Economy Not Consistent With Tight Policy

Sources: Federal Reserve Selected Interest Rates, Bureau of Labor Statistics, Bloomberg
Financial Conditions Looser Than Expected

Monetary Policy Surprise and Financial Conditions

Easier

Tighter

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?

Estimates of R-Star

- Laubach-Williams (NYFED)
- Lubik-Matthes (Richmond Fed)

Sources: Federal Reserve Boards of New York and Richmond
Expected Real Interest Rates Have Risen

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

Fundamentals: Immigration Rebound?

Net Immigration to United States

Sources: Migration Policy Institute, Census American Community Survey
## Capital Expenditures at Major Datacenter Owners (Billions)

<table>
<thead>
<tr>
<th></th>
<th>Historical</th>
<th>Forecast</th>
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<tr>
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Sources: Bloomberg, Company Filings, Wall Street Analyst Estimates
Wealth Reduces Savings Incentive

Net Worth to Disposable Income

Sources: Federal Reserve Flow of Funds
Investment Stimulative Policy

Investment in Equipment and Manufacturing Structures: GDP

Sources: Bureau of Economic Analysis
Green Transition Investment

8.8% of global GDP in 2026–30

Cumulative spending of around $275 trillion

About 7.5% of global GDP across 2021–50

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