Minutes of the Economic Advisory Panel Meeting

November 8th, 2021

Present: **Chair**: John Williams. **External Panelists**: Nicholas Bloom, Julia Coronado, Kathryn Dominguez, Janice Eberly, Kristin Forbes, Peter Blair Henry, Sebnem Kalemli-Ozcan, Lisa Lynch, Raghuram Rajan, James Stock, Laura Veldkamp, Mark Zandi. **New York Fed staff**: Jaison Abel, Martin Almuzara, Mary Amiti, Pablo Azar, Gianluca Benigno, Nina Boyarchenko, Nicola Cetorelli, Rajashri Chakrabarti, John Clark, Richard Crump, Marco Del Negro, Richard Deitz, Julian DiGiovanni, Keshav Dogra, Thomas Eisenbach, Michael Fleming, Fulvia Fringuellotti, Linda Goldberg, Jan Groen, Andrew Haughwout, Michael Held, Matthew Higgins, Beverly Hirtle, Fatih Karahan, Tom Klitgaard, Anna Kovner, Lorie Logan, David Lucca, Antoine Martin, Jonathan McCarthy, Meg McConnell, Davide Melcangi, Paolo Pesenti, Maxim Pinkovskiy, Matthew Raskin, Asani Sarkar, Argia Sbordone, Lee Seltzer, Or Shachar, Angela Sun, Andrea Tambalotti, Giorgio Topa, Wilbert Van Der Klaauw, and Desi Volker.

Following introductory remarks by John Williams, Nicholas Bloom presented on "Evolution of COVID-19 and Productivity Growth". He observed that in the pre-COVID period, U.S. productivity growth had been slowing down: Labor productivity and total factor productivity (TFP) growth were at 1.1% and 0.6% annual rates, respectively, over the 2010-2019 period. He then noted that so far during the COVID period, labor productivity had risen at about a 3% rate while TFP had increased at only about a 0.3% rate. In thinking about productivity in the post-COVID period, he pointed to one positive factor and three negative factors. The positive factor was productivity gains of 3-5% from working from home, while the negative factors were additional management time spent on COVID-related matters, lower capital utilization and supply constraints. Overall, he hypothesized that productivity would remain at levels like those in the pre-COVID period. He observed that, considering technological advancements, major effects on productivity growth are unlikely in the short run due to supply constraints.

In the following discussion, panelists expressed a range of views on long term effects of COVID-19 on productivity. Some panelists indicated that COVID has accelerated technological investments and led to productivity boost from working from home arrangements. Panelists said that lockdown, supply chain shortages and uncertainties from COVID acted as limiting factors in the short term, while there may be a net positive effect over the longer term. Panelists observed that massive fiscal policy support has benefited small and medium enterprises, but further support might create upward pressure on interest rates and increase the user cost of capital. One panelist discussed the difficulty of measuring productivity gains from digital services. For example, the panelist noted, tele-health and online shopping have been major time-savers but they are not accounted for in GDP. The panelist further noted that expansion of broadband may further raise GDP even though it may not be fully accounted in GDP. Additionally, the panelist posited that the aging out of the baby boomers and the prospect of wider networking with remote work are factors that could raise productivity. One panelist remarked that remote work may negatively affect human capital development. Overall, panelists recognized that there are considerable measurement problems as well as uncertainty about the future path of productivity.

The second presentation was on "Evolution of COVID-19 and Labor Market Trends," by Lisa M. Lynch. She started by addressing whether the "Great Resignation" is a transitory phenomenon or is expected to be more permanent. She observed that while the labor force participation rate has risen from its trough early in the pandemic, it remains well below pre-COVID levels. She remarked that while the vaccines increased reassurance, the Delta wave had stunted participation. She noted that the wide availability of boosters, emerging treatments for COVID and vaccinations for young children may improve participation. She noted that total employment was still 4.2 million jobs below early 2020, with notable shortfalls in leisure and hospitality, state and local government, and educational and health services. She observed that it likely will take some time to return to pre-COVID levels. She next turned to the recent rise in labor strife. She pointed out that there has been an uptick in strikes in 2021 that spanned multiple sectors such as manufacturing, healthcare, education, and food and accommodation. Factors behind these strikes included pay, health and safety, and better work-life balance. She concluded by discussing tightness in the labor market and the expected path of wage inflation. She pointed out that even though the unemployment rate has moved closer to pre-pandemic levels, it remains elevated for many groups of workers. She noted that wages are up, as are benefits: she expressed that these are part of a long overdue pay rise for many classes of workers, and should not necessarily lead to spiraling wage inflation.

In the following discussion, panelists expressed a range of views on the labor market. Panelists posited that remote work and technological advancements may push up labor supply over the next 5 years and raise employment-population ratio over the long term. They observed that there had been compensation increases for low-wage workers (especially in leisure and hospitality) earlier in the year, reflecting an "Amazon effect" that had increased demand for entry-level workers. Panelists commented that immigration may have played a role in depressing labor supply, especially as work visas were not being granted. Furthermore, some expressed that the unemployment rate in 2018-19 may not be a good benchmark, as those low rates may have reflected unusual circumstances. Panelists expressed that the jobs may not be where the unemployed are and there may be both sectoral and location mismatches. Despite a resurgence in demand, for example, the unemployment rate continues to be high in New York City, which may suggest the presence of some structural factors that could limit employment growth in large cities. Discussing the current high quit rate, panelists questioned whether elevated quits are due to the large number of job vacancies, with workers searching for jobs they may prefer. However, some argued that with no new government support (except for the child tax credit), more lower income workers may eventually have to reenter the labor market, slowing down the pace of wage increases.