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Business XML

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Fed holds rates steady for third time in a row

SEES INFLATIONARY, RECESSIONARY RISKS LARGELY BALANCED

By Jeannine Aversa
Associated Press

WASHINGTON - Borrowers are getting a break that could last into next year on interest rates on credit cards, home equity lines of credit, adjustable-rate mortgages and other loans.

The Federal Reserve, wrapping up a two-day meeting Wednesday, held interest rates steady -- yet again.

With elections looming, Fed policy-makers delivered a largely balanced message about economic conditions. They blended equal parts of caution about inflation risks with confidence that the economy's nearly 5-year-old expansion isn't in danger of fading.

Members of the Federal Open Market Committee noted that the economy had slowed, yet they also predicted growth would probably pick up in the months ahead.

Against that backdrop, Chairman Ben Bernanke and all but one of his central bank colleagues felt comfortable staying the course and kept the Fed's key 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," the Fed observed. "Going forward, the economy seems likely to expand at a moderate pace."

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

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 policy-makers 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."

Economists believe the Fed will keep its finger on the interest-rate pause button at its next meeting Dec. 12, the last one this year, and well into next year.


Energy prices and the magnitude of the housing slump remain wild cards to the interest-rate outlook.

Fed policy-makers 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 near \$2.23 a gallon nationwide, the Energy Department says. That, in turn, has helped calm consumer prices, which fell by 0.5 percent in September.

The Washington Post contributed to this report.

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