BUSINESS

Fed talks in 1 word: Stimulus?

Wall Street eager for officials to announce new steps to stimulate slowing US economy

By Adam Shell
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NEW YORK — Like a drug addict, a dependent Wall Street hopes the Federal Reserve will inject the economy and markets with a fresh dose of monetary stimulus to stave off withdrawal caused by the end of the Fed's current stimulus program, a slowing economy and debt-related turmoil in Europe.

The Fed kicked off a two-day meeting Tuesday on interest rate policy at a time when fears of an economic relapse are rising and investors are looking for assurances from the Fed that it is ready to act to keep the recovery on track. The meeting follows Greece's closely watched election on Sunday, which ended in a with a win by the party that backs Greece remaining in the euro and living up to its bailout agreements.

Since the financial crisis in late 2008, the Fed has announced three rounds of stimulus. In each case, the U.S. stock market reacted favorably, with gains of 80 percent, 33 percent and 29 percent, respectively. The goal was to boost economic growth by driving down borrowing costs on mortgages, while inflating prices on risky assets like stocks, in an effort to make Americans feel better off financially and make them more willing to spend.

In addition to pledging to keep short-term rates at roughly 0 percent until mid-2014, the Fed has injected hundreds of billions in cash into the financial system by buying assets, such as mortgage-backed bonds and U.S. Treasuries, a strategy known as a quantitative easing, or QE. A more recent strategy, dubbed "Operation Twist," which ends this month, involves selling short-term Treasury bonds and buying longer-term Treasuries to keep long-term yields low.

Wall Street hopes the Fed will announce more stimulus today. An extension of Operation Twist is a possibility. A new round of quantitative easing — QE3 — would be bullish, although unlikely. Says Lance Roberts, chief economist at StreetTalk Advisors. "Without the Fed doing something, the economy will slip into recession."