Fed Unfiltered, Transcript
8/25/22, James Bullard, Interview: CNBC

Speaker 1:

We talked a couple weeks ago and you talked about a 4.4% peak funds rate. Are you still in line with that idea?

James Bullard:

I think I said 3.75 to four is my target for this year, for the end of this year. And I like the front loading, I like the idea that you get the rate increases in earlier, rather than later. We've got inflation right now, we've got a strong labor market right now. It seems like a good time to get to the right neighborhood for the funds rate.

Speaker 1:

We had a good debate in the noon hour about the idea of 50 or 75 and how much it matters. Why does it matter to go faster? What's the upside of that?

James Bullard:

Yeah, I think the front loading idea is that, first of all, you show you're serious about inflation fighting and you want to get up to the level that will put downward pressure on inflation. We're at 2.33 right now, that's not high enough to be serious about putting downward pressure on inflation. Market has helped us a lot, there's been a lot of pre pricing during the spring and the summer here. But we have to get our policy rate to where it needs to be to put downward pressure on inflation. And I think you got to have a three handle.

Speaker 1:

What happens after 3.75 to four at the end of this year?

James Bullard:

Yeah. I haven't talked much about next year and I think-

Speaker 1:

Feel free.

James Bullard:

Yeah. Well, this is such a volatile environment that you're not quite sure what's next. So I think I'd want to be careful about promising anything one way or another, about what would happen next year. But a baseline would be that probably inflation will be more persistent than what many on Wall Street expect. That's going to be higher for longer and I think that's a risk that's under-priced in markets today.

Speaker 1:

Do you worry about that when you look at the outlying futures contracts and say, "They're not embracing the rate hikes that I think, or the kind of financial conditions that I think need to be there."

James Bullard:

There's showing outstanding confidence in the federal reserve, which I appreciate. I really hope that they're right. If we act early and aggressively, that we will bring inflation under control relatively quickly.

But the risk is that the other side of that isn't being priced enough. The reality is we may have to be higher for longer.

Speaker 1:

Talk to me about how you react and I understand you try not to react to the day to day changes. But in general, when you see the stock market rising, you see bond yields falling. Does it make you feel like you have other work to do?

James Bullard:

I try to stay away from equity pricing because there's so many things going on in equity markets and a few stocks can drive the market on a given day. Usually those are developments that those particular firms, and you've got the heavy Silicon Valley component and who knows how to value those companies. So I don't want to take too much signal from equities when I'm trying to make monetary policy. I try to look at other aspects of asset pricing, spreads, volatility, levels of rates, real rates.

Speaker 1:

But right now bond markets are ... yields are higher. Does that give you more comfort that your message is getting out of what it is you want the market to embrace about financial conditions and where they're going?

James Bullard:

I would say that's a little better pricing of the risk that we'll have to do more at the fed to keep inflation under control.

Speaker 1:

You talked earlier about this idea of inflation being more permanent. The topic of the conference here is constraints on the economy. There's some discussion and talk about the idea that maybe some of the factors that have led to high inflation now may stick around. Is there a world that's coming in ... or an economy coming to the US of higher permanent inflation?

James Bullard:

I don't see any reason why we have to have that. I mean, you need to understand the economy in order to make monetary policy. I would say if there are structural issues or things that are changing, that's very relevant for making monetary policy. But really in the end, we have an inflation target because it's up to the central bank to hit the inflation target. You take all those factors on board, you print the right amount of money for that situation. You should be able to hit the inflation target, even if there are these long run structural factors. I mean, it's important to understand those factors, but that doesn't stop us from hitting the 2% inflation target.