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MOODY'S ANALYTICS: SLOWDOWN OVER, FED ON TAP TO RAISE RATES

NEW YORK, May 29, 2015 – Moody's Analytics, a leading provider of economic forecasts, says that the US economic slowdown has ended, putting in place conditions for the Federal Reserve to begin raising short-term interest rates.

According to the report "U.S. Macro Outlook: The Slowdown Is Over," the negative effects of the tough winter have receded, and the fallout from the West Coast port strike and effects of declining oil prices on the energy industry will diminish. In addition, wage gains are accelerating due to the steadily tightening job market, which has eased concerns about disinflation and deflation.

The economy will soon return to full employment and core inflation will rebound to the Fed's 2% target, likely in time for September's Federal Open Market Committee (FOMC) meeting, when Moody's Analytics expects the Fed will launch the first increase in interest rates.

The rate hikes will be slow at first, as policymakers work through any issues created by raising rates while there is a surfeit of excess reserves. Policymakers will also want to gauge the impact of the rate hikes on financial markets.

Rate hikes should increase more quickly beginning this time next year once the economy achieves full employment and wage and price pressures develop more fully. Moody's Analytics expects the funds rate to rise to near 3.5% by late 2017, which is close to the economy's estimated long-run equilibrium rate.

This is higher than the expectations of FOMC members, who anticipate a federal funds rate of near 3.0% by late 2017. It is also higher than the expectations of investors, who, as represented by fed funds futures, believe the funds rate will barely reach 1.5% by late 2017. Investors seemingly believe that economic growth and inflation will be too low for the Fed to raise interest rates as quickly as Moody's Analytics and policymakers expect.

"Only one of these views is correct, and if the markets are wrong, there could be a significant adjustment in long-term interest rates, credit spreads, stock prices, and currency and commodity markets," says Mark Zandi, Managing Director and Chief Economist at Moody's Analytics.

While the impending volatility in financial markets will be disconcerting and pose the biggest near-term threat to economic optimism, the underlying economy should be strong enough to weather it relatively gracefully.

For more information, visit Moody's Analytics' Dismal Scientist.

About Moody's Analytics

MOODY'S ANALYTICS

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $3.3 billion in 2014, employs approximately 9,900 people worldwide and has a presence in 33 countries. Further information is available at www.moodysanalytics.com.

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