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Member of Fed is bullish on economy

By Joseph Barrios

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Although the correction in the nation's homebuilding industry will continue, it won't be enough to stunt a strong U.S. economy, Susan Bies, a Federal Reserve System governor, said in a speech here Thursday.

A slowing housing industry may even help curb inflation, she said Thursday evening at Berger Auditorium, 1130 E. Helen St. About 250 people, mostly students at the University of Arizona's Eller College of Management, attended her speech, titled "Economic Outlook and Developments in Mortgage Markets."

The Board of Governors is the government agency for the U.S. central bank. As a governor, Bies is also a member of the Federal Open Market Committee, which sets a key interest rate.

Good holiday sales, optimistic survey results and continued reports about labor shortages are signs of a strong economy, she said. Bies would like to see a lower rate of inflation, which has risen over the last year and hovers around the "mid-2 percent range," she said.

"It clearly says the risk between growth and inflation, the risks are still there, that inflation may go up," Bies said. "We're hoping that the restraint we've already put in the economy and the easing of some of the housing sector will help modify prices to some extent."

Bies said she supported recent pauses in interest-rate reductions by the Fed and said the U.S. is near where interest rates should be. She drew laughs from the audience when she said she would stop short of sharing how she would vote in two weeks, when the committee will again review short-term interest rates.

The nation's housing correction was "badly needed," she said. Nationally, while less than 10 percent of homes are usually bought by speculators, during the run-up that figure increased to up to 40 percent in some areas.

Bies' comments were largely consumer-oriented. She encouraged people to become better-educated about mortgage options and cautioned an auditorium full of future home buyers about the pitfalls of sub-prime loans — such as interest-only mortgages and those with no down payments.

"I don't want to make you all scared of doing mortgages. They're wonderful. They work most of the time," Bies said.

Bies began her 10-year term as a Fed governor in 2001.

Don Bourn, a local developer, praised Bies' speech for being practical and geared toward students. He said it was a bit strange to hear Bies describe the U.S. inflation rate as high when inflation in commercial construction costs is 15 to 20 percent.

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