

Committee would likely weight the dimensions differently; so, agreement on a specific index would be problematic. What is clear is that, evaluating in a comprehensive way whether the outlook for the labor market has improved substantially and, thus, when to bring the latest balance-sheet policy to an end, will require the FOMC to consider numerous factors.

Endnotes

1. For example, see my speech on Dec. 4, 2009, "Three Lessons for Monetary Policy from the Panic of 2008."

[http://research.stlouisfed.org/econ/bullard/BullardPhiladelphiaDec2009PolicyForum_FINAL.pdf](http://research.stlouisfed.org/econ/bullard/bullardphiladelphiadec2009policyforum_final.pdf)[[back to text](<https://www.stlouisfed.org#1##1>)]

2. For additional information, see Andolfatto, David; and Williams, Marcela M. "Many Moving Parts: The Latest Look Inside the U.S. Labor Market." Federal Reserve Bank of St. Louis Review, March/April 2012, Vol. 94, No. 2, pp. 135-52.

<http://research.stlouisfed.org/publications/review/article/9163>[[back to text](<https://www.stlouisfed.org#2##2>)]

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- **January 10, 2013.** Presentation. "[The Feds New Regime and the 2013 Outlook.](#)" *Wisconsin Economic Forecast Luncheon*, Wisconsin Bankers Association. Madison, Wisconsin. [Presentation \(pdf\)](#) ([bullardwisconsinforecastluncheon10jan2013finalpdf](#)) | [Press Release](#) | [Related news articles](#).

The Fed's New Regime and the 2013 Outlook

January 10, 2013

St. Louis Fed President James Bullard discussed recent changes to U.S. monetary policy and his outlook for the economy in 2013 at the Wisconsin Bankers Association economic forecast luncheon in Madison, Wisconsin.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardwisconsinforecastluncheon10jan2013final.pdf>) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/01/10/st-louis-feds-bullard-discusses-recent-us-monetary-policy-and-economic-outlook-for-2013>)

Related News Articles:

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- [Bullard: Policy More Accommodative; Economy to Grow Faster](http://www.bondbuyer.com/issues/122_8/bullard-policy-more-accommodative-economy-to-grow-faster-1047527-1.html), by Gary Siegel, The Bond Buyer.
- [Bullard Says QE3 Has Improved Economy's Outlook](<http://www.nasdaq.com/article/bullard-says-qe3-has-improved-economys-outlook-20130110-01005>), by Michael S. Derby, Dow Jones.
- Bullard sees earlier QE end, Investor's Business Daily.
- [Fed Bullard: Mkts Have Not Fully Appreciated Extent Of Fed Move](<https://mninews.marketnews.com/index.php/fed-bullardmkts-have-not-fully-appreciated-extent-fed-move?q=content/fed-bullardmkts-have-not-fully-appreciated-extent-fed-move>), by Alyce Andres-Frantz, Market News International.
- [Fed's Bullard Unveils Optimistic Forecasts, Sees Faster Growth](<https://mninews.marketnews.com/index.php/feds-bullard-unveils-optimistic-forecasts-sees-faster-growth?q=content/feds-bullard-unveils-optimistic-forecasts-sees-faster-growth>), by Brai Odion-Esene, Market News International.
- [Bullard sees U.S. growth over 3% next two years](<http://www.marketwatch.com/story/bullard-sees-us-growth-over-3->

next-two-years-2013-01-10), by Steve Goldstein, MarketWatch.

- [President of St. Louis Fed predicts growth at Wisconsin Bankers Association event](<http://www.bizjournals.com/milwaukee/news/2013/01/10/president-of-st-louis-fed-predicts.html>), by Stacy Vogel Davis, Milwaukee Business Journal.
- Fed Reserve executive predicts economic growth, Milwaukee Business Times.
- [Fed should keep aggressive policy, given low inflation: Bullard](<http://www.reuters.com/article/2013/01/10/usa-fed-bullard-idUSL1E9CAC4N20130110>), Reuters.
- [Fed's aggressive stance makes Bullard 'a little bit nervous,'](<http://www.reuters.com/article/2013/01/10/us-usa-fed-bullard-stance-idUSBRE90917320130110>)by Ann Saphir, Reuters.
- [Fed's Bullard sees strong US growth in 2013, 2014](<http://www.reuters.com/article/2013/01/10/usa-fed-bullard-idUSN9E8M202E20130110>), Reuters.
- [St. Louis Fed prez predicts growth of 3.2 percent](<http://www.bizjournals.com/stlouis/blog/2013/01/st-louis-fed-prez-predicts-growth-of.html>), by Greg Edwards, St. Louis Business Journal.

St. Louis Fed's Bullard Discusses Recent U.S. Monetary Policy and Economic Outlook for 2013

MADISON, Wis. – Federal Reserve Bank of St. Louis President James Bullard gave remarks Thursday on [“The Fed’s New Regime and the 2013 Outlook,”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardwisconsinforecastluncheon10jan2013final.pdf>)during an economic forecast luncheon sponsored by the Wisconsin Bankers Association.

During his presentation, Bullard discussed recent changes to U.S. monetary policy. He noted that the policy rate has been near zero since December 2008 and that the Federal Open Market Committee [(FOMC)](<https://www.stlouisfed.org/fomcspeak/>)has promised to maintain the near-zero rate into the future, so-called “forward guidance.” In

December 2012, the FOMC replaced the fixed-date forward guidance with a “threshold” approach. Bullard discussed the differences between the recently adopted threshold approach and the FOMC’s previous fixed-date approach. Regarding the Fed’s balance sheet policy, he noted that “the Committee has promised to maintain an aggressive asset purchase program.” On the whole, he said that he views “the overall monetary policy stance as more accommodative today than it was six months ago.”

Bullard also shared his views on the outlook for the U.S. macroeconomy. “I have argued that the U.S. potential growth rate is lower today than it has been in the recent past, about 2.3 percent,” he said. Bullard’s forecast is that “real GDP growth will be faster than potential, at around 3.2 percent in both 2013 and 2014.” He attributed this faster growth to three main factors: easier monetary policy, reduced headwinds and reduced uncertainty. He added that he believed “unemployment will fall and inflation will remain near target.”

Thresholds and the Policy Rate

Before December, the FOMC stated that the policy rate would likely remain near zero until mid-2015. “This created a ‘pessimism problem’ for the Committee,” Bullard said. He explained that “the date could be interpreted as a statement that the U.S. economy is likely to perform poorly until that time,” which he has called an “unwarranted pessimistic signal.” However, he noted, “The Committee did not intend to send such a signal.”

Rather than using a given date, Bullard stated that the FOMC has now changed its forward guidance to a description of economic conditions at the time of the first rate increase. Such a dependency on economic conditions is known as “state-contingent” policy.

“In December the Committee instead adopted ‘thresholds,’ values for inflation (2.5 percent) and unemployment (6.5 percent) that give an indication that the time for a policy rate increase may have arrived,” he explained. “Now, as data arrive on U.S. economic performance, private sector expectations concerning the timing of the first rate increase can automatically adjust,” Bullard said. “The Committee is no longer sending the

pessimistic signal, because the threshold conditions can be met at any time.”

While the thresholds fixed the pessimism problem, they still have some challenging aspects. “The use of thresholds is not a panacea,” Bullard cautioned. He discussed several issues that the FOMC is likely to face going forward with this strategy. For instance, he said, “The FOMC cannot pretend to target medium- or long-term unemployment.” In addition, “The Committee needs to reiterate that it considers many more variables in attempting to gauge the state of the U.S. economy.” Finally, he said that “the thresholds will likely be viewed as triggers for action.”

Balance Sheet Policy

Turning to balance sheet policy, Bullard discussed “QE3,” which the FOMC adopted at its September 2012 meeting and extended in December, replacing “Operation Twist” with outright purchases. Unlike the FOMC’s previous asset purchase programs, no end date was specified; this is so-called “open-ended” QE, he stated. The current approach is to purchase \$40 billion in mortgage-backed securities and \$45 billion in Treasury securities per month, which Bullard noted would be an annualized pace of more than \$1 trillion.

The previous asset purchase programs had an “end-date problem,” Bullard said, explaining that “these end dates tended to occur at times which were characterized by relatively poor economic data.” As examples, he cited March 2010, when the European sovereign debt crisis was heating up, and July 2011, when the U.S. debt ceiling debate was occurring. “With QE3, the Committee instead seeks ‘substantial improvement’ in labor markets before pausing purchases,” he stated. “The Committee may also taper the program as needed.”

Unlike the interest rate policy, the forward guidance on the balance sheet policy does not include thresholds. “The Committee has maintained a qualitative approach to the state-contingent aspect of balance sheet policy,” Bullard said, adding that “attempts to also put thresholds on the timing of asset purchases may be a bridge too far.” Thus, “The FOMC will have to make

a judgment concerning the program as macroeconomic data arrive,” he stated. “Private sector expectations concerning the program will also adjust appropriately as data arrive,” he added.

In explaining why he views monetary policy as more accommodative today, Bullard cited several reasons on the balance sheet side: the FOMC undertook QE3; the QE3 program is open-ended and state-contingent, making it more effective; and the FOMC replaced the twist program with outright purchases. On the interest rate side, Bullard cited the revised policy rate guidance, which helped to alleviate the pessimism problem.

The U.S. Macroeconomic Outlook

According to Bullard’s economic forecasts, real GDP growth will be around 3.2 percent in 2013 and 2014, and inflation (as measured by the percent change in the personal consumption expenditures price index from a year ago) will remain near the FOMC’s target of 2 percent during that period. On unemployment, Bullard noted that it has improved over the past three years despite sluggish GDP growth. “I project a continuing downward trend in unemployment,” he said. “I do not think unemployment has yet fallen enough to entice those that have left the labor market to re-enter,” he added.

Bullard also discussed the reduced headwinds and reduced uncertainty in the U.S. “The U.S. housing market has improved during 2012 and I expect this will continue in 2013,” he said. In addition, he noted that some aspects of the U.S. fiscal situation have been addressed and that he expects more to come. Furthermore, “Growth in emerging markets will likely improve in 2013 relative to 2012,” he said. Finally, the European sovereign debt crisis has recently been less disruptive for global financial markets, Bullard stated. “Euro-area growth will probably not deteriorate the way it did in 2012.”

However, Bullard said that the European sovereign debt crisis remains a key issue. “The announcement of the European Central Bank’s (ECB’s) ‘outright monetary transactions’ program has so far been more successful than it might have been anticipated,” he said, citing a decline in the spreads on Euro-area 10-year government bonds and on 5-year sovereign credit default swaps since the announcement. Bullard noted that the ECB so far has not

been required to purchase national sovereign debt under the program. “How the program will proceed during 2013 is difficult to predict,” he stated.

Turning back to the U.S., “Overall, U.S. monetary policy looks more accommodative today compared to six months ago,” Bullard said. “This may combine with reduced headwinds and reduced uncertainty in the U.S. to produce a better growth environment during 2013,” he said, noting that in the past couple years, this type of forecast proved overly optimistic. “However, I still think it is the right way to view the situation given the information available today,” he concluded.

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- **January 4, 2013.** Presentation. ["The Global Battle Over Central Bank Independence."](#) NABE Panel Discussion: "Federal Reserve Independence in the Aftermath of the Financial Crisis: Should We Be Worried?" AEA/ASSA Annual Meeting, San Diego, California.
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The Global Battle Over Central Bank Independence

January 4, 2013

As part of the NABE panel discussion "Federal Reserve Independence in the Aftermath of the Financial Crisis: Should We Be Worried?" at the AEA/ASSA annual meeting in San Diego, California, St. Louis Fed President James Bullard discussed central bank independence in the aftermath of the financial crisis.

[Presentation (pdf)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardaea2013c>)