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The Fed has reacted by taking important first steps to return inflation to the 2% target, Bullard said, adding that market interest rates have increased substantially, partially in response to promised Fed action.

Meanwhile, U.S. labor markets remain robust, and output is expected to continue to expand through 2022, he said.

St. Louis Fed's Bullard Presents "The First Steps toward Disinflation"

ST. LOUIS –["The First Steps toward Disinflation" (PDF)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/jun/bullard-memphisconclub-01-jun-2022.pdf>)

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"The Fed has reacted by taking important first steps to return inflation to the 2% target," he said. "Market interest rates have increased substantially, partially in response to promised Fed action."

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Actual Inflation and Expected Inflation

Bullard noted that the Fed has a statutory mandate to provide stable prices for the U.S. economy, and that the Federal Open Market Committee (FOMC) has an associated inflation target of 2% stated in terms of headline personal

consumption expenditures (PCE) inflation. He pointed out that, as of April, the headline PCE inflation rate was 6.3%; the core PCE inflation rate (which excludes food and energy prices) was 4.9%; and the Dallas Fed trimmed mean inflation rate (which measures only the middle portion of the price change distribution) was 3.8%.

“The current U.S. macroeconomic situation is straining the Fed’s credibility with respect to its inflation target,” Bullard said.

Bullard noted that, in the past year, near-term inflation expectations of financial markets, households and businesses have risen. He added that the current divergence between actual inflation readings and expected inflation based on Treasury Inflation-Protected Securities will have to be resolved, possibly resulting in still higher inflation expectations.

“In the 1970s, inflation expectations became unmoored, and it took years for the Fed to bring inflation back to lower levels. The real economy was also volatile during this process,” Bullard said.

The FOMC’s Moves So Far

Bullard said that in the second half of 2021, the Fed “began to move in a more hawkish direction to take better control of inflation risks.”

He pointed out that the FOMC has increased the policy rate at the last two meetings and is poised to make further increases at coming meetings. In addition, he noted that the FOMC has ceased asset purchases and has begun to allow passive runoff of the balance sheet, which is known in markets as quantitative tightening. He added that foreign central banks are simultaneously increasing their policy rates and allowing their balance sheets to shrink.

Bullard then looked at pre-pandemic values for key U.S. economic data and interest rates. He highlighted the real GDP growth rate of 2.6%, the headline PCE inflation rate of 1.5% and the unemployment rate of 3.6% at the end of 2019. The policy rate associated with these outcomes was 1.55%, he noted. In addition, the 2-year Treasury yield was 1.61%, the 10-year Treasury yield was 1.86%, and the 30-year fixed rate mortgage was 3.96% at the end of

2019.

“This may provide a practical benchmark for where the constellation of rates may settle once inflation comes under control in the U.S.,” Bullard suggested.

“The fact that market interest rates have moved above their pre-pandemic benchmarks while the policy rate has not can be read as an illustration of the effect of credible forward guidance,” he said. “The Fed still has to follow through to ratify the forward guidance previously given, but the effects on the economy and on inflation are already taking hold.”

Robust Labor Markets

Bullard noted that U.S. labor markets remain robust, according to recent data and anecdotal reports. He pointed out that the Kansas City Fed’s labor market conditions index, which aggregates various measures of labor market performance into a single metric, remains near highs last seen in 1999-2000.

In addition, he said that “real-time indicators of U.S. GDP growth suggest continued expansion in the quarters ahead.” However, he cautioned that risks remain substantial and stem from uncertainty around the Russia-Ukraine war and the possibility of a sharp slowdown in China.

The First Steps toward Disinflation

Bullard concluded by noting that inflation in the U.S. is far above target and is at levels last seen in the 1970s and early 1980s. “This situation is risking the Fed’s credibility with respect to its inflation target and associated mandate to provide stable prices in the U.S.,” he said.

He reiterated that the Fed has raised the policy rate, has promised to raise the policy rate further in the future, and has begun passive balance sheet reduction. “Forward guidance on these dimensions is helping the Fed move policy more quickly to the degree necessary to keep inflation under control,” he added.

James Bullard

James Bullard served as president and CEO of the Federal Reserve Bank of St. Louis from April 1, 2008, to July 13, 2023. In this capacity, he oversaw the activities of the Eighth Federal Reserve District and was a participant on the FOMC.

For media inquiries

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Resources from Former President Jim Bullard

- **May 27, 2022.** Panel Discussion. "Getting Ahead of U.S. Inflation," New Dimensions and Frontiers in Central Banking Policy Panel Discussion, 2022 BOJ-IMES Conference.
[Presentation \(pdf\) \(bullard-boj-imes-27-may-2022pdf\).](#)
- **May 17, 2022.** Discussion. "[Bullard Discusses U.S. Economy, Inflation and Monetary Policy](#)," Energy Infrastructure Council, West Palm Beach, Fla.

Bullard Discusses U.S. Economy, Inflation and Monetary Policy

May 17, 2022

St. Louis Fed President Jim Bullard discussed his outlook for the U.S. economy and the need to bring inflation down to the Fed's 2% target. During an event hosted by the Energy Infrastructure Council in West Palm Beach, Fla., he also shared his views on recent monetary policy and further anticipated moves.

On the real economy, Bullard said that he is expecting above trend growth in the U.S. over the next 18 months, although he acknowledged that there are risks to growth, such as what will happen with the European and Chinese economies. He also noted that U.S. labor markets are strong.

Citing recent remarks by Fed Chair Jerome Powell, Bullard said that inflation is the Federal Open Market Committee's No. 1 concern and that the FOMC is