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Fed's Evans Calls for Further Stimulus

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Federal Reserve Bank of Chicago President Charles Evans said the central bank should move "aggressively" to reduce unemployment, even at the cost of temporarily pushing inflation higher.

The Fed's current commitment to record-low interest rates should be made contingent on pushing the unemployment rate to around 7 percent or 7.5 percent, as long as inflation stays below 3 percent in the medium term, the 53-year-old regional bank chief said today in a speech in London.

"Given how truly badly we are doing in meeting our employment mandate, I argue that the Fed should seriously consider actions that would add very significant amounts of policy accommodation," he said. "Such further policy accommodation does increase the risk that inflation could rise temporarily above our long-term goal of 2 percent."

The speech places the Chicago Fed president among the "few" members of the Federal Open Market Committee who, according to minutes of the FOMC's gathering in August, favor a "more substantial move" beyond the central bank's pledge to hold rates low for about two years. Evans, among the FOMC's most outspoken advocates of easing since last year, voted for the FOMC's Aug. 9 commitment to keep the overnight lending rate between banks near zero through at least mid-2013.

His support for a new trigger to be added to the central bank's statement goes beyond the easing publicly supported by most Fed officials, and is an acknowledgment of the weakness of the world's largest economy almost a year after the Fed committed to a second round of bond purchases to spur growth.

'Enormous Risks'

"I'm sure everyone will agree that we seriously don't want to be in this position again at this time next year," the regional bank chief said at the European Economics and Financial Centre's Distinguished Speaker Seminar. One challenge "is to take actions that respect both the feasibility of what monetary policy can accomplish and the enormous risks to the future prospects of the U.S. economy."

The economic "outlook has weakened substantially," Evans said.

Data released since last week show the U.S. unemployment rate remained stuck at 9.1 percent last month and payrolls unexpectedly failed to grow, while confidence among consumers plunged to the lowest level in more than two years. Unemployment has remained at around 9 percent or higher since April 2009.

"The economic outlook clearly has deteriorated this year," with consumers and small businesses struggling to get credit and recovery in the real estate markets being "painstakingly slow," Evans said.

Additional Stimulus

Policy makers are weighing whether further stimulus is needed to boost an economy that grew at a 1 percent annual rate in the second quarter. They debated ways to invigorate the recovery and hiring at their Aug. 9 meeting, potentially laying the groundwork for action at their next gathering later this month.

"Monetary policy should be used more aggressively to increase aggregate demand," said Evans, one of only two regional Fed presidents who vote on the FOMC every other year, along with Cleveland's Sandra Pianalto.

The central bank could add in its statement a new trigger that would keep the benchmark U.S. interest rate at "extraordinarily low levels" until unemployment falls to 7.5 percent or 7 percent, so long as medium-term inflation stays below 3 percent, Evans said.

Inflation Goal

The Fed's preferred price gauge, the personal consumption expenditures price index excluding food and energy, rose 1.6 percent in July, compared with 1 percent in November when the Fed launched its $600 billion round of asset purchases known as QE2 for the second round of quantitative easing. That's in line with the Fed's annual inflation goal of 1.7 percent to 2 percent.

While adding "significant amounts" of further policy accommodation risks temporarily pushing inflation above the Fed's long-term goal of 2 percent, Evans said, "I do not see our 2 percent goal as a cap on inflation."

"Rather, it is a goal for the average rate of inflation over some period of time," said the regional chief, who became head of the Chicago Fed in September 2007.

The Standard & Poor's 500 Index has dropped 12 percent since July 22, as companies and consumers cut back as a result of political wrangling in Washington over fiscal policy and mounting fear of a sovereign debt default in Europe. The S&P 500 rose 2 percent to 1,189.09 at 11:45 a.m. in New York.

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