Appendix 1: Materials used by Mr. Dudley
(1) Treasury Yield Curve Shifts Higher

Source: Bloomberg

(2) 10-Year Treasury Inflation Protected and Nominal Treasury Yields

Source: Bloomberg

(3) TIPS Inflation Compensation: 5-10 Year Horizon
June 1, 2006 – June 25, 2007

Source: Federal Reserve Board
Class II FOMC -- Restricted FR

(4) Eurodollar Futures Curve Flattens

Source: Bloomberg

(5) Distribution of Expected Policy Target Among Primary Dealers Prior to May 9 FOMC Meeting

Source: Dealer Policy Survey

(6) Distribution of Expected Policy Target Among Primary Dealers Prior to June 28 FOMC Meeting

Source: Dealer Policy Survey
(7) Primary Dealers' GDP Forecasts

Source: Dealer Policy Survey

(8) Reduced Uncertainty Regarding GDP Forecasts

Source: Dealer Policy Survey

(9) 30-Year Conventional Mortgage-Backed Security Coupon Stack

As of June 25, 2007

Source: Bloomberg

(10) Mortgage Convexity Hedging Drives Up 10-Year Treasury Yields


Source: Bloomberg
(11) Custody Holdings of Treasury Securities at FRBNY Level Off Since Mid-April

Source: Federal Reserve Bank of New York

(12) Ripple Effects in U.S. Equity Market were Modest


Source: Bloomberg

(13) Corporate Debt Spreads


Source: Bloomberg
(14) Currency Performance Against the Japanese Yen

![Currency Performance Chart]

Source: Bloomberg

(15) Implied Volatility Low, Except for Treasuries

![Implied Volatility Chart]

Value/BPS

Source: Bloomberg

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

![Interest Rate Futures Chart]

BPS

Source: Bloomberg
(17) Dollar Strengthens

(18) Japanese Yen Weakens

(19) Subprime BBB-Rated MBS and Related Spreads Widen

Source: Bloomberg
Source: Bloomberg and Bank for International Settlements
Source: JP Morgan

Index to 100 on 1/1
Index to 100 in 2000
BPS

Jan-95 Jan-97 Jan-99 Jan-01 Jan-03 Jan-05 Jan-07

Jan-01 Jan-03 Jan-05 Jan-07

01/01/07 02/01/07 03/01/07 04/01/07 05/01/07 06/01/07

01/01/07 02/01/07 03/01/07 04/01/07 05/01/07 06/01/07

01/01/07 02/01/07 03/01/07 04/01/07 05/01/07 06/01/07

Source: Bloomberg
Source: Bloomberg and Bank for International Settlements
Source: JP Morgan
Appendix 2: Materials used by Mr. Wilcox, Ms. Liang, and Mr. Leahy
Material for

Staff Presentation on the Economic Outlook

June 27, 2007
Exhibit 1

Forecast Summary

**Real GDP**

Q4/Q4 percent change

<table>
<thead>
<tr>
<th></th>
<th>May GB</th>
<th>June GB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007:Q2</td>
<td>2.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Q3</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Q4</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>2008*</td>
<td>2.4</td>
<td>2.5</td>
</tr>
</tbody>
</table>


**Unemployment Rate**

<table>
<thead>
<tr>
<th></th>
<th>May GB</th>
<th>June GB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007:Q2</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Q3</td>
<td>4.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Q4</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>2008*</td>
<td>5.0</td>
<td>4.8</td>
</tr>
</tbody>
</table>

* Q4

**Core PCE Prices**

Q4/Q4 percent change

<table>
<thead>
<tr>
<th></th>
<th>May GB</th>
<th>June GB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007:Q2</td>
<td>2.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Q3</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Q4</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>2008*</td>
<td>2.1</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Exhibit 2

Single-Family Housing

**Starts**

Millions of units, annual rate, ratio scale

Note: Shading indicates periods of major downturns in single-family starts.

**Mortgage Rates**

30-year FRM

1-year ARM

Source: Freddie Mac.

**Inventory of Unsold New Homes**

Months’ supply

*Relative to three-month moving average of sales.

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

Business Fixed Investment

Sales of Medium and Heavy Trucks
Thousands of units, ratio scale

Orders and Shipments of Nondefense Capital Goods Excluding Aircraft
Billions of chained (2000) dollars, ratio scale

Indicators of Business Conditions
Index
Philadelphia Fed (left scale)
ISM (right scale)

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

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.3</td>
<td>4.6</td>
</tr>
<tr>
<td></td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>-- contributions --</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>-4.1</td>
<td>.2</td>
</tr>
<tr>
<td>Aircraft</td>
<td>1.2</td>
<td>.2</td>
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<tr>
<td>High-tech</td>
<td>5.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Other</td>
<td>-9</td>
<td>.9</td>
</tr>
</tbody>
</table>

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

Real Business Output
Four-quarter percent change

User Cost of Capital
Four-quarter percent change

Non-high-tech
High-tech
### Inflation (Part 1)

**PCE Total**

Four-quarter percent change

**PCE Food Prices**

Four-quarter percent change

**PCE Energy Prices**

Four-quarter percent change

**PCE Core Prices**

Four-quarter percent change

**Non-Market-Based PCE Prices**

(Quarterly percent change, annual rate)

<table>
<thead>
<tr>
<th></th>
<th>Jan. GB</th>
<th>June GB</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007:Q1</td>
<td>3.2</td>
<td>2.3</td>
<td>-.9</td>
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<tr>
<td>Q2</td>
<td>3.5</td>
<td>2.6</td>
<td>-.9</td>
</tr>
<tr>
<td>H2</td>
<td>3.5</td>
<td>3.4</td>
<td>-.1</td>
</tr>
</tbody>
</table>

**Tenants’ Rent and OER**

Three-month percent change, annual rate
Exhibit 5

Inflation (Part 2)

Have Inflation Expectations Drifted Up?

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

Reuters/Michigan Inflation Expectations, Next 12 Months

SPF CPI Inflation Expectations, 1-Year Ahead

Unemployment Rate

PCE Price Projection (Percent change, Q4/Q4)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PCE price index</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>2. May GB</td>
<td>(2.9)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>3. Core</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>4. May GB</td>
<td>(2.3)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>5. Market based</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>6. May GB</td>
<td>(2.0)</td>
<td>(1.8)</td>
</tr>
</tbody>
</table>
Exhibit 6

Corporate Earnings and Securities Prices

Corporate Earnings Growth

- S&P 500 EPS
- NIPA, economic profits before tax

Four-quarter percent change

- Q2 is the bottom-up forecast by equity analysts.
- Source: I/B/E/S for S&P 500 earnings per share.

Earnings Forecast

(Percent change)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyst</td>
<td>S&amp;P 500</td>
<td>8</td>
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<tr>
<td>Blue Chip</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Staff NIPA</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Equity Valuation for S&P 500

- Trend E/P *
- Real Treasury perpetuity yield **


- * Denoted latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
- ** Estimated using analyst year-ahead earnings from I/B/E/S.

12-Month Forward Price-Earnings Ratio

- S&P 500
- Small-cap median *


- Source: I/B/E/S.

Debt-to-Assets for Nonfinancial Corporations

- Speculative-grade
- Investment-grade


- Source: Compustat.
- Note: 2007 data are Q1 preliminary estimates.

* Yield on Merrill Lynch Master II less comparable maturity Treasury.
** Estimated from staff model of bond defaults and losses.
+ - Observation for Q2 is June 26.
Exhibit 7

Leveraging of Nonfinancial Corporations

Shareholder Payouts

Billions of dollars, annual rate

- Cash mergers
- Share repurchases
- Dividends

2002 2003 2004 2005 2006 2007

Q1

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

Share Repurchases, 2005 - 2006
(Ratios to assets, percent)

<table>
<thead>
<tr>
<th>Repurchases</th>
<th>Greater than 5</th>
<th>0 to 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Change in debt</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Debt</td>
<td>22</td>
<td>26</td>
</tr>
</tbody>
</table>

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

Speculative-Grade Bond Issuance for M&A

Billions of dollars, annual rate

- Other M&A
- LBOs

2002 2003 2004 2005 2006 2007

Q1 *

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

Speculative-Grade Loan Origination for M&A*

Billions of dollars, annual rate

- Other M&A
- LBOs

2002 2003 2004 2005 2006 2007

Q2 *

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

Asset Returns

Return over prior 12 months

<table>
<thead>
<tr>
<th>Monthly Sharpe ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans .95</td>
</tr>
<tr>
<td>HY bonds .58</td>
</tr>
</tbody>
</table>


Dec. High-yield bonds

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

Risky Debt to Total Outstanding Debt

Percent

Quarter-end
Adversely rated syndicated loan commitments*

Bonds rated B- and below


Q1 P

* Loans rated by examiners that are either special mention, substandard, doubtful, or loss.
p - Preliminary.
Source: Shared National Credit Data and Moody's.
Exhibit 8

**Household Financial Conditions**

### Net Worth

Ratio to disposable income by quarter-end from 1997 to 2007.

### Household Delinquency Rates

Delinquency rates for different types of loans: credit card loans at commercial banks, nonrevolving consumer loans at commercial banks, auto loans at domestic auto finance companies, and residential mortgages from 1997 to 2007.

**Sources:** For credit cards and nonrevolving, Call Report; for auto loans, Federal Reserve; for mortgages, MBA.

### Serious Mortgage Delinquency Rates

Percent of loans delinquent for adjustable-rate and fixed-rate loans by type (subprime and prime and near-prime) from 2001 to 2007.

**Source:** First American LoanPerformance.

### Serious Delinquencies in First Six Months

Percent of loans delinquent for adjustable-rate and fixed-rate loans by type (subprime and prime and near-prime) from 2003 to 2007.

**Source:** First American LoanPerformance.

### Number of Foreclosure Starts

Thousands, annual rate of foreclosure starts by type: other (FHA/VA), prime, and subprime from 2003 to 2007.

**Source:** Staff estimates based on data from the Mortgage Bankers Association.

### Q1 Foreclosure Starts and Predictions

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

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

Percent

2006 and earlier H1 2007 H2 2007 H1 2008 H2 2008 and later 2009 and later

Characteristics of Interest Rate Resets

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

Contract Interest Rates on Subprime Adjustable Rate Mortgages Around Reset Dates

Month Relative to First Reset

-2 -1 0 1 2 3 4 5 6 7 8 9 10 11

Fully-indexed rate

Contract rate

First reset

Second reset

Mortgages With Resets

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

Spreads on New Subprime RMBS Issues

BBB-
A
AAA


Percent

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

Subprime Originations

Billions of dollars, annual rate

Refinancing
Home purchase

2003 2004 2005 2006 2007 Q2

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

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

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

Real GDP

- Annual

Foreign Final Domestic Demand*

Contributions to Q4/Q4 GDP growth, percentage points

Foreign Fixed Investment Spending*

Percent of nominal GDP

Unemployment Rates

Primary Commodity Prices

Index, January 2001 = 100

Dollars per barrel

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

Note: Horizontal line marks 3.5 percent.
Foreign Consumer Prices and Primary Commodity Prices

Pass-Through of Crude Oil Prices to Retail Gasoline Prices

September 2004 to March 2007

Pass-Through*

<table>
<thead>
<tr>
<th>Country</th>
<th>Pass-Through</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>.25</td>
</tr>
<tr>
<td>Japan</td>
<td>.06</td>
</tr>
<tr>
<td>Canada</td>
<td>.71</td>
</tr>
<tr>
<td>United States</td>
<td>.84</td>
</tr>
</tbody>
</table>

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

Consumer Energy Prices

Ratio scale, January 2003 = 100

Food Prices in Mexico

* Twelve-month change.

Food Prices in China

* Twelve-month change.
Foreign Inflation: Core, Expectations, and Outlook

Core Consumer Prices

Emerging Market Economies

Twelve-month percent change

Brazil
Mexico
Korea
China*

Advanced Foreign Economies

Twelve-month percent change

Canada
Euro area
United Kingdom
Japan

Change in Ten-Year Sovereign Bond Yields

(12/29/06 - 6/26/07, basis points)

<table>
<thead>
<tr>
<th></th>
<th>Nominal Yield</th>
<th>Indexed Real Yield</th>
<th>Inflation Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada*</td>
<td>54</td>
<td>43</td>
<td>11</td>
</tr>
<tr>
<td>Euro area</td>
<td>67</td>
<td>65</td>
<td>2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>73</td>
<td>56</td>
<td>17</td>
</tr>
<tr>
<td>Japan</td>
<td>19</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>United States</td>
<td>40</td>
<td>28</td>
<td>12</td>
</tr>
</tbody>
</table>

* Staff estimate.

* 15-year maturities.

Headline Inflation Expectations

(Percent, year-average over year-average)

<table>
<thead>
<tr>
<th>For 2007 as of:</th>
<th>Long-run* as of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 06</td>
<td>Jun. 07</td>
</tr>
<tr>
<td>Canada</td>
<td>1.7</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
</tr>
</tbody>
</table>

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

Headline Consumer Prices

Advanced Foreign Economies

Four-quarter percent change

Euro area
United Kingdom
Canada

Emerging Market Economies

Four-quarter percent change

Brazil
Korea
Mexico
China

12 of 14
What Explains the Improved Outlook for External Adjustment?

(Part 1)

Current Account Balance
Billions of dollars, annual rate

Trade Balance
Billions of dollars, annual rate

Foreign Economic Activity*
Index, 2002Q1 = 100

Broad Real Dollar
Index, 2002Q1 = 100

Real Exports of Core Goods
Billions of chained (2000) dollars, annual rate

Core Exports in 2006
(Percent)

<table>
<thead>
<tr>
<th></th>
<th>Nominal Share</th>
<th>Real Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Core Goods</td>
<td>100</td>
<td>10.8</td>
</tr>
<tr>
<td>2. Capital Goods</td>
<td>34</td>
<td>12.8</td>
</tr>
<tr>
<td>3. Ind. Supplies</td>
<td>29</td>
<td>13.0</td>
</tr>
<tr>
<td>4. Automotive</td>
<td>12</td>
<td>3.5</td>
</tr>
<tr>
<td>5. Consumer</td>
<td>14</td>
<td>11.5</td>
</tr>
<tr>
<td>6. Other</td>
<td>12</td>
<td>7.3</td>
</tr>
</tbody>
</table>

* Q4/Q4 percent change.
What Explains the Improved Outlook for External Adjustment?

**U.S. GDP**
Trillions of chained (2000) dollars, annual rate

**Real Imports of Core Goods**
Billions of chained (2000) dollars, annual rate

**U.S. Oil Import Price**
Dollars per barrel

**Net Investment Income**
Billions of dollars, annual rate

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

<table>
<thead>
<tr>
<th>Year</th>
<th>May 2006</th>
<th>June 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-.3</td>
<td>.5</td>
</tr>
<tr>
<td>2007: Q1</td>
<td>-.5</td>
<td>-.7</td>
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<tr>
<td>Q2</td>
<td>.3</td>
<td>1.0</td>
</tr>
<tr>
<td>H2</td>
<td>-.4</td>
<td>.1</td>
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<tr>
<td>2008</td>
<td>--</td>
<td>.0</td>
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</tbody>
</table>
Appendix 3: Materials used by Mr. Reinhart
Class I FOMC - Restricted-Controlled (FR)

Material for
FOMC Briefing on Economic Projections of FOMC Participants

Vincent R. Reinhart
June 27, 2007
Exhibit 1
Summary of June Trial Run Economic Projections

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(2.2 to 2.5)</td>
<td>(2.5 to 2.8)</td>
<td>(2.6 to 3.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(2.0 to 2.5)</td>
<td>(2.5 to 2.8)</td>
<td>(2.5 to 3.0)</td>
</tr>
<tr>
<td>Range</td>
<td>(2.0 to 2.7)</td>
<td>(2.5 to 3.0)</td>
<td>(2.0 to 3.1)</td>
</tr>
<tr>
<td>(Range of May projections)</td>
<td>(1.8 to 2.6)</td>
<td>(2.4 to 3.0)</td>
<td>(2.5 to 3.0)</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(4.6 to 4.7)</td>
<td>(4.7 to 4.8)</td>
<td>(4.7 to 5.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(4.7 to 4.8)</td>
<td>(4.7 to 4.9)</td>
<td>(4.7 to 5.0)</td>
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<tr>
<td>Range</td>
<td>(4.6 to 4.8)</td>
<td>(4.5 to 5.0)</td>
<td>(4.4 to 5.1)</td>
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<tr>
<td>(Range of May projections)</td>
<td>(4.5 to 4.9)</td>
<td>(4.6 to 5.0)</td>
<td>(4.6 to 5.1)</td>
</tr>
<tr>
<td><strong>Core PCE Inflation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(2.0 to 2.2)</td>
<td>(1.8 to 2.0)</td>
<td>(1.6 to 2.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(2.1 to 2.3)</td>
<td>(1.8 to 2.1)</td>
<td>(1.6 to 2.0)</td>
</tr>
<tr>
<td>Range</td>
<td>(1.9 to 2.2)</td>
<td>(1.7 to 2.1)</td>
<td>(1.5 to 2.0)</td>
</tr>
<tr>
<td>(Range of May projections)</td>
<td>(2.0 to 2.3)</td>
<td>(1.8 to 2.4)</td>
<td>(1.5 to 2.3)</td>
</tr>
<tr>
<td><strong>Total CPI Inflation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(3.1 to 3.6)</td>
<td>(2.1 to 2.3)</td>
<td>(2.0 to 2.3)</td>
</tr>
<tr>
<td>Range</td>
<td>(2.3 to 3.7)</td>
<td>(2.0 to 2.5)</td>
<td>(1.8 to 2.5)</td>
</tr>
</tbody>
</table>
Exhibit 2
Central Tendency and Range of June Economic Projections

GDP Growth (Q4-to-Q4)
- Actual GDP Growth
- Central Tendency of Projections
- Range of Projections

Civilian Unemployment Rate (Q4 level)
- Actual Unemployment Rate
- Central Tendency of Projections
- Range of Projections

Core PCE Inflation (Q4-to-Q4)
- Actual Core PCE Inflation
- Central Tendency of Projections
- Range of Projections

Total CPI Inflation (Q4-to-Q4)
- Actual Total CPI Inflation
- Central Tendency of Projections
- Range of Projections
Exhibit 3
Uncertainty and Risks- GDP Growth

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

2(b): Please indicate your judgment of the risk weighting around your projections.
Exhibit 4
Distribution of Participants' Unemployment Projections: 2007-2009

Distribution of Unemployment Projections: 2007

Distribution of Unemployment Projections: 2008

Distribution of Unemployment Projections: 2009
Exhibit 5
Distribution of Participants’ Core PCE Inflation Projections: 2007-2009

Distribution of Core PCE Inflation Projections: 2007

Distribution of Core PCE Inflation Projections: 2008

Distribution of Core PCE Inflation Projections: 2009
### 2007 PROJECTIONS

#### FOMC

<table>
<thead>
<tr>
<th>Metric</th>
<th>Range</th>
<th>Central Tendency</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP</td>
<td>4½ to 5½</td>
<td>4½ to 5</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4½ to 5½)</td>
<td>(5 to 5½)</td>
<td>(5.0)</td>
</tr>
<tr>
<td>Real GDP</td>
<td>2 to 2¾</td>
<td>2¼ to 2½</td>
<td>2.2</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2½ to 3½)</td>
<td>(2½ to 3)</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Core PCE Prices</td>
<td>2 to 2¼</td>
<td>2 to 2¼</td>
<td>2.0</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2 to 2¼)</td>
<td>(2 to 2¼)</td>
<td>(2.2)</td>
</tr>
</tbody>
</table>

#### Average level, Q4, percent

<table>
<thead>
<tr>
<th>Metric</th>
<th>Range</th>
<th>Central Tendency</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate</td>
<td>4½ to 4¼</td>
<td>4½ to 4¼</td>
<td>4.7</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4½ to 4½)</td>
<td>(4½ to 4½)</td>
<td>(4.8)</td>
</tr>
</tbody>
</table>

### 2008 PROJECTIONS

#### FOMC

<table>
<thead>
<tr>
<th>Metric</th>
<th>Range</th>
<th>Central Tendency</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP</td>
<td>4½ to 5½</td>
<td>4½ to 5</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4½ to 5½)</td>
<td>(4½ to 5½)</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Real GDP</td>
<td>2¼ to 3</td>
<td>2¼ to 2½</td>
<td>2.5</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2¼ to 3½)</td>
<td>(2½ to 3)</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Core PCE Prices</td>
<td>1¾ to 2</td>
<td>1¾ to 2</td>
<td>2.0</td>
</tr>
<tr>
<td>February 2007</td>
<td>(1½ to 2¼)</td>
<td>(1¾ to 2)</td>
<td>(2.0)</td>
</tr>
</tbody>
</table>

#### Average level, Q4, percent

<table>
<thead>
<tr>
<th>Metric</th>
<th>Range</th>
<th>Central Tendency</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate</td>
<td>4½ to 5</td>
<td>about 4¾</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4½ to 5)</td>
<td>(4½ to 4¾)</td>
<td>(4.9)</td>
</tr>
</tbody>
</table>
Appendix 4: Materials used by Mr. Reinhart
Class I FOMC – Restricted Controlled FR

Material for
FOMC Briefing on Monetary Policy Alternatives

Vincent Reinhart
June 27, 2007
Exhibit 1
Financial Market Developments

Expected federal funds rates

Nominal and inflation indexed treasury yields

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

Subprime BBB- mortgage CDS index spreads

Change in selected financial market quotes

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

Source: FRBNY desk primary dealers' survey

*Corresponds to pools of mortgages originated in that period.
Note. Measured relative to Libor.
Source: JP Morgan.
**Exhibit 2**

**Case for Alternative B**

### Staff Forecast

<table>
<thead>
<tr>
<th>Real GDP Growth</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>2.0</td>
<td>2.4</td>
</tr>
<tr>
<td>June Revision</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Core PCE Inflation</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>June</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Revision</td>
<td>-0.3</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

### 2007 Q4 Target Funds Rate

- **Greenbook Assumption**

### Equilibrium Real Federal Funds Rate

- Actual real federal funds rate
- Range of model-based estimates
- 70 percent confidence interval
- 90 percent confidence interval
- Greenbook-consistent measure

### FRB/US Model Simulations of Estimated Outcome-Based Rule

- Current Bluebook
- 90 Percent confidence interval
- 70 Percent confidence interval
- Previous Bluebook

### Implied Distribution of Federal Funds Rate Six Months Ahead*

- Recent: June 26, 2007
- Last FOMC: May 8, 2007

*Estimates from options on Eurodollar futures contracts, adjusted to estimate expectations for the federal funds rate.
### Exhibit 3
Wordings of the Statement

<table>
<thead>
<tr>
<th>May FOMC</th>
<th>Revised Alternative B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Could leave misimpression about jumping-off point.</td>
<td>Changed to make clear H1 averaging</td>
</tr>
<tr>
<td>2. Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.</td>
<td>The economy appears to have grown at a moderate pace during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over the coming quarters.</td>
</tr>
<tr>
<td>3. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.</td>
<td>Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.</td>
</tr>
<tr>
<td>4. Twelve-month change in core PCE is 2 percent</td>
<td>[Unchanged]</td>
</tr>
<tr>
<td>In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td></td>
</tr>
</tbody>
</table>
2. Despite the ongoing adjustment in the housing sector, the economy appears to have grown at a moderate pace so far this year.

3. '...in combination with earlier increases in the prices of energy and other commodities...'

2. But ongoing weakness in the housing sector implies a significant risk that economic activity might grow more slowly than anticipated.

3. Core inflation has edged lower in recent months and is expected to remain moderate over the next year or so.

4. With this policy action, the Committee judges that the downside risk to economic growth now roughly balances the upside risk to inflation.
<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>May FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5/4 percent.</td>
<td>The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 5 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5/4 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate 25 basis points to 5 1/2 percent.</td>
</tr>
<tr>
<td>2. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.</td>
<td>Core inflation has edged lower in recent months and is expected to remain moderate over the next year or so. However, the high level of resource utilization has the potential to add to inflation pressures going forward.</td>
<td>Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.</td>
<td>Although readings on core inflation have improved modestly in recent months, core inflation remains somewhat elevated. Inflation pressures seem likely to moderate over time, but considerable uncertainty surrounds that judgment. Moreover, the high level of resource utilization, in combination with earlier increases in the prices of energy and other commodities, has the potential to sustain those pressures.</td>
<td></td>
</tr>
<tr>
<td>3. In these circumstances, the committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>With this policy action, the Committee judges that the downside risk to economic growth now roughly balances the upside risk to inflation. 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>Even after this action, the Committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5: Materials used by Mr. Reinhart
Material for

FOMC Briefing on FOMC Communications

Vincent R. Reinhart
June 28, 2007
Enhanced Economic Projections

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

Those concerns related to:
- Sharing forecast submissions
- Providing information on the federal funds rate path
- Characterizing uncertainty and risks about the forecast

2. In what form should the projections be released?

Option 1
Stand-alone section in the minutes, reproduced in the Monetary Policy Report

Option 2
Brief reference in the minutes, main narrative in an annex or separate document, reproduced in the Monetary Policy Report

Option 3
Fully integrated discussion in the minutes and separate discussion in the Monetary Policy Report

3. When should the projections be finalized?

The choices include:
- the day of the meeting
- the end of the week of the meeting
- as late as practicable to be close to the official release of the document
4  How do you assess the benefits and costs of further expediting the minutes?

<table>
<thead>
<tr>
<th>Potential Benefits</th>
<th>Potential Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Will be more of an aid to the private sector in understanding the current outlook</td>
<td>● Increased effort to ensure your schedules align with drafting and approval</td>
</tr>
<tr>
<td>● You will be able to use material from the minutes for public statements more promptly</td>
<td>● Might lead to more compromises that make the minutes less informative</td>
</tr>
<tr>
<td>● May facilitate making the post-meeting statement shorter or less substantive.</td>
<td>● More staff resources will be needed</td>
</tr>
</tbody>
</table>

5  How do you assess the current content of the minutes, including the staff’s description of recent data?
Post-Meeting Statement

6 What is the appropriate role of the statement in light of the changes to the Committee’s other communication devices?

7 Should the statement provide forward-looking guidance on the:
   - near-term prospects for the target federal funds rate?  
     (The left hand side of the policy rule)
   - medium-term prospects toward fostering the dual mandate?  
     (The right hand side of the policy rule)

8 What policy rate assumption should the statement be based upon?
   - appropriate path of monetary policy
   - the path expected in financial markets
   - an unchanged federal funds rate

9 What is the appropriate degree of pre-meeting consultation with participants on the statement?

10 Should the current approval process for the statement be continued?