

# Monetary Policy Advisory Panel

## Luncheon Meeting

### Agenda

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## Upcoming Challenges to Monetary Policy

### Background

Since this Panel last met in October, the U.S. economy has continued to expand at a healthy pace with overall labor market conditions strengthening. Inflation also showed some firming even though the 12-month change in the PCE price index remains below the Federal Reserve's longer-run objective.

As documented in the most recent NY Fed Research Staff's "[U.S. Economy in a Snapshot](#)," growth was solid in the second half of 2017 (The third estimate of 2018Q4 GDP growth will be released on March 28<sup>th</sup>). The recent data suggest a solid outlook for the first half of this year: The most recent [NY Fed Staff Nowcast](#) projects real GDP growth of 2.9 percent for Q1 and 3.0 percent for Q2 (see Figure 1). As of March 10, the Blue Chip Economic Indicators, the consensus of private forecasts, has economic growth in the first half of this year averaging about 2.8 percent. The medians of the GDP growth projections of FOMC participants in the [March Summary of Economic Projections](#) (SEP) for 2018 and 2019 were 2.7 and 2.4 percent, respectively, above those in the December SEP and well above the median projection for longer-run growth of 1.8 percent (see Figure 2).

Measures of consumers' and businesses' confidence have remained high (see Figure 3). Financial conditions have tightened somewhat this year, but still remain broadly accommodative. Equity market indexes continued to trend upward through the beginning of this year, but have been more volatile in the last two months. Longer-term Treasury yields have increased, credit spreads have widened modestly, and the trade-weighted dollar has appreciated somewhat (see Figure 4).

Fiscal policy has become more stimulative, with the passage of the Tax Cuts and Jobs Act in 2017 and the Bipartisan Budget Act earlier this year, likely contributing to the near term upgrade of the growth outlook.

Meanwhile the gradual process of policy normalization has continued. The FOMC raised the target range for the federal funds rate at the December and March meetings and it now stands at 1½ to 1¾ percent. The implementation of the plan for reducing the Federal Reserve's security holdings, which

began in October,<sup>1</sup> continues and the reaction of financial markets appears to have been subdued so far. Figure 5a displays a [July 2017](#) projected evolution of the size of the Fed's securities portfolio; the different projected paths use alternative scenarios for the composition of key liabilities based on responses in the [June 2017 Surveys of Primary Dealers and Market Participants](#) (figure 5b).

At this meeting we would like you to share your views on two broad issues facing policymakers in the current environment.

## Discussion Issues

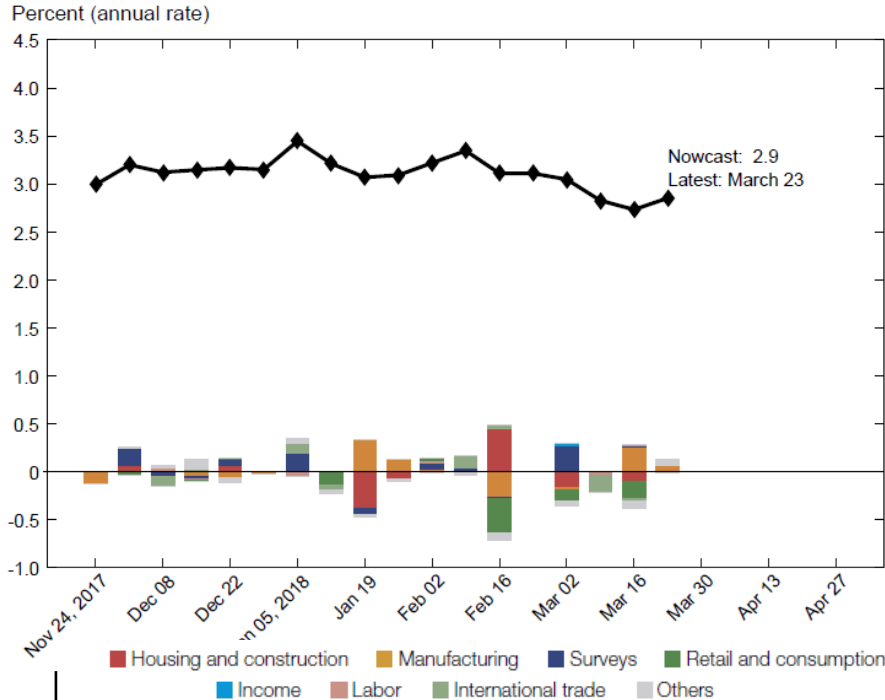
- *A large fiscal stimulus is being implemented at a time when the economy appears close, if not beyond, full employment, and monetary policy is on a course of gradual tightening. What do you see as the key risks to the outlook in this environment?*
- *Thinking past the “normalization” phase, what lies ahead for monetary policy? In your opinion, what features are most important for the long-run monetary policy framework, both in terms of strategy as well as implementation?*

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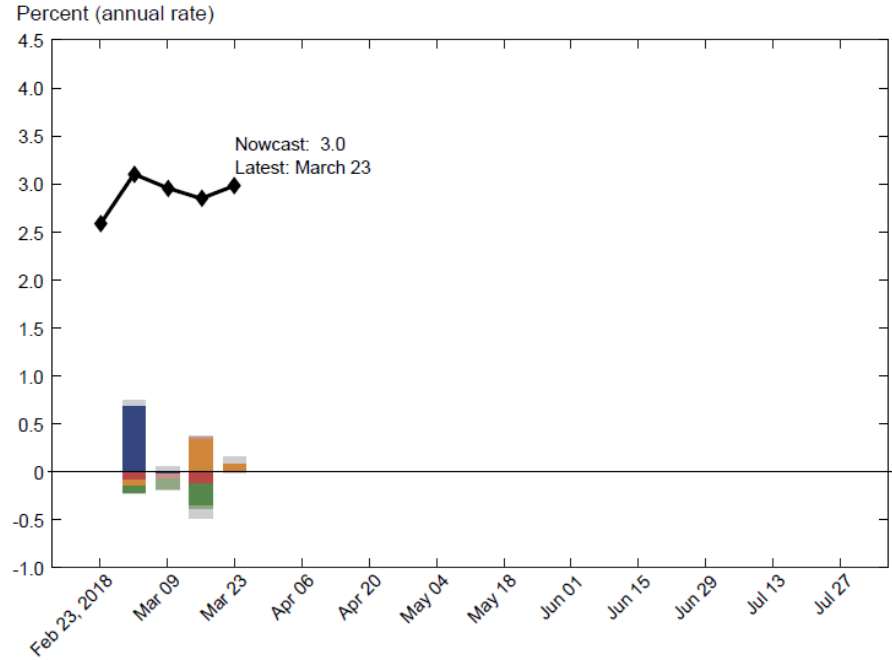
<sup>1</sup> The plan is described in the [June 2017 Addendum to the Policy Normalization Principles and Plans](#). Details of the implementation decisions for the balance sheet are in the Implementation Note issued at the same time of the FOMC Statement following each FOMC meeting. See the March 21, 2018 [Implementation Note](#) for the latest version.

# Figure 1 - New York Fed Staff Nowcast\*

## 2018:Q1 GDP Growth



## 2018:Q2 GDP Growth

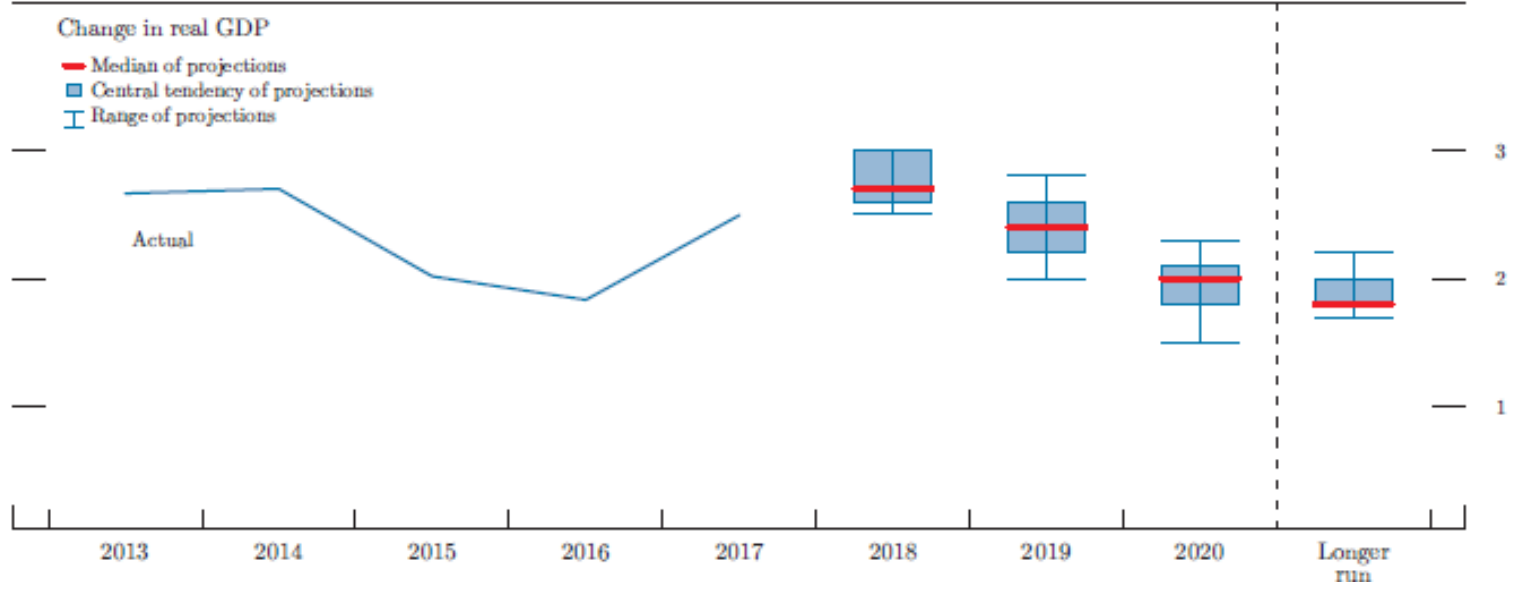


Update	Release Date	Data Series	Reference Period	Units	Forecast		2018:Q1		2018:Q2		
					[a]	[b]	Weight	Impact	Nowcast GDP Growth	Weight	Impact
Mar 09							[c]	[c(b-a)]			
									<b>2.83</b>		<b>2.96</b>
	8:40 AM Mar 13	CPI-U: All items	Feb	MoM % chg.	0.413	0.150	0.074	-0.019		0.131	-0.034
	8:40 AM Mar 13	CPI-U: All items less food and energy	Feb	MoM % chg.	0.222	0.182	0.084	-0.003		0.143	-0.006
	8:30 AM Mar 14	Retail sales and food services	Feb	MoM % chg.	0.672	-0.068	0.243	-0.180		0.311	-0.230
	8:30 AM Mar 14	PPI: Final demand	Feb	MoM % chg.	0.244	0.174	0.036	-0.002		0.060	-0.004
	8:30 AM Mar 15	Import price index	Feb	MoM % chg.	0.923	0.395	0.016	-0.009		0.035	-0.018
	8:30 AM Mar 15	Export price index	Feb	MoM % chg.	0.609	0.239	0.033	-0.012		0.060	-0.022
	8:30 AM Mar 15	Empire State Mfg. Survey: General business conditions	Mar	Index	17.2	22.5	0.003	0.014		0.014	0.075
	8:30 AM Mar 15	Philly Fed Mfg. business outlook: Current activity	Mar	Index	26.8	22.3	0.001	-0.007		0.017	-0.077
	8:30 AM Mar 16	Housing starts	Feb	MoM % chg.	-5.20	-7.00	0.017	-0.031		0.020	-0.036
	8:30 AM Mar 16	Building permits	Feb	Level chg. (thousands)	-37.0	-79.0	0.002	-0.076		0.002	-0.090
	9:10 AM Mar 16	Industrial production index	Feb	MoM % chg.	0.372	1.06	0.205	0.142		0.270	0.187
	9:10 AM Mar 16	Capacity utilization	Feb	Ppt. chg.	0.243	0.699	0.264	0.121		0.350	0.160
	10:00 AM Mar 16	JOLTS: Job openings: Total	Jan	Level chg. (thousands)	173.2	645.0	0.033*	0.016		0.054*	0.025
		Data revisions						-0.047			-0.037
Mar 16									<b>2.73</b>		<b>2.85</b>
	8:30 AM Mar 23	Manufacturers' new orders: Durable goods	Feb	MoM % chg.	2.82	3.10	0.015	0.004		0.018	0.005
	8:30 AM Mar 23	Manufacturers' shipments: Durable goods	Feb	MoM % chg.	0.835	0.872	0.085	0.003		0.102	0.004
	8:30 AM Mar 23	Mfrs.' unfilled orders: All manufacturing industries	Feb	MoM % chg.	0.612	0.197	-0.013	0.005		-0.022	0.009
	8:30 AM Mar 23	Manufacturers' inventories: Durable goods	Feb	MoM % chg.	0.643	0.384	-0.195	0.050		-0.280	0.073
	10:00 AM Mar 23	New single family houses sold	Feb	MoM % chg.	1.25	-0.643	0.007	-0.013		0.008	-0.015
		Data revisions						0.070			0.060
Mar 23									<b>2.85</b>		<b>2.98</b>

\*updated every Friday at 11:15 a.m. [here](#)

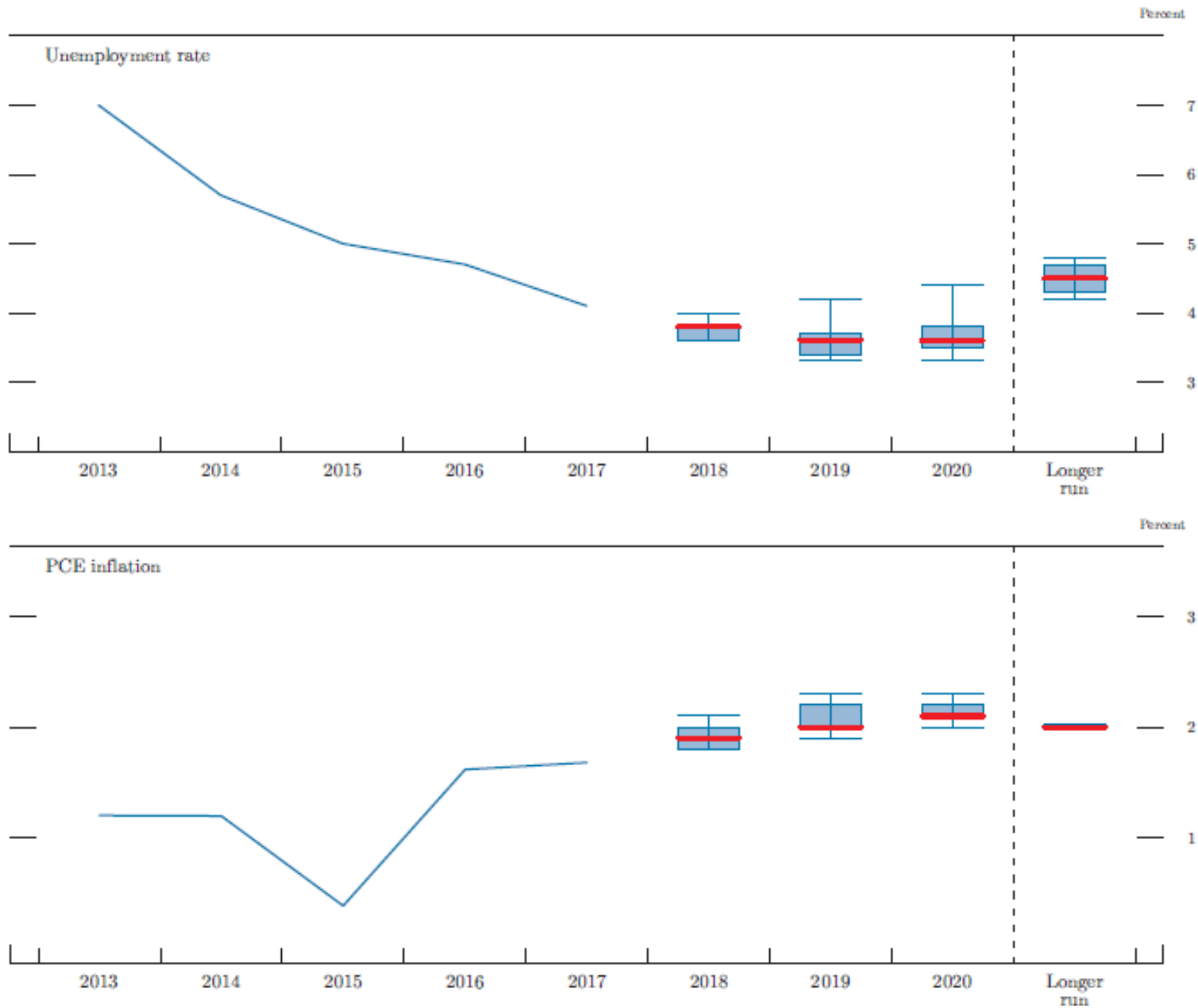
# Figure 2 – March 2018 Summary of Economic Projections (SEP)

Variable	Median			
	2018	2019	2020	Longer run
Change in real GDP, March	<b>2.7</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>
<i>December projection</i>	2.5	2.1	2.0	1.8
<i>September projection</i>	2.1	2.0	1.8	1.8
Unemployment rate, March	<b>3.8</b>	<b>3.6</b>	<b>3.6</b>	<b>4.5</b>
<i>December projection</i>	3.9	3.9	4.0	4.6
<i>September projection</i>	4.1	4.1	4.2	4.6
PCE inflation, March	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>	<b>2.0</b>
<i>December projection</i>	1.9	2.0	2.0	2.0
<i>September projection</i>	1.9	2.0	2.0	2.0
Core PCE inflation, March	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>	
<i>December projection</i>	1.9	2.0	2.0	
<i>September projection</i>	1.9	2.0	2.0	



Source: Summary of Economic Projections, March 2018, December 2017, and September 2017

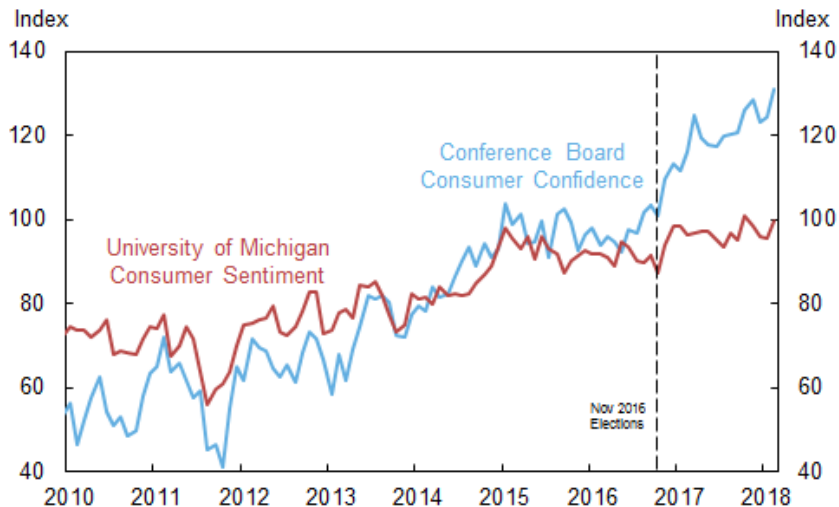
# Figure 2 (cont.)



Source: Summary of Economic Projections, March 2018

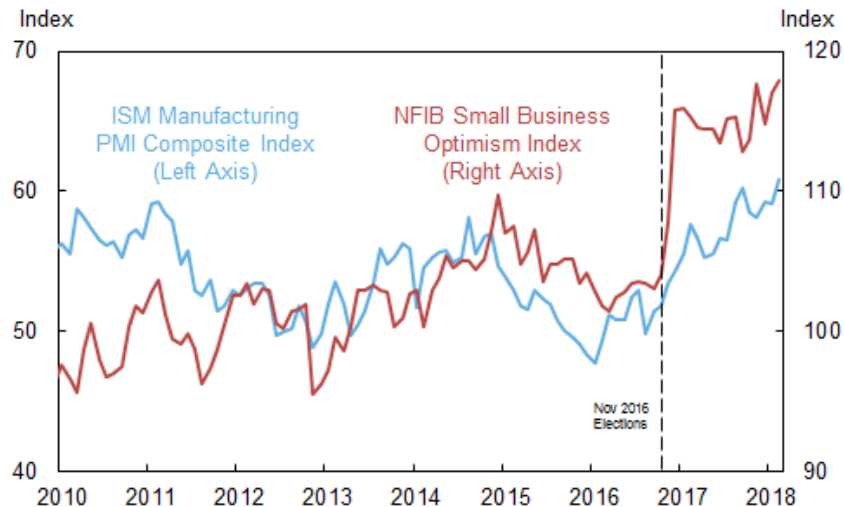
# Figure 3 – Consumer and Business Confidence Measures

(a) Consumer Confidence Measures



Source: University of Michigan, Conference Board

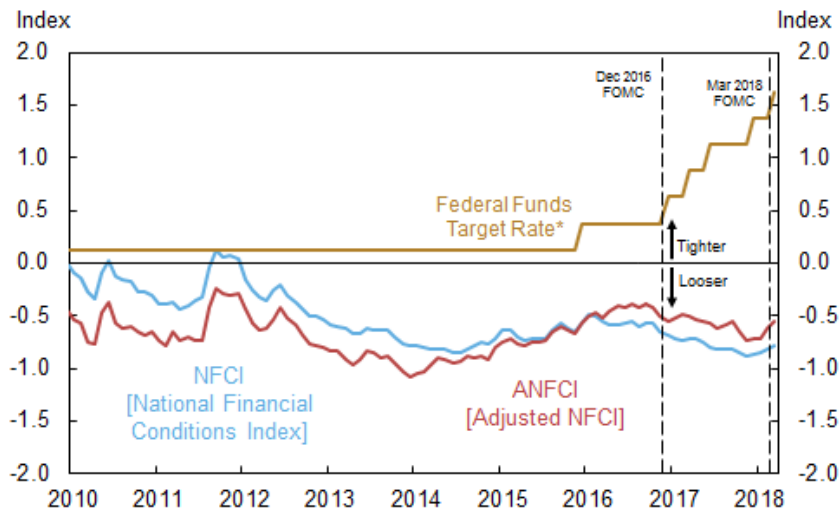
(b) Business Confidence Measures



Source: University of Michigan, Conference Board

# Figure 4 – Indicators of Financial Conditions

(a) Chicago Fed National Financial Conditions Indexes

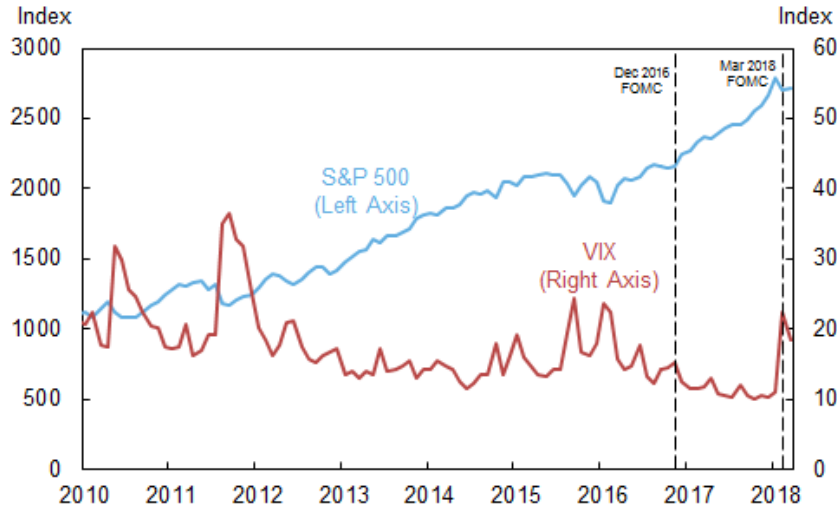


Source: Federal Reserve Bank of Chicago

\*midpoint of target range

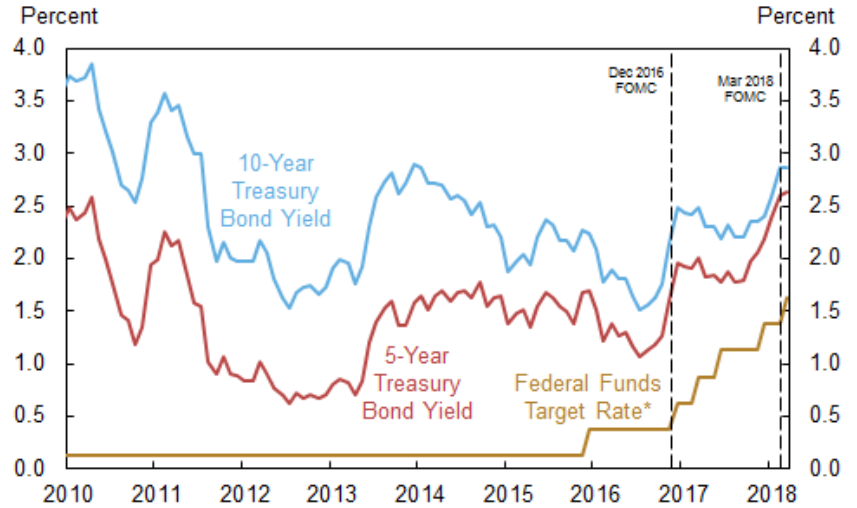
# Figure 4 (cont.)

(b) US Equity Market Index and Volatility



Source: Standard & Poor's via Haver Analytics

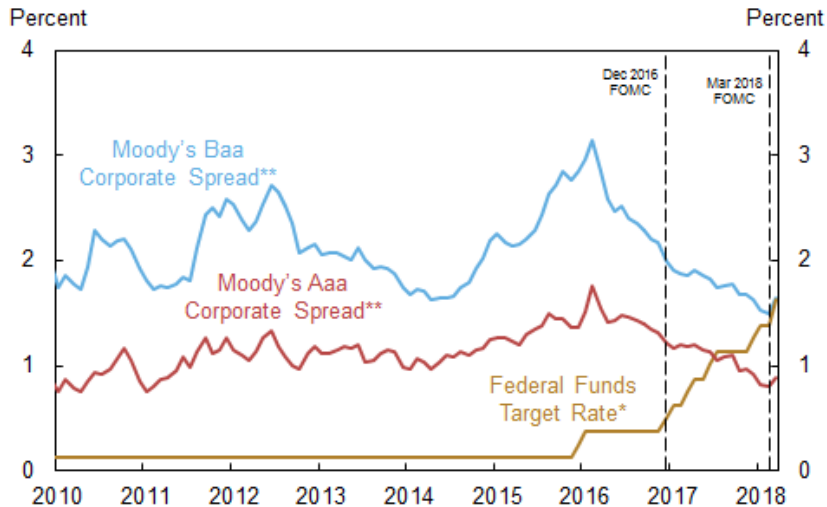
(c) Long-Term Treasury Yields



Source: Federal Reserve Board

\*midpoint of target range

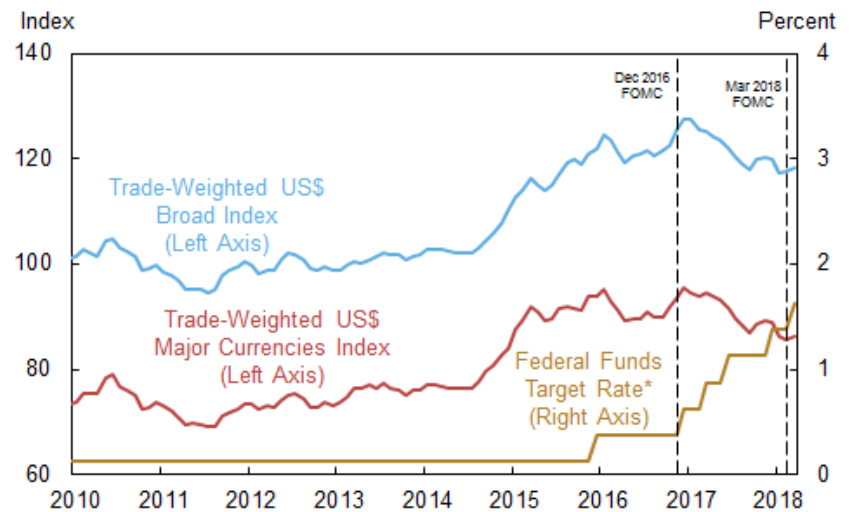
(d) Corporate Spreads



Source: Federal Reserve Board

\*midpoint of target range  
\*\*spread to 20-year Treasury yield

(e) Exchange Rate

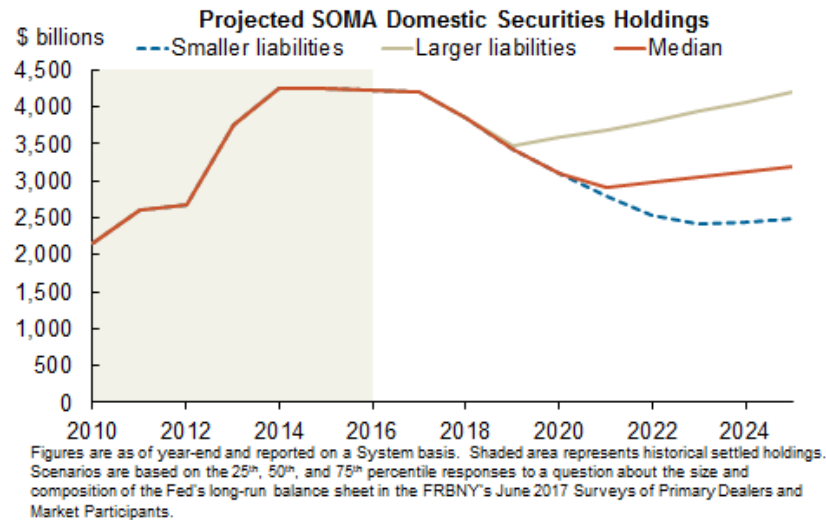


Source: Federal Reserve Board

\*midpoint of target range

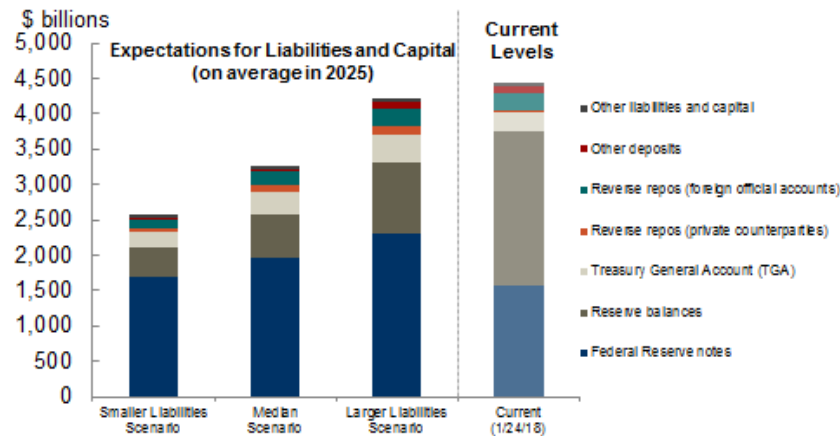
# Figure 5

## (a) Projected Paths for Fed's Securities Portfolio



Source: FRBNY (Projections for the SOMA Portfolio and Net Income, July 2017 data file)

## (b) Expectations for Key Liabilities



Sources: Survey of Primary Dealers and Survey of Market Participants, June 2017; Board of Governors of the Federal Reserve System