

## **ECONOMIC ADVISORY PANEL MEETING**

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

**Friday, October 16th, 2015**

### **AGENDA**

10:30 a.m. Coffee, Benjamin Strong Room, 10<sup>th</sup> floor

11:00 a.m. Economic Outlook Discussion

- China, EMEs, and the global economic outlook
  - Discussion introduced by a dialogue between Marvin Goodfriend and Peter Hooper
  
- Discussion on the US and global economic outlook

1:00 p.m. Luncheon, Northwest Conference Room, 10<sup>th</sup> floor

## China, EMEs, and the Global Economic Outlook

**Introduction:** In August the Chinese authorities devalued the yuan and moved to a more market-based daily fixing of the yuan/dollar exchange rate. These decisions appeared to foster greater concerns about the global economic outlook. Occurring after earlier attempts to mitigate declines in Chinese equity prices in the context of some soft data releases on the Chinese economy, this devaluation was followed by significant declines in equity markets both in China and around the world. Besides these equity price declines, there was considerable turbulence in currency markets, with many emerging market and commodity-exporting advanced economy currencies experiencing sizable depreciations. In this period, there were also significant declines in commodity prices and spikes in realized and implied volatility in many asset markets, with a somewhat smaller increase in volatility in fixed income markets. Recently markets have stabilized somewhat, but uncertainty remains relatively elevated, with equity and commodity prices still below their levels of early August. Many asset markets remain under stress and U.S. financial conditions appear to have tightened noticeably. In sum, the devaluation of the yuan seemed to lead market participants to revise their assessment of the outlook and risks for the global economy, which contributed to the significant turmoil; this global volatility was a reminder of the complex interdependencies of the world economies and financial markets in particular.

To address some of the issues engendered by these developments, we have asked two of our panelists to take sharply contrasting positions, in the hope to elicit new ideas and a better understanding of the current situation in the world economy.

Specifically, one panelist (Marvin Goodfriend) will support the following proposition:

**Proposition 1:** The recent market turmoil and the devaluation of the yuan are signals of deep structural changes occurring in the Chinese economy. Despite efforts by the Chinese authorities to smooth the structural adjustment process and support economic growth, it is likely that the Chinese economy will experience a pronounced and prolonged slowdown in growth.

The second panelist (Peter Hooper) will support the following proposition:

**Proposition 2:** A slowdown in the Chinese economy is a factor in the recent market turmoil, but that slowdown is likely to be mild. Therefore, factors other than the expectation of an abrupt downshift in Chinese growth must have contributed to the turmoil in financial markets. In particular, a major concern for the world economy is the large decline in commodity prices, which reflects some notable supply increases (particularly in energy commodities) and slowing demand growth in emerging markets. These price declines will lead to significant challenges to continued strong growth performances in many emerging market economies, and may lead to debt sustainability problems that could have widespread financial stability implications for the global economy.