

## PRESIDENT'S FOREWORD



*Sandra Pianalto, first vice president; G. Watts Humphrey, chairman; David H. Hoag, deputy chairman; and Jerry L. Jordan, president.*

The United States' economic performance last year was remarkable. Real output growth, despite most forecasts to the contrary, did not slow down from the 4-percent pace set a year earlier. The economy's vigor last year was all the more significant given the adverse performance of the Japanese and Southeast Asian economies, which some analysts thought would severely affect overall U.S. activity. Instead, our nation's unemployment rate declined to figures not seen in nearly 30 years, and the share of working-age population actually employed attained a record high. Investment activity continued at a strong pace last year in the forms of business capital, new housing, and consumer durable goods purchases. Data for the first quarter of 1999 suggest that these fundamentals remain solidly in place. Not surprisingly, public sentiment about current economic conditions has never been better.

The purchasing power of the dollar remained nearly constant last year, as the Consumer Price Index increased by only 1.6 percent. Moreover, if price stability is defined as an environment in which people's economic decisions are not influenced by expected changes in money's purchasing power, last year's inflation statistics and consumer surveys suggest that price stability is at hand. A decade ago, most economists would not have thought it possible for our economy to expand as it has without an increase in inflation, let alone decline to such a low rate.

Those of us in the Federal Reserve System who have long advocated that monetary policy can best contribute to economic growth by achieving price stability obviously take pride in our nation's recent robust economy. At the same time, there are reasons to be concerned that price stability, as such, should not be interpreted as an indicator of monetary stability. There may be conditions where monetary policy inadvertently supports speculative investment—economic activity that

later proves to be unprofitable—on a large enough scale to trigger or deepen a recession. These conditions may exist even while the economy exhibits price stability. The essay in this annual report provides a reexamination of monetary policy principally focused on price stability by setting today's economic conditions against those of the 1920s.

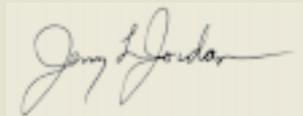
The events of the 1920s were very much on our mind last year for another reason: We moved back into our renovated historic main office building in Cleveland. The restored structure, which was rededicated on its 75th anniversary, once again reveals the magnificent craftsmanship of three-quarters of a century ago. The restored main building, along with the newly-built operations center, was completed ahead of schedule and under budget. Together, these facilities enable us to provide cost-effective payments services to our customers, and a stimulating working environment for our employees.

We took several major steps last year toward shaping our future in payments services. In partnership with the Atlanta Reserve Bank, the Cleveland Fed assumed a leadership role in managing the check processing and automated clearinghouse operations of the Federal Reserve System. The Cleveland Fed also assumed responsibility for managing check automation issues for all Reserve Banks, which includes a major role in standardizing the System's check services production platform. Our Pittsburgh office maintained its tradition of developing innovative solutions for the U.S. Treasury. Based on the success of a Pittsburgh pilot program, the Bureau of Public Debt authorized the national installation of a new optical scanning technology that will increase productivity in processing savings bond applications. While we expanded our leadership activities, we also expanded our check volumes significantly and still operated our financial services activities at full cost recovery and high rates of efficiency.

Considerable energy was also devoted to ensuring our preparedness and our customers' readiness for the Year 2000 date change. We tested all our critical applications by mid-year and have been testing with our customers since. Our efforts to assist depository institutions with their Y2K readiness include our payments services, automation, and banking supervision and regulation personnel.

The directors of our Cincinnati, Cleveland, and Pittsburgh offices, together with the members of our business and community bank advisory councils, contributed to the Bank's success through their sound counsel and guidance. We especially want to acknowledge two directors who have completed their terms of service in 1998 on our Cleveland board: David A. Daberko (chairman and chief executive officer of National City Corporation) and I.N. Rendall Harper Jr. (president and chief executive officer of American Micrographics Company, Inc.). Thanks are also due to Michele Tolela Myers (former president of Denison University), who resigned due to relocation outside the Fourth District. They have served the Bank well and their insight and expertise will be missed.

I wish to extend my deep appreciation to the officers and staff of the Federal Reserve Bank of Cleveland for their extraordinary efforts and achievements. Managing change was a real challenge and a great accomplishment during the past year. The move back into the Bank's main office building and Year 2000 testing required many long days and weekends of extra work. In addition, delivering business as usual for our customers while continuing to transform the Bank into a stronger, more flexible organization would not have been possible without the energy, skill, and perseverance of our officers and staff. Our employees' dedication is apparent in the progress and accomplishments we made in 1998 and will continue to make in the future. I am very pleased to have been a part of all that we accomplished during the year.



**Jerry L. Jordan**  
President