

Fed's Yellen cites housing, geopolitical risk to US economy
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Federal Reserve Chair Janet Yellen today said the US economy was still in need of lots of support from the central bank given the "considerable slack" in the labour market, and she cited weakness in the housing sector as a fresh risk.

Even as she took note of "appreciable" improvements in the labour market, Yellen told a congressional committee a high rate of long-term unemployment and a slow rise in measures of labour compensation suggested more room for further gains.

In her testimony, she said she expected the economy to expand at a "somewhat" faster pace than last year, but cited geopolitical tensions and flattening out of housing activity as risks bearing close observation.

US stocks, which had opened higher, slipped after her prepared remarks were released, while prices for US government debt were little changed. The dollar rose against the euro.

Yellen, speaking to the Joint Economic Committee, also indicated concerns over investors exerting risky behaviour given the extended period of low interest rates.

"Some reach-for-yield behaviour may be evident," Yellen said, pointing to the lower-rated corporate debt markets as an example.

Yellen added that issuance of syndicated leverage loans and high-yield bonds has expanded, while underwriting standards loosened, though she said that these increases appear modest - particularly at large banks and life insurers.

The Fed chief repeated the view of the Federal Open Market Committee (FOMC) that despite the expected US economic growth, considerable slack in the labour markets and low inflation warrants a "high degree of monetary accommodation".

Last month the Fed reduced its monthly bond purchases to US\$45 billion (RM146.25 billion) from US\$55 billion.

In previous statements, the FOMC has cited a slow recovery in housing sector as a concern.

Yellen went a step further in offering her view of the sector in her testimony today.

"The recent flattening out in housing activity could prove more protracted than currently expected rather than resuming its earlier pace of recovery," she said.

Yellen added that equity market valuations as a whole and residential real estate prices were within historical norms.

Bank holding companies improved their liquidity positions and raised capital ratios, she said, adding that stress tests provided a level of confidence with how financial institutions would fare in the face of a sharp economic downturn. – Reuters, May 7, 2014.

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