Minutes of the regular meeting of the
Upstate New York Regional Advisory Board
10:30 a.m. – 2:00 p.m., Wednesday, November 15, 2018
Federal Reserve Bank of New York

Present:

Aminy Audi, President & CEO, L. & J.G. Stickley
Scott Bieler, President & CEO, West Herr Automotive Group
Lynne Marie Finn, President and CEO, Broadleaf Results, Inc
Kenneth M. Franasiak, Chairman, Calamar
Linda MacFarlane, Executive Director, Community Loan Fund of the Capital Region
Carlos Unanue, President, Goya de Puerto Rico, Inc.

Federal Reserve Bank of New York attendees:

John Williams, President
Michael Strine, First Vice President
Jack Gutt, Executive Vice President, Communications & Outreach
Gerard Dages, Senior Vice President & Senior Advisor, Executive Office
Richard Peach, Senior Vice President, Research & Statistics
Matthew Higgins, Vice President, International Research, Research & Statistics
Anand Marri, Vice President, Outreach & Education
Jaison Abel, Assistant Vice President, Research & Statistics
Jason Bram, Officer, Research & Statistics
Shawei Wang, Assistant Vice President, Legal
Tony Davis, Officer and Director, Communications & Outreach
Chelsea Cruz, Associate, Communications & Outreach

Mr. Davis called the meeting to order at approximately 10:30 a.m.

1. The National Economy

Mr. Peach provided an overview of economic conditions in the United States. Growth in the US has firmed since 2016 with real GDP up 3% over four-quarters ending in the third quarter of 2018. Fiscal stimulus is expected to be contributing to this growth. Underlying inflation has moved to 2% and there is no evidence of building inflation pressures.

2. International Update

Mr. Higgins provided an update on the global economic and industrial cycle, as well as China’s economic slowdown and Italy’s economic struggles. He also discussed the impact of advanced economy health spending and outcomes.

3. Regional Update
Mr. Abel discussed recent economic trends in the Second Federal Reserve District, noting that growth in the region’s manufacturing sector has remained brisk, while growth has slowed in the broader services sector. Labor markets continue to be tight throughout the region, including parts of Upstate New York that have experienced little to no job growth through the current economic expansion. Businesses have also reported increasing escalation in input prices and to some extent selling prices, due in part to recent changes in U.S. trade policy.

4. Luncheon Discussion

Mr. Williams, Mr. Strine, Mr. Gutt, Ms. Gouny, and Mr. Bram joined members for the luncheon discussion.

Members were asked to comment on changes in business activity, prices, employment and wages, and the impact of recent and prospective policy changes including trade policy, changes to federal tax law, and increases in minimum wage. Members were also asked to describe their firms’ outlook for 2019.

A few board members reported some slowdown in business activity. One board member reported that difficult local economic conditions had slowed sales. Another board member reported a downward trend in demand for small business loans particularly for minority and women owned firms. The board member stated that increased consumer confidence in the labor market can have a dampening effect on entrepreneurship, as people are less willing to take on the risk of starting their own businesses. One attendee also reported a widespread slowdown in new housing construction. In part due to a major lack in necessary workforce. Secondly, financial institutions are not providing land loans. Finally, more educated consumers are generally slower to purchase a home which has hindered demand. Other board members reported no change or positive changes in business activity.

Regarding prices, multiple board members reported expectations that prices for goods or services would increasing in 2019. One board member stated that expected increases in tariffs on particular goods and materials would eventually affect consumer prices. There is generally a one month spread between increases in production costs and increases in selling prices. Another board member observed that changes in construction costs are being determined by the specific area of specialization required for the build. For example, the continual shortage of welders has increased the cost of that specific labor which affects overall construction costs.

There are a historically high number of job openings which have been hard to fill. This puts pressure on companies to undergo at times significant culture changes. Board members reported that they are implementing new approaches to attract talent. One board member reported that businesses are starting to understand the changing psychology of millennial workers and the necessary incentives to attract that demographic. As a result, companies are beginning to increase wages and provide better work environments. For example, offering telecommute schedules and flexible work arrangements. One board member offered an example of a talented designer based in Brooklyn who did not want to move to the
company’s headquarters located in Upstate New York. The company offered her the option of remaining in Brooklyn and being in the office for one week every month. It was a unique arrangement for the company but one they deemed necessary to retain the designer. Other board members noted that there have been significant increases in wages for upper management and highly skilled or specialized workers. However, there has generally been less wage growth in low and middle-skilled jobs. Multiple board members reported that they have partnerships with local community colleges and network with other local companies in an effort to build talent pipelines. Board members agreed that partnerships are critical because they paint a clearer picture of the opportunity students have to pursue specific career paths following school.

Multiple board members reported that changes in trade policy tariffs are controversial and will have an impact on selling prices. One board member reported that changes in trade policy will have a negative effect their industry. Changes to tariffs have increased the cost of exporting to Canada and producing goods in China. Already many companies with manufacturing operations in China are contemplating moving operations to other countries like Malaysia and Vietnam. Most board members reported that they were not concerned about minimum wage increases but one board member mentioned that minimum wage increases can have a costly impact on those smaller businesses that may be already operating with a deficit. A few board members reported concerns with changes to immigration policy which limit and delay visas. This can have a negative impact on businesses particularly those that are looking to fill highly specialized jobs.

Regarding the outlook for 2019, the majority of board members are cautiously optimistic. Many board members expect some margin of growth to occur organically or as a result of M&A (merge/acquire) activity. Board members acknowledged that the U.S. economic outlook is positive.

The meeting adjourned at approximately 2:00pm.