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Contact: Joe Elstner, (314) 444-8902 or Charles B. Henderson,(314) 444-8311

St. Louis Fed's Poole: Fed and Markets Mostly "In Synch"

PHILADELPHIA, Pa. -- Federal Reserve Bank of St. Louis President Bill Poole said today that the central bankâs job is to "maintain a clear focus on price stability and convey that focus to the markets. The central bank and the markets can then respond in identical fashion to the flow of incoming information, reaching the same conclusions as to implications for monetary policy adjustments."

Speaking to a luncheon meeting of the Philadelphia Council for Business Economics, Poole said "We want price stability precisely because we believe that avoiding inflation surprises adds to the efficiency of the market economy and promotes maximum sustainable growth. We cannot hope or expect to avoid all surprises, for the nature of our world is that the future is unpredictable."

Poole noted unpredictable events are inevitable and said that markets respond efficiently to them most of the time. "Our aim is for monetary policy to offset shocks, when possible, to prevent them from pushing the economy away from price stability. Of course, we also want to avoid introducing monetary policy disturbances per se that adversely affect price stability."

The St. Louis Fed president said that "It is important to recognize that the Fed has made tremendous progress over the last 20 years or so in pursuing a consistent policy designed to establish price stability as the norm for the economy. The Fed and the markets are mostly in synch. Surprises in the incoming data whether on prices, employment, GDP, activity in economies abroad, and so forth are surprises to both markets and the Fed and both read the surprises pretty much the same way."

Poole said that if the market and Fed readings of information become identical, "We can expect that Fed policy adjustments will convey no new information to the market, and therefore market prices will not respond to them because they are fully anticipated."