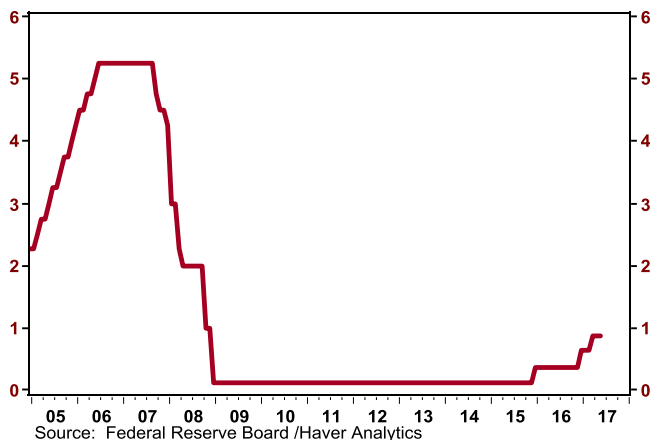


## Fed on Track to Hike in June

The most important part of today’s statement from the Federal Reserve is that it thinks the slow economic growth in the first quarter is temporary. As a result, the market consensus on the odds of a rate hike by June rose to about 94% after the meeting from about 67% beforehand.

The Fed made other relatively minor changes to its statement, but nothing that should change anyone’s impression of where the Fed is headed. The Fed noted slower consumer spending recently, but said the “fundamentals” supporting consumer spending “remained solid.” No one dissented from the statement, which suggests that even the “doves” are on board with further rate hikes.

**Fed Funds Target Rate**  
%



Our forecast has not changed. We expect a rate hike in June another in September – 25 basis points each – and then the beginning of (gradual) asset sales in the fourth quarter. None of this will damage the economy. Job growth remains healthy and nominal GDP – real GDP growth plus inflation – has grown at a 3.4% annual rate in the past two years.

**Brian S. Wesbury, Chief Economist**  
**Robert Stein, Dep. Chief Economist**

### Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in March indicates that the labor market has continued to strengthen even as growth in economic activity slowed. Job gains were solid, on average, in recent months, and the unemployment rate declined. Household spending rose only modestly, but the fundamentals underpinning the

continued growth of consumption remained solid. Business fixed investment firmed. Inflation measured on a 12-month basis recently has been running close to the Committee's 2 percent longer-run objective. Excluding energy and food, consumer prices declined in March and inflation continued to run somewhat below 2 percent. Market-based measures of inflation compensation 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 Committee views the slowing in growth during the first quarter as likely to be transitory and continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2 percent over the medium term. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 3/4 to 1 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so

*until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.*

*Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; Neel Kashkari; and Jerome H. Powell.*