

# Economic Alert iQ



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International

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## Probability of a June Fed rate increase is low

- The US Federal Reserve will conclude its two-day 16/17 June 2015 FOMC meeting and announce its latest economic policy decision which is due on 18 June, 2015.
- Based on previous guidance from policy makers, the June FOMC meeting was the earliest potential date under consideration for a fed funds rate increase. However, the weak tone prevailing over much of the economic data in the first part of 2015 has virtually eliminated the possibility for action at this time. This is unlikely to occur in June, which in turn will further reduce the likelihood of rate action at the July 28-29 meeting.
- Generally, weaker-than-expected macroeconomic data had been delaying chances from April to September. Market consensus is that there will be no changes in the ongoing policy, in addition several Central Bank officers had suggested there won't be a rate hike in June, but many are still expecting a rate increase sometime this year.
- The inflation data are not exactly cooperating with policy makers' hopes and expectations. Not only has inflation not improved over the past few months, but in April, the core PCE deflator decelerated slightly to 1.2% year over year from 1.3% previously.
- The factory sector remains largely stuck in the doldrums -- which was evident in the latest industrial production data -- following an outright contraction earlier this year. This may exacerbate concerns that transitory factors only partly explain first-quarter weakness.
- The recent improvement in the labor, housing and retail sales data are likely to result in moderate upgrades of these sectors, as well as the overall growth assessment, in the official policy statement.
- However, Bloomberg Economics retains the view that the policy liftoff will occur in September. This will have given officials the benefit of seeing the second-quarter GDP report, three more jobs reports and several more indicators which will shape expectations regarding the velocity of growth heading into the second half of the year.

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