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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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LATEST PRICE FIGURES SHOW NO SIGNIFICANT INFLATION – Support for Stability in Monetary Policy –

WASHINGTON, D.C. – The latest releases of price data for producer and consumer prices continue to show inflation in check and suggest that sharp increases in interest rates by the Federal Reserve would be unnecessary, Joint Economic Committee (JEC) Vice Chairman Jim Saxton said today. Yesterday's release of core producer price data show an increase of 0.1 percent for December, while the core consumer price index data released today show an overall increase of only 0.1 percent in the same month. Recently there has been speculation about whether the Federal Reserve will choose to raise short-term interest rates by as much as half a percentage point when its policy making committee meets February 1 and 2.

"The recent producer and consumer price data show no surge in inflation and no need for steep hikes in interest rates by the Federal Reserve," Saxton said. "If one is concerned about potential increases in the general price level, the appropriate focus is the price data, not the labor market or real economic growth. As Chairman Greenspan and I have discussed at several JEC hearings, a policy of low inflation is consistent with low unemployment. The old Phillips curve notion of a trade-off between inflation and unemployment is not valid and should not be used as a basis for monetary policy.

"As we also have discussed, monetary policy must be pre-emptive. However, forward-looking price signals do not show clear evidence of inflation in the pipeline. Some of these leading inflation indicators seem to reflect more moderation in the wake of recent Fed policy actions. The latest data from these indicators taken together do not show a need for sharp rate hikes by the Federal Reserve.

"In the past, Chairman Greenspan and I also have agreed that the essence of Federal Reserve policy in recent years has been based on informal inflation targeting. While Greenspan deserves great credit for his implementation of this inflation targeting approach, more public attention is needed on the specific contents of this highly successful monetary policy. As the London *Economist* magazine recently suggested, the time is right for inflation targeting to be institutionalized. There is strong academic and institutional support within the Fed for this approach, and last session I introduced a bill (H.R. 653) to accomplish this objective," Saxton concluded.

For JEC research and studies on the Federal Reserve, monetary policy, and inflation targeting, please see the JEC website at www.house.gov/jec.

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