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Fed Chairman Says Economy Likely to Slow

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WASHINGTON, Nov. 8 — Ben S. Bernanke, chairman of the Federal Reserve, told Congress today that the economy is going to get worse before it gets better, a message that got a chilly reception from both Wall Street and politicians.

On a day when stock prices swung wildly, the dollar hit another new low against the euro and further signs emerged that consumers are growing more cautious about spending, Mr. Bernanke warned that the economy is about to "slow noticeably" as the housing market continues to spiral downward and financial institutions tighten up on lending.

But in a disappointment to investors, Mr. Bernanke offered no signal that the central bank might soften the blow by lowering interest rates for a third time this year at its next policy meeting on Dec. 11.

Stock prices, which had plunged Wednesday, went on a roller-coaster ride after Mr. Bernanke testified. The Dow Jones industrial average first fell 205 points by mid-afternoon, but then clawed back most of the way and ended the day at 13,266.29, down just 33 points.

Testifying before the Joint Economic Committee, the Fed chairman said that the two rate cuts in September and October "should" be enough to keep the economy from slipping into a recession. Without being specific, he reinforced statements by other Fed policymakers that the economy would have to show signs of stalling out entirely before they would reduce rates again.

Asked if he saw any risks of a recession, Mr. Bernanke demurred. "We have not calculated the probability of a recession," he responded. "Our assessment is for slower growth, but positive."

The Fed chairman's stance was similar to that of Treasury Secretary Henry M. Paulson Jr. At a meeting today with editors and reporters of The New York Times, Mr. Paulson predicted that the crisis in the mortgage and credit markets would hurt growth but not lead to a recession.

"I believe we will continue to grow," Mr. Paulson said. "We have a diversified economy."

Mr. Bernanke's message did not sit well. Wall Street analysts quickly criticized him for ignoring the real risk of a serious downturn. And at least one Republican, Senator Sam Brownback of Kansas, begged him at length to cut interest rates as soon as possible.

But Fed officials are far from persuaded of the need for another rate cut, even though some now expect economic growth to slow to an annual pace of 1.5 percent or less in the final months of this year — a dramatic downshift from the rapid pace of almost 4 percent this summer.

Mr. Bernanke offered a rocky outlook for the months ahead. He said that the battered housing market had yet to hit bottom, that delinquencies and foreclosures were likely to rise and that the downturn in home building was "likely to intensify." He predicted that personal spending would advance more slowly, because consumers are less confident and because of tighter credit conditions.

On top of all that, he said, "further sharp increases in crude oil prices have put renewed upward pressure on inflation and may impose further restraint on economic activity." Oil traded above $95 a barrel today, but the price was down slightly from the day before but still near its recent record highs.

Despite all these worrying signs, Mr. Bernanke noted that the economic data since the Fed reduced short-term interest rates last week "continued to suggest that the overall economy remained resilient in recent months."

"The cumulative easing of policy over the past two months should help forestall some of the adverse effects on the broader economy," he said.

Wall Street analysts and anxious investors took little comfort in the chairman's remarks.

"Mr. Bernanke gave no ground to the market's desire for further easing," wrote Ian Shepherdson, chief United States economist at High Frequency Economics in Valhalla, N.Y.

But Mr. Shepherdson and a number of other analysts predicted that the economy would slow much more than Mr. Bernanke expects and force the Fed's hand.

Paul Ashworth, an economist at Capital Economics in London, predicted that the economy will be "stagnant at best" in the final quarter of this year.

"The only question is whether there is enough evidence of this slowdown available by mid-December — or whether we will have to wait until January for the next cut," Mr. Ashworth wrote in a research note.

David Rosenberg, chief United States economist at Merrill Lynch, predicted that the housing market would not hit bottom by the end of next year. Noting that the Fed chairman said he would "act as needed," Mr. Rosenberg said Mr. Bernanke had left the door open to more rate cuts.

At the hearing, Senator Charles E. Schumer of New York, chairman of the Joint Economic Committee, urged Mr. Bernanke to act more aggressively to stimulate the economy. "I'm very concerned that there may be a bigger storm on the horizon," he said.

But Mr. Bernanke refused to budge. Indeed, he referred first to the Fed's attention to "price stability" and second to its interest in "sustainable growth."

That did little to cheer lawmakers. In an early sign of the political pressure that the Fed is likely to face if the economy falters next year, Senator Brownback, who recently abandoned his Republican campaign for president, pleaded with Mr. Bernanke to cut interest rates in time for the Christmas shopping season.

"It seems to me that now is the time," Mr. Brownback said. "When those gas prices get up to $3 a gallon, it seems to hit some sort of psychological point in consumer's mind that 'I have less to spend,' and that's a reality for them."