**Upstate New York Regional Advisory Council Meeting**  
Federal Reserve Bank of New York  
33 Liberty Street  
10F, Paul Volcker Boardroom  
Wednesday, June 28, 2017

### AGENDA

<table>
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<tr>
<th>Time</th>
<th>Session</th>
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| 10:30am-10:40am | Introductory Remarks & Welcome to New Board Member  
Jack Gutt, Executive Vice President |
| 10:40am-11:10am | The National Economy  
Richard Peach, Senior Vice President |
| 11:10am-11:40am | International Update  
Matthew Higgins, Vice President |
| 11:40am-12:00pm | Regional Update  
Jason Bram, Research Officer |
| 12:00pm | Adjourn to NWCR-10F |
| 12:15pm | Lunch |
| 12:15pm-1:55pm | Round Table Discussion with  
William Dudley, President |

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
Upstate New York Regional Advisory Board
Federal Reserve Bank of New York
33 Liberty Street
New York, NY
Wednesday, June 28, 2017

ATTENDEE LIST

Board Members

Scott Bieler
President & CEO
West Herr Automotive Group, Inc.

James P. Laurito
President
Central Hudson Electric & Gas

Kenneth M. Franasiak
Chairman
Calamar

Jordan Levy
NY Partner
Softbank Capital

William Gisel
President & CEO
Rich Products Corporation

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

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

Carlos Unanue
President
Goya de Puerto Rico, Inc.

Dr. Anne Kress
President
Monroe Community College

Federal Reserve Bank of New York

William Dudley
President

Michael Strine
First Vice 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

Tony Davis
Director, Community Engagement, Outreach & Education

Chelsea Cruz
Associate, Community Engagement, Outreach & Education

Angela Sun
Associate, Legal
Overview

• US economy likely grew around 2% (annual rate) over the first half of 2017, the same as in 2015 and 2016.
  • Consumer spending and housing leading the economy, business investment remains sluggish.

• Several indicators suggest that the economy is at or near full employment, leading the FOMC to begin to gradually increase the federal funds rate.

• However, underlying inflation remains below the FOMC’s objective of 2%, and in recent months has begun to slow.
  • The question policy makers and markets are struggling with is whether this recent slow is due to transitory factors or something more fundamental.
Disposable Income and Consumption

12 Month % Change

Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics
Note: Shading shows NBER recessions.
Personal Saving Rate and Household Net Worth

Personal Saving Rate (Percent) vs. Households’ Net Worth as a Percent of Disposable Income

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

Source: Bureau of Economic Analysis and Federal Reserve Board
Household Financial Obligation Ratio

Source: Federal Reserve Board
Transition into Delinquency (90+ days) by Loan Type

Percent of Balance

3:Q1 05:Q1 07:Q1 09:Q1 11:Q1 13:Q1 15:Q1 17:Q1

12

Percent of Balance

Source: New York Fed Consumer Credit Panel/Equifax

Note: 4 Quarter Moving Sum; Shading shows NBER recessions
Single Family Housing Market

12 Month % Change

Source: CoreLogic, National Association of Realtors, via Haver Analytics
Note: Shading shows NBER recessions.
Housing Starts and Existing Homes Sales Per Capita

Source: BLS, Census Bureau, NAR

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

Source: FRBNY / Consumer Credit Panel

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

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

Quarterly data
1980Q1 – 2017Q1

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

Manufacturing Capacity Utilization
(Percent of Capacity)

Source: Federal Reserve Board, Bureau of Economic Analysis
Potential GDP

2000Q1 to 2007Q4: 2.5% Growth Rate

2009Q2 to 2017Q1: 2.1% Growth Rate

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Potential GDP Growth</th>
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<tbody>
<tr>
<td>2000 – 2007</td>
<td>2.7%</td>
</tr>
<tr>
<td>2010 – 2016</td>
<td>1.4%</td>
</tr>
<tr>
<td>2016 – 2022</td>
<td>1.7%</td>
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Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics

Note: Shading shows NBER recessions.
Civilian Labor Force: 16+

Nonfarm Business Sector: Real Output per Hour of All Persons

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Labor Market Indicators

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Labor Share of National Income and Unemployment Rate

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Note: Shading shows NBER recessions.
Measure of Underlying PCE Price Inflation

12 Month % Change

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Prescription Drug Price Index

12 Month % Change

Source: Bureau of Economic Analysis via Haver Analytics

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

% Change – Year to Year

Source: Bureau of Labor Statistics via Haver Analytics

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.
Housing Units Under Construction: 5 or More Units

Thousands of units


Source: Census Bureau/Haver Analytics.

Note: Shading shows NBER recessions.
Reference Charts
Housing Starts

Thousands, 3 MMA

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.
Real Government Consumption and Gross Investment

4 Quarter % Change

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Real Exports and Nonoil Imports of Goods

12 Month % Change

Source: Census Bureau via Haver

Note: Shading shows NBER recessions.
Growth of Average Hourly Earnings and ECI

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
Homeownership Rate

<table>
<thead>
<tr>
<th>Age Cohorts</th>
<th>1994</th>
<th>2004</th>
<th>2016</th>
</tr>
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<tbody>
<tr>
<td>Total</td>
<td>63.9</td>
<td>65.7</td>
<td>70.2</td>
</tr>
<tr>
<td>16-24</td>
<td>25.5</td>
<td>26.0</td>
<td>26.5</td>
</tr>
<tr>
<td>25-34</td>
<td>35.6</td>
<td>36.9</td>
<td>38.4</td>
</tr>
<tr>
<td>35-44</td>
<td>56.1</td>
<td>57.5</td>
<td>59.9</td>
</tr>
<tr>
<td>45-54</td>
<td>64.1</td>
<td>65.4</td>
<td>66.9</td>
</tr>
<tr>
<td>55-64</td>
<td>69.3</td>
<td>70.6</td>
<td>72.1</td>
</tr>
<tr>
<td>65-74</td>
<td>77.9</td>
<td>79.2</td>
<td>80.7</td>
</tr>
<tr>
<td>75+</td>
<td>25.0</td>
<td>26.0</td>
<td>27.0</td>
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Source: Census Bureau
Saving and Investment Balance

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.
Global Economic Outlook

Upstate New York Regional Advisory Board
Matthew Higgins, 28 June 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

- Update on the global economic and industrial cycle
- The missing link between labor market tightness and inflation in the advanced economies
- Reform challenges in Mexico
Global GDP Growth and Composite PMI

- **Correlation = 0.84**
- **Sources**: Eurostat, Markit Economics

Citigroup Economic Surprise Indexes

- **Percent positive or negative**
- **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 AEIs (with the euro area country as one) and 25 EMEs.

Global Manufacturing PMI

Source: Markit Economics.

Average 2004 – 2008:Q1 = 53.7
Average 2012 – 2016:Q3 = 50.9
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.
Euro Area: Unemployment and NAIRU Estimates

Contemporary NAIRU estimate
Actual unemployment

Source: OECD Economic Outlook database, various editions.

Euro Area: NAIRU Estimates Over Time

Estimates for 2007
Estimates for 2013

Source: OECD Economic Outlook database, various editions.
Real Per Capita Income Performance

Indexes, 1993 = 100

Source: IMF WEO database. Index for EMEs outside China and Mexico includes 32 major economies, weighted by lagged U.S. dollar GDP.

Perceived Public Corruption: OECD Countries

Index, 0 to 100. Higher = more corrupt.

Source: Transparency International. Data are for 2016.
Pacto de México: Landmark reforms

- Pacto de México reforms were signed by three the major parties in 2012, ending years of political gridlock
  - Most major elements passed into legislation by 2014

- Ambitious agenda, embracing energy sector, tax policy, competition in key markets and much more
  - Other reforms address labor market functioning, the education and health systems, credit access, and the judicial system

- Notable early successes in some areas, limited progress elsewhere
  - No visible growth payoff to date

**Mexico: Tax Revenues**

Percent of GDP

Source: Ministry of Finance and Public Credit.

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**Petroleum liquids production and consumption**

md/d, 3-mo. moving average

Source: Oil and Gas Journal.
Official Estimate of Reform Growth Impacts

Sources: Ministry of Finance (Hacienda) from 2014, INEGI, Blue Chip Forecasts for outcomes in 2017 and 2018.

Are the Pacto reforms good for Mexico?

Percent balance (positive minus negative)

Sources: Ministry of Finance (Hacienda) from 2014, INEGI, Blue Chip Forecasts for outcomes in 2017 and 2018.
Regional Economic Conditions

Jason Bram, Research Officer

Upstate NY Regional Advisory Board Meeting – June 28, 2017

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Private-Sector Job Trends
Year-Over-Year Percent Change as of May 2017

Current Economic Conditions

FRBNY Business Surveys, Current Conditions

Source: Federal Reserve Bank of New York.
Unemployment Rates
Seasonally Adjusted

Shading indicates NBER recession

Labor Force Participation

Seasonally Adjusted

Recent Job Growth in the Region

Percent Change from 2016 to 2017, Year-to-Date (Jan-May)

- **Glens Falls**
- **Elmira**
- **Binghamton**
- **Watertown**
- **Syracuse**
- **Utica**
- **Kingston**
- **Albany**
- **Ithaca**
- **NYC**
- **Watertown**
- **Dutchess-Putnam**
- **North Country**
- **Buffalo**
- **Rochester**
- **Orange-Rockland-Westchester**
- **Bergen-Hudson-Passaic**
- **Middlesex Monmouth Ocean**
- **Newark**
- **Fairfield**
- **Long Island**

New York State Retail Employment

Thousands of Jobs, Seasonally Adjusted

Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

Source: CoreLogic Home Price Index (including distressed sales).
Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

Source: CoreLogic Home Price Index (including distressed sales).
Regional Recap

• Manufacturers are now quite upbeat about the economy, while service-sector firms are more subdued.

• New York City has been the leader in job growth in the region.

• Areas adjacent to NYC have also seen fairly strong growth.

• Most upstate metros have seen steady to moderately rising employment; the two exceptions are Rochester and Elmira.

• The ongoing trend toward on-line shopping has had mixed effects on retail employment.

• Housing markets have been fairly robust in parts of upstate New York as well as New York City.