Macro Roundup Artcile

Headline: Higher (Real Rates) For Longer

Article Link: https://fedguy.com/higher-real-rates-for-longer/

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Publication	Fed Guy Blog
Publication Date	February 21, 2024

Tweet: Noting the median Fed estimate of the neutral rate remains at the pre-pandemic level of 0.5%, @FedGuy12 expects cuts starting in June with a terminal rate of around 3.7%.

Summary: Fed officials are likely concerned about overtightening because they perceive the economy's sensitivity to policy to be unchanged from the pre-pandemic era. The officials measure policy tightness by comparing real rates to a perceived neutral rate, which is the rate at which policy is neither restrictive nor accommodative. Some Fed officials have adjusted their perception of neutral to be slightly higher post-pandemic, but the Fed's recent dot-plot shows that the great majority of FOMC members continue to perceive neutral to be a 0.5% real rate. This suggests that the current 1.8% real rate is historically restrictive and likely inappropriate for an inflation rate that is modestly above target. A few cuts would adjust the degree of restriction policy in line with declining inflation. The first cut would likely come in the June meeting, which includes a dot-plot for clearer communication. Related: The Price of Money Is Going Up, and It's Not Only Because of the Fed and Measuring the Natural Rate of Interest After COVID-19 and What Have We Learned About the Neutral Rate?

Primary Topic: Business Cycle

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

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