Fed's Bold Plan Still Might Not Jolt Slow Economy

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WASHINGTON (AP) — No sooner did the Federal Reserve unveil a bold plan Thursday to juice the U.S. economy than it dangled the prospect of doing even more.

Investors celebrated by sending stock prices jumping.

Economists were less impressed. Many wondered how much the Fed's action would help.

Chairman Ben Bernanke himself urged everyone to keep expectations in check.

"I personally don't think that it's going to solve the problem," Bernanke said at a news conference. "But I do think it has enough force to help nudge the economy in the right direction."

The Fed's move to buy $40 billion a month in mortgage bonds — the heart of its plan — might do little to spur borrowing and spending because rates on mortgages and other loans are already just above record lows.

The bond purchases, and the Fed's signal that more help might be needed, pointed to just how weak the U.S. economy remains three years after the recession ended. The economy is still struggling to emerge from damage caused by the 2008 financial crisis — the worst since the Great Depression.

The Fed's plan raises questions about the limits of its own power. Even with its intervention, the Fed foresees unemployment remaining as high as a recession-level 6.8 percent as late as 2015.

Still, the Dow Jones industrial average shot up more than 200 points Thursday, reaching its highest point since the start of the Great Recession nearly five years ago. The Dow is now within 625 points of its all-time high.

It ended the day at 13,540.

The dollar fell. Oil prices topped $98 a barrel for the first time in four months. And gold climbed 2 percent to the highest level since February — $1,772 an ounce, a gain of $38.

In the face of persistently high unemployment and slow economic growth, the Fed said Thursday that it would:

— Buy $40 billion a month in mortgage bonds indefinitely to try to lower long-term interest rates, encourage home buying and get people to borrow and spend more.

It's the Fed's third bond-buying program. If job growth doesn't improve much, the Fed will continue its bond purchases and take other steps.

— Likely keep its benchmark short-term rate at a record low near zero through at least mid-2015. That's six months longer than the Fed had previously planned.

— Probably hold interest rates low even well after the economic recovery has strengthened.

The mortgage bond purchases are unlikely to boost home sales much, even if they manage to lower mortgage rates further. The average rate on a 30-year fixed mortgage is already 3.55 percent, barely above the record low of 3.49 percent.

Home sales remain depressed in part because would-be buyers can't qualify for loans unless they have stellar credit or can produce hefty down payments.

"If you get a 2 percent mortgage but you've got to put 30 or 40 percent down, is that going to encourage people to buy a house?" says Doug Roberts, chief investment strategist at Channel Capital Research.

Still, Bernanke maintained that the Fed can help further, even with rates already ultra-low. He's argued that the Fed's first two rounds of bond purchases, in which it bought more than $2 trillion in bonds, saved 2 million jobs and accelerated growth.

By comparison, President Barack Obama's $862 billion stimulus program created nearly 2.7 million jobs, according a study by former Fed Vice Chairman Alan Blinder and Mark Zandi, chief economist at Moody's Analytics.

At the same time, Bernanke cautioned that the Fed alone can't invigorate the economy. It needs help from Congress.

"Monetary policy, as I've said many times, is not a panacea," he said, referring to the Fed's handling of interest rates. "We're looking for policymakers in other areas to do their part."

Political bickering in Washington is chilling economic growth. If Democrats and Republicans can't reach a budget deal by year's end, $600 billion in spending cuts and tax hikes will kick in — a threat designed to force the two parties to compromise.

If they fail, the draconian measures would likely send the economy over a so-called fiscal cliff as the higher taxes and spending cuts took effect.

Bernard Baumohl, chief global economist at the Economic Outlook Group, thinks the parties will reach a compromise after the election, avoid the fiscal cliff and give consumers and businesses confidence to spend more.

"Once you have greater clarity (about government policy), then I think people will take advantage of the lower interest-rate environment" engineered by the Fed, he says.

Baumohl predicts the economy will grow 3.2 percent next year, double what he expects for 2012. The Fed itself is less optimistic: It foresees growth of between 2.5 percent and 3 percent next year after growth of no more than 2 percent this year.

David Jones, chief economist at DMJ Advisors, says the Fed's action Thursday reflects its frustration over chronic high unemployment.

"The Fed is putting the pedal to the metal and pushing the accelerator down to the floor board," Jones says.

But he says the Fed is reaching a point of diminishing returns after nearly four years of aggressive efforts to help the economy. Its latest actions might trim a mere 0.1 percentage point from the unemployment rate over the next year and boost growth by a modest 0.2 percentage point, Jones says.

In the short term anyway, the economy might actually receive a bigger boost from Apple's new iPhone 5.

Michael Feroli, chief US economist at JPMorgan, calculated that the iPhone might add 0.25 to 0.5 percentage point to the annual growth rate in the last three months of 2012.

"I wouldn't be surprised" if the iPhone does more for the economy, Feroli said in an e-mail. "At the end of the day, economic growth is about producing more and better goods and services."