Economic Policy Survey

Growing Number of NABE Economists See Monetary Policy as Too Stimulative, Fiscal Policy Too Restrictive; Want Next President to Focus on Stimulating Stronger Economic Growth

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The NABE August 2016 Economic Policy Survey summarizes the responses of 414 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was conducted between July 20 – August 2, 2016. Survey findings may be reprinted in whole or in part with credit given to NABE. View the survey results, including complete tabulations, online at www.NABE.com. This is one of three surveys conducted by NABE—the other two are the NABE Outlook Survey and the NABE Business Conditions Survey. LaVaughn Henry, CBE (Member, NABE Board of Directors), Chair; Timothy Gill, CBE (American Iron and Steel Institute); Emily Kolinski Morris, CBE (Ford Motor Company); Ken Simonson (Associated General Contractors of America); Holly Wade (National Federation of Independent Business); Richard Wobbekind, CBE (University of Colorado); and Ellen Zentner (Morgan Stanley) conducted the analysis for this report.

Summary

“There is less support for current monetary policy in the latest NABE Policy Survey than in the March survey, with a rising percentage of respondents indicating that the current policy is too stimulative,” said **NABE President Lisa Emsbo-Mattingly,** CBE, director of research, Global Asset Allocation, Fidelity Investments. “A majority of respondents expects the Federal Open Market Committee to raise its target for the federal funds rate above the current 25-to-50 basis-point range by year-end 2016, but few expect the target to be raised beyond 75 basis points.

“By a more than two-to-one margin, respondents consider current fiscal policy to be too restrictive rather than too stimulative,” Emsbo-Mattingly continued. “To address the current fiscal deficit, two-thirds of respondents recommend enacting structural policies to stimulate stronger economic growth, while more than half support increasing tax revenues by closing loopholes or raising rates, and one-third favors greater spending restraint.”

The survey also presents respondents’ views regarding the 2016 national election as it relates to the U.S. economy. “More than three-fifths of respondents believe that uncertainty about the national election is holding back U.S. economic growth,” said **LaVaughn Henry,** CBE, a NABE director and chair of the NABE Economic Policy Survey Committee. “As for which candidate would do the best job as president of managing the economy, a majority (55%) choose Democratic nominee Hillary Clinton, followed distantly by Libertarian nominee Gary Johnson (15%) and Republican nominee Donald Trump (14%). The remaining 15% said they 'don't know'."

The survey covered a range of questions on fiscal and monetary policy, domestic economic policy and regulations, and foreign economic policy and trade.

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Fiscal and Monetary Policy Perspectives

- A plurality of survey respondents (42%) expects that at year-end 2016 the Fed funds rate target rate will be 0.75%. Thirty-seven percent expect no change from the current target of 0.25-0.5%.
- Long-term inflation expectations remain anchored at the Fed's 2% target. Seventy-six percent of survey respondents expect inflation in five years to be near the Fed's 2% target.
- Sixty-seven percent of respondents favor enactment of structural policies to stimulate stronger economic growth as a means of addressing current federal budget deficits.

Positions on Other Economic Policy Matters

- A large majority (80%) of survey respondents believes that the federal government should remove restrictions on high-skill immigration.
- A majority of respondents believes that the federal minimum wage should either be increased or be increased with exemptions.
- Based on a current understanding of the Trans-Pacific Partnership (TPP) trade agreement, a large plurality of survey respondents (47%) believes that the U.S. should adopt the TPP agreement in its current form; 30% believe the U.S. should seek more favorable terms prior to adoption; and 6% believe the U.S. should reject the TPP outright in its current form.

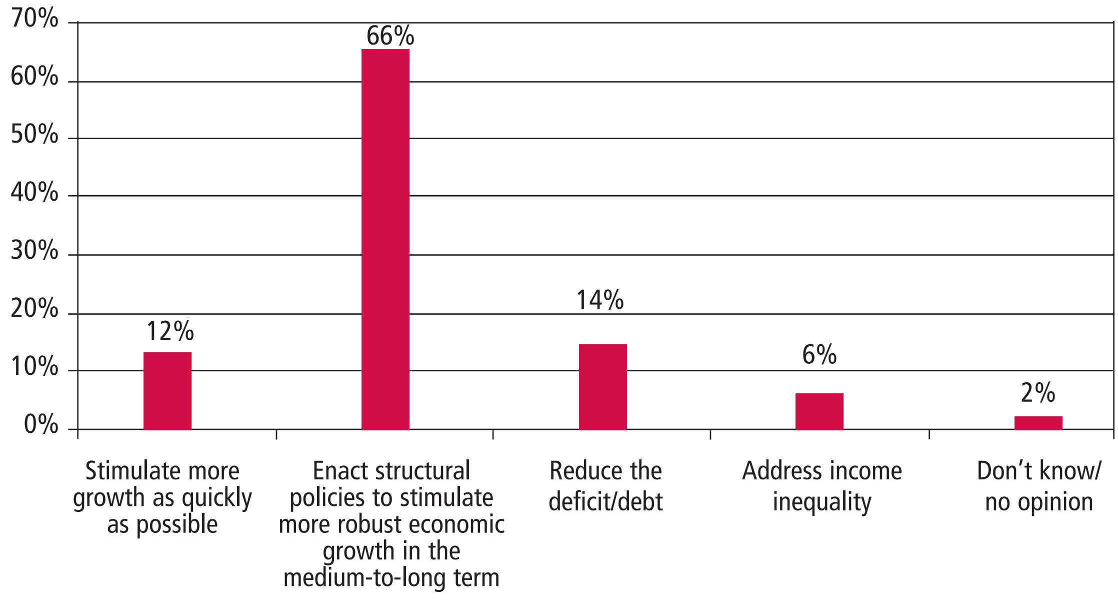
Detailed Survey Results

Fiscal Policy

The share of respondents who consider current U.S. fiscal policy to be unduly tight inched higher in NABE's August 2016 Policy Survey. Forty-three percent of survey respondents view fiscal policy as too restrictive, a slight increase from 41% in the March 2016 survey and substantially higher than the 29% who held this view in August 2015. Thirty-four percent of respondents indicate that current fiscal policy is "about right," a decline from 38% in the March survey. Nineteen percent indicate that fiscal policy is "too stimulative," similar to survey results over the past year.

A large majority of respondents (66%) believes the primary objective of current fiscal policy should be to enact structural policies to stimulate more robust economic growth in the medium-to-long term. Smaller shares believe current fiscal policy should focus on reducing budget deficits and accumulated national debt (14%) and stimulating more growth as quickly as possible (12%). Using fiscal policy primarily to address income inequality is favored by 6% of respondents.

Figure 1: What should be the objective of current fiscal policy?



When asked what steps, if any, should be taken to address the current fiscal deficit, 67% of respondents recommend enacting structural policies to stimulate stronger economic growth. However, strong support for alternatives is also apparent from the survey results. Fifty percent of respondents favor increasing tax revenues by closing loopholes, while 35% recommend greater spending restraint. Only 11% identify raising tax rates to increase revenues as a preferred option. (Respondents were asked to choose all steps they felt appropriate.) Slightly more than 9% of respondents indicate that no policy changes should be made at present because the current deficit is not material.

Opinion is split on whether or not the U.S. Treasury should begin issuing debt instruments with maturities beyond the current maximum term of 30 years given the exceptionally low interest-rate environment. Approximately 41% of respondents favor this policy; 45% do not. The remaining 14% did not express a view. In the March 2016 survey, only 23% of respondents supported issuing debt with maturities beyond 30 years.

Monetary Policy

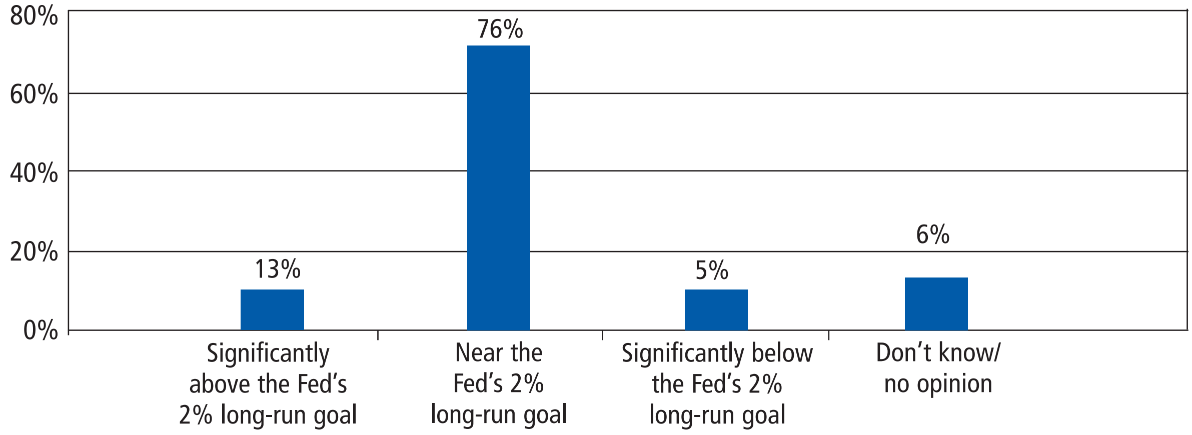
A small majority of NABE survey respondents (51%) believes the Federal Reserve is on the right track and that the current stance of U.S. monetary policy is appropriate. This figure represents a decrease from the 56% of respondents who held this view in the March 2016 Policy Survey. The share of respondents who consider monetary policy to be too stimulative has increased—41% of respondents indicate that the current stance of monetary policy is too easy compared to the 31% in the March survey that held this view. A smaller percentage—5%—than in the March survey—11%—characterize monetary policy as too restrictive.

Compared to results in the March survey, a smaller percentage of respondents (60% vs. 75%) expects the Federal Open Market Committee (FOMC) to raise its target for the federal funds rate above the current 25-to-50 basis-point range by year-end 2016. Twenty-three percent of respondents expect a rate increase will not occur until the first half of 2017, and 9% expect the first increase to occur even later. Three percent anticipate that the FOMC will reduce rates before raising them.

Respondents' expectations regarding the near-term target of Fed tightening—i.e., how high the upper band of the Fed funds rate target will be at the end of 2016—range from less than the current 0.5% to over 1.0%. A large share of respondents—42%—expects the year-end target level will be 0.75%, while 44% expect that the year-end rate will stand at 50 basis points or less. Only 5% of respondents predict the year-end rate target will exceed 1%. Approximately 72% of respondents think the funds target will not exceed 3.0% before the Fed starts easing again, compared to only 46% of respondents who held this view in the August 2015 survey.

A sizable 76% of respondents expect inflation, as measured by year-over-year changes in the personal consumption expenditure (PCE) price index, to be near the Fed's 2% goal five years from now. Thirteen percent expect inflation to be significantly above the 2% goal, while 6% of respondents expect significantly lower inflation. All of these results are largely unchanged from those in the March 2016 survey.

Figure 2: What do you think the inflation rate will be five years from now?



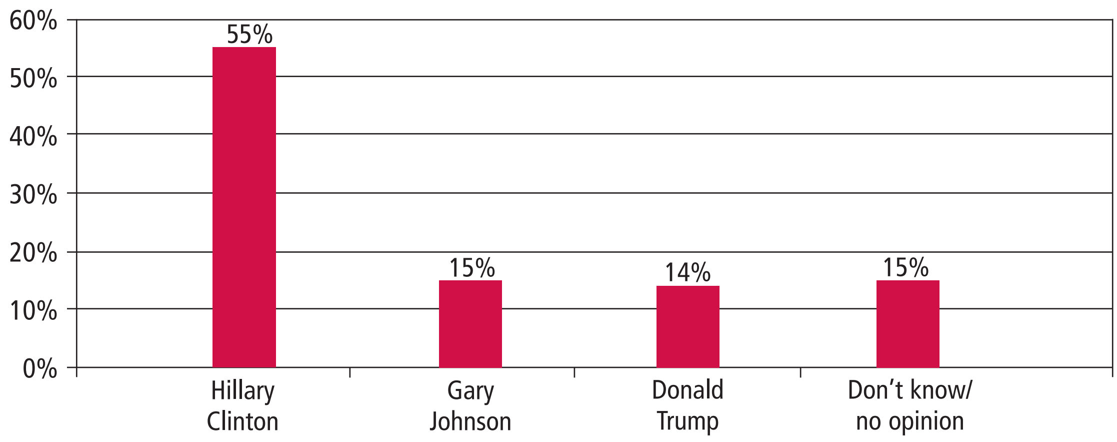
Were economic growth to become negative in 2017, a significant majority of survey respondents (66%) believes that Congress and the Administration should enact a fiscal policy stimulus, 33% believe that the Fed should lower the Fed funds target range back to the zero bound, and 30% believe that the Fed should resume quantitative easing. Only 3% indicate the Fed should implement a negative interest rate policy, and 15% say "take no action." (Note: Survey responses to this question were not designed to be mutually exclusive.)

2016 National Election

A significant majority of respondents (62%) believes that uncertainty about the national election is holding back U.S. economic growth somewhat (52%) or significantly (10%). About one-third (35%) of respondents indicates uncertainty is not holding back growth. In the March survey, participants were asked if uncertainty about *fiscal policy* was holding back growth, with 46% indicating "yes" and 50% indicating "no."

Survey panelists were asked what the new president's four highest priorities should be among 18 issues and policy areas. Responses varied greatly. Only three choices were listed among the highest priorities by more than 10% of respondents: increasing economic growth (listed among the top four priorities by 15%), fighting ISIS and terrorism (12%), and tax reform (11%).

Figure 3: Which candidate would do the best job as president of managing the economy?



As for which presidential candidate would do the best job as president of managing the U.S. economy, a majority—55%—choose Hillary Clinton, while 15% pick Gary Johnson, and 14% select Donald Trump. Fifteen percent indicate "Don't know/no opinion."

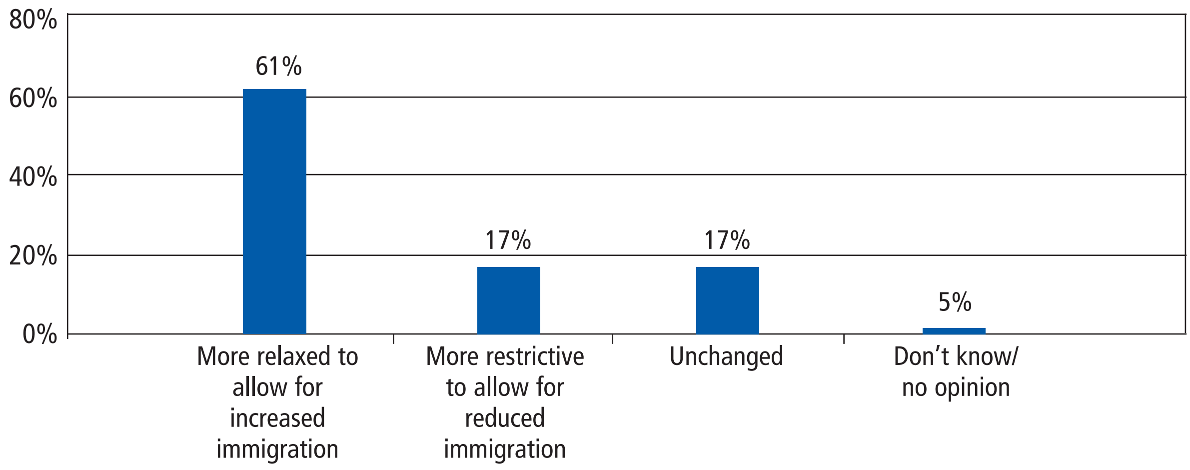
Domestic Economic Policy/Regulations

NABE Policy Survey respondents widely support lifting restrictions on immigration. Sixty-one percent of respondents indicate employment-based immigration policy should be more relaxed to allow for increased immigration, while 17% of respondents support a more restrictive immigration policy. Seventeen percent indicate current policy should be unchanged.

Regarding more specific immigration policy proposals, respondents generally favor expanding visa programs for high-skilled workers—such as the H-1B program—and instituting a legalization program for unauthorized immigrants currently living in the U.S. These policies are supported by 80% and 64% of respondents, respectively. In contrast, 39% support expanding visa programs (including H-2A and H-2B programs) for low-skilled workers. Thirty-two percent of respondents support funding increases for border enforcement. Only 8% favor deportation of all unauthorized immigrants. Just 2% favor "no change" to current immigration policies.

Survey results reveal a continued lack of consensus on a national minimum wage policy. Similar to the March 2016 survey results, just over one-quarter (27%) of respondents supports an increase in the minimum wage. Another 29% support an increase with exemptions for teenage workers, tipped workers, and short-tenured employees. Twenty-one percent of respondents support the status quo. Nineteen percent of respondents would like to see the minimum wage abolished, similar to results in the August 2015 survey, but a decline from the 25% in the March survey.

Figure 4: Should employment-based immigration policy in the next presidential administration and Congress be…



Foreign Economic Policy and Trade

The survey asked two questions on the results of the U.K. referendum to exit the European Union ("Brexit"). A significant majority of respondents (64%) suggests that Brexit will have a negative impact on the U.K. economy, 20% view the result as a positive factor, and the remaining 16% are undecided. Nearly half of respondents (48%) expects there will be at least one additional member state exiting the EU in the next five years, while 28% expect no other member states to leave the EU during that timeframe. Nearly a quarter of respondents (24%) did not express an opinion.

Almost two-thirds of respondents (65%) indicate that trade policy under the next presidential administration and Congress should become more open and free. Twenty-three percent favor the status quo, and just 9% favor a more protectionist trade policy. Views shifted only slightly regarding the Trans-Pacific Partnership (TPP) trade agreement. Less than half of respondents (47%) favor adoption of the TPP by the U.S. in its current form, while 30% indicate the U.S. should seek more favorable terms before adopting the trade pact. Seventeen percent of respondents expressed no opinion on the TPP. Six percent of respondents indicate that the U.S. should reject outright the TPP trade agreement in its current form.

Figure 5. Should trade policy in the next presidential administration and Congress be…

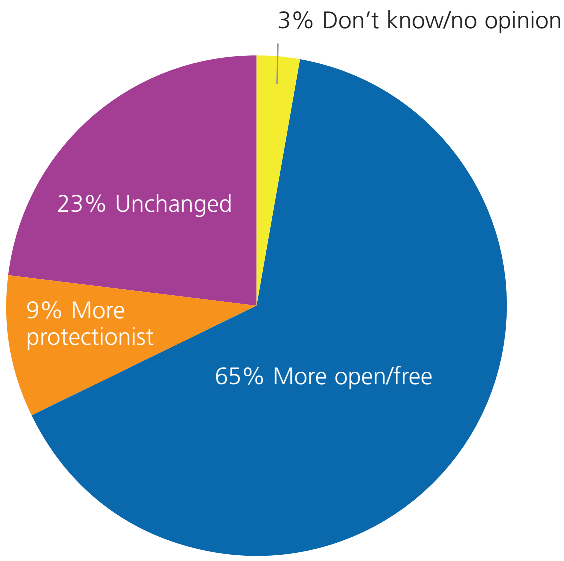
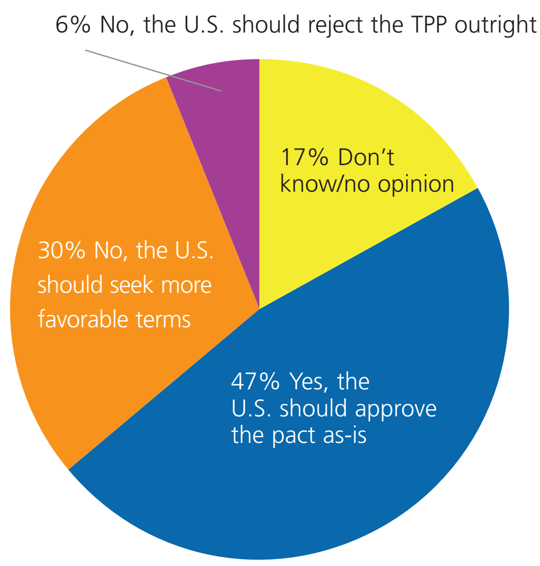


Figure 6. Should the U.S. adopt the Trans-Pacific Partnership (TPP) agreement in its current form?



Policy Survey Committee

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