Minutes of the Economic Advisory Panel Meeting

April 21, 2017

Present: William Dudley, Michael Strine. External Panelists: Alan Blinder, Julia Coronado, Michael Feroli, Marvin Goodfriend, Austan Goolsbee, Gita Gopinath, Jan Hatzius, Peter Henry, Glenn Hubbard, Sydney Ludvigson, Frederic Mishkin. Guests: Peter Diamond and Kenneth West (resident scholars). New York Fed staff: John Clark, Richard Crump, Richard Dzina, Linda Goldberg, Beverly Hirtle, Tom Klitgaard, Lori Logan, David Lucca, Jonathan McCarthy, Meg McConnell, Richard Peach, Paolo Pesenti, Simon Potter, Robert Rich, Argia Sbordone, Kevin Stiroh, Andrea Tambalotti, Giorgio Topa, Joe Tracy. 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 offered by Michael Feroli and Glenn Hubbard. Mr. Feroli focused on his view of the economic outlook and the underlying macroeconomic factors that drive it, such as productivity growth and labor force participation. Mr. Hubbard commented upon fiscal policy and the prospects for tax reform, and their potential effects on economic activity.

The ensuing discussion touched upon some aspects of the tax reform proposals presented by Mr. Hubbard, with a particular focus on the potential effects of a border adjustment tax on the exchange value of the dollar, trade, and macroeconomic conditions. Several panelists also offered their own views on the prospects for both the domestic and the global economy. Most of these views were fairly close to those presented in the New York Fed Staff Outlook. Some panelists were more optimistic, while others challenged the New York Fed Staff Outlook's assumptions. In particular, panelists touched upon the prospects for labor productivity growth after several years of anemic increases.

In light of the further strengthening in labor market conditions and easier financial conditions, panelists discussed the possibility that the U.S. economy might be "overheating" and the possible implications of such a development. Although most panelists viewed scenarios in which the unemployment rate moderately undershoots the natural rate of unemployment as unlikely to pose a substantial threat to price stability over the medium term, some expressed concern that an overheated economy might require an abrupt tightening of monetary policy that could tip the economy into a recession. Such dynamics were deemed to be consistent with historical evidence suggesting that moderate increases in the unemployment rate have been followed by a more significant deterioration in economic conditions. Others discounted this risk, observing that the subdued inflation dynamics that appear to be currently in place should reduce the need for monetary policymakers to react forcefully to positive economic surprises. In this context, one panelist observed that a combination of 2 percent inflation and 2 percent real GDP growth, as in many forecasters' projections, is unlikely to be sustained if productivity growth does not increase appreciably from its subdued pace of the last several years, thus providing a boost to potential output.

On the global front, most panelists expressed cautious optimism on the prospects for the world economy, although several observed that significant geopolitical risks remain. Panelists also discussed the influence of global factors on the very low levels of interest rates, focusing on the role of worldwide demand for safe assets.

Over lunch, panelists discussed the potential changes to the FOMC's policy of reinvesting principal payments from securities held in the System Open Market Account (SOMA) that were noted in the minutes of the March FOMC meeting. The panelists offered their views on several aspects of these potential changes, such as the advantages and disadvantages of phasing out reinvestments versus ceasing them all at once, as well as the relationship between balance sheet changes and policy rate changes. The panelists also provided their views on other recent FOMC communications.