# Upstate New York Regional Advisory Council Meeting

**Federal Reserve Bank of New York**

33 Liberty Street

10F, Paul Volcker Boardroom

Tuesday, April 11, 2017

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**AGENDA**

<table>
<thead>
<tr>
<th>Time</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10:30am</td>
<td>Introductory Remarks</td>
</tr>
<tr>
<td></td>
<td>Jack Gutt, Executive Vice President</td>
</tr>
<tr>
<td>10:40am-11:10am</td>
<td>The National Economy</td>
</tr>
<tr>
<td></td>
<td>Richard Peach, Senior Vice President</td>
</tr>
<tr>
<td>11:10am-11:40am</td>
<td>International Update</td>
</tr>
<tr>
<td></td>
<td>Matthew Higgins, Vice President</td>
</tr>
<tr>
<td>11:40am-12:00pm</td>
<td>Regional Update</td>
</tr>
<tr>
<td></td>
<td>Jaison Abel, Research Officer</td>
</tr>
<tr>
<td>12:00pm</td>
<td>Adjourn to NWCR-10F</td>
</tr>
<tr>
<td>12:15pm</td>
<td>Lunch</td>
</tr>
<tr>
<td>12:15pm-1:55pm</td>
<td>Round Table Discussion with</td>
</tr>
<tr>
<td></td>
<td>William Dudley, President</td>
</tr>
</tbody>
</table>

Your experiences can give us insight into current economic conditions.

Questions for discussion with President Dudley:

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

1. Has your firm experienced an increase in demand in recent months?
2. Has demand for your product or service increased sufficiently that you increased or plan to increase employment in 2017?
3. Has demand for your product or service increased sufficiently that you plan to increase investment in plant and equipment in 2017?
4. Has your access to credit changed in 2017?
5. How is the labor market in meeting your needs?

2:00 pm  Adjourn
ATTENDEE LIST

Board Members

Lynn Marie Finn  Lynn Marie Finn
President & CEO  President & CEO
Superior Workforce Solutions, Inc.  Superior Workforce Solutions, Inc.

Kenneth M. Fransasiak  Martin Mucci
Chairman  President
Calamar  PayChex, Inc.

James P. Laurito  Robert L. Stevenson
President  President
Central Hudson Electric & Gas  Eastman Machine Company

Linda MacFarlane  Carlos Unanue
President & CEO  President
Community Loan Fund of the Capital Region  Goya de Puerto Rico, Inc.

Federal Reserve Bank of New York

William Dudley  President
Jack Gutt  EVP, Head of Communications & Outreach Group
Richard Peach  SVP, Research & Statistics
Matthew Higgins  VP, Integrated Policy Analysis
Anand Marri  VP and Head of Outreach & Education
Sarah Bell  VP and Executive Chief of Staff, Executive Office
Jason Bram  Officer & Economist, Research & Statistics
Jaison Abel  Officer & Economist, Research & Statistics
Tony Davis  Director, Community Engagement, Outreach & Education
Chelsea Cruz  Associate, Community Engagement, Outreach & Education
Angela Sun  Associate, Legal
Overview

• The US economy appears to be regaining its footing after suffering a significant shock beginning in mid to late 2014.

• US labor market is now showing classic signs of being at or near full employment.

• Core inflation has edged higher over the past year but remains somewhat below the FOMC’s objective.
  – Rent inflation continues to edge higher.
  – Health care price inflation has moved higher.
  – The rate of decline of core goods prices has begun to slow as past dollar appreciation has largely worked its way through the system.

• Big policy question is whether fiscal stimulus could boost the economy’s underlying trend growth rate.
Growth of Real GDP

Source: Bureau of Economic Analysis
Note: Shading shows NBER recessions.
Nominal Trade-Weighted Value of US$ and Rig Count

Active Oil Rigs

Source: Federal Reserve Board and Baker Hughes

Note: Shading shows NBER recessions.
Manufacturing Across Countries

Index Level

Source: IHS Markit and Institute for Supply Management via Haver Analytics

Note: Shading shows NBER recessions.
Labor Market Indicators

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Employment Cost Index: Private Industry Workers

4 Qtr % Change


4 Qtr % Change

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Nonfarm Business Sector

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
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

Note: Shading shows NBER recessions.
Rental Vacancy Rate and Rent of Primary Residence

Source: Census Bureau, BLS via Haver Analytics  
Note: Shading shows NBER recessions.
Personal Consumption Expenditures: Health Care Price Index

12 Month % Change

17% of total PCE deflator
19% of core PCE deflator

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
TIPS Based Inflation Expectations

Source: Federal Reserve Board

Note: Carry-adjusted
Actual and Expected Fed Funds Target

Source: Federal Reserve Board
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.
# Private Nonfarm Business Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>(compound annual growth rates)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>2.9</td>
<td>3.3</td>
<td>3.0</td>
<td>5.0</td>
<td>2.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Hours Worked</td>
<td>0.9</td>
<td>1.7</td>
<td>1.3</td>
<td>2.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Labor Productivity (1)</td>
<td>2.0</td>
<td>1.6</td>
<td>1.6</td>
<td>2.9</td>
<td>2.6</td>
<td>1.2</td>
</tr>
</tbody>
</table>

(percentage points)

Contribution to Labor Productivity from:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TFP (2)</td>
<td>0.9</td>
<td>0.7</td>
<td>0.5</td>
<td>1.5</td>
<td>1.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Labor Composition (3)</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Capital Intensity (4)</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>1.2</td>
<td>1.0</td>
<td>0.5</td>
</tr>
</tbody>
</table>

(1) Output per hour worked.

(2) Output per combined units of labor input and capital services.

(3) Labor composition multiplied by labor's share of current dollar costs.

(4) Capital services per hour multiplied by capital's share of current dollar costs.

Note: Labor composition measures the effects of shifts in the age, gender, and educational attainment of the work force on the efficiency of hours worked.

Real Private Investment Share of Real GDP

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Private Investment Over Depreciation

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Growth of Net Private Nonresidential Capital Stock

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Reference Charts
Average Percentage Point Deviation from Average Quarterly Real GDP Growth Rate

<table>
<thead>
<tr>
<th></th>
<th>20-years</th>
<th>15-years</th>
<th>10-years</th>
<th>5-years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>-0.9</td>
<td>-0.8</td>
<td>-1.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>Q2</td>
<td>0.6</td>
<td>0.4</td>
<td>0.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Q3</td>
<td>0.3</td>
<td>0.5</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Q4</td>
<td>0.1</td>
<td>-0.1</td>
<td>0.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>
Real Personal Consumption Expenditures

12-month Percent Change

Monthly Percent Change (Annualized)

Personal Saving Rate and Energy Price Index

Personal Saving Rate

Energy Price Index

Sources: Bureau of Economic Analysis and Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Household Liabilities/Disposable Personal Income

Source: Federal Reserve Board

Note: Shading shows NBER recessions.
Debt by Sector: Households and Nonprofit Institutions

Percentage of GDP

Source: Haver; Author’s Calculations.

Note: Shading shows NBER recessions.
Household Financial Obligation Ratio

Source: Federal Reserve Board
Homeownership Rate

Source: Census Bureau
Single Family Housing Market

- Single Family House Price Index (Left Axis)
- Months’ Supply (Right Axis)

“Normal” Range for Months’ Supply

Source: CoreLogic, National Association of Realtors, via Haver Analytics

Note: Shading shows NBER recessions.
Housing Starts

Thousands, 3 MMA

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.
Credit Score at Mortgage Origination

Credit Score

Credit Score

Source: FRBNY / Consumer Credit Panel

Note: Shading shows NBER recessions.
Housing Starts and Existing Homes Sales Per Capita

**Source:** BLS, Census Bureau, NAR

**Note:** Shading shows NBER recessions.
Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Equipment Investment Spending and Capacity Utilization

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

Quarterly data
1980Q1 – 2007Q4

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

Source: Federal Reserve Board, Bureau of Economic Analysis
Real Government Consumption and Gross Investment

4 Quarter % Change

Federal (Left Axis)

State & Local (Right Axis)

Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.
Sources: Bureau of Economic Analysis and Congressional Budget Office
Aggregate Weekly Hours Worked

Y/Y % Change

Goods-Producing Industries

Private Service-Providing Industries

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.
Source: Bureau of Economic Analysis and Federal Reserve Board

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

Personal Saving Rate and Household Net Worth

Households’ Net Worth as a Percent of Disposable Income
# Change in Labor Force Participation Rate by Age and Sex

<table>
<thead>
<tr>
<th></th>
<th>All Ages</th>
<th>Ages 16 to 24</th>
<th>Ages 25 to 54</th>
<th>Ages 55 and over</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Men</td>
<td>Women</td>
<td>Total</td>
</tr>
<tr>
<td>2006</td>
<td>66.2</td>
<td>73.5</td>
<td>59.4</td>
<td>60.6</td>
</tr>
<tr>
<td>2016</td>
<td>62.8</td>
<td>69.2</td>
<td>56.8</td>
<td>55.2</td>
</tr>
<tr>
<td>Change</td>
<td>-3.4</td>
<td>-4.3</td>
<td>-2.6</td>
<td>-5.4</td>
</tr>
</tbody>
</table>

## Contribution to Change in Participation Rate (Percent)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>100.0</td>
<td>61.4</td>
<td>38.9</td>
<td>42.0</td>
<td>24.8</td>
<td>17.2</td>
<td>145.8</td>
<td>83.3</td>
<td>62.6</td>
<td>-87.8</td>
<td>-46.7</td>
<td>-40.9</td>
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<tr>
<td>2016</td>
<td>100.0</td>
<td>48.3</td>
<td>51.7</td>
<td>16.1</td>
<td>8.2</td>
<td>8.0</td>
<td>54.6</td>
<td>26.9</td>
<td>27.6</td>
<td>29.3</td>
<td>13.2</td>
<td>16.0</td>
</tr>
<tr>
<td>Change</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-1.0</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-5.0</td>
<td>-2.6</td>
<td>-2.4</td>
<td>6.0</td>
<td>3.0</td>
<td>2.9</td>
</tr>
</tbody>
</table>

**Memo: Share of Population**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>100.0</td>
<td>48.3</td>
<td>51.7</td>
<td>16.1</td>
<td>8.2</td>
<td>8.0</td>
<td>54.6</td>
<td>26.9</td>
<td>27.6</td>
<td>29.3</td>
<td>13.2</td>
<td>16.0</td>
</tr>
<tr>
<td>2016</td>
<td>100.0</td>
<td>48.3</td>
<td>51.7</td>
<td>15.2</td>
<td>7.6</td>
<td>7.5</td>
<td>49.6</td>
<td>24.4</td>
<td>25.2</td>
<td>35.2</td>
<td>16.3</td>
<td>18.9</td>
</tr>
<tr>
<td>Change</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-1.0</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-5.0</td>
<td>-2.6</td>
<td>-2.4</td>
<td>6.0</td>
<td>3.0</td>
<td>2.9</td>
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Global Economic Outlook

Update New York Regional Advisory Board
Matthew Higgins, 11 April 2017

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

- Recent signs of stronger global growth
  - Temporary rebound or return to stronger trend?

- Advanced economies’ struggle to escape “lowflation”

- Implications of potential U.S. trade restrictions
Global GDP Growth and Composite PMI

Correlation = 0.84

Sources: Eurostat, Markit Economics

Citigroup Economic Surprise Indexes

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

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 Growth

Percent SAAR, rolling 3-mo. basis

Average 2005 – 2008:Q1 = 4.8

Jan. 5.1

Average 2011 – 2016:Q3 = 2.2

Source: CPB World Trade Monitor.
Data exclude construction.

Global Trade Volume Growth

Percent SAAR, rolling 3-mo. basis

Average 2005 – 2008:Q1 = 7.4

Jan. 9.9

Average 2011 – 2016:Q3 = 1.9

Source: CPB World Trade Monitor.
Data exclude construction.
Global Industrial Production Performance

Indexes, 2008:Q1 = 100

Source: CPB World Trade Monitor.
Data exclude construction.

G-3: Core Consumer Price Inflation

Percent change from year ago

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

Percent change from year ago

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

U.S. Merchandise Trade by Partner ($U.S. bn.)

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,455</td>
<td>2,189</td>
<td>-734</td>
</tr>
<tr>
<td>Canada</td>
<td>269</td>
<td>278</td>
<td>-10</td>
</tr>
<tr>
<td>Mexico</td>
<td>231</td>
<td>294</td>
<td>-64</td>
</tr>
<tr>
<td>Euro area</td>
<td>200</td>
<td>326</td>
<td>-126</td>
</tr>
<tr>
<td>Asia ex. China, Japan</td>
<td>194</td>
<td>280</td>
<td>-86</td>
</tr>
<tr>
<td>South America</td>
<td>137</td>
<td>108</td>
<td>29</td>
</tr>
<tr>
<td>China</td>
<td>116</td>
<td>463</td>
<td>-347</td>
</tr>
<tr>
<td>OPEC*</td>
<td>69</td>
<td>67</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>63</td>
<td>132</td>
<td>-69</td>
</tr>
<tr>
<td>Europe ex. EMU, UK</td>
<td>63</td>
<td>103</td>
<td>-40</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>55</td>
<td>54</td>
<td>1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>63</td>
<td>84</td>
<td>-21</td>
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</tbody>
</table>

Source: U.S. Census Bureau. Figures are for the 12 months through December 2016. * Excluding Venezuela.
## U.S. Merchandise Trade with Canada
(values for 2016, $U.S. bn.)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>266</td>
<td>278</td>
</tr>
<tr>
<td>Capital Goods ex Autos</td>
<td>69</td>
<td>33</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>58</td>
<td>65</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>14</td>
<td>45</td>
</tr>
<tr>
<td>Auto Parts and Trucks</td>
<td>44</td>
<td>19</td>
</tr>
<tr>
<td>Industrial Supplies</td>
<td>77</td>
<td>120</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>Food and Beverages</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau.

## U.S. Merchandise Trade with Mexico
(values for 2016, $U.S. bn.)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
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<tbody>
<tr>
<td>Total</td>
<td>231</td>
<td>294</td>
</tr>
<tr>
<td>Capital Goods ex Autos</td>
<td>81</td>
<td>86</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>33</td>
<td>107</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Auto Parts and Trucks</td>
<td>30</td>
<td>84</td>
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<tr>
<td>Industrial Supplies</td>
<td>78</td>
<td>31</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>14</td>
<td>37</td>
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<tr>
<td>Food and Beverages</td>
<td>16</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau.
### Current and Hypothetical MFN Tariffs Rates on U.S. Imports from Mexico (percent)

<table>
<thead>
<tr>
<th>Category</th>
<th>NAFTA</th>
<th>MFN*</th>
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<tbody>
<tr>
<td>Total</td>
<td>0.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Capital Goods ex. Autos</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>0.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>0.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Auto Parts and Trucks</td>
<td>0.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Industrial Supplies</td>
<td>0.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>0.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Food and Beverages</td>
<td>0.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau; United States International Trade Commission. * Implied MFN tariff rate is derived from duties actually paid in 2016 on U.S. imports from Brazil, China, Japan, and the EU, weighted to reflect the commodity composition of imports from Mexico.

### U.S. Trade Balance with Mexico

Source: Census Bureau, OECD, Koopman et al. The upper and lower bounds of the adjusted manufacturing balance are derived using estimates of the share of U.S. value-added in bilateral Mexican imports from Koopman, Powers, Wang, and Wei (2010) and the OECD TiVA database, respectively.
Domestic plus foreign profits

Q4: $690 billion

Domestic profits (net)

Source: BEA. Domestic profits are net of payments to foreign equity holders.
Overview of Regional Conditions

• Regional economic conditions have improved noticeably in recent months, particularly in the manufacturing sector.

• Job growth has been strongest in and around New York City, more moderate in Albany and Buffalo, and slower in most other parts of the state. Puerto Rico continues to lose jobs.

• So far, businesses in New York State report fairly limited effects on employment and compensation from the recent increase in the minimum wage.
Regional Consumer Confidence

Overall Consumer Confidence

Source: Sienna Research Institute, University of Michigan.
Current Economic Conditions

FRBNY Regional Business Surveys

Source: Federal Reserve Bank of New York.
Regional Employment Trends
Indexes of Total Employment, Seasonally Adjusted

Index (December 2007 = 100)

Job Growth in the Region

Annual Percent Change in Total Employment, February 2017

Job Growth by Industry in Upstate NY

Annual Change in Employment, February 2017

Government Job Growth in Upstate NY

Annual Percent Change

Q: Has the recent increase in the minimum wage, effective January 1, had any effect on your decisions about compensation and employment?

- **No Effect**
  - Empire State Manufacturing Survey: 36%
  - Business Leaders Survey: 51%

- **Small Effect**
  - 17%

- **Moderate Effect**
  - 14%
  - 15%

- **Significant Effect**
  - 16%
  - 17%

Source: Federal Reserve Bank of New York.