

System place great value on the information and insights they gain from maintaining regular and substantive engagements with state bank commissioners.

Community banks are important to the economy of the Eighth District, but we all know that their business model is under pressure. The research presented at the inaugural conference pushed our understanding of the opportunities and challenges facing community banks. Looking at the agenda for the next two days, I have no doubt that this year's research and panel discussions will do the same. One important measure of success is the degree to which we broaden the dialogue on community banking and promote further thinking in this sector. We had a significant increase in the number of paper submissions this year, and believe we'll see even more in the upcoming years.

I've always believed that good research leads to good policy. Or, said another way, there cannot be good policy without quality research. I would like to thank all of you who have focused your research on the community banking industry and look forward to another great conference.

- **July 17, 2014.** Presentation. "[Fed Goals and the Policy Stance.](#)" *Owensboro in 2065 Summit*, Owensboro, Ky.  
[Presentation \(pdf\)](#)  
[\(bullardowensborokychamberofcommerce17july2014finalpdf\)](#) | [Press Release](#) | [Related news articles](#).

## **Fed Goals and the Policy Stance**

July 17, 2014

St. Louis Fed President James Bullard discussed the FOMC's macroeconomic goals and the stance of monetary policy during a Greater Owensboro Chamber of Commerce event. He noted that the macroeconomic goals are close to being met; however, the monetary policy settings are far from normal. While this mismatch is not currently causing macroeconomic problems, President Bullard said it takes a long time to normalize policy and the mismatch may cause problems in the years ahead as the economy

continues to expand.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardowensborokychamberofcommerce17july2014final.pdf>)| [Press Release](<https://www.stlouisfed.org/news-releases/2014/07/17/st-louis-feds-bullard-discusses-macroeconomic-goals-and-monetary-policy-stance>)

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- [Fed's Bullard: Fed May Need Rate Rises 'Sooner Rather Than Later,'](<http://blogs.wsj.com/economics/2014/07/17/feds-bullard-fed-may-need-rate-rises-sooner-rather-than-later/>)by Michael S. Derby, Dow Jones.
- [Fed's Bullard backs repo rate, cites bond bubble worry,](<http://www.reuters.com/article/2014/07/17/usa-fed-bullard-idUSL2N0PS2EA20140717>)by Michael Flaherty, Reuters.
- [Bullard says rates may have to rise sooner than expected,]([http://www.stltoday.com/business/columns/david-nicklaus/bullard-says-rates-may-have-to-rise-sooner-than-expected/article\\_6d957a8e-eeda-5e84-ad03-aea419b25455.html](http://www.stltoday.com/business/columns/david-nicklaus/bullard-says-rates-may-have-to-rise-sooner-than-expected/article_6d957a8e-eeda-5e84-ad03-aea419b25455.html))by David Nicklaus, St. Louis Post Dispatch.

### **St. Louis Fed's Bullard Discusses Macroeconomic Goals and Monetary Policy Stance**

OWENSBORO, Ky. – Federal Reserve Bank of St. Louis President James Bullard discussed [“Fed Goals and the Policy Stance”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardowensborokychamberofcommerce17july2014final.pdf>)at a Greater Owensboro Chamber of Commerce event on Thursday.

To achieve its mandates of price stability and maximum sustainable

employment, the Federal Open Market Committee (FOMC) has been using two main tools for implementing monetary policy: the short-term policy interest rate, which includes forward guidance, and quantitative easing. “The U.S. economy is approaching normal conditions in terms of the main macroeconomic goals assigned to the Federal Reserve,” Bullard said. “However, the policy stance of the FOMC has not begun to normalize yet.” Noting that it will take a long time to normalize monetary policy, he added, “If macroeconomic conditions continue to improve at the current pace, the normalization process may need to begin sooner rather than later.”

While this mismatch between our macroeconomic goals and the stance of monetary policy is not currently causing problems for the economy, Bullard said it may cause problems going forward. “The objective is to execute policy normalization over the next few years without creating excessive inflation or substantial financial stability risks,” he explained.

### Inflation and Unemployment

Bullard noted that while inflation has been surprisingly low from the second quarter of 2013 through the first quarter of 2014, recent readings on inflation have moved closer to the FOMC’s target of 2 percent.

On the labor market front, Bullard said that while U.S. unemployment has been high over the past five years, it is now much closer to normal. The unemployment rate today is about 1.4 percentage points lower than it was a year ago and only 0.3 percentage points above the median unemployment rate over the period from January 1960 to June 2014, he said.

However, he added that a smaller fraction of the U.S. population is participating in the labor market than during the 1980s and 1990s. “I interpret lower labor force participation as a relatively benign development driven mostly by demographics, and I project that labor force participation may decline further in the years ahead,” Bullard said.

He examined various projections that suggest that U.S. labor force participation is unlikely to rise on a sustained basis in the years ahead. “This suggests we should not expect an influx of workers coming back into the

labor force, driving unemployment higher or slowing declines in unemployment,” he said. “Instead, unemployment is likely to continue declining so long as the economy remains relatively robust.” 1

He further noted that hours worked might be a better way to think about the amount of labor being supplied to market work. “The index of aggregate hours worked has fully recovered to its pre-recession peak and seems poised to go higher,” he said, adding, “This view of the labor market also helps address the issue of part-time versus full-time jobs.”

### Macroeconomic Goals

To measure the distance of the economy from the FOMC’s goals, Bullard used a simple function that depends on the distance of inflation from the FOMC’s long-run target and on the distance of the unemployment rate from its long-run average. This version puts equal weight on inflation and unemployment and is sometimes used to evaluate various policy options, Bullard explained.

In his calculations, the target rate of inflation was set at 2 percent, the FOMC’s inflation target. The long-run average rate of unemployment was set at 5.35 percent, the midpoint of the central tendency of the FOMC’s Summary of Economic Projections in June. The function currently shows a low value that is close to pre-crisis levels, he said, adding that “the FOMC is closer to its macroeconomic targets today than it has been most of the time since 1960.”

### Monetary Policy Stance

Bullard then discussed how close the FOMC’s monetary policy settings are to normal. In response to the financial crisis, the FOMC lowered the policy rate to zero and implemented outright asset purchases. While the FOMC began tapering the pace of asset purchases in January 2014, Bullard noted that the two main policy actions have not been reversed so far. That is, the Fed balance sheet is still large and increasing, and the policy rate remains at the zero lower bound.