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Wall Street expects Fed rate hike

By HILARY KRAMER

Despite dismal job numbers and rising oil prices, Wall Street still expects Alan Greenspan to raise interest rates to 1.5 percent at Tuesday's Fed meeting.

Raising rates by a quarter of a point so soon after the June hike — even on the heels of a falling stock market — is an indication that the Fed believes the economy is still on its way to recovery.

In a Bloomberg survey of 38 leading economists, 95 percent of them expected a quarter point



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rate hike this week, with only two economists expecting rates to remain unchanged.

Wall Street gurus also anticipate a continued and significant

increase in interest rates by the end of the year. "There will be a continued effort to put forth a measured rate of increase throughout the year, rising to 2 percent by year end," predicted Jeffrey Kleintop, chief investment strategist at PNC Advisors.

Goldman Sachs' Andrew Tilton agrees, expecting increases at Fed meetings Sept. 21 and Nov. 10.

Since Greenspan raised rates at the June meeting, the market has fared poorly, by economists don't think that will affect his decision.

"Those who say that the Fed won't raise rates are looking purely at June and July economic data," says Merrill Lynch Senior Economist Jose Rasco. "But the Fed is looking beyond June and July. They look at the June and July data as a blip and not as the norm."

The Fed's decision to raise rates may also be driven by attempts to curtail a housing bubble. "That risk free rate at 1 percent brought lots of leverage and speculation to the real estate market with lots of home flipping and now the Fed is trying to curtail a real estate melt down," Rasco said. "Higher rates could cool off the real estate boom and prevent a meltdown."

But some experts remain cautious about the Fed's long-term actions.