Introduction
This talk

- U.S. economic performance continues to be characterized by steady if unspectacular growth.
- U.S. labor markets have improved relative to August 2012, the data that was available at the date of the FOMC decision to initiate QE3.
- Inflation in the U.S. has surprised to the downside.
- Financial market excess is limited at this point.
- This configuration of data suggests that the FOMC can continue to pursue its aggressive asset purchase program.
Slow But Steady Growth
Real GDP growth: U.S., Canada, U.K., and Euro area

Improving Labor Markets
Nonfarm payroll employment

Change in Nonfarm Payroll Employment

Thousands

Average Mar-12 to Aug-12: 141
Average Sep-12 to May-13: 190

Unemployment rate

Labor force participation rate

Inflation Is Low
U.S. inflation

Remarks on inflation

- Commodity prices globally have been soft over the last year.
- This may be due in part to the recession in Europe, coupled with slower-than-expected growth in China.
- However, even core price inflation has been low in the U.S.
- Low inflation may give the FOMC more leeway to continue its aggressive asset purchase program.
Financial Excess Is Limited
Financial excess is limited

- An important concern for the FOMC is that low interest rates can be associated with excessive risk-taking in financial markets.
- So far, it appears that this type of activity has been limited since the end of the recession in 2009.
- The Dodd-Frank Act is meant to help contain some dimensions of this activity.
- Still, this issue bears careful watching: Both the 1990s and the 2000s were characterized by very large asset bubbles.
U.S. Monetary Policy
An aggressive asset purchase program

- The FOMC is currently authorizing asset purchases of $85 billion per month.
- The flow rate of purchases is now widely regarded as the key aspect of meeting-to-meeting policy choices.
- Labor market conditions have improved since last summer, suggesting the Committee could slow the pace of purchases ...
- … but surprisingly low inflation readings may mean the Committee can maintain its aggressive program over a longer time frame.
Federal Reserve Bank of St. Louis
stlouisfed.org

Federal Reserve Economic Data (FRED)
research.stlouisfed.org/fred2/

James Bullard
research.stlouisfed.org/econ/bullard/