

Economic Advisory Panel Meeting

October 12, 2007

Agenda

**Recent Developments with Focus on Housing
(Dick Peach)**

**Recent Financial Market Developments
(Bill Dudley)**

**Forecast and Risks
(Simon Potter)**

Go-round on current monetary policy

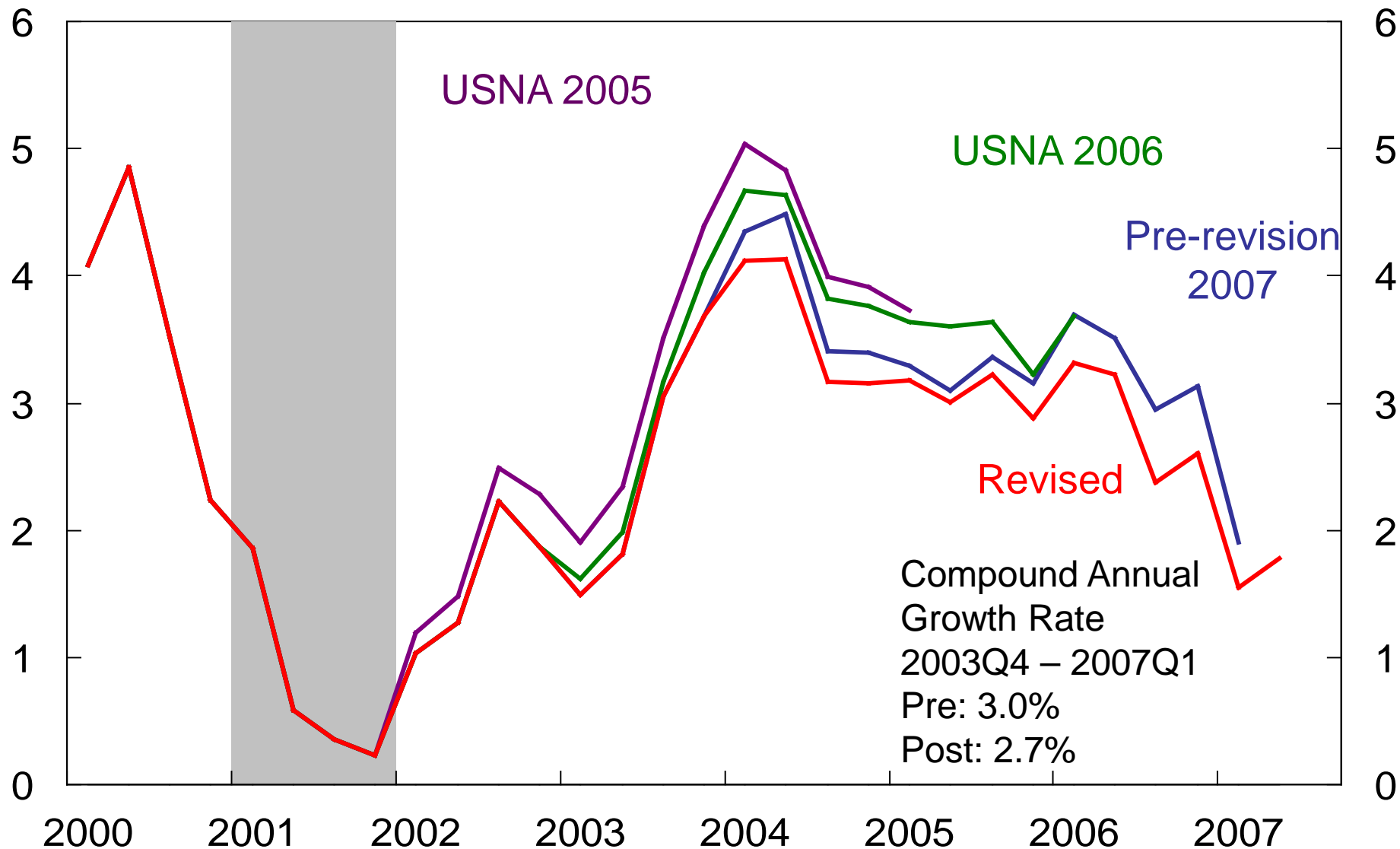
Change in FRBNY Forecasts

	<u>2007</u>		<u>2008</u>	
	<u>May</u>	<u>Oct.</u>	<u>May</u>	<u>Oct.</u>
Real GDP	2.6	2.5	3.0	2.6
Total PCE Deflator	2.8	2.8	2.1	1.9
Core PCE Deflator	2.0	1.8	1.8	1.7
<u>Growth Contributions</u>				
Final Sales to Domestic Purchasers	2.7	2.2	3.3	2.5
Consumption	2.3	2.0	2.1	1.9
Residential Investment	-0.6	-0.9	0.1	-0.2
Business Fixed Investment	0.6	0.6	0.6	0.4
Government	0.5	0.4	0.4	0.4
Inventory Investment	0.1	-0.1	-0.2	0.0
Net Exports	-0.2	0.4	-0.1	0.1

Real GDP

% Change – Year to Year

% Change – Year to Year



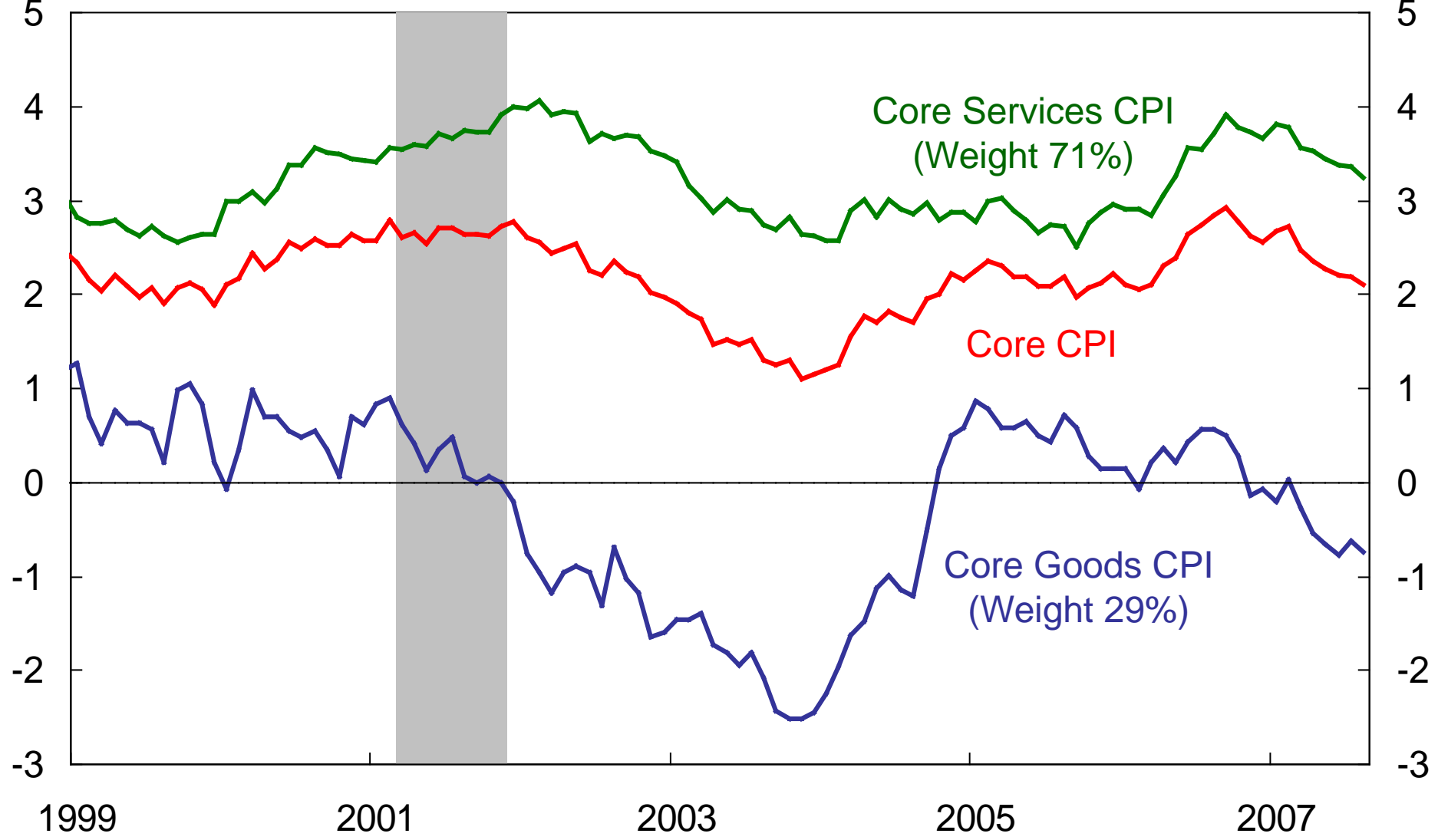
Source: Bureau of Economic Analysis

Note: Shading represents NBER recessions.

Core CPI, Core Goods and Core Services

% Change - Year to Year

% Change - Year to Year



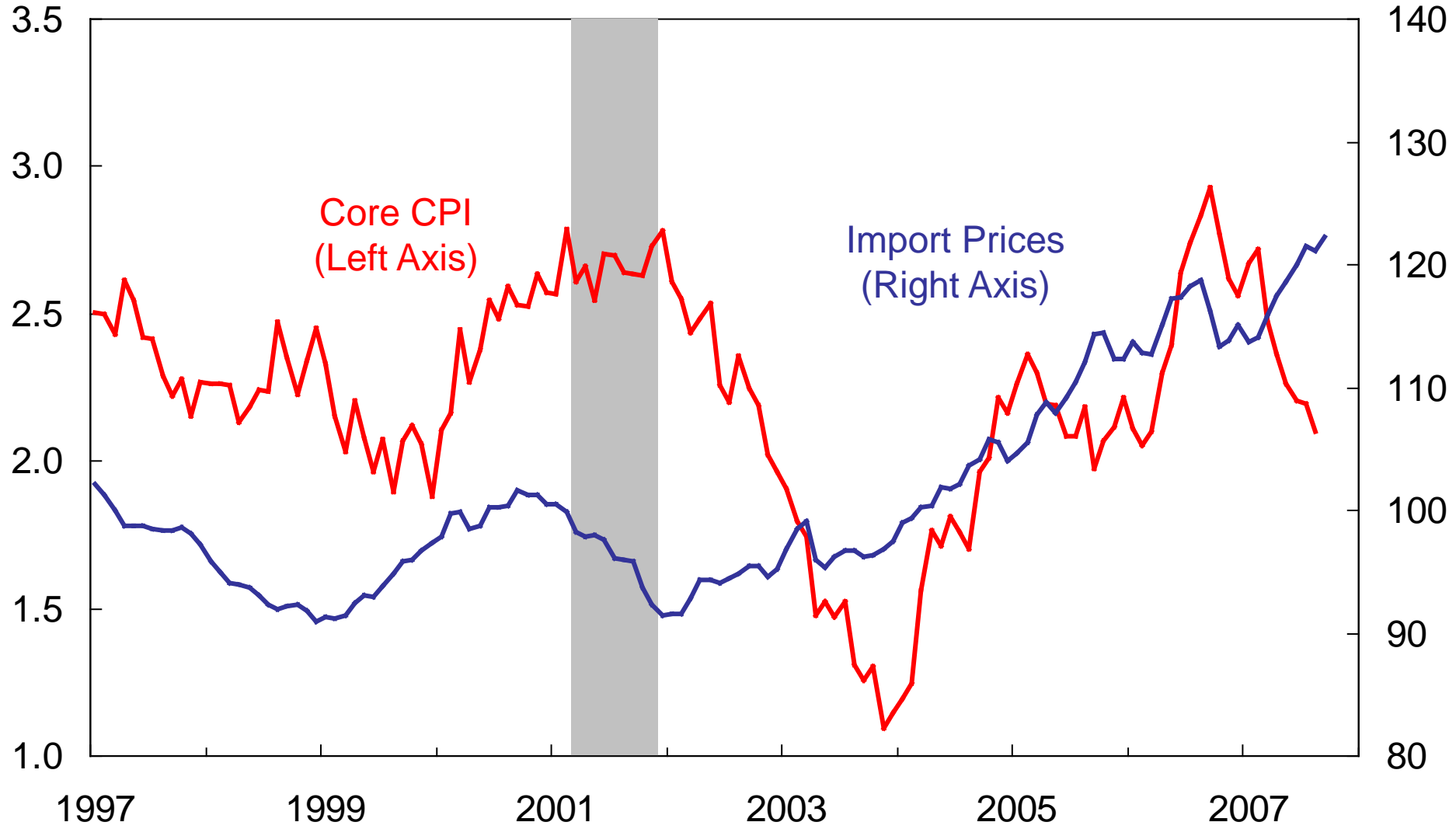
Source: Bureau of Labor Statistics

Note: Shading represents NBER recessions.

Core CPI and Import Prices

% Change - Year to Year

Index, 2000=100



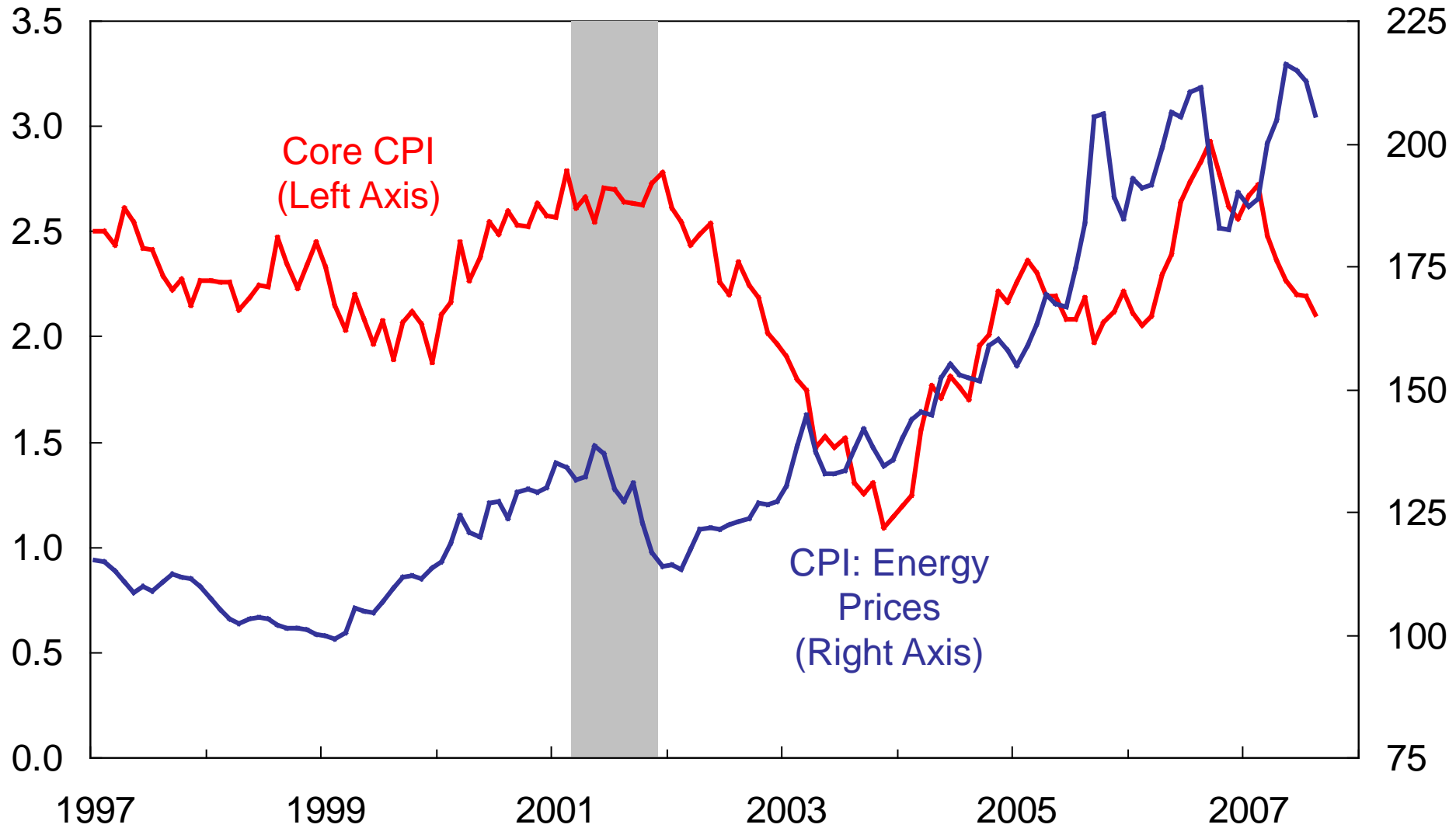
Source: Bureau of Labor Statistics

Note: Shading represents NBER recessions.

Core CPI and Energy Price Component of the CPI

% Change - Year to Year

Index, 1982-84=100

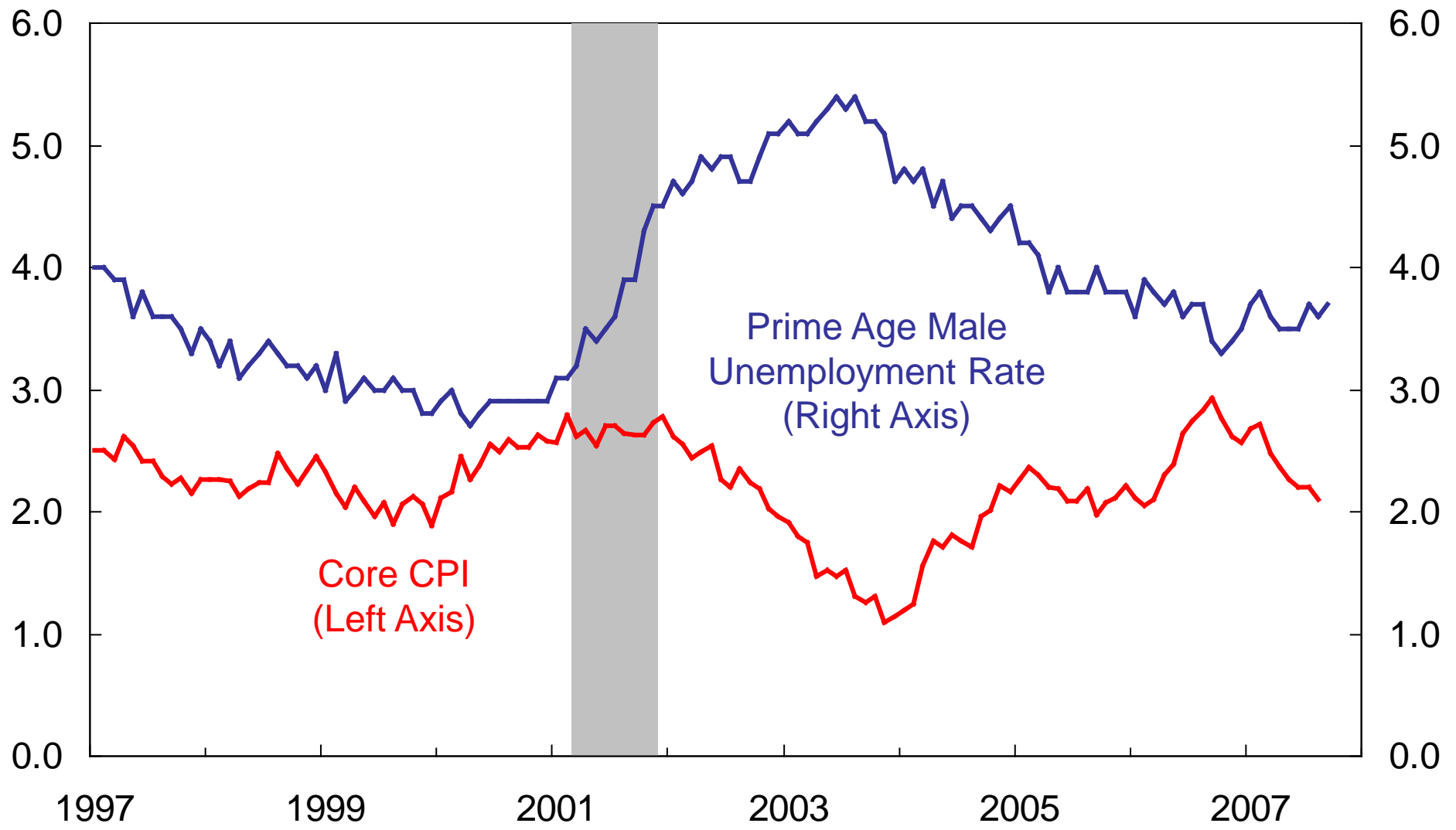


Source: Bureau of Labor Statistics

Note: Shading represents NBER recessions.

Core CPI and Prime Age Male Unemployment Rate

% Change - Year to Year



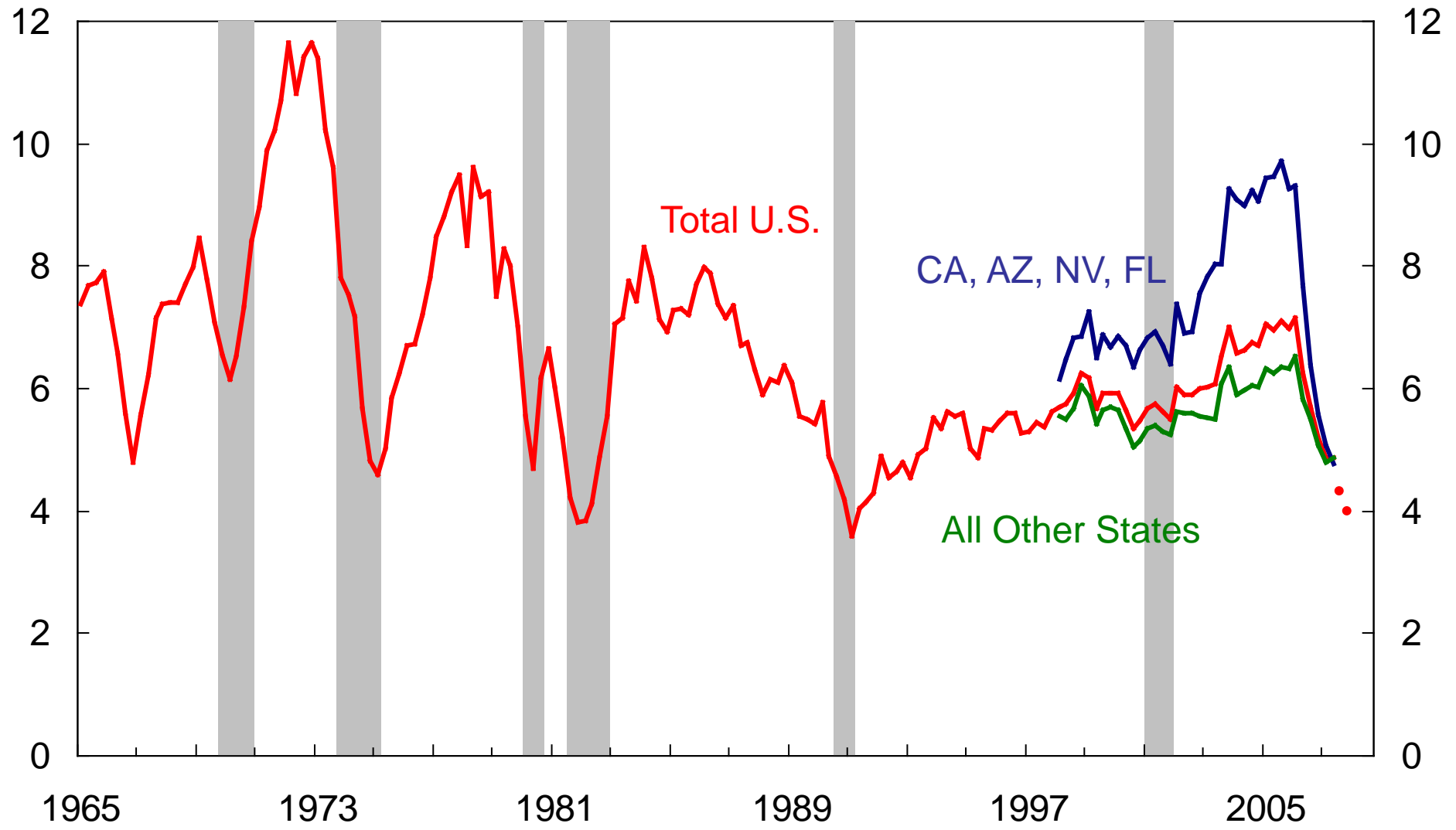
Source: Bureau of Labor Statistics

Note: Shading represents NBER recessions.

Housing Starts per Capita

Starts per 1,000 people

Starts per 1,000 people



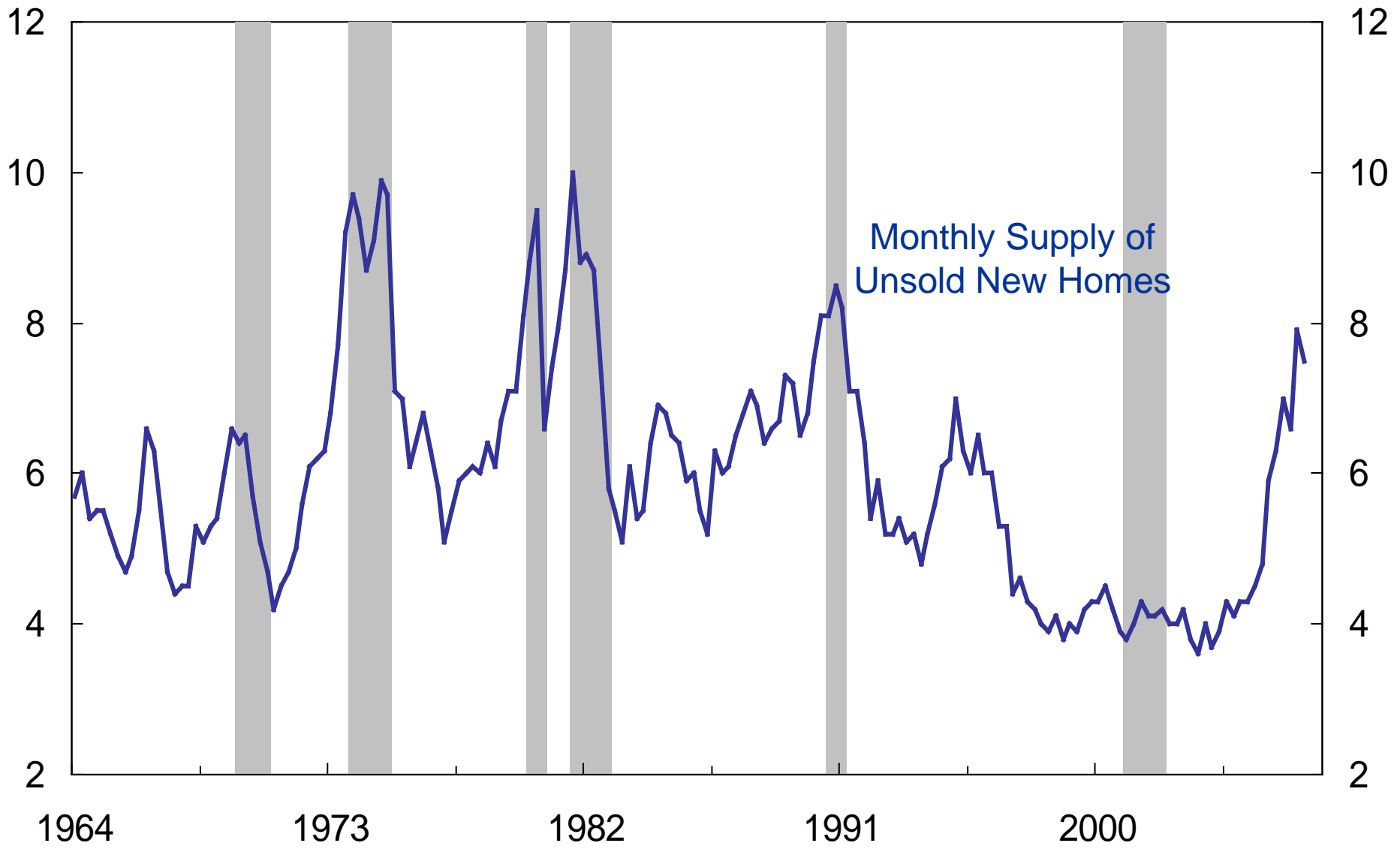
Source: Census Bureau and Economy.com

Note: Shading represents NBER recessions.

New Home Inventories and Real Price Change

% Change – Year to Year

Ratio



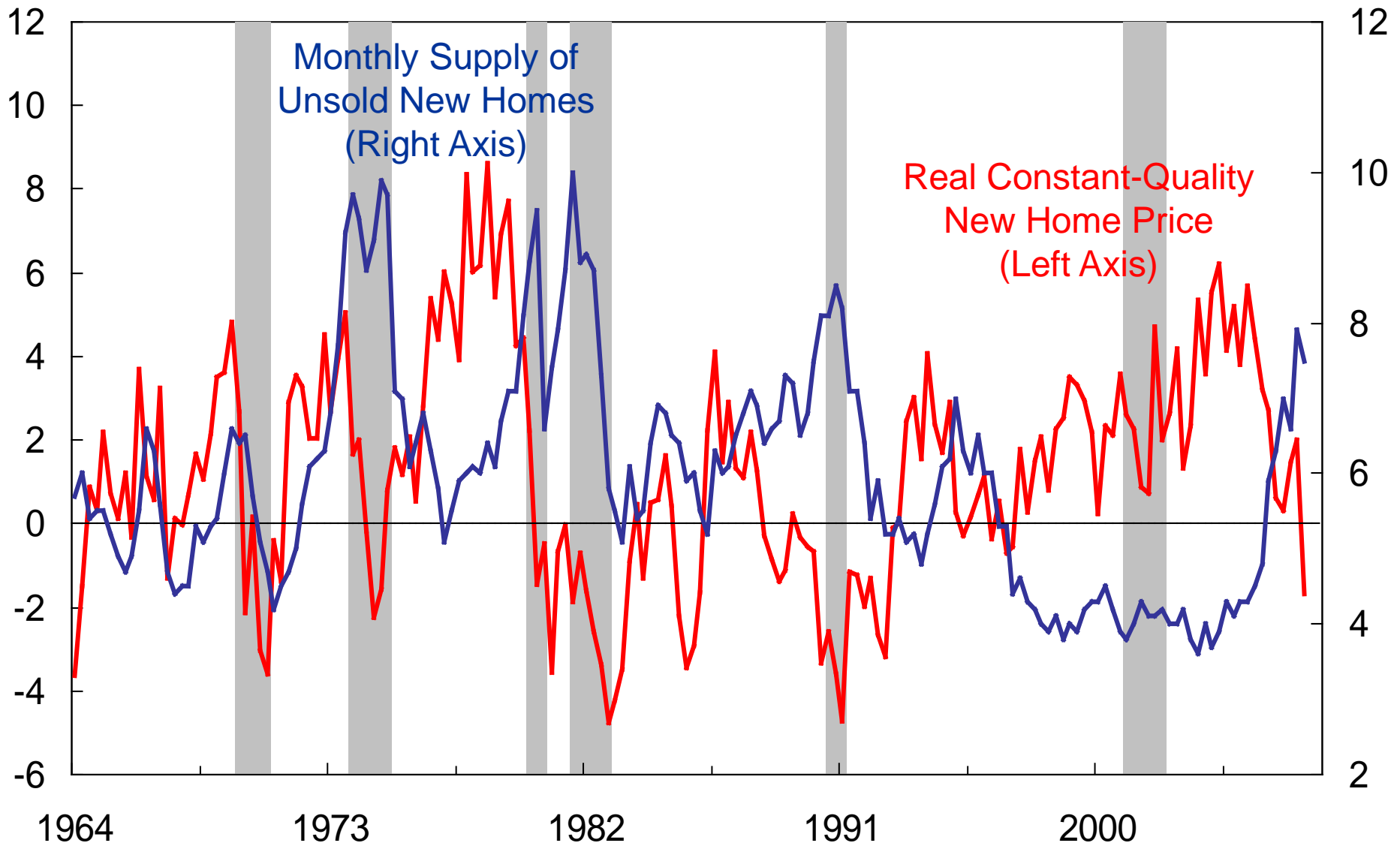
Source: Census Bureau

Note: Shading represents NBER recessions.

New Home Inventories and Real Price Change

% Change – Year to Year

Ratio



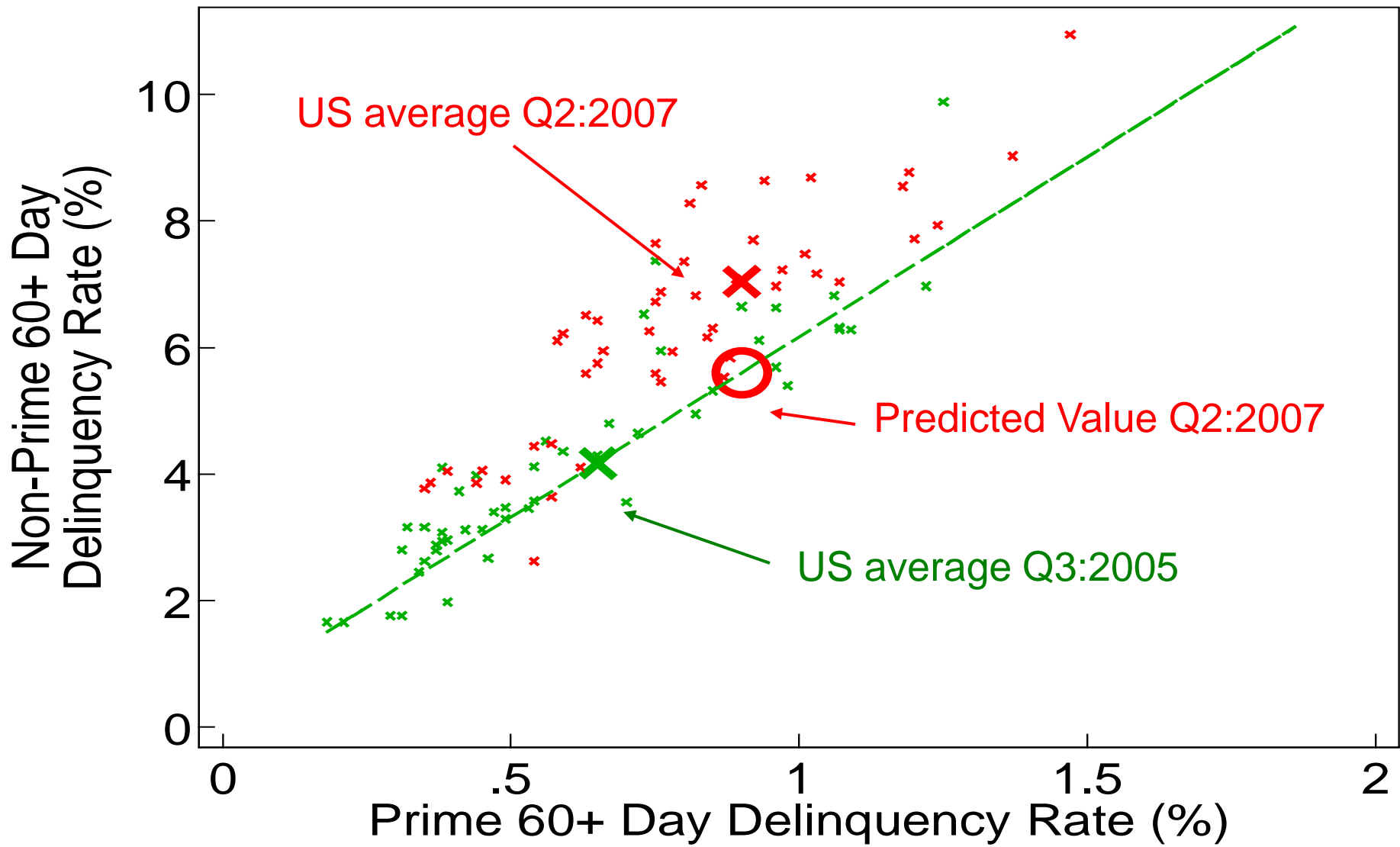
Source: Census Bureau and Bureau of Economic Analysis Note: Shading represents NBER recessions.

First Mortgage Originations by Loan Type (percent of total)

	2001-2003 Average	2004	2005	2006	2007Q2
Conventional Conforming	63.5	47.2	39.6	38.8	49.6
FHA/VA	6.9	5.1	3.3	3.1	3.8
Jumbo	20.1	19.9	20.7	18.8	21.6
Alt A	2.5	7.2	13.8	15.7	16.0
Subprime	7.0	20.7	22.7	23.5	9.0

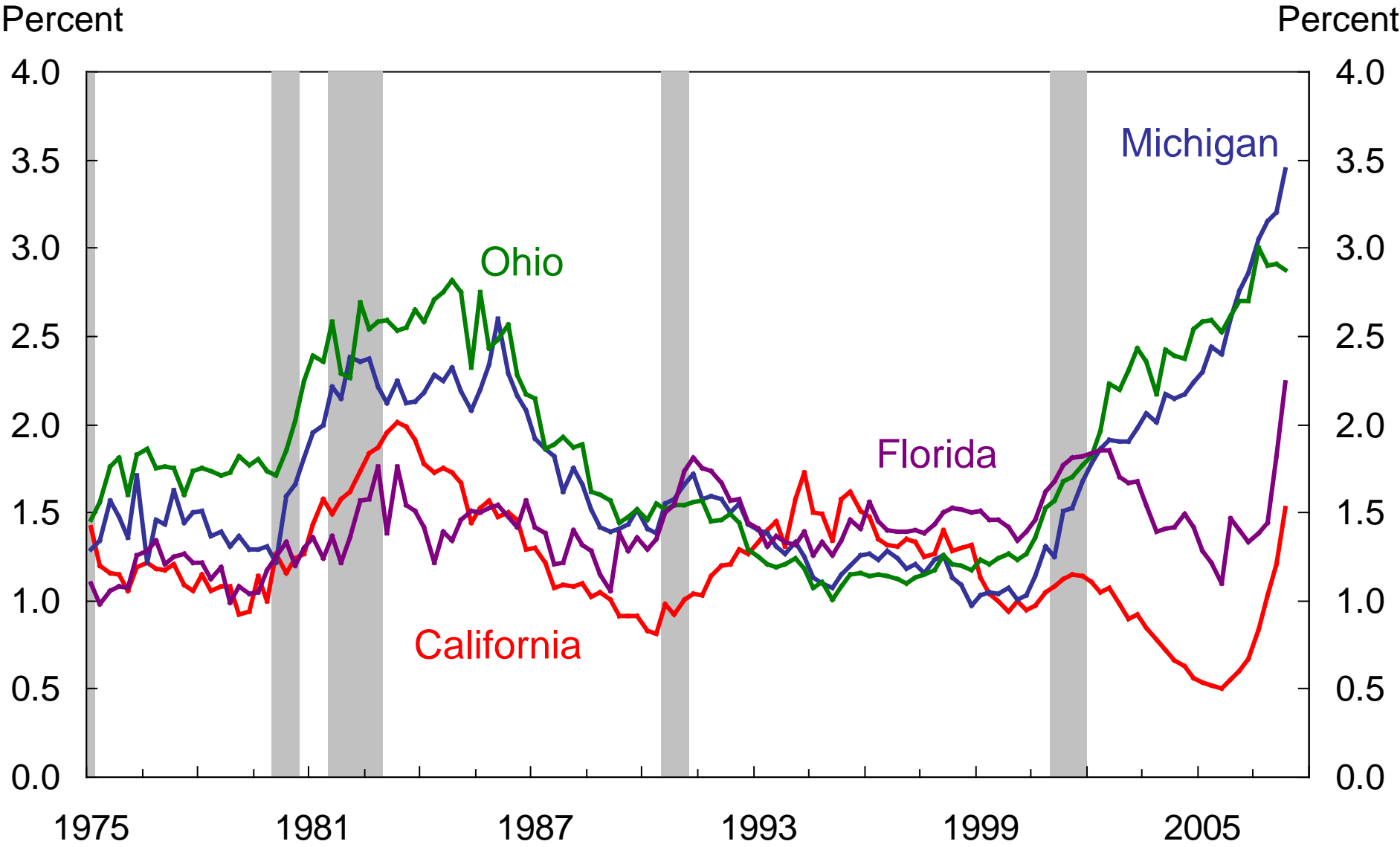
Source: Inside Mortgage Finance

Non-Prime v Prime: 60+ Day Delinquency Rate, SA Current (Q2:2007) and Housing Peak (Q3:2005)



Source: Mortgage Bankers Association and Economy.com

All Loans: Serious Delinquencies By State (SA)

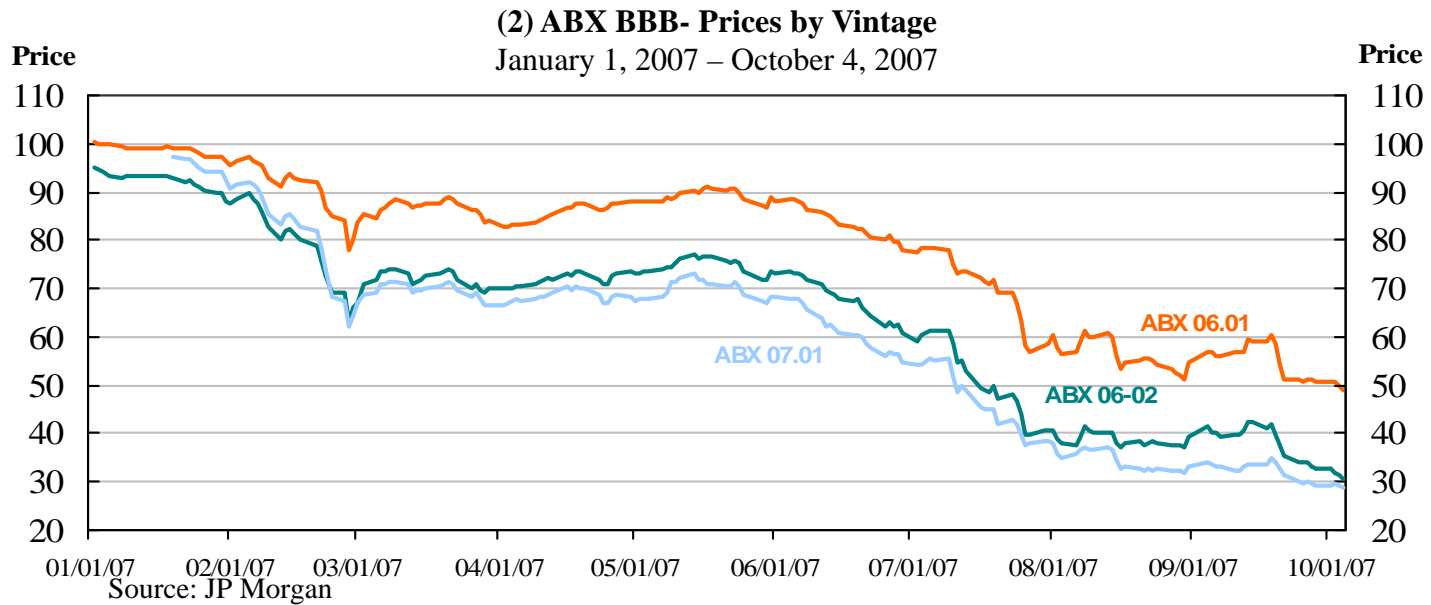
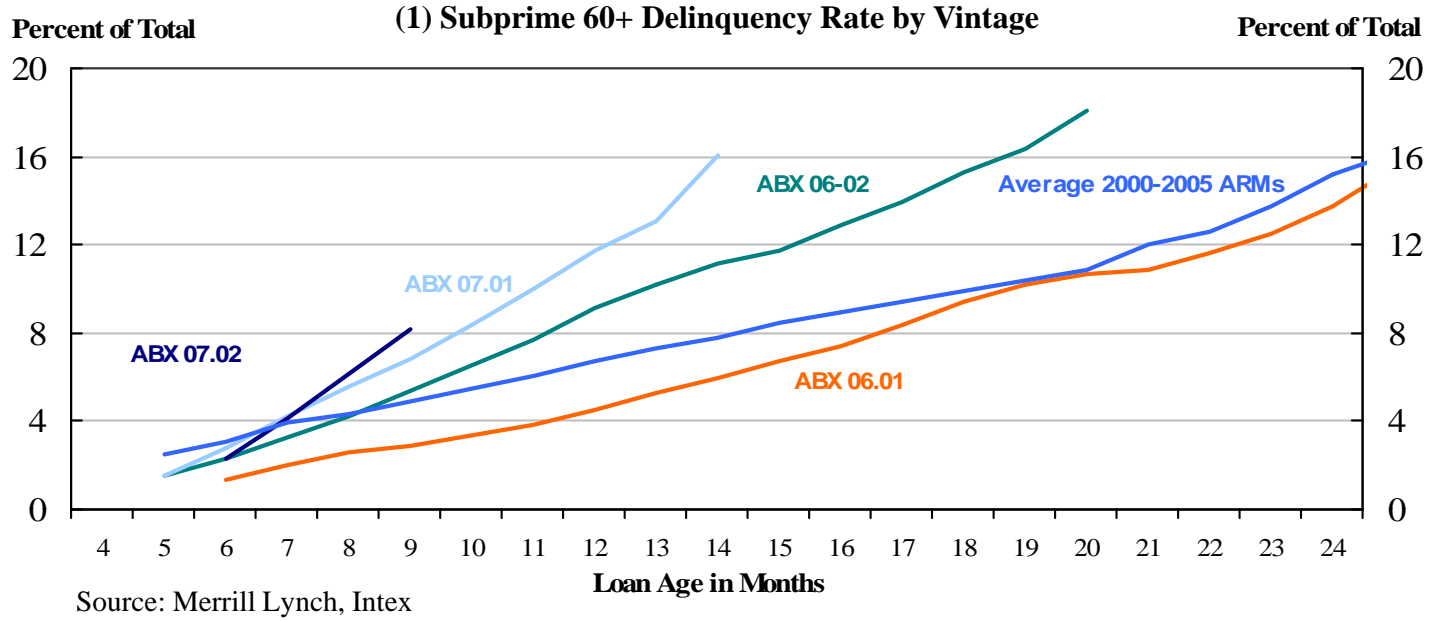


Source: Mortgage Bankers Association

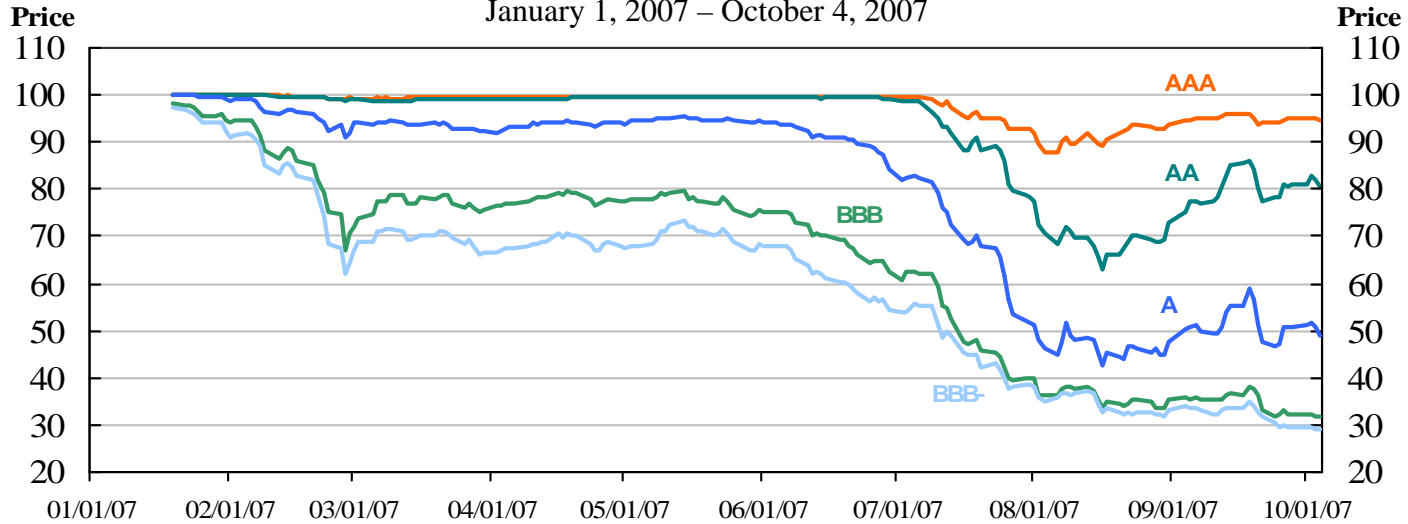
Note: Shading represents NBER recessions.

Recent Financial Market Developments

Bill Dudley

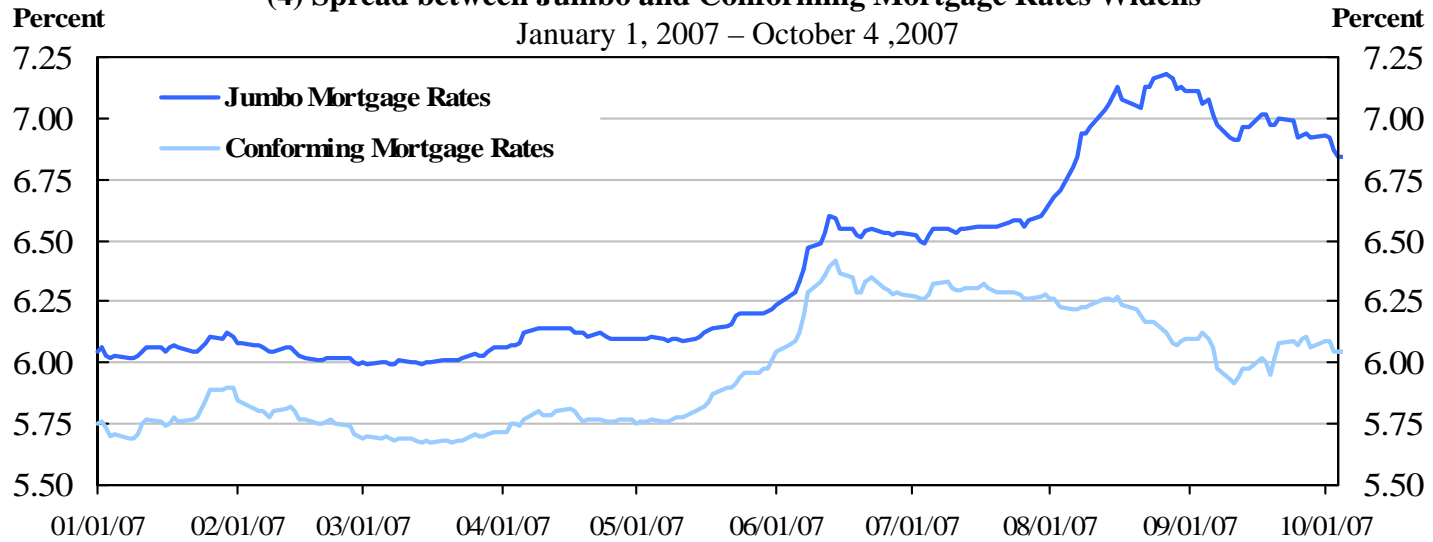


(3) ABX Prices for ABX 07-01 by Rating
 January 1, 2007 – October 4, 2007



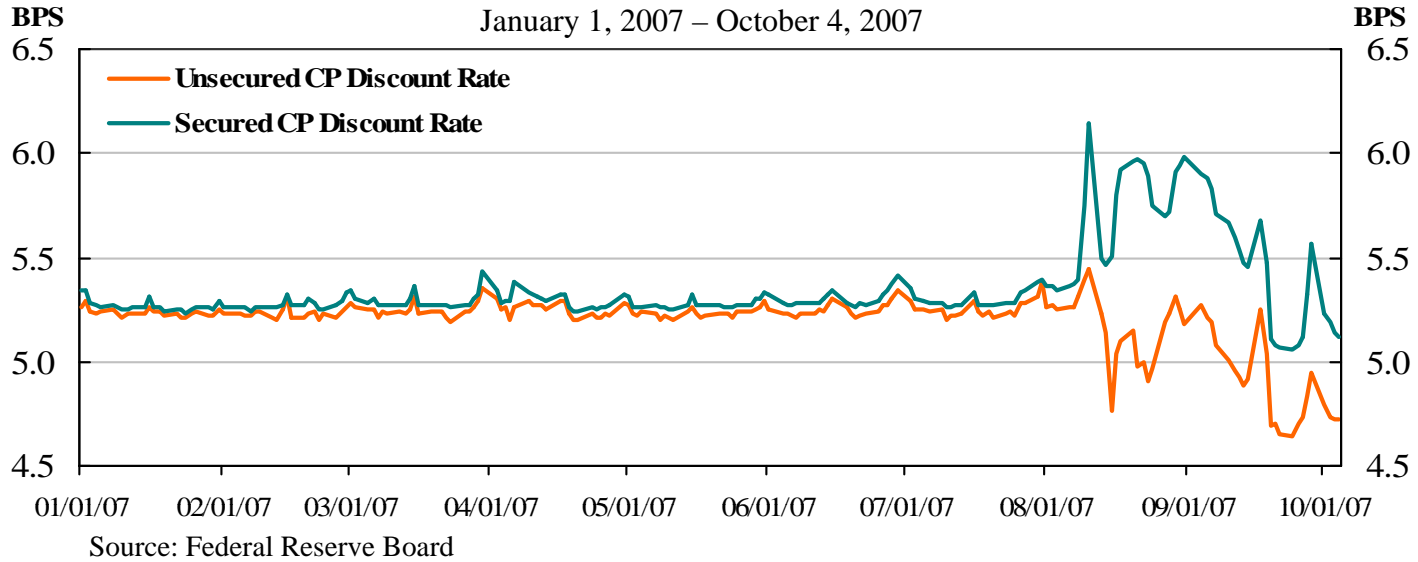
Source: JP Morgan

(4) Spread between Jumbo and Conforming Mortgage Rates Widens
 January 1, 2007 – October 4, 2007

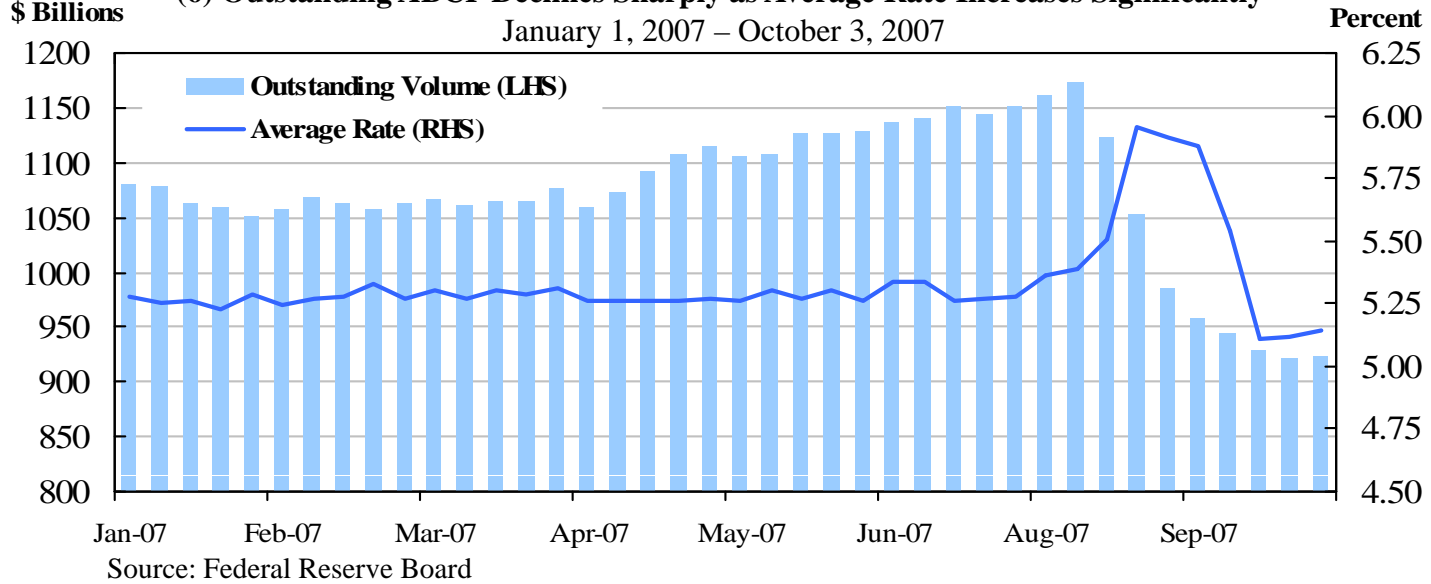


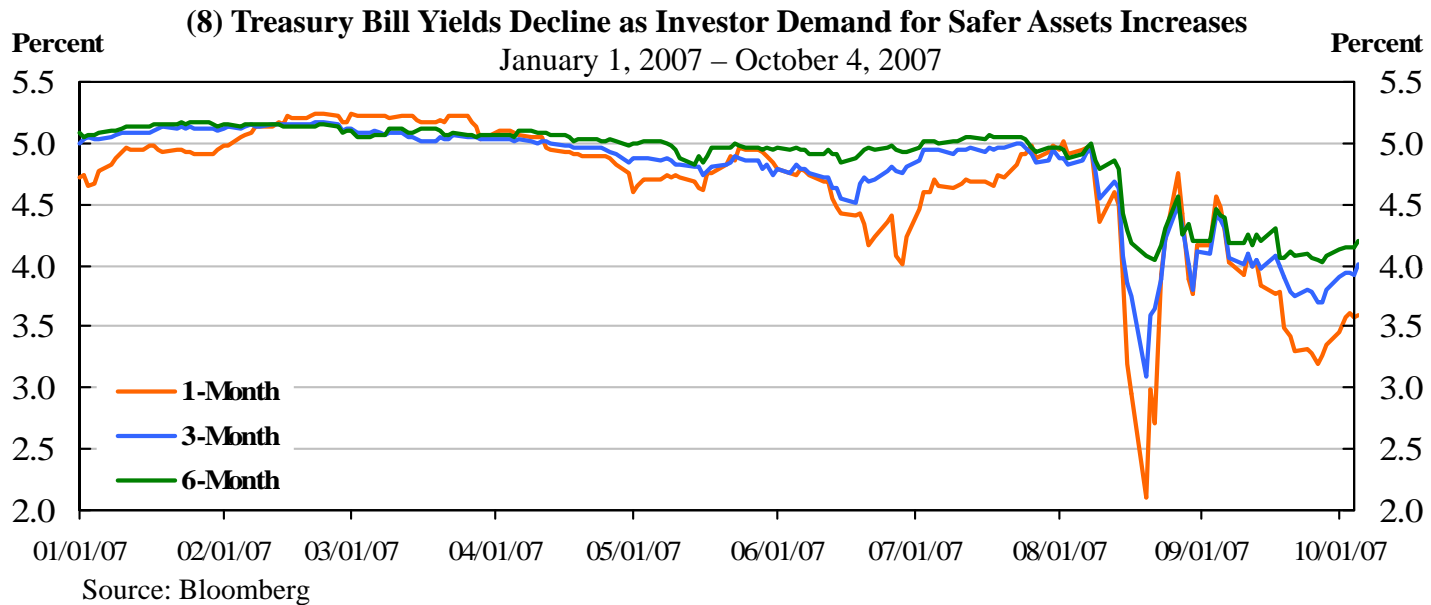
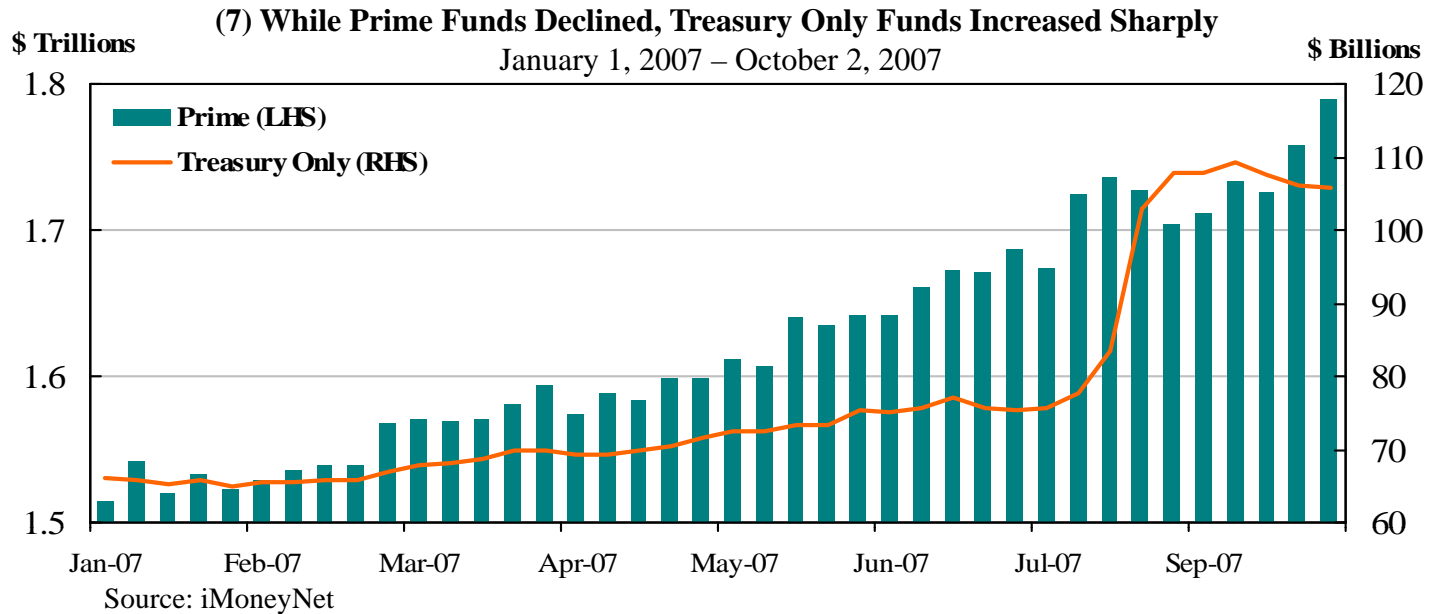
Source: Bloomberg

(5) ABCP Spreads Widen as Concerns Increase Regarding Underlying Collateral

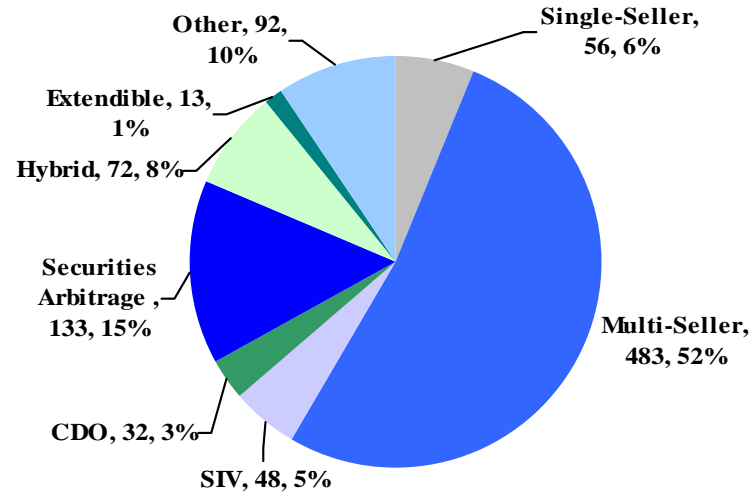


(6) Outstanding ABCP Declines Sharply as Average Rate Increases Significantly



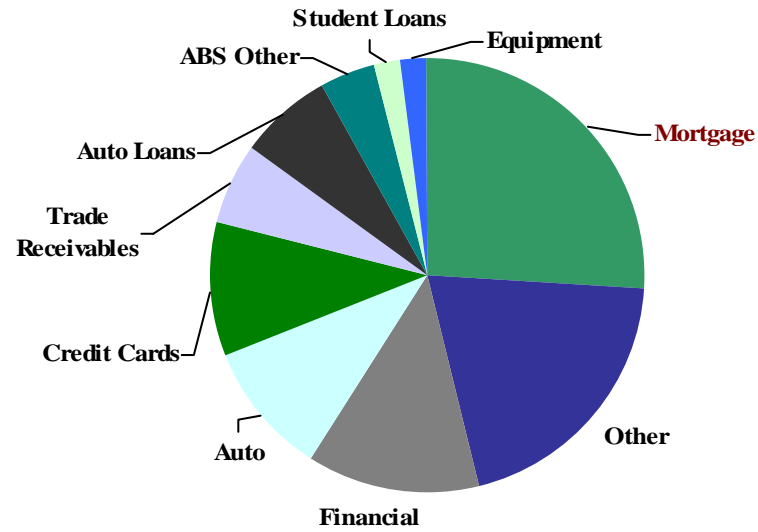


(9) Asset-Backed Commercial Paper by Type
September 2007

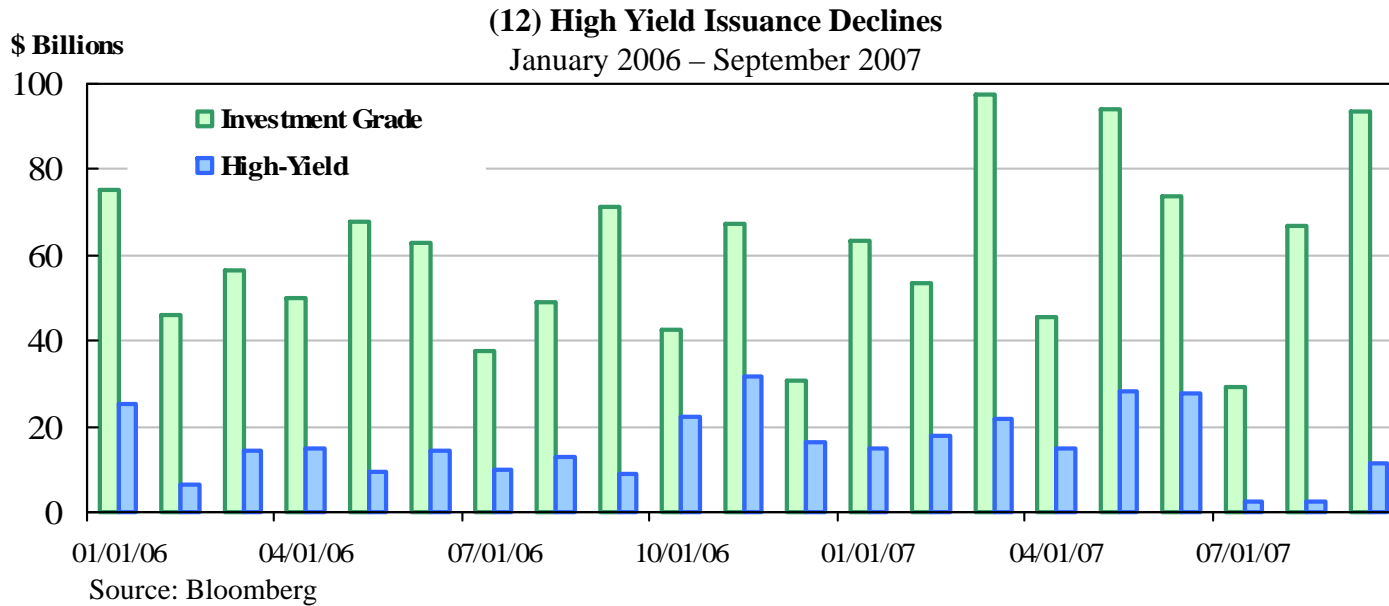
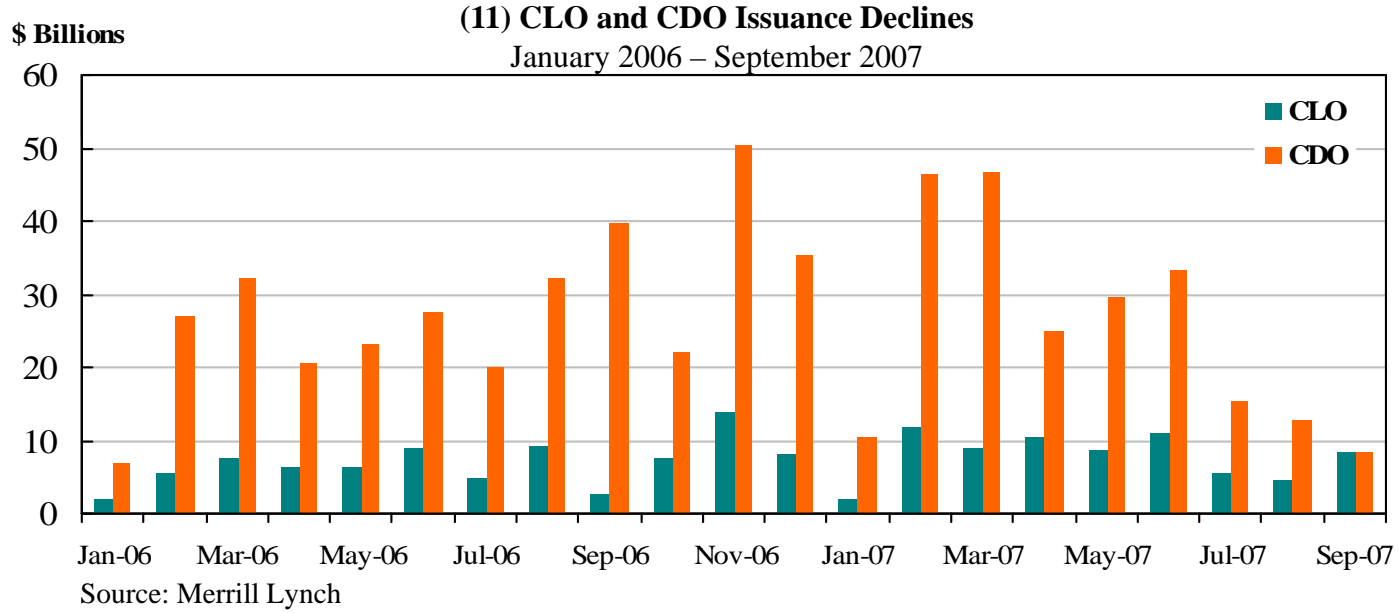


Source: Federal Reserve Board

(10) Asset-Backed Commercial Paper By Underlying Collateral
As of March 2007

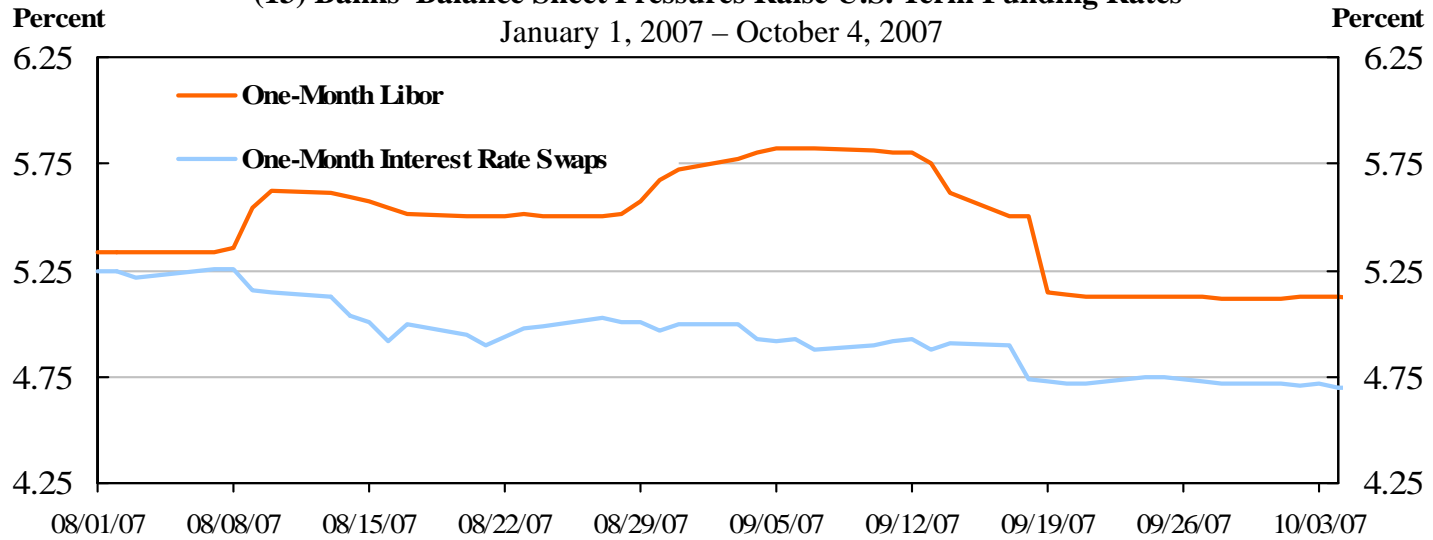


Source: Moody's



(13) Banks' Balance Sheet Pressures Raise U.S. Term Funding Rates

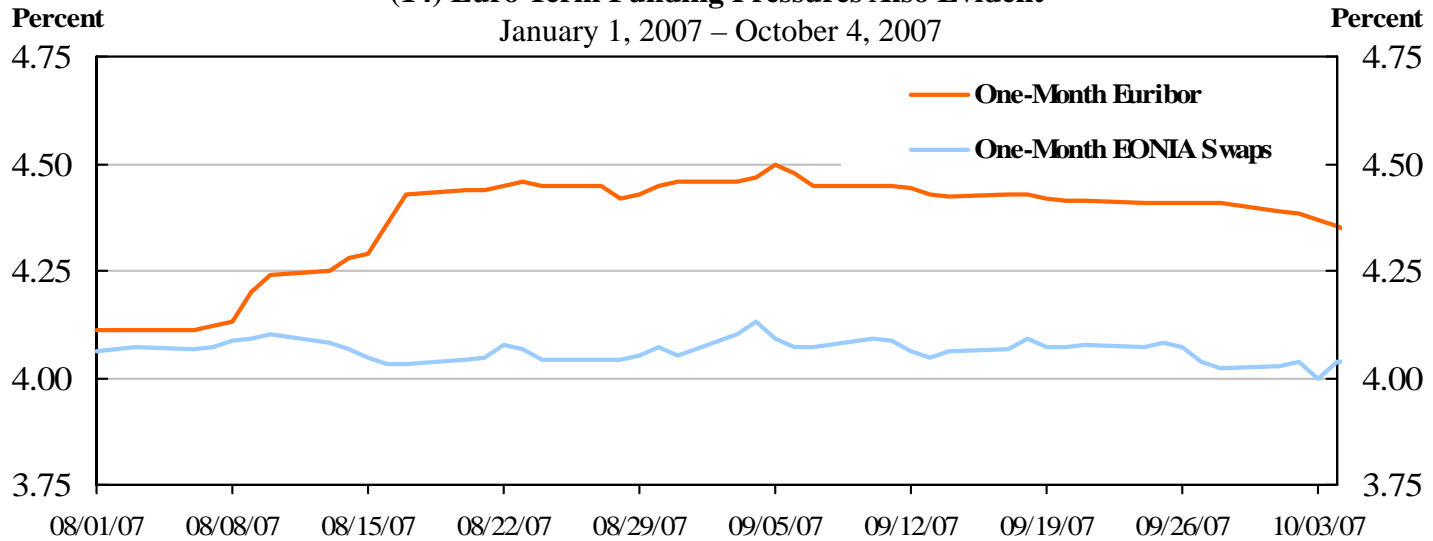
January 1, 2007 – October 4, 2007



Source: Bloomberg

(14) Euro Term Funding Pressures Also Evident

January 1, 2007 – October 4, 2007



Source: Bloomberg

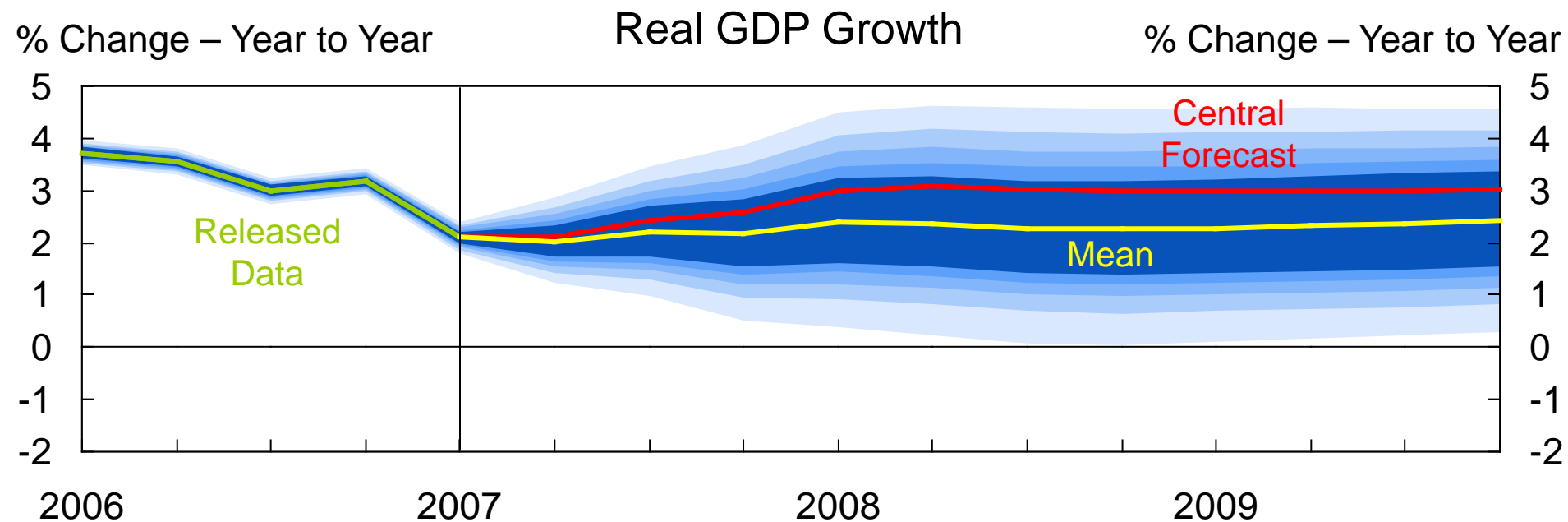
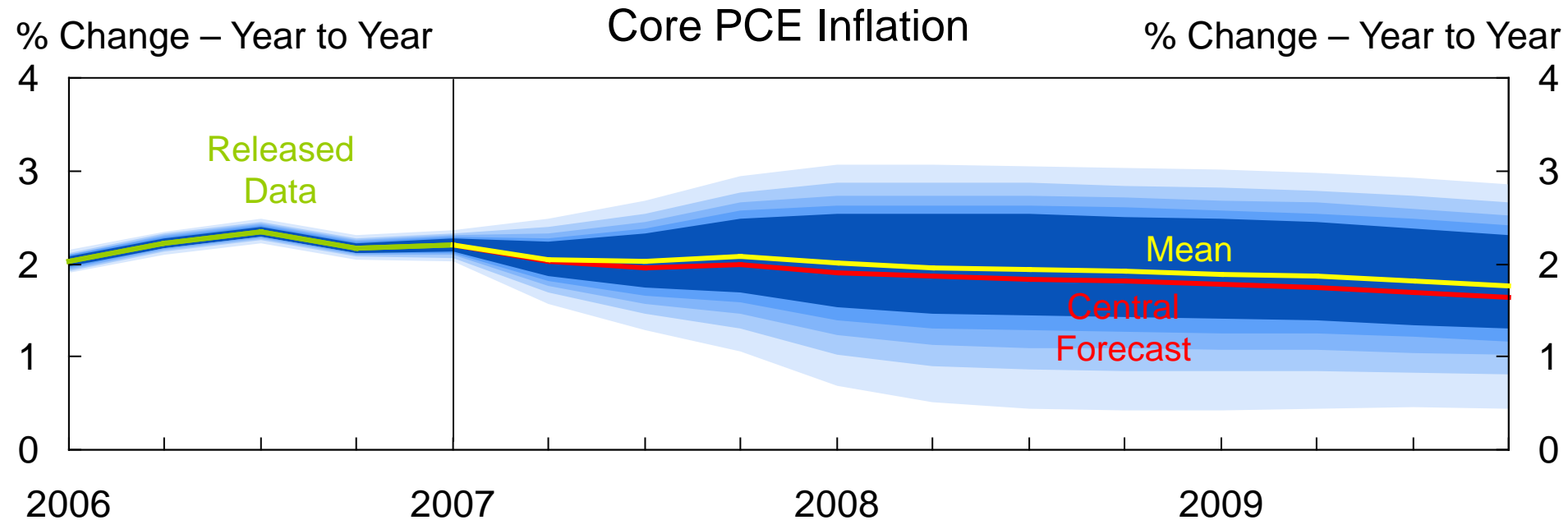
Forecast and Risk Assessment

Simon Potter

Main Risks to Central Scenario

Scenario	Effect on Forecast	Evidence in Favor
<i>Productivity Slowdown</i>	Output: Down Inflation: Up	Recent low productivity Sluggish investment
<i>Economy Overheated in 2005/2006</i>	Output: Down Inflation: Up	Housing correction Low savings
<i>Monetary Policy Stance too Restrictive</i>	Output: Down Inflation: Down	Yield curve inversion Credit crunch

May '07 Forecast Distributions

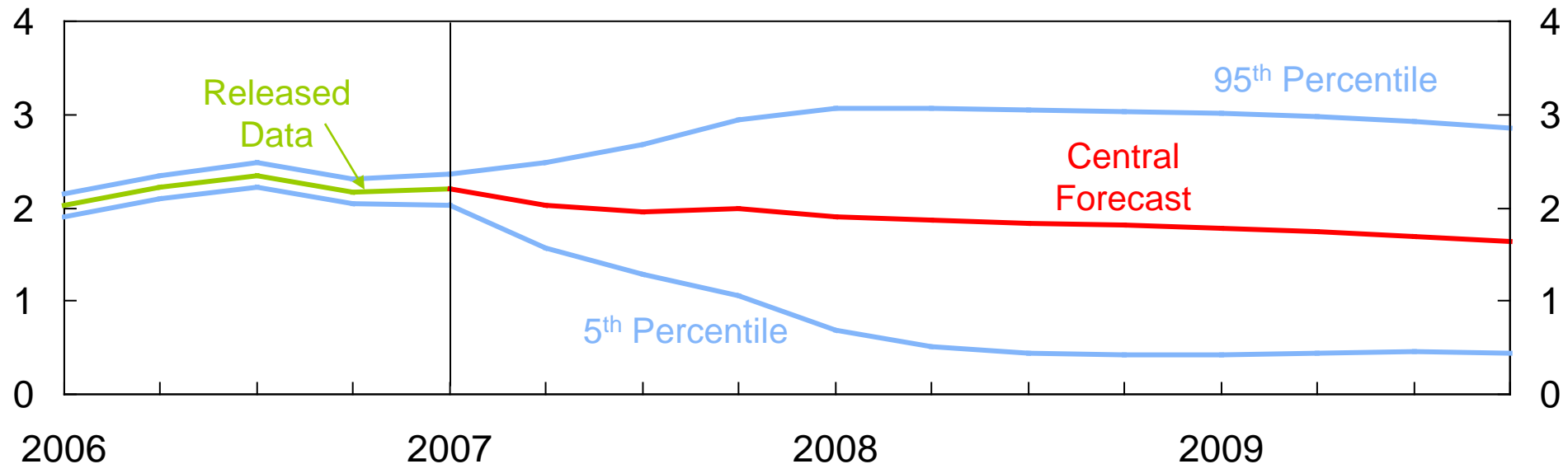


May '07 Forecasts and 90% Probability Intervals

% Change – Year to Year

Core PCE Inflation

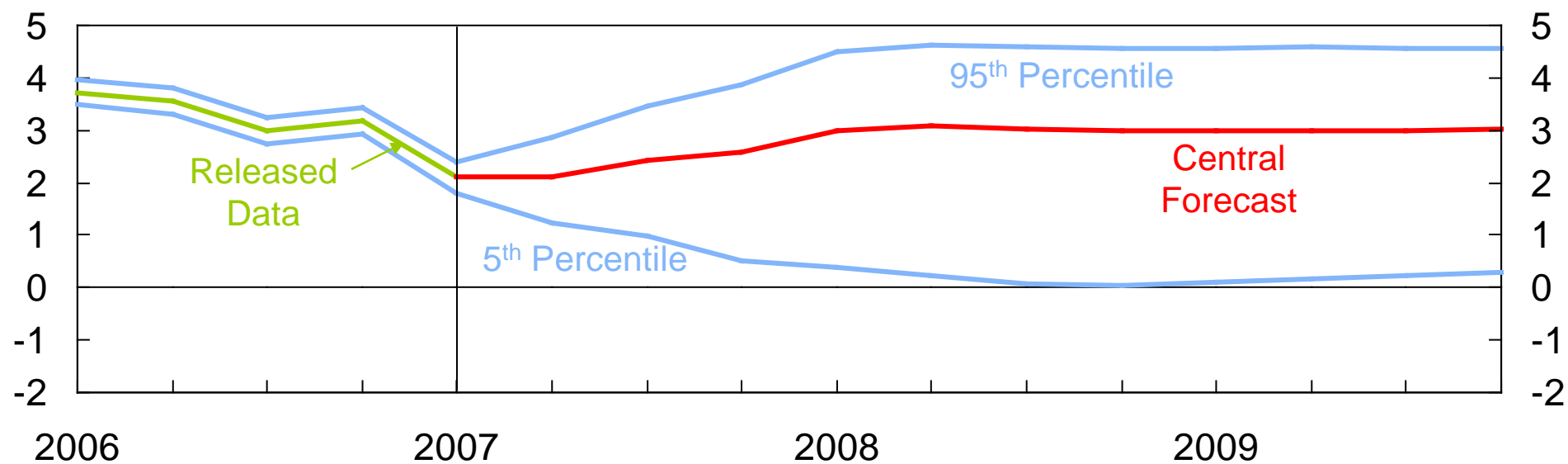
% Change – Year to Year



% Change – Year to Year

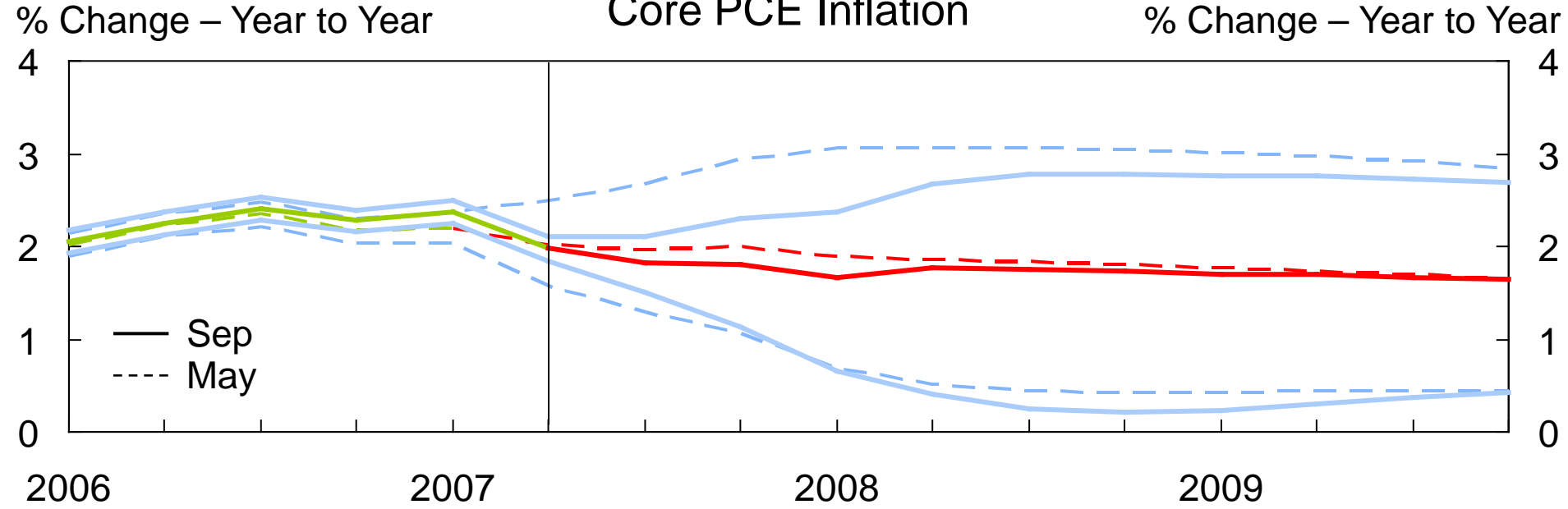
Real GDP Growth

% Change – Year to Year

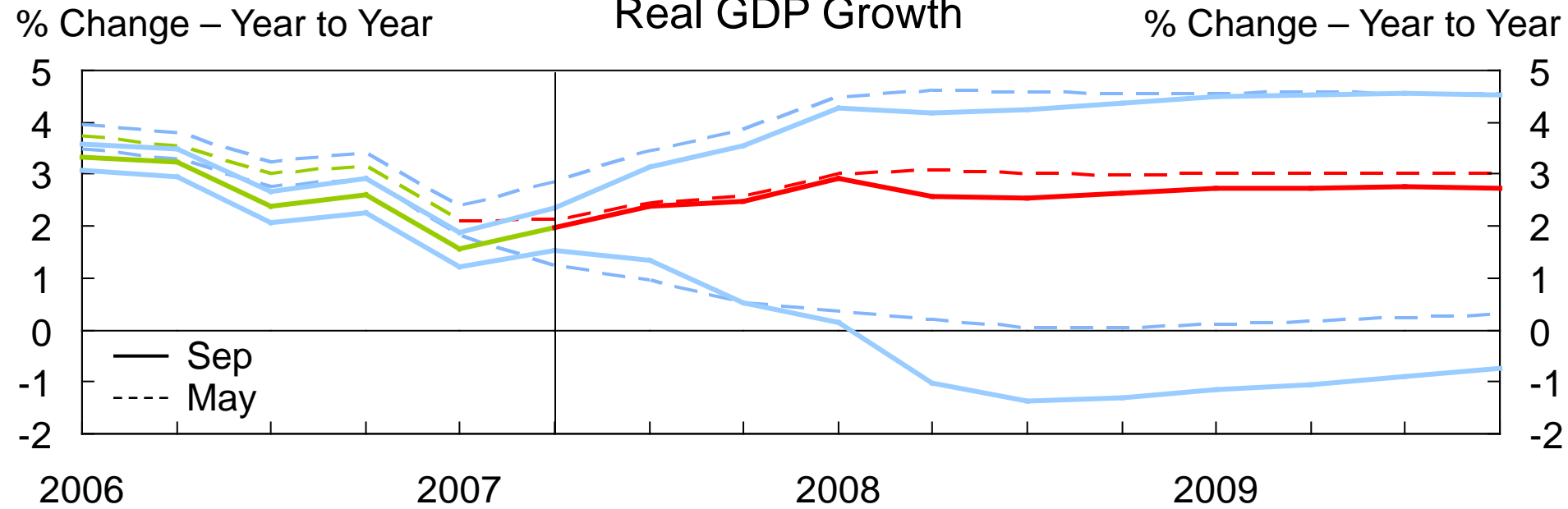


Change from May '07 to Sep '07

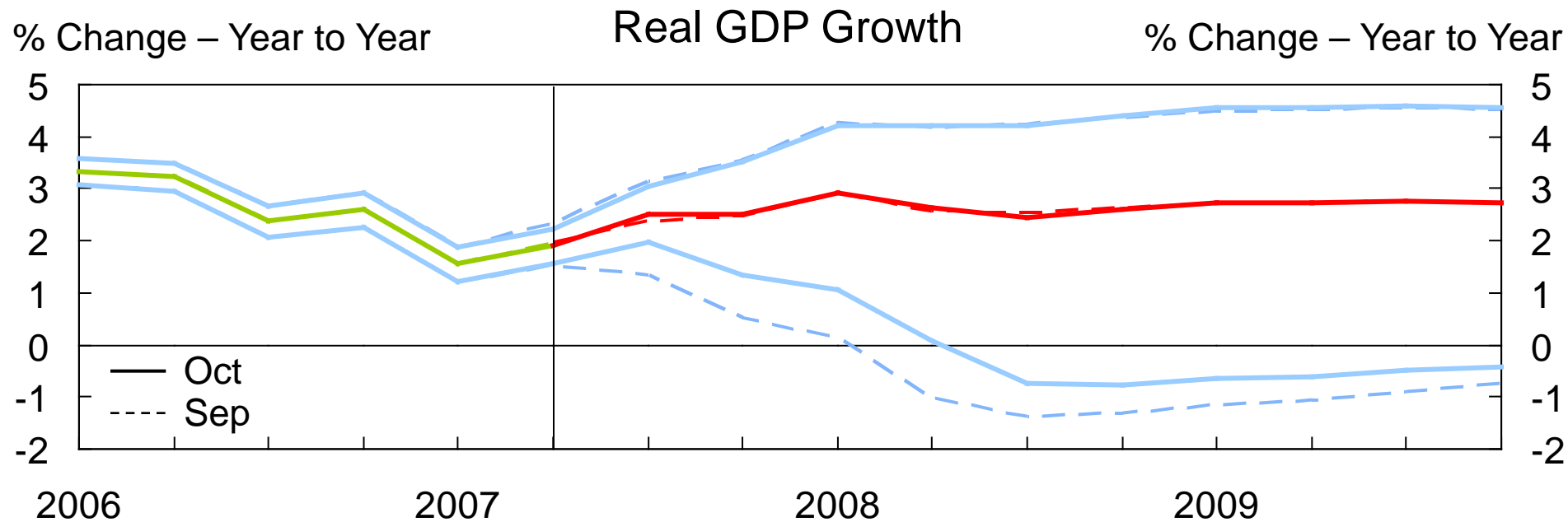
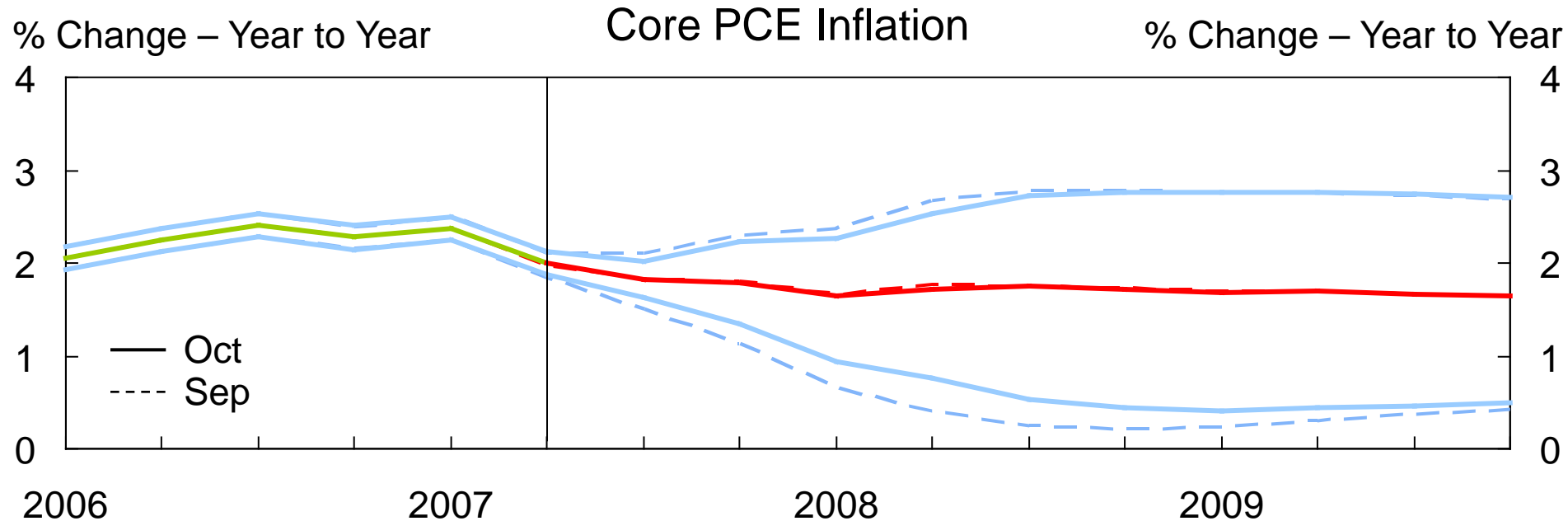
Core PCE Inflation



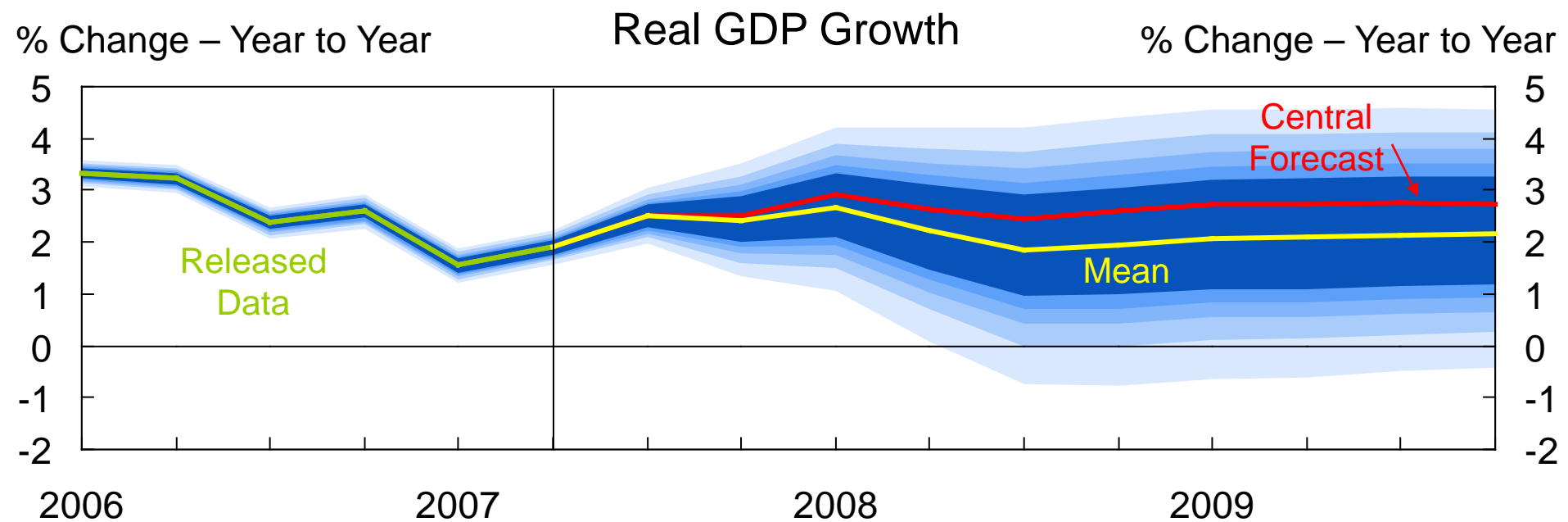
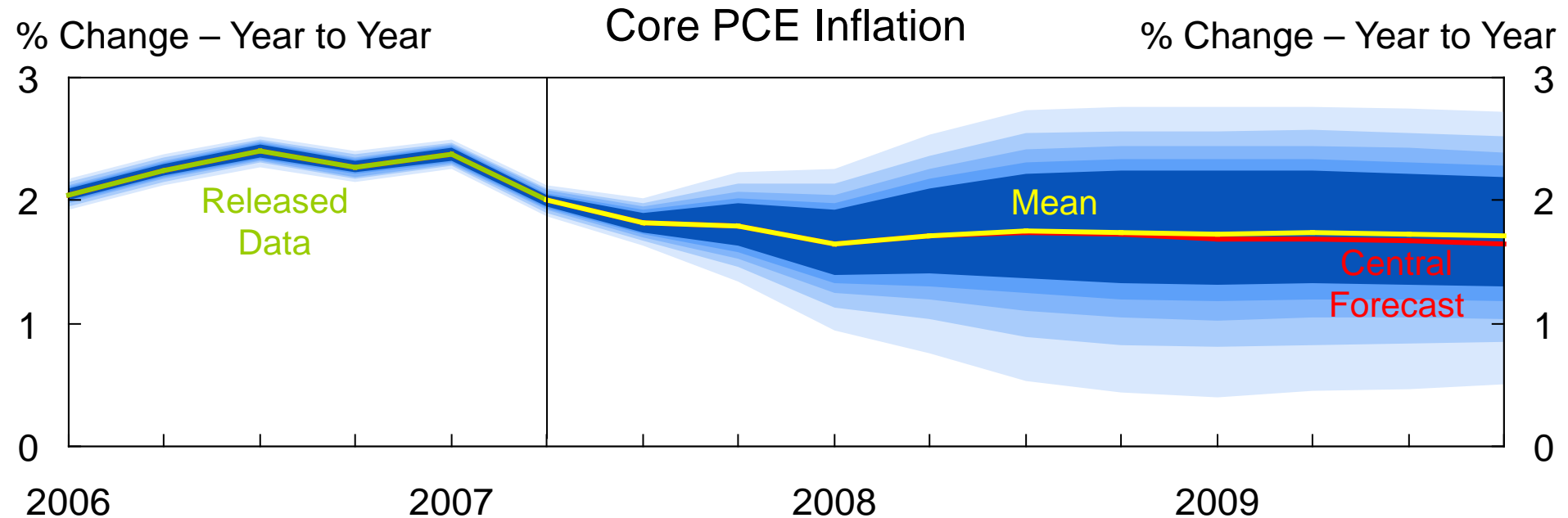
Real GDP Growth



Change from Sep '07 to Oct '07



October '07 Forecast Distributions



Reference Charts

PCE Deflator

(percent change at an annual rate)

	24 Month	12 Month	6 Month	3 Month	1 Month
PCE Deflator	2.5	1.8	2.8	0.6	-0.9
Market-Based	2.4	1.7	3.1	0.8	0.0
Durable Goods	-1.4	-2.2	-1.9	-1.8	-4.5
Motor Vehicles and Parts	0.4	-0.7	1.3	2.0	3.2
Nondurable Goods	2.5	1.0	5.5	-1.6	-5.3
Clothing and Shoes	-1.0	-1.8	-4.7	-3.3	-5.5
Services	3.2	2.9	2.3	2.2	1.9
Housing	3.7	3.4	2.7	2.9	2.3
Transportation	3.0	2.4	4.3	7.1	5.6
Medical Care	3.1	3.1	2.0	2.2	1.6
Recreation Services	2.1	0.8	2.4	-0.1	0.1
Other Services	2.9	2.9	2.4	2.1	4.0
PCE Deflator Excluding Food and Energy	2.1	1.8	1.3	1.5	1.1
Market-Based	1.8	1.5	0.9	1.0	0.0
Personal Business Services-MB	3.7	5.8	5.6	2.8	7.6
Personal Business Services-NMB	2.4	2.9	2.1	1.6	3.8

Source: Bureau of Economic Analysis

Note: Data through August 2007.

Consumer Price Data

(percent change at an annual rate)

	Weights (December 2005)		24 Month	12 Month	6 Month	3 Month	1 Month
	Total	Core					
Consumer Price Index	100.00		2.9	1.9	3.8	0.7	-1.7
Energy	8.69		5.9	-2.6	18.8	-17.5	-32.3
All Items Ex. Energy			2.6	2.4	2.4	2.8	2.3
Food	13.94		3.4	4.3	4.5	4.7	5.0
Food Away From Home (NSA)	5.95		3.4	3.8	3.8	5.0	4.9
All Items Ex. Food and Energy	77.37	100.00	2.5	2.1	2.0	2.5	1.8
Core Chain-Weight CPI (NSA)			2.2	1.7	1.5	0.8	2.2
Core Goods	22.32	28.85	-0.1	-0.7	-0.5	0.2	-0.4
Apparel	3.79	4.89	-0.7	-1.5	-4.7	-2.8	-6.4
Medical Care Commodities	1.46	1.88	2.6	1.3	2.2	3.7	4.7
Durable Goods	11.58	14.96	-1.0	-2.0	-0.5	0.3	1.6
New Vehicles	5.16	6.66	0.1	-0.9	0.4	0.5	0.8
Used Vehicles	1.80	2.33	-1.7	-3.7	3.8	8.1	10.3
Core Services	55.06	71.16	3.5	3.2	3.0	3.4	2.7
Rent of Primary Residence	5.83	7.54	3.9	4.0	3.2	2.9	2.3
Owners' Equivalent Rent	23.44	30.30	3.4	3.0	2.3	2.4	2.8
Lodging Away from Home	2.61	3.37	5.8	6.5	7.9	11.0	-6.9
Medical Care Services	4.76	6.16	4.9	5.5	5.1	6.1	6.6
Transportation Services	5.71	7.38	1.6	1.0	1.3	4.9	5.1
Other Services	10.67	13.79	3.2	2.6	3.3	1.7	2.1

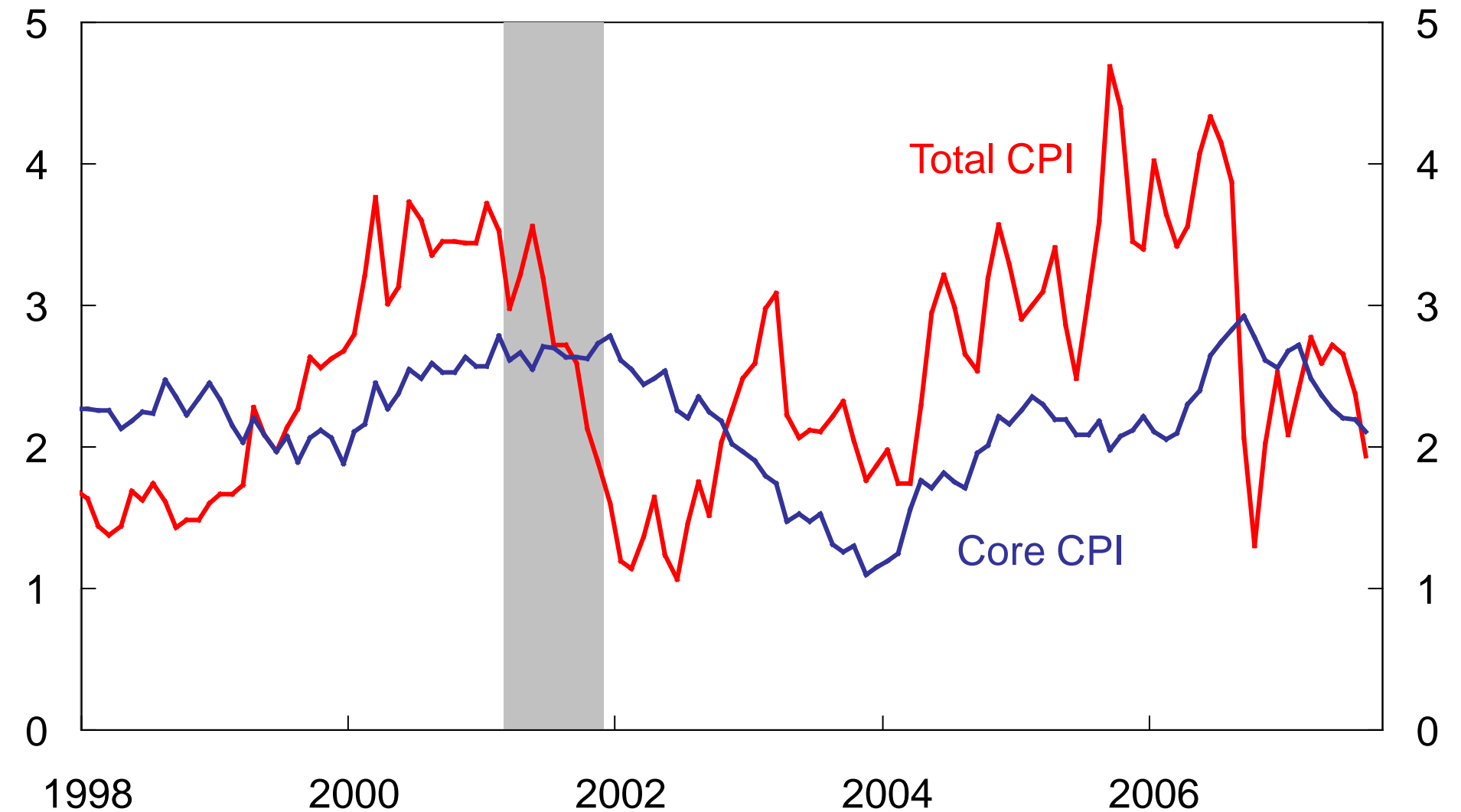
Source: Bureau of Labor Statistics

Note: Data through August 2007.

Total and Core CPI

% Change - Year to Year

% Change - Year to Year

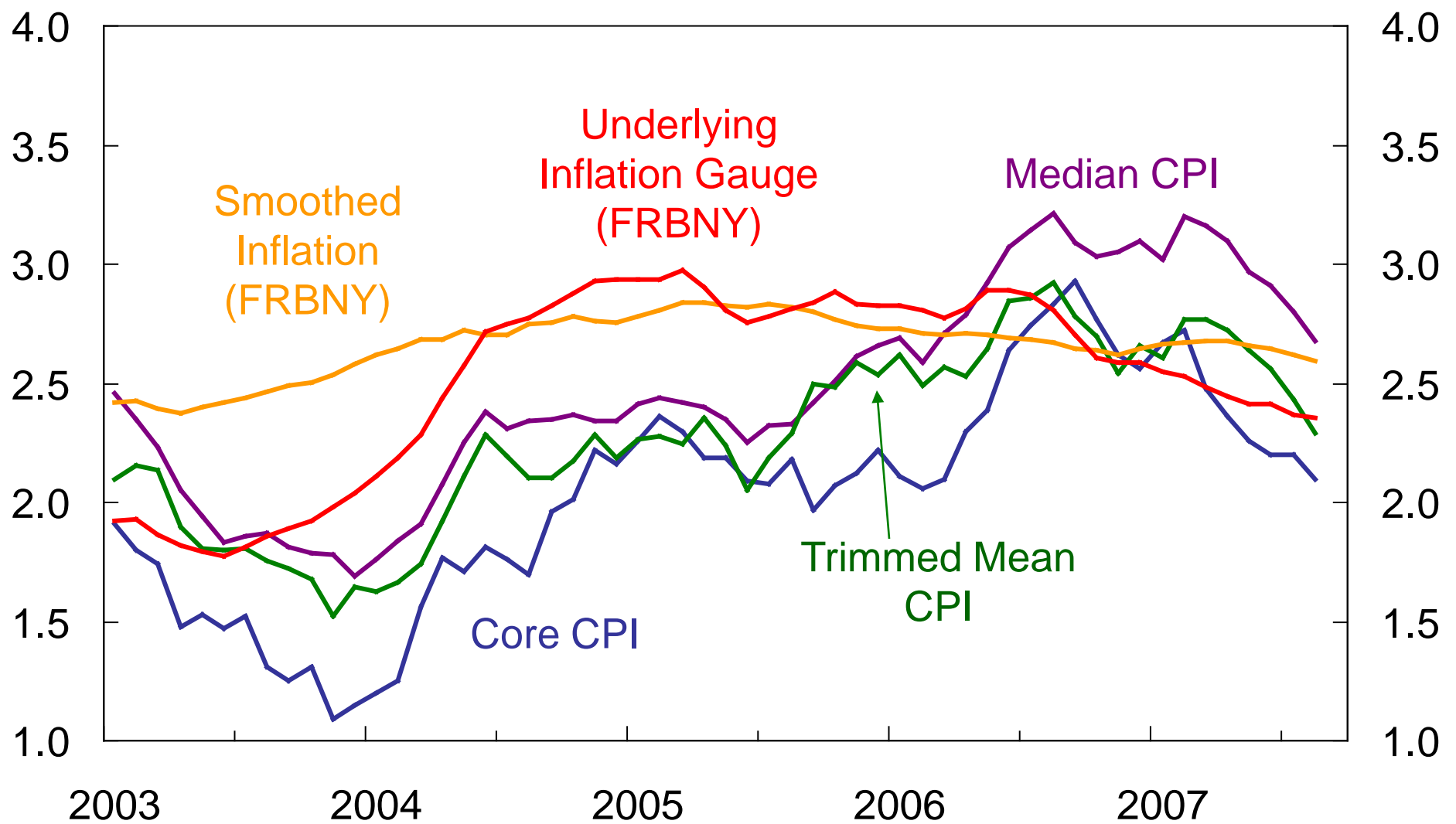


Source: Bureau of Labor Statistics

Alternative Measures of CPI

% Change - Year to Year

% Change - Year to Year

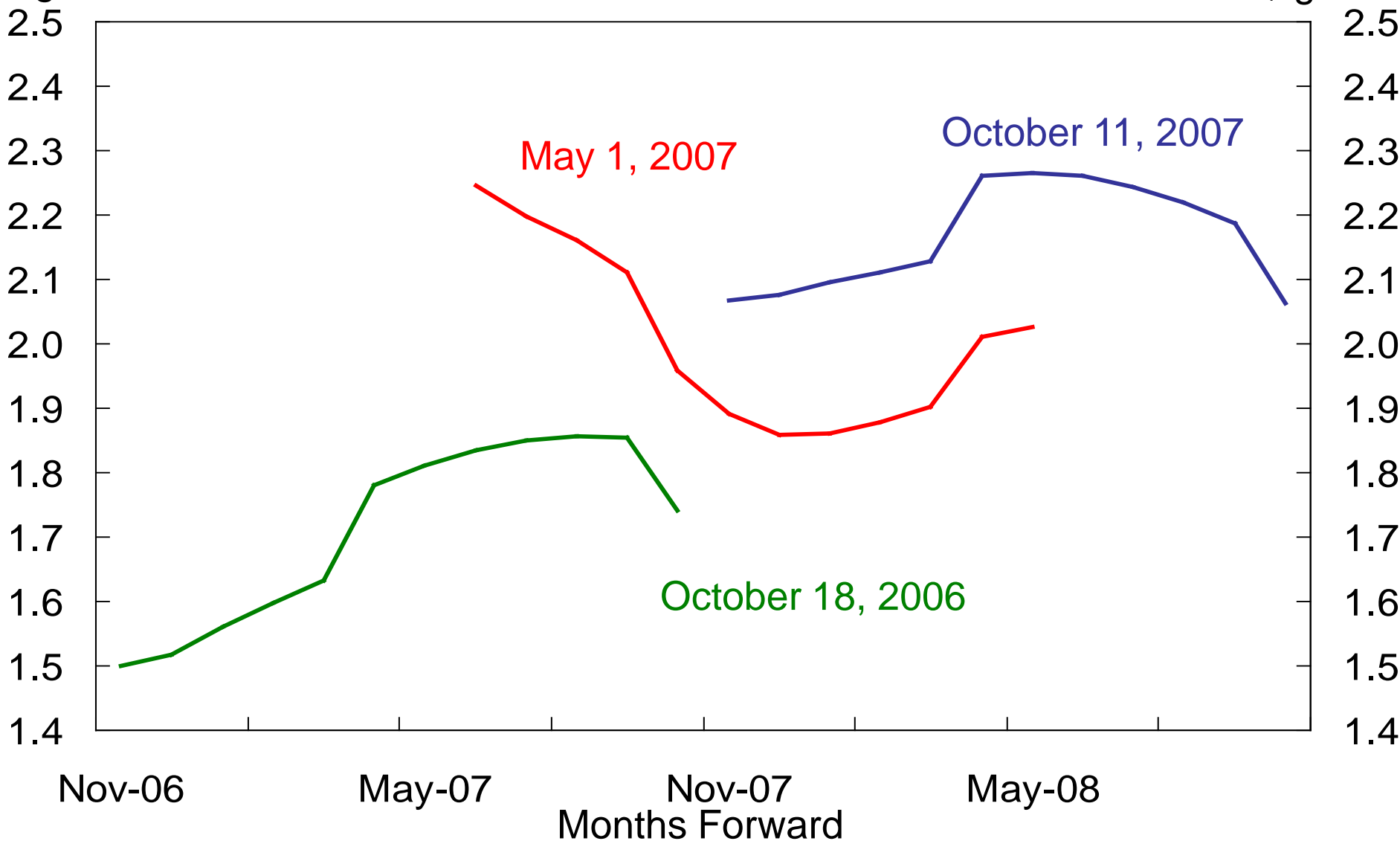


Source: Bureau of Labor Statistics, Cleveland Fed, and FRBNY

Gasoline Futures

\$/gallon

\$/gallon

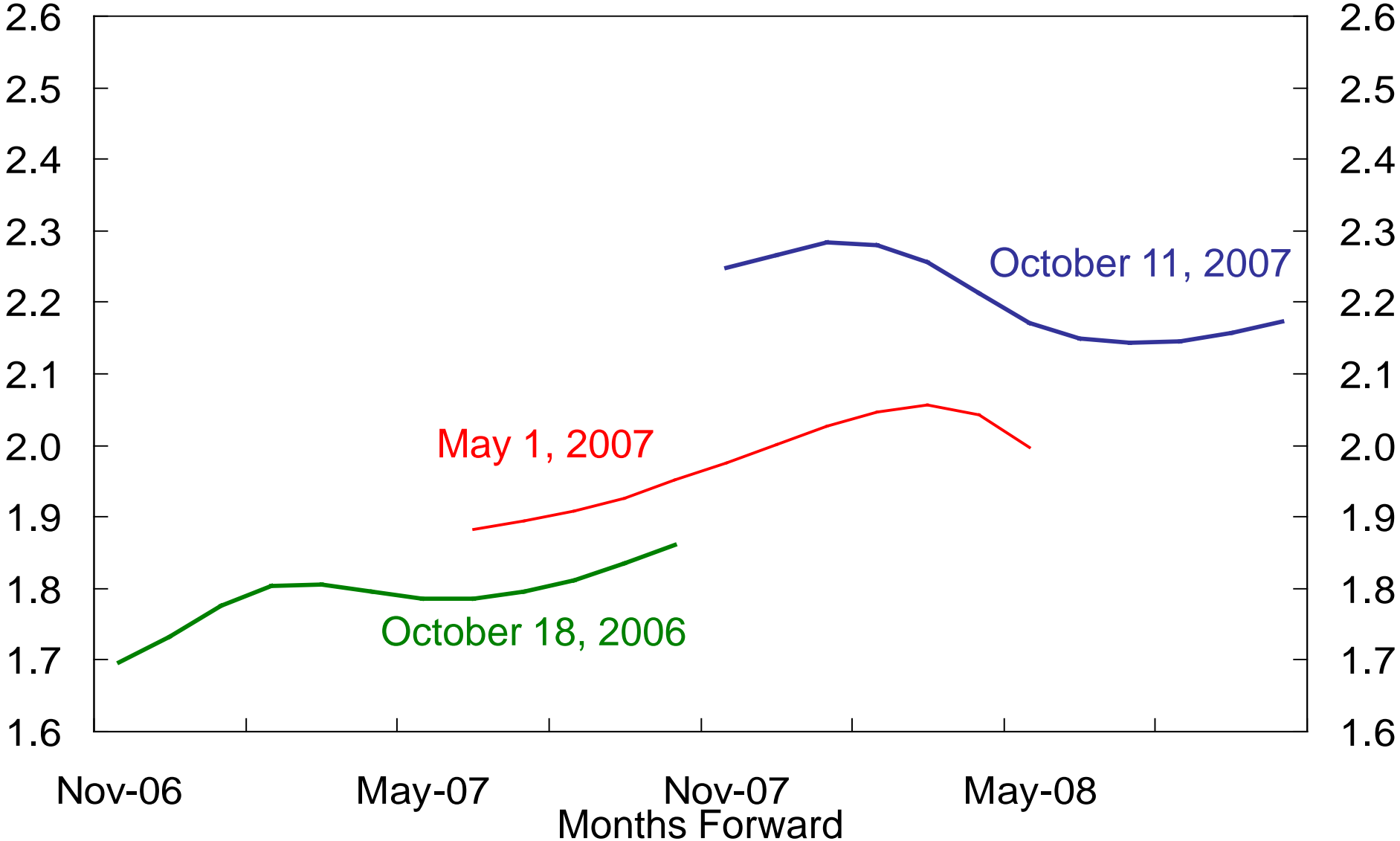


Source: Bloomberg, End-of-Day Quotes

Heating Oil Futures

\$/gallon

\$/gallon

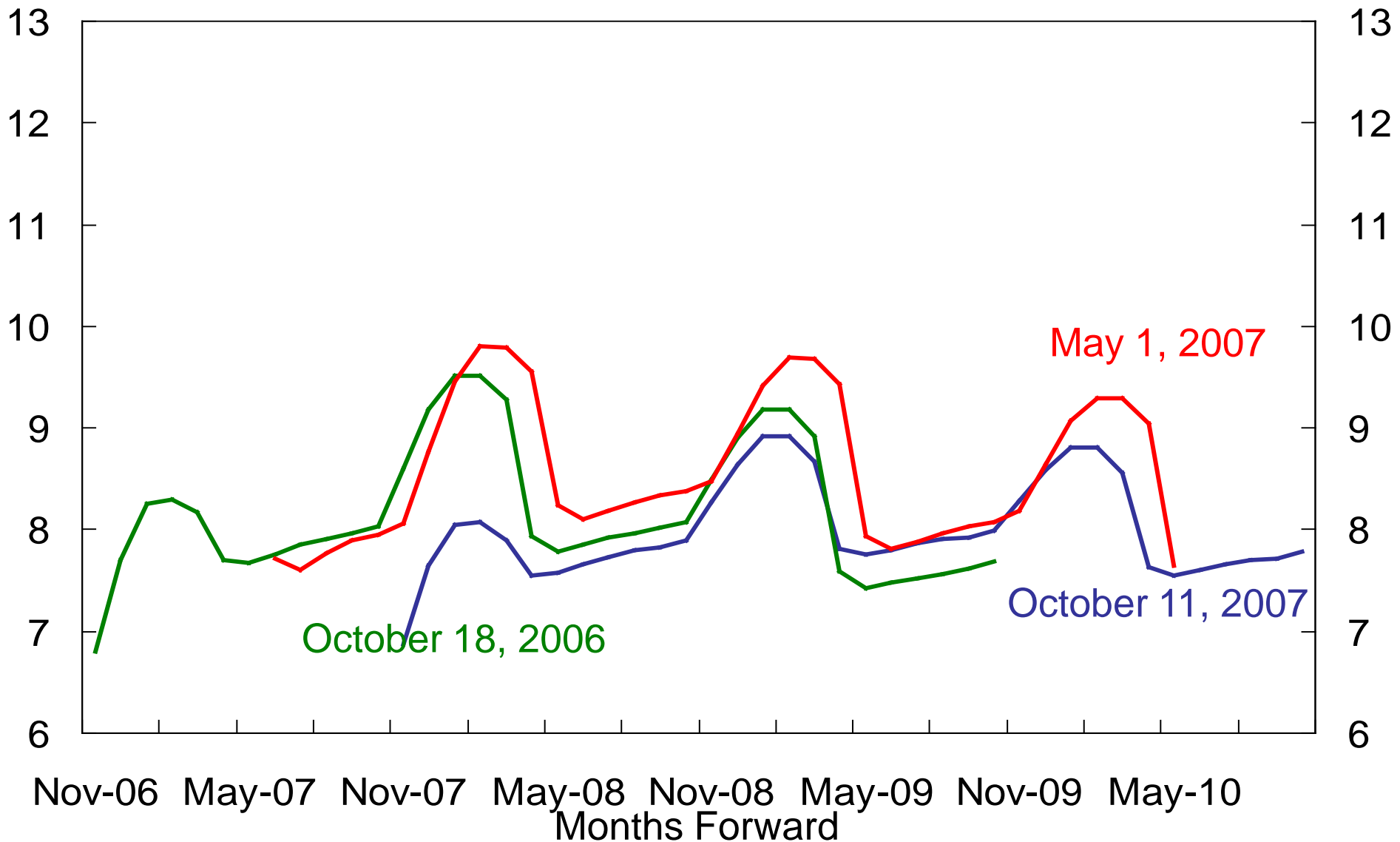


Source: Bloomberg, End-of-Day Quotes

Natural Gas Futures

\$/MMBtu

\$/MMBtu

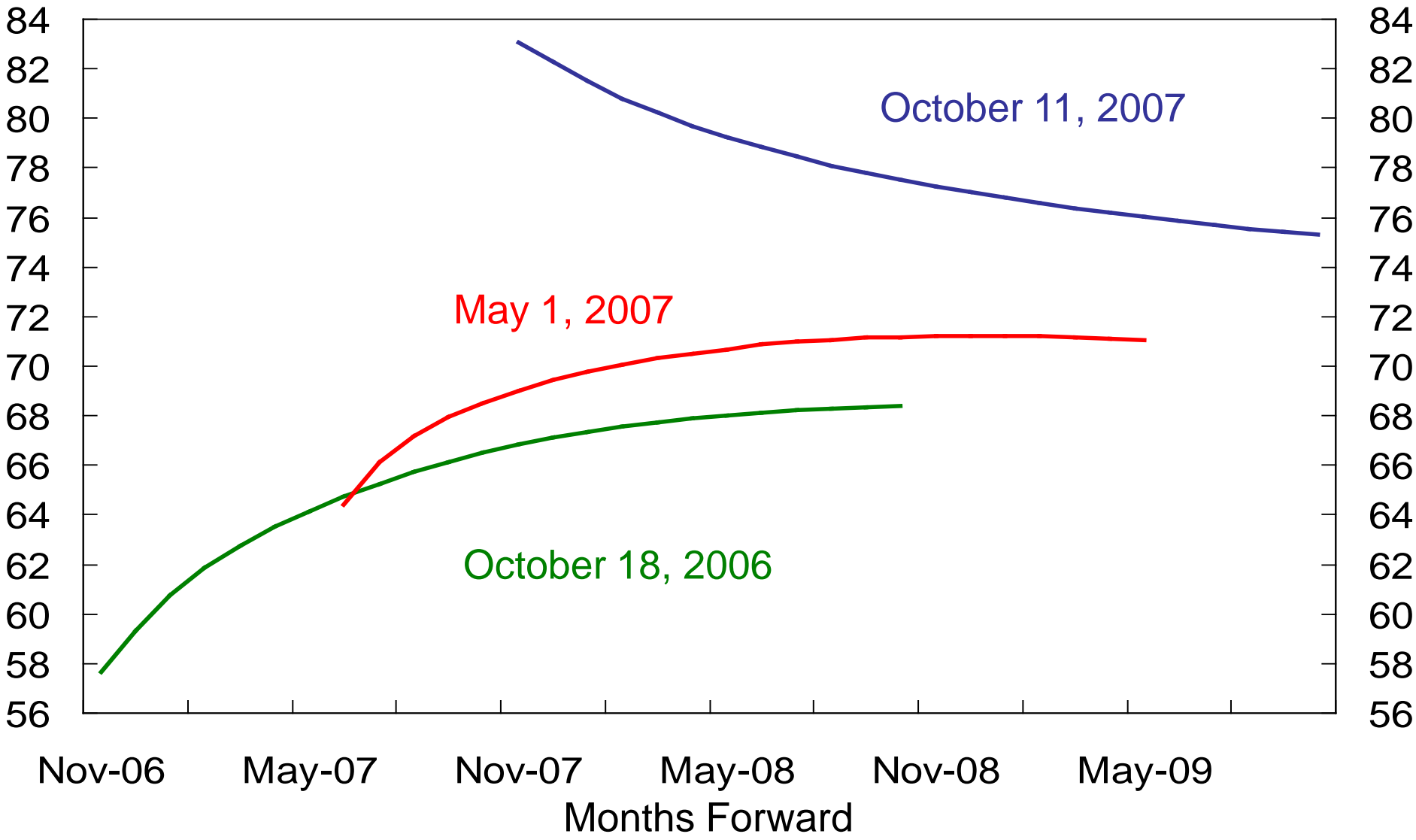


Source: Bloomberg, End-of-Day Quotes

Crude Oil Futures

\$/Barrel

\$/Barrel



Source: Bloomberg, End-of-Day Quotes

Real Personal Consumption Expenditures
(percent change at an annual rate)

	2007Q2 Nominal Share	24 Months	12 Months	6 Months	3 Months	1 Month
Personal Consumption Expenditures	100.0	3.0	3.4	2.4	4.1	8.0
Durable Goods	11.1	4.2	6.6	5.2	3.1	39.7
Motor vehicles and parts	4.6	-0.9	3.9	-1.8	-6.1	81.2
Furniture and household equipment	4.3	10.1	9.4	9.3	12.3	20.2
Other durable goods	2.3	4.3	6.8	12.8	5.6	12.2
Nondurable goods	29.2	2.9	2.3	1.0	1.7	-0.5
Food	13.7	2.7	1.6	0.1	0.1	0.0
Clothing and shoes	3.8	5.6	7.0	8.5	7.5	12.7
Gasoline, fuel oil, and other energy goods	3.9	-1.6	-2.2	-8.7	-4.1	-20.7
Other nondurable goods	7.8	3.9	3.4	3.6	4.7	3.3
Services	59.7	2.8	3.4	2.6	5.5	7.2
Housing services	15.0	2.4	2.2	2.3	1.7	2.0
Household operation services	5.4	0.7	3.7	-3.6	20.9	34.4
Gas and electric	2.3	-0.1	5.7	-10.8	50.1	91.4
Other	3.1	1.2	2.3	2.6	3.6	4.2
Transportation services	3.7	2.4	3.7	4.1	3.3	6.1
Medical care services	17.3	3.0	3.0	2.7	3.2	3.9
Recreation services	4.1	4.0	5.1	4.2	4.3	1.3
Other	14.1	3.8	4.5	4.4	8.1	9.8
Energy goods and services	6.2	-1.0	0.7	-10.0	13.2	10.6
PCE less food and energy	80.1	3.4	3.9	3.8	4.2	9.2
PCE less autos and household operation	90.0	3.4	3.4	3.0	3.9	3.4

Source: Bureau of Economic Analysis

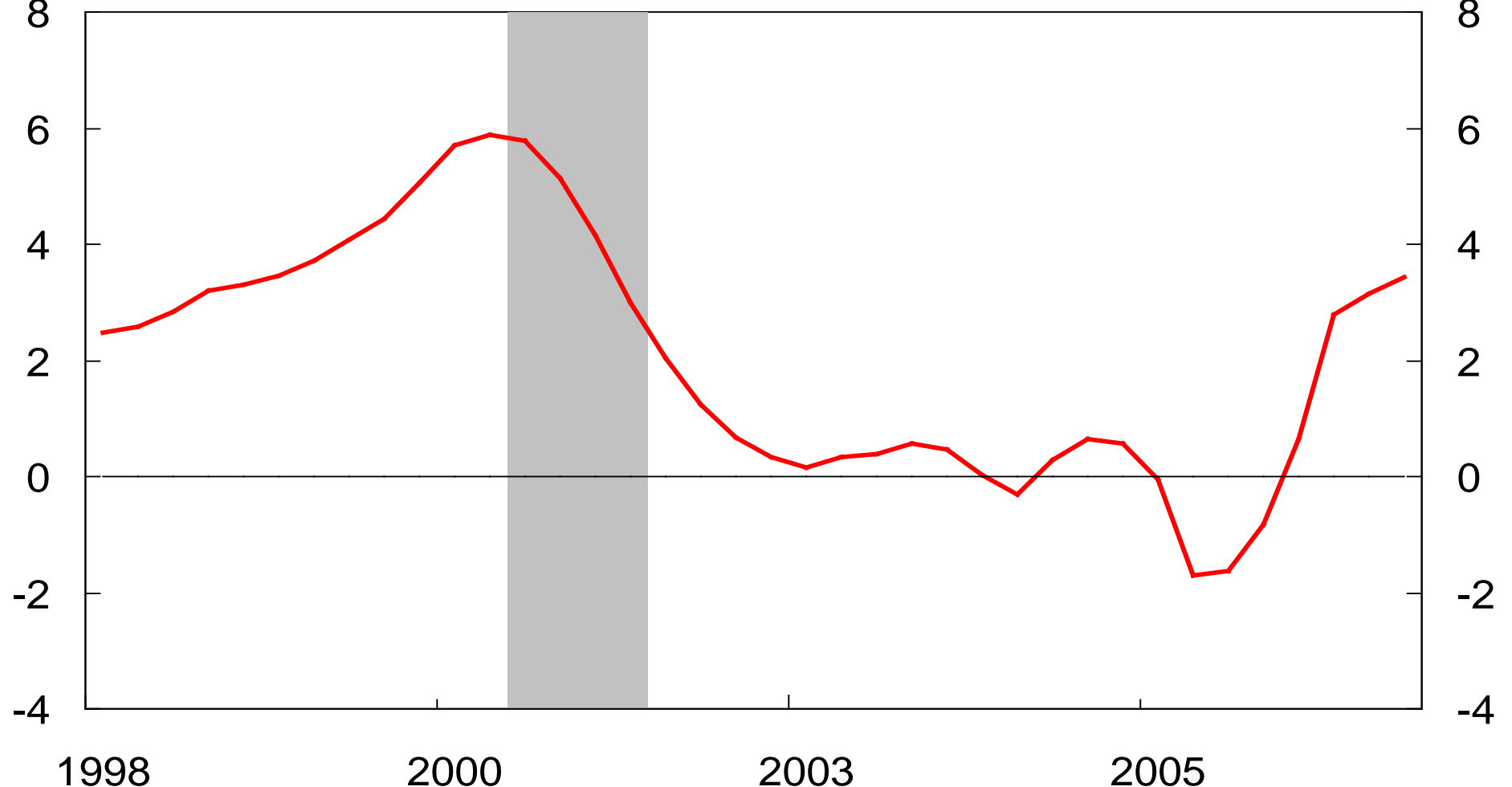
Note: Data through August 2007.

Financing Gap as a Percent of Value Added

Nonfarm Nonfinancial Corporate Sector

Percent

Percent



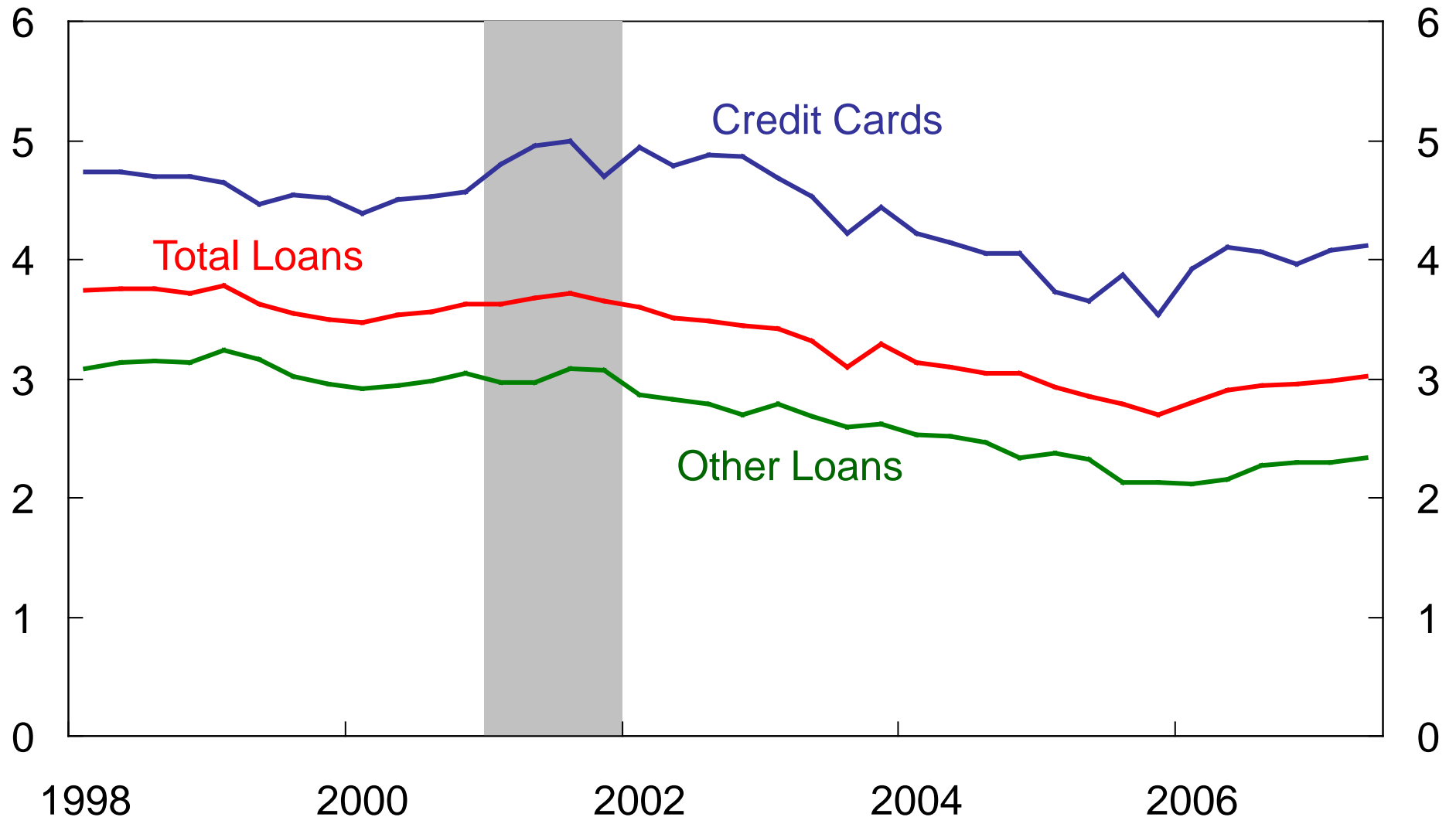
Financing gap is capital expenditures less the sum of U.S. internal funds and inventory valuation adjustment (IVA).

Source: Flow of Funds, Federal Reserve Board, and BEA

Consumer Installment Debt Delinquency Rates

Percent

Percent

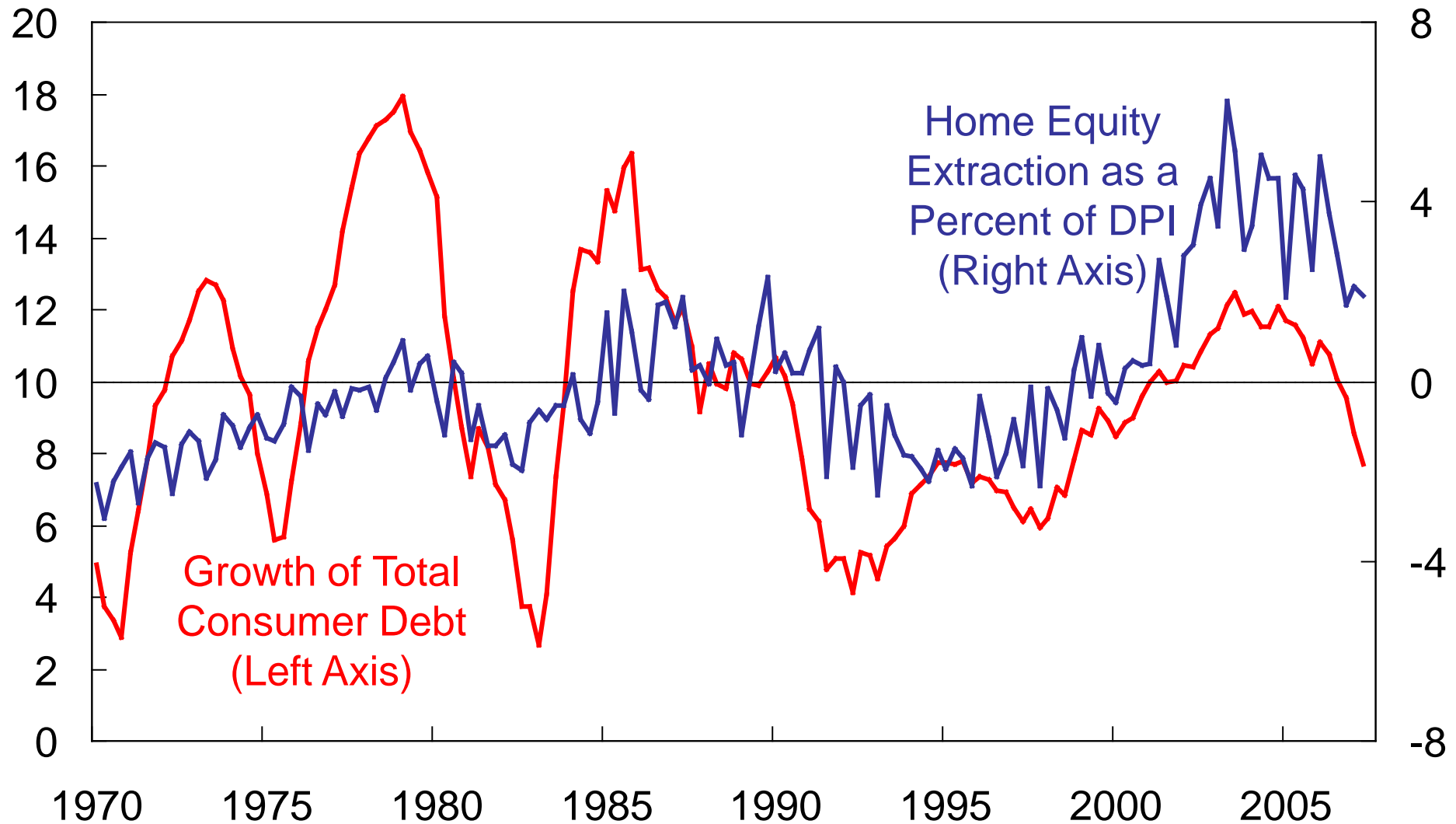


Source: Federal Reserve Board

Consumer Debt and Home Equity Extraction

% Change - Year to Year

Percent

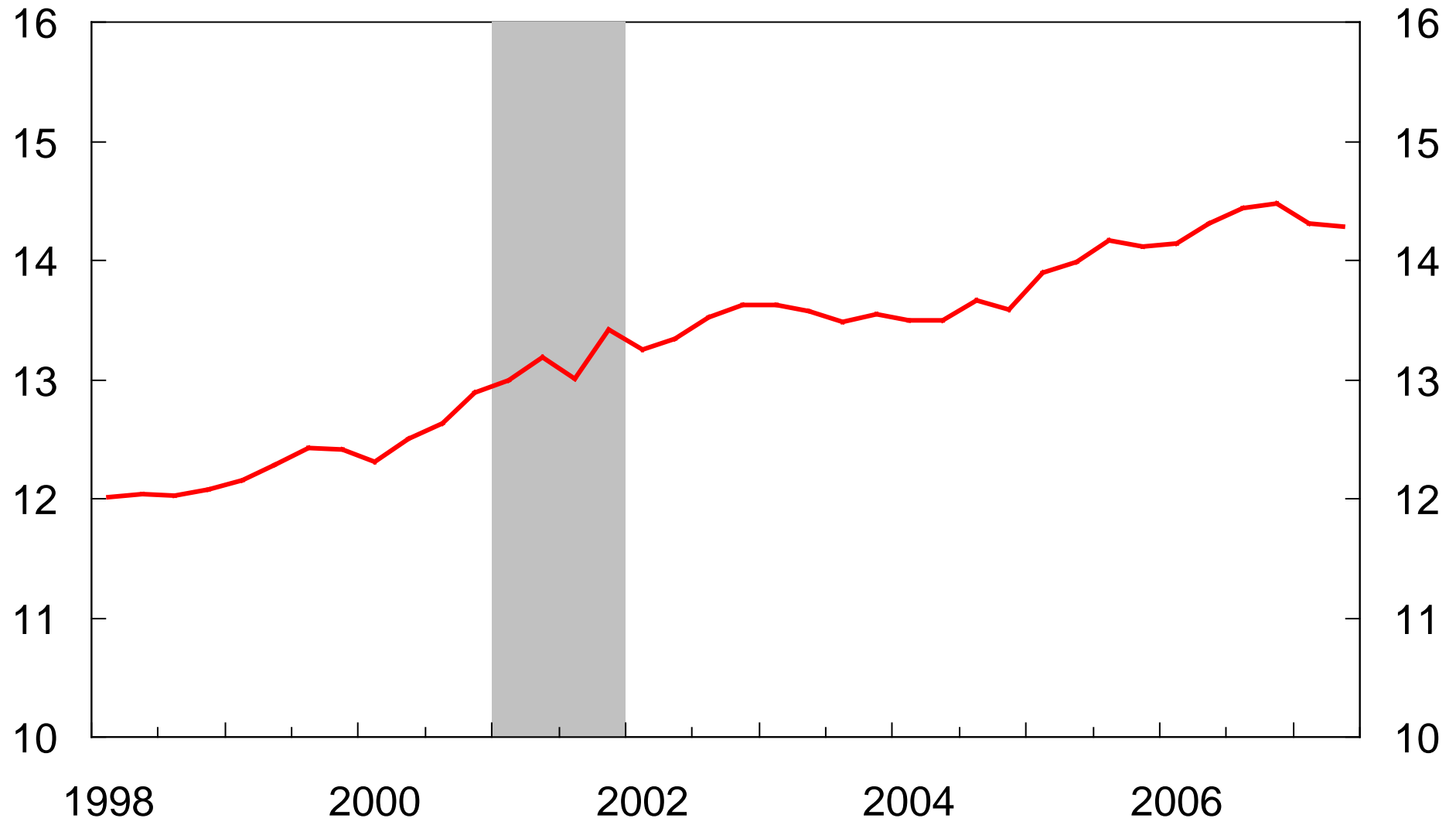


Source: Flow of Funds and Bureau of Economic Analysis

Consumer Debt Service over DPI

Percent

Percent

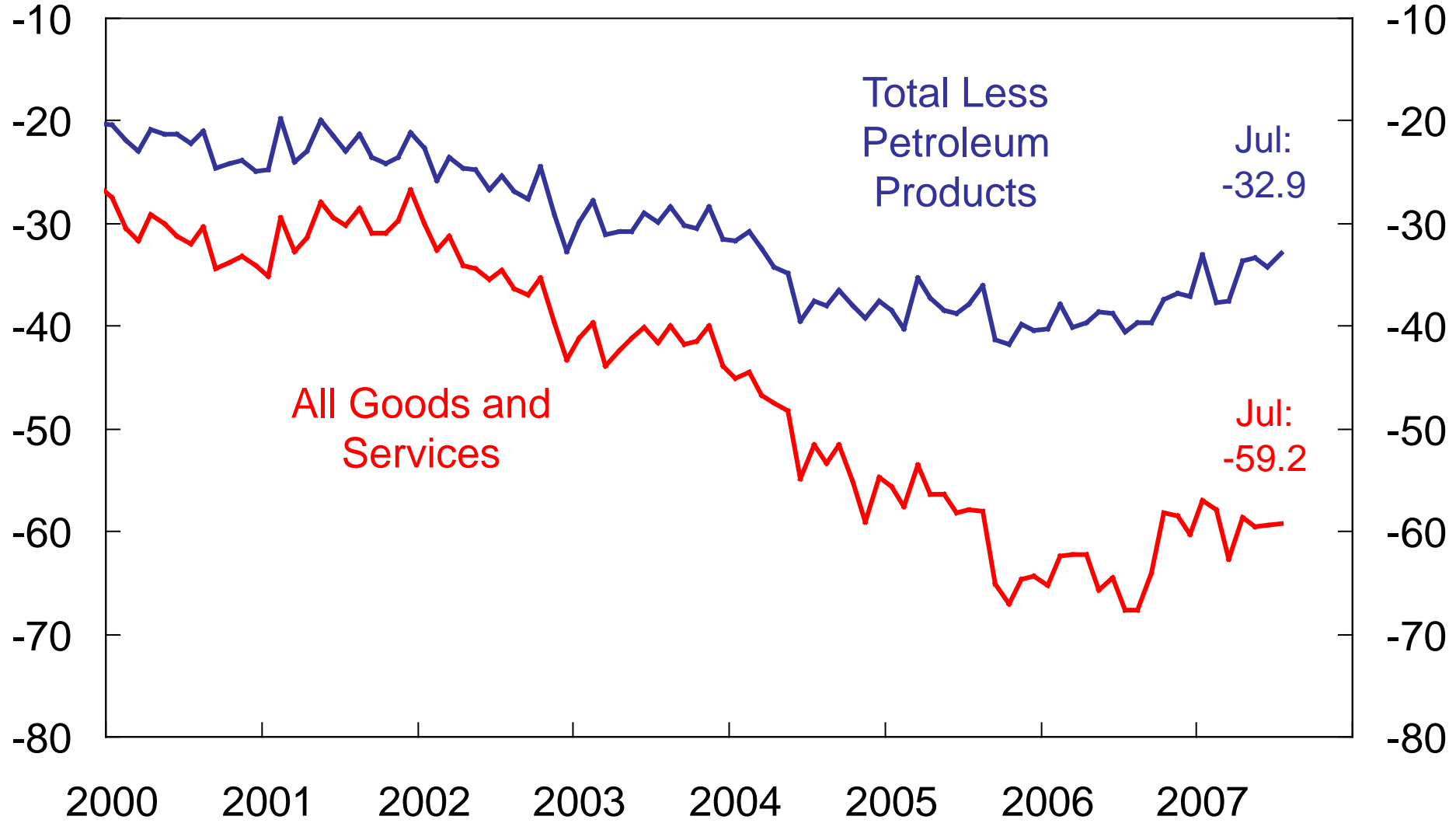


Source: Federal Reserve Board

Trade Balance in Goods and Services

Billions of Dollars

Billions of Dollars

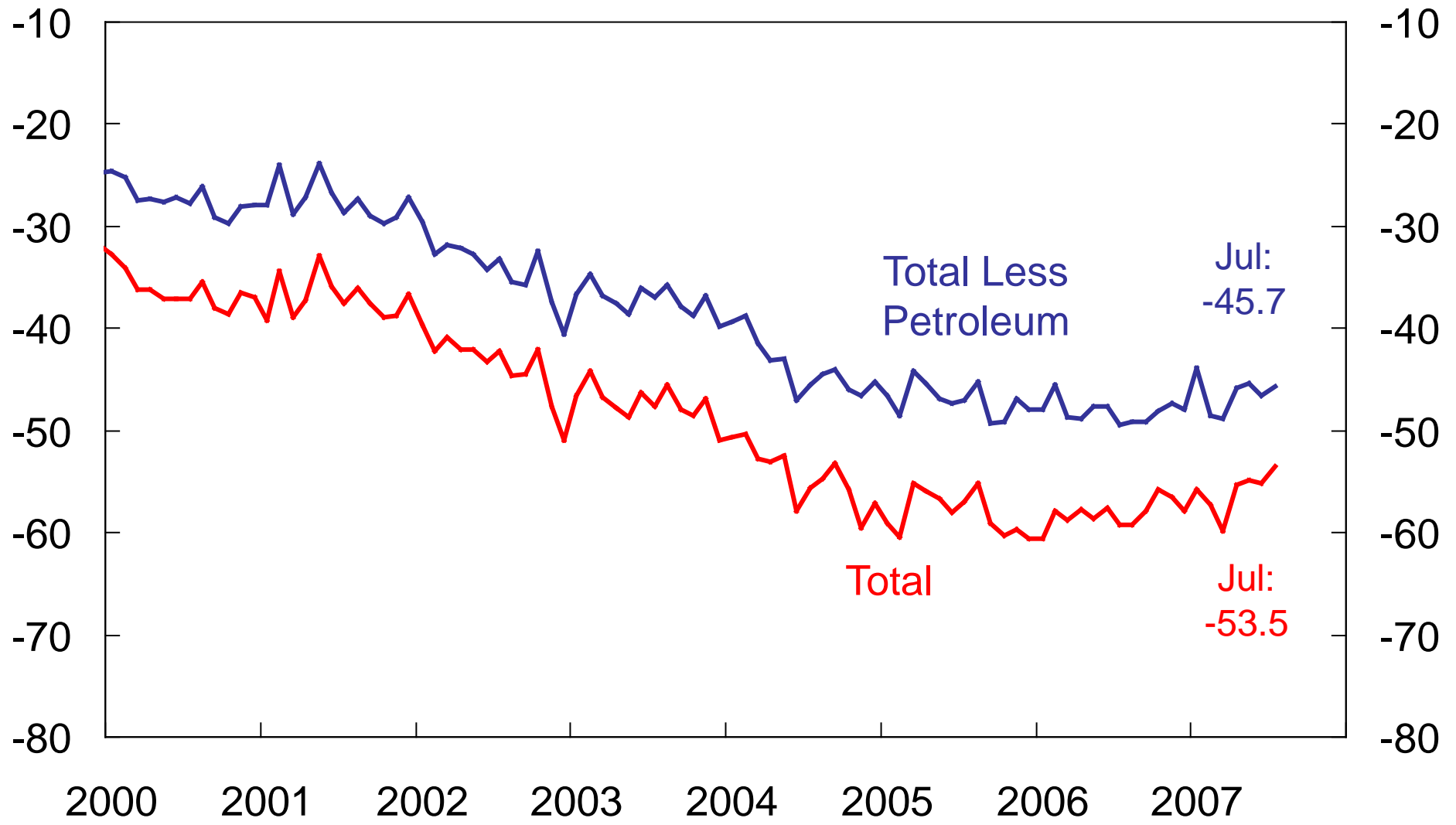


Source: Census Bureau

Real Trade Balance of Goods

Billions of Chained 2000 Dollars

Billions of Chained 2000 Dollars

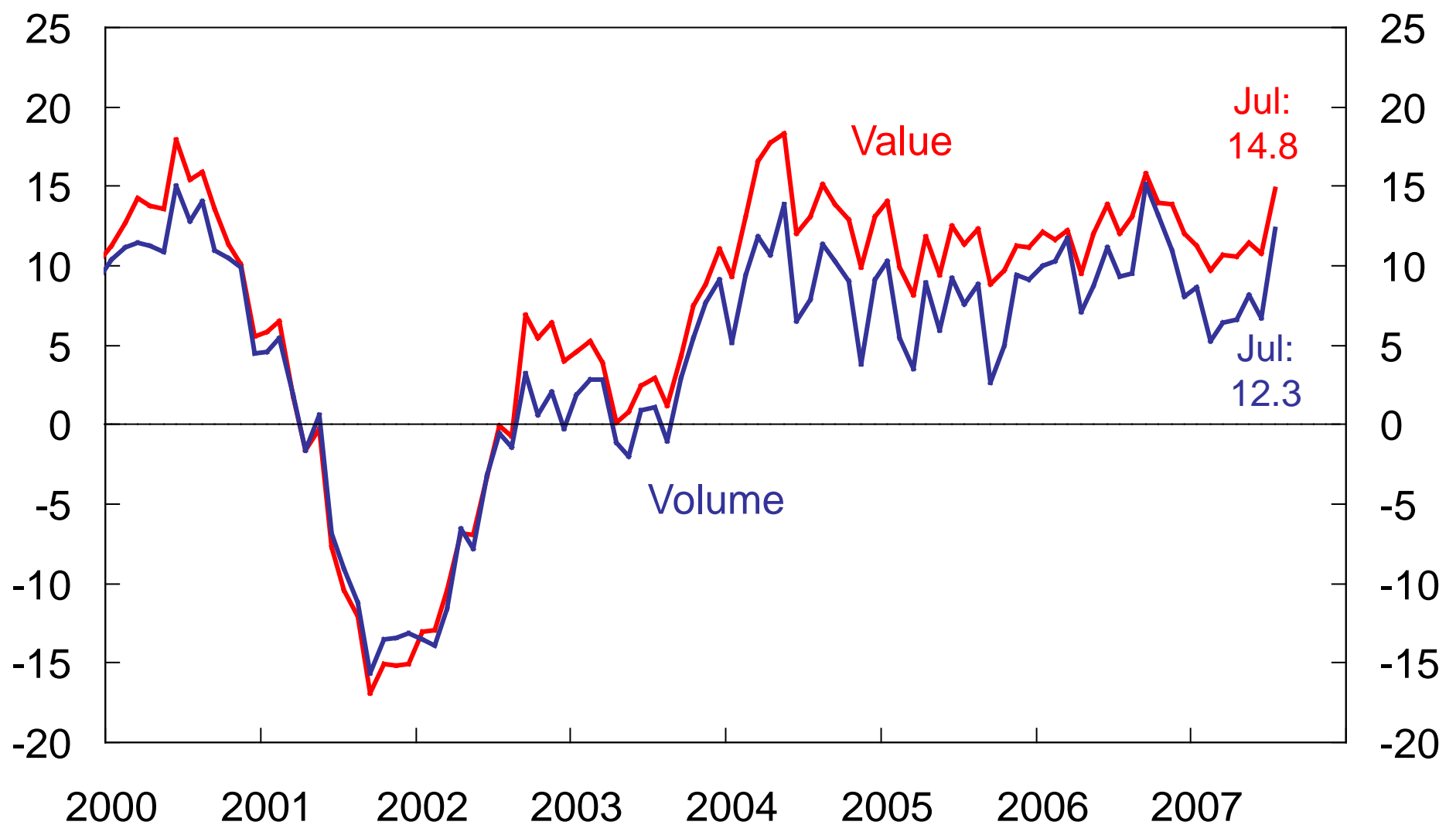


Source: Census Bureau

Exports of Goods

% Change - Year to Year

% Change - Year to Year

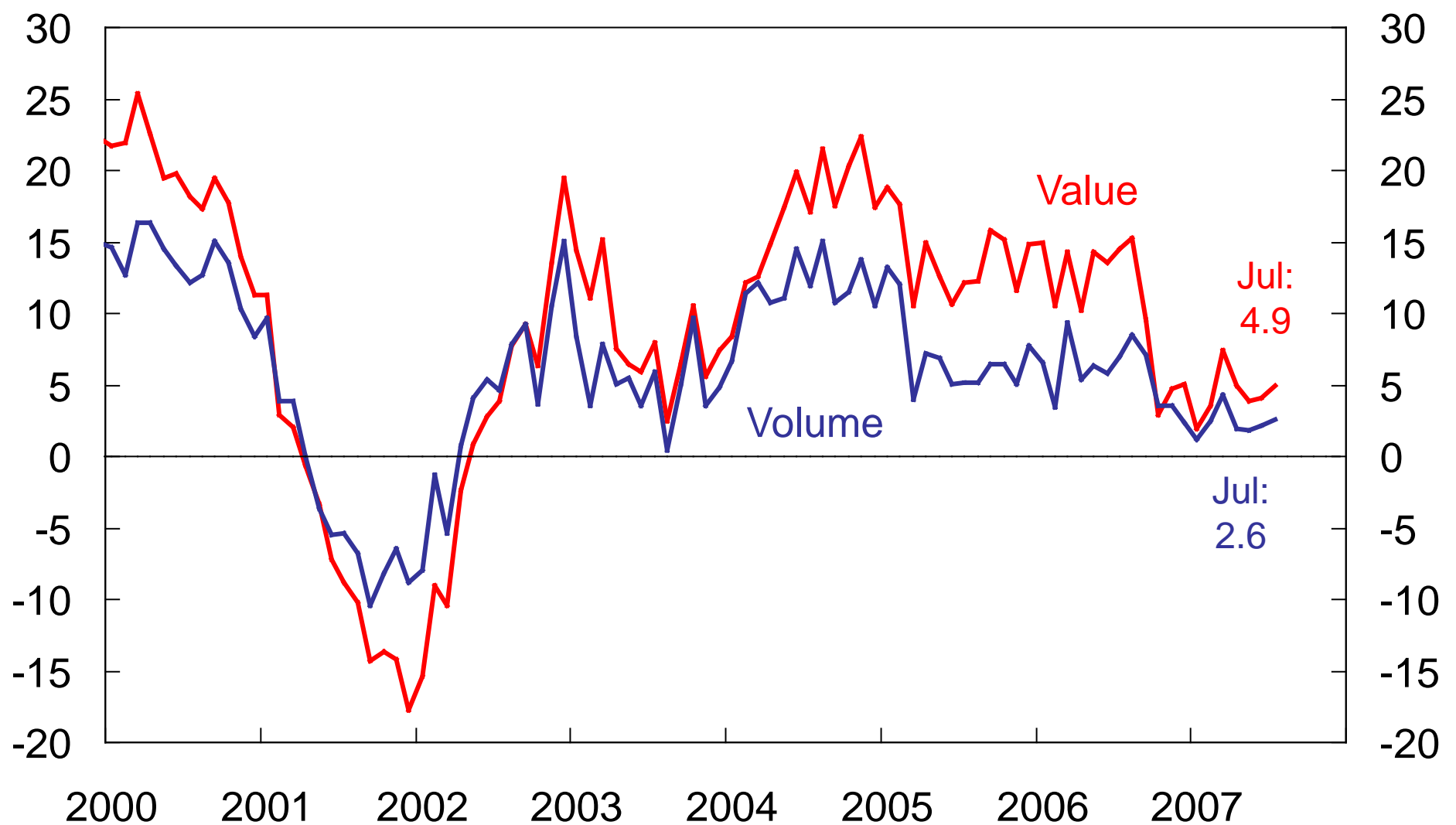


Source: Census Bureau

Imports of Goods

% Change - Year to Year

% Change - Year to Year

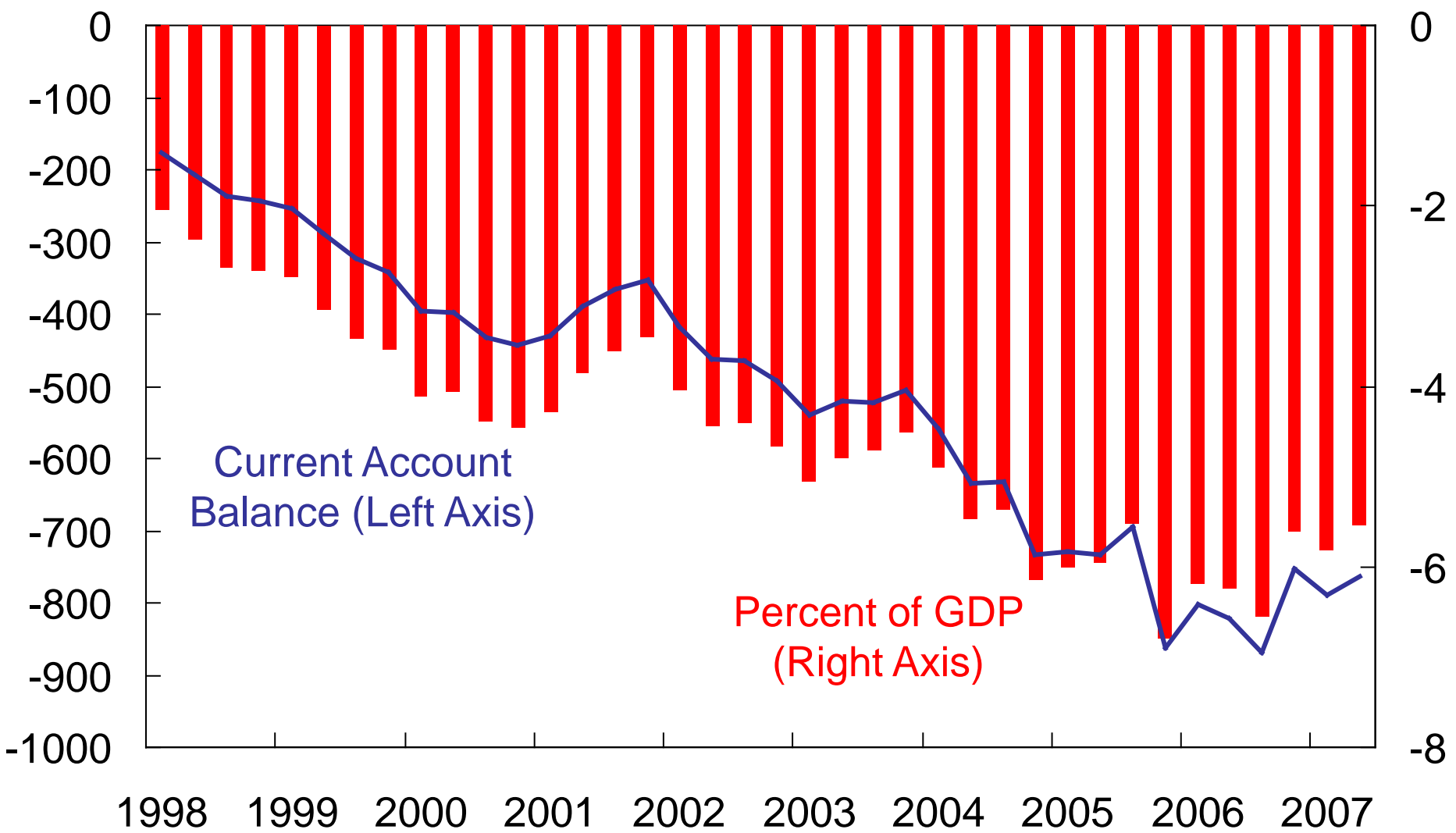


Source: Census Bureau

Current Account Balance

SAAR, Bill\$, BOP Basis

Percent



Source: Bureau of Economic Analysis

Labor Market: Nonfarm Payroll Employment

Annualized Growth of Nonfarm Payroll Employment
(percent change at an annual rate)

	24 Month	12 Month	6 Month	3 Month	1 Month
Total	1.5	1.2	1.0	0.8	1.0
Private	1.6	1.2	1.0	0.8	0.8
Goods-Producing	0.2	-1.3	-1.5	-2.0	-1.8
Construction	1.3	-1.4	-2.0	-2.7	-2.2
Manufacturing	-0.7	-1.6	-1.5	-1.9	-1.5
Durables	-0.4	-1.7	-1.5	-1.5	-1.3
Nondurables	-1.2	-1.3	-1.6	-2.5	-1.9
Private Service Providing	1.9	1.9	1.6	1.4	1.4
Wholesale Trade	2.1	1.8	2.3	1.4	1.5
Retail Trade	0.2	0.7	-0.1	0.3	-0.4
Transportation and Warehousing	1.9	1.3	1.0	2.0	2.8
Utilities	0.2	1.4	1.9	0.7	0.0
Information	0.6	1.5	0.8	0.8	4.4
Financial Activities	1.6	0.5	0.1	-0.6	-2.0
Professional and Business Services	2.4	1.8	1.3	1.4	1.4
Temporary Help Services	-0.8	-2.8	-5.4	-5.9	-8.8
Education and Health Services	2.9	3.3	3.8	3.7	2.9
Leisure and Hospitality	2.8	3.1	2.4	1.7	3.1
Food and Drinking Places	3.5	3.8	3.5	2.6	3.2
Other Services	0.7	0.6	0.6	-0.3	-0.9
Government	1.0	1.0	1.0	1.3	2.0
Federal Government	-0.5	-0.8	-0.6	0.0	-2.6
State Government	1.3	1.2	1.6	2.8	6.7
Local Government	1.2	1.3	1.0	0.9	1.3

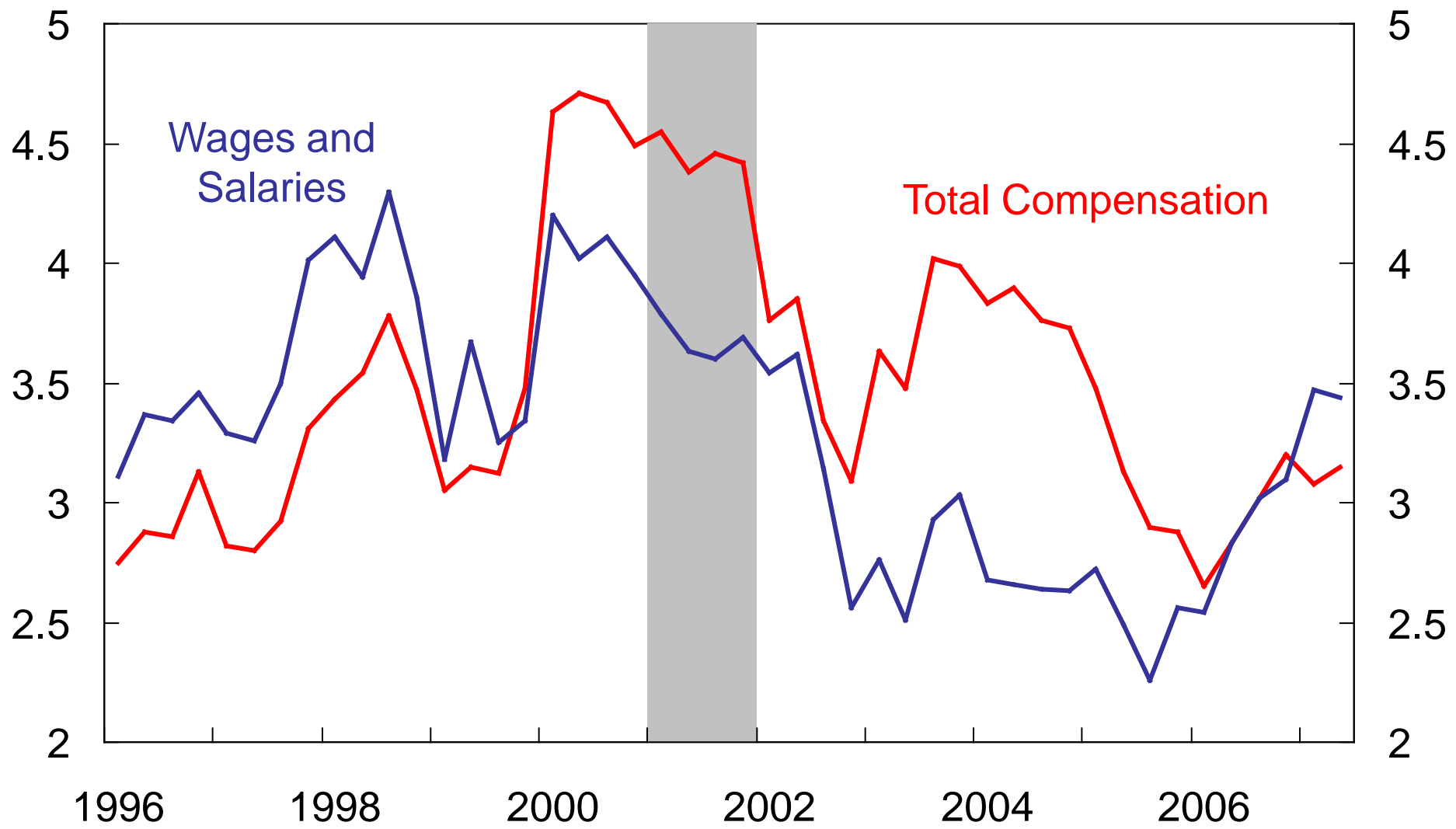
Source: Bureau of Labor Statistics

Note: Data through September 2007.

Employment Cost Index: Private Industry

% Change - Year to Year

% Change - Year to Year

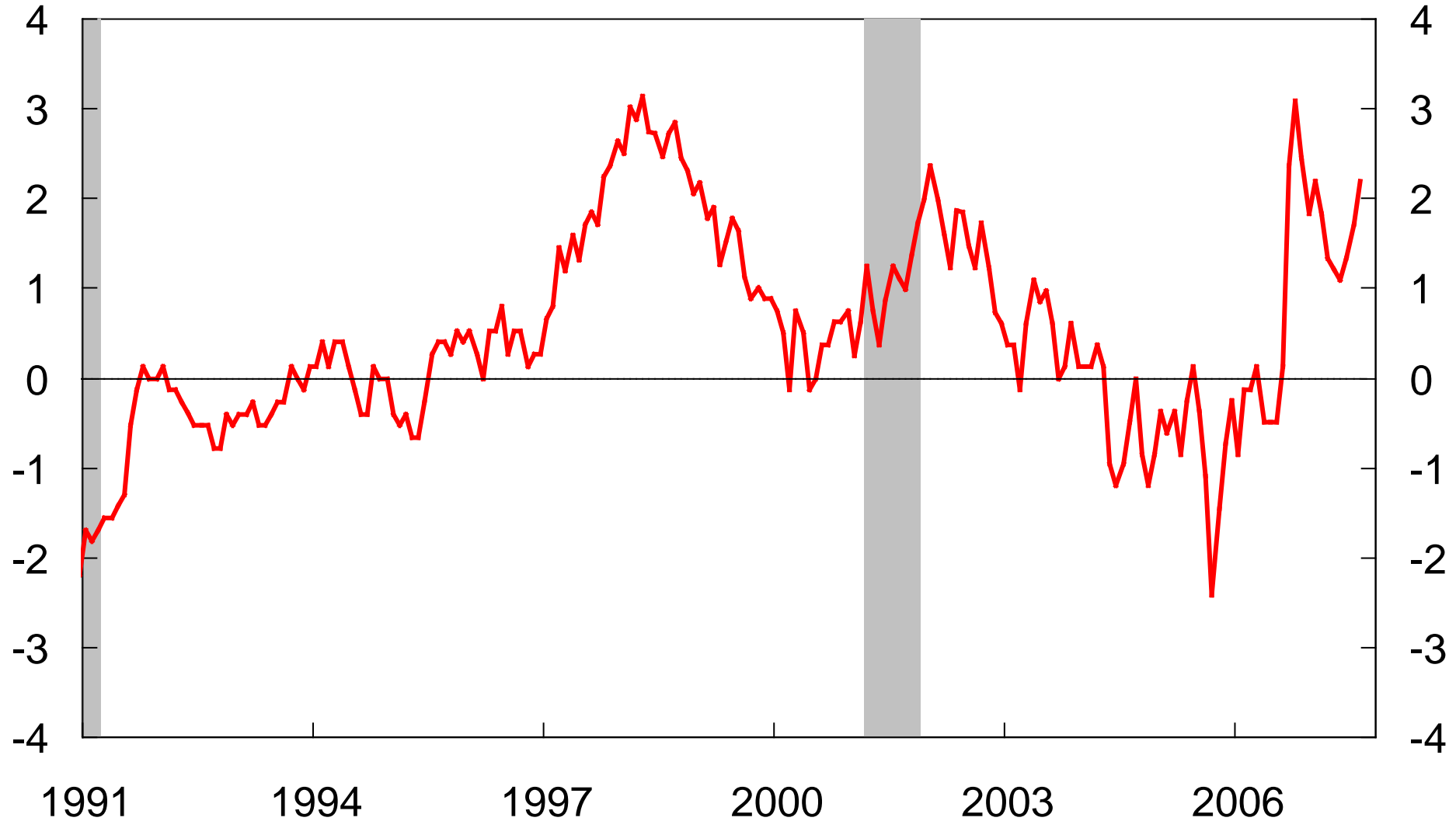


Source: Bureau of Labor Statistics

Real Average Hourly Earnings

% Change - Year to Year

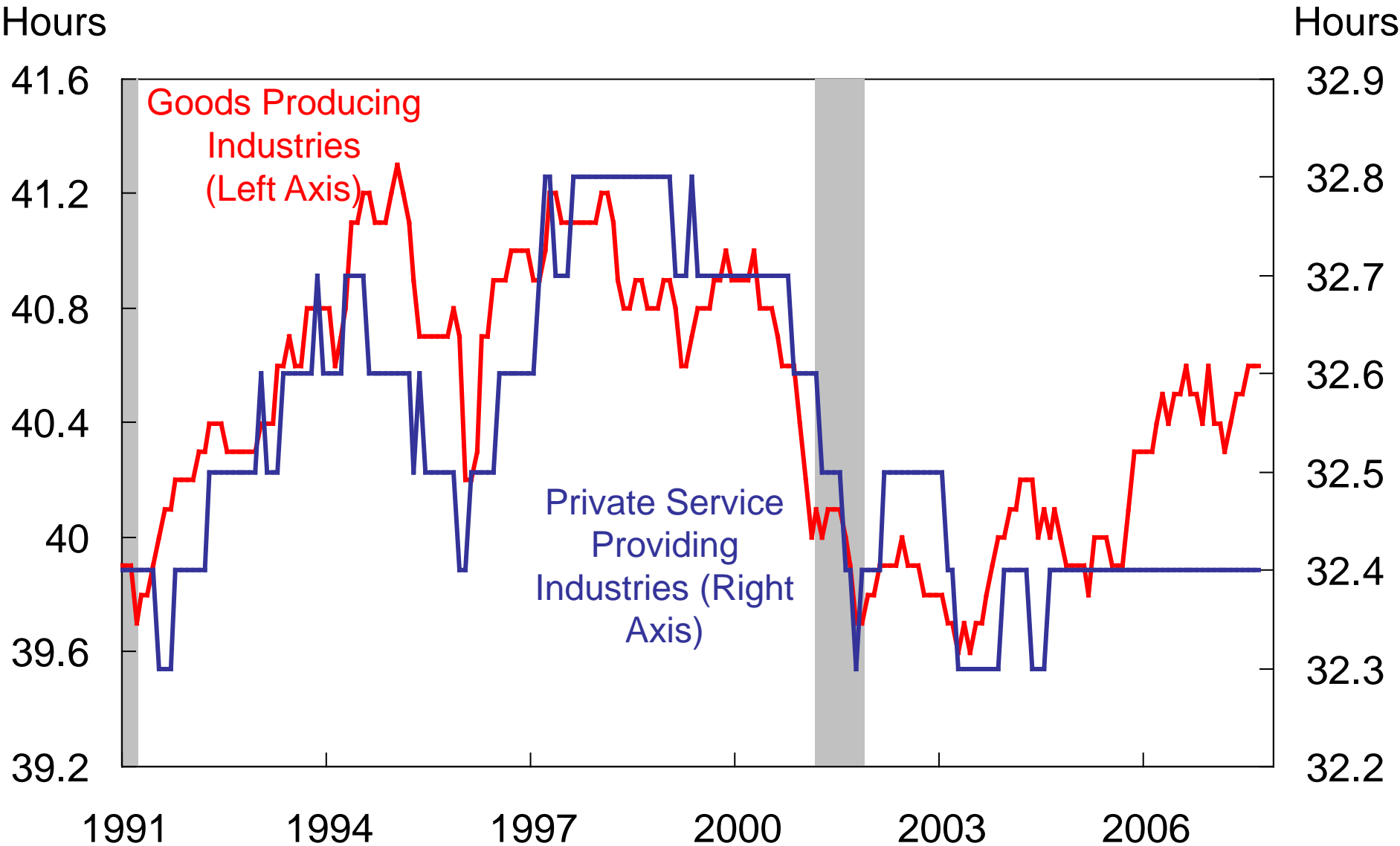
% Change - Year to Year



Source: Bureau of Labor Statistics

Average Weekly Hours

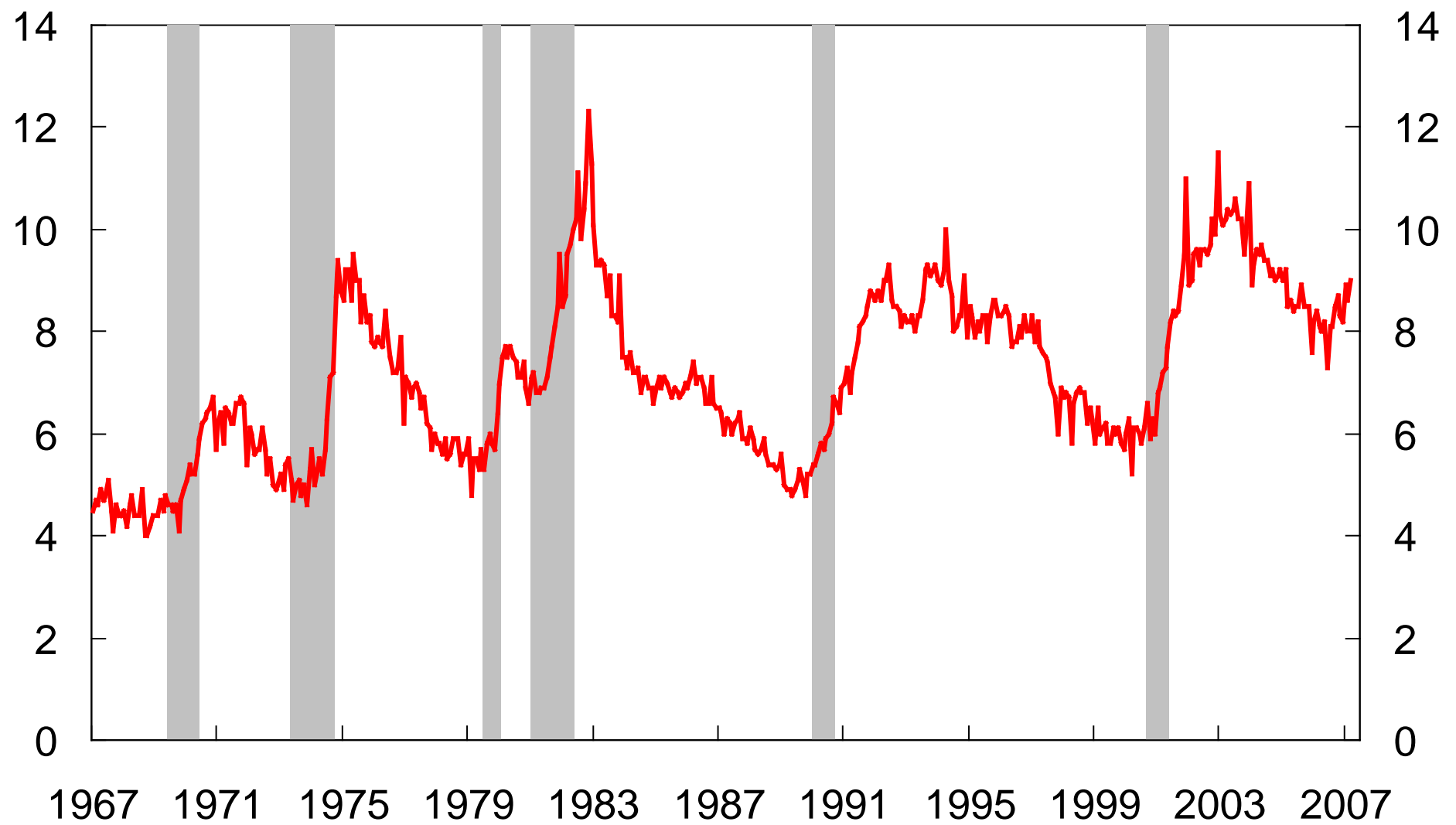
Three Month Moving Average



Source: Bureau of Labor Statistics

Median Duration of Unemployment

Weeks

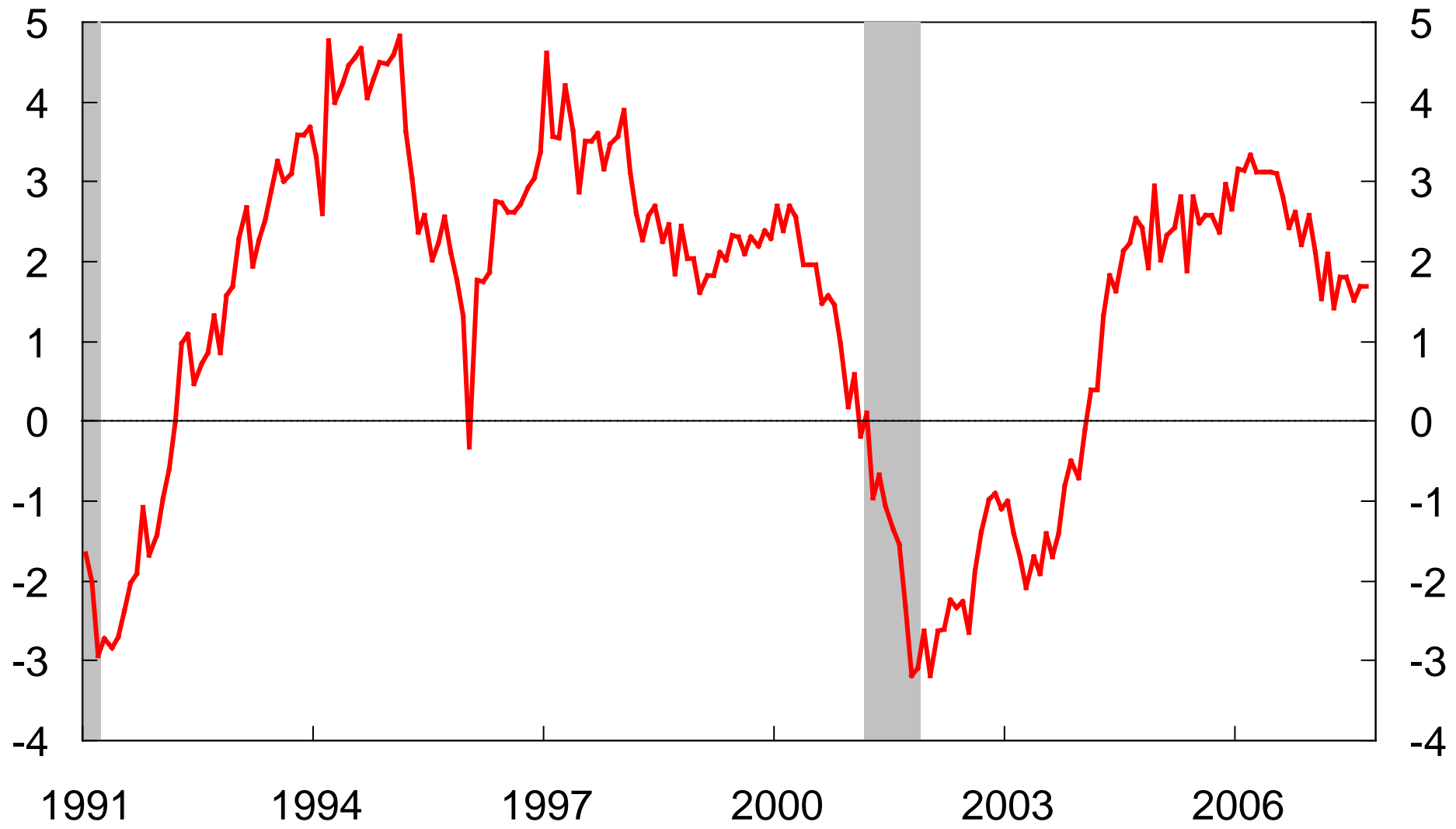


Source: Bureau of Labor Statistics

Aggregate Weekly Hours Index: Total Private Industries

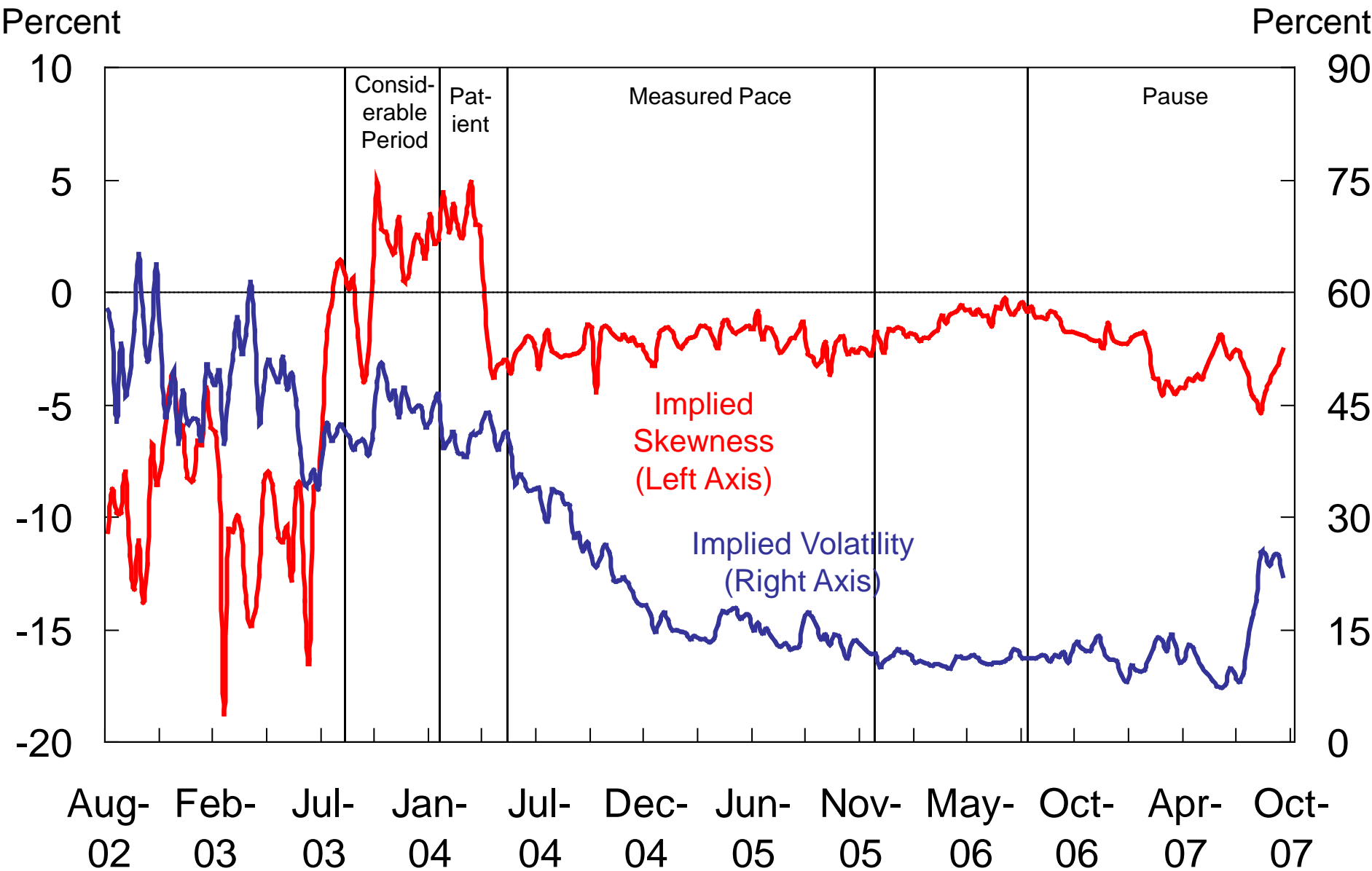
% Change - Year to Year

% Change - Year to Year



Source: Bureau of Labor Statistics

Implied Skewness and Volatility of Fed Funds Rate

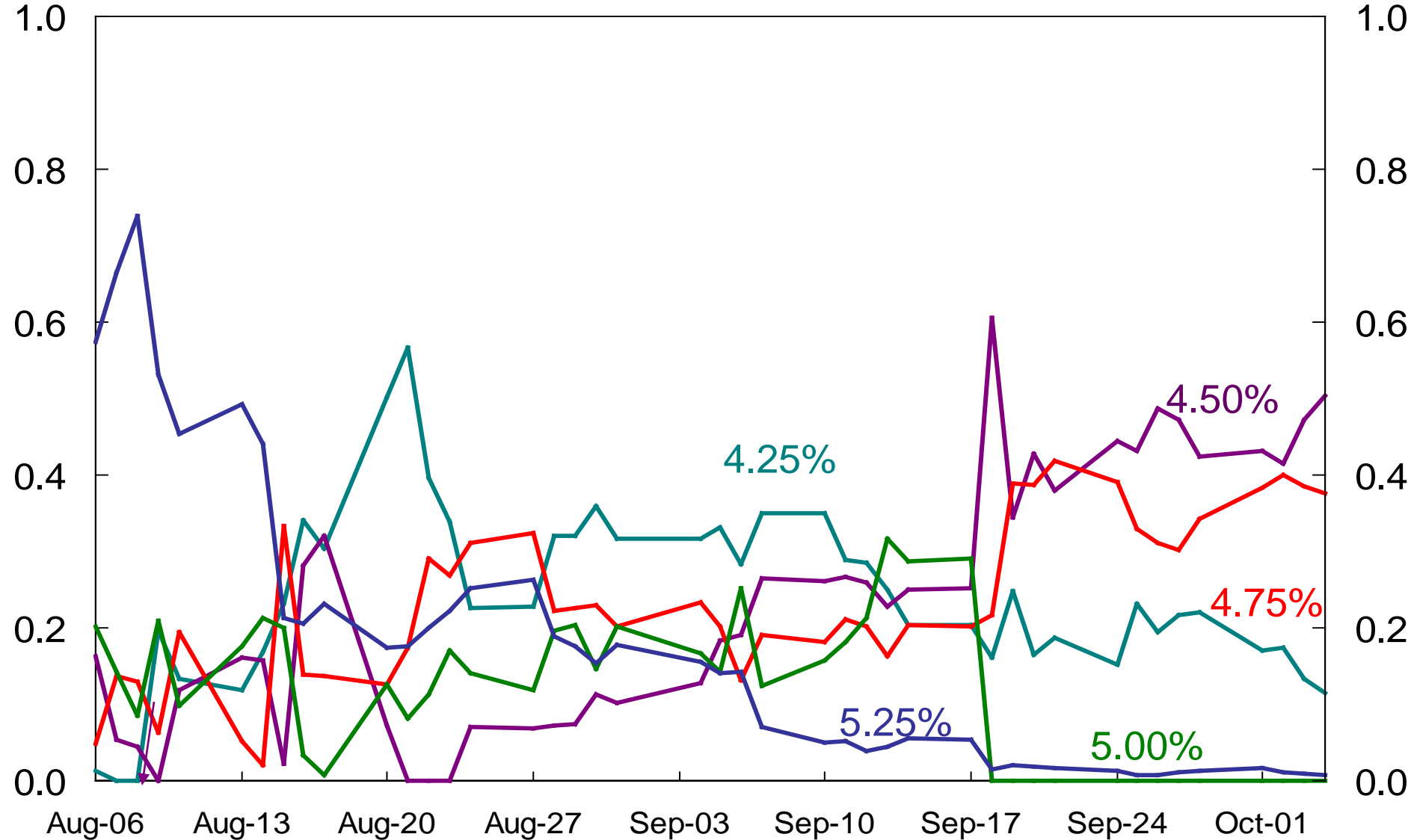


Source: CME and FRBNY Calculations

Alternative Fed Funds Rates: October 2007 FOMC

Implied probability

Implied probability

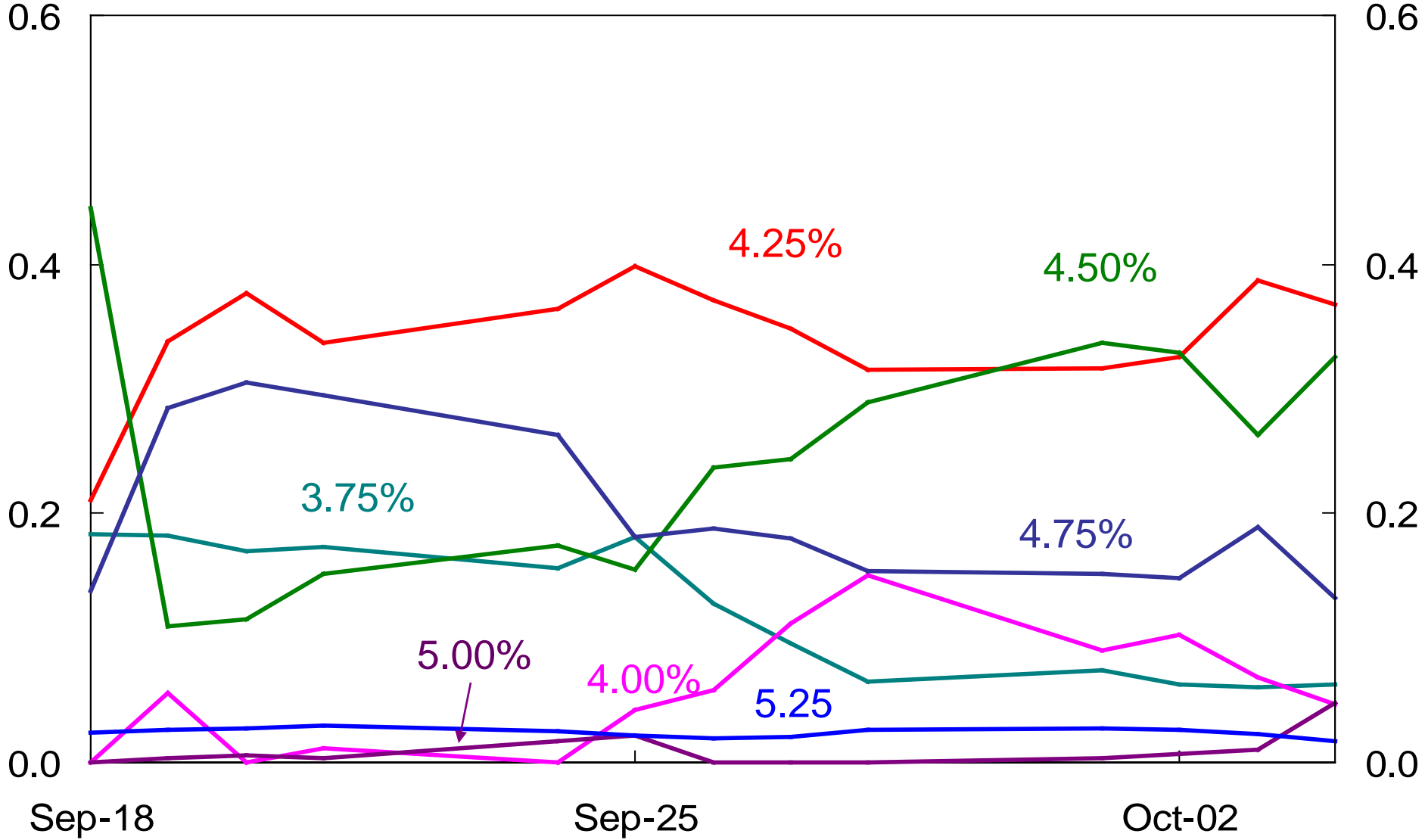


Source: Cleveland Federal Reserve Bank

Alternative Fed Funds Rates: December 2007 FOMC

Implied probability

Implied probability

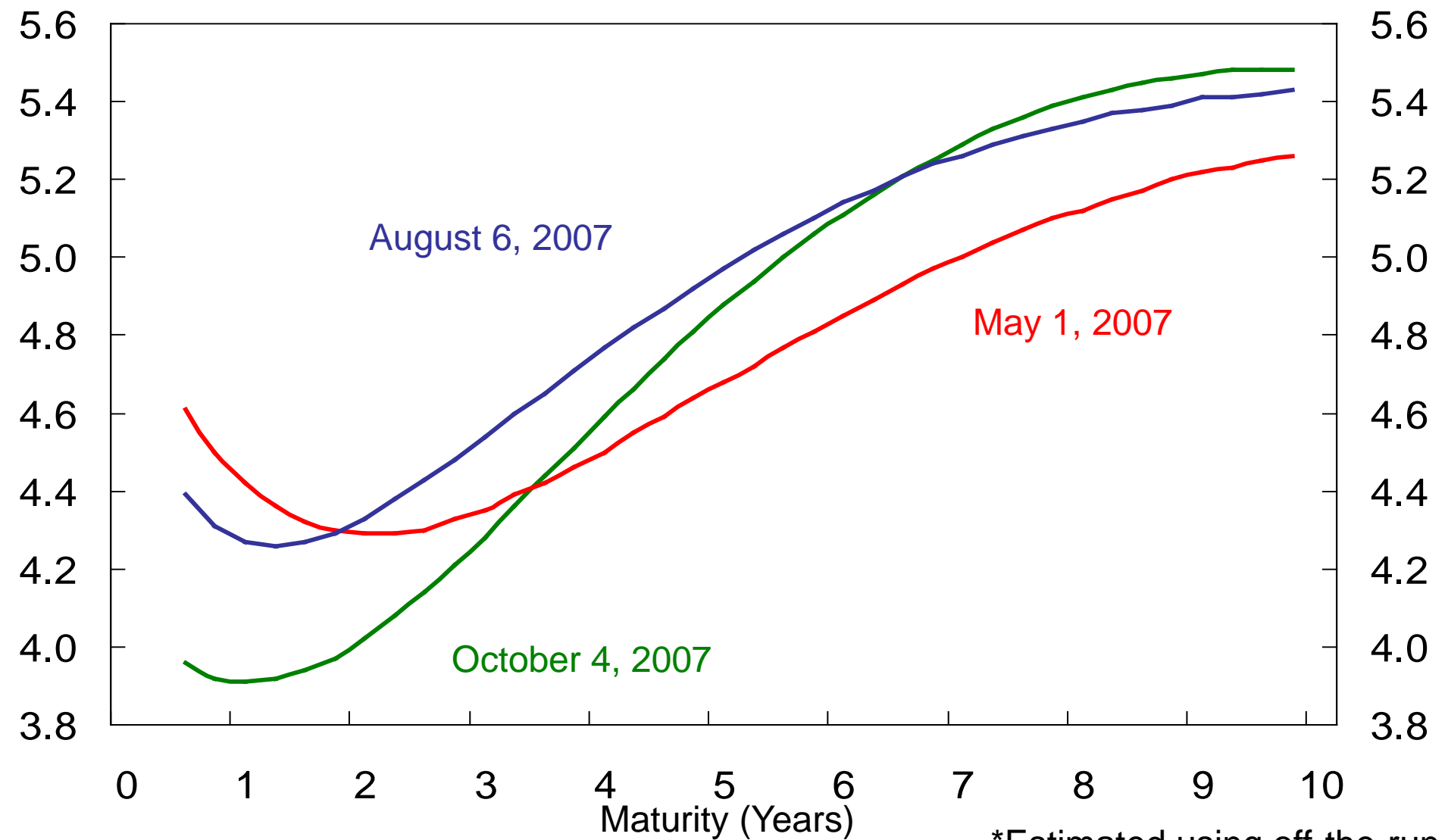


Source: Cleveland Federal Reserve Bank

Implied One-Year Forward Rates

Percent

Percent



*Estimated using off-the-run Treasury securities

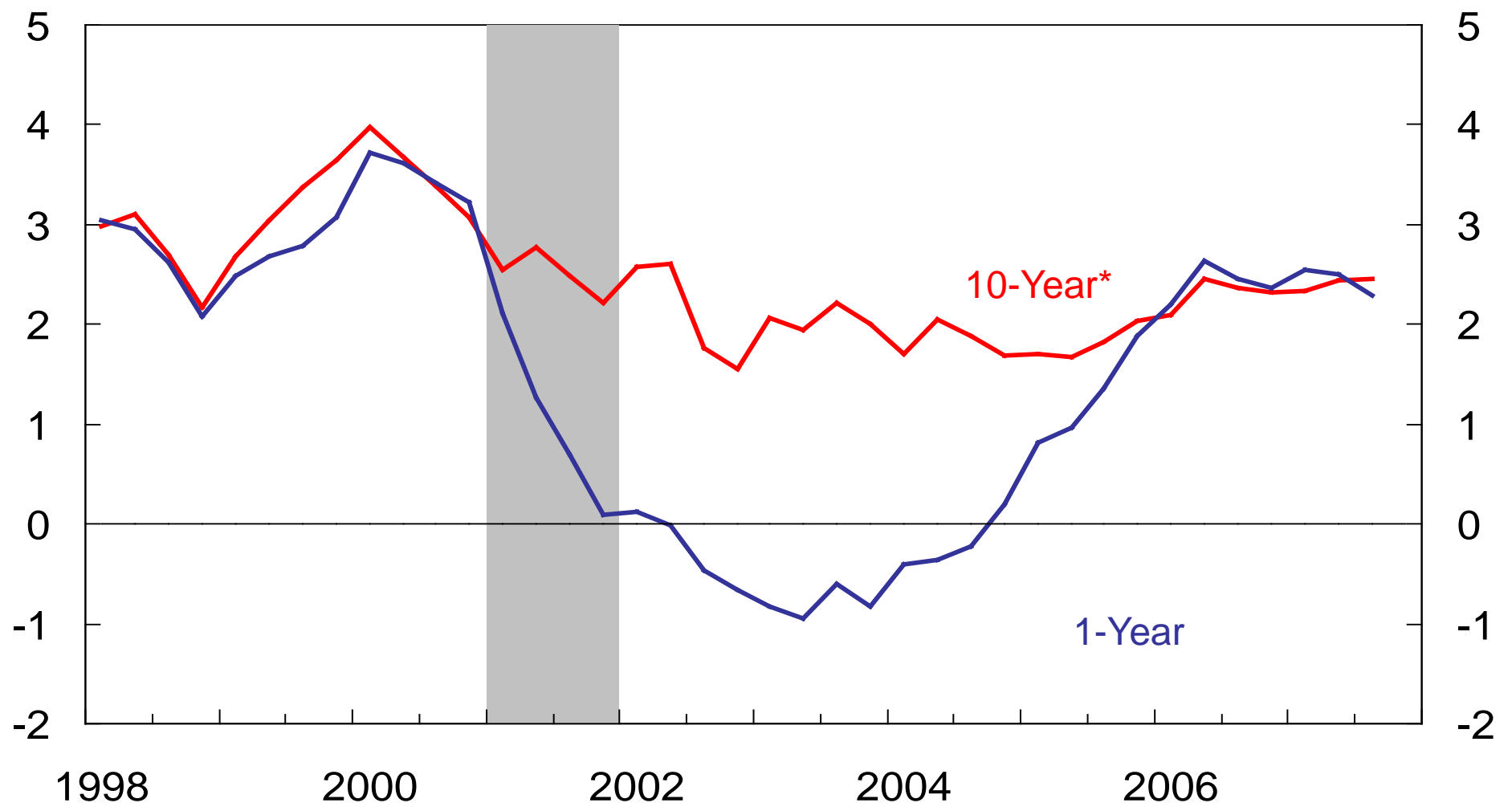
Source: 8:40AM quotes and FRBNY Calculations

Real Interest Rates

Treasury Yield minus Philadelphia Fed Survey Inflation Expectations

Percent

Percent

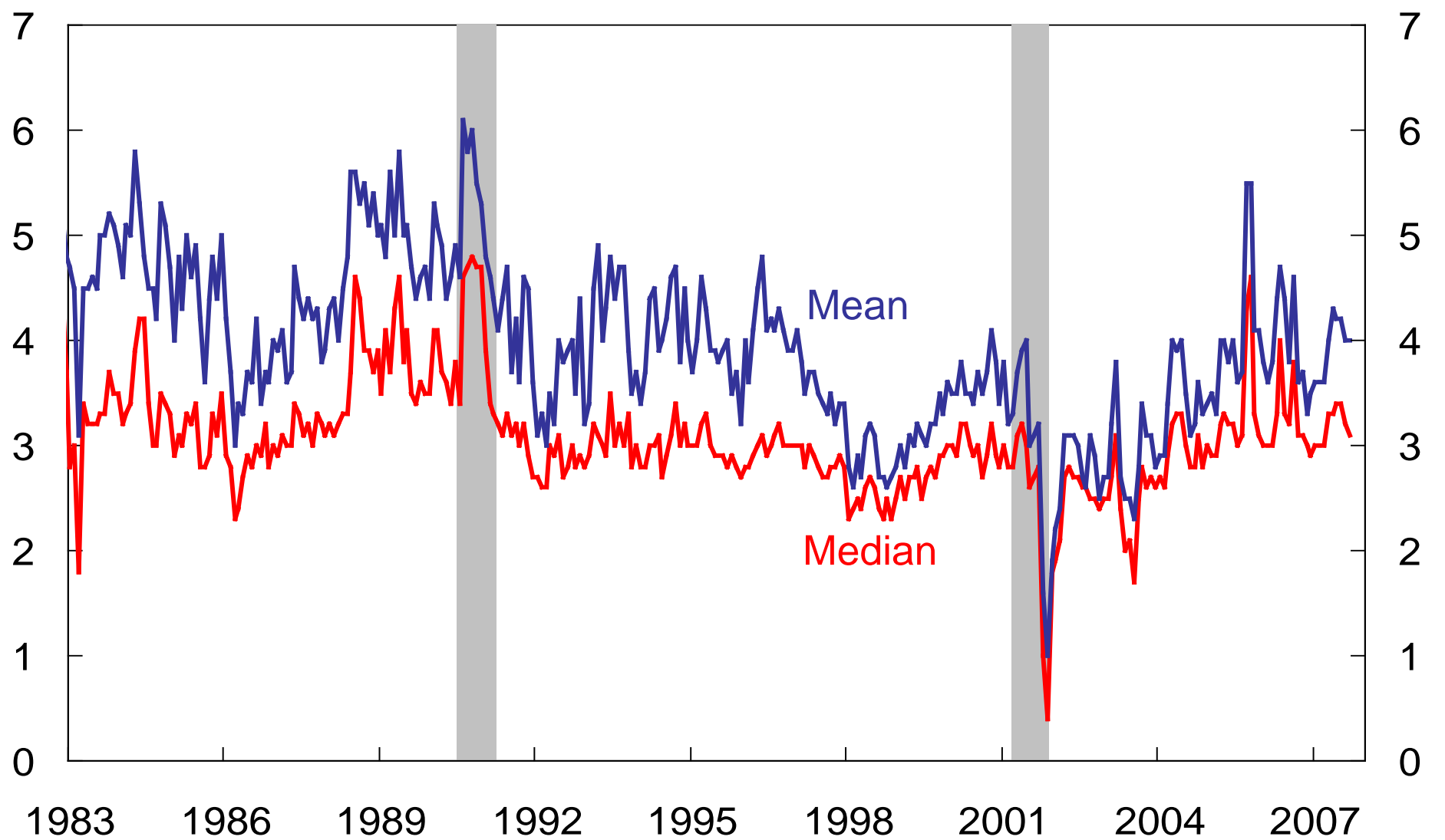


*After 2003, calculated using inflation-indexed bonds

Source: Federal Reserve Board and Philadelphia Fed

Michigan Survey Inflation Expectations: One Year Ahead

Percent Percent

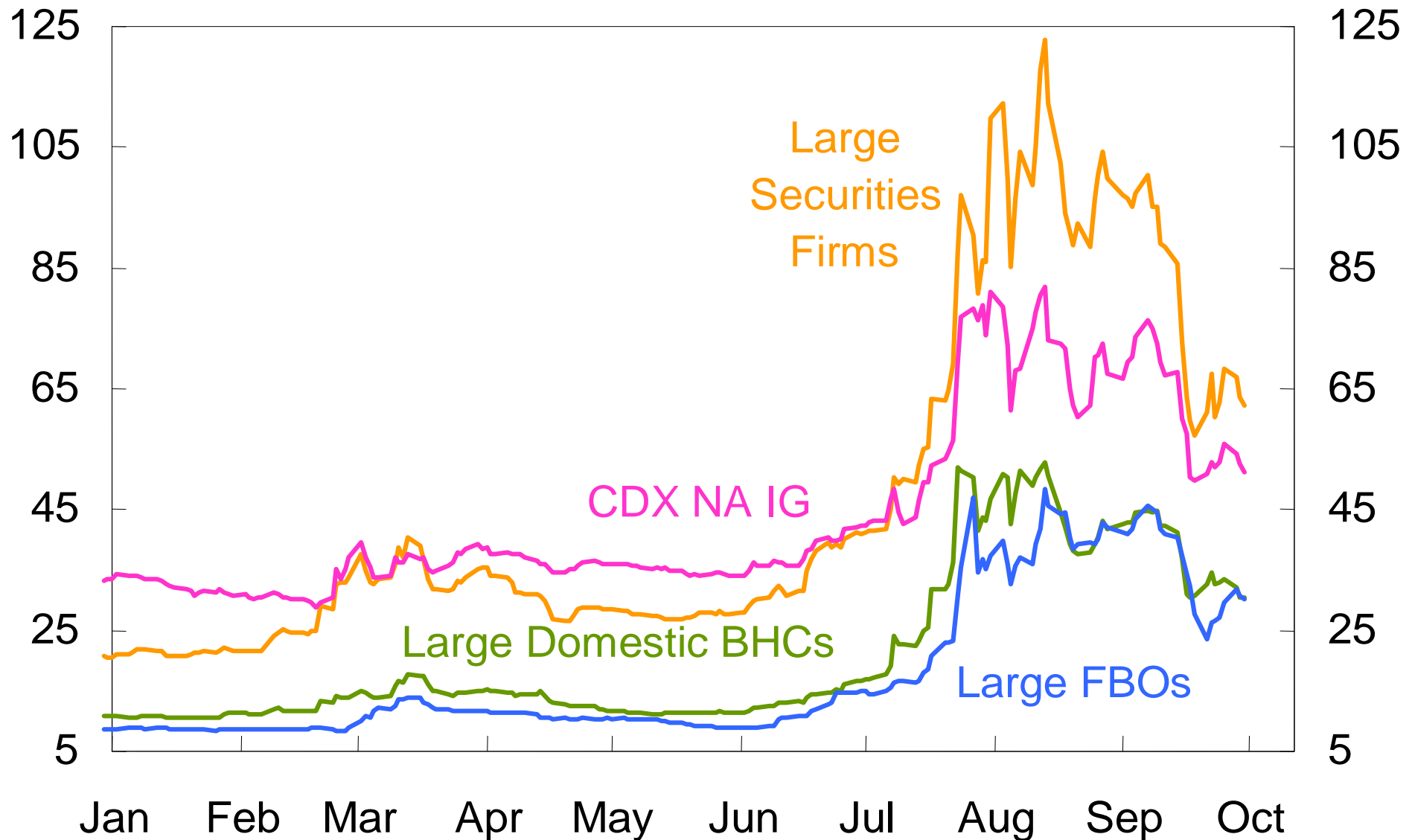


Source: University of Michigan

Credit Default Swap Spreads

Basis Points

Basis Points

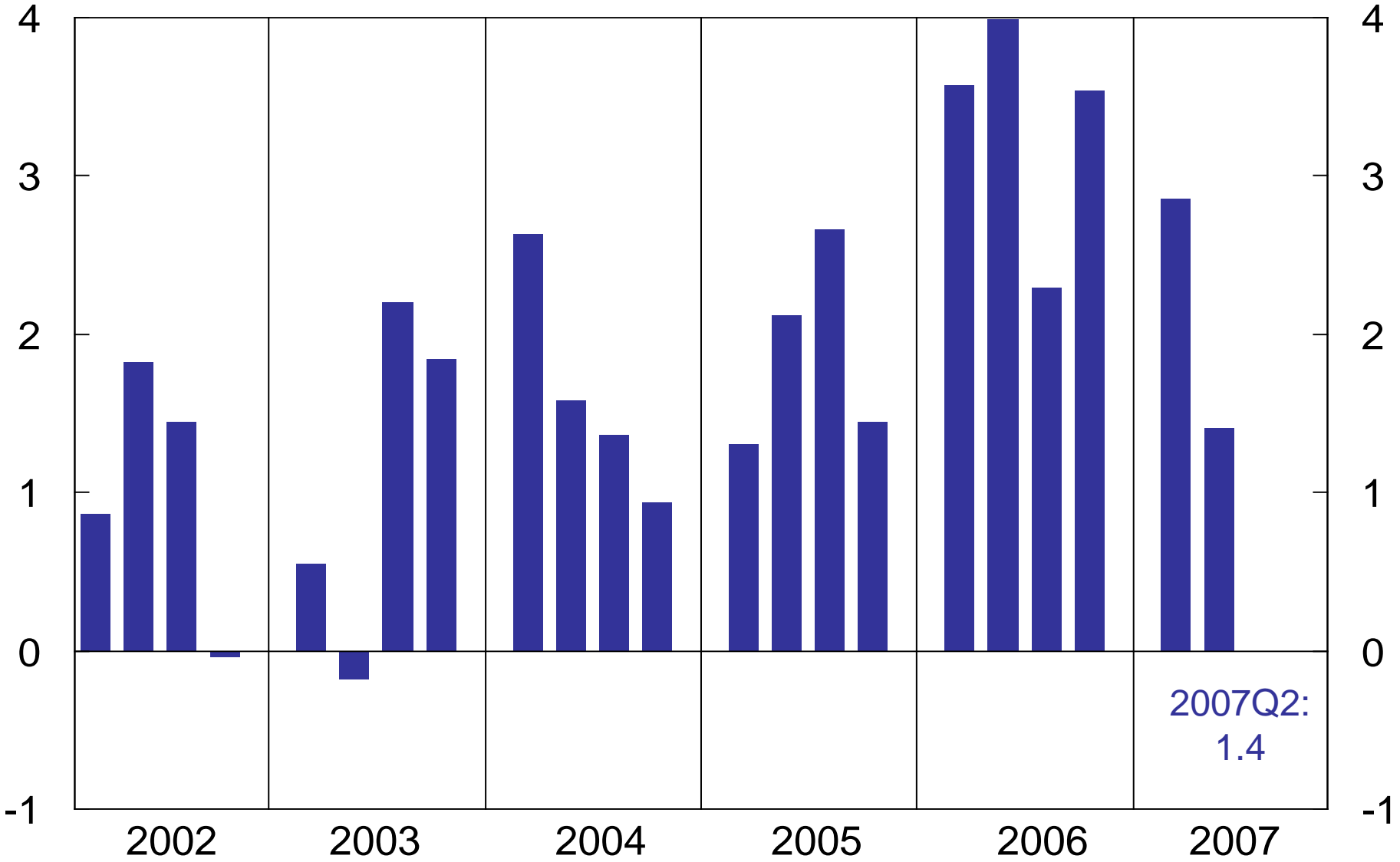


Source: Markit

Euro Area Real GDP Growth

% Change at an Annual Rate

% Change at an Annual Rate

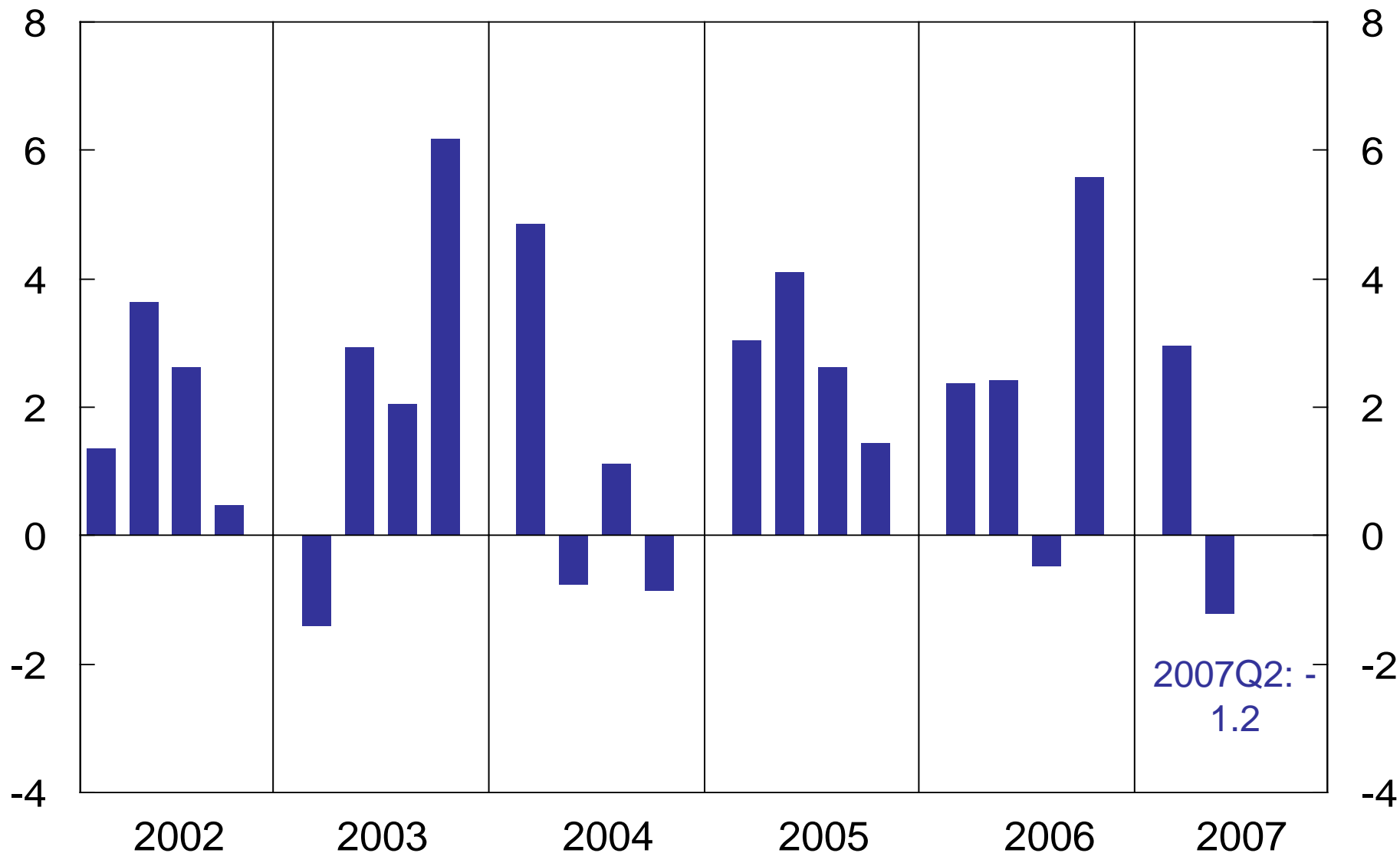


Source: Eurostat

Japan Real GDP Growth

% Change at an Annual Rate

% Change at an Annual Rate



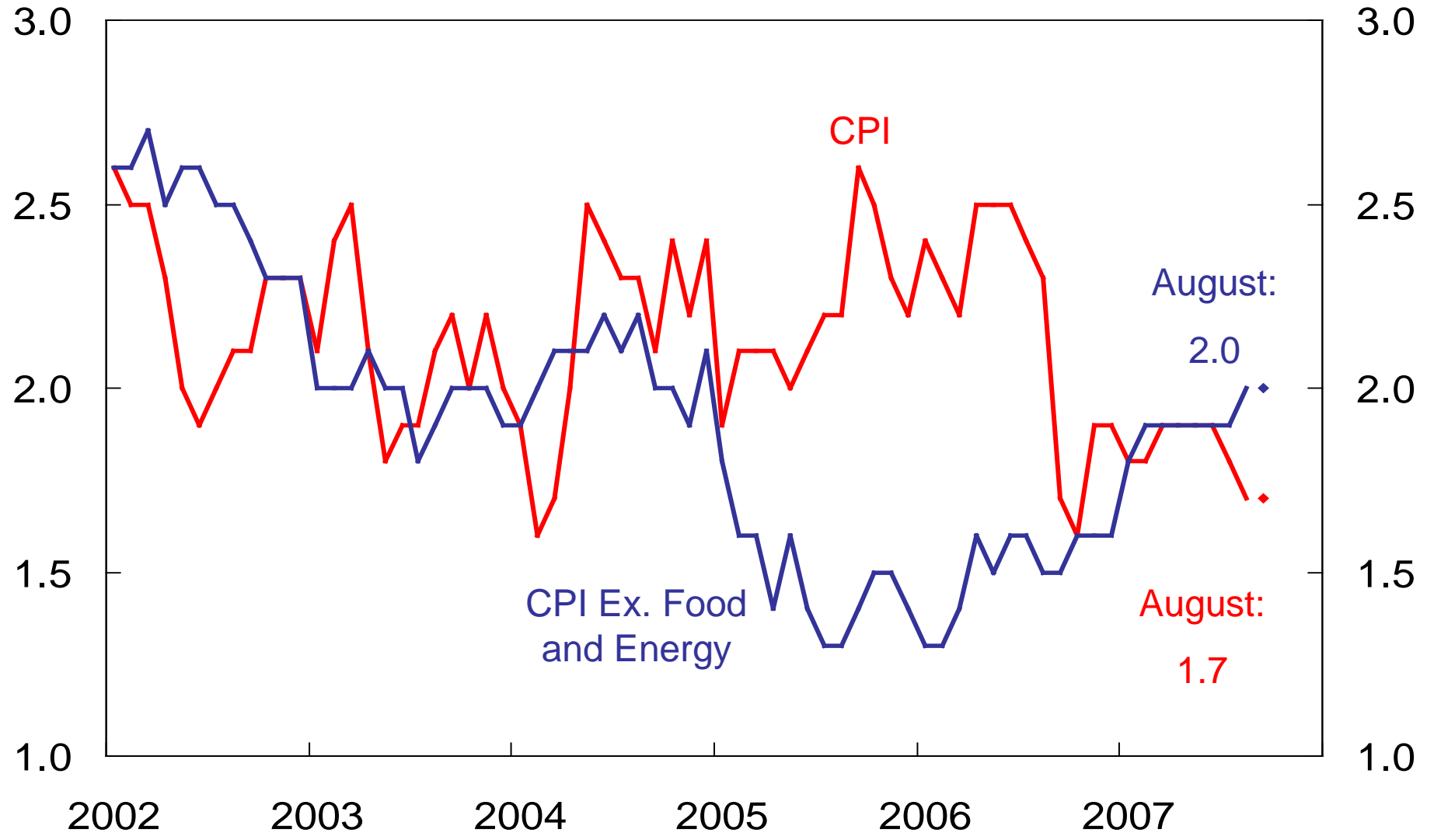
2007Q2: -
1.2

Source: BIS

Euro Area Inflation

% Change – Year to Year

% Change – Year to Year

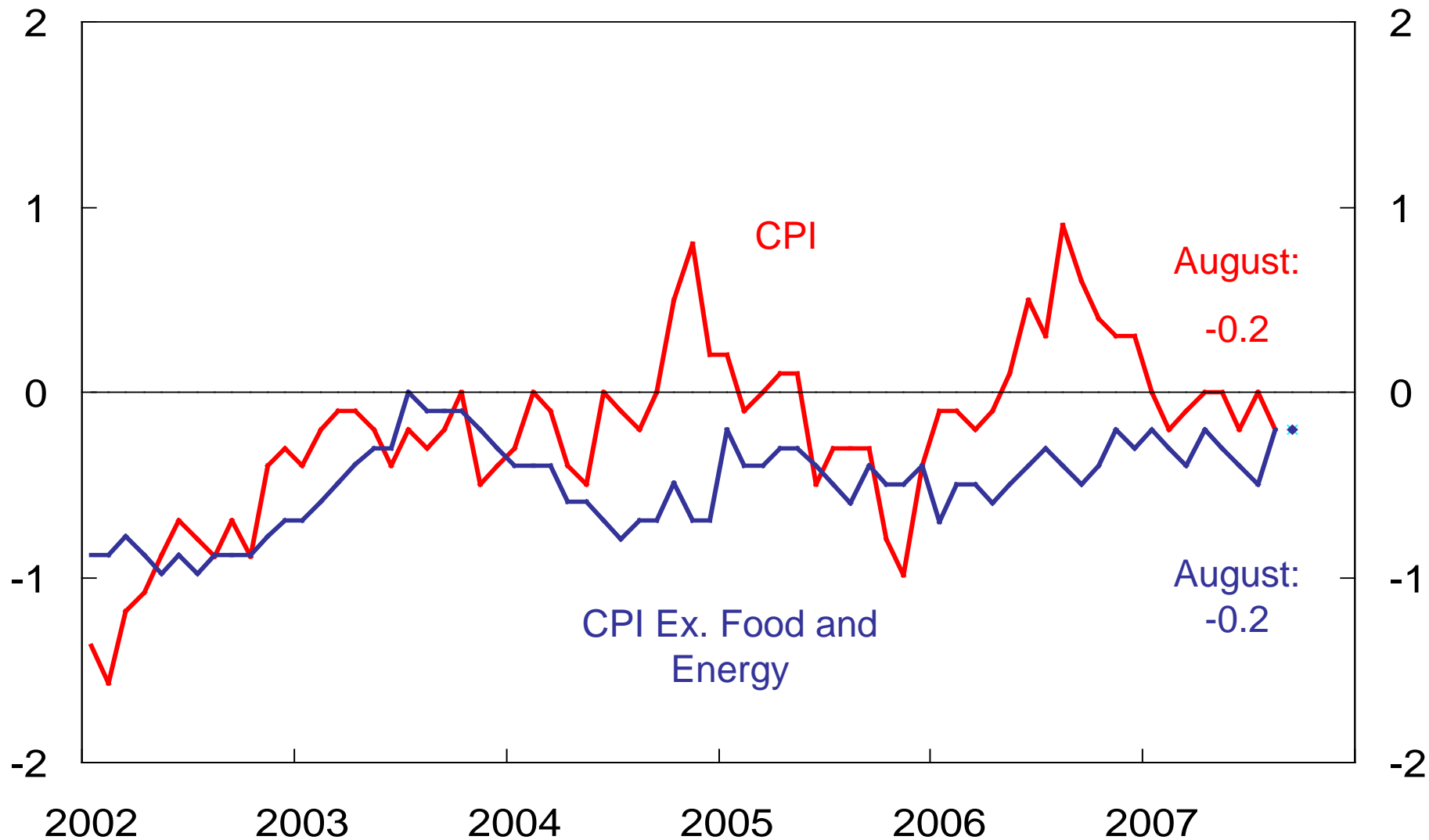


Source: BIS and Federal Reserve Board

Japan Inflation

% Change – Year to Year

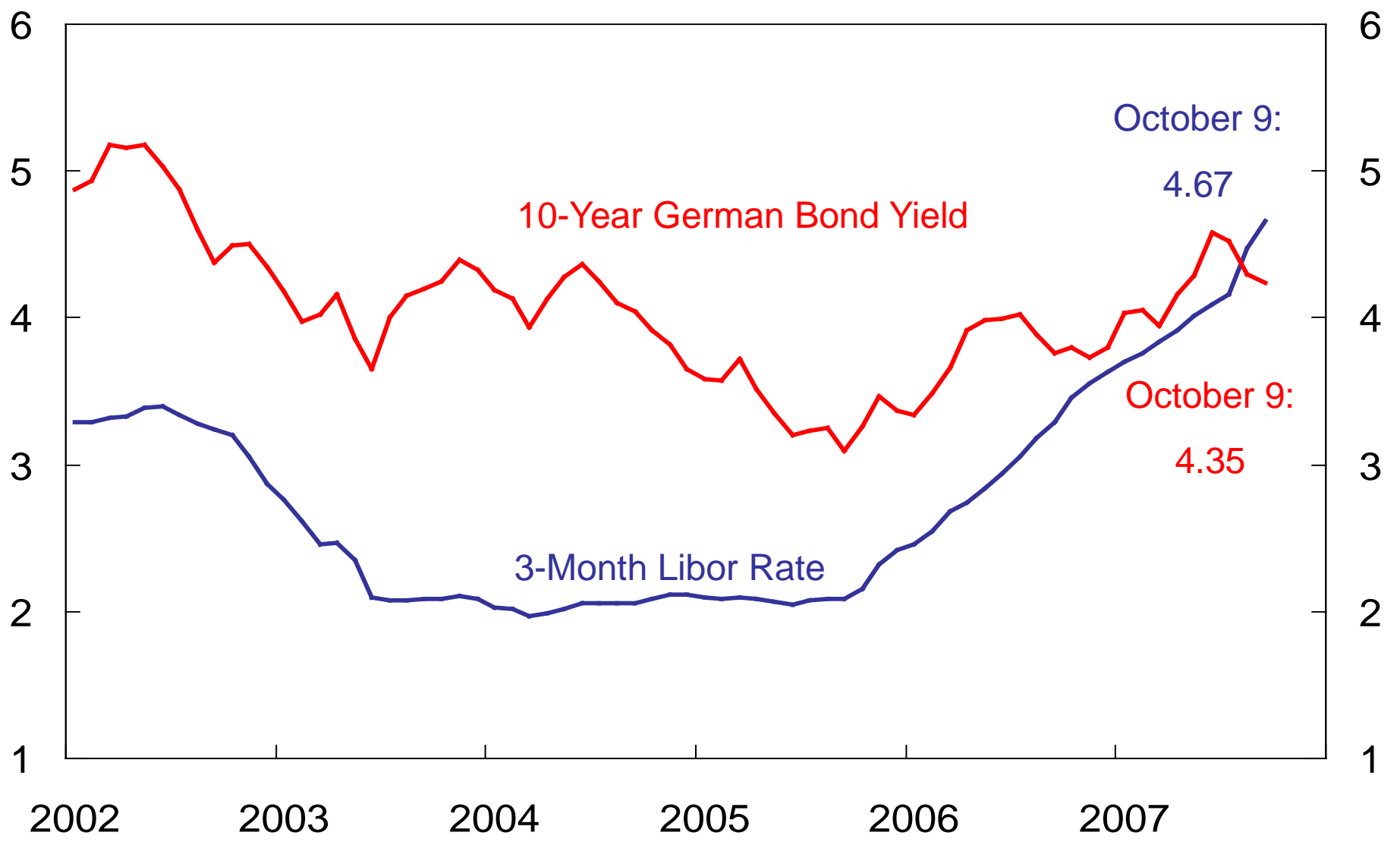
% Change – Year to Year



Source: BIS and Federal Reserve Board

Euro Area Short-Term and Long-Term Interest Rates

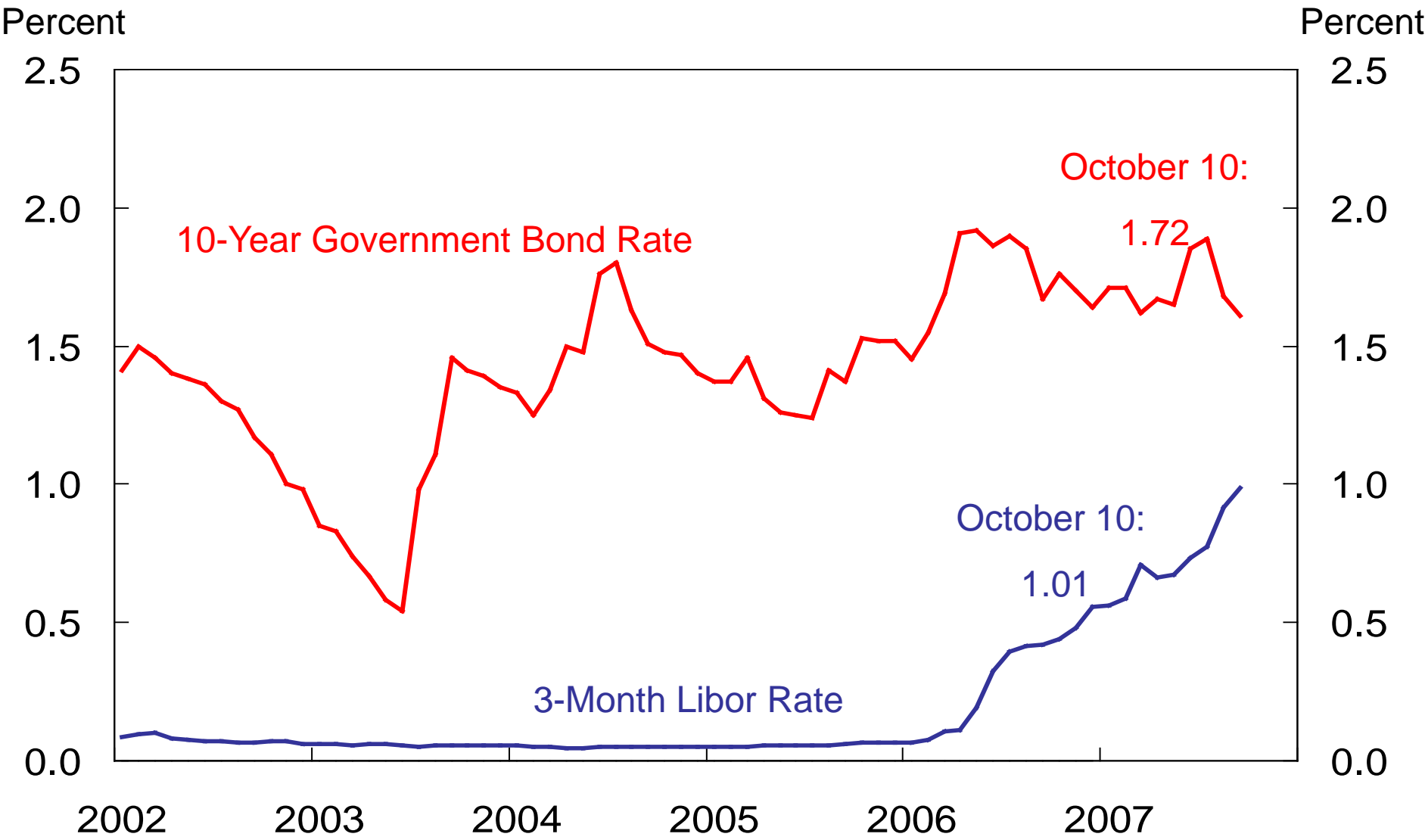
Percent Percent



Source: BIS and Federal Reserve Board

Note: Data are monthly averages.

Japan Short-Term and Long-Term Interest Rates



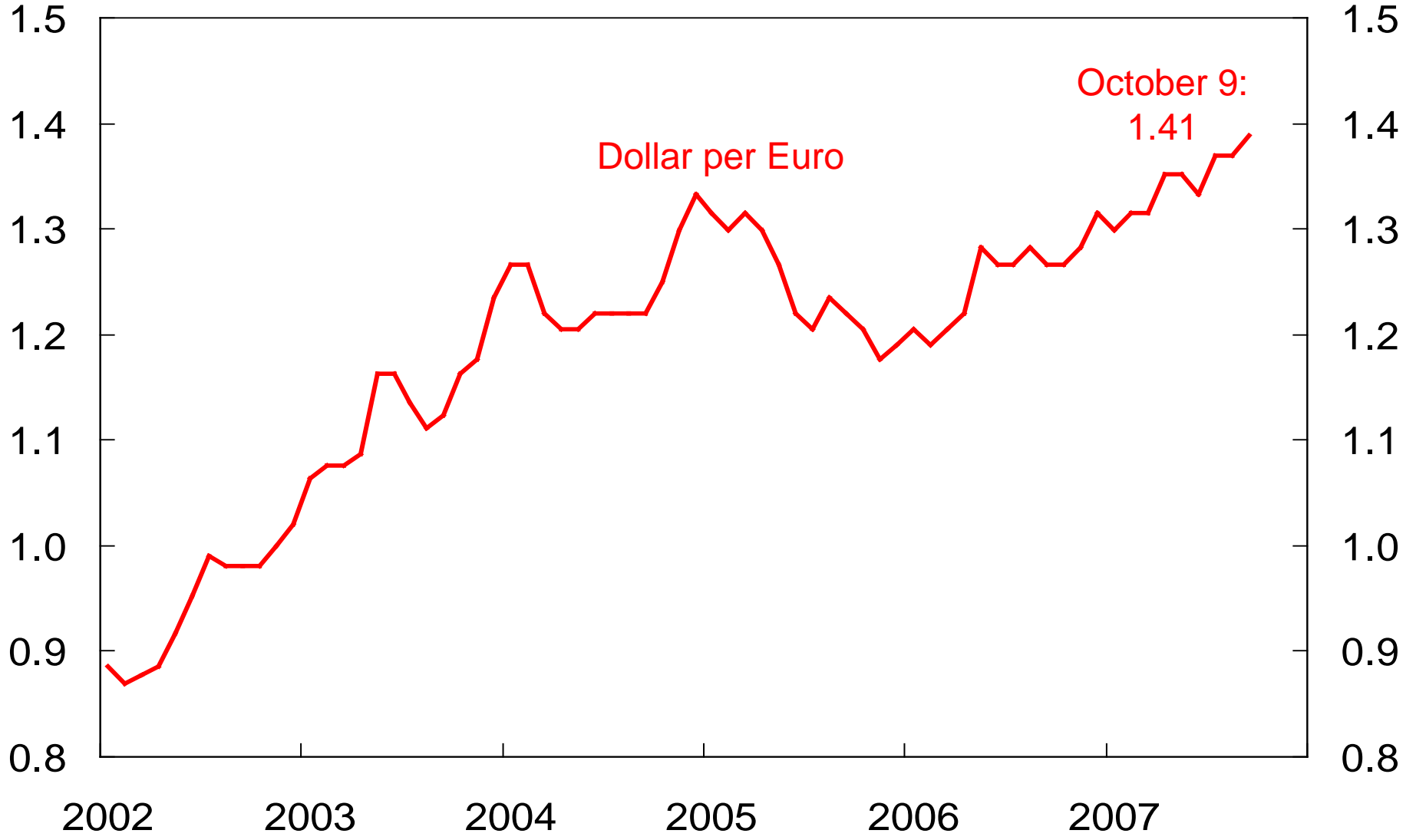
Source: Bloomberg and Federal Reserve Board

Note: Data are monthly averages.

Euro-Dollar Exchange Rates

Dollar/Euro

Dollar/Euro



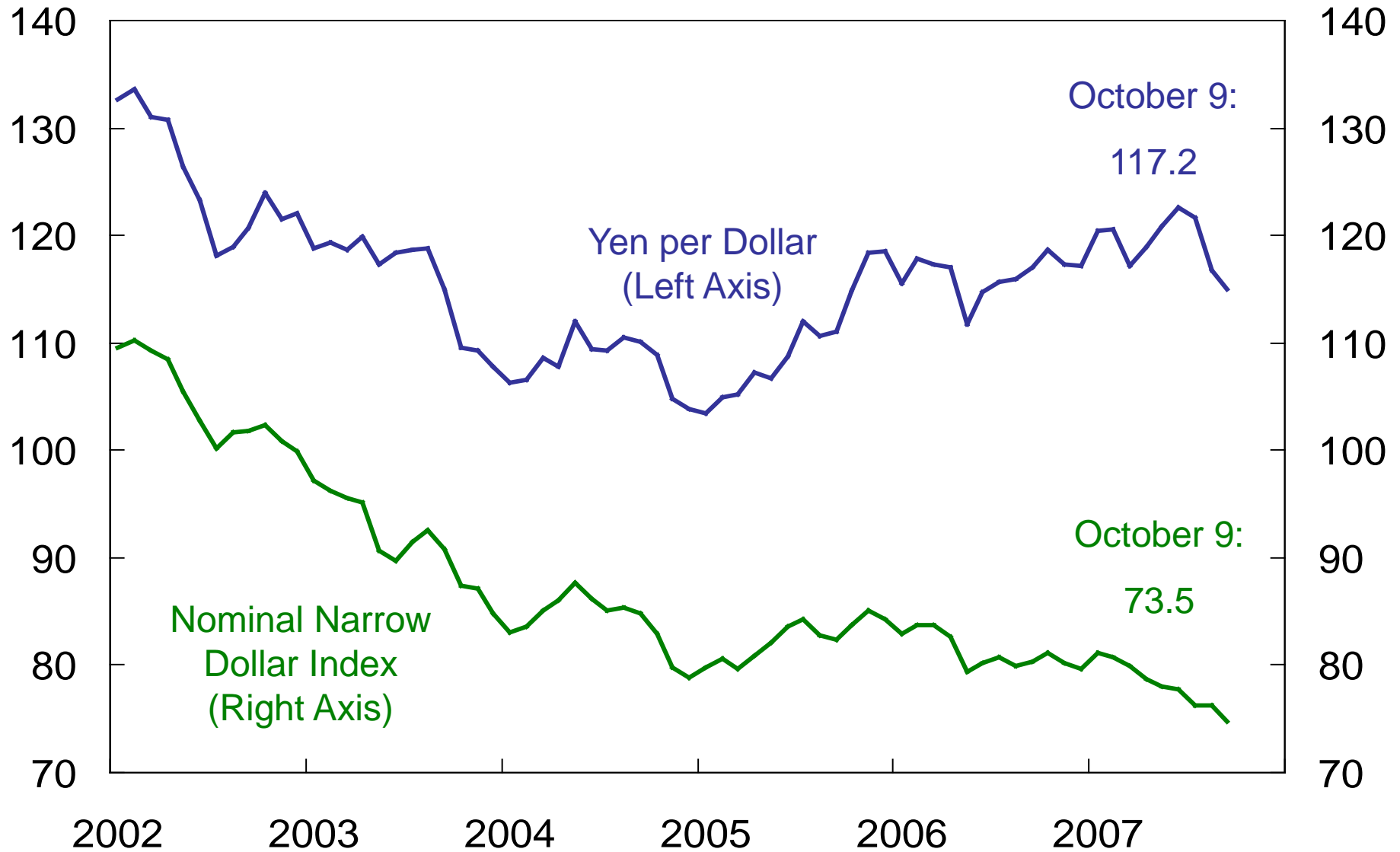
Source: BIS

Note: Data are monthly averages.

Yen-Dollar Exchange Rate and Narrow Dollar Index

Yen/Dollar

Index, 2000=100



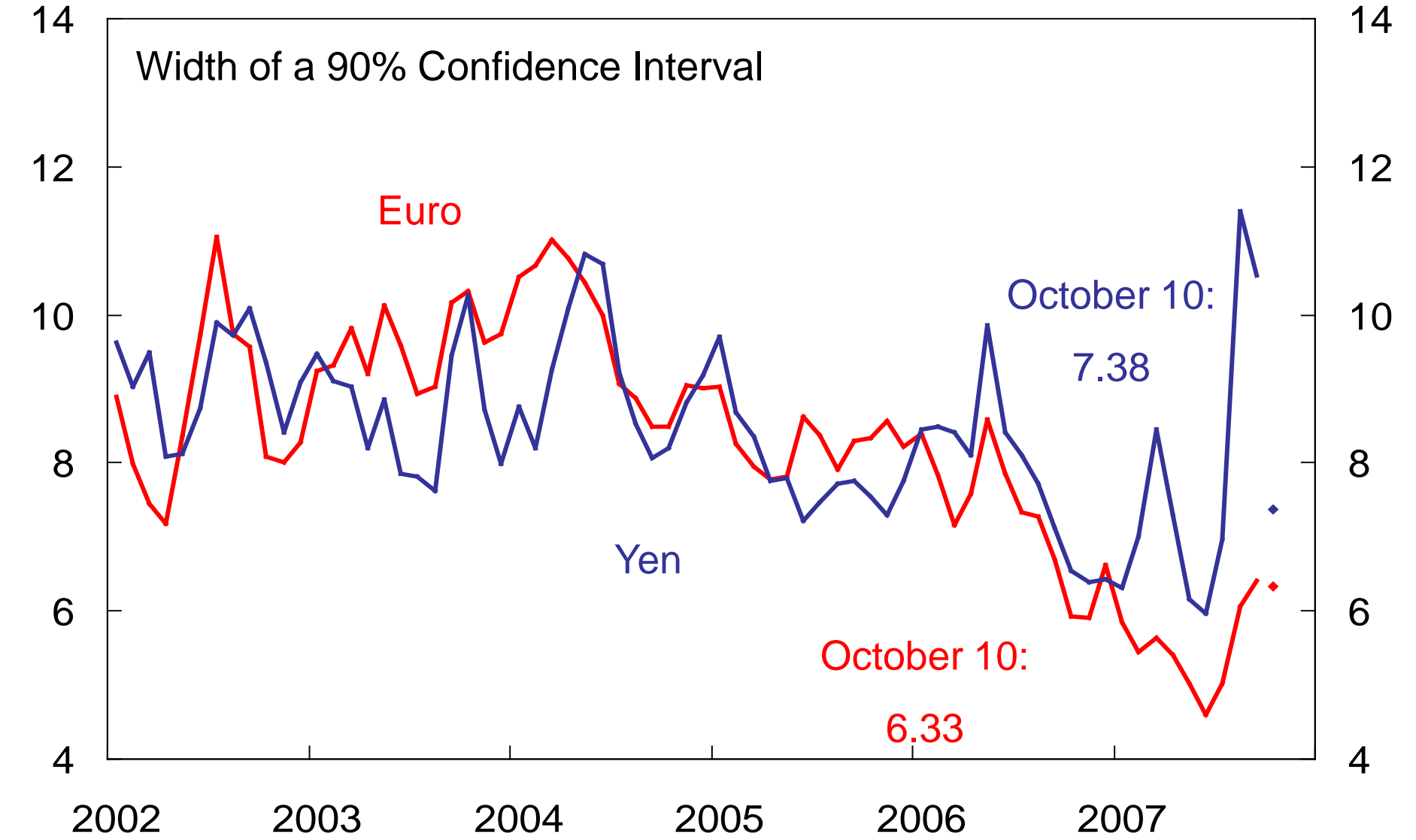
Source: BIS and Federal Reserve Board

Note: Data are monthly averages.

Euro and Yen One-Month Implied FX Option Volatility

Percentage points

Percentage points



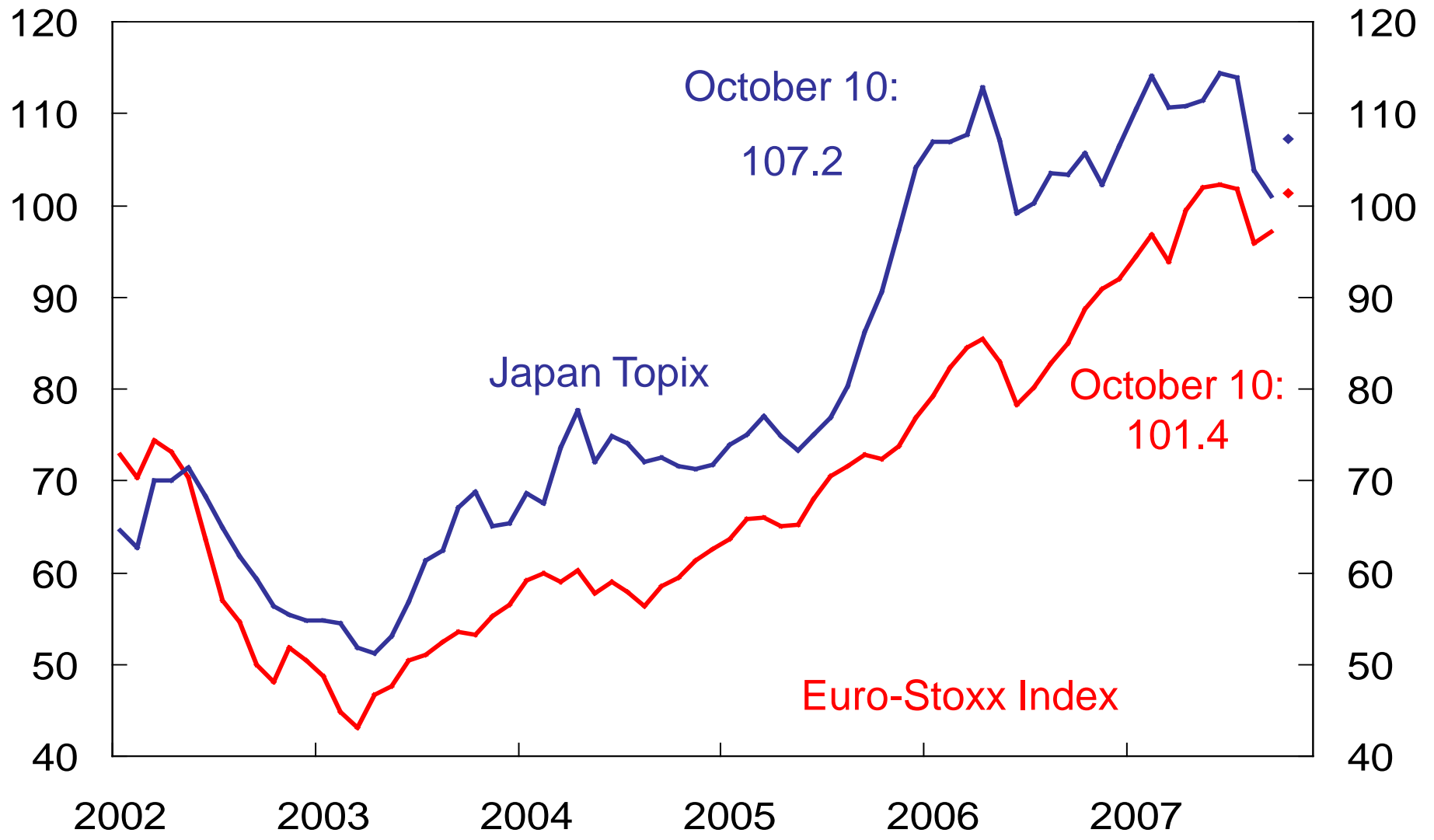
Source: Reuters

Note: Data are monthly averages.

Euro Area and Japan Equity Indices

Index 2000=100

Index 2000=100



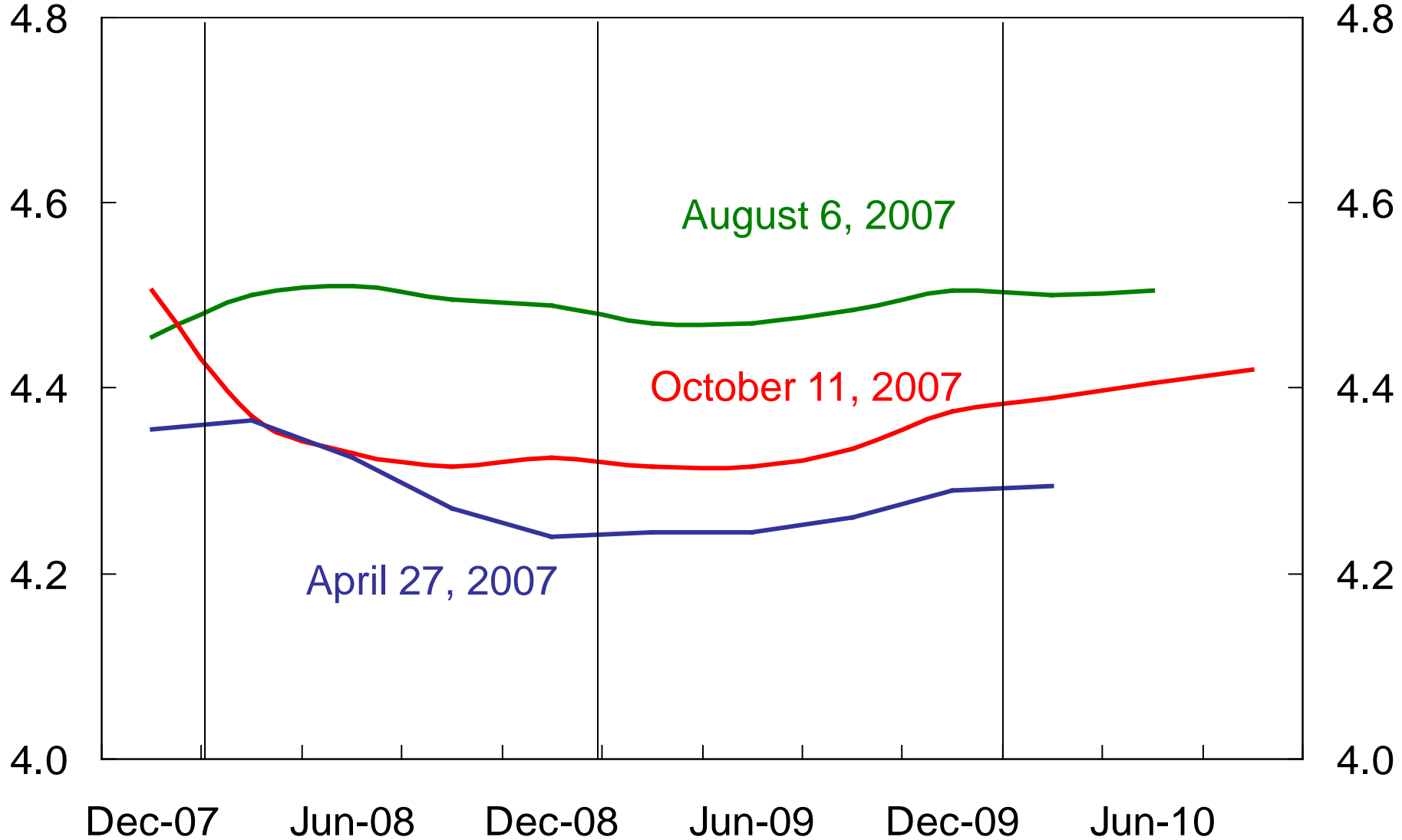
Source: BIS and Bloomberg

Note: Data are monthly averages.

Three-Month Eurocurrency Futures Rates: Euro

Percent

Percent

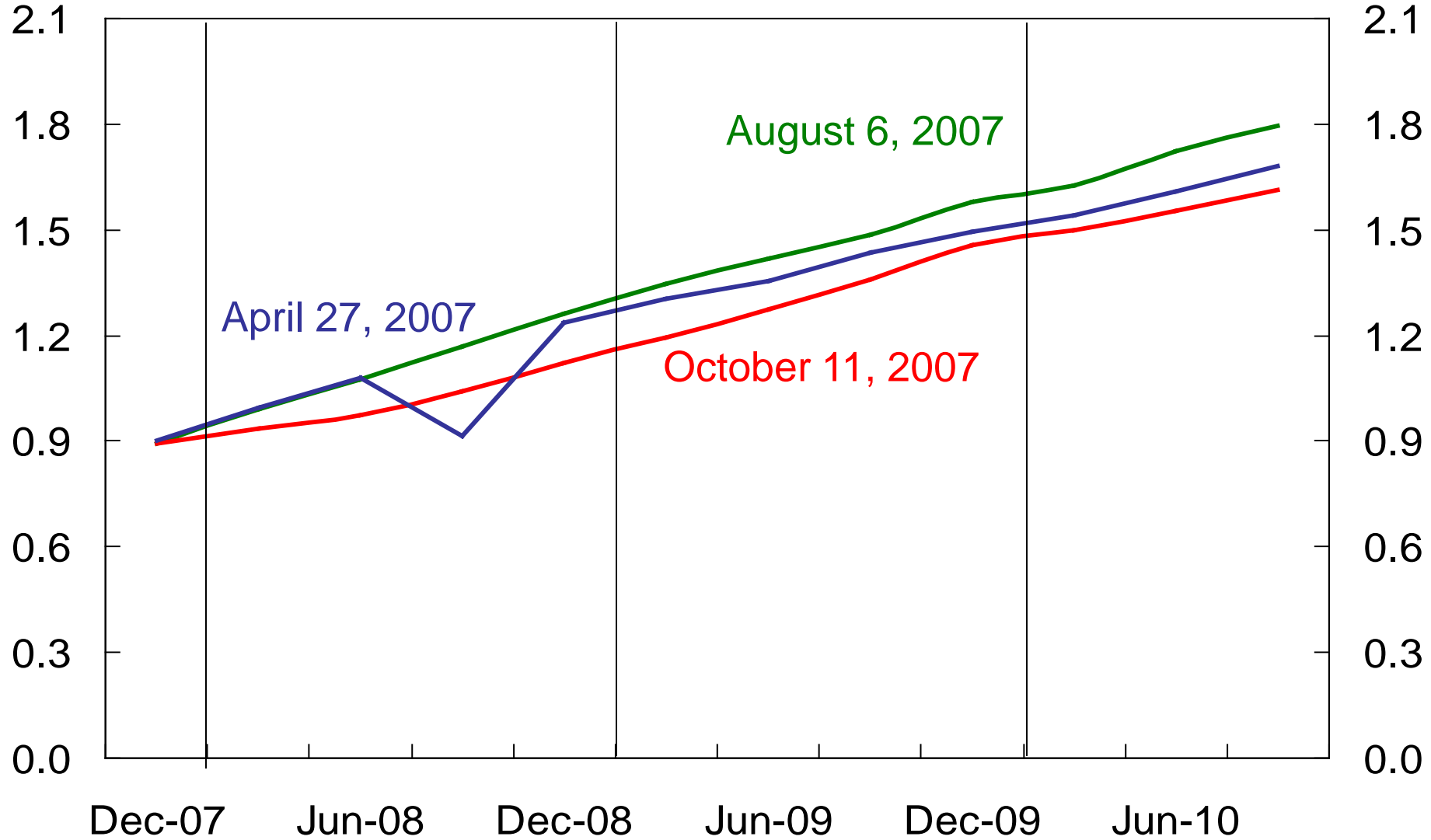


Source: Datastream

Three-Month Eurocurrency Futures Rates: Yen

Percent

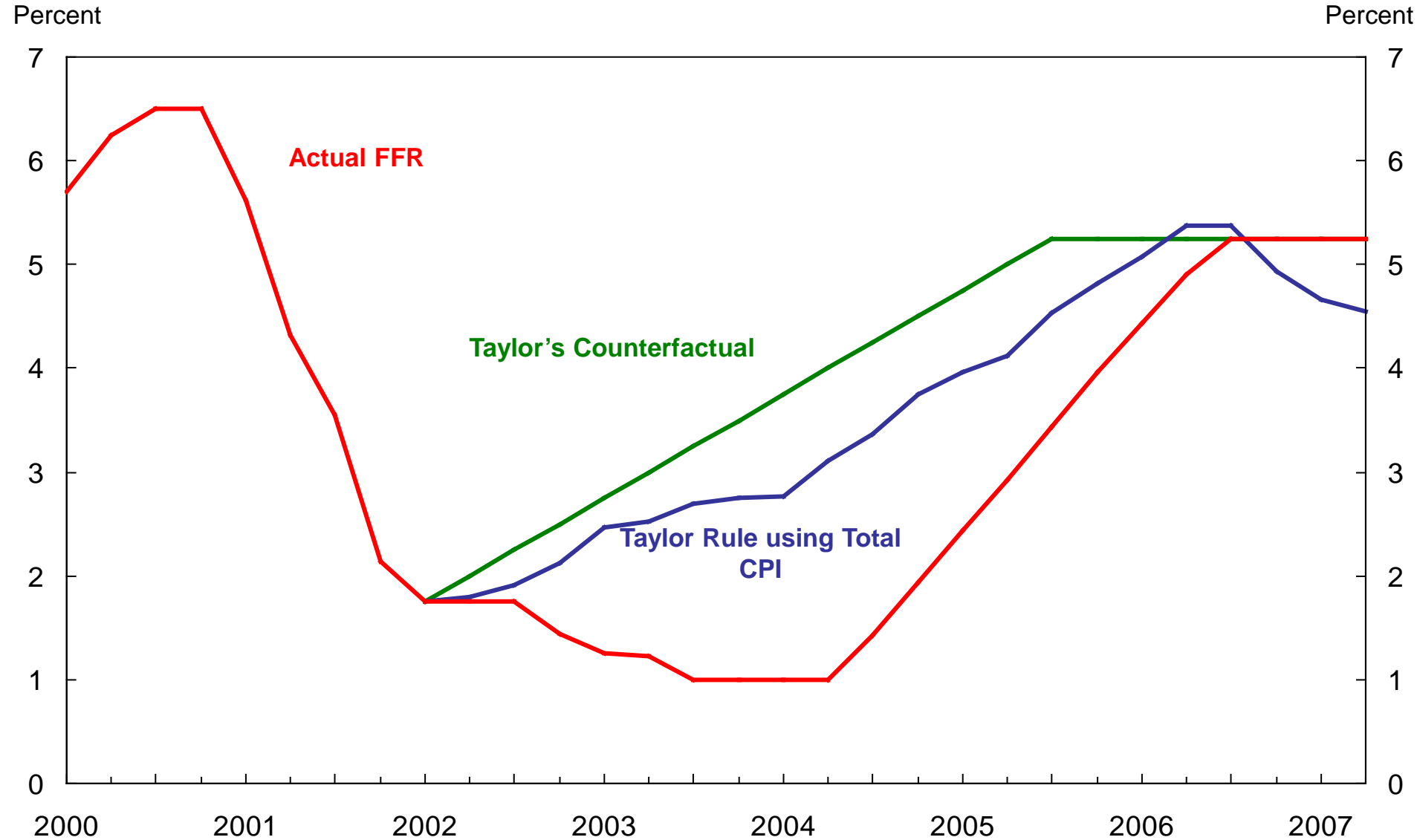
Percent



Source: Datastream

Quarterly Actual and Approximated Fed Funds Rate

Taylor's Counterfactual FFR and its Approximation with CPI

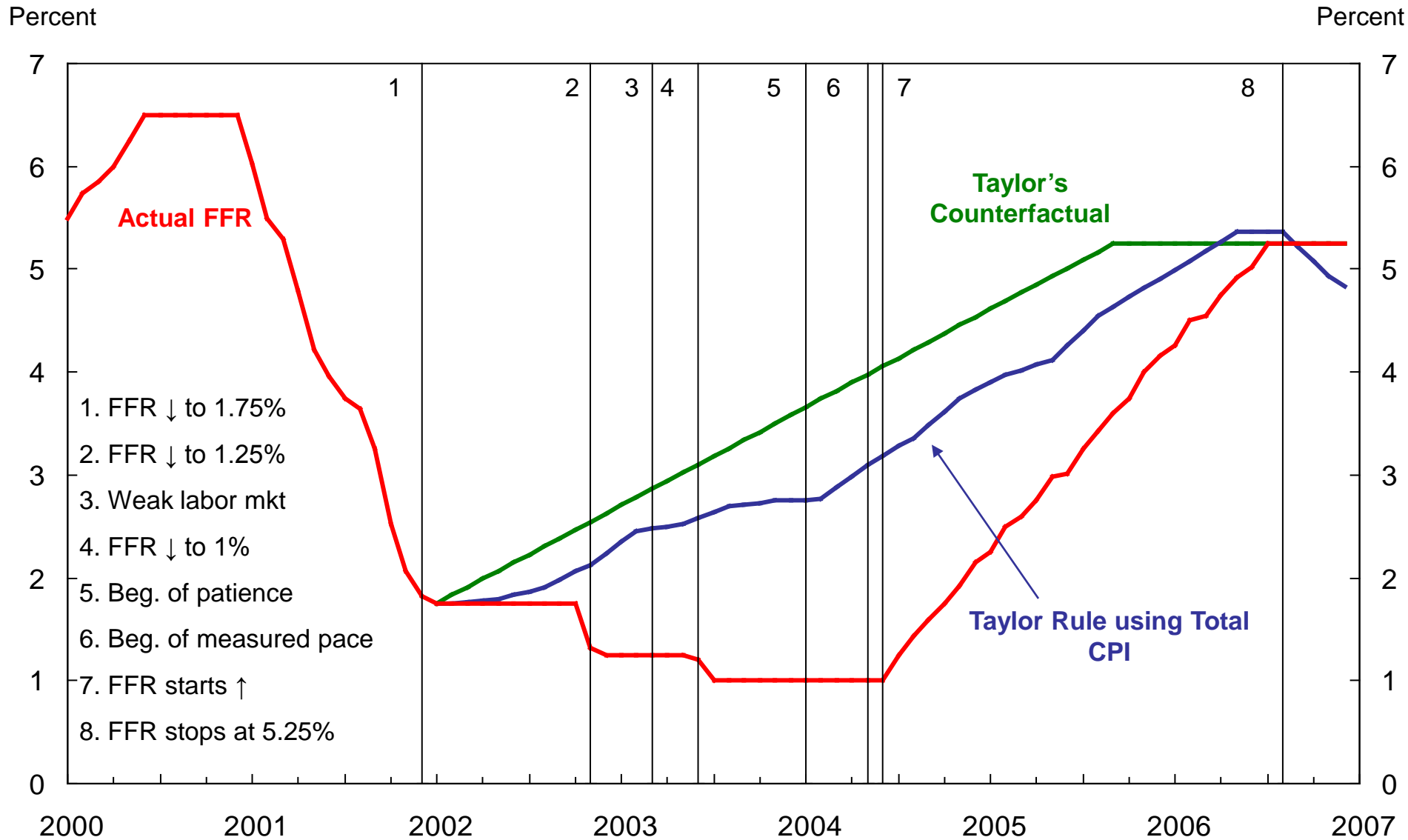


Source: Bureau of Labor Statistics, Congressional Budget Office,
Bureau of Economic Analysis, Federal Reserve Board

Note: Approximated using ex-post data.

Quarterly Actual and Approximated Fed Funds Rate

Taylor's Counterfactual FFR and its Approximation with CPI

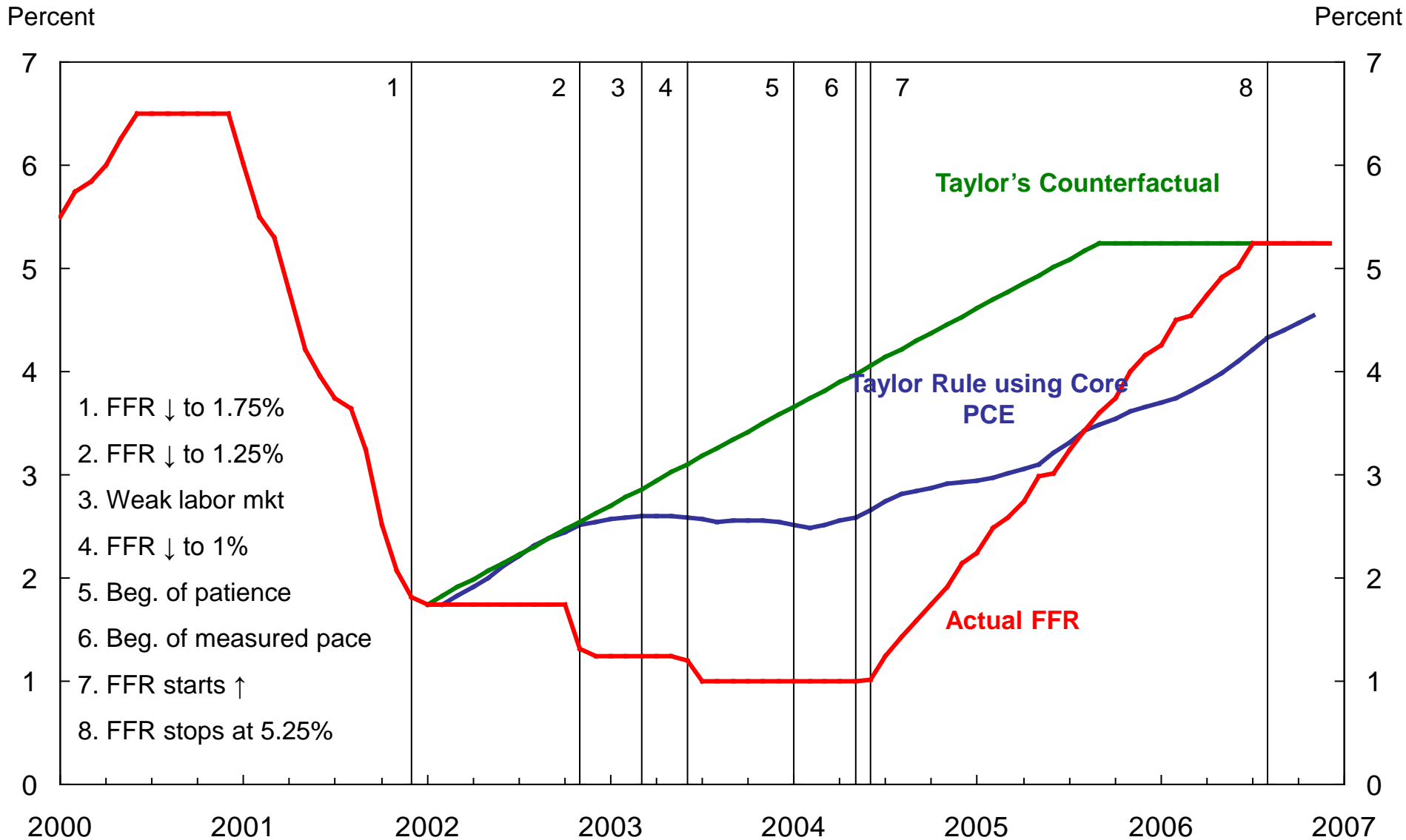


Source: Bureau of Labor Statistics, Congressional Budget Office, Bureau of Economic Analysis, Federal Reserve Board

Note: Approximated using ex-post data.

Monthly Actual and Approximated Fed Funds Rate

Taylor Rule using Core PCE



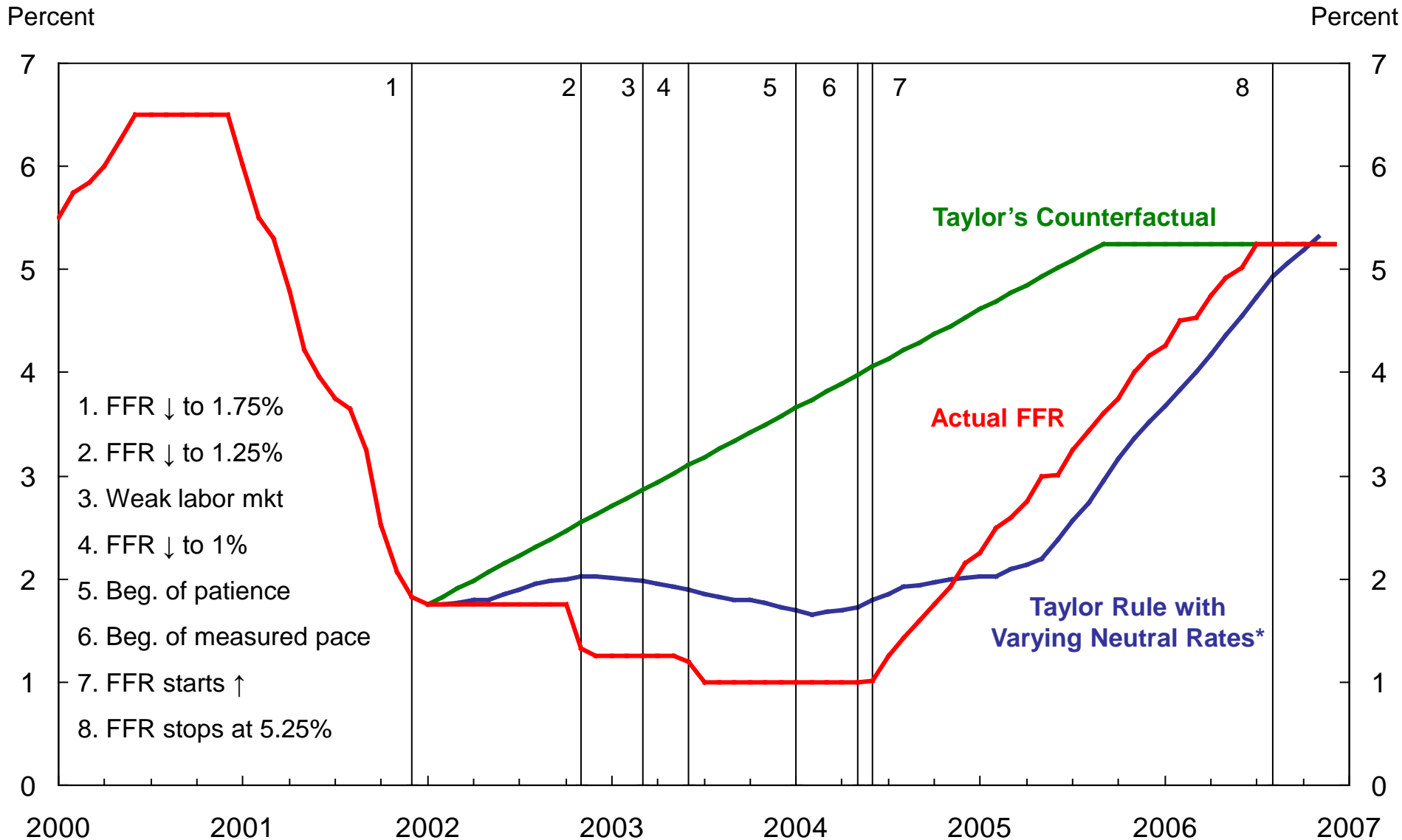
1. FFR ↓ to 1.75%
2. FFR ↓ to 1.25%
3. Weak labor mkt
4. FFR ↓ to 1%
5. Beg. of patience
6. Beg. of measured pace
7. FFR starts ↑
8. FFR stops at 5.25%

Source: Federal Reserve Board

Note: Approximated using real-time data.

Monthly Actual and Approximated Fed Funds Rate

Taylor Rule with Varying Neutral Rates*



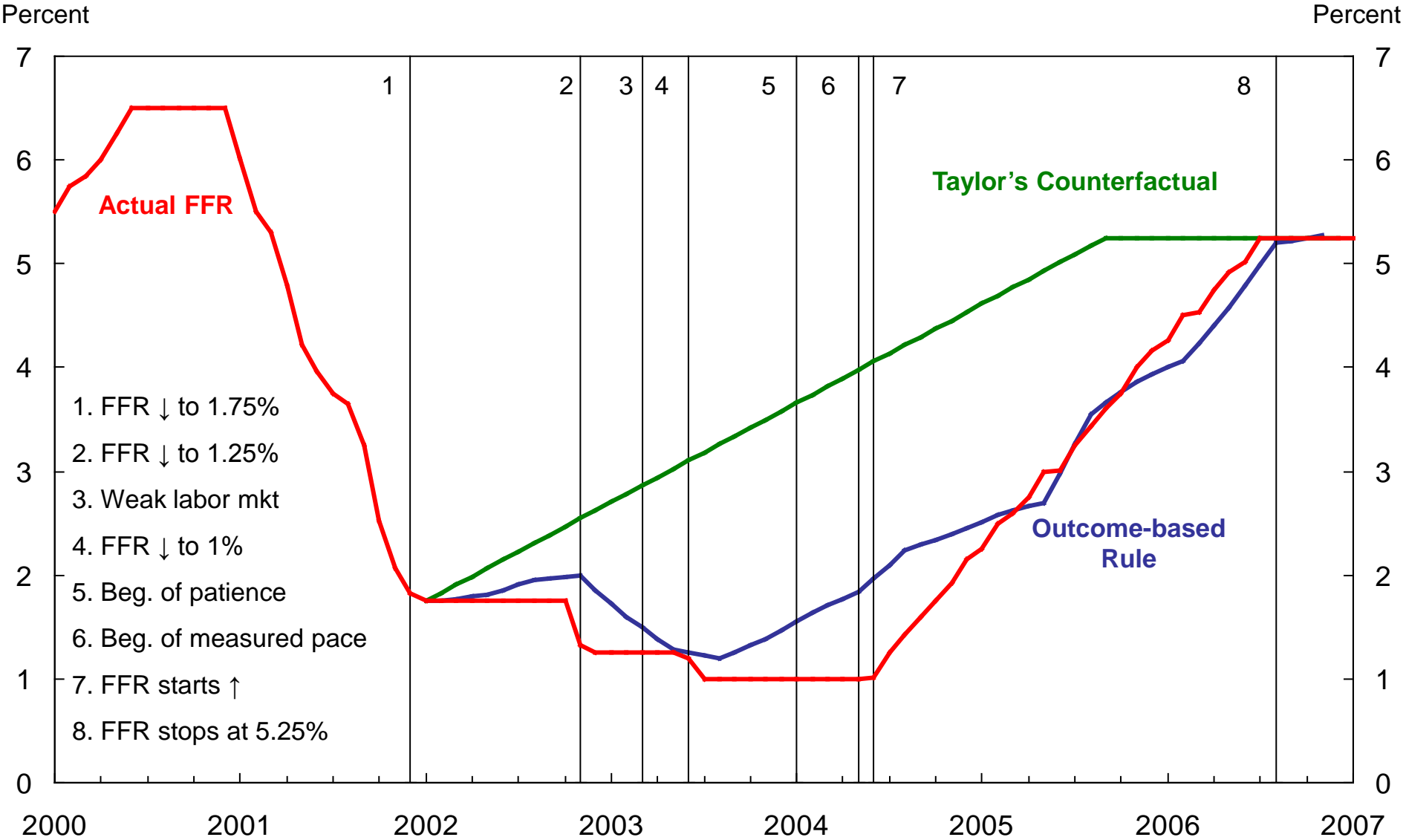
Note: Approximated using real-time data.

*Between 3 and 5.5.

Source: Federal Reserve Board

Monthly Actual and Approximated Fed Funds Rate

Outcome-based Rule

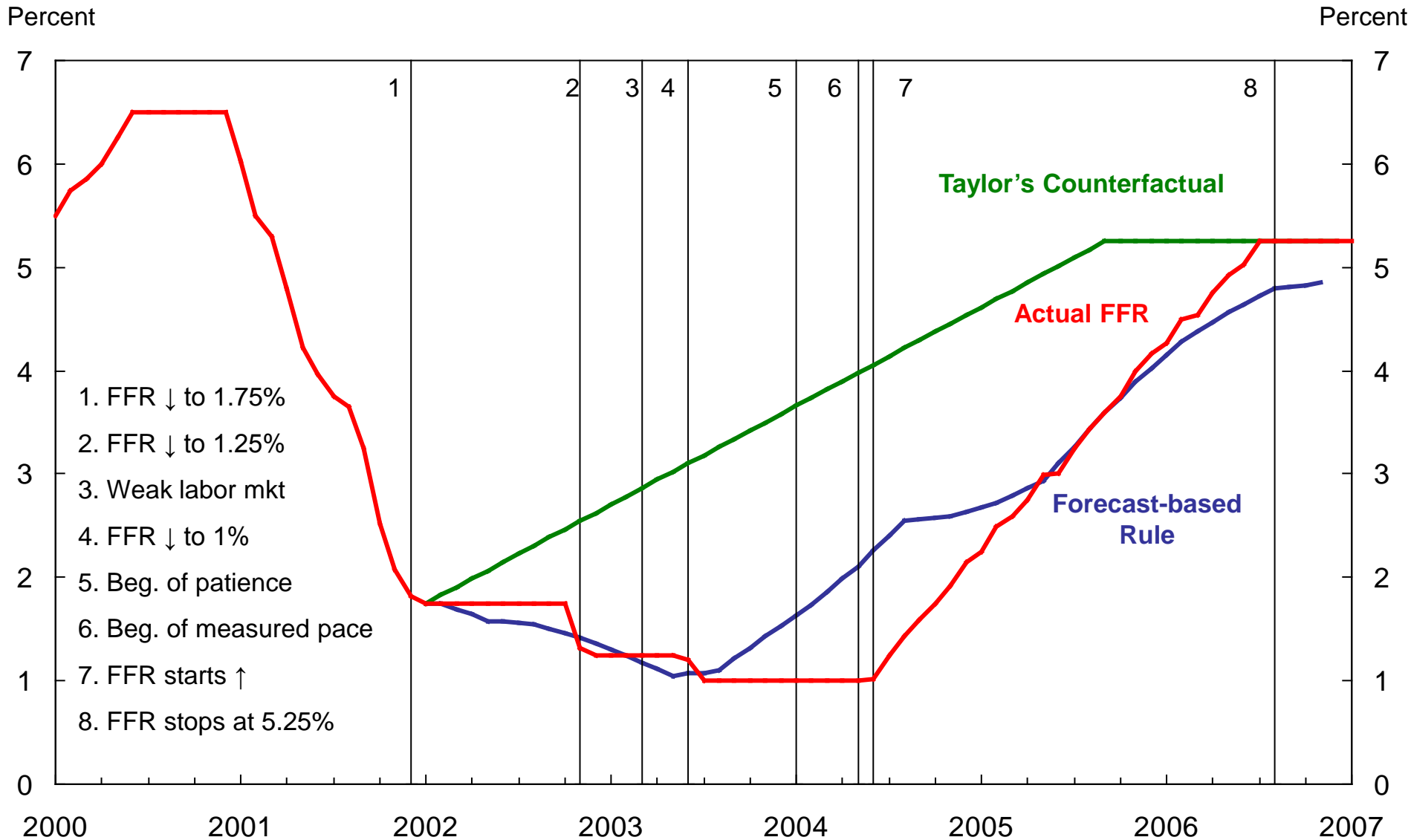


Source: Federal Reserve Board

Note: Approximated using real-time data.

Monthly Actual and Approximated Fed Funds Rate

Forecast-based Rule



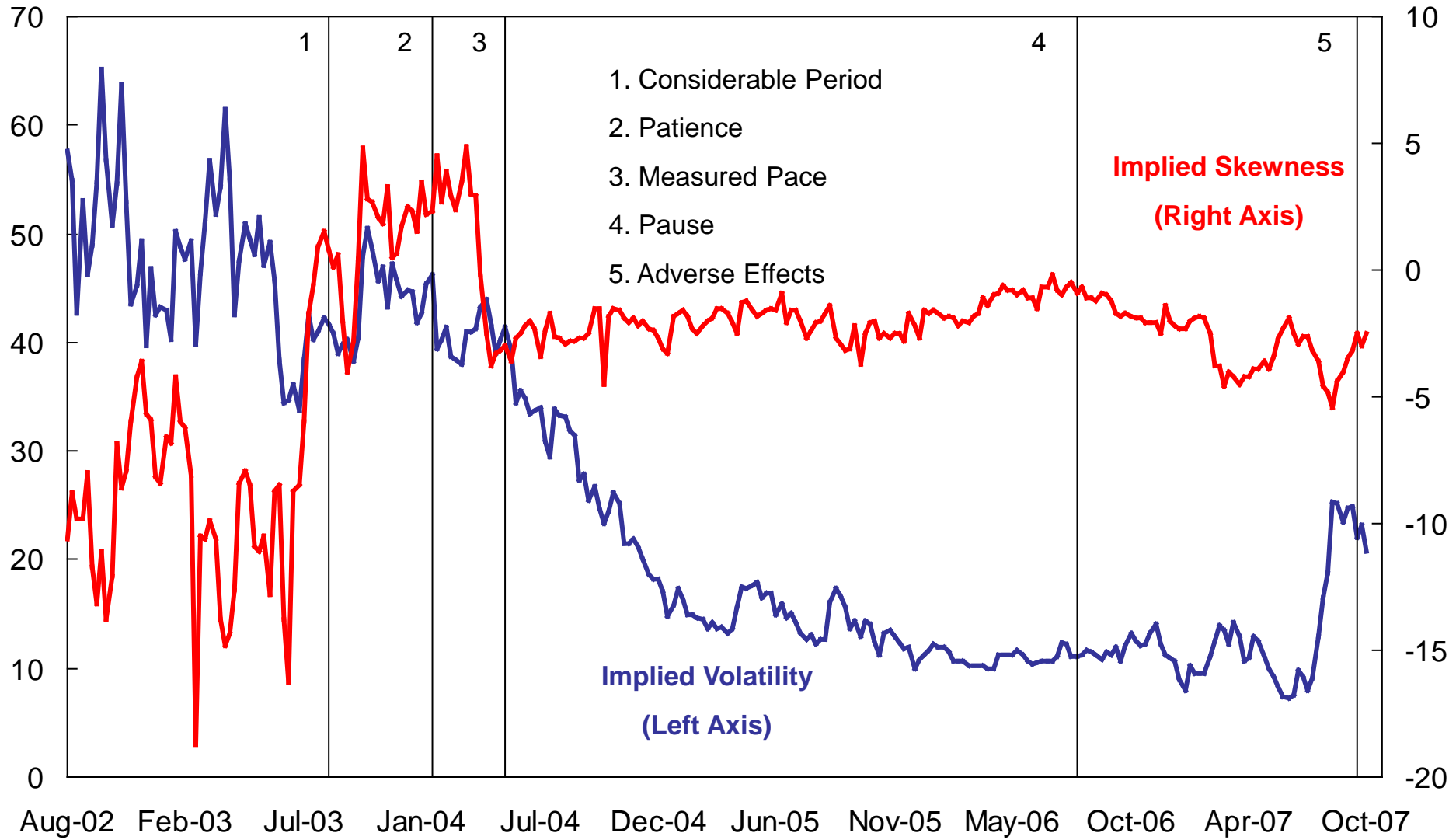
Source: Federal Reserve Board

Note: Approximated using-real time data.

Implied Skewness and Volatility

Percent

Percent



Note: Weekly averages based on 3-9 month implied volatilities from Eurodollar futures options

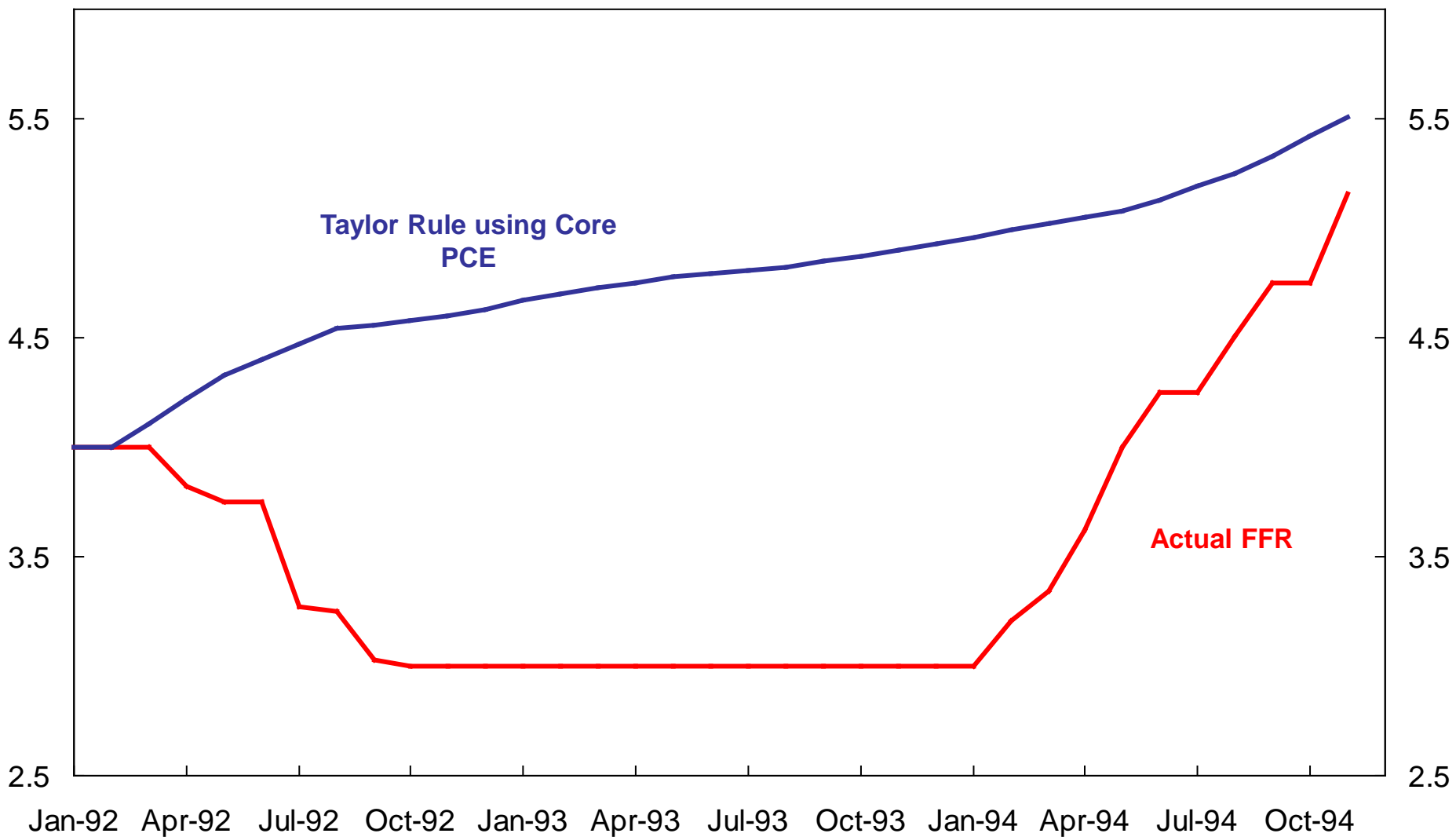
Source: CME and FRBNY calculations

Monthly Actual and Approximated Fed Funds Rate

Taylor Rule using Core PCE

Percent

Percent

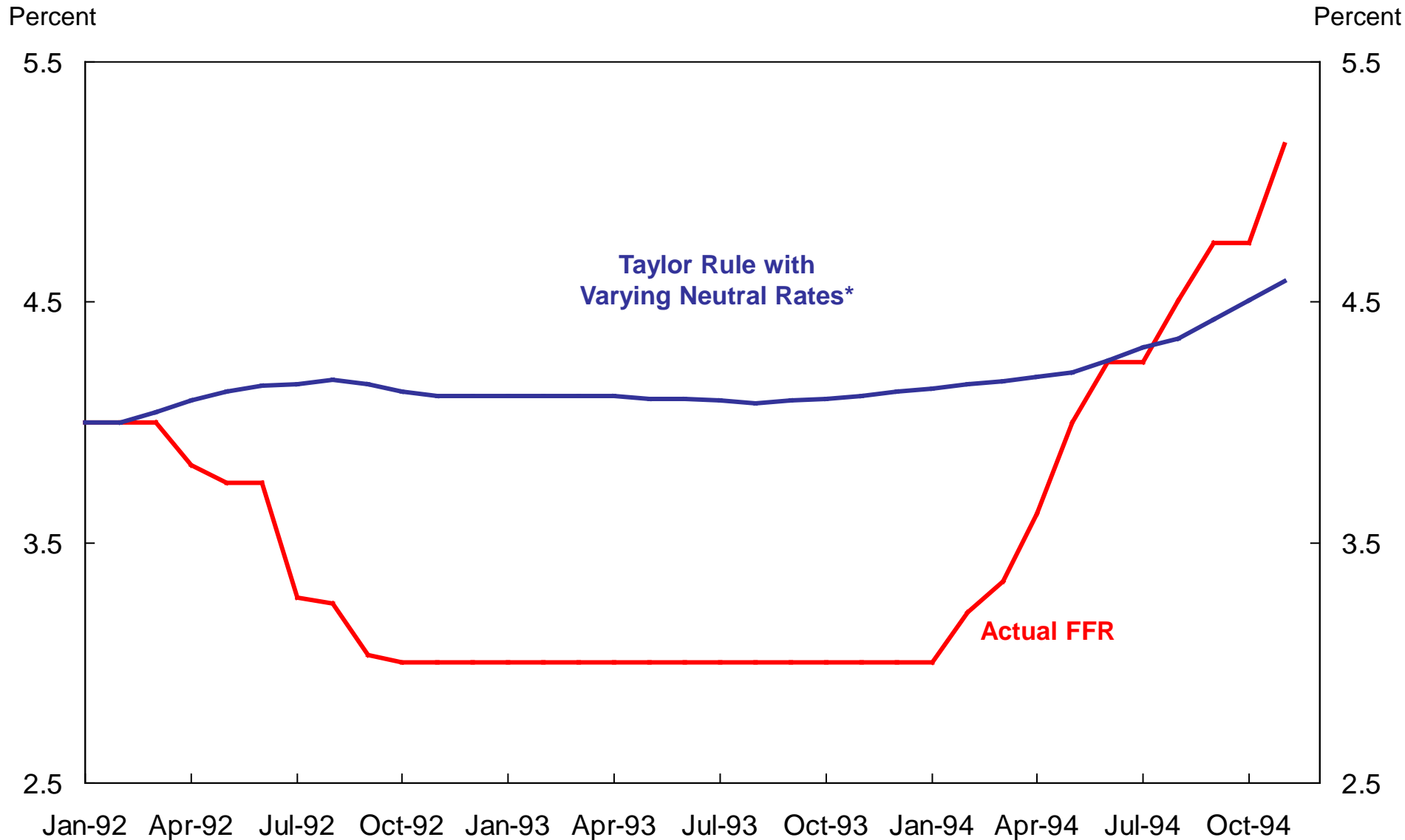


Source: Federal Reserve Board

Note: Approximated using real-time data.

Monthly Actual and Approximated Fed Funds Rate

Taylor Rule with Varying Neutral Rates*



Note: Approximated using real-time data.

*Between 3 and 5.5.

Source: Federal Reserve Board

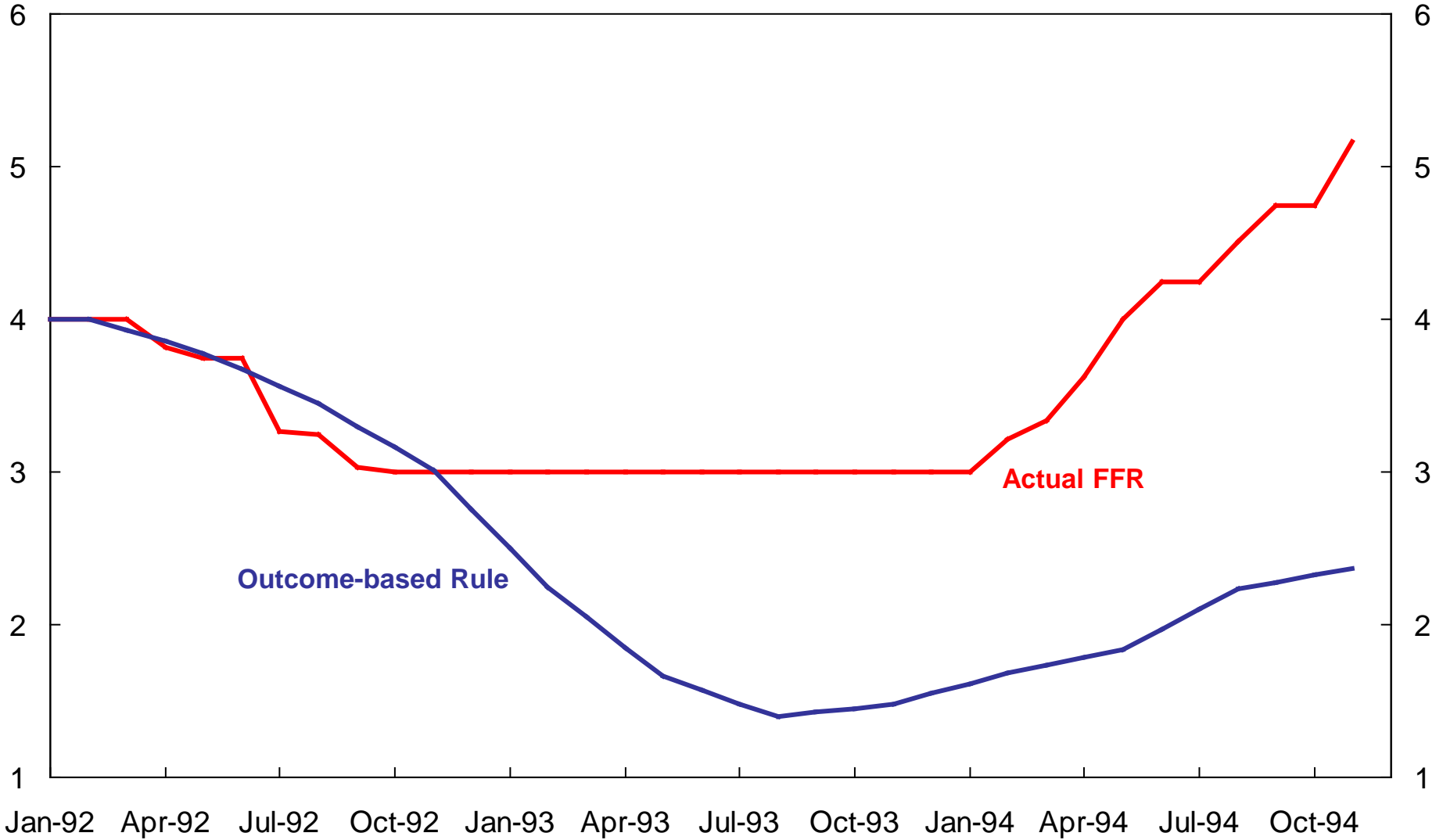
for internal use only

Monthly Actual and Approximated Fed Funds Rate

Outcome-based Rule

Percent

Percent



Source: Federal Reserve Board

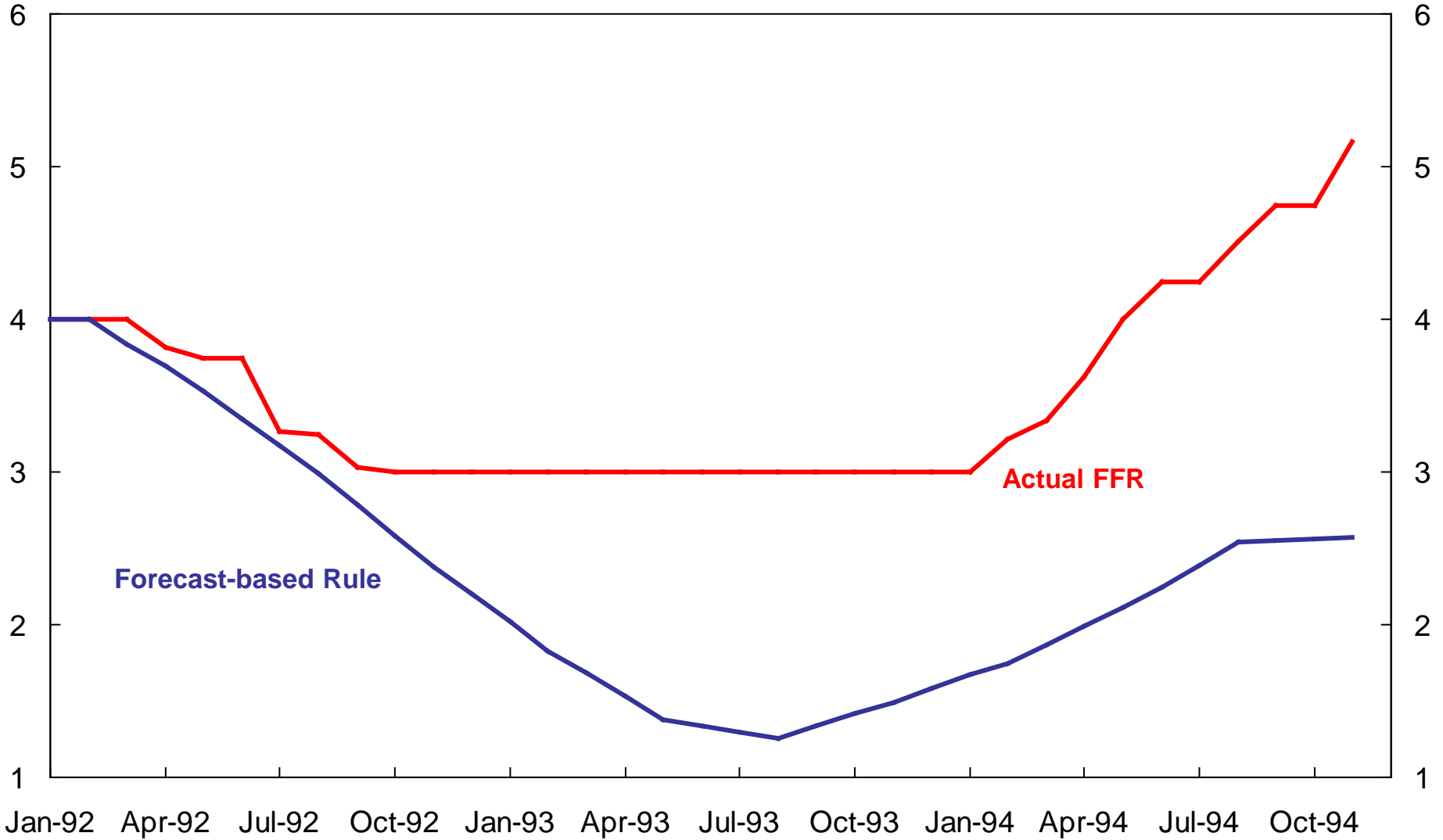
Note: Approximated using real-time data.

Monthly Actual and Approximated Fed Funds Rate

Forecast-based Rule

Percent

Percent



Source: Federal Reserve Board

Note: Approximated using real-time data.