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# Fed’s mixed message takes stocks on a wild ride

**By Ylan Q. Mui** - May 23, 2013

When Federal Reserve Chairman Ben S. Bernanke spoke Wednesday morning on Capitol Hill, his words seemed to hint that the central bank’s stimulus wouldn’t be pulled back anytime soon. The Dow Jones industrial average surged.

Hours later, the release of minutes from the last Fed meeting appeared to signal the opposite. The Dow tumbled.

The Dow’s 276-point swing illustrates the communications challenge facing the Fed as it ponders the next steps for its historic stimulus efforts. Bernanke has promised to make the central bank more transparent and shed its aura of secrecy. But that has also meant laying bare the disagreements and caveats of Fed deliberations, resulting in a dizzying mix of signals to investors and the public.

“They’re really trying to come up with some sort of Talmudic analysis . . . of what the Fed is trying to say,” said **Bernard Baumohl, chief economist at the Economic Outlook Group.**

One of the trickiest questions facing the central bank is whether to scale back the $85 billion in bonds it is buying each month to push down long-term interest rates. It has tied the fate of the program to improvement in the labor market, but officials have a wide range of interpretations of what constitutes improvement. Meanwhile, investors have been hypersensitive to any hint that the Fed might be ready to dial back.

Over the past week alone, Richmond Fed President Jeffrey M. Lacker argued for stopping the program as soon as possible. San Francisco Fed President John C. Williams called for slowing down purchases starting in June. New York Fed

President William C. Dudley said the central bank might scale the program back for a little while but then ratchet it back up.

Markets were hoping that Bernanke might clear up the debate Wednesday when he testified on Capitol Hill. His prepared testimony for the Joint Economic Committee seemed to be straightforward, citing improving demand for real estate, construction and autos as a sign that the Fed's efforts are paying off.

"Monetary policy is providing significant benefits," Bernanke said. Then, he added, "A premature tightening . . . would also carry a substantial risk of slowing or ending the economic recovery."

Investors interpreted Bernanke's comment as a sign that he is not ready to scale back bond purchases, and the Dow Jones industrial average jumped by triple digits.

But the euphoria was short-lived. In response to questions from lawmakers, Bernanke said the Fed could dial back its purchases "in the next few meetings." Slowing down purchases is not the same as tightening, which involves raising interest rates or selling bonds, he has said. In addition, Bernanke was careful to note that the Fed could just as easily reverse course.

"It would not mean we are automatically aiming toward a complete wind-down," he said. "Rather, we would be looking to beyond that to see how the economy evolves, and we could either raise or lower our pace of purchases going forward."

Adding to the cacophony was the release Wednesday afternoon of the minutes from the Fed's April 30-May 1 meeting. Investors zeroed in on the detail that "a number of participants" were willing to reduce bond buying as early as June. The Dow began sliding at the release and ended the day down down 0.5 percent.

But a closer reading shows that those participants could not agree on what economic conditions would prompt them to scale back, or even how likely it might be that they exist. Instead, the Fed voted to hold steady until it was more certain of the recovery's direction.

"Everything essentially is tied to how confident the Federal Reserve is that the economy is going to continue to grow," **Baumohl** said. "When the Fed makes a statement saying they're not sure . . . it's because they legitimately do not yet have all the evidence they need to make a decision."

Bernanke has supported public debate of monetary policy by Fed officials — even when their views conflict with his own — and has become known as a consensus-builder. But that job becomes harder when no clear path forward has emerged.

“The first reduction in asset purchases is an important step, and that’s why they’re talking so much about it,” said Lou Crandall, chief economist at research firm Wrightson ICAP. “They know it’s a big deal.”

Still, many investors say they would rather have too much information than too little.

“We have a fairly good idea of who stands where,” said Brad McMillan, chief investment officer for Commonwealth Financial. “Different members of the Fed have done a good job of communicating their thoughts — perhaps too good of a job.”

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