



St. Louis Fed President Bullard "Cautiously Optimistic" the Worst Is Over

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LITTLE ROCK, Ark. — St. Louis Fed President James Bullard said Thursday that he remains "cautiously optimistic" that the worst of the economic crisis has passed.

"Recent data suggest the economy is stabilizing, and there should be positive economic growth in the second half of 2009," Bullard said during an economic outlook presentation at the College of Business at the University of Arkansas-Little Rock.

Bullard cited several key economic indicators that have recently shown signs of improvement, including real personal consumption expenditures, which are showing signs of leveling out. However, he noted that any recovery in household spending will be slow and gradual.

Bullard also pointed to recent housing data that indicates this sector is nearing a bottom and to recent employment figures that are showing smaller declines, although the labor market is expected to remain weak. The turmoil in the financial markets also seems to be abating, although conditions have not yet gone back to pre-crisis levels.

Another positive sign is improved economic growth in other countries, Bullard said.

"The international outlook is also showing more positive signs, most recently with France, Germany and Japan reporting positive growth figures," Bullard said.

To help keep the fledgling recovery on track, the Fed's monetary policy will remain accommodative, he said.

"The Fed's main objective during 2007-2009 was to avoid a deflationary experience such as the one experienced during the 1990s in Japan," Bullard said. "Monetary policy is still very accommodative, and the FOMC intends to keep the fed funds target near zero for an extended period."

"As we head to 2010, the Fed will shift its focus to implementing an exit strategy in order to avoid any potential inflation threats to the economy," he added.

He highlighted three parts to exiting from current monetary policy: Exiting the liquidity programs as they expire, exiting the asset purchase program and exiting current interest rate policy.

"While exiting liquidity programs seems quite clear, exiting the asset purchase program may have to rely on selling assets as appropriate," Bullard said. Regarding current

interest rate policy, Bullard stressed the FOMC's intention to keep the target low for an extended period in order to help alleviate the strains in the economy.

In other comments, Bullard discussed regulatory reform and noted that the regulatory system for smaller banks has proven to be robust during the current crisis due to deposit insurance, high-quality monitoring of banks and a clear resolution regime.

"The same is not the case for large banks and non-bank financial institutions," Bullard noted, as monitoring is more difficult and no clear resolution regime exists.

He also addressed the need for the Fed to remain closely involved in the regulatory structure due to the Fed's role as the lender of last resort and its monetary policy functions. In regard to the importance of Fed independence, Bullard said that limiting Fed independence would be counterproductive because it would lead to concerns of monetization of the national debt and higher yields.

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