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Macro Roundup Article

Headline: Are High Interest Rates the New Normal?

Article Link: https://www.nytimes.com/2023/09/29/opinion/natural-interest-rate-higher.html

Author(s)	Paul Krugman
Publication	Krugman Wonks Out
Publication Date	October 02, 2023

Tweet: .@paulkrugman argues that the sharp rise in real interest rates likely represents a market overreaction, but he notes, "That's what I'd like to believe, so maybe you shouldn't trust me here."

Summary: What's causing this interest rate spike? You might be tempted to see rising rates as a sign that investors are worried about inflation. But that's not the story. We can infer market expectations of inflation from breakeven rates, the spread between interest rates on ordinary bonds and on bonds indexed for changes in consumer prices; these rates show that the market believes that inflation is under control. What we're seeing instead is a sharp rise in real interest rates — interest rates minus expected inflation. At this point, real interest rates are well above 2%, up from yields usually below 1% before the pandemic. And if these higher rates are the new normal, they have huge and troubling implications. My instinct is to say that the bond market is overreacting to recent data and that high interest rates, like high inflation, will be transitory.

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Primary Topic: Fiscal Deficits

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post, Quote, Weekly

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