

Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
Agenda

October 19, 2018
10:00 a.m. – 2:00 p.m.

President Evans' Conference Room, 2nd Floor

9:45 – 10:00 a.m. **Coffee**

10:00 – 11:00 a.m. **Linda Tesar -- *The Potential Impact of Escalated Tariffs on the U.S. Economy***

11:00 – 12:00 p.m. **Katharine Abraham -- *Declining Labor Force Participation: Has Trade Played a Role?***

Directors' Dining Room, 3rd Floor

12:10 – 2:00 p.m. **Lunch and Policy Discussion**

Members of the Panel

Katharine Abraham	University of Maryland
Lewis Alexander	Nomura
Alan Auerbach	University of California, Berkeley
Christian Broda	Duquesne Capital
Barry Eichengreen	University of California, Berkeley
Robert Gordon	Northwestern University
Anil Kashyap	University of Chicago
Matthew Shapiro	University of Michigan
Rob Shimer	University of Chicago
Linda Tesar	University of Michigan
Ellen Zentner	Morgan Stanley

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Charles Evans
Dan Sullivan
Spencer Krane
Anna Paulson
Dan Aaronson
Gene Amromin
Jonas Fisher
Jason Faberman
Leonardo Melosi
Jing Zhang

Policy Questions

1. The policy path and reaction function.

The median forecast in the FOMC's September Summary of Economic Projections (SEP) has the fed funds rate rising to 3.1 percent at the end of 2019 and 3.4 percent at the end of 2020 and 2021 – so a modestly restrictive policy stance when compared with the SEP central tendency for the long-run neutral funds rate (r^*) of 2-3/4 to 3 percent. This policy path is associated with growth slowing to potential, an uptick in the unemployment rate, and inflation remaining in check. The proverbial soft landing.

- a. What are the biggest risks to this projection? Do you think these risks are large enough that you would write down a different policy path than the SEP median?
- b. Suppose the unemployment rate continues to run well below estimates of the natural rate over the next 6 months but inflation remains close to 2 percent. Should that elicit a pause in the rate cycle?
- c. The September FOMC post-meeting statement removed the description of the stance of policy as being accommodative. The statement continued to contain the forward guidance:

“The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective over the medium term....In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective.”

Would you change this guidance in any way? If not now, at what point in the future would you plan to do so?

2. Judging the stance of policy.

- a. There is much uncertainty surrounding r^* and hence the degree of accommodation or restraint being exerted by monetary policy. As Chairman Powell noted at his last press conference when discussing the removal of “accommodative” from the FOMC statement:

“... we don’t want to suggest either that we have this precise understanding of where “accommodative” stops or suggest that that’s a really important point in our thinking. You know, what we’re going to be doing, assuming we stay on this path, is, we’re going to be carefully monitoring incoming data from the financial markets and from the economy and asking ourselves whether our policy is achieving the goals we want to achieve—you know, sustain the economy, maximum employment, stable prices. That’s the way we’re thinking about it, and that does kind of amount to thinking less about one’s precise point estimate of the neutral rate.”

Do you have any particular favorite indicators to monitor when judging the degree of accommodation or restraint being exerted by monetary policy?

- b. The slope of the yield curve and its predictive power for recessions is getting a lot of play. An example of yield curve discussion at the FOMC is found in the following paragraph from the minutes of the August meeting:

“Participants also discussed the possible implications of a flattening in the term structure of market interest rates. Several participants cited statistical evidence for the United States that inversions of the yield curve have often preceded recessions. They suggested that policy-makers should pay close attention to the slope of the yield curve in assessing the economic and policy outlook. Other participants emphasized that inferring economic causality from statistical correlations was not appropriate. A number of global factors were seen as contributing to downward pressure on term premiums, including central bank asset purchase programs and the strong worldwide demand for safe assets. In such an environment, an inversion of the yield curve might not have the significance that the historical record would suggest; the signal to be taken from the yield curve needed to be considered in the context of other economic and financial indicators.”

Where do you come down in this debate? What message should we be taking about the stance of policy from the slope of the yield curve?

3. Other questions.

- a. Do you see any important costs to low unemployment other than its potential influence on inflation? (This could be in terms of labor markets—for example, if too many workers were foregoing training or education—or if the low unemployment rate was an indicator of imbalances in other sectors of the economy.) If yes, how aggressively should monetary policy act and how should these actions be communicated?
- b. Do you have any views on the amount of reserves the FOMC should be aiming at when normalizing the balance sheet?