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Bernanke On Economy: Bad Winter, Better Spring

Brian Wingfield, 11.08.07, 3:19 PM ET

Ben Bernanke



Chairman of the U.S. Federal Reserve

The U.S. economy is in for a rough winter and a better spring, Federal Reserve Chairman Ben Bernanke told congress today.

The moderate 3.9% gross domestic product growth rate of the economy in the third quarter will slow in the months ahead, amid turmoil in the housing and credit markets and rising energy prices, but "by spring, the broader resiliency of the economy" will help it recover "to a more reasonable growth pace," he told Congress' Joint Economic Committee Thursday.

While he didn't dare predict a recession, Bernanke said the rate-setting Federal Open Market Committee at its meeting last week "did not see growth performance as likely to be sustained in the near term." He told lawmakers Thursday it could be April before the freeze on the economy from the mortgage fiasco begins to thaw.

Pretty amazing, given oil prices approaching \$100 a barrel, the dollar falling to record lows (threatening inflation by driving up import prices), and investment houses like **Merrill Lynch** (nyse: [MER](#) - [news](#) - [people](#)) and Citibank writing off billions in mortgage-backed securities.

But don't expect a rate cut anytime soon. Bernanke's general message was that, yes, we're in for a spell, but the smoke should clear by the middle of next year. If nothing else, he's got history on his side. Since World War II, economic growth in presidential election years has generally been stronger than the year prior to an election, government data show.

The Fed can't do much about the price of oil, but Bernanke pledged to remain vigilant about rising commodity prices spilling over into other sectors of the economy. He said the broader U.S. economy has been resilient in spite of concerns about energy and mortgage-related problems, largely because the labor market has been strong (propping up consumer spending) and because the demand for U.S. exports has been high, thanks to the low dollar.

Keeping the dollar at a level that encourages exports, but does not expose the U.S. to inflation, will be a delicate balancing act for the Fed. And in spite of recent talk from other countries (China, in particular) to dump some of their dollar reserves for euros, Bernanke says he's "not concerned" because the dollar "remains a standard of value around the world, and I expect that to continue."

The strength of the dollar, at least in the medium term, is dependent on several factors, he said: the strength

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of the overall U.S. economy, the trade situation and the openness of the U.S. for foreign investments.

While Bernanke was speaking Thursday, the House of Representatives finally passed a much-debated free trade agreement with Peru. It's a start.

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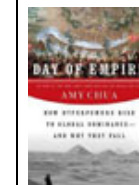
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