Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements
January 2, 2006 – September 18, 2006

2- and 10-Year Treasury Yields and Target Fed Funds Rate
January 2, 2006 – September 18, 2006

U.S. Breakeven Inflation Rates
January 2, 2006 – September 18, 2006
December 2006-2007 Interest Rate Future Spreads
January 2, 2006 – September 18, 2006

Global 10-Year Yields
January 2, 2006 – September 18, 2006

U.S.
U.K.
Canada
France

Global Breakeven Inflation Rates
January 2, 2006 – September 18, 2006

U.K. 10Y
Canada 15Y
U.S. 10Y
France 10Y

Japanese 10-Year Yields
January 2, 2006 – September 18, 2006

Japanese 10-Year Breakeven Inflation Rate
January 2, 2006 – September 18, 2006

Basis Points

Class II FOMC – Restricted FR

Authorized for Public Release
Japanese Sovereign Yield Curve

Real Effective Yen Exchange Rate
March 1973 – August 2006

Source: Bank of Japan

Select Metals Prices
January 2, 2006 – September 18, 2006

Front Month Energy Futures Prices
January 2, 2006 – September 18, 2006
Early and Regular Return Fed Funds Volumes

<table>
<thead>
<tr>
<th>Percent of Total $ Billions</th>
<th>0%</th>
<th>3%</th>
<th>6%</th>
<th>9%</th>
<th>12%</th>
<th>15%</th>
<th>18%</th>
</tr>
</thead>
</table>

9 a.m. Brokered Overnight Fed Funds Rate vs. Early Return Fed Funds Effective Rate

Intraday Standard Deviation for Early Return, Regular Return, and All Fed Funds Transactions

*Large Principal & Interest Payment Dates for the GSEs: 8/15/06, 8/25/06, 9/15/06*
Appendix 2: Materials used by Mr. Bernanke
Unemployment Rate

Real GDP
Appendix 3: Materials used by Mr. Reinhart
Class I FOMC – Restricted Controlled FR

Material for
FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart
September 20, 2006
Exhibit 1
Financial Market Developments

Eurodollar futures

Note. 5-minute intervals.

Yield curves

Nominal 9/19/2006*
Nominal 8/7/2006*
TIPS 9/19/2006**
TIPS 8/7/2006**

*Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi-annual coupons.

**Smoothed yield curve estimated from TIPS securities. Yields shown are those on notional par TIPS securities with semi-annual coupons.

Expected federal funds rates

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

Change in nominal forward rates since August FOMC

Change in TIPS forward rates since August FOMC

Change in inflation compensation forward rates since August FOMC

Page 1 of 5
Inflation compensation

Next Five Years
Five-Year Forward, Five Years Ahead

Note. Estimates based on smoothed nominal and inflation-indexed Treasury yield curves and adjusted for the carry effect.

Output gap

Quarterly
- September Greenbook
- August Greenbook

Note. Two- and ten-year yields are continuously compounded zero-coupon rates. Shaded regions mark NBER recession dates. Final observation is an average of data through Sept. 19.

Spread between two- and ten-year Treasury yields

Merrill Lynch Survey: Global inflation expectations
In twelve months inflation will be:

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>Sept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>62</td>
<td>41</td>
</tr>
<tr>
<td>Unchanged</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Lower</td>
<td>12</td>
<td>38</td>
</tr>
</tbody>
</table>

Source. Merrill Lynch Global Fund Manager Survey.

Merrill Lynch Survey: Global growth expectations
In twelve months growth will be:

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>Sept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Unchanged</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Lower</td>
<td>61</td>
<td>73</td>
</tr>
</tbody>
</table>

Source. Merrill Lynch Global Fund Manager Survey.

Merrill Lynch Survey: Global recession expectations
Over the next twelve months a recession is:

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>Sept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Likely</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Fairly Likely</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Fairly Unlikely</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Very Unlikely</td>
<td>41</td>
<td>33</td>
</tr>
</tbody>
</table>

Source. Merrill Lynch Global Fund Manager Survey.
Exhibit 3
The Case for Action

Change in expected federal funds rate
Dec. 2006 to Dec. 2007
Note. 5-minute intervals.

Corporate bond spreads
Basis points
Daily

Basis points
Five-year high yield (left scale)
Five-year BBB (right scale)
Note. Spreads over comparable-maturity Treasury yields.

Wilshire 5000
Index: 1/3/05 = 100

Core PCE prices
3-month
12-month

Percent change, annual rate

Expected CPI inflation
Michigan SRC, next twelve months
Michigan SRC, next five to ten years

Percent

Compensation per hour
Non-farm business sector
Current
August GB

Four-quarter percent change

p Preliminary.
## Exhibit 4

### Statement Alternatives

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Intention</th>
<th>Target Rate</th>
<th>Assessment of Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Ratify expectations of easing</td>
<td>Unchanged</td>
<td>In recent weeks, the upside risks to inflation appear to have diminished somewhat and downside risks to growth have become more significant. In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
<tr>
<td>B</td>
<td>Leave expectations about unchanged</td>
<td>Unchanged</td>
<td>Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
<tr>
<td>B+</td>
<td>Emphasize that tightening is more likely than easing</td>
<td>Unchanged</td>
<td>Nonetheless, the Committee judges that some inflation risks remain and that policy is more likely to firm than ease going forward. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
<tr>
<td>C</td>
<td>Impose considerable additional restraint</td>
<td>+25 basis points</td>
<td>Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
<tr>
<td>C-</td>
<td>Impose additional restraint</td>
<td>+25 basis points</td>
<td>Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
</tbody>
</table>
### Table 1: Alternative Language for the September FOMC Announcement

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>August FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.</td>
<td></td>
</tr>
<tr>
<td>2. Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.</td>
<td>The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market.</td>
<td>The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market.</td>
<td>Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a cooling of the housing market.</td>
<td></td>
</tr>
<tr>
<td>3. Readings on core inflation have been elevated in recent months, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
<td>Although core inflation remains elevated, recent readings have been slightly more favorable. While some inflation pressures persist, they seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
<td>Readings on core inflation have been elevated on balance, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
<td>Readings on core inflation have been elevated on balance, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. In these circumstances, the Committee believed that an additional firming of policy was appropriate to foster a decline in inflation.</td>
<td></td>
</tr>
<tr>
<td><strong>Assessment of Risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>In recent weeks, the upside risks to inflation appear to have diminished somewhat and downside risks to growth have become more significant. In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>[Unchanged]</td>
<td>[Unchanged]</td>
<td></td>
</tr>
</tbody>
</table>