# Bernanke Says Fed on Course to End Asset Buying in 2014

Federal Reserve Chairman Ben S. Bernanke said the central bank may start dialing down its unprecedented bond-buying program this year and end it entirely in mid-2014 if the economy finally achieves the sustainable growth the Fed has sought since the recession ended in 2009.The Federal Open Market Committee today left the monthly pace of bond purchases unchanged at $85 billion, while saying that “downside risks to the outlook for the economy and the labor market” have diminished. Policy makers raised their growth forecasts for next year to a range of 3 percent to 3.5 percent and reduced their outlook for unemployment to as low as 6.5 percent.“If the incoming data are broadly consistent with this forecast, the committee currently anticipates that it would be appropriate to moderate the pace of purchases later this year,” Bernanke said in a press conference in Washington. If later reports meet the Fed’s expectations, “we will continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around mid-year.”Stocks and Treasuries slid as Bernanke’s comments raised the prospect of an end to the quantitative easing that has fueled a rally in financial markets and helped keep the world’s largest economy expanding in the face of federal budget cuts, a slowdown in China and a recession in the euro area.Connecting Dots“The Fed is out of the closet,” said Ward McCarthy, chief financial economist at Jefferies Group LLC in New York and a former Richmond Fed economist. “They expect to end these QE purchases. Bernanke wasn’t more specific than later this year, but connecting all the dots suggests he is thinking in the fourth quarter.”The Standard & Poor’s 500 Index declined 1.4 percent to 1,628.93. The yield on the 10-year Treasury note jumped to 2.36 percent, the highest since March 2012, from 2.19 percent late yesterday.Still, Bernanke tried to temper his message by saying that the Fed has “no deterministic or fixed plan” to end asset purchases.“If you draw the conclusion that I just said that our policies — that our purchases will end in the middle of next year, you’ve drawn the wrong conclusion, because our purchases are tied to what happens in the economy,” he said. “If the economy does not improve along the lines that we expect, we will provide additional support.”Open-EndedBernanke is expanding the Fed’s balance sheet toward $4 trillion as he seeks to reduce a jobless rate that stands at 7.6 percent after four years of economic growth. The Fed’s open-ended purchases, started last September and expanded in December, are unprecedented. In two previous rounds, it specified total purchases in advance.“I’m surprised at how badly the Fed wants to taper” to a slower pace of purchases, said Julia Coronado, the chief economist for North America at BNP Paribas SA in New York and a former Fed economist. The Fed has “greater confidence than the average private sector forecaster in the outlook.”The economy will grow 1.9 percent in 2013 and 2.7 percent in 2014, according to the median estimates in a Bloomberg survey. The economy has not grown more than 3 percent over the course of 12 months since the four quarters ending in June 2006.The Fed also left unchanged its statement that it plans to hold its target interest rate near zero as long as unemployment remains above 6.5

percent and the outlook for inflation doesn't exceed 2.5 percent.Unemployment ThresholdBernanke said policy makers might aim for a lower unemployment threshold before considering an increase in short-term interest rates."In terms of adjusting the threshold, I think that's something that might happen," he said in response to a question. "If it did happen, it would be to lower it, I'm sure, not to raise it." He said an interest-rate increase is still "far in the future."Fed officials lowered their forecasts for the unemployment and inflation rates this year.They now see a jobless rate of 7.2 percent to 7.3 percent, compared with 7.3 percent to 7.5 percent in their March forecasts. They predict the jobless rate will fall to 6.5 percent to 6.8 percent in 2014."Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rateremains elevated," the FOMC said in its statement. "Partly reflecting transitory influences, inflation has been running below the committee's longer-run objective, but longer term inflation expectations have remained stable."Target RateFifteen of 19 policy makers expect no increase in the federal funds rate before 2015, according to today's forecasts. In March, 14 policy makers had that expectation.The Fed repeated that it will keep buying assets "until the outlook for the labor market has improved substantially." Bond purchases will remain divided between $40 billion a month of mortgage-backed securities and $45 billion a month ofTreasury securities. The central bank also will continue reinvesting securities as they mature.St. Louis Fed President James Bullard dissented for the first time in his tenure on the FOMC, saying the committee should "signal more strongly its willingness to defend its inflation goal in light of recent low inflation readings."Kansas City Fed President Esther George dissented for the fourth meeting in a row, continuing to cite concern that keeping the benchmark interest rate near zero risks creating "economic and financial imbalances," including asset price bubbles.Economists' ForecastsNo change in policy was expected at today's meeting. Fifty-eight of 59 economists in a June 4-5 Bloomberg Survey predicted the central bank would maintain the pace of purchases.Inflation is providing little impetus for a tapering in bond purchases. A gauge of consumer prices excluding food and energy that is watched by the Fed rose 1.1 percent in the year through April, matching the smallest gain since records started in 1960. Officials expect inflation to slowly rise in coming years, with core prices climbing to 1.5 percent to 1.8 percent in 2014 and 1.7 percent to 2 percent in 2015.Speculation that an improving economy will prompt Fed policy makers to reduce bond buying last month triggered the biggest jump in 10-year Treasury yields since December 2010.About $2 trillion has been erased from the value of global equities since Bernanke told U.S. lawmakers on May 22 that the FOMC "could" consider reducing bond purchases within "the next few meetings" if officials see signs of improvement in the labor market and are convinced the gains can be sustained.Mortgage RatesMortgage rates have soared the most in a decade on speculation the Fed's purchases may slow. The interest rate on a 30-year fixed home loan climbed to a 14-month high of 3.98 percentlast week, according to data compiled by Freddie Mac.Bernanke is nearing the end of his second four-year term, a period marked by unprecedented measures to battle the deepest recession since the 1930s and then to keep the economy growing at a pace that's brisk enough to put millions of unemployed Americans back to work.The former Princeton professor cut the Fed’s target interest rate almost to zero in December 2008 and has led the central bank in three rounds of large-scale asset purchases that have swelled the Fed’s balance sheet to a record $3.41 trillion.President Barack Obama, in an interview on PBS this week, provided one of the clearest signals yet that Bernanke may not remain beyond the end of his term on Jan. 31. Bernanke “already stayed a lot longer than he wanted or he was supposed to,” Obama said.Bernanke declined to discuss his future at today’s press conference.“We just spent two days working on monetary policy issues and I would like to keep the debate, discussion, questions here on policy,” he said in response to a question. “I don’t have anything for you on my personal plans.”Bloomberg