An Illustrative Calculation of $r^t$

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Presentation (pdf) | Press Release

Speaking at an Atlanta Fed conference on Amelia Island, Fla., St. Louis Fed President James Bullard discussed the downward trend in the natural real rate of interest, $r^t$, in a regime-switching context. He looked at three factors that can influence the natural rate—the labor productivity growth rate, the labor force growth rate and an investor desire for safe assets. He noted that the U.S. is currently in a regime (or state) of low productivity growth and a regime of a high desire for safe assets, and those do not appear to be shifting. He also discussed the implications of the low natural rate for the Fed’s policy rate and concluded that the natural rate of interest, and hence the appropriate policy rate, is low and unlikely to change very much over the forecast horizon.