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WSJ Survey: Economists Are Convinced Fed Will Raise Rates in December

More than 80% think Fed credibility would be damaged if it didn't raise rates next week

By BEN LEUBSDORF
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There now is little doubt among private economic forecasters that the Federal Reserve will raise short-term interest rates next week.

About 97% of business and academic economists surveyed by The Wall Street Journal in recent days predicted Fed officials will raise the benchmark federal-funds rate Wednesday. Just 3% said they expected officials would wait until next year to move rates up. Last month, 92% of forecasters predicted a December rate increase.

Economists have become more confident, too, in predicting the Fed will move this month. The forecasters on average estimated the probability of liftoff at the Dec. 15-16 meeting at 87%, up from 71% last month and 48% in October. They are in agreement with financial markets—fed-funds futures on Wednesday suggested an 85% probability of a December rate increase, according to CME Group.

“The table is set, all the Fed needs to do is show up to serve the meal,” said Diane Swonk, chief economist at Mesirov Financial.

Since their policy meeting in late October, Fed officials have sent strong signals they might begin to raise the fed-funds rate in December after holding it near zero for seven years. Chairwoman Janet Yellen last week told lawmakers the U.S. economy “is doing well and that is the reason that it is a live option for us in our December meeting to discuss...whether or not it's appropriate to raise rates.” A solid jobs report for November appeared to clear the way for such a move.

Indeed, 82% of economists surveyed said they thought the Fed's credibility would be damaged if it didn't raise rates next week, up from 65% who said so last month.

“Based on recent comments by Janet Yellen and [Fed Vice Chairman] Stanley Fischer on how much the economy has improved, as well as stronger job and income numbers, not to raise in December would be tantamount to deception,” said **Bernard Baumohl, chief global economist at Economic Outlook Group LLC.**

After the long-anticipated first rate increase, attention will shift to the timing of the Fed's next move as the central bank aims to raise rates at what Ms. Yellen and several other top officials have described as a gradual and cautious pace. Most economists think that means the Fed will raise rates this month, stay on hold at its Jan. 26-27 meeting and then raise rates a second time at the March 15-16 policy meeting.

About 65% said they expected the Fed's second rate increase would come in March, while 14% predicted April and 16% predicted June. In November, 49% predicted the second move would happen in March.

“This Fed is still very cautious,” said Thomas K. Swift, chief economist at the American Chemistry Council.

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