Speaker 1:

Good morning, Joe. Let's get right to Jim Bullard, St. Louis Fed President. Jim, Joe kind of did a little curtain raise on what I want to ask, which is the market down 700 points yesterday. But more importantly, bonds. What a month for bonds. Yields are up 60 basis points on the two-year, something like that on the 10. Does that make you happy?

James Bullard:

Make me happy? I don't know. [inaudible 00:00:23]...

Speaker 1:

To see yields rising, stocks falling, a tightening of...

James Bullard:

... I think one thing that has happened is that the news has just been that the US economy is stronger than what we previously thought, and you certainly see that in the blowout jobs report. Unemployment ticking down, not up, at a 50-year low. Job openings, two to one compared to workers searching for work. Other indexes of labor market very, very strong. Claims still very low. So I just think you have a very strong labor market combined with more momentum coming out of the second half of 2022 than we previously thought. So that adds up to markets wanting to price in a tougher road ahead for disinflation in 2023, and I think that's basically the repricing that's going on right here.

Speaker 1:

Are you repricing as well? Among the reasons why you became of note recently was your teller rule graphs that showed a range of 5% to 7% for an upper range for the Fed funds rate. Is that still where you're at in terms of the possibility? I know these were equations and thought exercises you did, but they haven't turned out to be totally theoretical.

James Bullard:

Yeah, I think the 5%, I think we are going to have to get north of 5%. Right now, I'm still at five and three-eighths. Joe, we're going back to eighth.

Joe:

Wow. I don't-

James Bullard:

Yeah. Five and three-eighths. So-

Joe:

Five and three eighths is fine. Seven...

Speaker 1:

Well wait, let's hear that. Let's hear it.

James Bullard:

Five and three-eighths. So we've got a little ways to go here and I've argued that, "Hey, let's get to where we want to go, and then from there we can see how the data come in." Let's hope that we get disinflation in 2023. But right now it came in hotter than we thought.

Joe:

I don't think that Steve meant... We're not asking if you're happy, you're sad, or joyous, or depressed. We don't care about it. We're just wondering whether that indicated yesterday that maybe you're making some progress in the Fed in what you're trying to do. I mean, number one, you probably don't like the wealth effect of higher stock prices. We've talked about that many, many times. And number two, maybe you're starting to see the consumer not quite as frothy as he was with... Home Depot is-

James Bullard:

Is that based on Walmart?

Joe:

What's that?

James Bullard:

You know-

Joe:

Walmart even said similar things-

James Bullard:

Who have you heard from Walmart? Consumers are trading down and they're benefiting. That's what I heard from Walmart. That sounds like a disinflationary process. So I would take that as a good sign.

Joe:

That's good, right?

James Bullard:

Because that's-

Joe:

But you are happy?

James Bullard:

That's how the disinflation is going to occur. It's those firms that are too nonchalant about their price increases are going to lose market share and they're going to, possibly forever, possibly even go out of-

(End of this video segment)

Speaker 1:

Jim, we can't let you go without getting your sense of the outlook for this year. You just said that you think the market's overpricing the chance of recession. And obviously all this matters relative to the federal budget. If we have good growth, we have good tax revenue. If we don't, we have bad tax revenue.

Speaker 2:

Which market? The bond market?

Speaker 1:

Was actually my question is the stock market or the bond market that's overpricing the chance of a recession?

Speaker 2:

We're just doing everything the same today, aren't we? [inaudible 00:00:23].

Speaker 1:

Well that and keyboardist for the Grateful Dead, right?

Speaker 2:

Yeah, yeah.

James Bullard:

Right.

Speaker 2:

Dead and Company.

Speaker 1:

Dead and Co.

James Bullard:

So, where are these recession predictions coming from? Is that kind of your question? Here's what I think, so I think people have models. They say funds rate or the policy rate has gone up dramatically, therefore there's going to be a recession. I think you should interpret that cautiously, that kind of thing. Because the first 250 basis points, we started at such a low level, so we started near zero. So the first 250 basis points, that was not restrictive monetary policy. That was just getting back to neutral.

Speaker 1:

Right. Right.

James Bullard:

So it's only since then that we've come up and we have come up. And so I think there's kind of some double counting in there about how big the policy move has really been, because some of that was just a swing back to neutral because we were in the pandemic, so we had to...

Speaker 1:

You have no recession built in for this year?

James Bullard:

I put a moderately slow growth the last time we did this, and probably this time too, a moderately slow growth scenario with inflation declining.

Speaker 2:

What would an economy that required 7%... What would we be looking at? Some type of wage price spiral that we're not anticipating right now. I mean that's the high end of your possible ranges that... I mean, it wouldn't come this year, but that would mean that if we don't have a recession and it doesn't even slow, that would indicate maybe we need to eventually go to seven?

James Bullard:

I think mostly depends on the inflation trajectory, and if the inflation continues to come down, I think we'll be fine. Our risk right now is that inflation doesn't come down or reaccelerates, and then what do we do? We are going to have to move and react in that environment. And if inflation doesn't start to come down, you know, you risk this replay of the 1970s where you had 15 years where you're trying to battle the inflation dragon.

Speaker 1:

But Jim, by your own account...

James Bullard:

And you don't want to get into that. That's why I've been... Let's be sharp now. Let's get inflation under control in 2023.

Speaker 1:

But by your own account, the economy...

James Bullard:

It's a good time to fight inflation because the labor market is so strong.

Speaker 2:

It's so [inaudible 00:02:41].

Speaker 1:

By your own account though, the economy has not yet given the long and variable legs of monetary policy, the economy has not yet felt the brunt of the rate hikes that you've had. So why wouldn't that...

James Bullard:

What about housing?

Speaker 1:

So you think... Wait.

James Bullard:

Housing is most interception second?

Speaker 1:

Look, I'm not arguing here. I'm just asking you, do you feel like of... Okay, so you hit two and a half in August and since then there's been a restricted policy. Is it in the economy now or is it yet to come? And if it's yet to come, doesn't that argue for being more cautious?

James Bullard:

I think this is the age of forward guidance and so the long and variable lags argument doesn't make as much sense as it made decades ago when Milton Friedman made it. So you're saying ahead of time, here's what we're going to do. Get ready, we're going to adjust. And I think frankly, I think financial markets did a pretty good job of adjusting and we didn't get financial crisis or anything like that because we were credible and people saw, okay, we're going to have to move to take care of this inflation problem and they adjusted appropriately.

Speaker 1:

Jim, you're also reducing the balance sheet at quite a decent clip, 95 billion a month. You've got these rate hikes either in the economy or in train to hit the economy. Some reports this morning about some foreclosure, some bankruptcies in the commercial real estate market. Are you worried that something could potentially break in the financial system that would cause you or force you to reverse policy?

James Bullard:

Yeah, well we do watch this very carefully and we are sensitive to this, but if you look at the St. Louis Fed's financial stress index, which is designed to detect this kind of thing, it's still at a very low level. So right now I don't think we have financial stress, but we'll always keep an eye on it. And commercial real estate, I would say is also being affected by work from home pandemic.

Speaker 2:

Right.

James Bullard:

Yeah. Okay.

Speaker 2:

How did we get here with inflation in your view? Was it end to growth? Was it fed? Was it too much fiscal spending that we did? 8 trillion in two years? Was it supply chain problems and reopening after the pandemic? Was it the Putin price hike? Well, and oil prices, what was it? All the above?

Speaker 4:

Don't look to me for help. I'm... You know.

James Bullard:

Phone a friend.

Speaker 2:

Was it all?

I'm trying trying to figure out how ingrained it is, if it's just supply chain that's going to dissipate.

James Bullard:

Have I told you guys the war, my war story?

Speaker 2:

Okay.

James Bullard:

So what you can do, just step back for a moment and when you see inflation around the world across history, it's often associated with wars and World War I, World War II. But think of the pandemic as a war, global fight against the virus.

And so what happens in a war? The government spends a lot without asking too many questions about the future taxes and the monetary authority is asked to keep interest rates low, to help the war effort. That usually produces inflation. That happened this time. Then to get out of that, the fiscal policy has to switch back to the pre-war regime, which I think has happened because now you have divided government and the monetary guys have to switch back and start fighting the inflation. I think that's also happened. So I think we have a good shot if you believe that story. We have a good shot at beating inflation in 2023.