Fed could raise rates only once this year: Experts

Sluggish growth in the US and volatility abroad could keep the Fed from raising rates, experts say

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The U.S. Federal Reserve has promised four interest rate hikes this year, but experts say that only one more is likely.

On Dec. 16 last year, the Fed raised its Federal Funds rates to the range of 0.25 to 0.50 percent, from 0 to 0.25 percent, for the first time in almost 10 years.

But that hike had originally been expected first in June, and later in September. The Fed disappointed on both occasions.

Janet Yellen, the chair of the Fed's Board of Governors, said on Dec. 16 that four hikes should be expected, but that would depend on the achievement of the Fed's targets.

Their objectives are maximum employment and close-to 2 percent inflation. "Our assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments."

Given that the U.S. economy is not growing as rapidly as expected, global economic weakness, and political instability around the world, experts now argue that the Fed is more likely to limit its rate hikes this year to one, if any.

"I would place the odds of the Fed raising rates only once in 2016, or not at all, as being in excess of 50 percent; while the odds of two or more increases are less than 50 percent," Daniel R. Amerman, chartered financial analyst, told Anadolu Agency on Monday.

"If the current [global] crisis continues with low economic growth or low oil prices, and, at the same time, the market comes to believe that the central banks will not save them, then the danger is the two negatives feeding off each other and creating a kind of double contagion, or negative feedback loop, which steadily drives global markets lower," he explained.

When the Fed increases interest rates, capital flows return to the U.S., and flow out of developing countries' economies, reducing the value of their currencies against the greenback, and slowing foreign investment in those countries.

"The rest of the world is facing all kind of headwinds and problems. All these international headwinds will make the Fed wait longer before they do something," Steve Hanke, professor of applied economics at The Johns Hopkins University in Baltimore, told Anadolu Agency.

Stating that the U.S. economic data is weak, Hanke said the economy is "still in a growth recession."

"We are growing, but at below the trend rate of growth in both nominal and real terms. So while the U.S. economy by international standards compared to every other place in the world is doing better, it is not doing that great," he added.

Michael Kramer, founder and portfolio manager at Mott Capital Management, told Anadolu Agency on Monday that some of the important data about the U.S. economy may look positive at first sight, but they can be misleading as well.

"I never believed they [the Fed] should have raised rates in December 2015. It just didn't seem appropriate. All of the headline numbers [such as employment] looked nice. But, the employment numbers can be misleading because we haven't had the job creation to restore growth. That's one of the reasons for labor participation rate being so low," he explained.

The labor participation rate in the U.S. is at its lowest level in 38 years, standing at 62.4 percent.

"I think we have a much weaker employment picture than what is really advertised. The growth in the economy is much slower than what people would like it to be. And I don't think the Fed should be raising the rates...It is possible that they won't even raise them this year; maybe in December after the [U.S. presidential] elections," Kramer said.

The expert stated that he believes the likelihood of the Fed raising interest rates twice this year is around 20 percent, while one time or none is around 50 percent.

Kramer also noted that 2016 is going to be a volatile year for the markets around the world.

"With all the different economic policies in the process of implementation around the world, like in Europe, China, Japan, and the U.S., markets are going to see a lot of volatility in 2016. So, I think, the Fed will be neutral, they will have the 'wait-and-see' approach. That's how to calm the markets," he explained.

Intervention by other central banks, or the threat of such intervention, could also help to calm markets, but the tactic is risky, Amerman said.

But the Fed keeping key interest rates unchanged is a less risky method, compared with those of other central banks, he added.

"The central banks can stop the feedback loop, and have powerful motivations to do so...such as establishing an effective floor for prices," he said, and added "[the Fed] failing to raise interest rates is a concrete signal, and it is nonetheless still less risky and less expensive than more dramatic types of interventions."

"So, the more negative economic and market events we see, the less likely are multiple increases in interest rates for 2016," he said.

However, one expert argued that the Fed is not obligated to take a position with regard to other economies, and their credibility could be hurt if they choose to do so.

"The credibility of the Fed must concern the Federal Open Market Committee. They probably recognize that if they change their posture every time there is a whiff of bad news, they will not be credible," Robert Z. Aliber, professor emeritus of international economics and finance at the University of Chicago's Booth School of Business, told Anadolu Agency on Monday.

"They have two mandates -- prices and employment. They know the U.S. economy is more or less at full employment. They do not have a mandate to look out for other countries," he added.

Aliber emphasized that auto sales in the country, which he defined as a "bellwether for the economy" are at their highest levels since the 2008 crisis.

"The economy appears to be stronger than the Fed believes. But the Fed's appreciation of what is happening always seems to lag what is happening," he concluded.