BUSINESS

Fed likely to affirm low rates

Analysts: Overall economic outlook too weak for central bank's stimulus efforts to end

By Martin Crutsinger
Associated Press

WASHINGTON — When the Federal Reserve meets this week, it's likely to affirm a message it intends to help lift the economy: that consumers and businesses will be able to borrow cheaply well into the future — even after unemployment has dropped sharply.

Last month, the Fed signaled for the first time that it will tie its policies to specific economic barometers. It said that as long as the inflation outlook is mild, it could keep short-term rates near zero until unemployment dips below 6.5 percent from the current 7.8 percent.

That could take until the end of 2015, the Fed predicted last month.

The Fed's guidance was designed to give consumers, companies and investors a clearer sense of when super-low borrowing costs might start to rise. Though some key sectors of the economy are improving, analysts think the Fed still feels more time is needed for low rates to spur borrowing, spending and economic growth.

One reason is that many Americans remain anxious about the budget impasse in Washington.

"The Fed is dealing with a lot of uncertainty right now, with all the decisions still to be made on federal budget policy," said Diane Swonk, chief economist at Mesirow Financial, who expects the Fed to make no changes in its support programs when its two-day policy meeting ends Wednesday.

ECONOMIST: CHANGE WILL STILL SPOOK MARKETS

Once the Federal Reserve does tighten its interest-rate policy, it will inevitably jolt the markets, however much it tries to ease the effect, predicted David Jones, chief economist at DMJ Economic Advisors.

» "The second the Fed gives a hint that they are in any way being less accommodative, we will see interest rates shoot higher and stock prices fall," he said.