

Heterogeneous Agent Economies.”)

- **October 15, 2019.** Presentation. "[Insurance against Downside Risk for the U.S. Economy](#)," 2019 Monetary and Financial Policy Conference, London, United Kingdom.
[Presentation \(pdf\)](#)
[\(bullard_bloomberg_tv_mmf_london_15_october_2019pdf\)](#) | [Press Release](#).

Insurance against Downside Risk for the U.S. Economy

October 15, 2019

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_bloomberg_tv_mmf_london_15_october_2019.pdf) | [Press Release](<https://www.stlouisfed.org/news-releases/2019/10/15/bullard-insurance-against-downside-risk-us-economy>)

During a presentation in London, St. Louis Fed President James Bullard noted that the U.S. economy is slowing down relative to 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 may choose to provide additional accommodation going forward, but decisions will be made on a meeting-by-meeting basis,” he said.

St. Louis Fed's Bullard Discusses Insurance against Downside Risk for the U.S. Economy

LONDON –Federal Reserve Bank of St. Louis President James Bullard presented “ [Insurance against Downside Risk for the U.S. Economy](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_bloomberg_tv_mmf_london_15_october_2019.pdf)

oomberg_tv_mmf_london_15_october_2019.pdf)” at the 2019 Monetary and Financial Policy Conference on Tuesday.

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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 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 is possible that a sharper-than-expected slowdown could materialize in the quarters ahead,” Bullard added. He then discussed the downside risks, which he noted are possibly interrelated. These downside risks include the effects of magnified global trade policy uncertainty; slowing growth in the global economy; contraction in global and U.S. manufacturing; slowing U.S. business investment; and an inverted yield curve, “which seems to suggest U.S. monetary policy may be too restrictive for the current environment,” he said.

On the issue of trade policy uncertainty, Bullard said, “U.S. monetary policy cannot reasonably react to the day-to-day give-and-take of trade negotiations.” He added that he thinks of trade policy uncertainty as being high in the current environment and as something that is already factored into his monetary policy calculus. “I do not expect this uncertainty to dissipate in the quarters and years ahead,” he said.

“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.”

Regarding the yield curve, Bullard explained that an inversion of the yield curve has tended to predict the onset of recession in the U.S. during the postwar era. Some portions of the U.S. Treasury yield curve are inverted today, he said, noting that the 10-year yield is below the effective federal funds rate. “However, the 10-year yield is currently above the two-year yield, likely because markets are anticipating future policy moves by the FOMC, and so we are not seeing an intensification of the yield curve inversion so far,” he said.

Muted Inflation

In a discussion of muted inflation pressures, Bullard 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.

“Insurance rate cuts may help re-center inflation and inflation expectations at the 2% target sooner than otherwise,” he added.

A Turnaround in U.S. Monetary Policy

Regarding U.S. monetary policy, Bullard noted that the FOMC has been cognizant of the developing downside risks. During the first half of 2019, 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, on June 19, the FOMC did not change the policy rate but strongly suggested that a future downward adjustment in the rate could be warranted. The FOMC reduced the policy rate at its July 30-31 meeting and again at its Sept. 17-18 meeting.

Bullard said that the effect of this turnaround in U.S. monetary policy has been much larger than the two 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 135 basis points

from Nov. 8, 2018, to Oct. 11, 2019. “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.

Conclusion

The FOMC continues to face 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 continue 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 11 months, ultimately providing more accommodation to the economy,” Bullard said.

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- **October 1, 2019.** [Welcoming Remarks](#). Given at the Seventh Annual Community Banking in the 21st Century Research and Policy Conference, Federal Reserve System, Conference of State Bank Supervisors (CSBS) and Federal Deposit Insurance Corp. (FDIC), St. Louis, Mo. [Remarks \(pdf\) \(bullard_welcoming_remarks_7thcbrc_1_oct_2019pdf\)](#).

Welcoming Remarks: Seventh Annual Community Banking in the 21st Century Conference

October 1, 2019

Remarks: [text (below)](<https://www.stlouisfed.org#text>)