Minutes of the Fall 2024 Economic Advisory Panel Meeting

Present: **Chair:** John Williams. **External Panelists:** Kathryn Dominguez, Sebnem Kalemli-Ozcan, Karin Kimbrough, Lisa Lynch, Raghuram Rajan, Paula Campbell Roberts, James Stock, Linda Tesar, Laura Veldkamp, Mark Zandi. **New York Fed staff:** Jaison Abel, Ozge Akinci, Mary Amiti, Kartik Athreya, Richard Audoly, Hunter Clark, Richard Deitz, Keshav Dogra, Leonardo Elias, Linda Goldberg, Sebastian Heise, Beverly Hirtle, Gizem Kosar, Matthew Lieber, Jonathan McCarthy, Sylvia Miranda-Agrippino, Timothy C. Nash, Jr., Woojung Park, Paolo Pesenti, Maxim Pinkovskiy, Julie Remache, Joelle Scally, Argia Sbordone, Wilbert van der Klaauw, Jake Weber.

Following introductory remarks by John Williams, Paula Campbell Roberts presented "The State of the U.S. Consumer". She began by noting that she does not expect a hard landing: typically, recessions are driven by downturns in construction and inventory investment, and that does not look likely this time. Consumer balance sheets look healthy; while the savings rate looks low, it is less extreme once demographic changes are accounted for. Job growth, including the recovery in services employment, has slowed somewhat but remains solid; in particular, we have yet to see a slowdown in cyclical sectors. Credit card data through 2024Q1 suggests spending has slowed slightly more for higher income consumers, and for discretionary rather than essential goods. Turning to the key areas to watch, she noted that consumer sentiment (one of the best predictors of spending data) has trended down in 2024. While house price appreciation has been the main driver of wealth creation for many homeowners, higher prices and rents have increased financial pressure on lower-income and younger consumers. The rise in equity prices has not benefited all households equally: while stock market wealth increased for the average household

between 2020 and 2022, it has declined for the average African American or Hispanic household. Finally, she noted that delinquencies are rising for many categories of household debt – credit cards and auto loans, though not student loans – while small business default rates are also elevated.

The second presentation was delivered by Karin Kimbrough on "Consumer Spending and the Labor Market". She began by noting that procyclical LinkedIn labor market data (job postings, hiring, labor market tightness, job transitions) are all trending down, consistent with the labor market weakening. Personal income growth has not been keeping pace with consumer expenditures, and wage growth is likely to slow further, given that the quit rate is declining. We have seen a clear slowdown in employment growth, driven by a slowdown in hiring, though layoffs remain low. She presented evidence suggesting that aggregate consumer spending may now be more sensitive to various labor market indicators than was the case prior to the COVID-19 recession. Looking at sectoral detail, most sectors have hiring rates blow their 2016 levels, with only a few sectors (including healthcare, government and construction) remaining strong. Turning to measures of labor market sentiment, confidence in finding or keeping a job has declined since its peak in 2022; for job seekers, it is about as low as it was during the pandemic. Finally, while the share of remote jobs has returned to pre-pandemic levels, the share of hybrid jobs has stabilized at a higher level.

In the following discussion, panelists expressed a range of views on consumer spending and the economic outlook. Panelists generally agreed that the fundamentals of the US economy look good, with high employment, low debt servicing costs, many homeowners locked into low rates, and equity and home prices high. Several panelists suggested that positive sentiment is supporting consumer spending; one panelist speculated that the Fed's apparent success in

reducing inflation and achieving a soft landing could improve consumer confidence, since consumers tend to associate inflation with a bad economy. Others were skeptical about the utility of sentiment measures: one panelist noted that consumer spending is historically hard to predict, and while consumer sentiment was a good predictor prior to the 2008 financial crisis, it has performed less well recently. One panelist noted that different confidence indices may capture different things: negative readings may capture political partisanship, but they might also capture, for example, young people's perceptions that homeownership is unaffordable, even if they have job security. Several panelists noted that employers seem to be in wait-and-see mode, reducing hiring but not increasing layoffs; they speculated that this could reflect uncertainty about the outcome of the presidential election, or about changes in the workplace such as working from home and the utilization of AI. Participants also discussed the impact of recent elevated levels of immigration, pointing out that the effects may be nuanced. One panelist noted that much recent immigration has been "high-skilled": an important source of employment for foreign workers is Optional Practical Training, which is double the level of a decade ago. It is also possible that recent high levels of immigration are a rebound following dramatic falls in immigration in 2020-21, and are merely balancing out higher rates of retirement among baby boomers. Panelists noted that they expect further interest rate cuts from foreign central banks, which should also boost demand.

Panelists also discussed several risks to the outlook. Panelists generally agreed that it typically takes some exogenous event to precipitate a recession – political violence after the election, tariffs – which then leads to a fall in consumer and business confidence. Perhaps for this reason, the Conference Board's measure of consumer confidence and credit spreads are historically reliable predictors of recessions. While oil shocks have precipitated recessions in the past, one

panelist noted that their effects (in particular the effect of the oil shock following Russia's invasion of Ukraine) are different now that the US is a net exporter of oil and gas. One panelist noted that markets expect more rapid declines in the federal funds rate than the median projection in the Survey of Economic Projections (SEP); if markets revise their expectations upwards to match the SEP, this would be a contractionary shock to long-run interest rates. Panelists also discussed the declining outlook for long-run growth in Europe.