- **November 14, 2019**. Presentation. "The FOMC's Substantial Turn during 2019," Rotary Club of Louisville, Louisville, Ky. Presentation (pdf) (bullard_louisville_ky_14_november_2019pdf) | Press Release | Photos.

The FOMC's Substantial Turn during 2019

November 14, 2019

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_louisville_ky_14_november_2019.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2019/11/14/bullard-discusses-the-fomcs-substantial-turn)| [Photos](https://www.stlouisfed.org#photos)

During a presentation in Louisville, Ky., St. Louis Fed President James Bullard noted that the U.S. economy has been slowing down in 2019 after relatively rapid growth during 2017 and 2018. The economy faces downside risk that may cause a sharper-than-expected slowdown, which "may make it more difficult for the Federal Open Market Committee (FOMC) to achieve its 2% inflation target," he said.

He pointed out that the FOMC has tried to help insure against this downside risk by dramatically altering the path of monetary policy during 2019. "The FOMC's adjustment toward lower rates in the face of trade policy uncertainty may help facilitate somewhat faster growth in 2020 than what might otherwise occur," he said.

Photos:

On Thursday, Nov. 14, 2019, St. Louis Fed President James Bullard discussed the substantial turn in U.S. monetary policy this year at a Rotary Club of Louisville luncheon. Bullard meets regularly with groups throughout the Eighth Federal Reserve District to share insight on the U.S. economy, as well as gather views from Main Street. [Download High Resolution Photo](https://www.stlouisfed.org/-

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In a presentation to the Rotary Club of Louisville on Nov. 14, 2019, St. Louis Fed President James Bullard explained the substantial turn in U.S. monetary policy this year. Speaking at events like these is part of the St. Louis Fed's ongoing transparency and outreach efforts across its seven-state Federal Reserve District. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2019/louisville-tour/gallery/bullard_presentation_club_of_louisville.jpg)

St. Louis Fed President James Bullard (right) along with Nikki (Jackson) Lanier, senior vice president and regional executive of its Louisville Branch (second from right), toured Highland Sod Farms in Elizabethtown, Ky., on Nov. 15, 2019. Visiting local businesses throughout the St. Louis Fed's seven-state Federal Reserve District helps Bullard to assess the state of the economy on Main Street. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2019/louisville-tour/gallery/bullard_lanier_highland_sod_farms.jpg)

On Nov. 15, 2019, St. Louis Fed President James Bullard (center) along with Nikki (Jackson) Lanier, senior vice president and regional executive of its Louisville Branch (right), met with business leaders from around the Louisville, Ky., area at Boundary Oak Distillery, which is owned by Brent Goodin (left). Bullard meets with entrepreneurs and business leaders throughout the year to gain insight into economic conditions throughout the Federal Reserve's Eighth District. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2019/louisville-tour/gallery/bullard_lanier_boundary_oak_distillery.jpg)

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St. Louis Fed's Bullard Discusses the FOMC's Substantial Turn during 2019

LOUISVILLE, Ky. –Federal Reserve Bank of St. Louis President James Bullard presented " [The FOMC's Substantial Turn during 2019](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_louisville_ky_14_november_2019.pdf)" at the Rotary Club of Louisville on Thursday.

Bullard noted that the U.S. economy has been slowing down in 2019 after relatively rapid growth during 2017 and 2018. The economy faces downside risk that may cause a sharper-than-expected slowdown, which "may make it more difficult for the Federal Open Market Committee (FOMC) to achieve its 2% inflation target," he said.

He pointed out that the FOMC has tried to help insure against this downside risk by dramatically altering the path of monetary policy during 2019.

Bullard also noted, "Key measures of the U.S. Treasury yield curve have now returned to a more normal, positive slope, possibly a bullish factor for 2020."

A Slowing U.S. Economy and Downside Risks to Growth
Bullard pointed out that the U.S. economy grew at a 2.5% pace during 2018, but growth for 2019 as a whole has long been expected to be slower as the economy returns to its potential growth rate. "The key risk is that this slowing may be sharper than anticipated," he said.

"It remains possible that a sharper-than-expected slowdown could materialize in the quarters ahead," Bullard said. He then discussed downside risks to growth, which include the effects of magnified global trade policy uncertainty. "The FOMC's adjustment toward lower rates in the face of trade policy uncertainty may help facilitate somewhat faster growth in 2020 than what might otherwise occur," he said.

Bullard said that he thinks of trade policy uncertainty as being high in the current environment and that he does not expect this uncertainty to dissipate in the quarters and years ahead.

"Trade policy uncertainty creates a disincentive for global investment. Accordingly, the global growth environment looks weaker in recent quarters," he said, adding, "Slower global growth may feed back into slower growth in the U.S."

Muted Inflation

Bullard also noted that both inflation and inflation expectations are below the FOMC's 2% inflation target. "This is occurring despite more than two years of upside surprise on the real growth rate of the U.S. economy," he said.

"The FOMC's insurance rate cuts in 2019 may help re-center inflation and inflation expectations at the 2% target sooner than otherwise," Bullard added.

A Turnaround in U.S. Monetary Policy

Bullard noted that the FOMC has been cognizant of these developing downside risks during 2019. During the first half of the year, he explained, the FOMC began to project fewer increases in the policy rate and also laid out a plan to cease the runoff of the Fed's balance sheet. He added that, in June, the FOMC indicated that a lower policy rate might be warranted. The FOMC then reduced the policy rate at three successive meetings, most recently on Oct. 30.

Bullard said that the effect of this turnaround in U.S. monetary policy has been much larger than the three latest reductions in the policy rate alone would suggest because the expectation as of late last year was that the FOMC would actually raise rates further in 2019.

He pointed out that the two-year Treasury yield declined by 132 basis points during the last 12 months. “This is a very large change over this time frame,” he said, noting the outlook for shorter-term interest rates dropped because of FOMC actions. “Furthermore, these policy actions fed through to longer-term U.S. yields, which are more important for investment decisions,” Bullard said.

“The bottom line is that U.S. monetary policy is considerably more accommodative today than it was as of late last year,” he said.

Yield Curve Measures Turn Positive

Pointing out that the slope of the yield curve contains important information for monetary policymakers, Bullard explained that inversions have tended to predict the onset of past recessions in the U.S. postwar era. He noted that some portions of the U.S. Treasury yield curve were temporarily inverted during 2019.

“However, in part due to FOMC policy, the 10-year yield is now above the effective federal funds rate,” he said. “This return to a more normal state of affairs may be a bullish factor for 2020.”

Conclusion

The FOMC has been facing a slowing U.S. economy with some downside risk due to ongoing global trade regime uncertainty, Bullard said. He added that U.S. inflation and inflation expectations have continued to fall short of the FOMC’s 2% target.

“The FOMC has taken actions that have changed the outlook for shorter-term U.S. interest rates considerably over the last 12 months, ultimately providing more accommodation to the economy,” he said.

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