Federal Reserve Acknowledges Slow Recovery

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WASHINGTON (AP) — The Federal Reserve acknowledged Wednesday that the economy is growing more slowly than it expected. But it said it will complete its $600 billion Treasury bond buying program by June 30 as planned and announced no further efforts to boost the economy.

Ending a two-day meeting, the Fed repeated a pledge to keep interest rates at record lows near zero for "an extended period," a promise it's made for more than two years.

Fed officials said in a statement that they think the main causes of the economy's slowdown, such as high gas prices and supply disruptions from Japan's disasters, are temporary. Once those problems subside, Fed officials said the economy should rebound.

Still, the statement stood in contrast to the Fed's more upbeat view when officials last met eight weeks ago. At that time, the central bank said the job market was gradually improving.

The new statement acknowledged the slowdown that's occurred over the past two months. The economy added just 54,000 jobs in May, far fewer than in the previous two months. Consumer spending has weakened, too.

The Fed said it would keep its holdings of Treasury bonds at current levels. That policy is intended to keep consumer and business loan rates at low levels to stimulate spending.

Though the central bank noted that inflation has risen, it expects those pressures to be temporary as well.

The Fed announcement had little effect on the stock and bond markets. The Dow Jones industrial average was down slightly before and after the Fed issued its statement at mid-day.

"The markets got exactly what they had been expecting," said Sung Won Sohn, an economics professor at the Martin Smith School of Business at California State University. "The fact that we did not have any surprises is comforting."

Bernanke and his colleagues are trying to keep a fragile economy on track two years after the Great Recession officially ended. A spike in gasoline prices earlier this year made consumers and businesses more cautious about spending. Consumer spending drives about 70 percent of the economy.

The economy grew at an annual rate of only 1.8 percent in the first three months of the year. It isn't expected to be much higher in the current quarter.

Beyond high gas prices and supply disruptions caused by the earthquake and tsunami in Japan, the Fed is now facing a new problem: renewed jitters that a debt crisis in Greece could spread to other heavily indebted European nations and send shockwaves through global financial markets.

The Fed has kept rates at ultra-low levels since December 2008. Once the Fed decides to abandon the "extended period" language, it would be viewed as a signal that it is getting ready to reverse course and start boosting interest rates. Many private economists think it will be another full year before the economy has recovered enough for the Fed to actually start raising interest rates.

The Fed is also winding down its Treasury bond-buying program. Supporters say the bond purchases have worked, in part by keeping rates low and encouraging spending. Low long-term rates are vital for consumers buying homes and cars and for companies making investments.

They also argue that those lower rates fueled a stock rally. When Bernanke outlined plans for the bond-buying program in late August, the Standard & Poor's 500 index was down 6 percent for the year. Eight months later, the S&P 500 was up 28 percent. Lower rates made stocks more attractive to investors than bonds, whose yields were falling.

Falling bond yields have also helped keep mortgage rates near record lows. The average rate on a 30-year mortgage has stayed below 5 percent for all but two weeks this year and was 4.5 percent last week. Still, low rates have done little to boost home sales, which fell in May to the lowest level since November.

Critics, including some Fed officials, saw things differently. They warned that by pumping so much money into the economy, the Fed increased the risks of high inflation later.