

**US economic strength may not be clear for months, says Fed
Malaysian Insider
May 11, 2014**

The US economy should accelerate in the second quarter to an annual growth rate of 3% or more, but it may not be clear for some time if the pick-up is sustainable, a Federal Reserve official said today.

Federal Reserve Bank of Atlanta president Dennis Lockhart also said he expected the US central bank to have run down its bond-buying programme by its October or December meeting and to start raising interest rates in the second half of next year.

The US economy hardly grew in the first quarter but has gathered pace since. Philadelphia Fed President Charles Plosser said on Thursday he expected full-year growth of 3%.

Speaking to a business gathering in Dubai, Lockhart was more circumspect. "It may not be clear for several months, or even quarters, whether the US economy is undeniably on a stronger and sustained growth path around a run rate of 3%," he said.

Lockhart, who said he was speaking in his personal capacity, does not have a vote this year on the Fed's policy -setting board, but he participates in its discussions and is considered to be near the centre of its policy spectrum. Turning to external growth risks, Lockhart said tensions between Russia and the West over Ukraine were of a concern as they have a potential to destabilise markets and economies.

"I think there is risk that heightened conflict could produce volatility in global financial and commodity markets that, if prolonged, could spill over to the US and global economies," he said.

Fed Chair Janet Yellen said in her testimony to Congress earlier this week a slumping housing market and geopolitical tensions risked undermining the US economy.

Lockhart said that, generally, he saw the housing market improving and contributing to the brighter economic picture.

Asked about his growth forecast for the second quarter, he told reporters: "It is little early to say based on data. But I am pretty confident it will be at or exceed 3%."

To help the US economy recover from a deep recession, the Fed has kept overnight interest rates near zero since late 2008.

But it has begun scaling back its bond-buying programme – aimed at pushing down borrowing costs – in recent months amid signs of an upturn in the jobs market.

The Fed is still buying US\$45 billion (RM145.4 billion) in bonds each month, which Lockhart said should reach zero by the central bank's October or December meeting.

With the economy having grown just 0.1 annually in the first quarter, in its April policy meeting the Fed stuck to its view that near-zero interest rates would be needed for a "considerable time" after asset purchases ended.

Lockhart said he expected interest rates to start to rise in the latter half of 2015, adding: "Once rates begin to rise, I expect the process to normalisation of interest rates to be gradual."

According to a March summary of expectations, Fed policymakers expect rates to rise in 2015.

Dallas Fed chief Richard Fisher suggested this week that the central bank could replace its federal funds rate, a longstanding monetary policy primary tool, in the years ahead, adding other tools have been tested.

Asked about the success of reverse repos, Lockhart said: "It has been successful up to the point of a relatively small allotment. But overall I am confident that reverse repos will be among our toolbag."

"Therefore they may very well have a role in how we try to influence short-term interest rates."

Inflation has been running just above 1% in the world's biggest economy while unemployment, albeit falling, is still at 6.3%.

Lockhart said that he expected inflation to firm to a healthier rate over the medium term on a track to the Federal Open Market Committee's 2% target. Despite the decline in the unemployment rate in April, the United States apparently added jobs but lost workers, he said.

"So I am hesitant to take on board this decline in the unemployment rate as indisputable evidence of progress toward full employment." – Reuters, May 11, 2014.

Hakcipta © 2013 The Malaysian Insider

Source: <http://www.themalaysianinsider.com/business/article/us-economic-strength-may-not-be-clear-for-months-says-fed>