Academic Advisory Council

Meeting Minutes

Federal Reserve Bank of Dallas

April 11, 2025

Council Attendees:

Donald Kohn, Brookings Institute (Council Chair)

Pol Antràs, Harvard University

Julia Coronado, MacroPolicy Perspectives LLC

Klaus Desmet, Southern Methodist University

Wenxin Du, Harvard Business School

Darrell Duffie, Stanford University

Karen Dynan, Harvard University

Daryl Fairweather, Redfin

John Haltiwanger, University of Maryland

Ayşegül Şahin, Princeton University

Nathan Sheets, Citigroup

Federal Reserve Bank of Dallas Staff Attendees:

Lorie Logan, Tommy Alsbrooks, Karel Mertens, Heidi Mitchell, Alison Schmidt, Mike Schetzel, Sam Schulhofer-Wohl, Rebecca Zarutskie, Kei-Mu Yi, Deborah Kilroe, Anthony Murphy, Pia Orrenius, Chris Otrok, Alex Richter, Mark Wynne, Alex Chudik, Scott Davis, Jim Dolmas, Ali Ozdagli, Mike Plante, Alessio Saretto, Fang Yang, Anton Cheremukhin, Sewon Hur, Ricardo Reyes-Heroles, Lucie Lebeau, Tucker Smith, Reid Taylor, Tyler Atkinson, Ron Mau, Jesus Cañas, Braden Strackman

Discussion of International Developments, Trade Policy, and the Impact on the U.S. Economy

The Council meeting began with a summary of a conference hosted the prior day at the Federal Reserve Bank of Dallas on the "Outlook for North American Trade and Immigration," co-hosted with the Peterson Institute for International Economics. Council members then discussed international developments, trade policy, and the impact on the U.S. economy with particular focus on tariffs and global value chains, as well as the implications for U.S. monetary policy.

The Council discussed the resilience of the global economy over the post-pandemic period, noting that global growth outpaced beginning-of-year forecasts in 2023 and 2024, and the still elevated global inflation rate, principally driven by services inflation. The Council discussed a suggestion that global monetary policy entered an easing cycle prior to 2025 led by emerging market economies. Council members acknowledged the key change to the global outlook after U.S. trade policy changes.

A discussion of U.S. trade policy changes highlighted the potential restructuring of global trade flows in response to higher U.S. tariff rates and trade policy retaliation from abroad. Council members noted that the implications of tariff policy changes for U.S. inflation are likely related to the ability of U.S. retailers to insulate domestic consumers from higher tariff rates by way of reduced profit margins or contract renegotiation with suppliers. Council members highlighted that prior tariff policy changes bolstered North American manufacturing due to nearshoring, specifically in Mexico, and that this dynamic could be repeated due to announced tariff policy changes.

Many Council members noted that the level of tariff increases announced so far is significantly higher than anticipated. The Council discussed a prediction that U.S. tariff policy changes would reduce global growth due to the widespread nature of the policy change. Many Council members specifically mentioned that tariff policy changes would likely reduce U.S. growth and raise prices. Additionally, some Council members speculated that the general uncertainty around U.S. tariff policy could further weaken the U.S. growth outlook while pushing against the direct inflationary effect of tariffs.

The Council discussed the implications of tariff policy changes for U.S. monetary policy. The Council members agreed that tariff policy changes could adversely impact growth in the U.S., potentially generating higher unemployment, and create additional inflation risk, meaning that tariff policy changes pose risks to both sides of the Federal Open Market Committee’s dual mandate.

The Council discussed an observation that post-pandemic U.S. supply chains are more diversified across countries relative to pre-pandemic, and an observation that the prevalence of global value chains among the largest multi-national firms that account for a large share of U.S. goods spending and employment can raise the cost of protectionist trade policy. The Council discussed the potential that tariff policy changes reflect U.S. concerns beyond trade relations, that should not be dismissed, but questioned the level of the implicit cost of addressing these concerns.

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 several issues including: how to approach dual mandate goals in the event that tariff policy changes result in higher inflation and higher unemployment; leading indicators of labor market deterioration; the role of job destruction in nonlinear labor market dynamics, such as a sharp rise in the unemployment rate; contextualizing recent financial market volatility relative to March 2023 or the beginning of the pandemic; and rising concerns of the U.S. entering a period of slow growth over the coming year.

Many Council members acknowledged that U.S. monetary policymakers face a difficult trade-off when both inflation and unemployment rise. The Council discussed an observation that job destruction drives sharp increases in the unemployment rate, a common dynamic when economies enter recessions, and that signs of job destruction could be one signal for U.S. monetary policymakers to place more weight on the maximum employment side of the dual mandate.

The Council also discussed the view that monetary policy cannot offset secular shifts in the economy and the potential need for U.S. monetary policymakers to ensure that they are responding to inflation and labor market dynamics related to the business cycle, such as sharp increases in the unemployment rate, rather than underlying structural changes in the U.S. economy. The Council discussed the position that the monetary policy-setting process should be predictable, in the sense that policy decisions can be clearly explained to and rationalized by financial market participants or U.S. economic agents, and that this requirement does not constrain monetary policy to develop in a smooth way that avoids policy reversals.