rate going forward," he said. "Such a change might help better align the Committee with financial markets on the idea that policy is data dependent and does not follow a predetermined path."

Contact Us
• Laura Girresch 314-444-6166
• Anthony Kiekow 314-949-9739
• Shera Dalin 314-444-3911
• Tim Lloyd 314-444-6829

- **February 17, 2016**. Presentation. "Changing Imperatives for U.S. Monetary Policy Normalization," CFA Society St. Louis, St. Louis, Mo. Presentation (pdf) (bullard-cfa-stlouis-17feb2016pdf) | Press Release.

  Changing Imperatives for U.S. Monetary Policy Normalization

  February 17, 2016

  During a presentation to the CFA Society St. Louis, President James Bullard said that recent data-based developments—namely, further declines in inflation expectations and a reduced risk of asset price bubbles—likely give the FOMC more leeway in its normalization program. He also discussed the need for monetary policy to be more clearly data dependent and suggested that the FOMC may wish to consider changes to the way it approaches the policy rate projections in the Summary of Economic Projections.

  St. Louis Fed's Bullard Discusses Changing Imperatives for U.S. Monetary Policy Normalization

  ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard discussed ["Changing Imperatives for U.S. Monetary Policy Normalization"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-cfa-stlouis-17feb2016.pdf)in a presentation Wednesday to the CFA Society St. Louis.

Bullard said that the Federal Open Market Committee's (FOMC) case for monetary policy normalization in 2015 rested on several key assumptions and that two of these assumptions have now been called into question in 2016: stable inflation expectations and the potential for asset price bubbles. In particular, he noted that market-based inflation expectations have fallen further and that the risk of asset price bubbles over the medium term appears to have diminished. "These data-dependent changes likely give the FOMC more leeway in its normalization program," he said.

Regarding the economic outlook, Bullard said that U.S. growth and labor market prospects remain reasonable. He added that lower long-term interest rates resulting from the recent financial market turmoil are an automatic stabilizer that should support growth.

Bullard also discussed the need for monetary policy to be more clearly data dependent and whether the FOMC should rethink its approach to the Summary of Economic Projections (SEP). "The Committee may wish to consider changes to the way it approaches the policy rate projections in the SEP to better align market expectations of future policy moves," he said.

Declining Inflation Expectations

Bullard explained that modern theory suggests inflation expectations are a more important determinant of actual inflation than traditional "Phillips curve" effects (whereby further gains in labor markets put upward pressure on inflation).

He noted that the decline in market-based measures of inflation expectations in the U.S. since the summer of 2014 has been highly correlated with the decline in oil prices. "I suggested during 2015 that inflation expectations would return to previous levels once oil prices stabilized," Bullard added. "Since then, inflation expectations have declined too far for comfort, the oil price correlation notwithstanding."

Turning again to the FOMC's normalization strategy being predicated on an environment of stable inflation expectations, Bullard said that renewed downward pressure on market-based measures of inflation expectations during 2016 has called this assumption into question. “I regard it as unwise to continue a normalization strategy in an environment of declining market-based inflation expectations,” he stated.

Asset Price Bubbles

Bullard then addressed how the risk of asset price bubbles over the medium term has been reduced.

“Steps toward normalization of U.S. monetary policy help to lessen the risk that very low interest rates might feed into a third major asset price bubble in the U.S.,” Bullard said, adding, “The recent sell-off in global equity markets, along with increases in risk spreads in corporate bond markets, may have made this risk less of a concern over the medium term.”

U.S. Growth and Labor Market Prospects

Turning to the economic outlook, Bullard said, “I expect 2016 U.S. economic growth to be stronger than last year, and I expect U.S. labor markets to continue to improve.” He added that he also expects global growth to be stronger in 2016 than in 2015.

In addition, Bullard noted that one aspect of the financial market turmoil during the last two months is that U.S. longer-term interest rates have fallen. “This is a bullish factor for the U.S. during 2016,” he said.

The FOMC and Data Dependence

Bullard noted that the FOMC has repeatedly stated in official communication and public commentary that future monetary policy adjustments are data dependent. He then addressed the possibility that the financial markets may not believe this since the SEP may be unintentionally communicating a version of the 2004-2006 normalization cycle, which appeared to be mechanical.

“The policy rate component of the SEP was perhaps more useful when the policy rate was near zero, and the Committee wished to commit to the idea that the policy rate was likely to remain near zero for some period into the future," Bullard explained. "But now, post liftoff, communicating a path for the policy rate via the median of the SEP could be viewed as an inadvertent calendar-based commitment to increase rates."

Bullard said this is an important issue for the FOMC to now consider. "The FOMC could change its approach to the SEP in a way that would cease giving such explicit guidance on the likely path of the policy rate going forward," he said. "Such a change might help better align the Committee with financial markets on the idea that policy is data dependent and does not follow a predetermined path."

Contact Us
• Laura Girresch 314-444-6166
• Anthony Kiekow 314-949-9739
• Shera Dalin 314-444-3911
• Tim Lloyd 314-444-6829

- **February 16, 2016**. Article. [Comments on the FOMC's Amendments to its Statement on Longer-Run Goals], *St. Louis Fed On the Economy*.

Comments on the FOMC's Amendments to Its Statement on Longer-Run Goals

In this post, I focus on the inflation-targeting portion of the Federal Open Market Committee's (FOMC) broader mandate of promoting maximum employment, stable prices and moderate long-term interest rates, and why I dissented on the proposed amendments to the "Statement of Longer-Run Goals" at the FOMC's January 2016 meeting.

The FOMC has an inflation target of 2 percent, which it made explicit four years ago in its January 2012 "Statement on Longer-Run Goals and Monetary Policy Strategy." At last month's meeting (Jan. 26-27), the FOMC revised this statement to underscore that the inflation target is symmetric. In particular, the committee added the word "symmetric" in the phrase "…