AGENDA

10:30am  Welcome and Review of Council Charter & Antitrust Guidelines,
Claire Kramer Mills, Assistant Vice President

10:40am-11:10am  The National Economy, Richard Peach, Senior Vice President

11:10am-11:40am  International Update, Matthew Higgins, Vice President

11:40am-12:00pm  Regional Update, Jason Bram, Officer

12:00pm  Adjourn to NWC Room-10F

12:15pm  Lunch

12:15pm-1:55pm  Round Table Discussion with William Dudley, President and Michael
Strine, First Vice President

Your experiences can give us insight into current economic conditions.

Questions for discussion:

1. Have firms of your size and in your industry seen sales volume increase, decrease, or stay the same in the second half of 2017?
2. Do you expect sales for firms of your size and in your industry to increase, decrease, or stay the same in the first half of 2018?
3. Do you expect firms of your size and in your industry to increase investment (plant & equipment) in the first half of 2018?
4. Have firms of your size and in your industry faced any recent shortage of labor that has limited their ability to meet demand?
5. Do you expect firms of your size and in your industry to increase employment this year? Why or why not?
6. Do you expect input prices for firms of your size and in your industry to increase? Do you expect prices of products/services sold to increase?
7. Over the past two quarters, have you noticed any financing changes for firms of your size and in your industry? How have the terms and conditions for obtaining financing changed (tightened, eased, not changed)?

2:00 pm  Adjourn
Small Business & Agricultural Advisory Council
Federal Reserve Bank of New York
33 Liberty Street
New York, NY
Thursday, April 5, 2018

ATTENDEE LIST

Council Members

Michael Arnoff
President
Arnoff Moving & Storage

Charles Feit
President and Founder
OnForce Solar

Patrick Marotta
President and CEO
Marotta Controls

Ranjini Poddar
Founder and CEO
Artech Information Systems, LLC

Federal Reserve Bank of New York

William Dudley
President

Michael Strine
First Vice President

Kausar Hamdani
SVP, Communications & Outreach

Richard Peach
SVP, Research & Statistics

Matthew Higgins
VP, Integrated Policy Analysis

Anand Marri
VP, Outreach & Education

Claire Kramer Mills
AVP, Outreach & Education

Jason Bram
Officer, Research & Statistics

Julia Gouny
Officer, Executive Office

Angela Sun
Staff Attorney, Legal

Javier Silva
Senior Associate, Outreach & Education

Maria Carmelita Recto
Associate, Outreach & Education

Edison Reyes
Associate, Outreach & Education
Overview

• Growth in the US has firmed in recent quarters as the shocks that hit the economy in mid 2014—dollar appreciation and falling commodity prices—have largely run their course.
  • Fiscal stimulus will boost growth in 2018 and 2019.
• Several indicators suggest that the economy is at or near full employment, with clearer evidence that the rate of increase of wages/compensation has moved higher.
• Underlying inflation slowed in 2017 and remains below the FOMC’s objective of 2%, but recent indicators suggest that an upturn in inflation is underway.
Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Nominal Trade-Weighted Value of US$ and Rig Count

Active Oil Rigs

Rig Count (left axis)

Broad Trade-Weighted Exchange Value of US $ (right axis)

Source: Federal Reserve Board and Baker Hughes

Note: Shading shows NBER recessions.
Manufacturing Indicators for Major Economies

Source: IHS Markit and Institute for Supply Management via Haver Analytics

Note: Shading shows NBER recessions.
Real PCE and the Personal Saving Rate

12 Month % Change

Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.
Consumer Sentiment and Confidence

Source: University of Michigan, Conference Board.

Note: Shading shows NBER recessions.
Household Net Worth at Record High

(Net Worth over Disposable Income)

Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.
Source: Bureau of Economic Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.
Household Financial Obligation Ratio

Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.
Transition into Delinquency (90+) by Loan Type

Percent of Balance

Source: New York Fed Consumer Credit Panel/Equifax

Student loan data are not reported prior to 2004 due to uneven reporting.
Single Family Housing Market

Index Level

Months

Source: CoreLogic, National Association of Realtors, via Haver Analytics

Note: Shading shows NBER recessions.
Housing Starts and Existing Homes Sales Per Capita

Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.
Credit Score at Mortgage Origination

Credit Score vs. Year

- Median
- 25th Percentile
- 10th Percentile

Source: FRBNY / Consumer Credit Panel
Note: Shading shows NBER recessions.
Business Fixed Investment Firming

Four Quarter Percent Change

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Real Exports and Imports

4 Quarter % Change

Exports

Imports

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Labor Market Indicators

Unemployment Rate (Left Axis)

Labor Force Participation Rate (Right Axis)

Employment to Population Ratio (Right Axis)

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Measure of Underlying PCE Price Inflation

12 Month % Change

FOMC Objective for Headline PCE Inflation

Core PCE Deflator

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Personal Consumption Expenditures Price Indices

Percent Change Year-to-Year

PCE: Services Excl. Energy

Core PCE

PCE: Goods less Food & Energy

FOMC Objective For Headline PCE Inflation

Source: BEA/Haver.

Note: Shading shows NBER recessions.
Reference Charts
Citi Economic Surprise Index

Source: Bloomberg.
Goldman Financial Conditions Index

Source: Bloomberg.
Nondefense Capital Goods excl. Aircraft

Percent Change Year-to-Year

Mfrs’ Shipments

Mfrs’ New Orders

Source: Census Bureau/Haver.

Note: Shading shows NBER recessions.
## Estimated Revenue Effects of The Tax Cuts and Jobs Act

### Fiscal Years 2018-2022 (Percent of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<td><strong>Total (static)</strong></td>
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<td>-0.8</td>
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Source: Joint Committee on Taxation; Congressional Budget Office
## Effect of Bipartisan Budget Act of 2018 on Discretionary Spending
(Billions of Dollars, Fiscal Years)

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<tr>
<th>Budget Control Act Caps</th>
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<th>2018</th>
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<td>551</td>
<td>552</td>
<td>562</td>
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<tr>
<td>BA</td>
<td>80</td>
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<tr>
<td>Nondefense</td>
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<td>519</td>
<td>520</td>
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<tr>
<td>BA</td>
<td>63</td>
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## Adjustments to Caps

<table>
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<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td>Defense</td>
<td>59</td>
<td>83</td>
<td>85</td>
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<tr>
<td>Nondefense</td>
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## Total

<table>
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<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<td>Defense</td>
<td>607</td>
<td>634</td>
<td>717</td>
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<td>Percent Change</td>
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<tr>
<td>Nondefense</td>
<td>544</td>
<td>555</td>
<td>619</td>
<td>632</td>
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<tr>
<td>Percent Change</td>
<td>2.0</td>
<td>11.5</td>
<td>2.1</td>
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### Nominal

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<th>2018</th>
<th>2019</th>
</tr>
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<tbody>
<tr>
<td>Defense</td>
<td>555</td>
<td>570</td>
<td>636</td>
<td>642</td>
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<tr>
<td>Percent Change</td>
<td>2.6</td>
<td>11.7</td>
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<tr>
<td>Nondefense</td>
<td>484</td>
<td>481</td>
<td>525</td>
<td>525</td>
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<tr>
<td>Percent Change</td>
<td>-0.6</td>
<td>9.2</td>
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</table>
Import Price Index and the PCE Deflator for Core Goods

% Change – Year to Year

PCE Deflator: Core Goods (Left Axis)

Import Price Index: Nonpetroleum Imports, 16 Month Lead (Right Axis)

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Michigan Inflation Expectations 5 to 10 Years

Source: University of Michigan

Note: Shading shows NBER recessions.
Global Economic Outlook

Small Business and Agricultural Advisory Council
Matthew Higgins, 5 April 2018

The views expressed here are those of the author, and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System.

Roadmap

- Update on the global economic and industrial cycle
- Continuing “lowflation” in the advanced economies
- The TCJA and U.S. international competitiveness
- Impact of recent U.S. tariffs on steel products, aluminum and various Chinese goods
Global GDP Growth and Composite PMI

Sources: national sources, Markit Economics

Correlation = 0.83

Citigroup Economic Surprise Indexes

*Weighted by series’ historical FX impact
Evolution of Global Market Growth Forecasts

Sources: Blue Chip Economics, Consensus Economics. Figures are GDP-weighted averages for five AEs (counting the euro area as one economy) and 25 EMEs.

Global Manufacturing PMI

Diffusion Index

Average 2004 – 2008:Q1 = 53.7
Average 2012 – 2016:Q3 = 50.9
March 2019 = 53.4

Source: Markit Economics.
Global IP and Export Growth

Percent SAAR, rolling 3-mo. basis

Industrial Production
Exports

11.1
Jan.
4.4

Source: CPB World Trade Monitor.

Global Consumption and Capex Growth (ex. China)

Four-quarter percent change

Source: national sources, IMF, staff calculations. 2017:Q4 values based on available GDP reports and country monthly indicators.
G-3: Core Consumer Price Inflation

Sources: BEA, Eurostat, BoJ. U.S. inflation measured using the PCE index.

G-3 Unemployment Rates

Sources: BLS, CBO, Eurostat, BoJ.
Euro Area Unemployment and NAIRU

Actual unemployment
Contemporary NAIRU estimate

Source: OECD Economic Outlook database, various editions. NAIRU estimates are for the current year, and from the fall and spring editions of the Economic Outlook.

Top Statutory Corporate Tax Rates

New U.S. Tax Rate

Sources: OECD, KPMG. Tax rates include taxes at both national and subnational levels, including any national tax allowances for subnational taxation.
Measuring Marginal Tax Rates on Capital Income

- Effective marginal tax rates are a measure of the corporate tax burden on a break-even investment.

- The break-even investment earns just enough to pay investors’ required return, depreciation costs and taxes:
  - A function of borrowing costs, physical depreciation rates, tax rates, tax depreciation schedules, and required payouts to equity investors.

- EMTRs are very sensitive to the tax treatment of depreciation:
  - Full expensing is equivalent to a zero tax rate on the marginal investment.

- Example: If tax provisions raise breakeven real returns from 7 percent to 10 percent, the EMTR = 3/10 = 30%.

![Effective Marginal Corporate Tax Rates](chart)

**Effective Marginal Corporate Tax Rates**

- **EMTRs in 2017**
- **U.S. EMTR in:**
  - 2018
  - 2027

Sources: OECD, KPMG, CBO, Centre for Business Taxation, author’s calculations. Calculations assume a common set of economic parameters. Only tax rates and tax depreciation schedules vary.
Recent U.S. Tariff Measures

- **The Trump Administration has announced a 25% tariff on steel product imports and an 10% tariff on aluminum imports, citing national security concerns**
  - Steel tariffs could affect roughly $29 bn in U.S. purchases (1.2% of total U.S. imports), but most major sellers to the U.S. have been granted temporary waivers
  - Exempted countries include Canada, Mexico, the EU, Australia, Korea, Argentina and Brazil
  - Aluminum tariffs could affect roughly $23 bn in U.S. purchases (1.0% of total U.S. imports), but the same sellers have been exempted

- **The Administration has also announced 25% tariffs on $50 bn in Chinese goods, citing violations of U.S. IP rights**
  - China has responded with tariffs on $50 bn in U.S. sales to China
  - Given the trade imbalance, tariffs announced to date would affect 38% of U.S. sales to China, but only 10% of Chinese sales to the U.S.
Main Sources of U.S. Steel Imports

Iron & steel product imports = $29.1 bn, ≈ 1.2% of total U.S. imports

Main Sources of U.S. Aluminum Imports

Aluminum imports = $22.7 bn, ≈ 1.0% of total U.S. imports
Regional Economic Conditions

Jason Bram, Research Officer

Small Business & Agriculture Advisory Group Meeting – April 5, 2018

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Recent Private-Sector Job Trends

Year-Over-Year Percent Change as of February 2018

Recent Job Growth in the Region
Percent Change from 2017 to 2018, Year-to-Date (Jan-Feb)

Puerto Rico & U.S. Virgin Islands

Current Economic Conditions

FRBNY Business Surveys, Current Conditions

Source: Federal Reserve Bank of New York.
Unemployment Rates
Seasonally Adjusted

Percent

New York City
New Jersey
United States
New York State

Shading indicates NBER recession

Private-Sector Employment
Seasonally Adjusted Index

Index (Dec2007=100)

NYC Securities Employment
Seasonally Adjusted Levels

NYC Tech and Securities Employment

Thousands of Jobs

Source: Bureau of Labor Statistics and Moody’s Economy.com.; FRBNY Staff Calculations

Technology Employment
- Computer manufacturing
- Electronic shopping
- Software publishing
- Data processing, hosting, etc.
- Internet/web search portals
- Computer systems design
- Scientific R&D services

Securities Employment

Jan ‘10 to Sep ‘17

+14,000

+65,000
Manhattan Specialization

Employment Change, Location Quotient, and Sector Size

Source: CoreLogic Home Price Index (including distressed sales).
Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

Index (Mar2006=100)

Source: CoreLogic Home Price Index (including distressed sales).
What Lies Ahead for Puerto Rico?

• Both territories were in precarious shape, economically & fiscally, prior to hurricanes Irma & Maria.

• Irma & Maria caused substantial damage and disruption:
  – More than 1,000 lost lives, attributable to the storms, in Puerto Rico.
  – Widespread damage to homes, businesses, infrastructure, agriculture.
  – Puerto Rico’s power outage has been the biggest, by far, in US history.

• To begin to gauge the likely economic effect, we look at:
  – How severe have the measured job losses been thus far?
  – How many people left following the storms? and how many will return?
  – What can satellite imagery of nighttime lights tell us about the persistence and geographic breadth of the disruption?
Employment Before & After Selected Hurricanes

Index (Month Before Hurricane = 100)

Months Before/After Hurricane

-12 -10 -8 -6 -4 -2 0 2 4 6 8 10 12 14 16 18 20 22 24 26 28

New Orleans (Katrina - Aug 2005)
USVI (Hugo- Sept. 1989)
USVI (Marilyn - Sept. 1995)
PR (Maria - Sept. 2017)

Source: US Bureau of Labor Statistics, Moody’s economy.com, FRBNY Staff Calculations
Net Domestic Air Passengers to Puerto Rico

Net Passenger Flows by Month

Source: US Bureau of Transportation, FRBNY Staff Calculations
For the full calendar year 2017, 275,000 more people flew out of than into Puerto Rico—about 215,000 above trend.

Source: US Bureau of Transportation, FRBNY Staff Calculations
Nighttime Lights in Puerto Rico

Source: Earth Observation Group; NOAA National Geophysical Data Center.
Regional Recap

• New York City has been the leader in job growth in the region.

• Areas adjacent to NYC have also seen fairly strong growth.

• Fairfield County has lagged, while northern NJ has picked up.

• For the first time in decades, Wall Street has not contributed to NYC’s boom; tech has picked up some of the slack.

• Housing markets have been fairly robust in New York City and parts of upstate New York.

• Puerto Rico appears to be on a slow road to recovery from hurricanes Irma & Maria.