Fed Unfiltered, Transcript
2/14/22 – James Bullard, Interview: CNBC (part 1)

Steve:

Following your remarks last week, which made quite a stir, as you know, future's markets priced pretty firmly in a 50 basis point rate hike in March. Was that a correct interpretation of what you were saying?

James Bullard:

Yeah. Steve, as you know, we got the hot CPI report last Thursday, I guess. And I think my interpretation was not so much that report alone, but the last four reports taken in tandem have indicated that inflation is broadening and possibly accelerating in the US economy. So I shaded up my position, and I'm just one person on the committee, but I shaded up my position to say I'd like to see 100 basis points worth of movement on the policy rate by July 1. So I also said I would defer to the chair exactly how to go about that. And he's very good at managing the committee and everything else that goes with this. But I do think we need to front-load more of our planned removal of accommodation than we would've previously.

James Bullard:

We've been surprised to the upside on inflation. This is a lot of inflation in the US economy. 7.5% on the headline CPI. These are numbers that Alan Greenspan never saw, that haven't occurred in 40 years. So our credibility is on the line here. And we do have to react to data. However, I think we can do it in a way that's organized and not disruptive to markets. We're only removing accommodation. So it's still an accommodative policy as we go through these initial rate hikes. They're rather cheap actually, given that unemployment's down 4% and the economy's expected to grow, let's say 3.5% to 4% this year. So I think my position is a good one. And I'll try to convince my colleagues that it's a good one.

Steve:

Some said the January inflation report was really not much worse than expected, actually just a couple tents higher.

James Bullard:

No, no. Let me push back. I'm pushing back.

Steve:

Did you expect-

James Bullard:

I'm pushing back on that. I said let's take the four reports together.

Steve:

Go for it. Go for it.

James Bullard:

Yeah. Let's take the four reports together since October. Because it's really October, November, December, January that has really called into question any idea that this inflation was naturally going to moderate in any reasonable timeframe without the Fed taking at least some action. So it's that, I think. Sure, any particular report is a few tents here, a few tents there. But the big picture is that inflation is much higher than we would've expected, let's say six months ago or nine months ago, and certainly 12 months ago. And so we've been surprised to the upside. And if you look at the Atlanta Fed's inflation tracker, it's all turned red. So it doesn't really matter how you measure inflation. All the different measures are way above their norms.

Steve:

President Bullard, you're like one of those contestants on Jeopardy! who answers the question before the full answer is read. Because what I was going to say was that they didn't expect much improvement in January, and also that the market has already priced in a lot of Fed tightening out there, 100 basis points on the two-year, and that really going faster or speeding up the rate hikes is not going to bring more tightening into the market or solve the inflation problem before the expectation that it comes down later this year. Is there already a lot of tightening in? And does going faster really make that much of a difference to how much you change the inflation trajectory?

James Bullard:

Yeah. Steve, I love that argument. I have made that argument. I thought I was the one that made that argument. So the two-year is up substantially since, let's say, last October, when this process got started. And that's great. That's helping us a lot. That means that there is some removal of accommodation already in the market. So that's great. But still, the Fed has to follow through and ratify those expectations that have been built into the two-year. And if we don't, then it makes it appear that we're not defending our 2% inflation target and that we're not trying to make sure that inflation is coming under control. I think the inflation that we're seeing is very bad for low and moderate income households. Real wages are declining. People are unhappy. Consumer confidence is declining. This is not a good situation. We have to reassure people that we're going to defend our inflation target and we're going to get inflation back to 2%.