market with unemployment below its longer-run level. “A natural forecast is that the pace of quarterly growth will now moderate and unemployment will rise to return to its longer-run level,” he continued.

Bullard noted the FOMC has taken aggressive action during 2022, with ongoing increases in the policy rate planned for 2023. This action has returned inflation expectations to a level consistent with the Fed’s 2% inflation target.

“During 2023, actual inflation will likely follow inflation expectations to a lower level as the real economy normalizes,” he said.

*Note: Disinflation refers to a decrease in the rate of inflation toward the Fed’s 2% inflation target.

James Bullard

James Bullard served as president and CEO of the Federal Reserve Bank of St. Louis from April 1, 2008, to July 13, 2023. In this capacity, he oversaw the activities of the Eighth Federal Reserve District and was a participant on the FOMC.

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Resources from Former President Jim Bullard

- **November 29, 2022**. Article. "Reflections on Monetary Policy in 2022," Federal Reserve Bank of St. Louis *Regional Economist*, November 2022.

Reflections on Monetary Policy in 2022

As we near the end of 2022, it is a good time to reflect on monetary policy during what has been a momentous year. When the year started, the target range for the federal funds rate (i.e., the policy rate) was near zero, and the

Federal Open Market Committee (FOMC) was still increasing the size of the Fed's balance sheet by purchasing Treasury securities and agency mortgage-backed securities.

However, since March, the FOMC has been removing monetary policy accommodation at its fastest pace since the 1980s in an effort to bring inflation back down toward the Fed's 2% target, thereby fulfilling its dual mandate of stable prices and maximum employment.

Inflation Running Far above Target
Last year, the U.S. began to experience a sharp rise in inflation; at the time, it wasn't clear if this was a transitory or a persistent phenomenon. In November 2021, I wrote about the need for [a risk management approach to monetary policy](https://www.stlouisfed.org/publications/regional-economist/fourth-quarter-2021/risk-management-approach-monetary-policy)[March 2, 2022, presentation on removing monetary policy accommodation](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/removing-monetary-policy-accommodation)

According to the December 2021 Summary of Economic Projections (SEP), the FOMC was expecting inflation to decline toward 2% during 2022. In particular, the median FOMC participant last December projected that headline inflation would be 2.6% and core inflation would be 2.7% in the fourth quarter of 2022. (These measures are based on the year-over-year percent change in the headline and core price indexes for personal consumption expenditures, or PCE.) By September 2022, however, when the latest SEP was released, the median FOMC participant projected that headline inflation would be 5.4% and core inflation would be 4.5% at the end of this year—much higher than expectations last December. In fact, inflation in 2022 reached levels comparable to those in the 1970s. (The most recent readings for headline and core PCE inflation are for September and came in at 6.2% and 5.1%, respectively.)

Meantime, U.S. labor markets have remained strong all year, which has given the Fed some leeway to fight inflation. For instance, the Kansas City Fed's labor market conditions index, which aggregates many different measures of labor market performance into one metric, suggests that labor market conditions in 2022 have been near highs last seen in 1999-2000. Getting inflation under control is key to keeping the labor market strong and healthy in the long run.

Front-loading Rate Hikes
Early in the year, I began advocating that the FOMC front-load its planned removal of monetary policy accommodation.For example, see my [Feb. 14, 2022, CNBC interview](https://www.stlouisfed.org/from-the-president/video-appearances/2022/bullard-inflation-policy-rate-cnbc)[June 2022 Regional Economist article](https://www.stlouisfed.org/publications/regional-economist/2022/june/getting-ahead-of-inflation-lesson-1974-1983)

Indeed, the FOMC has been removing monetary policy accommodation more aggressively than previously had been anticipated.See my [July 7, 2022, presentation on the FOMC's first steps toward disinflation in the U.S.](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/the-first-steps-toward-disinflation-us-little-rock)

In March, the FOMC raised the policy rate from its near-zero level. After the initial 25 basis point increase, the FOMC began making larger moves: 50 basis points at its May meeting and 75 basis points at each of its next four meetings (in June, July, September and November). The target range for the federal funds rate currently stands at 3.75% to 4%—up 375 basis points so far this year. Further increases are anticipated to raise the policy rate to a sufficiently restrictive level that puts meaningful downward pressure on inflation.

In addition to these policy rate hikes, so-called quantitative tightening (QT) has been occurring since June. At that time, the FOMC began allowing some maturing securities to run off the Fed's balance sheet, thereby reducing its size and putting some upward pressure on longer-term interest rates. The pace of the current runoff has been much quicker than the last time the FOMC implemented QT, which was prior to the pandemic.

A Policy Rate That Puts Downward Pressure on Inflation
What policy rate level is needed to exert downward pressure on inflation

given the current macroeconomic situation in the U.S.? While there is plenty of debate on this question, a calculation I did in the spring suggested a policy rate of around 3.5% would be the minimum value needed to put downward pressure on inflation.For details about the Taylor-type monetary policy rule and generous assumptions that I used, see, for example, the presentation I gave at Stanford University in May 2022 titled " [Is the Fed 'Behind the Curve'? Two Interpretations](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/is-the-fed-behind-the-curve-two-interpretations-hoover-institution)

More recent calculations using the same generous assumptions have yielded a higher minimum value. Results based on the latest trimmed mean PCE inflation rate, which is for September, suggested that it would take a policy rate of at least 4.9% to exert downward pressure on inflation. Thus, even under generous assumptions, the policy rate has not yet reached a level that could be considered sufficiently restrictive, according to these calculations.For details on what may be considered [a sufficiently restrictive zone](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/getting-into-the-zone-louisville)

Approaching More Normal Monetary Policy
With the moves the FOMC has made this year, we are approaching a point at which we will have removed monetary accommodation and can transition to what I would call ordinary monetary policy—that is, data-dependent policy that looks more like it did in the 1990s.I discussed a return to ordinary monetary policy during my [Oct. 19, 2022, interview with Bloomberg](https://www.stlouisfed.org/from-the-president/video-appearances/2022/bullard-policy-rate-needed-to-lower-inflation-bloomberg-tv)

The policy rate will eventually reach a level the FOMC judges sufficient to put meaningful downward pressure on inflation. From there, the FOMC can adjust the policy rate up or down depending on incoming data without first having to get it from near zero up to a level considered appropriate for the inflation environment.

Exactly what that point will be and when it will occur remain to be determined, but I look forward to continuing to work with my FOMC colleagues to fulfill our dual mandate and to return inflation to the Fed's 2% target.

Notes

1. I also discussed the potential need for the FOMC to move more aggressively if inflation increased or did not moderate as much as expected in a [March 2, 2022, presentation on removing monetary policy accommodation](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/removing-monetary-policy-accommodation)
2. For example, see my [Feb. 14, 2022, CNBC interview](https://www.stlouisfed.org/from-the-president/video-appearances/2022/bullard-inflation-policy-rate-cnbc)
3. I've also talked about lessons learned from the 1974 and 1983 experiences regarding the importance of getting ahead of inflation (for example, in my [June 2022](https://www.stlouisfed.org/publications/regional-economist/2022/june/getting-ahead-of-inflation-lesson-1974-1983)Regional Economist
4. See my [July 7, 2022, presentation on the FOMC's first steps toward disinflation in the U.S.](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/the-first-steps-toward-disinflation-us-little-rock)
5. For details about the Taylor-type monetary policy rule and generous assumptions that I used, see, for example, the presentation I gave at Stanford University in May 2022 titled " [Is the Fed 'Behind the Curve'? Two Interpretations](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/is-the-fed-behind-the-curve-two-interpretations-hoover-institution)
6. For details on what may be considered [a sufficiently restrictive zone](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/getting-into-the-zone-louisville)
7. I discussed a return to ordinary monetary policy during my [Oct. 19, 2022, interview with Bloomberg](https://www.stlouisfed.org/from-the-president/video-appearances/2022/bullard-policy-rate-needed-to-lower-inflation-bloomberg-tv)

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- **November 22, 2022**. Panel Discussion. "Classic Policy Benchmarks for Economies with Substantial Inequality," XXV Annual Conference of the Central Bank of Chile, Heterogeneity in Macroeconomics: Implications for Monetary Policy.
Presentation (pdf) (bullard_dicecio_slides_classic_policy_benchmarks_santiago_nov_22_2022pdfsc_langenhash40b95af94e7c8dd6d150f06f2aba95e4) | Video.
He presented previous versions of these slides at lectures and conferences in Minneapolis (bullard_dicecio_slides_classic_policy_benchmarks_oct_15_2021pdf), October 15, 2021; London (bullard_dicecio_slides_lse_cb_society_mar_23_2021pdf), March 23, 2021; The Dow Lecture (bullard_dicecio_slides_dow_lecture_feb_9_2021pdf), February 9, 2021; Austin (bullard_dicecio_bruce_smith_memorial_22_feb_2020pdf), February 22, 2020; Paris (bullard_dicecio_banquedefrance_cepr_6_dec_2019pdf), December 6, 2019; Hong Kong (bullard_dicecio_slides_hongkong_23_may_2019pdf), May 23, 2019; Barcelona (bullard_dicecio_barcelona_22_june_2019pdf), June 22, 2019; St. Louis (bullard_dicecio_niesr_8_july_2019pdf), July 8, 2019; and Pretoria (bullard_dicecio_slides_sarb_24_oct_2019pdf), October 24, 2019.

Policy Panel at Central Bank of Chile Conference

November 22, 2022

St. Louis Fed President Jim Bullard participated on a policy panel during the Annual Conference of the Central Bank of Chile. The topic of the conference was “Heterogeneity in Macroeconomics: Implications for Monetary Policy.”