

Bernanke sees economic 'turn up'

The head of the US central bank, Ben Bernanke, has said he expects the recession to end this year unless there is a major financial setback.

But growth would remain subdued and unemployment high after the recovery had begun, the Fed boss said.



Mr Bernanke says the recovery will gain momentum slowly

However he said both the housing market and consumer spending were stabilising.

"We continue to expect economic activity to bottom out, then to turn up later this year," he told the congressional Joint Economic Committee.

"Even after a recovery gets under way, the rate of growth of real economic activity is likely to remain below its longer-run potential for a while," he continued.

"We expect that the recovery will only gradually gain momentum and that economic slack will diminish slowly."

Mr Bernanke has been getting increasingly optimistic during the past couple of months in his outlook for the US economy, and in mid-April he said there were signs that US economic tightening was easing. Stephen Stanley, an economist at RBS Securities in Greenwich, Connecticut, said the Fed boss's comments on Tuesday were "undoubtedly significantly more upbeat than his last congressional appearance in February".

'Distressing aspects'

Unemployment - currently at 8.5% - would probably climb to "somewhere" in the 9% range, Mr Bernanke said.

"The loss of jobs is one of the most distressing aspects of this whole episode," he said.

However, he said that the US housing downturn of recent years may now be near a bottom.

And another positive sign for Mr Bernanke was the fact that consumer spending, which plunged in the last half of 2008, grew in

the first quarter of this year.

'More upbeat'

Mr Bernanke said his forecast for the economy was based on the continuing recovery of the financial system.

"A relapse in financial conditions would be a significant drag on economic activity and could cause the incipient recovery to stall," he said ahead of "stress test" results to be released on Thursday.

Mr Bernanke said the Federal Reserve's tests to assess the capital needs of the 19 largest US banks would give a true picture of the firms' financial positions.

And he expected those which need a bigger buffer to strengthen themselves and raise the money from private sources.

