

Fed unlikely to raise key rates

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The US Federal Reserve is unlikely to raise key interest rates this week or unwind emergency support as the economy starts a tough recovery from recession, said analysts.

Fed policymakers were expected to hold the base lending rate at near-zero and maintain a trillion-plus dollar programme to underpin the recovery at the conclusion of their two-day meeting Wednesday.

Economists and traders will be poring over the Federal Open Market Committee statement released after the meeting in search of signals for the direction of monetary policy.

"The Federal Open Market Committee will use its post-meeting statement to acknowledge the recession has ended and revise its near-term forecast to reflect the better tone of the data," said Joseph Brusuelas of Moody's Economy.com .

The FOMC meeting comes after official data showed last week the economy grew for the first time in a year in the third quarter, ending the worst recession in decades.

The stronger-than-expected 3.5-per cent expansion in gross domestic product (GDP) likely will slow in the fourth quarter as government support measures wind down and unemployment continues to rise, said economists.

With nearly 10 per cent of the labour force out of work, consumer spending – the main driver of the US economy and key to a sustainable recovery – remains challenged. The FOMC has held its federal funds rate target at zero to 0.25 per cent since last December in a bid to help kick-start the economy out of the worst downturn since the Great Depression.

Fed Chairman Ben Bernanke recently signalled there was no hurry to tighten monetary policy, saying action would be taken "when the economic outlook has improved sufficiently."

The Fed often waits at least several months after unemployment, a lagging indicator of recovery, peaks before beginning to raise rates.

"The markets will undoubtedly look beyond the actual interest rate announcement, and focus instead on the tone and wording of the actual communique," said Millan Mulraine, analyst at TD Bank Financial Group.

"In this regard, we expect the economic outlook to remain largely intact, with the Fed reiterating the improved outlook for the US economy, reflecting in part the encouraging tone in the recent economic reports, and in particular the policy-induced surge in GDP in Q3," he said.

Economists underscored that inflation continued to be tame amid the fragile recovery, well within the Fed's comfort zone.

"The inflation outlook should also remain unchanged, with the committee noting that it expects inflation to remain 'subdued,' on account of the 'substantial resource slack' and stable longer-term inflation expectations," said Mulraine.

The unemployment rate hit a 26-year high of 9.8 per cent in September, according to the latest official data, and is expected to reach double digits in the coming months. The government reports October labour data Friday, with most analysts expecting the jobless rate to rise to 9.9 per cent.

A Fed staff projection used by policymakers at the September 22-23 FOMC meeting showed unemployment holding as high as 9.25 per cent by the end of 2010 and then falling to about eight per cent by the end of 2011.

Moody's Brusuelas predicted the FOMC statement would conclude that conditions will likely "warrant exceptionally low levels of the federal funds rate for an extended period," a phrase he noted had been in every statement since March.

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