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Macro Roundup Artcile

Headline: The U.S. Economy is Roaring. Why Should Rates Come Down?

Article Link: https://theovershoot.co/p/the-us-economy-is-roaring-why-should

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Tweet: Real growth was over 3% last year with nominal income growth running 6-7%. @M_C_Klein notes short-term rates ranged between 5-6% during the late 1990s and argues that the pre-pandemic period might be the wrong baseline for calibrating interest rates.

Summary: Traders are still betting that short-term interest rates will fall sharply in the next few years because they believe—along with Federal Reserve officials and many other analysts—that the post-pandemic economy will more or less resemble the world of 2019. While that may prove correct, the data so far continue to suggest that we remain in a period of structurally faster growth more akin to the second half of the 1990s. The inflation-adjusted value of goods and services produced in the U.S. grew more than 3% in 2023 vs. 0.7% in 2022. There is evidence that businesses are more likely to invest in productivity improvements during sustained periods of full employment and high capacity utilization (like now). In that world, sustained nominal growth around 6% would continue to translate into rapid real growth alongside modest inflation. More speculatively, it is possible that large language models and weight loss drugs could also have sustained productivity benefits, but it might take a while before the impact is visible in the data. Related: The Big Picture: Back to the Future and Will A.I. Transform the Economy, and if So, How? and The Outlook for Long-Term Economic Growth

Primary Topic: Growth

Topics: Business Cycle, Financial Markets, GDP, Growth, Investment, Op-Ed/Blog Post, Productivity, Weekly

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