



## Meeting of the Federal Open Market Committee January 31, 2006 Presentation Materials -- Text Version

[Presentation Materials \(PDF\)](#)

Pages 79 to 106 of the Transcript

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

#### Page 1

##### Top panel

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

**Series:** 3-Month U.S. dollar Libor rates, and 3- and 9-month forward rate agreements (daily)

**Horizon:** June 1, 2005 through January 27, 2006

**Description:** Short money-market rates rise steadily as the target federal funds rate increases.

##### Middle panel

**Title:** 2- and 10-Year Treasury Yields and Target Fed Funds

**Series:** Target federal funds rate, yields on benchmark 2- and 10-year U.S. Treasury securities (daily)

**Horizon:** June 1, 2005 - January 27, 2006

**Description:** Short and medium-term bond yields rise as the target federal funds rate increases.

##### Bottom panel

**Title:** 2- to 10-Year and 3-Month to 10-Year Treasury Curves

**Series:** Spreads between the 10-year treasury note and both the 3-month and 2-year note (monthly averages)

**Horizon:** January 1977 - January 2006

**Description:** Spreads between the 10-year Treasury note and both the 3-month bill and 2-year note.

As shown in the chart, grey areas represent NBER recession periods of 1980:Q1-1980:Q3, 1981:Q3-1982:Q4, 1990:Q3-1991:Q1, and 2001:Q1-2001:Q4.

Source: FRB

#### Page 2

##### Top panel

**Title:** Select Global Real Yields

**Series:** Benchmark 10-year French, U.K., and U.S. inflation-linked government securities (daily)

**Horizon:** June 1, 2005 - January 27, 2006

**Description:** U.K. real yields fall over the period relative to those of the U.S. and France.

Source: Barclays

### **Middle panel**

**Title:** U.K. Real Yields

**Series:** Yields on inflation-linked 10-, 30-, and 50-year U.K. government debt (daily)

**Horizon:** September 21, 2005 - January 27, 2006

**Description:** U.K. real yields fall, moving below 1.00 percent in the 30- and 50- year sectors.

Source: Barclays

### **Bottom-left panel**

**Title:** U.K. Nominal Yields

**Series:** Nominal 10-, 30-, and 50-year U.K. government debt yields (daily)

**Horizon:** September 21, 2005 - January 27, 2006

**Description:** Nominal yields in the U.K. fall across the curve.

Source: Barclays

### **Bottom-right panel**

**Title:** U.K. Breakeven Inflation Rates

**Series:** 10-, 30-, and 50-year breakeven inflation rates in the U.K. (daily)

**Horizon:** September 21, 2005 - January 27, 2006

**Description:** Breakeven inflation rates, or the yield differentials between nominal and inflation-linked U.K. gilts, though volatile, have remained broadly steady as real and nominal yields have trended down.

Source: Barclays

## **Page 3**

### **Top panel**

**Title:** Dollar Performance Versus Select Currencies

**Series:** Percentage change in value of U.S. dollar versus the Chinese renminbi, Mexican peso, Brazilian real, Australian dollar, British pound, Swiss franc, Japanese yen, euro, Taiwan dollar, and Korean won

**Horizon:** December 1, 2005 to January 27, 2006, change

**Description:** Change in select foreign exchange versus the dollar show the dollar depreciated by up to six percent across the period versus major currencies.

### **Middle panel**

**Title:** Global Equity Indices

**Series:** Major Equity Indices from Europe, the U.K., Mexico, the U.S., Brazil, Korea, and Japan (index of daily changes where January 3, 2005=100)

**Horizon:** January 3, 2005 - January 27, 2006

**Description:** Equity indices around the world have outperformed the S&P 500.

Europe Stoxx, FTSE, Mexican Bolsa, Brazilian Bovespa, Korean Kospi, Nikkei, and S&P 500

**Bottom-left panel**

**Title:** Implied Volatility on the S&P 100  
**Series:** VIX index of implied volatility on the S&P 100 (daily)  
**Horizon:** January 3, 2005 to January 27, 2006  
**Description:** Equity volatility in 2005 and the first month of 2006 has fluctuated between the levels of 10 and 18 percent.

Average Since January 1990: 19.43

**Bottom-right panel**

**Title:** Treasury Yield Implied Volatility  
**Series:** Merrill Lynch MOVE index of 1-month option implied volatility on U.S. Treasury yields (daily)  
**Horizon:** January 3, 2005 to January 27, 2006  
**Description:** Volatility on Treasury yields has fallen in 2005 and the first month of 2006.

Average Since April 1988: 102.32

Source: Move Index, Merrill Lynch

**Page 4**

**Top panel**

**Title:** Emerging Market and High Yield Debt Spreads  
**Series:** JP Morgan EMBI+ Index and Merrill Lynch High Yield Corporate Debt Index (daily)  
**Horizon:** October 1, 2002 - January 27, 2006  
**Description:** Emerging market debt has outperformed, widening the spread between the EMBI+ and High Yield indices.

Source: JP Morgan and Merrill Lynch

**Bottom panel**  
**Ratings in Emerging Markets and High Yield Corporate Debt**

**Merrill HY Index**

Two pie charts, one for each date.

	10/31/2002	12/30/2005
BB	43%	44%
B	43%	43%
CCC	13%	14%

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

Source: Merrill Lynch

**EMBI+ Index**

Two pie charts, one for each date.

10/31/2002    12/30/2005

	10/31/2002	12/30/2005
BBB	29%	38%
BB	38%	51%
B	29%	9%
CCC	4%	2%

Note: EMBI+ ratings estimated from higher of S&P and Moody's ratings.

Source: JP Morgan

## Page 5

### Top panel

**Title:** Fed Funds Effective Rates and Trading Ranges Since the November 1, 2005 FOMC Meeting Period

**Series:** Federal Funds target rate, effective rate, and high/low range (daily)

**Horizon:** November 2, 2005 - January 27, 2006

**Description:** Chart shows indicative volatility of the effective fed funds rate since November FOMC meeting.

### Middle panel

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

**Series:** Average difference between fed funds effective and target, for 2004 and for 2005, on the Thursday, Friday, and Monday prior to and the Tuesday of an FOMC meeting for those maintenance periods with no high payment flow days in the period through the meeting date.

**Horizon:** 2004-2005

**Description:** Average difference between fed funds effective and target on these days in 2005 was higher than in 2004.

### Bottom panel

**Title:** Average-to-Date Excess Reserves

**Series:** Average excess reserve levels, for 2004 and for 2005, on the Thursday, Friday, and Monday prior to and the Tuesday of an FOMC meeting for those maintenance periods with no high payment flow days in the period through the meeting date. Also shown is the combined average excess reserve levels from 2004 and 2005 for the first Thursday through Tuesday of maintenance periods in which there was no FOMC meeting and no high payment flow day in the first four days.

**Horizon:** 2004-2005

**Description:** Average excess reserves before FOMC meetings were higher than typical levels when there was no FOMC meeting.

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

Material for **Staff Presentation on the Economic Outlook**

January 31, 2006

## STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC\*

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

### Exhibit 1 Recent Indicators

#### Top-left panel

##### Real GDP

Percent change, annual rate

	2005	2006	
	Q3	Q4	Q1 <sup>e</sup>
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. [Return to table](#)

#### Top-right panel

##### Initial Claims

A line chart shows a four-week moving average of initial claims in thousands of claims, from 1999 through January 21, 2006. Claims surge during 2001, but then gradually fall throughout 2002-2005. There is an uptick near the end of 2005, but the series quickly returns to the past downward trend.

#### Middle-left panel

##### Industrial Production

Percent change, annual rate

		2005	2006	
		Q3	Q4	Q1 <sup>e</sup>
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. [Return to table](#)

#### Middle-right panel

##### New Orders Indexes

A line chart shows three different new orders diffusion indexes: the Institute for Supply Management Survey, the Empire State Manufacturing Survey, and the Philadelphia Fed Business Outlook Survey. The data cover 2001 to January 2006. All series follow the same basic pattern with a slight upward trend from 2001 to 2006, with spikes in early 2002 and late 2003.

#### Bottom-left panel

##### Real Personal Consumption Expenditures Excluding Motor Vehicles

A line chart shows the real level of personal consumption expenditures excluding motor vehicles in trillions of 2000 dollars, annual rate. The chart includes a monthly number and quarterly averages. The data cover 2002 to December 2005. The data series clearly shows a constant upward trend.

### **Bottom-right panel**

#### **Order and Shipments of Nondefense Capital Goods\***

A line chart shows three-month moving averages of orders and shipments of nondefense capital goods in billions of dollars from 2002 to December 2005. Both data series show a clear upward trend from 2003 through 2005.

\* Excluding aircraft. [Return to text](#)

## **Exhibit 2**

### **Forecast Summary and Key Background Factors**

#### **Top-left panel**

##### **Real GDP Projection**

A bar chart includes two annual series from 2005 to 2007: a fourth-quarter to fourth-quarter growth rate projection of real GDP, and a fourth-quarter to fourth-quarter growth rate projection of real GDP excluding hurricane effects as estimated by staff. Both series move around 3.0 percent.

#### **Top-right panel**

##### **PCE Prices**

A line chart shows the four-quarter percent change of two price series: personal consumption expenditures and core PCE (excluding food and energy). The data cover 2001 to 2007, which includes a staff forecast for 2006 to 2007. Core PCE is stable around 2.0, while PCE shows a slight upward trend from 2002 to 2005 that becomes a downward trend from 2006 to 2007.

#### **Middle-left panel**

##### **Crude Oil Prices**

A line chart shows the quarterly average of West Texas Intermediate oil prices in dollars per barrel from 2002 to 2007, where 2006 to 2007 is forecast. The chart shows a clear upward trend with a forecasted flattening-out to about \$70 in 2006 to 2007. The chart also includes the forecast from the December 2005 Greenbook which also predicts a flattening-out of oil prices, around \$60 per barrel.

#### **Middle-right panel**

##### **Core Non-fuel Import Prices**

A bar chart shows the fourth-quarter to fourth-quarter percent change of core non-fuel import prices from 2002 to 2007. It shows two forecasts, one from the January 2006 Greenbook and one from the December 2005 Greenbook. The series rises from nearly zero in 2002 to nearly 4.0 in 2004. It falls to about 2.0 percent in 2005 and is projected to fall to around 1.0 percent in 2007.

#### **Bottom-left panel**

##### **Interest Rates**

A line chart shows the quarterly average of the 10-year Treasury rate and the Federal funds rate in percentage points from 2002 to 2007, where 2006 to 2007 is forecast. The Federal funds rate dips slightly from 1.75 to 1.00 during 2002 to 2003, but then rises constantly until 2006, where it stabilizes at 4.75. The 10-year Treasury rate falls from 5.0 in 2002 to 3.8 in mid-2003, but then stabilizes around 4.5 from late-2003 onward.

### **Bottom-right panel**

#### **Fiscal Impetus**

A bar chart shows the annual rates of fiscal impetus in terms of percent of GDP from 2002 to 2007, with 2006 to 2007 being forecast values. The fiscal impetus falls from about 1 percent of GDP to .25 percent of GDP in 2005, and is projected to reach 0.1 percent in 2007.

### **Exhibit 3**

#### **Housing and Consumption**

### **Top-left panel**

#### **Sales of Single-family Homes**

A line chart shows sales of existing homes and sales of new homes in millions, monthly at an annual rate, from 2001 to 2005. Both series clearly trend upward (somewhat erratically), with existing homes rising from 4.5 million to 5.5 million and new homes rising from 1.0 million to 1.25 million.

### **Top-right panel**

#### **MBA Purchase Index**

A line chart shows the MBA Purchase Index (a four-week moving average) from 2002 to January 20, 2006. It clearly trends upward from 320 in 2002 to 450 in January 2006.

### **Middle-left panel**

#### **House Prices**

A line chart shows the four-quarter percent change of the OFHEO House Price Index from 2000 to 2007, where 2006 to 2007 is forecast. The series is generally stable around 8.0 until 2004, where it surges to 13.0. It is projected to trend downward to 3.0 by late 2007.

### **Middle-right panel**

#### **Real Residential Investment**

A bar chart shows the fourth-quarter to fourth-quarter percent change of real residential investment from 2000 to 2007, where 2006 to 2007 is projected. The series surges to 6 percent or higher from 2002 to 2005, but returns to a much lower level in 2006 and 2007.

### **Bottom-left panel**

#### **Saving Rate and Wealth-to-Income Ratio**

A line chart shows the personal saving rate as a percentage on the left axis and the wealth-to-disposable income ratio on the right axis, from 2003 to 2007, where 2006 to 2007 is forecast. The personal saving rate bottoms out in 2005 and is projected to move upward, while the wealth-to-income ratio peaks in 2005 and is expected to trend downward.

Note. Excluding Microsoft dividend.

### **Bottom-right panel**

#### **Real PCE and DPI**

A bar chart shows the fourth-quarter to fourth-quarter percent change of real personal consumption expenditures and disposable personal income (excluding the Microsoft dividend) from 2003 to 2007,

where 2006 to 2007 is forecast. There is a slight drop in both series for 2005, but both series are projected to increase for 2006 and 2007.

Exhibit 4  
Business Investment

Top-left panel  
Real E&S Spending and the Acceleration of Business Output

A line chart shows the percent change in real equipment and software levels on the right axis and the eight-quarter percent change in business output excluding E&S less the year-earlier eight-quarter percent change (defined as the accelerator) on the left axis. The data cover 1988 to 2007, where 2006 to 2007 is a forecast.

Top-right panel  
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

Middle-left panel  
Rate of Return on Capital for Nonfinancial Corporate Business

A line chart shows nonfinancial corporate profits with IVA and CADJ plus interest, divided by nonfinancial stock of fixed assets (defined as the rate of return on capital for nonfinancial corporate business) from 1988 to 2007, where 2006 to 2007 is forecast.

Middle-right panel  
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.

Bottom panel  
Investment and MFP by Industry

A scatter diagram of different industries with the annual rate of multifactor productivity acceleration from 1995-2000 to 2000-2004\* on the right axis and the E&S percent change in the 1995-2000 period (deviation from the historical average) on the bottom axis. There is also a fitted regression line demonstrating a positive correlation between the two factors.

\* 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). [Return to text](#)



Exhibit 5

Structural Labor Productivity

Top-left panel

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

Top-right panel

Structural Labor Productivity Growth

Percent change, Q4/Q4

		2005	2006	2007
1.	Structural Productivity	3.2	3.1	3.0
Contributions of:				
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

Middle-left panel

Growth in Capital Services

A bar chart shows the fourth-quarter to fourth-quarter percent change in capital services from 2000 to 2007, where 2006 to 2007 is forecast. The chart shows a clear downward trend from 2000 to 2003, but a clear upward trend from 2003 onward. The chart also shows a 1995-2000 average line of about 5.4 percent.

Middle-right panel

Contribution of Capital Deepening

A stacked bar chart representing the fourth-quarter to fourth-quarter percent change from 2000 to 2007, with 2006 to 2007 being forecast. There are two components to the stacked bar: information technology equipment, and other.

Bottom-left panel

Structural MFP

A bar chart shows the fourth-quarter to fourth-quarter percent change of structural multi-factor productivity from 2000 to 2007, with 2006 to 2007 being forecast. Structural MFP surges from 2000 to 2003 and only gives up some of its gain into 2007. The chart also shows a 1995-2000 average line of about 0.8 percent.

Bottom-right panel

Research and Development Expenditures

A line chart shows total research and development expenditures for the United States, and industry expenditures in particular, in billions of 2000 dollars (ratio scale) from 1960 to 2005. The series both show an upward trend and run mostly in parallel.

## Exhibit 6

### Potential Output and Labor Market

#### Top panel

##### 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

#### Middle-left panel

##### Labor Force Participation Rate

A line chart shows the labor force participation rate from 1980 to 2007 as two curves, the actual data and a trend line. 2006 to 2007 is forecast. The data trend upward until 1990, where they stabilize around 66.5 percent and then drop off around 2002 and trend downward.

#### Middle-right panel

##### Average Workweek

A line chart shows the number of hours for the average workweek in the nonfarm business sector from 1996 to 2007 as two curves, the actual data and a trend line. 2006 to 2007 is forecast. Both series trend downward, with a steep drop from 2000 to 2001.

#### Bottom-left panel

##### Nonfarm Payroll Employment

A bar chart shows the average monthly change in nonfarm payroll employment in thousands from 2003 to 2007, where 2006 to 2007 is forecast. After a slow growth rate in 2003, the series jumps to about 200 and stays around that value.

#### Bottom-right panel

##### Okun's Law\*

A line chart shows both the actual unemployment rate and a simulated unemployment rate based on Okun's law from 1997 to 2007, where 2006 to 2007 is forecast. Both series slope downward from 1997 to 2000, trend upward from 2000 to 2003, and then trend downward from 2004 to 2007.

\* Dynamic simulation beginning in 1990:Q3. [Return to text](#)

## Exhibit 7

### Compensation

#### Top panel

##### Hourly Labor Compensation

A line chart shows four-quarter percent change of the employment cost index and the P&C compensation per hour from 1997 to 2007, where 2006 to 2007 is forecast. ECI stays stable between 3.0 and 3.5, while P&C acts similarly, but spikes in 1998, 2000, and 2005.

#### Middle-left panel

##### Unemployment Gap

A line chart shows the unemployment rate compared to the 5 percent "natural" rate of unemployment from 2001 to 2007, where 2006 to 2007 is forecast. The unemployment rate surges from 2001 to 2003, but then slowly descends to about 5 percent.

#### Middle-right panel

##### Expected Inflation

A line chart shows three series of inflation expectations from 2003 to 2006: the Michigan Survey for the next twelve months, the Michigan Survey of five-to-ten years ahead, and an estimate based on TIPS modeling, five-to-ten years ahead.\* All series generally move around 3.0 with the Michigan Survey for the next twelve months spiking in late 2005.

\* Estimates of inflation compensation based on smoothed nominal and inflation-indexed Treasury yield curves. [Return to text](#)

#### Bottom-left panel

##### ECI Equation Errors\*

A bar chart shows the forecast equation errors of the employee cost index in percentage points (annual rate) from 2003 to 2005. The errors are mostly positive from 2003 to mid-2004 and always negative from mid-2004 through 2005.

\* Estimated through 2002:Q4. Dynamic simulation from 2003:Q1 to 2005:Q3. [Return to text](#)

#### Bottom-right panel

##### Core PCE Equation Errors\*

A bar chart shows the forecast equation errors of the core personal consumption expenditures in percentage points (annual rate) from 2003 to 2005. Errors follow no discernable pattern, suggesting that they are evenly distributed around zero.

\* Estimated through 2002:Q4. Dynamic simulation from 2003:Q1 to 2005:Q4. [Return to text](#)

## Exhibit 8

### Inflation Outlook

#### Top-left panel

##### Total Consumer Prices

A line chart shows the twelve-month percent change of two series from 2001 to 2005: the consumer price index, and the price level of personal consumption expenditures.

**Top-right panel**  
**Core Consumer Prices**

A line chart shows the twelve-month percent change of two series from 2001 to 2005: the consumer price index excluding food and energy, and the price level of personal consumption expenditures excluding food and energy. Both series are relatively stable around 2.0.

**Middle-left panel**  
**PCE Energy Prices**

A bar chart shows the fourth-quarter to fourth-quarter percent change of personal consumption expenditure energy prices from 2003 to 2007, where 2006 to 2007 is a forecast. The series trends upward from 2003 to 2005, but is forecast to drop significantly in 2006 and 2007.

**Middle-right panel**  
**PPI-Intermediate Materials less Food and Energy**

A bar chart shows the fourth-quarter to fourth-quarter percent change of PPI-intermediate materials less food and energy from 2003 to 2007, where 2006 to 2007 is forecast. There is a clear surge in 2004 to 8.0 percent, but then the series trends downward to 2.0 percent by 2007.

**Bottom-left panel**  
**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

**Bottom-right panel**  
**Core PCE Prices**

A line chart shows the four-quarter percent change of personal consumption expenditures excluding food and energy from 2003 to 2007, where 2006 to 2007 is forecast. The chart includes several forecast scenarios and confidence intervals. Core PCE is stable around 2.0 and is forecast to remain so into the forecast horizon. Even at the 90 percent confidence interval of a forecast model, the boundaries are 3 percent or 0.7 percent.

**Exhibit 9**  
**The Dollar**

Exhibit 9 is a two-by-two array of graphs of nominal dollar indexes, industrial country exchange rates, interest rate differentials, and emerging market exchange rates.

**Top-left panel**  
**Nominal Dollar Indexes**

A line chart plots nominal dollar indexes on a weekly basis for the major currencies index, the broad dollar index, and index of other important trading partners for 2005 through early 2006. The range of the y-axis is [96, 110]; index, Dec. 31, 2004 = 100. All three series begin at 100 and are somewhat volatile. The major currencies index rises to about 110 by the fourth quarter of 2005, and then declines to about 106 by the end of the period. The broad dollar index rises to about 105 by the fourth quarter of 2005, and then declines to about 102 by the end of the period. The index of other important trading partners declines to about 97 by the end of the period.

#### **Top-right panel**

##### **Industrial Country Exchange Rates**

A line chart plots industrial country exchange rates (foreign currency/\$) on a weekly basis for the euro, the yen, and the Canadian dollar for 2005 through early 2006. The range of the y-axis is [90, 120]; index, Dec. 31, 2004 = 100. All three series begin at 100 and are somewhat volatile. The index for the euro rises to about 116 by the fourth quarter of 2005, and then declines to about 112 by the end of the period. The index for the yen rises to about 118 by the fourth quarter of 2005, and then declines to about 114 by the end of the period. The index for the Canadian dollar rises to about 105 by mid-2005 and then declines to about 95 by the end of the period.

#### **Bottom-left panel**

##### **Interest Rate Differentials**

A line chart plots interest rate differentials on a monthly basis for the long-term rate differential and for the policy rate differential for 2001 through early 2006. The range of the y-axis is [-2, 2]; units are percentage points. The interest rate differentials are calculated as the U.S. rate minus the trade-weighted average of Canada, the euro area, Japan, and the United Kingdom. The long-term rate differential starts at about 1 percentage point, and, with some volatility, falls to about minus one-eighth percentage point by late 2002, and then rises to about 1¼ percentage point by the end of the period. The policy rate differential starts at about 1½ percentage points, falls to about -1¼ percentage points by mid-2003, and then rises to about 1¾ percentage points by the end of the period.

#### **Bottom-right panel**

##### **Emerging Market Exchange Rates**

A line chart plots emerging market exchange rates (foreign currency/\$) on a weekly basis for the Chinese renminbi, the Korean won, the Mexican peso, and the Brazilian *real* for 2005 through early 2006. The range of the y-axis is [75, 105]; index, Dec. 31, 2004 = 100. All four series begin at 100; all the series except the index for the Chinese renminbi are somewhat volatile. The index for the Chinese renminbi stays at 100 until the beginning of the third quarter of 2005, when it steps down to about 97½ and stays at about that level through the end of the period. The index for the Korean won falls to about 96 by the second quarter of 2005, rises to about 102 by the fourth quarter, and then declines to about 94 by the end of the period. The index for the Mexican peso falls to about 94 by the end of the period. The index for the Brazilian *real* rises to about 103 by early 2005 and then falls to about 83 by the end of the period.

## **Exhibit 10**

Exhibit 10 is a two-by-two array of panels. "Foreign Net Financial Inflows" comprises the top two panels, which are tables on foreign official inflows and on foreign private net purchases of U.S.

securities. "Emerging Market Debt" comprises the bottom two panels, which are graphs on spreads and net issuance of debt securities.

## Foreign Net Financial Inflows

### Top-left panel

#### Foreign Official Inflows

Billions of dollars

		2003	2004	2005*
1.	<b>Total</b>	<b>267</b>	<b>395</b>	<b>221</b>
<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. [Return to table](#)

### Top-right panel

#### Foreign Private Net Purchases of U.S. Securities

Billions of dollars

		2003	2004	2005*
1.	<b>Total</b>	<b>336</b>	<b>506</b>	<b>704</b>
<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. [Return to table](#)

## Emerging Market Debt

### Bottom-left panel

#### Spreads

A line chart plots spreads on a weekly basis for 2002 through early 2006 for EMBI+ excluding Argentina and for U.S. BB Corporate. The range of the y-axis is [0, 1000]; units are basis points. Spreads are defined as the spread over 10-year U.S. Treasury bond. Both series are somewhat volatile. The spread for EMBI+ excluding Argentina is higher than the U.S. BB Corporate spread from the beginning of the period until mid-2005, when it cuts below the BB spread. The spread for EMBI+ excluding Argentina starts at just over 600 basis points, falls to about 500 basis points by early 2002, rises to about 900 basis points by late 2002, and then falls to about 200 basis points by the end of the period. The spread for U.S. BB Corporate starts at about 400 basis points, declines to about 350 basis points by early 2002, rises to about 675 basis points by late 2002, falls to about 200 basis points by beginning 2004 and stays at about that level through early 2005, and then rises to about 300 basis points by the end of the period.

### Bottom-right panel

#### Net Issuance of Debt Securities

A line chart plots net issuance of debt securities on a quarterly basis for 1996-2005 for Emerging Asia and Latin America. Data are four-quarter moving averages. The range of the y-axis is [-40, 80]; units are billions of dollars, a.r. The net issuance of debt securities for emerging Asia starts at about \$32 billion, falls to around \$0 billion by 1998 and fluctuates around \$0 billion through 2001, rises to about \$20 billion by 2004 and stays at about that level through the end of the period. The net issuance of debt securities for Latin America starts at about \$38 billion, rises to about \$52 billion by late 1997, falls to about -\$8 billion by the beginning of 1999, rises to about \$40 billion by early 2000, falls to around -\$20 billion by 2002, rises to about \$5 billion by early 2004, and then falls to about -\$5 billion by the end of the period.

## Exhibit 11

Exhibit 11 is a three-by-two array of panels. "Outlook for Foreign Growth and Inflation" comprises the top two panels, which are a table on real GDP projections, and a graph on consumer prices. "Japan" comprises the middle two panels, which are graphs on corporate debt, investment, and labor market, and on bank credit and land prices. "China" comprises the bottom two panels, which are graphs on nominal GDP and external trade.

### Outlook for Foreign Growth and Inflation

#### Top-left panel

#### 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. [Return to text](#)

\*\* Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2. [Return to table](#)

#### Top-right panel

#### Consumer Prices

A line chart plots consumer prices (four-quarter percent change) for emerging markets, average foreign, and industrial countries for 2005:Q1 through 2005:Q3 (actual) and for 2005:Q4 through 2007 (forecast). The range of the y-axis is [1, 4]. Consumer prices are weighted by non-oil U.S.

imports. The four-quarter percent change for emerging markets consumer prices starts at about  $3\frac{1}{2}$  percent, falls to about 3 percent by late 2005, rises to about  $3\frac{3}{4}$  percent by late 2006, and then eases to about  $3\frac{1}{2}$  percent by the end of the period. The four-quarter percent change for average foreign consumer prices starts at about  $2\frac{1}{2}$  percent and fluctuates between about  $2\frac{1}{2}$  percent to  $2\frac{3}{4}$  percent for the entire period, ending at about  $2\frac{1}{2}$  percent. The four-quarter percent change for industrial countries' consumer prices starts at about  $1\frac{1}{2}$  percent, rises to about  $1\frac{7}{8}$  percent by mid-2005, stays near that level through early 2006, falls to about  $1\frac{1}{3}$  percent by mid-2006, rises to about  $1\frac{3}{4}$  percent by early 2007, and stays there through the end of the forecast period.

## **Japan**

### **Middle-left panel**

#### **Corporate Debt, Investment, and Labor Market**

A line chart plots corporate debt, real business fixed investment, and the ratio of offers to applicants for 1995-2005. The range of the right y-axis, which measures corporate debt and real business fixed investment as an index (1995:Q1=100), is [40, 130]. The range of the left y-axis, which measures the ratio of offers to applicants in percent, is [40, 130]. Corporate debt starts at 100 and falls steadily to about 63 by the end of the period. Real business fixed investment starts at 100, and, with some volatility, rises to nearly 130 by the end of the period. The ratio of offers to applicants starts at about 65 percent, falls to about 47 percent by mid-1999, and then rises to nearly 100 percent by the end of the period.

### **Middle-right panel**

#### **Bank Credit and Land Prices**

A line chart plots bank credit and land prices (four-quarter percent change) for 1995-2005. The range of the y-axis is [-15, 5]. Land prices are for six major cities. The four-quarter percent change for bank credit starts at just below 0 percent, rises to about 2 percent by 1996, falls to about -6 percent by early 2000, rises in mid-2000 to about -5 percent and fluctuates around that level through late 2003, and then rises to nearly 0 percent by the end of the period. The four-quarter percent change for land prices in six major cities starts at about -13 percent, rises to about -6 percent by early 1998, falls to about -8 percent by mid-1999 and stays there through late 2003, and then rises to about -1 percent by the end of the period.

## **China**

### **Bottom-left panel**

#### **Nominal GDP**

A line chart plots nominal GDP for previous data for 1995-2004 and for revised data for 1995-2005. The range of the y-axis is [600, 2,400] (ratio scale); units are billions of dollars. Previous data for nominal GDP starts at about \$725 billion and rises to about \$1,650 billion by 2004. Revised data for nominal GDP starts at about \$750 billion, rises to nearly \$2,000 billion by 2004, and rises further to about \$2,200 billion by 2005.

### **Bottom-right panel**

#### **External Trade**

A chart plots imports and exports as lines and the trade balance as bars for 1999-2005. The range of the right y-axis, which measures the trade balance in billions of dollars, is [0, 120]. The range of the left y-axis, which measures imports and exports in percent change, is [0, 40]. Approximate values are as follows.



	1999	2000	2001	2002	2003	2004	2005
Imports (percent change)	18	36	8	22	40	36	18
Exports (percent change)	6	28	7	23	34	36	28
Trade Balance (billions of dollars)	29	25	23	30	26	34	100

## Exhibit 12

Exhibit 12 is comprised of five panels. "Trade Prices" comprises the top three panels, which are graphs on commodity prices, the broad real dollar, and core import prices. "Trade Developments" comprises the bottom two panels, which are a table on trade in goods and services, and a graph on imports and exports of chemicals.

### Trade Prices

#### Top-left panel Commodity Prices

A line chart plots commodity prices on a monthly basis for 2005 through early 2006 (actual) and for early 2006 through 2007 (forecast). The range of the right y-axis, which measures the WTI spot price in dollars per barrel, is [45, 75]. The range of the left y-axis, which measures non-fuel commodities as an index (Jan. 2005=100), is [90, 150]. The WTI spot price starts at about \$47 per barrel, and, with some volatility, rises to about \$67 per barrel by early 2006; over the forecast horizon, the WTI spot price rises gently to about \$69 by end-2006 and eases to about \$68 by the end of the period. The index for non-fuel commodities begins at 100, rises to about 117 by early 2006, and stays at about that level through the end of the forecast period.

#### Top-center panel Broad Real Dollar

A line chart plots the broad real dollar on a quarterly basis for 2005 through early 2006 (actual), and for early 2006 through 2007 (forecast). The range of the y-axis is [90, 110]; index, 2005:Q1 = 100. The broad real dollar starts at 100, rises to nearly 104 by late 2005, falls to just above 101 by early 2006, and then declines further to about 99 by the end of the forecast period.

#### Top-right panel Core Import Prices

A line chart plots core import prices (percent change) on a quarterly basis for the core import price and the core non-fuel price, for 2005 (actual), and for 2006-2007 (forecast). The range of the y-axis is [-2, 10]. The core import price excludes oil, computers, and semiconductors. The core import price starts at about 4-2/3 percent, falls to about 1 percent by mid-2005, rises to about 6½ percent by late 2005, falls to about ¾ percent in early 2006, rises to about 2¾ percent by mid-2006, falls to about 1 percent by early 2007, and then eases to about ¾ percent by the end of the forecast period. The core non-fuel price starts at about 5 percent, falls to about -¼ percent by mid-2005, rises to about 2½ percent by late 2005, rises to about 3¼ percent by mid-2006, falls to about 1½ percent by early 2007, and then declines to about 1 percent by the end of the forecast period.

### Trade Developments

#### Bottom-left panel

## 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. [Return to table](#)

\*\* Excludes oil. [Return to table](#)

### Bottom-right panel

#### Imports and Exports of Chemicals

A line chart plots imports and exports of chemicals on a monthly basis for 2004-2005. The range of the y-axis is [80, 150]; index, Jan. 2004 = 100. Real exports include petroleum products. Both series start at 100. Real imports rise to about 127 by early 2005, fall to about 113 by mid-2005, and then rise sharply to nearly 140 by the end of the period. Real exports rise to about 115 by mid-2005, and then fall sharply to about 98 by the end of the period.

## Exhibit 13

### U.S. External Sector

Exhibit 13 is comprised of five panels, including graphs on real exports and imports, contributions to U.S. GDP growth of imports, exports, and net exports, the current account, and tables on current account forecasts and on the change in the current account balance.

### Top-left panel

#### Real Exports and Imports

A bar chart plots real exports and imports (percent change, a.r.) for 2005:H1 (actual), 2005:H2 (actual), and 2006:H1 through 2007:H2 (projected). The range of the y-axis is [0, 12]. Half years are Q2/Q4 or Q4/Q2. Approximate values for the six periods are as follows.

2005:H1   2005:H2   2006:H1   2006:H2   2007:H1   2007:H2

	2005:H1	2005:H2	2006:H1	2006:H2	2007:H1	2007:H2
Exports	8.9	3.0	6.5	6.3	4.3	6.3
Imports	3.5	5.7	3.3	5.6	4.5	6.4

### Top-right panel

#### Contributions to U.S. GDP Growth

A chart plots the contributions to U.S. GDP growth of net exports as a line, and of exports and imports as bars, for 2005:H1 (actual), 2005:H2 (actual), and 2006:H1 through 2007:H2 (projected). The range of the y-axis is [-1.5, 1.5]; units are percentage points, a.r. Half years are Q2/Q4 or Q4/Q2. Approximate values for the six periods are as follows.

	2005:H1	2005:H2	2006:H1	2006:H2	2007:H1	2007:H2
Net exports	0.3	-0.6	0.2	-0.25	-0.3	-0.35
Exports	0.9	0.3	0.7	0.7	0.4	0.7
Imports	-0.6	-0.9	-0.6	-0.9	-0.8	-1.1

### Middle-left panel

#### Current Account

A line chart plots the current account in terms of percent of GDP and in terms of level (billions of dollars, a.r.) for 1997 through late 2005 (actual) and for late 2005 through 2007 (forecast). The range of the left y-axis, measured in terms of percent of GDP, is [-8, 0]. The range of the right y-axis, measured in terms of level or billions of dollars, a.r., is [-1200, 0]. The graph shows the current account to be in deficit for the entire period, and the two series track closely the entire period. The current account in terms of level starts at a deficit of about \$150 billion, which widens to about \$780 billion by late 2005. The forecast shows the deficit widening further, to about \$1,075 billion by end-2007. The current account in terms of percent of GDP starts at a deficit of about 1¾ percent of GDP, which widens to a deficit of about 6¼ percent of GDP by late 2005. The forecast shows the deficit widening further to about 7½ percent of GDP by end-2007.

### Middle-right panel

#### Current Account Forecasts

Billions of dollars

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. [Return to table](#)

\*\* Adjusted to BOP basis by staff. [Return to table](#)

### Bottom panel

## Change in Current Account Balance

Billions of dollars\*

		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. [Return to table](#)

## Exhibit 14 - Last Exhibit

### Top panel

### ECONOMIC PROJECTIONS FOR 2006

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

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

### Bottom panel

### ECONOMIC PROJECTIONS FOR 2007

	FOMC		Staff
	Range	Central Tendency	
	Percentage change, Q4 to Q4		
<b>Nominal GDP</b>	<b>5 to 6</b>	<b>5 to 5¾</b>	<b>5.0</b>
<b>Real GDP</b>	<b>3 to 4</b>	<b>3 to 3½</b>	<b>3.0</b>
<b>Core PCE Prices</b>	<b>1¾ to 2</b>	<b>1¾ to 2</b>	<b>1.8</b>

	FOMC		Staff
	Range	Central Tendency	
	Average level, Q4, percent		
Unemployment rate	4½ to 5	4¾ to 5	5.1

## Appendix 3: Materials used by Mr. Reinhart

### Material for FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart

January 31, 2006

### Class I FOMC - Restricted Controlled FR

## Exhibit 1

### Policy Considerations

#### Top-left panel

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

A bar chart showing the probability of 25-basis-point tightening moves at the January 31, March 28, and May 10, 2006, FOMC meetings, as implied by federal funds futures prices on Dec. 12, 2005, and January 30, 2006. The odds of policy tightening at the January and March meetings increased between the December and January dates. On January 30 the probability of a tightening at the January meeting was nearly 100 percent and the probability of a move at the March meeting was about 70 percent.

#### Top-right panel

#### Expected Federal Funds Rates\*

A line chart showing the expected path of the federal funds rate in 2006 and 2007, as implied by federal funds and Eurodollar futures prices on December 12, 2005, and January 30, 2006. The two lines are very similar, rising to about 4¾ percent by mid-2006 and then falling back to about 4½ percent by the end of 2007.

\* Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments. [Return to text](#)

#### Middle panel

#### Range of Estimated Equilibrium Real Rates

A chart shows the range of staff estimates of the equilibrium real federal funds rate from 1990 to the first quarter of 2006. The 90 percent confidence interval of the estimates is about 5 percentage points wide over this period. The current estimate is about 2½ percent. The current actual real federal funds rate, assuming a 25 basis point tightening at the January meeting, is also about 2½ percent.

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

#### Bottom-left panel

#### Nominal Federal Funds Rate

A line chart shows the nominal federal funds rate paths for 2005 to 2012 based on assumed inflation objectives of 1½ and 2 percent. The path for a 1½ percent objective rises to about 5 percent at the end of 2006, and then falls to about 4 percent by the end of the period. The path for a 2 percent objective rises gradually to about 4¾ percent in 2010, and then edges a bit lower by 2012.

#### **Bottom-right panel**

##### **Real Federal Funds Rate**

A line chart shows the real federal funds rate paths for 2005 to 2012 based on assumed inflation objectives of 1½ and 2 percent. The path for a 1½ percent objective rises to about 3¼ percent at the end of 2007, and then falls to less than 2½ percent by the end of the period. The path for a 2 percent objective initially dips to about 2 percent by the end of 2006, and then rises to about 2¾ percent by 2010.

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

## **Exhibit 2**

### **Statement Considerations**

#### **Top panel**

##### **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?

#### **Bottom-left panel**

##### **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.

#### **Bottom-right panel**

##### **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**

#### **Top panel**

##### **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.

## **Middle panel**

### **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.

## **Bottom panel**

### **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)**

[Note: In Appendix 3, Table 1, emphasis (strike-through) has been added to indicate red strike-through text in the original document. Strong emphasis (bold) has been added to indicate normal red text in the original document, except on row 2 (the first row of Rationale), where strong emphasis indicates bold red text in the original document.]

	December 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 4¼ percent.	The Federal Open Market Committee decided today to <b>keep raise</b> its target for the federal funds rate <b>unchanged</b> by <del>25 basis points</del> to <b>at</b> 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.
<b>Rationale</b>	2. Despite elevated energy prices and hurricane-related disruptions, the expansion in economic activity appears solid.	<b>Although recent economic data have been uneven</b> <del>Despite elevated energy prices and hurricane-related disruptions,</del> the expansion in economic activity appears solid.	<b>Although recent economic data have been uneven</b> <del>Despite elevated energy prices and hurricane-related disruptions,</del> the expansion in economic activity appears solid.	<b>Although recent economic data have been uneven</b> <del>Despite elevated energy prices and hurricane-related disruptions,</del> 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.	<b>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.</b>	[Unchanged]	<b>While c</b> ore inflation has stayed relatively low in recent months and longer-term inflation expectations remain contained, <del>Nevertheless,</del> possible increases in resource utilization as well as <del>elevated</del> energy <b>and other cost pressures</b> <del>prie</del> es have the potential to <del>add to</del> <b>boost underlying</b> inflation pressures.
<b>Assessment of Risk</b>	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 <del>measured</del> policy firming <b>may well</b> <del>is likely to</del> 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 <del>measured</del> policy firming <b>may well</b> <del>is likely to</del> 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]

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