



# M O N E T A R Y

## *P o l i c y*

### Conducting monetary policy in today's global environment

**T**he U.S. economy turned in another strong performance in 1998, despite turbulence in domestic financial markets and continued financial unrest around the world. It's hard to remember when so many economic developments – both here and abroad – have been in play at the same time. And seldom have global economic events been so critical to the U.S. economy and to monetary policy decisions.

#### A tale of two halves

As the year began, the economy entered its eighth year of expansion, making it one of the longest peacetime expansions in America's history.

In many ways, the first half of the year performed on cue. Spending in key economic sectors remained solid, even robust. Consumer spending barreled ahead,

business investment in plant and equipment continued to rise at double-digit

rates, and the housing market surged. Meanwhile, unemployment dipped to a 28-year low.

Against this backdrop of solid growth, inflation stayed surprisingly low. Strong domestic demand was tempered by a weakened net export market, providing a safety valve for what otherwise

might have been an overheated U.S. economy.

But midway through the year, the economic landscape began to change. Overseas, the Asian economies continued to struggle, especially Japan's. Russia found itself in a perilous situation. Then some Latin American countries, notably Brazil, experienced problems. Investors worldwide began to cast a more cautious eye.

Here at home, the stock market took notice. After cresting at 9,500 points in July, the Dow Jones began gyrating hundreds of points in response to global news, which in turn jostled foreign markets, making volatility around the world the daily norm. Compared with the previous 12 months, the volatility of daily stock returns roughly doubled.

Business confidence weakened somewhat but remained strong, and consumer confidence in the U.S. economy overall remained at its highest level in nearly 30 years.

In some ways, the U.S. economy actually benefited from the financial turmoil overseas. Many international investors, fleeing emerging markets abroad, viewed the United States as a safe haven for their assets and flooded the U.S. Treasuries market, pushing yields on 30-year Treasury bonds to record lows. Meanwhile, the prime rate and interest rates

*Against this backdrop of solid growth,  
inflation stayed surprisingly low.*

*In 1998, the Fed cut interest rates  
three times in seven weeks.*

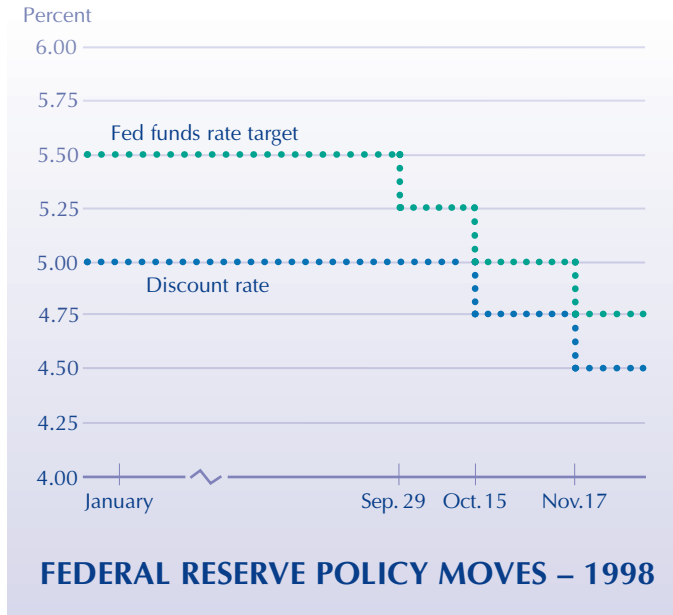
on highly rated corporate debt also fell. And 30-year fixed rates on home mortgages dipped to their lowest levels in a generation.

Developments like these kept demand for housing strong and allowed many consumers to improve their cash flow by refinancing existing mortgages. The low rates also helped lower the cost of credit card debt and home equity lines of credit.

### Monetary policy moves

By late September, as the world's financial ills spread deeper and further than almost anyone had expected, the Federal Reserve decided to act. Citing a backdrop of "increasing weakness in foreign economies" and "less accommodative financial conditions domestically," the Federal Open Market Committee, the Fed's policymaking body, lowered the federal funds rate by a quarter-point. The move was "consistent with keeping inflation low and sustaining economic growth going forward."

The FOMC then acted again in October, citing "growing caution by lenders and unsettled conditions in financial markets more generally." This time the



fed funds rate was lowered another quarter-point to 5 percent.

Concurrently, the board of directors of the Federal Reserve Bank of

Kansas City, along with seven other Reserve Banks, requested that the Board of Governors lower the discount rate. The Board of Governors approved a 25-basis-point cut, lowering the discount rate to 4.75 percent. Then, in November the Fed cut both rates another quarter-point.

### An evolving policy environment

While the U.S. economy stayed strong in 1998, events showed how rapidly global disruptions can spread. Huge sums of money can be transferred almost instantaneously from market to market, and from country to country, creating a major impact on a country's financial markets and economic health.

The Tenth District is certainly not immune to such exposure. Consequently, a critical part of the policymaking process is knowing how and when economic events overseas are reshaping conditions here at home. ■

# Profile

## JO MARIE DANCIK



**Jo Marie Dancik's unique perspective on the economy helps monetary policymakers.**

To help keep monetary policy on track, policymakers rely on a host of economic indicators and statistics – and on grass roots sources of information like Jo Marie Dancik.

When Jo Marie Dancik isn't climbing the Rockies or arbitrating a dispute between Fortune 500 companies, she is in close contact with her community's roots. "Knowing what's happening in our region is one of my passions," she says. She believes firmly that anecdotal information adds depth to the empirical data that economists use to gauge the health of the economy.

Jo Marie is chairman of the Kansas City Federal Reserve Bank's Board of Directors. Made

up of nine banking, business, and community leaders, the board assesses current economic trends, emerging developments, and the impact of global events on the economy. The board also makes recommendations on the discount rate.

Jo Marie is a managing partner at Ernst & Young's Denver office. She is a trustee of Boy Scouts of America-Denver and recently chaired the Mile High United Way fund-raising campaign. In 1996, she was named Banking and Finance Executive of the Year by the *Denver Business Journal* and was selected by a community panel to help carry the Olympic Torch through Denver.

She points out that she is not the first woman to chair the Board of Directors. "Other women have chaired the Kansas City board and the boards at the branch offices," she says. "It's important that our boards reflect the diversity of the communities we serve."

The prominent role Jo Marie plays in her community gives her a unique perspective of the nation's economy. Through her many business and community contacts, she is able to discern how global and national events are reshaping business activity in her community – information she shares with policymakers. Assets such as these help make Jo Marie an invaluable contributor to sound monetary policy. ■

# KANSAS CITY

## *B o a r d*



(From left) Mr. Schriefer, Mr. Helmerich, Mr. Nichols, Mr. Dunn, Ms. Hernandez, Mr. Barrett, Mr. Potenziani, Ms. Dancik, Mr. McQuillan.

Jo Marie Dancik  
Area Managing Partner  
Ernst & Young LLP  
Denver, Colorado  
– Chairman and Federal Reserve Agent

Terrence P. Dunn  
President and CEO  
J.E. Dunn Construction Company  
Kansas City, Missouri  
– Deputy Chairman

Dennis E. Barrett  
President  
FirstBank Holding Company of Colorado  
Lakewood, Colorado

Hans C. Helmerich  
President and CEO  
Helmerich & Payne, Inc.  
Tulsa, Oklahoma

Colleen D. Hernandez  
Executive Director  
Kansas City  
Neighborhood Alliance  
Kansas City, Missouri

William L. McQuillan  
President and CEO  
City National Bank  
Greeley, Nebraska

Charles W. Nichols  
Managing Partner  
Davison and Sons Cattle Company  
Arnett, Oklahoma

Frank A. Potenziani  
M&T Trust  
Albuquerque,  
New Mexico

Bruce A. Schriefer  
President  
Bankers' Bank of Kansas  
Wichita, Kansas

Federal Advisory Council  
Member

C.Q. Chandler  
Chairman and CEO  
INTRUST Financial Corporation  
Wichita, Kansas