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Fed may take economic steps

Expect policymakers to make bold moves to stop recession, experts say

By Paul Davidson
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Some economists say the Federal Reserve will likely take dramatic steps in coming months to head off another recession.

If inflation eases, the job market worsens or stocks continue to slide, "It's my sense that policymakers are going to be aggressive," says Mark Zandi, chief economist for Moody's Analytics.

The Fed said Tuesday it likely will keep short-term interest rates near zero at least through mid-2013 — an extraordinary commitment that shows the central bank doesn't expect job growth or inflation to pick up significantly for two years.

Fed policymakers also hinted they considered a bolder move — another round of Treasury bond purchases — to more directly lower long-term interest rates that affect mortgages and other key loans.

The Fed, which has bought $2.3 trillion in Treasuries and mortgage-related securities since 2008, said it's prepared to "employ these tools as appropriate."

Pumping more money into the economy almost certainly would draw criticism from some members of Congress and Fed inflation hawks. Three Fed policymakers voted against this week's stronger commitment to low short-term rates.

Several economists cite a crisis of confidence fueled by European debt woes, stock market turmoil and weak economic reports.

"If the Fed wants to keep us out of recession, they're going to have to come up with a program," says Lance Roberts, chief strategist at Streettalk Advisors, an investment firm.

Fed Chairman Ben Bernanke said in April the "tradeoffs" for new bond purchases "are getting less attractive," with rising food and energy prices pushing up broader inflation and interest rates already at historic lows.

But inflation slowed slightly in June as gasoline prices fell, and further drops are expected.