

factors, including the Bank's success in extrapolating the trend rate of decline over the past several years. In addition, "we expect more rapid growth, which should put additional downward pressure on unemployment." Also, he said, "we think that today's labor force participation rate is about right given observed demographic trends."

On inflation, Bullard noted that the St. Louis Fed's forecast for 2014 for both core and headline inflation is 1.6 percent, meaning that inflation will be higher in 2014 than it is currently and closer to the FOMC's target of 2 percent. These forecasts are in the central tendency of the FOMC forecasts for this variable. "Because inflation surprised to the downside in 2013, it remains a wildcard for the Committee in 2014," Bullard said.

Contact Us

- Laura Girresch 314-444-6166
 - Anthony Kiekow 314-949-9739
 - Shera Dalin 314-444-3911
 - Tim Lloyd 314-444-6829
- **December 9, 2013.** Presentation. "[Some Issues in Current U.S. Monetary Policy.](#)" CFA Society St. Louis. [Presentation \(pdf\) \(bullard-cfa-st-louis-december-9-2013-finalpdf\)](#) | [Press Release](#) | [Related news articles.](#)

Some Issues in Current U.S. Monetary Policy

December 9, 2013

St. Louis Fed President James Bullard discussed the data dependency of tapering, possible changes to forward guidance and improving Fed communications at a meeting of the CFA Society of St. Louis. Bullard said that data dependence encompasses both cumulative progress in labor markets since the FOMC's asset purchase program began and a judgment concerning the sustainability of that progress, although he also noted that inflation continues to surprise to the downside.

[Presentation (pdf)](<https://www.stlouisfed.org/->

/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-cfa-st-louis-december-9-2013-final.pdf)| [Press Release](<https://www.stlouisfed.org/news-releases/2013/12/09/st-louis-feds-bullard-discusses-tapering-forward-guidance-and-fed-communications>)

Related News Articles:

- [Bullard Sees Odds of Taper Rising Along With Labor Gains](<http://www.bloomberg.com/news/2013-12-09/bullard-sees-odds-of-taper-rising-along-with-labor-market-gains.html>), by Steve Matthews, Bloomberg.
- [Fed President Bullard: The Fed Should Start The Taper Small, But Pause If Inflation Doesn't Pick Up](<http://www.businessinsider.com/fed-james-bullards-speech-dec-9-2013-2013-12>), by Sam Ro, Business Insider.
- [Fed's Bullard: Recent Job-Market Gains Boost Case for Fed Taper](<http://blogs.wsj.com/economics/2013/12/09/feds-bullard-recent-job-market-gains-boost-case-for-fed-taper/>), by Michael S. Derby, Dow Jones.
- [Fed's Bullard: Stimulus tapering more likely as labor market improves](<http://www.investing.com/news/economy-news/fed%27s-bullard:-stimulus-tapering-more-likely-as-labor-market-improves-256120>), Investing.com.
- [Fed's Bullard floats idea of small taper in December](<http://www.marketwatch.com/story/feds-bullard-floats-idea-of-small-taper-in-december-2013-12-09>), by Greg Robb, MarketWatch.
- [Fed's Bullard: Taper Would Recognize Job Progress, Markets Would Digest](<https://mninews.marketnews.com/index.php/feds-bullardtaper-wld-recognize-job-progressmkts-wld-digest?q=content/feds-bullardtaper-wld-recognize-job-progressmkts-wld-digest>), by Steven K. Beckner, Market News International.
- [Fed could do 'small' QE3 taper to recognize job gains: Bullard](<http://www.reuters.com/article/2013/12/09/us-usa-fed-bullard-idUSBRE9B80V920131209>), by Ann Saphir and Jason Lange, Reuters.
- [Fed's Bullard: Jobs Growth May Lead To Small Taper In December](<http://www.rttnews.com/2236320/fed-s-bullard-jobs-growth-may-lead-to-small-taper-in-december.aspx?type=ts>), RTT News.
- [St. Louis Fed's Bullard sees no economic bubbles on the horizon](<http://www.bizjournals.com/stlouis/blog/2013/12/st-louis-feds->

bullard-sees-no.html), by Greg Edwards, St. Louis Business Journal.

- [Job gains support tapering, but inflation doesn't, Bullard says](http://www.stltoday.com/business/columns/david-nicklaus/job-gains-support-tapering-but-inflation-doesn-t-bullard-says/article_40f2e37e-6a24-547d-a532-b0484581055f.html), by David Nicklaus, St. Louis Post-Dispatch.

St. Louis Fed's Bullard Discusses Tapering, Forward Guidance and Fed Communications

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard discussed [“Some Issues in Current U.S. Monetary Policy”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-cfa-st-louis-december-9-2013-final.pdf>) at a meeting of the CFA Society of St. Louis on Monday.

During his presentation, Bullard reiterated that current U.S. monetary policy has two components: 1) a short-term policy rate, which has been near zero since December 2008, and its associated forward guidance, and 2) an “open-ended” asset purchase program that began in September 2012, with purchases currently at a pace of \$85 billion per month.

In regard to the asset purchase program, he emphasized that any Federal Open Market Committee (FOMC) decision on tapering is data dependent, where tapering refers to reducing the pace of purchases. “Data dependence encompasses both cumulative progress in labor markets since September 2012 and a judgment concerning the sustainability of that progress,” Bullard explained. He also noted that “inflation continues to surprise to the downside.”

Bullard discussed other current U.S. monetary policy issues, including possible changes to forward guidance and the idea of holding a press conference after all FOMC meetings.

Cumulative Progress in Labor Markets

When the FOMC began the current asset purchase program, the stated goal was substantial improvement in labor market outcomes. Bullard noted that two key labor market indicators—unemployment and nonfarm payroll employment—have shown clear improvement over the past year. “Cumulative progress in labor market outcomes since September 2012 provides the most powerful part of the case for tapering,” he said.

“To the extent that key labor market indicators continue to show cumulative improvement, the likelihood of tapering asset purchases will continue to rise,” Bullard said. “The Committee’s 2012 criterion of substantial improvement in labor markets gets easier and easier to satisfy on a cumulative basis as labor markets continue to heal.”

He noted that it is possible that the pace of labor market improvement will slow down in coming months or quarters. “For this reason the Committee also needs to assess whether progress made in labor markets will continue into the future,” he said. However, he added that recent labor market results seem to suggest that coming months will show continued labor market improvement.

“Based on labor market data alone, the probability of a reduction in the pace of asset purchases has increased,” Bullard said.

Low Inflation

While labor market outcomes have been considerably better than those predicted at the time of the September 2012 decision, Bullard noted that inflation has surprised to the downside. “There is no widely accepted reason why inflation is running as low as it is in the face of extraordinarily accommodative policy from the Fed,” he said.

“A small taper might recognize labor market improvement while still providing the Committee the opportunity to carefully monitor inflation during the first half of 2014,” Bullard said. “Should inflation not return toward target, the Committee could pause tapering at subsequent meetings,” he added.

Changes to Forward Guidance

Bullard also addressed the “taper talk” this past June and September and the spillovers to forward guidance. He noted that in June and September, changes in perceived tapering scenarios led to large movements in key financial market variables. “Perhaps surprisingly, the perception of the expected path of the policy rate also changed sharply in response to these events—that is, tapering was clearly linked to forward guidance,” he added.

“The Committee needs to either convince markets that the two tools are separate, or learn to live with the joint effects of tapering on both the pace of asset purchases and the perception of future policy rates,” Bullard said.

“To clarify the independence of the asset purchase program from forward guidance, the Committee may consider changes to forward guidance,” he said, noting that the current guidance states that the FOMC will not raise rates as long as unemployment is above 6.5 percent and inflation remains below 2.5 percent.

He discussed three possible options for altering forward guidance, including lowering the unemployment threshold. However, Bullard cautioned, this “puts the credibility of the thresholds approach at risk.” He said another option would be to establish an inflation floor at 1.5 percent, which would be symmetric with the current forward guidance on inflation and which could be helpful if inflation continues to behave in an unusual manner. The third option would be to state verbally that the FOMC is unlikely to raise rates even after the 6.5 percent unemployment threshold is crossed, which Chairman Ben Bernanke has already done. This option is “less complicated and possibly just as effective,” Bullard said.

Press Conferences

Regarding Fed communications, Bullard repeated his call for press conferences to be held after every FOMC meeting instead of only some meetings. “Markets have suggested that meetings without press conferences are unlikely to be situations where the Committee can take important

action,” Bullard noted.

“The FOMC needs to keep its options open,” he said, adding that one way to do so is to include a press conference after every meeting. “A press conference at every meeting would likely improve Fed communications,” Bullard concluded.

Contact Us

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

- **November 21, 2013.** Presentation. ["The Notorious Summer of 2008."](#) University of Arkansas *Quarterly Business Analysis Luncheon*, Rogers, Arkansas.
[Presentation \(pdf\) \(bullard_nwarkansas_2013november21_finalpdf\)](#) | [Press Release](#) | [Related news articles](#).

The Notorious Summer of 2008

November 21, 2013

St. Louis Fed President James Bullard offered some perspectives on the macroeconomic situation in 2008 during an event in Rogers, Ark. Bullard noted that the features he discussed—e.g., the start date of the financial crisis, lower interest rates, the oil price shock, real-time data and large financial firms—have to be addressed in any comprehensive accounting of what happened.

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_nwarkansas_2013november21_final.pdf) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/11/21/st-louis-feds-bullard-offers-perspectives-on-the-macroeconomic-situation-during-2008>)