WASHINGTON -- The Federal Reserve left interest rates unchanged Tuesday and repeated its inclination to keep them low for a long time even as new reports showed business investment accelerating and consumers' job fears easing a bit.

The Fed, as widely expected, left its target for the federal-funds rate, charged on overnight loans between banks, at a 45-year low of 1%. It also said risks to economic growth were balanced, but that it was more concerned about a fall than rise in inflation. The risk of falling inflation, which could ultimately lead to deflation, would be the "predominant" concern for now, the Fed said in a statement accompanying its decision.

Most important, the Federal Open Market Committee, the central bank's policy-making body, reaffirmed a commitment first made by Chairman Alan Greenspan in July and repeated in committee statements in August and September: that low interest rates could be maintained "for a considerable period."

The statement was almost identical to September's and August's, with the exception of saying that the labor market "appears to be stabilizing," whereas in September the Fed said it was "weakening." While demand is "firming," it said business pricing power is "muted."

The cautious tone contrasts with what economists expect to be a stellar report on the economy Thursday from government statisticians, showing U.S. economic output grew at a blazing 6.2% annual rate in the third quarter, which ended Sept. 30.

Some analysts have questioned whether the Fed should make a verbal commitment to low rates for a long time in the face of such upbeat statistics. However, the Fed appears determined to ensure that the expansion, after a false start last year, continues until it uses up the idle business capacity and high unemployment that are now putting downward pressure on wage and price increases. Underlying inflation is running at about 1%, at the bottom of the 1% to 2% range many Fed officials prefer.
Some Fed officials have been uncomfortable with making a perceived commitment to low rates for fear that it will be inappropriate if the economy takes off or inflation resurfaces. However, the fact it was repeated in Tuesday's statement shows that Mr. Greenspan's view continues to hold sway. Mr. Greenspan is unlikely to change that language materially until he is confident the economy can withstand the rise in long-term interest rates that would likely result. Furthermore, there is little disagreement among the 19 FOMC members as yet on keeping rates low for now, as demonstrated by the fact that all 12 voting members of the committee voted to keep rates steady.

Separately Tuesday, the Commerce Department said new orders for durable goods, those designed to last three or more years, rose 0.8% in September from August, the fourth increase in five months. A key category of orders, capital goods excluding defense and aircraft, soared 3.9%, the biggest increase since March. They are now up 5% from a year earlier. Business investment has been the primary source of economic weakness since the economy slid into recession in 2001 and struggled out at the end of that year. Economists and the Fed believe the expansion will not be ensured until business investment takes the burden of growth away from consumers.

Fed officials also have worried that lack of job growth this year could weigh on consumer spirits, undercutting spending and the expansion. But in recent weeks jobs creation has picked up, and Tuesday the Conference Board reported signs that the improvement in the labor market is lifting consumers' spirits.

The Fed's Statement

Following is the full text of the Federal Reserve's Statement from the Oct. 28 meeting:

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 1%. The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirms that spending is firming, and the labor market appears to be stabilizing. Business pricing power and increases in core consumer prices remain muted.

The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. In contrast, the probability, though minor, of an unwelcome fall in inflation exceeds that of a rise in inflation from its already low level. The Committee judges that, on balance, the risk of inflation becoming undesirably low remains the predominant concern for the foreseeable future. In these circumstances, the Committee believes that policy accommodation can be maintained for a considerable period.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Ben S. Bernanke; Susan S. Bies; J. Alfred Broaddus, Jr.; Roger W. Ferguson, Jr.; Edward M. Gramlich; Jack Guynn; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; Robert T. Parry; and Jamie B. Stewart, Jr.

Write to Greg Ip at greg.ip@wsj.com

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