Fed considering number of tools in event of downturn, Clarida says

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WASHINGTON (Reuters) - The U.S. Federal Reserve is looking at any additional methods that may be useful in the event of a downturn which forces the central bank to lower rates back near zero, Federal Reserve Vice Chair Richard Clarida said on Thursday.

Federal Reserve Vice Chair Richard Clarida reacts as he holds his phone during the three-day "Challenges for Monetary Policy" conference in Jackson Hole, Wyoming, U.S., August 23, 2019. REUTERS/Jonathan Crosby

“In addition to assessing the efficacy of...existing tools, the review is examining additional tools for easing policy when the effective lower bound is binding,” Clarida said in prepared remarks to a monetary policy conference at the Cato Institute in Washington.

The Federal Reserve is currently conducting a review of its existing framework, established under former Fed chief Ben Bernanke in 2012, to ascertain whether it is flexible enough to deal with future scenarios.

It already knows it has tried-and-tested tools in the form of balance sheet policies and forward guidance, which the Fed deployed after it was forced to cut interest rates to just above zero during the 2008 financial crisis and recession. But it is having another look at other tools the Fed at the time decided were not suitable for the U.S. context.

“The review is reassessing the case for these and other tools in light of more recent experience in other countries,” Clarida said.

Fed officials have already said that the outcome of the review is expected in the middle of next year.

The central bank has been grappling with what changes should be made to is monetary policy strategy and tools, particularly with regard to its 2% inflation goal.

The U.S. economy appears to have changed in fundamental ways that make high inflation far less of a threat. Some Fed officials have argued in favor of committing to making up for bouts of low inflation with periods of above-target inflation.

Since the central bank adopted its current framework, inflation has run persistently below its target, defying policymakers’ expectations as economic growth gained momentum and the unemployment rate fell to near a 50-year low of 3.6%.

Fed officials cite an aging population, globalization, and to some degree their own inflation-taming success in past decades for keeping businesses and markets from expecting a surge in prices.

In his speech, Clarida noted that inflation expectations reside at the low end of the range that he considers consistent with the Fed’s price stability mandate and that there is no evidence rising wages are putting excessive upward pressure on inflation.

The Fed Vice Chair steered clear of commenting on the current level of interest rates in his speech.

The Federal Reserve voted 8-2 to cut interest rates by a quarter percentage point at its October meeting to a target range of between 1.50% and 1.75% but made plain it would only lower rates again if there is a material deterioration in the U.S. economic outlook, a stance that has since been diligently echoed by several policymakers.

In an appearance before Congress on Wednesday, Fed Chair Jerome Powell reiterated that he and his colleagues see a “sustained expansion” as likely for the country’s economy, with the full impact of recent interest rate cuts still to be felt and low unemployment boosting household spending.