



**Federal Reserve Bank of New York
33 Liberty Street, New York, NY 10045
Museum & Learning Center & West Wing**

**Joint Meeting of Advisory Council on Small Business and Agriculture &
Upstate New York and Regional Advisory Board**

Thursday, November 21, 2019

AGENDA

- | | |
|-----------------------|--|
| 3:00 p.m. – 3:30 p.m. | Welcome and Brief Introductions, Tony Davis, Officer |
| 3:30 p.m. – 3:45 p.m. | U.S. Economic Conditions, David Lucca, AVP |
| 3:45 p.m. – 4:00 p.m. | Economic Conditions in the Region, Jaison Abel, AVP |
| 4:00 p.m. – 4:15 p.m. | Minimum Wage Research, Jason Bram, Officer |
| 4:15 p.m. – 5:30 p.m. | Facilitated Discussion, Claire Kramer Mills, AVP |
| 5:30 p.m. – 5:45 p.m. | Update on New Advisory Board, John Williams, President and CEO |
| 5:45 p.m. – 7:00 p.m. | Reception |



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ATTENDEE LIST

SBAAC & UNYRAB Council Members

Donnel Baird
Founder & CEO
BlocPower

Sarah LaFleur
Founder & CEO
MM.LaFleur

Adenah Bayoh
Founder & CEO
Adenah Bayoh & Companies

Melanie Littlejohn
VP, Customer & Community Engagement
National Grid

Jaswinder (Jassi) Chadha
Co-Founder & CEO
Axtria

Linda MacFarlane
Executive Director
Community Loan Fund of the Capital Region

Kevin Ellis
CEO
Cayuga Milk Ingredients

Anthony E. Shorris
John Weinberg/Goldman Sachs Visiting Scholar
Princeton University

Kenneth Franasiak
Chairman
Calamar

Waleska Rivera
President
Danosa Caribbean, Inc.

Federal Reserve Bank of New York

John Williams
Jack Gutt
Kausar Hamdani
Rosanne Notaro
David Erickson
Claire Kramer Mills
Tony Davis
Matthew Higgins
Jaison Abel
David Lucca
Jason Bram
Chelsea Cruz
Edison Reyes
Jessica Battisto

President & CEO
EVP, Communications & Outreach
SVP, Communications & Outreach
VP, Legal
SVP, Outreach & Education
AVP, Outreach & Education
Officer, Outreach & Education
VP, Research & Statistics
AVP, Research & Statistics
AVP, Research & Statistics
Officer, Research & Statistics
Associate, Outreach & Education
Associate, Outreach & Education
Senior Analyst, Outreach & Education



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U.S. Economic Conditions

David Lucca, Assistant Vice President

November 21, 2019

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Overview

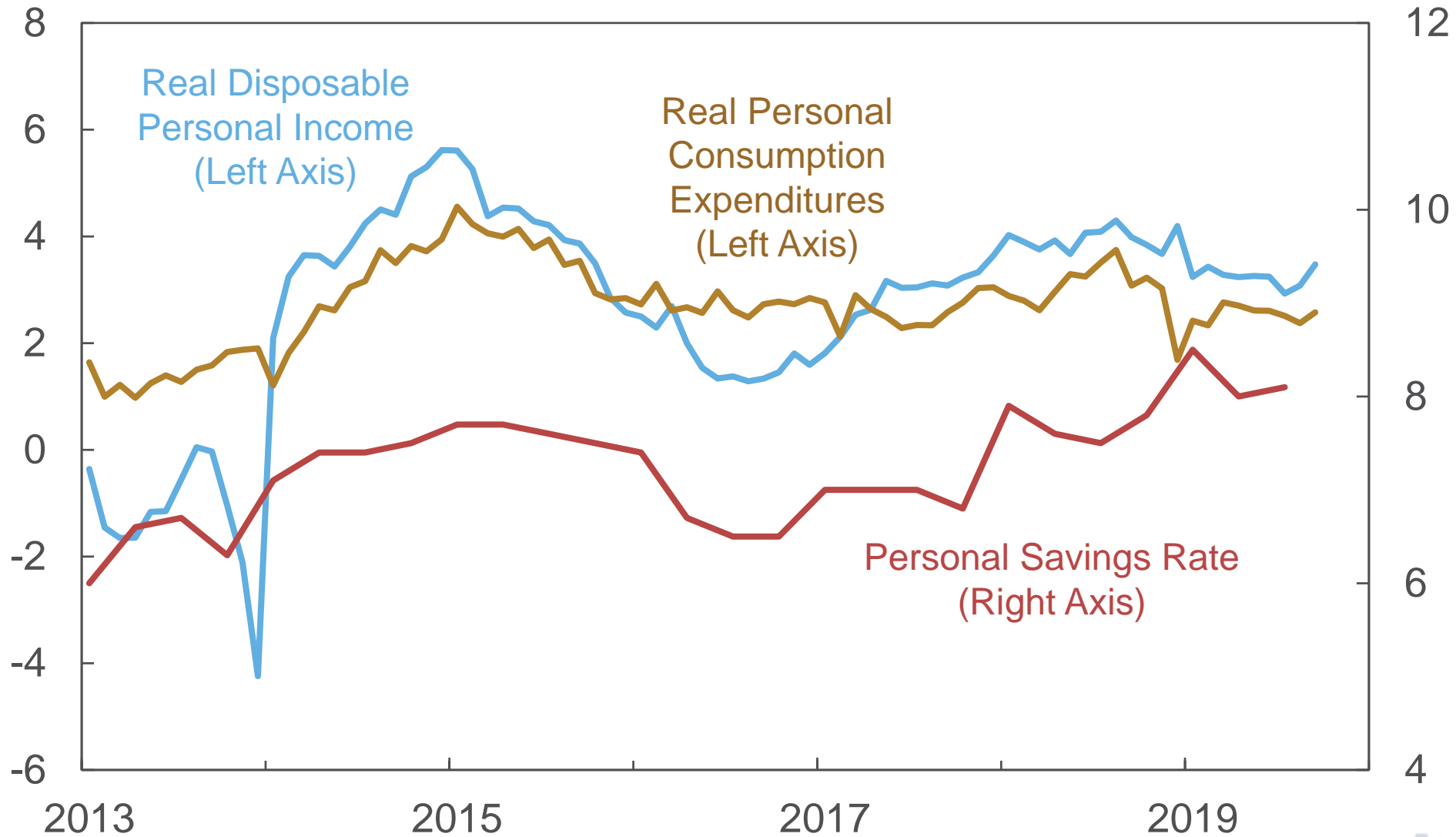
- Real GDP grew at 2.3% thus far this year above the economy's estimated potential (1¾%).
- Continued gains in the labor market but some moderation in earnings growth.
- After a weak start of the year, inflation is firming but remains muted.
- Consumer spending remains strong while business fixed investment is weakening as the manufacturing sector is experiencing a contraction.



Consumer Spending Remains Strong

12-Month Percent Change

Percent of Disposable Income



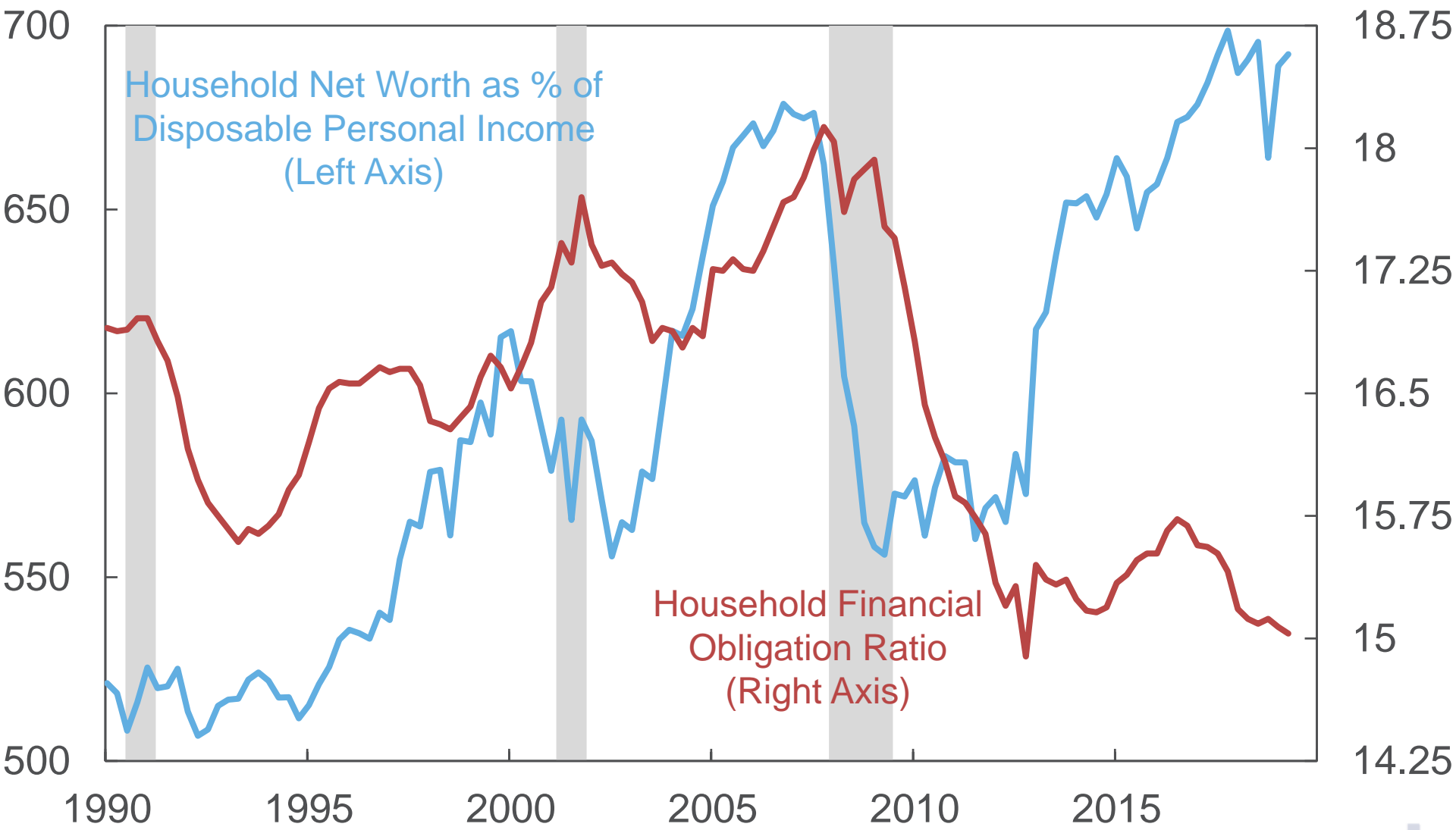
Source: Bureau of Economic Analysis via Haver Analytics.



Household Sector in Strong Financial Position

Percent of Disposable Income

Percent of Disposable Income



Source: Federal Reserve Board via Haver Analytics.

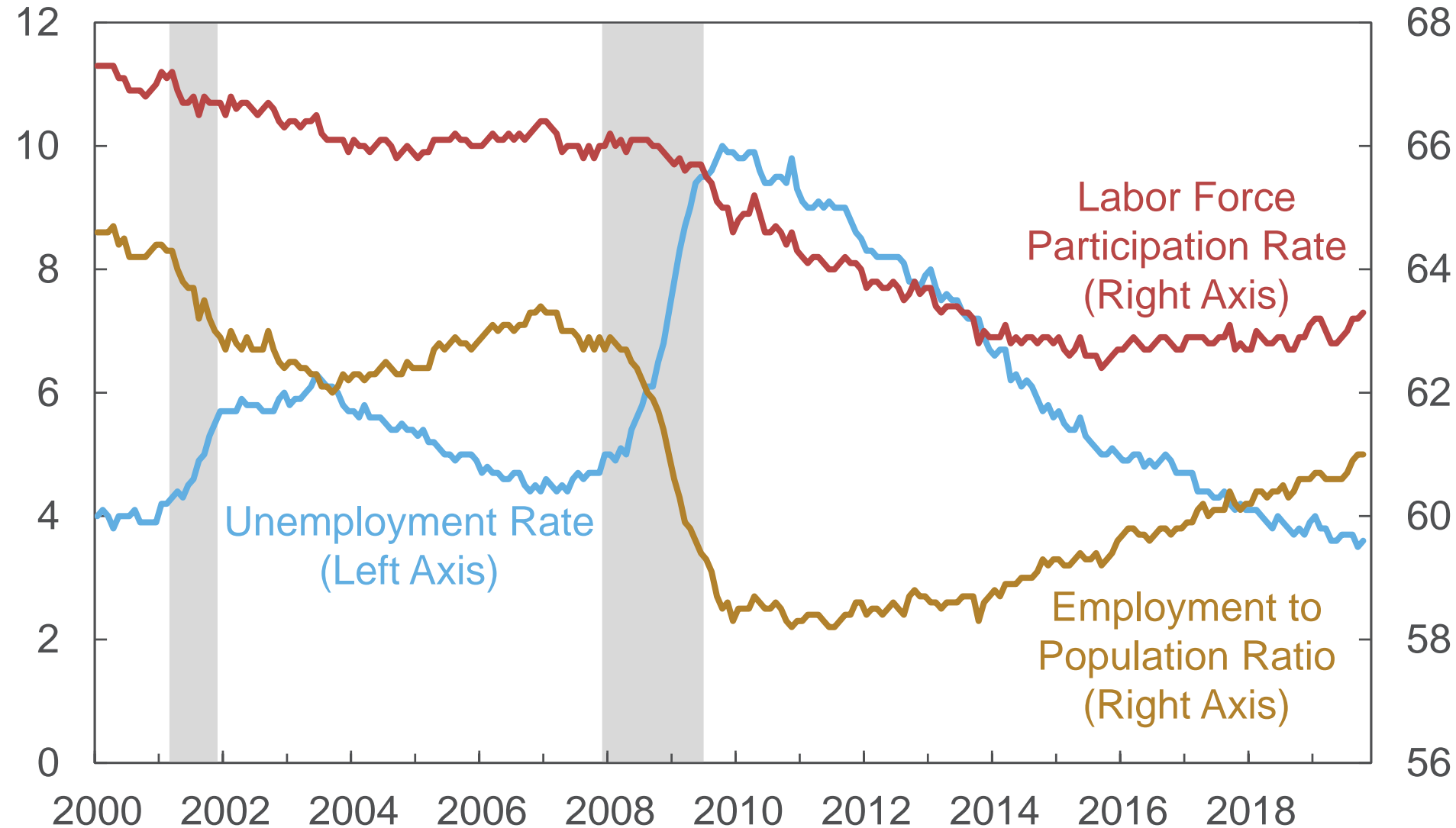
Note: Shading shows NBER recessions.



Unemployment Rate at 50-year Lows

Percent

Percent



Source: Bureau of Labor Statistics.

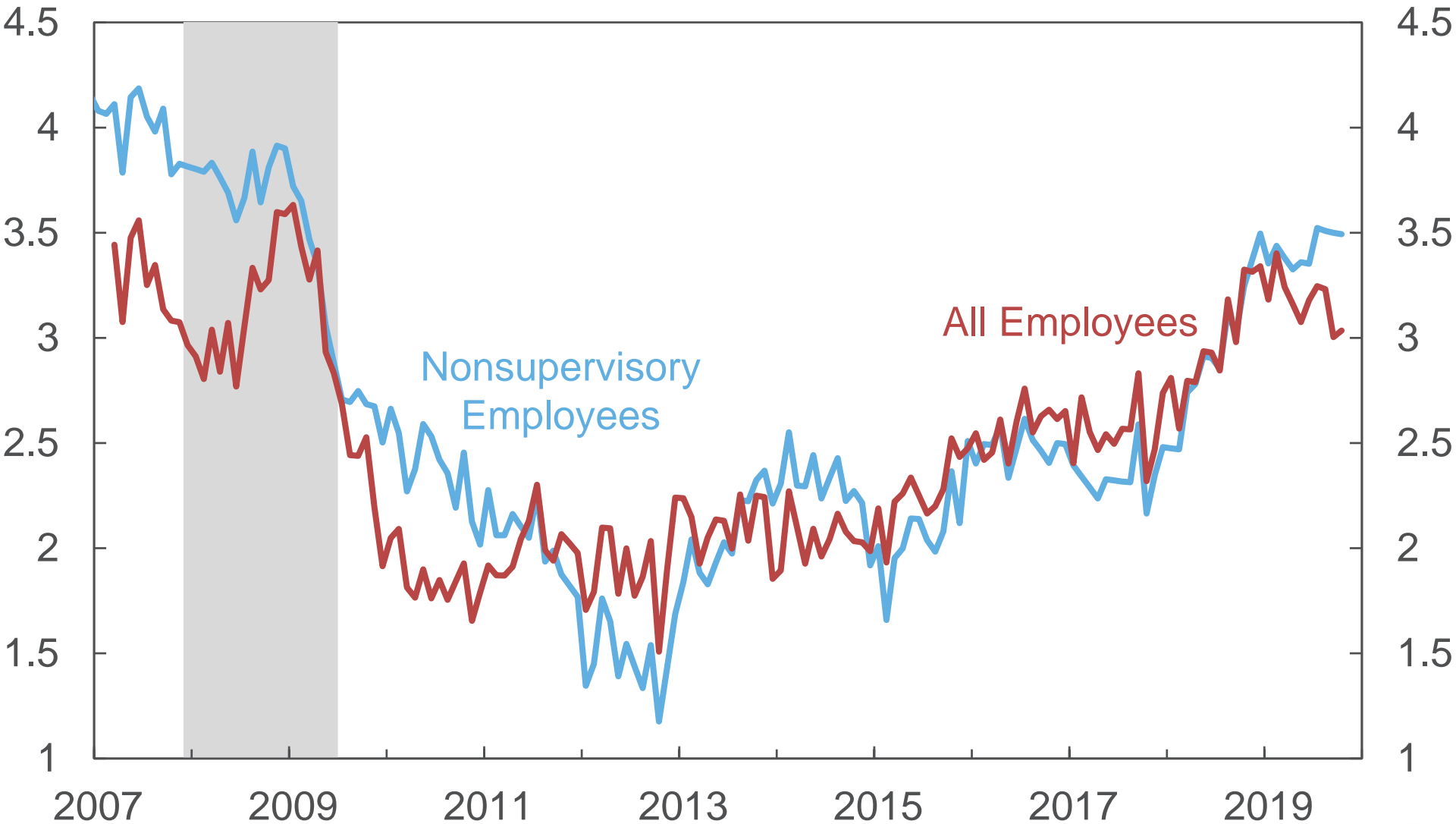
Note: Shading shows NBER recessions.



Moderation in Earnings Growth

12-Month Percent Change

12-Month Percent Change



Source: Bureau of Labor Statistics via Haver Analytics.

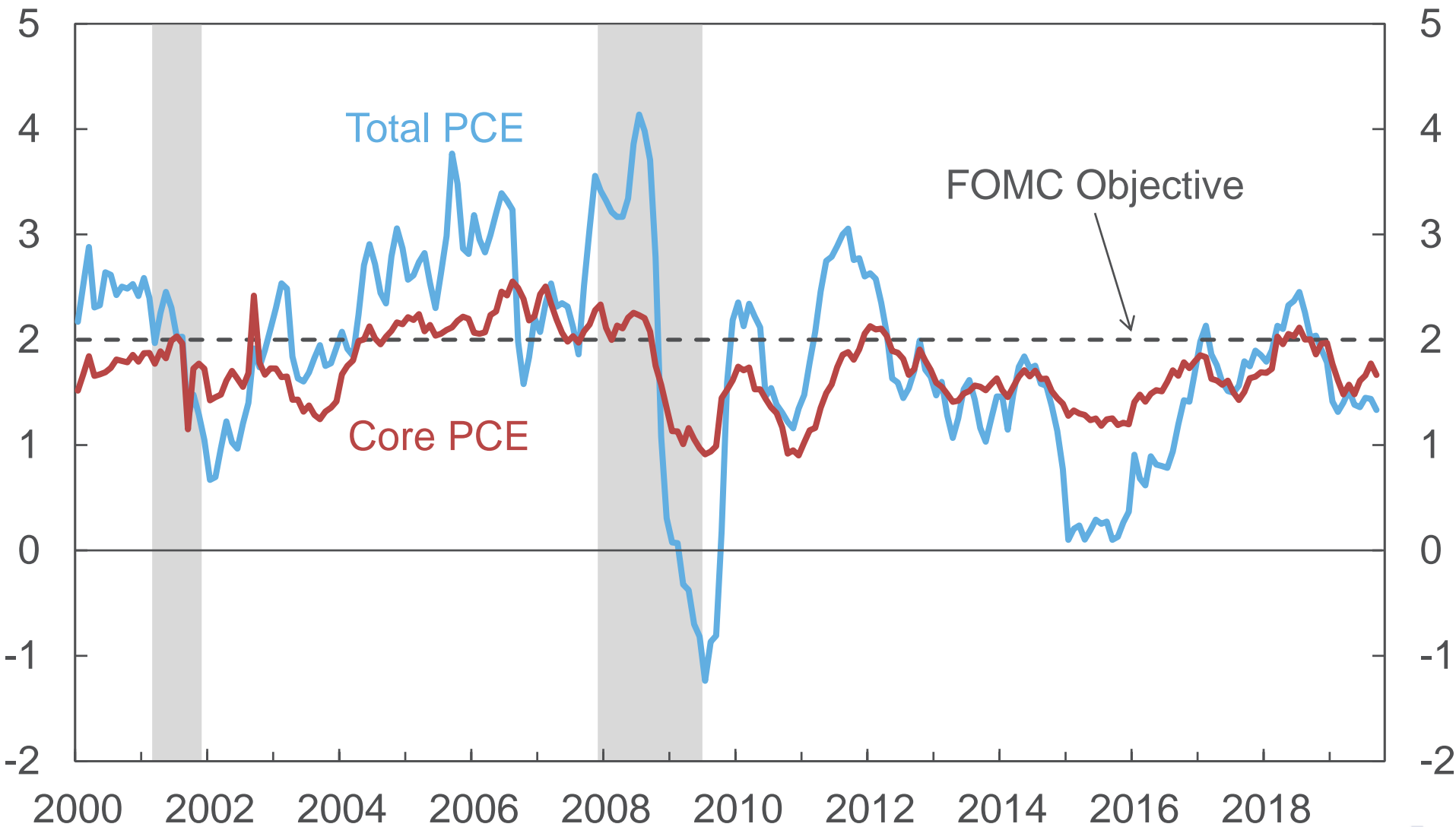
Note: Average Hourly Earnings. Shading shows NBER recessions.



Core PCE Inflation Rising but Still Muted

12-Month Percent Change

12-Month Percent Change

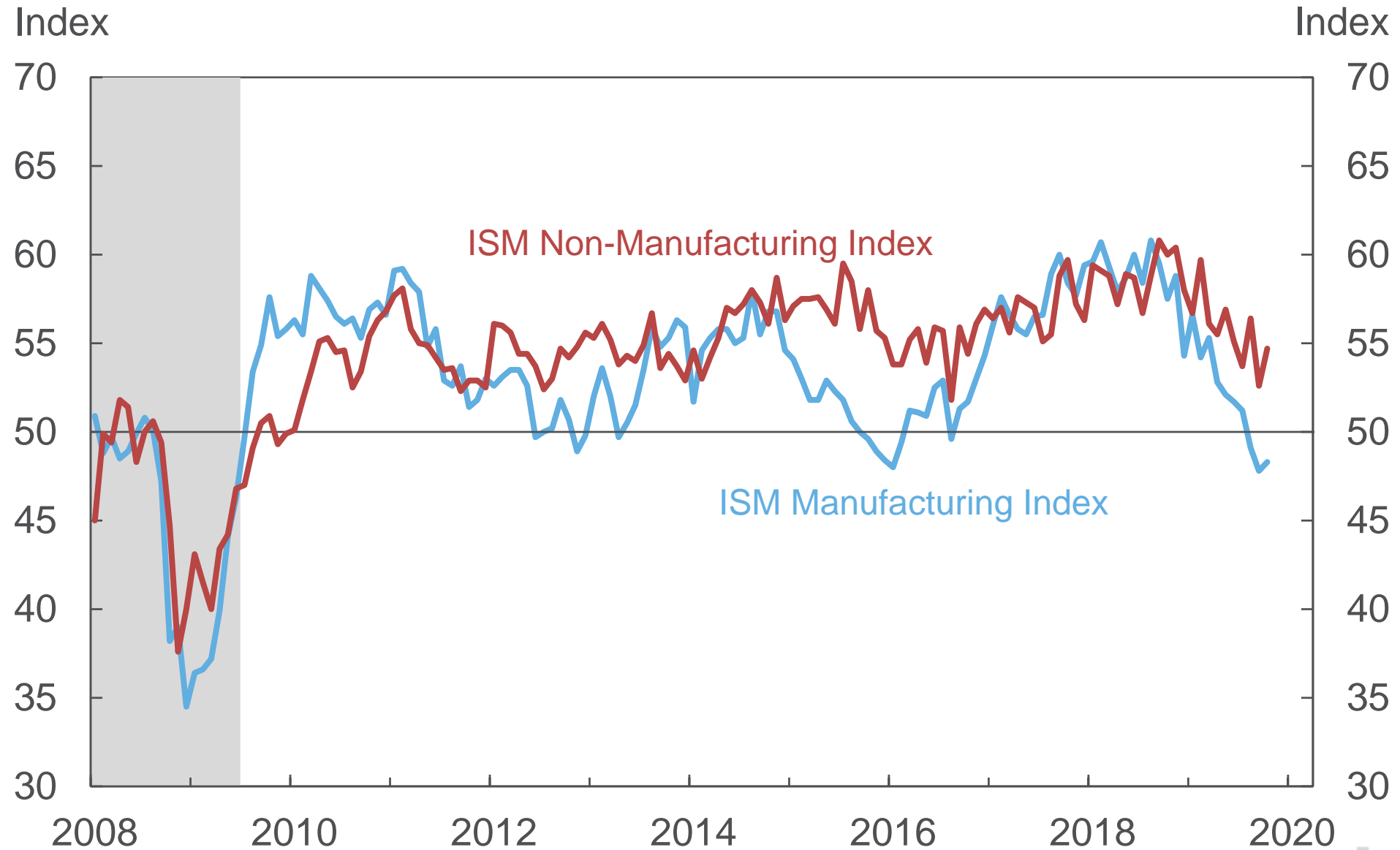


Source: Bureau of Economic Analysis
via Haver Analytics.

Note: Shading shows NBER recessions.



US Manufacturing Sector Contracting



Source: Institute of Supply Management.

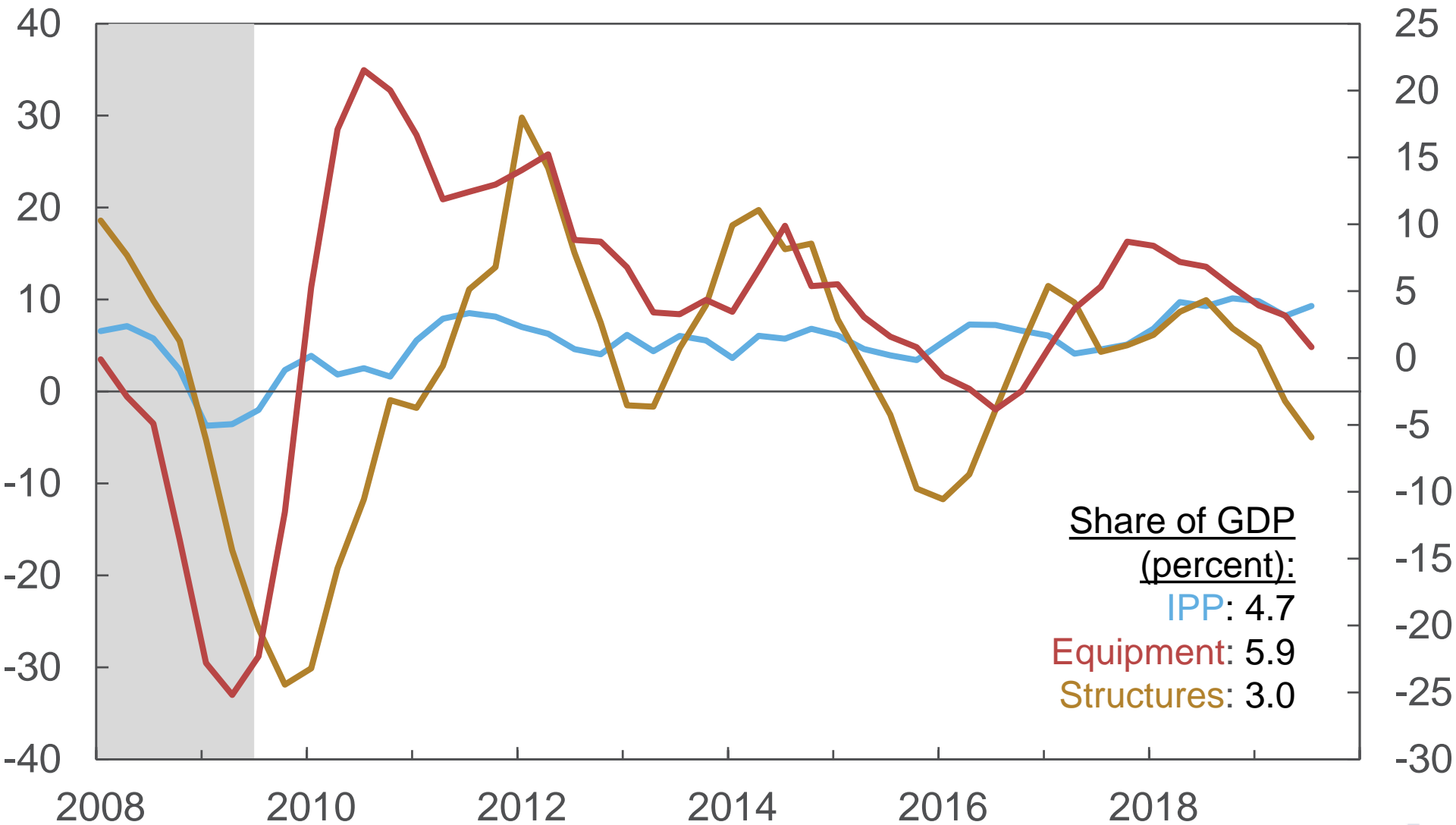
Note: Shading shows NBER recessions.



Business Fixed Investment Slowing

4-Quarter Percent Change

4-Quarter Percent Change



Source: Bureau of Economic Analysis.

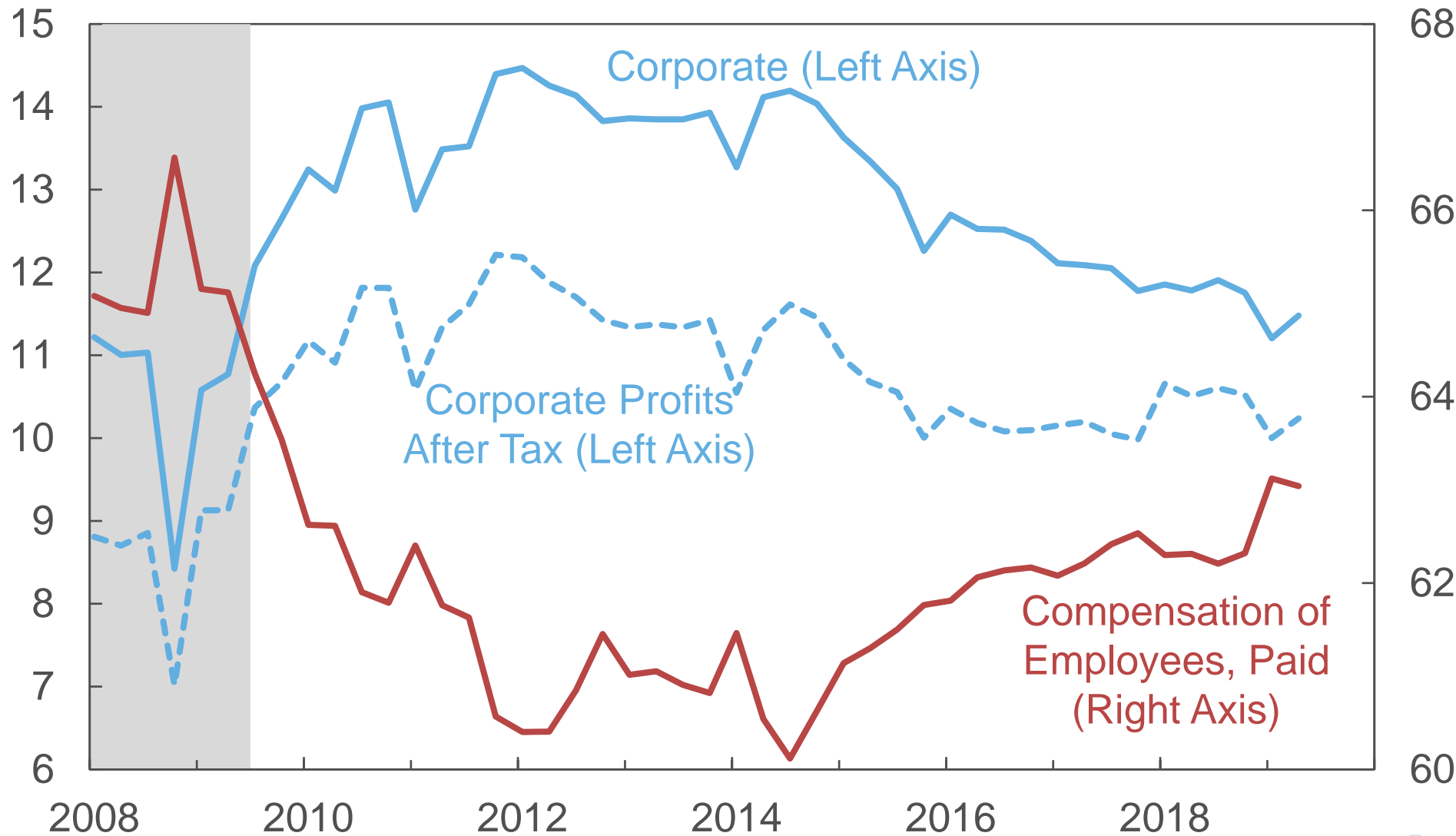
Note: Share calculated as of 2019:Q2.



Declining Profit Share of National Income

Percent of National Income

Percent of National Income



Note: Corporate profits includes IVA and CC Adjustments. Shading shows NBER recessions.

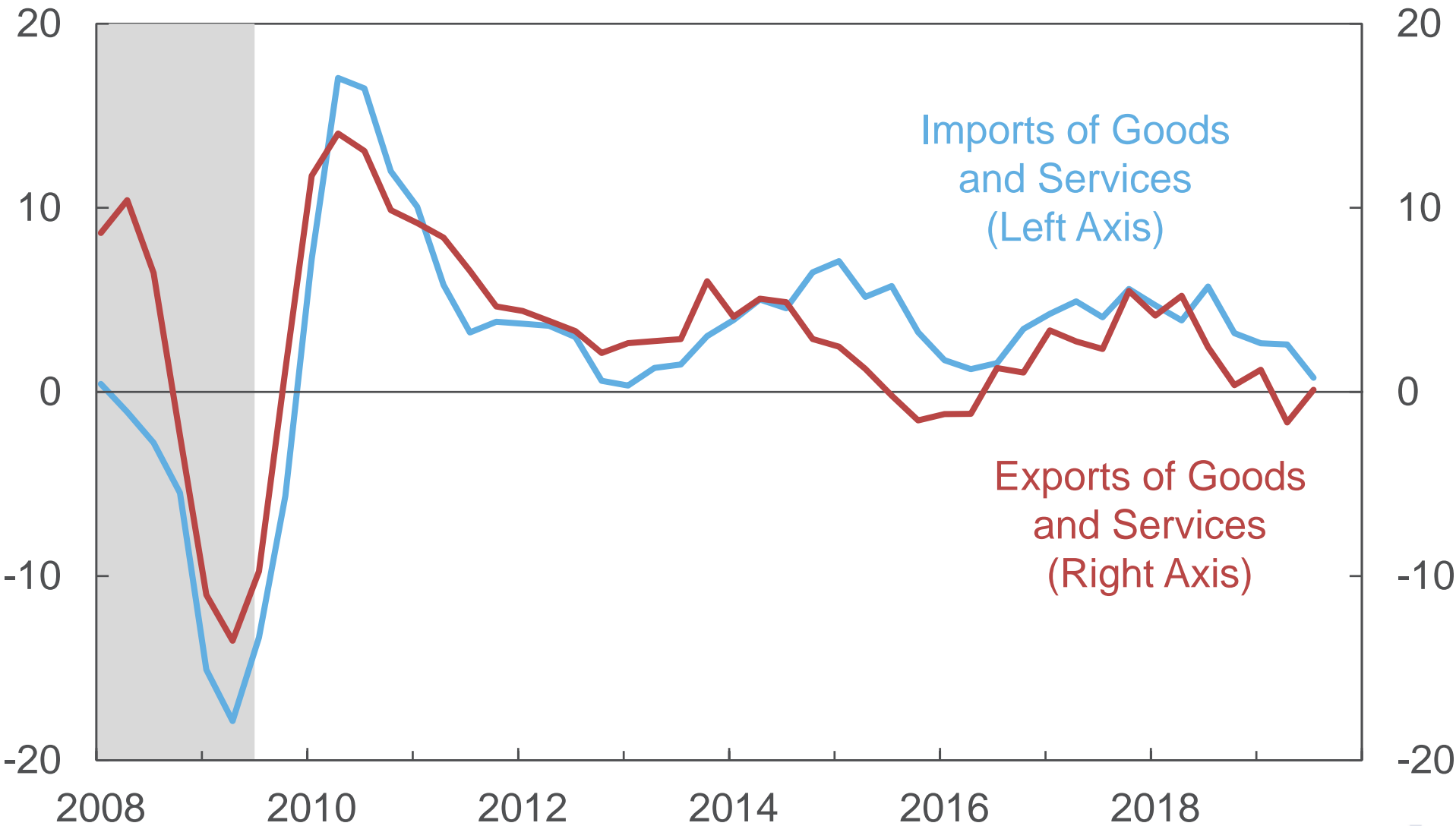
Source: Bureau of Economic Analysis.



Weak Global Demand

4-Quarter Percent Change

4-Quarter Percent Change



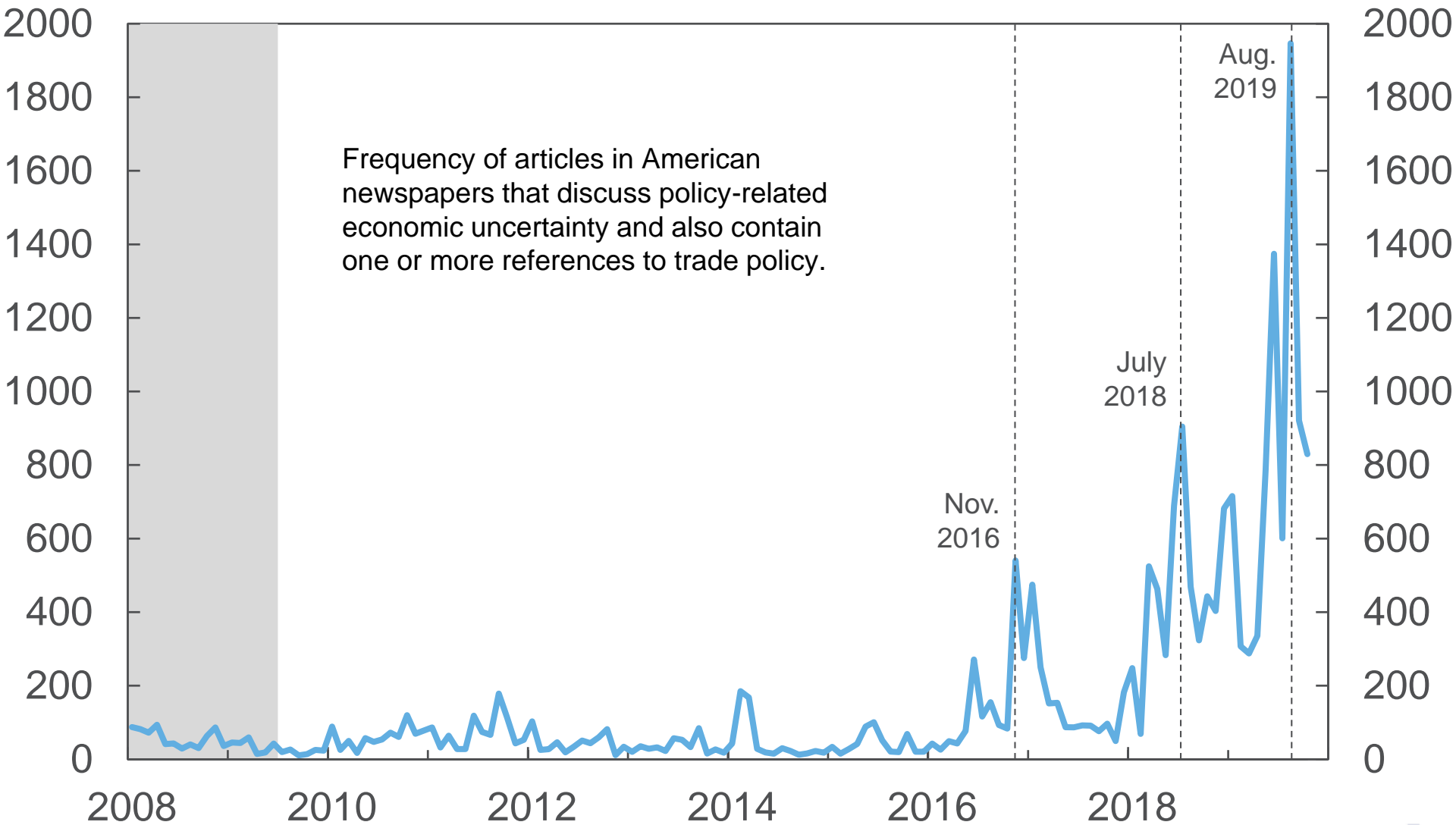
Source: Bureau of Economic Analysis.

Note: Growth rates in real terms. Shading shows NBER recessions.

Elevated Trade Policy Uncertainty

Index (1985 = 100)

Index (1985 = 100)



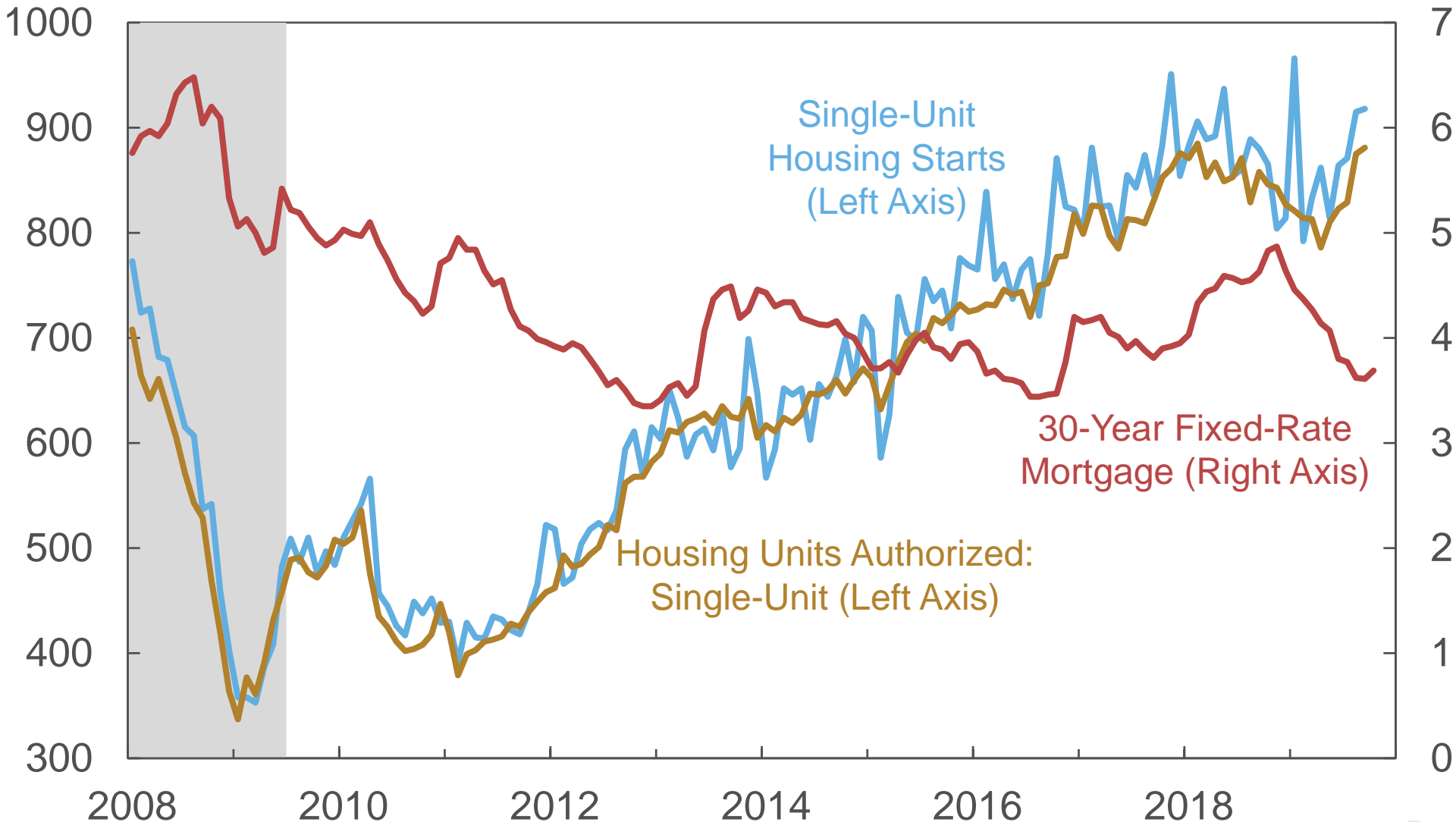
Source: Baker, Bloom and Davis
PolicyUncertainty.com via Haver Analytics.

Note: Shading shows NBER recessions.

Single Family Housing Responding to Lower Rates

Thous. Units

Percent



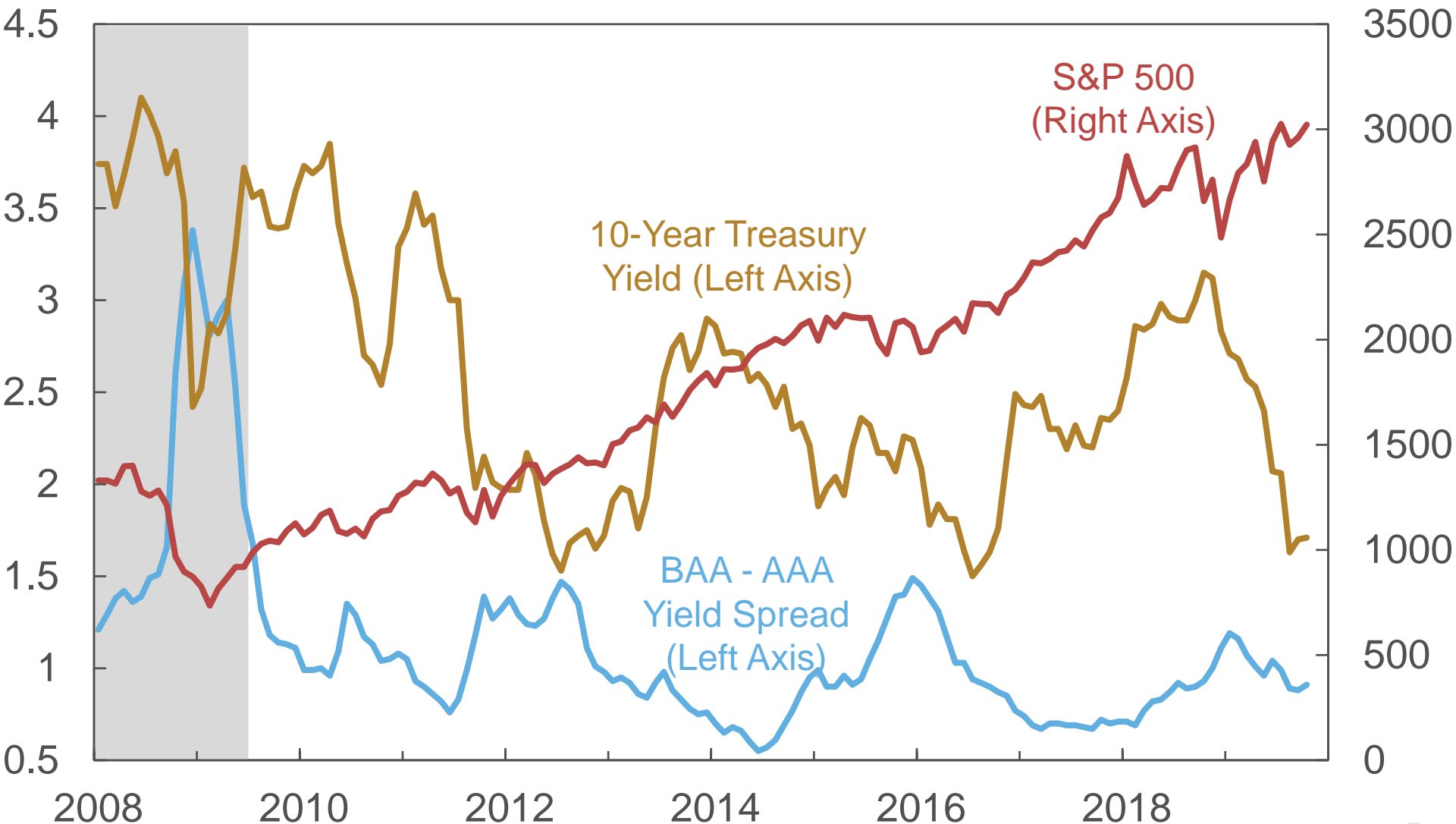
Source: US Census and FHLMC.

Note: Shading shows NBER recessions.

Financial Conditions Supportive to Economic Growth

Percentage Points

Index



Source: Wall Street Journal, U.S. Treasury, and Moody's via St. Louis FRED.

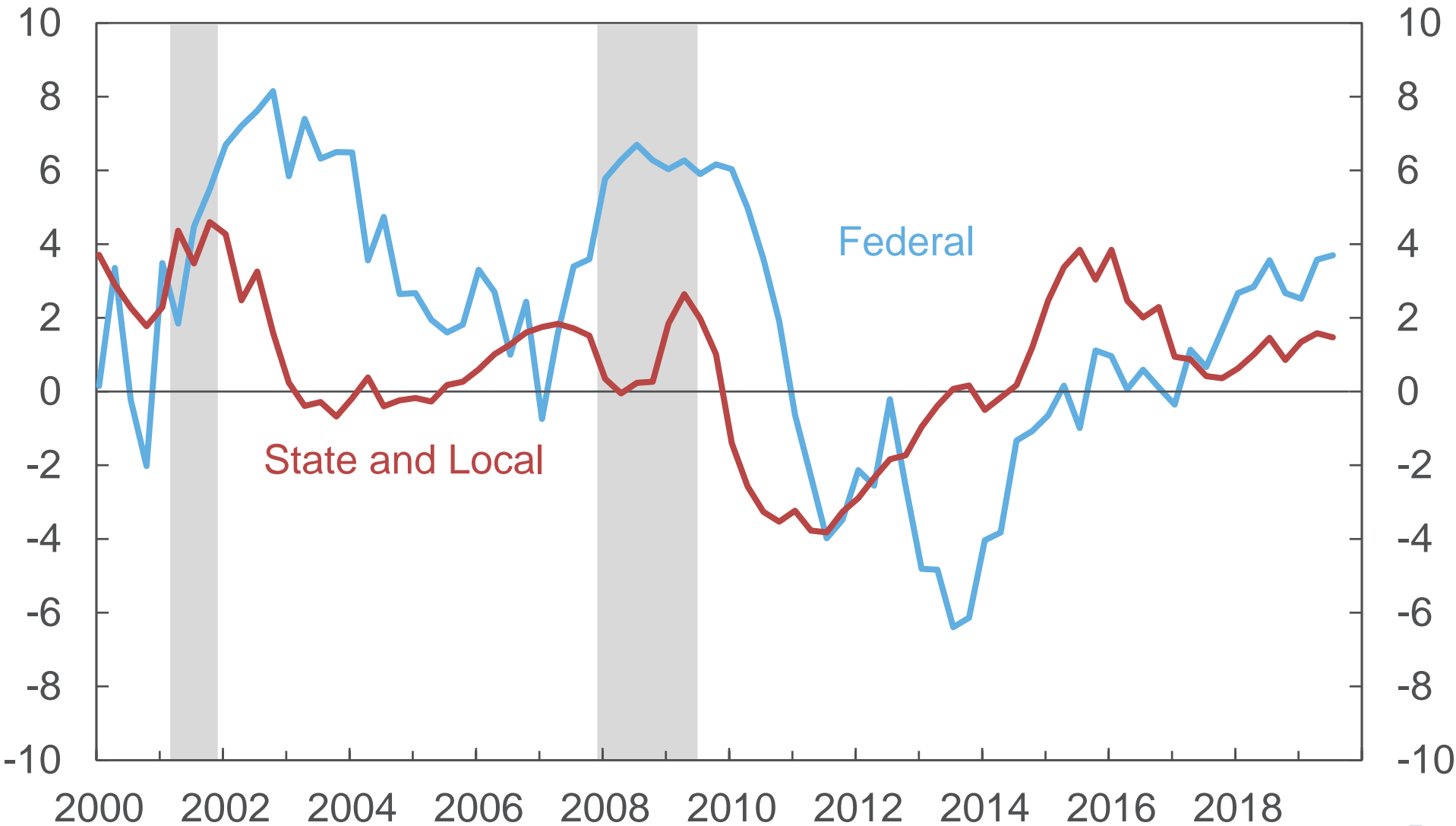
Note: Shading shows NBER recessions.



Government Spending Boosts Economic Growth

4-Quarter Percent Change

4-Quarter Percent Change



Source: Bureau of Economic Analysis via Haver Analytics.

Note: Growth rates in real terms. Shading shows NBER recessions.



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Economic Conditions in the Region

Jaison R. Abel

Joint SBAAC and UNYRAB Meeting – November 21, 2019

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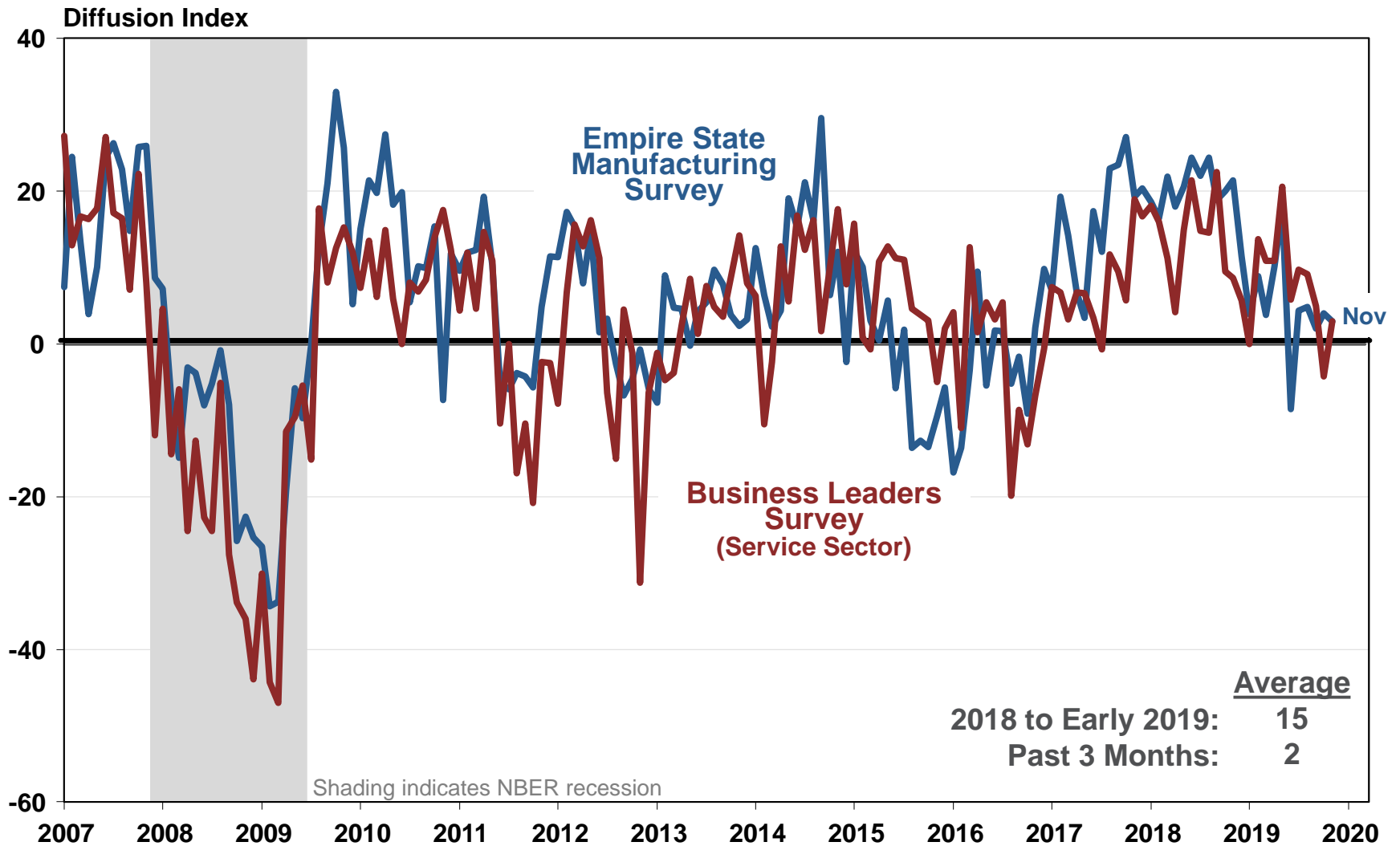
Overview of Regional Conditions

- There has been little or no growth in the New York-Northern New Jersey region in recent months.
- Job growth has slowed in much of the region, particularly in and around New York City, in part because tight labor markets have made it difficult for businesses to find workers.
- Looking ahead, businesses in the region have become much less optimistic about future economic conditions.



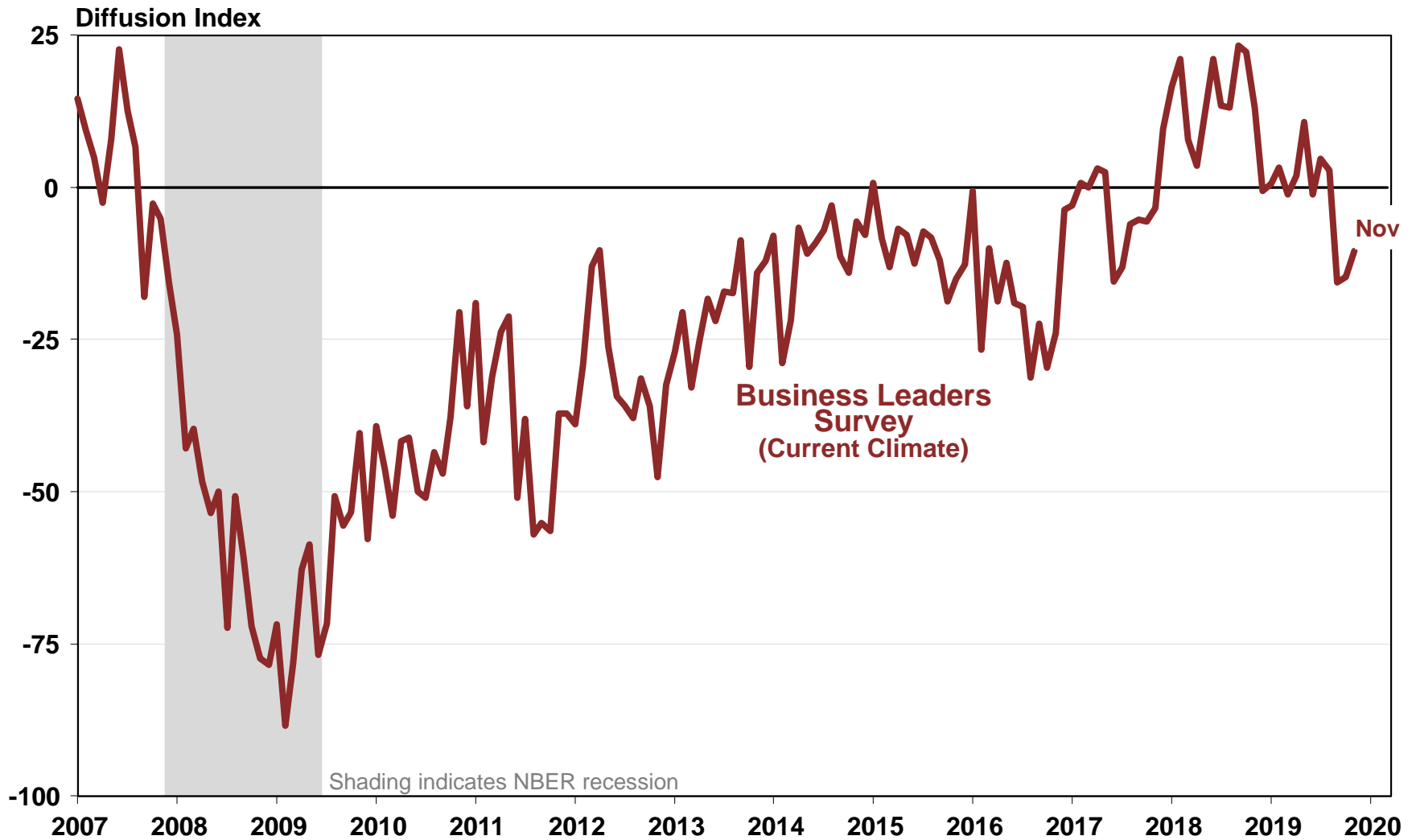
Current Economic Conditions

FRBNY Regional Business Surveys



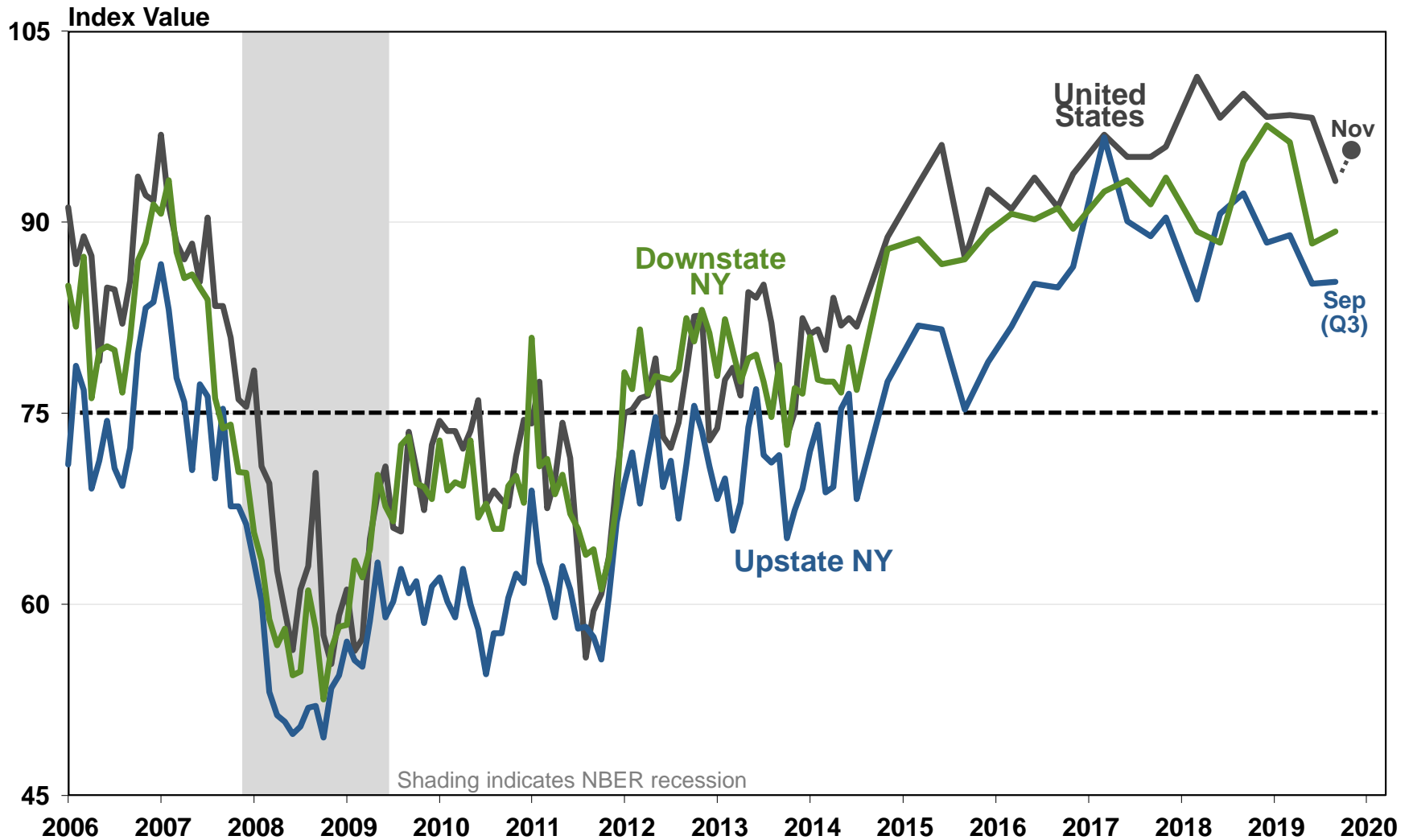
Current Business Climate

FRBNY Business Leaders Survey



Regional Consumer Confidence

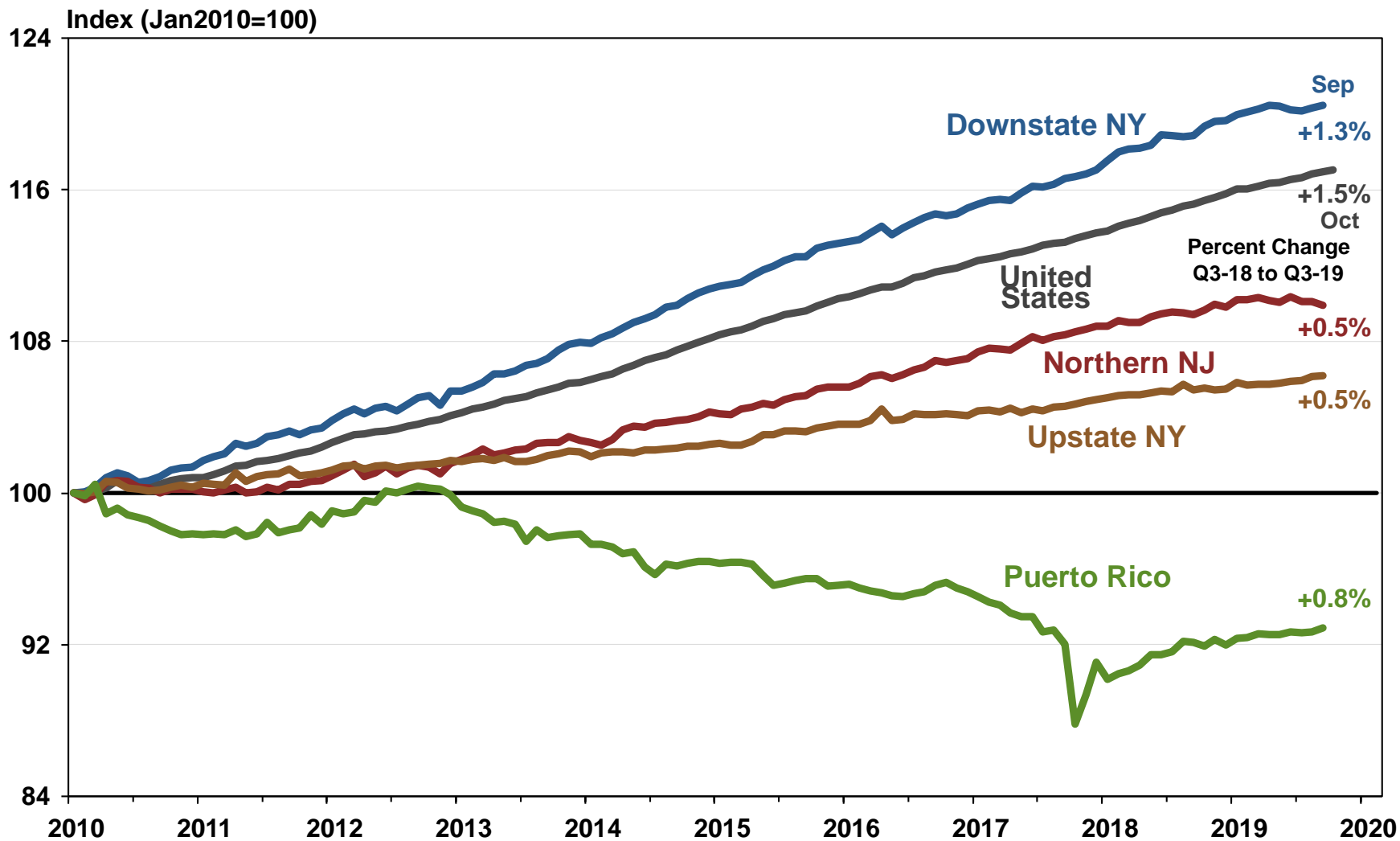
Overall Consumer Confidence



Shading indicates NBER recession

Regional Employment Trends

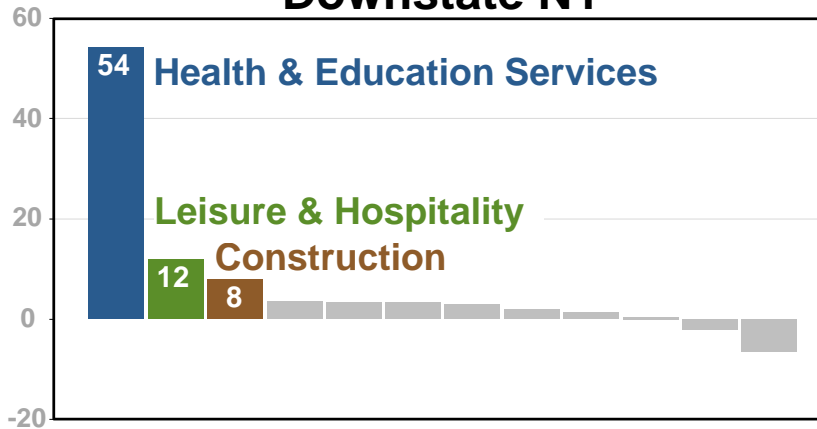
Indexes of Total Employment, Seasonally Adjusted



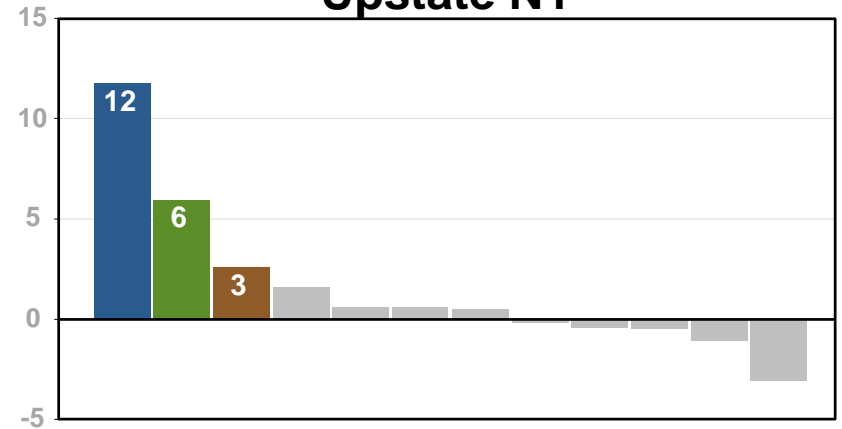
Sectors Driving Regional Job Gains

Annual Employment Change (Ths), Q3-2018 to Q3-2019

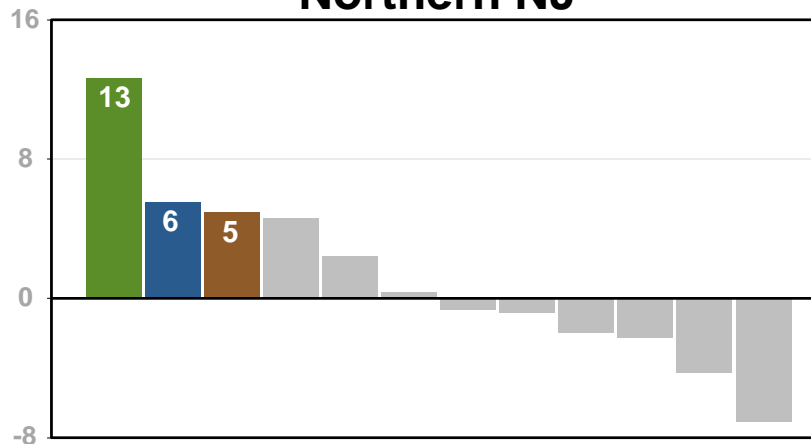
Downstate NY



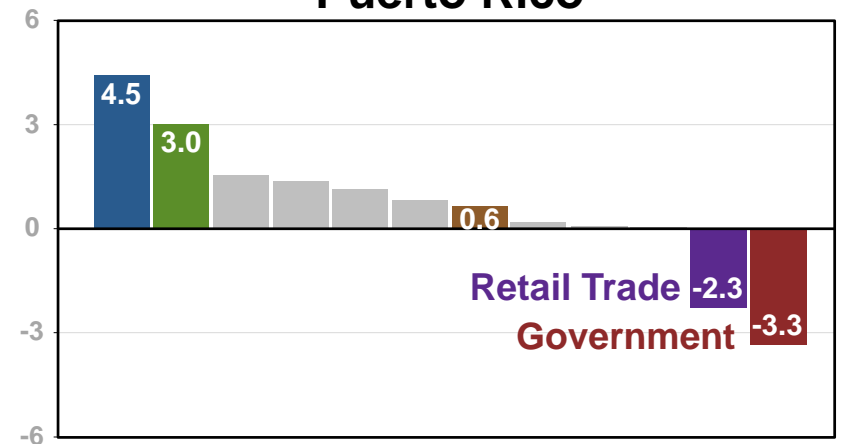
Upstate NY



Northern NJ

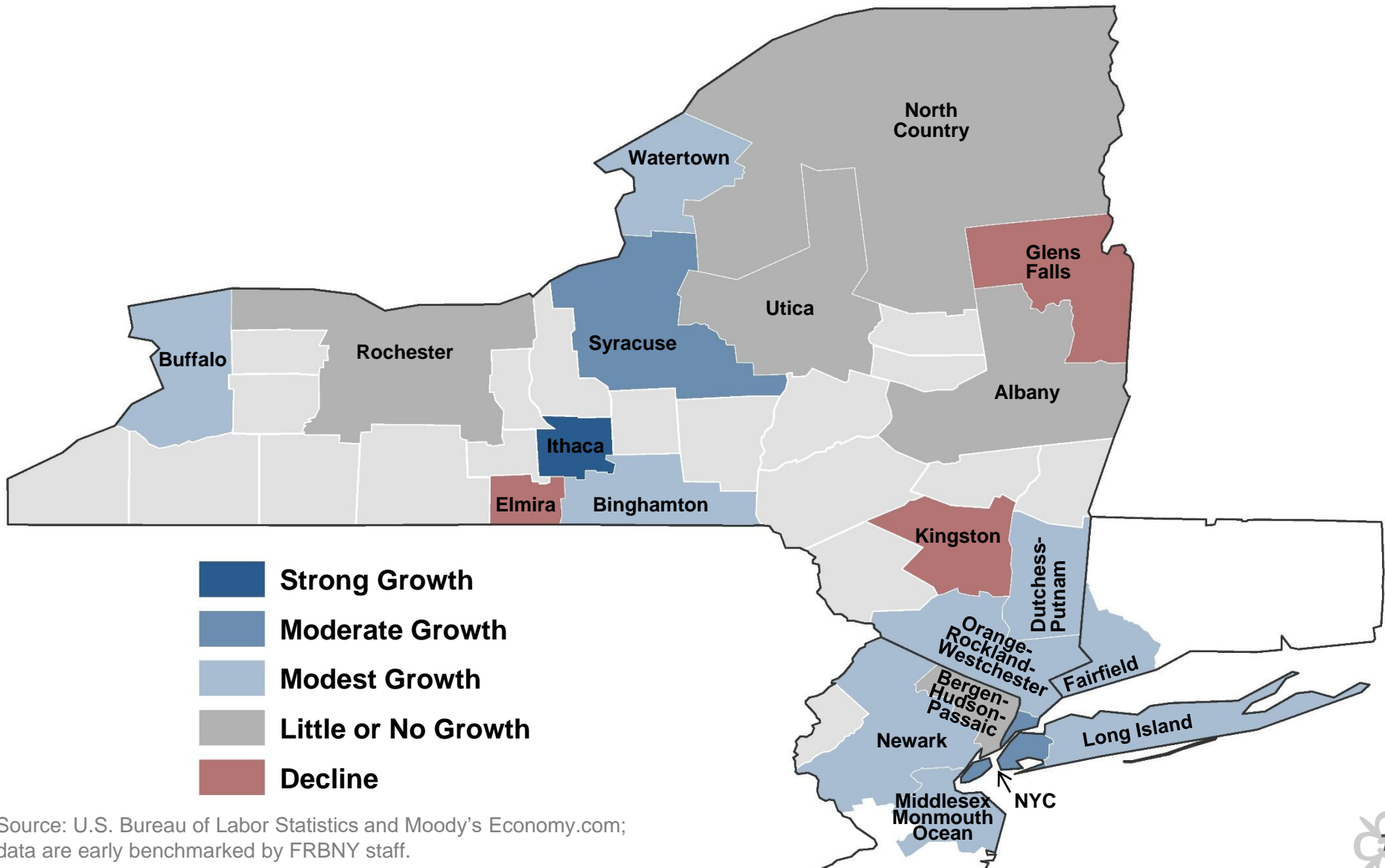


Puerto Rico



Recent Job Growth in the NY-NNJ Region

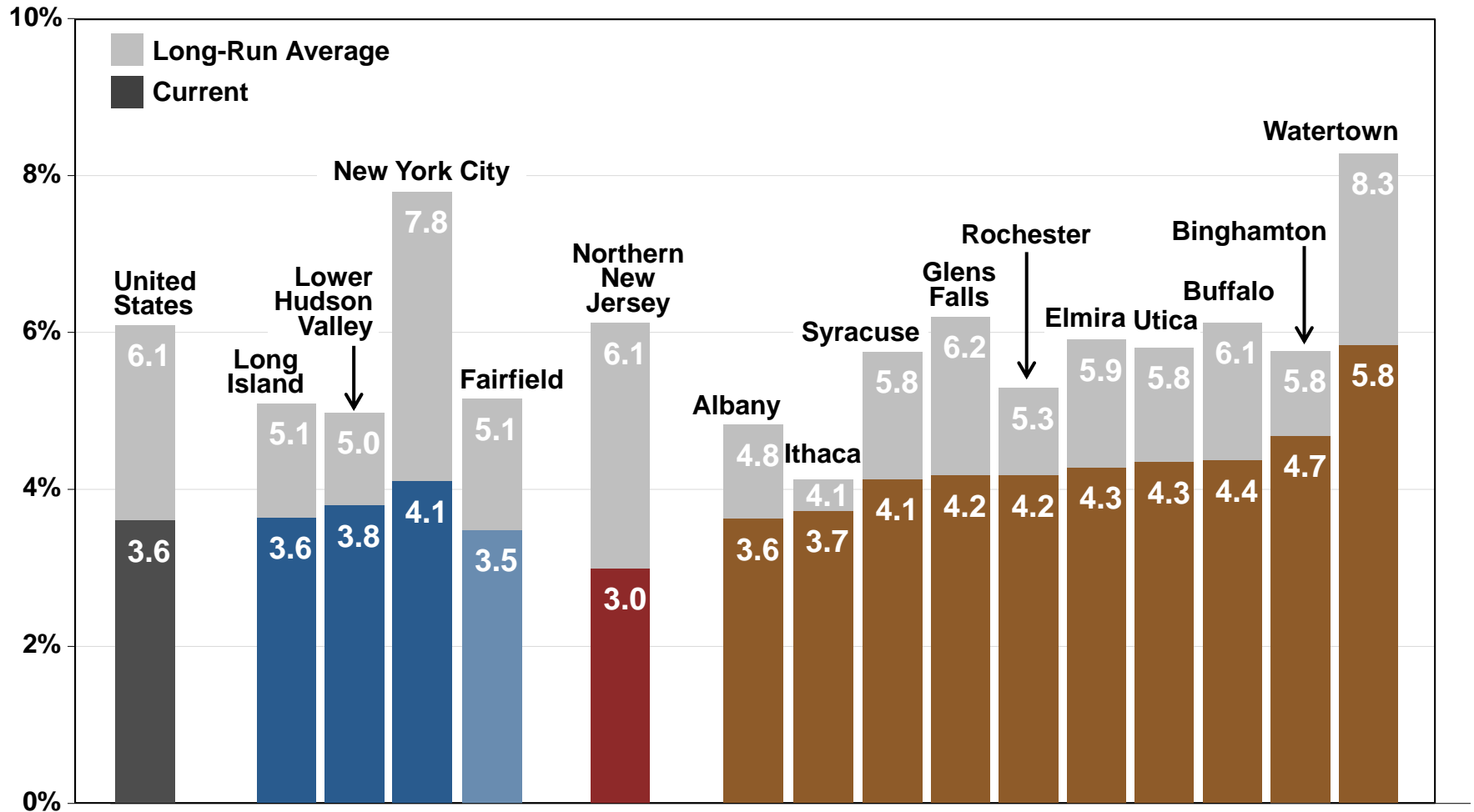
Annual Percent Change, Q3-2018 to Q3-2019



Source: U.S. Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by FRBNY staff.

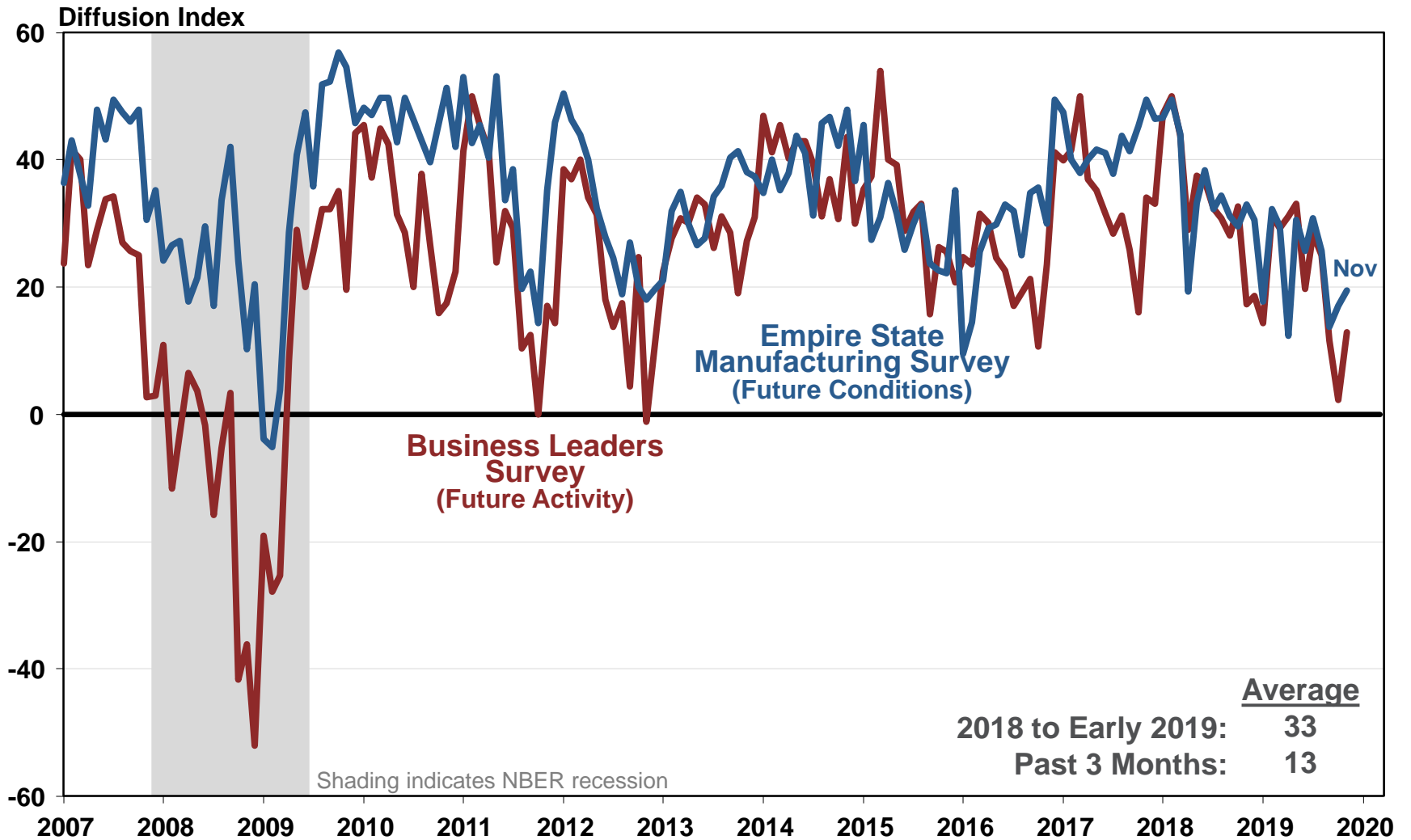
Regional Labor Markets Remain Tight

Long-Run and Current Unemployment Rates, Seasonally Adjusted



Future Economic Conditions

FRBNY Regional Business Surveys





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Overview of Minimum Wage Issues in NY

Jason Bram, Research Officer

Advisory Council on Small Business & Agriculture / Upstate New York & Regional Advisory Board
Joint meeting: November 21, 2019

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Economics of a Minimum Wage

- Economic theory on minimum wage legislation
 - Theory suggests that a rise in the minimum wage, relative to market wages, would have some adverse employment effects—i.e. potentially generate a sub-optimal level (and distribution) of employment.
- Research on effects of minimum wage
 - A main question involves the effect on jobs—i.e., by how much would a given increase in the minimum wage (say, 10%) reduce employment? And how quickly would it occur?
 - This research often exploits border differences—using one side of the border (between a low/high minimum wage area) as a control group.
 - Much of the empirical evidence suggests that *moderate* increases in an area's minimum wage tend to have fairly small, if any, near-term effects on employment.
 - The employment effect in a particular area may depend on a variety of factors, such as prevailing market wages, industry mix, strength of the local economy, and prevalence of local-market vs export industries.

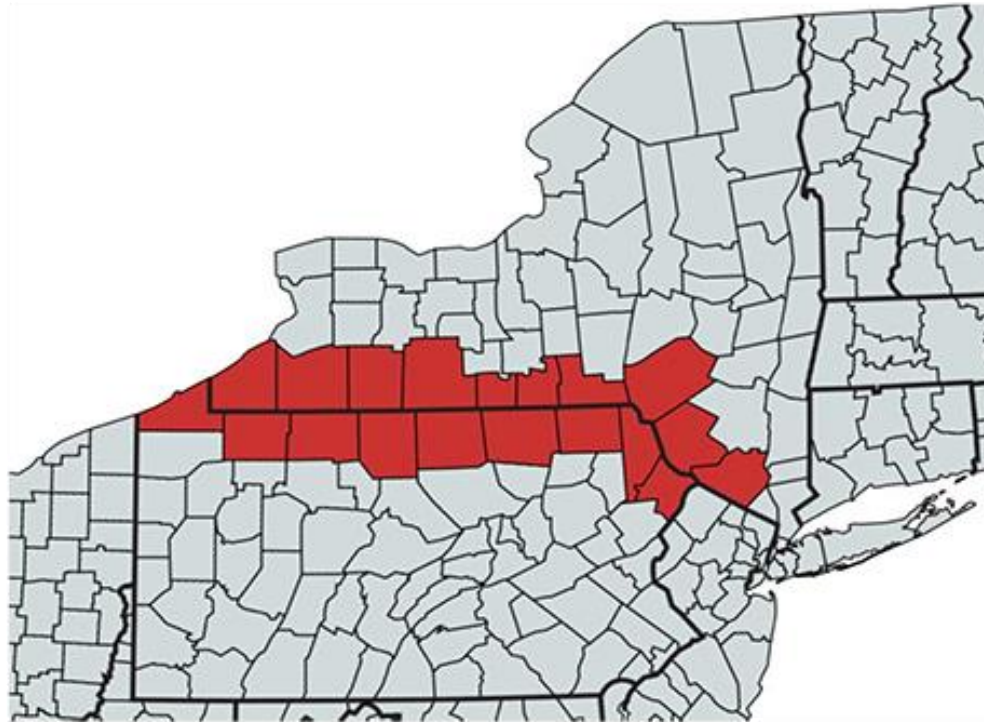
Potential Effects of a Minimum Wage

- How do various businesses respond to a hike (or series of hikes) in a local minimum wage?
- Some of the responses, starting with the most extreme, might include:
 - Close up shop
 - Move the business to another locale
 - For example, with lower minimum wage or stronger demand.
 - Reduce the number of workers
 - For example, invest in automation, provide less service, etc.
 - Replace lower skill (productivity) workers with higher skill workers
 - Reduce the hours of workers
 - Raise selling prices to offset wage effect
 - Cut other costs to offset wage effect
 - Accept lower profits

Analysis of the NY/PA Border

- We look at counties along both sides of the New York-Pennsylvania border.

Data Are Drawn from Nineteen New York-Pennsylvania Border Counties



Taken from Liberty Street Economics blog post:
<https://libtystreeteconomics.newyorkfed.org/2019/09/minimum-wage-impacts-along-the-new-york-pennsylvania-border.html>

Minimum Wage Increases in Upstate NY

- Since the fourth quarter of 2009, workers in both New York and Pennsylvania have been subject to the federal minimum wage of \$7.25 per hour.
- Over the past 6 years, upstate New York's minimum wage has gone up and currently stands at \$11.10 (50% higher than in PA) and \$12.75 for non-tipped, fast-food workers.

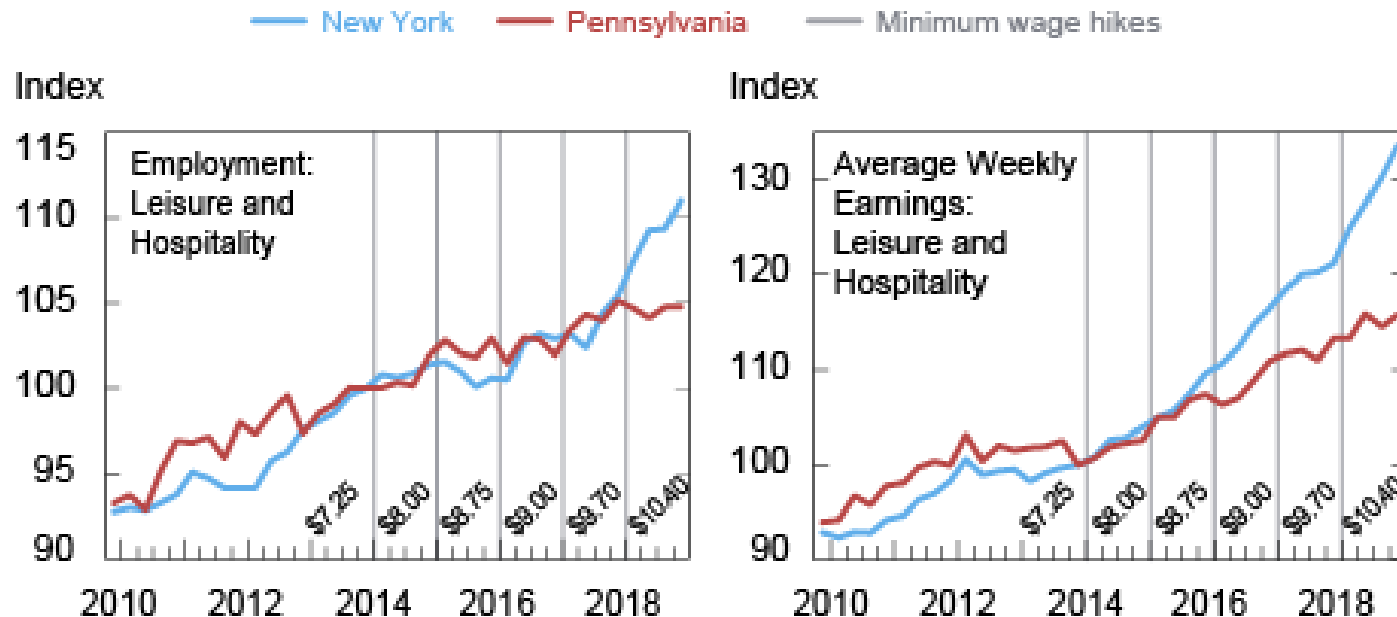
The Path of New York's Minimum Wage Upstate		
Date Effective	For Non-Tipped, Fast-Food Workers	For Other Non-Tipped Workers
July 24, 2009	\$7.25	\$7.25
December 31, 2013	\$8.00	\$8.00
December 31, 2014	\$8.75	\$8.75
December 31, 2015	\$9.00	\$9.00
December 31, 2016	\$10.75	\$9.70
December 31, 2017	\$11.75	\$10.40
December 31, 2018	\$12.75	\$11.10
December 31, 2019	\$13.75	\$11.80

Source: New York State Department of Labor.

Note: "Upstate" covers all of New York State except for New York City, Long Island, and Westchester County.

Results of Analysis of the NY/PA Border

Earnings Rose More in New York than Pennsylvania Counties with No Adverse Employment Effects

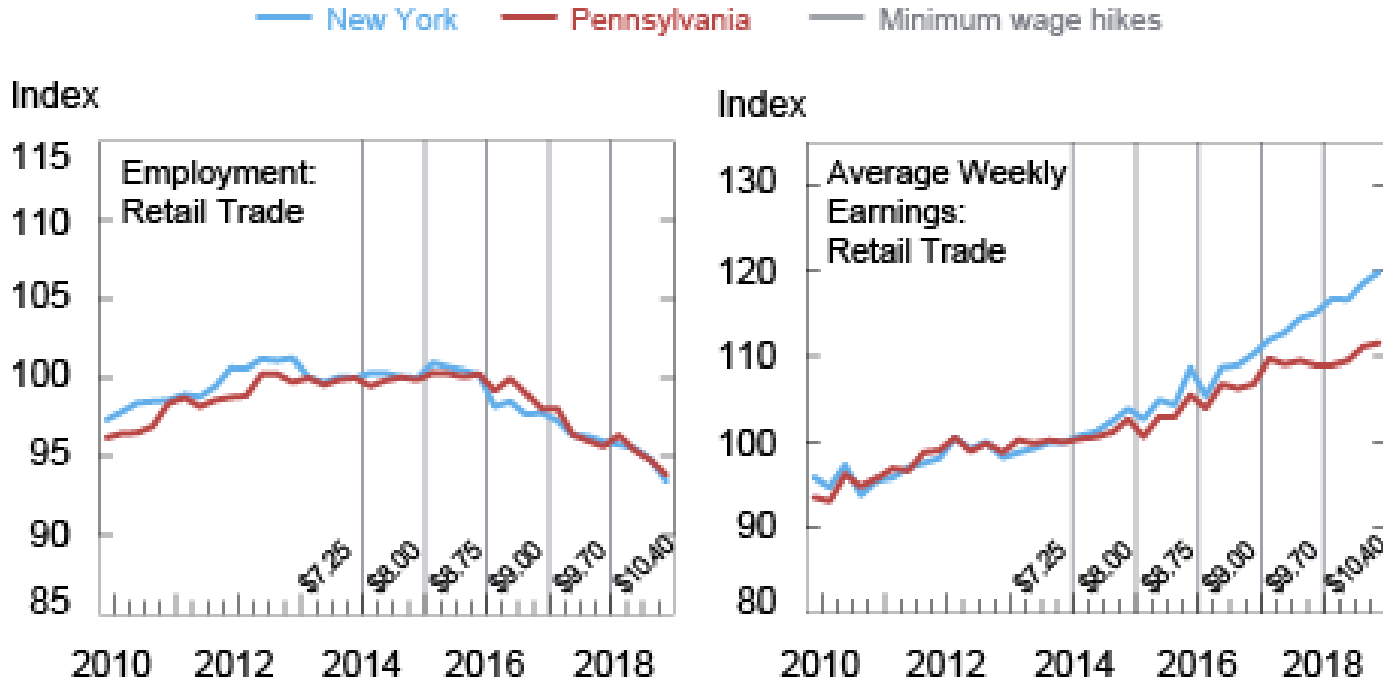


Sources: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Moody's Economy.com.

Notes: Employment and average weekly earnings for the leisure and hospitality sector in both states are indexed to 100 in 2013:Q4, the quarter before New York's first minimum wage increase. Vertical lines indicate dates of gradual increases in New York's minimum wage from \$7.25 per hour prior to 2014 to \$10.40 per hour in 2018. Blue and red lines indicate averages for the counties along the New York-Pennsylvania border for each state.

Results of Analysis of the NY/PA Border

Even in a Shrinking Sector, Job Loss across States Was Similar as Wages Diverged



Sources: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Moody's Economy.com.

Notes: Employment and average weekly earnings for the retail trade sector in both states are indexed to 100 in 2013:Q4, the quarter before New York's first minimum wage increase. Vertical lines indicate dates of gradual increases in New York's minimum wage from \$7.25 per hour prior to 2014 to \$10.40 per hour in 2018. Blue and red lines indicate averages for the counties along the New York-Pennsylvania border for each state.

Questions for Discussion

- What has been your experience with the minimum wage?
 - For those in NY State, dealing with the increases.
 - For those in NJ, planning for upcoming increases.
- Do you have thoughts about how different types of businesses might respond?
- At what level might you consider the minimum wage to become disruptive?