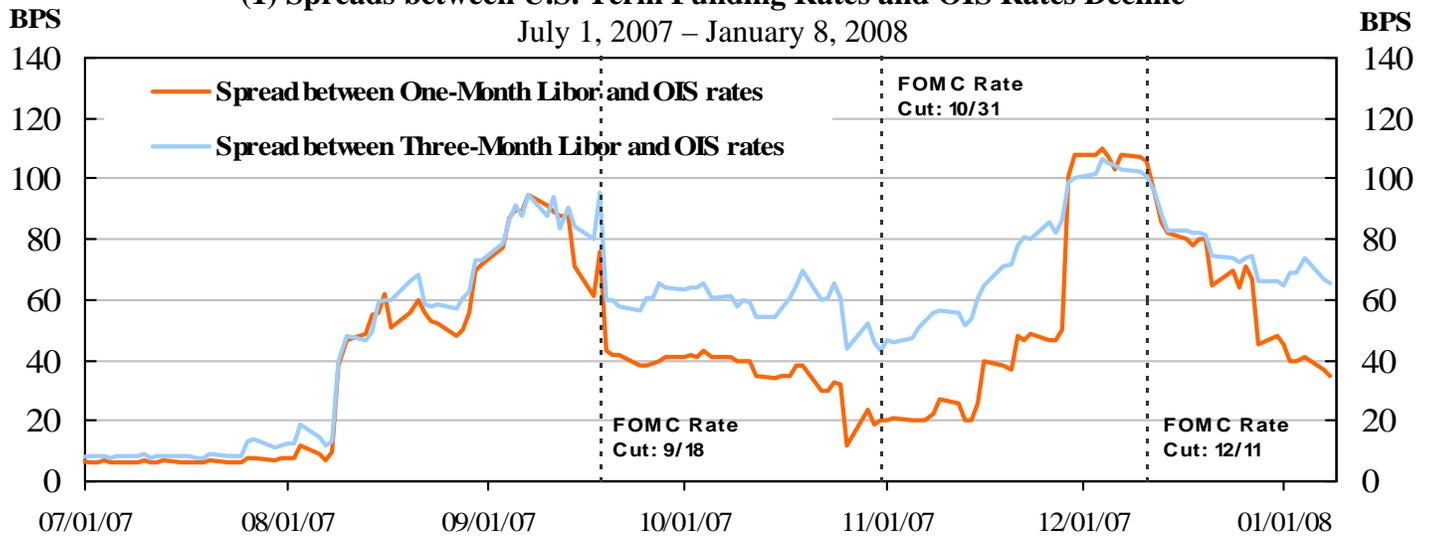


Appendix 1: Materials used by Mr. Dudley

(1) Spreads between U.S. Term Funding Rates and OIS Rates Decline

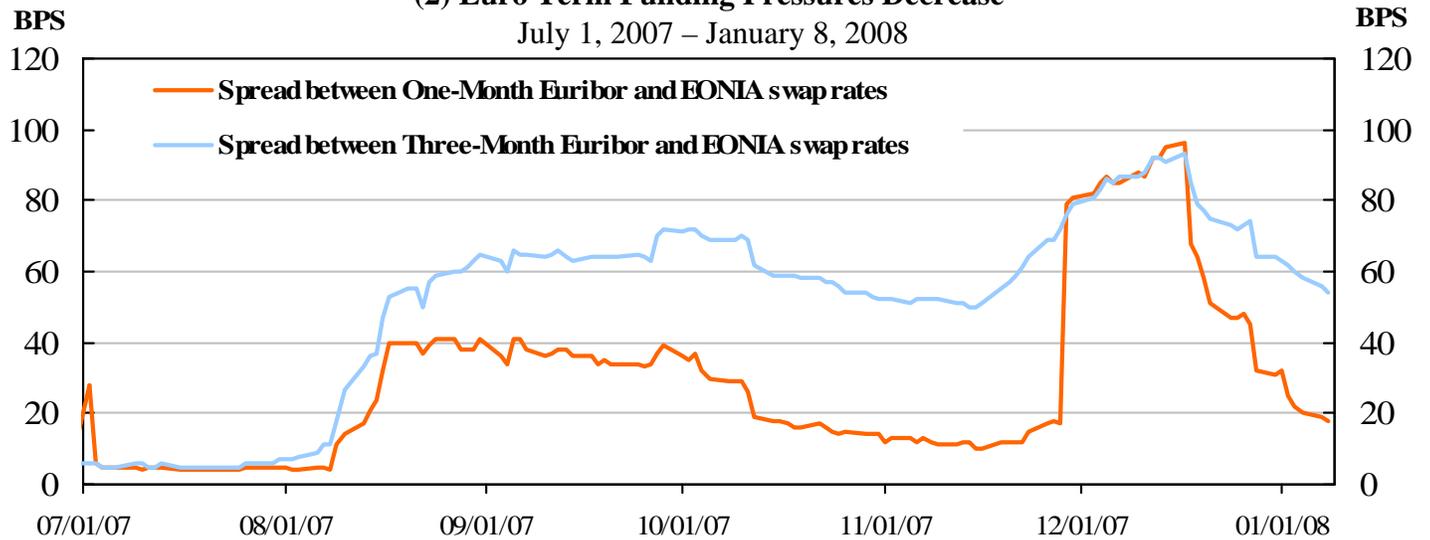
July 1, 2007 – January 8, 2008



Source: Bloomberg

(2) Euro Term Funding Pressures Decrease

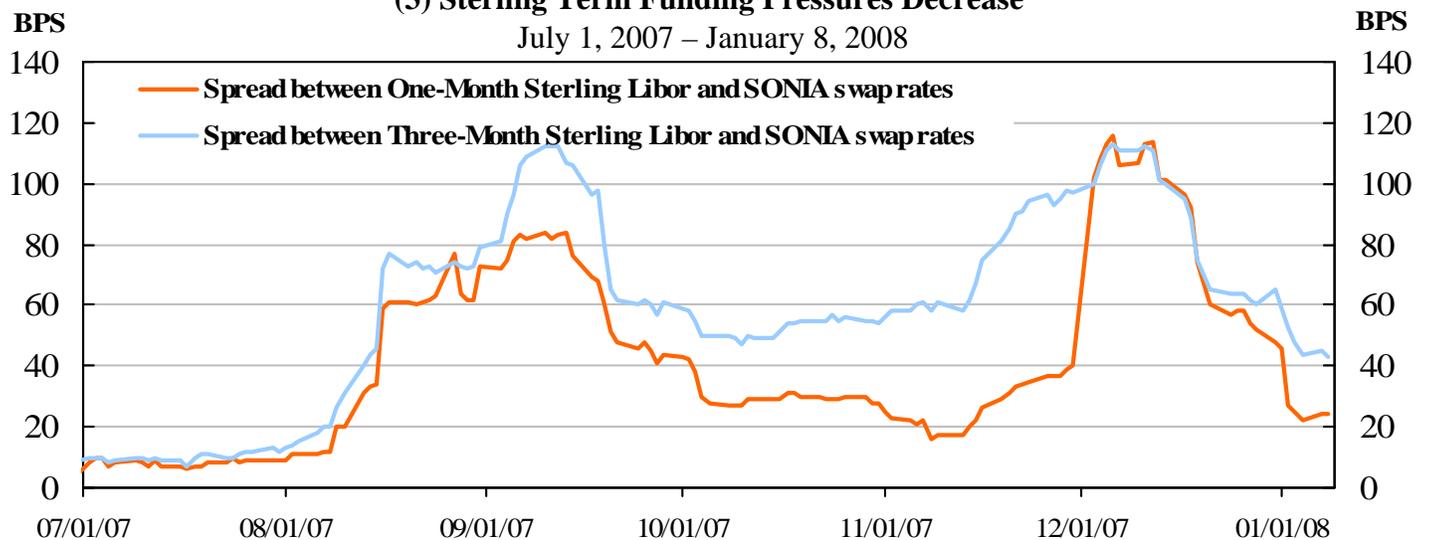
July 1, 2007 – January 8, 2008



Source: Bloomberg

(3) Sterling Term Funding Pressures Decrease

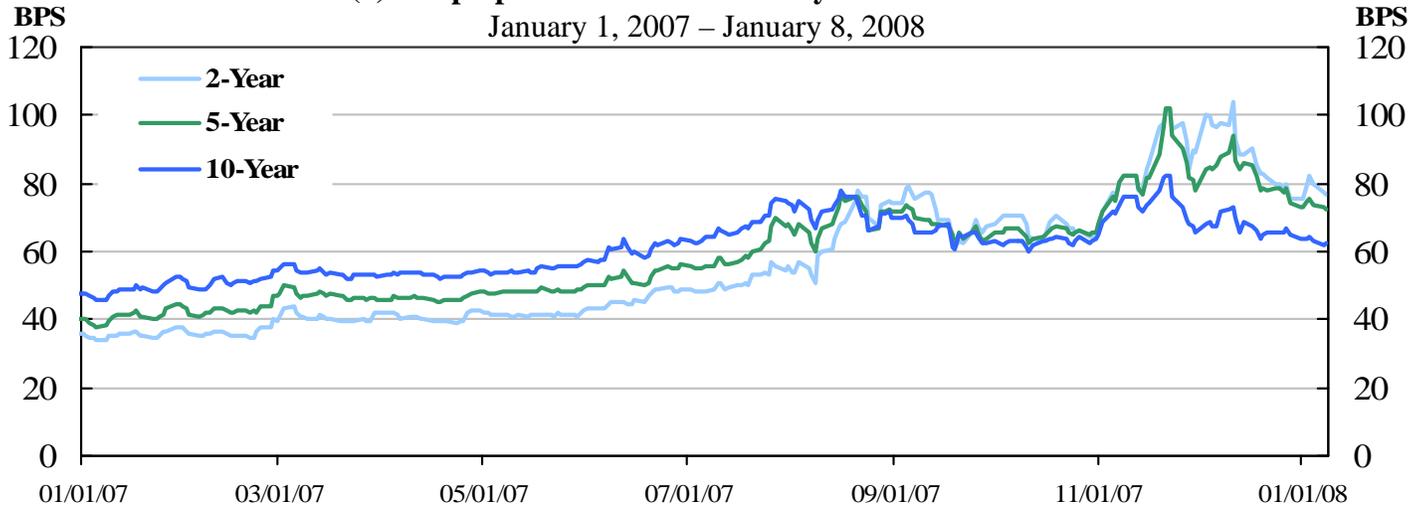
July 1, 2007 – January 8, 2008



Source: Bloomberg

(4) Swap Spreads Decline Modestly in Recent Weeks

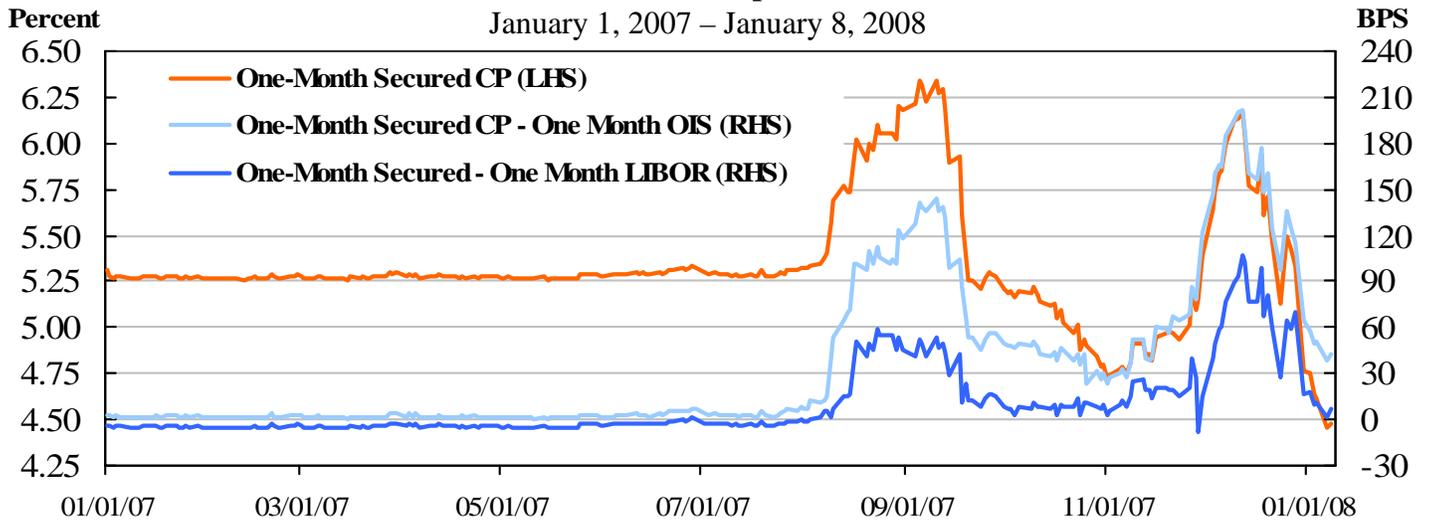
January 1, 2007 – January 8, 2008



Source: Markit

(5) Secured CP Rate Spreads Narrow

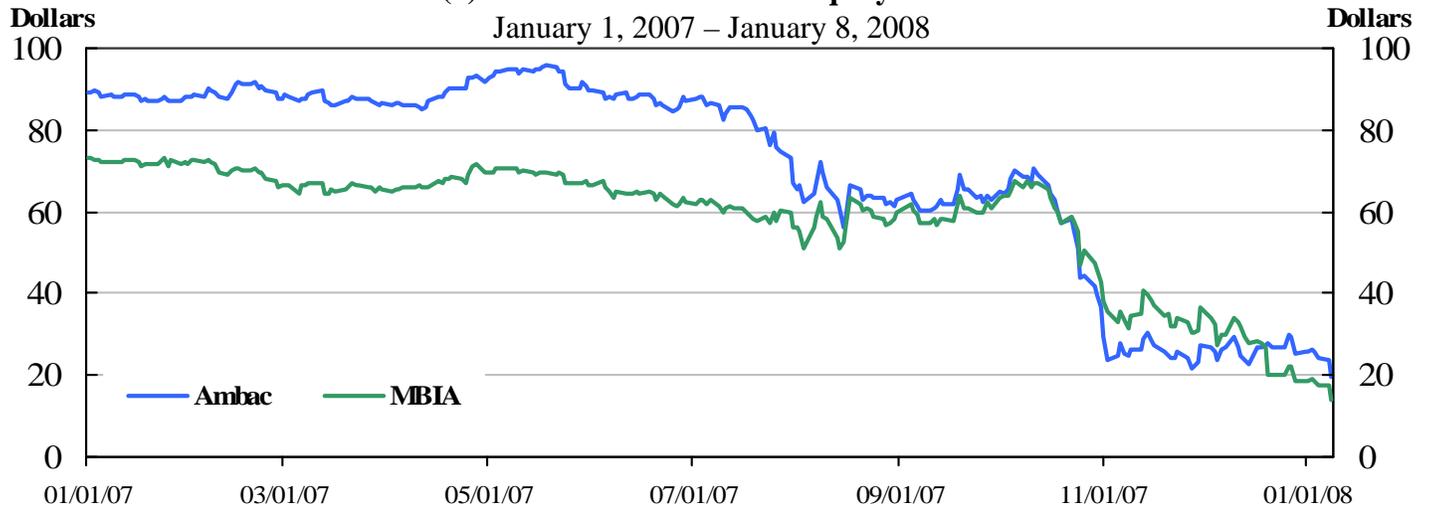
January 1, 2007 – January 8, 2008



Source: Federal Reserve Board

(6) Financial Guarantors' Equity Prices

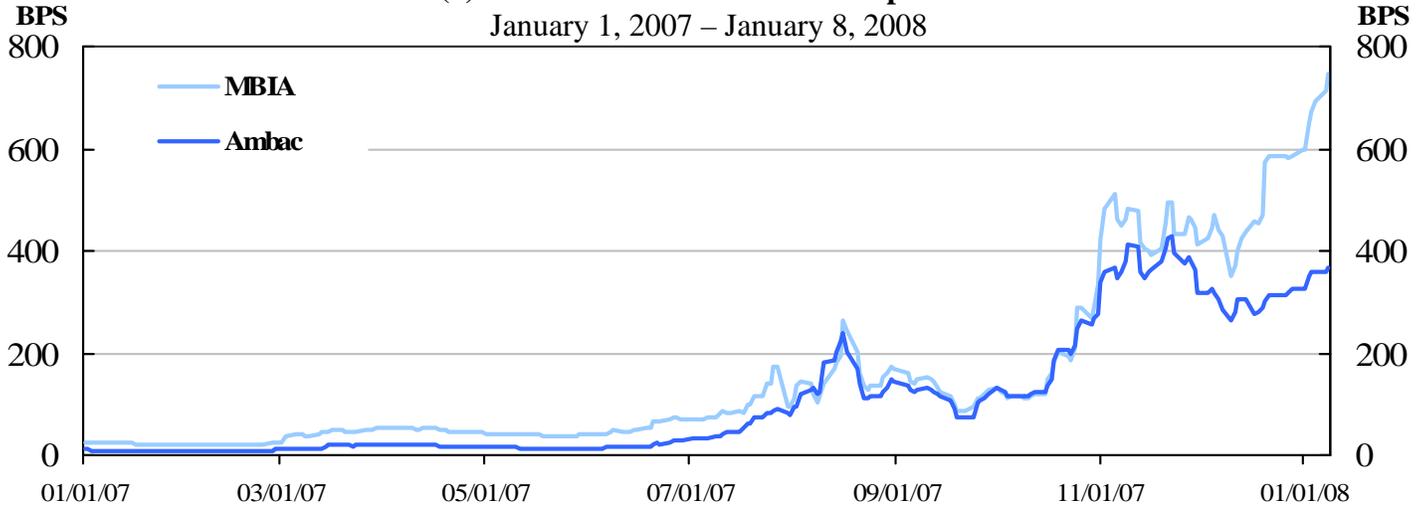
January 1, 2007 – January 8, 2008



Source: Markit

(7) Financial Guarantors' CDS Spreads

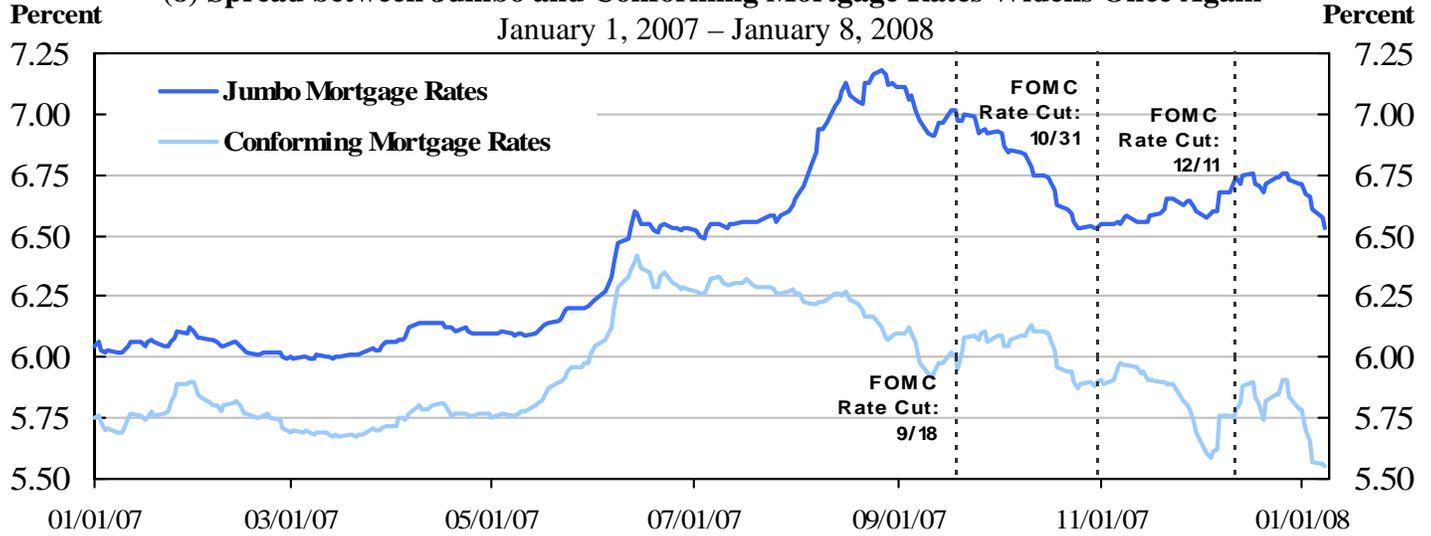
January 1, 2007 – January 8, 2008



Source: Markit

(8) Spread between Jumbo and Conforming Mortgage Rates Widens Once Again

January 1, 2007 – January 8, 2008



Source: Bloomberg

(9) Corporate Credit Option-Adjusted Spreads and Yields

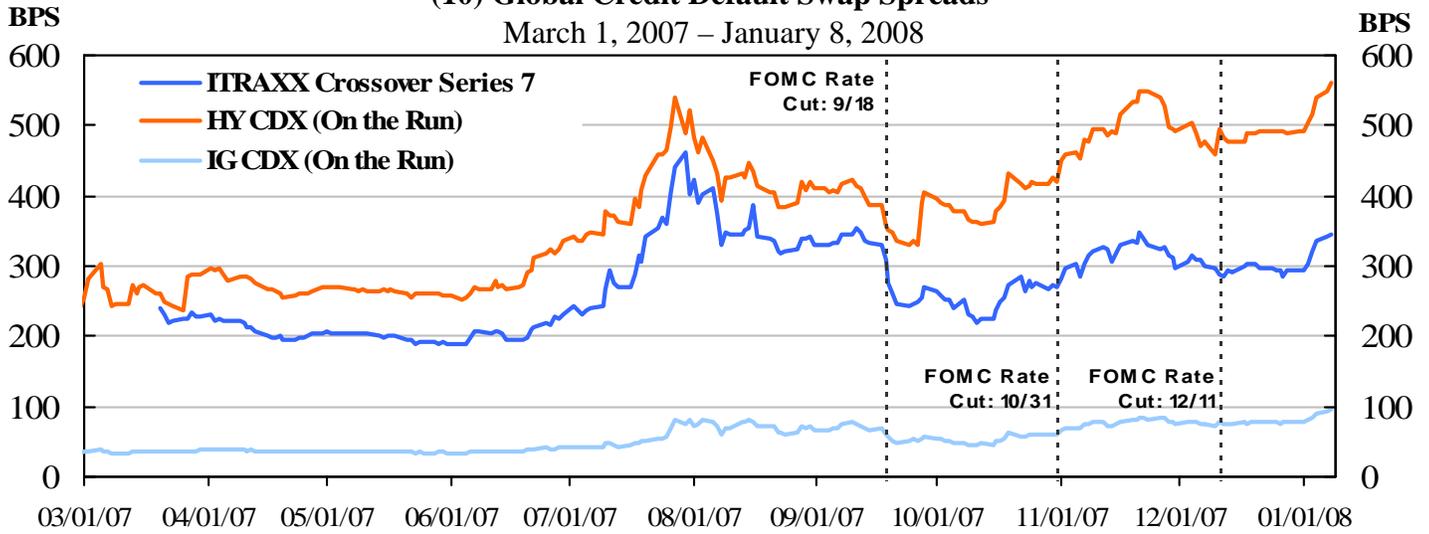
January 01, 2007 – January 8, 2008



Source: Bloomberg

(10) Global Credit Default Swap Spreads

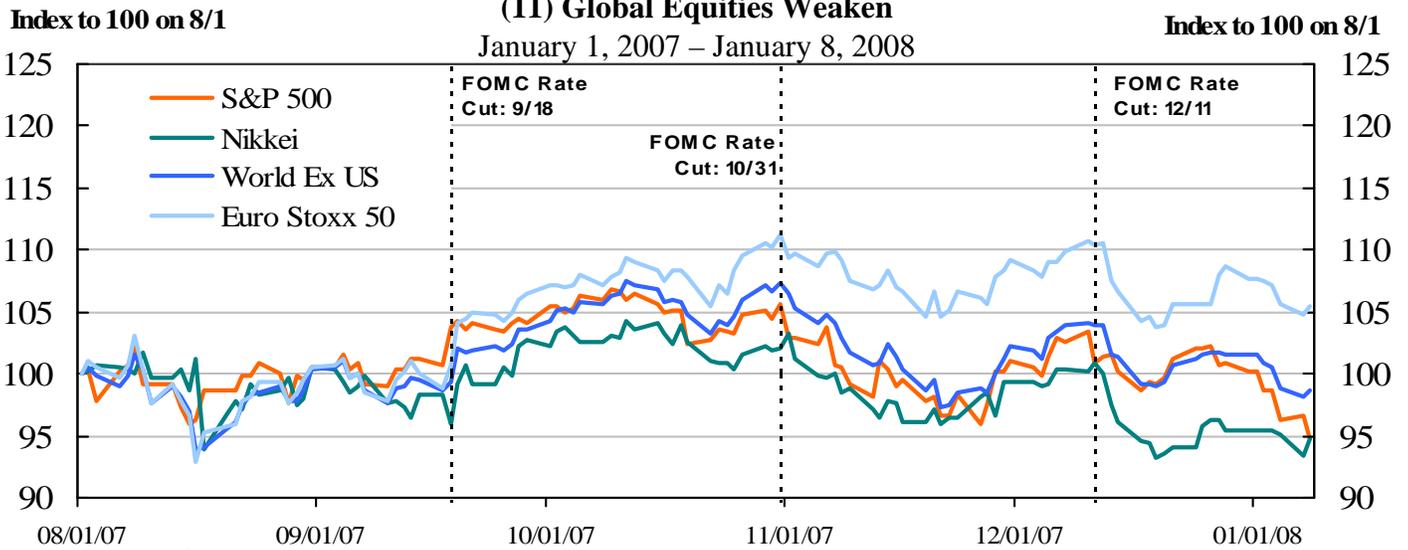
March 1, 2007 – January 8, 2008



Source: Bloomberg

(11) Global Equities Weaken

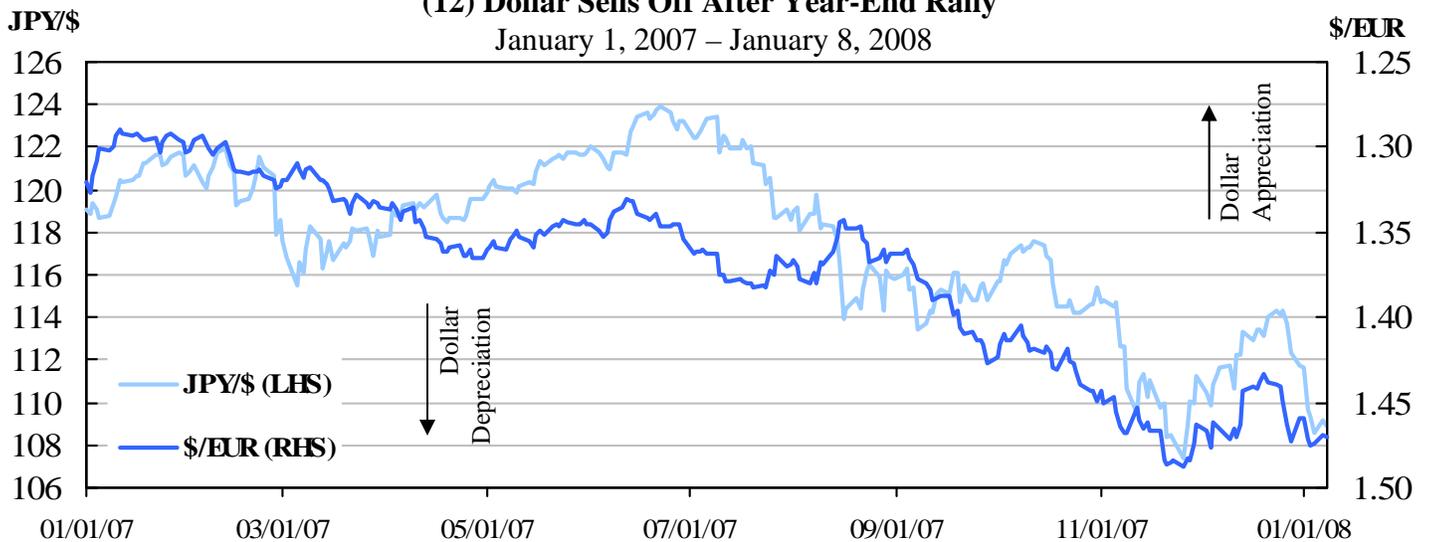
January 1, 2007 – January 8, 2008



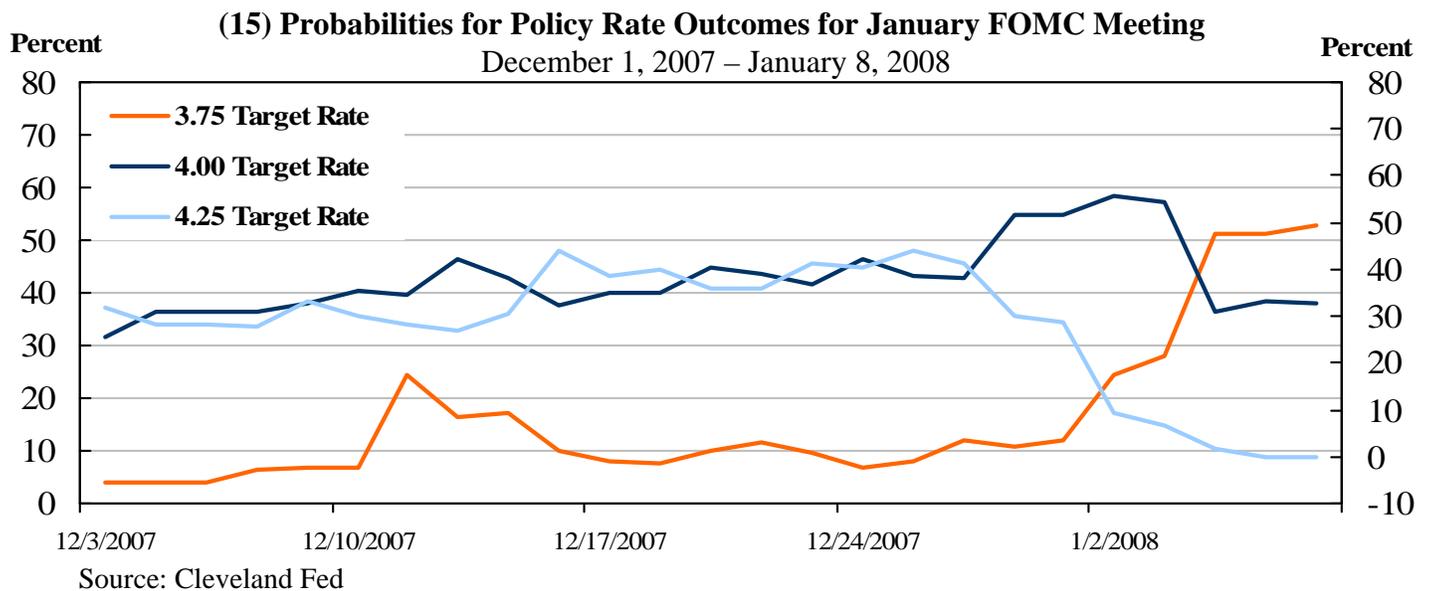
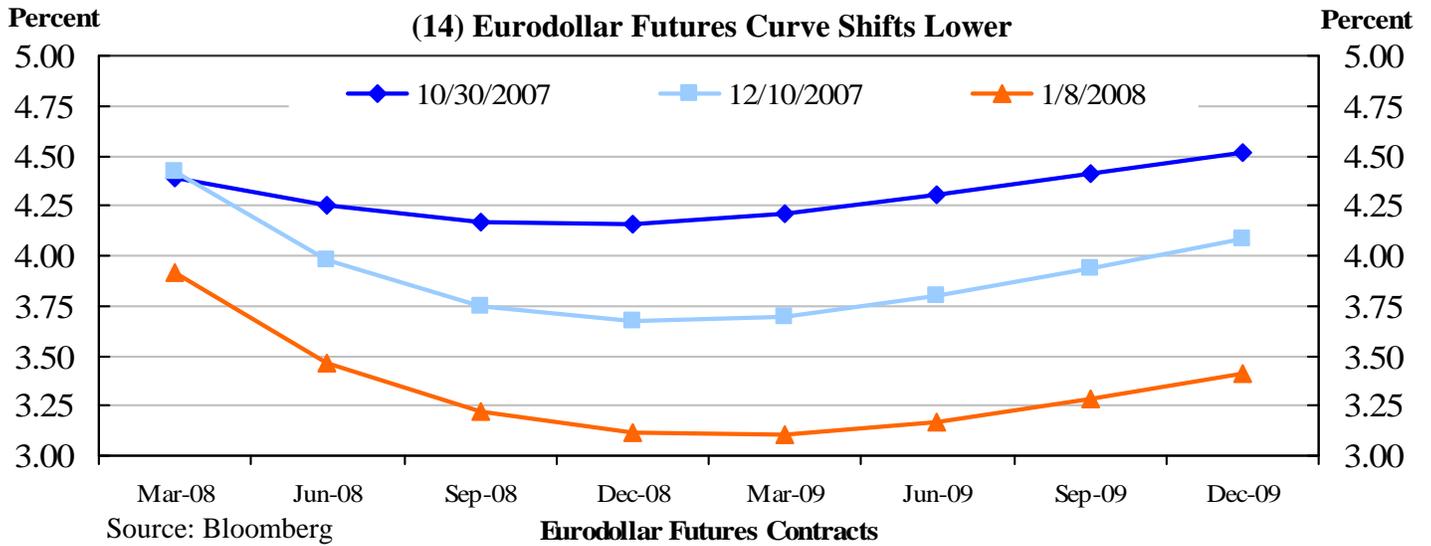
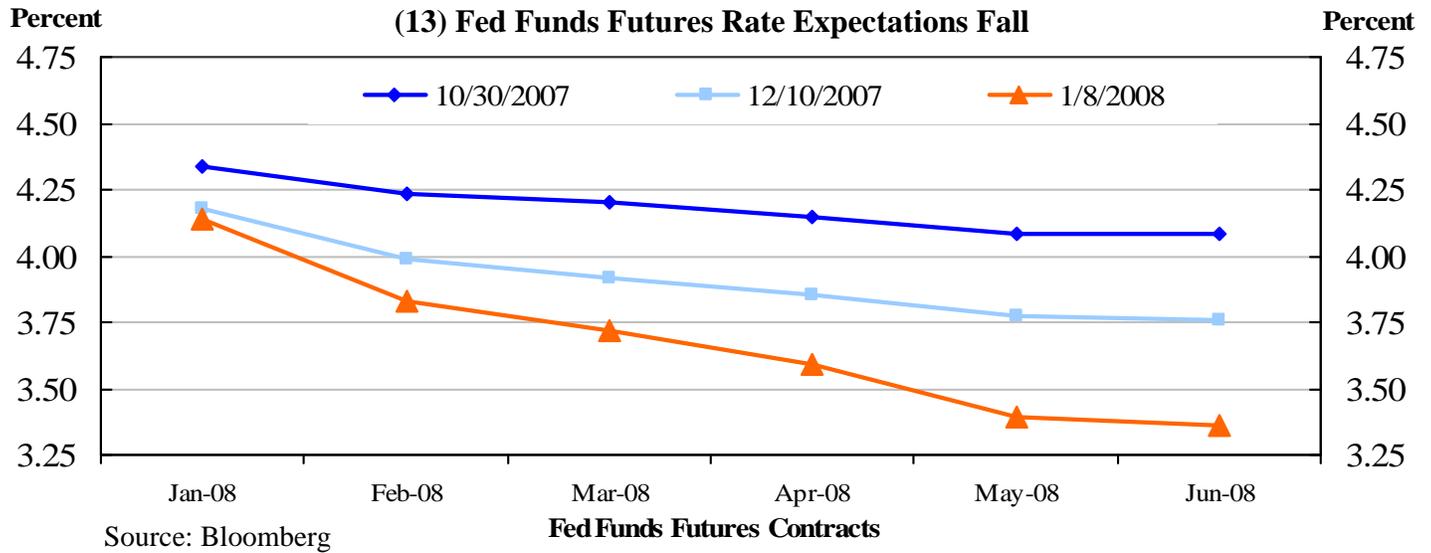
Source: Bloomberg

(12) Dollar Sells Off After Year-End Rally

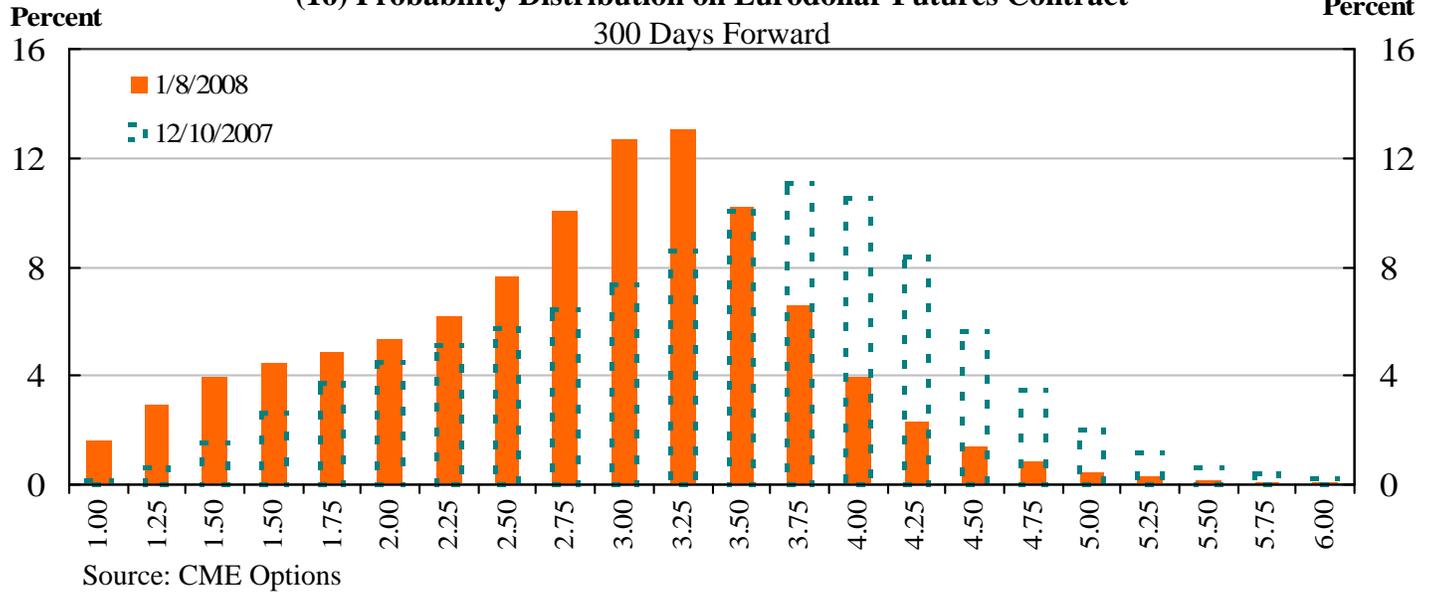
January 1, 2007 – January 8, 2008



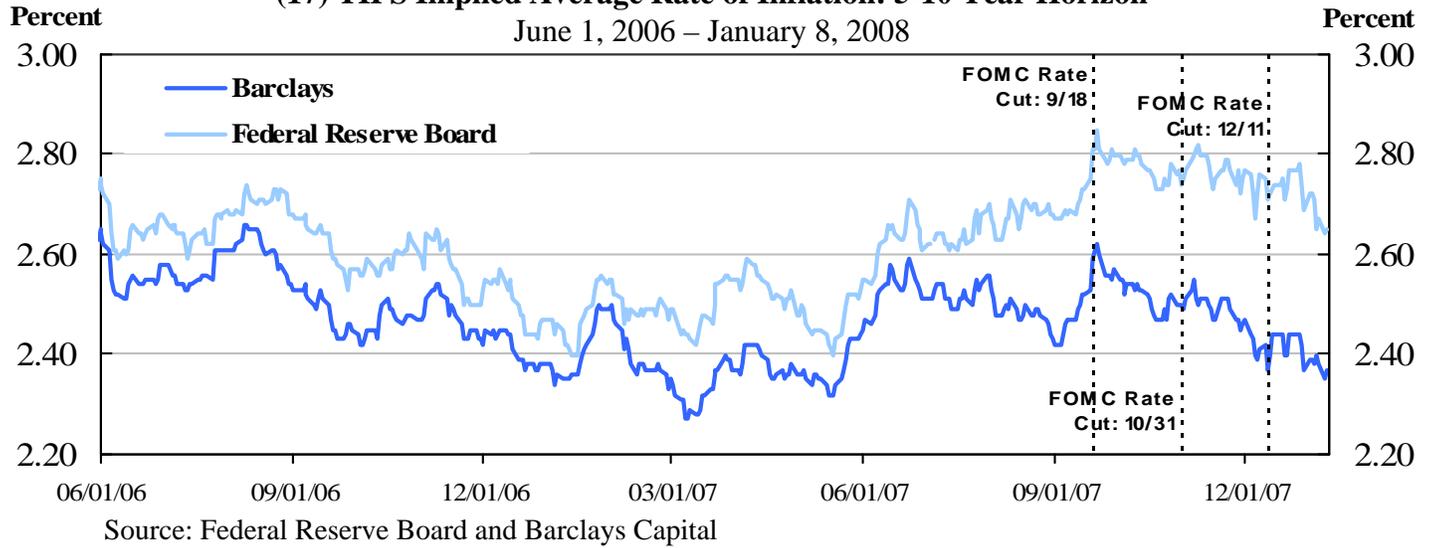
Source: Bloomberg and Federal Reserve Board



(16) Probability Distribution on Eurodollar Futures Contract



(17) TIPS Implied Average Rate of Inflation: 5-10 Year Horizon



Appendix 2: Materials used by Mr. Stockton

Class II FOMC – Restricted FR

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: January 9, 2008
To: Federal Open Market Committee
From: David J. Stockton
Subject: Forecast update

Attached please find a brief overview of the provisional revisions that we have made to the staff economic projection since the December Greenbook. I will be referring to this document this afternoon.

Attachment

Revisions to the Staff Forecast

| | 2007 | | 2008 | 2007 | 2008 | 2009 |
|--------------------------------|-----------------------------|-----|------|----------------------|------|------|
| | Q3 | Q4 | Q1 | | | |
| | percent change, annual rate | | | Q4/Q4 percent change | | |
| Real GDP | 4.9 | 1.3 | .7 | 2.6 | 1.0 | 1.8 |
| <i>Dec. Greenbook</i> | 5.0 | .1 | .7 | 2.3 | 1.3 | 2.1 |
| Final sales | 4.0 | 2.0 | 0.4 | 2.7 | 1.0 | 1.7 |
| <i>Dec. Greenbook</i> | 4.0 | 0.4 | 0.4 | 2.3 | 1.3 | 2.1 |
| Total PCE prices | 1.8 | 4.0 | 3.6 | 3.4 | 2.4 | 1.7 |
| <i>Dec. Greenbook</i> | 1.7 | 3.5 | 2.5 | 3.2 | 2.0 | 1.7 |
| Core PCE prices | 2.0 | 2.7 | 2.2 | 2.1 | 2.1 | 1.9 |
| <i>Dec. Greenbook</i> | 1.8 | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 |
| Unemployment rate ¹ | 4.7 | 4.8 | 5.0 | 4.8 | 5.2 | 5.3 |
| <i>Dec. Greenbook</i> | 4.7 | 4.7 | 4.8 | 4.7 | 4.9 | 5.0 |

1. Level in final quarter of period indicated.

- The incoming data on spending and production have, on net, led us to revise up our estimate of real GDP growth in 2007:Q4 by about 1-1/4 percentage points relative to the December Greenbook.
 - Much of the upward revision is in consumer spending and reflects the November figures on retail sales and PCE services. In addition, the construction put-in-place data for November imply a sizable upward revision to our estimate of nonresidential construction in Q4.
 - In contrast, the incoming data on housing have been weaker than expected, especially for new home sales and housing starts and permits.
 - Private payroll employment fell 13,000 in December (compared with an expected increase of 50,000); however, average hourly earnings increased more than anticipated, so that nominal wage and salary income was about in line with our expectation.
 - Our forecast for real GDP growth in 2008:Q1 is unchanged from the December Greenbook. Although we boosted our near-term outlook for PCE and NRS somewhat in response to recent data, these revisions are about offset by a weaker outlook for residential construction. A small downward revision to employment growth in Q1 had only a negligible effect on the GDP projection.

- Revisions to conditioning assumptions:
 - For purposes of this update, we have not made any changes to our assumptions for the federal funds rate. In particular, the forecast update is predicated on the assumption that the funds rate will be held steady at 4¼ percent through mid-2009 and then lowered by 25 basis points in the second half of that year.
 - Other financial assumptions were set as of the market close on Monday, January 7.
 - Long-term Treasury rates are somewhat lower in 2008 and 2009, but the widening of spreads that has occurred in recent weeks has led us to revise up the Baa corporate rate by about 10 to 15 basis points over the projection period.
 - The trajectory of stock prices is about 7 percent lower than in the December Greenbook. About half of that revision reflects the decline in equity prices that had occurred through Monday. The remainder of the revision reflects an adjustment for the surprise that would occur if the funds rate were held unchanged at the January meeting rather than being reduced by the 25 to 50 basis points currently anticipated by market participants.
 - The exchange value of the dollar is little changed, on net, since the time of the December Greenbook. We have not changed our assumption for the dollar over the forecast period.
 - Based on futures prices, we have raised our forecast for the price of imported oil by about \$6 per barrel, on average, in 2008 and 2009.
 - House prices are anticipated to weaken a little more over the forecast period than we previously assumed.
 - We made no changes to our fiscal policy assumptions.
- Our forecast for real GDP growth in 2008 is 0.3 percentage point lower than in the December Greenbook; growth in 2009 is also revised down 0.3 percentage point.
 - We have marked down our projection for housing in response to the incoming information (worth a tenth on GDP growth in 2008).
 - Higher energy prices and the lower trajectory for asset prices also push down our projection for real GDP growth relative to the December forecast (energy prices deduct roughly a tenth in each year, wealth takes off a tenth in 2008 and two tenths in 2009).
 - We have made no additional changes to our assumptions about the effects of financial turmoil.
 - Real GDP *growth* is lower in 2008 and 2009 than in the December Greenbook, though the *level* of real GDP at the end of 2009 is only a bit lower than in the last Greenbook, reflecting the upward revision to our estimate of real GDP growth in 2007:Q4.
- Labor market conditions are softer in the update than in the December Greenbook.
 - Tentatively, we have responded to the December labor-market report by marking down our expectation of the pace of private payroll job gains in the next few months, from 30,000 per month to 10,000 per month.

Class II FOMC – Restricted FR

- We have taken the higher level of the unemployment rate shown in the December report on board in the near-term projection. And given the weaker projected outlook for the growth of real activity going forward, we are projecting the unemployment rate to increase to 5.3 percent in 2009.
- The recent readings on inflation have been to the upside of our expectations.
 - Based on the latest data, we have revised up our estimates of core PCE inflation in 2007:Q3 (from 1.8 percent to 2.0 percent) and 2007:Q4 (from 2.2 percent to 2.7 percent). Some, but not all, of that surprise reflects higher non-market prices.
 - Looking ahead, higher energy prices boost our projection for headline PCE inflation by 0.4 percentage point in 2008 relative to our previous forecast. Our projection for headline inflation in 2009 is unchanged.
 - Higher energy prices also boost our projection for core PCE inflation in 2008 by 0.1 percent relative to the December Greenbook. Our projection for core inflation in 2009 is unchanged.