NABE
National Association for Business Economics

Economic Policy Survey

February 2020

NABE Panel Puts Recession Odds at 25% or Less for 2020; Considers Fed Policy Appropriate; Tariffs Overwhelmingly Seen as a Negative for the Economy

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The February 2020 NABE Economic Policy Survey summarizes the responses of 210 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered January 23-February 5, 2020. 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. ***Gregory Daco*** *(Oxford Economics), Chair;* ***Alejandra Grindal*** *(Ned Davis Research),* ***Sarah House*** *(Wells Fargo),* ***Susan Lund*** *(McKinsey & Company),* ***Mark Palim*** *(Fannie Mae),* ***Dana Saporta, CBE,*** *and* ***Richard Wobbekind*** *(University of Colorado/Boulder) conducted the analysis for this report.*

Summary

"Survey respondents no longer believe a recession is likely in 2020—a reversal from the predominant view of panelists in the February 2019 survey," said **NABE President Constance Hunter, CBE,** chief economist, KPMG. "Only 13% of panelists now forecast a downturn in 2020. When asked what odds they place on a 2020 slump, a majority of respondents places the probability at 25% or less.

"Half of the panel perceives current fiscal policy as 'too stimulative', and 90% of respondents believe policy should be used to reduce the deficit as a share of gross domestic product," continued Hunter. "Regarding climate change and immigration, about 80% of panelists believe economic policy should do more to mitigate climate change, and a similar share favors expanding high-skill visa programs."

"Roughly two-thirds of respondents agree with Federal Reserve Board Chair Jerome Powell's assessment that the current stance of U.S. monetary policy is appropriate," added **Survey Chair Gregory Daco,** chief U.S. economist, Oxford Economics. "Half of the panel expects the Federal Reserve Open Market Committee to maintain its stance on interest rates through 2020, following three rate cuts in 2019, while nearly a third expects at least one rate cut before year end.

"Reflecting on the last three years, a majority of panelists believes policies implemented by the Trump administration have had a positive impact on GDP growth," continued Daco. "But 90% of respondents believe the tariffs imposed by the Trump administration have had a negative effect on economic activity, with two-thirds of respondents suggesting that the impact from tariffs has been a drag on GDP of 0.25 percentage points or less."

Fiscal Policy

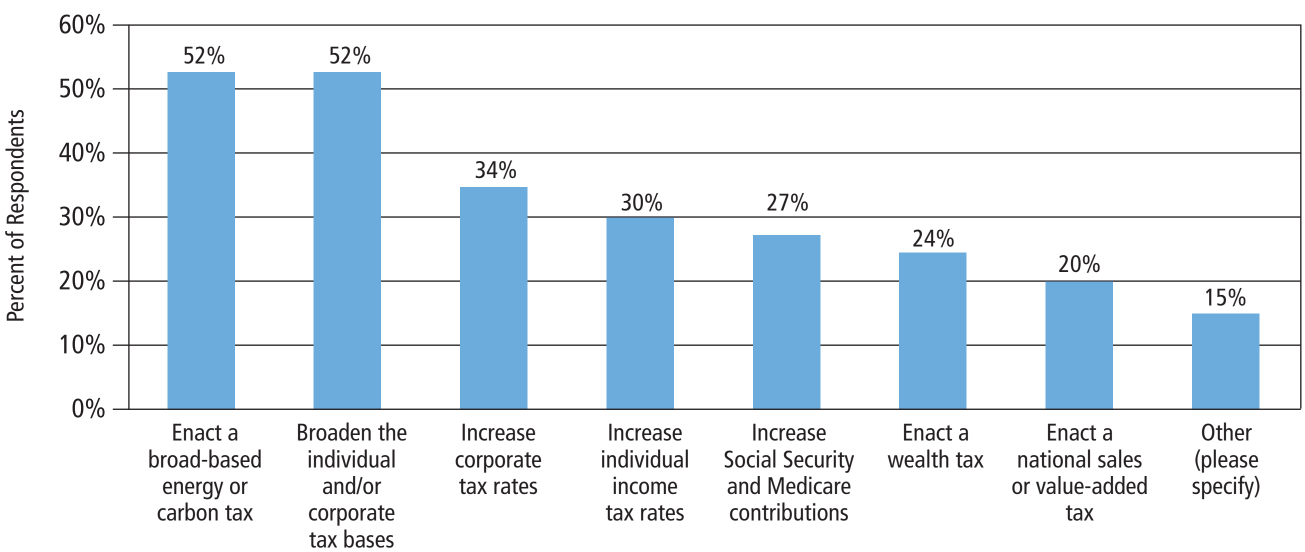
Approximately half (52%) of survey respondents finds current fiscal policy to be "too stimulative." While that is close to both the 55% reported in the February 2019 survey and the 51% reported in the August 2019 survey, it is a significant decline from the 71% in the August 2018 survey. Roughly one-third (35%) considers current fiscal policy "about right," while only 11% indicate that current fiscal policy is "too restrictive."

Forty-four percent 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. More than a third (36%) suggest the primary objective should be to reduce the deficit and debt. Addressing income inequality is cited as the primary objective by 13% of respondents.

Fifty-five percent of panelists suggest that the federal government should exercise greater spending restraint to address the current fiscal deficit. Similar shares support enacting structural policies to stimulate stronger economic growth (54%), and 53% favor increasing tax revenues. Six percent of respondents favor making no policy changes since "the present deficit is not worrisome in a low interest-rate environment."

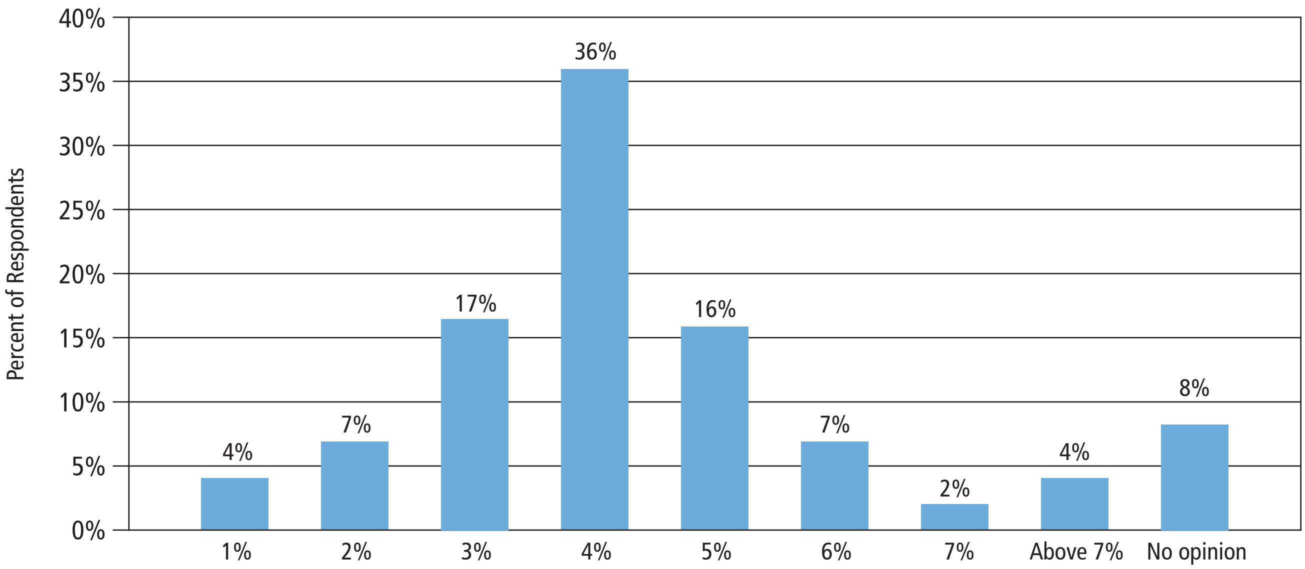
There is no consensus regarding how revenue increases should be achieved. A slight majority—52%—favors a broad-based energy or carbon tax or broadening the individual and/or corporate tax bases. Roughly 34% support increasing corporate income tax rates, 30% favor increasing individual tax rates, 27% would like to see an increase in Social Security and/or Medicare contributions, 24% favors enacting a wealth tax, and 20% favor a national value-added or sales tax.

Figure 1
Possible Ways to Increase Revenue



Under current tax and spending policies, the Congressional Budget Office (CBO) projects the federal budget deficit will fluctuate between 4.4% and 4.8% of nominal gross domestic product (GDP) over this decade. Roughly one-quarter of panelists (27%) indicates they would be concerned by a deficit-to-GDP ratio under 4%. A plurality (36%) suggests they would be concerned when the deficit surpassed 4% of GDP, while 29% list higher thresholds as concerns. An overwhelming majority (88%) of respondents believes future fiscal policy should be used to reduce the federal budget deficit as a share of GDP, compared to 8% who say fiscal policy should not be used to change the deficit as a share of GDP.

Figure 2
What level of U.S. deficit-to-GDP worries you?



The CBO expects the federal debt relative to GDP to increase to 95% by 2029—the highest ratio since just after World War II. Nearly 80% of respondents are either "very concerned" (40%) or "concerned" (39%) about the trajectory of federal debt relative to GDP. An additional 18% are "mildly concerned," while 4% of panelists indicate they aren't concerned by the public debt trajectory.

The CBO projects interest payments on the national debt will more than double, to $807 billion by FY 2029. Respondents were asked to indicate the most impactful consequence of such higher interest payments. Of the six choices listed, more than a third (37%) indicate the most impactful consequence will be that the federal government will have fewer options should another economic crisis occur. Another 28% said crowding out of discretionary spending will be the largest long-term impact, while 18% put the reduction in the standard of living for future generations as their top concern. Few respondents (1%) list as their primary concern that other countries will stop buying U.S. debt or discount it heavily.

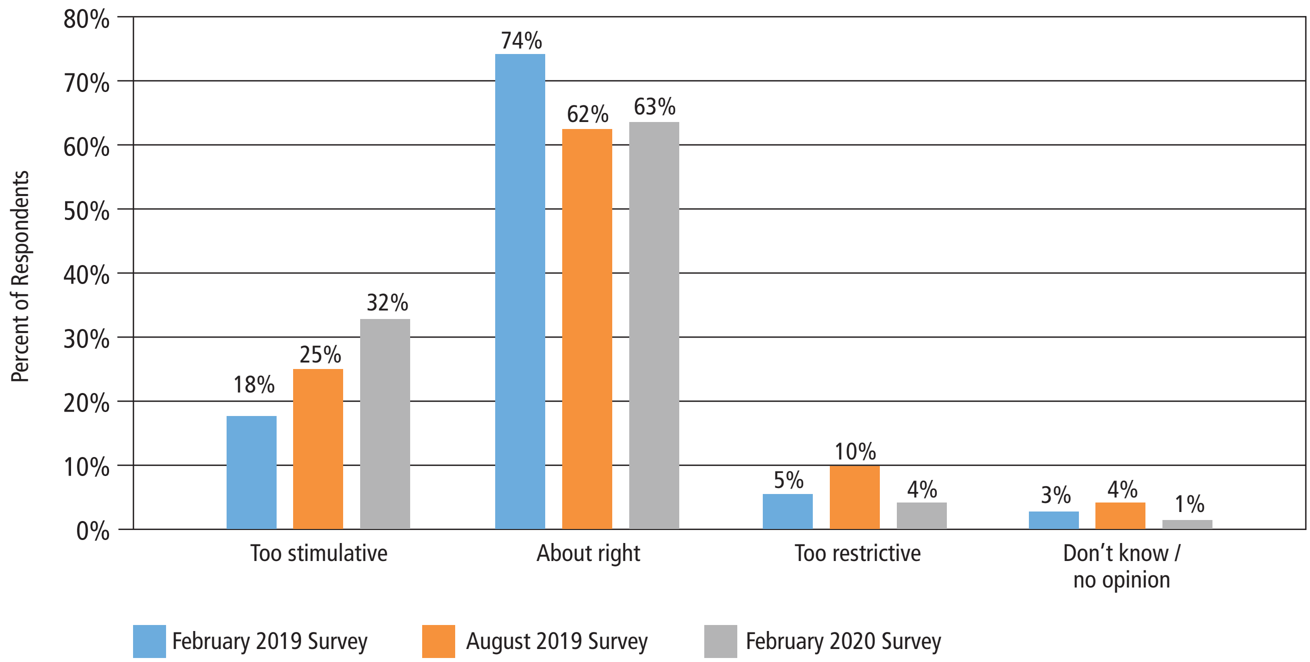
The panel is widely split in its views regarding the full expensing of equipment investment granted under the Tax Cuts and Jobs Act. Thirty-five percent of panelists believe full expensing should be phased out starting in 2022, as scheduled, 32% think it should be made permanent, and 25% think it should be phased out sooner than scheduled.

During the 2007-2009 recession, the federal government implemented several emergency fiscal stabilizers. Half of the panel (50%) believes that the federal government should have done more to develop and implement fiscal stabilizers when times were "good." This compares with 17% of respondents who believe the automatic stabilizers developed during the financial crisis were sufficient to respond to the next recession.

Monetary Policy

A majority of survey respondents (63%) believes that the current stance of the Federal Reserve's monetary policy is "about right." This result is little changed from the 62% in August 2019. However, the share of those indicating U.S. monetary policy was on the right track was greater in the February 2019 survey (74%).

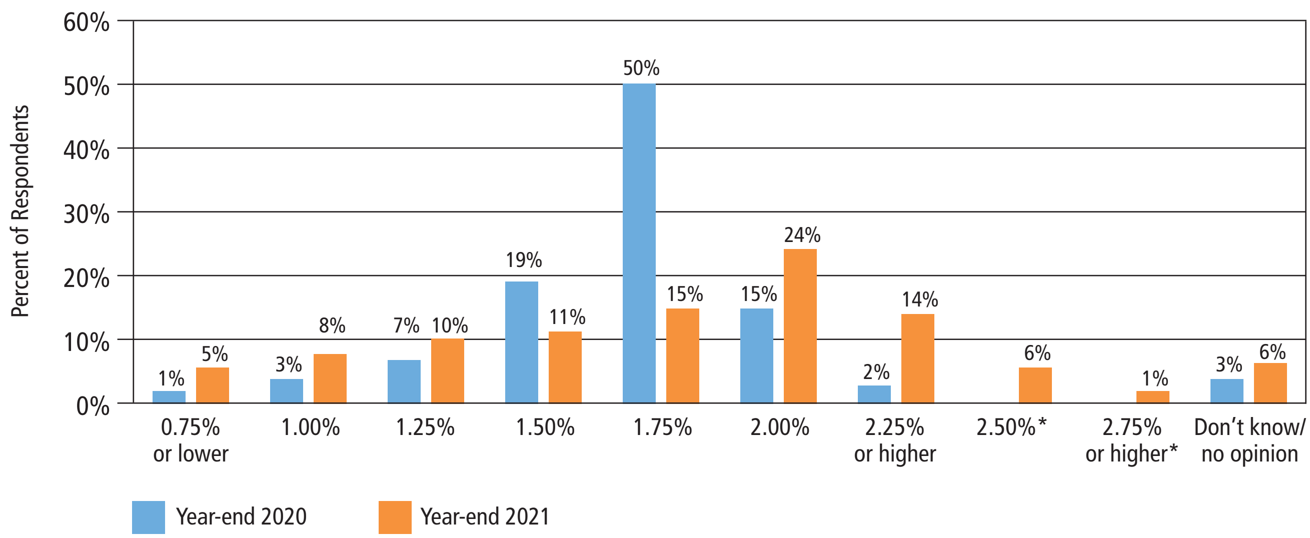
Figure 3
Do you consider current monetary policy to be…?



The consensus of those who prefer a different policy stance is that the Fed may be keeping policy too easy. A significantly greater percentage of total respondents (32%) indicate that the Fed's current policy is "too stimulative" rather than "too restrictive" (4%). Concerns among those survey panelists who feel that monetary policy is overly accommodative have not been this widespread since the August 2017 survey (34%).

While nearly a third of survey respondents would prefer to see tighter Fed policy, only 17% actually expect an interest rate hike before year-end 2020. Half of all respondents (50%) anticipates the top of the federal funds rate target range will remain at its current 1.75% at the end of this year, and 30% expect that it will be lower.

Figure 4
What will be the upper end of the fed funds rate target range be?



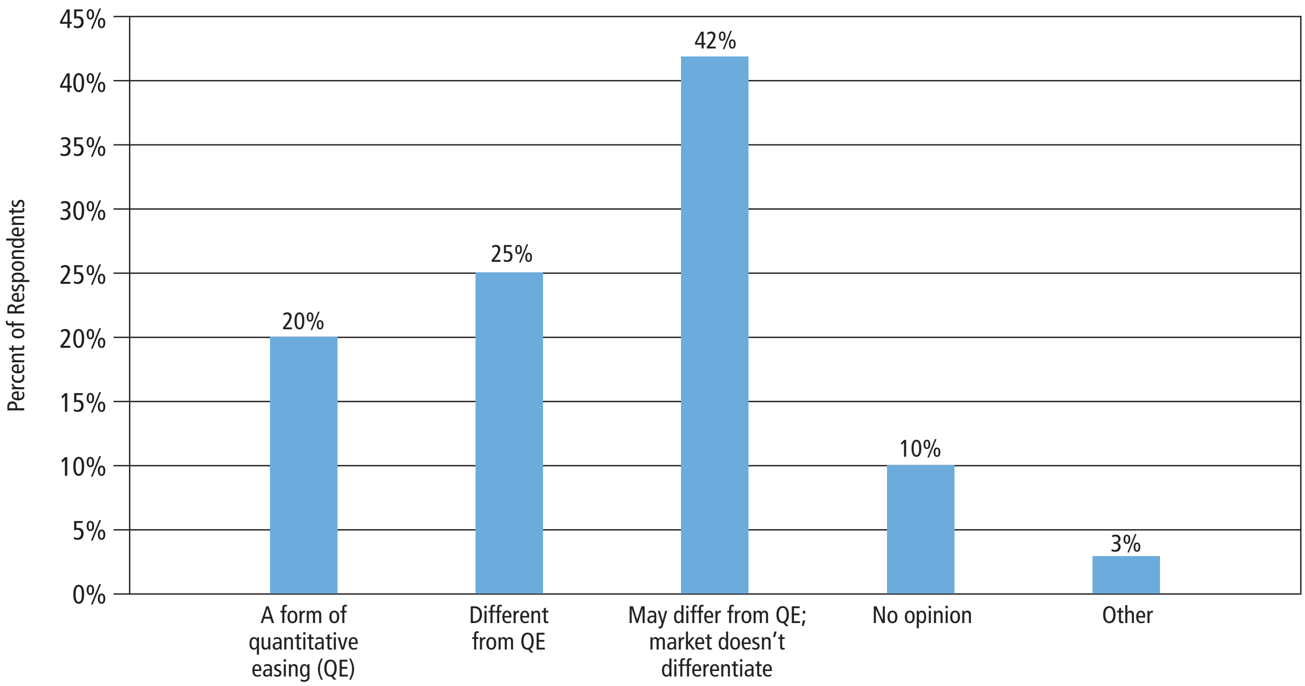
*asked only on the "Year-end 2021" question

A plurality of respondents (45%) looks for a somewhat higher federal funds rate target at the end of 2021, while 15% of survey respondents expect next year to end much like 2020, with the Fed targeting the upper end of the range at 1.75%. Notably, about a third of respondents (34%) expects the federal funds rate target at year-end 2021 to be lower than it is currently.

If a significant recession were to occur, 84% of respondents expect the Federal Reserve's Open Market Committee (FOMC) to slash its target interest rate to the zero bound, but only about 9% anticipate that central bank policy would venture into negative interest-rate territory. Most respondents (82%) would not be surprised by renewed, large-scale asset purchases (quantitative easing, or QE) to combat recessionary forces. Moreover, nearly half of respondents (49%) believes some form of yield curve control would be attempted in the face of the next serious downturn.

The survey also solicited panelists' opinions on recent Fed open-market operations. In order to ensure that the supply of reserves remains ample, the Fed began purchasing Treasury bills outright in October 2019, stressing that these operations are for technical adjustments only. Approximately two-thirds of survey respondents (67%) agree that the latest bill purchases differ from crisis-era QE purchases (which were a deliberate shift toward more accommodative monetary policy). Even so, more than half of those respondents (or 42% of all respondents) also believes that the market does not differentiate between these technical asset purchases and the crisis-era policy-related purchases. A fifth of survey panelists (20%) considers recent Federal Reserve bill purchases as just another form of quantitative easing.

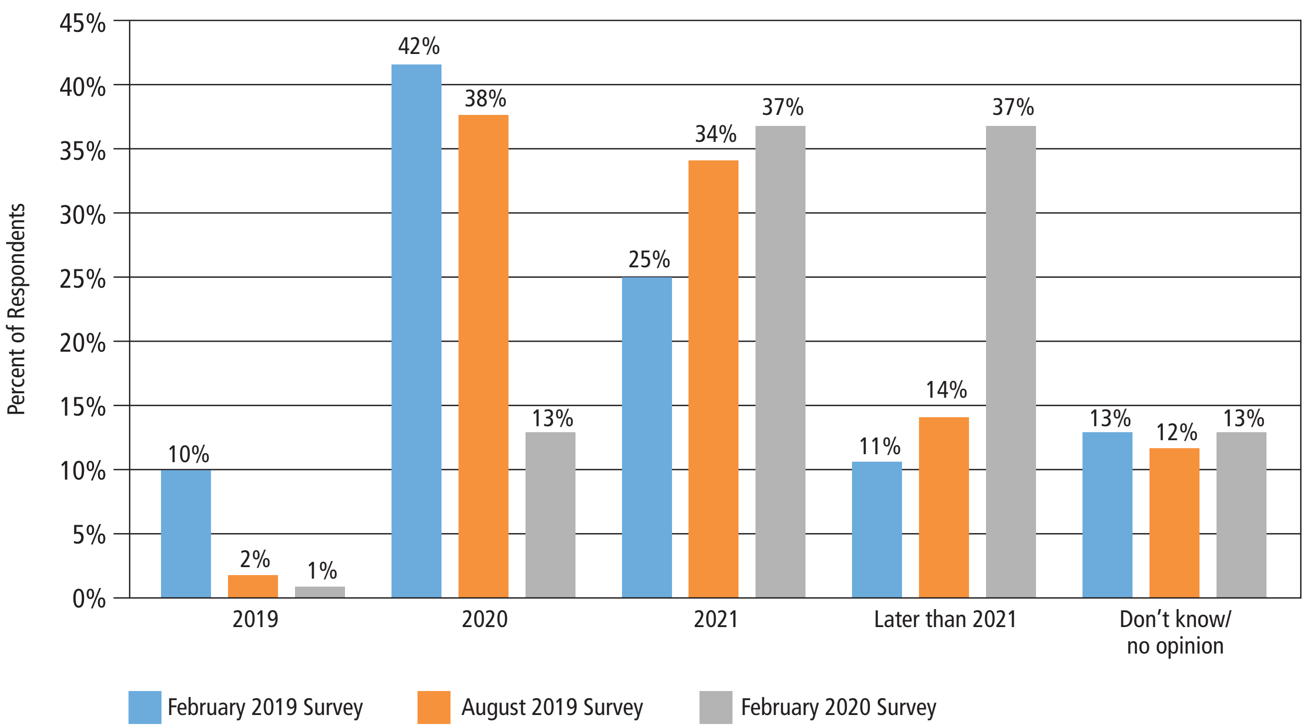
Figure 5
Which statement regarding recent Fed bill purchases is most accurate?



Domestic Economic Policy

Expectations for a recession have shifted further out, compared to the results in the August 2019 survey. Only 13% of respondents expect a recession in 2020 (compared to 38% in August). However, the share of respondents who anticipate that a recession will begin in 2021 has increased from 34% in August 2019 to 37%. An additional 37% expect a recession will not occur until after 2021 (compared to 14% of respondents in August). Roughly two-thirds (63%) of respondents place the odds of a recession in 2020 at 25% or less. One-fifth (20%) of the panel puts the odds of a recession in 2020 at 33%, while one-sixth (16%) lists the odds at 50% or greater. Seventy-two percent anticipated a recession by year-end 2021 in the August 2019 survey. Currently only 50% see a recession by year-end 2021.

Figure 6
When Will the U.S. Economy Enter the Next Recession?



A plurality of respondents (49%) currently believes that the Tax Cuts and Jobs Act of 2017 (TCJA)—which lowered the mortgage interest deduction, doubled the standard deduction, and limited state and local tax (SALT) deductions—has had an overall negative impact on the housing market in the past 18 months. That is a decrease from the majority (56%) of respondents who held this view in the August 2019 survey.

A plurality of respondents (44%) suggests that the impact of a Medicare-for-All (single-payer health insurance) system would decrease real GDP relative to its current long-run trend. Thirteen percent believe it would increase real GDP relative to its current long-run trend. Twenty-six percent indicate it would have no effect.

A majority of panelists (61%) believes that the U.S. should not enact a universal basic income program, while 15% hold the view that the U.S. should enact one.

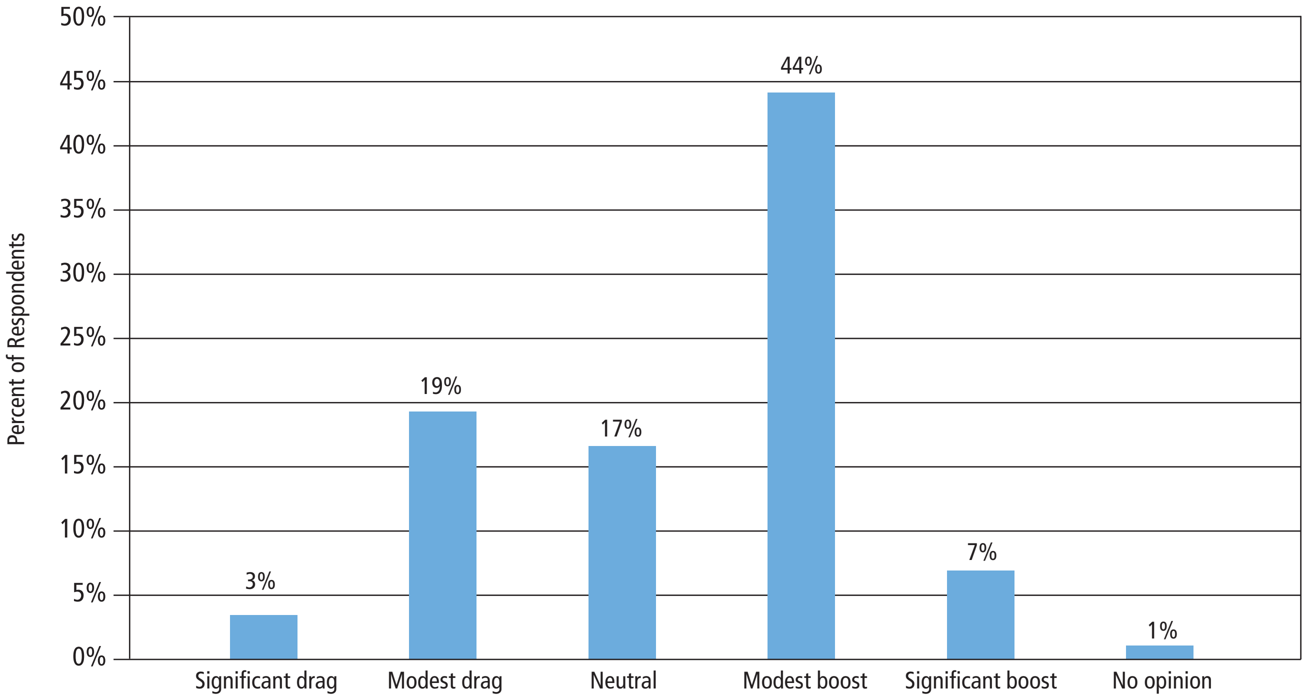
On the topic of higher education, a plurality of respondents (44%) believes that the government should not intervene to reduce the cost of college, with many panelists noting that subsidizing debt has prompted tuition inflation. Roughly one out of six (17%) respondents believes that college should be debt-free for all U.S. students, and only 2% favor free access to college for all U.S. students. Roughly one-third (34%) of respondents wrote in other ways the government should address the affordability of higher education, including limiting the amount of student loans individuals take, making federal grants and loans means-tested, providing free tuition for two-year community college programs, and allowing individuals to discharge student debt through bankruptcy.

Four out of five (80%) of respondents believe that economic policy should do more to mitigate climate change.

Nearly all respondents—98%—favor changes to U.S. immigration policy, but they are divided as to what sort of changes are needed. Nearly four out of five (79%) favor expanding high-skill visa programs, 63% would expand low-skill visa programs, and 48% favor instituting a "merit-based" immigration system. Twenty-nine percent favor increased spending on border enforcement, and 10% support increased spending on deportation.

A majority (51%) of respondents indicates that the net effect of policies implemented over the last three years by the U.S. administration (considering fiscal policy, trade policy, and regulation) has been a boost to GDP, with 44% seeing a modest positive impact and 7% a significant positive impact. In contrast, 22% believe that the enacted policies have been either a modest drag (19% of respondents) or a significant drag (3% of respondents) on GDP growth. Seventeen percent indicate the impact has been neutral.

Figure 7
What has been the NET effect of Trump administration policies on GDP?



International Policy Issues

A slim majority (53%) of respondents expects global economic growth will slow in 2020 from an estimated 3.0% growth rate in 2019. (Note: This survey was conducted in the initial days of the coronavirus outbreak.) Twenty-nine percent of respondents forecast a 3.00%-to-3.24% global growth rate, while 10% anticipate faster growth.

Nine out of 10 respondents (90%) indicate that the tariffs imposed by the administration have resulted in either a modest drag to GDP of 0.25 percentage points (ppt) or less (cited by 61% of respondents), or a significant drag to GDP of more than 0.25 ppt (cited by 29% of respondents). Half of survey respondents believe the phase-one deal between the U.S. and China will be neutral for growth, while 38% expect a modest boost (up to 0.25 ppt) to GDP, and 3% expect a significant boost (more than 0.25 ppt) to GDP. Another 4% expect a modest drag (0.25 ppt or less) to GDP.

Overall, the panel is pessimistic that China will achieve its part of the trade deal. When asked to evaluate which of six listed promises from the deal would likely be fulfilled, 61% of panelists mention importing $50 billion of agricultural products. A majority of panelists doubts China will fulfill the other promises. A third (32%) of the respondents believes China will maintain a stable currency, while 29% anticipate further opening of China's financial system. Roughly a fifth (22%) of panelists expects China will meet its promise to import $200 billion of additional goods and services from the U.S. over the next two years. Smaller shares (13% each) of respondents expect China to prevent forced technology transfers or to reinforce intellectual property rights.

With Brexit now official, nearly half (48%) of respondents expects an extension of the transition period beyond 2020. Almost one-third (31%) of respondents anticipates a trade deal in 2020, compared to 13% who expect the U.K. to leave the European Union with no deal.

Forty-six percent of respondents anticipate the European Central Bank and Bank of Japan will not cut interest rates even further into negative territory in the next two years, while 29% expect these central banks will cut rates further. In contrast, in the August 2019 survey 58% of respondents expected further rate cuts.

Policy Survey Committee

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