Fed to keep rates at record lows

Economy remains vulnerable as risks loom in Europe, housing

By Jeannine Aversa
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WASHINGTON — Federal Reserve policymakers open a two-day meeting today amid signs of caution for the recovery: Europe's debt crisis, an edgy Wall Street, cautious consumers, a fragile housing market and high unemployment.

That's why the Fed is sure to leave its key bank lending rate at record lows, keeping rates on certain credit cards and consumer loans low, too.

At the same time, the economy is offering some cause for optimism. The economy has been growing again for nearly a year. Manufacturing activity is strengthening. Businesses are spending more. And Fed Chairman Ben Bernanke has expressed confidence that country won't fall back into a "double dip" recession.

Yet he and other Fed officials acknowledge the recovery remains vulnerable to shocks. Mindful of the risks, the Fed is all but certain to keep its bank lending rate between zero and 0.25 percent. It's remained at that level since December 2008.

Assuming the Fed leaves rates alone, commercial banks' prime lending rate, used to peg rates on 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 are earning scant returns on their savings.

Still, if rock-bottom rates spur Americans to spend more, they will help invigorate the economy. That's why the Fed also is expected to repeat its pledge — in place for more than a year — to keep rates at record lows for an "extended period."

"The Fed is looking at a struggling, not a booming, economy," said Kurt Karl, chief U.S. economist at Swiss Re. "It will be on hold indefinitely," he predicts.

With inflation tame, the Fed has leeway to keep rates at record lows. In fact, given the risks to the recovery both at home and overseas, economists increasingly say the Fed probably won't start boosting rates until next year — or possibly into 2012.



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Federal Reserve Board Chairman Ben Bernanke