

## May FOMC Statement

While some thought that [Markets Are Underestimating the Fed](#):

The Federal Reserve will release its latest statement on monetary policy today, and although no change is anticipated, it's becoming clearer that **interest rates are too low and the risk of an acceleration in the pace of rate increases is much higher than currently perceived by investors.**

From parsing the Statement, it seems, however, that what the Fed wanted to convey to the markets is that it is not concerned about inflation at 2%, in the sense that that would change the pace of "rate normalization".

*Information received since the Federal Open Market Committee met in January indicates that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate. Job gains have been strong **on average** in recent months, and the unemployment rate has stayed low. Recent data suggest that growth rates of household spending **moderated from its strong fourth-quarter pace** and while business fixed investment have moderated ~~from their strong fourth-quarter readings~~ **continued to grow strongly**. On a 12-month basis, both overall inflation and inflation for items other than food and energy have ~~continued to run below~~ **moved close** to 2 percent. Market-based measures of inflation compensation have ~~increased in recent months but~~ **remain low**; survey-based measures of longer-term inflation expectations are little changed, on balance.*

*Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~The economic outlook has strengthened in recent months. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to move up in coming months and to~~*

~~stabilize around the~~ **run near** the Committee's **symmetric** 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, ~~but the Committee is monitoring inflation developments closely.~~

Long-term rates "shook" a little and quickly settled back at the level preceding the Statement release. Stocks ticked up, but quickly gave back.

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