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No change likely until late 2010



RICHARD DREW / The Associated Press

Traders Sal Spaltro, right, and colleague, Stephen Foley, work in their booth on the floor of the New York Stock Exchange Wednesday.

Fed holds rates low to fuel recovery

By Jeannine Aversa
THE ASSOCIATED PRESS

WASHINGTON — The Federal Reserve pledged Wednesday to hold interest rates at a record low to drive down double-digit unemployment and sustain the economic recovery.

The Fed noted that the U.S. economy is growing, however slowly. And turning more upbeat, it pointed to a slowing pace of layoffs.

Still, Fed Chairman Ben Bernanke and his colleagues gave no signal that they're considering raising rates anytime soon. They noted that consumer spending remains sluggish, the job market weak, wage growth slight and credit tight. Companies are still wary of hiring, they said.

Against that backdrop, the Fed kept its target range for its bank lending rate at zero to 0.25 percent, where it's stood since last December. And it repeated its pledge, first made in March, to keep rates at "exceptionally low levels" for an "extended period."

In response, commercial banks' prime lending rate, used to peg rates on home equity loans, certain credit cards and other consumer loans, will remain about 3.25 percent. That's its lowest point in decades.

Super-low interest rates are good for borrowers who can get a loan and are willing to take on more debt. But those same low rates hurt savers. They're especially hard on people living on fixed incomes who are earning measly returns on savings accounts and certificates of deposit.

Michael Darda, chief economist at MKM Partners, predicted that rates would stay where they are for most of next year.

"We believe the Fed is essentially out of the picture until late 2010 or early 2011," Darda said. The Fed's "optimism was constrained by a long list of caveats," he added.

Noting the stabilized financial markets, the Fed said it expects to wind down several emergency lending programs when they are set to expire next year. That seemed to strike a confident note that the Fed thinks it can gradually lift supports it provided at the height of the financial crisis.

The central bank made no major changes to a program, set to expire in March, to help further drive down mortgage rates.

The Fed said it has leeway to hold rates at super-low level because it expects that inflation will remain "subdued for some time."