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HEADLINE: Lower Interest Rates Deliver Mixed Results, Says Harrisburg, Pa., Analyst

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BODY:

So far, the Fed's interest-rate cuts are not having the desired effect of spurring economic expansion and consumer spending, a local analyst says.

With the lower rates, "companies would now be able to take on projects that were considered marginal," according to Parved Ahmed, assistant professor of finance at Penn State Harrisburg. "On the consumer side, they can initiate consumer spending, because there is less incentive to save." The savings disincentive can be seen in interest rates being offered for certificates of deposit. At Members 1st Federal Credit Union, for example, the rate for a 12-month CD is 3.15 percent, down from 6.25 percent in August 2000.

"We're changing rates every month because of what the Fed is doing," said George Nahodil, senior vice president of marketing and communications at the credit union. "We had years when we would just change rates two or three times."

The federal funds rate -- the interest banks charge each other on overnight loans -- was cut yesterday by a half-point, to 2 percent, the lowest since September 1961.

The prime lending rate, the benchmark for millions of consumer and business loans, also was slashed a half-point by major banks, to 5 percent, the lowest since June 1972.

"There usually is a great deal of lag time, but it does not even look as if the initial rate cuts [in January] have had any kind of impact on investment activity," Ahmed said. Although the lower rates are expected to boost the economy in the long run, "there is just too much uncertainty now," he added.

The Sept. 11 terrorist attacks fueled consumer concerns and aggravated an already sluggish economy.

"September 11 kind of tipped the scale. It was the proverbial straw that broke the camel's back," Ahmed said.

Since Sept. 11, seven Harrisburg-area companies have announced plans to close plants or consolidate operations and lay off a total of about 900 workers.
