



A Tale of Two Narratives

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July 12, 2016

While addressing business economists during a meeting in St. Louis, President James Bullard discussed how the St. Louis Fed's new approach to near-term U.S. macroeconomic and monetary policy projections differs from the old approach. He noted the previous narrative was based on the idea that the economy is converging to a single, long-run steady state. Under the new narrative, he said that the economy instead may visit a set of possible regimes, or states. Bullard said that the projected policy rate path is the main difference in the new approach: The policy rate under the old narrative would likely rise over the forecast horizon to be consistent with its steady state value, whereas the policy rate under the new narrative would likely remain essentially flat over the forecast horizon to remain consistent with the current regime.

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Amerigo Vespucci

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