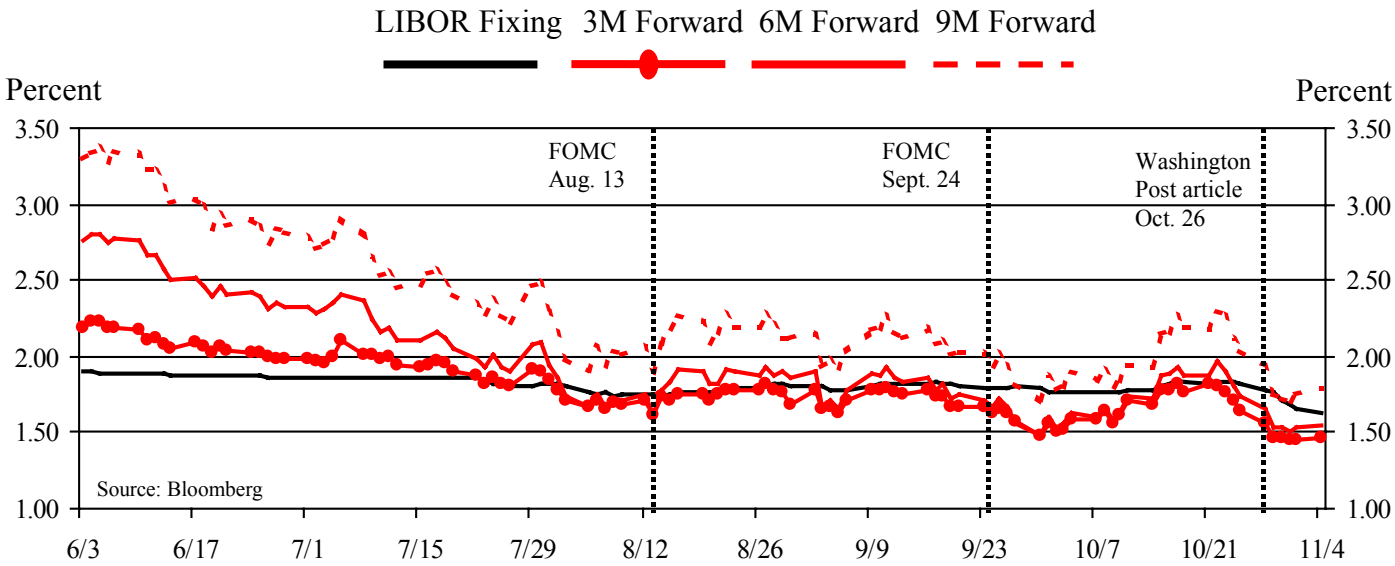
Appendix 1: Materials used by Mr. Kos

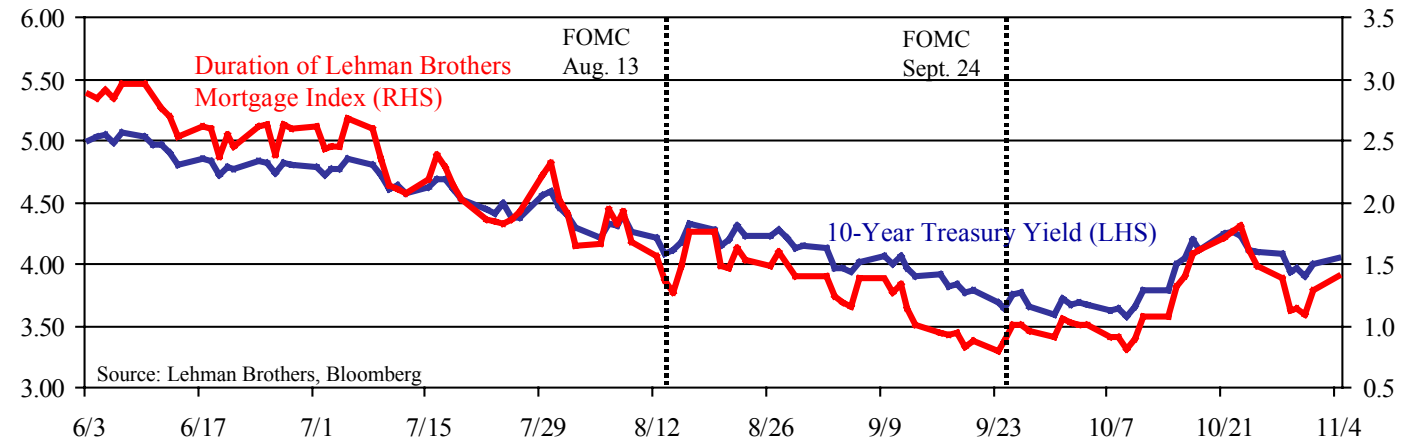
U.S. Current Deposit Rates and Rates Implied by Traded Forward Rate Agreements

June 03, 2002 - November 04, 2002



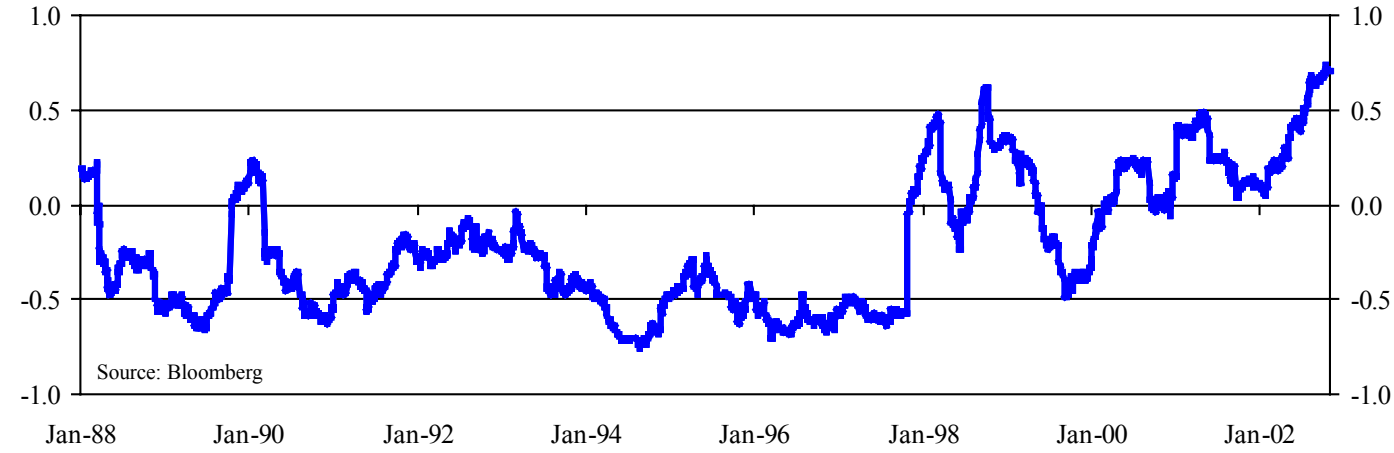
Duration of Lehman Brothers Mortgage Index and the 10-Year Treasury Yield

June 03, 2002 - November 04, 2002

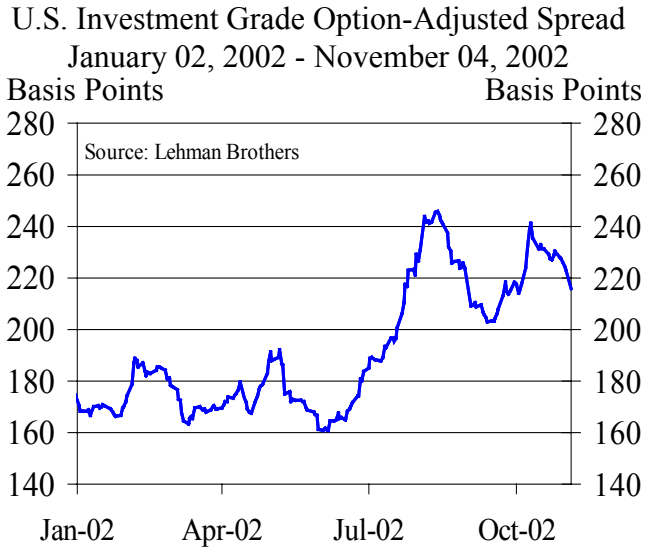


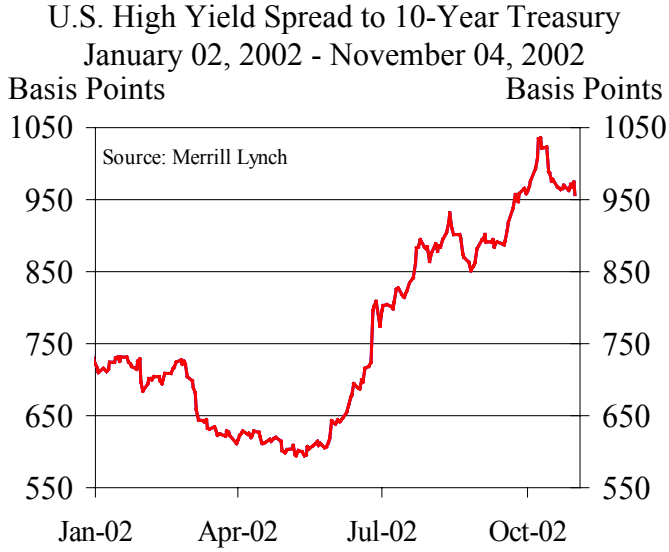
S&P 500 Price and 10-Year Note Yield Changes

100-Day Rolling Correlation

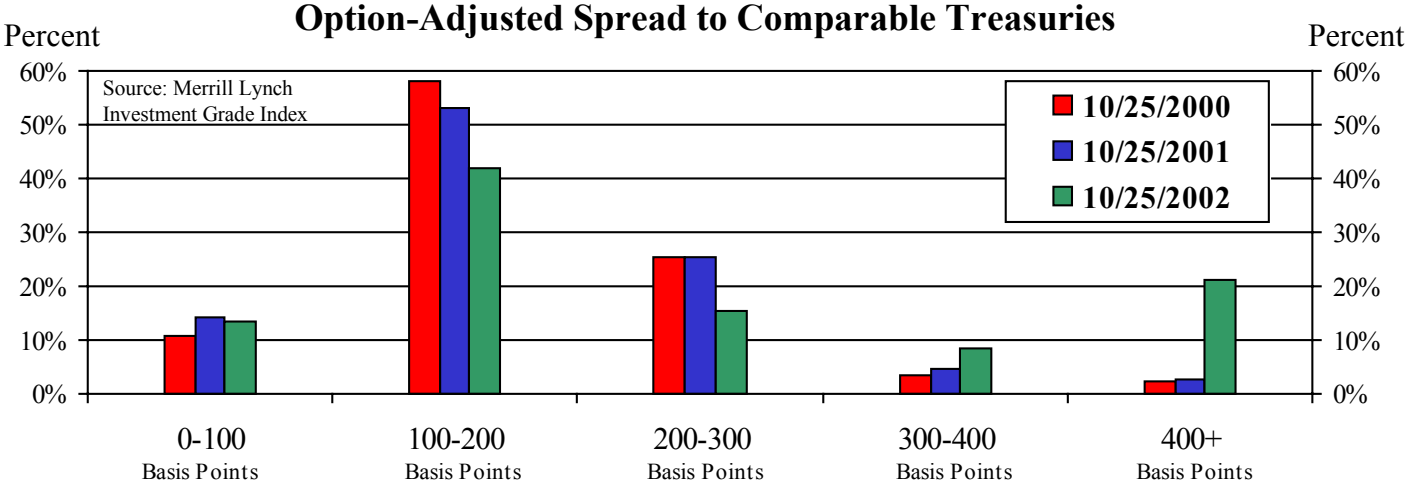


Corporate Credit Spreads to U.S. Treasuries

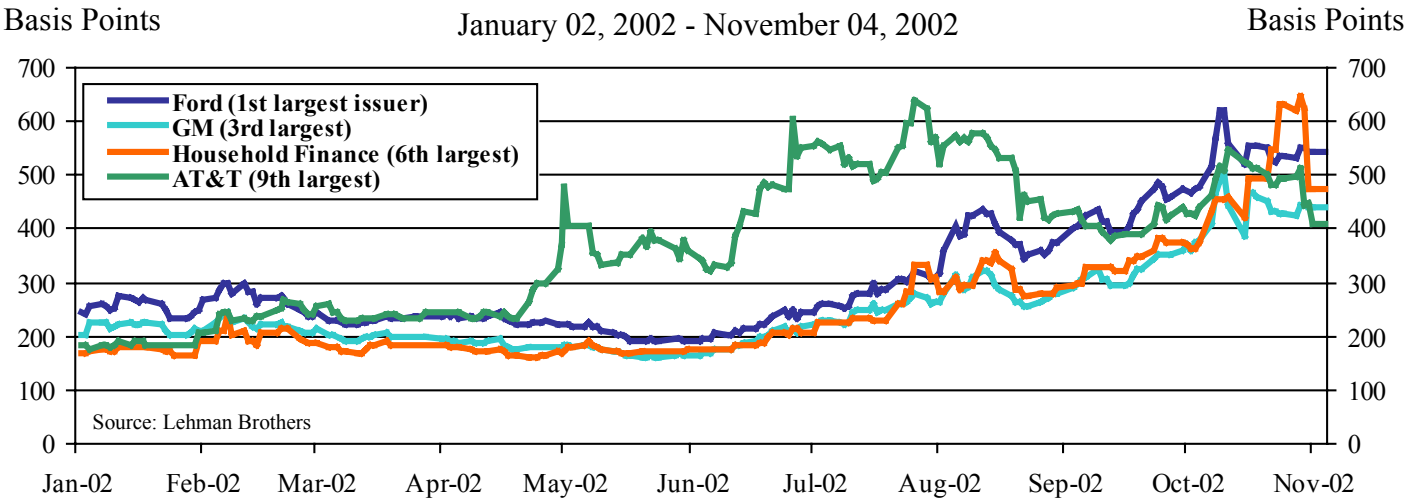




Percent of Investment Grade Debt Outstanding Categorized by Option-Adjusted Spread to Comparable Treasuries

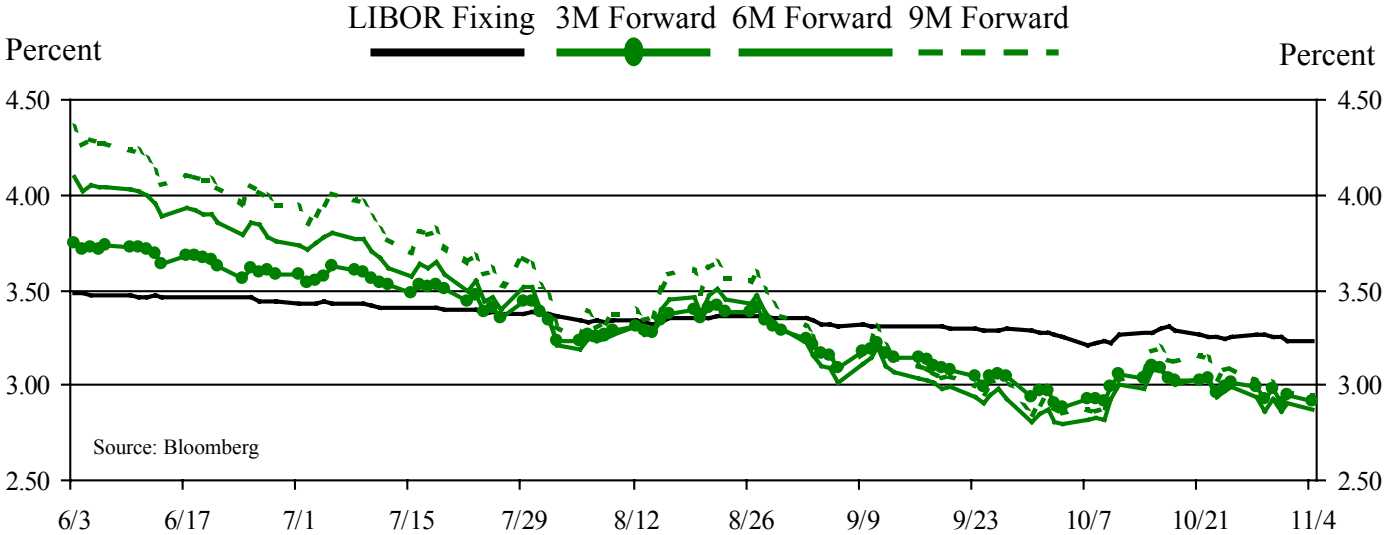


Select Large Corporate Bond Issuers: 10-Year Spreads to Treasuries



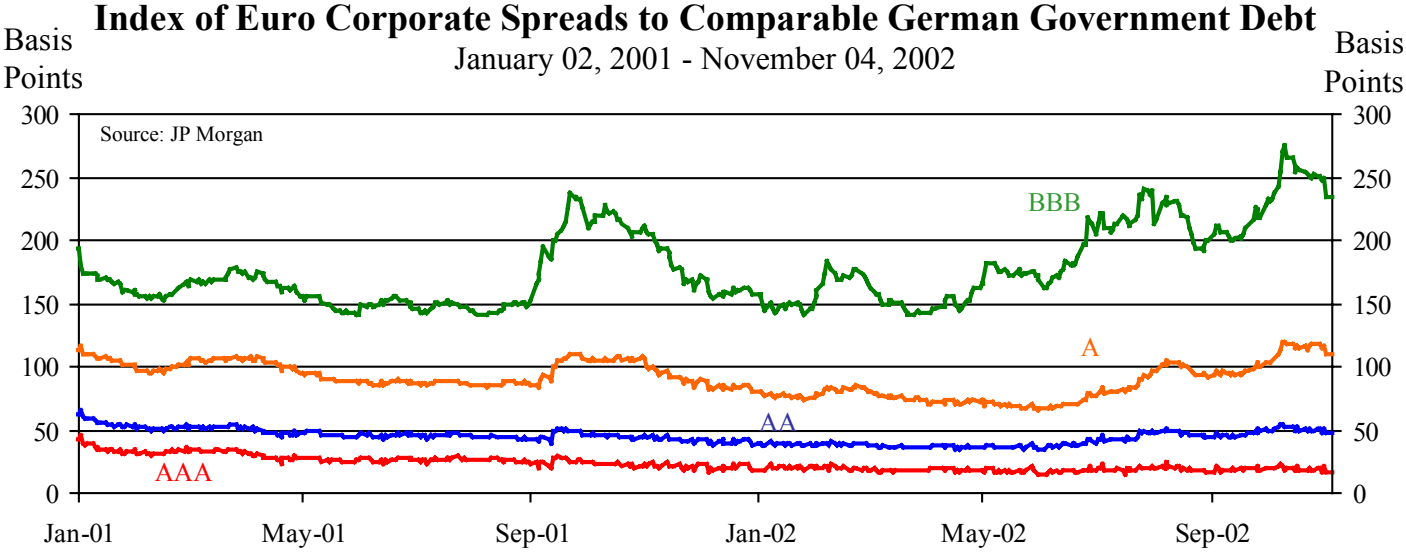
Euro-Area Current Deposit Rates and Rates Implied by Traded Forward Rate Agreements

June 03, 2002 - November 04, 2002



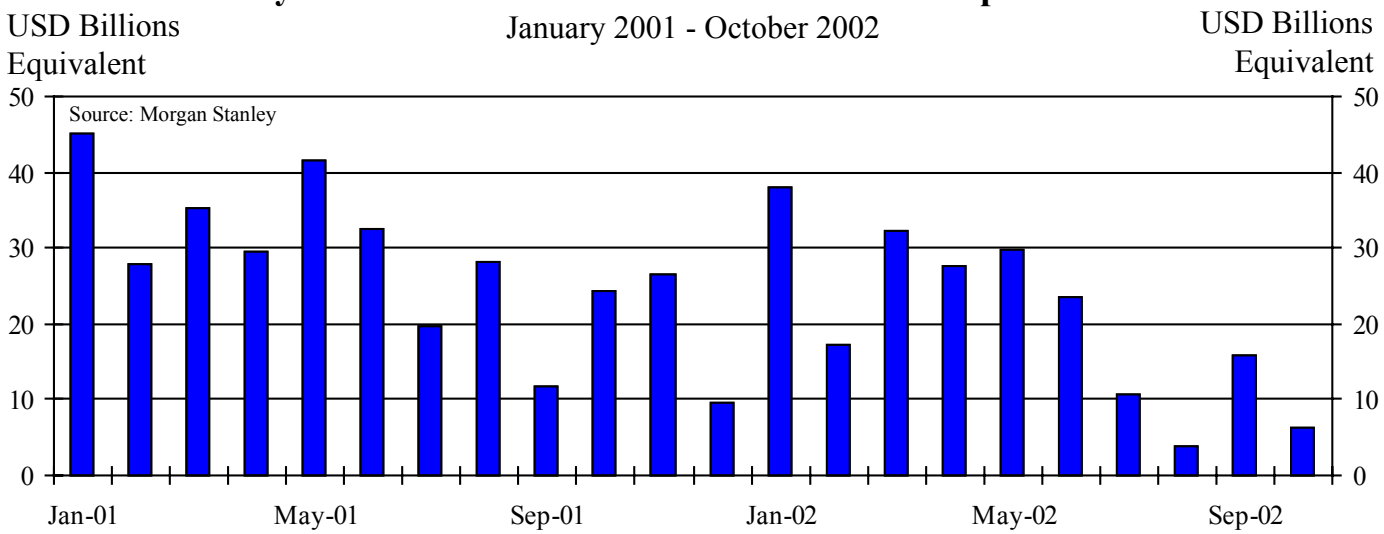
Index of Euro Corporate Spreads to Comparable German Government Debt

January 02, 2001 - November 04, 2002



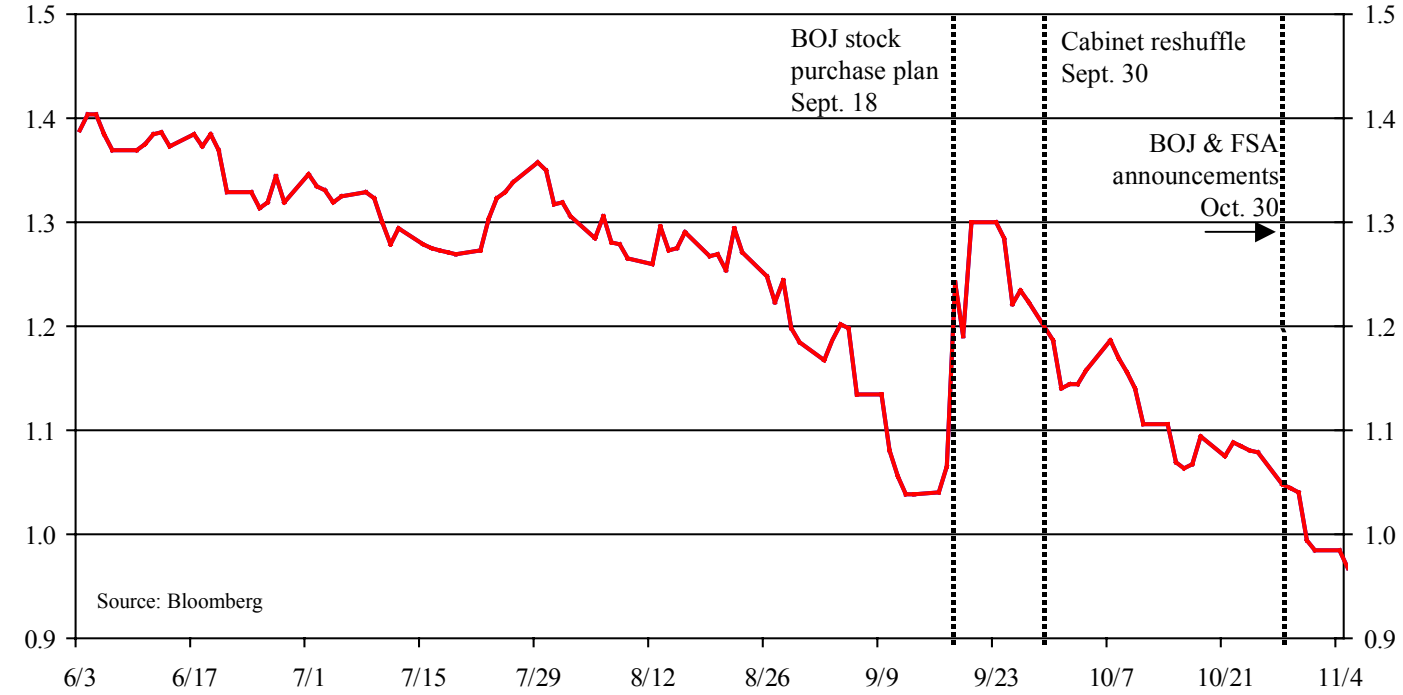
Monthly Euro-Denominated Investment Grade Corporate Issuance

January 2001 - October 2002



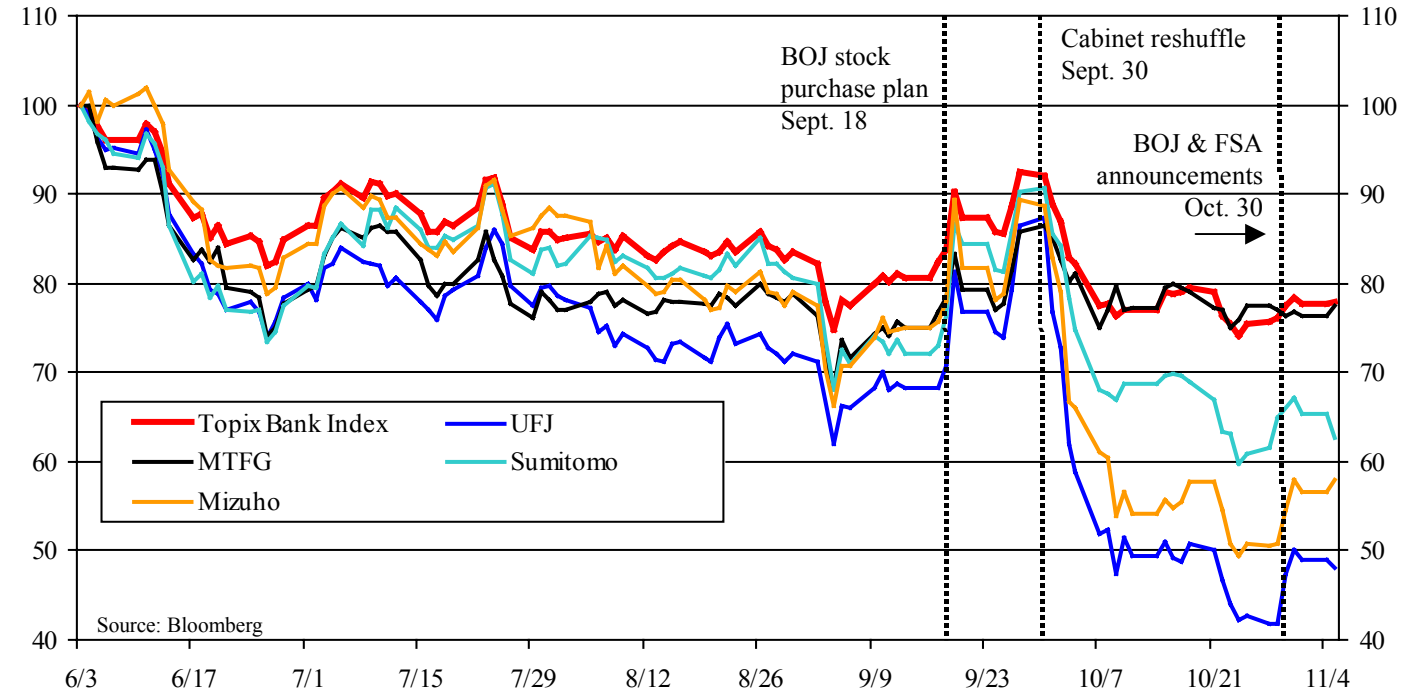
Japanese Government 10-Year Benchmark Yield

June 03, 2002 - November 05, 2002



Japanese Bank Stocks

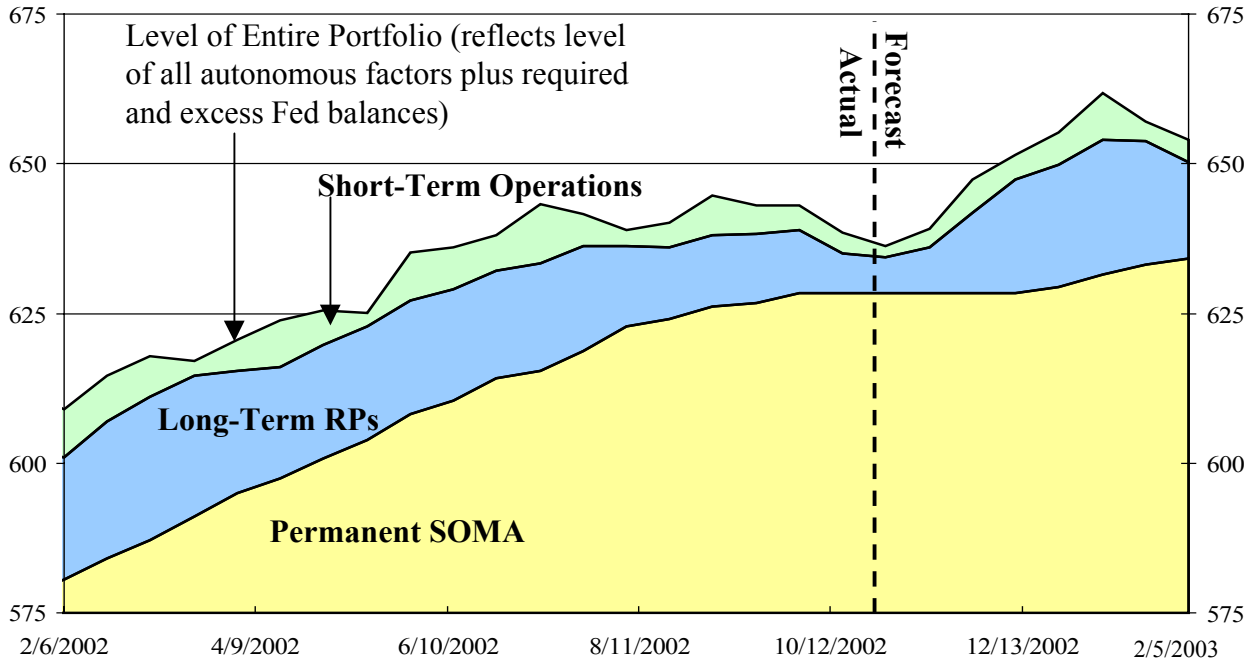
June 03, 2002 - November 05, 2002



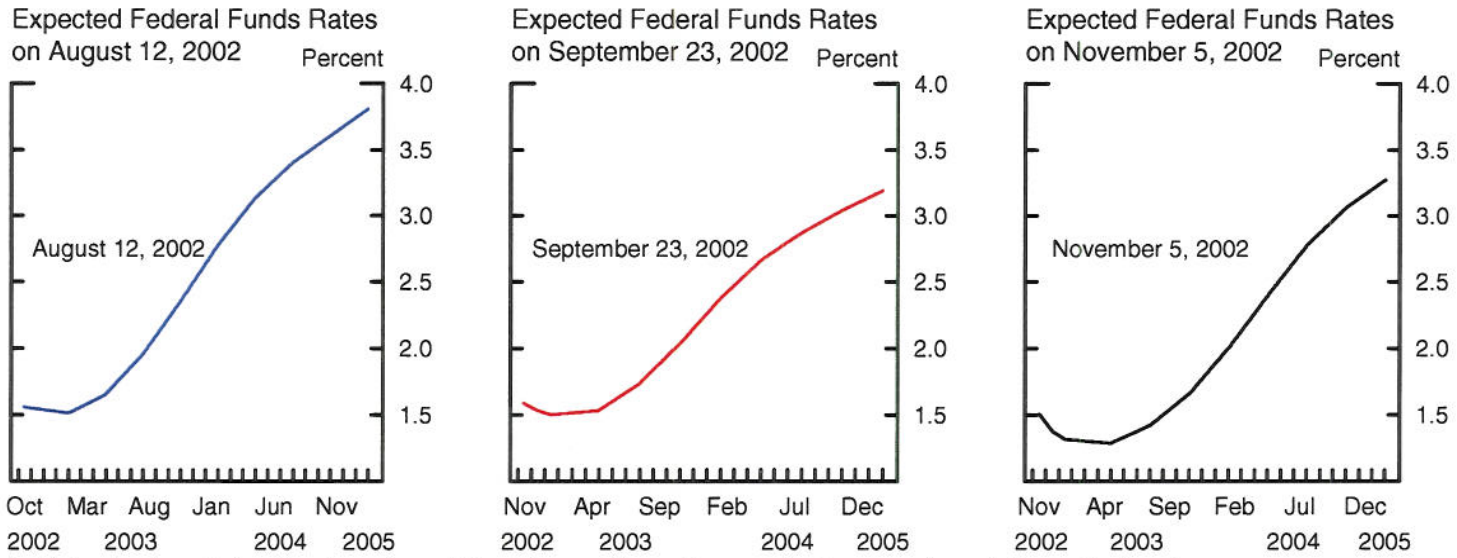
Total Domestic Portfolio: Permanent SOMA Holdings, Long-Term RPs, and Short Term Operations (RPs less Matched Sale-Purchase Agreements)

Maintenance Period Averages, Billions of Dollars

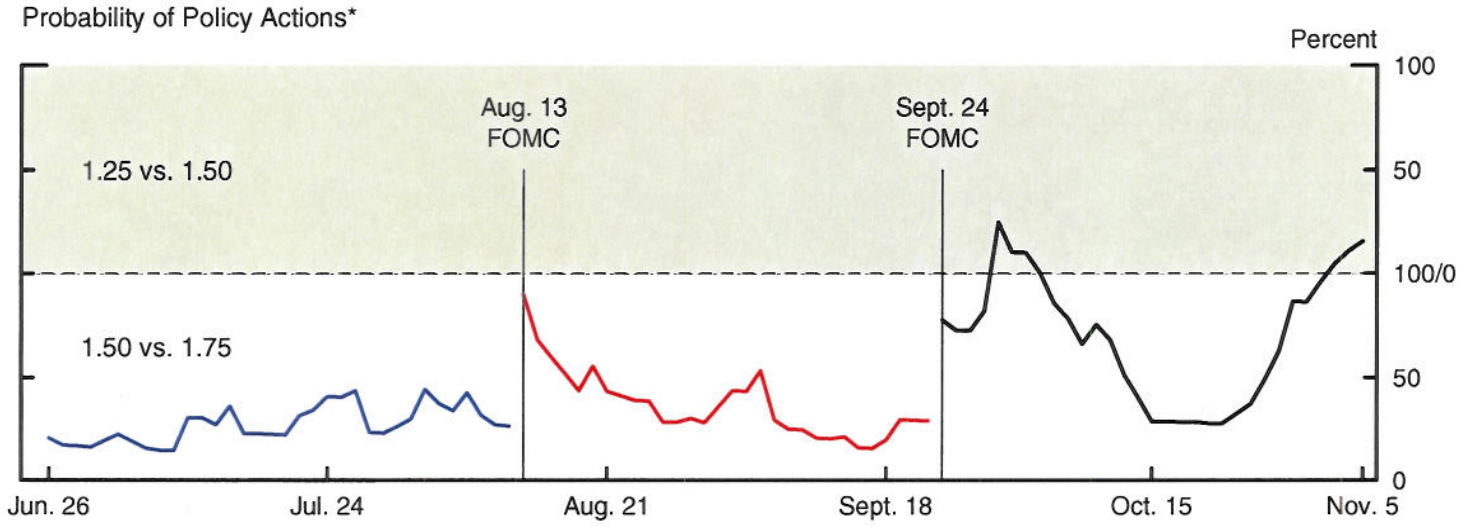
February 2002 to February 2003



Appendix 2: Materials used by Mr. Reinhart



Note. Estimates from federal funds and eurodollar futures with an allowance for term premia and other adjustments.

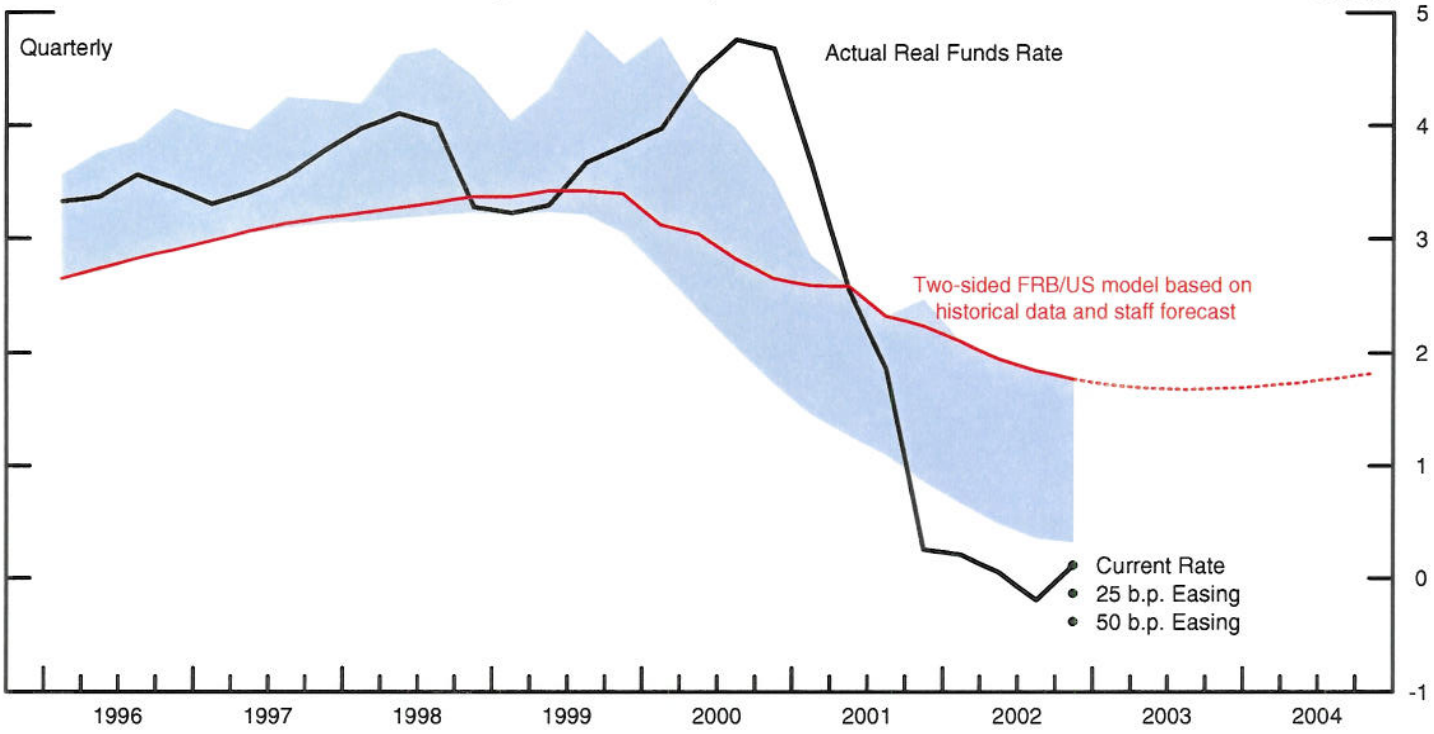


*Based on near-term federal funds futures contract.

MMS Survey
(Number of Respondents)

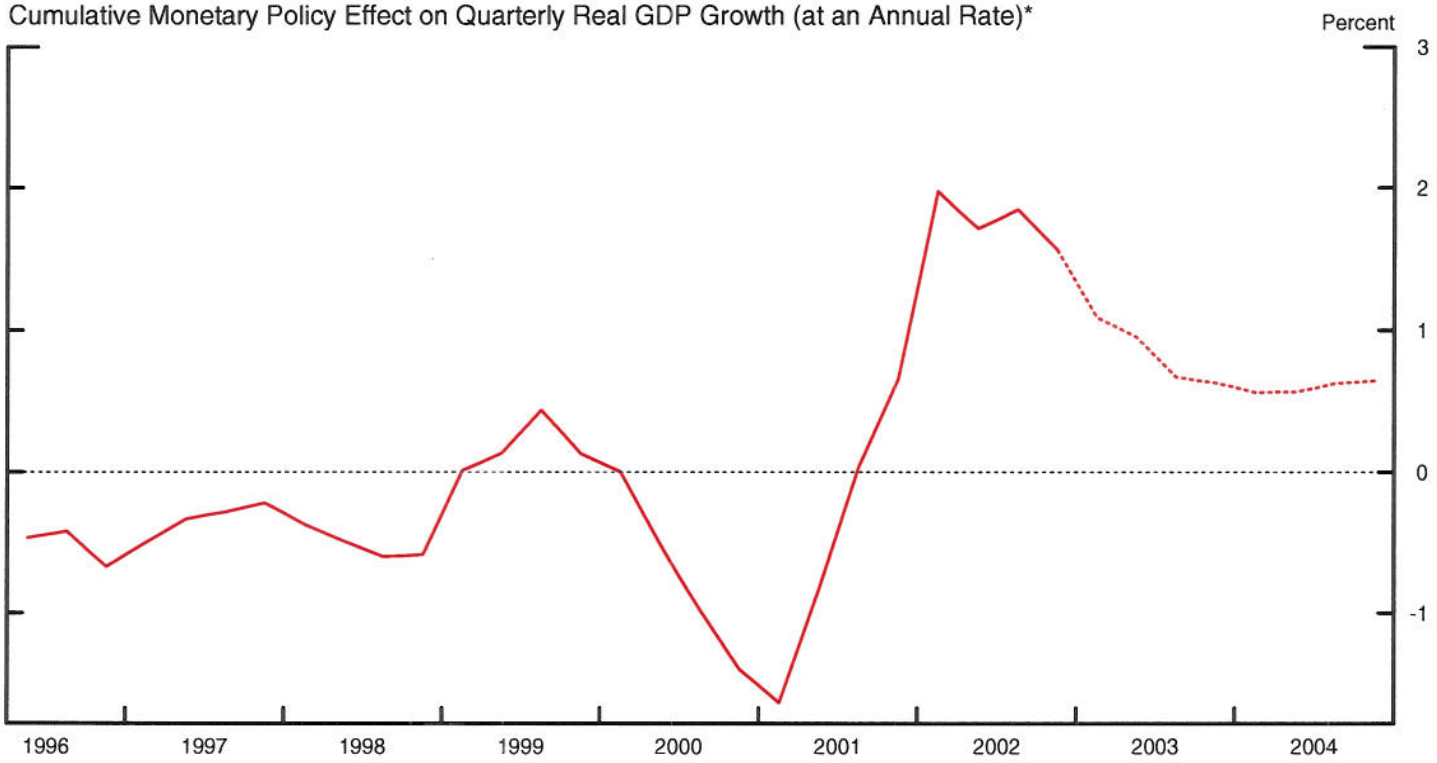
		November Meeting		December Meeting		January Meeting	
		Weakness	Neutral	Weakness	Neutral	Weakness	Neutral
Target	1.75	11	0	8	0	7	1
	1.50	15	0	11	0	9	1
	1.25	10	0	16	0	15	1
	1.00	0	0	1	0	2	0

Actual Real Federal Funds Rate and Range of Estimated Equilibrium Real Rates



Note: The shaded range represents the maximum and the minimum values each quarter of six estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2002Q3 - 2002Q4.

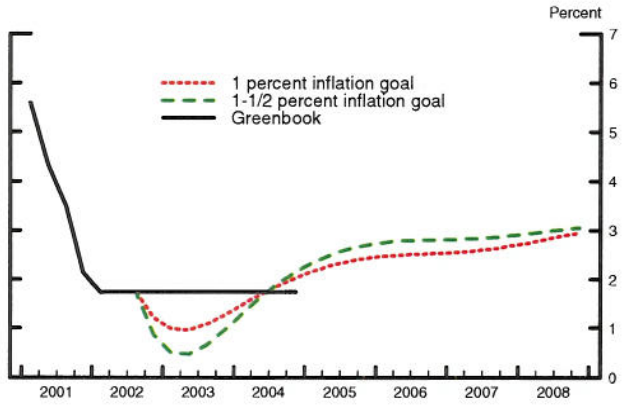
Cumulative Monetary Policy Effect on Quarterly Real GDP Growth (at an Annual Rate)*



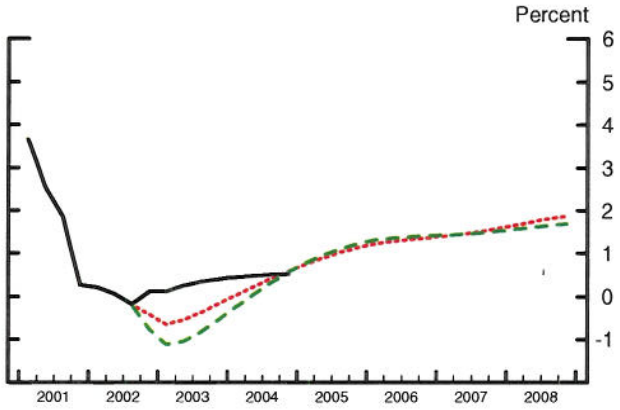
*From two-sided FRB/US model based on historical data and staff forecast.

Exhibit 3
(Chart 7 from Bluebook)

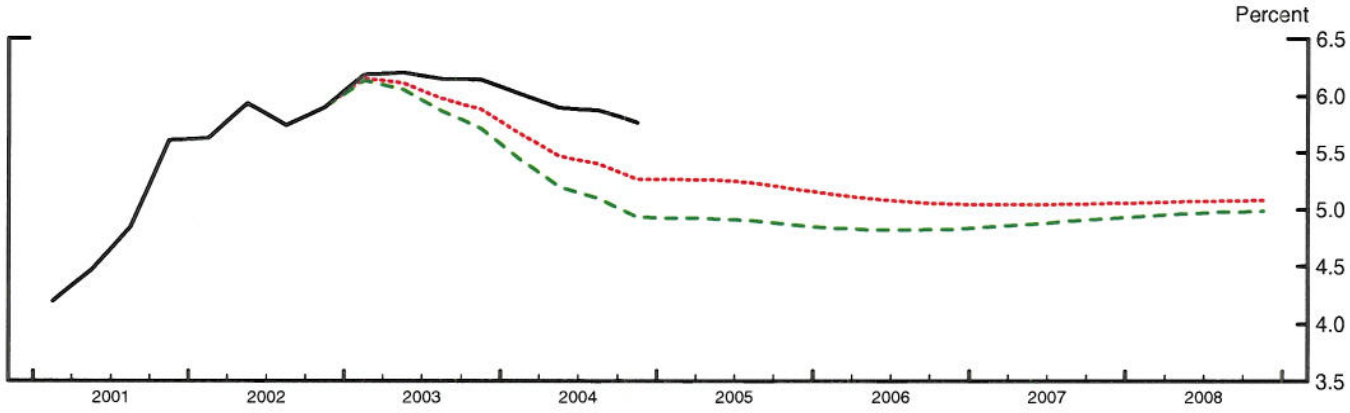
Nominal Federal Funds Rate



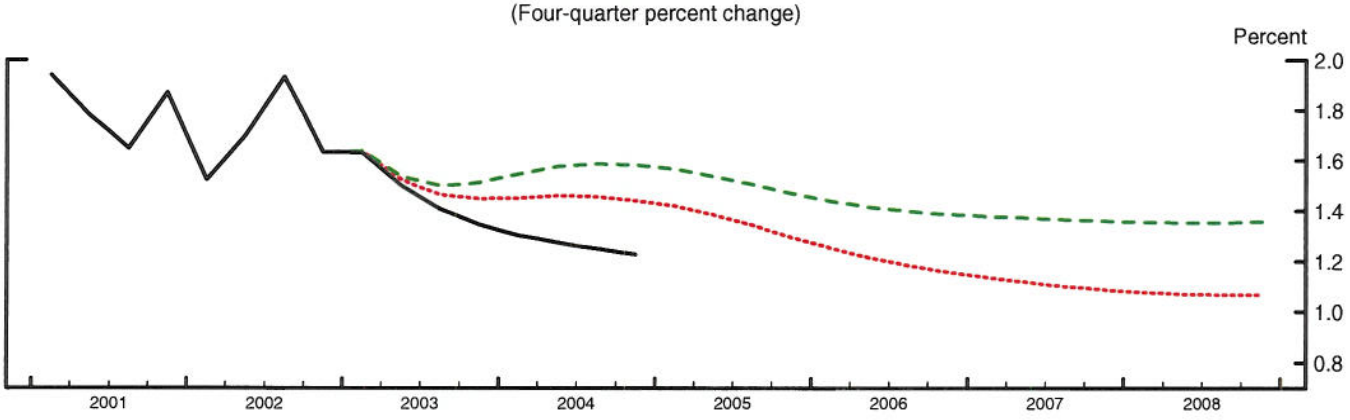
Real Federal Funds Rate [1]



Civilian Unemployment Rate



PCE Inflation (ex. food and energy)
(Four-quarter percent change)



The perfect foresight simulations extend the key assumptions of the staff outlook (other than the path for monetary policy) through 2008:

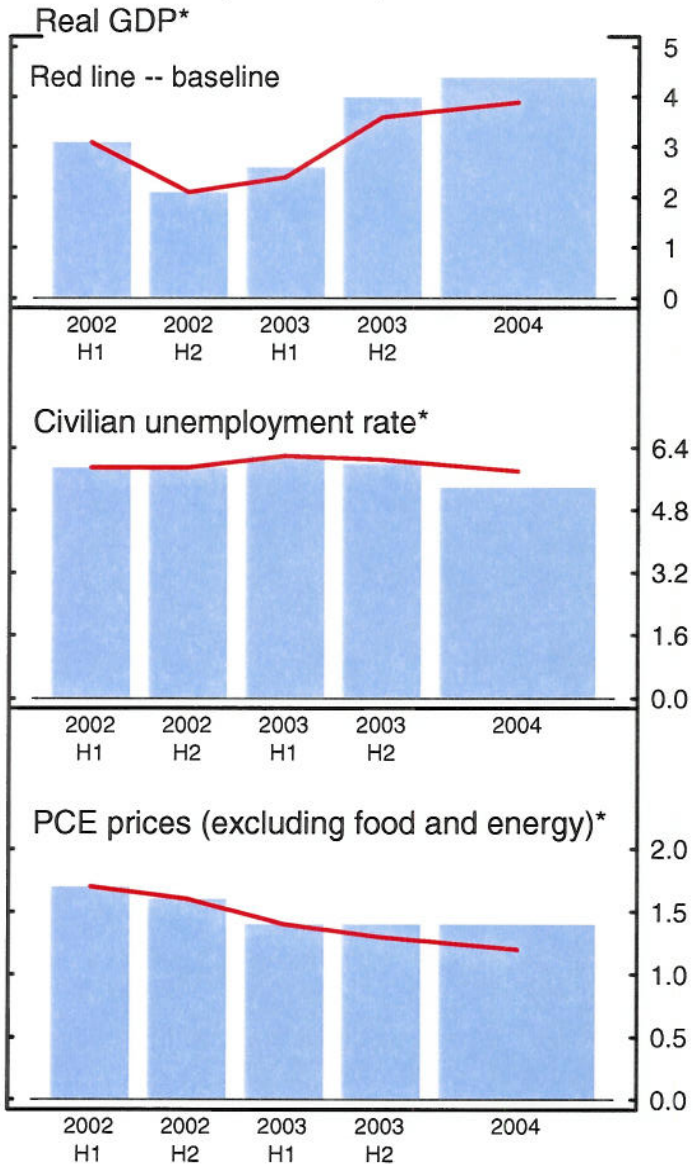
- potential output grows at about 3-1/2 percent per year
- the relative price of oil stabilizes at its 2005 level
- the exchange value of dollar measured in real terms falls at a 3 percent clip
- modest growth in federal expenditures allows an improvement in the federal budget balance

1. The real federal funds rate is calculated as the quarterly average nominal funds rate minus the four-quarter lagged core PCE inflation rate as a proxy for inflation expectations.

Balance-of-Risks Statement

- "The new language is designed to express the Committee's sense of risks to the attainment of its long-run goals of stable prices and sustainable economic growth."
- "Although 'the foreseeable future' is intended to convey a length of time extending beyond the next FOMC meeting, this concept is necessarily elastic, given that the relevant horizon may depend on economic conditions."

--Lower Funds Rate Path Scenario--
(Blue bars)



*Percent change, annual rate, from end of preceding period, except civilian unemployment rate which is average for the final quarter of the period.

The Committee might retain unbalanced risks if:

- In the near term resource slack is expected to build.
- Uncertainty surrounding the forecast might seem to weigh particularly heavily on the down side.

The Committee might switch to balanced risks if:

- Aggregate demand is expected to expand considerably faster than aggregate supply in the second half of 2003 and 2004.
- Action today may better balance the odds of future action.