



NABE Economic Policy Survey®

National Association For Business Economics

FOR FURTHER INFORMATION CONTACT:
Stuart Hoffman 412-596-1400/412-596-1400
Melissa Golding 571-236-2820

EMBARGOED UNTIL:
Monday, March 13, 2006
12:01 AM Eastern

NABE Panel: The Market Can Handle the Trade Deficit

March 2006

The NABE Economic Policy Survey presents the consensus of a panel of 192 members of the National Association for Business Economics. Conducted semiannually, this survey was taken February 15 – March 1, 2006. May be reprinted in whole or in part with credit given to NABE. View the survey results, including complete tabulations, online at www.nabe.com. This is one of three surveys conducted by NABE. The other two are the NABE Outlook and the NABE Industry Survey. David Wyss of Standard & Poor's, Kathleen Camilli of Camilli Economics, and Catherine L. Mann of the Institute for International Economics conducted the analysis for this report.

“NABE members believe that the market can handle the trade deficit, and that it is not a major problem for U.S. employment,” says **Stuart Hoffman**, NABE President and Chief Economist, PNC Financial Services Group. “The federal deficit is a much larger problem, and economists have little confidence it will be addressed.”

Survey Highlights

Terrorism edged out energy prices as the biggest short-term problem facing the U.S. economy, according to 26% of respondents, up from 20% in September. Energy prices represented the biggest fear of 23% of respondents, down from 30%. Worries about the twin deficits held near their levels of six months ago.

In the longer run, health care costs, the federal deficit, and the growth of the dependent population are the primary problems, each chosen by over one-fifth of respondents. The largest strength continues to be the flexibility of the economy, with technology close behind.

Monetary policy is about right. Although 76% of respondents said current monetary policy is about right, the panel split on where it should go, with 35% wanting further rate hikes and 55% for leaving rates at their current level. There was near-unanimity (89%) that the Fed will tighten, with 5% the most likely eventual target. Further, 77% of respondents expect Chairman Bernanke to move to inflation targeting. Only 13% believe that the housing bubble should be a major factor in tightening.

Fiscal policy is too loose, according to 76% of respondents. Although 82% thought budget deficits should be cut, only 16% thought deficits would actually drop, while 35% expect deficits to increase. How to reduce the deficit was less clear, with 20% wanting the tax cuts extended as first priority while 20% would vote not to extend.

Most economists believe that the market can handle the trade deficit. Only 21% thought that the gap is a major threat to the U.S. economy, while 12% thought it was actually good. Yet, 32% thought the problem was greater for the creditor nations than for the United States.

How to reduce the trade deficit was less clear; 39% thought the deficit would remain high for the next decade. On a scale of 1 to 5 (5 most effective), orchestrating global growth was the preferred strategy, ranking an average 3.4. Reforming the U.S. tax system was number 2, at 3.1. Raising tariffs or subsidizing exports were the least favorite cures, ranking 1.3 and 1.5, respectively. Most respondents (54%) thought that stronger growth abroad would reduce the trade deficit, while 42% anticipated a sharp drop in the dollar as part of the solution. Fully 83% of respondents thought a sharp drop in the dollar would eventually cut the trade deficit. Only 2% thought a tariff was desirable.

High interest rates are the major threat from the current account deficit, according to 45% of respondents, which will slow growth. That the politics of the trade deficit would eventually lead to protectionism was the major worry for 26%, while 10% thought the weaker dollar was the primary problem. Two-thirds of respondents said that free trade is not hurting U.S. employment, and 71% said that outsourcing of services was not a problem.

Survey Details

Greatest Short-Term Risk to the U.S. Economy: Terrorism moved back above energy prices as the major short-term worry for the U.S. economy. The economists surveyed seem more convinced higher oil prices are manageable than they were six months ago. The twin deficits were the other major concern. Worries about unemployment have disappeared over the last two years.

Short-Term Risks to the U.S. Economy

(Percent of survey panelists responding)

	Survey Month					
	Aug 2003	Mar 2004	Aug 2004	Mar 2005	Sep 2005	Mar 2006
Defense/terrorism	13	19	40	24	20	26
Energy prices	2	3	6	11	30	23
Govt spending/ deficit	21	25	23	27	13	14
Current account deficit	4	5	5	15	11	13
Excessive household/corporate debt	3	6	5	2	9	7
Inflation	1	6	9	6	5	3
Overcapacity	10	1	1	1	1	2
Unemployment/employment	16	25	6	2	1	1

Greatest Long-Term Challenges to the U.S. Economy: Long-term challenges remain stable, with the focus on the related issues of health care and the federal deficit. Worries about poor education have been passed by the growth of the elderly population in the last six months, returning to a more normal order of problems.

Longer-Term Challenges to the U.S. Economy

(Percent of survey panelists responding)

	Survey Date				
	Mar 2004	Aug 2004	Mar 2005	Sep 2005	Mar 2006
Health care	19	22	23	23	22
Federal deficit	24	17	21	22	22
Growth of elderly population/dependency ratio	27	23	22	18	21
Education system	12	19	16	21	16
Competitiveness	NA	6	8	7	5
Energy issues	NA	6	4	4	8

Strengths in the U.S. Economy: Flexibility remains our economy's greatest strength, although its ranking dropped slightly, while appreciation of the U.S. capital market and technological lead increased. Monetary policy garnered 6% of the responses, but all other choices (including quality of the workforce, democratic government, and legal and judicial institutions) were under 5%.

U.S. Economic Strengths

(Percent of survey panelists responding)

	Survey Date						
	Mar 2003	Aug 2003	Mar 2004	Aug 2004	Mar 2005	Sep 2005	Mar 2006
Flexible labor markets/economy	10	11	24	36	35	42	35
Productivity/technology	54	43	45	35	35	26	29
Deep capital markets	8	12	11	10	12	11	16

Monetary Policy Is About Right: The panelists give the Federal Reserve another strong vote of confidence, with 76% saying monetary policy is about right, up from 63% a year ago. Only 8% feel monetary policy is too tight. Looking ahead, only 35% believe monetary policy should tighten over the next six months, down from 66% a year ago, with 55% saying it should remain unchanged. Almost all (89%) think short-term interest rates will increase, with respondents leaning toward a 0.5 percentage point increase over the next six months, with most of the rest split evenly between 0.25 and 0.75. Further, 77% of respondents expect Chairman Bernanke to move toward inflation targeting.

NABE Panelists' Views on Monetary Policy
(Percent reporting)

Survey Date	Current monetary policy is:		
	Too restrictive	About right	Too stimulative
Mar 2006	8	76	16
Sep 2005	5	65	30
Mar 2005	3	63	33
Aug 2004	4	59	36
Mar 2004	3	70	28
Aug 2003	9	68	23
Mar 2003	8	81	9
Aug 2002	8	77	12
Mar 2002	3	78	17
Aug 2001	17	67	11
Mar 2001	34	56	7
Aug 2000	9	76	12
Feb 2000	5	62	32
Aug 1999	3	74	22
Mar 1999	2	75	23
Oct 1998	7	82	11
May 1998	2	76	22
Feb 1998	8	86	6
Nov 1997	4	83	7
Aug 1997	6	85	7
May 1997	12	74	14
Feb 1997	7	83	10
Nov 1996	14	77	8

Fiscal Policy: Over three-fourths of respondents felt current policy is too stimulative, about the same as in September, while only 6% believe it is too tight. An even greater percentage (82%) of respondents believe fiscal policy should become more restrictive, but only 16% believe fiscal policy will tighten, while 35% believe it will become even looser.

Panelists Views on Fiscal Policy
(Percent reporting)

	Current fiscal policy is:			Fiscal policy should be in two years:		Fiscal policy is expected to be in two years:	
	Mar 2006	Sep 2005		Mar 2006	Sep 2005	Mar 2006	Sep 2005
Too Stimulative	76	74	Tighter	82	77	16	12
About right	12	21	Same	9	16	47	42
Too tight	6	3	Looser	7	5	35	44

Note: Dates refer to survey dates.

###