CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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FED MAY BE APPROACHING NEUTRAL INTEREST RATE

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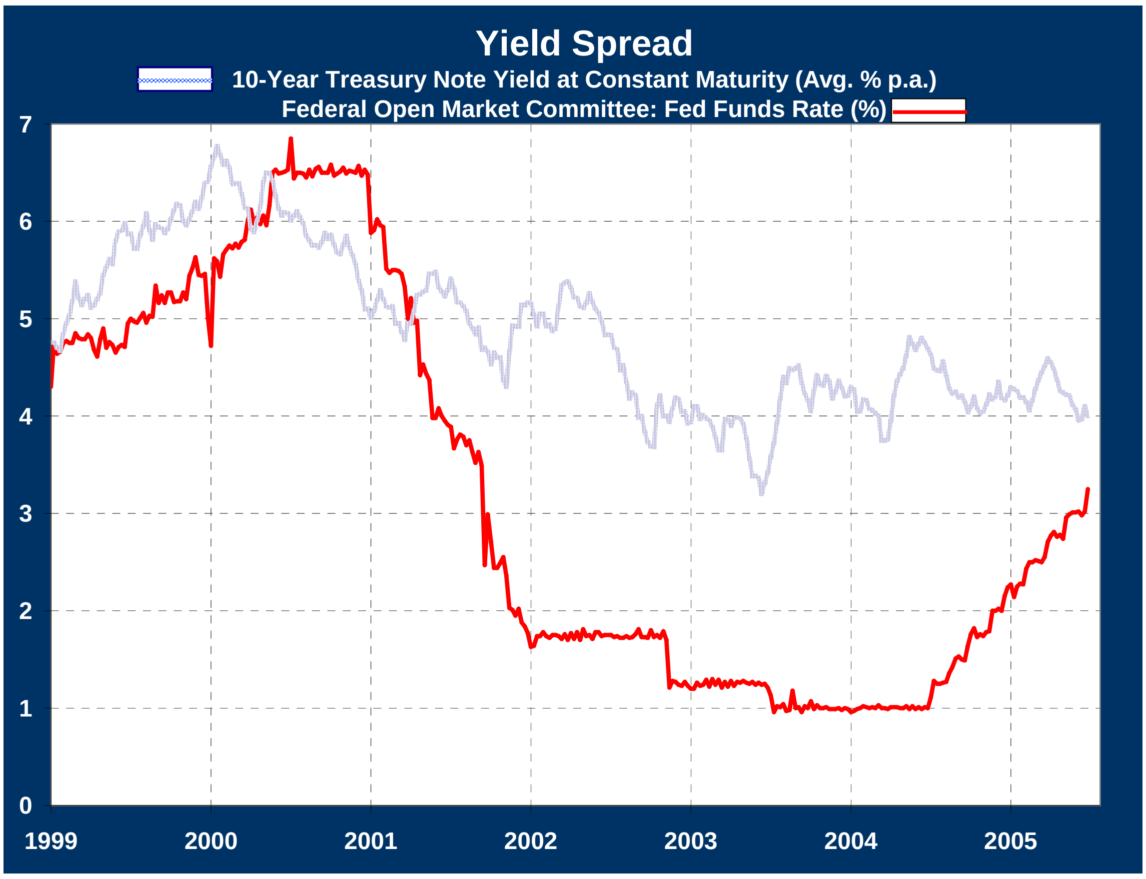
WASHINGTON, D.C. – It appears likely that the Federal Reserve's increases in short-term interest rates will move these rates into a range where a reappraisal of the stance of monetary policy will soon be appropriate, Chairman Saxton said today. The Fed's action today raising the federal funds rate 25 basis points to 3.25 percent is expected to be followed by a similar increase in August.

"With the yield of the 10-year bond currently just below 4 percent, there may be little difference between short- and long-term interest rates in August," Saxton said. "This creates a situation where subsequent increases in the fed funds rate could leave them even higher than long-term rates. Economists refer to this as an inversion of the yield curve, a pattern which in the past has been associated with economic slowdowns.

"Forward looking market price indicators of inflation – commodity prices, foreign exchange value of the dollar, and long term interest rates – show that inflation pressures remain stable. If these indicators continue to reflect a containment of inflationary expectations through August, it may be appropriate for the Fed to pause before moving further to raise interest rates. The data show that the economy currently is quite strong, but the historical record indicates that the emergence of an inverted yield curve could undermine this strength in the future," Saxton concluded.



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