# Will 2015 Interest Rates Remain This Low?

By **Harlan Green** / Special to CASA

**RECORD LOW INTEREST RATES ARE HOLDING,** in spite of the latest stock market selloffs, and may remain low throughout 2015. Why? Oil prices are still below $50/barrel, and overall prices are falling throughout the developed world. The Eurozone in particular has fallen into such deflationary times that some euro bonds have negative interest rates. That means holders of those bonds have to literally pay interest to hold them (i.e., government issued bonds), believe it or not.

This is while the U.S. inflation rate has fallen to 1.3 percent, below the Fed's two percent target that would mean prices are rising enough to sustain economic growth—in part because of those plunging oil prices. And because low oil prices will probably be sustained for at least two years, according to energy analysts, Janet Yellen's Fed shouldn't be tempted to raise their rates until later this year, if at all.

Oil prices are likely to stay at $60 a barrel or lower for the next two years as US shale extraction continues to suppress prices, according to the International Energy Agency's latest report. After plunging from $115 a barrel in June to little more than $45 in January, the price of Brent crude has rallied recently, but the IEA said price pressures could have further to go.

"Despite expectations of tightening balances by end-2015, downward market pressures may not have run their course just yet," the IEA, which advises mainly developed economies on the oil market, said in a monthly report.

There's another reason for the Fed not to raise rates anytime soon, even though the so-called "confidence fairies" (P Krugman's term) demand it; which are mainly deficit hawks that see inflation right around the corner, even when there's none.

Because we are still not close to full employment, in spite of March's 5.5 percent unemployment rate. Annual household median incomes after inflation have plunged 7.42 percent since the Great Recession, from $68,931 to $63,815. And history both here and in Europe has shown that tightening credit when household incomes haven't recovered (either by raising interest rates or otherwise restricting credit) can stop an economic recovery in its tracks.

That also means today's long term mortgage rates, such as for the conforming 30-year fixed rate—should remain at or below four percent for the rest of 2015. Today, the 30-year conforming rate is 3.375 percent, still a very affordable mortgage.

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