Rising interest rates slow down

WASHINGTON (AP) — Wall Street has been positively giddy of late because of a growing belief the Federal Reserve System has finished raising interest rates. Stocks hit another record high Monday, but many private economists said the euphoria may be premature.

The view that the Fed has achieved its hoped-for "soft landing" helped to spur rallies in stock and bond markets in advance of Tuesday's closed-door meeting of the Fed policy-makers.

The markets believe widespread signs of an economic slowdown could make the Fed's February rate increase, the seventh in a year, the last. There was more evidence of a slowdown Monday with a report that sales of existing homes plunged 5 percent in February to a seasonally adjusted annual rate of 3.43 million units, the slowest pace in two years.

This added evidence of a slowdown helped push the Dow Jones industrial average to a new high of 4,157.34, a gain of 18.67 points. Monday's increase followed a 50.84 gain on Friday.

Heavy demand for bonds helped push the rate on Treasury's benchmark 30-year bond to a nine-month low of 7.31 percent, down sharply from a November high in long-term rates of 8.18 percent.

But many private economists, while not looking for a rate increase this week, said recent signs of weakness in interest-sensitive sectors, such as home sales, could represent only a pause that will be followed by renewed strength.

"The Fed is patting itself on the back right now. Policy makers think the soft landing is at hand, but I think they are premature. I am looking for a pause and then a rebound," said David Jones, an economist at Aubrey G. Lanston & Co.

Jones and other analysts predicted the Fed would remain on the sidelines at this week's meeting but could resume raising rates at its next session of the Federal Open Market Committee on May 23.

"The conventional wisdom is that interest rates aren't going any higher, but I believe there will be a snap back in consumer spending that will keep the economy growing at a faster pace than the Fed's target for sustainable growth," said Eugene Sherman, chief economist at M.A. Schapiro & Co. in New York.

The Open Market Committee at its last meeting on Feb. 1 boosted the target for the federal funds rate — the interest banks charge one another — to 6 percent. That was double where the funds rate stood when the Fed began tightening credit on Feb. 4, 1994.

The committee is composed of the seven Fed governors in Washington and five of the 12 regional bank presidents. On Monday, Fed governor John LaWare announced he was resigning effective April 30 and would not participate in Tuesday's session.

While LaWare has recently been a proponent of tighter credit policies, analysts said he had generally followed the Federal Reserve Chairman Alan Greenspan's lead during his six years on the Fed. They predicted no major impact on the Fed decisions from his departure.

Both Jones and Sherman forecast the funds rate would stand at 7.5 percent by the end of the year.

They predicted banks' prime lending rate, currently at 9 percent, would rise by a matching 1.5 percentage points over the course of this year, resulting in higher borrowings costs for millions of businesses and consumers.

Home mortgage rates, now near a seven-month low for 30-year mortgages at 8.40 percent, could rise to close to 9 percent by year's end, Jones predicted.

Not all economists agreed with this rising-rate scenario. Some said they believe the economy is slowing to a pace that will keep inflation under control and thus allow the central bank to stay on the sidelines.

The most optimistic are even forecasting the Fed could start cutting interest rates either late this year or early in 1996.

David Wyss, chief financial economist for DRI-McGraw Hill, who holds to this view, calls it the "Fed-got-it-right scenario."

"At this point, it looks like we will have a soft landing, but we are saying that with our fingers crossed because the historical record shows the Fed has seldom pulled it off," Wyss said.

The central bank was able to keep inflation under control by slowing growth while avoiding a recession in 1966 and 1986, he said. But on nine other occasions since World War II, the Fed credit tightening helped bring on outright recessions.

"The risk always is that a slowdown can easily become a recession," Wyss said.

Clinton has skin lesions removed

WASHINGTON (AP) — Doctors removed several precancerous skin lesions from President Clinton's forehead and from behind his ear last week.

The procedure was not mentioned in a report the White House put out on the results of Clinton's annual physical examination on Friday, but it was disclosed on Monday by spokesman Mike McCurry after reporters asked about a red blotch on Clinton's face.

McCurry said doctors removed several actinic keratoses as a precaution while Clinton was at Bethesda Naval Hospital.

"They are not cancerous," he said.

Actinic keratoses are common skin lesions among middle-aged people, usually caused by overexposure to the sun. The lesions generally are removed because a chance exists they can become cancerous.

The patches of affected skin were removed by freezing with liquid nitrogen, and the treatment left a large red blotch on Clinton's forehead.

"They burn off and scab up later," McCurry said.

McCurry quoted Clinton's physician, Dr. E. Connie Mariano, as saying Clinton — a frequent jogger and golfer — was "pretty good about using sunscreen."

Doctors will examine mother accused of murder

COLUMBIA, S.C. (AP) — A judge gave state doctors permission Monday to examine Susan Smith and recommend whether she is competent to stand trial for drowning her two sons in a lake.

Prosecutors are seeking the death penalty against Smith, who confessed to letting her car, with the boys strapped inside, roll into the lake on Oct. 25.

Her trial on murder charges is scheduled for July 10. Circuit Judge William Howard gave doctors up to a month to decide whether she is sane enough to stand trial and whether she was sane the night her young sons were drowned.

Prosecutor Tommy Pope will be allowed to use the doctors' report only during the determination of Susan Smith's competency to stand trial, unless she uses an insanity defense or pleads guilty but mentally ill, the judge said.

In that case, Pope can use the report to rebut any psychiatric testimony offered in Susan Smith's defense, Howard said.