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WJ Survey: Most Economists Predict Fed Will Stay on Hold in September

About 46% expect first rate increase at next week's meeting

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It's a close call, but most private economists polled think the Federal Reserve will keep short-term interest rates pinned near zero next week.

About 46% of business and academic economists surveyed over the past week by The Wall Street Journal predicted the Fed's first rate increase would come at the Sept. 16-17 policy meeting. While a plurality picked September, a majority predicted liftoff would arrive at some later meeting. About 9.5% said the Fed would lift off in October, while 35% said the first rate increase would come in December and 9.5% said the central bank would wait until 2016.

Expectations for an imminent Fed rate increase have fallen sharply in the past few weeks. In early August, 82% of economists thought the Fed would raise rates in September. Just 3% saw the first move coming in October, 13% predicted a December liftoff, and 2% saw officials waiting until next year.

"What's keeping the Fed from lifting rates is not the U.S. economy, which is actually doing quite well," said **Bernard Baumohl, chief global economist at Economic Outlook Group LLC**. He predicted a September liftoff in last month's survey but now thinks the Fed will wait until December. "It's the worry that a sharp slowdown in China will devastate emerging countries enough to drag down global economic growth, and that may ultimately impact the U.S. too."

There remains a decent chance the Fed could still act next week, economists said. On average, forecasters estimated the probability of a September rate increase at 42%. By comparison, futures markets—where traders make bets on the Fed policy outlook—signal only a 24% chance of the Fed raising rates this month, CME Group said Thursday.

Joshua Shapiro, chief U.S. economist at MFR Inc., said he thinks the Fed will start raising rates in October, but still gave a 45% chance of a move in September. "It's a close call, but I do think they haven't really definitively set markets up for this," he said. "By a narrow margin, we're likely to see no change—but a policy statement that's very focused on a near-term rate rise, if everything goes according to plan."

A third of economists said the likelihood of a Fed rate increase next week was above 50%. Even among forecasters who said September was the most likely month for liftoff, the probability of a move averaged just 53%.

"For a lot of people like me, September has been the least unlikely time to start for quite a while," said Lou Crandall, chief economist at Wrightson ICAP. But he only attached a 45% probability to liftoff next week. "It would be difficult to have confidence in either direction," he said.

The Journal polled 64 private forecasters Friday through Wednesday, though not every economist answered every question.

At the beginning of 2015, most economists thought the Fed would raise rates by midyear. After an economic slowdown in the first quarter, predictions for the first rate increase coalesced around September. But turbulence in financial markets and worries about China's economic slowdown raised doubts in recent weeks about whether the Fed is ready to begin raising its benchmark federal-funds rate, which has been pinned near zero since December 2008.

"All of the data that we have had up until now has been, I think, encouraging. It…has been about as good, or better, than I was expecting, in terms of the U.S. economy," Federal Reserve Bank of San Francisco President John Williams said in an interview with the Journal. "But there are some pretty significant—and I would say have now grown larger—headwinds that have developed."

There was little sign that Fed officials were near agreement on raising rates ahead of the policy meeting that will begin Wednesday and conclude on Thursday.

Federal Reserve Bank of New York President William Dudley in August said a September rate increase "seems less compelling to me than it did several weeks ago."

But other policy makers, like Federal Reserve Bank of Richmond President Jeffrey Lacker, have appeared eager to start. "I'm not arguing that this economy is perfect by any means, but nor is it on the ropes, requiring the stimulus of low monetary policy interest rates to get it back into the ring," Mr. Lacker said last week.

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