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Headline: Rate Cuts

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Publication	Goldman Sachs
Publication Date	August 14, 2023

Tweet: .@GoldmanSachs baseline forecast includes a rate cut in Q2 2024 with a terminal fed funds rate of 3-3.25% but notes a rising likelihood the Fed holds rates steady.

Summary: Why might the FOMC not cut? The simplest reason is that inflation might not come down quite enough. Another possible reason is that even if it does, if GDP growth is above potential, the unemployment rate is pushing below its 50-year low, and financial conditions have eased further on enthusiasm about a soft landing, then stimulating an already-strong economy by cutting might seem like an unnecessary risk, especially with the memory of the recent inflation surge still fresh. In that scenario, the FOMC could say that the short-run neutral rate is higher than common estimates of the medium-run neutral rate, and as a result the monetary policy stance is actually not so restrictive and the need to cut is not so immediate. Related: What Have We Learned About the Neutral Rate? and The Evolution of Short-Run r* After The Pandemic and The Case for "Higher for Longer": Prices are Disinflating, But Not Wages (Yet)

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Monetary Policy, Other Source

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