Takeaways from NABE

The 59th annual meeting of the National Association of Business Economics took place earlier last week in Cleveland with a stellar lineup of presentations on the state of the US and world economies. Chair Yellen headlined the meeting with a tour de force discussion of why the Fed can't figure out why inflation fails to respond to policy initiatives as it did in the past. Her discussion was academic– accompanied by detailed mathematical appendices – and thorough, covering all possible avenues being explored to try to understand inflation dynamics.

The discussion was candid and totally transparent and helps to put additional color on the wide range of policy rate assumptions we noted in our earlier commentary this week, all assumed to be largely consistent with the FOMC's median forecasts for slow growth, a strong labor market, and inflation stubbornly below the FOMC's target. Yellen delivered the kind of professional presentation to a knowledgeable audience that one could not envision a non-economist chair of the Fed presenting.

Martin Feldstein took the group on an impressive and informative deep dive into the prospects for corporate tax reform. He laid out the arguments for reform, including changes that would encourage repatriation of earnings abroad. But he did even more, because he not only examined the first-round effects of the various targets for reform but then carefully explored the second- and third-round knock-on effects. Briefly, his bottom line was cautiously optimistic, but he thought that the maximum that could be achieved this round was a reduction in the corporate tax rate to about 25%. His conclusion about feasibility, rooted in the likely difficulty of getting fiscal conservatives to significantly increase the deficit, is interesting given the ambitious initial proposal by the administration to cut the corporate rate even more.

But Chair Yellen's and Professor Feldstein's presentations were not the only reasons to attend the meetings(not to mention the reception held at the Rock and Roll Hall of Fame). Below are some highlights in no particular order.

> (*) Economies around the world are doing about as well as the US is, but with some risks to the downside. Europe is actually doing a bit better than the US, finally. Unemployment continues to plague the Southern European countries, while Germany has about a 3.2% unemployment rate. The main risks to the downside are political and related to the rise of populism. Japan is still Japan, while many of the other Asian countries are doing quite well, especially Vietnam, for one. China is slowing, and forecasts show a slow, steady decline in its growth prospects through 2040. The big down side risk, and it is a major one, is China's huge debt overhang, now amounting to 250% of GDP.

> (*) Peter Jankowski from the Greater Houston Partnership reported on Hurricane Harvey's impact on Houston, and his message was sobering but also encouraging. To be sure, property damage was severe, but not as severe as initially reported in the press. About 7% of the area's residential housing was damaged, and slightly over 500K claims for FEMA assistance have been filed. Most of the oil refineries are back on line, and we have already seen gas prices start to recede. At the peak there were 35K evacuees in shelters, compared to a population of over 6 million. The Dallas Fed estimates that between 42K and 74K jobs will be reported lost in September, but employment will rebound in October. Nevertheless, there will be an impact on the jobs report. Approximately 8% of the area's commercial properties were impacted, and 0.5% of the office buildings suffered damage. However, the area was overbuilt, with high vacancy rates, and reports are that landlords are making accommodative

shorter-term leases available to affected businesses. Finally, about 300K vehicles were destroyed.

(*) We also learned more about the Fed's exit program from Julie Remache of the Federal Reserve Bank of New York's Open Market Desk. In addition to describing the program, Remache made it clear that the Desk's initial intention – and presumably the Treasury's – is to replace maturing securities in excess of the proposed monthly caps with bills, which would tend to concentrate any interest rate impacts of the policy on the short end of the curve.

(*) Finally, there was an interesting update on the energy situation. Here, the prospect was for lower prices for some time, with the US well on the road to energy independence. For the first time, OPEC now seems unable to control the world oil supply, and technology has imposed a cap on prices for the foreseeable future. To be sure, electric vehicles will have a longer-run significant potential impact on the retail gas market, but in the meantime natural gas will keep input prices and electricity costs low, freeing up consumer disposable income.

All in all, the meeting was chock-full of useful and relevant information for business economists and policy makers alike.

Robert Eisenbeis, Ph.D.
Vice Chairman and Chief Monetary Economist
Email | Bio

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