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- **August 6, 2019**. Presentation. "A Sea Change in U.S. Monetary Policy," National Economists Club, Summer Signature Luncheon, Washington, D.C. Presentation (pdf) (bullard_nec_washington_dc_6_august_2019pdf) | Press Release.

A Sea Change in U.S. Monetary Policy

August 6, 2019

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_nec_washington_dc_6_august_2019.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2019/08/06/bullard-sea-change-monetary-policy)

In Washington, St. Louis Fed President James Bullard discussed the significant adjustments made to the path of U.S. monetary policy by the Federal Open Market Committee starting in January 2019. “These changes were made in anticipation of slower growth in the U.S. economy during 2019 and also in anticipation of continued uncertainty regarding global trading arrangements,” he said in a presentation to the National Economists Club.

He noted that the FOMC actions have changed the outlook for shorter-term interest rates considerably over the last nine months, ultimately providing more accommodation to the economy.

The FOMC continues to face a slowing economy with some downside risk due to ongoing global trade regime uncertainty, Bullard said. He also pointed out that inflation and inflation expectations continue to fall short of the FOMC’s 2% target.

“While additional policy action may be desirable, the long and variable lags in the effects of monetary policy suggest that the effects of previous actions are only now beginning to impact macroeconomic outcomes,” he said.

St. Louis Fed's Bullard Discusses a Sea Change in U.S. Monetary Policy

WASHINGTON –Federal Reserve Bank of St. Louis President James Bullard discussed “ [A Sea Change in U.S. Monetary Policy](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_nec_washington_dc_6_august_2019.pdf)” on Tuesday at the National Economists Club’s Summer Signature Luncheon.

Bullard pointed out that the Federal Open Market Committee (FOMC) made significant adjustments to the path of U.S. monetary policy starting in January. “These changes were made in anticipation of slower growth in the U.S. economy during 2019 and also in anticipation of continued uncertainty regarding global trading arrangements,” he said.

“While additional policy action may be desirable, the long and variable lags in the effects of monetary policy suggest that the effects of previous actions are only now beginning to impact macroeconomic outcomes,” he said.

Meanwhile, he noted, inflation pressures remain muted, and a more meaningful inversion of the yield curve continues to threaten.

A Sea Change in U.S. Monetary Policy
Bullard began by noting the interest rate outlook was considerably different late last year than it is today. The FOMC raised the target range for the federal funds rate at the December meeting and projected further policy rate increases during 2019. However, in January, the FOMC began to change direction, he pointed out.

During the first half of 2019, he explained, the FOMC began to project fewer increases in the policy rate and also laid out a plan to cease the runoff of the Fed’s balance sheet. He added that, on June 19, the FOMC did not change the policy rate but strongly suggested that a future downward adjustment in the policy rate could be warranted. The FOMC then reduced the policy rate at its July 30-31 meeting.

Effects of the Sea Change

Bullard pointed out that interest rates today are dramatically lower than they were late last year. He noted that the two-year Treasury was trading to yield 2.98% on Nov. 8 and 1.72% on Aug. 2, a decline of about 126 basis. “This is a very large change over this time frame,” he said, noting the outlook for shorter-term interest rates dropped because of FOMC actions.

“Furthermore, these policy actions fed through to longer-term yields, which are more important for investment decisions,” Bullard said. The 10-year Treasury was trading to yield 3.24% on Nov. 8 and 1.86% on Aug. 2.

“The bottom line is that U.S. monetary policy is considerably more accommodative today than it was as of late last year,” he said.

Anticipated Slower Growth and Ongoing Trade Uncertainty

Bullard pointed out that the U.S. economy grew at a 2.5% pace during 2018, but growth for 2019 has long been expected to be slower as the economy returns to its potential growth rate. “A key risk has been that global trade uncertainties may cause this slowing to be sharper than anticipated,” he said.

Recent developments in global trade negotiations suggest that it will be difficult to reach a stable global trade regime over the forecast horizon, Bullard noted. “This is likely chilling global investment and feeding into slower global growth,” he said, adding that the direct effects of trade restrictions on the U.S. economy are relatively small, but the effects through global financial markets may be larger.

However, Bullard continued, “U.S. monetary policy cannot reasonably react to the day-to-day give-and-take of trade negotiations.” He added that he thinks of trade uncertainty as simply being high in the current environment and as something that is already factored into his monetary policy calculus. “I do not expect this uncertainty to dissipate in the quarters and years ahead,” he said.

Muted Inflation and Yield Curve Issues

Bullard then addressed the muted inflation pressures. He noted that both inflation and inflation expectations are below the FOMC’s 2% inflation target. “This is occurring despite more than two years of upside surprise in the U.S. real economy,” he said. “This is clearly concerning for the credibility of the inflation target.”

Turning to a discussion of the yield curve, Bullard explained that an inversion of the yield curve has tended to predict the onset of recession in the U.S.

Some portions of the Treasury yield curve are inverted today, he said, noting that the 10-year yield is below the effective federal funds rate. “However, the 10-year yield remains above the two-year yield, likely because markets are anticipating future policy moves by the FOMC, and so we are not seeing an intensification of the yield curve inversion so far,” he said.

Conclusion
The FOMC faces a slowing economy with some downside risk due to ongoing global trade regime uncertainty, Bullard said. He added that inflation and inflation expectations continue to fall short of the FOMC’s 2% target.

“However, FOMC actions have also changed the outlook for shorter-term interest rates considerably over the last nine months, ultimately providing more accommodation to the economy,” Bullard said.

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- **July 19, 2019**. Presentation. "Public and Private Currency Competition," Central Bank Research Association 2019 Annual Meeting, Columbia University and Federal Reserve Bank of New York, New York, N.Y. Presentation (pdf) (bullard_cebra_new_york_19_july_2019pdf) | Press Release.

  Public and Private Currency Competition