Printed from the Charlotte Observer - www.CharlotteObserver.com

Posted: Thursday, Sep. 13, 2012

Fed unveils bold, open-ended steps to aid economy

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PUBLISHED IN: BANKING

WASHINGTON The Federal Reserve unleashed a series of bold and open-ended steps Thursday designed to stimulate the economy by boosting the stock market and making it cheaper for people to borrow and spend.

The Fed said it will spend $40 billion a month to buy mortgage bonds for as long as it deems necessary to make home buying more affordable. It plans to keep short-term interest rates at record lows through mid-2015 – six months longer than previously planned. And it's ready to try other stimulative measures if hiring doesn't pick up.

"The idea is to quicken the recovery," Fed Chairman Ben Bernanke said at a news conference Thursday. But he made clear he thinks the economy will need the Fed's intervention even after the recovery strengthens.

Stock prices rose steadily after the Fed's announcement.

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The Fed's policy committee announced the aggressive actions after a two-day meeting. Its moves pointed to how sluggish the U.S. and global economies remain more than three years after the recession ended.

Asked at his news conference whether the Fed considered the impact of its actions on the presidential election, Bernanke said: "We make our decisions based entirely on the state of the economy. … We just don't take those factors into account."

The Fed on Thursday also lowered its outlook for economic growth this year, though it's more optimistic about the next two years. It expects growth to be no

- Q&A on QE3

Thursday, the Federal Reserve released a statement announcing a third round of "quantitative easing" – QE3 – to stimulate the economy.

Q: What is quantitative easing?

The Fed has cut interest rates as far as they can go but the economy is still struggling.

So, instead, the central bank can try quantitative easing: Since the Fed can just create dollars out of thin air, it can buy up assets like long-term Treasuries or mortgage-backed securities from commercial banks and other institutions. This pumps money into the U.S. economy and reduces long-term interest rates further. When long-term interest rates go down, investors theoretically have more incentive to spend their money.

Q: Hasn't the Fed already tried quantitative easing?

Yes, twice. QE1 was in late November 2008, after the financial crisis hit. QE2 resumed the program in August 2010 in order to maintain the Fed's balance sheet.

Q: How is QE3 different?

First, the central bank will keep short-term interest rates low until mid-2015. Second, it will buy up $85 billion worth of assets each month stronger than 2 percent this year. That's down from its forecast of 2.4 percent in June.

It still thinks the unemployment rate won't fall below 8 percent this year. The rate is now 8.1 percent. It estimates it will fall as low as 7.6 percent next year and 6.7 percent in 2014. The Fed also expects inflation to remain at or below 2 percent for three years.

At his news conference, Bernanke made clear that higher stock prices are among the Fed's goals in buying bonds. Bernanke noted that stock gains increase Americans' wealth and typically lead individuals and businesses to spend and invest more.

But some economists said they thought the benefit to the economy would be slight.

"We doubt it will be enough to get the economy on the right track," said Paul Ashworth, an economist at Capital Economics. "It's only a matter of time before speculation begins as to when the Fed will raise its purchases from $40 billion a month."

The Federal Open Market Committee approved the statement by a vote of 11-1. The lone dissenter was Richmond Fed President Jeffrey Lacker, who worries about igniting inflation.

The Fed's bond purchases have been intended to force down long-term rates to spur lending. The Fed has previously bought $2 trillion in Treasury bonds and mortgage-backed securities since the 2008 financial crisis.

The new purchases, which will start Friday, amount to less per month than either of its first two bond programs. But by committing to buying bonds indefinitely, the Fed is seeking to assure investors and consumers that borrowing will remain cheap far into the future.

between now and the end of the year. Unlike QE1 or QE2, this new round of purchases will be more open-ended.

The purchases will continue until morale improves. What's more, the Fed noted that it will continue its policy of easy money "for a considerable time after the economic recovery strengthens."

Washington Post

- More information

Duke CFO survey: lower rates won't spur hiring

The Federal Reserve's decision to take more action to stimulate the economy came two days after the publication of a Duke University/CFO Magazine survey that found such efforts by themselves are likely to have little effect on corporate hiring and investment.

The Global Business Outlook Survey asked 667 chief financial officers whether lowering interest rates by one-half of a percentage point would accelerate or increase their capital investment plans. That's the most optimistic assessment of what the Fed's latest bond-buying binge could accomplish.

All but 20 of the CFOs surveyed said it would not change their plans. The executives said things such as sales forecasts and consumer demand would drive those decisions – not interest rates.

"Interest rates are already at historic lows," one CFO said. "It's not high interest rates that are holding us back, but uncertainty about federal policies and loss of financial wealth of our customers."

The Fed's announcement Thursday was harshly criticized by Campbell Harvey, a finance professor at Duke's Fuqua School of Business and founding director of the survey.

“You need other things to happen for businesses to invest,” Harvey said. “Businesses, if they’re not investing, then we’re not going to get the employment growth we need.”

He said while the Fed’s actions may lower mortgage rates even further, those rates are already at historic lows, and the move won’t help those homeowners who are unable to refinance because their house is now worth less than they paid for it.

Staff writer David Bracken

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