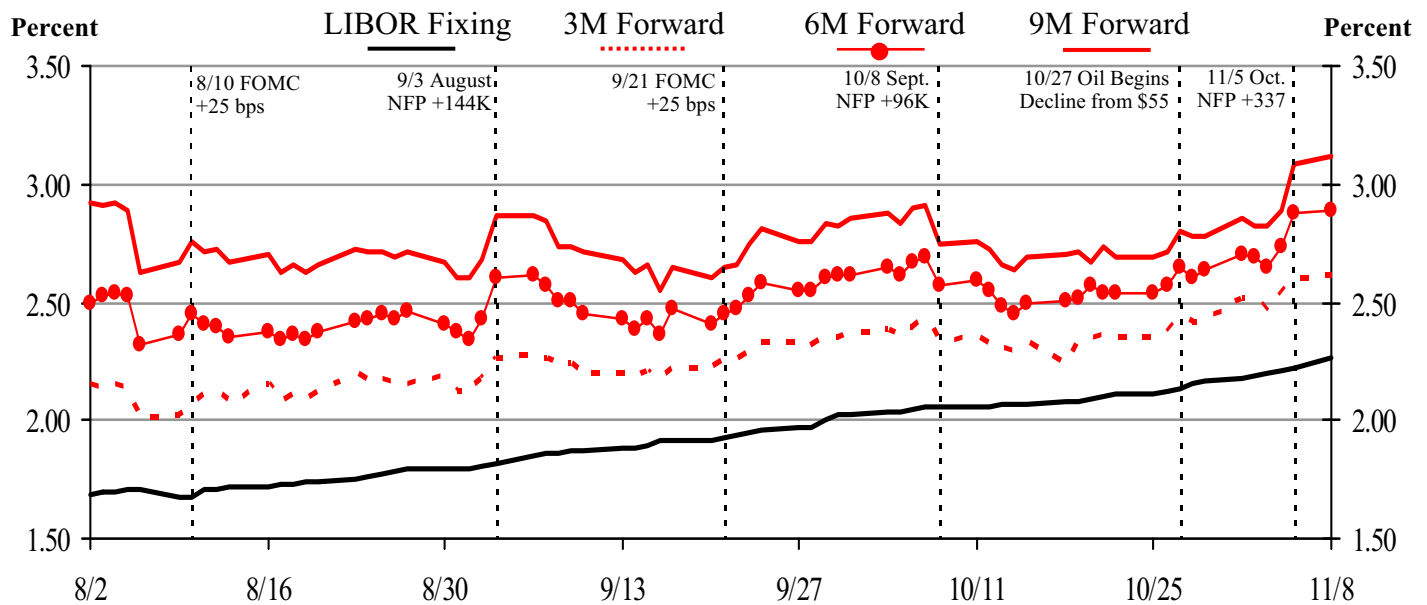


**Appendix 1: Materials used by Mr. Kos**

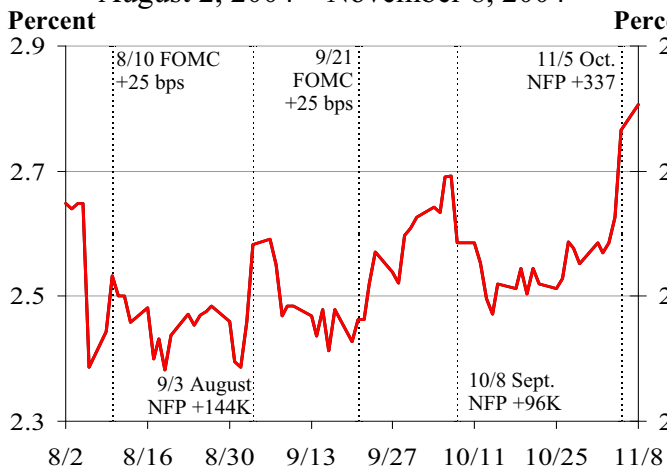
## Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

August 2, 2004 – November 8, 2004



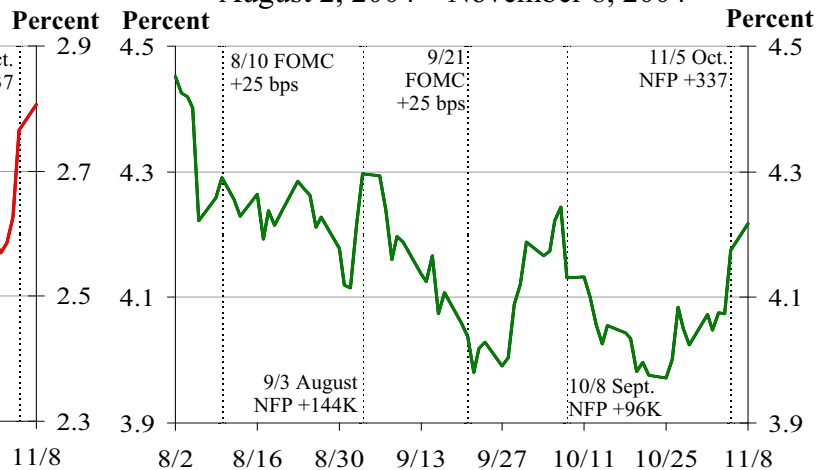
### 2-Year Treasury Yield

August 2, 2004 – November 8, 2004



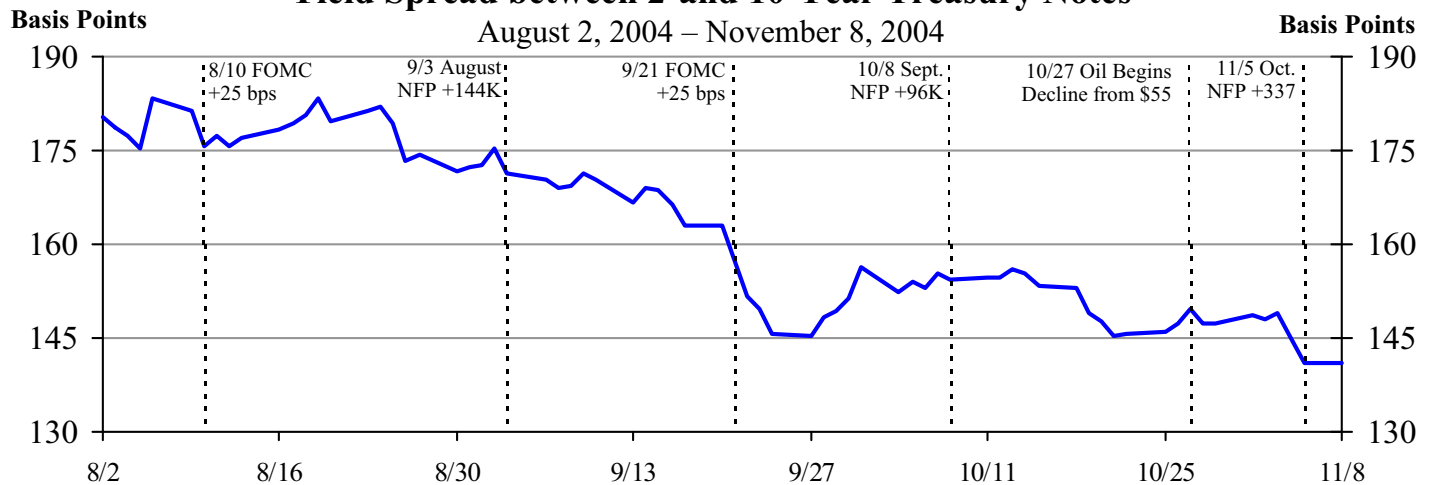
### 10-Year Treasury Yield

August 2, 2004 – November 8, 2004



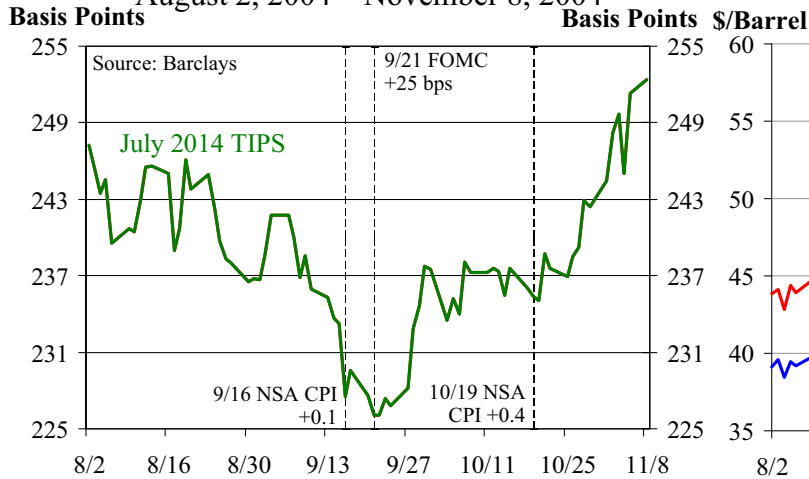
## Yield Spread between 2-and 10-Year Treasury Notes

August 2, 2004 – November 8, 2004



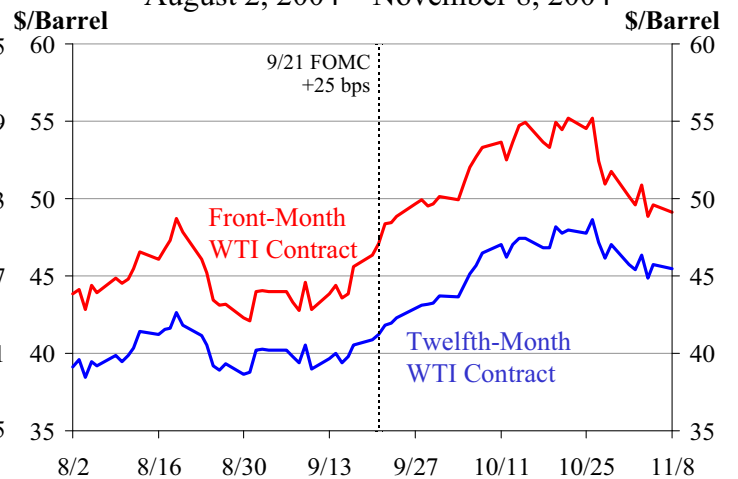
### 10-Year TIPS Breakeven Inflation Rate

August 2, 2004 – November 8, 2004



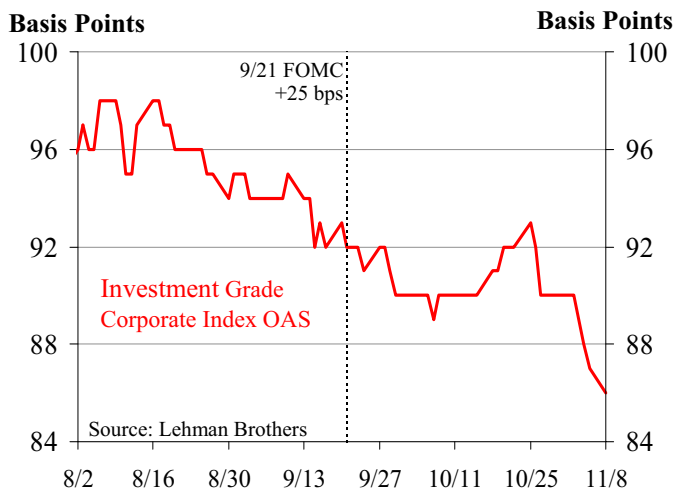
### WTI Crude Oil Futures

August 2, 2004 – November 8, 2004



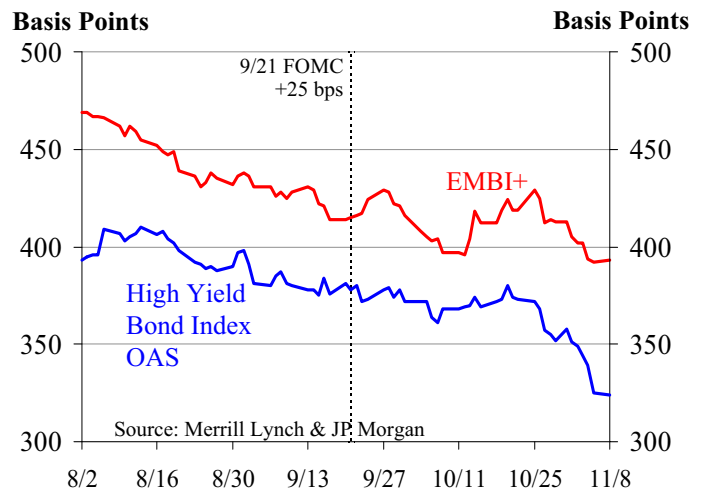
### Investment Grade Corporate Debt Spreads

August 2, 2004 – November 8, 2004



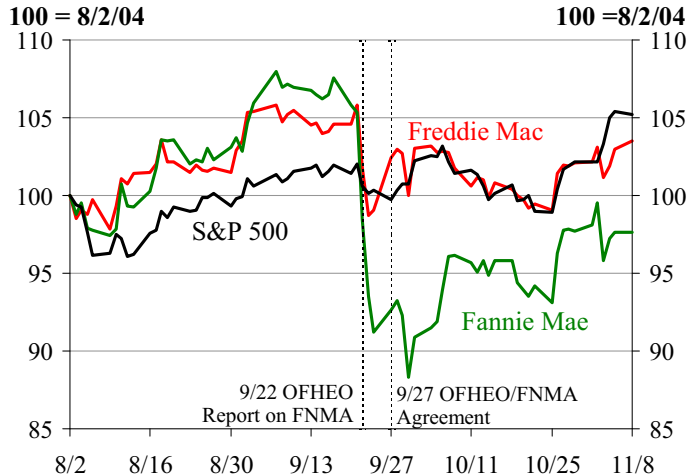
### High Yield and Emerging Market Spreads

August 2, 2004 – November 8, 2004



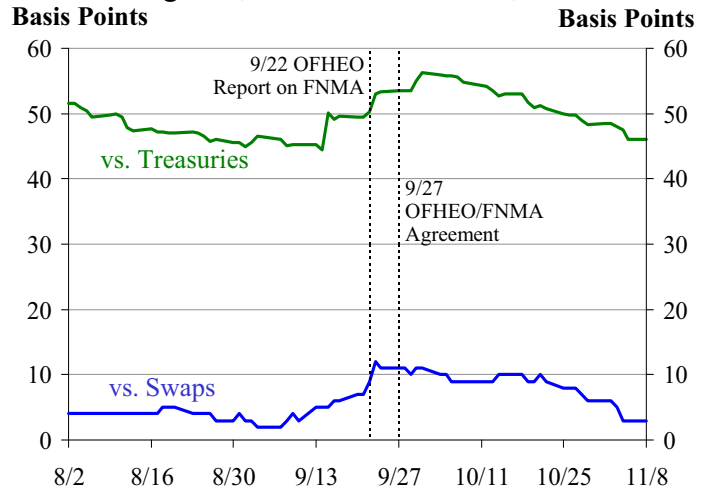
### GSE Equity Performance

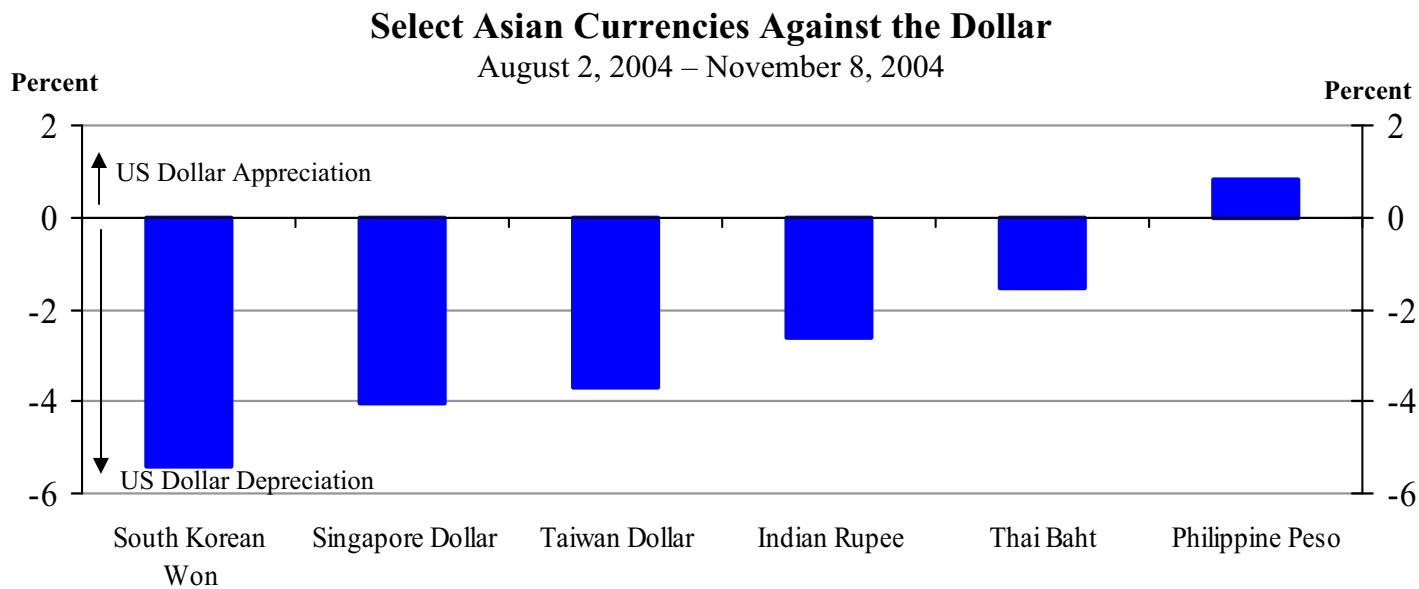
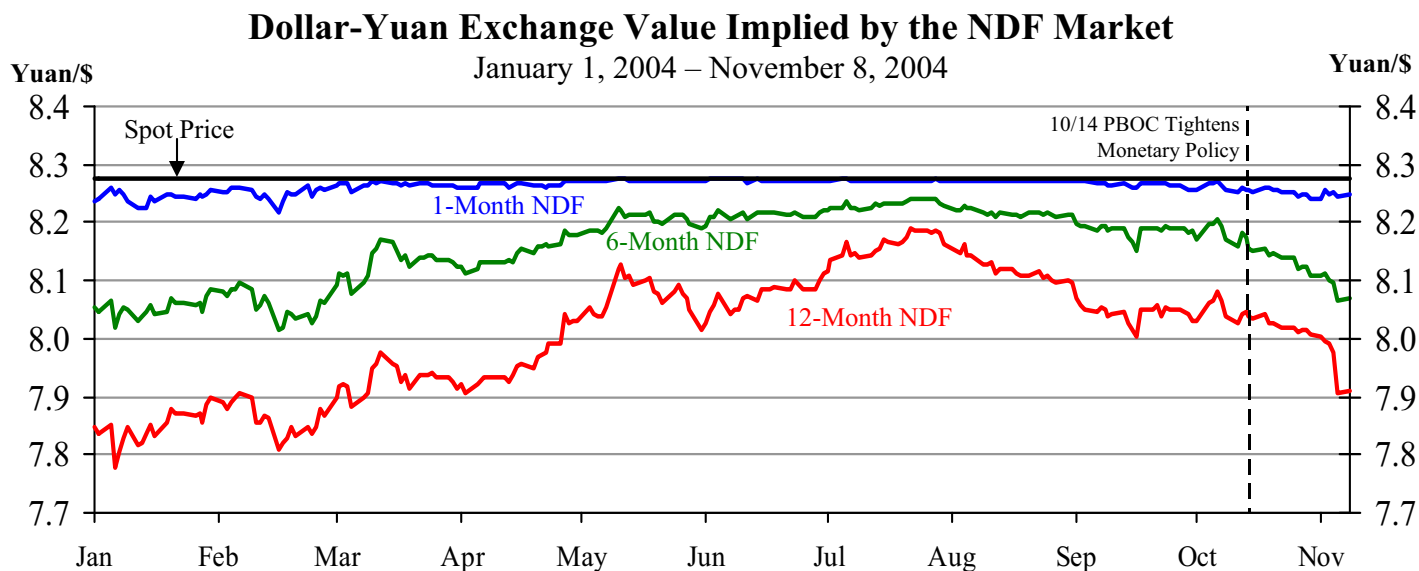
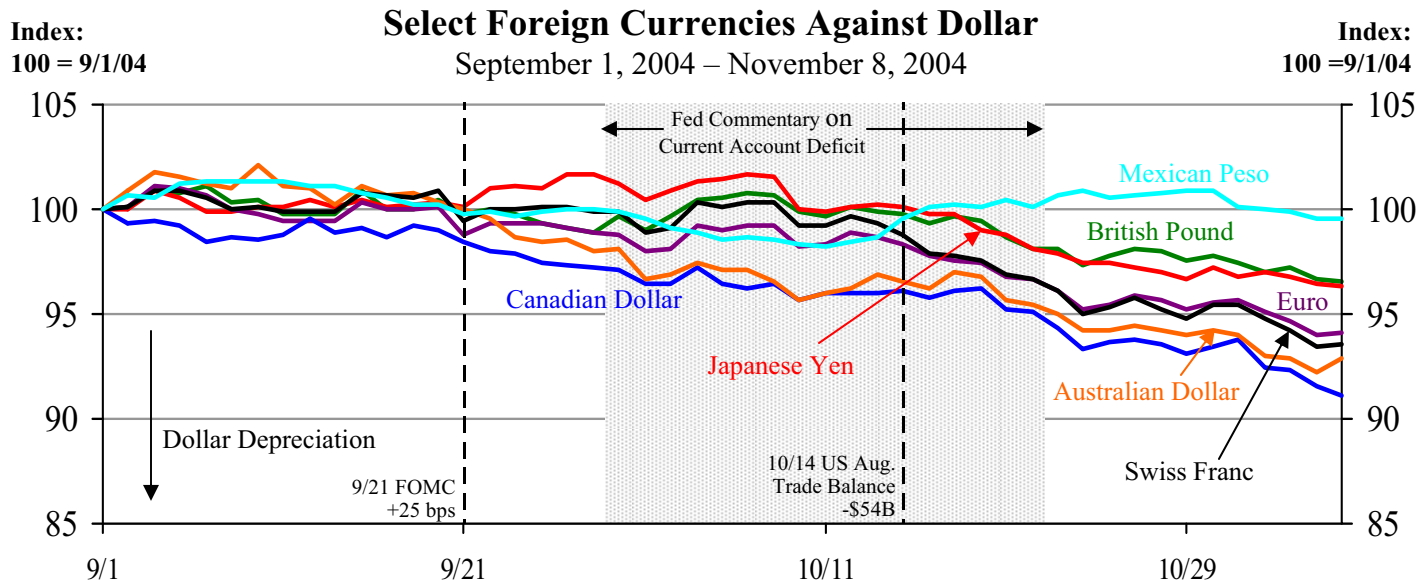
Index: August 2, 2004 – November 8, 2004



### Fannie Mae 10-Year Debt Performance

August 2, 2004 – November 8, 2004





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

**Table 1- Employment Performance by Industry**

Relative Performance Rank (Worst to Best)	Industry	Absolute Performance Rank (Worst to Best)
<b>1</b>	<b>Professional and Technical Services</b>	<b>6</b>
<b>2</b>	<b>Information</b>	<b>3</b>
<b>3</b>	<b>Durable Manufacturing</b>	<b>1</b>
4	Construction	12
<b>5</b>	<b>Transportation and Warehousing</b>	<b>5</b>
6	Admin Support and Waste	14
7	Company Management	8
8	Arts, Entertainment and Recreation	11
9	Retail Trade	4
10	Utilities	10
11	Natural Resources and Mining	9
12	Real Estate and Leasing	13
13	Education	17
14	Nondurable Manufacturing	2
15	Wholesale Trade	7
16	Finance and Insurance	15
17	Other	16
18	Accommodations and Food Services	18
19	Health Care and Social Assistance	19

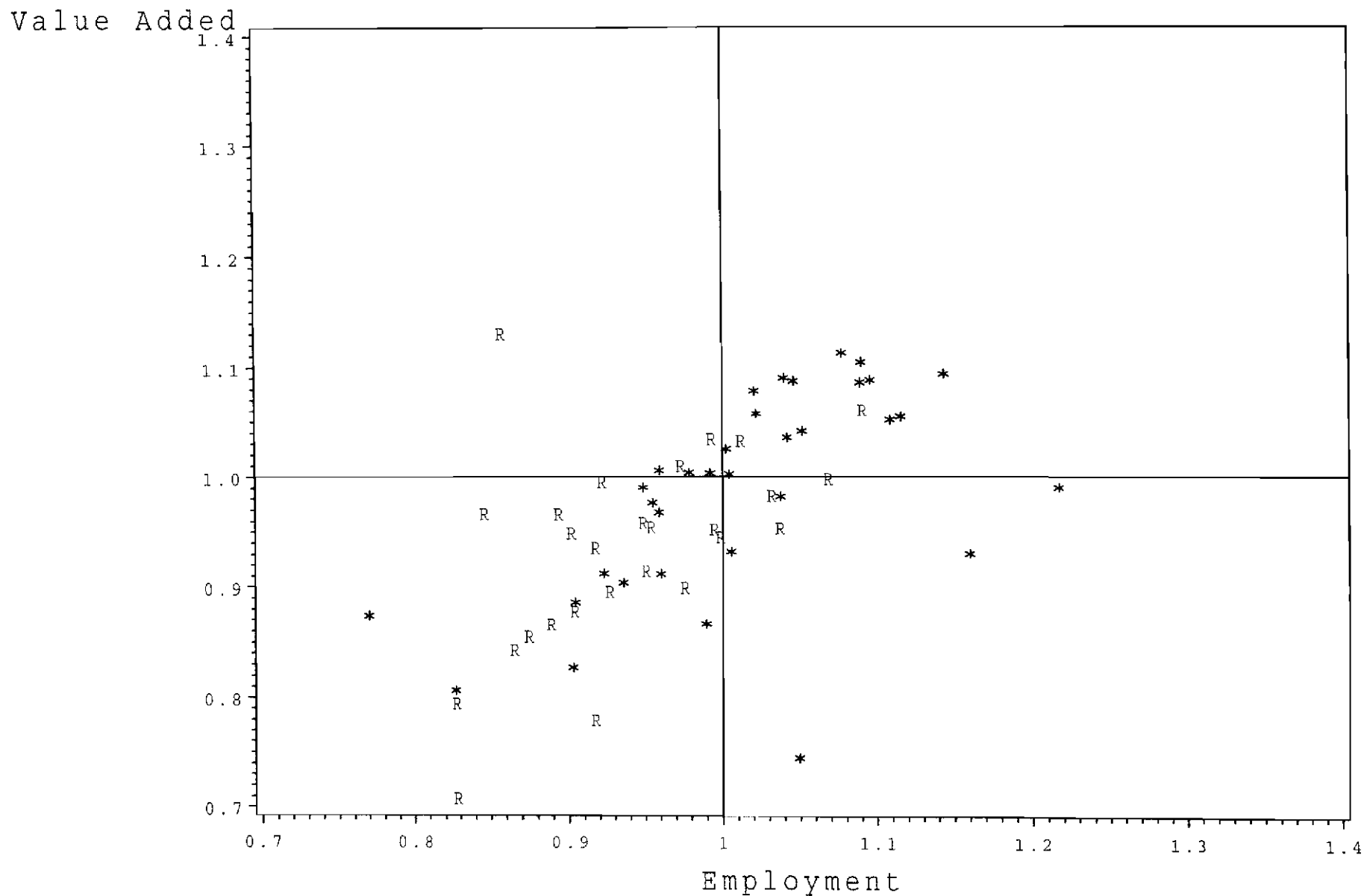
**Table 4A. Job Creation**

Contribution to Decrease in Job Creation Rank	Industry
<b>1</b>	<b>Manufacturing</b>
<b>2</b>	<b>Professional and Business Services</b>
3	Retail Trade
<b>4</b>	<b>Information</b>
5	Leisure and Hospitality
6	Construction
7	Wholesale Trade
8	Financial Activities
<b>9</b>	<b>Transportation and Warehousing</b>
10	Education and Health Services
11	Natural Resources and Mining
12	Other
13	Utilities

**Table 4B. Job Destruction**

Contribution to Decrease in Aggregate Job Destruction Rank	Industry
<b>1</b>	<b>Professional and Business Services</b>
2	Construction
<b>3</b>	<b>Information</b>
<b>4</b>	<b>Transportation and Warehousing</b>
<b>5</b>	<b>Manufacturing</b>
6	Wholesale Trade
7	Leisure and Hospitality
8	Other
9	Utilities
10	Financial Activities
11	Retail Trade Natural
12	Education and Health Services
13	Resources and Mining

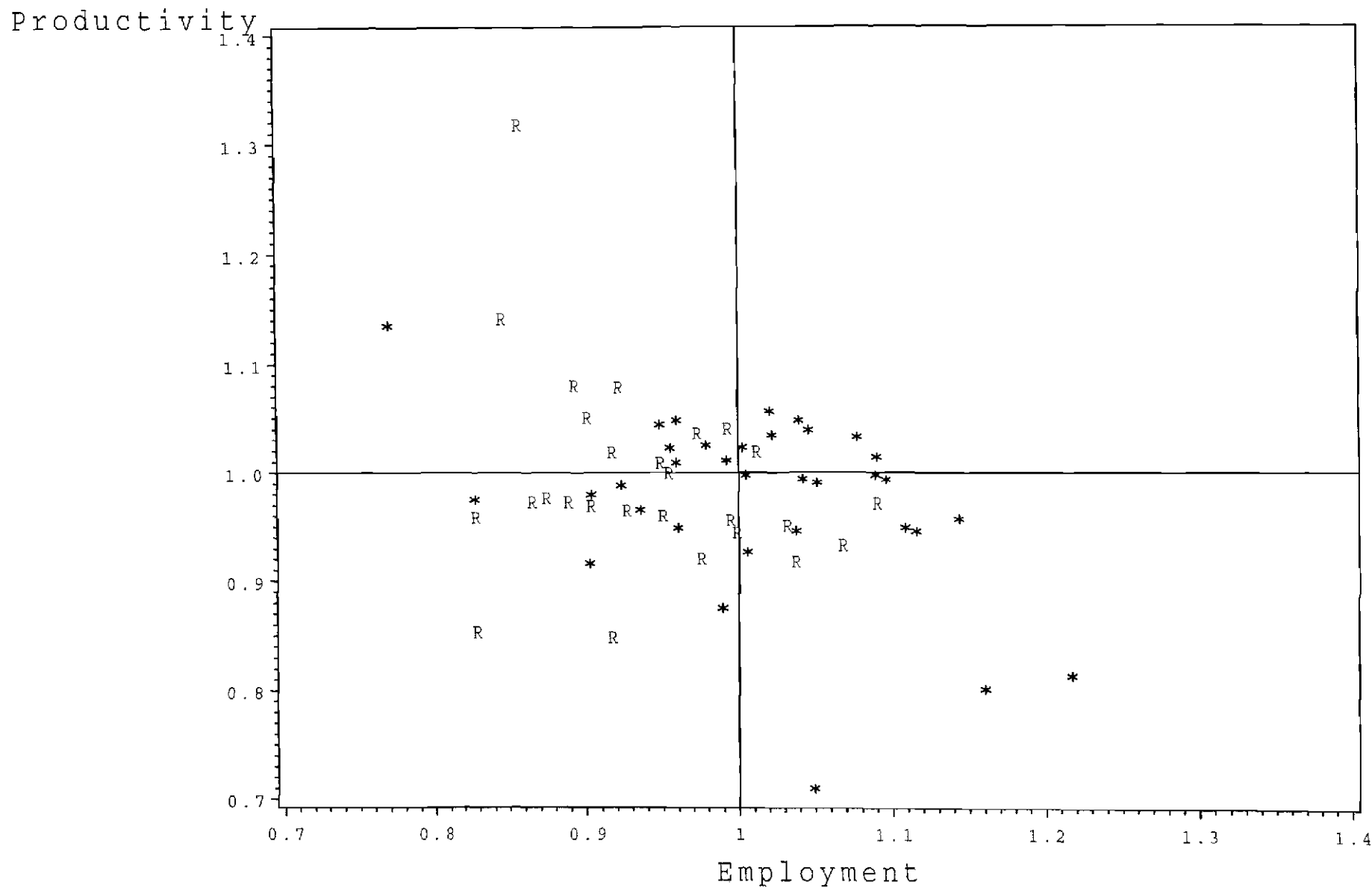
Chart 5. Relative Change in Value Added vs. Relative Change in Employment (2000–2002)



R denotes restructuring industry



Chart 4. Relative Productivity Growth vs. Relative Change in Employment (2000–2002)



4

R denotes restructuring industry

**Appendix 3: Materials used by Mr. Reinhart**

**Strictly Confidential (FR) Class I – FOMC**

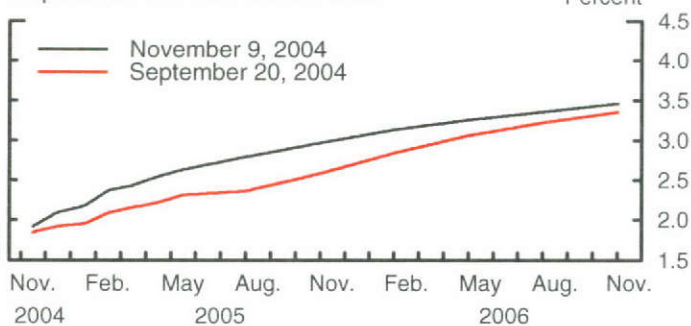
*Material for*

**FOMC Briefing on Monetary Policy Alternatives**

**Vincent R. Reinhart**  
**November 10, 2004**

### Exhibit 1 Market Developments

Expected Federal Funds Rates\*



\*Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

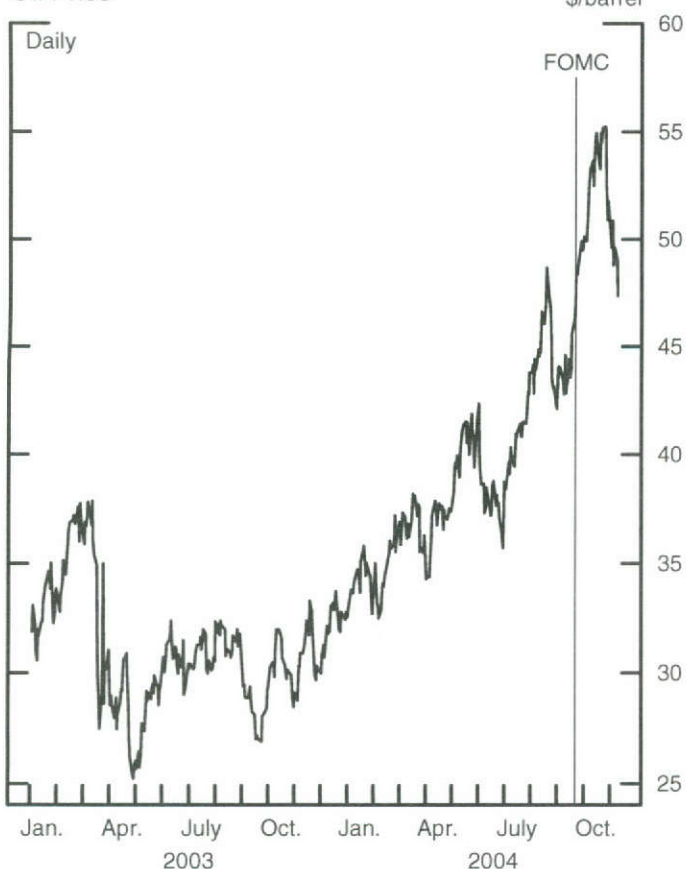
Desk Survey

- Primary dealers confident of 25 bp tightening
- Statement expected to retain both an assessment of balanced risks and "measured" language
- Some anticipate a suggestion of a pause

Market Quotes

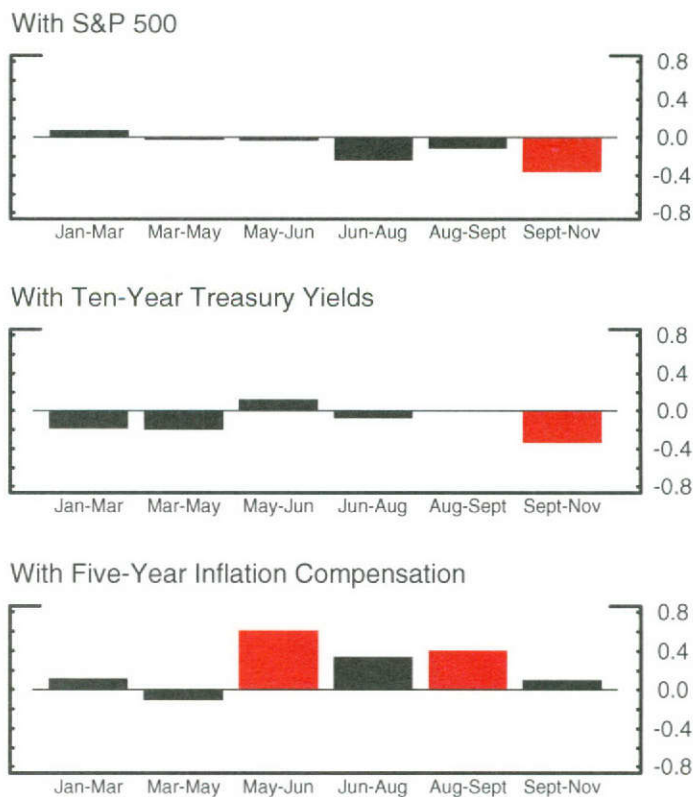
	Change from Sept. 20	Memo: Level
<b>Nominal Treasuries</b>		
	Basis Points	
Two-Year	38	2.81
Five-Year	23	3.50
Ten-Year	14	4.35
<b>TIPS</b>		
Five-Year	-14	0.98
Ten-Year	-5	1.75
<b>Stocks</b>		
	Percent	
Wilshire 5000	4.2	11397
<b>Foreign Exchange</b>		
Major Currencies Index	-5.9	81.41

Oil Price\*



\*Spot price of West Texas Intermediate crude oil.

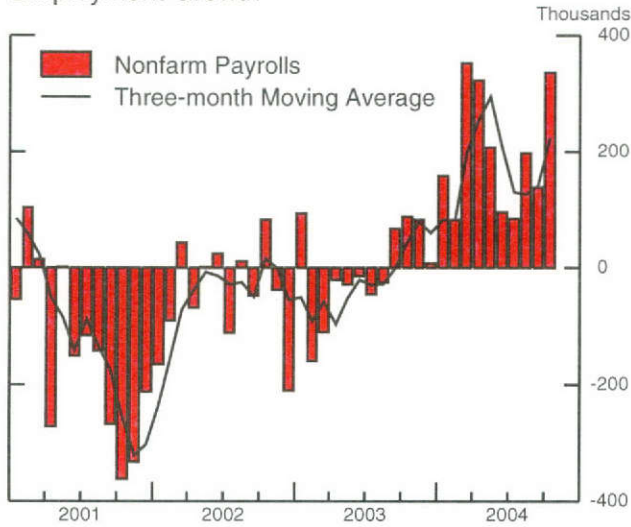
Intermeeting Oil Price Correlations\*



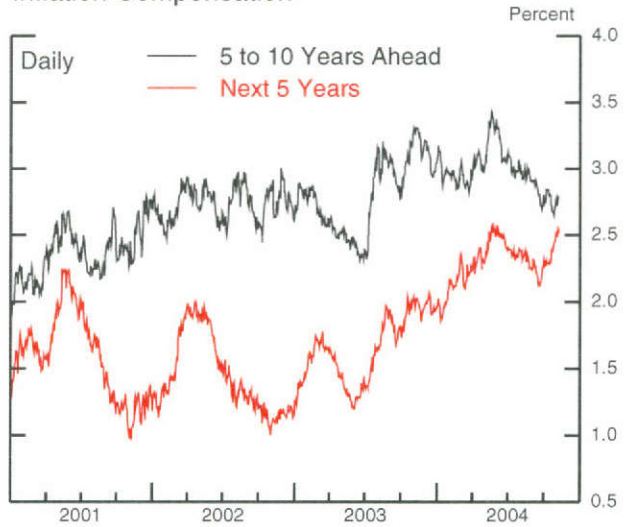
\*Correlations based on daily changes in the log WTI spot oil price. Red denotes statistically significantly different from zero.

## Exhibit 2 The Case for Tightening 25 Basis Points

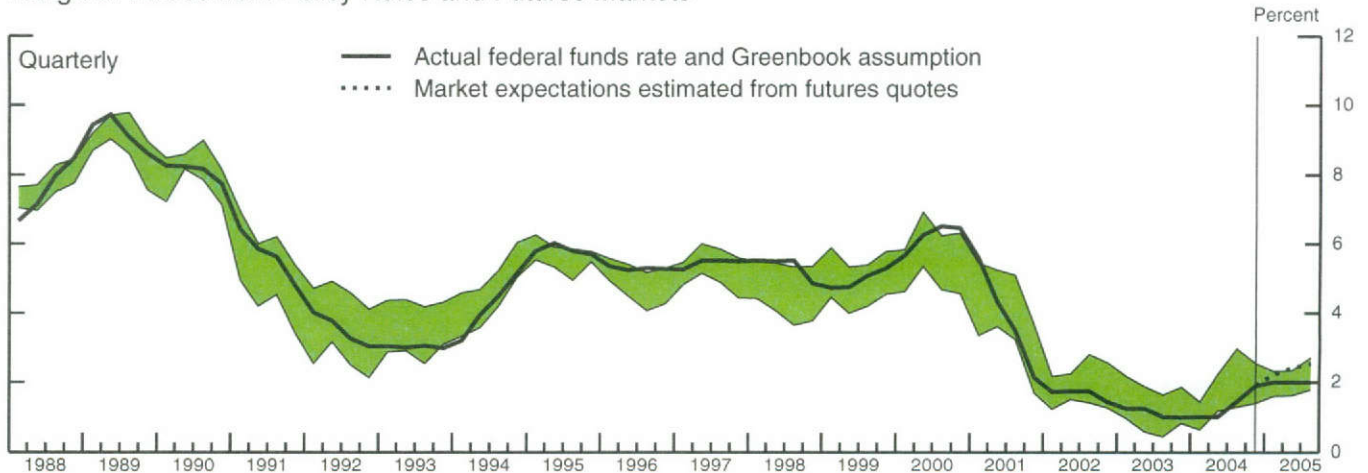
Employment Growth



Inflation Compensation

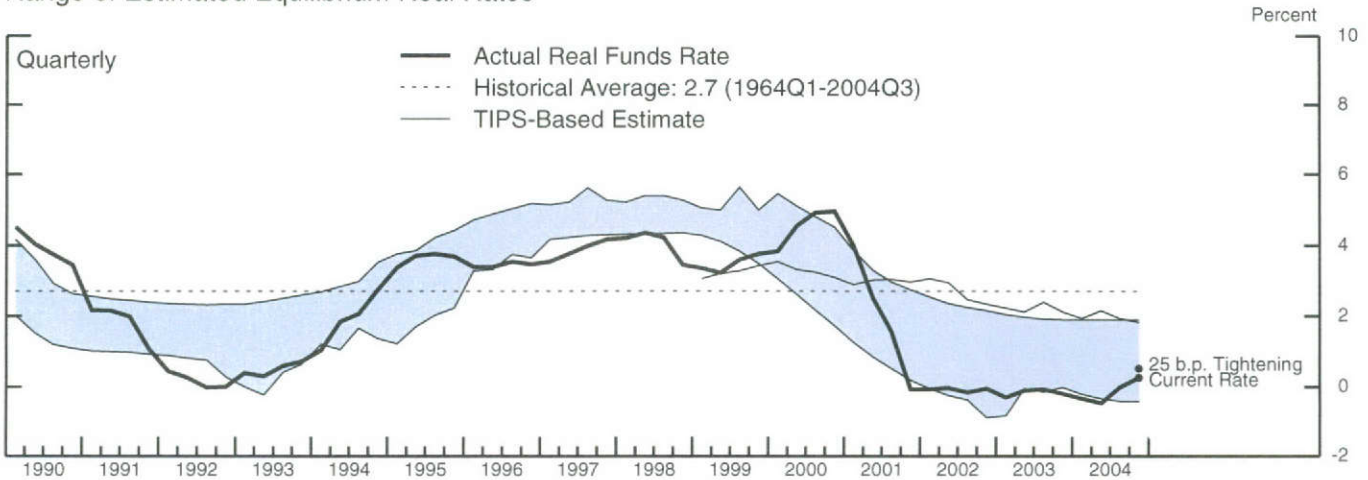


Range of Values from Policy Rules and Futures Markets



An explanatory note is provided in Chart 5 of the Bluebook.

Range of Estimated Equilibrium Real Rates

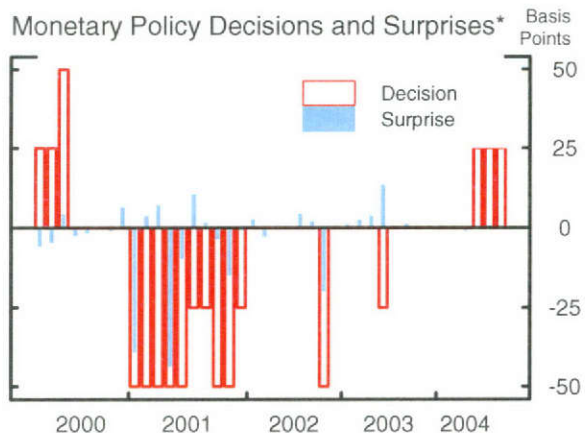


An explanatory note is provided in Chart 6 of the Bluebook.

### Exhibit 3 Options for the Statement

#### The Case for B

- The Committee may want to indicate that a pause could be appropriate in December
- Opportunity to assess the expansion
- Limit the risk of inappropriate extrapolation

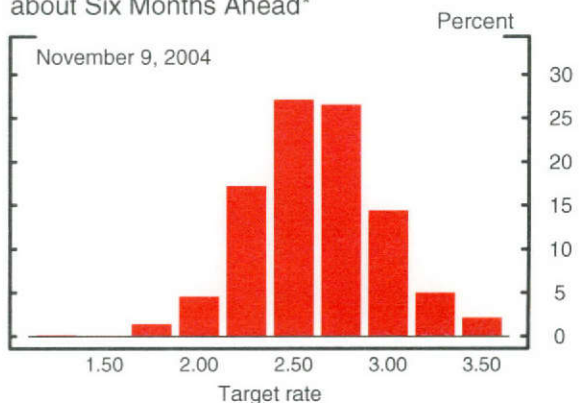


\*Policy surprises are based on intraday data on federal funds futures. All FOMC meeting and intermeeting moves since 2000, except September 17, 2001.

#### The Case for B'

- The current language provides scope for a pause
- Desire to remain flexible
- Investor expectations allow for the possibility of a pause

#### Implied Distribution of Federal Funds Rate about Six Months Ahead\*



\*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a risk premium) implied by options on eurodollar futures contracts.

#### The Case for C

- Higher oil prices and a weaker dollar may boost inflation pressures
- Structural productivity growth may be slowing
- Implying a rise in unit labor costs

#### Productivity and Unit Labor Costs

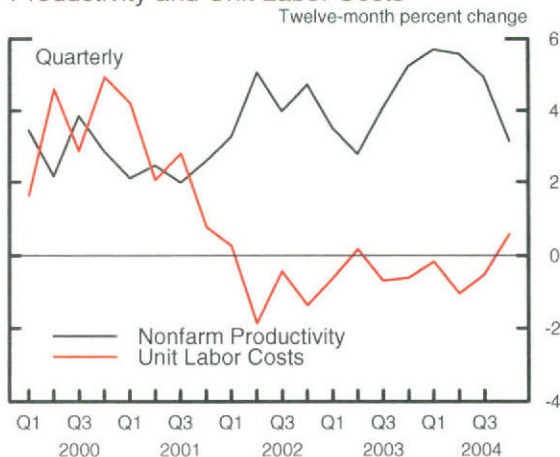




Table 1: Alternative Language for the November FOMC Announcement (Revised)

	September FOMC	Alternative B	Alternative B'	Alternative C
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 1¾ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2 percent, bringing the cumulative increase in the target rate over the past several months to 1 percentage point.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2 percent.
<b>Rationale</b>	2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	The Committee believes that the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	[Unchanged from September statement]	[Unchanged from September statement]
	3. After moderating earlier this year partly in response to the substantial rise in energy prices, output growth appears to have regained some traction, and labor market conditions have improved modestly.	Output appears to be growing at a moderate pace, and labor market conditions have improved.	Output appears to be growing at a moderate pace <b>despite the rise in energy prices</b> , and labor market conditions have improved.	Output appears to be growing at a moderate pace, and labor market conditions have improved.
	4. Despite the rise in energy prices, inflation and inflation expectations have eased in recent months.	Despite the rise in energy prices, inflation and longer-term inflation expectations remain well contained.	<del>Despite the rise in energy prices,</del> Inflation and longer-term inflation expectations remain well contained.	Although longer-term inflation expectations seem to remain well contained, rising energy prices and an escalation of business costs have the potential to contribute to upward pressure on prices.
<b>Assessment of Risk</b>	5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal.	[Unchanged from September statement]	[Unchanged from September statement]	[Unchanged from September statement]
	6. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	[Unchanged from September statement]	[Unchanged from September statement]	[Unchanged from September statement]