

THE FED DECISIVELY INDECISIVE (5/28)

I never thought I would say this, so I won't. I'll Write it. I've always believed that sunshine is the best antiseptic. You could never have too much transparency. That is until I met this FED. "We're going to raise rates, but we're data dependent" " We are going to raise rates soon". I guess it depends upon the meaning of what soon is.(I'm coming to believe it's sooner or later). They've been telling us that for more than six quarters.

We know what they want to do. What we don't know is what they will do and more importantly why. Is it because they have told us they will raise rates and set the markets up for it? Do they feel compelled to follow through? Is it because they believe they missed their moment and are playing catch up? Or is it because they believe that if they don't raise rates soon then the gravitational pull of the Presidential political environment will close the window on them? The FED would certainly deny all of the above.

But has the FED Chair-Person boxed herself in to act? Let's Take a look. I'd like each of you to come to your own conclusion by checking the boxes below.

Are inflationary pressures visible?	YES() NO ()
Are business profits strong?	YES () NO ()
Are fixed business investments strong?	YES () NO ()
Is productivity strong?	YES () NO ()
Is employment strong?	YES () NO ()
Are real wages strong?	YES () NO ()

GDP in the first quarter was well below 1%. And when they year is over we will be lucky if we averaged 2% . This is very close to the growth experienced over the past six years. This

Is one of the longest but slowest post war recoveries. So what else might be motivating the FED? There are only two options left that I can think of. The first is that the FED believes that the potential rate of growth is 2% and that the current rate of unemployment is pushing NAIRU (the natural inflation rate of unemployment). Or they want to raise the rates now because they believe but don't want to say that they need some breathing room, some cushion to be able to respond if the economy suddenly weakens appreciably in 2017.

I believe the FED needs to decide what they want to be when they grow up. How transparent do they need to be. I believe the FED has hurt their credibility.

THEY SEEM TO BE DECISIVELY INDECISIVE