How to Extend the U.S. Expansion: A Suggestion

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In New York, St. Louis Fed President James Bullard laid out a possible strategy for extending the U.S. economic expansion. The strategy relies on placing more weight on financial market signals, such as the slope of the yield curve and market-based inflation expectations, than is customary. He noted that many current approaches to monetary policy strategy continue to overemphasize the now-defunct empirics of the Phillips curve, whose inflation-unemployment relationship has largely broken down over the past two decades. “Handled properly, current financial market information can provide the basis for a better forward-looking monetary policy strategy,” he said. He also noted that these signals could help the FOMC better identify the neutral policy rate. “The flattening yield curve and subdued market-based inflation expectations suggest that the current monetary policy stance is already neutral or possibly somewhat restrictive,” he said.