

## Macro Roundup Article

**Headline:** [The Evolution of Short-Run  \$r^\*\$  After the Pandemic](#)

**Article Link:** <https://libertystreeteconomics.newyorkfed.org/2023/08/the-evolution-of-short-run-r-after-the-pandemic/>

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**Tweet:** Despite the Fed funds rate rising by 500bps in just over a year, the tightening may have been offset by an increase in the natural rate helping to limit the impact of tightening. @NYFedResearch

**Summary:** From the model's perspective, short-run  $r^*$  has increased notably over the past year, to some extent outpacing the large increase in the policy rate. The chart decomposes the change in real  $r^*$  (black line) and its forecast (red line) between June 2022 and March 2023. Note that these are changes in the real variable. The chart shows that "financial" shocks (yellow) are the key driver of this change. These shocks capture the fact that financial conditions, as measured for instance by corporate spreads, have remained very resilient in spite of the increase in the policy rate (and of the recent banking turmoil).

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**Primary Topic:** Business Cycle

**Topics:** Business Cycle, Financial Markets, GDP, Government/NGO, Monetary Policy

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