

Macro Roundup Article

Headline: [Incoming Data Suggests Monetary Policy Is Not Restrictive](#)

Article

Link: <https://www.apolloacademy.com/incoming-data-suggests-monetary-policy-is-not-restrictive/>

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Tweet: [Torsten Sløk @apolloglobal](#) argues that the impact of the tightening cycle on labor markets has been offset by a wealth effect from the 25% increase in the S&P; 500 since November.

Summary: The best guide to whether monetary policy is restrictive is not r^* but the incoming data. The incoming data shows that after the Fed turned dovish and the stock market rallied, we have in January and February seen strong employment growth, low jobless claims, and upward pressure on CPI and PPI inflation. Maybe the lagged effects of Fed hikes work after 12 to 18 months through income in the consumption function. However, the effects of easy financial conditions on consumer spending are immediate. Given that financial conditions have eased significantly over the past five months, with record-high stock prices, tight credit spreads, and rising home prices, it is not surprising that the incoming economic data is strong. The bottom line is that the last mile is harder because of the immediate positive impact on the economy of record-high stock prices. In contrast, the long and variable lags work mainly through a rising unemployment rate. Related: The Fed's Growth Optimism Puts a Floor Under Rates and Has the U.S. Economy Transitioned to a Higher Long-Run Real Interest Rate Regime? and Measuring the Natural Rate of Interest After COVID-19

Primary Topic: Business Cycle

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

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