

Fed's Dudley Sees Modest Economic Recovery

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By: Reuters

U.S. economic growth will likely be modest, keeping price pressures under wraps and enabling the Federal Reserve to keep benchmark interest rates ultra-low for an extended period, New York Fed president William Dudley said on Friday.



William Dudley

AP

Dudley told a Center for the New Economy conference that he expects the U.S. economy to keep expanding but at a "somewhat slower" growth rate than in the second half of 2009, as temporary boosts from government stimulus and the inventory cycle fades.

U.S. gross domestic product, a gauge of economic growth, grew 2.2 percent in the third quarter and 5.7 percent in the fourth quarter of

2009.

"With modest growth, we expect price pressures to remain contained," said the president of the New York Fed, who has a permanent voting seat on the central bank's policy-setting Federal Open Market Committee.

"Nonetheless, it's far too early to pop the champagne corks," he said.

Unemployment remains "unacceptably high" and households and smaller businesses still have only constrained access to credit, Dudley said.

With this backdrop, the Federal Reserve's pledge to keep its policy rate ultra-low for an extended period "is still very much in place", Dudley said.

The Fed cut its benchmark federal funds rate to near zero in December 2008 and has kept it there since.

"There is just no inflation pressure in the U.S. right now, so our focus has to be on growth and jobs," Dudley told reporters after his speech.

Dudley's remarks came a day after the Fed raised its emergency lending rate -- or discount rate -- for banks.

Fed Chairman Ben Bernanke flagged the move last week, saying the U.S. central bank aimed to widen the spread between its main policy rate that remains pegged near zero and the discount rate at which banks can borrow from the Fed.

However, markets did not expect the Fed to act so soon and the timing -- well ahead of a scheduled policy meeting on March 16 -- prompted investors to price in a greater likelihood of a rise in the benchmark fed funds rate late this year.

Dudley, answering audience questions, said the discount rate hike was a "small technical change" and not a signal about monetary policy.

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policy is on hold and the discount rate adjustment should not be taken as signalling anything about our attitude toward that language," Dudley later told reporters.

"The action yesterday was really an action about the improvement in banks," Dudley said.

Dudley said the Fed didn't have a clear goal for what the ultimate spread between the discount rate and benchmark interest rates would be. The Fed will "wait and see" how the process plays out, he said.

Asked about his preferred exit strategy from the Fed's extraordinary support for the economy, Dudley said he would be "very comfortable" with the sequence outlined by Fed chairman Ben Bernanke.

Bernanke, in testimony on Feb. 10, offered a potential sequence for eventually withdrawing the Fed's emergency support for the economy. Bernanke said the Fed could eventually tighten policy by first draining some reserves and then raising the interest paid on excess reserves. .

Puerto Rico is part of the Second District of the Federal Reserve System, along with New York, the U.S. Virgin Islands and parts of New Jersey and Connecticut.

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