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## St. Louis Fed's Poole:

### Asian Crisis Had "Minimal Aggregate Effects"

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ST. LOUIS, Mo. — Despite substantial trade effects for the United States generally as well as for many Missouri exporters, the 1997-1998 Asian economic crisis had minimal aggregate effects on U.S. economic output and employment.

That was the viewpoint of William Poole, president and chief executive officer of the Federal Reserve Bank of St. Louis, as he spoke today to a meeting of the Noonday Club, a downtown business group.

Poole stressed three themes in his remarks. "First, to understand the Asian crisis and its aftermath, you must look at more than exports and imports," he said. "Trade is important but the crisis caused numerous changes, some of which offset the negative impacts of reduced exports to East Asia. Secondly, the decline in U.S. exports caused by the crisis was a relative, rather than aggregate, demand shock. That is, the shock had mixed effects on U.S. employment and economic activity, depressing some sectors and stimulating others. Third, the Asian crisis likely reduced U.S. inflation in 1998, while the recovery has probably contributed to the higher U.S. inflation this year than last."

Poole noted that for Missouri manufacturers, the markets of East Asia are less important than for manufacturing exporters in the U.S. generally. Adjusted for inflation, Missouri sent 14 per cent of its manufactured exports to East Asia in 1997, about half the U.S. average.

Poole said that despite Japan's importance to Missouri as an export destination, other countries, notably Canada and Mexico, are more important. During 1996 and 1997, he said, Japan received about five per cent of Missouri's exports. Meanwhile, Mexico received eight percent and Canada a much larger 42 per cent.

Regarding inflation during the crisis, Poole said he believes that lower commodity prices were not offset by other higher prices. "Thus, lower commodity prices contributed to keeping overall inflation lower than otherwise in 1998," he said. He stressed that ultimately, however, inflation is tied to monetary policy rather than temporary supply or demand shocks. Poole also reminded the audience that lower commodity prices, while a net benefit, hurt many commodity producers due to weak prices.

Currently, Poole said, "the downdraft stage of the Asian crisis is past, and today we are witnessing the recovery stage. A strong and rapidly growing East Asia will contribute to a healthy U.S. economy."

He said the U.S. "should welcome prosperity abroad and never fear it. And we should pursue every opportunity to strengthen trade relations. Doing so will strengthen our prosperity and that of our trading partners."

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