

## **Optimal Monetary Policy for the Masses**

November 24, 2020

Presented at The Bank of Finland Monetary Policy Webinar: New Challenges to Monetary Policy Strategies.

October 15, 2020

Presented at Monetary Policy and Heterogeneity, Federal Reserve Board Virtual Conference.

Bullard's previous presentations of "[Optimal Monetary Policy for the Masses](https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2019/optimal-monetary-policy-masses)" are also available.

- **September 24, 2020.** Presentation. "[COVID-19 and the U.S. Economy: Progress on Health and Incomes](#)," Global Interdependence Center, GIC Executive Briefing. [Presentation \(pdf\) \(bullard\\_gic\\_24\\_september\\_2020pdf\)](#) | [Press Release](#).

## **COVID-19 and the U.S. Economy: Progress on Health and Incomes**

September 24, 2020

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2020/bullard\_gic\_24\_september\_2020.pdf) | [Press Release](https://www.stlouisfed.org/news-releases/2020/09/24/bullard-discusses-covid-19-and-us-economy)

During a virtual presentation for the Global Interdependence Center, St. Louis Fed President James Bullard said there has been substantial progress in managing the global health crisis. In addition, he noted that U.S. macroeconomic news has surprised dramatically to the upside and that economic activity will likely show outsized growth in the third quarter.

"I expect this rebound to continue in the U.S. as businesses learn how to

produce products and services safely using simple, existing technology,” Bullard said.

He also noted that 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.

Having trouble with the video? [Watch it here.](<https://www.interdependence.org/resources/us-economy-and-monetary-policy/#.X2zgSGhKg2w>)

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

ST. LOUIS –Federal Reserve Bank of St. Louis President James Bullard presented “ [COVID-19 and the U.S. Economy: Progress on Health and Incomes]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2020/bullard\\_gic\\_24\\_september\\_2020.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2020/bullard_gic_24_september_2020.pdf))” via webinar for the Global Interdependence Center (GIC) on Thursday.

During his presentation, Bullard said there has been substantial progress in managing the global health crisis. In addition, he noted that U.S. macroeconomic news has surprised dramatically to the upside and that economic activity will likely show outsized growth in the third quarter.

“I expect this rebound to continue in the U.S. as businesses learn how to produce products and services safely using simple, existing technology,” Bullard said.

He also noted that 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.

### *Substantial Progress in Health Outcomes*

In discussing the progress in managing 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. 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.

“This suggests that key areas of global production are well past the initial phase of the crisis and are likely to continue to increase economic activity under new safety protocols,” he said.

### *Upside Surprise in U.S. Macroeconomic Data*

Current data suggest that April will prove to be the lowest point of the crisis, Bullard noted. He pointed out that the Citi economic surprise index indicates substantial upward surprise in macroeconomic data releases in recent months.

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. “A back-of-the-envelope calculation suggests that there is room for a substantial decline in the official unemployment rate in the months ahead,” he said.

Regarding GDP, Bullard noted that third-quarter growth is projected to show substantial expansion. “Very rapid third-quarter GDP growth may put the U.S. economy within reach of a sort of ‘full recovery’ by the end of 2020,” he said.

He suggested that we could reach the average level of aggregate national income of 2019 by the end of 2020. “For this to happen, real GDP would have to grow 35% at an annual rate in the third quarter, followed by about 10.3% at an annual rate in the fourth quarter. These are big numbers, but not outside the realm of possibility,” he said.

### *COVID-19: Mortality Risk Management*

Bullard discussed how firms have been learning to run a business in a

pandemic. He noted that work from home has proven to be a viable and powerful strategy. In addition, the second-quarter results show that essential retail services can be provided with low risk, so long as simple precautions are taken, he said.

“This suggests that during the third quarter many firms have simply adopted proven, simple risk mitigation activities pioneered by the essential services industries in the second quarter,” Bullard said.

#### *Effective Monetary and Fiscal Policies*

Bullard said that U.S. monetary and fiscal policies have been 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 lending programs supported by the U.S. Treasury, he noted.

“The backstop lending 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 fiscal policy, Bullard noted that the total value of the Coronavirus Aid, Relief and Economic Security Act along with additional legislation would be 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 3% to 4%, “and so in an aggregate sense there are considerable resources pledged to combat the crisis.”

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*

The global health policy response has managed to contain the pandemic in terms of health outcomes relative to the March-April 2020 period, Bullard said. Still, the second half of the year is a period of continued learning and adaptation to the new mortality risk in the economy.

“Simple mortality risk mitigation strategies hold the promise of delivering higher household incomes along with lower fatalities from COVID-19, thus improving outcomes along both dimensions,” he said. “The downside risk remains substantial and continued execution of a granular, risk-based health policy will be critical in the months ahead.”

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- **September 18, 2020.** Remarks. [Bullard Discusses Economic Outlook, Inflation during Virtual Conference.](#)

### **Bullard Discusses Economic Outlook, Inflation during Virtual Conference**

September 18, 2020

St. Louis Fed President James Bullard discussed his outlook for U.S. GDP growth and unemployment, the Fed's move to flexible average inflation targeting, and the possibility of seeing more inflation in the future than before the pandemic. He spoke at a virtual conference hosted by the Boeing Center for Supply Chain Innovation at Washington University in St. Louis.

Bullard noted that the unemployment rate declined dramatically from double-digit levels to 8.4% as of the last jobs report, which was for August. He said that he has penciled in an unemployment rate of 6.5% for the December jobs report. He also noted that real GDP growth in the third quarter looks like it'll be about 30% at an annual rate, which would be the biggest growth quarter of all time in the U.S.

Bullard also explained what flexible average inflation targeting means at a practical level. When inflation runs below target for a while, the central bank would make up for that by allowing inflation to run above target for a while, thereby hitting the 2% inflation target on average, he noted. While inflation has mostly been below target since 2012, he said the U.S. may start to see