Minutes of the Economic Advisory Panel Meeting

April 9, 2021

Present: **Chair**: John Williams. **External Panelists**: Nicolas Bloom, Julia Coronado, Kathryn Dominguez, Janice Eberly, Kristin Forbes, Simon Gilchrist, Sebnem Kalemli-Ozcan, Karin Kimbrough, Lisa Lynch, Alex Mas, Laura Veldkamp, Ellen Zentner. **New York Fed staff**: Jaison Abel, Ozge Akinci, Mary Amiti, Pablo Azar, Gianluca Benigno, Nina Boyarchenko, Jason Bram, Rajashri Chakrabarti, Hunter Clark, John Clark, Matteo Crosignani, Richard Crump, Marco Del Negro, Richard Deitz, Julian DiGiovanni, Keshav Dogra, Thomas Eisenbach, Michael Fleming, Linda Goldberg, Jan Groen, Andrew Haughwout, Sebastian Heise, Michael Held, Beverly Hirtle, Fatih Karahan, Tom Klitgaard, Michael Lee, Lorie Logan, David Lucca, Antoine Martin, Jonathan McCarthy, Meg McConnell, Davide Melcangi, Paolo Pesenti, Maxim Pinkovskiy, Matthew Raskin, Julie Remache, Josh Rosenberg, Joao Santos, Asani Sarkar, Argia Sbordone, Or Shachar, Kevin Stiroh, Angela Sun, Andrea Tambalotti, Wilbert Van Der Klaauw, Desi Volker and Patricia Zobel.

The EAP secretariat opened the meeting with a reminder that panelists should review and adhere to the EAP Charter and the Antitrust Guidelines for Members of the FRBNY's Advisory and Sponsored Groups. Following introductory remarks by John Williams, Julia Coronado presented on "Economic Outlook and Risks to Inflation". She observed that a range of factors for the US economy pointed to a forecast of robust growth for this year – rapidly increasing vaccinations, end of the pandemic in sight and accommodative fiscal and monetary policy. Recounting lessons from the last cycle, she said that policy following the global financial crisis was too tight. Federal fiscal policy was affected by partisan politics and concerns about deficit tradeoffs, while state and local government budgets were affected by the bursting of the housing bubble. Also, in her view, monetary policy misjudged slack and inflation dynamics, which contributed to core PCE inflation generally running below 2%. She discussed that in contrast the current policy situation is "go big" and "go early" on both fiscal and monetary policy. Structurally lower inflation and an elastic labor market mean risks from over stimulating in a recession are low. She noted that core goods and services inflation used to move together, but globalization and technology have held goods price inflation down. She added that demographic forces are restraining health care and education inflation. She observed that rent and owner's equivalent rent are the largest components of consumer basket and these are slowing in line with previous cycles. However, she added that the expectation is that the rent deceleration cycle will be both shorter and shallower because of fiscal support. She noted that inflation expectations appear to have responded to the new monetary policy framework announced in August but remain anchored. Talking about the labor market, she observed that technology era cycles are typically associated with disruptions that lead to slower and longer job recovery; however, a service-led recovery can rapidly reemploy workers. The net should be a faster jobs recovery, but whose momentum may slow after the initial burst. She indicated that labor force participation tends to be sticky and recover late in cycles, but school re-openings can provide a boost and that she is optimistic about a rebound in labor force participation. Additionally, while this cycle is favored by an absence of consumer deleveraging, structural and secular factors such as an aging population due to declining birth rates, globalization, technology disruption, an increasingly unequal distribution of income and wealth may keep inflation subdued and consumers cautious.

In the discussion that followed, panelists further discussed the state of the economy and its expected future path. Talking about labor force participation, panelists observed the decline in immigration, the increase in early retirements, and the role of child-care and elder care in worker's work decisions, especially those of women, as negative factors for labor force participation. Increased incidence of work from home due to the pandemic was posited as a positive for labor force participation. Additionally, panelists indicated that with the large incidence of work from home, businesses are cutting capital utilization, but residential capital utilization, which is unmeasured, is likely to have been a big contributor to output over the past year. One panelist observed that globalization has affected inflation not just through supply chains, but global slack kept inflation low. The panelist added that an uneven global recovery can have negative implications on the US economy. Panelists discussed other dimensions of an uneven recovery: the strength in goods and weakness in services: the impact on small businesses, with many closing permanently; and concentration in some cities and away from others. Panelists discussed the "she"-cession and opined that it can convert to "she"-recovery as schools reopen and it gets easier to care for elderly relatives.

The second presentation was on "International Outlook and Spillovers to the US Economy," by Kathryn M. E. Dominguez. She posited that there are upward revisions to growth forecasts around the world with the upward revisions more prominent in advanced economies and less so in emerging market economies. She pointed out that two key channels for transmission include financial market linkages and trade linkages. Mediating factors include the mix of monetary and fiscal policy, the degree of exchange rate passthrough, global economic slack and institutional context. She pointed out that drivers of asynchronous recovery across economies stem from differences in a number of factors -- pre-COVID growth and business cycles, lockdown timing, duration and stringency and corresponding impacts on domestic economic activity, the scale of monetary and fiscal policy responses, impacts of supply-chain disruptions, capital flow volatility and reliance on tourism and high-contact service sectors. She observed that while global activity indicators rebounded, the 2021 trade outlook is still uncertain. Capital flows to emerging market economies declined sharply initially but then rebounded, though rising U.S. yields may increase risks of "taper tantrum". Financial conditions tightened dramatically in March 2020 but have largely returned to pre-COVID levels. Discussing the risks to the US economy from asynchronous global recovery, she indicated that the primary risks are from lockdowns and policy responses. Global slack will be a drag on inflation but can also be a drag to growth. Some policies have elevated risk of high debt levels both for businesses and for government debt. She observed that a taper tantrum redux could hurt emerging markets. Moreover, she indicated that premature post-COVID policy normalization can hurt fragile economies.

In the ensuing discussion, panelists expressed a range of views on the international outlook. Panelists posited that the current success in remote work may increase the potential for people to work from abroad rather than immigrating. Panelists commented that there are strong fundamentals among emerging market economies so they may not be uniformly vulnerable unlike in the taper tantrum. Some other panelists commented that policymakers in the emerging markets are concerned at the prospect of a taper. Since emerging market economies are sensitive to monetary surprises, one panelist asked if US monetary policy should factor in this consideration. Some panelists remarked, though, that the responses in emerging markets have been different this time and they are behaving like advanced economies resorting to substantial fiscal stimulus. Some other panelists expressed that the virus continues to be an important concern and a big risk is the uneven pace of global vaccination. Panelists commented that multiple European countries were hit hard by the COVID pandemic and vaccination in these countries has been lagging behind the UK and US and questioned what the risk of rising leverage in these countries may be for the US.