Speaker 1:

As Roseanne Roseannadanna used to say on Saturday Night Live, it's always something. We were in the middle of a, quote, unquote, banking crisis and now we've got another oil shock this morning, everybody waking up to headlines and say, maybe we go to a hundred dollars. As a Fed official, when you see that, how are you reacting?

James Bullard:

Well, on the financial stress, I think this is a post-Dodd-Frank world and I do think that the reaction to the banking problems was swift and was appropriate and both here in the U.S. and overseas. I think the idea that there are macroprudential tools that you can use in that kind of situation to calm things down, that seems to have worked so far. You never know if there's further things happening, but if there are, we can react with macroprudential tools again.

Then, on the monetary policy side, we can still proceed to flight inflation and get inflation down during 2023 and 2024 back to target, so I think this idea that you can walk and chew gum at the same time, you've got the macroprudential tools for financial stress and you've got monetary policy to fight inflation. We can do both, as long as the financial stress doesn't morph into something much larger, and so far so good. But knock on wood, you're never sure what's going to be around the corner.

Speaker 1:

But does $100 oil or the idea at least of this oil shock complicate your job?

James Bullard:

Well, of course, the oil price is always important. I would've expected somewhat higher oil prices anyway with China coming back sooner than expected during the first half here of 2023 and with Europe skirting recession and strong data in the U.S., all of those are pretty bullish factors, I would say for the oil market. This was a surprise, the OPEC decision, but whether it will have a lasting impact I think is an open question.

Speaker 1:

Now, you had already moved up your estimate of where the Fed funds rate needed to be to bring down inflation. You were talking an effective rate around 5.6%. Does this change that calculation at all and can you explain why you think we need to go that high to hit the terminal rate?

James Bullard:

I think we'll need to get over 5%. The median person on the committee says a little over 5%. I'm a little higher than that. I think inflation will be stickier and I'd look mostly at the core measures of inflation like PCE core inflation or the Dallas Fed Trimmed Mean, which really hasn't come down very much at all, is still in the 4% range, 4.6 or something like that. We're still talking about a lot of inflation, more than double our inflation target on that basis, and oil prices fluctuate around. It's hard to track exactly. Some of that might feed into inflation and make our job a little bit more difficult.

Speaker 1:

Just north of us this morning in Oak Brook, Illinois, McDonald's has told its corporate officials to stay home this week because they're going to start notifying people that they're being laid off. How concerned are you with all these headlines about layoffs coming in that you may go too far?

James Bullard:

Yeah, the labor market is super strong. Still many more job openings than there are unemployed workers. I think if a worker does get disrupted today, let's hope and pray for them that they'll be able to get a new job, but it's still a very robust labor market with 3.8% unemployment. The Kansas City Feds Labor Market Conditions index's still at a super high level. Jobs reports have been very, very strong in 2023 here, so you're really not seeing much ebb in the labor market. I think there are structural issues where labor supply is running under labor demand and that's going to take quite a while to settle down.

Speaker 1:

What are you expecting for Friday for the jobs report?

James Bullard:

I don't have a number for you, but anecdotal information seems to indicate that the firms are still scrambling for workers. They're doing some other things, other strategies that might slow this down a little bit. They're substituting capital for labor that makes a lot of sense in this situation, but I just think that on the whole, they still need workers.

Speaker 1:

Well, if they still need workers and supply is running below demand, that has to complicate the idea of monetary policy because that's not what's supposed to happen when you're raising rates as much as you have.

James Bullard:

That's true, although I'm not as oriented toward the Phillips curve as many, but I think the way I would state it is that the strong labor market gives us headroom to fight inflation. It's a good time to be fighting inflation and trying to get inflation back to target while the labor market is as strong as it is and even workers that get disrupted, hopefully, they'll be able to find a new job and maybe a better job in this situation.

Speaker 1:

You have critics around the country and certainly on Capitol Hill that say workers are finally getting their share, wages are going up, not quite keeping up with inflation, but much better than they had been and here comes the Fed wants to squash them down again and cut the wage increases in order to bring down inflation. What do you say to those people?

James Bullard:

Well, what are they talking about? Real wages have gone down for most people, so the inflation is hurting them, so inflation is hurting the average worker.

Speaker 1:

You don't think the Fed has a perception problem with America these days?

James Bullard:

You'd like to get rid of the inflation so that people can get a better labor market outcome and be able to afford the goods that they have to purchase. I think there's been a lot of confusion around this issue. It's true that some workers in some categories got more than the increase in wages that more than made up for inflation. But for many workers, that hasn't been the case. They've been lagging behind in real wages and that's why you'd like to bring inflation under control and get a better outcome for the labor market.

Speaker 1:

Markets have been struggling this morning to figure out what's going to happen going forward with the oil price headlines. But going into this weekend, they were pricing four rate cuts over the coming year. Why are you and Wall Street so far apart in what you say is likely to happen?

James Bullard:

They should listen to me. Here's what I think. I put 80% probability that the financial stress will decline and then make that your baseline forecast. I think that's for low growth, but growth, continued pretty strong labor market and inflation coming down. That's got 80% probability. Maybe now, I'd go to 85% probability or something. Then, the other branch where financial stress gets worse, then we'll have to bring up more macroprudential tools and it'll be a stressful situation and all bets are off in that situation. The problem with Wall Street is they've got too much probability on that branch and not enough probability on the other branch, so I think they're going to reprice to the slow growth scenario, and so I think we'll see this change in the weeks ahead here.

Speaker 1:

Go back to the banks for a second. In February, the staff at the Open Market Committee presented on the idea of these asset mismatches on bank balance sheets. You were kind of aware that this could be a problem. Was there something that the Fed missed or didn't do or should have done to keep the bank situation, we'll call it, from developing as it has?

James Bullard:

I can't talk about what was presented at the FOMC meeting, so I will neither confirm nor deny that, but my own staff here was certainly well aware of issues with banks. We talk to bankers all the time. We're a regulator of banks and so we knew that there were issues about, let's say some deposits running off to non-bank entities that wanted to pay a higher rate. That's occurring, but I think at a rate that's certainly manageable at least for the banks that we talk to. They've got some securities holdings that have lost value as interest rates have gone up. But that also I think is manageable for nearly all institutions, so that they're running businesses and they've got challenges, but they're also competitive and they figure out ways to manage the situation. I would also say anecdotally that most banks say loan demand is strong and they actually have incentives to make loans at the higher interest rates, if they can, in order to offset some of the older loans that they have that are at lower interest rates.

Speaker 1:

Well, we got to send it back to Tom, but given how Tom introduced us, you've got predictions for interest rates, growth, GDP, the end of the year. Cardinals prediction?

James Bullard:

I'm sure it'll be a great year for the Cardinals. I think they'll win the division and they'll do very well. Another victory yesterday, so excellent.