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[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_acg_breakfast_19_may_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/05/19/bullard-discusses-recent-developments)

St. Louis Fed President James Bullard said in St. Louis that U.S. macroeconomic data have been relatively weak, on balance, since the Federal Open Market Committee (FOMC) met in March and raised the fed funds rate. Economic growth is unlikely "to move meaningfully" this year from the current trend of about 2 percent. Inflation and inflation expectations "have surprised to the downside." He noted that financial market readings since the March decision have been opposite of expectations. "This may suggest that the FOMC's contemplated policy rate path is overly aggressive relative to actual incoming data," Bullard said. He also discussed the relationship between unemployment and inflation and said that, even if U.S. unemployment declines substantially further, the effects on inflation are likely to be small.

St. Louis Fed's Bullard Discusses Recent Developments in U.S. Monetary Policy

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard addressed ["Recent Developments in U.S. Monetary Policy"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_acg_breakfast_19_may_2017.pdf)during his presentation at an event hosted Friday by the Association for Corporate Growth at Washington University in St. Louis.

During his presentation, Bullard explained that U.S. macroeconomic data since the March 2017 meeting of the Federal Open Market Committee (FOMC) have been relatively weak, on balance. For instance, he noted that U.S. inflation and inflation expectations have surprised to the downside in recent months.

In discussing the FOMC's March increase in the policy rate (i.e., the federal funds rate target), he noted that the financial market reaction has been the opposite of what would typically be expected. "This may suggest that the FOMC's contemplated policy rate path is overly aggressive relative to actual incoming data on U.S. macroeconomic performance," he said.

With the U.S. unemployment rate at 4.4 percent, Bullard also examined the relationship between unemployment and inflation and whether the current low unemployment rate may signal a meaningful increase in inflation. "Low unemployment readings are probably not an indicator of meaningfully higher inflation over the forecast horizon," he said.

In explaining these points, Bullard explored the following topics:

Recent Economic Growth in the U.S.
He said that real GDP growth, as measured from one year earlier, has averaged just 2.1 percent over the last seven years and that the last two years have shown very little change. "A natural conclusion is that the economy has converged upon a growth rate of about 2 percent," he said, adding that the U.S. economy is not likely to move meaningfully off of this trend in 2017.

He noted that the current estimate for real GDP growth in the first quarter is 0.7 percent at an annual rate (according to the Bureau of Economic Analysis), and the current estimate for the year-over-year growth rate through the first quarter is 1.9 percent. "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," he said.

There is also the question of residual seasonality, he said, explaining how first-quarter real GDP growth in recent years has generally been lower than in other quarters, despite the underlying data being adjusted to remove seasonal effects. He noted that the magnitude of this effect is debatable and that it may be better to use real GDP growth measured from one year earlier to gauge performance.

"If residual seasonality is the issue, then second-quarter real GDP growth should be discounted appropriately," Bullard added.

Financial Market Reaction to March Policy Rate Increase
He then described how the financial market reaction to the March policy rate increase differed from what was expected.

He noted that the increase was viewed in financial markets as suggesting a policy rate increase at the upcoming June FOMC meeting as well. "Ordinarily, when the policy rate is on an increasing path, longer-term interest rates are expected to rise in tandem, both inflation and inflation expectations are expected to remain consistent with the FOMC's 2 percent inflation target, and financial market expectations of the policy rate path should remain consistent with the Committee's projections," Bullard explained.

Instead, since the March decision, "longer-term yields have declined, inflation expectations have weakened, and market expectations of the policy rate path have declined," he said.

Hence, he noted that this financial market reaction may suggest that the FOMC's contemplated policy rate path is overly aggressive relative to incoming macroeconomic data.

Slowing Labor Market Improvement
Turning to the U.S. labor market, Bullard explained that labor input growth has slowed over the last two years. For example, nonfarm payroll employment growth measured from one year earlier was 2.3 percent in February 2015 and has slowed to 1.6 percent today. Growth in private hours measured from one year earlier was 3.4 percent in February 2015 and has slowed to 1.7 percent today.

"Labor market improvement has been slowing, perhaps close to a trend pace, given the current labor productivity growth regime," he said.

Low Unemployment and Inflation

With U.S. unemployment low, Bullard discussed whether that means that inflation is about to increase substantially. Given current estimates of the relationship between unemployment and inflation, he indicated that he doesn’t expect a meaningful increase in inflation.

“Even if the U.S. unemployment rate declines substantially further, the effects on inflation are likely to be small,” he said.

Contact Us
• Laura Girresch 314-444-6166
• Anthony Kiekow 314-949-9739
• Shera Dalin 314-444-3911
• Tim Lloyd 314-444-6829

May 8, 2017. Presentation. "An Illustrative Calculation of *r*†," Federal Reserve Bank of Atlanta 22nd Annual Financial Markets Conference, Amelia Island, Fla.
Presentation (pdf) (bullard_amelia_island_8_may_2017pdf) | Press Release.

An Illustrative Calculation of r†

May 8, 2017

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_amelia_island_8_may_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/05/08/bullard-discusses-decline)

Speaking at an Atlanta Fed conference on Amelia Island, Fla., St. Louis Fed President James Bullard discussed the downward trend in the natural real rate of interest, r †, in a regime-switching context. He looked at three factors that can influence the natural rate—the labor productivity growth rate, the labor force growth rate and an investor desire for safe assets. He noted that the U.S. is currently in a regime (or state) of low productivity growth and a regime of a high desire for safe assets, and those do not appear to be shifting. He also discussed the implications of the low natural rate for the