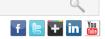
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WEDNESDAY, JUNE 6, 2012 - 10:27

By Brai Odion-Esene

Atlanta Fed's Lockhart: Bar Remains High For Additional Easing

--Rising Concern Could Be Seeing Deteriorating Circumstances

FORT LAUDERDALE (MNI) - The line at which it would be clear monetary policymakers need to consider more easing has not been reached yet, Atlanta Federal Reserve Bank President Dennis Lockhart said Wednesday.

"The bar remains high," Lockhart told reporters following a speech to the Broward Workshop in Fort Lauderdale, Florida.

But "the concern that we could be looking at deteriorating circumstances, that concern is higher," he said. As a result, "I don't think we should take any policy action off the table."

Lockhart is a voter on the Fed's policymaking Federal Open Market Committee this year.

Responding to audience questions, Lockhart said of the Fed's \$400 billion maturity extension program that "extending Operation Twist is an option that remains on the table."

Asked what the Fed could reasonably accomplish given that yields on U.S. Treasury securities are already at such low levels, Lockhart said the central bank's balance sheet policy actions also have a portfolio effect.

This happens by absorbing what would otherwise be investment in the Treasuries market and incentivizing investors to put their money into other assets, he said.

"So that portfolio effect is the other way in which policy could have an effect," he said. "I don't think we should forget that's part of the overall rationale for the balance sheet action."

Whether or not Fed policy could affect interest rates that already are at low levels for other reasons -- mainly due to safe haven flows into Treasuries -- "remains to be seen." Lockhart said.

"Certainly such a policy would help sustain that level of interest rates, and that could -- in certain circumstances -- be very valuable to sustaining the recovery," he added.

Lockhart acknowledged that increasing the Fed's balance sheet "brings notional risk in the future," and there could be inflationary consequences of the central bank having a "too large" portfolio.

Such concerns have to be factored in when considering more quantitative easing, he said.

Some of Lockhart's colleagues at the Fed, such as St. Louis Fed President James Bullard, have argued that even with interest rates at record lows, households will not be able to benefit due to their high debt burdens.

Asked by MNI for his reaction, Lockhart said, "I think it's a legitimate question whether low, longer-term interest rates are in fact passing through, or would pass through, in any substantially changed way to household borrowing or for that matter corporate borrowing."

So it is a legitimate question, as part of the monetary policy transmission mechanism concern, he said.

"I continue to be somewhat skeptical that the pass-through of all of the benefit of lower rates will be felt by the economy through household borrowing. I think there is still a reticence to use debt as a way of spending money," Lockhart said.

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