

The decision of the Federal Reserve to keep buying $85 billion a month in bonds appears on a television screen Wednesday on the floor of the New York Stock Exchange. RICHARD DREW/AP

FED MAINTAINS STIMULUS

Monthly $85 billion bond purchases to continue until there's 'more evidence' of economic vitality

By Paul Davidson
USA Today

The Federal Reserve agreed Wednesday not to pare back its extraordinary stimulus, citing a recent slowdown in the housing recovery and federal spending cuts.

In a statement after a two-day meeting, the Fed said it would continue to purchase $85 billion a month in Treasury bonds and mortgage-backed securities to hold down long-term interest rates and stimulate economic growth.

The move was widely expected after Fed policymakers stunned financial markets last month by putting off a reduction in purchases amid only modest improvement in employment and a budget battle in Congress.

The Fed said Wednesday that "the housing sector slowed somewhat in recent months." Mortgage rates have risen from 3.35 percent in May, when the Fed first signaled that it may soon rein in its bond-buying, to 4.13 percent recently. A report this week showed pending home sales dipped recently.

The Fed also tempered its view of the labor market, saying it has shown "some further improvement." In September, it simply cited "further improvement." And Fed policymakers reiterated that budget cuts are "restraining growth."

In the end, the Fed said, it "decided to await more evidence that (economic) progress will be sustained before adjusting the pace of its purchases."

The state of the economy has become more precarious since the Fed's last meeting in September. The budget debate led to a 16-day partial government shutdown that some economists say cut fourth-quarter economic growth by about half a percentage point. A standoff over raising the nation's borrowing authority spawned uncertainty among businesses that further dampened capital investment and growth.

The specter of another budget deadlock looms in two months because Congress voted to fund the government only until mid-January and raise the debt ceiling until February.

Meanwhile, the shutdown dried up the flow of economic data on which the Fed relies to make policy decisions. The reports released since it ended generally have been weak. Employers added a disappointing 148,000 jobs in September, though the unemployment rate fell to a five-year low of 7.2 percent from 7.3 percent.

And while construction spending rose solidly in August, consumer confidence fell sharply this month and a key measure of business orders for durable goods such as cars and appliances fell in September.