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FEDERAL RESERVE

Fed holds key rate steady

The Federal Reserve left key short-term interest rates unchanged at their meeting on Wednesday.

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Washington Post Service

WASHINGTON - Federal Reserve holds rates steady

Federal Reserve policymakers decided to hold short-term interest rates steady Wednesday, but left the door open to raising them in coming months if inflation stays too high.

"Some inflation risks remain," the central bank's policymaking Federal Open Market Committee said after a two-day meeting.

The group noted that economic growth has slowed this year, partly because of the sharp downturn in the housing market. But the policymakers also said they expect the economy to "expand at a moderate pace" going forward.

Stock prices rose shortly after the Fed's announcement, as investors concluded interest-rate policy will remain on hold for some time.

The committee left its benchmark federal funds rate, the overnight rate charged on loans between banks, unchanged at 5.25 percent.

That rate directly influences other short-term rates, such as those charged on credit cards and home equity loans.

But it only indirectly influences long-term rates, which are determined more by global financial markets.

The Fed has held the key rate at 5.25 percent since June, after hiking it gradually from 1 percent over two years.

Inflation surged earlier this year as oil prices rose to a peak above \$77 a barrel in July, and as other prices climbed for education, medical care and rental housing.

Gasoline and other fuel prices have fallen as oil prices have tumbled since mid-August. The Labor Department's consumer price index, a widely followed inflation gauge, declined 0.5 percent in September, and was up 2.1 percent in the 12 months that ended in September.

Economists look for a sense of underlying inflation by studying "core" measures that exclude volatile food and fuel prices. The core-CPI rose 0.2 percent last month, and 2.9 percent from its level in September 2005.

The committee said in its statement, "inflation pressures seem likely to moderate over time" because of lower energy prices, past interest rate increases and other factors.

Jeffrey Lacker, president of the Federal Reserve Bank of Richmond, dissented from the committee's decision, saying he would have preferred to raise rates.

The Fed is widely expected to keep interest rates on hold for a while as central bank policymakers watch how the downturn in the housing industry affects the rest of the economy. Sales of previously owned homes fell last month, for a sixth consecutive monthly decline, the National Association of Realtors said Wednesday.

The decline in home sales and construction has helped slow U.S. economic growth sharply in recent months, to around a 1 percent annual rate, according to many forecasters. But unemployment has remained low, and consumer spending has been boosted by declining fuel prices.