BUSINESS

Fed will cut bond purchases

Decision means it sees signs of strength in still-recovering economy

By Martin Crutsinger
Associated Press

WASHINGTON — The Federal Reserve has sent its strongest vote of confidence in the U.S. economy since the Great Recession struck six years ago: It's decided the economy is finally strong enough to withstand a slight pullback in the Fed's stimulus.

Yet the Fed also made clear it's hardly withdrawing its support for an economy that remains below full health. Chairman Ben Bernanke stressed at a news conference that the Fed would still work to keep borrowing rates low to try to spur spending and growth and increase very low inflation.

The Fed said in a statement after its policy meeting ended Wednesday that it will trim its $85 billion-a-month in bond purchases by $10 billion starting in January. And Bernanke said the Fed expects to make "similar moderate" cuts if economic gains continue.

At the same time, the Fed strengthened its commitment to record-low short-term rates. It said it plans to hold its key short-term rate near zero "well past" the time when unemployment falls below 6.5 percent (it is 7 now).

The Fed's bond purchases have been intended to drive down long-term borrowing rates by increasing demand for the bonds. The prospect of a lower pace of purchases could mean higher loans rates over time.

Nevertheless, Wall Street seemed elated by the Fed's finding that the economy has steadily strengthened, by its firm commitment to low short-term rates and by its decision to pare its bond purchases only slightly.

Roberto Perli, a former Fed economist and now head of monetary policy research at Cornerstone Macro, said by keeping rates low, the Fed "will continue to remain very supportive of risky assets" such as stocks.