

[Presentation (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-ark-day-with-the-commissioner-06-apr-2023.pdf?sc_lang=en&hash=5E790898EDE51DCF733CC49D53A29ADE)[Press Release](<https://www.stlouisfed.org/news-releases/2023/04/06/bullard-presents-financial-stress-and-the-economy>)[Photos](<https://www.stlouisfed.org#photos>)

St. Louis Fed President Jim Bullard presented “Financial Stress and the Economy” at a meeting of the Arkansas Bankers Association in Little Rock.

He said that financial stress has been on the rise in recent weeks, but the macroprudential policy response has been swift and appropriate. He added that regulators are prepared to take additional steps if needed.

Data on the real U.S. economy have generally been stronger than expected, and inflation remains too high, Bullard said. He pointed out that FOMC policy has kept market-based measures of inflation expectations relatively low, which bodes well for disinflation this year.

Continued appropriate macroprudential policy can contain financial stress, while appropriate monetary policy can continue to put downward pressure on inflation, he said.

Bullard gave the presentation during a three-day visit to El Dorado and Little Rock, Ark. He meets regularly with business and civic groups in the four zones—including the Little Rock Zone—that make up the St. Louis Fed’s seven-state District to share his insights on the U.S. economy and to deepen his understanding of local economic conditions.

Photos:

St. Louis Fed President Jim Bullard (second from right) and Senior Vice President and Regional Executive of the St. Louis Fed’s Little Rock Branch Matuschka Lindo Briggs (right) toured a Standard Lithium plant in El Dorado, Ark., on April 4, 2023. The demonstration plant is used for proof-of-concept and commercial feasibility studies for the recovery of lithium.

Bullard regularly visits communities throughout the St. Louis Fed's seven-state District to gather views from Main Street. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2023-little-rock/gallery/littlerockzonetour-standardlithiumplant.jpg?sc_lang=en&hash=50195307492C98AD872CD70190E2F5F8)

On April 5, 2023, St. Louis Fed President Jim Bullard (center) participated in a roundtable discussion with a group of community development leaders in El Dorado, Ark., along with Sam Evans (left), a community development advisor at the St. Louis Fed's Little Rock Branch, and Matuschka Lindo Briggs, senior vice president and regional executive of the Branch. The trio listened to local economic concerns and exchanged community building ideas. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2023-little-rock/gallery/littlerockzonetour-roundtable.jpg?sc_lang=en&hash=C00F01F384AC77C6FEA1B18F3C8DDB26)

St. Louis Fed President Jim Bullard (center) and Senior Vice President and Regional Executive of the St. Louis Fed's Little Rock Branch Matuschka Lindo Briggs (second from right) met with members of the Branch's board of directors on April 5, 2023, in El Dorado, Ark. At these meetings, the directors provide insights on economic conditions in their districts and sectors, and Bullard uses that information help inform his views on monetary policy. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2023-little-rock/gallery/littlerockzonetour-branchboardofdirectors.jpg?sc_lang=en&hash=9909CCDF06DE8014C9C3277BF365E8AF)

St. Louis Fed President Jim Bullard (third from right), Senior Vice President and Regional Executive of the St. Louis Fed's Little Rock Branch Matuschka Lindo Briggs (second from right) and several members of the Branch's board of directors toured the Lockheed Martin facility in Camden, Ark., with Lockheed Martin staff members on April 5, 2023. The tour was part of

Bullard's visit to the Little Rock Zone, which is within the St. Louis Fed's seven-state District, to gain insights about local economic conditions. [Download High Resolution Photo](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/images/bullard/photos/2023-little-rock/gallery/littlerockzonetour-lockheedmartin.jpg?sc_lang=en&hash=83D3E73AF11508F8E55DBEAE703BF2A6)

St. Louis Fed President Jim Bullard gave a presentation on April 6, 2023, at a meeting of the Arkansas Bankers Association in Little Rock, Ark. Speaking at events like this 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/2023-little-rock/gallery/littlerockzonetour-presentation.jpg?sc_lang=en&hash=0FEC8780CB9CCA9A8EAF7118F07644FE)

St. Louis Fed's Bullard Presents "Financial Stress and the Economy"

LITTLE ROCK, Ark.—["Financial Stress and the Economy" (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-ark-day-with-the-commissioner-06-apr-2023.pdf?sc_lang=en&hash=5E790898EDE51DCF733CC49D53A29ADE)

Bullard said that while financial stress has been on the rise in recent weeks, the macroprudential policy response has been "swift and appropriate."

Meanwhile, the data on the real economy have generally been stronger than expected during the first quarter of 2023, and inflation remains too high, he said. Front-loaded Fed policy has helped keep market-based measures of inflation expectations relatively low, which is aiding disinflationary prospects during 2023, he explained.*

"Continued appropriate macroprudential policy can contain financial stress,

while appropriate monetary policy can continue to put downward pressure on inflation,” Bullard said.

Financial Stress Returns

Bullard discussed recent developments that have led to volatile trading in banking equities and increases in measures of financial stress. These include the closing of two U.S. banks with crypto-related strategies (Signature Bank and Silvergate Capital Corp.), the rapid run on deposits at Silicon Valley Bank and its closure by the FDIC, and the sale of Credit Suisse to UBS with Swiss government assistance.

“Closely related measures suggest that financial conditions have become tighter,” Bullard said. “However, financial stress and financial conditions metrics as of today remain low compared with levels observed during the Global Financial Crisis (GFC) of 2007-2009 or during the onset of the pandemic in March-April 2020.”

He described the macroprudential response as strong and said that regulatory authorities stand ready to take additional action as necessary.

Regarding interest rates, Bullard said the Fed has been raising the policy rate over the last year to combat the highest inflation in the U.S. since the early 1980s.

“Even with considerable forward guidance, it is relatively common that not all financial entities adjust their businesses appropriately to the changing environment,” he said, citing examples from the 1980s and 1990s. “These events received considerable attention at the time but were not ultimately harbingers of poor U.S. macroeconomic performance.”

GDP Growth and Labor Market Performance

Incoming U.S. economic data during the first quarter of 2023 have generally been stronger than expected, Bullard said. GDP growth improved in the second half of 2022 and the Atlanta Fed’s GDPNow nowcast of first-quarter 2023 growth was 1.7% as of April 3. The associated real consumption expenditures also have been stronger than expected, he added.

Bullard also said labor market performance remains strong. “Normally, a strong labor market bodes well for consumption expenditures, the largest component of GDP,” he said.

Disinflation and Inflation Expectations

Inflation remains too high, Bullard said, but it has declined recently. The Federal Open Market Committee has a 2% inflation target specified in terms of headline personal consumption expenditures (PCE) inflation. Headline inflation has declined, but it can be inordinately influenced by fluctuations in volatile prices, he said. Measures of inflation that strip out volatile price movements, such as core PCE inflation (which excludes food and energy prices) and the Dallas Fed’s trimmed mean inflation measure, also have declined but by less than the headline measure, he said.

Bullard also talked about market-based measures of inflation expectations, which he said are now relatively low in part due to front-loaded Fed policy during 2022. According to standard macroeconomic theories, inflation expectations are a key determinant of actual inflation, he explained.

“This bodes well for the disinflationary process in 2023,” he said.

Financial Stress and Macroeconomics

Bullard noted that financial stress can be harrowing, but one corresponding effect of note is that it tends to reduce the level of interest rates. “Lower rates, in turn, tend to be a bullish factor for the macroeconomy,” he said.

In the last four weeks, the benchmark U.S. 10-year Treasury yield has declined by about 50 basis points, and the two-year Treasury yield has declined by about 100 basis points, he noted.

“This may help to mitigate some of the negative macroeconomic fallout that might otherwise occur in the aftermath of a period of financial stress,” Bullard explained.

*Note: Disinflation refers to a decrease in the rate of inflation toward the Fed’s 2% inflation target.