**Fed Unfiltered, Transcript**
**2/17/22 - James Bullard, Interview: CNN**

Speaker 1:

I have to say you alarmed, if that's the right word, investors in recent days, arguing for quicker tightening. Since then, we've had even more alarming pricing data, both consumer prices and producer prices. Is that one percentage point hike, by July, even enough, in your mind, at this stage?

James Bullard:

Well, on the investor alarm, we're not trying to keep everyone calm, I guess, at every moment, I think. What we want to do is pursue the best policy that we can and let the market adjust, let the market price appropriately. And we have high inflation in the US. Headline CPI inflation running at 7.5% over the last year.

James Bullard:

If you want to throw out food and energy and go to the committee's preferred measure of inflation, I now think that that will be above 5% in the next report; about 5.2%, I'd say, on PCE inflation, less food and energy. So, this means that we're missing our inflation target on our preferred measure by more than 300 basis points. And policy is still at rock bottom lows, as far as interest rates. And we've got still asset purchases going on. So, this is a moment where we need to shift to a less accommodation. And the debate is about how fast to do that.

James Bullard:

I've suggested that good target would be to have the funds rate or the policy rate up at about a hundred basis points by July 1st. And that does mean we would have to move faster and more nimbly than we have in recent decades. But I think that's probably the appropriate policy now. We need some risk management in case this inflation does not moderate in the second half of this year, in which case the Fed would really be, I've said in previous interviews, "in a pickle" in the second half of the year, if inflation doesn't moderate and we still have this extremely accommodated policy in place.

Speaker 1:

Yeah, I was going to say, I didn't mean to suggest alarm was a bad thing in this case, actually. I think consumers are really alarmed by what they're seeing, and the response is required. And some might say, "especially pickled" rather than "in a pickle" at this current juncture. Have you had any convincing your colleagues about the prospect of needing perhaps even a half point rate hike in March, or are you still an outlier?

James Bullard:

Well, we'll have to see. Markets are pricing, I think, about 50% probability right now. But I'm not saying that that's necessarily what we have to do. I think I've laid out this "A hundred basis points by July 1st" and let the chair manage the committee and the expectations around that appropriately. He's very good at that. But I do think it's important to get moving. And I do think it's important that markets understand that necessity of the Fed's move here.

Speaker 1:

I was checking this morning and I think it's around 60% priced actually.

James Bullard:

Ah, okay.

Speaker 1:

But I'll take your word for it-

James Bullard:

It's been fluctuating.

Speaker 1:

... rather than mine. But the point is, the market's doing some of the work for the Federal Reserve here, in that it's sort of pricing. How important is doing what the market's pricing and following through versus doing actually what should be done?

James Bullard:

Well, fortunately, yes, markets have done a lot of the pricing already, the two years up substantially since last October. That's helping us a lot, I think. And I think that's great. And then I think our follow-through will also be appropriate. That would be the appropriate policy. One thing I guess I'd like to say here is that a lot of people say, "Well, if you raise rates, you're risking recession." No, I don't think so. Come on. This is just the very first in a series of moves. There will be a point in the future where we'll have to make a judgment about how far is too far. But this is just talking about the very first moves from an extremely accommodated policy that we used during the pandemic.

James Bullard:

And I don't think those first moves are very likely to tip the economy into recession. I'm still expecting three and a half to 4% growth this year in the US economy. And I think labor markets will get even tighter than they are right now. And they're some of the tightest labor markets we've seen in a generation. So, I think we're in good shape on the real economy.

James Bullard:

Unfortunately, this inflation is eating into wage gains for low and moderate income households. They're noticing that. And they're saying that their purchasing power is going down. So, we'd like to provide some relief on that by keeping inflation under control.

Speaker 1:

We're talking about a 4% annualized growth economy record or near record; quick rate of people for jobs. Jobs are plentiful if you can find the right people. Larry Summers, the treasury secretary, said yesterday, "You should quit QE" because obviously the Federal Reserve's still buying bonds "tomorrow." Do you agree?

James Bullard:

Well, the thinking on that is that this has already been drawn to a close and it will end in March. I think, even if we did that, it would be a symbolic and token effort at this point.

Speaker 1:

Bur it would send a message.

James Bullard:

It would send a message. It's something we could consider, but I think the committee has looked at that. It was mentioned in the minutes that came out yesterday. But the judgment was to just go ahead and let the program end.

James Bullard:

But I do think it's a bit of a juxtaposition here to have these kinds of inflation numbers and us still with the asset purchases going on. But it just shows you how fast events are moving with respect to the economy. And the committee is going to have to similarly move quickly in response to the data.

Speaker 1:

Is it a juxtaposition, or is it just, to your point, and you've made it already, a real danger for the Fed's credibility?

James Bullard:

I'm concerned that we react appropriately in this environment. And I think our credibility's more at risk than it's been at any time since I've been in the Fed in 30 years. But I'm confident in the chair and the committee that we'll come to the right conclusions in the end, and we will be able to keep inflation under control. But it does-

Speaker 1:

What's-

James Bullard:

... require us to move now.

Speaker 1:

Yeah, what's the fear? Just because you mentioned it. And the discussion's already being had, "Oh, if you look at what the markets are pricing, then there's a risk that they move too fast, and we go into recession." It's, "Hang on a second. Look at the data. Look at consumer confidence. Look at rising prices;" to your point, the impact that that's having. Why hold back, Jim? What is the fear?

James Bullard:

You'd have to ask others about that, why we wouldn't go ahead at this juncture. I think I have a very strong argument, and I hope I'm-

Speaker 1:

Yeah-

James Bullard:

... able-

Speaker 1:

...you're right.

James Bullard:

... to carry the day here. But-

Speaker 1:

I'm asking the wrong person.

James Bullard:

But I'm only one person on the committee. So, I think you just have to ask others what their key concerns are.

Speaker 1:

But they're not afraid of the market?

James Bullard:

I'm not.

Speaker 1:

Do you think they are?

James Bullard:

Yeah. Market's generally been way up during the pandemic, and asset prices are off their all-time highs, but they're still quite high. And housing prices have been way up, and household wealth has been way up. So I think, as far as asset holders in the economy, they've done very well through this period. And even if there was a repricing there, I think they'd still be in pretty good shape, considering the last two years.

Speaker 1:

It's fascinating. You raise a really important point. And we've talked about it in the past, you and I, about asset price inflation and bubbles or bubblets. And I look at some of the asset price shifts that we've seen, whether it's in some of the meme stocks or even cryptocurrencies. And in the past six months, there will be people, given the peak to drop that we've seen, that lost way more money than they can afford. And easy money, perhaps, excessive risk-taking, and exuberance has fueled that. Do you think the Fed needs to take some responsibility for that at this moment too?

James Bullard:

Yeah. Low rates do feed into a certain amount of exuberance. You can borrow money to do things that might be more questionable than they would be at higher interest rates. So, I think that sort of behavior will get shaken out here to some degree. But I'd be mostly concerned about housing. Housing market has been very ebullient. And there's been, also, I think, the pandemic causing a shift of demand toward single-family homes and people wanting to invest more in the places that they're spending more time.

James Bullard:

And the demand part is okay. But to the extent this is overpriced, we got into a lot of trouble in 2007 to 2009 by having a overpriced housing market that had to correct. And that caused a lot of problems because those are leveraged assets. So, I think we want to be very cautious on that dimension. And that again brings up this issue about the purchases of asset mortgage-backed securities and aid to the housing market in a environment where we really didn't really need to be providing aid to the housing market. That came from early in the pandemic, where there was a concern about that. But that concern has not been warranted.

Speaker 1:

Jim, I think we've gone full circle on this conversation. And it ties back to the calibration of policy response and not letting things go too far. Good luck, sir. And I never thought I'd say that about interest rates. But good luck convincing your colleagues, and I'm sure we'll talk again soon. Great to chat to you as always.

James Bullard:

Great. Thanks for having me.

Speaker 1:

Jim Bullard, thank you. The president of the St. Louis Federal Reserve.