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Unofficial Transcript:
St. Louis Fed President and CEO James Bullard Interviews
with Becky Quick and Andrew Ross Sorkin on CNBC Squawk Box
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Q: Joining us right now to talk about all of this is St. Louis Fed President Jim Bullard. Jim, it's really good to have you here this week because the market has been trying to make sense of everything they heard coming out of this Fed meeting the other day. Do you think the market has taken the right message away from this, that it looks like things are going to be moving sooner rather than later, that there's definitely concern about this higher inflation and that the Fed is more on notice at this point?

St. Louis Federal Reserve President James Bullard: Yeah, Becky, thanks for having me. It's a pleasure to be here. I think the committee has been surprised to the upside over the last six months. If you look at the December 2020 SEPs, we were projecting 4% real GDP growth in 2021; now we're saying 7% real GDP growth, faster than China has grown in recent years. We were projecting just 1.8% on core PCE inflation; now we're saying 3% in 2021 on core PCE inflation. We've got unemployment coming down dramatically through the year to four and a half percent by the end of the year. So this has been, you know, we were expecting a good year, a good reopening, but this a bigger year than we were expecting, more inflation than we were expecting. And I think it's natural that we've tilted a little bit more hawkish here to contain inflationary pressures.

Q: Yeah Jim, that's what people are kind of watching at this, the inflationary pressures too. I think it would have been hard for the Fed not to acknowledge the gains that we've seen across the board in so many different areas. When, when you look at this, would you say: Okay this is actually good news, things are reopening faster than we thought, or wait a second, we need to be hawkish and concerned because this could lead to some inflation that could get out of hand?

Bullard: Surely overall it's very good news. You love to have an economy growing as fast as this one. You love to have a labor market improving the way this one has improved. Unemployment way down from the 14.7% peak at the, you know, last spring. So, and I think we'll continue to see lots of improvement in the labor market. So the inflationary impulse I think is more intense than we were expecting. The 3% on core PCE inflation we—how long has it been since we've seen that? So I think there is some upside risk to that. You've got more reopening to occur in the second half of the year here. Some states and cities just opening up now. So I think you could see even some upside risk to the inflation forecast, but that's okay. We wanted to, you know, we're targeting to get inflation up above target. I think we're going to achieve that in 2021 and 2022. And then we're going to approach 2% inflation from the high side. I think that'll be a good path for the U.S. economy, and that will help cement longer-run inflation expectations at 2%. So, so far so good, but, you know, we do have to be nimble here. These are, these are big numbers.

Q: Jim, on the fiscal policy side, if in fact the Biden administration and Congress end up passing an infrastructure bill, and I don't know what size you think it may end up being, how do you anticipate that impacting your dot plots if you will, in terms of what the Fed will ultimately do?

Bullard: You know, infrastructure, I've always felt is a longer-run issue, a medium-term to long-run issue. I think it's good that the Congress is looking at the public capital stock, what do we need to replenish that and how will that impact the longer-run growth rate of the economy? But the spend-out on that extends over many years and at least in, I don't quite know quite where this stands today, but they do seem to be looking at pay-fors for this so, in my estimation this is a different thing than the stimulus packages that were passed during the pandemic and meant to handle pandemic insurance for disrupted workers. This is more about the longer-run growth rate of the economy. So I actually don't think it would affect monetary policy all that much over the next couple of years.

Q: Hey, Jim, how much of a conversation do you guys have about what's happening in the equity market? How much liquidity there is just all over the globe, what we're seeing in the rise of cryptocurrencies and the like?

Bullard: You know, the committee has a regular review of the state of froth, I guess you would say, or the idea that there might be market excesses. We've gotten much better at that over the last decade than we were before the global financial crisis, so we do have regular discussions. It is a topic and it has been a perennial topic ever since the Irrational Exuberance speech way back in 1996 so I do think we have our eye on this. We do keep track of it. But you can talk to individual members as far as how much that's impacting their view of the proper path of monetary policy.

Q: Just last month, you had said right here on CNBC that you didn't think it was necessary to start tapering just yet, that that was something you'd be waiting to take some cues from Fed Chairman Jay Powell. What do you think, now? It's been about a month and a half since then.

Bullard: Well the chair officially opened the discussion at this past meeting and now we'll have a chance to have more in-depth discussions coming ahead here. I don't know quite how the chair wants to organize that but I do know from past discussions on the committee that it's quite a complicated thing, there are lots of moving pieces in a taper: the pace, you've got MBS versus Treasuries, when do you start, how state contingent is the taper. I think these are all key factors here and I'd like to emphasize the state contingency aspect. I think in the 2013-2014 taper we went on automatic pilot and didn't do much. We said that there would, you know, we would react to incoming data. I think, to be fair, I think we didn't really have to in 2014. But this time around, I mean look at this data, look at how outsized all these numbers are and, and how volatile everything has been. I think we're going to have to be more state contingent than we have been in the past.

Q: That's interesting in terms of mortgage-backed securities or the Treasury market. I mean at this point the Fed is about half the Treasury market. Would you anticipate you move out of Treasuries first or you move out of mortgage-backed securities?

Bullard: You know there's a lot of discussion about the mortgage-backed securities, I don't know where that's going to go. I'm, I'm leaning a little bit toward the idea that maybe we don't need to be in mortgage-backed securities with a booming housing market and even a threatening housing bubble here, according to some people. So we don't want to get back in the housing bubble game. That caused us a lot of distress in the 2000s. So, we'll see where this comes out. Some people argue that there's not much difference between MBS and Treasuries anyway so there's no reason to go one way or the other, but I would be a little bit concerned about feeding into the housing froth that seems to be developing.

Q: And when you talk about this idea that it's going to have to be data dependent, you'll kind of do this and see what happens, is that an indication that maybe you won't say, okay we're going to cut by X amount this month and we'll continue to do that every month? It'll just be you guys seeing meeting to meeting how much you think needs to have happened and that's what is telegraphed to the market after the fact?

Bullard: Well that'll have to be part of the debate, but I've long been an advocate of being more nimble on these things and being more state contingent. Like I say, in 2014 we didn't really have to exercise that option. But this is a situation where we might have to exercise the option. I mean you don't really know where inflation's going to go here or even the economy as a whole, and you've got a lot of reopening to come here, not just in the U.S. but across the world during the second half of 2021 and I think during all of 2022. You've got the rest of the world reopening and possibly booming the same way the U.S. is today. So we'll see if all that develops, but I think we have to be ready to make adjustments as necessary as we as we go along this path.

Q: Jim, we had somebody come on our air yesterday, I can't remember who it was, but they said look, here's what we anticipate: The Fed has signaled that it's going to be watching inflation very closely but you can bet that you'll be watching Fed presidents and FOMC members coming out over the coming weeks kind of walking that back so the market doesn't get spooked. That's not what you're doing right now, and I'm looking at the Dow, it's now down by about 230 points so it's taken another leg down since you started talking about this. If you were to look at things, would you kind of tell people that the message is not that we're walking this back, it's that we see inflation, we're going to be concerned about that and movement is going to come sooner rather than later, both in terms of when you raise rates, and maybe when that tapering starts, too?

Bullard: You know, the taper discussion is open and the chair made that very clear. But it's going to take several meetings to get organized on all these different points. It's going to be a healthy debate, I think. The chair has said we'll give markets plenty of time to react. We'll be very methodical. He said all of these things in the press conference. I would echo all of that. I think that is all completely true. That is what's going to happen. But I would also say it's a complicated debate and, you know, actually I'd welcome input from financial markets on how they think we should do this. You know, the pandemic is coming to a close here, and so it's very natural that we start thinking about how to pare back emergency measures. But we want to do it carefully and thoughtfully and in a way that I think is consistent with, you know, continued boom in the economy, continued improvement in labor markets and continued containment of inflation pressures. So I think we'll do this very well in coming meetings, and I think the chair will guide this process excellently.

Q: Jim, I don't know if you had the chance to see it, but Paul Tudor Jones was on with us on Monday, and he is deeply concerned about inflation, so much so that he said 5% of his portfolio is now in gold and 5% of his portfolio is in Bitcoin. And I was curious what you think of that?

Bullard: Well, I wouldn't give him advice on how to allocate his portfolio. On the inflation front, though, we were expecting an inflationary impulse but this has been more than what we were initially expecting. Now the committee is saying 3% for all of 2021 on core PCE inflation, which is the committee's favorite measure, 3.4% on headline inflation for all of 2021. That's the committee median guess at what's going to happen in 2021. So I guess, you know, one thing you could say about that is that we said we were going to try to get inflation above target and it looks like we're going succeed in 2021, and I think some of that will spill over into 2022. So the ideal path in my mind would be the 3% this year will be okay, and then we'll get that down to 2.5% next year and we'll converge to 2% from there. But to do that, you know, we're going to have to adjust policy some, and we've already made a somewhat hawkish move here in June.

Q: Jim, we've had conversations with you about crypto over the years, but I am curious about what your take is on those who believe that Bitcoin is the ultimate inflation hedge.

Bullard: I don't know. I think if you really want to bet on inflation one way or the other, I'd just go to the TIPS market and that is a clear bet on CPI inflation, and that seems like the purest way to play this. I know people like to make more plays on other types of assets, but those assets move around for other reasons other than inflation, and so it's not a pure bet on inflation.

Q: Is there a new view or an emerging view that's shifted even in the last 12 months around Bitcoin and crypto inside the Fed?

Bullard: We're doing more on central bank digital currency. The chair's given a speech recently, which you can check out on that. Governor Brainerd also has given speeches on this. I've commented on central bank digital currency. So I think there is a growing realization that we have to do what we can to provide a good product in this space. We've also got our FedNow program, which is on track to open up next year. I think these things are all related in complicated ways. It's always hard to read how the technology is going to play out. You have got other central banks looking at central bank digital currency. So we'll see where this lands.

Q: Jim, the idea of a central bank currency, is that to crowd out, effectively, or take over the role of these emerging cryptocurrencies? Is that credentializing these other cryptocurrencies? How do you see the relationship between them? Look, you would think the Fed would want to control the dollar, right? At some level this is a fiat currency and it could potentially, if the Bitcoiners have their way, turn out to be a threat to it. At least that's what they would say they want it to become.

Bullard: Well, I'll speak for myself. My goal with central bank digital currency would be that we're keeping up with technology and providing a good service to the public. I think the idea that cryptocurrency is a technical thing is probably the wrong idea. What's different about cryptocurrency is that it's a privately issued currency. I think the last time I was on here, I said Milton Friedman said if you allow private currency issuance, everyone is going to issue their own currency. We've seen thousands of cryptocurrencies being introduced. So Friedman was right once again about what would happen in this case. So Friedman was actually an advocate that only the central bank should be allowed to issue the currency. That having been said, you have got multiple countries out there that all issue their own currencies. They all compete. What do we know about that? They trade at volatile rates against each other. Exchange rates are extremely volatile compared to economic fundamentals. So the same thing is happening with the private currencies that are being issued. The cryptocurrencies, they're trading at volatile rates against the dollar. So that makes them maybe not that useful for a lot of purposes.

Q: Hey Jim, I just want to try and figure out where you are in relation to the rest of the FOMC. I know that the majority of the dots are now looking for two rate hikes in 2023, but there are some people who are looking for rate hikes in 2022. Where do you come down? Where's your dot?

Bullard: I put us starting in late 2022 but you do have to have the idea that these are related to what the forecast is. So my forecast said 3% inflation in 2021, core PCE inflation, and 2.5% core PCE inflation in 2022. But if that's what you think is going to happen, then by the time you get to the end of 2022, you'd already have two years of 2 1/2 to 3% inflation. So to me that would meet our new framework where we said we were going to allow inflation to run above target for some time, and then from there we could bring inflation down to 2% over the subsequent horizon. Now I'd just caution everybody that other members have other forecasts for inflation and some of those, if you look at some of those dots, they're below 2% in 2022. So this is very much a debate about what's going to happen in 2022. Is the inflation that we're seeing in 2021 going to persist into 2022 or not? And I think for those that have dots further out, they're most likely associated with a forecast that says that the inflation will go back down below 2% during that year and then the committee wouldn't be oriented toward raising rates at that point. I would say also about this, that these are things far in the future in an environment where we've got a lot of volatility. So it's not at all clear that any of this will pan out the way anybody's talking about it. So we're going to have to go meeting by meeting to see what happens.

Q: Can I tell you just as you've been talking, we went from the Dow down 150 to the Dow down 324 and we're looking at the 10-year right now. I know you can't see this necessarily on screen. But we were looking at 10-year yield of 1.44 and change and now it's 1.511. And that's happened just since you've been talking. Does that surprise you.

Bullard: Did you say 1.51 on 10-year?

Q: 1.51, yeah.

Bullard: To me that doesn't sound too different from where it's been in recent trading sessions. It was up around –

Q: It's not. It was there. It's just different than where we were 20 minutes ago.

Bullard: Yeah.

Q: So, no, guess not.

Bullard: Yeah. You know, I don't know. Markets move around. But I think I'm giving an accurate description of where I'm at on the policy outlook.

Q: It's probably fair that you just described that you were probably one of the more hawkish members of the Fed based on where you were on the dot plot versus some of the others too?

Bullard: Certainly, the median is in 2023. And I would say about that, you know, it's unclear the way we do the dot plot, it's unclear well is that the beginning of 2023 or the end of 2023. When you submit these dots you don't really have to say too much about that. Whether somebody put, you know, late 2022 or early 2023, you know, you can't really tell based on the way we do the dot plot.

Q: Jim, want to thank you for your time this morning. We always enjoy talking to you so thanks for being so generous with your time and we hope to see you again soon.

Bullard: Happy to do it. Have a great weekend.

Q: You, too. Again, that's St. Louis Fed President Jim Bullard.