Fed Leaves Rates Steady At 46-Year Low of 1%

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WASHINGTON -- The Federal Reserve, worried the U.S. economy isn't generating enough jobs to resuscitate the long-battered labor market, decided Tuesday to hold its key interest rate at a 46-year low and indicated the rate won't rise anytime soon.

The Fed's monetary-policy committee voted unanimously to keep the key federal-funds rate at 1%, where it has been for the last nine months. Policymakers said they're in no hurry to push interest rates higher despite "solid" economic growth this year. That, they said, is because jobs have remained scarce and the outlook for inflation remains benign.

"Output is continuing to expand at a solid pace," the Open Market Committee said. "Although job losses have slowed, new hiring has lagged. Increases in core consumer prices are muted and expected to remain low." Under the circumstances, the committee said it believes it "can be patient in removing its policy accommodation."

The decision was expected on Wall Street. The sluggish pace of job creation in recent months has renewed investors' fears that the economic recovery could fizzle. It has also troubled Fed Chairman Alan Greenspan, who said last week that job creation was "lagging badly." Accordingly, all of the 23 primary bond dealers authorized to trade securities predicted the federal-funds rate would remain unchanged.

The U.S. economy has been out of recession for two-and-a-half years, having been propelled by an extraordinarily large combination of tax and interest-rate cuts. But that stimulus so far has produced only paltry increases in the number of jobs. Since August of 2003, non-farm employers on average have added just 60,700 jobs a month to their payrolls. That's less than half the average of 150,000 or so economists say is necessary just to provide employment for new entrants into the work force. It's nowhere near the number necessary to replace the 2.3 million jobs cut since 2001.
That sluggishness, analysts say, poses a threat not just to President Bush's reelection prospects but also to the economic recovery itself. The economy grew a robust 4.3% last year and is expected to grow slightly faster this year, but some analysts say it could lose steam after June if the pace of job creation hasn't picked up to an average of 100,000 or more a month by then.

Since President Bush took office in January 2001, the economy has lost 2.2 million jobs. This loss of jobs -- including those that have moved overseas -- is a major issue in the presidential campaign.

Much of the recent economic growth, analysts say, has been the result of consumer spending fueled by the tax cuts. But the effects of the tax cuts on spending are starting to fade, and the persistent scarcity of jobs is shaking consumers' confidence. The University of Michigan's preliminary index of consumer sentiment index declined for a second month in a row in March, falling to 94.1 from 94.4 in February.

"We and most others have consistently overestimated employment growth in the past few months," Jan Hatzius, an economist with Goldman Sachs & Co. in New York, wrote in a note to the firm's clients last week. "We still expect the pace of non-farm payroll gains to rise above 100,000 per month by early summer. But such an upturn now appears both more urgent and more uncertain than it did a few months earlier." If those gains don't materialize, he said, economic growth in the second half of 2003 could fall below 3%.

Fed policymakers, under the circumstances, have said since January that they will be "patient" about raising interest rates. "There still appears to be quite a bit of slack in the economy," Fed Governor Ben Bernanke told reporters late last month. "So we want to be patient and watch the data and see how things evolve." Mr. Bernanke and other Fed policymakers have said the job market may not recover fully until late 2005 "or perhaps even later."

So far the data have shown no alarming upswing in inflation, analysts say. The index most closely watched by the Fed showed an increase of just 0.8% in prices of consumer items except food and energy in the year through January. That's below the range of 1% to 2% that many Fed policymakers consider desirable. That index, the price index for personal consumption expenditures, isn't likely to rise by more than 1.25% this year, the policymakers have said.

Wall Street, as a result, has revised its view about just how soon the Fed will begin raising interest rates. Although investors retain some expectation the Fed will start raising the federal funds rate in September, those expectations are fading and most forecasters say the Fed will keep the rate steady throughout 2004.

"We probably won't have anything in the works until the end of 2004, if not next year," said Chris Wolfe, an economist with J.P. Morgan Private Bank in New York.