

Riders on the Storm

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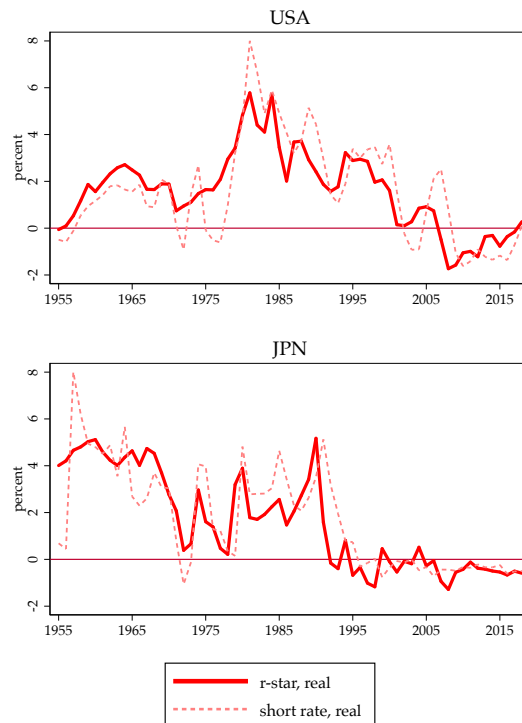
Federal Reserve Bank of Kansas City Economic Policy Symposium
Jackson Hole, Wyoming, August 23, 2019

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1/13

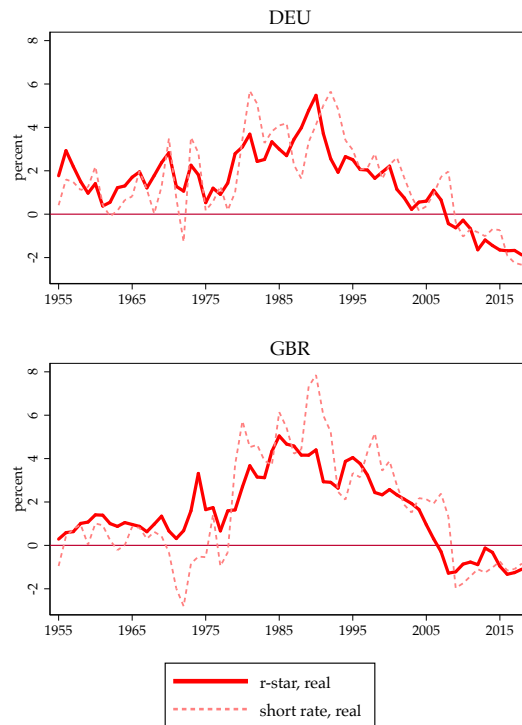
r^* has fallen over time in large economies
Kalman filter estimates of New Keynesian Model



2/13

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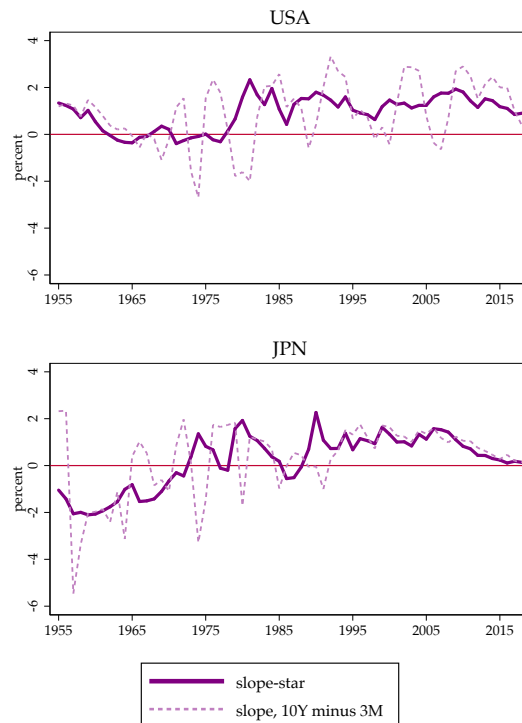
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3/13

Long-term bond term premiums are relatively stable

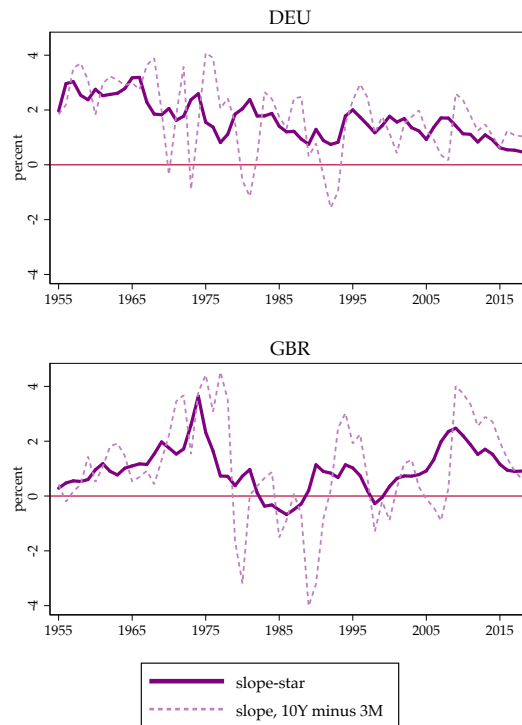
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4/13

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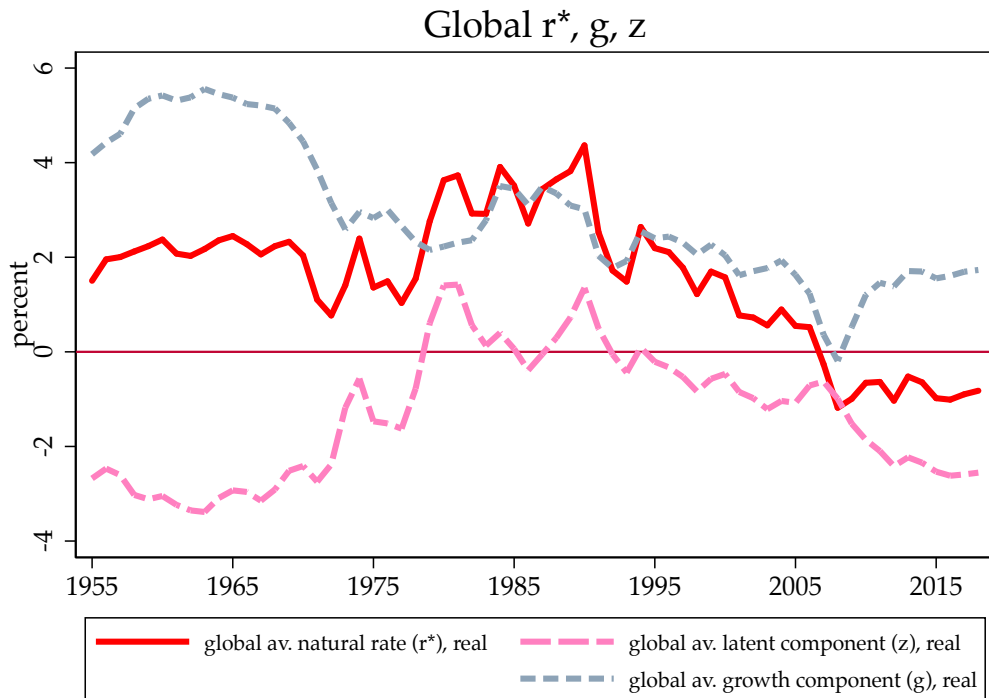
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5/13

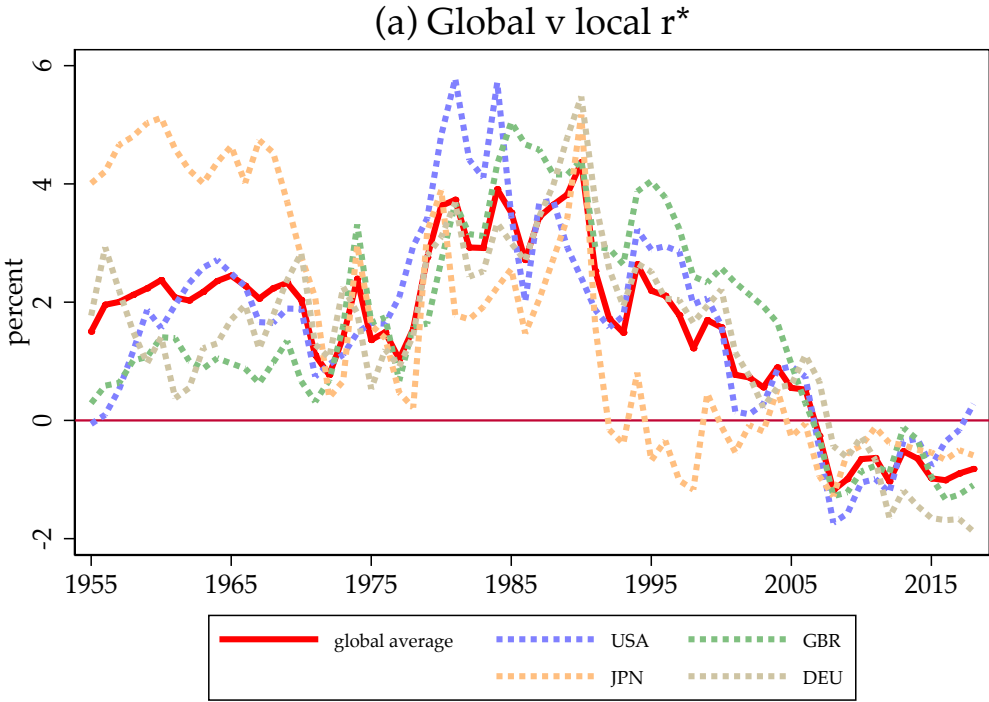
r^* reflects growth, demographic, and fiscal trends

Average r^* , growth, and other drivers

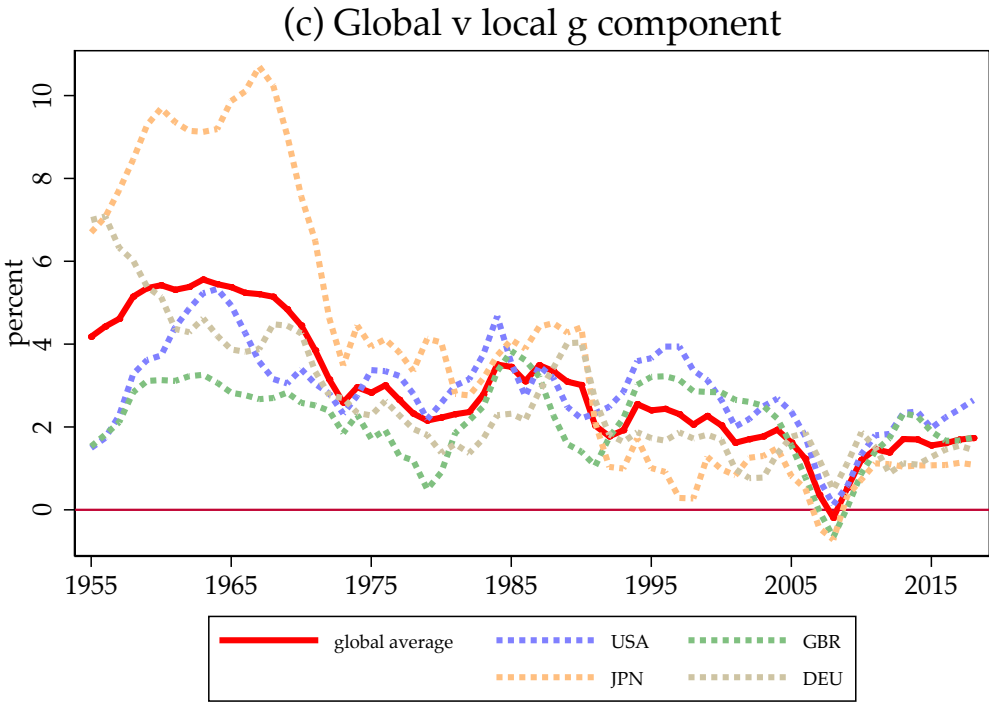


6/13

International synchronicity of r^*

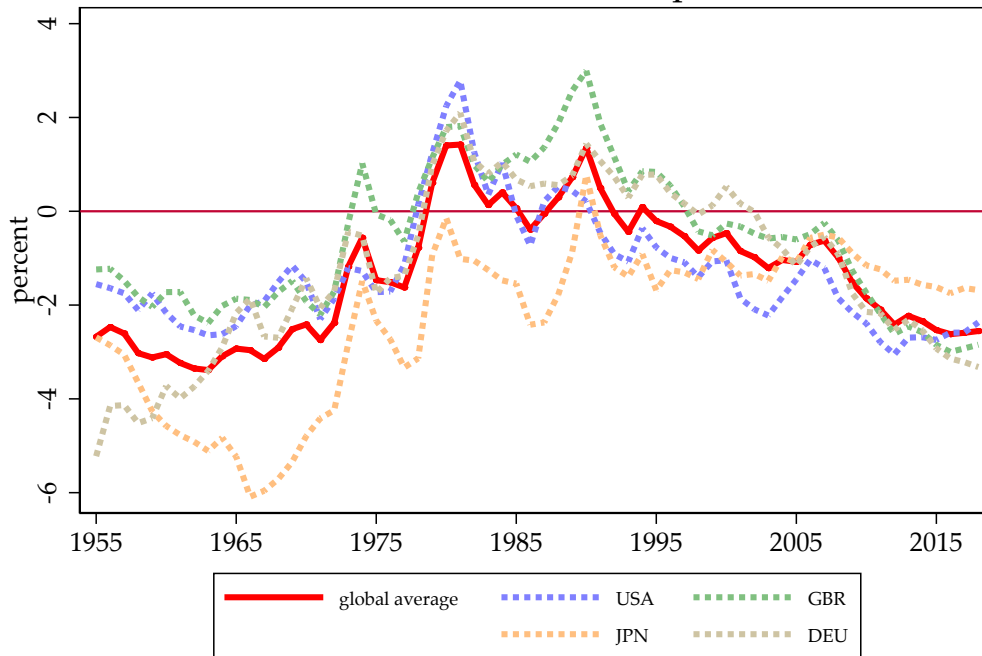


International synchronicity of growth



International synchronicity of other factors

(b) Global v local z component

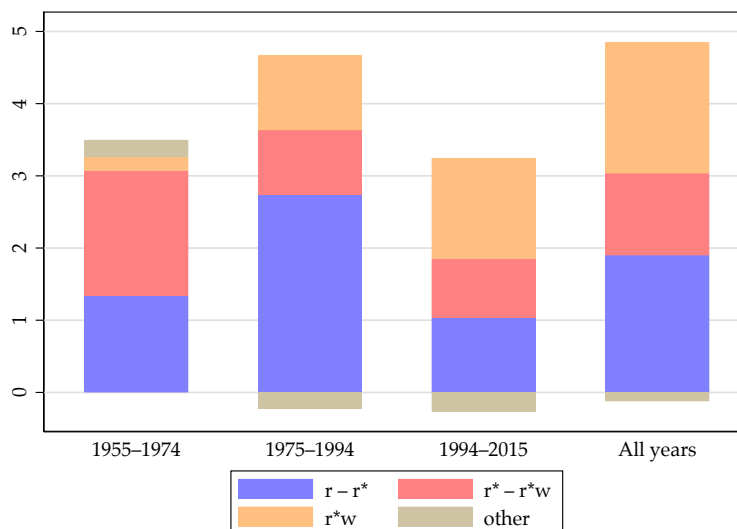


9/13

r^* intl. trends matter as much as domestic stance

Monetary Policy drivers: A decomposition

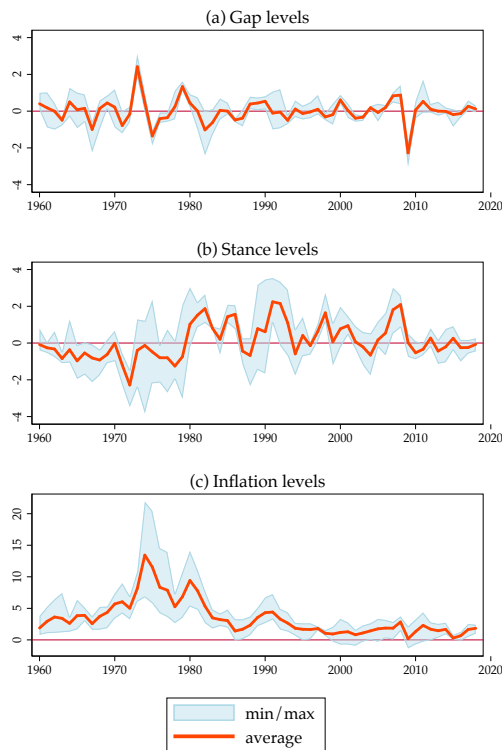
$$r = \underbrace{(r - r^*)}_{\text{domestic stance}} + \underbrace{(r^* - r^*_W)}_{\text{neutral rate gap}} + \underbrace{r^*_W}_{\text{world neutral rate}}$$



10/13

Notable international business cycle synchronicity

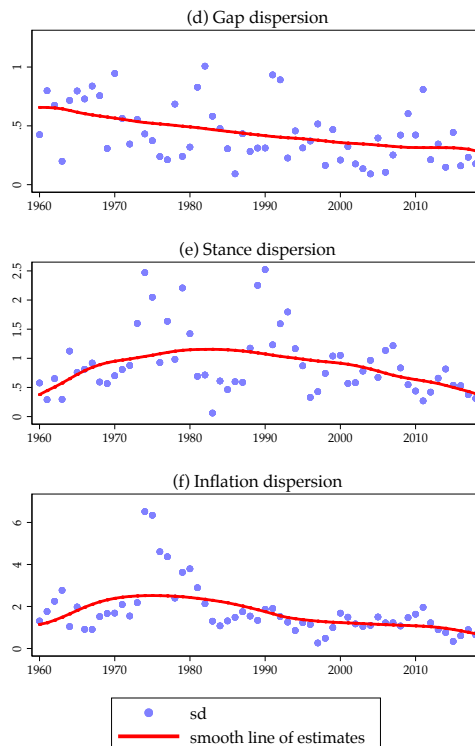
Output gap, stance, and inflation



11/13

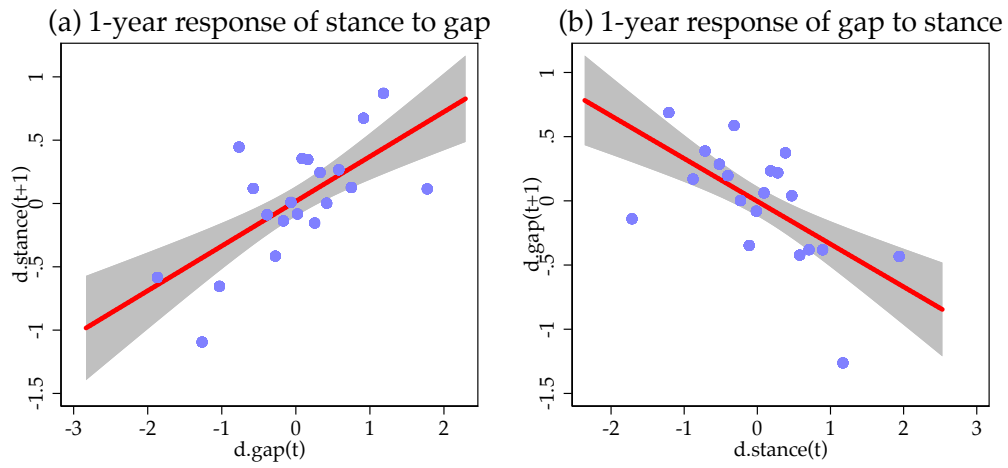
Increasing business cycle synchronicity

International dispersion of output gap, stance, and inflation



12/13

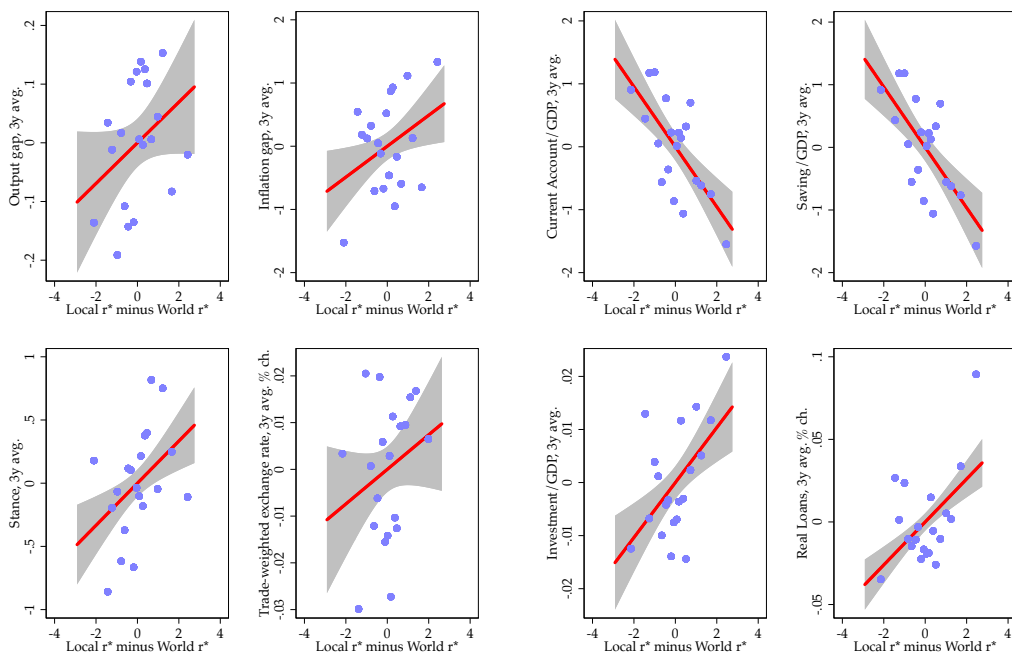
Policy stance behaves as expected



13/13

International r^* has expected effects

Output, inflation, stance, ex. rates, cnt. acc., saving, investment, and credit



14/13

Takeaways and caveats

The global perspective to central banking

Takeaways:

- Both global r^* and domestic outlook matter for policy
- Large economies are increasingly synchronized
- Stance divergence well within historical norm
- Neutral rate divergence means international imbalances
- Smaller term premiums reduce LSAP policy space

Caveats

- Secular stagnation and low neutral rates
- Long-run effects of monetary policy (non-neutrality)