Bullard noted that a key aspect of the new monetary policy framework is the FOMC's desire 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.

However, he cautioned, "A new risk is that inflation may surprise still further to the upside as the reopening process continues, beyond the level necessary to simply make up for past misses to the low side." He said this risk is tangible in part because many are expecting more good news on the U.S. economy in September-October when schools are back in regular session and work patterns normalize. He also noted that a global reopening process will follow behind the U.S. process, likely providing additional tailwinds for the U.S.

"Policymakers will have to take this new risk into account in the months and quarters ahead," he said.

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- **June 21, 2021**. Panel Discussion. Bullard Discusses Inflation, the Labor Market and Monetary Policy, Official Monetary and Financial Institutions Forum (OMFIF).

Bullard Discusses Inflation, the Labor Market and Monetary Policy during OMFIF Event

June 21, 2021

St. Louis Fed President James Bullard discussed U.S. economic growth, inflation, the labor market and monetary policy during a meeting of the Official Monetary and Financial Institutions Forum (OMFIF). He participated in a panel discussion with Dallas Fed President Robert S. Kaplan.

Bullard noted that the Federal Open Market Committee's median projection for economic growth in 2021 was upgraded to 7% and the median projection for core PCE inflation moved up to 3% in the latest Summary of Economic Projections (SEP). These compare to median projections of about 4% on economic growth and 1.8% on core PCE inflation in the December SEP. "I just think we're in a much stronger position with respect to reopening than we would have anticipated, and the inflation has come along with it," he said.

The essence of the Fed's new monetary policy framework is that the FOMC would allow inflation to run above target for some time, Bullard noted. Then the FOMC would approach 2% inflation from the high side and get something pretty close to 2% inflation when averaged across past years, he said.

Bullard cautioned that this is a period of high volatility and that there is upside risk to inflation. "We have to be ready on both sides, I think, to be able to react to that, to be state contingent, to be nimble, just as nimble coming out of the pandemic as I think we had to be going into the pandemic," he said.

On the labor market, Bullard said that the anecdotal evidence is overwhelming that it is very tight. He also noted that the extent of labor market improvement has been dramatic, with the unemployment rate now down to 5.8%. He added that he expects lots of further improvement in the months and quarters ahead.

Regarding tapering the Fed's bond purchases, Bullard noted that the debate is now open and that many parameters will have to be set, including the degree of state contingency.

He also addressed questions about fiscal policy, financial stability risks and the U.S. Treasury market during the panel discussion.

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