



Wall St. approves as Fed keeps rates near 0%

By Paul Wiseman, USA TODAY

WASHINGTON — [The Federal Reserve](#) decided Wednesday to keep a key interest rate near zero, saying the economy is stabilizing and inflation is under control.

The announcement by the Fed's Open Market Committee was widely expected but was still welcomed on Wall Street: The Dow Jones industrial average rose 120 points, or 1.3%, to 9362. Fed Chairman [Ben Bernanke](#) "did what everyone hoped he would," says Mike Holland of Holland & Co.

The Fed's decision to keep the federal funds rate — what banks charge each other for short-term loans — at 0% to 0.25% follows a series of positive economic reports: The jobless rate fell unexpectedly in July; manufacturing may have hit bottom; and productivity surged in the second quarter.

The Fed said that it expects the economy to "remain weak for a time" but that low interest rates and government stimulus spending would "contribute to a gradual resumption of sustainable economic growth." Inflation "will remain subdued" and the fed funds rate will stay at "exceptionally low levels" for a long time.

READ: [The full Fed statement](#)

"There's been some good news, and the (Fed's) statement reflects it," says Charles Widger, CEO of investment firm Brinker Capital in Berwyn, Pa. "But we've got some work to do. "

The Fed has moved aggressively to counter the worst downturn since the 1930s, slashing interest rates and announcing plans to spend up to \$1.75 trillion buying government debt and mortgage-backed securities. The purchases pump cash into the financial system. It said Wednesday that its planned purchase of \$300 billion in Treasury securities will continue at a slower pace and will end in October.

"Although the Fed did not say the recession ended today," writes economist Chris Rupkey of Bank of Tokyo-Mitsubishi, "their actions suggest that they believe we are headed out of recession. It is just a matter of time."

Rupkey says if the Fed stops easing too soon, the economy could backslide; if it keeps its foot on the gas too long, inflation could accelerate.

John Lekas, president of Portland, Ore.-based Leader Capital, says Bernanke is running loose monetary policy to impress President Obama and land a second term as Fed chairman: "It's more political wrangling."

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