Fed Unfiltered, Transcript
8/4/22, James Bullard Interview: on CNBC

Speaker 1 (00:00):

We're not in a recession in your view, and we may be able to avoid a recession.

James Bullard (00:05):

Yeah. As the chair said, we're not in recession right now. We do have these two quarters of negative GDP growth. To some extent, a recession is in the eye of the beholder. There is an official dating committee, which isn't really official, the NBR dating committee, and that's really Bob Hall, professor at Stanford, so he makes the call, but with all the job growth in the first half of the year, it's hard to say that there was a recession. With a flat unemployment rate at 3.6%, it's hard to say there's a recession. The second quarter slowdown was, I think, more concerning. I think the first quarter slowdown was, negative GDP was probably a fluke, but the second quarter I think, was more concerning, so I'll watch that carefully, but now what I think is going to happen in the second half of the year is that, we'll get positive GDP growth in the second half. I think I will have a reasonably good third quarter here. I think jobs will also hold up over the second half of the year. Job growth is slowing, but is slowing to a trend pace, so that's how I'm assessing it right now, but I'm watching it closely.

Speaker 1 (01:22):

It's one of the things Steve said throughout, maybe don't use that first quarter. If we get a second, if we get a third, or a second, if you don't use the first, then maybe it would be. You remember Potter Stewarts asking me, "How do you define obscenity or obscenity?" He says, "I know when it I see it." The reverse works for this recession. It doesn't look like that's what we're looking at, I don't think to anyone at this point, I guess, because of the jobs picture.

James Bullard (01:49):

Yeah. It's because the jobs market is so strong and there are these other indicators. Of course, we're raising rates rapidly and tightening up on monetary policy. You're seeing some interest rate effects on interest sensitive sectors. That's natural, I think, that's something you'd expect to see, but that doesn't all by itself mean that you're in recession just because you see some negative signs in some parts of the economy.

Speaker 1 (02:15):

75, not usually done. Usually it's a quarter and you'd probably like to get back to a quarter at this point, but not only you, but Mester and others have said, "It seems like inflation might be a little more persistent and a little worse than we thought and we may need to do another biggie, and then before you get back to maybe quarter points." Why should we not think that you guys missed transitory, basically? You said transitory and now you're overshooting the other way. Commodities are rolling over. There's all kinds of things.

James Bullard (02:48):

Are you saying that you don't trust our forecasting model?

Speaker 1 (02:51):

I'm saying that if you were too laissez fair initially, too complacent, initially with transitory and now you get religion and how do you know you aren't going to overdo it?

James Bullard (03:02):

Yeah, we're going to follow the data very carefully here, and I think we will get it right. Inflation is high and we've had to move aggressively just to get back in position. I think one thing for everybody to remember is we're starting from an extremely low, near zero interest rate, and now we've raised up a fair amount, but we've still got some ways to go here to get to restrictive monetary policy. I've argued that now, with the hotter inflation numbers in the spring, we should get to 3.75 to 4% this year, and you know exactly whether you want to do that at a particular meeting or some other meeting I think, is a great question. I've liked front loading. I think it enhances our inflation fighting credentials, keeps inflation expectations under control. We did do the 275 basis points in a row. Greenspan did one, once in 1994, so I think in our situation here with the high inflation, it was appropriate to go twice in a row.

Speaker 1 (00:00):

If we don't have job... We don't lose jobs, was it a recession?

James Bullard (00:05):

Yeah. Usually recessions is sort of in the eye of the beholder. There's no real official definition. There's this NBR dating committee but they're kind of not official government or anything like that. So it is in the eye of the beholder, but traditionally we've not said that there's a recession in a environment with flat and low unemployment and with substantial job growth as you're pointing out. So that's where we are.

Speaker 1 (00:35):

So two questions that come from that. The first one is take a look at the rate structure that we've had in terms of where the market is pricing what the Fed is going to do next year. We see the Fed going up to 330, 350 in futures markets, but then you look at what next year is and they have cuts built in. A lot of people say those cuts are the market predicting a recession.

James Bullard (01:00):

Yeah. I mean, I'm not quite sure exactly what they have in mind. One thing about the market is they expect inflation to come down quite rapidly next year and they've been wrong on this so far. So I think the better bet is that it will take a while for inflation to come back to 2%. It won't be as rapid as what the market expects.

James Bullard (01:24):

Whether there would be a recession or not right now, I think the second half will be stronger in terms of GDP will be stronger than the first half was. So a lot of the indicators will now go back in the other direction of positive growth and I think labor markets will hold up pretty well here. Just talking to firms, it sounds like they're still scrambling for workers.

Speaker 1 (01:45):

See Joe was pointing out earlier how you were being quite politic about these things. Are you saying the market's wrong here? That it should plan on the idea that you're going to get to a level and you're going to stay at that level rather than cutting rates?

James Bullard (01:57):

I think we'll probably have to be higher for longer in order to get the evidence that we need to see that inflation's actually turning around on all dimensions and in a convincing way coming lower. Not just a tick lower here or there.

Speaker 1 (02:12):

So what's happening now in the market, and guys if you could put up the 10 year yield, which is now down from... It was up 350, there's some hedge fund guy we've been talking about Joe who said that this makes things harder. Who is that guy?

Speaker 3 (02:26):

We had Ackman?

Speaker 1 (02:28):

Bill Ackman. Bill Ackman. Sorry. He says that if yields go down financial conditions loosen, which is the opposite of what the Fed wants. So you're going to have to lean harder against that.

James Bullard (02:41):

Yeah. I mean, it's always hard to read markets, because there's all this feedback going on, but you could read what they're saying as a sign of success. We've front loaded interest rate changes two big moves in a row of 75 basis points. Credibility was restored at the central bank. Now inflation expectations are lower for next year. Maybe a little too low as I was just saying, but lower for next year and that's good news. That's market confidence that the Fed's policy is right and that we're going to get back to target.

James Bullard (03:16):

Now a lot has to happen before we can really be sure that any of that's the correct way to look at it. Right now the inflation numbers are, Dallas Trimmed Mean is still going up. So in typical market fashion, you're bringing these stories forward pretty rapidly.