

Government Policies: Conference in Honor of Guillermo Calvo” at Columbia University.

He posed the question of whether the Fed will be able to return inflation to 2% relatively easily and quickly or whether a substantial recession will occur, as was the case under former Fed Chair Paul Volcker. Bullard noted that the Volcker disinflation was costly but “incredible”—initially, few believed that the Fed was serious about reducing inflation at that time.

The current situation for the U.S. seems to fall more closely under the rubric of a “credible disinflation,” Bullard said. “Since modern central banks have more credibility than their counterparts in the 1970s, it appears that the Fed may be able to disinflate in an orderly manner and achieve a relatively soft landing,” he said. The path to the soft landing requires a credible switch of monetary-fiscal policy to the policy regime that existed before the pandemic, he added.

- **February 16, 2023.** Presentation. "[Disinflation: Progress and Prospects](#)," Greater Jackson Chamber, Jackson, Tenn. [Presentation \(PDF\) \(bullard-greater-jackson-chamber-16-feb-2023pdfsc\\_langenhash3ab128ac00bade0564654d6ef816a351\)](#) | [Press Release](#) | [Video](#).

### **Disinflation: Progress and Prospects**

February 16, 2023

[Presentation (PDF)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-jackson-chamber-16-feb-2023.pdf?sc\\_lang=en&hash=3AB128AC00BADE0564654D6EF816A351](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-jackson-chamber-16-feb-2023.pdf?sc_lang=en&hash=3AB128AC00BADE0564654D6EF816A351))[Press Release](<https://www.stlouisfed.org/news-releases/2023/02/16/bullard-presents-disinflation-progress-and-prospects>)[Video](<https://www.stlouisfed.org#video>)

St. Louis Fed President Jim Bullard presented “Disinflation: Progress and Prospects” at a meeting of the Greater Jackson Chamber in Tennessee.

Bullard discussed the improved U.S. real GDP growth in the second half of 2022, the strong labor market performance, and the start of the disinflationary process.

He also noted that front-loaded Fed policy has helped keep market-based measures of inflation expectations relatively low. Continued policy rate increases can help lock in a disinflationary trend this year, even with ongoing growth and strong labor markets, he said.

Video:

### **St. Louis Fed's Bullard Presents "Disinflation: Progress and Prospects"**

JACKSON, Tenn.—["Disinflation: Progress and Prospects" (PDF)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-jackson-chamber-16-feb-2023.pdf?sc\\_lang=en&hash=3AB128AC00BADE0564654D6EF816A351](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-jackson-chamber-16-feb-2023.pdf?sc_lang=en&hash=3AB128AC00BADE0564654D6EF816A351)) on Thursday to the Greater Jackson Chamber.

Bullard noted in the presentation that U.S. GDP growth improved in the second half of 2022 and that labor market performance remains strong. Inflation remains too high but has declined, he added.

Front-loaded Fed policy has helped keep market-based measures of inflation expectations relatively low, he explained. He added that continued policy rate increases can help lock in a disinflationary trend this year, even with ongoing growth and strong labor markets.

"These factors may combine to make 2023 a disinflationary year," Bullard said.\*

#### *GDP Growth Improves*

After negative real GDP growth in the first half of 2022, GDP growth improved in the second half of the year, Bullard noted. Third-quarter 2022

real GDP growth was 3.2%, and fourth-quarter 2022 growth is currently estimated at 2.9%, he said. Year-on-year growth is slowing, according to incoming weekly data, and the output gap remains positive, he noted.

“Real GDP growth now appears to have been stronger in the second half of 2022 than previously thought after puzzling readings in the first half of 2022,” he said. “Perhaps the best interpretation is that real GDP growth is slowing to be in a neighborhood of the potential growth rate of about 2% on a year-on-year basis after stellar growth in 2021.”

#### *Labor Market Performance Remains Strong*

Bullard noted that the number of job openings per unemployed worker remains at a high level. He also pointed out that measures of labor demand significantly exceed measures of labor supply. In addition, he noted that unemployment insurance claims in 2022 and so far in 2023 have generally remained at levels below those experienced during pre-pandemic years. The Kansas City Fed’s labor market conditions index remains at a high level, he added.

#### *The Disinflationary Process Has Started*

Bullard said inflation remains too high, but it has declined recently. The Federal Open Market Committee (FOMC) has a 2% inflation target specified in terms of headline personal consumption expenditures (PCE) inflation. Headline inflation has declined, but it can be inordinately influenced by fluctuations in volatile prices, he said. Measures of inflation that strip out volatile price movements, such as core PCE inflation (which excludes food and energy prices) and the Dallas Fed’s trimmed mean inflation measure, have also declined but by less than the headline measure, he explained.

He also noted that inflation expectations are back to relatively low levels.

“In part due to front-loaded Fed policy during 2022, market-based measures of inflation expectations are now relatively low,” Bullard said. “According to standard macroeconomic theories, inflation expectations are a key determinant of actual inflation.”

#### *2023: A Year of Disinflation?*

Bullard said the U.S. economy is growing faster than previously thought, and labor market performance remains robust with unemployment below its longer-run natural level.

“A natural forecast is that the pace of quarterly real GDP growth will now moderate and unemployment will rise to return to its longer-run natural level,” he added.

“Continued policy rate increases can help lock in a disinflationary trend during 2023, even with ongoing growth and strong labor markets, by keeping inflation expectations low,” he said.

\*Note: Disinflation refers to a decrease in the rate of inflation toward the Fed’s 2% inflation target.

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.

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Resources from Former President Jim Bullard

## **Disinflation: Progress and Prospects**

February 16, 2023

[Presentation (PDF)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-jackson-chamber-16-feb->

2023.pdf?sc\_lang=en&hash=3AB128AC00BADE0564654D6EF816A351)[Press Release](https://www.stlouisfed.org/news-releases/2023/02/16/bullard-presents-disinflation-progress-and-prospects)[Video](https://www.stlouisfed.org#video)

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He also noted that front-loaded Fed policy has helped keep market-based measures of inflation expectations relatively low. Continued policy rate increases can help lock in a disinflationary trend this year, even with ongoing growth and strong labor markets, he said.

Video:

- **February 4, 2023.** Presentation. "Social Learning for the Masses," Computational & Experimental Economics Workshop, Simon Fraser University, Vancouver, British Columbia. [Presentation \(pdf\) \(bullard-ceew-sfu-04-feb-2023pdfsc\\_lang=en&hash85527f169d6fb4b1fb9f71433b05baea\)](https://www.stlouisfed.org/news-releases/2023/02/16/bullard-presents-disinflation-progress-and-prospects).
- **January 12, 2023.** Remarks and Moderated Q&A. [Bullard Discusses Inflation and the Economic Outlook](#), Wisconsin Bankers Association.

### **Bullard Discusses Inflation and the Economic Outlook**

January 12, 2023

St. Louis Fed President Jim Bullard talked about the need for the Fed to keep interest rates at high enough levels to ensure inflation moves down and stays down. He also discussed “bullish factors” for the U.S. economy in 2023 during a Wisconsin Bankers Association virtual event.

Inflation remains well above the Fed’s inflation target but is moderating in