Fed again pledges to hold rates at record lows

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Federal Reserve Chairman Ben Bernanke addresses a meeting of the Chicago Economic Club

WASHINGTON — The Federal Reserve pledged Wednesday to keep a key interest rate at a record low for an "extended period," in a sign that the U.S. economy is growing but remains deeply dependent on government help.

The Fed said economic activity has "continued to pick up" and that the housing market also has grown stronger, a key ingredient to a sustained recovery.

But Fed Chairman Ben Bernanke and his colleagues warned that rising joblessness and hard-to-get-credit for many people and companies could restrain the rebound in the months ahead.

Against that backdrop, the Fed kept the target range for its bank lending rate at zero to 0.25 percent. And it made no major changes to a program to help drive down mortgage rates.

Commercial banks' prime lending rate, used to peg rates on home equity loans, certain credit cards and other consumer loans, will stay at about 3.25 percent, the lowest in decades.

Still, some credit card rates have risen over the last several months. Part of that reflects rate bump-ups by lenders in response to escalating defaults on credit card loans. Lenders also pushed through increases before a new law clamping down on sudden rate hikes for credit card customers takes effect early next year.

The average rate nationwide on a variable-rate credit card is 11.5 percent, according to Bankrate.com. Lenders charge more and credit card customers pay rates higher than the prime because the debt they run up is more risky.

In normal times, the Fed controls only short-term rates. But after the financial crisis erupted the Fed began buying longer-term Treasuries, keeping those rates lower than they'd otherwise be.

> **"Economic activity is likely to remain weak for a time."**
>
> **Ben Bernanke**
> **Fed Chairman**

This is good news for borrowers with auto loans, some student loans, 15- and 30-year fixed-rate mortgages and some adjustable-rate mortgages. But it hurts savers and people dependent on fixed incomes who would normally be enjoying higher yields.

The Fed stuck with its pledge to keep rates at "exceptionally low" levels for "an extended period." Most analysts don't think the Fed would begin to boost rates until the spring or the summer.

Fed policymakers "believe they need to keep rates low to insure that the recovery doesn't falter," said Joel Naroff of Naroff Economic Advisors. "Once the members think the economy is out of harm's way, the path will be clear to start tightening."

The central bank hopes that low rates will entice American consumers and businesses to boost spending, which would give the recovery more traction. The Fed said it has leeway to hold rates low for some time because inflation isn't a problem.

The Fed has now entered into a new phase — managing the recovery rather than fighting the worst recession and financial crisis to hit the country since the Great Depression.

The economy started to grow again last quarter for the first time in more than a year, although much of that came from government-supported spending on homes and cars. There are uncertainties about the strength and staying power of the recovery, especially after government supports are removed.

But those waiting for a shift in the Fed's stance "are going to have to cool their jets," said Chris Rupkey, an economist at the Bank of Tokyo-Mitsubishi. "Growth does not mean a rate hike."

Still, the expected pace of the recovery won't be strong enough to prevent the unemployment rate from rising.

Unemployment — now at a 26-year high of 9.8 percent — will probably hit 9.9 percent when the government releases that report on Friday. It could rise as high as 10.5 percent around the middle of next year before declining gradually, analysts said.

At some point when the recovery is more firmly rooted, the Fed is likely to start signaling that higher rates are coming. One of the clues about eventual rate hikes would be the Fed changing or dropping its pledge to hold rates at super-low levels for an "extended period."