

## 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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Publication	Federal Reserve Bank of New York
Publication Date	August 10, 2023

**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). Related: What Have We Learned About the Neutral Rate? and Measuring the Natural Rate of Interest After COVID-19 and The Case for "Higher for Longer": Prices are Disinflating, But Not Wages (Yet)

**Primary Topic:** Business Cycle

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

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