

- [Jobs](#)
- [Real Estate](#)
- [Autos](#)
- [Media & Advertising](#)
- [World Business](#)
- [Small Business](#)
- [Your Money](#)
- [DealBook](#)
- [Markets](#)
- [Research](#)
- [Mutual Funds](#)
- [My Portfolio](#)
- [Alerts](#)

Fed Expects Slowdown to Deepen

- [E-Mail](#)
- [Print](#)
- [Reprints](#)
- [Save](#)
- [Share](#)
- [Del.icio.us](#)
- [Digg](#)
- [Facebook](#)
- [Newsvine](#)
- [Permalink](#)

ARTICLE TOOLS
SPONSORED BY



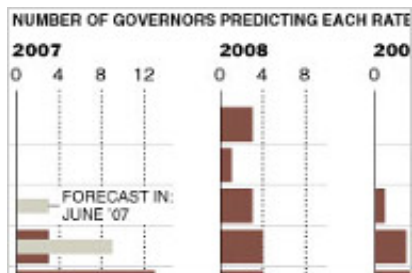
By [EDMUND L. ANDREWS](#)

Published: November 21, 2007

WASHINGTON, Nov. 20 — The Federal Reserve expects economic growth to slow sharply next year, and policy makers there are worried that even this forecast may prove too optimistic, according to an assessment that the central bank released on Tuesday.

[Skip to next paragraph](#)

Multimedia



Graphic

Revised Forecasts

Related

[Text: Fed Minutes \(pdf\)](#)

[Times Topics: Federal Reserve System](#)

[Times Topics: Ben S. Bernanke](#)

In a new effort to be more open, the Fed released a detailed forecast that summarized the predictions of the Fed governors and regional bank presidents.

It also reported their disagreements, which almost all centered on how much the broad economy is likely to be damaged by the surge in oil prices and the tight credit markets brought on by the recent severe problems in housing and mortgage lending.

At the same time, Fed officials expect unemployment to rise only slightly and inflation to edge down. In a shift from three weeks ago, the officials said they agreed that recent evidence of slowing inflation was more than a temporary blip and would “likely be sustained.”

Neither the forecast nor newly released minutes from the Fed’s last meeting on Oct. 31 mentioned the chances of a recession. But the new predictions are low enough that, if borne out, the economic situation might well feel like a recession to many people.

The forecast, which was much anticipated, did nothing to end the battle of wills between Fed officials and Wall Street over the need to reduce interest rates for a third time this year when the rate-setting Federal Open Market Committee meets next, on Dec. 11.

Investors did not seem to know how to react to the information. Share prices initially dropped after the report was released, possibly in reaction to the reluctance that the policy makers had expressed toward cutting rates last month. But prices bounced back and ended the day modestly higher, possibly in response to the Fed’s reduced alarms about inflation.

The Dow Jones industrial average rose 51.70 points, or 0.40 percent, to 13,010.14, after making 100-point swings in both directions. That followed Monday’s drop of more than 200 points. Many Nasdaq or small stocks were flat or lower.

Fed officials have signaled in recent speeches that they do not want to cut rates anytime soon, saying their cuts in September and October would be enough to keep the economy out of recession.

Indeed, many of them were already uneasy about their last cut in the benchmark federal funds rate on Oct. 31, to 4.5 percent from 4.75 percent. According to the minutes of that meeting, Fed bankers saw that decision as a “close call.”

But many investors continue to bet heavily on a rate cut in December, and some economists and Wall Street analysts argue that the economy will come much closer to stalling than the Fed now assumes.

“I think what we’re really debating here is the timing,” said Stuart Hoffman, an economist at PNC Financial in Pittsburgh. “Whether or not it happens on Dec. 11, my guess is that by the March meeting, the Fed funds rate will be 4 percent.”

The new forecasts for growth next year in the gross domestic product range from 1.6 percent to 2.6 percent. That is both lower and more uncertain than in June, when the forecasts ranged from 2.5 percent to 3 percent.

“Most participants viewed the risks to their G.D.P. projections as weighted to the downside,” the central bank said in its summary of the last policy meeting.

The new assessment shows that policy makers still see only limited evidence that the problems in housing and subprime mortgages have damaged the broad economy.

The “central tendency” of policy makers’ individual forecasts calls for economic growth in 2008 of 1.8 percent to 2.5 percent. Growth in 2007 is expected to be 2.4 percent to 2.5 percent.

As a group, the Fed policy makers expect “subpar economic growth” over the next year. They also predict that unemployment will edge up to as much as 5 percent next year, compared with about 4.7 percent today.

But the new report shows that they are much more worried that the downturn in housing and the problems in mortgage markets could cut deeper into the overall economy.

They also appear to have reduced their estimates about the nation’s long-term potential rate of growth without inflation, often described as the economy’s speed limit. The potential growth rate is based on estimates of future productivity growth and increases in the population.

Until recently, most economists estimated a potential growth rate of 3 percent a year. But Fed officials appear to have reduced that to about 2.5 percent, with an assumption that productivity will climb about 1.5 percent a year. That would be much slower than in the 1990s.

The new forecasts represented the Federal Reserve’s latest step from secrecy toward openness, an evolution that has been under way for two decades.

The Fed is now releasing its economic forecast four times a year, rather than twice, and the new forecast looks ahead three years instead of two. Because the outlook stretches further into the future, and assumes that the economy will be shaped by “appropriate” monetary policy, the new outlook implies what Fed officials think is both possible and desirable.

The new forecasts predict that inflation will range from 1.5 to 2 percent in 2008 and 2009. That is slightly higher than the range of 1 to 2 percent that the Fed chairman, [Ben S. Bernanke](#), has mentioned in the past. But it is roughly consistent with what analysts have long considered the Fed’s unofficial target for inflation.

Analysts cautioned that the forecast was muddier than it might appear. That is because it is an amalgam of individual forecasts from each of the Fed’s 12 regional banks and from each of 7 Fed governors. As a result, the consolidated predictions for growth, employment and inflation can seem at odds with one another.

One incongruity, for example, is that the Fed forecasts significantly slower growth over the next year but only a modest increase in unemployment to 5 percent — still a low level judged by long-term perspectives.

Ian Shepherdson, chief United States economist at High Frequency Economics, said he would take the Fed forecasts with a grain of salt.

“The Fed is just as beholden to the short-term, high-frequency data as it ever was,” he wrote in a note to clients. “We do not propose in the future to devote much time to the Fed’s now-quarterly forecasting exercise.”

[Next Article in Business \(5 of 27\) »](#)

[Donate to the Neediest Cases today!](#)

Ads by Google

[what's this?](#)

[Death of The US Dollar?](#)

Learn Which Foreign Markets Are Creaming The US By Up To \$11 to \$1!

[MoneyAndMarkets.com](#)

[BeneTrends](#)

Access Your Retirement Funds Safely No Taxes Or Penalties - Contact Us!

[www.BeneTrends.com](#)

[The 2008 Civic Hybrid](#)

See how environmentalism and style go hand in hand. The Civic Hybrid.

[www.honda.com](#)

Tips

To find reference information about the words used in this article, double-click on any word, phrase or name. A new window will open with a dictionary definition or encyclopedia entry.

Past Coverage

- [Inflation Was Tame in October \(November 16, 2007\)](#)
- [Retail Sales Slip, Signaling Cutback in Holiday Spending \(November 15, 2007\)](#)
- [Fed Chief Warns Of Worse Times In the Economy \(November 9, 2007\)](#)
- [Some at Fed Are Against A Rate Cut In December \(November 7, 2007\)](#)

Related Searches

- [United States Economy](#)
- [Federal Reserve System](#)
- [Federal Open Market Committee](#)
- [Economic Conditions and Trends](#)

[Next Article in Business \(5 of 27\) »](#)