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Continuing Unemployment Is Predicted by Fed Chief

By [EDMUND L. ANDREWS](#)

WASHINGTON — The chairman of the [Federal Reserve](#), [Ben S. Bernanke](#), warned on Monday that high unemployment and a continued reluctance by banks to make loans were likely to slow the economic recovery for the next year.

And in a departure from the usual practice of Fed chairmen, Mr. Bernanke tried to reassure global investors about the recent fall in the value of the dollar by saying that the central bank was “attentive to the implications of changes” and would “continue to monitor these developments closely.”

It is rare for Fed officials to comment on exchange rates, which for decades have been the responsibility of the [Treasury Department](#). Mr. Bernanke’s message seemed to be that the Fed saw no cause for alarm in the dollar’s weakness and that it would not need to bolster the dollar by raising interest rates sooner than it would otherwise.

Taken together, the [Fed chairman’s comments](#) highlighted the conflicting goals that Fed officials may have to balance. To nurture the slow recovery and bolster employment, the central bank has vowed to keep interest rates low for “an extended period,” but to prevent a precipitous drop in the value of the dollar, which could stoke inflation, the Fed would have to raise interest rates.

In an otherwise gloomy speech to the Economic Club of New York, a group packed with financial executives, Mr. Bernanke played down fears that the recent jump in economic growth — to 3.5 percent in the third quarter after four quarters of contraction — would be likely to sputter out as stimulus measures wind down.

“My own view is that the recent pickup reflects more than purely temporary factors and that continued growth is likely,” he told the business group.

But he also made it clear that worries about high unemployment still trump concerns about future inflation. Unemployment, now 10.2 percent, is likely to remain “quite high” for the next year and will tamp down both growth and inflation.

Private forecasters have echoed the Fed’s somber outlook. Economists responding to the Philadelphia Fed’s quarterly survey, released on Monday, predicted that unemployment would average about 10 percent through the end of 2010 — slightly more pessimistic than their outlook three months ago.

Mr. Bernanke warned that banks are still very reluctant to lend money, especially to small businesses that normally generate most of the nation’s new jobs.

“Small businesses have seen their bank credit lines reduced or eliminated, or they have been able to obtain credit only on significantly more restrictive terms,” Mr. Bernanke said. “The fraction of small businesses reporting difficulty in obtaining credit is near a record high, and many of these businesses expect credit conditions to tighten further.”

“The best thing we can say about the labor market right now is that it may be getting worse more slowly,” he said.

One standard indicator of job trends — new claims for unemployment benefits — has still not fallen enough to signal a start toward net increases in monthly employment.

Mr. Bernanke said that unemployment has climbed twice as rapidly for men as for women, and that the jobless rates for young workers has soared even higher. For workers ages 16 to 24, unemployment is 19 percent. For young African-Americans, unemployment is 30 percent.

The Fed chairman said this recovery, like the previous two, was likely to seem like a recovery with no new job growth, in part because companies have become more reluctant to rebuild their work forces and have found new ways to increase the productivity of existing workers.

In a clear retort to more hawkish Fed policy makers who have worried that inflationary pressures might be nearer than they seem, Mr. Bernanke declared the high unemployment and unused factory capacity —

economic “slack,” in Fed jargon — was still too high, meaning that the economy does not face inflationary pressures yet.

“Although resource slack cannot be measured precisely,” he said, “it certainly is high, and it is showing through to underlying wage and price trends. Inflation expectations, which are measured through surveys and through the premiums that investors pay for inflation-protected [Treasury bonds](#), remain “stable,” he added.

Perhaps the biggest surprise of Mr. Bernanke’s speech was his comment about exchange rates — a topic that the Federal Reserve normally avoids, because of an agreement dating back to 1951 that the Treasury had responsibility for managing the value of the dollar.

But amid growing anxiety in many parts of the world about the falling value of the dollar in recent months, Mr. Bernanke not only talked about the exchange rate but added that the Fed would monitor the dollar’s value closely.

At first glance, his comments suggested that he might be warning about the need to shore up the dollar by raising interest rates. But Mr. Bernanke described the dollar’s recent drop as a natural development that did not necessarily require Fed action.

Mr. Bernanke said the dollar initially climbed sharply when the [financial crisis](#) was at its most acute in late 2008 and early 2009, because investors had sought safety in Treasuries. But those “safe haven flows” have since abated, he said, and the dollar had “accordingly retraced its gains.”

“We are attentive to the implications of changes in the value of the dollar and will continue to formulate policy to guard against risks to our dual mandate to foster both maximum employment and price stability,” Mr. Bernanke said. “The Federal Reserve will continue to monitor these developments closely.”

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