

US Federal Reserve keeps interest rates steady

The US Federal Reserve Wednesday halted a string of dramatic interest rate cuts designed to boost a sagging US economy, keeping its benchmark rate steady at two percent.

The US central bank had lowered its federal funds rate by 3.25 percentage points since September, but a statement from the Fed's monetary policy board this time sounded warnings about increasing risks of inflation.

'Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased,' the Federal Open Market Committee statement said.

The board's 9-1 decision was largely expected by economists after the Fed had given increasing indications over the past few weeks that inflation was becoming a problem.

Surging food and energy prices have been mostly to blame, but the Fed said some broader indicators have also been in an 'elevated state.'

Inflation pressures were expected to ease later this year, but 'uncertainty about the inflation outlook remains high,' the Fed said.

Final US growth figures for the first quarter are set to be released Thursday by the government. Previous estimates showed US gross domestic product expanded 0.6 percent in the quarter.

Some economists believe the US may have entered a recession as consumer confidence indicators have continued to drop and consumer spending has also slowed.

Billionaire investor Warren Buffett Wednesday warned that the US could be stuck in 'stagflation,' - stagnant growth combined with rising prices - for the rest of the year, in an interview with Bloomberg Television.

The Fed said its past drastic rate cuts 'should help promote moderate growth over time' but acknowledged there were still significant pressures on the overall economy.

Falling housing prices since early 2007 set off a string of events that have largely driven the economic downturn in the United States. Financial institutions have lost billions of dollars amid a record rate of home foreclosures in the past year, which has in turn prompted banks to tighten their lending practices.

Rising petrol prices - sparked by higher global demand for oil - have also significantly impacted spending in the United States, while the country's unemployment rate climbed 0.5 points to 5.5 percent in May.

'Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters,' the Fed said.

The Commerce Department earlier Wednesday said home sales were down 40 percent in May from

a year earlier. The S and amp;P/Case-Shiller index, which looks at housing costs in the 20 largest US cities, said Tuesday that prices dropped 15.3 percent in April from the year before.

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