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WSJ Survey: Economists Shift Rate-Rise Expectations From June to July

Just over half of the economists surveyed now see a rate increase in July

By **KATE DAVIDSON** **JUNE 9, 2016**

Most economists in a Wall Street Journal survey believed the Federal Reserve would raise short-term interest rates this summer, despite a bleak May employment report that rattled policy makers and raised questions about the underlying strength of the economy.

The vast majority of economists polled by the Journal this month ruled out a June rate increase: Just 6% said they believed officials would lift rates at their policy meeting next week, compared with 31% in last month's survey.

But 51% of economists said the Fed would raise rates in July, up from 21% last month, suggesting many forecasters shifted their expectations to the Fed's next meeting.

"The next jobs report will again be a deal maker or breaker," saidLynn Reaser, an economist at Point Loma Nazarene University in San Diego, referring to the Labor Department's June employment report to be released July 8. She predicted the next rate increase will come in July.

About 30% of the economists said they believe officials would wait until September to make their next move, nearly 8% expected the next increase in December, and 3% believed the Fed wouldn't raise rates again until March 2017 or later.

Market expectations for a June rate increase soared last month, after several Fed officials flagged that possibility. Chairwoman Janet Yellen said in late

May that a rate increase was probable “in the coming months” if the economy and labor market continued to strengthen.

Those expectations were dashed last week after the Labor Department said employers added just 38,000 jobs in May, the weakest performance in almost six years, and lowered its estimates of job gains in April and March. Ms. Yellen called the report “disappointing” and “concerning” in a speech in Philadelphia on Monday, and declined to say when the next rate increase might be appropriate, a step back from her comments in late May.
Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University, doesn’t expect any rate increase until March. “The Fed will wait to see the economy humming along above potential, which is due to an improved investment picture,” he said.

But the survey suggests many economists still view a July increase as a possibility, barring another dismal employment report and renewed financial turbulence overseas.

Several Fed officials said the uncertainty surrounding the June 23 U.K. vote on whether to leave the European Union, a so-called Brexit, could weigh on their decision in June. A vote to leave “could have significant economic repercussions,” Ms. Yellen said Monday in her speech in Philadelphia.

“A good June employment report and a no vote on Brexit would bring July back into play,” economist Diane Swonk of DS Economics said.

Many economists surveyed this month also cited the Brexit vote as a reason to hold off on a rate rise in June, along with concerns about the U.S. labor market. Asked whether the Fed should raise rates at its meeting next week, 66% said no, while 34% said yes.

“At the very least they would need one or more months-worth of data on the labor market to determine whether May’s weak payroll numbers was an anomaly—or the first sign of a genuine economic slowdown,” said **Bernard Baumohl, chief economist of The Economic Outlook Group LLC** who said the Fed shouldn’t raise rates in June.

Traders in federal-funds futures markets put a 4% probability on a rate increase in June, a 27% probability on a move in July and 44% probability on an increase in September, according to CME Group.

Economists surveyed this month see higher chances for a July rate increase. They saw a 12% probability of an increase in June, a 42% probability of an increase at the July meeting, and a 40% chance of an increase in September.

About two-thirds said they expect a summer rate increase would induce a replay of the market turbulence that rocked global markets in August and January, while one-third said investors expect a move, and it will have little impact on financial markets this time.

The Fed has held its benchmark federal-funds rate in a range between 0.25% and 0.50% since December.

Sixty-four economists participated in the survey, although not every economist answered every question.

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