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FLASH

Economic Growth through 2013

BERNANKE'S HISTORIC COMMENTS

POST FOMC MEETING NEWS CONFERENCE

It's the first time in the Fed's 97-year history that a sitting Fed chief held a regularly scheduled news conference on monetary policy. Federal Reserve Chairman Ben Bernanke said at an historic press conference Wednesday he expects the economy to continue growing through next year and 2013.

The central bank at the same time released a forecast showing officials are more upbeat about the prospects for employment for the rest of this year but foresee higher inflation than they did at the start of the year.

In an updated forecast, the Fed projects the economy will grow between 3.1 percent and 3.3 percent this year. That's a downward revision from their last forecast, which saw growth possibly as high as 3.9 percent this year. The new forecast reflects slower growth in the first three months of this year because of higher energy costs.

"I would say that roughly that most of the slowdown in the first quarter is viewed by the committee as being transitory. That being said, we have taken our forecast down just a bit, taking into account factors like weaker construction and possibly just a bit less momentum in the economy," Bernanke said.

The Fed's latest outlook foresees lower unemployment than was expected in January. The unemployment rate, which stood at 9.8 percent in November, has fallen to 8.8 percent. The Fed's new forecast projects the unemployment rate will fall to between 8.4 percent and 8.7 percent by the end of the year.

Some of Bernanke's answers from the press conference:

- On jobs: "It's not clear that we can get substantial improvements in payrolls without some additional inflation risks, and in my view we can't achieve a sustainable recovery without keeping inflation under control."
- On gas prices: "Our view is gas prices will not continue to rise at their recent pace. As they stabilize and even come down as the situation stabilizes in the Middle East, that will provide some relief on the inflation front, but we will have to watch it very carefully."
- On the dollar: "The best thing we can do to create strong fundamentals for the dollar in the medium term is to first keep inflation low, which maintains the buying power of the dollar, and second, to maintain a strong economy."
- On zero inflation: "Attempting to maintain inflation at zero will increase the risk of experiencing an extended bout of deflation or falling wages and prices, which in turn can lead employment to fall below its maximum sustainable level for a protracted period. The goal of zero inflation is not consistent with the Federal Reserve's dual mandate."

Toward the end of the event, Bernanke said he was "confident in long run that the U.S. will return to being most productive, one of fastest growing, dynamic economies" in the world.

Having viewed the press conference, we come away convinced that Chairman Bernanke is firm in his beliefs about what they have done, why they did it, and the benefits to the economy of what they did. And he is not yet sure when they will reverse course. He was asked to define the term extended period and he said at least a few more Committee meetings but all dependent on how the economy acts. The Fed downgraded its 2011 GDP forecast, but is still slightly above Street's consensus view. Our main takeaway is that there will be no QE3, barring another major shock to the system and as long as the employment situation continues to get better. A large uptick in medium term inflationary expectations may be the one thing that causes them to reverse course on monetary policy sooner than expected. QE2 will end as expected in June but the Fed will reinvest the proceeds from maturing bonds to keep their balance sheet steady at post QE2 levels. He repeatedly used the term transitory to describe the current inflationary pressures, but noted that they are keeping a watchful eye on medium term inflation indicators. That probably means he felt that inflation has come off a very low base and while up it is not yet at levels which would require a change in Fed policy in the near future.

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