

**Appendix 1: Materials used by Mr. Sack**

Material for

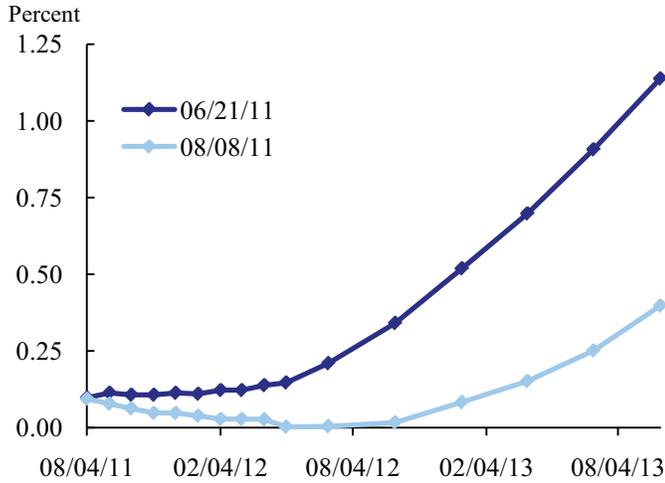
**FOMC Presentation:**

*Financial Market Developments and Desk Operations*

Brian Sack

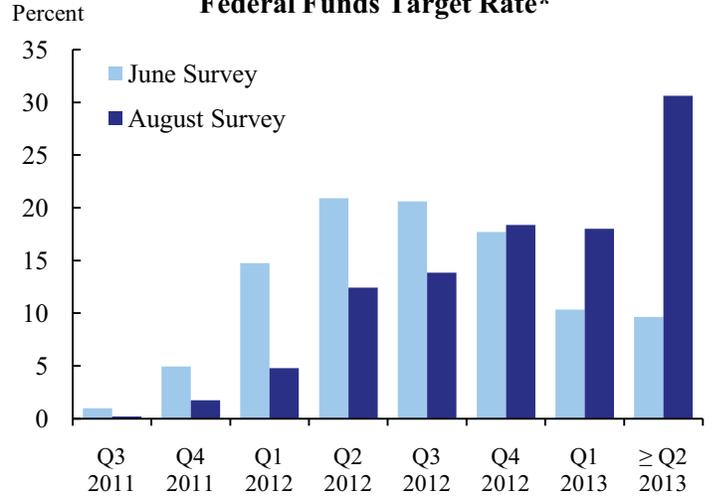
August 9, 2011

**(1) Implied Federal Funds Rate Path\***



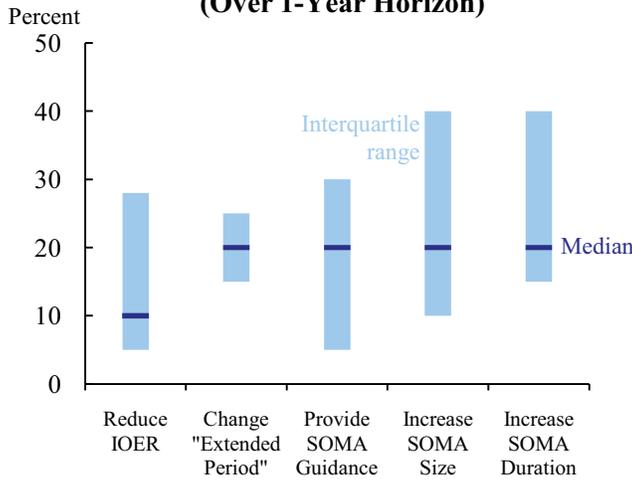
\*Based on federal funds and eurodollar futures rates.  
Source: Federal Reserve Bank of New York

**(2) Probability Distribution of First Increase in Federal Funds Target Rate\***



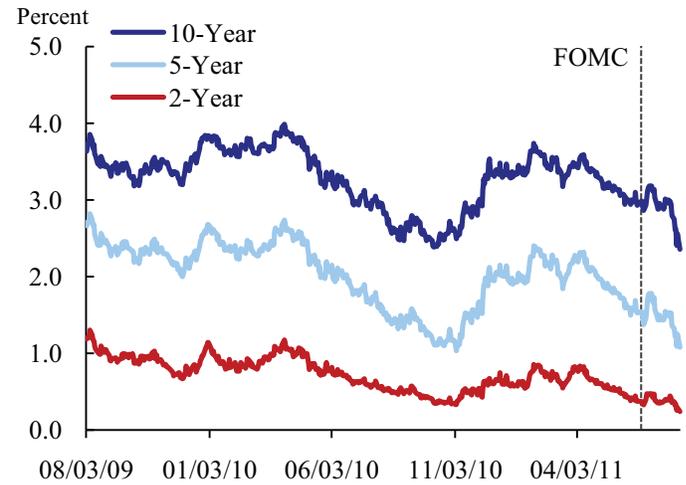
\*Average probabilities from dealer responses.  
Source: Federal Reserve Bank of New York Policy Survey

**(3) Probability of Additional Policy Actions (Over 1-Year Horizon)**



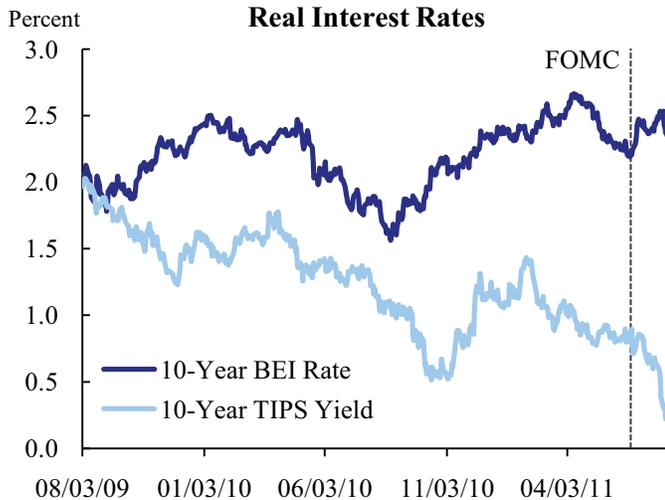
Source: Federal Reserve Bank of New York Policy Survey

**(4) Treasury Yields**



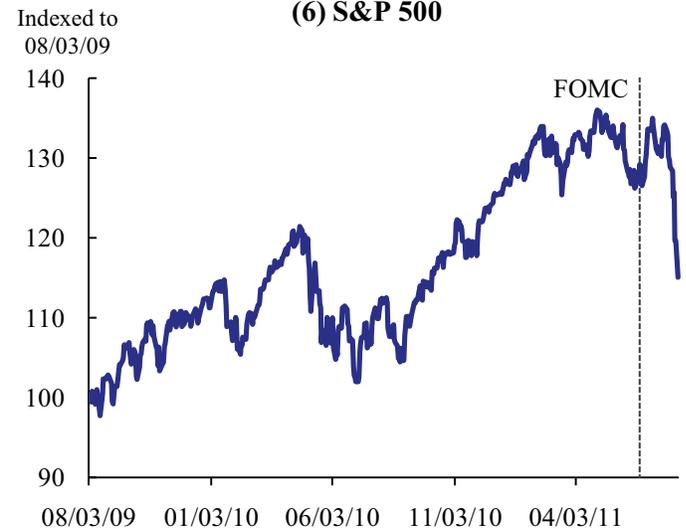
Source: Bloomberg

**(5) Breakeven Inflation and Real Interest Rates**

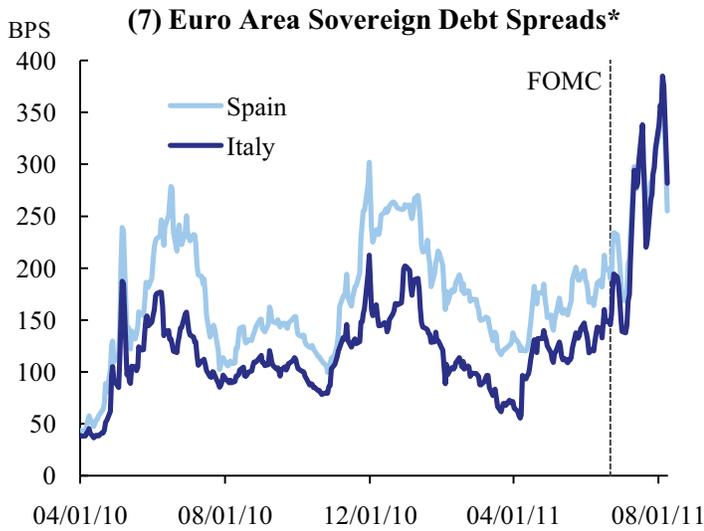


Source: Federal Reserve Board of Governors

**(6) S&P 500**

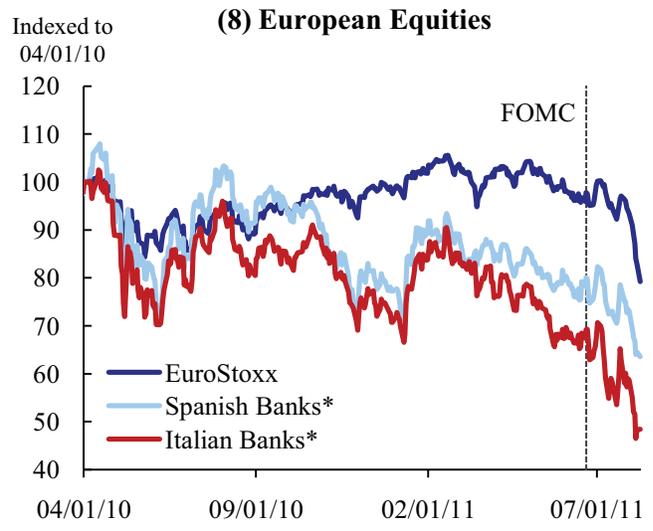


Source: Bloomberg



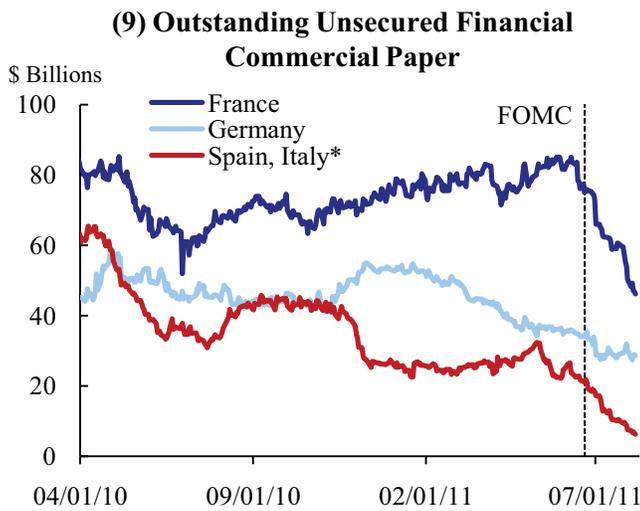
\*2 year spreads to Germany.

Source: Bloomberg



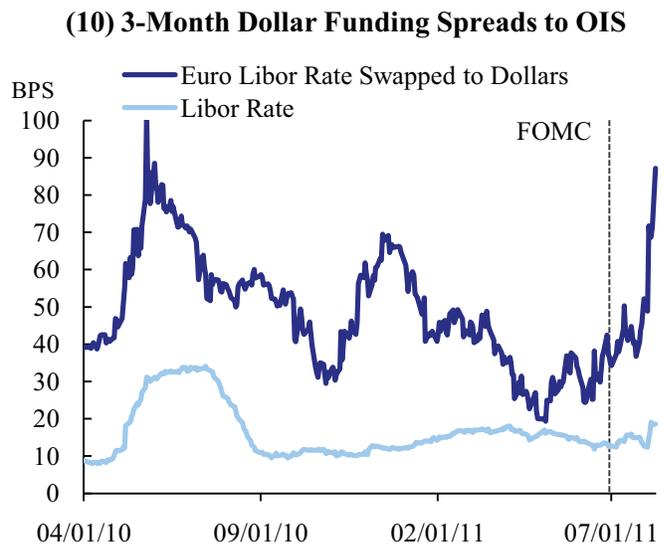
\*Average of country's major banks.

Source: Bloomberg

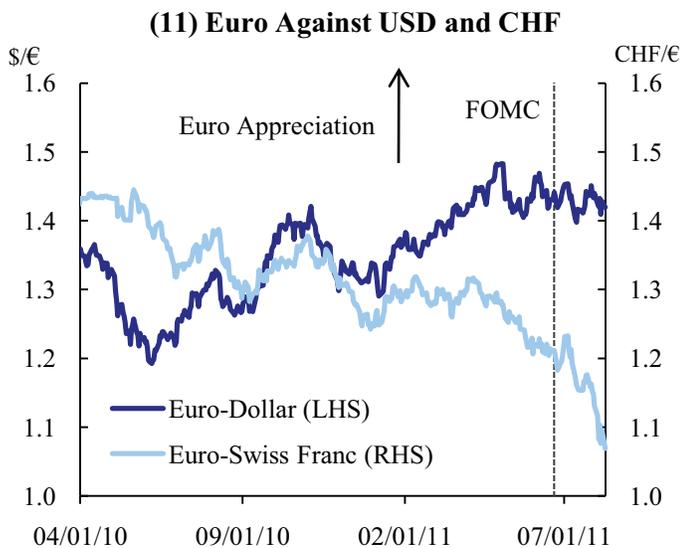


\*Sum of countries' balances.

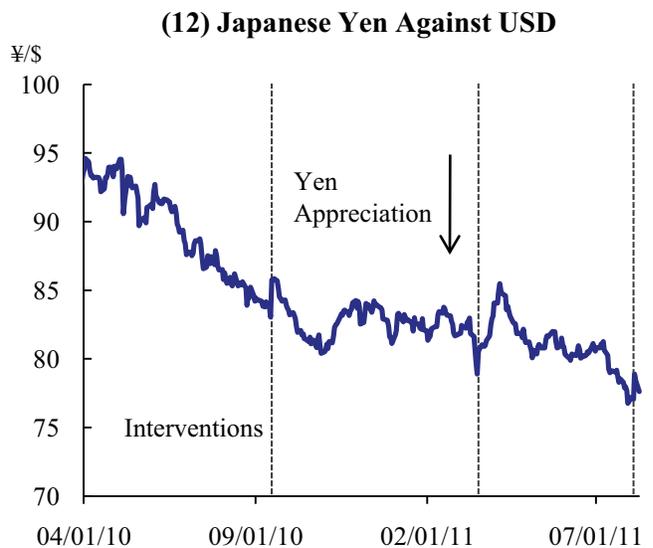
Source: Federal Reserve Board, Depository Trust and Clearing Corporation



Source: Bloomberg, Federal Reserve Bank of New York



Source: Bloomberg



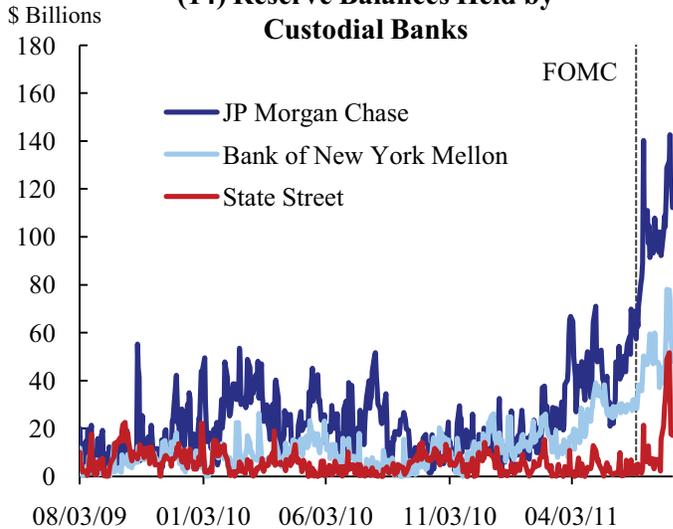
Source: Bloomberg

**(13) Balances at Institutional Money Market Funds**

		\$ Billions	
		Prime Funds	Government Funds
Levels	7/21	1,001	648
	8/1	930	585
	8/4	957	601
Changes	7/21 - 8/1	-7%	-10%
	8/1 - 8/4	+3%	+3%

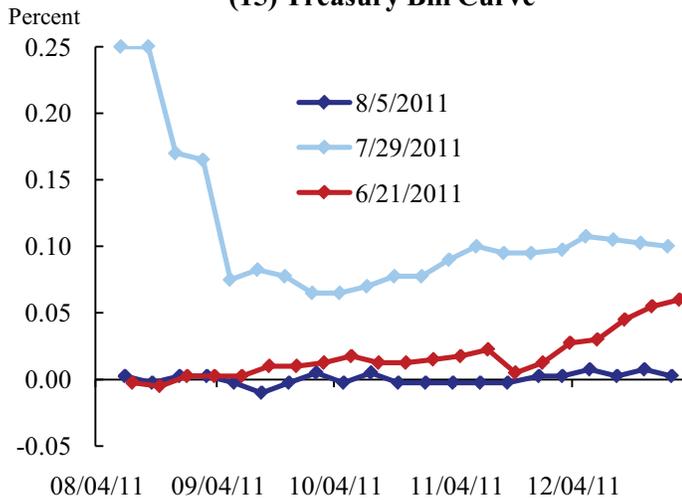
Source: Investment Company Institute and iMoneyNet

**(14) Reserve Balances Held by Custodial Banks**



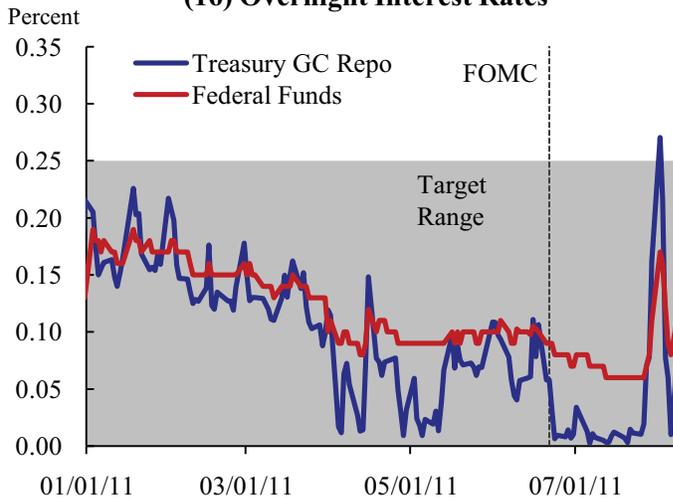
Source: Federal Reserve Bank of New York

**(15) Treasury Bill Curve**



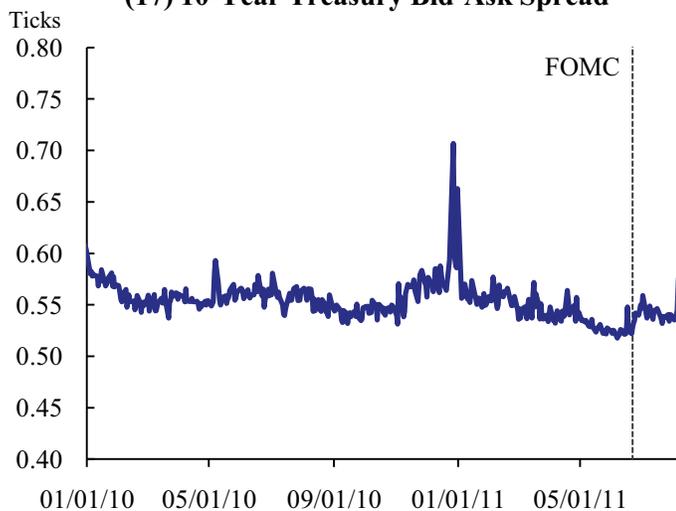
Source: Bloomberg

**(16) Overnight Interest Rates**



Source: Federal Reserve Bank of New York

**(17) 10-Year Treasury Bid-Ask Spread\***



\*Bid ask spread for on the run security.

Source: BrokerTec

**(18) Asset Price Changes on August 8**

Asset	Change
Equity prices (percent)	
S&P	-6.7
Banks (KBW)	-10.7
Treasury yields (bps)	
5-year	-16
10-year	-22
Exchange rate (percent)	
Euro/dollar	+0.7
Yen/dollar	-1.0

Source: Bloomberg

**Appendix 2: Materials used by Mr. Wilcox**

*Material for*

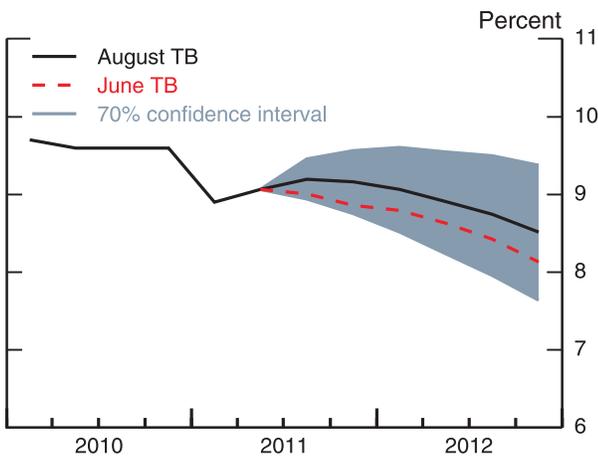
*Staff Report on the  
Domestic Economic Situation*

*August 9, 2011*

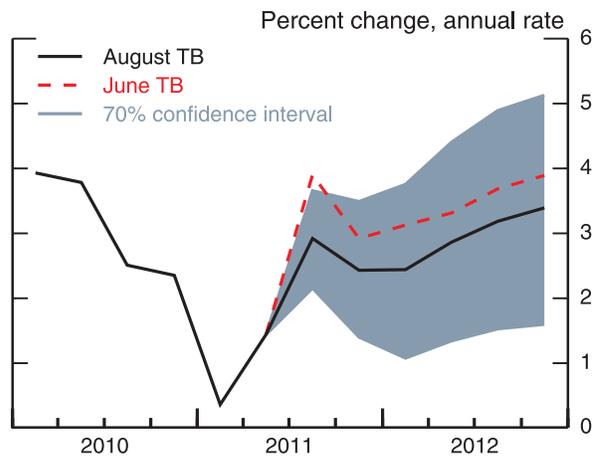
### Forecast Summary

Confidence Intervals Based on Tealbook Track Record

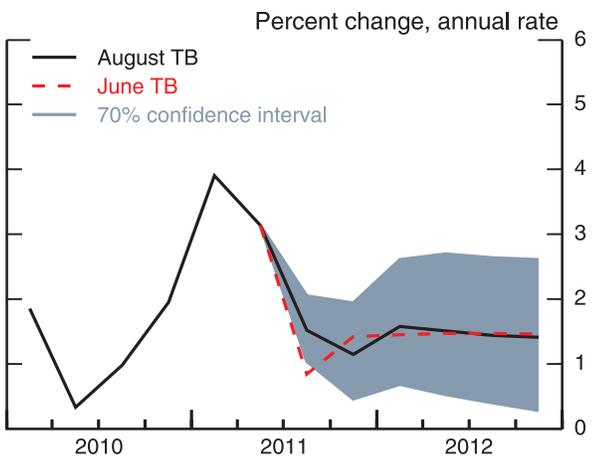
#### Unemployment Rate



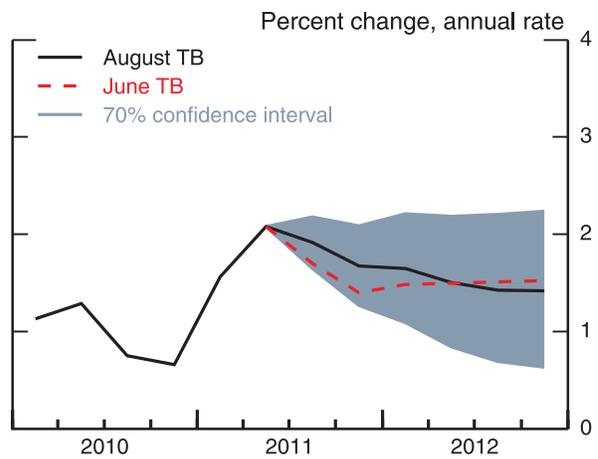
#### Real GDP



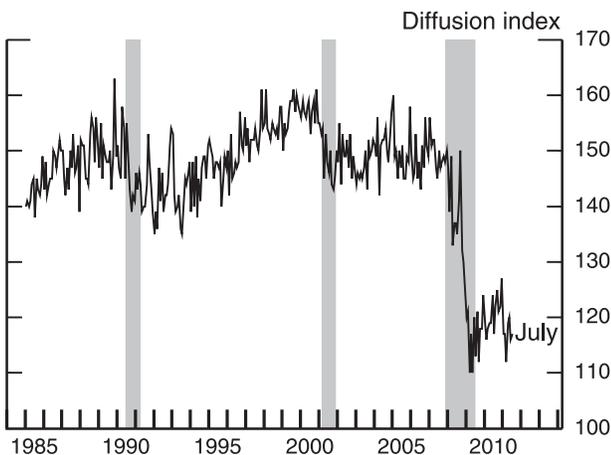
#### PCE Prices



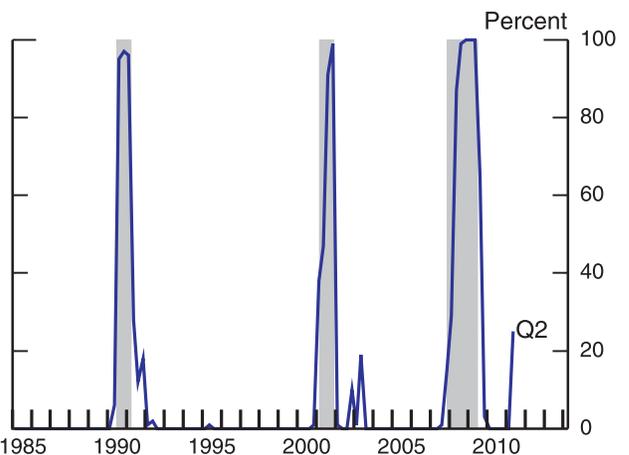
#### PCE Prices Excluding Food and Energy



#### Households Expecting an Increase in Income\*



#### Estimated Probability of Recession from Simple Three-State Model



\* Diffusion index of income expectations (percent of households expecting increase minus percent of households expecting decrease plus 100) over the next twelve months.  
Source: Michigan Survey.

Source: Jeremy Nalewaik.

**Appendix 3: Materials used by Mr. English**

*Material for*

**FOMC Briefing on Monetary Policy Alternatives**

**Bill English**

**August 9, 2011**

## JUNE FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in April indicates that the economic recovery is continuing at a moderate pace, though somewhat more slowly than the Committee had expected. Also, recent labor market indicators have been weaker than anticipated. The slower pace of the recovery reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan. Household spending and business investment in equipment and software continue to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. Inflation has picked up in recent months, mainly reflecting higher prices for some commodities and imported goods, as well as the recent supply chain disruptions. However, longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The unemployment rate remains elevated; however, the Committee expects the pace of recovery to pick up over coming quarters and the unemployment rate to resume its gradual decline toward levels that the Committee judges to be consistent with its dual mandate. Inflation has moved up recently, but the Committee anticipates that inflation will subside to levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee continues to anticipate that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The Committee will complete its purchases of \$600 billion of longer-term Treasury securities by the end of this month and will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee will monitor the economic outlook and financial developments and will act as needed to best foster maximum employment and price stability.

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## AUGUST FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in April ~~June~~ indicates that the economic ~~recovery is continuing at a moderate pace, though somewhat more slowly~~ **growth so far this year has been considerably slower** than the Committee had expected. Also, recent Indicators ~~suggest a deterioration in overall labor market conditions in recent months,~~ **suggest a deterioration in overall labor market conditions in recent months,** have been weaker than anticipated ~~and the unemployment rate has moved up.~~ **Financial conditions have become more restrictive.** The slower pace of the recovery reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan. Household spending ~~has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed.~~ **has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed.** However, ~~and~~ business investment in equipment and software continues to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. **Temporary factors, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan, appear to account for only some of the recent weakness in economic activity.** Inflation has picked up ~~earlier in the year~~ **earlier in the year** recent months, mainly reflecting higher prices for some commodities and imported goods, as well as the recent supply chain disruptions. **More recently, inflation has moderated as prices of energy and some commodities have declined from their earlier peaks.** However, Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~The unemployment rate remains elevated; however,~~ The Committee **now** expects the **a somewhat slower** pace of recovery to pick up over coming quarters **than it did at the time of the previous meeting** and **anticipates that** the unemployment rate to resume its gradual **will** decline **only gradually** toward levels that the Committee judges to be consistent with its dual mandate. **Moreover, downside risks to the economic outlook have increased.** ~~Inflation has moved up recently, but~~ The Committee **also** anticipates that inflation will **settle, over coming quarters, at** ~~subside to~~ levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate **further**. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee ~~continues to~~ **currently** anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate **at least through mid-2013** ~~for an extended period.~~

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4. In order to provide greater support for the economic recovery, the Committee also decided to adjust the composition of its securities holdings. Over the next 12 months, the Committee will purchase \$400 billion of Treasury securities with remaining maturities of 7 years to 30 years and sell an equal amount of Treasury securities with remaining maturities of 3 years or less. Lengthening the average duration of the Federal Reserve's securities portfolio should put downward pressure on longer-term interest rates in private credit markets and thereby support growth in private demand for goods and services. The Committee also will complete its purchases of \$600 billion of longer term Treasury securities by the end of this month and will maintain its existing policy of reinvesting principal payments from its securities holdings and, going forward, will use the proceeds to purchase only Treasury securities with remaining maturities of 7 years to 30 years. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings further if needed as appropriate.
  5. The Committee will ~~monitor~~ carefully assess the economic outlook in light of incoming information and financial developments and will ~~act as needed~~ employ its policy tools as appropriate to promote a stronger pace of economic recovery in a context of price stability ~~best foster maximum employment and price stability.~~

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**AUGUST FOMC STATEMENT—ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in April ~~June~~ indicates that the economic ~~recovery is continuing at a moderate pace, though somewhat more slowly~~ **growth so far this year has been slower** than the Committee had expected. Also, Recent labor market indicators **continue to show weakness in overall labor market conditions,** have been weaker than anticipated **and the unemployment rate remains elevated.** **Financial conditions have become more restrictive.** The slower pace of the recovery reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan. Household spending **has flattened out, investment in nonresidential structures is still weak,** and **the housing sector remains depressed.** **However,** business investment in equipment and software continues to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. **The slow pace of the recovery this year appears to reflect, although only in part, temporary factors, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan.** Inflation has picked up **earlier** in **the year** recent months, mainly reflecting higher prices for some commodities and imported goods as well as the recent supply chain disruptions. **More recently, inflation has moderated somewhat, as prices of energy and some commodities have declined from their earlier peaks.** ~~However,~~ Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~The unemployment rate remains elevated, however;~~ The Committee **now** expects the **a somewhat slower** pace of recovery to pick up over coming quarters **than it did at the time of the previous meeting** and **anticipates that** the unemployment rate to resume its gradual **will** decline **only gradually** toward levels that the Committee judges to be consistent with its dual mandate. ~~Inflation has moved up recently, but~~ The Committee **also** anticipates that inflation will **settle, over coming quarters, at** ~~subside to~~ levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate **further.** ~~However~~ **Nonetheless,** the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee continues to anticipate that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The Committee **also** ~~will complete its purchases of \$600 billion of longer-term Treasury securities by the end of this month and~~ will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review

the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

4. The Committee will ~~monitor~~ **carefully assess** the economic outlook **in light of incoming information** and financial developments and will [act as needed | **employ its policy tools as appropriate**] to **promote a stronger pace of economic recovery in a context of price stability** ~~best foster maximum employment and price stability.~~

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## AUGUST FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in April ~~June~~ indicates that the economic growth recovery has been modest of late ~~is continuing~~ at a moderate pace, though somewhat more slowly than the Committee had expected. Also, recent labor market indicators suggest that ~~have been weaker than anticipated~~ improvement in overall labor market conditions has slowed in recent months. The ~~slower~~ modest pace of the recovery appears to reflect in part factors that are likely proving to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan. ~~Household spending and~~ Business investment in equipment and software continues to expand despite these shocks. However, household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. Inflation has picked up in recent months this year, mainly reflecting as firms have faced cost pressures from higher prices for some commodities and imported goods, ~~as well as the recent supply chain disruptions~~. However, longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~The unemployment rate remains elevated; however,~~ The Committee expects the pace of recovery to pick up over coming quarters and the unemployment rate to resume ~~its~~ a gradual decline toward levels that the Committee judges to be consistent with its dual mandate. ~~Inflation has moved up recently, but~~ The Committee anticipates that inflation will subside, over coming quarters, to levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate. However, the Committee sees the risks to the inflation outlook as tilted to the upside. The Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. ~~To promote the ongoing economic recovery and to help ensure that inflation~~ in the medium run, ~~over time,~~ is at levels consistent with its dual mandate, and thereby support progress toward maximum employment, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee continues to anticipate that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate for an extended period. For the time being, the Committee will ~~complete its purchases of \$600 billion of longer term Treasury securities by the end of this month and will~~ maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee will monitor the economic outlook and financial developments and will act as needed to best foster maximum employment and price stability.

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## August 2011 FOMC Directive — Alternative A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to 1/4 percent. ~~The Committee directs the Desk to complete purchases of \$600 billion of longer term Treasury securities by the end of this month.~~ **The Committee directs the Desk to execute purchases, over the next 12 months, of Treasury securities with remaining maturities of approximately 7 years to 30 years with a total face value of \$400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of \$400 billion.** The Committee also directs the Desk to ~~maintain its existing policy of reinvesting~~ principal payments on all domestic securities in the System Open Market Account in Treasury securities **with remaining maturities of approximately 7 years to 30 years** in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

**August 2011 FOMC Directive — Alternative B**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to 1/4 percent. ~~The Committee directs the Desk to complete purchases of \$600 billion of longer term Treasury securities by the end of this month.~~ The Committee ~~also~~ directs the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities in the System Open Market Account in Treasury securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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## **August 2011 FOMC Directive — Alternative C**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to 1/4 percent. ~~The Committee directs the Desk to complete purchases of \$600 billion of longer term Treasury securities by the end of this month.~~ The Committee also directs the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities in the System Open Market Account in Treasury securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

**Appendix 4: Material distributed by Ms. Smith**

The Committee anticipates that exceptionally low levels for the federal funds rate are likely to be warranted as long as the unemployment rate exceeds 7.5 percent and the medium term outlook for inflation remains subdued. The Committee currently expects those economic conditions to prevail at least through mid-2013.