Macro Roundup Artcile

Headline: Why the Era of Historically Low Interest Rates Could Be Over

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Tweet: The Fed is still projecting a neutral rate of .5% though some of their models show a rising r* in line with arguments that increased capital investment and chronic deficits will lead to a higher r*.

Summary: Every quarter, Fed officials project where rates will settle over the longer run, which is in effect their estimate of neutral. The median estimate declined from 4.25% in 2012 to 2.5% in 2019. After subtracting inflation of 2%, that yielded a real neutral rate (sometimes called “r*” or “r-star”) of 0.5%. In June, the median was still 0.5%. That also happens to track a widely followed model co-developed by New York Fed President John Williams that also puts neutral at 0.5%. A model devised by the Richmond Fed, which before the pandemic closely tracked Williams’s model, put the real neutral rate at 2% in the first quarter. Larry Summers has recently suggested neutral has gone up because of higher deficits and the investment to transition to a lower-carbon economy. Related: Measuring the Natural Rate of Interest After COVID-19 and The Case for "Higher for Longer": Prices are Disinflating, But Not Wages (Yet) and In Search of Safe Havens: The Trust Deficit and Risk-free Investments!

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, News article

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