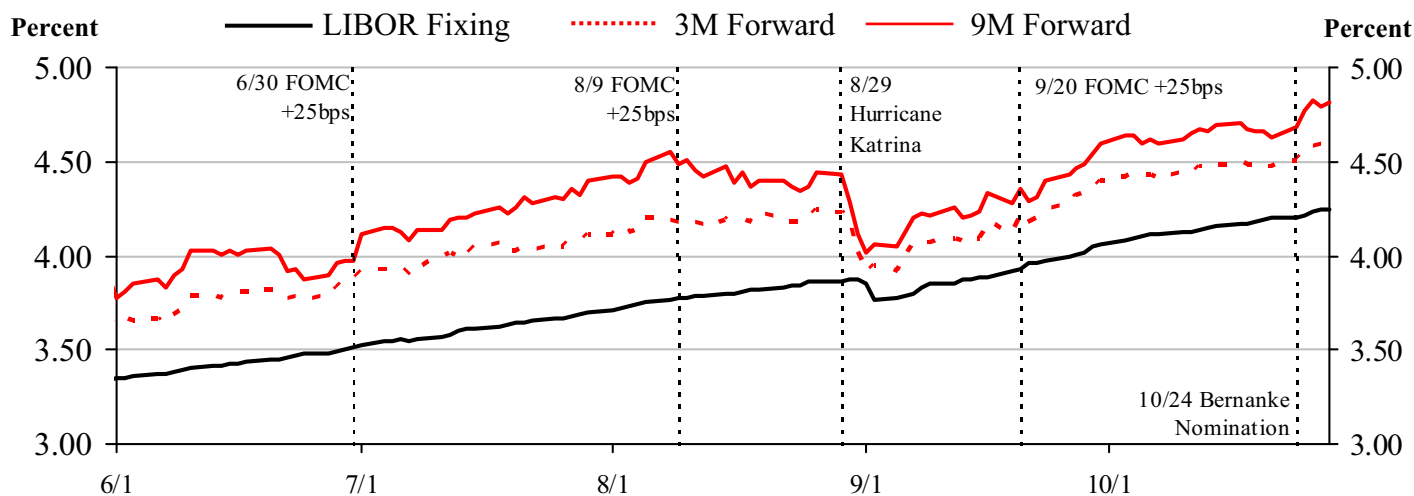


**Appendix 1: Materials used by Mr. Kos**

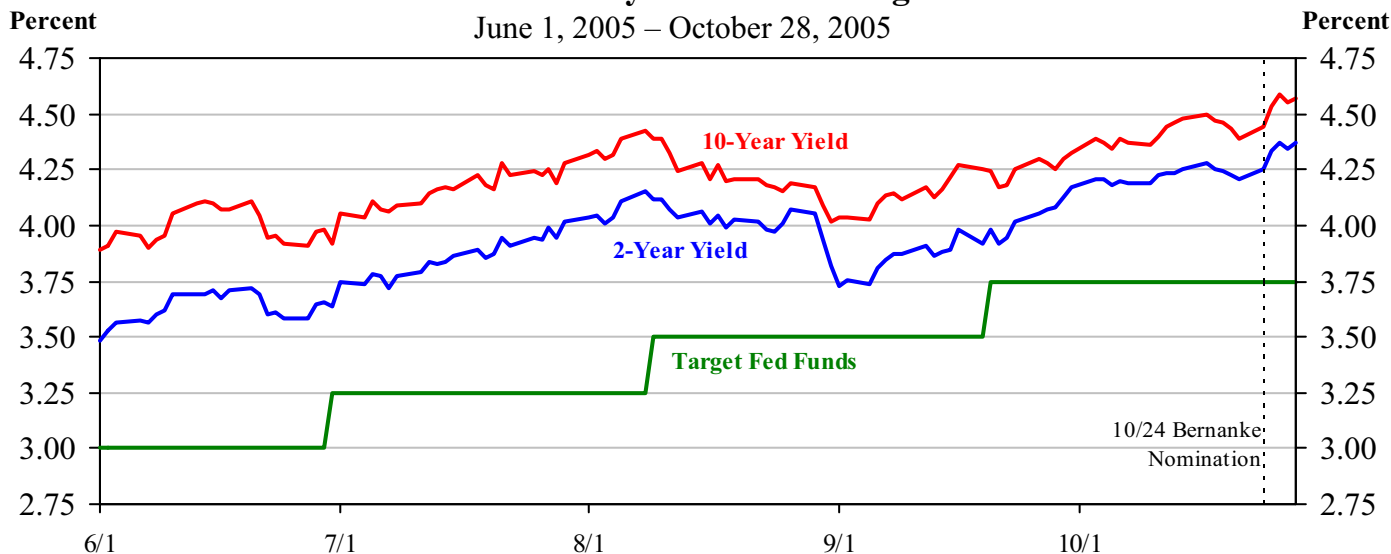
### Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

June 1, 2005 – October 28, 2005



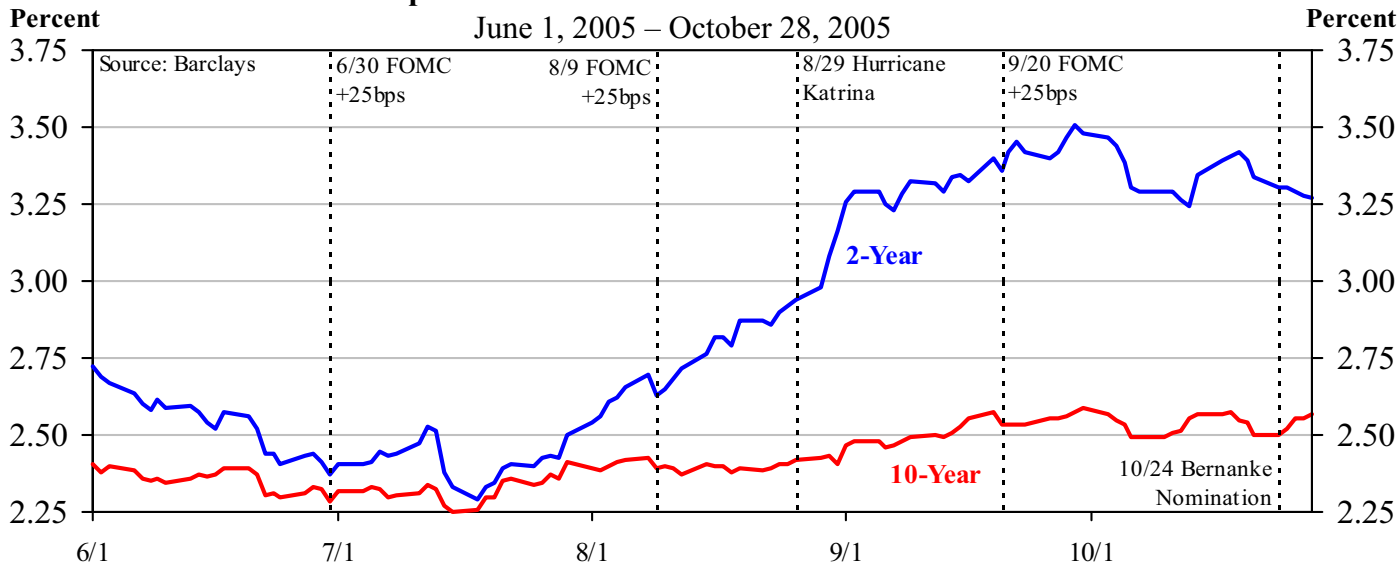
### 2- and 10-Year Treasury Yields and Target Fed Funds

June 1, 2005 – October 28, 2005

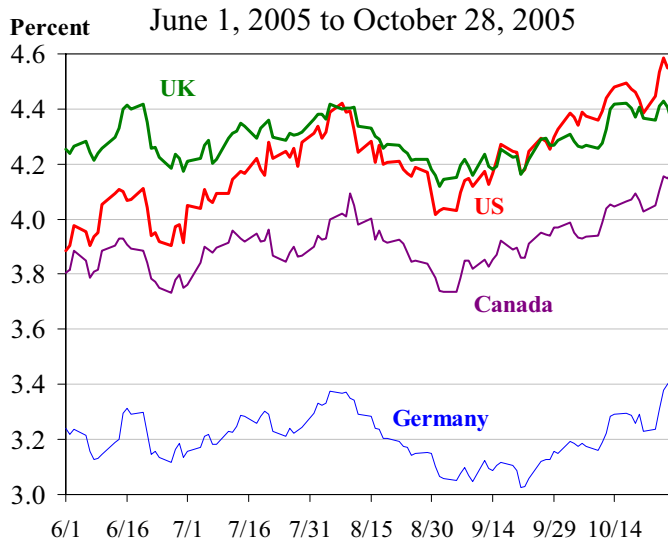


### Implied Breakeven Inflation Rates from TIPS

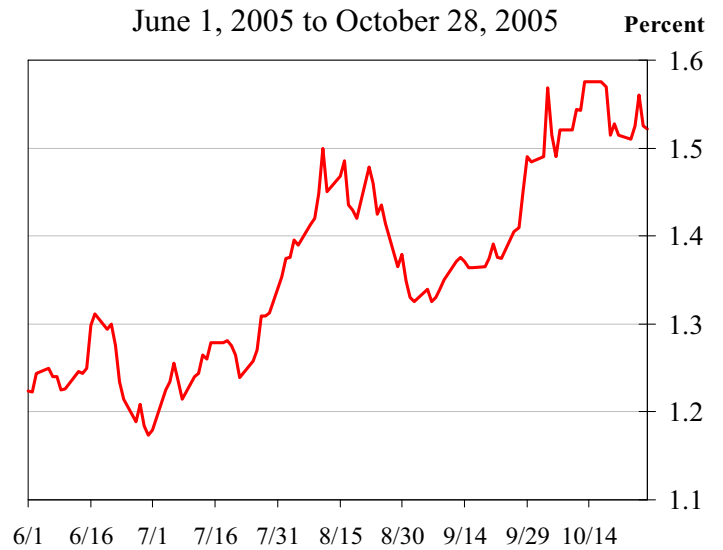
June 1, 2005 – October 28, 2005



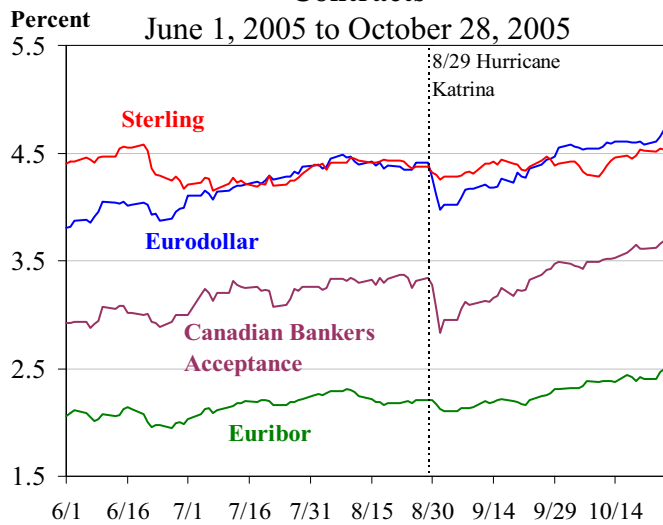
### Select 10-Year Sovereign Debt Yields



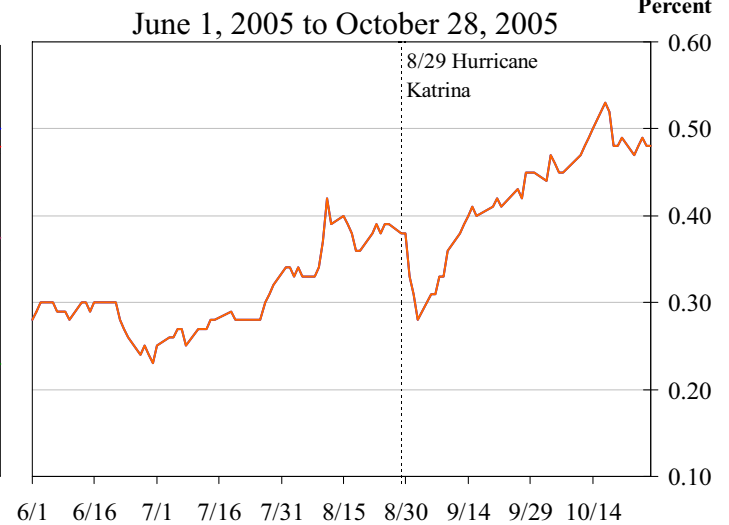
### 10-Year JGB Yields



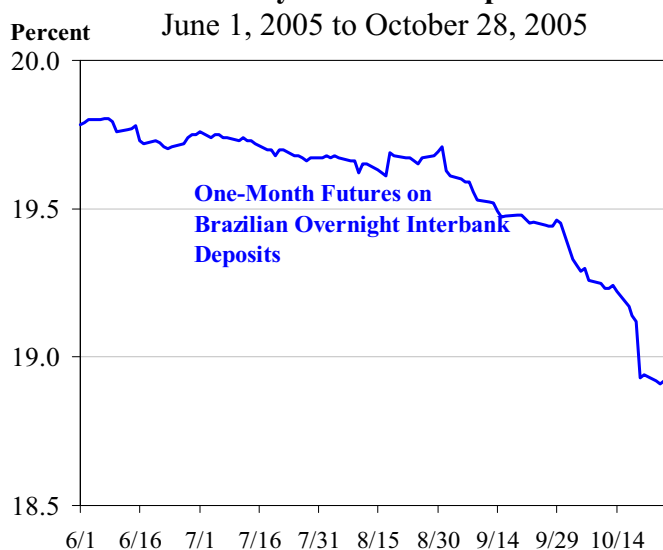
### Implied Rates on March-06 Futures Contracts



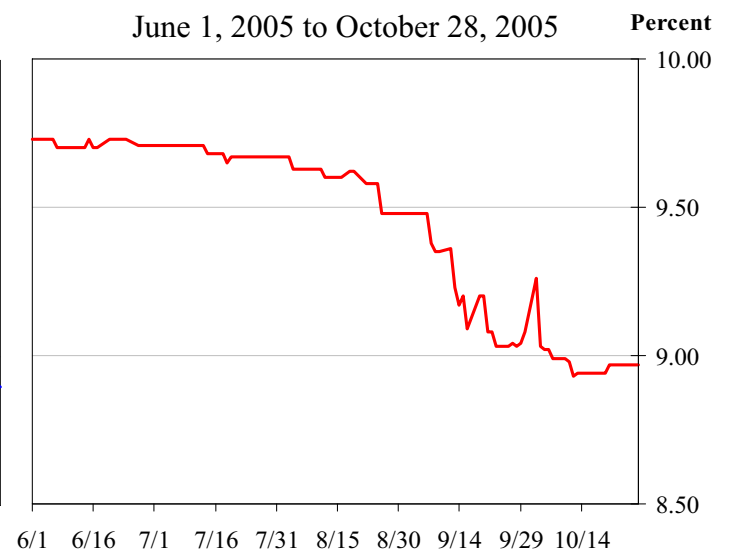
### Implied Rates on Dec-06 Euro-Yen Futures Contract



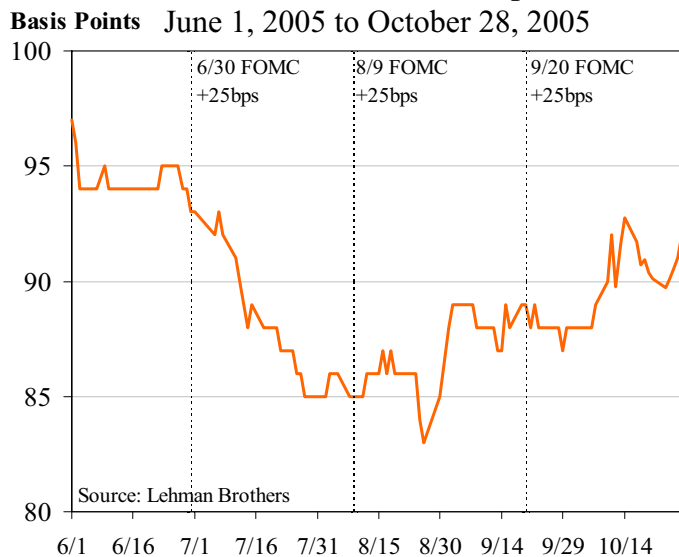
### Brazilian Daily Interbank Deposit Futures



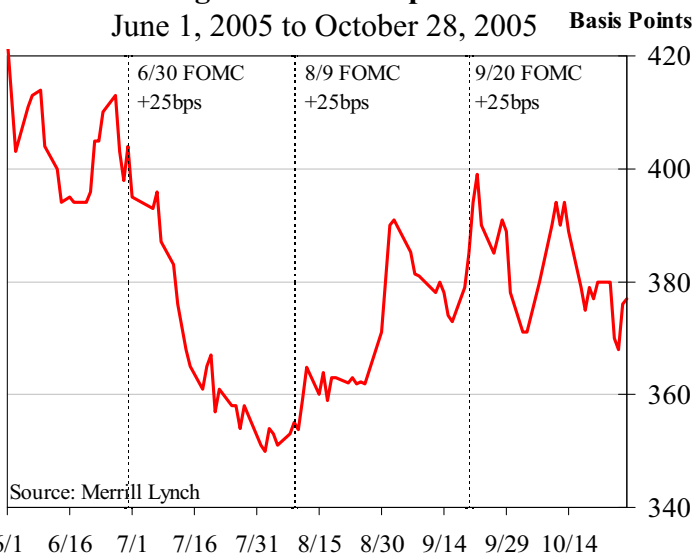
### Mexican 1-Month T-Bill Rate



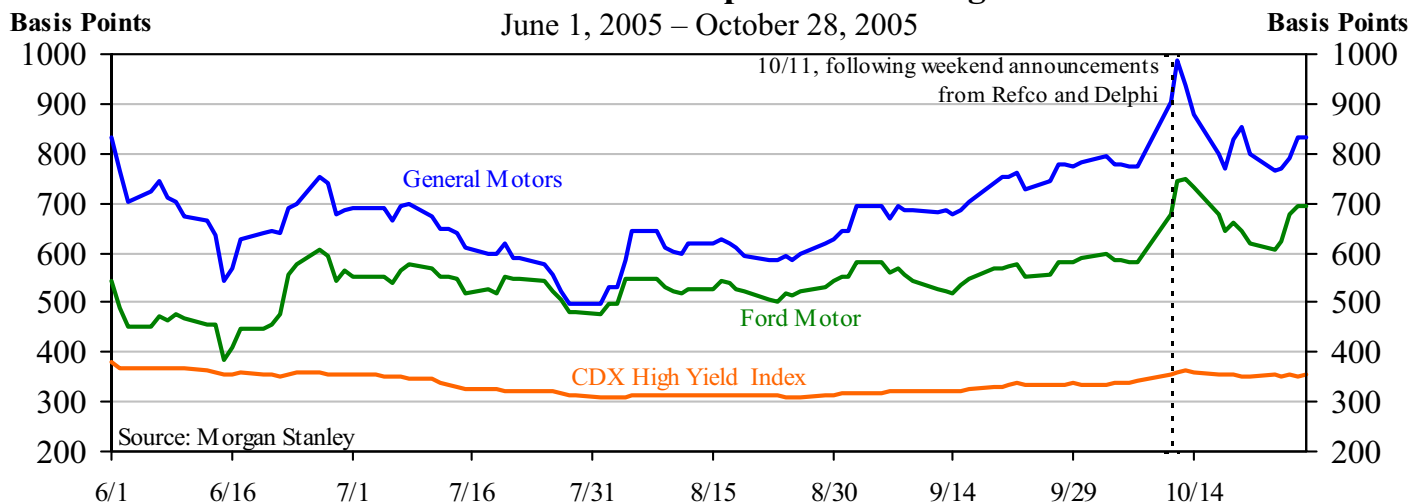
### Investment Grade Debt Spread



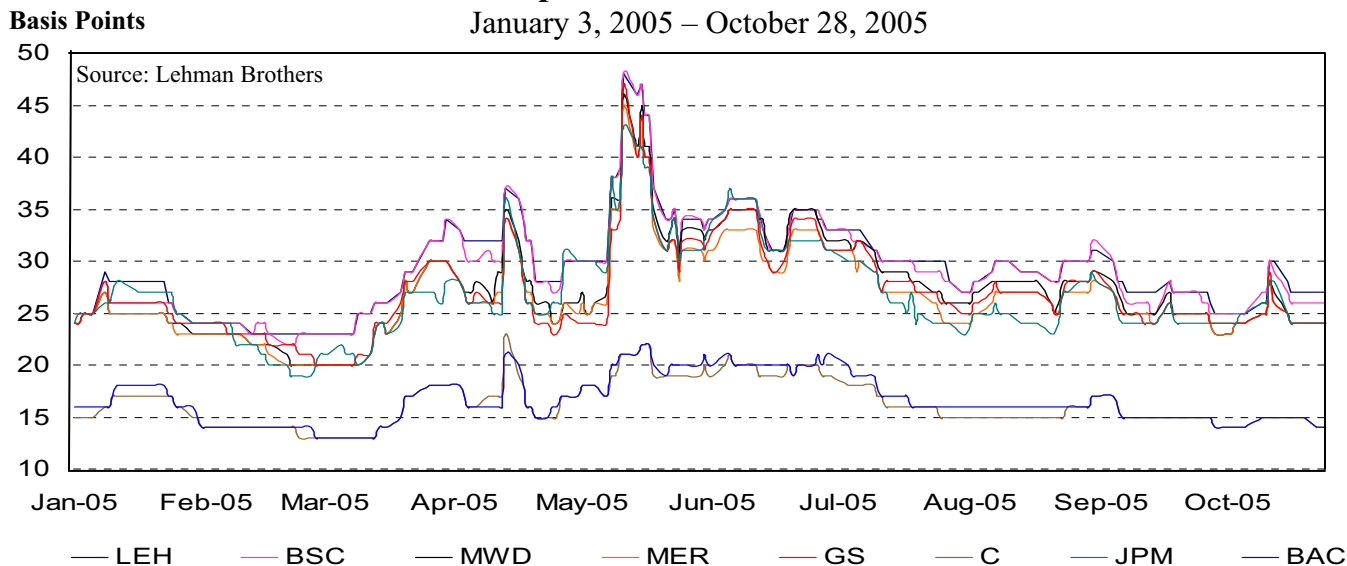
### High Yield Debt Spread



### Auto Sector Credit Default Swaps and CDX High Yield Index



### Credit Default Swap Rates for Select Financial Institutions



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

**Class I FOMC - Restricted Controlled FR**

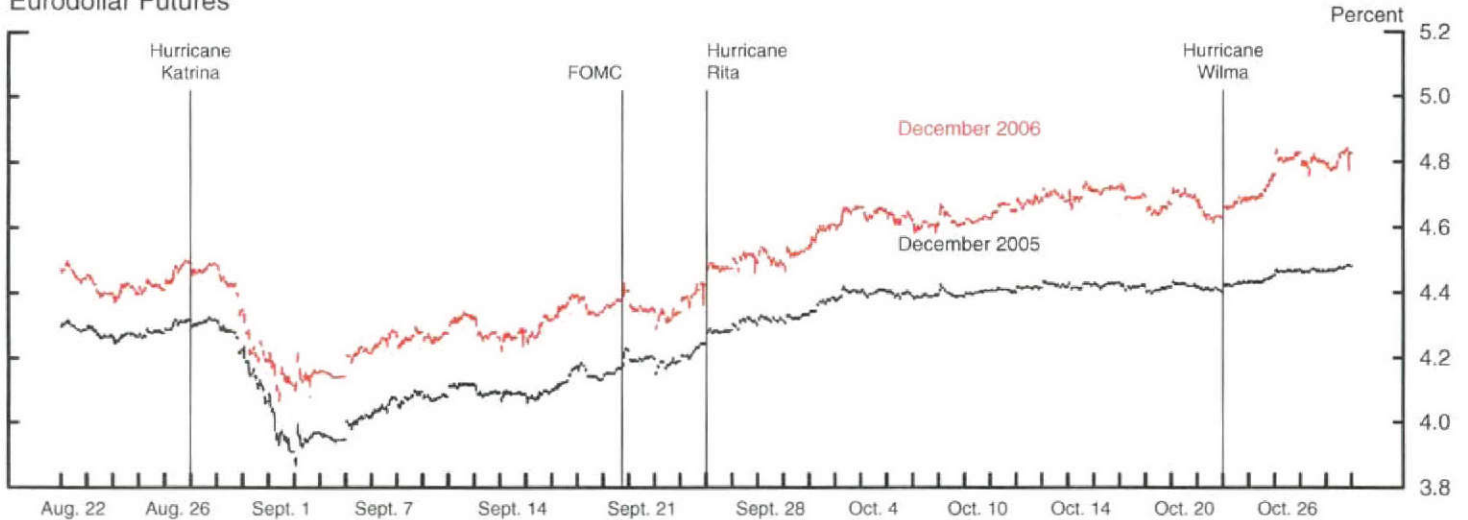
*Material for*

**FOMC Briefing on Monetary Policy Alternatives**

Vincent R. Reinhart  
November 1, 2005

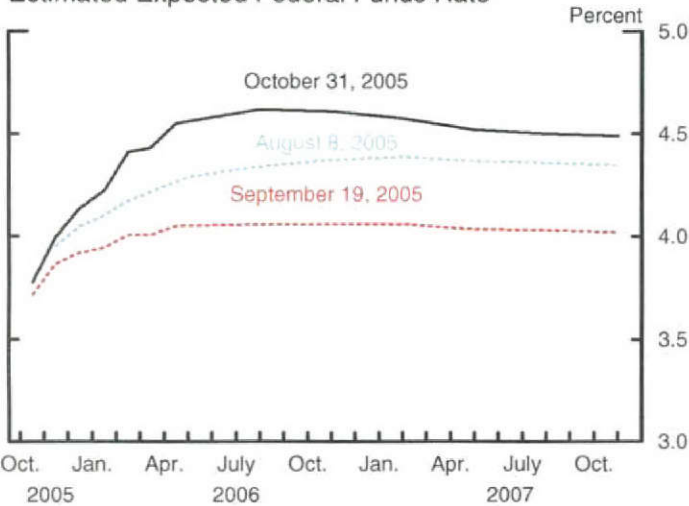
**Exhibit 1**  
**Policy Background**

**Eurodollar Futures\***



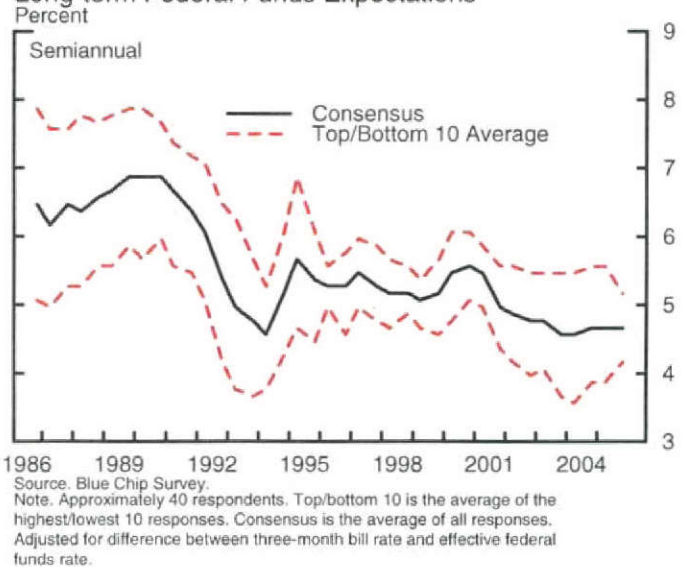
\*Five-minute intervals

**Estimated Expected Federal Funds Rate**

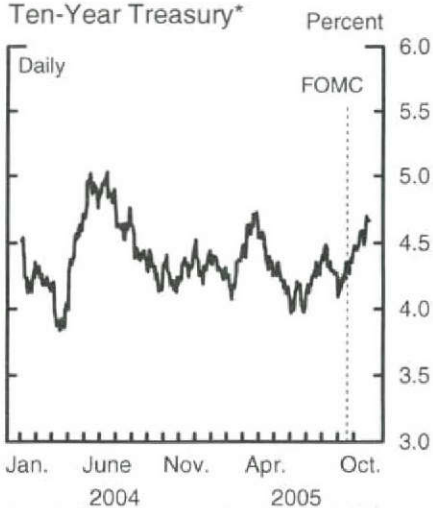


Note. Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

**Long-term Federal Funds Expectations**

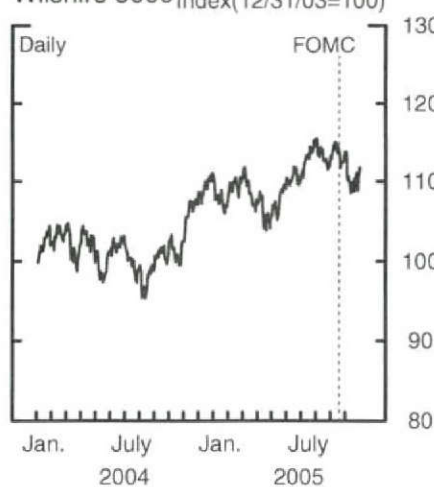


**Ten-Year Treasury\***



\*Par yields from a smoothed nominal off-the-run Treasury yield curve.

**Wilshire 5000 Index(12/31/03=100)**



**Nominal Major Currencies**



### Exhibit 2 Policy Alternatives

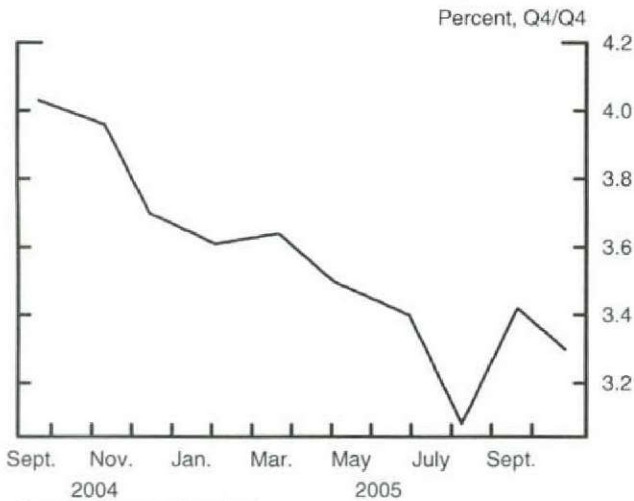
#### Arguments for A

- Staff growth forecast has been marked down fairly consistently.
- Real estate values could stop escalating.
- Consumer confidence could sink further.

#### Arguments for B and C

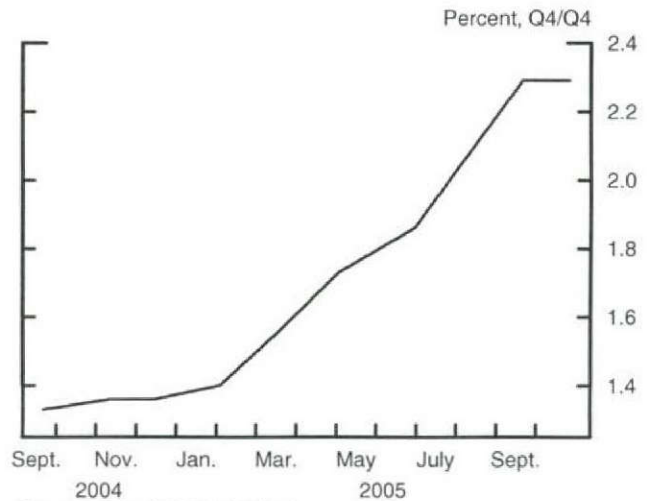
- Staff inflation forecast has been marked up fairly consistently.
- Inflation may already be at top of comfort zone.
- Inflation expectations could increase further.

Staff Forecast of GDP Growth for 2006



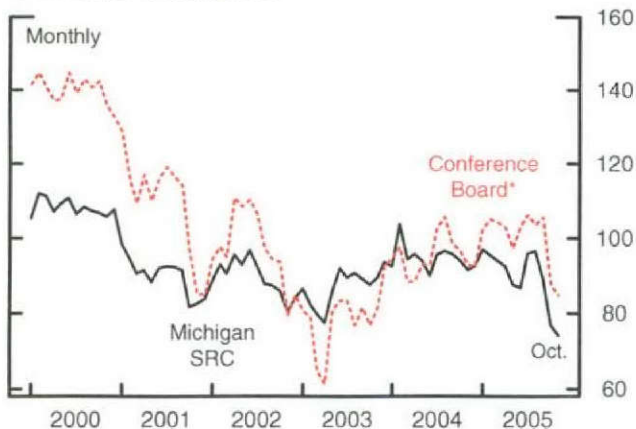
Source. Greenbook projections.

Staff Forecast of Core PCE Inflation for 2006



Source. Greenbook projections.

Consumer Confidence



\*October value is preliminary.

Expected Inflation



Source. Michigan SRC.



### Exhibit 3

## Questions on the Statement Language

### September Statement

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3¾ percent.

Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, the disruption to the production and refining infrastructure may add to energy price volatility.

While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat. Rather, **monetary policy accommodation**, coupled with **robust underlying growth in productivity**, is providing ongoing support to economic activity. Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain contained.

The Committee perceives that, **with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal**. With underlying inflation expected to be contained, the Committee believes that **policy accommodation can be removed at a pace that is likely to be measured**. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

1. Is productivity growth still robust?

2. Will monetary policy still be accommodative?

3. Are you likely to remove policy accommodation at a measured pace?

4. Is there a policy path that will balance the risks to your dual objectives ?

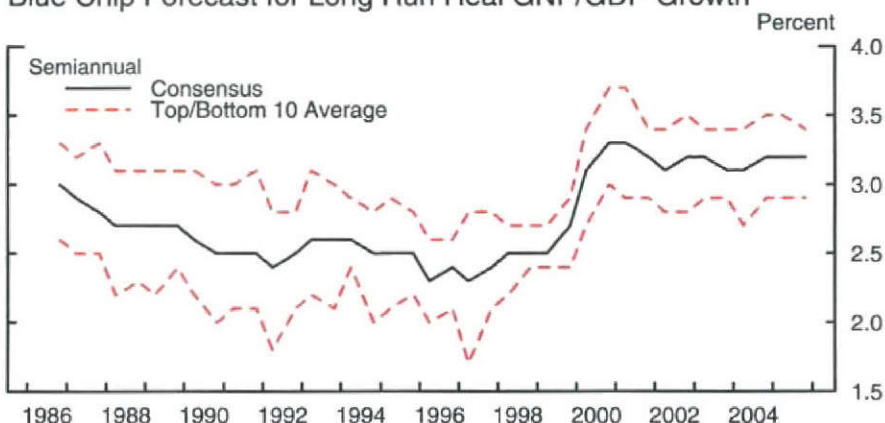
### Exhibit 4 Language Considerations

Productivity Growth  
(Four-quarter Change)

Period Ending	Percent
2001 Q4	3.2
2002 Q4	2.9
2003 Q4	5.0
2004 Q4	2.6
2005 Q3	2.9 p

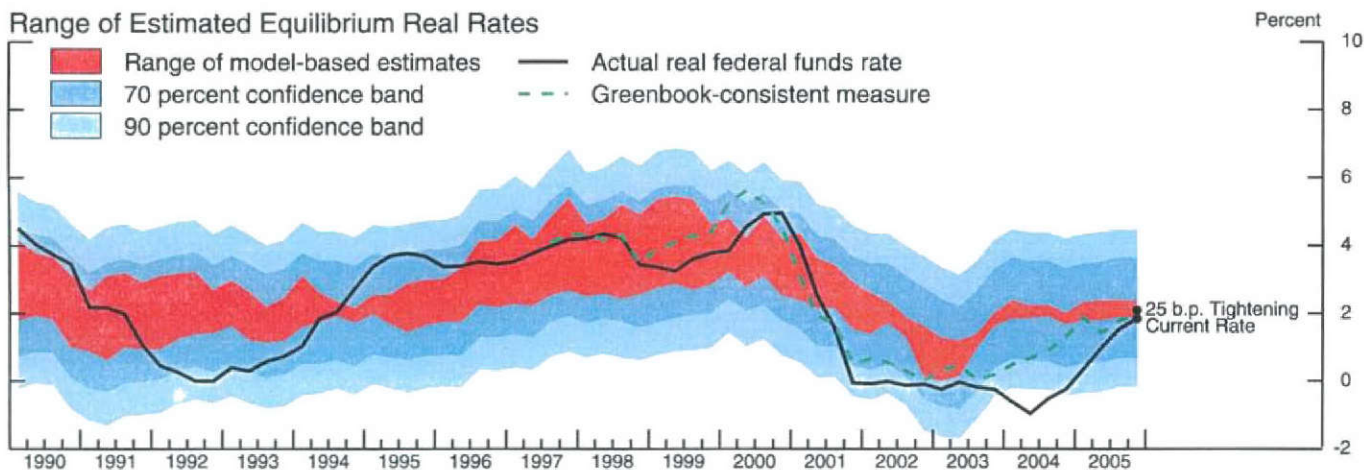
Note. Nonfarm Business Sector  
p - projection

Blue Chip Forecast for Long Run Real GNP/GDP Growth



Note. Approximately 40 respondents. Top/bottom 10 is the average of the highest/lowest 10 responses. Consensus is the average of all responses. Long run growth is for six to eleven years ahead.

Range of Estimated Equilibrium Real Rates

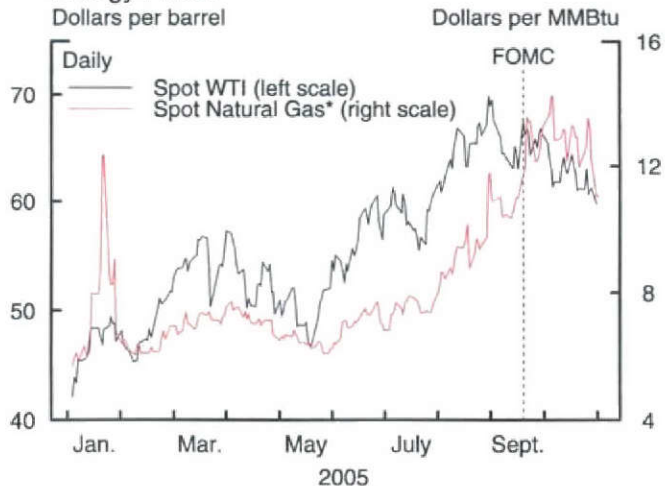


An explanatory note is provided in Chart 5 of the Bluebook.

#### Why "Accommodative" May Still Be Appropriate

- Greater vigor of aggregate demand.
- Forward-looking inflation expectations.
- Path for output may imply undesirably high inflation.

Energy Prices  
Dollars per barrel



\*National average

## Exhibit 5

### Assessment of Risks

#### Alternative B

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

#### Shift to Change in the Funds Rate

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy ~~accommodation can be removed~~ **firming can continue** at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

#### Formulaic Language

~~The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.~~

The Committee's economic outlook is such that, if the federal funds rate were maintained at its current level for the next several quarters, output growth is more likely to be above than below its sustainable pace. Inflation over the same period is more likely to increase than decrease. [As a result, the Committee views the near-term risks to its dual objectives as tilted to the upside.] In any event, the Committee is prepared to take the steps necessary to maintain price stability and sustainable economic growth.

#### No Risk Assessment

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**Table 1: Alternative Language for the November FOMC Announcement**

	September FOMC	Alternative A	Alternative B	Alternative C
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3¾ percent.	The Federal Open Market Committee decided today to leave its target for the federal funds rate unchanged.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4 percent.
<b>Rationale</b>	2. Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, the disruption to the production and refining infrastructure may add to energy price volatility.  While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat. Rather, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	Elevated energy prices and hurricane-related disruptions in economic activity seem to have slowed the growth of spending, set back employment, and weakened consumer and business confidence. The persistence of such effects is uncertain, but robust underlying growth of productivity and monetary policy accommodation are providing support to economic activity.	Elevated energy prices and hurricane-related disruptions in economic activity have temporarily depressed output and employment. However, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas.	The disruptive effects of recent hurricanes seem likely to be temporary, especially in light of increased spending associated with rebuilding efforts. Economic growth continues to be supported by robust underlying growth in productivity.
	3. Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain contained.	High energy and other costs have added to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain contained.	The cumulative rise in energy and other costs have the potential to add to inflation pressures; however, core inflation has been relatively low in recent months and longer-term inflation expectations remain contained.	Core inflation and longer-term inflation expectations remain contained. However, high energy and other costs have boosted near-term inflation expectations and price pressures, likely making further policy firming necessary.
<b>Assessment of Risk</b>	4. The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.	[no change]	[no change]	[none]
	5. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	With underlying inflation expected to be contained, the Committee believes that remaining policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	[no change]	[none]