

Fed's leader says growth is moderating

His signal on interest rates cheers investors

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WASHINGTON - Federal Reserve Chairman Ben Bernanke signaled on Wednesday that a two-year campaign of raising interest rates may finally be coming to an end, triggering a huge rally on Wall Street.

Bernanke told Congress he believed the economy was slowing to a more sustainable pace and the slowdown would help to lower inflation pressures. The Fed has gradually pushed interest rates to a five-year high in an effort to keep inflation under control.

"The anticipated moderation in economic growth now seems to be under way," Bernanke said in delivering the Fed's twice-a-year economic report to Congress.

That was just what investors wanted to hear. The Dow Jones industrial average surged by more than 200 points.

The rally came despite the fact that the Consumer Price Index for June showed that core inflation, excluding energy and food, rose by a worrisome 0.3 percent. Over the past three months it is up at an annual rate of 3.6 percent, above the Fed's comfort zone of 1 to 2 percent.

In a second report, the Commerce Department said that construction of new homes fell by 5.3 percent in June, a signal that the once-booming housing market is starting to slow.

Bernanke did say that the recent rise in inflation "is of concern," but he said the central bank was looking for inflation pressures to ease.

He said rising energy prices and a slowing housing market were cutting into consumer spending, which accounts for two-thirds of economic growth.

But he said the slowdown was being cushioned by strength in business investment on new buildings and equipment.

Bernanke said that inflation has been slightly higher than the Fed anticipated when he delivered his first economic report to Congress last February, only weeks after he succeeded Alan Greenspan as chairman of the central bank.

Still, Bernanke predicted that the economic slowdown would help ease inflation pressures in coming months.

"In the absence of significant unforeseen developments, the economy should continue to expand at a solid and sustainable pace and core inflation should decline from its recent level over the medium term," Bernanke told the Senate Banking Committee.¹

¹ [HoustonChronicle.com](http://www.HoustonChronicle.com) --
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