Is this what a soft landing feels like?

Continued from 1B

low pass over the runway before the economy takes off again.

Although Crandall personally believes the Fed has more rate increases up its sleeve eventually, he thinks the statement is an important signal that it would take a lot of bad economic news to get the Fed off the sidelines in the short run.

The Fed statement echoes a similarly upbeat assessment by Fed Chairman Alan Greenspan, who told Congress in July that while the slowdown might be just a pause, there were several reasons to suspect it would be longer-lasting.

Cover story

Many economists took that as confirmation Greenspan was seeing the same things they were in the economic data. Consumer spending has slowed sharply since last winter, housing construction has moderated and economic growth is showing signs of cooling.

Although the labor market remains extremely tight, there are continuing signs that companies are finding ways to cope without bidding up wages so high that they ignite inflation. Furthermore, stellar gains in productivity have helped companies absorb higher wages without raising prices to consumers.

A classic soft landing?

This certainly looks like the textbook definition of a soft landing, in which the Fed cools a too-hot economy just enough to dampen inflationary fires, but not so much that the nation tips into recession. If we're there, the Fed has made its last rate increase for a long time.

"I believe that they're done," says Bruce Steinberg, the chief economist for Merrill Lynch. "The economy has achieved most of the things they want it to achieve," he says, noting that growth has moderated and inflation remains tame. "As long as those two things remain true, they don't have to do anything more."

Although a lot of economists have joined Steinberg since he first declared the Fed done in early June, that's still a minority view. While almost no one thinks the Fed will raise rates at its next meeting Oct. 3, just weeks before the November elections, a slight majority believe Greenspan and his colleagues will bump rates up at least an additional quarter-point later this year or sometime next year.

A survey by the National Association for Business Economics found 53% of respondents believe that the Fed will raise rates again in the next six months. And in a survey by the consulting firm Stone & McCarthy Research Associates, 56% of Fed watchers forecast that the Fed will bump rates up by at least an additional quarter-point before the end of the year.

"Clearly the economy has slowed down — there's no question about that," says Ray Stone of Stone & McCarthy. "The question does remain, though, whether this is a pause or whether it's going to show some sign of reacceleration."

Stone and others who believe the economy could take off again this fall point to at least two major reasons:

▶ Broad interest rates haven't kept up with the Fed's increases, which makes it easier for consumers and businesses to borrow — and spend — money than the Fed might prefer. While the prime rate has moved in lockstep with the Fed, carrying with it home-equity loans and other loans indexed to the prime, other key rates have barely budged.

The Fed has raised the short-term federal funds rate, the rate banks charge one another for overnight loans, by 1.75 percentage points since June 1999. But 30-year mortgage rates have fallen back below 8%, barely higher than they were when the Fed began its work last year. Some key corporate loan rates have risen, but not nearly as much as the federal funds rate.

▶ The stock market, which tanked badly in the spring, has shown signs of life since the conviction spread that the Fed might be nearing the end of its tightening cycle.

"The farther away we are from what appeared to be a bloodbath," the more confidence builds that the market could return to something approaching its remarkable gains of last year and early this year, Stone says. "Combine that with lower market interest rates, and you could make the case (that there is) a risk to consumer spending on the stronger side."

Keeping an eye on consumers

Wrightson economist Crandall says consumers, whose spending accounts for about two-thirds of economic growth, are the key. "The Fed will be forced to tighten more if we see any buoyancy in spending this fall," he says.

The signs of that are ambiguous. After languishing in the spring and early summer, retail sales shot up a surprising 0.7% in July. Pessimists viewed that as the leading edge of a consumer rally that could spook the Fed. Optimists said it was merely a healthy return to more normal spending after a serious slowdown.

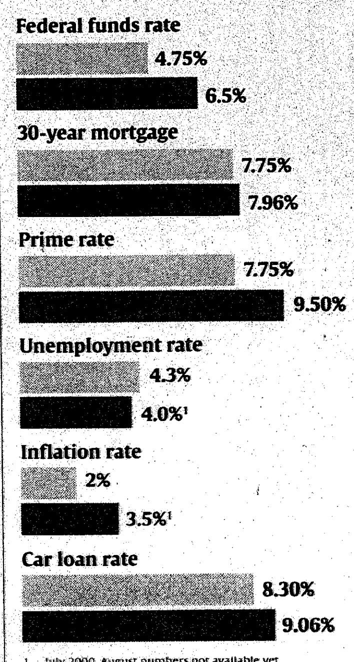
Merrill Lynch's Steinberg says even at that rate, consumer spending would be only about half what it was last winter, and he dismisses the fears of colleagues who claim to see signs of a reaccelerating economy. "I don't know what they're looking at," he says.

Other economists say that what they fear most is that a too-tight labor market will eventually drive up wages enough to force companies to begin raising prices. That is a classic recipe for an outbreak of inflation, but it's also a theory that has gone from ironclad economic rule to debatable theory as the unemployment rate has hung near its 30-year low for months without triggering an upsurge in prices.

Diane Swonk, chief economist for Bank One, says that wage pressures are creeping up, and that if they get out of hand, even the economy's remarkable productivity gains won't be enough to offset them. "Once wages start rising, they don't stop. Wages can double overnight; productivity cannot," she says.

One year later, little changed — except funds rate

Economists differ over how Fed policy ultimately affects the economy. Here's a look at how some key indicators have performed since the Fed began tightening in June 1999:



1 – July 2000, August numbers not available yet

Sources: Baird's Fixed Income Report, www.bankrate.com, Bureau of Labor Statistics, Federal Reserve, USA TODAY research

By Elizabeth Wing, USA TODAY

Swonk's fear is one that Greenspan has mentioned repeatedly, but his actions suggest he doesn't think it's nearly as serious a worry as Swonk does. Greenspan has battled Fed hawks who would have preferred more aggressive interest rate increases in the face of low unemployment, and he recently told Congress that the current 4% unemployment can continue without igniting inflation.

Help from the 'new economy'

The Fed's statement Tuesday cautioned that the rate at which the economy is soaking up available workers "remains at an unusually high level." But it also said that the economy's productivity gains are "containing costs and holding down underlying price pressures."

Sounds as if the "new economy" has helped the Fed glide the economy to a soft landing with hardly any pain at all. But even optimists caution not to get carried away.

"Whoa, there, partner — we are just at the beginning of this process," says Ken Mayland of Clear View Economics. Mayland notes that the Fed's last rate increase, an unusually aggressive half-point in May, is still rippling through the economy. The lag between what the Fed does and when it socks consumers and businesses can be a year or more.

"We may now only be beginning to enter that soft landing," Mayland says.

High-speed at hotels ha

Few Web sites list amenity; phone calls can yield little info

By Salina Khan
USA TODAY

Finding hotels that offer high-speed Internet access isn't easy.

Only two of 15 major hotel chains' Web sites that USA TODAY studied list high-speed Internet access under guestroom amenities and services for individual hotels. In calls to each chain's reservations center, only seven agents were equipped to tell travelers which hotels offer it.

Business travelers often check e-mail or access Web sites while on the road. A high-speed connection gets them on the Internet 50 times faster than a regular phone line can. A survey this year of business travelers found 42% consider it very or extremely important to have high-speed Internet connections, according to Yesawich, Pepperdine & Brown and Yankelovich Partners.

Business traveler Valyn Erickson of PricewaterhouseCoopers says she struggled earlier this month to determine which hotel in Sunnyvale, Calif., offered high-speed access. She called properties directly when Web sites and reservation agents were not helpful.

"It's frustrating," says Erickson, who prefers to stay at hotels with high-speed access because she often has to download large files.

USA TODAY found:

▶ Travel sites, such as Expedia.com and Travelocity.com, let travelers search for hotels that offer dry cleaning, pools or children's programs — but not for hotels that

Nike sued over Wood

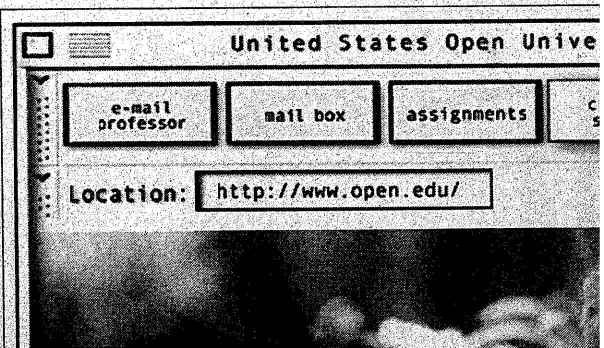
By David Kravets
The Associated Press

SAN FRANCISCO — Tiger Woods endorses "Nike Tour Accuracy" golf balls in ads but uses custom-made balls not available to the public, a non-profit group alleged Tuesday in a federal lawsuit.

Nike conceded that the balls Woods uses have a slightly harder inner and outer core.

"Those two elements are slightly firmer than the marketed ball," Mike Kelly, Nike Golf marketing director, told The Associated Press.

Kelly said it's common in golf to sell the public different products



By Deborah Kong
USA TODAY

Online bill-payment service Paytrust said Tuesday that it will acquire competitor PayMyBills.com in a bid to solidify its foothold in the fast-growing market.

Terms of the all-stock deal were not disclosed. The services enable consumers to receive, review and pay bills online.

Paytrust and PayMyBills rank a distant second and fourth to giant CheckFree, says Gómez Advisors analyst Paul Jamieson.

"Our whole challenge is having people know about this service," says PayMyBills.com co-founder and CEO John Tedesco, who will become Paytrust's chief strategy officer. The deal means that "instead of trying to divide the pie, (we are) going at it and getting it together."

The field has been getting crowded as banks, online brokerages and portals such as Yahoo begin to offer online bill payment.

But consumers have been slow to sign up because many have not heard of the services, and some are concerned about privacy and security. About 4 million consumers use online bill-payment services, and as many as 12 million are active online bankers, Jamieson says.

He adds that the market is "poised for incredible growth" as the services become easier to use and more consumers become aware of them.

CheckFree dominates the business, serving about 3.5 million customers. About 200 sites — including Yahoo, Charles Schwab and Merrill Lynch — use CheckFree's online payment technology. They pay CheckFree $4 per consumer each month.

Paytrust's acquisition of PayMyBills "buys them some time because they don't waste time killing each other," says NetRatings analyst Peggy O'Neill. But CheckFree "has already gone around and sewn up a lot of relationships" with financial Web sites.

Both Paytrust and PayMyBills began offering their services last summer. They initially targeted their bill-paying services directly to consumers through their Web sites. Each charges a subscription fee of $8.95 a month.

The companies receive consumers' bills and scan them so that they appear on a Web site. E-mail alerts consumers to new bills. They then can dip into their bank accounts to pay the bill electronically or schedule payments.

But Paytrust and PayMyBills shifted gears this year as they realized that consumers prefer to pay bills online through their banks or other trusted financial institutions.

The sites struck deals to provide online bill payment for customers of American Express, E-Trade, GE Financial Network, NextCard and OnMoney/Ameritrade.

Paytrust and PayMyBills provide the payment technology and service to the companies. In return, these companies pay different fees.

Paytrust — a privately held company whose investors include American Express, AT&T Ventures, Citigroup, NextCard, Softbank and Goldman Sachs — withdrew its planned initial public offering this spring. PayMyBills is backed by Internet incubator Idealab.

Cover story

Soft landing or touch and go?

Fed leaves rates unchanged; analysts debate whether the economy has slowed enough

By George Hager
USA TODAY

Is the Fed done?

For the second time this year, Federal Reserve policymakers left interest rates unchanged Tuesday, holding the key short-term rate at 6.5%. That fanned expectations that Fed officials believe their six rate increases since June 1999 have slowed the economy enough to ward off inflation.

But economists are divided over whether the Fed is through raising interest rates, chiefly because no one knows for certain whether the current slowdown is a lasting deceleration or just a pause.

The stakes are large, because a certainty that the slowdown is real and the Fed is done could reignite stock markets. Markets have slumped since the Fed signaled in the spring that it would raise rates until it got the economic soft landing it badly wanted.

Analysts who think the Fed is through got what they think is strong evidence in Tuesday's Fed statement. While the Fed reissued its longstanding warning that the risks still tilt in the direction of higher inflation, Fed watchers detected an unusual bullishness in the carefully worded statement that officials release after every meeting.

The Fed has complained for months that supply and demand are out of whack, a key risk for inflation. After leaving rates unchanged at the June meeting, the Fed said demand "may be moderating" to a pace more in step with supply, but that signs of slowing were "tentative and preliminary."

On Tuesday, the Fed axed the "tentative and preliminary" language and said definitively that demand "is" moderating. And for the first time, the statement added that big productivity increases in American business — in which companies find ways to produce more output for every hour worked — have raised the economy's speed limit. Fed decryption experts say such changes in the tea leaves are a huge deal.

"These are tea leaves that landed in big bold letters," says Louis Crandall, chief economist for Wrightson Associates and a longtime decoder of Fed statements. The switch from "may be" to "is" was a sign that the Fed is increasingly confident that economic data show that the much-hoped-for "soft landing" is the real thing, not just a

Please see COVER STORY next page ▶

By Gary Visgaitis, USA TODAY

Historically, narrow trading ranges often precede big rallies

By Adam Shell
USA TODAY

Not even good news on the interest rate front Tuesday was enough to help the stock market break out of its stubborn trading range.

As expected, the Federal Reserve left short-term interest rates unchanged. But despite the market-friendly news, the Standard & Poor's 500 index failed again to close above the psychologically important 1500 level.

That's nothing new. Since early spring, Wall Street's broadest market index has meandered, but made no headway. On March 31, the index stood at 1498.58. On Tuesday, it fell 1.35 points to 1498.13.

In the past four months, the S&P 500 fluctuated between a low of 1373.86 and a high of 1510.49. During that time, it traded within 4.7% of its midpoint of 1442.17, its narrowest range in two years, says James Stack, president of InvesTech Research. The Dow Jones industrials and the tech-heavy Nasdaq have also traded within a narrow band for months.

Strategists are split on when stocks will mount their next upward charge.

Don't expect a big upside anytime soon, says Chris Wolfe, strategist at J.P. Morgan. For one reason, tech stocks are unlikely to surge 40% and carry the market, given recent earnings warnings from big names such as Nokia, he says. A spate of warnings about third-quarter earnings also will weigh the market down.

Paul Rabbitt, president of Rabbittanalytics.com, disagrees.

Stocks should trend higher, he says, now that the Fed is out of the picture. A shift into beaten-down value stocks should also give the market an adrenaline boost, he adds.

Either way, frustrated investors should be patient. Historically, narrow trading ranges are followed by explosive rallies.

"This kind of market behavior is characteristic of the past two decades and has consistently been resolved bullishly," says Bernie Schaeffer, chairman of Schaeffer's Investment Research.

Two recent examples:

▶ In 1999, the S&P 500 was mired between 1250 and 1400 from April through October. Its seven-month return: zero. But after breaking through 1400 in mid-November, the index jumped 18%, hitting a record 1527.46 on March 24, 2000.

▶ Perhaps the best comparison to the S&P 500's current stagnation dates back to 1994, says Hugh Johnson, chief investment officer at First Albany. The S&P 500 went nowhere from January 1994 through February 1995, a period in which the Federal Reserve successfully slowed the economy after raising short-term interest rates seven times. Similarly, the Fed has boosted rates six times since June 1999.

But after the Fed ended its string of rate moves, stocks went on a tear, surging 146% from mid-February 1995 to July 1998. Its run-up was finally halted by the Asian financial crisis.

Analysts say multimonth market pauses may not be such a bad thing. It's far better than suffering through long, drawn-out bear markets, such as the 1973-74 decline that knocked the S&P 500 down 42%, Schaeffer says.

"Instead of collapsing and moving out of its long-term up trend, the market simply rests by moving sideways until its next up trend," Schaeffer says.