CHIEF CREDIT OFFICERS ROUNDTABLE
FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois
September 21, 1999

1. Welcome. Thank you for coming to the Chief Credit Officer's Roundtable. It is very helpful to have your direct input. To set the stage for our discussions, I would like to provide a brief overview of developments in the economy.

2. When we last spoke in January, you said that:

   a. Your institutions were less vulnerable to a downturn than in the early-1990s

   b. There was plenty of liquidity

   c. Low commodity prices were a concern for those with agriculture exposure

   d. There was some concern that underwriting standards could suffer because of projected double-digit loan growth

   e. There was also concern about the changing financial landscape and your banks' roles in it.

3. Since we last spoke, we've seen continued strong economic growth.

   a. Fully expect next February you'll read headlines that the current expansion has become the longest

   b. Expansions don't die of old age, rather they end because of imbalances in the economy.

   c. We don't see those types of imbalances today.

d. Our expectations for the remainder of 1999 have actually improved from earlier in the year. We now expect growth in the range of 3 to 3½ percent at the year-end

e. Consumer spending and capital equipment expenditures are driving this impressive growth

f. Since we last met, in fact, the FOMC decided that the degree of easing required to address global turmoil of last fall was no longer consistent with sustained, non-inflationary growth

g. Therefore, the Committee twice increased the Fed fund's rate by ¼ percentage point to 5¼ percent.

h. We haven't seen significant signs of inflation yet but

    1) Consumer spending is still strong

    2) Overseas economies appear to be bottoming out, and indeed, turning up

    3) Labor markets continue to be tight

    4) Strength of the economy is evident in the Midwest

        - Most of the MW manufacturing industries are running near capacity
        - Auto industry reported sales for the past 3 months that were the strongest since 1986
        - Strong household balance sheets indicate consumers remain in the mood to buy cars and trucks
        - Sales of both new and existing homes have exceeded everyone's expectations
        - Hot housing market has spurred sales of items such as appliances and electronics
        - Unemployment rates in the region have been nearly a percentage point lower than the national average

    5) The one major area of concern is still agriculture

        - Low commodity prices are the key problem
        - Due mainly to large domestic supplies and sluggish foreign demand

4. Productivity

a. A key issue for monetary policy makers as we look to the future is the trend in productivity growth

b. US averaged 1% productivity growth during 70's and 80's

c. Last 3 years productivity growth has been around 2%

d. Even with lower productivity numbers for the second quarter of '99, we've seen average productivity growth at 2.8% during the last 4 quarters.

e. When I came to the Fed in late 1994, potential GDP estimated at around 2% — 1 percent productivity and 1% labor force growth

f. If productivity growth has shifted to a higher gear at 2%, that 1994 assessment might be a point too low

g. But economic growth was higher than 4% last year and we've continued to have strong growth this year

h. Everyone at Fed is keeping productivity trends in mind as we assess economic data.

i. Some say we've possibly entered a new era where greater productivity will allow us to see more rapid economic growth.

j. But at same time, we can't change how we conduct monetary policy on an unproven hypothesis.

k. The possibility of higher productivity growth doesn't mean the end of a need for a vigilant Fed

4. Looking forward to hearing your comments etc.