First Trust
Monday Morning OUTLOOK
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June Rate Hike Still on Tap

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

According to a recent survey by the Wall Street Journal, most economists think a June rate hike is unlikely. In fact, four times as many think the Federal Reserve won't start raising rates until September or later as currently think the Fed will start in June.

We're in the minority and still think the first hike arrives in June. The Fed minutes show that the consensus at the Fed remains dependent on the data. (Expect to hear that over and over as long as Janet Yellen leads the central bank.) In the past couple of months the data have been weak. But, in our view, those figures have been soft due to unusually harsh February weather, prolonged port strikes on the West Coast, and falling oil prices that have hurt the oil patch in the near-term, but which will help other sectors over time.

More timely economic figures have already turned back up, thanks to a combination of more normal weather patterns, the end of the port strikes, and oil prices that appear to have leveled off. Sales of cars and light trucks spiked 5.5% in March. As a result, it looks to us like overall retail sales will be up a strong 1.2% for the month.

Meanwhile, the four-week average of new unemployment claims has hit the lowest level since the peak of the Internet boom in Spring 2000. The four-week average for continuing claims is the lowest since 2001. It's still early, but these reports suggest a steep rebound in job creation in March to somewhere north of 250,000. So if the Fed is data dependent, it should have plenty of reports over the two months to justify starting rate hikes in June.

In a recent speech, Bill Dudley, who along with Fed Vice-Chair Stanley Fischer is part of Yellen's inner circle, noted that real GDP is up at a 2.7% annual rate in the past two years and thinks, despite some temporary weakness in Q1, the 2.7% pace is the underlying trend for the economy.

More importantly, Dudley said hiking rates doesn't mean the Fed is "tight" and normalizing policy "would be a cause of celebration" and a "positive signal" for the economy. In addition, Dudley said the public is paying too much attention to the timing of the first rate hike and not enough to how quickly the Fed will lift rates once it gets going.

These are not the kinds of things he would say if rate hikes were still a long way off; they're *exactly* the kind of thing he'd say when preparing the markets for rate hikes a wee bit earlier than they now anticipate.

A rate hike in June is not a slam dunk. Some at the Fed will oppose it, even if they don't dissent publicly. But we still believe the most likely outcome is a pick-up in growth, a first hike in June, and only about 100 basis points of rate hikes in the following twelve months, even slower than the gradual series of rate hikes in the 1990s and 2000s.

If anything, the first year of rate hikes will be too slow. A few years from now, investors and analysts will look back at the angst over the first rate hike and wonder what all the fuss was about.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-14 / 7:30 am	Retail Sales – Mar	+1.0%	**+1.2%**		-0.6%
7:30 am	Retail Sales Ex-Auto – Mar	+0.7%	**+0.6%**		-0.1%
7:30 am	PPI – Mar	+0.2%	**+0.1%**		-0.5%
7:30 am	"Core" PPI – Mar	+0.1%	**0.0%**		-0.5%
4-15 / 7:30 am	Empire State Mfg Survey - Apr	7.0	**6.0**		6.9
8:15 am	Industrial Production – Mar	-0.4%	**-0.3%**		+0.1%
8:15 am	Capacity Utilization – Mar	78.6%	**78.5%**		78.9%
4-16 / 7:30 am	Initial Claims – Apr 11	281K	**282K**		281K
7:30 am	Housing Starts – Mar	1.040 Mil	**1.016 Mil**		0.897 Mil
9:00 am	Philly Fed Survey – Apr	6.0	**5.0**		5.0
4-17 / 7:30 am	CPI – Mar	+0.3%	**+0.3%**		+0.2%
7:30 am	"Core" CPI – Mar	+0.2%	**+0.1%**		+0.2%
9:00 am	U. Mich Consumer Sentiment- Apr	94.0	**93.7**		93.0
9:00 am	Leading Indicators – Mar	+0.3%	**+0.3%**		+0.2%