Minutes of the Economic Advisory Panel Meeting

October 26, 2018

Present: John Williams, Michael Strine. External Panelists: Julia Coronado, Janice Eberly, Michael Feroli, Austan Goolsbee, Jan Hatzius, Sydney Ludvigson, Frederic Mishkin, Ellen Zentner, Peter Henry, Lisa Lynch, Kristin Forbes. Guests: Julian Di Giovanni. New York Fed staff: Beverly Hirtle, Kevin Stiroh, Joshua Rosenberg, Andrea Tambalotti, Jonathan McCarthy, Paolo Pesenti, Richard Peach, David Lucca, Tom Klitgaard, Linda Goldberg, Anna Kovner, Lorie Logan, Marco Del Negro, Meg McConnell, Joseph Sommer, Joao Santos, Richard Crump, John Clark, Mary Amiti, Matt Raskin, Peter Van Tassell, Fernando Duarte, Julie Remache, Sandra Lee, Nina Boyarshenko, Desi Musai Volker, Kristian Blickle, Casey McQuillan.

Presentations on the economic outlook

The meeting started with presentations by Janice Eberly on "Intangible Capital: Implications for Investment and Market Structure" and Austan Goolsbee on "Inflation and the Internet."

Following the presentations, the participants discussed the implications of recent research on the observed increase in market concentration, measured markups, and the rise of highly productive and innovative—so-called "super-star"—firms on macroeconomic trends. It was observed that the fast pace of innovation in certain sectors and the rapid introduction of new products, as documented in Goolsbee's presentation, is in puzzling contrast to the lackluster performance of aggregate labor productivity since the mid-2000s. Panelists debated the extent to which this "puzzle" might be generated by difficulties inherent in measuring the outputs of innovative firms, which might depress measures of productivity and economic activity below their true levels, and hence make inflation appear higher than it really is. However, it was noted that any such mismeasurement does not appear to have increased over time. In addition, measurement seems less problematic in the labor market than in the goods market, as the labor data are richer with less severe conceptual measurement problems. This suggests that statistics on employment and wages contain crucial information to assess the state of the economy that are likely to be more reliable than output measures, especially in real time. Nevertheless, labor market statistics are not perfect, since their strength can only be measured in relation to fundamentals, such as productivity. Connecting these two strands of the conversation, one panelist observed that winner-take-all dynamics connected to the emergence of new products and technologies could leave many losers among both firms and workers, which might contribute to the persistent weakness in wages.

Pivoting towards a discussion of the economic outlook, in light of the morning's advance release for third quarter GDP, panelists observed that although current conditions were strong, the US economy was at a crucial cyclical juncture. Panelists most often cited the risk stemming from the current pro-cyclical stance of fiscal policy as threatening the continued strong performance of the US economy over the medium term. In addition, one panelist expressed concern about the potential destabilizing forces coming from the interaction between a natural cyclical slowdown, a fading boost from fiscal stimulus, and some unresolved issues in the global economy like the tensions around Italy's government budget and the signs of slowdown in the Chinese economy.

The panelists then discussed their outlook for monetary policy in light of both inflation and unemployment being close to the Federal Reserve's objectives. Some of them judged the current stance of monetary policy as close to neutral, and hence were in favor of continued gradual increases in the federal funds rate as a path to achieving a "soft landing." Others cautioned that forecasts of US and global economic growth over the last ten years generally have proven to be overoptimistic, and thus argued for an even more cautious approach to further monetary policy tightening. In response, it was noted that forecasts in the last couple of years have not displayed such over-optimism and that the current position of the US economy is much stronger than earlier in the expansion. In this panelist' view, therefore, the Federal Reserve should raise the policy rate over the next year by more than currently expected by financial market participants. Another panelist expressed concern about possible non-linearities in the relationship between inflation and unemployment, which might result in unexpectedly stronger inflation pressures as unemployment remains low. This scenario, it was argued, would require decisive policy actions to maintain well-anchored inflation expectations, with the risk of slower growth and a considerably higher recession probability.