

ECONOMIC ADVISORY PANEL MEETING

**Federal Reserve Bank of New York
33 Liberty Street, New York, New York**

Thursday, May 23rd, 2013

AGENDA

10:00 a.m. Coffee, Liberty Conference Room, 1st floor

10:30 a.m. Economic Outlook Discussion

- Presentation on FRBNY Staff Economic Outlook (FRBNY staff)
(see reference charts)
- Discussion led by Jan Hatzius

11:30 a.m. International Dimension of QE Policies

- Presentations by Catherine Mann and Peter Hooper
- Discussion based on attached “Discussion Questions”

International Dimensions of QE Policies

Monetary policy affects an economy through a number of channels, some of which are international. In particular, monetary policy easing can put downward pressure on the foreign exchange value of the home currency and encourage capital outflows. While easier monetary policy tends to stimulate economic activity at home, the effect of such policy on economic activity abroad could be positive or negative depending on the interaction of several factors.

Discussion Questions

➤ Exchange Rate Implications

The recent and substantial shift in the Bank of Japan's asset purchase program has coincided with a substantial depreciation of the yen. Much of this depreciation occurred in anticipation of the new program and in reaction to the announcement that the Bank of Japan would seek to target an inflation rate of 2 percent—the latter entailing an upward shift in the central bank's objective not matched by monetary policy operations in other countries that have pursued asset purchase programs.

- Why has Japan's QE policy had such a pronounced impact on the yen, while the dollar appears to have been relatively unaffected by the Federal Reserve's asset purchase programs?
- Would a rebound in the yen suggest the Bank of Japan needs to be more aggressive?
- Is the exchange rate channel of QE a worrisome source of global inflation through its effects on the prices of oil and other commodities?

➤ Capital Flows Implications

Asset purchase programs encourage substitution into other assets, including foreign assets. There has been some concern that capital outflows from countries adopting QE policies put upward pressure on asset prices and exchange rates in Emerging Markets, complicating their macro management, reducing their competitiveness, and creating overly stimulative financial conditions. While there has been "a significant advance from the currency war rhetoric that prevailed earlier this year" (Eichengreen), risks of international backlash and possibly protectionist retaliation remain.

- Do QE policies encourage hot-money outflows that will disrupt foreign markets? Are EM markets particularly vulnerable? What would be the most appropriate policy response of EM countries?

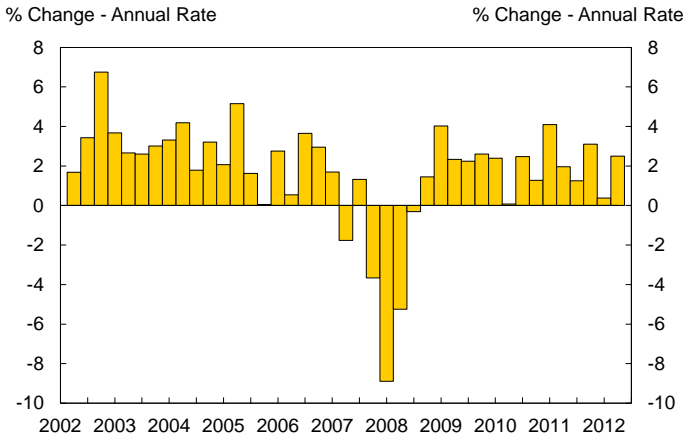
- What would be worse from the vantage point of EM markets, the loss of competitiveness associated with stronger exchange rates generated by QE efforts, or slower growth in the United States and Japan due to less aggressive monetary policies?
- Does international discomfort with QE in advanced economies increase the costs of unconventional monetary accommodation?

Economic Developments and Outlook

Reference Charts

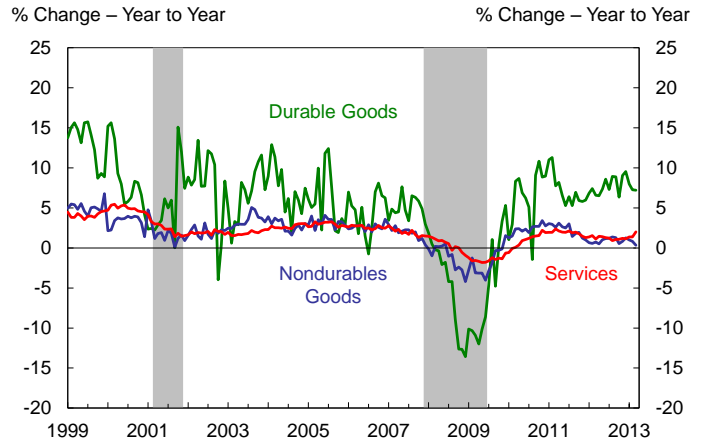
Indicators of Real Economic Activity

Quarterly Real GDP Growth



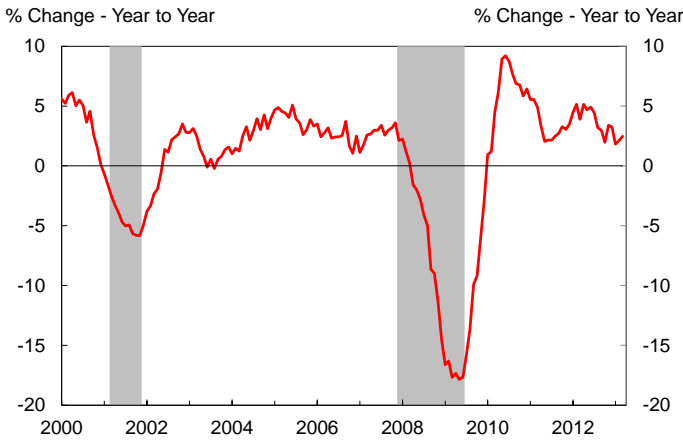
Source: Bureau of Economic Analysis

Real PCE Growth



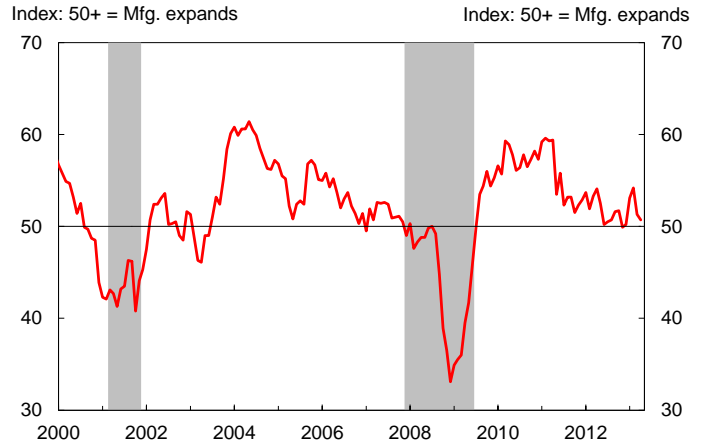
Source: Bureau of Economic Analysis Note: Shading represents NBER recessions.

Manufacturing Output Growth



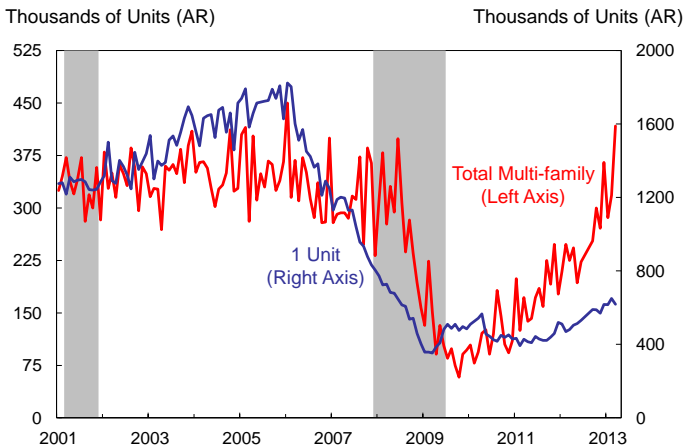
Source: Federal Reserve Board Note: Shading represents NBER recessions.

ISM Manufacturing Index



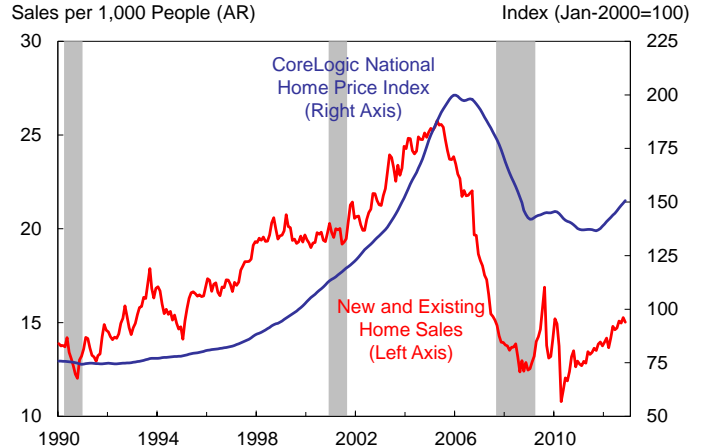
Source: Institute for Supply Management Note: Shading represents NBER recessions.

Housing Starts



Source: Census Bureau Note: Shading represents NBER recessions.

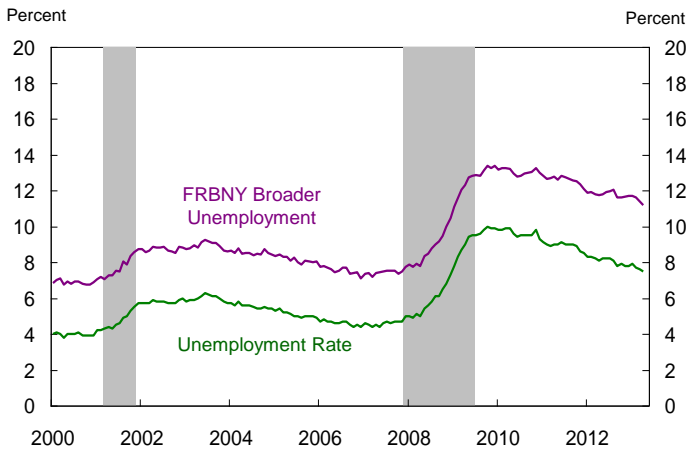
Single-Family Home Sales and Prices



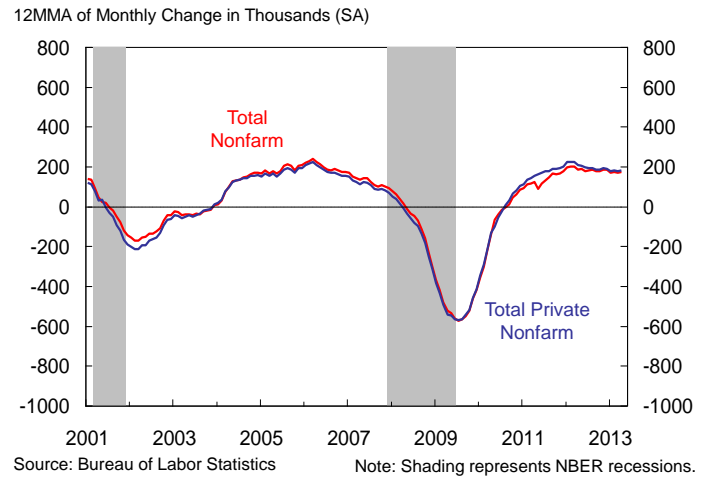
Source: CoreLogic, NAR, Census Bureau Note: Shading represents NBER recessions.

Indicators of Labor Market Conditions

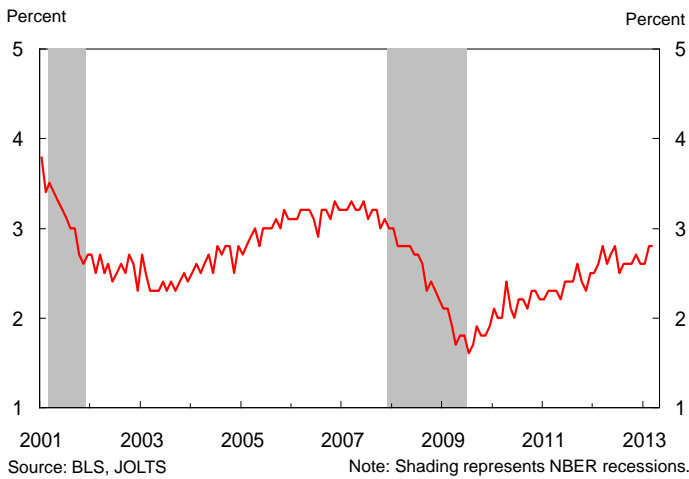
Unemployment Rates



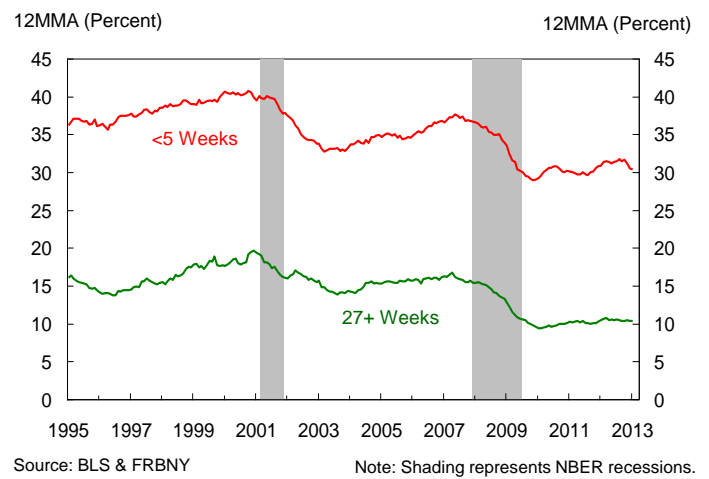
Payroll Employment



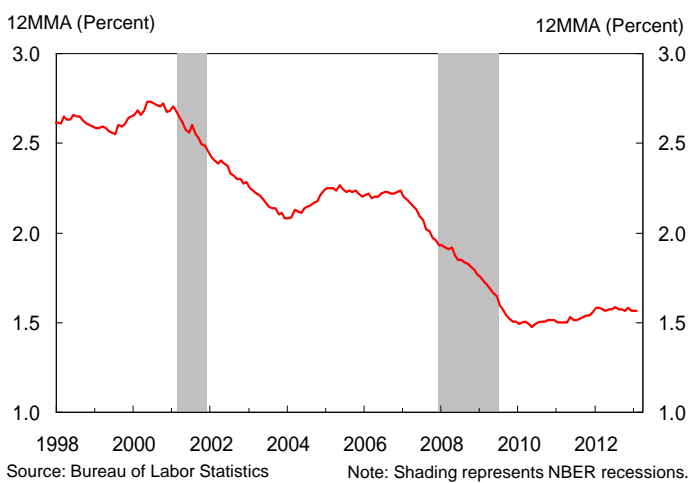
Job Openings Rate



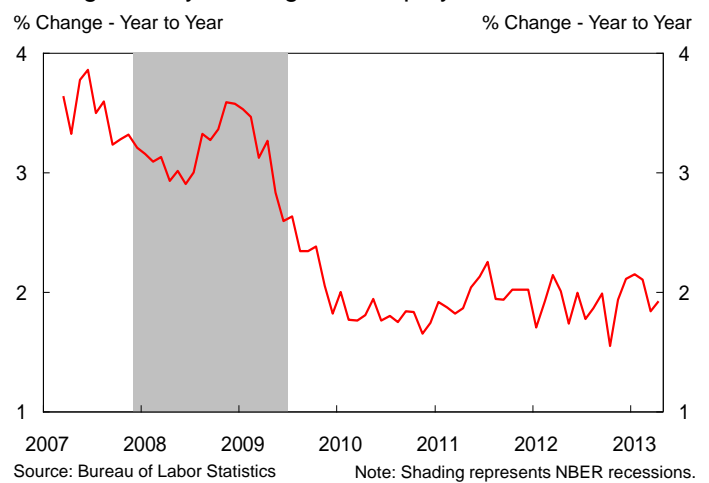
Job-Finding Rates by Unemployment Duration



Job-to-Job Transition Rate

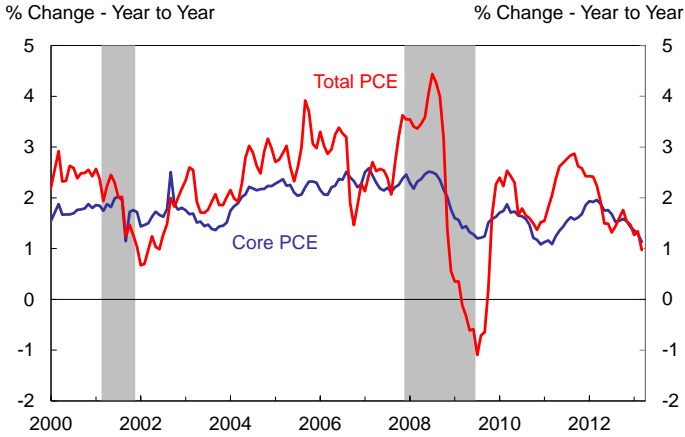


Average Hourly Earnings, All Employees



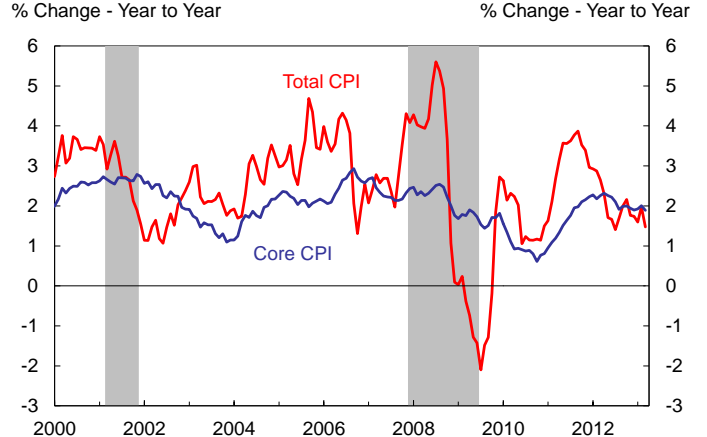
Inflation Indicators

Total and Core PCE Deflator



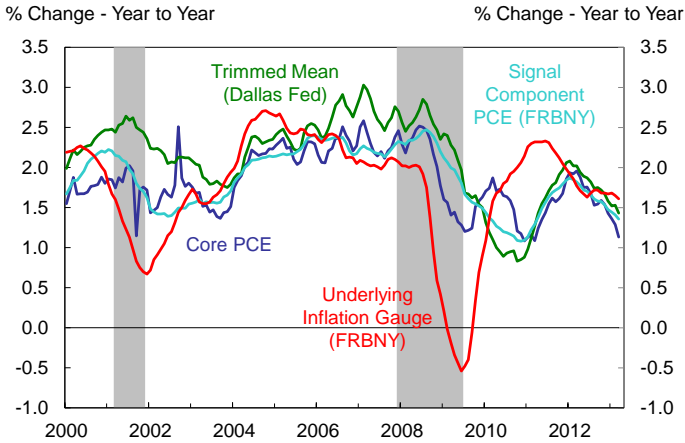
Source: Bureau of Economic Analysis Note: Shading represents NBER recessions.

Total and Core CPI



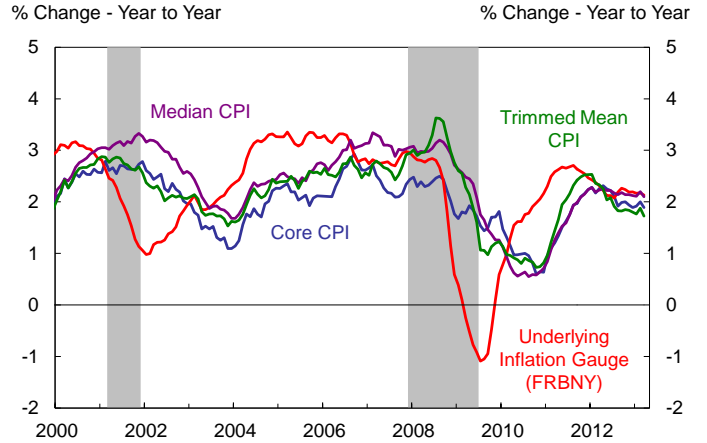
Source: Bureau of Labor Statistics Note: Shading represents NBER recessions.

Measures of PCE Inflation



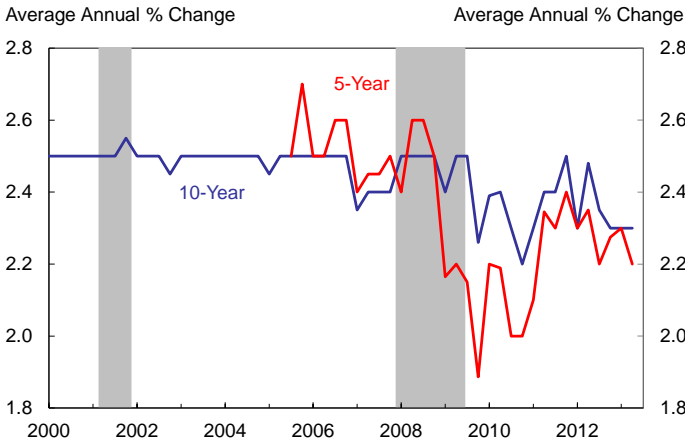
Source: BEA, Dallas Fed & FRBNY Staff Note: Shading represents NBER recessions.

Measures of CPI Inflation



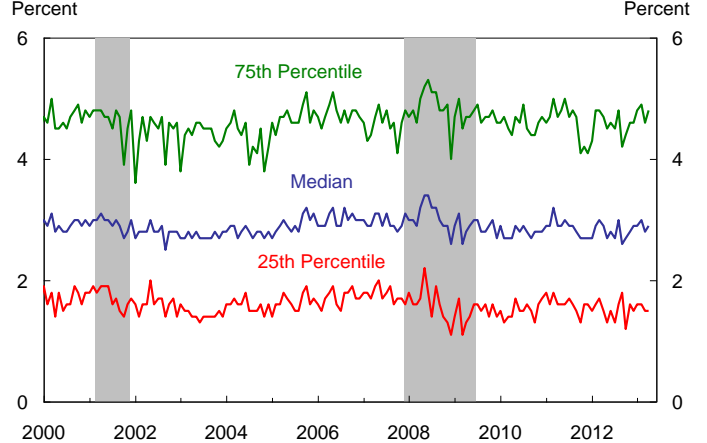
Source: BLS, Cleveland Fed, FRBNY Note: Shading represents NBER recessions.

5- & 10-Year CPI Inflation Expectations: SPF Median



Source: Philadelphia Fed, SPF Note: Shading represents NBER recessions.

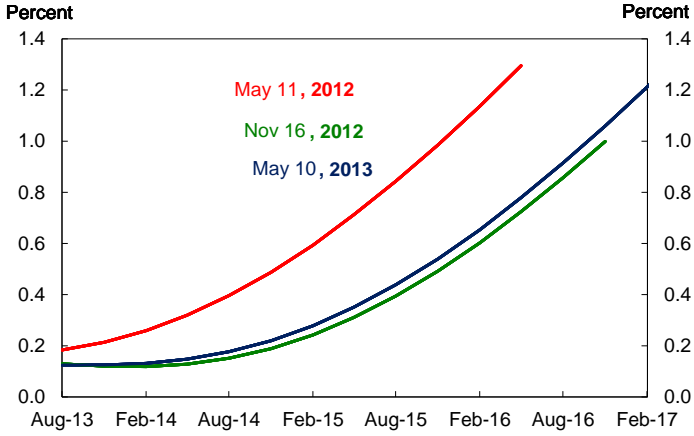
5-10 Years Ahead Inflation Expectations: Michigan Survey



Source: University of Michigan Note: Shading represents NBER recessions.

Financial Market Indicators

Expected Fed Funds Target Rate



Source: Federal Reserve Board

Note: Estimated using OIS quotes.

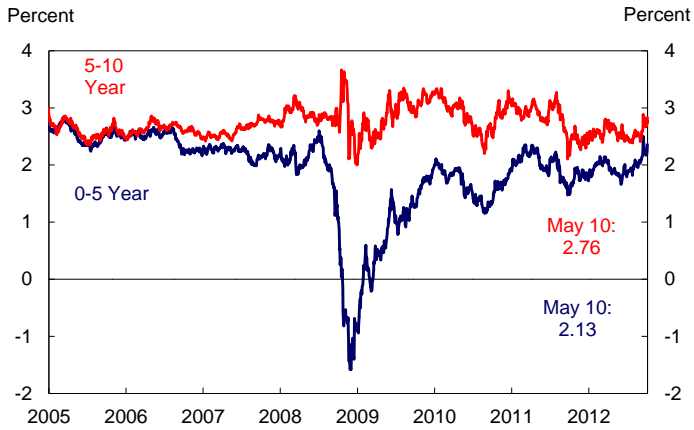
Short- and Long-Term Treasury Yields



Source: Bloomberg

Note: On-the-run securities.

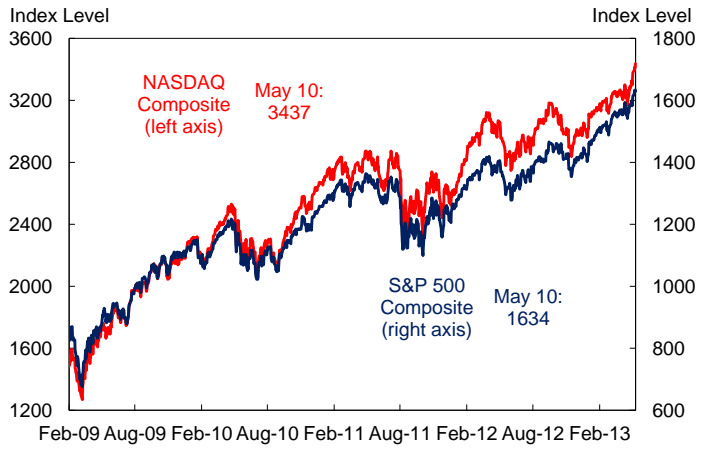
TIPS Implied Inflation Compensation: 0-5, 5-10 Year Horizons



Source: Federal Reserve Board

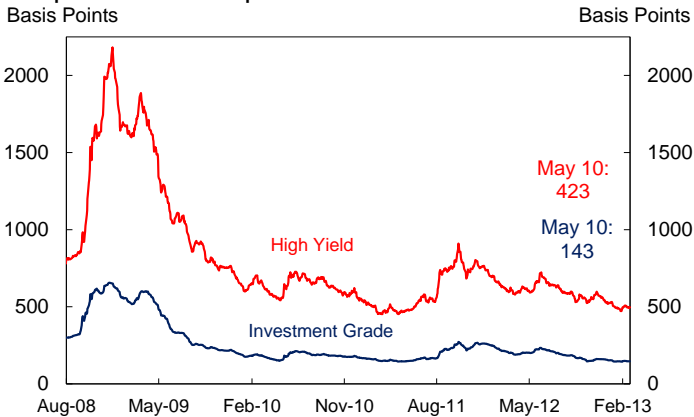
Note: Carry-adjusted.

Equity Index Levels



Source: Bloomberg

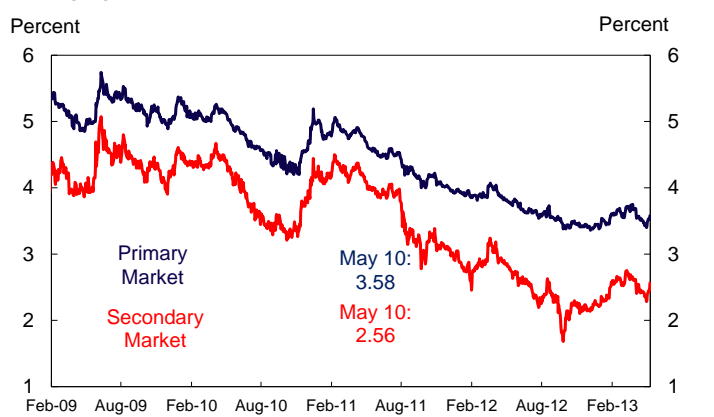
Corporate Credit Spreads



Source: Merrill Lynch

Note: Option-adjusted spreads.

Mortgage Market Rates



Source: Bloomberg

Note: 30-year fixed mortgage rate and Fannie Mae current coupon yield.

FRBNY Staff Forecast Summary

	2013 Q1	2013 Q2		2013 Q3		2012 Q4/Q4	2013 Q4/Q4		2014 Q4/Q4	
Summary	<i>Advance</i>	4/12	5/10	4/12	5/10	<i>Final</i>	4/12	5/10	4/12	5/10
Real GDP	2.5	1.6	2.0	2.2	2.2	1.7	2.4	2.3	3.5	3.6
Total PCE Deflator	0.9	1.5	0.3	1.7	1.4	1.6	1.5	1.1	2.1	1.9
Core PCE Deflator	1.2	1.3	1.1	1.4	1.2	1.5	1.4	1.2	1.8	1.8
Nonfarm Business Sector										
Output	2.5	2.1	2.6	3.0	2.9	2.5	3.3	2.8	4.5	4.5
Hours	1.8	0.9	1.4	1.5	1.4	1.9	1.7	1.9	2.7	2.8
Productivity Growth	0.7	1.3	1.3	1.5	1.5	0.6	1.6	0.9	1.7	1.7
Compensation	1.2	1.2	1.1	1.1	1.0	2.7	1.1	1.0	1.7	1.7
Unit Labor Costs	0.5	0.0	-0.1	-0.4	-0.5	2.0	-0.4	0.1	0.0	-0.1
Real GDP Growth Contributions*										
Final Sales to Domestic Purchasers	2.0	1.9	2.1	2.0	2.0	1.7	2.1	2.1	3.8	3.8
Consumption	2.2	1.4	1.4	1.5	1.5	1.4	1.7	1.7	1.9	1.9
BFI: Equipment and Software	0.2	0.6	0.6	0.7	0.7	0.8	0.6	0.6	1.2	1.2
BFI: Nonresidential Structures	0.0	0.1	0.1	0.1	0.1	0.2	0.0	0.1	0.3	0.3
Residential Investment	0.3	0.5	0.7	0.5	0.5	0.1	0.4	0.5	0.5	0.5
Government: Federal	-0.7	-0.6	-0.6	-0.8	-0.7	-0.4	-0.6	-0.7	-0.4	-0.4
Government: State and Local	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	0.3	0.3
Inventory Investment	1.0	-0.3	-0.2	-0.1	-0.1	0.2	0.2	0.2	0.2	0.2
Net Exports	-0.5	0.0	0.1	0.3	0.3	0.0	0.1	0.0	-0.5	-0.5
Exports	0.4	0.9	0.9	0.7	0.8	0.6	0.7	0.7	0.9	0.9
Imports	-0.9	-0.9	-0.8	-0.4	-0.5	-0.6	-0.6	-0.7	-1.4	-1.4
Real GDP Components' Growth Rates										
Final Sales to Domestic Purchasers	1.9	1.8	2.0	1.9	1.9	1.8	2.1	2.1	3.7	3.7
Consumption	3.2	2.0	2.0	2.1	2.1	1.8	2.4	2.4	2.7	2.7
BFI: Equipment and Software	3.0	8.0	8.0	10.0	10.0	4.7	8.7	8.2	15.5	15.5
BFI: Nonresidential Structures	-0.2	2.0	2.0	4.0	4.0	7.3	0.3	2.9	11.0	11.0
Residential Investment	12.6	20.0	29.4	18.0	17.4	14.9	16.5	19.4	16.0	16.0
Government: Federal	-8.4	-8.0	-8.0	-10.0	-10.0	-2.8	-7.8	-9.1	-5.5	-5.5
Government: State and Local	-1.2	-0.5	-0.5	-0.5	-0.5	-1.1	-0.8	-0.6	2.2	2.2
Inventory Investment	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Net Exports	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Exports	2.9	6.3	6.3	5.5	5.9	2.1	5.1	5.4	6.2	6.9
Imports	5.4	5.2	4.7	2.6	3.0	0.2	3.7	4.2	8.4	8.3
Labor Market										
Nonfarm Payroll Employment (Average per Month, Thousands)	215	120	137	168	152	181	136	174	307	265
Unemployment Rate**	7.7	7.7	7.6	7.6	7.6	7.8	7.5	7.5	6.4	6.4
Income										
Real Disposable Personal Income	-5.3	1.4	3.8	2.0	1.9	3.2	-0.2	0.6	3.3	3.2
Personal Saving Rate**	2.6	2.2	3.1	2.2	3.0	4.7	2.2	3.0	2.8	3.6

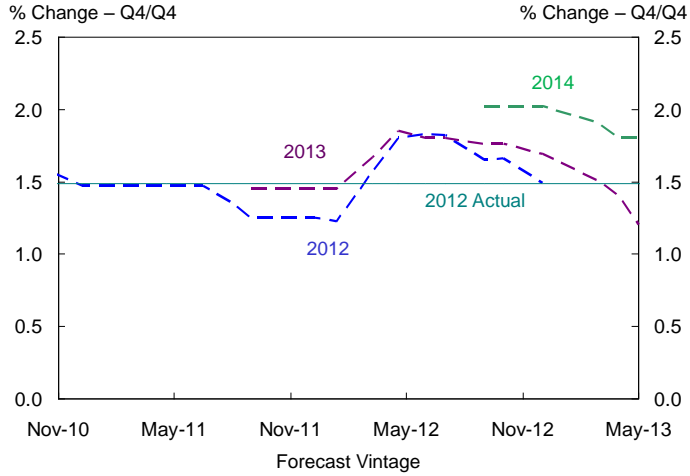
*Growth contributions may not sum to total due to rounding.

**Quarterly values are the average rate for the quarter. Yearly values are the average rate for Q4 of the listed year.

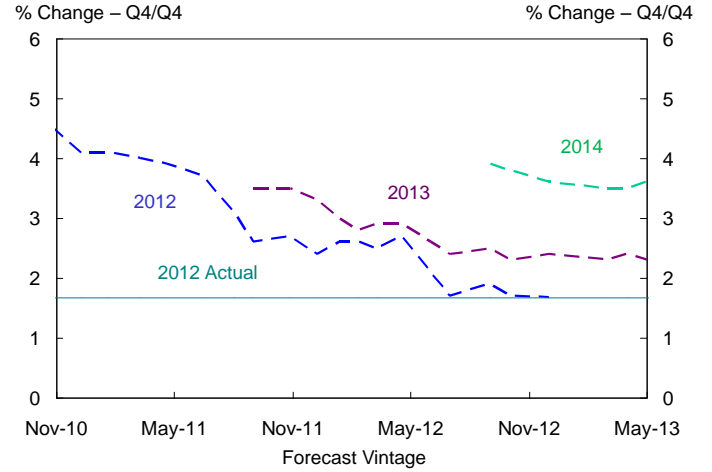
Blue and *italic* text indicate released data; darker colors indicate the most recent forecast.

Evolution of FRBNY Staff Forecasts

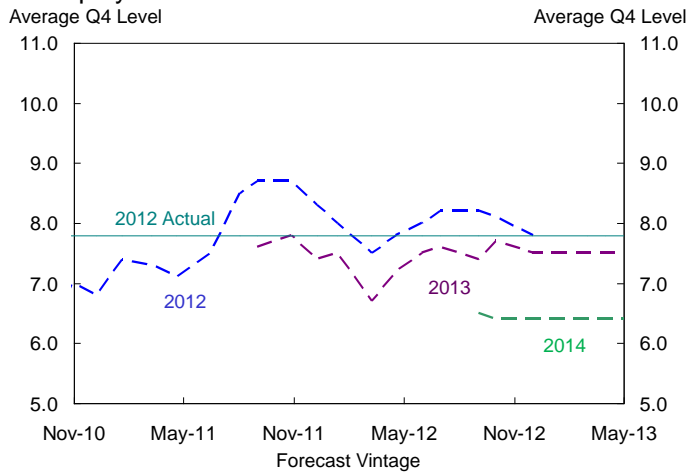
Core PCE Inflation



Real GDP Growth



Unemployment Rate



Note: Forecast vintage represents date at which forecast was produced.

Alternative GDP and Inflation Forecasts

Real GDP Growth					
	Release Date	2013Q2	2013Q3	2013 Q4/Q4	2014 Q4/Q4
FRBNY Staff	5/10/2013	2.0	2.2	2.4	3.5
Blue Chip	5/10/2013	1.7	2.3	2.3	2.8
Median SPF	5/10/2013	1.8	2.3	2.3	-
Macro Advisers	4/11/2013	1.8	1.2	2.1	3.8
Core PCE Inflation					
	Release Date	2013Q2	2013Q3	2013 Q4/Q4	2014 Q4/Q4
FRBNY Staff	5/10/2013	1.1	1.2	1.4	1.8
Median SPF	5/10/2013	1.4	1.6	1.5	1.9
Macro Advisers	4/11/2013	1.4	1.5	1.6	1.8
CPI Inflation					
	Release Date	2013Q2	2013Q3	2013 Q4/Q4	2014 Q4/Q4
FRBNY Staff	5/10/2013	0.2	1.9	1.9	2.7
Blue Chip	5/10/2013	1.1	2.1	1.7	2.1
Median SPF	5/10/2013	1.6	2.0	1.7	2.2
Macro Advisers	4/11/2013	1.6	1.5	1.6	1.6
Core CPI Inflation					
	Release Date	2013Q2	2013Q3	2013 Q4/Q4	2014 Q4/Q4
FRBNY Staff	5/10/2013	1.8	1.7	1.9	2.2
Median SPF	5/10/2013	1.9	2.0	2.0	2.1
Macro Advisers	4/11/2013	2.2	1.8	1.9	1.8