



Who wins and loses when -- not if -- the Fed hikes interest rates?

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For U.S. investors, consumers and businesses it is the question of the moment: Will the Federal Reserve raise interest rates later this month for the first time since 2006?

Such a hike would test not only the sturdiness of America's recovery, but also help gauge whether the economy can ward off the economic doldrums affecting Asia and other parts of the globe.

If policy makers do push up short-term interest rates at the Federal Open Market Committee's Sept. 16-17 meeting, the consensus is that the move will be small, with most forecasters expecting a hike of no more than 0.25 basis points. But some experts also predict that starting next year the central bank is likely to raise rates faster than many investors expect as inflationary pressures start to build.

When rates finally do rise, among the winners will be senior citizens who supplement their Social Security income with interest on their savings, said Alan Reynolds, senior fellow at the Cato Institute, a libertarian think tank. "Low interest rates are a subsidy to borrowers at the expense of savers," he said. "The dollar might go higher, and that will make oil and metals cheaper."

Economist Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities and the former top economic adviser to Vice President Joe Biden, said a rate hike will also be cheered by inflation "hawks" who worry that the Fed's cheap-money policy puts the economy at risk.

"But the real losers with a rate hike are the significant number of people who have not experienced the recovery," Bernstein cautioned in noting that most American workers have yet to see much in the way of wage growth during the recovery. "The big losers are those of us who believe the Fed should be data-driven, and this move seems driven more by psychology because the data does not support this move."

Average hourly earnings are rising a modest 2.2 percent for the year, and are up only 1.9 percent over the last three months, the U.S. Labor Department said Friday in reporting weaker-than-expected August payroll gains. The labor force participation rate -- the share of adults who are either working or looking for a job -- also remains stuck at an historically low 62.6 percent.

Both figures suggest an economy that, more than six years after the Great Recession officially ended, has yet to start firing on all cylinders.

Yet by other measures the recovery looks virtually complete, with the nation's unemployment rate now down to 5.1 percent, its lowest level since April of 2008.

"The most likely beneficiaries of a rate hike of even only 0.25 basis points are financial institutions -- any institution that can improve margins as a result of the disparity between borrowing and lending costs," said Peter Kenny, chief market strategist for the Clearpool Group, a trading software firm. "The most likely losers are likely to be institutions that have long become accustomed to near-zero rates of borrowing and that have not migrated models to adjust, institutions that are marginally profitable for shareholders."

For economist Joseph Stiglitz, a Nobel laureate and professor at Columbia University, a Fed rate hike is aimed at heading off inflation that is nowhere on the horizon.

"Global economic forces are poised to drive inflation lower," Stiglitz wrote in an op-ed in the Los Angeles Times last month. "The preponderance of economic data indicates that the predictable cost of premature tightening -- slower job and wage growth -- far outweigh the risk of accelerating inflation."