Federal Reserve Bank *of* Atlanta

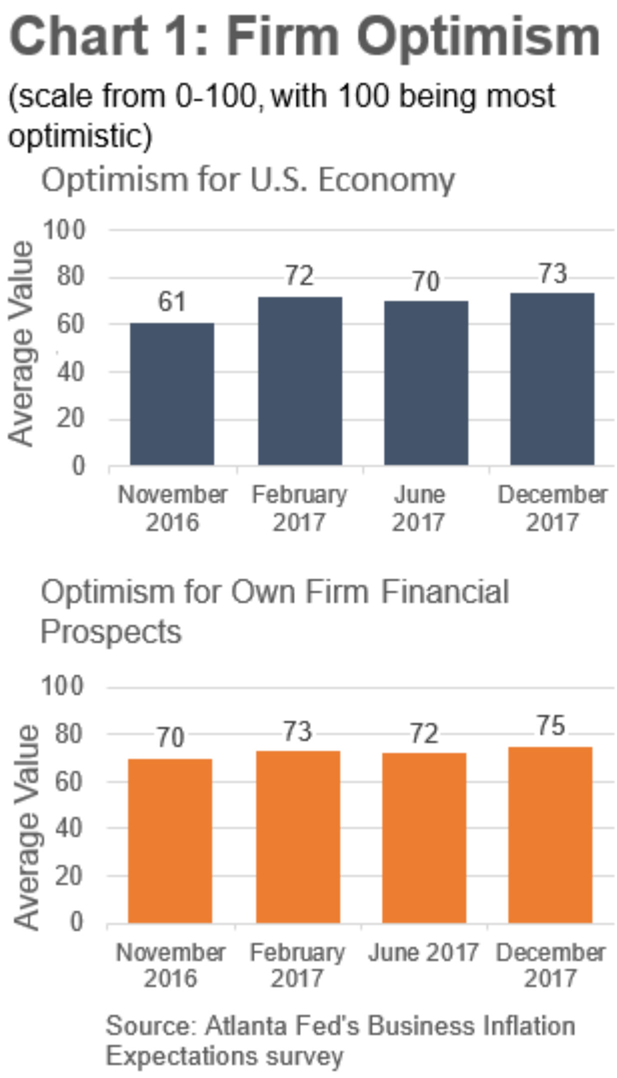
MACROBLOG

January 17, 2018

What Businesses Said about Tax Reform

Many folks are wondering what impact the Tax Cuts and Jobs Act—which was introduced in the House on November 2, 2017, and signed into law a few days before Christmas—will have on the U.S. economy. Well, in a recent speech, Atlanta Fed president Raphael Bostic had this to say: "I'm marking in a positive, but modest, boost to my near-term GDP [gross domestic product] growth profile for the coming year."

Why the measured approach? That might be our fault. As part of President Bostic's research team, we've been curious about the potential impact of this legislation for a while now, especially on how firms were responding to expected policy changes. Back in November 2016 (the week of the election, actually), we started asking firms in our Sixth District Business Inflation Expectations (BIE) survey how optimistic they were (on a 0–100 scale) about the prospects for the U.S. economy and their own firm's financial prospects. We've repeated this special question in three subsequent surveys. For a cleaner, apples-to-apples approach, the charts below show only the results for firms that responded in each survey (though the overall picture is very similar).

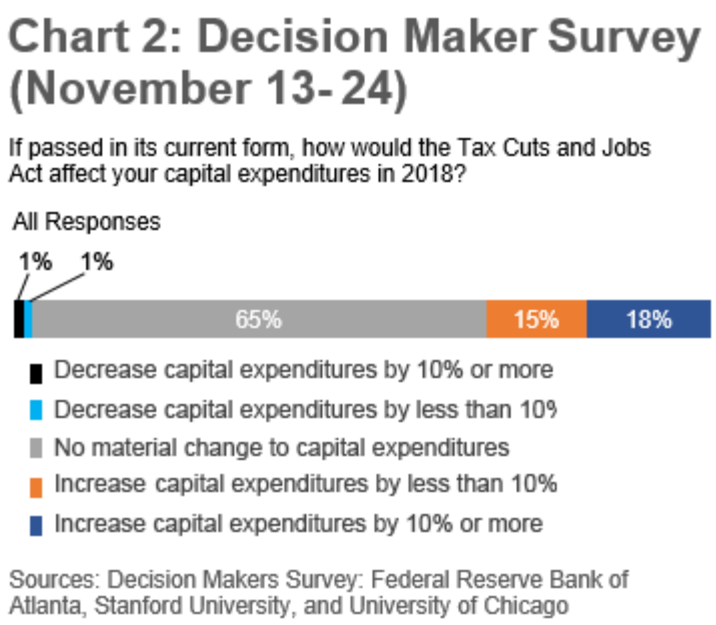


As the charts show, firms have become more optimistic about the prospects for the U.S. economy since November 2016, but not since February 2017, and we didn't detect much of a difference in December 2017, after the details of the tax plan became clearer. But optimism is a vague concept and may not necessarily translate into actions that firms could take that would boost overall GDP—namely, increasing capital investment and hiring.

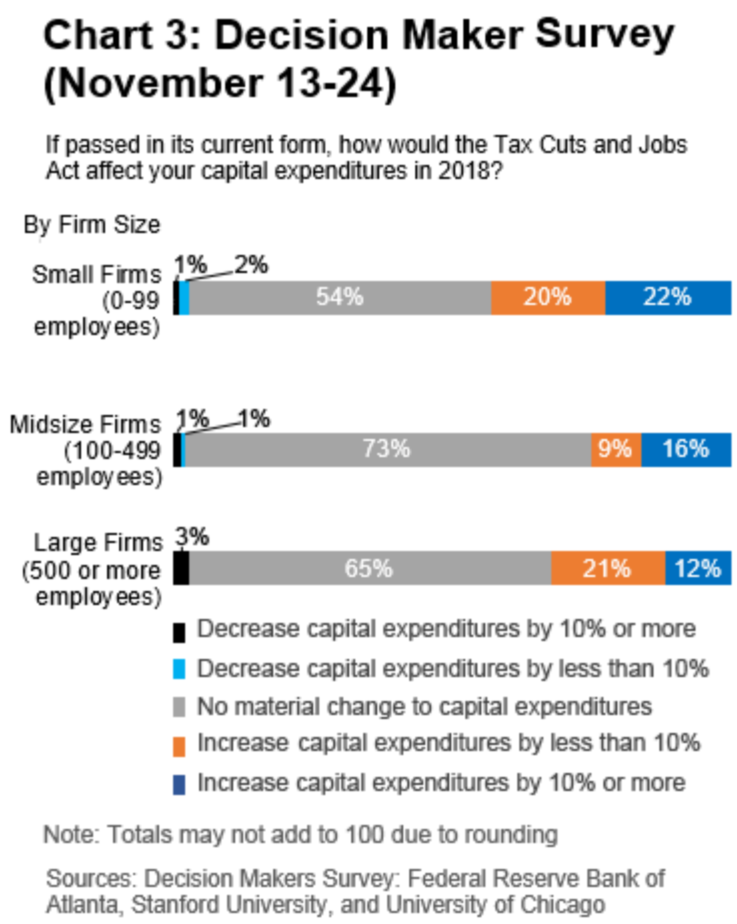
In November, we had two surveys in the field—our BIE survey (undertaken at the beginning of the month) and a national survey conducted jointly by the Atlanta Fed, Nick Bloom of Stanford University, and Steven Davis of the University of Chicago. (That survey was in the field November 13–24.) In both of these surveys, we asked firms how the pending legislation would affect their capital expenditure plans for 2018. In the BIE survey, we also asked how tax reform would affect hiring plans.

The upshot? The typical firm isn't planning on a whole lot of additional capital spending or hiring.

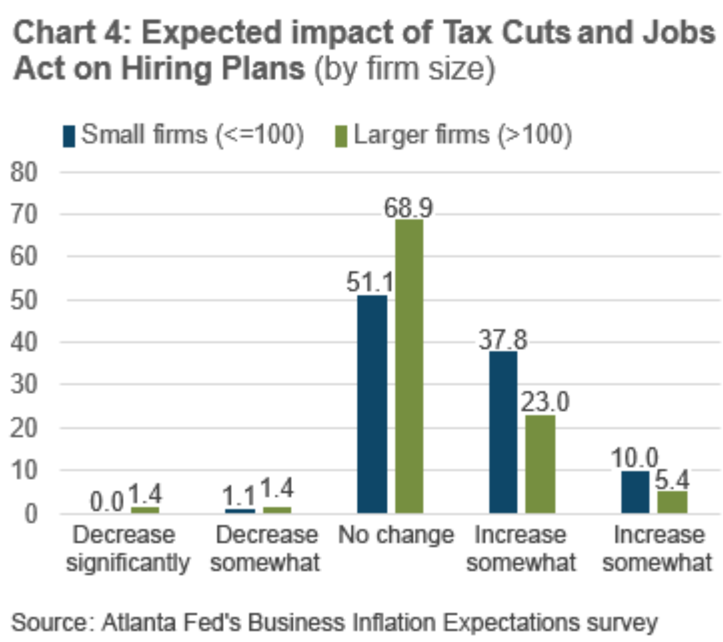
In our national survey, roughly two-thirds of respondents indicated that the tax reform hasn't enticed them into changing their investment plans for 2018, as the following chart shows.



The chart below also makes apparent that small firms (fewer than 100 employees) are more likely to significantly ramp up capital investment in 2018 than midsize and larger firms.



For our regional BIE survey, the capital investment results were similar (you can see them [here](#)). And as for hiring, the typical firm doesn't appear to be changing its plans. Interestingly, here too, smaller firms were more likely to say they'd ramp up hiring. Among larger firms (more than 100 employees), nearly 70 percent indicated that they'd leave their hiring plans unchanged.



One interpretation of these survey results is that the potential for a sharp acceleration in GDP growth is limited. And that's also how President Bostic described things in his January 8 speech: "For now, I am treating a more substantial breakout of tax-reform-related growth as an upside risk to my outlook."

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