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Macro Roundup Article

Headline: What Have We Learned About the Neutral Rate?

Article Link: https://www.goldmansachs.com/intelligence/series/goldman-sachs-research/

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Tweet: David Mericle and Manuel Abecasis argue that the FFR will likely settle in a range of 3-3.25% going forward, higher than the FOMC's 2.5% median projection, driven by increased demand for investment and government debt over the next decade.

Summary: Our best guess is that if the Fed solves the inflation problem without a recession, the funds rate will eventually stabilize closer to 3-3.25% than to the FOMC's 2.5% median longer run dot. We expect a slightly higher r* both because our analysis of factors that influence r* suggests a more limited decline, and because we put some weight on the long-run advanced economy average of a roughly 1% real short-term rate and on the higher average rate seen for quite a while after the last inflation surge. Projected changes in factors such as government debt and demographics imply a net increase of about 0.5pp over the next decade, and larger increases are possible if artificial intelligence or the green energy transition boost investment demand.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Monetary Policy, Weekly

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