Fed to help push back

It will spend $40B a mont to buy bonds, rates

By Martin Crutsinger
Associated Press

WASHINGTON — The Federal Reserve unleashed a series of bold and open-ended steps Thursday to stimulate the economy by making it cheaper for consumers and businesses to borrow and spend.

The Fed said it will spend $40 billion a month to buy mortgage bonds for as long as it deems necessary to make buying a home more affordable. It plans to keep short-term interest rates at record lows through mid-2015 — six months longer than previously planned. And it's ready to take other unconventional steps if job growth doesn't pick up.



Ben Bernanke

"The idea is to quicken the recovery," Fed Chairman Ben Bernanke said at a news conference Thursday. But he made clear he thinks the economy will need the Fed's intervention even after the recovery strengthens.

The committee announced the series of aggressive actions after a two-day meeting. Its moves pointed to how sluggish the U.S. and global economies remain more than three years after the Great Recession ended.

The Fed's actions come a week after the European Central Bank announced its most ambitious plan yet to ease Europe's financial crisis by buying unlimited amounts of government bonds to help countries manage their debts.

The Fed on Thursday lowered its outlook for economic growth this year, although it's more optimistic about the next two years. It expects growth to be no stronger than 2 percent this year. That's down from its forecast of 2.4 percent in June and in line with most economists' predictions.

It still thinks the unemployment rate won't fall below 8 percent this year. The rate is now 8.1 percent. It estimates the rate will fall as low as 7.6 percent next year and 6.7 percent in 2014. It also expects inflation to remain at or below 2 percent for three years.

Stock prices surged steadily after the Fed's announcement.

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But some economists said they thought the benefit to the economy would be slight.

"We doubt it will be enough to get the economy on the right track," said Paul Ashworth, an economist at Capital Economics. "It's only a matter of time before speculation begins as to when the Fed will raise its purchases from $40 billion a month."

The statement was approved 11-1. The lone dissenter was Richmond Fed President Jeffrey Lacker, who worries about igniting inflation.

The Fed's bond purchases have been intended to force down long-term rates to spur lending. The Fed has previously bought $2 trillion in Treasury bonds and mortgage-backed securities since the 2008 financial crisis.

The Fed's new bond purchases, which will start Friday, amount to less per month than either of its first two bond programs.

But by committing to buying bonds indefinitely, the Fed is seeking to assure investors and consumers that borrowing will remain cheap longer than previously assumed.

Some economists suggested that the Fed might continue to buy $40 billion a month in mortgage bonds for up to three years.

ABOUT THE COMMITTEE

The Federal Reserve's chief policymaking group, the Federal Open Market Committee, has vast power over the economy through its ability to set monetary policy.

Its mission is to keep the economy, inflation and employment on a healthy track. When the economy weakens, Fed policymakers cut interest rates or keep them low. The lower interest rates are aimed at promoting increased borrowing and spending by consumers and businesses to spur economic growth.

When the economy grows so fast that inflation becomes a threat, Fed policymakers raise rates or keep them high. That makes it costlier for people to get loans and means less borrowing and spending. As economic activity slows, inflation pressures ease.