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Fed Signals That a Full Recovery Is Years Away

By BINYAMIN APPELBAUM

WASHINGTON — The **Federal Reserve**, declaring that the economy would need help for years to come, said Wednesday it would extend by 18 months the period that it plans to hold down interest rates in an effort to spur growth.

The Fed said that it now planned to keep short-term interest rates near zero until late 2014, continuing the transformation of a policy that began as shock therapy in the winter of 2008 into a six-year campaign to increase spending by rewarding borrowers and punishing savers.

The economy expanded “moderately” in recent weeks, the Fed said in a statement released after a two-day meeting of its policy-making committee, but jobs were still scarce, the housing sector remained deeply depressed and Europe’s flirtation with crisis could undermine the nascent domestic recovery.

The Fed forecast growth of up to 2.7 percent this year, up to 3.2 percent next year and up to 4 percent in 2014, but at the end of that period, the central bank projected that the recovery would still be incomplete. Workers would still be looking for jobs, and businesses would still be looking for customers.

“What did we learn today? Things are bad, and they’re not improving at the rate that they want them to

improve,” said Kevin Logan, chief United States economist at HSBC. “That’s what they concluded — ‘We’ve eased policy a lot, but we haven’t eased it enough.’ ”

The economic impact of the low-interest rate extension, however, is likely to be modest. Many businesses and consumers can’t qualify for loans, a problem the Fed’s efforts do not address. Moreover, long-term rates already are at record low levels and, like pushing on a spring, the going gets harder as it nears the floor. Finally, the Fed already was widely expected by investors to hold rates near zero well into 2014, limiting the benefits of a formal announcement.

“I wouldn’t overstate the Fed’s ability to massively change expectations through its statements,” the Fed’s chairman, Ben S. Bernanke, said at a press conference Wednesday after the announcement. “It’s important for us to say what we think and it’s important for us to provide the right amount of stimulus to help the economy recover from its currently underutilized condition.”

The Fed’s plans for interest rates were unveiled amid a barrage of statements the central bank released Wednesday as part of its campaign to improve its transparency. And while it pleased some investors in the markets, it left others befuddled. The Dow Jones industrial average, which had been down in the morning, began rising steadily after the Fed released its statement at about 12:30 p.m. Wednesday. The Dow finished the day up 81.21 points at 12,756.96.

First came the Fed’s traditional statement, released after each meeting of its policy-making committee, which said that the central bank intended to hold short-term rates near zero “at least through late 2014.”

Ninety minutes later, the Fed published for the first time the predictions of the committee’s members on when they would raise interest rates. It showed that 11 of the 17 members expected the Fed to raise rates by the end of 2014. Taken together, the documents suggested that the Fed expected to keep rates near zero until late 2014, but probably not any longer than that.

Since the beginning of the financial crisis in 2007, the Fed has alternated bursts of activity with

periods of rest, concluding several times that it had done enough only to find the economy still struggling to recover. The Fed announced last summer that the central bank intended to keep interest rates near zero through at least the middle of 2013, and that it would seek to reduce long-term interest rates through changes in the kinds of investment securities it holds. Since then, two meetings had passed without the introduction of any new programs.

The Fed's latest action came after a run of better-than-expected economic data, suggesting to some analysts that the pace of growth might begin to rise without any further help. The Fed also is under relentless assault from Republican presidential candidates who have said that its policies are doing little good and will eventually spur inflation.

And there is growing criticism that the Fed's policies are unfairly taking money from savers, including many seniors who planned their retirements around the interest rates that low-risk assets like bank deposits used to pay.

Mr. Bernanke said Wednesday that the Fed was aware of this, but it was acting again because it still did not believe that it has done enough. At the same time, he suggested that the Fed was not on the verge of more drastic measures, like further expanding its portfolio of mortgage-backed securities.

Such purchases remain under consideration, Mr. Bernanke said, but only "if we see that the recovery is faltering or if we see that inflation is not moving towards target."

As part of its transparency campaign, the Fed also published Wednesday a statement of its long-term goals, formalizing its longstanding commitment to maintain inflation at about 2 percent a year. The Fed also said that it was equally committed to minimizing unemployment, but that its exact goal would vary based on economic circumstances. It said the goal now was to reduce unemployment below 6 percent.

The new forecast showed that the Fed expects to hit its inflation target over the next three years, but to fall well short of its goals for unemployment. The Fed projected that unemployment would drop no

lower than 8.2 percent this year, just slightly below the current rate of 8.5 percent, and no lower than 7.4 percent by the end of next year. By the end of 2014, the Fed still expects that at least 6.7 percent of people actively interested in working would not be able to find jobs.

In light of those projections, it was unclear why so many members of the policy-making committee expected to raise interest rates by the end of 2014.

Asked why the committee would seek to raise rates in such a situation, Mr. Bernanke said that he did not imagine it would.

“We’re certainly willing to look for different ways to provide further support for the economy if in fact we have this unsatisfactory situation,” he said.

As for the forecasts, he said, “there is no mechanical relationship between these projections” and the committee’s decisions.

Some analysts cautioned that the Fed’s statements and predictions were being given too much weight.

“Here’s what all Fed promises are worth: nothing, if the data tell them to do something different,” said Ian Shepherdson, chief United States economist at High Frequency Economics.

Furthermore, Mr. Bernanke’s Fed is now making projections about decisions that could be made under the leadership of someone else. Mr. Bernanke’s current term ends in early 2014.

“I wouldn’t feel bound by anything the previous chairman had done,” Mr. Shepherdson said. “And three years is a very, very long time.”



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