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Fed poised to keep record-low rates

Meeting today comes amid brightening economic outlook

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WASHINGTON — Confidence is growing that the economic rebound will strengthen. And to make sure it does, the Federal Reserve is considered certain to hold interest rates at record lows when it meets this week.

Fed Chairman Ben Bernanke and his colleagues open a two-day meeting today at a time when the economic outlook has been brightening. Employers are creating jobs. Americans are spending more and manufacturers are boosting production.

Other signs point to a still-bumpy recovery. Unemployment remains near double digits and is expected to stay high all this year. Banks lending isn't back to normal, and demand for loans is still low.

Despite a burst in home sales last month as buyers scrambled to take advantage of a soon-to-expire tax credit, the housing market is still fragile. So is commercial real estate.

For all these reasons, the Fed is all but certain to leave its key bank lending rate between zero and 0.25 percent, where it's been since December 2008.

Assuming the Fed leaves rates alone, commercial banks' prime lending rate, used to peg rates on certain credit cards and consumer loans, will stay about 3.25 percent. That's its lowest point in decades.

Super-low rates serve borrowers who qualify for loans and are willing to take on more debt. But they hurt savers. Low rates are especially hard on people living on fixed incomes who earn scant returns on their savings.

Still, if rock-bottom rates spur Americans to spend more, they will help invigorate the economy.

Some uneasiness has emerged inside the Fed. Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, for two straight meetings has opposed the Fed's decision to retain the "extended period" pledge.

Hoenig fears keeping rates too low for too long could lead to excessive risk-taking by investors, feeding new speculative bubbles in stocks, bonds or commodities. He's also expressed concern that low rates could eventually unleash inflation.

Yet Bernanke and other Fed officials in recent weeks have made clear that the Fed's pledge to keep rates at record lows for an "extended period" is linked to the economy's performance — not to a specific period.