

Additional Resources

- Regional Economist: [What Does Data Dependence Mean?](<https://www.stlouisfed.org/publications/regional-economist/january-2016/what-does-data-dependence-mean>)
- Presentation: [The Fed's New Regime and the 2013 Outlook](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardwisconsinforecastluncheon10jan2013final.pdf>)
- On the Economy: [Beige Book: Economic Activity Expands in 9 Districts](<https://www.stlouisfed.org/on-the-economy/2016/january/beige-book-economic-activity-expands-nine-districts>)

This blog offers commentary, analysis and data from our economists and experts. Views expressed are not necessarily those of the St. Louis Fed or Federal Reserve System.

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All other [blog-related questions](mailto:on-the-economy@stls.frb.org)

- **January 14, 2016.** Presentation. "[Oil Prices, Inflation and U.S. Monetary Policy.](#)" 2016 Regional Economic Briefing and Breakfast, Economic Club of Memphis, Memphis, Tenn. [Presentation \(pdf\) \(bullard-economic-club-of-memphis-14-jan-2016pdf\)](#) | [Press Release](#) | [Photos](#).

Bullard Discusses Oil Prices and Inflation on Multi-Stop Visit in Memphis

January 14, 2016

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-economic-club-of-memphis-14-jan-2016.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2016/01/14/st-louis-feds-bullard-discusses-oil-prices-and-inflation>)

During a presentation to the Economic Club of Memphis, St. Louis Fed President James Bullard discussed the decline in crude oil prices and whether it is a bullish factor for the U.S. economy. He also said that headline inflation in the U.S., which is currently very low, will return to the Fed's 2 percent target once oil prices stabilize. However, he noted that recent further declines in global oil prices are calling into question when such a stabilization may occur.

His presentation, titled "Oil Prices, Inflation and U.S. Monetary Policy," was part of a visit to Memphis during which he met with a variety of audiences at a variety of locales.

More than 175 people attended the breakfast meeting of the Economic Club of Memphis on Thursday to hear Bullard talk about oil prices, inflation and monetary policy. [Download High Resolution Photo](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2016-memphis-tour/bullard-podium-memphis-economics-club.jpg>)

At the Economic Club meeting, Bullard (center) reached out to talk to many people in attendance, including Michael Drury, chief economist at McVean Trading, and Laurie Tucker, who is co-founder and chief strategy officer at Calade Partners as well as executive director of the Economic Club. [Download High Resolution Photo](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2016-memphis-tour/bullard-memphis-econ-club.jpg>)

Another stop in Memphis was at Start Co., a business incubator that focuses on digital startups. Listening to a presentation on one of the startups are (left to right) Douglas Scarboro, regional executive of the Memphis Branch of the St. Louis Fed; Andre Fowlkes, president of Start Co.; and Bullard. Speaking (with back to camera) is Ken Sills, chief technology officer of Preteckt. [Download High Resolution Photo](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2016-memphis-tour/bullard-memphis-start-co.jpg>)

St. Louis Fed's Bullard Discusses Oil Prices and Inflation

MEMPHIS, Tenn. – Federal Reserve Bank of St. Louis President James Bullard discussed [“Oil Prices, Inflation and U.S. Monetary Policy”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-economic-club-of-memphis-14-jan-2016.pdf>) at the Economic Club of Memphis on Thursday.

“The recent movements in crude oil prices are very substantial in historical context,” he said. Oil prices have declined to around \$30 per barrel this week from more than \$105 per barrel during the summer of 2014, likely due in part to increased supplies from new oil extraction methods that became economically feasible during the 2008-2014 price regime.

Oil price movements are an important component of headline inflation, and the declines in crude oil prices since mid-2014 have contributed to very low year-over-year headline inflation in the U.S., Bullard said. He added that once oil prices stabilize, headline inflation should return to the Federal Open Market Committee’s inflation target of 2 percent, although it might take longer than previously thought.

“Headline inflation will return to target once oil prices stabilize, but recent further declines in global oil prices are calling into question when such a stabilization may occur,” he said.

Bullard also discussed the possibility that inflation expectations are being influenced by the declining oil prices. “Inflation expectations in the U.S. may be falling. If so, this would put downward pressure on inflation,” he said.

Overall, however, Bullard suggested that relatively low oil prices remain a net positive for the U.S. economy. “For the macroeconomy as a whole, the relatively low crude oil prices the U.S. is enjoying today are likely a bullish factor,” he said, citing as an example the acceleration in real personal consumption expenditures growth from mid-2014 to mid-2015.

Oil Prices and Headline Inflation

While large movements in crude oil prices can substantially influence headline inflation, Bullard explained this influence is relatively short-lived once oil prices have stabilized. “The fall in crude oil prices to lower levels, even if maintained indefinitely, has only a one-time influence on the year-over-year inflation rate,” he said.

Bullard looked at two scenarios to show what the inflation rate would be once oil prices stabilize. The first scenario assumes that oil prices had stabilized at the November 2015 level of approximately \$40 per barrel and that all other prices had continued to increase at the same pace as they did during 2015. Under this scenario, the headline consumer price index (CPI) inflation rate at the end of 2016 would be more than 2 percent, he said.

In the second case, he described a scenario in which oil prices instead continue to fall and stabilize at \$20 per barrel by June 2016. Under this scenario, the headline CPI inflation rate would be 0.6 percent at the end of 2016, and would not reach 2 percent until mid-2017. Thus, while the argument that headline inflation will return to target once oil prices stabilize appears to hold, Bullard noted that it takes longer for CPI inflation to return above 2 percent.

Oil Price Declines and Inflation Expectations

Traditional central banking suggests that policymakers should “look through” changes in crude oil and other commodity prices to gauge underlying trend inflation, Bullard stated. “However, one circumstance where one may be more concerned is when inflation expectations themselves begin to change due to the changes in crude oil prices,” he said.

Bullard noted that expectations of inflation are a major determinant of actual inflation, according to macroeconomic theory. He explained that low inflation expectations may keep actual inflation lower, all else equal, making it more difficult for the Fed to return inflation to target.

Although longer-term inflation expectations in principle should be independent of movements in crude oil prices, Bullard pointed out that the

correlation between the two variables has been very high over the past 18 months. In particular, he noted that market-based indicators of inflation expectations have fallen in tandem with the decline in oil prices since mid-2014.

“I have argued that market-based measures of inflation expectations have been unduly influenced by the large movements in crude oil prices,” Bullard said. “Nevertheless, with renewed declines in crude oil prices in recent weeks, the associated decline in market-based inflation expectations measures is becoming worrisome.”

Oil Prices and the U.S. Economy

Bullard reiterated that for the U.S. macroeconomy, relatively low crude oil prices remain a net positive.

“Automobile sales, for instance, have been strong,” he said. “More generally, real personal consumption expenditures growth accelerated during the period of the large drop in oil prices from mid-2014 to mid-2015. This could be viewed as mild evidence that the oil price decline is a bullish factor for the U.S.”

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