"Despite the unwelcome rise in the unemployment rate that was reported last week, the recent incoming data, taken as a whole, have affected the outlook for economic activity and employment only modestly," Mr. Bernanke told a conference in Chatham, Mass., sponsored by the Federal Reserve Bank of Boston.

Fed officials expect the unemployment rate to stand in the range of 5.5% to 5.7% by the end of the year, according to their latest quarterly forecast, prepared at the end of April. They were surprised the rate had been so slow to rise before May.

Despite the magnitude of the May increase, other indicators, including payroll jobs excluding agriculture, point to a more modest erosion of labor-market conditions, suggesting that if the U.S. economy is contracting, as in a recession, the pace isn't great and hasn't picked up.

Mr. Bernanke said the likelihood of a serious recession has fallen. "Although activity during the current quarter is likely to be weak, the risk that the economy has entered a substantial downturn appears to have diminished over the past month or so," he said.

While he argued that the effects of low interest rates, improving market conditions and a slow easing of problems in the housing market should help the economy later this year, the threat from declining home prices and high energy prices mean "that growth risks remain to the downside."

That comment suggests the Fed is unlikely to raise interest rates in the foreseeable future. But Mr. Bernanke didn't eliminate the possibility altogether, turning his concern about inflation up a notch from remarks last week, in the wake of a big jump in oil and gasoline prices. "The latest round of increases in energy prices has added to the upside risks to inflation and inflation expectations," he said. The Fed "will strongly resist an erosion of longer-term inflation expectations, as an unanchoring of those expectations would be destabilizing for growth as well as for inflation."
The broader text of his remarks, which dealt largely with academic challenges in the study of inflation, suggest Mr. Bernanke doesn't yet see the evidence of rising inflation expectations and a wage-price spiral that would require an imminent tightening of monetary policy. He said rising raw material costs had yet to pass through more broadly to underlying labor costs, "in part because of softening domestic demand. However, the continuation of this pattern is not guaranteed and future developments in this regard will bear close attention."

Mr. Bernanke defended the use of futures markets to forecast future energy cost, even though those markets have underestimated the future cost of energy. "I do not think it is reasonable, when forecasting commodity prices, to ignore the substantial amounts of information about supply and demand conditions that are aggregated by futures markets."

Meanwhile, in his speech in New York, Mr. Geithner said soaring demand for energy and resulting price increases are pressuring economies in a way that ultimately may push interest rates higher around the world. "Containing the risks in what is globally a less benign inflation environment is going to probably require tighter monetary policy on average around the world," Mr. Geithner said in response to a question at the Economic Club of New York.

In the U.S., Mr. Geithner said, the Fed has lowered rates to provide insurance against a deeper economic slowdown "without taking too much risk that underlying inflation is going to accelerate over time."

He said the Fed doesn't see evidence of "a significant acceleration of underlying inflation" in goods and services or wages, nor is there a "substantial erosion" in the public's expectations for inflation long term.

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Corrections & Amplifications

Expectations that the Federal Reserve will raise its short-term interest-rate target a quarter percentage point in October were fully factored into futures prices on Monday. A U.S. News article Tuesday on a speech by Fed Chairman Ben Bernanke in Harwich, Mass., incorrectly said that an increase of that size is expected by year's end and incorrectly said that the speech was given in Chatham, Mass., based on information published in the conference program.

(WSJ June 11, 2008)
Eye on Inflation

While overall inflation has risen, price gains excluding food and energy have been relatively stable, and Fed Chairman Ben Bernanke indicated he doesn’t see evidence that rising inflation expectations would require an imminent rate increase. Change from a year earlier in consumer-price indexes:

[Graph showing inflation rates from 1990 to 2008 with labels for overall and excluding food and energy.]

Source: Labor Department