

Economic Policy Survey

August 2020

NABE Panelists Foresee Slow Recovery from Recession, Risk of 'Double-Dip'; Most Deem Fed Policy Appropriate, but Hold Mixed Views on Fiscal Response

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*The August 2020 NABE Economic Policy Survey summarizes the responses of 235 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered between July 30 and August 10, 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

“Nearly two-thirds of the National Association for Business Economics members who participated in the August 2020 NABE Economic Policy Survey believe the U.S. economy continues to be in a recession that began last February,” said **NABE President Constance Hunter, CBE**, chief economist, KPMG. “Almost half the respondents expects inflation-adjusted gross domestic product to remain below its fourth-quarter 2019 level until the second half of 2022 or later. And 80% of panelists indicate there is at least a one-in-four chance of a ‘double-dip’ recession.

“The panel is split in its view on Congress’s fiscal response to the recession, with 40% calling the response insufficient, 37% indicating the response is adequate, and 11% saying it is excessive,” Hunter continued. “Nearly three out of four panelists believe the optimal size for the next fiscal package to be \$1 trillion or greater, compared to 17% who favor a smaller package.”

“More than three-quarters of panelists believe that the current stance of U.S. monetary policy is appropriate, the largest share holding this view since 2007,” added **Survey Chair Gregory Daco**, chief U.S. economist, Oxford Economics. “The majority of panelists—58%—expects the federal funds rate range to remain unchanged at 0-0.25%, or even drop lower, by the end of 2021. Most participants—84%—expect that the funds rate target will be higher by year-end 2022, but still within 100 basis points of where it is currently.

“Panelists were asked to select the three most important policy issues that the next presidential administration should address during its first year in office,” Daco added. “Combating COVID-19, promoting economic recovery, and health policy were cited more frequently than a dozen other choices.”

Fiscal Policy

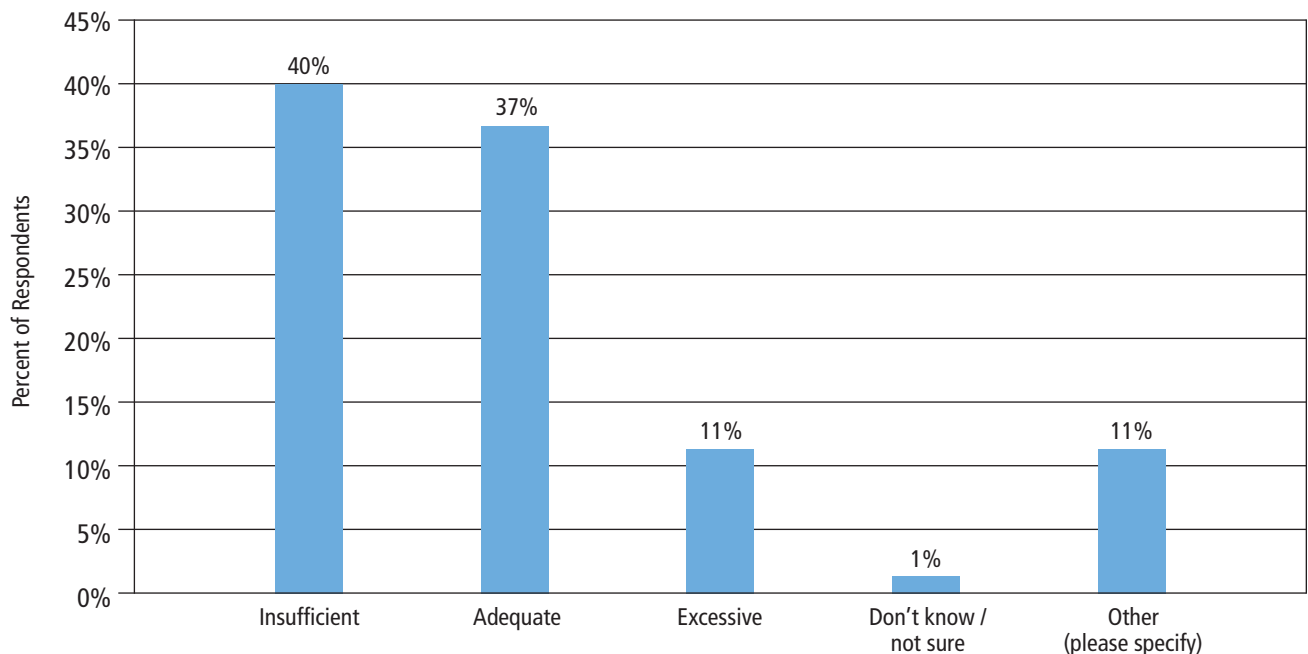
Forty-five percent of survey respondents find fiscal policy is “too restrictive,” with another 37% suggesting it is “about right.” Seventeen percent of respondents believe fiscal policy is “too stimulative.” This a sharp decline from the 52% of panelists who held this view in the February 2020 survey.

More than a third (38%) of panelists believe the primary objective of fiscal policy should be to stimulate more growth as quickly as possible. Twenty-eight percent suggest the primary objective should be to stimulate more robust economic growth in the medium-to-long term—a significant decline from the 44% that held this view in the February 2020 survey. Addressing income inequality is cited as the primary objective by 11% of respondents. Only 2% indicate the primary objective should be to reduce the debt or deficit, compared to 36% in February.

Panelists were asked what steps should be taken to address the current fiscal deficit. Fifty-six percent of panelists suggest that the fiscal deficit should not be a concern during a recession, and 13% indicate the present deficit is not worrisome in a low interest-rate environment. Fifty-one percent support enacting structural policies to support stronger economic growth. A fifth (22%) of panelists favors greater spending restraint, while 19% would increase tax revenues.

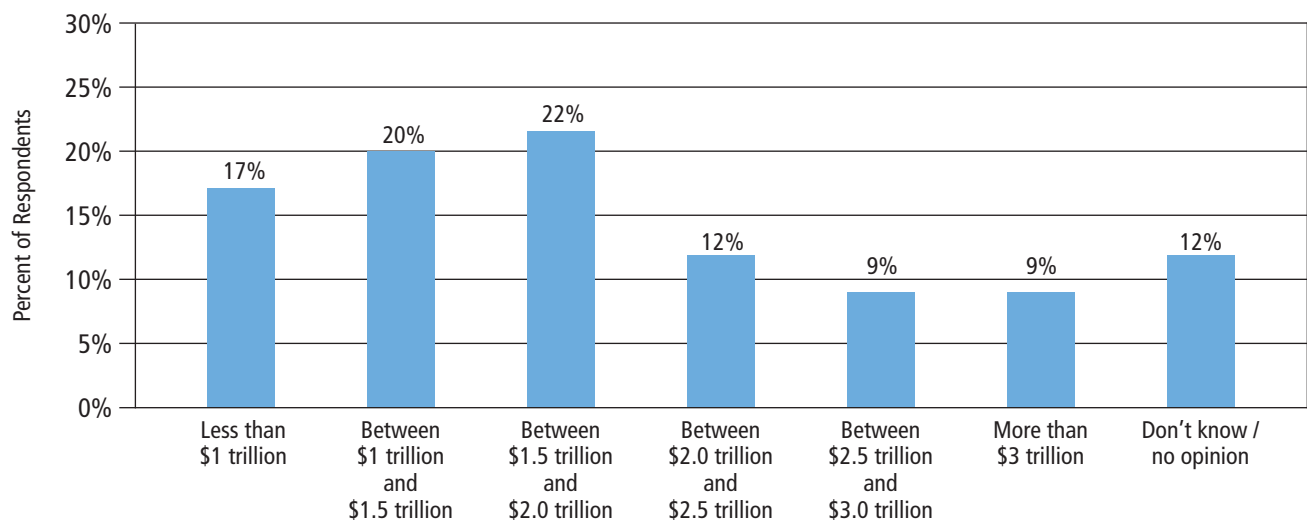
The panel is split in its views about the adequacy of Congress’s fiscal response to the recession; the plurality (40%) believes the response has been insufficient, followed by 37% who view the response as adequate. Eleven percent believe the response has been excessive.

Figure 1
How would you rate Congress’s fiscal response to the coronavirus recession?



A majority (52%) of panelists suggests the optimal size for the next fiscal package should be at least \$1.5 trillion. A fifth of respondents (20%) believes the optimal package should total between \$1 trillion and \$1.5 trillion, while 17% indicate a package less than \$1 trillion would be optimal.

Figure 2
What would be the optimal size for the next fiscal package (after the CARES Act and the Paycheck Protection Program Flexibility Act)?



A majority of respondents (60%) believes Congress should extend both supplemental unemployment insurance and the Paycheck Protection Program (PPP) for small businesses. Eighteen percent of respondents, however, indicate only the additional unemployment insurance should be extended, while 11% suggest only the PPP should be continued. Another 8% hold the view that neither program should be extended.

An overwhelming majority (88%) of respondents is at least “somewhat” concerned with federal public debt being on track to surpass 100% of GDP. That level would be higher than at any time since just after WWII. Twenty-two percent of all the panelists are “very” concerned, 34% are “concerned,” and 32% are “mildly concerned.” The remaining 12% of respondents are not concerned.

With former Vice President (and Democratic presidential candidate) Biden’s \$7 trillion spending package and proposal to increase revenues by \$4 trillion in mind, respondents were asked about the optimal way in which Congress should increase revenues. Fifty-five percent favor a broad-based energy or carbon tax, while a little over half (51%) support broadening of the individual and/or corporate tax bases. Nearly the same shares of respondents support increasing individual income tax rates (39%) and corporate tax rates (38%). Support for a wealth tax jumped most significantly since the February 2020 survey—from 24% to 36% in August.

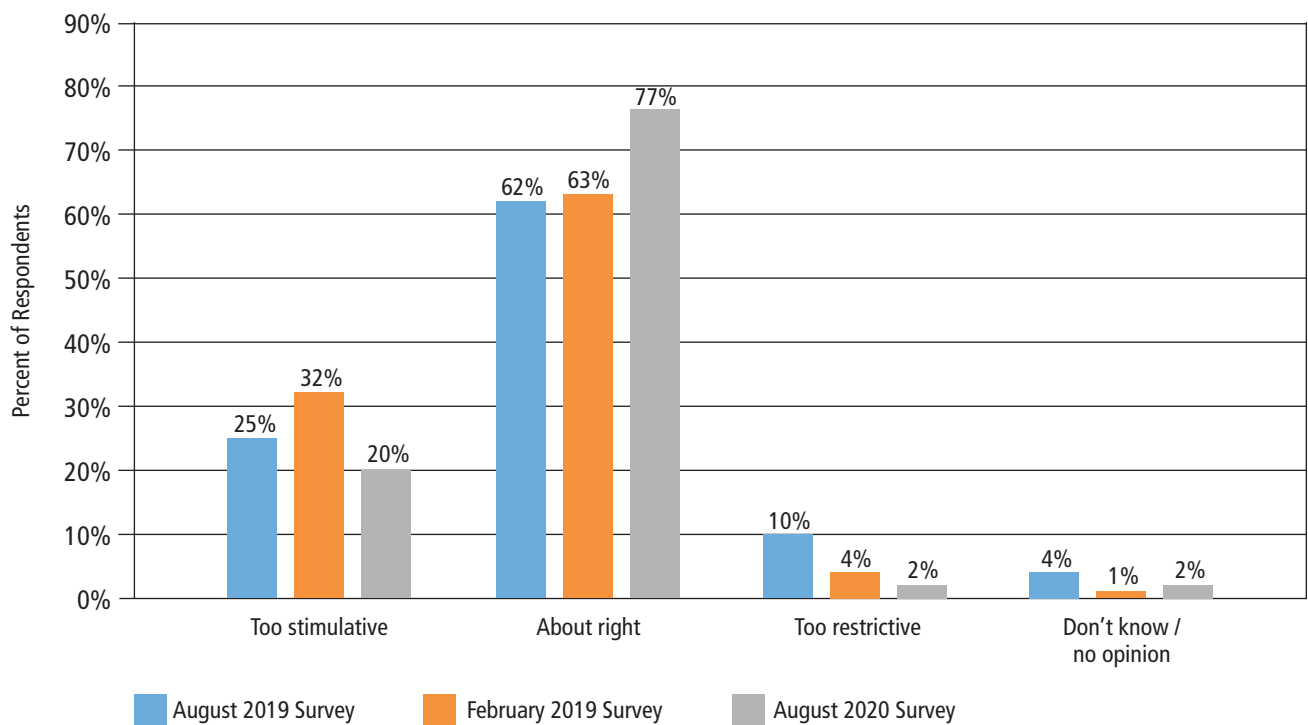
Overall, a majority of respondents (58%) believes the federal government should have done more when times were good to develop stronger fiscal stabilizers following the financial crisis. Roughly one-fifth of respondents (21%) indicates that the automatic stabilizers implemented during the financial crisis have been sufficient to reduce the depth and length of the current recession.

Monetary Policy

Since the previous NABE Policy Survey in February, the Federal Reserve has been aggressive in easing monetary policy in response to the COVID-19 crisis. The August 2020 survey results indicate that a significant majority of respondents approves of these actions.

More than three-quarters of panelists (77%) believe that the current stance of U.S. monetary policy is “about right.” This is the strongest approval message in over 13 years, since the 81% share recorded in March 2007. One in five respondents (20%) views current Fed policy as “too stimulative,” while 2% indicate it is “too restrictive.”

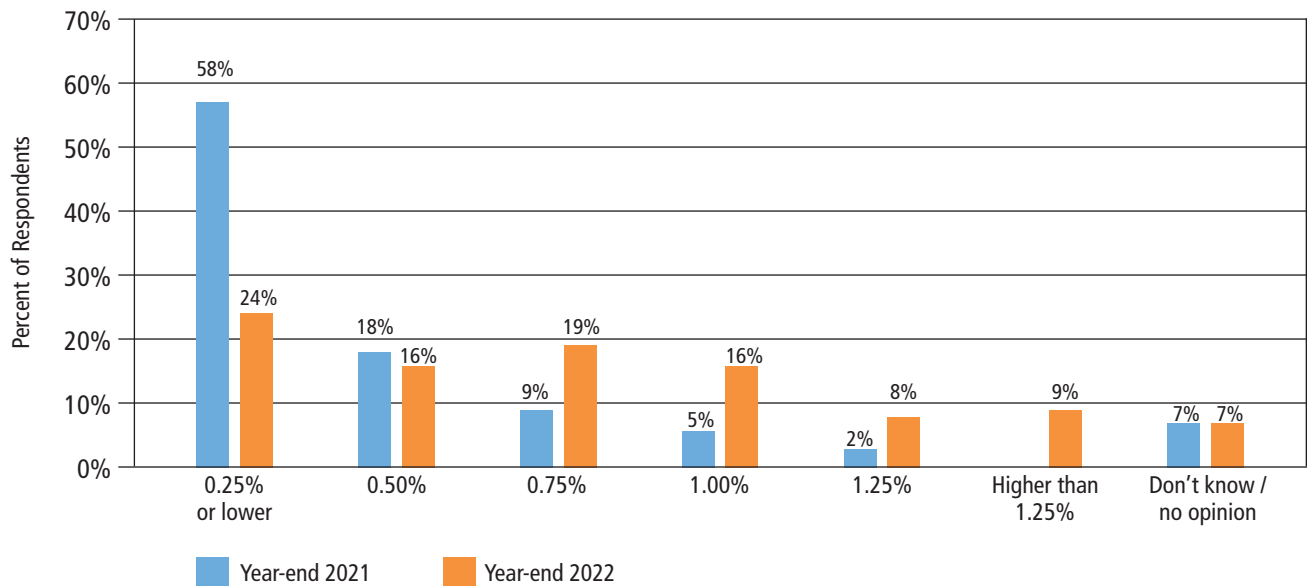
Figure 3
Do you consider current monetary policy to be...?



The Federal Reserve has been targeting a range of 0.0%-0.25% for the fed funds rate since March 15, 2020. A majority of survey respondents (68%) expects the next move in the fed funds target rate will be a rate hike, while 14% anticipate the next move will be a rate cut—implying the Fed would enter negative interest-rate territory.

The majority of panelists (58%) expects the upper end of the fed funds target rate range to remain at 0.25%, or even drop lower, through year-end 2021. This view represents a large swing in opinion from the February 2020 Policy Survey, in which 81% of respondents expected the upper end of the federal funds target range to exceed 1% by year-end 2021. In the August survey, only 2% of respondents expect the top of the Fed’s target band to be at 1.25% by year-end 2021, and 17% of panelists expect that level or higher by the end of 2022. Nearly a quarter of survey respondents (24%) now look for an upper target of 0.25% or less to persist through 2022.

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



If more accommodation were needed over the next year, 62% of panelists expect the Fed to expand its QE (quantitative easing/large-scale asset purchase) operations and/or its use of emergency liquidity programs (cited by 52% of respondents). Nearly half of respondents (48%) anticipates the Fed will adopt outcome-based forward guidance. In addition, 31% suggest the Fed will introduce some variant of yield curve control into the policy mix (targeting medium-term rates).

With the Fed’s monetary policy framework review concluding this year, just over a third (37%) of panelists believe the Fed will adopt average inflation targeting at 2% (over multiple years). Roughly 26% believe the Fed will not change its current 2% inflation target. Among alternative frameworks, 7% of respondents look for an inflation target above 2%, 6% expect a target under 2%, 4% anticipate nominal GDP targeting, 3% expect price-level targeting, and 1% see nominal income targeting.

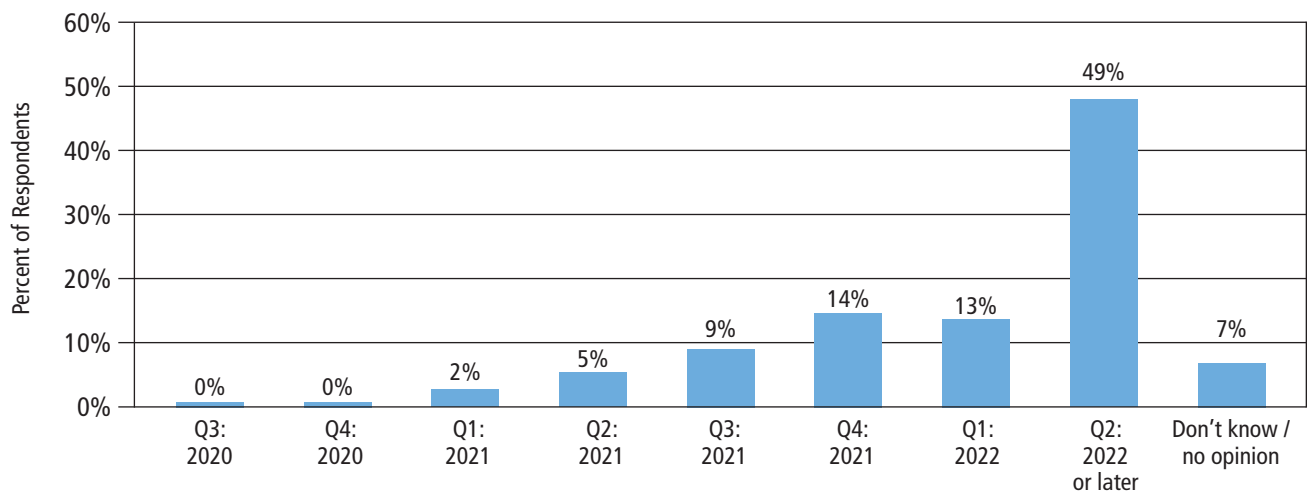
Domestic Economic Policy

Following the National Bureau of Economic Research's (NBER) determination that the U.S. economy entered a recession earlier in the year, two-thirds of respondents (66%) believe that the U.S. economy is currently in a recession. Nearly equal shares of panelists expect the recession to end in the second half of 2020 (35%) or sometime in 2021 (34%). Fifteen percent of respondents hold the view that the recession ended in the second quarter of 2020 (Q2 2020), while 4% expect it will last into 2022 or later.

A near-majority of respondents (49%) expects real GDP to regain its Q4 2019 level in either Q2 2022 or later, while 30% of respondents expect real GDP to regain its Q4 2019 level sometime in 2021. Only one respondent expects GDP will reclaim its pre-COVID-19 level in 2020. While 41% of panelists expect nonfarm payrolls to regain their February level sometime in 2022, 34% expect that will not occur before 2023, and 18% anticipate it happening in 2021.

Figure 5

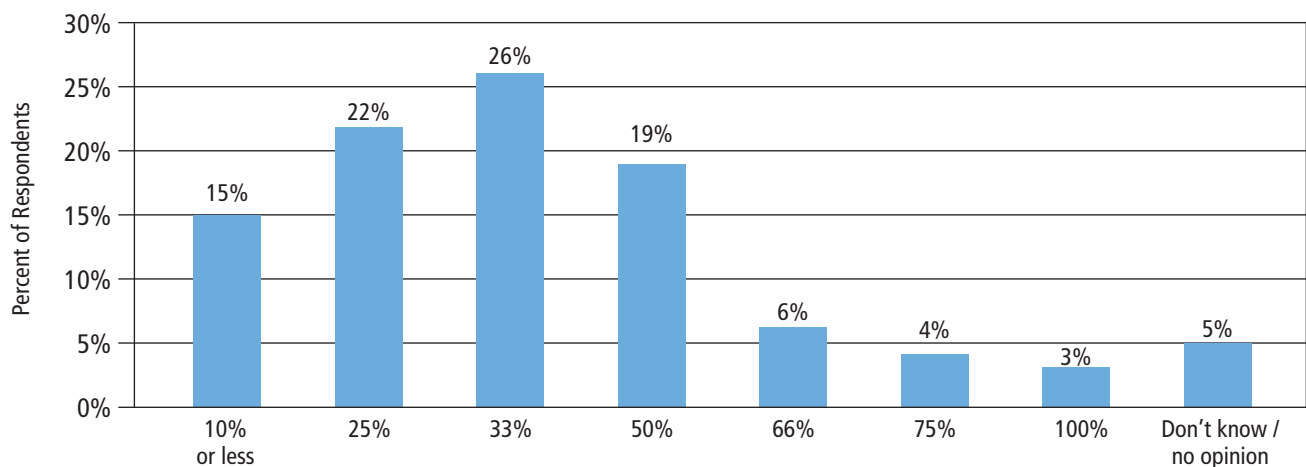
In what quarter do you expect the real GDP to regain its 2019 Q4 level?



When respondents were asked what percent of business closures will be permanent as a result of the COVID-19 pandemic, the median of the expectation was that 40% of all business closures would be permanent.

Most respondents see risks to the outlook tilted to the downside. Nearly 80% of panelists suggest there is at least a one-in-four chance of a double-dip recession.

Figure 6
What odds do you place on a double-dip recession?

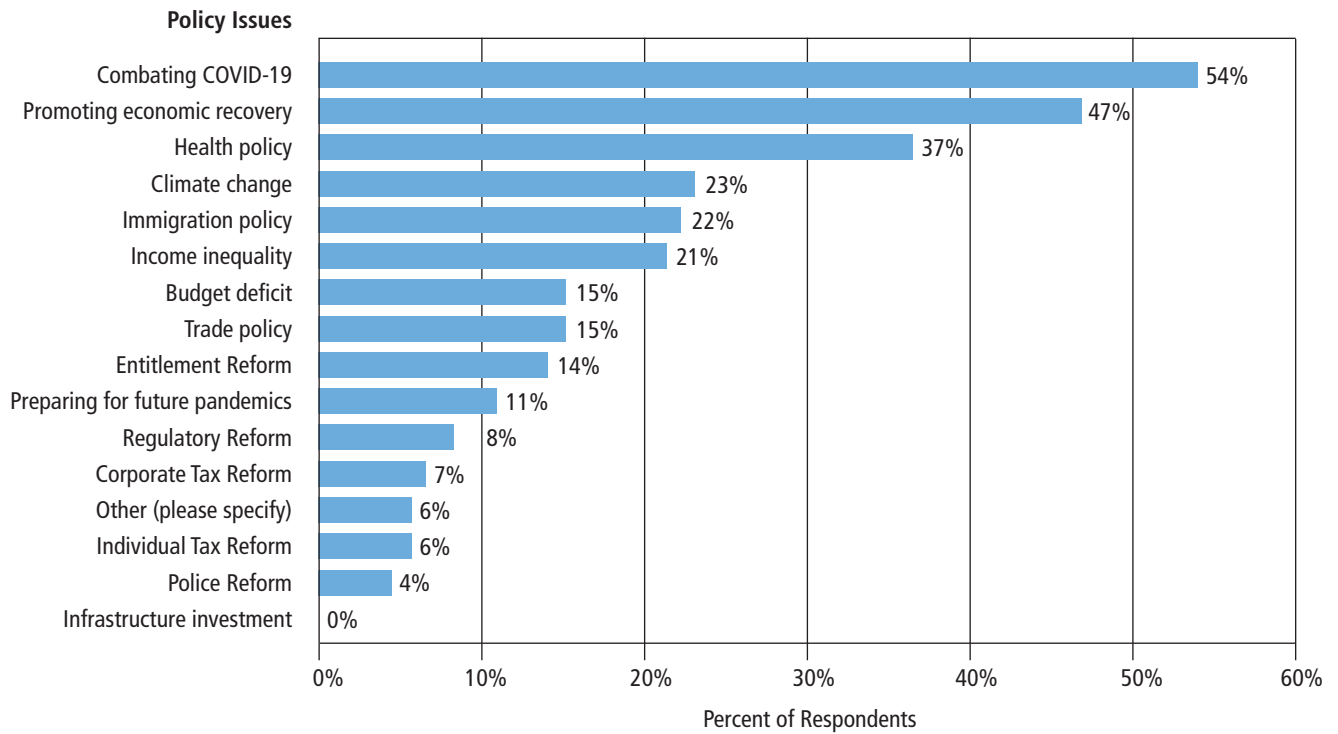


The coming U.S. elections may influence economic growth. A majority of respondents believes that former Vice President Biden would be better at promoting U.S. economic growth than President Trump (62% compared to 25%). Their views on the size of the growth boost diverge, however. Fifty-one percent of panelists overall believe growth would increase, with 29% suggesting a boost of up to 0.5 percentage points (ppt), and 22% seeing an increase of more than 0.5 ppt. At the same time, 14% indicate the growth impact of a Biden election would be neutral, and 23% anticipate growth would be lower.

The panel is similarly split in its views on the ideal composition of the White House and Congress across party lines. Only 19% of respondents believe the economy fares best when the White House is of one party, and the Senate and House of Representatives are controlled by the opposite party. Thirty-one percent suggest the ideal composition is for the White House and the majority in one body of Congress to be of the same party, while 21% believe the best composition for economic growth is when all bodies are controlled by the same party.

Respondents have diverse views for the top three policy priorities that the next Administration should address in its first year in office. Over half (54%) choose combating COVID-19 as a top priority, followed by 47% who cite promoting economic recovery. Thirty-seven percent of respondents suggest broader changes to the healthcare system as a top priority. The next most frequently cited priorities are addressing climate change (picked as a top priority by 23% of panelists), immigration policy (22%), and income inequality (21%). Nearly three-quarters (73%) of respondents indicate that economic policy should do more to mitigate climate change.

Figure 7
Which do you feel are the 3 most important policy issues that the next presidential administration should address during its first year in office? (select 3)



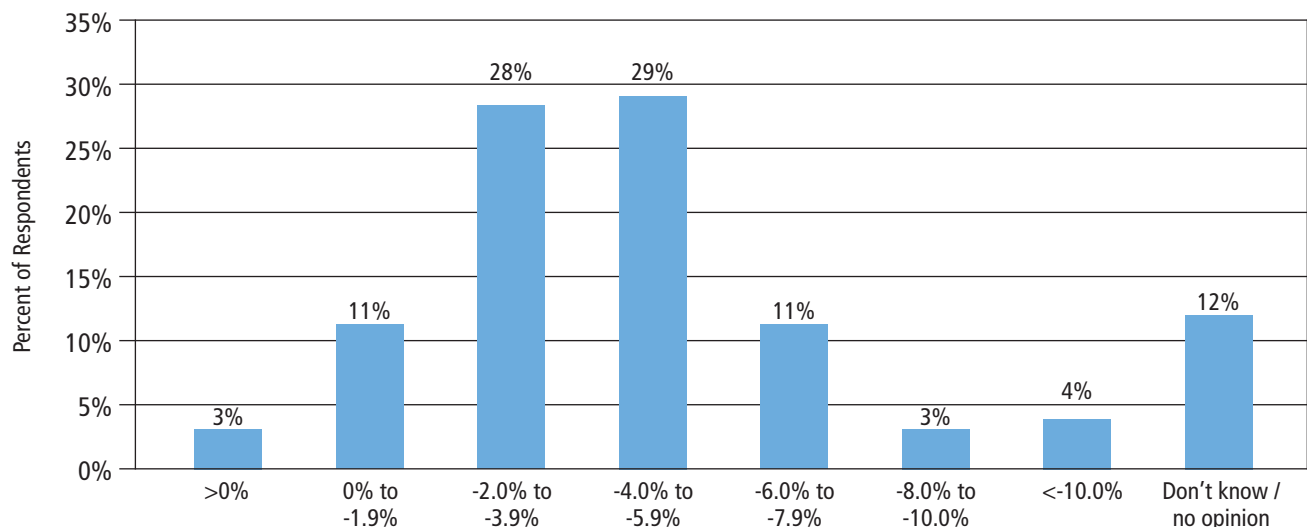
Panelists' views about what changes are needed on immigration policy are widely divergent: 72% favor expanding visas for high-skill workers, while 61% indicate expanding visas for low-skill workers is a priority. Forty-two percent support instituting a "merit-based" system. The only clear agreement on immigration is the relative lack of importance for expanding border protection or increasing deportations (cited by 16% and 6% of respondents, respectively).

International Policy Issues

The COVID-19 pandemic prompted 85% of respondents to expect flat or declining global economic activity in 2020, while only 3% expect growth, as measured by global real GDP in purchasing-power parity (PPP) terms. Twenty-nine percent of panelists anticipate a decline of 4.0% to 5.9% in global real GDP, while a similar 28% expect a decline of 2.0% to 3.9%. Nearly one out of five respondents (18%) anticipates a decline of 6% or more.

Figure 8

Global real GDP (purchasing power parity terms) growth was 2.8% in 2019. What is your forecast for global GDP growth in 2020?



Forty-one percent of respondents do not expect the global economy to get back to its pre-COVID-19 (Q4 2019) level until at least 2022, while 30% suggest it will do so in 2021. Sixteen percent of panelists do not believe that output will have completely recuperated until 2023 or later.

Among the world's largest economies, a majority of panelists (57%) expects China to return to its pre-COVID-19 level the fastest. This is followed by 12% citing the Eurozone, and 10% selecting the U.S.

Despite respondents' relatively optimistic views on the Chinese economy, the COVID-19 pandemic—as well as heightened tensions with the U.S.—has made it even harder for the world's second-largest economy to achieve its Phase-One trade deal promises. When asked to evaluate which of six listed commitments would likely be fulfilled, 36% of respondents said none of them. Nearly one-third (32%) expects the goal of importing \$50 billion of agricultural products will be met (compared to 61% in the February 2020 survey), while 20% of panelists expect China to maintain a stable currency. Even smaller shares of panelists expect China to import \$200 billion of additional merchandise goods (8%), reinforce intellectual property rights (4%), or prevent forced technology transfers (4%).

Sixty-nine percent of respondents anticipate that a Biden presidency would selectively reduce some of the Trump administration's tariffs; only 5% of panelists expect that all tariffs would remain in place. Eight percent suggest that all of President Trump's tariffs would be removed entirely under Biden. Going forward, nearly one-third (32%) of respondents indicates that U.S. trade policy should return to efforts to negotiate multilateral trade agreements, compared to 4% who favor a focus on bilateral negotiations. Nearly one-quarter (24%) suggests the U.S. should focus on rebuilding long-standing alliances.

With negotiations still in flux between the United Kingdom and European Union, and the year-end Brexit deadline approaching, 62% of respondents anticipate an extension of the transition period, up from 48% in the previous survey. Another 19% expect a no-trade deal Brexit (without any agreement). Only 9% presume a trade deal will be effected, down significantly from 31% in February.

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