National Association for Business Economics
August 2018 | Economic Policy Survey

Economic Policy Survey

NABE Economists Express Concerns about Trade and Fiscal Policy; Most Panelists Support Current Federal Reserve Monetary Stance

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The August 2018 NABE Policy Survey summarizes the responses of 251 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered July 19-August 2, 2018. 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. ***Jim Diffley, CBE*** *(IHS Markit), Chair;* ***Patrick Jankowski*** *(Greater Houston Partnership);* ***Tim Mullaly*** *(FedEx);* ***Emily Sanchez*** *(American Chemistry Council);* ***Dana Saporta, CBE*** *(Credit Suisse);* ***Thomas Siems, CBE*** *(Federal Reserve Bank of Dallas); and* ***Kevin Swift, CBE*** *(American Chemistry Council) conducted the analysis for this report.*

Summary

"Over 90 percent of the NABE Policy Survey panel considers current tariffs and threats of tariffs as having unfavorable consequential impacts on the U.S. economy," said NABE Vice President **Kevin Swift, CBE,** chief economist, American Chemistry Council. "Panelists also expect unfavorable consequential impacts should the United States withdraw from NAFTA.

"Current monetary policy continues to be supported by business economists, with nearly eight in 10 reporting that the Federal Reserve Board's policy is 'about right'," according to Swift. "Indeed, the percentage holding this view is the highest in more than 11 years. Most panelists believe the Federal Reserve's current inflation target of 2% should be maintained. Of the remaining panelists, more favor raising the target than lowering it."

"Seven out of 10 panelists maintain that fiscal policy is 'too stimulative'," added Survey Chair **Jim Diffley, CBE,** executive director, IHS Markit. "In general, the panel expects the federal deficit, as a percentage of the economy, to grow in the longer term, with eight out of 10 panelists indicating that fiscal policy should help shrink the deficit as a share of the economy.

"On other economic policy matters, executive actions regarding immigration are expected to have unfavorable economic impacts," continued Diffley. "Eighty percent of respondents believe the Administration's deregulatory actions will have a positive impact on the U.S. economy in the short run, while almost half views the long-run impacts as negative."

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Fiscal Policy

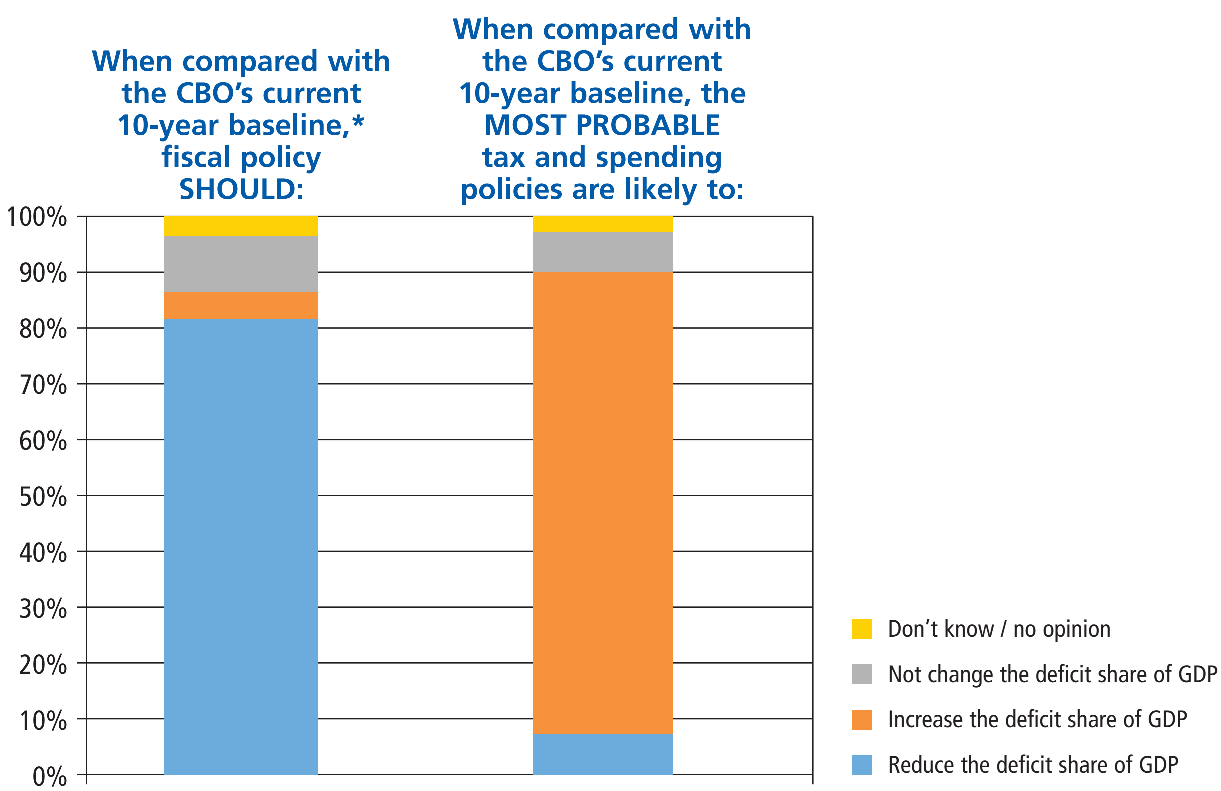
An increasing number of economists indicate that fiscal policy is too stimulative. The majority of survey respondents—71%—currently considers fiscal policy to be "too stimulative," up from 52% that held this view in the February 2018 survey. A smaller share—24%—characterizes current fiscal policy as "about right," while 4% indicate that current fiscal policy is "too restrictive." The latest results are quite different from the nearly balanced ones reported in August 2017, when 20% characterized policy as "too stimulative" and 28% "too restrictive."

The share of the NABE Policy Survey panel supporting a conservative long-run fiscal policy has increased substantially since February, 2018. A large majority of respondents, 81%, now indicates that fiscal policy should reduce the federal deficit's share of GDP when compared with the Congressional Budget Office's (CBO's) current 10-year baseline. This compares to just 61% of respondents who held this view in February 2018. Only 5% of respondents in August 2018 think that fiscal policy should increase the federal deficit as a share of gross domestic product (GDP).

The spread between what NABE economists think *should* happen in fiscal policy and what they expect *will* happen has further widened. While the majority agrees that fiscal policy should reduce the federal deficit as a share of GDP, only 7% believe that the current tax and most probable spending policies are likely to facilitate such an outcome. Fully 83% of panelists believe that the most probable tax and spending policies are likely to increase the deficit as a share of GDP relative to the CBO baseline.

Figure 1

Fiscal Policy Opinions vs. Expectations *(percentage distribution of respondents)*



*CBO's 10-year baseline projects deficits to be approximately 5% of GDP

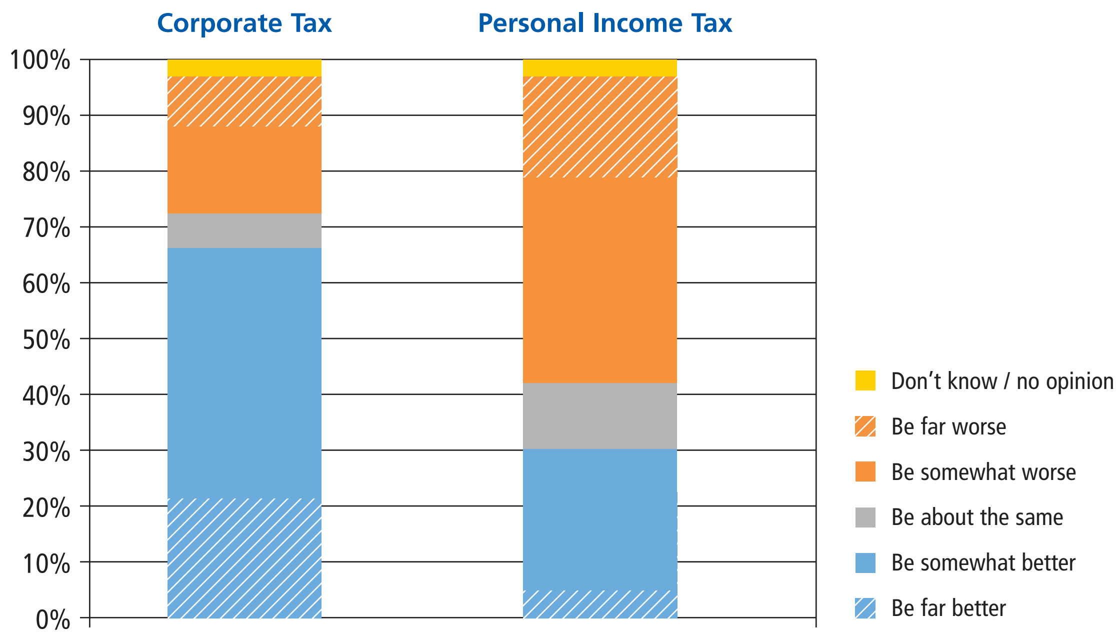
Roughly two-thirds (66%) of panelists indicate that the 2017 Tax Cuts and Jobs Act (TCJA) will be better than the previous **corporate tax system** in terms of equity and efficiency. Twenty-two percent characterize the TCJA as "far better," and 44% say that it will be "somewhat better" than the previous system. Twenty-five percent view it as "somewhat worse" or "far worse" than the previous system. Six percent consider it "about the same."

In contrast, survey respondents have a generally unfavorable view of the TCJA's provisions regarding the equity and efficiency of **individual taxation** compared to the previous system. Only 31% consider the TCJA will be better than the previous personal income tax system, with 6% of panelists characterizing it as "far better," and 25% as "somewhat better." Thirteen percent view the TCJA "about the same" as the previous individual tax system, while 34% consider it "somewhat worse," and 20% "far worse."

Figure 2

Compared to the previous tax system in terms of equity and efficiency, the 2017 Tax Cuts and Jobs Act will:

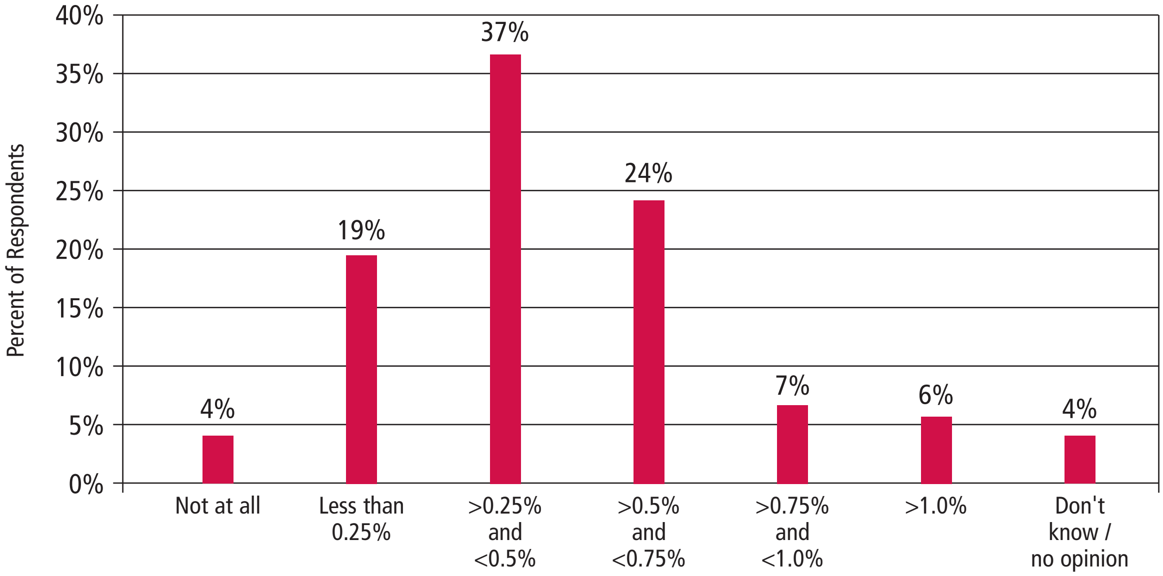
(percentage distribution of respondents)



Overall, survey respondents anticipate that the growth rate of real (inflation-adjusted) GDP will increase this year as a result of the TCJA. Fully 92% of respondents indicate that the TCJA will boost economic growth in 2018 to some extent. Only 4% report that the TCJA will not boost economic growth at all.

Figure 3

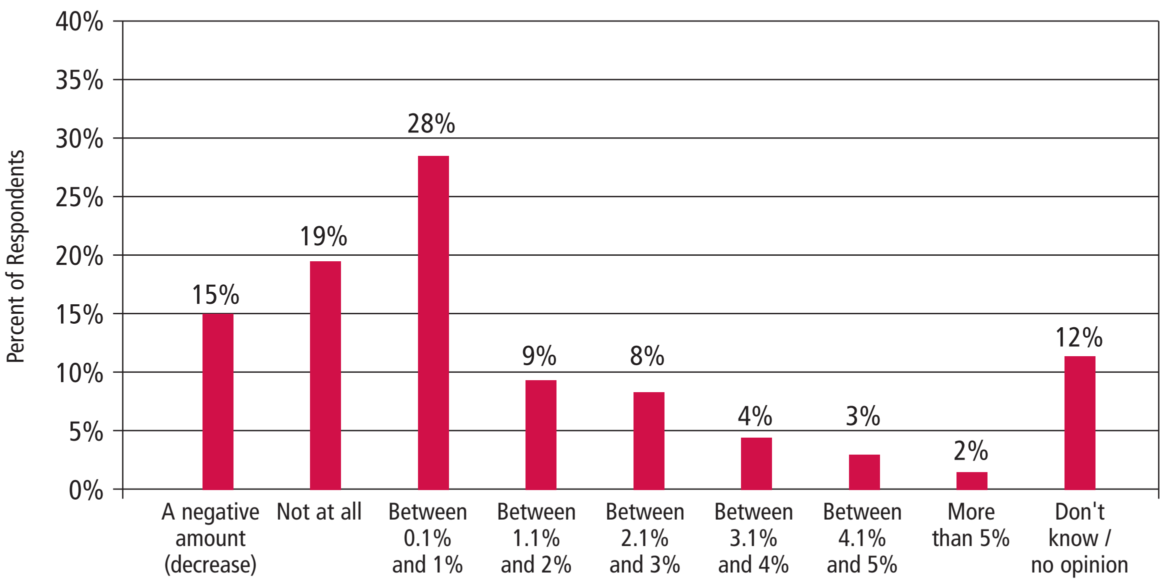
The 2017 Tax Cuts and Jobs Act itself will increase the growth rate of real GDP in 2018 by (in percentage points):



Looking out to 2027, views regarding the longer term impact on real GDP growth from the TCJA are still favorable, but the share expecting a positive impact—54%—is smaller for the long-term scenario than for the near term.

Figure 4

In 2027, the 2017 Tax Cuts and Jobs Act will itself have resulted in an increase in real GDP of:



Monetary Policy

Significant majorities of panelists support the Federal Reserve Board's current monetary policy stance, and believe the Fed will raise the federal funds rate at least one more time this year. When asked about the market implications of tighter balance sheet policy, the panel's collective response suggests business economists have pared back their expectations about the extent of the impact on Treasury yields.

More than three-quarters of panelists believe that U.S. monetary policy is on the right track. The share that considers Federal Reserve policy to be "about right"—76%—is the largest in over 11 years, since the 81% share in March of 2007. The percentage of respondents who indicate monetary policy is "too stimulative"—currently 19%—has been trending lower, but it still far exceeds the percentage characterizing the Fed's policy stance as "too restrictive" (4%).

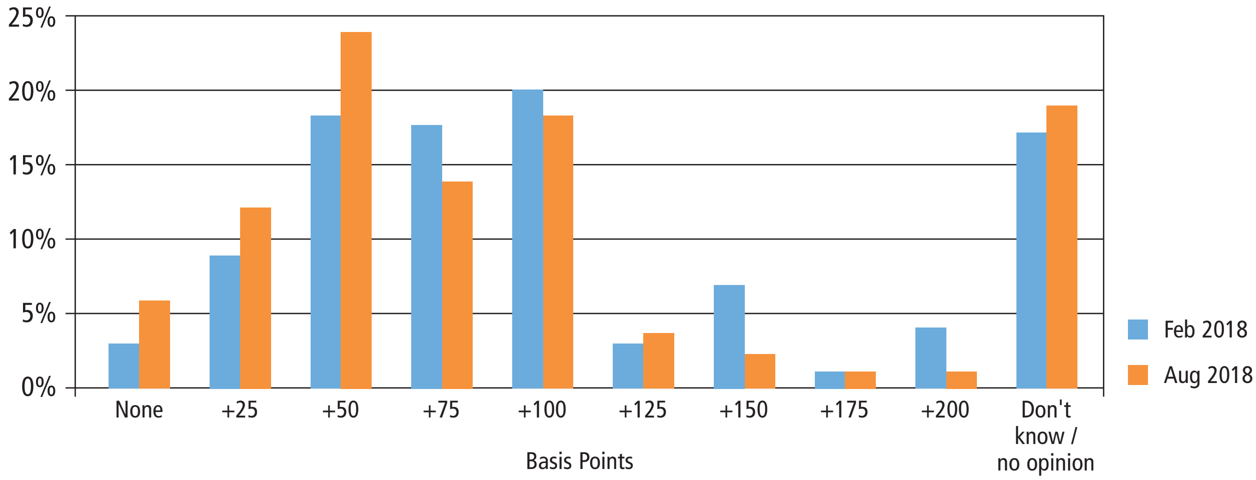
A plurality of business economists participating in the survey (45%) forecasts two more rate hikes in 2018, aligning with the consensus in the Federal Open Market Committee's (FOMC) latest (June) *Summary of Economic Projections.* Overall, 76% of the NABE Policy Survey panel expects more interest-rate tightening this year, while 17% look for a flat or lower policy rate by December 31, 2018.

Nearly one-third of survey respondents (31%) anticipates an upper bound of 3.0% on the fed funds target range at year-end 2019. This is below the FOMC median of 3.25% for the upper bound. Another 31% of respondents look for a fed funds target below 3.0% at the end of 2019, while 30% expect a target rate above 3.0%.

There is a broad distribution of views regarding the cumulative effects of the Fed's balance sheet "normalization" program. Respondents were asked to estimate the balance sheet policy's ultimate impact on 10-year Treasury note yields: expectations range from "none" (cited by 6% of respondents) to an incremental increase of 200 basis points (bps) or more (1%). The median response is an increase of 75 bps. In general, expectations in the current survey tend to be lower than in those in the February survey, when the median expectation was for balance sheet shrinkage to boost 10-year Treasury yields by 100 bps.

Figure 5

If fully executed, what cumulative impact would Fed balance sheet normalization have on the 10-year Treasury note yield?
(percent of respondents)



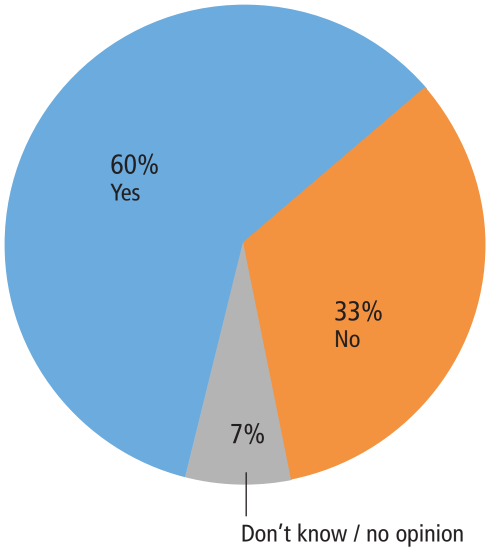
About 62% of survey respondents—down from 66% in February—agree with the Fed's 2% inflation target. In the current survey, 22% prefer a higher target rate, and 12% suggest a lower one (versus 19% and 11%, respectively, in February). One-fifth of survey participants believes the Fed will eventually boost its inflation target, with the majority of that group (90%) believing 2.5% to be a more likely target than 3.0% or above.

Domestic Economic Policy

Three-fifths (60%) of survey respondents believe that economic policy should do more to mitigate climate change. Thirty-three percent believe economic policy should not be used to mitigate climate change.

Figure 6

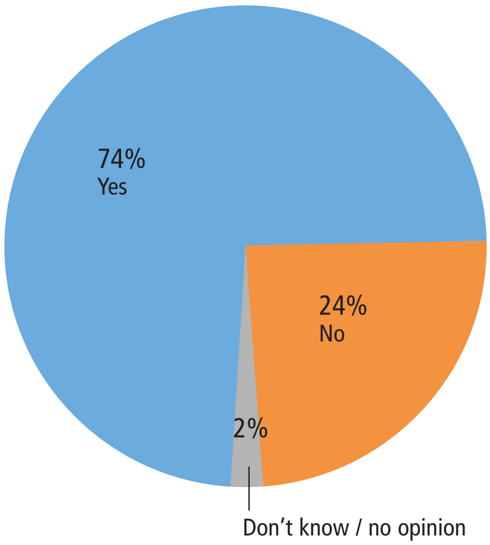
Do you believe economic policy should do more to mitigate climate change? *(percentage distribution of respondents)*



About three-fourths (74%) of respondents believe economic policy should do more to mitigate income inequality. About one-fourth (24%) believes economic policy should not be used to mitigate income inequality.

Figure 7

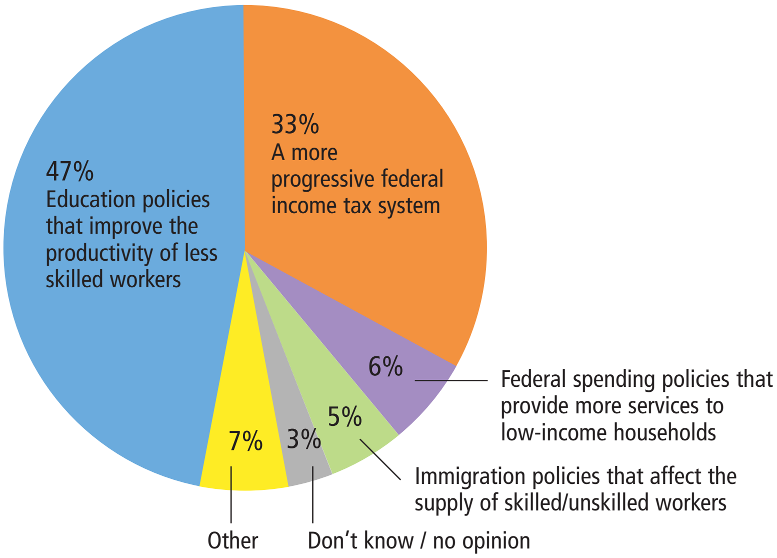
Do you believe economic policy should do more to mitigate income inequality? *(percentage distribution of respondents)*



Of those survey respondents who believe economic policy should be used to mitigate income inequality, slightly less than half (47%) believes education policies that improve the productivity of less-skilled workers are the most effective tool to do so. One-third (33%) believes a more progressive federal income tax system would be more effective. A handful of respondents endorsed other measures.

Figure 8

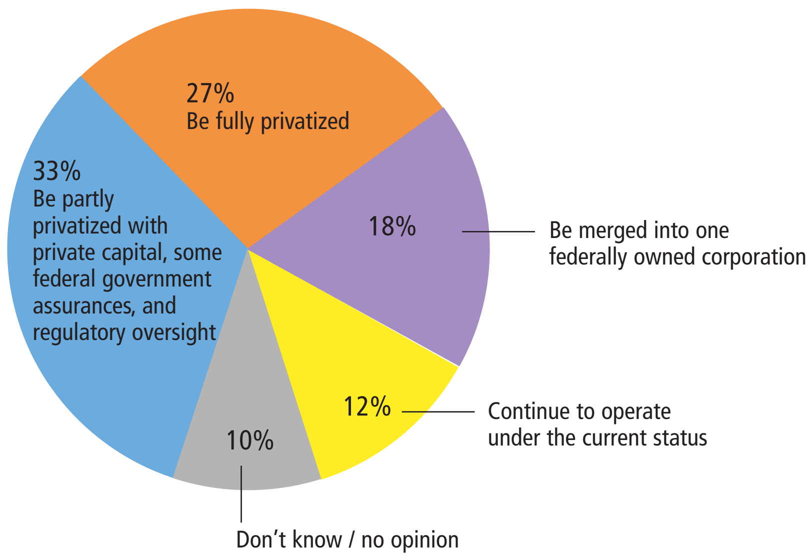
Which option is likely to be most effective in mitigating income inequality? *(percentage distribution of respondents)*



Survey results reflect no clear consensus regarding how Fannie Mae and Freddie Mac—both placed into conservatorship in 2008, and currently run as federal corporations—should be managed going forward. One-third (33%) of respondents believes the two government sponsored enterprises should be partly privatized with private capital, some federal government assurances, and regulatory oversight. Slightly more than one-fourth (27%) of respondents believe the two should be fully privatized. Less than one-fifth of respondents (18%) believes the two should be merged into one federally owned corporation. Twelve percent believe the two entities should continue to operate as currently structured.

Figure 9

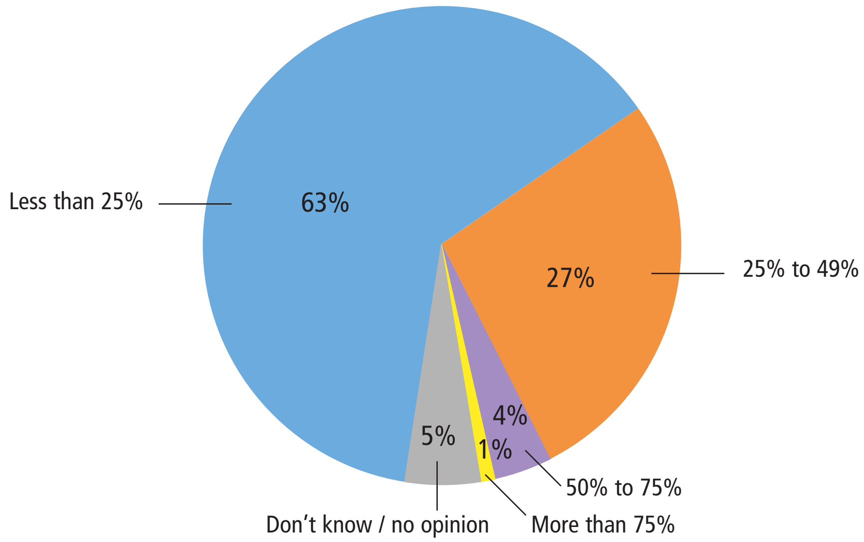
Going forward, Fannie Mae and Freddie Mac should:
(percentage distribution of respondents)



The majority of respondents (63%) believes the probability of a meaningful infrastructure package being enacted in 2019 is less than 25%. About one-fourth (27%) puts the probability between 25% and 49%, and four percent estimate the probability is between 50% and 75%. Only one percent rate the odds at greater than 75%.

Figure 10

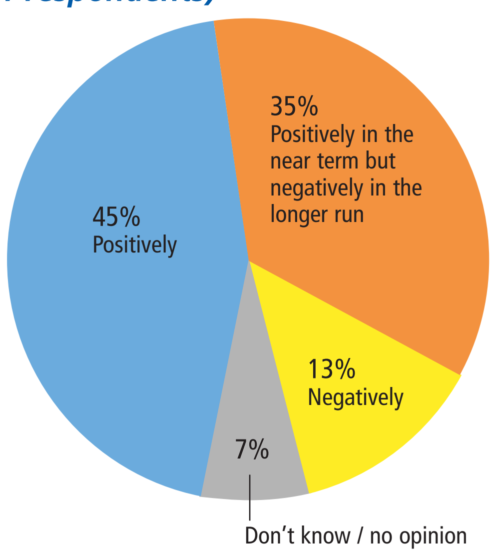
The probability of a meaningful infrastructure package in 2019: *(percentage distribution of respondents)*



Most respondents believe the Trump administration's deregulatory actions thus far have had a positive impact on the economy. A plurality (45%) believes the economy has reacted positively, while a smaller share of respondents (35%) believes the impact has been positive in the near term, but will be negative in the long run. Thirteen percent believe the actions have had a negative impact.

Figure 11

The deregulatory actions of the Trump Administration thus far have impacted the economy: *(percentage distribution of respondents)*



International Policy Issues

The survey posed three questions on the Trump administration's actions on immigration and trade policies. Survey participants were asked about the impact of recent actions or policy proposals and the results were analyzed by assigning scores on a 1-to-5 scale—1 being consequential in a favorable way, 3 being inconsequential, and 5 being consequential in an unfavorable way.

The "executive actions" with respect to immigration have a score of 4, slightly higher than the 3.9 in the February 2018 survey, even though a slightly smaller percentage of respondents indicate the actions would be consequential in an unfavorable way. On trade policy, 91% of respondents scored tariffs, both imposed and proposed by the Trump Administration, either a 4 or 5, resulting in an overall score of 4.4. The February survey score was 4.0. Regarding NAFTA, panelists overwhelmingly (66%) continue to view withdrawal from the trade agreement as having a consequential and unfavorable impact on the U.S. economy. The overall score of 4.4 is slightly lower (less unfavorable) than that in the February survey, as an additional 1% of participants report a score of 1, consequential in a favorable way.

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