- **May 18, 2011**. Speech. "Measuring Inflation: The Core Is Rotten," (measuring_inflation_may_18_2011_finalpdf) delivered at *Money Marketeers of New York University*, New York, N.Y.
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- **May 6, 2011**. Presentation. "U.S. Monetary Policy and Commodity Prices," (bullard_ar_day_with_the_commissioner_6_may_2011_finalpdf) *Arkansas Day with the Bank Commissioner*, Little Rock, Ark.
  Press Release | Related news articles.

  St. Louis Fed's Bullard Discusses Monetary Policy and Commodity Prices

  LITTLE ROCK, Ark. – Federal Reserve Bank of St. Louis President James Bullard delivered remarks titled [“U.S. Monetary Policy and Commodity Prices”](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_ar_day_with_the_commissioner_6_may_2011_final.pdf) at the Arkansas State Banking Department’s “A Day with the Bank Commissioner” event today.at the Arkansas State Banking Department’s “A Day with the Bank Commissioner” event today.

  Bullard said that, based on leading economic research on oil shocks, the current surge in oil prices does not seem to qualify as an important macroeconomic shock. In addition, he discussed headline and core inflation and stressed that the key policy goal with respect to prices is headline inflation rather than core. With respect to monetary policy, Bullard said that “higher inflation expectations in conjunction with a zero policy rate amount to an easing of financial conditions” and that “going on hold allows more time to assess the strength of the recovery.” Finally, Bullard briefly discussed the merits of commodity standards and inflation targeting, concluding that “inflation targeting is a better choice in the current environment.”

  Commodity Prices

  While there have been substantial increases in commodity prices in recent months, Bullard noted that energy prices cannot continue to increase indefinitely. “Still, some sector prices do continuously move in one direction for a long time,” he added, citing as examples prices for medical care, which have increased, and prices for computer technology, which have decreased.

Bullard then discussed oil price shocks, citing James Hamilton of the University of California at San Diego, who has argued that certain types of oil price shocks precede U.S. recessions.

Bullard said that “increases in oil prices like the ones we have recently experienced have occurred many times in the past without seeming to have much effect on the economy,” and that “it is only the really extreme ones that are reliably related to U.S. recessions.”

“This gives me some confidence that the U.S. can weather the current price shock without a significant slowdown,” he added.

Core vs. Headline Inflation

Bullard discussed headline and core inflation measures, which refer to overall price index measures and measures without the food and energy components, respectively. He said core inflation is often smoother than headline inflation, but “the ‘core’ concept has little theoretical backing” and is “very arbitrary.”

“Headline inflation is the ultimate objective of monetary policy with respect to prices,” Bullard said, noting that these are the prices that households actually pay. “Core inflation is not an objective in itself,” he added. “The only reason to look at core is as an indicator for headline.”

However, “from 2003-2006, core inflation was consistently below headline inflation,” Bullard said. Core inflation averaged about 2 percent while headline inflation averaged about 2.9 percent for the Consumer Price Index (CPI) and about 2.6 percent for the Personal Consumption Expenditures (PCE) price index. He concluded, “Core was not a good indicator of headline during this period.” He added that “energy prices were rising and the economy was expanding” during those years.

U.S. Monetary Policy

“Since last summer, financial conditions have eased considerably,” Bullard said, noting that the policy rate has remained near zero but expected inflation has risen. “To the extent expected inflation continues to rise, financial conditions continue to ease,” he said.

“Past behavior of the FOMC indicates that the Committee sometimes puts policy on hold,” Bullard said. “This gives the Committee more time to assess economic conditions.”

He added that hold in the current environment would mean:

- the policy rate remains near zero;
- the “extended period” language remains intact; and
- the balance sheet remains at the level as of the time of the decision to go on hold.

Commodity Standards and Inflation Targeting

Although commodity standards were last discussed in the 1970s when U.S. inflation was high and variable, Bullard noted that today, inflation is quite low. He added, “Tying the currency to commodities when commodity prices are highly variable is questionable.”

While a commodity standard forced some accountability on the central bank, “it did not always work because governments sometimes changed the rate between the commodity and the currency,” Bullard said.

“Inflation targeting is another way to force more accountability to the central bank and anchor longer-term inflation expectations,” he said. “Make the central bank say what it intends to do, and hold the central bank accountable for achieving the goal.”

“In this sense, inflation targeting is the modern successor to a commodity standard,” Bullard said.

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- **April 29, 2011**. Opening Remarks (opening_remarks_fr_community_affairs_research_conference_2011_final pdf). Given at the *Federal Reserve Community Affairs Research Conference*, Arlington, Va.
- **April 26, 2011**. Article. "The Fed's Dual Mandate: Lessons of the 1970s," Federal Reserve Bank of St. Louis *Annual Report 2010*.

Many Moving Parts: A Look Inside the U.S. Labor Market

Message From Our Bank President
The Fed's Dual Mandate: Lessons of the 1970s

When the U.S. Congress amended the Federal Reserve Act in 1977, it essentially gave the Fed a dual mandate: to promote maximum sustainable employment and price stability. Price stability is usually interpreted as low and stable inflation, and the impetus for this explicit objective was the highly volatile inflation of the 1970s.

The Fed's dual mandate stands in contrast to the European Central Bank's (ECB's) single mandate. In 1992, the Maastricht Treaty, which laid the groundwork for the establishment of the ECB later in the decade, designated price stability as the primary objective of monetary policy. In the 1990s, European governments and policymakers operated with more knowledge than when the U.S. Congress gave the Fed its dual mandate in 1977. The ECB's single mandate, therefore, was partly the result of the global experience and lessons learned in previous decades.

What were those lessons? The 1970s are often cited as a time when U.S. monetary policy became misaligned with its objectives. From the late 1960s through the early 1980s, inflation rates were high and variable; for example, over roughly four years, Consumer Price Index (CPI) inflation rose from about 3 percent to 12 percent and then fell to 5 percent. Many were