Academic Advisory Council

Meeting Minutes

Federal Reserve Bank of Dallas

April 19, 2024

Committee Attendees:

Donald Kohn, Brookings Institute (Council Chair)

Julia Coronado, Macro Policy Perspectives

Klaus Desmet, Southern Methodist University

Darrell Duffie, Stanford University

Karen Dynan, Harvard University

Daryl Fairweather, Redfin

John Haltiwanger, University of Maryland

Karin Kimbrough, LinkedIn

Ayşegül Şahin, University of Texas at Austin

Stephanie Schmitt-Grohé, Columbia University

Federal Reserve Attendees:

Lorie Logan, Robert Triplett, Tom Falk, Tommy Alsbrooks, Heidi Mitchell, Sam Schulhofer-Wohl, David Teeples, Kei-Mu Yi, Karel Mertens, Anthony Murphy, Chris Otrok, Alex Richter, Mark Wynne, Alex Chudik, Scott Davis, Jim Dolmas, Enrique Martínez García, Ali Ozdagli, Alessio Saretto, Jody Stanley, Fang Yang, Xiaoqing Zhou, Anton Cheremukhin, Sewon Hur, Mike Plante, Lucie Lebeau, Tyler Atkinson, Ron Mau, Joshua Sucec

Discussion of Post Pandemic Labor Market

Council members discussed the changing behavior of the labor market since the pandemic and its implications for inflation and monetary policy. They pointed out that the labor market had cooled considerably over the last year or so but remained to the tight side by several measures. Different measures gave a variety results for whether the labor market was still tighter than it was just prior to the pandemic.

Some members noted that while the labor market remained tight, hiring rates and the intensity of firms' recruitment efforts had fallen.

The discussion also touched on the shift toward work from home. It was noted that this shift has occurred disproportionately in higher-wage occupations, and – to the extent workers view the ability to work from home as a job amenity – the shift could explain the relatively faster wage growth observed in recent years at the lower end of the wage distribution, where the ability to work from home may be limited.

Council members expressed various views on the implications of labor market conditions for future inflation and the appropriate monetary policy response. Some noted that inflation was likely to decline very slowly, absent a sharp contraction in demand, and that this could pose challenges for policymakers, particularly if slow progress on inflation were to raise households' and businesses' expectations of future inflation. Calibrating policy communication would be particularly important, as premature expressions of confidence in continued disinflation could move expectations in a way that further slowed inflation's return to target.

Some members questioned the need for significant further cooling in the labor market, pointing to disconnects between the recent behavior of inflation and developments in the labor market, and difficulties in gauging the degree of labor market tightness. Members also emphasized the substantial costs associated with increases in the unemployment rate as well as those associated with persistently elevated inflation.

All members agreed that clear communication by policymakers would be important for the return of inflation to the FOMC's 2 percent target.

Discussion of the Federal Reserve's Long-term Monetary Policy Strategy

Council members also discussed aspects of the Federal Reserve's long-term monetary policy strategy. Members noted that, compared with the experiences in the decade leading up to the formalization of the FOMC's current long-term strategy, the past several years had been characterized by important supply shocks, above-target inflation, and an apparently stronger trade-off between inflation and resource utilization. Members also pointed to factors that, going forward, could lead to a higher level of the economy's neutral rate of interest or could produce persistent upward pressure on inflation. Among the factors cited were higher fiscal deficits; higher private investment associated with new technologies or other structural changes; and the possible waning of deflationary forces such as globalization and deregulation.

In considering potential changes to the long-term policy strategy, council members emphasized that any such strategy should be robust against a variety of circumstances. Some members noted that the FOMC could benefit from giving greater clarity around its maximum employment and price stability goals. Regarding policy tools, some members wondered whether a future long-term strategy should more carefully delineate the use of the Fed's balance sheet in the conduct of monetary policy.

Council members also discussed the FOMC's policy communications framework, particularly the Summary of Economic Projections (SEP). Some members suggested that the SEP should be designed to better communicate the uncertainty around the FOMC's projections, perhaps through the inclusion of projections for alternative salient risk scenarios. It was also suggested by some members that identifying the projections of individual FOMC members might facilitate a better understanding by the public of Committee members' policy reaction functions.

General Discussion on the Economy and Issues Relevant for Monetary Policy

The Council meeting concluded with a general discussion of the economic outlook, risks around the outlook, and near-term policy tradeoffs. The wide-ranging discussion touched on a number of issues, including: the resilience of consumers in the face of high interest rates and the surprising strength in overall demand; the value of micro- and firm-level data in understanding shifts in inflation; the potential productivity gains from generative and other forms of artificial intelligence; geopolitical risks and ongoing shifts in the global economic environment, such as near-shoring; the anchoring of household and business inflation expectations; and the balance of risks associated with the achievement of the FOMC's dual mandate goals. Council members were generally approving of the FOMC's data-driven approach to balancing its inflation and employment goals and emphasized again the importance of clear communication by the Committee.