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Economists in New Survey See Federal Reserve on Autopilot

Overall, economist surveyed see the federal-funds rate ending the year at 2.33%

By David Harrison July 12, 2018

Economists surveyed by The Wall Street Journal see the Federal Reserve moving in a regular pattern of quarterly interest-rate increases to keep the economy on a steady footing.

With the labor market firing on all cylinders and with inflation at the Fed's 2% target, the central bank will put policy on autopilot unless something—perhaps an escalating trade confrontation—comes along to disrupt its plans, the economists said.

Just about every economist surveyed said the next increase in the Fed's benchmark federal-funds rate would come at the Sept. 25-26 meeting and 84% predicted the one after that would be at the Dec. 18-19 meeting.

Overall, economists see the rate ending the year at 2.33%, up from the current range of 1.75% to 2%. That is the equivalent to four quarter-percentage-point interest-rate increases in 2018. By the end of 2019, the economists see the federal-funds rate settling at 3%, which would represent two to three rate increases next year.

"The Fed seems intent on gradually raising rates over the next two years," said Gregory Daco, an economist at Oxford Economics.

The economists' view largely matches the rate path Fed officials projected at their June meeting. After raising rates in March and June, officials penciled in two more increases this year and three next year, intended to keep inflation in check and prevent the economy from overheating.

Officials also have expressed a greater degree of consensus in their public pronouncements. Some who had previously called for a slower pace of rate increases, such as Fed governor Lael Brainard and Chicago Fed President Charles Evans, now say the strong economy will require more rate increases than they anticipated earlier this year.

"The economy seems so strong it seems natural that businesses and consumers can live with" higher borrowing costs, Mr. Evans said in an interview this week.

There are risks, however. The economists pointed to the Trump administration's unpredictable trade policy as the main threat to the economy.

"Tariffs and escalating trade tensions are a wild card for the outlook," said Diane Swonk, chief economist at Grant Thornton. "We all keep hoping they will go away. They haven't."

The Trump administration on Tuesday announced a third round of tariffs on $200 billion of Chinese products, ramping up a trade dispute and prompting retaliation from Beijing.

The administration has also imposed tariffs on imported steel and aluminum from the European Union, Canada and Mexico, leading those countries to set their own tariffs on U.S. exports.

Those steps could unsettle global markets and cause businesses to pull back on investment, which could lead to a slowdown in growth. An escalation in trade tensions could also boost the price of U.S. imports which could push up inflation further.

For now, the economists still see the risk of a trade-induced recession as remote. On average, economists only see an 18% chance of the U.S. economy tumbling into a recession within the next year.

But **Bernard Baumohl, chief global economist at The Economic Outlook Group**, warned it can't be ruled out completely.

"While the economy has enough momentum to grow the rest of the year, the risks of a downturn in 2019 and 2020 are climbing," he said.

The Wall Street Journal surveyed 63 economists but not every one answered every question.

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