National Association for Business Economics
February 2018 | Economic Policy Survey

Economic Policy Survey

Majority of NABE Panelists Says Fiscal Policy is Too Stimulative; Largest Share in Eight Years Calls Monetary Policy 'About Right'

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The February 2018 NABE Policy Survey summarizes the responses of 211 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered January 29-February 8, 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);* ***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

"A majority of the NABE Policy Survey panel considers current fiscal policy 'too stimulative,' a departure from the view in August 2017 that the policy was 'about right,'" said NABE Vice President **Kevin Swift, CBE**, chief economist, American Chemistry Council. "Overall, the panel expects the deficit to grow as a percentage of the economy in the longer term. Survey respondents are more supportive of current monetary policy, with more than six in ten reporting that the Federal Reserve's policy is 'about right.' Indeed, the percentage holding that view is the highest in eight years."

"Regarding the impact of the recently enacted Tax Cuts and Jobs Act on equity and efficiency, two-thirds of panelists deem it 'far better' or 'somewhat better' than the previous corporate tax system, but nearly half regards the individual tax provisions as worse than before," added Survey Chair **Jim Diffley, CBE**, executive director, IHS Markit. "The panel expects near-term boosts in economic growth, but is less optimistic about longer-term results.

"On other economic policy matters, most respondents believe the Trump administration's deregulatory actions will have a positive impact on the U.S. economy," Diffley continued, "although executive actions regarding immigration and trade are expected to have unfavorable impacts. In addition, the panel places a low probability that any meaningful infrastructure package will be enacted in 2018."

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Fiscal Policy

A majority of survey respondents—52%—now consider fiscal policy to be "too stimulative." A smaller share—37%—characterizes current fiscal policy as "about right." The percentage indicating fiscal policy is "about right" is down from the 46% of panelists who held this view in the August 2017 Policy Survey. Nine percent of respondents indicate that current fiscal policy is "too restrictive." These results are decidedly different from the nearly balanced view in August 2017, when 20% characterized policy as "too stimulative" and 28% "too restrictive."

The NABE Policy Survey panel continues to have a strong preference for more conservative fiscal policy in the long run. Specifically, 61% of respondents indicate that fiscal policy should reduce the federal deficit share of gross domestic product (GDP) when compared with the Congressional Budget Office's (CBO's) current 10-year baseline. Only 10% suggest that fiscal policy should increase the deficit share of GDP. These results are consistent with those in the August 2017 survey. But opinions tilt in the opposite direction regarding expectations: fully 86% 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, while only 6% expect the deficit to decrease.

Survey respondents favor the recently enacted Tax Cuts and Jobs Act (TCJA), as its provisions apply to equity and efficiency of the corporate tax system. Fully 68% view the TCJA as an improvement over the previous corporate tax system, with 27% characterizing the TCJA as "far better" and 41% as "somewhat better." Twenty-one percent view it as "somewhat worse" or "far worse" than the previous system. Ten percent consider it "about the same."

Figure 1

When compared with the CBO's current 10-year baseline, fiscal policy should:

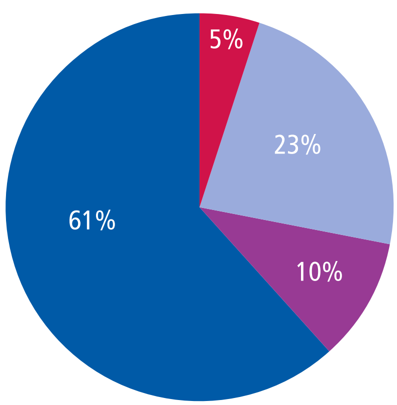
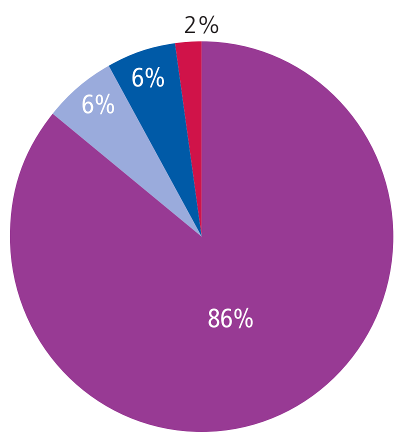


Figure 2

When compared with the CBO's current 10-year baseline, the most probable tax and spending policies are likely to:



Reduce the deficit share of GDP
Not change the deficit share of GDP
Increase the deficit share of GDP
Don't know/no opinion

In contrast, nearly half of the panel regards the individual tax provisions under the TCJA as worse compared to those under the previous system. Only 38% consider the TCJA better than the previous individual tax system, with 6% characterizing it as "far better" and 32% as "somewhat better." Twelve percent consider the TCJA as "about the same" as the previous individual tax system, while 30% consider it "somewhat worse" and 18% "far worse."

Overall, survey respondents anticipate that the economic growth rate will increase over the next year as a result of the TCJA. Fully 93% of respondents indicate that the TCJA will boost economic growth to some extent. The median estimate for the economic impact of the TCJA is that it will boost inflation-adjusted gross domestic product (real GDP) over the next year by 0.25% to 0.49%. Only 4% report that the TCJA would not boost economic growth at all.

All things equal, the Tax Cuts and Jobs Act itself will increase the growth rate of real GDP over the next year by (in percentage points):	
not at all	*4%*
less than 0.25%	*19%*
0.25% to 0.49%	*45%*
0.5% to 0.74%	*18%*
0.75% to 0.99%	*7%*
1.0% or more	*3%*
Don't know / no opinion	*3%*

Looking out to 2027, views regarding the longer-term impact on GDP growth from the TCJA are still optimistic, but the share expecting a positive impact—67%—is smaller for the long-term scenario than the near-term one (93%).

In 2027, the Tax Cuts and Jobs Act will itself have resulted in an increase in real GDP of:	
a negative amount (decrease)	*11%*
not at all	*16%*
0% to 0.99%	*26%*
1% to 1.99%	*21%*
2% to 2.99%	*7%*
3% to 3.99%	*6%*
4% to 4.99%	*2%*
5% or more	*6%*
Don't know / no opinion	*7%*

Monetary Policy

The majority of the NABE Policy Survey panel believes that U.S. monetary policy currently is on the right track, and the majority also expects additional rate hikes this year. The survey results do, however, reveal a notably broad range of opinions regarding the ultimate impact of the Federal Reserve's ongoing efforts to "normalize" the size of its balance sheet.

Most survey respondents support the current stance of monetary policy. The percentage who considers Federal Reserve policy to be "about right"—64%—is the highest in eight years. Accordingly, the shares of respondents who indicate monetary policy is either "too stimulative" (31%) or "too restrictive" (3%) have both trended lower in recent surveys.

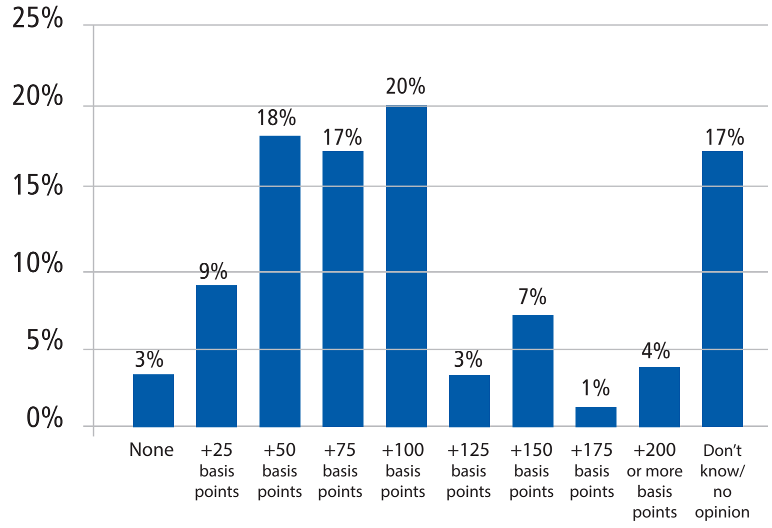
A large majority of respondents (89%) expects the Federal Open Market Committee (FOMC) this year to raise its target for the federal funds rate from the current 1.25%-to-1.50% range. More than one-third (38%) look for rate hikes totaling 75 basis points (bps) or more by year-end 2018, and another 34% expect an increase of 50 bps. Sixteen percent anticipate the equivalent of one 25-basis-point tightening, while 8% of respondents look for the rate to end 2018 where it began the year. No respondents indicate that the FOMC would likely cut rates, on net, this year.

Overall, the panel expects at least one tightening move by the end of 2019. About half of survey respondents anticipate the FOMC will raise rates a total of 125 bps or more from its present level. Fourteen percent expect 25 bps or 50 bps in tightening, and nearly a third (32%) puts cumulative rate hikes at 75 bps or 100 bps.

There is a broad distribution of views about 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 3% of respondents) to an incremental increase of 200 bps or more (4%), with the median response an increase of 100 bps.

Figure 3

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



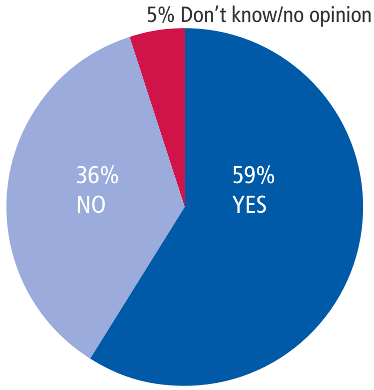
Two-thirds (66%) of survey respondents support the Fed's 2% inflation target, with 19% preferring a higher target rate, and 11% suggesting a lower one. While 38% of the panel believe that the Fed behaves as though the inflation target is a symmetric one, half of respondents indicates that the Fed, in practice, favors outcomes that are lower than midpoint (29%) or higher (21%).

Domestic Economic Policy

Slightly more than half (59%) of survey respondents believe that economic policy should do more to mitigate climate change. Thirty-six percent believe economic policy should not be used to mitigate climate change.

Figure 4

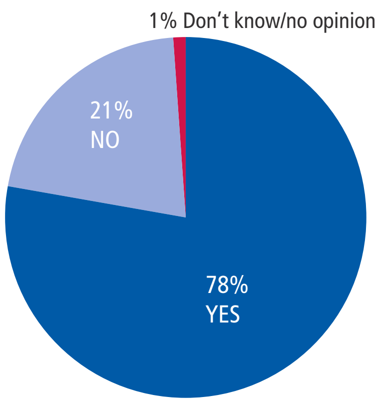
Do you believe economic policy should do more to mitigate climate change?



More than three-fourths (78%) of respondents believe economic policy should do more to mitigate income inequality. Barely one-fifth (21%) believes economic policy should not be used to mitigate income inequality.

Figure 5

Do you believe economic policy should do more to mitigate income inequality?

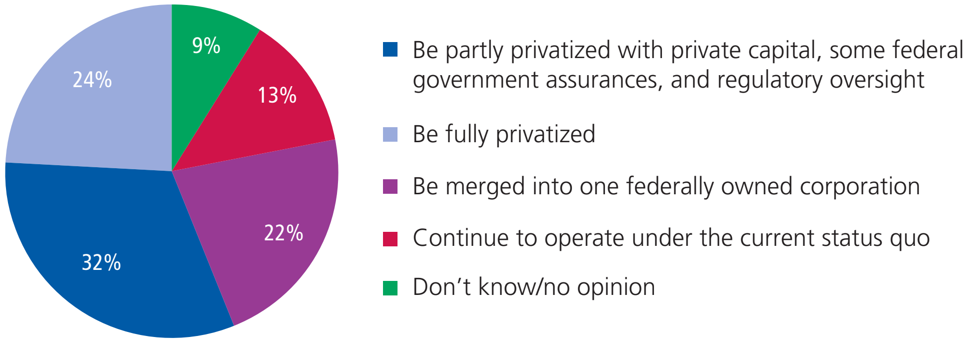


Of those who believe economic policy *should* be used to mitigate income inequality, more than half (56%) believe education policies that improve the productivity of less-skilled workers are the most effective tool to do so. About one-fourth (25%) believes a more progressive federal income tax system would be more effective. A handful of respondents endorses other measures.

Survey results reflect no clear consensus regarding how Fannie Mae and Freddie Mac—both nationalized in 2008 and now run as federal corporations—should be managed going forward. Nearly one-third (32%) of respondents believes the two agencies should be partly privatized with private capital, some federal government assurances, and regulatory oversight. One-fourth (24%) of respondents believes the two should be fully privatized. About one in five respondents (21%) believes the two should be merged into one federally owned corporation. Thirteen percent believe the two agencies should continue to operate as currently structured.

Figure 6

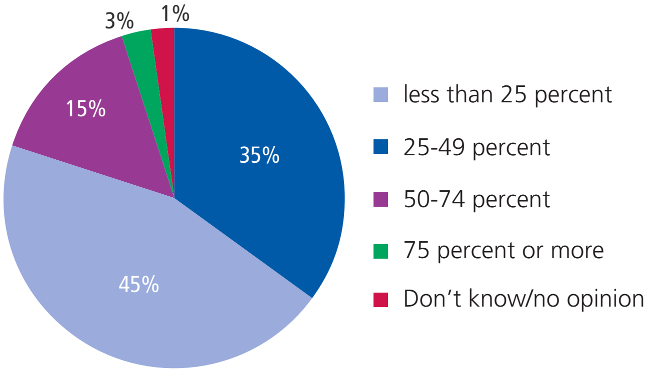
Going forward, Fannie Mae and Freddie Mac should:



A plurality of respondents (45%) places the probability of a meaningful infrastructure package being enacted this year at less than 25%. Thirty-five percent put the probability between 25% and 49%, and 15% estimate the probability is between 50% and 74%. Only 3% rate the odds at greater than 75%. *(Note: The survey was conducted prior to President Trump's February 12 announcement of a $1.2 trillion infrastructure plan.)*

Figure 7

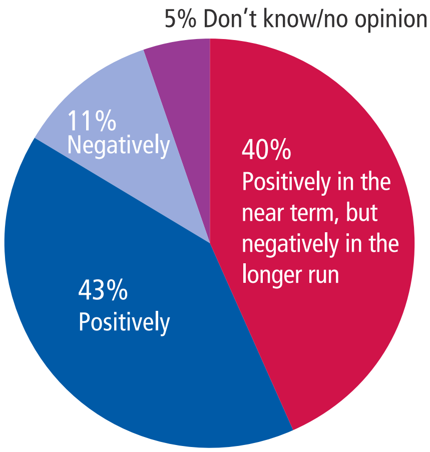
The probability of a meaningful infrastructure package in 2018



Most respondents believe the Trump administration's deregulatory actions will have a positive impact on the economy. A plurality (43%) believes the economy will react positively, while a slightly smaller share of respondents (40%) believes the impact would be positive in the near term, but negative in the long run. Eleven percent (11%) anticipate a negative impact.

Figure 8

How the regulatory actions of the Trump administration in 2017 will impact the U.S. economy:



International Policy Issues

The survey posed three questions about the Trump administration's actions on immigration and trade policies. Survey participants were asked to score the impact of recent actions or policy proposals 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 3.9, slightly higher than the 3.8 reported in the August 2017 survey, as a higher percentage of respondents indicate those actions will be consequential, in an unfavorable way. Panelists overwhelmingly (61%) feel that U.S. withdrawal from NAFTA would have a consequential and unfavorable impact on the U.S. economy. Only 1% anticipates a U.S. withdrawal from NAFTA would have a consequential and favorable impact. The aggregate score of 4.5 is higher (more unfavorable) than that in the August 2017 survey regarding disengagement from the Trans-Pacific Partnership. On other "executive actions" on trade—including tariffs on washing machines and solar panels—74% of panelists report a score of 4 or 5, yielding an overall score of 4.0.

Figure 9

The Trump administration has undertaken many "executive actions" with respect to immigration. On a 1-to-5 scale, these have been:

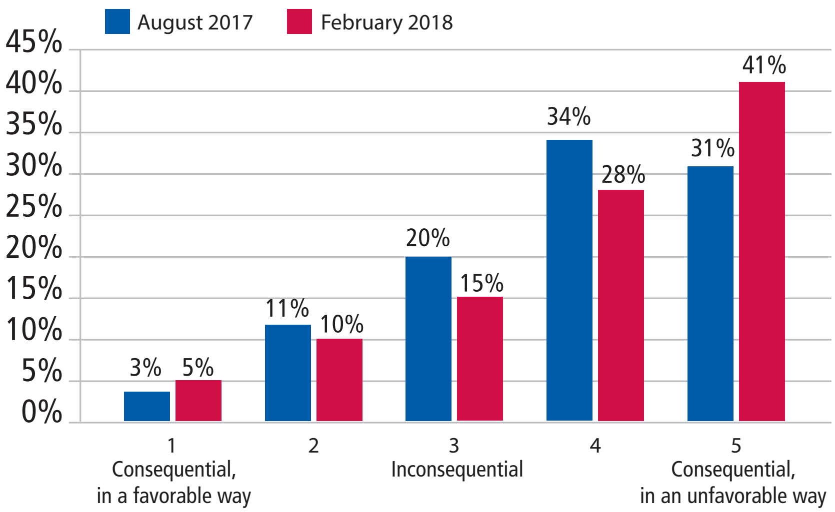


Figure 10

The Trump administration has suggested the U.S. may withdraw from NAFTA. What impact do you see this as having on the U.S. economy? On a 1-to-5 scale, these have been:

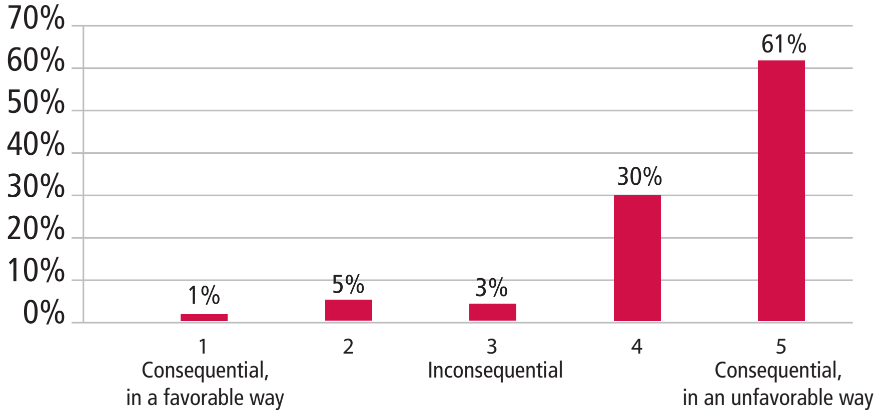
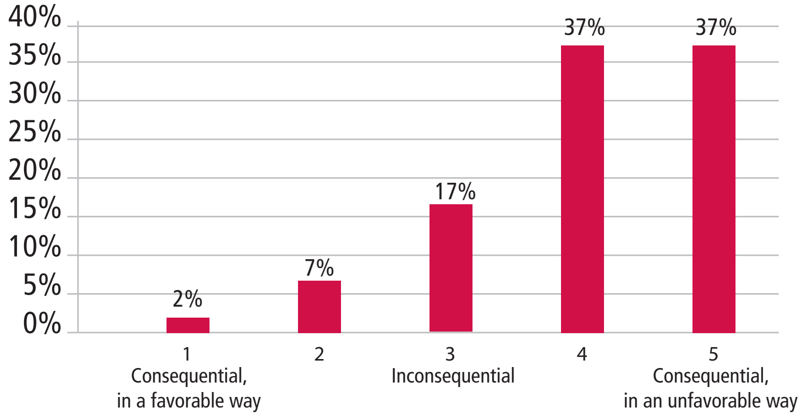


Figure 11

The Trump administration has undertaken many "executive actions" with respect to foreign trade. On a 1-to-5 scale, these have been:



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