AGENDA

10:30am  Introductory Remarks
        Christine Cumming, First Vice President

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

11:10am-11:30am  Regional Update
                 Jim Orr, Vice President

11:30am-12:00pm  International Update
                 John Clark, Senior Vice President

12:00pm  Adjourn to NWCR-10F

12:15pm  Lunch

12:15pm-1:55pm  Round Table Discussion with
                 William Dudley, President

Questions for discussion with President Dudley:

Your experience and that of your customers and suppliers can give us insight into current economic conditions.

1. Did your firm’s sales volume increase, decrease or stay the same in the first half of the year?
2. During the second half of the year, do you expect your firms’ sales to increase, decrease, or stay the same?
3. Do you plan to increase investment in your firm (plant & equipment) during the second half of the year?
4. Has your firm faced any shortage of labor that has limited your ability to meet demand?
5. Do you plan to increase employment in the second half of the year?
6. Do you expect input prices to increase during the second half of the year? Do you expect prices of products/services sold to increase?
7. Over the past six months, how have the terms and conditions for obtaining financing changed (tightened, eased, not changed)?

2:00 pm  Adjourn
Overview

• Growth of real GDP over the first half of 2014 has been marked down to essentially zero.
  • Revised data suggests that underlying growth rate of real consumer spending may be somewhat lower, and the equilibrium personal saving rate may be somewhat higher.
  • Several indicators point to stronger growth in the second half of the year.

• At the same time,
  • Labor market conditions are firming, and the unemployment rate continues to fall faster than expected.
  • Core inflation increasing somewhat sooner than expected.
  • Suggests that the economy's potential growth rate may be lower than we had been assuming.

• The recent increase of inflation coincides with a slowing of productivity growth, leading to faster growth of unit labor costs and a narrowing of profits margins.
  • This has lead some analysts to conclude that the Fed is “behind the curve”.
  • However, our research suggests that inflation expectations are the main driver of inflation, and those expectations remain stable.
    • If this view of the inflation process is correct, profit margins will come under downward pressure.
Sources of the Slowdown of Growth of Real GDP

<table>
<thead>
<tr>
<th>Source</th>
<th>2013 H2</th>
<th>2014 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>(-0.9)</td>
<td>(+0.1)</td>
</tr>
<tr>
<td>PCE</td>
<td>1.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Res. Inv.</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>BFI</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>G</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Net Exports</td>
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<td>-0.9</td>
</tr>
<tr>
<td>CBI</td>
<td>-0.4</td>
<td>-1.2</td>
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</tbody>
</table>

Source: Bureau of Economic Analysis
Consumption of Health Care Services Collapsed in 2014Q1

Hospital Gross Revenues (Accrued)

Source: Quarterly Services Survey, Bureau of the Census
Sources of the Slowdown in Growth of Real PCE

<table>
<thead>
<tr>
<th>Source</th>
<th>2013 H2</th>
<th>2014 H1</th>
<th>% Change at Annual Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCE</td>
<td>2.6</td>
<td>1.0</td>
<td>(11%)</td>
</tr>
<tr>
<td>Durable Goods (11%)</td>
<td>1.4</td>
<td>10.7</td>
<td>(23%)</td>
</tr>
<tr>
<td>Nondurable Goods (23%)</td>
<td>3.3</td>
<td>-0.9</td>
<td>(66%)</td>
</tr>
<tr>
<td>Services (66%)</td>
<td>2.5</td>
<td>0.1</td>
<td>(17%)</td>
</tr>
<tr>
<td>Health Care (17%)</td>
<td>5.5</td>
<td>-3.1</td>
<td>(17%)</td>
</tr>
<tr>
<td>PCE ex Health Care</td>
<td>2.0</td>
<td>1.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Demand For Labor Firmed in 2014Q2

Private Payroll Employment

Aggregate Hours Worked, Private Sector

Source: Bureau of Labor Statistics
Labor Force Participation Rate

Unemployment

Participation Rate has not increased as expected.

63.4%

Source: Bureau of Labor Statistics
Inflation Breakdown: Core Goods and Core Services

- **Core Goods**: 14% of increase in core CPI due to non-food, non-energy goods, led by apparel and medical care commodities.
- **Core Services**: 86% of increase in core CPI due to non-energy services, led by airfares, rents, and medical care services.

Source: Bureau of Labor Statistics
Nonfarm Business Sector

16 Quarter % Change, Annualized

Source: Bureau of Labor Statistics
Nonfarm Business Sector

16 Quarter % Change, Annualized

Source: Bureau of Labor Statistics
TIPS Based Inflation Expectations

Source: Federal Reserve Board

Note: Dashed lines represent 2 Standard Deviations from the mean

2011 – Present Average 2.72

July 16: 2.50
Actual and Expected Fed Funds Target

Source: Federal Reserve Board
Regional Economic Activity

Index of Coincident Economic Indicators (CEI)

Index (December 2007 = 100)

Note: The Puerto Rico composite index is based on a different methodology than the indexes produced by the FRBNY.
Current Economic Conditions
FRBNY Business Surveys, Current Conditions

Source: Federal Reserve Bank of New York.
Total Employment
Seasonally Adjusted Index

Index (December 2007 = 100)

Shading indicates NBER recession

Dashed Line Indicates
U.S. Employment Trough
(February 2010)

Total Employment
Seasonally Adjusted Index

Index (December 2007 = 100)

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U.S. Employment Trough
(February 2010)

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Total Employment
Seasonally Adjusted Index

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Total Employment
Seasonally Adjusted Index

Index (December 2007 = 100)

Dashed line indicates U.S. Employment Trough (February 2010)

Status of Jobs Recovery

Share of Lost Jobs Gained Back During Local Recovery

Note: Putnam and Bergen are the Putnam-Rockland-Westchester and Bergen-Hudson-Passaic Special BLS Areas.
# Job Growth by Sector

## Year-Over-Year Percent Change, May 2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>United States</th>
<th>New York State</th>
<th>New York City</th>
<th>New Jersey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional &amp; Business Services</td>
<td>3.5</td>
<td>2.5</td>
<td>2.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Construction</td>
<td>3.4</td>
<td>2.8</td>
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<td>-6.6</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>2.8</td>
<td>1.9</td>
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</tr>
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<td>Transportation &amp; Utilities</td>
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<td>1.8</td>
<td>1.3</td>
<td>2.2</td>
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<tr>
<td>Wholesale Trade</td>
<td>2.3</td>
<td>0.6</td>
<td>0.7</td>
<td>-0.3</td>
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<tr>
<td>Retail Trade</td>
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<td>1.8</td>
<td>3.8</td>
<td>2.8</td>
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<tr>
<td>Education &amp; Health Services</td>
<td>1.7</td>
<td>2.0</td>
<td>3.3</td>
<td>0.3</td>
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<tr>
<td>Manufacturing</td>
<td>0.9</td>
<td>-1.7</td>
<td>-0.1</td>
<td>-0.1</td>
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<tr>
<td>Financial Activities</td>
<td>0.6</td>
<td>-0.5</td>
<td>0.5</td>
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</tr>
<tr>
<td>State &amp; Local Government</td>
<td>0.4</td>
<td>-0.3</td>
<td>-0.4</td>
<td>0.3</td>
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<td>Information</td>
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<td>-0.5</td>
<td>0.0</td>
<td>-3.7</td>
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<tr>
<td><strong>Total</strong></td>
<td>1.7</td>
<td>1.1</td>
<td>1.9</td>
<td>0.1</td>
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## Job Growth by Sector

**Year-Over-Year Percent Change, May 2014**

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<tr>
<th>Sector</th>
<th>Connecticut</th>
<th>Puerto Rico</th>
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<td>-3.3</td>
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<tr>
<td>Information</td>
<td>-2.2</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.8</strong></td>
<td><strong>0.4</strong></td>
</tr>
</tbody>
</table>

Sectors Driving Regional Job Growth

Change in Employment Over Past Year (As of April 2014)

State and Local Government

Seasonally Adjusted Index

Index (December 2007 = 100)

Note: Dotted line smoothes fluctuations due to summer jobs programs.

Shading indicates NBER recession

Financial Activities Employment

Seasonally Adjusted

Thousands – New York City

Thousands – New Jersey

NYC Technology Employment

2009Q4 to 2013Q4

Total Private-Sector Job Growth Over This Period = +352,000 Jobs or +12%

NYC Technology Average Wages

2013

Total Private-Sector (ex Finance) Average Wages = $65,000

Computer Systems Design: $120,502
Internet Pub & Web Search Portals: $165,107
Motion Picture & Video Production: $106,227
Advertising, PR & Related Services: $121,514
Management & Technical Consulting Srvcs: $144,023

Unemployment Rates in the Nation
Seasonally Adjusted, May 2014

U.S. Rate in May = 6.3% (6.1% in June)
- 5.3% or Less
- 5.3% to 7.3%
- 7.3% or More

Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

Index (U.S. Peak of March 2006 = 100)

Source: CoreLogic Home Price Index (including distressed sales); Seasonally adjusted by FRBNY staff.
Note: ‘NYC Metro’ refers to the ‘New York-White Plains-Wayne NY-NJ Metro Division.’
Source: CoreLogic Home Price Index (including distressed sales); Seasonally adjusted by FRBNY staff.
Note: ‘NYC Metro’ refers to the ‘New York-White Plains-Wayne NY-NJ Metro Division.’
Backlog of Foreclosures

Share of Mortgages in Foreclosure

Source: CoreLogic LoanPerformance (LP) and Lender Processing Services Mortgage Performance data (LPS).

Downstate New York includes Ulster, Dutchess, Orange, and all New York counties to the south. Upstate New York includes all metropolitan counties to the north. Northern New Jersey includes Ocean, Monmouth, Middlesex, Somerset, Hunterdon and all counties to the north.

Shading indicates NBER recession.
Household Debt

Total Debt Balance Per Capita

Source: FRBNY Consumer Credit Panel/Equifax.
Office Vacancy Rates

Overall Vacancy Rates

Source: Cushman & Wakefield.

Shading indicates NBER recessions

Source: Cushman & Wakefield.
Office Vacancy Rates

Overall Vacancy Rates

Shading indicates NBER recessions

Source: Cushman & Wakefield.
Job Polarization
Occupations by Skill Categories

Based on 2010 Median Occupational Wage, United States

Employment Share

High Skill
Legal
Computer/Math
Engineers/Architects
Management
Social Scientists

Scientists
Finance
Business Operation
Health Practitioners

Upper Middle
Protective Services
Installation/Repair
Teachers
Arts/Entertainment
Construction
Precision Production
Community Service

Lower Middle
Admin Support
Machine Operators
Sales
Transportation

Low Skill
Health Support
Bldg Maintenance
Farming
Personal Care
Food Prep

Source: U.S. Bureau of the Census and FRBNY Calculations.
Job Growth by Skill Category
Change in Jobs: 1980-2010, Our Region

United States
High Skill: 101%
Low Skill: 91%
Upper Middle: 46%
Lower Middle: 20%

Downstate NY
60%
38%
-7%

Note: Downstate NY includes all counties in New York State to the south of and including Dutchess and Orange counties.

Unemployment Rates in the Region
Seasonally Adjusted, May 2014

Unemployment Rates in the Nation
Seasonally Adjusted, May 2014

U.S. Rate in May = 6.3% (6.1% in June)

- **5.3% or Less**
- **5.3% to 7.3%**
- **7.3% or More**

International Update
Presentation to the Small Business and Agriculture Advisory Council

John Clark
July 18, 2014

Figure 1 Global Growth and PMIs
Percent SAAR

Composite PMI (RHS)
GDP Growth (LHS)
Correlation=.86
66.4 June
Analyst Projections 1/

1/ Bloomberg consensus and staff estimates.
Sources: Markit Economics, national authorities, Bloomberg.
Figure 2 Advanced and EM Economies: GDP Growth
Percent, quarterly average at an annualized rate

1/ Brazil, India, Russia, Mexico, and Korea.
Sources: National authorities, Bloomberg.

Figure 3 Euro Area: GDP Growth and Composite PMIs
Percent, saar

Correlation: .86

Source: Haver, Markit. Data as of July 10, 2014
Figure 4 Peripheral Europe: 10yr Bond Spread to Bunds

Figure 5 Peripheral Europe: 10yr Bond Spread to Bunds

Source: Bloomberg
**Figure 6 Euro Area: Unemployment Rates**

Percent, seasonally adjusted

![Graph of Euro Area Unemployment Rates](image)

1/ GDP-weighted: Italy, Spain, Greece, Ireland, Portugal.

Source: EuroStat. Data as of July 2, 2014

---

**Figure 7 Euro Area Inflation**

Percent change, y/y

![Graph of Euro Area Inflation](image)

Source: European Central Bank. Data as of July 11, 2014
Figure 8 Japan: Monetary Base

Figure 9 Japan: Equity and Currency Performance

Source: National authorities

Source: Bloomberg
Data updated as of 07/17/14
Figure 10 Japan: CPI Inflation

Source: Haver

Figure 11 Japan: GDP Growth

1/ Bloomberg.
Figure 12 EMEs: Real GDP Growth
Percent change from year ago quarter

Source: National authorities

Figure 13 EMEs: Headline and Core Inflation
Percent, rolling 6m/6m saar

Source: National authorities, FRBNY
Figure 14 EME Exports and AE GDP
Percent, Q/Q-4  Percent, Q/Q-4 smoothed

Sources: National authorities, Netherlands Bureau of Economic Policy Analysis, Haver.

Figure 15 US and EM Asset Returns
Percent change

May 1, 2013 to Feb 3, 2014

Feb 3, 2014 to Present

1/ Local currency return, 2/ GBXM (returns in local currency terms), 3/ JPM JLI ex-EM index
Source: Bloomberg, Morgan Stanley

1/ Local currency return, 2/ GBXM (returns in local currency terms), 3/ JPM JLI ex-EM index
Source: Bloomberg, Morgan Stanley. Data through July 17, 2014
Figure 16 EMEs: Leading Structural Challenges

<table>
<thead>
<tr>
<th>Leading Structural Challenges</th>
<th>Argentina</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Korea</th>
<th>Mexico</th>
<th>Russia</th>
<th>Saudi Arabia</th>
<th>South Africa</th>
<th>Turkey</th>
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<tr>
<td>Distortionary Tax Code</td>
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<td>159</td>
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<td>66</td>
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<td>Inadequate Power</td>
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<td>111</td>
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<td>133</td>
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<td>150</td>
<td>49</td>
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<td>Inadequate Infrastructure</td>
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<td>71</td>
<td>74</td>
<td>85</td>
<td>61</td>
<td>23</td>
<td>66</td>
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<td>22</td>
<td>66</td>
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<td>Excessive Energy Subsidies</td>
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<td>4.5</td>
<td>5.4</td>
<td>1.5</td>
<td>2.4</td>
<td>6.3</td>
<td>16.7</td>
<td>4.3</td>
<td>1.0</td>
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<td>Excessive Red Tape</td>
<td>57</td>
<td>121</td>
<td>15</td>
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<td>147</td>
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<td>10</td>
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<td>Labor Market Rigidity</td>
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<td>Health &amp; Primary Education</td>
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<td>89</td>
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<td>18</td>
<td>73</td>
<td>71</td>
<td>53</td>
<td>135</td>
<td>55</td>
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Sources: IMF, World Bank, World Economic Forum

Figure 17 Major EM Elections in 2014

<table>
<thead>
<tr>
<th>Month</th>
<th>Country</th>
<th>Winner (actual or likely) 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Turkey (Municipal)</td>
<td>Inc</td>
</tr>
<tr>
<td>April</td>
<td>South Africa (Legislature and President) 2/</td>
<td>Inc</td>
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<tr>
<td></td>
<td>Indonesia (Parliament)</td>
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<tr>
<td>May</td>
<td>India (Parliament)</td>
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<td>July</td>
<td>Indonesia (President)</td>
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<tr>
<td>August</td>
<td>Turkey (Presidential)</td>
<td>Inc</td>
</tr>
<tr>
<td>October</td>
<td>Brazil (President, Legislature, Governors)</td>
<td>Inc 3/</td>
</tr>
</tbody>
</table>

1/ Based on latest polls: Incumbent (Inc) or Opposition (Opp) party
2/ The National Assembly elects the President following its election.
3/ Likely winner of presidential and legislative elections.
Figure 18 China: Real GDP Growth

Source: CEIC, FRBNY

Figure 19 China: Bank and Shadow Credit, Total Financing

Source: CEIC
1/Total financing includes bank loans, off-balance sheet & trust loans, net corp debt/equity
Figure 20 AEs: Evolution of Consensus Growth Forecasts
Percent, y/y

Source: Consensus Forecasts through June, July estimated from Blue Chip.

Figure 21 EMEs: Evolution of Consensus Growth Forecasts
Percent, y/y

Source: Consensus Forecasts through June, July estimated from Blue Chip.
Figure 22 Percentage Distribution of Global GDP

Projections are shares of USD GDP
Source: IMF WEO, April 2014

Figure 23 Consensus Forecasts

Percent y/y

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Forecast change since Feb 2014</th>
<th>2015</th>
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<td>Euro Zone</td>
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<td>1.5</td>
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<td>0.1</td>
<td>0.0</td>
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</tbody>
</table>

Data as of July 16th. Sources: Blue Chip as of July where available, Consensus Economics as of June. 1/ Dollar-GDP weighted average