Federal Reserve Chairman Ben S. Bernanke called for maintaining accommodation even as the minutes of policy makers’ June meeting showed them debating whether to stop bond buying by the Fed in 2013.

“Highly accommodative monetary policy for the foreseeable future is what’s needed in the U.S. economy,” Bernanke said yesterday in response to a question after a speech in Cambridge, Massachusetts.

The Fed chairman spoke just three hours after the central bank released minutes of the June 18-19 gathering showing that about half of the 19 participants in the Federal Open Market Committee wanted to halt $85 billion in monthly bond purchases by year end. At the same time, the minutes showed many Fed officials wanted to see more signs employment is improving before backing a trim to bond purchases known as quantitative easing.

The debate underscores Bernanke’s challenge in affirming that, even after starting to reduce monthly bond buying, policymakers plan to maintain unprecedented stimulus with a record-high balance sheet and near-zero target interest rate.

“It is clear they want to pull the trigger on the wind-down of QE, but they also want to calm market anxieties about raising rates for the foreseeable future,” said Ward McCarthy, chief financial economist at Jefferies Group LLC in New York and a former Richmond Fed economist. Their attempts at providing clarity are further complicated because of “pretty significant divisions among policy makers on a number of issues.”

Futures Rose

Stock and bond futures rose as Bernanke’s comments reassured investors that the days of loose U.S. monetary policy aren’t over. Futures on the Standard & Poor’s 500 Index added 0.8 percent to 1,661.40 by 8:47 a.m. in Tokyo, after the benchmark closed up less than 0.1 percent in New York. Ten-year U.S. Treasury futures rallied 0.8 percent.

The minutes also said “several members judged that a reduction in asset purchases would likely soon be warranted.” Those members said the “cumulative decline in unemployment since the September meeting and ongoing increases in private payrolls” had increased their confidence the labor market had improved, according to the minutes.

“The many FOMC voices seem all over the map, yet they do agree the labor market improvement looks more sustainable now than it did at the time of the QE launch,” said Chris Rupkey, the chief financial economist for Bank of Tokyo-Mitsubishi UFJ Ltd. in New York. “This means to us that the program’s days are numbered.”

Jobs Report

The FOMC gathered before the Labor Department’s jobs report for the month of June -- released on July 5 -- exceeded expectations. The economy added 195,000 jobs last month and the unemployment rate was unchanged at 7.6 percent.

Bernanke said the central bank is trying to communicate its plans for two different policy tools. With bond purchases, the Fed is “trying to achieve a substantial improvement in the outlook for the labor market in the context of price stability. We’ve made progress on that but we still have further to go,” he said.

The Fed wields another policy tool with its benchmark interest rate, which it reduced to close to zero in December 2008. Officials have said they won’t consider raising the main interest rate until the unemployment rate falls to 6.5 percent, as long as long-term inflation expectations don’t exceed 2.5 percent.

“It may well be sometime after we hit 6.5 percent before rates reach any significant level,” Bernanke said. “So again, the overall message is accommodation. There is some prospective, gradual and possible change in the mix of instruments, but that shouldn’t be confused with the overall thrust of policy which is highly accommodative.”
Near Zero

The 59-year-old Fed chief said the FOMC may opt to hold interest rates near zero even after unemployment reaches 6.5 percent due to the possibility of low inflation. Also, the jobless rate may understate the weakness in the labor market, he said.

“What I hear him saying is that even when we slow purchases, the balance sheet still gets bigger and even if we stop the purchases the balance sheet doesn’t shrink,” said Michael Gapen, a senior U.S. economist at Barclays Plc in New York, and a former member of the Fed’s Division of Monetary Affairs. “They are trying to communicate that tapering is not a tightening of policy. That is the fine line they are walking.”

Any decision by the Fed on the bond purchases influences how investors view its approach to the federal funds rate, Gapen said. For example, if the Fed’s outlook toward employment improves, then investors will probably shift how they view policy makers’ approach to the main interest rate.

First Increase

Some 15 policy makers in June expected the first increase in the benchmark lending rate in 2015 or later. Still, fed funds futures contracts show about a 54 percent probability that the benchmark lending rate will be 0.5 percent or higher by December 2014, an increase from 22 percent two months ago.

Fed policy makers next meet July 30-31 in Washington. They don’t plan to update their economic forecasts, and Bernanke isn’t scheduled to hold a press conference until after their Sept. 17-18 meeting. At that gathering, the FOMC will be able to review jobs reports for July and August.

“There’s still a clear bias to taper but I think they’ve taken just a baby step back from the strength of that bias and data will matter from here,” said Julia Coronado, chief economist for North America at BNP Paribas SA in New York, and a former Fed economist. “It’s not just hiring, it’s GDP and inflation that will factor into the equation,” she said, referring to gross domestic product.

To contact the reporters on this story: Joshua Zumbrun in Washington at zumbrun@bloomberg.net; Craig Torres in Washington at ctorres3@bloomberg.net

To contact the editor responsible for this story: Chris Wellisz at cwellisz@bloomberg.net