Appendix 1: Materials used by Mr. Dudley

Class II FOMC - Restricted FR

Page 1

Top panel

(1)

Title: Lower Rated ABX Tranches Keep Falling
Series: AAA, AA, A, BBB, and BBB- rated tranches of the ABX 07-01 vintage
Horizon: January 1, 2007 - October 26, 2007
Description: Spreads on AAA, AA, A, BBB, and BBB- rated tranches of the ABX 07-01 vintage have widened since the S&P 500 rating downgrades.

Source: JP Morgan

Middle panel

(2)

Title: Outstanding ABCP Volume Contraction Slows
Series: Outstanding volume of ABCP and average overnight and 30-day rates on ABCP
Horizon: January 1, 2007 - October 24, 2007
Description: While rates on ABCP decline, the outstanding ABCP volume has been declining more slowly.

Source: Federal Reserve Board

Bottom panel

(3)

Title: Secured CP Spreads Narrow
Series: Spread between secured and unsecured commercial paper discount rates and spread between secured commercial paper discount rates and one-month overnight index swap rates
Horizon: January 1, 2007 - October 26, 2007
Description: Since the September 18 FOMC meeting, spread between secured commercial paper rates and unsecured commercial paper rates and spreads between secured commercial paper and one-month overnight index swap rates have narrowed.

Source: Federal Reserve Board
Page 2

Top panel
(4)

Title: High-Yield Issuance Recovering
Series: High-yield and investment grade issuance volume by week
Horizon: January 2007 - October 2007
Description: Issuance for high-yield securities has grown in recent weeks.

Source: Bloomberg

Middle panel
(5)

Title: CLO Issuance Picks Up, While CDO Issuance Remains Depressed
Series: CLO and CDO issuance volume by month
Horizon: January 2006 - October 2007
Description: While CLO issuance has picked up in recent months, CDO issuance remains low.

Source: Merrill Lynch

Bottom panel
(6)

Title: Spread between Jumbo and Conforming Mortgage Rates Has Narrowed Somewhat
Series: Jumbo mortgage rates and conforming mortgage rates
Horizon: January 1, 2007 - October 26, 2007
Description: The spread between jumbo and conforming rates has narrowed since the September FOMC meeting.

Source: Bloomberg

Page 3

Top panel
(7)

Title: Spreads between U.S. Term Funding Rates and OIS Rates Narrow
Series: Spread between one-month Libor rate and one-month interest rate swap rates and spread between three-month Libor rate and three-month interest rate swap rate
Horizon: July 1, 2007 - October 26, 2007
Description: The spread between one-month Libor rate and one-month interest rate swap rates and the spread between three-month Libor rate and three-month interest rate swap rate have narrowed since the September 18 FOMC meeting.

Source: Bloomberg

Middle panel
(8)
Title: Euro Term Funding Pressures Also Evident
Series: Spread between one-month Euribor rates and one-month EONIA swap rates and spread between three-month Euribor rates and three-month EONIA swap rates
Horizon: July 1, 2007 - October 26, 2007
Description: The spread between one-month Euribor rate and one-month EONIA swap rates and the spread between three-month Euribor rate and three-month EONIA swap rate have remain elevated.
Source: Bloomberg

Bottom panel
(9)

Title: CDS Spread on Financials - A Bumpy Rate
Series: Credit default swap rates on mortgage insurers, financial guarantors, large Commercial banks, and broker dealers
Horizon: June 1, 2007 - October 26, 2007
Description: Credit default swap rates on mortgage insurers, financial guarantors, large Commercial banks, and broker dealers have widened in recent sessions.
Source: Markit

Page 4

Top panel
(10)

Title: Global Credit Default Swap Spreads
Series: ITRAXX Crossover Series 7 spread and LCDX spread
Horizon: March 1, 2007 - October 26, 2007
Description: ITRAXX crossover spreads and LCDX spreads have remained fairly stable but elevated since the September FOMC meeting.
Source: Bloomberg

Middle panel
(11)

Title: U.S. Equity Indices Reverse Sharp Decline
Series: S&P 500 index, Nasdaq index, and Russell 2000 index
Horizon: January 1, 2007 - October 26, 2007
Description: U.S. equity indices have reversed the sharp decline seen during the summer.
Source: Bloomberg

Bottom panel
(12)

Title: Equity Earning Expectations
Series: 2007 and 2008 S&P bottom-up equity analyst forecasts
Horizon: January 1, 2007 - October 19, 2007
Description: While equity earning expectations have declined for 2007, the earning forecast for 2008 has risen.
Page 5

Top panel
(13)

**Title:** Demand for Downside Protection on S&P 500 Has Fallen  
**Series:** 30-Day, 25-Delta, put-call risk reversal on S&P 500  
**Horizon:** January 1, 2007 - October 25, 2007  
**Description:** 30-Day, 25-Delta, put-call risk reversal on S&P 500 has fallen in October.

Source: OptionMetrics

Middle panel
(14) Correlation of Daily Price/Yield Changes

August 7, 2007 - September 17, 2007  
Blue boxes denote correlations greater than 0.50 or less than -0.50

<table>
<thead>
<tr>
<th>Variables</th>
<th>2YR Yield</th>
<th>10YR Yield</th>
<th>S&amp;P</th>
<th>USD/JPY</th>
<th>Swap Spreads</th>
<th>VIX</th>
<th>CDX IG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2YR Yield</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10YR Yield</td>
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<tr>
<td>USD/JPY</td>
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<tr>
<td>Swap Spreads</td>
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<td>-0.53</td>
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<td>-0.37</td>
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<tr>
<td>VIX</td>
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<tr>
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<tr>
<td>Merrill-HY</td>
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<td>-0.78</td>
<td>0.54</td>
<td>0.47</td>
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</tbody>
</table>

Source: Bloomberg and JP Morgan

Bottom panel
(15) Correlation of Daily Price/Yield Changes

September 18, 2007 - October 26, 2007  
Blue boxes denote correlations greater than 0.50 or less than -0.50

<table>
<thead>
<tr>
<th>Variables</th>
<th>2YR Yield</th>
<th>10YR Yield</th>
<th>S&amp;P</th>
<th>USD/JPY</th>
<th>Swap Spreads</th>
<th>VIX</th>
<th>CDX IG</th>
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</thead>
<tbody>
<tr>
<td>2YR Yield</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>10YR Yield</td>
<td>0.77</td>
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<tr>
<td>S&amp;P</td>
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<td>0.28</td>
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<td>USD/JPY</td>
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<tr>
<td>Swap Spreads</td>
<td>0.37</td>
<td>0.27</td>
<td>-0.53</td>
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<tr>
<td>Variables</td>
<td>2YR Yield</td>
<td>10YR Yield</td>
<td>S&amp;P</td>
<td>USD/JPY</td>
<td>Swap Spreads</td>
<td>VIX</td>
<td>CDX IG</td>
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<tr>
<td>VIX</td>
<td>-0.13</td>
<td>-0.26</td>
<td>-0.91</td>
<td>-0.52</td>
<td>0.47</td>
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<tr>
<td>CDX IG</td>
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<td>0.51</td>
<td>0.78</td>
<td>0.58</td>
<td>-0.37</td>
<td>-0.74</td>
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</tr>
<tr>
<td>Merrill-HY</td>
<td>-0.67</td>
<td>-0.70</td>
<td>-0.40</td>
<td>-0.41</td>
<td>0.08</td>
<td>0.28</td>
<td>-0.65</td>
</tr>
</tbody>
</table>

Source: Bloomberg and JP Morgan

Page 6

Top panel
(16)

Title: Oil Refining Crack Spread Near Lows
Series: Oil refining crack spread and average crack spread since January 2005
Horizon: January 1, 2005 - October 26, 2007
Description: The oil refining crack spread is near its historical lows.
Source: Bloomberg

Middle panel
(17)

Title: Dollar Weakens
Series: Yen-USD, Euro-USD, and broad trade-weighted dollar
Horizon: January 1, 2007 - October 26, 2007
Description: Since mid-June, the U.S. dollar has softened against the Euro and Japanese Yen. Consistent with this, the Broad Trade-Weighted Dollar has also been declining.
Source: Bloomberg and Federal Reserve Board

Bottom panel
(18)

Title: Dollar Tracks Interest Rate Differentials
Series: Eurodollar and Euribor contract spread and Euro-USD currency pair
Horizon: January 1, 2007 - October 26, 2007
Description: The U.S. Dollar against the Euro has been tracking closely to the change in interest rate differentials between the U.S and the Euro-area.
Source: Bloomberg

Page 7

Top panel
(19)

Title: Probabilities on Policy Rate Expectations for October FOMC Meeting
Series: Probabilities for a 4.25, 4.50, or 4.75 percent target rate at the October 31 FOMC meeting
Description: In the days leading up to the October FOMC meeting, probabilities for 4.50 percent target rate increased sharply while probabilities declined significantly for 4.75 percent target rate.

Source: Cleveland Fed

Middle panel

Title: Distribution of Expected Policy Target Among Primary Dealers Prior to October 31 FOMC Meeting
Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 10/23/2007
Horizon: Q4 2007 - Q4 2008
Description: Compared to the September policy survey, there is less dispersion of policy rate expectation for Q4 2007. Dealers on average expect slightly higher rates than what is currently priced into Eurodollar futures for 2008.

Source: Dealer Policy Survey

Bottom panel

Title: Distribution of Expected Policy Target Among Primary Dealers Prior to September 18 FOMC Meeting
Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 9/10/2007
Horizon: Q4 2007 - Q4 2008
Description: There is more dispersion regarding where dealers expect the policy rate to be in Q4 2007. Dealers on average expect higher rates than what is currently priced into Eurodollar futures for 2008.

Source: Dealer Policy Survey

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Top panel

Title: TIPS Inflation Compensation: 5-10 Year Horizon
Series: Federal Reserve Board's 5-10 Year horizon TIPS inflation compensation and Barclays 5-10 Year horizon TIPS inflation compensation
Horizon: June 1, 2006 - October 26, 2007
Description: TIPS inflation compensation over a 5-10 year horizon has increased since June as measured by both the Federal Reserve Board and Barclays.

Source: Federal Reserve Board and Barclays Capital

Middle panel

Title: While Day-to-Day Effective Rate Remains Volatile, Cumulative Effective Rate at Target
**Series**: Rolling cumulative effective rate since 9/19 and target fed funds rate  
**Horizon**: September 18, 2007 - October 26, 2007  
**Description**: The rolling cumulative effective rate since 9/19 has been close to the target rate during the intermeeting period.

Source: Federal Reserve Bank of New York

**Bottom panel**  
(24)

**Title**: Effective versus Target Fed Funds Rate  
**Series**: Effective and target fed funds rate  
**Horizon**: July 1, 2007 - October 26, 2007  
**Description**: While there has been a greater amount of day-to-day volatility in the effective rate, the effective rate has been fairly even dispersed above and below the policy rate.

Source: Federal Reserve Bank of New York

**APPENDIX: Reference Exhibits**

Page 9

**Top panel**  
(25)

**Title**: Eurodollar Futures Curve Shifts Lower  
**Horizon**: August 7, 2007 - October 26, 2007  
**Description**: The Eurodollar futures curve has shifted lower since the last FOMC meetings.

Source: Bloomberg

**Middle panel**  
(26)

**Title**: Probability Distribution on Eurodollar Futures Contract  
**Horizon**: September 17, 2007 - October 26, 2007  
**Description**: Since the September FOMC meeting, the probability of policy rate cut has increased.

Source: CME Option

**Bottom panel**  
(27)

**Title**: Treasury Yield Curve Shift Lower and Steepens  
**Horizon**: August 7, 2007 - October 26, 2007  
**Description**: The Treasury yield curve has shifted lower and steepened since the last FOMC meetings.

Source: Bloomberg
Top panel
(28)

**Title:** Implied Volatility Increases in Recent Days  
**Series:** VIX index, SMOVE 1-month index, 1-month Euro-Dollar volatility index, and 1-month Dollar-Yen volatility index  
**Horizon:** January 1, 2007 - October 26, 2007  
**Description:** During the inter-meeting period, implied volatility across asset classes has increased in recent weeks except for the Euro-dollar currency pair.

Source: Bloomberg

Middle panel
(29)

**Title:** US Corporate Option-Adjusted Debt Spread by Rating  
**Series:** Aaa, Aa, A, Baa, Ba, and B-Rated US Corporate Option-Adjusted Debt Spreads  
**Horizon:** March 1, 2007 - October 26, 2007  
**Description:** Ba and B-rated US corporate option-adjusted debt spreads have widened since the S&P rating downgrades.

Source: Bloomberg

---

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

Material for **FOMC Briefing on October Projections**  
Brian Madigan  
October 30, 2007

**Class I FOMC - Restricted Controlled (FR)**

**Table 1:**  
**Economic Projections of Federal Reserve Governors and Reserve Bank Presidents**

<table>
<thead>
<tr>
<th>Central Tendencies</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.2 to 2.3</td>
<td>1.8 to 2.5</td>
<td>2.3 to 2.7</td>
<td>2.5 to 2.6</td>
</tr>
<tr>
<td>June projections</td>
<td>2-1/4 to 2-1/2</td>
<td>2-1/2 to 2-3/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.7 to 4.8</td>
<td>4.8 to 5.0</td>
<td>4.8 to 5.0</td>
<td>4.7 to 4.9</td>
</tr>
<tr>
<td>June projections</td>
<td>4-1/2 to 4-3/4</td>
<td>about 4-3/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>2.9 to 3.0</td>
<td>1.8 to 2.1</td>
<td>1.7 to 2.0</td>
<td>1.6 to 1.9</td>
</tr>
<tr>
<td>Core PCE Inflation</td>
<td>1.8 to 1.9</td>
<td>1.7 to 1.9</td>
<td>1.7 to 1.9</td>
<td>1.6 to 1.9</td>
</tr>
<tr>
<td>June projections</td>
<td>2 to 2-1/4</td>
<td>1-3/4 to 2</td>
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<td></td>
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</tbody>
</table>
ranges

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.2 to 2.5</td>
<td>1.6 to 2.6</td>
<td>2.0 to 2.8</td>
<td>2.2 to 2.7</td>
</tr>
<tr>
<td>June projections</td>
<td>2 to 2-3/4</td>
<td>2-1/2 to 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.7 to 4.8</td>
<td>4.6 to 5.0</td>
<td>4.6 to 5.0</td>
<td>4.6 to 5.0</td>
</tr>
<tr>
<td>June projections</td>
<td>4-1/2 to 4-3/4</td>
<td>4-1/2 to 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>2.7 to 3.2</td>
<td>1.7 to 2.3</td>
<td>1.5 to 2.2</td>
<td>1.5 to 2.0</td>
</tr>
<tr>
<td>Core PCE Inflation</td>
<td>1.8 to 2.1</td>
<td>1.7 to 2.0</td>
<td>1.5 to 2.0</td>
<td>1.5 to 2.0</td>
</tr>
<tr>
<td>June projections</td>
<td>2 to 2-1/4</td>
<td>1-3/4 to 2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Projections of real GDP growth, PCE inflation and core PCE inflation are fourth-quarter-to-fourth-quarter growth rates, i.e. percentage changes from the fourth quarter of the prior year to the fourth quarter of the indicated year. PCE inflation and core PCE inflation are the percentage rates of change in the price index for personal consumption expenditures and the price index for personal consumption expenditures excluding food and energy, respectively. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of each year. Each participant's projections are based on his or her assessment of appropriate monetary policy. The range for each variable in a given year includes all participants' projections, from lowest to highest, for that variable in the given year; the central tendencies exclude the three highest and three lowest projections for each variable in each year. Return to text

Appendix 3: Materials used by Mr. Stockton

Class II FOMC - RESTRICTED (FR)

Page 1

Top panel
Gross Domestic Product

(percent change at an annual rate)

<table>
<thead>
<tr>
<th></th>
<th>2007-Q2</th>
<th>2007-Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Final</td>
<td>Greenbook</td>
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<tr>
<td>Real GDP</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Final Sales</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Personal Consumption</td>
<td>1.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Durables</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Nondurables</td>
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<td>2.9</td>
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<tr>
<td>Services</td>
<td>2.3</td>
<td>3.4</td>
</tr>
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<td>Business Fixed Investment</td>
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<td>6.2</td>
</tr>
<tr>
<td>Nonresidential Structures</td>
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<td>3.7</td>
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<tr>
<td>Equipment and Software</td>
<td>4.7</td>
<td>7.4</td>
</tr>
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</table>
### Appendix 4: Materials used by Mr. Madigan

Material for **FOMC Briefing on Monetary Policy Alternatives**
Brian Madigan
October 31, 2007

**Class I FOMC - Restricted Controlled (FR)**

**Table 1:**
**Alternative Language for the October 2007 FOMC Announcement**

<table>
<thead>
<tr>
<th>September 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>The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 4-3/4 percent.</td>
<td>The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 4-1/2 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 4-3/4 percent.</td>
</tr>
<tr>
<td><strong>Rationale</strong></td>
<td>Economic growth was solid in the third quarter, and strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow somewhat in the near term, partly reflecting the intensification of the housing correction and to restrain economic growth more generally. Today’s action is intended to help</td>
<td>Economic growth was solid in the third quarter, and strains in financial markets have eased somewhat on balance. The pace of economic expansion will likely slow somewhat in the near term, partly reflecting the intensification of the housing correction. Strains in financial markets have eased somewhat on balance, reducing the downside risks to growth. Though incoming indicators point to</td>
<td>Economic growth was solid in the third quarter despite an intensification of the housing correction. Strains in financial markets have eased somewhat on balance, reducing the downside risks to growth. Though incoming indicators point to</td>
</tr>
</tbody>
</table>
Assessment of Risk

<table>
<thead>
<tr>
<th>September FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.</td>
<td>today's action, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time.</td>
<td>housing correction. But, to date, other sectors of the economy have proven resilient and the global economy remains strong. The Committee anticipates that the economic expansion will return to a moderate pace over time, but sees continuing risks to growth, notably the potential impact of the tightening of credit conditions for some households and businesses.</td>
<td>some near-term slowing in the pace of economic expansion, the recent easing of monetary policy should help promote moderate growth over time.</td>
</tr>
</tbody>
</table>

3. Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

4. Developments in financial markets since the Committee's last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

4. Developments in financial markets since the last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

The Committee judges that the upside risks to inflation roughly balance the downside risks to growth. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

On balance, the Committee views downside risks to growth as the greater policy concern. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

The Committee judges that the upside risks to inflation roughly balance the downside risks to growth. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information.

Revised: October 31, 2007

[Note: In Appendix 4, Table 1, Revised: October 31, 2007, strong emphasis (bold) has been added to indicate red text in the original document, and emphasis (italics) has been added to indicate blue text in the original document.]
<table>
<thead>
<tr>
<th>September FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.</td>
<td>correction. Today's action, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time.</td>
<td>correction. But, to date, other sectors of the economy have proven resilient and the global economy remains strong. The Committee anticipates that the economic expansion will return to a moderate pace over time, but sees continuing risks to growth, notably the potential impact of the tightening of credit conditions for some households and businesses.</td>
<td>some near-term slowing in the pace of economic expansion, the recent easing of monetary policy should help promote moderate growth over time.</td>
</tr>
</tbody>
</table>

3. Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully. | Readings on core inflation have improved modestly this year, but recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully. | Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully. | Readings on core inflation have improved modestly this year, but recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully. |

4. Developments in financial markets since the Committee’s last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth. | The Committee judges that, after this action, the upside risks to inflation roughly balance the downside risks to growth. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth. | On balance, the Committee views downside risks to growth as the greater policy concern. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth. | The Committee judges that the upside risks to inflation roughly balance the downside risks to growth. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information. |

**Assessment of Risk**