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The Initial Response to the Inflation Shock of 2021

January 6, 2022

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During a presentation for the CFA Society St. Louis, St. Louis Fed President Jim Bullard said that U.S. inflation has surprised substantially to the upside in an environment where measures of real economic activity and labor market performance are expected to remain robust. “There has been an initial U.S. monetary policy response to the inflation shock, and this response is already reflected in financial market pricing,” he said.

The Federal Open Market Committee “is in good position to take additional steps as necessary to control inflation, including allowing passive balance sheet runoff, increasing the policy rate, and adjusting the timing and pace of subsequent policy rate increases,” Bullard said.

He also discussed pandemic risk from the COVID-19 omicron variant. While pandemic risk remains, omicron variant cases are expected to subside in the weeks ahead, he noted.