

Macro Roundup Article

Headline: [Is The “Natural” Rate of Interest Back to Pre-Financial Crisis Levels?](#)

Article Link: <https://calculatedrisk.substack.com/p/lawler-is-the-natural-rate-of-interest>

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Publication	Calculated Risk
Publication Date	August 18, 2023

Tweet: Tom Lawler argues in support of recent work by Lubik and Matthes at the Federal Reserve that shows that r^* has risen over the last year. He thinks that interest rates will be persistently higher.

Summary: There is in fact evidence that the natural rate of interest, or r^* , has in fact risen over the last year, and by some measures, it would appear as if r^* may be at levels not that far from those seen just prior to the financial crisis of 2008. If that were the case, then a “soft-landing scenario where inflation fell back to 2% would be one where the Federal Fund Rate fell back to the 3 ½-4% level, rather than the 2 ½-2 ¾ % level implied by the HLW model or the FOMC’s “dot plots.” In addition, if r^* has risen significantly, then recent Federal Reserve policy has not been as “restrictive” as many have suggested. If that were the case, then one would have expected the economy to have performed better than the “consensus” forecast, which in fact has been the case. Related: The Evolution of Short-Run r^* After the Pandemic and What Have We Learned About the Neutral Rate? and The Case for “Higher for Longer”: Prices are Disinflating, But Not Wages (Yet)

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Op-Ed/Blog Post

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