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Economists Expect Fed to Continue Raising Rates Through 2019

Median forecast of participants in WSJ survey calls for next recession to begin in 20 months

By Paul Kiernan
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WASHINGTON—Private economists kept their outlook for U.S. interest rates largely unchanged over the past month, with most expecting the Federal Reserve to continue tightening policy through next year.
All 58 economists who participated in The Wall Street Journal's latest survey saw the Fed raising interest rates by a quarter of a percentage point, to a range between 2.25% and 2.5%, in December.

Their median forecast calls for three additional increases in 2019 to a range between 3% and 3.25%, where rates are projected to remain through 2021.

The economists' outlook differs slightly from the median projection of Fed policy makers, who in September expected to raise their benchmark federal-funds rate to between 3.25% and 3.5% in 2020 and leave it there through 2021.

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Strong hiring has continued despite a historically low unemployment rate at 3.7% in September and October. And while wage growth picked up in October to the fastest rate in nearly a decade, inflation has remained close to the central bank's 2% target.

Though the Fed has raised rates eight times since 2015, officials believe borrowing costs are still a tailwind for growth. They hope to remove that stimulus without triggering a downturn, engineering a so-called soft landing for the economy.

The policy makers' latest projections, made in September, suggest they expect to achieve that goal. They see economic growth slowing from 3.1% this year to its long-term projected annual rate of 1.8% in 2021.

Private economists are a bit less sanguine, helping to explain their slightly lower projection for interest rates. The median forecast of participants in the Journal's survey calls for the next recession to begin in 20 months.

Bernard Baumohl, chief economist at the Economic Outlook Group, doesn't expect a recession in the next two years. Still, he sees the Fed having to cut rates starting in mid-2020 from a peak of between 3% and 3.25%.

"Economic growth will slow next year and Trump will ramp up his criticism of [Fed Chairman] Jerome Powell each time rates are raised," Mr. Baumohl said in the survey. The criticism "won't have any effect on monetary policy, but an economy in retreat will force the Fed to proceed much more carefully."

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