BEN BERNANKE DOUSES FANTASY OF FAST RECOVERY

On Wednesday, Federal Reserve Chairman Ben Bernanke clearly indicated that the dropping unemployment rates won't hold if economic growth did not pick up. Bernanke said, "The job market is far from normal … Continued improvement … is likely to require stronger growth in final demand and production." Contrary to the expectations of traders, Bernanke did not give any signal of further Fed bond purchases. Considering the poor performance of GDP and the state of the economy as a whole, the recent rapid drop in U.S. unemployment rates had surprised most economists both within and outside the nation. The sharp drop in unemployment rates from 9.1 percent in August to 8.3 percent in January, however, holds out hope that the miracle would continue until the elections are over. However, Bernanke remains skeptical and told the U.S. House of Representatives Financial Services Committee that "The decline in the unemployment rate over the past year has been somewhat more rapid than might have been expected, given that the economy appears to have been growing during that time frame at or below its longer-term trend." The U.S. central bank had cut overnight interest rates close to zero in 2008 and had bought $2.3 trillion in bonds in an effort to staunch wounds to the economy. Clarifying the pledge made by the Fed at a policy meeting last month, Bernanke said that the commitment referred only to the current zero to 0.25 percent overnight rates. On being asked whether the easy monetary policy was hurting savers, Bernanke said that an equal case could be made for the view that savers would draw the benefit of a stronger economy, if interest rates were lowered further. According to Cleveland Federal Reserve Bank President Sandra Pianalto, it could take another four to five years to actually bring down the unemployment rate to 6 percent. Speaking on the recent rise in oil prices, Bernanke said that it could lead to both inflation and curb consumption. "Gasoline prices have moved up …a development that is likely to push up inflation temporarily while reducing consumer's purchasing power," said Bernanko. Already within the United States, retail gasoline prices are moving towards $4 a gallon creating market fears of spiraling inflation. Gasoline prices are already $3.72 per gallon compared to $3.37 last year. Rising tensions with Iran indicate further worsening of the situation as Iran is one of the largest oil producing countries.