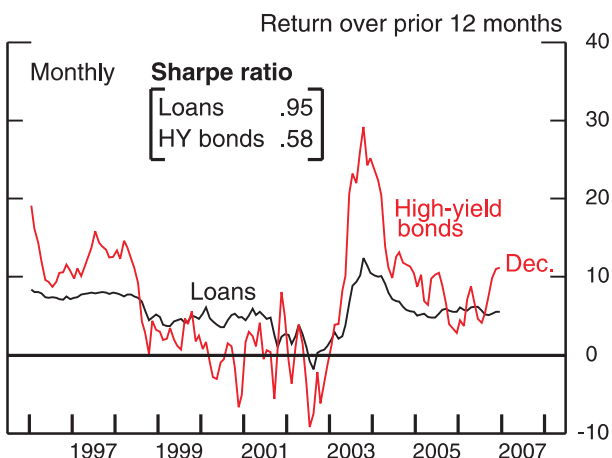
e - Staff estimate based on data through May.  
Source: Merrill Lynch and Securities Data Company.

### Speculative-Grade Loan Origination for M&A\*



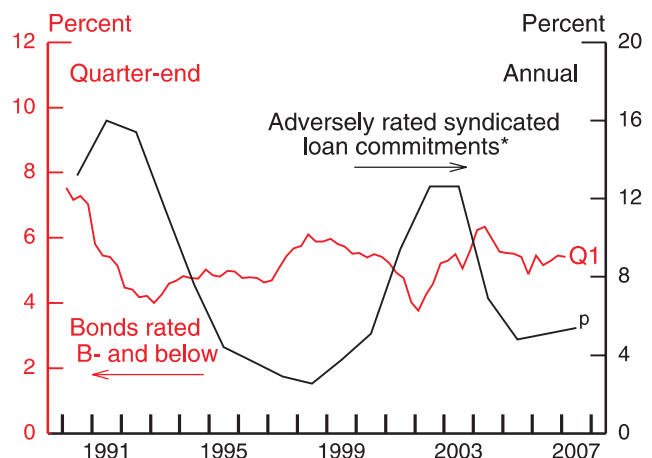
\* Includes unrated commitments and loans.  
e - Staff estimate based on data through mid-June.  
Source: DealScan.

### Asset Returns



\* Total returns on the CSFB Leveraged Loan Index.  
\*\* Total returns on the Merrill Lynch Master II Index of high-yield bonds.

### Risky Debt to Total Outstanding Debt

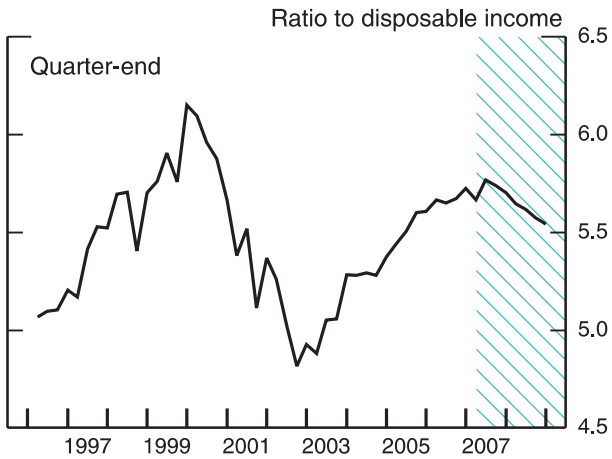


\* Loans rated by examiners that are either special mention, substandard, doubtful, or loss.  
p - Preliminary.  
Source: Shared National Credit Data and Moody's.

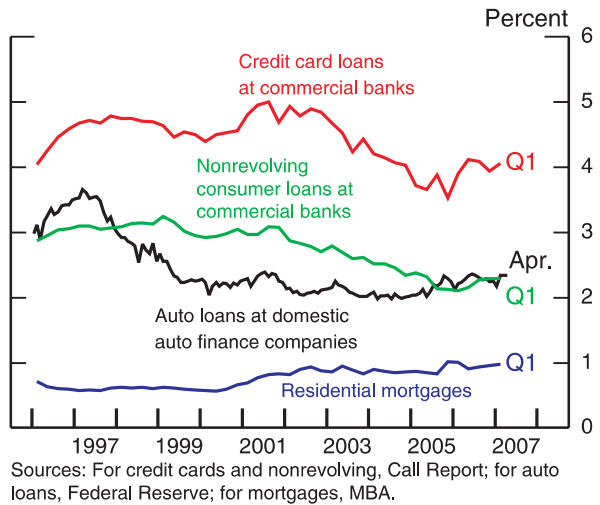


### Household Financial Conditions

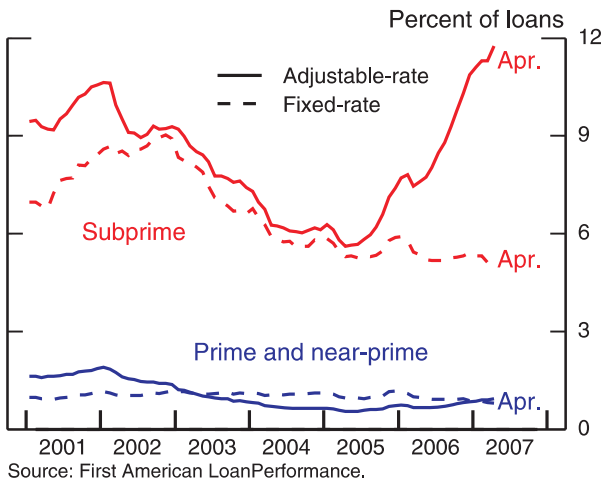
#### Net Worth



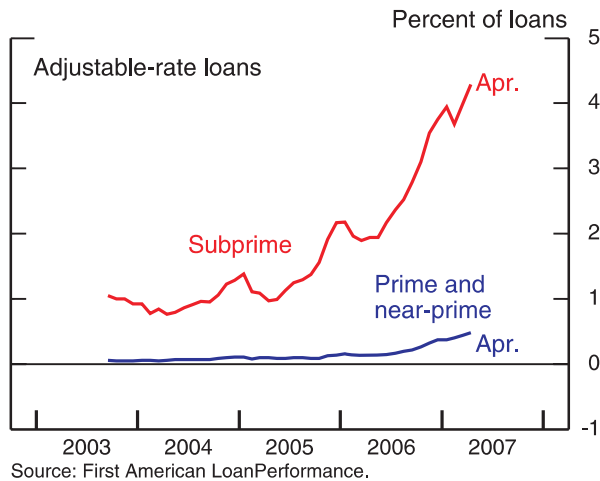
#### Household Delinquency Rates



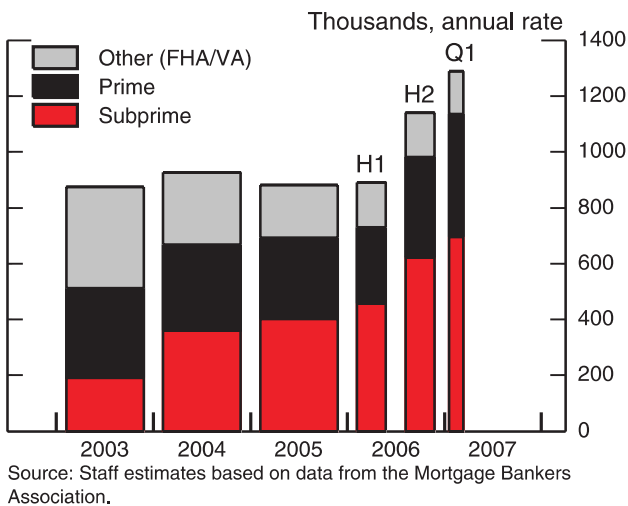
#### Serious Mortgage Delinquency Rates



#### Serious Delinquencies in First Six Months



#### Number of Foreclosure Starts

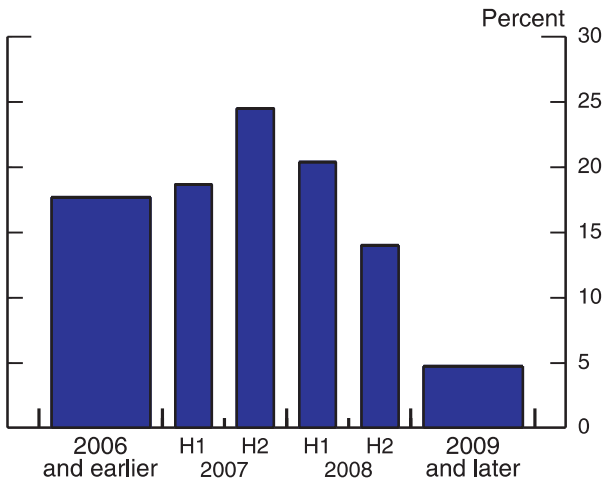


#### Q1 Foreclosure Starts and Predictions

- High in OH, MI and IN, but little changed
- Increased CA, FL, NV and AZ, and by more than in total U.S.
- Model foreclosure starts on state house price growth, unemployment, subprime share, interest rates, state fixed effects, and other variables
- Predicts 1.4 million in 2007 and a rise to 1.5 million in 2008 assuming national home prices are flat

### Subprime Market Risks

#### Distribution of First Rate Reset of Subprime ARMs Outstanding as of March 2007

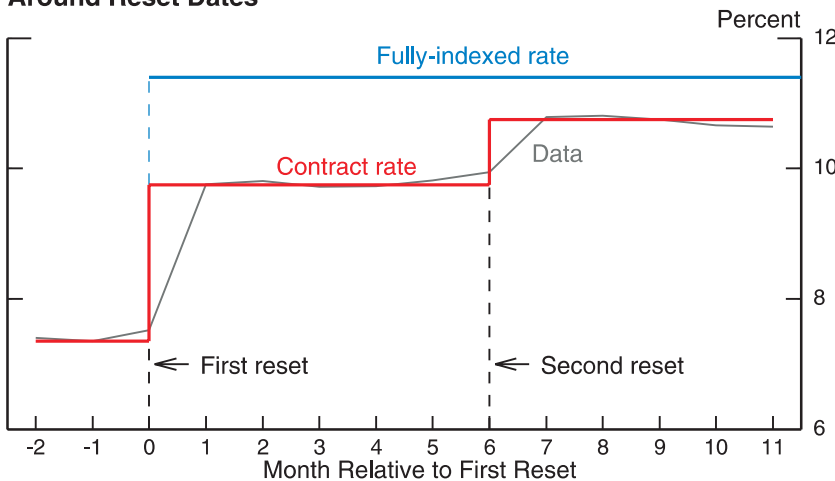


Note: Subprime 2/28 and 3/27 loans that are securitized and outstanding in March 2007. Source: First American LoanPerformance.

#### Characteristics of Interest Rate Resets

- Snapshot of subprime adjustable-rate mortgages:
  - Initial rate: 7.35 percent
  - Fully indexed rate = LIBOR + margin
  - Most have caps on increase

#### Contract Interest Rates on Subprime Adjustable Rate Mortgages Around Reset Dates

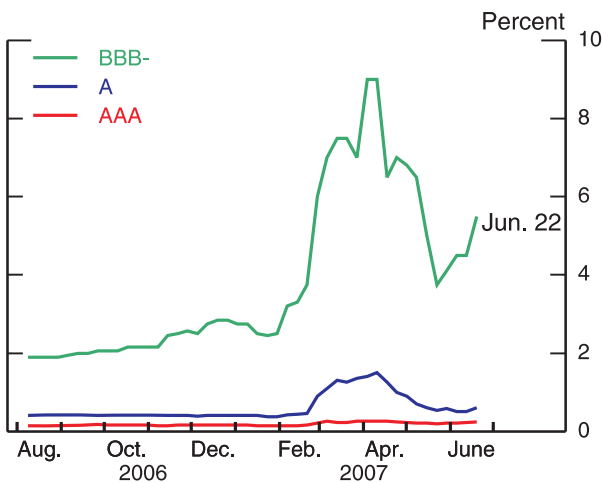


Note: Subprime 2/28 and 3/27 loans that are securitized and outstanding in March 2007. Source: First American LoanPerformance.

#### Mortgages With Resets

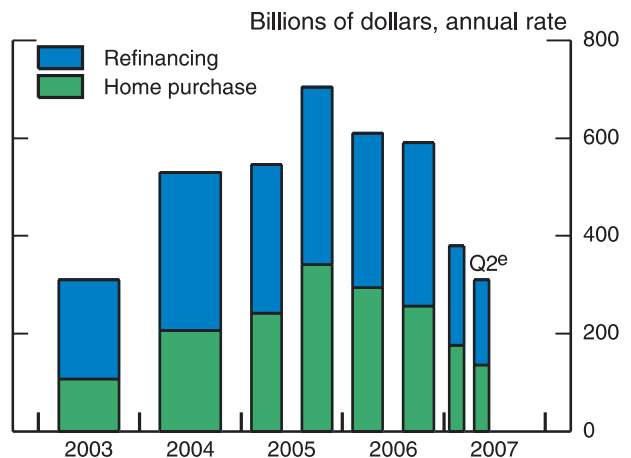
- Many borrowers refinance before reset dates
- 25 percent of mortgages had a first reset
- 12 percent had a second reset

#### Spreads on New Subprime RMBS Issues



Note: Measured relative to LIBOR. Source: Trader estimates provided by Merrill Lynch.

#### Subprime Originations



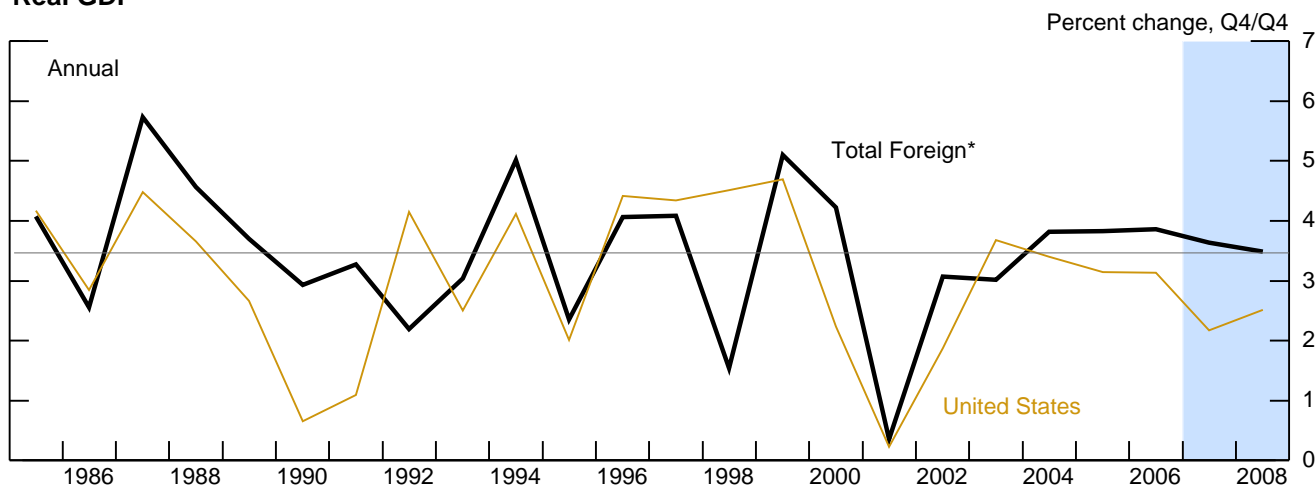
e - Estimate based on securitizations through June 22. Source: Inside Mortgage Finance for originations and LoanPerformance for purchase shares.

Class II FOMC -- Restricted (FR)

Exhibit 10

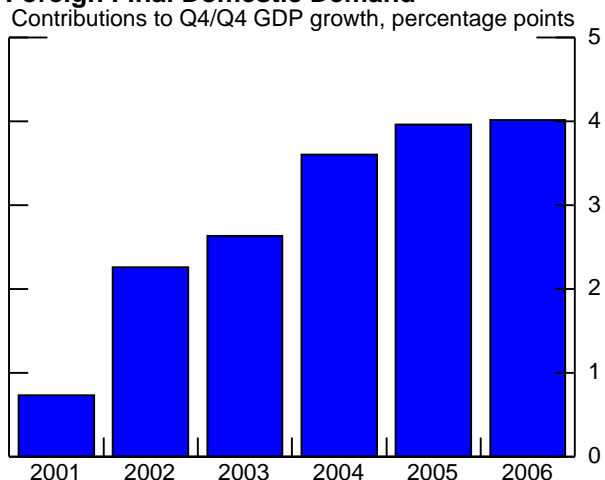
### Foreign Growth and Domestic Demand

#### Real GDP



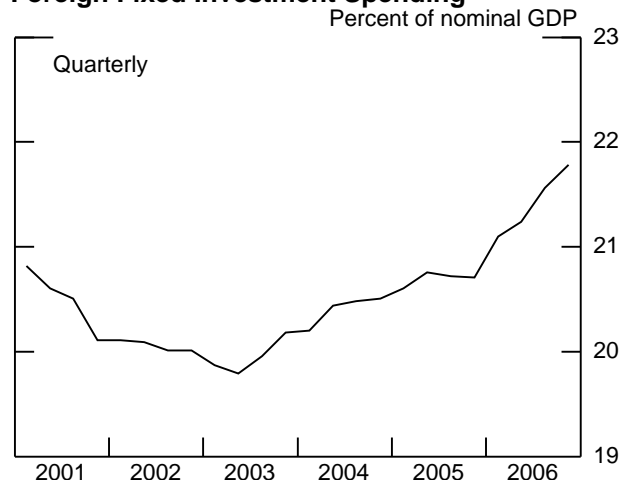
\* Weighted by shares of U.S. merchandise exports.  
 Note: Horizontal line marks 3.5 percent.

#### Foreign Final Domestic Demand\*



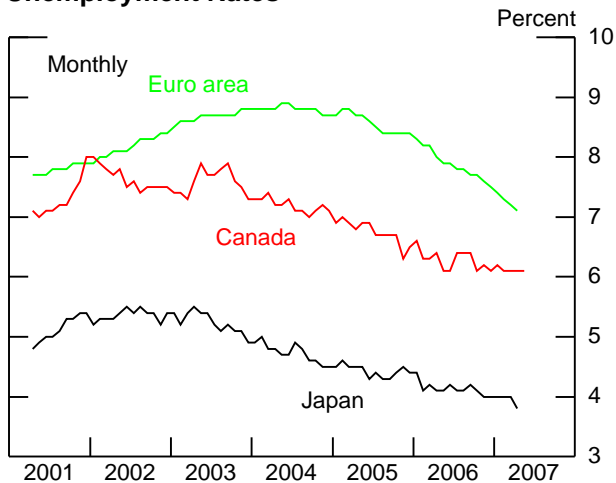
\* Weighted by shares of U.S. merchandise exports.

#### Foreign Fixed Investment Spending\*

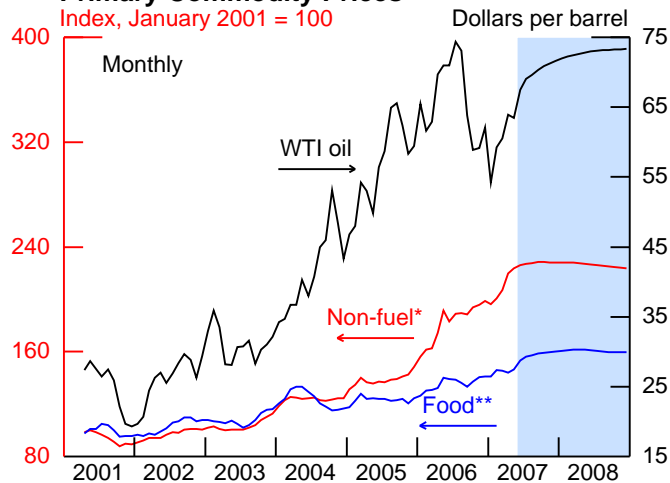


\* Weighted by shares of U.S. merchandise exports.

#### Unemployment Rates



#### Primary Commodity Prices

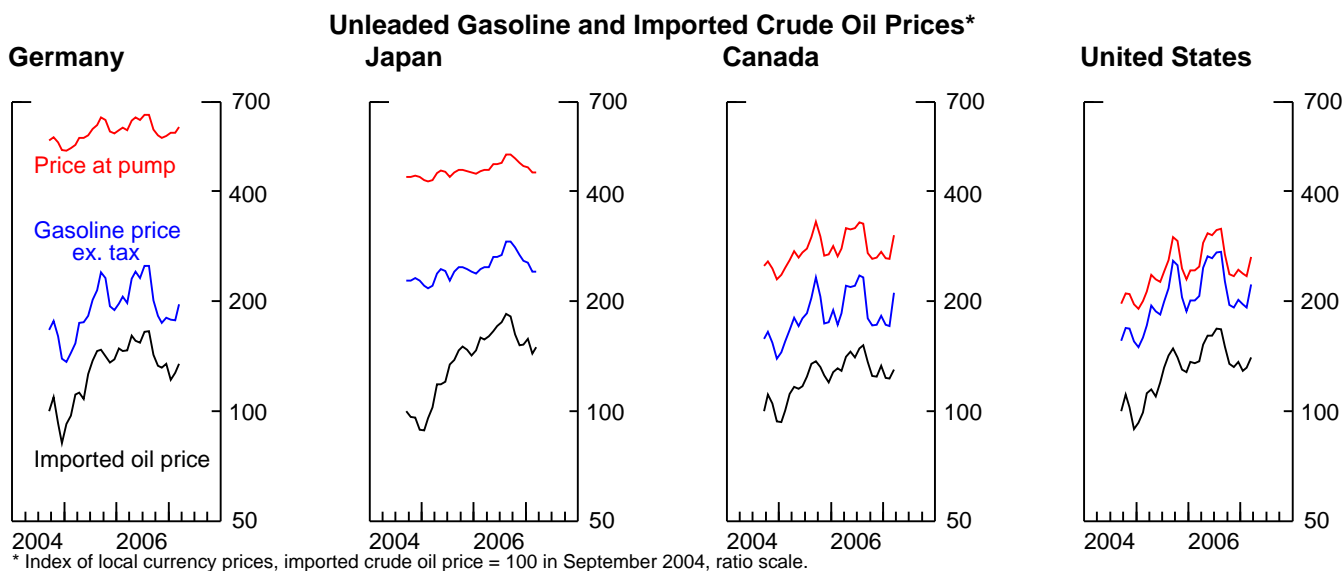


\* IMF index, weighted by shares of U.S. merchandise imports.  
 \*\* IMF index, weighted by global export shares.

Class II FOMC -- Restricted (FR)

Exhibit 11

### Foreign Consumer Prices and Primary Commodity Prices



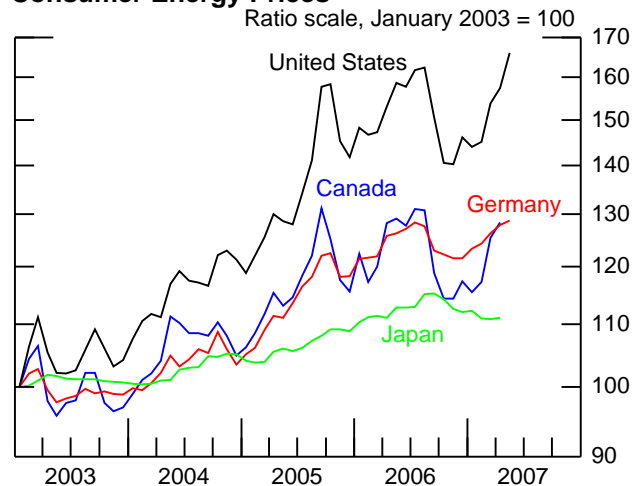
#### Pass-Through of Crude Oil Prices to Retail Gasoline Prices

September 2004 to March 2007

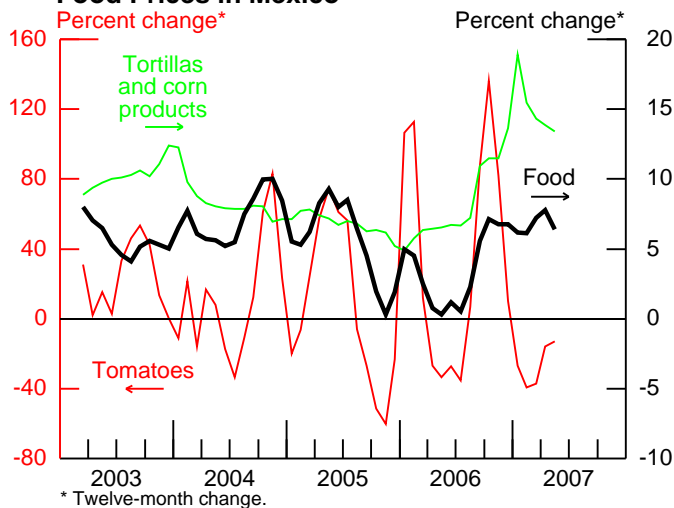
Pass-Through*	
Germany	.25
Japan	.06
Canada	.71
United States	.84

\* Ratio of percent change in local-currency price of regular unleaded gasoline to percent change in local-currency price of imported crude oil.

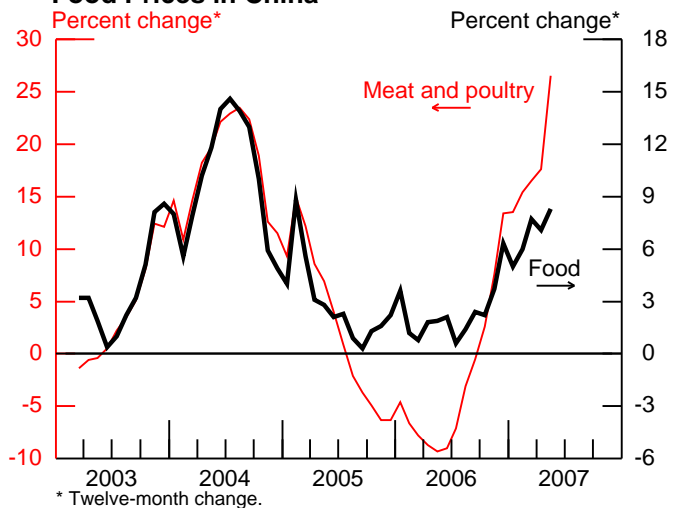
#### Consumer Energy Prices



#### Food Prices in Mexico



#### Food Prices in China



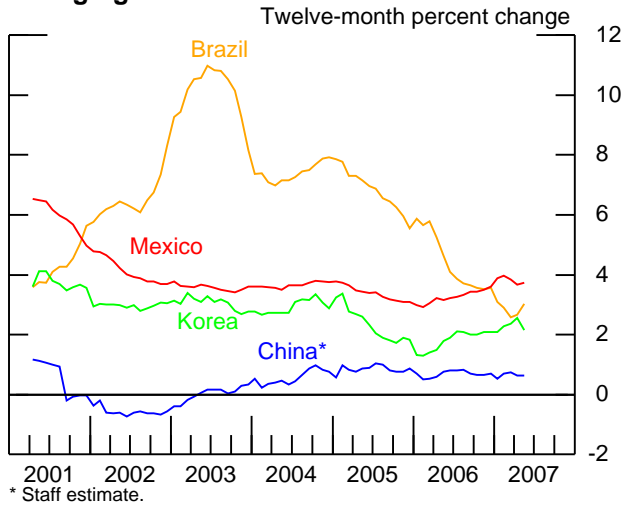
Class II FOMC -- Restricted (FR)

Exhibit 12

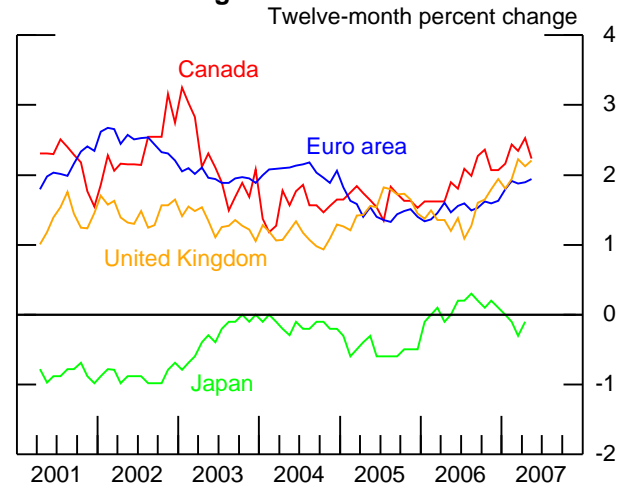
# Foreign Inflation: Core, Expectations, and Outlook

## Core Consumer Prices

### Emerging Market Economies



### Advanced Foreign Economies



### Change in Ten-Year Sovereign Bond Yields (12/29/06 - 6/26/07, basis points)

	Nominal Yield	Indexed Real Yield	Inflation Compensation
Canada*	54	43	11
Euro area	67	65	2
United Kingdom	73	56	17
Japan	19	6	13
United States	40	28	12

\* 15-year maturities.

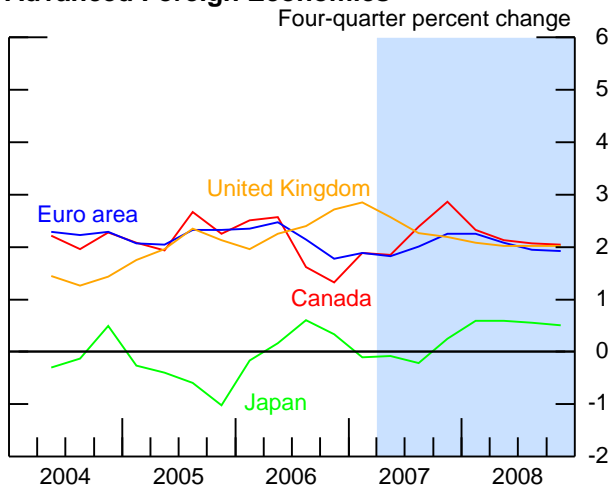
### Headline Inflation Expectations (Percent, year-average over year-average)

	For 2007 as of:		Long-run*
	Dec. 06	Jun. 07	as of Apr. 07
Canada	1.7	2.2	2.0
Euro area	2.1	2.0	1.9
United Kingdom	2.2	2.4	1.9
Japan	0.3	0.0	1.2
United States	2.0	2.6	2.1

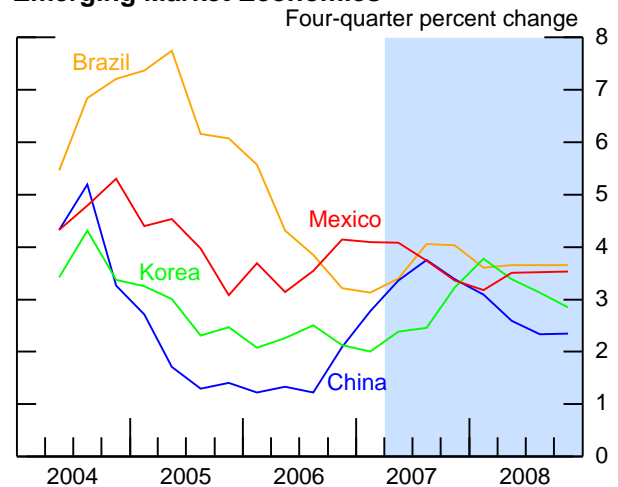
\* Expectations for inflation in years 2013 to 2017.  
Source: Consensus Economics Surveys.

## Headline Consumer Prices

### Advanced Foreign Economies

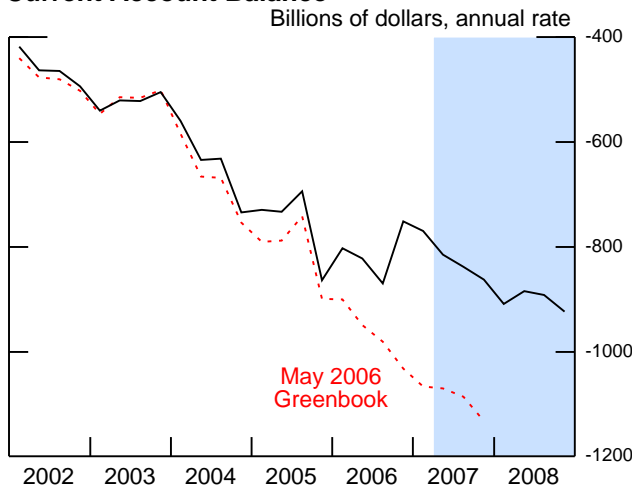


### Emerging Market Economies

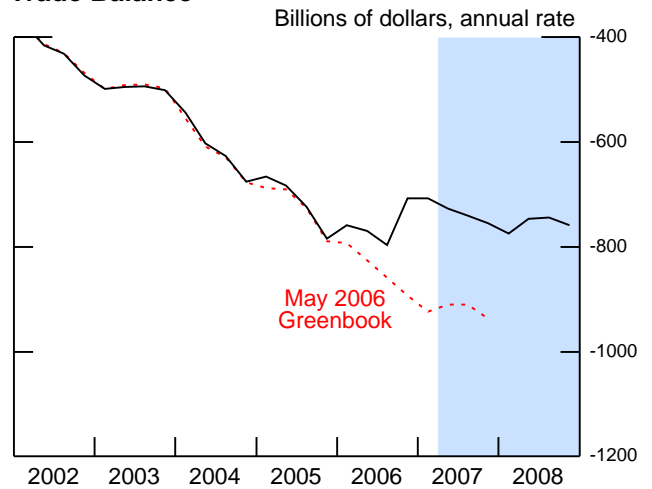


## What Explains the Improved Outlook for External Adjustment? (Part 1)

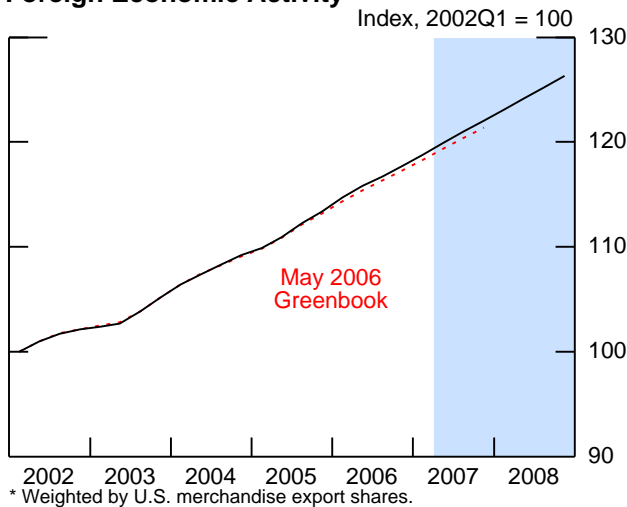
**Current Account Balance**



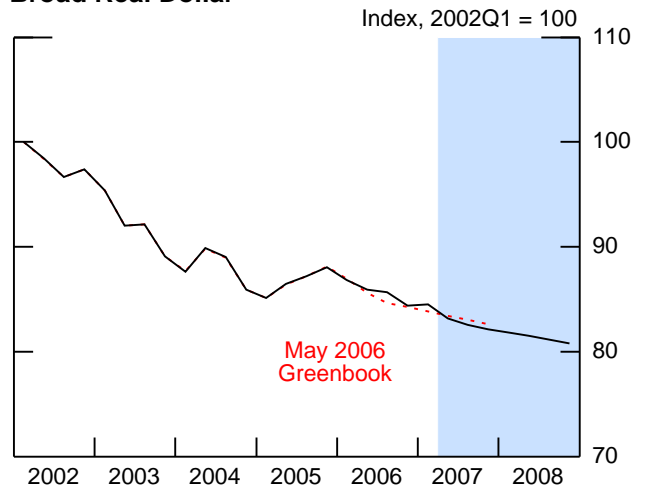
**Trade Balance**



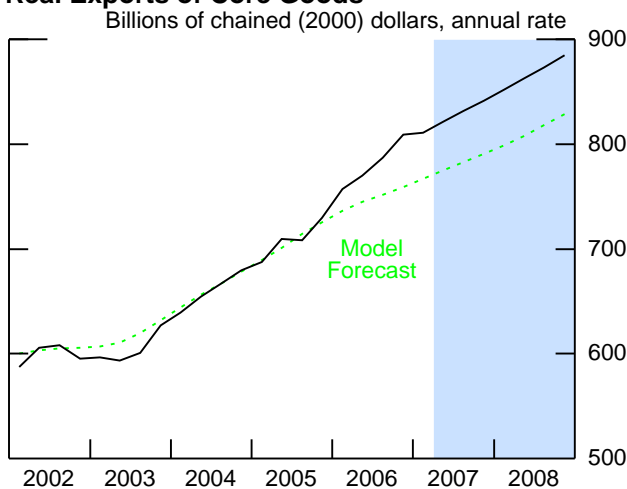
**Foreign Economic Activity\***



**Broad Real Dollar**



**Real Exports of Core Goods**



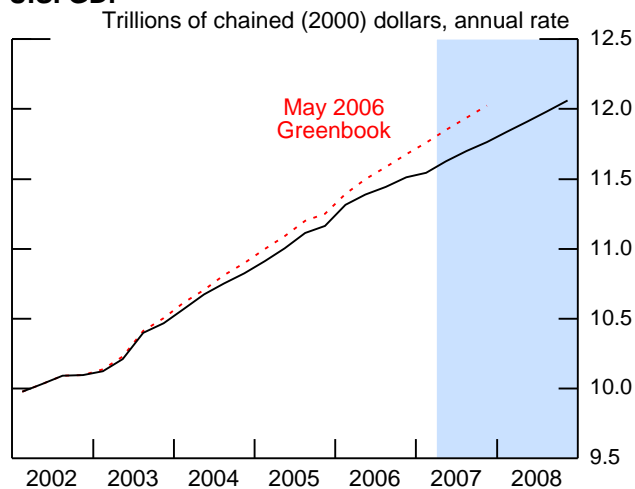
**Core Exports in 2006  
(Percent)**

	Nominal Share	Real Growth*
1. Core Goods	100	10.8
2. Capital Goods	34	12.8
3. Ind. Supplies	29	13.0
4. Automotive	12	3.5
5. Consumer	14	11.5
6. Other	12	7.3

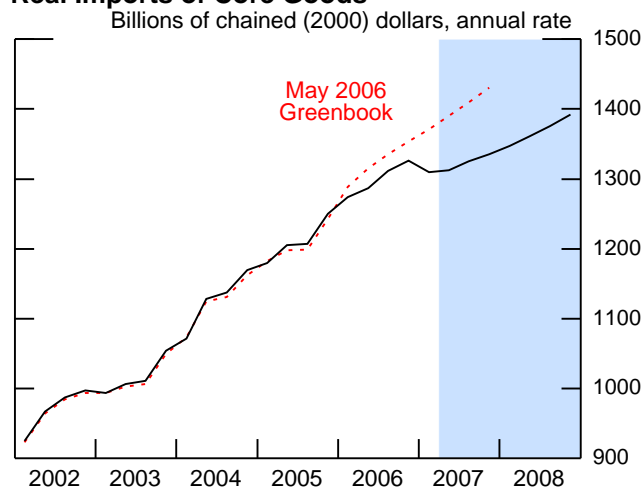
\* Q4/Q4 percent change.

## What Explains the Improved Outlook for External Adjustment? (Part 2)

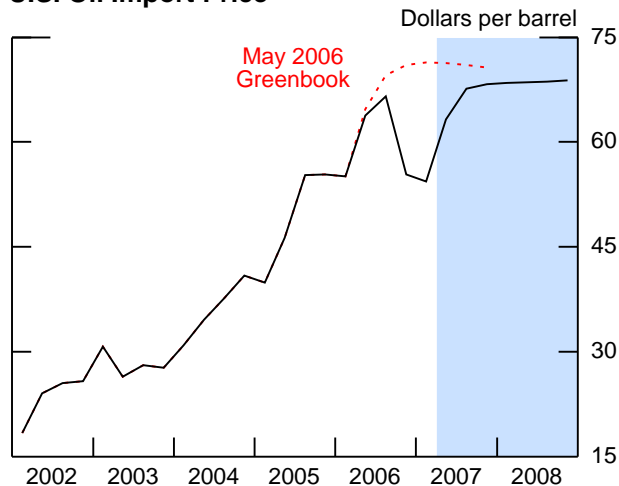
### U.S. GDP



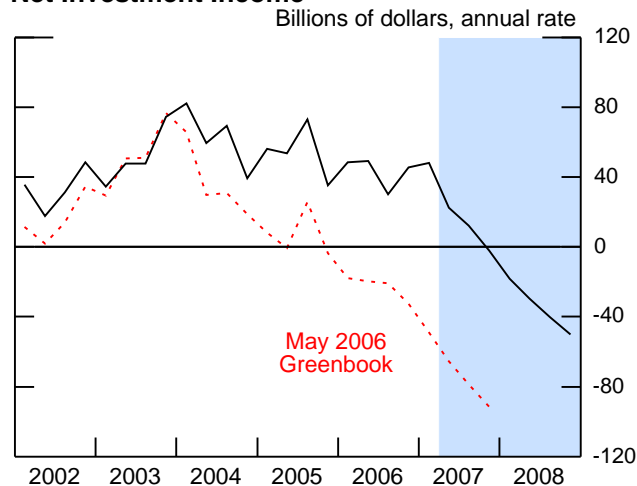
### Real Imports of Core Goods



### U.S. Oil Import Price



### Net Investment Income



### Contribution of Real Net Exports to U.S. GDP Growth (Percentage points)

	Greenbook	
	May 2006	June 2007
2006	-.3	.5
2007: Q1	-.5	-.7
Q2	.3	1.0
H2	-.4	.1
2008	--	.0

**Appendix 3: Materials used by Mr. Reinhart**



**Class I FOMC - Restricted-Controlled (FR)**

*Material for*

**FOMC Briefing on Economic Projections of  
FOMC Participants**

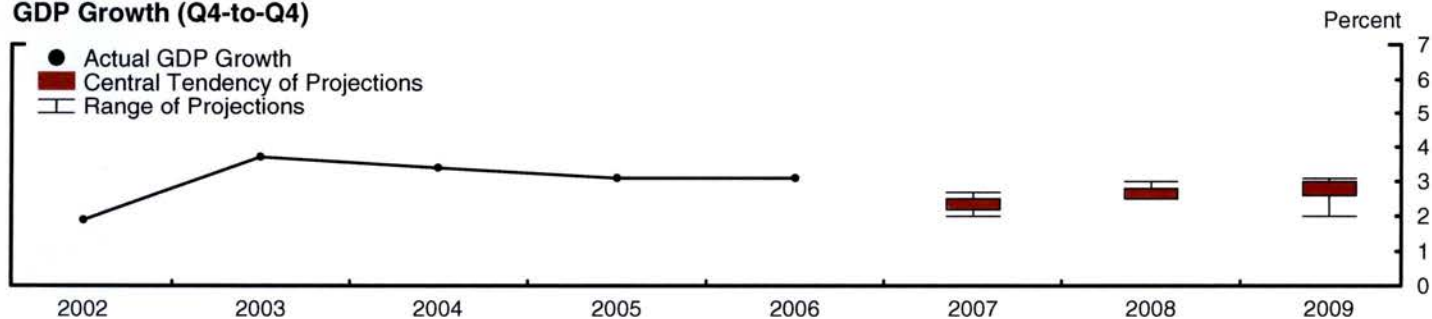
**Vincent R. Reinhart**  
**June 27, 2007**

**Exhibit 1**  
**Summary of June Trial Run Economic Projections**

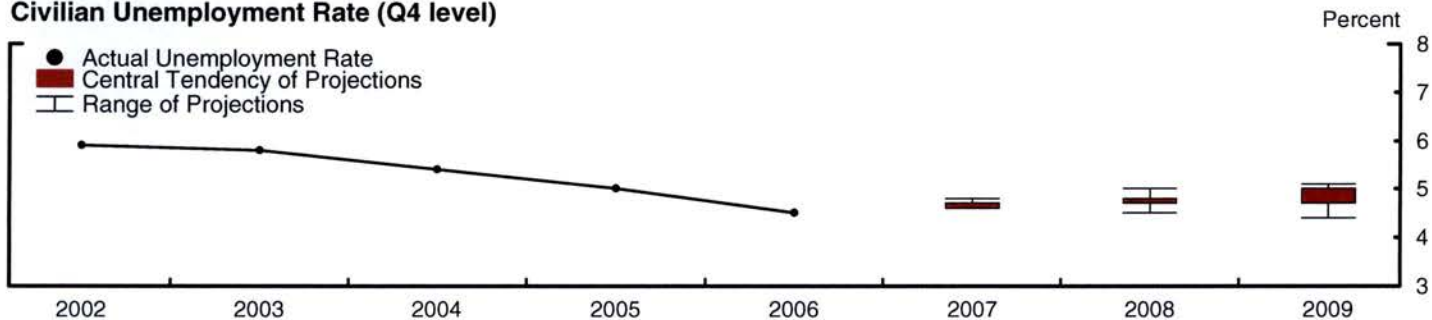
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>GDP Growth</b>			
<b>Central Tendency</b>	<b>(2.2 to 2.5)</b>	<b>(2.5 to 2.8)</b>	<b>(2.6 to 3.0)</b>
<i>(Central tendency of May projections)</i>	<i>(2.0 to 2.5)</i>	<i>(2.5 to 2.8)</i>	<i>(2.5 to 3.0)</i>
<b>Range</b>	<b>(2.0 to 2.7)</b>	<b>(2.5 to 3.0)</b>	<b>(2.0 to 3.1)</b>
<i>(Range of May projections)</i>	<i>(1.8 to 2.6)</i>	<i>(2.4 to 3.0)</i>	<i>(2.5 to 3.0)</i>
<b>Unemployment Rate</b>			
<b>Central Tendency</b>	<b>(4.6 to 4.7)</b>	<b>(4.7 to 4.8)</b>	<b>(4.7 to 5.0)</b>
<i>(Central tendency of May projections)</i>	<i>(4.7 to 4.8)</i>	<i>(4.7 to 4.9)</i>	<i>(4.7 to 5.0)</i>
<b>Range</b>	<b>(4.6 to 4.8)</b>	<b>(4.5 to 5.0)</b>	<b>(4.4 to 5.1)</b>
<i>(Range of May projections)</i>	<i>(4.5 to 4.9)</i>	<i>(4.6 to 5.0)</i>	<i>(4.6 to 5.1)</i>
<b>Core PCE Inflation</b>			
<b>Central Tendency</b>	<b>(2.0 to 2.2)</b>	<b>(1.8 to 2.0)</b>	<b>(1.6 to 2.0)</b>
<i>(Central tendency of May projections)</i>	<i>(2.1 to 2.3)</i>	<i>(1.8 to 2.1)</i>	<i>(1.6 to 2.0)</i>
<b>Range</b>	<b>(1.9 to 2.2)</b>	<b>(1.7 to 2.1)</b>	<b>(1.5 to 2.0)</b>
<i>(Range of May projections)</i>	<i>(2.0 to 2.3)</i>	<i>(1.8 to 2.4)</i>	<i>(1.5 to 2.3)</i>
<b>Total CPI Inflation</b>			
<b>Central Tendency</b>	<b>(3.1 to 3.6)</b>	<b>(2.1 to 2.3)</b>	<b>(2.0 to 2.3)</b>
<b>Range</b>	<b>(2.3 to 3.7)</b>	<b>(2.0 to 2.5)</b>	<b>(1.8 to 2.5)</b>

## Exhibit 2 Central Tendency and Range of June Economic Projections

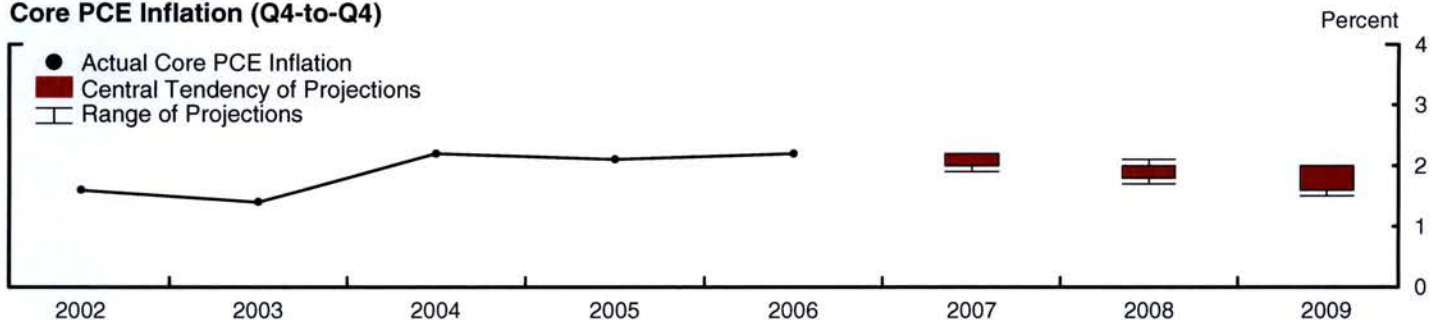
### GDP Growth (Q4-to-Q4)



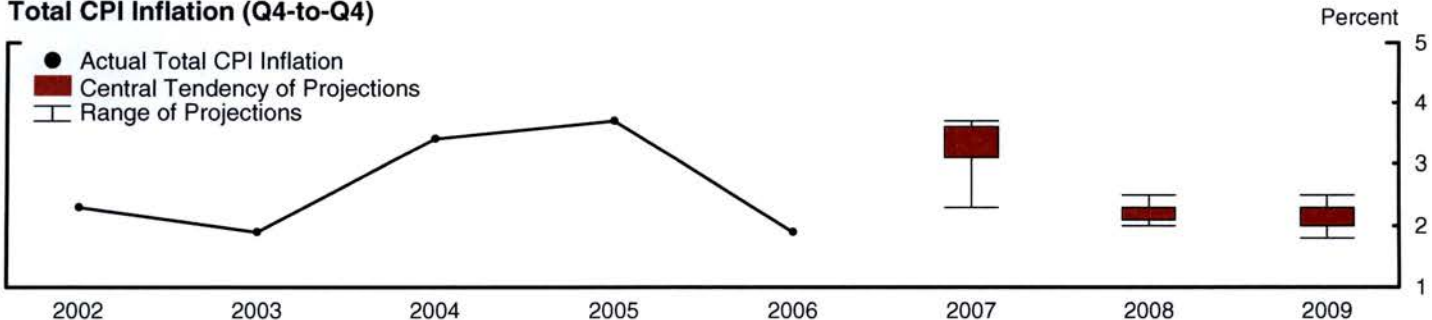
### Civilian Unemployment Rate (Q4 level)



### Core PCE Inflation (Q4-to-Q4)

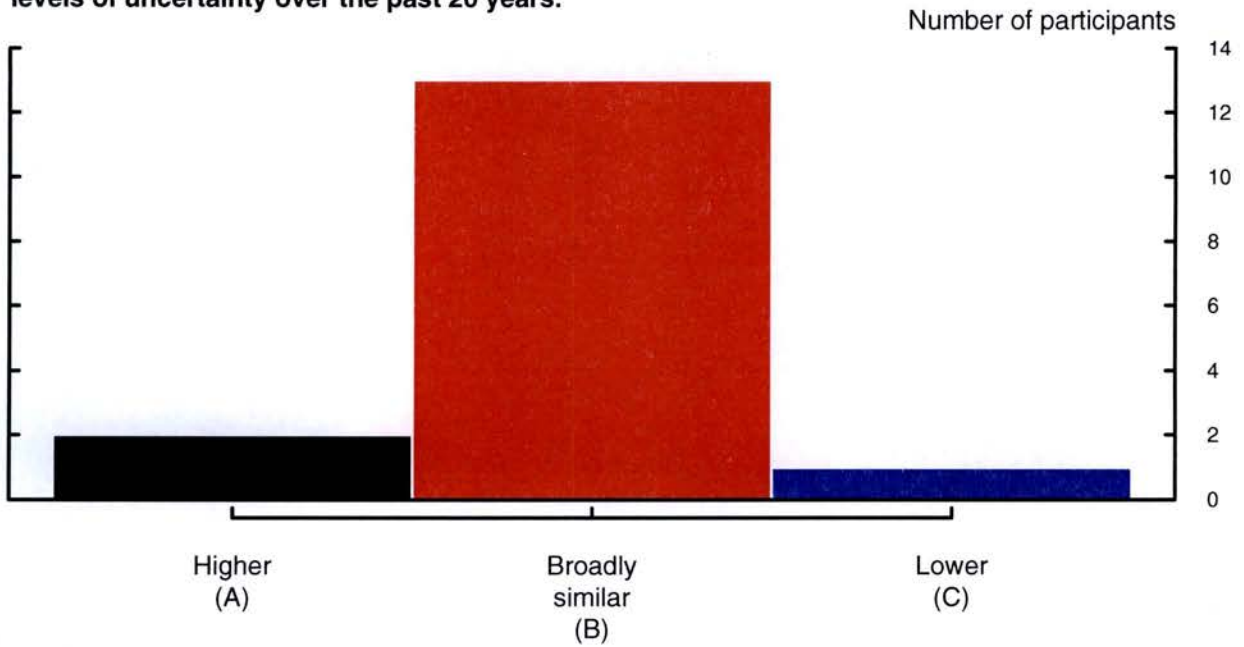


### Total CPI Inflation (Q4-to-Q4)

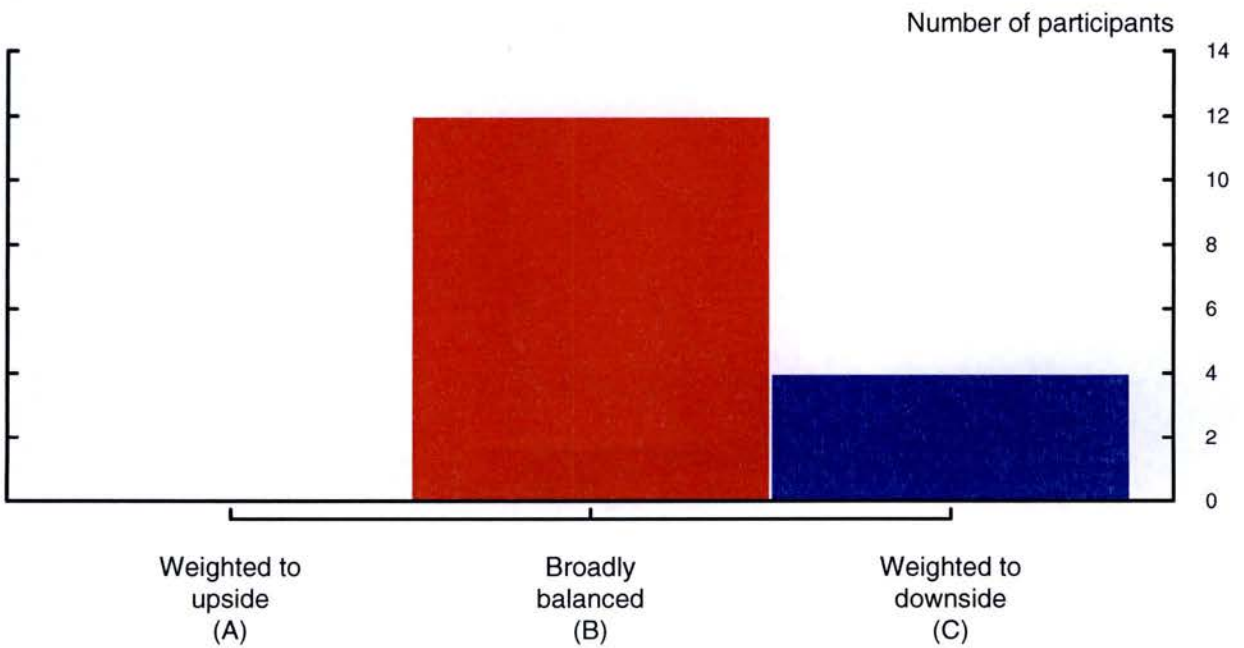


### Exhibit 3 Uncertainty and Risks- GDP Growth

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.

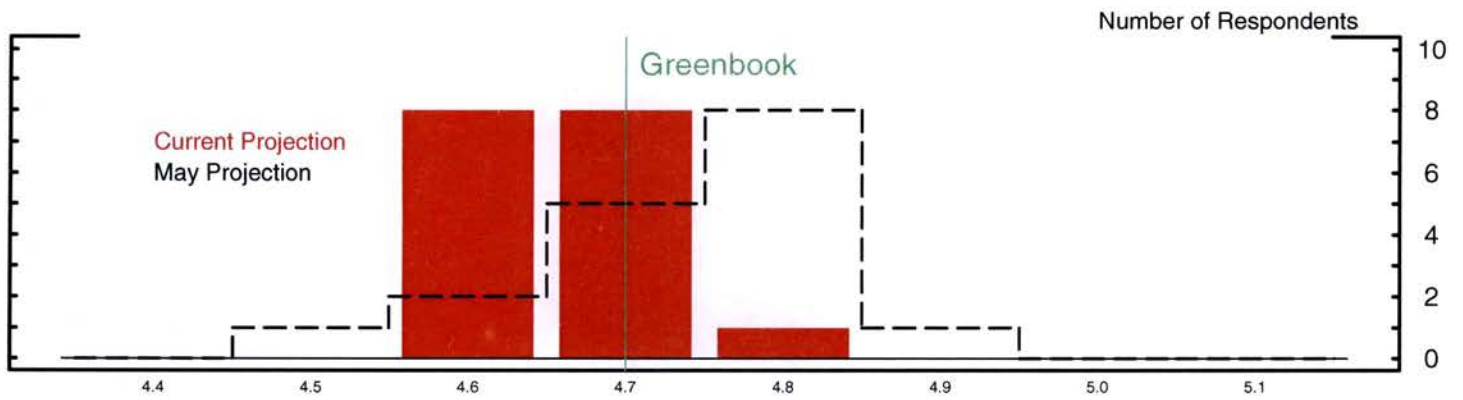


2(b): Please indicate your judgment of the risk weighting around your projections.

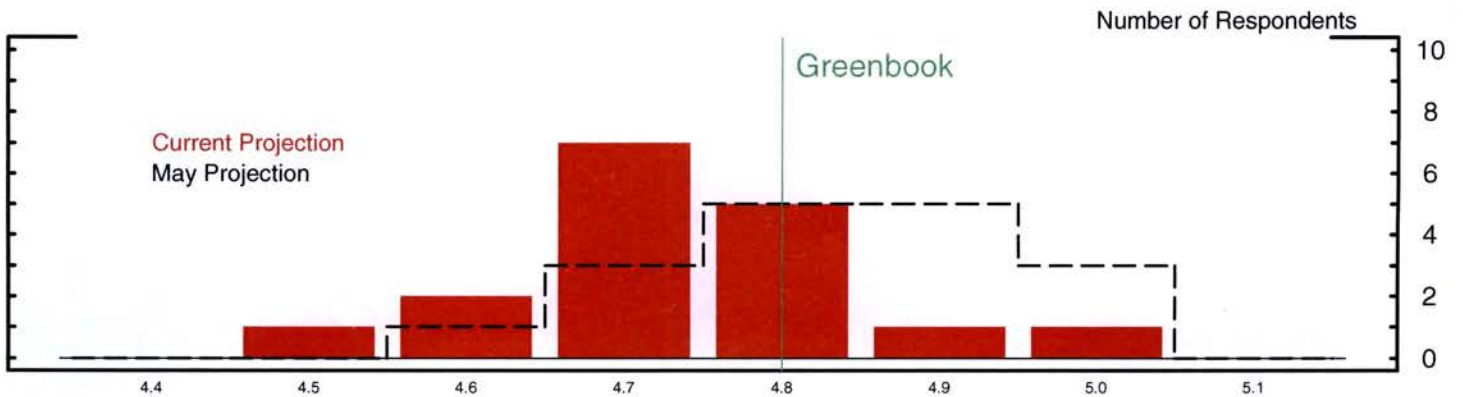


### Exhibit 4 Distribution of Participants' Unemployment Projections: 2007-2009

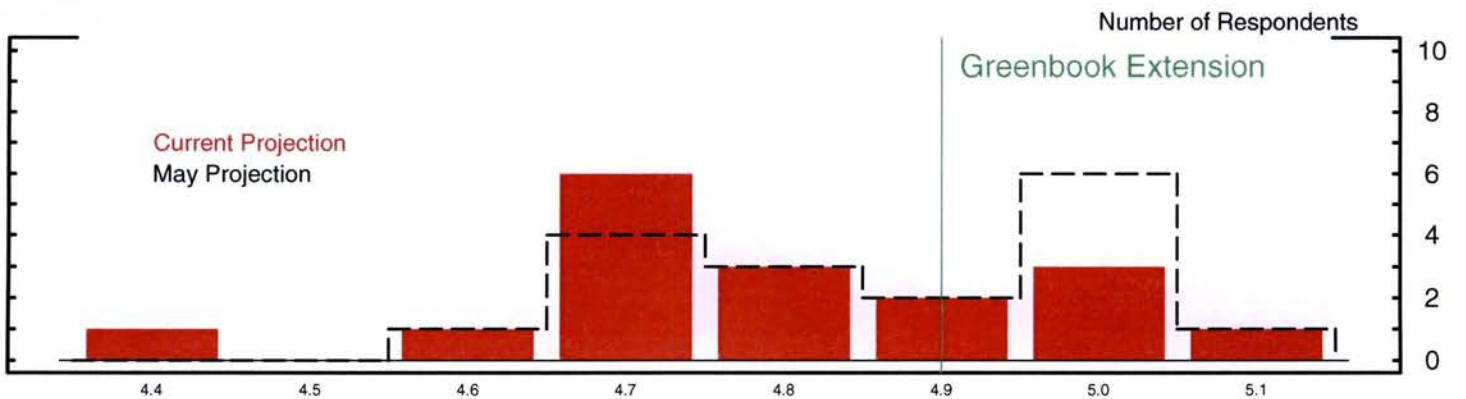
**Distribution of Unemployment Projections: 2007**



**Distribution of Unemployment Projections: 2008**

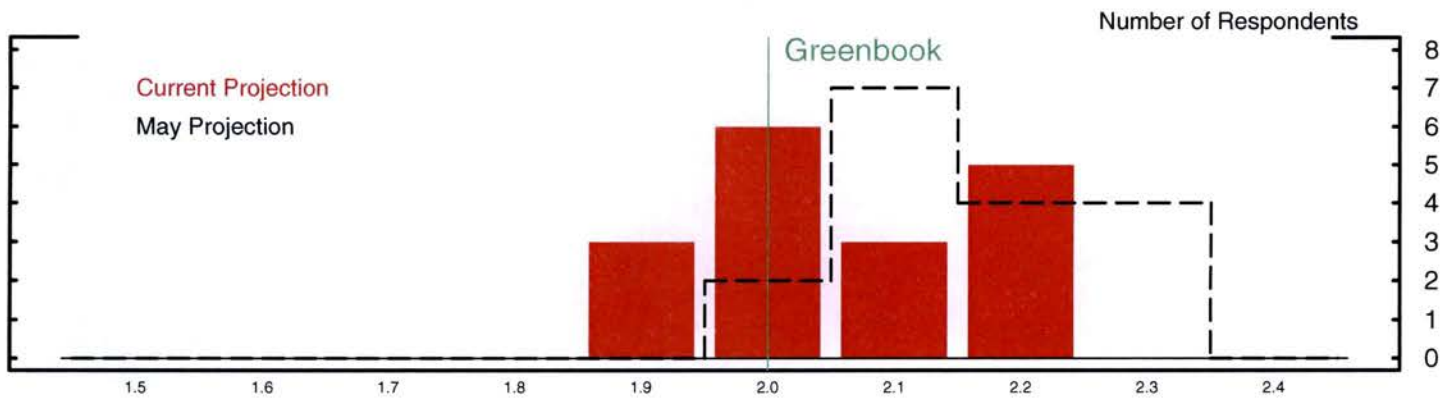


**Distribution of Unemployment Projections: 2009**

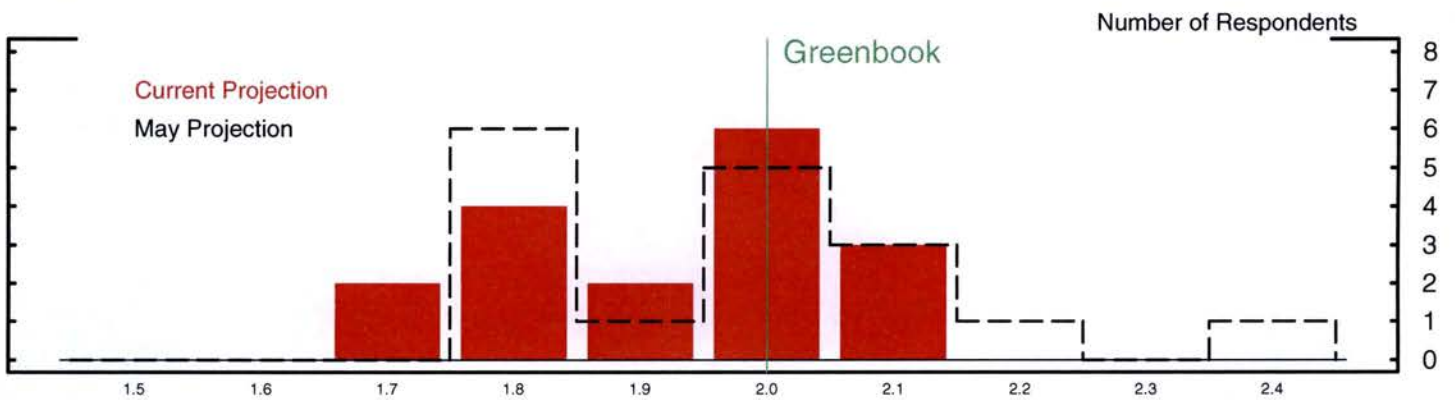


### Exhibit 5 Distribution of Participants' Core PCE Inflation Projections: 2007-2009

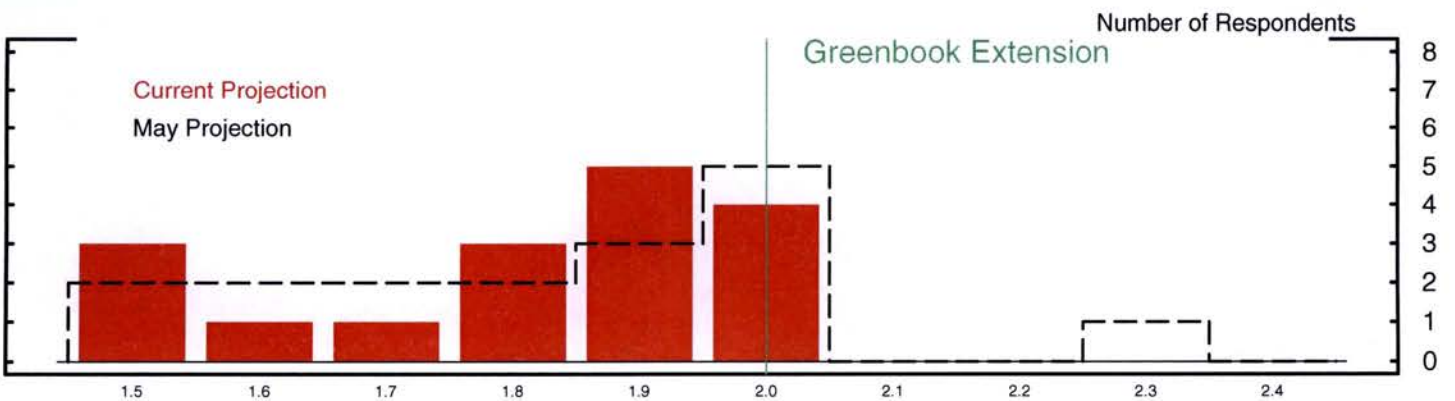
Distribution of Core PCE Inflation Projections: 2007



Distribution of Core PCE Inflation Projections: 2008



Distribution of Core PCE Inflation Projections: 2009



**Exhibit 6**  
**MONETARY POLICY REPORT ECONOMIC PROJECTIONS**  
**2007 PROJECTIONS**

<b>FOMC</b>			
	Range	Central Tendency	Staff
-----Percentage change, Q4 to Q4-----			
Nominal GDP February 2007	4½ to 5½ (4¾ to 5½)	4½ to 5 (5 to 5½)	4.8 (5.0)
Real GDP February 2007	2 to 2¾ (2¼ to 3¼)	2¼ to 2½ (2½ to 3)	2.2 (2.3)
Core PCE Prices February 2007	2 to 2¼ (2 to 2¼)	2 to 2¼ (2 to 2¼)	2.0 (2.2)
-----Average level, Q4, percent-----			
Unemployment rate February 2007	4½ to 4¾ (4½ to 4¾)	4½ to 4¾ (4½ to 4¾)	4.7 (4.8)

**2008 PROJECTIONS**

<b>FOMC</b>			
	Range	Central Tendency	Staff
-----Percentage change, Q4 to Q4-----			
Nominal GDP February 2007	4½ to 5½ (4¾ to 5½)	4¾ to 5 (4¾ to 5¼)	4.8 (4.8)
Real GDP February 2007	2½ to 3 (2½ to 3¼)	2½ to 2¾ (2¾ to 3)	2.5 (2.5)
Core PCE Prices February 2007	1¾ to 2 (1½ to 2¼)	1¾ to 2 (1¾ to 2)	2.0 (2.0)
-----Average level, Q4, percent-----			
Unemployment rate February 2007	4½ to 5 (4½ to 5)	about 4¾ (4½ to 4¾)	4.8 (4.9)

**Appendix 4: Materials used by Mr. Reinhart**



**Class I FOMC – Restricted Controlled FR**

*Material for*

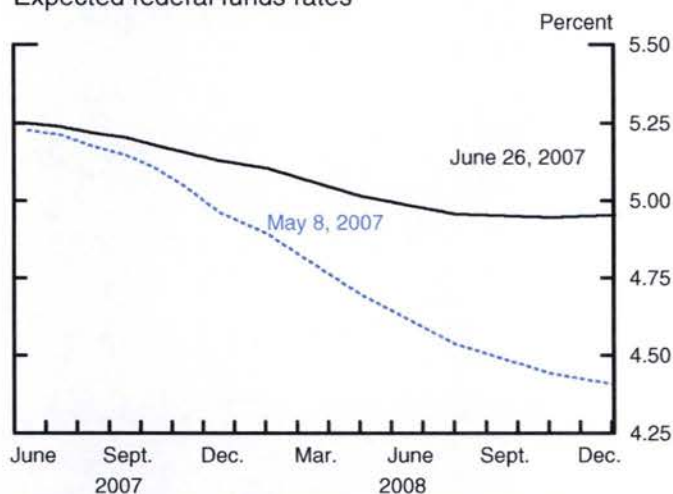
**FOMC Briefing on Monetary Policy Alternatives**

**Vincent Reinhart**

**June 27, 2007**

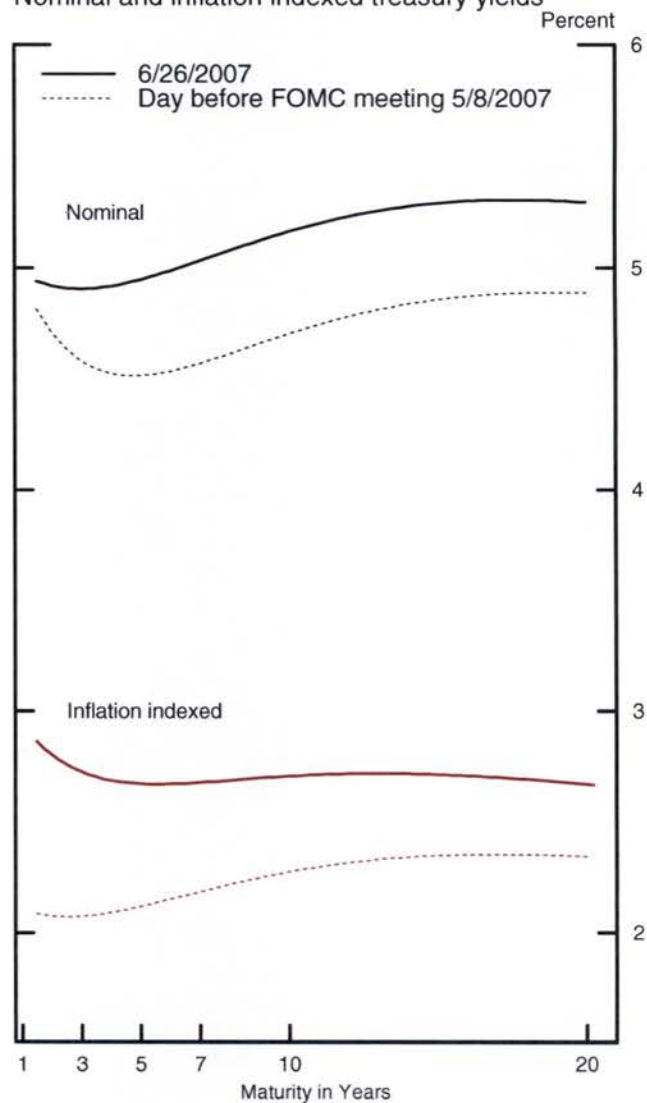
### Exhibit 1 Financial Market Developments

Expected federal funds rates

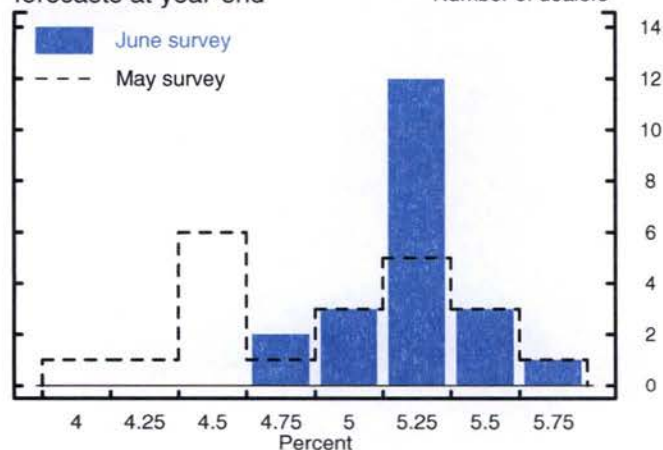


Note. Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.

Nominal and inflation indexed treasury yields

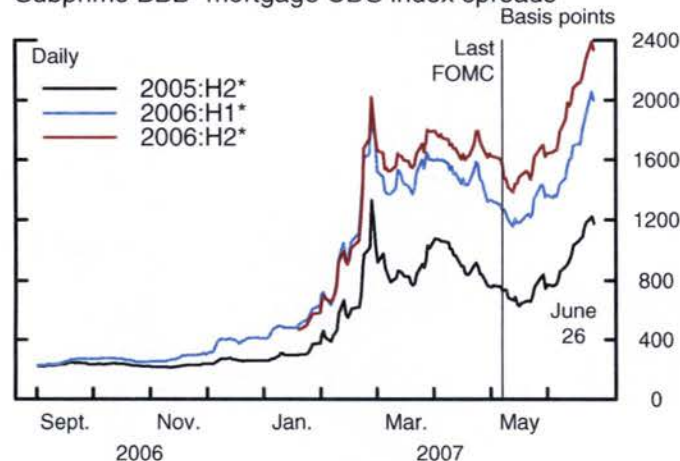


Distribution of primary dealers' federal funds rate forecasts at year-end



Source. FRBNY desk primary dealers' survey

Subprime BBB- mortgage CDS index spreads



\*Corresponds to pools of mortgages originated in that period.  
Note. Measured relative to Libor.  
Source: JP Morgan.

Change in selected financial market quotes

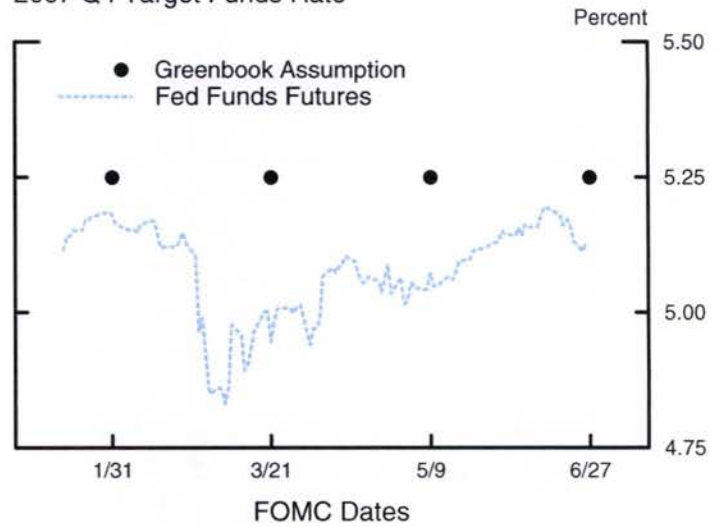
	May FOMC to Bluebook	Bluebook to Tuesday
Ten-year Treasury	54	-6
Ten-year Indexed Treasury	44	-3
S&P 500	0.96	-1.92

### Exhibit 2 Case for Alternative B

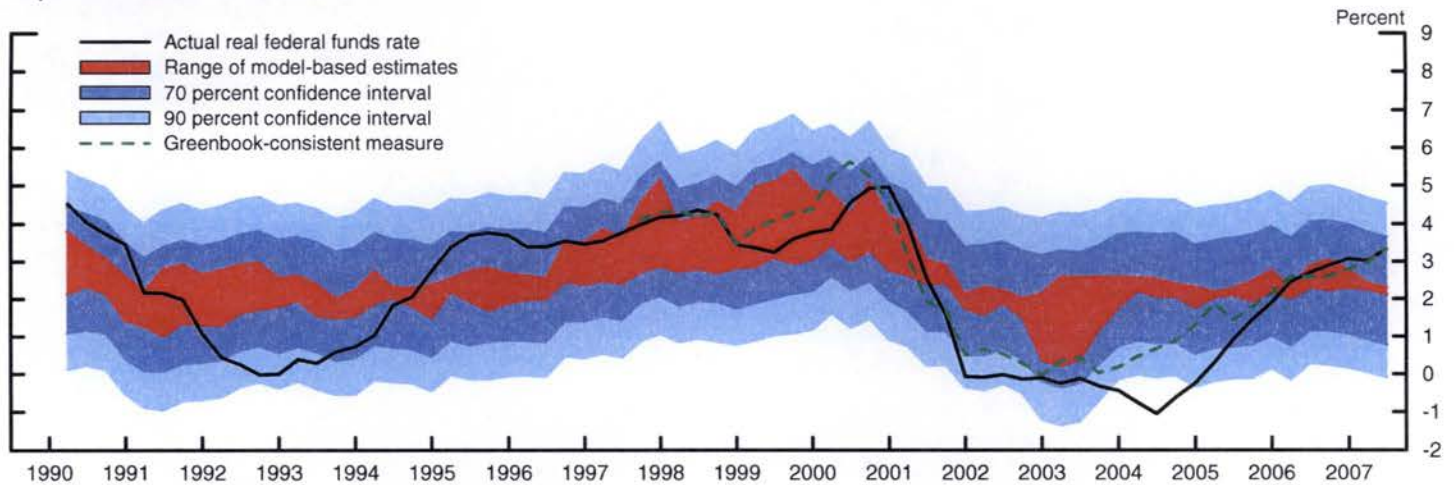
Staff Forecast

Real GDP Growth	2007	2008
May	2.0	2.4
<b>June</b>	<b>2.2</b>	<b>2.5</b>
Revision	0.2	0.1
Core PCE Inflation		
May	2.3	2.1
<b>June</b>	<b>2.0</b>	<b>2.0</b>
Revision	-0.3	-0.1

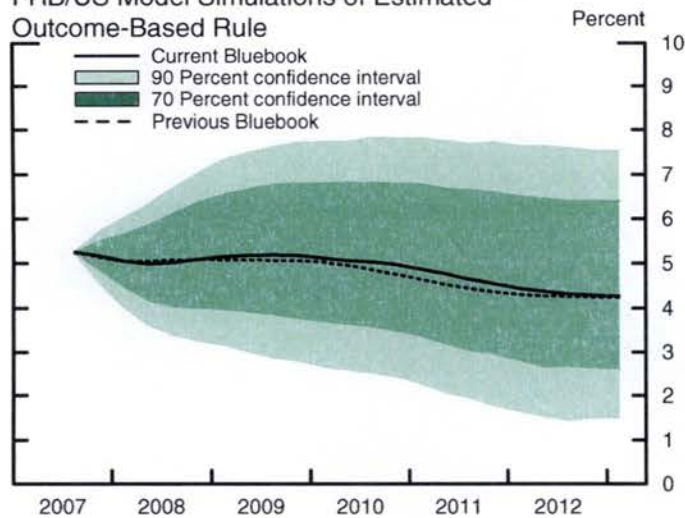
2007 Q4 Target Funds Rate



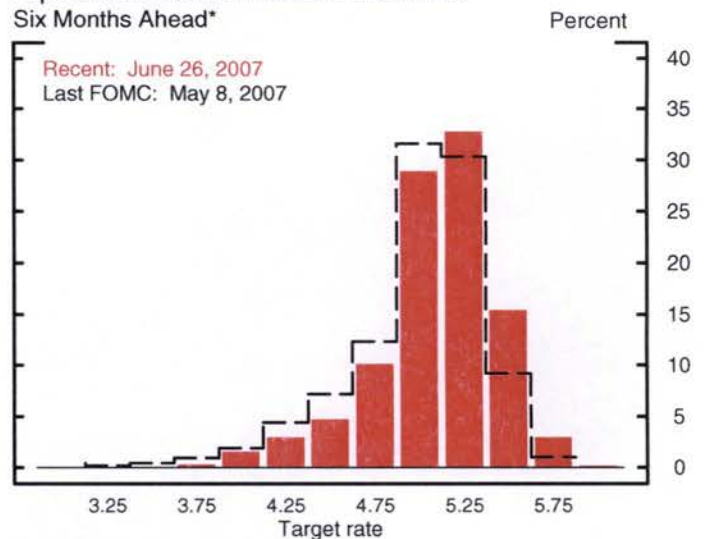
Equilibrium Real Federal Funds Rate



FRB/US Model Simulations of Estimated Outcome-Based Rule



Implied Distribution of Federal Funds Rate Six Months Ahead\*



\*Estimates from options on Eurodollar futures contracts, adjusted to estimate expectations for the federal funds rate.

**Exhibit 3**  
Wording of the Statement

	May FOMC	Revised Alternative B
1.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.
2.	Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.	The economy appears to have grown at a moderate pace during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over the coming quarters.
3.	Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.	Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.
4.	In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Unchanged]

Could leave misimpression about jumping-off point

Changed to make clear H1 averaging

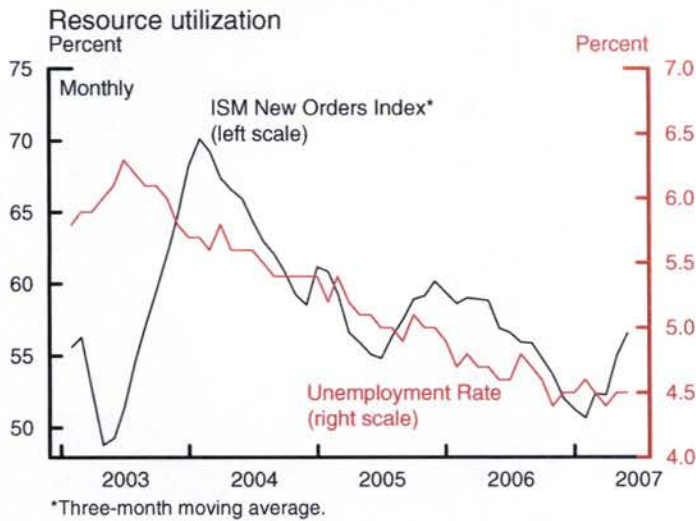
Added to downweight recent data

Twelve-month change in core PCE is 2 percent

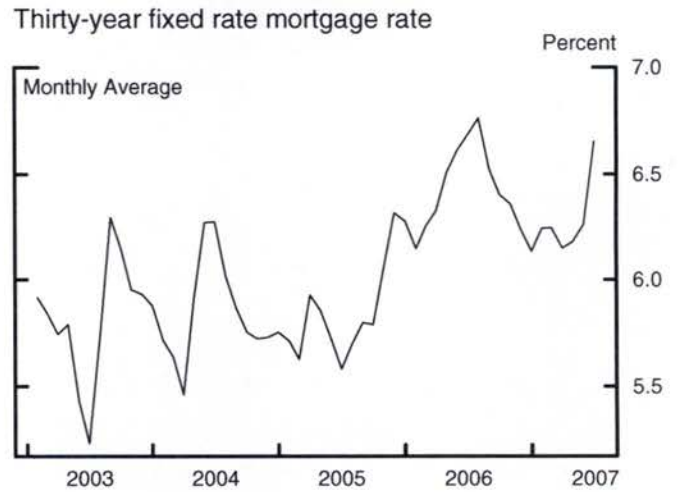
Reverted to May to emphasize policy stance hasn't changed

**Exhibit 4**

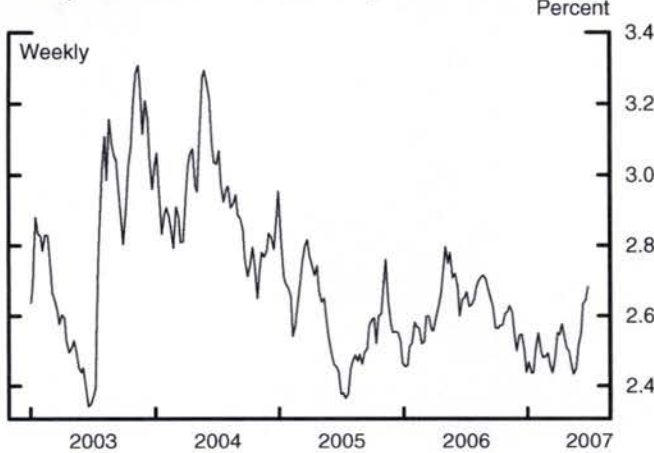
**Tendency Toward Alternative C**



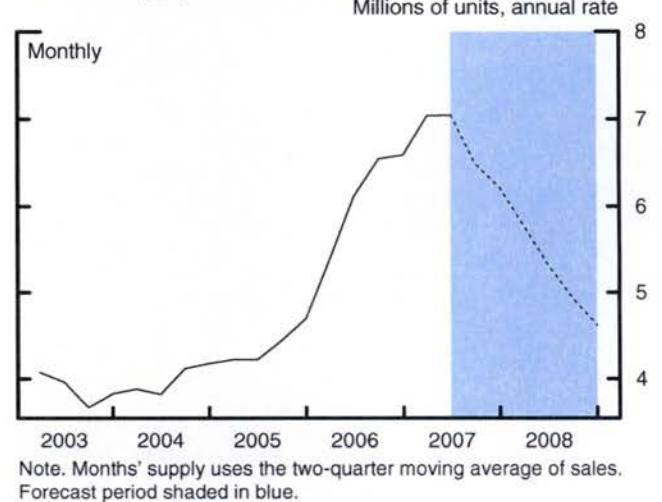
**Tendency Toward Alternative A**



**Five year forward inflation compensation**



**Months' supply of new homes**



**Statement**

- 2. Despite the ongoing adjustment in the housing sector, the economy appears to have grown at a moderate pace so far this year.
- 3. '...in combination with earlier increases in the prices of energy and other commodities...'

**Statement**

- 2. But ongoing weakness in the housing sector implies a significant risk that economic activity might grow more slowly than anticipated.
- 3. Core inflation has edged lower in recent months and is expected to remain moderate over the next year or so.
- 4. With this policy action, the Committee judges that the downside risk to economic growth now roughly balances the upside risk to inflation.

Class I FOMC – Restricted Controlled (FR)		Table 1: Alternative Language for the June 2007 FOMC Announcement		
	May FOMC	Alternative A	Alternative B	REVISSED Alternative C
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to <b>lower</b> its target for the federal funds rate <b>25 basis points to 5 percent</b> .	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to <b>raise</b> its target for the federal funds rate <b>25 basis points to 5½ percent</b> .
<b>Rationale</b>	2. Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.	So far this year, the economy appears to have grown at a moderate pace and seems likely to continue to do so over coming quarters. <b>But ongoing weakness in the housing sector implies a significant risk that economic activity might grow more slowly than anticipated.</b>	The economy appears to have grown at a moderate pace during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to <b>continue to</b> expand at a moderate pace over coming quarters.	Despite the ongoing adjustment in the housing sector, the economy appears to have grown at a moderate pace so far this year. The economy seems likely to <b>continue to</b> expand at a moderate pace over coming quarters.
	3. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.	Core inflation has edged lower in recent months and is expected to remain moderate over the next year or so. <b>However, the high level of resource utilization has the potential to add to inflation pressures going forward.</b>	Readings on core inflation have improved modestly in recent months. <b>However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.</b>	Although readings on core inflation have improved modestly in recent months, core inflation remains somewhat elevated. Inflation pressures seem likely to moderate over time, <b>but considerable uncertainty surrounds that judgment. Moreover, the high level of resource utilization, in combination with earlier increases in the prices of energy and other commodities, has the potential to sustain those pressures.</b>
<b>Assessment of Risk</b>	4. In these circumstances, the Committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	<b>With this policy action, the Committee judges that the downside risk to economic growth now roughly balances the upside risk to inflation.</b> Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Unchanged]	<b>Even after this action, the Committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected.</b> Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

**Appendix 7: Materials used by Mr. Reinhart**

**Class I FOMC - Restricted-Controlled (FR)**

*Material for*

**FOMC Briefing on FOMC Communications**

**Vincent R. Reinhart**  
**June 28, 2007**



## Exhibit 1

**Enhanced Economic Projections**

- 1 Did the changes to the projections process address the concerns expressed in answer to the May survey?

*Those concerns related to:*

- Sharing forecast submissions
- Providing information on the federal funds rate path
- Characterizing uncertainty and risks about the forecast

- 2 In what form should the projections be released?

*Option 1*

Stand-alone section in the minutes, reproduced in the Monetary Policy Report

*Option 2*

Brief reference in the minutes, main narrative in an annex or separate document, reproduced in the Monetary Policy Report

*Option 3*

Fully integrated discussion in the minutes and separate discussion in the Monetary Policy Report

- 3 When should the projections be finalized?

*The choices include:*

- the day of the meeting
- the end of the week of the meeting
- as late as practicable to be close to the official release of the document

## Exhibit 2

**Minutes**

4 How do you assess the benefits and costs of further expediting the minutes?

**Potential Benefits**

- Will be more of an aid to the private sector in understanding the current outlook
- You will be able to use material from the minutes for public statements more promptly
- May facilitate making the post-meeting statement shorter or less substantive.

**Potential Costs**

- Increased effort to ensure your schedules align with drafting and approval
- Might lead to more compromises that make the minutes less informative
- More staff resources will be needed

5 How do you assess the current content of the minutes, including the staff's description of recent data?

Exhibit 3  
(Last page)

**Post-Meeting Statement**

- 6 What is the appropriate role of the statement in light of the changes to the Committee's other communication devices?
- 7 Should the statement provide forward-looking guidance on the:
  - near-term prospects for the target federal funds rate?  
(The left hand side of the policy rule)
  - medium-term prospects toward fostering the dual mandate?  
(The right hand side of the policy rule)
- 8 What policy rate assumption should the statement be based upon?
  - appropriate path of monetary policy
  - the path expected in financial markets
  - an unchanged federal funds rate
- 9 What is the appropriate degree of pre-meeting consultation with participants on the statement?
- 10 Should the current approval process for the statement be continued?