Academic Advisory Council

Meeting Minutes

Federal Reserve Bank of Dallas

November 7, 2025

Council Attendees:

Donald Kohn, Brookings Institute (Council Chair)

Pol Antràs, Harvard University

Gabriel Chodorow-Reich, Harvard University

Julia Coronado, MacroPolicy Perspectives LLC

Troy Davig, Symmetry Investments

Klaus Desmet, Southern Methodist University

Darrell Duffie, Stanford University

Karen Dynan, Harvard University

Daryl Fairweather, Redfin

Chinhui Juhn, University of Houston

Karin Kimbrough, LinkedIn

Ellen Meade, Duke University

Ayşegül Şahin, Princeton University

Nathan Sheets, Citigroup

Guest Attendees:

Richard Clarida, Columbia University

Federal Reserve Bank of Dallas Staff Attendees:

Lorie Logan, Karel Mertens, Robert Coronado, 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, Enrique Martinez-Garcia, Ali Ozdagli, Mike Plante, Alessio Saretto, Fang Yang, Xiaoqing Zhou, Anton Cheremukhin, Ricardo Reyes-Heroles, Elizabeth Souder, Samuel Dodini, Reid Taylor, Tyler Atkinson, Ron Mau, Theresa Rincker

Discussion of Labor Markets

The Council meeting began with a discussion of current U.S. labor market data and implications of these data for the economic outlook. During the discussion, the members noted that this assessment was complicated by the lack of official data for some time and by the effects of the change in immigration policy limiting the supply of labor. Comments were made that labor markets had cooled over the past year. The Council considered that some measures of labor market slack, such as the unemployment rate (through August), had risen, and real wage growth had been weak to negative, as best these indicators could be discerned amid the gaps in official data. Moreover, it was noted that what growth there had been in employment was narrowly based and some demographic groups were facing much softer labor markets. On the other hand, it was noted the unemployment rate remained fairly low, consumption and economic growth seemed solid, and initial claims for unemployment insurance had not risen. The Council discussed whether current labor-market indicators pointed to a cyclical slowdown consistent with a restrictive policy stance or if they were precursors to a recessionary dynamic with the possibility for nonlinear labor market deterioration

Council members expressed curiosity about the effect of AI on the labor market but were skeptical that it was a structural factor behind the current slowdown. Members noted that it remains unclear to what extent AI will augment rather than replace work, and that full adoption may take time.

Discussion of r^*

The Council then reviewed presentations on the real neutral rate, or r^*, defined as the real interest rate consistent with full employment and stable inflation. Dallas Fed staff began this discussion and presented an array of current r^* estimates from the academic literature and showed that the current real federal funds rate was roughly equal to the average of these estimates, while financial conditions, broadly defined, appeared to be in accommodative territory.

Council members then discussed the difference between long- versus short-run estimates of r^* and noted that while much of the academic literature shows that secular shifts have caused a decline in the long run r^*, the relative contributions of these drivers are unresolved and should not be the main consideration in short-run policy decisions. The Council speculated that short-term dynamics dominate policy decisions and noted that an implication of this could be that the traditional link between consumption growth and real interest rates no longer serves as a reliable signal of short run r^*.

The Council also considered market-implied estimates of r^*. The Council noted that some market-implied estimates of the real federal funds rate were consistent with the FOMC's current longer-run "dot" from the SEP, showing agreement between financial markets and the FOMC around a low real neutral rate. In contrast, the Council noted that other market-based estimates from forward real rates point to an elevated real neutral rate, with heightened uncertainty about the true level. The Council also discussed how the rise in TIPS real yields likely largely reflects market expectations for continued high fiscal deficits which would expand the supply of safe assets and push up real yields as markets demand greater compensation to absorb growing Treasury issuance until fiscal consolidation restores balance.

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. Council members discussed the wealth effects of the AI boom and their implications for monetary policy. Several members expressed concern that a rate cut could inflate AI-related valuations in an already heated market, potentially creating financial instability. Unlike the dot-com era, however, members noted that AI firms are generally profitable (or on path to profitability) with broad product proliferation, and that many equity analysts see them as fundamentally well-positioned, though still somewhat overvalued.

The Council broadly agreed that the economy appears increasingly K-shaped, with large firms expanding while small- and mid-sized businesses limit hiring and face tighter financing conditions. Some Council members speculated that recent tariff exemptions may disproportionately favor large corporations and that this could further entrench the K-shaped divide.

Members considered whether a December rate cut could be justified as “insurance” against potential downside risks in labor and financial markets. Members discussed the applicability of a potential historical pattern where unemployment rates tend to “pop” suddenly once deterioration begins, meaning that monetary policy actions are potentially too late if the Fed waits for definitive evidence of nonlinear labor market deterioration. Many Council members pushed back, arguing that this type of pre-emptive policy would unduly favor the employment side of the dual mandate at the expense of inflation control given still elevated inflation relative to the FOMC’s stated 2 percent target.

Finally, Fed credibility emerged as a central concern among Council members. Multiple Council members warned of the reputational risk of allowing inflation to remain persistently above the 2 percent target, stressing that the Fed cannot become comfortable with 2.5 percent inflation or postpone target achievement for years. The Council cautioned that attributing price increases solely to tariffs could appear as “finger-pointing” without empirical support. The Council noted that communication challenges posed by data delays due to the government shutdown further complicated this discussion.

Some Council members favored holding rates steady until more information becomes available, while others supported a pre-emptive cut to insure against undetected labor-market weakness. Members emphasized that the first data releases after the blackout would take time to interpret and adjust, given factors such as furloughed federal workers, revised survey questions, and seasonal effects around Thanksgiving, making proactive communication about these limitations essential.