- **March 24, 2023**. Presentation. "Financial Stress and the Current Macroeconomic Outlook," Greater St. Louis Inc., St. Louis. Presentation (PDF) (bullard-greater-st-louis-inc-24-mar-2023pdfsc_langenhashb55c31839caaf5202ad43af157be61fc) | Press Release | Video.

  Financial Stress and the Current Macroeconomic Outlook

  March 24, 2023

  [Presentation (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-st-louis-inc-24-mar-2023.pdf?sc_lang=en&hash=B55C31839CAAF5202AD43AF157BE61FC)[Press Release](https://www.stlouisfed.org/news-releases/2023/03/24/bullard-presents-financial-stress-current-macroeconomic-outlook)[Video](https://www.stlouisfed.org#video)

  St. Louis Fed President Jim Bullard presented “Financial Stress and the Current Macroeconomic Outlook” at a meeting of Greater St. Louis Inc.

  He noted that financial stress has been on the rise in recent days and that the macroprudential policy response has been swift and appropriate. He added that regulators stand ready to take additional action if necessary.

  Meanwhile, incoming data on the U.S. macroeconomy have been stronger than expected, and inflation remains too high, Bullard said. He also noted that FOMC policy has kept market-based measures of inflation expectations relatively low, which bodes well for disinflation during 2023.

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

  Having trouble with the video? [Watch the presentation here.](https://www.youtube.com/watch?v=EO2lPkOSUHY)

St. Louis Fed's Bullard Presents "Financial Stress and the Current Macroeconomic Outlook"

ST. LOUIS –["Financial Stress and the Current Macroeconomic Outlook" (PDF)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2023/bullard-greater-st-louis-inc-24-mar-2023.pdf?sc_lang=en&hash=B55C31839CAAF5202AD43AF157BE61FC)

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

Meanwhile, the data on the real economy have 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 helping 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. He described the macroprudential response as strong and said that regulatory authorities stand ready to take additional action as necessary.

Bullard went on to discuss the interest rate environment, noting that 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 a few 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," he added.

GDP Growth and Labor Market Performance
Turning to the U.S. economy, Bullard noted that incoming data during the first quarter of 2023 have been stronger than expected. He pointed out that GDP growth improved in the second half of 2022 and that the Atlanta Fed's GDPNow nowcast of first-quarter 2023 growth is currently 3.2%. The associated real consumption expenditures also have been stronger than expected, he added.

Bullard also noted that 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
Bullard said inflation remains too high, 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 then discussed financial stress and the macroeconomy. "Financial

stress can be harrowing but also tends to reduce the level of interest rates," he said. "Lower rates, in turn, tend to be a bullish factor for the macroeconomy."

During the current financial stress, the benchmark U.S. 10-year Treasury yield has declined by about 50 basis points, and the 2-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.

James Bullard

James Bullard served as president and CEO of the Federal Reserve Bank of St. Louis from April 1, 2008, to July 13, 2023. In this capacity, he oversaw the activities of the Eighth Federal Reserve District and was a participant on the FOMC.

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Resources from Former President Jim Bullard

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2023.pdf?sc_lang=en&hash=B55C31839CAAF5202AD43AF157BE61FC)[Press Release](https://www.stlouisfed.org/news-releases/2023/03/24/bullard-presents-financial-stress-current-macroeconomic-outlook)[Video](https://www.stlouisfed.org#video)

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- **February 24, 2023**. Presentation. "Credible and Incredible Disinflations," The Credibility of Government Policies: Conference in Honor of Guillermo Calvo, Panel Discussion: Back to 2% Inflation? Columbia University, New York, N.Y.
  Presentation (PDF) (bullard-calvo-columbia-24-feb-2023pdfsc_langenhash37ce9789c95dcf8ae69a9e3571ea7daf).

  Credible and Incredible Disinflations

  February 24, 2023

  St. Louis Fed President Jim Bullard talked about “credible” versus “incredible” disinflations during a panel discussion at “The Credibility of