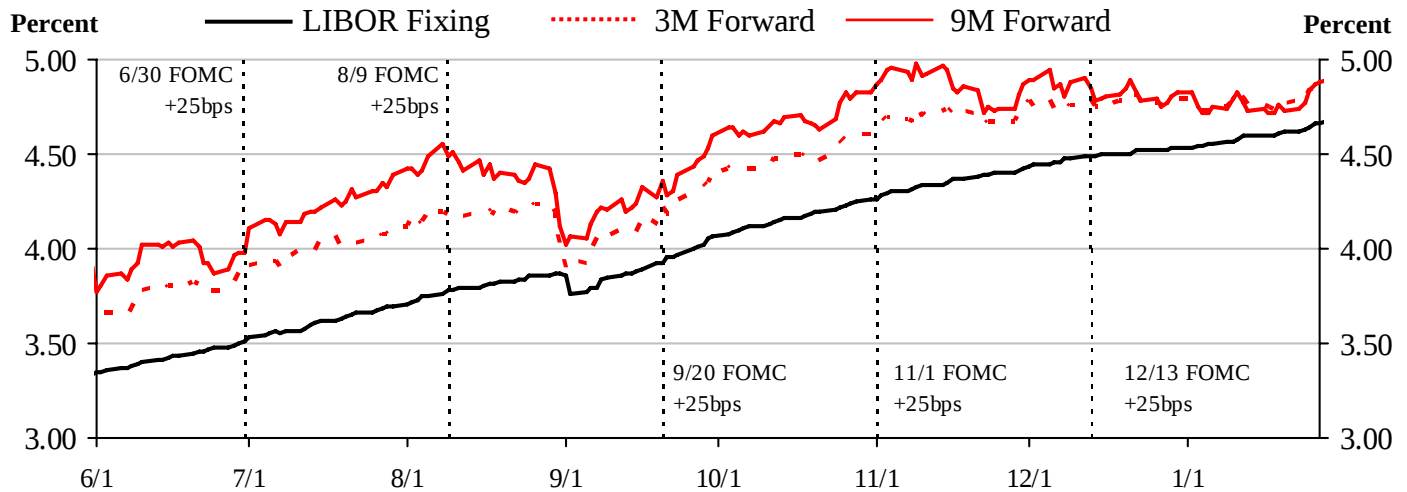


Appendix 1: Materials used by Mr. Kos

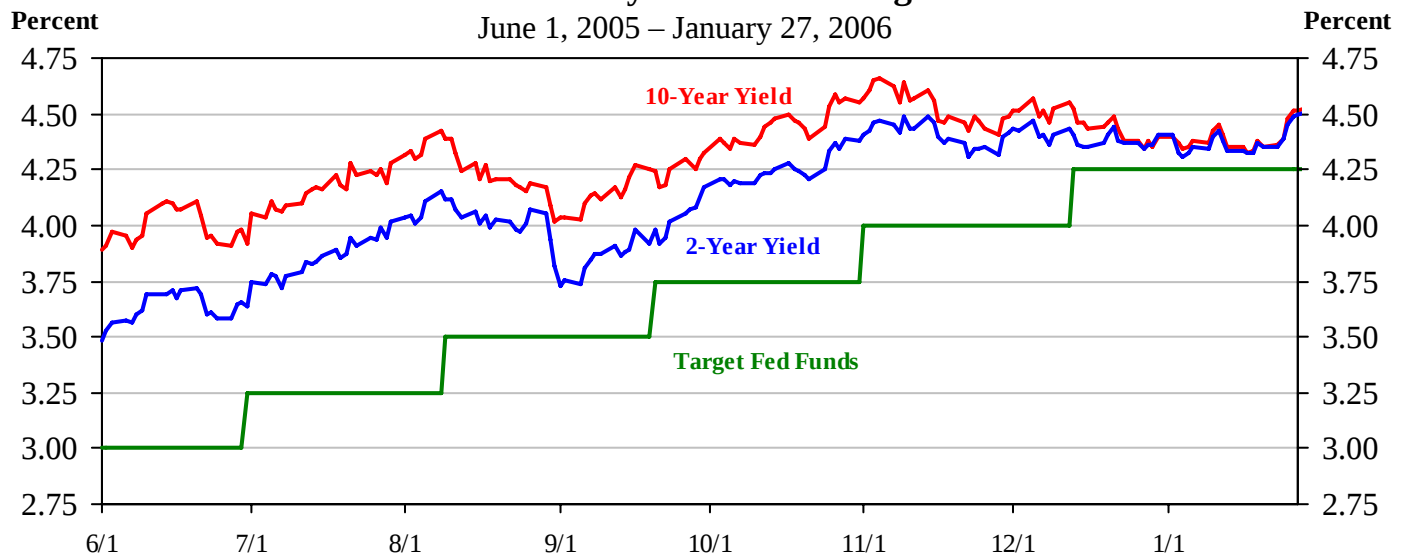
Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

June 1, 2005 – January 27, 2006



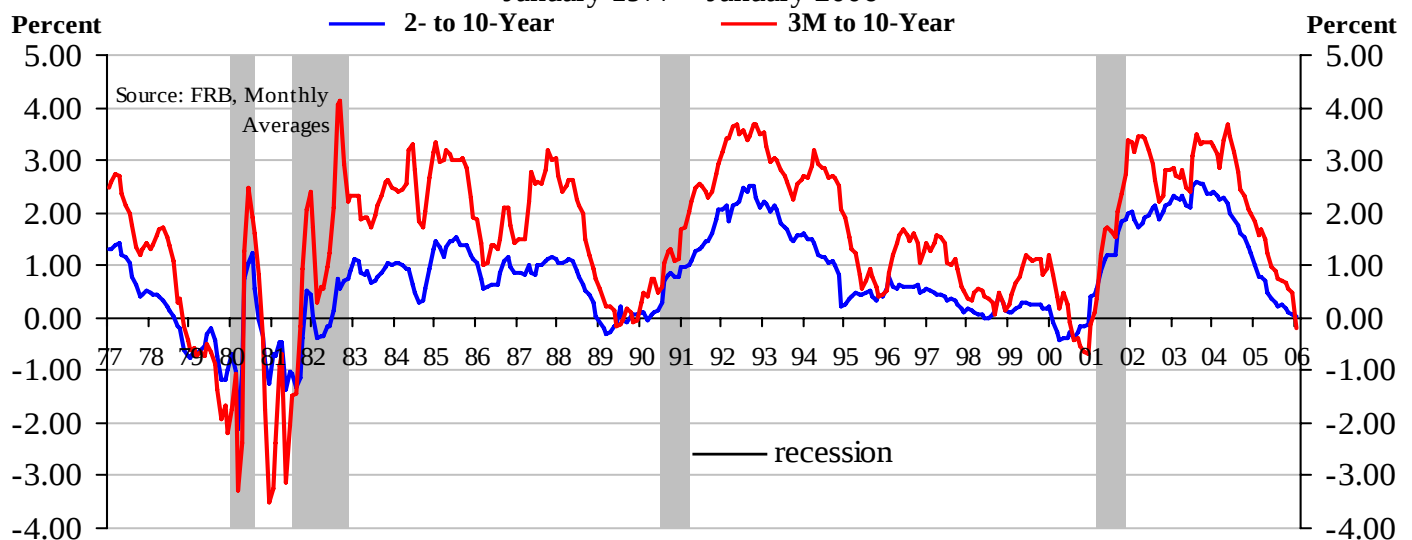
2- and 10-Year Treasury Yields and Target Fed Funds

June 1, 2005 – January 27, 2006



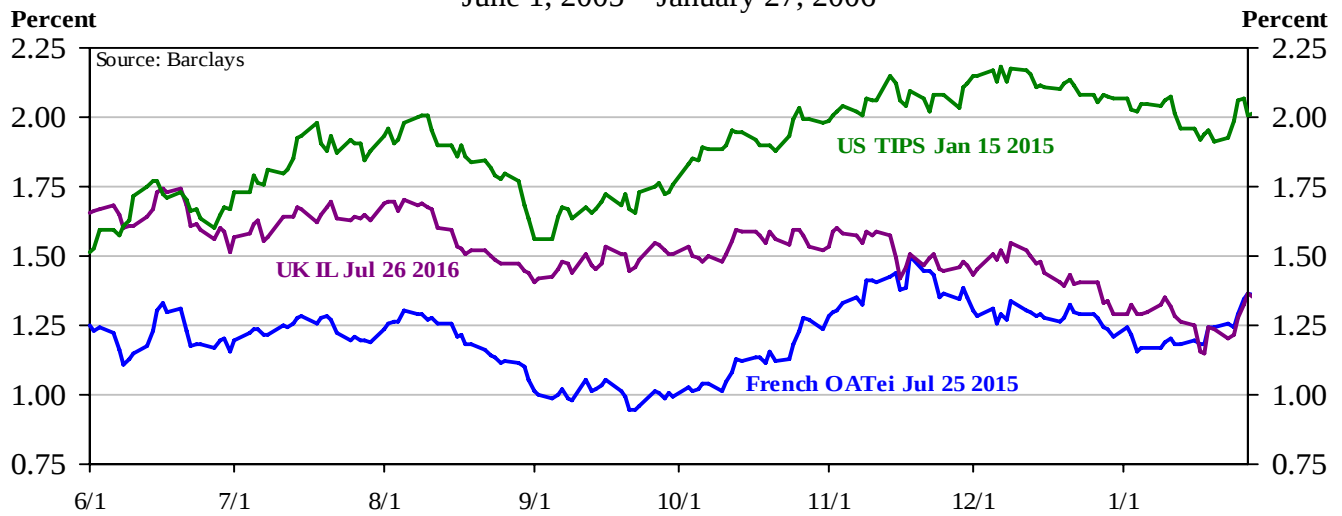
2- to 10-Year and 3-Month to 10-Year Treasury Curves

January 1977 – January 2006



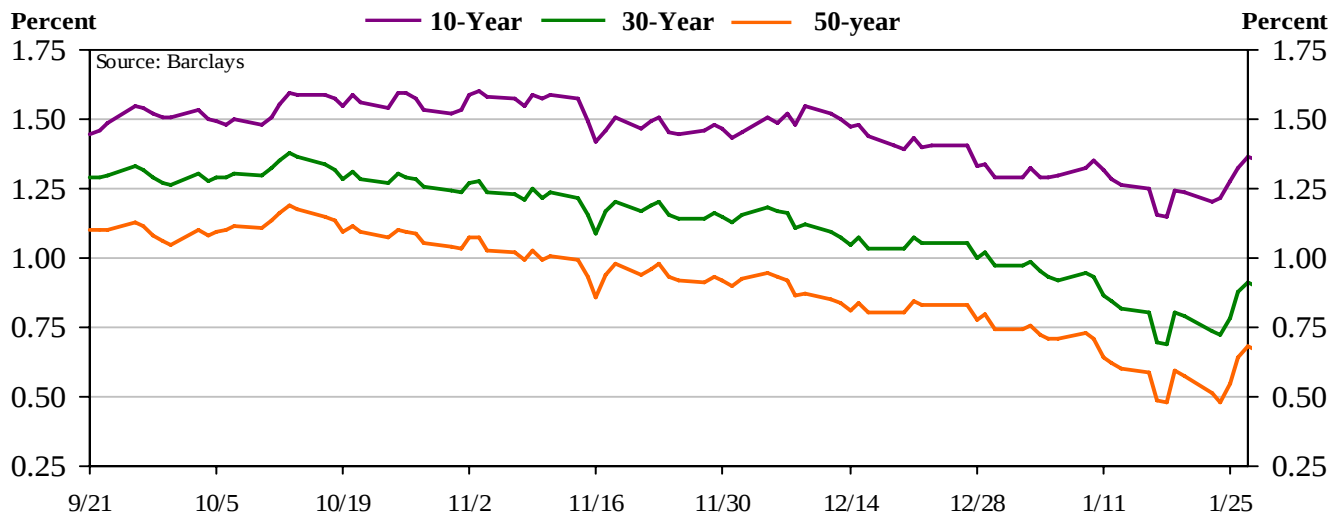
Select Global Real Yields

June 1, 2005 – January 27, 2006



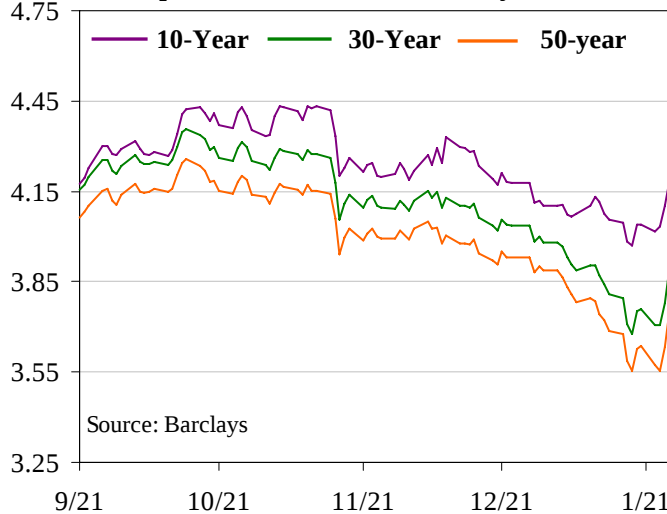
UK Real Yields

September 21, 2005 – January 27, 2006



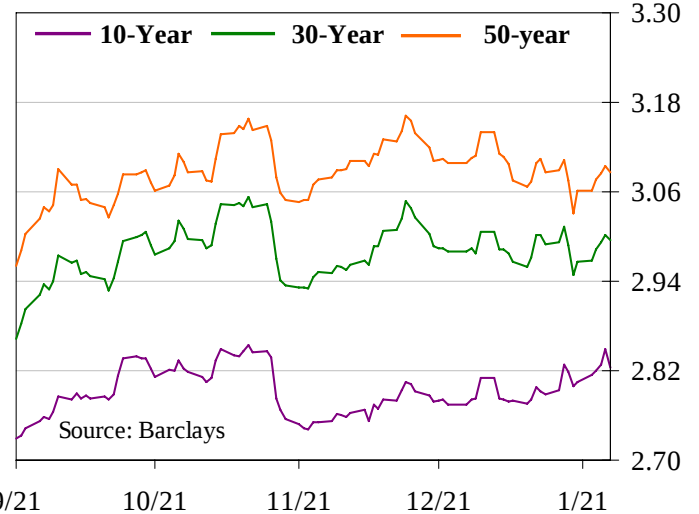
UK Nominal Yields

September 21, 2005 – January 27, 2006



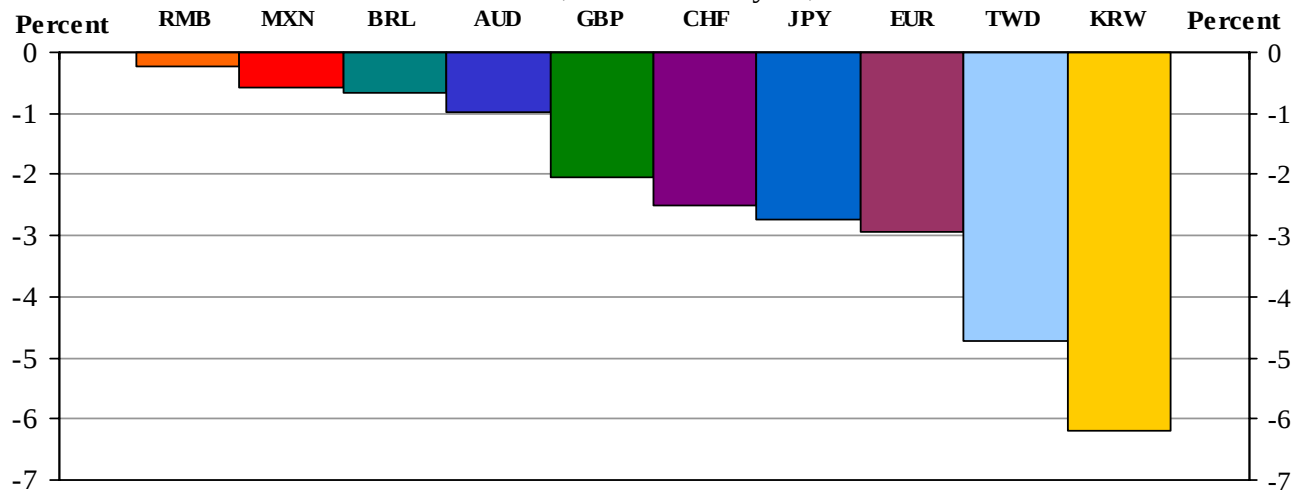
UK Breakeven Inflation Rates

September 21, 2005 – January 27, 2006



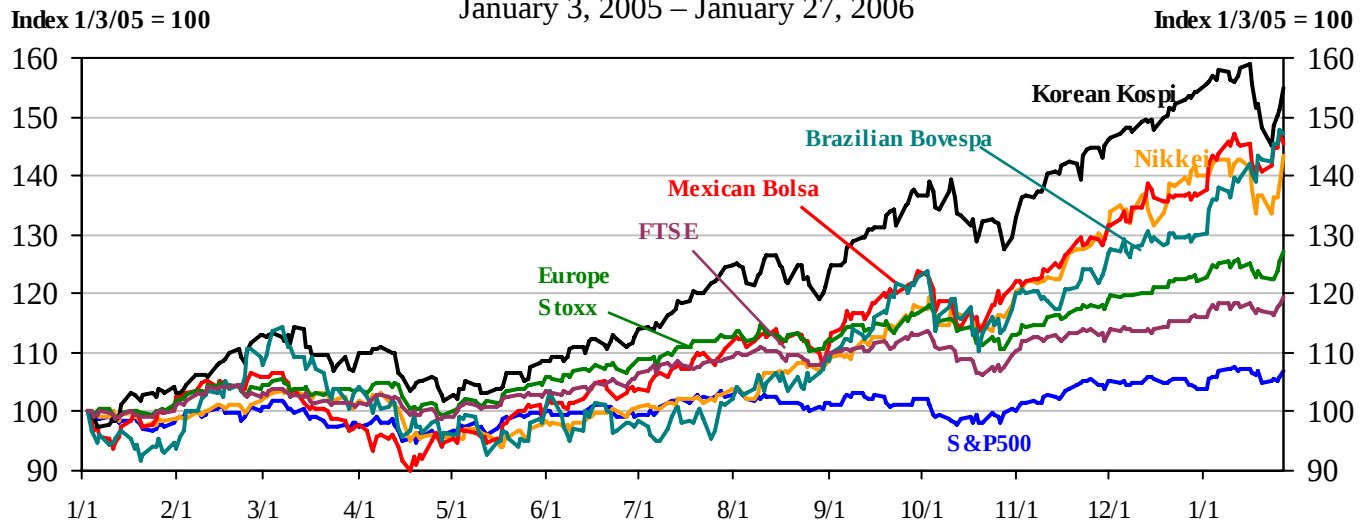
Dollar Performance Versus Select Currencies

December 1, 2005 - January 27, 2006



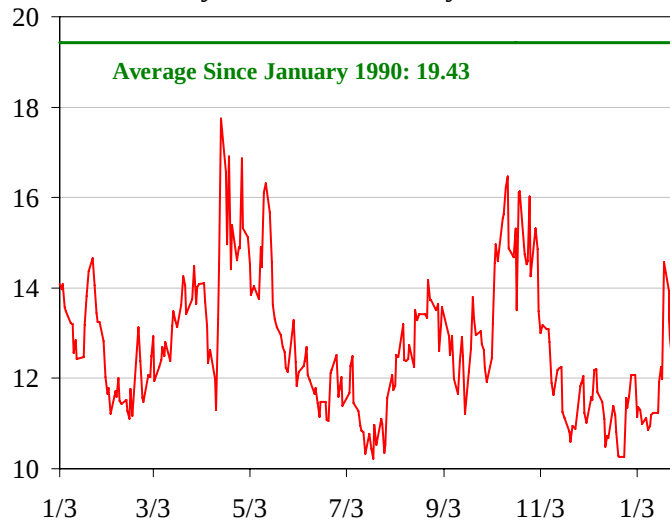
Global Equity Indices

January 3, 2005 – January 27, 2006



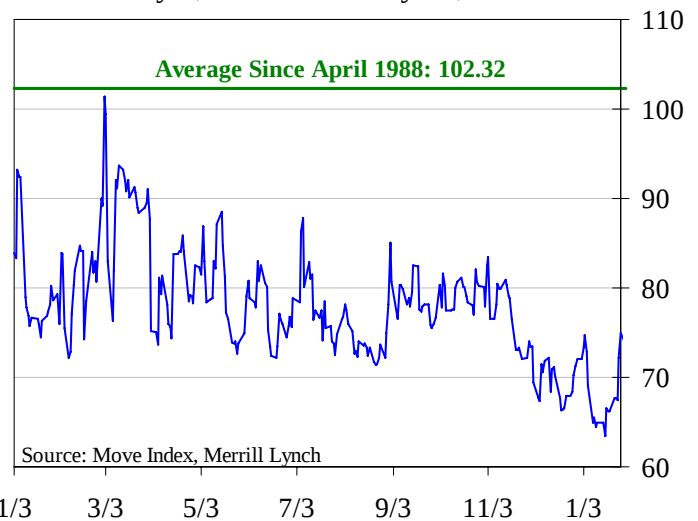
Implied Volatility on the S&P 100

January 3, 2005 to January 27, 2006



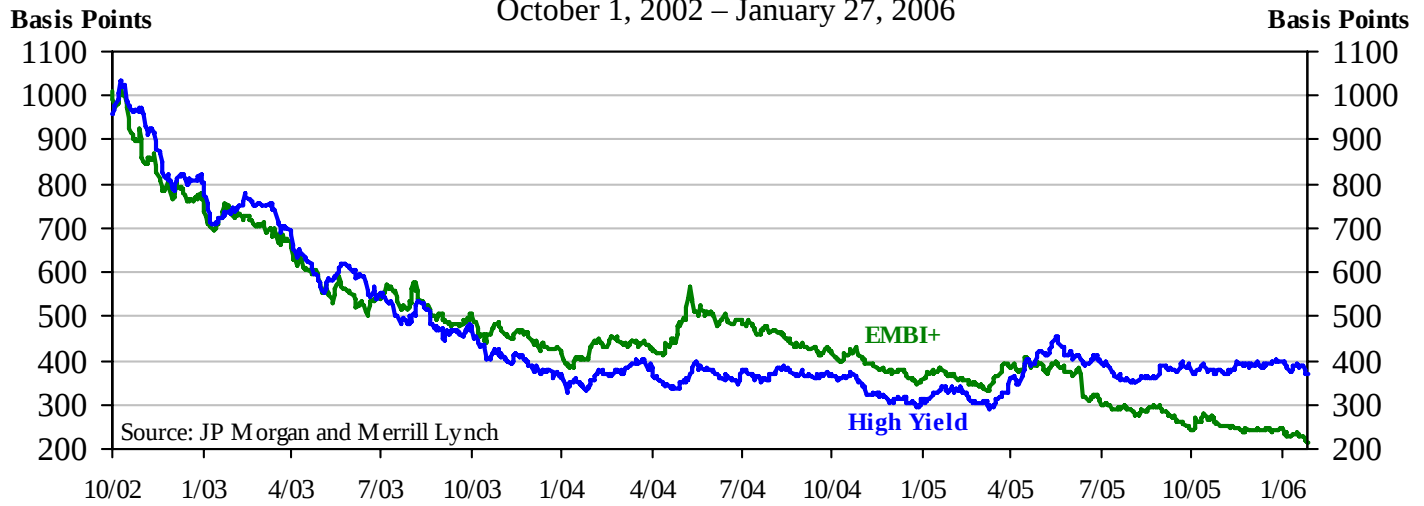
Treasury Yield Implied Volatility

January 3, 2005 to January 27, 2006



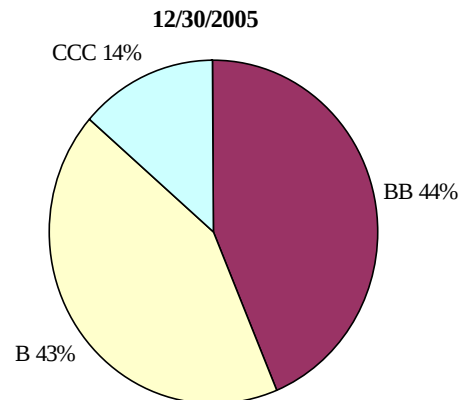
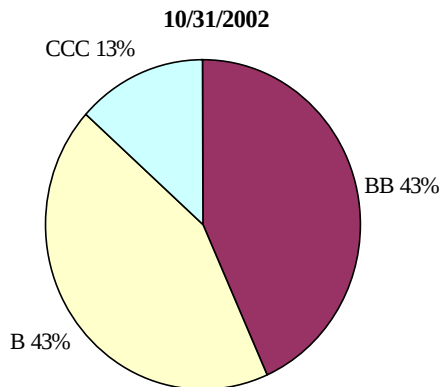
Emerging Market and High Yield Debt Spreads

October 1, 2002 – January 27, 2006



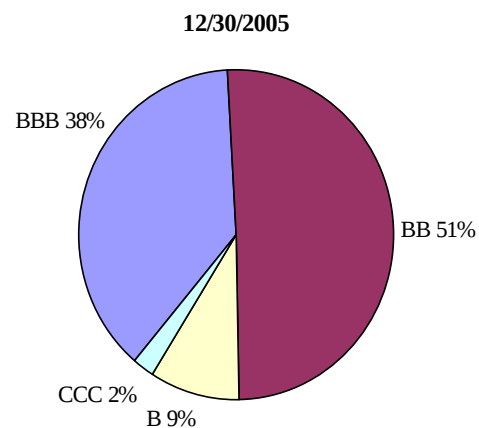
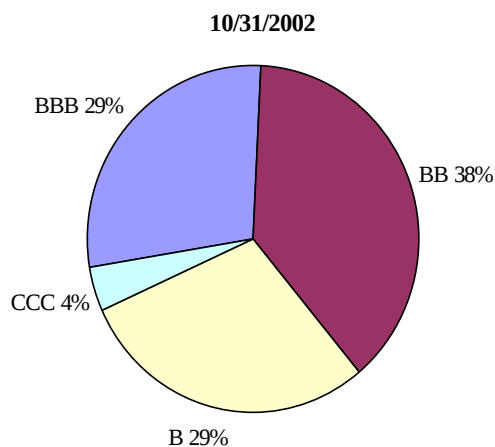
Ratings in Emerging Markets and High Yield Corporate Debt

Merrill HY Index



Source: Merrill Lynch

EMBI+ Index



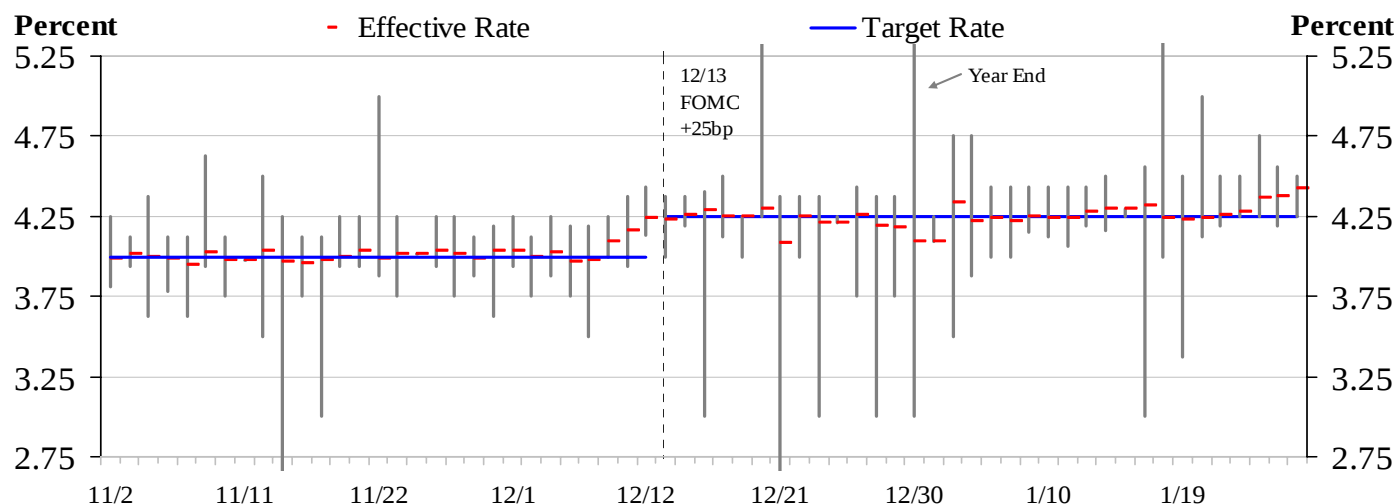
Note: EMBI+ ratings estimated from higher of S&P and Moody's ratings.
Merrill Lynch High Yield Index ratings estimated from average of S&P,
Moody's, and Fitch ratings.

Source: JP Morgan

Class II FOMC -- Restricted FR

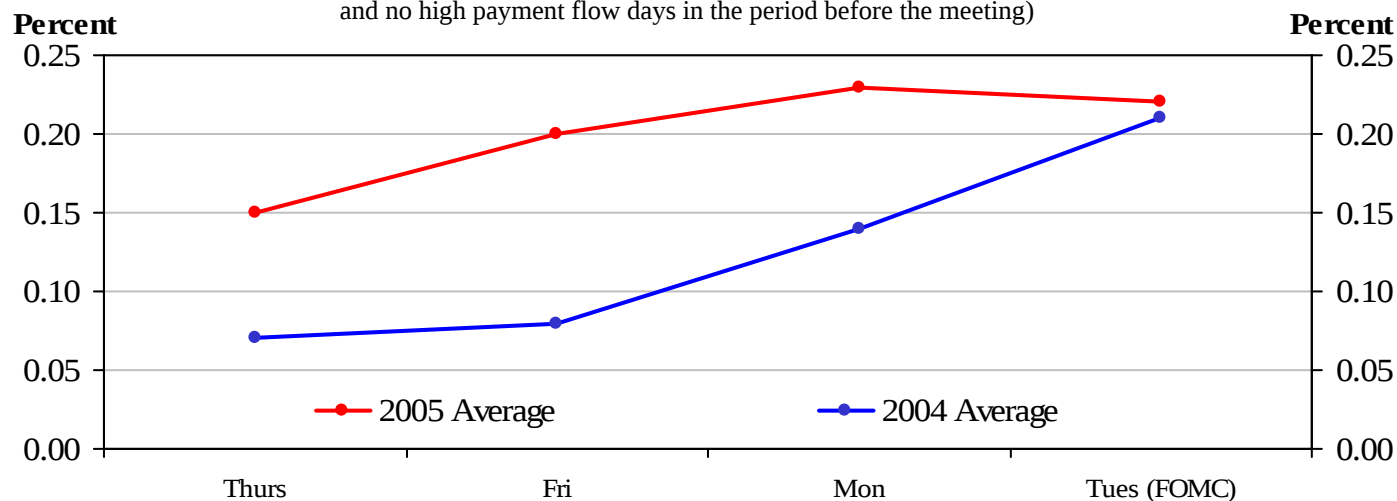
Page 5 of 5

Fed Funds Effective Rates and Trading Ranges
Since the November 1, 2005 FOMC Meeting Period
 November 2, 2005 – January 27, 2006



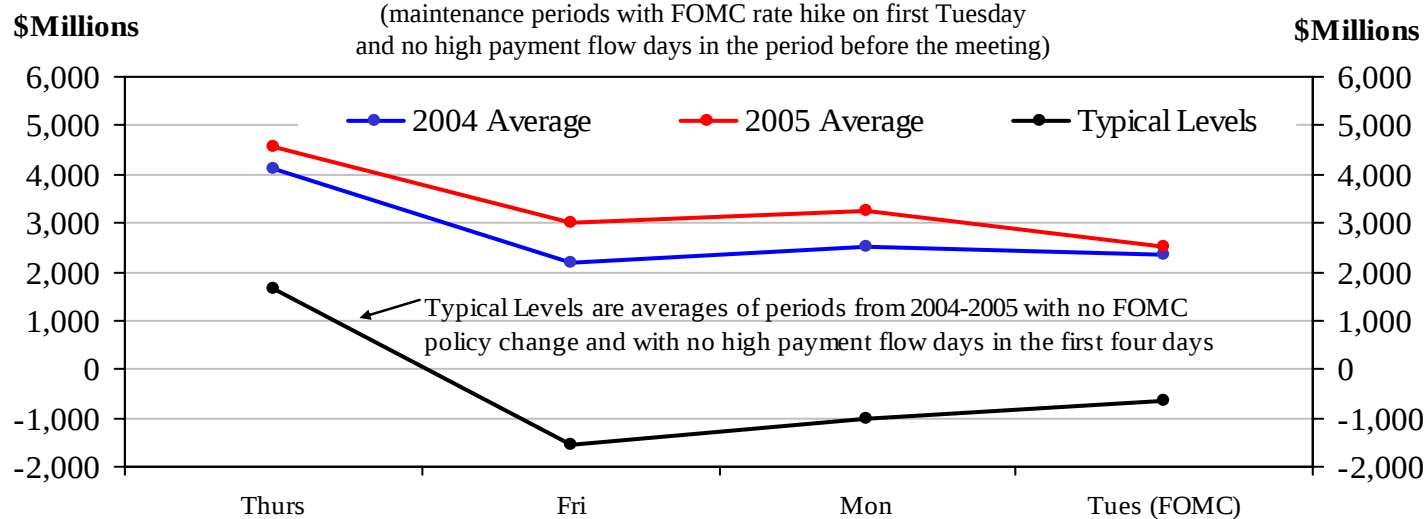
Fed Funds Effective Rates Minus Target Rate at Start of Maintenance Period

(maintenance periods with FOMC rate hike on first Tuesday
 and no high payment flow days in the period before the meeting)



Average-to-Date Excess Reserves

(maintenance periods with FOMC rate hike on first Tuesday
 and no high payment flow days in the period before the meeting)



Appendix 2: Materials used by Messrs. Stockton, Struckmeyer, and Sheets

STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC*

Material for

Staff Presentation on the Economic Outlook

January 31, 2006

*Downgraded to Class II upon release of the February 2006 Monetary Policy Report.

Class II FOMC - Restricted (FR)

Exhibit 1

Recent Indicators

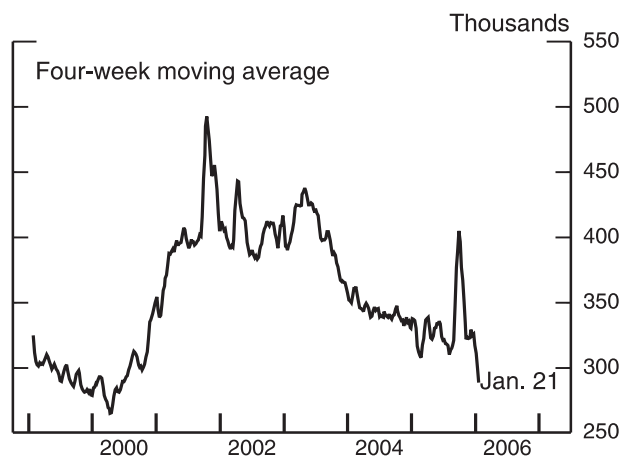
Real GDP

Percent change, annual rate

	2005		2006
	Q3	Q4	Q1 ^e
Real GDP	4.1	1.1	4.7
<i>Jan GB</i>	<i>(4.1)</i>	<i>(2.4)</i>	<i>(4.1)</i>

e - Staff estimate.

Initial Claims



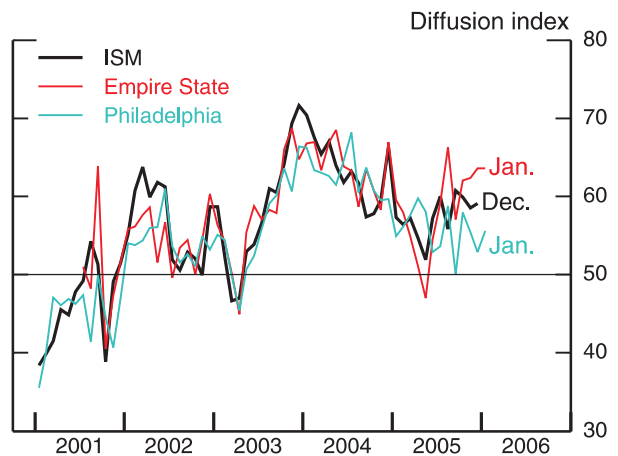
Industrial Production

Percent change, annual rate

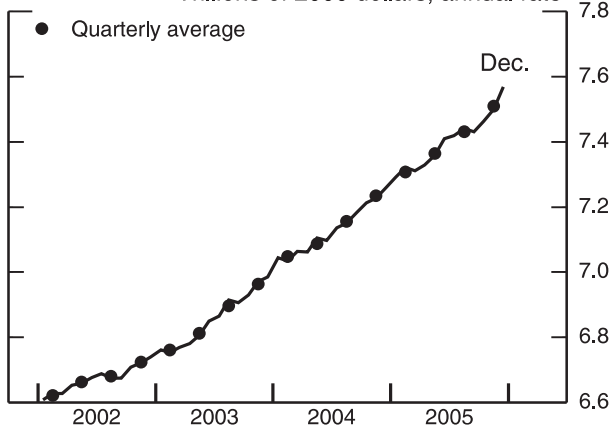
	2005		2006
	Q3	Q4	Q1 ^e
1. Total IP	1.4	3.8	6.3
2. Manufacturing	2.0	7.9	5.6
3. Manufacturing ex. mv	1.0	9.3	5.7

e - Staff estimate.

New Orders Indexes

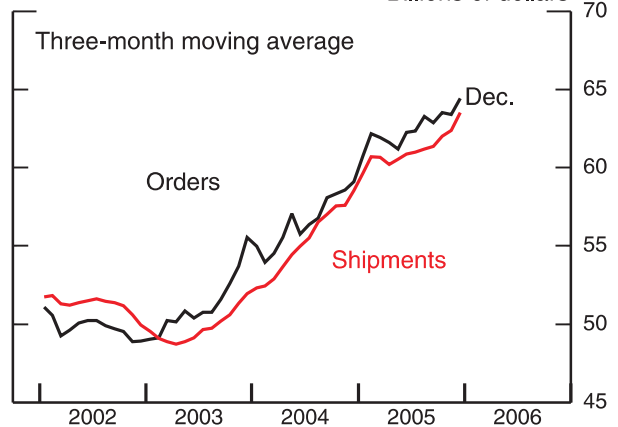
Real Personal Consumption Expenditures
Excluding Motor Vehicles

Trillions of 2000 dollars, annual rate



Orders and Shipments of Nondefense Capital Goods*

Billions of dollars



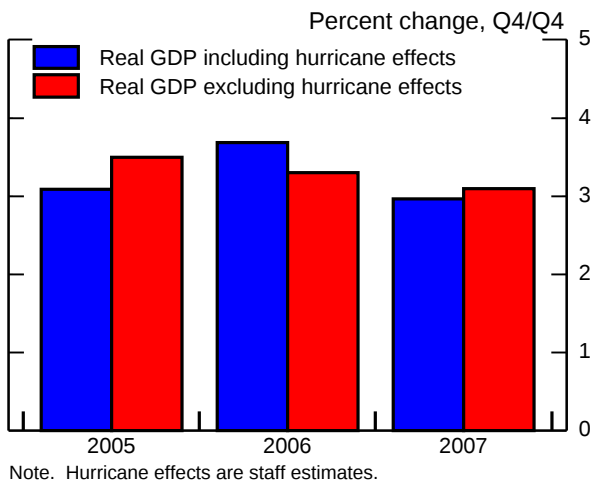
*Excluding aircraft.

Class II FOMC - Restricted (FR)

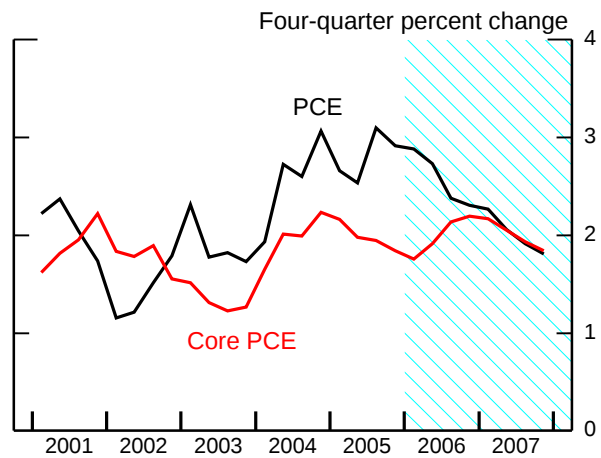
Exhibit 2

Forecast Summary and Key Background Factors

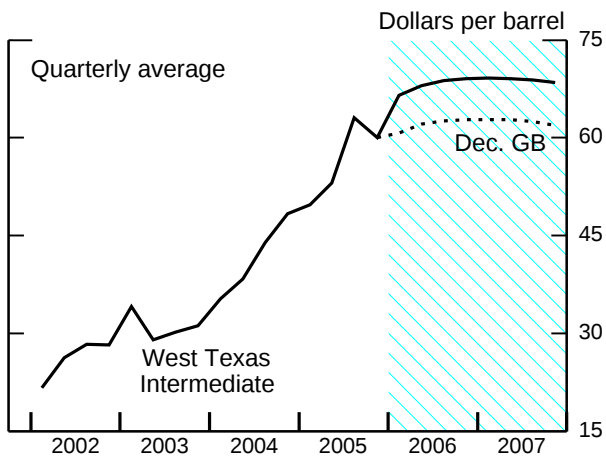
Real GDP Projection



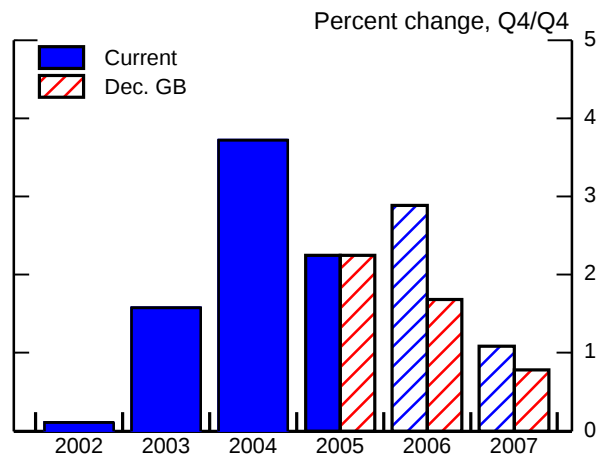
PCE Prices



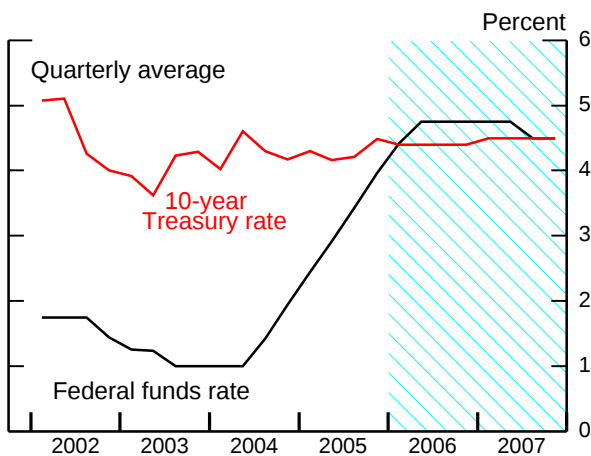
Crude Oil Prices



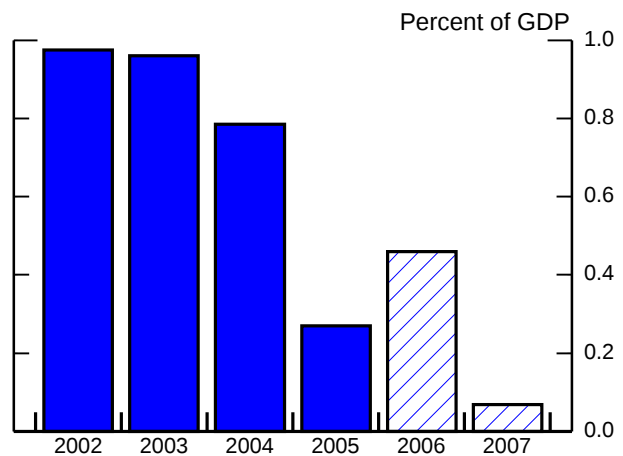
Core Non-fuel Import Prices



Interest Rates



Fiscal Impetus

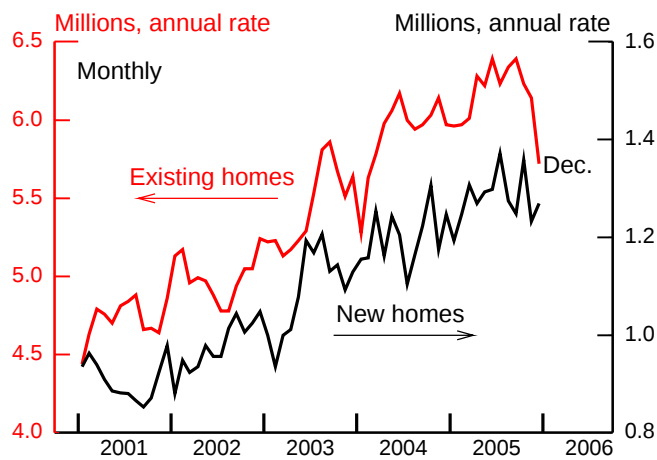


Class II FOMC - Restricted (FR)

Exhibit 3

Housing and Consumption

Sales of Single-family Homes

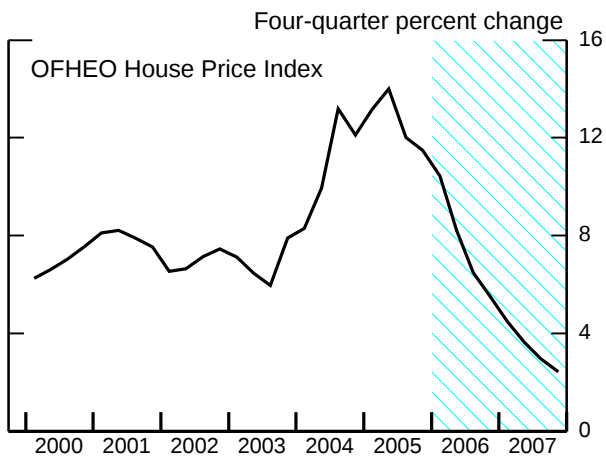


MBA Purchase Index

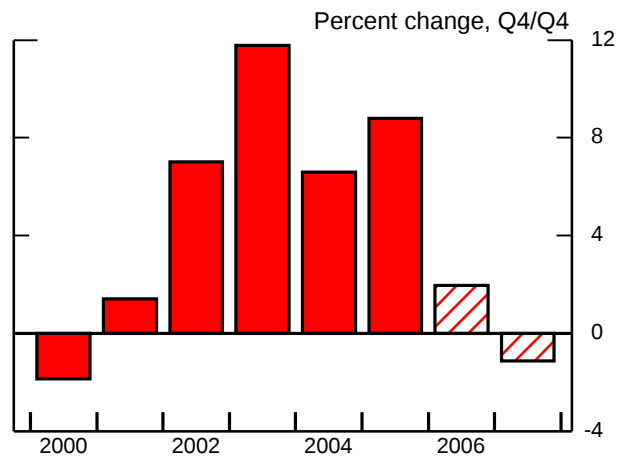


Note. MBA purchase index is a 4-week moving average.

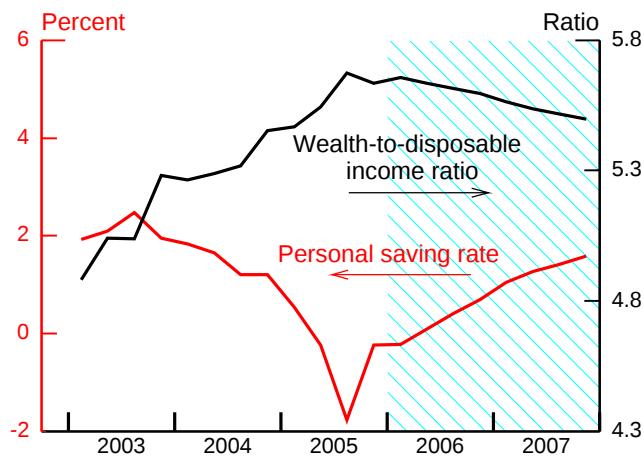
House Prices



Real Residential Investment

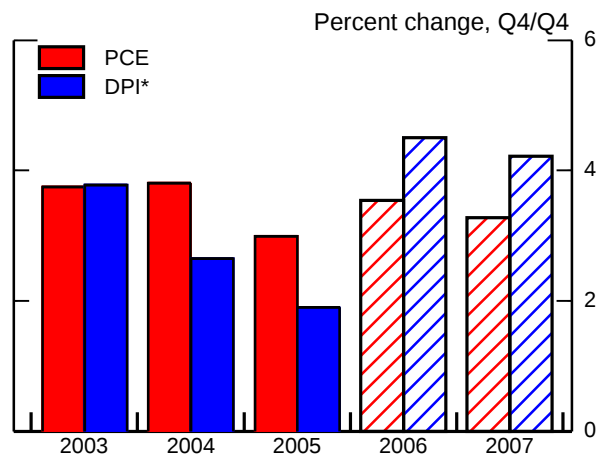


Saving Rate and Wealth-to-Income Ratio



Note. Excluding Microsoft dividend.

Real PCE and DPI



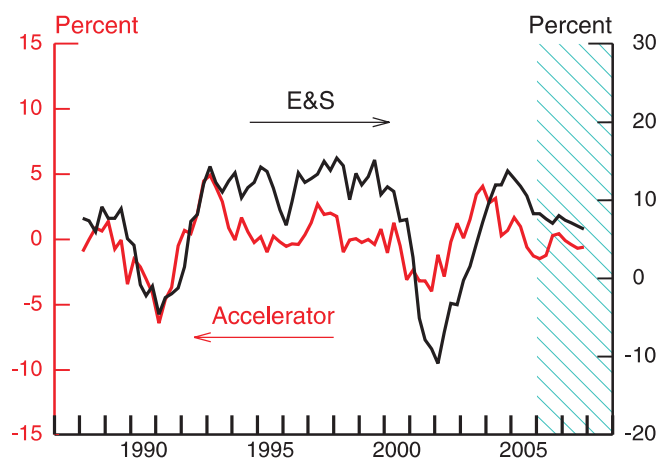
*Excluding Microsoft dividend.

Class II FOMC - Restricted (FR)

Exhibit 4

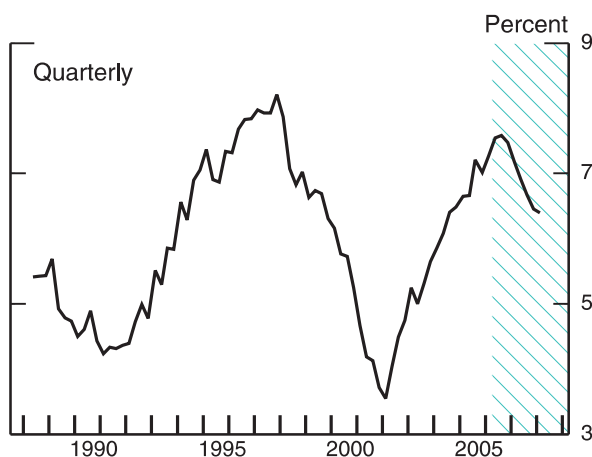
Business Investment

Real E&S Spending and the Acceleration of Business Output



Note. The accelerator is the 8-quarter percent change in business output excluding E&S less the year-earlier 8-quarter percent change.

Rate of Return on Capital for Nonfinancial Corporate Business*



*Nonfinancial corporate profits with IVA and CADJ plus interest, divided by nonfinancial stock of fixed assets.

Real Nonresidential Structures

Percent change, Q4/Q4

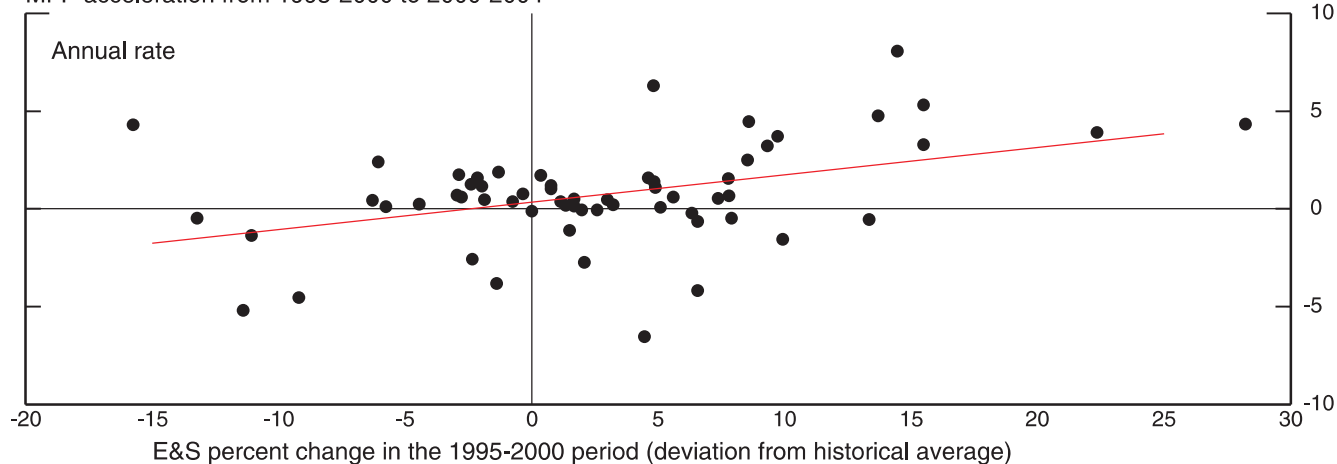
	2005	2006	2007
1. NRS	2.1	7.8	3.6
2. Drilling and mining	18.4	15.9	4.1
3. Ex. drilling and mining	-2.5	4.5	3.4

Investment and MFP

- Some of the acceleration in MFP this decade can be traced to the investment boom of the late 1990s.
- Embodied technological progress.
- Improvement of business processes.
- Waning adjustment costs.

Investment and MFP by Industry

MFP acceleration from 1995-2000 to 2000-2004*



*The acceleration in MFP is the percent change in MFP between 2000 and 2004 (annual rate) minus the percent change between 1995 and 2000 (annual rate).

Class II FOMC - Restricted (FR)

Exhibit 5

Structural Labor Productivity

Structural labor productivity growth is defined as the increment to labor productivity that can be sustained over time.

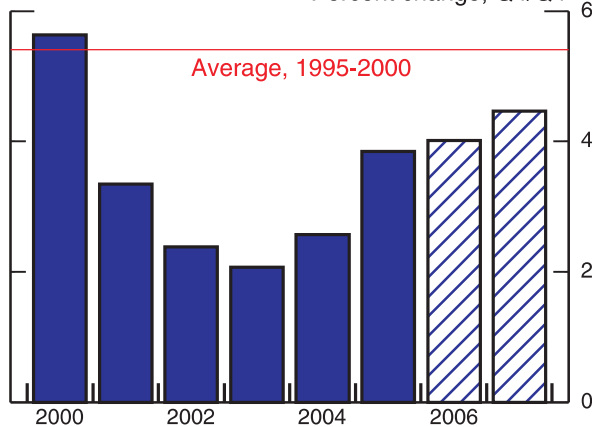
Structural Labor Productivity Growth

Percent change, Q4/Q4

	2005	2006	2007
1. Structural Productivity	3.2	3.1	3.0
<i>Contributions of:</i>			
2. Capital deepening	1.0	0.9	1.0
3. Labor quality	0.3	0.2	0.2
4. MFP	2.0	1.9	1.8

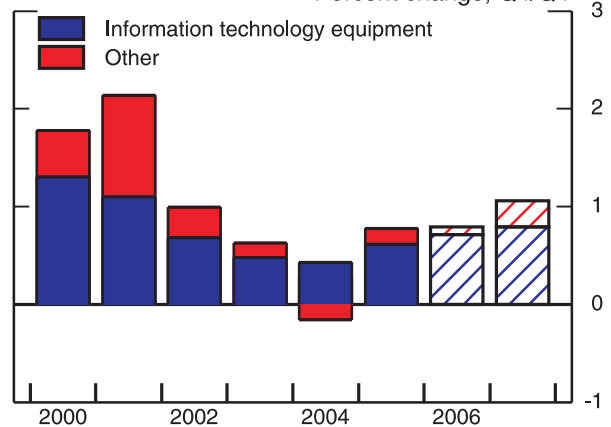
Growth in Capital Services

Percent change, Q4/Q4



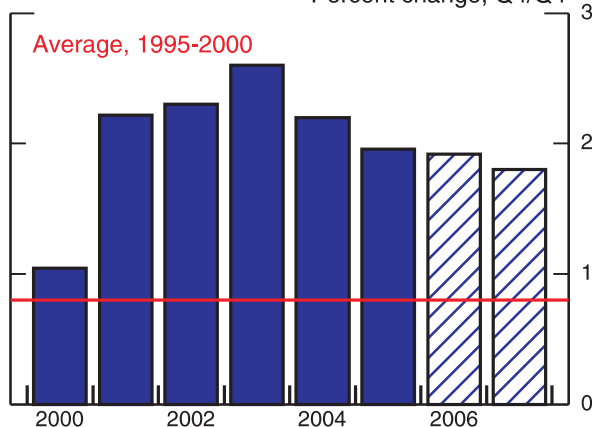
Contribution of Capital Deepening

Percent change, Q4/Q4



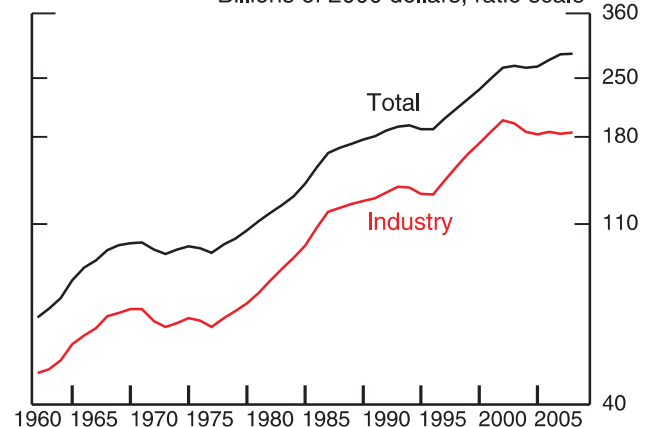
Structural MFP

Percent change, Q4/Q4



Research and Development Expenditures

Billions of 2000 dollars, ratio scale



Class II FOMC - Restricted (FR)

Exhibit 6

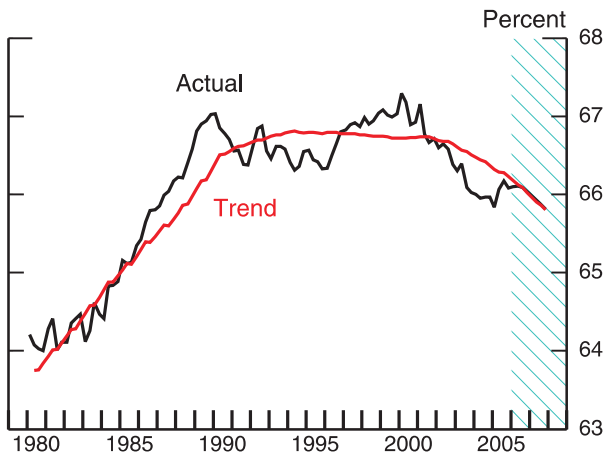
Potential Output and Labor Market

Potential Output

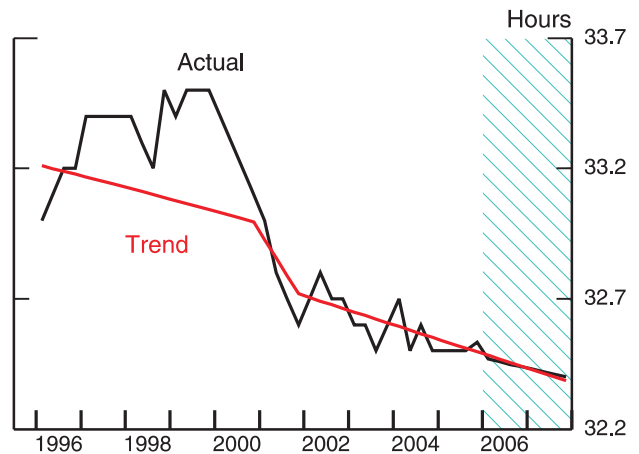
Percent change, Q4/Q4

	2005	2006	2007
1. Potential	3.1	3.2	3.3
2. Total Hours	0.9	0.7	0.7
3. Working-age population	1.2	1.2	1.2
4. Labor-force participation	-0.2	-0.3	-0.3
5. Average workweek	-0.2	-0.2	-0.2
6. Structural Productivity	3.2	3.1	3.0
7. Technical Factors	-1.0	-0.6	-0.4

Labor Force Participation Rate

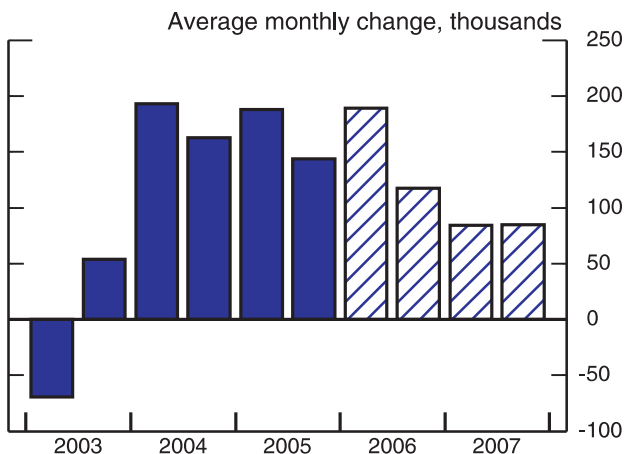


Average Workweek*

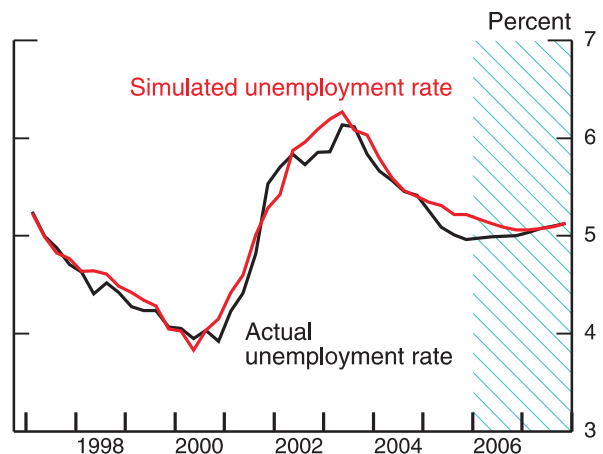


*Nonfarm business sector.

Nonfarm Payroll Employment



Okun's Law*



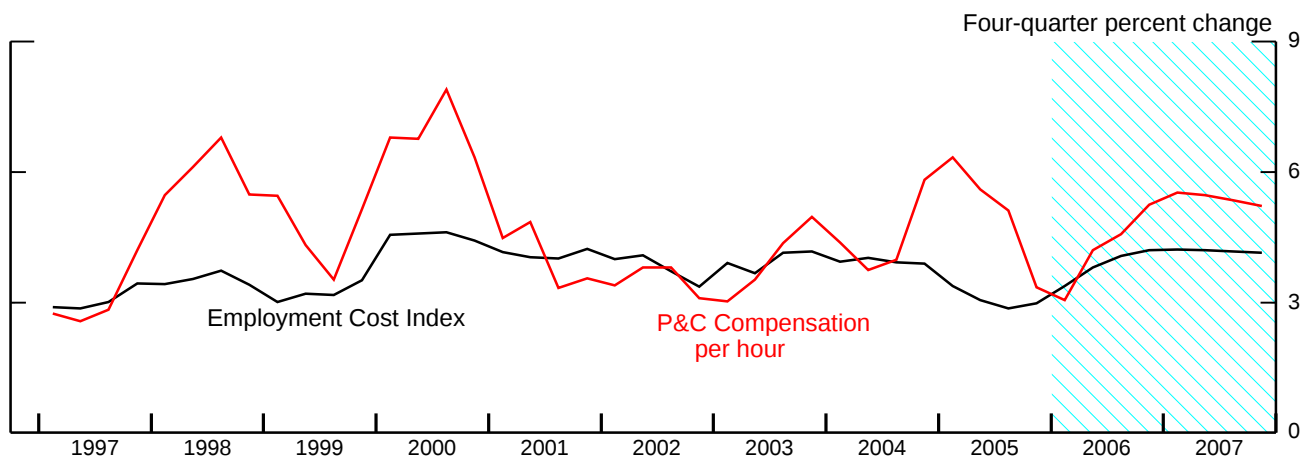
*Dynamic simulation beginning in 1990:Q3.

Class II FOMC - Restricted (FR)

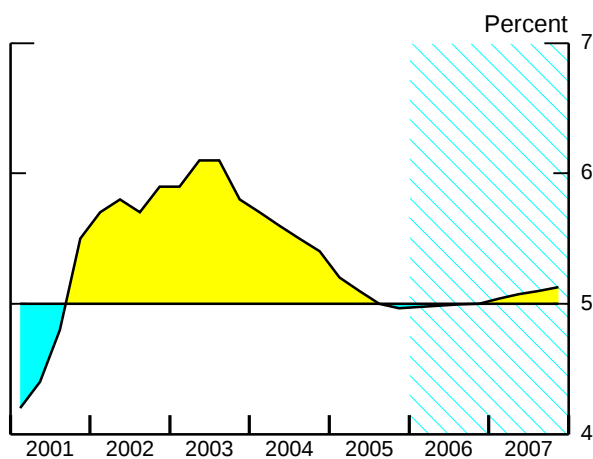
Exhibit 7

Compensation

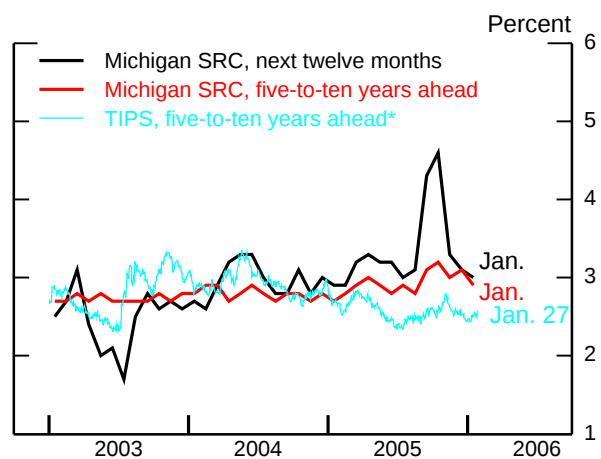
Hourly Labor Compensation



Unemployment Gap

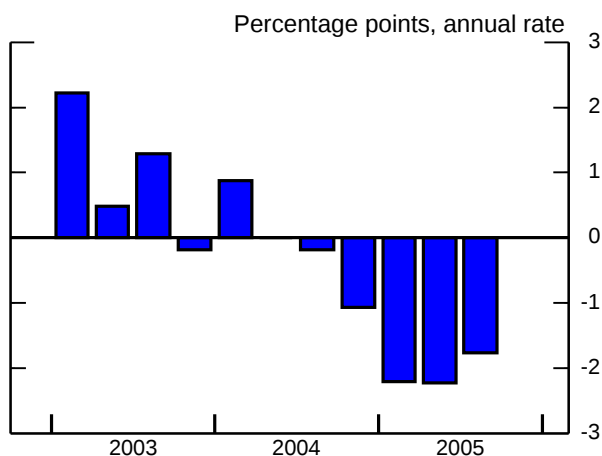


Expected Inflation



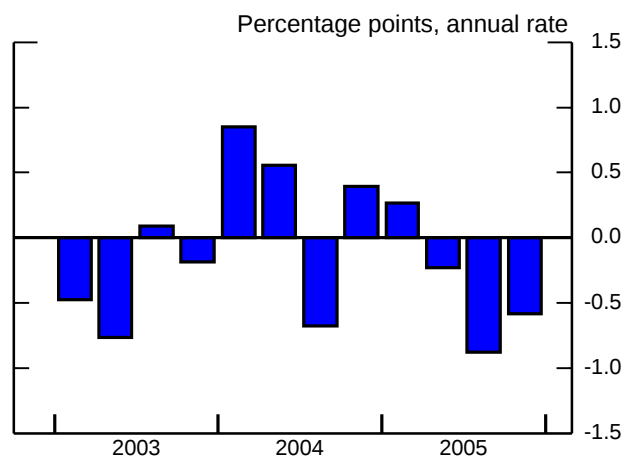
*Estimates of inflation compensation based on smoothed nominal and inflation-indexed Treasury yield curves.

ECI Equation Errors*



*Estimated through 2002:Q4. Dynamic simulation from 2003:Q1 to 2005:Q3.

Core PCE Equation Errors*



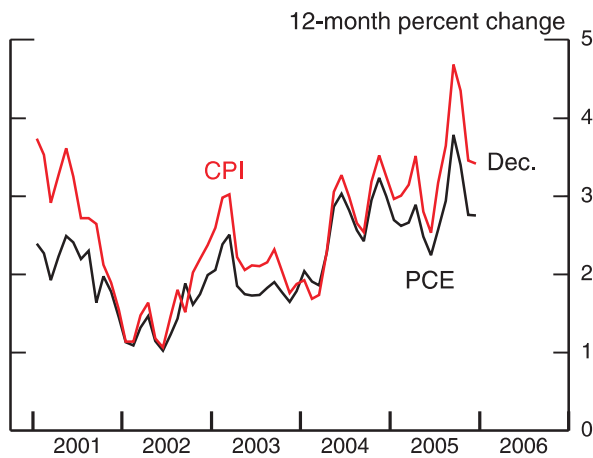
*Estimated through 2002:Q4. Dynamic simulation from 2003:Q1 to 2005:Q4.

Class II FOMC - Restricted (FR)

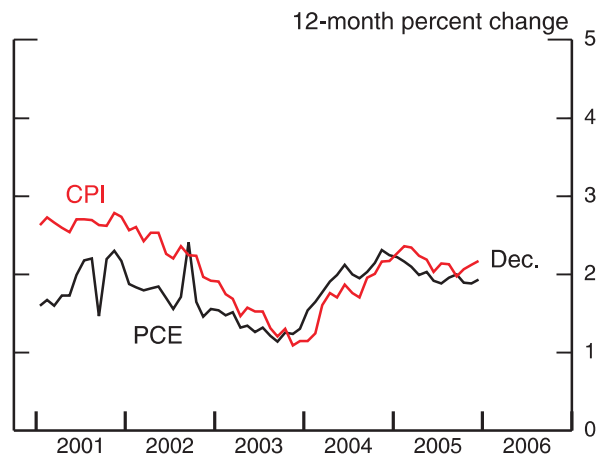
Exhibit 8

Inflation Outlook

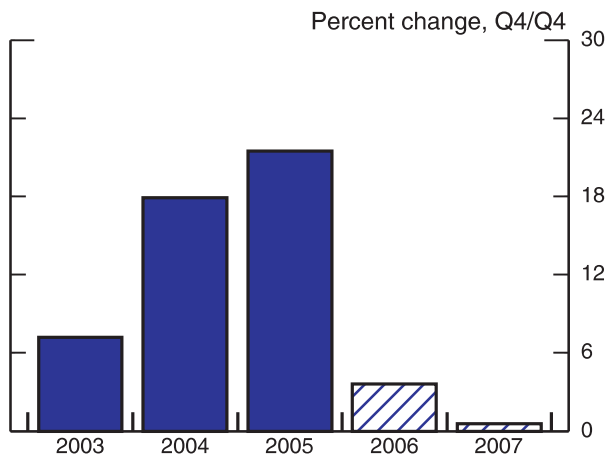
Total Consumer Prices



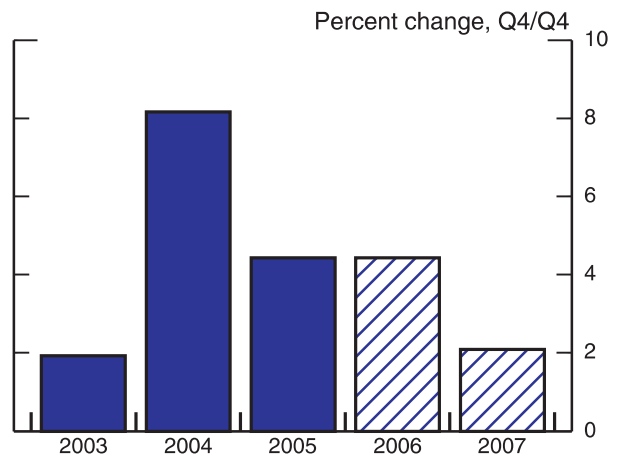
Core Consumer Prices



PCE Energy Prices



PPI-Intermediate Materials less Food and Energy

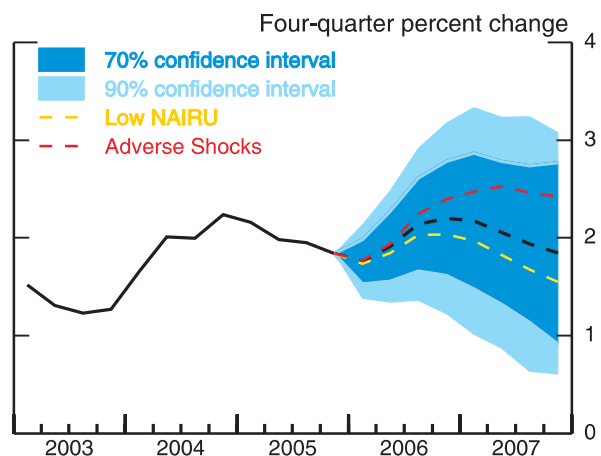


PCE Price Projection

Percent change, Q4/Q4

	2005	2006	2007
1. Total PCE	3.0	2.3	1.8
2. Food	2.1	2.4	2.2
3. Energy	21.5	3.6	0.6
4. Core	1.9	2.2	1.8
5. Market based	1.7	2.1	1.7

Core PCE Prices

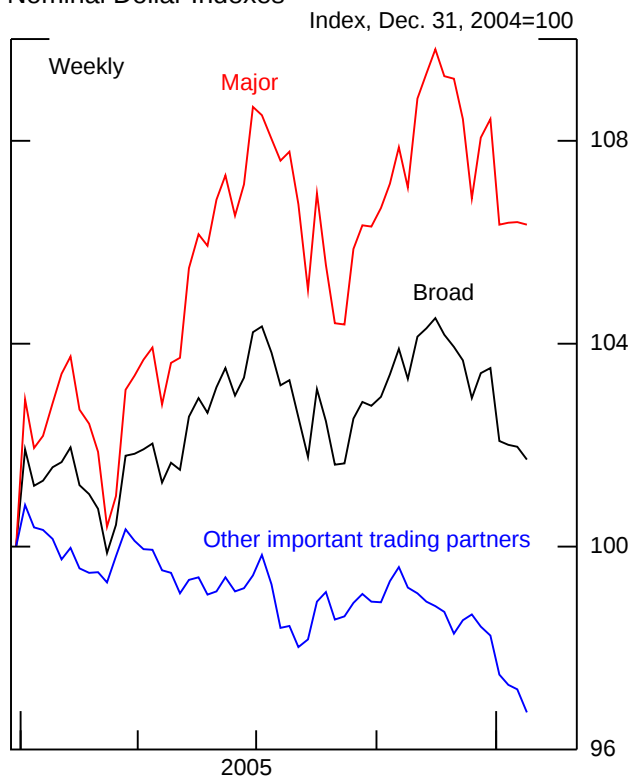


Class II FOMC - Restricted (FR)

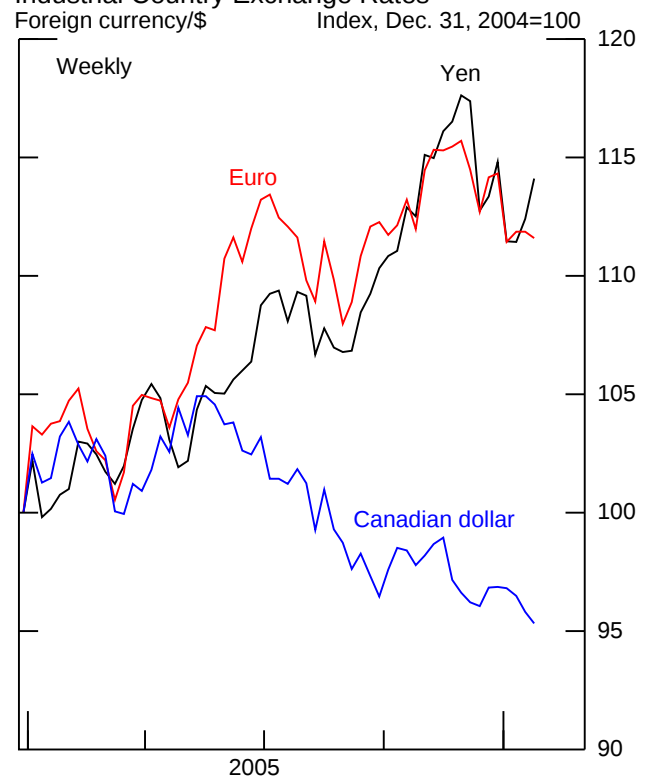
Exhibit 9

The Dollar

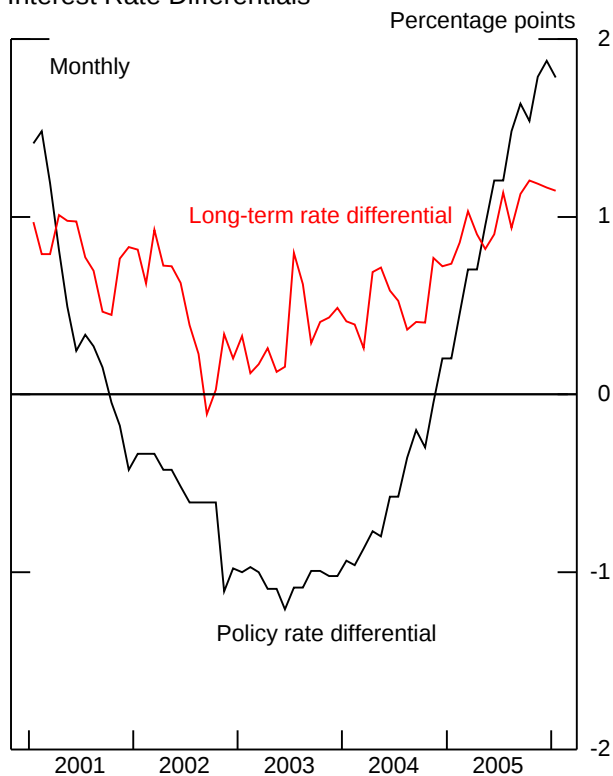
Nominal Dollar Indexes



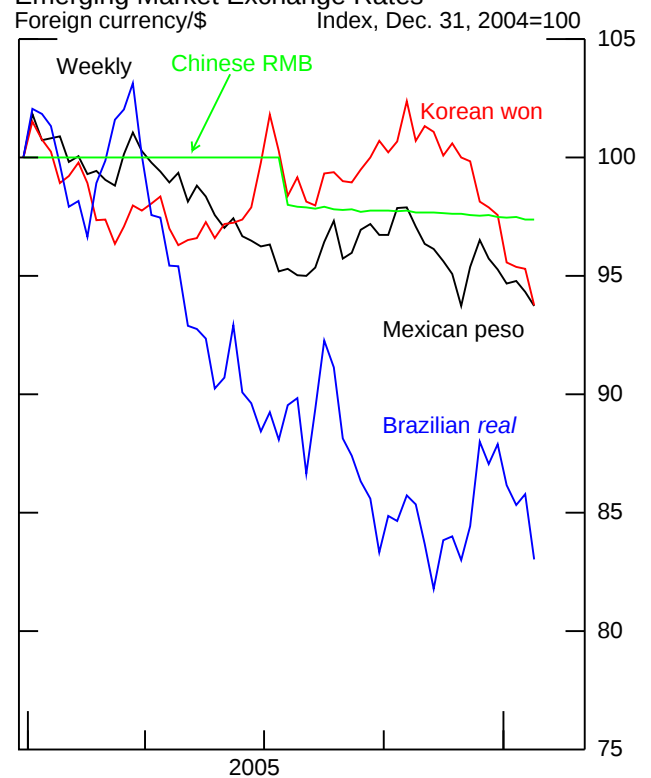
Industrial Country Exchange Rates



Interest Rate Differentials*



Emerging Market Exchange Rates



*Calculated as U.S. rate minus trade-weighted average of Canada, euro area, Japan, and the United Kingdom.

Class II FOMC - Restricted (FR)

Exhibit 10

Foreign Net Financial Inflows

Foreign Official Inflows Billions of dollars			
	2003	2004	2005*
1. Total	267	395	221
<i>Selected Regions:</i>			
2. G-10 Countries	111	162	-11
3. Emerging Asia	108	135	190
4. OPEC	6	12	11
5. Other	42	86	32

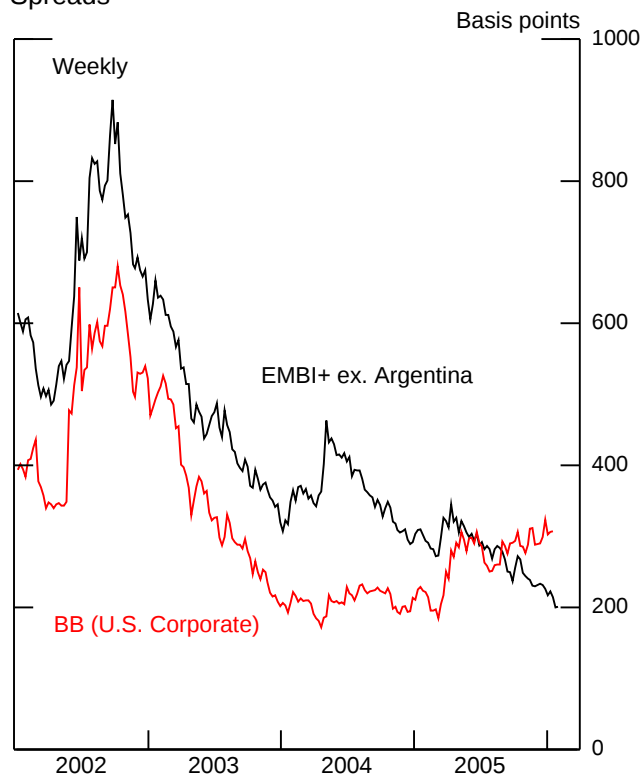
*2005 data are cumulative flows through Nov. 2005, annualized.

Foreign Private Net Purchases of U.S. Securities Billions of dollars			
	2003	2004	2005*
1. Total	336	506	704
<i>By Instrument:</i>			
2. Treasuries	113	123	214
3. Agency Bonds	-38	66	80
4. Corporate Bonds	224	255	326
5. Equities	37	62	84

*2005 data are cumulative flows through Nov. 2005, annualized.

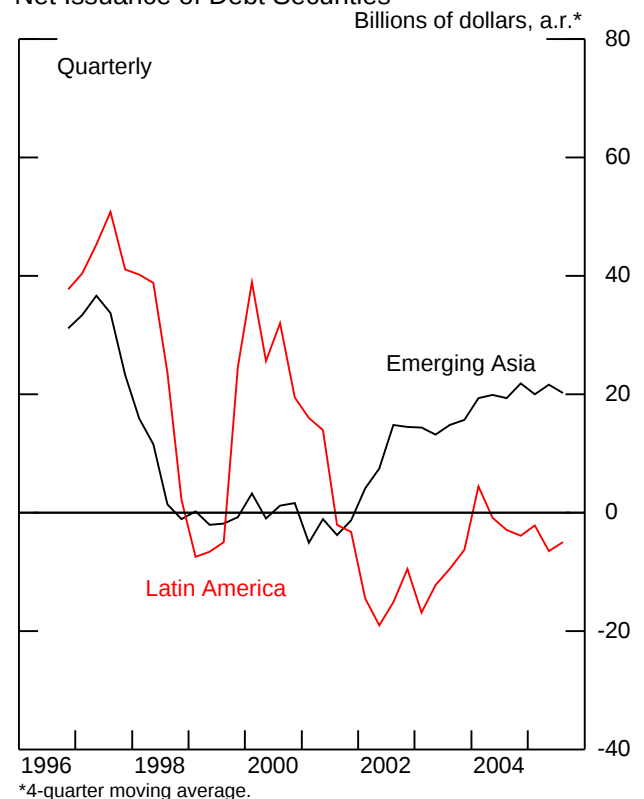
Emerging Market Debt

Spreads*



*Spread over 10-year U.S. Treasury bond.
Source: Merrill Lynch and JPMorgan.

Net Issuance of Debt Securities



*4-quarter moving average.

Class II FOMC - Restricted (FR)

Exhibit 11

Outlook for Foreign Growth and Inflation

Real GDP Projections*

Percent change, a.r.**

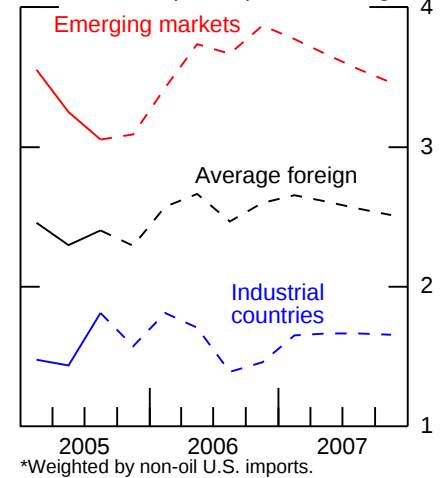
	2005		2006	2007
	H1	H2		
1. Total Foreign	3.2	4.1	3.6	3.4
2. Industrial Countries	2.6	2.6	2.7	2.4
3. Euro Area	1.4	2.0	2.2	1.7
4. Japan	5.3	1.5	1.6	1.6
5. Canada	2.7	3.3	3.2	3.1
6. Emerging Markets	4.0	6.3	4.8	4.8
7. Mexico	-0.3	6.1	3.7	3.7
8. China	9.5	10.2	7.7	8.0

*Aggregates weighted by U.S. exports.

**Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.

Consumer Prices*

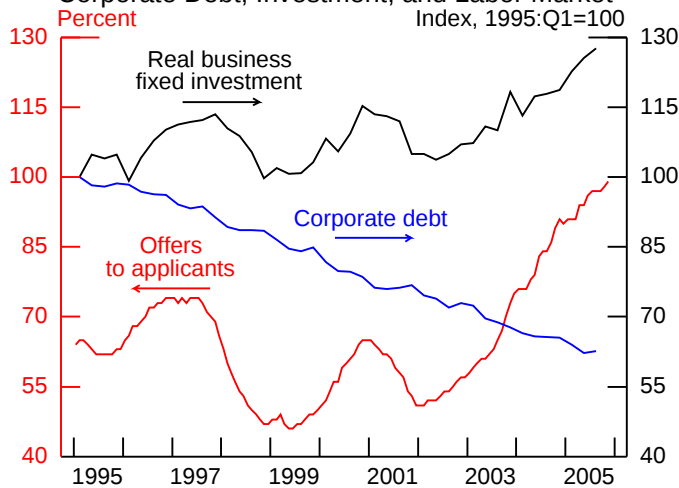
4-quarter percent change



Japan

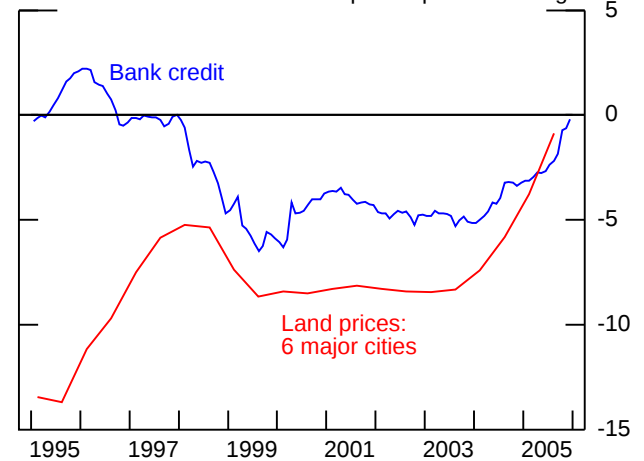
Corporate Debt, Investment, and Labor Market

Index, 1995:Q1=100



Bank Credit and Land Prices

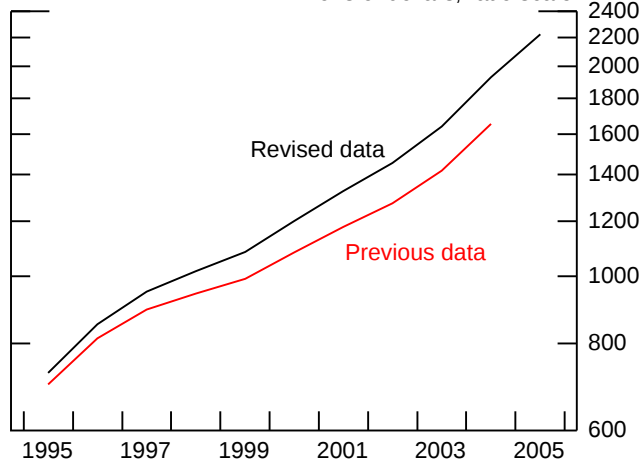
4-quarter percent change



China

Nominal GDP

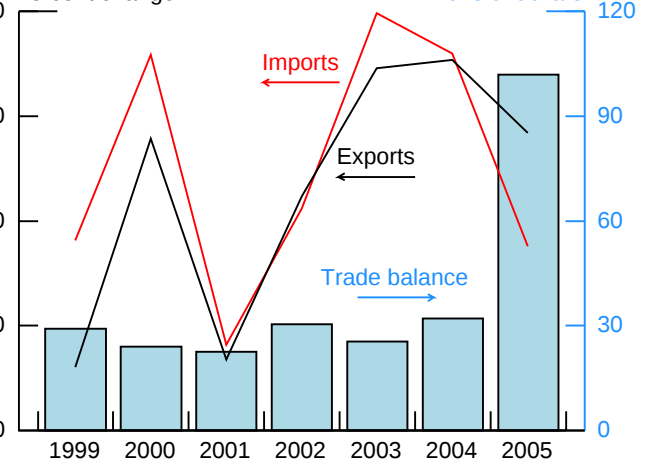
Billions of dollars, ratio scale



External Trade

Percent change

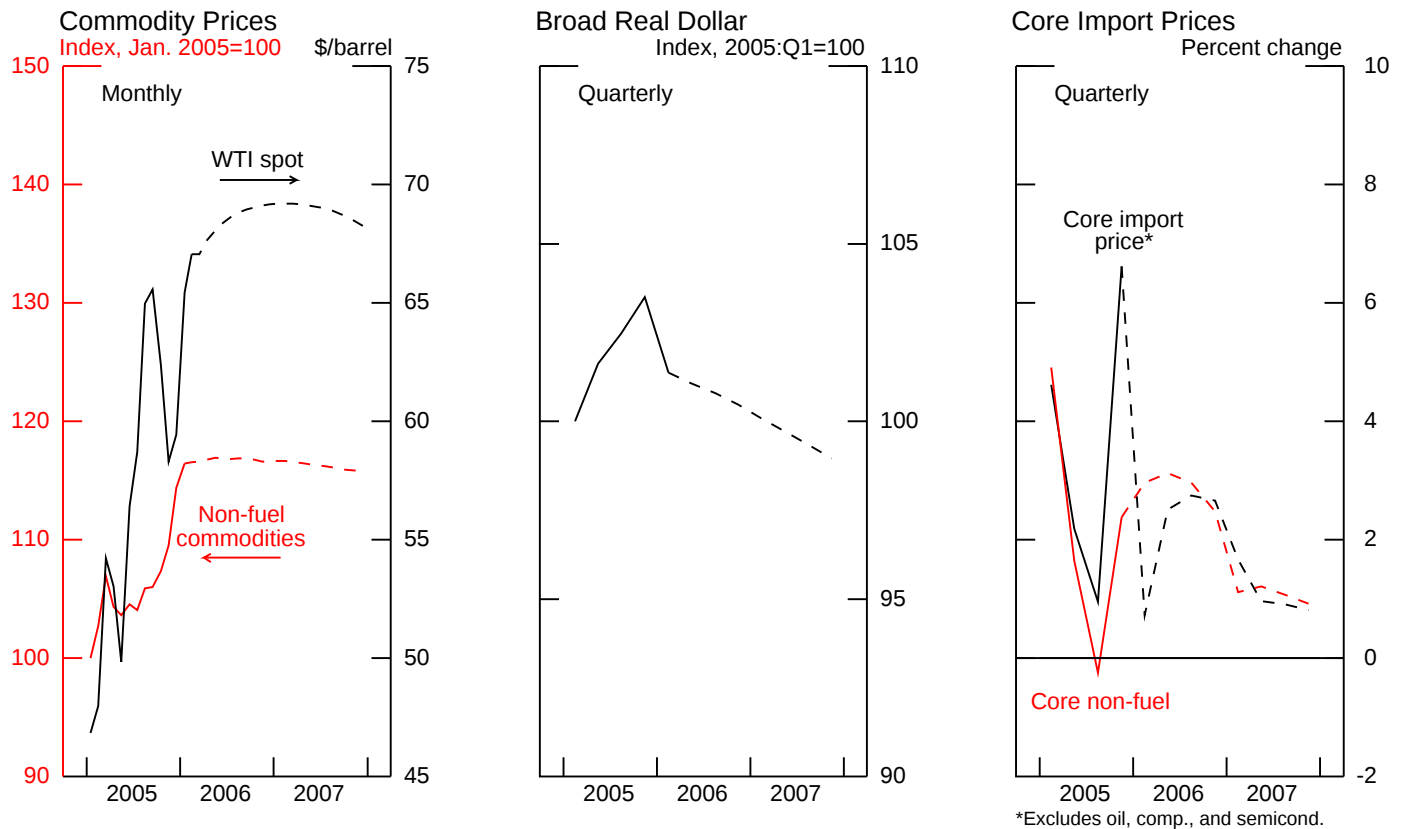
Billions of dollars



Class II FOMC - Restricted (FR)

Exhibit 12

Trade Prices



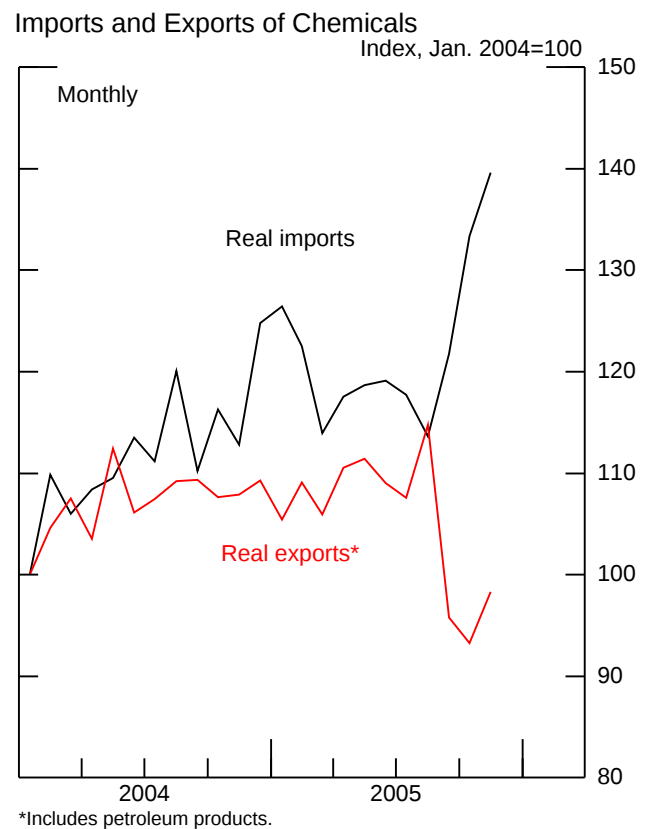
Trade Developments

Trade in Goods and Services
Billions of dollars, a.r.

	Q3	O-N*	Change
1. Balance	-731	-794	-63
Exports:			
2. G & S	1283	1300	17
3. Cap. Goods	363	378	15
4. Ind. Sup.	236	231	-5
5. Other	684	692	8
Imports:			
6. G & S	2014	2094	80
7. Cons. Goods	404	408	4
8. Cap. Goods	384	386	2
9. Ind. Sup.**	263	293	30
10. Oil	270	300	30
11. Other	693	708	15

*Average of October and November data.

**Excludes oil.

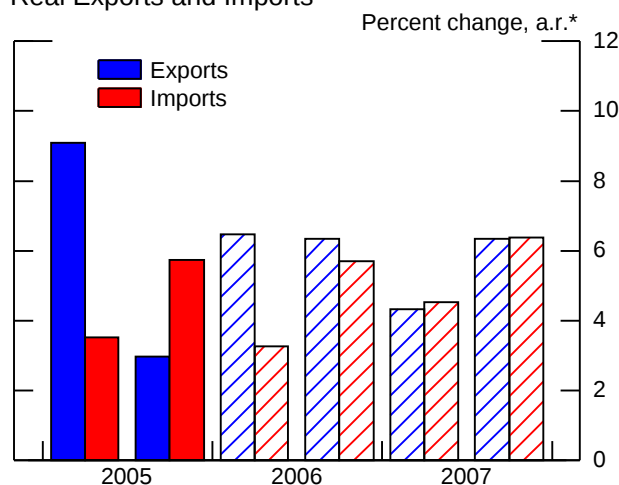


Class II FOMC - Restricted (FR)

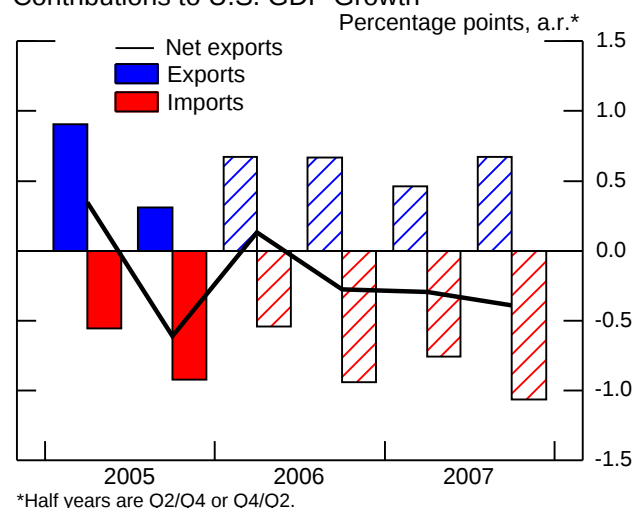
Exhibit 13

U.S. External Sector

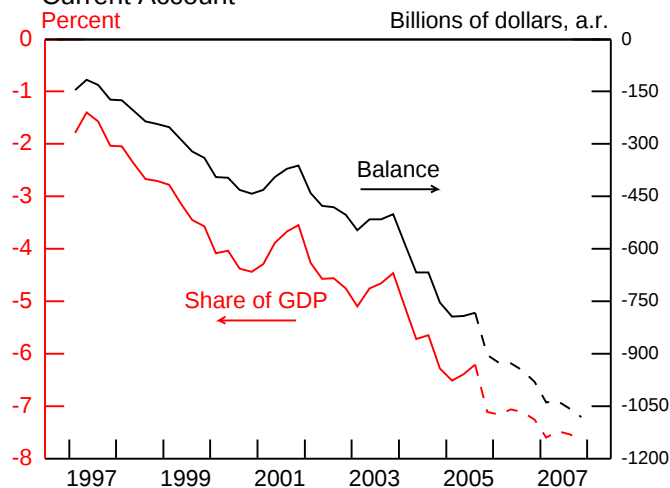
Real Exports and Imports



Contributions to U.S. GDP Growth



Current Account



Current Account Forecasts

Source	2005	2006	2007
1. Jan. GB	-818	-945	-1053
<i>Other forecasts:*</i>			
2. OECD	-806	-890	-980
3. Consensus	-793	-828	-831
4. Macro Advisors**	-807	-871	-887
5. Global Insight	-816	-909	-928

*OECD forecast from November; other forecasts from January.

**Adjusted to BOP basis by staff.

Change in Current Account Balance

	1997:Q1 to 2001:Q4 (1)	2001:Q4 to 2005:Q3 (2)	2005:Q3 to 2007:Q4 (3)
1. Current Account Balance	-217	-421	-298
2. Non-oil Trade Balance	-231	-195	-110
3. Oil Imports	0	-187	-53
4. Investment Income, Net	45	-54	-93
5. Transfers and Other Income, Net	-31	15	-42

*Difference in levels of annualized series.

Class II FOMC - Restricted (FR)

Exhibit 14 -- Last Exhibit

ECONOMIC PROJECTIONS FOR 2006

	FOMC		
	Range	Central Tendency	Staff
	-----Percentage change, Q4 to Q4-----		
Nominal GDP July 2005	5¼ to 6½ (5 to 6)	5½ to 6 (5¼ to 5½)	6.4 (5.4)
Real GDP July 2005	3¼ to 4 (3¼ to 3¾)	About 3½ (3¼ to 3½)	3.9 (3.4)
Core PCE Prices July 2005	1¾ to 2½ (1½ to 2½)	About 2 (1¾ to 2)	2.2 (1.9)
	-----Average level, Q4, percent-----		
Unemployment rate July 2005	4½ to 5 (5)	4¾ to 5 (5)	5.0 (5.1)

Central tendencies calculated by dropping high and low three from ranges.

ECONOMIC PROJECTIONS FOR 2007

	FOMC		
	Range	Central Tendency	Staff
	-----Percentage change, Q4 to Q4-----		
Nominal GDP	5 to 6	5 to 5¾	5.0
Real GDP	3 to 4	3 to 3½	3.0
Core PCE Prices	1¾ to 2	1¾ to 2	1.8
	-----Average level, Q4, percent-----		
Unemployment rate	4½ to 5	4¾ to 5	5.1

Appendix 3: Materials used by Mr. Reinhart

Class I FOMC - Restricted Controlled FR

Material for

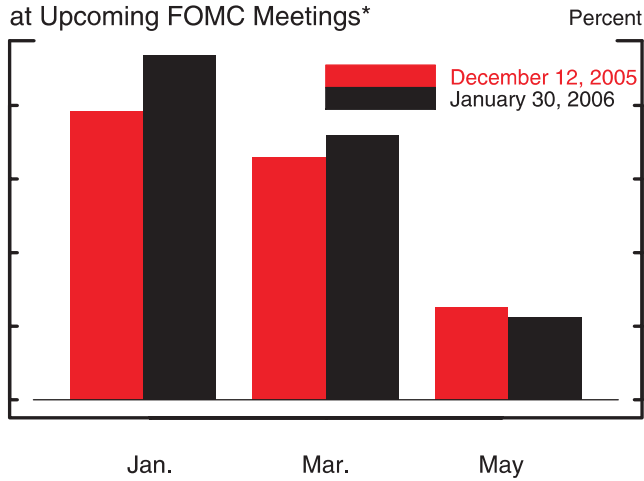
FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart
January 31, 2006

Exhibit 1

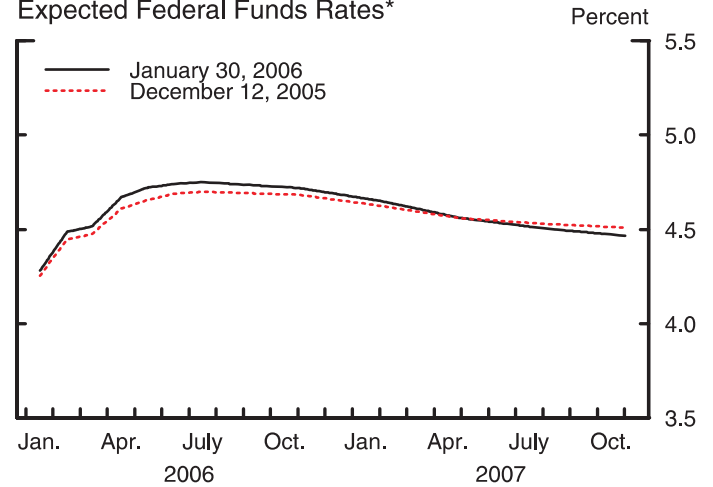
Policy Considerations

Probability of a 25 Basis Point Tightening at Upcoming FOMC Meetings*



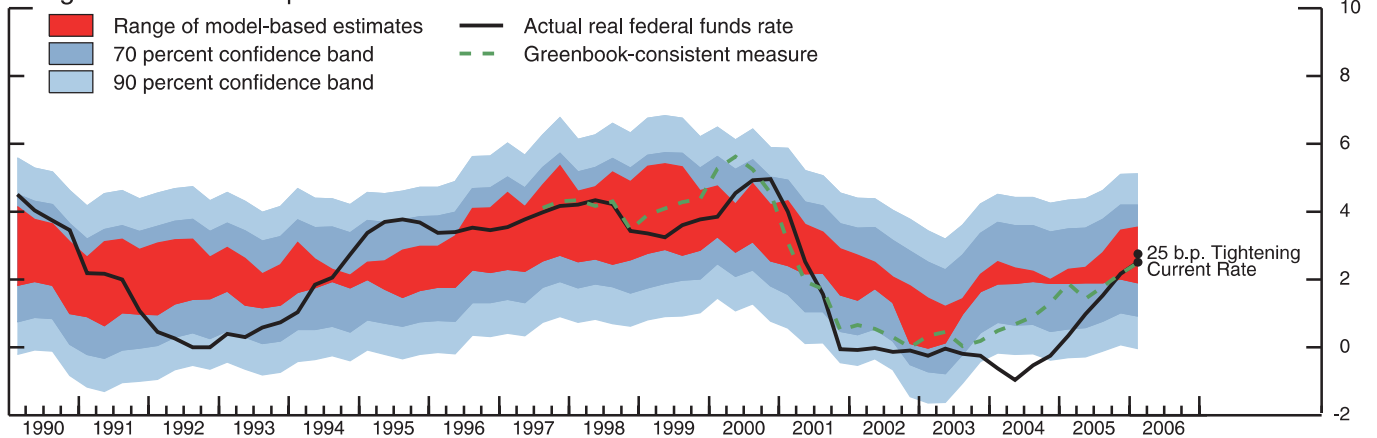
*Estimated from federal funds futures.

Expected Federal Funds Rates*



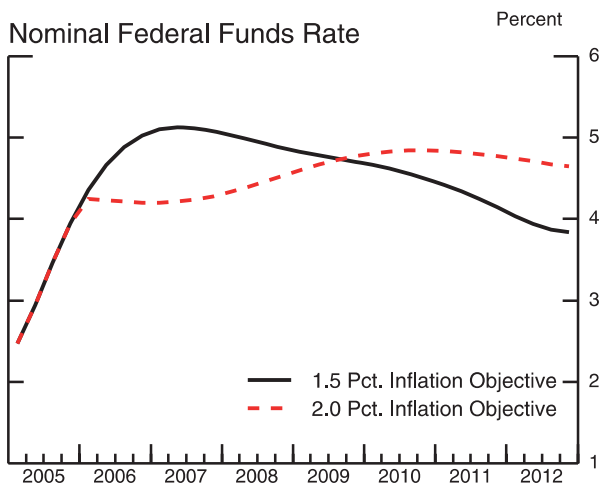
*Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Range of Estimated Equilibrium Real Rates

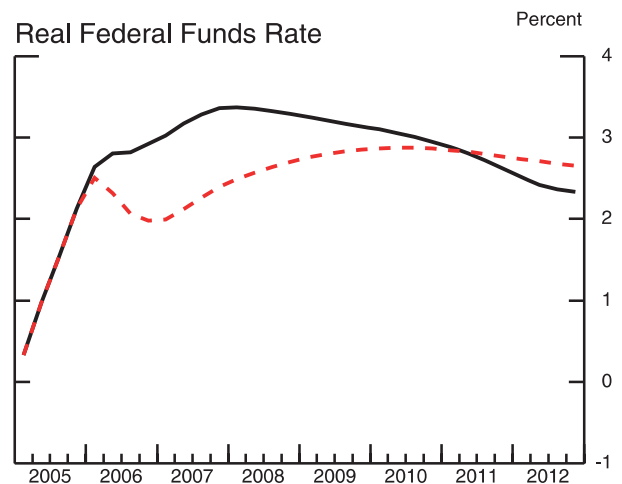


An explanatory note is provided in Chart 7 of the Bluebook.

Nominal Federal Funds Rate



Real Federal Funds Rate



Note. The real federal funds rate is the nominal funds rate less four-quarter core PCE inflation.

Exhibit 2
Statement Considerations

Two Key Wording Questions

1. How high are the odds you place on tightening at the March meeting?
2. How much do you want to emphasize dependence on the data?

Alternative B

The Committee judges that some further policy firming may well be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.

In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.

Greater Emphasis on Data Dependence

The Committee will respond to changes in economic prospects as needed to foster the attainment of both sustainable economic growth and price stability.

In these circumstances, the Committee judges that some further policy firming may well be needed to keep the risks to those objectives roughly in balance.

Exhibit 3

Ownership of the Statement

Options

1. Vote on the entire statement and the directive.
2. Vote on the directive and assessment of risks. Clarify ownership of the remaining portions of the statement by voting to authorize the Chairman to provide a rationale for that action.
3. Retain the status quo.

Vote Under Option 1

Directive Wording

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 in the immediate future seeks conditions in reserve markets consistent with increasing the federal funds rate to an average of around 4½ percent.

Statement Language

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4½ percent.

Although recent economic data have been uneven, the expansion in economic activity appears solid. Core inflation has stayed relatively low in recent months and longer-term inflation expectations remain contained. Nevertheless, possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures.

The Committee judges that some further policy firming may well be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.

Vote Under Option 2

Directive Wording

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 in the immediate future seeks conditions in reserve markets consistent with increasing the federal funds rate to an average of around 4½ percent.

Risk Assessment

The Committee judges that some further policy firming may well be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.

Rationale Language

The Committee authorizes the Chairman to provide a rationale for the policy action in the statement to be released after this meeting.

Table 1: Alternative Language for the January FOMC Announcement (January 31, 2006)

	December FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4¼ percent.	The Federal Open Market Committee decided today to keep raise its target for the federal funds rate unchanged by 25 basis points to at 4¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4½ ¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4½ ¼ percent.
Rationale	2. Despite elevated energy prices and hurricane-related disruptions, the expansion in economic activity appears solid.	Although recent economic data have been uneven Despite elevated energy prices and hurricane-related disruptions, the expansion in economic activity appears solid.	Although recent economic data have been uneven Despite elevated energy prices and hurricane-related disruptions, the expansion in economic activity appears solid.	Although recent economic data have been uneven Despite elevated energy prices and hurricane-related disruptions, the expansion in economic activity appears solid.
	3. Core inflation has stayed relatively low in recent months and longer-term inflation expectations remain contained. Nevertheless, possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures.	While possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures, core inflation has stayed relatively low in recent months. Moreover, longer-term inflation expectations remain contained.	[Unchanged]	While c Core inflation has stayed relatively low in recent months and longer-term inflation expectations remain contained, Nevertheless, possible increases in resource utilization as well as elevated energy and other cost pressures prices have the potential to add to boost underlying inflation pressures .
Assessment of Risk	4. The Committee judges that some further measured policy firming is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	The Committee judges that some further measured policy firming may well-is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	The Committee judges that some further measured policy firming may well-is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	[Unchanged]
	5. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.	[Unchanged]	[Unchanged]	[Unchanged]