September 27, 2022

St. Louis Fed President Jim Bullard discussed the Fed’s progress in tightening monetary policy to bring down high inflation. He spoke while participating virtually at a forum hosted by Barclays and the Centre for Economic Policy Research in London.

“No matter how you look at it, we have a serious inflation problem in the U.S., and we’re missing our (2%) inflation target and the credibility of our inflation targeting regime is at risk,” Bullard said. He added that this level of inflation hasn’t been experienced since the late 1970s and early 1980s, when Paul Volcker was chairman of the Fed.

Bullard said he recently recalculated the minimal level of the policy rate that could be argued was restrictive monetary policy, and that rate was close to 4.5%, higher than he had calculated in May. He also pointed out that at its last meeting, the Federal Open Market Committee moved up its projections of the needed policy rate level to more in the 4% range.

Given the level of inflation, the policy rate will need to be high compared with rates over the last 15 years, Bullard said. “In addition, I think we’ll have to stay at that higher rate for some time to make sure that we’ve got the inflation problem under control,” he said.

Bullard also noted that tighter monetary policy was in place sooner through market pricing than would be apparent if one just looked at the policy rate itself and did not consider other aspects, including quantitative tightening. “This market pricing leading the Fed is a benefit of the modern era of forward guidance and transparency and has helped us enormously, I think, so far during this episode,” Bullard said.

So strict comparisons with Volcker are inappropriate at this point, he added.

Modern central banks including the Fed have an explicit inflation target of 2%, which is an international standard, Bullard said. That wasn’t the case in Volcker’s time, he noted. “So I think we've got a better chance of success with less disruption to the economy than Volcker would have had," Bullard said.

View video from the Barclays-CEPR International Monetary Policy Forum

- **September 8, 2022**. Article. "Making Sense of Inflation Measures," Federal Reserve Bank of St. Louis *Regional Economist*, September 2022.

  Making Sense of Inflation Measures

  In 2022, inflation reached its highest level in 40 years. For most Americans, this is their first experience with high inflation. Indeed, many may wonder how exactly inflation is measured, particularly as the media cites different inflation measures like "headline CPI" or "core PCE." This is not a trivial question. In fact, measuring inflation is one of the most difficult issues studied by economists.

  An Old Favorite: CPI
  Inflation is the percentage change in overall prices in the economy over a specified period, typically a year; it's not an increase in the prices of a few products. Given the difficulties in following every price in the country, economists create a price index to approximate the overall price level.

  The most widely cited measure of inflation is the headline consumer price index (CPI), which is calculated by the Bureau of Labor Statistics (BLS). The original version of this index was created in 1919, as policymakers sought a better way to measure rising consumer prices in the aftermath of World War I.

  The CPI, which rose 8.5% in July 2022 from a year earlier, measures the price changes for a basket of goods and services purchased by the typical urban consumer. The items in this basket are weighted by their relative importance in consumer expenditures. For example, housing—rent and other spending on shelter—accounts for 33% of the index, while medical care accounts for nearly 9%.

  Of course, any price index like the CPI has to take into account changing consumption patterns. New items come in and old items leave. Currently,