Bullard Discusses the U.S. Economy and Policy Rate Increases during UBS Panel

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St. Louis Fed President Jim Bullard talked about the direction of the U.S. economy and controlling inflation during a panel discussion in Zurich hosted by UBS.

Asked whether he was concerned about recession risks, Bullard said personal consumption expenditures growth in the U.S. has been strong, and households seem to be “in great position to spend going forward,” with more reopening of the economy, unspent COVID-19 pandemic aid, wealth at high levels and a strong labor market.

Bullard also said he is “still bullish” on overall investment, and while the businesses he talks with are reporting issues such as with input and production costs, the fundamental business for a lot of them “sounds very, very good.”

“So, I actually think we’ll be fine,” he said. He went on to say that the Fed’s interest rate increases will slow down the economy, but probably to more of a trend pace of growth as opposed to going below trend.

He later reiterated that front-loading policy rate increases is a good idea in this situation. “What you would like to do, if we can, is nip inflation in the bud before it gets entrenched in the economy, get inflation back down toward 2% and converge to our long-run balanced growth path from the high side,” he said. He noted that headline PCE inflation is 6.3%, similar to the 1970s median rate of 6.4%.

Business inflation expectations have gone up substantially, Bullard said. He said he thinks pricing decisions on the business side, rather than from the labor market, is where the disinflation dynamic will get started and will continue, as businesses start to worry about losing market share if they increase prices.

Watch the discussion.