AGENDA

10:30am Welcome and Adoption of the SBAAC Charter, Claire Kramer, AVP
10:35am Introductory Remarks, Jack Gutt, Executive 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 experience and that of your customers and suppliers can give us insight into current economic conditions.

Questions for discussion with President Dudley:

1. Did your firm’s sales volume increase, decrease, or stay the same in the first half of the year?
2. Do you expect your firm’s sales to increase, decrease, or stay the same during the second half?
3. Do you plan to increase investment in your firm (plant & equipment) during the second half of this year?
4. Has your firm faced any recent shortage of labor that has limited your ability to meet demand?
5. Do you plan to increase employment this year? Why or why not?
6. Do you expect input prices to increase this year? Do you expect prices of products/services sold to increase?
7. Over the past two quarters, 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
Tuesday, August 16 2016

ATTENDEE LIST

Council Members

Michael Arnoff
President
Arnoff Moving & Storage

Adenah Bayoh
Co-Founder
Kapwood, LLC

Eric Caslow
President
Acme Smoked Fish Corporation

Kevin Ellis
Chief Executive Officer
Cayuga Milk Industries

Charles Feit
President and Founder
OnForce Solar

Gabriel Hernández
Co-Founder and Head of Tax Division
BDO Puerto Rico

Patrick Marotta
President/CEO
Marotta Controls

Waleska Rivera
President
Danosa Caribbean, Inc.

Federal Reserve Bank of New York

William Dudley
President

Michael Strine
First Vice President

Jack Gutt
EVP, Communications & Outreach

Richard Peach
SVP, Research & Statistics

Linda Goldberg
SVP, Integrated Policy Analysis

Kausar Hamdani
SVP, Communications & Outreach

Matthew Higgins
VP, Integrated Policy Analysis

Claire Kramer
AVP, Outreach & Education

Jason Bram
Officer, Research & Statistics

Luis Uranga
Officer, Chief of Staff’s Office

Angela Sun
Associate, Legal

Marisa Casellas-Barnes
Associate, Outreach & Education

Edison Reyes
Associate, Outreach & Education
Overview

• Growth of real GDP has slowed sharply over the past year and a half due primarily to substantial dollar appreciation, weaker global growth, and steep declines in commodity prices.
  – Consumer spending continued to be the main engine of growth for the US economy, helped along by falling energy and food prices.
  – Housing has lost forward momentum despite quite low mortgage interest rates.
  – Growth of business fixed investment slowed substantially, due in part to the sharp contraction in oil and gas drilling activity.
  – Net exports exerted a substantial drag.
  – Inventories high relative to sales.

• Nonetheless, the labor market continued to improve over the period and is now showing classic signs of being at or near full employment.

• Core inflation has edged higher over the past year but remains below the FOMC’s objective.
  – Rent inflation continues to edge higher.
  – Health care price inflation has moved higher.
  – Core goods prices are declining reflecting past dollar appreciation and excess inventories.
Growth of Real GDP

Four Quarter Percent Change

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.
Aggregate Weekly Hours Worked

Y/Y % Change

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.
Labor Share of National Income and Unemployment Rate

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Note: Shading shows NBER recessions.
Sources: Bureau of Economic Analysis and Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Household Liabilities/Disposable Personal Income

Source: Federal Reserve Board

Note: Shading shows NBER recessions.
Single Family Housing Market

12 Month % Change

Single Family House Price Index (Left Axis)

“Normal” Range for Months’ Supply

Months’ Supply (Right Axis)

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

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

Units

0.03

0.025

0.02

0.015

0.01

0.005

0


Existing Home Sales

Housing Starts

.0178 (average over 1968-2003)

.009 (average over 1968-2003)

Source: BLS, Census Bureau, NAR

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

Median

25th Percentile

10th Percentile

About 35 – 40 Million People

Source: FRBNY / Consumer Credit Panel

Note: Shading shows NBER recessions.
Real Business Fixed Investment

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Real Government Consumption and Gross Investment

4 Quarter % Change

Federal (Left Axis)

State & Local (Right Axis)

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
PCE Deflator

Source: Bureau of Economic Analysis, via Haver Analytics

Note: Shading shows NBER recessions.
CPI Inflation: Core Goods and Core Services

12 Month % Change

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.
Rental Vacancy Rate and Rent of Primary Residence

Source: Census Bureau, BLS

Note: Shading shows NBER recessions.
Personal Consumption Expenditures: Health Care Price Index

12 Month % Change

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.

17% of total PCE deflator
19% of core PCE deflator
Reference Charts
Impact of Brexit on US Forecast

- Slightly higher path for exchange value of US dollar.
- Somewhat weaker foreign growth.
- Somewhat weaker business fixed investment.
- Total estimated impact is to reduce growth of real GDP over the period from 2016Q3 through 2017Q2 by 0.1 percentage point.
Corporate Profits

Corporate Profits/National Income

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
## CORPORATE PROFITS BY SOURCE (PERCENT OF NATIONAL INCOME)

<table>
<thead>
<tr>
<th>Source</th>
<th>Q3-2014</th>
<th>Q1-2016</th>
<th>2016Q1</th>
<th>Change 2014Q3-2016Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL CORPORATE PROFITS</td>
<td>14.2</td>
<td>12.2</td>
<td></td>
<td>-2.0</td>
</tr>
<tr>
<td>DOMESTIC INDUSTRIES</td>
<td>11.4</td>
<td>10.0</td>
<td></td>
<td>-1.4</td>
</tr>
<tr>
<td>FINANCIAL</td>
<td>2.7</td>
<td>2.3</td>
<td></td>
<td>-0.4</td>
</tr>
<tr>
<td>NONFINANCIAL</td>
<td>8.7</td>
<td>7.7</td>
<td></td>
<td>-1.0</td>
</tr>
<tr>
<td>REST OF WORLD</td>
<td>2.8</td>
<td>2.2</td>
<td></td>
<td>-0.6</td>
</tr>
<tr>
<td>RECEIPTS FROM</td>
<td>4.6</td>
<td>4.2</td>
<td></td>
<td>-0.5</td>
</tr>
<tr>
<td>PAYMENTS TO</td>
<td>1.8</td>
<td>2.0</td>
<td></td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Global Economic Outlook

Small Business and Agricultural Advisory Council
Matthew Higgins, August 2016

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

- Recent global economic performance and medium-term outlook
- Foreign advanced economies’ struggle to escape “lowflation”
- The United Kingdom after the Brexit referendum
- China’s excess capacity challenge
- Canadian economic performance since the global crisis
Global GDP Growth
Percent Q/Q-4

Sources: National sources, Bloomberg. Dotted lines show market growth forecasts.
Citigroup Economic Surprise Indexes
Percent positive or negative*

*Weighted by series’ historical FX impact

Global Manufacturing PMI
Diffusion Index

Average 2005 – 2008:Q1 = 53.2
Average 2012 – 2015:Q2 = 51.1

Source: Markit.
**G-3: Core Consumer Price Inflation**

Percent change from year ago

U.S. 1.6

Euro Area 0.9

Japan 0.4

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

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**Central Bank Credit as a Share of GDP**

Percent

Japan

Euro Area

United States

Sources: BoJ, ECB, Federal Reserve. Projections assume that announced BoJ and ECB asset purchase programs proceed through 2017Q1—both are open-ended—and that Federal Reserve credit remains constant at its current level. Nominal GDP is assumed to grow in line with current market forecasts.
## AE Core Inflation Performance with Negative Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Date Adopted</th>
<th>Initial Core Inflation</th>
<th>Current Core Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>January 2016</td>
<td>1.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>February 2015</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Switzerland</td>
<td>December 2014</td>
<td>0.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>September 2014</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Euro Area</td>
<td>June 2014</td>
<td>0.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Sources: National sources, OECD. Policy rates are as follows: Japan, marginal current account balances; Sweden, repo rate; Switzerland, 3-mo. LIBOR target; Denmark, CD rate; Euro Area, deposit rate.

## Market Growth Forecast Changes Since Brexit Referendum

( percent, calendar-year basis )

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th></th>
<th>Euro Area</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Current Forecast</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 3</td>
<td>1.8</td>
<td>1.3</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Bottom 3</td>
<td>1.2</td>
<td>-0.9</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Change Since Vote</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 3</td>
<td>-0.3</td>
<td>-1.8</td>
<td>0.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Bottom 3</td>
<td>-0.2</td>
<td>-1.1</td>
<td>0.0</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Source: Blue Chip Economics. Panel includes 22 individual forecasts. Survey dates are August 10 and June 10, respectively.
UK Confidence, Financial Conditions and Summary Indicator

Normalized Indexes (mean = 0.0, STD = 1.0)

Sources: Eurostat, Bloomberg, staff estimates. Recession shading follows data set by ECRI.

Legal Arrangements of Selected Non-EU Countries

<table>
<thead>
<tr>
<th>Legal framework</th>
<th>Norway</th>
<th>Switzerland</th>
<th>Turkey</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework</td>
<td>European Economic Association</td>
<td>European Free Trade Area + bilateral agreements</td>
<td>Customs Union</td>
<td>Free Trade Agreement</td>
</tr>
<tr>
<td>Tarrif-free trade with EU</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Contributes to EU budget</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited restrictions on labor mobility and immigration from EU</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implements most EU legal and regulatory norms</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted access to EU single market for financial services</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU voting rights</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
China and other EMEs: Capital Spending as a Share of GDP

Source: WEO database, staff forecast for 2016.

China: Capacity Utilization in the Industrial Sector

Source: CEIC, PBOC
Crude Steel Production

Source: World Steel Association, data as of 2015

China: SOE Employment

Source: CEIC
Advanced Economy Real GDP

Indexes, 2008:Q1 = 100

- United States
- Canada
- U.S.
- Germany
- Japan
- Euro area ex. Germany

Canada: Provincial Employment

Indexes, 2008:Q1 = 100

- United States
- Alberta
- Manitoba & Saskatchewan
- British Columbia
- Ontario
- Quebec
- Maritime Provinces
Regional Economic Outlook
Presentation to the Advisory Council on Small Business and Agriculture
Jason Bram, Research Officer
August 16, 2016

The views expressed here are those of the presenter and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.
Overview of Regional Conditions

• New York City’s economy continues to lead the region in growth, led by the outer boroughs.

• While NYC’s key finance sector has been sluggish, tech (which tends to pay fairly well) has been booming.

• New Jersey’s economy continues to grow at a modest pace.

• Upstate New York continues to lag in job growth, though housing markets remain stable.

• Puerto Rico’s economy remains depressed, though a couple sectors have held up fairly well.
Regional Economic Activity
Index of Coincident Economic Indicators (CEI)

Index (Dec2007=100)

Source: Federal Reserve Bank of New York
Current Economic Conditions
FRBNY Business Surveys, Current Conditions

Diffusion Index

Empire State Manufacturing Survey

Business Leaders Survey

Sandy

Shading indicates NBER recession

Source: Federal Reserve Bank of New York
Private-Sector Employment
Seasonally Adjusted Index

Index (Dec2007=100)

Source: Bureau of Labor Statistics and Moody's Economy.com
Puerto Rico Job Trends by Sector
2006-2011 & 2011-2016 (YTD)

Private-Sector Employment
Seasonally Adjusted Index

Source: Bureau of Labor Statistics and Moody's Economy.com
Recent Growth in and around NYC

2015 Private-Sector Job Growth

The New York City Premium
Average Earnings Per Worker in NYC as a Percent of the U.S. Average


Note: Ratio is based on nominal earnings of wage and salary workers in New York City and the nation.
NYC Finance and Securities
Sectors’ Share of NYC Employment and Earnings

NYC Tech and Securities Employment

Thousands of Jobs


- 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

Shading indicates NBER recession
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)
Home Prices
CoreLogic Home Price Index, Seasonally Adjusted

Index (Mar2006=100)

Shading indicates NBER recession

Source: CoreLogic Home Price Index (including distressed sales)
Recent Job Growth in Upstate NY

2015 Private-Sector Job Growth

Home Prices
CoreLogic Home Price Index, Seasonally Adjusted

Index (Mar2006=100)

Shading indicates NBER recession

Source: CoreLogic Home Price Index (including distressed sales)
Home Prices
CoreLogic Home Price Index, Seasonally Adjusted

Index (Mar2006=100)

Shading indicates NBER recession

Source: CoreLogic Home Price Index (including distressed sales)