

# Economic Policy Survey

## **Business Economists Expect Recession by 2021, Worry about Budget Deficits; NABE Policy Panel's View Differs from Markets' Regarding Likely Path for Interest Rates**

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The February 2019 NABE Economic Policy Survey summarizes the responses of 281 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered January 30-February 8, 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** (Manulife Asset Management); **Eugenio Aleman**; **Chris Christopher, CBE** (IHS Markit); **Robert Graboyes** (Mercatus Center-George Mason University); **Sarah House** (Wells Fargo); **Patrick Jankowski** (Greater Houston Partnership); **Dana Saporta, CBE** (Credit Suisse); and **Holly Wade** (NFIB) conducted the analysis for this report.

### Summary

"Three-fourths of the NABE Policy Survey panelists expect an economic recession by the end of 2021," said **NABE President Kevin Swift, CBE**, chief economist at the American Chemistry Council. "While only 10% of panelists expect a recession in 2019, 42% say a recession will happen in 2020, and 25% expect one in 2021. A majority of panelists also indicates they would be worried about a budget deficit in the U.S. that equaled up to 4% of gross domestic product. This is an outcome which will likely occur in 2019 given the deficit for fiscal year 2018 was 3.85%, and respondents expect spending policies to increase the deficit compared with the Congressional Budget Office's current 10-year baseline estimate.

"Business economists continue to approve of current monetary policy," continued Swift. "Nearly three-quarters of panelists believe that the Federal Reserve's policy is 'about right,' roughly the same percentage as in the August survey. A majority of panelists continues to believe the Fed should maintain its current inflation target of 2%."

"There is a schism between what the NABE panel and the markets think about the Fed's rate path and the shrinking of its balance sheet," said **Survey Chair Megan Greene**, global chief economist at Manulife Asset Management. "The markets are pricing in no more interest-rate hikes in 2019, whereas a majority of the NABE panel expects one or two rate hikes this year. Survey results also reveal that, while investors have frequently blamed higher borrowing costs on the Fed's quantitative tightening, the panel is inconclusive regarding the impact of shrinking the Fed's balance sheet on short- and long-term rates.

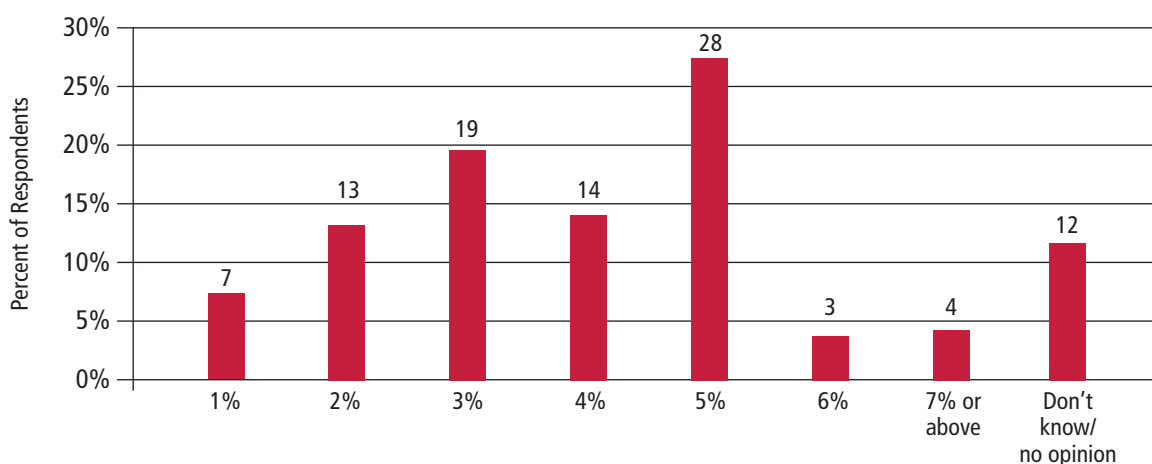
"On other economic policy matters, a majority of respondents expects the economy will continue to benefit from deregulation in 2019-20," added Greene, "although 44% think the positive boost from deregulation will wane in the second half of President Trump's current term. A large majority of the panel does not view illegal immigration at the southern U.S. border as a crisis and thinks that immigration policy should be changed to expand high- or low-skilled visas."

## Fiscal Policy

Just over half (55%) of survey respondents find current fiscal policy to be “too stimulative,” a sharp retreat from 71% in August of 2018, but close to the result a year ago (52%). The panel is roughly evenly split between thinking the primary objective of current fiscal policy should be to stimulate more robust economic growth in the medium-to-long term (41%), or to reduce the deficit and debt (35%).

A large majority of respondents (85%) believes that current tax and expected spending policies will likely increase the deficit relative to nominal gross domestic product (GDP) when compared with the Congressional Budget Office’s current 10-year baseline. The majority (53%) of respondents indicates they would be concerned about a U.S. federal budget deficit equivalent to up to 4% of GDP given current economic conditions. (Note: The deficit for fiscal year 2018 was 3.85% of GDP.) An additional 28% of respondents say they would be concerned if the deficit rose to 5% of GDP.

**Figure 1**  
**Above What Level of Deficit/GDP Worries You?**

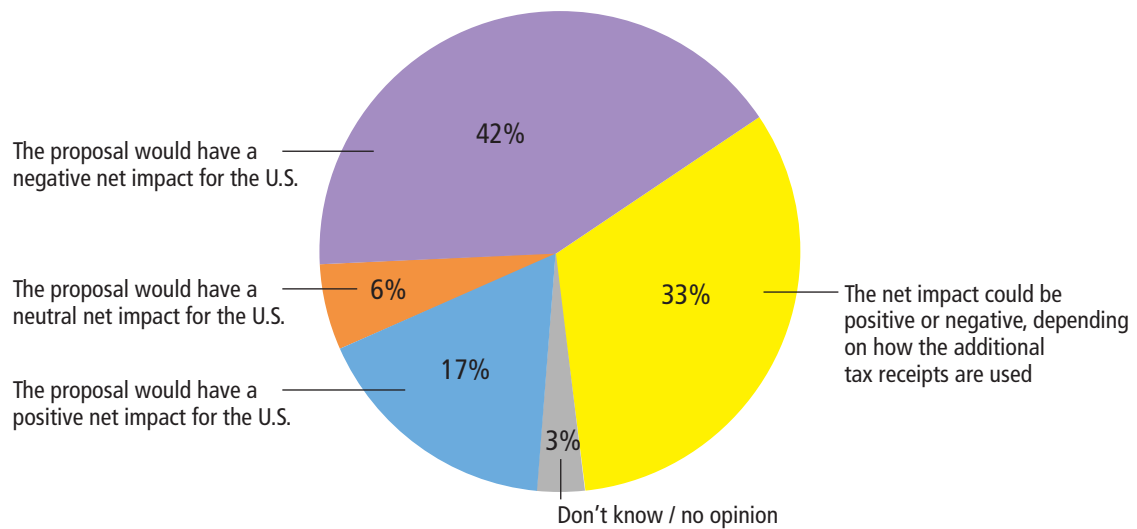


The panel is also fairly evenly split in its views about how to address the current fiscal deficit: 57% favor exercising greater spending restraint, 53% favor increasing tax revenues, and 47% support enacting structural policies to stimulate stronger economic growth. In terms of increasing revenues broadly, 50% of respondents support a broad-based energy or carbon tax and 48% support broadening the individual and/or corporate tax bases. Less popular options include increasing Social Security and Medicare contributions (24%) and enacting a national sales or value-added tax (20%).

Expectations of the impact from recent policy developments on GDP growth are mixed. About two-thirds of survey respondents anticipate a boost of up to 0.5 percentage points (ppt) to GDP growth in 2019 as a result of the 2017 Tax Cuts and Jobs Act (TCJA). At the same time, roughly half (51%) of respondents expect a 0.1-0.2 ppt drag on first-quarter 2019 GDP growth due to the federal government shutdown. One-third (34%) fears the shutdown will lower GDP even more (0.3-1 ppt). In contrast, about one-tenth (11%) does not believe the shutdown will have a measurable impact on growth. (The shutdown lasted from December 22, 2018 to January 25, 2019.)

Regarding the impact of a proposed 70% marginal tax rate on income over \$10 million on the U.S. economy, 42% of respondents indicate that the net impact would be negative, and 17% say it would be positive. One-third of respondents indicates that the impact would depend on how the additional tax receipts are used.

**Figure 2**  
**Impact of Marginal Tax Rate of 70% on Income Over \$10 Million**  
*(percentage distribution of respondents)*



The TCJA allows corporations to fully expense (immediately deduct) investments in new equipment placed in service by the end of 2022. Thirty-nine percent of respondents believe the temporary full-expensing tax provision should be made permanent because it would boost incentives to invest and reduce uncertainty. On the other hand, 29% of panelists indicate that the full-expensing provision should expire as scheduled. Nineteen percent say the provision should be scaled back or phased out even sooner than scheduled, as the positive effects on economic growth are small relative to its cost and/or because the temporary nature of the provision tends to strengthen its incentive effects.

There is no consensus among panelists regarding the impact of the TCJA's provisions that limit the value of itemized deductions for both state and local taxes and home mortgage interest. A plurality of survey respondents (29%) believes capping these deductions will have noticeable incentive effects on household decisions, as well as adverse impacts on state and local government budgets, homeownership, and real estate values, but at the same time feels such provisions are worthwhile for the base-broadening revenue generated by the policies. Three other responses are closely balanced, with 23% of the panel believing tax rate increases or limits to other tax preferences would have been better policies than capping these particular itemized deductions, 22% indicating that the policies will have little effect on household economic decisions, and 18% believing that the policies will have noticeable incentive effects and are not worth the revenue they raise.

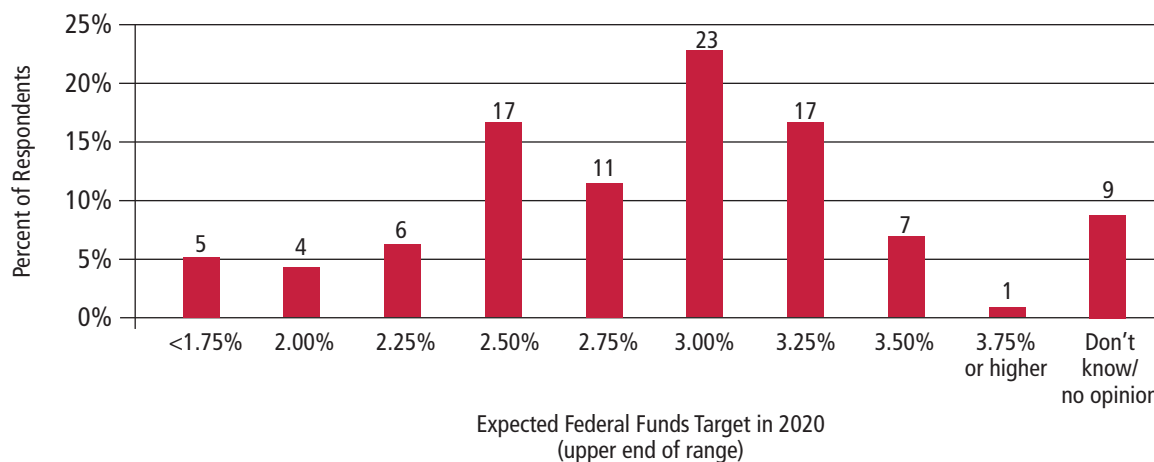
Nearly 11 years after the end of the Great Recession, almost half (47%) of respondents believes the government's fiscal response during the recession was inadequate and that more should have been done. About one-third indicates that the response was about right, while 16% think that the government did too much.

## Monetary Policy

A majority of respondents believes that the Federal Reserve's monetary policy stance is "about right," and that the Fed is merely pausing its rate hikes rather than ending them for this cycle. Sixty-five percent of respondents expect the upper end of the federal funds target range at year-end 2019 will be 2.75% (39% of respondents) or 3.00% (26% of respondents), compared to the current level of 2.50%. This is in stark contrast with market-based probabilities for rate hikes, which forecast the upper end of the federal funds target rate at year-end will be 2.50%. In addition, the predominant view of survey respondents is that a higher federal funds rate will not derail the global economy (78%).

However, panelists are in far less agreement about the outlook for rate hikes in 2020. Expectations for the upper end of the federal funds target rate range from the current 2.50% (17% of respondents) to 2.75% (11%), 3.00% (23%), and 3.25% (17%). Another 15% of respondents expect the target rate will be below the current rate at the end of 2020.

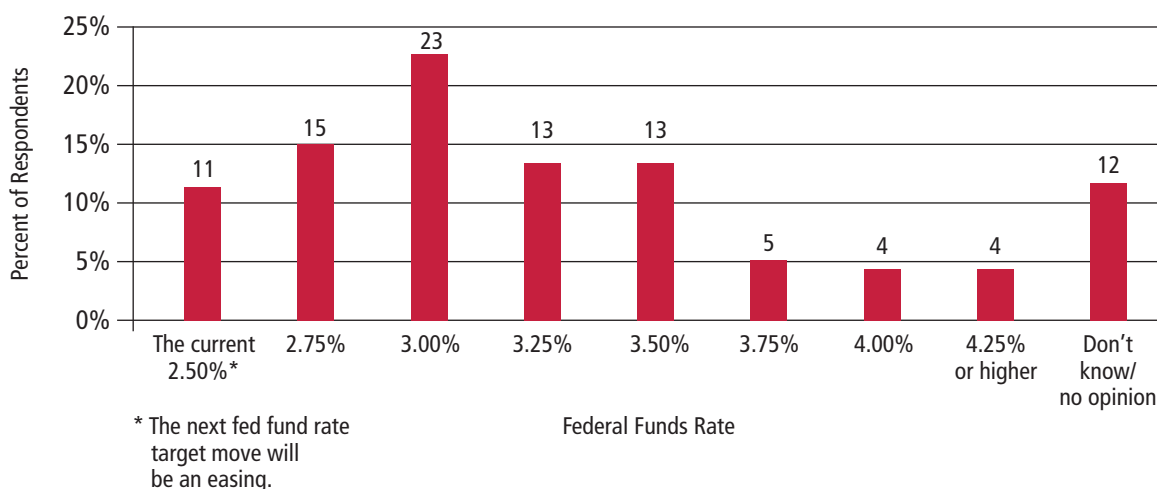
**Figure 3**  
**What will be the upper end of the federal funds target range at year-end 2020?**



There is also a broad distribution of views on how high the federal funds target rate would get before the Fed begins cutting its interest rate target. A small plurality (23%) of respondents expects the upper end of the target range to be 3.00% before the Fed begins cutting rates.

**Figure 4**

**How high will the upper end of the fed funds target range get before the Fed begins cutting its interest rate target?**



A majority of respondents believes that the Federal Reserve's monetary policy response to the Great Recession was adequate (67%), and that the quantitative easing program was generally effective (79%). More than two-thirds (71%) say that the Fed's 2% inflation target is appropriate, with 15% indicating it should be higher, and 10% saying it should be lower.

The panel is much more divided about the impact of the Fed's balance sheet normalization process. A plurality (38%) of respondents does not know or has no opinion regarding the impact of quantitative tightening on short-term funding rates, 20% indicate there would be no impact, 21% expect rates to be pushed upward 25 basis points (or 0.25 ppt), and 21% think rates would rise 50 basis points (0.50 ppt) or more.

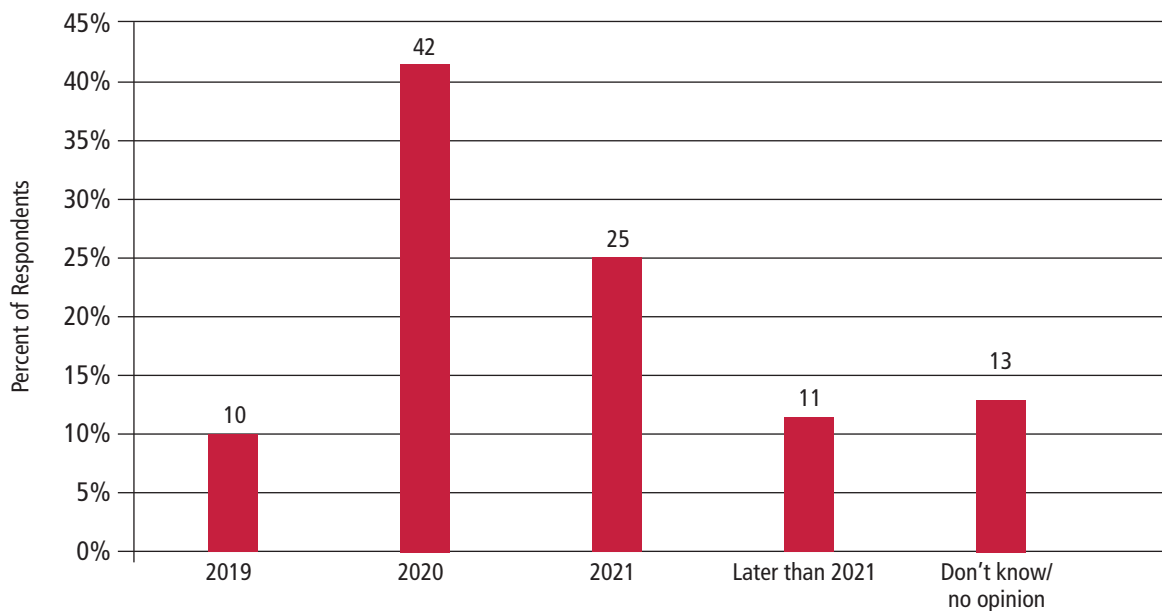
Respondents hold a similarly wide range of views regarding the impact on the 10-year Treasury note yield from the Federal Reserve shrinking its balance sheet to \$3-3.5 trillion. Thirty-seven percent of respondents do not know or have no opinion on the impact, 24% think the yield would rise 50 basis points (in line with what the Fed has suggested), 16% expect a 25-basis point increase, and 10% believe it would have no effect. The remaining 13% expect an increase of 75 basis points or more.

The panel is almost evenly split as to whether or not the Fed should adjust its balance sheet runoff plan, absent an economic crisis that revives quantitative easing. About 44% of respondents indicate the Fed should adjust its balance sheet runoff plan to changing conditions, while 42% say it should keep its balance sheet normalization process "on autopilot."

## Domestic Economic Policy

Three-fourths of the NABE Policy Survey panelists expect an economic recession by the end of 2021. Only 10% of respondents expect the U.S. to enter an economic recession in 2019. A plurality (42%) expects one in 2020, one-quarter of respondents thinks a downturn will hit in 2021, and 11% believe a recession will happen later than 2021.

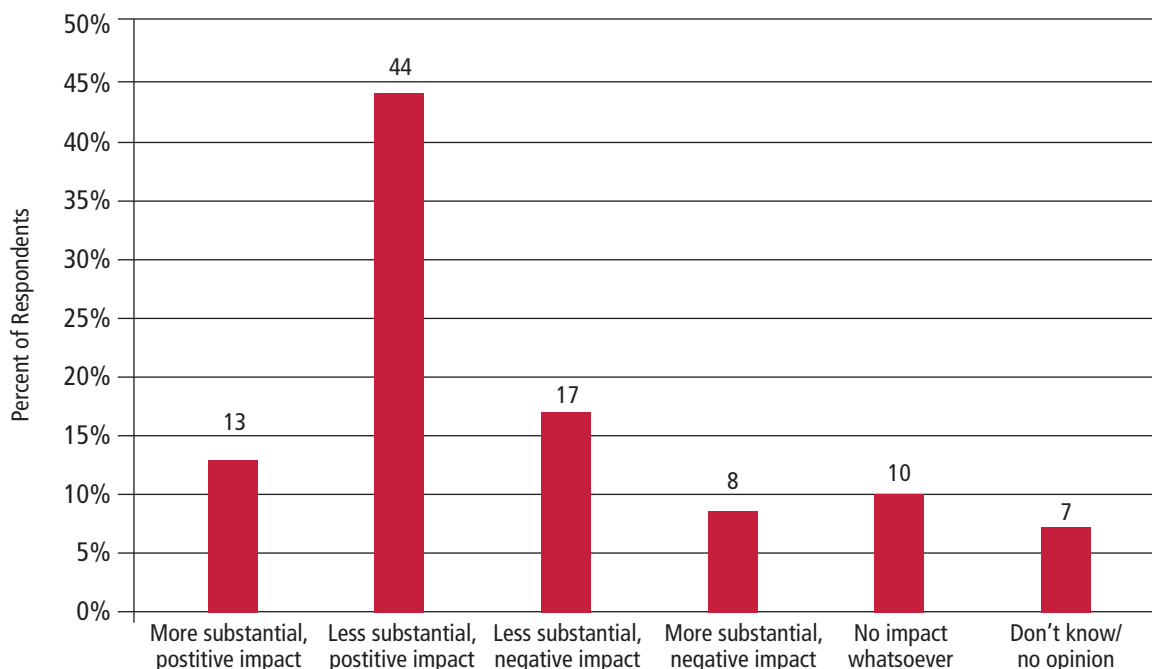
**Figure 5**  
**When Will the U.S. Enter Recession?**



As to the prospects for Congress passing an infrastructure funding bill in 2019, a very small share of respondents (5%) thinks the probability is 50% or greater. Three-fifths (60%) of respondents believe the chances of such a deal are less than 25%, and another 30% think the probability is between 25% and 49%.

A majority (57%) of respondents expects the economy will continue to benefit from the Trump administration's deregulatory agenda in 2019-2020, although 44% believe the positive effects will be less substantial relative to the first half of the administration's tenure, and only 13% think the effects will be more substantial. A quarter (25%) of respondents believes the administration's deregulation efforts will negatively impact the economy in 2019-2020, while 10% expect no impact whatsoever.

**Figure 6**  
**Relative to the first half of President Trump’s term, the administration’s deregulatory agenda is likely to have what impact on the economy in 2019-2020?**



A large majority (78%) of respondents does not view illegal immigration at the southern U.S. border as a crisis. A similar share (79%) does not support President Trump’s \$5.7 billion proposal to erect a wall/barrier along the southern U.S. border as the primary use of additional border security funding. Around 16% do believe illegal immigration is a crisis, and 15% support building a wall/barrier.

In terms of improving current immigration policies, 78% of respondents support expanding high-skill visa programs, such as H-1B. More than two-thirds (69%) support expanding low-skill visa programs, such as H-2B and H-2A. About 41% indicate they support increased spending on border enforcement, and 11% favor increased spending on deportation.

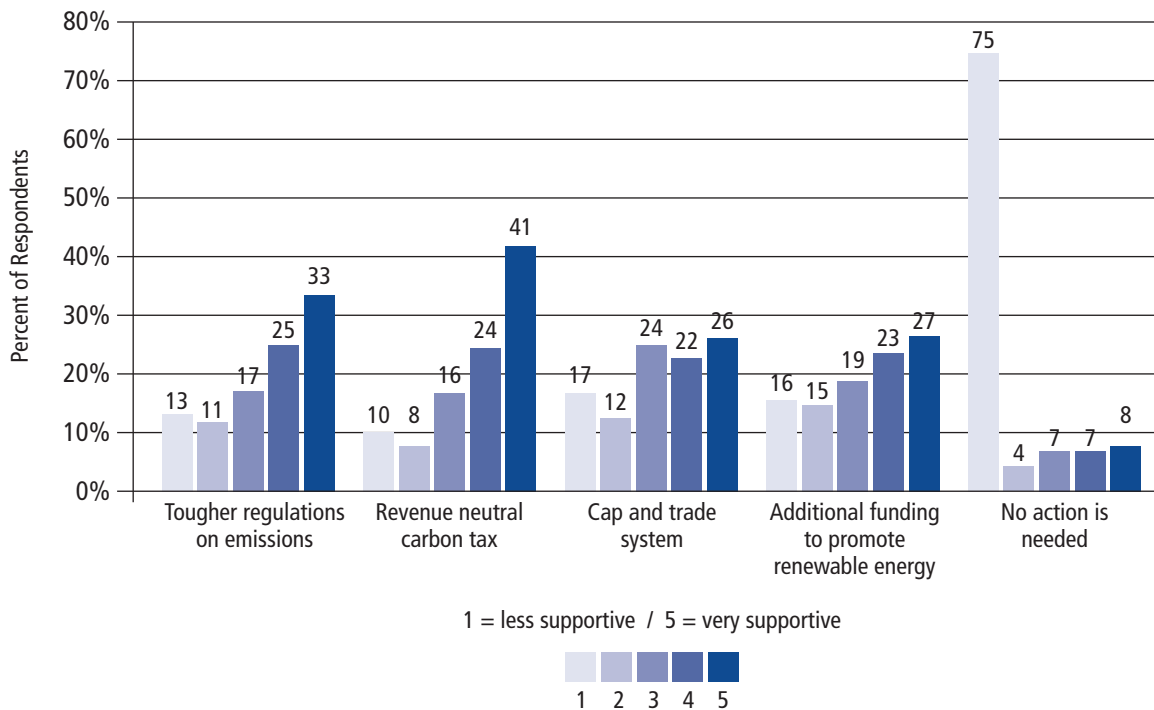
Fifty-eight percent of respondents believe that the current trajectory of the country’s health-care system is troubled, but that it will likely muddle through the next 10-15 years. About a quarter of respondents (26%) believes the system is in crisis, and will reach a critical point in the next 10-15 years. Only 6% believe the system to be “despite some problems, in good shape,” and will continue to be so through the next 10-15 years.

A decade after Lehman Brothers’ collapse, a majority of respondents (58%) does not think it was a mistake to let the firm fail; 31% believe it was a mistake. The remaining 12% do not know or have no opinion.

The survey asked respondents to rate, on a scale of 1-to-5, their support for various approaches the U.S. government could take to combat climate change, with 1 indicating “less supportive” and 5 indicating “very supportive.” The two most supported approaches call for a revenue neutral carbon tax and tougher emissions regulations, with 65 percent and 58 percent, respectively, assigning ratings of 4 or 5 to these options. Respondents are less supportive of a cap-and-trade system and providing additional funding via mechanisms such as tax credits and grants to promote renewable energy. Three-quarters of respondents rate the response “no action is needed” with the lowest possible rating of 1.

**Figure 7**

**Rate your support of the following approaches the U.S. government could take to combat climate change:**



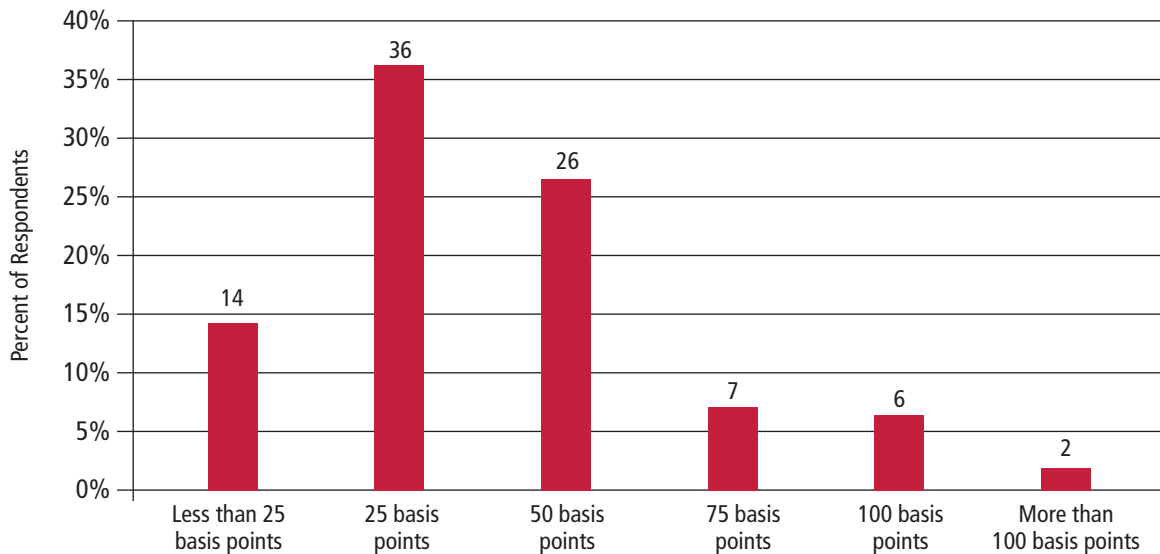


## International Policy Issues

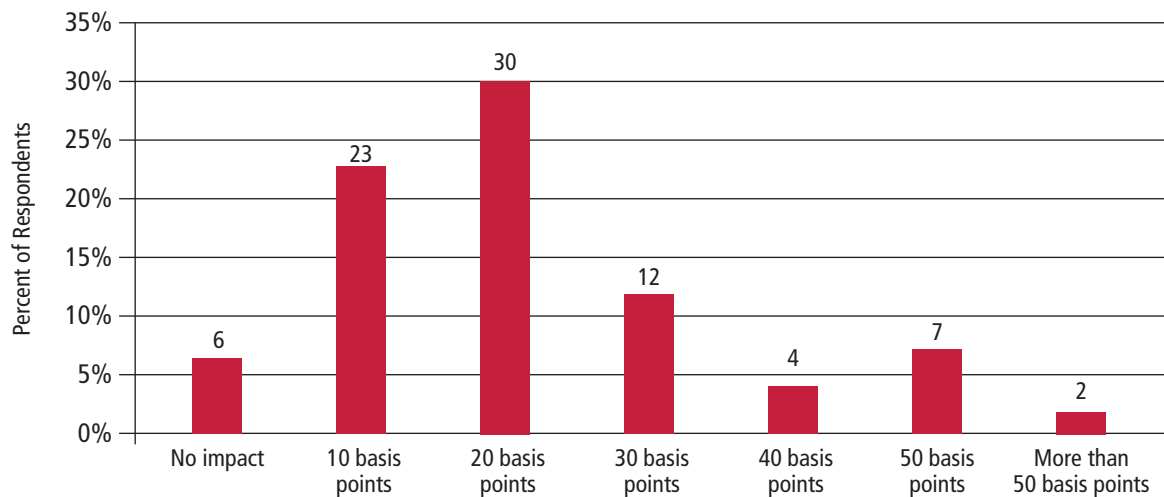
Nearly two-thirds of respondents expect the existing tariffs, if they persist, will drag U.S. GDP growth in 2019 down by 25 basis points (36% of respondents) or 50 basis points (26% of respondents). Another 15% of panelists expect the drag on GDP to exceed 50 basis points.

Approximately half of respondents expect the existing tariffs, if sustained, to boost inflation in 2019 by 10 basis points (23% of respondents) or 20 basis points (30%). An additional 25% of respondents expect a larger boost to inflation by the end of 2019, while about 7% of respondents expect no impact or a drag on inflation (1%).

**Figure 8**  
**Expected Drag on GDP Growth in 2019 from Existing Tariffs**



**Figure 9**  
**Expected Boost to Inflation in 2019 from Existing Tariffs**



A large majority (86%) of panelists expects the impact from the U.S. imposing car tariffs on imported vehicles to be negative, with that share of the panel roughly evenly split between thinking the negative impact would be somewhat consequential (44%) or consequential (42%). About 8% of respondents say imposing car tariffs would be favorable, while 4% say the impact would be inconsequential.

About two-thirds (68%) of respondents indicate there would be a negative impact on the U.S. economy if the Trump administration uses the threat of unilaterally withdrawing from NAFTA to push its replacement (USMCA) forward. Again, the panel is roughly evenly split on whether the negative impact would be somewhat consequential or consequential. About 12% of respondents say such a threat would be favorable, and 15% say it would be inconsequential.

About half of respondents expect global growth to decelerate from an estimated 3.5-4% in 2018 to 3-3.49% in 2019 (31% expect growth of 3-3.24%; 22% expect growth of 3.25-3.49%). Another 25% of respondents expect global growth will be below 3%, and 12% expect growth of 3.5% or more.

## Policy Survey Committee

**Megan Greene** (Manulife Asset Management) (Chair)

**Eugenio Aleman**

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