Appendix 1: Materials used by Mr. Sack
Material for

**FOMC Presentation:**
*Financial Market Developments and Desk Operations*

Brian Sack

January 26, 2010
(7) Implied Federal Funds Rate

Source: Federal Reserve Bank of New York

(8) Treasury Yields

Source: Bloomberg

(9) Premium for Skew toward Higher Long Rates*

Source: JP Morgan Chase

(10) 5-Year 5-Year Forward Breakeven Rates

Source: Federal Reserve Board of Governors, Barclays Capital

(11) 5-Year 5-Year Forward Breakeven Statistics*

<table>
<thead>
<tr>
<th></th>
<th>Current Level</th>
<th>Pre-Crisis Range</th>
<th>Percent Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays</td>
<td>2.77</td>
<td>1.63-2.88</td>
<td>98.2</td>
</tr>
<tr>
<td>Board of Governors</td>
<td>3.06</td>
<td>2.31-3.36</td>
<td>89.2</td>
</tr>
</tbody>
</table>

*Pre-crisis range is January 2002 – July 2007
Source: Barclays Capital, Federal Reserve Board of Governors

(12) Gross Treasury Coupon Issuance

Source: US Treasury, Wrightson ICAP
(13) Weekly Pace of MBS Purchases

$ Billions

- Actual*
- Projected Path at Last FOMC

*Monthly average
Source: Federal Reserve Bank of New York

(14) Weekly Pace of Agency Debt Purchases

$ Billions

- Actual*
- Projected Path at Last FOMC

*Monthly average
Source: Federal Reserve Bank of New York

(15) MBS Spreads*

BPS

- OAS to Treasury
- OAS to Swap

* Fannie Mae fixed-rate current coupon spreads
Source: Barclays Capital

(16) Agency Debt Spread*

BPS

* Fannie Mae 5-year benchmark spread to Treasury
Source: JP Morgan Chase

(17) MBS Fails

$ Billions

Source: FR2004

(18) Dollar Roll Sales

$ Billions

Source: Federal Reserve Bank of New York
### (19) Federal Reserve Short-Term Liquidity Facilities

![Graph showing Federal Reserve Short-Term Liquidity Facilities over time](image)

Source: Federal Reserve Bank of New York

### (20) Liquidity Facility Usage

<table>
<thead>
<tr>
<th>Facility</th>
<th>Current Outstanding</th>
<th>Peak Outstanding</th>
<th>Peak Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSLF</td>
<td>0</td>
<td>223</td>
<td>12/4/08</td>
</tr>
<tr>
<td>PDCF</td>
<td>0</td>
<td>156</td>
<td>9/29/08</td>
</tr>
<tr>
<td>AMLF</td>
<td>0</td>
<td>152</td>
<td>10/1/08</td>
</tr>
<tr>
<td>CPFF</td>
<td>3.9</td>
<td>351</td>
<td>1/23/09</td>
</tr>
<tr>
<td>FX Swaps</td>
<td>0.2</td>
<td>586</td>
<td>12/4/08</td>
</tr>
<tr>
<td>PCF</td>
<td>14.9</td>
<td>114</td>
<td>10/28/08</td>
</tr>
<tr>
<td>TAF</td>
<td>38.5</td>
<td>493</td>
<td>3/11/09</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York, Federal Reserve Board of Governors

### (21) Money Market Rates

![Graph showing Money Market Rates over time](image)

Source: Bloomberg, Federal Reserve Board of Governors

### (22) Balance Sheet Assets by Category

![Graph showing Balance Sheet Assets by Category over time](image)

Source: Federal Reserve Bank of New York

### (23) Expected Use of Exit Tools Relative to First Target Rate Increase (% of Respondents)

<table>
<thead>
<tr>
<th>Tool</th>
<th>Before</th>
<th>Concurrent</th>
<th>After</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>RRP</td>
<td>73</td>
<td>23</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>TDF</td>
<td>70</td>
<td>23</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>IOER</td>
<td>15</td>
<td>75</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Tsy Sales</td>
<td>6</td>
<td>0</td>
<td>60</td>
<td>2</td>
</tr>
<tr>
<td>Agy Sales</td>
<td>6</td>
<td>0</td>
<td>60</td>
<td>34</td>
</tr>
<tr>
<td>MBS Sales</td>
<td>4</td>
<td>2</td>
<td>60</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York Exit Survey

### (24) Expected Timing of Exit Tools

![Graph showing Expected Timing of Exit Tools](image)

Source: Federal Reserve Bank of New York Exit Survey
(25) Cumulative Size of Exit Programs

Source: Federal Reserve Bank of New York Exit Survey

(26) Estimated Maximum Usage Over 6 Week Period

Source: Federal Reserve Bank of New York Exit Survey

(27) Probability of Reinvestment of Maturing Securities

Source: Federal Reserve Bank of New York Exit Survey

(28) Expected Level of Reserves at First Tightening

Source: Federal Reserve Bank of New York Exit Survey

(29) Expected Impact of Reverse Repos and Term Deposit Facility

Source: Federal Reserve Bank of New York Exit Survey

(30) Spread between Implied IOER and Federal Funds Effective Rate (in BPS)*

Source: Federal Reserve Bank of New York Exit Survey

*Includes 25th to 75th percentile of responses
Appendix 2: Materials used by Messrs. Clouse and Hilton
Class I FOMC– Restricted Controlled (FR)

Material for Briefing on Strategies for the Removal of Policy Accommodation

Jim Clouse
Spence Hilton
January 26, 2010
Update on Reserve-Draining Tools

• Capability to conduct RRP with MBS anticipated in late March.
• Capability to conduct RRP with expanded counterparties anticipated in late spring.
• TDF
  – Public comments due February 1
  – Board could issue final rule in March
  – Facility could be fully operational in May
• Capability to conduct term RRP with foreign accounts may be available in July.
• Reserve Collateral Accounts (RCAs)
  – Steering group being assembled to develop work plans.
Hypothetical Use of Draining Tools

<table>
<thead>
<tr>
<th>Reserve Balances With Alternative Assumptions About Reserve Draining Tools ($ Billions)</th>
<th>Assumed Paths for Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No Tools</td>
</tr>
<tr>
<td>March</td>
<td>1269</td>
</tr>
<tr>
<td>April</td>
<td>1172</td>
</tr>
<tr>
<td>May</td>
<td>1252</td>
</tr>
<tr>
<td>June</td>
<td>1205</td>
</tr>
<tr>
<td>July</td>
<td>1194</td>
</tr>
<tr>
<td>August</td>
<td>1179</td>
</tr>
<tr>
<td>September</td>
<td>1163</td>
</tr>
<tr>
<td>October</td>
<td>1149</td>
</tr>
<tr>
<td>November</td>
<td>1135</td>
</tr>
<tr>
<td>December</td>
<td>1122</td>
</tr>
</tbody>
</table>

See “Projections of System Capacity to Absorb Reserve Balances,” by Chris Burke, Seth Carpenter, and Jane Ihrig
Funds Rate and Reserve Demand

- What quantity of reserves must be drained to align funds rate and IOER?
- How will funds rate respond to increase in IOER?

Figure 3. Effective federal funds rate versus excess balances

<table>
<thead>
<tr>
<th>Spread of IOER Rate Over Funds Rate with Alternative Assumptions Regarding the Level of IOER and Excess Balances (Basis Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Excess Reserves ($ Billions)</td>
</tr>
<tr>
<td>IOER (Percent)</td>
</tr>
<tr>
<td>0.25</td>
</tr>
<tr>
<td>1.00</td>
</tr>
<tr>
<td>2.00</td>
</tr>
</tbody>
</table>


See “Reserves and the Federal Funds Rate,” by Gara Afonso, Chris Burke, Seth Carpenter, Jane Ihrig, Dennis Kuo, James McAndrews, John McGowan, Asani Sarkar, Jeffrey Shrader, David Skeie, and Victor Stebunovs.
Alternative Target Rates

- In some scenarios, linkage of federal funds rate to other short-term rates could be loosened.
  - But apparently not so far.
- Alternative market rates include...
  - Libor, eurodollar, repo rates
  - Institutional factors could affect choice
  - Response of rates to shocks could differ
- IOER rate could be used as primary policy instrument
  - Monitor a collection of money market rates (similar to BoE).
  - Still questions about connection between IOER and market rates
  - Governance issues in determination of IOER rate

See “Alternative Interest Rate Operating Targets,” by Tobias Adrian, Haley Boesky, David Bowman, Chris Burke, Seth Carpenter, Margaret DeBoer, Michiel DePooter, Spence Hilton, Jane Ihrig, Mike Leahy, James McAndrews, Steve Meyer, Edward Nelson, Michael Palumbo, Roberto Perli, and Matthew Raskin.
Foreign Experience with Interest on Reserves

- Most policy rate floors are effective
  - But somewhat less so in United Kingdom
  - Foreign experience (like U.S. experience) indicates that effectiveness of floor depends on scope of access to central bank accounts

- Central banks with “floor systems” have been able to tighten policy by raising IOER or deposit rate even with substantial excess reserves.
  - Norges Bank has tightened policy with high reserves.

- Caveat
  - Experience in other countries may be an imperfect guide to likely outcomes in the United States.

Long-Run Balance Sheet Management Issues

- Long-run policy implementation framework
  - Move away from mandatory reserve requirements?
  - Adopt corridor or floor system?
- Long-run size of the balance sheet
  - Could be used actively to pursue macro objectives
- Long-run composition of the balance sheet
  - Return to Treasuries only?
  - Shorten average maturity to increase liquidity?

Asset Sales Strategies

Domestic SOMA Assets and Reserves
(billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency MBS</td>
<td>0</td>
<td>1,135</td>
<td>-45</td>
<td>-120</td>
<td>-185</td>
<td>-245</td>
<td>-300</td>
<td>-365</td>
</tr>
<tr>
<td>Agency Debt</td>
<td>0</td>
<td>170</td>
<td>-20</td>
<td>-60</td>
<td>-85</td>
<td>-105</td>
<td>-125</td>
<td>-130</td>
</tr>
<tr>
<td>Treasury Debt</td>
<td>791</td>
<td>775</td>
<td>-85</td>
<td>-155</td>
<td>-290</td>
<td>-345</td>
<td>-415</td>
<td>-440</td>
</tr>
<tr>
<td>Memo: Reserves</td>
<td>17</td>
<td>1,260</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Motivations for SOMA Asset Sales and Redemptions
- Reduce Excess Reserves
- Unwind Portfolio Balance Effects on Longer Term Rates
- Rebalance the SOMA Portfolio

Risks of Aggressive Asset Sales
- Uncertainty about Rate Effects of Asset Sales
- Announcement Effect Could Cause an Immediate, Sharp Rise in Long-Term Interest Rates
- Possible Impact on Market Liquidity and Function
- Potential for Sizable Capital Losses

Federal Reserve Balance Sheet Assets under Alternative SOMA Reduction Strategies
(from “Strategies for Asset Sales and Redemptions,” Keane, Lucca, Remache, and Sack)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid Asset Sales</td>
<td>2,346</td>
<td>1,666</td>
<td>1,040</td>
<td>1,096</td>
<td>1,153</td>
<td>1,215</td>
<td>1,266</td>
</tr>
<tr>
<td>Redemptions Only</td>
<td>2,346</td>
<td>2,256</td>
<td>2,111</td>
<td>1,969</td>
<td>1,877</td>
<td>1,775</td>
<td>1,703</td>
</tr>
<tr>
<td>Steady and Gradual Reduction</td>
<td>2,346</td>
<td>2,097</td>
<td>1,850</td>
<td>1,581</td>
<td>1,351</td>
<td>1,215</td>
<td>1,266</td>
</tr>
<tr>
<td>State-dependent Reduction</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Alternative Sequencing Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Potential Benefits</th>
<th>Risks/Other Issues</th>
</tr>
</thead>
</table>
| Ex-Post Contingent Reserve Drain | • Allows a clear test of whether draining tools are necessary, and could avoid their use altogether.  
• Relatively simple communications strategy. | • Risks some period in which funds rate could be well below the IOER rate. |
| Early Reserve Drain             | • Reduces risk that funds rate will be volatile or trade below IOER rate when policy is first tightened.  
• Early reduction in reserve balances could help to contain inflation expectations, either by demonstrating the Fed has well-developed exit capabilities or operating through a reserve channel. | • Potential communication challenges in avoiding impression that increases in IOER and FFT rates may be imminent.  
• Necessarily entails use of temporary reserve draining tools, with a need for clear operating objectives in the pre-tightening interval. |
| Concurrent Reserve Drain        | • Relatively simple communications strategy.                                        | • Necessarily entails use of temporary reserve draining tools.  
• May not reduce the risk that the funds rate could trade well below the IOER rate for some period if IOER is not effective and reserve draining tools cannot be ramped up quickly without complications. |

Criteria for Choosing Among Sequencing Strategies

– Degree of confidence about using IOER rate by itself to control short-term rates.

– Possibility of other benefits from draining reserves.

– Expected time frame for draining significant reserves without complications.

– Communications challenges with early reserve drain strategy.

– Costs and risks of draining operations which could prove unnecessary.
Possible Questions for Committee Discussion of Strategies for Removing Policy Accommodation

1. Over the next year, how should asset sales be used as part of the exit strategy?
   --- Relatively rapid sales (say, over $200 billion)
   --- Very gradual sales over the next year ($0 to $200 billion)
   --- Redemptions only
   --- State contingent sales (and/or purchases)

2. How should redemptions of existing SOMA holdings proceed over the next year?
   --- Redeem all agency and MBS and no Treasuries
   --- Redeem all agency and MBS and some Treasuries
   --- Redeem all agency and MBS and all Treasuries
   --- Redeem some agency and MBS and no Treasuries
   --- Redeem nothing

3. How should the use of reverse repos (RRPs) and term deposits (TDs) be sequenced relative to an increase in the IOER rate?
   --- Use RRP and TDs only if necessary after an increase in the IOER rate (ex-post contingent strategy)
   --- Use RRP and TDs before an increase in the IOER rate (ex-ante strategy)
   --- Use RRP and TDs concurrent with increase in IOER rate

4. In order to ensure that increases in the IOER rate provide a sufficient tightening of money market conditions, what volume of reserves (if any) should be drained in advance of the first IOER increase?

5. What structure for the Federal Reserve balance sheet would you favor in the long run?
   --- All Treasuries, spread across all maturities (as in previous practice)
   --- All Treasuries, but concentrated in bills and short-term coupons
   --- Treasuries, agencies, and MBS
   --- Other: ________

6. How concerned are you that the characteristics of the federal funds rate as an operating target will deteriorate significantly? Do you see strong advantages in retaining a market interest rate as an operating target? Do you see other interest rates as particularly suitable replacements for the funds rate as an operating target?

7. Will the Committee need to determine its longer-run operating framework far in advance in order to implement an effective exit strategy from the current period of extraordinary policy accommodation?
Appendix 3: Materials used by Messrs. Sichel, Palumbo, and Sheets
Material for

**Staff Presentation on the Economic Outlook**

*January 26, 2010*
Near-term Outlook

**Contributions to Real GDP Growth**
(Percentage points, annual rate)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>2. Dec. GB</td>
<td>1.5</td>
<td>2.6</td>
</tr>
<tr>
<td>3. Inventories</td>
<td>3.7</td>
<td>0.3</td>
</tr>
<tr>
<td>4. Dec. GB</td>
<td>2.3</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**Inventory Adjustments**

- Slowdown in pace of liquidation sooner than expected.
- Firms have pulled forward production adjustments.

**Orders and Shipments**

*Nondefense capital goods excluding aircraft.*
Medium-term Outlook

Real GDP

Percent change, annual rate

Factors Contributing to Recovery

- Accommodative monetary policy.
- Financial conditions more supportive of growth.
- Reduced drag from past declines in wealth.
- Improvement in confidence.

Real Final Sales: Looking Back to June 2009

Percent change, annual rate

Changes in the Outlook since June

Positives
- Financial conditions
- Fiscal stimulus
- Foreign growth and dollar

Negatives
- Labor markets

Financials: 2010:Q1 Value versus June Greenbook

1. Stock market +17 percent
2. BBB bond yield -140 basis points
3. House prices +8 percent
4. Mortgage rates -20 basis points

Total Hours*

* Nonfarm business sector.
Exhibit 3

Household Finance and Consumer Spending

**Personal Saving Rate**

Percent of disposable income

**Household Debt**

Percent change, annual rate

**Household Debt Service**

Percent of disposable income

**Household Net Worth**

Ratio to disposable income

**Real Personal Consumption Expenditures**

Billions of dollars

- **Simulation based on wealth, income, and interest rates**
- **History and Jan. GB forecast**

**Discussion**

- Consumer spending dropped far below the simulation in 2008 and early 2009.
- Sharp tightening in credit and heightened anxiety about depth of recession and job loss played important roles in "shortfall."
- We expect spending to continue to accelerate this year and in 2011.
Real Estate Markets and Construction Activity

Existing Home Prices

- Index, 2006:Q1 = 100
- Percent change, a.r.
  - 2009:Q1: -9.5
  - Q3: 7.5
  - Q4: -6.7

Foreclosure Starts and Vacant Homes

- Percent
- Thousands of units

Housing Demand

- Existing home sales rose noticeably over the second half of last year.
- Demand lifted by low mortgage rates and low home prices.
- A growing sense that prices may have bottomed out and a gradual increase in employment should contribute to rising demand.

Single-family Construction

- New home inventory (thousands)
  - May 2007: 545
  - Nov. 2009: 235

Commercial Property*

- Index, 2006:Q1 = 100
- Vacancy rates
- Prices

Senior Loan Officer Opinion Survey

- Respondents expecting performance of commercial mortgages to deteriorate further this year.
- Banks have continued to tighten CRE lending standards.
- Banks reported a further weakening in demand for CRE loans.

* Average of series for office, industrial, and retail properties.
Exhibit 5

Business Finance and Investment

National Federation of Independent Business

- Planning capital expenditures in next six months
- Credit more difficult than three months ago

Note: Three-month moving average.

Corporate Bond Spreads

- 10-year high yield
- 10-year BBB

Reserve Bank Survey of Capital Spending Plans

- Almost 40 percent reported plans to increase equipment spending.
- Just under 20 percent reported plans to decrease spending.
- Most commonly cited factors by firms planning an increase:
  - Expectation of strong sales growth
  - Need to replace IT equipment

Indicator of High-tech Spending

Note: Based on survey question on firms’ plans to increase or decrease their spending on high-tech equipment in the next 12 months.

Equipment and Software Investment

Real Stock of Equipment and Software

Average annual percent change

- 1975-1994
- 1995-2000
- 2001-2007
- 2008-2009
- 2010-2011
A Closer Look at Current Labor Market Conditions

Private Payrolls

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Change (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009:Q1</td>
<td>-695</td>
</tr>
<tr>
<td>Q2</td>
<td>-425</td>
</tr>
<tr>
<td>Q3</td>
<td>-171</td>
</tr>
<tr>
<td>Q4</td>
<td>-76</td>
</tr>
<tr>
<td>2010:Q1</td>
<td>42</td>
</tr>
<tr>
<td>Q2</td>
<td>263</td>
</tr>
</tbody>
</table>

Nonfarm Business Productivity

Chained (2005) dollars per hour

Initial Unemployment Claims

Note: Vertical shading represents NBER recession dates. Four-week moving average.

Workweek and Temporary Employment

Note: Vertical lines show troughs in private employment.
* Three-month moving average.

Help Wanted

Index, 1980 = 100

Note: Vertical lines show troughs in private employment.
Three-month moving average.
Exhibit 7

Inflation

Unemployment and NAIRU

Long-term Inflation Expectations

Compensation per Hour and Unit Labor Costs*

Core Nonfuel Import Prices

PCE Price Projections

* Nonfarm business sector.
Foreign Growth Outlook

<table>
<thead>
<tr>
<th>Real GDP and Consumer Prices*</th>
<th>Percent change, annual rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>1. Total Foreign GDP</td>
<td>4.4</td>
</tr>
<tr>
<td>June Greenbook</td>
<td>1.5</td>
</tr>
<tr>
<td>2. Emerging Market Economies</td>
<td>9.2</td>
</tr>
<tr>
<td>3. China</td>
<td>10.8</td>
</tr>
<tr>
<td>4. Other Emerging Asia</td>
<td>10.0</td>
</tr>
<tr>
<td>5. Mexico</td>
<td>12.2</td>
</tr>
<tr>
<td>6. Brazil</td>
<td>5.1</td>
</tr>
<tr>
<td>7. Advanced Foreign Economies</td>
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<tr>
<td>8. Japan</td>
<td>1.3</td>
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<tr>
<td>9. Euro Area</td>
<td>1.7</td>
</tr>
<tr>
<td>10. United Kingdom</td>
<td>-0.6</td>
</tr>
<tr>
<td>11. Canada</td>
<td>0.4</td>
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<tr>
<td>12. Total Foreign CPI</td>
<td>1.5</td>
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</table>

Commodity Prices

<table>
<thead>
<tr>
<th>Index*</th>
<th>Dollars per barrel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil import price</td>
<td>Nonfuel index</td>
</tr>
</tbody>
</table>

* GDP aggregates weighted by U.S. goods exports; CPI by U.S. non-oil goods imports. Updated since January Greenbook.

China

<table>
<thead>
<tr>
<th>Index, Jun. 2007 = 100</th>
<th>Industrial production</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec.</td>
<td>140</td>
<td>120</td>
</tr>
<tr>
<td>Nov.</td>
<td>120</td>
<td>110</td>
</tr>
<tr>
<td>2007</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>2008</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>2009</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Emerging Asia ex. China*

* Also excludes Hong Kong and Philippines due to data availability.

<table>
<thead>
<tr>
<th>Index, Jun. 2007 = 100</th>
<th>Industrial production</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov.</td>
<td>120</td>
<td>110</td>
</tr>
<tr>
<td>2007</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>2008</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>2009</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Latin America

<table>
<thead>
<tr>
<th>Index, Jun. 2007 = 100</th>
<th>Brazilian IP</th>
<th>Mexican IP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov.</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>80</td>
<td>85</td>
</tr>
<tr>
<td>2008</td>
<td>85</td>
<td>90</td>
</tr>
<tr>
<td>2009</td>
<td>90</td>
<td>95</td>
</tr>
</tbody>
</table>

Japan

<table>
<thead>
<tr>
<th>Index, Jun. 2007 = 100</th>
<th>Household spending</th>
<th>Real exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov.</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>2007</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>2008</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>2009</td>
<td>80</td>
<td>90</td>
</tr>
</tbody>
</table>

Euro Area

<table>
<thead>
<tr>
<th>Index, Jun. 2007 = 100</th>
<th>Retail sales</th>
<th>Industrial production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov.</td>
<td>100</td>
<td>105</td>
</tr>
<tr>
<td>2007</td>
<td>80</td>
<td>85</td>
</tr>
<tr>
<td>2008</td>
<td>85</td>
<td>90</td>
</tr>
<tr>
<td>2009</td>
<td>90</td>
<td>95</td>
</tr>
</tbody>
</table>
Advanced Foreign Economies (AFEs)

Projected Private Final Demand Growth

- Euro area
- Japan
- United Kingdom
- Canada

Gross Debt to GDP

Sources: OECD, staff forecast.

10-Yr. Govt. Yield Spreads*

* Relative to Germany.

Policy Rates

United Kingdom

Canada

Japan

Euro area

Output per Employed Person

Index, 2007:Q1 = 100

Employment*

Index, 2007:Q1 = 100

* Total economy.
Emerging Market Economies (EMEs)

**Chinese Domestic Demand**
- Percent change*
- Fixed-asset investment
- Retail sales volume

**Projected Total Domestic Demand Growth**
- Percent, annual rate
- Korea
- Taiwan
- Mexico
- Brazil

**Flows to Dedicated EME Funds**
- Billions of USD
- Equities
- Bonds

**Equity Price/Expected Earnings**
- Ratio
- China*
- Total emerging Asia

**Property Prices**
- Index, Jan. 2006 = 100
- Hong Kong
- China
- Korea
- Singapore
- Thailand

**Chinese Policy and Lending**
- Percent
- Reserve requirements*
- Change in outstanding loans

**Fiscal Stimulus**
- Percent of GDP
- China
- Korea
- Mexico
- Brazil
External Sector

### Selected Exchange Rates

<table>
<thead>
<tr>
<th>Currency</th>
<th>Dec 06</th>
<th>Jan 06</th>
<th>Dec 07</th>
<th>Jan 07</th>
<th>Dec 08</th>
<th>Jan 09</th>
<th>Dec 09</th>
<th>Jan 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>88</td>
<td>90</td>
<td>92</td>
<td>94</td>
<td>96</td>
<td>98</td>
<td>100</td>
<td>102</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>-40</td>
<td>-20</td>
<td>0</td>
<td>20</td>
<td>40</td>
<td>60</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>Korean won</td>
<td>102</td>
<td>104</td>
<td>106</td>
<td>108</td>
<td>110</td>
<td>112</td>
<td>114</td>
<td>116</td>
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<tr>
<td>Canadian dollar</td>
<td>104</td>
<td>106</td>
<td>108</td>
<td>110</td>
<td>112</td>
<td>114</td>
<td>116</td>
<td>118</td>
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</table>

### Broad Real Dollar

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>100</td>
<td>98</td>
<td>96</td>
<td>94</td>
<td>92</td>
</tr>
</tbody>
</table>

### Capital Flows

- **Foreign private net purchases of U.S. securities**
- **Foreign official flows**
- **U.S. net purchases of foreign securities**

Note: Six-month moving average.

### Trade in Real Goods and Services

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>17.8</td>
<td>17.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Q4</td>
<td>17.3</td>
<td>9.3</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Growth Rates (percent, a.r.)

1. Exports: 2009 Q3: 17.8, Q4: 17.3; 2010: 9.5, 9.3
2. Imports: 2009 Q3: 21.3, Q4: 11.8; 2010: 8.8, 8.3

### Contribution to Real GDP Growth (percentage points, a.r.)

1. Net Exports: 2009 Q3: -0.8, Q4: 0.2; 2010: -0.2, -0.1

### U.S. Exports and Imports

- **Imports**
- **Exports**

### Current Account

- **Billions of dollars**
- **Percent of GDP**

Note: Growth rates are annualized.
Appendix 4: Materials used by Mr. Madigan
Class I FOMC – Restricted Controlled (FR)

Material for Briefing on
FOMC Participants’ Economic Projections

Brian Madigan
January 26-27, 2010
Exhibit 1. Central tendencies and ranges of economic projections, 2010–12 and over the longer run

**Change in real GDP**
- **Central tendency of projections**
- **Range of projections**
- **Greenbook forecast**

**Unemployment rate**

**PCE inflation**

**Core PCE inflation**

**Percent**
- 5
- 4
- 3
- 2
- 1
- 0
- 1
- 2

**Note:** Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual.
### Exhibit 2: Economic Projections for 2010-2012 and Longer Run

#### Real GDP Growth

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Tendency</strong></td>
<td>2.8 to 3.5</td>
<td>3.4 to 4.5</td>
<td>3.5 to 4.5</td>
<td>2.5 to 2.8</td>
</tr>
<tr>
<td>November projections</td>
<td>2.5 to 3.5</td>
<td>3.4 to 4.5</td>
<td>3.5 to 4.8</td>
<td>2.5 to 2.8</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>2.3 to 4.0</td>
<td>2.7 to 4.7</td>
<td>3.0 to 5.0</td>
<td>2.4 to 3.0</td>
</tr>
<tr>
<td>November projections</td>
<td>2.0 to 4.0</td>
<td>2.5 to 4.6</td>
<td>2.8 to 5.0</td>
<td>2.4 to 3.0</td>
</tr>
<tr>
<td><strong>Memo: Greenbook</strong></td>
<td>3.6</td>
<td>4.7</td>
<td>4.5</td>
<td>2.5</td>
</tr>
<tr>
<td>November Greenbook</td>
<td>3.4</td>
<td>4.4</td>
<td>5.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

#### Unemployment Rate

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Tendency</strong></td>
<td>9.5 to 9.7</td>
<td>8.2 to 8.5</td>
<td>6.6 to 7.5</td>
<td>5.0 to 5.2</td>
</tr>
<tr>
<td>November projections</td>
<td>9.3 to 9.7</td>
<td>8.2 to 8.6</td>
<td>6.8 to 7.5</td>
<td>5.0 to 5.2</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>8.6 to 10.0</td>
<td>7.2 to 8.8</td>
<td>6.1 to 7.6</td>
<td>4.9 to 6.3</td>
</tr>
<tr>
<td>November projections</td>
<td>8.6 to 10.2</td>
<td>7.2 to 8.7</td>
<td>6.1 to 7.6</td>
<td>4.8 to 6.3</td>
</tr>
<tr>
<td><strong>Memo: Greenbook</strong></td>
<td>9.5</td>
<td>8.2</td>
<td>6.1</td>
<td>5.0</td>
</tr>
<tr>
<td>November Greenbook</td>
<td>9.5</td>
<td>8.2</td>
<td>6.1</td>
<td>4.8</td>
</tr>
</tbody>
</table>

#### PCE Inflation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Tendency</strong></td>
<td>1.4 to 1.7</td>
<td>1.1 to 2.0</td>
<td>1.3 to 2.0</td>
<td>1.7 to 2.0</td>
</tr>
<tr>
<td>November projections</td>
<td>1.3 to 1.6</td>
<td>1.0 to 1.9</td>
<td>1.2 to 1.9</td>
<td>1.7 to 2.0</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>1.2 to 2.0</td>
<td>1.0 to 2.4</td>
<td>0.8 to 2.0</td>
<td>1.5 to 2.0</td>
</tr>
<tr>
<td>November projections</td>
<td>1.1 to 2.0</td>
<td>0.6 to 2.4</td>
<td>0.2 to 2.3</td>
<td>1.5 to 2.0</td>
</tr>
<tr>
<td><strong>Memo: Greenbook</strong></td>
<td>1.4</td>
<td>1.1</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>November Greenbook</td>
<td>1.4</td>
<td>1.0</td>
<td>1.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>

#### Core PCE Inflation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Tendency</strong></td>
<td>1.1 to 1.7</td>
<td>1.0 to 1.9</td>
<td>1.2 to 1.9</td>
</tr>
<tr>
<td>November projections</td>
<td>1.0 to 1.5</td>
<td>1.0 to 1.6</td>
<td>1.0 to 1.7</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>0.9 to 2.0</td>
<td>0.9 to 2.4</td>
<td>0.8 to 2.0</td>
</tr>
<tr>
<td>November projections</td>
<td>0.9 to 2.0</td>
<td>0.5 to 2.4</td>
<td>0.2 to 2.3</td>
</tr>
<tr>
<td><strong>Memo: Greenbook</strong></td>
<td>1.2</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>November Greenbook</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
</tr>
</tbody>
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Exhibit 3. Risks and Uncertainty in Economic Projections

Uncertainty about GDP Growth

- November projections
- January projections

Number of participants: 18

Uncertainty about PCE Inflation

- Lower
- Similar
- Higher

Number of participants: 18

Risks to GDP Growth

- Downside
- Balanced
- Upside

Number of participants: 16

Risks to PCE Inflation

- Downside
- Balanced
- Upside

Number of participants: 16
Appendix 5: Materials used by Mr. Stockton
### The Market for New Single-Family Homes

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>374</td>
<td>372</td>
<td>406</td>
<td>373</td>
<td>408</td>
<td>370</td>
<td>342</td>
<td></td>
</tr>
<tr>
<td>Previous</td>
<td></td>
<td></td>
<td>407</td>
<td>400</td>
<td>355</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Percent Change</td>
<td>-22.9</td>
<td>10.1</td>
<td>-8.1</td>
<td>4.3</td>
<td>-9.3</td>
<td>-7.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>By region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>31</td>
<td>27</td>
<td>38</td>
<td>34</td>
<td>33</td>
<td>28</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Midwest</td>
<td>54</td>
<td>49</td>
<td>60</td>
<td>57</td>
<td>56</td>
<td>73</td>
<td>43</td>
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<tr>
<td>South</td>
<td>202</td>
<td>202</td>
<td>208</td>
<td>198</td>
<td>224</td>
<td>192</td>
<td>178</td>
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<tr>
<td>West</td>
<td>87</td>
<td>93</td>
<td>101</td>
<td>84</td>
<td>95</td>
<td>77</td>
<td>81</td>
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<tr>
<td><strong>Inventories</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>New homes for sale</td>
<td>231</td>
<td>280</td>
<td>252</td>
<td>231</td>
<td>242</td>
<td>235</td>
<td>231</td>
<td></td>
</tr>
<tr>
<td>Months’ supply</td>
<td>9.1</td>
<td>9.4</td>
<td>7.7</td>
<td>7.6</td>
<td>7.1</td>
<td>7.6</td>
<td>8.1</td>
<td></td>
</tr>
<tr>
<td><strong>Prices</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean (thousands of dollars)</td>
<td>270.4</td>
<td>270.0</td>
<td>274.9</td>
<td>269.1</td>
<td>263.1</td>
<td>267.3</td>
<td>299.1</td>
<td></td>
</tr>
<tr>
<td>Year-to-year percent change</td>
<td>-7.6</td>
<td>-10.3</td>
<td>-3.8</td>
<td>-2.3</td>
<td>-4.2</td>
<td>-7.1</td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>One-period percent change (annual rate for quarters, monthly rate for months)</td>
<td>-7.6</td>
<td>15.2</td>
<td>7.4</td>
<td>-8.1</td>
<td>-10.4</td>
<td>1.6</td>
<td>11.9</td>
<td></td>
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<tr>
<td>Constant-quality price index</td>
<td>-4.5</td>
<td>-6.0</td>
<td>-5.9</td>
<td>3</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Year-to-year percent change</td>
<td>-4.5</td>
<td>2.3</td>
<td>-2.6</td>
<td>8.3</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>One-period percent change (annual rate for quarters)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Thousands of units, s.a.a.r., except where noted. Percent change is from previous comparable period, not at an annual rate.
2. Thousands of units, seasonally adjusted, end of period stock.
3. At current sales rate; expressed as the ratio of s.a. inventories to s.a. sales. Quarterly and annual values are averages of monthly values.
4. Quarterly and annual values of mean prices are equal to a weighted average of monthly data; the weights are based on the response rate to the survey in each month. Seasonally adjusted by FRB staff.
5. Year-to-year percent changes are from the year-earlier comparable period.
6. Based on characteristics of new homes sold in 2005. Seasonally adjusted by FRB staff.
s.a.a.r. Seasonally adjusted annual rate. s.a. Seasonally adjusted. n.a. Not available.

Source: Census Bureau.

### New Home Sales

- **Source:** Census Bureau.

### Inventories of New Homes and Months’ Supply

- **Note:** Months’ supply is calculated using the 3-month moving average of sales.
  - **Source:** Census Bureau.
Appendix 6: Materials used by Mr. English
Class I FOMC – Restricted-Controlled FR

Material for
FOMC Briefing on Monetary Policy Alternatives

Bill English
January 27, 2010
December FOMC Statement

Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement over recent months. Household spending appears to be expanding at a moderate rate, though it remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment, though at a slower pace, and remain reluctant to add to payrolls; they continue to make progress in bringing inventory stocks into better alignment with sales. Financial market conditions have become more supportive of economic growth. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing $1.25 trillion of agency mortgage-backed securities and about $175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

In light of ongoing improvements in the functioning of financial markets, the Committee and the Board of Governors anticipate that most of the Federal Reserve’s special liquidity facilities will expire on February 1, 2010, consistent with the Federal Reserve’s announcement of June 25, 2009. These facilities include the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility. The Federal Reserve will also be working with its central bank counterparties to close its temporary liquidity swap arrangements by February 1. The Federal Reserve expects that amounts provided under the Term Auction Facility will continue to be scaled back in early 2010. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30, 2010, for loans backed by new-issue commercial mortgage-backed securities and March 31, 2010, for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.
January FOMC Statement—Alternative A

1. Information received since the Federal Open Market Committee met in December suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software appears to be picking up, but investment in structures is still contracting and firms remain reluctant to add to payrolls. Recent data indicate that housing activity remains sluggish and the level of foreclosures continues to be elevated. In light of the weakness in labor markets and prospects for a subpar economic recovery, the Committee judges that further monetary stimulus is warranted.

2. Energy prices have risen in recent months, but core inflation has remained low. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.

3. To provide further support to mortgage lending and housing markets and to promote a more robust economic recovery in a context of price stability, the Committee decided to expand its purchases of agency mortgage-backed securities to a total of $1.5 trillion, up from the previously announced amount of $1.25 trillion; the Committee anticipates that these transactions will be executed by the end of the third quarter. The Federal Reserve is also in the process of purchasing about $175 billion of agency debt, and the Committee anticipates that those transactions will be executed by the end of the first quarter. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

4. In light of improved functioning of financial markets, the Federal Reserve will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1. The amounts provided under the Term Auction Facility will continue to be scaled back, with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.
January FOMC Statement—Alternative B

1. Information received since the Federal Open Market Committee met in December suggests that economic activity has continued to strengthen and that the deterioration in the labor market is abating. Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software appears to be picking up, but investment in structures is still contracting and employers remain reluctant to add to payrolls. Firms have brought inventory stocks into better alignment with sales. While bank lending continues to contract, financial market conditions remain supportive of economic growth. Although the pace of economic recovery is likely to be moderate for a time, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability.

2. Energy prices have risen in recent months. However, with substantial resource slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time.

3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing $1.25 trillion of agency mortgage-backed securities and about $175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter. The Committee will continue to evaluate its purchases [or holdings] of securities in light of the evolving economic outlook and conditions in financial markets.

4. In light of improved functioning of financial markets, the Federal Reserve will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1. The amounts provided under the Term Auction Facility will continue to be scaled back, with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.
January FOMC Statement—Alternative C

1. Information received since the Federal Open Market Committee met in December suggests that economic activity is increasing at a solid rate and that the labor market is stabilizing. Financial market conditions have continued to become more supportive of economic growth. Household spending is expanding at a moderate rate. Business spending on equipment and software appears to be picking up, and firms have brought inventory stocks into better alignment with sales. With a sustainable economic recovery now under way, the Committee anticipates a gradual return to higher levels of resource utilization.

2. Inflation has been somewhat elevated recently, reflecting a pickup in energy prices, but longer-term inflation expectations have remained stable. The Committee expects that, with appropriate monetary policy adjustments, inflation will be at levels consistent with price stability.

3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant low levels of the federal funds rate for some time. The Federal Reserve is in the process of purchasing $1.25 trillion of agency mortgage-backed securities and about $175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases and anticipates that these transactions will be executed by the end of the first quarter. The Committee will continue to evaluate the size and composition of its securities holdings in light of the evolving economic outlook and conditions in financial markets.

4. In light of improved functioning of financial markets, the Federal Reserve will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1. The amounts provided under the Term Auction Facility will continue to be scaled back, with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.
Table 1: Overview of Alternative Language for the January 26-27, 2010 FOMC Announcement

<table>
<thead>
<tr>
<th>December FOMC</th>
<th>January Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Activity</strong></td>
<td></td>
</tr>
<tr>
<td>Recent Developments</td>
<td>“has continued to pick up”</td>
</tr>
<tr>
<td>Labor Markets</td>
<td>“the deterioration...is abating”</td>
</tr>
<tr>
<td>Financial Markets</td>
<td>“conditions have become more supportive”</td>
</tr>
<tr>
<td>Other Factors</td>
<td>fiscal and monetary stimulus, market forces</td>
</tr>
<tr>
<td>Outlook</td>
<td>“likely to remain weak for a time”</td>
</tr>
<tr>
<td><strong>Inflation</strong></td>
<td></td>
</tr>
<tr>
<td>Recent Developments</td>
<td>---</td>
</tr>
<tr>
<td>Key Factors</td>
<td>substantial resource slack, stable expectations</td>
</tr>
<tr>
<td>Outlook</td>
<td>“will remain subdued for some time”</td>
</tr>
<tr>
<td><strong>Forward Guidance on Funds Rate Path</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“exceptionally low...for an extended period”</td>
</tr>
<tr>
<td><strong>Agency MBS Purchases</strong></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>$1.25 trillion</td>
</tr>
<tr>
<td>Timing</td>
<td>by the end of the first quarter</td>
</tr>
<tr>
<td><strong>Evaluation of Balance Sheet Adjustments</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“the timing and overall amounts of its purchases of securities”</td>
</tr>
</tbody>
</table>
DIRECTIVES

DECEMBER FOMC MEETING

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 seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to purchase agency debt and agency MBS during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to execute purchases of about $175 billion in housing-related agency debt and about $1.25 trillion of agency MBS by the end of the first quarter of 2010. The Desk is expected to gradually slow the pace of these purchases as they near completion. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.
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 seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to purchase agency debt and agency MBS during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to execute purchases of about $175 billion in housing-related agency debt by the end of the first quarter and to execute purchases of about $1.5 trillion of agency MBS by the end of the third quarter. The Desk is expected to gradually slow the pace of these purchases as they near completion. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve’s agency MBS transactions to be conducted through the end of the third quarter, as directed above. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.
JANUARY FOMC MEETING — ALTERNATIVES B AND C

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 seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to purchase agency debt and agency MBS during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to execute purchases of about $175 billion in housing-related agency debt and about $1.25 trillion of agency MBS by the end of the first quarter. The Desk is expected to gradually slow the pace of these purchases as they near completion. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve’s agency MBS transactions to be conducted through the end of the first quarter, as directed above. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.