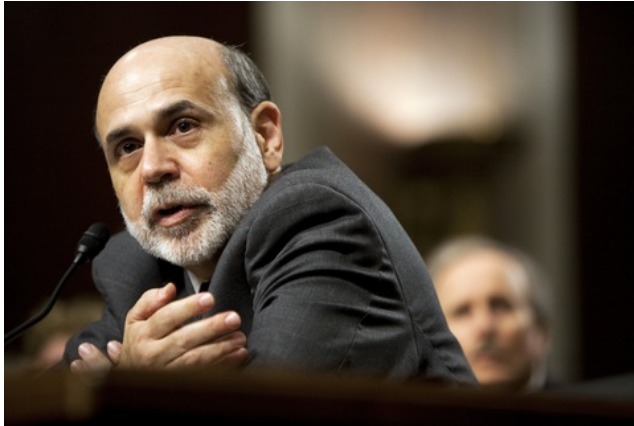


5 Questions About the Federal Reserve and Bernanke's News Conference

By: [Murrey Jacobson](#)



File photo by Alex Wong/Getty Images

Updated 6:24 p.m. | OK, we did get answers to the questions our experts raised earlier, some more interesting than others.

What was perhaps most compelling during this first news conference was the way Chairman Bernanke discussed the economy. He said he expected growth to weaken for now but then pick up again. More importantly, he seemed to have a message aimed directly at the American public.

Asked about whether Americans might be expecting too much from the Fed given the damage of the financial crisis, Bernanke said that was not the case.

"It's very hard to blame the American public for being impatient," he told reporters. "Conditions are far from where we would like them to be. The combination of high unemployment, high gas prices and high foreclosure rates is a terrible combination. A lot of people are having a very tough time, so I can certainly understand why people are impatient."

But at the same time, he seemed to suggest that there were limitations to what the Fed could do. When asked about whether the Fed isn't doing enough to lower unemployment rates, he ticked off the actions already taken but contended that the central bank needs to balance its dual mandate of watching inflation and trying to maximize employment.

Similarly, when asked about rising gas prices, Bernanke said he thought they would come down in time, particularly if tensions in the Mideast go down. But, he said, "the Fed can't create more oil."

On other key questions, Bernanke did not shock anyone, but was clear enough:

- He defended the \$600 billion purchase of Treasury bonds and said the program would indeed end as scheduled in June.

"I do believe that the second round of securities purchases was effective," he said. "We saw that first in the financial markets. The way monetary policy always works is by easing financial conditions. And we saw increases in stock prices. We saw reduced spreads in credit markets. We saw reduced volatility. We saw all the changes in financial markets and quite significant changes that one would expect if one was doing an ordinary easing of policy via a reduced federal funds rate."

- Short-term interest rates that are near zero will remain so for months to come.
- He acknowledged the rising pressure of some prices -- particularly oil -- but said he thought that bigger spike in inflation affecting many households would be temporary.
- He defended the Fed against criticisms that its borrowing and interventions were weakening the dollar.

Overall, Bernanke did not drop any major surprises that impacted the market or shocked those watching it. For many, that will make the news conference a success. Others watched the performance and were less than enthused. Some economists, including Joe Stiglitz who's on Wednesday's NewsHour broadcast, felt that Bernanke did not sufficiently address the unemployment program. At least one observer, Floyd Norris of The New York Times, said Bernanke "always sounds like a calm professor and he did so again."

Original post | The Federal Reserve may regularly make decisions affecting monetary policy and the country's economy, but its chairmen have never held a regularly scheduled news conference to explain their thinking.

Until now.

Instead, there have been brief paper statements. And when chairmen do testify before Congress or give speeches, they often use language that's been called a "turgid dialect of English." But Fed Chairman Ben Bernanke will make some history Wednesday afternoon when he goes before cameras and reporters for his first regular news conference.

The event will happen after the Fed Open Market Committee wraps up its two-day policy-making meeting. It's another big change from Bernanke, who decided after taking extraordinary action during the financial crisis of 2008 that it was becoming increasingly important to explain the logic of the often-criticized Fed to the public in clearer and more explicit terms.

Already, Bernanke, who has long thought the Fed should be more transparent, has gone much further than his predecessors: He sat down with Jim Lehrer and citizens for a [forum in 2009](#). He's been interviewed [twice on "60 Minutes,"](#) including a visit to his childhood hometown. He's held two quasi-news conferences before the National Press Club. And in recent months, [some Fed bank presidents and governors have felt comfortable taking issue with the Bernanke-backed consensus rather vocally and publicly.](#)

So the media, policymakers -- and just as importantly, the markets -- will be watching Bernanke's answers Wednesday afternoon closely for clues about the state of the economy and what actions the Fed might take. But the irony is that Bernanke likely wants to avoid making too much news or rattling markets with a surprise that investors aren't anticipating.

Given all that, what should the average viewer be watching for or expect? We asked that of several informed economists and Fed watchers, and came up with five basic questions. (They are by no means intended to be comprehensive, but simply a guide.)

1. What Kind of Exit Strategy Does the Fed Have From Major Intervention?

In addition to the crisis measures the Fed took in 2008 and 2009 to buy mortgage securities and loosen credit -- known as quantitative easing -- Bernanke and his colleagues [created a second round of Fed-style stimulus last when year when it began buying \\$600 billion worth of Treasury bonds](#) to help provide fresh credit and assistance to a recovery that looked weak.

All told, the Fed has pumped more than \$2 trillion into the economy since 2009. And its most recent bond buys have amounted to 85 percent of all government debt sold by the Treasury since the Fed program began in November 2010, according to The Wall Street Journal.

The highly controversial move has been defended by some for possibly preventing deflation and helping to boost markets, [criticized by others for failing to kick-start the economy into higher gear.](#) The Fed is scheduled to wind down these bond purchases, which are often referred to as "QE2," shorthand for the second round of quantitative easing. On Wednesday, economists want to see how

Bernanke approaches that with a pending deadline in June, and if he'll commit to doing so.

"To use a sports metaphor, there is no playbook for the Fed to look at now -- no history of other countries on how they undo a lot of this targeted intervention," says Matthew Slaughter, an economist at the Tuck School of Business at Dartmouth University who served on President George W. Bush's Council of Economic Advisers.

"Part of the logic of the press conference," Slaughter said, "is to communicate to a different audience how they approach this historic unwinding of these different interventions."

2. Does the Fed Think Economic Growth Will Slow Again?

Job growth has been better of late and GDP had seemed to pick up. But with the rise in gas prices, a second slump in housing sales and growing pessimism in the polls, there are fresh concerns about the direction of the economy.

In the statements issued after the FOMC wraps up its meeting, there are often signals about what the Fed is forecasting for the state of the economy. Observers are watching to see how Bernanke addresses that.

"On Thursday, we're going to get a weak GDP number (for the first quarter of the year). Whether it's a temporary thing or not, I think we'll pick that up in the tone of the chairman [in his news conference]," said Neil Irwin, who covers the Fed and the economy for The Washington Post.

"I think we'll find out whether he thinks this recovery is now well-entrenched or whether he's a bit nervous about the direction of where things are headed," Irwin said.

3. Is Bernanke Worried About The Threat of Inflation? Is He Too Worried?

This is a question that's directly connected with the aforementioned question on the general economy, but one worth its own attention.

Core inflation remains very low. But food prices and commodities have risen. So has oil, which is now more than \$4 a gallon in some states. Yet, interest rates have been extraordinarily low. Given all that, economists want to know how Bernanke and his colleagues see the specter of inflation? Bernanke has seemed less concerned about inflation than many hawks would like, but pressure is mounting from both sides on the Fed's next move.

In fact, the whole specter of inflation remains a matter of serious dispute among economists -- especially when the recovery continues to look tepid to many.

"The fact is that you can't have an abnormally high inflation for any period of time unless you have abnormally high growth in credit and that stimulates abnormally high demand," says Robert Shapiro of Sonecon, who used to work in the Commerce Department under President Clinton.

Some economists argue strongly that the Fed is worrying too much about a low threat of inflation and say Bernanke should push much harder for policies that promote employment.

Nobel Prize-winning economist Joseph Stiglitz said during a forum about the future of the Federal Reserve that "clearly the Fed's future role needs to extend beyond simply keeping inflation low." (That event was sponsored by the Roosevelt Institute and the New America Foundation.)

In the New York Times, economic columnist David Leonhardt also argued that Bernanke has not had a sharp enough focus on jobs. Yes, interest rates have been held near zero, he argued, but it's time to do more.

The Fed, [he writes](#), "could announce that it would keep its benchmark rate at zero for a few years, which would probably hold down long-term rates. It could say that it was comfortable with higher inflation for a limited period of time, given how low inflation has been since 2007 and how high unemployment is. Above all, Mr. Bernanke could make clear that he considers years of widespread unemployment to be unacceptable."

Moreover, some are asking, why the fear about inflation and why even possibly signal a move to raise rates?

"This economy does not have any of that abnormally high credit and demand," says Shapiro. "According to monetary theory there is no basis for concern of inflation, no basis in actual numbers, so the question there is: Is the Fed in effect going to be spooked by what is happening in commodity prices and what happening in Europe and what's happening in the dollar?"

But others look at the recovery, the growth in job numbers (more than 200,000 people hired last month), the spike in prices, and rising debt and say it's time to guard against the specter of real inflation.

That was the case made earlier this month by the president of the Federal Reserve Bank of Philadelphia.

Charles Plosser [told a panel](#) at Bard College that "the apparent strengthening of the U.S. economy suggests that, in the not-too-distant future, monetary policy will have to begin reversing course from a very accommodative policy stance."

4. What About the Health of the Dollar?

It's continuing to take a beating against other currencies, and some investors are eager to see if Bernanke and Fed governors are ready to deal with it.

"The other issue here that is going to be on the Fed's mind is that the dollar is at a long-time low -- for about 16 months [has] been at a low against the euro and a record low against the Swiss franc," Shapiro says. "The dollar has been declining and that puts some pressure on the Fed."

5. Could Bernanke Slip and Say The Wrong Thing?

Probably not, say most experts. And yet...

"One danger is miscommunication, meaning people hear the chairman say something he does not intend to say," is how Slaughter put it to us. "And there is the basic human element: He does have more control with formal statements but the give and take of a press conference is a different dynamic...You never know how it goes."

Adds Shapiro:

"The danger of this kind of press conference is that what the chairman says is either misinterpreted or more likely over-interpreted. Markets have a very strong propensity to overshoot and they may correct...The danger is it may offset what the Fed wanted to do and weaken the impact."

While Bernanke will certainly be careful to watch his words for any impact on Wall Street, analyst and blogger Stan Collender says the news conferences aren't aimed at the markets anyway.

"Bernanke told his staff over a year ago that the Fed had no choice but to talk to Main Street on a regular basis because, if it didn't, it was going to have to explain its actions at the worst possible time -- after a crisis occurred," he wrote Wednesday morning. "Second, the Fed has a political bulls-eye on its chest and has no choice but to build public support for what it does and how it does it."

In the end, it's possible Bernanke may not say anything that's not expected, but Neil Irwin says actual announcements are not all he will watch for later Wednesday.

"The tone is important for seeing a framework of what happens next," he said. "I think the fact that he's talking about this is really a new era."

Other central banks in Europe and Japan have already tried these news conferences. Now Bernanke and his colleagues get to see how successful it proves to be in the U.S.