# Minutes of the Spring 2024 Economic Advisory Panel Meeting

Present: **Chair:** John Williams. **External Panelists:** Kathryn Dominguez, Sebnem Kalemli-Ozcan, Lisa Lynch, Paula Campbell Roberts, James Stock, Laura Veldkamp, Mark Zandi. **New York Fed staff:** Jaison Abel, Ozge Akinci, Martin Almuzara, Mary Amiti, Kartik Athreya, Richard Audoly, Kristian Blickle, Hunter Clark, Jeff Dawson, Marco Del Negro, Richard Dietz, Keshav Dogra, Julian DiGiovanni, Michael Fleming, Linda Goldberg, Jack Gutt, Sebastian Heise, Tiffany Hewlin, Beverly Hirtle, Hyeyoon Jung, Tom Klitgaard, Gizem Kosar, Jonathan McCarthy, Davide Melcangi, Don Morgan, Timothy C. Nash, Jr., Michelle Neal, Paolo Pesenti, Julie Remache, Argia Sbordone, Maria Tavarez-Gonsalves, Giorgio Topa, Jacob Weber.

Timothy C. Nash, Jr., counsel for the New York Fed, provided a reminder to the panelists that their discussions are subject to the Antitrust Guidelines for Members of the Federal Reserve Bank of New York's Advisory and Sponsored Groups.

Following introductory remarks by John Williams, Kathryn Dominguez presented "Inflation and the US and Global Economic Outlook". She began by noting that global inflation and US inflation have followed a broadly similar path over the past few years, peaking in 2021-22, and now declining everywhere. Prior to the pandemic, many were debating why a tight labor market was not driving inflation up. Most models suggest labor costs were not a major driver of inflation during the pandemic either; rather, this was driven initially by dramatic supply shocks, and later also by increases in demand. She discussed a number of factors driving disinflation, in particular the shift in monetary policy from very low to rapidly tightening interest rates, which has been broadly similar across advanced economies except Japan – which explains why foreign exchange markets have been relatively calm, despite the sizeable changes in interest rates. Overall, evidence points to a soft landing for the US and for the world economy. She concluded by mentioning several international risks to the US outlook, including the effects of geopolitical conflicts on energy markets and shipping, and China's economic slowdown.

The second presentation was delivered by James Stock on "Inflation: Energy shocks, sectoral inflation, and the energy transition". He began by reviewing the recent evolution of overall and energy inflation. While there was some prior runup in prices, energy prices spiked in 2022 with the invasion of Ukraine; oil prices spiked immediately and US gas prices rose later, especially after the Nordstream 2 explosion. Forecasts from a small-scale VAR model, conditional on data through June 2022 (when energy inflation peaked), are broadly accurate for energy, housing and services inflation. In that sense, the correlation between different components of inflation, and their persistence, are not surprising in historical perspective – suggesting that inflation should continue declining to 2 percent. However, the passthrough from energy to core inflation has been larger in recent years than since 1984 (though lower than in the 1970s). A potential explanation is that, while US oil prices were always affected by global factors, now US oil and coal prices are also connected to global prices, given the rise in liquified natural gas exports. Stock concluded by discussing the effects of climate change on inflation. While it is hard to say whether this will have a large or small effect on inflation in the long run, there is a significant risk that the energy transition will increase the volatility of inflation.

In the following discussion, panelists expressed a range of views on inflation and the economic outlook. Panelists broadly agreed that supply shocks have been the primary driver of the dynamics of inflation over recent years. One panelist emphasized the importance of sectoral shocks, propagating through input-output networks. Another panelist noted that, besides pandemic-induced disruptions to supply chains and labor markets, the Russian invasion of

Ukraine had a large effect on energy and agricultural prices. In 2023-24, we instead experienced positive supply shocks – higher than expected immigration and productivity growth. Another panelist highlighted that the increase in inflation was not surprising, now that we understand the underlying shocks, but stated that the subsequent decline in inflation (without a recession) is surprising and may be because inflation expectations were especially fluid given the exceptional nature of the Covid episode. Another panelist added that the surprising strength of the labor market is unlikely to be a significant source of inflation; the dramatic increase in quit rates has stabilized; and while the number of union elections and work stoppages has increased, there is also evidence of successful employer resistance to unionization as contract negotiations are taking longer and longer to conclude. It was also noted that employment of native-born workers has not returned to its pre-Covid level; however, an important part of labor market growth has been due to the increase in the share of foreign-born workers, which declined in 2021, completely recovered by January 2022, and continues to grow with a trend well above the pre-pandemic trend; employment of native-born workers is still not back to its pre-Covid level. Turning to the longer run, one panelist suggested that the green transition should eventually be deflationary; renewables are becoming cheaper than fossil fuels, even though they will not be a panacea due to intermittency; and electric vehicles are not only very efficient, but very simple to make, which should decrease prices. Other panelists highlighted the effects of Artificial Intelligence on the demand for energy, especially in the short run, and the economic effects of the increased frequency of costly climate disasters.