Interest Rates To Stay Very Low: Bernanke

By Editor Test *Wed, Jul 22, 2009*

But 'Helicopter Ben' said the Fed will take steps to avoid inflation, if necessary.

The Federal Reserve plans to keep short-term interest rates at "exceptionally low levels for an extended period," despite signs that the economy is improving, Fed Chairman Ben Bernanke said at a hearing before the House Financial Services Committee on July 21.

The Fed was prepared, however, to withdraw the "extraordinary policy measures" the agency has taken in response to the financial crisis and the recession to avoid a future increase in the inflation rate, he said.

"The [Federal Open Market Committee] has been devoting considerable attention to issues relating to its exit strategy, and we are confident that we have the necessary tools to implement that strategy when appropriate," Bernanke said.

Bernanke, delivering the Fed's semiannual economic report to Congress, said the Fed expects economic output to "increase slightly" for the remainder of 2009 after declining in the first half. "The recovery is expected to be gradual in 2010, with some acceleration in activity in 2011," he said.

Consumer spending has been relatively stable and the decline in housing activity appears to have moderated, which Bernanke said was evidence of improvement. "Businesses have continued to cut capital spending and liquidate inventories, but the likely slowdown in the pace of inventory liquidation in coming quarters represents another factor that may support a turnaround in activity," he added.

"Despite these positive signs, the rate of job loss remains high and the unemployment rate has continued its steep rise," he continued. "Job insecurity, together with declines in home values and tight credit, is likely to limit gains in consumer spending. The possibility that the recent stabilization in household spending will prove transient is an important downside risk to the outlook."