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Lockhart Says Extending Operation Twist Is 'On the Table'

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economy added the fewest jobs in a year in May. Fed Vice Chairman Janet Yellen will discuss the outlook for the economy and policy tonight in Boston, and Chairman Ben S. Bernanke is due to testify before Congress tomorrow.

"What Lockhart said today is that he's certainly on board if that's what the chairman and the majority of the FOMC want to do," said Stuart Hoffman, chief economist at PNC Financial Services Group Inc. in Pittsburgh. "He's not going to stand in the way."

Stocks climbed today on speculation policy makers in Europe and the U.S. will take steps to spur growth. The Standard & Poor's 500 Index rose 1.3 percent to 1,301.57 at 10:20 a.m. in New York.

European Central Bank President Mario Draghi said officials are ready to add more stimulus to the euro region's economy if necessary, while damping expectations that another round of three-year funding for banks is imminent.

'Downside Risks'

(Updates with economist comment in fourth paragraph.)

June 6 (Bloomberg) -- Federal Reserve Bank of Atlanta President Dennis Lockhart said extending Operation Twist, the program to lengthen maturities of debt on the central bank's balance sheet, is an "option on the table."

"There is capacity to do more," Lockhart said today in response to audience questions after a speech in Fort Lauderdale, Florida. "It is certainly an option. I'm not going to speculate on what the FOMC will do," he said, referring to the Federal Open Market Committee.

The policy-setting FOMC meets June 19-20 to consider whether more stimulus is needed after the

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"We monitor all developments closely and we stand ready to act" as the economy faces "increased downside risks," Draghi told reporters in Frankfurt today after the ECB left its benchmark rate at 1 percent. "A few" governing council members asked for a rate cut today, he said.

Lockhart is among the regional Fed presidents who have a vote on the FOMC this year, along with Cleveland's Sandra Pianalto, Richmond's Jeffrey Lacker and John Williams in San Francisco. Fed governors have a permanent vote on the panel, along with William C. Dudley, president of the New York Fed.

Policy makers in recent days have expressed opposing views on the need for more stimulus. Chicago's Charles Evans said in a speech in New York yesterday that "soft" economic data call for "extremely strong accommodation," while Richard Fisher of Dallas said more easing would be "pushing on a string."

Bullard, Rosengren

James Bullard of St. Louis said there's time to assess the economy and a policy change isn't needed now. Boston Fed President Eric Rosengren said on May 31, before the release of the jobs report, that the central bank should prolong Operation Twist beyond June.

The Fed started Operation Twist in September to reduce longer-term interest rates without expanding its balance sheet. Under the program, the Fed sold \$400 billion of Treasury securities with maturities of three years or less and used the proceeds to buy Treasuries with maturities of six years or more.

In his speech, Lockhart said the jobs report shows the fragility of a recovery that could require an additional boost from the Fed if it becomes clear growth is slowing.

Policy is "appropriate" for now, Lockhart said. "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."

Jobs Report

American employers in May added 69,000 jobs, less than half the number forecast by economists, Labor Department figures showed June 1. The unemployment rate unexpectedly rose to 8.2 percent from 8.1 percent.

That compares with the Fed's long-term goal of 5.2 percent to 6 percent. Fed officials will update their forecasts for growth, unemployment and inflation at their next meeting.

"As the employment report of last Friday illustrates, there continues to be a halting and tenuous character to the recovery," Lockhart said to the Broward Workshop, a local business group.

Lockhart has told reporters after prior speeches this year the threshold for more action is "high," including "a serious deterioration in the economy" or threat of falling prices.

Today's speech emphasized continued risks, including those from the U.S. fiscal-policy debate and from the European debt crisis, which has the potential for "spillover" to the U.S. financial system.



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State of Readiness

"The situation we face requires that the FOMC maintain a state of readiness to respond to financial or economic instability should the need arise," Lockhart said. "I am confident that the committee retains the capacity to act and the tools to promote stability."

The world's largest economy expanded at a 1.9 percent annual pace in the first quarter, less than the initial estimate of 2.2 percent, a Commerce Department report showed on May 31. Other data showed manufacturing expanded at a slower pace in May and consumer confidence weakened.

"It is nearly impossible to escape the conclusion that we are replaying in some manner the spring-summer slowdowns of the past two years," Lockhart said. "The economy remains in recovery but, as the disappointing employment numbers illustrate, the economy is working against some strong headwinds."

Loss of Momentum

Several Fed policy makers said a loss of momentum in growth or increased risks to their economic outlook could warrant additional action to keep the recovery going, minutes of their last meeting showed. The policy-making Federal Open Market Committee on April 25 reiterated its expectation that subdued inflation and economic slack will probably warrant "exceptionally low levels for the federal funds rate at least through late 2014."

Lockhart, 65, a former Georgetown University professor, has led the Atlanta Fed since 2007. Fed presidents rotate voting on monetary policy, with Lockhart voting this year. The Atlanta Fed district includes Alabama, Florida, Georgia, and portions of Louisiana, Mississippi, and Tennessee.

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