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[Presentation (pdf)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard\\_o\\_mfif\\_london\\_29\\_june\\_2017.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_o_mfif_london_29_june_2017.pdf))| [Press Release](<https://www.stlouisfed.org/news-releases/2017/06/29/bullard-us-monetary-policy-path>)

In London, St. Louis Fed President James Bullard said the U.S. economy remains in a “regime” of low growth, low inflation and low interest rates and that the current level of the fed funds rate target (i.e., the U.S. policy rate) is appropriate given current macroeconomic data. He added that the most likely outcome over the forecast horizon is that the regime persists and, hence, the current level of the policy rate remains appropriate.

From a global perspective, Bullard noted that the U.S. policy rate has been rising while key policy rates abroad (euro area, U.K., Japan) remain low and unchanged. He also noted that low unemployment and low inflation coexist not only in the U.S. but in the U.K., Germany, Japan and elsewhere. He said that the global growth outlook has improved since last year but that the upgrades from the International Monetary Fund for Japan, China and Europe, for example, are too small and too uncertain to have a meaningful impact on the U.S. Bullard spoke at the Official Monetary and Financial Institutions Forum, a think tank for central banking, economic policy and public investment.

### **St. Louis Fed's Bullard Discusses Future of U.S. Monetary Policy Path in a Global Context**

LONDON, England – Federal Reserve Bank of St. Louis President James Bullard addressed [“The Path Forward for U.S. Monetary Policy in a Global Context”]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard\\_o\\_mfif\\_london\\_29\\_june\\_2017.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_o_mfif_london_29_june_2017.pdf)) on Thursday during the Official Monetary and Financial Institutions Forum’s City Lecture.

Given that the U.S. economy remains in a low-growth, low-inflation, low-interest-rate regime, the current level of the policy rate (i.e., the federal funds rate target) is appropriate, Bullard noted. “The most likely outcome over the forecast horizon is that the regime persists and, hence, the current level of the policy rate remains appropriate,” he said. “Many future developments could impact this policy path, but the Fed does not need to act pre-emptively with respect to any of them.”

#### *The Low-Growth, Low-Inflation, Low-Interest-Rate Regime*

In looking at the low growth rate of U.S. real gross domestic product (GDP), Bullard said data since the financial crisis suggest that the U.S. has converged to 2 percent real GDP growth, while inflation remains low.

He noted that the most recent estimate for real GDP growth in the first quarter is 1.4 percent at an annual rate (according to the Bureau of Economic Analysis). He also observed that tracking estimates for second-quarter real GDP growth suggest some improvement from the first quarter, but not enough to move the U.S. economy away from a regime characterized by 2 percent trend growth. “The 2 percent growth regime appears to remain intact,” he said.

Bullard then discussed the low level of inflation in the U.S. and how the inflation rate has been below the FOMC’s target of 2 percent since 2012. “Recent inflation data have surprised to the downside and call into question the idea that U.S. inflation is reliably returning toward target,” he explained.

Regarding U.S. monetary policy normalization, Bullard noted that while the Fed has been normalizing monetary policy by increasing the policy rate, it has been doing so against a backdrop of relatively weak U.S. real GDP growth, downside U.S. inflation surprises and a global regime of low policy rates. “The financial market reaction has been reflected in a lower U.S. 10-year Treasury yield, lower market-based U.S. inflation expectations and an implied policy rate path closer to the St. Louis Fed path for 2017 and 2018 of 113 basis points,” he said.

#### *Other Developments*

Turning to additional developments concerning the U.S. macroeconomic

outlook, Bullard first discussed whether the low U.S. unemployment rate may signal a substantial increase in inflation. “The U.S. unemployment rate declined to 4.3 percent in the May reading,” he noted. “Does this mean that U.S. inflation is about to increase substantially? The short answer is no.”

In examining the estimated influence of unemployment on inflation, he said, “Even if the U.S. unemployment rate declines substantially further, current estimates suggest the effects on U.S. inflation are likely to be small.” He noted that low unemployment also coexists with low inflation in many other countries, such as Germany, the U.K. and Japan.

Bullard then discussed the prospect of higher U.S. growth under new fiscal and regulatory policies. “Will the new fiscal and regulatory policies move the U.S. into a higher-growth regime? The Fed can wait and see,” he said, noting that given the economy is not in a recession today, fiscal policies should not be viewed as countercyclical measures, but rather as supply-side improvements. Also, he said, low U.S. productivity growth could be improved considerably through deregulation, infrastructure spending and tax reform.

Turning to global growth, Bullard noted that the International Monetary Fund (IMF) upgraded its world economic outlook for 2017, with key upgrades for Japan, Europe and China. “Nevertheless, these upgrades are too small and too uncertain to have a meaningful impact on U.S. macroeconomic performance,” he said.

Next, he discussed improvements in U.S. financial conditions, noting that standard financial conditions indexes (FCIs) suggest that conditions have improved since the FOMC’s December 2016 meeting. He explained that this type of improvement is sometimes interpreted to mean that the FOMC’s decisions to increase the policy rate are not having any effect. He noted that some of the drivers of FCI movements include low volatility as measured by the VIX, higher equity valuations and lower credit spreads. “The FOMC has not historically targeted these types of variables when making monetary policy,” he noted.

In summary, “The U.S. economy remains in the low-growth, low-inflation, low-interest-rate regime that has characterized recent years,” Bullard said.

“U.S. inflation and market-based inflation expectations have surprised to the downside in recent months. Low unemployment readings are probably not an indicator of meaningfully higher inflation over the forecast horizon.”

“The current level of the policy rate is appropriate given current macroeconomic data,” he concluded.

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- **June 23, 2017.** Presentation. ["The Path Forward for U.S. Monetary Policy."](#) Illinois Bankers Association Annual Conference, Nashville, Tenn. [Presentation \(pdf\) \(bullard\\_iba\\_nashville\\_23\\_june\\_2017pdf\)](#) | [Press Release](#).

## **The Path Forward for U.S. Monetary Policy**

June 23, 2017

[Presentation (pdf)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard\\_iba\\_nashville\\_23\\_june\\_2017.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_iba_nashville_23_june_2017.pdf)) | [Press Release](<https://www.stlouisfed.org/news-releases/2017/06/23/bullard-discusses-path-forward>)

In Nashville, Tenn., St. Louis Fed President James Bullard said the Fed can wait and see how the economy develops before making any further adjustments to the policy rate. He noted that the U.S. effective federal funds rate has been rising while key policy rates abroad have remained fixed. The global growth outlook has improved since last year, he said, but upgrades to the outlooks in key countries “are too small and too uncertain” to meaningfully impact the U.S. He said the domestic economy remains in a “regime” of low growth, low inflation and low interest rates. Bullard spoke at the annual conference of the Illinois Bankers Association.

## **St. Louis Fed's Bullard Discusses the Path Forward for U.S. Monetary Policy**

NASHVILLE, Tenn. – Federal Reserve Bank of St. Louis President James Bullard addressed [“The Path Forward for U.S. Monetary Policy”]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard\\_ib\\_a\\_nashville\\_23\\_june\\_2017.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_ib_a_nashville_23_june_2017.pdf)) during his presentation Friday at the annual conference of the Illinois Bankers Association in Nashville, Tenn.

Bullard explained that current data readings suggest the Fed can wait and see how the economy develops before making any further adjustments to the policy rate (i.e., the federal funds rate target).

He noted that the U.S. economy remains in a low-growth, low-inflation, low-interest-rate regime, and that the current level of the policy rate is likely to be appropriate for this regime over the forecast horizon. “Many future developments could impact this policy path, but the Fed does not need to pre-empt any of them,” he said.

In explaining this view, Bullard explored the following considerations:

### *Low Growth, Low Inflation and Low Interest Rates*

Bullard explained that recent data indicate that the growth in real gross domestic product (GDP) remains consistent with the low-growth regime of recent years. He noted that the current estimate for real GDP growth in the first quarter is 1.2 percent at an annual rate (according to the Bureau of Economic Analysis). He also observed that tracking estimates for second-quarter real GDP growth suggest some improvement from the first quarter, but not enough to move the U.S. economy away from a regime characterized by 2 percent trend growth. Bullard added that real GDP growth measured from one year earlier has averaged 2.1 percent over the last seven years.

“The 2 percent growth regime appears to remain intact,” he said.

Bullard then discussed the low level of inflation. He noted that the rate has been below the 2 percent target of the FOMC since 2012. “Recent inflation data have surprised to the downside and call into question the idea that U.S. inflation is reliably returning toward target,” he said.

Bullard then talked about the financial market reaction to U.S. monetary policy normalization. He noted that the Fed has been normalizing by increasing the policy rate, but with a backdrop of relatively weak real GDP growth, downside U.S. inflation surprises and a global regime of low policy rates.

“The financial market reaction has been reflected in a lower U.S. 10-year Treasury yield, lower market-based U.S. inflation expectations and an implied policy rate path closer to the St. Louis Fed path for 2017 and 2018 of 113 basis points,” he said.

#### *Other Developments*

Bullard then turned to additional developments concerning the U.S. macroeconomic outlook.

With the U.S. unemployment rate at 4.3 percent in May, Bullard examined the relationship between unemployment and inflation and whether the current low unemployment rate may signal a substantial increase in inflation. He explained that that is not the case, based on current estimates of the relationship between unemployment and inflation. He added, “Even if the U.S. unemployment rate declines substantially further, the effects on U.S. inflation are likely to be small.”

Bullard then discussed the prospect of higher U.S. growth under new fiscal and regulatory policies. In exploring whether the policies could move the U.S. into a higher-growth regime, he noted two points. First, the economy is not in recession today, so fiscal policies should not be viewed as countercyclical measures, but rather as supply-side improvements. Second, low U.S. productivity growth could be improved considerably through deregulation, infrastructure spending and tax reform.

Bullard turned to global growth, explaining that recent improvements won't

translate to a major economic impact on the U.S. He noted that the International Monetary Fund (IMF) upgraded its world economic outlook for 2017, and that key upgrades occurred for Japan, Europe and China.

“Nevertheless, these upgrades are too small and too uncertain to have a meaningful impact on U.S. macroeconomic performance,” he said.

Bullard then discussed the improvements in financial conditions since the December 2016 meeting of the FOMC, as suggested by standard financial conditions indexes (FCIs). He explained that this type of improvement is sometimes interpreted to mean that the FOMC decisions to increase the policy rate are not having any effect. He noted that some of the drivers of FCI movements include low volatility as measured by the VIX, higher equity valuations and lower credit spreads. “It is far from clear that a goal of monetary policy is to cause a deterioration in these aspects of financial markets,” he said.

Bullard concluded that, given the current low-growth regime, the downside surprises in U.S. inflation and inflation expectations, and the fact that low unemployment readings are probably not indicative of meaningfully higher inflation, the FOMC should take a wait-and-see approach to the policy rate.

“The FOMC can wait and see how key macroeconomic developments play out in the quarters ahead,” he said. “The current level of the policy rate is appropriate given current macroeconomic data.”

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- **June 1, 2017.** Article. ["A Case for Shrinking the Fed's Balance Sheet."](#) Federal Reserve Bank of St. Louis *The Regional Economist*, Second Quarter 2017. This article also appeared in the [St. Louis Fed On the Economy blog](#).

#### **A Case for Shrinking the Fed's Balance Sheet**