

3CPI-W, the index for urban wage earners and clerical workers, is used to adjust these benefits for inflation, whereas CPI-U (headline) is shown in the chart. The two show similar trends from 1995 to the present. [back to text]

4For more discussion, see the Monetary Policy Report to the Congress, on Feb. 17, 2000, at

www.federalreserve.gov/boarddocs/hh/2000/February/FullReport.pdf. [back to text]

- **July 12, 2013.** Presentation. "[Recent Developments in Monetary Policy](#)." Global Interdependence Center's 5th Annual Rocky Mountain Economic Summit, Jackson Hole, Wyoming. [Presentation \(pdf\)](#) ([bullardrockymountaineconomicssummit12july2013finalpdf](#)) | [Press Release](#) | [Related news articles](#).

Recent Developments in Monetary Policy

July 12, 2013

St. Louis Fed President James Bullard discussed "Recent Developments in Monetary Policy," at the Global Interdependence Center's 5th Annual Rocky Mountain Economic Summit. Pres. Bullard cautioned against taking policy actions based on forecasts alone, and suggested holding off on policy decisions until better macroeconomic outcomes materialize in the months and quarters ahead.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardrockymountaineconomicssummit12july2013final.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/07/12/st-louis-feds-bullard-discusses-recent-developments-in-monetary-policy>)

Related News Articles:

- [Fed's Bullard Opposes Tapering of QE Amid Slowing Inflation](<http://www.bloomberg.com/news/2013-07-12/fed-s-bullard-opposes-tapering-of-qe-amid-slowing-inflation.html>), by Steve Matthews and Aki Ito, Bloomberg(article also covers the July 12 video interview).

- Fed's Bullard: Bond Market May Be Too Optimistic About Outlook, by Michael S. Derby, The Wall Street Journal(article also covers the July 12 media interview).
- [Fed's Bullard: Careful Justifying Currnt Pol W/Optimistic Outlk](<https://mninews.marketnews.com/content/feds-bullardcareful-justifying-currnt-pol-woptimistic-outlk>), by Brai Odion-Esene, Market News International.
- [The US Federal Reserve is getting more squeamish about inflation](<http://qz.com/103862/the-us-federal-reserve-is-getting-more-squeamish-about-inflation/>), by Simone Foxman, Quartz.
- [Fed's Bullard: beware basing policy off optimistic forecasts](<http://www.reuters.com/article/2013/07/12/us-usa-fed-bullard-idUSBRE96B0XC20130712>), Reporting by Jonathan Spicer, writing by Alister Bull, editing by Chizu Nomiya, Reuters.
- [Bullard urges caution in looking at rosy forecasts](http://www.stltoday.com/business/columns/david-nicklaus/bullard-urges-caution-in-looking-at-rosy-forecasts/article_c7575332-0313-54b6-95a1-4295d90d51ba.html), by David Nicklaus, St. Louis Post-Dispatch.

St. Louis Fed's Bullard Discusses Recent Developments in Monetary Policy

JACKSON HOLE, Wyo. – Federal Reserve Bank of St. Louis President James Bullard gave remarks Friday on “[Recent Developments in Monetary Policy](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardrockymountaineconomicsummit12july2013final.pdf>)” as part of the Federal Reserve Bank panel at the Global Interdependence Center’s 5th Annual Rocky Mountain Economic Summit.

During his presentation, Bullard discussed the substantial rise in Treasury yields following Federal Open Market Committee policy communications in June. He addressed several possible reasons for the increase, concluding “a key justification is that there is currently more optimism about future economic performance” than before.

However, he noted that optimistic forecasts have consistently been wrong during the past several years. “Given recent forecasting records, we may want to reserve judgment on this until better data arrive,” Bullard said.

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. 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.

Bullard noted that the FOMC recently authorized Fed Chairman Ben Bernanke to discuss possible plans for the “tapering of QE,” which refers to reducing the pace of asset purchases. “The financial market reaction has been substantial, even though the Committee has not actually changed any policy settings at this point,” Bullard said. For instance, he cited recent increases in the nominal and real yields on 10-year Treasury notes, along with increases in the expected path for the federal funds rate (as estimated from financial futures) and in financial stress (as measured by the St. Louis Fed Financial Stress Index.)

Regarding global developments in monetary policy, Bullard noted that the European Central Bank recently decided to go ahead with a forward guidance initiative. “This may provide more support for the Euro-area economy and ultimately for the U.S., and so may be a bullish factor for the U.S.,” he said. (For more on this topic, see Bullard’s presentation, “[Monetary Policy in a Low Policy Rate Environment](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardimfsdistinguishedlecture21may2013final.pdf>),” given at Goethe University Frankfurt’s Institute for Monetary and Financial Stability Distinguished Lecture, May 21, 2013.)

Possible Justifications for the Rise in U.S. Treasury Yields

Bullard examined three possible justifications for the bond market reaction since the June FOMC meeting: 1) A substantial improvement in the economy, 2) an increase in inflation expectations, and 3) optimism due to improved prospects for the U.S. economy.

While bond yields would naturally rise if macroeconomic performance was stronger than expected, Bullard said that “the evidence on current economic performance is mixed.” For instance, while some measures of labor market outcomes have improved since QE3 was launched in September, others (e.g., hours worked and the labor force participation rate) have not. Bullard also noted that real GDP growth has been slow in recent quarters. Therefore, he concluded, the rise in yields probably cannot be justified by better data on the U.S. economy.

Turning to inflation, Bullard said nominal bond yields could rise in reaction to higher expected inflation, which would be a traditional reason to tighten monetary policy. “However, current inflation is low and the immediate reaction to the FOMC announcement was to send TIPS-based inflation expectations lower,” he said. Accordingly, he explained, the increase in bond yields is not associated with an increase in inflation expectations.

Bullard then addressed the 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 brinksmanship has been less of a problem and household deleveraging is further along,” he said.

However, Bullard expressed caution against relying too much on optimistic forecasts at a time when additional macroeconomic data is needed.

“Recent FOMC decisions have met with a substantial rise in Treasury yields, and I have suggested that a possible justification for the rise in yields is increased optimism concerning future U.S. macroeconomic performance,” Bullard concluded. “However, given recent forecasting performance, we

should be careful in using an optimistic forecast to justify current policy decisions. A more prudent approach would be to wait to see if better macroeconomic outcomes materialize in the months and quarters ahead.”

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- **June 10, 2013.** Presentation. "[The U.S. Economy and Monetary Policy.](#)" 19th Conference of Montreal—*Entering the Next Economy: New Realities, New Frontiers*, Montreal, Canada.
[Presentation \(pdf\) \(bullardmontreal10june2013finalpdf\)](#) | [Press Release](#) | [Related news articles.](#)

The U.S. Economy and Monetary Policy

June 10, 2013

St. Louis Fed President James Bullard discussed some aspects of the U.S. economy and monetary policy as part of a panel discussion at the 19th Annual Conference of Montreal.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardmontreal10june2013final.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/06/10/st-louis-feds-bullard-discusses-us-economy-and-monetary-policy>)

Related News Articles:

- [Bullard: Low Inflation, Other Factors Mean Fed Can Keep Buying](http://www.bondbuyer.com/issues/122_111/bullard-low-inflation-other-factors-mean-fed-can-keep-buying-1052498-1.html), by Gary Siegel, The Bond Buyer.
- [Fed's Bullard Says Low Inflation May Warrant Longer QE](<http://www.bloomberg.com/news/2013-06-10/fed-s-bullard-says-low->