

# Economic Policy Survey

## Most NABE Economists Expect Recession by the End of 2021; Express Overwhelming Support for Federal Reserve Independence

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The August 2019 NABE Economic Policy Survey summarizes the responses of 226 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered July 14-August 1, 2019. 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](http://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. **Megan Greene** (Harvard Kennedy School), **Chair**; **Eugenio Aleman** (Wells Fargo); **Chris Christopher, CBE**; **Sarah House** (Wells Fargo); **Patrick Jankowski** (Greater Houston Partnership); **Emily Sanchez** (American Chemistry Council); **Dana Saporta, CBE** (Credit Suisse); and **Holly Wade** (NFIB) conducted the analysis for this report.

### Summary

“Survey respondents indicate that the expansion will be extended by the shift in monetary policy, and most expect the next economic recession will occur later than anticipated when the February policy survey was conducted,” said **NABE President Constance Hunter, CBE**, chief economist, KPMG. “Of the 98% of respondents who believe a recession will come after 2019, the panel is split regarding whether the downturn will hit in 2020 or 2021.

“Respondent attitudes towards current fiscal policy have shifted significantly as well,” continued Hunter. “The percentage of panelists who find current fiscal policy ‘too stimulative’ has declined from 71% in August 2018 to 51% in the current survey. Just over one-third consider fiscal policy ‘about right,’ and 8% find it ‘too restrictive.’”

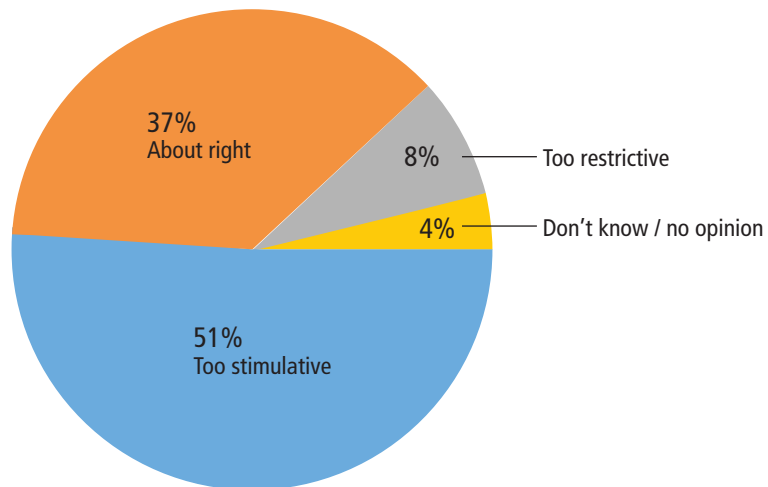
“A majority of respondents believes U.S. monetary policy is ‘about right,’ but the percentage holding this view has fallen from 75% in the previous two surveys to 62%,” added **Survey Chair Megan Greene**, senior fellow at the Mossavar-Rahmani Center of Business and Government at the Harvard Kennedy School. “The survey was conducted before the Federal Reserve’s rate cut on July 31; the majority of survey responses was received prior to that date. A plurality of panelists anticipates the upper end of the federal funds target rate will be 2% in 2019 and 2020, reflecting one more cut in 2019. Survey respondents are nearly unanimous in their support of the Federal Reserve continuing to have congressional oversight and policy independence.

“Regarding international issues, 58% of respondents believe the likelihood of the U.S. imposing tariffs on imported autos and auto parts is 26% or higher,” continued Greene. “The panel is more divided in its views on agricultural tariffs, with one-third putting the chances at 25% or less, and 20% thinking these tariffs are more likely than not. A plurality of panelists—40%—expects a no deal Brexit in which the U.K. crashes out of the EU with no divorce agreement. This is not in line with current market pricing.”

## Fiscal Policy

Approximately half (51%) of survey respondents finds current fiscal policy is “too stimulative.” That represents a marginal decrease from the 55% in the February 2019 survey, but a sharp decline from the 71% in August 2018 who held this view. Over a third (37%) consider current fiscal policy “about right.” Only 8% indicate that current fiscal policy is “too restrictive.”

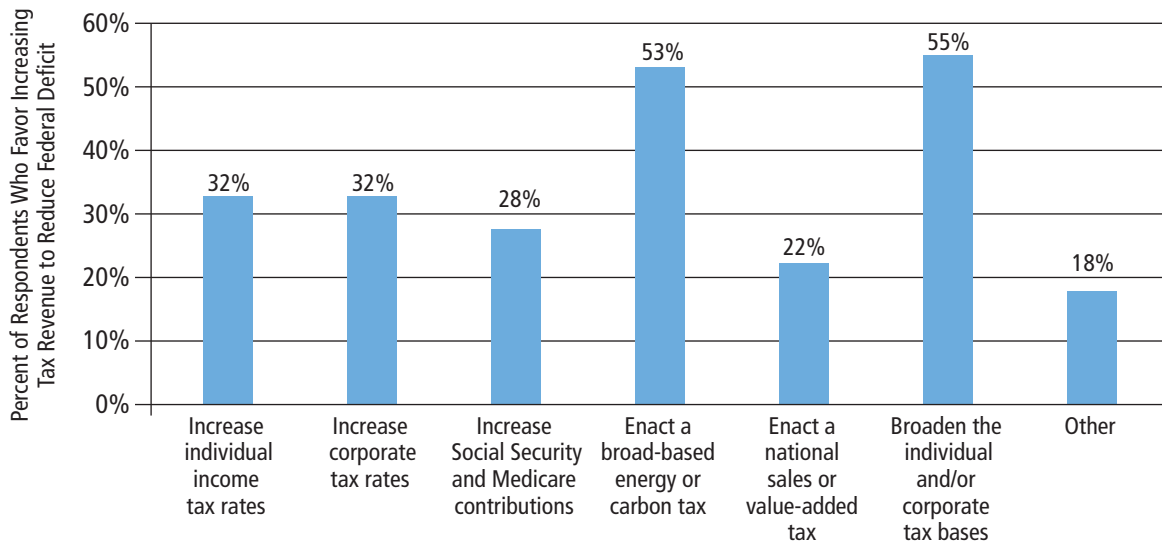
**Figure 1**  
**Current Fiscal Policy**  
*(percentage distribution of respondents)*



Similar shares of panelists believe that the primary objective of current fiscal policy should either be to stimulate more robust economic growth in the medium-to-long term (40%) or to reduce the deficit and debt (37%). Another 15% believe fiscal policy should be used primarily to address income inequality.

When asked what steps should be taken to address the current fiscal deficit, 59% of respondents indicate the federal government should exercise greater spending restraint, 55% favor increasing tax revenues, and 48% support enacting structural policies to stimulate stronger economic growth. Just 4% choose to “make no policy changes at present because the present deficit is not material.” There is no consensus among those who are in favor of increasing revenues to reduce the deficit on how that should be achieved: 55% of respondents support broadening the individual and/or corporate tax bases, 53% favor a broad-based energy or carbon tax, 32% support increasing corporate income tax rates, 32% favor increasing individual tax rates, 28% would like to see an increase in Social Security and Medicare contributions, and 22% favor a national value-added or sales tax. Eighteen percent of respondents suggest other revenue-raising options.

**Figure 2**  
**Possible Ways to Increase Revenue**



Under current tax and spending policies, the Congressional Budget Office (CBO) projects the federal budget deficit will fluctuate between 4.1% and 4.7% of nominal gross domestic product (GDP) over the coming decade. An overwhelming majority (88%) of respondents believes future fiscal policy should be used to reduce the federal budget deficit as a share of GDP. Nearly one-third of panelists indicates they would be concerned about a U.S. federal budget deficit equivalent to up to 4% of GDP; one-quarter indicates 3%, and 14% suggest 5%.

The CBO projects federal public debt will be 78% of GDP in 2019 (nearly twice the average over the past 50 years), and then reach 93% of GDP by 2029 (higher than at any time since just after World War II). When asked how concerned they are about this trajectory for public debt, 36% of respondents report they are “very concerned,” 36% are “concerned,” and 24% are “mildly concerned.”

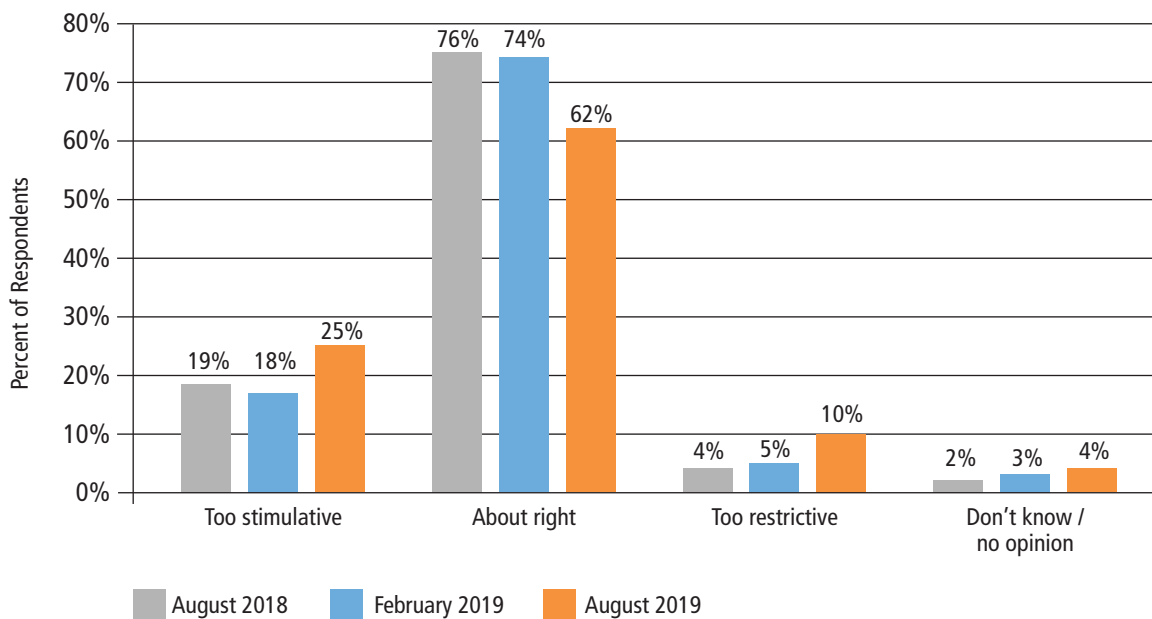
The CBO projects interest payments on the national debt will be \$455 billion in fiscal year (FY) 2020, and will more than double to \$921 billion by FY 2029. When selecting the most consequential long-term impact of the increase in interest payments over the next 10 years, the panel is roughly evenly split between those expecting discretionary spending to be crowded out (28%), those believing the U.S. government will have fewer options should another economic crisis occur (27%), and those indicating the interest burden will reduce the standard of living for future generations (24%). An additional 12% foresee a reduction in future Social Security and Medicare payments, 5% expect other countries will stop buying U.S. debt or discount it heavily, and 3% expect equity investors to lose confidence in U.S. fiscal policy and for prices to collapse.

During the Great Recession, the federal government implemented several emergency fiscal stabilizers to avoid a repeat of the crisis. Panelists were asked what they are most likely to think when the next recession hits. Forty-eight percent expect to look back and wonder why the government didn’t do more when “times were good” to develop and implement fiscal stabilizers, 19% expect the stabilizers will be enough to reduce the depth and duration of the recession, and 12% suggest the Federal Reserve will be the main player to step in and stem the next downturn.

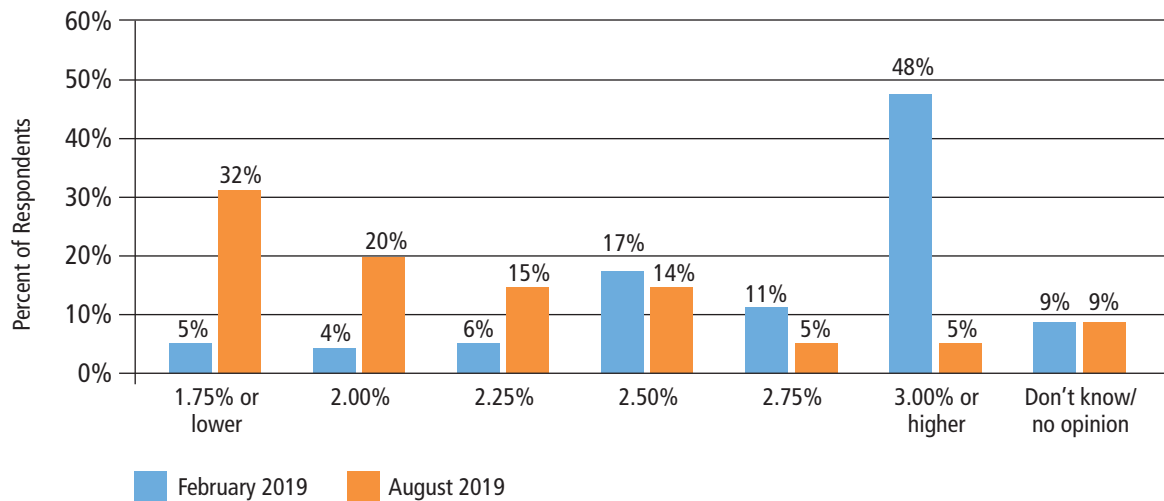
## Monetary Policy

As in past surveys, a majority of survey respondents believes that U.S. monetary policy is on the right track. However, the current 62% share that considers Federal Reserve policy to be “about right” is a decline from shares closer to 75% in the previous two surveys. Of those who prefer a different policy stance, the consensus is similar to that seen for most of this decade. A significant minority (25%) indicates that current policy is “too stimulative,” while 10% of respondents believe that policy is “too restrictive.” (NOTE: 92% of survey responses were received before the Federal Reserve’s 25-basis-point rate cut on July 31.)

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



A plurality (41%) anticipates the upper end of the federal funds target rate will be 2% by the end of the year (as of the survey release date, this reflects one more rate cut), and 31% expect the upper end will be 2.25% (the current level). A plurality (20%) also expects the federal funds target rate will be 2% at the end of 2020, although there is a wide range of views around this forecast. Thirty-nine percent of respondents anticipate the target rate will have an upper bound above 2% at year-end 2020, while 32% expect an upper bound below 2%. In the February 2019 survey, nearly half of participants (48%) expected the top of the federal funds target rate range would be 3% or higher, whereas only 5% of respondents to the current survey expect the top of the range will be 3% or higher.

**Figure 4****What will be the upper end of the federal funds rate target range at year-end 2020?**

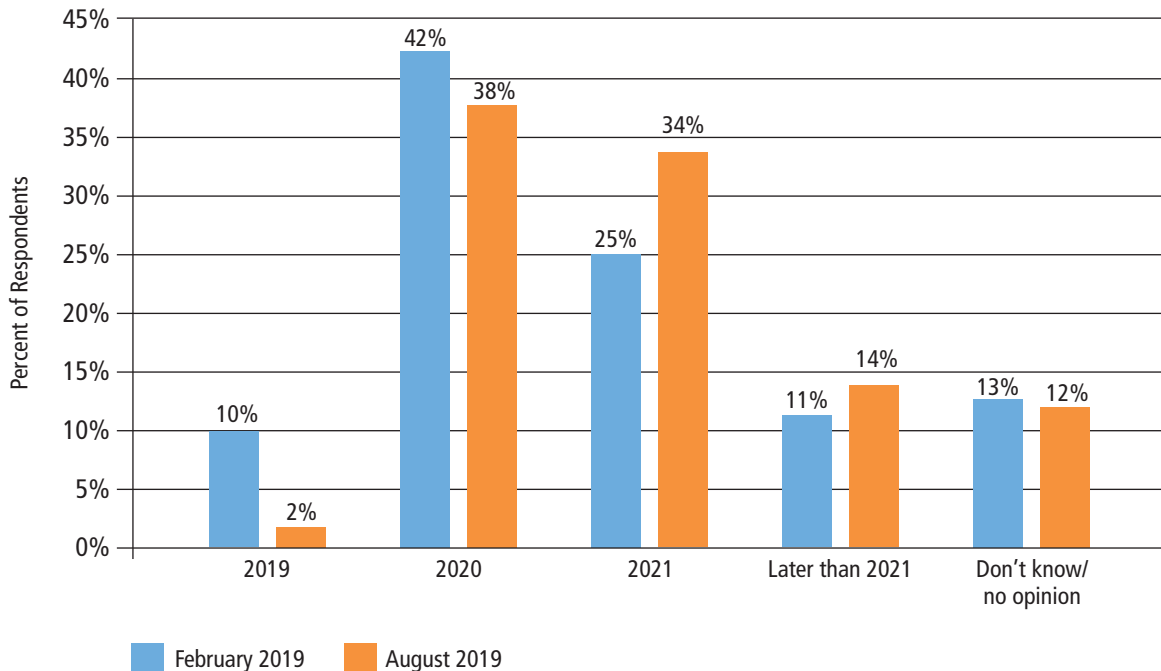
Survey respondents are nearly unanimous (96%) in support of the Federal Reserve continuing to have congressional oversight and policy independence. Few respondents (1%) prefer that the Fed be overseen by the executive branch, and fewer than 1% of respondents suggest that the Fed should be *controlled* by either branch of government.

President Trump has been vocal in his views of Federal Reserve policy. The survey solicited panelists' opinions of the impacts from the president's comments. A majority (55%) believes his remarks do not influence Fed decisions but do compromise the public's trust in the central bank. Over a quarter of respondents (27%) suggest the president's remarks cause the Fed to be more dovish than otherwise, thus threatening its independence. A small percentage (7%) see President Trump's remarks in a more positive light, believing such comments encourage public debate and serve as a check on Fed decisions.

## Domestic Economic Policy

Compared with results in the February 2019 survey, respondents, on balance, expect the next U.S. recession to occur later. Only 2% of respondents expect a recession to begin in 2019 (compared with 10% in February), and a plurality (38%) still predicts one will begin in 2020 (down slightly from 42% in February). The share of respondents anticipating a recession will begin in 2021 has increased from 25% in February to 34%. In addition, 14% expect a recession will not occur until after 2021 (compared to 11% in February).

**Figure 5**  
**When Will the U.S. Economy Enter the Next Recession?**



A majority of respondents (56%) believes that the Tax Cuts and Jobs Act (TCJA) has had an overall negative impact on housing activity over the past 18 months. Approximately a quarter of respondents believes that the changes to the standard, mortgage interest, and state and local tax deductions have had no impact on the housing market, while 7% view the TCJA impact positively.

Panelists overall are against forgiving most or all student debt in the U.S., with a majority (64%) believing this would be a net negative for the U.S. economy. Approximately one-fifth believes that forgiving most or all student debt would be positive for the economy.

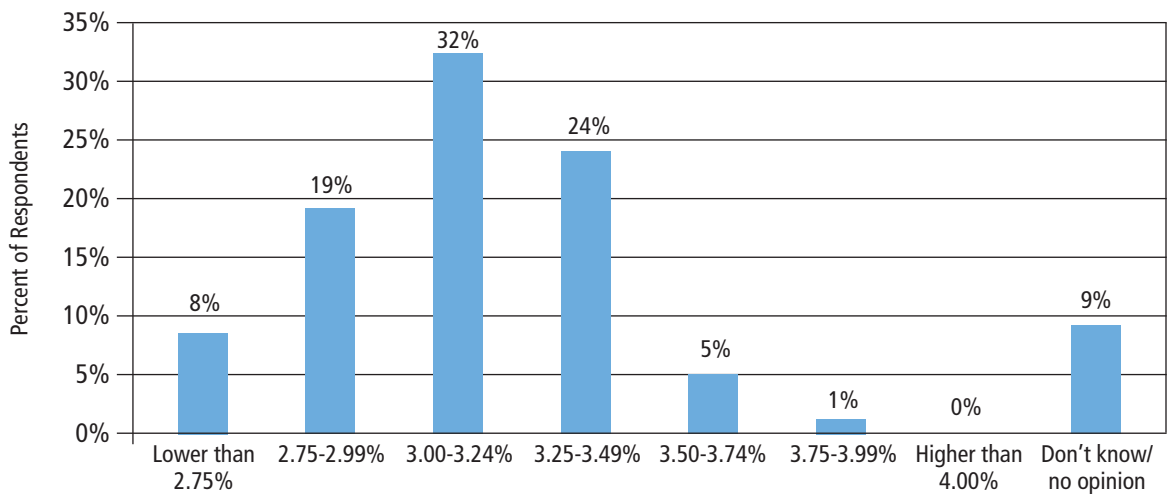
Sixty-one percent of survey respondents are in favor of raising the federal minimum wage, currently at \$7.25 an hour. Approximately 40%, however, think it should be raised without exception, while 20% believe it should be increased with some exceptions (such as for tipped workers or teenagers). Nineteen percent suggest the federal minimum wage should be abolished, while 11% believe there is no need to raise it.

## International Policy Issues

Eighty-four percent of respondents expect global economic growth to slow in 2019 from 3.6% in 2018, with nearly a third of respondents forecasting growth of 3.00%-3.24%, and a quarter of respondents expecting global growth of 3.25%-3.49%. Twenty-seven percent of respondents expect global economic growth to drop below 3.0%.

**Figure 6**

**The global growth rate for 2018 was 3.6%. What is your forecast for global GDP growth in 2019?**



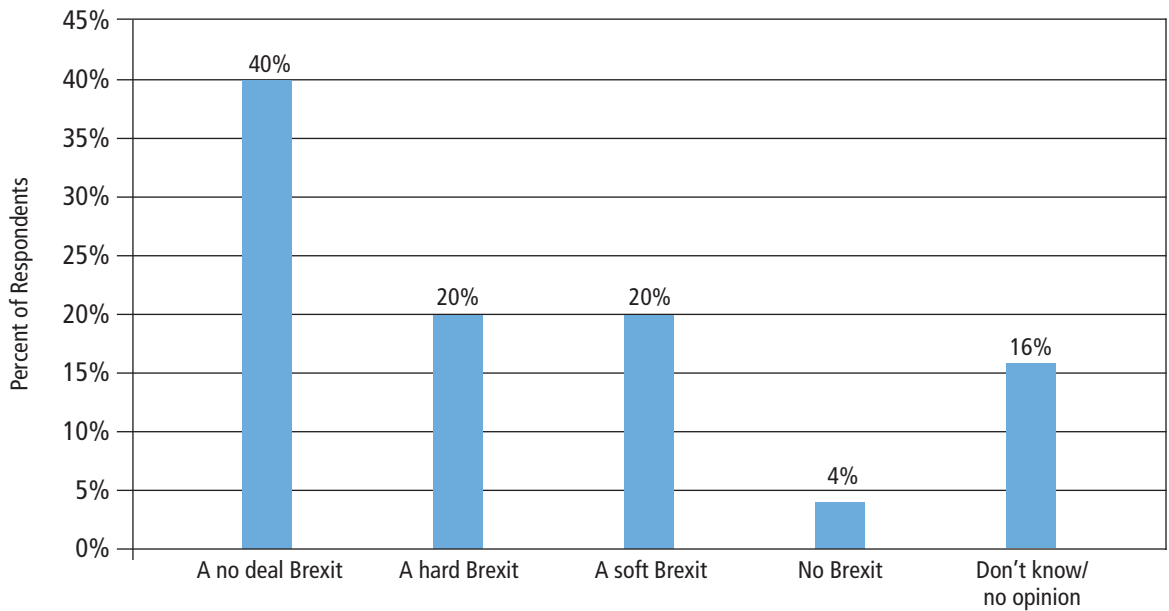
Given expectations of a global slowdown, the panel was asked whether central banks would use the tools available to combat the next downturn. A majority of survey respondents (58%) predicts that the ECB and the Bank of Japan will cut interest rates further into negative territory in the next two years. Only 20% expect these central banks will not cut rates.

Survey respondents are skeptical about the success of the latest round of trade negotiations between the United States and China. Only 5% predict a comprehensive trade deal will result. Sixty-four percent suggest a superficial agreement is possible, while nearly one quarter expects nothing to be agreed between the two countries. *(Note: the survey was conducted before the White House announced 10% tariffs on additional imported goods from China, the renminbi depreciated below 7, and the U.S. declared China a currency manipulator.)*

While a quarter of respondents indicates the likelihood of the U.S. imposing tariffs on imported autos and auto parts is 25% or less, another 58% of respondents put the probability at 26% or higher. Regarding the possibility of the U.S. imposing tariffs on imported agricultural products, approximately one-third of the panel believes the chances are 25% or less; roughly one out of five survey respondents thinks there is a 50% or higher probability.

Eight out of 10 respondents indicate that Brexit is a foregone conclusion, with a plurality (40%) expecting a no deal Brexit—i.e., the U.K. crashes out of the EU with no divorce agreement. Twenty percent of respondents believe the outcome will be a hard Brexit (the U.K. leaves both the customs union and the single market), and 20% anticipate a soft Brexit (the U.K. remains closely aligned with the EU and stays within the customs union and the single market).

**Figure 7**  
**Which Brexit Outcome is Most Likely?**





## Policy Survey Committee

**Megan Greene** (Harvard Kennedy School) (Chair)

**Eugenio Aleman** (Wells Fargo)

**Chris Christopher, CBE**

**Sarah House** (Wells Fargo)

**Patrick Jankowski** (Greater Houston Partnership)

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