Upstate New York Regional Advisory Board
Federal Reserve Bank of New York
Tuesday, March 26, 2019

AGENDA

10:30am-10:35am Welcome
Tony Davis, Officer & Director

10:35am-11:05am The National Economy
Tom Klitgaard, Vice President

11:05am-11:35am International Update
Matthew Higgins, Vice President

11:35am-12:00pm Regional Update
Jaison Abel, Assistant Vice President

12:00pm Adjourn to NWC Room-10F

12:15pm-2:00pm Round Table Discussion with John Williams, President and Michael Strine, First Vice President

Introductory Remarks and Welcome from President Williams

12:15pm-1:15pm Group Discussion

Your experiences provide insight into current economic conditions. In considering each question, please reflect on the experiences of your firm, firms of similar size, and firms in your industry.

Please provide a rationale for each answer.

Business Activity
Have sales volumes increased, decreased, or stayed the same since the first quarter of 2019?
What are your expectations for the first half of 2019?

Prices
Have prices of products/services sold increased, decreased, or stayed the same so far in 2019?
What are your expectations for the second half of 2019?

Employment
What are your employment expectations for the first half of 2019?
How have you partnered with other organizations (ex. educational institutions) to address labor demands? Has your organization created workforce development programs?
Outlook
What is the most significant business opportunity you see in 2019?
What is the chief growth barrier or concern facing your firm in 2019?

1:15pm-2:00pm  Fed Listens Session with John Williams, President and CEO

Concluding Remarks from President Williams

2:00 pm  Adjourn
Upstate New York Regional Advisory Board Meeting
Federal Reserve Bank of New York
33 Liberty Street
Tuesday, March 26, 2019

ATTENDEE LIST

Board Members

Lynne Marie Finn
President & CEO
Broadleaf Results, Inc.

James Laurito
President
Fortis, Inc.

Kenneth M. Fransasiak
Chairman
Calamar

Linda MacFarlane
President & CEO
Community Loan Fund of the Capital Region

Bridget-Ann Hart
President & CEO
KPH Healthcare Services, Inc.

Federal Reserve Bank of New York

John Williams
President

Michael Strine
First Vice President

Jack Gutt
EVP, Communications & Outreach

Tom Klitgaard
VP, Research & Statistics

Matthew Higgins
VP, Research & Statistics

Rosanne Notaro
VP, Legal

Jaison Abel
AVP & Head of Regional Analysis, Research & Statistics

Tony Davis
Officer & Director, Outreach & Education

Chelsea Cruz
Associate, Outreach & Education

Scott Lieberman
Associate, Outreach & Education

Alexandra Rosen
Secretary Office
Overview

• Real GDP grew 3.1% in 2018, well above the economy’s potential growth rate
  • This was a pickup from 2.5% in 2017, with government spending and an inventory buildup key sources of the faster growth
  • Labor markets tighten while the rate of increase of wages and core inflation moved higher

• Growth is expected to slow in 2019 to near 2.0%, just above the potential growth rate of around 1 ¾%
  • In this scenario, the labor market would remain tight and there would continue to be some upward pressure on wages and prices
GDP grew 3 percent in 2018

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Consumer spending growth slowed in Q4

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Q4 consumption affected by financial markets?

The financial turmoil in Q4 has diminished in Q1

Notable weakness in durables, such as autos

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Investment in structures recovered from the 2015-16 fall

Contribution to growth, 4-quarter avg.

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Lower oil prices may drag structure spending down

Source: WTI, EIA/Chicago Mercantile Exchange via Haver Analytics.
Solid growth in spending on equipment

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Residential investment spending is falling

Contribution to growth, 4-quarter avg.

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Home sales dropped in 2018 with higher mortgage rates

Home sales dropped in 2018 with higher mortgage rates. New Single-Family Houses Sold (Right Axis) and FRM 30-Year Interest Rate (Left Axis) are shown over the years 2007 to 2019. The shaded area indicates NBER recessions. The graph is sourced from Mortgage Bankers Association, US Census Bureau via Haver Analytics.
Questions of affordability

Source: CoreLogic via Haver Analytics

Note: Shading shows NBER recessions.
Government spending boosted 2018 growth

Contribution to growth, 4-quarter avg.

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
Export growth slowed in second half of 2018

Contribution to growth, 4-quarter avg.

Source: BEA via Haver Analytics.

Note: Shading shows NBER recessions.
The unemployment rate remains low

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Data on quits suggest a tight labor market

Source: Bureau of Labor Statistics

Note: Grey shading shows NBER recessions.
Wage inflation appears to be increasing

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Inflation is near the FOMC Objective of 2 percent

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
GDP is above potential by some estimates

Trillions of 2012 US$

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Potential GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 - 2005</td>
<td>3.0%</td>
</tr>
<tr>
<td>2005 – 2010</td>
<td>1.8%</td>
</tr>
<tr>
<td>2010 – 2015</td>
<td>1.4%</td>
</tr>
<tr>
<td>2015 – 2020</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

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

Note: Shading shows NBER recessions.
Global Economic Outlook

Upstate New York Regional Advisory Board
Matthew Higgins, 26 March 2019

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

- Update on the global economic and industrial cycle
- China’s recent growth performance and long-term prospects
Sources: national sources, staff calculations. Q4 growth rates for some foreign economies reflect staff estimates.
Citigroup Economic Surprise Indexes

Percent positive or negative*

Emerging Economies
Advanced Economies

*Weighted by series’ historical FX impact

Evolution of Global Market Growth Forecasts

Percent, CY/CY

EMEs ex. China

Advanced Economies

Sources: Blue Chip Economics, Consensus Economics. Figures are GDP-weighted averages for five AEs (counting the euro area as one economy) and 24 EMEs. The latest vintage surveys are from early to mid December.
Global Manufacturing and Services PMIs

Manufacturing New Orders
Global Industrial Production Growth

Percent SAAR, rolling 3-mo. basis

Source: CPB World Trade Monitor. Data exclude construction.

U.S. and EME equity performance

Indexes, January 2017 = 100

Note: Index values are in dollar terms.
**G-3: Core Consumer Price Inflation**

Percent change from year ago

United States  | Euro Area  | Japan
---|---|---
1.9 | 1.0 | 0.4

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

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**Chinese GDP growth and alternative indicator**

Normalized: mean = 0, STD = 1.0

GDP Growth  | Alternative indicator
---|---

Sources: national sources, staff estimates. The alternative indicator is an average of four different models.
Per capita income growth vs. PPP income levels

China 1998-2015
Korea 1974-2014
Japan 1956-1996

Sources: Penn World Tables, version 9.0, World Economic Outlook database, author’s calculations.

Per Capita Income Levels Relative to the United States

Sources: Penn World Tables, WEO database.
Real per capita income projections for China

Indexes: Real per capita income in 2018 = 100

Optimistic projection

"Not-so-bad" projection

Comparative Pac Rim performance (20-year index values)

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>186</td>
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<tr>
<td>Hong Kong</td>
<td>193</td>
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<td>Korea</td>
<td>220</td>
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<tr>
<td>Singapore</td>
<td>214</td>
</tr>
<tr>
<td>Taiwan</td>
<td>279</td>
</tr>
</tbody>
</table>

Sources: Penn World Tables, version 9.0, World Economic Outlook database, author’s calculations. The "not-so-bad" projection assumes slower TFP growth and a more rapid decline in the capital spending share of GDP.

Working-age populations around China’s income level

Population aged 20-64 as percent of total

China
T = 2018

Asian NIEs*
T = 1991

Japan
T = 1976

Sources: Penn World Tables, UN population database.

* Hong Kong, Korea, Singapore and Taiwan.
Regional Economic Conditions

Jaison R. Abel

Upstate New York Regional Advisory Board Meeting – March 26, 2019

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Overview of Regional Conditions

• Business activity in the New York-Northern New Jersey region slowed in late 2018 and has remained subdued in early 2019.

• Despite modest job growth in much of the region, particularly in upstate New York, labor markets have become extremely tight. As a result, wage growth has picked up throughout the region.

• Private-sector employment in Puerto Rico is now above pre-storm levels, though overall job gains on the island continue to be weighed down by a weak public sector.

• Manufacturers in New York State report fairly significant effects on employment and compensation from the recent increase in the minimum wage, while service firms report more limited effects.
Current Economic Conditions

FRBNY Regional Business Surveys

Source: Federal Reserve Bank of New York.
Regional Employment Trends

Indexes of Total Employment, Seasonally Adjusted

Upward Revisions in Puerto Rico

Preliminary vs Revised Private-Sector Employment Estimates

Downward Revisions in Upstate NY

Preliminary vs Revised Total Employment Estimates

Job Gains by Industry in Upstate NY

Annual Change in Employment, 3-Month Average (Nov-Jan)

- Education & Health: 7,635
- Construction: 2,533
- Govt: 1,983
- Leisure & Hosp: 1,805
- Transport & Utilities: 1,737
- Other Srvcs: 929
- Manufacturing: 798
- Professional & Business: 131
- Retail Trade: -309
- Information: -1,288
- Financial Activities: -1,321
- Wholesale Trade: (Not shown)

Recent Job Growth in the NY-NNJ Region

Annual Percent Change, 3-Month Average (Nov-Jan)

Exceptionally Tight Labor Markets

Long-Run and Current Unemployment Rates, Seasonally Adjusted

Wage Growth Has Picked Up in the Region

FRBNY Supplemental Survey

By about what percentage, on average, has a typical worker’s wage/salary (not including benefits) changed over the past 12 months?

Business Leaders Survey
- Jan 2017: 3.0%
- Feb 2018: 3.8%
- Nov 2018: 4.2%

Empire State Manufacturing Survey
- Jan 2017: 2.8%
- Feb 2018: 3.4%
- Nov 2018: 4.0%

Source: Federal Reserve Bank of New York.
Increase in NYS Minimum Wage

2017 Through 2022

Source: New York State Government.
Q: Has the increase in the minimum wage, effective January 1, 2019, had any effect on your business’s decisions about compensation and/or employment?

- **No Effect**: Empire State Manufacturing Survey (36%)  Business Leaders Survey (60%)
- **Small Effect**: 14%
- **Moderate/Significant Effect**: Empire State Manufacturing Survey (37%)  Business Leaders Survey (27%)