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Transcript of Media Availability

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This transcript has been lightly edited for clarity.

James Bullard: Sure, I'll just make a few comments to start with. This is a part of a two-day tour here of Glasgow, Kentucky. I've been very impressed in seeing the local economy, and thanks to Terry, for organizing all this. It's really been very fruitful, and there are a lot of good things happening in this community, I think. So it's been a very uplifting visit, I would say.

On monetary policy, my comments this morning were oriented toward yield curve inversion, which is an issue I started talking about last December, and we are, and have been, having a robust debate in policymaking circles and in financial markets on this issue. And I think that's appropriate. I reiterated my previous position that I think we're on path to invert the yield curve if the Committee continues with its planned pace of rate increases, and if that happens, then I think it would be a bearish signal for the U.S. economy and that we'd be taking more risk of recession than we would otherwise. And so I think that that assessment still stands that I made last December and the yield curve is all the flatter today than it was at that time, and so a lot of the considerations have held up over the last 7 ½ months. So that's my main point on monetary policy for today.

Reporter: President Trump made some comments. Basically he said he was opposed to the Fed's raising of interest rates, and [I] was interested in your reaction to his comments. Also some people believe that the president making comments would be a threat to Fed independence. The last several presidents have specifically not commented on Fed policy, and I was interested in your view on that.

Bullard: Well, as Chair Powell has said in recent interviews and talks, the Committee has a mandate to keep inflation low and stable and to attain maximum employment for the U.S. economy. So people can comment, including the president and other politicians, but it's up to the Committee to try to take the best action we can to try to achieve those objectives. So I mean, I'll say this, I'm not surprised given the president's style that he would have opinions on this as he does on many topics.

And he does get some influence over monetary policy through his appointment process, and he has two appointees at the Board today, and three pending. He could actually make another one, if I'm counting correctly. I think that's right. So, so I think through that process, he's been able to influence monetary policy. I think the general reaction to those appointees has been very good. He's appointed very strong leaders – people that know monetary policy well and will do a good job. So, in my opinion, I'm used to debating monetary policy on a wide basis around the world, and this is just one element of that.

Reporter: So you don't necessarily view this as a threat to Fed independence?

Bullard: I think a threat to Fed independence would come more through legislation that would change the structure. The structure is already designed to put a big Committee together and try to get a lot of analysis behind these decisions, and most importantly to give the Fed a mandate that we're expected to hit. And that mandate is keep inflation low and stable and maximum employment. So I think – by the way, we're doing very well on those objectives if you haven't noticed. Inflation's right about at target, and unemployment is quite low in the U.S. I think we have hit on a pretty good policy over the last several years. I think, as always in monetary policy, the issue is how to play this going forward, and that's the challenge that faces the Committee and faces Chairman Powell.

Reporter: I was listening to NPR this morning, so I understand there might be a slant, but I'm just saying, and they were talking about the yield curve, that when its starts to flatten out that within a year that they'll think there will be a recession, that previous numbers or previous yield (curves) had shown that, so then they talked about the weight that you put in the yield curve as far as predicting?

Bullard: That's a great point and it's one I've been emphasizing. The yield curve inversion has been a great signal for the U.S. economy of impending recessions. So it could be that this time is different. It could be that something special but I've learned over the years to respect this signal. And what it really is is bond traders having a different view of the prospects for the U.S. economy than what the Fed might have. The Fed is at the short end of the curve but the global bond traders are at the long end. And they're making an assessment about how much growth they think is out there, how much inflation they think is out there. So when the yield curve is inverted, you could interpret that as a clash between what global markets are thinking and what the Committee is thinking. And I wouldn't mind telling a story that this time is different and that it's OK, but I don't think we have to do that. Inflation is low, inflation is under control, inflation expectations are low. So I just don't think we have to go test whether we can invert the yield curve and get away without having a recession. We don't need to do that in this situation.

Reporter: I have one more question. So you mentioned free trade. What I struggle with is: How do you have free trade – where everybody is basically trading with everyone else, no tariffs, no kind of anything – how do you prevent the race to the bottom? So where, you know, all of a sudden, at one point you wind up with where everyone's undercut everyone, there's no environmental regulation, people are super poor with zero power.

Bullard: I think you can produce great goods all around the world. French wine is pretty good. Kentucky bourbon is pretty good, and consumers around the world should get to drink Kentucky bourbon if they want, and they should get to drink French wine if they want. I don't see it as a situation where it's impoverishing to French wine workers or Kentucky bourbon makers to allow that. What you want is those that are the best producers of products – either luxury products or staples products or any kind of product – you want the best producer to get the largest market share because that's what competition is supposed to do. And that forces the other producers to up their game, get better at producing their goods and produces better outcomes for everybody. So that's the economic intuition behind this, and it could be luxury goods, it could be simple goods, it could be very basic goods, but on all those dimensions, we'd like to get the best producers to have the opportunity to have the largest market share.

Reporter: Do you think new tariffs on automotive imports are going to cause car prices to rise? What are your thoughts on that?

Bullard: Well, short term, they would have to be reflected in car prices and I think that that's a downside to imposing tariffs. The upside of imposing tariffs is that it may put pressure on other countries to reduce their trade barriers. So if we can get to a situation of temporarily putting on tariffs here, but in the name of ultimately reducing tariff barriers globally, that would be a good outcome. So if we can get to that, that would be good. I think what everyone's debating and wondering is whether that's the direction we're really headed here or if it's just going to be trade restrictions.

Reporter: What effects are the rising oil prices having overall in the national economy?

Bullard: Oil prices have gone up – I actually didn't track them today, I'm not quite sure where they are trading today, but the big picture of oil prices is that they used to be trading at $100 per barrel and they went way down and they've come somewhat up from that, but the global oil market has been importantly influenced by U.S. production, and it does look like the U.S. will be the lead producer starting next year. And I think that will keep oil prices from rising further. These things always depend on global oil market developments, but the fact that the U.S. has really become a very important player globally bodes well keeping oil prices low in the U.S.

Reporter: [inaudible] if we approach it this way, it'd be a bad thing. If we approach it this way, a good thing. Which way to you see it being approached? What are you seeing as far as the intent as it is now?

Bullard: I think the president and his team, they have said, and I take them at their word, that they're ultimately free traders, and that they feel like the global trading arrangements have not been fair to the U.S. and that we have to press harder in order to get a more level playing field globally. You know, as to whether these are the right tactics or not, I mean, I'm not a trade negotiator and I have no idea what the right way to go about this is, so I'd leave that to those guys.

Reporter: [inaudible] mentioned the time frame that she had heard. But let's just say hypothetically that the interest rates do continue to inch up a little bit as has somewhat been expected, despite what you're saying, and that everything else kind of continues as it is now. What kind of time frame would you see if there is the inversion as to when the recession would kind of follow?

Bullard: Yeah, historically it's been a bearish signal, and it takes, it would be a year or more even after the inversion that you would see a downturn. So, if you just look at current data on the U.S. economy, the economy looks very good. The year-over-year growth rate is good. A lot of numbers are very good on the U.S. economy. Labor markets very strong.

One of my messages here in Glasgow was that if there's just one thing you want to do personally, based on the current situation, it's to think about people in your extended family or your circle of friends or in groups that you know, and think about people that have been marginally attached to the work force because this is a great time for them to find a job and find a place where they can settle down in the labor market. And that will put them in great position when a new recession does come, and they'll be set up in a job that they can count on. So, that's a very good thing that's going on in the U.S. economy, and a lot of the numbers are good for the U.S. economy right now.

This is just a story about trying to look ahead over the next two years as to how things will likely proceed. The FOMC predicts that the economy will slow down next year in 2019, compared to what it is this year in 2018. And how sharp would that slowdown be and would there be increased recession risk at that point. So it's not a matter of today that things are bad today because they aren't. They're very good today. It's a matter of trying to look out over the horizon and see what's going to happen.

Reporter: Being in the media, a lot of people say, "oh the media," and they have this image in their head. And same with the Fed. You know what I'm saying? If you look up movies on, documentaries on Netflix, conspiracy theories on both groups. How do you combat that? Because, I mean, the information a lot of time that you're presenting is not the most entertaining. We get drowned in facts a lot.

Bullard: Not the most entertaining? (Laughter.)

Reporter: (Inaudible.) You do kind of get caught in this quagmire stuff. How do you combat that – these automatic assumptions? When people knew you were coming to town, I had questions way over to this side and way over to that side about what I should ask.

Bullard: Well, we try – I think there has been a roll toward transparency since, really since the Greenspan era, but picked up a lot more with Chairman Bernanke and I think has continued right through until today. And so the Fed instead of being a secret organization – which I think has fostered a lot of these kinds of conspiracy theories – I think the best thing to do is just get out there, be more open, just talk normally about the kinds of issues that we face. And get people interested in the economy. I think that's another – we've tried to work on economic education, financial literacy. We would like the person on the street to know a little bit about the economy, how the economy operates. And I think we'll have a better economy if we can make progress on that. So, hopefully, we're working on demystifying but it's a tough job, and it's a long slog because as you say, these are esoteric topics.

Reporter: Thank you very much. I just want to follow up on what Steve was asking you, and I guess my first question is: Do you think it is appropriate for a president to weigh in on Fed policy? Because we're on the second consecutive day of this. The president this morning has tweeted that tightening now "hurts all we have done." I'm wondering what your thoughts are on that opinion? And the other question I have is: Today Trump did threaten tariffs of $500 billion on Chinese goods. He says that's now a possibility. What's your reaction to the idea of an escalating trade war between the two nations and the impact it could have on the U.S. economy?

Bullard: I would say the escalating trade war, if it goes badly, could, uh, could be a risk for the U.S. economy, and so we'll have to watch this carefully going forward. I mean, I do understand that the objective of the policy is to get more trade liberalization globally, but it could be that all we end up with is a lot of tariffs globally and a lot of other types of protectionism globally, and if that happens, that would be a bad outcome both for the U.S. and the rest of the world. So I think there is more risk because of the trade battles that are going on for the U.S. economy.

On the question of the president talking about Fed policy. I mean, lots of politicians talk about Fed policy. The chair goes up before Capitol Hill and gets all kinds of comments from senators and representatives. So the president does not have to stay out, I don't think, but the president also already has his imprint on monetary policy through the appointments process, and he appointed a very able chair who got bipartisan support. And I take the president at his word that he said, you know, he's going to let the Committee do what it thinks is the right thing to do. But because the president has a certain style, he wants to get in on all these debates and debate things, and so I'm sure he's going to weigh in. And he's weighing in today. He'll probably weigh in lots in the future. Different presidents have different styles. That's the way it is. But that doesn't really change what the Committee faces. The Committee has a mandate. We're supposed to keep inflation low and stable and we're supposed to get maximum employment, and that's in the law. And we have to make the best judgment that we can, taking all these things into account about how best to achieve those objectives. And there are lots of opinions out there, all around the world, including from big financial firms, politicians, foreign politicians, foreign central banks. Everyone has an opinion about U.S. monetary policy. That's part of the global monetary debate that is going on 24 hours a day around the world, and so we're very used to it. Let's put it that way.

Reporter: I wanted to ask another follow up on the Trump-related stuff. But is Trump right that Fed rate rises are putting the U.S. at a competitive disadvantage against other countries?

Bullard: Yeah, that would be a dollar, an argument about the strength of the dollar, and it would be an argument that maybe the Committee should pay more attention to the strength of the dollar or the weakness of the dollar when we're making our decisions. There are certainly countries that do that. They target their exchange rates very tightly. China is an example of that, but there are many others around the world. The U.S. historically has not worried as much about the exchange rate because the U.S. is not as open an economy as many of these other economies around the world and because the ability to impact the dollar is relatively weak. Why is that? The exchange rate is determined not just by U.S. policy but also by foreign central bank policy and the performance of foreign economies. And so when there's a movement in the dollar, it could be because of Fed policy, but it's Fed policy relative to let's say ECB or BOJ policy or Chinese policy, and to the news coming out of those economies relative to the United States. So the exchange rate is a complicated object, and I think historically we have not put as much weight on that as other central banks.

Nevertheless, it is a factor. And it's something we look at. We certainly take that into account when we're making our rate decisions.

Reporter: So are you saying the president is either wrong or that he is sort of misunderstanding the complexity of the debate over currency and currency movements and the Fed?

Bullard: The president feels very strong ... the president feels very strongly on trade issues and has a lot of conviction on trade issues and, related to that, I think probably has a lot of conviction about the dollar. But that's certainly not a new debate in monetary policy circles. Many people have argued in that direction in the past, and so I would just see this as sort of one more voice on that, on that topic.

Reporter: Thank you. Good morning. I guess, Jim, I wanted to ask you this morning about trade and inflation. I mean, in the Beige Book and things we're hearing that people are starting to raise prices, prices are going up on different things because of the tariffs. Is that something that the Fed is going to have to react to? I mean, is that changing – is that a game changer for the inflation front? I mean, you keep talking about how inflation is low and staying low, but this could change the equation, right?

Bullard: There are anecdotal reports of price changes, but I don't think so far we're really seeing it in the price indexes, especially the trimmed mean index, which is 1.8 percent year-over-year. It has run between 1 ½ percent and 2 percent for the last six or seven years. It's really hard to make a case based on Dallas Fed trimmed mean that we've got a lot of inflation pressure.

Also, the TIPS-based inflation measures, if you adjust them to translate them from CPI inflation to PCE inflation, those are continuing to run below our 2 percent inflation target. So I would say inflation expectations, at least measured by markets, are still somewhat low, just a tad below our target. And the thing I like about looking at market-based inflation expectations is that markets have already taken into account everything that we're talking about. They've taken into account the fiscal policy package. They've taken into account anecdotal reports from the Beige Book. They've taken into account oil prices. They've taken into account everything under the sun because that's what they do in financial markets. And they still don't see very much inflation pressure either over the next two years, the next five years or the five years after that. So, I'm just not seeing it right now. I do, of course, respect these numbers, and if I thought I was seeing inflation – and I am an inflation hawk, and so I if I did think we were seeing more inflation pressure, I would want to act. But I think in the current situation, we're not seeing that.

I also think that the Fed has acted pre-emptively already, that we've already raised the policy rate when inflation was quite low, we've already started to reduce the size of the balance sheet when inflation was quite low, so that we have come to a good position today already by acting pre-emptively, especially during 2017 and the first part of 2018.

Reporter: Just to follow up: A number of commentators, including Larry Summers, have made the point that the president's comments may backfire because the Fed might see it as a threat to independence and therefore when you had a close call, it would appear that if you didn't raise rates that you'd be kind of kowtowing to the president and therefore it would put the Committee into a position to go ahead and raise rates when there's a close call. That this could change the Committee's view to a little bit more hawkish. You probably saw that.

Bullard: I actually didn't see it, but to me that comment from Professor Summers would be a restatement of the reason why presidents have stayed out of this in the last couple of administrations. I think that … the idea is that maybe it could be counterproductive because if the Committee goes the way the president was talking, then it looks like you're kowtowing to the president and if the (Committee) doesn't go the way, then it looks like you're in a battle with the president, and I don't think either one of those is really occurring, but it creates a perception issue. And the president has a way to influence monetary policy anyway because he's got most of the appointments on the Board of Governors, several of which are pending right now in Congress. So, um, so I think that was the thinking of these previous administrations – that they would just stay out of this debate, this global, 24 hour a day debate. But different presidents have different styles, and I don't think you can expect every administration to be exactly the same. And also I think the president has strong conviction on trade issues. He feels very strongly about trade issues. It's not surprising he'd also feel very strongly about the dollar.

Reporter: So does it – do you think it does kind of predispose the Committee to be, in a close call, to be slightly more hawkish?

Bullard: No, I think the Committee will make the best judgment that we can. It's a very good group, excellent staff, lots of analysis going into these decisions and plenty of different opinions. So one thing I really like about the Committee is that you get, you know, you get people with strong views and they bring those views to the table, and then the chair has to sift through these different views and come to a consensus decision. And that process works very well, and I would expect that to continue going forward. And I doubt that there'd be any influence one way or the other from particular comments.