

Macro Roundup Article

Headline: [The Future of Interest Rates Is a Riddle](#)

Article Link: <https://www.ft.com/content/c3491bc1-1251-4274-acfd-c7a24a236b5e>

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Tweet: [@martinwolf](#) predicts that inflation will decline to 2-3% with an equilibrium real rate of interest of 0-2%; this implies short rates between 2-5% and long rates between 3-6%.

Summary: We are, in my view, more likely than not to return to inflation at around 2 per cent a year, or perhaps just a little bit higher. This is also what markets expect: according to the Federal Reserve Bank of Cleveland, US expected inflation is 2.1 per cent, almost exactly in line with the target. This shows confidence that the target will be delivered. The inflation risk premium is also estimated at 0.5 percentage points, which is in line with historic valuations. There are two (overlapping) arguments why this might prove too optimistic. One is that supply conditions have become more inflationary. De-globalisation and other shocks have permanently lowered the elasticity of supply of key inputs. That will raise the costs of keeping inflation down. The other is that the political economy of curbing inflation has worsened. Thus, the public cares less about inflation now, partly because it has no memory of a long period of high inflation.

Primary Topic: Inflation

Topics: GDP, Inflation, Op-Ed/Blog Post, Quote

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