same time, current policy is putting downward pressure on other portions of the yield curve by maintaining a $4.47 trillion balance sheet," he explained. "A more natural normalization process would allow the entire yield curve to adjust appropriately as normalization proceeds."

Permitting some adjustments to the balance sheet may also create balance-sheet "policy space," Bullard said. "We should be allowing the balance sheet to normalize naturally now, during relatively good times, in case we are forced to resort to balance sheet policy in a future downturn."

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- **March 24, 2017**. Presentation. "Current Monetary Policy, the New Fiscal Policy and the Fed's Balance Sheet," Economic Club of Memphis, Memphis, Tenn.
  Presentation (pdf) (bullard_economic_club_of_memphis_24_mar_2017pdf) | Press Release | Photos of Memphis-Area Tour.

  **Bullard Discusses Monetary Policy, New Fiscal Policy, Fed Balance Sheet during Memphis-Area Tour**

  March 24, 2017

  [Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_economic_club_of_memphis_24_mar_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/03/24/feds-bullard-discusses-monetary-policy)| [Photos (below)](https://www.stlouisfed.org#photos)

  In an address to the Economic Club of Memphis, St. Louis Fed President James Bullard discussed the current "regime" of low real GDP growth and low real interest rates on short-term government debt. Given that this regime is unlikely to change dramatically during 2017, he said that the federal funds rate target can remain relatively low and still keep inflation and unemployment near goal values. He also discussed the possible impact of the new fiscal policy on this regime, noting that the Fed can wait to see how fiscal policy develops. Regarding the Fed's balance sheet, he said that now may be a good time for the Federal Open Market Committee (FOMC) to consider allowing the balance sheet to normalize by ending reinvestment.

His presentation, titled "Current Monetary Policy, the New Fiscal Policy and the Fed's Balance Sheet," was part of a multistop visit to eastern Arkansas and Memphis, Tenn., all in the St. Louis Fed's District. During the three days, he met with a variety of business leaders and other audiences.

About 130 people heard the presentation by Bullard at the Economic Club of Memphis. The breakfast meeting was held at the Holiday Inn University of Memphis. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-memphis-tour/james_bullard_at_economic_club_of_memphis.jpg)

Bullard (second from right) toured Big River Steel in Osceola, Ark., on March 23. Also on the tour of the new mill were (in foreground from left) Douglas Scarboro, senior vice president and regional executive for the St. Louis Fed's Memphis Branch; and J. Brice Fletcher and David T. Cochran Jr., members of the board of directors of the Memphis Branch. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-memphis-tour/james_bullard_tour_big_river_steel_osceola_ark.jpg)

Bullard met with civic leaders from eastern Arkansas on March 23 at Wilson Café in Wilson, a small Delta town in Arkansas undergoing a revival. Bullard discussed the local economy over lunch with (from left) Gaylon Lawrence Jr. of The Lawrence Group, who has been instrumental in the renewal of the town; Randy Scott, president and COO of Farmers Bank and Trust; Clifton Chitwood, Mississippi County's economic director; Douglas Scarboro, senior vice president and regional executive at the St. Louis Fed's Memphis Branch; and Alec Farmer, Arkansas' highway commissioner. [Download High

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At the African American International Museum Foundation on March 22, founder Carnita Atwater showed Bullard and Scarboro a small sample of the more than 250,000 artifacts she has collected. The museum visit was held in conjunction with a bus tour of the nearby North Memphis neighborhood. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2017-memphis-tour/bullard_scarboro_african_american_international_museum_foundation.jpg)

**St. Louis Fed's Bullard Discusses Monetary Policy, the New Fiscal Policy and the Fed Balance Sheet**

MEMPHIS, Tenn. – Federal Reserve Bank of St. Louis President James Bullard discussed  [“Current Monetary Policy, the New Fiscal Policy and the Fed’s Balance Sheet”](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_economic_club_of_memphis_24_mar_2017.pdf)at a meeting of the Economic Club of Memphis on Friday.

During his presentation, Bullard shared his views on the state of the U.S. economy and how it affects his outlook for the policy rate (i.e., the federal funds rate target). “The U.S. economy has arguably converged to a low-real-GDP-growth, low-safe-real-interest-rate regime,” he said, adding that it is unlikely to change dramatically in 2017. “Because of this, the Fed’s policy rate can remain relatively low while still keeping inflation and unemployment near goal values."

He also discussed whether possible fiscal policy changes may impact the regime. "The new fiscal policy could impact productivity growth and therefore improve the pace of real GDP growth," he said, adding that the Fed can wait and see how this new policy evolves.

Finally, regarding the Fed's balance sheet, Bullard noted that now may be a good time for the Federal Open Market Committee (FOMC) to consider allowing the balance sheet to normalize by ending reinvestment. "Ending balance sheet reinvestment may allow for a more natural adjustment of rates across the yield curve as normalization proceeds," he said.

*The Low-Growth, Low-Safe-Real-Rate Regime*

In discussing the U.S. economy's low-growth regime, Bullard examined the slower pace of real GDP growth, labor market improvement and productivity growth.

He noted that real GDP growth, as measured from one year earlier, has averaged just 2.1 percent over the last seven years and that the last two years have shown virtually no change. "A natural conclusion is that the economy has converged upon a growth rate of 2 percent," he said. "These considerations make it seem unwise to forecast more rapid growth in 2017."

He further noted that some tracking estimates for growth in the first quarter of 2017 are below 2 percent. "If the tracking estimates turn out to be correct, the economy will have to grow much more rapidly during the last three quarters of 2017 to surpass 2 percent for the year as a whole," he added.

Bullard then turned to the slower pace of improvement in the U.S. labor market. "Labor market improvement has slowed over the last 18 months, despite the attention paid to recent jobs reports," he said. For example, he noted that the unemployment rate has declined only a few tenths of a percent since hitting 5 percent in September 2015. In addition, nonfarm payroll employment growth, when measured from one year earlier, stands at only 1.6 percent today, compared with 2.3 percent in February 2015. Finally, private hours growth, when measured from one year earlier, is just 1.4

percent today, compared with 3.4 percent in February 2015.

He also looked at labor productivity growth, given that U.S. economic growth over the medium and longer term is thought to be driven by productivity trends as well as labor force trends. In the U.S., labor productivity has been growing at an average rate of only 0.4 percent since early 2013, compared with an average rate of 2.3 percent from 1995 to 2005. The bottom line, Bullard said, is that "faster productivity growth is the surest path to more rapid real GDP growth in the U.S."

As the economy has approached full employment, changes in inflation have been barely perceptible. For instance, Bullard noted that the Dallas Fed trimmed-mean inflation rate measured from a year earlier—at 1.9 percent in January—has barely increased in the last several years. Furthermore, headline inflation measured from one year earlier is also now close to target. "Bottom line: Inflation has essentially returned to 2 percent and is expected to remain there," he said.

Turning to the low-safe-real-rate regime, Bullard said that it is a global phenomenon that has been many years in the making. "Real rates of return on government paper are exceptionally low in the current global macroeconomic environment," he stated. "It seems unwise to predict that the forces driving safe real rates to such low levels are likely to reverse anytime soon. This then feeds through to the policy rate, which is also likely to remain low."

Regarding the question of whether new fiscal policy will move the U.S. into a higher growth regime, Bullard outlined two considerations. One is that the economy is not in recession and, therefore, these policies should not be viewed as countercyclical measures. He also noted that U.S. productivity growth is low and could be improved considerably, which could increase the real rate of return on safe assets. "However, the Fed can wait to see how fiscal policy develops," he said.

*The Fed's Balance Sheet Policy*

Turning to the Fed's balance sheet, Bullard noted that the FOMC has not set a timetable for ending the current reinvestment policy. "Now that the policy rate has been increased, the FOMC may be in a better position to allow reinvestment to end or to otherwise reduce the size of the balance sheet," he said. "Adjustments to balance sheet policy might be viewed as a way to normalize Fed policy without relying exclusively on a higher policy rate path."

The current policy is also distorting the yield curve, he said. "The current FOMC policy is putting some upward pressure on the short end of the yield curve through actual and projected movements in the policy rate. At the same time, current policy is putting downward pressure on other portions of the yield curve by maintaining a $4.48 trillion balance sheet," he explained. "A more natural normalization process would allow the entire yield curve to adjust appropriately as normalization proceeds."

Permitting some adjustments to the balance sheet may also create balance-sheet "policy space," Bullard noted. "Some have argued that the size of the balance sheet should not be reduced until the policy rate is high enough that it can be reduced appropriately should a recession develop. This is sometimes called 'policy space,'" he explained.

The same "policy space" argument can be made for the size of the balance sheet, he said, adding, "we should be allowing the balance sheet to normalize naturally now, during relatively good times, in case we are forced to resort to balance sheet policy in a future downturn."

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- **February 28, 2017**. Presentation. "The Role of the Fed's Balance Sheet for the U.S. Monetary Policy Outlook in 2017," Spring 2017 GWU Alumni Lecture in Economics, George Washington University, Washington, D.C. Presentation (pdf) (bullard_gwu_alumni_lecture_feb_28_2017pdf) | Press Release.

  **The Role of the Fed's Balance Sheet for the U.S. Monetary Policy Outlook in 2017**