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Plosser says Fed must review easing policy regularly

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By Pedro Nicolaci da Costa

WASHINGTON (Reuters) - The Federal Reserve should review its $600 billion of monetary stimulus on a regular basis, particularly since inflation is likely to pick up next year, a top Fed official said on Thursday.

In an interview with Reuters Insider, Charles Plosser, president of the Philadelphia Fed, said recent low readings on inflation did not make him worried about deflation, a sustained and damaging decline in prices and wages.

Plosser, who indicated that he did not favor the Fed's decision to boost purchases of government bonds, said he expects ongoing reviews of the policy, known as round two of quantitative easing, or QEII.

"The committee specifically said we will reevaluate and assess the progress of QEII on a regular basis and I take that assessment in a serious way," Plosser said on the sidelines of a conference sponsored by the CATO Institute.

Other officials have said recently that they expect the full $600 billion to be completed by its June deadline, and that any pullback would require an unexpected turnaround in the economy that most deem unlikely.

A known inflation hawk, Plosser represents a vocal minority on the U.S. central bank that views the latest policy move as more trouble than it is worth.

Earlier in the day Plosser told reporters: "For me, the benefits were not large enough to outweigh the costs."

DEFLATION NOT IN THE CARDS

Plosser, who in separate remarks said he sees U.S. economic growth ranging between 3 percent and 3.5 percent next year, said that such growth rates would likely bring inflation within the ballpark of the Fed's target of 2 percent or a little below.

Still, he said, inflation indicators could continue to show some weakness in the near term. Energy and commodity prices, which until recently had been rising rapidly, are too volatile to provide a reliable inflation signal, Plosser said.

U.S. consumer prices outside food and energy climbed 0.6 percent in the year to October, the weakest rise on record and one that appeared to vindicate the Fed's move toward even more accommodative credit conditions.

During the recession, the deepest since the Great Depression, the Fed pulled out all the stops to get the financial system back on its feet. It slashed rates to effectively zero, bought some $1.7 trillion in mortgage-linked and Treasury securities, and launched an alphabet soup of credit facilities aimed at specific -- and largely frozen -- sectors of the credit markets.

Plosser said the large amount of reserves sloshing around in the banking system due to these measures is "firewood" for future inflation.

Even so, growth has been uneven and anemic by most accounts. U.S. gross domestic product grew just 2 percent in the third quarter on an annualized basis, and the unemployment rate has been stuck near 9.6 percent for several months.

But Plosser indicated he remains skeptical of the Fed's ability to influence the path of growth and jobs more broadly, and would rather focus on meeting a narrower inflation target.

"I have not been shy about expressing my view for many years now about the importance of the Fed having an inflation target and that being a primary focus," Plosser said.

Republican lawmakers this week introduced a proposal that would curtail the Fed's "dual mandate" of price stability and maximum sustainable employment, forcing the central bank to focus solely on inflation.

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