

Going forward, the St. Louis Fed must continue to find ways to provide valuable public services to the Federal Reserve System and to the nation within the Fed's mission. Our ability to continue to identify opportunities in a changing financial landscape is critical to being a useful contributor within the Federal Reserve System in the years ahead. We must have the skills not only to identify opportunities, but to provide the leadership to transform opportunities into valuable services for the public.

We now have the first 100 years behind us as an institution. I am confident that for the next 100 years, the St. Louis Fed and the Federal Reserve System will continue to provide great service to the nation in the realm of central banking.

*St. Louis Fed Governors/Presidents***We have a table here. See the document 251\_a-commitment-to-serving-the-public\_table\_7.docx**

The head of each Reserve bank was originally called a governor. The Banking Act of 1935 changed the title to president, which is what the person in that position is still called today.

- **November 14, 2014.** Presentation. "[Does Low Inflation Justify a Zero Policy Rate?](#)" St. Louis Regional Chamber Financial Forum, St. Louis. [Presentation \(pdf\) \(bullard-stl-regional-chamber-financial-forum-14-november-2014-finalpdf\)](#) | [Press Release](#) | [Related news articles](#).

### **Does Low Inflation Justify a Zero Policy Rate?**

November 14, 2014

St. Louis Fed President James Bullard discussed whether current macroeconomic data can rationalize the exceptionally low setting for the policy rate. During an event in St. Louis, he said that inflation at the current level is not enough to justify remaining at the zero lower bound. He added that low inflation can justify a policy rate somewhat lower than normal, but not zero.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-stl-regional-chamber-financial-forum-14-november-2014-final.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2014/11/14/st-louis-feds-bullard-discusses-whether-low-inflation-justifies-a-zero-policy-rate>)

#### Related News Articles:

- [Bullard Says Low Inflation Doesn't Justify Zero Rates](<http://www.bloomberg.com/news/2014-11-14/bullard-says-low-inflation-doesn-t-justify-zero-rates.html>), by Steve Matthews, Bloomberg.
- [Fed's Bullard Still Wants Fed Rate Rise in Late First Quarter 2015](<http://blogs.wsj.com/economics/2014/11/14/feds-bullard-job-market-gains-no-longer-justify-current-fed-policy/?KEYWORDS=bullard>), by Michael S. Derby and Rebecca Boyle, Dow Jones.
- [St. Louis Fed's Bullard: Sees 1Q 2015 As Best Time For Liftoff](<https://mninews.marketnews.com/content/st-louis-feds-bullard-sees-1q-2015-best-time-liftoff>), by David Nicklaus, Market News International.
- [Fed's Bullard says U.S. inflation fails to justify near-zero rates](<http://www.reuters.com/article/2014/11/14/usa-fed-bullard-idUSL2NOT41G020141114>), by Michael Flaherty, Reuters.
- [Fed's Bullard says sticking to interest rate and inflation forecasts](<http://www.reuters.com/article/2014/11/14/usa-fed-bullard-idUSN9NQ301J20141114>), by Michael Flaherty, Reuters.
- [Fed's Bullard continues push for interest rate hike](<http://www.bizjournals.com/stlouis/blog/2014/11/fed-s-bullard-continues-push-for-interest-rate.html>), by Greg Edwards, St. Louis Business Journal.
- [Low inflation shouldn't delay rate liftoff, Bullard argues]([http://www.stltoday.com/business/columns/david-nicklaus/nicklaus-low-inflation-shouldn-t-delay-rate-liftoff-bullard-argues/article\\_c4d20296-7bfd-5a17-b39b-1be0131d52c2.html](http://www.stltoday.com/business/columns/david-nicklaus/nicklaus-low-inflation-shouldn-t-delay-rate-liftoff-bullard-argues/article_c4d20296-7bfd-5a17-b39b-1be0131d52c2.html)), by David Nicklaus, St. Louis Post-Dispatch.

### **St. Louis Fed's Bullard Discusses Whether Low Inflation Justifies a Zero Policy Rate**

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard addressed [“Does Low Inflation Justify a Zero Policy Rate?”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-stl-regional-chamber-financial-forum-14-november-2014-final.pdf>) at a financial forum hosted by the St. Louis Regional Chamber on Friday.

During his presentation, Bullard noted that the policy rate has remained near zero for almost six years and discussed whether current macroeconomic data can rationalize this exceptionally low setting for the policy rate. “Labor markets have shown steady improvement this year,” he said, adding, “Lower longer-term interest rates and lower oil prices in recent months should provide additional tailwinds for U.S. macroeconomic performance.”

Inflation, however, is currently running below the Federal Open Market Committee’s (FOMC’s) target rate of 2 percent. In addition, he cited market-based measures of inflation expectations, which declined in recent months but have reversed course. “Global factors, including low inflation in Europe and lower oil prices, may be temporarily holding inflation down in the U.S.,” he said, adding that inflation is generally projected to rise toward the FOMC’s target.

“The FOMC has indicated that the policy rate is likely to rise next year, with the exact timing dependent on macroeconomic data in coming quarters,” Bullard noted. “Analysts sometimes cite the current low level of inflation as a reason why the FOMC may wish to remain at the zero lower bound for even longer. However, while a low inflation rate may suggest a somewhat lower-than-normal policy rate, that effect is not large enough to justify remaining at the zero lower bound.”

### Improving Labor Markets

The unemployment rate in the U.S. has fallen much faster than the FOMC expected, and the fall has recently accelerated, Bullard noted. “As of March 2013, the Committee’s Summary of Economic Projections (SEP) suggested

that the unemployment rate in December 2014 would be just below 7 percent,” he said. “The actual unemployment rate today is 5.8 percent, about a full percentage point ahead of schedule.” He added that the unemployment rate has entered into the range of longer-run or normal values suggested by the SEP ranges.

Along with the decline in the unemployment rate, nonfarm payroll employment has increased faster than anticipated, he said, noting that roughly 1 million more jobs have been added relative to private sector forecasts as of September 2012, when the QE3 program was launched.

He also discussed broader measures of labor market performance, including the labor market conditions index developed by Federal Reserve Board staff to account for the signal that several indicators are sending jointly. “The level of this index has risen above its long-run average value. This suggests that accounting for a variety of labor market indicators, labor market performance today is above average,” Bullard explained.

“In summary, labor markets continue to improve and are approaching or even exceeding normal performance levels,” Bullard said, adding that normal labor markets have not been associated historically with a policy rate near zero. “This suggests that over the next year, it will become more and more difficult to point to labor market performance as a rationale for a near-zero policy rate.”

## Inflation and Financial Markets

Bullard noted that with improving labor markets, justifications for the current near-zero policy rate have shifted to the fact that inflation is below the FOMC’s target. While inflation was above the target as of January 2012, it has been running below target in 2013 and 2014.

He also pointed out that market-based measures of inflation expectations have declined to low levels in recent months but have rebounded since mid-October. “Most likely, these expectations will rise back toward the FOMC’s inflation target in coming months and quarters,” Bullard said. “However, this bears careful watching. Inflation and inflation expectations moving away

from target is a concern.”

Regarding the recent volatility in financial markets, Bullard said that during the late summer and continuing into October, global financial markets began to price in the possibility of a global recession. This was based largely on news of a weaker-than-expected European economy. “My own view has been that such fears were overstated, in part because U.S. macroeconomic fundamentals seem strong,” he said, adding that if such a scenario did develop, the Fed would most certainly respond. “Since mid-October, this issue has faded as U.S. economic data has indicated continuing growth,” he added.

### The Policy Rate Path

Turning to policy rate expectations, Bullard said that markets currently expect the policy rate to cross 50 basis points in the fourth quarter of 2015, somewhat later than the most current SEP projections indicate.

“One might be tempted to argue that inflation is low, so why not wait on liftoff?” Bullard said. “However, low inflation does not rationalize the zero rate policy according to simple Taylor rule calculations.” In a Taylor-type rule, the short-term nominal interest rate should respond to deviations of inflation from target and of actual output from potential output, Bullard explained.

He examined the prescriptions from three such policy rules—the Taylor (1993) rule, the Taylor (1999) rule and the Taylor (1999) rule with interest rate smoothing. All three of these rules suggest that liftoff should already have occurred, at the latest in June 2014. “The Committee has not moved off of the zero interest rate policy so far, and in this sense the Committee is already exhibiting considerable patience,” Bullard noted.

“One possible rationale for deviating from these rules is that residual risk of declining inflation and inflation expectations exists,” he said, adding that the recent data from Europe are suggestive in this regard. “Patience may allow the Committee to make sure such a risk does not materialize.”

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- **October 16, 2014.** Article. "[A Mismatch: Close to Macroeconomic Goals, Far from Normal Monetary Policy.](#)" Federal Reserve Bank of St. Louis *The Regional Economist*, October 2014.

### **President's Message: A Mismatch: Close to Macroeconomic Goals, Far from Normal Monetary Policy**

By conventional metrics, the U.S. economy is approaching normal conditions in terms of the two main macroeconomic goals assigned to the Federal Reserve—price stability and maximum sustainable employment. The monetary policy stance of the Federal Open Market Committee (FOMC), however, has not yet begun to normalize. Current policy settings are far from normal, and the normalization process will take a long time. Therefore, normalizing may need to begin sooner rather than later if macroeconomic conditions continue to improve at the current pace.

[1](<https://www.stlouisfed.org#endnotes>)

Over the past five years, U.S. unemployment has been high, although it has generally been improving since it reached 10 percent in October 2009. In September 2014, the unemployment rate stood at 5.9 percent, down from 7.2 percent a year earlier. Inflation was surprisingly low from the second quarter of 2013 through the first quarter of 2014, but recent readings have moved closer to the FOMC's 2 percent target. The inflation rate, as measured by the year-over-year percent change in the personal consumption expenditures price index, was 1.5 percent in August.

In recent years, the FOMC has used two main tools to achieve its dual mandate—short-term interest rate policy (the federal funds rate) and quantitative easing (QE). The target for the federal funds rate has remained near zero since December 2008. Meanwhile, the Fed's balance sheet is still large and increasing, although the current asset purchase program (QE3) is