Is US Monetary Policy Restrictive?

Lawrence Summers

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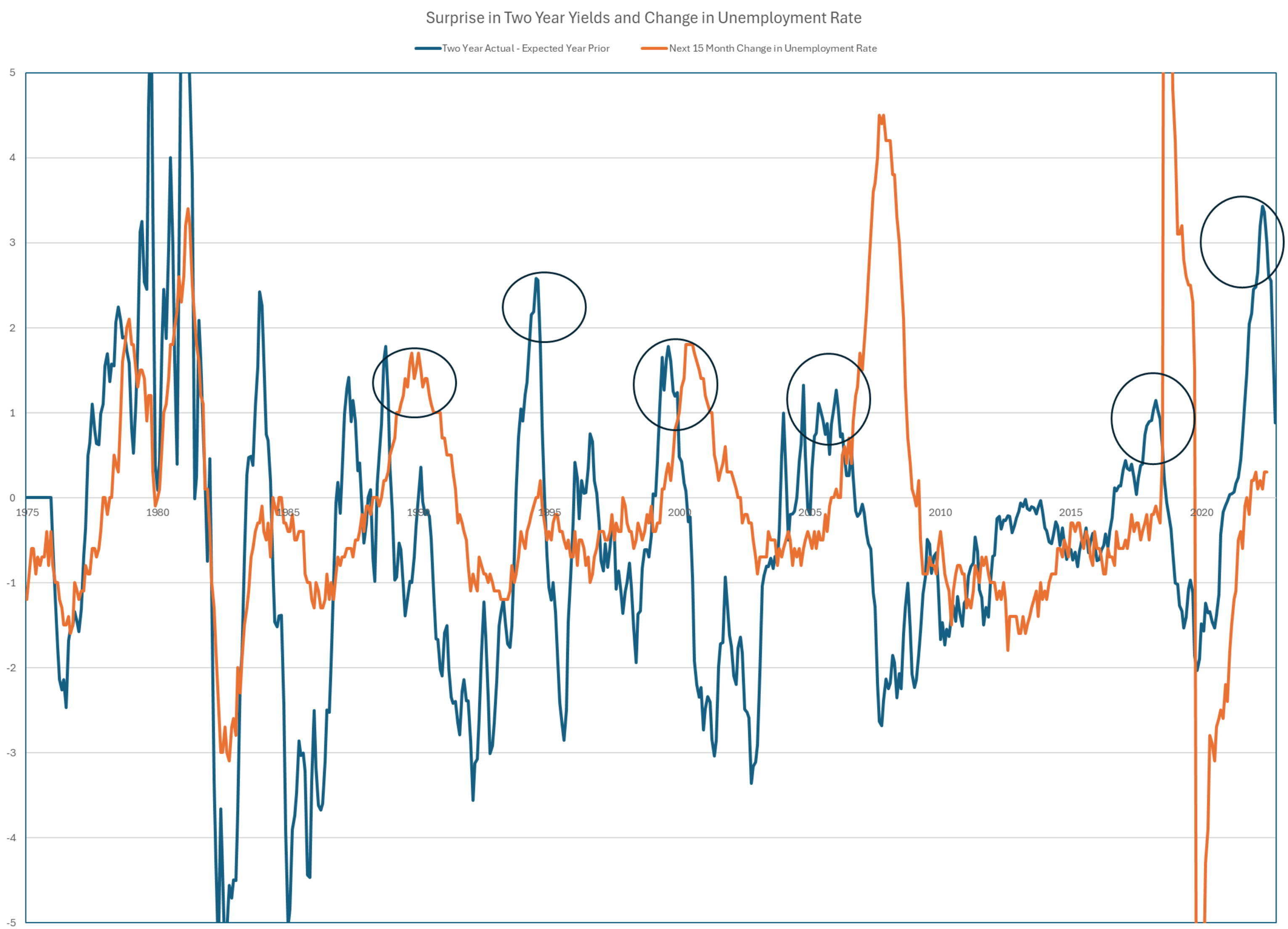
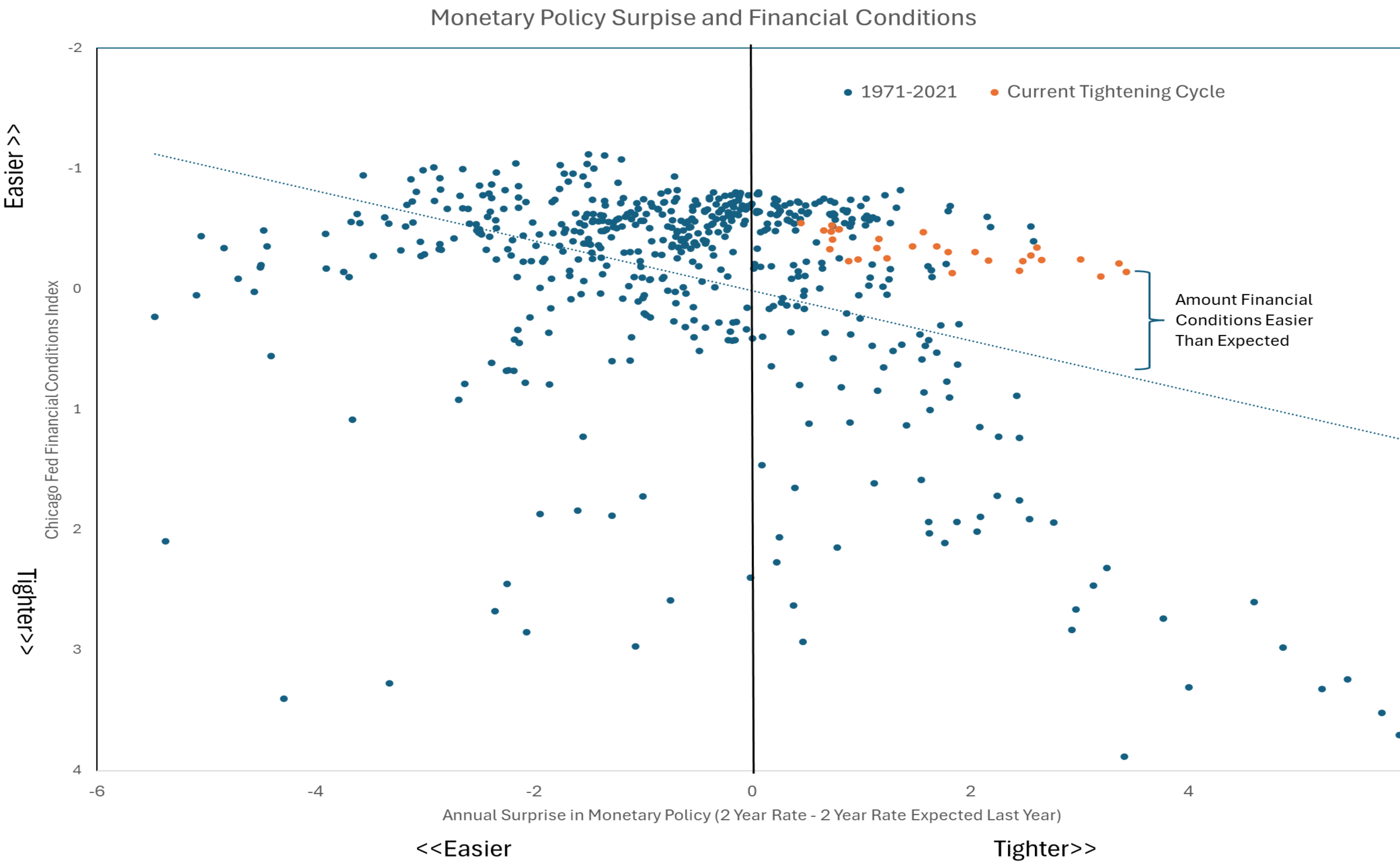
Economy Not Consistent With Tight Policy



Sources: Federal Reserve Selected Interest Rates, Bureau of Labor Statistics, Bloomberg

Financial Conditions Looser Than Expected



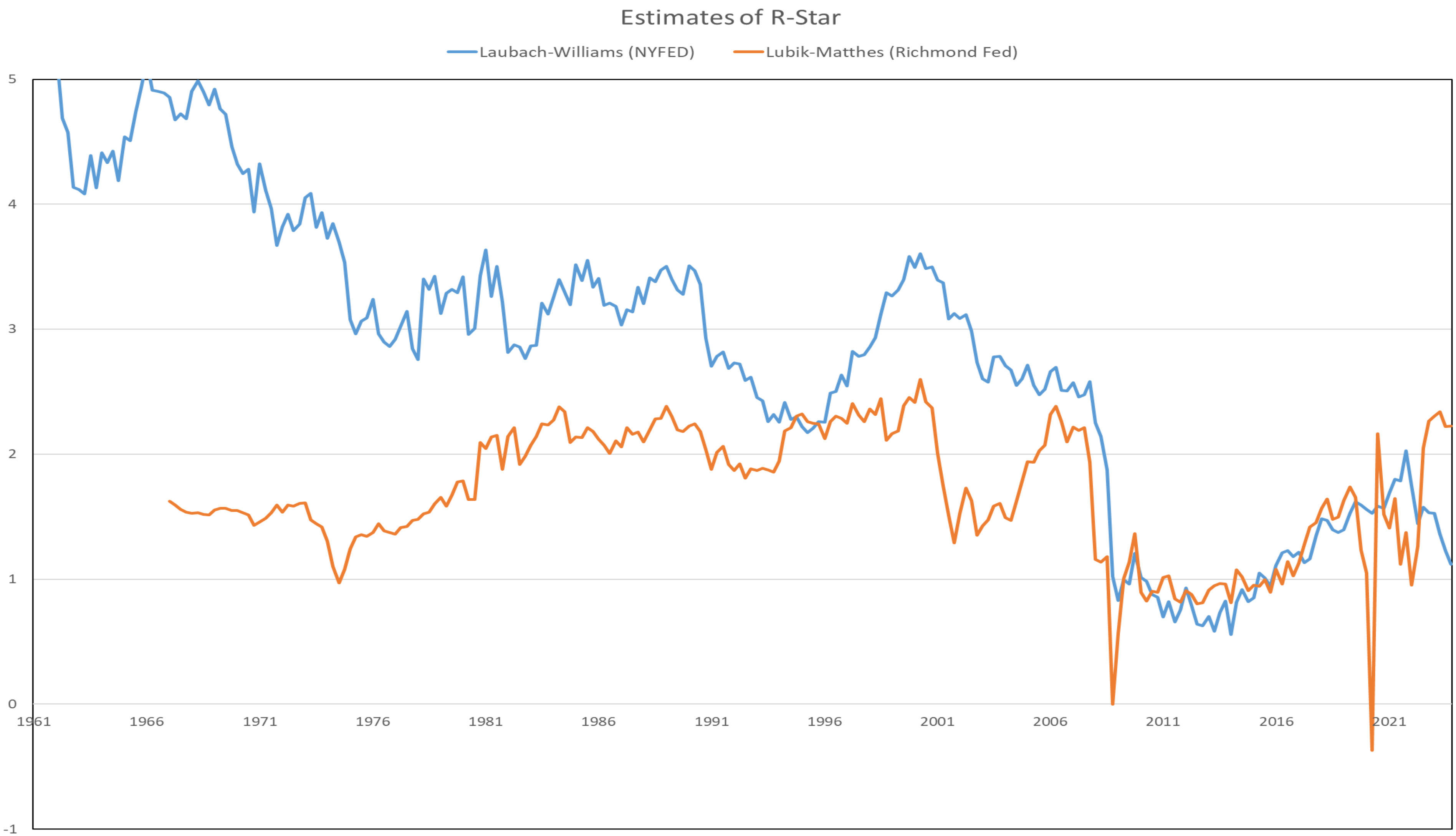
Sources: Federal Reserve Selected Interest Rates, Chicago Federal Reserve, Bloomberg

Two Possible Explanations

- Neutral Rate Has Risen

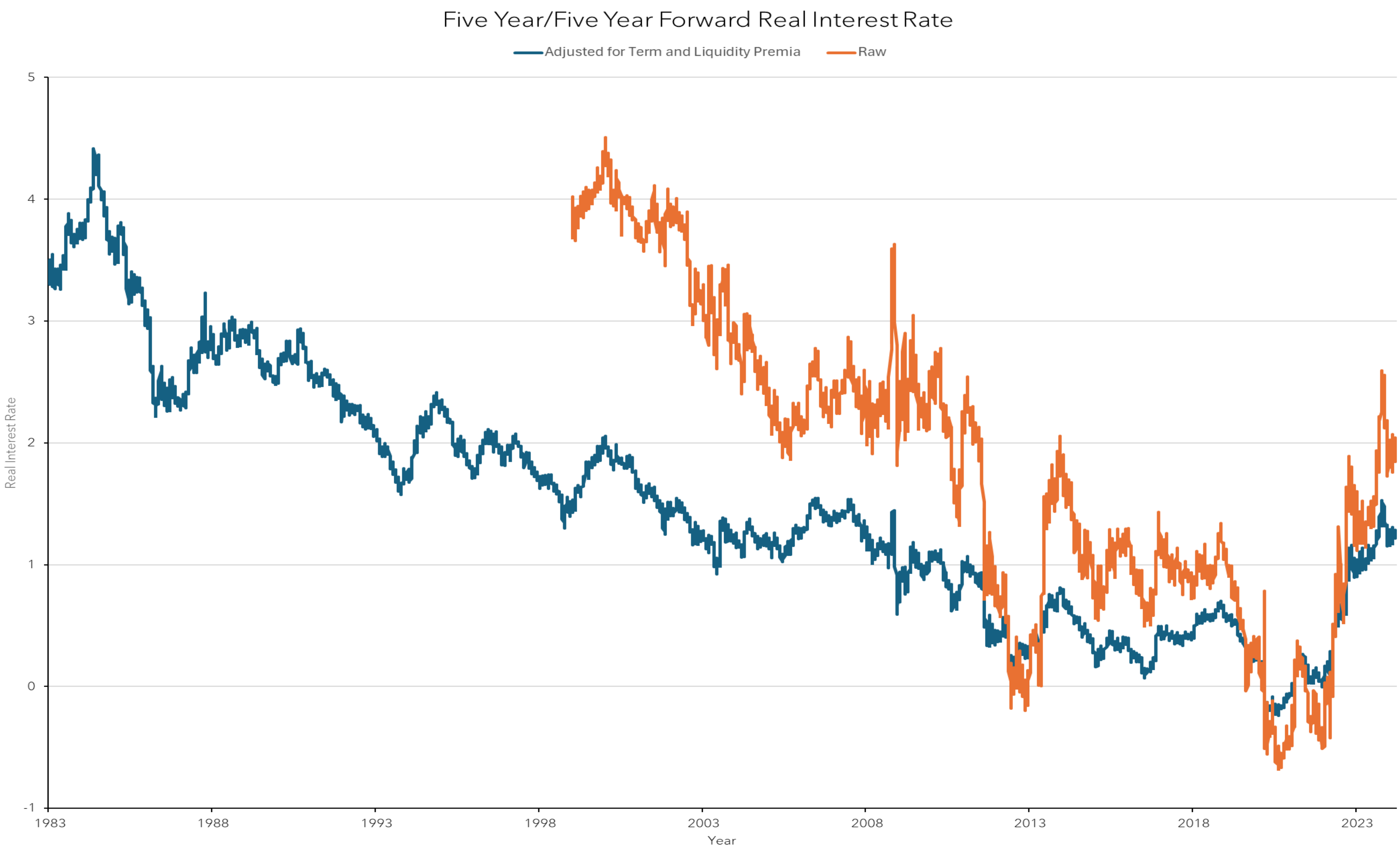
- Spending is Less Interest Rate Sensitive

The Fault Is In R-Star's?



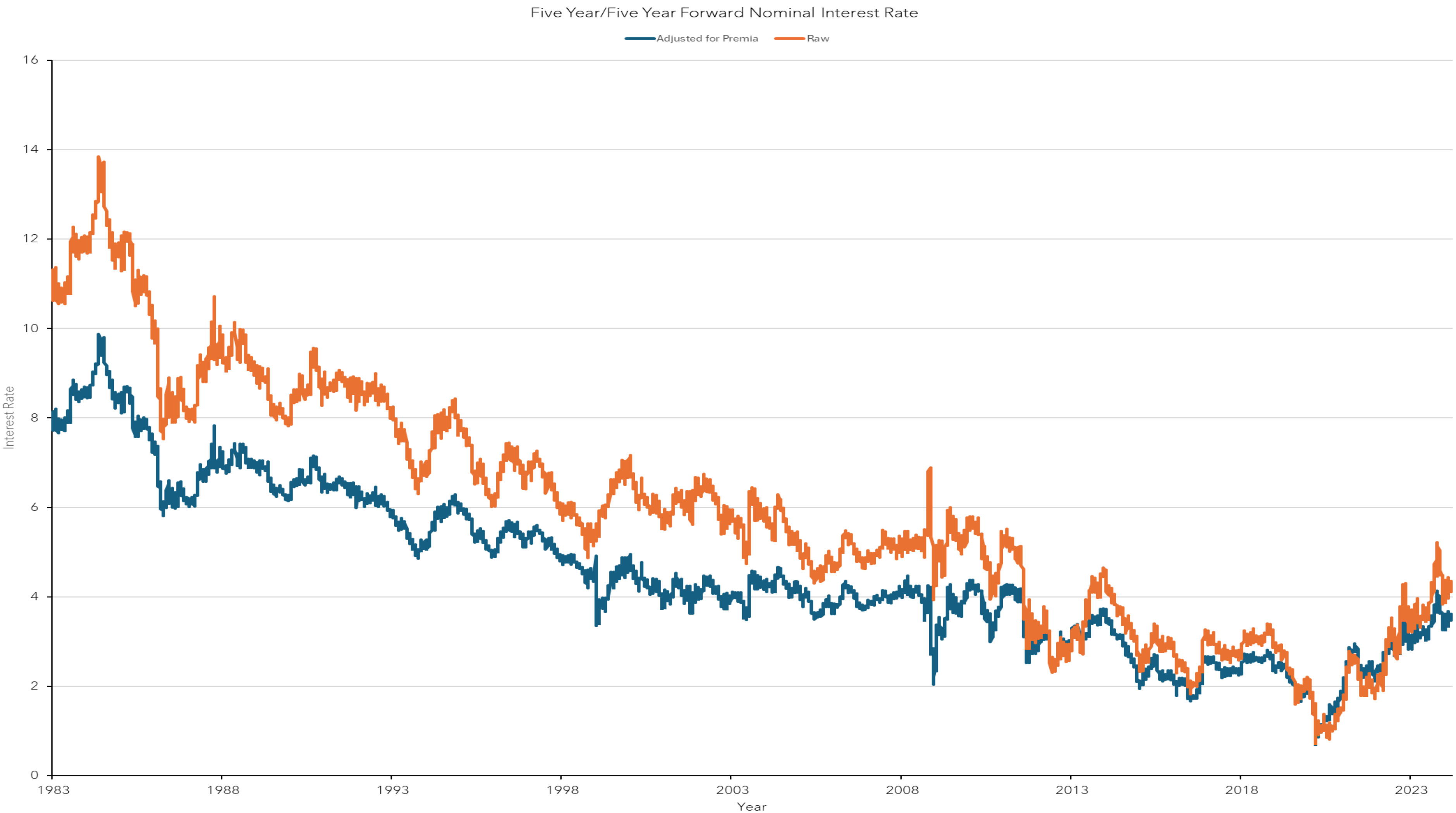
Sources: Federal Reserve Boards of New York and Richmond

Expected Real Interest Rates Have Risen



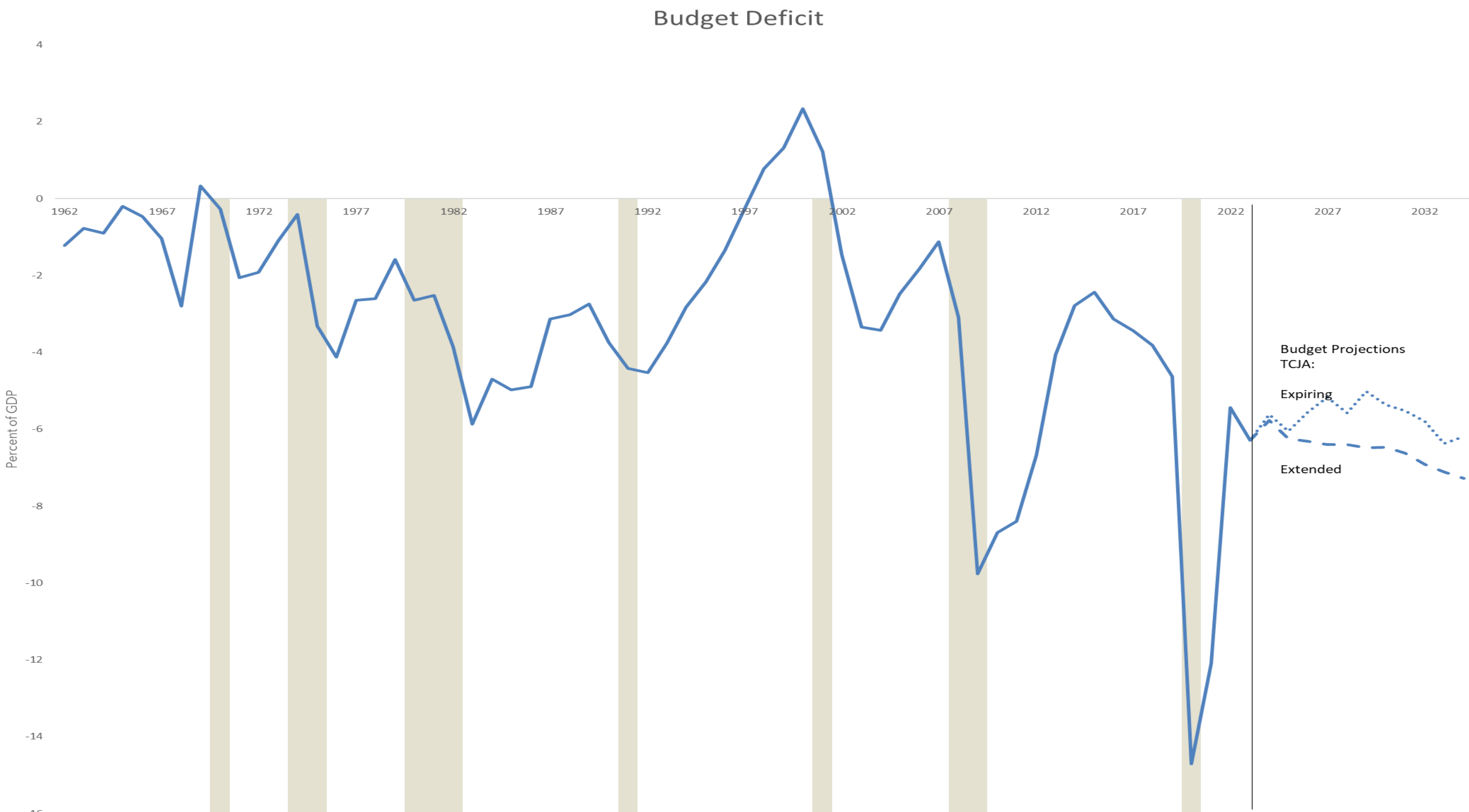
Sources: D'Amico, Kim, and Wei (2018), "Tips from TIPS: The Informational Content of Treasury Inflation-Protected Security Prices“; Gürkaynak, Sack, and Wright (2008) "The TIPS Yield Curve and Inflation Compensation"

Along with Nominal Counterparts



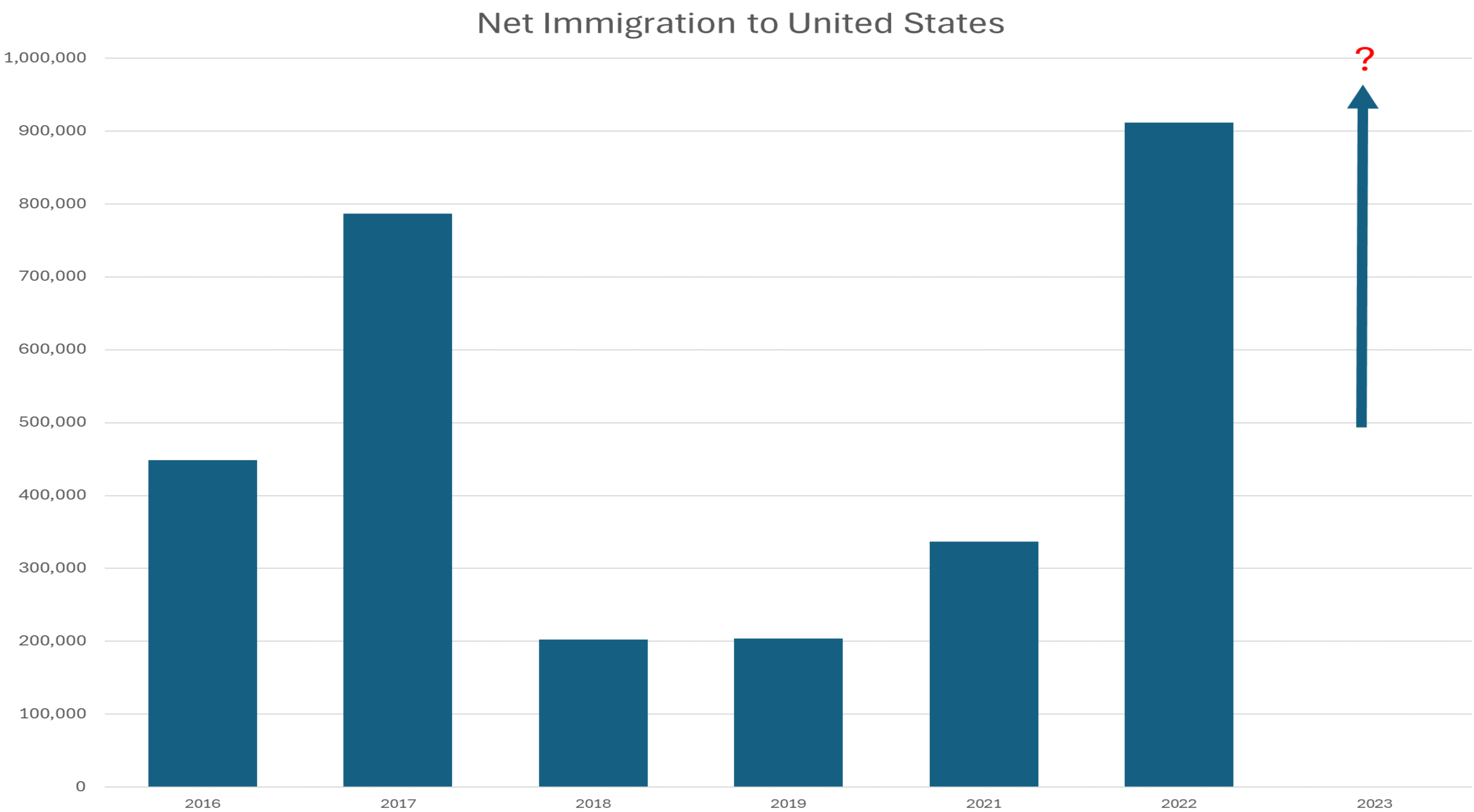
Sources: D'Amico, Kim, and Wei (2018), "Tips from TIPS: The Informational Content of Treasury Inflation-Protected Security Prices“

Fundamental Backdrop: Deficits



Sources: CBO 2024 Budget and Economic Outlook, Gokhale (2023) "THE LONG-TERM BUDGET EFFECTS OF PERMANENTLY EXTENDING THE 2017 TAX CUTS AND JOBS ACT'S EXPIRING PROVISIONS", NBER

Fundamentals: Immigration Rebound?



Sources: Migration Policy Institute, Census American Community Survey

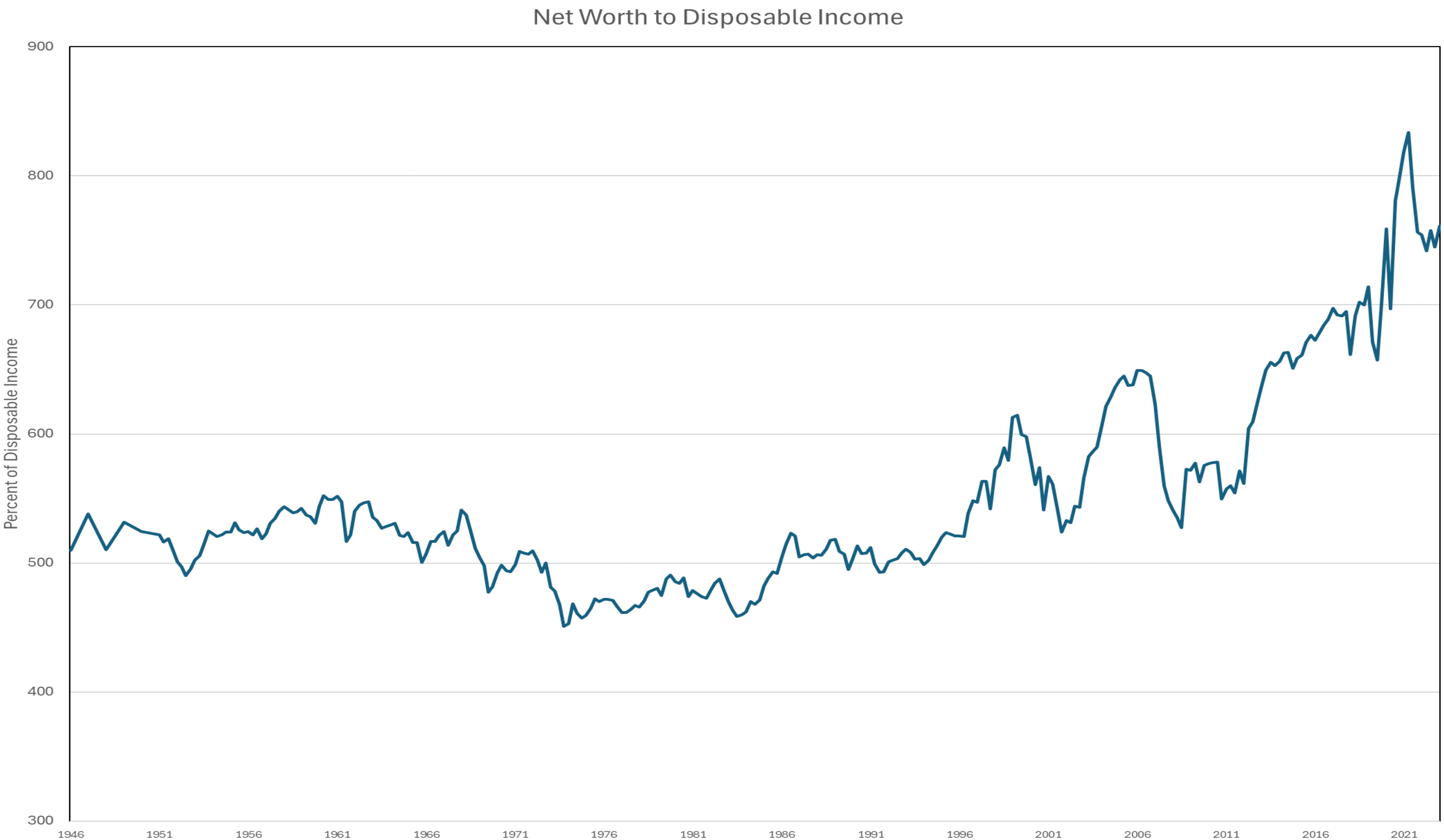
Fundamentals: AI Investment

Capital Expenditures at Major Datacenter Owners (Billions)

	Historical				Forecast	
	2020	2021	2022	2023	2024	2025
Amazon	40	61	64	53	63	68
Google	22	25	31	32	48	50
META	15	19	31	27	37	41
Microsoft	15	21	24	28	44	51
Total	**93**	**125**	**150**	**140**	**192**	**210**

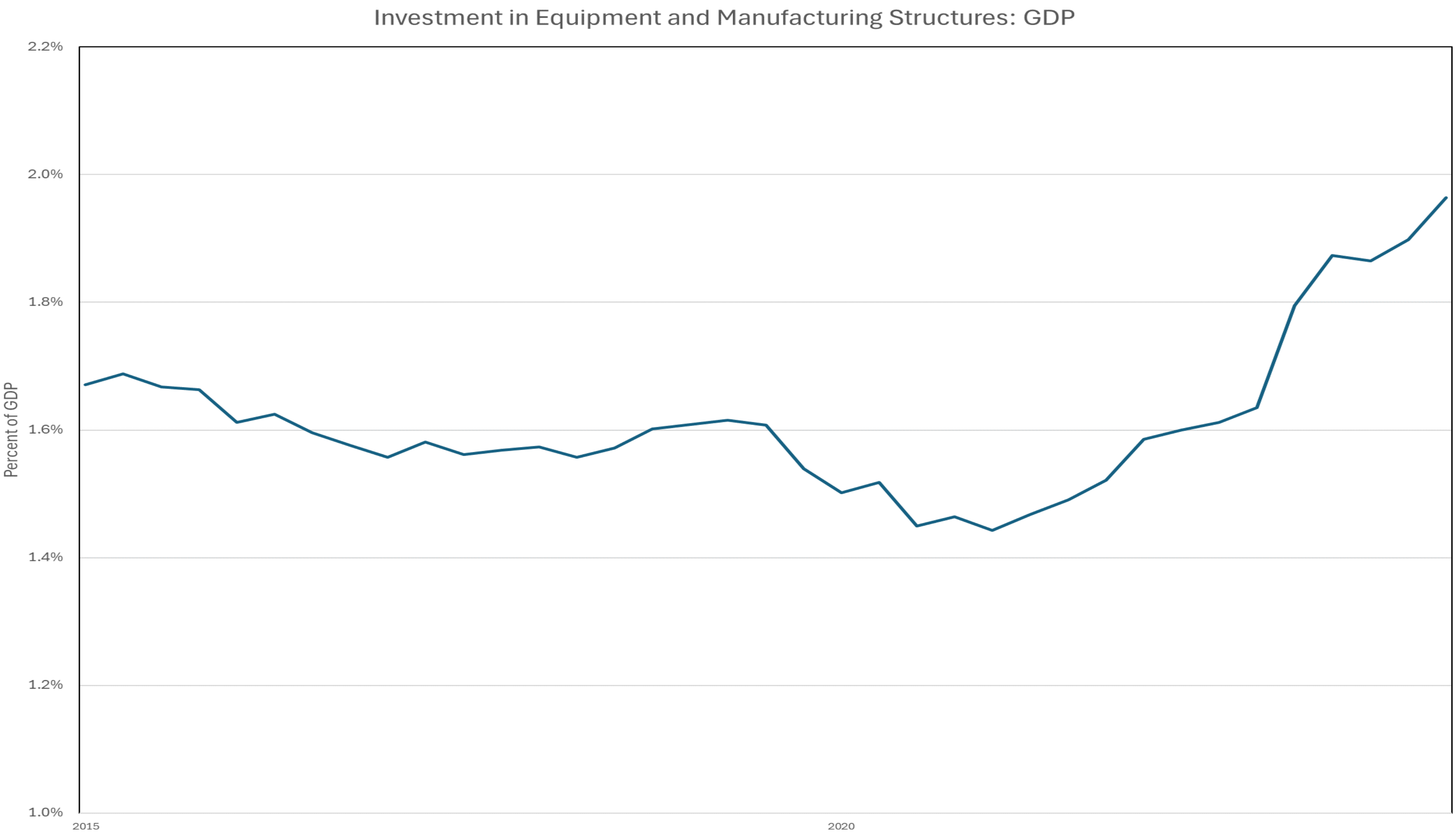
Sources: Bloomberg, Company Filings, Wall Street Analyst Estimates

Wealth Reduces Savings Incentive



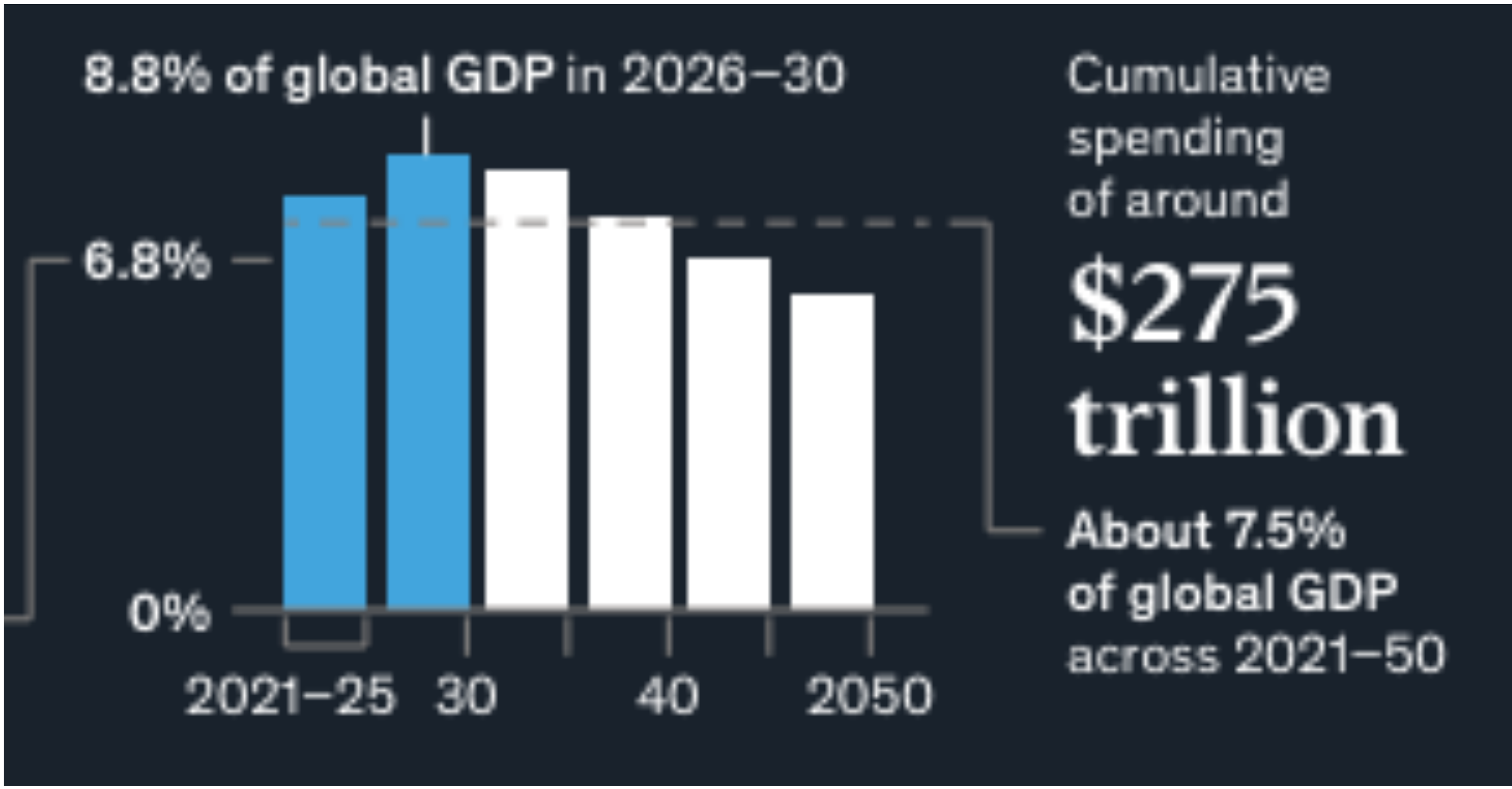
Sources: Federal Reserve Flow of Funds

Investment Stimulative Policy



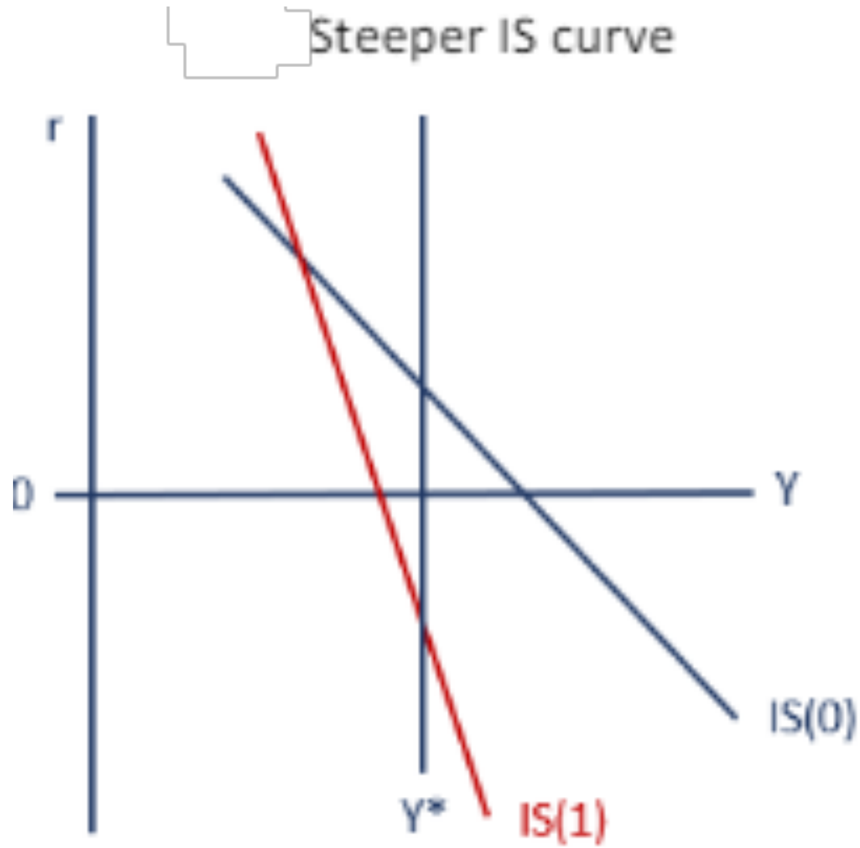
Sources: Bureau of Economic Analysis

Green Transition Investment



Sources: McKinsey & Company

What If Interest-Rate Sensitivity is Much Smaller?



Sources: Stansbury & Summers (2020)

Reasons GDP Less Sensitive to Rates

- Interest sensitive component share of GDP has declined (Willis & Cao, 2015)

- Investment may be less sensitive to rates
  - Lean supply chain reduces cost of inventory investment
  - Shorter lived capital less sensitive to rates

- Consumption may be less interest sensitive, as larger holdings of government debt increases (positive) income effect from higher rates

- Higher macro uncertainty increases real option value of deferring investment, making rates less central

Sources: Stansbury & Summers (2020), Willis & Cao (2015)