Fed unlikely to tip its hand on coming rate hike

Paul Davidson
@PDavidsonusat
USA TODAY

The Federal Reserve may be as little as seven weeks from its first interest rate hike in nearly a decade, but economists don't expect it to signal its intentions Wednesday after a two-day meeting.

"We wouldn't expect any heavy hints ... that a September rate hike is coming," economist Paul Ashworth of Capital Economics wrote in a note to clients.

Fed Chair Janet Yellen has stressed that Fed policymakers will decide when to increase its benchmark rate on a meeting-by-meeting basis in response to the most recent economic data. Yellen told Congress this month that she expects the Fed to make the move later this year.

Fed officials have indicated there's virtually no chance they'll bump up rates at this week's meeting. About 80% of economists surveyed by the *Wall Street Journal* this month expected rate liftoff in September.

In March, the Fed removed from its post-meeting statement a pledge to remain "patient" as it considers launching a gradual increase in a federal funds rate that has been near zero since the 2008 financial crisis. That meant Fed policymakers could act as early as June. Yet they held off amid the Greek financial crisis and inflation that continued to run well below the Fed's annual 2% target.



DREW ANGERER, BLOOMBERG

Janet Yellen says the Fed likely will raise rates later this year.

Since then, Greece has tentatively reached a three-year bailout deal with its eurozone creditors, and some measures of inflation have ticked up. Analysts estimate the economy rebounded solidly in the second quarter after contracting early in the year.

A higher fed funds rate would nudge up borrowing costs and bank saving rates and could drive money to fixed-income assets, potentially rattling stocks.

The Fed occasionally has foreshadowed an imminent rate increase. In May 2004, as it prepared to begin a rate-hike cycle following the 2001 recession, the Fed dropped a vow to be patient in its post-meeting statement and said it can raise rates at a "measured" pace. It hoisted the fed funds rate the next month.

Yet "a deluge" of data is slated to be released before the Fed's Sept. 16-17 meeting, including two inflation and two jobs reports, giving policymakers little incentive to prematurely box themselves in, says Michael Feroli of J.P. Morgan Chase.

A more upbeat Fed economic outlook in its statement Wednesday at least could leave the door open to a September hike.