No Hint From the Fed of Taking New Steps

By JON HILSENRATH And KRISTINA PETERSON

Federal Reserve Chairman Ben Bernanke told Congress that while the U.S economy still faces an assortment of risks, the Fed is not ready to step in and take monetary action. WSJ's Brenda Cronin takes a seat on Mean Street with details. Photo: AP.

Federal Reserve Chairman Ben Bernanke cited significant risks to the U.S. economic recovery but stopped short of signaling Fed action to combat them, during testimony on Capitol Hill Thursday.

When asked whether the Fed is planning to take more measures to boost growth, Mr. Bernanke said he and his colleagues "are still working" on that question ahead of their June 19-20 meeting. The main question they need to answer, he said, is whether the economy will be strong enough to make material progress on bringing down unemployment.

"The situation in Europe poses significant risks to the U.S. financial system and economy and must be monitored closely." Ben Bernanke, Federal Reserve Chairman

"We have a number of different options" for action if they decide to move, he told Congress's Joint Economic Committee. "At this point I really can't say anything is off the table."

He said the risks to the recovery included the financial turmoil in Europe and uncertain U.S. fiscal policy, and he said the Fed remained "prepared to take action" to protect the U.S. economy and financial system if stresses escalate.
Sudeep Reddy reviews Ben Bernanke’s congressional testimony on the U.S. and global economy on Markets Hub. Photo: Getty Images.

In all, Mr. Bernanke’s comments were more restrained than those offered this week by some other Fed officials, including remarks Wednesday evening by Fed Vice Chairwoman Janet Yellen, who laid out detailed arguments for why the Fed might take new actions to bolster the economy and protect it from risks to growth. She said risks to the economic outlook may require the Fed to take additional steps to “insure against adverse shocks.”

Other Fed officials also have spoken openly about the possibility of taking further action in the wake of a stream of disappointing economic data, including last week’s disappointing May jobs report. They will update their forecasts for economic growth at the coming meeting and Mr. Bernanke will hold a news conference afterward.

The U.S. economy looks poised to continue growing at a “moderate” pace this year, the Fed chief said at the hearing. He pointed to headwinds constraining the recovery, including a weak housing market and concerns about the health of the European banking system. And he warned that the recovery may now be at a point where faster economic growth is needed to produce significant improvements in the job market.

Reuters

U.S. Federal Reserve Chairman Ben Bernanke testifies before Congress on Thursday.

“The crisis in Europe has affected the U.S. economy by acting as a drag on our exports, weighing on business and consumer confidence, and pressuring U.S. financial markets and institutions,” Mr. Bernanke said. U.S. banks are stronger than they were several years ago, giving them some protection from the turmoil in Europe. “Nevertheless, the situation in Europe poses significant risks to the U.S. financial system and economy and must be monitored closely.”
He acknowledged that policymakers in Europe have taken some steps to address the sovereign debt crisis, but said they would likely need to do more to stabilize the region's banks, calm market fears and "achieve a workable fiscal framework for the euro area."

Mr. Bernanke said the euro-zone crisis has more potential to hurt the U.S. economy than indications of an economic slowdown in China, saying, in fact, that a less-torrid Chinese economy could actually benefit the U.S.

When the Chinese economy slows, it tends to result in a decline in oil prices, helping the U.S. economy, which is heavily affected by high commodity prices, Mr. Bernanke told Congress. Mr. Bernanke said he didn't think the indications of a Chinese slowdown, "on net, are enough to be concerning for the U.S."

China's economy slowed to a nearly three-year low of 8.1% growth in gross domestic product in the first quarter of 2012. Beijing disclosed Thursday that it would cut its benchmark lending rate, one of a series of steps the government has taken in recent days to try to boost economic output.

Given the risks to the economic outlook from the European crisis, uncertainty about U.S. fiscal policy and a high unemployment rate, the Fed has continued to keep its easy-money policy in place, Mr. Bernanke said. Fed officials have said they expect to keep short-term interest rates near zero at least through late 2014.

Forget about jobless claims: Thursday's big event will be Fed Chairman Ben Bernanke's testimony to the Joint Economic Committee of Congress. Jon Hilsenrath has details on The News Hub. Photo: Bloomberg.

"With unemployment still quite high and the outlook for inflation subdued, and in the presence of significant downside risks to the outlook posed by strains in global financial markets, the [Federal Open Market Committee] has continued to maintain a highly accommodative stance of monetary policy," Mr. Bernanke said.

Mr. Bernanke said the recent weak jobs data may in part be connected to the unusually warm winter pushing up hiring earlier in the year. It may also be the case that employers who cut back during the recession moved to hire back some of those workers in late 2011 and earlier this year, he said.

"If so, the deceleration in employment in recent months may indicate that this catch-up has largely been completed, and, consequently, that more rapid gains in economic activity will be required to achieve significant further improvement in labor market conditions," Mr. Bernanke said.
He also urged lawmakers to put the U.S. federal budget on a sustainable path. The Fed chief has repeatedly warned about the consequences to the economy if lawmakers allow a series of tax increases and spending cuts to all go into effect at the start of 2013. Fiscal policy should be used to strengthen the economy in the medium and long-term, he advised.

"To the fullest extent possible, federal tax and spending policies should increase incentives to work and save, encourage investments in work-force skills, stimulate private capital formation, promote research and development, and provide necessary public infrastructure," he said.

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