Speaker 1:

I'll give everyone just a few seconds to sit down. Appreciate everyone being out today. I can tell you probably like a lot of you, I woke this morning at 5:30 with not my phone alarm, but some other sirens going off in the community. And glad today has turned out as well as it has. I know there's still a chance of some bad weather, but appreciate all of you coming out today. Also, I look at this crowd here today, and I know there's obviously a lot more financial people in the room than we typically have at a chamber event. So glad all of the bankers and financial representatives and insurance folks are here today. Just a great representation of our community.

It is an honor for the Jackson Chamber to be a part of this event and be able to facilitate this here today. And obviously, monetary policy is very important to all of us, particularly as Jackson is in the first few years of what will be the most significant period of growth we have ever experienced. And I know all of you have heard us talk about the word and use it more often than we probably should, transformative.

But what Blue Oval City does for West Tennessee, it transforms everything we do. And it's not only about Blue Oval City, it's about the suppliers that come. It's about the existing industries that are going to continue to grow here. Just at breakfast this morning with the company that's been in Jackson for several years, they're looking to add more employees. The challenge with that obviously, is we need more residents here, need more housing opportunities, need to keep improving this community. Good news is all of that is happening. So again, thank all of you for being here today being a part of this event. My job is introducing Mr. Douglas Scarboro, good friend setting up here front. He is from Memphis and he is the Senior Vice President and regional executive for the Memphis branch of the Federal Reserve of St. Louis. Douglas.

Douglas Scarboro:

As I hear the rain coming down, I want to thank the mayors that are right up front. They allowed us to get in here and get settled before the down pouring deluge came. Thank you everybody for being here for this event. Thank you to Kyle as well. You say phone a friend. One of the first things I thought when we were having the idea on a regular basis, Jim Bullard, our president, CEO, will come into the Memphis zone and will both listening and also will have a public event like this. And when I thought to come to Jackson, I thought about one person, and that was Kyle. I gave him a call and very quickly, we were able to get the thoughts together and get you all together. So thank you all for being here. But thank you most to Kyle for being able to help us make this a successful visit here in Jackson, Tennessee.

We will hear from Jim Bullard here in just a moment, but this is part of what we do on a regular basis from the Federal Reserve Bank of St. Louis that we have a lot of statistical information that Jim's going to hear on a regular basis. And then we have research economists that are there and based in St. Louis. But then also we have a lot of outreach functions that happen as well and we do a lot of listening and also taking in of anecdotal information. Part of that is sessions like this. We also have boards of directors at not only our Memphis branch but also our Little Rock and our Louisville branches. We'll have a meeting that will be coming up this Friday where we're going to get information and we hear from you all about what it is that you're concerned about in the economy. What are things that are at the front of your minds and that's things that will ultimately be at the front of our minds and at the front of Jim's mind as he goes to the FOMC.

So now, you have on your agenda information about Jim Bullard, president and CEO of the Federal Reserve Bank of St. Louis. He's a member of the FOMC, Federal Open Market Committee. I know that there's a lot of financial people here today, so obviously it's part of the reason that you're here and well about that body. He is head of the 8th district, which covers seven states, which includes the Memphis Zone and the area I cover is mostly Northern Mississippi but then also Western Tennessee and Western Arkansas as well. He's civically involved. He is on the board of Concordance Leadership Academy. He was on the board before of United Way of USA, he worked and has written for and also on the board with a number of journals including the Journal of Economic Dynamics and Control and also the National Institutes of Economic Review. So with that, you have his bio in front of you, but I'll welcome to the stage Jim Bullard.

James Bullard:

Well thank you Douglas and thanks everyone for being here today. Really go forward to a great discussion with you. I'll run through some of my favorite themes about what's going on in the economy and maybe we'll relate some of them back to the transformative, I guess I'm not supposed to use that word, transformative project here in the Jackson area. Later today I'm going to go out to Blue Oval and see how they're doing and tell them how to do it better. But I'm looking forward to it. It's created such a buzz in this part of the country and really around the country and it's very exciting to see it all happening. So this is called Disinflation: Progress and Prospects. So for those of you that don't follow the macroeconomy that closely, we've had a lot of inflation. I'm sure you're aware of that just in your personal life in 2021, and then again in 2022. And this inflation has been as high as anything we've seen since the early 1980s. So it's really come as a shock I think to many of you and I think across the country.

But we are on the path to disinflation and so I'm going to detail where I think we are. We got a lot more aggressive at the Federal Reserve last year in fighting inflation. I think that'll ultimately be successful. So here's the basic types of things I'm going to talk about. We're going to have a Q&A after I'm finished with this slide deck. And you can ask anything in the Q&A, things I'm not talking about here. But these are the things I thought I'd focus on for this talk.

First of all, I just want to outline where we are with real GDP growth. So that's the total sum of all goods and services produced and it's a benefit puzzling over the last 18 months exactly what's going on and I'll outline that. But it does look like it improved in the second half of 2022. A little bit counter to what Wall Street was saying about that. And then labor market performance, I've already heard plenty about labor shortages and possible future labor shortages here. But labor market performance remains very strong. We'll look at some pictures on that. Inflation itself, still pretty high, but it is declining on the key metrics that I'll show you, maybe not as fast as people were hoping and Wall Street was hoping, but it has declined.

I think that the front loaded Fed policy last year, we started raising rates last March and we raised them at the fastest pace that we've seen in a couple of decades, many decades, and that has helped a lot to put us on a disinflationary track and I'll talk about that. And I think we can lock in this disinflationary trend by continuing to have policy rate increases during 2023, even though the real economies looks like it's going to continue to grow and the labor market broadly across the country looks like it'll remains strong. So we're hoping that 2023 will be a disinflationary year.

So let's start with the growth prospects idea. If you follow this data, real GDP growth in the US, which is also national income, total national income, actually declined in the first half of 2022. And that was a bit of a head scratcher. It was kind of dismissed at the time. But then when we got to the third quarter of last year, we got a positive number, plus 3.2% at an annual rate. And then the fourth quarter, the quarter that was just completed, 2.9% is the current estimate there. So if you track these kinds of numbers, the 3% number is pretty good for... I'm not going to do this right now. Remind me tomorrow.

3% is a good number for real GDP growth. A long run trend growth rate for the US economy is only 2%. So 3% average over the second half. Again, these numbers have been talked down a little bit, but I'm not sure that that's all that convincing. If you look at the year-over-year growth instead of the quarterly growth, that is slowing, and we'll look at a picture there and some other data.

So here's the main picture, the blue bars, this goes back to 2021, and then comes out to all of 2022 on the right-hand side. The blue bars are the pace of annualized quarterly real GDP growth and you get these very tall blue bars on the left-hand side. So these numbers on the left-hand side of 6%, 7% growth at an annual rate, it's ridiculously fast for the US economy.

You usually don't see that kind of number. But the pandemic was ending and you're coming out of the pandemic. So it really grew rapidly. But then in the first two quarters of 2022, you have the negative blue bars there, low potential growth negative. So people were very puzzled by this because unemployment was still declining and it certainly seemed like in other aspects that the economy was doing well.

And then in the third and fourth quarter, the last two blue bars there, we had the above potential growth, about 3% on average and over the 2% dotted horizontal line there. And then there's just a faint blue box over there on the right-hand side. That's for the current quarter that we're in right now. And that's the Atlanta Fed's GDP now estimate of how that number's going to come in, and it's looking like it's going to be above the trend pace, at least as of today, the data we have today. If you put that with the other two blue bars there, above trend growth for now for the US economy, that sounds pretty good.

If you look at a year-over-year measure, maybe you get a better picture of what's going on. This is the Lewis-Mertens-Stock index, that takes all kinds of weekly data in and tries to project it into a year-over-year real GDP growth. And you can see in this chart, which also goes back to 2021, this year-over-year growth was really high and has been declining back to the trend pace of growth of about 2% all through 2021 and all through 2022. So maybe that's a better idea to have in your mind that the US economy can't grow at 8 to 10% all the time. So you came out of the pandemic, grew really rapidly, but then it's slowing down to the trend pace. So I think this picture might give you a better idea of where we are.

If you want to talk about an output gap, are we above pot potential or below potential, here's two measures of that. They say that we're above the level that you'd expect in the long run for GDP.

Here's real consumption. I thought I'd throw this in. This goes way back to 2012 and we drew a trend line in here, the dotted line. The trend line is for 2000 to 2019, to just before the pandemic. So that would be a very long run idea about the trend rate of growth in the US economy, the dotted line, and these are billions of dollars. And the solid blue line is the real personal consumption expenditures. So that's a total of what all you and I are spending and everyone else all around the country, some total. The thing about this picture is the blue line is above the dotted line right now. So trend consumption growth has been high and maybe it will slow down a little bit, but it's been very strong since the pandemic ended, or faded let's say, in the latter part of 2021 and into 2022. So it seems like households are doing very well, at least by this metric. And so again, this feeds into the narrative that the real economy is relatively strong.

So what should we say about these kind of puzzling numbers? It does now appear that real GDP growth has been stronger in the second half of 2022 than previously thought. A lot of people on Wall Street had negative numbers for the second half, that didn't happen. And you had these puzzling readings in the first half of 2022, but they're fading into macroeconomic history now, so we're not talking about those as much. So I think the best interpretation might just be that the economy grew really rapidly after the pandemic ended and then slowing back to trend.

Now what about this labor market data? Labor market performance does remain strong. We've got the number of job openings per unemployed worker still around two, it's about 1.9 right now. So this has been really indicative of what you all are telling me and what people are telling me across the country and across the district that labor markets remain very tight. I've got another picture that I'll show about how labor demand is just exceeding labor supply, and I think there's maybe a pretty good story behind that. I'll tell you that story. It's going to be really funny because I'm actually pretty funny at macroeconomics. It doesn't seem like it right now because I'm droning on, but it's really good. So unemployment insurance claims are very low, at a very low level. If you look at something broader that tries to bring all the labor market data together, like the Kansas City Fed's labor market conditions index, it remains at a very high level. So basically, no matter how you cut it, this is looking very good for the labor market.

So here's the vacancies per unemployed person. This chart goes back to 2000. The shaded areas are periods of recession. And okay, the blue line goes up and down, but usually it's below one. So usually there's less than one vacancy for every unemployed person. But then you get over here on the right-hand part of the chart post pandemic, and you get all the way up to 1.7, 1.8, 1.9, 2. And it doesn't really look like this is going away. The very last observation went up. I think this is indicative of this idea that there are structural issues in the US labor market and they might be important right here in Jackson. Here's another way to look at this data. This goes all the way back to 1980, on this chart. The shaded areas are our recession times. This is millions of workers. The gold line is available jobs, job openings plus employment. This is our chart that's been used by Jay Powell, the chair of the Federal Reserve. And the blue line is the available workers or the labor force.

And normally in this picture, this goes back 40 years now in this picture, that gold line is below the blue line. So the available jobs measure is below normally the available workers measure. So if you think of that as supply and demand, usually there's more workers than jobs. But if you look over on the right-hand part of the chart here, which is where we are right now, the gold line's above the blue line. And this is very unusual for this whole picture, we didn't see that, but now we're seeing it.

So what's going on? Why is the blue line not back up to where it should be? If you kind of squint at this picture, the blue line is going up, but it's going up in a parallel way compared to the trend line that you can draw with your eye from the pre-pandemic era. So why didn't the blue line go up more? Well, there are several stories that are being told about that. So this is a part where it's really gets funny. No, this is pretty dry, actually. A couple of things have been said that, and they all make a lot of sense. One is that older workers a little bit scared of the lingering effects of the pandemic, they're more vulnerable. A lot of times people would retire and they'd go back to work part-time or they'd do something, they're not doing that nearly as much. They're just staying out. And that kind of makes sense because it was a pandemic. So it kind of makes sense that they're staying out. So that's one source of a suppressed labor supply.

You've also got daycare. Now, daycare was industry that was really hit hard by the pandemic. It's a physical contact type thing. The parents are very concerned about the health of their kids. The workers started to get paid a lot more. The economics has always been a little bit shaky about daycare. So now you've got less daycare, less daycare workers, more improvised arrangements. That's going to keep some to earner households with one earner at home. So there's a suppressed labor supply coming from that angle as well. And the third one is immigration. So immigration, the nation probably starting five years ago or more, started to get more circumspect about immigration. The total immigration level came down in the US. The pace of immigration has come back up, but the workers that would've come in through that channel, let's say since 2015 or so, have not. So those guys aren't here. They just aren't here. They're not in that blue line.

So between that and the older workers and the daycare and maybe some other factors, one other factor is people are sicker. You've got COVID still going on, and so on a given day the number of people calling in sick is higher than it used to be because of that. So you got less workers because of that. So these are factors that are making the labor market very tight. They're making the gold line be above the blue line and that's reflected in all kinds of anecdotes that I'm repeatedly hearing over the last two years really, or year and a half, all around this country about how tight the labor market is.

Okay, I'm not sure I have stories as good as that one for the rest of the talk. So you may have to spin your own hair or something. So this picture looks complicated, but it plots the unemployment insurance claims for every week of the year for all these different years that are listed here. And the current claims are actually the red dotted line on the left here. On the left side, that would be the early weeks of this year, early weeks of 2023. And you could see the red dots are below all the other lines.

So to look at it this way, you're kind of controlling for the seasonality in unemployment insurance claims because it does bounce around during the year. But even if you control for that, these are just really, really low levels of unemployment insurance claims. So if there's going to be any problem in the labor market, it would show up here and it's not showing up so far. So that indicates labor markets are also strong.

If you put all this data together into one index, you get the Kansas City Fed's labor market conditions index, which is plotted here, going back to 2006. You could see that by this metric, the ordinary labor market would be the zero line here, the dotted green line going horizontally across this picture, blue line way above that. So again, pretty much no matter how you cut it, I didn't even put the unemployment rate, which national unemployment rate 3.4%, ticked down in the last report, not up. So no matter how you cut it, this is very, very strong labor market conditions in the US.

Now, I think the disinflationary process has started. Inflation is too high, but it's declined recently. The committee that I'm on does have a 2% inflation target. It's specified in terms of headline inflation of personal consumption expenditures. Headline has gone down, but it can be influenced by energy and food prices. If you strip out those volatile components, you'll still get a picture that says inflation has come down. So I think here's the main evidence on this. This goes back to 2019. This is the committee's favorite measures of inflation on a 12-month basis. So that's going to smooth things out a little bit. The blue line is the headline inflation with everything in it. The gold line is the core inflation if you take out food and energy.

And the lighter blue line is the Dallas Fed trim mean. So what that does is it takes the whole distribution of price changes, some prices went down, some prices went up. But the Dallas Fed trimming just looks at the middle part and looks at what the inflation rate is for this middle part here. So that's a way to kind of control the idea that very extreme price movements, like for eggs for instance, can skew this picture.

So the blue line, that's the headline measure. The peak there was about a 7%. Now it's down around 5%. That's pretty good, 200 basis points down in about six months. But some of that was food and energy. If you look at the gold line, it's down about 100 basis points. Basis point is 100th of a percentage point. So down about one percentage point, a little bit volatile, not so clear. And then you look at the Dallas Fed trim mean line, you really have to squint to see the decline in inflation on the Dallas Fed trim mean. So yes, the disinflationary process has started, but it's just started. It's likely to be bumpy and it's likely to take a while.

Now, a big thing about how markets work and how that interacts with what monetary policy should be is inflation expectations. Again, as I said at the beginning of this talk, we were very aggressive last year. We had lots of interest rate increases. We had four 75 basis point increases in a row. That's unprecedentedly fast for this business. And we got the policy rate up, much closer to a sufficiently restrictive level. And what this did was tamp down on inflation expectations and created the expectation correctly, I think, that inflation's going to be low in the future in the US economy.

So one way to look at that is actually look at the markets and see how they're pricing this. And in markets, you can look at exotic things like inflation swaps and other things and you can get a measure of what the market thinks inflation's going to be over a two-year horizon, the blue line, a five-year horizon, the gold line, or not the next five years, but the five years after that, the light blue line in this picture.

This picture goes back to January, 2021 and it's one of my favorites. So I'm going to linger on it even though you probably don't care about it. But this is one of my favorites because in January of 2021, if I had been here in Jackson, Tennessee and giving you a talk, we wouldn't have been talking about inflation. There wasn't really any inflation and no one really expected any inflation. And all these expected inflation measures were around two and a half percent, which is considered consistent with our 2% inflation goal. But then, inflation reared its ugly head and markets started to get nervous about inflation. They started to think there was going to be more inflation in the future and they started to move these measures up considerably. And you could see all the kind of chaos in the middle part of this picture.

But if you get to the right-hand side of this picture, which is where we are today, this is daily data I think, or maybe weekly, if you look at where we are today, we're back to where we were in the first quarter of 2021. So we're back to where we were two years ago, in terms of inflation expectations. And that's because the Fed was so aggressive during 2022. We convinced everybody and hopefully you, but in financial markets, we convinced people that we are going to keep inflation under control and we are going to get back to our 2% inflation targets. So this is very encouraging from the point of view that our policy is having the right impact.

So can 2023 be a year of disinflation? Well, the economy's growing faster than we thought. Labor market performance does remain robust. Unemployment's below its longer run natural level. So you would think what would happen is the economy, GDP growth would moderate from what it was in the second half of 2022, it would now come down, and unemployment, which is really, really low right now would probably go up to a more natural level that would balance supply and demand and that would be a natural forecast to make. And that is consistent with what the fed's been saying.

And then I think we can lock in the disinflationary trend that we have. We can lock that in with further rate increases even though we have ongoing growth and strong labor markets. But we're keeping inflation expectations low, which I think will help us to eventually get back to a 2% inflation target.

So that's the show and I'm going to stop there and let you guys ask questions. And again, you can ask questions about anything that you'd like to, whether you want to talk about other things that are in this talk or other issues. So thanks very much. Thanks for your attention and thanks for coming out today, and I'm looking forward to seeing Blue Oval later. Thank you.

Douglas Scarboro:

Jim's going to remain at the lectern and take questions from there. We have two people, you see Joanne and a person in the back with microphones. So if you have a question, see one over here, they'll bring the microphone to you so you can ask a question. And as there bringing the microphone up, I do want to thank, let's have a round of applause for Dr. Oliver and his team for helping get us here today. All right, go right ahead.

Speaker 4:

First of all, thank you so much for spending time with us today. In your opinion, from both the long term and a short term perspective, what are the things that we, as financial advisors, should be keeping our eye on? Where do you think the risks are, both short and long term?

James Bullard:

Well, inflation's a pernicious problem. So it is a risk, and it does affect, one of the lessons of the last two years is that everybody feels the effects of inflation. It's pretty much across the spectrum. So rich and poor, young and old, everybody notices. So if we can't get this problem under control soon, we risk a replay of the 1970s. And some of you were there in the '70s, as I was. But then at that point in the '70s, the US monetary policy did not act strongly enough to keep inflation under control, and the saga of inflation fighting went on for about 13 or 14 years. For those that went through it, they swore we would never allow this to happen again. And one of the surprises of the 1970s was not just that there was some inflation and that okay, we had to put up with inflation, but that it made the real economy also be very volatile.

You had four recessions in 13 years, culminating in the 1982 recession, and unemployment went all the way to 10.8% at that point. So it was only after that we brought inflation under control. And then you got rid of the volatile real economy. You had a long expansion in the '80s, mild recession in 1991, and then another long expansion in the 1990s. So the benefits of getting inflation under control quickly are vast, and we do want to achieve that. But if we don't, we risk this replay. So I think that's the thing to watch out for here, is that we don't do enough on inflation and we get a replay of the 1970s.

Richard Donnell:

Good afternoon, sir. I'm Richard Donnell from Lane College here in Jackson, Tennessee. And I'm not a banker. And therefore, I'm asking you a question as a consumer. About several weeks ago, for the first time, I purchased a T-bill. In the past, I'd always purchased CDs, but I thought I would purchase a T-bill this time cause the interest rate was good, 26 week. And right after I purchased it, I mean immediately after I purchased it, the talk came around about the government defaulted on its debts, which would affect me, I guess. So my question is this. Well, my logic is this, though. I was alarmed at first, but then my feelings were soothed because I figured that the fat cats, Musk and Buffet and all them have way more T-bills than I have. And so my thought is that they will tell the legislators don't default. So first of all, is my logic correct so that it'll benefit me. And secondly, if it were to default, in the unlikely event that it defaulted, would I get my money back? That's what I want to know.

James Bullard:

Wow. Well, yeah, this debt ceiling vote is a vote that Congress loves and hates, I think at the same time. The instinct in Congress is that a must pass piece of legislation is a moment that you can negotiate. And I think that's why we see a lot of drama around this. But both sides do say that they're going to pay. So I think you're in pretty good shape.

As far as who holds that debt, it's certainly many of you and many of us in retirement savings and other plans do hold government debt, US government debt. But some of the biggest holders are actually foreign countries, including China and Japan and other places around the world. The US dollar's just considered extremely liquid and it's just very valuable to hold US treasuries. So we do get a lot of benefit from being kind of the biggest kid on the block in some sense, in this game. And that's one reason why you don't want to throw that away, by defaulting on the debt. So I don't think that's what it's going to come to, but Congress will have to go through its machinations before we can get to a solution.

Douglas Scarboro:

Two questions over here.

Speaker 7:

Thanks for being here.

James Bullard:

Sure.

Speaker 7:

It's been really interesting. Can consumers' sentiment and the way that their behavior changes around the fear of inflation or the prospect of disinflation, can that lead to inflation or disinflation itself? In other words, can it act as a self-fulfilling prophecy, the fear of inflation changing the way consumers behave, thus bringing on inflation itself?

James Bullard:

Yeah, I do think that expectations play a big role in macroeconomic life, or when you say that in bland way, it sounds like, well, how could that be? But you've got Blue Oval coming in here, that's changing expectations about this community, that then people taking actual action today before the plan has been built because they understand what's going to happen in the future.

This happens all the time in macroeconomics. And one of the things I've been trying to stress is that you want to create this expectation that inflation will be low in the future. You want the credibility of the inflation fighting to be very apparent, especially to businesses because those businesses are making pricing decisions. And if they expect a lot of inflation in the future, they might just say, "Okay, I'll just raise my prices a lot and I'll be profitable because everyone else is going to raise their prices a lot." But if there's a disinflation dynamic going in, I think it is starting pretty sharply now in the US economy, you don't want to be a business that raises your prices a lot, thinking there's going to be a lot of inflation in the future, and your rivals come in and do not raise prices, and they take market share from you. Because if they take market share from you, you can never get that back or very hard to get it back. Cost of acquisition of customers is very high.

So my interpretation of the 1980s is that this is exactly what happened when you look at the rise of Walmart, the low cost provider. They were going to be doggedly determined to not raise prices or at least raise prices less than their rivals, and they took all this market share. And all the companies that went out of business during that period are forgotten now. And so it's a very dicey situation for firms to think about how they're going to do that pricing decision. And a big component of that is how much expected inflation is there in the economy. I showed you a picture that it's back to normal. So they shouldn't be raising their prices based on the idea that there's going to be a lot of inflation in the future. So I'm very hopeful that, that will turn into a very good dynamic for the US economy on the inflation.

Douglas Scarboro:

Here first.

Chad Wilson:

Mr. Bullard, Chad Wilson, local banker. Thank you for your time today.

Douglas Scarboro:

Sure.

Chad Wilson:

Very helpful. Noticed on slide 14 where you showed the blue and gold chart, the mismatch of jobs and openings that prior to the pandemic, we actually saw those cross.

Douglas Scarboro:

Yep.

Chad Wilson:

And so my question is it possible that, that mismatch is a new normal and that the pandemic exacerbated it and that tight labor market that we're experiencing now could be with us for years to come, just because of demographic trends and mismatch of skills and skills possessed with skills needed? And if that's the case, does the Fed watch the tightness of the labor market more closely than CPI or PCE in determining whether to continue raising rates? Is there an assumed correlation between a tight labor market and the continued need to raise rates in the face of that?

James Bullard:

Yeah. It's a great question and you've gleaned some good lessons from this picture, the gold line's above the blue line before the pandemic. So maybe that is indicative of a longer run trend here. Now, you did have some things going on in 2017, 2018. You had a corporate tax cut that was beneficial, I think, for US economic growth. And you were at the end of this very long expansion where you normally would expect labor demand to be high. But it was a very good labor market even before the pandemic. And it's even better, just as good or better, according to this metric.

Now, I think what'll happen in the medium term, this can't remain like this. In the medium term, firms got to get something done. They'll either raise wages and bring in the workers that they want, they'll look to new sources of workers, or they'll substitute capital for labor and automate more than they would have otherwise. You're certainly seeing that in a lot of businesses, more robotics, more AI, more technology substituting for what otherwise would've been done via labor. So I know that many firms are dusting off their plans about automation and giving them a harder look, even though they have to spend money to do that kind of upgrade.

Tony Neihoff:

Mr. Bullard, thank you for coming again.

James Bullard:

Sure.

Tony Neihoff:

I'm Tony Neihoff. I'm a local realtor, county commissioner. But my question is, I guess a personal question and I guess a Federal Reserve question because I imagine you may disagree with some things personally as well. But I looked on my phone and it said that the government forgave $400 billion of PPP loans in the summer of 2021. Did the Federal Reserve use that information about inflation because obviously, giving much money would affect consumers.

James Bullard:

Yep.

Tony Neihoff:

And also, the real estate industry would love interest rates to be lower.

James Bullard:

I didn't put a housing market slide in here, but I can talk about it. On the PPP, so this was a program that was designed to, I think the initial response to the pandemic was very good in many ways. You had a lot of disrupted workers, you had a lot of disrupted businesses, and they basically couldn't work and couldn't run their business. And so this was a way to get cash to them, to tie them over, at least during the first part of the pandemic as we waited for vaccines to be developed. So I thought that that was pretty good. They were loans, but I think the idea was that most of these were going to be forgiven, provided conditions were met. And I think for the vast majority, those conditions were met, they were forgiven. So it did turn out to be a cash infusion for a lot of small businesses and nonprofits. So I think that was the right response there.

Was it inflationary? I don't think that the initial phase was inflationary. However, Congress came back later in December of 2020 with a major package. Both parties agreed because they wanted to be competitive in the Georgia elections and then again in March of 2021, and that's when inflation went up a lot. Those were outsized moves and they were tied to political events and less to economic events. So I think that was a factor. So that led to, among other things, very rapid M2 growth, for those of you that are monetary in the group here, and ended up leading to a lot of inflation.

On the housing, I didn't put a housing slide in here, but that's one of the most interest sensitive sectors. The Fed raised rates very rapidly during 2022, and basically the housing market felt it right away. But one thing I'd like to stress about this is that people talk about long and variable lags in monetary policy that you raise a policy rate today, but it doesn't have an effect till 18 months later. I'm not really seeing that in the housing market. What you saw in the interest sensitive sector like the housing market, was before the Fed had actually raised rates hardly at all, you already saw a significant slowdown in the spring of 2022. And at that point, we had barely done anything. But this was all in anticipation of what was to come, correct anticipation of what was to come later in the year. And so the whole sector slowed way down in anticipation of what the Fed was going to do.

So once again, expectations playing a big role. You might say that's a great thing because that means your policy's having an impact right now and you're fighting inflation right now, not 18 months from now. You're fighting inflation right now with the interest rate increases. So hopefully, that'll help us get inflation under control in short order here and we can get the economy back on the balanced growth path. So you guys have been great, and thanks for listening and thanks for having me today. I'm looking forward to the rest of my visit. So thank you.

Douglas Scarboro:

Thanks again to all of you all for being here. You see the slide behind me where you can go. And you see the QR code, where you can get Jim's information for the speech that you just saw earlier. The slides are available online. So if you're asking, for those that are interested in seeing those slides that he referenced, you can get those there. You also have a lot of information here as well about the Federal Reserve Bank of St. Louis. And Joanne, we can send this information out. But it allows you to be able to contact with and get information about free financial literacy lessons that we have, economic education, but also about our museums.

If you ever find yourself online, you can go to the museum, but also if you find yourself in downtown St. Louis, we invite you in to come to the Federal Reserve Bank of St. Louis and see our museum. There is a gold bar there, so you can come and you can actually touch a gold bar. So if that's incentive for you to come in, if you like that, then.

But also the last thing I would say on behalf of Memphis branch is thank you all for being there, but let you know that there's activities and events that we have on a regular basis. Whenever we have a board meeting, we have a breakfast with the Fed session. It's about an hour and a half or an hour fifteen, depends on how fast you're driving, to get to Memphis and the downtown branch. So we always invite you in and welcome you. So thanks a lot and you all have a great day.