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CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON MONETARY POLICY AND THE ECONOMIC OUTLOOK

WASHINGTON, D.C. -- I am pleased to welcome Chairman Greenspan to testify before the Joint Economic Committee this morning. We appreciate your appearance today to discuss monetary policy and the improved economic situation that has emerged in recent months.

The economy appears to be recovering from the slowdown that began in the middle of 2000, and turned into a mild recession in March of 2001. The September 11 terrorist attacks inflicted further economic damage. Nonetheless, in the last quarter of 2001, real GDP increased 1.7 percent, with personal consumption spending surging at a 6.1 percent rate.

In addition, manufacturing output has stabilized and appears to be expanding, home sales have held up well, and large payroll employment declines have subsided. The liquidation of inventories last year has established the basis for inventory rebuilding later in 2002. Another positive aspect of the current outlook is that good productivity growth has been sustained through the business cycle and appears likely in the future. Economic forecasts generally anticipate a strengthening of economic growth during 2002. Leading market price indicators show no significant threat of inflation in the pipeline.

The recovery has begun, but there are potential weaknesses and vulnerabilities that could affect the breadth and sustainability of the economic rebound. As the Federal Reserve has pointed out, the declines in business profits and investment were important factors in the recession, and these remain problematic. Despite the improvement in fourth quarter GDP, investment spending fell sharply. Business and household debt levels are relatively high by historic standards and could restrain growth.

In addition, the weakness in the economies of some of our international trading partners limits overseas markets for U.S. production. Meanwhile, costs imposed by terrorism, the instability in the Middle East, and the increase in oil prices provide other potential impediments to faster U.S. growth. Unfortunately, there are a number of major risks to the U.S. economic recovery.

Given these risks, the current stance of Federal Reserve monetary policy seems appropriate. The Federal Reserve wisely has shown restraint in not tightening monetary policy as the economic rebound consolidates. With little threat of inflation, there has been no reason for a tightening of monetary policy by the Federal Reserve.

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