

Minutes of the Spring 2025 Economic Advisory Panel Meeting

Present: **Chair:** John Williams. **External Panelists:** Sandra E. Black, Paula Campbell Roberts, Sebnem Kalemli-Ozcan, Karin Kimbrough, Alex Mas, Aysegul Sahin, Stephanie Schmitt-Grohe, Linda Tesar, Mark Zandi. **New York Fed staff:** Jaison Abel, Ozge Akinci, Mary Amity, Kartik Athreya, Richard Audoly, Nina Boyarchenko, Rajashri Chakrabarti, Hunter Clark, Jeff Dawson, Richard Deitz, Marco Del Negro, Julian Di Giovanni, Leonardo Elias, Michael Fleming, Fulvia Fringuellotti, Gizem Kosar, Linda Goldberg, Kinda Hachem, Andy Haughwout, Sebastian Heise, Tiffany Hewlin, Matthew Higgins, Beverly Hirtle, Hyeyoon Jung, Keshav Dogra, Tom Klitgaard, Donghoon Lee, Michael Lee, Jonathan McCarthy, Davide Melcangi, Don Morgan, Timothy C. Nash, Jr., Paolo Pesenti, Maxim Pinkovskiy, Julie Remache, Joao Santos, Argia Sbordone, Joelle Scally, Rachel Schuh, Or Shachar, Giorgio Topa, Wilbert van der Klaauw.

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, the first presentation was given by Mark Zandi on "[U.S. Economic Policy Headwind](#)". He began by noting that according to a standard rule of thumb, the administration's changes to tariff policy, which have increased the effective tariff rate by roughly 20 percentage points, would increase Q4/Q4 inflation in 2025 by 2 percentage points, and reduce growth by around a percentage point. He also discussed the channels through which tariffs affect growth, including their effect on financial conditions, with equity prices already down around 15 percent from their peak and bond yields increasing, and some deterioration in investor confidence and the U.S. dollar's safe haven status. He then noted

that wealth effects are likely to be unusually important because recent consumption growth has been disproportionately led by wealthier households. He also noted that many measures of business and consumer sentiment are at or close to recessionary levels. While tariffs diminish growth but do not quite lead to a recession in his baseline forecast, he described alternative scenarios in which severe retaliation and a loss of confidence in the U.S. lead to a substantial recession.

The [second presentation](#) was given by Linda Tesar, who began by reviewing various estimates of the effect of tariffs on GDP. Micro studies based on trade models generally suggest that a 20 percentage point increase in tariffs would decrease GDP by only around 1 percent, since these models feature relatively high elasticities of substitution and many opportunities to substitute. Macro studies, which account for a broader range of frictions and feedback effects, often find larger negative effects, between 2 and 5 percent. She discussed various reasons why the effect of recently introduced tariffs could be larger than usual; for example, the broad-based nature of tariffs means there will be less scope to substitute from one country to another. She noted that while the dollar appreciated during the last round of tariff increases in 2018, this time the dollar ultimately depreciated sharply. She concluded by noting that the potential extension of the Tax Cuts and Jobs Act would increase long-run debt and interest costs.

In the following discussion, panelists expressed a range of views about the economic outlook and the likely effects of tariffs. Participants discussed various ways in which tariffs can affect long-run potential output, as protected industries become less innovative and production networks adjust, as well as affecting aggregate demand in the short run. One participant noted that there is still a bull case that the tariffs could be largely reversed, while tax cuts and deregulation increase growth over the next few years. Another participant argued that the economics profession has

placed too much emphasis on the relatively small number of job losses due to competition from China, rather than gains from trade; another noted that many people can still lose out from trade even if it has aggregate benefits. Some participants were skeptical that higher tariffs would succeed in eliminating the surprisingly persistent U.S. trade deficit; one participant noted that, logically, some version of capital controls would be the right tool to do this. Another participant argued that it is not possible for the U.S. to eliminate its trade deficit while maintaining the international role of the dollar. One participant noted that if tariffs persistently raise goods inflation, which has generally been negative in recent recessions, in order to achieve the Federal Reserve's 2 percent target, services inflation may need to be much lower, closer to 2 percent – which historically only happens in recessions.

Participants also discussed the effects of potential reductions in immigration, which has been an important driver of growth in the U.S. labor force and GDP over the past two years. Participants generally saw reductions in immigration as an adverse supply shock, noting that business leaders are already reporting a chilling effect of recent policy changes, with immigrant workers afraid to come to work. On fiscal policy, while one participant noted that cuts to federal government spending, grants and contracts are likely to have a small effect in terms of absolute numbers, participants warned about the effect of proposed cuts to Medicaid and SNAP on individuals at the bottom of the income distribution, as well as the effects of spending cuts on universities and declines in international student enrollment. Discussing the labor market, participants observed that hiring and quits rates are low, but we have not yet seen a significant increase in layoffs. One participant argued that the Federal Reserve should closely monitor initial Unemployment Insurance (UI) claims going forward, noting that takeup increases both when people lose their

jobs and when people lose confidence in the labor market and decide to claim UI. Participants noted, however, that they have not seen this happen yet.