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- **January 14, 2019.** Article. "[Fed lessons from zero lower bound.](#)" (0119-minpdf) OMFIF's *The Bulletin*, January 2019, p. 10. (offsite pdf)
- **January 10, 2019.** Presentation. "[Perspectives on 2019 Monetary Policy.](#)" Power Up Little Rock, Little Rock Regional Chamber, Little Rock, Ark. [Presentation \(pdf\)](#) ([bullard\\_little\\_rock\\_regional\\_chamber\\_10\\_january\\_2019pdf](#)) | [Press Release](#) | [Video](#) | [Photos](#).

## **Perspectives on 2019 Monetary Policy**

January 10, 2019

[Presentation (pdf)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard\\_little\\_rock\\_regional\\_chamber\\_10\\_january\\_2019.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_little_rock_regional_chamber_10_january_2019.pdf)) | [Press Release](<https://www.stlouisfed.org/news-releases/2019/01/10/perspectives-2019-monetary-policy>) | [Video](<https://www.stlouisfed.org#video>) | [Photos](<https://www.stlouisfed.org#photos>)

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has now closed,” he said. He added that the Federal Open Market Committee (FOMC) should heed these important signals in order to keep the U.S. expansion on track for the next several years. “The FOMC has already been sufficiently pre-emptive over the last two years to contain upside inflation risk,” he told an audience of about 200 business and civic leaders.

Video of Presentation and Audience Q&A:

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### **St. Louis Fed's Bullard Offers Perspectives on 2019 Monetary Policy**

Little Rock, Ark. –Federal Reserve Bank of St. Louis President James Bullard offered [“Perspectives on 2019 Monetary Policy”]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard\\_little\\_rock\\_regional\\_chamber\\_10\\_january\\_2019.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_little_rock_regional_chamber_10_january_2019.pdf)) at the Little Rock Regional Chamber's Power Up Little Rock event on Thursday.

In his talk, Bullard pointed out that U.S. macroeconomic performance

surprised to the upside during 2017 and 2018 but inflation remains subdued. “U.S. monetary policymakers reacted to the upside surprise in macroeconomic performance during 2017 and 2018 by taking the opportunity to normalize U.S. short-term interest rates,” he said.

However, market-based signals such as low market-based inflation expectations and a threatening yield curve inversion suggest that this window of opportunity has now closed, he noted. The Federal Open Market Committee (FOMC) “should heed these important signals in order to keep the U.S. expansion on track for the next several years,” Bullard said.

“The FOMC has already been sufficiently pre-emptive over the last two years to contain upside inflation risk,” he added.

#### *Inflation Has Been Subdued Despite Upside Macroeconomic Surprise*

Bullard pointed out that, in March 2017, the median FOMC projection was for stable and subdued economic growth in 2017, 2018 and 2019. “Actual real GDP growth has been stronger than expected, actual unemployment has trended lower than expected, and actual inflation has been somewhat lower than expected,” he said.

Because the real economy performed better than expected in 2017 and 2018, many anticipated higher inflation, Bullard explained. “However, actual inflation readings have remained subdued,” he said. He added that core personal consumption expenditures (PCE) inflation, a commonly used benchmark measure, has been lower than expected during the last two years.

“This is further confirmation that older Phillips curve correlations—linking low unemployment to high inflation—have broken down and cannot be relied upon to provide a guidepost for today’s policymakers,” he said. 1

#### *Inflation Expectations Remain Subdued*

Bullard pointed out that the FOMC has missed its PCE inflation target on an annual basis every year since 2012. “Market-based measures of inflation expectations suggest that financial markets believe the FOMC will again miss its PCE inflation target to the low side in 2019 and, indeed, for the next

five years,” he said.

These expectations take into account all available information affecting the likely evolution of inflation going forward, Bullard pointed out. “This is a market signal that the current stance of monetary policy may be too hawkish,” he said.

#### *Risks of Further Slowdown in Global Growth*

Turning to forecasts from the International Monetary Fund, Bullard explained that global growth was modestly slower than expected last year. “During 2018, the IMF reduced its growth forecasts for much of the world outside the U.S., most significantly in Europe,” he said. The IMF did not lower its forecast for China, he explained, but other data suggest the Chinese economy is also slowing.

“Financial markets are concerned that the modest slowdown may turn into a more significant slowdown during 2019,” he added. Some of the data from China, such as slower industrial production growth, retail sales growth and fixed assets investment, may be feeding into this view, Bullard explained.

“In addition, global oil prices have fallen significantly in recent months, which is sometimes interpreted, in part, as a falloff in global demand,” he said.

#### *Yield Curve Inversion Threatening*

Bullard then discussed the yield curve, which has been flattening. “A significant and sustained inversion of the Treasury yield curve would be a bearish signal for the U.S. economy,” he said.

An inversion would suggest that financial markets expect less inflation and less growth ahead for the U.S. economy than does the FOMC, which influences the short end of the curve, Bullard explained.

“Inversions have been associated with recessions in the postwar U.S. data,” he said. “The FOMC should moderate its normalization campaign given that the yield curve is getting close to inversion.”

1For additional information, see J. Bullard, [“The Case of the Disappearing Phillips Curve,”]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2018/bullard\\_ecb\\_sintra\\_june\\_19\\_2018.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2018/bullard_ecb_sintra_june_19_2018.pdf))remarks delivered at the 2018 ECB Forum on Central Banking Macroeconomics of Price- and Wage-Setting, Sintra, Portugal, June 19, 2018.

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- **December 7, 2018.** Presentation. "[More on Modern Monetary Policy Rules.](#)" Indiana Bankers Association, Indiana Economic Outlook Forum,