

## 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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