What Is the Best Strategy for Extending the U.S. Economy's Expansion?

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In Chicago, St. Louis Fed President James Bullard discussed a possible strategy for extending the U.S. economic expansion. He said his preferred approach relies on placing more weight on financial market signals, such as the slope of the yield curve and market-based inflation expectations, than has been customary in past U.S. monetary policy strategy. He explained that the empirical relationship between inflation and unemployment (the so-called Phillips curve) has largely broken down over the last two decades, leaving monetary policymakers without a clear guidepost for action.

“Handled properly, current financial market information can provide the basis for a better forward-looking monetary policy strategy,” he told the CFA Society Chicago. 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.

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