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Macro Roundup Artcile

Headline: Reflexivity

Article Link: https://fedguy.com/reflexivity/

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Publication	Fed Guy Blog
Publication Date	December 11, 2023

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Summary: A sharp decline in interest rates in benign economic conditions opens up the possibility of a re-acceleration in economic activity that would limit the number of future Fed cuts. One mechanism through which higher interest rates slow the economy is through reduced lending, where higher rates discourage borrowers and prompt lenders to retrench on credit concerns. Despite an aggressive rise in rates, a wide range of measures on credit quality show only modest deterioration to levels prevailing before 2020. At the same time, households and corporates remain financially sound. This suggests that a decline in rates could potentially lead to a re-acceleration of credit growth that rekindles inflationary pressures. The recent normalization of credit quality shows that borrowers have capacity to lever up, and suggests that a re-acceleration in lending would limit the number of rate cuts. Related: The Grind Ahead and Macro Outlook 2024: The Hard Part Is Over and Credit Normalization

Primary Topic: Business Cycle

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

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