



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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Saxton Warns of Deflation Risk -- Federal Reserve Should Consider Interest Rate Cut--

WASHINGTON, D.C. – Potential deflationary pressures justify the Federal Reserve's consideration of lower interest rates and an easing of monetary policy, **Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ)** said today. His comments follows today's Bureau of Labor Statistics release reporting a 0.2 percent decline of the Producer Price Index (PPI) in December. The overall PPI fell 1.2 percent in 1997. Last December, Saxton noted the emerging potential for deflation in urging the Federal Reserve to consider easing monetary policy.

Chairman Saxton's statement follows:

"According to the market price indicators used by the JEC, the potential for deflation continues. Once again I urge the Federal Reserve to consider a reduction in interest rates and an easing of money policy to avoid this danger. Our market price indicators – commodity prices, bond yields, and especially the dollar – continue to suggest that policy remains stringent.

Monetary policy must be preemptive and move to offset potential deflation as well as inflation when necessary. The Federal Reserve should consider an interest rate cut at the next FOMC meeting in February. In addition, the strength of the dollar, an important market price indicator, reflects increased global demand for this reserve currency and confirms the monetary tightness reflected in other indicators. This movement suggests a need for the U.S. Treasury to explain exactly what its dollar policy is at the moment."

The JEC monitors the broad Producer and Consumer price indexes but also focuses on forward-looking indicators such as commodity prices, the foreign exchange value of the dollar, and bond yields. During the past year, the JEC has released several studies on market price indicators and other issues in monetary policy.

The studies are as follows:

- (1) [Lessons From Inflation Targeting Experience](#), February 1997
- (2) [The Importance of the Federal Reserve](#), March 1997
- (3) [Establishing Federal Reserve Inflation Goals](#), April 1997
- (4) [The Roots of the Current Expansion](#), April 1997
- (5) [A Response to Criticisms of Price Stability](#), September 1997
- (6) [Transparency and Federal Reserve Monetary Policy](#), November 1997

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