

**Appendix 1: Materials used by Mr. Potter and Ms. Logan**

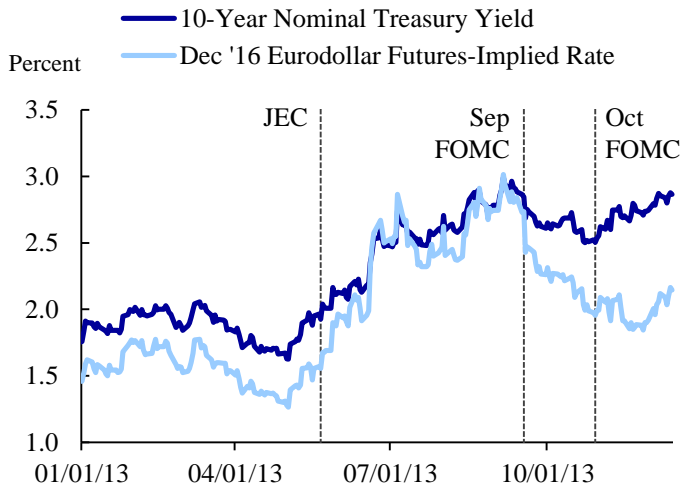
**Class II FOMC – Restricted (FR)**

*Material for Briefing on*

**Financial Developments and  
Open Market Operations**

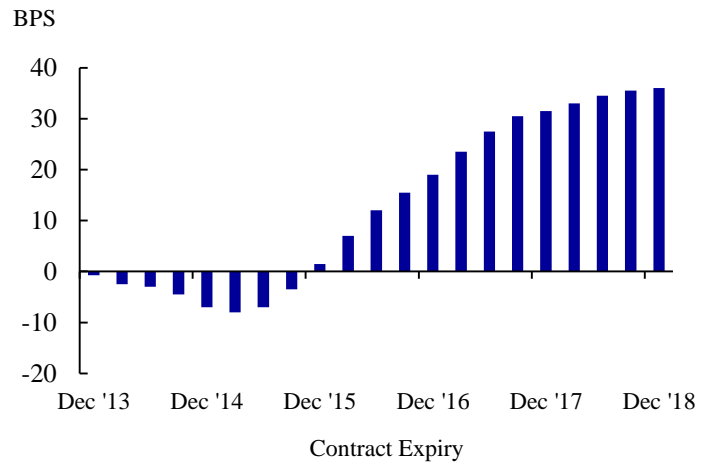
**Simon Potter and Lorie Logan**  
December 17, 2013

**(1) Treasury and Eurodollar Futures Rates**



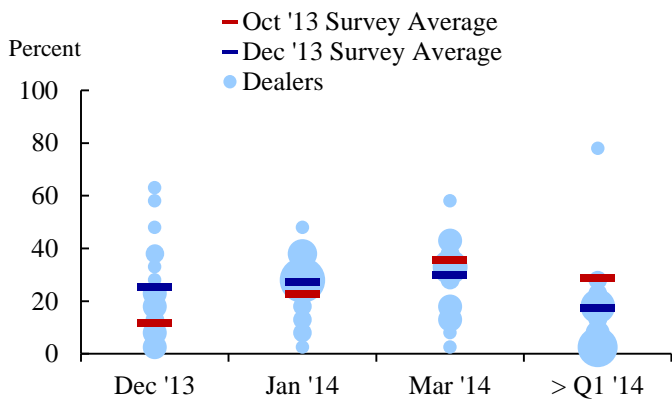
Source: Bloomberg

**(2) Changes in Eurodollar Futures Rates Over Intermeeting Period**



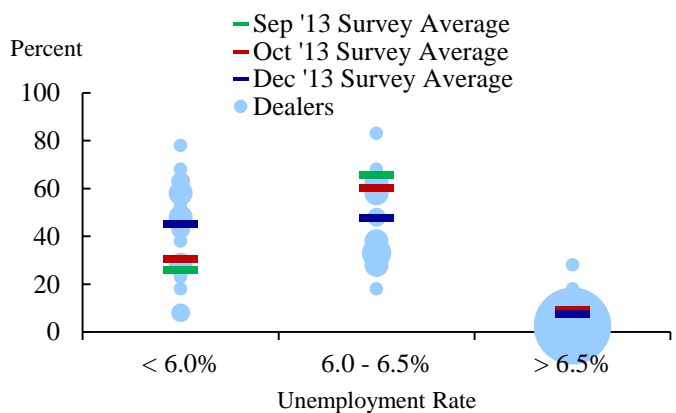
Source: Bloomberg

**(3) Distribution of Market Beliefs on Timing of Initial Reduction in Pace of Asset Purchases\***



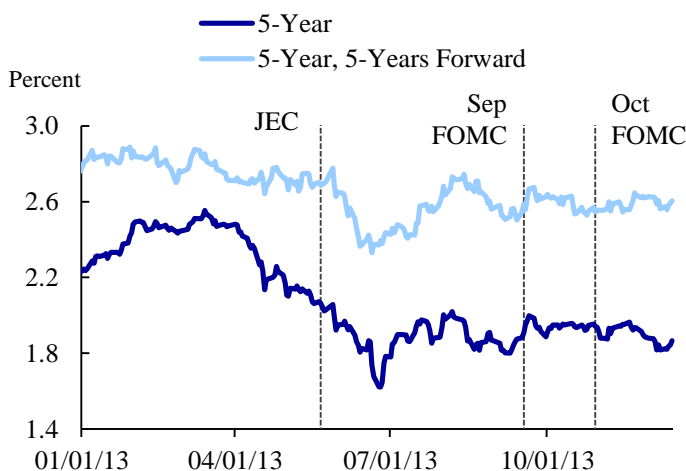
\*Probability assigned to timing of initial reduction in pace of asset purchases. Dots scaled by number of dealers. Source: Federal Reserve Bank of New York Survey

**(4) Distribution of Market Beliefs on Unemployment Rate Outcomes at First Rate Hike\***



\*Probability assigned to unemployment rate at first rate hike. Conditioned on inflation thresholds not being breached. Dots scaled by number of dealers. Source: Federal Reserve Bank of New York Survey

**(5) Inflation Compensation\***



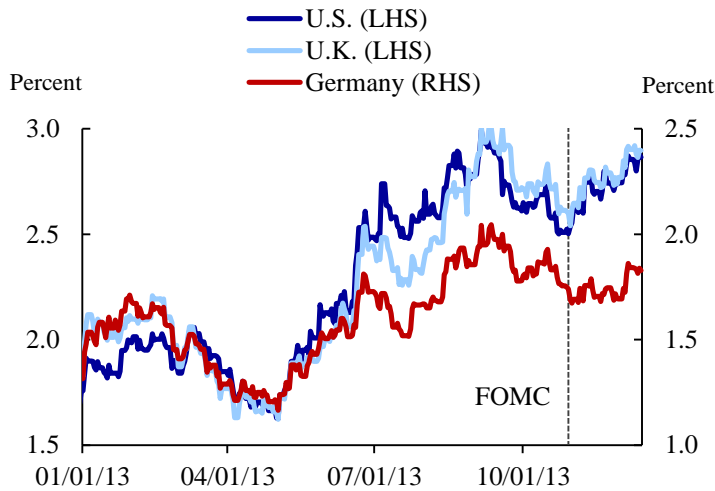
\*Derived from Treasury Inflation-Protected Securities. Source: Federal Reserve Board of Governors

**(6) Asset Price Developments Over Intermeeting Period**

	Level on 12/13/13	Change Since 10/29/13
<i>Changes in Basis Points</i>		
Primary Mortgage Rate*	4.42%	+29
30-Year CC MBS OAS	32 bps	+16
IG Corp. Credit OAS	121 bps	-10
HY Corp. Credit OAS	396 bps	-31
<i>Changes in Percent</i>		
S&P 500 Index	1775	+0.2
DX Y Dollar Index	80.21	+0.8

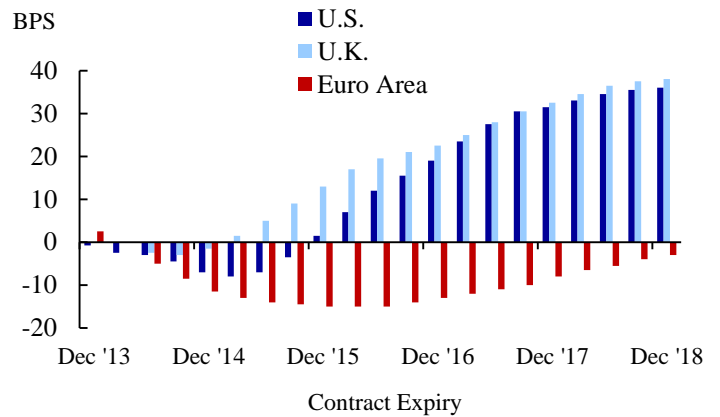
\*FHLMC 30-year survey rate Source: Bloomberg, Barclays

**(7) Ten-Year Sovereign Yields**



Source: Bloomberg

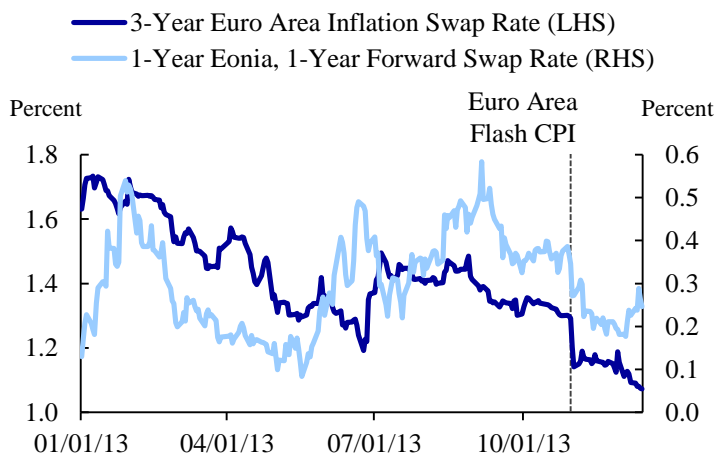
**(8) Changes in Futures Rates Over Intermeeting Period\***



\*Changes in Eurodollar, Short Sterling and Euribor futures-implied rates for the U.S., U.K., and Euro Area, respectively.

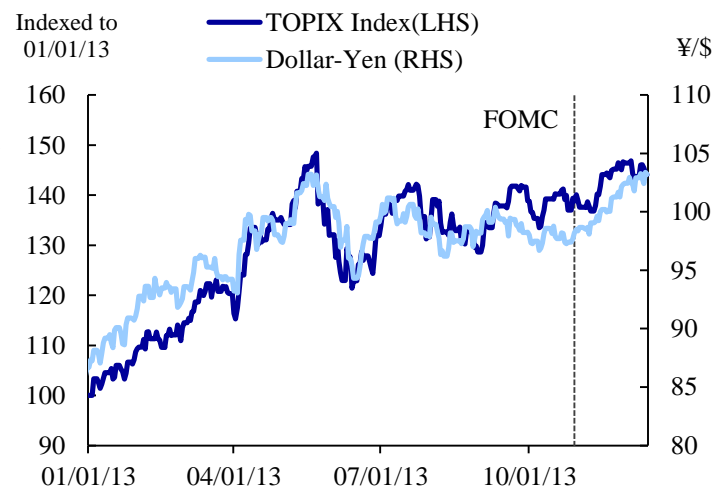
Source: Bloomberg

**(9) Euro Area Inflation and Eonia Forward Swap Rates**



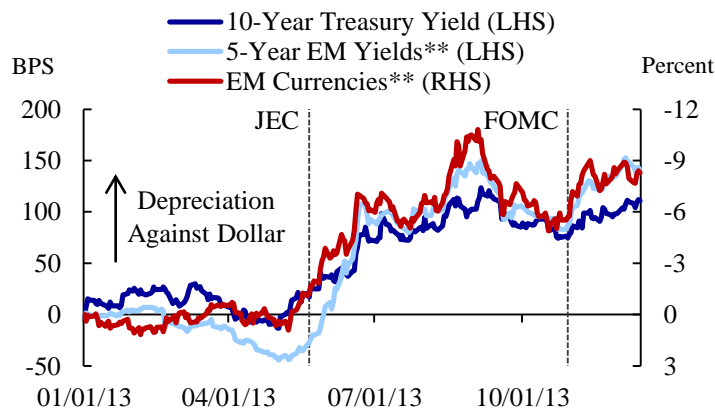
Source: Barclays, Bloomberg

**(10) TOPIX and Dollar-Yen**



Source: Bloomberg

**(11) Cumulative Changes in U.S. and Emerging Market Assets\***

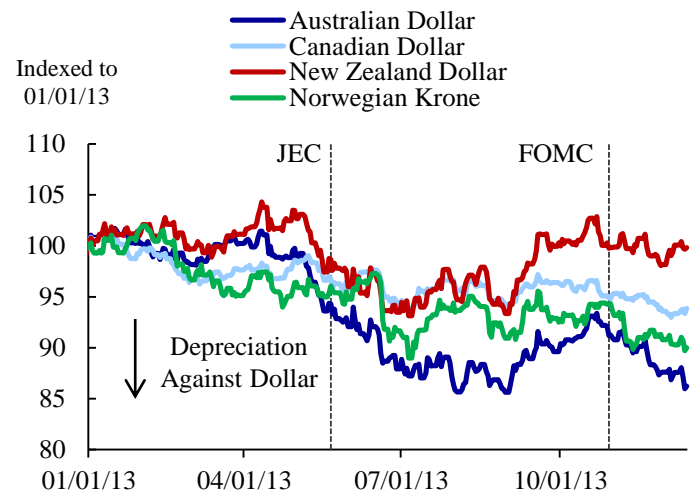


\*Since 01/01/13.

\*\*2012 GDP-weighted average of 15 major emerging market economies.

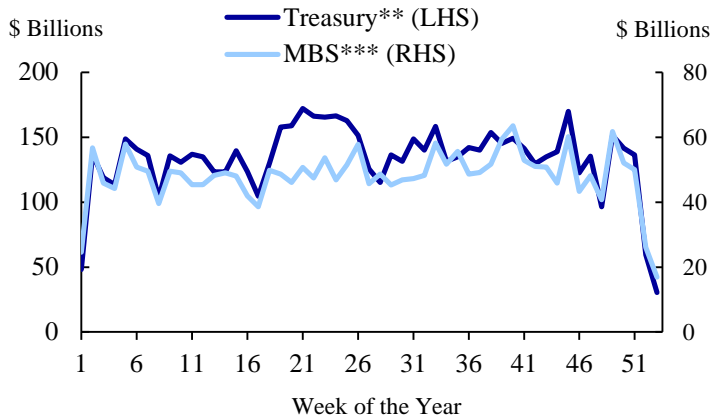
Source: Bloomberg, FRBNY Staff Calculations

**(12) Currency Performance Against the Dollar**



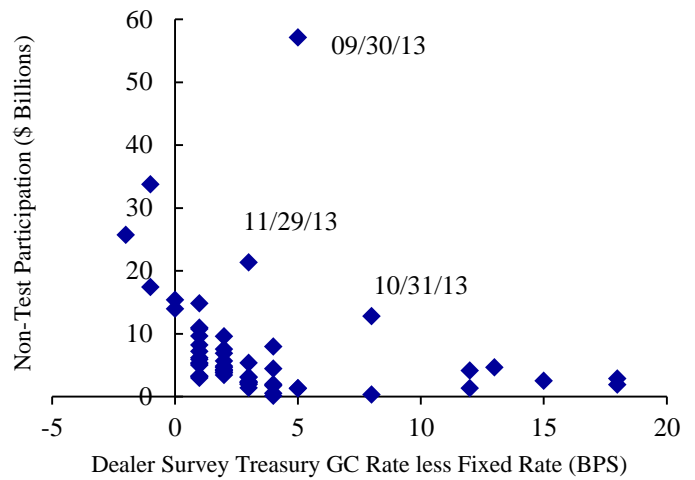
Source: Bloomberg

**(13) Weekly Treasury and MBS Trading Volumes\***



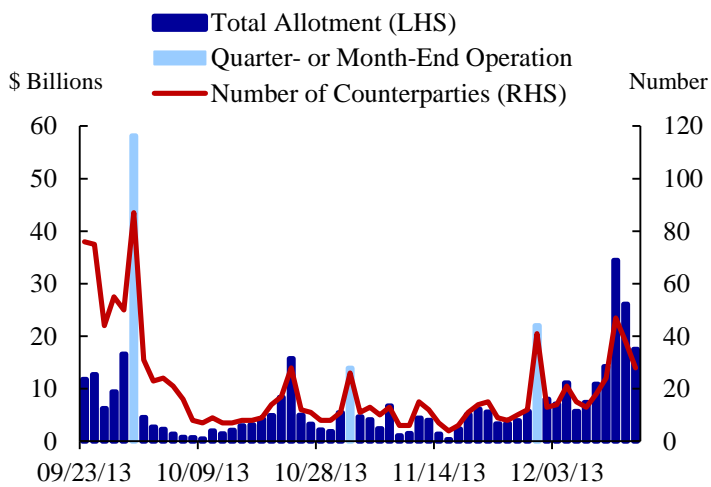
\*2010-YTD 2013 averages.  
 \*\*On-the-run 10-year note.  
 \*\*\*15- and 30-year securities, all agencies and traded coupons.  
 Source: Brokertec, Tradeweb, FRBNY Staff Calculations

**(14) Overnight RRP Participation vs. Rate Spread**



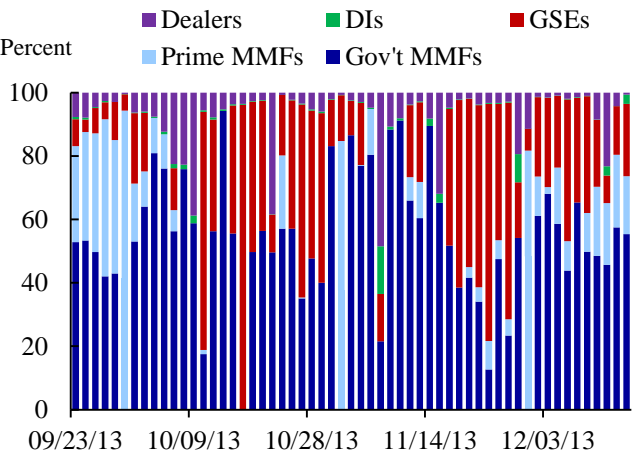
Source: Federal Reserve Bank of New York

**(15) Overnight RRP Operation Results**



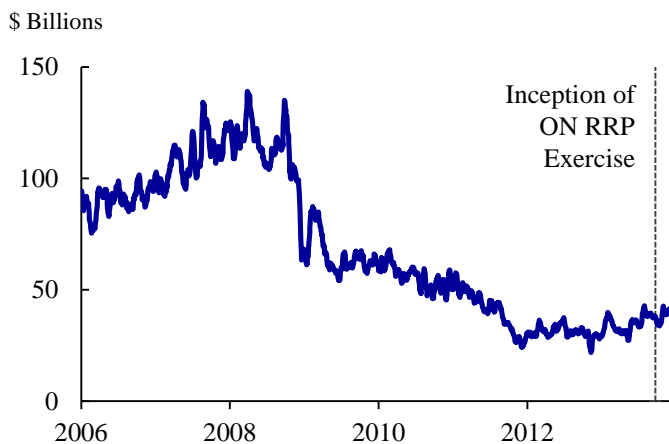
Source: Federal Reserve Bank of New York

**(16) Overnight RRP Allotment by Counterparty Type**



Source: Federal Reserve Bank of New York

**(17) Brokered Federal Funds Volumes\***



\*10-day moving average of daily volumes.  
 Source: Federal Reserve Bank of New York

**(18) Overnight RRP Exercise Recommendations**

- Expand counterparty limits to \$3 billion; leave other terms of resolution unchanged.
- Announce on Dec 19th; implement on Dec 20th.
- Lower fixed-rate to 3 bps ahead of year-end.
- Discuss possible extension and other revisions at January meeting.

Source: Federal Reserve Bank of New York

**Appendix 2: Materials used by Ms. Logan**

**Class II FOMC – Restricted (FR)**

**Overnight Reverse Repurchase Agreement  
Resolution**

**December 17, 2013**

**Proposed Resolution on Overnight Reverse Repurchase Agreements**

“The Federal Open Market Committee authorizes an increase in the maximum allotment cap for the series of fixed-rate, overnight reverse repurchase operations approved on September 17, 2013, to \$3 billion per counterparty per day from its previous level of \$1 billion per counterparty per day. All other aspects of the resolution remain unchanged.”

**Memo: Resolution approved September 17, 2013**

“The Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of fixed-rate, overnight reverse repurchase operations involving U.S. Government securities, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, for the purpose of assessing operational readiness. The reverse repurchase operations authorized by this resolution shall be (i) offered at a fixed rate that may vary from zero to five basis points, (ii) offered at up to a capped allotment per counterparty of \$1 billion per day and (iii) for an overnight term, or such longer term as is warranted to accommodate weekend, holiday, and similar trading conventions. The System Open Market Account Manager will inform the FOMC in advance of the terms of the planned operations. These operations may be announced when authorized by the Chairman, may begin when authorized by the Chairman on or after September 23, 2013, and shall be authorized through the FOMC meeting that ends on January 29, 2014.”



**Appendix 3: Materials used by Ms. Tevlin, Mr. Reeve, and Ms. Liang**

**Class II FOMC – Restricted (FR)**

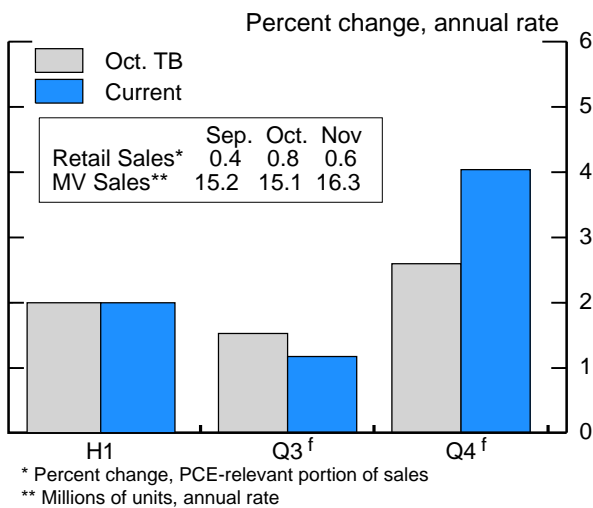
*Material for*

**Staff Presentation on the Economic and Financial  
Situation**

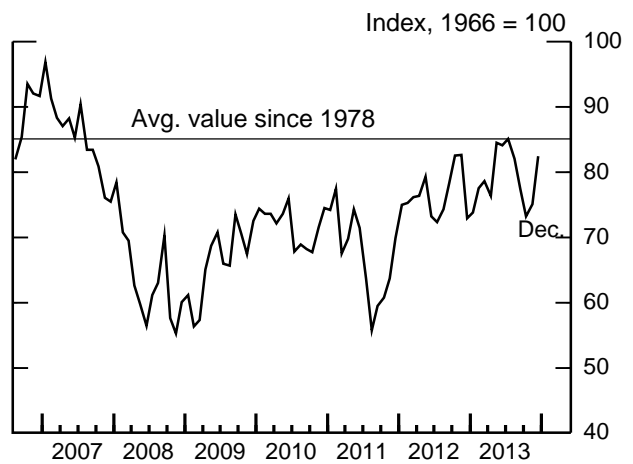
**Stacey Tevlin, Trevor A. Reeve, and Nellie Liang  
December 17, 2013**

### Near-term Developments

#### Consumer Spending



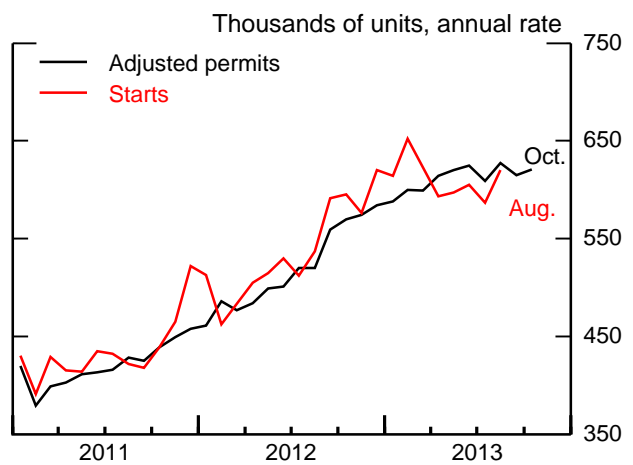
#### Consumer Sentiment: Michigan Survey



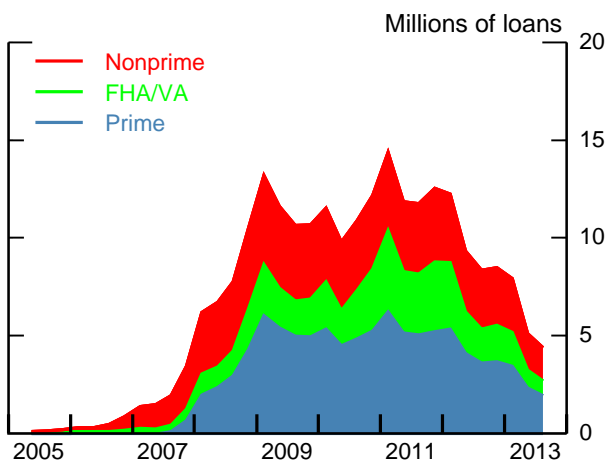
#### Indicators of Business Investment



#### Single-family Housing Starts and Permits



#### Mortgages with Negative Equity



Note: Negative equity number likely is understated because of incomplete data on junior liens.  
Source: Federal Reserve staff calculations, based on data from CoreLogic and LPS Applied Analytics.

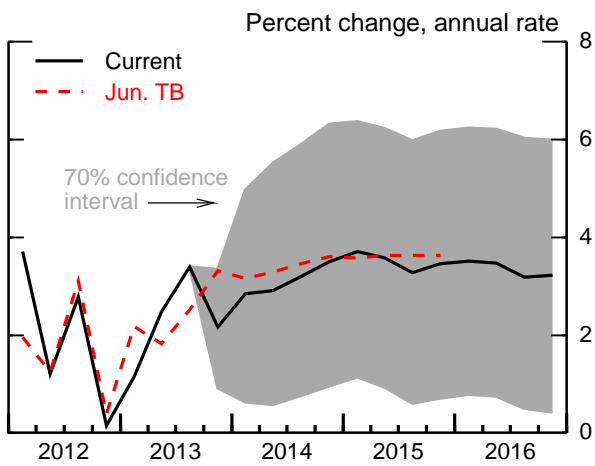
#### Near-term Outlook for Real GDP

(Percent change from end of earlier period, annual rate)

	2013			
	H1	Q3	Q4	H2
1. Real GDP	1.8	3.4	2.2	2.8
2. (Oct. TB)	(1.8)	(2.2)	(2.1)	(2.2)
3. (Jun. TB)	(2.0)	(2.5)	(3.3)	(2.9)
4. PDPF	2.1	2.0	3.9	3.0
5. (Oct. TB)	(2.1)	(2.1)	(3.0)	(2.6)
6. (Jun. TB)	(2.9)	(3.7)	(4.2)	(4.0)

### Medium-term Forecast

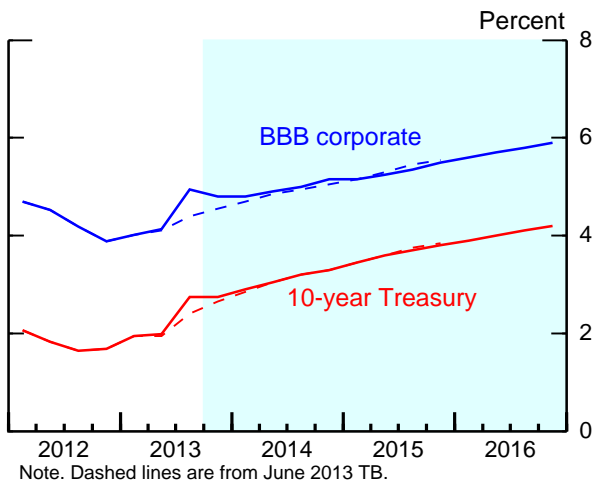
#### Real GDP



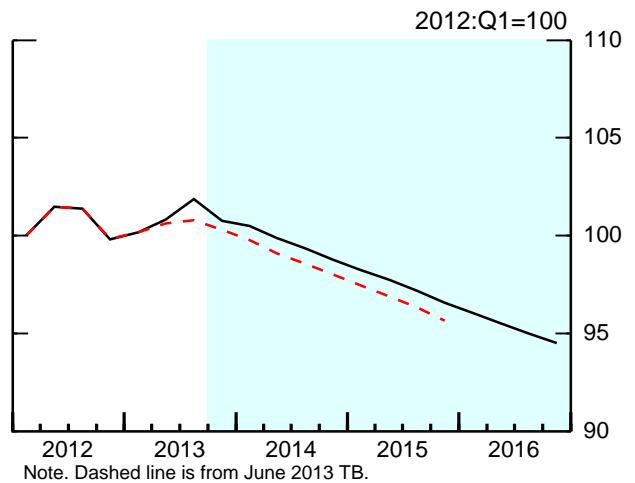
#### Reasons for Downward Revisions Since June

- Slightly higher interest rates
- Higher dollar
- Incoming data on PCE

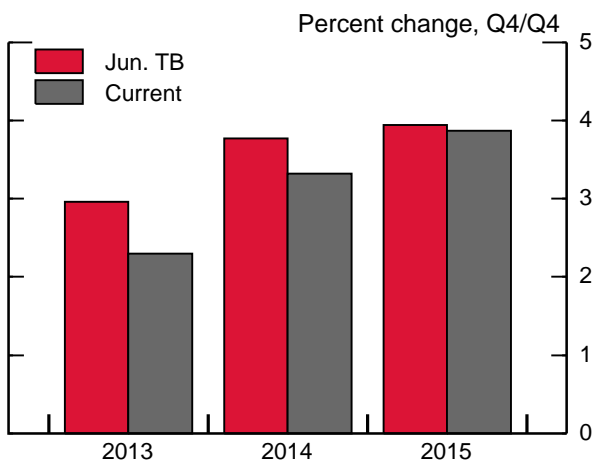
#### Interest Rates



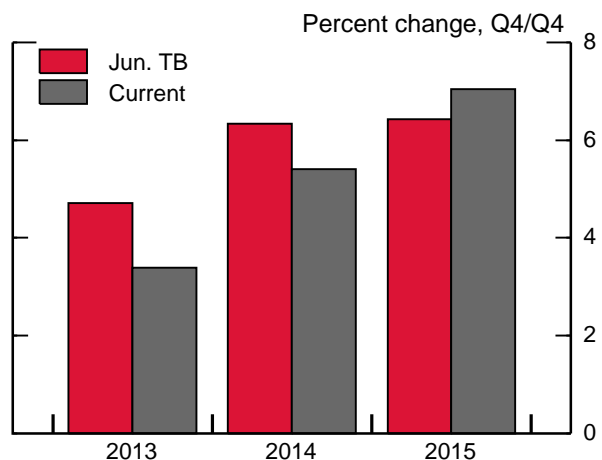
#### Real Exchange Value of the Dollar



#### PCE



#### Equipment & Software



Class II FOMC - Restricted (FR)

Exhibit 3

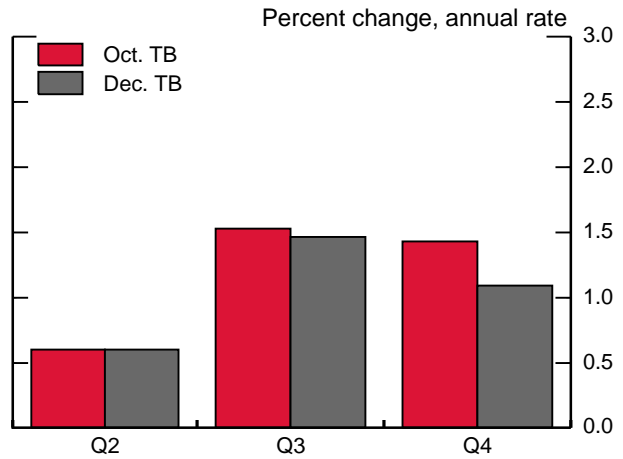
### Inflation

#### Consumer Price Index (Percent change, monthly rate)

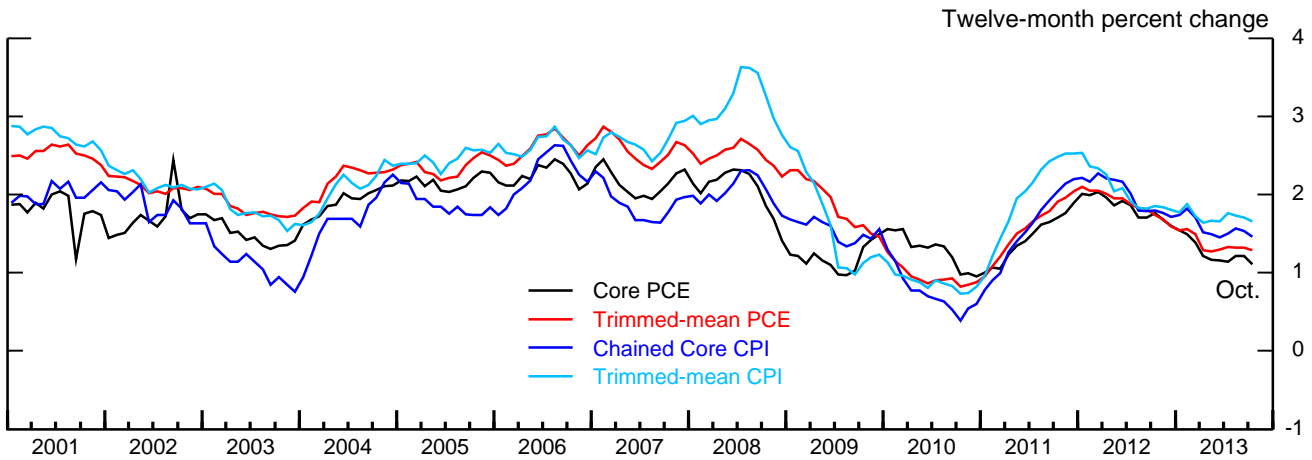
	Sep.	Oct.	Nov.
1. Total	.2	-.1	.0
2. Food	.0	.1	.1
3. Energy	.8	-1.7	-1.0
4. Core	.1	.1	.2
<b>Memo:</b>			
Core PCE	.1	.1	.1 <sup>e</sup>

e Staff estimate.

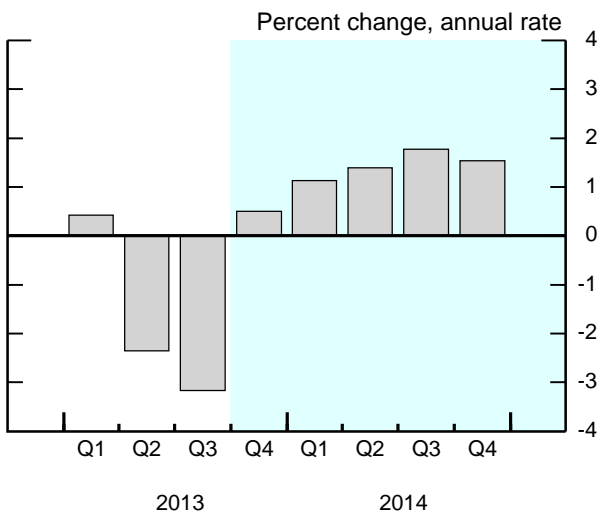
#### Core PCE Inflation



#### Measures of Core Inflation



#### Core Nonfuel Import Prices



#### PCE Price Projection

(Percent change from end of earlier period, annual rate)

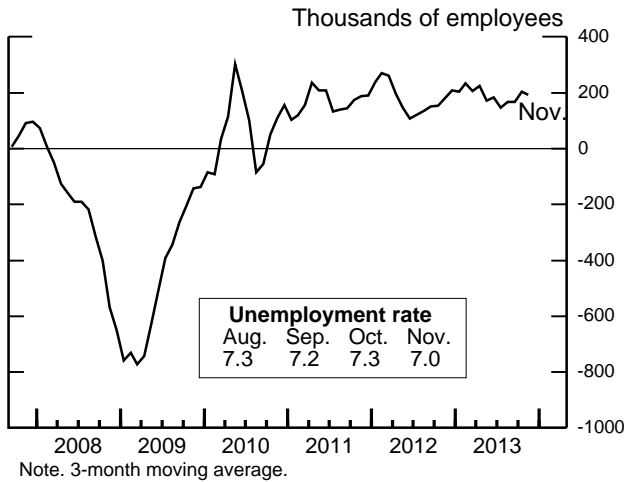
	2013		2013	2014	2015	2016
	H1	H2				
1. Total	0.5	1.3	0.9	1.4	1.4	1.6
2. (Jun. TB)	0.4	1.3	0.9	1.4	1.6	
3. Core	1.0	1.3	1.1	1.4	1.6	1.7
4. (Jun. TB)	1.0	1.4	1.2	1.6	1.8	

Class II FOMC - Restricted (FR)

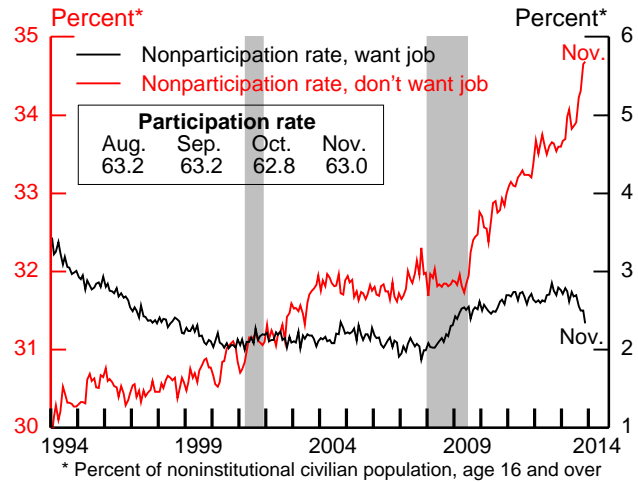
Exhibit 4

### Labor Market

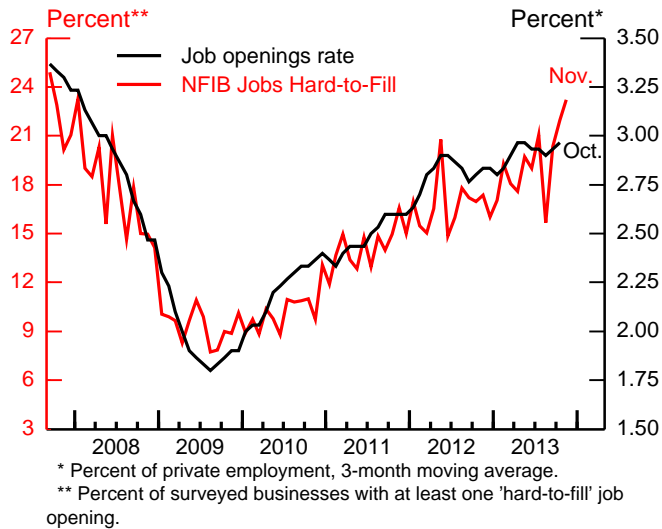
#### Change in Total Payroll Employment



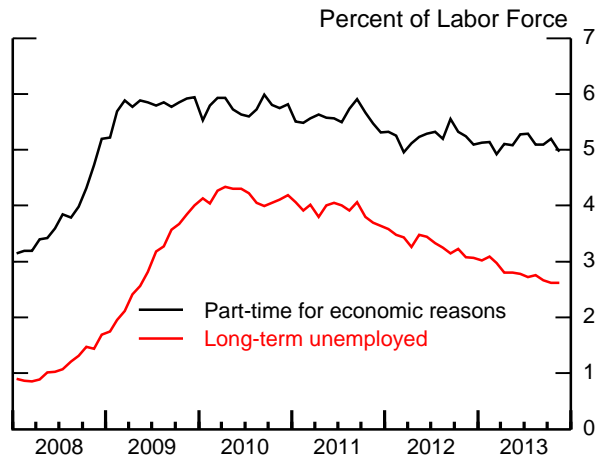
#### Nonparticipants by Employment Preference



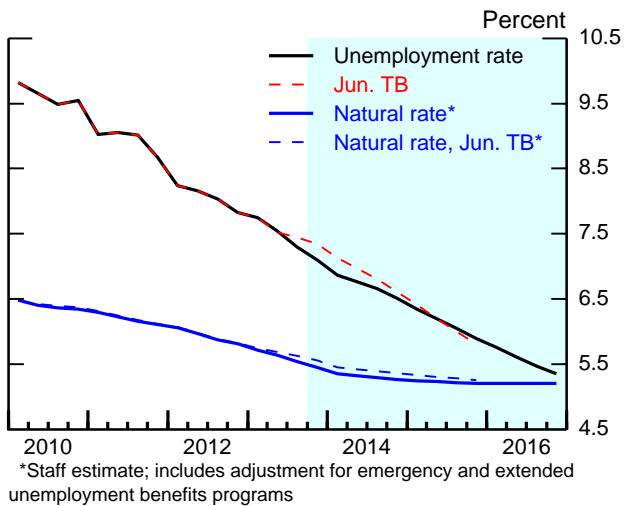
#### Other Indicators Showing Improvement



#### Indicators Showing Less Improvement



#### Unemployment Rate



#### Revisions Since June 2013 Tealbook

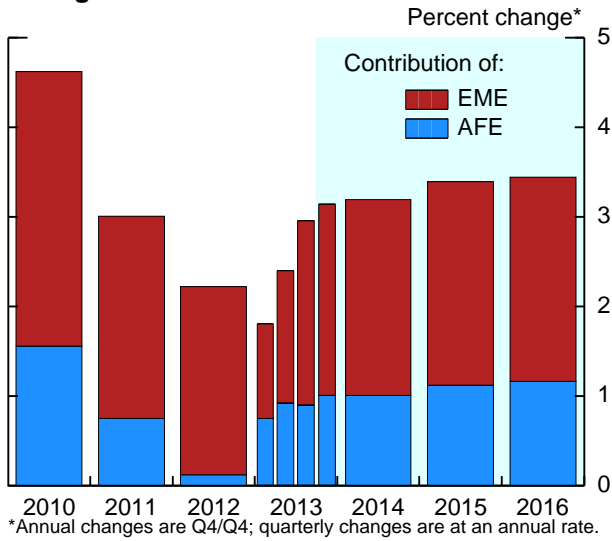
- Unemployment rate revised down .2 pp in 2013Q4.
- Private payroll employment is coming in close to expectations.
- Participation rate is coming in .4 pp lower than expected.
- Our medium-run projection is not materially changed.

Class II FOMC - Restricted (FR)

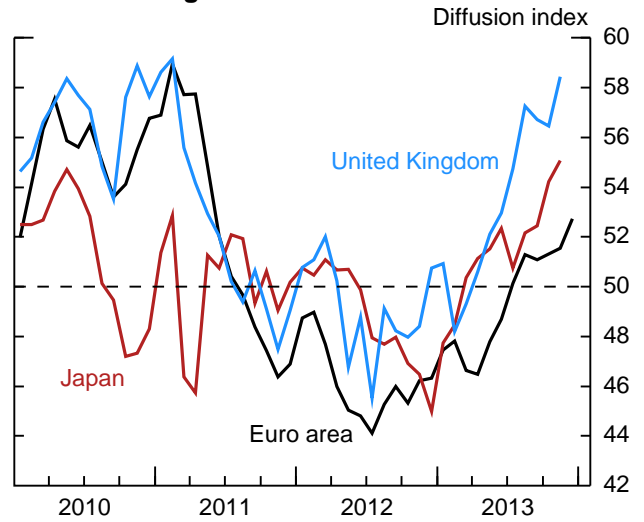
Exhibit 5

### Foreign Outlook

**Foreign Real GDP**



**Manufacturing PMIs**



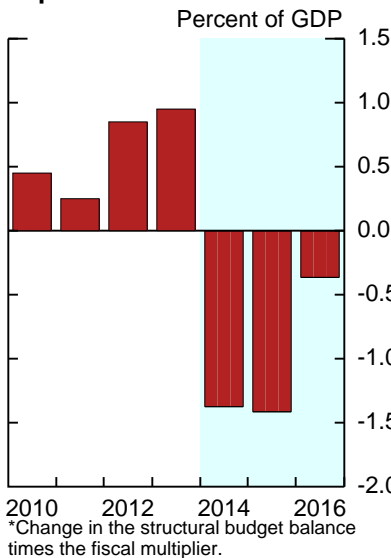
**Real GDP\***

Percent change, annual rate

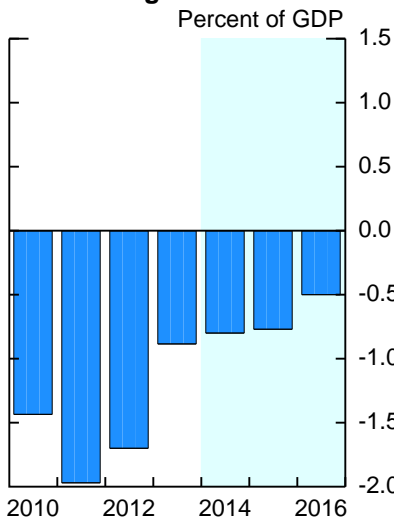
	2012		2013		2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>
		H1	Q3	Q4 <sup>f</sup>			
<b>1. Total foreign</b>	<b>2.2</b>	<b>2.1</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>
2. <i>June Tealbook</i>	2.2	2.1	2.7	3.2	3.3	3.5	<i>n.a.</i>
<b>3. Advanced foreign economies</b>	<b>0.2</b>	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>
4. Canada	1.0	2.0	2.7	2.2	2.5	2.7	2.7
5. Japan	-0.3	4.0	1.1	3.6	1.2	1.0	1.3
6. Euro area	-1.0	0.2	0.3	0.8	1.2	1.9	2.0
7. United Kingdom	-0.2	2.1	3.2	3.0	2.8	2.6	2.4

\*GDP aggregates weighted by shares of U.S. merchandise exports.

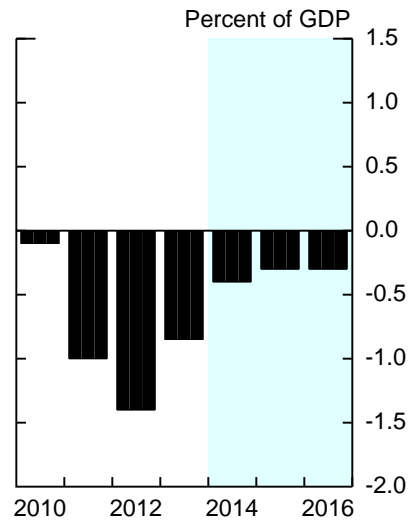
**Japan**



**Fiscal Impulse\***  
**United Kingdom**

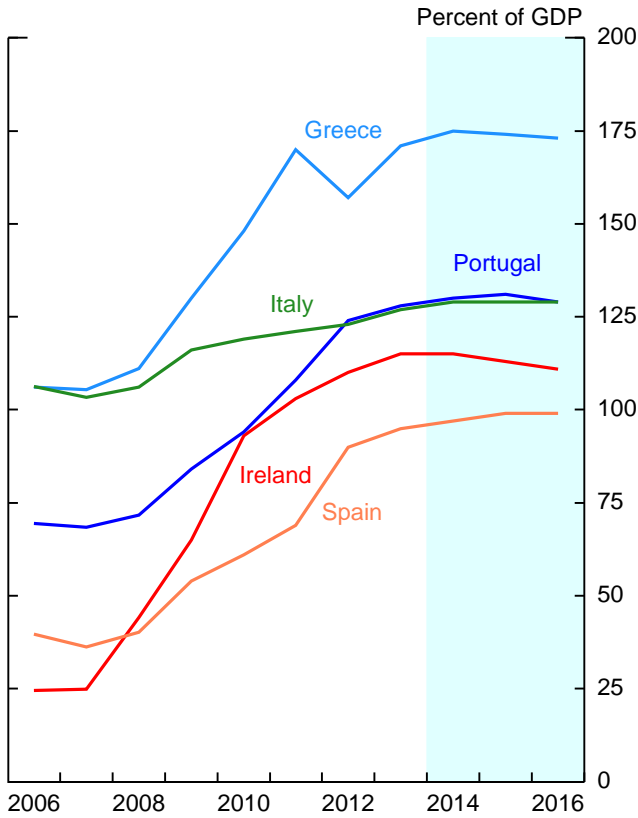


**Euro Area**

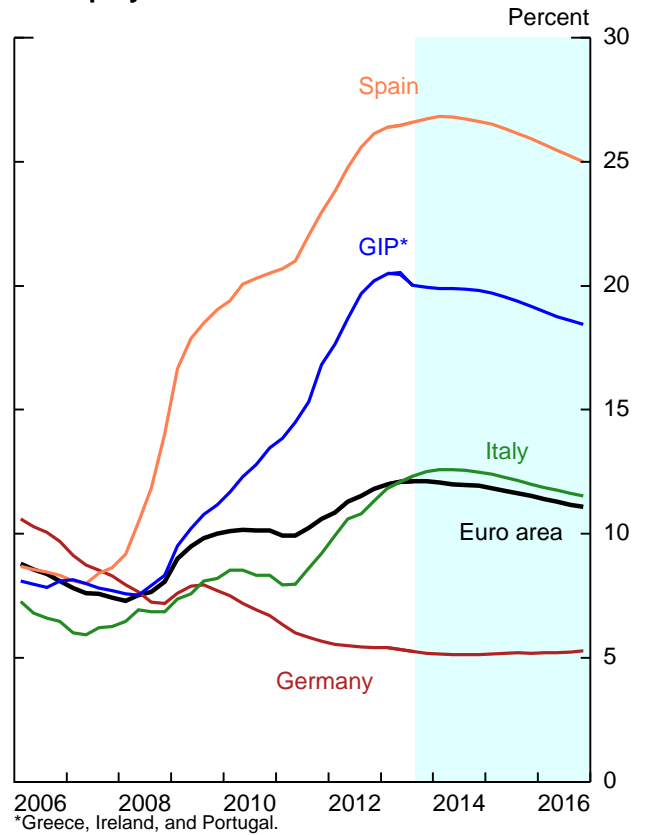


# Euro Area

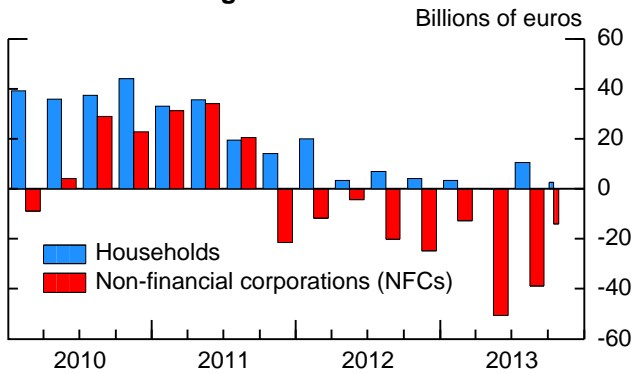
**Government Debt**



**Unemployment Rates**



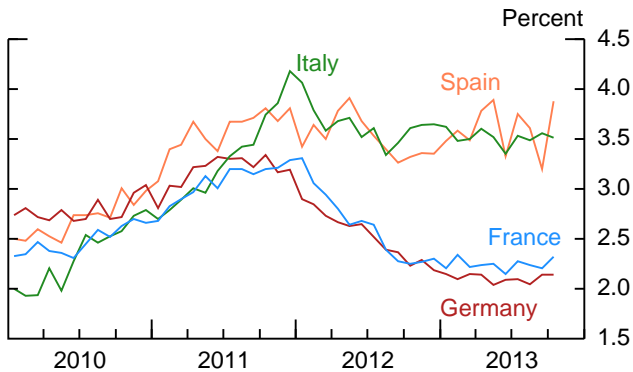
**Net Bank Lending**



**European Banking Union**

- Single rulebook for regulation approved.
- Single supervisory mechanism (SSM) approved.
  - ECB to begin direct supervision in late 2014.
  - Asset quality review and stress tests.
- Slower progress on single resolution mechanism (SRM).
- No progress on single deposit insurance scheme.

**Interest Rates on Loans to NFCs**



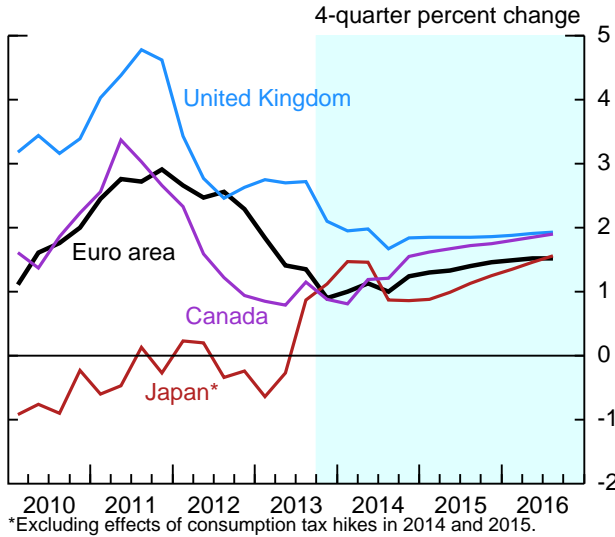


Class II FOMC - Restricted (FR)

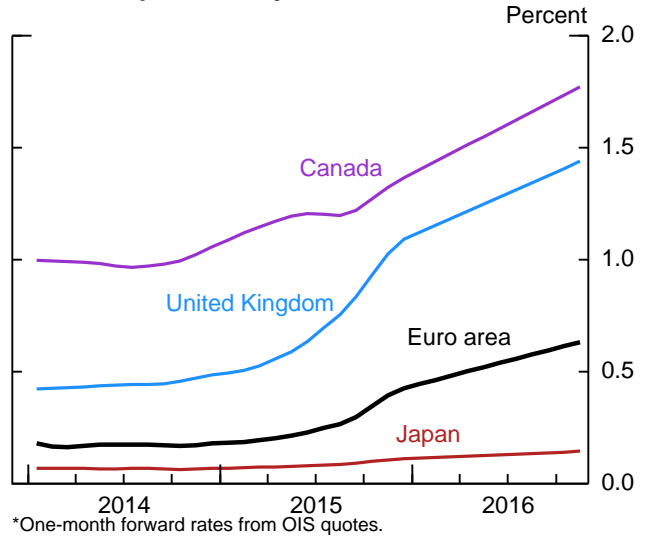
Exhibit 7

### AFE Inflation and Monetary Policy

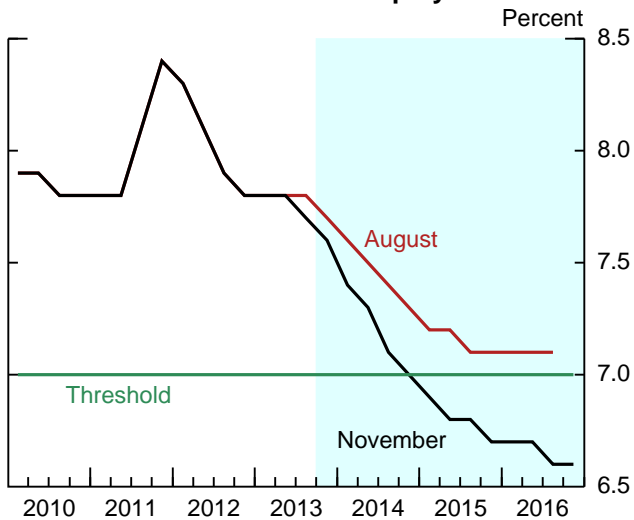
#### AFE Consumer Prices



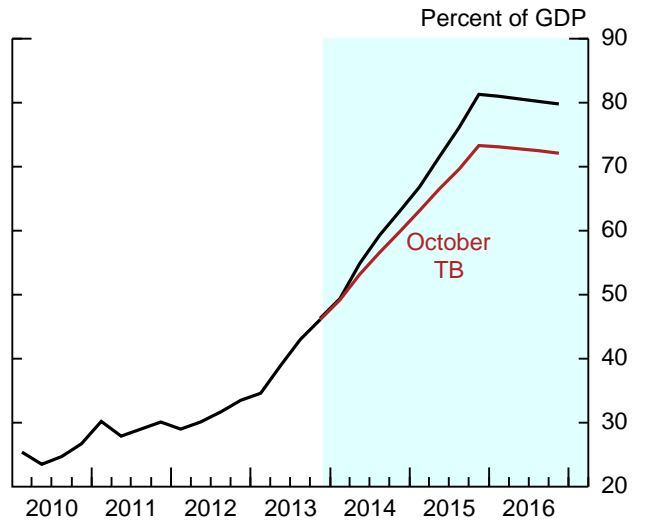
#### Market-implied Policy Rates\*



#### BoE Modal Forecast for Unemployment Rate

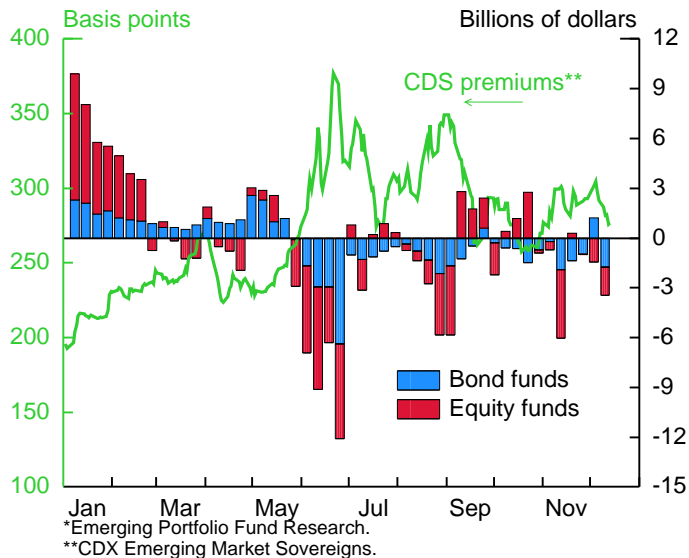


#### BoJ Balance Sheet

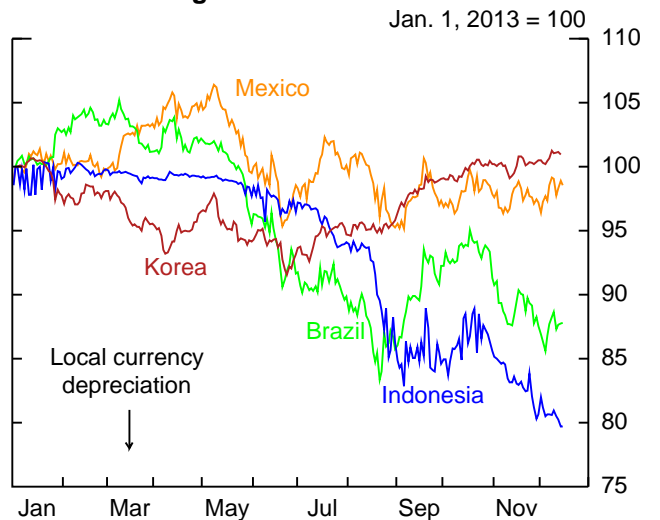


### Emerging Market Economies

#### Flows to EME Dedicated Funds\*

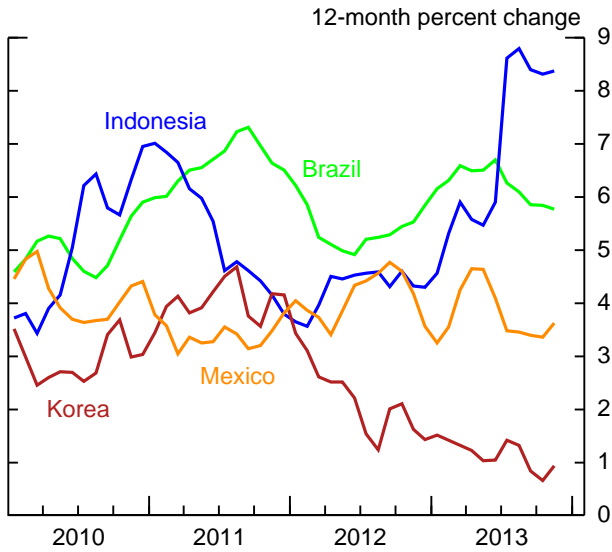


#### Dollar Exchange Rates

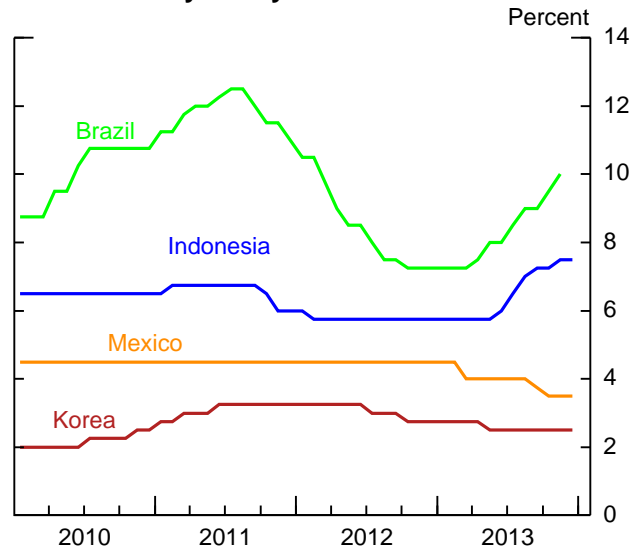


### Emerging Market Economies

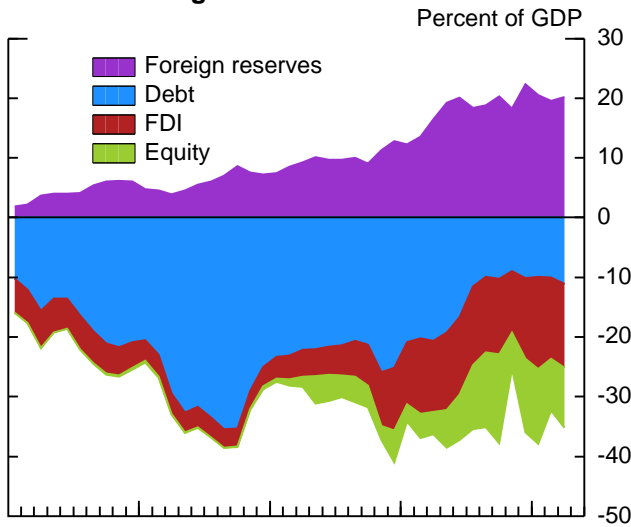
**EME Consumer Prices**



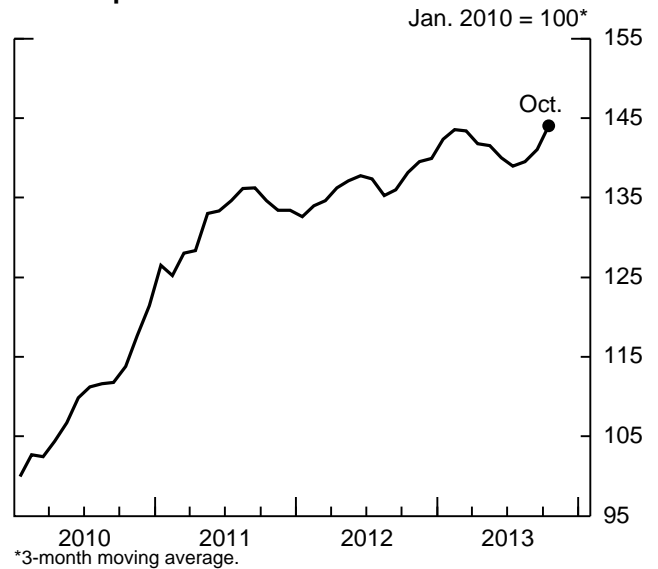
**EME Monetary Policy Rates**



**EME Net Foreign Asset Position\***



**EME Exports**



\*Emerging Asia and Latin America, excluding China, Hong Kong, and Singapore.

	Real GDP*				Percent change, annual rate		
	2012	H1	2013 Q3	Q4 <sup>f</sup>	2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>
<b>1. Emerging market economies</b>	<b>4.2</b>	<b>2.6</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>	<b>4.6</b>	<b>4.6</b>
2. China	7.8	7.0	9.4	8.5	7.8	7.6	7.5
3. Other emerging Asia	4.0	2.9	4.1	4.1	4.2	4.6	4.6
4. Mexico	3.2	-0.7	3.4	3.5	3.6	3.6	3.5
5. Other Latin America	3.1	3.8	0.4	2.1	3.1	3.3	3.5

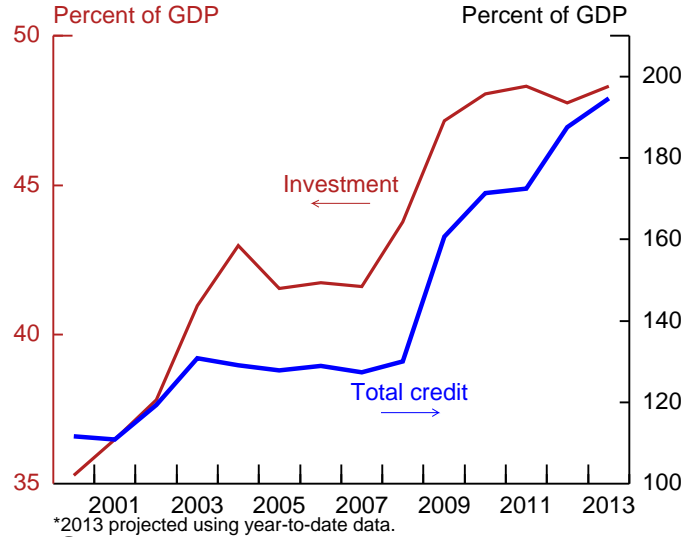
\*GDP aggregates weighted by shares of U.S. merchandise exports.

**China**

**China's Third Plenum**

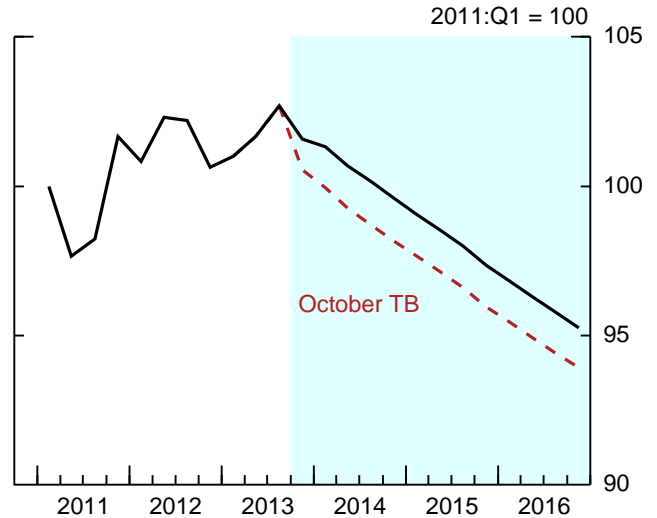
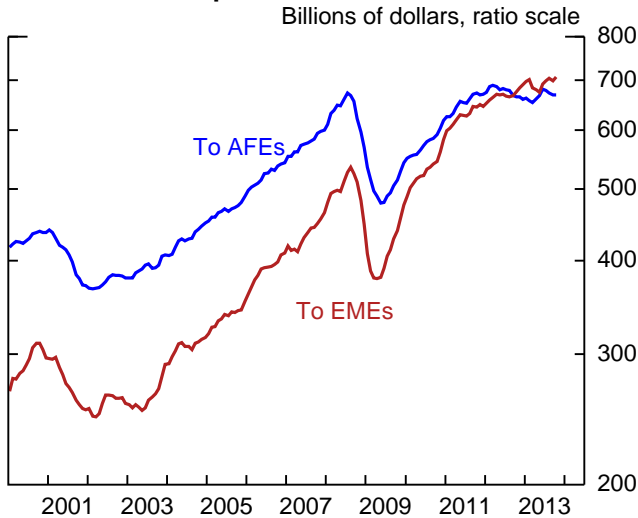
- Financial reforms to liberalize interest rates, exchange rates, and capital account.
- Fiscal reforms to better align revenues and expenditures of central and local governments.
- Labor reforms to ease internal migration restrictions.
- Land reforms to strengthen property rights.

**China: Investment and Credit\***

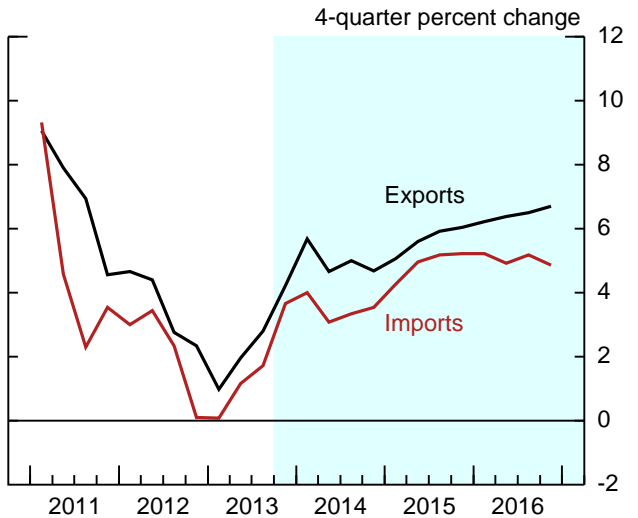


**U.S. External Sector**  
**Broad Real Dollar**

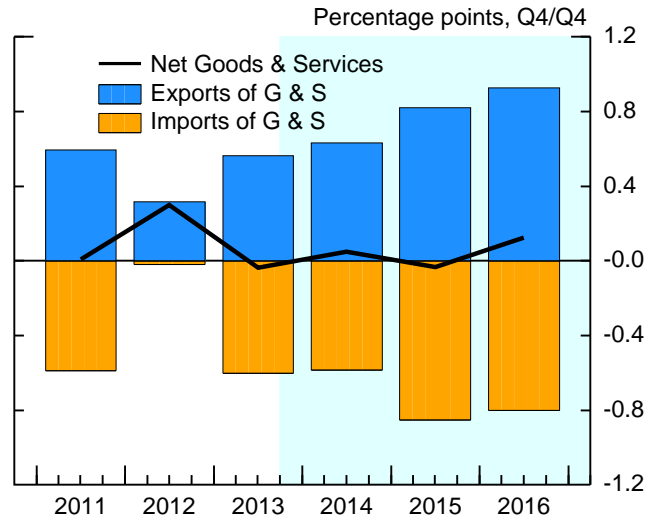
**Merchandise Exports**



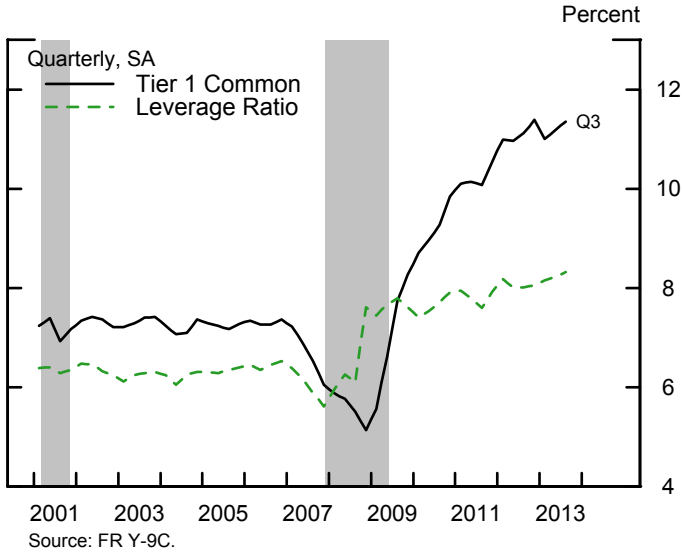
**Real Trade**



**Contribution to GDP Growth**



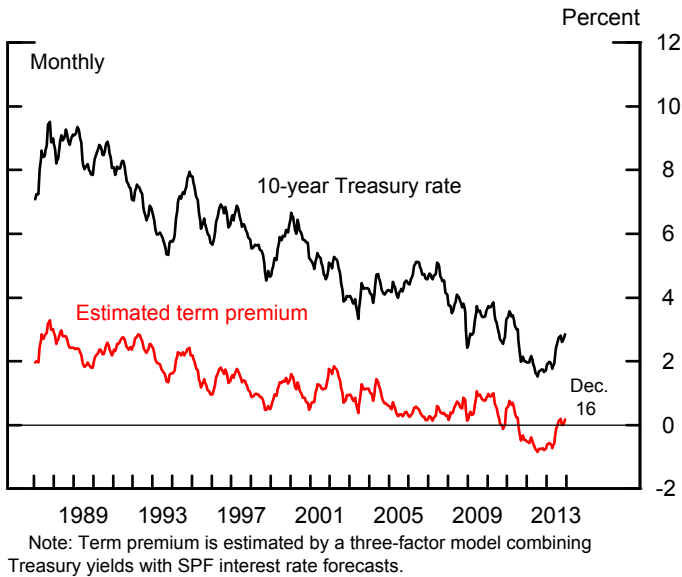
**Regulatory Capital Ratios, CCAR 30 BHCs**



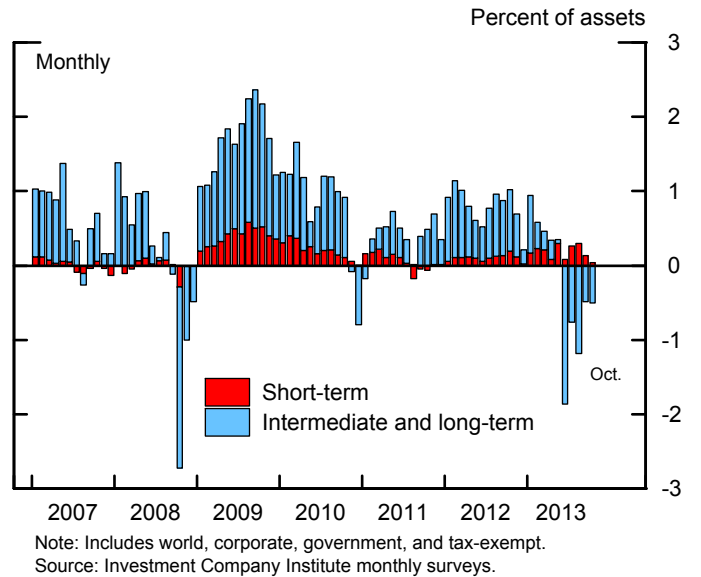
**Net Short-term Wholesale Debt of Financial Sector-to-GDP Ratio**



**10-Year Treasuries**



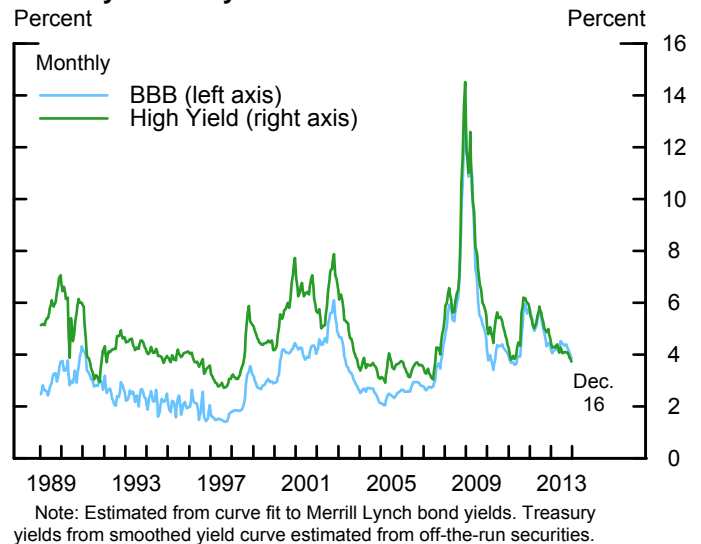
**Net Flows to Bond Mutual Funds**



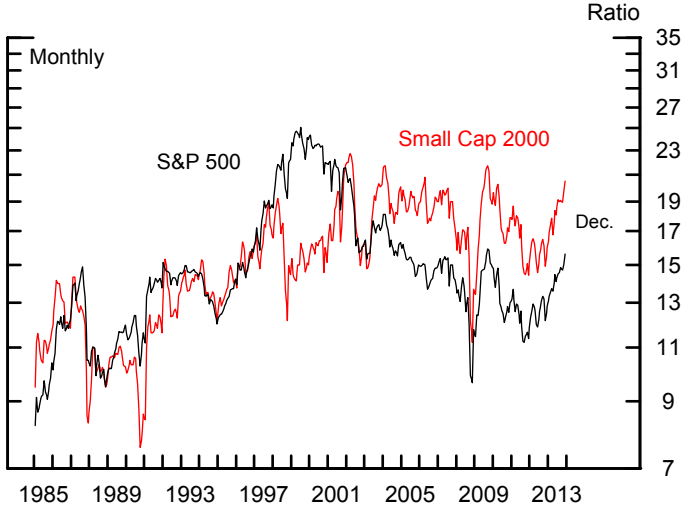
**Duration and Liquidity Risk**

- Dealer responses to SCOOS:
  - Use of short-term funding by levered investors to finance longer-duration assets below first-quarter levels
  - Further decline in financial leverage use by agency REITs
- Large cumulative inflows to long-term bond funds since 2009 suggest investors are exposed to interest rate and liquidity risk

**10-year Corporate Bond Spreads to Similar Maturity Treasury**

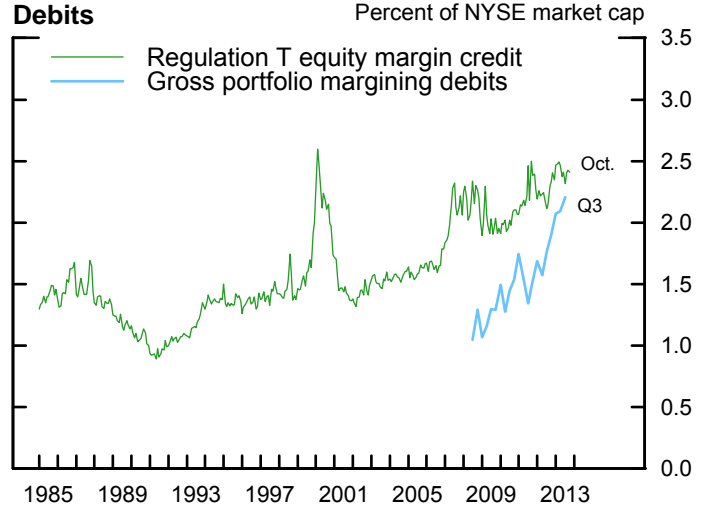


**Forward Price-Earnings Ratio**



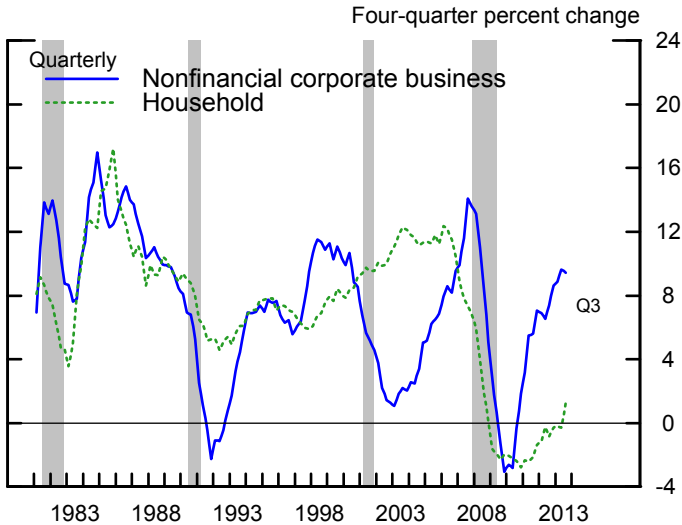
Note: Based on expected earnings for twelve months ahead. Median firm for small cap.  
Source: Thomson Financial.

**Equity Margin Credit and Portfolio Margining Debits**



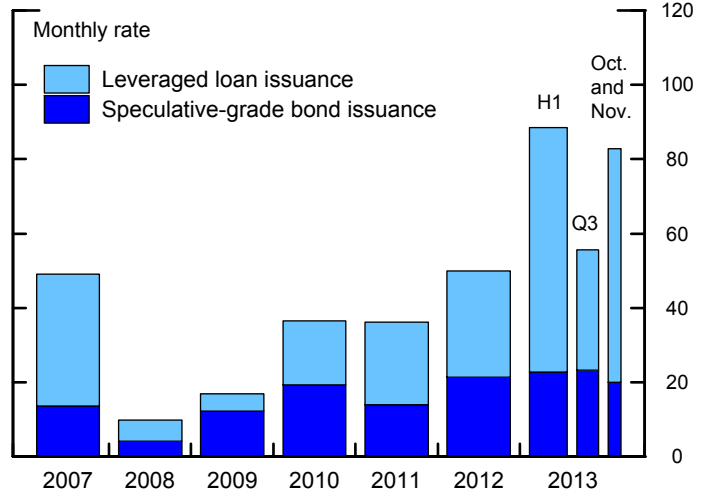
Source: Federal Reserve Board and FINRA.

**Private Nonfinancial Sector Credit**



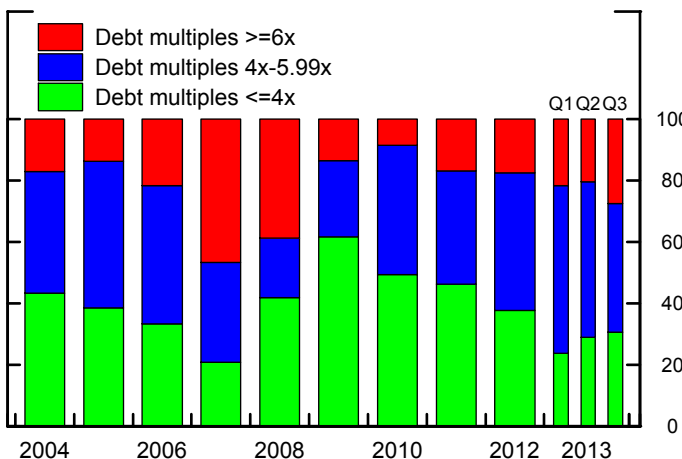
Source: FAOTUS, NIPA, and staff calculations.

**Gross Speculative-grade Bonds and Leveraged Loans**



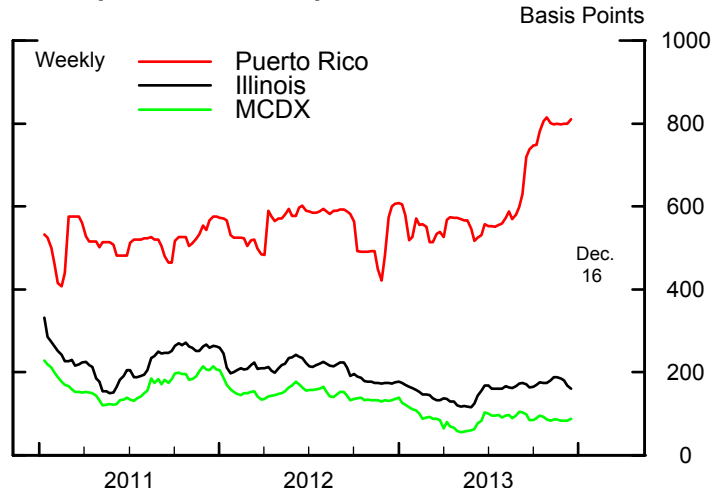
Source: Thomson Financial and Thomson Reuters LPC LoanConnector.

**Distribution of Large Corporate Loans by Debt/EBITDA Ratio**



Note: Loans to issuers with EBITDA of more than \$50 million. Distribution is based on dollar volume.  
Source: S&P Capital IQ LCD.

**Municipal 5-Year CDS Spreads**



Note: The MCDX is a municipal credit default swap index.  
Source: Markit.

## Summary and Initiatives

- Overall vulnerabilities appear moderate, but signs of building vulnerabilities in some sectors.
- There are a number of possible adverse shocks, for example, from Europe and some EME.
- Ongoing initiatives related to specific vulnerabilities:
  - Supervisory exams for compliance with leveraged lending guidance and monitoring for shift to shadow banking.
  - CCAR 2014 for the 30 largest BHCs, and additional work on interest rate risk, including how deposit holders may react to a rise in interest rates.
  - Evaluating the risk of ETFs and other funds that offer liquidity on demand when the underlying securities are relatively illiquid.
  - Structural vulnerabilities in short-term funding markets.

**Appendix 4: Materials used by Ms. DeBoer**

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

*Material for Briefing on the*

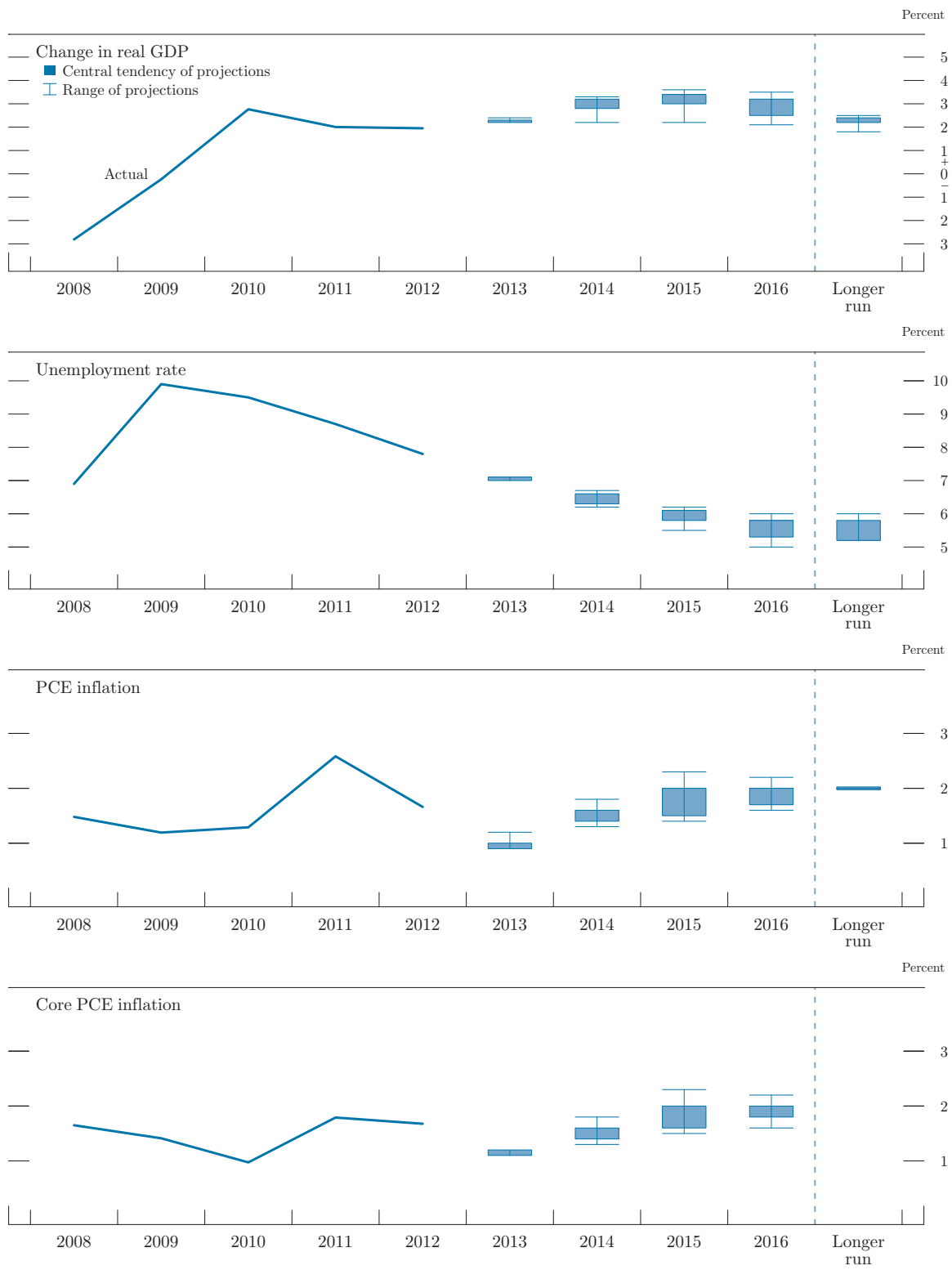
**Summary of Economic Projections**

**Marnie Gillis DeBoer**

**December 17, 2013**



Exhibit 1. Central tendencies and ranges of economic projections, 2013–16 and over the longer run



NOTE: The data for the actual values of the variables are annual.

Exhibit 2. Economic projections for 2013–16 and over the longer run (percent)

**Change in real GDP**

	2013	2014	2015	2016	Longer run
Central Tendency .....	2.2 to 2.3	2.8 to 3.2	3.0 to 3.4	2.5 to 3.2	2.2 to 2.4
September projection .....	2.0 to 2.3	2.9 to 3.1	3.0 to 3.5	2.5 to 3.3	2.2 to 2.5
Range .....	2.2 to 2.4	2.2 to 3.3	2.2 to 3.6	2.1 to 3.5	1.8 to 2.5
September projection .....	1.8 to 2.4	2.2 to 3.3	2.2 to 3.7	2.2 to 3.5	2.1 to 2.5
Memo: December Tealbook .....	2.3 <sup>†</sup>	3.1	3.5	3.4	2.3
September Tealbook .....	2.3	3.1	3.4	3.2	2.3

†. Current staff estimate, updated from December Tealbook figure of 2.2.

**Unemployment rate**

	2013	2014	2015	2016	Longer run
Central Tendency .....	7.0 to 7.1	6.3 to 6.6	5.8 to 6.1	5.3 to 5.8	5.2 to 5.8
September projection .....	7.1 to 7.3	6.4 to 6.8	5.9 to 6.2	5.4 to 5.9	5.2 to 5.8
Range .....	7.0 to 7.1	6.2 to 6.7	5.5 to 6.2	5.0 to 6.0	5.2 to 6.0
September projection .....	6.9 to 7.3	6.2 to 6.9	5.3 to 6.3	5.2 to 6.0	5.2 to 6.0
Memo: December Tealbook .....	7.1	6.5	5.9	5.3	5.2
September Tealbook .....	7.2	6.6	5.8	5.3	5.2

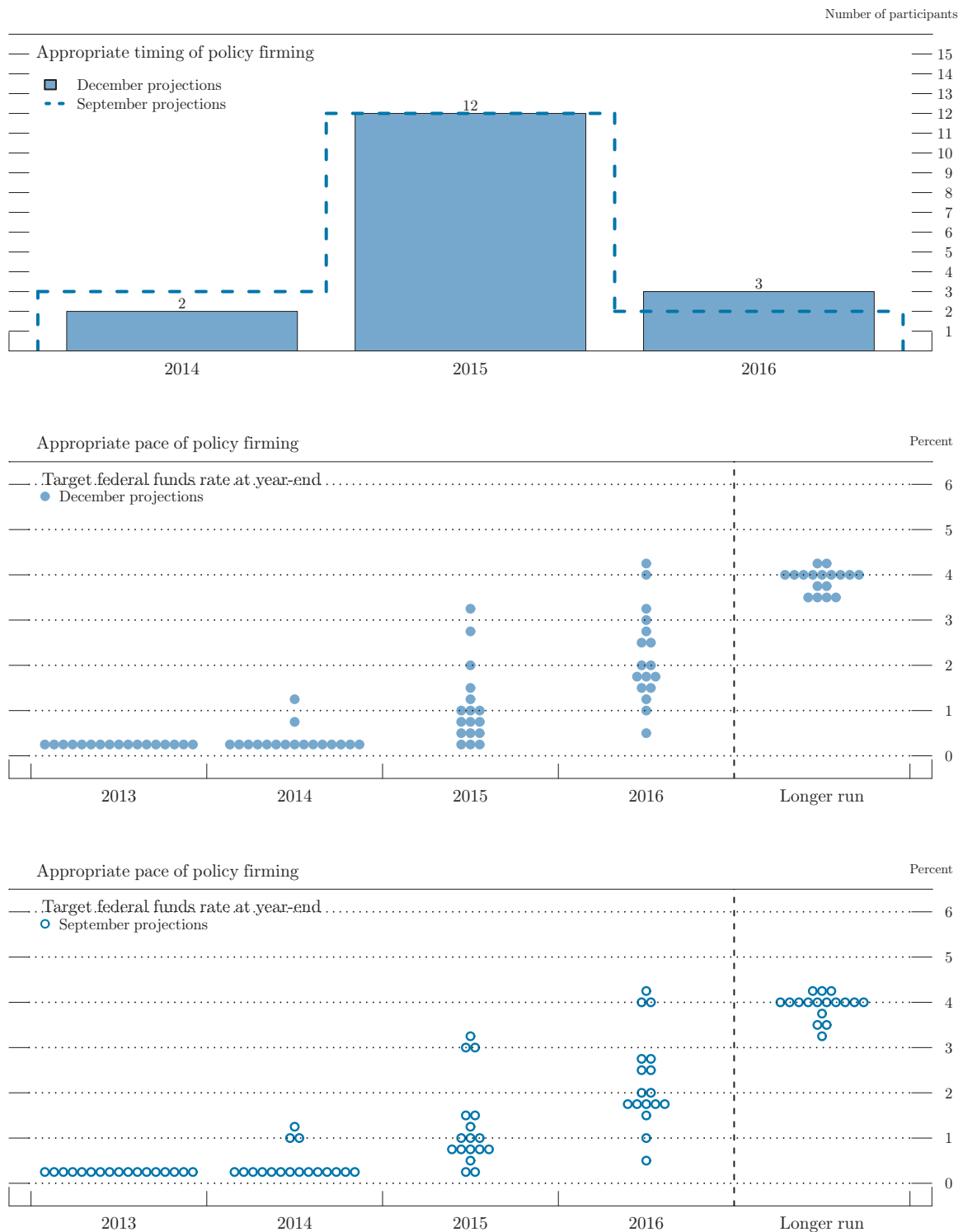
**PCE inflation**

	2013	2014	2015	2016	Longer run
Central Tendency .....	0.9 to 1.0	1.4 to 1.6	1.5 to 2.0	1.7 to 2.0	2.0
September projection .....	1.1 to 1.2	1.3 to 1.8	1.6 to 2.0	1.7 to 2.0	2.0
Range .....	0.9 to 1.2	1.3 to 1.8	1.4 to 2.3	1.6 to 2.2	2.0
September projection .....	1.0 to 1.3	1.2 to 2.0	1.4 to 2.3	1.5 to 2.3	2.0
Memo: December Tealbook .....	0.9	1.4	1.4	1.6	2.0
September Tealbook .....	1.1	1.2	1.4	1.6	2.0

**Core PCE inflation**

	2013	2014	2015	2016
Central Tendency .....	1.1 to 1.2	1.4 to 1.6	1.6 to 2.0	1.8 to 2.0
September projection .....	1.2 to 1.3	1.5 to 1.7	1.7 to 2.0	1.9 to 2.0
Range .....	1.1 to 1.2	1.3 to 1.8	1.5 to 2.3	1.6 to 2.2
September projection .....	1.2 to 1.4	1.4 to 2.0	1.6 to 2.3	1.7 to 2.3
Memo: December Tealbook .....	1.1	1.4	1.6	1.7
September Tealbook .....	1.2	1.5	1.6	1.7

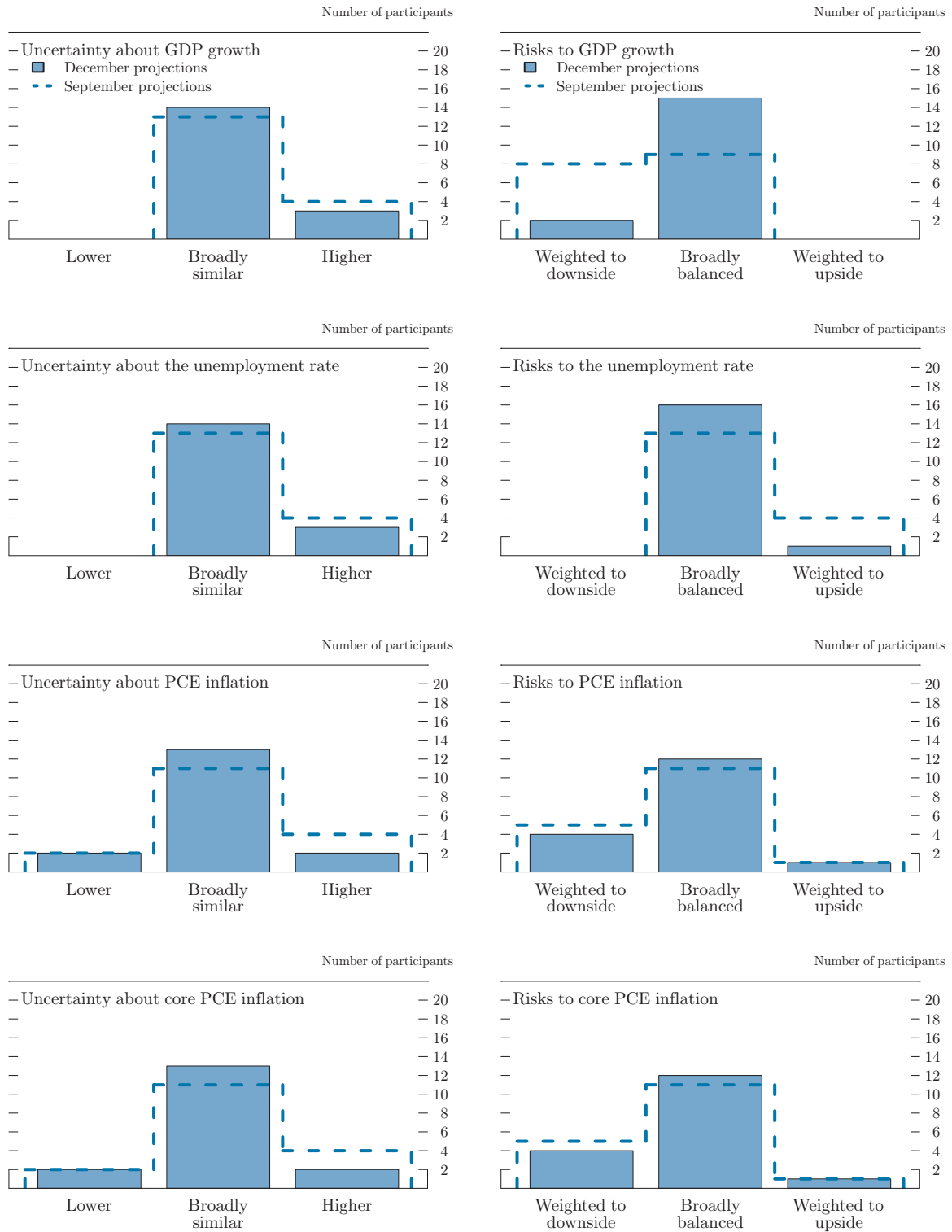
Exhibit 3. Overview of FOMC participants' assessments of appropriate monetary policy



\* The changes in real GDP and inflation are measured Q4/Q4.

NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In the middle and lower panels, each circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 4. Uncertainty and risks in economic projections



**Appendix 5: Materials used by Ms. Weinbach**

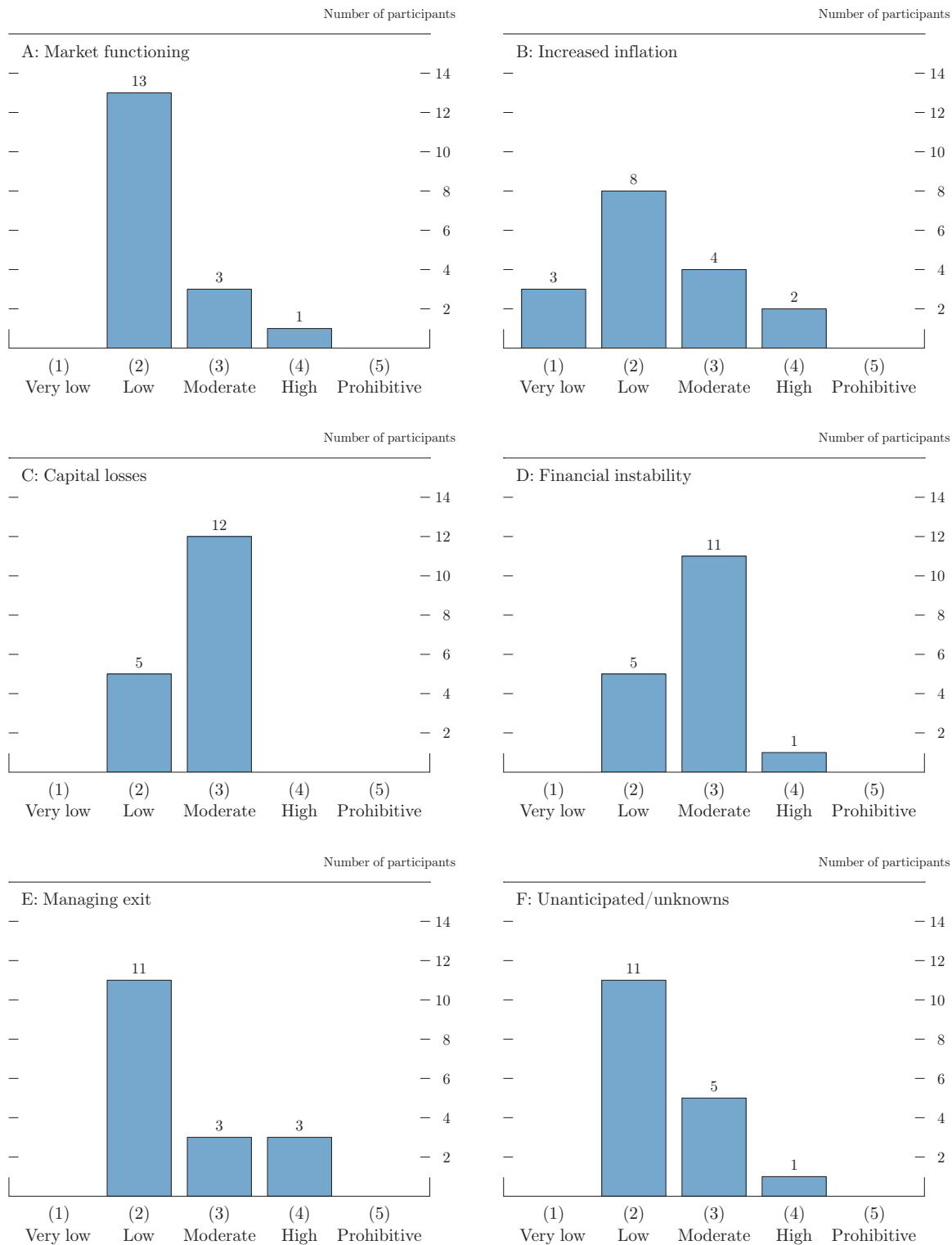
**Class I FOMC – Restricted Controlled (FR)**

*Material for Briefing on the*

**Survey on the Costs and Efficacy of  
Asset Purchases**

**Gretchen Weinbach**  
**December 17, 2013**

Exhibit 1. Assessments of the magnitude of the costs



**Exhibit 2**

*Summary of Survey Results Regarding Costs*

Row	Numerical Results & Qualitative Questions		Marginal cost related to:					
			A: Market functioning	B: Increased inflation	C: Capital losses	D: Financial instability	E: Managing exit	F: Unanticipated/unknowns
1	Mean numerical response		2.3	2.3	2.7	2.8	2.5	2.4
<i>Qualitative Results (most frequent responses)</i>								
2	<i>How rapidly does it increase?</i>		mixed views on pace	mixed views on pace	gradually	mixed views on pace	mixed views on pace	mixed views on pace
3	<i>Memo: Increases with...</i>		share of outstandings purchased	balance sheet	balance sheet	balance sheet, or w/ balance sheet & low rate period	balance sheet, or already big risk	balance sheet
4	<i>Time frame it manifests itself?</i>		when share high	range of views	most said several years	wide range of views	when Federal Reserve changes policy	range of views
5	<i>How ameliorate?</i>		½ said slow purchases; ½ said stop	most said stop	most had ideas <sup>C</sup>	most had ideas <sup>D</sup>	½ had ideas; <sup>E</sup> ½ said stop	some had ideas; <sup>F</sup> some said stop
6	<i>Primarily associated with purchases or policy generally?</i>		purchases	½ purchases; ½ policy	purchases	around ½ policy; some purchases; some low rates	purchases	policy
7	<i>Social or institutional costs?</i>		most said no distinction	most said no distinction	institutional	most said no distinction	most said no distinction	no distinction
8	<i>Memo: Count of numerical responses of...</i>	“moderate” (3) and above	4	6	12	12	6	6
		“high” (4) and “very low” (1)	1 “high”	2 “high;” all 3 “very low”	0 “high”	1 “high”	3 “high”	1 “high”

C, D, E, F — Regarding ideas: C: educate public, Congress about benefits of Fed policies; don’t sell MBS; reserve against potential losses. D: monitor for risky behavior; take sup & reg steps, as needed; continue to put in place measures to strengthen financial system; enhance communication about stance of policy (when taper, consider strengthening forward guidance); begin to slow purchases when economic outlook is comparatively strong. E: more communication about exit strategy; develop and test exit tools. F: vigilant monitoring.



**Appendix 6: Materials used by Mr. English**

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

*Material for*

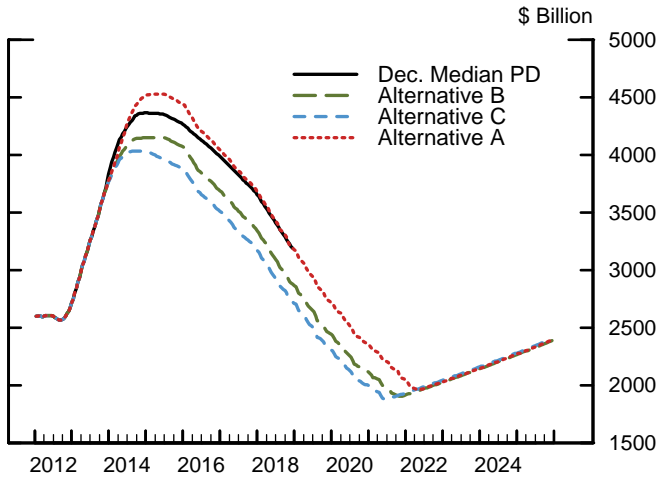
**FOMC Briefing on Monetary Policy Alternatives**

**Bill English**

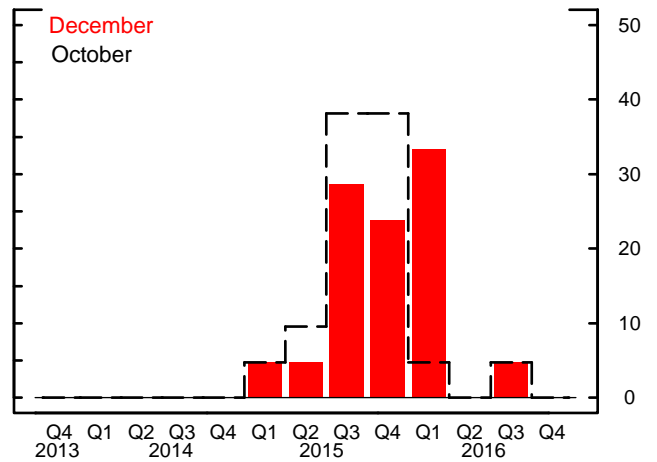
**December 17-18, 2013**

### Policy Issues and Market Expectations

Total Projected SOMA Security Holdings



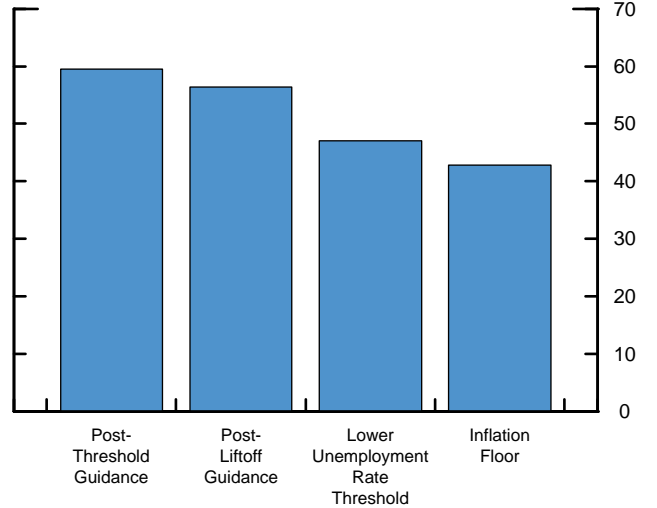
Distribution of Dealer Modal Timing of First Rate Increase



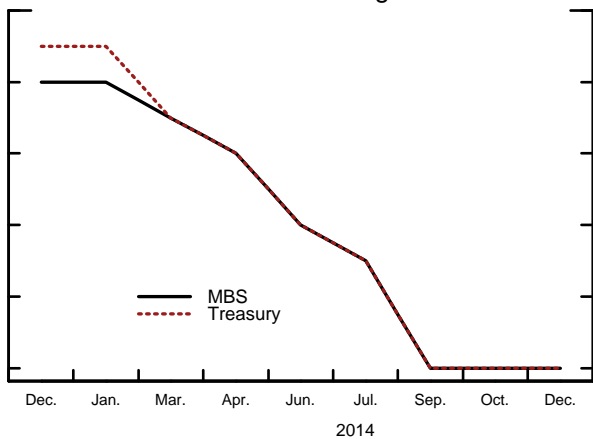
Timing of First Pace Reduction

- Market views about likely timing of first pace reduction have shifted in somewhat.
- March remains the most likely timing.
- But odds on December, January, and March are nearly equal.

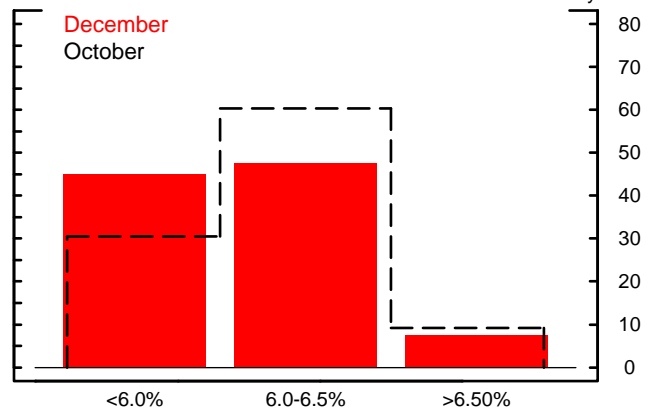
Avg. Dealer Odds on Changes to Forward Guidance



Median Dealer Expectation for Purchase Pace After Each FOMC Meeting



Avg. Dealer Probability: Unemployment Rate at First Rate Increase



Source: December 9, 2013 Primary Dealer Survey.

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**OCTOBER FOMC STATEMENT**

1. Information received since the Federal Open Market Committee met in September generally suggests that economic activity has continued to expand at a moderate pace. Indicators of labor market conditions have shown some further improvement, but the unemployment rate remains elevated. Available data suggest that household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

- 
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to  $\frac{1}{4}$  percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above  $6\frac{1}{2}$  percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE A**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests that economic activity ~~has continued to expand~~ **is expanding** at a moderate pace. Indicators of labor market conditions have shown some further improvement, but the unemployment rate remains elevated. ~~Available data suggest that~~ Household spending and business fixed investment advanced, ~~while~~ **but** the recovery in the housing sector slowed ~~somewhat~~ in recent months **and** fiscal policy is restraining economic growth. ~~Apart from fluctuations due to changes in energy prices,~~ Inflation ~~has been running~~ **continues to run well** below the Committee's longer-run objective, ~~but~~ **even though** 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee ~~sees the~~ **continues to see modest** downside risks to the outlook for the economy and the labor market ~~as having diminished, on net, since last fall.~~ The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, ~~but it anticipates that inflation will move~~ **and it will monitor inflation developments carefully for evidence that inflation is moving** back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment ~~over the past year~~ **since the inception of its current asset purchase program**, the Committee sees the improvement in economic activity and labor market conditions ~~since it began its asset purchase program~~ **over that period** as consistent with growing underlying strength in the broader economy. However, the Committee ~~decided to await more evidence that progress will be sustained before adjusting~~ **judges that progress toward its objectives for the labor market and inflation is not yet sufficient to warrant reducing** the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee

will, ~~at its coming meetings,~~ assess whether incoming information ~~continues to~~ supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. ~~In particular~~ **Indeed, to provide additional monetary accommodation,** the Committee ~~decided~~ **now intends** to keep the **its** target range for the federal funds rate at 0 to ¼ percent and ~~currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½~~ **[ 6 | 5½ ]** percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. ~~In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.~~ **If inflation remains well contained when the unemployment threshold is reached, as the Committee expects, the Committee will consider a broad range of indicators of economic and financial conditions in determining how much longer to maintain the 0 to ¼ percent target range for the federal funds rate. Indicators relevant to a comprehensive assessment of labor market conditions include the level and growth of payroll employment, labor force participation, and measures of hiring and separation. The Committee expects to be patient in considering any increase in its target for the federal funds rate so long as inflation remains well behaved.**
6. When the Committee **eventually** decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. **Consistent with its current economic outlook, the Committee anticipates that keeping the target for the federal funds rate below its longer-run normal value for a considerable time will be appropriate to help achieve and maintain maximum employment and price stability.**

**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests **indicates** that economic activity has continued to **is** expanding at a moderate pace. Indicators of Labor market conditions have shown ~~some~~ further improvement; but the unemployment rate **has declined but** remains elevated. Available data suggest that Household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth, **although the extent of restraint may be diminishing**. ~~Apart from fluctuations due to changes in energy prices,~~ Inflation has been running below the Committee's longer-run objective, but 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the [ ~~downside risks to the outlook for the economy and the labor market as having diminished, on net, |~~ **risks to the outlook for the economy and the labor market as having become more nearly balanced** ] since last fall **the inception of the asset purchase program**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, ~~but it.~~ **The Committee** anticipates that inflation will move back toward its objective over the medium term, **but it will monitor inflation developments carefully**.
3. Taking into account the extent of federal fiscal retrenchment ~~over the past year~~ **since the inception of its current asset purchase program**, the Committee sees the improvement in economic activity and labor market conditions ~~since it began its asset purchase program~~ **over that period** as consistent with growing underlying strength in the broader economy. ~~However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.~~ **In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger



economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether~~ **If** incoming information ~~continues to~~ **broadly** supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, **the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings.** ~~However,~~ asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. ~~In particular, The Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this~~ **also reaffirmed its expectation that the current** exceptionally low **target** range for the federal funds rate **of 0 to ¼ percent** will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. **The Committee now anticipates, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6½ percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal.** When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests **indicates** that economic activity has continued to **is** expanding at a moderate pace. Indicators of Labor market conditions have shown some further improvement; but the unemployment rate remains, **although still** elevated, **has continued to decrease**. Available data suggest that Household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth, **but the extent of restraint appears to be diminishing**. ~~Apart from fluctuations due to changes in energy prices,~~ Inflation has been running **somewhat** below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. **Taking into account the extent of federal fiscal retrenchment, the Committee sees the cumulative improvement in economic activity and labor market conditions since it began its current asset purchase program as indicating growing underlying strength in the broader economy.** The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will ~~gradually~~ **continue to** decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the ~~downside~~ risks to the outlook for the economy and the labor market as ~~having diminished, on net, since last fall~~ **roughly balanced**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective **2 percent** over the medium term.
3. ~~Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.~~ **In light of the cumulative progress toward maximum employment and the improvement in the outlook for the labor market, the Committee decided to reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of [ \$30 ] billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of [ \$30 ] billion per month rather than \$45 billion per month.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader

financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether~~ **If** incoming information continues to **broadly** supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, **the Committee will likely reduce the pace of asset purchases in measured steps at future meetings.** **However,** asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

**If the Committee judges it appropriate to convert the remainder of its flow-based asset purchase program to a fixed-size program in order to provide certainty about its intentions for bringing the program to a close, it could replace paragraphs 3 and 4 with the following:**

- 3'. **In light of the cumulative progress toward maximum employment and the substantial improvement in the outlook for the labor market over the past year, the Committee today is announcing a plan to end its current asset purchase program. From January through June of 2014, the Committee will add [ \$180 ] billion to its holdings of agency mortgage-backed securities at a pace of [ \$30 ] billion per month, and also will add [ \$180 ] billion to its holdings of longer-term Treasury securities at a pace of [ \$30 ] billion per month, bringing the total increase in the Committee's holdings of longer-term securities during 2013 and**

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**2014 to approximately [ \$1.4 ] trillion.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **Even after the conclusion of the purchase program, the Committee's sizable holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

- 4'. The Committee will closely monitor incoming information on economic and financial developments. **If that information is not broadly consistent with the Committee's expectation of continued improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee is prepared to use its policy tools, including additional asset purchases, as appropriate to promote its longer-run goals.**

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**October 2013 Directive**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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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**DIRECTIVE FOR DECEMBER 2013 ALTERNATIVE A**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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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**DIRECTIVE FOR DECEMBER 2013 ALTERNATIVE B**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. **Beginning in January,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about ~~\$45~~ **\$40** billion per month and to ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about ~~\$40~~ **\$35** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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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**DIRECTIVE FOR DECEMBER 2013 ALTERNATIVE C**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. **Beginning in January,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about ~~\$45~~ **\$30** billion per month and to ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about ~~\$40~~ **\$30** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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 7: Materials used by Chairman Bernanke**

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

*Updated Materials on*  
**Monetary Policy Alternatives**

**December 18, 2013**

**OCTOBER FOMC STATEMENT**

1. Information received since the Federal Open Market Committee met in September generally suggests that economic activity has continued to expand at a moderate pace. Indicators of labor market conditions have shown some further improvement, but the unemployment rate remains elevated. Available data suggest that household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

Class I FOMC – Restricted Controlled (FR)

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5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE A**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests that economic activity ~~has continued to expand~~ **is expanding** at a moderate pace. Indicators of labor market conditions have shown some further improvement, but the unemployment rate remains elevated. ~~Available data suggest that~~ Household spending and business fixed investment advanced, ~~while~~ **but** the recovery in the housing sector slowed ~~somewhat~~ in recent months **and** fiscal policy is restraining economic growth. ~~Apart from fluctuations due to changes in energy prices,~~ Inflation ~~has been running~~ **continues to run well** below the Committee's longer-run objective, ~~but~~ **even though** 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee ~~sees the~~ **continues to see modest** downside risks to the outlook for the economy and the labor market ~~as having diminished, on net, since last fall.~~ The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, ~~but it anticipates that inflation will move~~ **and it will monitor inflation developments carefully for evidence that inflation is moving** back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment ~~over the past year~~ **since the inception of its current asset purchase program**, the Committee sees the improvement in economic activity and labor market conditions ~~since it began its asset purchase program~~ **over that period** as consistent with growing underlying strength in the broader economy. However, the Committee ~~decided to await more evidence that progress will be sustained before adjusting~~ **judges that progress toward its objectives for the labor market and inflation is not yet sufficient to warrant reducing** the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee

## Class I FOMC – Restricted Controlled (FR)

will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. ~~In particular~~ **Indeed, to provide additional monetary accommodation**, the Committee ~~decided~~ **now intends** to keep the **its** target range for the federal funds rate at 0 to ¼ percent and ~~currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½~~ **[ 6 | 5½ ]** percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. ~~In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.~~ **If inflation remains well contained when the unemployment threshold is reached, as the Committee expects, the Committee will consider a broad range of indicators of economic and financial conditions in determining how much longer to maintain the 0 to ¼ percent target range for the federal funds rate. Indicators relevant to a comprehensive assessment of labor market conditions include the level and growth of payroll employment, labor force participation, and measures of hiring and separation. The Committee expects to be patient in considering any increase in its target for the federal funds rate so long as inflation remains well behaved.**
6. When the Committee **eventually** decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. **Consistent with its current economic outlook, the Committee anticipates that keeping the target for the federal funds rate below its longer-run normal value for a considerable time will be appropriate to help achieve and maintain maximum employment and price stability.**

**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests ~~indicates~~ **indicates** that economic activity ~~has continued to~~ **is expanding** at a moderate pace. ~~Indicators of~~ Labor market conditions have shown ~~some~~ further improvement; ~~but~~ the unemployment rate **has declined but** remains elevated. ~~Available data suggest that~~ Household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth, **although the extent of restraint may be diminishing**. ~~Apart from fluctuations due to changes in energy prices,~~ Inflation has been running below the Committee's longer-run objective, but 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 expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the [ downside risks to the outlook for the economy and the labor market as having diminished, on net, | **risks to the outlook for the economy and the labor market as having become more nearly balanced** ] since last fall **the inception of the asset purchase program**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance [ , ~~but it~~. **The Committee** anticipates that inflation will move back toward its objective over the medium term, **but it will monitor inflation developments carefully**. | , **and it will monitor inflation developments carefully for evidence that inflation is moving** back toward its objective over the medium term. ]
3. Taking into account the extent of federal fiscal retrenchment ~~over the past year~~ **since the inception of its current asset purchase program**, the Committee sees the improvement in economic activity and labor market conditions ~~since it began its asset purchase program~~ **over that period** as consistent with growing underlying strength in the broader economy. ~~However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.~~ **In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure

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on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether~~ **If** incoming information continues to **broadly** supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, **the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings.** **However,** asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's ~~economic~~ outlook **for the labor market and inflation** as well as its assessment of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. ~~In particular,~~ The Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and ~~currently anticipates that this~~ **also reaffirmed its expectation that the current** exceptionally low **target** range for the federal funds rate **of 0 to ¼ percent** will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. **The Committee now anticipates, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6½ percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal.** When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.



**FOMC STATEMENT—DECEMBER 2013 ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** generally suggests ~~indicates~~ that economic activity ~~has continued to~~ **is expanding** at a moderate pace. ~~Indicators of~~ Labor market conditions have shown ~~some further improvement; but the unemployment rate remains,~~ **although still** elevated, **has continued to decrease**. Available data suggest that Household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth, **but the extent of restraint appears to be diminishing**. Apart from ~~fluctuations due to changes in energy prices,~~ Inflation has been running **somewhat** below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. **Taking into account the extent of federal fiscal retrenchment, the Committee sees the cumulative improvement in economic activity and labor market conditions since it began its current asset purchase program as indicating growing underlying strength in the broader economy.** The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will **gradually continue to** decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the ~~downside~~ risks to the outlook for the economy and the labor market as ~~having diminished, on net, since last fall~~ **roughly balanced**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective **2 percent** over the medium term.
3. ~~Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.~~ **In light of the cumulative progress toward maximum employment and the improvement in the outlook for the labor market, the Committee decided to reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of [ \$30 ] billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of [ \$30 ] billion per month rather than \$45 billion per month.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader

financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether~~ **If** incoming information continues to **broadly** supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, **the Committee will likely reduce the pace of asset purchases in measured steps at future meetings.** **However,** asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

**If the Committee judges it appropriate to convert the remainder of its flow-based asset purchase program to a fixed-size program in order to provide certainty about its intentions for bringing the program to a close, it could replace paragraphs 3 and 4 with the following:**

- 3'. **In light of the cumulative progress toward maximum employment and the substantial improvement in the outlook for the labor market over the past year, the Committee today is announcing a plan to end its current asset purchase program. From January through June of 2014, the Committee will add [ \$180 ] billion to its holdings of agency mortgage-backed securities at a pace of [ \$30 ] billion per month, and also will add [ \$180 ] billion to its holdings of longer-term Treasury securities at a pace of [ \$30 ] billion per month, bringing the total increase in the Committee's holdings of longer-term securities during 2013 and**

**2014 to approximately [ \$1.4 ] trillion.** The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **Even after the conclusion of the purchase program, the Committee's sizable holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

- 4'. The Committee will closely monitor incoming information on economic and financial developments. **If that information is not broadly consistent with the Committee's expectation of continued improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee is prepared to use its policy tools, including additional asset purchases, as appropriate to promote its longer-run goals.**

**Appendix 8: Materials used by Mr. Potter**

**Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities**

On December 18, 2013, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase additional agency mortgage-backed securities (MBS) at a pace of about \$35 billion per month and longer-term Treasury securities at a pace of about \$40 billion per month, beginning in January 2014. The existing December schedules for agency MBS purchases at a pace of \$40 billion per month and Treasury securities purchases at a pace of \$45 billion per month remain in effect until that time. The FOMC also directed the Desk to maintain its existing policies of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

Purchases of agency MBS will continue to be concentrated in newly-issued agency MBS in the To-Be-Announced (TBA) market, and purchases of longer-term Treasury securities will continue to be distributed using the existing set of sectors and approximate weights. These purchase distributions could change if market conditions warrant.

The amount of agency MBS to be purchased each month and the tentative schedule of Treasury purchase operations for the following calendar month will continue to be announced on or around the last business day of each month. Additionally, the planned amount of purchases associated with reinvestments of principal payments on holdings of agency securities that are anticipated to take place over each monthly period will be announced on or around the eighth business day of the month.

Consistent with current practices, the purchases of agency MBS and Treasury securities will be conducted with the Federal Reserve's eligible counterparties through a competitive bidding process and results will be published on the Federal Reserve Bank of New York's website. The Desk will continue to publish transaction prices for individual operations at the end of each monthly period. All other purchase details remain the same at this time.

Additional information on the purchases of agency MBS and longer-term Treasury securities can be found in a set of Frequently Asked Questions for each asset class in the following locations:

Agency MBS: [http://www.newyorkfed.org/markets/ambs/ambs\\_faq.html](http://www.newyorkfed.org/markets/ambs/ambs_faq.html)

Treasury securities: [http://www.newyorkfed.org/markets/longertermtreas\\_faq.html](http://www.newyorkfed.org/markets/longertermtreas_faq.html)