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Macro Roundup Artcile

Headline: The Fed's Growth Optimism Puts a Floor Under Rates

Article Link: https://theovershoot.co/p/the-feds-growth-optimism-puts-a-floor

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Tweet: Over the last year, US output grew 3.1% relative to the Fed’s 1% projection; stronger growth implies less urgency to cut rates despite more confidence about disinflation. @M_C_Klein

Summary: Output ended up growing far faster than previously projected between 2023Q4 and 2022Q4 (3.1% vs. 1%). Growth rate projections for 2024 and 2025 have also been marked up. The cumulative impact is more than 3% of GDP. Most interesting is the shift in the expected pace of rate reductions after the peak has been reached. Last summer, the consensus was that it would be appropriate to reduce the short-term interest target by about 2.25pp in the two years after rates peaked in 2023Q4. Now, the consensus is that rates should drop by only 1.5pp by the end of 2025. Since September 2023, the estimate of the “appropriate” level of rates at the end of 2026 has also ticked up. The growth impulse from rising asset prices—which also reflect optimism about real economic strength—and the resilience of rate-sensitive sectors such as housing to higher borrowing costs both help explain why many Fed officials seem to be revising up their shorter-term “neutral” rate estimates. Related: Has the U.S. Economy Transitioned to a Higher Long-Run Real Interest Rate Regime? and Global Natural Rates in the Long Run: Postwar Macro Trends and the Market-Implied r* in 10 Advanced Economies and Quo Vadis, r*? The Natural Rate Of Interest After The Pandemic

Primary Topic: Business Cycle

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

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