Expectations high for Fed to announce major action

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WASHINGTON — If the world's investors are right, the Federal Reserve is about to take a bold new step to try to invigorate the U.S. economy.

And many expect the Fed to unleash its most potent weapon: a third round of bond purchases meant to ease long-term interest rates and spur borrowing and spending. It's called "quantitative easing," or QE.

Others foresee a more measured response when the Fed ends a two-day policy meeting Thursday. They think it will extend its timetable for any rise in record-low short-term rates beyond the current target of late 2014 at the earliest.

Fed officials began their discussions Wednesday and will end with an announcement of any decision around 12:30 p.m. Eastern time. Later, Chairman Ben Bernanke will hold his quarterly news conference.

The stock market edged higher Wednesday, partly in anticipation of Fed action and after the highest court in Germany cleared the way for that country to contribute to Europe's rescue fund to help indebted governments.

The Fed is facing pressure to act now because the U.S. economy is still growing too slowly to reduce high unemployment. The unemployment rate has topped 8 percent every month since the Great Recession officially ended more than three years ago.

In August, job growth slowed sharply. The unemployment rate did fall to 8.1 percent from 8.3 percent. But that was because many Americans stopped looking for work, so they were no longer counted as unemployed.

Chronic high unemployment was a theme Bernanke spotlighted in a speech to an economic conference in Jackson Hole, Wyo., late last month. Bernanke argued that QE and other unorthodox Fed actions had helped ease borrowing costs and boosted stock prices.

Higher stock prices increase Americans' wealth and confidence and typically lead individuals and businesses to spend more.