Appendix 1: Materials used by Mr. Potter and Ms. Logan

Class II FOMC – Restricted (FR)

Material for Briefing on

Financial Developments and Open Market Operations

Simon Potter and Lorie Logan

December 16, 2014

Class II FOMC – Restricted (FR)

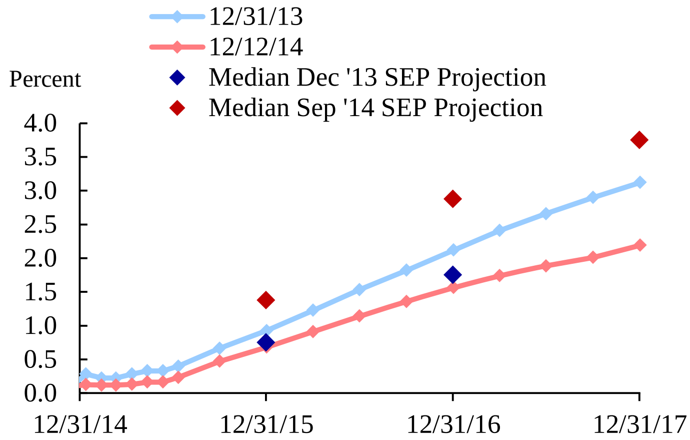
Exhibit 1

(1) Domestic and Foreign Asset Performance Relative to Year-End Surveys

	Current Levels	Forecast for End-2014	Forecast Error
Sovereign Yields			
U.S. 10-Year	2.08%	3.23%	-115 bps
German 10-Year	0.62	2.21	-159
Japanese 10-Year	0.40	0.98	-58
Equities			
S&P 500 Index	2002	1950	+2.7%
Currencies & Oil			
Euro-Dollar	$1.25	$1.28	-2.6%
Dollar-Yen	¥119	¥106	+12.6
Brent Crude Oil	$62	$102	-39.4

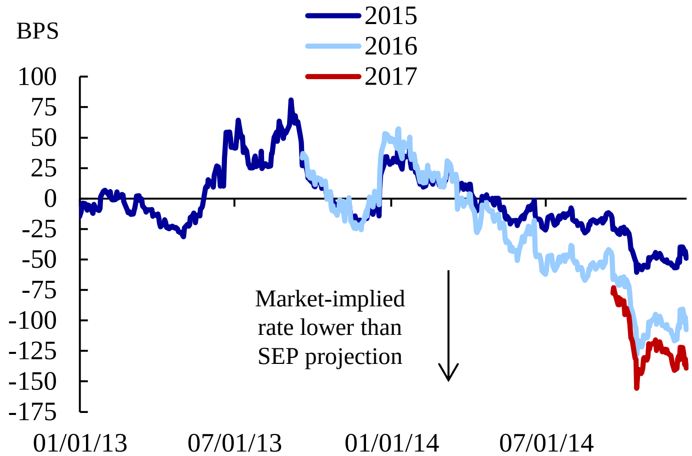
Source: Bloomberg, Blue Chip, Consensus Economics

(2) Implied Federal Funds Rate Path*



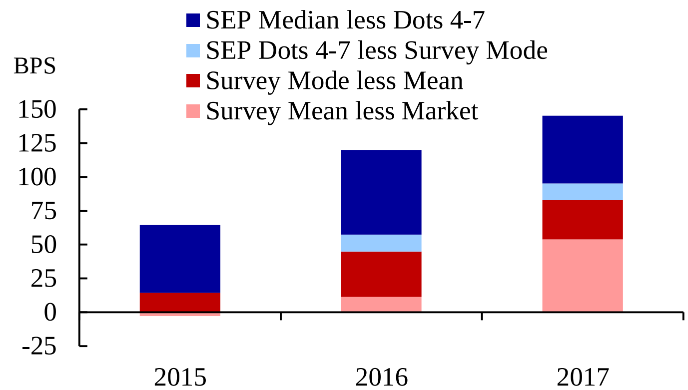
*Derived from federal funds futures and Eurodollar futures.
Source: Bloomberg, Federal Reserve Bank of New York, Federal Reserve Board of Governors

(3) Spread Between Market-Implied Rate and Median SEP Projection



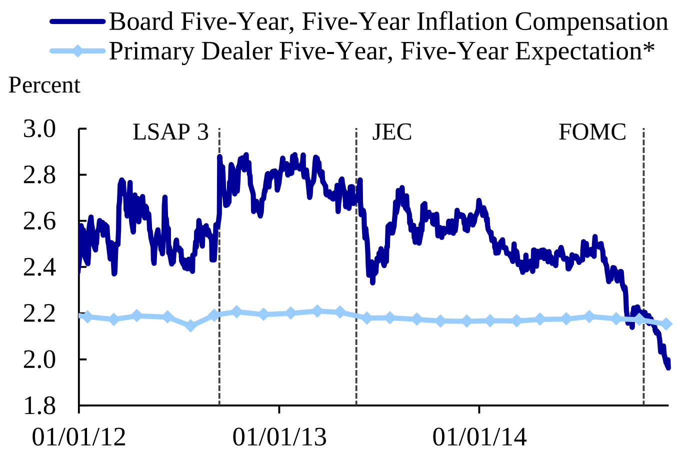
Source: Bloomberg, Federal Reserve Board of Governors

(4) Differences Between Year-End Federal Funds Rate Projections*



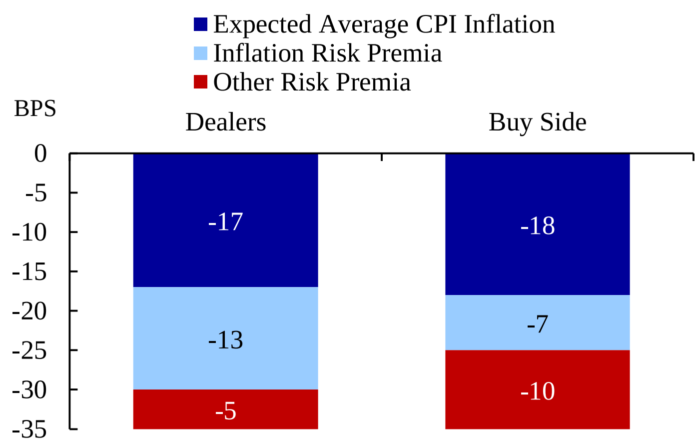
*Based on all responses to Dec '14 Survey of Primary Dealers and Survey of Market Participants.
Source: Bloomberg, Federal Reserve Bank of New York, Federal Reserve Board of Governors

(5) Measures of U.S. Inflation Expectations



*Average of PDF-implied means for five-year CPI inflation, five years ahead.
Source: Federal Reserve Board of Governors, Federal Reserve Bank of New York

(6) Decomposition of the Decline in the Five-Year, Five-Year Forward Breakeven*



*From 09/02/14 to 12/02/14. Average of responses shown.
Source: Federal Reserve Bank of New York

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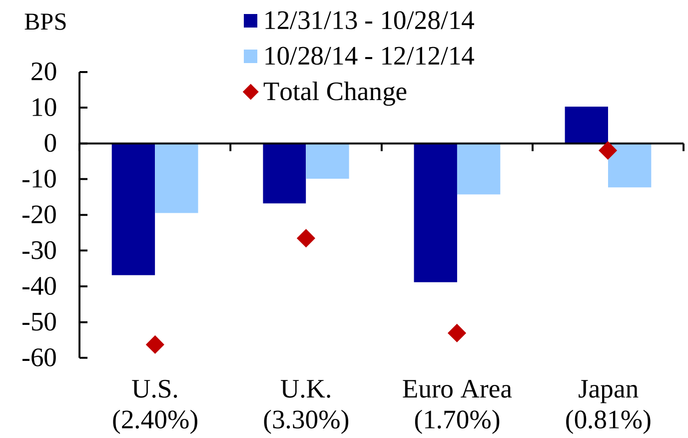
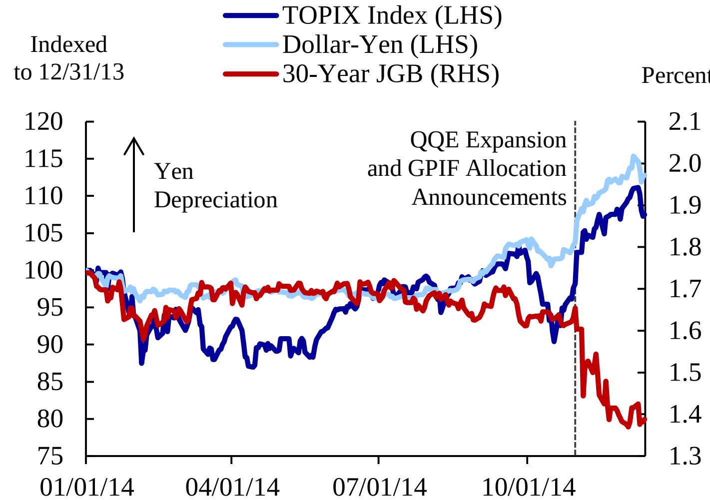
Exhibit 2

(7) Changes in Five-Year, Five-Year Forward Inflation Swaps*



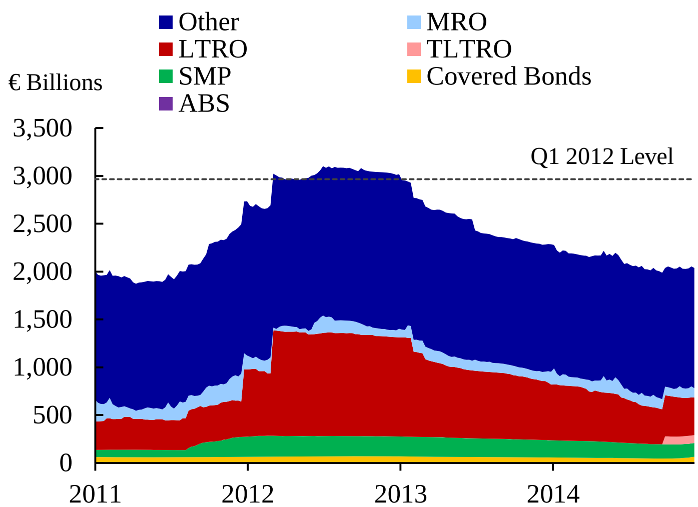
*Levels as of 12/12/14 in parentheses.
Source: Barclays

(8) Japanese Asset Performance



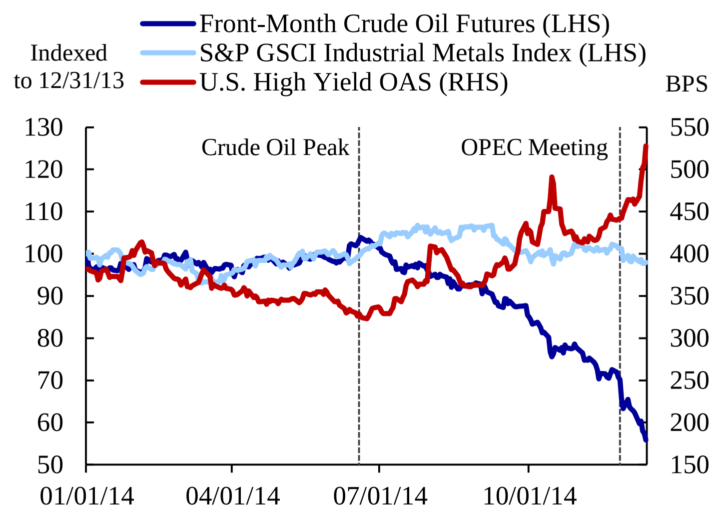
Source: Bloomberg

(9) ECB Assets



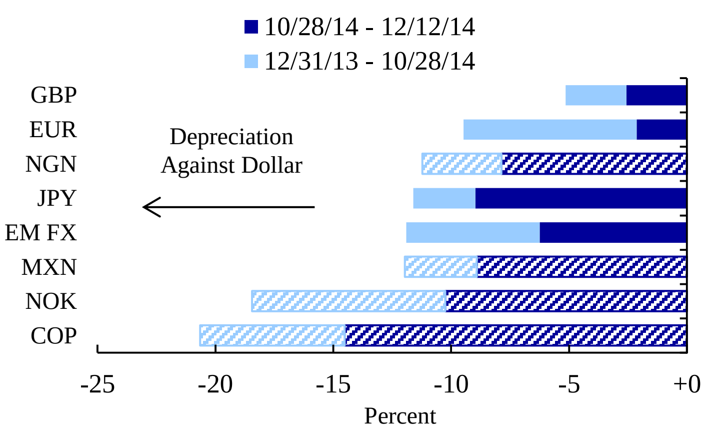
Source: Haver Analytics, European Central Bank

(10) Commodities and HY OAS Performance



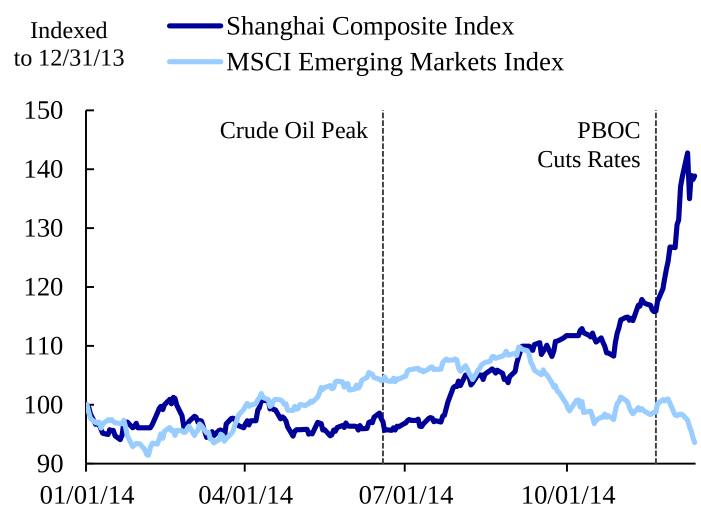
Source: Bloomberg, Barclays

(11) Currency Performance Against the Dollar*



*DXY dollar index appreciated by 10.4 percent since 12/31/13 and 3.5 percent since 10/28/14. The Russian ruble depreciated by 43.5 percent since 12/31/13 and 27.1 percent since 10/28/14. Dashed bars denote prominent oil exporters.
Source: Bloomberg, J.P. Morgan

(12) Emerging Market Equity Indices



Source: Bloomberg, MSCI

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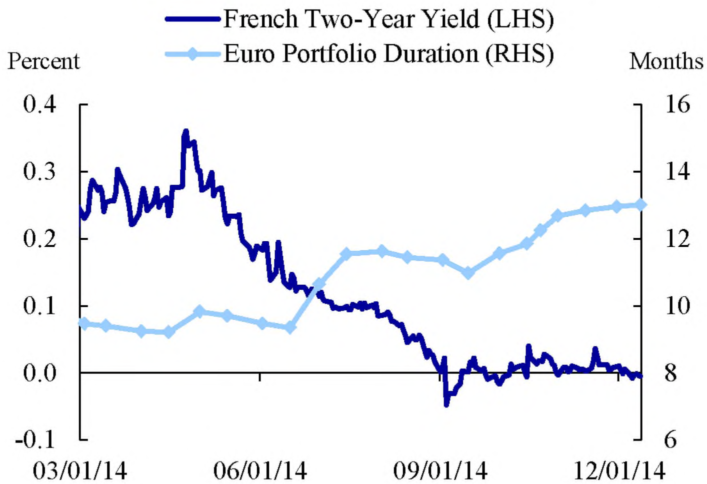
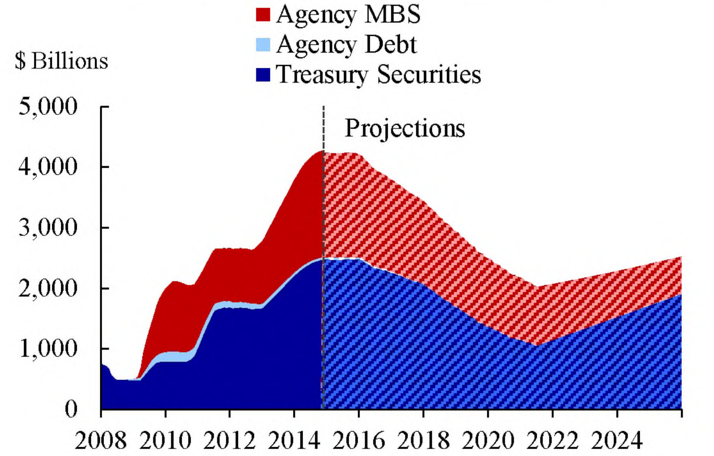
Exhibit 3

(13) Euro Foreign Reserves Portfolio



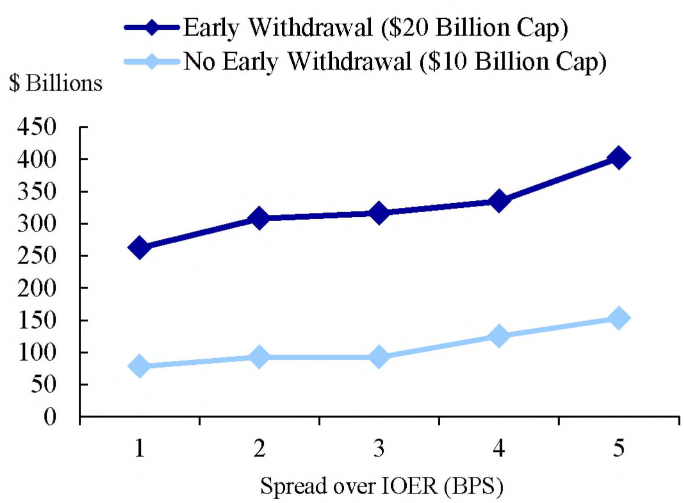
Source: Bloomberg, Federal Reserve Bank of New York

(14) Domestic SOMA Portfolio Holdings



Source: Federal Reserve Board of Governors (H.4.1), Federal Reserve Bank of New York

(15) TDF Allotment at Different Spreads Over IOER



Source: Federal Reserve Board of Governors

(16) Term and ON RRP Testing Changes

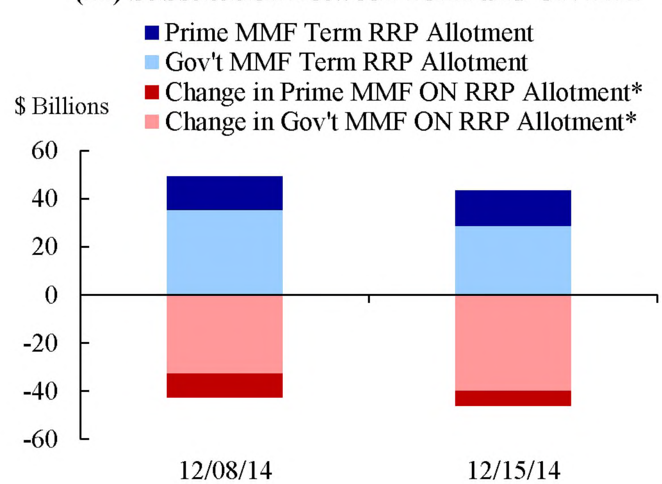
- Term operations over year-end
  - Operation schedule
    - $50 billion offered on 12/08
    - $50 billion offered on 12/15
    - $100 billion offered on 12/22
    - $100 billion offered on 12/29
  - All operations mature on 01/05/15
  - Single-price auction with 10-BPS max bid
- Changes to ON RRP offering rate
  - 11/03 – 11/14: 3 BPS
  - 11/17 – 11/28: 7 BPS
  - 12/01 – 12/12: 10 BPS
  - 12/15 and after: 5 BPS

(17) Term RRP Operation Results

	12/08/14	12/15/14
Bids ($ Billions)		
Accepted	50 [40 bids]	50 [45 bids]
Submitted	102 [71 bids]	75 [68 bids]
Rate (BPS)		
Stop-out	8	7
High	10	10
Low	3	1
Pro-Rata Allocation at Stop-out Rate	92%	94%

Source: Federal Reserve Bank of New York

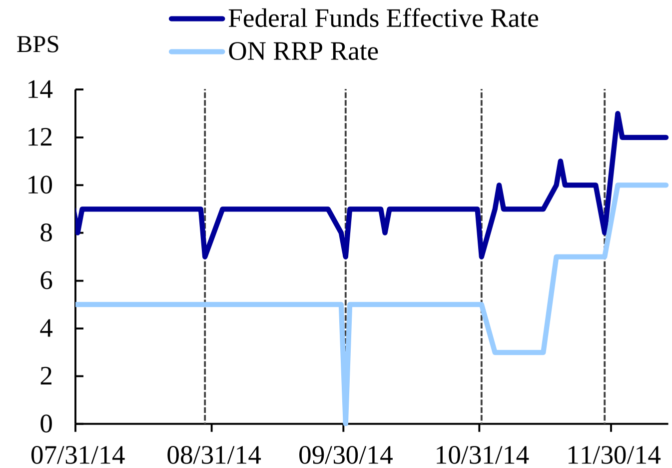
(18) Substitution Between Term and ON RRP



*One-day change in ON RRP allotment from the previous day.
Source: Federal Reserve Bank of New York

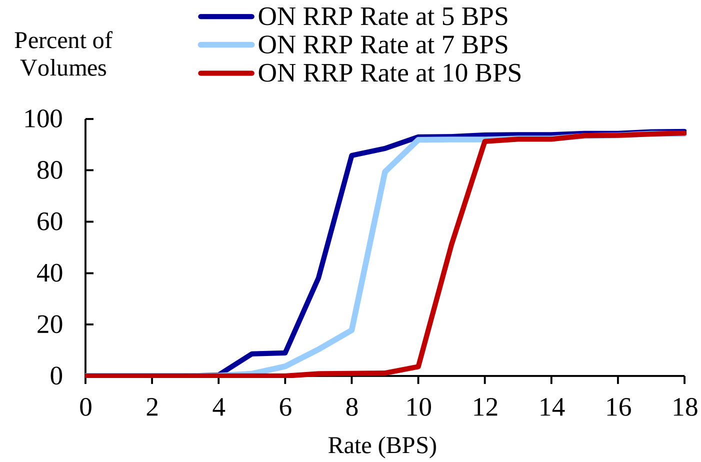
Class II FOMC – Restricted (FR) Exhibit 4 (Last)

(19) Overnight Interest Rates*



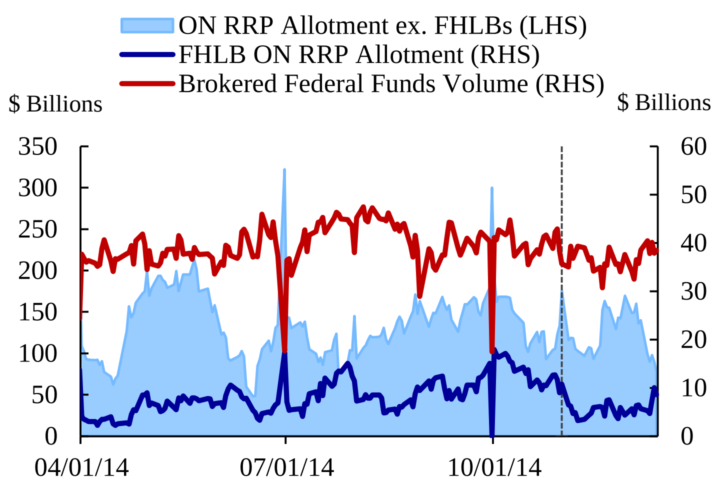
*Trip wires indicate month-ends.
Source: Federal Reserve Bank of New York

(20) Cumulative Distribution of Brokered Federal Funds Volumes, by Rate



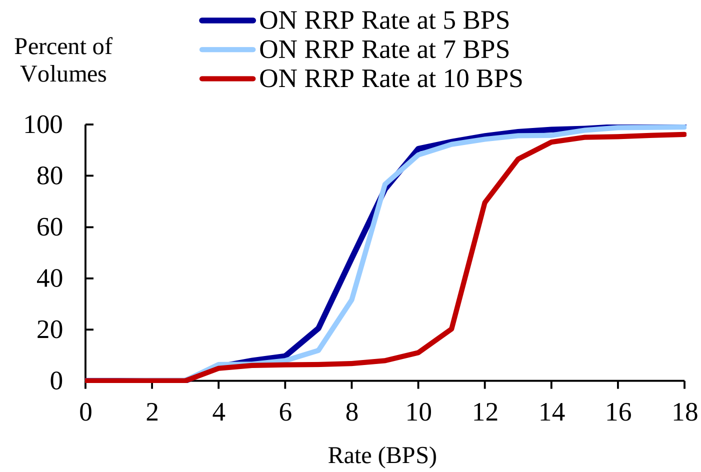
Source: Federal Reserve Bank of New York

(21) ON RRP and Federal Funds Volumes*



*Trip wire indicates beginning of ON RRP offering rate changes.
Source: Federal Reserve Bank of New York

(22) Cumulative Distribution of Triparty Repo Volumes, by Rate



Source: Federal Reserve Bank of New York

(23) ON RRP Testing Resolution

- Staff recommends extending ON RRP testing through the end of January 2016
  - Extending testing could further improve understanding
  - Ending testing could result in frictions in re-establishing counterparty relationships that may hamper efficacy at beginning of normalization
  - Ending testing could be read as suggesting that normalization remains a long way off
  - Extending testing promotes operational readiness
- Draft resolution, on separate handout, has minor wording changes and maintains the 0-to-5-basis-point range

(24) Current and Prospective Expanded Counterparties*

	Current		Applied**	
	Number of Firms	AUM ($ Bil)	Number of Firms	AUM ($ Bil)
Prime MMFs	62	1,509	4	45
Municipal MMFs	0	0	2	24
Gov't MMFs	32	596	6	75
FHLBs	4	n/a	5	n/a
Other GSEs	2	n/a	1	n/a
Banks	17	n/a	7	n/a
Total	117	2,105	25	144

*AUM as of end-October 2014.
**Excludes eight firms that applied but did not meet eligibility requirements and one that withdrew its application.
Source: Federal Reserve Bank of New York, SEC Form N-MFP

Appendix 2: Materials used by Ms. Logan

Class II FOMC – Restricted (FR)

Overnight Reverse Repurchase Agreement Resolution

December 16, 2014

Proposed Resolution on Overnight Reverse Repurchase Agreements

"The Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of overnight reverse repurchase operations involving U.S. government securities for the purpose of further assessing the appropriate structure of such operations in supporting the implementation of monetary policy during normalization. The reverse repurchase operations authorized by this resolution shall be (i) conducted at an offering rate that may vary from zero to five basis points; (ii) for an overnight term or such longer term as is warranted to accommodate weekend, holiday, and similar trading conventions; (iii) subject to a per-counterparty limit of up to $30 billion per day; (iv) subject to an overall size limit of up to $300 billion per day; and (v) awarded to all submitters (A) at the specified offering rate if the sum of the bids received is less than or equal to the overall size limit, or (B) at the stop-out rate, determined by evaluating bids in ascending order by submitted rate up to the point at which the total quantity of bids equals the overall size limit, with all bids below this rate awarded in full at the stop-out rate and all bids at the stop-out rate awarded on a pro rata basis, if the sum of the counterparty offers received is greater than the overall size limit. The Chair must approve any change in the offering rate within the range specified in (i) and any changes to the per-counterparty and overall size limits subject to the limits specified in (iii) and (iv). The System Open Market Account manager will notify the FOMC in advance about any changes to the offering rate, per-counterparty limit, or overall size limit applied to operations. These operations shall be authorized for one additional year beyond the previously authorized end date—that is, through January 29, 2016."

Appendix 3: Materials used by Messrs. Stevens and Erceg

Class II FOMC – Restricted (FR)

Material for

Staff Presentation on the Economic and Financial Situation

John Stevens and Christopher Erceg

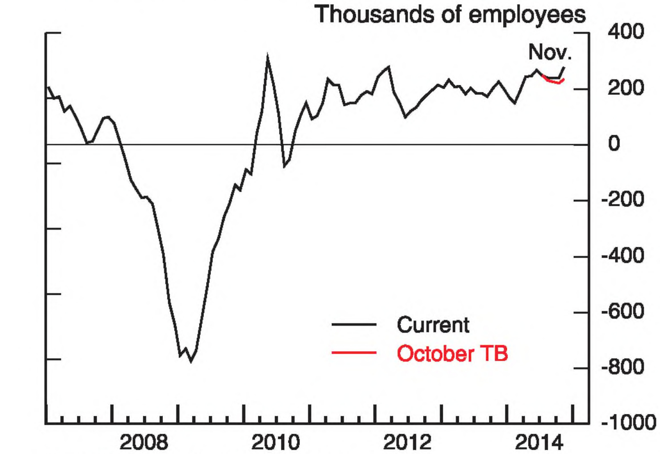
December 16, 2014

Class II FOMC - Restricted (FR)

Exhibit 1

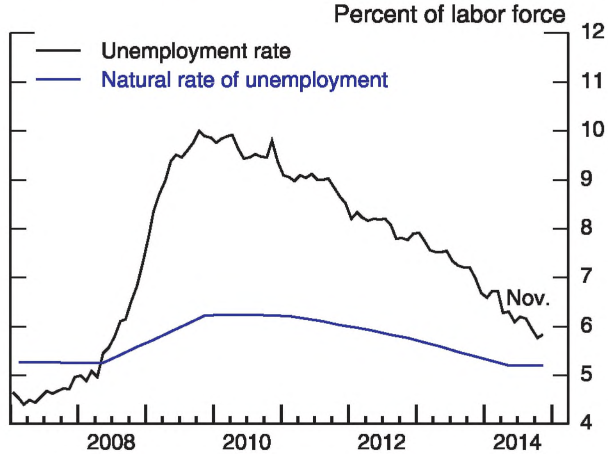
Labor Market

1. Change in Payroll Employment

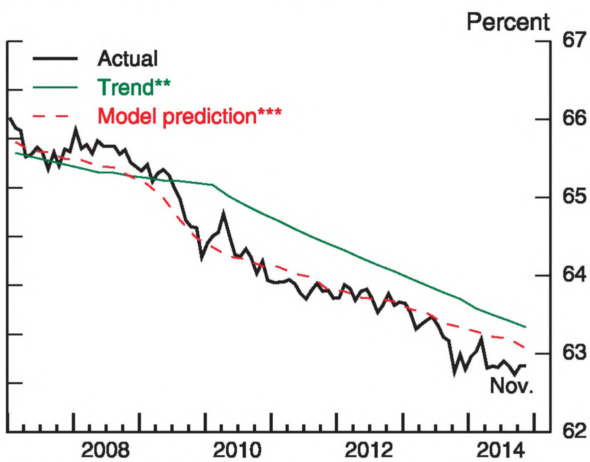


Note: Three-month moving average.

2. Unemployment Rate

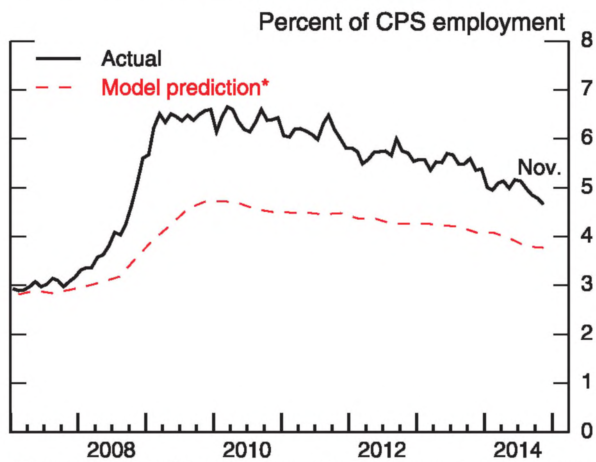


3. Labor Force Participation Rate*



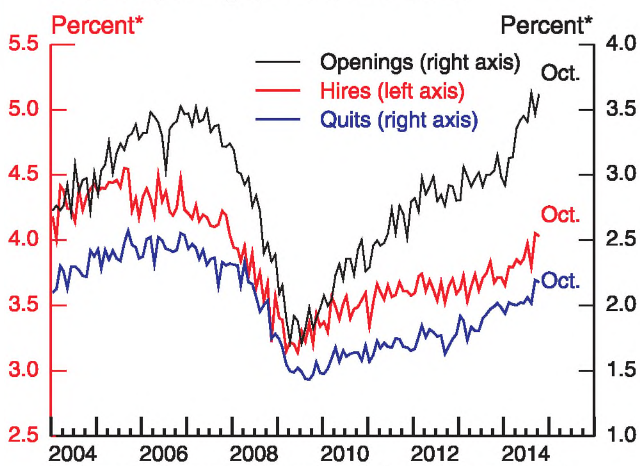
*Adjusted to account for changes in population weights.
**Adjusted for effect of EUC and extended benefit programs.
***Regression of LFPR on the output gap.

4. Part Time for Economic Reasons



*Regression of Part Time for Economic Reasons on the output gap.

5. Job Openings, Hires, and Quits



*For openings, percent of private payroll employment plus job openings; for hires and quits, percent of private payroll employment.

6. Reserve Bank Inquiries of District Business Contacts

	Percent		
	Jan. 2013	Jan. 2014	Dec. 2014
Plan to increase employment	38	48	52
Plan to raise starting pay*	11	22	27
Cannot find workers w/ required skills	23	30	41

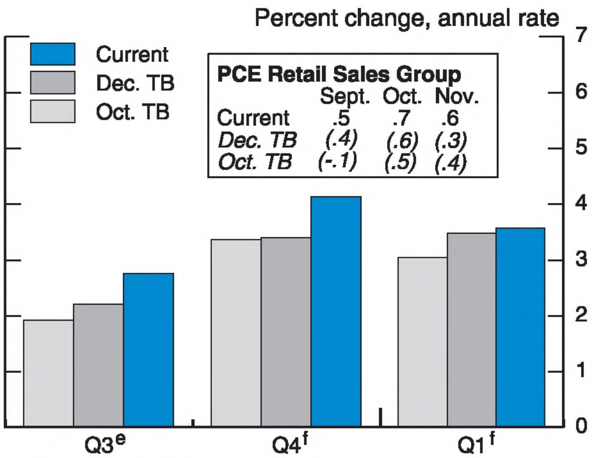
Note: Average across Federal Reserve Districts.
*As a share of firms planning to increase employment.

Class II FOMC - Restricted (FR)

Exhibit 2

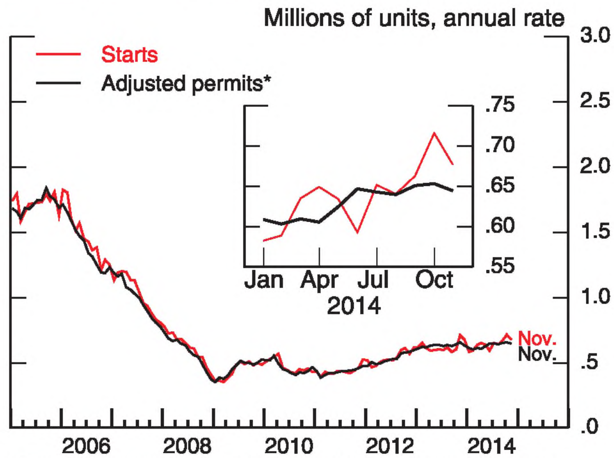
Recent Developments

1. Real PCE



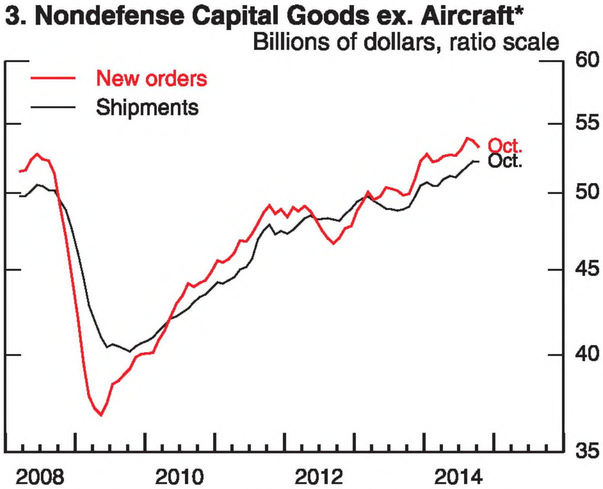
e: Staff estimate. f: Staff forecast.

2. Single-family Housing Starts and Permits



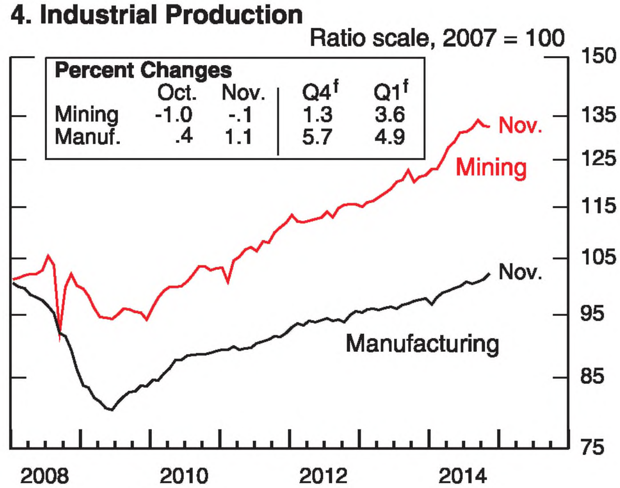
*Permit issuance plus total starts outside of permit-issuing areas.

3. Nondefense Capital Goods ex. Aircraft*



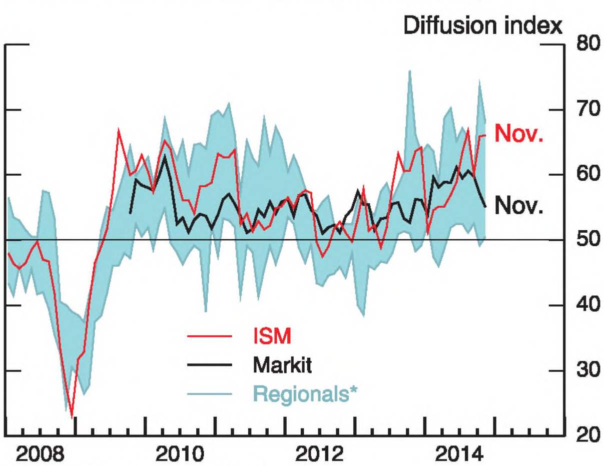
*Three-month moving averages. Weighted by share of total shipments that is purchased for private business investment.

4. Industrial Production



f: Staff forecast, annual rate.

5. New Orders Indexes: Manufacturing



*Range of six regional surveys.

6. Near-Term Outlook

(Percent change, annual rate)

	2014		2015
	Q3^e	Q4^f	Q1^f
1. Real GDP	4.6	2.6	2.5
2. Dec. TB	*(4.1)*	*(2.2)*	*(2.4)*
3. Oct. TB	*(2.7)*	*(3.0)*	*(2.3)*
4. PDFP	3.6	4.0	3.2
5. Dec. TB	*(3.1)*	*(3.4)*	*(3.1)*
6. Oct. TB	*(2.8)*	*(3.5)*	*(2.7)*

e: Staff estimate. f: Staff forecast.

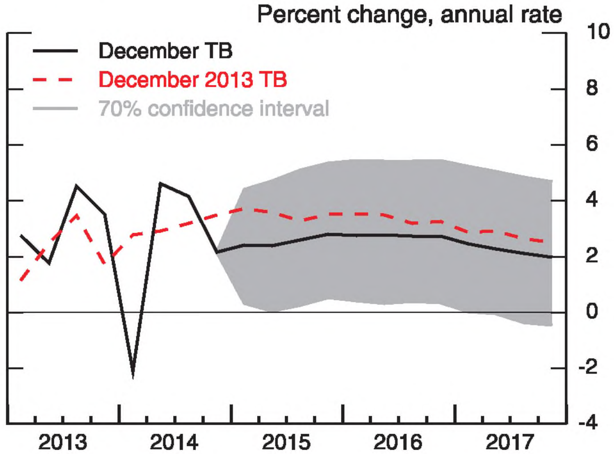
Class II FOMC - Restricted (FR)

Exhibit 3

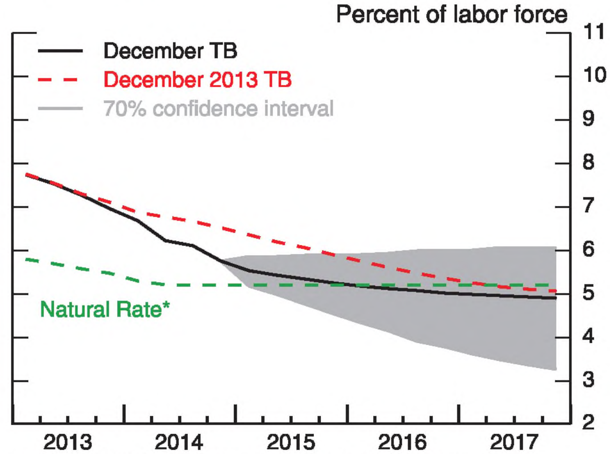
Medium-Term Outlook

Confidence Intervals Based on FRB/US Stochastic Simulations

1. Real GDP

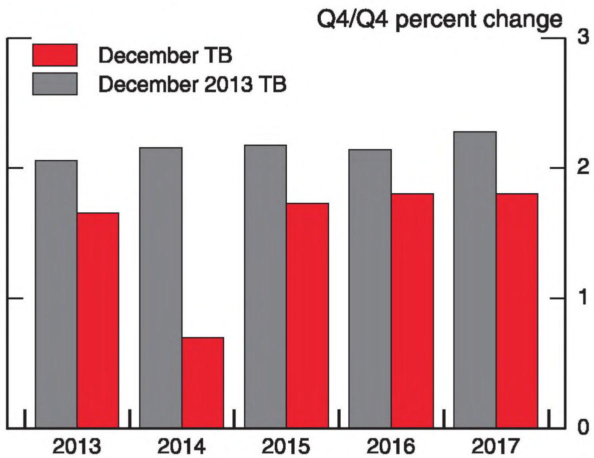


2. Unemployment Rate

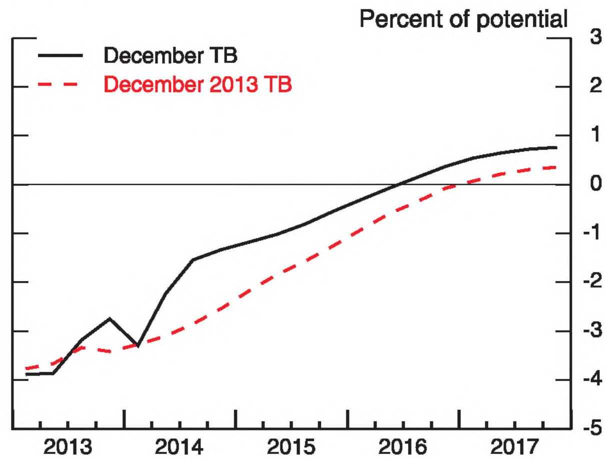


*Adjusted for effect of EUC and extended benefit programs.

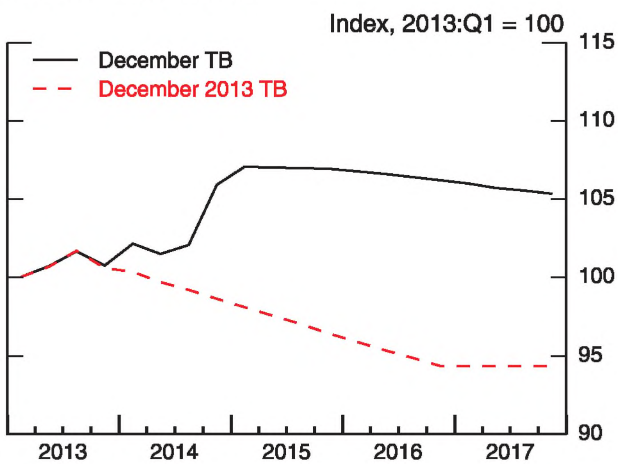
3. Potential GDP



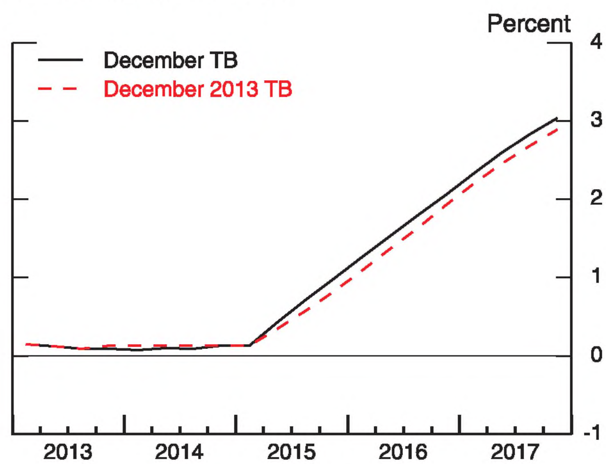
4. Real GDP Gap



5. Broad Real Dollar



6. Federal Funds Rate



Class II FOMC - Restricted (FR)

Exhibit 4

Inflation

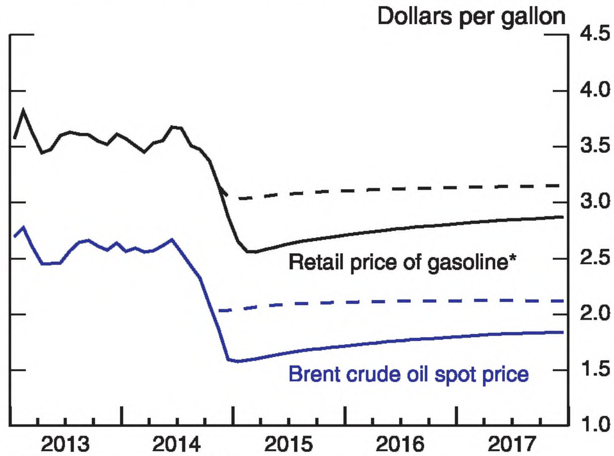
Confidence Intervals Based on FRB/US Stochastic Simulations

1. Near-Term PCE Inflation
(Percent change, annual rate)

	2014		2015
	Q3[e]	Q4[f]	Q1[f]
1. Total	1.3	-.1	-.6
2. Oct. TB	*(1.2)*	*(-.2)*	*(.9)*
3. Core	1.4	1.6	1.5
4. Oct. TB	*(1.4)*	*(1.2)*	*(1.5)*

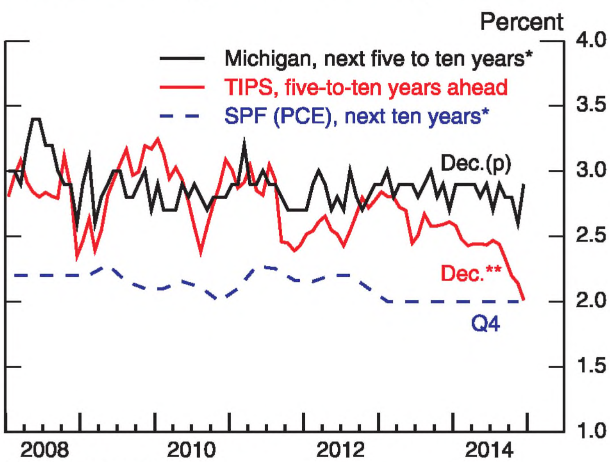
e: Staff estimate. f: Staff forecast.

2. Crude Oil and Gasoline Prices



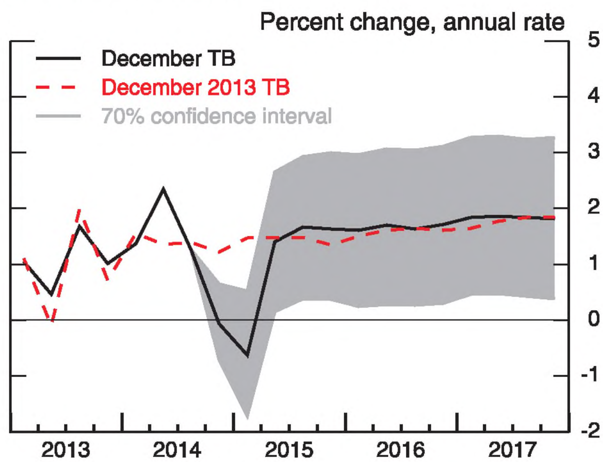
*All grades, s.a. Dashed lines are October TB.

3. Inflation Compensation and Expectations

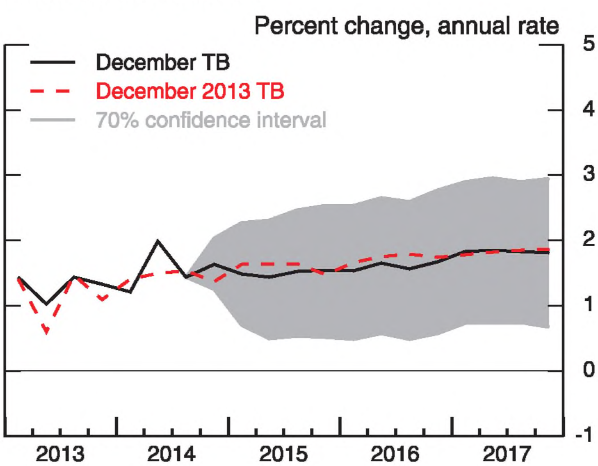


*Median responses.
**TIPS is average value through December 15.

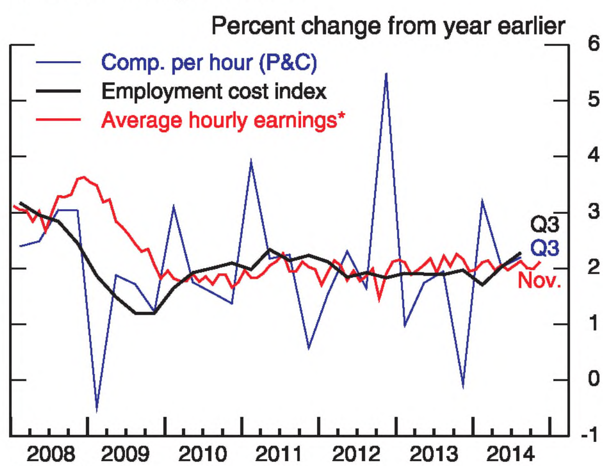
4. Total PCE Inflation



5. Core PCE Inflation



6. Labor Compensation



*All employees.

Class II FOMC - Restricted (FR)

Exhibit 5

Foreign Outlook

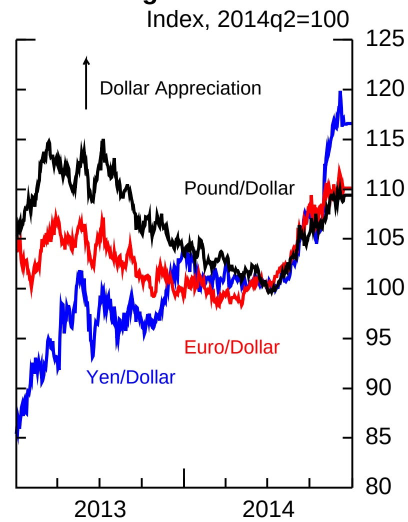
1. Real GDP*

Percent change, a.r.

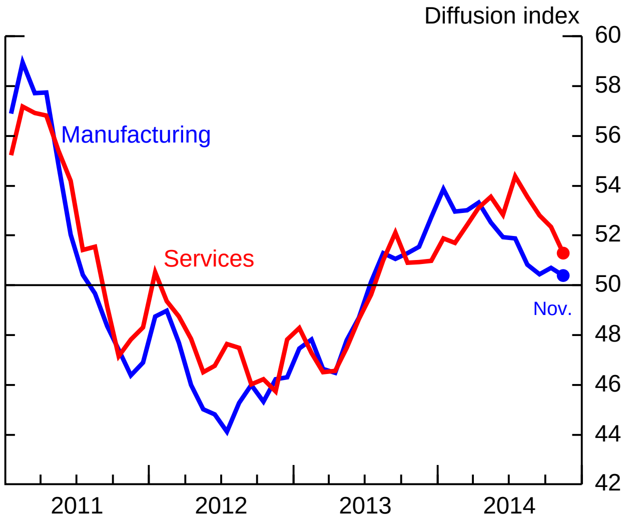
		2014[f] H2	2015[f]	2016[f]	2017[f]
1.	**Total Foreign**	**2.4**	**3.1**	**3.2**	**3.1**
	June Tealbook	*3.2*	*3.2*	*3.3*	*n.a.*
2.	**Advanced Foreign Economies**	**1.7**	**2.1**	**2.2**	**1.9**
3.	Euro area	0.7	1.6	1.9	2.0
4.	Japan	-0.1	1.5	1.3	-0.3
5.	Canada	2.7	2.5	2.5	2.2
6.	United Kingdom	2.6	2.5	2.5	2.3

*GDP aggregates weighted by shares of U.S. merchandise exports.
f: Staff forecast

2. Exchange Rates



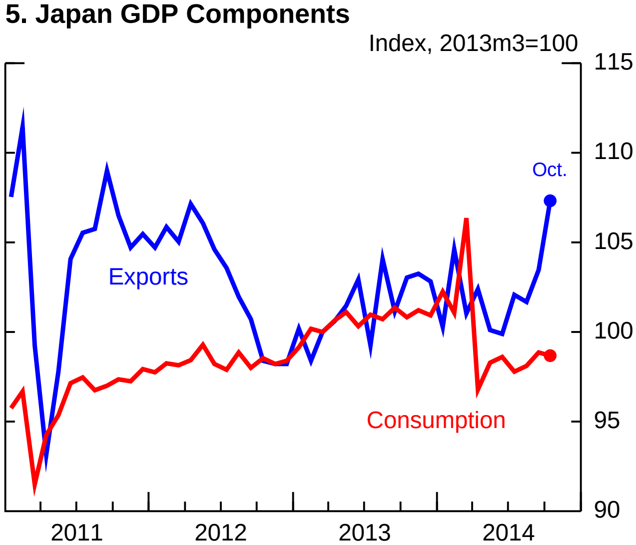
3. Euro-Area PMIs



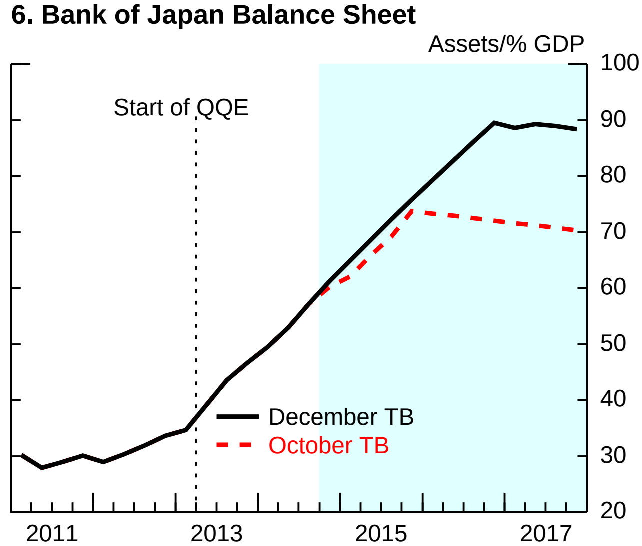
4. Sources of Euro-Area Growth Pick-Up

- Monetary policy stimulus measures including TLTRO and commitment to expand balance sheet to 2012 levels.
  - Estimated to boost GDP growth by 1/2 percentage point in 2015-2016.
- Lower oil prices and waning fiscal and financial headwinds.

5. Japan GDP Components



6. Bank of Japan Balance Sheet



Class II FOMC - Restricted (FR)

Exhibit 6

Emerging Market Economies

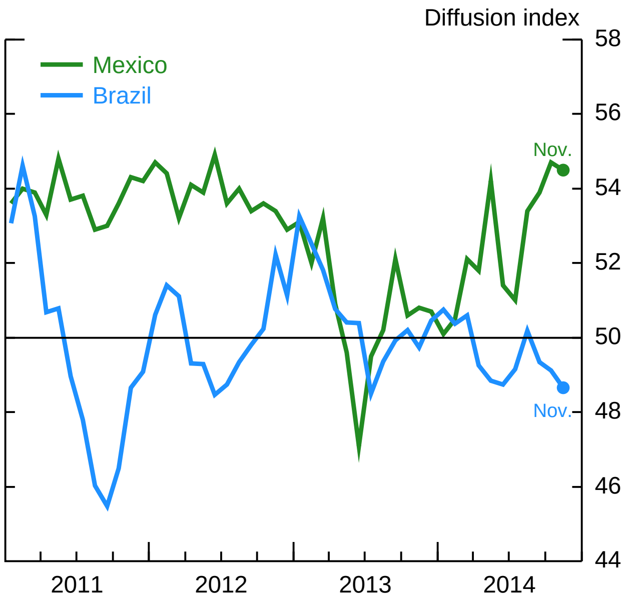
1. EME Real GDP*

Percent change, a.r.

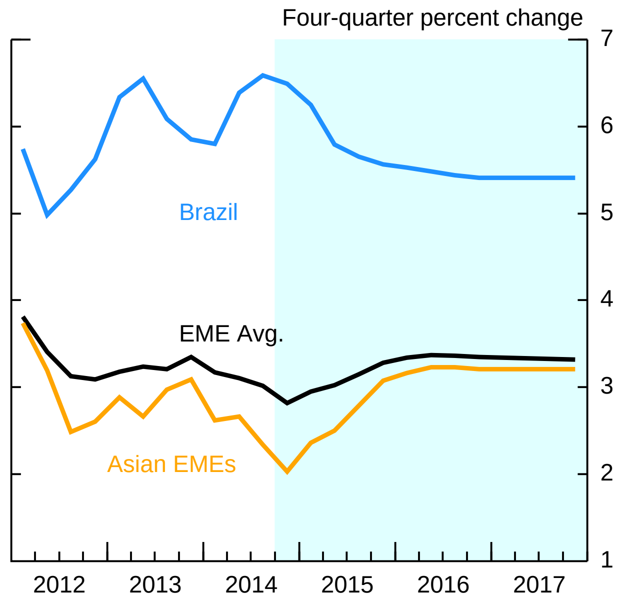
	2013	2014 H1	2014 Q3	2014 Q4[f]	2015[f]	2016[f]	2017[f]
1. Emerging Market Economies	**4.0**	**2.8**	**3.0**	**3.3**	**4.0**	**4.2**	**4.2**
June Tealbook	*3.8*	*2.7*	*4.1*	*4.2*	*4.3*	*4.4*	*4.5*
2. Mexico	3.1	2.5	2.0	3.2	3.4	3.4	3.5
3. Brazil	-0.1	-1.6	0.3	1.0	1.6	2.1	2.3
4. China	8.1	7.0	7.7	7.2	7.3	7.1	7.0
5. Emerging Asia ex. China	4.5	2.8	3.9	3.6	4.5	4.5	4.3

* GDP aggregates weighted by shares of U.S. merchandise exports.
f: Staff forecast.

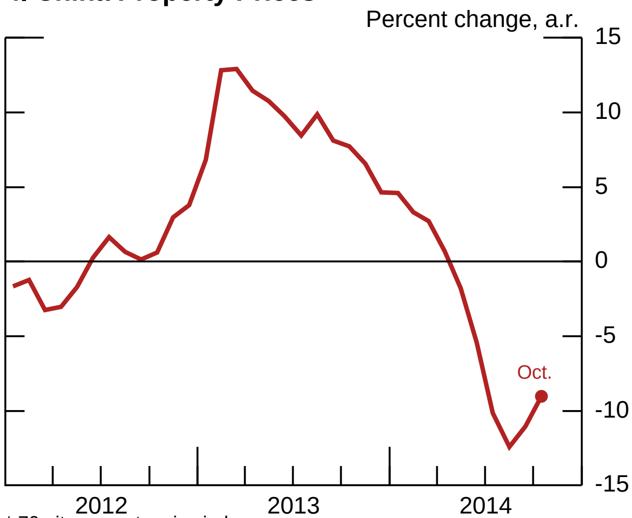
2. PMIs: Mexico and Brazil



3. Inflation

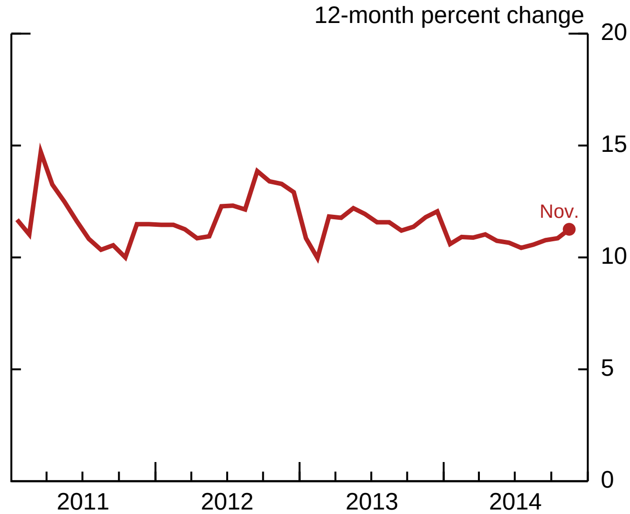


4. China Property Prices*



* 70-city property price index.

5. China Retail Sales

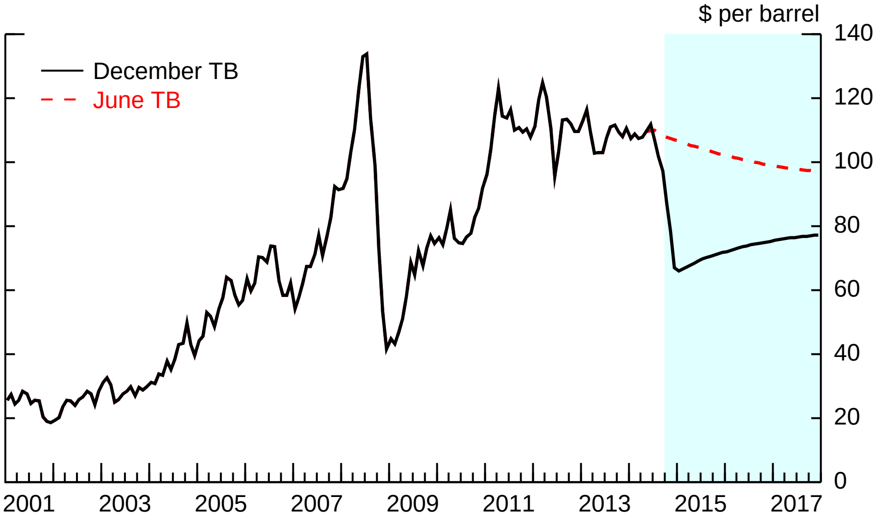


Class II FOMC - Restricted (FR)

Exhibit 7

The Effects of Lower Oil Prices

1. Outlook for Oil (Brent)

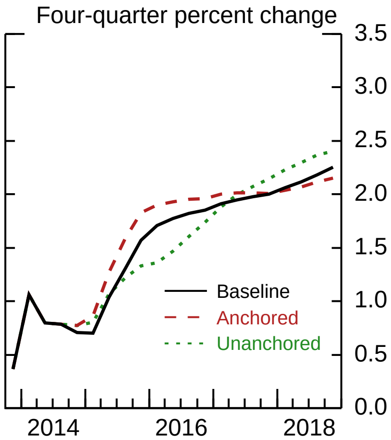


2. Key Channels for Oil Importers

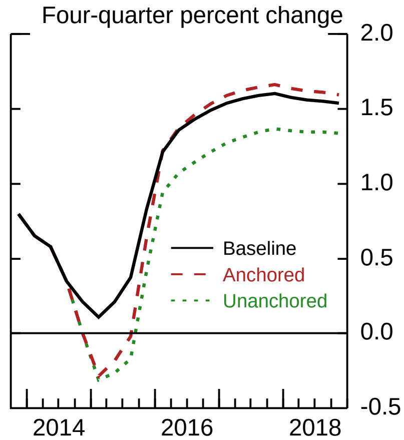
- Reduces transfers to oil exporters.
- Raises potential output.
  - Some offset from lower oil production.
- Reduces inflation.

3. Effects of a 20% Fall in Oil Prices on Euro-Area Economy in SIGMA

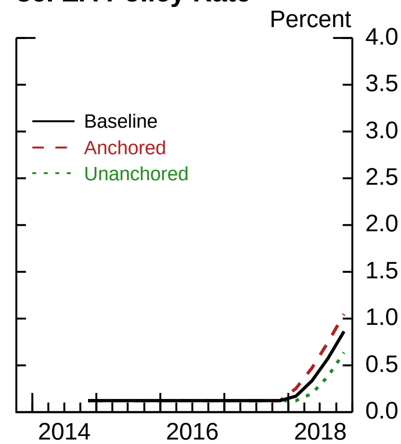
3a. EA GDP



3b. EA Total CPI Prices

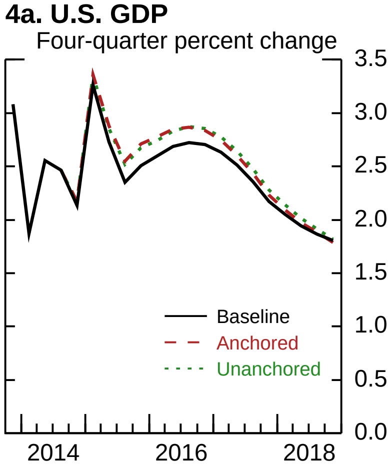


3c. EA Policy Rate

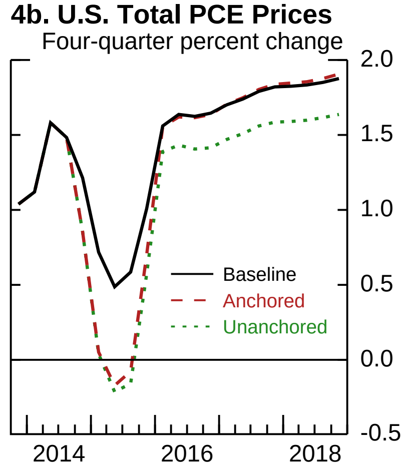


4. Effects of a 20% Fall in Oil Prices on U.S. Economy in SIGMA

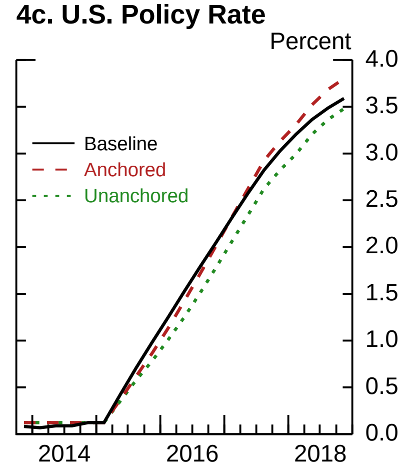
4a. U.S. GDP



4b. U.S. Total PCE Prices



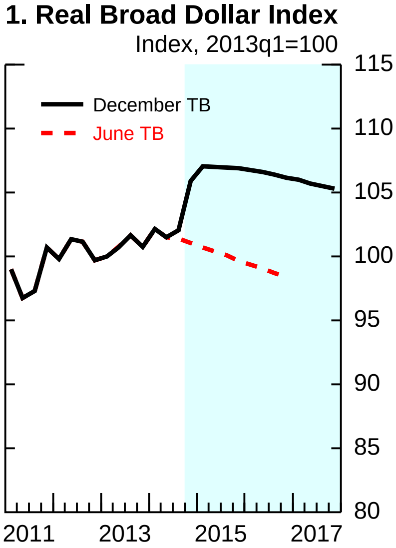
4c. U.S. Policy Rate

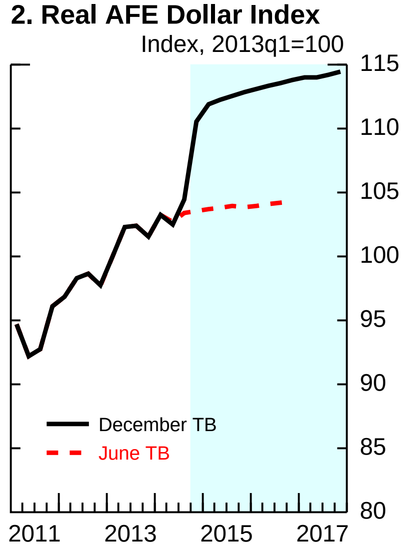


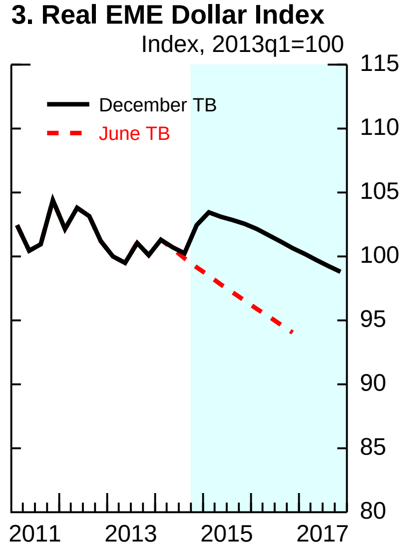
Class II FOMC - Restricted (FR)

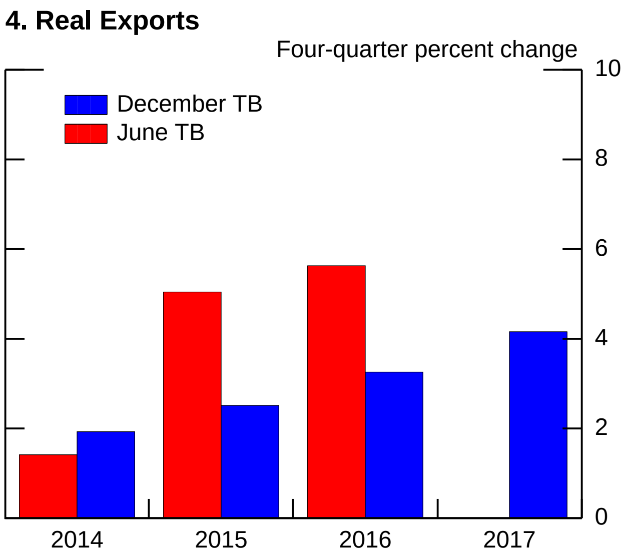
Exhibit 8

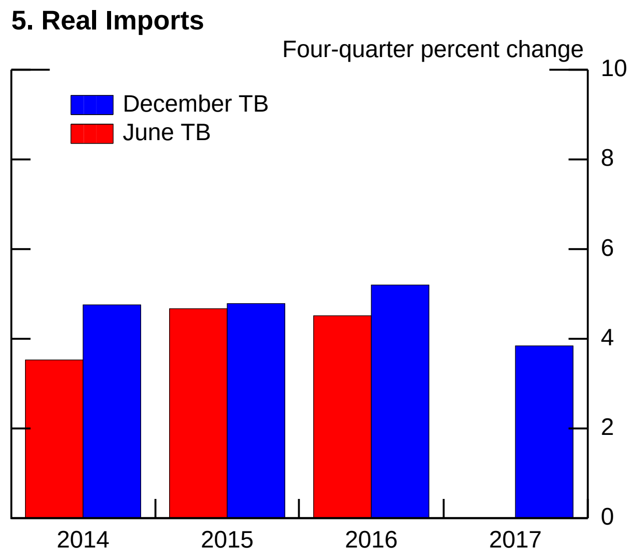
The Dollar and U.S. Trade

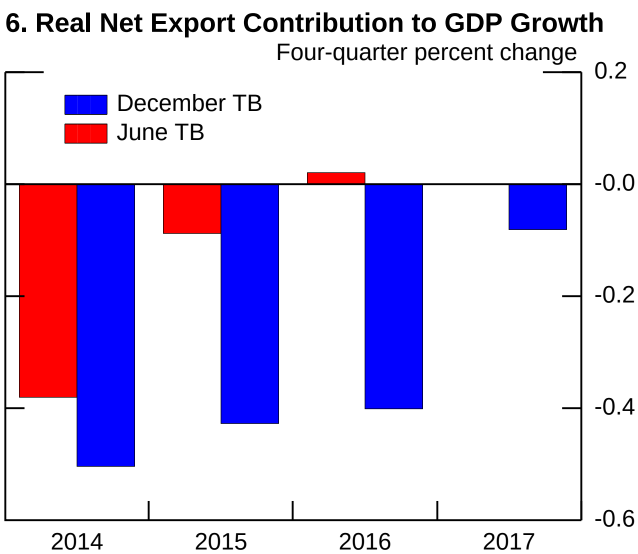










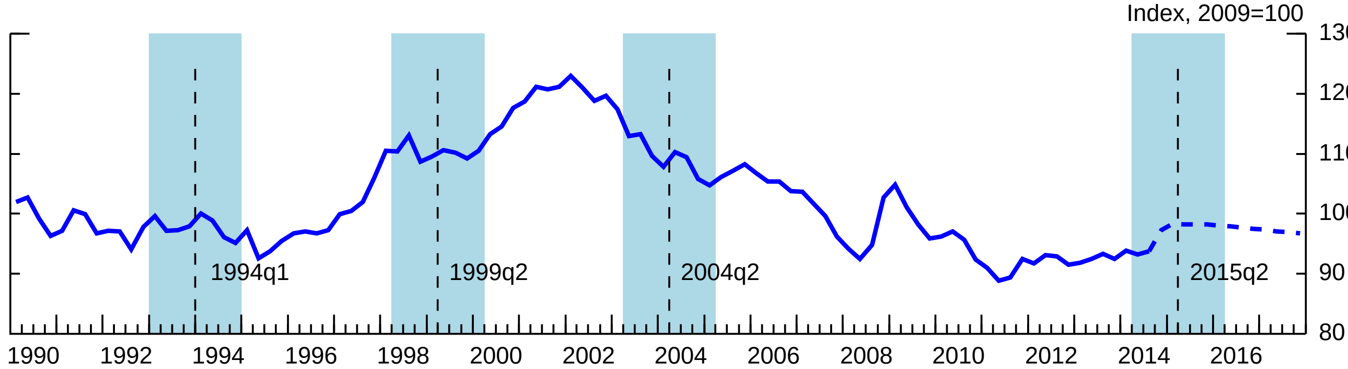


Class II FOMC - Restricted (FR)

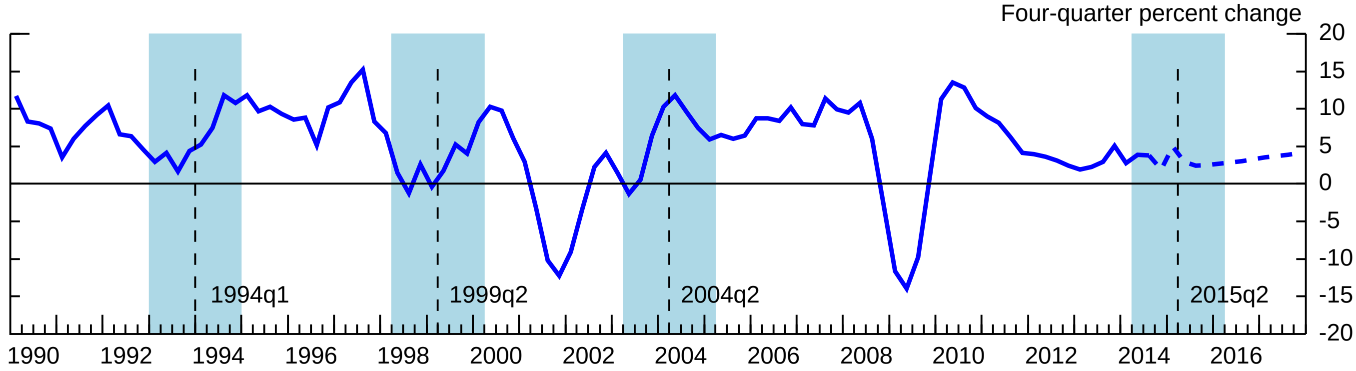
Exhibit 9

External Sector in Past U.S. Tightening Cycles

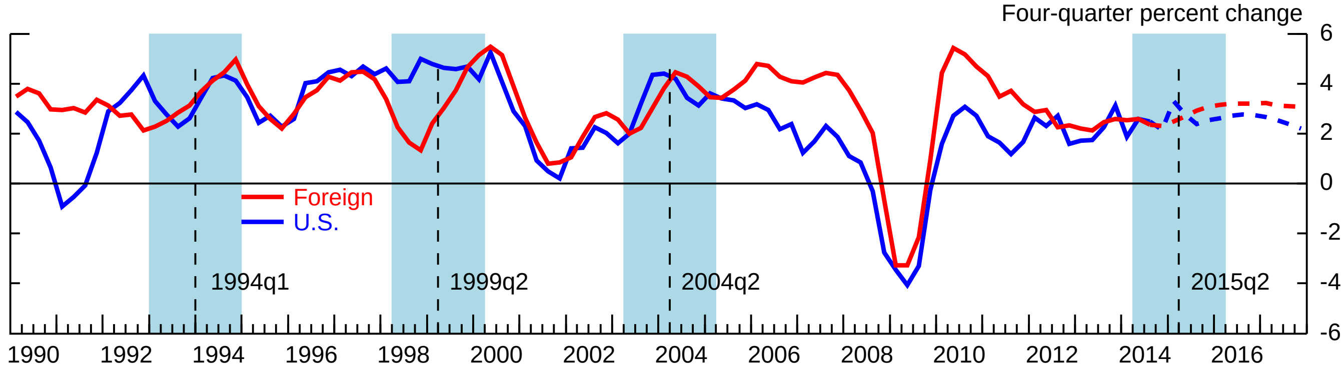
1. Broad Real Dollar



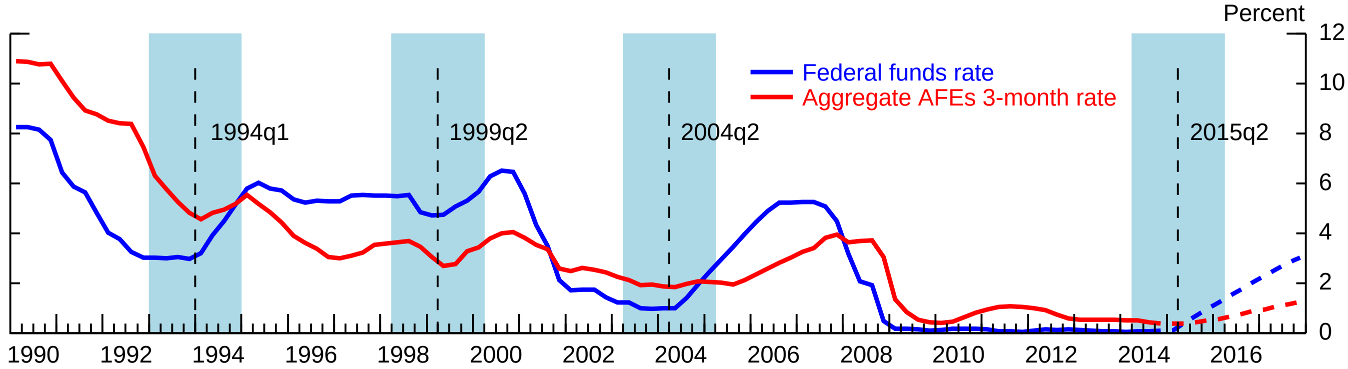
2. U.S. Export Growth



3. U.S. and Foreign GDP Growth



4. U.S. and Foreign Policy Rates

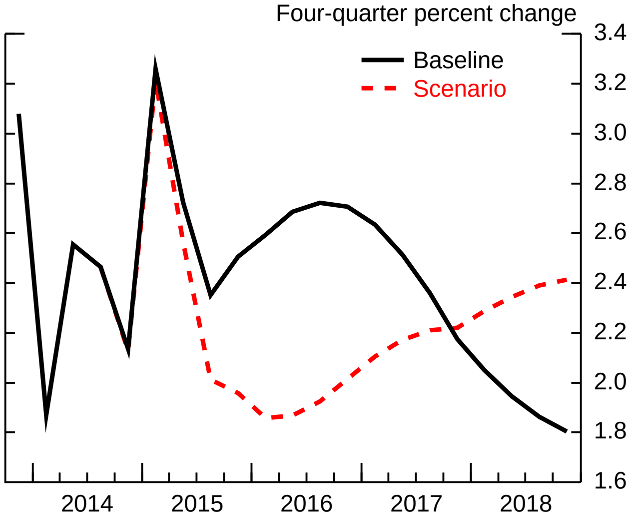


Class II FOMC - Restricted (FR)

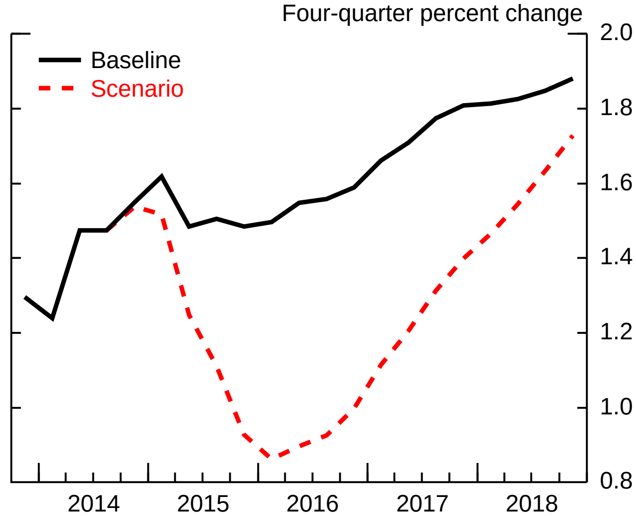
Exhibit 10 (Last)

Alternative Scenario in SIGMA: Weaker Foreign Growth

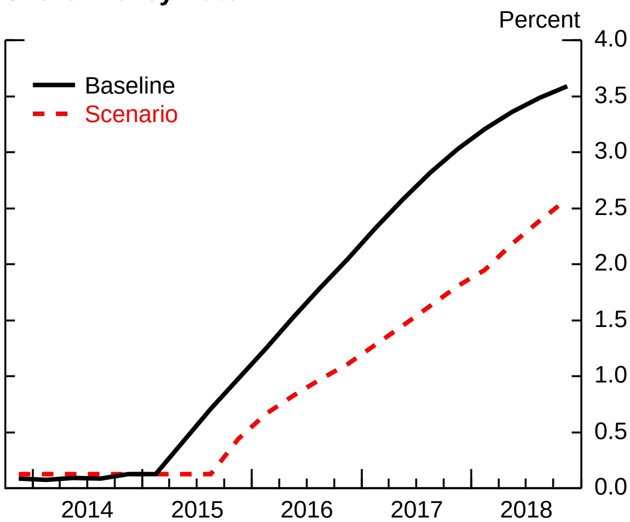
1. U.S. GDP Growth



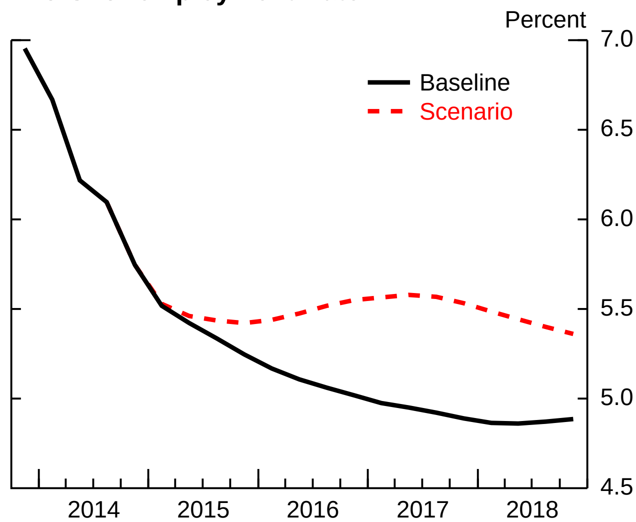
2. U.S. Core PCE Prices



3. U.S. Policy Rate



4. U.S. Unemployment Rate



Appendix 4: Materials used by Ms. Klee

Class I FOMC – Restricted Controlled (FR)

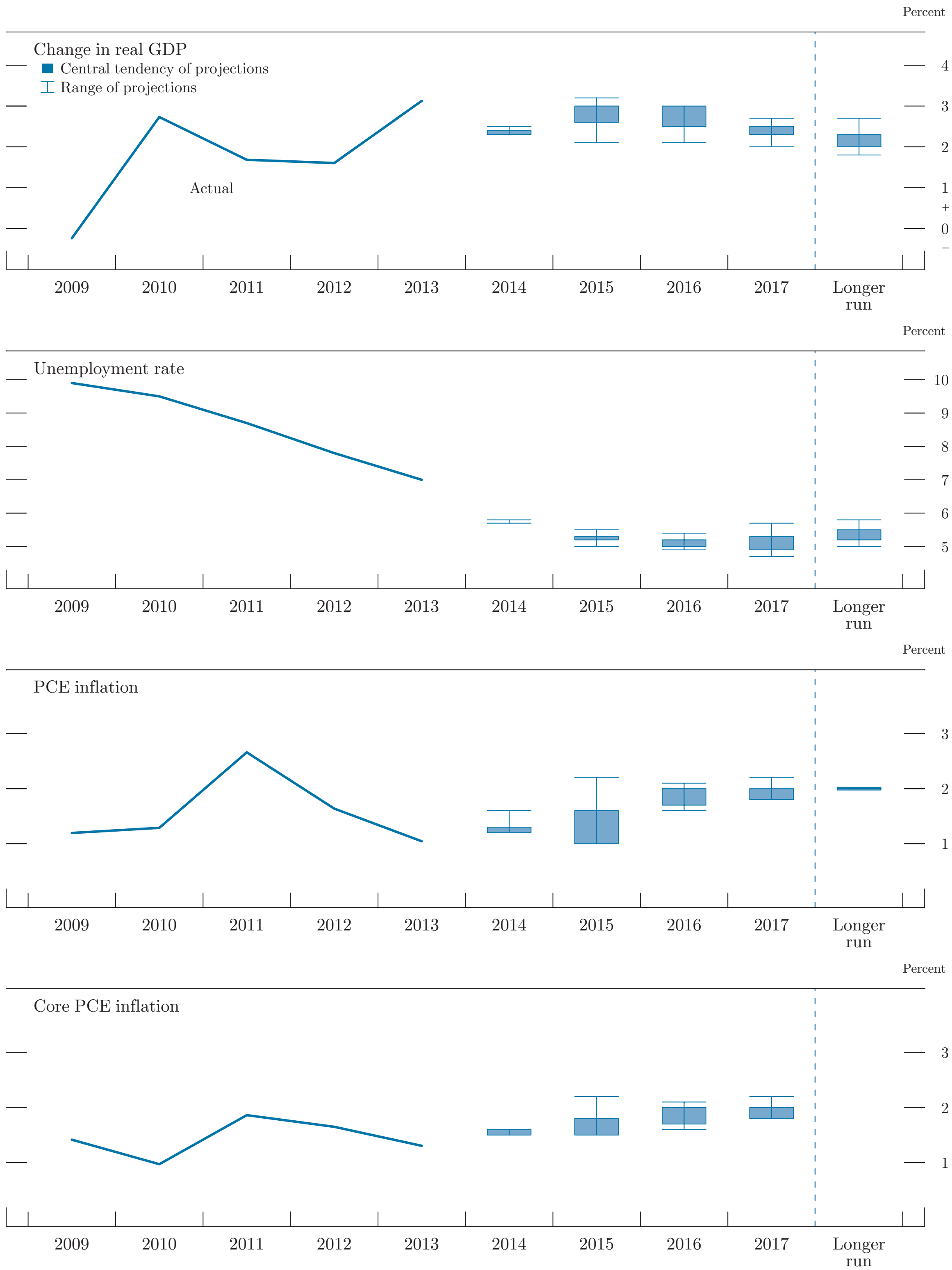
Material for Briefing on the

Summary of Economic Projections

Elizabeth Klee

December 16, 2014

Exhibit 1. Central tendencies and ranges of economic projections, 2014–17 and over the longer run



NOTE: The data for the actual values of the variables are annual.

Exhibit 2. Economic projections for 2014–17 and over the longer run (percent)

Change in real GDP

	2014	2015	2016	2017	Longer run
Central Tendency	2.3 to 2.4	2.6 to 3.0	2.5 to 3.0	2.3 to 2.5	2.0 to 2.3
September projection	2.0 to 2.2	2.6 to 3.0	2.6 to 2.9	2.3 to 2.5	2.0 to 2.3
Range	2.3 to 2.5	2.1 to 3.2	2.1 to 3.0	2.0 to 2.7	1.8 to 2.7
September projection	1.8 to 2.3	2.1 to 3.2	2.1 to 3.0	2.0 to 2.6	1.8 to 2.6
Memo: Tealbook**	2.4	2.5	2.7	2.2	2.0
September projection	2.0	2.7	2.9	2.3	2.0

Unemployment rate

	2014	2015	2016	2017	Longer run
Central Tendency	5.8	5.2 to 5.3	5.0 to 5.2	4.9 to 5.3	5.2 to 5.5
September projection	5.9 to 6.0	5.4 to 5.6	5.1 to 5.4	4.9 to 5.3	5.2 to 5.5
Range	5.7 to 5.8	5.0 to 5.5	4.9 to 5.4	4.7 to 5.7	5.0 to 5.8
September projection	5.7 to 6.1	5.2 to 5.7	4.9 to 5.6	4.7 to 5.8	5.0 to 6.0
Memo: Tealbook	5.7	5.2	5.0	4.9	5.2
September projection	5.9	5.4	5.1	4.9	5.2

PCE inflation

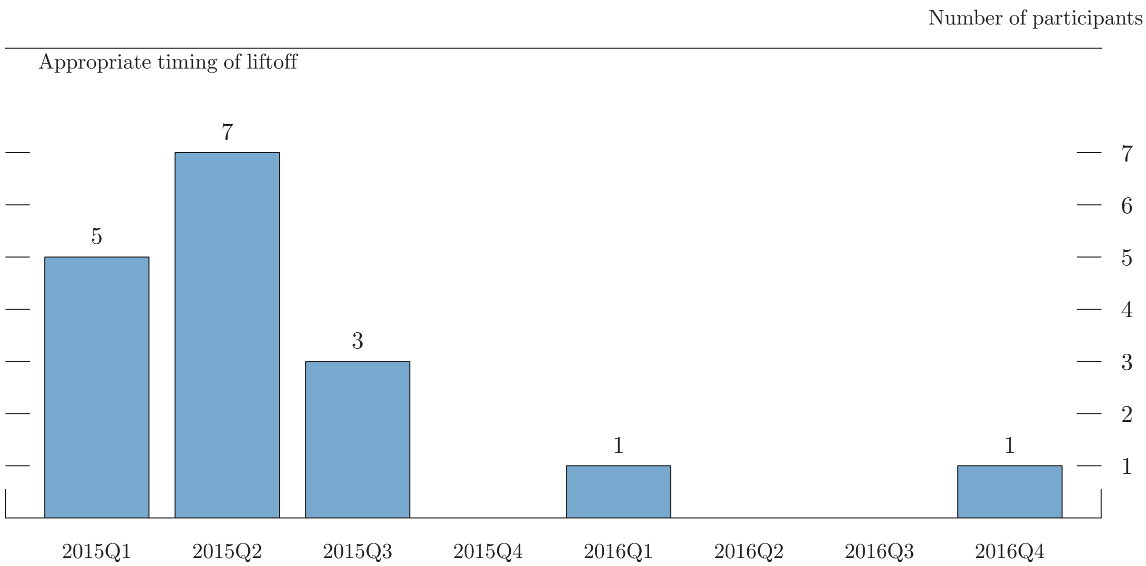
	2014	2015	2016	2017	Longer run
Central Tendency	1.2 to 1.3	1.0 to 1.6	1.7 to 2.0	1.8 to 2.0	2.0
September projection	1.5 to 1.7	1.6 to 1.9	1.7 to 2.0	1.9 to 2.0	2.0
Range	1.2 to 1.6	1.0 to 2.2	1.6 to 2.1	1.8 to 2.2	2.0
September projection	1.5 to 1.8	1.5 to 2.4	1.6 to 2.1	1.7 to 2.2	2.0
Memo: Tealbook	1.2	1.0	1.7	1.8	2.0
September projection	1.5	1.5	1.6	1.7	2.0

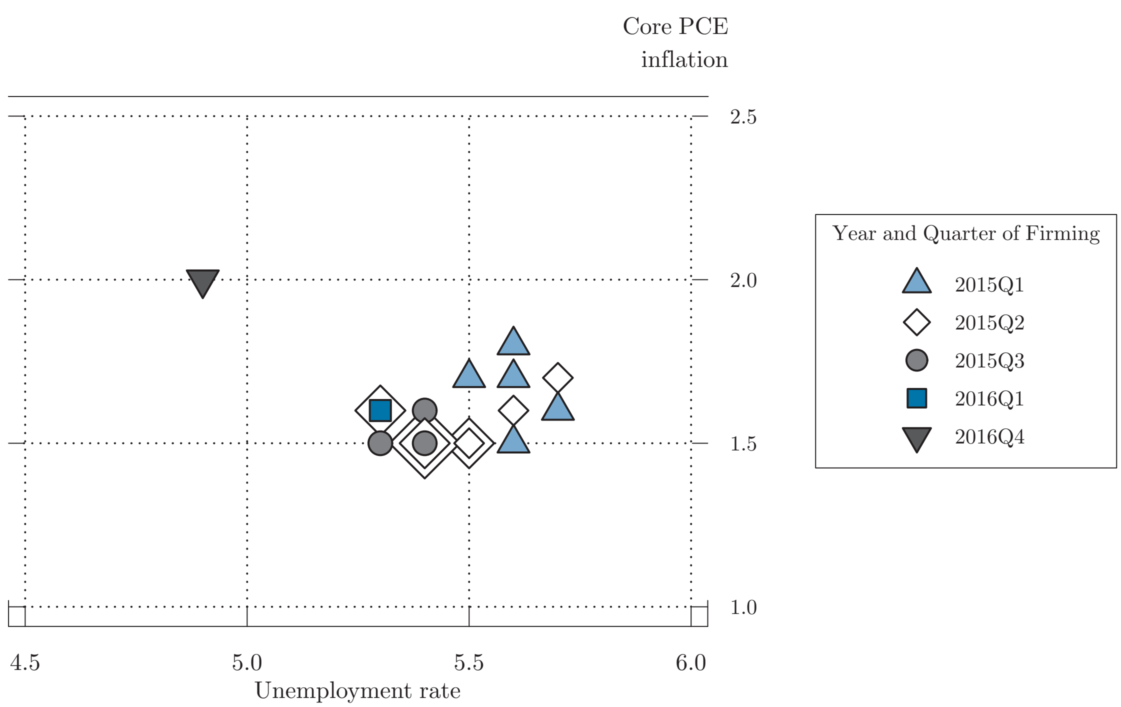
Core PCE inflation

	2014	2015	2016	2017
Central Tendency	1.5 to 1.6	1.5 to 1.8	1.7 to 2.0	1.8 to 2.0
September projection	1.5 to 1.6	1.6 to 1.9	1.8 to 2.0	1.9 to 2.0
Range	1.5 to 1.6	1.5 to 2.2	1.6 to 2.1	1.8 to 2.2
September projection	1.5 to 1.8	1.6 to 2.4	1.7 to 2.2	1.8 to 2.2
Memo: Tealbook	1.6	1.5	1.6	1.8
September projection	1.5	1.6	1.7	1.8

* The percent changes in real GDP and inflation are measured Q4/Q4.
** The December 2014 Tealbook value that was updated on December 11, 2014, is reported here.

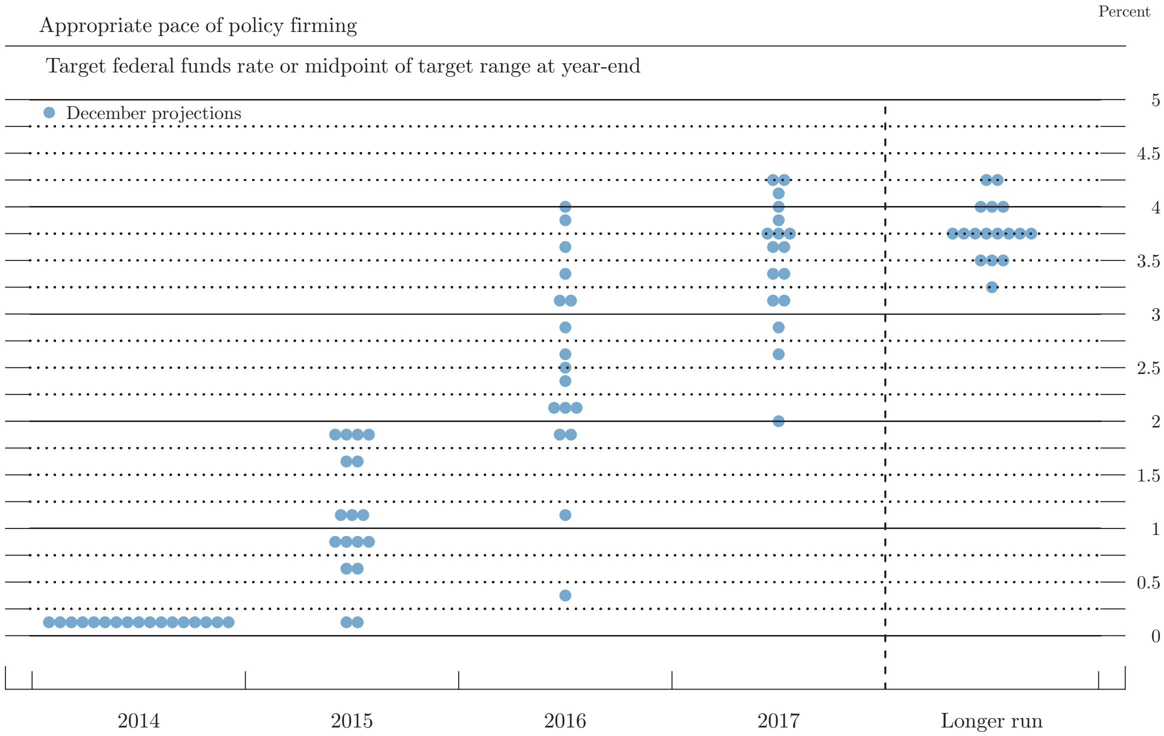
Exhibit 3. FOMC participants' assessments of the timing of and economic conditions at liftoff

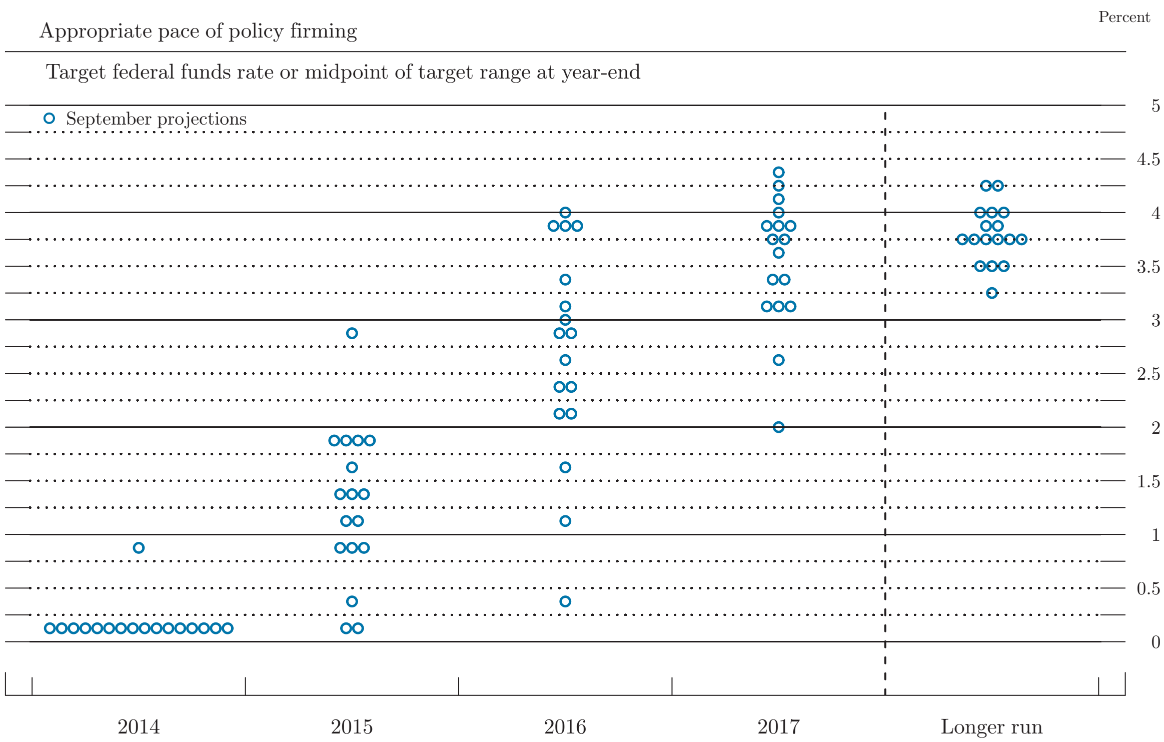




Note: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target range for the federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year and quarter. In the lower panel, when the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.

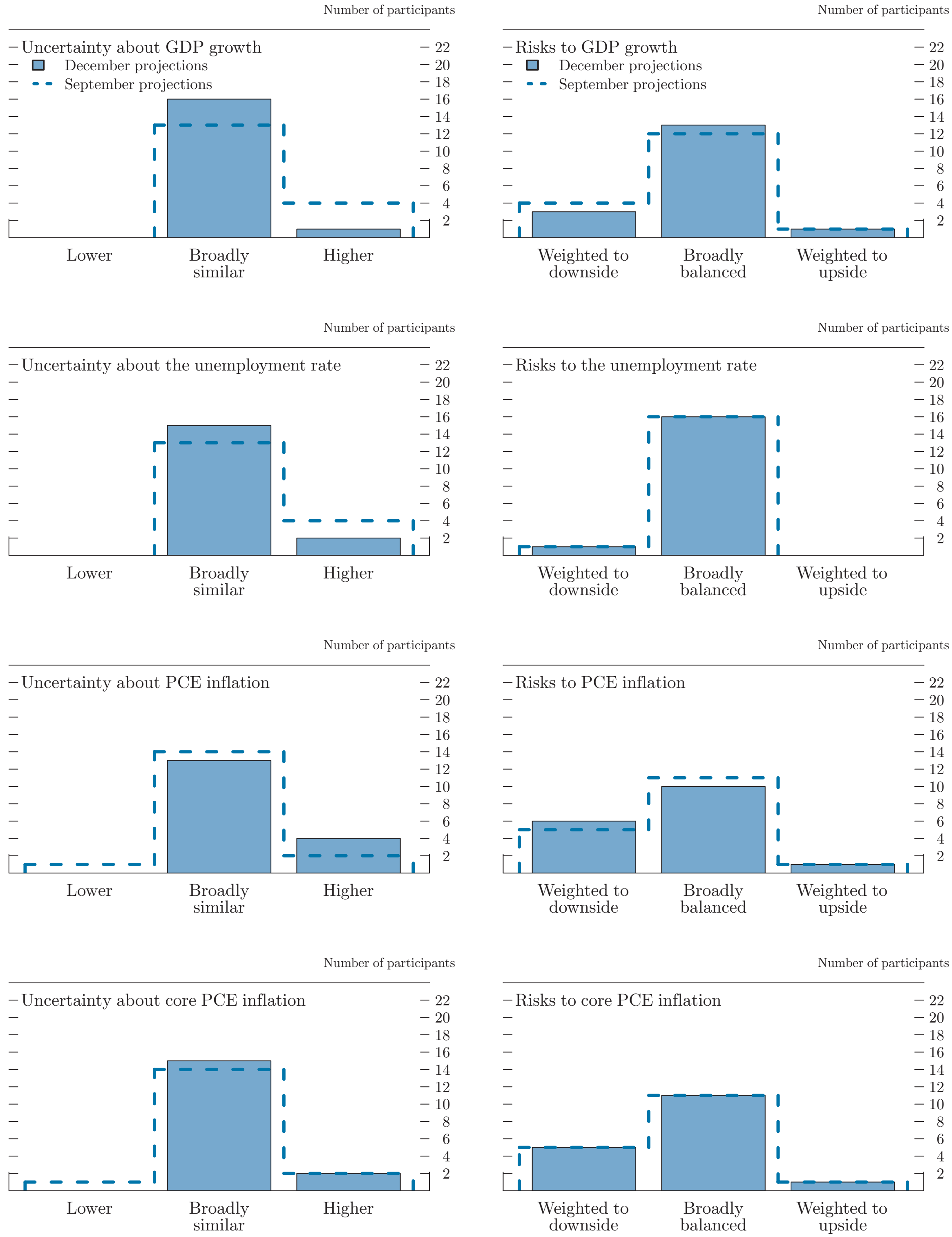
Exhibit 4. Overview of FOMC participants' assessments of appropriate monetary policy





Note: In the two panels above, each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 5. Uncertainty and risks in economic projections



Appendix 5: Materials used by Mr. English

Class I FOMC – Restricted Controlled (FR)

Material for

Briefing on Monetary Policy Alternatives

Bill English

December 16-17, 2014

Market Expectations and Policy Issues

Recent Labor Market Conditions

	Q2	Q3	Oct.	Nov.
	-- Percent; end of period --			
1. Unemploy. rate	6.1	5.9	5.8	5.8
2. U-6*	12.1	11.8	11.5	11.4
	-- Avg. monthly change; thousands --			
3. Payroll employment	267	239	243	321

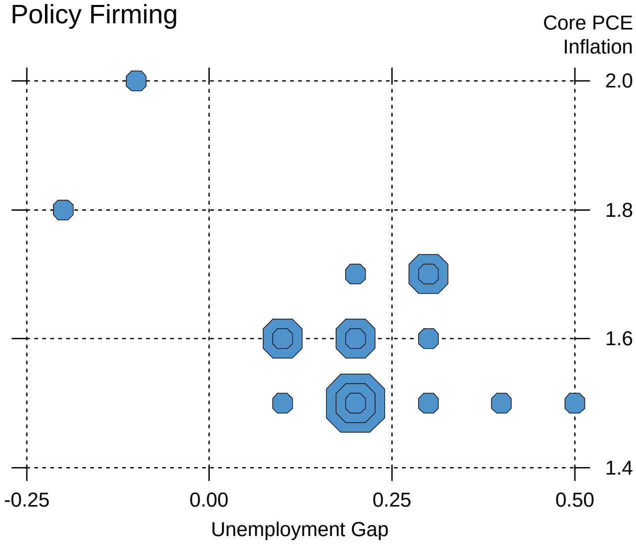
*Note: Includes marginally attached workers and those part-time for economic reasons.
Source: Bureau of Labor Statistics.

PCE Inflation Projections*

	2014H1	2014H2	2015	2016
	-- Actual --	-- Central tendencies --		
1. Total	1.9	0.5 to 0.7	1.0 to 1.6	1.7 to 2.0
2. Core	1.6	1.4 to 1.6	1.5 to 1.8	1.7 to 2.0

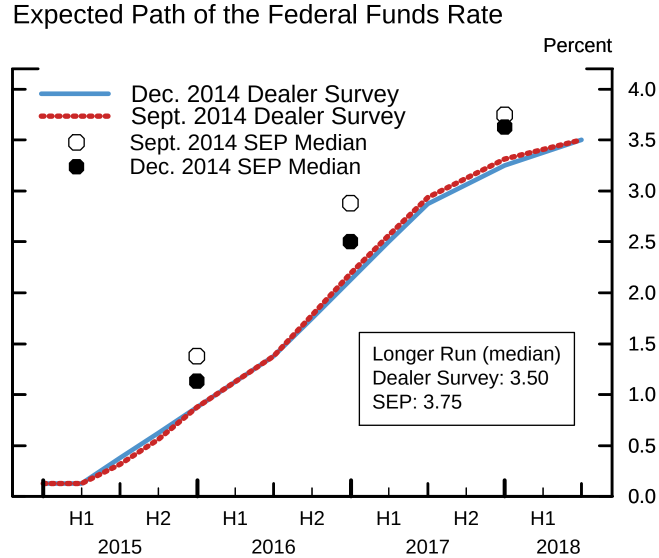
*Note: Percent change, annual rate, from end of preceding comparable period.
Source: December 2014 SEP.

Economic Projections in Initial Year and Quarter of Policy Firming



Note: Each ring represents a FOMC participant with a given set of values.
Source: December 2014 SEP.

Expected Path of the Federal Funds Rate



Note: Median expected path of the federal funds rate is calculated using the midpoint of the reported range or point estimate for each dealer.
Source: December 2014 SEP and FRBNY Primary Dealer Survey.

Updating Forward Guidance

- The Desk's survey assigns roughly even odds to a change at this meeting.
- The new statement in Alternative B could be retained until liftoff is drawing close.
- Alternative B is consistent with the October statement, although the anchoring could surprise some investors.
- Your SEP projections continue to support the post-liftoff guidance in recent statements.

OCTOBER 2014 FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in September suggests that economic activity is expanding at a moderate pace. Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective. Market-based measures of inflation compensation have declined somewhat; survey-based measures of longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators and inflation moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. Although inflation in the near term will likely be held down by lower energy prices and other factors, the Committee judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year.
3. The Committee judges that there has been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program. Moreover, the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. Accordingly, the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.
4. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program this month, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower

than expected, then increases in the target range are likely to occur later than currently anticipated.

5. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC STATEMENT—DECEMBER 2014 ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity is expanding at a moderate pace. Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective**, partly reflecting declines in energy prices**. Market-based measures of inflation compensation have declined ~~somewhat~~ **further**, ~~; some~~ **although** survey-based measures of longer-term inflation expectations ~~also~~ have ~~declined~~ **remained stable**.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators ~~and inflation~~ moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. ~~Although inflation in the near term will likely be held down by lower energy prices and other factors,~~ The Committee ~~judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year~~ **expects inflation to rise gradually toward 2 percent as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate; however, the Committee continues to monitor inflation and inflation expectations closely.**

~~3. The Committee judges that there has been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program. Moreover, the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. Accordingly, the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.~~

3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time ~~following the end of its asset purchase program this month~~, especially if projected inflation continues to run below the

Committee's 2 percent longer-run goal **[** and provided that longer-term inflation expectations remain well anchored **]**. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

OR

3′. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. ~~The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program this month, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.~~ **Based on its current assessment, the Committee judges that it needs to be [highly] patient in beginning to normalize the stance of monetary policy in order to ensure that inflation returns to the 2 percent objective at an appropriately rapid pace [and to reverse recent declines in longer-term inflation expectations].** However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

4. **The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.**

5. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC Statement—December 2014 Alternative B

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity is expanding at a moderate pace. Labor market conditions improved **[** somewhat **]** further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources ~~is gradually diminishing~~ **continues to diminish**. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective**, partly reflecting declines in energy prices**. Market-based measures of inflation compensation have declined somewhat **further**; ~~most~~ survey-based measures of longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators ~~and inflation~~ moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. ~~Although inflation in the near term will likely be held down by lower energy prices and other factors,~~ The Committee ~~judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year~~ **expects inflation to rise gradually toward 2 percent as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. The Committee continues to monitor inflation developments closely**.

3. ~~The Committee judges that there has been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program. Moreover, the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. Accordingly, the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.~~

3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. **Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy.** The Committee ~~anticipates, based on its current assessment,~~ **sees this guidance as consistent with its previous statement** that it likely will be appropriate to maintain the

0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program ~~this month~~ **in October**, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

4. **The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.**

5. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC STATEMENT—DECEMBER 2014 ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity is expanding at a moderate pace. Labor market conditions improved ~~somewhat~~ further, with solid job gains and a lower unemployment rate. ~~On balance,~~ A range of labor market indicators suggests that underutilization of labor resources ~~is gradually diminishing~~ **continues to diminish**. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective**, partly reflecting declines in energy prices**. **Although** market-based measures of inflation compensation have declined somewhat **further**~~;~~**,** ~~most~~ survey-based measures of longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that~~, with appropriate policy accommodation,~~ economic activity will expand at a moderate pace~~, with labor market indicators and inflation moving toward levels the Committee judges consistent with its dual mandate~~ **and sees sufficient underlying strength in the broader economy to support attainment of its employment objective**. ~~The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced.~~ Although inflation in the near term will likely be held down by lower energy prices and other factors, ~~the Committee judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year~~ **the Committee anticipates that inflation will rise to 2 percent in the medium term**. **The Committee sees the risks to the outlook for economic activity and the labor market, and for inflation, as nearly balanced.**

3. ~~The Committee judges that there has been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program. Moreover, the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. Accordingly, the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.~~

3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a ~~considerable~~ time ~~following the end of its asset purchase~~

~~program this month, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored~~. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

OR

3′. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee anticipates, based on its current assessment, that ~~it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program this month, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored~~ **economic conditions will soon warrant an increase in the target range for the federal funds rate**. However, if incoming information indicates ~~faster~~ **slower** progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur ~~sooner~~ **later** than currently anticipated. ~~Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.~~

4. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even ~~after~~ **as** employment and inflation ~~are near~~ **approach** mandate-consistent levels, economic conditions may~~, for some time,~~ warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

5. **The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.**

October 2014 Directive

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to conclude the current program of purchases of longer-term Treasury securities and agency mortgage-backed securities by the end of October. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The System Open Market Account manager and the secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

DIRECTIVE FOR DECEMBER 2014 ALTERNATIVES A, B, AND C

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. ~~The Desk is directed to conclude the current program of purchases of longer-term Treasury securities and agency mortgage-backed securities by the end of October.~~ The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The System Open Market Account manager and the secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 6: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

Consumer Price Index Update

David Wilcox

December 17, 2014

Recent Changes in Consumer Price Indexes

(Percent changes)

	Monthly change			Nov./Nov. change	
	Sept.	Oct.	Nov.	2013	2014
Total CPI	**0.1**	**0.0**	**-0.3**	**1.2**	**1.3**
December TB			*-0.2*		*1.4*
Food	0.3	0.1	0.2		
December TB			*0.1*		
Energy	-0.7	-1.9	-3.8		
December TB			*-3.7*		
Core CPI	**0.1**	**0.2**	**0.1**	**1.7**	**1.7**
December TB			*0.2*		*1.8*

Note: November 2014 CPI data released at 8:30 a.m. on December 17, 2014.