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## Fed's Pianalto: rates should stay low for long time

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By [Gavin Jones](#)

ROME (Reuters) - The Federal Reserve should keep its fed funds target rate very low for a long time and complete its asset purchasing program as scheduled, Cleveland Federal Reserve Bank President Sandra Pianalto said on Thursday.

In a speech in Rome, Pianalto said she saw no evidence that sharp rises in food and energy prices would lead to lasting inflation, though the Fed is "watching carefully" for any signs of an unanticipated spillover.

"My outlook for economic growth and inflation assumes that we complete our asset purchase program as originally scheduled, and keep our federal funds rate target at exceptionally low levels for an extended period," Pianalto said.

The Fed's current \$600 billion asset purchase program is scheduled to end in June.

"I don't expect recent rises in food and energy prices to cause a broad spillover into a wide array of consumer prices, or in other words a lasting increase in inflation," said Pianalto, who is not a voter on the Fed's policy-setting Federal Open Market Committee this year.

"Specifically, I expect the underlying trend in broad consumer prices to rise only gradually toward 2 percent by 2013."

Pianalto said inflation would likely be kept in check by slow wage growth, strong competition and soft business conditions for retailers, and the continuation of low inflation expectations as measured by bond yields and surveys of economic forecasters.

Pianalto, considered a centrist whose views tend to align with those of Chairman Ben Bernanke, noted that measures of longer-run inflation expectations remain below 2 percent.

The Fed would "eventually" have to raise its fed funds target rate and sell the assets in its portfolio, she said, but she made clear she did not believe this should happen in the near term.

"We have a lot of ground to make up in terms of employment loss and output loss," she said in a panel discussion after her speech. She noted that the economy has added back only 1.5 million of the 9 million lost jobs.

She declined to comment on the fact that some voting members on the Fed's Open Market Committee have suggested that policy may need to be tightened before the end of this year.

U.S. consumer prices rose 0.5 percent in February, the largest increase since June 2009, driven by higher food and energy prices, but underlying inflation pressures remained contained.

In the 12 months to February, inflation accelerated to 2.1 percent from 1.6 percent in January.

Pianalto also repeated a call she made last month for the Fed to adopt and publicly announce an explicit inflation objective of 2 percent over the medium term.

However, some officials have worried that establishing an explicit target would limit the central bank's flexibility. In 2009, the Fed began providing a long-run inflation forecast that is viewed as an informal target.

Pianalto noted that economic recovery in the United States was gathering strength, led by strong growth in exports and manufacturing, though unemployment continues to be "a significant problem".

She said she expected the economy to continue to expand at a moderate rate, "a bit above its long-term average growth rate of 3 percent per year." (Editing by Ron Askew)

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