BUOYANT ECONOMY PUTS FEDERAL MONETARY MEASURES ON HOLD

Rumours of more Federal Reserve stimulus, by way of further purchases of bonds to push down longer-term interest rates, were laid to rest, when Fed policy makers, determined that, given the upsurge in the manufacturing centre, it is not required at the moment and that they would do it, if later situations so demanded. Federal policy makers have been debating for months, whether the incessant high unemployment rates and economic growth which continues to be modest should compel them to provide financial stimulus, that could push the rates down and increase chances of boosting the economic recovery. There are both doves and hawks in the committee who ensure that a consensus is not found. Three voting members of the Federal Open market Committee expressed similar opinions that greatly diminished any chance of a federal stimulus. Federal Reserve Bank of Richmond President Jeffrey Lacker said in Washington, that more monetary stimulus, would do nothing to strengthen the economy, but could actually make the inflation go higher. “For us to provide more monetary stimulus at this point would likely raise inflation risks and not likely do much for growth,” he said. San Francisco’s John Williams says that he foresees an improved outlook, where more buying of bonds will not be required. Atlanta’s Dennis Lockhart retreated that he is unconvinced of the benefits of such an action. Chairman Ben S. Bernanke indicated that a further stimulus was doubtful and would be provided only if the economy, contrary to expectations, deteriorates. He said that it would be irresponsible for the central bank to follow policies that could further drive up inflation that was already at the Fed’s goal of 2 percent. He, however, assured, that should conditions worsen, he was “prepared to do more.” John Williams said that he expects the economy to grow at a “moderate” pace of 2.5 percent and that during the next few years it was likely to pick up. The Commerce Department had reported last week that economy had slowed down to 2.2 percent, from January to March, whereas it was 3 percent in the final three months of the preceding year. The report went on to say that spending by consumers was at its highest; in over a year, but a lowered contribution from business inventories and a diminished government spending restrained the growth. Williams who, in March had advocated that the government may have to do more and “keep applying monetary policy stimulus vigorously,” said today, that would be required only if the pace of economic growth weakened to the extent of preventing labor-market gains. Speaking at the Milken Institute Global Conference he said, “One threshold for me, in my own thinking, would be if we see economic growth slow to the point where we’re not seeing further progress in bringing the unemployment rate down.” However, he said, that based on current signs, such a situation should not arise. Richard Fisher, president of the Dallas Federal Reserve Bank said, the program of buying bonds, is interfering with a pricing mechanism that would otherwise make Congress comprehend and address its “fiscal misfeasance.” “We have children in Congress and they need to be disciplined,” he concluded.