- **April 10, 2017**. Presentation. "The U.S. Macroeconomic Outlook," Australian Centre for Financial Studies International Distinguished Lecture, Melbourne, Australia.
  Presentation (pdf) (bullard_acfs_melbourne_10_apr_2017pdf) | Press Release.

  The U.S. Macroeconomic Outlook

  April 10, 2017

  [Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_acfs_melbourne_10_apr_2017.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2017/04/10/bullard-discusses-macro-outlook)

  Speaking in Melbourne at the Australian Centre for Financial Studies, 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. He said that given that this regime is unlikely to change soon, the federal funds rate target is likely to remain low. He added that the St. Louis Fed is forecasting a relatively flat rate over the next two to three years, which contrasts with the median projections of the Federal Open Market Committee (FOMC). He also said that the FOMC can take a wait-and-see posture regarding possible changes in fiscal and regulatory policies.

  St. Louis Fed's Bullard Discusses the U.S. Macroeconomic Outlook

  MELBOURNE, Australia – Federal Reserve Bank of St. Louis President James Bullard addressed ["The U.S. Macroeconomic Outlook"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2017/bullard_acfs_melbourne_10_apr_2017.pdf)during Monday's International Distinguished Lecture at the Australian Centre for Financial Studies.

  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 U.S. 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 this situation 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." Regarding the impact of possible fiscal and regulatory policy changes in the U.S., he said that "the Fed can take a wait-and-see posture."

In addition to the policy rate, Bullard also discussed the Fed's $4.47 trillion balance sheet. He reiterated his view 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.

Recent U.S. Economic Performance

In discussing the U.S. economy's low-growth, low-rate regime, Bullard examined the slower pace of real GDP growth, labor market improvement and productivity growth in recent years. He also looked at several measures of inflation and at real rates of return on short-term government paper.

The Low-Growth Regime

Bullard said 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 very little change. "A natural conclusion is that the economy has converged upon a growth rate of about 2 percent," he said. "These considerations make it seem unwise to forecast more rapid growth in 2017."

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

There is also the question of residual seasonality, he said, explaining how first-quarter real GDP growth in recent years has generally been lower than in other quarters, despite the underlying data being adjusted to remove seasonal effects. “The magnitude of this effect is debatable,” Bullard said, adding that, on balance, weather effects this year have not been particularly pronounced. “It may be better to use real GDP growth measured from one year earlier to gauge performance,” he noted.

Slowing Labor Market Improvement

Turning to the labor market, Bullard said, “Bottom line, labor market improvement has been slowing.” He described how over the last 18 months, the U.S. unemployment rate has declined only a few tenths of a percent. In addition, nonfarm payroll employment growth, when measured from one year earlier, stands at only 1.5 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.

Low Productivity Growth

Bullard also looked at labor productivity growth, given that U.S. economic growth over the medium and longer term is 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. “Faster productivity growth is the surest path to more rapid real GDP growth in the U.S.,” he said.

Inflation Close to 2 Percent

Movements in inflation in recent years have been barely perceptible, Bullard noted, citing the Dallas Fed trimmed-mean inflation rate measured from a year earlier as an example. In addition, headline inflation measured from one year earlier (at 2.1 percent in February) has returned to the FOMC’s 2 percent target, and most other measures of inflation are also near 2 percent. Finally, he noted that inflation expectations are still somewhat low, but have been rising. The bottom line, he said, is that “inflation has essentially returned to 2 percent and is expected to remain there.”

The Low-Safe-Real-Rate Regime

In discussing the regime of low real rates of return on short-term government paper, Bullard said that it is a global phenomenon that has been many years in the making. “It seems unwise to rely on mean reversion to predict that the forces driving safe real rates to such low levels are likely to reverse anytime soon,” he said. “This then feeds through to the policy rate, which is also likely to remain low.”

Current U.S. Monetary Policy

Turning to U.S. monetary policy and policy rate projections, Bullard discussed why the St. Louis Fed’s view differs from the view underlying the median policy rate projections (“dots”) in the FOMC’s Summary of Economic Projections. He explained that the St. Louis Fed does not assume that the rate of productivity growth or the real rate of return on short-term government paper will return to historical averages.

“The median dots suggest that the real rate of return, in particular, will return to its 2001-2007 U.S. average, while the St. Louis Fed does not predict this,” he said. “This leads to a St. Louis Fed forecast of a relatively flat policy rate over the next two to three years, with some upside risk.”

He also discussed whether new fiscal and regulatory policies might move the U.S. into a higher growth regime. “The new fiscal and regulatory policies could impact productivity growth and therefore improve the pace of real GDP growth,” he said, adding that the Fed can wait to see how the new policies evolve.

The Fed’s Balance Sheet Policy

Now that the policy rate has been increased, Bullard said that the FOMC may be in a better position to allow reinvestment to end or to otherwise reduce the size of the balance sheet.

He noted that the current policy is distorting the yield curve. “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 $4.47 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