

Appendix 1: Materials used by Mr. Potter

Class II FOMC – Restricted (FR)

Material for Briefing on

**Financial Developments and
Open Market Operations**

Simon Potter

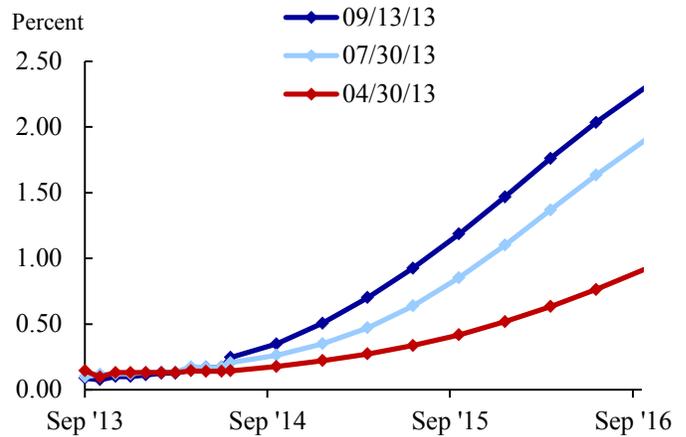
September 17, 2013

(1) Asset Performance Over Intermeeting Period*

	Change Since July FOMC	Change Since April-May FOMC
<i>Changes in Basis Points</i>		
2-Year Treasury (0.43%)	+12	+22
10-Year Treasury (2.88%)	+27	+121
5-Year 5-Year Forward BEI (2.33%)	-9	-45
Primary Mortgage Rate** (4.57%)	+26	+117
<i>Changes in Percent</i>		
S&P 500 Index (1688)	+0.1	+5.7
DXY Dollar Index (81.45)	-0.5	-0.4

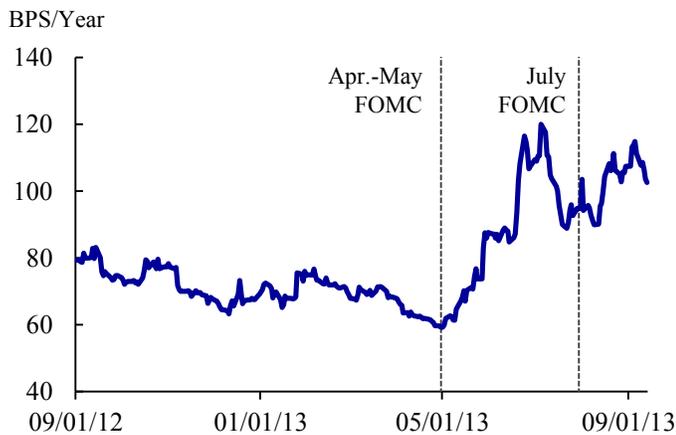
*Current levels in parenthesis.
 **FHLMC 30-year survey rate.
 Source: Bloomberg, Barclays

(2) Implied Federal Funds Rate Path*



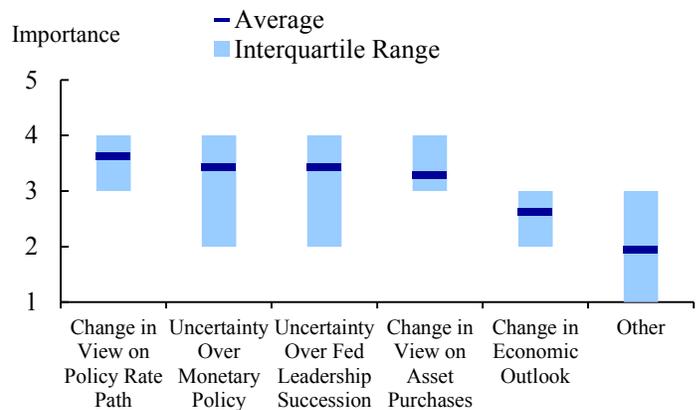
*Derived from federal funds futures and Eurodollar futures.
 Source: Bloomberg, Federal Reserve Bank of New York

(3) Swaption-Implied Volatility*



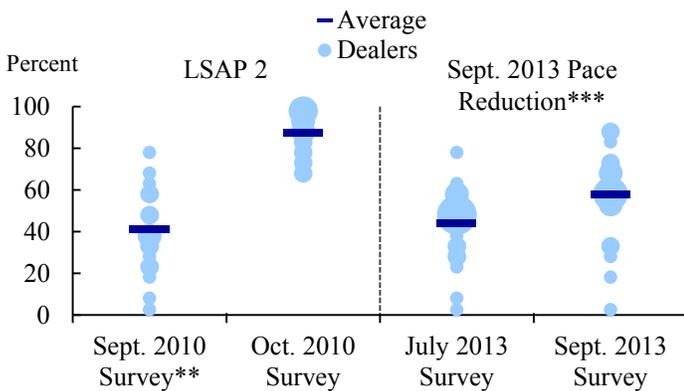
*3-month 10-year swaption.
 Source: Barclays

(4) Factors Contributing to Ten-Year Yield Increase Over Intermeeting Period*



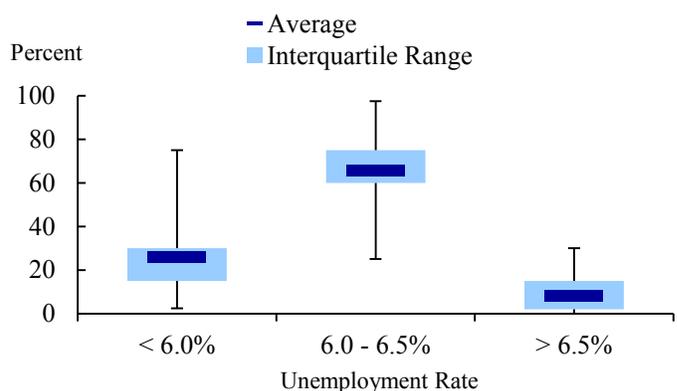
*Responses are expressed in terms of importance of each factor, where 1 is not important and 5 is very important.
 Source: Federal Reserve Bank of New York Survey

(5) Distribution of Market Beliefs on Balance Sheet Actions*



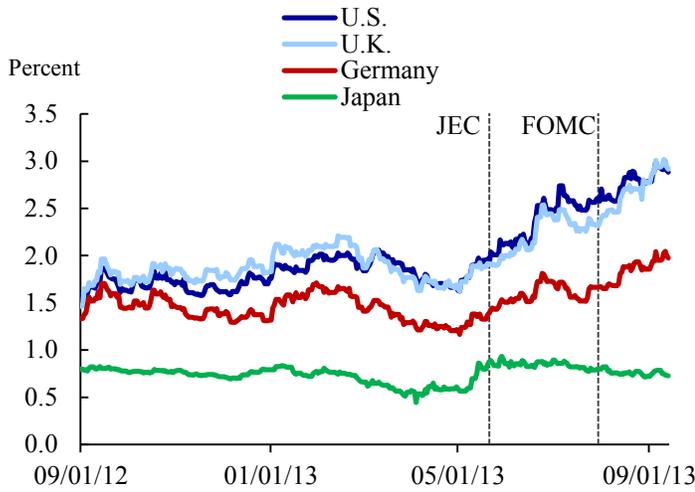
*Dots scaled by number of dealers. Unmatched sample in 2010 vs.2013.
 **Sept. 2010 survey asks about probability of purchases in the next quarter.
 ***Greater of probabilities assigned to Treasury and MBS pace reduction.
 Source: Federal Reserve Bank of New York Survey

(6) Probability of Unemployment Rate Outcomes at First Rate Hike*



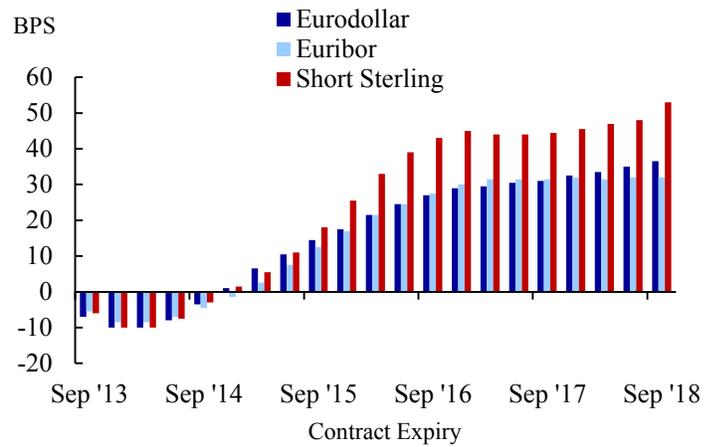
*Probabilities from dealer responses. Conditioned on assumption that projected inflation 1 to 2 years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first rate hike.
 Source: Federal Reserve Bank of New York Survey

(7) Ten-Year Sovereign Yields



Source: Bloomberg

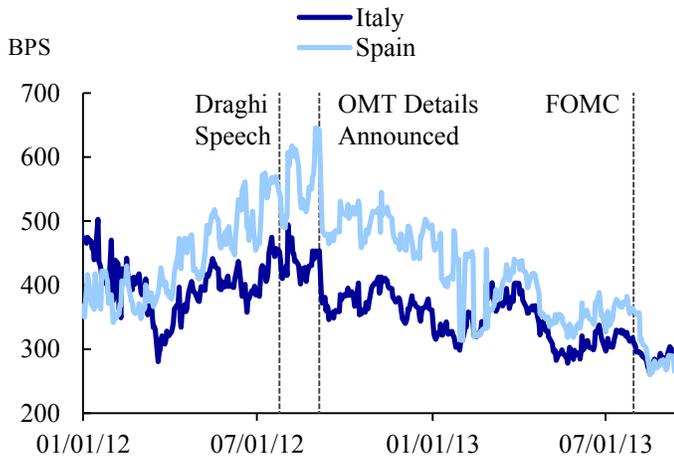
(8) Changes in Short Rates Since the July ECB and BoE Meetings*



*Since 07/03/13.

Source: Bloomberg

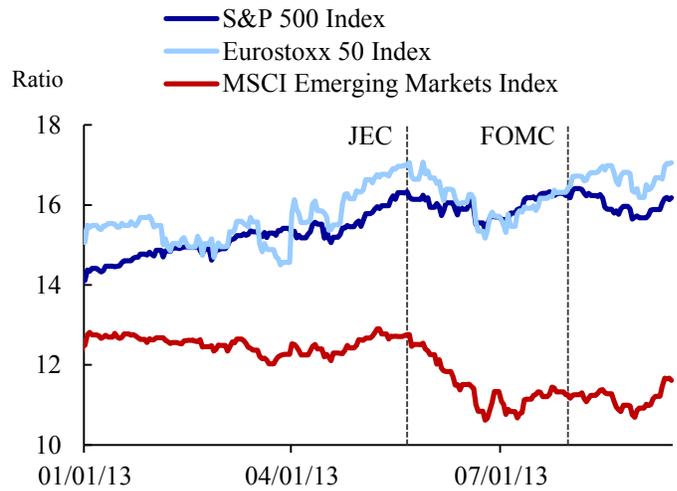
(9) Euro Area Forward Rate Spreads*



*5-year, 5-year forward sovereign rate spreads to German equivalent.

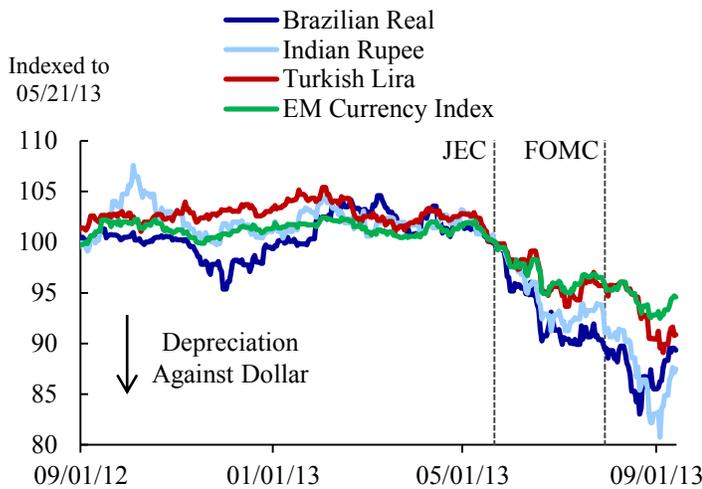
Source: Bloomberg

(10) Price-Earnings Ratios



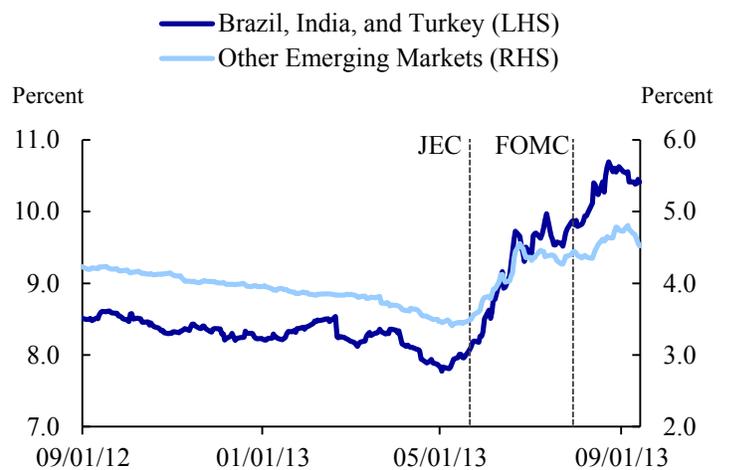
Source: Bloomberg

(11) Currency Performance Against the Dollar



Source: Bloomberg, J.P. Morgan

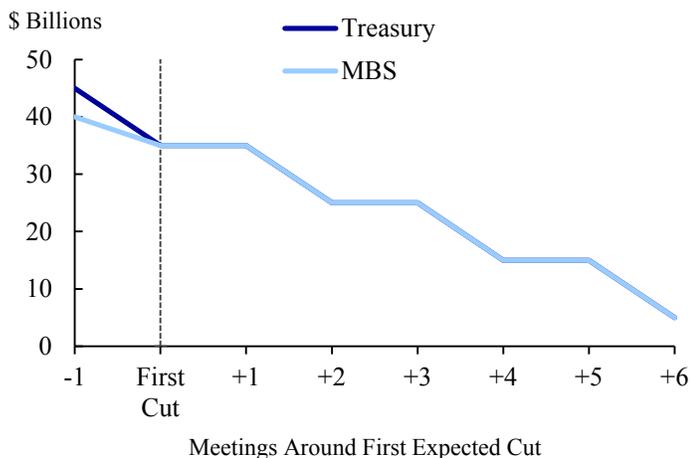
(12) Emerging Market Sovereign Yields*



*2012 GDP-weighted average of five-year yields.

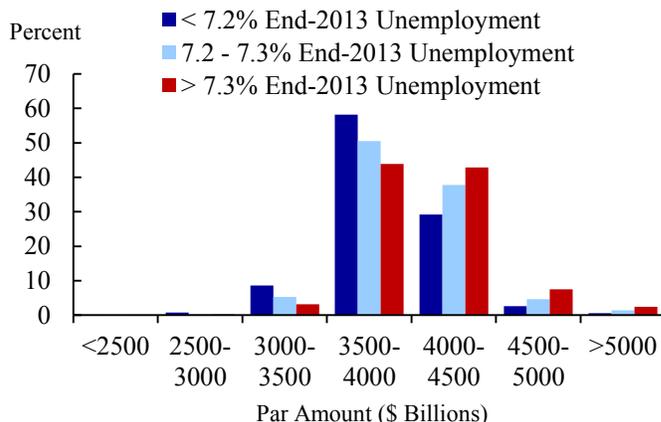
Source: Bloomberg, Haver Analytics, FRBNY Staff Calculations

(13) Median Expected Monthly Purchase Pace Announced at FOMC Meetings



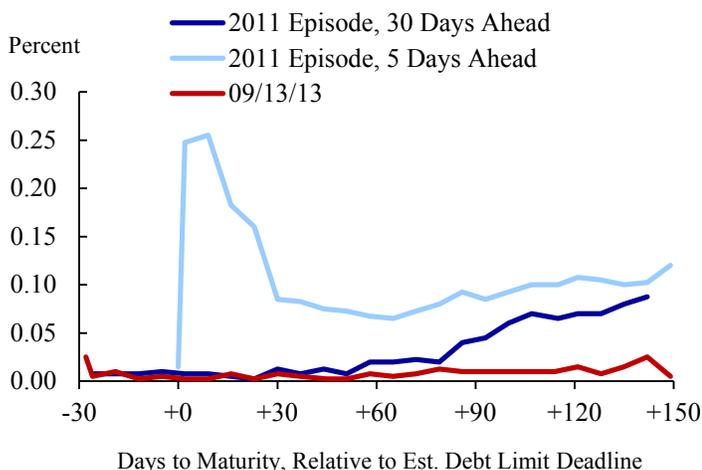
Source: Federal Reserve Bank of New York Survey

(14) Probability Distribution of End-2014 SOMA Portfolio Holdings*



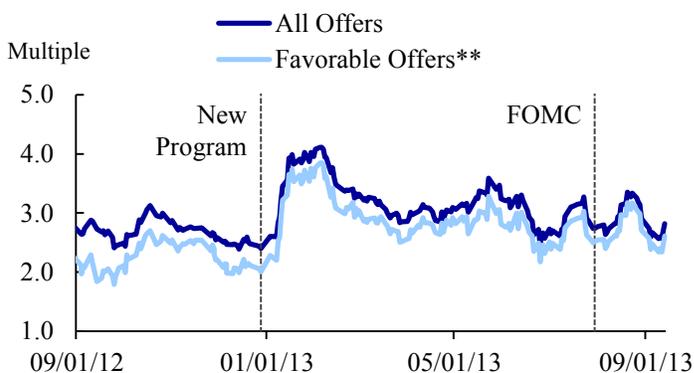
*Average probabilities from dealer responses.
Source: Federal Reserve Bank of New York Survey

(15) Treasury Bill Yield Curve



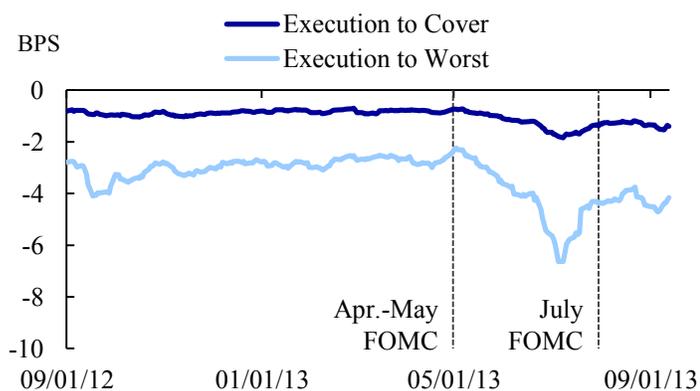
Source: Federal Reserve Bank of New York

(16) Treasury Purchase Operation Offer-to-Cover Ratios*



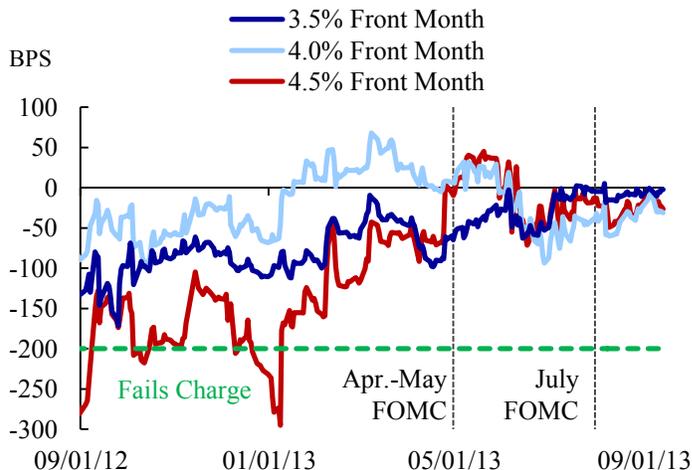
*8-operation moving average.
**Those classified in the FRBNY's favorable-to-market bucket, which generally includes offers up to 2 to 6 ticks above market depending on sector.
Source: Federal Reserve Bank of New York

(17) MBS Purchase Operation Execution To Cover and Worst Prices



* 10-day moving average, volume-weighted by day. Shows spread between executed price and next best proposition and spread between executed price and worst proposition.
Source: Federal Reserve Bank of New York

(18) Dollar Roll Implied Financing Rates*

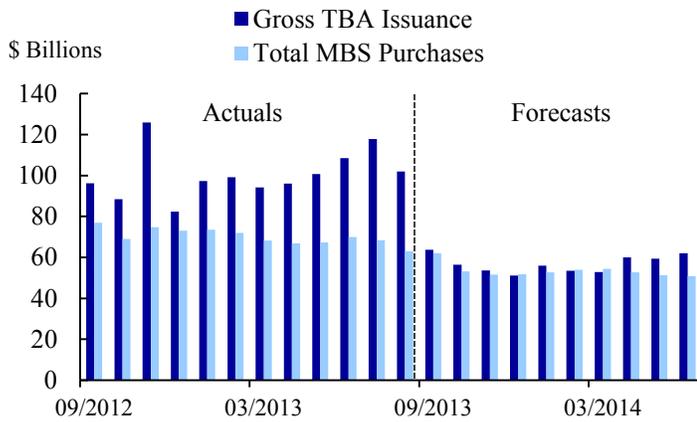


*30-year FNMA dollar rolls. Front month is currently October-November roll.
Source: J.P. Morgan

Class II FOMC – Restricted (FR)

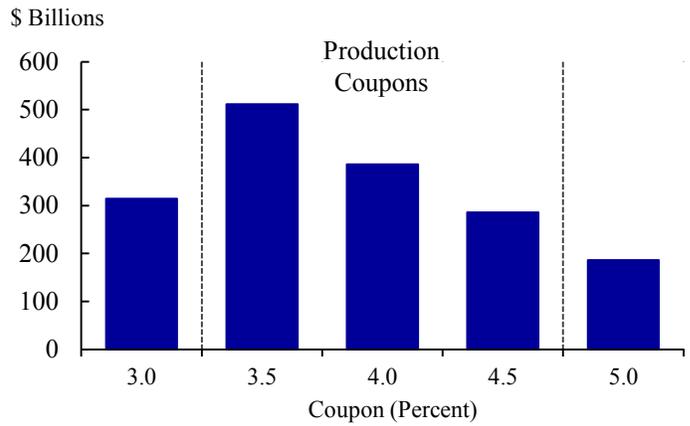
Exhibit 4 (Last)

(19) Gross TBA Issuance and MBS Purchases*



*Gross TBA issuance excludes 10- and 20-year, non-TBA eligible, and specified pool issuance. Assumes September 2013 Tealbook Alt-B interest rate path and a constant purchase pace of \$40 billion per month.
Source: BlackRock, Federal Reserve Bank of New York

(20) Thirty-Year Fixed Rate TBA MBS Outstanding (Excluding SOMA Holdings)*



*Excludes CMOs.
Source: Credit Suisse, KDS

Appendix 2: Materials used by Mr. Burke

Class II FOMC – Restricted (FR)

**Overnight Reverse Repurchase Agreement
Resolution**

September 17, 2013

Overnight Reverse Repurchase Agreement Resolution

September 17, 2013

“The Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of fixed-rate, overnight reverse repurchase operations involving U.S. Government securities, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, for the purpose of assessing operational readiness. The reverse repurchase operations authorized by this resolution shall be (i) offered at a fixed rate that may vary from zero to five basis points, (ii) offered at up to a capped allotment per counterparty of \$1 billion per day and (iii) for an overnight term, or such longer term as is warranted to accommodate weekend, holiday, and similar trading conventions. The System Open Market Account Manager will inform the FOMC in advance of the terms of the planned operations. These operations may be announced when authorized by the Chairman, may begin when authorized by the Chairman on or after September 23, 2013, and shall be authorized through the FOMC meeting that ends on January 29, 2014.”

Appendix 3: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

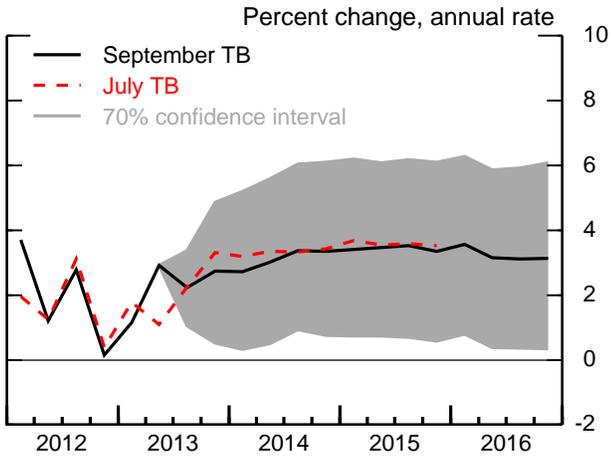
Forecast Summary

David Wilcox
September 17, 2013

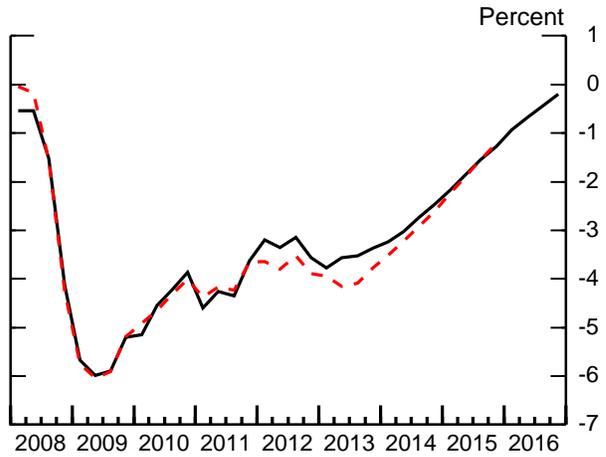
Forecast Summary

Confidence Intervals Based on FRB/US Stochastic Simulations

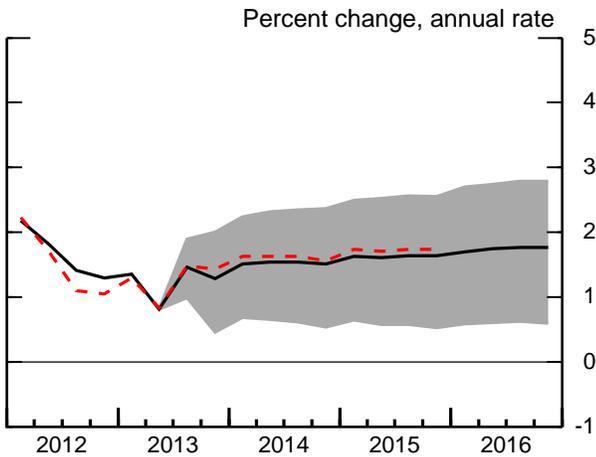
Real GDP



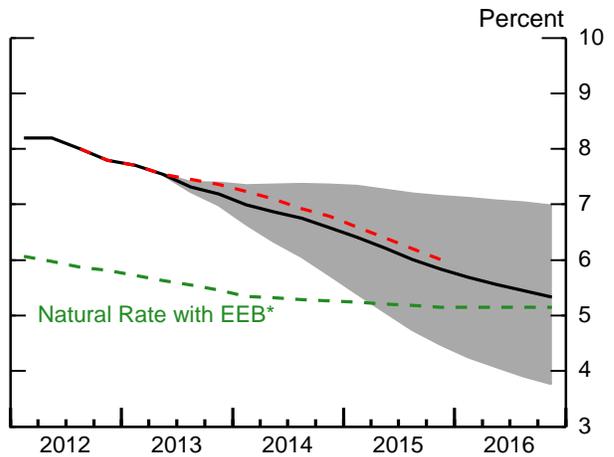
GDP Gap



PCE Prices Excluding Food and Energy

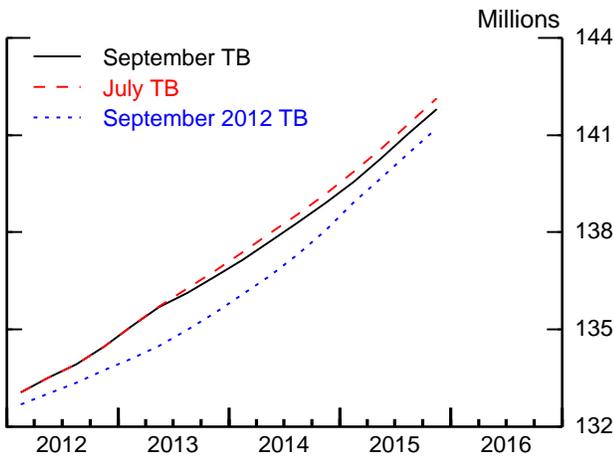


Unemployment Rate

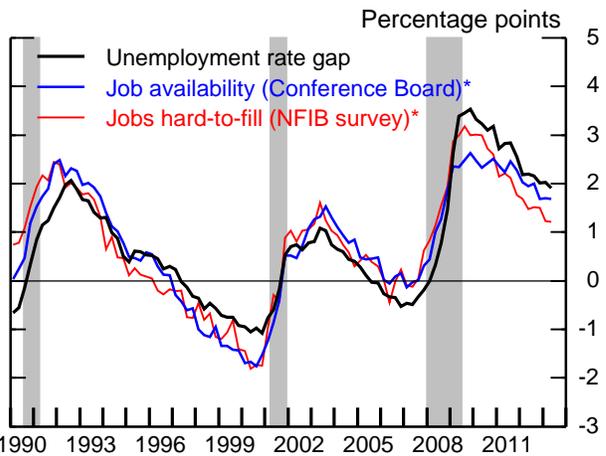


*Effect of emergency unemployment compensation and state-federal extended benefit programs.

Total Payroll Employment



Alternative Measures of Labor Market Slack



*Index levels normalized to have same mean and standard deviation as staff unemployment gap.

Evolution of various key activity, inflation, and financial projections

	2013		2013	2014	2015
	H1	H2			
1. Real GDP growth*					
Current TB	2.0	2.5	2.3	3.1	3.4
Sept. 2012	2.1	2.7	2.4	3.2	3.6
2. Unemployment rate**					
Current TB	7.5	7.2	7.2	6.6	5.8
Sept. 2012	8.2	8.0	8.0	7.6	6.7
3. Participation rate**					
Current TB	63.4	63.3	63.3	63.3	63.2
Sept. 2012	63.7	63.7	63.7	63.7	NA
4. Headline PCE inflation*					
Current TB	0.6	1.6	1.1	1.2	1.4
Sept. 2012	1.4	1.4	1.4	1.4	1.5
5. Core PCE inflation*					
Current TB	1.1	1.4	1.2	1.5	1.6
Sept. 2012	1.6	1.6	1.6	1.6	1.7
6. Ten-year Treasury yield**					
Current TB	1.99	3.10	3.10	3.60	4.00
Sept. 2012	2.40	3.00	3.00	3.65	4.25
7. Mortgage rate**					
Current TB	3.64	4.65	4.65	5.05	5.40
Sept. 2012	3.95	4.55	4.55	5.15	5.80
8. Stock market (2012:Q1=100)***					
Current TB	114.7	123.4	123.4	132.8	143.0
Sept. 2012	105.1	110.1	110.1	119.3	127.1
9. Real broad dollar (2012:Q1=100)**					
Current TB	100.8	101.8	101.8	99.0	96.5
Sept. 2012	100.6	99.1	99.1	95.9	92.9

*Percent change at annual rate; annual figures are Q4-over-Q4 percent changes.

**Quarterly average at end of period.

***Level at end of period.

Appendix 4: Materials used by Mr. Kamin

Class II FOMC – Restricted (FR)

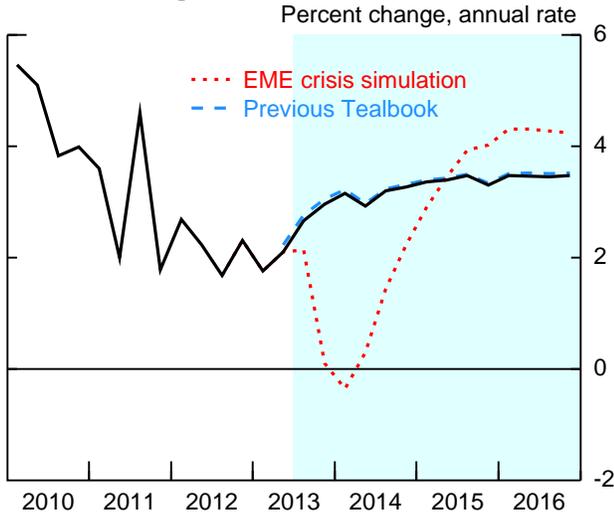
Material for

The International Outlook

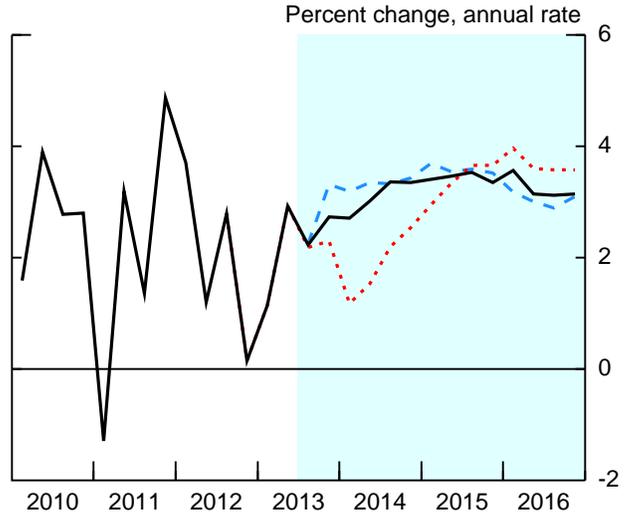
Steven B. Kamin
September 17, 2013

The International Outlook

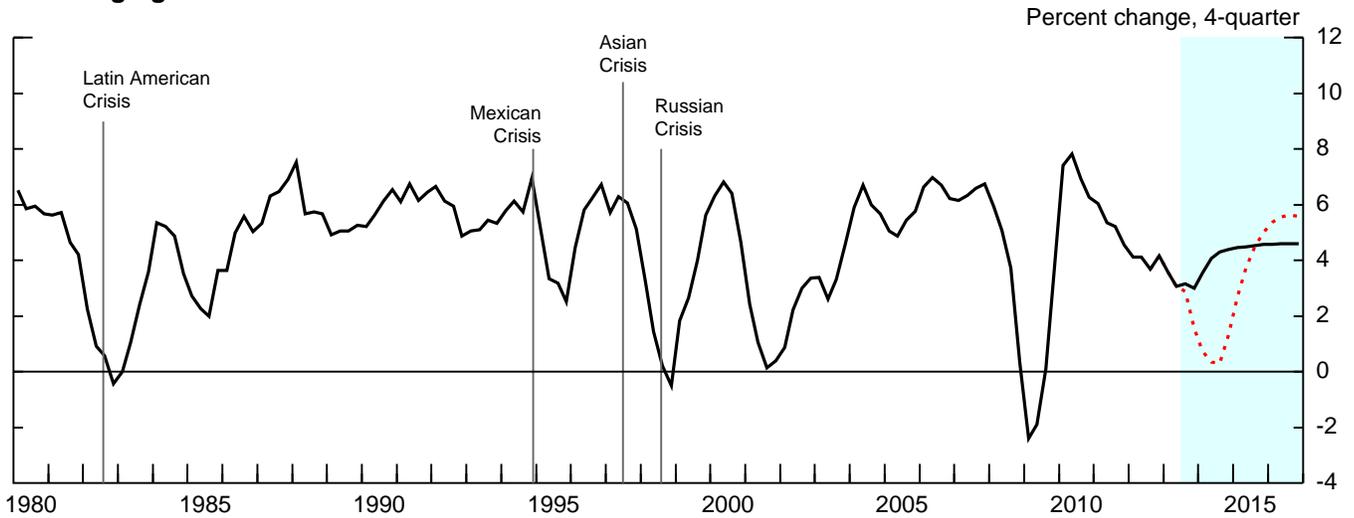
1. Total Foreign GDP



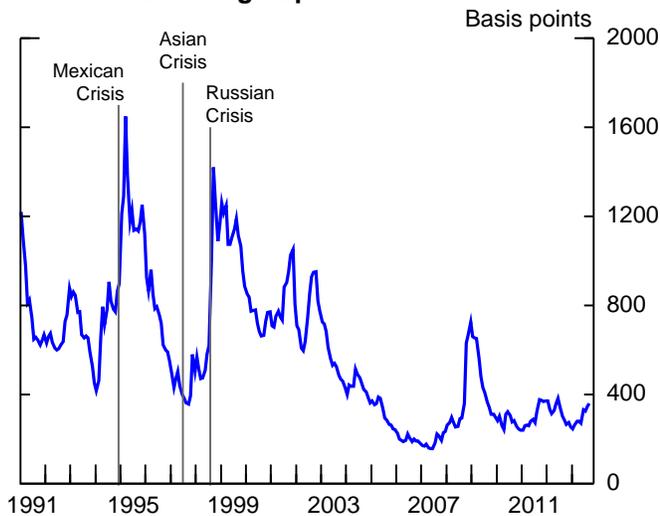
3. U.S. GDP



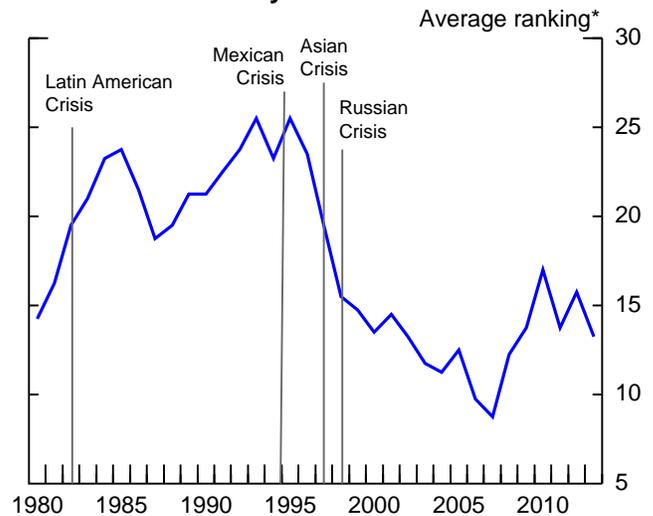
2. Emerging Market Economies GDP



4. EMBI+ Sovereign Spread



5. EME Vulnerability Index



* Based on 4 indicators for 13 EMEs: CA/GDP, gross government debt/GDP, average inflation, and increase in bank credit to the private sector/GDP.

Appendix 5: Materials used by Mr. Kiley

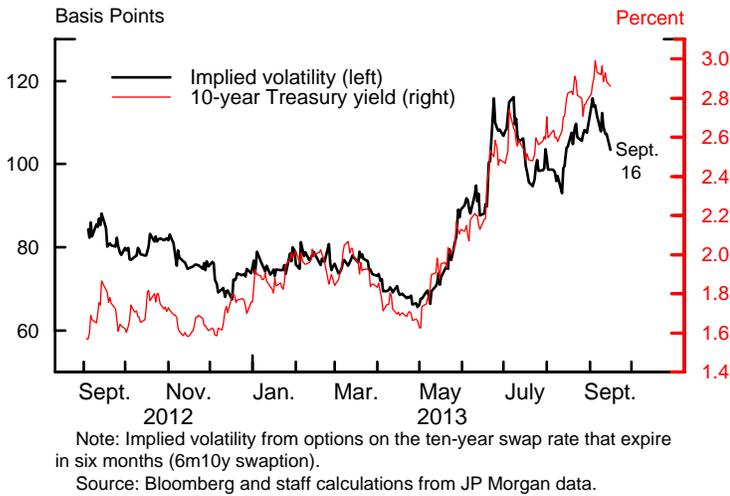
Class II FOMC – Restricted (FR)

Material for Briefing on
Financial Stability

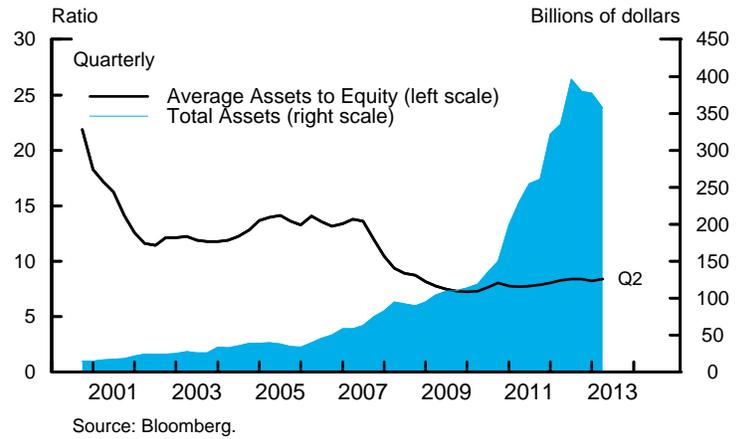
Michael T. Kiley
September 17, 2013

Exhibit 1
Recent Developments

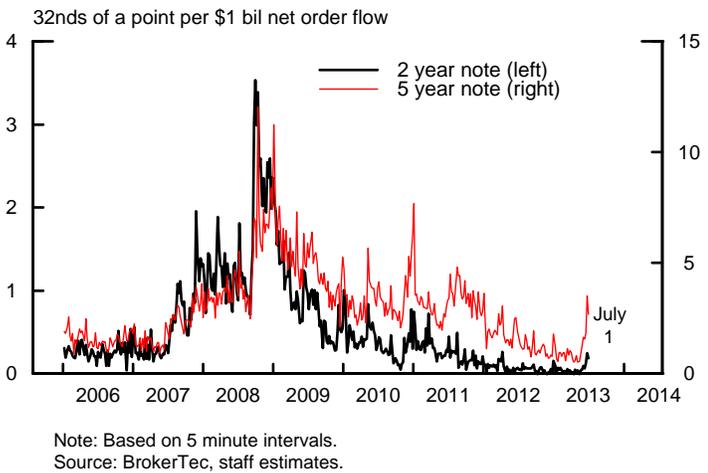
10-year Treasury Yield and Options Implied Volatility



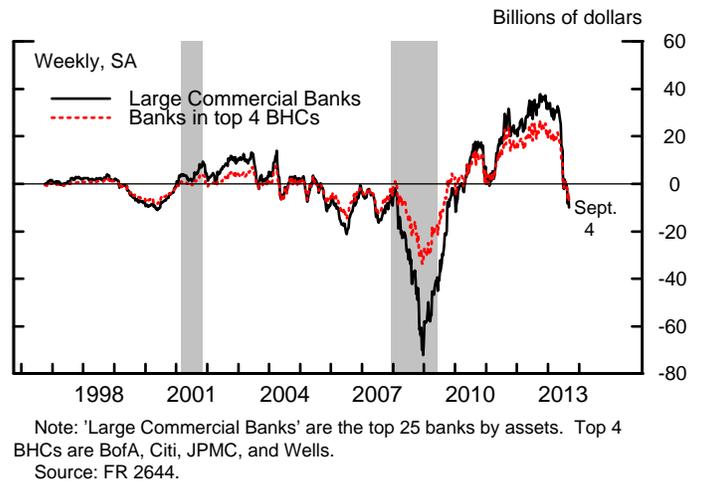
Total Agency REIT Assets



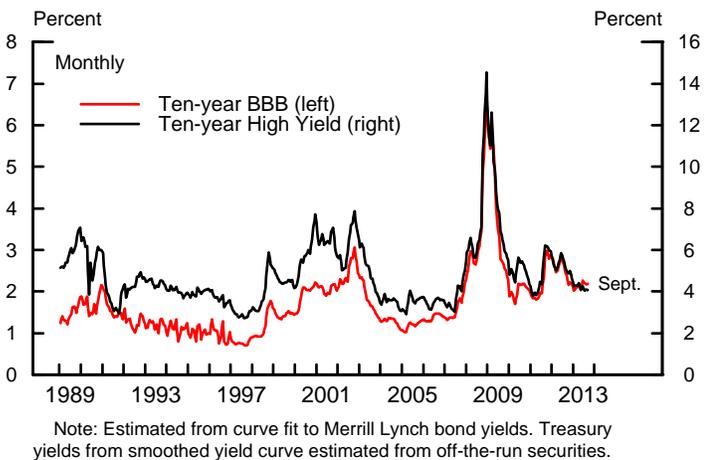
Weekly Price Impact Coefficients



Net Unrealized Gains on AFS Securities



Domestic Corporate Bond Spreads to Similar Maturity Treasury



Issuance of Riskier Corporate Credit

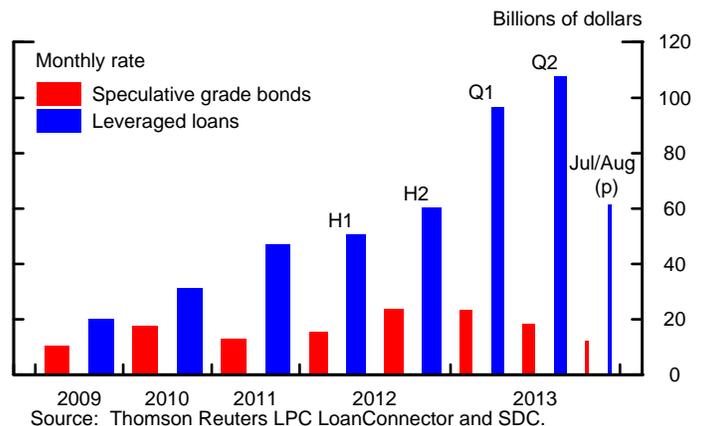
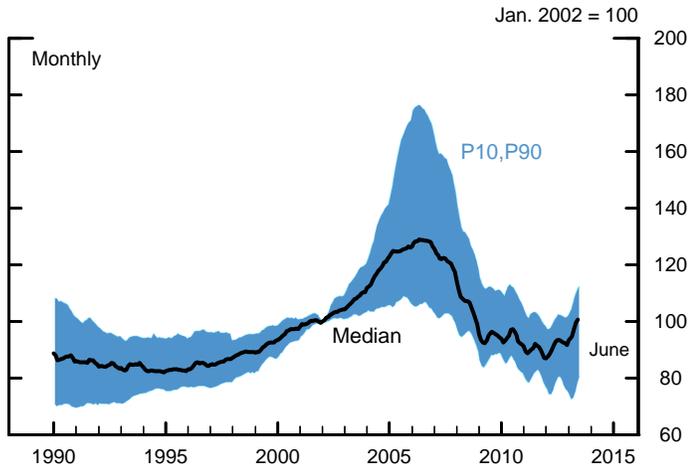


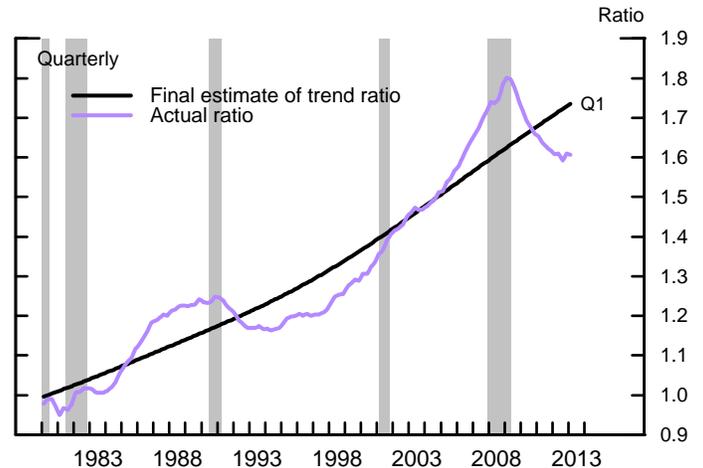
Exhibit 2
Indicators of Vulnerabilities

Price to Rent Ratio



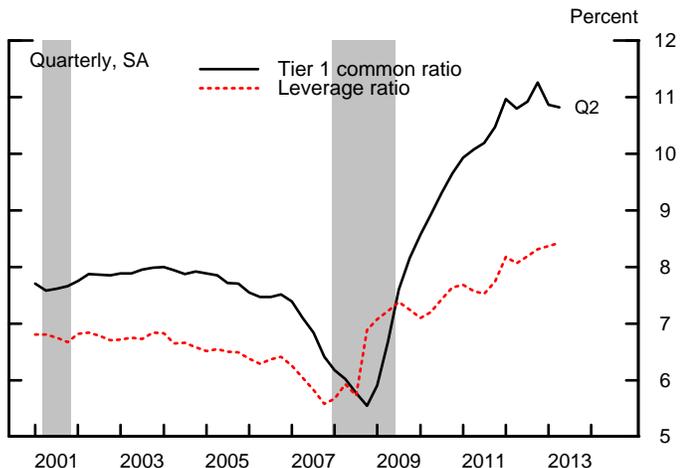
Source: For house prices, CoreLogic; for rent data, Bureau of Labor Statistics.

Private Nonfinancial Sector Credit-to-GDP Ratio



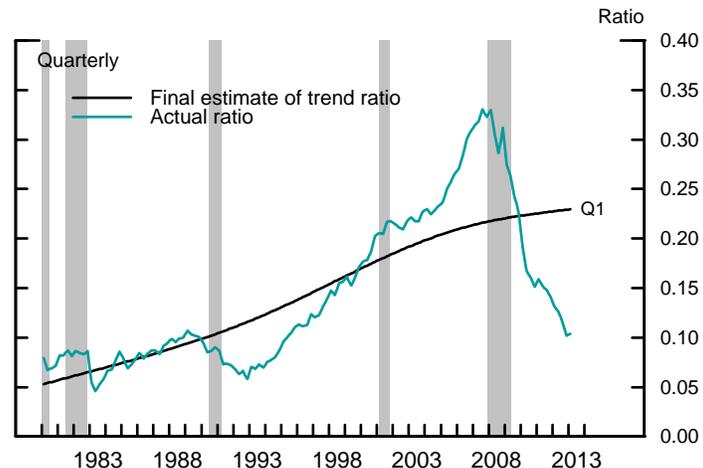
Note: Calculated using an HP filter with lambda=400,000
 Source: FOFA, NIPA, and staff calculations.

Regulatory Capital Ratios at BHCs



Source: FR Y-9C.

Net Short-term Wholesale Debt of Financial Sector-to-GDP Ratio



Note: Calculated using an HP filter with lambda=400,000
 Source: FOF and staff calculations.

Summary

- The cyclical vulnerability of the financial system appears moderate
- A number of potential shocks could prove challenging - for example, related to the debt ceiling, EMEs, and geopolitical risks
- Staff continue to pursue initiatives related to those pockets of concern we have identified
 - Evaluate risk management at agency REITs
 - Ensure compliance of banks with the recent guidance for leveraged-loan issuance
 - Scrutinize interest-rate risk at banks
 - Evaluate exposures to emerging market economies

Appendix 6: Materials used by Mr. Gust

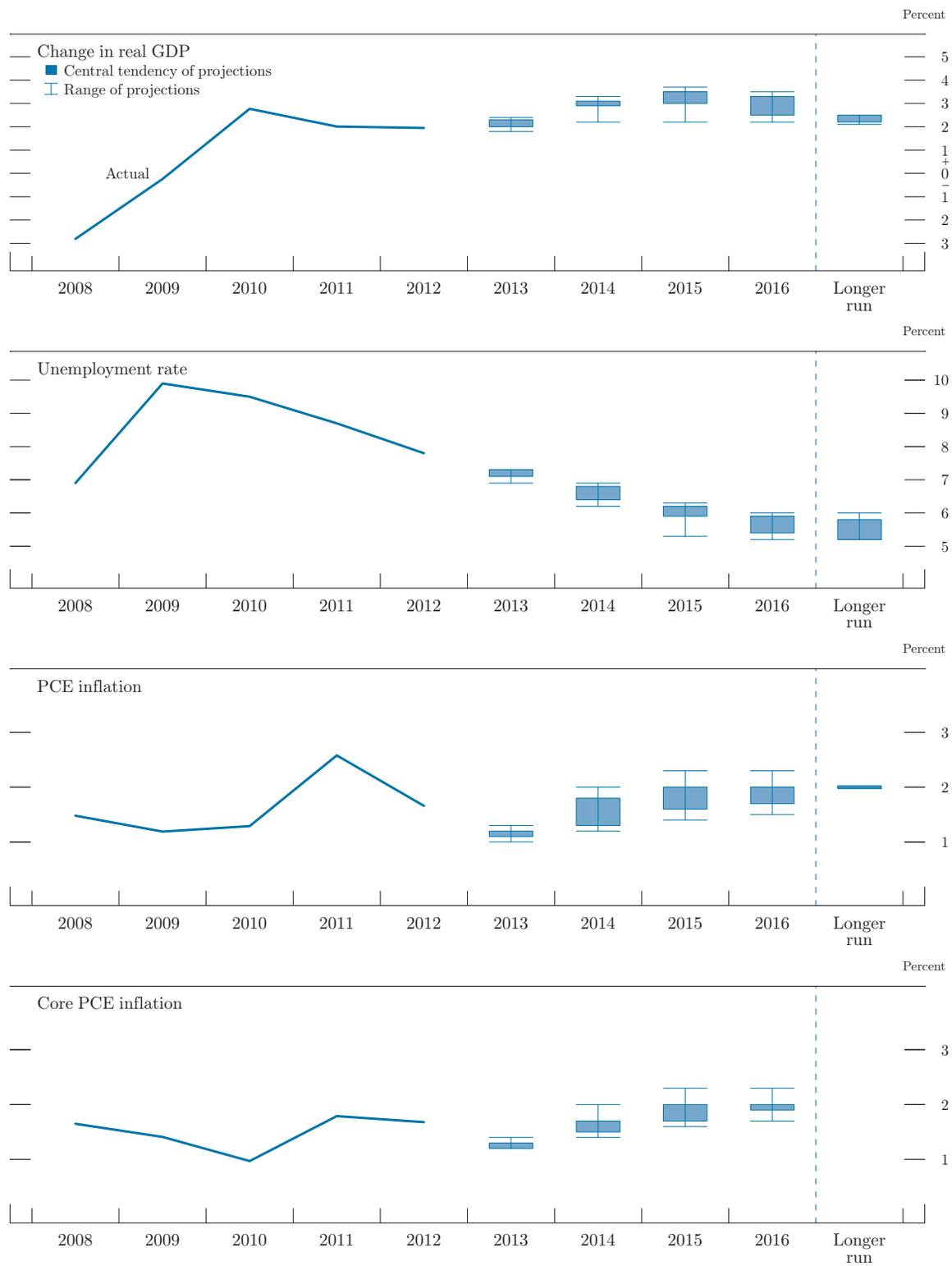
Class I FOMC – Restricted Controlled (FR)

Material for Briefing on the

Summary of Economic Projections

Christopher Gust
September 17, 2013

Exhibit 1. Central tendencies and ranges of economic projections, 2013–16 and over the longer run



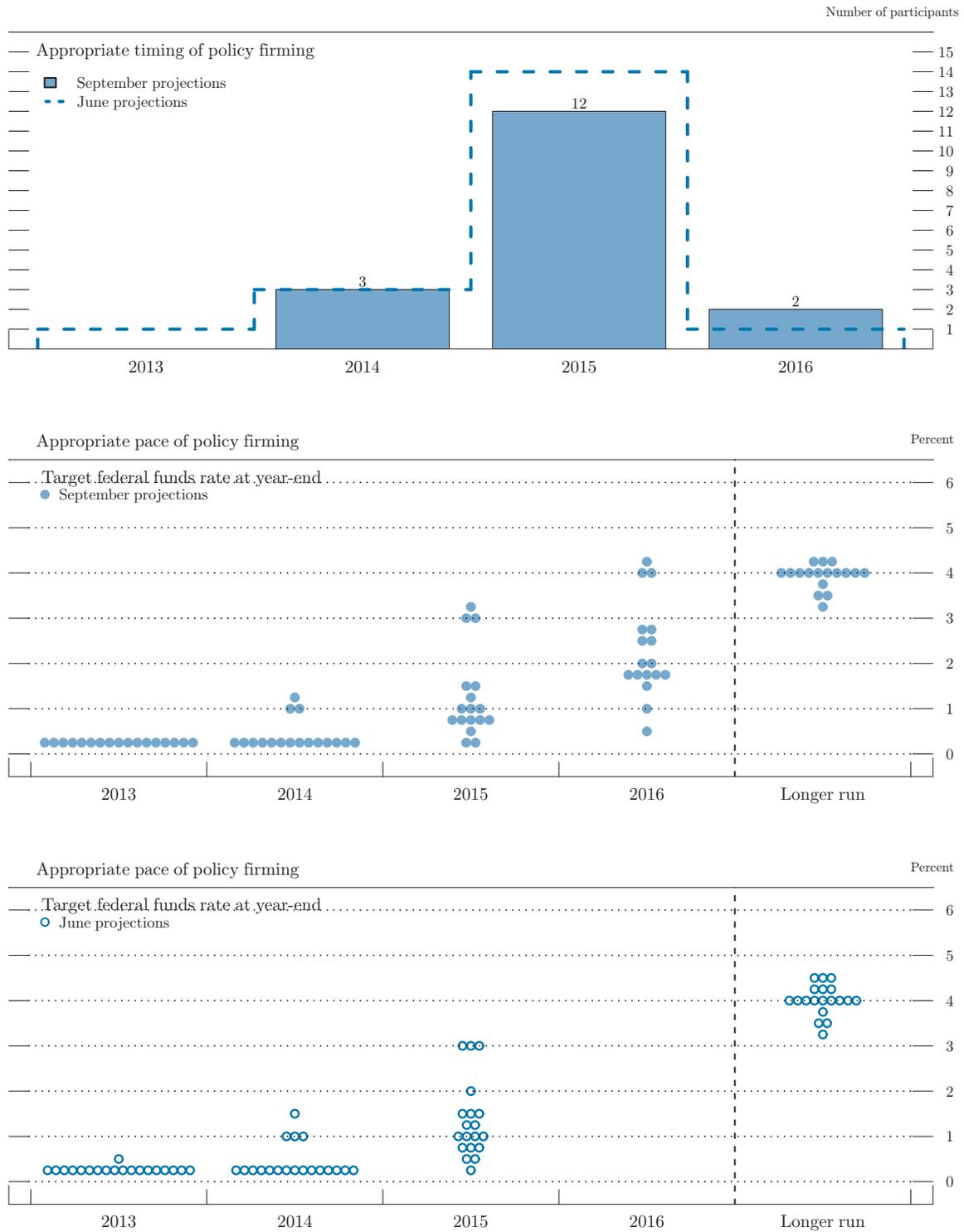
NOTE: The data for the actual values of the variables are annual.

Exhibit 2. Economic projections for 2013-2016 and over the longer run (percent)

	Change in real GDP				
	2013	2014	2015	2016	Longer run
Central Tendency	2.0 to 2.3	2.9 to 3.1	3.0 to 3.5	2.5 to 3.3	2.2 to 2.5
<i>June projections</i>	2.3 to 2.6	3.0 to 3.5	2.9 to 3.6	---	2.3 to 2.5
Range	1.8 to 2.4	2.2 to 3.3	2.2 to 3.7	2.2 to 3.5	2.1 to 2.5
<i>June projections</i>	2.0 to 2.6	2.2 to 3.6	2.3 to 3.8	---	2.0 to 3.0
Memo: Tealbook	2.3	3.1	3.4	3.2	2.3
<i>June Tealbook</i>	2.5	3.4	3.6	---	2.3
	Unemployment rate				
	2013	2014	2015	2016	Longer run
Central Tendency	7.1 to 7.3	6.4 to 6.8	5.9 to 6.2	5.4 to 5.9	5.2 to 5.8
<i>June projections</i>	7.2 to 7.3	6.5 to 6.8	5.8 to 6.2	---	5.2 to 6.0
Range	6.9 to 7.3	6.2 to 6.9	5.3 to 6.3	5.2 to 6.0	5.2 to 6.0
<i>June projections</i>	6.9 to 7.5	6.2 to 6.9	5.7 to 6.4	---	5.0 to 6.0
Memo: Tealbook	7.2	6.6	5.8	5.3	5.2
<i>June Tealbook</i>	7.3	6.6	5.8	---	5.2
	PCE inflation				
	2013	2014	2015	2016	Longer run
Central Tendency	1.1 to 1.2	1.3 to 1.8	1.6 to 2.0	1.7 to 2.0	2.0
<i>June projections</i>	0.8 to 1.2	1.4 to 2.0	1.6 to 2.0	---	2.0
Range	1.0 to 1.3	1.2 to 2.0	1.4 to 2.3	1.5 to 2.3	2.0
<i>June projections</i>	0.8 to 1.5	1.4 to 2.0	1.6 to 2.3	---	2.0
Memo: Tealbook	1.1	1.2	1.4	1.6	2.0
<i>June Tealbook</i>	0.9	1.4	1.6	---	2.0
	Core PCE inflation				
	2013	2014	2015	2016	
Central Tendency	1.2 to 1.3	1.5 to 1.7	1.7 to 2.0	1.9 to 2.0	
<i>June projections</i>	1.2 to 1.3	1.5 to 1.8	1.7 to 2.0	---	
Range	1.2 to 1.4	1.4 to 2.0	1.6 to 2.3	1.7 to 2.3	
<i>June projections</i>	1.1 to 1.5	1.5 to 2.0	1.7 to 2.3	---	
Memo: Tealbook	1.2	1.5	1.6	1.7	
<i>June Tealbook</i>	1.2	1.6	1.8	---	

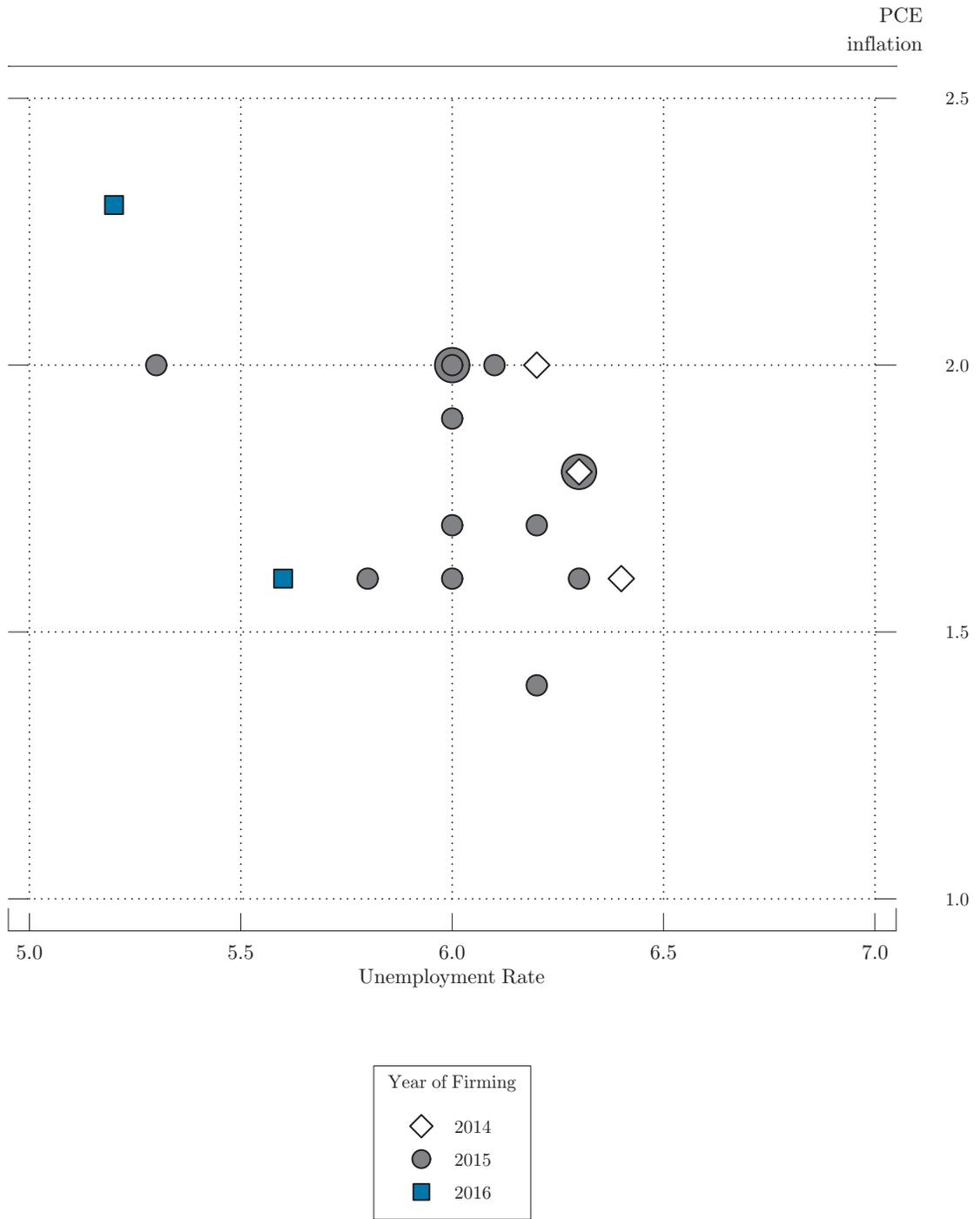
NOTE: The changes in real GDP and inflation are measured Q4/Q4.

Exhibit 3. Overview of FOMC participants' assessments of appropriate monetary policy



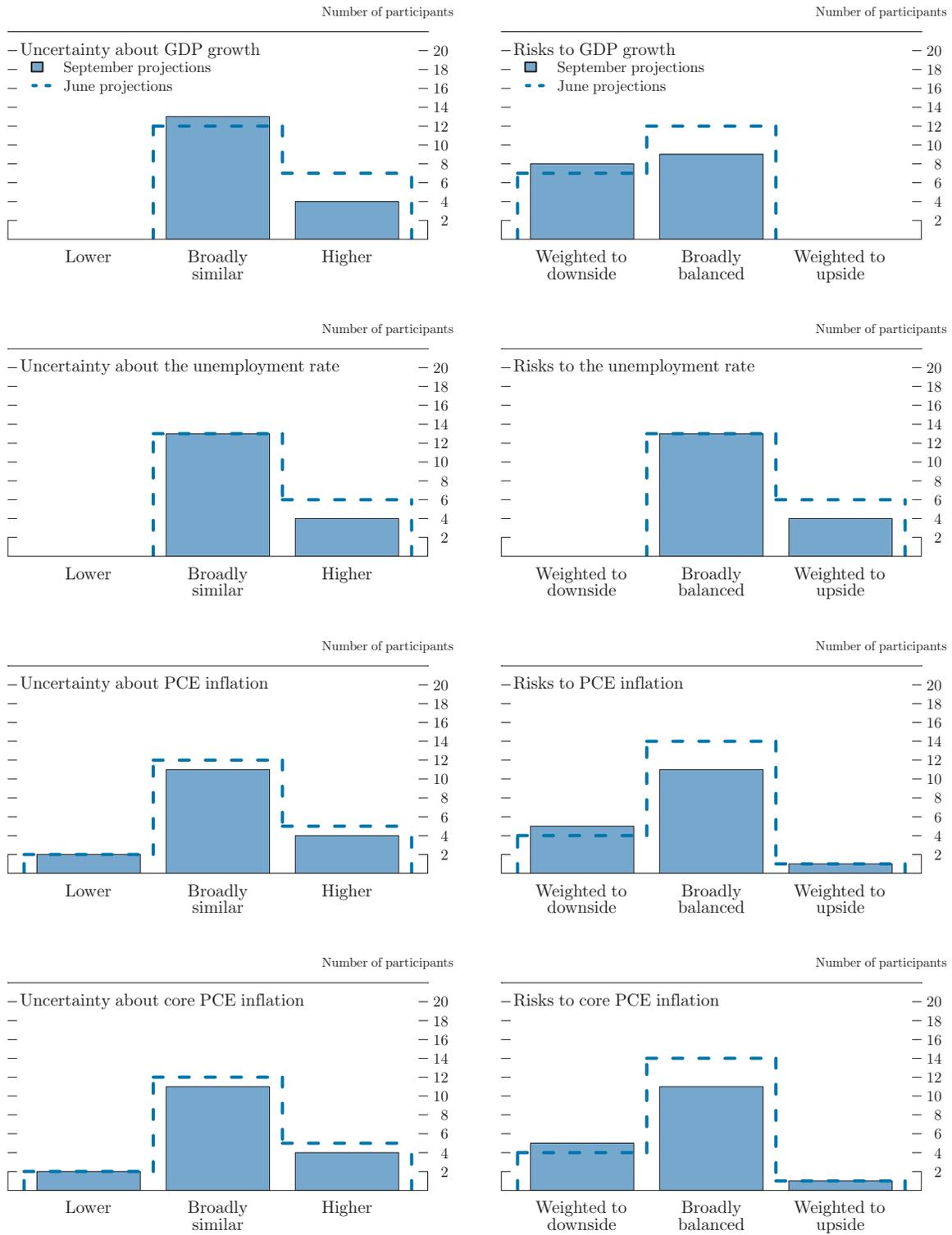
NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In the middle and lower panels, each circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 4. Scatterplot of unemployment and PCE inflation rates in the initial year of policy firming (in percent)



NOTE: When the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.

Exhibit 5. Uncertainty and risks in economic projections



Appendix 7: Materials used by Mr. Meyer

Class I FOMC – Restricted Controlled (FR)

Material for

FOMC Briefing on Monetary Policy Alternatives

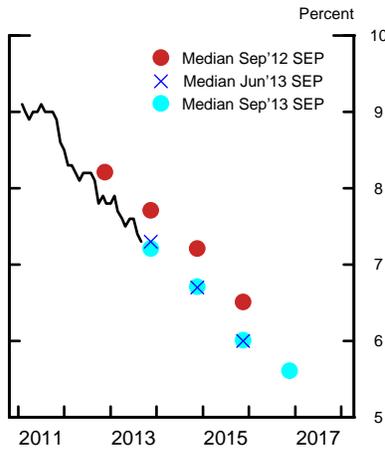
Steve Meyer
September 17-18, 2013

Summary of Economic Projections and Market Expectations

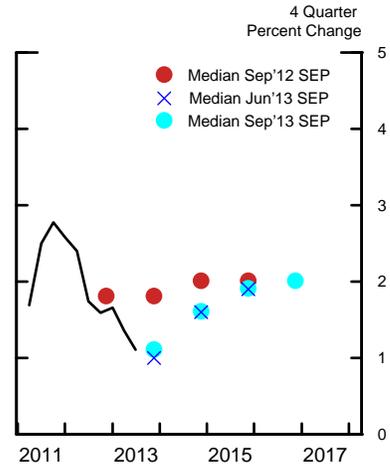
Key Questions

- Is June "economic scenario" still most likely?
- When will the FOMC cut the pace of purchases?
- Will the Committee change its forward guidance?

Unemployment Rate



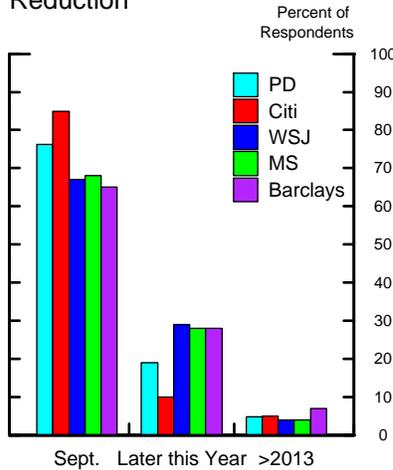
Total PCE Prices



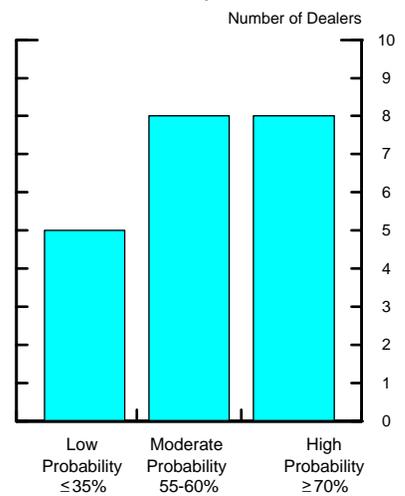
SEP Balance Sheet Projections

- 12 participants see a cut in pace this year and purchases ending around mid-2014 as in Tealbook
- 3 see larger total purchases or later tapering
- 2 see earlier end and smaller total purchases

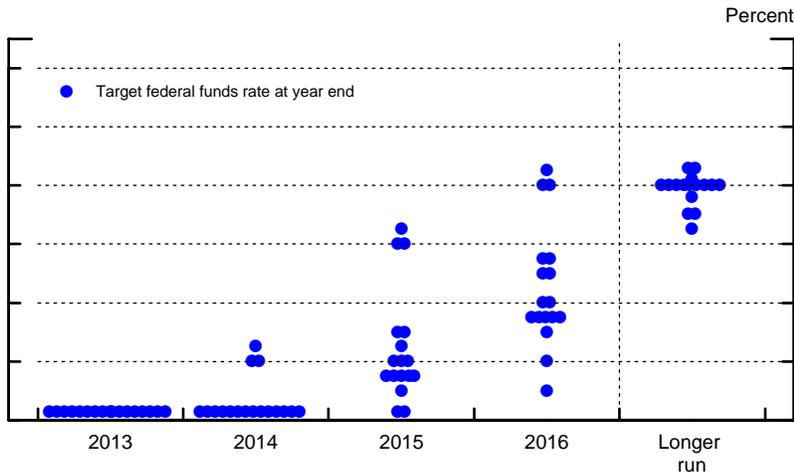
Modal Timing of First Pace Reduction



Dealer Conviction About a Pace Reduction in September



Appropriate Pace of Policy Firming: SEP (September 2013)



Possible Changes to Forward Guidance

- Lower unemployment rate threshold
- Inflation "floor"
- Post-threshold guidance
- Post-liftoff guidance

JULY FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in June suggests that economic activity expanded at a modest pace during the first half of the year. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen somewhat and fiscal policy is restraining economic growth. Partly reflecting transitory influences, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2

percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

FOMC STATEMENT—SEPTEMBER 2013 ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~June~~ **July** suggests that economic activity ~~expanded~~ **has been expanding** at a ~~modest~~ **moderate** pace ~~during the first half of the year.~~ **Some indicators of** labor market conditions have shown ~~[further]~~ improvement in recent months, ~~on balance,~~ but the unemployment rate remains elevated **and job gains appear to have slowed somewhat**. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen ~~somewhat~~ **further** and fiscal policy is restraining economic growth. ~~Partly reflecting transitory influences~~ **Apart from fluctuations due to changes in energy prices**, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since ~~the last~~ fall, **but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. **The Committee judges that the improvement in the outlook for the labor market and the extent of progress toward its economic objectives since it began its current asset purchase program are not yet sufficient to warrant an adjustment in the pace at which it is adding to its holdings of longer-term securities.** ~~To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate~~ **Accordingly**, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, **which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.**
4. The Committee will closely monitor incoming information on economic and financial developments in coming months **and** ~~The Committee~~ will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset~~

purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives. **At such time as the Committee sees sufficient progress toward its objectives for the labor market and inflation, some moderation in the pace of its securities purchases will become appropriate. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.**

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above ~~6½~~ **6** percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. **Moreover, the Committee anticipates that it would not raise its target for the federal funds rate if inflation between one and two years ahead were projected to be below 1¾ percent.** In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including **Once the unemployment rate reaches 6 percent, and assuming inflation is well contained at that time, the Committee will consider a broad set of indicators in determining how long to maintain a highly accommodative stance of monetary policy. Relevant factors include** additional measures of labor market conditions **such as the level and growth of employment**, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. **Moreover, the Committee currently anticipates that** ~~it will be appropriate to normalize the federal funds rate only gradually because ongoing headwinds are likely to take a considerable time to abate fully,~~ **even after the economy has reached maximum employment and inflation has returned to its longer-run objective, it will likely be appropriate for the federal funds rate target to remain below its longer-run normal value as persistent headwinds abate.**

FOMC STATEMENT—SEPTEMBER 2013 ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~June~~ **July** suggests that economic activity ~~expanded~~ **has been expanding** at a ~~modest~~ **moderate** pace ~~during the first half of the year~~. **Some indicators of** labor market conditions have shown **[further]** improvement in recent months, ~~on balance~~, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen ~~somewhat~~ **further** and fiscal policy is restraining economic growth. ~~Partly reflecting transitory influences~~ **Apart from fluctuations due to changes in energy prices**, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished **[, on net,]** since ~~the~~ **last fall, but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. **Taking into account the extent of federal fiscal retrenchment, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program a year ago as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases.** ~~To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate~~ **Accordingly**, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, **which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.**
4. The Committee will closely monitor incoming information on economic and financial developments in coming months **and** ~~The Committee~~ will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor~~

market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives. **In judging when to moderate the pace of asset purchases, the Committee will [, at its coming meetings,] be looking for further evidence consistent with assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.**

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. **[Moreover, the Committee currently anticipates that it will be appropriate to normalize the federal funds rate only gradually because ongoing headwinds are likely to take a considerable time to abate fully, even after the economy has reached maximum employment and inflation has returned to its longer-run objective, it will likely be appropriate for the federal funds rate target to remain below its longer-run normal value as persistent headwinds abate.]**

FOMC STATEMENT—SEPTEMBER 2013 ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~June~~ **July** suggests that economic activity ~~expanded~~ **is expanding** at a ~~modest~~ **moderate** pace ~~during the first half of the year~~. Labor market conditions have shown further improvement ~~in recent months, on balance,~~ **with continuing gains in payroll employment,** but **although** the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has ~~been strengthening,~~ but **continued to strengthen, even though** mortgage rates have risen ~~somewhat~~ **further** and fiscal policy is restraining economic growth. ~~Partly reflecting transitory influences~~ **Apart from fluctuations due to changes in energy prices,** inflation has been running ~~somewhat~~ below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since ~~the~~ **last** fall **[and has become more confident that labor market conditions will continue to improve over the medium term]**. The Committee ~~recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it~~ **also** anticipates that inflation will move back toward its **2 percent** objective over the medium term.
3. ~~To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer term Treasury securities at a pace of \$45 billion per month.~~ **In light of the improvement in the labor market since the Committee began its current asset purchase program a year ago, the Committee decided today to make modest downward adjustments in its asset purchases, to a monthly pace of [\$35] billion from \$40 billion for its purchases of additional agency mortgage-backed securities, and to a monthly pace of [\$40] billion from \$45 billion for longer-term Treasury securities.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, **which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.**
4. The Committee will closely monitor incoming information on economic and financial developments in coming months **and** ~~The Committee~~ will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. **If the Committee sees continued improvement in labor market conditions and inflation moving back toward its longer-run objective, then**

additional measured reductions in the pace of asset purchases likely would become appropriate. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

OR

- 4'. ~~The Committee will closely monitor incoming information on economic and financial developments in coming months.~~ **If the Committee sees sufficient further progress toward its objectives for the labor market and inflation, as it expects, then additional measured reductions in the pace of asset purchases would become appropriate.** The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. **In particular, the Committee anticipates that by the time its asset purchases end, the unemployment rate will be around 7 percent and expected to decline further, and inflation will be moving back toward its 2 percent longer-run goal.** ~~The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.~~ **However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on its economic outlook as well as its assessment of the likely efficacy and costs of such purchases.**
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

JULY 2013 DIRECTIVE

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to $\frac{1}{4}$ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

DIRECTIVE FOR SEPTEMBER 2013 ALTERNATIVE A

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to $\frac{1}{4}$ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

DIRECTIVE FOR SEPTEMBER 2013 ALTERNATIVE B

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to $\frac{1}{4}$ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

DIRECTIVE FOR SEPTEMBER 2013 ALTERNATIVE C

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. **Beginning in October,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about \$45 **\$40** billion per month and to ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about \$40 **\$35** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.