Appendix 1: Materials used by Mr. Dudley
(1) Treasury Yield Curve Shifts Higher

Source: Bloomberg

(2) 10-Year Treasury Inflation Protected and Nominal Treasury Yields

Source: Bloomberg

(3) TIPS Inflation Compensation: 5-10 Year Horizon
June 1, 2006 – June 25, 2007

Source: Federal Reserve Board
(4) Eurodollar Futures Curve Flattens

Source: Bloomberg

(5) Distribution of Expected Policy Target Among Primary Dealers Prior to May 9 FOMC Meeting

Source: Dealer Policy Survey

(6) Distribution of Expected Policy Target Among Primary Dealers Prior to June 28 FOMC Meeting

Source: Dealer Policy Survey
(7) Primary Dealers' GDP Forecasts

Source: Dealer Policy Survey

(8) Reduced Uncertainty Regarding GDP Forecasts

Source: Dealer Policy Survey

(9) 30-Year Conventional Mortgage-Backed Security Coupon Stack

As of June 25, 2007

Source: Bloomberg

(10) Mortgage Convexity Hedging Drives Up 10-Year Treasury Yields


Source: Bloomberg
(11) Custody Holdings of Treasury Securities at FRBNY Level Off Since Mid-April

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/07</td>
<td>1150</td>
</tr>
<tr>
<td>02/01/07</td>
<td>1175</td>
</tr>
<tr>
<td>03/01/07</td>
<td>1190</td>
</tr>
<tr>
<td>04/01/07</td>
<td>1200</td>
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<tr>
<td>05/01/07</td>
<td>1210</td>
</tr>
<tr>
<td>06/01/07</td>
<td>1225</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York

(12) Ripple Effects in U.S. Equity Market were Modest

<table>
<thead>
<tr>
<th>Date</th>
<th>S&amp;P 500</th>
<th>Nasdaq</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/07</td>
<td>100</td>
<td>97</td>
</tr>
<tr>
<td>02/01/07</td>
<td>102</td>
<td>99</td>
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<tr>
<td>03/01/07</td>
<td>103</td>
<td>98</td>
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<tr>
<td>04/01/07</td>
<td>104</td>
<td>97</td>
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<tr>
<td>05/01/07</td>
<td>105</td>
<td>96</td>
</tr>
<tr>
<td>06/01/07</td>
<td>106</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: Bloomberg

(13) Corporate Debt Spreads

<table>
<thead>
<tr>
<th>Date</th>
<th>Investment Grade (LHS)</th>
<th>High-Yield (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/07</td>
<td>80</td>
<td>120</td>
</tr>
<tr>
<td>02/01/07</td>
<td>80</td>
<td>120</td>
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<tr>
<td>03/01/07</td>
<td>80</td>
<td>120</td>
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<tr>
<td>04/01/07</td>
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<tr>
<td>05/01/07</td>
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</tr>
<tr>
<td>06/01/07</td>
<td>80</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Bloomberg
(14) Currency Performance Against the Japanese Yen

- EUR
- USD
- NZD
- AUD

Source: Bloomberg

(15) Implied Volatility Low, Except for Treasuries

- Value/BPS
- Source: Bloomberg

(16) September 2008 Eurodollar, Euribor, and Euroyen Interest Rate Futures Contracts

- BPS
- Source: Bloomberg
(17) Dollar Strengthens

(18) Japanese Yen Weakens

(19) Subprime BBB-Rated MBS and Related Spreads Widen

Source: Bloomberg

Source: Bloomberg and Bank for International Settlements

Source: JP Morgan
Appendix 2: Materials used by Mr. Wilcox, Ms. Liang, and Mr. Leahy
CLASS II FOMC - Restricted (FR)

Material for

Staff Presentation on the Economic Outlook

June 27, 2007
Exhibit 1

Forecast Summary

Real GDP

Q4/Q4 percent change

May GB
June GB

2007:Q2 2.6
Q3 2.0
Q4 2.1

2008* 2.4


Real GDP

Quarterly percent change
(annual rate)

May June

GB GB

2007:Q2 3.0
Q3 2.5
Q4 2.2

* Q4

Unemployment Rate

Percent

May GB

2007:Q2 4.6
Q3 4.7
Q4 4.8

2008* 5.0


Unemployment Rate

Percent

May June

GB GB

2007:Q2 4.5
Q3 4.6
Q4 4.7

* Q4

Core PCE Prices

Q4/Q4 percent change

May GB
June GB

2007:Q2 2.2
Q3 2.3
Q4 2.3

2008* 2.1


Core PCE Prices

Quarterly percent change
(annual rate)
Exhibit 2

**Single-Family Housing**

**Starts**

- Millions of units, annual rate, ratio scale
- Note: Shading indicates periods of major downturns in single-family starts.

**Declines in Starts during Major Downturns**

<table>
<thead>
<tr>
<th>Period</th>
<th>Decline (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>72:Q3 - 75:Q1</td>
<td>45</td>
</tr>
<tr>
<td>77:Q4 - 81:Q4</td>
<td>64</td>
</tr>
<tr>
<td>90:Q1 - 91:Q1</td>
<td>34</td>
</tr>
<tr>
<td>05:Q3 - 07:Q4</td>
<td>41</td>
</tr>
</tbody>
</table>

- Staff forecast

**Mortgage Rates**

- 30-year FRM
- 1-year ARM
- Source: Freddie Mac

**Inventory of Unsold New Homes**

- Months’ supply
- * Relative to three-month moving average of sales.

**Sales**

- Millions, ratio scale
- Existing homes
- New homes

**Estimated Valuation Errors For Single-Family Homes**

- Percent
- Overvaluation
- Undervaluation
**Exhibit 3**

**Business Fixed Investment**

**Sales of Medium and Heavy Trucks**
Thousands of units, ratio scale

**Orders and Shipments of Nondefense Capital Goods Excluding Aircraft**
Billions of chained (2000) dollars, ratio scale

**Indicators of Business Conditions**

**Outlook for Real E&S**
(Percent change, annual rate*)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1</strong></td>
<td>1.3</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>H2</strong></td>
<td>4.6</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.3</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Motor vehicles</strong></td>
<td>-4.1</td>
<td>.2</td>
</tr>
<tr>
<td><strong>Aircraft</strong></td>
<td>1.2</td>
<td>.1</td>
</tr>
<tr>
<td><strong>High-tech</strong></td>
<td>5.1</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>-.9</td>
<td>.9</td>
</tr>
</tbody>
</table>

* 2008 is Q4/Q4; half years are either Q4/Q2 or Q2/Q4. Contributions for 2007/H2 do not add to total due to rounding.

**Real Business Output**

**User Cost of Capital**

Four-quarter percent change
Exhibit 4

Inflation
(Part 1)

PCE Total
Four-quarter percent change

PCE Food Prices
Four-quarter percent change

PCE Energy Prices
Four-quarter percent change

PCE Core Prices
Four-quarter percent change

Non-Market-Based
PCE Prices
(Quarterly percent change, annual rate)

<table>
<thead>
<tr>
<th></th>
<th>Jan. GB</th>
<th>June GB</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007:Q1</td>
<td>3.2</td>
<td>2.3</td>
<td>-.9</td>
</tr>
<tr>
<td>Q2</td>
<td>3.5</td>
<td>2.6</td>
<td>-.9</td>
</tr>
<tr>
<td>H2</td>
<td>3.5</td>
<td>3.4</td>
<td>-.1</td>
</tr>
</tbody>
</table>

Tenants’ Rent and OER
Three-month percent change, annual rate
**Exhibit 5**

**Inflation (Part 2)**

**Have Inflation Expectations Drifted Up?**
- Have inflation expectations moved above levels that were typical from mid-1996 to mid-2004?
  - During that period, core PCE inflation was mostly between 1 percent and 2 percent.
- Answer varies by series.

**Reuters/Michigan Inflation Expectations, Next 12 Months**

- Note: Ranges defined using data from mid-1996 to mid-2004.

**SPF CPI Inflation Expectations, 1-Year Ahead**

- Note: SPF is the Survey of Professional Forecasters, conducted by FRB Philadelphia.

**Unemployment Rate**

- Staff NAIRU
- May GB

**PCE Price Projection**

<table>
<thead>
<tr>
<th>(Percent change, Q4/Q4)</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PCE price index</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>2. May GB</td>
<td>(2.9)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>3. Core</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>4. May GB</td>
<td>(2.3)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>5. Market based</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>6. May GB</td>
<td>(2.0)</td>
<td>(1.8)</td>
</tr>
</tbody>
</table>
Corporate Earnings and Securities Prices

Corporate Earnings Growth

- S&P 500 EPS
- NIPA, economic profits before tax

Four-quarter percent change


Q1 Q2

e - Q2 is the bottom-up forecast by equity analysts.
Source: I/B/E/S for S&P 500 earnings per share.

Earnings Forecast
(Percent change)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyst</td>
<td>S&amp;P 500¹</td>
<td>8</td>
</tr>
<tr>
<td>Blue Chip</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Staff NIPA²</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

1. Operating earnings per share
2. Economic profits before tax

Equity Valuation for S&P 500

Trend E/P *

Real Treasury perpetuity yield **


+ - Denoted latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
* Estimated using analyst year-ahead earnings from I/B/E/S.

Decomposition of High-Yield Spread

High-yield spread*

Compensation for expected loss**


* Yield on Merrill Lynch Master II less comparable maturity Treasury.
** Estimated from staff model of bond defaults and losses.
+ - Observation for Q2 is June 26.

12-Month Forward Price-Earnings Ratio

S&P 500

Small-cap median*


* Set of firms approximating the Russell 2000.
Source: I/B/E/S.

Debt-to-Assets for Nonfinancial Corporations

Speculative-grade

Investment-grade

Note: 2007 data are Q1 preliminary estimates.
Source: Compustat.


**Exhibit 7**

**Leveraging of Nonfinancial Corporations**

### Shareholder Payouts

Billions of dollars, annual rate

- **Cash mergers**
- **Share repurchases**
- **Dividends**

Note: Dividend and share repurchases for 2006:H2 and 2007:Q1 are preliminary.

### Share Repurchases, 2005 - 2006

(Ratios to assets, percent)

<table>
<thead>
<tr>
<th></th>
<th>Greater than 5</th>
<th>0 to 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Change in debt</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Debt</td>
<td>22</td>
<td>26</td>
</tr>
</tbody>
</table>

Note: Sample of 1,900 firm-year observations for repurchases of 0 to 5 percent and 350 for greater than 5 percent.

Source: Compustat.

### Speculative-Grade Bond Issuance for M&A

Billions of dollars, annual rate

- **Other M&A**
- **LBOs**

* Staff estimate based on data through May.

Source: Merrill Lynch and Securities Data Company.

### Speculative-Grade Loan Origination for M&A*

Billions of dollars, annual rate

* Includes unrated commitments and loans.

* Staff estimate based on data through mid-June.

Source: DealScan.

### Asset Returns

Return over prior 12 months

- **Sharpe ratio**
  - Loans: 0.95
  - HY bonds: 0.58

* Total returns on the CSFB Leveraged Loan Index.

** Total returns on the Merrill Lynch Master II Index of high-yield bonds.

### Risky Debt to Total Outstanding Debt

Percent

- **Quarter-end**
- **Adversely rated syndicated loan commitments**

Percent

- **Annual**

* Loans rated by examiners that are either special mention, substandard, doubtful, or loss.

p - Preliminary.

Source: Shared National Credit Data and Moody's.
Exhibit 8

Household Financial Conditions

**Net Worth**

Ratio to disposable income

![Graph showing net worth ratio to disposable income over time.](image)

- Quarter-end
- **Sources:** For credit cards and nonrevolving, Call Report; for auto loans, Federal Reserve; for mortgages, MBA.

**Household Delinquency Rates**

- Credit card loans at commercial banks
- Nonrevolving consumer loans at commercial banks
- Auto loans at domestic auto finance companies
- Residential mortgages

![Graph showing household delinquency rates.](image)

**Serious Mortgage Delinquency Rates**

Percent of loans

- Adjustable-rate
- Fixed-rate
- Subprime
- Prime and near-prime

![Graph showing serious mortgage delinquency rates.](image)

- **Source:** First American LoanPerformance.

**Serious Delinquencies in First Six Months**

Percent of loans

- Adjustable-rate loans
- Subprime
- Prime and near-prime

![Graph showing serious delinquencies in first six months.](image)

- **Source:** First American LoanPerformance.

**Number of Foreclosure Starts**

Thousands, annual rate

- Other (FHA/VA)
- Prime
- Subprime

![Graph showing number of foreclosure starts.](image)

- **Source:** Staff estimates based on data from the Mortgage Bankers Association.

**Q1 Foreclosure Starts and Predictions**

- High in OH, MI and IN, but little changed
- Increased CA, FL, NV and AZ, and by more than in total U.S.
- Model foreclosure starts on state house price growth, unemployment, subprime share, interest rates, state fixed effects, and other variables
- Predicts 1.4 million in 2007 and a rise to 1.5 million in 2008 assuming national home prices are flat
**Subprime Market Risks**

**Distribution of First Rate Reset of Subprime ARMs**
*Outstanding as of March 2007*

![Bar chart showing distribution of first rate resets for subprime ARMs as of March 2007.]

**Characteristics of Interest Rate Resets**
- Snapshot of subprime adjustable-rate mortgages:
  - Initial rate: 7.35 percent
  - Fully indexed rate = LIBOR + margin
  - Most have caps on increase

**Contract Interest Rates on Subprime Adjustable Rate Mortgages Around Reset Dates**

![Graph showing contract interest rates around reset dates.]

**Mortgages With Resets**
- Many borrowers refinance before reset dates
- 25 percent of mortgages had a first reset
- 12 percent had a second reset

**Spreads on New Subprime RMBS Issues**

![Graph showing spreads on new subprime RMBS issues.]

**Subprime Originations**

![Bar chart showing subprime originations by year.]

Note: Subprime 2/28 and 3/27 loans that are securitized and outstanding in March 2007. Source: First American LoanPerformance.

Note: Subprime 2/28 and 3/27 loans that are securitized and outstanding in March 2007. Source: First American LoanPerformance.

Note: Measured relative to LIBOR. Source: Trader estimates provided by Merrill Lynch.

Source: Inside Mortgage Finance for originations and LoanPerformance for purchase shares.
Foreign Growth and Domestic Demand

Real GDP

* Weighted by shares of U.S. merchandise exports.
Note: Horizontal line marks 3.5 percent.

Foreign Final Domestic Demand*
Contributions to Q4/Q4 GDP growth, percentage points

* Weighted by shares of U.S. merchandise exports.

Foreign Fixed Investment Spending*
Percent of nominal GDP

* Weighted by shares of U.S. merchandise exports.

Unemployment Rates

Monthly

Euro area
Canada
Japan

Primary Commodity Prices
Index, January 2001 = 100

Dollars per barrel

* IMF index, weighted by shares of U.S. merchandise imports.
** IMF index, weighted by global export shares.
Foreign Consumer Prices and Primary Commodity Prices

Pass-Through of Crude Oil Prices to Retail Gasoline Prices

<table>
<thead>
<tr>
<th>Country</th>
<th>Pass-Through*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>.25</td>
</tr>
<tr>
<td>Japan</td>
<td>.06</td>
</tr>
<tr>
<td>Canada</td>
<td>.71</td>
</tr>
<tr>
<td>United States</td>
<td>.84</td>
</tr>
</tbody>
</table>

* Ratio of percent change in local-currency price of regular unleaded gasoline to percent change in local-currency price of imported crude oil.

Consumer Energy Prices

Food Prices in Mexico

<table>
<thead>
<tr>
<th>Product</th>
<th>Percent change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tortillas and corn products</td>
<td>160</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>120</td>
</tr>
</tbody>
</table>

* Twelve-month change.

Food Prices in China

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat and poultry</td>
<td>30</td>
</tr>
<tr>
<td>Food</td>
<td>15</td>
</tr>
</tbody>
</table>

* Twelve-month change.
Foreign Inflation: Core, Expectations, and Outlook

Core Consumer Prices

Emerging Market Economies

Twelve-month percent change

Advanced Foreign Economies

Twelve-month percent change

Change in Ten-Year Sovereign Bond Yields

(12/29/06 - 6/26/07, basis points)

<table>
<thead>
<tr>
<th>Country</th>
<th>Nominal Yield</th>
<th>Indexed Real Yield</th>
<th>Inflation Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada*</td>
<td>54</td>
<td>43</td>
<td>11</td>
</tr>
<tr>
<td>Euro area</td>
<td>67</td>
<td>65</td>
<td>2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>73</td>
<td>56</td>
<td>17</td>
</tr>
<tr>
<td>Japan</td>
<td>19</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>United States</td>
<td>40</td>
<td>28</td>
<td>12</td>
</tr>
</tbody>
</table>

* Staff estimate.

Headline Inflation Expectations

(Percent, year-average over year-average)

<table>
<thead>
<tr>
<th>Country</th>
<th>Dec. 06</th>
<th>Jun. 07</th>
<th>Apr. 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>1.7</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.2</td>
<td>2.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3</td>
<td>0.0</td>
<td>1.2</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>2.6</td>
<td>2.1</td>
</tr>
</tbody>
</table>

* Expectations for inflation in years 2013 to 2017.
Source: Consensus Economics Surveys.

Headline Consumer Prices

Advanced Foreign Economies

Four-quarter percent change

Emerging Market Economies

Four-quarter percent change

Indexed Inflation

Nominal Real Compensation

Canada* 54 43 11
Euro area 67 65 2
United Kingdom 73 56 17
Japan 19 6 13
United States 40 28 12

* 15-year maturities.
What Explains the Improved Outlook for External Adjustment?

(Part 1)

Current Account Balance
Billions of dollars, annual rate

Trade Balance
Billions of dollars, annual rate

Foreign Economic Activity*
Index, 2002Q1 = 100

Broad Real Dollar
Index, 2002Q1 = 100

Real Exports of Core Goods
Billions of chained (2000) dollars, annual rate

Core Exports in 2006
(Percent)

<table>
<thead>
<tr>
<th>Type</th>
<th>Nominal Share</th>
<th>Real Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Core Goods</td>
<td>100</td>
<td>10.8</td>
</tr>
<tr>
<td>2. Capital Goods</td>
<td>34</td>
<td>12.8</td>
</tr>
<tr>
<td>3. Ind. Supplies</td>
<td>29</td>
<td>13.0</td>
</tr>
<tr>
<td>4. Automotive</td>
<td>12</td>
<td>3.5</td>
</tr>
<tr>
<td>5. Consumer</td>
<td>14</td>
<td>11.5</td>
</tr>
<tr>
<td>6. Other</td>
<td>12</td>
<td>7.3</td>
</tr>
</tbody>
</table>

* Q4/Q4 percent change.
What Explains the Improved Outlook for External Adjustment?

(Part 2)

U.S. GDP
Trillions of chained (2000) dollars, annual rate

Real Imports of Core Goods
Billions of chained (2000) dollars, annual rate

U.S. Oil Import Price
Dollars per barrel

Net Investment Income
Billions of dollars, annual rate

Contribution of Real Net Exports to U.S. GDP Growth
(Percentage points)

<table>
<thead>
<tr>
<th></th>
<th>Greenbook</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>May 2006</td>
</tr>
<tr>
<td>2006</td>
<td>-.3</td>
</tr>
<tr>
<td>2007: Q1</td>
<td>-.5</td>
</tr>
<tr>
<td>Q2</td>
<td>.3</td>
</tr>
<tr>
<td>H2</td>
<td>-.4</td>
</tr>
<tr>
<td>2008</td>
<td>--</td>
</tr>
</tbody>
</table>
Appendix 3: Materials used by Mr. Reinhart
Material for
FOMC Briefing on Economic Projections of FOMC Participants

Vincent R. Reinhart
June 27, 2007
Exhibit 1
Summary of June Trial Run Economic Projections

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(2.2 to 2.5)</td>
<td>(2.5 to 2.8)</td>
<td>(2.6 to 3.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(2.0 to 2.5)</td>
<td>(2.5 to 2.8)</td>
<td>(2.5 to 3.0)</td>
</tr>
<tr>
<td>Range</td>
<td>(2.0 to 2.7)</td>
<td>(2.5 to 3.0)</td>
<td>(2.0 to 3.1)</td>
</tr>
<tr>
<td>(Range of May projections)</td>
<td>(1.8 to 2.6)</td>
<td>(2.4 to 3.0)</td>
<td>(2.5 to 3.0)</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(4.6 to 4.7)</td>
<td>(4.7 to 4.8)</td>
<td>(4.7 to 5.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(4.7 to 4.8)</td>
<td>(4.7 to 4.9)</td>
<td>(4.7 to 5.0)</td>
</tr>
<tr>
<td>Range</td>
<td>(4.6 to 4.8)</td>
<td>(4.5 to 5.0)</td>
<td>(4.4 to 5.1)</td>
</tr>
<tr>
<td>(Range of May projections)</td>
<td>(4.5 to 4.9)</td>
<td>(4.6 to 5.0)</td>
<td>(4.6 to 5.1)</td>
</tr>
<tr>
<td><strong>Core PCE Inflation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(2.0 to 2.2)</td>
<td>(1.8 to 2.0)</td>
<td>(1.6 to 2.0)</td>
</tr>
<tr>
<td>(Central tendency of May projections)</td>
<td>(2.1 to 2.3)</td>
<td>(1.8 to 2.1)</td>
<td>(1.6 to 2.0)</td>
</tr>
<tr>
<td>Range</td>
<td>(1.9 to 2.2)</td>
<td>(1.7 to 2.1)</td>
<td>(1.5 to 2.0)</td>
</tr>
<tr>
<td>(Range of May projections)</td>
<td>(2.0 to 2.3)</td>
<td>(1.8 to 2.4)</td>
<td>(1.5 to 2.3)</td>
</tr>
<tr>
<td><strong>Total CPI Inflation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>(3.1 to 3.6)</td>
<td>(2.1 to 2.3)</td>
<td>(2.0 to 2.3)</td>
</tr>
<tr>
<td>Range</td>
<td>(2.3 to 3.7)</td>
<td>(2.0 to 2.5)</td>
<td>(1.8 to 2.5)</td>
</tr>
</tbody>
</table>
Exhibit 2
Central Tendency and Range of June Economic Projections

GDP Growth (Q4-to-Q4)
- Actual GDP Growth
- Central Tendency of Projections
- Range of Projections

Civilian Unemployment Rate (Q4 level)
- Actual Unemployment Rate
- Central Tendency of Projections
- Range of Projections

Core PCE Inflation (Q4-to-Q4)
- Actual Core PCE Inflation
- Central Tendency of Projections
- Range of Projections

Total CPI Inflation (Q4-to-Q4)
- Actual Total CPI Inflation
- Central Tendency of Projections
- Range of Projections
Exhibit 3
Uncertainty and Risks- GDP Growth

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.

Number of participants

<table>
<thead>
<tr>
<th></th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher (A)</td>
<td>14</td>
</tr>
<tr>
<td>Broadly similar (B)</td>
<td>12</td>
</tr>
<tr>
<td>Lower (C)</td>
<td>10</td>
</tr>
</tbody>
</table>

2(b): Please indicate your judgment of the risk weighting around your projections.

Number of participants

<table>
<thead>
<tr>
<th></th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted to upside (A)</td>
<td>14</td>
</tr>
<tr>
<td>Broadly balanced (B)</td>
<td>12</td>
</tr>
<tr>
<td>Weighted to downside (C)</td>
<td>10</td>
</tr>
</tbody>
</table>
Exhibit 4  
Distribution of Participants' Unemployment Projections: 2007-2009

Distribution of Unemployment Projections: 2007

Distribution of Unemployment Projections: 2008

Distribution of Unemployment Projections: 2009
Exhibit 5
Distribution of Participants' Core PCE Inflation Projections: 2007-2009

Distribution of Core PCE Inflation Projections: 2007

Distribution of Core PCE Inflation Projections: 2008

Distribution of Core PCE Inflation Projections: 2009
### Exhibit 6
MONETARY POLICY REPORT ECONOMIC PROJECTIONS
2007 PROJECTIONS

<table>
<thead>
<tr>
<th></th>
<th>FOMC</th>
<th></th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
<td>Central Tendency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage change, Q4 to Q4-------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>4.5% to 5%</td>
<td>4% to 5%</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4.4% to 5.2%)</td>
<td>(5.0% to 5.7%)</td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>2% to 2.4%</td>
<td>2.4% to 2.6%</td>
<td>2.2</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2.2% to 3.3%)</td>
<td>(2.5% to 3.3%)</td>
<td></td>
</tr>
<tr>
<td>Core PCE Prices</td>
<td>2% to 2.4%</td>
<td>2% to 2.4%</td>
<td>2.0</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2.0% to 2.8%)</td>
<td>(2.2% to 2.8%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average level, Q4, percent--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.5% to 4.9%</td>
<td>4.5% to 4.9%</td>
<td>4.7</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4.4% to 4.9%)</td>
<td>(4.6% to 4.9%)</td>
<td></td>
</tr>
</tbody>
</table>

2008 PROJECTIONS

<table>
<thead>
<tr>
<th></th>
<th>FOMC</th>
<th></th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
<td>Central Tendency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage change, Q4 to Q4-------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>4.5% to 5%</td>
<td>4% to 5%</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4.4% to 5.2%)</td>
<td>(4.5% to 5.7%)</td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>2% to 2.4%</td>
<td>2.4% to 2.6%</td>
<td>2.5</td>
</tr>
<tr>
<td>February 2007</td>
<td>(2.2% to 3.3%)</td>
<td>(2.5% to 3.3%)</td>
<td></td>
</tr>
<tr>
<td>Core PCE Prices</td>
<td>1.5% to 2%</td>
<td>1.5% to 2%</td>
<td>2.0</td>
</tr>
<tr>
<td>February 2007</td>
<td>(1.4% to 2.4%)</td>
<td>(1.4% to 2.4%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average level, Q4, percent--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.5% to 5%</td>
<td>about 4.9%</td>
<td>4.8</td>
</tr>
<tr>
<td>February 2007</td>
<td>(4.4% to 5%)</td>
<td>(4.6% to 4.9%)</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4: Materials used by Mr. Reinhart
Class I FOMC – Restricted Controlled FR

Material for
FOMC Briefing on Monetary Policy Alternatives

Vincent Reinhart
June 27, 2007
Exhibit 1
Financial Market Developments

Expected federal funds rates

Nominal and inflation indexed treasury yields

Distribution of primary dealers' federal funds rate forecasts at year-end

Subprime BBB- mortgage CDS index spreads

Change in selected financial market quotes

Note. Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.

Source: FRBNY desk primary dealers' survey

Source: JP Morgan.

*Corresponds to pools of mortgages originated in that period.

Note. Measured relative to Libor.
Exhibit 2
Case for Alternative B

Staff Forecast

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>2.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Revision</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Core PCE Inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Revision</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

2007 Q4 Target Funds Rate

Equilibrium Real Federal Funds Rate

FRB/US Model Simulations of Estimated Outcome-Based Rule

Implied Distribution of Federal Funds Rate Six Months Ahead*

*Estimates from options on Eurodollar futures contracts, adjusted to estimate expectations for the federal funds rate.
## Exhibit 3
### Wording of the Statement

<table>
<thead>
<tr>
<th>May FOMC</th>
<th>Revised Alternative B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Could leave misimpression about jumping-off point</td>
<td>Changed to make clear H1 averaging</td>
</tr>
<tr>
<td>2. Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.</td>
<td>The economy appears to have grown at a moderate pace during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over the coming quarters.</td>
</tr>
<tr>
<td>3. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.</td>
<td>Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.</td>
</tr>
<tr>
<td>4. In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>[Unchanged]</td>
</tr>
</tbody>
</table>

Twelve-month change in core PCE is 2 percent.

---

*June 27-28, 2007 Authorized for Public Release 254 of 261*
2. Despite the ongoing adjustment in the housing sector, the economy appears to have grown at a moderate pace so far this year.

3. "...in combination with earlier increases in the prices of energy and other commodities..."
### Table 1: Alternative Language for the June 2007 FOMC Announcement

<table>
<thead>
<tr>
<th>May FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Decision</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.</td>
<td>The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 5 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate 25 basis points to 5 1/2 percent.</td>
</tr>
<tr>
<td>2. Economic growth slowed in the first part of the year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.</td>
<td>So far this year, the economy appears to have grown at a moderate pace and seems likely to continue to do so over coming quarters. But ongoing weakness in the housing sector implies a significant risk that economic activity might grow more slowly than anticipated.</td>
<td>The economy appears to have grown at a moderate pace during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over coming quarters.</td>
<td>Despite the ongoing adjustment in the housing sector, the economy appears to have grown at a moderate pace so far this year. The economy seems likely to continue to expand at a moderate pace over coming quarters.</td>
</tr>
<tr>
<td>3. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.</td>
<td>Core inflation has edged lower in recent months and is expected to remain moderate over the next year or so. However, the high level of resource utilization has the potential to add to inflation pressures going forward.</td>
<td>Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain inflation pressures.</td>
<td>Although readings on core inflation have improved modestly in recent months, core inflation remains somewhat elevated. Inflation pressures seem likely to moderate over time, but considerable uncertainty surrounds that judgment. Moreover, the high level of resource utilization, in combination with earlier increases in the prices of energy and other commodities, has the potential to sustain those pressures.</td>
</tr>
<tr>
<td><strong>Rationale</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>With this policy action, the Committee judges that the downside risk to economic growth now roughly balances the upside risk to inflation. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
<td>[Unchanged]</td>
<td>Even after this action, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.</td>
</tr>
</tbody>
</table>
Appendix 5: Materials used by Mr. Reinhart
Class I FOMC - Restricted-Controlled (FR)

Material for
FOMC Briefing on FOMC Communications

Vincent R. Reinhart
June 28, 2007
Did the changes to the projections process address the concerns expressed in answer to the May survey?

Those concerns related to:
- Sharing forecast submissions
- Providing information on the federal funds rate path
- Characterizing uncertainty and risks about the forecast

In what form should the projections be released?

Option 1
Stand-alone section in the minutes, reproduced in the Monetary Policy Report

Option 2
Brief reference in the minutes, main narrative in an annex or separate document, reproduced in the Monetary Policy Report

Option 3
Fully integrated discussion in the minutes and separate discussion in the Monetary Policy Report

When should the projections be finalized?

The choices include:
- the day of the meeting
- the end of the week of the meeting
- as late as practicable to be close to the official release of the document
4. How do you assess the benefits and costs of further expediting the minutes?

<table>
<thead>
<tr>
<th>Potential Benefits</th>
<th>Potential Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Will be more of an aid to the private sector in understanding the current outlook</td>
<td>● Increased effort to ensure your schedules align with drafting and approval</td>
</tr>
<tr>
<td>● You will be able to use material from the minutes for public statements more promptly</td>
<td>● Might lead to more compromises that make the minutes less informative</td>
</tr>
<tr>
<td>● May facilitate making the post-meeting statement shorter or less substantive.</td>
<td>● More staff resources will be needed</td>
</tr>
</tbody>
</table>

5. How do you assess the current content of the minutes, including the staff's description of recent data?
Post-Meeting Statement

6 What is the appropriate role of the statement in light of the changes to the Committee’s other communication devices?

7 Should the statement provide forward-looking guidance on the:

   - near-term prospects for the target federal funds rate?
     (The left hand side of the policy rule)
   - medium-term prospects toward fostering the dual mandate?
     (The right hand side of the policy rule)

8 What policy rate assumption should the statement be based upon?

   - appropriate path of monetary policy
   - the path expected in financial markets
   - an unchanged federal funds rate

9 What is the appropriate degree of pre-meeting consultation with participants on the statement?

10 Should the current approval process for the statement be continued?