Minutes of the Economic Advisory Panel Meeting

April 5, 2019

Present: Chair: John Williams. External Panelists: Julia Coronado, Kathryn Dominguez, Michael Feroli, Kristin Forbes, Simon Gilchrist, Austan Goolsbee, Jan Hatzius, Lisa Lynch, Gregory Mankiw, Carmen Reinhart, Ellen Zentner. New York Fed staff: Mary Amiti, Gianluca Benigno, John Clark, Marco Del Negro, Domenico Giannone, Linda Goldberg, Matthew Higgins, Beverly Hirtle, Anna Kovner, Sandra Lee, David Lucca, Jonathan McCarthy, Meg McConnell, Paolo Pesenti, Richard Peach, Matt Raskin, Julie Remache, Josh Rosenberg, Argia Sbordone, Peter Stevens, Kevin Stiroh, Angela Sun, Andrea Tambalotti, Tom Klitgaard.

The meeting opened with a brief remembrance of Alan Krueger by Pres. Williams. Prof. Krueger, who was a member of the panel, had passed away on March 16th. The meeting then continued with presentations of the New York Fed Staff Outlook, followed by prepared comments from Julia Coronado and Jan Hatzius. Ms. Coronado focused on the role of China in the global slowdown in the second part of 2018 and on the implications of the fading fiscal impulse in the United States. Mr. Hatzius also projected a diminishing fiscal boost in 2019, but projected that growth would rebound from the weak first quarter because of a reduced drag from financial conditions and stabilizing global growth, including a reacceleration in China. Domestically, he saw the labor market continuing to tighten with rising wage growth, but inflation remaining below 2 percent until late 2019.

The general discussion expanded upon several of the points from the presentations, including the recent impact of China on global economic conditions and the interpretation of recent months' movements in financial conditions.

With respect to financial conditions, the participants debated ways to assess the net effect on the economic outlook of the sharp tightening of conditions in 2018Q4 and the subsequent easing in 2019Q1. Some of the issues that they focused on included: whether the level of financial conditions or their change provides better information on future economic activity; which indicators—including credit spreads, the slope of the yield curve, exchange rates, measures of uncertainty—are most helpful to forecast either recessions or GDP growth; and what are the implications of this evidence regarding the connections between financial conditions and macroeconomic outcomes.

With respect to global economic conditions, participants discussed the extent of the recent slowdown in China and its impact on global growth. They remarked that one of the channels of transmission appeared to be through the manufacturing sector in Europe. Even though they noted that some of the recent weakness in this sector was due to idiosyncratic factors, they highlighted this transmission channel as a source of particular fragility in the global economy, given the limited policy space available to EU authorities to combat a sustained slowdown in the union.

The inflation outlook was also discussed in the context of global developments. Participants noted that the relatively low pass-through of import prices to domestic prices, which partly explains the recent weakness in core goods inflation in the US, might be related to the nature of global shocks. Evidence suggests that demand shocks are associated with less exchange rate pass-through to domestic prices than other kinds of shocks. Participants also discussed the apparent weaker link between wage growth—which has risen as the labor market has tightened—and goods inflation—which has remained subdued. One possible explanation is that firms have become more willing to adjust their margins in response to changes in their marginal costs rather than pass-through those changes to final consumers. However, participants observed that firms' willingness to use this margin of adjustment might lessen over time, giving rise to potential non-linearities in the inflation process.