Accessible Version

Meeting of the Federal Open Market Committee
August 10, 2010 Presentation Materials

Presentation Materials (PDF)

Pages 142 to 160 of the Transcript

Appendix 1: Materials used by Mr. Sack

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

Brian Sack
August 10, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel
(1)

Title: Implied Federal Funds Rate
Series: Future federal funds rates implied by Eurodollar and federal funds futures contracts
Horizon: 4/27/10, 6/22/10, 8/6/10
Description: The implied path of the fed funds rate declined since the June FOMC meeting.

Source: Federal Reserve Bank of New York

Top-right panel
(2)

Title: Modal Forecast of First Rate Hike
Series: FRBNY dealer policy survey
Horizon: March 2009 - August 2010
Description: Since March 2009 the anticipated first rate hike has gradually been pushed back.

Source: Federal Reserve Bank of New York Dealer Policy Survey

Middle-left panel
(3)

Title: Probability of Policy Actions by Year-End
Series: FRBNY dealer policy survey
Horizon: N/A
Description: A majority of primary dealers believed that the Fed would reinvest MBS repayments.

Source: Federal Reserve Bank of New York Dealer Policy Survey

Middle-right panel
(4)

Title: Treasury Yields
Series: Yields for 2-year, 5-year, and 10-year Treasury notes
Horizon: August 1, 2008 - August 6, 2010
Description: Treasury yields declined over the intermeeting period.

A vertical line marks the FOMC meeting of June 22-23, 2010.

Source: Bloomberg

Bottom-left panel
(5)

Title: 10-Year Term Premium
Series: 10-Year Term Premium
Horizon: January 1, 2002 - August 5, 2010
Description: The 10-year term premium continued to decline since the June FOMC meeting.

Source: Federal Reserve Board of Governors

Bottom-right panel
(6)

Title: Breakeven Inflation Rates
Series: Breakeven Inflation Rates
Horizon: August 1, 2008 - August 9, 2010
Description: Breakeven inflation rates continued to decline during the intermeeting period.

5Y Spot, 5Y5Y Forward

Source: Federal Reserve Board of Governors

Exhibit 2

Top-left panel
(7)

Title: US Equity Prices (S&P 500 Index)
Series: S&P 500 indexed to 08/01/08
Horizon: August 1, 2008 - August 6, 2010
Description: US equity prices rose during the intermeeting period.

Source: Bloomberg

Top-right panel
(8)

Title: VIX Index
Series: VIX rate
Horizon: August 1, 2008 - August 6, 2010
Description: Equity volatility declined during the intermeeting period.

Source: Bloomberg

Middle-left panel
(9)

Title: Euro Area Bank CDS
Series: Average bank CDS by country: Italy, Spain, Portugal, and Ireland
Horizon: August 1, 2008 - August 6, 2010
Description: CDS spreads decreased in Europe after increases in June in response to the Greek credit crisis.

Source: Bloomberg

Middle-right panel
(10)

Title: LIBOR-OIS Spreads (3-Month Rates)*
Series: 3-Month LIBOR-OIS Spread, Spot Spread
Horizon: July 1, 2009 - August 6, 2010
Description: The implied path of the forward spread narrowed since June.

*Forward rates derived from FRA and OIS. Return to text

Source: Bloomberg

Bottom-left panel
(11)

Title: US Dollar Indexes
Series: Euro rate, seven foreign rates without euro
Horizon: August 1, 2008 - August 7, 2010
Description: Euro/Dollar and Foreign/Dollar rates, indexed to 08/01/08, show that the dollar has been depreciating.

Source: Bloomberg, Federal Reserve Board of Governors

Bottom-right panel
(12)

Title: Net Primary Dealer Borrowing
Series: Net Primary Dealer Borrowing
Horizon: January 1, 2001 - August 3, 2010
Description: Primary dealer borrowing has been steadily declining.

Source: FR2004

Exhibit 3

Top-left panel
(13)

Title: MBS Fails
Series: 4-week moving average of MBS fails to deliver
Horizon: January 1, 2002 - July 28, 2010
Description: There was a large spike in MBS fails in the second quarter of 2010 that has since started decreasing.

Source: FR2004

Top-right panel
(14) MBS Settlements

Values in $ billions

Coupon	Unsettled on 6/23 (1)	Coupon Swap Activity (2)	Other Settlements (3)	Unsettled on 8/6 (4)
4.5	1.6	9.2	-10.5	0.3
5.0	6.0	0.0	-4.0	2.1
5.5	9.2	-9.2	-0.1	0.0

Source: Federal Reserve Bank of New York

Middle-left panel
(15)

Title: MBS Spread to Treasury
Series: Fannie Mae fixed-rate current coupon option-adjusted spread to Treasury
Horizon: January 1, 2002 - August 10, 2010
Description: MBS spreads remain relatively low.

Source: Barclays Capital

Middle-right panel
(16)

Title: Agency MBS Net Issuance
Series: Projected Agency MBS paydowns and future net issuance
Horizon: March 2000 - June 2011
Description: MBS is projected to paydown and net issuance is projected to decline from previous highs.

Source: JP Morgan Chase

Bottom-left panel
(17)

Title: Cumulative SOMA Paydowns
Series: Estimated MBS and Agency Debt paydowns
Horizon: February 9, 2009 - December 1, 2012
Description: MBS paydowns are greater if there is a -50 BP shift.

Source: Federal Reserve Bank of New York

Bottom-right panel
(18) SOMA Financial Condition

Values in $ billions

	Market Value	Unrealized G/(L)	Realized Income Over 12-Months*
Treasury	869	64.6	24.6
Agency	171	5.2	3.0
MBS	1,180	44.8	40.4

	Market Value	Unrealized G/(L)	Realized Income Over 12-Months*
Total	**2,220**	**114.6**	**67.9**

* Realized income = interest income net of funding costs + realized gains Return to table

Source: Federal Reserve Bank of New York, JP Morgan Chase

Appendix 2: Materials used by Chairman Bernanke

Class II FOMC - Restricted (FR)

Page 1
Twelve-Month Forward Earnings Expectations for S&P 500 Firms

Top panel

Mean earnings expectations, three month percent change. Data plotted as time series lines, January 1980 through July 2010. The lines show that the change in expected profit growth generally fluctuated between -10 and 10 percent, and usually fell during recessions. Starting in late 2008, growth expectations fell by about 25 percent, a record low reading for the period. In 2009, expectations rose by about 7 percent, and continued to fluctuate between 5 and 10 percent for the remainder of the period.

Bottom panel

Analyst dispersion on earnings expectations. Coefficient of variation. Data plotted as time series lines, January 1980 through July 2010. The lines show that dispersion has typically fluctuated between about 3 and 7 percent, and generally was higher during recessions. Starting in late 2008, dispersion rose to about 11 percent, a record high level for the series over the period. In 2009, dispersion began falling, and reached about 5 percent at the end of the period.

Note. Twelve-month forward earnings expectations refer to expectations of earnings over the next 12 months and are calculated on a pro-rated basis as a weighted average of current fiscal year and next fiscal year earnings expectations. Analyst dispersion is the within-firm analyst dispersion on twelve-month forward earnings expectations averaged across all firms. [Shaded bars indicate periods of business recession as defined by the NBER: January 1980-July 1980, July 1981-November 1982, July 1990-March 1991, and March 2001-November 2001. A vertical line indicates the NBER Peak in December 2007.]

Page 2
NFIB Survey Results on Most Important Problem for Small Businesses

(selected categories)

Top and bottom panels

Monthly
Percent

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
January 1986	9	14	10	3	22

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
February 1986	9	16	12	3	20
March 1986	9	15	9	3	21
April 1986	8	16	10	2	20
May 1986	5	14	13	3	20
June 1986	7	17	8	3	21
July 1986	7	15	12	2	19
August 1986	6	18	11	2	21
September 1986	6	15	11	3	19
October 1986	5	16	12	3	21
November 1986	5	17	10	3	21
December 1986	5	16	11	3	23
January 1987	5	15	13	3	21
February 1987	6	18	12	3	23
March 1987	7	16	14	4	20
April 1987	6	14	12	3	23
May 1987	6	14	15	3	25
June 1987	7	12	12	3	24
July 1987	7	13	15	2	25
August 1987	6	12	12	3	23
September 1987	6	10	15	3	25
October 1987	8	13	12	3	23
November 1987	8	13	12	3	23
December 1987	6	12	15	3	24
January 1988	5	10	18	5	23
February 1988	6	15	13	3	24
March 1988	6	12	16	3	25
April 1988	6	10	15	3	25
May 1988	8	10	15	2	24
June 1988	7	11	15	3	24
July 1988	5	11	17	4	25
August 1988	6	7	12	3	25
September 1988	8	8	18	3	19
October 1988	7	11	14	2	23
November 1988	9	10	13	4	24
December 1988	9	9	14	4	22
January 1989	9	10	19	3	22
February 1989	10	10	17	2	21
March 1989	8	7	15	2	23
April 1989	11	10	16	4	22

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
May 1989	9	7	19	4	23
June 1989	10	10	17	6	20
July 1989	10	10	17	4	21
August 1989	10	9	19	4	22
September 1989	8	10	16	2	23
October 1989	7	11	17	4	22
November 1989	8	8	16	4	21
December 1989	7	10	19	5	21
January 1990	7	11	18	4	22
February 1990	9	12	20	4	18
March 1990	7	9	18	4	24
April 1990	7	10	18	4	23
May 1990	8	10	18	4	24
June 1990	7	9	19	3	22
July 1990	7	11	18	4	23
August 1990	7	11	19	4	22
September 1990	6	12	15	5	24
October 1990	7	13	17	6	22
November 1990	7	14	14	5	22
December 1990	6	15	17	7	23
January 1991	6	15	17	4	25
February 1991	7	14	18	5	24
March 1991	6	14	17	4	23
April 1991	5	17	18	3	24
May 1991	5	18	16	5	23
June 1991	5	15	21	5	21
July 1991	5	15	17	4	24
August 1991	6	18	16	4	26
September 1991	6	14	17	3	26
October 1991	5	17	18	5	25
November 1991	5	19	16	4	24
December 1991	4	21	16	5	25
January 1992	4	19	18	4	24
February 1992	5	18	20	3	23
March 1992	4	18	21	4	24
April 1992	4	16	23	4	23
May 1992	5	15	22	4	24
June 1992	5	14	19	3	25
July 1992	4	17	21	3	25

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
August 1992	5	16	22	3	22
September 1992	4	16	23	3	22
October 1992	3	18	22	3	24
November 1992	4	16	20	3	25
December 1992	3	13	24	3	25
January 1993	3	14	22	3	25
February 1993	4	13	23	3	25
March 1993	4	15	22	3	25
April 1993	4	13	22	3	24
May 1993	4	12	20	2	24
June 1993	4	13	20	3	25
July 1993	3	14	22	2	26
August 1993	3	13	19	2	29
September 1993	3	12	19	2	27
October 1993	2	12	21	2	27
November 1993	4	10	24	2	27
December 1993	2	11	23	2	23
January 1994	3	11	23	2	26
February 1994	5	11	24	1	24
March 1994	4	9	25	2	25
April 1994	4	10	23	2	25
May 1994	4	8	26	1	27
June 1994	4	9	22	2	27
July 1994	12	13	21	4	21
August 1994	5	8	27	1	23
September 1994	5	7	23	1	26
October 1994	9	14	10	3	22
November 1994	6	8	21	1	25
December 1994	6	9	22	2	26
January 1995	8	16	10	2	20
February 1995	6	7	21	2	23
March 1995	7	8	20	2	24
April 1995	6	10	19	2	27
May 1995	6	9	22	2	28
June 1995	3	7	21	2	27
July 1995	5	10	19	2	25
August 1995	5	10	20	2	25
September 1995	5	9	17	3	26
October 1995	5	6	18	2	30

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
November 1995	4	7	18	2	29
December 1995	4	10	20	1	25
January 1996	4	9	19	2	27
February 1996	4	8	20	2	28
March 1996	4	9	21	2	27
April 1996	4	9	18	1	29
May 1996	4	9	16	2	28
June 1996	5	9	15	1	26
July 1996	4	9	17	1	26
August 1996	4	7	19	2	29
September 1996	4	9	17	2	27
October 1996	4	7	16	1	27
November 1996	3	7	18	1	25
December 1996	3	7	16	1	28
January 1997	3	7	17	2	28
February 1997	5	7	16	2	32
March 1997	4	9	18	1	29
April 1997	5	6	17	1	28
May 1997	3	8	18	1	29
June 1997	4	6	17	1	30
July 1997	4	7	16	1	28
August 1997	3	6	18	1	25
September 1997	3	9	17	1	27
October 1997	4	8	16	1	26
November 1997	4	8	16	1	25
December 1997	2	8	16	2	27
January 1998	3	5	17	1	28
February 1998	3	6	18	1	25
March 1998	4	9	16	1	27
April 1998	3	7	15	1	29
May 1998	3	6	15	1	26
June 1998	3	8	16	1	30
July 1998	3	7	16	1	26
August 1998	3	7	14	1	25
September 1998	3	7	15	0	24
October 1998	2	9	15	1	23
November 1998	3	8	13	2	22
December 1998	3	7	16	1	25
January 1999	3	7	14	1	27

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
February 1999	3	6	14	1	27
March 1999	3	10	13	1	24
April 1999	2	8	14	1	27
May 1999	3	9	15	1	28
June 1999	5	7	13	2	26
July 1999	2	7	15	1	26
August 1999	3	8	15	2	25
September 1999	4	9	15	2	24
October 1999	3	7	15	1	26
November 1999	3	9	12	3	24
December 1999	3	7	15	1	24
January 2000	4	7	15	1	25
February 2000	3	6	15	2	25
March 2000	4	8	14	1	23
April 2000	4	7	14	1	24
May 2000	3	6	14	1	26
June 2000	5	7	14	2	23
July 2000	5	6	13	2	25
August 2000	6	6	9	2	25
September 2000	4	9	10	2	23
October 2000	4	7	12	3	26
November 2000	4	7	12	3	23
December 2000	4	11	11	3	19
January 2001	3	9	12	3	24
February 2001	4	12	12	3	22
March 2001	3	15	10	4	25
April 2001	3	12	13	3	27
May 2001	4	12	10	4	24
June 2001	4	9	13	4	23
July 2001	3	14	11	2	21
August 2001	2	13	12	3	20
September 2001	3	14	9	3	23
October 2001	2	16	11	2	21
November 2001	2	17	11	2	20
December 2001	2	18	12	1	20
January 2002	2	17	11	2	24
February 2002	2	14	11	3	22
March 2002	3	17	10	2	19
April 2002	3	14	13	2	20

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
May 2002	2	15	11	1	23
June 2002	2	14	11	2	21
July 2002	4	15	10	2	20
August 2002	2	16	9	2	22
September 2002	2	19	9	2	21
October 2002	2	16	11	2	21
November 2002	2	16	12	2	20
December 2002	3	17	10	1	20
January 2003	3	18	10	2	19
February 2003	2	19	11	4	19
March 2003	2	16	11	4	17
April 2003	2	19	11	2	18
May 2003	2	19	9	2	20
June 2003	2	18	9	2	17
July 2003	2	18	11	2	18
August 2003	2	18	10	1	18
September 2003	1	15	10	2	19
October 2003	2	15	11	2	18
November 2003	1	16	11	1	18
December 2003	2	13	11	1	18
January 2004	2	13	12	2	17
February 2004	1	13	11	2	16
March 2004	2	17	11	3	15
April 2004	1	13	11	4	18
May 2004	2	12	10	6	19
June 2004	2	12	12	5	17
July 2004	2	12	10	3	19
August 2004	3	11	10	3	19
September 2004	2	11	10	4	17
October 2004	3	12	8	5	17
November 2004	2	9	10	5	17
December 2004	1	10	10	5	14
January 2005	2	11	9	3	17
February 2005	1	9	10	3	15
March 2005	3	9	9	5	18
April 2005	2	10	9	7	18
May 2005	2	9	8	5	19
June 2005	2	9	13	4	22
July 2005	3	10	10	4	21

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
August 2005	1	10	10	6	15
September 2005	2	11	9	8	19
October 2005	3	10	10	4	21
November 2005	3	10	8	7	15
December 2005	3	10	11	5	20
January 2006	4	9	10	5	19
February 2006	4	8	13	6	20
March 2006	3	8	11	3	16
April 2006	3	9	10	7	18
May 2006	4	9	8	7	18
June 2006	5	12	10	6	17
July 2006	6	10	10	5	17
August 2006	4	11	11	8	15
September 2006	3	11	10	5	15
October 2006	4	10	12	4	18
November 2006	3	14	12	3	16
December 2006	3	12	11	3	20
January 2007	5	10	10	3	24
February 2007	4	10	10	3	25
March 2007	3	11	12	4	22
April 2007	3	11	10	4	25
May 2007	3	11	11	5	27
June 2007	3	13	10	4	23
July 2007	3	11	10	5	19
August 2007	3	14	11	6	17
September 2007	3	11	9	4	19
October 2007	3	13	12	5	18
November 2007	3	15	10	7	19
December 2007	4	9	10	7	21
January 2008	4	15	10	8	19
February 2008	3	13	8	8	20
March 2008	2	16	9	12	21
April 2008	3	17	9	14	17
May 2008	3	17	9	17	18
June 2008	2	15	9	20	17
July 2008	3	16	8	20	17
August 2008	2	18	8	18	17
September 2008	3	20	8	16	17
October 2008	5	23	9	11	18

Period	Interest rates and finance	Weak demand	Government regulations	Inflation	Taxes
November 2008	3	25	8	9	21
December 2008	3	27	8	7	20
January 2009	4	28	11	6	19
February 2009	3	33	10	6	19
March 2009	4	31	12	6	22
April 2009	4	32	11	4	22
May 2009	5	30	13	3	19
June 2009	6	32	10	5	19
July 2009	4	32	12	3	22
August 2009	4	32	11	5	18
September 2009	4	32	11	4	24
October 2009	4	33	11	2	22
November 2009	5	33	13	3	20
December 2009	4	34	13	2	20
January 2010	5	31	13	3	22
February 2010	3	34	12	3	23
March 2010	5	34	11	5	19
April 2010	4	29	15	4	22
May 2010	3	30	13	4	22
June 2010	6	30	15	4	20
July 2010	4	29	15	3	21

Not seasonally adjusted.

Note. Respondents can report that their most important problem is: weak demand, interest rates and finance, inflation, taxes, government regulation, cost and availability of insurance, quality of labor, cost of labor, competition from large businesses, and other.

Page 3
Inflation Expectations and Inflation in Japan

Top panel
1. Survey Measures of Inflation Expectations

A line chart shows the survey measures of inflation expectations taken from Consensus Economics going back to 1995. The chart shows inflation expectations one year ahead, average expected inflation two to five years ahead, and average expected inflation five to ten years ahead. Inflation expectations one year ahead dropped below zero for the first time in September 1998. They continued to decrease until the beginning of 2002 when, at a level of -1%, they began rising. They became positive in mid-2005 and peaked in late 2008 at 1.5 percent, before plunging to -1 percent by the beginning of 2009. They remained at that level through the beginning of 2010. 2010 saw a steady rise in one year ahead expectations to about -0.5%. Expected inflation 2-5 years ahead and 5-10 years ahead were at about 2% and 1.75% respectively in the beginning of 1995. They followed a general downward trend until 2003, when both were near zero percent. They then rose to about 1.5% by the end of 2005, where they remained fairly constant for a number of years, following to one percent in the beginning of 2009 and remaining there through 2010. The chart also indicates notable monetary policies, including the start of the Bank of Japan's zero interest rate policy in early 1999 and its end in mid-2000. Japan's quantitative easing policy began in early

2001, exit conditions were clarified in the fourth quarter of 2003, and the quantitative easing policy ended in early 2006.

Source: Consensus Economics

Bottom panel
2. Consumer Price Inflation

A line chart shows Japan's consumer price inflation, both headline inflation and core inflation excluding food and energy. The data is displayed as year on year percent change and is taken from Haver, with staff adjustments. The graph of inflation begins in 1995, and contains the same policy action events as were depicted in the inflation expectations graph. Headline inflation begins in 1995 at 0.5%, and core inflation at just over 1%. Headline inflation is slightly negative for most of 1995, then returns to 0.5% through mid-1997 when both headline and core inflation jump to 2% and remain between 2-3% through the beginning of 1998, when they both fall just as rapidly back down to 0.5%. Both measures of inflation turned negative by mid-1998, two months before Japanese one year ahead inflation expectations dropped below zero. Apart from brief interludes, such as the latter part of 2006, headline inflation remained negative through the beginning of 2008, when it quickly rose to just over 2% in late 2008, before plunging to -2.5% by the end of 2009. It then proceeded to rise steadily in 2010 to about -0.5%. Core CPI remained negative until mid-2008, when it became slightly positive. But by the end of 2008 it fell negative again and dropped steadily to about -1.5% by the end of 2010.

Source: Haver, with staff adjustments

Appendix 3: Materials used by Mr. English

Material for **FOMC Briefing on Monetary Policy Alternatives**

Bill English
August 10, 2010

Class I FOMC - Restricted Controlled FR

June FOMC Statement

Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.

Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be 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.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

[Note: In the August FOMC Statement alternatives, strong emphasis (bold) indicates bold red underlined text in the original document, and strike-through text indicates strike-through text in the original document. The asterisks and their associated footnotes are blue in the original document.]

August FOMC Statement--Alternative A

Information received ~~since the Federal Open Market Committee met in April~~ **over recent months has increasingly suggested** ~~suggests~~ that the ~~economic~~ recovery **in economic activity** and the labor market is proceeding **at an unsatisfactory pace** ~~and that the labor market is improving gradually~~. Household spending is increasing **only gradually** ~~but~~ **and** remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software ~~has risen significantly~~ **is rising less rapidly than earlier in the year, and the contribution of inventory investment to growth is likely to wane**. ~~; however,~~ Investment in nonresidential structures continues to be weak, and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become **somewhat** less supportive of economic growth **in recent months,** on balance, ~~largely reflecting developments abroad.~~ **and** bank lending has continued to contract ~~in recent months~~. ~~Nonetheless,~~**Although** the Committee **still** anticipates a gradual return to higher levels of resource utilization in a context of price stability, ~~although the pace of economic recovery is likely to be moderate for a time~~ **the near-term outlook for economic activity has weakened**.

~~Prices of energy and other commodities have declined somewhat in recent months, and~~ **Measures of** underlying inflation ~~has~~ **have** trended lower in recent **quarters.** With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to ~~be subdued~~ **remain,** for some time**, below levels that the Committee considers most consistent with its mandate to promote maximum employment and stable prices**.

To support the economic recovery, the Committee ~~will maintain~~ **decided to reduce** the target range for the federal funds rate ~~at~~ **to** 0 to ~~¼~~ **1/8** 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~~. **Consistent with this reduction, the Board of Governors cut the remuneration rates on required and excess reserve balances to 10 basis points effective with the reserve maintenance period beginning August 12. The Committee anticipates maintaining this range for the federal funds rate until resource utilization and underlying inflation have moved appreciably closer to levels consistent with its longer-term objectives.**

To provide additional support for the economic recovery in a context of price stability, the Committee will maintain the Federal Reserve's holdings of ~~longer-term~~ **securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [*alternatively:* in agency mortgage-backed securities].*** **The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.**

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

* The Open Market Desk will issue a technical note shortly after the statement providing operational details on how it will carry out these transactions. [Return to text]

August FOMC Statement--Alternative B

Information received since the Federal Open Market Committee met in ~~April~~ **June** ~~suggests~~ **indicates** that the ~~economic~~ **pace of** recovery **in output and employment has slowed in recent months** ~~is proceeding and that the labor market is improving gradually~~. Household spending is increasing **gradually,** but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software ~~has risen significantly~~ **is rising**; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. ~~Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.~~ Bank lending has continued to contract ~~in recent months~~. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be ~~moderate for a time~~ **more modest in the near term than had been anticipated**.

~~Prices of energy and other commodities have declined somewhat in recent months, and~~ **Measures of** underlying inflation ~~has~~ **have** trended lower in recent **quarters**~~.~~ and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time**[, at levels lower than are desirable over the long run]**.

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 help support ~~a more timely return to those objectives~~ the economic recovery in a context of price stability, the Committee will maintain the Federal Reserve's holdings of ~~longer-term~~ securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [*alternatively:* in agency mortgage-backed securities].* The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

* The Open Market Desk will issue a technical note shortly after the statement providing operational details on how it will carry out these transactions. [Return to text]

August FOMC Statement--Alternative C

1. Information received since the Federal Open Market Committee met in ~~April~~ **June** suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing **and** ~~but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.~~ business spending on equipment and software ~~has risen significantly~~ **continues to advance** ~~however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls~~. Financial conditions have become ~~less~~ **somewhat more** supportive of economic growth ~~on balance~~ **in recent weeks**~~, largely reflecting developments abroad. Bank lending has continued to contract in recent months~~. **Though** underlying inflation has trended lower, longer-term inflation expectations **have remained** stable. The Committee **believes that a sustainable economic recovery is under way and** ~~Nonetheless,~~ anticipates a gradual return to higher levels of resource utilization in a context of price stability~~, although the pace of economic recovery is likely to be moderate for a time~~.

2. ~~Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.~~

2. The Committee ~~will~~ **decided to** maintain the target range for the federal funds rate at 0 to ¼ percent and ~~continues to~~ anticipates 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~~ **some time**. **The Committee will continue its approach of not reinvesting payments of principal on mortgage-backed securities and maturing agency debt held by the System Open Market Account. As a further step toward reducing the size of the Federal Reserve's balance sheet and the level of reserves in the banking system, on [September 1] the Committee will stop reinvesting the proceeds of maturing Treasury securities.** The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

Directives

June 2010 FOMC Directive

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 engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. 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.

[Note: In the August 2010 FOMC Directive -- Alternatives A and B, strong emphasis (bold) indicates bold blue underlined text in the original document, and strike-through text indicates strike-through or blue strike-through text in the original document, as indicated.]

August 2010 FOMC Directive -- Alternative A

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~~ 1/8 percent. [begin blue text] ~~The Committee directs the Desk to purchase longer-term Treasury securities during the intermeeting period to maintain the total face value of the System Open Market Account's holdings of Treasury securities, agency debt, and agency mortgage-backed securities at approximately $2 trillion.~~ **The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately $2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [*alternatively:* in agency mortgage-backed securities].** [end blue text] The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. 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.

August 2010 FOMC Directive -- Alternative B

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. [begin blue text] ~~The Committee directs the Desk to purchase longer-term Treasury securities during the intermeeting period to maintain the total face value of the System Open Market Account's holdings of Treasury securities, agency debt, and agency mortgage-backed securities at approximately $2 trillion.~~ **The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately $2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [*alternatively:* in agency mortgage-backed securities].** [end blue text] The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. 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.

[Note: In the June 2010 FOMC Directive -- Alternative C, strong emphasis (bold) indicates bold red text in the original document.]

June 2010 FOMC Directive -- Alternative 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 engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. **To gradually reduce the size of the Federal Reserve's balance sheet over time, the Committee directs the Desk to not reinvest the proceeds of maturing Treasury securities held by the System Open Market Account, effective September 1, 2010, and to maintain its practice of not reinvesting the proceeds of maturing agency debt and payments on agency mortgage-backed securities held by the System Open Market Account.** 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.

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