Fed interest-rate decision going down to the wire

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RISING TIDE
SPECIAL REPORT

This week's Federal Reserve meeting is shaping up to be the most dramatic in recent memory, with economists divided on whether the central bank will raise its benchmark interest rate for the first time in nearly a decade.

A hike would mark the beginning of the end of an extraordinary era of Fed easy money since the 2008 financial crisis that has kept borrowing costs historically low for consumers and businesses, and underpinned the six-year bull market. The Fed meets Wednesday and Thursday.

Of 19 economists and investment strategists surveyed by Action Economics on Friday, 11, or 58%, predict the Fed will delay the move after recent turmoil in financial markets — a share that has risen steadily over the past two weeks. "You could add more volatility and more hesitation and fright to markets that are already fearful," says Diane Swonk, chief economist of Mesirow Financial.

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Already, the recent selloff is likely, over the next 18 months, to reduce job growth by about 500,000 and push up the unemployment rate by 0.2 percentage points compared to what it would have been otherwise, according to Barclays Capital. The firm argues the Fed likely wants to assess the actual effects on the economy before boosting rates.

By cooling off the economy, and thus keeping eventually higher inflation at bay longer, "the markets have already done much of the Fed's dirty work," Goldman Sachs wrote to clients.

Inflation remains well below the Fed's annual 2% target and recent overseas weakness is likely to further tamp down prices by strengthening the already muscular dollar, says Deutsche Bank economist Joseph Lavorgna. A rising greenback makes imports cheaper for U.S. consumers and hampers exports.

Still another reason for the Fed to hold off is that investors are giving only 23% odds it will act this week, according to the futures market. The Fed in the past has preferred to hoist its benchmark rate — now near zero — only when markets are pricing in the move for fear of further roiling stocks, Lavorgna says.