The U.S. Economy and COVID-19: An Update

November 13, 2020

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2020/bullard_memphis_economic_club_13_november_2020.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2020/11/13/bullard-economy-covid-19)

During a virtual presentation for the Economic Club of Memphis, St. Louis Fed President James Bullard said that while there has been progress in managing the global health crisis, substantial risks remain. He also noted that U.S. macroeconomic news from May through October surprised dramatically to the upside, which suggests that the business sector has rapidly adjusted to the pandemic.

In addition, he said, “U.S. monetary and fiscal policies have been exceptionally effective and were designed for a larger shock than the one that has occurred.”

He cautioned that downside risk remains substantial, and continued execution of a granular, risk-based health policy will be critical to maintain economic momentum.

St. Louis Fed's Bullard Discusses the U.S. Economy and COVID-19

ST. LOUIS –Federal Reserve Bank of St. Louis President James Bullard presented “ [The U.S. Economy and COVID-19: An Update](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2020/bullard_memphis_economic_club_13_november_2020.pdf)” via webinar for the Economic Club of Memphis on Friday.

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macroeconomic news from May through October surprised dramatically to the upside, which suggests that the business sector has rapidly adjusted to the pandemic.

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Managing Health Outcomes Remains Critical
Regarding management of the health crisis, Bullard noted that daily fatalities per 100,000 population have declined substantially from peak levels in March and April in both Europe and the U.S. but recently began to rise again. He added that East Asia and Pacific countries continue to report daily fatalities per 100,000 population that are an order of magnitude lower than in the U.S. and Europe.

“Key areas of global production are well past the initial phase of the crisis but must maintain safety protocols,” he said.

Bullard observed that business restrictions today aren’t too different from what they have been in recent months on a national basis in the U.S., as suggested by the University of Oxford’s stringency index. Generally speaking, businesses have strong incentives to try to keep customers and workers safe, he said. Otherwise, he noted, a major outbreak could occur, which would severely impact business.

“It may be that renewed increases in infections are coming more from personal interactions at the household level. If so, a renewed public education initiative asking households to take actions to reduce disease transmission may be helpful,” Bullard said.

Upside Surprise in U.S. Macroeconomic Data
Current data suggest that April will prove to be the lowest point of the crisis,

provided the remainder of the crisis can be managed effectively, Bullard noted. He remarked that the Citi Economic Surprise Index indicates substantial upside surprise in macroeconomic data releases in recent months. In addition, third-quarter real GDP growth, at an annualized rate of 33.1%, was the fastest on record, he pointed out.

Bullard also noted that employment has rebounded more rapidly than expected, supporting the idea that many layoffs were temporary as firms adjusted to the pandemic. “As a result, the U.S. labor market recovery is 48 to 50 months ahead of where it was following the 2007-09 recession,” he said.

COVID-19: Mortality Risk Management

Bullard discussed how households and businesses have developed strategies for mortality risk mitigation, including wearing seat belts and adhering to fire codes.

Second-quarter results showed that essential retail services can be provided with low risk, so long as simple precautions are taken, he said. Since then, many firms have adopted such strategies, he said, adding, “this has allowed many, but not all, firms to get back in business safely.”

Effective Monetary and Fiscal Policies

Bullard said that U.S. monetary and fiscal policies have been exceptionally effective during the initial phase of the crisis. Monetary policy included lowering the policy rate to the effective lower bound and providing liquidity to financial markets through a variety of programs supported by the U.S. Treasury, he noted.

“The backstop programs stemmed an incipient financial crisis during the March-April time frame, to the point where current levels of financial stress are near pre-pandemic levels,” he said.

On U.S. fiscal policy, Bullard noted that the total value of the Coronavirus Aid, Relief and Economic Security (CARES) Act along with additional legislation would be about $3.148 trillion, or about 14.5% of U.S. nominal GDP in the fourth quarter of 2019. He pointed out that the shortfall in 2020 real GDP, according to forecasters, will likely be closer to 2.5%, or about $500 billion. “In an aggregate sense, there are considerable resources pledged to combat the crisis, which should continue to be helpful in 2021,” he said.

He also noted that the fiscal response drove personal income up to an all-time high in the second quarter, which is the opposite of what normally happens in a recession.

Adapting to the Pandemic
Adaptation to the new mortality risk has been much faster than initially expected so far, and macroeconomic outcomes have been considerably better than originally expected, Bullard said.

“This outcome has been supported by exceptionally effective monetary and fiscal policies,” he said. “Despite this success, downside risk remains substantial, and continued execution of a granular, risk-based health policy will be critical in the months ahead.”

Contact Us
• Laura Girresch 314-444-6166
• Anthony Kiekow 314-949-9739
• Shera Dalin 314-444-3911
• Tim Lloyd 314-444-6829

- **November 10, 2020**. Article. "Monetary Policy and Fiscal Policy Responses to the COVID-19 Crisis," Federal Reserve Bank of St. Louis *Regional Economist*, Fourth Quarter 2020.

  Monetary Policy and Fiscal Policy Responses to the COVID-19 Crisis

  The COVID-19 health crisis has been a substantial shock to the U.S. economy, with the negative economic impact mostly concentrated, thus far, in March and April. The Fed’s monetary policy response and the fiscal policy response during the initial phase of the current crisis were swift and significant. In my view, these policies were successful in helping many parts of the nation’s economy respond effectively to the first wave of the pandemic.