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Fed Keeps Interest Rates at 5.25 Percent

By JEANNINE AVERSA 10.26.06, 12:54 AM ET

The Federal Reserve held interest rates steady yet again, noting the economy had slowed but saying growth would probably pick up in the months ahead.

With elections looming, Fed policymakers, wrapping up a two-day meeting on Wednesday, delivered a largely balanced message about economic conditions. Policymakers blended equal parts of caution about inflation risks with confidence that the economy's nearly 5-year-old expansion isn't in danger of petering out.

Against that backdrop, Fed Chairman Ben Bernanke and all but one of his central bank colleagues felt comfortable staying the course and kept an important interest rate at 5.25 percent for the third meeting in a row.

That meant commercial banks' prime interest rate - for certain credit cards, home equity lines of credit and other loans - remained at 8.25 percent.

"Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market," Fed policymakers observed. "Going forward, the economy seems likely to expand at a moderate pace," they predicted.

The Fed's goal is for the economy to slow enough to reduce pressures from inflation but not so much that it would risk falling into recession.

Terry Connelly, dean of Golden Gate University's Ageno School of Business, said Fed policymakers are in a mode of "watchful waiting. ... It's like they have taken an economist's version of the Hippocratic Oath: First do no harm."

On Wall Street, the Fed's message helped lift the Dow Jones industrials to a new record close. The index gained 6.8 points to finish at 12,134.68.

Economists believe the Fed will keep its finger on the interest rate pause button at its next meeting on Dec. 12, the last one this year, as well as into much of next year. Energy prices and the magnitude of the housing slump remain wild cards to that outlook.

Fed policymakers repeated their belief that "inflation pressures seem likely to moderate over time" due in part to falling prices for gasoline and other energy goods.

After topping \$3 a gallon in the early summer, gas prices are now hovering around \$2.23 a gallon nationwide, the Energy Department says. That, in turn, has helped calm consumer prices, which actually fell by 0.5 percent in September.

Still, Fed policymakers again made clear that they are keeping a close eye

