

Macro Roundup Article

Headline: [Trying to Puzzle Through the Current Macro Situation](#)

Article Link: <https://braddelong.substack.com/p/trying-to-puzzle-through-the-current>

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Tweet: After yesterday's CPI print @delong has reduced the likelihood a delayed deflationary cycle to 40% and now sees an equal likelihood of an AI-powered boom or a nascent fiscal crisis in the US.

Summary: A scenario is that we are now emerging from the decade and more of secular stagnation: The debt accumulations of fifteen years of government deficits have resolved the safe-asset shortage which had kept short-term Treasury interest rates very near their lower bound and greatly reduced central banks' abilities to manage the economy. Faster productivity growth from a high-pressure economy raises returns and investments and validates the current interest-rate configuration as high expected future profits from expansion drive investment ahead of savings. An AI-boom in which scaling laws hold for long enough that the build-out of tech capital does produce some very useful and valuable use cases further amplifies productivity growth. In that case, we get back to the growth configuration we had in the Clinton years—The chance of this scenario? I guess it at 30%. The other 30%? For more than fifteen years I have been saying that the bond market will tell us when it is time to start worrying again about moving the federal budget closer to balance. It would certainly be prudent to have a current annual deficit of not \$1.7 trillion a year—6% of GDP—but rather \$800 billion—3% of GDP.

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Primary Topic: Business Cycle

Topics: Business Cycle, Fiscal Deficits, Fiscal Policy, GDP, Inflation, Monetary Policy

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