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ECONOMY

Fed holds key rate steady

During the last Federal Reserve meeting of the year, Fed chairman Ben Bernanke agreed to leave the key rate unchanged at 5.25 percent.

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Associated Press

The Federal Reserve kept interest rates steady, giving holiday shoppers a reason for some cheer. However, the Fed held back an extra gift Wall Street was hoping for -- a signal that rates might actually be lowered soon.

Wrapping up their last meeting of the year, Fed chairman Ben Bernanke and all but one of his central bank colleagues agreed Tuesday to leave an important rate unchanged at 5.25 percent, the fourth straight meeting without budging the rate.

That meant commercial banks' prime interest rate -- for certain credit cards, home equity lines of credit and other loans -- stayed at 8.25 percent, once again giving a break to borrowers who until this summer had endured the pain of two-plus years of rate increases.

"The Fed is not acting like the Grinch this Christmas. But it is not putting presents in anyone's stocking, either," said Mark Zandi, chief economist at Moody's Economycom.

On Wall Street, stocks dipped as disappointed investors failed to get a sign that the Fed was moving toward cutting rates. The Dow Jones industrials lost 12.90 points to close at 12,315.58.

Fed policymakers said economic growth has slowed over the course of the year, partly reflecting a "substantial cooling" of the housing market. That description went beyond the Fed's previous assessment in late October and suggested a sharper slump in housing was taking place.

Nonetheless, policymakers stuck with their previous judgment that the economy probably will expand at a moderate pace in coming quarters. This time they hedged their assessment a bit and noted that recent economic barometers have been mixed.

Analysts viewed the Fed's characterization of the economy's growth prospects as slightly weaker than at the previous meeting in late October.

Still, the Fed kept open the possibility of a rate increase and noted that some inflation risks remain.

Many economists predict the central bank will keep rates where they are at its next session on Jan. 30-31 and at least somewhat further into the year.

Then, analysts believe the Fed's next move probably will be a rate cut later in the year.

The economy has been losing momentum this year. Growth in the July-to-September period slowed to a pace of 2.2 percent, a subpar performance mostly reflecting the strain from the crumbling housing market.

Growth into next year is expected to be similarly lethargic.

Some barometers show inflation has eased in recent months. Consumer prices actually dropped in September and October, a welcome reprieve after skyrocketing energy prices walloped consumers' pocketbooks earlier in the year.

Still, the Fed wants to see "core" inflation -- excluding energy and food prices -- come down more in the months ahead.

Core inflation is still running above 2 percent -- past the Fed's comfort zone.

One inflation measure Bernanke recently said the Fed is keeping close tabs on is wages.

After a long sluggish period, Americans' wages are starting to pick up as a solid labor market gives them better bargaining power. That's good for consumer spending -- a key force keeping the economy moving along. But rapid wage growth can fan inflation.