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# Fed expected to leave key rate unchanged

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WASHINGTON — Federal Reserve policymakers are likely to keep their finger on the interest-rate pause button, giving America's borrowers another break heading into the congressional elections.

Fed Chairman Ben Bernanke and his central bank colleagues opened a two-day meeting Tuesday against the backdrop of slowing economic growth and receding energy prices. Their interest rate decision will be announced Wednesday.

"My guess is that they will stay on the sidelines until something tells them to get off," said Dartmouth College economics professor James Feyrer. "My sense is that they have no real reason to go up or down right now so they are doing nothing."

It they do that, it would mark the third time in a row in which they kept an important interest rate at 5.25 percent. That would mean commercial banks' prime interest rate \_ for certain credit cards, home equity lines of credit and other loans \_ would stay at 8.25 percent.

This week's meeting of the Federal Open Market Committee \_ the group of central bankers that sets interest rate policy in the United States \_ is the last before the Nov. 7 elections. Economic conditions are expected to play a role in voters' choices at the polls.

By holding rates steady, the Fed would stay on neutral political ground heading into the elections, political scientists and economists observed.

"The economic environment is such that there is no conflict between the appropriate conduct of monetary policy and politics," said Mark Zandi, chief economist at Moody's Economy.com. "Good policy and politics can easily go hand in hand in this election but you can envision a case where that might not happen."

If the Fed were to boost rates right before the election \_ a move that would hit many voters in their pocketbooks\_ incumbents might suffer. On the other hand, if the Fed were to cut rates \_ reducing borrowing costs for millions of Americans \_ there could be political fallout if that action were seen as an urgent effort to rescue a sick economy.

"If it did something that really underlined a problem, it might have impact on voters," said Ken Sherrill, political science professor at Hunter College.

The Fed's political independence is crucial to its ability to maintain credibility with investors on Wall Street and around the globe.

By holding interest rates steady, borrowers get more time to catch their breath and savers a chance to lock in some respectable rates. Some economists believe the Fed will hold rates steady through the rest of this year and into much of next year. A few think the Fed might boost rates in December. Others think the Fed's next move will be a rate cut \_ probably next year.

The first reprieve for borrowers came in August, when the Fed halted a campaign that had steadily pushed up interest rates over the previous two-plus years. The central bank's goal is to slow the economy enough to thwart inflation but not so much as to tip into recession.

Fed officials, meanwhile, are keeping an extra-close eye on inflation as well as the magnitude of the cooldown in the once hot housing market\_ factors that could affect future interest rates.

If the Fed were to see signs that inflation might get out of hand, policymakers would be inclined to hoist rates. But if the housing market were to suffer a shaper than expected slowdown, with widespread and deep declines in house prices, the Fed probably would cut rates.

The economy slowed sharply in the spring and probably lost some more speed in the late summer.

Many analysts believe the economy grew at a 2.1 percent pace in the July-to-September quarter, which would be the most sluggish since the final quarter of last year when the country was still reeling from the blows of the Gulf Coast hurricanes. The government will release its first estimate of third quarter economic growth on Friday.

Even with the slowing in economic growth, the job market remains decent. The unemployment rate fell to 4.6 percent in September.

Inflation, meanwhile, is calming down. Consumer prices fell 0.5 percent in September, helped by a big drop in gasoline and other energy prices. After topping \$3 a gallon in the early summer, gas prices are now hovering around \$2.23 a gallon nationwide, the Energy Department says.

The economy won't be the only topic at the Fed's meeting. Policymakers also are expected to resume discussing ways they can improve their communication with Wall Street and Main Street. Bernanke recently called this a "work in progress."

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