Monetary Policy Advisory Panel

Meeting of February 15, 2019
Minutes[1]

Present: John Williams. Panelists: Markus Brunnermeier, Gauti Eggertsson, Mark Gertler, Takatoshi Ito, Thomas Philippon, Christopher Sims, Laura Veldkamp, Michael Woodford. FRBNY Staff: Ozge Akinci, Mary Amiti, Gianluca Benigno, Nina Boyarchenko, Marco Del Negro, Domenico Giannone, Beverly Hirtle, Anna Kovner, David Lucca, Jonathan McCarthy, Paolo Pesenti, Matthew Raskin, Argia Sbordone, Giorgio Topa, Shawei Wang.

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The discussion centered on whether the recent turbulence in financial markets signaled a significantly greater likelihood of an economic downturn or rather represented an “overreaction” to slower global growth prospects or to greater uncertainty.

Panelists discussed contrasting signs from ‘hard’ data—i. e. solid labor market indicators but weak readings on manufacturing and spending—as well as negative signals from ‘soft’ data, especially declining consumer and business confidence since last October. The latest release of the staff Nowcast, which showed a significant markdown in the outlook for 2019Q1, was also noted.

There was considerable discussion about the extent of any financial market “overreaction” given that economic fundamentals generally remain solid. Many panelists did not see recent movements as overreaction, but as a fairly appropriate response to the recent global growth slowdown and geopolitical uncertainties. They pointed out that growth had slowed down not only in China, but also in Europe, with growth halting even in the largest economy of the Eurozone.

Nevertheless, many panelists attributed the significant market volatility at the end of 2018 to a repricing of risk, and did not think it necessarily signaled a turning point in economic activity.

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[1] At the beginning of the meeting, FRBNY staff reminded panelists to review the Monetary Policy Advisory Panel Charter and the Antitrust Guidelines for Members of FRBNY’s Advisory and Sponsored Groups (“Antitrust Guidelines”). These documents were distributed to all panelists prior to the meeting.

Panelists also tended to agree that a further flattening of the yield curve would be a stronger predictor of such an event.

There was some discussion of the impact of the partial government shutdown on the near-term economic data and its ultimate effect on the economy. One panelist suggested that cross-sectional evidence could be used to parse the economic effects of the shutdown, as regions were impacted in different ways.

The discussion then turned to the extent to which markets were surprised by changes in the path of monetary policy. Panelists discussed whether communications suggesting greater patience and more flexibility regarding the policy rate path and the pace of balance sheet normalization represented an overreaction to market movements. There was also a discussion of whether the 'data dependent' characterization of future policy action is well understood by the public, and how communications could be improved.