Fed will continue buying bonds

Bernanke cites weak outlook for economy

By Martin Crutsinger
Associated Press

WASHINGTON — In a surprise, the Federal Reserve decided against reducing its stimulus for the U.S. economy because its outlook for growth has dimmed in the past three months.


Ben Bernanke

The Fed said it will continue to buy $85 billion a month in bonds while it awaits conclusive evidence that the economy is strengthening. The Fed's bond purchases are intended to keep long-term borrowing rates low to boost spending and economic growth.

"Conditions in the job market today are still far from what all of us would like to see," Chairman Ben Bernanke said at a news conference shortly after the statement was released.

Stocks spiked after the Fed

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released the statement at the end of its two-day policy meeting. The Standard & Poor's 500 index and Dow Jones industrial average jumped to record highs. The Dow was up more than 100 points shortly after the statement was released.

In the statement, the Fed said that the economy is growing moderately and that some indicators of the job market have improved. But it noted that rising mortgage rates and government spending cuts are restraining growth.

The Fed repeated its plan to keep its key short-term rate near zero at least until unemployment falls to 6.5 percent from the current 7.3 percent. In the Fed's most recent forecast, unemployment could reach that level as soon as late 2014.

The Fed's short-term rate indirectly affects many consumer and business loans.

"We're in a slow-growth economy with high unemployment and low inflation," said Greg McBride, senior financial analyst at Bankrate.com. "There's no specific catalyst for the Fed to remove stimulus."

The Fed was widely expected to scale back its bond purchases. But long-term rates on mortgages and some other loans have jumped since May, when Bernanke first said the Fed might slow its bond buys later this year. Bernanke had cautioned that any reduction in purchases would hinge on the economy showing steady improvement.

David Robin, an interest rate strategist at Newedge LLC, said Fed policymakers were surprised by how fast interest rates rose after they raised the possibility of scaling back the bond purchases.

Bernanke said there's "no fixed schedule" date or "magic number" for when the Fed will slow or end its bond purchases.

Bernanke also said the Fed is concerned that looming fights between Congress and the White House over the budget and taxes could slow the economy. Unless Congress can agree to fund the government past Oct. 1, a shutdown will occur.