NABE
National Association for Business Economics

Economic Policy Survey

March 2021

Half of NABE Panelists Expects Fed to Hike Rates Next Year; A Majority Sees Elevated Inflation Risk

Embargoed until: Monday, March 22, 2021, 12:01 AM EDT

For further information contact:

Economists **Ilan Kolet, NABE Policy Survey Chair** | 617-396-1300 | Ilan.Kolet@fmr.com

Ryan Sweet, NABE Policy Survey Analyst | 610-235-5213 | Ryan.Sweet@moodys.com

Ken Simonson, NABE Policy Survey Analyst | 202-329-9671 | ken.simonson@agc.org

Media **Melissa Golding, NABE Press Officer** | 571-236-2820 | melissagolding@cox.net

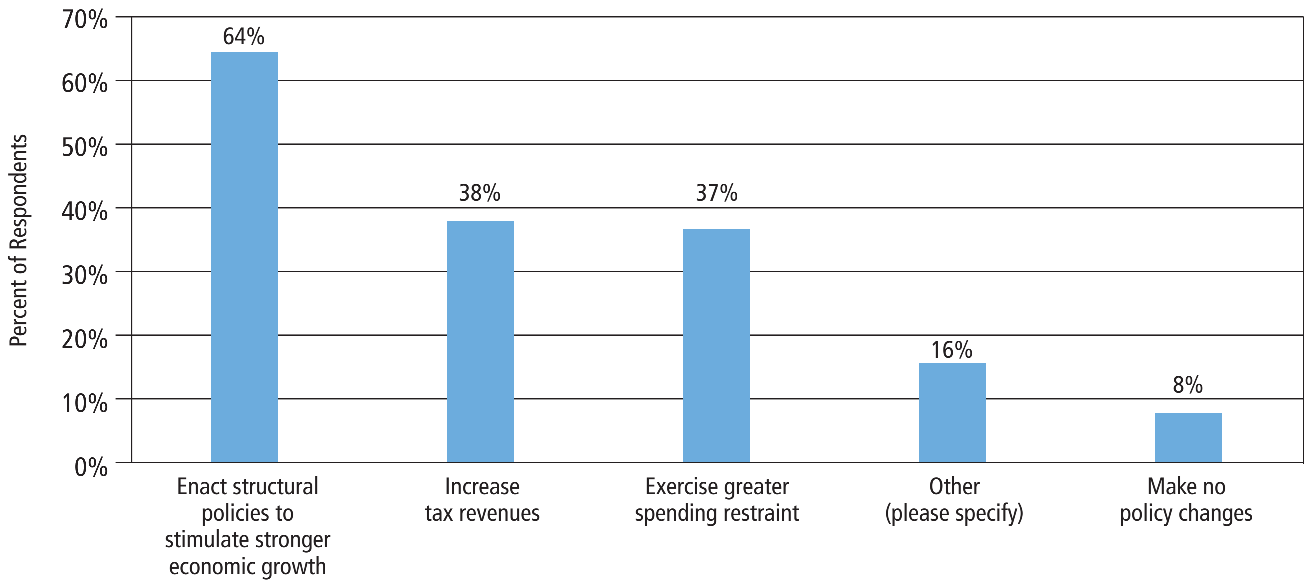
The March 2021 NABE Economic Policy Survey summarizes the responses of 205 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered between February 22 and March 5, 2021. Survey findings may be reprinted in whole or in part with credit given to NABE. Survey results can be viewed online, including complete tabulations, 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. ***Ilan Kolet*** *(Fidelity), Survey Chair;* ***Chris Christopher, CBE*** *(Empire State Development Corporation);* ***Tim Gill, CBE*** *(American Iron and Steel Institute);* ***Svenja Gudell*** *(Zillow);* ***Yelena Shulyatyeva*** *(Bloomberg); and* ***Ryan Sweet*** *(Moody's Analytics) conducted the analysis for this report.*

Summary

"Although nearly half of NABE Policy Survey panelists expects the Federal Reserve to raise its short-term interest rate target in 2022, nearly as many expect the Fed to keep its current target until 2023 or later," said **NABE President Manuel Balmaseda, CBE,** chief economist, CEMEX. "About two-thirds of survey respondents believe greater fiscal and monetary policy coordination is desirable, and a majority of panelists believes that inflation risks are higher than in the past two decades. More than 70% believe the current stance of monetary policy to be 'about right,' but one in four respondents views current Fed policy as 'too stimulative.'"

"Seventy percent of respondents believe that economic policy should do more to mitigate climate change, while 55% believe that the federal government should enact a broad-based energy or carbon tax to boost government revenue," added **Survey Chair Ilan Kolet,** Institutional Portfolio Manager, Fidelity Investments. "Almost two-thirds of respondents indicate the current fiscal deficit should be addressed by enacting structural policies to stimulate stronger economic growth, while more than one-third also favor exercising greater spending restraint or increasing tax revenue."

Figure 1
What steps should be taken to address the CURRENT fiscal deficit?



Fiscal Policy

Forty-one percent of survey respondents find current fiscal policy is "about right," up modestly from the 37% who held this view in the August 2020 survey. Thirty-four percent of respondents indicate that current policy is too stimulative, up from 17% last August. Only 25% of respondents believe that current policy is too restrictive, down from 45% in the previous survey.

More than a third (38%) of panelists believe that the primary objective of current fiscal policy should be to stimulate more robust economic growth in the medium-to-long term, while another 31% believe the primary goal should be to stimulate growth as quickly as possible. Smaller shares suggest that current fiscal policy should focus primarily on addressing income inequality (8%) and reducing the deficit and debt (7%).

Regarding what steps should be taken to address the current fiscal deficit, 64% of respondents are in favor of enacting structural policies to support stronger economic growth, while more than one-third each favors increasing tax revenues (38%) and exercising greater spending restraint (37%). Sixteen percent believe some other step(s) should be taken, while 8% believe no policy changes should be made. (Note: panelists were able to select more than one response.)

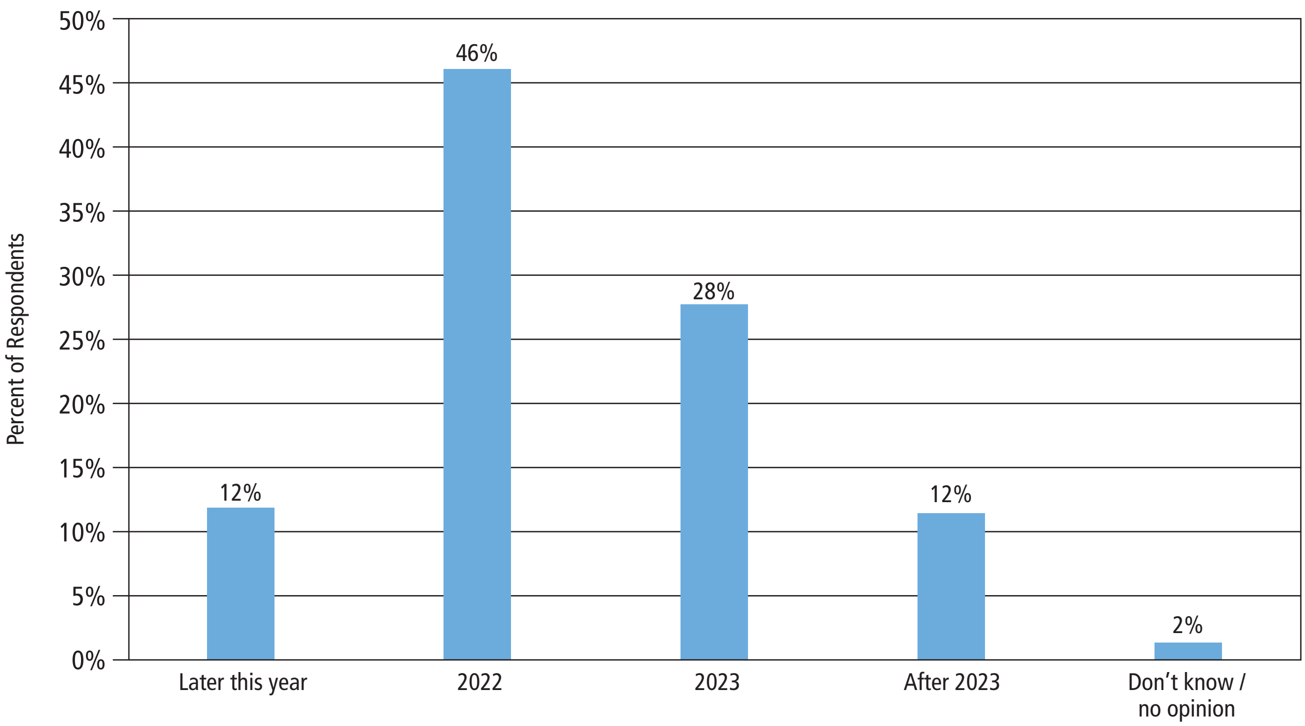
The panel remains split in its evaluation of Congress' fiscal response to the coronavirus recession. Thirty-seven percent rate the response as insufficient, slightly lower than the 40% in the August 2020 survey. Thirty-three percent rate the response as adequate, also down slightly from 37% in the previous survey. Eighteen percent of panelists currently believe that the fiscal response is excessive, up from 11% in the August survey. (The survey was conducted while the American Rescue Plan Act was under consideration in Congress, and all responses were submitted before it was signed into law.)

Most respondents are concerned about the trajectory of public debt. Only 12% of respondents are not concerned. 37% are mildly concerned, 26% are concerned, and 25% are very concerned.

Monetary Policy

Since the previous NABE Policy Survey in August 2020, the Federal Reserve has maintained the accommodative monetary policy approach that it implemented at the onset of the COVID-19 pandemic; it continues to assert that it has no plans of tightening policy in the near future. The current survey results indicate that almost half of the respondents believes monetary policy will be tighter by the end of 2022, but nearly as many do not expect that to happen until 2023 or later.

Figure 2
When do you think the FOMC will raise the federal funds target rate?



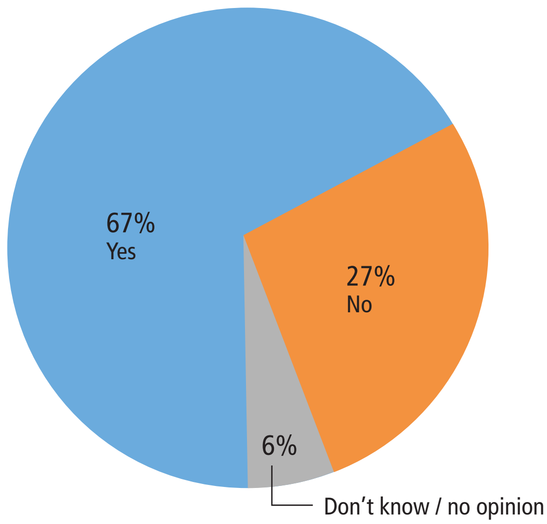
About three-quarters of panelists (72%) believe that the current stance of U.S. monetary policy is "about right." This share is nearly as large as in the August 2020 survey results, which had the strongest approval message in over 13 years, since the 81% share recorded in March 2007. One in four respondents (26%) views current Fed policy as "too stimulative," compared to the 20% who held this view in the August survey, while 2% indicate it is "too restrictive."

The Federal Reserve has been targeting a range of 0.0%-0.25% for the fed funds rate since March 15, 2020. A large majority of survey respondents (88%) expects the next move in the fed funds target rate will be a rate hike, while 3% anticipate the next move will be a rate cut—implying the Fed would aim for a negative fed funds rate.

Most panelists (72%) expect the upper end of the fed funds target rate range to remain at 0.25%, or even drop lower, through year-end 2021. Only 3% of respondents expect the top of the Fed's target band to be at 0.75% or higher by year-end 2021, while 47% of panelists expect a target level of 0.75% or higher by the end of 2022. Nearly a third of survey respondents (30%) looks for an upper target of 0.25% or less to persist through 2022.

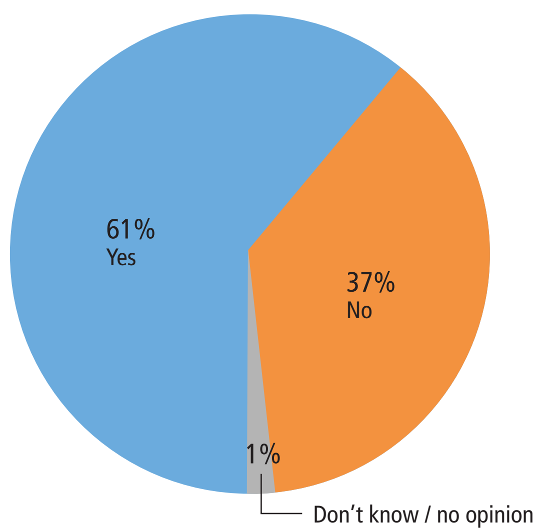
There is little disagreement among panelists regarding whether or not greater fiscal and monetary policy coordination is desirable. Sixty-seven percent of respondents indicate that greater coordination is desirable, while 27% say it would not be.

Figure 3
Do you believe greater fiscal and monetary policy coordination is desirable?



A majority of panelists (61%) believes risks to inflation are greater than those seen over the past two decades. Thirty-seven percent indicate that the risks are not greater.

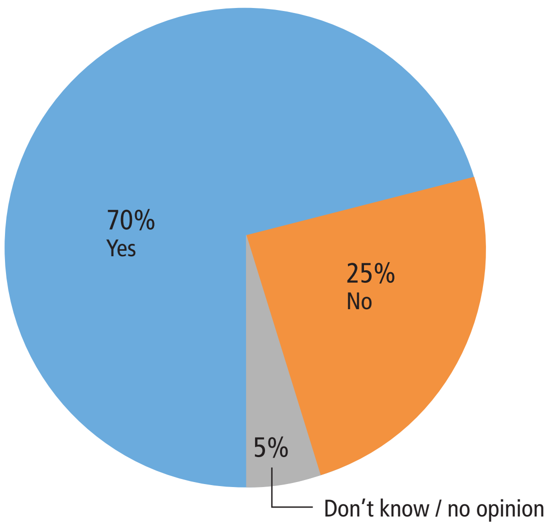
Figure 4
Do you believe inflation risks are greater than in the past two decades?



Domestic Economic Policy

More than two-thirds of respondents believe that economic policy should do more to mitigate climate change, compared to 25% who do not hold that view.

Figure 5
Do you believe economic policy should do more to mitigate climate change?



Regarding the optimal way for Congress to increase revenues, 55% of respondents favor a broad-based energy or carbon tax (the same share as in the August survey), while 36% support increasing corporate tax rates. Almost a third of respondents (29%) favors increasing Social Security and/or Medicare contributions. Nearly the same share of respondents supports enacting a wealth tax (27%) or increasing individual income tax rates (25%).

Respondents have diverse preferences for the top three policy priorities that the Biden Administration should address in its first year in office. Almost half (46%) considers combating COVID-19 a top priority, followed by 40% who cite promoting economic recovery. Thirty-eight percent of respondents suggest infrastructure investment is a top priority. The relative importance of infrastructure investment spiked the most by far among other priorities since the August survey, in which no respondents rated it among their top three priorities. The next most frequently cited significant issues are addressing climate change (picked as a top priority by 30% of panelists), health care policy (25%), and immigration (22%).

Policy Survey Committee

Ilan Kolet, Fidelity *(Survey Chair)*

Chris Christopher, CBE, Empire State Development Corporation

Tim Gill, CBE, American Iron and Steel Institute

Svenja Gudell, Zillow

Yelena Shulyatyeva, Bloomberg

Ryan Sweet, Moody's Analytics

Certified Business Economist® (CBE) is the certification in business economics and data analytics developed by the National Association for Business Economics. It documents a professional's accomplishments, experience, and abilities, and demonstrates mastery of the body of knowledge critical for a successful career in the field of economics and data analytics.

Published by the National Association for Business Economics | 1920 L Street, Suite 300 | Washington, DC 20036
202-463-6223 | nabe@nabe.com | www.NABE.com | @business_econ