US' Cooper says Fed rate cuts helping economy, but economic stimulus needed

WASHINGTON (AFX) - The US Federal Reserve's eleven interest rate cuts since January are helping the economy to recover by enabling companies to refinance debt, but the economy would still benefit from an economic stimulus, said Kathleen Cooper, Commerce Department Undersecretary for Economic Affairs.

In a briefing with reporters at the Commerce Department, Cooper said that lower interest rates enable companies to move their short-term debts into intermediate debts and that this refinancing "is a very important element in the turnaround of any economy."

Cooper expects inflation to remain around the 2.0 pct level for much of the coming year, and that this is likely to keep interest rates down for the foreseeable future.

"The Fed does not start to tend raising rates until inflation is more of a concern. I don't see a need for them to start raising rates until we get much further down the road," she said.

Talking after the department released its latest trade data, which showed that the US trade deficit for goods and services widened by more than expected to a seasonally-adjusted 29.4 bln usd, Cooper said that the global economy is going through its weakest period of growth of the last quarter century.

"The (trade) deficit has been getting narrower over the last year because the US and world economies have not been growing as strongly as in the past," she said.

The undersecretary said that weakening US exports and sluggish growth make it all the more important that Congress passes an economic stimulus package.

White House officials and Congress are negotiating on the terms of an economic stimulus, with Republican lawmakers pushing for tax cut provisions that are opposed by some Democrats.

Democrats, on the other hand, want to boost some unemployment and health benefits which are opposed by some Republicans, which the administration wants to pass before the holiday recess.

Cooper said that businesses' capital spending has been hit hard by the slowdown in demand, and that companies have worked hard to shed their inventories, but that the run down in inventories is probably not over just yet.

"The run down is probably not over, but we are surely getting close to the end of the run down in inventories, and that will allow production to pick up," she said.

Despite the overall run down, Cooper noted that there has been a small upturn in IT capital spending recently.

"That is a plus, it's not yet true for overall capital spending, but it's a move in the right direction," she said.

Cooper also believes that consumer spending is holding up, but that the economy has yet to feel the "full impact" of this summer's tax rebates.

She said that families have spent some 20 pct of their rebate cheques compared to the 70 pct that would normally be spent, but she said the fall in the savings rate in October shows that consumers are now beginning to spend more of their rebate funds.

The personal savings rate - personal savings as a percentage of disposable personal income - was a record low 0.2 pct in October, compared with 4.6 in September.

Savings rates normally rise in periods of economic slowdown. During the last recession in 1991 the savings rate averaged around 8 pct, but Cooper said it declined in October on the back of record levels of new car sales.

"We will in general terms see the savings rate come back up again over time," she said adding, however, that it is not likely to broach the September level soon.

Most economists expect November's consumer spending and income data -- due for release Friday -- to pull back some of the record gains registered in October on patriotic spending following the events of Sept 11.

Consumer spending is forecast to decline 0.7 pct in November after it rose a record 2.9 pct in October, according to an AFX News consensus survey of Wall Street economists.

Economists say they are continuing to watch for signs of how soon the economic downturn will bottom out, and that despite some positive indications in recent weeks, overall signals continue to remain mixed at present.

Cooper, however, remains confident that a turnaround is on the horizon.

"I feel a great deal of confidence that by the middle of next year, the US economy will be growing again, but we want to make this recovery and expansion as healthy as possible," she added.

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