Fed Must Be Ready to Help Job Market: Williams

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The **Federal Reserve** must stand ready to take even more policy action to boost the ailing job market, the head of the San Francisco Fed said Wednesday, but he stopped short of calling for monetary easing now.

The Federal Reserve headquarters in Washington, DC.

John Williams, president of the Fed's regional San Francisco bank and a voter on policy this year, spoke a day before Fed Chairman **Ben Bernanke** testifies before the Joint Economic Committee Thursday on the economy.

Ealier Wednesday, **Atlanta Fed President Dennis Lockhart** said the central bank may need to consider further monetary easing.

Williams lowered his GDP growth forecast and warned that Europe's debt crisis and tighter fiscal policies in the United States are "wild cards" for the domestic economy.

The Fed [explain this] will likely fall short of both its maximum employment and its inflation objectives "for some time," he said at a luncheon of the Seattle Branch of the San Francisco Fed.

"For these reasons, it's crucial that we maintain our current highly stimulatory monetary policy stance. ... We must also stand ready to do even more if needed to best achieve our statutory goals of maximum employment and price stability," Williams said.

"If the outlook for growth worsens to the point that we no longer expect to make sustained progress on bringing the unemployment rate down to levels consistent with our dual mandate, or if the medium-term outlook for inflation falls significantly below our 2 percent target," he added, "then additional monetary accommodation would be warranted."

Fed officials head into their next policy meeting, on June 19-20, under some pressure to take yet more steps to help the lackluster U.S. economic recovery. Three straight months of disappointing jobs growth at home and a worsening of the euro zone's financial and debt crisis have fueled expectations the Fed

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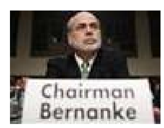

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will further ease monetary policy.

Job growth in May fell well below expectations while the unemployment rate rose for the first time in nearly a year, to 8.2 percent from 8.1 percent in April.

Citing that jobs report, Williams said, "It's important not to get carried away by one month's data." Still, he called the unemployment rate "far too high" and sounded ready to push for more policy easing if more clouds gather around the U.S. economy.

If more easing is needed, Williams highlighted further purchases of longer-term bonds, possibly including mortgage-backed securities, as an effective tool. In other words, a **third round of quantitative easing, or QE3** [explain this].

The Fed in late 2008 slashed interest rates to near zero and has since bought $2.3 trillion in long-term securities in an unprecedented drive to spur growth and revive the economy after the worst recession in decades. Even so, the recovery has been slow and economic growth has been erratic, leading the central bank to say it expects to keep rates "exceptionally low" at least through late 2014.

A strong supporter of policies to boost employment, Williams is considered a more dovish member of the Fed's 19 policymakers.

He now expects GDP growth of about 2.25 percent this year and about 2.5 percent next year, down from a previous forecast of 2.5 percent and 2.75 percent, respectively.

The Fed official added he expects the unemployment rate to remain at or a bit above 8 percent through this year, before dipping to a little above 7 percent by the end of 2014. He also expects inflation to remain below 2 percent in 2012 and 2013.

Lockhart said the Fed may need to consider further monetary easing if a wobbly U.S. economy falters or Europe's crisis triggers a broader financial shock, Wednesday.

"It is my sense that material risks to the outlook are gathering," Lockhart told business executives at The Broward Workshop in Fort Lauderdale, Fla.

"Should it become clear that something resembling my baseline scenario of continued, though modest, growth is no longer realistic, further monetary actions to support the recovery will certainly need to be considered," he said.

Lockhart also suggested some type of action might be needed if Europe's banking crisis escalates.

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