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U.S. Fed seen moving slowly after first rate hike in second quarter 2015: Reuters poll

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By Moriah Costa

WASHINGTON (Reuters) - The U.S. Federal Reserve is expected to move in baby steps when it starts to bump up borrowing costs from a record low, but it won't do so until the second quarter of next year, according to the latest Reuters poll of economists.

Recent data on employment, manufacturing and services suggest the economy is on a firm footing, but the Fed has said monetary support is still needed given what it calls the "significant" slack in the labor market.

The central bank has held the overnight federal funds rate near zero since December 2008, and is close to winding down a lengthy program of bond purchases that will have swelled its balance sheet to more than $4 trillion.

But it is not likely to raise the fed funds rate until the second quarter of next year, most likely in June, according to the median forecast of 74 analysts polled in the past week.

That projection, unchanged from a survey last month, suggests a somewhat earlier move than predicted by a smaller sample of the Wall Street primary bond dealers who deal directly with the Fed, in a poll earlier this month. [FED/R]

Interest rate futures are pricing the first rate hike in the third quarter of next year.

When the Fed does get moving, it will proceed cautiously.

"There's quite a few worries for them still in the cards. That should keep them hiking rates quite a bit slower than we've seen in previous hiking cycles," said Gennadiy Goldberg, a strategist at TD Securities in New York.

The latest survey showed that rates would be at 1.00 percent at the end of next year, 2.25 percent at the end of 2016 and 3.25 percent a year after that. The Fed sees 3.75 percent as appropriate for the economy over the longer run.

Yet all anecdotal evidence suggests that Fed Chair Janet Yellen is in no hurry to raise interest rates, preferring to fight inflation than another economic downturn.

The poll also found analysts had grown more optimistic about U.S. economic growth in 2014 after a strong second quarter, with forecasts for the year rising to 2.0 percent from 1.7 percent in July.

The median projection for 2015 remained at 3.0 percent but the forecast for 2016 dipped to 2.9 percent from 3.0 percent.

Growth in non-farm payrolls was seen averaging around 210,000 jobs per month over the rest of this year and 215,000 per month during the first half of next year before slowing slightly. So far this year, payroll growth has averaged 230,000 per month.

The unemployment rate for 2014 was forecast at an average of 6.2 percent, where it stood last month and unchanged from last month's poll. It was seen falling to 5.7 percent in 2015 and to 5.5 percent in 2016, unchanged from the previous poll.

The survey projected inflation as measured by the consumer price index would run close to 2 percent across the forecast horizon, with core inflation rising to 2.1 percent in 2015 and 2016. The Fed targets 2 percent inflation, although it focuses on the PCE prices index, which tends to run below the CPI.

Despite the unemployment rate falling and inflation rising toward the Fed's target, Yellen has in the last six months managed to shift investors' attention to stagnant wage growth.

But a majority, 32 of 41 economists who answered an extra question, said the Fed will proceed to hike its interest rate even if wage growth does not accelerate as expected.

"While the Fed would like a faster increase in wages, if all other indicators are showing sustained health in the labor market and substantive reductions in labor market slack, the FOMC would be hard put to find a reason not to hike rates," said Terry Sheehan, economic analyst at Stone & McCarthy.

(Reporting by Moriah Costa and Rahul Karunakar; Polling by Sarbani Haldar and Siddharth Iyer; Editing by Chizu Nomiyama)