

Fed Unfiltered, Transcript
8/26/22 - James Bullard, Interview: Bloomberg TV

Speaker 1:

There's a new phrase from Jim Bullard right now we'll get right to, and that is the phrase of the moment, front loading. Jim Bullard, what is front loading?

James Bullard:

I think we wanted to pull the rate increases forward in time because the inflation that we got in 2021 sort of exploded onto the scene, so we had to move more quickly than we would've historically. But that's appropriate for this situation as we're coming out of the pandemic and we've got a lot of fiscal policy, a lot of monetary policy during the pandemic.

Speaker 3:

One of the questions that Wall Street has had after Chairman Powell has spoken in the past is he said that at some point it's appropriate to slow the pace of increases and they take that as dovish. Others push back and say, it's not how fast we do it, it's where we go. Do you agree with that? The pace doesn't really matter as much as what the terminal...

James Bullard:

I think the pace matters a little bit. You do have to get to the level of the policy rate that will put downward pressure on inflation now. And we've been able to get some downward pressure on inflation during the first half of this year. Most of that came through market pricing, not through the actual level, the funds rate, but now you have to follow through and get the funds rate to a level that's defensible that you can say, Hey, I'm putting downward pressure on inflation. We've got an eight handle on headline, CPI inflation. This is more inflation than we've seen in 40 years. We've got to get the rate up.

Speaker 3:

Well, the concern that some members of the committee have had is that, as you said, it's been market pricing. It's not the full effects yet of the tightening. And when that hits, the economy may be weak. And then you're doing a disservice by sending us into recession.

James Bullard:

You know long and variable lag something uttered by Milton Freedman, but that was based on data from the fifties and sixties. I think today's market it's partly because of media like this. It moved very quickly in response to projected paths of policy and I would cite as exhibit number one, the housing market, which has already slowed down substantially in the spring here. And it started to do that before we even made much of a move. We would only move 25 or made one or two moves and hadn't even started the balance sheet runoff. So I don't think this long and variable lag thing is as accurate as it might have been historically. I think you're getting a lot of the impact now, but we can't just rely on markets. We have to get our rate up to the level that we'll put downward pressure on inflation. I've said 3.75 to 4%. By the end of this year, I'd like to get to that level. And sooner is better, as far as I'm concerned.

Speaker 3:

A lot of people have said neutral is higher than Chairman suggested. We were there almost at two point a half percent, but the inflation is making the need to go higher.

James Bullard:

Fed Unfiltered, Transcript

8/26/22 - James Bullard, Interview: Bloomberg TV

Yeah, that's a long run. That's a long run neutral that you can read that off the summary of economic projections. And that's if the economy is on the balance growth path, inflation was at 2%, expected to remain at 2% then that would be a logical level for the policy rate then. But that's not where we are today. We've got all this inflation and we've got a very strong labor market. So that's why it makes sense to go well above that to a recommended policy rate that's well above that.

Speaker 4:

Has that long run neutral point changed for you? Has that had a lift? Do you think we go back to the old world, the pre pandemic world of low inflation, low growth and a lower long term neutral rate. What have we going towards?

James Bullard:

I don't like to get wrapped up in this because this is the thing we know the least about. So it's good to think about it and it's good to project about it, but we don't really know where everything will settle out, let's say five to 10 years from now. But you've got this immediate problem now where you've got the inflation today. That's where you got to fight your battle today.

Speaker 4:

Can you tell me where balance sheet reduction fits into that? We've heard numbers like trillion dollars of balance sheet reduction over the next 12 months? What is that to you in terms of tightening policy and how does that compliment your thoughts on where rates should be?

James Bullard:

Yeah, and I think it is a compliment to the rate policy. I'm hopeful that we'll get, and I do think that we've gotten some downward pressure, or upward pressure on longer term interest rates through this channel. I think that econometric estimates are all over the map, they're very wide. So we'll see... One thing that I think may be pretty effective here is that this is a global quantitative tightening. And so you've got many central banks moving in the same direction here all at once. That may push longer term yields higher and help us keep inflation under control globally.

Speaker 1:

St. Louis Cardinals who had a spectacular August. There's no question...

James Bullard:

They're looking like the best team in baseball right now.

Speaker 1:

And they've got a manager who is unique, young and different. He has a communication strategy that is original. What's the next communication strategy for the Fed? Is there too much communication though?

James Bullard:

I think we do a great job because I think it's good to have a big committee. There's information is coming in and continuous time, you'll appreciate. And you have to react, markets want to know. Well, what do you think about that data point? What do you think about that data point?

Fed Unfiltered, Transcript
8/26/22 - James Bullard, Interview: Bloomberg TV

Speaker 1:

Did he twice in this conversation, blame the media for the mess we're in?

Speaker 3:

Only you Tom.

Speaker 4:

We asked President Harker, whether we should get rid of the dot plot. Do you think we should?

James Bullard:

I've felt that we should do something with the dot plot, but we haven't figured out what to do. I have talked with you guys about stepping out of it, but I don't like the emphasis on, let's say three years from now here's where we're going to be. The information content of that is close to zero. So I don't think we should pretend that we're saying something when we don't really know and we should probably keep it shorter term about, well, here's where we think we are and here's where...

Speaker 1:

If you have Pujols up to the lunchroom at the St. Louis Fed on his retirement, can you have the surveillance team come out to celebrate that?

James Bullard:

Okay. You think he's going to hit 700?

Speaker 1:

I don't know. The home running hit the other day pinch hitting in the third inning was extraordinary, that grand slam.

James Bullard:

Yeah that was a good one.

Speaker 1:

What's the grand slam Chairman Paul has to do before the September meeting? What is the communication strategy he needs to do to hit a grandstand like the gentleman...

James Bullard:

I think he'll do a great job in this speech here. I haven't seen it, so I don't know exactly what...

Speaker 1:

Would you like to? It's only, it's just this guy...

Speaker 4:

He's got 20 seconds left.

Speaker 1:

Fed Unfiltered, Transcript

8/26/22 - James Bullard, Interview: Bloomberg TV

Is there a single sentence you like to imagine to hear?

James Bullard:

I just said, I don't know what, but he'll do a great job with it and it is a great opportunity and he'll use it effectively to lay out the committee strategy.