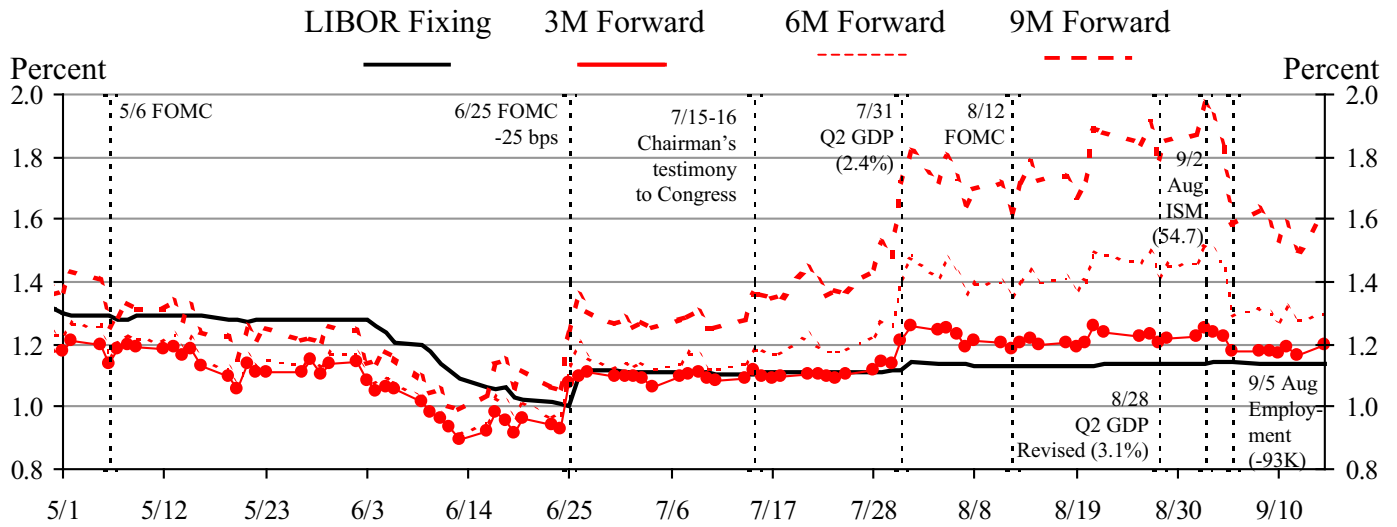


**Appendix 1: Materials used by Mr. Kos**

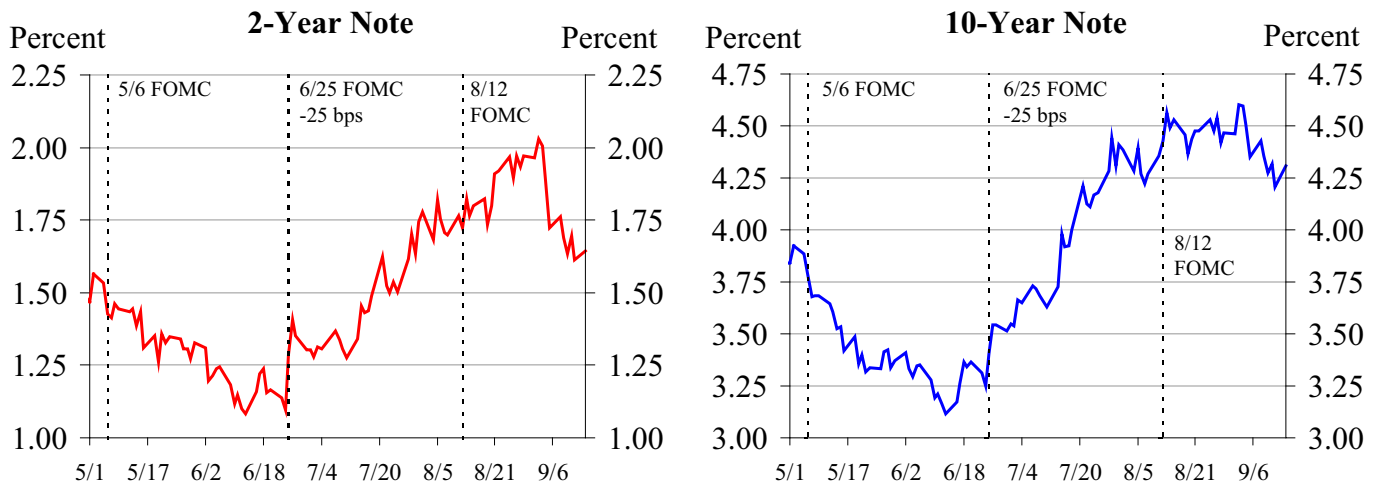
### Current U.S. 3-Month Deposit Rate and Rates Implied by Traded Forward Rate Agreements

May 1, 2003 - September 15, 2003



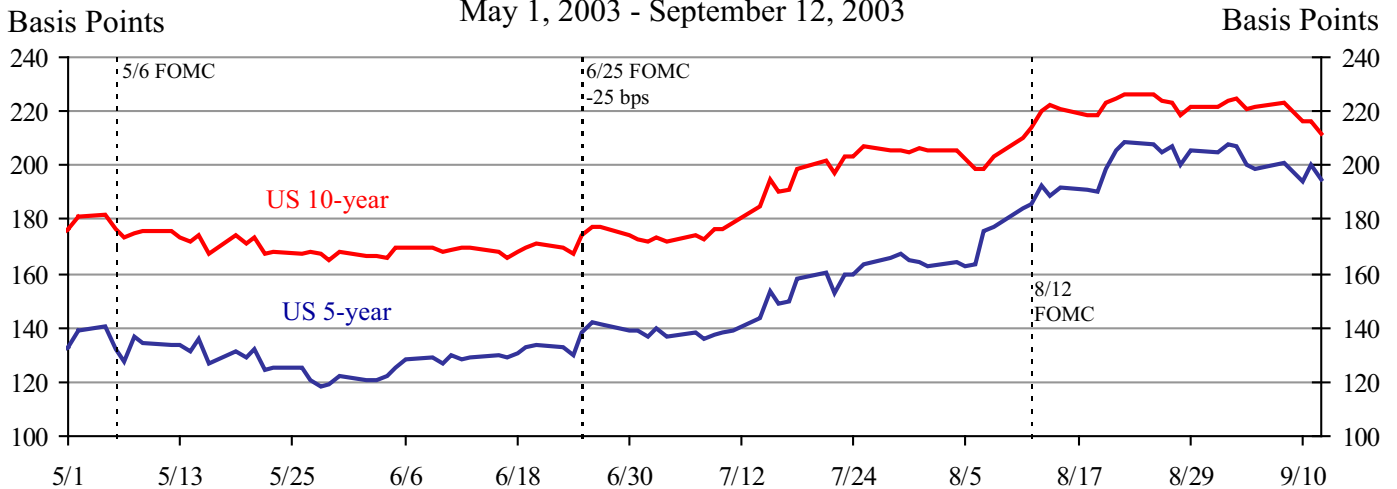
### U.S. Treasury Yields

May 1, 2003 - September 15, 2003



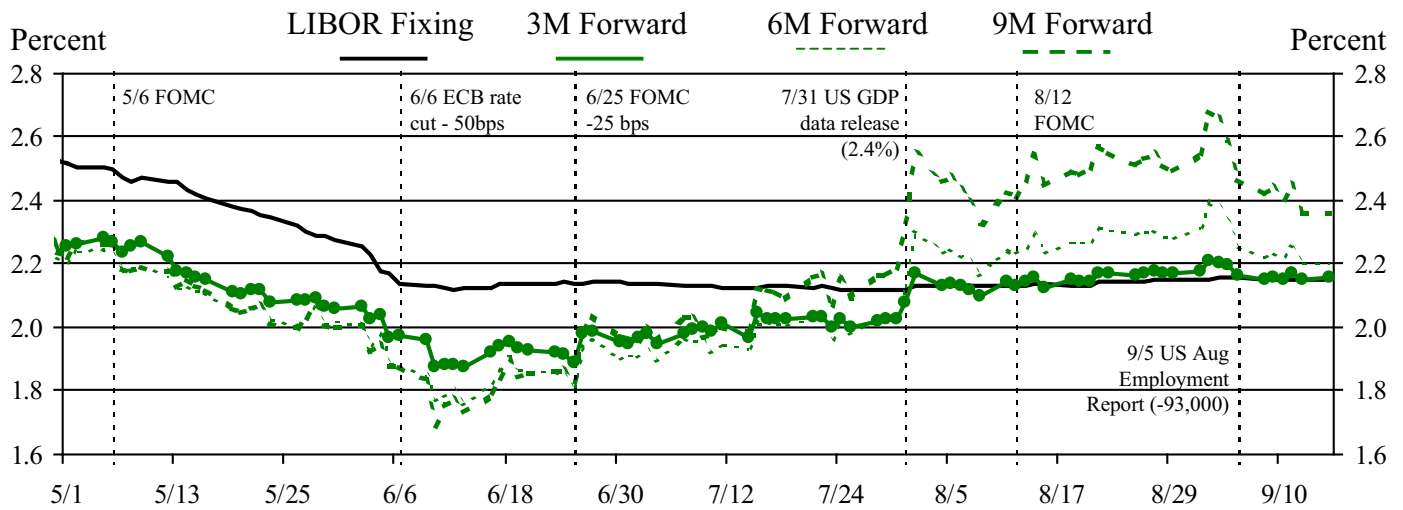
### U.S. Nominal Treasury Yields Less Inflation-Indexed Treasury Yields

May 1, 2003 - September 12, 2003



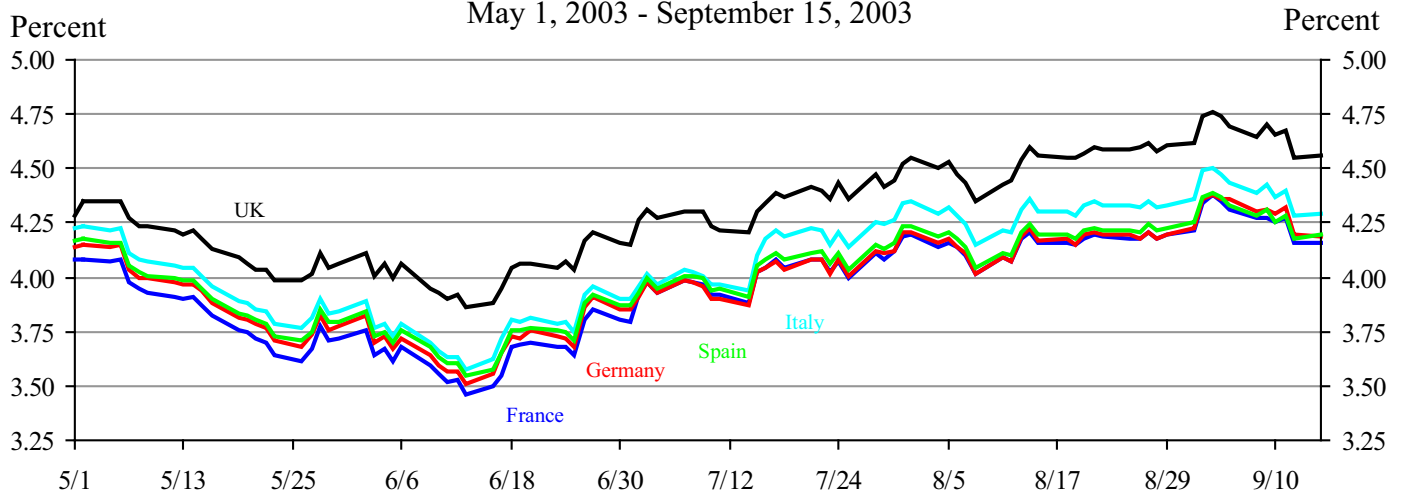
### Current 3-Month Euro-Area Deposit Rate and Rates Implied by Traded Forward Rate Agreements

May 1, 2003 - September 15, 2003



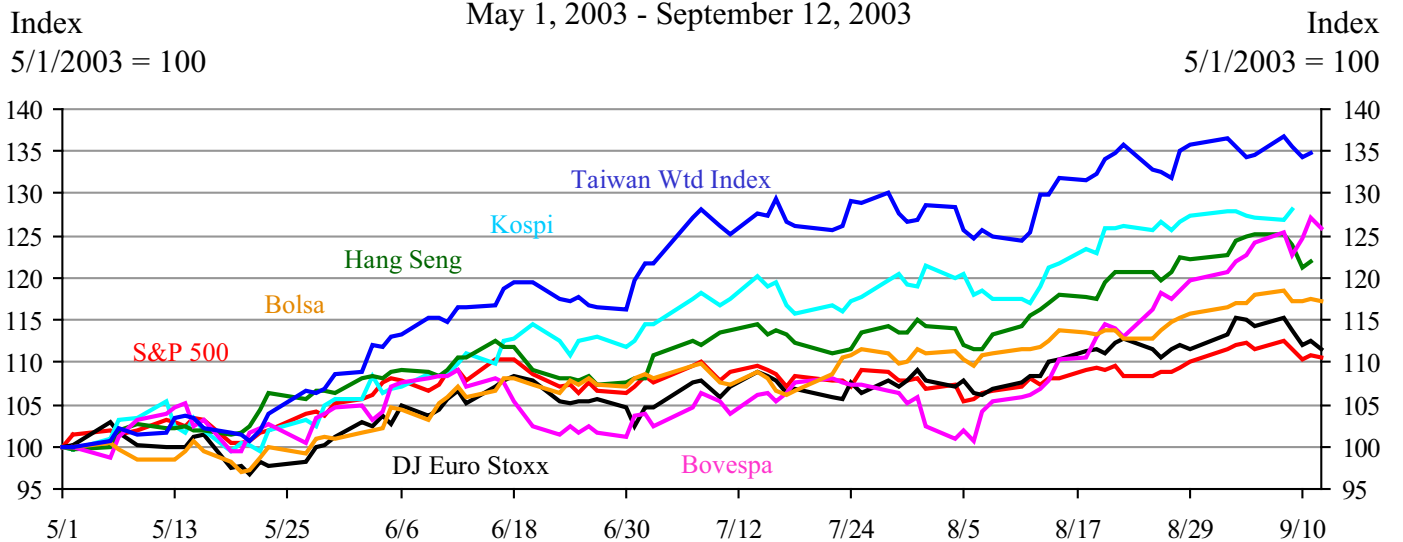
### European 10-Year Government Yields

May 1, 2003 - September 15, 2003



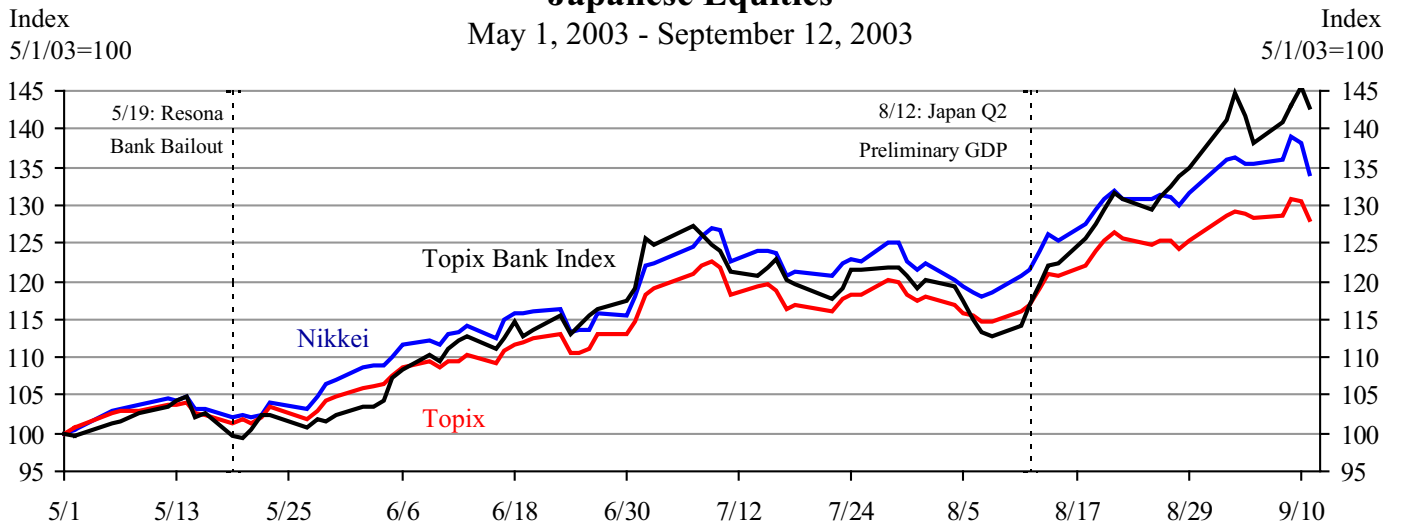
### Select Global Equity Indices

May 1, 2003 - September 12, 2003

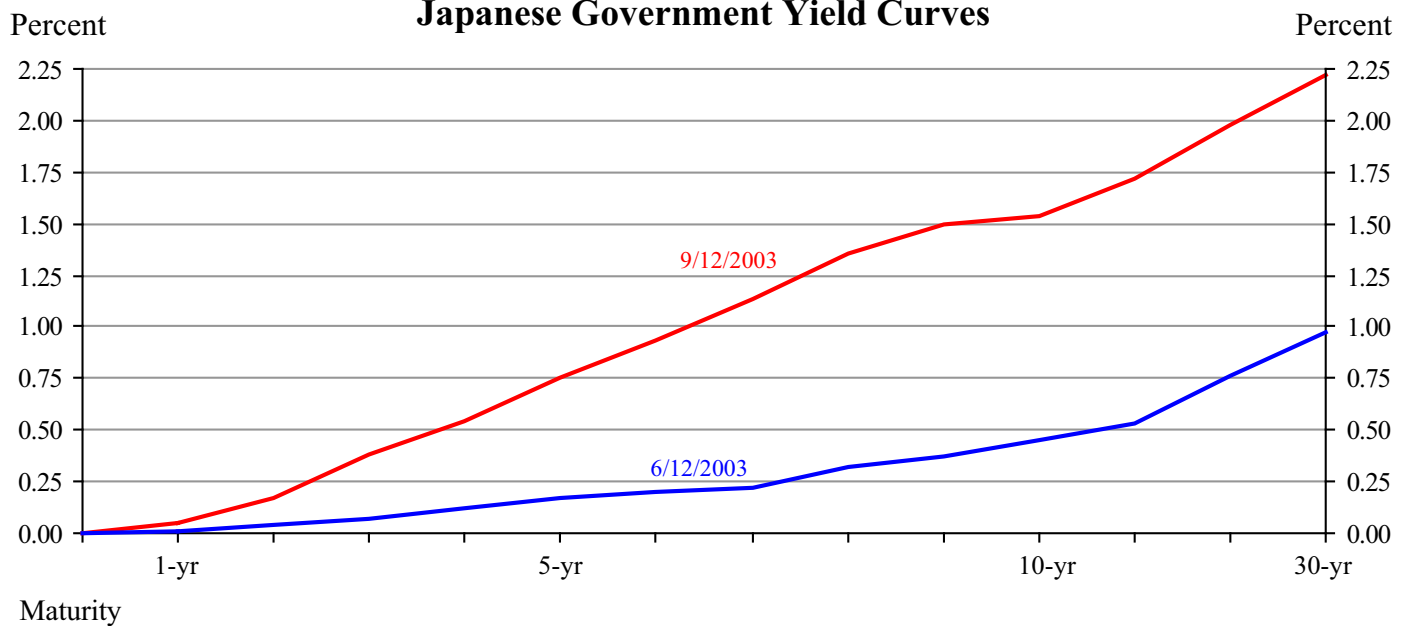


### Japanese Equities

May 1, 2003 - September 12, 2003

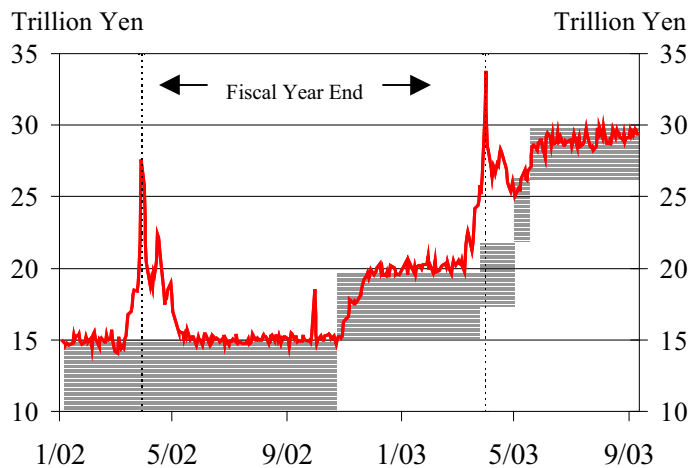


### Japanese Government Yield Curves



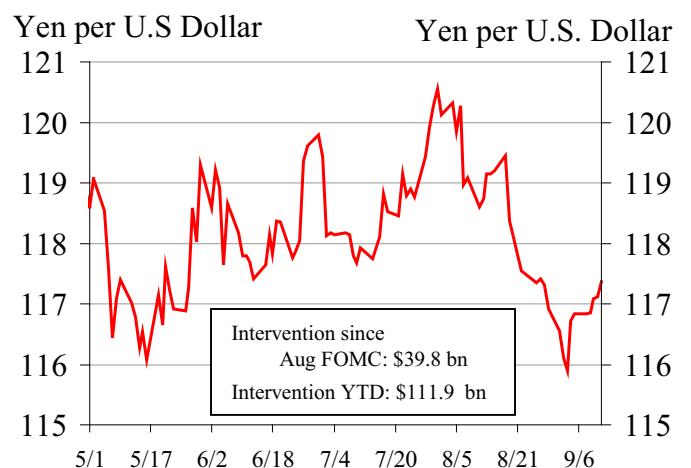
### Bank of Japan Current Account Balance

January 1, 2002 - September 12, 2003

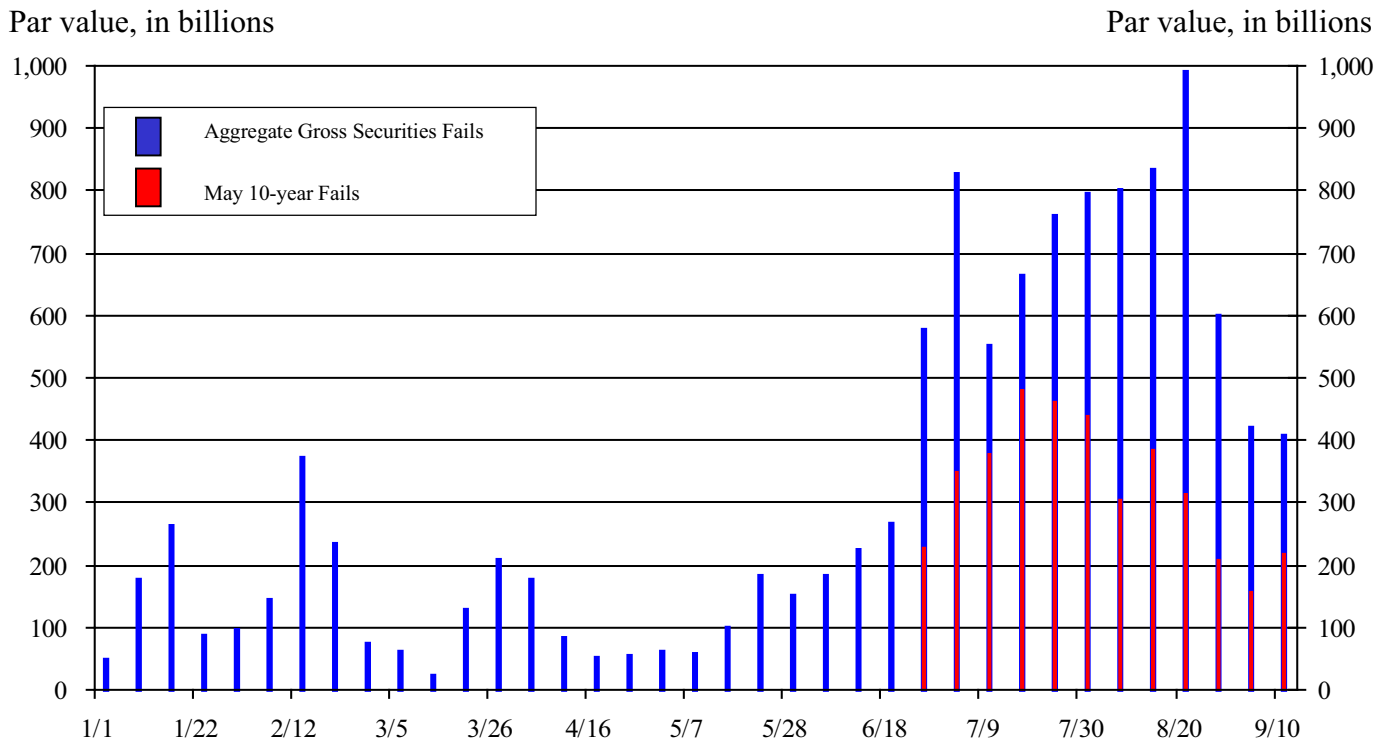


### Dollar-Yen Exchange Rate

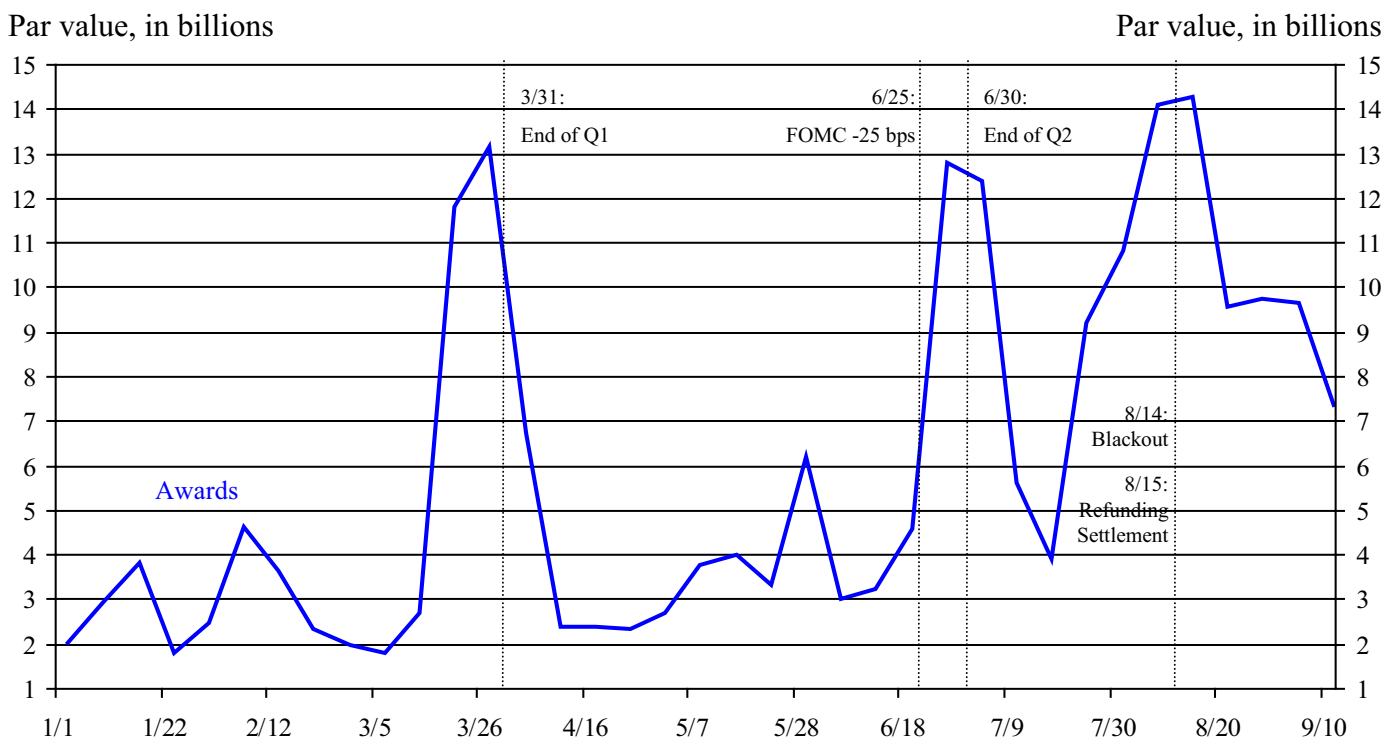
May 1, 2003 - September 12, 2003



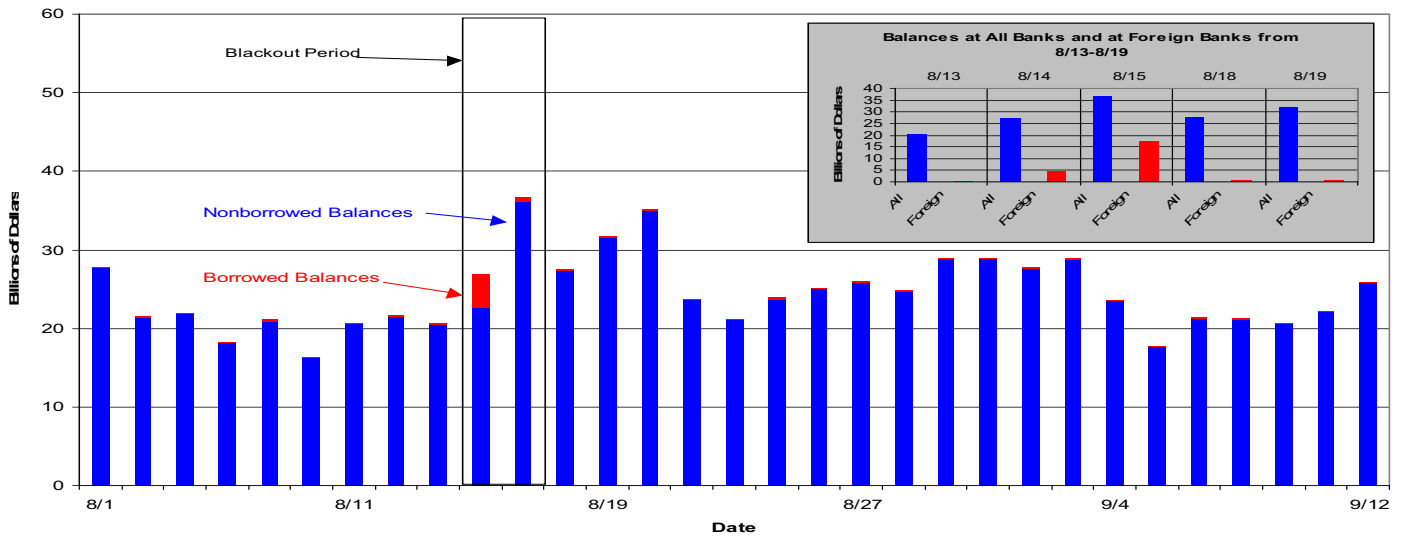
### Weekly FICC Fails Volume January 1, 2003 - September 12, 2003



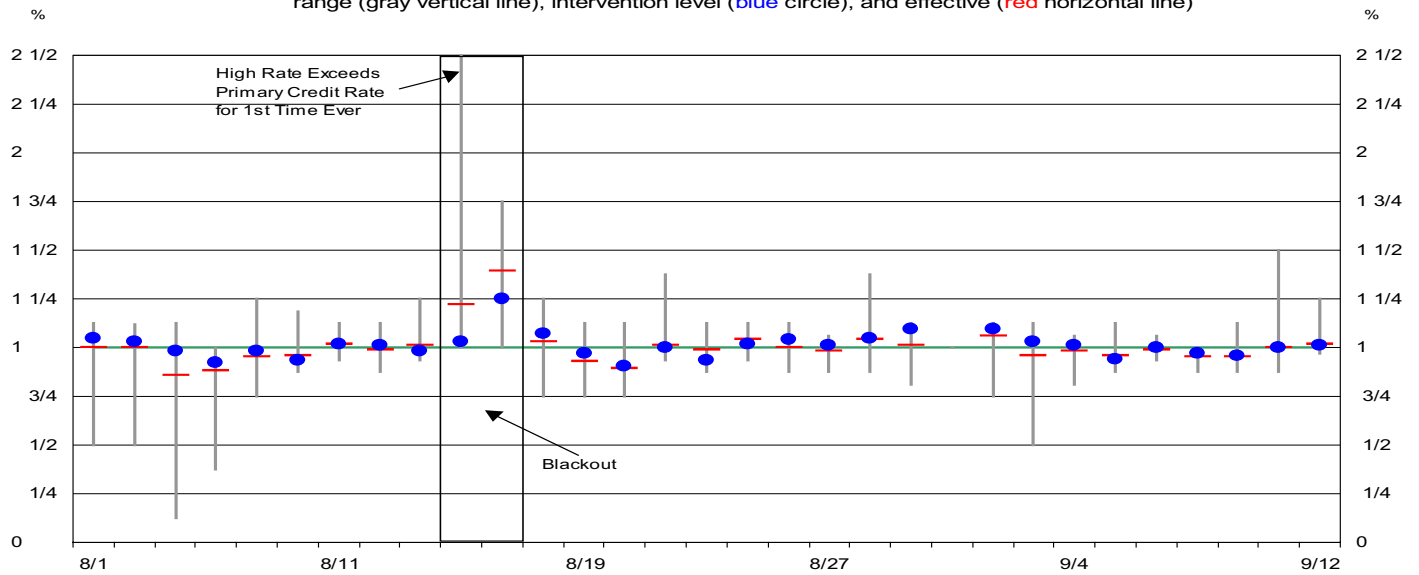
### Weekly Aggregate SOMA Securities Lending Volume January 1, 2003 - September 12, 2003



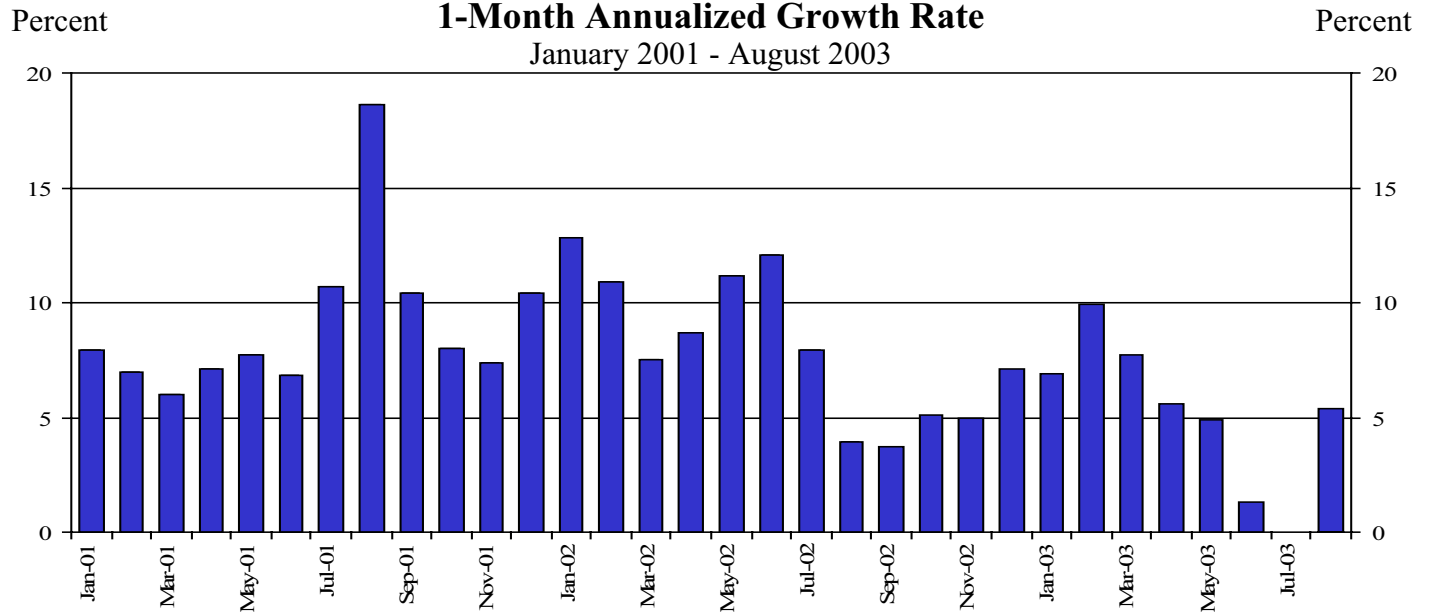
**Total Fed Balances: Nonborrowed and Borrowed, Aug. 1 to Sep. 12**



**Federal Funds Market Conditions**  
range (gray vertical line), intervention level (blue circle), and effective (red horizontal line)



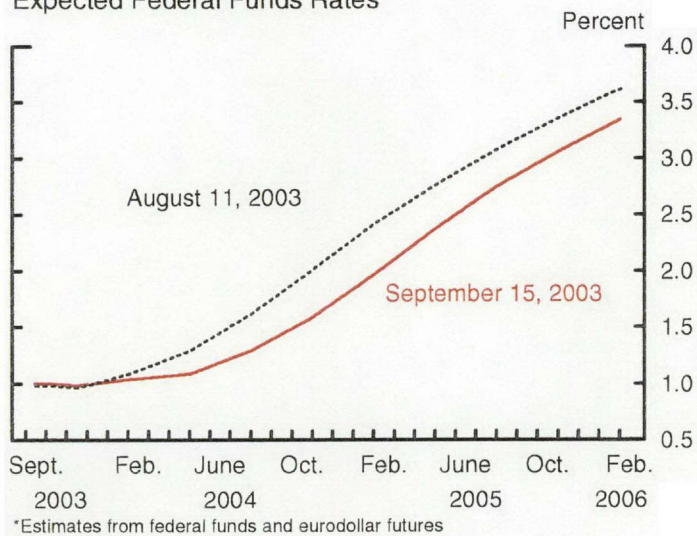
**Currency Component of M1 (s.a.)**  
**1-Month Annualized Growth Rate**  
January 2001 - August 2003



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

Exhibit 1  
**Market Expectations about Policy**

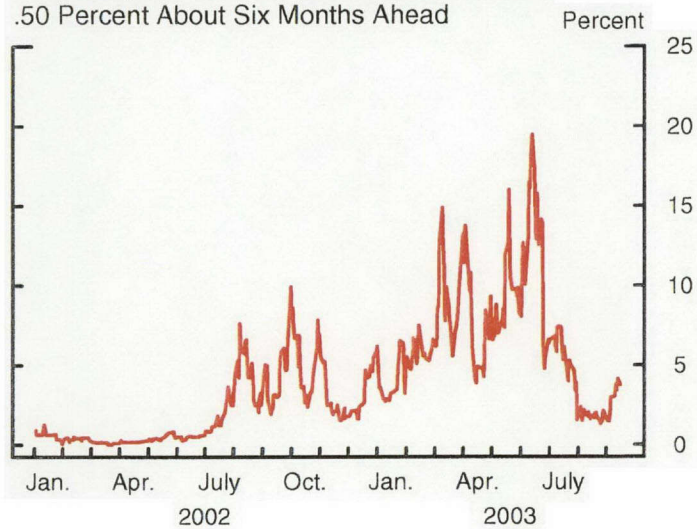
Expected Federal Funds Rates\*



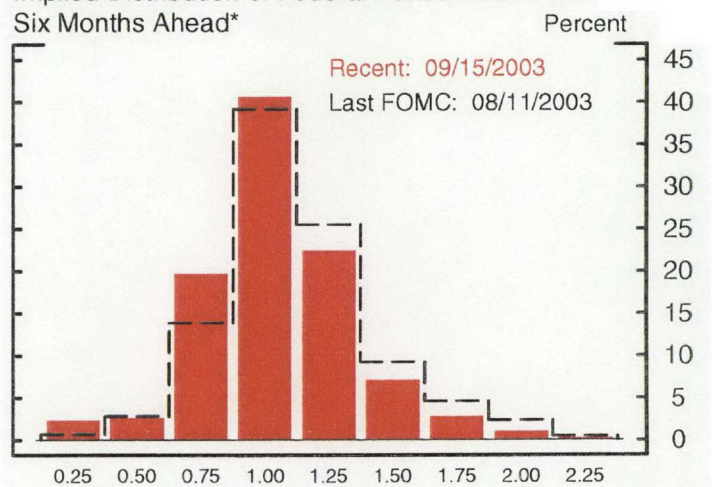
Primary Dealers' Expectation of Risk Assessment (FRBNY Survey, as of September 9)

Objectives	Balance		
	Downside	Balanced	Upside
Growth	0	20	2
Price Stability	22	0	0
Predominant Risk	20	1	1

Probability of Federal Funds Rate at or Below .50 Percent About Six Months Ahead

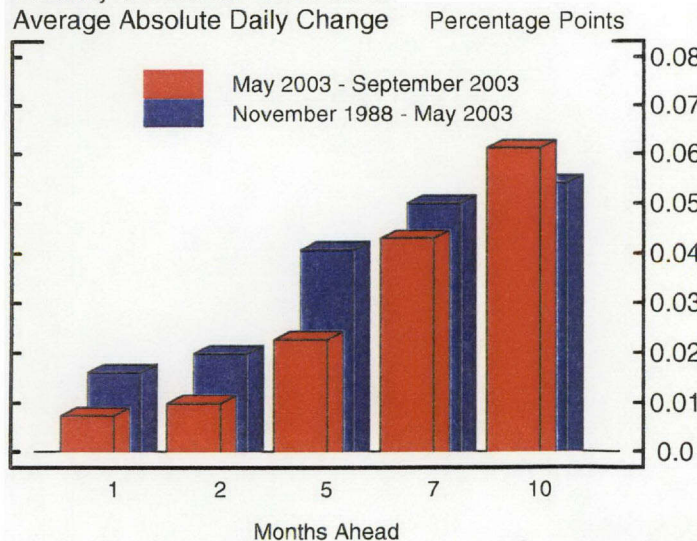


Implied Distribution of Federal Funds Rate About Six Months Ahead\*

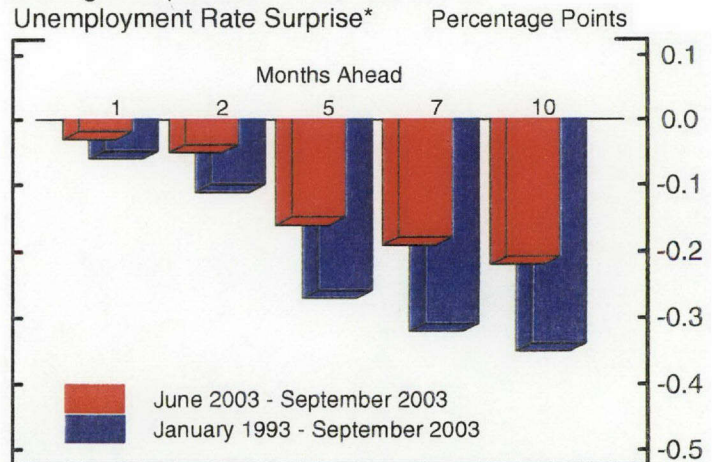


\*Estimates from options on eurodollar futures contracts, adjusted to estimate expectations for the federal funds rate.

Volatility of Federal Funds Rate  
 Average Absolute Daily Change



Average Response of Futures Rates to Unemployment Rate Surprise\*



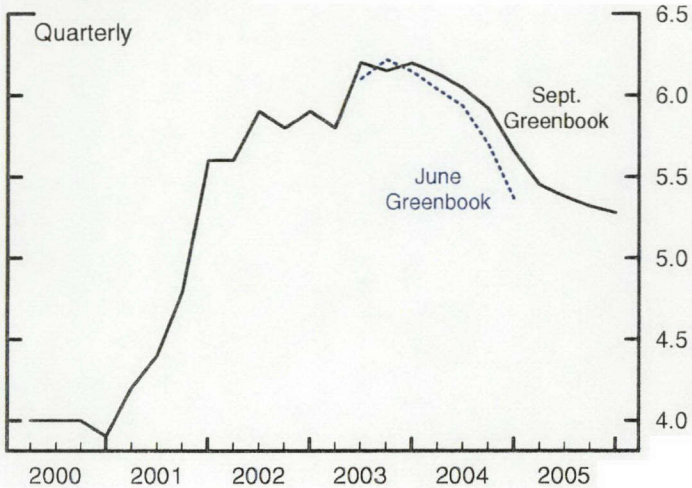
\*Response to hypothetical one percentage point surprise increase in unemployment rate.



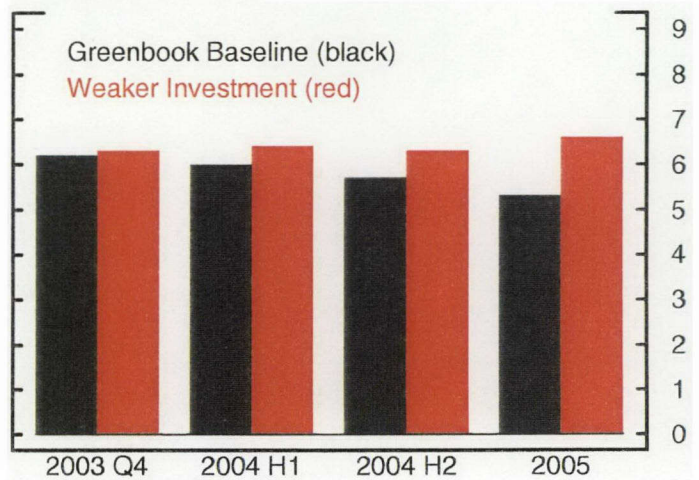
Exhibit 2  
**The Case for Easing 25 Basis Points**

- Considerable resource slack lingers in the staff projection.
- The neutral real funds rate may be above the equilibrium real funds rate.
- Capital spending may not recover.

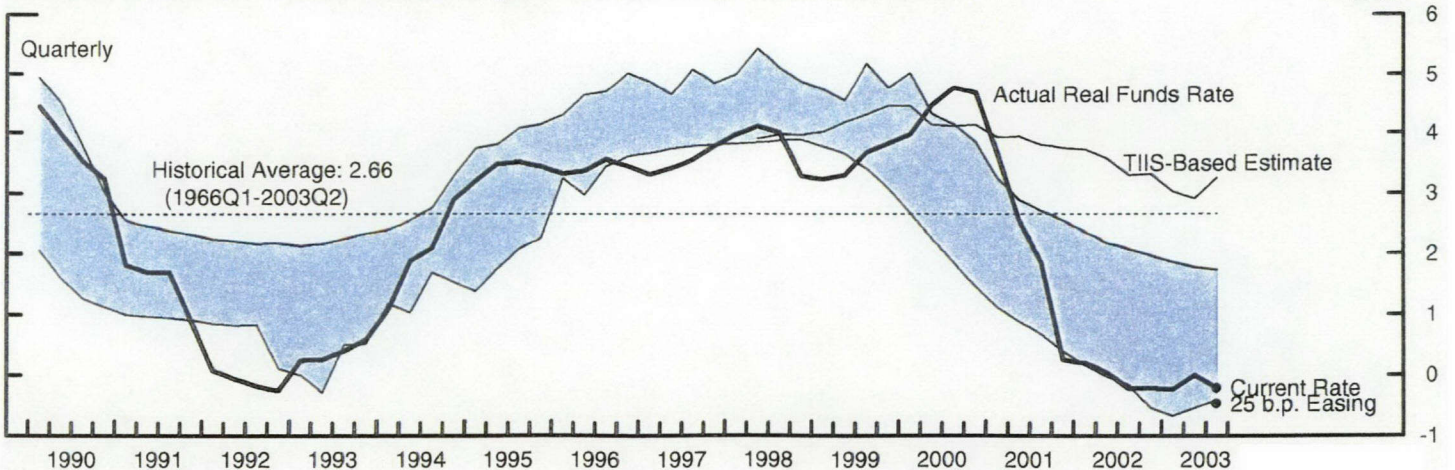
Unemployment Rate



Unemployment Rate



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

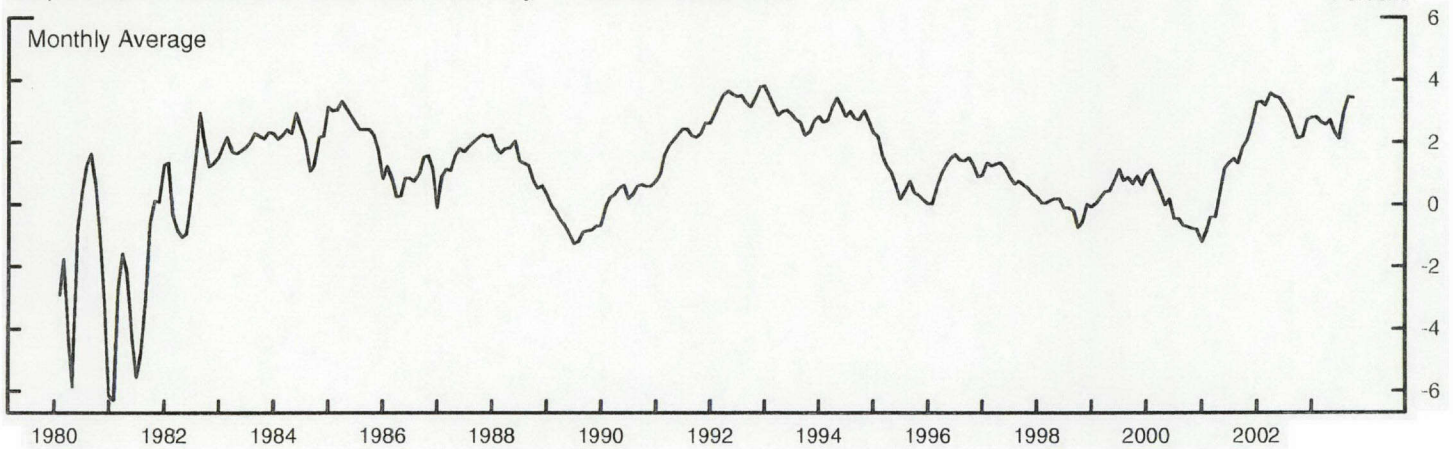


Note: The shaded range represents the maximum and the minimum values each quarter of four estimates of the equilibrium

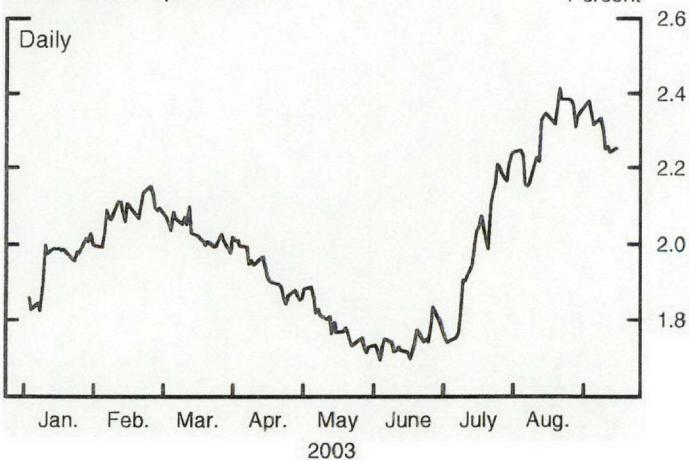
Exhibit 3  
**The Case for an Unchanged Target Federal Funds Rate**

- In the staff forecast, inflation holds fairly stable at around 1 percent.
- There may be other sources of impetus.
- Market participants may be right in expecting more pressure on inflation.

Slope of the Yield Curve: Ten-Year Treasury - Federal Funds Rate



Inflation Compensation\*



Investment Bank Economic Forecasts

2004: Q4 to Q4		
	Real GDP Growth	CPI Inflation
1. Goldman Sachs	2.9	1.1
2. JP Morgan	3.5	1.4
3. Bear Stearns	4.2	2.0
4. Morgan Stanley	4.6	1.5
5. Merrill Lynch	3.5	0.9
<i>Memo: Greenbook</i>	5.0	0.9

\*Based on a comparison of an estimated TIPS yield curve to the nominal off-the-run Treasury yield curve.

Exhibit 4  
**Risk Assessment**

Possibilities for the Overall Risk Assessment

		Risks to Price Stability		
		Downside	Balanced	Upside
Risks to Sustainable Economic Growth	Downside	Downside	Downside	?
	Balanced	Downside	Balanced	Upside
	Upside	?	Upside	Upside

August Announcement

"... the Committee believes that policy accommodation can be maintained for a considerable period."

Intended Federal Funds Rate

Percent

