AGENDA

10:30am Welcome, Jack Gutt, Executive Vice President

10:35am Introductory Remarks, Claire Kramer Mills, Assistant Vice President

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

11:00am International Update, Matthew Higgins, Vice President

11:30am Regional Update, Jason Bram, Officer

12:00pm Adjourn to NWC Room-10F

12:15pm Lunch

12:15pm Discussion with William Dudley, 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 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)?

1:15pm Discussion of New York Fed presidential search with Shawn Phillips, Corporate Secretary of Federal Reserve Bank of New York and a search firm representative

2:00 pm Adjourn
Small Business & Agricultural Advisory Council
Federal Reserve Bank of New York
33 Liberty Street
New York, NY
Tuesday, November 7, 2017

ATTENDEE LIST

Council Members

Michael Arnoff
President
Arnoff Moving & Storage

Patrick Marotta
President and CEO
Marotta Controls

Charles Feit
Founder and CEO
OnForce Solar

Ranjini Poddar
Founder and CEO
Artech Information Systems, LLC

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

Waleska Rivera
President
Danosa Caribbean, Inc.

Federal Reserve Bank of New York

William Dudley
President

Jack Gutt
EVP, Communications & Outreach

Kausar Hamdani
SVP, Communications & Outreach

Richard Peach
SVP, Research & Statistics

Anand Marri
VP, Outreach & Education

Matthew Higgins
VP, Research & Statistics

Andrew Giannelli
AVP, Digital Strategy

Claire Kramer Mills
AVP, Outreach & Education

Julia Gouny
Officer, Executive Office

Suzanne Elio
Officer, Media Relations

Jason Bram
Officer, Research & Statistics

Brian Manning
Senior Associate, Media Relations

Angela Sun
Associate, Legal

Edison Reyes
Associate, Outreach & Education
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

• 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.

• 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.

• Surprisingly, underlying inflation has slowed thus far in 2017 and remains below the FOMC’s objective of 2%.
  • Thus far, inflation expectations appear to have been unaffected by this development.
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.
Household Net Worth at Record High

(Net Worth over Disposable Income)

Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.
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

% of Balance

03:Q1 04:Q1 05:Q1 06:Q1 07:Q1 08:Q1 09:Q1 10:Q1 11:Q1 12:Q1 13:Q1 14:Q1 15:Q1 16:Q1 17:Q1

Source: New York Fed Consumer Credit Panel/Equifax

Note: 4 Quarter Moving Sum

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

Single Family House Price Index (Left Axis)

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

- Housing Starts: 0.0178 (average over 1968-2003)
- Existing Home Sales: 0.009 (average over 1968-2003)

Source: BLS, Census Bureau, NAR

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

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.
Growth of Average Hourly Earnings and ECI

Annual % change

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.
CPI Inflation: Core Goods and Core Services

12 Month % Change

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Core Goods PCE Deflator and Import Price Index

% Change – Year to Year

Core Goods PCE Deflator (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.
TIPS Based Inflation Expectations

Source: Federal Reserve Board

Note: Carry-adjusted
Global Economic Outlook

Small Business and Agricultural Advisory Council
Matthew Higgins, 7 November 2017

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Roadmap

- Update on the global economic and industrial cycle
- Continuing “lowflation” in the advanced economies
- Tax reform and U.S. multinationals’ overseas profits
- Chinese financial sector reform update
Global GDP Growth and Composite PMI

GDP Growth

Composite PMI

Correlation = 0.83

Sources: Eurostat, Markit Economics

Oct. 53.8

Citigroup Economic Surprise Indexes

Advanced Economies

Emerging Economies

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

Percent, CY/CY

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

Global Manufacturing PMI

Diffusion Index

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

Source: Markit Economics.
Global Industrial Production and Export Growth

- Industrial Production
- Exports

Source: CPB World Trade Monitor.

G-3: Core Consumer Price Inflation

- United States
- Euro Area
- Japan

Sources: BEA, Eurostat, BoJ. U.S. inflation measured using the PCE index.
**G-3 Unemployment Rates**

Percent change from year ago

Sources: BLS, CBO, Eurostat, BoJ.

**Euro Area Unemployment and NAIRU**

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.
Central Bank Credit as a Share of GDP

Percent

Sources: BoJ, ECB, Federal Reserve.

Central Bank and Consensus Inflation Forecasts

Percent

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<td><strong>United States</strong>(^1)</td>
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<td><strong>Japan</strong>(^3)</td>
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<tr>
<td>Consensus</td>
<td>0.5</td>
<td>0.7</td>
<td>0.9</td>
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1/ Central bank figures reflect FOMC members' median projection for core PCE inflation on a Q4/Q4 basis, from September. Consensus forecast is from Survey of Professional Forecasters, on a similar basis from August.
2/ Central bank figures reflect mean staff forecast for calendar year CPI inflation, from September. Consensus forecast is from Survey of Professional Forecasters, on a similar basis from October.
3/ Central bank figures reflect median policy board members’ projection for CPI inflation ex. fresh food, on a fiscal year basis from October. Consensus forecast is from Bloomberg, on a calendar-year basis from October.
U.S. Corporate Profits by Source

$U.S. billions

- Domestic plus foreign profits
- Domestic profits

Source: BEA

Rate of Return on FDI Investments

Percent, four-quarter basis

- U.S. multinationals overseas
- Foreign multinationals in U.S.

Source: BEA. Rate of return calculated as profits divided by FDI stock at market value.
Credit to Private Nonfinancial Sector ( % GDP )

Sources: BIS, IMF.

China: Total Asset Growth by Bank Type

Source: CBRC
China: Net New Credit

RMB, tn

Source: CEIC

China: Credit Impulse and Nominal GDP Growth

Change in percent of GDP: Credit impulse (3 quarters forward)

Nominal GDP: Percent change

Source: CEIC. Change in new aggregate credit is as a share of GDP.
Questions

- Have you seen evidence of stronger foreign activity in your own business operations?

- Would your business be strongly affected by financial turmoil in China?
Overview of the Regional Economy

Jason Bram, Research Officer

Presented to SBAAC
November 7, 2017

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Private-Sector Job Trends

Percent Change From Previous Peak to September 2017

Recent Private-Sector Job Trends

Year-Over-Year Percent Change as of September 2017

Future Economic Conditions
FRBNY Business Surveys, Conditions Six Months Ahead

Diffusion Index

Empire State Manufacturing Survey

Business Leaders Survey

Shading indicates NBER recession

Source: Federal Reserve Bank of New York.
Total Employment

Official vs FRBNY Early Benchmark Estimates (Thousands)

Total Employment

Seasonally Adjusted Index

Source: Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.
Total Employment
Seasonally Adjusted Index

Index (Dec 2007=100)

Shading indicates NBER recession

Source: Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by FRBNY staff.
Total Employment

Seasonally Adjusted Index

Index (Dec2007=100)

United States

Shading indicates NBER recession

Source: Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by FRBNY staff.
Total Employment
Seasonally Adjusted Index

Source: Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by FRBNY staff.
NYC Securities Employment

Seasonally Adjusted Levels

What Lies Ahead for Puerto Rico & the US Virgin Islands?

• Both Puerto Rico & US Virgin Islands were in precarious shape, economically & fiscally, prior to hurricanes Irma & Maria.

• Too early to assess costs & fallout from these hurricanes—unprecedented for PR but there are precedents elsewhere.

• USVI saw similar devastation from Hugo (‘89) and Marilyn (‘95).
  – Employment fell sharply but rebounded within 6-12 months; tourism industries appear to have been hit hard, while construction got a boost.
  – There do not appear to have been significant long-term effects on population or employment.

• New Orleans was devastated by Katrina (2005): population & employment are still well below pre-storm levels a decade later.
Total Employment
US Virgin Islands: Before & After Hurricanes

Thousands of Jobs (Seasonally Adj)

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 30 32 34 36

Total (Hugo 1989)
Total (Marilyn 1995)

Accommodation & Food Service Employment

US Virgin Islands: Before & After Hurricanes

Thousands of Jobs (Seasonally Adj)

Months Before/After Hurricane

Construction Employment

US Virgin Islands: Before & After Hurricanes

Thousands of Jobs (Seasonally Adj)

Source: Bureau of Labor Statistics, Moody’s Economy.com, and FRBNY staff calculations.
Best-case or worst-case scenario?

• Too early to accurately quantify damage & economic disruption.
  – Preliminary insured loss estimate $30-70 billion for Puerto Rico.
  – Additional costs: uninsured damage & lost economic activity, cleanup costs (net of federal aid).


Sources: US Bureau of Labor Statistics, Moody’s economy.com; FRBNY staff calculations.