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Fed holds rates at record lows amid Europe crisis

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WASHINGTON — The Federal Reserve indicated that Europe's debt crisis poses a risk to the U.S. economy and pledged to hold rates at record lows to make sure the recovery stays on track.

Wrapping up a two-day meeting Wednesday, the Fed in a 9-1 decision retained its pledge to hold rates at record-low levels for an "extended period." Doing so will energize the rebound.

The Fed expressed confidence that the recovery will stay intact despite headwinds from abroad and at home. But Chairman Ben Bernanke and his colleagues struck a more cautious tone about the strength of the rebound.


Bernanke

The Fed said the economic recovery is "proceeding." That was a bit less upbeat than at its last meeting in April when the Fed said economic activity continued to "strengthen." The Fed also said the labor market is "improving gradually."

While not mentioning Europe by name, the Fed said "financial conditions have become less supportive of economic growth ... largely reflecting developments abroad."

Stock investors had little reaction to the news. The Dow Jones industrial average fell about 10 points after being relatively flat before the announcement.

The decision to keep rates at record lows boosted demand for safe-haven assets like Treasurys, sending interest rates lower. The yield on the 10-year Treasury note, a widely used benchmark for mortgages and other consumer loans, fell to 3.13 percent from 3.25 percent late Tuesday. The 10-year note hasn't closed at that level in more than a year. Rates had already fallen earlier in the day after the government said new-home sales dropped 33 percent last month.