/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_kirksville_mo_27_september_2017.pdf)[Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_and_brian_kantanka_truman_state_sept2017.jpg)

In Quincy, Ill., on Sept. 28, Bullard discussed the national and local economy with about 20 bankers from the area. The members of the audience provided their perspective on economic conditions, as well, and also reported on banking conditions in the region.

During dinner, bankers at each table compared notes about the local economy and about the current state of banking. Afterward, a representative from each table shared these observations and concerns with Bullard and other attendees. Such anecdotal information that is gathered at the community level is important for policymakers who deliberate on the Federal Open Market Committee. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_quincy_il_dinner_with_bankers_sept2017.jpg)

In Mount Sterling, Bullard and others from the St. Louis Fed visited the headquarters of Dot Foods Inc., a company that distributes food in all 50 states and more than 25 countries.

Bullard was taken on a tour of the 1.5-million-square-foot warehouse of Dot, where more than 800 people work. Dot CEO Joe Tracy (center) and Dot Vice President of Warehousing Bryan Langston (right) led the tour. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/tour_dot_foods_inc_headquarters_sept2017.jpg)

St. Louis Fed's Bullard: Three Questions for U.S. Monetary Policy

KIRKSVILLE, Mo. – Federal Reserve Bank of St. Louis President James Bullard gave remarks on [“Three Questions for U.S. Monetary

Policy"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_kirksville_mo_27_september_2017.pdf)at Truman State University on Wednesday.

In his talk, he discussed the current slow-growth regime in the U.S. He also discussed inflation, which he said "has surprised to the downside this year." In addition, he looked at U.S. labor market performance, which has been good.

He explained that this macroeconomic situation suggests the current level of the policy rate (i.e., the federal funds rate target) "is likely to remain appropriate over the near term."

In this context, Bullard posed these three questions:
• Is U.S. economic growth poised for a rebound in the second half of 2017, as compared to the first half?
• Is the downside inflation surprise in the first half of 2017 likely to reverse in the second half of 2017?
• Will continued strong performance of U.S. labor markets put upward pressure on inflation?

His response to all three: "Probably not."

Will real GDP growth be higher in the second half of 2017?
In looking at U.S. economic growth, Bullard said data since the financial crisis suggest that the U.S. has converged to real GDP growth of 2 percent.

"Second-quarter real GDP growth showed some improvement from the first quarter, but not enough to move the U.S. economy away from a regime characterized by 2 percent trend growth," he said. Real GDP grew at an annual rate of 2.1 percent in the first half of 2017. "The 2 percent growth regime appears to remain intact," he added.

Bullard noted that there was some hope during the summer that the second half of 2017 would see faster growth, perhaps at a 3 percent pace. However, he explained, two developments have dampened those hopes. First, some macroeconomic data came in weaker than anticipated. Second, major hurricanes caused substantial damage in some parts of the country.

Although the economy should rebound somewhat in the fourth quarter as hurricane damage is repaired, Bullard noted, it probably won't be significant enough to move second-half real GDP growth meaningfully above 2 percent.

Will the low-inflation trend reverse itself?
Turning to inflation, Bullard noted that the U.S. inflation rate has been below the Federal Open Market Committee'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, adding that the current low-inflation trend will probably not reverse this year.

Are U.S. labor markets signaling a meaningful rise in inflation?
Bullard noted that the unemployment rate is relatively low, and the pace of employment growth has met or exceeded expectations in recent months. He explained that these are sometimes cited as factors that will eventually drive the inflation rate higher.

He discussed the question of whether the low U.S. unemployment rate—at 4.4 percent in the August reading—might signal a substantial rise in inflation. "The short answer is no, based on current estimates of the relationship between unemployment and inflation," he said. "Even if the U.S. unemployment rate declines substantially further, the effects on U.S. inflation are likely to be small."

In returning to his three initial questions on real GDP growth, inflation and labor market performance, Bullard summarized his points.

"Recent data indicate that U.S. real GDP growth remains consistent with the low-growth regime of recent years," he said, although he noted that hurricane effects will add uncertainty to the interpretation of macroeconomic data in the months ahead. On inflation, he said, "U.S. inflation has surprised to the downside in recent months, and the surprise is unlikely to reverse during 2017." In addition, he noted that "low unemployment readings are probably not an indicator of meaningfully higher inflation over the forecast horizon."

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

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

Three Questions for U.S. Monetary Policy

September 27-28, 2017

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_kirksville_mo_27_september_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/09/27/bullard-three-questions-for-us-monetary-policy)| [Photos of Tour of Northern Part of District (below)](https://www.stlouisfed.org#photos)

On a two-day tour of the northern part of the District served by the St. Louis Fed, President James Bullard spoke at Truman State University, in Kirksville, Mo., met with bankers in Quincy, Ill., and toured the headquarters of the nation's largest food redistributor in Mount Sterling, Ill.

At the university, Bullard addressed questions related to real GDP growth in the second half of 2017, inflation surprising to the downside in the first half of 2017 and the impact of strong U.S. labor-market performance on inflation going forward. He said recent data indicate that U.S. real GDP growth remains consistent with the 2 percent growth "regime" of recent years, adding that growth in the second half of 2017 will probably not move meaningfully above 2 percent. He noted that effects from the hurricanes will add uncertainty to data interpretation in the coming months. On inflation, he said that the downside surprise is unlikely to reverse itself in the second half of 2017. He also said that continued strong performance of labor markets is unlikely to drive inflation meaningfully higher. In terms of monetary policy, he concluded that the current level of the federal funds rate target "is appropriate given current macroeconomic data."

[Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_truman_state_presentation_podium_sept_2017.jpg)

[Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_truman_state_presentation_sept_2017.jpg)

Truman State University President Sue Thomas welcomes Bullard to her campus on Sept. 27. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_and_sue_thomas_truman_state_university_sept_2017.jpg)

Brian Kantanka, a student at Truman State, poses a question to Bullard after the president's presentation, titled ["Three Questions for U.S. Monetary Policy."](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_kirksville_mo_27_september_2017.pdf)[Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_and_brian_kantanka_truman_state_sept2017.jpg)

In Quincy, Ill., on Sept. 28, Bullard discussed the national and local economy with about 20 bankers from the area. The members of the audience provided their perspective on economic conditions, as well, and also reported on banking conditions in the region.

During dinner, bankers at each table compared notes about the local economy and about the current state of banking. Afterward, a representative from each table shared these observations and concerns with Bullard and other attendees. Such anecdotal information that is gathered at the community level is important for policymakers who deliberate on the Federal Open Market Committee. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/james_bullard_quincy_il_dinner_with_bankers_sept2017.jpg)

In Mount Sterling, Bullard and others from the St. Louis Fed visited the headquarters of Dot Foods Inc., a company that distributes food in all 50 states and more than 25 countries.

Bullard was taken on a tour of the 1.5-million-square-foot warehouse of Dot, where more than 800 people work. Dot CEO Joe Tracy (center) and Dot Vice President of Warehousing Bryan Langston (right) led the tour. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-st-louis-tour/tour_dot_foods_inc_headquarters_sept2017.jpg)

- **August 29, 2017**. Article. "Does Low Unemployment Signal a Meaningful Rise in Inflation?" Federal Reserve Bank of St. Louis *The Regional Economist*, Third Quarter 2017. This article also appeared in the *St. Louis Fed On the Economy* blog.

  Does Low Unemployment Signal a Meaningful Rise in Inflation?

  The unemployment rate in the U.S. is relatively low by recent historical standards. Some people argue that this means higher inflation is just around the corner, which they cite as a reason for the Fed to raise the U.S. policy rate (i.e., the federal funds rate target). In my view, however, low unemployment readings do not appear to be an indicator of substantially higher inflation to come.

  Arguments that low unemployment will translate into high inflation are based on the so-called Phillips curve, which suggests that a negative relationship exists between the two variables. This relationship has been in