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WSJ Survey: Half of Economists See No Fed Rate Increase Until December

Just one economist in poll now sees Fed rate raise in July, while 23% see increase in September

By Harriet Torry   July 14, 2016

Half of the economists in a Wall Street Journal survey expect the Federal Reserve will leave short-term interest rates unchanged until December because of uncertainty over Brexit and the U.S. presidential election, as well as mixed signals from the labor market.

Half of business and academic economists polled by the Journal in recent days said the Fed would next raise its benchmark federal-funds rate at its Dec. 13-14 policy meeting. That is a sharp increase from the 7.8% of economists who held that view in the Journal's June survey, when most said they expected the Fed to raise rates this summer.

The delay in the Fed's next expected move highlights uncertainty about the economic outlook stemming from the U.K.'s June 23 vote to leave the European Union. Economists also expected mixed messages about the pace of U.S. hiring over the past two months to cause officials to hold off for longer on raising rates.

"If economic concerns continue to mount over the next couple months, the [interest-rate-setting Federal Open Market Committee] is likely to hit the pause button until December, or perhaps 2017," said Chad Moutray, chief economist for the National Association of Manufacturers.

Forecasters assigned minimal chances to the Fed acting at its policy meeting in less than two weeks' time. Just one economist said the Fed will increase borrowing costs at the July 26-27 meeting, compared with 33 in last month's survey.

Fewer economists this month said they expect the Fed to increase rates in September, too. Some 23% of economists said the Fed would raise rates in September, compared with about 30% in the June poll.

The Journal surveyed 60 economists Friday through Tuesday, though not every respondent answered every question.

Bernard Baumohl, chief economist of Economic Outlook Group LLC, said it is hard for the central bank to depend on economic data for its policy decisions given gyrations in recent payroll reports.

Employers added a seasonally adjusted 287,000 jobs in June, a dramatic change from May's dismal payrolls gain of 11,000.

"The lack of clarity about the economy's path will force the Fed to lie low the rest of this year," **Mr. Baumohl** said, adding that "the last thing they want to do is risk a policy mistake in the final months of a highly charged presidential campaign."

The private forecasters on average saw the fed-funds rate at 0.61% at the end of 2016, suggesting one quarter-percentage-point rate increase this year. They expect another rate increase by June next year and a further one or two by the end of 2017, according to the survey.

Financial markets doubt the Fed will move its benchmark federal-funds rate off the range of 0.25% to 0.50% this year, with fed-funds futures on Thursday morning suggesting a 34% chance of rates rising a quarter percentage point by the Fed's December meeting, according to CME Group.

Economists and financial markets expect a slower path of rate increases than the central bank itself. Fed officials in June reiterated their forecast for an implied two quarter-point rate increases this year.

However, speaking after the June gathering, Fed Chairwoman Janet Yellen emphasized the central bank's uncertainty about when officials will next raise rates, and where rates are headed in the years ahead.

“I can’t specify a timetable” about when rates will next be raised, she said at a press conference following the meeting. “We are quite uncertain about where rates are heading in the longer term.” She made the comments roughly a week ahead of the U.K. referendum, which prompted a bout of stock-market volatility and pushed the pound to a 31-year low.

Economists saw higher chances of officials raising rates at the two meetings left in 2016 that conclude with press conferences than at the meetings without. They saw a 46% probability of an increase in December, and a 28% probability of an increase at the September meeting. Economists forecast an 8% probability of a rate increase in July and 16% in November.

Several economists said inflation pressures could be a factor prompting the Fed to raise rates by the end of the year. Excluding food and energy, the Fed’s preferred measure of consumer prices was up 1.6% in May versus a year before—still short of the central bank’s 2% inflation target, and the same pace as April and March. However, they noted that Brexit has put upward pressure on the dollar, which could depress import prices and damp inflation.

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