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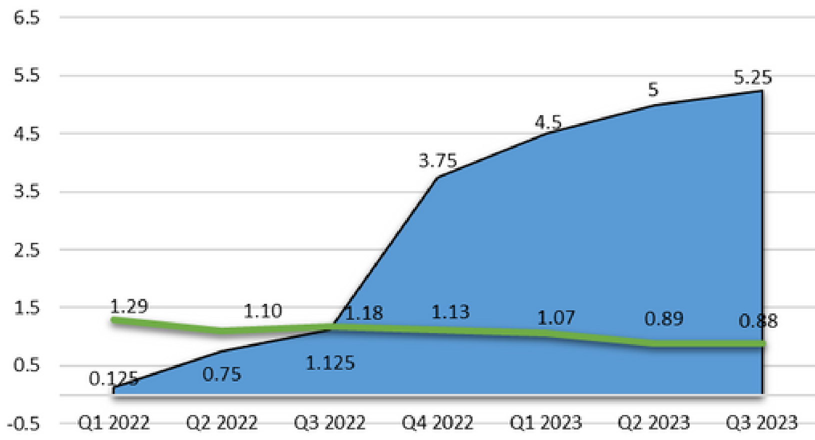
NEUTRAL RATE REPORT NOVEMBER 2023

EXECUTIVE SUMMARY

The Neutral Rate of Interest, or the natural rate, is a theoretical concept representing the interest rate that allows an economy to operate at full employment with stable inflation. Central banks use it as a benchmark for setting monetary policy. Determining this rate involves complex modeling and is influenced by factors like productivity growth, savings and investment demand, and global economic conditions. This rate is one of the essential tools for central banks as it guides their decisions on whether to stimulate or cool the economy by setting policy rates above or below this neutral level. Recently, there has been a trend towards a lower neutral rate, reflecting changes in productivity, investment demand, and a global savings glut. The neutral rate reads at 0.88% (not accounting for inflation) suggesting that the current economy is operating slightly above a sustainable level.

R-Star and Federal Funds Rate Lower Limit



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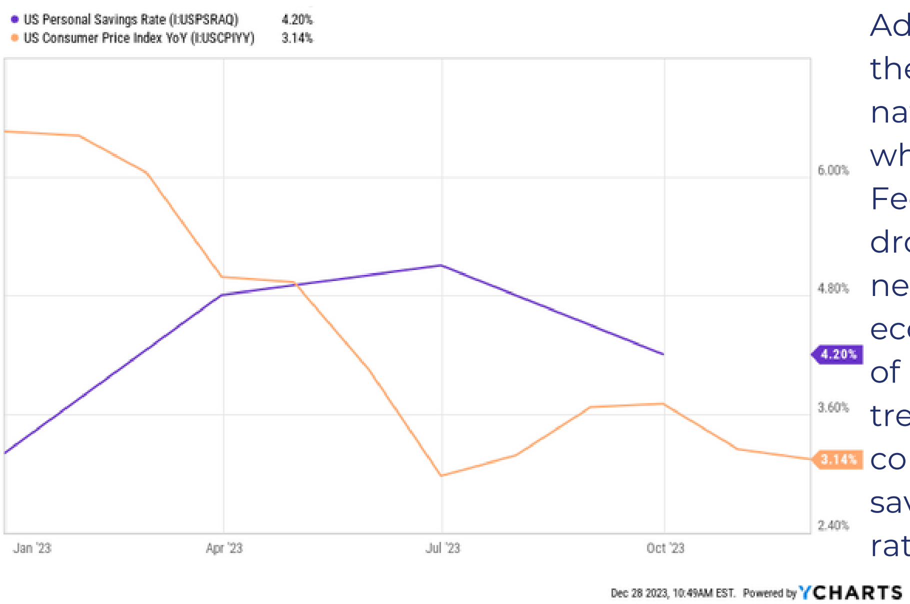

Adding on the current inflation of 3.14% to the R-star metric (0.88%) we see that the natural interest rate is at the 4.02% level which suggests the lower limit target for the Federal Rate in the current economy will not drop below that level until it is deemed necessary for rate cuts to stimulate the economy. Additionally, this forecasted drop of rates to that level matches the current trends of a stagnating economy as consumer spending power from excess savings dries up. This could signal a need for rate cuts past 4.02%

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