

Macro Roundup Article

Headline: [Why Is the Economy Still So Strong?](#)

Article Link: <https://www.apolloacademy.com/why-is-the-economy-still-so-strong-2/>

Author(s)	Torsten Sløk
Publication	Apollo
Publication Date	May 06, 2024

Tweet: Torsten Sløk @apolloglobal argues the US economy's continued strength reflects both reduced current interest rate sensitivity of household and corporate borrowing and multiple "demand tailwinds."

Summary: Why is the economy still so strong? Lower interest-rate sensitivity and strong demand tailwinds. Specifically: A) Lower interest-rate sensitivity: 1) 40% of homeowners don't have a mortgage, and 95% of mortgages are 30-year fixed that are not sensitive to the Fed raising interest rates. 2) During Covid, most firms termed out their debt at very low levels. 3) A growing share of capex spending is intangibles (R&D and software), which generally is less sensitive to Fed hikes. B) Strong cyclical and structural demand tailwinds: 1) Fiscal spending, including the CHIPS Act, Inflation Reduction Act, and Infrastructure Act. 2) Excess savings have recently started to rise again for higher income households. 3) Immigration has been unusually strong, supporting overall employment growth. 4) The Fed turning dovish in December 2023 has eased financial conditions significantly. 5) Higher interest rates give higher cash flow to households that own fixed-income assets. 6) After 14 years of very low interest rates from 2008 to 2022, the demand for higher all-in yields remains extremely strong from insurance companies, pension funds, and retail investors, which has contributed to easy financial conditions that have been offsetting Fed hikes. The AI story has also boosted household wealth and eased financial conditions. 7) Corporates that got into trouble once the Fed started hiking [are] doing reorganizations and distressed exchanges, and this has kept many firms alive that would otherwise have gone out of business.

Related Articles: Global Views: Friendly Baseline, Greater Risks and How Fast Can the Fed Ease? The Private Sector Response to Easier Conditions Will Be a Key Factor and Cicadian Rhythms

Primary Topic: Business Cycle

Topics: Business Cycle, Database, GDP, Growth, Inflation, Monetary Policy, Op-Ed/Blog Post, Weekly

Permalink: <https://www.edwardconard.com/macro-roundup/torsten-slok-apolloglobal-argues-the-us-economys-continued-strength-reflects-both-reduced-current-interest-rate-sensitivity-of-household-and-corporate-borrowing-and-multiple-demand?view=detail>

Featured Image Link: <https://www.edwardconard.com/wp-content/uploads/2024/05/20792-why-is-the-economy-still-so-strong-featured-image.png>