ECONOMIC ADVISORY PANEL MEETING

Federal Reserve Bank of New York
33 Liberty Street, New York, New York

Friday, April 15th, 2016

AGENDA

10:00 a.m. Coffee, Benjamin Strong Room, 10th floor

10:30 a.m. Economic Outlook Discussion

- Presentation on FRBNY Staff Economic Outlook
  - Staff forecast (Robert Rich)
  - The FRBNY Staff Nowcast (Domenico Giannone)

- Comments on the FRBNY Staff Outlook by Austan Goolsbee and Jan Hatzius

- General discussion on the U.S. and global economic outlook

12:30 p.m. Luncheon, Northwest Conference Room, 10th floor

U.S. Outlook Background

At this meeting of the Economic Advisory Panel, the FRBNY staff will be presenting its outlook for the U.S. economy, as is typically done at the spring meeting. The staff forecast will be discussed and posted online at that time, along with the FRBNY Staff Nowcast. The Staff Nowcast is a new statistical tool that allows us to parse the data flow in real time and to translate it in terms of its impact on GDP growth in the current quarter. A Nowcast Report will be published on the New York Fed website regularly, starting on the day of this meeting.

As an introduction to the meeting, here we provide some background on current economic conditions, based on the data and staff commentary included in the April "US Economy in a Snapshot," which is available online.

Readings on the U.S. economy since the beginning of the year have been somewhat mixed. On the one hand, the labor market has added 209,000 jobs a month on average over the first three months of the year. The unemployment rate has fluctuated around 5 percent over the past few months, even as more people have been joining the labor force. Consumer spending appears to be expanding at a moderate pace and the housing market continues its gradual recovery. On the other hand, slow global growth and a significant appreciation of the dollar have been a drag on manufacturing and net exports. These same global developments have also weighed on business investment, which has been further restrained by the chilling effect of the oil price collapse on drilling activity.

On the inflation front, PCE prices were up only 1 percent in February on a 12-month basis, held down in part by earlier declines in the price of oil; this inflation measure should pick up if the recent stabilization in energy prices continues. In contrast, core PCE prices were up 1.7 percent in February relative to a year earlier, having recovered from a string of 1.3 percent readings between January and October 2015. The return of inflation to the FOMC's 2 percent goal, however, could be threatened by the declines in inflation expectations over the past several months, as measured both in surveys and asset prices.

Recent global developments also have impacted the U.S. economy through their effect on financial markets. The bout of financial turbulence at the beginning of the year seems to have abated, but together with the similar episode in the summer of 2015, it has highlighted the sensitivity of U.S. financial conditions to global news, especially related to China. Given the significant uncertainty surrounding the rebalancing process under way in the Chinese economy, this sensitivity of financial markets represents a notable risk factor for the U.S. domestic economy. In addition, the recent turbulence comes against the backdrop of emerging softness in corporate credit conditions, especially in the energy sector, representing a further area of vulnerability for the still-fragile domestic expansion.

As noted by Chair Yellen in her recent speech at the Economic Club of New York, the restraining effects of these global developments on U.S. economic activity "have been at least partially offset by downward revisions to market expectations for the federal funds rate that in turn have put downward pressure on longer-term interest rates, including mortgage rates, thereby helping to support spending." As a result, she anticipated that "the overall fallout for the U.S. economy from global market developments since the start of the year will most likely be limited, although this assessment is subject to considerable uncertainty."

In that same speech, Chair Yellen said that "developments abroad imply that meeting our objectives for employment and inflation will likely require a somewhat lower path for the federal funds rate than was anticipated in December." This statement is consistent with the downward shift of the "SEP dots"—the FOMC participants' projections of the federal funds rate in the Summary of Economic Projections—in March, even as the forecasts for inflation, GDP growth, and unemployment changed little. Again in the Chair's words, "the baseline outlook for real activity and inflation is little changed because investors responded to those developments by marking down their expectations for the future path of the federal funds rate, thereby putting downward pressure on longer-term interest rates and cushioning the adverse effects on economic activity." Some commentators, however, interpreted the movement in the dots as a shift in the FOMC's reaction function.

Questions for Discussion

- The March FOMC statement noted that "global economic and financial developments continue to pose risks." What is your assessment of the risks to the U.S. economy emanating from global economic and financial developments?
- In your view, what are the main channels of transmission of those risks: The exchange value of the dollar; commodity prices; financial flows and their effect on broader financial conditions; fluctuations in market participants' risk attitudes, especially in reaction to uncertainty about prospects for China and other emerging markets?
- Do you think that the recent downturn in the corporate credit cycle could move beyond the energy sector and become more widespread?
- What do you see as the bright spots, if any, in the global economy? What do you see as the main upside risks?