Release](https://www.stlouisfed.org/news-releases/2022/03/02/bullard-discusses-removing-monetary-policy-accommodation)

During a presentation for Greater St. Louis, Inc., St. Louis Fed President Jim Bullard said that the U.S. real economy has more than fully recovered from the pandemic recession and is expected to grow faster than its longer-run potential growth rate in 2022. Meanwhile, U.S. inflation is running well above the FOMC's target.

Current U.S. monetary policy is set at peak accommodation, which is putting upward pressure on inflation, Bullard said. "This situation calls for rapid withdrawal of policy accommodation in order to preserve the best chance for a long and durable expansion," he added.

St. Louis Fed's Bullard Discusses "Removing Monetary Policy Accommodation"

ST. LOUIS –[Removing Monetary Policy Accommodation (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/mar/bullard-greater-st-louis-02-mar-2022.pdf)

Bullard said that the U.S. real economy has more than fully recovered from the pandemic recession, which ended nearly two years ago. He added that the economy is expected to grow faster than its longer-run potential growth rate in 2022, although there are risks to the upside and downside. Meanwhile, he noted that U.S. inflation is running well above the Federal Open Market Committee's (FOMC) target.

"Current U.S. monetary policy is set at peak accommodation: The policy rate is near zero and the Fed's balance sheet has increased to nearly $9 trillion. This is putting upward pressure on inflation," he said. "This situation calls for rapid withdrawal of policy accommodation in order to preserve the best chance for a long and durable expansion."

U.S. Economy More Than Fully Recovered

Bullard noted that the U.S. is currently in the expansion phase of the business cycle, with national income higher than it was at the previous peak. He also noted that, with respect to the level of real personal consumption expenditures, the economy has even surpassed the trend line drawn from 2011, indicating that the U.S. economy is doing better in terms of real consumption than it would have had there been no pandemic at all.

“Not only is the U.S. currently in the expansion phase of the business cycle, but real GDP is poised to continue to grow at an above-trend rate in 2022,” Bullard said. “Accordingly, as measured by key metrics, labor markets are very robust and are likely to improve still further in 2022.”

Bullard noted there are risks to the growth forecast. Developments in the Russia-Ukraine war will have to be monitored closely but will likely impact Europe more directly than the U.S., he said. Also, he said global energy markets will be impacted over the short-to-medium term, which may lead to increased U.S. production of oil and natural gas. In addition, he pointed out that the omicron wave of the pandemic appears to be fading, suggesting further reopening of the U.S. economy in the second and third quarters.

An Inflation Shock

Bullard explained that when measured from a year ago, headline PCE inflation is currently 6.1% and core PCE inflation is 5.2%—well in excess of the FOMC’s 2% target. He added that this is the highest inflation in nearly 40 years for both measures.

“Inflation is especially hard on low- to moderate-income households, as wage gains have not kept up with inflation for many workers,” he said.

The Monetary Policy Response

At the time of the pandemic recession, the FOMC moved the policy rate to near zero and began large outright purchases of Treasury securities and agency mortgage-backed securities, Bullard pointed out. “These policy settings largely remain intact today, and this is putting upward pressure on inflation, exacerbating the inflation problem,” he said.

However, the FOMC agreed to phase out asset purchases by mid-March, and public commentary has suggested more policy rate increases for 2022 than previously anticipated, he said. These steps have had an impact on financial market pricing, according to recent trading, as 2-year and 5-year Treasury yields have increased about 100 basis points in the last five months or so, he said.

“The FOMC has recently taken some steps to be in a better position to control inflation over the forecast horizon, and this has been reflected in market pricing. This has been helpful in tightening financial conditions,” Bullard said. “However, the FOMC must now follow through with policy rate increases and balance sheet runoff or risk squandering policy credibility. In addition, the FOMC may have to move more aggressively going forward if inflation increases or does not moderate as much as expected.”

Removing Monetary Policy Accommodation

Bullard noted that U.S. inflation “has surprised substantially to the upside” in an environment where measures of real economic activity and labor market performance are, despite geopolitical risks, expected to remain robust. There has been an initial, implicit U.S. monetary policy response to the ongoing inflation shock, he said, and this response is already reflected in financial market pricing. He reiterated that the FOMC must now follow through in terms of policy rate increases and balance sheet runoff.

“Forthright and transparent actions designed to keep inflation under control will give the U.S. economy the best possible chance at a long and durable expansion,” Bullard concluded.

James Bullard

James Bullard served as president and CEO of the Federal Reserve Bank of St. Louis from April 1, 2008, to July 13, 2023. In this capacity, he oversaw the activities of the Eighth Federal Reserve District and was a participant on the FOMC.

For media inquiries

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Resources from Former President Jim Bullard

- **February 11, 2022**. Presentation. "A Two-Tranche View of National Debt," University of Texas at Austin, Austin, Texas. Presentation (pdf) (bullard-blanchardian-debt-slides-11-feb-2022pdf).
- **February 8, 2022**. Article. "Bullard: Mindful of inflation's potential to 'mess up economic performance'," Federal Reserve Bank of Minneapolis.
- **January 6, 2022**. Presentation. "The Initial Response to the Inflation Shock of 2021," CFA Society St. Louis, St. Louis, Mo. Presentation (pdf) (bullard-cfa-society-st-louis-06-jan-2022pdf) | Press Release.

The Initial Response to the Inflation Shock of 2021

January 6, 2022

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/jan/bullard-cfa-society-st-louis-06-jan-2022.pdf)[Press Release](https://www.stlouisfed.org/news-releases/2022/01/06/bullard-discusses-initial-response-inflation-shock)[Video (offsite)](https://zoom.us/rec/play/UBAXLMVyPccX8c07D6X6CQxZznR5qiac3TVF6_fm5tepKmQLKmY67YInUojQ90dQOtBZaRVkNXYmzeI.LnLrg3aJ6vxgPrpy?autoplay=true&startTime=1641492599000)

During a presentation for the CFA Society St. Louis, St. Louis Fed President Jim Bullard said that U.S. inflation has surprised substantially to the upside in an environment where measures of real economic activity and labor market performance are expected to remain robust. "There has been an initial U.S. monetary policy response to the inflation shock, and this response is already reflected in financial market pricing," he said.

The Federal Open Market Committee "is in good position to take additional steps as necessary to control inflation, including allowing passive balance sheet runoff, increasing the policy rate, and adjusting the timing and pace of