

National and Regional Economic Outlook

July 17, 2025

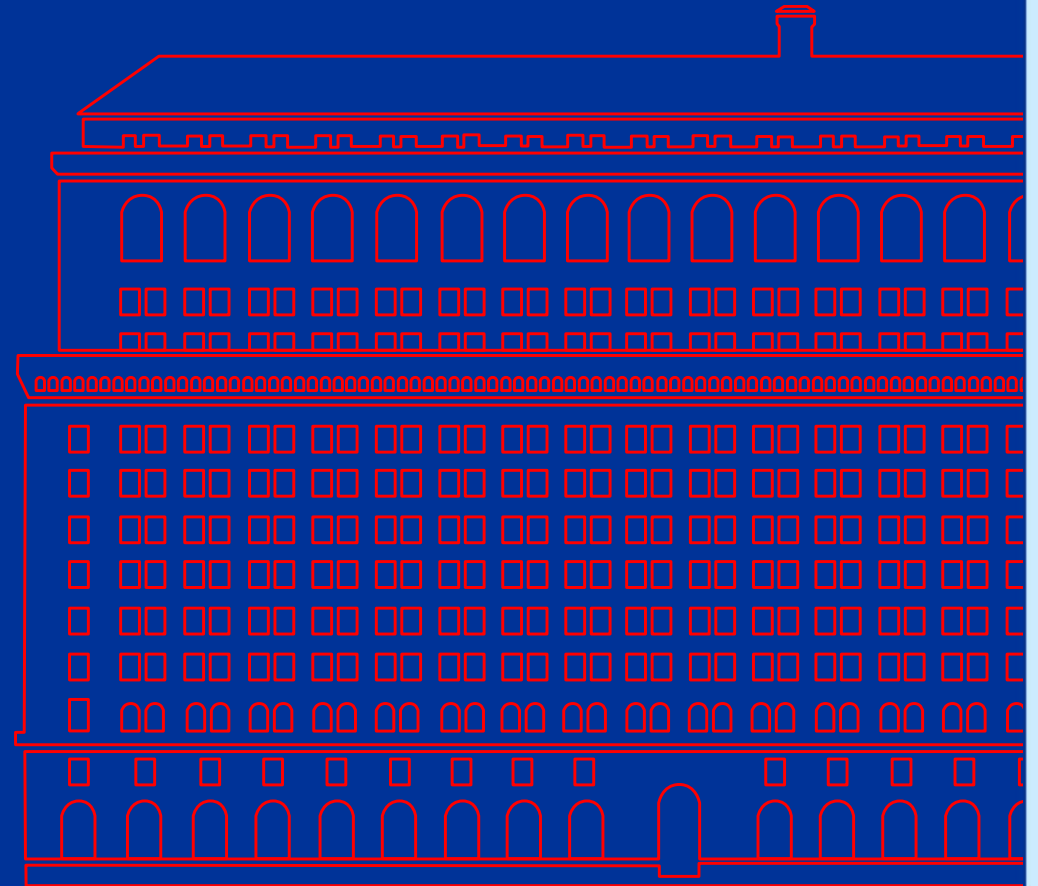
Rockland Business Association: General Membership Luncheon

Kartik Athreya, Federal Reserve Bank of New York

Slides prepared by Jonathan McCarthy, Liz Li, William Zeng

The views here are of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or Federal Reserve System.

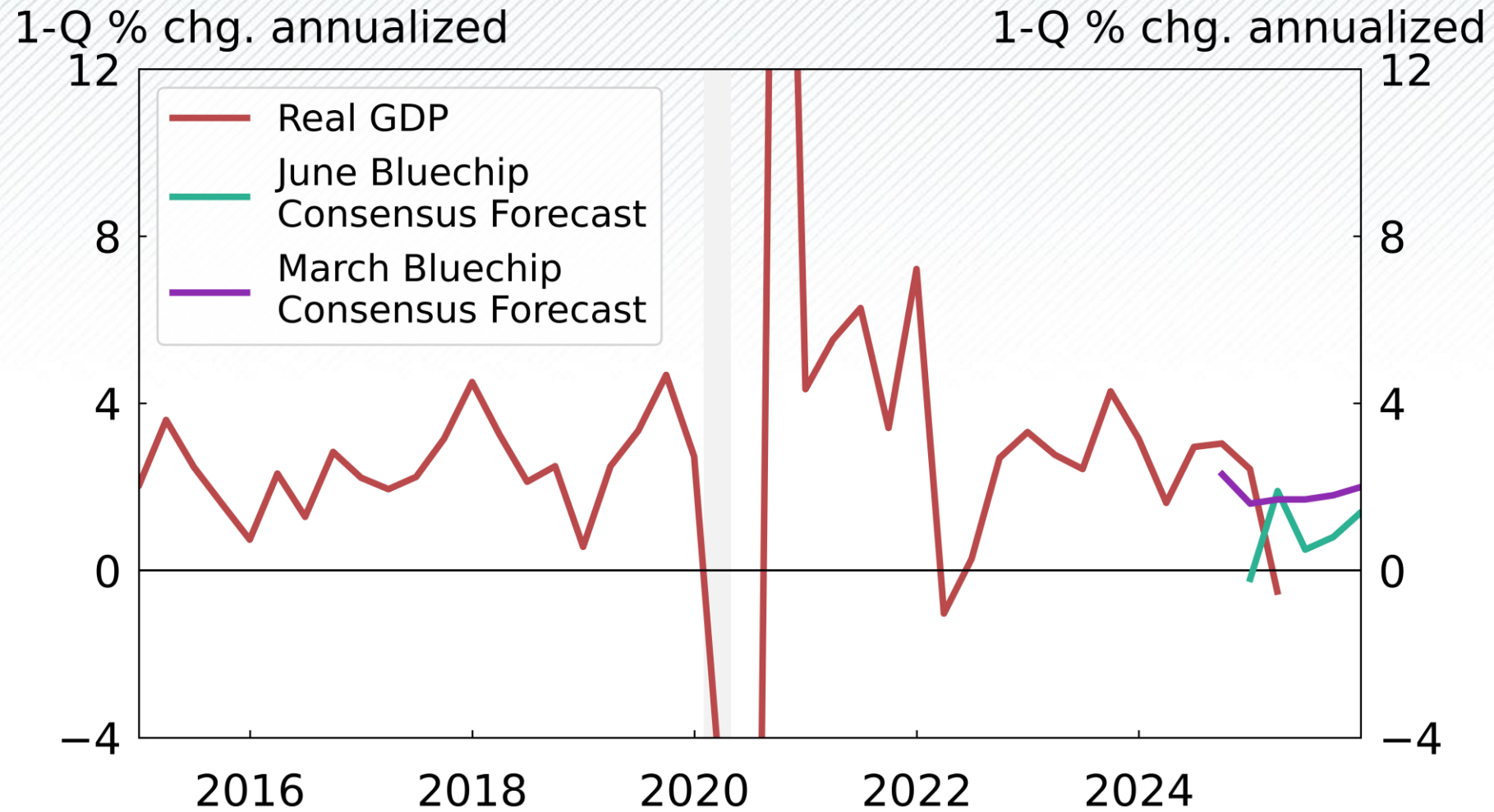
Where Are We At?



Current State of the Economy

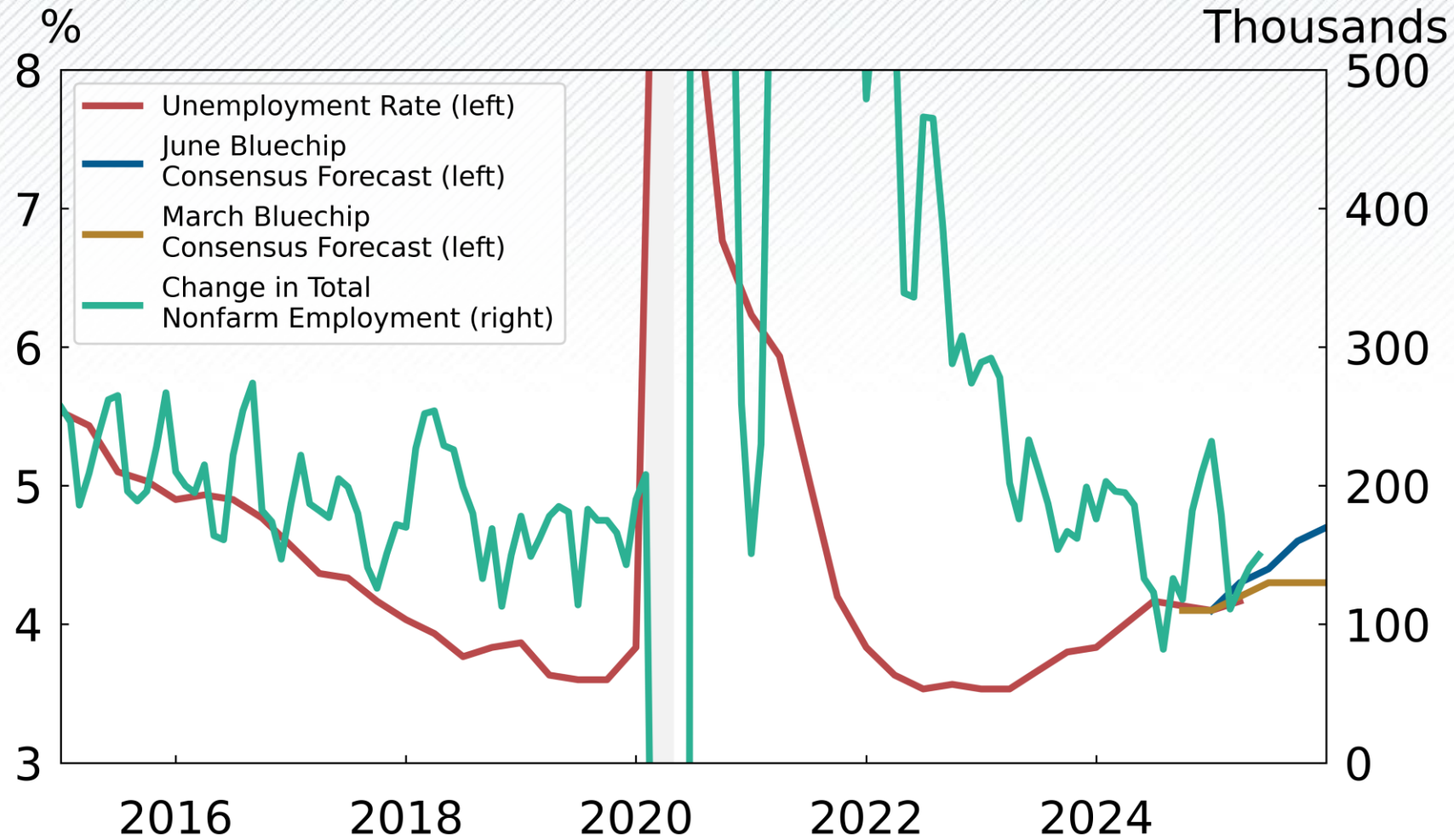
- **Growth**
 - Real GDP shrunk at a -0.3% annual rate in 2025Q1, expecting higher growth in Q2.
- **Labor market**
 - Conditions remained balanced, but surveys suggest some softening.
- **Inflation**
 - Above target still.
- **Uncertainty is (still very) *elevated*.**

Zooming Out on GDP Growth A Bit...



Sources: Bureau of Economic Analysis, Wolters Kluwer via Haver Analytics

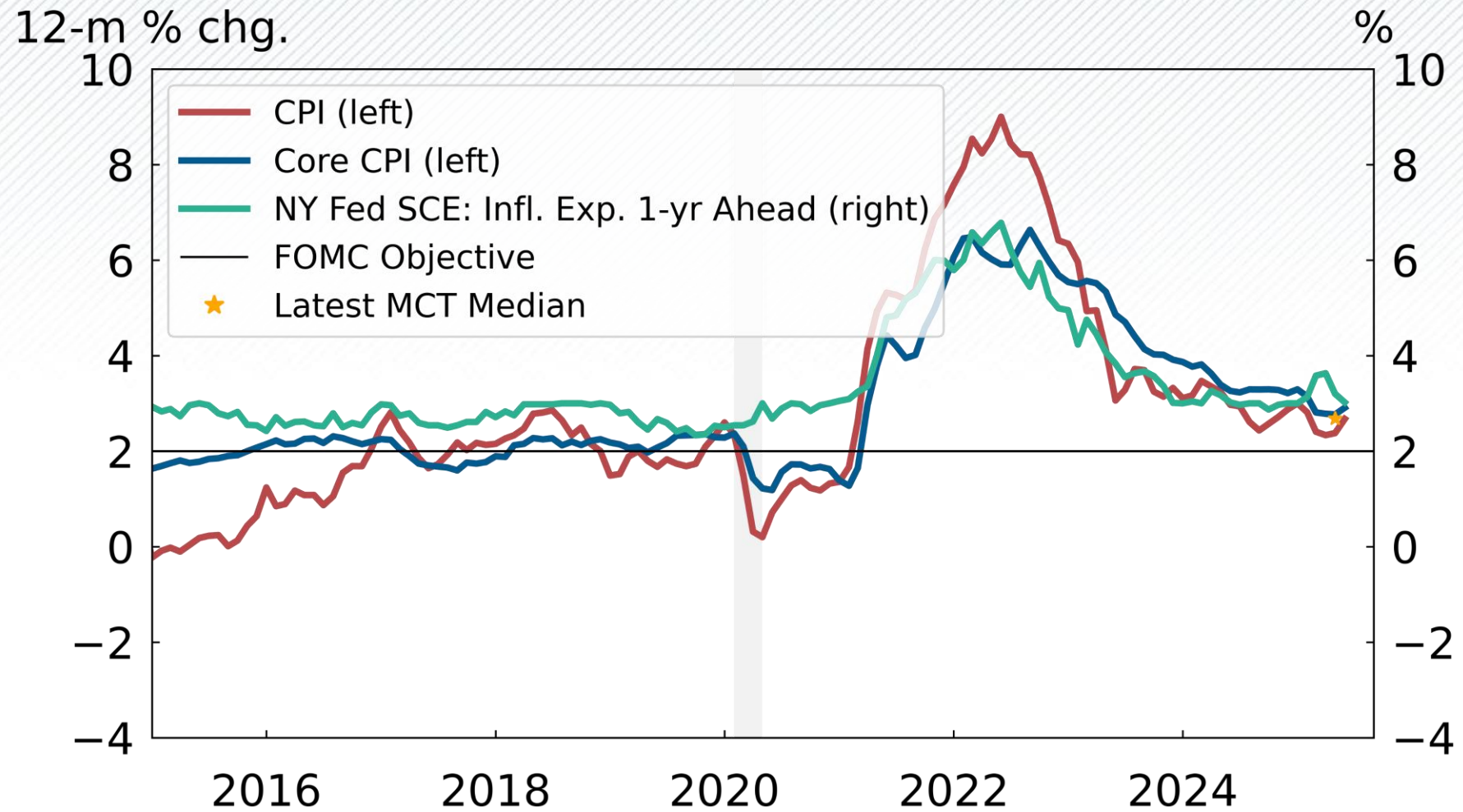
Zooming Out on the Labor Market A Bit...



Sources: Bureau of Labor Statistic, Wolters Kluwer via Haver Analytics

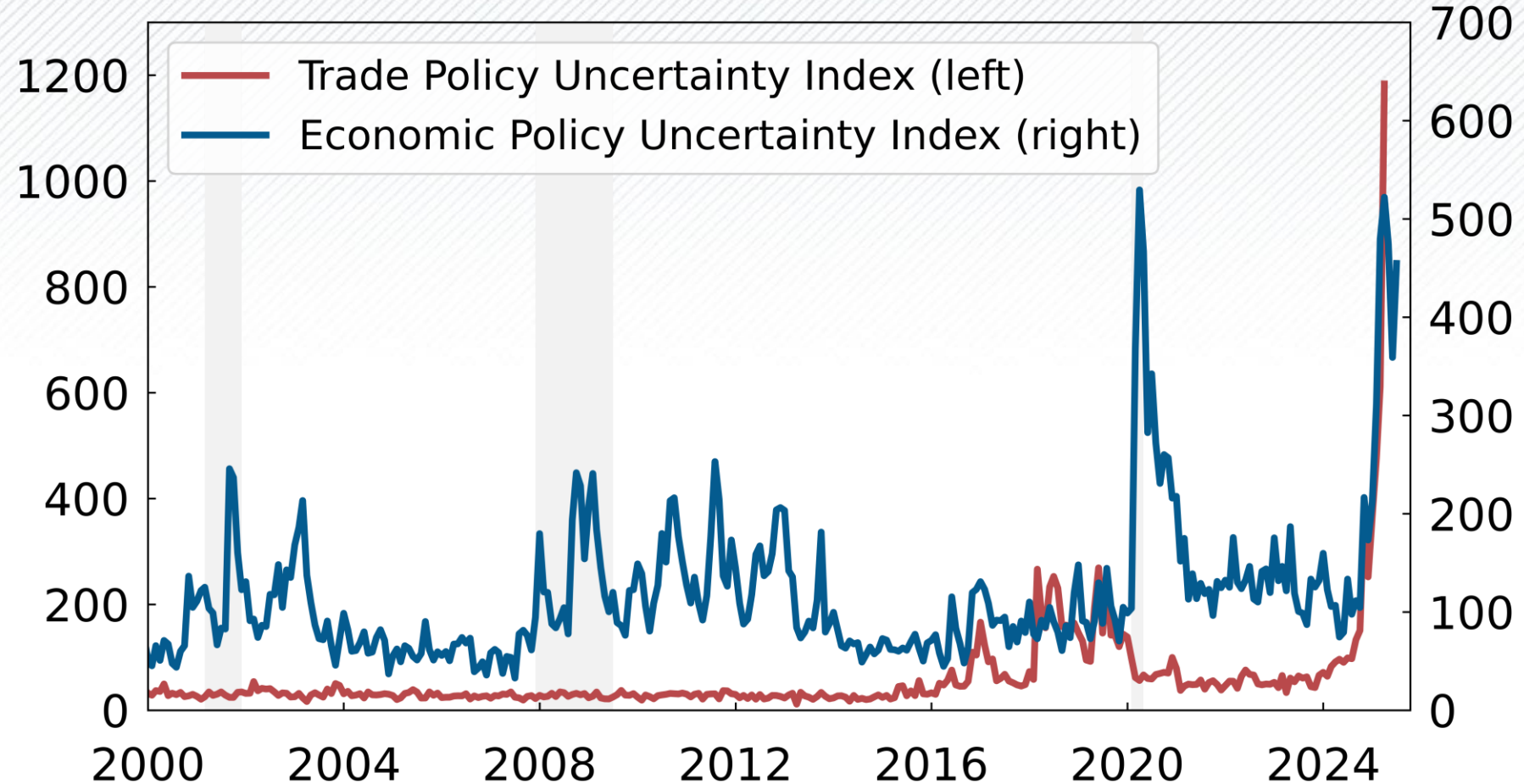
Notes: 3-month average (right)

Zooming Out on Inflation A Bit...



Sources: Bureau of Labor Statistics, NY Fed Survey of Consumer Expectations via Haver Analytics

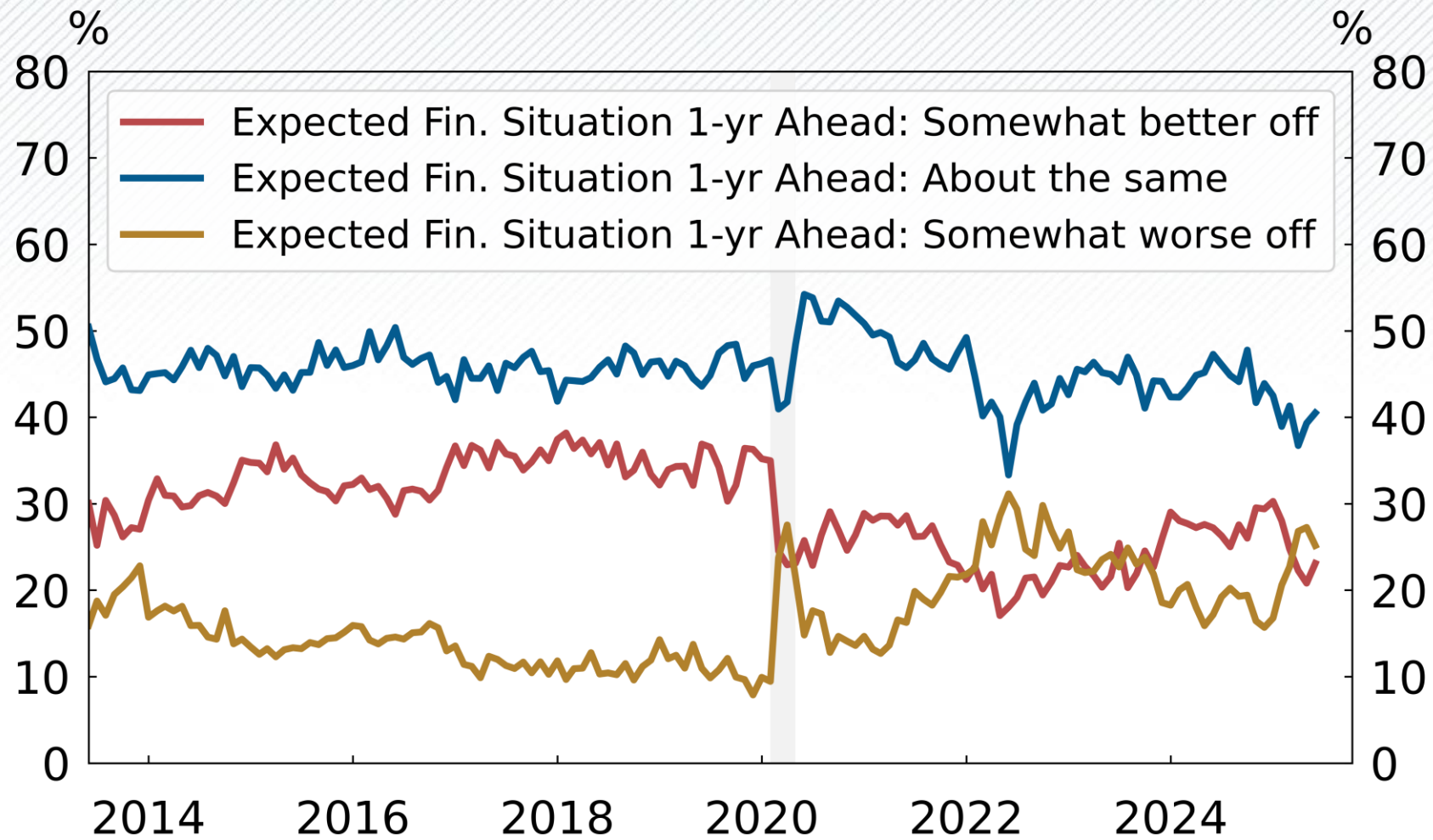
All Up in the Air Right Now...



Sources: PolicyUncertainty.com (Baker, Bloom, Davis) via Haver Analytics; Matteo Iacoviello

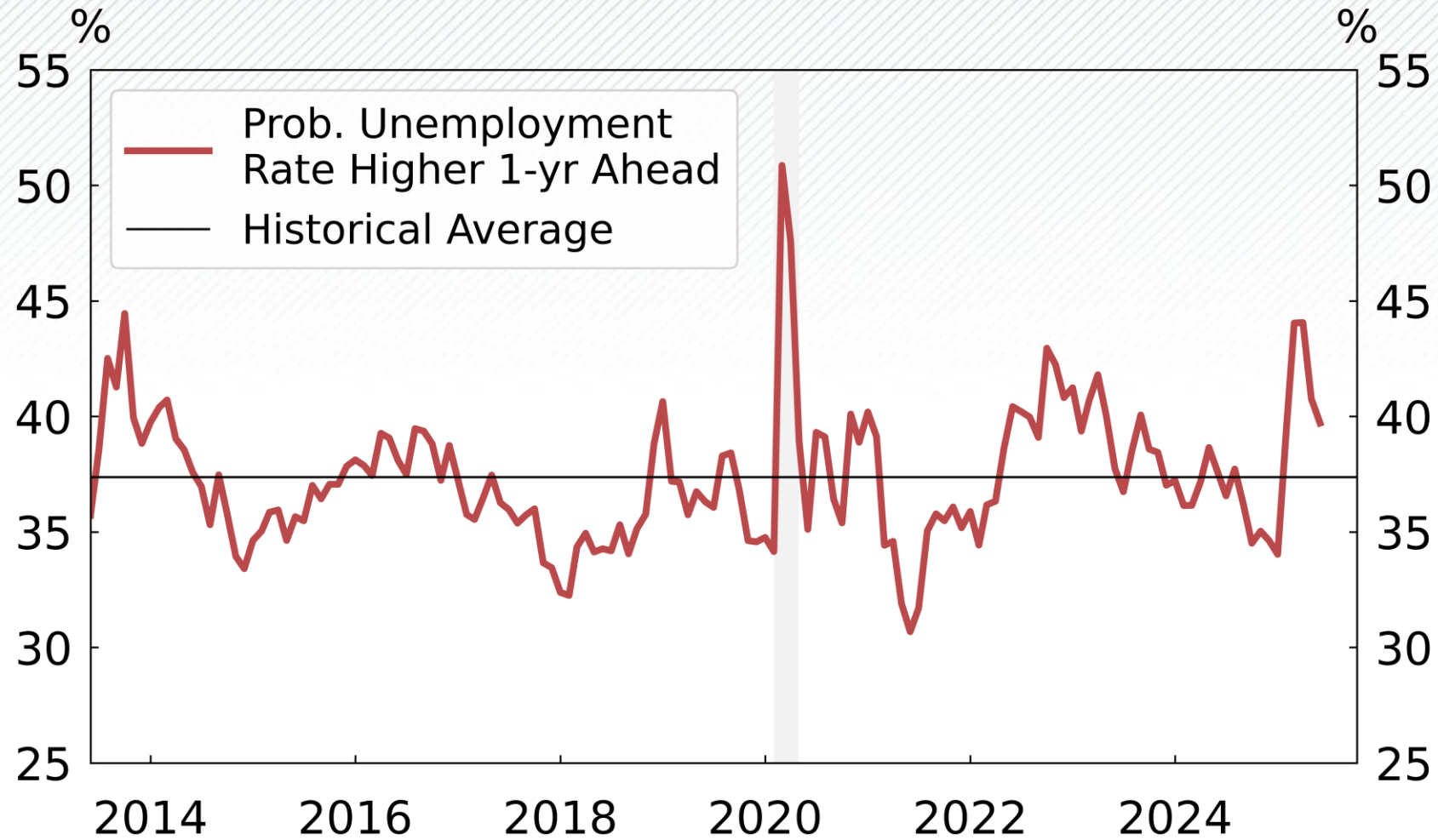
Notes: Monthly average of daily data

Households Are Feeling It...



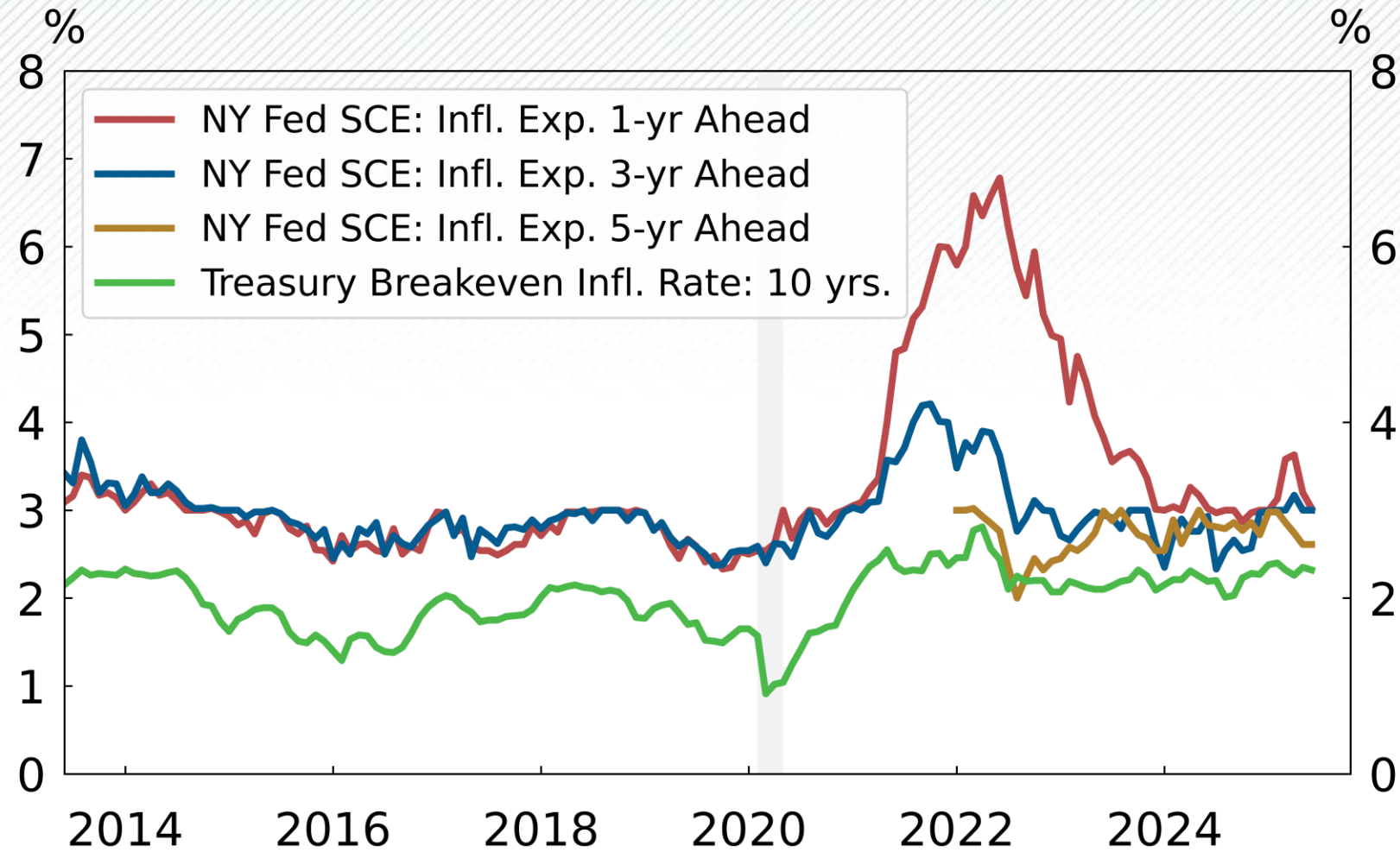
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

Employment Expectations Deteriorating...



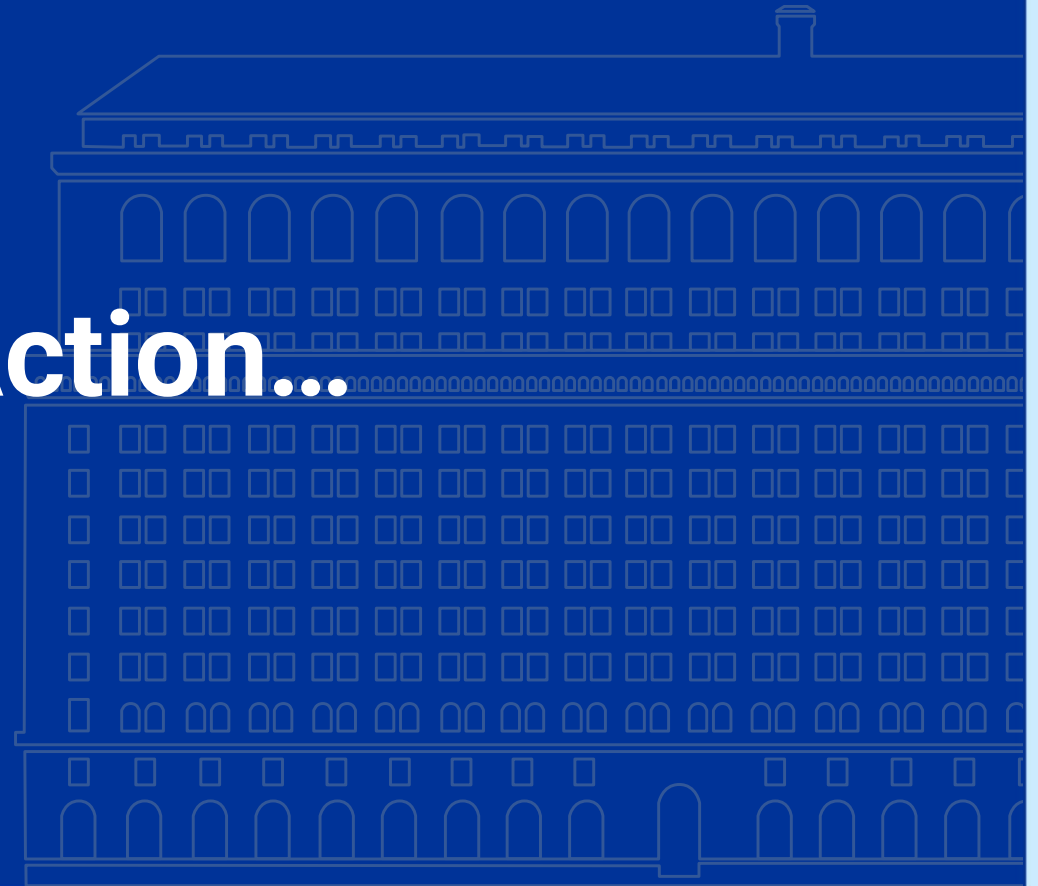
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

But Inflation Expectations Remain (Mostly) Anchored...

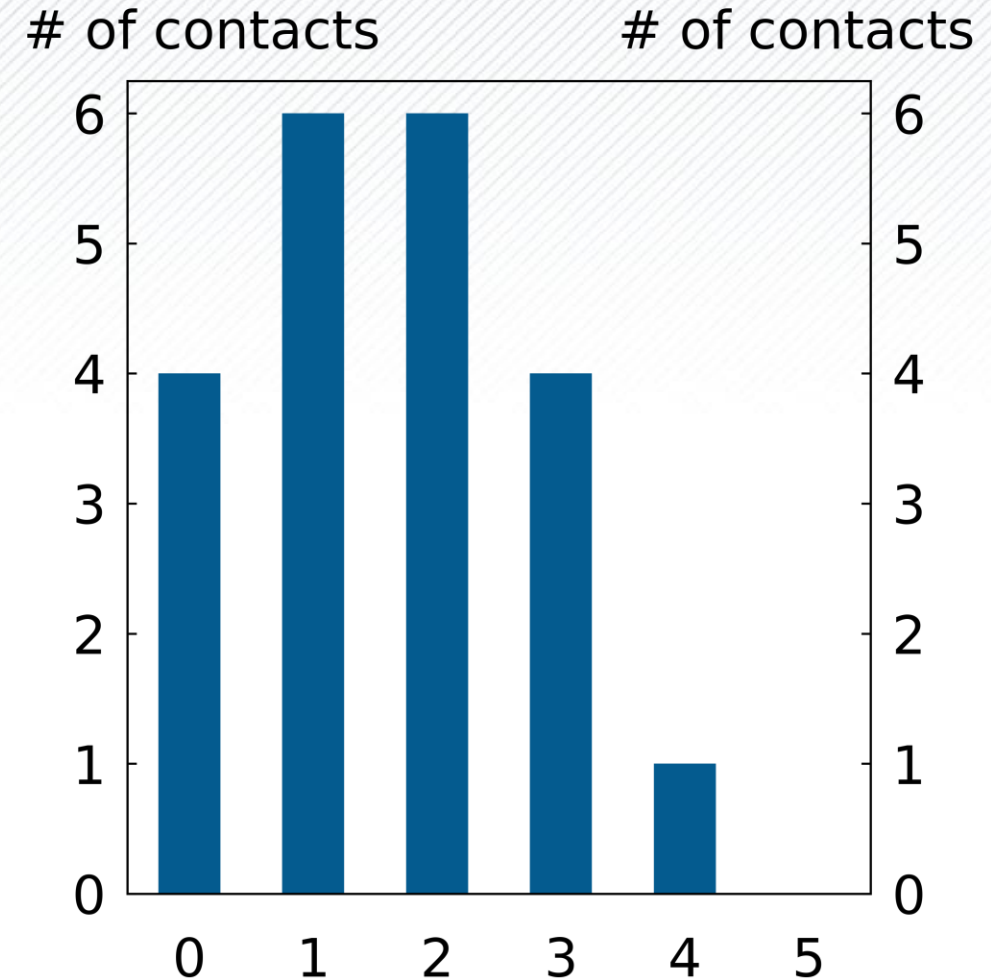
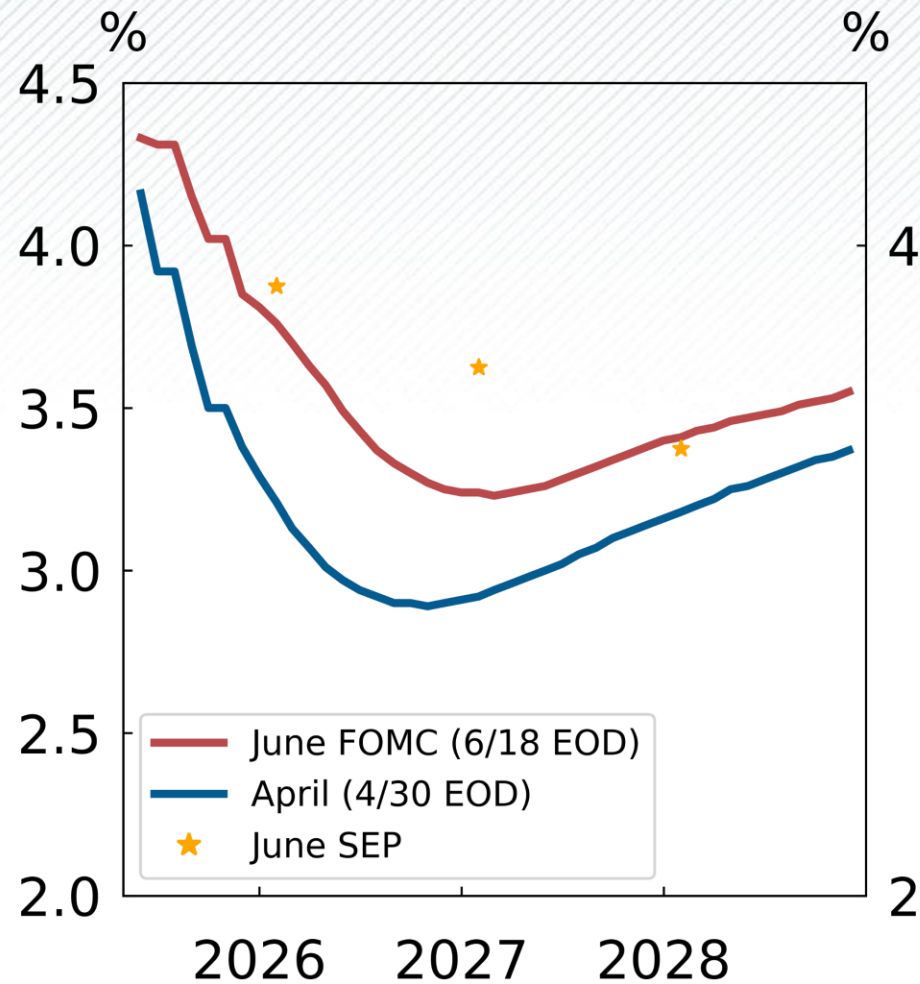


Sources: NY Fed Survey of Consumer Expectations, U.S. Treasury via Haver Analytics

Monetary Policy in Action...



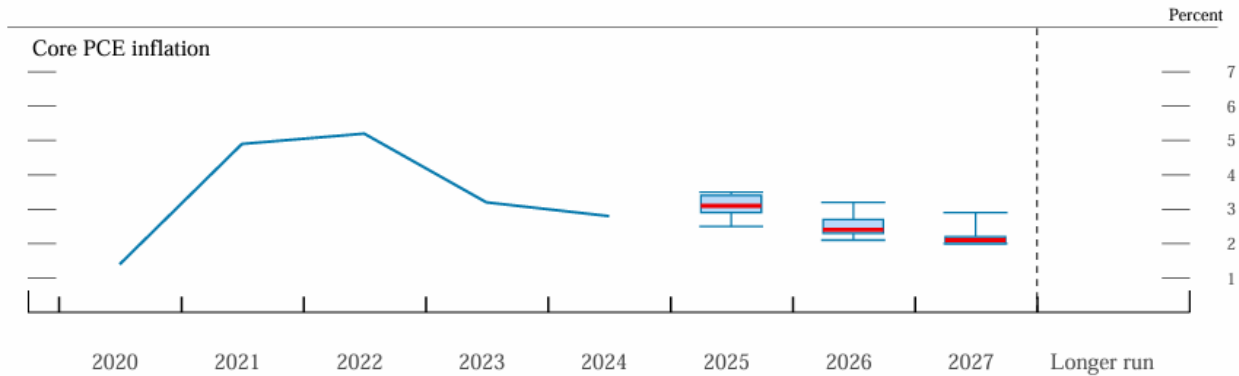
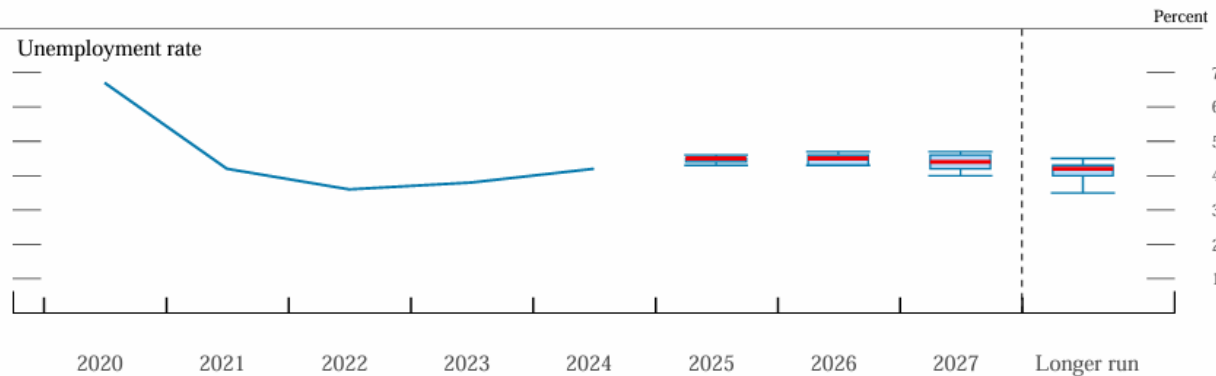
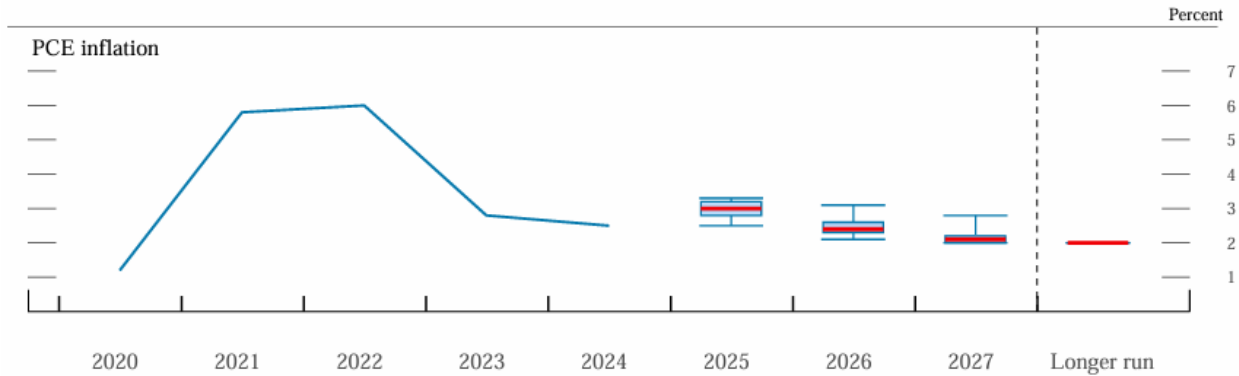
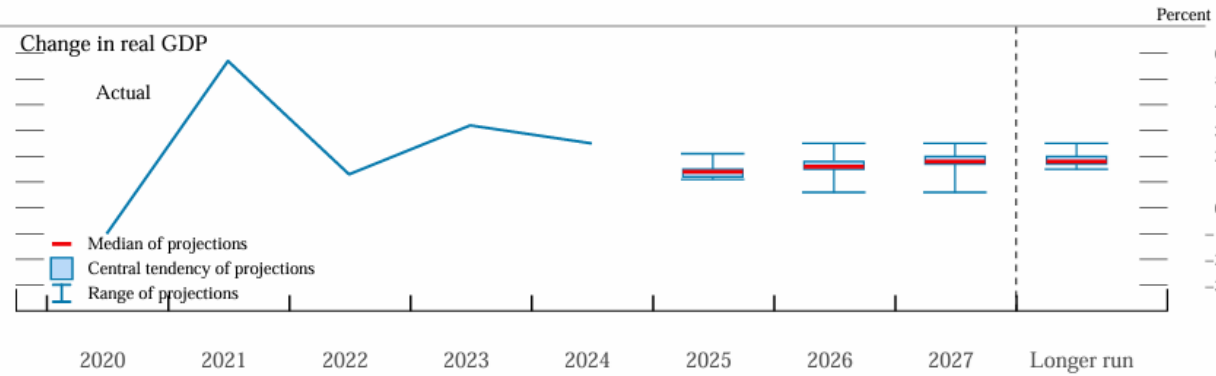
Where To? Market-implied rate path has shifted lower since the March FOMC; baseline expectations remain dispersed



Sources: Bloomberg

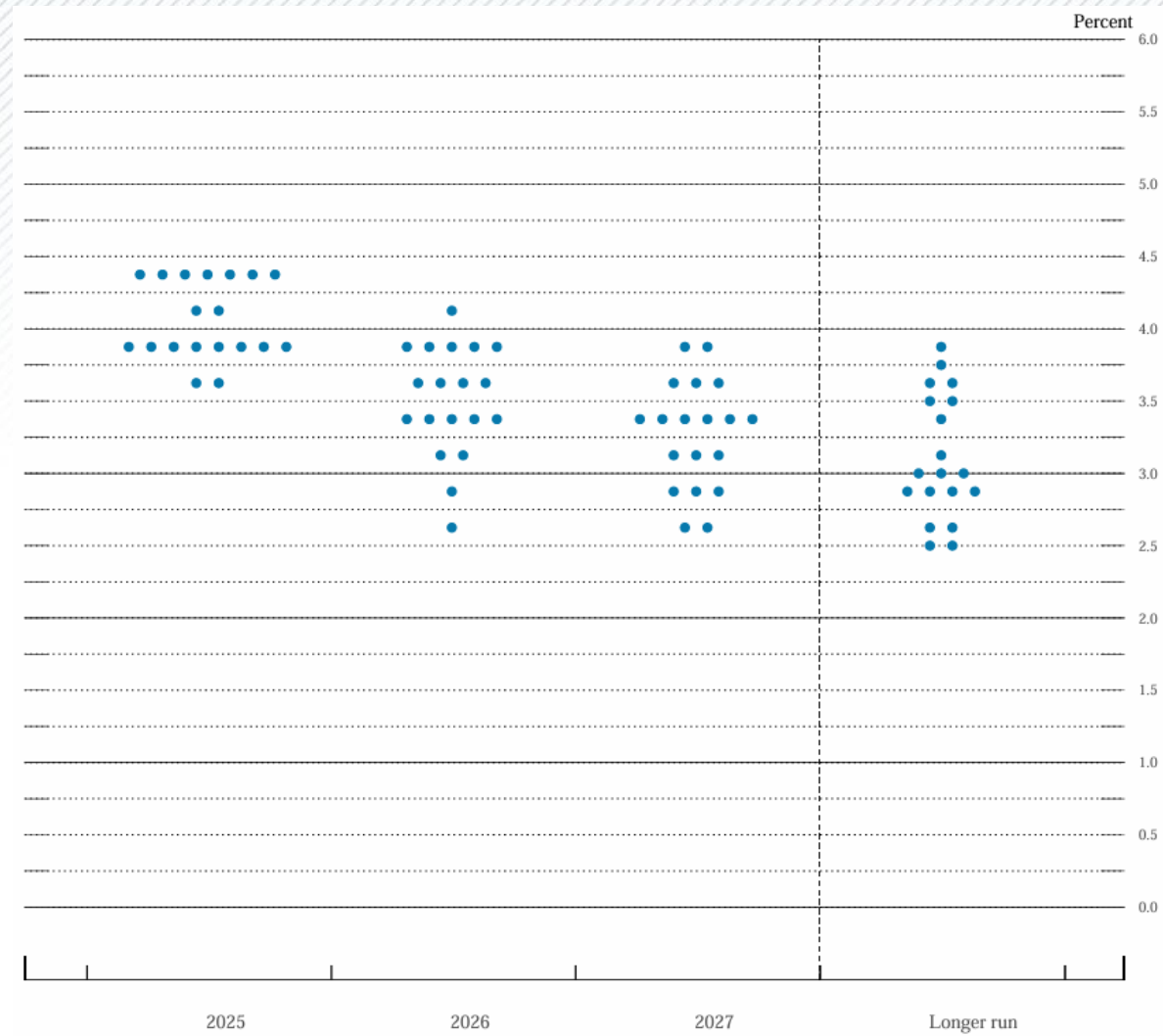
Notes: Market-implied path derived from fed funds and SOFR futures, adjusted for SOFR-FF basis (left); number of 25bp cuts expected in 2025 (right)

FOMC Economic Projections



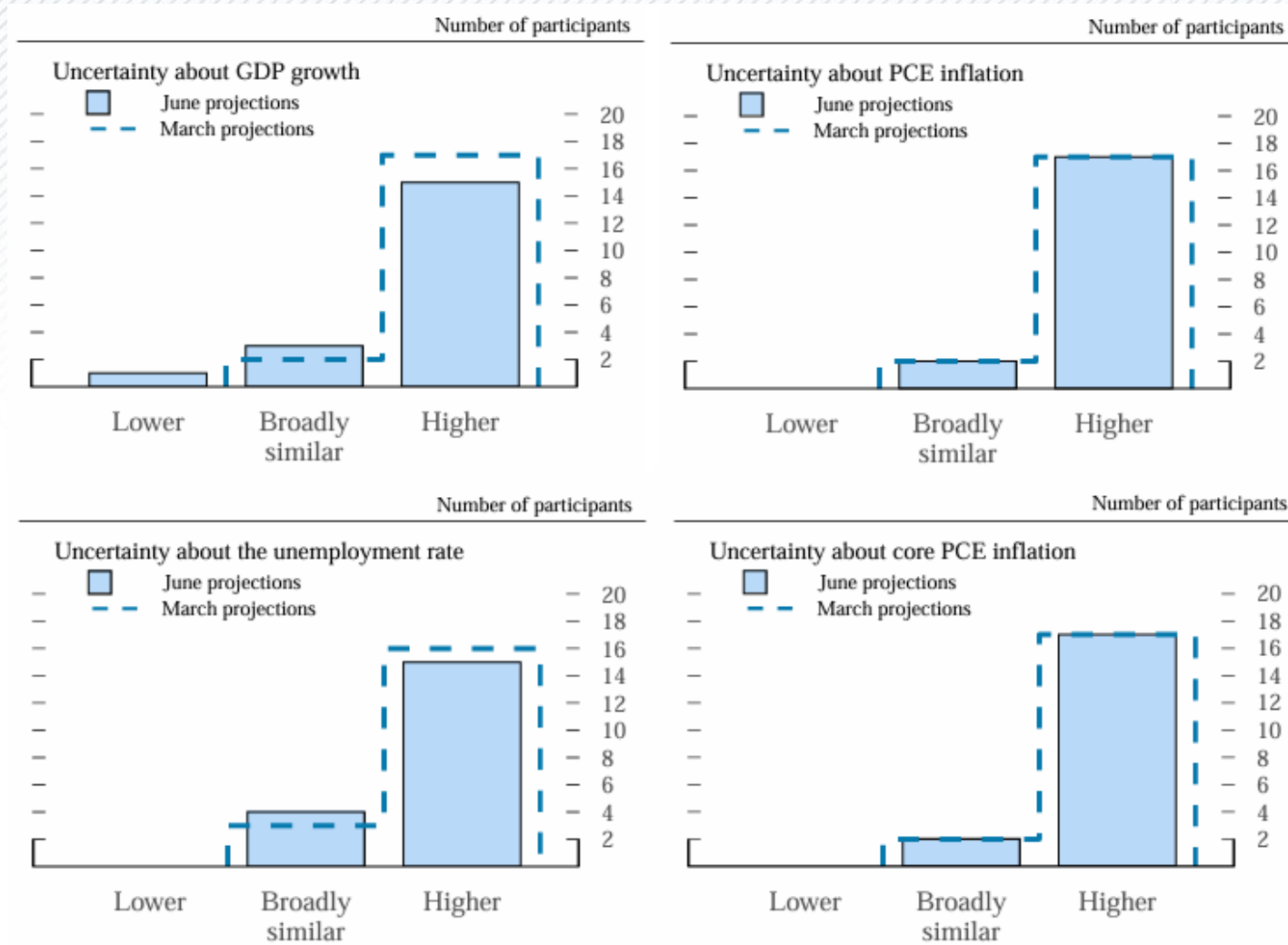
Sources: Federal Reserve Board

FOMC Dot Plot



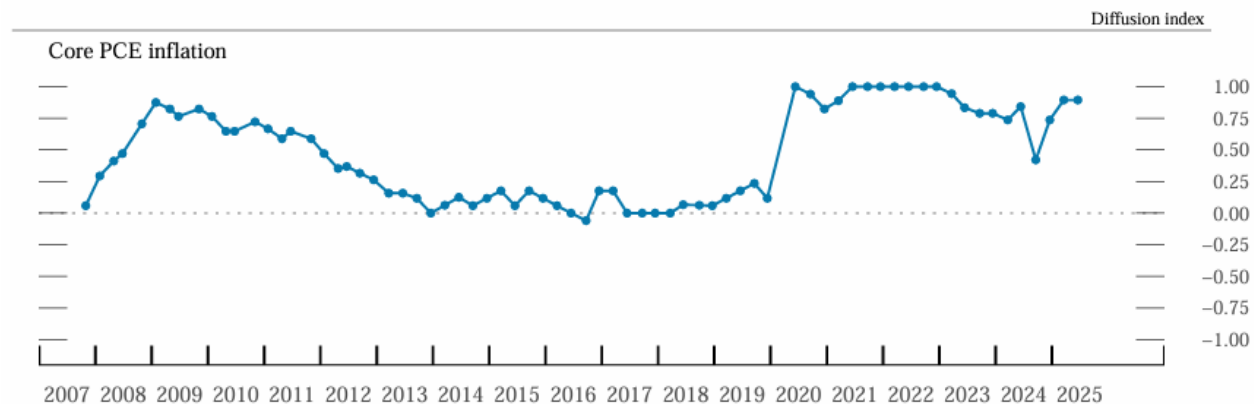
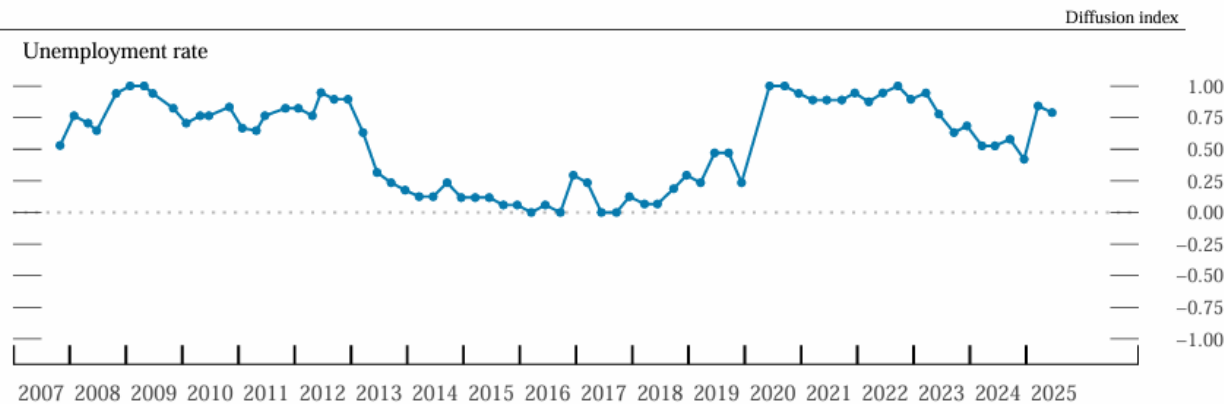
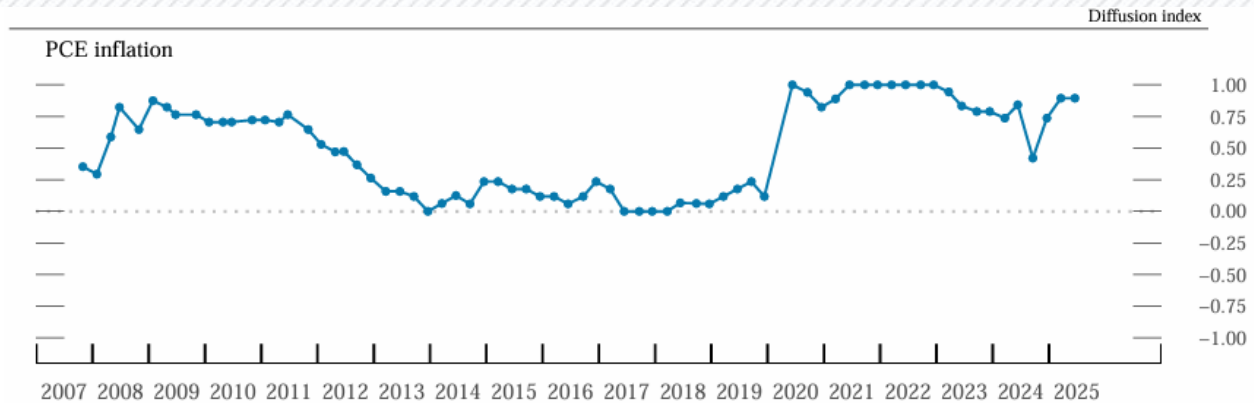
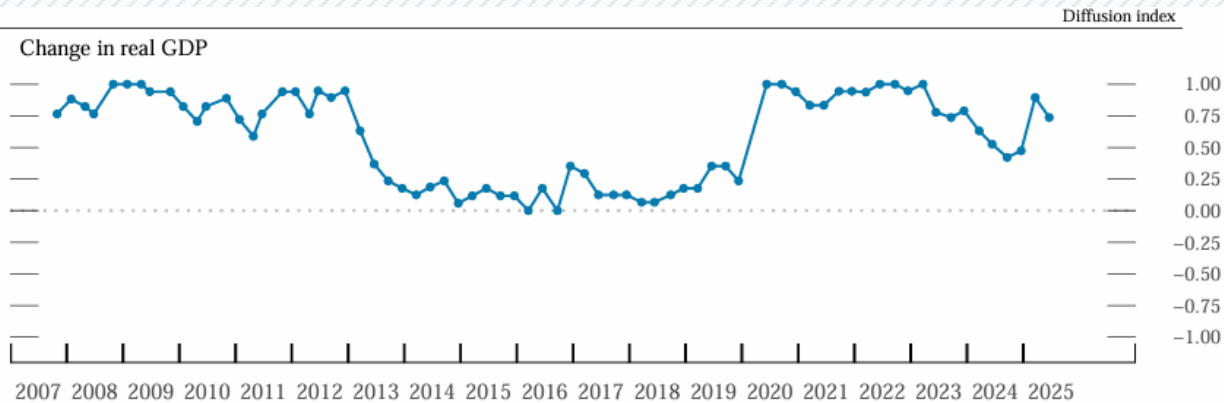
Sources: Federal Reserve Board

Uncertainty in Projections...



Sources: Federal Reserve Board

Uncertainty in Projections...



Sources: Federal Reserve Board

Notes: Responses to “Please indicate your judgment of the uncertainty attached to your projections relative to the levels of uncertainty over the past 20 years;” index = (# of “Higher” responses – # of “Lower” responses) / # of participants

June FOMC Statement

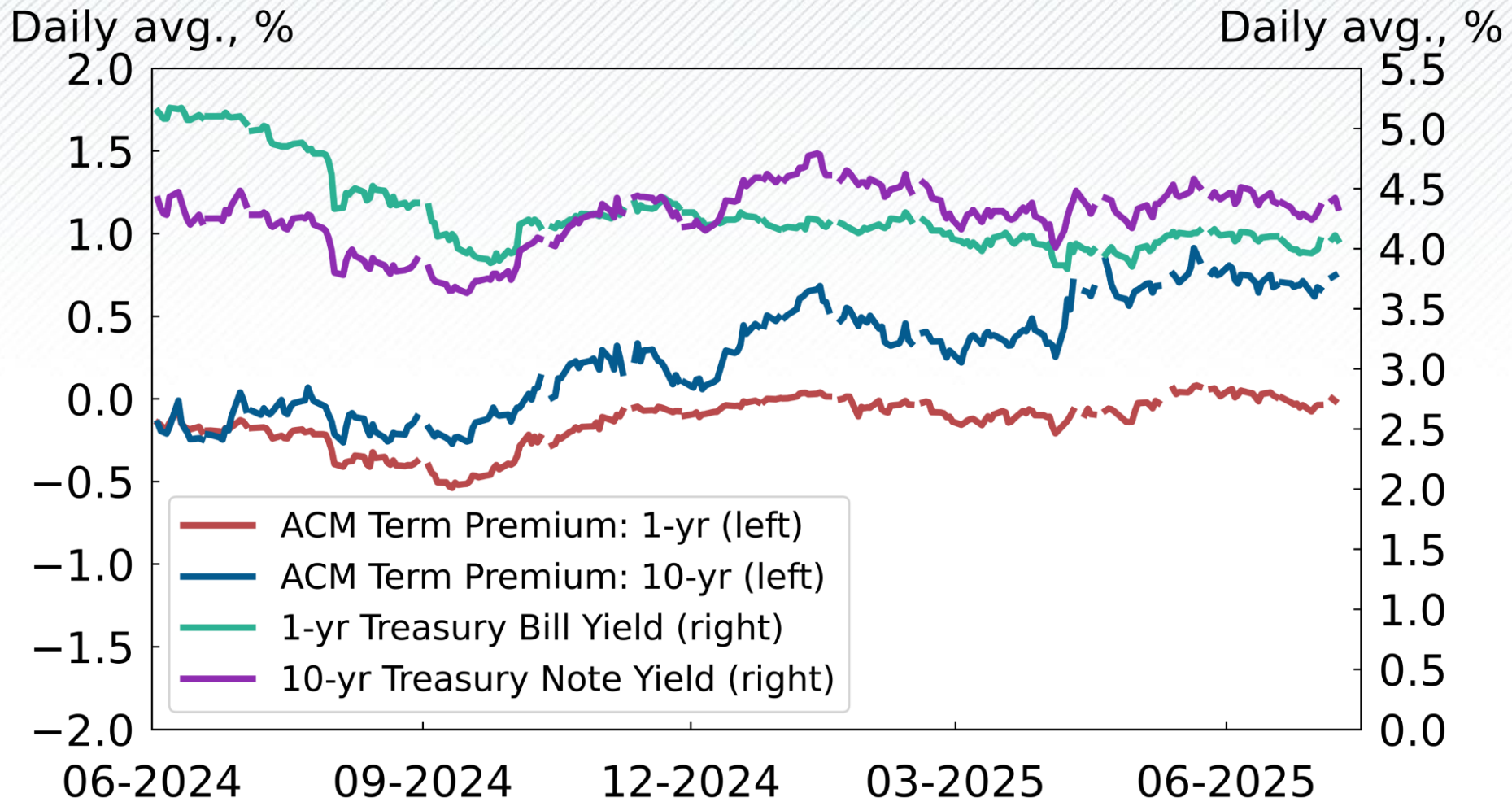
- **Uncertainty**
 - **"Uncertainty about the economic outlook has diminished but remains elevated.** The Committee is attentive to the risks to both sides of its dual mandate."
- **Economic Activity**
 - **"The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated."**

More Details From June FOMC Meeting

■ Uncertainty:

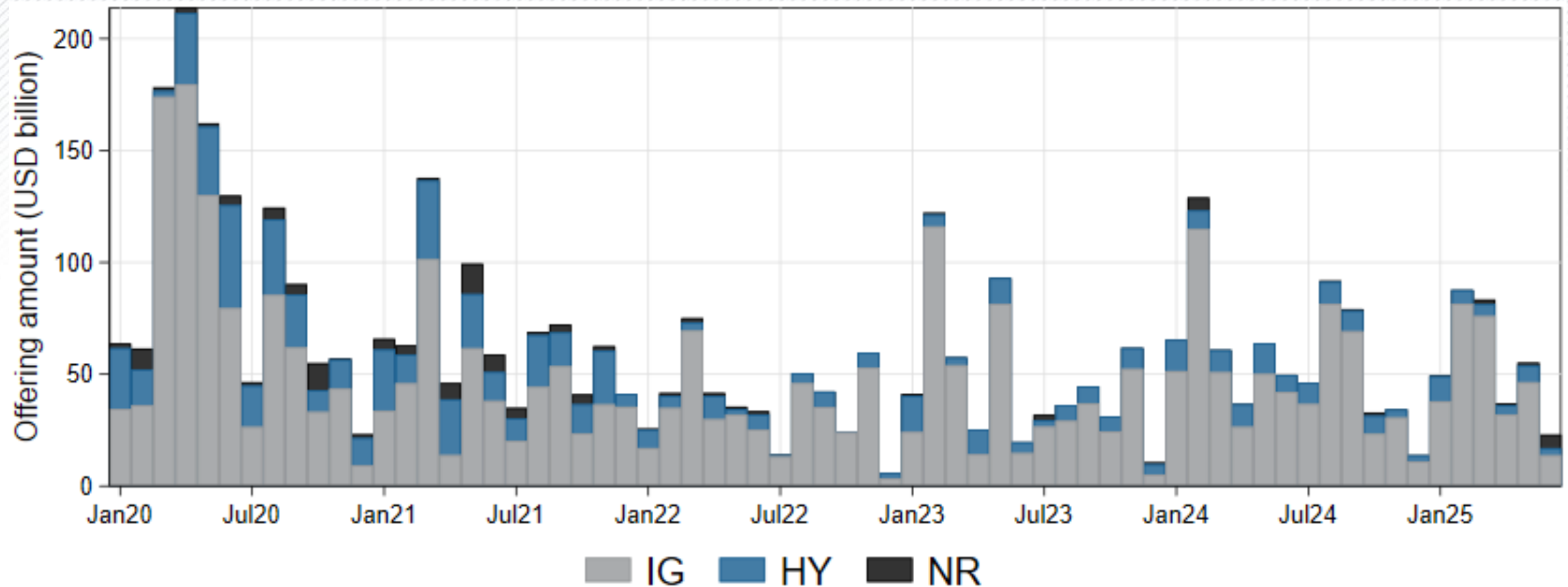
- “Markets were attentive to the **de-escalation of trade tensions; generally weaker-than expected economic data releases**, with the notable exception of the May employment report; and prospects for fiscal expansion.”
- “The manager observed that the **rise in shorter-maturity yields** was consistent with the upward shift in the expected policy rate path. The **rise in longer-maturity yields** appeared to reflect, in part, **market participants’ increasing fiscal concerns.**”
- “In their communications, **foreign central banks** continued to emphasize the need to maintain **policy flexibility amid substantial risks and uncertainty.**”
- However, “uncertainty” appeared 28 times in the meeting minutes (17 pages excluding cover page), **more than the May FOMC meeting minutes** (17 times), and **fewer than in the March FOMC meeting minutes** (21 times).

Treasury Markets—How Are They Working?



Sources: Federal Reserve Board

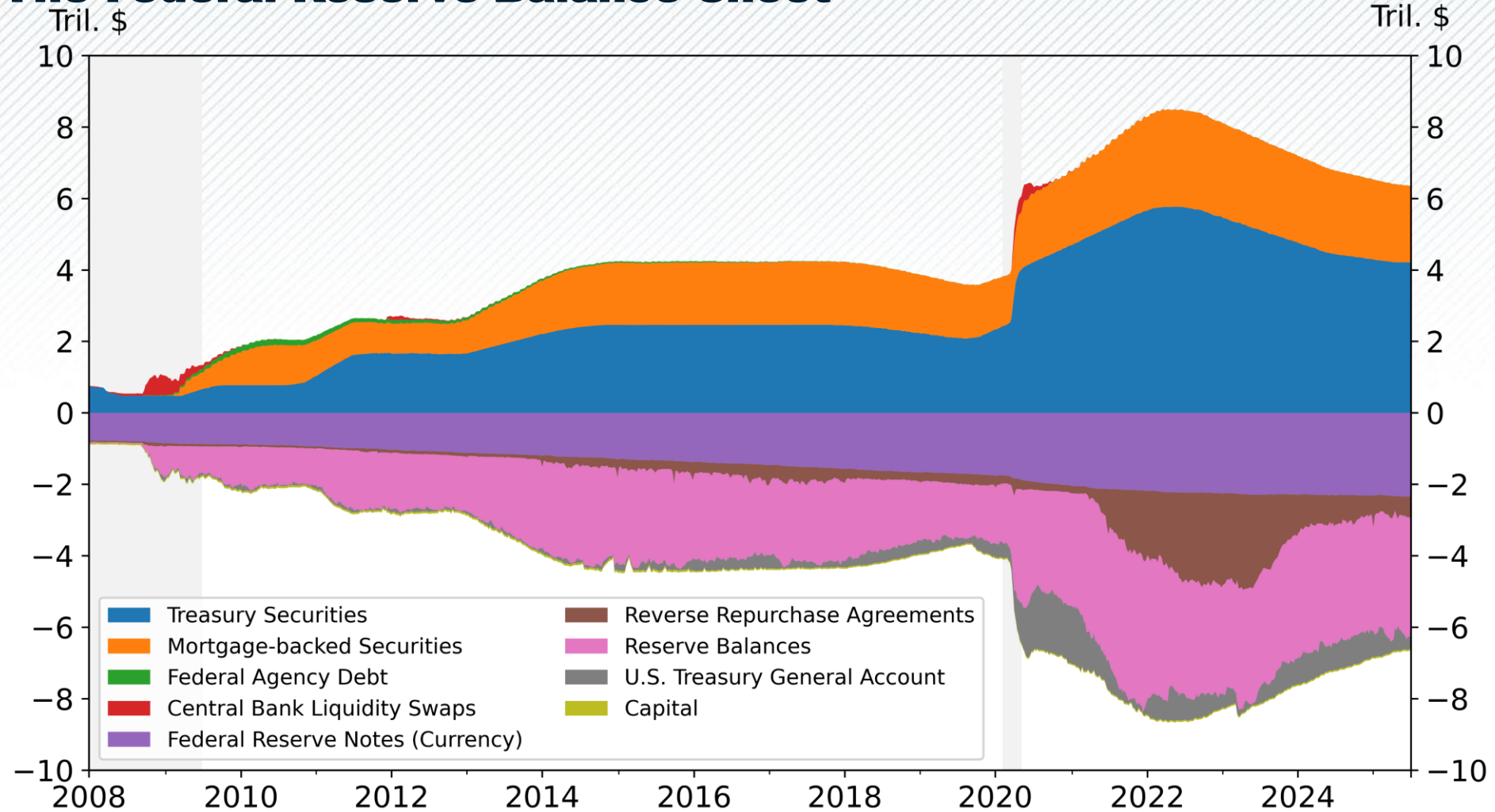
Corporate Bond Markets—How Are They Working?



Sources: FINRA Trade Reporting and Compliance Engine (TRACE), Mergent Fixed Income Securities Database (FISD), ICE, NY Fed

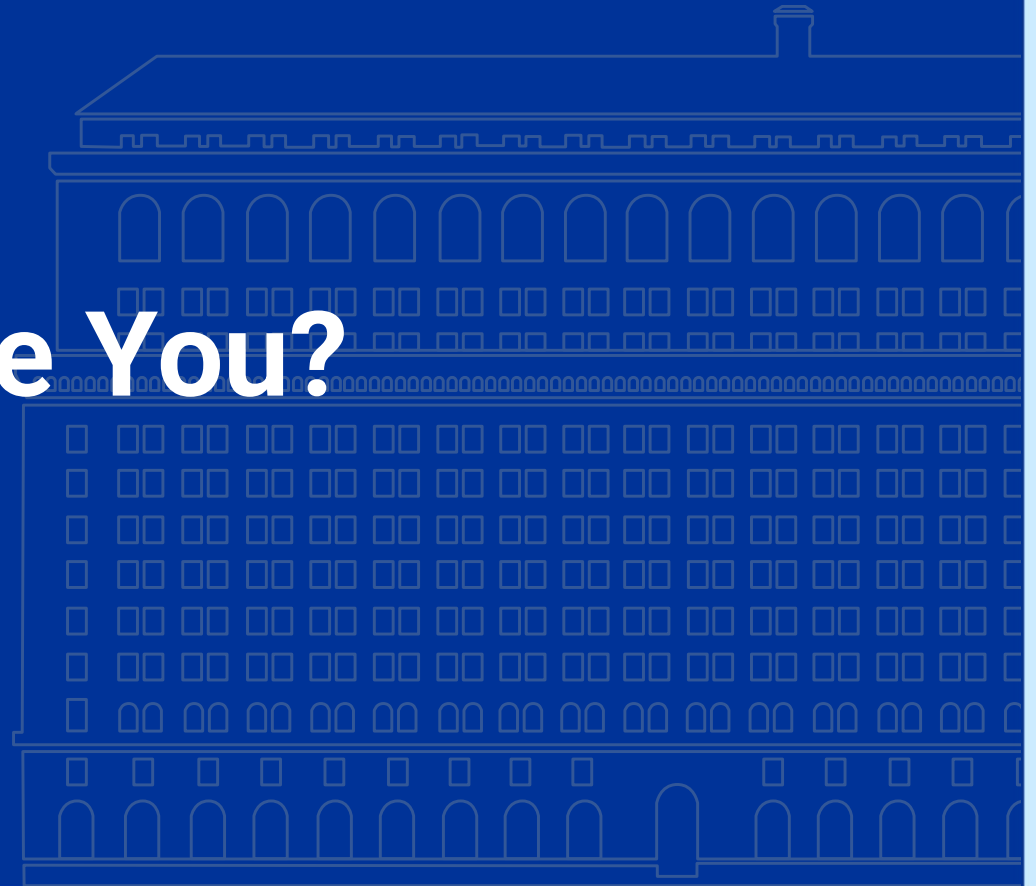
Notes: IG = Investment grade; HY = High-yield; NR = Not rated

The Federal Reserve Balance Sheet



Sources: Federal Reserve Board

Consumers—How Are You?



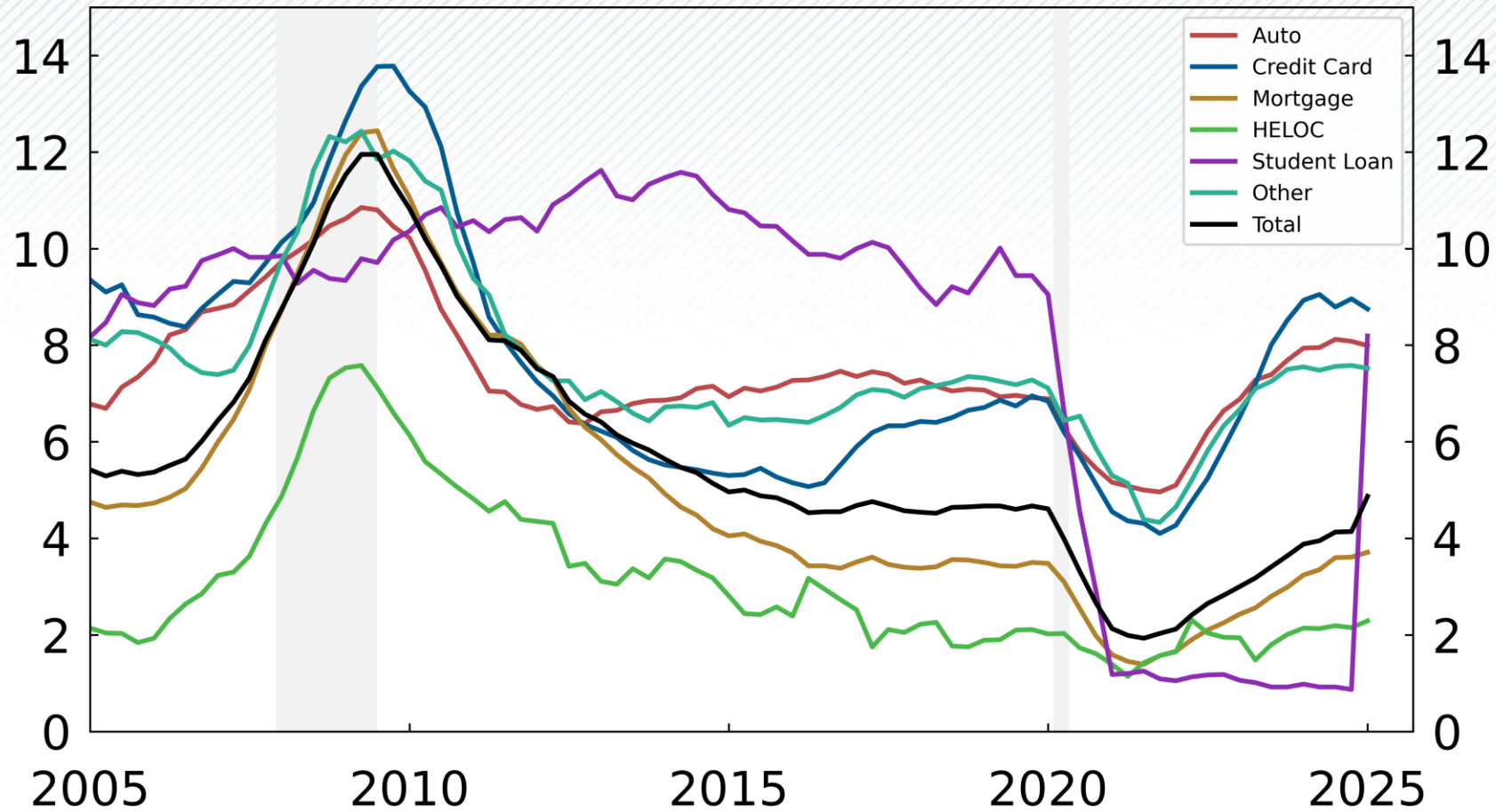
Checking in on Consumers...

- Owners' home equity remains near all-time high.
- With recent decline in stock values, stock wealth is back at year-ago level.
- Debt as share of household disposable income remains relatively low and stable.
- The rate of unemployment remains low, real earnings/household income growth solid.

Checking in on Consumers...

% of bal.

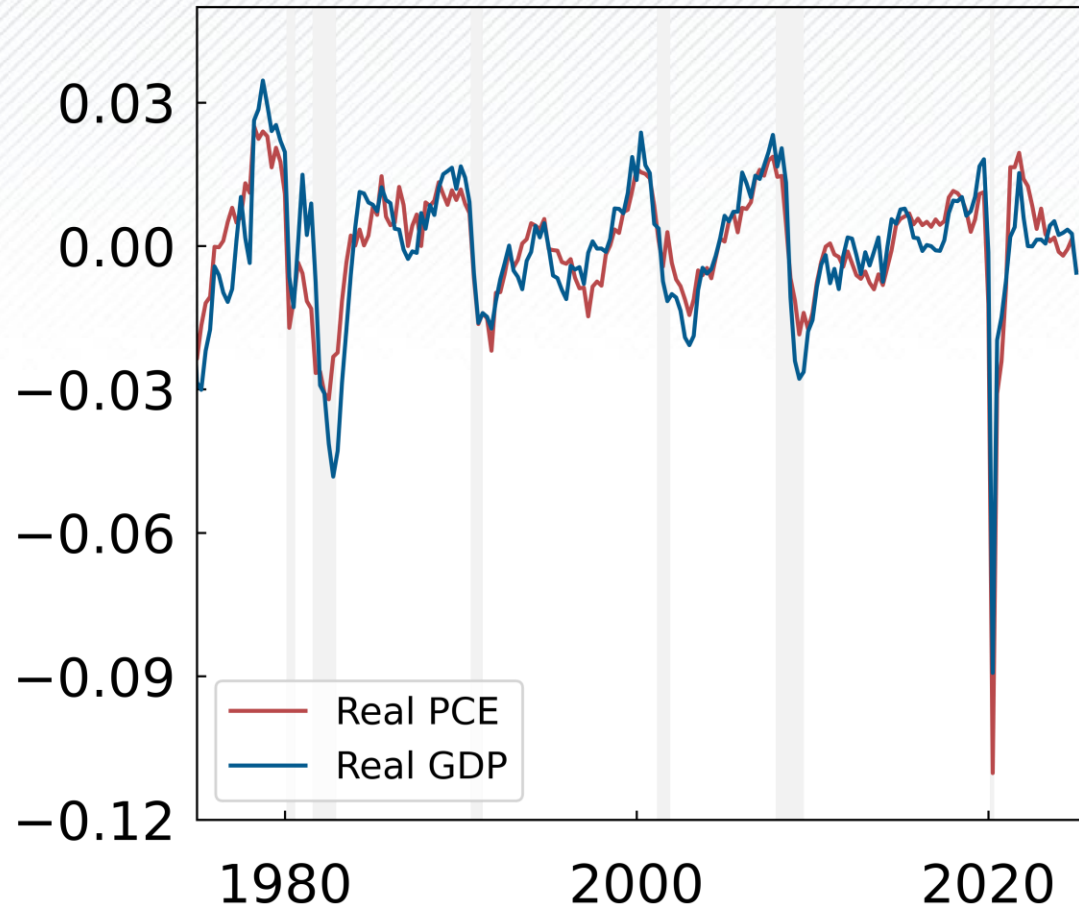
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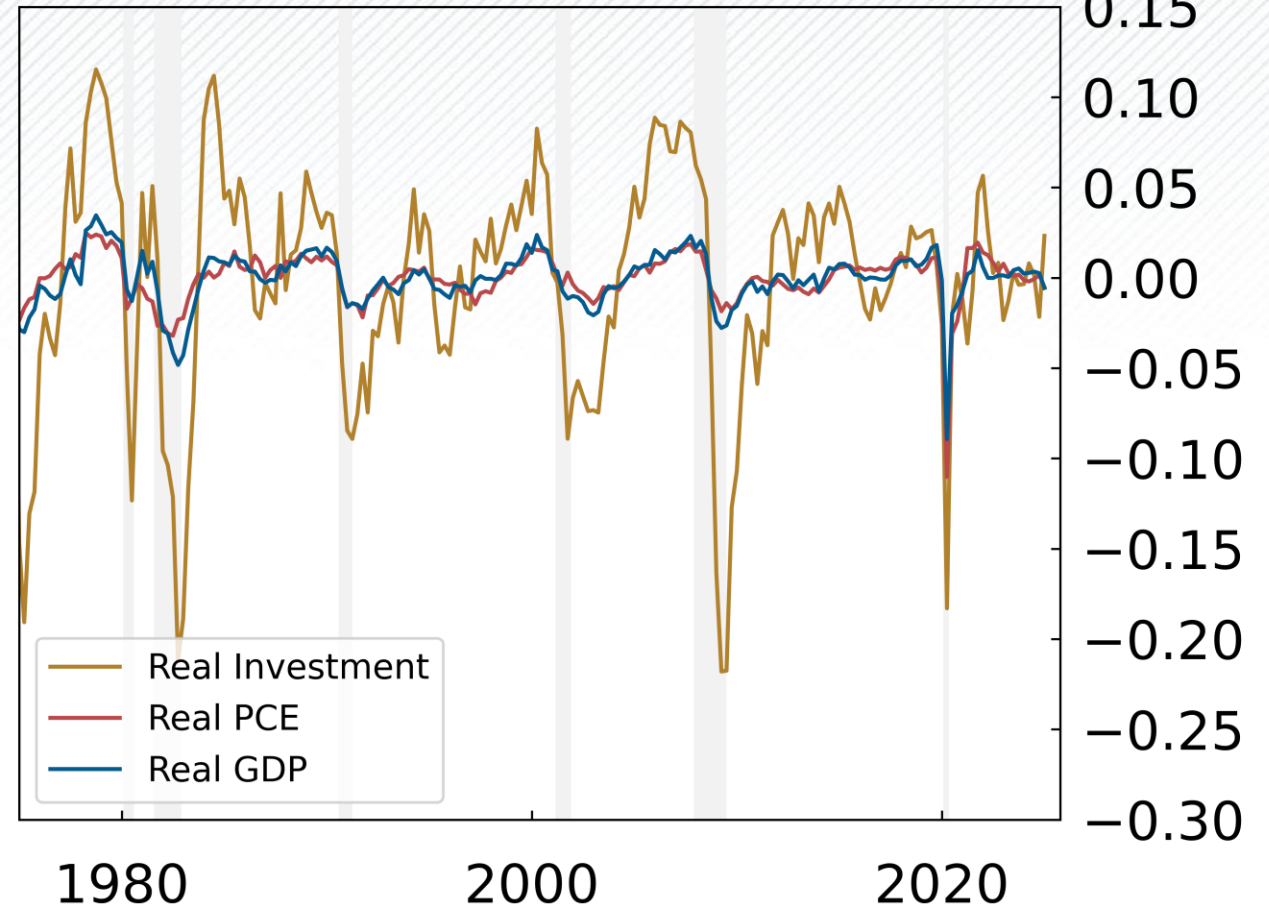
Sources: NY Fed Quarterly Report on Household Debt and Credit (2025:Q1)

Consumers Don't Fall Down by Themselves

Log dev. from trend



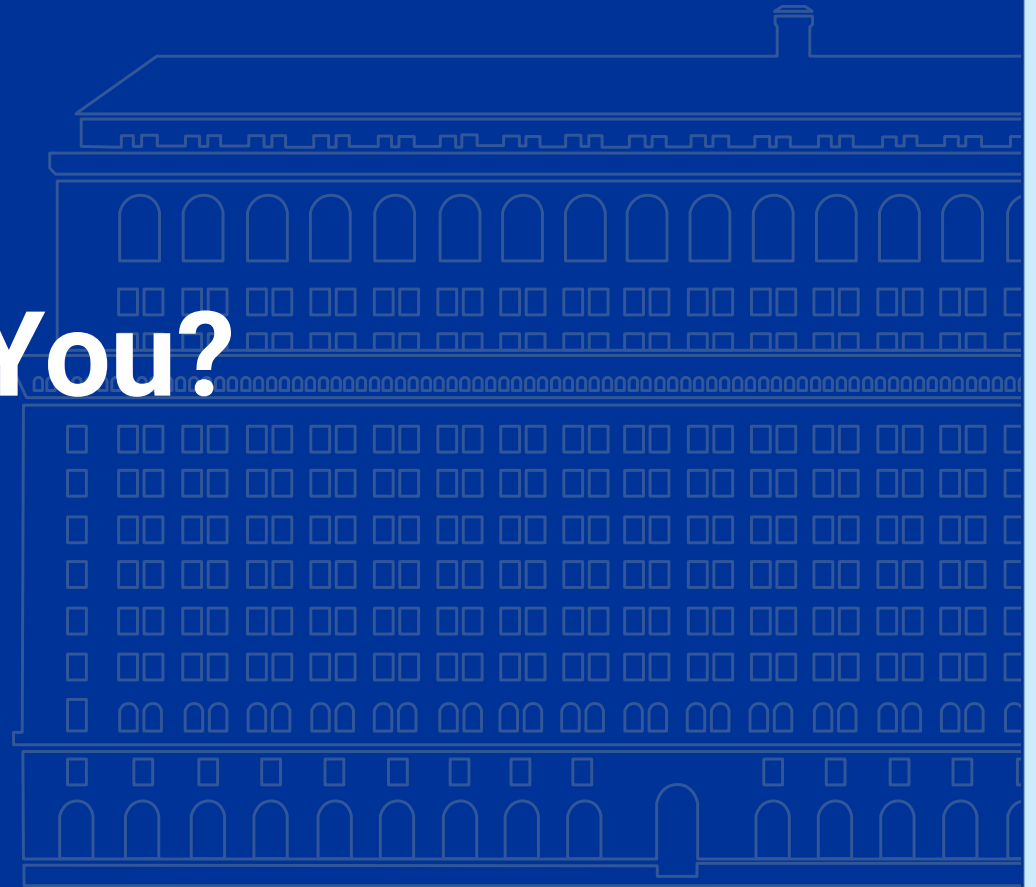
Log dev. from trend



Sources: Bureau of Economic Analysis via Haver Analytics; New York Fed/Equifax

Notes: PCE = Personal consumption expenditure, series are HP-filtered cycles (left); 4Q moving average (right)

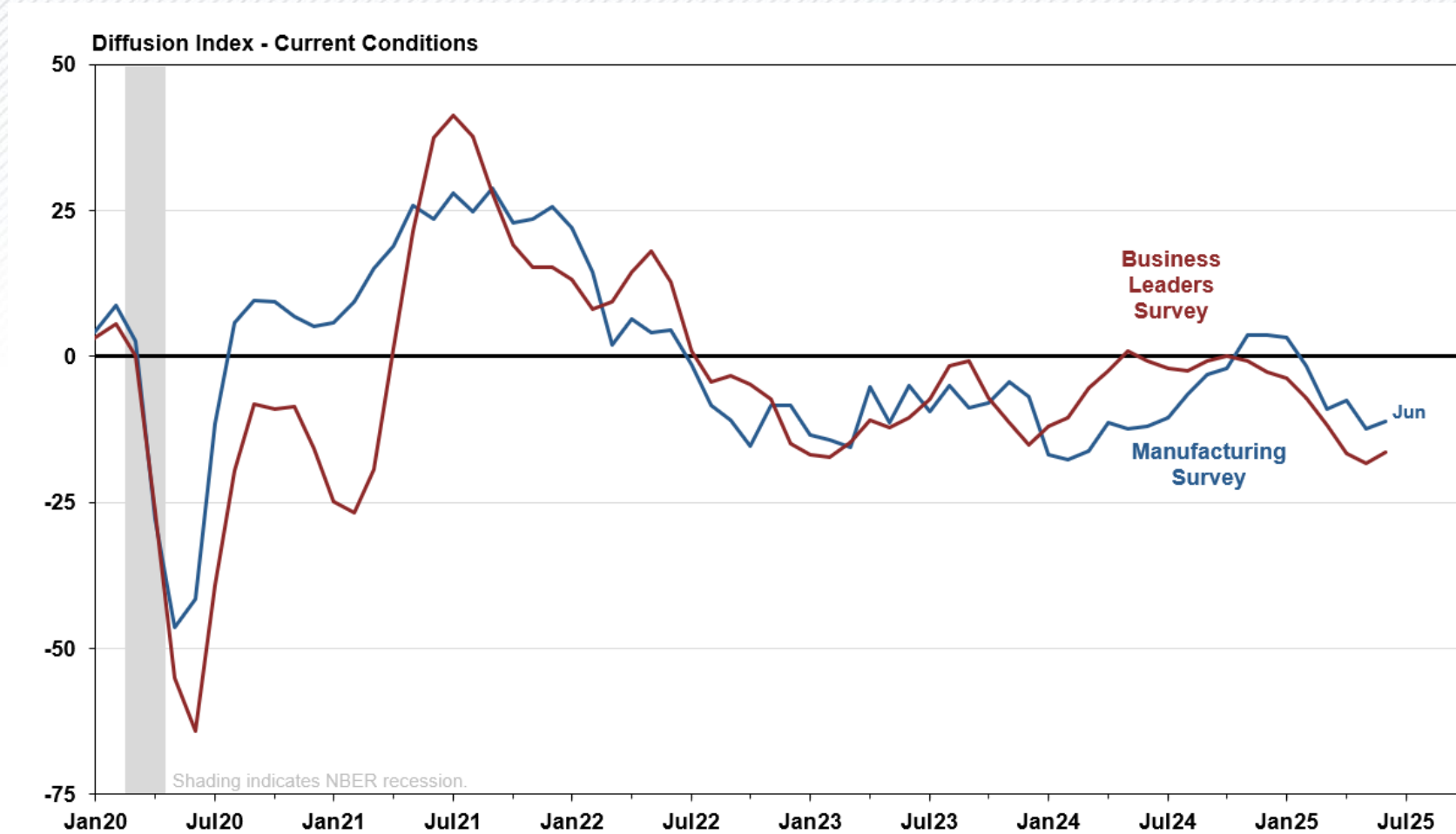
Rockland—How Are You?



Checking in on Rockland...

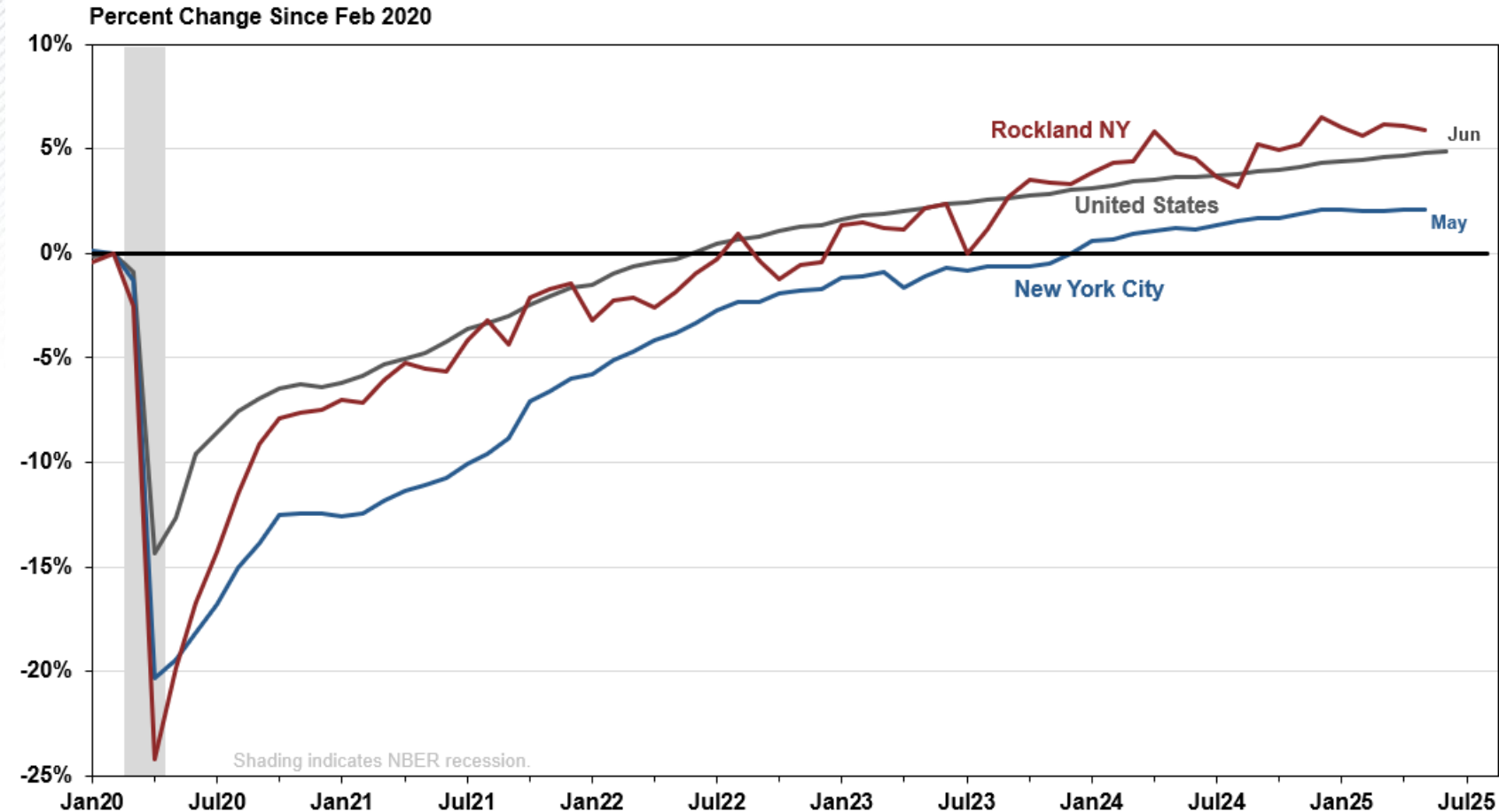
- The New York Fed's Empire State Manufacturing Survey and Business Leaders Survey suggest activity has been declining in the region.
 - Local firms note that uncertainty – especially around tariffs – has disincentivized activity and made planning difficult.
- Rockland County specifically has made a strong employment recovery since the pandemic.
 - Hit especially hard during the pandemic, with job losses ~25%.
 - Over the past few years, employment growth has been on par with the nation, and employment is now >5% above pre-pandemic levels.

Declining Regional Manufacturer & Service Sector Firm Activity



Source: Federal Reserve Bank of New York.

Rockland's Strong Post-Pandemic Employment Recovery



Source: Bureau of Labor Statistics and Moody's Economy.com.

In Conclusion

- **Recession-free disinflation was well underway, remarkable in U.S. history so far.**
- **Things have shifted. Fed policymakers expect slowing growth, not recession, at this time.**
- **Uncertainty is very elevated.**
- **Supply shocks are challenging.**
- **Consumers don't just fall down by themselves.**

Relevant New York Fed Content

- **Trade**

- Are Businesses Absorbing the Tariffs or Passing Them On to Their Customers?
- Do Import Tariffs Protect U.S. Firms?
- Does Trade Uncertainty Affect Bank Lending?
- The Global Supply Side of Inflationary Pressures
- The Impact of Import Tariffs on U.S. Domestic Prices
- Do Import Tariffs Help Reduce Trade Deficits?

- **Monetary Policy**

- Why Do Forecasters Disagree about Their Monetary Policy Expectations?
- The Federal Reserve and its Monetary Policy Implementation Framework
- Firms' Inflation Expectations Have Picked Up

- **Household Issues**

- Borrower Expectations for the Return of Student Loan Repayment
- When the Household Pie Shrinks, Who Gets Their Slice?

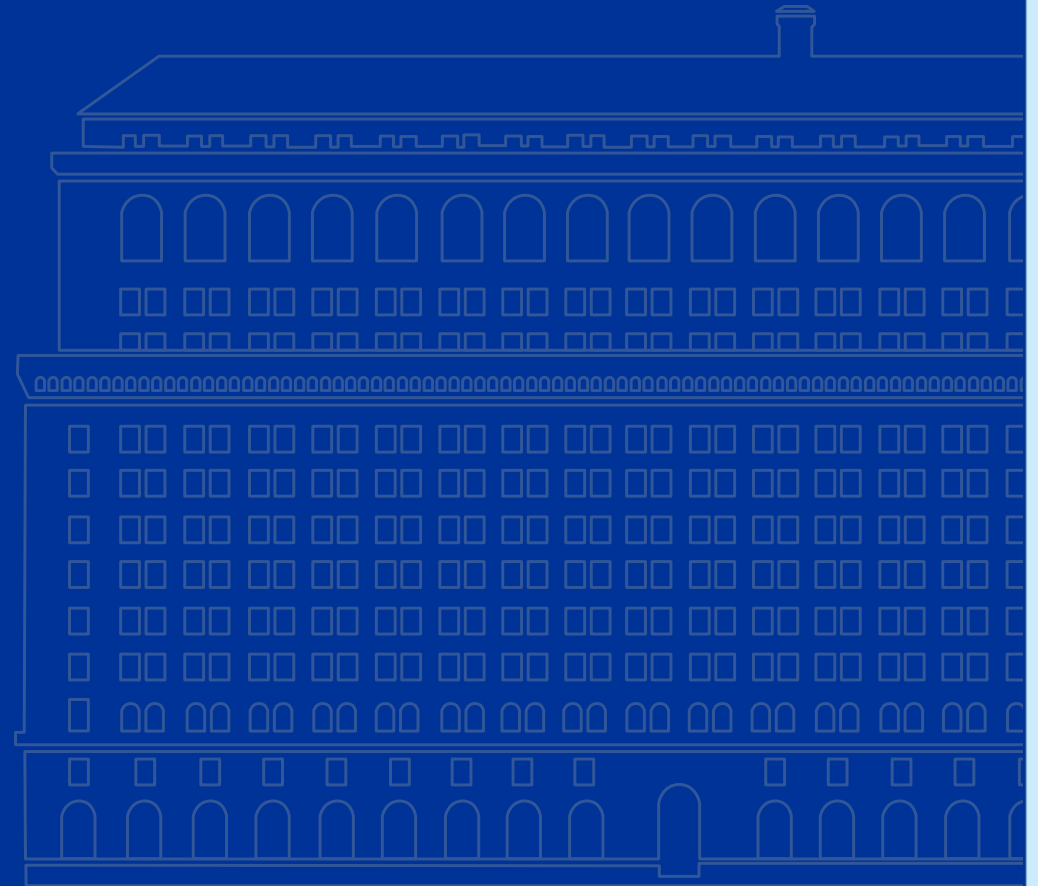
- **Banking Matters**

- Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas
- The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit

- **Treasury Market**

- Measuring Treasury Market Liquidity

Appendix



Upcoming Data Releases

- Friday, July 18: New Residential Construction (Census); Michigan Consumer Survey [preliminary] (UMich)
- Tuesday, July 27: International Trade in Goods [advance] (Census)
- Wednesday, July 30: GDP [1st release] (BEA)
- Thursday, July 31: Personal Income (BEA)

Monetary Policy Framework Review

- **January FOMC minutes:**

- “This review is focused on two specific areas: the Committee’s **Statement on Longer-Run Goals and Monetary Policy Strategy**, [...] and the Committee’s **policy communication practices** [...] occasional reviews of monetary policy frameworks were seen as useful in **adapting to evolving economic environments, promoting transparency, and fostering public understanding**”

- **March FOMC minutes**

- “Participants acknowledged that it is **difficult to assess maximum employment** and that they have been well served by **monitoring a wide range of indicators** that can vary depending on labor market and economic conditions... **reviewed the relationship between the dual-mandate goals and noted that those goals are not necessarily in conflict when both unemployment and inflation are low**”

Monetary Policy Framework Review

- **May FOMC minutes:**
 - **“Participants strongly reaffirmed their commitment to the 2 percent longer-run inflation objective and to the importance of longer-term inflation expectations being firmly anchored at that target rate. They emphasized that anchored inflation expectations help the Committee in achieving price stability, thereby enhancing the Committee’s ability to promote maximum employment [...] a commitment to its explicit 2 percent inflation objective, along with anchored longer-term inflation expectations at that level, **enhances the Committee’s transparency and accountability and bolsters the effectiveness of monetary policy.**”**
 - **“Participants indicated that they thought it would be appropriate to reconsider the average inflation-targeting language in the Statement on Longer-Run Goals and Monetary Policy Strategy. [...] **They viewed flexible inflation targeting as a more robust policy strategy capable of correcting persistent deviations of inflation from either side of the Committee’s 2 percent longer-run objective.**”**

Simplified Federal Reserve Balance Sheet

Assets	Liabilities
Treasury securities	Currency in circulation
Mortgage-backed securities (MBS)	Reserve balances
Loans	ONRRP
Other assets	Treasury General Account (TGA)
	Capital
	Other liabilities

More Balance Sheet Details...

- **Implementation**

- Convey monetary policy stance through federal funds rate target range
- Sets administered rates to support federal funds trading within target range
 - Rate of interest on reserve balances (IORB)
 - Offering rate for overnight reverse repo facility (ONRRP)
- Directs Open Market Desk at the New York Fed to conduct operations to promote money market conditions consistent with target range
- Other tools include the balance sheet and forward guidance

More Balance Sheet Details...

- **Expanding securities holdings and reserves:**
 - Desk purchases securities on the open market
 - In ample reserves regime, two types of purchases: QE and reserve management
- **QE (2009-2014, 2020-2022)**
 - Mostly to accommodate low rates
 - Also used at times to address market dysfunction
- **Reserve Management (09/2019-02/2020)**
 - Help maintain ample reserve balances as economy grows or reserve demand increases

More Balance Sheet Details...

- **Reducing securities holdings and reserves:**
 - Desk hasn't sold securities in quantity on open market since the GFC
 - In ample reserves regime, two types of purchases: QE and reserve management
- **QT (2017-2019, 06/2022-present)**
 - Maturing Treasury securities in SOMA
 - Principal payments (primarily early repayments) of MBS