Fed Economic Report CC SKK/ 01/10/19 ThursPM/FriAM

While hundreds of thousands of people are personally affected by the partial government shutdown, on a macroeconomic scale, the shutdown should not make too much of an impact.

James Bullard, President of the St. Louis branch of the Federal Reserve Bank, gave a presentation on the state of the economy during the Little Rock Regional Chamber's Power Up Little Rock event.

While Bullard does not believe the shutdown will affect the economy in the long term, he is worried about the country being on verge of a damaging economic mistake.

Fed Economic Report CC :27 "…this stage"

"I am concerned that we're on the precipice of a policy mistake here. We have normalized rates, Bullard said, I think we're still okay today, but if we press too much harder going forward and substantially invert the yield curve, that could presage a downturn in the US, and that could possibly be very damaging at this stage,"

The yield curve, the line that plots interest rates, normally has higher rates on long-term bonds compared to short-term bonds. However, the yield curve has been flattening over the years and an inverted yield curve, where the short-term bonds have a higher rate, could be a bad sign economically.

According to Bullard, this inversion suggests financial markets expect less inflation and less growth for the US economy than the Federal Open Market Committee. Furthermore, an inverted yield curve tends to precede an economic recession.

Overall, Bullard recommends that the FOMC should pay attention to these economic trends and signals to keep the US economy on track.