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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 subsequent policy rate increases," Bullard said.

He also discussed pandemic risk from the COVID-19 omicron variant. While pandemic risk remains, omicron variant cases are expected to subside in the weeks ahead, he noted.

St. Louis Fed's Bullard Discusses "The Initial Response to the Inflation Shock of 2021"

ST. LOUIS –[The Initial Response to the Inflation Shock of 2021 (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/jan/bullard-cfa-society-st-louis-06-jan-2022.pdf)

Bullard told the society that the U.S. pandemic recession ended 20 months ago, and that U.S. real gross domestic product (GDP) has more than fully recovered and labor market performance continues to improve. However, he added that there was a significant unanticipated inflation shock in the U.S. during 2021.

"With the real economy strong but inflation well above target, U.S. monetary policy has shifted to more directly combat inflation pressure," he said.

Pandemic risk remains, Bullard added, but omicron variant cases are expected to subside in the weeks ahead.

U.S. Real GDP Has Fully Recovered
Bullard noted that the U.S. is currently in the expansion phase of the business cycle. "National income is higher than it was at the previous peak and is poised to grow at an above-trend rate," he said.

Bullard added that labor markets are very robust, according to key metrics. He noted that the labor force participation rate (LFPR) is sometimes cited as a relatively weak aspect of current labor market performance. "However, the LFPR has been on a downward trend since 2000 and is not currently unusually low, once the trend is taken into account," he said.

He also noted that the LFPR is not robustly correlated with a rising standard of living in the U.S. data, suggesting that changes in the LFPR are not indicative of changes in the standard of living.

An Inflation Shock in 2021

Bullard explained that the inflation forecast in the December 2020 Summary of Economic Projections indicated that the median Federal Open Market Committee (FOMC) participant thought 2021 inflation would be 1.8% for both core and headline PCE inflation, which is below the FOMC's 2% target.

Measured from a year ago, headline PCE inflation is currently 5.7% and core PCE inflation is 4.7%—well in excess of the 2% target, he said. This is the highest inflation in more than 30 years for both measures, he added.

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—policy settings that largely remain intact today, Bullard pointed out.

However, the FOMC recently agreed to phase out asset purchases by mid-March and also penciled in more policy rate increases for 2022 than previously anticipated, he said. He noted that 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 50 basis points in the last 90 days or so.

Bullard said the FOMC took steps at the December meeting to be in a better position to control inflation over the forecast horizon if inflation does not naturally moderate as much as currently anticipated. "Asset purchases will come to an end in the months ahead, but the FOMC could also elect to allow passive balance sheet runoff in order to reduce monetary accommodation at an appropriate pace," he said.

"The FOMC could begin increasing the policy rate as early as the March meeting in order to be in a better position to control inflation," Bullard added. “Subsequent rate increases during 2022 could be pulled forward or pushed back depending on inflation developments.”

Pandemic Risk from the Omicron Variant
In discussing the COVID-19 omicron variant, Bullard noted that it is becoming dominant in the U.S. and Europe, and that confirmed cases are rising dramatically. However, confirmed cases in the U.S. are projected to follow the pattern where the variant was first identified, in the Republic of South Africa, where cases peaked in recent weeks and have been falling since, he said.

Implications for Current Monetary Policy
Bullard pointed out 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 FOMC 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 subsequent policy rate increases,” Bullard said.

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.

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Resources from Former President Jim Bullard

- **December 3, 2021**. Presentation. "The Inflation Shock of 2021," 2021 Executive Management Conference, Missouri Bankers Association, Clayton, Mo.
  Presentation (pdf) (bullard_mba_clayton_03_december_2021pdf) (bullard_mba_clayton_03_december_2021pdf) (bullard_mba_clayton_03_december_2021pdf) (bullard_mba_clayton_03_december_2021pdf) | Press Release.

  The Inflation Shock of 2021

  December 3, 2021

  [Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2021/bullard_mba_clayton_03_december_2021.pdf)[Press Release](https://www.stlouisfed.org/news-releases/2021/12/03/bullard-discusses-the-inflation-shock-of-2021)

  During a presentation in Clayton, Mo., for the Missouri Bankers Association, St. Louis Fed President Jim Bullard said that there has been an unexpected inflation shock in the U.S. during 2021, and that U.S. monetary policy has so far remained very accommodative. Asset price inflation has been substantial as well, he added.

  He said that U.S. real GDP has fully recovered and that labor markets are quite strong and likely to get stronger. He also noted that pandemic risk remains.

  "These considerations suggest, on balance, that the Federal Open Market Committee (FOMC) should remove monetary policy accommodation," he said.

  St. Louis Fed's Bullard Discusses "The Inflation Shock of 2021"

  CLAYTON, Mo. –[The Inflation Shock of 2021](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2021/bullard_m ba_clayton_03_december_2021.pdf)

Bullard told the association that there has been an unexpected inflation shock in the U.S. during 2021, and that U.S. monetary policy has so far remained very accommodative. He added that asset price inflation has been substantial as well.

He said that U.S. real gross domestic product (GDP) has fully recovered and that labor markets are quite strong and likely to get stronger. He also noted that pandemic risk remains.

“These considerations suggest, on balance, that the Federal Open Market Committee (FOMC) should remove monetary policy accommodation,” he said.

An Inflation Shock in 2021

Bullard explained that the inflation forecast in the December 2020 Summary of Economic Projections indicated that the median FOMC participant thought 2021 inflation would be 1.8% for both core and headline PCE inflation, which is below the FOMC’s 2% target. Measured from a year ago, headline PCE inflation is currently over 5% and core PCE inflation is over 4%—well in excess of the 2% target, he said. Furthermore, this is the highest inflation in 30 years for both measures, he added.

“Monetary policy has remained accommodative even in the face of the inflation shock. The recession ended about 19 months ago, but the FOMC’s policy settings are still largely the same as when the recession began,” he said. In particular, the Fed’s balance sheet is still growing, and the policy rate remains near zero, he pointed out.

U.S. Real GDP Has Fully Recovered

“Monetary policy this accommodative might be justified if the real economy had not yet recovered,” Bullard said. “However, real GDP has already passed the pre-pandemic peak and is slated to move considerably higher. In addition, many labor market measures indicate very tight labor market conditions.”

Bullard noted that the U.S. is currently in the expansion phase of the business cycle. “National income is higher than it was at the previous peak and is poised to grow at an above-trend rate,” he said.

The FOMC’s New Monetary Policy Framework
Turning to the new monetary policy framework, Bullard said a key aspect of it is the desire of the FOMC to allow inflation to run above the 2% target for some time to make up for past misses of the inflation target to the low side.

“It now appears that the FOMC will be able to achieve this result with an appropriate monetary policy over the next several years,” he said.

Pandemic Risk Remains

In discussing the pandemic risk, Bullard noted the arrival of the COVID-19 omicron variant.

“It is too soon to provide a meaningful assessment of the impact on the public health situation or on the economy in the U.S.,” he said.

Implications for Current Monetary Policy
Bullard pointed out that U.S. inflation has “surprised substantially to the upside” during 2021, in an environment where measures of real economic activity are “generally robust.” Monetary policy settings, however, largely remain as set during the recession, when inflation was below target and measures of real activity were very weak, he said.

“These considerations suggest that the FOMC at upcoming meetings may want to consider removing accommodation at a faster pace,” he said.

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

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