Fed chief: Economy still needs support

Inflation picks up, but still below target

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Federal Reserve Chair Janet Yellen downplayed growing inflation concerns Tuesday, saying meager wage gains will likely prevent sharp price increases.

Yellen also told Congress the economy is improving but still needs the central bank's support, refusing to provide a specific timetable for raising short-term interest rates. She testified before the committee as part of her semiannual report on monetary policy to Congress.

Stocks fell as Yellen began her testimony. Her written report to Congress may have rocked markets, asserting that prices of small social-media and biotech firms "appear substantially stretched."



AP

Yellen

Annual inflation has been picking up, but at 1.8%, remains below the Fed's 2% target. Noting that wage gains are modest, she said they're "not rising to the point where they can give way to inflation." With consumer price increases accelerating and the unemployment rate falling rapidly, some economists have said the Fed should gear up to raise its benchmark short-term interest rate sooner than planned. Although the Fed is winding down its bond-buying stimulus, Fed policymakers have indicated that they plan to raise the short-term rate — near zero since the financial crisis — sometime in 2015.

"There's no formula or mechanical answer I can give you" on when specifically the Fed plans to raise rates, Yellen said when pressed by Sen. Mike Crapo, R-Idaho, ranking member of the Senate Banking Committee.

She added, "The economic outlook is very uncertain." Yellen did say that "if the labor market continues to improve more quickly than anticipated" by policymakers, "then increases in the federal funds rate target likely would occur sooner and be more rapid than currently envisioned."

In a research note, Barclays Capital said it was Yellen's first acknowledgment that if the pickup in job growth continues, policymakers could raise rates in the first quarter of 2015.

But Yellen said several labor market indicators, such as share of the population in the workforce, remain low. She said the ranks of the long-term unemployed are still at "unprecedented levels historically." Noting the economy still faces headwinds, such as low productivity growth, Yellen told lawmakers: "We have seen false dawns" before.

She said the economy's 2.9% decline in output in the first quarter "appears to have resulted mostly from transitory factors," and recent data suggest that growth rebounded in the second quarter. But she added "this bears close watching." She also noted that housing sector "has shown little recent progress."