Economic Policy Survey

NABE Economists Expect Fed to Continue to Raise Near-Term Rates in 2016; A Growing Number See Tight Fiscal Policy as Restraining Economic Growth

Embargoed until: Monday, March 7, 2016, 12:01am ET

For further information contact:

Media | **Melissa Golding, NABE Press Officer** | 571-236-2820 | melissagolding@cox.net

Technical | **Ken Simonson, NABE Survey Analyst** | 703-837-5313 / 202-329-9671 | simonsonk@agc.org

Richard Wobbekind, NABE Survey Analyst | 303-492-1147 / 303-641-0739 | Richard.Wobbekind@Colorado.edu

The NABE March 2016 Economic Policy Survey summarizes the responses of 252 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was conducted February 10-17, 2016. 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. LaVaughn Henry (Federal Reserve Bank of Cleveland), Chair; Timothy Gill (National Electrical Manufacturers Association); Emily Kolinski Morris (Ford Motor Company); Ken Simonson (Associated General Contractors of America); Holly Wade (National Federation of Independent Business); and Ellen Zentner (Morgan Stanley) conducted the analysis for this report.

Summary

"A large and growing majority of business economists expects the Federal Open Market Committee to continue raising the near-term target for the federal funds rate throughout 2016," said **NABE President Lisa Emsbo-Mattingly**, director of research, Global Asset Allocation, Fidelity Investments. "However, respondents on balance expect fewer increases in 2016 than they had predicted in the August 2015 survey.

"While slightly more than half of survey respondents believe that the current monetary policy stance of the Fed is 'about right,' nearly 31% indicate that current policy is too stimulative," Emsbo-Mattingly continued. "Approximately 75% of respondents expect the Fed funds rate target to be raised two times or less throughout the course of 2016, with two-thirds of respondents seeing the rate peaking at 3% or lower before the Fed begins easing again.

"Tight fiscal policy is increasingly cited as a significant restriction on current economic growth," Emsbo-Mattingly continued. "With economic growth having slowed since the last survey was released in August 2015, a narrow plurality of panelists—41%—now characterizes current fiscal policy as 'too restrictive' compared to the 29% who held this view last August, whereas 38% of respondents now characterize fiscal policy as 'about right,' down from 41%in August.

"The survey also reveals interesting results on a range of other economic policy issues," Emsbo-Mattingly added. "Panelists overwhelmingly favor lifting restrictions on high-skill immigration. In contrast, they are split regarding a national minimum wage. A majority believes the Trans-Pacific Partnership trade agreement would have a net positive impact on the U.S. economy if adopted but they are divided as to whether the agreement will be approved this year."

NABE
National Association for Business Economics

Published by the National Association for Business Economics | 1920 L St NW, Ste 300, Washington DC 20036
202-463-6223 | 202-463-6239 fax | nabe@nabe.com | www.NABE.com

Fiscal and Monetary Policy Perspectives

- A plurality of survey respondents (35%) expects that at year-end 2016 the Fed funds rate target rate will be 1%. Approximately two-thirds of respondents (64%) expect that the year-end 2016 target will be 1% or less.
- Long-term inflation expectations remain anchored at the Fed's 2% target. Seventy-six percent of survey respondents expect inflation in five years to be near the Fed's 2% target.
- Sixty-nine percent of respondents favor structural policies to stimulate stronger economic growth as a means of addressing current federal budget deficits; moreover, 71% favor such policies to address long-term deficits.

Positions on Other Economic Policy Matters

- A large majority (79%) of survey respondents believes that the federal government should remove restrictions on high-skill immigration.
- A majority of respondents believes that the federal minimum wage should either be increased or be increased with exemptions.
- Based on a current understanding of the Trans-Pacific Partnership trade agreement (TPP), a majority of survey respondents (58%) believes that it will have a net positive impact on the U.S. economy.

Detailed Survey Results

Fiscal Policy

NABE's March 2016 Policy Survey panelists have shifted their views regarding the appropriateness of current U.S. fiscal policy. With economic growth having slowed since the previous survey was released in August 2015, a narrow plurality of panelists (41%) now characterizes current fiscal policy as "too restrictive" compared to the 29% who held this view in August. Thirty-eight percent of panelists feel current fiscal policy is "about right," a decline from 46% in the August survey. Nineteen percent felt fiscal policy was "too stimulative" in the previous survey, similar to the nearly 18% who hold this view currently.

A very narrow plurality (50%) of panelists feels that uncertainty surrounding fiscal policy is not at present holding back the economic recovery. Forty-six percent feel fiscal uncertainty is holding back growth.

The survey offered respondents four policy options to reduce both current and long-term budget deficits, with respondents asked to choose *all* the policies they favored. Sixty-nine percent of panelists indicate they support enacting structural policies to stimulate stronger economic growth to reduce the current federal budget deficit. Structural policies also are the most popular approach for addressing the budget deficits that the Congressional Budget Office projects will occur in the 2020s and 2030s under current policies. The second most popular policy option for dealing with the current deficit is greater spending restraint (43%) followed by increasing tax revenues (27%). Smaller shares of panelists believe that no policy changes are required because deficits are either immaterial or, in the case of projected long-term deficits, too speculative.

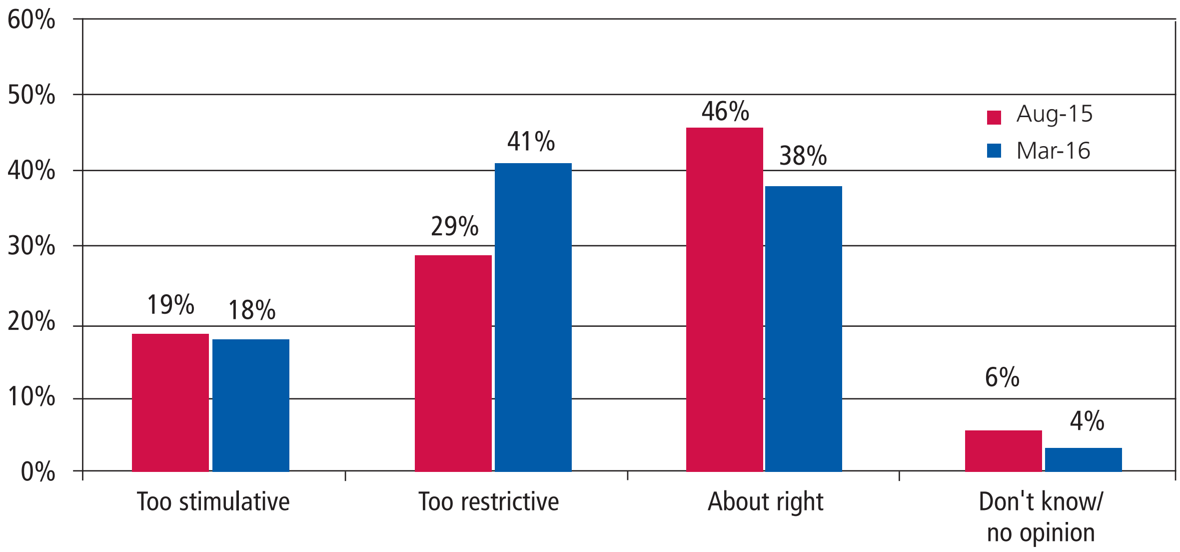
Drilling down further, survey results reveal which specific spending categories panelists feel the government should target to address *projected long-term* deficits. (Respondents were again asked to choose *all* the spending categories they favored targeting.) Sixty-three percent favor targeting entitlement programs other than Medicare/Medicaid and Social Security, 57% recommend targeting Medicare and Medicaid spending, 49% would focus on defense spending, 43% on Social Security, and 40% on non-defense discretionary spending.

Should the federal government choose to increase revenues resulting from the CBO's projected long-term deficits, 63% of panelists indicate that individual and/or corporate tax bases should be broadened. Enacting a broad-based energy or carbon tax or increasing Social Security and Medicare contributions have relatively less support (46% and 36% of panelists, respectively). A small percentage of panelists support a national sales or value-added tax (21%), an increase in individual income tax rates (17%), or an increase in the corporate income tax rate (13%).

When asked to consider options for reforming corporate tax policy, nearly four out of five panelists (79%) suggest that the corporate tax base be broadened via elimination or limitation of deductions. Slightly more than half (52%) favor a reduction in the corporate tax rate. Smaller shares of panelists advocate a shift to a territorial tax system—corporations pay tax only on the income that is generated within the United States (40%)—and 29% support allowing the expensing of capital expenditures.

More than half—58%—of panelists feel that the U.S. Treasury should increase issuance of long-term debt (i.e., maturities of 10-30 years) with short-term interest rates expected to rise. However, only 23% favor issuance of debt securities with maturities beyond the current maximum term of 30 years.

Figure 1: Appropriateness of Current Fiscal Policy



In all figures, percentages may not sum to 100% due to rounding.

Monetary Policy

A small majority of NABE survey respondents (56%) believes the Federal Reserve is on the right track and that the current stance of U.S. monetary policy is appropriate. This is an increase from the 52% of panelists who held this view in August of 2015. The share of respondents who consider monetary policy to be too stimulative has declined—31% of panelists indicate that the current stance of monetary policy is too easy, a decrease from the 40% in the August survey that held this view. About 11% of respondents characterize monetary policy as too restrictive.

While a large majority of respondents (75%) expects the Federal Open Market Committee (FOMC) to raise its target for the federal funds rate above the current 25-to-50 basis-point range by year-end 2016, on balance those holding that view anticipate fewer increases than anticipated in the August survey. Approximately 39% of respondents expect only two rate increases in 2016 and 17% expect three or more. In contrast, 24% expect one increase and approximately 12% expect no increases (9%) or a negative rate move (3%) this year. Additionally, 4% expect one increase, followed by one or more decreases.

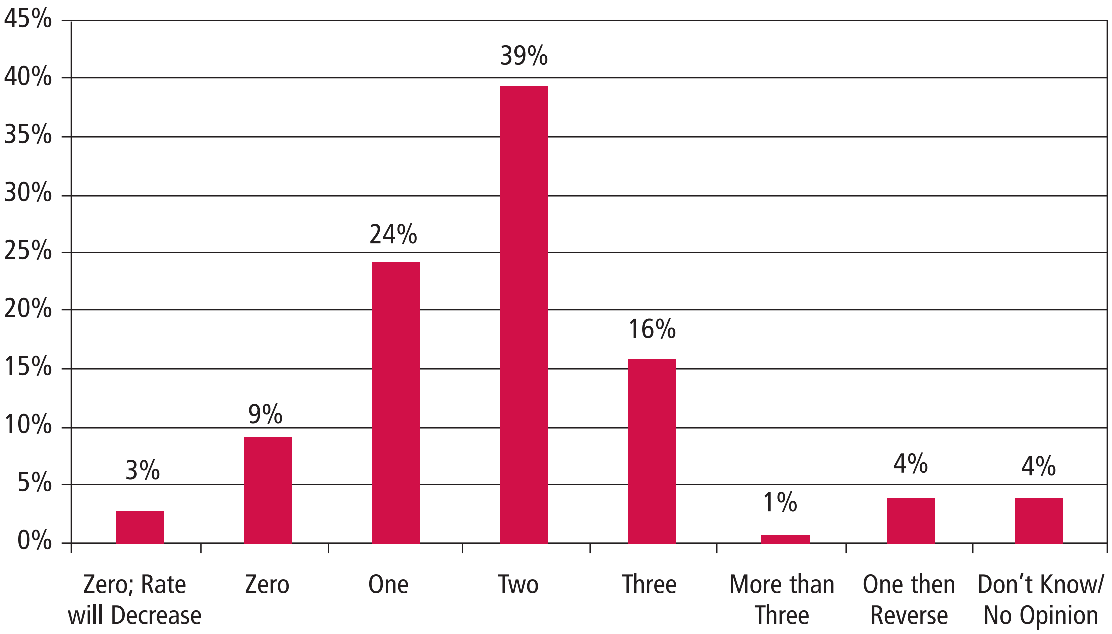
Panelists' expectations regarding the near-term target of Fed tightening—i.e., how high the upper band of the Fed funds rate target will be at the end of 2016—range from the current 0.5% to over 2.0%. The largest share of panelists—35%—expects the year-end target level will be 1% while 29% expect that the year-end rate will stand at 75 basis points or less. A quarter of panelists predict the year-end rate target will exceed 1%.

The survey included a question about the likely terminal rate in the upcoming tightening cycle—that is, how high will the upper band of the Fed funds rate target reach before the Fed starts easing again. Approximately two-thirds of respondents think the funds target will not exceed 3.0% before the next easing cycle compared to more than the one-half of respondents who held this view in the August survey. Terminal Fed funds target rates have not been below the 4% level since the late 1950s.

A sizable 76% of respondents expect inflation, as measured by year-over-year changes in the personal consumption expenditure price index, to be near the Fed's 2% goal five years from now. Thirteen percent expect inflation to be significantly above the 2% goal, while 6% of panelists expect significantly lower inflation.

Were economic growth to become negative for all of 2016, a significant majority of survey respondents (66%) believes that the appropriate policy response would be for Congress and the Administration to enact a fiscal policy stimulus, while 46% believe that the Fed should lower the Fed funds target range back to the zero bound. (Note: Survey responses to this question were not designed to be mutually exclusive.)

Figure 2: How many Fed funds rate increases do you expect that the FOMC will implement in 2016?



Domestic Economic Policy/Regulations

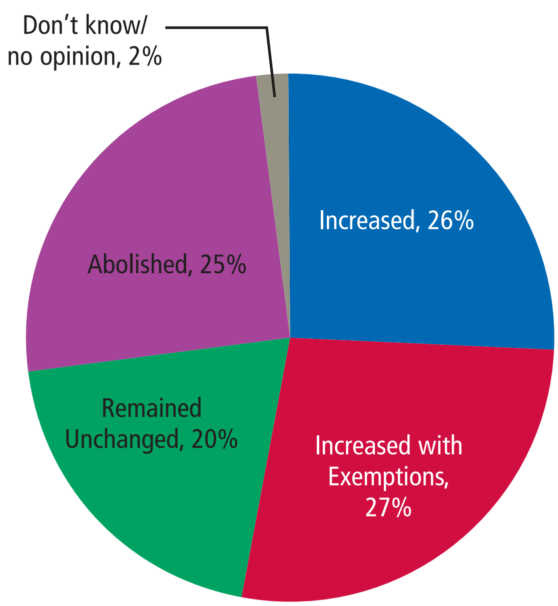
Lifting restrictions on high-skill immigration has wide support among NABE panelists. Seventy-nine percent of panelists support the federal government lifting restrictions for this group, about the same level of support reported a year ago. Just 15% oppose the policy.

While the easing of high-skill immigration restrictions garners broad support, the same is not the case for the national minimum wage. About one-quarter (26%) of panelists supports an increase in the minimum wage—approximately six percentage points lower than the share holding this view in the August 2015 survey. Another 27% support an increase but with exemptions, e.g., for teenage, short-tenured, and/or tipped workers. One in five panelists supports the status quo. Twenty-five percent of panelists oppose the current national minimum wage and would like to see it abolished, a sizable increase from August when 18% supported its elimination.

President Obama recently proposed a $10 per barrel fee on imported crude oil to pay for annual transportation infrastructure investments. Over half (55%) of the panelists believe that this fee will be paid for primarily by consumers through higher gasoline prices. About 38% of respondents think the tax burden will be shared by both oil producers and consumers. Just 4% believe the tax burden will fall primarily on oil producers.

The survey offered a list of five possible results from the enactment of such an oil tax. (Respondents selected all the proposed effects they thought would occur.) A reduction in oil consumption was the most frequently cited outcome, with almost two-thirds (63%) of panelists believing that consumers will curb their oil consumption if the tax is approved. Just over half (54%) believe that the tax will encourage a shift to alternative forms of energy. Forty-four percent of panelists think that the proposal will "hamper economic growth" through reduced consumer spending, and 40% believe that the tax will "benefit domestic oil producers over offshore producers." Only 18% of panelists think it will "impose a hardship on energy companies."

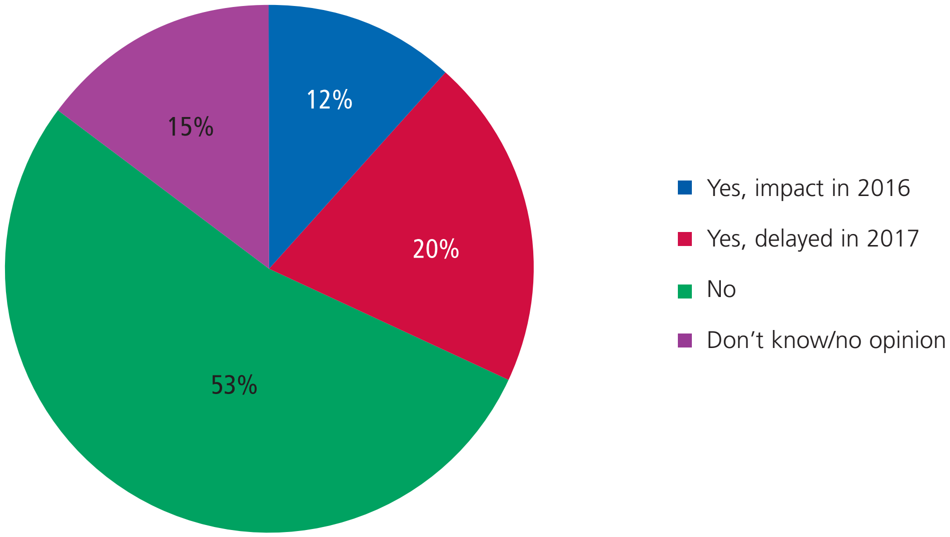
Figure 3: What changes should be made to the federal minimum wage?



Foreign Policy

This NABE Policy Survey asked panelists their views on specific foreign policy issues: Japanese monetary policy, U.K. membership in the European Union, and the Trans-Pacific Partnership trade agreement. . In January 2016, the Bank of Japan announced that it would implement negative interest rates on selected classes of bank reserves to avoid deflation and support a stronger economic recovery. Overall, panelists have doubts regarding the impact of the decision. Just over half (53%) believe that the Bank's policy move will not significantly impact economic growth. Roughly one-third (32%) anticipates some positive impact, with a larger share expecting a delayed impact in 2017 and beyond (20%) than the share expecting an immediate impact in 2016 (12%).

Figure 4: Opinions on Impact of Japanese Negative Interest Rate Policy



As the U.K. moves toward a June 23 referendum on continued membership in the European Union, the survey respondents view a so-called "Brexit" as an unlikely outcome. Nearly three-quarters (74%) of respondents expect the U.K. will not exit the European Union before the end of 2017, while just 10% anticipate an exit.

The survey asked for panelists' views on the Trans-Pacific Partnership (TPP)—the 12-country trade pact among the U.S., Canada, Mexico, Chile, Peru, Japan, Australia, New Zealand, Singapore, Malaysia, Vietnam, and Brunei. The panel is closely split on whether or not the TPP will be enacted in 2016: 39% expect the trade agreement will be approved this year and a slightly higher 44% expect no approval.

While approval of the trade agreement remains uncertain, panelists are more unified regarding the potential impact of the trade agreement on the U.S. economy. A majority of respondents—58%—indicates that TPP would have a net positive impact on the U.S. economy. Only 8% of panelists believe that the agreement would have a net negative economic impact on the U.S., and 21% indicate that the impact of the trade pact would be neutral.

Policy Survey Committee

LaVaughn Henry, Federal Reserve Bank of Cleveland, Chair

Timothy Gill, National Electrical Manufacturers Association

Emily Kolinski Morris, Ford Motor Company

Holly Wade, National Federation of Independent Business

Ellen Zentner, Morgan Stanley