

Macro Roundup Article

Headline: Recent Movements in R^* : The Most Important Interest Rate That You Have Never Heard Of

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Author(s)	Ernie Tedeschi
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Tweet: .@ernietedeschi argues that higher growth, higher debt levels, and greater political risk have most likely driven long-run R^* higher than its pre-pandemic levels and higher than the 60bps the median FOMC participant currently projects.

Summary: R^* [the “natural rate of interest”] prevails when the economy is growing at its sustainable trend rate and inflation is at target. It is one of the most important concepts in markets today, but it is both unobservable and highly uncertain. Most direct or indirect estimates of R^* appear to have risen since 2022 and are above 2019 levels, though a few prominent ones like Laubach-Williams are lower. The data lean toward the conclusion that the pandemic and its aftermath have, for the moment, arrested the structural decline in R^* the U.S. was undergoing in the decades prior to 2020. Taken together, the data are not unanimous but lean towards the conclusion that the long-run natural rate of interest at the moment is most likely higher than its pre-pandemic level. They also raise the real possibility that it is higher in level terms than the 60 basis points the median Federal Open Market Committee (FOMC) participant currently projects.

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Primary Topic: Growth

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