



U.S. Economy to Turn Around in 2009 Says Fed Chief

But warns of sizable job loss

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Federal Reserve chairman Ben Bernanke said on May 5 the recession-hit U.S. economy could rebound this year but warned of more "sizable" job losses and a still-fragile financial system. "We continue to expect economic activity to bottom out, then to turn up later this year," he told a congressional hearing.

He said key elements of his forecast were assessments that the housing market, at the epicenter of global financial turmoil, and consumer spending was beginning to stabilize. Recent data, he said, suggested that the pace of economic contraction might be slowing, including "some tentative signs that final demand, especially demand by households, may be stabilizing."

Despite significant progress seen in financial markets in recent weeks, Bernanke cautioned that financial institutions remained "under considerable stress." He cited declines in asset prices, tight credit conditions and high levels of risk aversion, saying they continued to weigh on the economy. "A relapse in financial conditions would be a significant drag on economic activity and could cause the incipient recovery to stall," he warned ahead of results to be released on April 7 from "stress tests" conducted by authorities on 19 top banks.

News reports out on May 5 said that 10 of the 19 banks subject to the tests might need to raise more capital and those affected could include banking giants Wells Fargo, Bank of America and Citigroup. When pressed by a lawmaker, Bernanke refused to disclose the test results but said many U.S. banks needing fresh capital would be able to meet their needs through the market without further government support.

Bernanke said the decline in foreign economic activity might also be moderating, with investor sentiment and the functioning of financial markets abroad having improved somewhat. He cautioned that even after a recovery got underway, the rate of growth of real economic activity was likely to remain below its longer-run potential for a while. "We expect that the recovery will only gradually gain momentum and that economic slack will diminish slowly," he said. "In particular, businesses are likely to be cautious about hiring, implying that the unemployment rate could remain high for a time, even after economic growth resumes," he explained.

The most recent information on the labor market -- the number of new and continuing claims for unemployment insurance through late April -- suggested that "we are likely to see further sizable job losses and increased unemployment in coming months," Bernanke said.