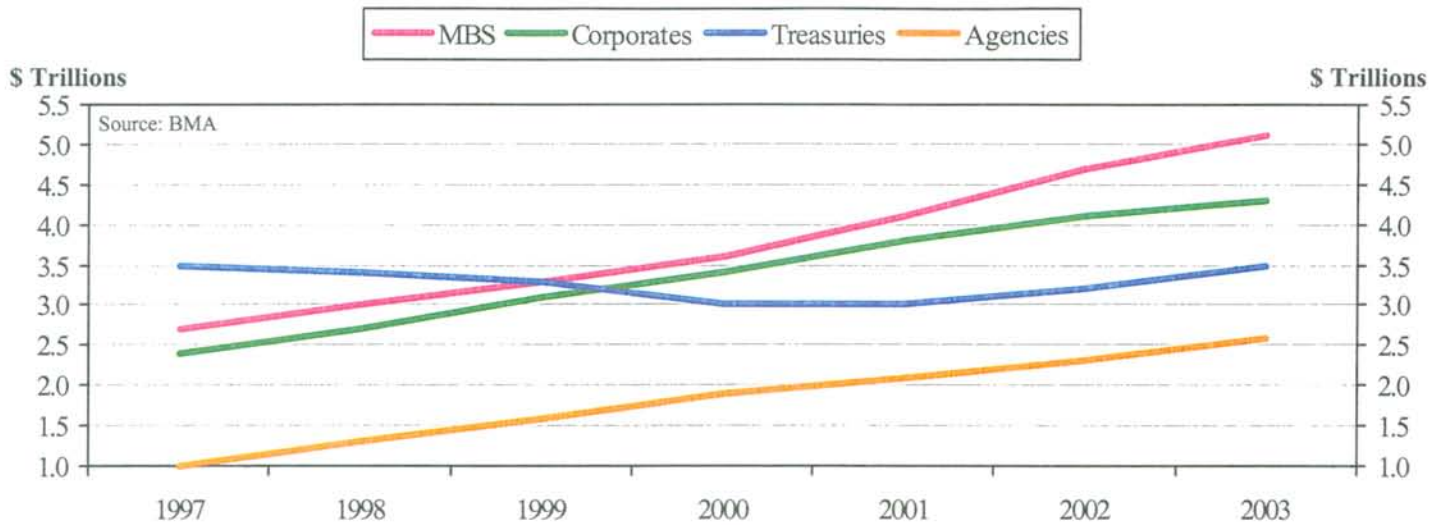
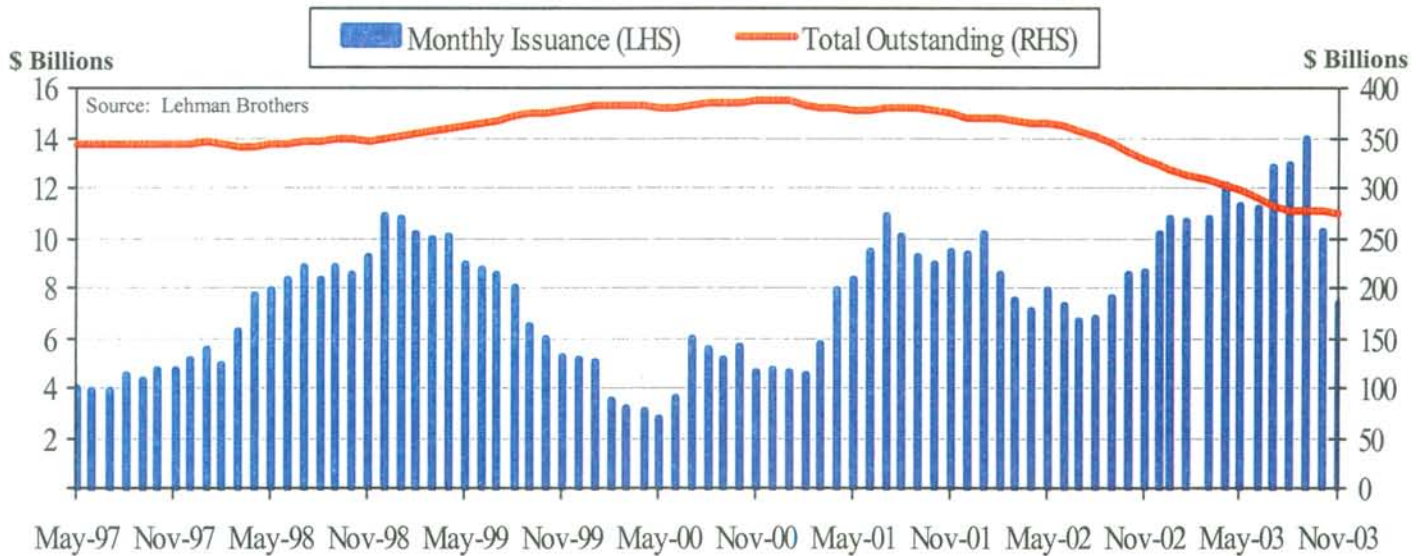


Appendix 1: Materials used by Mr. Kos

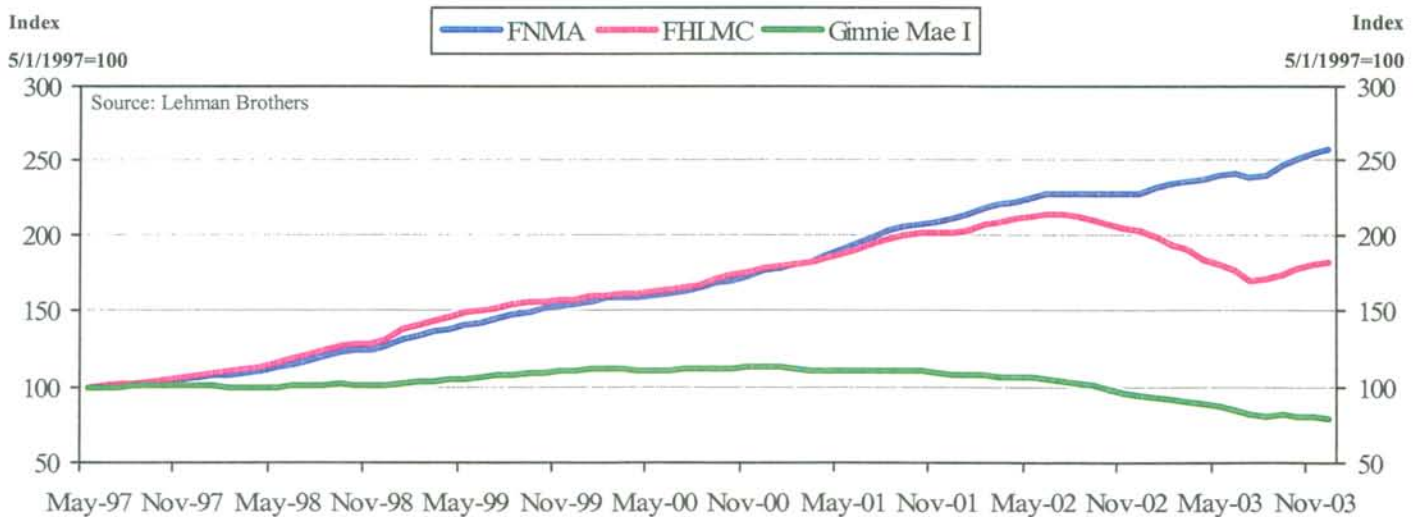
Outstanding Debt 1997 - Q3 2003



Ginnie Mae I 30-Yr Issuance & Outstanding



30 - Yr Fixed Rate MBS Outstanding: Fannie Mae, Freddie Mac, and Ginnie Mae I



Appendix 2: Materials used by Mr. Reinhart

The Committee's Communications Strategy

Vincent Reinhart

January 27, 2004

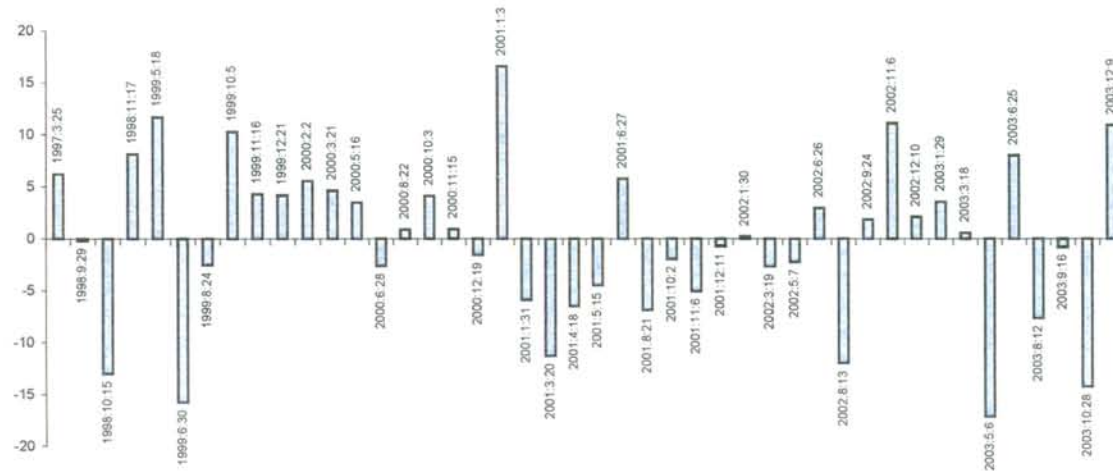
Class I—FOMC

Strictly Confidential (FR)

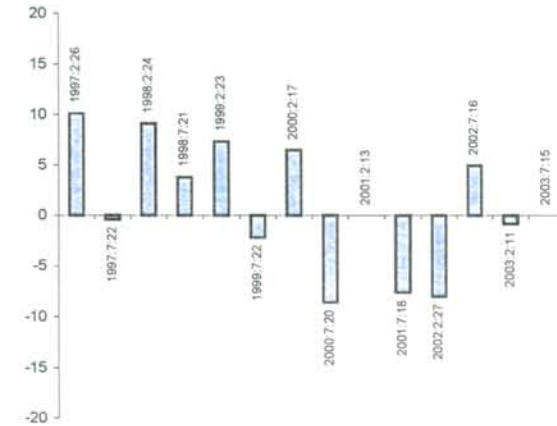
Estimated Effects of Committee Communications

1997 to present, in basis points

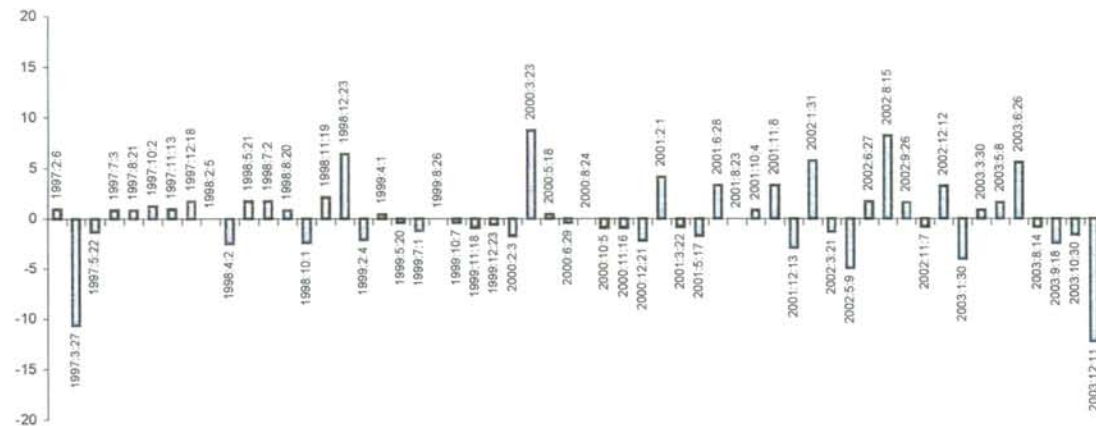
FOMC Policy Statements



Monetary Policy Testimony



FOMC Minutes Releases



Average Absolute Effects

1. FOMC Statements	6.4
2. FOMC Minutes	2.3
3. Chairman's Testimony	5.0

Memo:

4. Employment Reports	5.2
5. ISM Releases	2.3
6. CPI Releases	3.0

Note: Estimated effects are measured as changes in the on-the-run two-year Treasury yield over an interval surrounding the release or the start of the Chairman's testimony. Effects of policy statements are adjusted to remove the estimated direct effect of policy surprises.

Roadmap for Today's Discussion

The options confronting the Committee are interrelated. To facilitate the discussion, this briefing will have five parts:

- Overview of options
- Alternative formulas for the risk assessment
- Expedited release of the FOMC minutes
- An enhanced role for the FOMC projections
- How the pieces might fit together

Options Across the Three Communications Issues

Risk assessment

- Status quo
- Gradual evolution
 - Greater flexibility in assessing risks
 - Include explicit alternative statement language in the Bluebook.
- New formulaic language:
 - Levels – A
 - Levels – B
 - Changes
- Discontinue the assessment of risks portion of the statement.

Release of the Minutes

- Status quo
- Release approximately
 - *two* weeks after the meeting
 - *three* weeks after the meeting
 - *four* weeks after the meeting

Role of the Projections

- Status quo
- Increase the frequency of the projections.
 - Quarterly
 - Every regular meeting
- Increase the length of the projection period.
- Increase the number of variables in the projections.
- Release of the projections
 - In the MPR
 - In the minutes
 - In a separate document

Lessons from the Working Group: Formulas for the Risk Assessment

Design Principles for the Risk Assessment

1. The Committee should vote on the exact wording of the risk assessment.
2. The statement should not hamper the policy discussion.
3. The statement should be flexible enough to encompass the Committee members' views about the operation of the economy and the concepts that can be usefully measured.
4. The statement should be clear to the public.
5. The statement should cover the range of feasible contingencies.
6. The statement should avoid the use of potentially charged terms.

Key Questions that were Left Unanswered

1. Should the wording of the risk assessment be in terms of the levels of output and inflation or their changes?
2. What conditioning assumption for monetary policy should be employed?
3. Over what period should the outlook and risks be considered?

The “Levels – A” Alternative

The Committee’s assessment of the outlook over the next several quarters is that real economic activity may well [fall short of / be about on / exceed] a path consistent with the long-run trend of its potential. Over the same period, inflation may well [fall short of / be about on / exceed] a path consistent with price stability in the long run.

In light of these assessments and its goals of maximum sustainable growth and price stability, the Committee judges that the risk(s)

- of [weak economic activity / unsustainable economic activity] / (and) / [undesirably low inflation / undesirably high inflation] [is a concern / is of greater concern / are both concerns].
- to both of its long-run goals are balanced.

- Stated in terms of levels, with explicit reference to benchmarks for inflation and output.
- Silent about the conditioning assumption for policy, but based on an assumption of “normal” policy.
- Horizon is “several quarters,” but outcomes are described relative to paths that continue further into the future.

The “Levels – B” Alternative

The Committee’s assessment of the outlook is that **the level of economic activity** will likely [fall short of / about attain / remain near / exceed] the long-run trend of its potential in the foreseeable future. Over the same period, **inflation** will likely [fall below / about attain / remain within / exceed] the range consistent with price stability in the long run.

In light of these assessments and its goals of maximum sustainable growth and price stability, the Committee judges that the risk(s)

- of [undesirably weak economic activity / unsustainably strong economic activity] / (and) / [undesirably low inflation / undesirably high inflation] [is a concern / is the greater concern / are both concerns]
- to both of its long-run goals are balanced

for the foreseeable future.

- Stated in terms of levels, with explicit reference to benchmarks for inflation and output.
- Silent about the conditioning assumption for policy, but based on an assumption of an unchanged policy stance.
- Horizon is “the foreseeable future.”

The “Changes” Alternative

The Committee’s assessment of the outlook is that **economic growth** will likely [fall short of / about attain / remain near / exceed] its long-run sustainable pace **in the foreseeable future**. Over the same period, **inflation will likely** [fall / remain about the same / rise].

In light of these assessments and its goals of maximum sustainable growth and price stability, the Committee judges that

- **economic growth** [below / equal to / above] its long-run sustainable pace / (and) / [falling / stable / rising] **inflation** [is the greater concern / is a concern / are both concerns]
- the risks to the achievement of both of its long-run goals are balanced

for the foreseeable future.

- Stated in terms of changes in output relative to potential and changes in inflation.
- References to levels and benchmarks would be in the first paragraph.
- Silent about the conditioning assumption for policy, but based on an assumption of an unchanged policy stance.
- Horizon is “the foreseeable future.”

Some Possible Pitfalls

Measurement

- “Long-run trend of potential”
- “Level of potential output”
- “Long-run sustainable pace”
- “Price stability”

Clarity

- “Path consistent with...”
- “Foreseeable future”

Conditioning assumption

- “Normal” policy
- “Appropriate” policy
- Unchanged policy

Expedited Release of the FOMC Minutes

Pros

- Providing more timely information to the public
- Increasing transparency and accountability
- Potential for shortening the policy announcement

Cons

- Possible effects on Committee deliberations
- Possible effects on the minutes
 - Quality
 - Ability to make conditional statements
 - Temptation to send signals
- Possible inappropriate market responses
- Adverse interactions with other aspects of Committee communications
 - Interaction with the MPR and testimony
 - Creating additional news events
- Blackout periods

Enhanced Role for the FOMC Projections

There are several margins over which the Committee can choose:

- Increased frequency (every meeting or every quarter).
- Increased length of projection periods.
- Increased number of variables in the projections
 - e.g., core PCE inflation, potential output growth, the “working definition of price stability,” or the width of uncertainty bands for the projections.
- Separate projections from the Monetary Policy Report and testimony.

Pros:

- Providing more timely information to the public.
 - Both about the central tendencies and the range of opinions.
- Increasing transparency and accountability.
- Possible substitute for the risk assessment in the statement.

Cons:

- As a matter of process, should the forecasts be:
 - Included in the minutes of the meetings?
 - Revised after the meetings?
 - Augmented by explanatory text?
- The public might not understand the conditional nature of the projections.
- Separate publication would create additional news events.
- The Committee’s credibility could be impaired if the forecasts turn out to be wrong.

Options Across the Three Communications Issues

Risk assessment

- Status quo
- Gradual evolution
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 - Include explicit alternative statement language in the Bluebook.
- New formulaic language:
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 - Levels – B
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Release of the Minutes

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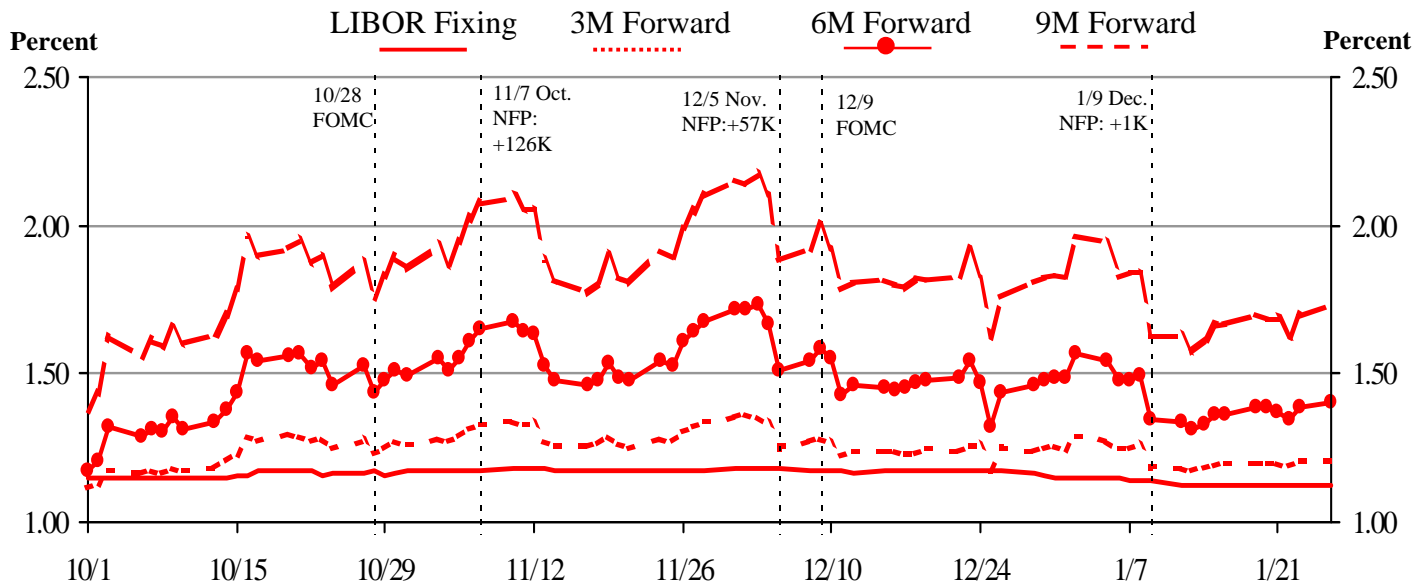
Role of the Projections

- Status quo
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- Release of the projections
 - In the MPR
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Appendix 3: Materials used by Mr. Kos

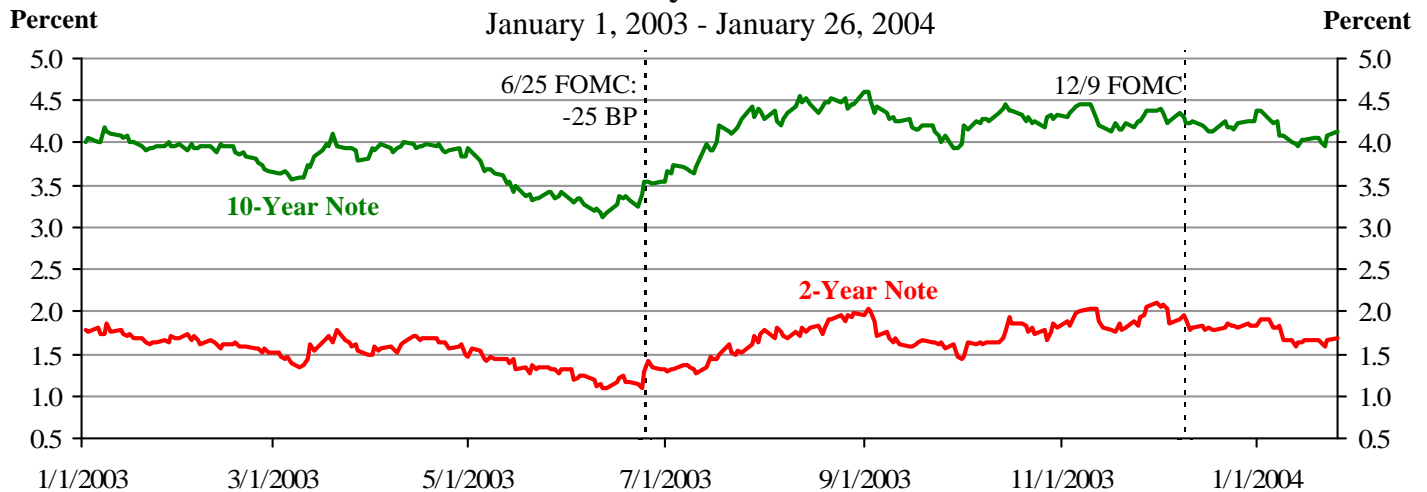
Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

October 1, 2003 - January 26, 2004



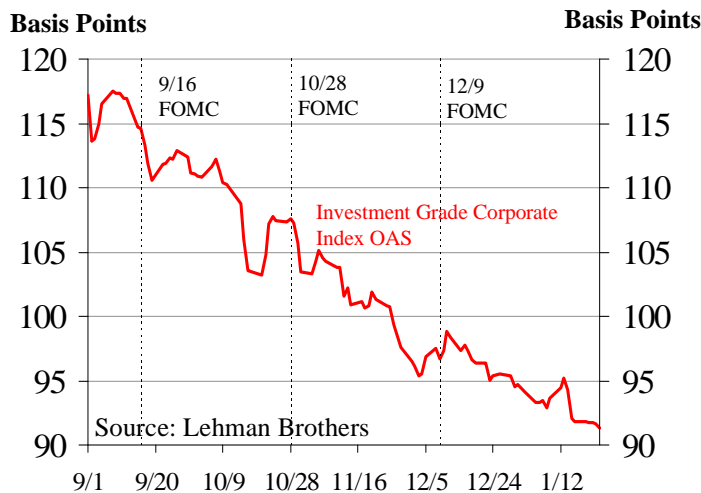
Treasury Note Yields

January 1, 2003 - January 26, 2004



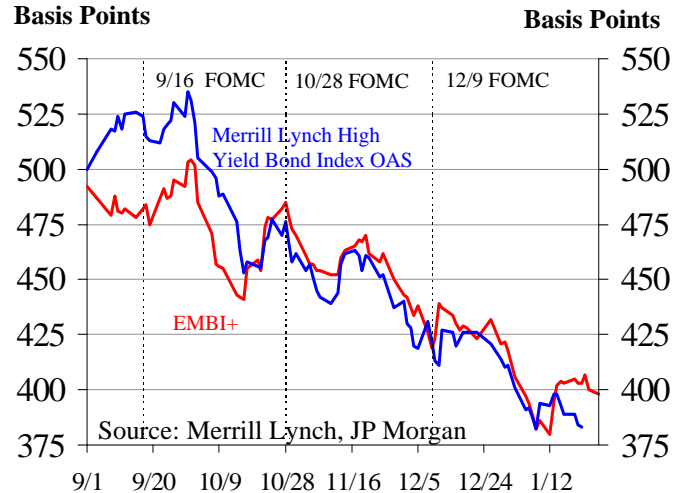
Investment Grade Corporate Debt Spread

September 1, 2003 - January 26, 2004



High Yield and EMBI+ Spreads

September 1, 2003 - January 26, 2004

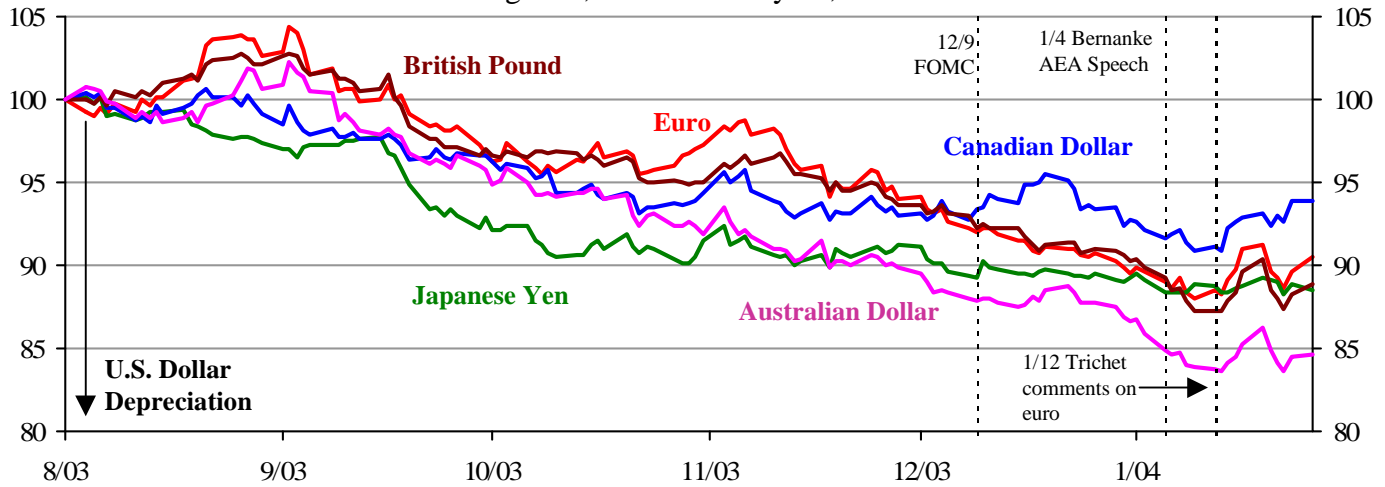


Select Foreign Currencies Versus U.S. Dollar

Index: 100 = 8/1/03

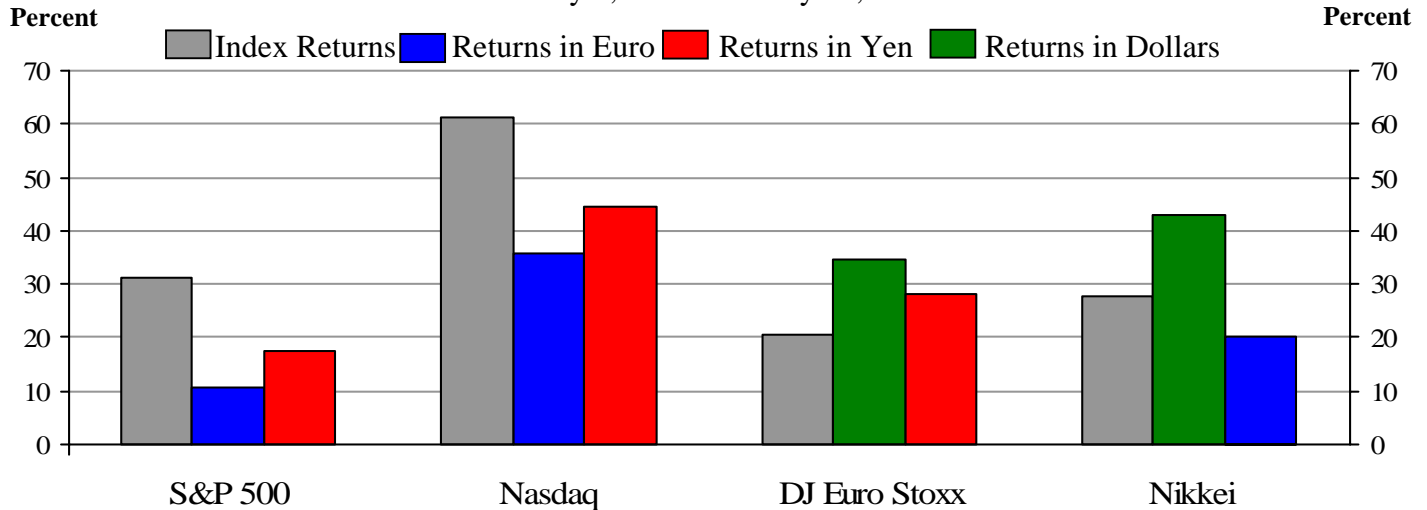
August 1, 2003 - January 26, 2004

Index: 100 = 8/1/03



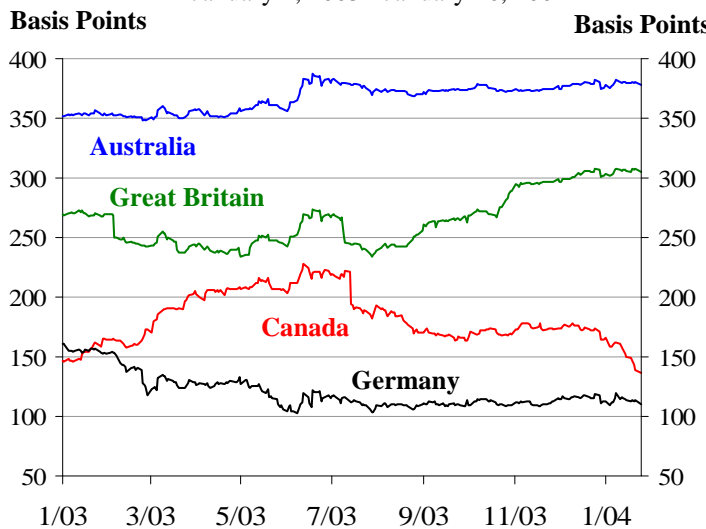
Global Equity Returns

January 1, 2003 - January 26, 2004



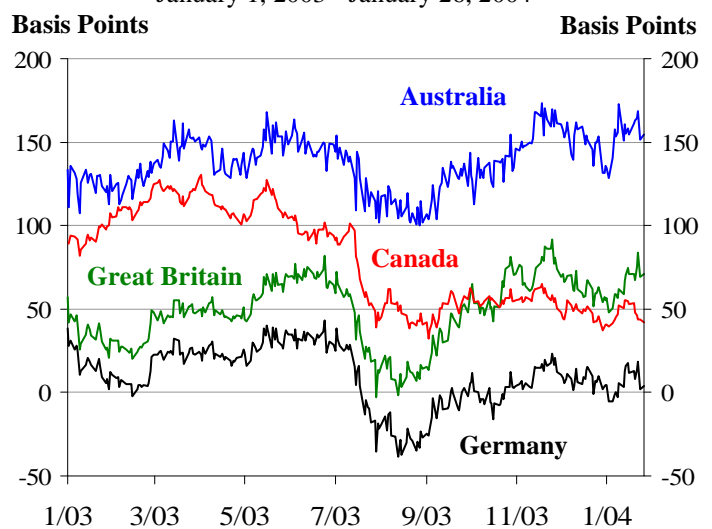
Interest Rate Differentials: Select 3-Month Government Spreads to U.S. Treasuries

January 1, 2003 - January 26, 2004



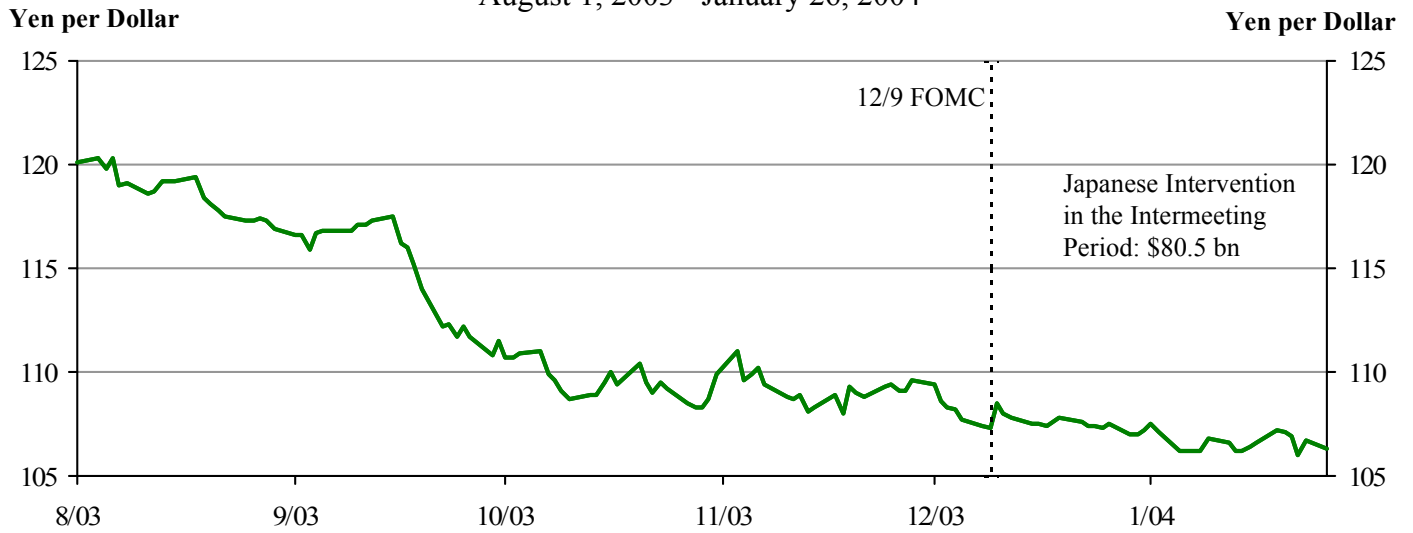
Interest Rate Differentials: Select 10-Year Government Yields less U.S. Treasury Yields

January 1, 2003 - January 26, 2004



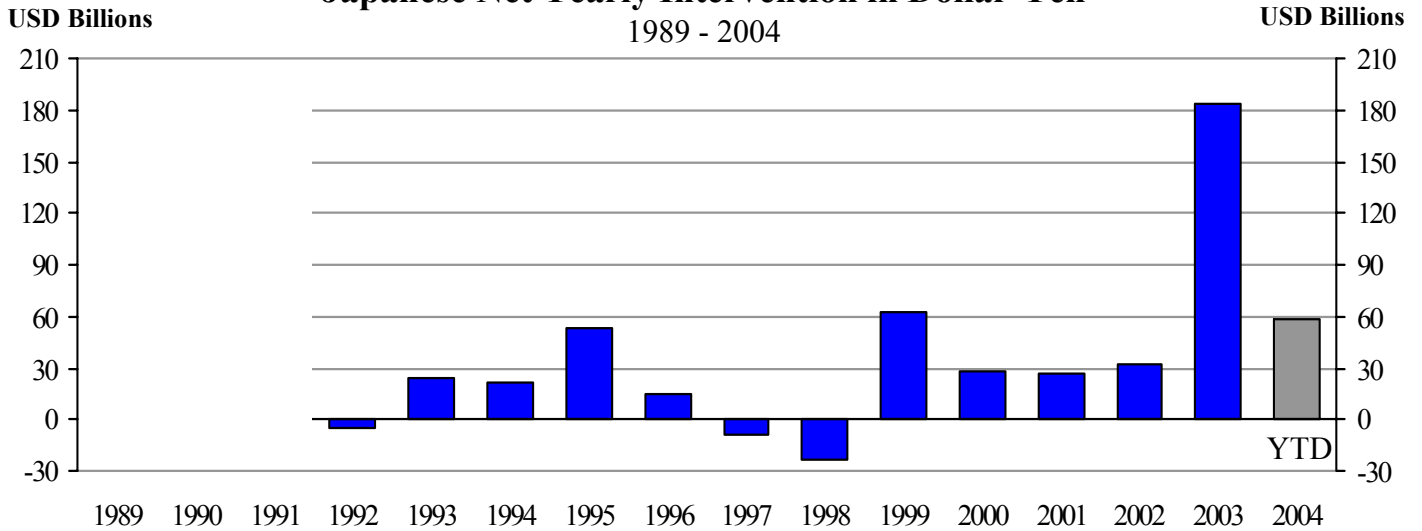
Japanese Yen Versus U.S. Dollar

August 1, 2003 - January 26, 2004



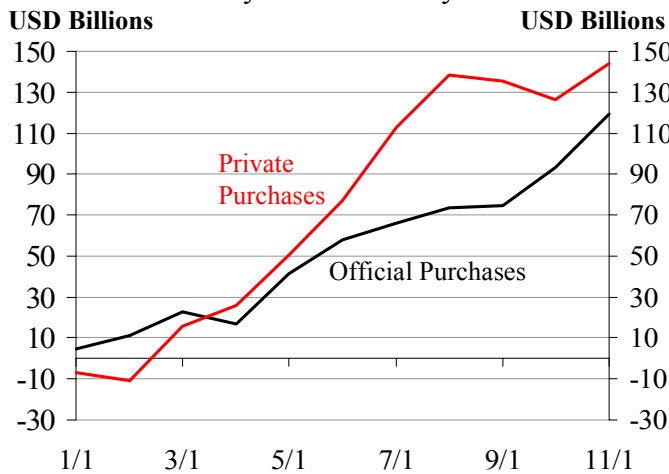
Japanese Net Yearly Intervention in Dollar-Yen

1989 - 2004



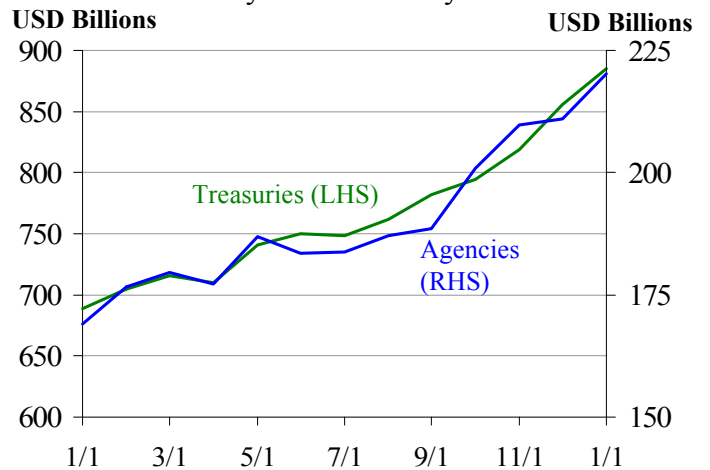
TIC Data: Cumulative Foreign Treasury Note and Bill Purchases

January 2003 - January 2004



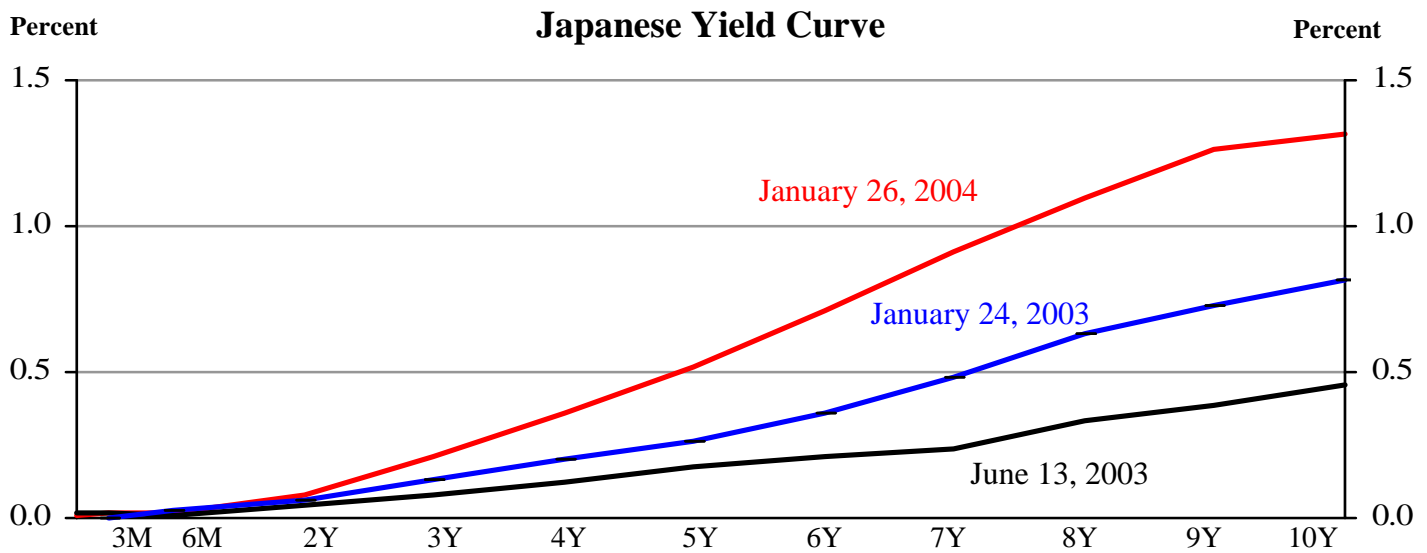
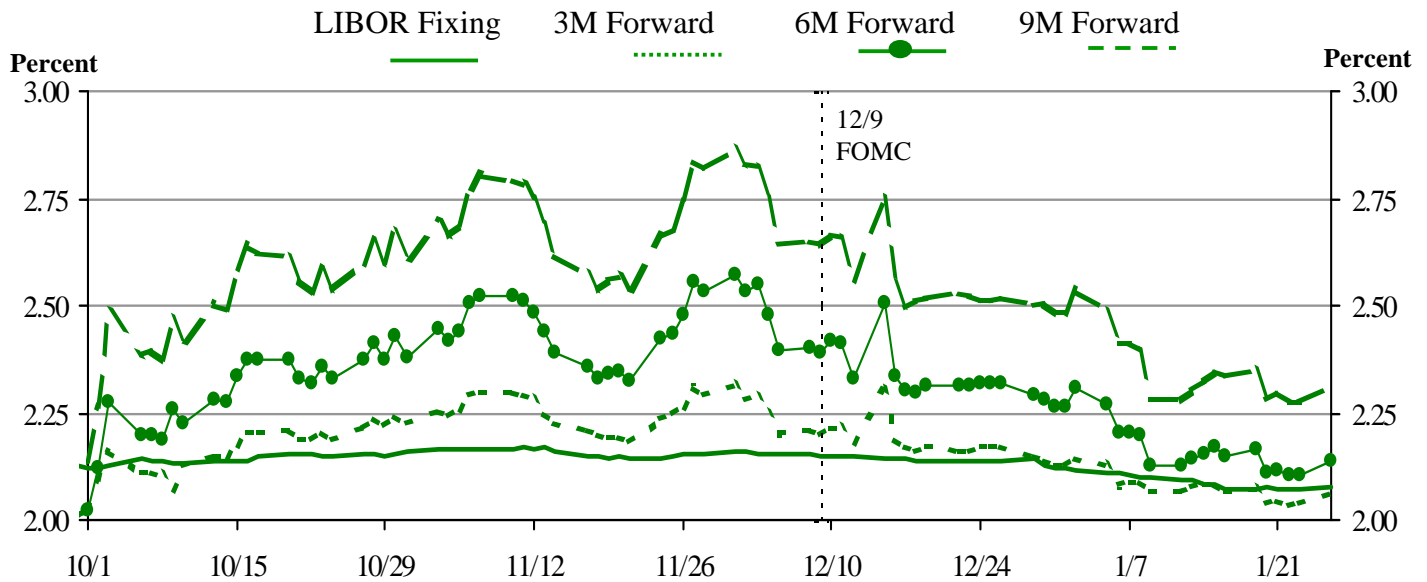
FRBNY Custody Holdings of Treasury and Agency Securities

January 2003 - January 2004



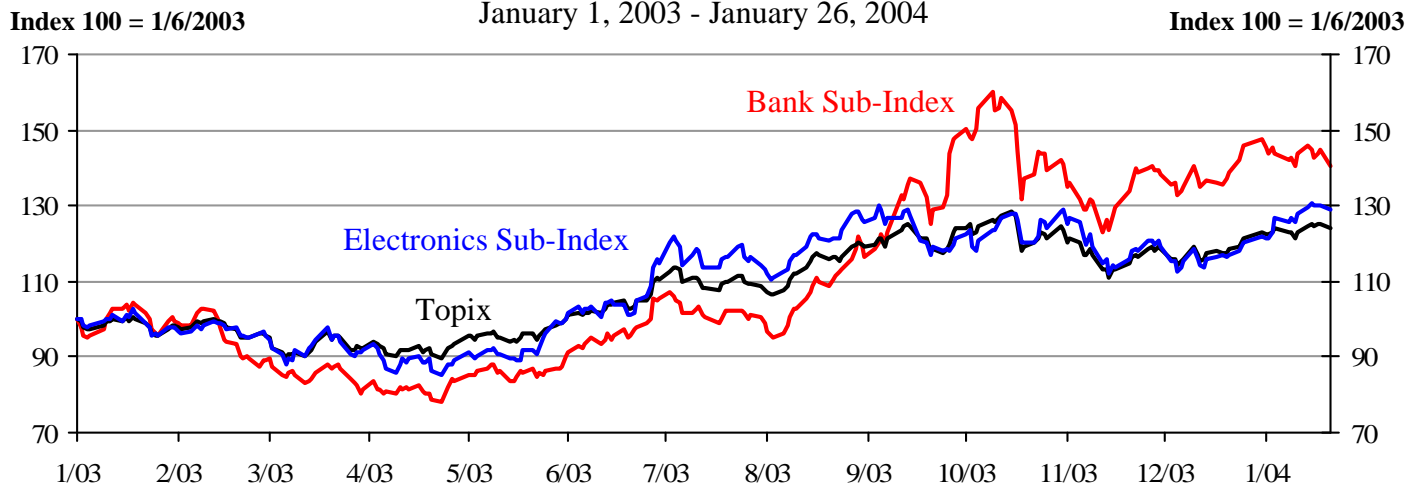
Current Euro Area 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

October 1, 2003 - January 26, 2004



Japanese Topix Index and Select Sub-Indices

January 1, 2003 - January 26, 2004



Appendix 4: Materials used by Mr. Slifman

Orders and Shipments of Durable Goods
(Percent change from comparable previous period,
seasonally adjusted)

Category	2003			2003		
	Q2	Q3	Q4	Oct.	Nov. ^r	Dec. ^a
	Annual rate			Monthly rate		
<i>Nondefense capital goods</i>						
Orders	12.9	17.9	5.0	2.4	-6.0	0.2
Aircraft	2140.8	36.1	1.1	31.1	-14.5	13.7
Excluding aircraft	3.2	17.1	5.1	1.4	-5.6	-4
Computers and peripherals	65.1	26.6	0.9	-8	0.1	2.0
Communications equipment	-31.2	80.8	-56.2	16.3	-48.5	-21.3
All other	1.0	7.6	21.0	-8	2.4	1.4
Shipments	5.7	16.4	7.4	0.3	0.4	-2
Aircraft	8.6	32.6	-8.5	-9.6	18.8	-13.2
Excluding aircraft	5.6	15.6	8.3	0.8	-4	0.5
Computers and peripherals	35.8	43.5	3.4	4.6	-2.4	-1.3
Communications equipment	-6.5	35.2	7.9	2.8	-1.3	-1.0
All other	2.7	8.4	9.3	-3	0.2	1.0
<i>Supplementary orders series</i>						
Durable goods*	-8	17.1	15.9	3.9	-2.3	-0
Real adjusted durable goods	-1.6	17.8		3.1	-2.4	
Capital goods	10.8	14.9	9.7	4.7	-5.3	0.2
Nondefense	12.9	17.9	5.0	2.4	-6.0	0.2
Defense	-2.1	-3.8	47.2	23.2	-1.3	0.1

r Revised.

a Advance.

* Contains industry detail not shown separately.

Appendix 5: Materials used by Messrs. Slifman, Struckmeyer and Kamin

STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC*

Material for

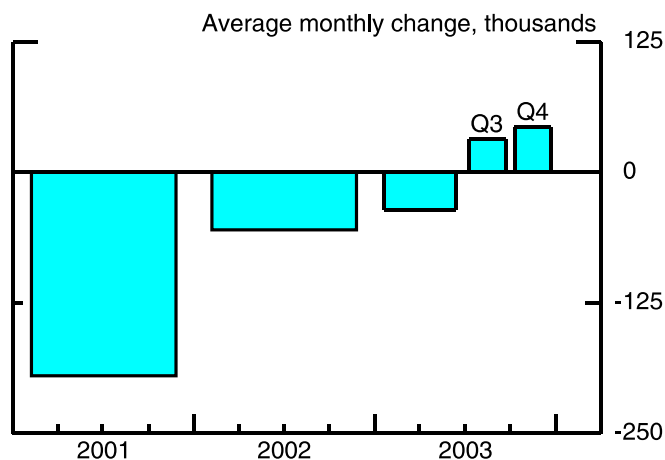
*Staff Presentation on the
Economic Outlook*

January 28, 2004

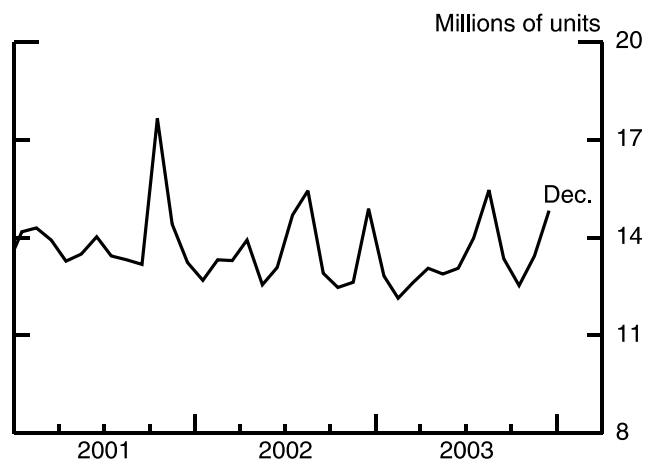
*Downgraded to Class II upon release of the February 2004 Monetary Policy Report.

Chart 1
Near-Term Developments

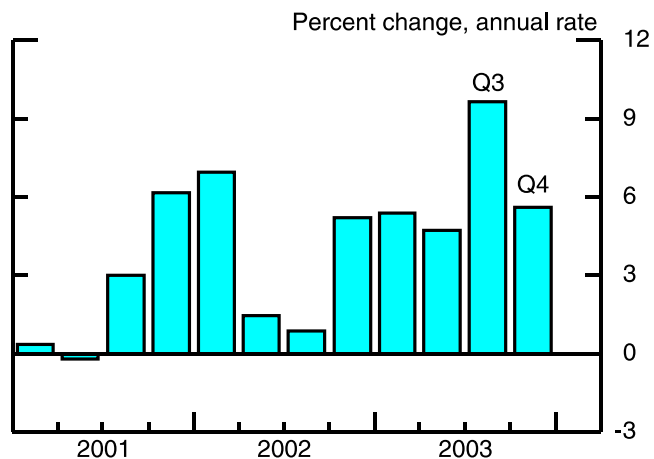
Private Nonfarm Payroll Employment



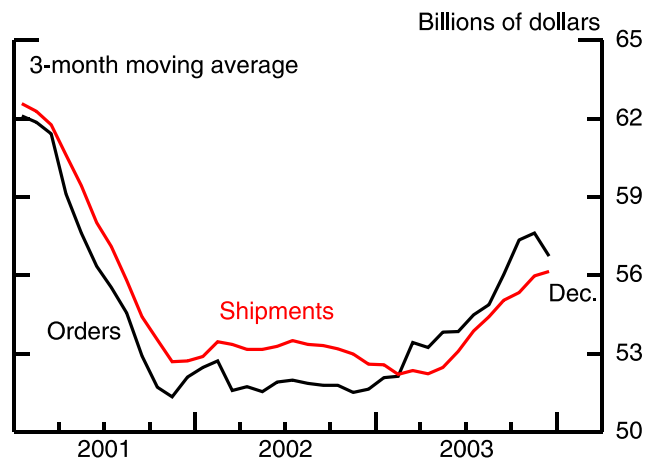
Sales of Light Vehicles



Real Retail Sales*



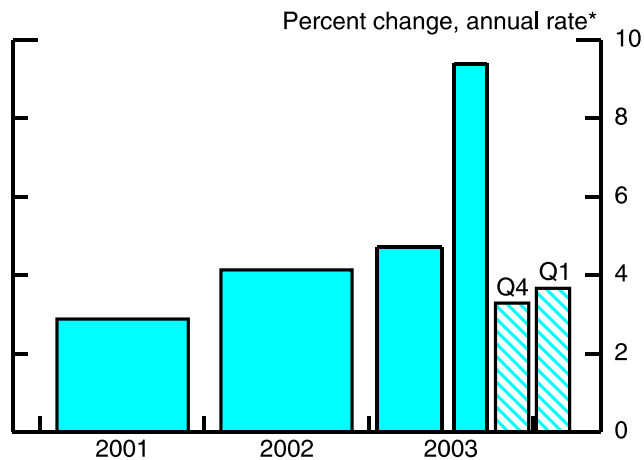
Orders and Shipments of Nondefense Capital Goods*



*Excludes sales at automobile dealers and building material and supply stores.

*Excluding aircraft.

Nonfarm Business Productivity



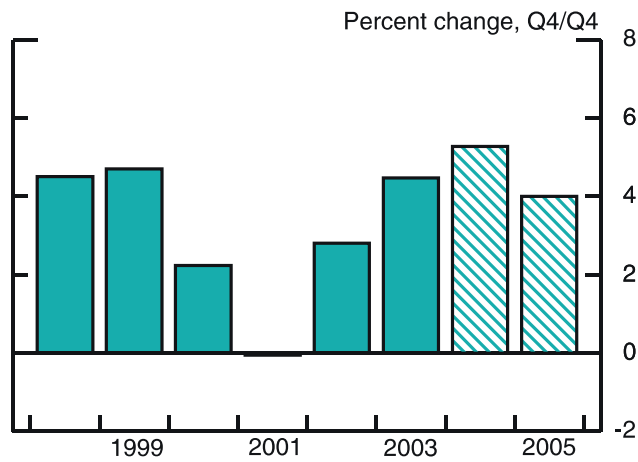
*Percent changes are calculated from end of the preceding period to end of the period indicated.

Real GDP

	Percent change, annual rate	
	2003:Q4	2004:Q1
1. Real GDP	4.8	5.0
<i>Contributions (percentage points):</i>		
2. Final sales	3.9	4.5
3. Inventories	.8	.5

Chart 2
The Longer-Run Outlook

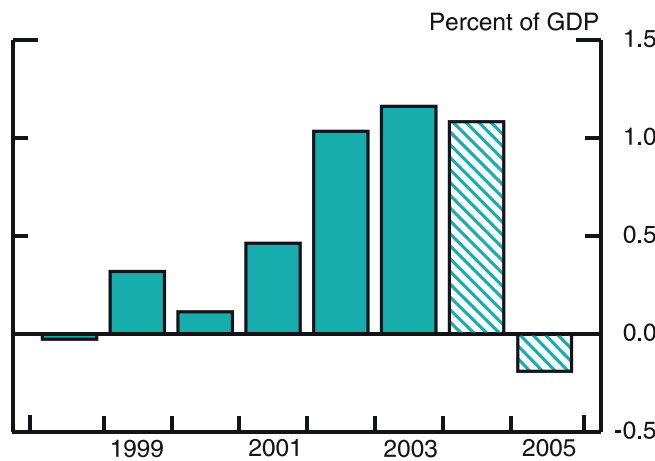
Real GDP



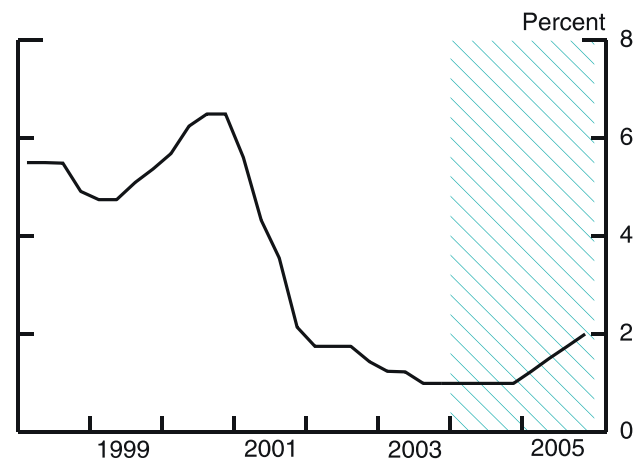
Major Forces Shaping the Outlook

- Fiscal policy – stimulative in 2004, slightly restrictive in 2005.
- Supportive monetary policy.
- Robust gains in structural productivity.
- Improved financial conditions for business.
- Higher stock market.

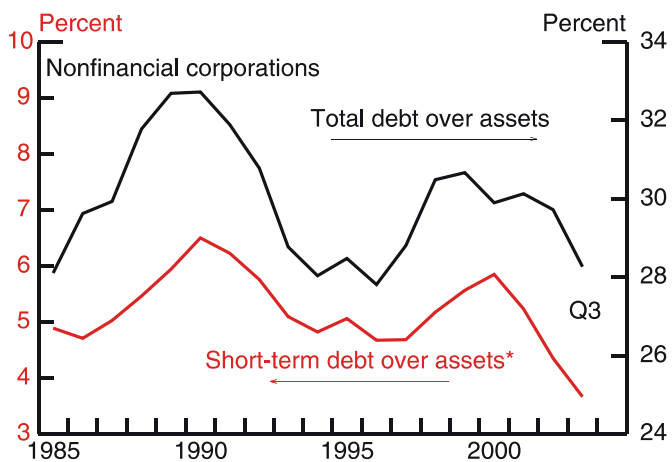
Fiscal Impetus



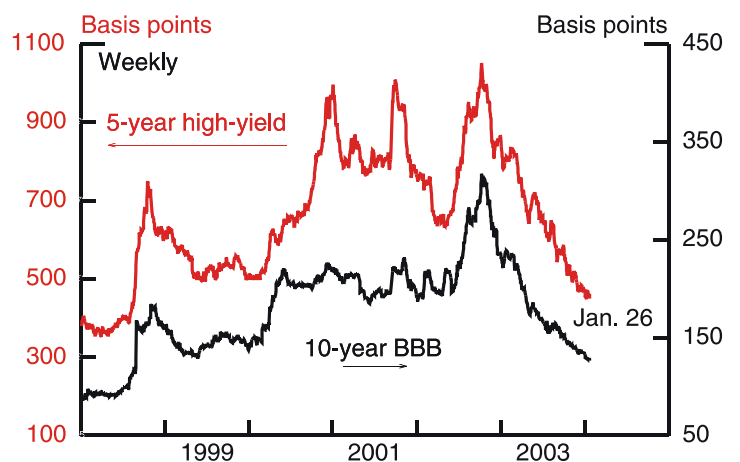
Federal Funds Rate



Debt Ratios



Corporate Bond Spreads to Similar Maturity Treasury

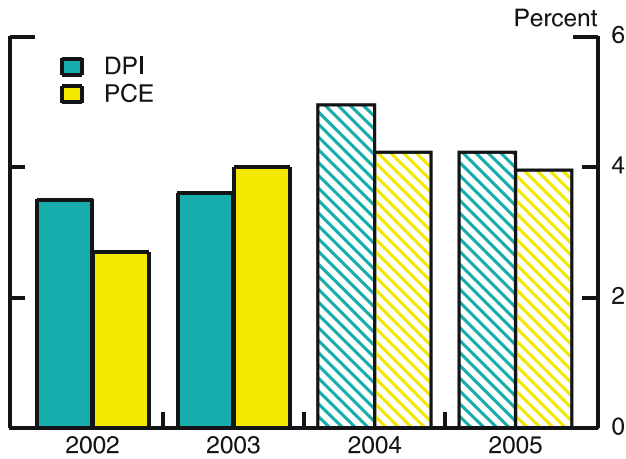


Source: Compustat.

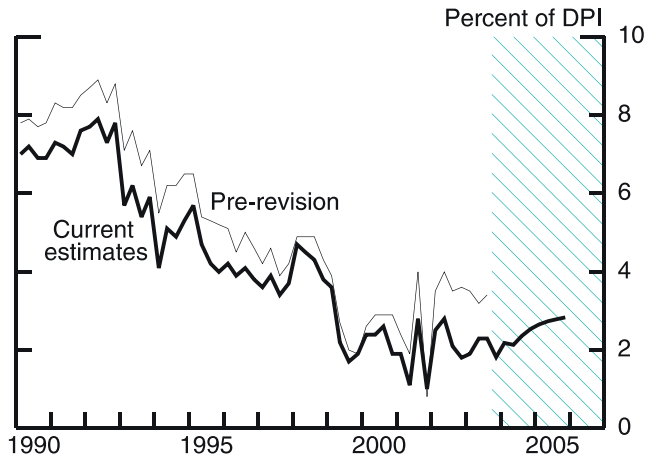
*Short-term debt equals short-term notes plus the current portion of long-term debt due in one year.

Chart 3
Household Sector

Real DPI and PCE Growth



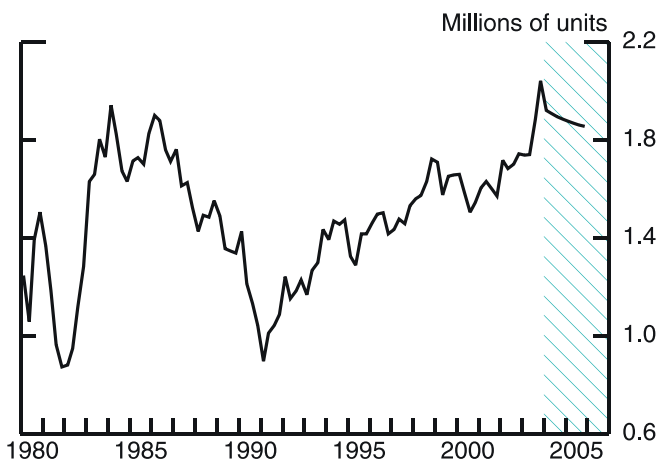
Saving Rate



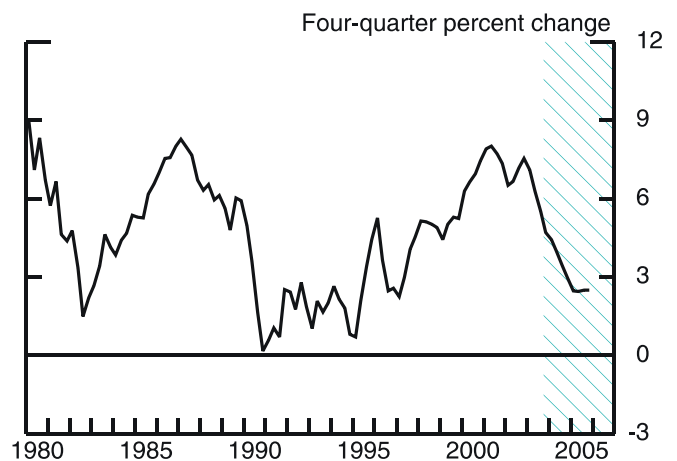
Is The Saving Rate Too Low?

- The BEA, in effect, shifted the goal posts in its most recent comprehensive revision.
- The current saving rate still is well below the level that many observers often think of as a more normal rate.
- The target saving rate is a moving target.
 - It varies over time as the fundamental determinants, such as the wealth-income ratio, the composition of income, and real interest rates, change.
 - The current settings of those fundamentals point to a target saving rate for the next year or two in the neighborhood of 3 percent.
- The saving rate rises to 2.8 percent by the fourth quarter of 2005, eliminating the bulk of the gap between actual and target saving.

Private Housing Starts



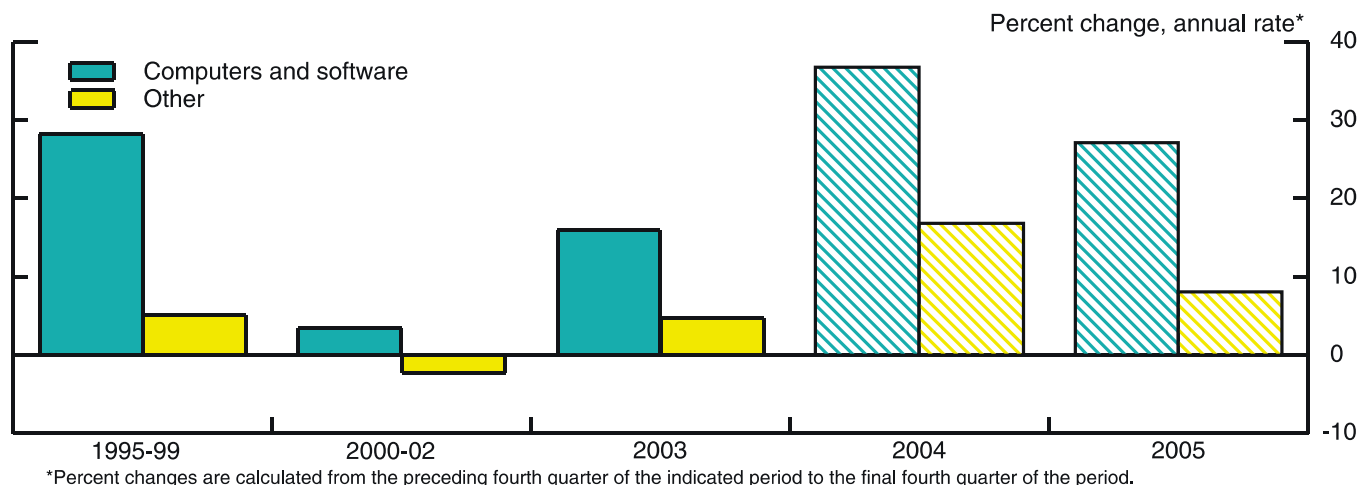
Home Prices*



*OFHEO Repeat Sales Price Index.

Chart 4
Business Sector

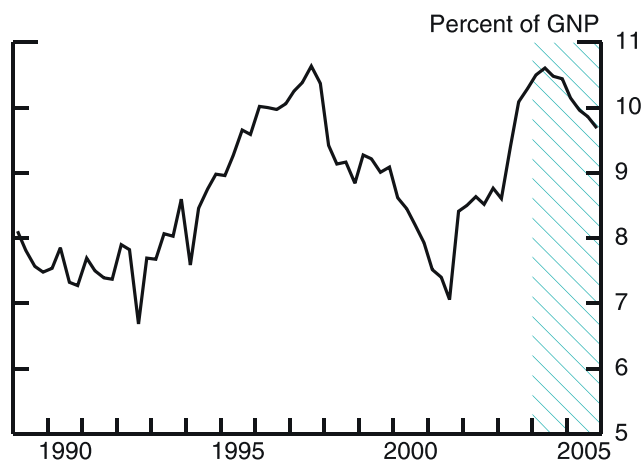
Real Outlays for Equipment and Software



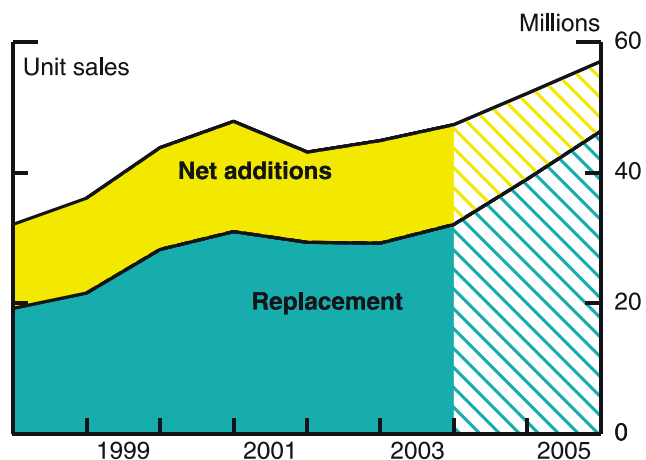
Reserve Bank Queries On Capital Spending Plans
(Percent of respondents answering "yes")

	June 2003	Jan 2004
Plan to increase capital spending over the next 6 to 12 months	35	52
<i>Reasons for increase:</i>		
Expected sales growth	46	54
Replace IT	39	41
Partial expensing	6	16
Cash flow/balance sheets	16	25

Economic Profit Share

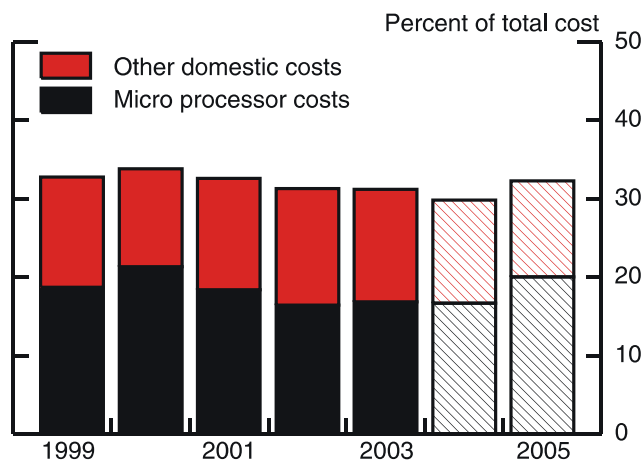


PCs Sold in the U.S.



Source: Gartner Group.

Domestic Cost Share of PCs Sold in the U.S.

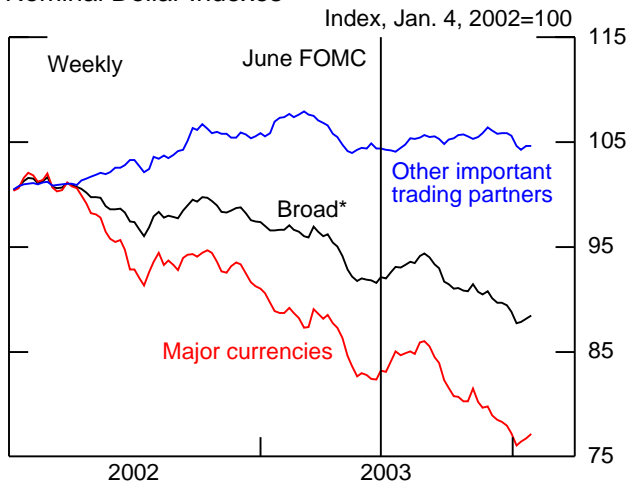


Source: Industry reports, Census Bureau, and staff estimates.

Chart 5

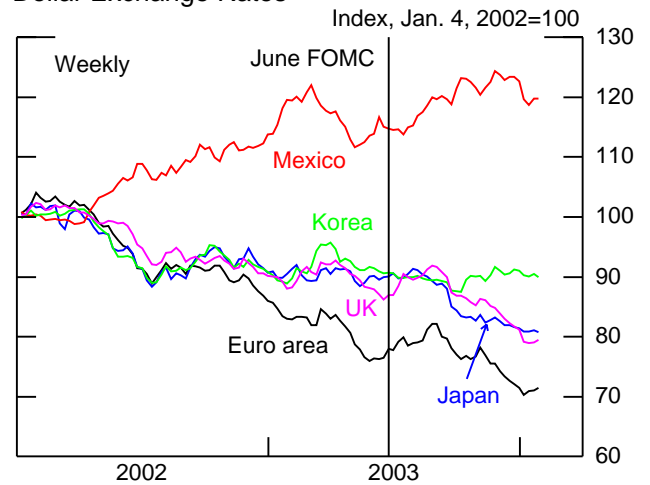
Financial Developments

Nominal Dollar Indexes



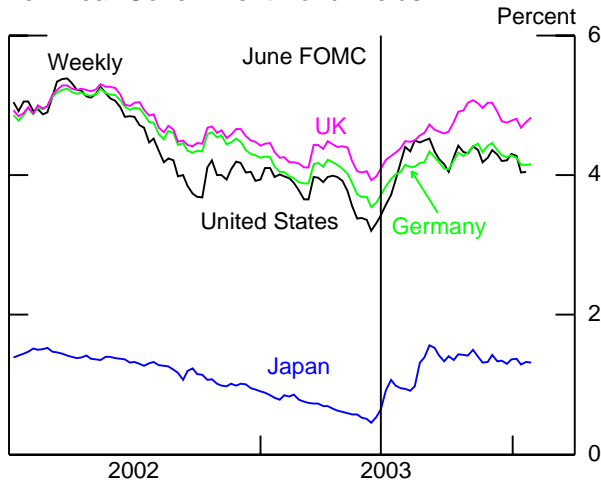
*Trade-weighted average of exchange rates against major currencies and currencies of other important trading partners.

Dollar Exchange Rates*

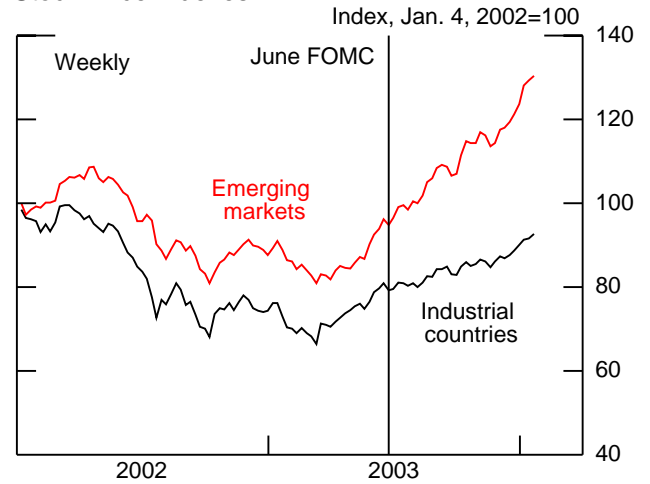


*Foreign currency/dollar.

Ten-Year Government Bond Yields

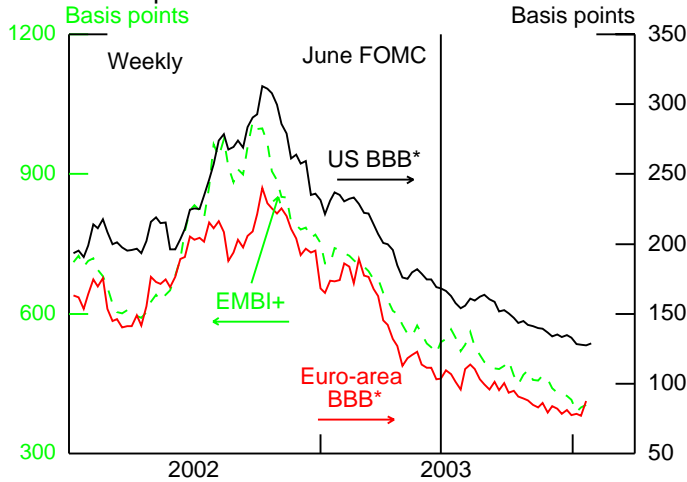


Stock Price Indexes*



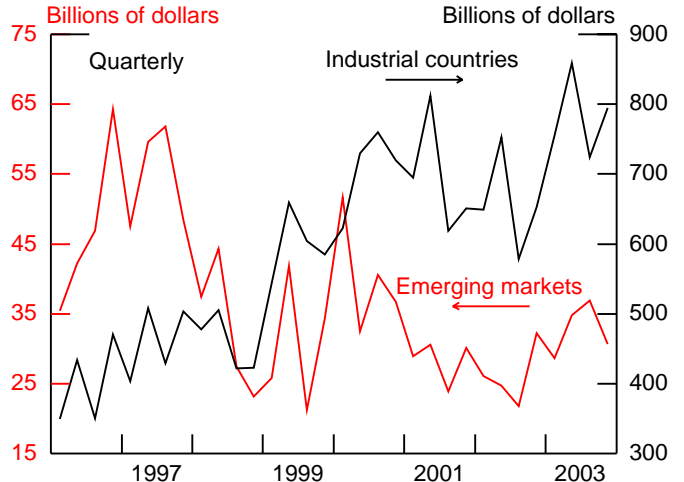
*Source: MSCI.

Bond Spreads



*Corporate over government debt.

Cross-border Debt Issuance*



*Source: Dealogic(Bondware, Loanware).

Chart 6

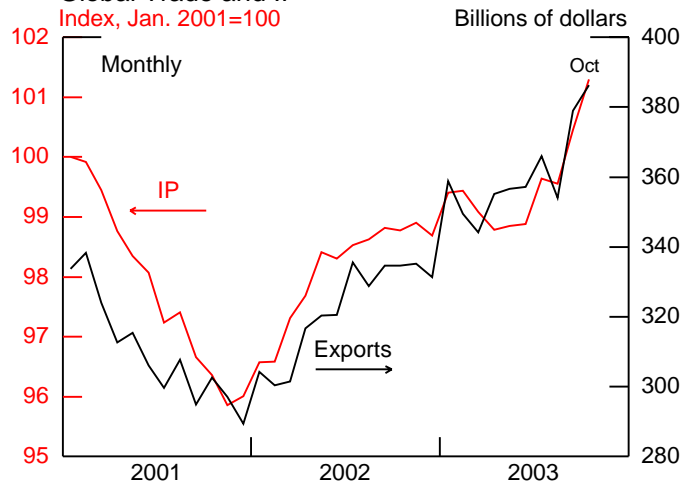
Foreign Outlook

Real GDP Growth: Industrial Countries
Percent, SAAR*

	2003		2004	2005
	H1	H2		
1. Total foreign**	0.6	3.9	3.8	3.5
2. Indust. countries	0.7	2.4	2.9	2.8
<i>of which:</i>				
3. Euro Area	-0.2	1.8	2.4	2.2
4. Japan	2.0	2.4	2.0	1.8
5. Canada	0.6	2.4	3.4	3.3
6. United Kingdom	1.5	3.4	3.0	2.5

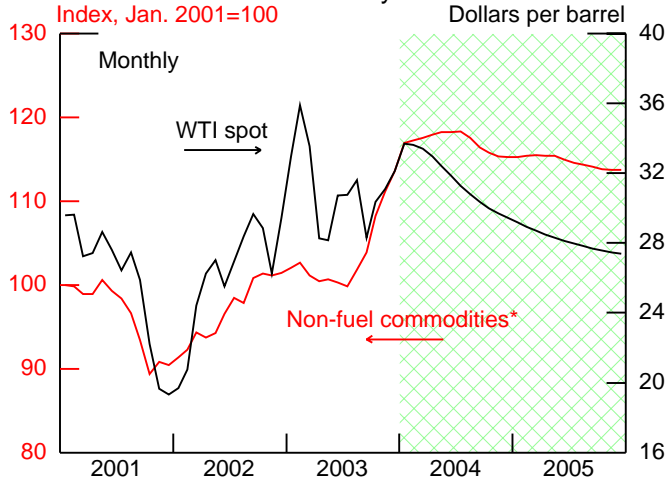
*Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.
**Aggregates weighted by shares of U.S. exports.

Global Trade and IP*
Index, Jan. 2001=100



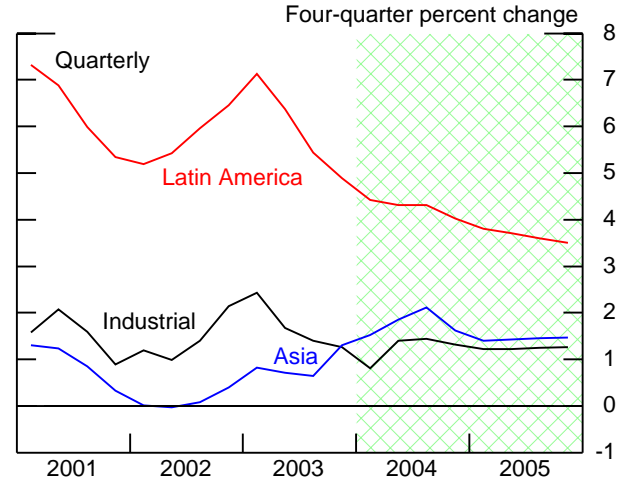
*United States and 32 trading partners. IP weighted by 2002 GDP in dollars. Hong Kong and Indonesia IP through September.

Oil and Non-fuel Commodity Prices
Index, Jan. 2001=100



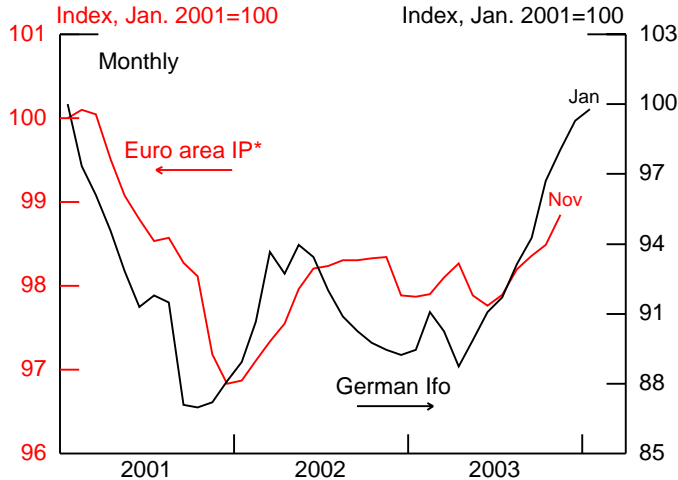
*IMF component indexes weighted by U.S. import shares.

Consumer Price Inflation*
Four-quarter percent change



*Aggregates weighted by shares in U.S. non-oil imports.

Euro Area - Industrial Sector Indicators
Index, Jan. 2001=100



*3-month moving average.

Japan
Percent

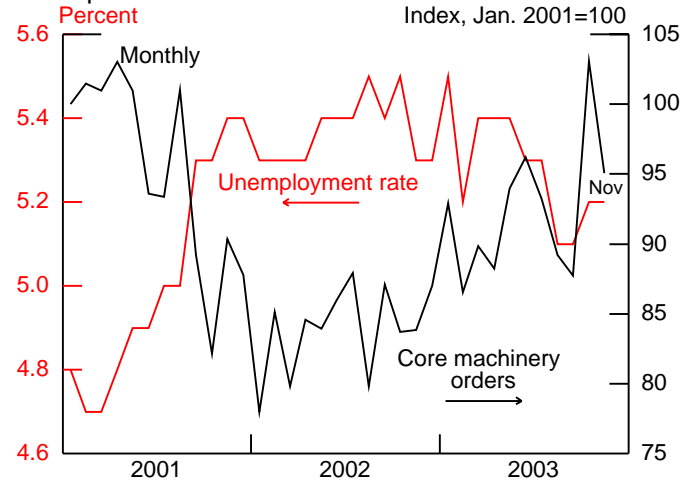


Chart 7

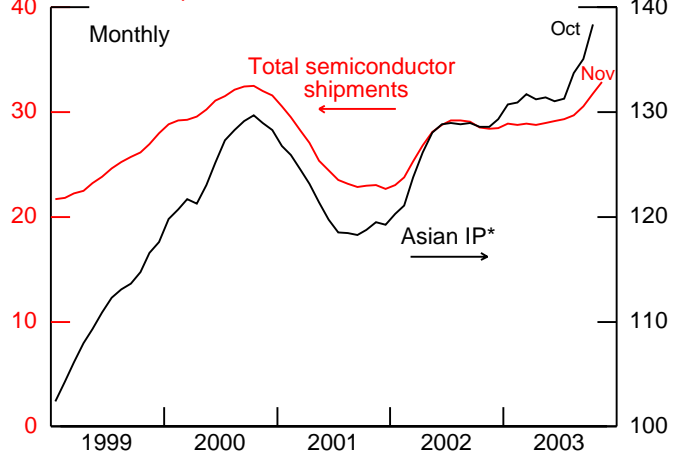
Emerging Market Countries

Real GDP Growth
Percent, SAAR*

	2003		2004	2005
	H1	H2		
1. Total developing**	0.5	6.1	5.1	4.6
2. Developing Asia	-0.6	11.0	5.7	5.4
of which:				
3. China	6.3	13.6	8.3	7.7
4. Korea	-2.2	4.8	5.2	5.2
5. Latin America	0.9	2.0	4.8	4.0
of which:				
6. Mexico	1.6	1.0	5.2	4.2
7. Brazil	-4.0	2.8	3.5	3.5

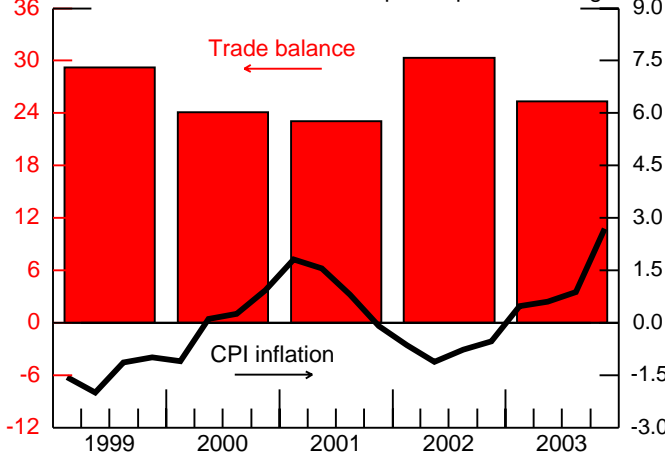
*Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.
**Aggregates weighted by U.S. exports.

Worldwide Semiconductor Shipments and Asian IP
Billions of chips
Index, June 1996=100

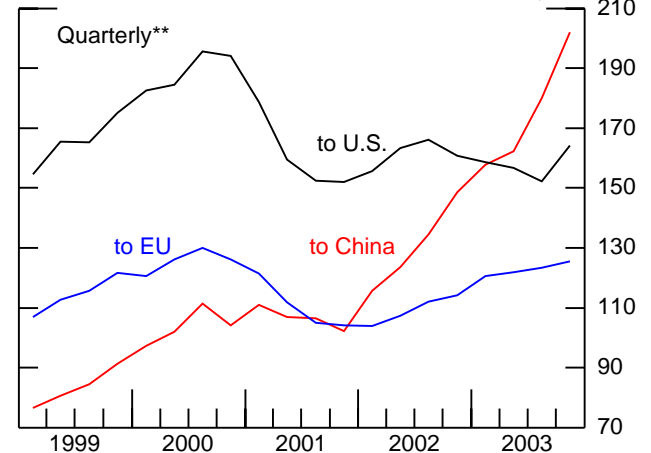


*Weighted by U.S. exports; includes Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand.

China
Billions of dollars
Four-quarter percent change

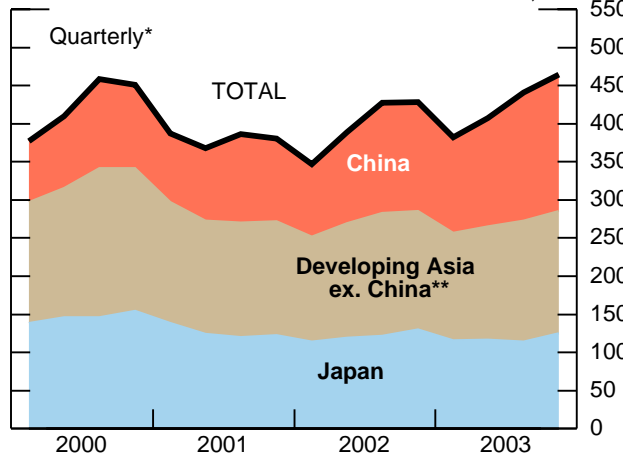


Exports by Developing Asia ex. China*
Billions of dollars, AR



*Includes Hong Kong, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. **2003:Q4 data through November for China and US and through October for EU.

U.S. Imports from Asia
Billions of dollars, AR



*2003:Q4 data through October and November.
**Includes Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

Mexico
Billions of dollars
Index, Jan. 2000=100

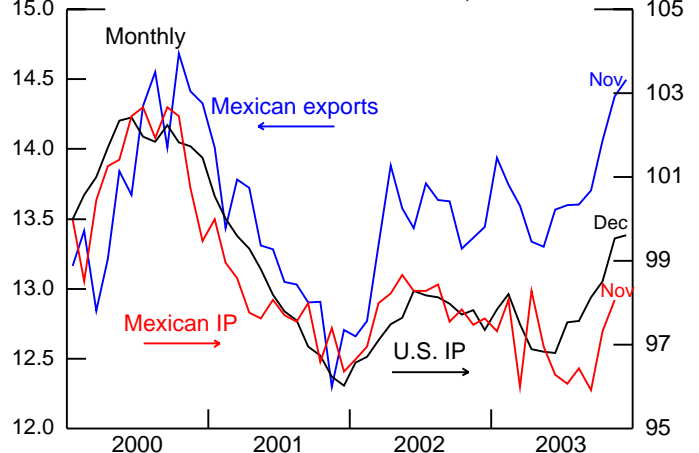
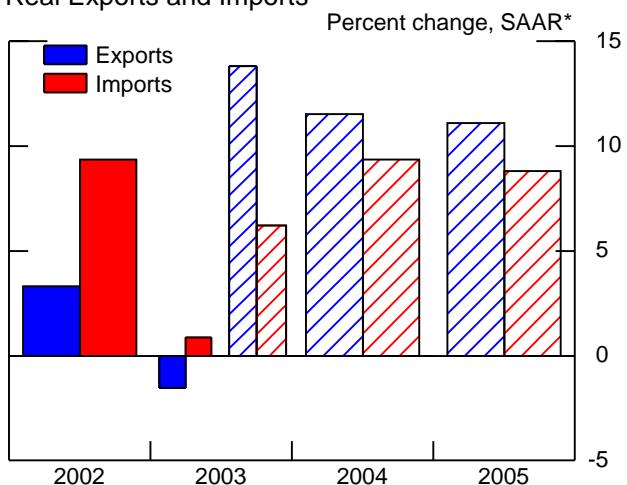


Chart 8

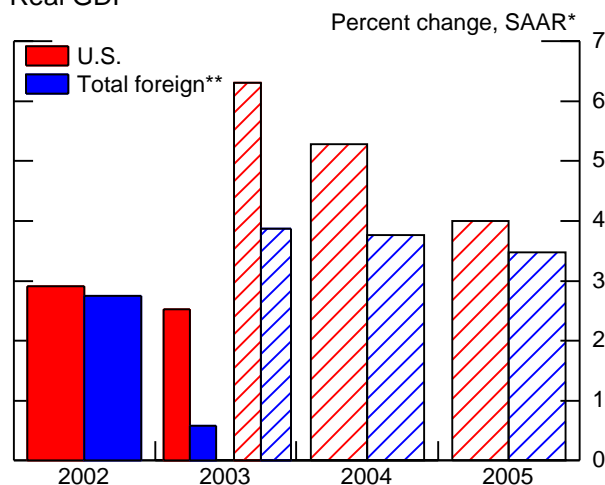
U.S. External Outlook

Real Exports and Imports



*Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.

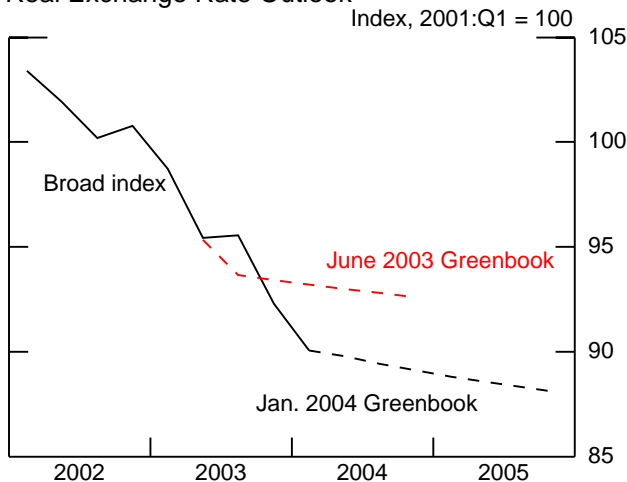
Real GDP



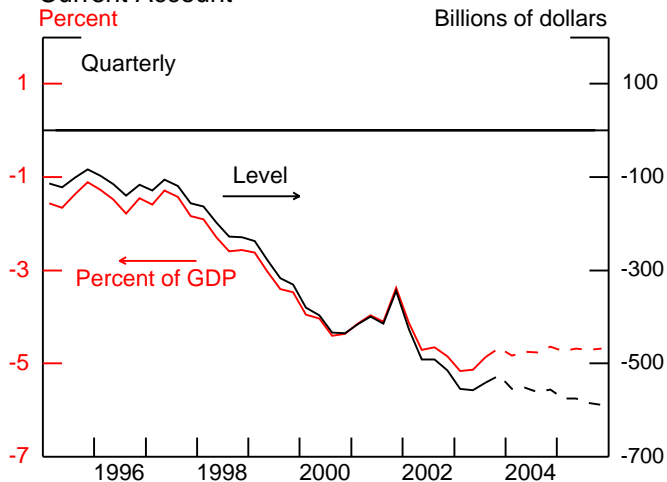
*Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.

**U.S. export weights.

Real Exchange Rate Outlook



Current Account



Financial Flows
Billions of Dollars, SAAR

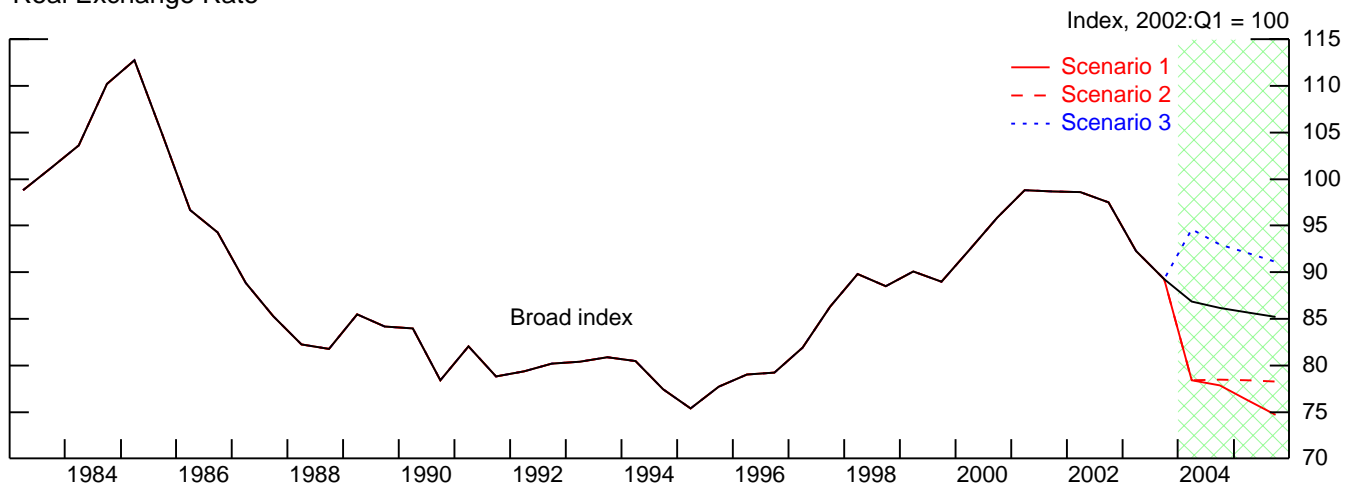
	2002	2003:H1	2003:Q3	2003:Q4*
1. Current account	-481	-556	-540	NA
2. Official capital, net	88	194	170	247
3. Private capital, net	440	387	323	NA
Of which:				
4. Foreign purchases of U.S. securities	408	418	246	309
5. U.S. purchases of foreign securities	16	-37	-116	-62
6. Foreign DI in U.S.	40	114	33	NA
7. U.S. DI abroad	-138	-129	-150	NA

*October and November.

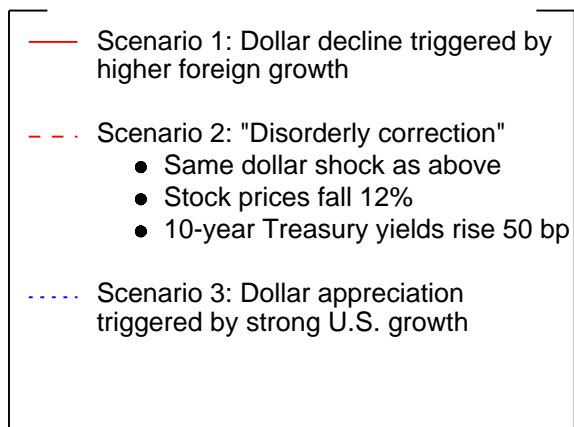
Chart 9

Alternative Dollar Scenarios

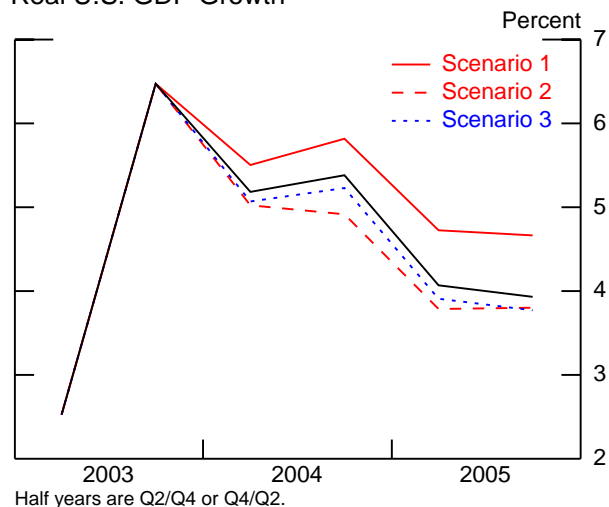
Real Exchange Rate



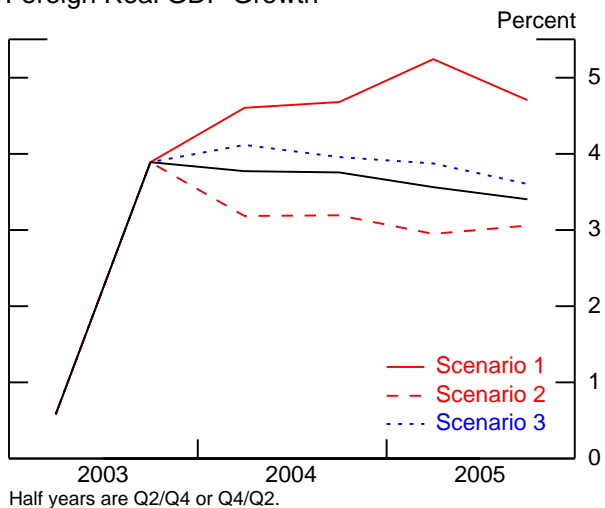
Dollar Scenarios



Real U.S. GDP Growth



Foreign Real GDP Growth



U.S. Current Account Balance

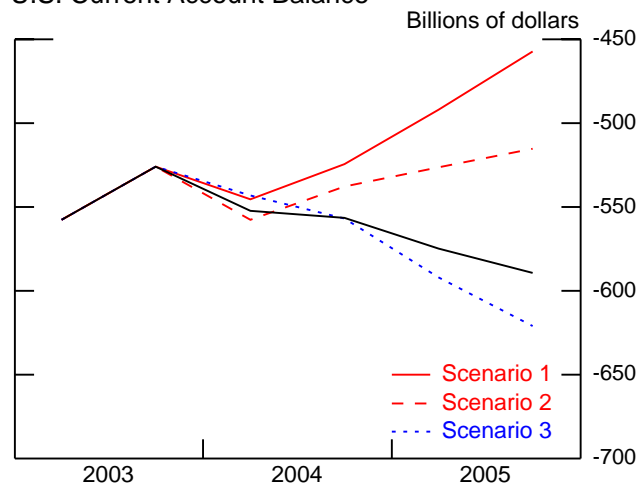
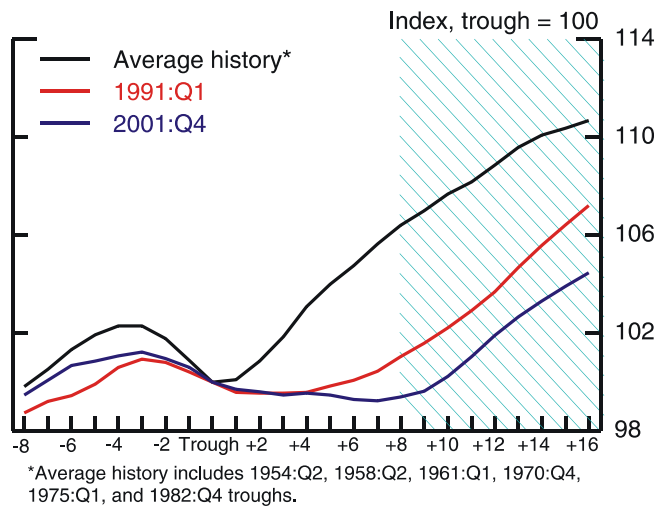
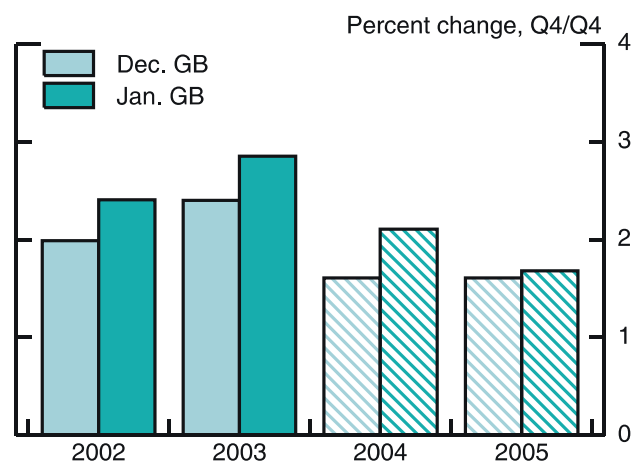


Chart 10
Labor Markets

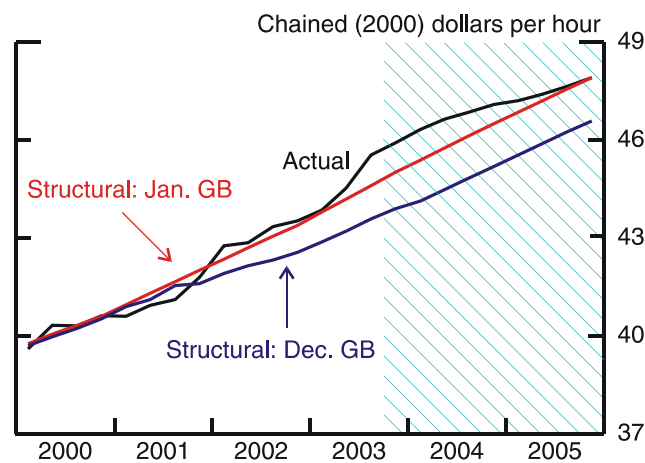
Cyclical Comparison of Nonfarm Payroll Employment



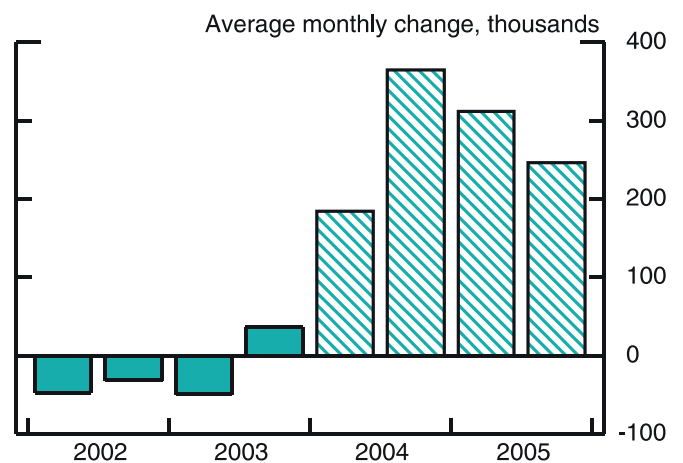
Structural Multifactor Productivity



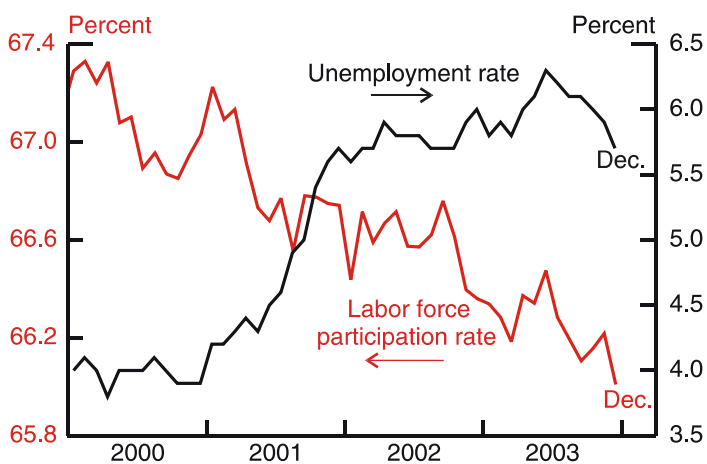
Actual Labor Productivity



Nonfarm Payroll Employment



Unemployment and Labor Force Participation Rates



Labor Force Participation Rate

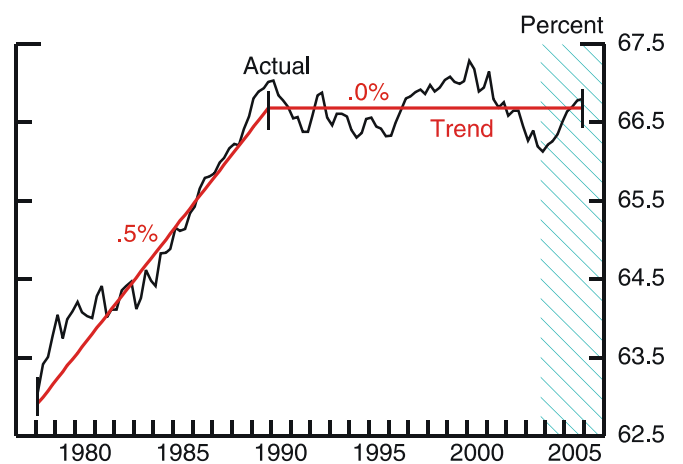


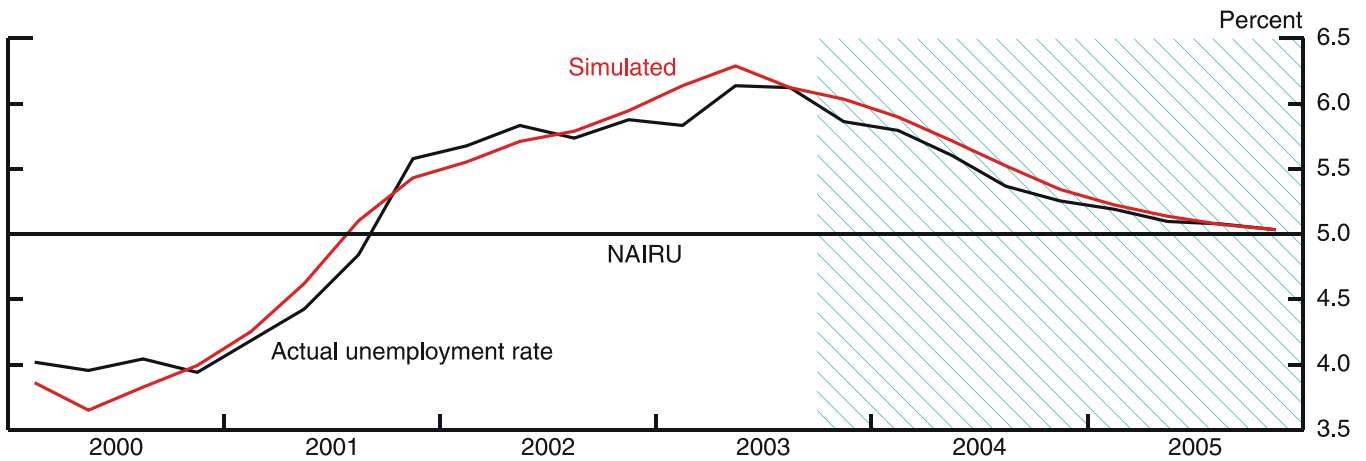
Chart 11
Aggregate Supply

Potential GDP

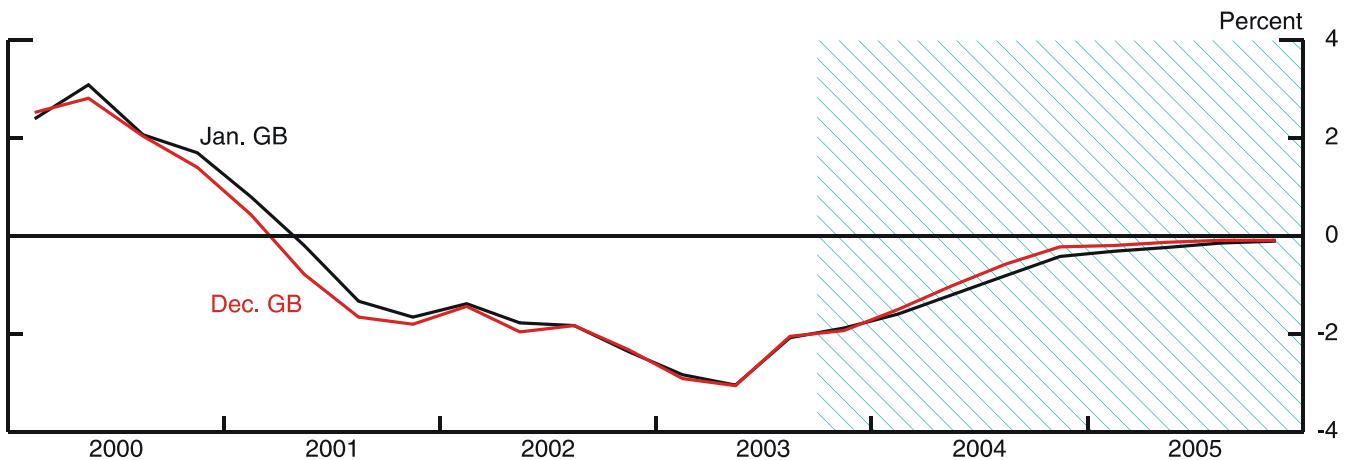
Percent change, annual rate

	1995-2001	2002	2003	2004	2005
1. Potential GDP	3.4	3.6	4.0	3.7	3.7
<i>(Previous)</i>	3.4	3.5	3.9	3.5	3.7
2. Potential labor hours	1.0	1.1	1.1	1.1	1.1
3. Structural Labor Productivity	2.8	3.3	3.7	3.3	3.1
<i>(Previous)</i>	2.7	2.6	3.1	2.7	2.9
4. Technical factors	-.4	-.8	-.8	-.6	-.4
5. Output	-.4	-.4	-.4	-.4	-.4
6. Hours	.0	-.4	-.4	-.2	.0
<i>(Previous)</i>	.2	.3	.3	.3	.3

Okun's Law



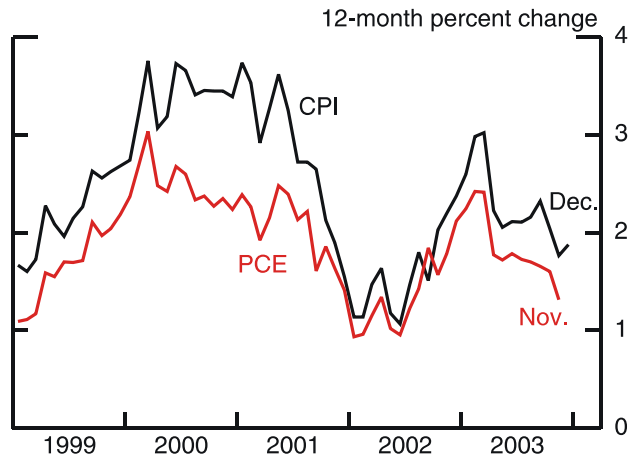
GDP Gap*



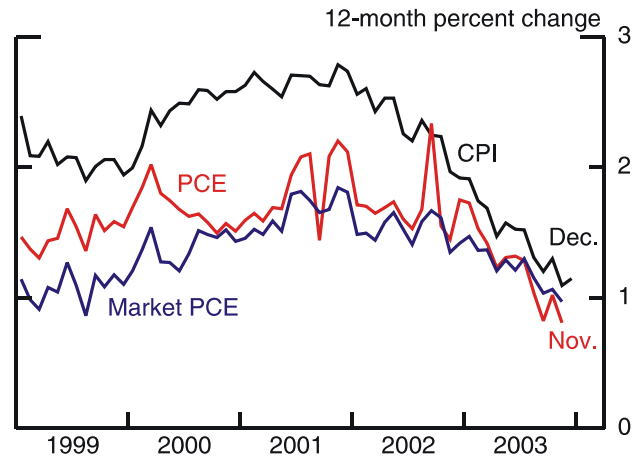
*The GDP gap is defined as actual GDP less potential GDP, divided by potential GDP.

Chart 12
Recent Price Developments

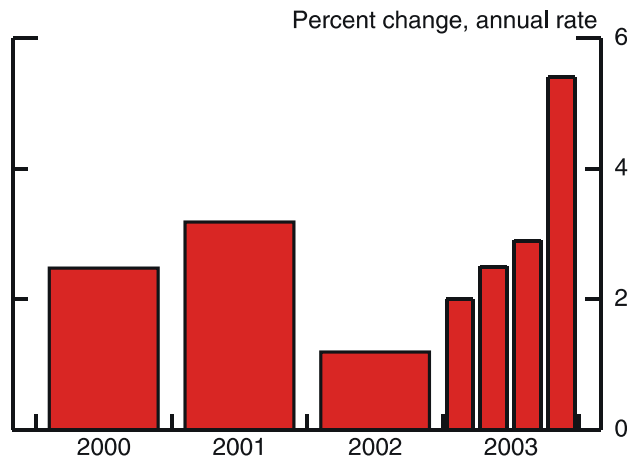
Consumer Prices



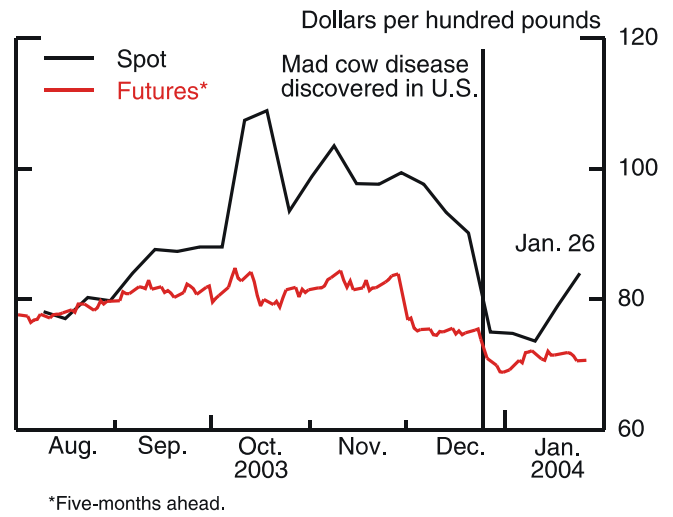
Core Consumer Prices



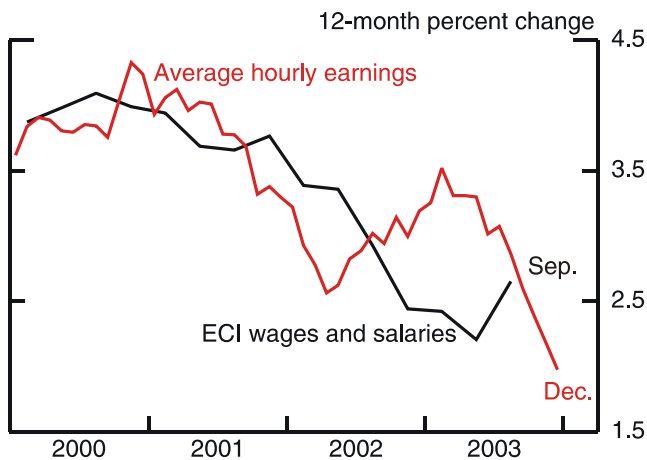
CPI Food Prices



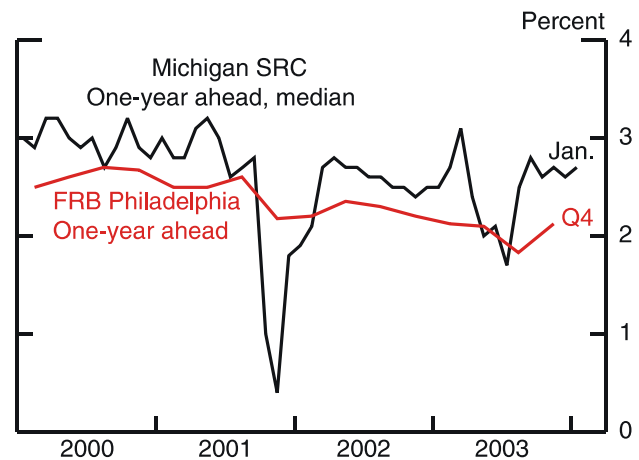
Live Cattle Prices



Labor Costs*



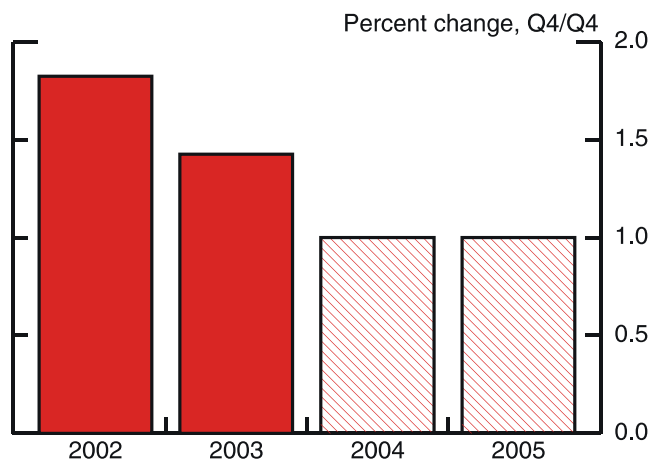
Inflation Expectations



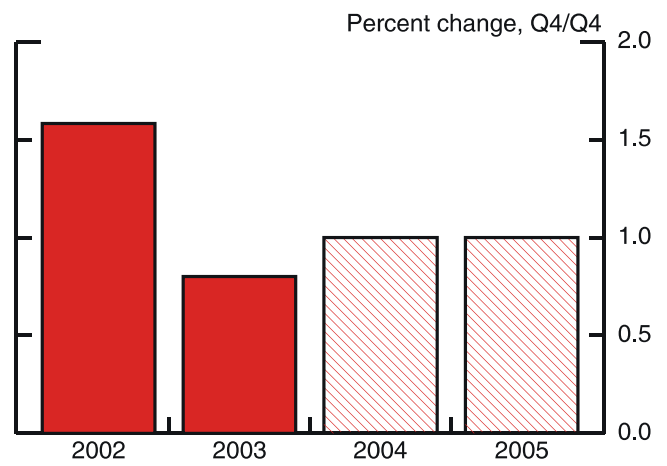
*Production or nonsupervisory workers.

Chart 13
Inflation Outlook

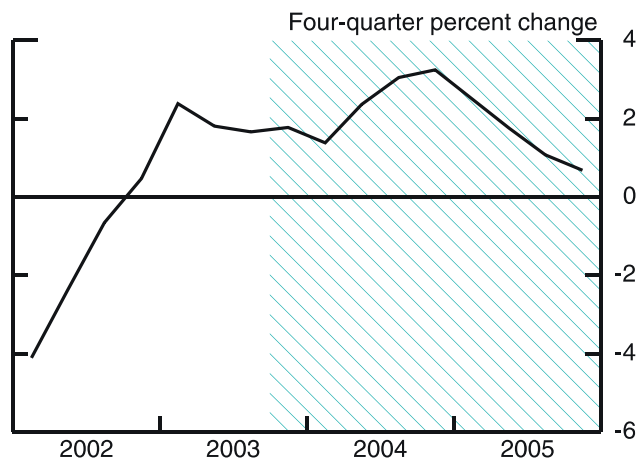
PCE Prices



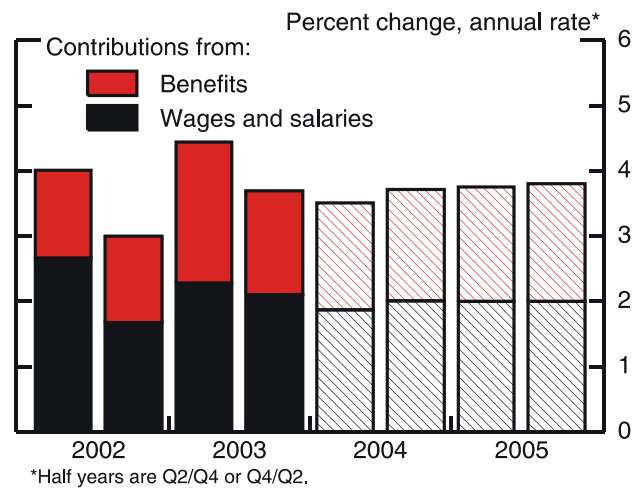
Core PCE Prices



Core Non-oil Import Prices



ECI Compensation per Hour



Probability of Deflation

Effective Deflation	Core PCE Inflation less than ½ percent
Pernicious Deflation	Core PCE Inflation less than ½ percent AND the unemployment rate above 6 percent

	Effective Deflation	Pernicious Deflation
Jan. 2003	24	10
June 2003	30	10
Jan. 2004	22	5

Chart 14

ECONOMIC PROJECTIONS FOR 2004

FOMC			
	Range	Central Tendency	Staff
-----Percentage change, Q4 to Q4-----			
Nominal GDP (June 2003)	5½ to 6½ (4¾ to 6½)	5½ to 6¼ (5¾ to 6¼)	6.2
Real GDP (June 2003)	4 to 5½ (3½ to 5¼)	4½ to 5 (3¾ to 4¾)	5.3
PCE Prices (June 2003)	1 to 1½ (¾ to 2)	1 to 1¼ (1 to 1½)	1.0
-----Average level, Q4, percent-----			
Unemployment rate (June 2003)	5¼ to 5½ (5½ to 6¼)	5¼ to 5½ (5½ to 6)	5.3

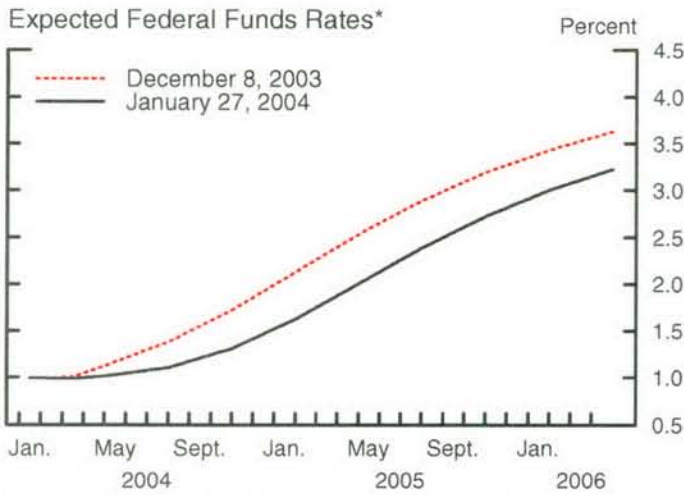
Central tendencies calculated by dropping high and low three from ranges.

Appendix 6: Materials used by Mr. Reinhart

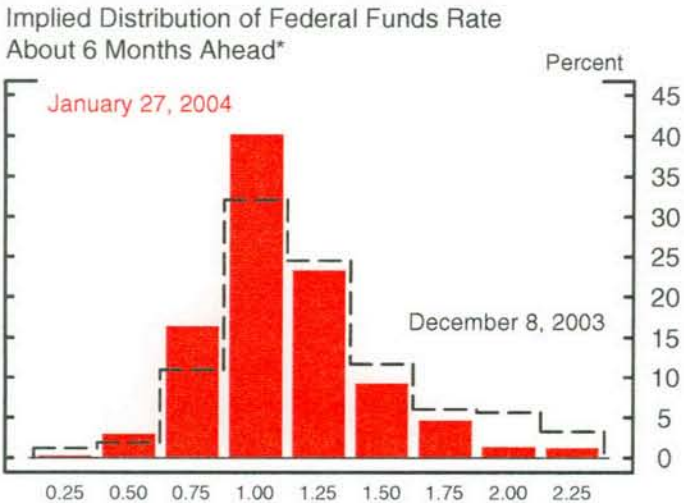
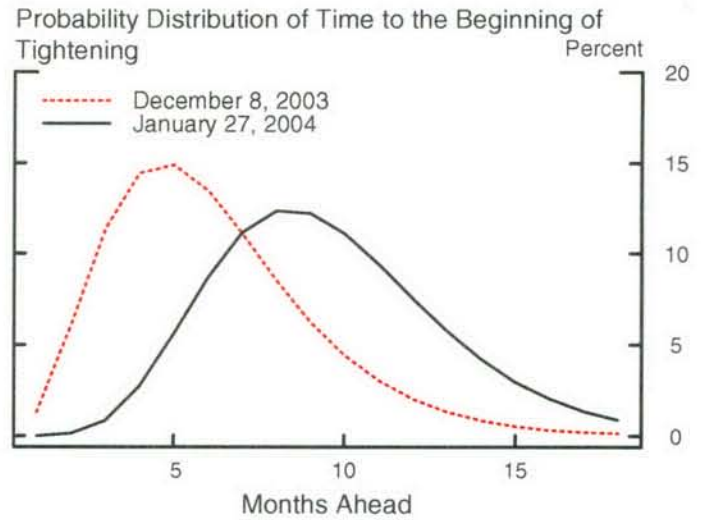
Material for
Briefing on Monetary Policy Alternatives
January 28, 2004

STRICTLY CONFIDENTIAL (FR)
CLASS I FOMC

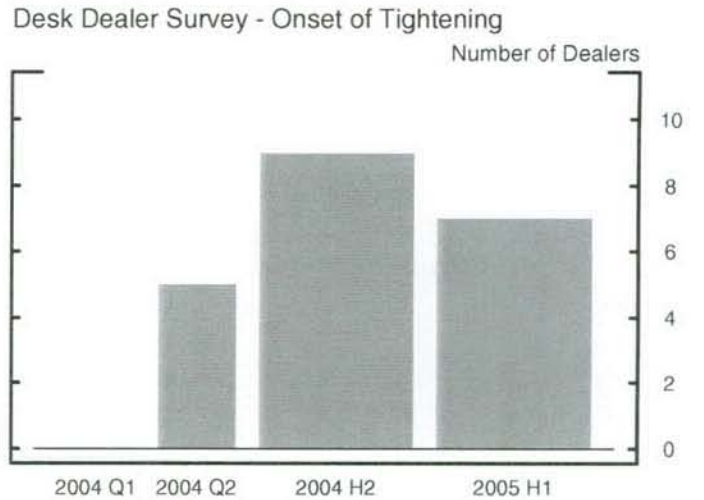
Exhibit 1



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



*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a risk premium), as implied by options on eurodollar futures contracts.



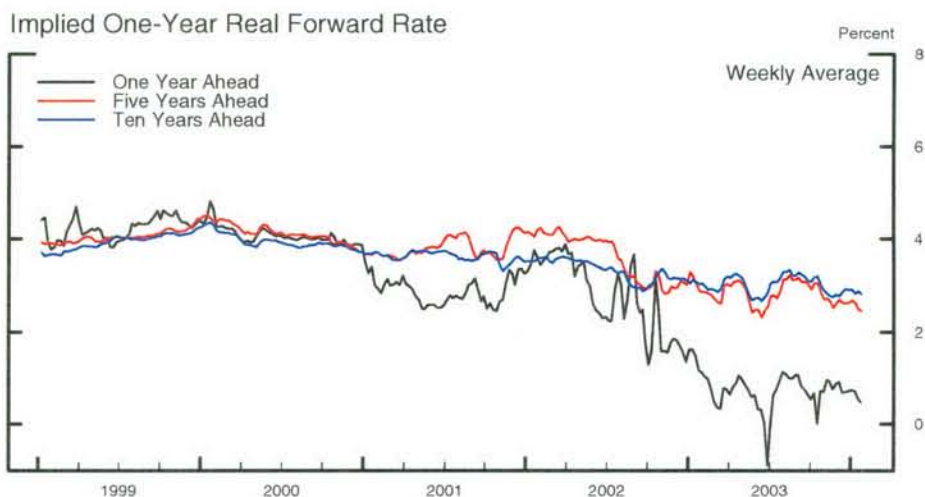
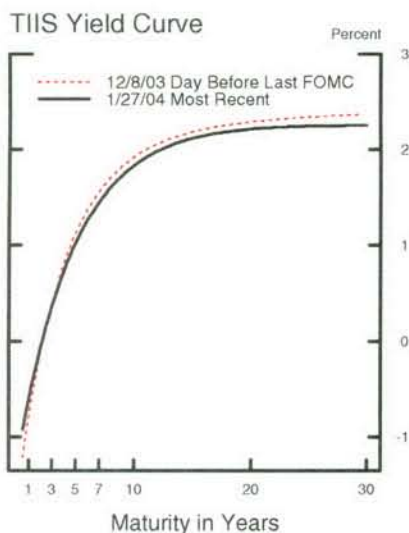
Desk Dealer Survey - FOMC Statement

Output Risk	21	Balanced
	1	Upside
Inflation Risk	18	Balanced
	4	Downside
Overall Risk	20	Balanced or None
	2	Unwelcome Disinflation
Considerable Period	17	Retained
	5	Removed

Private Sector Forecasts

	2004		2005
	H1	H2	
GDP Growth	4.5	4.0	3.7
<i>Greenbook</i>	5.4	5.1	3.8
Inflation (Core PCE)	1.1	1.4	1.7
<i>Greenbook</i>	1.2	1.1	1.1
Unemployment	5.8	5.7	5.4
<i>Greenbook</i>	5.9	5.4	5.1

Exhibit 2



The Case for Easier Policy

- Business confidence may remain impaired.
- Inflation is low and poised to go lower.

The Case for Firmer Policy

- Considerable financial accomodation is in place.
- Inflation pressures may emerge more quickly than in the staff forecast.

Selected Money and Credit Aggregates

	2003			2004
	H1	Q3	Q4	Jan.
M2	7.7	7.0	-1.8	-1.5
Bank Credit	-9.7	4.6	-0.5	2.2
Business Loans	-6.4	-13.9	-9.7	-7.4

Change in Selected Financial Market Conditions Since Last FOMC

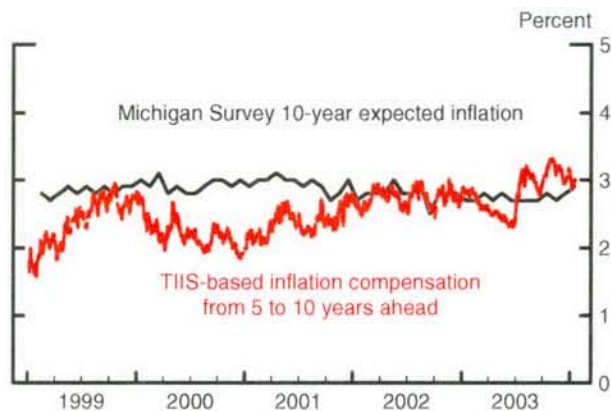
Ten-Year Treasury	Basis Points	-20
A Corporate	Basis Points	-22
Wilshire	Percent	7.2
Major Currency Index	Percent	-1.7

Exhibit 3
Alternative Strategies for Removing Policy Accomodation

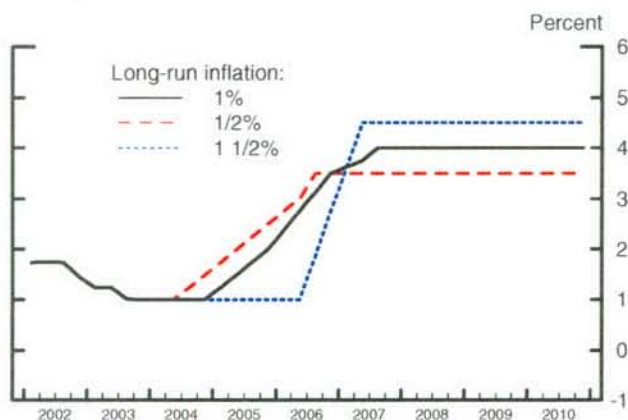
Case for Keeping Policy on Hold

- Long-term inflation expectations seem well-anchored.
- Simulations suggest that policy can remain on hold for an extended period without fueling strong inflation pressures.

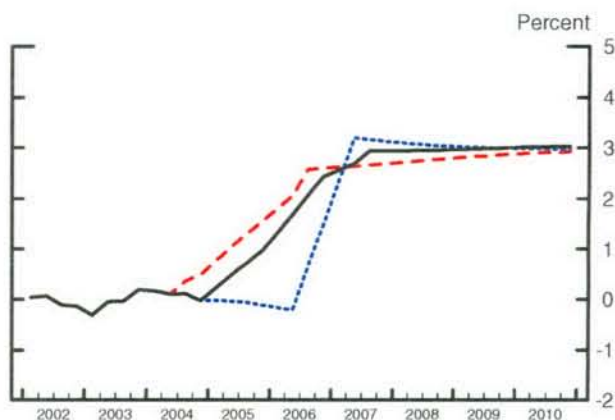
Inflation Expectations



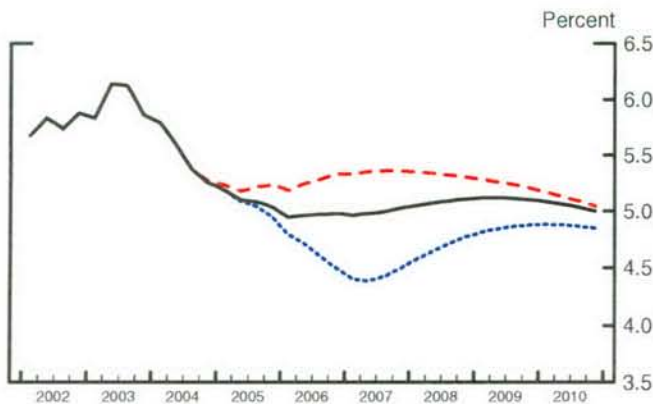
Nominal Federal Funds Rate



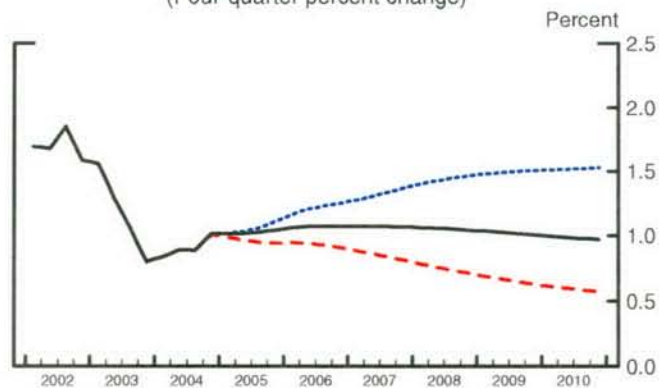
Real Federal Funds Rate¹



Civilian Unemployment Rate



PCE Inflation (ex. food and energy)
(Four-quarter percent change)



1. The real federal funds rate is calculated as the quarterly average nominal funds rate minus the four-quarter lagged core PCE inflation rate as a proxy for inflation expectations.

Exhibit 4
The Considerable Period Sentence

December 2003 FOMC Statement

"With inflation quite low and resource use slack, the Committee believes that policy accommodation can be maintained for a considerable period."

Considerable Period Options

Retain

- Confident economy will evolve in a benign manner.
- Or inflation on low side of desired range.

Drop

- Tightening within next few meetings not ruled out.
- Costs of having to delay tightening or renege damaging.

Modify

- Outsized market reaction to dropping.
- "Patience" would imply gradual firming.

Potential Alternative

"With inflation quite low and resource use slack, the Committee believes that it can be patient in removing its policy accommodation."