First Trust
Monday Morning OUTLOOK
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Fed Has Less Patience For ZIRP

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Economic data will have something for everyone this week. The ISM reports (manufacturing and non-manufacturing) will likely be held down by unusually harsh weather and the Port closures. But, autos sales should remain strong and January jobs data are set for a gain close to 250,000.

Anyone who understands the Plow Horse economy is used to this schizophrenic data and won't get swayed either way. Growth continues, and with it, the Federal Reserve should continue on its path to normalizing monetary policy. At its next meeting on March 18th, the reference to being "patient" before raising rates should be removed. Fed Chair Janet Yellen signaled this last week in testimony to Congress, noting that removing "patient" in March wouldn't automatically trigger rate hikes. This is exactly what you'd expect her to say when the Fed is preparing to remove that language.

Yet, we think the Fed will raise rates in June, ending its Zero Interest Rate Policy (ZIRP). Yellen focuses on jobs and her testimony last week led off with an upbeat assessment of employment. Meanwhile, Yellen's right-hand man, Stanley Fischer, the Fed's Vice-Chair is saying financial markets are underestimating the amount of rate hikes over the next few years. We doubt Fischer would say this unless there was a Fed consensus in favor of hikes starting relatively soon.

We expect gradualism in the early stages of any rate hike cycle. Under Greenspan and Bernanke, rates rose by 25 basis points at *every meeting* from mid-2004 through mid-2006. This time we expect a rate hike of 25 bps at *every other meeting*. This kind of gradualism will make it easier to overcome dovish objections about a June move.

Starting in June and then moving very gradually – rather than waiting longer but moving faster once rate hikes start – would also give the Fed the chance to test out its new system for lifting rates in an era of bloated balance sheets, using the interest it pays banks on reserves as well as reverse repos. Right now, no one knows for sure if the system will work as planned, and that includes the Fed itself.

Assuming it does, we aren't worried about how the initial phase of rate hikes will impact the economy or equity markets. It would take a federal funds rate of 3%, or above, to slow the economy. Until then, the Fed won't be tight, just less loose. Plow Horse growth and rising stock prices haven't depended on QE and ZIRP. Ending these policies won't alter our outlook.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-2 / 7:30 am	Personal Income – Jan	+0.4%	+0.4%	+0.3%	+0.3%
7:30 am	Personal Spending – Jan	-0.1%	-0.1%	-0.2%	-0.3%
9:00 am	ISM Index – Feb	53.0	52.0	52.9	53.5
9:00 am	Construction Spending – Jan	+0.3%	+0.4%	-1.1%	+0.4%
3-3 / *afternoon*	Total Car/Truck Sales – Feb	16.7 Mil	16.7 Mil		16.6 Mil
afternoon	Domestic Car/Truck Sales – Feb	13.4 Mil	13.4 Mil		13.3 Mil
3-4 / 9:00 am	ISM Non-Mfg Index – Feb	56.5	56.6		56.7
3-5 / 7:30 am	Initial Claims – Feb 28	295K	302K		313K
7:30 am	Q4 Non-Farm Productivity	-2.3%	-2.1%		-1.8%
7:30 am	Q4 Unit Labor Costs	+3.3%	+3.9%		+2.7%
9:00 am	Factory Orders – Jan	+0.2%	-0.5%		-3.4%
3-6 / 7:30 am	Non-Farm Payrolls – Feb	235K	253K		257K
7:30 am	Private Payrolls – Feb	225K	243K		267K
7:30 am	Manufacturing Payrolls – Feb	10K	15K		22K
7:30 am	Unemployment Rate – Feb	5.6%	5.7%		5.7%
7:30 am	Average Hourly Earnings – Feb	+0.2%	+0.2%		+0.5%
7:30 am	Average Weekly Hours – Feb	34.6	34.6		34.6
7:30 am	Int'l Trade Balance – Jan	-$41.5 Bil	-$40.2 Bil		-$46.6 Bil
2:00 am	Consumer Credit– Jan	$15.0 Bil	$15.0 Bil		$14.8 Bil