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Economy should grow again later in 2009,

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Associated Press

WASHINGTON — Federal Reserve Chairman Ben Bernanke told Congress Tuesday the economy should start growing again later this year, his most optimistic assessment of the country's financial health since the recession struck with force last year.

But Bernanke warned that even after a recovery gets under way, economic activity is likely to be subpar. That means businesses will stay cautious about hiring, driving up the nation's unemployment rate and causing "further sizable job losses" in the coming months, he told the Joint Economic Committee.

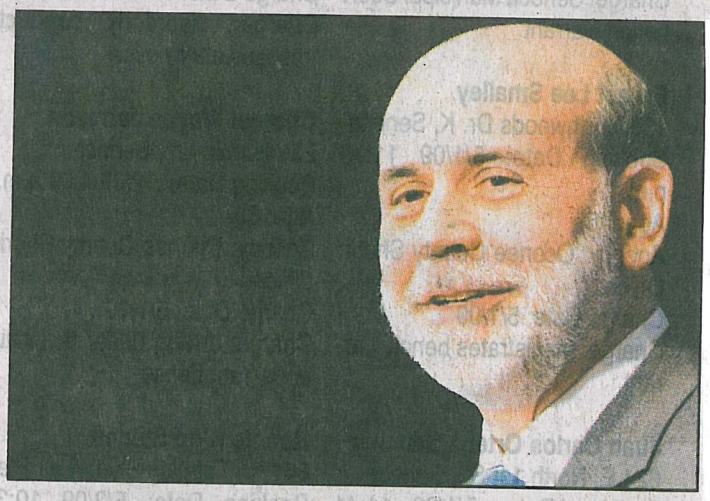
The recession, which started in December 2007, already has snatched a net total of 5.1 million jobs. The unemployment rate "could remain high for a time, even after economic growth resumes," Bernanke said.

But while some economists believe unemployment could hit 10 percent by the end of this year, the Fed doesn't share that view. The unemployment rate will probably climb "somewhere" in the 9 percent range, Bernanke said.

"The loss of jobs is one of the most distressing aspects of this whole episode," he said.

Even with all the cautionary notes, the Fed chief offered a far less dour assessment of the economy.

"We continue to expect economic activity to bottom out, then to turn up later this year," he told lawmakers. "We expect that the recovery will only gradually gain momentum."



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Federal Reserve Chairman Ben Bernanke testifies on Capitol Hill in Washington, Tuesday.

Recent data suggest the recession may be loosening its grip on the country, Bernanke said.

"The pace of contraction may be slowing," he said. It was similar to an observation

Bernanke says

the Fed made last week in deciding not to take any additional steps to shore up the economy.

The housing market, which has been in a slump for three years, has shown some signs of bottoming, he said. Consumer spending, which collapsed in the second half of last year, came back to life in the first quarter.

In the months ahead, consumer spending should be lifted by tax cuts contained in President Barack Obama's larger $787 billion stimulus package. Still, rising unemployment, sinking home values and cracked nest eggs will still weigh on consumers willingness to spend freely, Bernanke said.

Bernanke took some heat for the Fed's decision not to hasten the implementation of new rules to protect Americans from abusive credit card practices, as some lawmakers had requested. The Fed's rules take effect in July 2010.

Rep. Elijah Cummings, D-Md., said many Americans burned by the recession have watched banks and other companies get bailed out and feel like: "Hey, we're on fire, too. What about us?"

Sen. Charles Schumer, D-N.Y., called the Fed's decision "unconscionable."

But in the latest sign the downturn could be easing, activity in the services sector contracted at a slower pace in April, the Institute for Supply Management reported Tuesday. Its service sector index came in at 43.7 in April, up from 40.8 in March. Any reading below 50 indicates the service sector, where most Americans work, is contracting.