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Bullard Discusses Inflation and the Economic Outlook

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St. Louis Fed President Jim Bullard talked about the need for the Fed to keep interest rates at high enough levels to ensure inflation moves down and stays down. He also discussed “bullish factors” for the U.S. economy in 2023 during a Wisconsin Bankers Association virtual event.

Inflation remains well above the Fed’s inflation target but is moderating in response to front-loaded and aggressive monetary policy in 2022, Bullard said.

The Fed’s policy—especially the aspect of front-loading policy rate increases—has been the right one to get the policy rate to the right level to return inflation to the 2% target on a consistent basis, Bullard said. By front-loading transparently and communicating with markets, the Fed can avoid 1970s outcomes, when inflation would seem to come down but then rise again to even higher levels, he said.

“That means that the Fed is going to have to maintain rates at high enough levels to make sure that inflation is moving down and staying down on a consistent basis,” he said.

Bullard said that his preference would be to get to the level of the policy rate that would be considered sufficiently restrictive as soon as possible and get the benefit of downward pressure on inflation from the higher policy rate.

Bullard also cited “bullish” factors for the U.S. economy going into 2023, including forecasts of above-trend GDP growth for the fourth quarter of 2022, which would bring GDP for the second half of 2022 more in line with the strong labor market, he said. Bullard also cited household wealth and improved global economic prospects.

Bullard answered questions about the Fed’s quantitative tightening program, supply chain constraints and money supply.



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