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Bernanke Sees Case for ‘Further Action’ on Inflation (Update1)
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(Updates with market reaction in sixth paragraph.)

By Caroline Salas and Joshua Zumbrun

Oct. 15 (Bloomberg) -- Federal Reserve Chairman Ben S. Bernanke said additional monetary stimulus may be warranted because inflation is too low and unemployment is too high.

“There would appear -- all else being equal -- to be a case for further action,” Bernanke said today in the text of remarks given at a Boston Fed conference. He said the central bank could expand asset purchases or change the language in its statement, while saying “nonconventional policies have costs and limitations that must be taken into account in judging whether and how aggressively they should be used.”

He didn’t offer new details on how the Fed would undertake those strategies or give assurances the central bank will act at its Nov. 2-3 meeting.

Bernanke and his central bank colleagues are considering ways they can stimulate the economy as the unemployment rate holds near 10 percent and inflation falls short of their goals.

After lowering interest rates almost to zero and purchasing $1.7 trillion of securities, policy makers are discussing expanding the Fed’s balance sheet by purchasing Treasuries and strategies for raising inflation expectations, according to the minutes of the Federal Open Market Committee’s Sept. 21 meeting.

“At current rates of inflation, the constraint imposed by the zero lower bound on nominal interest rates is too tight” and the “risk of deflation is higher than desirable,” Bernanke said. “High unemployment is currently forecast to persist for some time.”

Low Inflation

Futures on the Standard & Poor’s 500 index of stocks rose, with futures expiring in December climbing 0.2 percent to 1,176.30 at 8:17 a.m. in New York. The yield on the 10-year Treasury note fell three basis points to 2.48 percent as of 8:34 a.m., according to data compiled by Bloomberg. A basis point is 0.01 percentage point.

Fed officials, concerned that expectations of lower inflation will become self-fulfilling, are debating whether to encourage Americans to believe that prices will start rising at a faster pace so that they would spend more of their money now, the minutes from last month’s meeting showed. That would reduce inflation-adjusted interest rates and stimulate the economy.

“Central bank communication provides additional means of increasing the degree of policy accommodation,” Bernanke said. “A step the Committee could consider, if conditions called for it, would be to modify the language of the statement in some way that indicates that the Committee expects to keep the target for the federal funds rate low for longer than markets expect."

'Sufficient Precision'

Still, it "may be difficult to convey the Committee's policy intentions with sufficient precision and conditionality," he said.

The central bank could also expand its securities holdings, which has in the past been "successful" at lowering interest rates, Bernanke said. The Fed doesn't have much experience with that tool, which makes it difficult to decide the "appropriate quantity and pace of purchases and to communicate this policy response to the public," he said.

Bernanke said that "despite these challenges, the Federal Reserve remains committed to pursuing policies that promote our dual objectives of maximum employment and price stability."

The Fed's September statement was the first in almost two years of near-zero interest rates to say that too-low inflation would merit looser monetary policy. Prices excluding food and energy rose at a 1 percent annual pace in the three months through August, below Fed officials' long-term preferred range of about 1.7 percent to 2 percent.

"Overall economic growth has been proceeding at a pace that is less vigorous than we would like," Bernanke said.
"Consumer spending has been inhibited by the painfully slow recovery in the labor market" and "with long-run inflation expectations stable and with substantial resource slack continuing to restrain cost pressures, it seems likely that inflation trends will remain subdued for some time."

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