# Fed Meets As Many Await Help For Economy

Martin Crutsinger, AP Economics Writer

WASHINGTON (AP) — The Federal Reserve is meeting this week at a time of high alert — over the slumping U.S. economy, the aftermath of the Greek elections and the shaky financial markets.

Whether that means it will announce any new action when its two-day meeting ends Wednesday isn't certain. But many analysts think the struggles of the U.S. economy and the threats from Europe will compel the Fed to say or unveil something to try to boost confidence.

A major issue is Europe's debt crisis. Do Fed officials think the Greek election results will help steady Europe's economy because Greece now seems likely to remain in the euro currency union? Or do they worry that Europe's crisis remains unresolved and could tip the global economy into recession?

Those concerns have flared just as U.S. employers have reduced hiring. U.S. retail sales and manufacturing output have weakened. The housing market is still far from healthy. Investors are edgy.

Many economists say that if the Fed announces any new step this week, the most likely would be to extend a program called Operation Twist, which is set to expire in two weeks.

Under Operation Twist, the Fed sells shorter-term securities and buys longer-term bonds. The goal is to further reduce long-term interest rates to encourage borrowing and spending.

Some analysts think the Fed's policymakers might want to further assess the economic landscape before intervening. But even if the Fed decides against unveiling any new steps this week, it's expected to at least make clear it's willing to do more.

"I think Fed officials will send a pretty decisive signal that they are prepared to provide more support to boost economic growth and lower unemployment," said Brian Bethune, economics professor at Gordon College in Massachusetts.

If the Fed does unveil new action Wednesday, it might take a bolder step than Operation Twist. It might decide to expand its portfolio of securities through a third round of long-term bond purchases. If it did so, some analysts think the Fed would decide to buy mortgage securities as well as Treasury bonds to try to lower record-low mortgage rates even further to help revive the housing market.

Bethune thinks the Fed will wait until its next meeting at the end of July and that it will announce a third round of bond buying then. Delaying action would give

Chairman Ben Bernanke more time to build support within the Fed.

A less dramatic step would be for the Fed to extend the target date when it expects to begin raising short-term rates beyond its timetable of late-2014.

Yet it's unclear whether any Fed action would help the economy much. Long-term U.S. interest rates have already touched record lows. Businesses and consumers who aren't borrowing now might not be moved to do so if rates slipped a bit more.

And Republican opponents of President Barack Obama would be critical of a Fed move less than five months before U.S. elections because it could be perceived as helping Obama win re-election.

Any new action would be announced in a statement the Fed will issue after its meeting. Later Wednesday afternoon, it will publish updated economic forecasts, and Bernanke will hold his quarterly news conference.

One reason many analysts think the Fed may announce new action this week is that inflation is low. A gauge of U.S. consumer prices fell in May by the most in nearly four years. When price increases slow, Fed officials generally become less concerned that super-low interest rates might ignite inflation.

Others caution that a step such as Operation Twist might offer little benefit, and not only because rates are already at historic lows. The Fed is running out of short-term Treasurys to swap for longer-term bonds.

Still, some analysts, like Diane Swonk, chief economist at Mesirow Financial, expect the Fed to announce an extension of Operation Twist for several more months. The program has been in place since September.

Extending Operation Twist could represent a compromise between Fed officials who favor expanding the Fed's portfolio through a third round of bond buying and those who say it's done enough and that further action could feed high inflation later.

Four members of the policy committee — Vice Chairman Janet Yellen, Atlanta regional bank president Dennis Lockhart, San Francisco regional bank president John Williams and Chicago regional bank president Charles Evans — signaled earlier this month that they'd consider backing further Fed action.

Other committee members — such as Dallas regional bank president Richard Fisher and Jeffrey Lacker, head of the Richmond Fed — have raised concerns about inflation. Complicating matters, the Fed will have two new members joining the debate at this week's meeting. Their views on interest-rate policies aren't known.

The two — Jeremy Stein, a Harvard economics professor, and Jerome Powell, a former private equity executive — won Senate confirmation in May. Their arrival brings the seven-member board to full strength for the first time in six years.

Many investors favor another round of bond buying because they think it might lift the stock market as more investors shift money out of low-yielding bonds into stocks. They were disappointed by a recent congressional appearance by Bernanke, who sent no clear signal of the Fed's next move.

The Fed chief spoke after the government issued a dismal jobs report for May. Bernanke said Fed officials need to see whether the economy can expand enough in coming months to accelerate hiring. In light of his comments, some economists say that unless the Fed thinks that turbulence in Europe compels it to act now, it may announce no action this week.

"I think the Fed will be in a wait-and-watch posture," said David Jones, chief economist at DMJ Advisors. "I think the odds still favor a third round of bond buying, but the June meeting will be too soon for the Fed to make that decision."

That reasoning relates, in part, to the sharp drop in gas prices this spring. Retail gasoline is averaging $3.51 a gallon nationally — 43 cents below the year's peak in early April. Those lower prices give consumers more money to spend and could help revive growth in the second half of the year.

And while Europe's turmoil carries risks for the U.S. economy, it's also helped reduce the cost of U.S. mortgages and other loans. That's because investors seeking safety have poured money into U.S. Treasurys, driving down their rates, which filter through the economy.