Meeting of the Federal Open Market Committee
September 20-21, 2011 Presentation Materials

Presentation Materials (PDF)

Pages 262 to 290 of the Transcript

Appendix 1: Materials used by Mr. Sack

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

Brian Sack
September 20, 2011

Exhibit 1

Top-left panel
(1)

Title: Implied Federal Funds Rate Path*
Series: Future federal funds rates derived from OIS contracts
Horizon: 8/8/11, 9/16/11
Description: The implied federal funds rate path moved down once again during the intermeeting period.

* Risk neutral path derived from OIS rates. Return to text

Source: Federal Reserve Board of Governors

Top-right panel
(2)

Title: Probability Distribution of First Increase in Federal Funds Target Rate*
Series: August and September Dealer Surveys' probability distributions of increase in target rate
Horizon: 2011:Q3 to 2014:Q1 or later
Description: Survey respondents once again pushed back their expectations for an increase in the Federal Funds target rate.

* Average probabilities from dealer responses. Return to text

Source: Federal Reserve Bank of New York Policy Survey

Middle-left panel
(3)

Title: Treasury Yields
Series: 2-year, 5-year, 10-year, and 30-year Treasury yields
Horizon: August 3, 2009 - September 16, 2011
Description: Treasury yields, particularly those with longer maturity, ended the period lower than their levels at the time of the last FOMC meeting.

Source: Bloomberg

Middle-right panel
(4)

Title: 10-Year Real Interest Rate
Series: Survey-based estimate (10-year nominal yield less FRB's survey measure of 10-year inflation expectations), 10-year TIPS yield
Horizon: January 1, 1986 - September 16, 2011
Description: Real yields continued their fall to historical lows.

Source: Haver, Federal Reserve Board of Governors

Bottom-left panel
(5)

Title: 5-Year, 5-Year Forward Breakeven Inflation Rate
Series: Federal Reserve Board of Governors' 5-year, 5-year forward breakeven inflation rate
Horizon: August 3, 2009 - September 16, 2011
Description: Market-based forward inflation expectations dropped precipitously in the intermeeting period.

Source: Federal Reserve Board of Governors

Bottom-right panel
(6)

Title: Implied Probability of Deflation over Next Several Years
Series: Markets Group deflation probability derived from TIPS security maturing in April 2015
Horizon: September 1, 2010 - September 16, 2011
Description: A market-implied measure of deflation probability remains elevated compared to recent levels.

Source: JP Morgan, Barclays Capital, Federal Reserve Bank of New York

Exhibit 2

Top-left panel
(7)

Title: Equity Prices
Series: S&P 500, KBW Bank Index, both indexed to 4/1/10
Horizon: April 1, 2010 - September 16, 2011
Description: The S&P 500 and the U.S. bank stocks index both decreased sharply off their highs earlier in the year, but increased slightly in the intermeeting period.

Source: Bloomberg

Top-right panel
(8)

Title: Volatility of S&P 500 Index
Series: Annualized 30-day realized volatility of S&P 500
Horizon: January 1, 2008 - September 16, 2011
Description: Volatility of S&P 500 Index increased sharply in the intermeeting period.

Source: Bloomberg, Federal Reserve Bank of New York

Middle-left panel
(9)

Title: Euro Area Sovereign Debt Spreads
Series: 10-year yield spreads to Germany for Italian, Spanish, Belgian, and French notes
Horizon: April 1, 2010 - September 16, 2011
Description: Despite some easing in peripheral European sovereign debt conditions as evidenced by a drop in spreads in early August, the spreads subsequently retraced those moves and ended the intermeeting period much wider (particularly for Italy and Spain).

Source: Bloomberg

Middle-right panel
(10)

Title: European Equity Changes Since 7/1/2011
Series: Change in EuroStoxx Index, average change in major German banks, major French banks, and major Italian banks, change in S&P 500
Horizon: July 1, 2011 - September 16, 2011
Description: European equities dropped sharply in the months leading up to this FOMC meeting, led by troubles in bank shares. The S&P 500 performed comparatively well, but it has nonetheless also dropped in recent months.

Source: Bloomberg

Bottom-left panel
(11)

Title: 3-Month Dollar Funding Spreads to OIS
Series: Spread of 3-month Euro Libor rate swapped to dollars to 3-month OIS, spread of 3-month dollar Libor rate to 3-month OIS
Horizon: April 1, 2010 - September 16, 2011
Description: The first series shows how funding market conditions have remained strained in the European market, as dollar borrowing rates implied by FX swaps remain very high (despite a slight easing in conditions in the days leading up to the FOMC). The dollar Libor-OIS spread has also increased slowly but consistently throughout the intermeeting period.

Source: Bloomberg, Federal Reserve Bank of New York

Bottom-right panel
(12)

Title: Dollar Exchange Rates
Series: EUR-USD cross, Federal Reserve Board of Governors trade-weighted dollar measure, both indexed to 4/1/10
Horizon: April 1, 2010 - September 16, 2011
Description: The dollar appreciated both broadly and against the euro in the intermeeting period.

Source: Bloomberg, Federal Reserve Board of Governors

Exhibit 3

Top-left panel
(13)

Title: SOMA Portfolio Holdings
Series: Par values of agency MBS, agency debt, and Treasury securities held in the SOMA portfolio
Horizon: January 1, 2004 - August 31, 2011
Description: The total amount of domestic securities in the SOMA portfolio has held relatively steady at approximately $2.6 trillion since the end of LSAP2 in June 2011, but it remains at historically high levels.

Source: Federal Reserve Bank of New York

Top-right panel
(14)

Title: SOMA Portfolio Measured in Ten-Year Equivalents
Series: Total portfolio measured in ten-year equivalents, and portion accounted for by size of portfolio (assuming portfolio duration held constant at mid-2007 level)
Horizon: January 1, 2004 - August 31, 2011
Description: The amount of ten-year Treasury securities that would have the same duration risk as the aggregate portfolio has increased sharply given the two large purchase programs already implemented. Much of this increase in ten-year equivalents has been driven by the increase in the size of the portfolio, but the portfolio's increased duration has also accounted for a sizable portion of the increase.

Source: Federal Reserve Bank of New York

Middle-left panel
(15)

Title: Probability of Additional Policy Actions (Over 1-Year Horizon)
Series: September Dealer Survey additional policy action responses
Horizon: 1 year
Description: Respondents had high expectations for a program to increase the duration of the SOMA portfolio, and lower (but not insignificant) expectations for other forms of easing.

Other forms of easing shown are "Reduce IOER," "Change Rate Guidance," "Provide SOMA Guidance," and "Increase SOMA Size."

Source: Federal Reserve Bank of New York Policy Survey

Middle-right panel
(16)

Title: Treasury Yield Changes During the Intermeeting Period
Series: Changes in 1-year, 2-year, 3-year, 5-year, 7-year, 10-year, and 30-year Treasury yields since August 8, 2011
Horizon: August 8, 2011 - September 16, 2011
Description: Yields have decreased at all Treasury tenors, with the decreases particularly notable in longer tenors. This has led to a flattening of the yield curve, perhaps in response to expectations of a maturity extension program.

Source: Bloomberg

Bottom-left panel
(17)

Title: MBS Option-Adjusted Spread to Treasury
Series: Current coupon MBS option-adjusted spread to Treasury
Horizon: January 1, 2005 - September 16, 2011
Description: The MBS spread to Treasuries has increased notably and is now above its historical average, reflecting strains in the mortgage market.

Source: JP Morgan

Bottom-right panel
(18)

Title: Combinations of Unemployment and Inflation That Would Prompt First Rate Hike
Series: Average estimates of combinations of unemployment and inflation that would prompt the FOMC to increase the federal funds rate, as estimated in the September dealer survey
Horizon: September 2011

Description: Respondents see a trade-off between unemployment and inflation, in that they expect the FOMC to wait for a lower unemployment rate before hiking rates if the inflation rate were lower.

Source: Federal Reserve Bank of New York Policy Survey

Appendix 2: Materials used by Ms. Remache, Mr. Carpenter, and Mr. Reifschneider

Material for Briefing on **Alternative Policy Tools**

September 20, 2011

Exhibit 1

Top-left panel
(1)

Title: SOMA Portfolio Holdings (Par Amount)
Series: Forecast of SOMA portfolio holdings under August baseline, large-scale asset purchase program (LSAP), maturity extension program (MEP), and reinvestment maturity extension program (RMEP)
Horizon: 2010 - 2020
Description: The par amount of SOMA portfolio holdings would increase sharply under another LSAP and would increase slightly under an MEP. An RMEP would not markedly increase portfolio holdings as compared to the baseline with no additional policy actions.

Source: Federal Reserve Bank of New York

Top-right panel
(2)

Title: SOMA Portfolio Average Duration
Series: Forecast of average duration of SOMA portfolio under August baseline, LSAP, MEP, and RMEP
Horizon: 2010 - 2020
Description: An MEP is forecasted to increase the SOMA portfolio duration to nearly 6.5 years by the end of 2012, well more than under the other policy options. The duration of the portfolio with no additional policy action would peak at roughly 4.5 years at the end of 2012. The duration is forecasted to decrease after 2012 under any of the possible options.

Source: Federal Reserve Bank of New York

Middle-left panel
(3)

Title: SOMA Portfolio Measured in Ten-Year Equivalents
Series: Forecast of amount of ten-year Treasury securities that would have the same duration risk as the aggregate portfolio under August baseline, LSAP, MEP, and RMEP
Horizon: 2010 - 2020
Description: Another LSAP is forecasted to remove the most duration from the public market for Treasuries as measured by the increase in the SOMA portfolio measured in ten-year equivalents. The portfolio's size in ten-year equivalents would also increase markedly under an MEP. An RMEP is not forecasted to cause a large increase in the size of the portfolio in terms of ten-year equivalents as compared to the August baseline.

Source: Federal Reserve Bank of New York

Middle-right panel
(4)

Title: Estimated Term Premium Effects
Series: Forecast of changes in term premium in 10-year Treasury yield under the different possible policy options, as compared to the baseline of no additional policy action
Horizon: 2011 - 2020
Description: Another LSAP is forecasted to reduce the term premium embedded in the 10-year Treasury yield by nearly 25 basis points by early 2012. An MEP would reduce term premium by nearly that amount, while an RMEP would only reduce term premium by roughly 7 basis points at its high point.

Source: Federal Reserve Bank of New York

Bottom-left panel
(5)

Title: Annual Remittances to Treasury
Series: Forecast of Federal Reserve remittances to Treasury under the different policy options
Horizon: 2010 - 2020
Description: There is not a large difference in forecasted remittances to Treasury under the different policy options. Another LSAP and an MEP would slightly increase remittances in the near to medium term as compared to the other options, but by 2016 those remittances under MEP or LSAP would be lower than under the other options.

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

Bottom-right panel
(6)

Title: Annual Remittances to Treasury Under Adverse Rate Scenario
Series: Forecast of Federal Reserve remittances to Treasury under the different policy options, assuming an adverse interest rate shock
Horizon: 2010 - 2020
Description: If there were a positive interest rate shock in the medium term, remittances to Treasury are forecasted to decrease to zero for an extended period of time under an LSAP, and for a slightly shorter (but still extended) period under an MEP. Remittances would also decrease sharply under an RMEP and under the August baseline regime, but they are not forecasted to be zero for an extended period of time.

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

Exhibit 2
Implications of Reducing the Interest Rate Paid on Reserves

Potential Benefits

- Lowering the IOER rate would likely push down money market rates and longer-term rates.
- Lowering the IOER rate would provide banks with an additional incentive to lend.
- Lowering the IOER rate could also mitigate the reputational risk to the Federal Reserve from the appearance of paying a subsidy to banks.

Potential Costs

- Reducing the IOER rate could cause temporary disruptions to money markets and the intermediation of credit.
- Money market funds would likely contract further.
- The federal funds market would likely contract, and the federal funds rate would likely become erratic.
- Banks could begin imposing explicit negative deposit rates.

- Bidding at U.S. Treasury auctions could be distorted.

Exhibit 3
Forward Guidance

Market Reactions to the Contingent Forward Guidance in the August Statement

- Perceived likelihood of tightening prior to mid-2013 fell noticeably after the announcement
  - Expected path of the federal funds rate shifted down
  - Uncertainty about the path declined
- Participants understand guidance is conditional on the evolution of economic conditions, but are unclear about the specific conditions that would warrant tightening

Clarifying the Committee's Intentions though Quantitative Forward Guidance

- Could better align market expectations with FOMC's intentions and reduce uncertainty, thereby:
  - Stimulating the economy if the public underestimates the FOMC's willingness to pursue accommodative monetary policy
  - Making investors' responses to incoming data, and thus movements in longer-term interest rates, more consistent with the Committee's reaction function
- Provide conditional forward guidance by indicating the unemployment and inflation "threshold" conditions that warrant keeping the funds rate near zero
- To avoid confusion, thresholds may need to be accompanied by the FOMC's long-run inflation goal and its projection of the level to which the unemployment rate will converge over time

Results from FRB/US Simulation Analysis of Forward Guidance

- Modest near-term stimulus could be provided by announcing unemployment and inflation thresholds if the guidance:
  - Is credible, in the sense that the public is confident that future Committees will carry it out
  - Implies an easier stance of policy than the market anticipates
- More stimulus could be achieved through guidance that the normalization of the funds rate after liftoff will be more gradual than currently expected
- Robustness analysis suggests:
  - Commitments geared to calendar dates are problematic
  - Thresholds for action would perform reasonably well under a range of conditions

Exhibit 4
Questions for Committee Discussion of Alternative Policy Tools

1. In the event that the Federal Reserve wanted to increase monetary accommodation and further reductions in the federal funds rate target were infeasible:
   a. What are your views on the potential efficacy of policy tools tied to the size and composition of the Federal Reserve's balance sheet, such as a maturity extension program?
   b. Do you think that reducing the interest rate paid on reserves would be a useful way to provide additional accommodation?
2. With regard to monetary policy communications as a tool of policy:

a. Do you approve of the general idea of providing more explicit, quantitative information about the Committee's longer-run objective for inflation and its projection of the level to which the unemployment rate will converge over time?

b. Do you approve of the general idea of providing more explicit, quantitative information about the Committee's reaction function?

c. If you approve of both of these ideas, does language like that in paragraphs 2 and 4 of Alternative A appeal to you, or would you propose something else?

Appendix 3: Materials used by Mr. Slifman

Exhibit 1

Top-left panel
Real GDP

Percent change, annual rate

Period	Current Tealbook	Last Tealbook
2010:Q1	3.94	ND
2010:Q2	3.79	ND
2010:Q3	2.51	ND
2010:Q4	2.35	ND
2011:Q1	0.36	ND
2011:Q2	1.25	1.25
2011:Q3	2.47	2.92
2011:Q4	1.98	2.43
2012:Q1	2.17	2.43
2012:Q2	2.33	2.86
2012:Q3	2.72	3.18
2012:Q4	3.02	3.39
2013:Q1	3.20	ND
2013:Q2	3.30	ND
2013:Q3	3.50	ND
2013:Q4	3.60	ND

Top-right panel
Unemployment Rate

Percent

Period	Current Tealbook	Last Tealbook
2010:Q1	9.70	ND
2010:Q2	9.60	ND
2010:Q3	9.60	ND
2010:Q4	9.60	ND
2011:Q1	8.90	ND
2011:Q2	9.07	9.07
2011:Q3	9.09	9.20

Period	Current Tealbook	Last Tealbook
2011:Q4	9.11	9.16
2012:Q1	9.10	9.06
2012:Q2	8.98	8.91
2012:Q3	8.86	8.74
2012:Q4	8.70	8.51
2013:Q1	8.52	ND
2013:Q2	8.41	ND
2013:Q3	8.28	ND
2013:Q4	8.14	ND

Middle-left panel
PCE Prices

Percent change, annual rate

Period	Current Tealbook	Last Tealbook
2010:Q1	1.86	ND
2010:Q2	0.33	ND
2010:Q3	0.98	ND
2010:Q4	1.95	ND
2011:Q1	3.90	ND
2011:Q2	3.24	3.24
2011:Q3	2.26	1.52
2011:Q4	1.21	1.15
2012:Q1	0.92	1.57
2012:Q2	1.25	1.51
2012:Q3	1.33	1.44
2012:Q4	1.35	1.41
2013:Q1	1.30	ND
2013:Q2	1.27	ND
2013:Q3	1.29	ND
2013:Q4	1.30	ND

Middle-right panel
Federal Funds Rate

Percent, quarterly average

Period	Current Tealbook	Last Tealbook
2010:Q1	0.13	ND
2010:Q2	0.13	ND
2010:Q3	0.13	ND
2010:Q4	0.13	ND
2011:Q1	0.13	ND
2011:Q2	0.13	ND
2011:Q3	0.13	0.13
2011:Q4	0.12	0.12
2012:Q1	0.12	0.12

Period	Current Tealbook	Last Tealbook
2012:Q2	0.12	0.12
2012:Q3	0.12	0.12
2012:Q4	0.12	0.12
2013:Q1	0.12	0.12
2013:Q2	0.12	0.12
2013:Q3	0.12	0.40
2013:Q4	0.12	0.70
2014:Q1	0.13	0.83
2014:Q2	0.17	1.03
2014:Q3	0.32	1.36
2014:Q4	0.56	1.75

Bottom-left panel
Real GDP Forecasts from Factor Models

Percent change, annual rate

Period	Mean	Minimum	25%	75%	Maximum
2010:Q3	2.51	ND	ND	ND	ND
2010:Q4	2.35	ND	ND	ND	ND
2011:Q1	0.36	ND	ND	ND	ND
2011:Q2	0.99	0.99	0.99	0.99	0.99
Forecast					
2011:Q3	1.51	0.71	1.24	1.79	2.27
2011:Q4	-0.43	-3.35	-1.03	0.42	1.63
2012:Q1	0.32	-2.22	-0.08	1.23	2.31
2012:Q2	1.35	-0.68	0.61	2.28	3.14
2012:Q3	2.09	0.32	1.23	2.95	3.73

Note: The black line is the mean forecast of 45 factor models that differ in the number of static and dynamic factors. The red shaded area is the interquartile range of the model forecasts, and the blue shaded area encompasses the minimum and maximum range.

Bottom-right panel
Estimated Probability of Recession or Stall from Simple Three-State Model

Period	Percent
1985:Q1	0.25
1985:Q2	0.30
1985:Q3	0.14
1985:Q4	0.29
1986:Q1	0.34
1986:Q2	0.21
1986:Q3	0.12
1986:Q4	0.11
1987:Q1	0.11
1987:Q2	0.00
1987:Q3	0.01
1987:Q4	0.05
1988:Q1	0.32

Period	Percent
1988:Q2	1.37
1988:Q3	5.20
1988:Q4	11.87
1989:Q1	50.96
1989:Q2	87.99
1989:Q3	92.60
1989:Q4	96.19
1990:Q1	97.34
1990:Q2	99.80
1990:Q3	99.98
1990:Q4	99.89
1991:Q1	98.11
1991:Q2	31.12
1991:Q3	20.59
1991:Q4	18.68
1992:Q1	1.91
1992:Q2	1.53
1992:Q3	0.14
1992:Q4	0.13
1993:Q1	0.18
1993:Q2	0.18
1993:Q3	0.03
1993:Q4	0.02
1994:Q1	0.01
1994:Q2	0.01
1994:Q3	0.05
1994:Q4	0.17
1995:Q1	0.67
1995:Q2	0.69
1995:Q3	0.11
1995:Q4	0.07
1996:Q1	0.03
1996:Q2	0.01
1996:Q3	0.03
1996:Q4	0.03
1997:Q1	0.00
1997:Q2	0.00
1997:Q3	0.00
1997:Q4	0.00
1998:Q1	0.00
1998:Q2	0.00
1998:Q3	0.00
1998:Q4	0.01
1999:Q1	0.03
1999:Q2	0.06

Period	Percent
1999:Q3	0.07
1999:Q4	0.13
2000:Q1	0.98
2000:Q2	29.96
2000:Q3	53.10
2000:Q4	88.72
2001:Q1	92.06
2001:Q2	99.83
2001:Q3	99.99
2001:Q4	99.73
2002:Q1	2.64
2002:Q2	14.85
2002:Q3	27.07
2002:Q4	28.60
2003:Q1	20.09
2003:Q2	19.34
2003:Q3	0.23
2003:Q4	0.16
2004:Q1	0.17
2004:Q2	0.05
2004:Q3	0.08
2004:Q4	0.16
2005:Q1	0.26
2005:Q2	0.61
2005:Q3	1.13
2005:Q4	1.85
2006:Q1	5.11
2006:Q2	39.17
2006:Q3	59.43
2006:Q4	76.98
2007:Q1	98.18
2007:Q2	99.49
2007:Q3	99.89
2007:Q4	99.92
2008:Q1	99.85
2008:Q2	100.00
2008:Q3	100.00
2008:Q4	100.00
2009:Q1	100.00
2009:Q2	99.99
2009:Q3	64.44
2009:Q4	2.73
2010:Q1	0.45
2010:Q2	4.64
2010:Q3	14.11

Period	Percent
2010:Q4	24.36
2011:Q1	30.84
2011:Q2	36.63
2011:Q3	32.72

Note: Probabilities through 2011:Q2 are estimated with data for the percent change in real GDP, the percent change in real GDI, and the percentage point change in the unemployment rate. The probability for 2011:Q3 is estimated only with data for the change in the unemployment rate. Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research: July 1990-March 1991, March 2001-November 2001, and December 2007-June 2009.

Appendix 4: Materials used by Mr. English

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

Bill English
September 21, 2011

August 2011 FOMC Statement

1. Information received since the Federal Open Market Committee met in June indicates that economic growth so far this year has been considerably slower than the Committee had expected. Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Temporary factors, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan, appear to account for only some of the recent weakness in economic activity. Inflation picked up earlier in the year, mainly reflecting higher prices for some commodities and imported goods, as well as the supply chain disruptions. More recently, inflation has moderated as prices of energy and some commodities have declined from their earlier peaks. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee now expects a somewhat slower pace of recovery over coming quarters than it did at the time of the previous meeting and anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, downside risks to the economic outlook have increased. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

3. To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

4. The Committee discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. It will continue to assess the economic outlook in light of incoming information and is prepared to employ these tools as appropriate.

[Note: In the September 2011 FOMC Statement Alternatives, emphasis (italic) indicates bold blue underlined text, curly brackets with strike-through {--} indicates bold blue strike-through text, and strong emphasis (bold) indicates bold red underlined text, respectively, in the original document.]

September 2011 FOMC Statement--Alternative A

1. Information received since the Federal Open Market Committee met in **August** indicates that economic growth **remains quite slow**. **Recent** indicators **point to continuing weakness** in overall labor market conditions, and the unemployment rate **remains elevated**. Household spending has **been increasing at only a modest pace in recent months despite some recovery in sales of motor vehicles as supply-chain disruptions eased**. Investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Inflation has moderated **since earlier in the year** as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. **The Committee judges that inflation of 2 percent as measured by the price index for personal consumption expenditures is most consistent, over the longer run, with the dual mandate. Whereas monetary policy can determine the longer-run inflation rate, monetary policy does not determine the longer-run equilibrium rate of unemployment, which depends on structural economic factors that may vary over time. Currently, the Committee projects that, in the absence of further shocks to the economy, the unemployment rate would converge over time to a level around [5 to 6] percent; this projection is subject to considerable uncertainty.**

3. The Committee **continues to expect some pickup** in the pace of recovery over coming quarters **but** anticipates that the unemployment rate will decline only **slowly** toward **its longer-run equilibrium level**. Moreover, **there are significant** downside risks to the economic outlook**, including strains in global financial markets**. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

4. To promote **a stronger** economic recovery and to help ensure that inflation, over time, is consistent with **the dual** mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee anticipates that **this** exceptionally low **range for** the federal funds rate **will be appropriate at least as long as the unemployment rate exceeds [7] percent, inflation is projected to remain at or below [2½] percent in the medium term, and longer-term inflation expectations continue to be well anchored at mandate-consistent levels**. **On the basis of currently available information, the Committee expects these conditions to prevail [at least through 2014].**

5. **In addition, the Committee decided to expand its holdings of longer-term Treasury securities** *[* **by a further $1 trillion** *by the end of the third quarter of 2012* | **at a pace of $80 to $85 billion per month** {~~over the next [12] months~~} *through the end of the third quarter of 2012.]* **This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.** The Committee will regularly review the **pace of its securities purchases and the overall size of the purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability**.

6. *[* The Committee will maintain its existing policy of **rolling over maturing Treasury securities at auction** *but* **will** *now* **reinvest principal payments from its holdings of agency** *debt and agency mortgage-backed* **securities in longer-term Treasury securities**. | The Committee will maintain its existing policy of **rolling over maturing Treasury securities at auction**. *In addition, to help support conditions in mortgage markets, the Committee will now* **reinvest principal payments from its holdings of agency** *debt and agency mortgage-backed* **securities** *in agency mortgage-backed securities.]*

7. The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ **its** policy tools as appropriate to promote a stronger economic recovery in a context of price stability.

September 2011 FOMC Statement--Alternative B

1. Information received since the Federal Open Market Committee met in **August** indicates that economic growth **remains slow**. **Recent** indicators **point to continuing weakness** in overall labor market conditions, and the unemployment rate **remains elevated**. Household spending has **been increasing at only a modest pace in recent months despite some recovery in sales of motor vehicles as supply-chain disruptions eased**. Investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Inflation has moderated **since earlier in the year** as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee **continues to expect some pickup** in the pace of recovery over coming quarters **but** anticipates

that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, **there are significant** downside risks to the economic outlook**, including strains in global financial markets**. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

3. To **support a stronger** economic recovery and to help ensure that inflation, over time, is at levels consistent with **the dual** mandate, the Committee decided today to **extend the average maturity of its holdings of securities**. **The Committee intends to purchase,** {~~over the next 9 months~~} *by the end of June 2012*, **$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.** The Committee will regularly review the **pace of its securities transactions and the overall size of the maturity extension program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability**.

OR

3′. To **support a stronger** economic recovery and to help ensure that inflation, over time, is at levels consistent with **the dual** mandate, the Committee decided today to **extend the average maturity of its holdings of securities**. **The Committee is initiating purchases of Treasury securities with remaining maturities of 6 years to 30 years at a pace of about $45 billion per month and will sell Treasury securities with remaining maturities of 3 years or less at the same pace; the Committee anticipates continuing this maturity-extension program for up to 9 months. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.** The Committee will regularly review the **pace of its securities transactions and the overall size of the maturity extension program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability**.

4. *[* The Committee will maintain its existing policy of **rolling over maturing Treasury securities at auction** *but* **will** *now* **reinvest principal payments from its holdings of agency** *debt and agency mortgage-backed* **securities in Treasury securities with remaining maturities of 6 years to 30 years**. The Committee will maintain its existing policy of **rolling over maturing Treasury securities at auction**. | *In addition, to help support conditions in mortgage markets, the Committee will now* **reinvest principal payments from its holdings of agency** *debt and agency mortgage-backed* **securities** *in agency mortgage-backed securities.]*

5. The Committee **also** decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

6. The Committee **[** discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. It **]** will continue to assess the economic outlook in light of incoming information and is prepared to employ **its** tools as appropriate.

Note: If policymakers decide it is appropriate to reduce the remuneration rate on reserve balances, the Board of Governors would issue an accompanying statement that might read:

In a related action, the Board of Governors voted today to reduce the interest rate paid on required and excess reserve balances from 25 basis points to 10 basis points effective with the reserve maintenance period that begins on October 6, 2011.

September 2011 FOMC Statement--Alternative C

1. Information received since the Federal Open Market Committee met in **August** indicates that economic growth **remains slow**. **Recent** indicators **point to continuing weakness** in overall labor market conditions, and the unemployment rate **remains elevated**. Household spending has **increased at a modest pace in recent months, with sales of new motor vehicles recovering after auto manufacturers made progress in restoring their supply chains and increased production**. Investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Inflation picked up earlier in the year, mainly reflecting higher prices for some commodities and imported goods, as well as the supply chain disruptions. More recently, inflation has moderated as prices of

energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. **Though** downside risks to the economic outlook **remain**, the Committee **continues to expect some pickup in the** pace of recovery over coming quarters and anticipates that the unemployment rate will decline gradually toward levels that the Committee judges to be consistent with its dual mandate. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

3. To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will **regularly** assess **the implications of incoming information for the economic outlook and will employ its policy tools as necessary to foster maximum employment and price stability**.

August 2011 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 1/4 percent. The Committee also directs the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities in the System Open Market Account in Treasury securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. 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 September 2011 FOMC Directive Alternatives, emphasis (italic) indicates bold blue underlined text, curly brackets with strike-through {~~-~~} indicates bold blue strike-through text, and strong emphasis (bold) indicates bold red underlined text, respectively, in the original document.]

September 2011 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 1/4 percent. **The Committee directs the Desk to purchase, by the end of** {~~September~~} *the third quarter of* **2012, longer-term Treasury securities with a total face value of $1 trillion in order to increase the total face value of domestic securities in the System Open Market Account to approximately $3.6 trillion.** The Committee also directs the Desk to maintain its existing policy of rolling over maturing Treasury securities into new issues and to reinvest principal payments on all agency *debt and agency mortgage-backed* securities in the System Open Market Account in *[* **longer-term** Treasury securities **|** *agency mortgage-backed securities]*. *[The Committee directs the Desk to engage in dollar roll 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.

September 2011 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 1/4 percent. **The Committee directs the Desk to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion.** The Committee also directs the Desk to maintain its existing policy of rolling over maturing Treasury securities into new issues and to reinvest principal payments on all agency *debt and agency mortgage-backed* securities in the System Open Market Account in *[* Treasury securities **with remaining maturities of approximately 6 years to 30 years |** *agency mortgage-backed* *securities]* in order to maintain the total face value of domestic securities at approximately $2.6 trillion. *[The Committee directs the Desk to engage in dollar roll 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.

OR

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 1/4 percent. **The Committee directs the Desk to purchase approximately $45 billion (face value) per month of Treasury securities with remaining maturities of approximately 6 years to 30 years, and to sell approximately the same amount of Treasury securities with remaining maturities of 3 years or less.** The Committee also directs the Desk to maintain its existing policy of rolling over maturing Treasury securities into new issues and to reinvest principal payments on all agency *debt and agency mortgage-backed* securities in the System Open Market Account *[* in Treasury securities **with remaining maturities of approximately 6 years to 30 years |** *agency mortgage-backed securities]* in order to maintain the total face value of domestic securities at approximately $2.6 trillion. *[The Committee directs the Desk to engage in dollar roll 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.

September 2011 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 1/4 percent. The Committee also directs the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities in the System Open Market Account in Treasury securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. 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.

Appendix 5: Materials used by Mr. Sack

Material for
FOMC Presentation: *Operational Plan for Maturity Extension and Reinvestment Initiatives*

Brian Sack
September 20, 2011

Statement Regarding Maturity Extension Program and Agency Security Reinvestments

On September 21, 2011, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase, by the end of June 2012, $400 billion in par value of Treasury securities with remaining maturities of 6 years to 30 years and to sell, over the same period, an equal par value of Treasury securities with remaining maturities of 3 years or less.

The FOMC also directed the Desk to reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities (MBS) in agency MBS.

Maturity Extension Program

Purchases of Treasury securities associated with the $400 billion maturity extension program will be distributed across five sectors based on the approximate weights in the following table, although this distribution could be altered if market conditions warrant:

Nominal Coupon Securities by Maturity Range*				TIPS**
6-8 Years	8-10 Years	10-20 Years	20-30 Years	TIPS 6-30 Years
32%	32%	4%	29%	3%

* The on-the-run 10-year note will be considered part of the 8- to 10-year sector. Return to table

** TIPS weights are based on unadjusted par amounts. Return to table

Sales associated with the $400 billion maturity extension program will take place in Treasury securities with remaining maturities of 3 months to 3 years. Roughly three quarters of System Open Market Account (SOMA) holdings of Treasury securities in this maturity range will be sold.

On or around the last business day of each month, the Desk will publish a tentative schedule of operations expected to take place over the following calendar month. The schedule will include the anticipated total amount of purchases and sales to be conducted over the month, operation dates, settlement dates, security types (nominal coupons or TIPS) to be purchased or sold, the maturity date range of eligible issues, and an expected range for the size of each operation. A schedule of operations expected to take place in October will be released on Friday, September 30.

Purchases and sales will be conducted with the Federal Reserve's primary dealers through a series of competitive auctions operated through the Desk's FedTrade system. Consistent with current practices, the results of each operation will be published on the Federal Reserve Bank of New York's website shortly after each operation has concluded. In order to ensure the transparency of these operations, the Desk will publish information on the transaction prices in individual operations at the end of each month, coinciding with the release of the next month's schedule.

A set of Frequently Asked Questions associated with this program will be released on Monday, September 26.

Reinvestments of Principal Payments on Agency Securities

Beginning on Monday, October 3, principal payments from holdings of agency debt and agency MBS will be reinvested in agency MBS through purchases in the secondary market. The current practice of reinvesting principal payments from holdings of agency debt and agency MBS in Treasury securities will be halted at that time. The operations currently scheduled for September 23 and September 27 will take place as previously announced.

Going forward, on or around the eighth business day of each month, the Desk will publish the planned amount of purchases associated with the reinvestment of principal payments from agency debt and agency MBS expected to be received over the next monthly period.

Reinvestment purchases will be conducted with the Federal Reserve's primary dealers through a competitive bidding process. The results of each week's purchases will be published on the Federal Reserve Bank of New York's website. In order to ensure the transparency of these operations, the Desk will publish information on the transaction prices in individual operations at the end of each monthly period, coinciding with the release of the next period's planned purchase amount.

A set of Frequently Asked Questions associated with this program will be released on Monday, September 26.