

# Bernanke Sees Major Housing Correction

The Federal Reserve chief's comment leads to speculation that the benchmark rates will remain untouched.

From Bloomberg News

Federal Reserve Chairman Ben S. Bernanke said Wednesday that the U.S. housing market was in a "substantial correction"

that would lop about a percentage point off economic growth in the second half and restrain the expansion next year.

The Fed chairman also said in response to questions after

a speech in Washington that the central bank remained "concerned about inflation" because it was still above "what we would consider price stability."

Taken together, the remarks reaffirm the view of some investors that the central bank will keep the benchmark lending rate unchanged at 5.25% for the remainder of the year.

"There is currently a substantial correction going on in the housing market," Bernanke said. The decline in residential housing construction is one of the "major drags that is causing the economy to slow."

Bernanke "broadcast the fact that the Fed is not interested in

raising rates from here on out," said Michael Farr, president and founder of Washington-based Farr, Miller & Washington, which manages more than \$475 million. Those were "cautious words. They are not going to take the action."

The Federal Open Market Committee has left the federal funds rate unchanged since August, after two years of increases, betting on an internal forecast that slowing growth and a decline in energy prices will reduce inflation. FOMC officials next meet Oct. 24-25.

"We do believe that inflation is going to be coming down gradually over time," Bernanke said after addressing the Economic Club of Washington. "But it is something that we have to watch very carefully to make sure that it doesn't rise or even remain where it is."

His speech was devoted to the challenges faced by fiscal policy makers as the U.S. workforce ages and the need to "reform" entitlement programs, boost taxes or cut spending. Failure to do so, he predicted, will place the burden on future generations and erode the productive potential of the economy.

Part of the Fed's economic forecast appears to be panning out. The economy expanded at a 2.6% annual rate in the second quarter, down from a 5.6% pace in the first three months. Crude oil prices are down 9% from a year ago.

Still, inflation has remained stubbornly high, rising 2.5% for the 12-month period ending Aug. 31. That's above Bernanke's "comfort zone" of a 1% to 2% rise in the personal consumption expenditures price index minus food and energy.

Separately, Fed Vice Chairman Donald Kohn said he's more concerned about persistent inflation than slowing growth in an economy that would probably avoid a recession.



Ben Bernanke