



**Small Business & Agriculture Advisory Council
Federal Reserve Bank of New York
Thursday, August 17, 2017**

AGENDA

- 10:30am Welcome, Jack Gutt, Executive Vice President
- 10:35am Introductory Remarks, Claire Kramer Mills, Assistant Vice President
- 10:40am-11:00am Small Business Credit Survey, Claire Kramer Mills, Assistant Vice President
- 11:00am-11:30am The National Economy, Richard Peach, Senior Vice President
- 11:30am-12:00pm Regional Update, Jason Bram, Officer
- 12:00pm Adjourn to NWC Room-10F
- 12:15pm Lunch
- 12:15pm-1:55pm Discussion with William Dudley, President and Michael Strine, First Vice President
- Your experiences can give us insight into current economic conditions.
- Questions for discussion with President Dudley:
1. Have firms of your size and in your industry seen sales volume increase, decrease, or stay the same in the first 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 second half of 2017?
 3. Do you expect firms of your size and in your industry to increase investment (plant & equipment) in the second half of 2017?
 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 this year? 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, August 17, 2017**

ATTENDEE LIST

Council Members

Michael Arnoff
President
Arnoff Moving & Storage

Patrick Marotta
President and CEO
Marotta Controls

Eric Caslow
President
Acme Smoked Fish Corporation

Ranjini Poddar
Founder and CEO
Artech Information Systems, LLC

Kevin Ellis
Chief Executive Officer
Cayuga Milk Ingredients

Waleska Rivera
President
Danosa Caribbean, Inc.

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

Federal Reserve Bank of New York

William Dudley
Michael Strine
Jack Gutt
Kausar Hamdani
Richard Peach
Sarah Bell
Andrea Priest
Claire Kramer Mills
Jason Bram
Betsy Bourassa
Edison Reyes
Angela Sun
Jessica Battisto
Scott Lieberman

President
First Vice President
EVP, Communications & Outreach
SVP, Communications & Outreach
SVP, Research & Statistics
VP, Executive Office
VP, Media Relations
AVP, Outreach & Education
Officer, Research & Statistics
Associate, Media Relations
Associate, Outreach & Education
Associate, Legal
Senior Analyst, Outreach & Education
Senior Analyst, Outreach & Education

2016

SMALL BUSINESS CREDIT SURVEY

REPORT ON STARTUP FIRMS

Published August 2017

The views I express are my own and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

FEDERAL RESERVE BANK of NEW YORK



Overview

- About the survey
- Why startups?
- 2016 highlights, startup firms
 - About the businesses
 - Business performance
 - Financial challenges
 - Debt
 - Credit demand, supply, and experiences



About the survey

History of the Small Business Credit Survey

- Started after the financial crisis to better understand supply and demand for credit and capital alternatives
 - Separate pilot efforts by Federal Reserve Banks
- Launched Joint Small Business Credit Survey in 2014
 - Multi Federal Reserve Bank effort
 - Expanded in 2015
- National effort in 2016
 - Participation from all 12 Federal Reserve Banks

About the survey

How is the information collected?

- Convenience sample
- 400+ community partners and business organizations
- Responses weighted to reflect the national distribution of small businesses
- Administered online and takes approx. 10-12 minutes to complete. Fielded from Sept - Dec 2016.
- 10,303 employer firms completed the survey
 - Of these, 2,159 were 0-5 years old.

Why startups?

- 34% of all small employer firms
- Drivers of job growth in the US¹
 - Account for nearly all net new job creation
- Rate of startup creation has been declining²
- 1/3 of new establishments fail within their first 2 years, and half fail within 5 years³

1 "The Importance of Young Firms for Economic Growth," Jason Wiens and Chris Jackson. *Kauffman Foundation Entrepreneurship Policy Digest*, September 2015; "Who Creates Jobs? Small Versus Large Versus Young," John Haltiwanger, Ron S. Jarmin, and Javier Miranda. *The Review of Economics and Statistics*, May 2013, 95(2): 347-361.

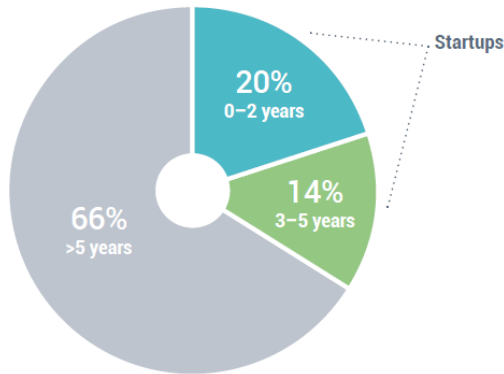
2 "Declining Business Dynamism: It's For Real," Ian Hathaway and Robert E. Litan, *Brookings Institution*, May 2014.

3 Bureau of Labor Statistics, *Business Employment Dynamics*.

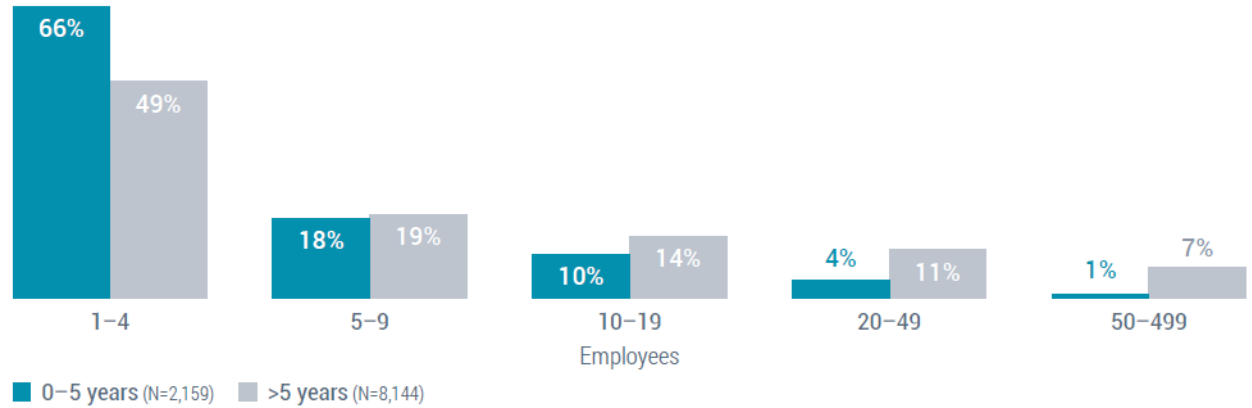
Report highlights

About the businesses

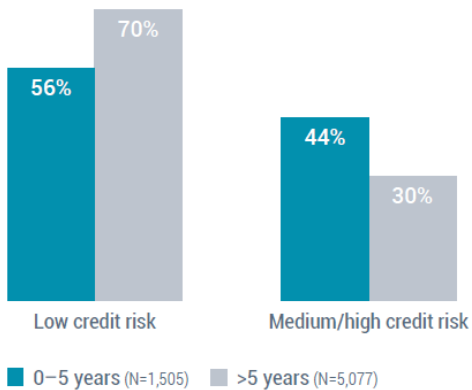
AGE OF FIRM¹ (% of employer firms) N=10,303



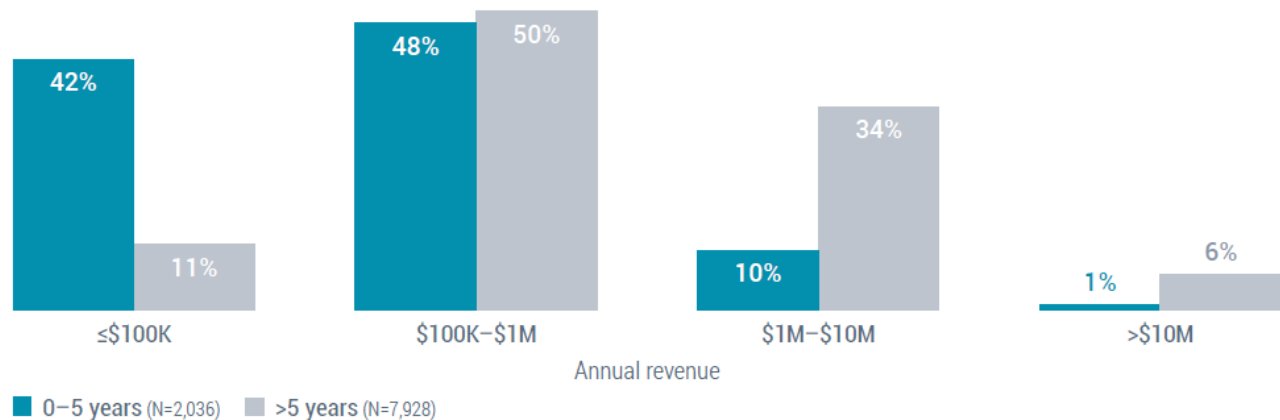
NUMBER OF EMPLOYEES^{1,2,3} (% of employer firms)



CREDIT RISK³ OF FIRM (% of employer firms)



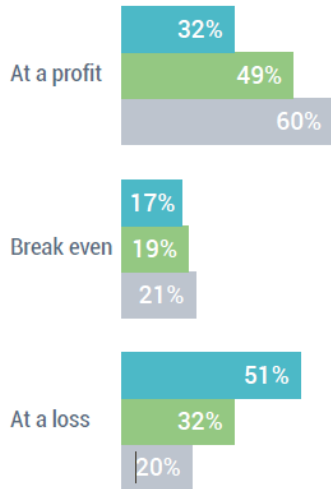
REVENUE SIZE OF FIRM³ (% of employer firms)



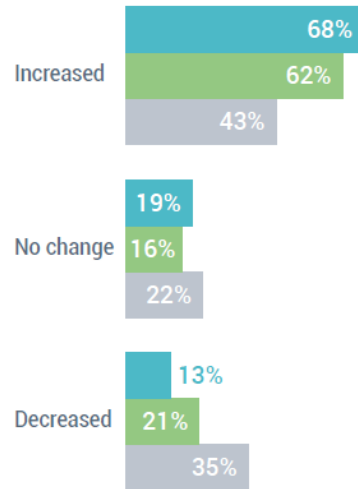
Report highlights

Business performance

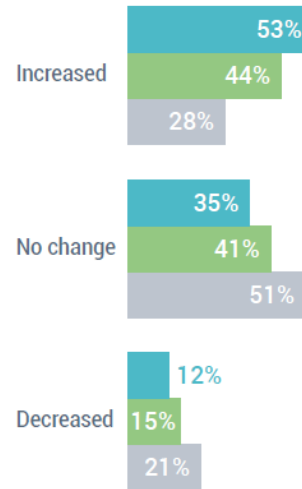
PROFITABILITY,¹
End of 2015



REVENUE CHANGE,¹
Prior 12 Months²



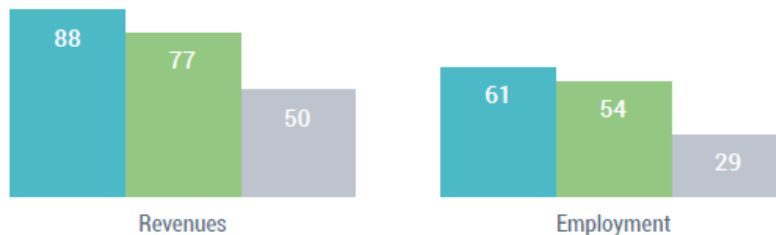
CHANGE IN EMPLOYMENT,¹
Prior 12 Months²



■ 0-2 years (N⁵=836-995) ■ 3-5 years (N⁵=1,104-1,129) ■ >5 years (N⁵=7,989-8,057)

FIRM EXPECTATIONS INDEX BY AGE OF FIRM,³ Next 12 Months⁴

(% of firms expecting increase minus % of firms expecting decrease)



- ✓ Less likely to be profitable
- ✓ More likely to have grown revenues
- ✓ More likely to have added employees
- ✓ More often optimistic

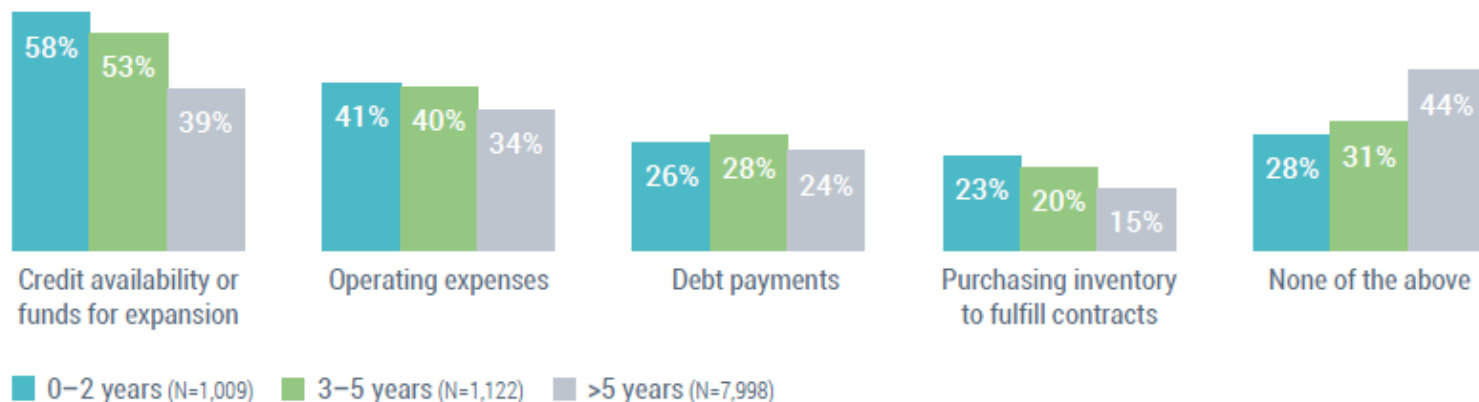
Report highlights

Financial challenges

SHARE OF FIRMS WITH FINANCIAL CHALLENGES¹ BY AGE OF FIRM, *Prior 12 Months* (% of employer firms)



TYPES OF FINANCIAL CHALLENGES BY AGE OF FIRM,³ *Prior 12 Months* (% of employer firms)



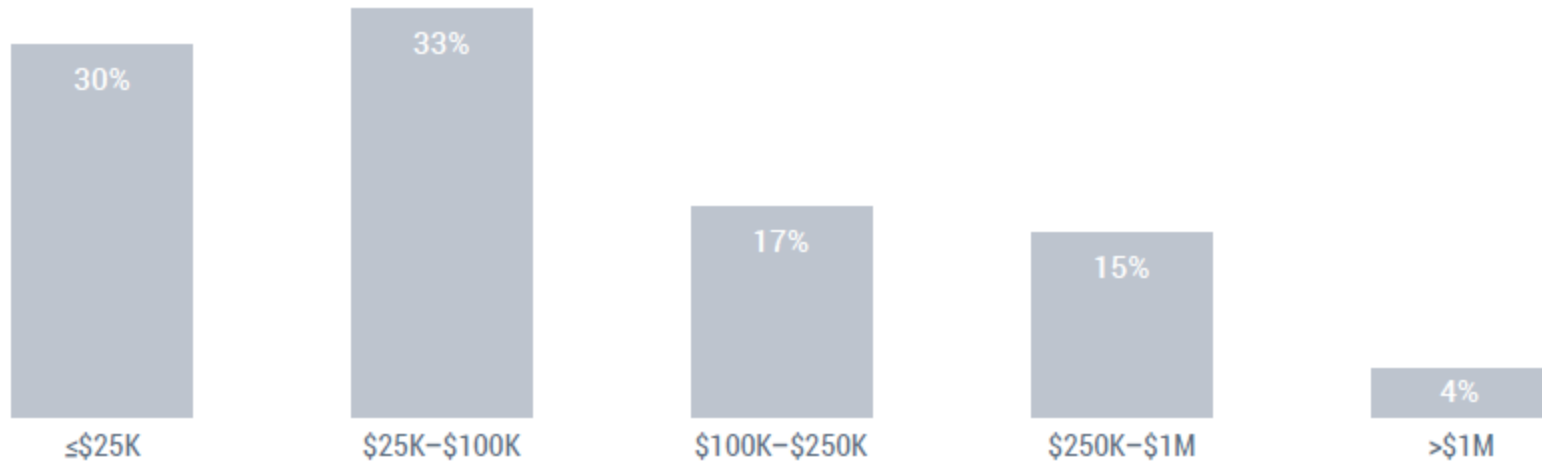
Report highlights

Outstanding debt

73% of startup firms have outstanding debt. N=2,132

AMOUNT OF DEBT,^{1,2} At Time of Survey (% of startup firms with debt)

N=1,489

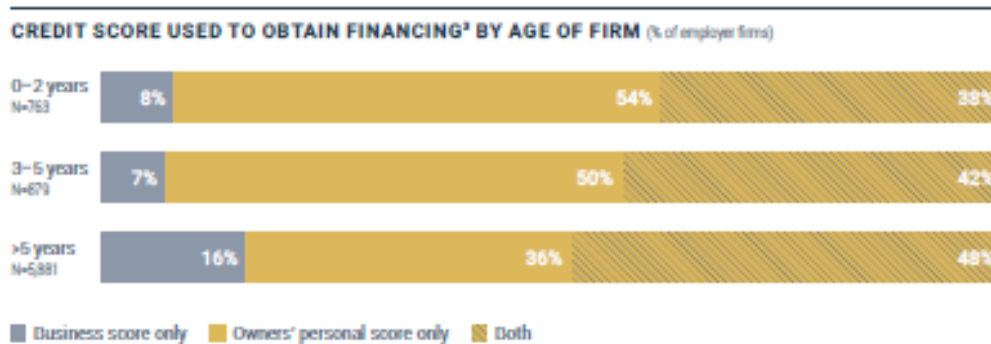


**Categories have been simplified for readability. Actual categories are: ≤\$25K, \$25,001-\$100K, \$100,001-\$250K, \$250,001-\$1M, >\$1M.*

Report highlights

Use of personal credit

92% of startups rely entirely or partially on the owner's personal credit score to obtain financing.



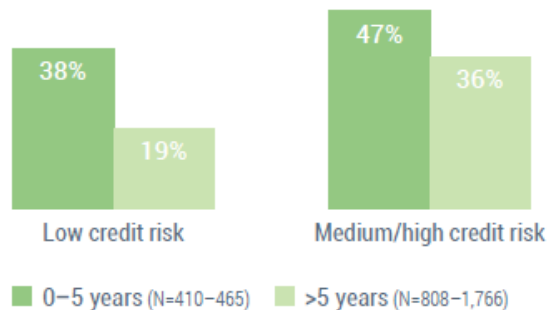
Report highlights

Demand for financing

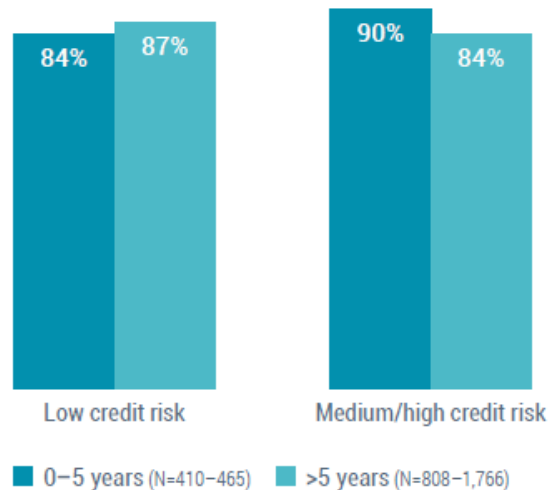
52% of startup firms applied for financing in the prior 12 months.

FINANCING AND CREDIT PRODUCTS SOUGHT BY AGE AND CREDIT RISK,³ *Select Products* (% of applicants)

CREDIT CARD



LOAN/LINE OF CREDIT

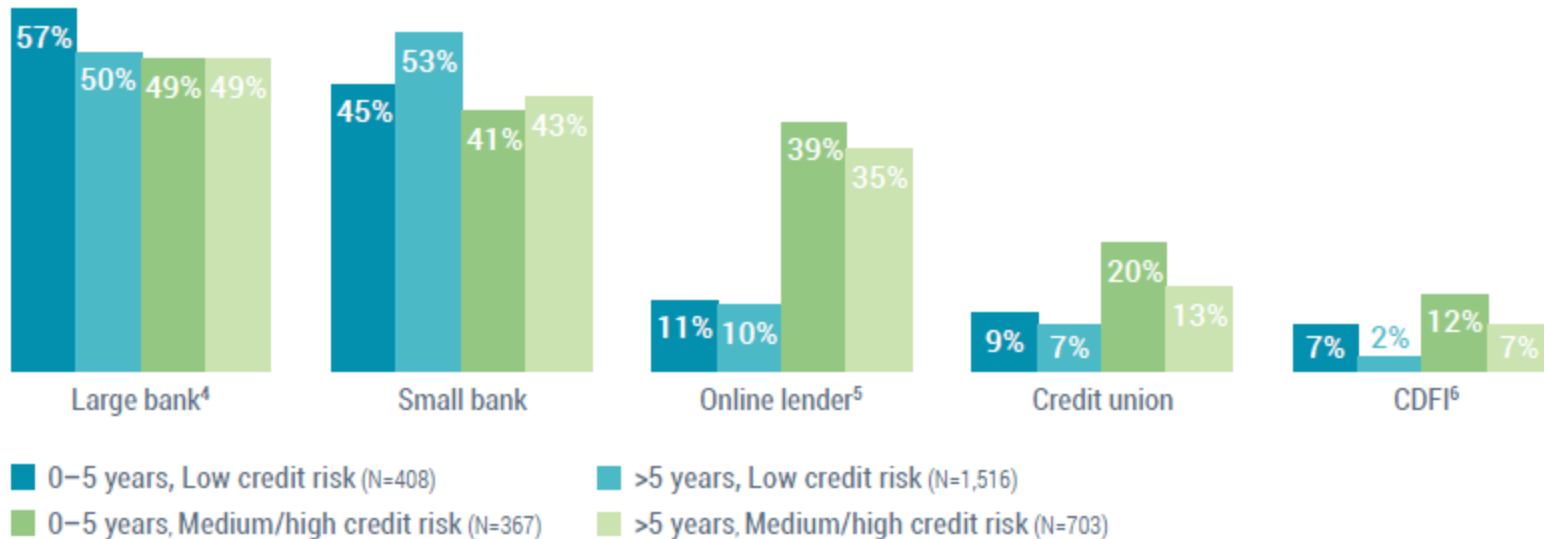


Report highlights

Demand for financing

Traditional lenders are most common, but medium/high credit risk firms more often seek credit from online lenders, regardless of age.

CREDIT SOURCES APPLIED TO BY AGE AND CREDIT RISK^{2,3} (% of loan/line of credit applicants)

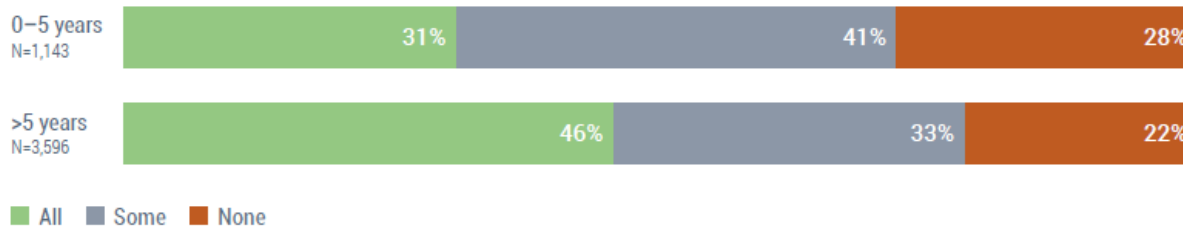


Report highlights

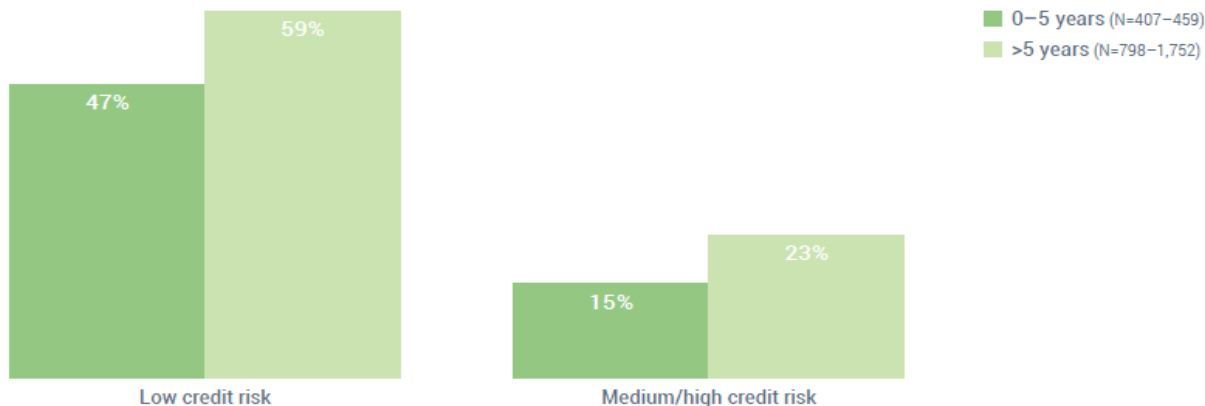
Financing approvals

Startup firms are less likely to be fully funded than older firms, even when their credit risk is similar.

TOTAL FINANCING RECEIVED BY AGE OF FIRM^{1,2} (% of applicants)



SHARE RECEIVING THE FULL AMOUNT OF FINANCING SOUGHT BY AGE AND CREDIT RISK³
(% of applicants)

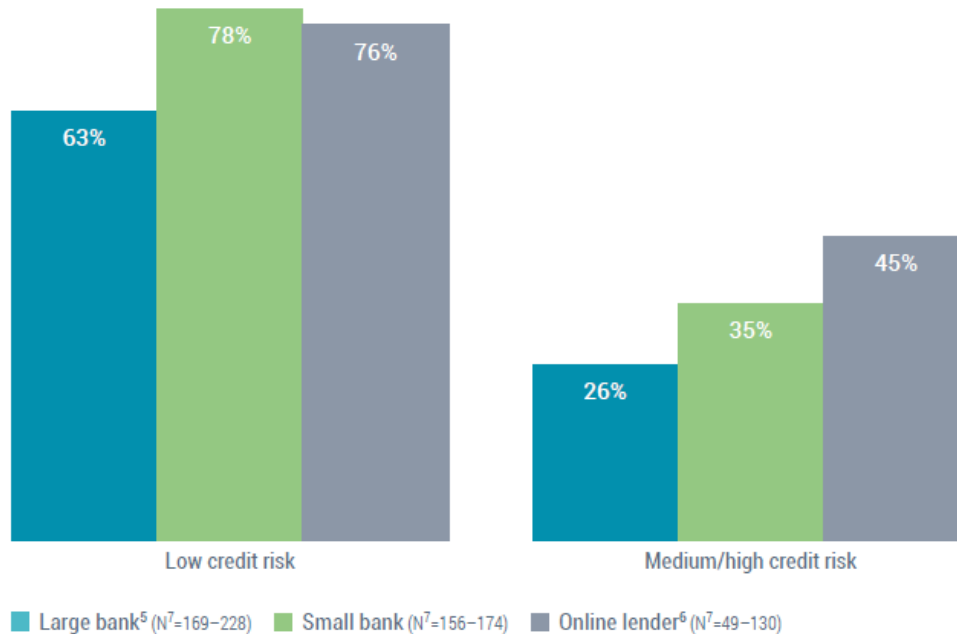


Report highlights

Financing approvals by source

Low credit risk startup firms had greatest success at small banks.
Higher credit risk startup firms did best with online lenders.

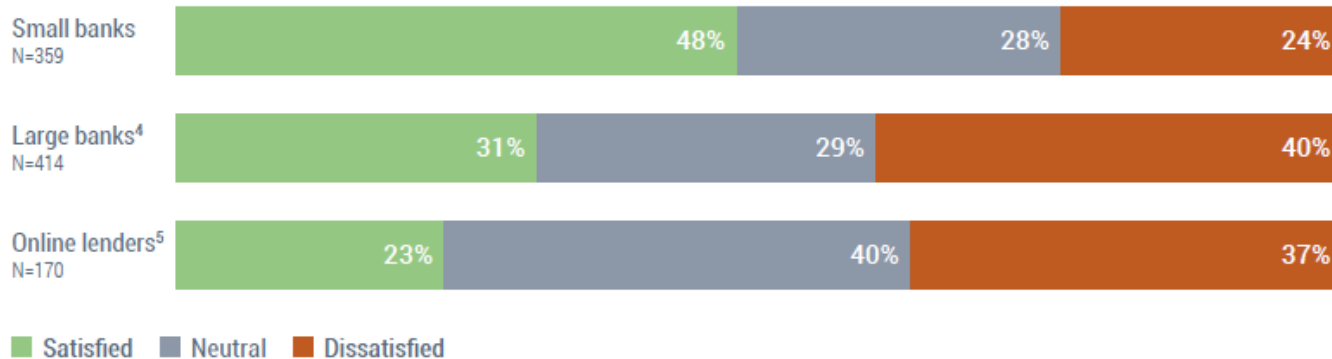
APPROVAL RATE BY SOURCE OF LOAN/LINE OF CREDIT AND CREDIT RISK^{1,2,3,4}
(% of startup loan/line of credit applications)



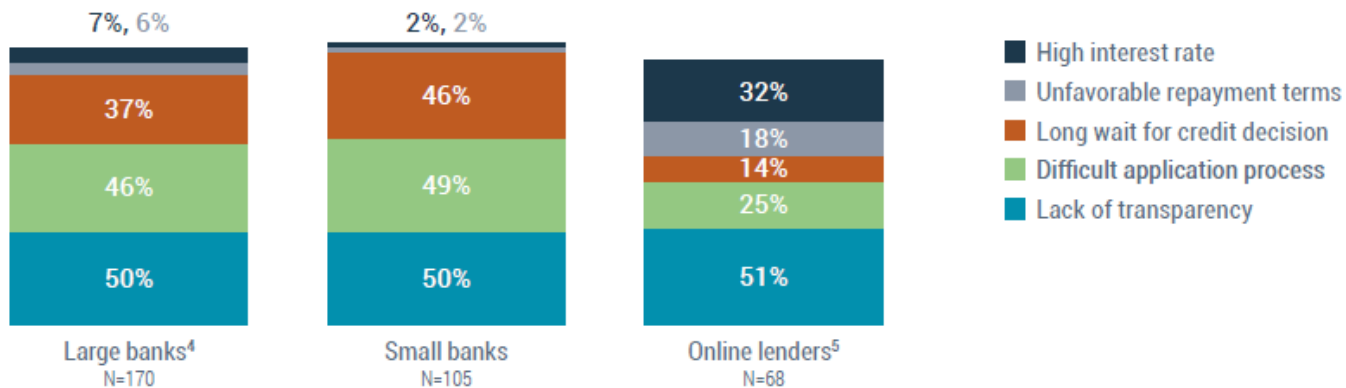
Report highlights

Lender satisfaction

LENDER SATISFACTION^{1,2,3} (% of startup applicants at source)



REASONS FOR DISSATISFACTION^{2,6,7,8} (% of startup applicants dissatisfied with lender)



Questions?

Claire Kramer Mills

Federal Reserve Bank of New York

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Forthcoming reports on minority-owned firms, women-owned firms, microbusinesses and nonemployer firms.



FEDERAL RESERVE BANK *of* NEW YORK

US Macro Overview

Richard Peach, Senior Vice President

Presented to SBAAC
August 17, 2017

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

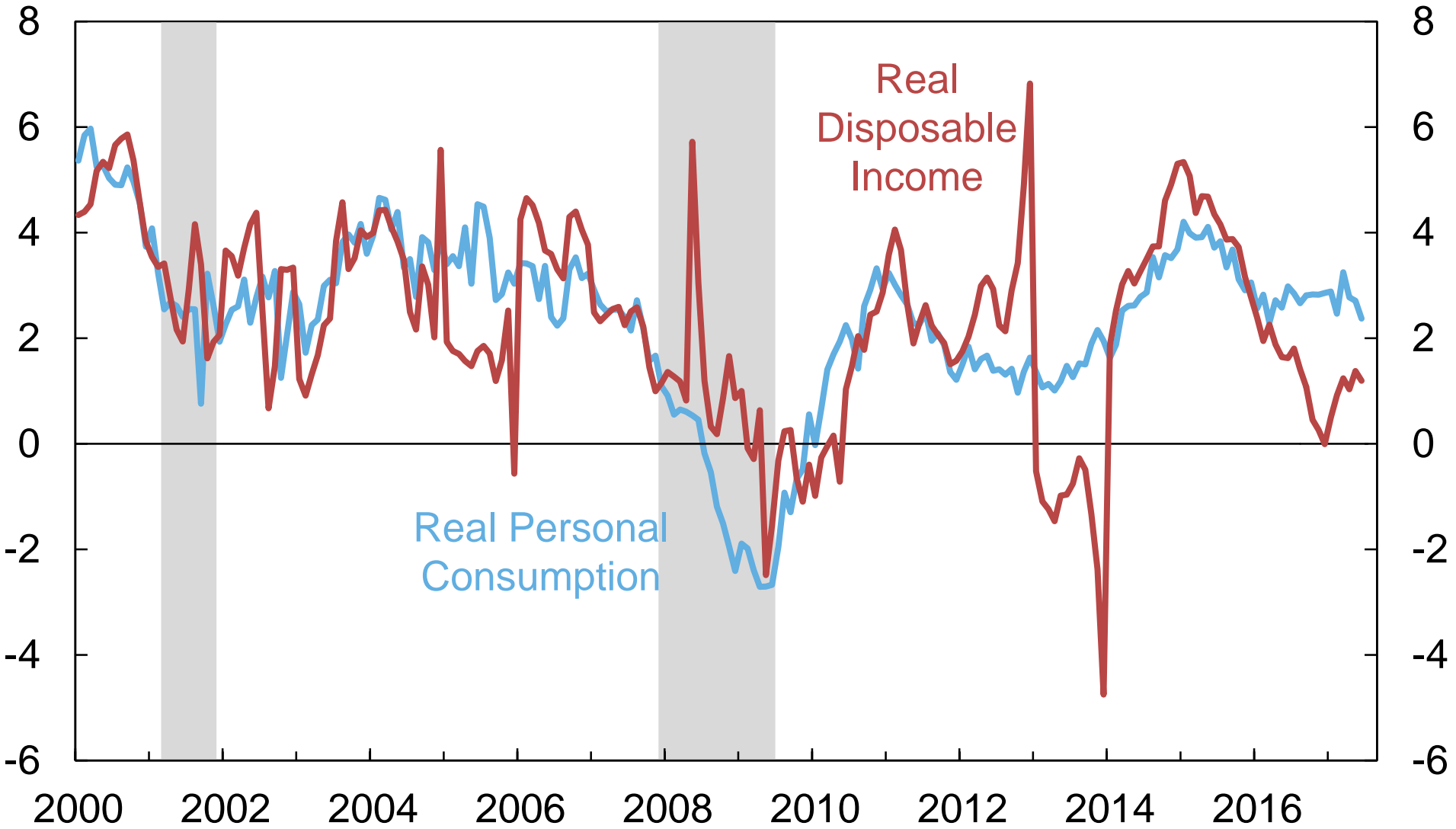
Overview

- US economy likely grew around 2% (annual rate) over the first half of 2017, the same as in 2015 and 2016.
 - Consumer spending and housing leading the economy, business investment remains sluggish.
- Several indicators suggest that the economy is at or near full employment, leading the FOMC to begin to gradually increase the federal funds rate.
- However, underlying inflation remains below the FOMC's objective of 2%, and in recent months has begun to slow.
 - The question policy makers and markets are struggling with is whether this recent slow is due to transitory factors or something more fundamental.

Disposable Income and Consumption

12 Month % Change

12 Month % Change



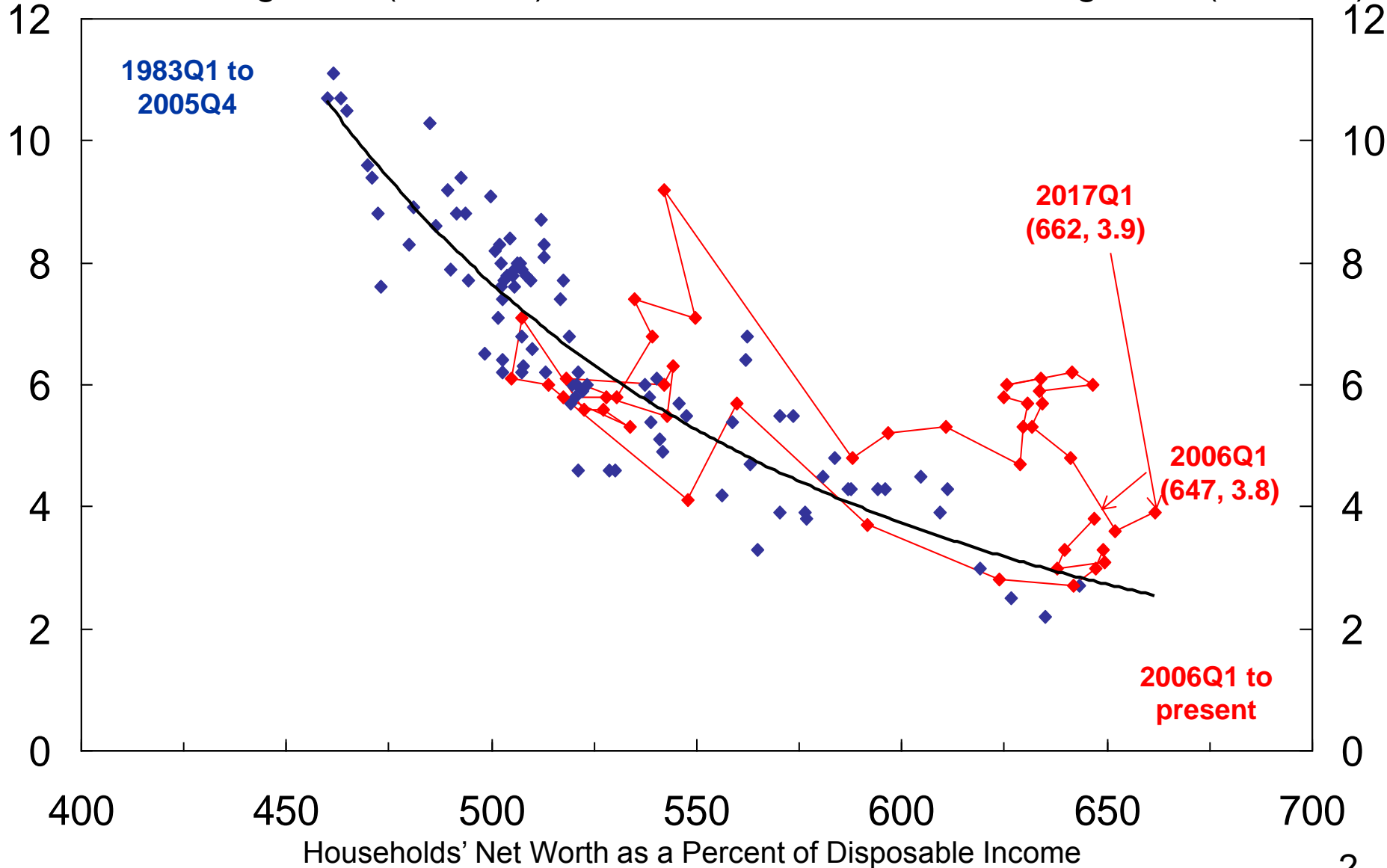
Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Personal Saving Rate and Household Net Worth

Personal Saving Rate (Percent)

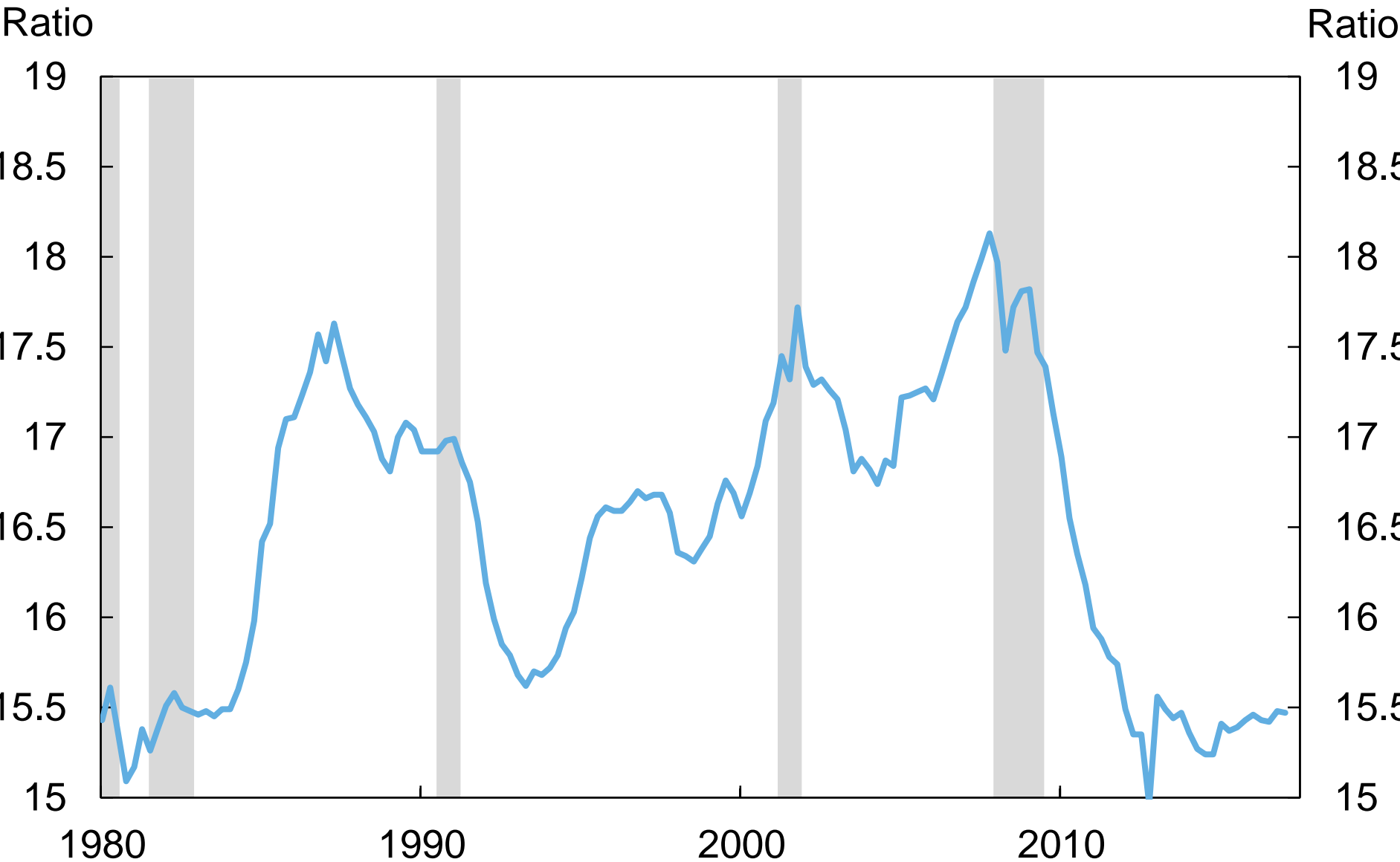
Personal Saving Rate (Percent)



Source: Bureau of Economic Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.

Household Financial Obligation Ratio



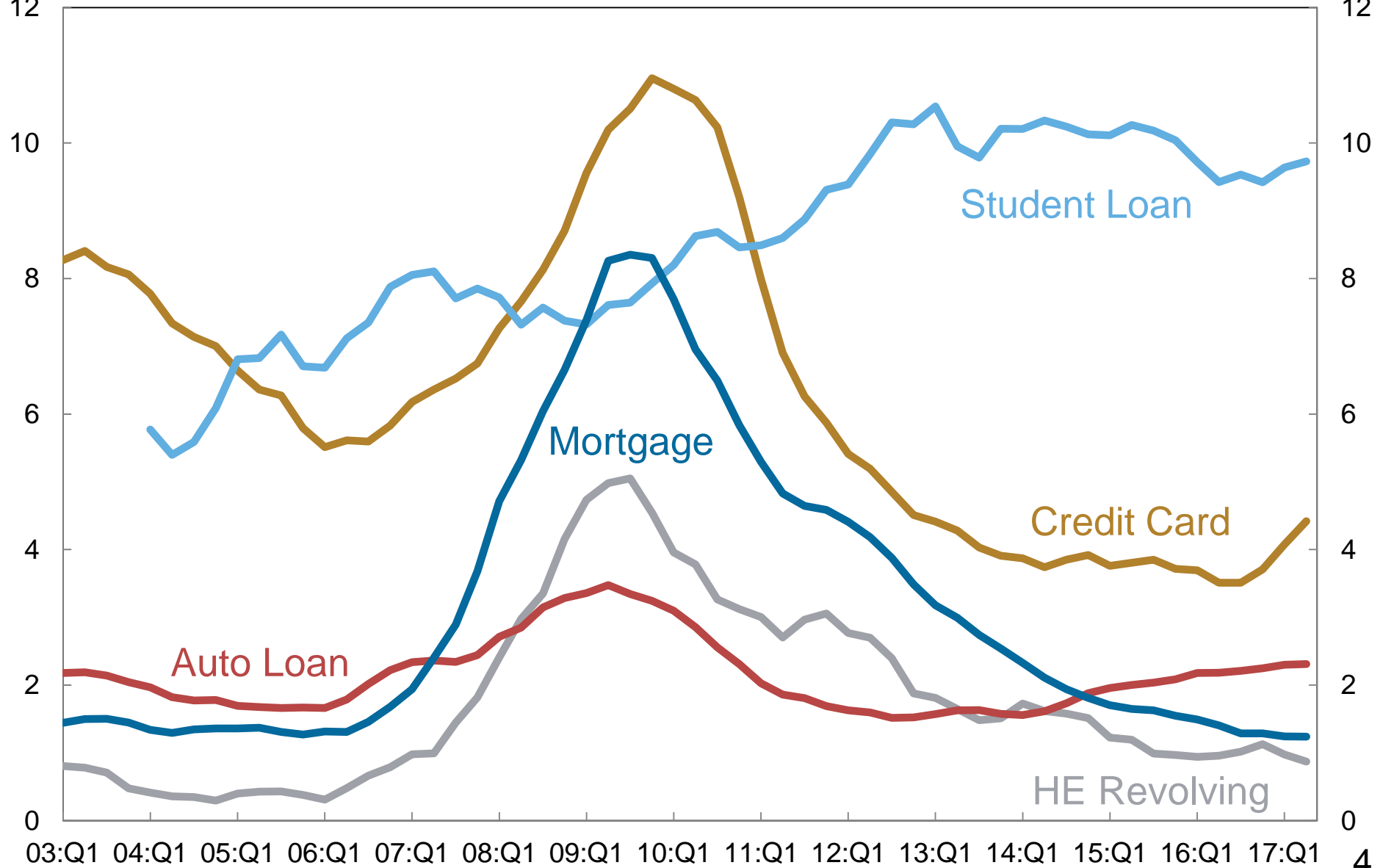
Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Transition into Delinquency (90+) by Loan Type

Percent of Balance

Percent of Balance

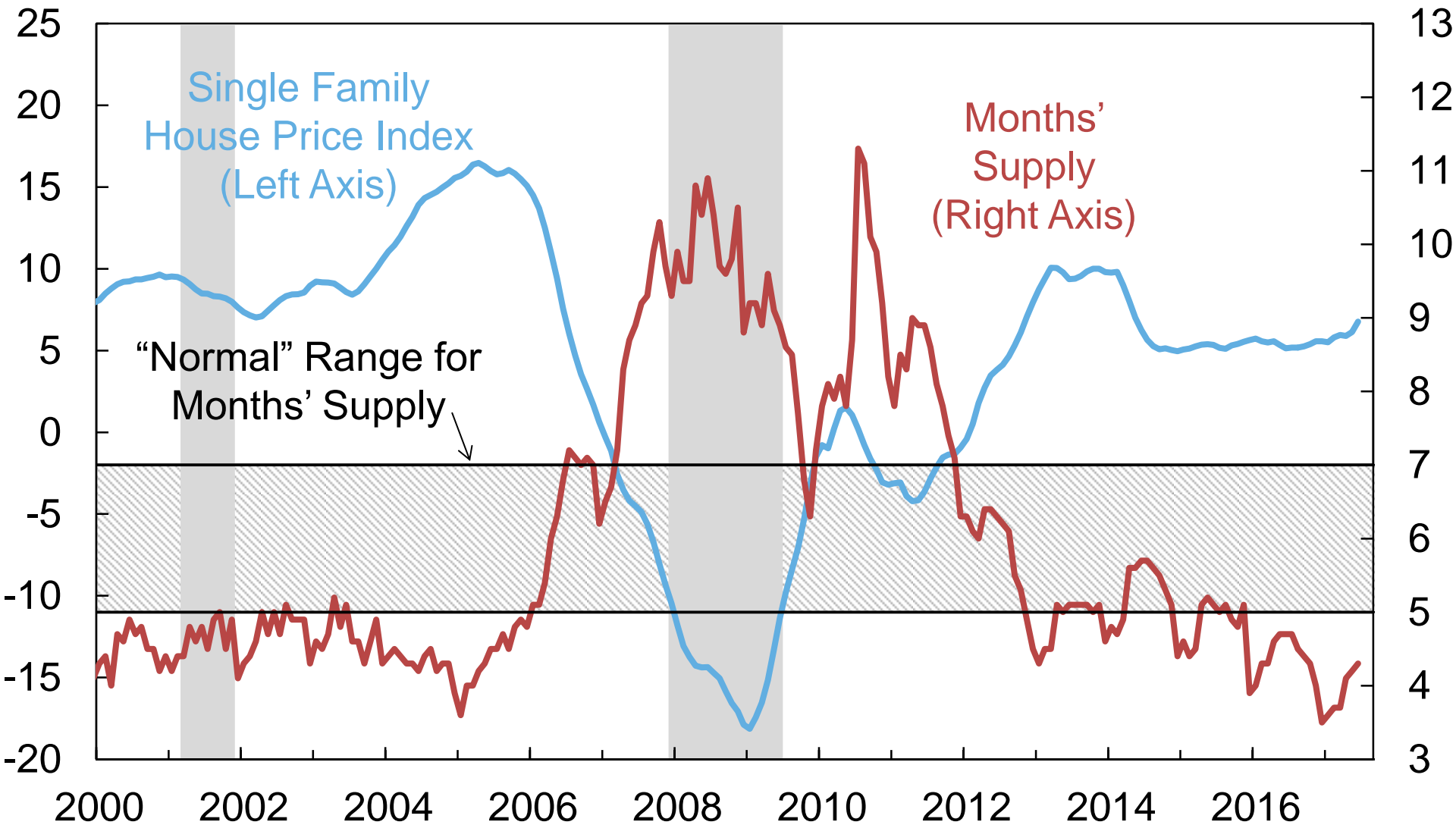


Note: 4 Quarter Moving Sum

Single Family Housing Market

12 Month % Change

Months

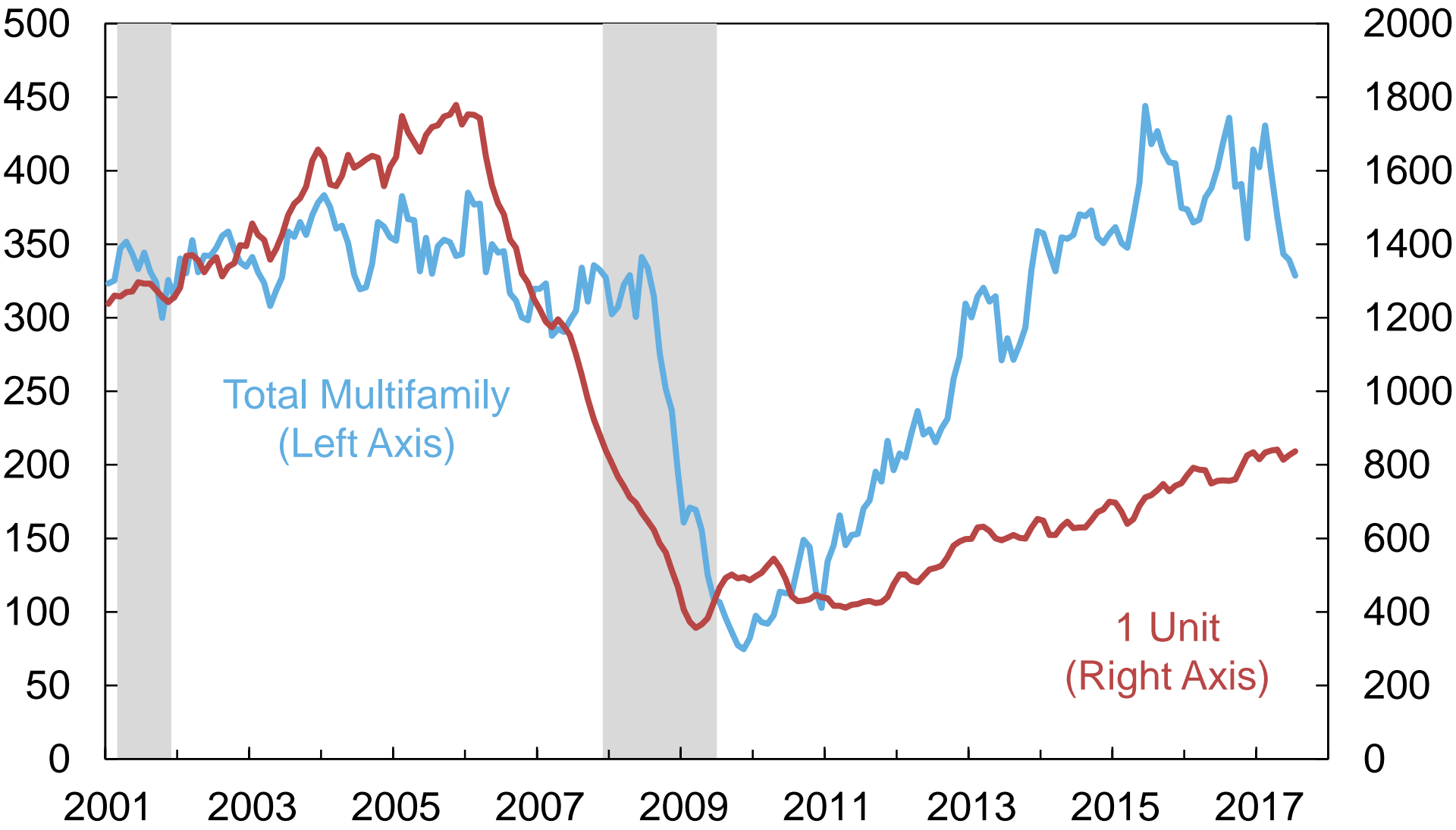


“Normal” Range for Months' Supply

Housing Starts

Thousands, 3 MMA

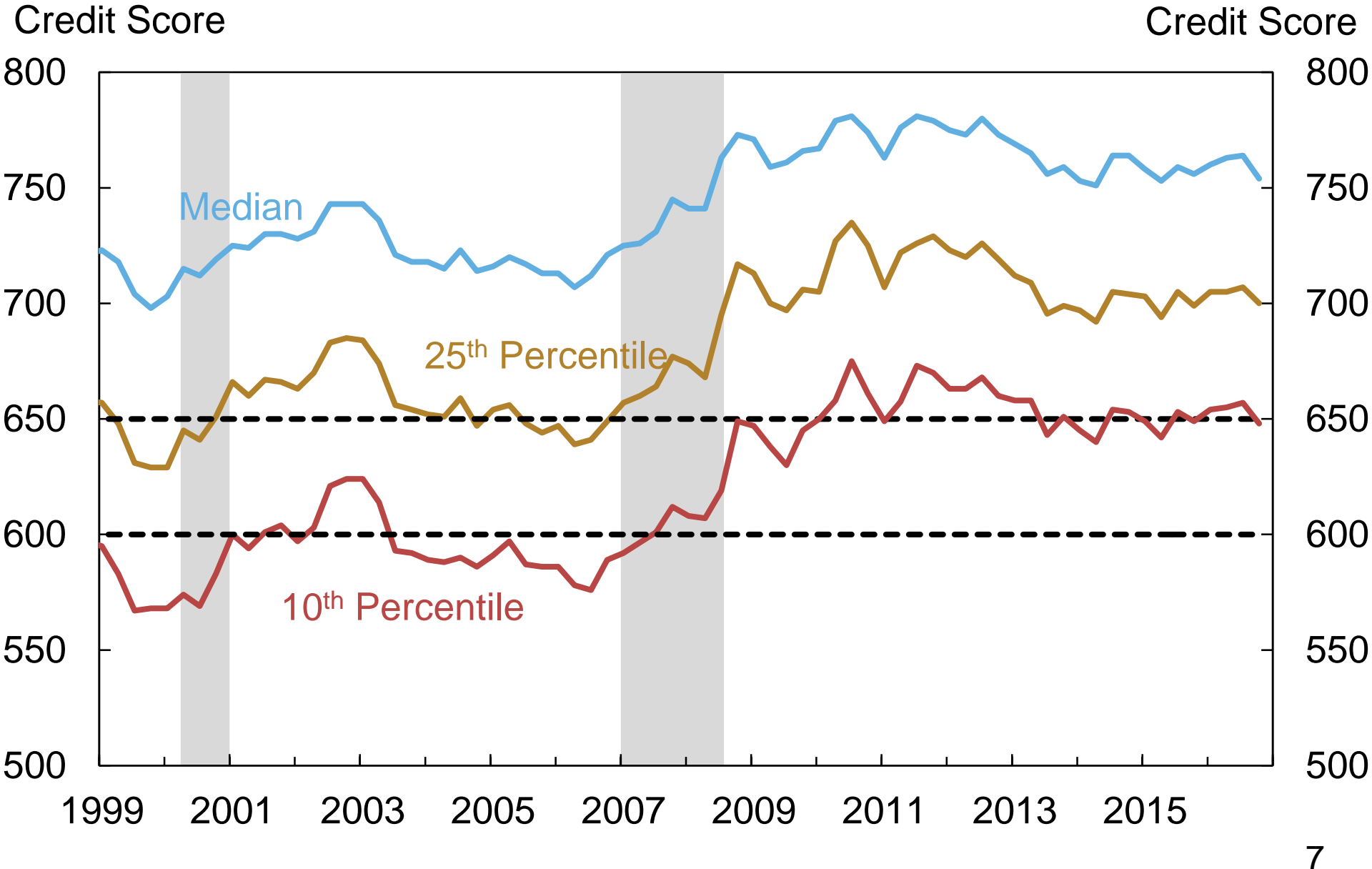
Thousands, 3 MMA



Source: Census Bureau

Note: Shading shows NBER recessions.

Credit Score at Mortgage Origination



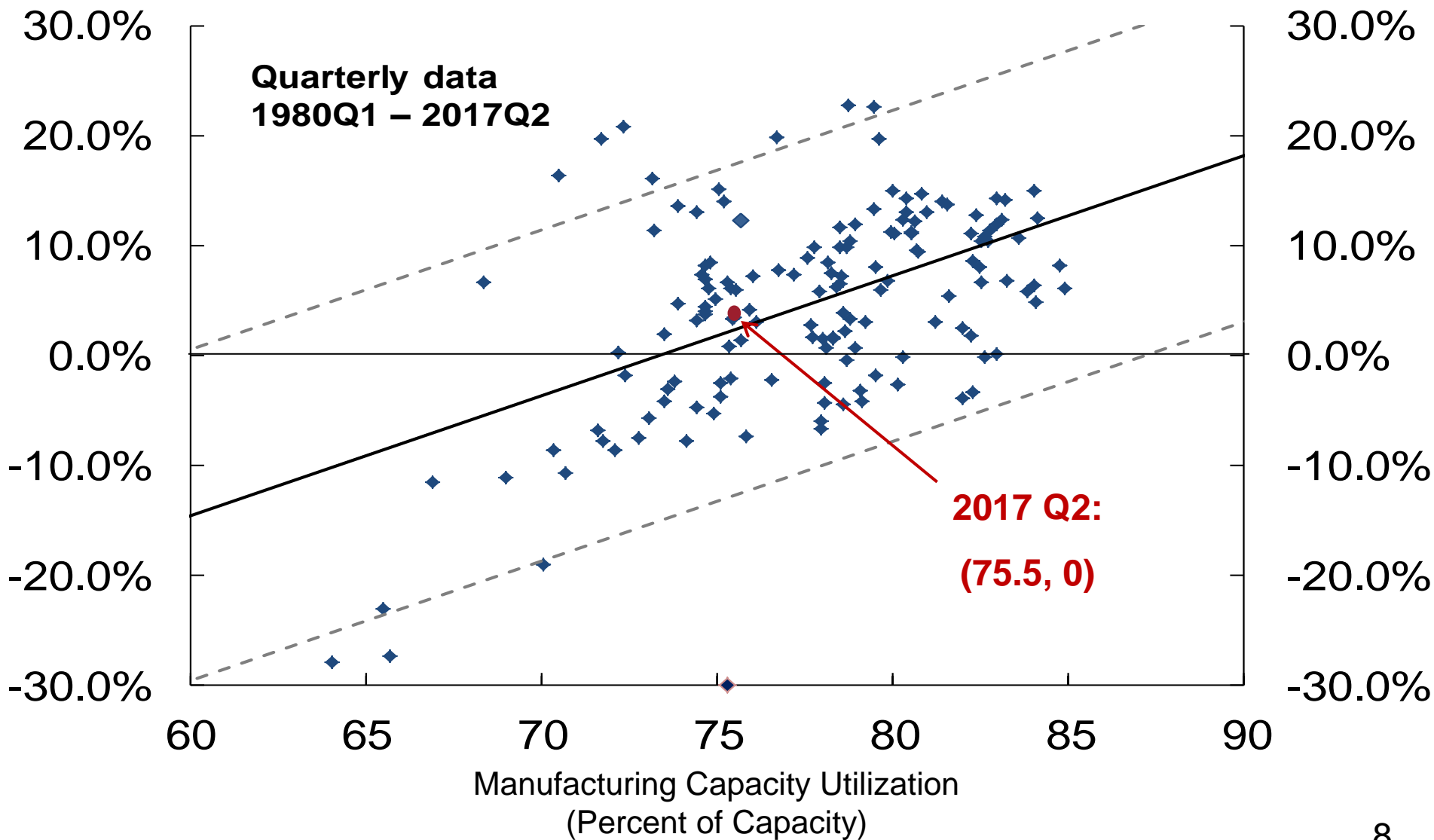
Source: FRBNY / Consumer Credit Panel

Note: Shading shows NBER recessions.

Equipment Investment Spending and Capacity Utilization

Real Business Investment in New Equipment
(% Change – Year to Year)

Real Business Investment in New Equipment
(% Change – Year to Year)

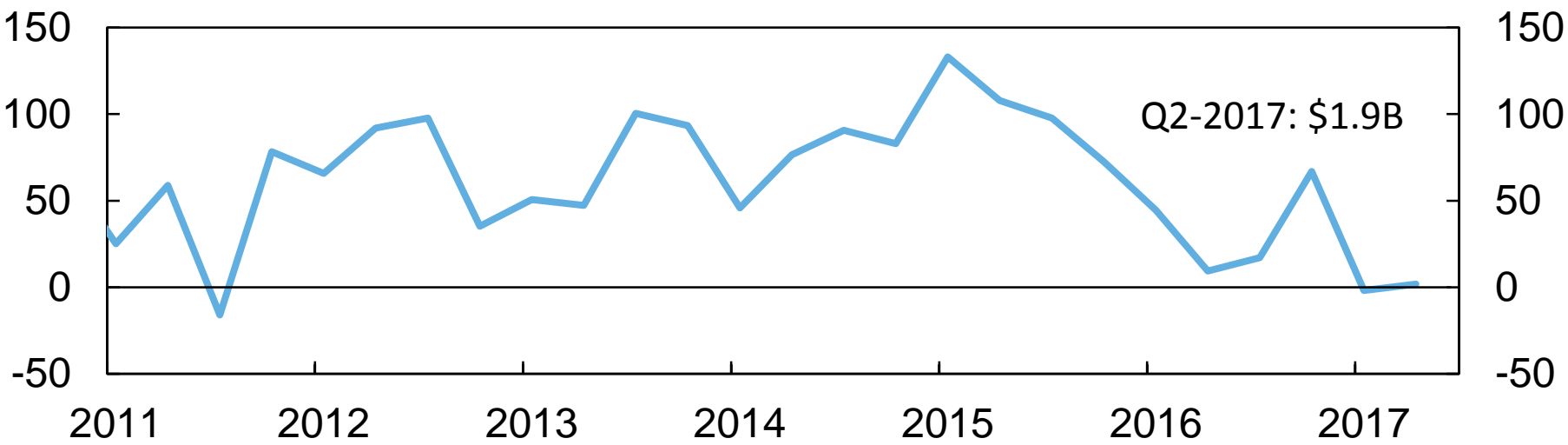


Source: Federal Reserve Board, Bureau of Economic Analysis

Real Change in Private Nonfarm Inventories

Billions of Chained 2009 \$

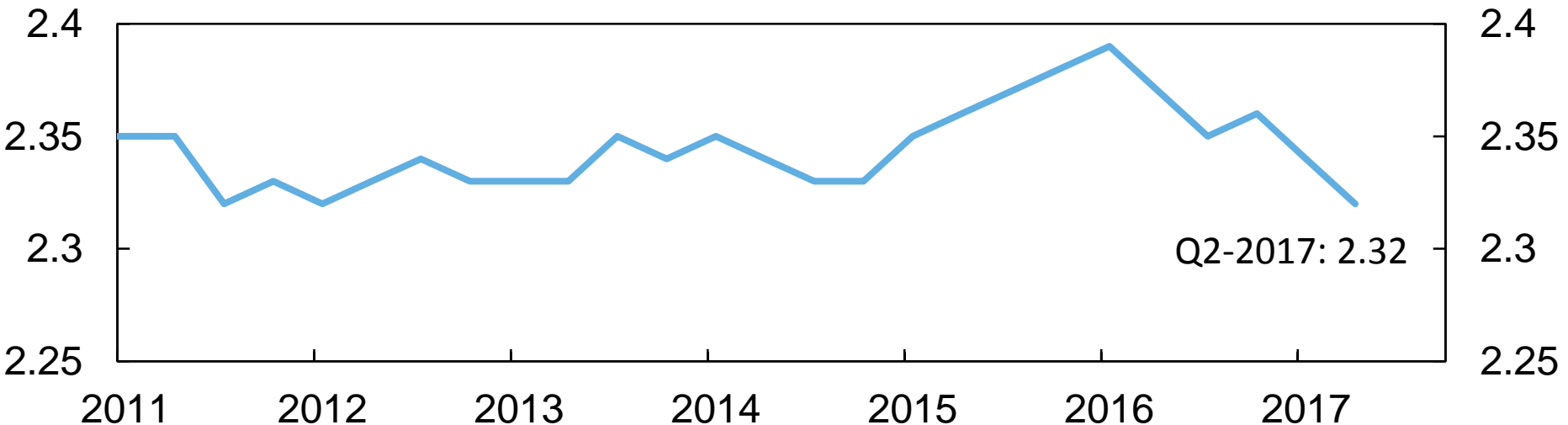
Billions of Chained 2009 \$



Ratio: Private Inventories/Final Sales

Ratio

Ratio

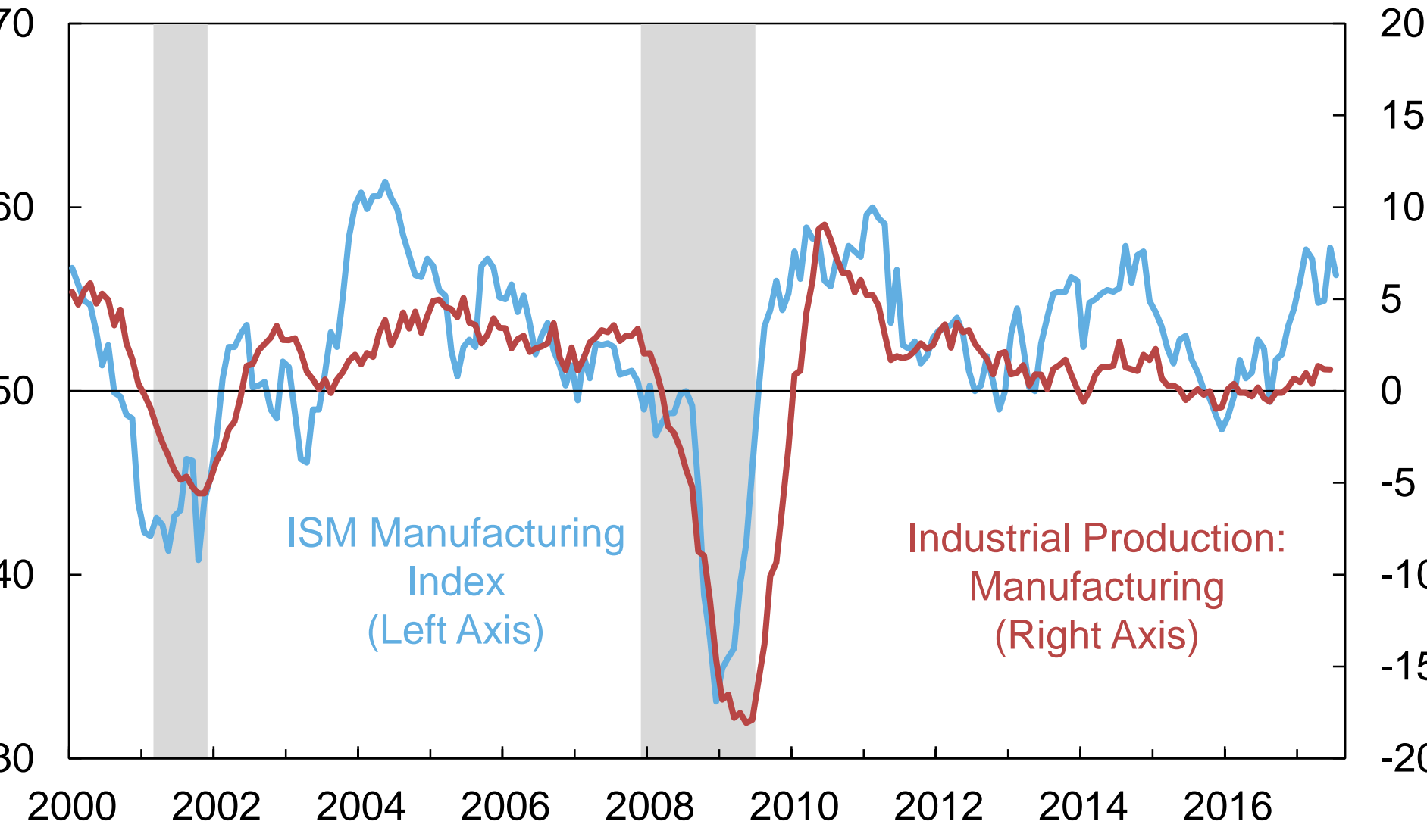


Source: BEA, Haver.

Note: Shading shows NBER recessions.

ISM Manufacturing Index and Manufacturing

Index 12 Month % Change



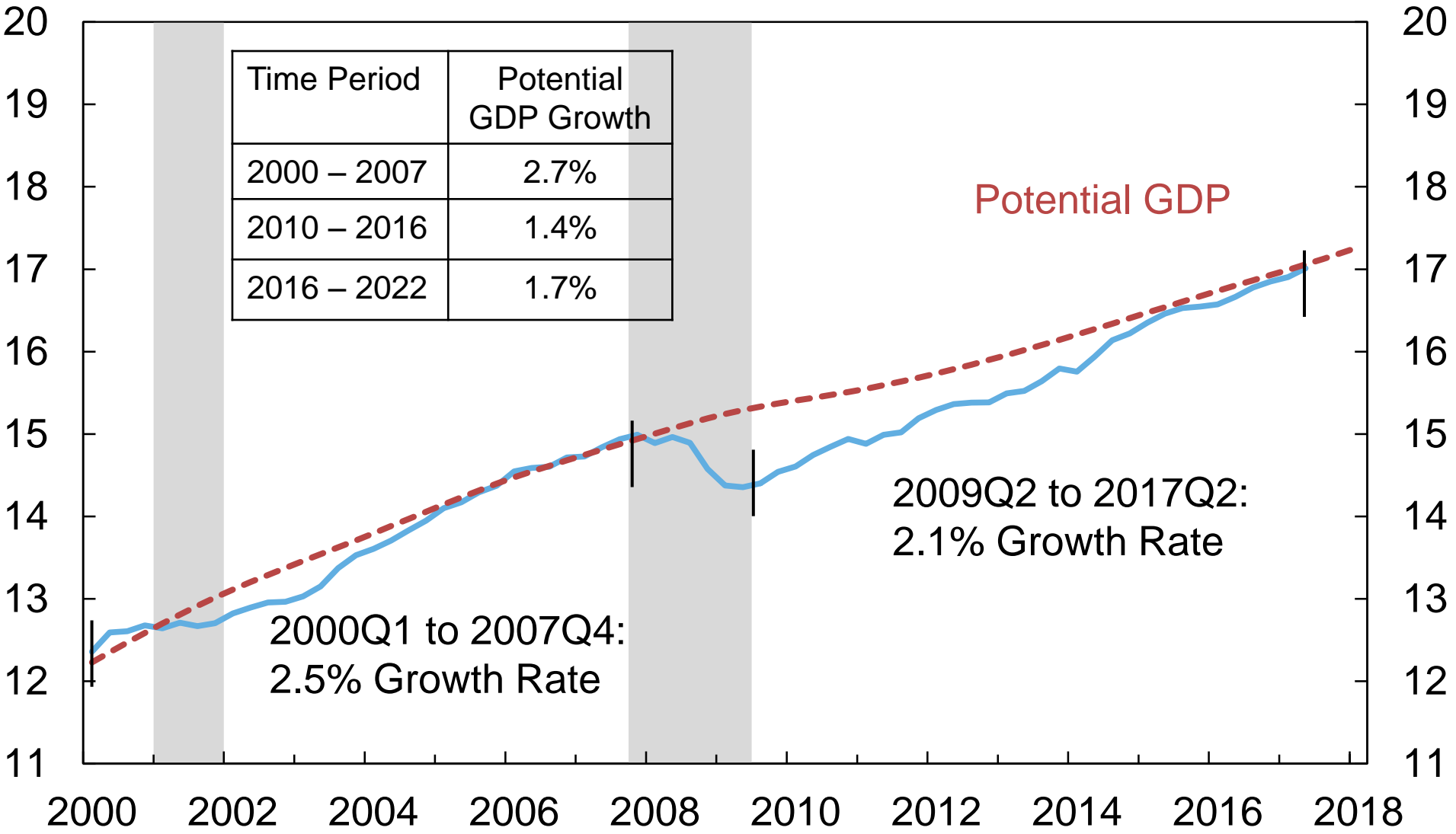
Source: Institute for Supply Management, Federal Reserve Board

Note: Shading shows NBER recessions.

GDP

Trillions of 2009 US\$

Trillions of 2009 US\$



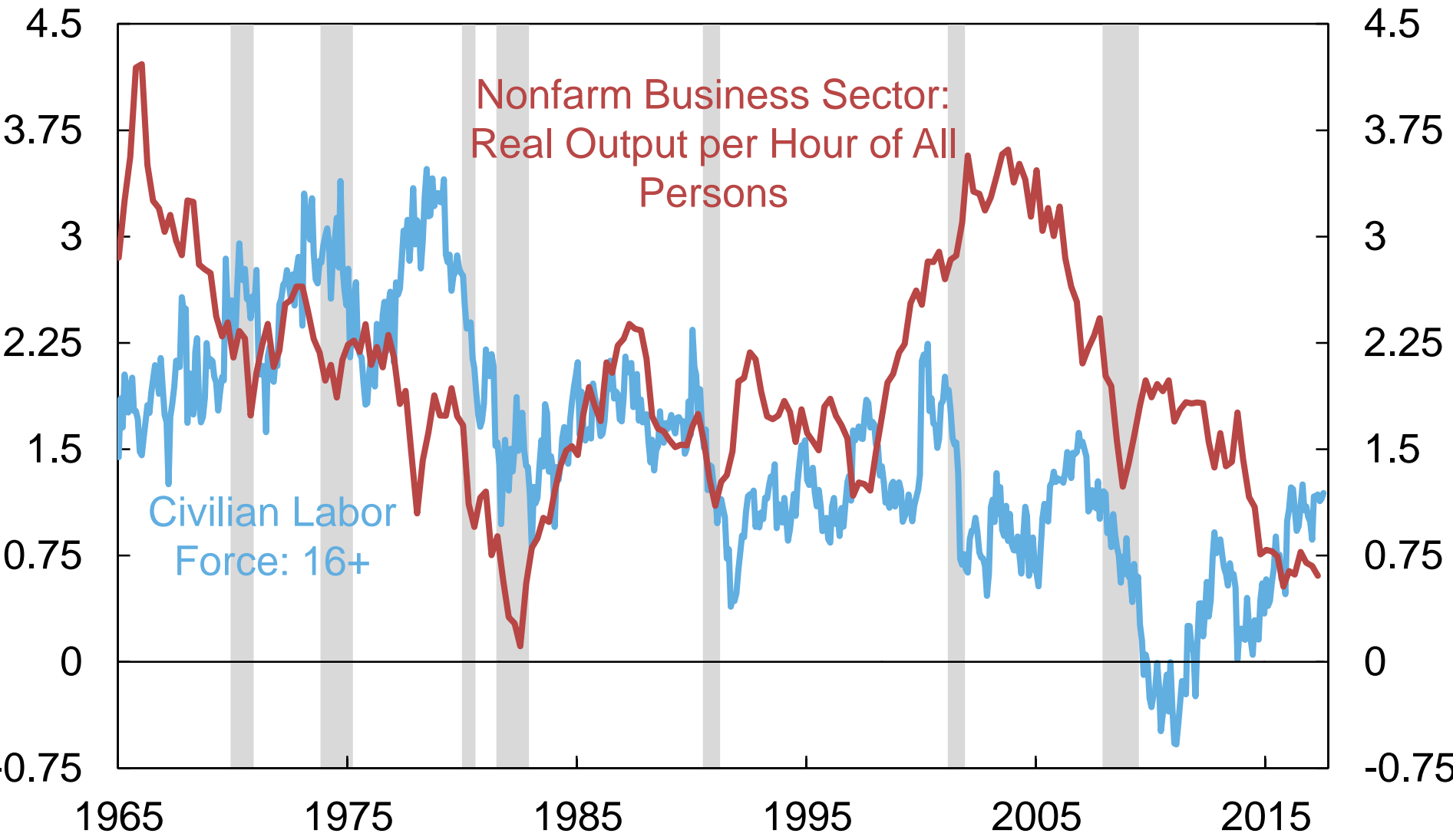
Source: Bureau of Economic Analysis,
Congressional Budget Office via Haver Analytics

Note: Shading shows NBER recessions.

Labor Force and Nonfarm Business Sector Real Output

20-Qtr %Change-annualized

20-Qtr %Change-annualized



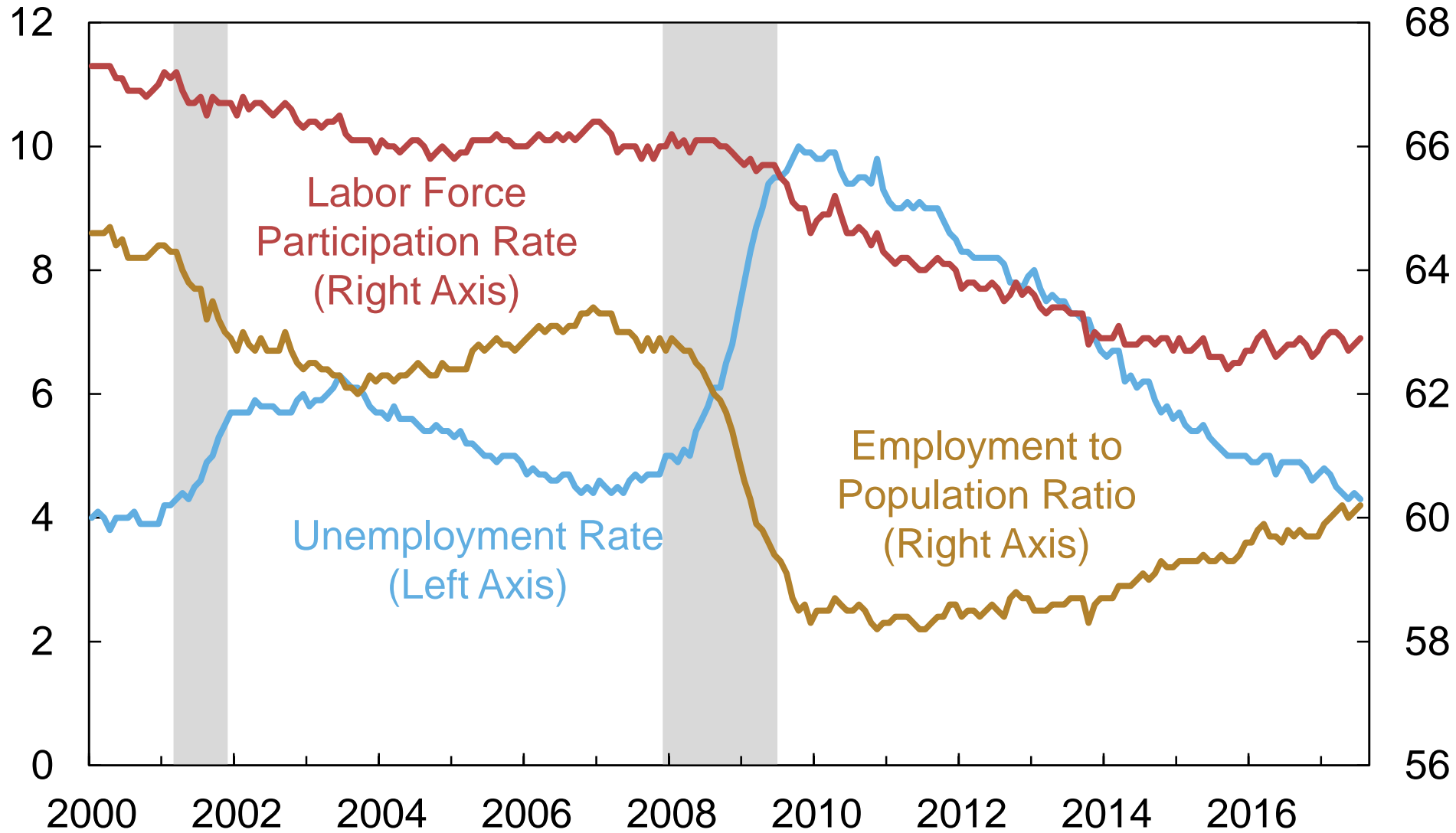
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Labor Market Indicators

Percent

Percent



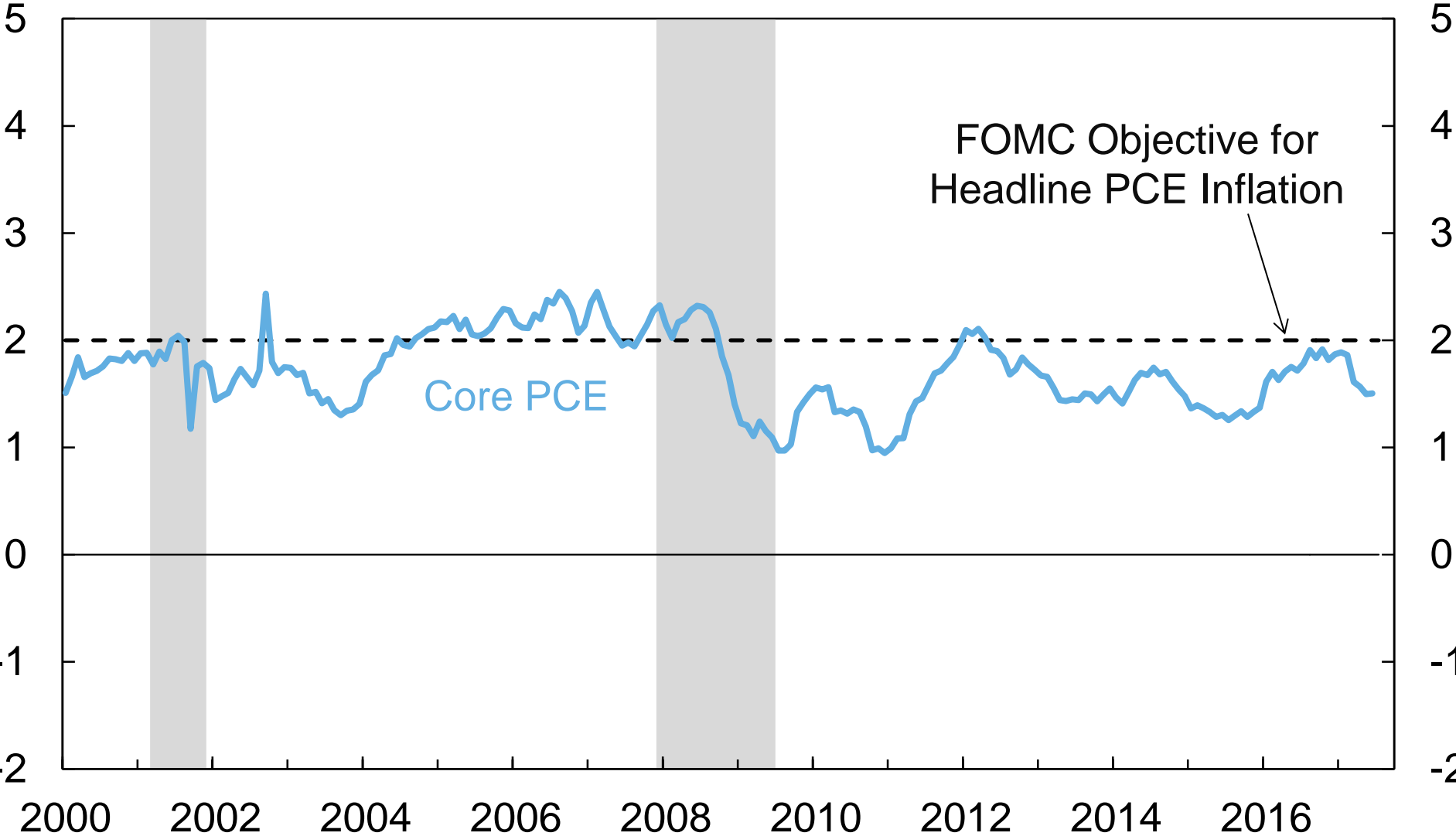
Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Measure of Underlying PCE Price Inflation

12 Month % Change

12 Month % Change



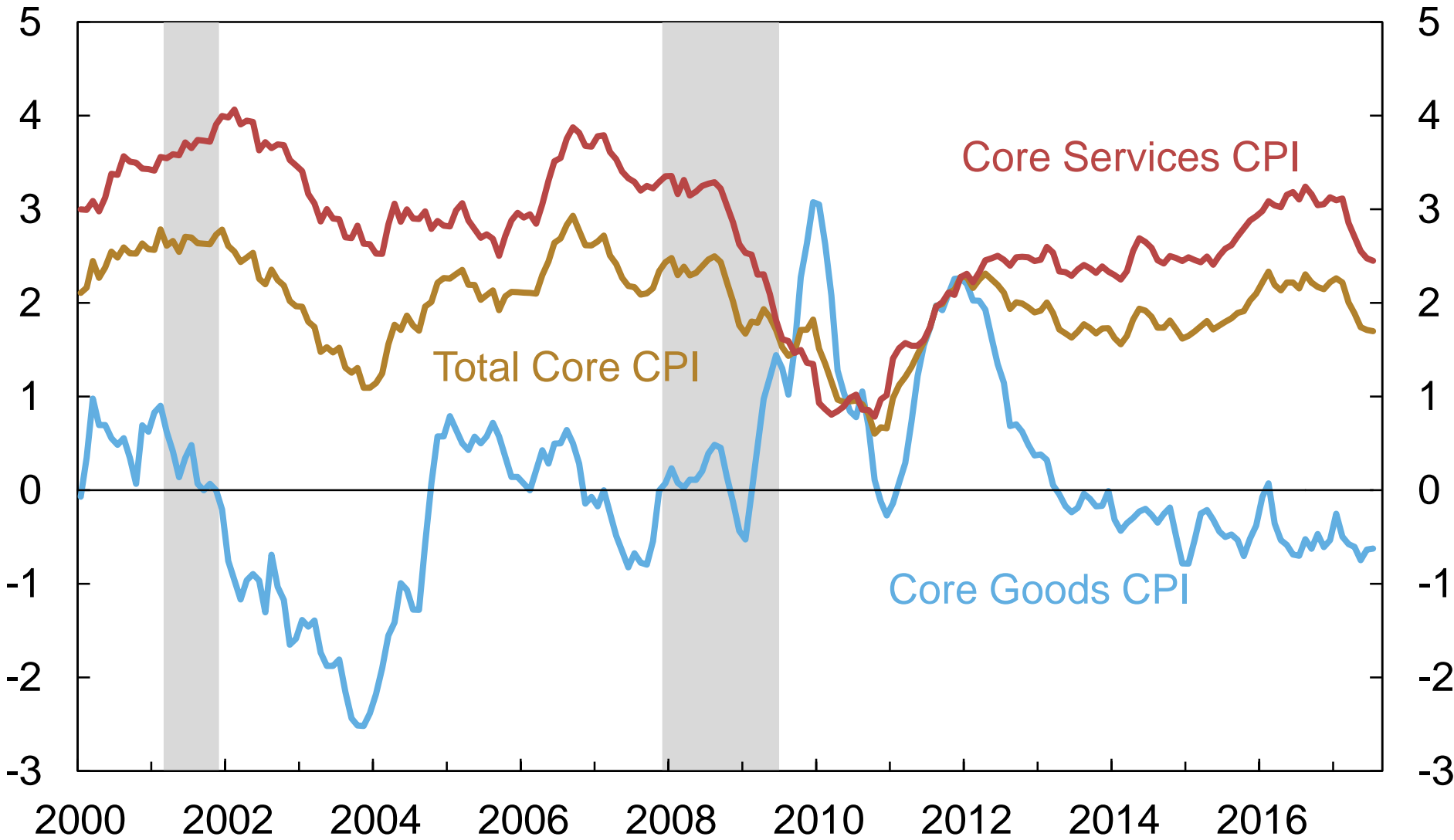
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

CPI Inflation: Core Goods and Core Services

12 Month % Change

12 Month % Change



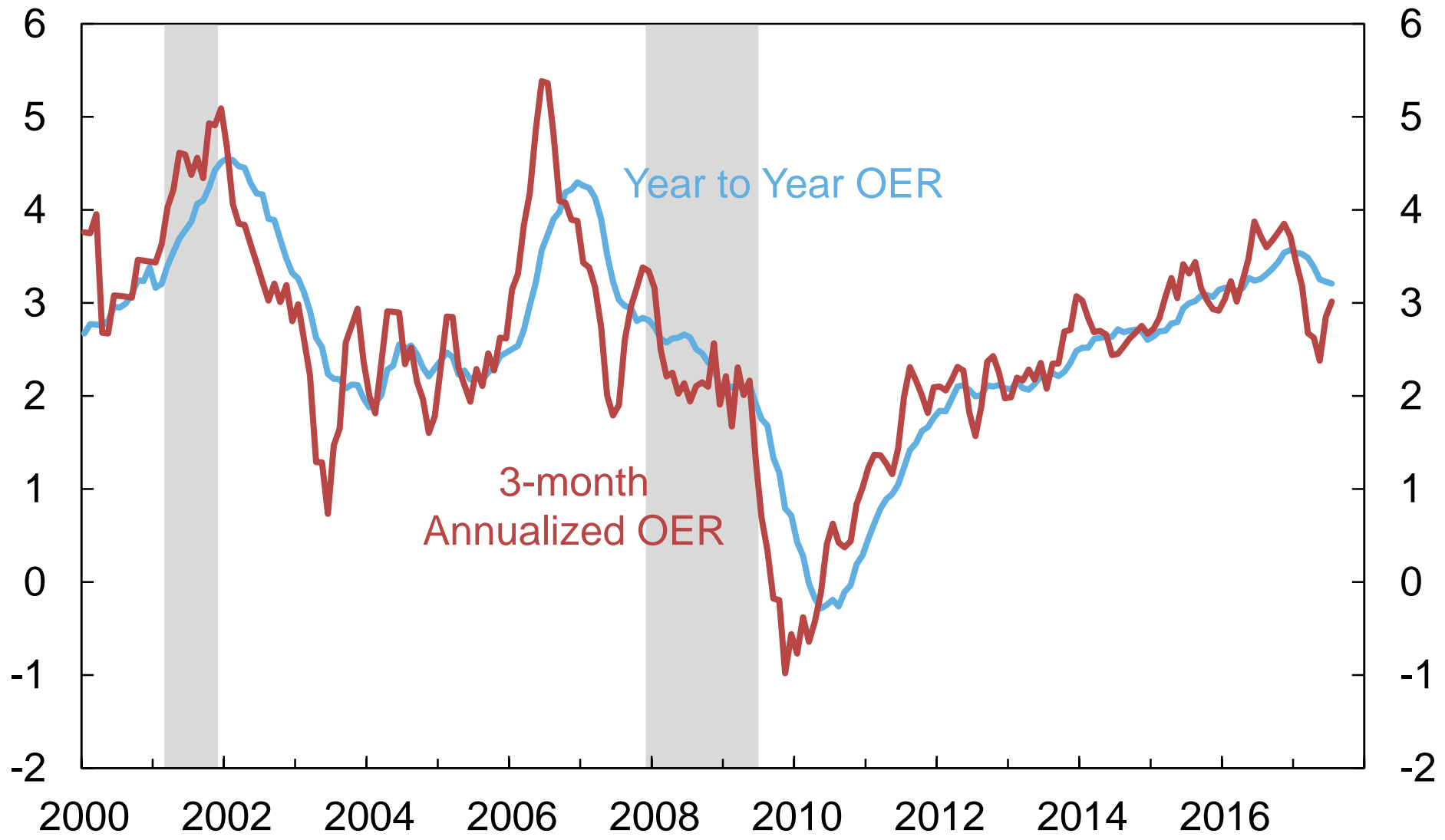
Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Owner's Equivalent Rent

% Change

% Change



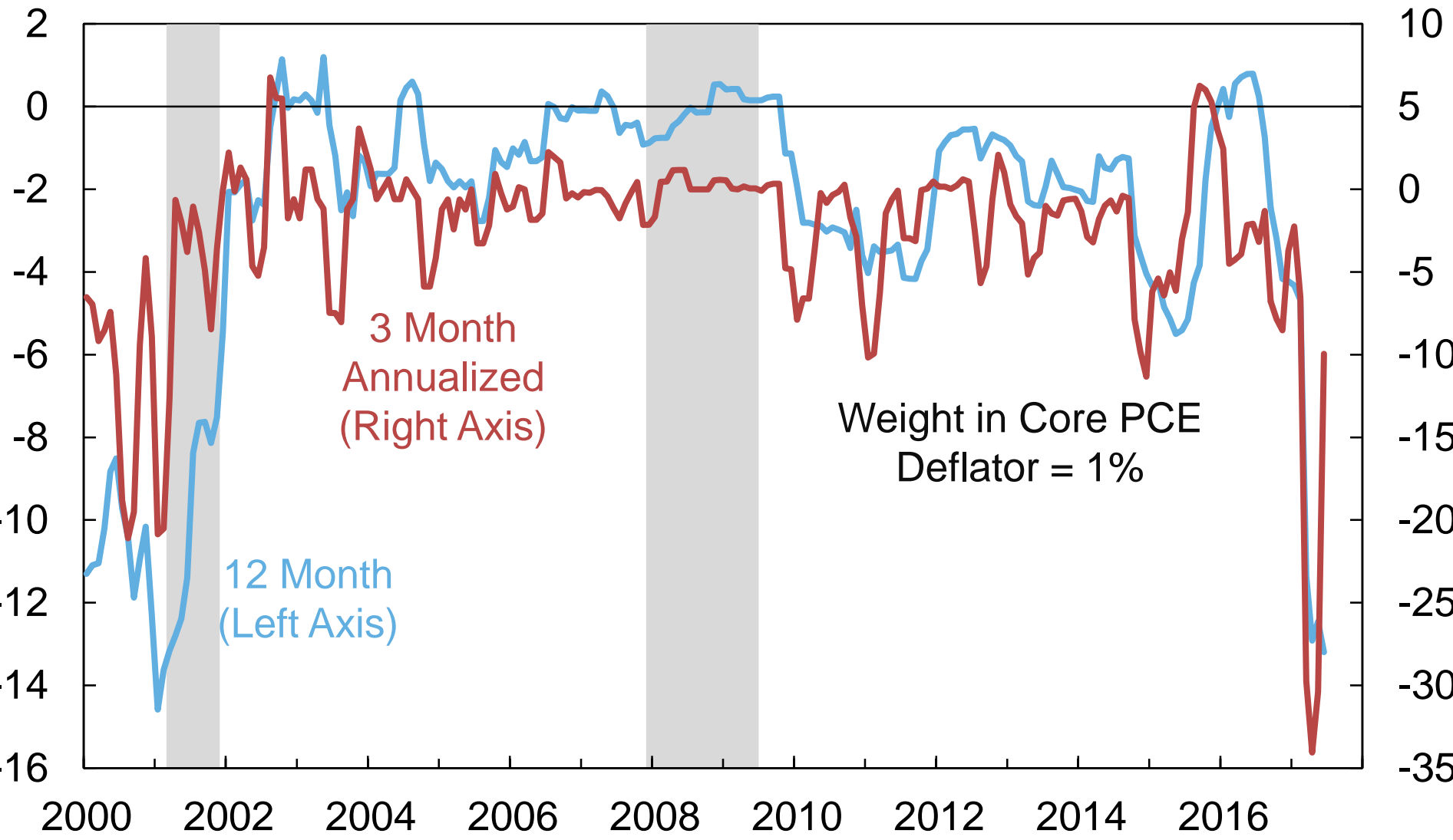
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Cellular Telephone Price Index

% Change

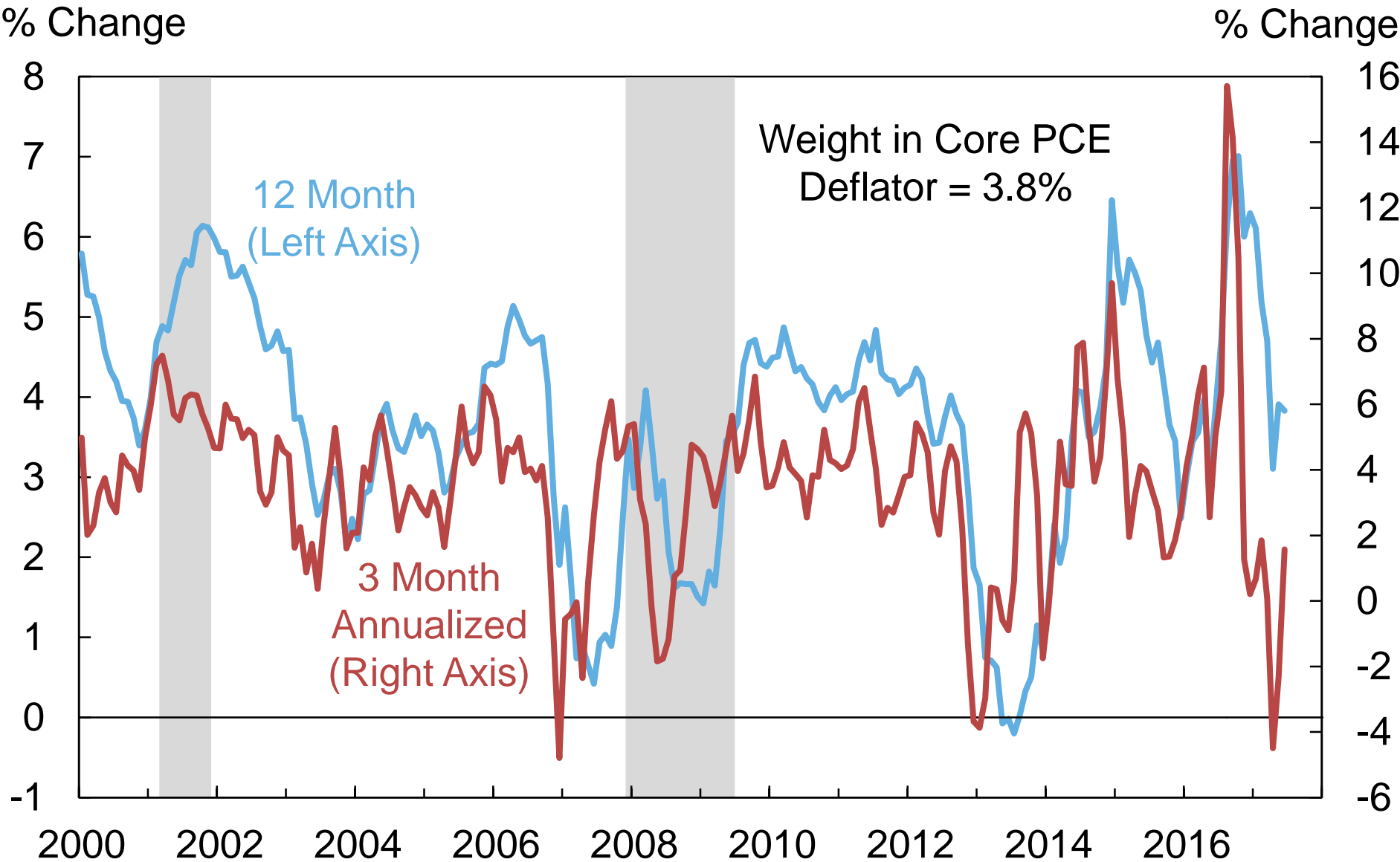
% Change



Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

Prescription Drug Price Index



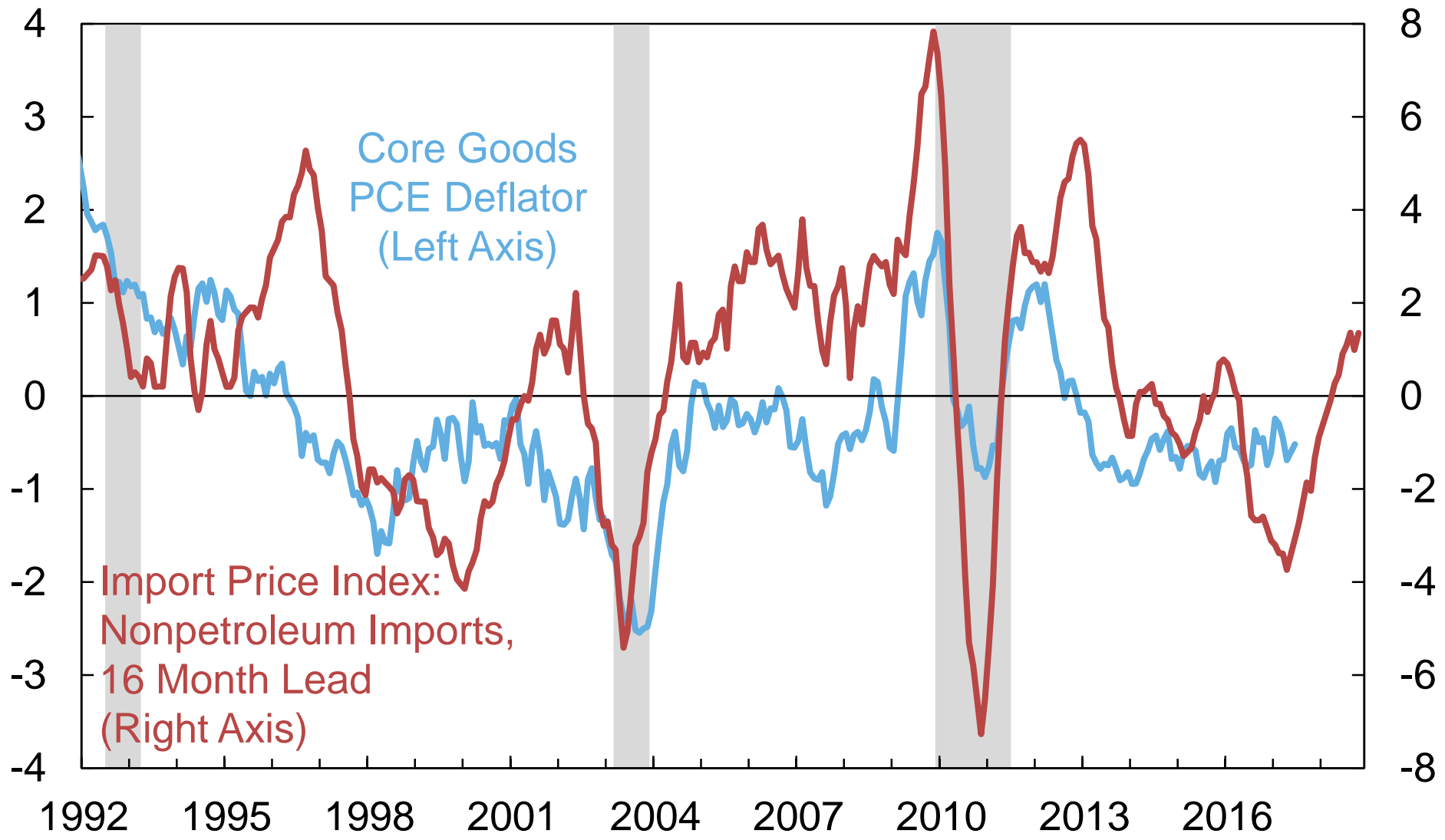
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

Core Goods PCE Deflator and Import Price Index

% Change – Year to Year

% Change – Year to Year



Source: Bureau of Labor Statistics via Haver Analytics

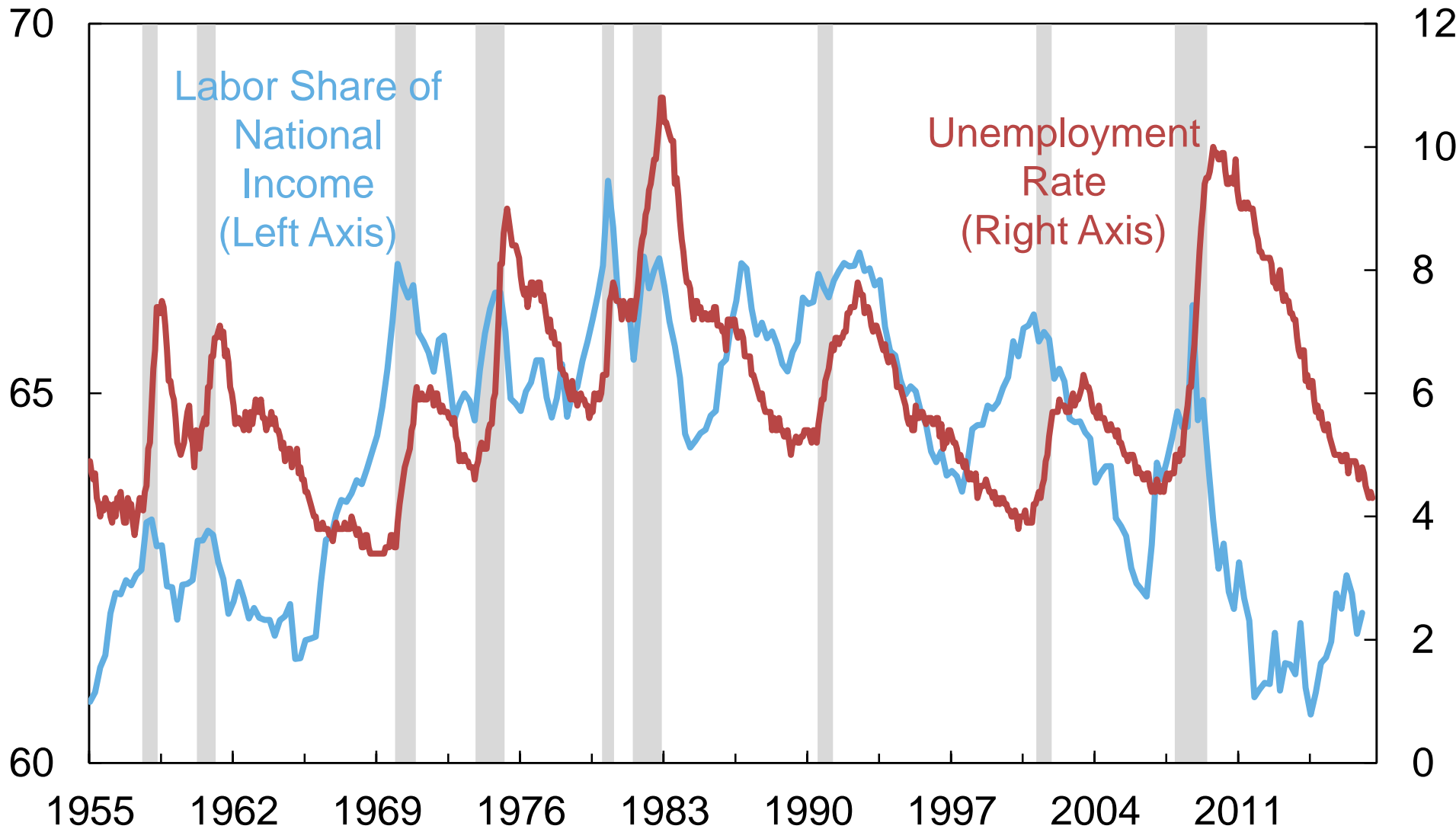
Note: Shading shows NBER recessions.

Reference Charts

Labor Share of National Income and Unemployment Rate

Percent

Rate



Source: Bureau of Economic Analysis,
Bureau of Labor Statistics

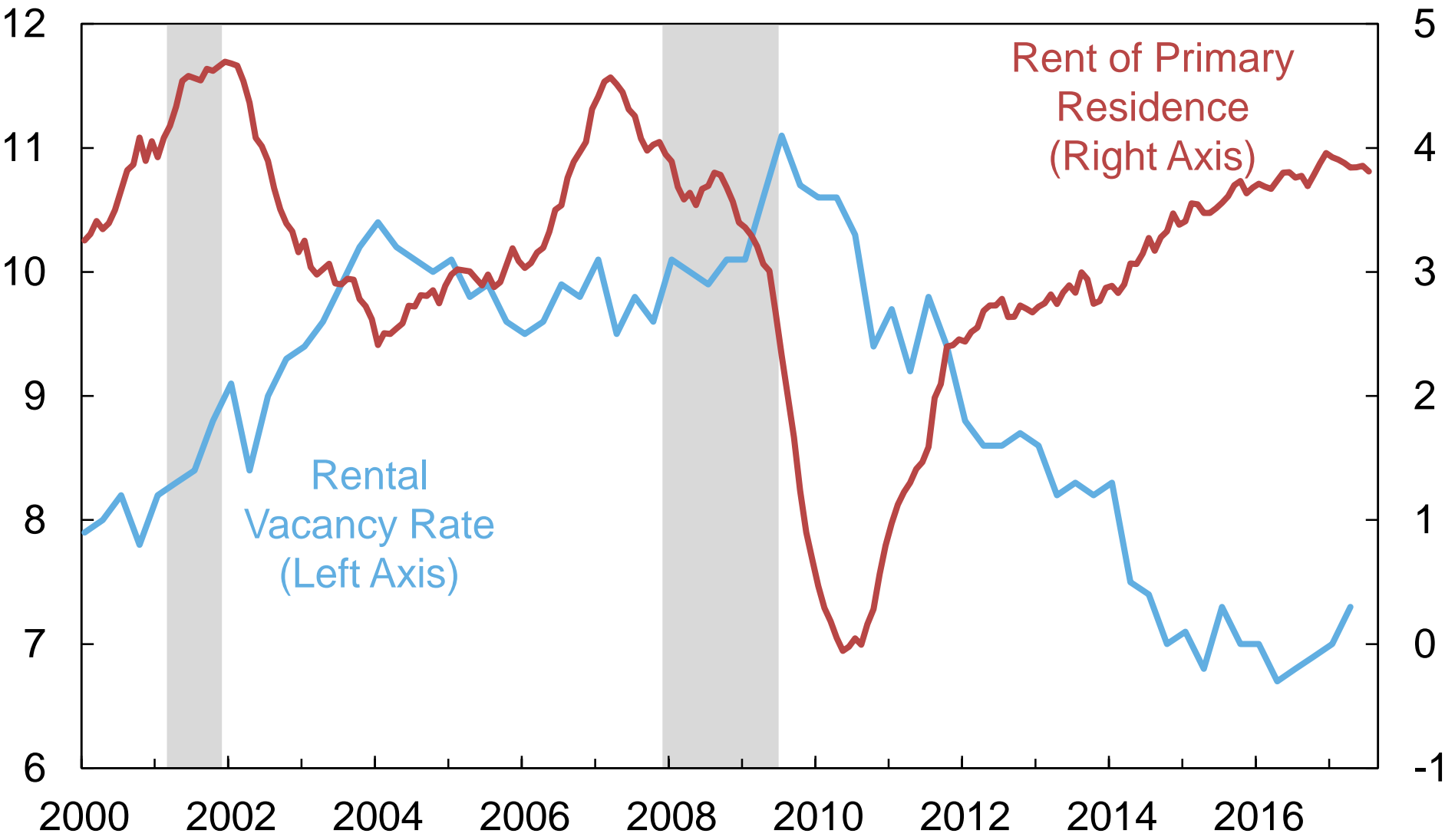
Note: Shading shows NBER recessions.

20

Rental Vacancy Rate and Rent of Primary Residence

Percent

12 Month % Change



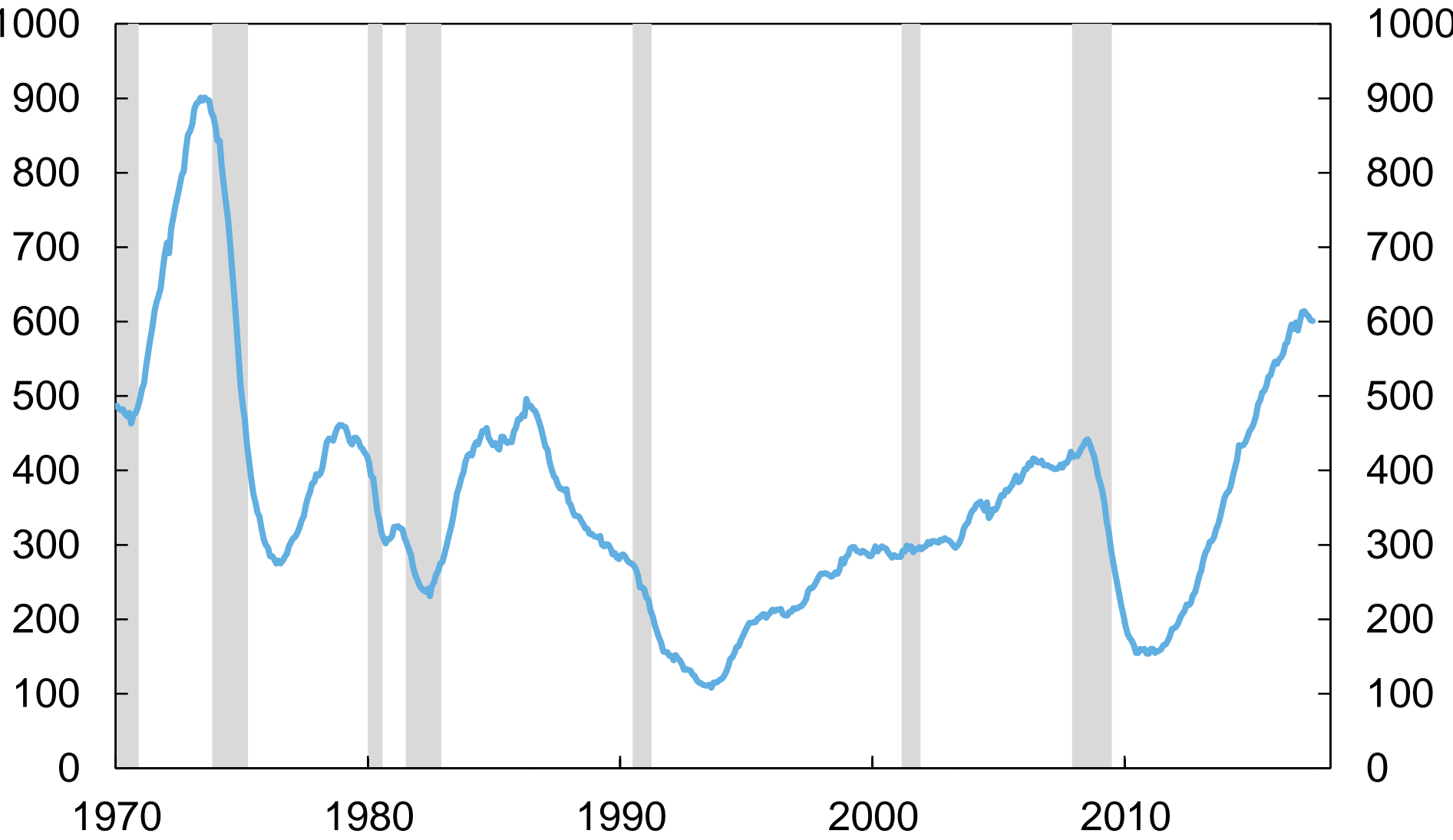
Source: Census Bureau, BLS via Haver Analytics

Note: Shading shows NBER recessions.

Housing Units Under Construction: 5 or More Units

Thousands of units

Thousands of units



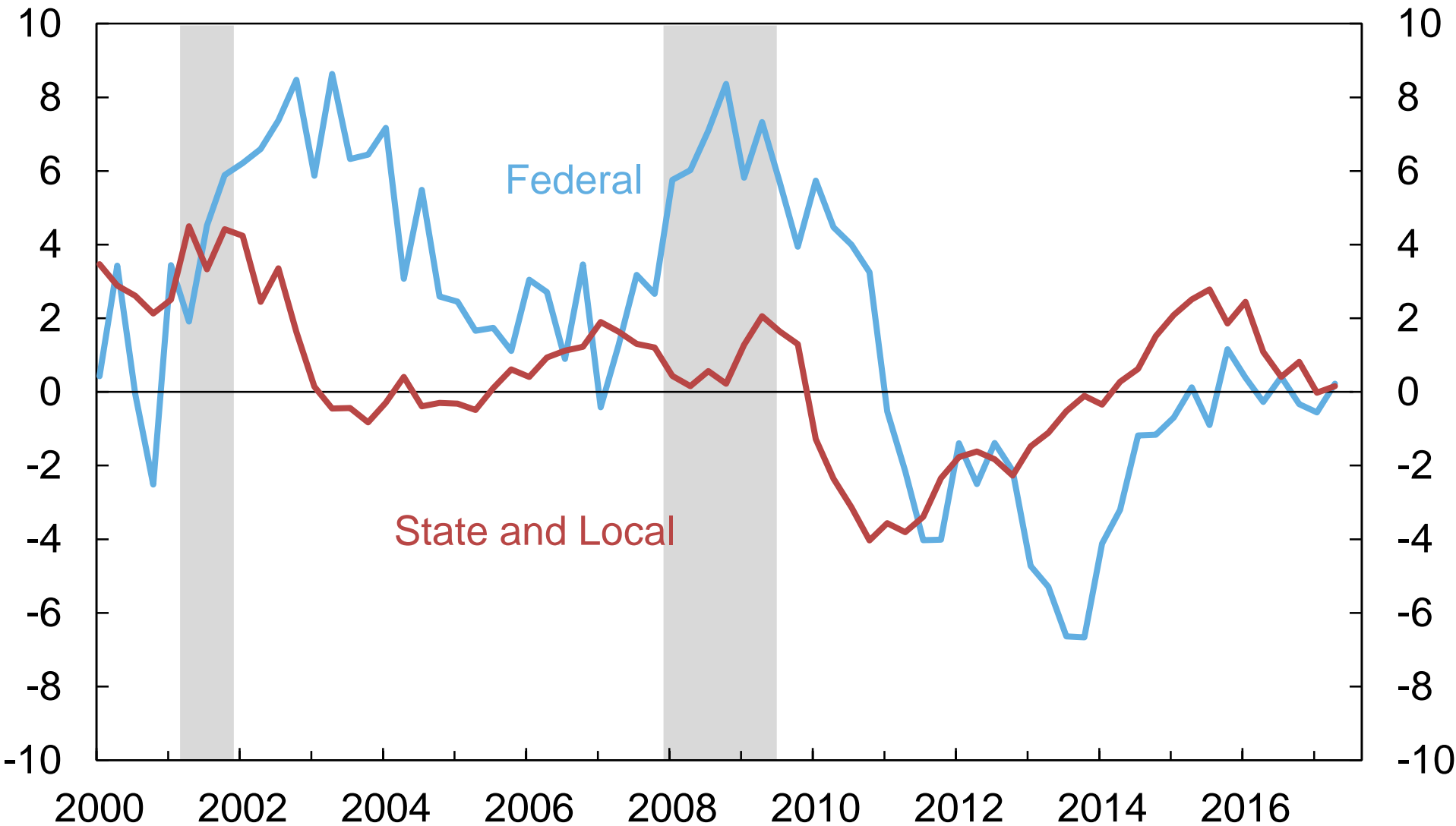
Source: Census Bureau/Haver Analytics.

Note: Shading shows NBER recessions.

Real Government Consumption and Gross Investment

4 Quarter % Change

4 Quarter % Change



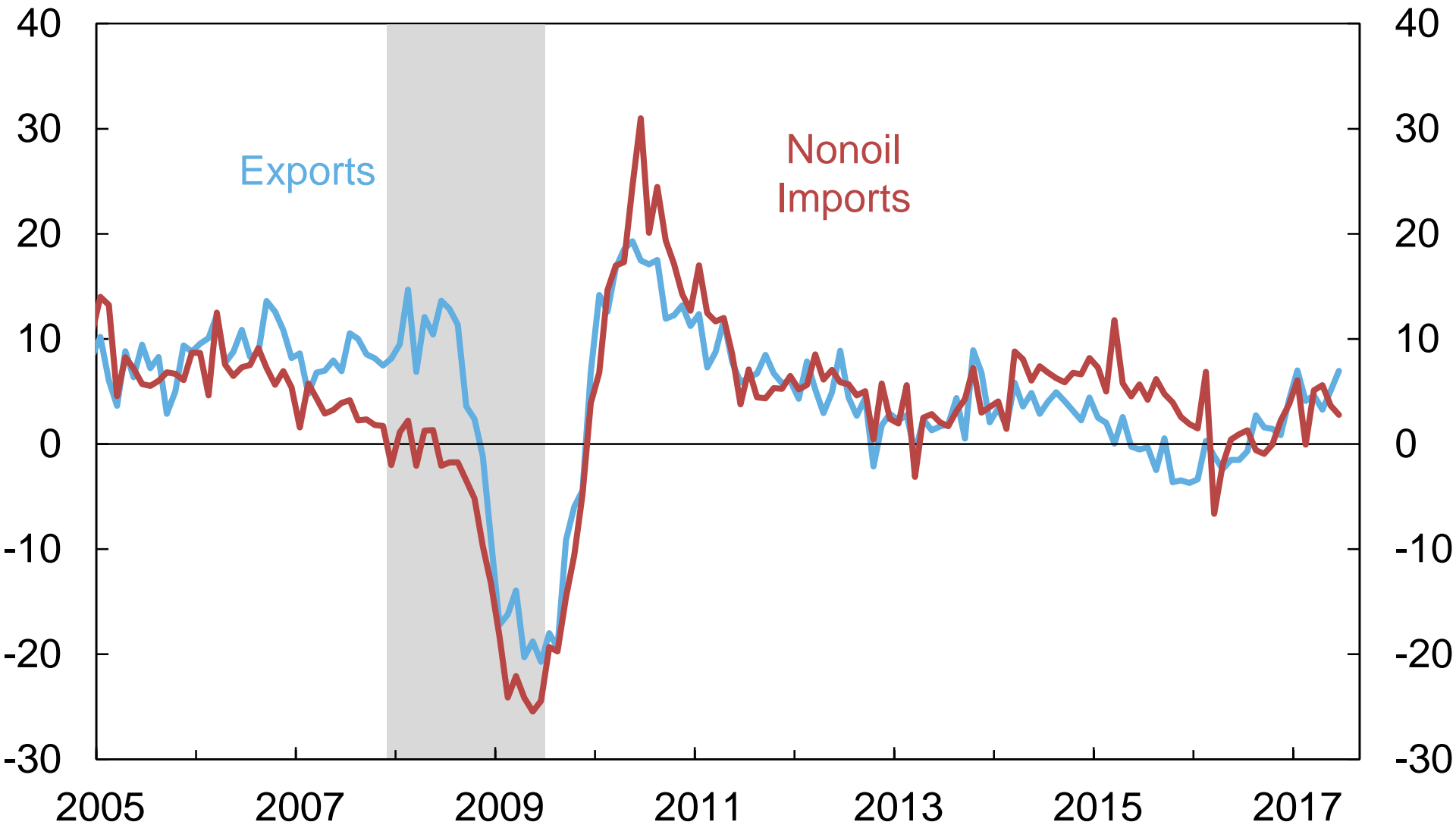
Source: Bureau of Economic Analysis
via Haver Analytics

Note: Shading shows NBER recessions.

Real Exports and Nonoil Imports of Goods

12 Month % Change

12 Month % Change



24

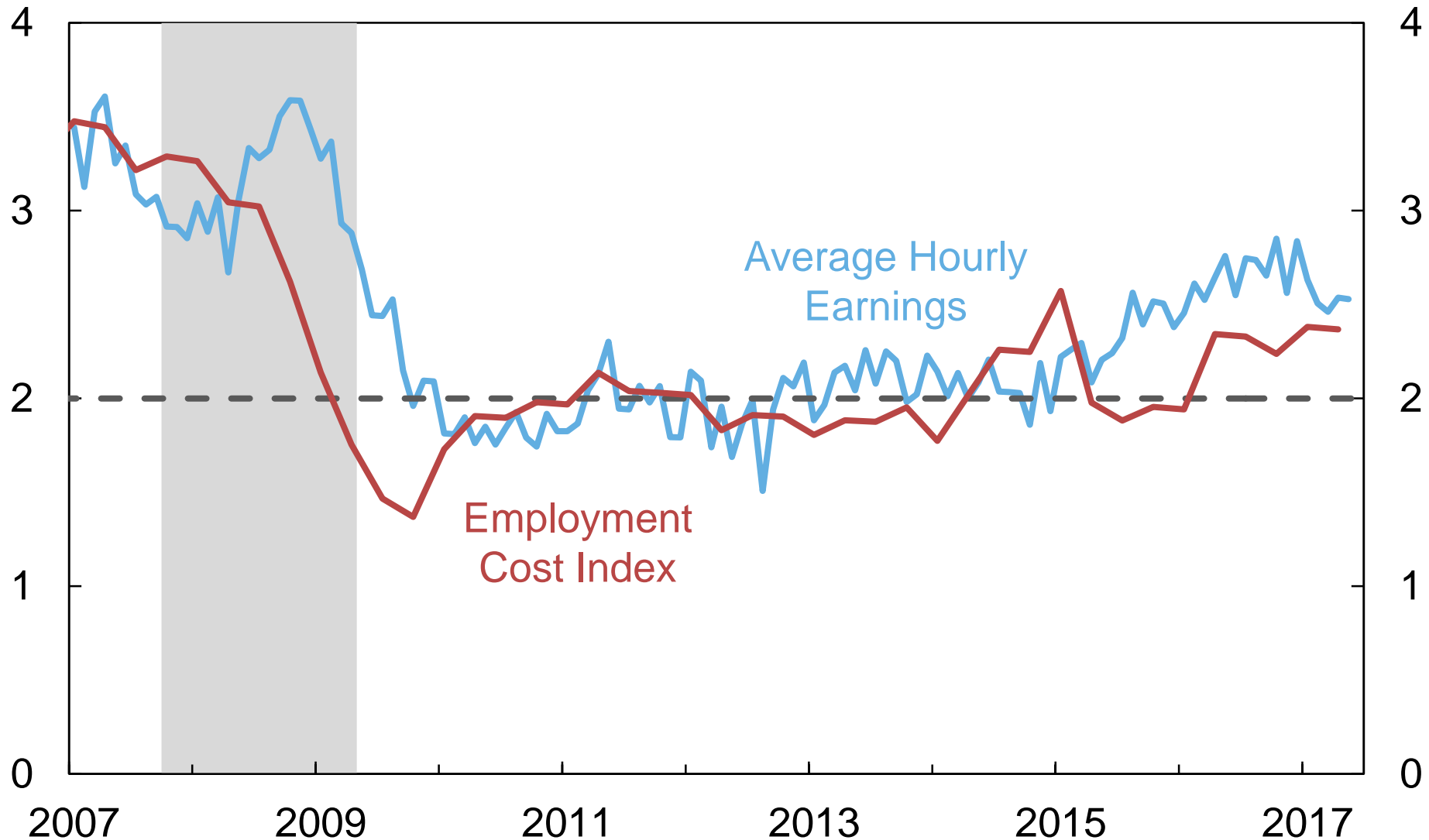
Source: Census Bureau via Haver

Note: Shading shows NBER recessions.

Growth of Average Hourly Earnings and ECI

Annual % change

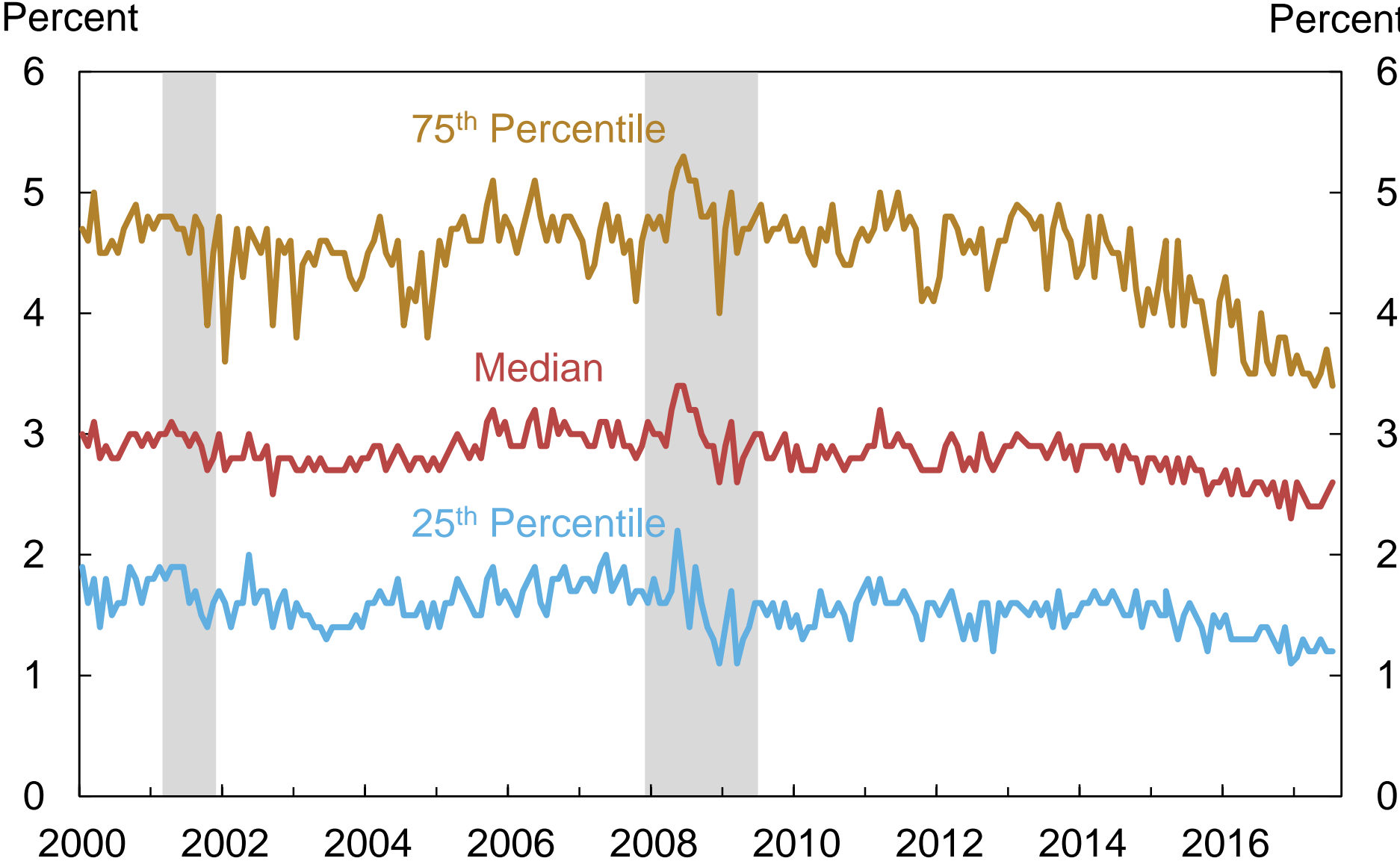
Annual % change



Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Michigan Inflation Expectations 5 to 10 Years

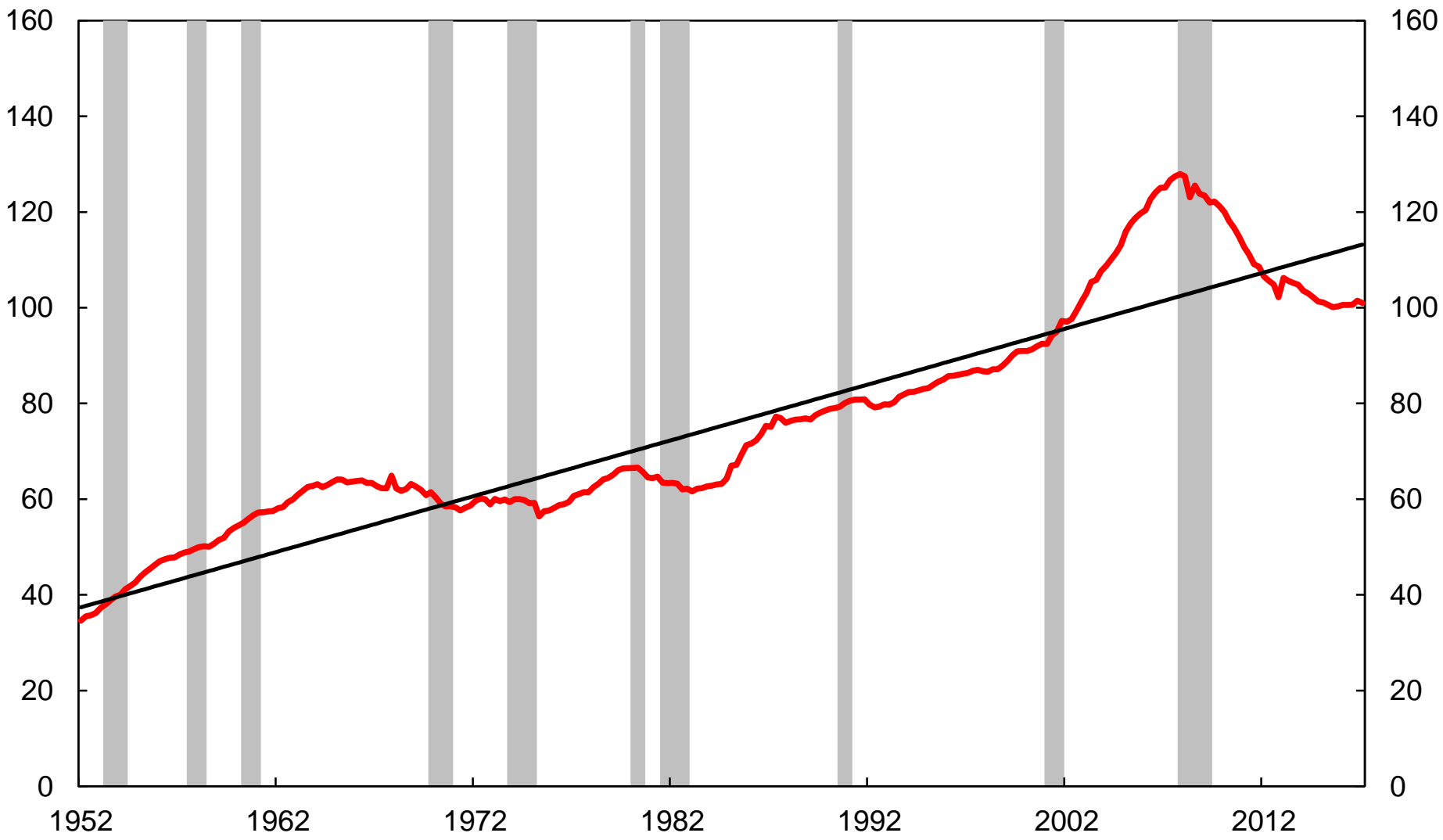


Source: University of Michigan

Note: Shading shows NBER recessions.

Household Liabilities over Disposable Personal Income

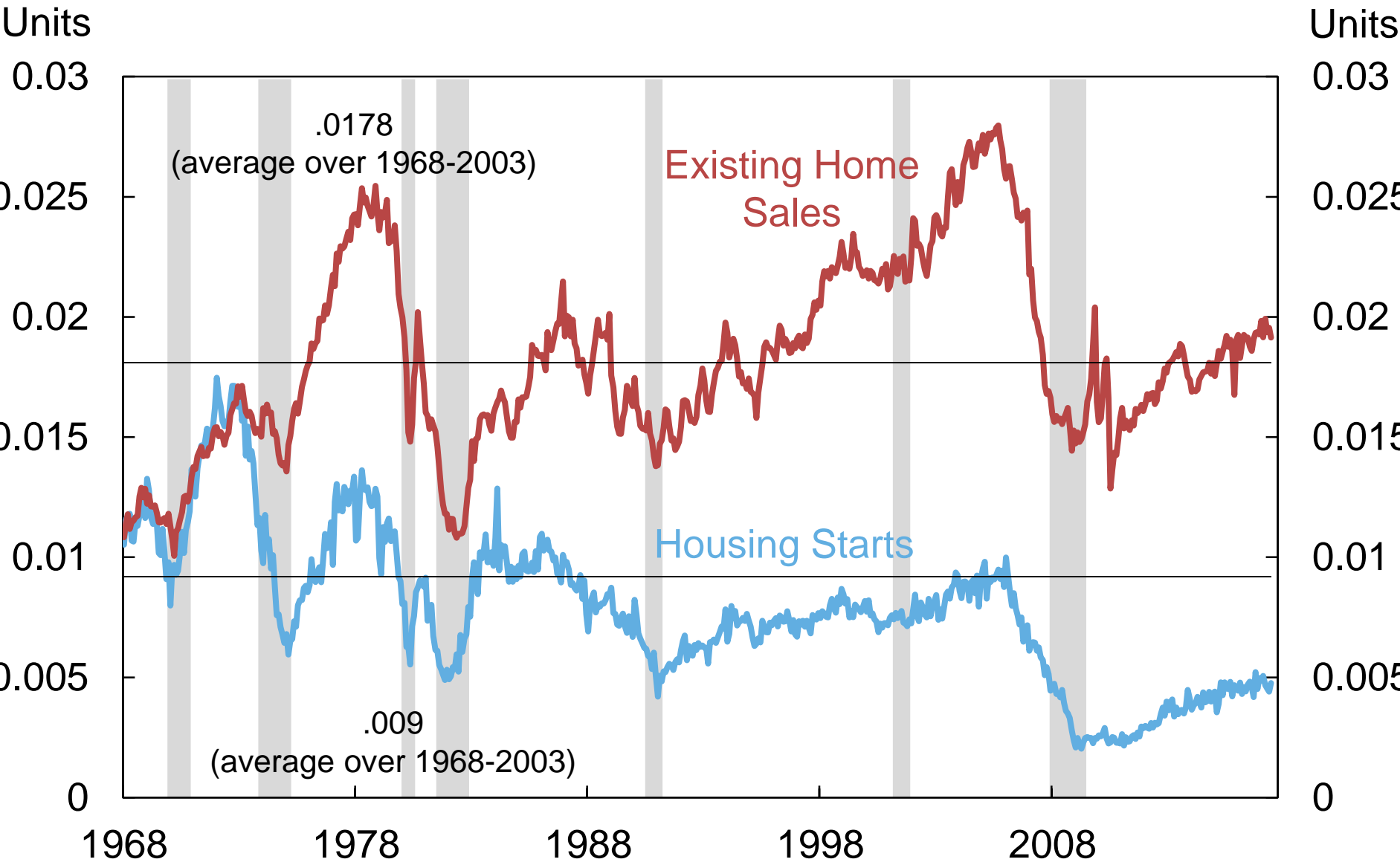
Percent Percent



Source: Federal Reserve Board

Note: Shading represents NBER recessions.

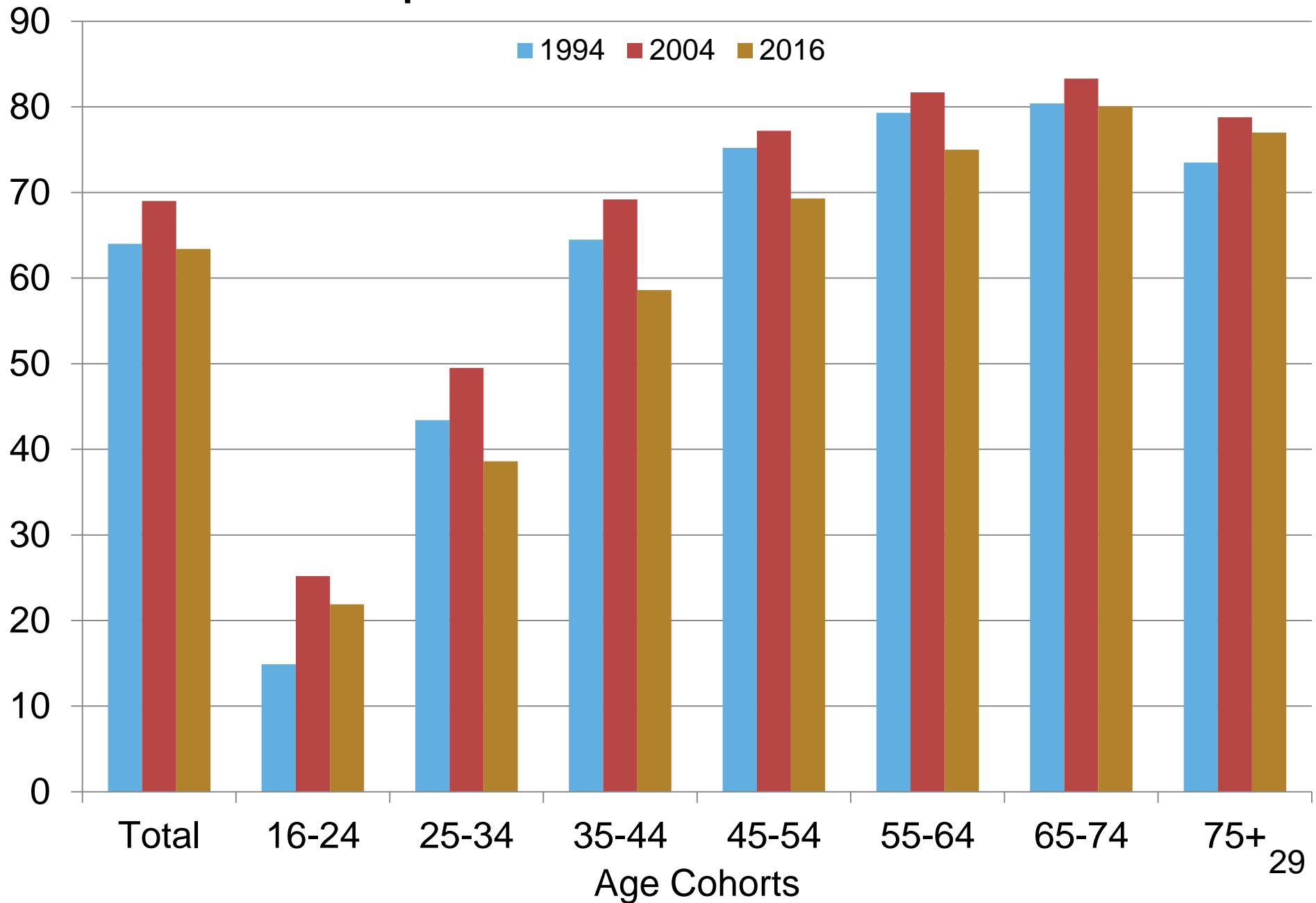
Housing Starts and Existing Homes Sales Per Capita



Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.

Homeownership Rate

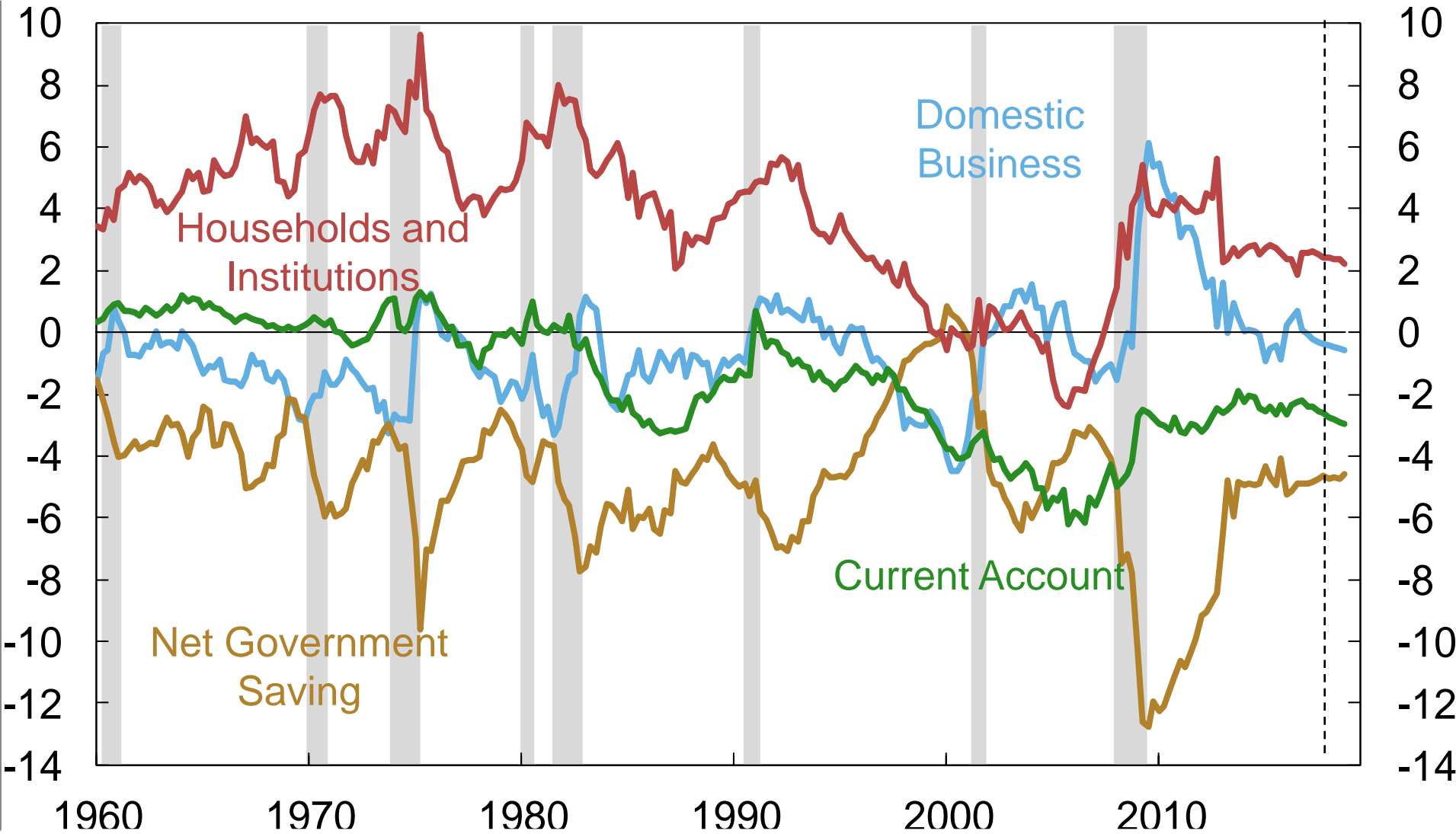


Source: Census Bureau

Saving and Investment Balance

Percent of GDP

Percent of GDP



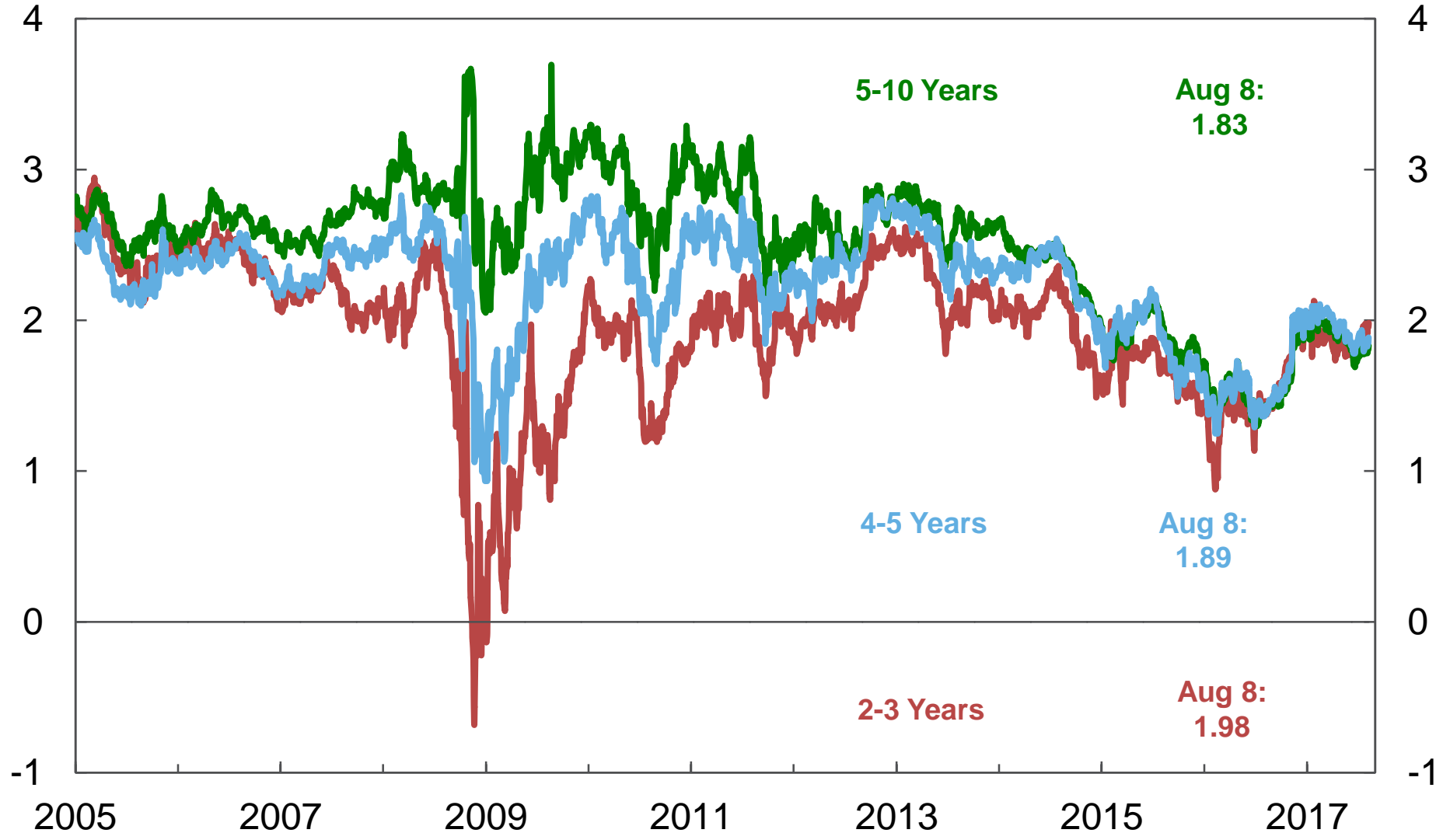
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

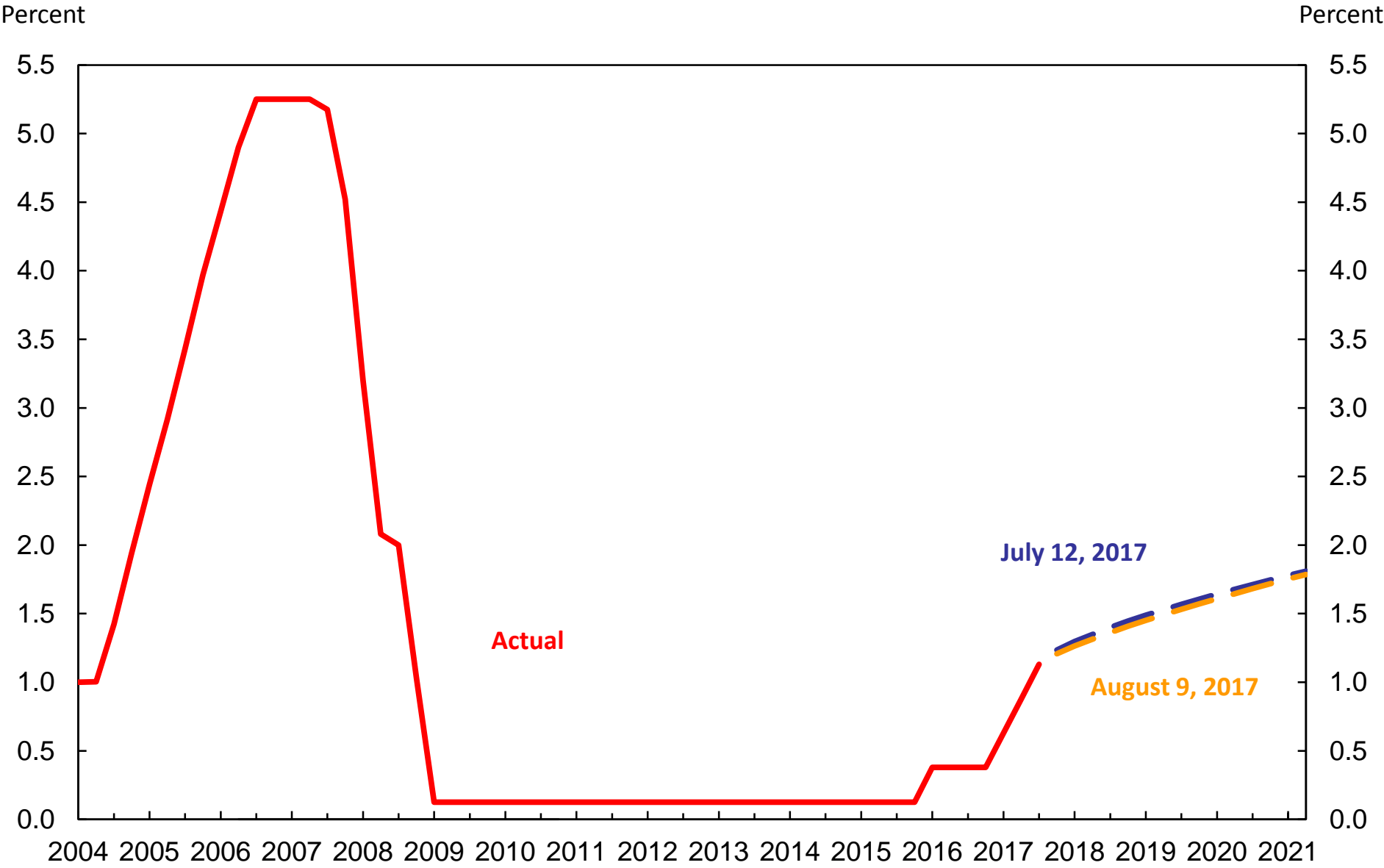
TIPS Based Inflation Expectations

Percent

Percent



Actual and Expected Fed Funds Target



Source: Federal Reserve Board



FEDERAL RESERVE BANK *of* NEW YORK

Overview of the Regional Economy

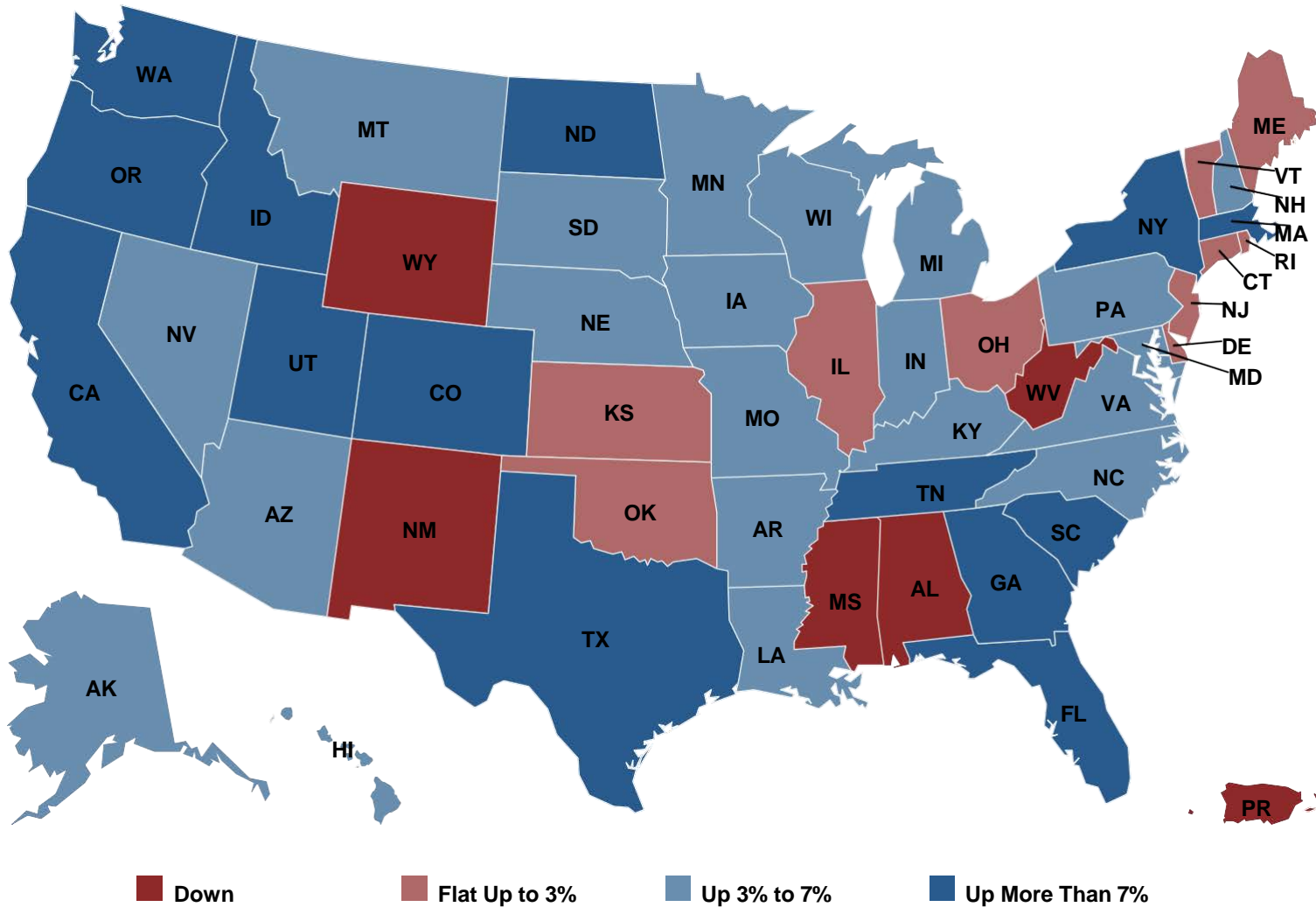
Jason Bram, Research Officer

Presented to SBAAC
August 17, 2017

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

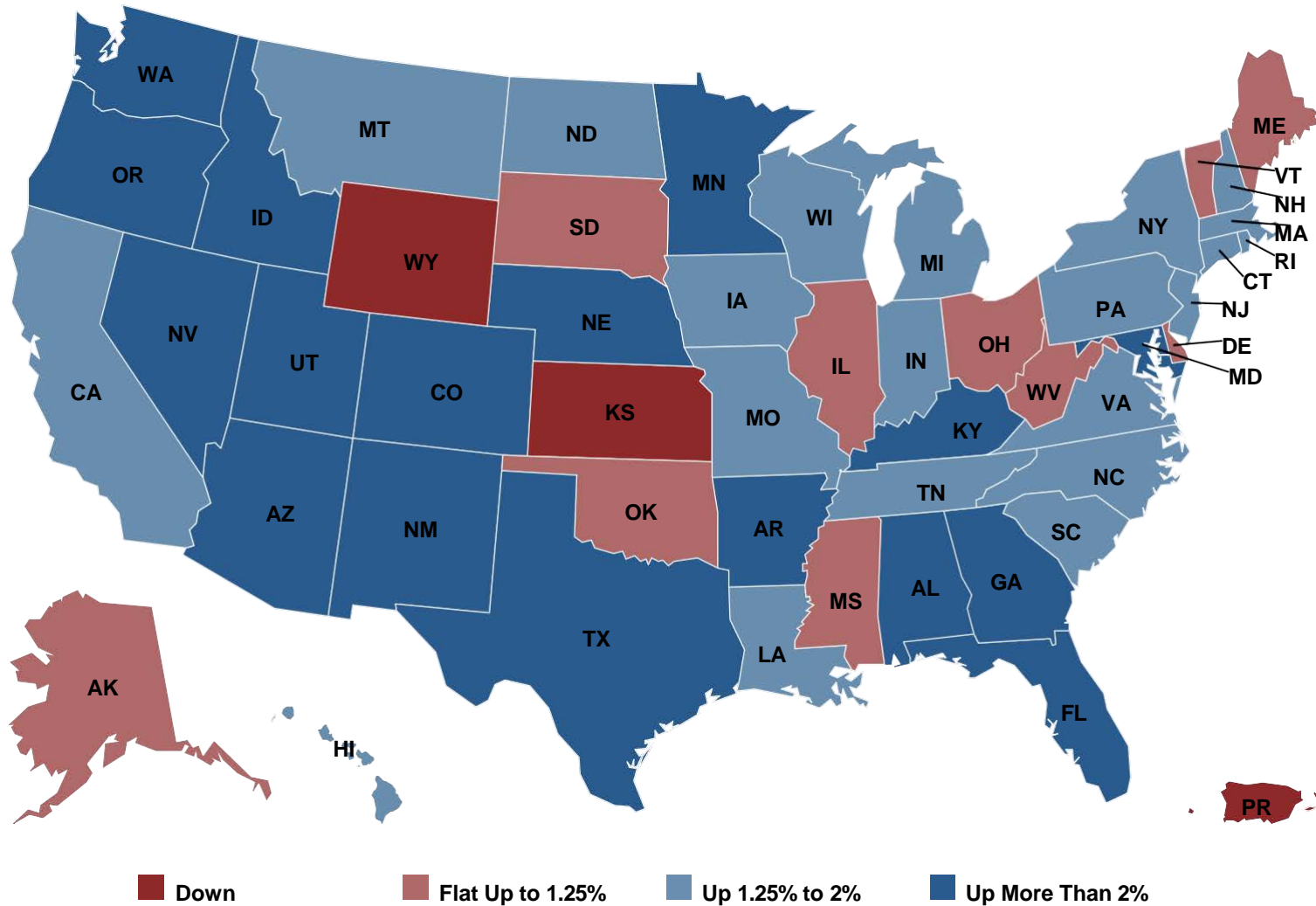
Private-Sector Job Trends

Percent Change From Previous Peak to June 2017



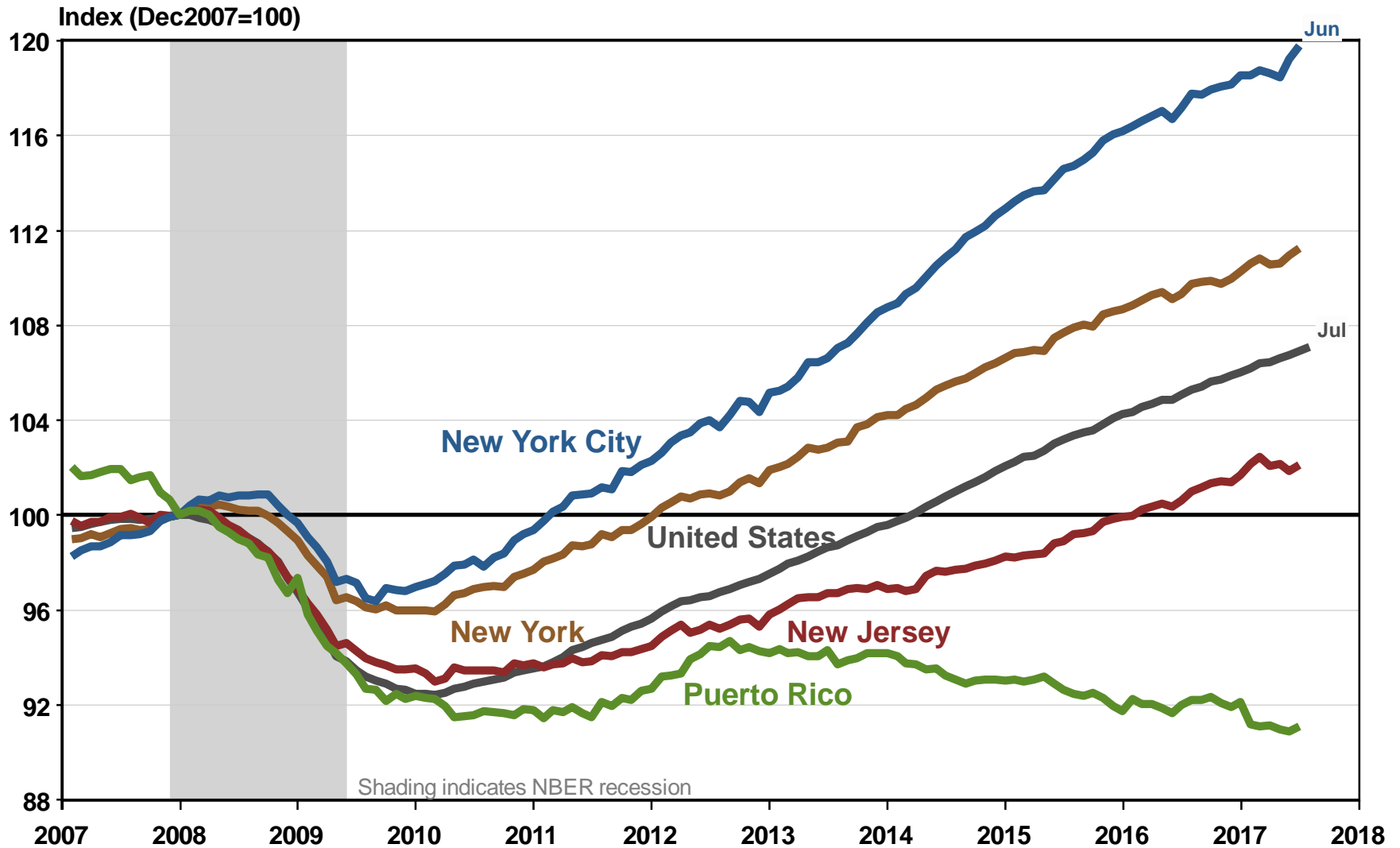
Recent Private-Sector Job Trends

Year-Over-Year Percent Change as of June 2017



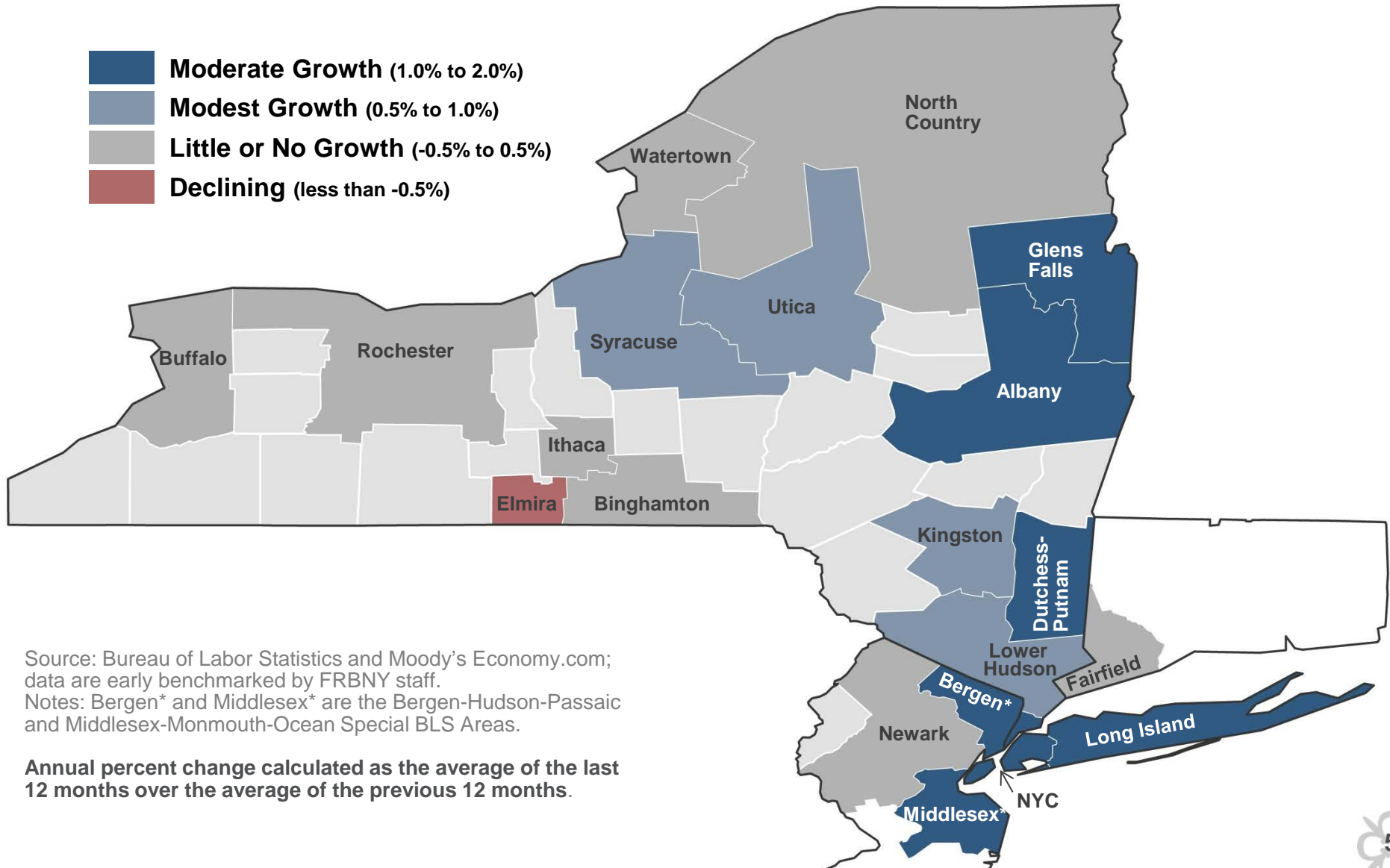
Private-Sector Employment

Seasonally Adjusted Index



Local Job Growth in the Region

Annual Percent Change, June 2017

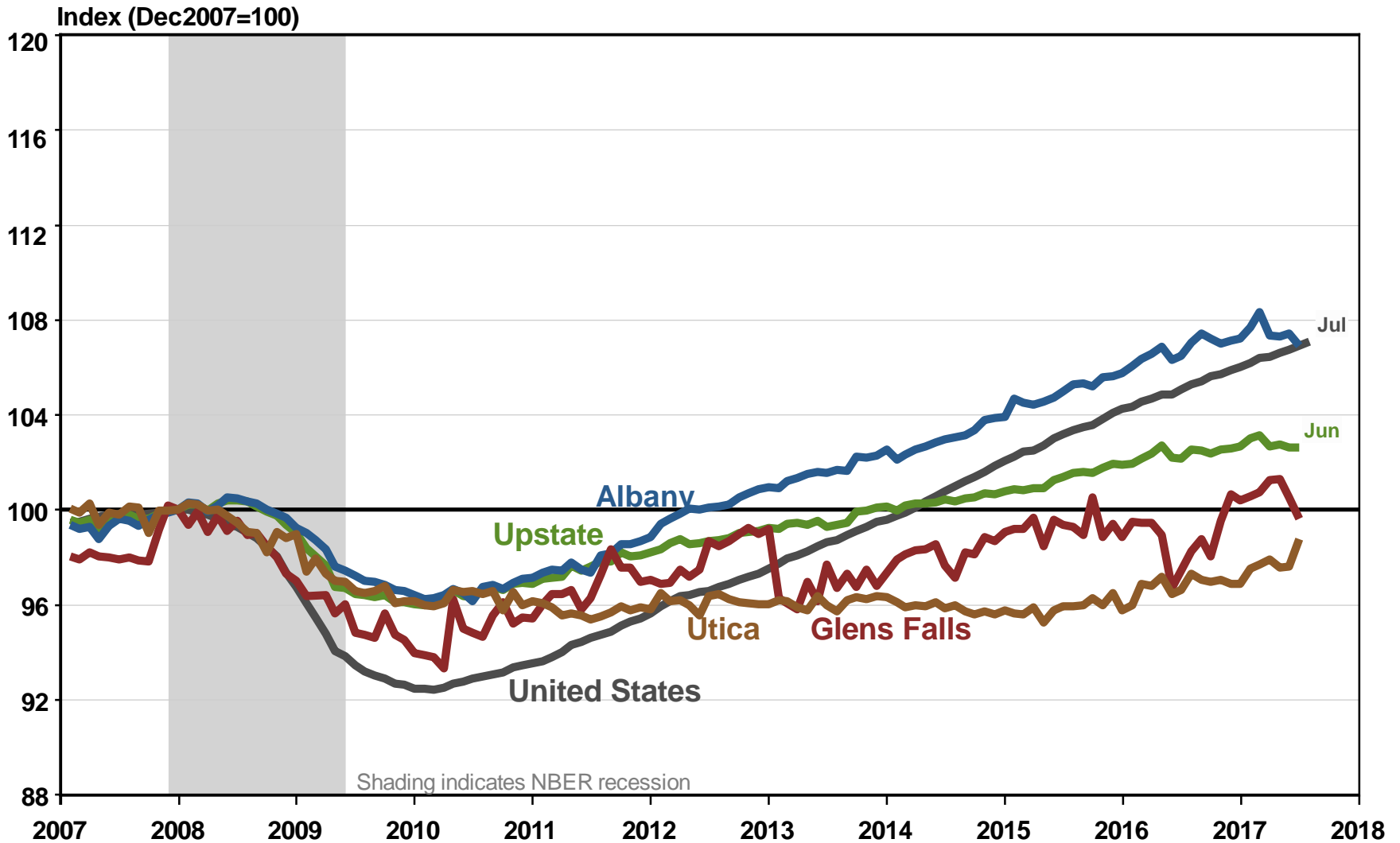


Source: Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by FRBNY staff.
Notes: Bergen* and Middlesex* are the Bergen-Hudson-Passaic and Middlesex-Monmouth-Ocean Special BLS Areas.

Annual percent change calculated as the average of the last 12 months over the average of the previous 12 months.

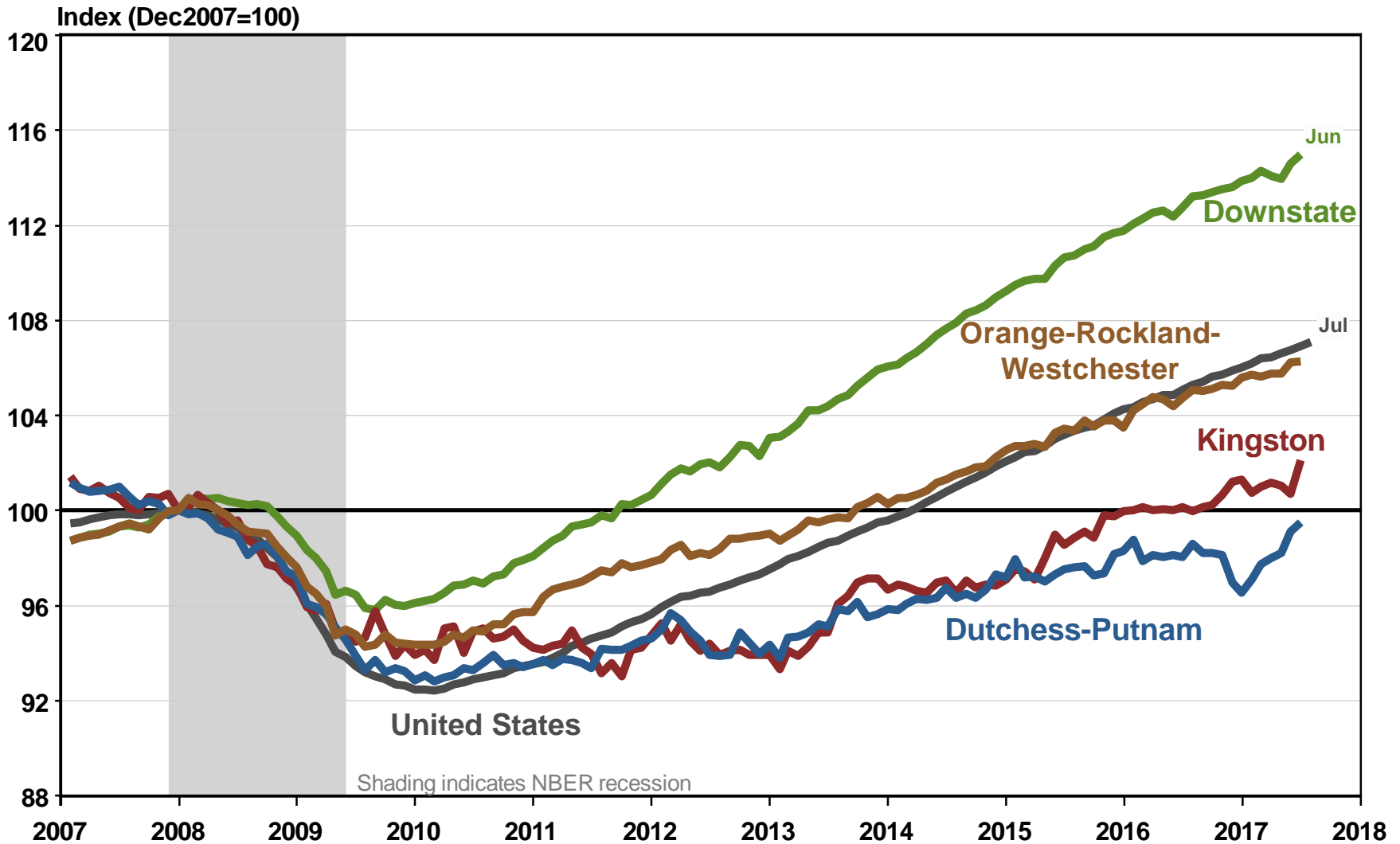
Private-Sector Employment

Seasonally Adjusted Index



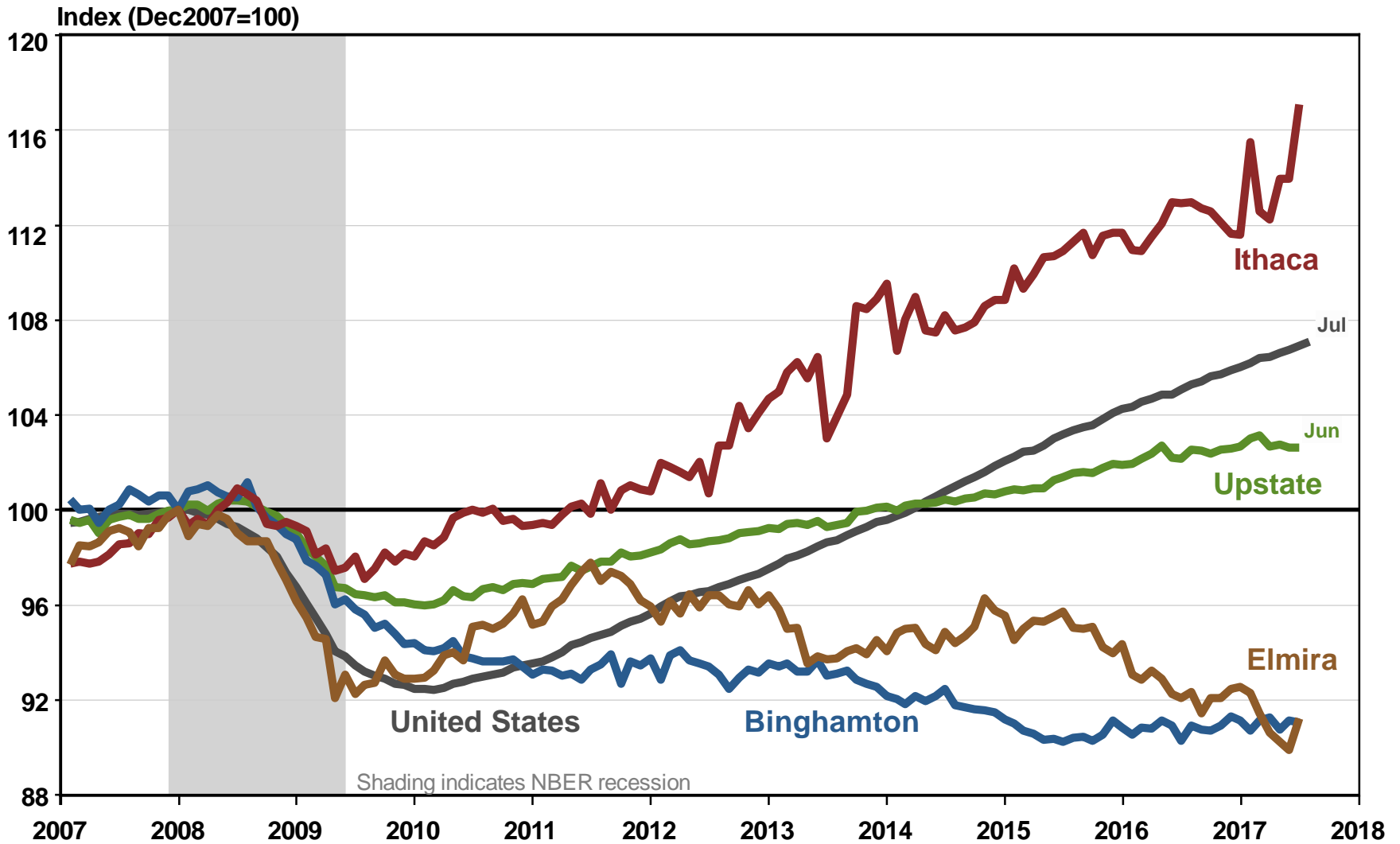
Private-Sector Employment

Seasonally Adjusted Index



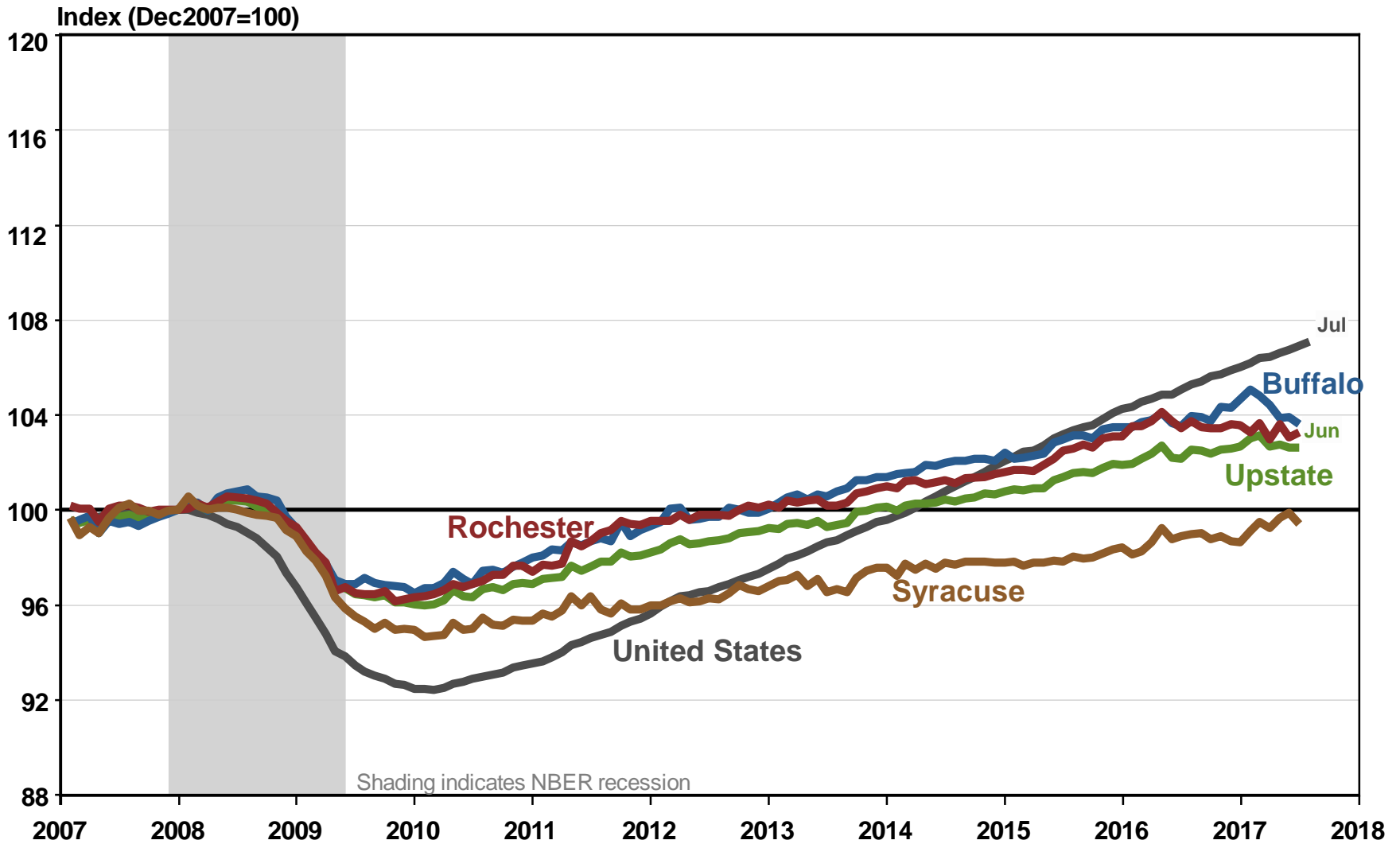
Private-Sector Employment

Seasonally Adjusted Index



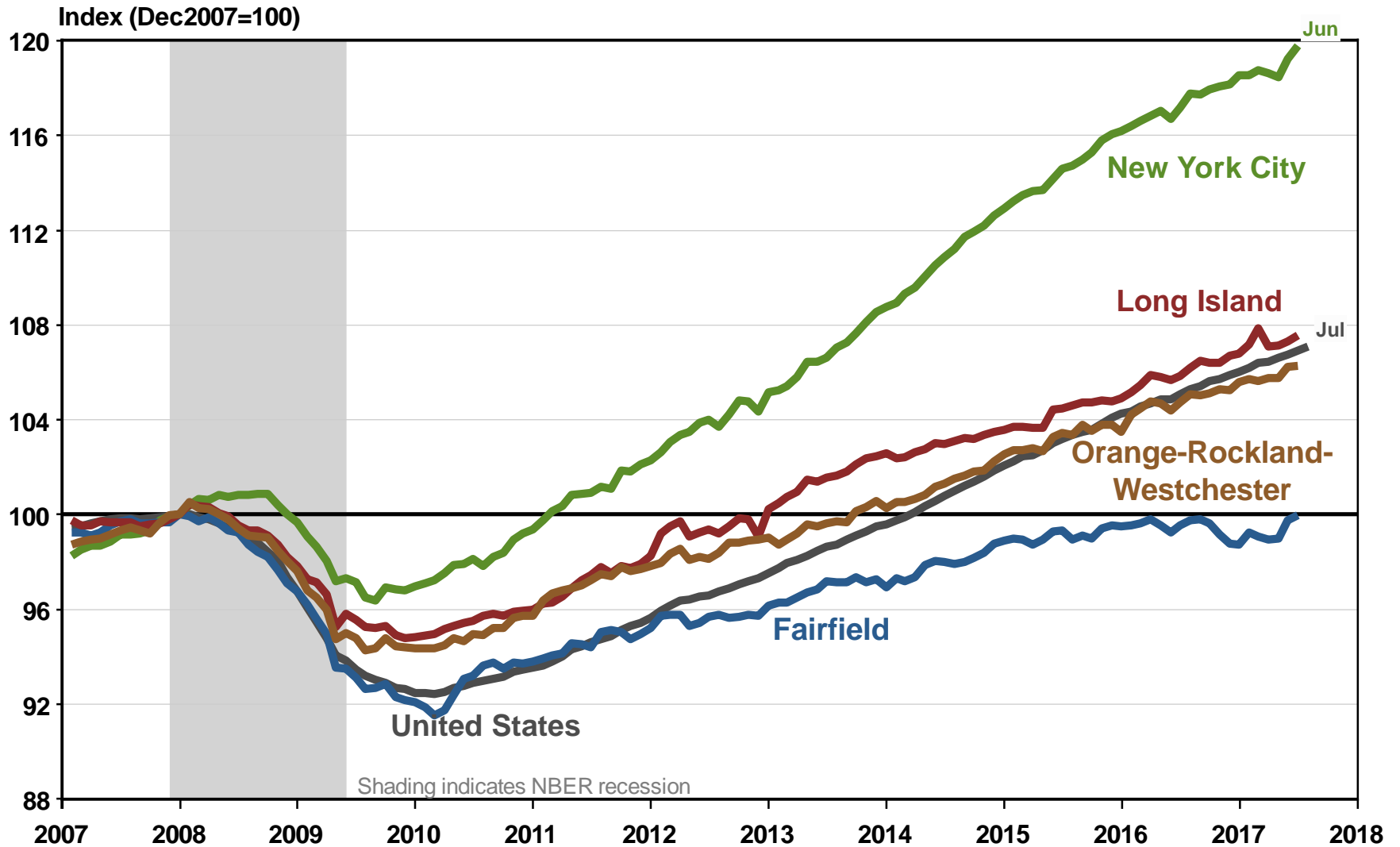
Private-Sector Employment

Seasonally Adjusted Index



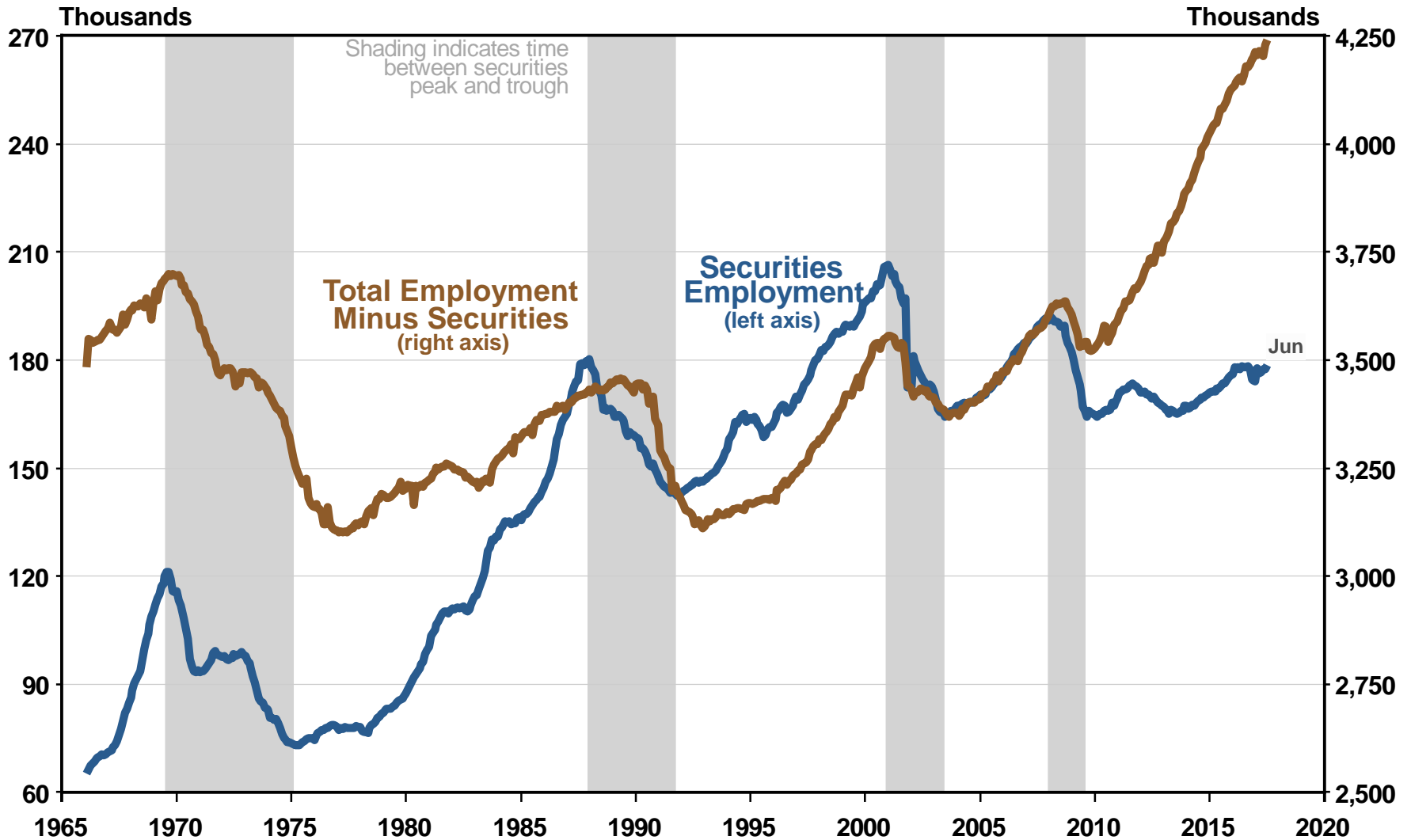
Private-Sector Employment

Seasonally Adjusted Index



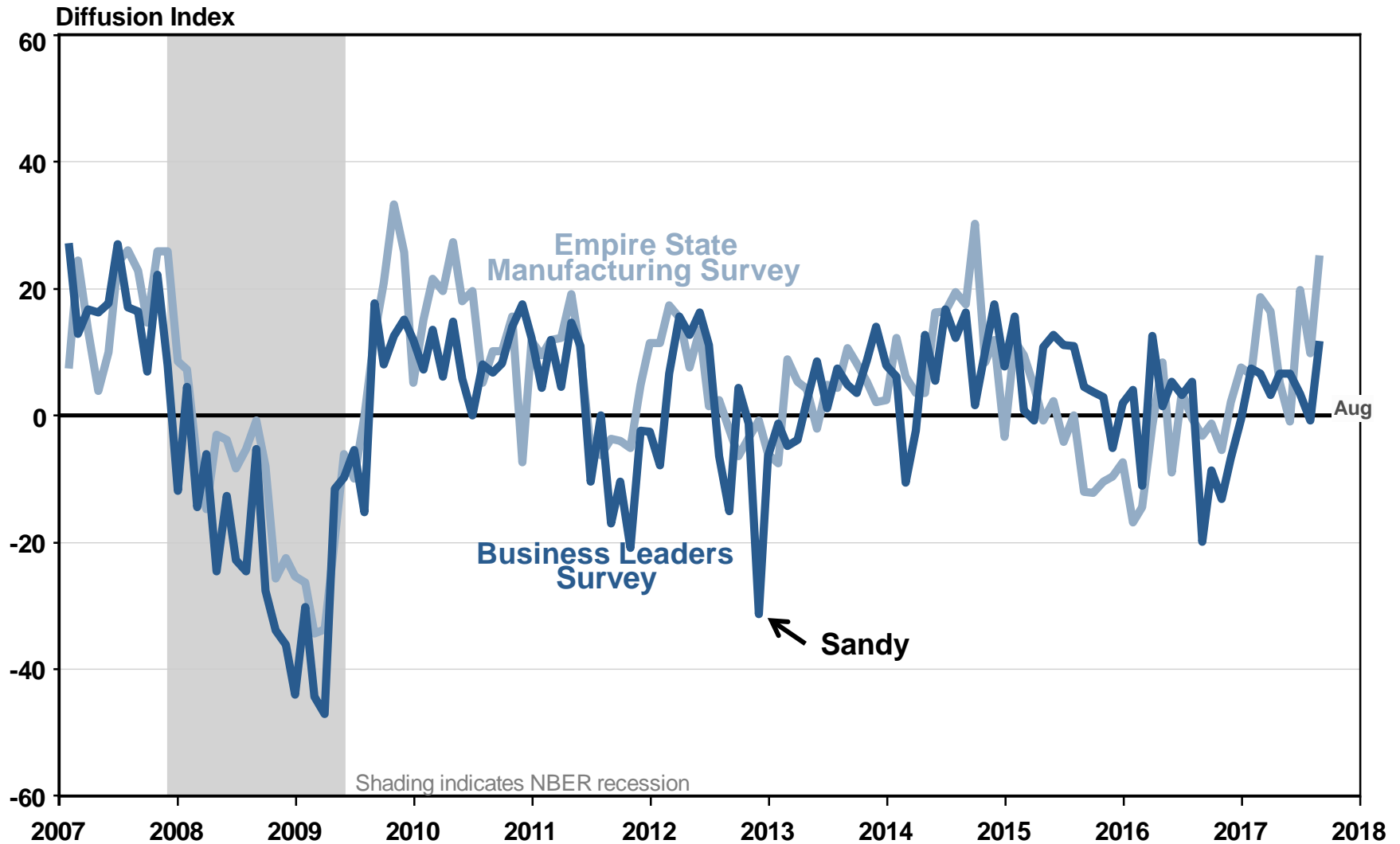
NYC Securities Employment

Seasonally Adjusted Levels



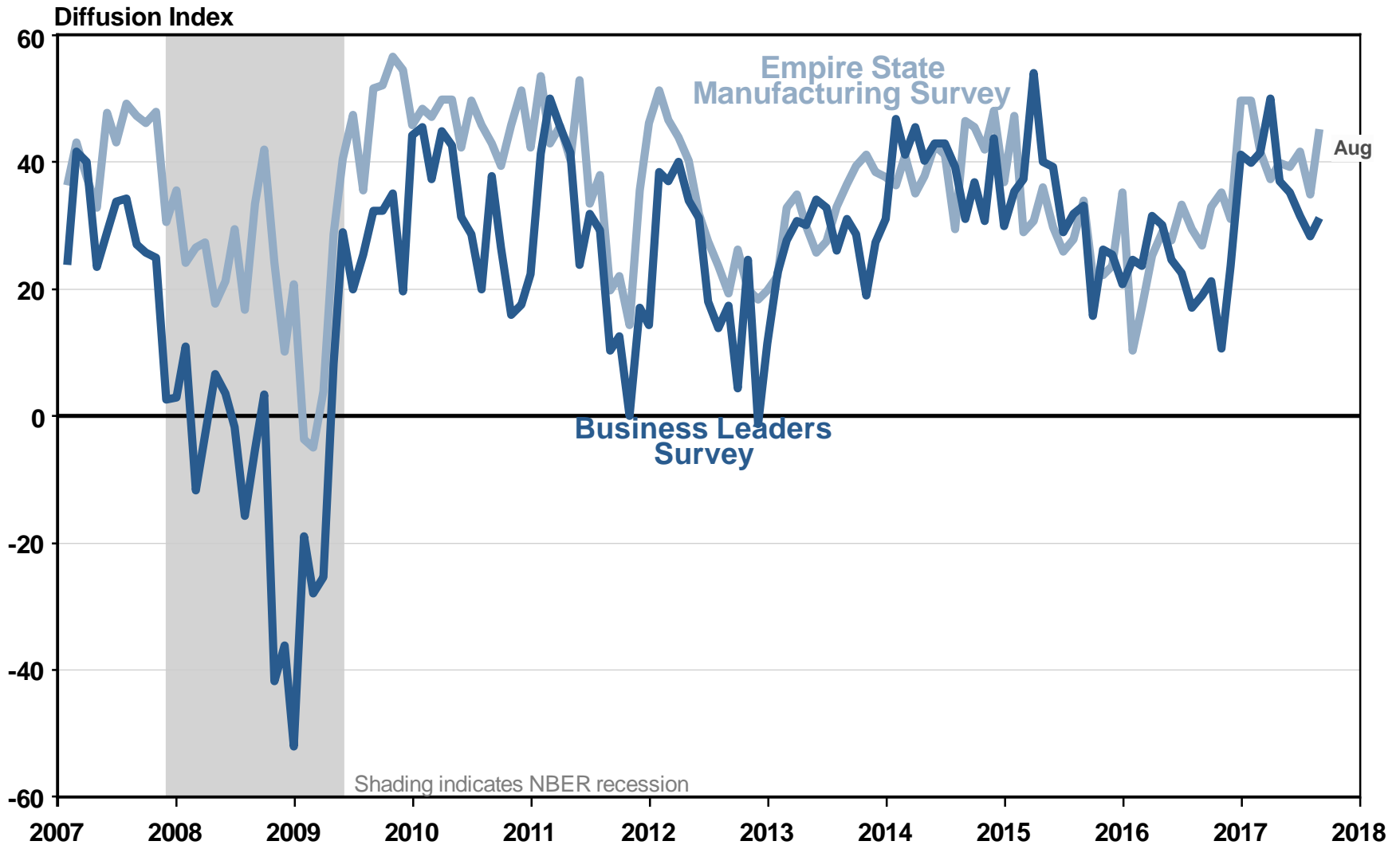
Current Economic Conditions

FRBNY Business Surveys, Current Conditions



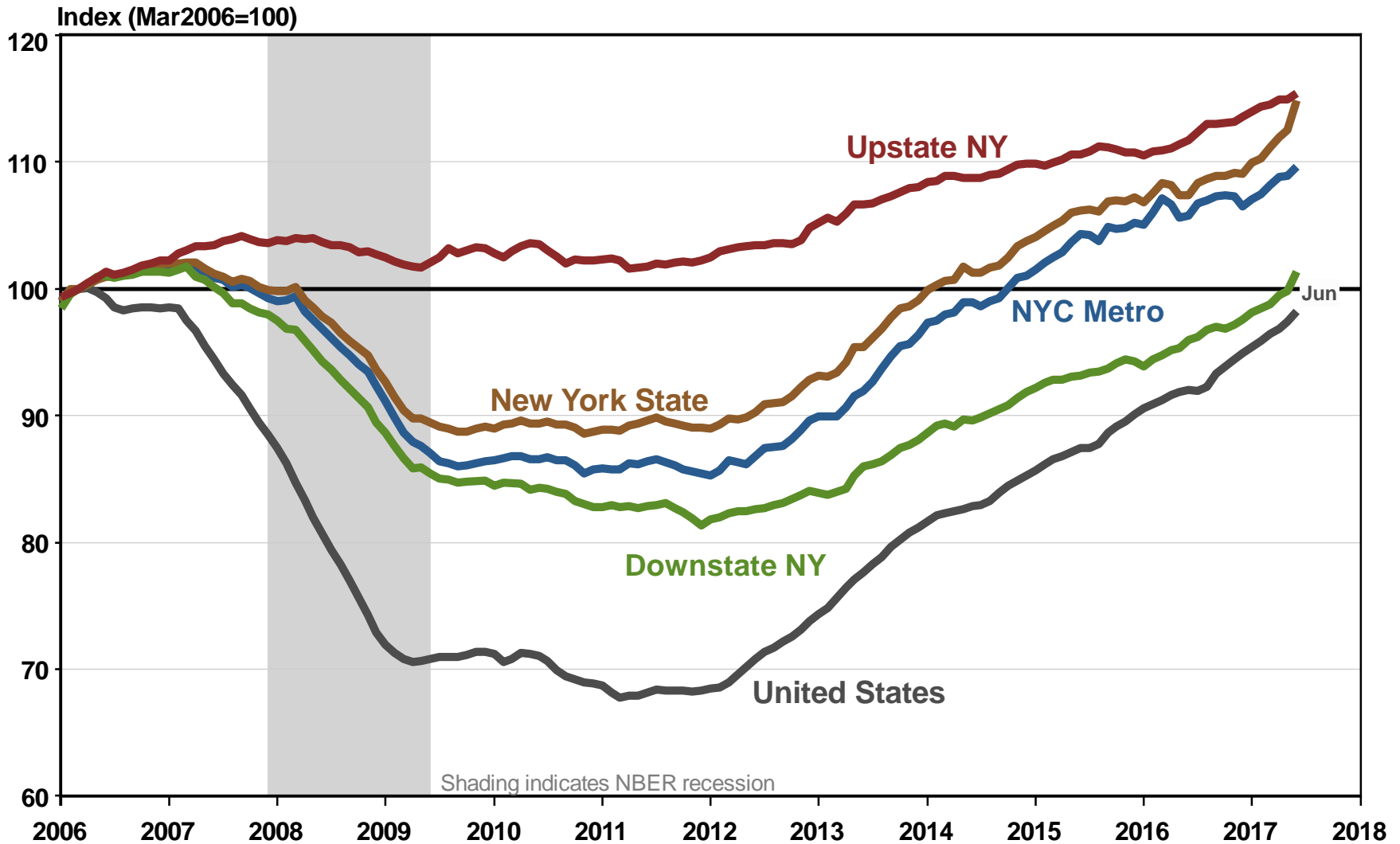
Future Economic Conditions

FRBNY Business Surveys, Conditions Six Months Ahead



Home Prices in the Region

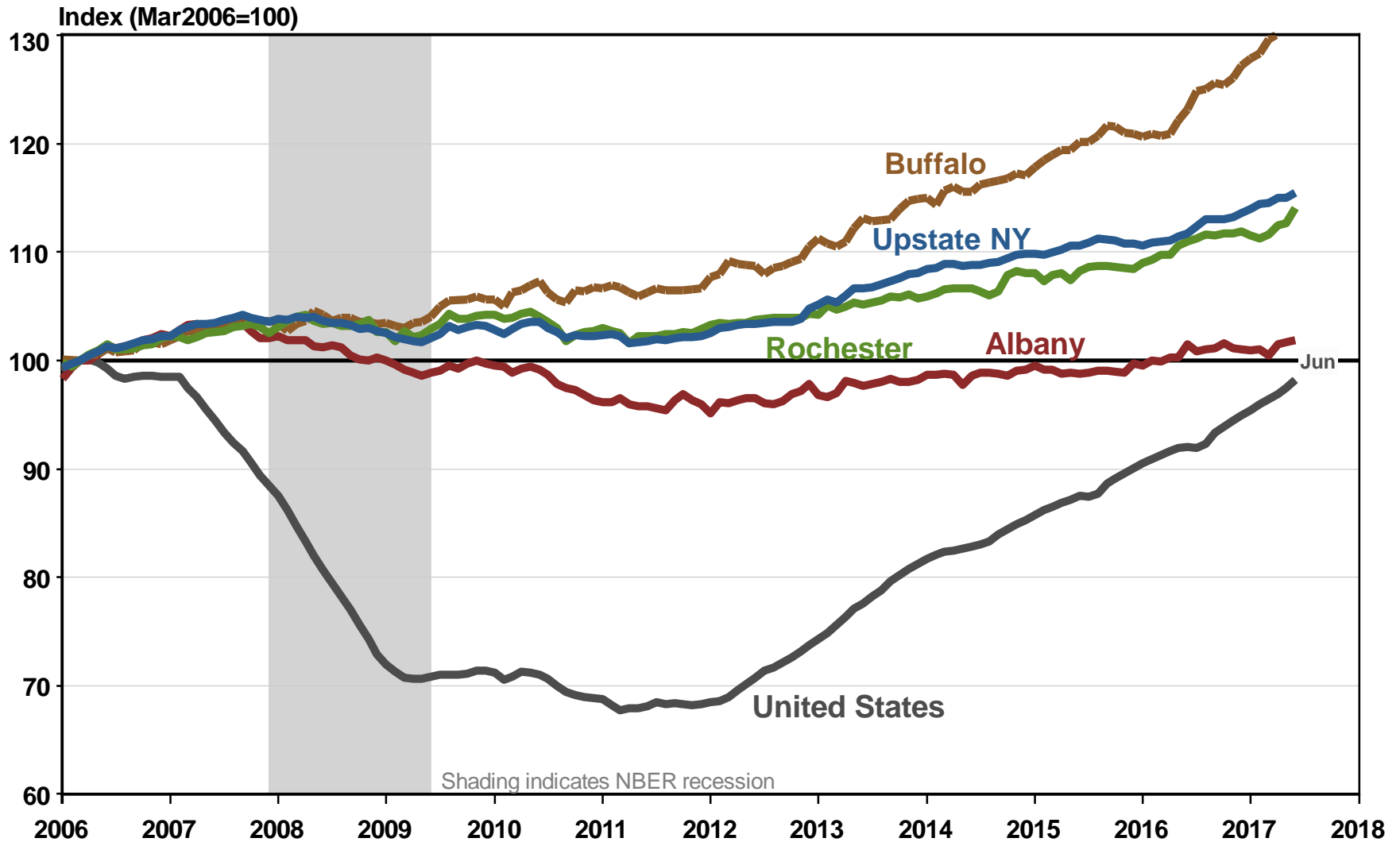
CoreLogic Home Price Index, Seasonally Adjusted



Shading indicates NBER recession

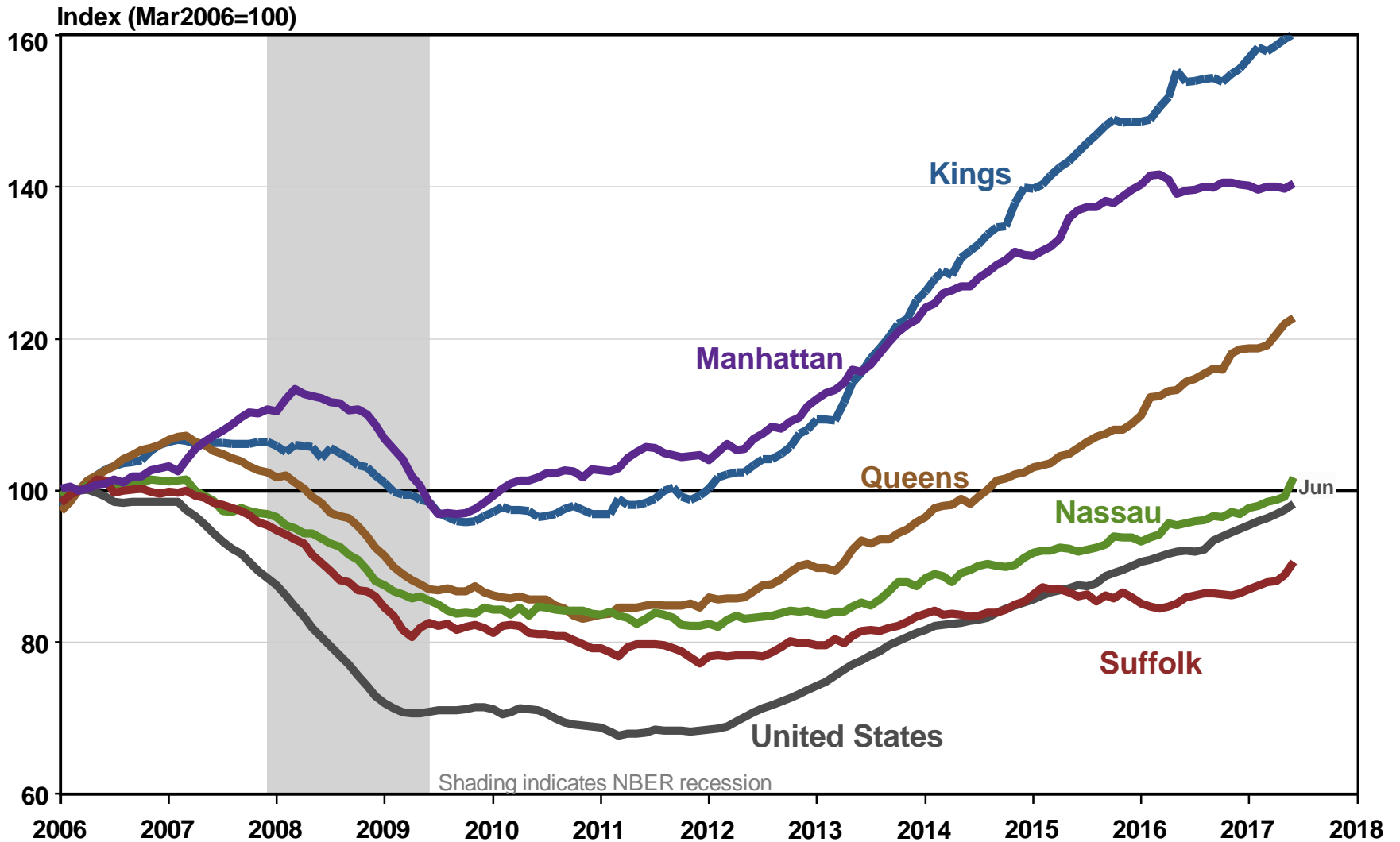
Home Prices: Upstate NY

CoreLogic Home Price Index, Seasonally Adjusted



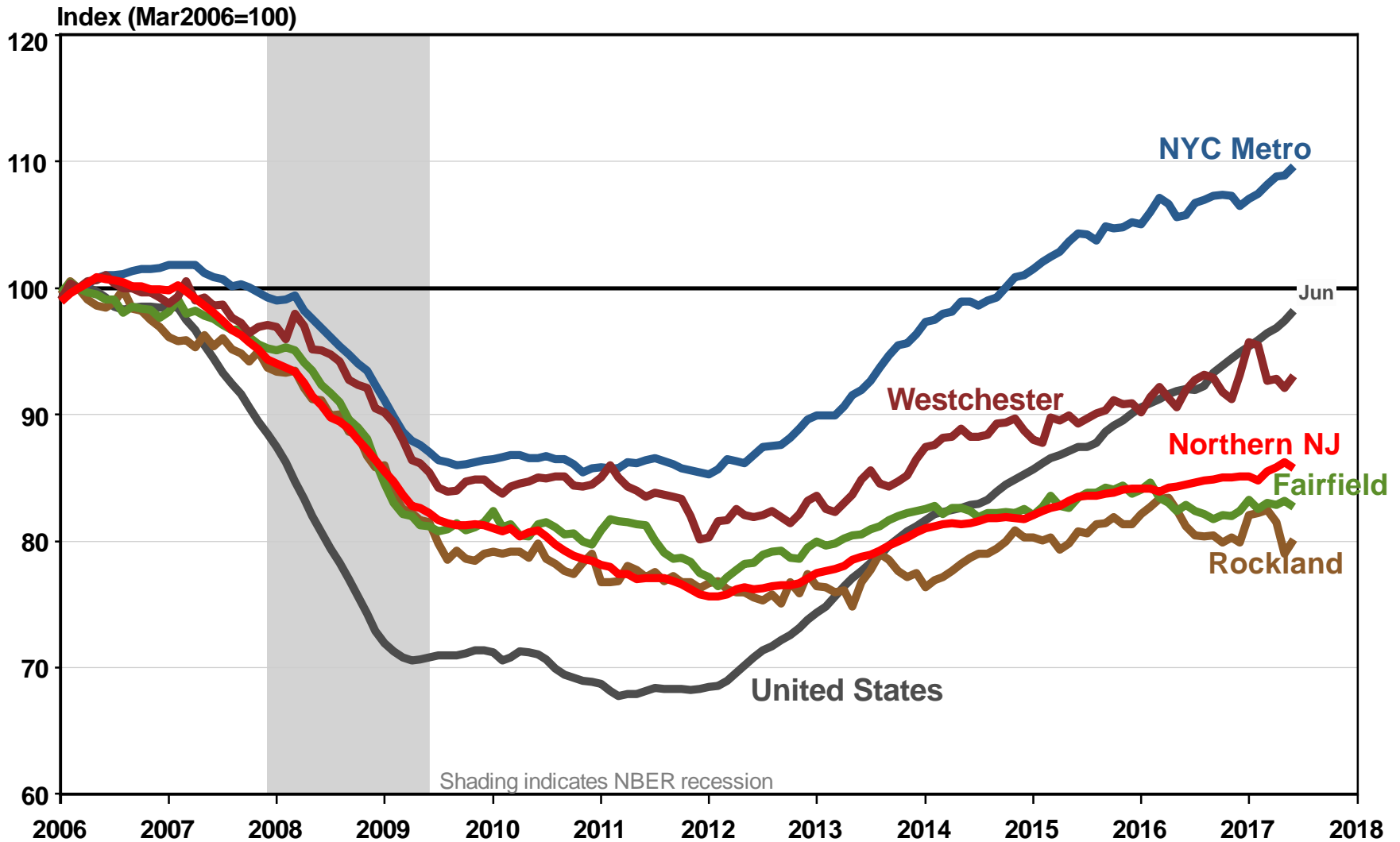
Home Prices: NYC Area

CoreLogic Home Price Index, Seasonally Adjusted



Home Prices: NYC Area

CoreLogic Home Price Index, Seasonally Adjusted



Recap

- Job growth has been strongest in downstate New York.
 - New York City continues to be the engine of job growth.
 - Northern NJ and Fairfield County have seen sluggish job gains.
 - Access to NYC's robust job market benefits the metro region.
- Job growth in upstate NY has slowed to a crawl
 - Metro Albany & Ithaca continue to lead.
 - The Southern Tier (Binghamton & Elmira) continues to lag.
- Puerto Rico continues to weaken, driven by public sector.
- Business surveys signal strong pickup in NY manufacturing.
- Home prices rising across most of the region
 - Two noteworthy exceptions are Manhattan and Fairfield County.