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Fed stays the course on stimulus reduction

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The Federal Reserve on Wednesday said it will continue to scale back its support for the nation's economy despite recent turmoil in global markets that has reverberated across U.S. indexes.

The central bank will reduce the amount of money it is pumping into the recovery from $75 billion this month to $65 billion in February. The move is a sign that the Fed remains confident that the economy is healing. It said that growth has "picked up" in an official statement announcing its unanimous decision.

"The Committee continues to see the improvement in economic activity and labor market conditions . . . as consistent with growing underlying strength in the broader economy," the statement said.

The Fed has bought about $1 trillion in bonds over the past year in an effort to push down long-term interest rates and stoke demand among consumers and businesses. But it began slowing the pace of purchases this month as businesses picked up hiring and unemployment declined. Fed Chairman Ben S. Bernanke has said the central bank expects to wind down the program in moderate steps over the course of the year, though he emphasized that the time frame would depend on the health of the recovery.

The statement made no mention of the sell-off in emerging markets over the past week, which had led some investors to question the Fed's strategy. Currencies in developing countries have sunk amid reports of slowing growth in China. The plunge underscored fears that the Fed's actions would turn the tide of capital that had flooded emerging markets in recent years as investors sought higher returns while interest rates in the United States remained depressed.

Turkey was particularly hard hit over the past few days, prompting that country's central bank to hike its main interest rate from 7.75 percent to 12 percent in an emergency midnight meeting Tuesday. The aggressive move helped stem the lira's free-fall, but the anxiety overseas seemed to be reflected in domestic markets on Wednesday.

All three major U.S. stock indexes started the day down and continued their slide after the Fed's announcement, each losing about 1 percent. Bond markets rallied as investors sought out safety, sending yields on the 10-year Treasury down 2.6 percent.

"The market's not disappointed with the Fed's decision per se," said Krishna Memani, chief investment officer and head of fixed income at OppenheimerFunds. "The market's disappointed with the market ambiance more than anything else."

Adding to the concern was the fact that recent U.S. economic data has been surprisingly weak. The nation added only 74,000 jobs in December, according to government data, less than half the average pace of the previous four months. New home sales and industrial production also missed analysts' estimates, raising concerns that the recovery may have seen a false dawn. The nation's economic picture should become clearer Thursday when the government releases its estimate of GDP growth during the last months of 2013.

In its statement, the Fed acknowledged that labor market data has been "mixed" but that, on balance, it has shown improvement. The committee kept to boilerplate language promising to "closely monitor information on economic and financial developments."

"The gist of this report tells us that the Fed believes the U.S. economy is actually gaining more traction and that the financial crisis facing certain emerging countries is unlikely to derail that progress," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.**

The Fed's decision to stay the course despite the market jitters and mixed economic data indicates that the bar for changing directions is high. In a recent speech, Dallas Fed President Richard Fisher, a voting member of the central bank's policy-setting committee this year, said he "would not flinch" from reducing bond purchases in the face of stock market volatility, as long as the economy was growing, unemployment was declining and the risk of deflation was low.

"I would vote for continued reductions in our asset purchases, with an eye toward eliminating them entirely at the earliest practicable date," he said.

The meeting also marked Bernanke's last before he steps down on Friday after eight years at the helm of the central bank, where he oversaw the nation's most dramatic financial crisis since the Great Depression. His successor, Janet Yellen, currently is second-in-command at the Fed and is widely expected to follow the strategy for winding down stimulus that Bernanke laid out in December.

Bernanke "was in charge of the Fed during one of the most turbulent economic times in our nation's history, and he didn't waste any time responding to the ensuing financial crisis," said Sen. Tim Johnson (D-S.D.), head of the Senate banking committee, said Wednesday. "He was aggressive, creative, and thoughtful as he worked to prevent a depression and improve our nation's economy."

The Fed also made no change to its guidance on short-term interest rates. It has pledged to keep them near zero "well past" the time that the unemployment rate hits 6.5 percent. The U.S. jobless rate is at 6.7 percent. The Fed repeated language stating that rates would likely remain low "especially if" inflation remained below the Fed's 2 percent target.

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