Joint Meeting of Advisory Council on Small Business and Agriculture &
Upstate New York and Regional Advisory Board

Thursday, November 21, 2019

AGENDA

3:00 p.m. – 3:30 p.m.  Welcome and Brief Introductions, Tony Davis, Officer
3:30 p.m. – 3:45 p.m.  U.S. Economic Conditions, David Lucca, AVP
3:45 p.m. – 4:00 p.m.  Economic Conditions in the Region, Jaison Abel, AVP
4:00 p.m. – 4:15 p.m.  Minimum Wage Research, Jason Bram, Officer
4:15 p.m. – 5:30 p.m.  Facilitated Discussion, Claire Kramer Mills, AVP
5:30 p.m. – 5:45 p.m.  Update on New Advisory Board, John Williams, President and CEO
5:45 p.m. – 7:00 p.m.  Reception
SBAAC & UNYRAB Council Members

Donnel Baird  Founder & CEO  BlocPower
Adenah Bayoh  Founder & CEO  Adenah Bayoh & Companies
Jaswinder (Jassi) Chadha  Co-Founder & CEO  Axtria
Kevin Ellis  CEO  Cayuga Milk Ingredients
Kenneth Franasiak  Chairman  Calamar

Sarah LaFleur  Founder & CEO  MM.LaFleur
Melanie Littlejohn  VP, Customer & Community Engagement  National Grid
Linda MacFarlane  Executive Director  Community Loan Fund of the Capital Region
Anthony E. Shorris  John Weinberg/Goldman Sachs Visiting Scholar  Princeton University
Waleska Rivera  President  Danosa Caribbean, Inc.

Federal Reserve Bank of New York

John Williams  President & CEO
Jack Gutt  EVP, Communications & Outreach
Kausar Hamdani  SVP, Communications & Outreach
Rosanne Notaro  VP, Legal
David Erickson  SVP, Outreach & Education
Claire Kramer Mills  AVP, Outreach & Education
Tony Davis  Officer, Outreach & Education
Matthew Higgins  VP, Research & Statistics
Jaison Abel  AVP, Research & Statistics
David Lucca  Officer, Research & Statistics
Jason Bram  Chelsea Cruz  Edison Reyes  Jessica Battisto
Senior Analyst, Outreach & Education
Overview

- Real GDP grew at 2.3% thus far this year above the economy’s estimated potential (1¾%).

- Continued gains in the labor market but some moderation in earnings growth.

- After a weak start of the year, inflation is firming but remains muted.

- Consumer spending remains strong while business fixed investment is weakening as the manufacturing sector is experiencing a contraction.
Consumer Spending Remains Strong

12-Month Percent Change

Percent of Disposable Income

Real Disposable Personal Income (Left Axis)

Real Personal Consumption Expenditures (Left Axis)

Personal Savings Rate (Right Axis)

Source: Bureau of Economic Analysis via Haver Analytics.
Household Sector in Strong Financial Position

Source: Federal Reserve Board via Haver Analytics.

Note: Shading shows NBER recessions.
Unemployment Rate at 50-year Lows


Note: Shading shows NBER recessions.
Moderation in Earnings Growth

12-Month Percent Change


Note: Average Hourly Earnings. Shading shows NBER recessions.
Core PCE Inflation Rising but Still Muted

Source: Bureau of Economic Analysis via Haver Analytics.

Note: Shading shows NBER recessions.
US Manufacturing Sector Contracting

Index

ISM Non-Manufacturing Index
ISM Manufacturing Index

Source: Institute of Supply Management.
Note: Shading shows NBER recessions.
Business Fixed Investment Slowing

4-Quarter Percent Change

Share of GDP (percent):
- IPP: 4.7
- Equipment: 5.9
- Structures: 3.0

Source: Bureau of Economic Analysis.

Note: Share calculated as of 2019:Q2.
Source: Bureau of Economic Analysis.

Note: Corporate profits includes IVA and CC Adjustments. Shading shows NBER recessions.
Weak Global Demand

4-Quarter Percent Change

Source: Bureau of Economic Analysis.
Note: Growth rates in real terms. Shading shows NBER recessions.
Elevated Trade Policy Uncertainty

Frequency of articles in American newspapers that discuss policy-related economic uncertainty and also contain one or more references to trade policy.

Source: Baker, Bloom and Davis PolicyUncertainty.com via Haver Analytics. Note: Shading shows NBER recessions.
Single Family Housing Responding to Lower Rates

Source: US Census and FHLMC.

Note: Shading shows NBER recessions.
Financial Conditions Supportive to Economic Growth


Note: Shading shows NBER recessions.
Government Spending Boosts Economic Growth

4-Quarter Percent Change

Source: Bureau of Economic Analysis via Haver Analytics.

Note: Growth rates in real terms. Shading shows NBER recessions.
Economic Conditions in the Region

Jaison R. Abel

Joint SBAAC and UNYRAB Meeting – November 21, 2019

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 of Regional Conditions

- There has been little or no growth in the New York-Northern New Jersey region in recent months.

- Job growth has slowed in much of the region, particularly in and around New York City, in part because tight labor markets have made it difficult for businesses to find workers.

- Looking ahead, businesses in the region have become much less optimistic about future economic conditions.
Current Economic Conditions
FRBNY Regional Business Surveys

Diffusion Index

Empire State Manufacturing Survey

Business Leaders Survey (Service Sector)

2018 to Early 2019: 15
Past 3 Months: 2

Shading indicates NBER recession

Source: Federal Reserve Bank of New York.
Current Business Climate

FRBNY Business Leaders Survey

Source: Federal Reserve Bank of New York.
Regional Consumer Confidence

Overall Consumer Confidence

Source: Sienna Research Institute, University of Michigan.
Regional Employment Trends
Indexes of Total Employment, Seasonally Adjusted

Index (Jan2010=100)

Source: U.S. Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.
Sectors Driving Regional Job Gains
Annual Employment Change (Ths), Q3-2018 to Q3-2019

Recent Job Growth in the NY-NNJ Region

Annual Percent Change, Q3-2018 to Q3-2019

Source: U.S. Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.
Regional Labor Markets Remain Tight

Long-Run and Current Unemployment Rates, Seasonally Adjusted

Future Economic Conditions

FRBNY Regional Business Surveys

Source: Federal Reserve Bank of New York.
Overview of Minimum Wage Issues in NY

Jason Bram, Research Officer

Advisory Council on Small Business & Agriculture / Upstate New York & Regional Advisory Board
Joint meeting: November 21, 2019

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.
Economics of a Minimum Wage

• Economic theory on minimum wage legislation
  – Theory suggests that a rise in the minimum wage, relative to market wages, would have some adverse employment effects—i.e. potentially generate a sub-optimal level (and distribution) of employment.

• Research on effects of minimum wage
  – A main question involves the effect on jobs—i.e., by how much would a given increase in the minimum wage (say, 10%) reduce employment? And how quickly would it occur?
  – This research often exploits border differences—using one side of the border (between a low/high minimum wage area) as a control group.
  – Much of the empirical evidence suggests that moderate increases in an area’s minimum wage tend to have fairly small, if any, near-term effects on employment.
  – The employment effect in a particular area may depend on a variety of factors, such as prevailing market wages, industry mix, strength of the local economy, and prevalence of local-market vs export industries.
How do various businesses respond to a hike (or series of hikes) in a local minimum wage?

Some of the responses, starting with the most extreme, might include:

- Close up shop
- Move the business to another locale
  - For example, with lower minimum wage or stronger demand.
- Reduce the number of workers
  - For example, invest in automation, provide less service, etc.
- Replace lower skill (productivity) workers with higher skill workers
- Reduce the hours of workers
- Raise selling prices to offset wage effect
- Cut other costs to offset wage effect
- Accept lower profits
Analysis of the NY/PA Border

- We look at counties along both sides of the New York-Pennsylvania border.

Data Are Drawn from Nineteen New York-Pennsylvania Border Counties

Minimum Wage Increases in Upstate NY

- Since the fourth quarter of 2009, workers in both New York and Pennsylvania have been subject to the federal minimum wage of $7.25 per hour.

- Over the past 6 years, upstate New York’s minimum wage has gone up and currently stands at $11.10 (50% higher than in PA) and $12.75 for non-tipped, fast-food workers.

<table>
<thead>
<tr>
<th>The Path of New York’s Minimum Wage Upstate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Effective</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>July 24, 2009</td>
</tr>
<tr>
<td>December 31, 2013</td>
</tr>
<tr>
<td>December 31, 2014</td>
</tr>
<tr>
<td>December 31, 2015</td>
</tr>
<tr>
<td>December 31, 2016</td>
</tr>
<tr>
<td>December 31, 2017</td>
</tr>
<tr>
<td>December 31, 2018</td>
</tr>
<tr>
<td>December 31, 2019</td>
</tr>
</tbody>
</table>

Source: New York State Department of Labor.
Note: “Upstate” covers all of New York State except for New York City, Long Island, and Westchester County.
Results of Analysis of the NY/PA Border

Earnings Rose More in New York than Pennsylvania Counties with No Adverse Employment Effects


Notes: Employment and average weekly earnings for the leisure and hospitality sector in both states are indexed to 100 in 2013:Q4, the quarter before New York’s first minimum wage increase. Vertical lines indicate dates of gradual increases in New York’s minimum wage from $7.25 per hour prior to 2014 to $10.40 per hour in 2018. Blue and red lines indicate averages for the counties along the New York-Pennsylvania border for each state.
Results of Analysis of the NY/PA Border

Even in a Shrinking Sector, Job Loss across States Was Similar as Wages Diverged


Notes: Employment and average weekly earnings for the retail trade sector in both states are indexed to 100 in 2013:Q4, the quarter before New York's first minimum wage increase. Vertical lines indicate dates of gradual increases in New York's minimum wage from $7.25 per hour prior to 2014 to $10.40 per hour in 2018. Blue and red lines indicate averages for the counties along the New York-Pennsylvania border for each state.
Questions for Discussion

• What has been your experience with the minimum wage?
  – For those in NY State, dealing with the increases.
  – For those in NJ, planning for upcoming increases.

• Do you have thoughts about how different types of businesses might respond?

• At what level might you consider the minimum wage to become disruptive?