Minutes of the Fall 2025 Economic Advisory Panel Meeting

Present: **Chair:** John Williams. **External Panelists:** Paula Campbell Roberts, Sebnem Kalemli-Ozcan, Karin Kimbrough, Raghuram Rajan, Aysegul Sahin, Stephanie Schmitt-Grohe, Mark Zandi. **New York Fed staff:** Ozge Akinci, Martin Almuzara, Mary Amiti, Kartik Athreya, Richard Deitz, Julian Di Giovanni, Dianne Dobbeck, Keshav Dogra, Thomas Eisenbach, Kinda Hachem, Todd Keister, Gizem Kosar, Donggyu Lee, Donghoon Lee, Jonathan McCarthy, Geert Mesters, Silvia Miranda-Agrippino, Timothy C. Nash, Jr., Paolo Pesenti, Maxim Pinkovskiy, Argia Sbordone, Or Shachar, Giorgio Topa, Wilbert van der Klaauw, Jake Weber.

Following introductory remarks by John Williams, the first presentation was given by Sebnem Kalemli-Ozcan on "Trade Policy and the U.S. Economy." She began by noting that tariffs can act as both demand shocks, designed to shift expenditures from the tariffed country to the country imposing the tariffs, and supply shocks, as they constitute a tax on production factors. She then discussed the effects of tariff uncertainty, which is especially acute in the current episode. If the tariffs are seen as temporary, economic theory suggests households should intertemporally substitute and postpone consumption to the future which would be deflationary. If, on the other hand, the tariffs are perceived as permanent, the effect would be a permanent increase in prices and a worsening inflation-output tradeoff. She also noted that the data show tariffs have contributed to inflation since April, with both CPI and PCE rising, whereas there are mixed signals regarding real activity. She noted that the effect of tariffs on inflation has so far been mitigated both by the deflationary effects of tariff uncertainty and by firms' accumulation of inventories, which allows them to sell goods at pre-tariffed prices; however, pass-through from tariffs to prices is expected to increase as inventories decline.

The second presentation was given by Aysegul Sahin, who began by describing how Federal Reserve officials have recently switched from characterizing the U.S. labor market as "solid" to characterizing it as "weakening", with payroll employment growth declining. She argued that this slowdown is an expected outcome of the soft landing and declining population growth, primarily driven by lower net migration. She then noted that since the U.S. is now in the mature phase of the business cycle, the primary source of further job growth will be population growth, implying that immigration will be a key determinant of payroll growth. She also reviewed various labor market indicators, emphasizing that only the lagging indicators have weakened recently. In addition, she observed that the deterioration in leading indicators happened a year ago, consistent with the view that what we are seeing now are delayed effects of the soft landing.

In the following discussion, panelists expressed a range of views about the likely effects of tariffs and the economic outlook. Participants argued that changes in tariffs generally tend to have permanent, but small macroeconomic effects. Some participants noted that while tariffs were initially thought to be permanent, there is now uncertainty about how long they will be implemented, as well as the exact level of tariffs. Another participant emphasized that if trade agreements between the U.S. and other countries collapse or fail to materialize, there may be coordinated action to respond to the U.S. One participant emphasized that the tariff shock and the uncertainty shock to the economy emerged around the same time and argued that different actors in the economy hold heterogeneous expectations about the economic outlook.

Participants also discussed various ways in which artificial intelligence (AI) affects the economic outlook. One participant noted that there has been a lot of investment in AI, but the return on investment has been disappointing, and the pace of AI rollout has been much slower than anticipated. This participant emphasized the importance of the high rate of depreciation of AI

capital and pointed that this may lead to disappointment regarding the return on AI investment. Another participant noted that the productivity generated by AI may mitigate the impact of lower immigration. One participant suggested that some companies are freezing hiring because they firmly believe AI will change workflows and make the existing workforce more productive. This participant also noted that the equity market is highly dependent on AI for growth. Another participant added that, even though employers are shifting from investing in people to investing in machines and data centers, AI is not fundamentally changing the job market, aside from its effect on labor demand for particular occupations. Another participant agreed and added that AI is likely to create new jobs related to the regulation and coordination of AI.

Regarding the economic outlook, participants generally agreed that labor market conditions have been weakening. Many noted that the recent slowdown in hiring partly reflects a correction following over-hiring during the pandemic. One participant observed that spending in the economy has been driven primarily by the upper end of the income and wealth distribution, and argued that the economy is likely to receive future stimulus from upcoming tax cuts. Another participant noted that foreigners have been continuing to invest in the U.S. Some participants expressed concerns about the potential impact of immigration restrictions, including newly introduced fees for H1-B visa applications, on aggregate demand. One participant noted that immigration restrictions may lead some employers to offshore some jobs that can be done remotely, rather than hiring U.S. citizens.