July 12, 2016

While addressing business economists during a meeting in St. Louis, President James Bullard discussed how the St. Louis Fed's new approach to near-term U.S. macroeconomic and monetary policy projections differs from the old approach. He noted the previous narrative was based on the idea that the economy is converging to a single, long-run steady state. Under the new narrative, he said that the economy instead may visit a set of possible regimes, or states. Bullard said that the projected policy rate path is the main difference in the new approach: The policy rate under the old narrative would likely rise over the forecast horizon to be consistent with its steady state value, whereas the policy rate under the new narrative would likely remain essentially flat over the forecast horizon to remain consistent with the current regime.

St. Louis Fed's Bullard Discusses U.S. Macroeconomic and Monetary Policy Outlook

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard discussed " [A Tale of Two Narratives](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-nabe-st-louis-12-july-2016.pdf)" on Tuesday during an event of the St. Louis Gateway Chapter of the National Association for Business Economics (NABE). In particular, he explained how the St. Louis Fed's approach to near-term U.S. macroeconomic and monetary policy projections recently changed. 1

Bullard noted that the St. Louis Fed's previous narrative assumed that the economy is converging to a unique, long-run steady state and that values for key macroeconomic variables are essentially tending toward an average of their past values. With inflation and unemployment gaps near zero, he pointed out that business cycle dynamics appear to be over. Therefore, the implication under the old narrative is that "the policy rate would likely rise over the forecast horizon to be consistent with its steady state value."