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- **August 15, 2013.** Presentation. "[An Update on the Tapering Debate.](#)" Louisville, Kentucky. [Presentation \(pdf\) \(bullardlouisville15august2013finalpdf\)](#) | [Press Release](#) | [Related news articles.](#)  
*Similar remarks were also given in Paducah, Kentucky, on August 14, 2013.* [Related news articles.](#)

## **An Update on the Tapering Debate**

August 15, 2013

St. Louis Fed President James Bullard revisited the debate on tapering the Fed's asset purchases during a Breakfast with the Fed event sponsored by the Bank's Louisville Branch. He also discussed the importance of having a press conference after each FOMC meeting instead of after every other meeting, as is the case now.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardlouisville15august2013final.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/08/15/st-louis-feds-bullard-discusses-debate-on-tapering-the-feds-asset-purchases>)

Related News Articles:

- [Bullard Says Higher Yields Unlikely to Hurt Growth](<http://www.bloomberg.com/news/2013-08-15/bullard-says-higher-yields-unlikely-to-hurt-growth.html>), by Steve Matthews, Bloomberg.
- [Bullard Says Below-Target Inflation Warrants Fed Stimulus](<http://www.bloomberg.com/news/2013-08-15/fed-s-bullard-says-below-target-inflation-warrants-stimulus.html>), by Steve Matthews,

Bloomberg.

- [Bullard Reiterates Need to See More Data]([http://www.bondbuyer.com/issues/122\\_157/bullard-reiterates-need-to-see-more-data-1054667-1.html](http://www.bondbuyer.com/issues/122_157/bullard-reiterates-need-to-see-more-data-1054667-1.html)), by Gary Siegel, The Bond Buyer.
- [St. Louis Fed chief talks bond buying]([http://www.bizjournals.com/louisville/blog/morning\\_call/2013/08/st-louis-fed-chief-talks-bond-buying.html](http://www.bizjournals.com/louisville/blog/morning_call/2013/08/st-louis-fed-chief-talks-bond-buying.html)), Business First.
- [Bullard warns weak inflation may put brakes on QE tapering](<http://www.centralbanking.com/central-banking/speech/2289285/bullard-warns-weak-inflation-may-put-brakes-on-qe-tapering>), Central Banking Journal.
- [Fed's Bullard: Inflation 'Naturally' Rising Toward Target]([http://www.bondbuyer.com/issues/122\\_158/feds-bullard-inflation-naturally-rising-toward-target-1054702-1.html](http://www.bondbuyer.com/issues/122_158/feds-bullard-inflation-naturally-rising-toward-target-1054702-1.html)), by Karen Mracek, Market News International.
- [St. Louis Fed's Bullard: Inflation Still Low](<https://mninews.marketnews.com/index.php/st-louis-feds-bullard-inflation-still-low?q=content/st-louis-feds-bullard-inflation-still-low>), by Karen Mracek, Market News International.
- [Fed's Bullard says sees no sign of major asset bubble in U.S.](<http://www.reuters.com/article/2013/08/15/us-usa-fed-bullard-bubbles-idUSBRE97E0NA20130815>), by Alister Bull, Reuters.
- [Bullard - new Fed chair will preserve policy continuity](<http://www.reuters.com/article/2013/08/15/usa-fed-bullard-idUSL2NOGG0SY20130815>), by Alister Bull, Reuters.
- [Fed's Bullard: housing strong enough to overcome higher yields](<http://www.reuters.com/article/2013/08/15/us-usa-fed-bullard-yields-idUSBRE97E0NU20130815>), by Alister Bull, Reuters.
- [Fed's Bullard Floats Idea of Small Cuts to Bond Buying - Measured Reduction in Purchases Would Be Important Market Signal](<http://online.wsj.com/article/SB10001424127887323455104579015161323239076.html>), The Wall Street Journal.

Similar remarks were also given in Paducah, Kentucky on August 14, 2013.

News articles related to the August 14, 2013, presentation:

- [Bullard Says Important for Fed to Defend 2% Inflation

Target](<http://www.bloomberg.com/news/2013-08-14/bullard-says-important-for-fed-to-defend-2-inflation-target.html>), by Steve Matthews, Bloomberg.

- [Fed's Bullard Urges Caution With Too-Optimistic Forecasts](<http://www.bloomberg.com/news/2013-08-14/fed-s-bullard-urges-caution-with-too-optimistic-forecasts-1-.html>), by Steve Matthews, Bloomberg.
- [Fed's Bullard: Need More Data Before Deciding to Scale Back QE](<http://blogs.wsj.com/economics/2013/08/14/feds-bullard-need-more-data-before-deciding-to-scale-back-qe/>), by Victoria McGrane, Dow Jones.
- [Fed's Bullard Has Seen 'Substantial Improvement' in Labor Market](<http://www.4-traders.com/news/Fed-s-Bullard-Has-Seen-Substantial-Improvement-in-Labor-Market--17191720/>), by Victoria McGrane, Dow Jones.
- [Fed's Bullard: Seeing Clear Improvement in Labor Markets](<https://mninews.marketnews.com/index.php/feds-bullard-seeing-clear-improvement-labor-markets?q=content/feds-bullard-seeing-clear-improvement-labor-markets>), by Karen Mracek, Market News International.
- [Fed's Bullard: Still Need More Data Before Tapering](<https://mninews.marketnews.com/index.php/feds-bullard-still-need-more-data-tapering?q=content/feds-bullard-still-need-more-data-tapering>), by Karen Mracek, Market News International.
- [Bullard: Premature taper could increase threat of deflation](<http://www.reuters.com/article/2013/08/14/usa-fed-bullard-deflation-idUSW1E8M801D20130814>), Reuters.
- [Fed's Bullard advocates caution in tapering bond buying](<http://www.reuters.com/article/2013/08/14/usa-fed-bullard-idUSL2N0GF1A420130814>), by Alister Bull, Reuters.
- [Fed's Bullard stays cautious, was too optimistic on GDP](<http://www.bizjournals.com/stlouis/blog/2013/08/feds-bullard-stays-cautious-was-too.html>), by Greg Edwards, St. Louis Business Journal.
- [St. Louis Federal Reserve President 'Fed Policy Has Been in Flux,'](<http://wkms.org/post/st-louis-federal-reserve-president-fed-policy-has-been-flux>)by John Paul Henry, WKMS.

## **St. Louis Fed's Bullard Discusses Debate on Tapering the Fed's Asset**

## **Purchases**

LOUISVILLE, Ky. – Federal Reserve Bank of St. Louis President James Bullard discussed [“An Update on the Tapering Debate,”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardlouisville15august2013final.pdf>) as part of a Breakfast with the Fed event sponsored by the Bank’s Louisville Branch on Thursday.

During his presentation, Bullard addressed recent developments in monetary policy. In particular, he noted that at its June meeting, the Federal Open Market Committee (FOMC) authorized Fed Chairman Ben Bernanke to discuss possible plans for reducing the pace of asset purchases, which is often referred to as “tapering” asset purchases. “The financial market reaction was substantial, even though the Committee did not actually change any policy settings at that point or at its recently-concluded July meeting,” Bullard said.

Given that altering the pace of asset purchases will depend on economic conditions, Bullard shared his views on how four areas of macroeconomic performance—labor markets, GDP growth, the Fed’s large balance sheet and inflation—might affect tapering. “The Committee still needs to see more data on macroeconomic performance for the second half of 2013 before making a judgment on this matter,” Bullard concluded.

He also stressed the importance of having a press conference after each FOMC meeting instead of after every other meeting, as is the case now. For instance, the tapering debate is currently centered on the September and December FOMC meetings, Bullard noted, adding that because the October meeting does not have a press conference scheduled, it is thought to be an unlikely venue for important policy action. “The FOMC should make all meetings ex ante identical so that key decisions can be made at any juncture. This would allow the Committee to better align appropriate decisions with incoming macroeconomic data,” Bullard said.

Recent Developments in Monetary Policy

Current U.S. monetary policy has three components: the policy rate, forward guidance and asset purchases, he said. The policy rate has been near zero since December 2008, while forward guidance is a promise to keep that rate near zero at least until unemployment falls below 6.5 percent or inflation rises above 2.5 percent. Asset purchases of Treasury securities and mortgage-backed securities are continuing at \$85 billion per month until there is substantial improvement in the labor market, as stated by the FOMC.

As the Chairman has emphasized, any decision on the asset purchase program is conceptually separate from any decision concerning the policy rate. “In particular, a decision to reduce the pace of asset purchases does not change the nature of the Committee’s commitment to keep the policy rate near zero,” Bullard explained.

Following the June FOMC meeting, interest rates rose and measures of financial stress increased. In addition, Bullard noted that the expected path of the policy rate increased, which means that the date of expected liftoff is earlier than it was in May. “This suggests that any tapering decision is difficult to separate from Committee promises on the expected path of the policy rate,” he said. Bullard then discussed some possible arguments that might be made for or against tapering.

#### Labor Market Performance

Bullard noted that by some key measures (e.g., the unemployment rate and payroll employment growth), labor markets have improved since the FOMC adopted its current asset purchase program last September. However, according to some alternative measures (e.g., the labor force participation rate and the employment-population ratio), labor market performance remains weak.

Therefore, a key labor market issue for the tapering debate is whether the FOMC should focus attention primarily on nonfarm payroll employment and unemployment or consider a wider range of labor market indicators. “If the former, then labor markets have clearly improved since September 2012. If the latter, then labor markets may be judged to remain weak, but the criterion for labor market improvement would be considerably muddied,”

Bullard said.

### Growth in Real GDP

Recent real GDP growth has been weak, averaging about 1 percent over the past three quarters, although recent data suggest the second quarter was stronger than previously expected. Even if current GDP growth is viewed as quite slow, Bullard noted that future growth may be better. Thus, he said that while the FOMC would not normally remove accommodation if real GDP growth was viewed as weak, the FOMC may wish to remove accommodation if future growth is expected to be strong.

Bullard then addressed the case for an optimistic view of the U.S. economy, explaining that many, but not all, of the factors slowing down the U.S. economy are waning. “Real estate markets are improving, equity markets have rallied, the European sovereign debt crisis remains subdued for now, U.S. fiscal brinkmanship has been less of a problem and household deleveraging is further along,” he said. However, he noted that along with his own forecasts, FOMC forecasts and many private sector forecasts have tended to be too optimistic over the past several years. “The real GDP forecasts, in particular, have generally been too high,” he said.

Although he expressed caution against relying too much on optimistic forecasts alone, Bullard noted that a key growth issue for the tapering debate is whether the FOMC should focus attention primarily on recent growth performance, or if it should focus more on future projected growth. “If the former, then growth has been weak in recent quarters, although it now appears the second quarter may have been stronger than previously thought. If the latter, then growth may be judged to be improving, but forecasting performance for real GDP has been poor over the last several years,” he said.

### The Size of the Fed’s Balance Sheet

The Fed’s large balance sheet has been viewed as posing risks to the FOMC’s exit from unconventional monetary policy, Bullard noted. While the balance sheet is large by the standards of the past several decades, he pointed out

that the Fed's balance sheet relative to GDP is not particularly large compared to other major central banks or to historical data.

Thus, regarding the balance sheet, a key issue for the tapering debate is whether the FOMC should be more concerned about its exit strategy when the size of the Fed's balance sheet relative to GDP is 30 percent than when it is 20 percent. "If yes, then balance sheet size may be judged a constraint at some point in the future. If no, then exit is equally difficult if the balance sheet is 30 percent or 20 percent of GDP, and the Committee need not view balance sheet size as a constraint going forward," he said.

## Inflation

Turning to recent inflation developments, Bullard noted that current inflation is low and that, on balance, inflation expectations have declined since March, although they have increased from recent lows. "The Committee would not normally remove policy accommodation in an environment where inflation is below target and is projected to remain there," he said.

A key inflation issue for the tapering debate is, therefore, whether the current low levels of inflation, as measured by the year-over-year percentage change in the personal consumption expenditures price index, will naturally move up toward 2 percent in the coming months and quarters. If the answer is yes, Bullard said, the FOMC could reduce the pace of asset purchases without worrying about pushing inflation even further below target. "If no, then inflation may be pushed even lower by a decision to taper and hence the risk of deflation may increase," he added.

Bullard concluded that the resolution of the tapering debate will depend on additional macroeconomic data from the second half of this year. "It is especially important to see if better macroeconomic growth materializes in the months and quarters ahead, and whether inflation naturally returns toward target," he said.

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