Minutes of the Economic Advisory Panel Meeting

November 17, 2017

Present: William Dudley, Michael Strine. External Panelists: Alan Blinder, Julia Coronado, Janice Eberly, Michael Feroli, Marvin Goodfriend, Austan Goolsbee, Gita Gopinath, Jan Hatzius, Glenn Hubbard, Sydney Ludvigson, Greg Mankiw, Frederic Mishkin, Ellen Zentner. Guests: Laura Rosner. New York Fed staff: Mary Amiti, Richard Crump, Gerard Dages, Marco del Negro, Domenico Giannone, Beverly Hirtle, Anna Kovner, Tom Klitgaard, Jonathan McCarthy, Meg McConnell, Richard Peach, Paolo Pesenti, Simon Potter, Robert Rich, Kevin Stiroh, Andrea Tambalotti. Other New York Fed staff, including counsel, observed the meeting.

Presentations on the economic outlook

The meeting started with presentations by Julia Coronado on "Inflation Repression" and by Gita Gopinath on "Inflation: Some Insights from Trade."

The subsequent discussion centered around inflation and the inflation outlook. The panelists debated whether current readings on inflation—for instance, the 12-month change in the core PCE deflator was 1.3 percent in September—should be considered meaningfully below the FOMC's longer-run goal of 2 percent. Some observed that given the measurement issues and the difficulties that any central bank faces in controlling inflation in the short run, specifying a target range of, say, 1.5 percent to 2.5 percent, rather than a precise goal might be a more useful approach to the operational definition of price stability. These panelists saw current inflation as reasonably close to target. In contrast, other panelists noted that inflation has been persistently below 2 percent for the past several years. Consequently, they thought that continued low inflation presented a significant risk to the credibility of the FOMC's inflation goal, even if the longer-run inflation goal was formulated as a range. Some panelists also discussed what combinations of core goods and core services inflation would be necessary to bring inflation to 2 percent and concluded that those combinations are unlikely to materialize over the course of 2018, given the recent developments in those two inflation series.

A number of panelists argued that greater emphasis on the uncertainty and risks surrounding any inflation forecast would contribute to improving FOMC communication. However, it was noted that it might be difficult for the FOMC to agree upon a framework to quantify and communicate those uncertainties and risks beyond that currently provided in the Summary of Economic Projections (SEP).

The panelists also discussed current inflation in connection with labor market conditions. Their consensus was that the labor market is at or very close to full employment. In their view, this is demonstrated by the low level of unemployment, notwithstanding labor force participation rates that remain low, as well as by somewhat faster wage growth over the past several quarters, at least according to most indicators. A few panelists expressed skepticism on the extent to which current rates of compensation growth should be considered indicative of a tight labor market. Even those who expressed more confidence that the continued improvement in the labor market has indeed generated some wage pressures, however, agreed that the economy is unlikely to be significantly overheated.

Panelists debated the extent to which current high valuations in some asset markets might indicate imbalances that eventually could threaten financial and macroeconomic stability. A few noted that financial instability and poor macroeconomic performance have historically followed a combination of high asset valuations and high leverage, as evidenced in the recent financial crisis. Their conclusion was that high asset prices in themselves should not necessarily be considered a threat to macroeconomic stability.

Some panelists also discussed how innovation and structural changes in the economy might be affecting productivity and inflation. They saw two crosscurrents at work. On the one hand, the observed increase in concentration in many sectors, mainly a result of the rise of “superstar” firms, may be increasing firm market power and hence prices. On the other hand, such changes also appear to be increasing productive efficiency, thereby putting downward pressure on inflation.

The conversation then moved on to the broader economic outlook for the U.S. and global economies, and the potential effects of the proposed tax legislation. Most panelists agreed that the U.S. economy was on solid footing, although risks remain, especially those emanating from global factors. Some panelists expected GDP growth to exceed consensus in 2018 and the unemployment rate to continue falling, which they saw as leading to a faster pace of policy rate increases than currently implied by market pricing. Others instead projected that U.S. economic growth would begin again to disappoint, as it has done through most of the current expansion, and they expected a flatter path for the federal funds rate than that implied by the median projections in the SEP. The discussion then briefly touched on the balance sheet normalization program that was initiated in October, which was judged to have had minimal impact on financial markets so far.