representatives posed with those who run the startup incubator and some of the people who are using its services. From left: Maf Sonko of LUMOXchange, a startup that has online technology for shopping for the best exchange rates to send money abroad; Collins Andrews, executive in residence of FIS, a company behind the center's Fintech Accelerator program; James Hendren, chairman at the Venture Center; Wayne Miller, managing director at the Venture Center; Brian Bauer, program manager at the Venture Center; Lee Watson, president and CEO of the Venture Center; Susi Barakat of eGiftify, a startup with instant gifting technology for any size business; Bullard; Robert Hopkins, senior vice president and regional executive of the St. Louis Fed's Little Rock Branch; and Kevin Henry, an assistant vice president at the St. Louis Fed in the Supervision division. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-little-rock-tour/bullard_vc_fintech_accelerator.jpg)

- **November 14, 2017**. Presentation. "When Will U.S. Inflation Return to Target?" Economic Update Breakfast, Louisville, Ky. Presentation (pdf) (bullard_louisville_ky_14_november_2017pdf) | Press Release | Photos of Visit to Louisville.

  When Will U.S. Inflation Return to Target?

  Nov. 13-15, 2017

  [Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_louisville_ky_14_november_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/11/14/bullard-discusses-inflation-target)| [Photos of Visit to Louisville (below)](https://www.stlouisfed.org#photos)

  On a two-day tour of Louisville, Ky., where the St. Louis Fed has a Branch, President James Bullard spoke at the Economic Update Breakfast, toured the Ford assembly plant and the operations of one of its suppliers, and participated in a celebration marking the upcoming 100th anniversary of the opening of the Fed's Branch there. He also met with the Branch's board of directors.

Bullard’s talk at the breakfast Nov. 14 was titled “When Will U.S. Inflation Return to Target?” He said inflation has been mostly below the Fed’s 2 percent target since 2012 and is unlikely to return to target anytime soon. He noted that inflation expectations, which have an important influence on actual inflation, remain below the level that would be historically consistent with the inflation target. Bullard also said that U.S. financial conditions are considered easy, or “low stress,” but he added that current low readings probably do not contain any important signal about future economic outcomes at this point. He also spoke about GDP growth, labor markets and the current level of the federal funds rate target, which he said was appropriate given current macroeconomic data.

More than 170 people attended the Economic Update Breakfast, held at the Speed Art Museum in Louisville. After delivering his “When Will U.S. Inflation Return to Target?” presentation, Bullard took questions from the audience. The breakfast was co-sponsored by the Association for Corporate Growth Kentucky and the Federal Reserve Bank of St. Louis. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-louisville-tour/james_bullard_economic_update_louisville.jpg)

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Bullard tours the Ford Plant on Tuesday with the general manager, Fred Thome. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-louisville-tour/bullard_thome_louisville_tour.jpg)

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St. Louis Fed's Bullard Discusses the Question of When U.S. Inflation Will Return to Target

LOUISVILLE, Ky., – Federal Reserve Bank of St. Louis President James Bullard gave remarks on ["When Will U.S. Inflation Return to Target?"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_louisville_ky_14_november_2017.pdf)at the Economic Update Breakfast hosted by the St. Louis Fed and the Association for Corporate Growth.

In his talk, Bullard discussed the state of inflation, real economic performance and financial conditions in the U.S., and why these factors suggest the current level of the Federal Reserve's policy rate (i.e., the federal funds rate target) "is likely to remain appropriate over the near term."

The 2017 Inflation Surprise
Bullard noted that the U.S. inflation rate has been below the Federal Open Market Committee's (FOMC's) 2 percent inflation target since 2012.

"Inflation data during 2017 have surprised to the downside and call into question the idea that U.S. inflation is reliably returning toward target," he said. He noted that the FOMC's current median projection for core PCE inflation is 1.5 percent at the end of 2017. "If the Committee is going to hit the inflation target, it will likely have to occur in 2018 or 2019," he added.

He said that the two most cited factors that could drive inflation higher are inflation expectations and a faster pace of economic expansion.

Inflation Expectations
Bullard explained that one important influence on actual inflation is the state of inflation expectations. "Expected inflation measures based on Treasury Inflation-Protected Securities (TIPS) remain relatively low," he said, adding that "survey-based measures have also slipped in the last year."

Inflation expectations can also be sensitive to oil price movements, he said, adding that while prices have recently increased due in part to political developments in Saudi Arabia, the increase would likely be limited because the U.S. tends to produce more oil when prices rise.

Real Economic Performance
Regarding the second factor that could drive inflation higher, i.e., a faster pace of economic expansion, Bullard looked at U.S. real GDP growth.

"The data since the financial crisis suggest that the U.S. has converged to 2 percent real GDP growth," Bullard said. He added that U.S. real GDP grew at an annual rate of 2.1 percent in the first half of 2017. Meanwhile, second-half real GDP growth is showing some improvement from the first half of the year, with current tracking estimates near 3 percent.

However, "Real GDP growth will likely be slower in 2018 than it has been in the second half of 2017," he said.

Turning to U.S. labor markets, Bullard noted that the pace of employment growth has slowed since 2015 and that the unemployment rate, at 4.1 percent in October, is relatively low. However, he said that low unemployment is probably not a harbinger of higher inflation, since the statistical relationship between unemployment and inflation has broken down during the last 20 years.

“Even if the U.S. unemployment rate declines substantially further, the effects on U.S. inflation are likely to be small,” he said.

U.S. Financial Conditions
Bullard also pointed to U.S. financial conditions, which are currently considered easy, or “low stress,” according to commonly used indexes. These indexes take into account factors such as market volatility, which has been low, and interest rate spreads, which have been relatively narrow.

“However, these indexes have an important asymmetry: High-stress readings are associated with economic weakness. Low-stress readings do not reliably predict future economic outcomes,” he explained. “The current low readings probably do not contain any important signal at this point.”

Conclusion
Bullard reiterated that inflation has surprised to the downside this year and that “inflation expectations remain below the level that would be historically consistent with the FOMC’s inflation target.”

Regarding the performance of the economy, he said that “real GDP growth looks like it may surprise to the upside during the second half of 2017 before shifting toward slower growth in 2018.” He added that low unemployment readings are probably not an indicator of meaningfully higher inflation over the forecast horizon.

In terms of U.S. financial conditions, he noted that low financial market stress readings do not have strong predictive content for the economy.

Given these factors, Bullard concluded, “The current level of the policy rate is appropriate given current macroeconomic data.”

Related: [View photos of visit to Louisville](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2017/when-will-us-inflation-return-to-target).

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

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