

## Fed sees signs recession may be easing

Jeannine Aversa, Associated Press

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WASHINGTON - The Federal Reserve said Wednesday it sees signs the recession is easing and that the economic outlook has "improved modestly" since last month.

Against that backdrop, Fed Chairman Ben Bernanke and his colleagues left a key interest rate at a record low of between zero and 0.25 percent, and decided against taking any new steps to shore up the economy.

Aggressive action already taken - including a \$1.2 trillion effort last month - should gradually help bolster economic activity, the Fed said. It did, however, leave the door open to future action if needed.

"We have seen some improvement," said Christopher Thornberg, a principal with Beacon Economics in Los Angeles. "Consumer spending has flattened out, and that been the primary driver of all this chaos we've been seeing out there. It shouldn't be too much of a surprise that things will get a little more even."

Thornberg cautioned, however, that "we still have a lot work-through to do" and that any kind of growth likely won't happen for another year.

Fed policymakers offered a less dour assessment of the economy than the one provided at its previous meeting in mid-March.

"The economy has continued to contract, though the pace of contraction appears to be somewhat slower," the Fed said. The worst of the recession - in terms of lost economic activity - could be past, analysts said.

The economic outlook has "improved modestly" since the March meeting, partly reflecting some easing of strains in financial markets, the Fed said. Even so, "economic activity is likely to remain weak for a time," the Fed added.

And while consumer spending has shown "signs of stabilizing," it is still being constrained by rising unemployment, falling home values and hard-to-get credit, the Fed said.

"What I want to see is the labor market start to steady," Thornberg said. "That will be important, and I think you'll start to see that happen as we go through this year."

But if current conditions in the city of Industry are any indication, future action by the Fed may well be warranted.

"We've closed up three car dealerships, and the number of people employed in the city on a daily basis has dropped from 80,000 to 70,000," said Don Sachs, executive director of the Industry Manufacturer's Council.

Sachs also noted that the vacancy rate for

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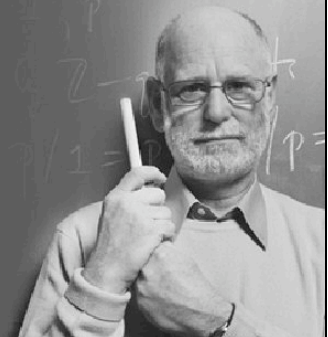


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industrial and commercial real estate in Industry used to be less than 1 percent but is now approaching 4 percent.

Just hours before the Fed's announcement, the Commerce Department reported that the economy shrank at a worse-than-expected 6.1 percent pace in the first quarter as businesses cut back sharply. The weak economic performance nearly matched the 6.3 percent contraction in the final three months of last year, which was the worst pace in a quarter-century.

However, consumer spending rebounded in the January-March period, feeding hope of economic improvements ahead. Analysts stuck to predictions that the economy would shrink much less in the current quarter percent as the administration's \$787 billion stimulus plan begins to take hold. Analysts also expect the economy will start to grow again later this year.

In other news, Italian automaker Fiat Group SpA will sign a partnership agreement with Chrysler LLC by Thursday as negotiations continue to keep the struggling automaker alive without filing for bankruptcy protection, according to three people briefed on the deal.

One thing is certain: Chrysler will not be sold off in pieces, according to another person briefed on the fast-moving talks.

Staff writer Kevin Smith contributed to this report.

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