Minutes of the Economic Advisory Panel Meeting

April 20, 2018

Present: William Dudley. External Panelists: Julia Coronado, Janice Eberly, Simon Gilchrist, Gita Gopinath, Jan Hatzius, Peter Blair Henry, Sydney Ludvigson, Carmen Reinhart, Ellen Zentner. New York Fed staff: Marco del Negro, Linda Goldberg, Beverly Hirtle, Anna Kovner, Tom Klitgaard, David Lucca, Jonathan McCarthy, Meg McConnell, Richard Peach, Paolo Pesenti, Simon Potter, Robert Rich, Joshua Rosenberg, Argia Sbordone, Kevin Stiroh, Giorgio Topa. Other New York Fed staff, including counsel, observed the meeting.

Presentations on the economic outlook

The meeting started with a presentation of the New York Fed Staff Outlook, followed by comments from Ellen Zentner and Jan Hatzius. Ms. Zentner's remarks focused on some key policy issues including the macroeconomic effects of recently enacted fiscal stimulus and potential offsets from increasing global trade tensions. Mr. Hatzius commented on continued solid global growth outlook, as well as on the expected relative contributions of accommodative financial conditions and fiscal stimulus to the U.S. growth outlook.

The ensuing general discussion touched upon several of the points highlighted in the presentations.

Panelists debated whether the level of uncertainty around the U.S. economic outlook has diminished over the past year. On the one hand there has been substantial resolution on tax reform, but on the other hand there appears to be greater uncertainty associated with global trade issues and their impact on the U.S. outlook. There was discussion concerning the macroeconomic effects of uncertainty about the trade environment. It was noted that such uncertainty eventually could adversely impact profit margins, even though this risk has not yet been reflected in earnings expectations. Some panelists, citing the Brexit experience, pointed out that high uncertainty does not necessarily lead to lower growth. Other panelists observed that the lack of any counterfactuals leaves this issue open to debate.

Panelists also discussed risks to the inflation forecast. They agreed that inflation has firmed in recent months and could possibly overshoot 2 percent in the near term. Nevertheless, they generally believed that the pickup in inflation would not be sustained, noting that price increases have been limited to a small number of categories, particularly hospital and nursing home services and financial services furnished without payment. Furthermore, panelists observed that wages have not accelerated substantially, and that, despite subdued productivity, there apparently has not been a strong upward trend in unit labor costs.

A question was raised about whether labor market tightness will eventually enhance or lower productivity. If a tight labor market promotes capital deepening, it would lead to an increase in productivity, whereas if it causes increased hire of less skilled workers it may lead to lower productivity. On this issue it was noted that so far, there is not much evidence of capital deepening in the manufacturing industries. A panelist pointed out that cross-sectional evidence shows that there have been some productivity increases in the retail industries, primarily due to investment in intangible capital such as better inventory management.

Within this discussion, panelists queried whether an apparent increase in industry concentration has led to higher markups and whether this will eventually translate into higher inflationary pressures. Here panelists noted that there is an ongoing academic debate about the extent of any increases in profit margins and the potential consequences for inflation dynamics.