Discussion of NY Fed Staff Outlook

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There are downside risks to the NY Fed Staff Outlook for continued, moderate but above trend growth

- **Fading of headwinds, underlying growth momentum have been overstated**
  - Fiscal multipliers are smaller
  - Consumer caution continues

- **New Headwinds emerging**
  - Boost to exports/manufacturing (retail?) from Asia fading
  - End of global savings glut/QE means tighter financial conditions
Even Our Imperfect Theory Says this Cycle’s Fiscal Multipliers Should be Small

- US fiscal multipliers smaller than in the past: “targeted, timely and temporary” means less stimulus on the way in, less drag on the way out.

Source: Haver Analytics
Despite improved wealth and income expectations, consumers are still finding a new equilibrium for their relationship with debt: boomers are in saving and drawdown mode, millennials are this centuries cautious generation.
There is no decoupling from the global economy

- US exports and manufacturing were boosted and are now feeling the drag of weaker Asian demand compounded by a stronger dollar
- How much has record tourism contributed to surging retail sales and hiring in the retail and leisure and hospitality sector in recent years?
Global liquidity has been an important boost

- Greenspan and Bernanke identified Chinese liquidity as a key driver of the conundrum that kept bond yields low, Chinese deleveraging can mean less recycling of FX reserves. Can BOJ and ECB QE Fully offset this support to financial conditions?

![China: Intl Liquidity: Total Reserves Minus Gold](chart1.png)

![Central Bank Balance Sheets as % of GDP](chart2.png)

Source: International Monetary Fund / Haver Analytics

Source: Haver Analytics
Global competition in product markets has led to convergence
The Phillips Curve is Only Partially Operative in the US Labor Market

Average Hourly Earnings (3m moving average, %y/y) vs. Unemployment Rate

- **Texas**
- **Massachusetts**
- **Ohio**
- **Pennsylvania**