



**Small Business & Agricultural Advisory Board  
Federal Reserve Bank of New York  
33 Liberty Street  
10F, Paul Volcker Boardroom  
Monday, December 7, 2015**

**AGENDA**

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- |                 |  |
|-----------------|--|
| 10:30am         | Welcome and Introductory Remarks, Jack Gutt, EVP   |
| 10:40am-11:10am | The National Economy, Richard Peach, Senior Vice President                                     |
| 11:10am-11:40pm | International Update, Matthew Higgins, Senior Vice President                                   |
| 11:40pm-12:00pm | Regional Update, Jason Bram, Officer   |
| 12:00pm         | Adjourn to NWC Room-10F  |
| 12:15pm         | Lunch  |
| 12:15pm-1:55pm  | Round Table Discussion with William Dudley, President and Michael Strine, First Vice President |
- Your experience and that of your customers and suppliers can give us insight into current economic conditions.
- Questions for discussion with President Dudley:
1. Did your firm's sales volume increase, decrease, or stay the same in the first half of the year?
  2. Do you expect your firm's sales to increase, decrease, or stay the same during the second half?
  3. Do you plan to increase investment in your firm (plant & equipment) during the second half of this year?
  4. Has your firm faced any recent shortage of labor that has limited your ability to meet demand?
  5. Do you plan to increase employment this year? Why or why not?
  6. Do you expect input prices to increase this year? Do you expect prices of products/services sold to increase?
  7. Over the past two quarters, how have the terms and conditions for obtaining financing changed (tightened, eased, not changed)?
- |         |                            |
|---------|----------------------------|
| 2:00 pm | Museum and Gold Vault Tour |
|---------|----------------------------|



**Small Business & Agricultural Advisory Council  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY  
Monday, December 7, 2015**

**ATTENDEE LIST**

**Council Members**

Michael Arnoff  
President  
Arnoff Moving & Storage

Alejandro Ballester  
President  
Ballester Hermanos, Inc.

Adenah Bayoh  
Co-Founder  
Kapwood, LLC

William Byrne  
Chairman of the Board  
Byrne Dairy, Inc.

Eric Caslow  
President  
Acme Smoked Fish Corporation

Charles Feit  
President and Founder  
OnForce Solar

Peter Maglathlin  
Chief Executive Officer  
MBI, Inc.

Patrick Marotta  
President/CEO  
Marotta Controls

**Federal Reserve Bank of New York**

William Dudley  
Michael Strine  
Jack Gutt  
Richard Peach  
Kausar Hamdani  
Matthew Higgins  
Anand Marri  
Jason Bram  
Luis Uranga  
Claire Kramer  
Chelsea Cruz  
Angela Sun

President  
First Vice President  
EVP, Communications & Outreach  
SVP, Research & Statistics  
SVP, Communications & Outreach  
VP, Integrated Policy Analysis  
VP, Head of Outreach & Education  
Officer, Research & Statistics  
Officer, Chief of Staff's Office  
AVP, Community Development, Outreach & Education  
Senior Analyst, Outreach & Education  
Law clerk, Legal



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# Regional Economic Outlook

Presentation to the Advisory Council on Small Business and Agriculture

Jason Bram, Officer

December 7, 2015

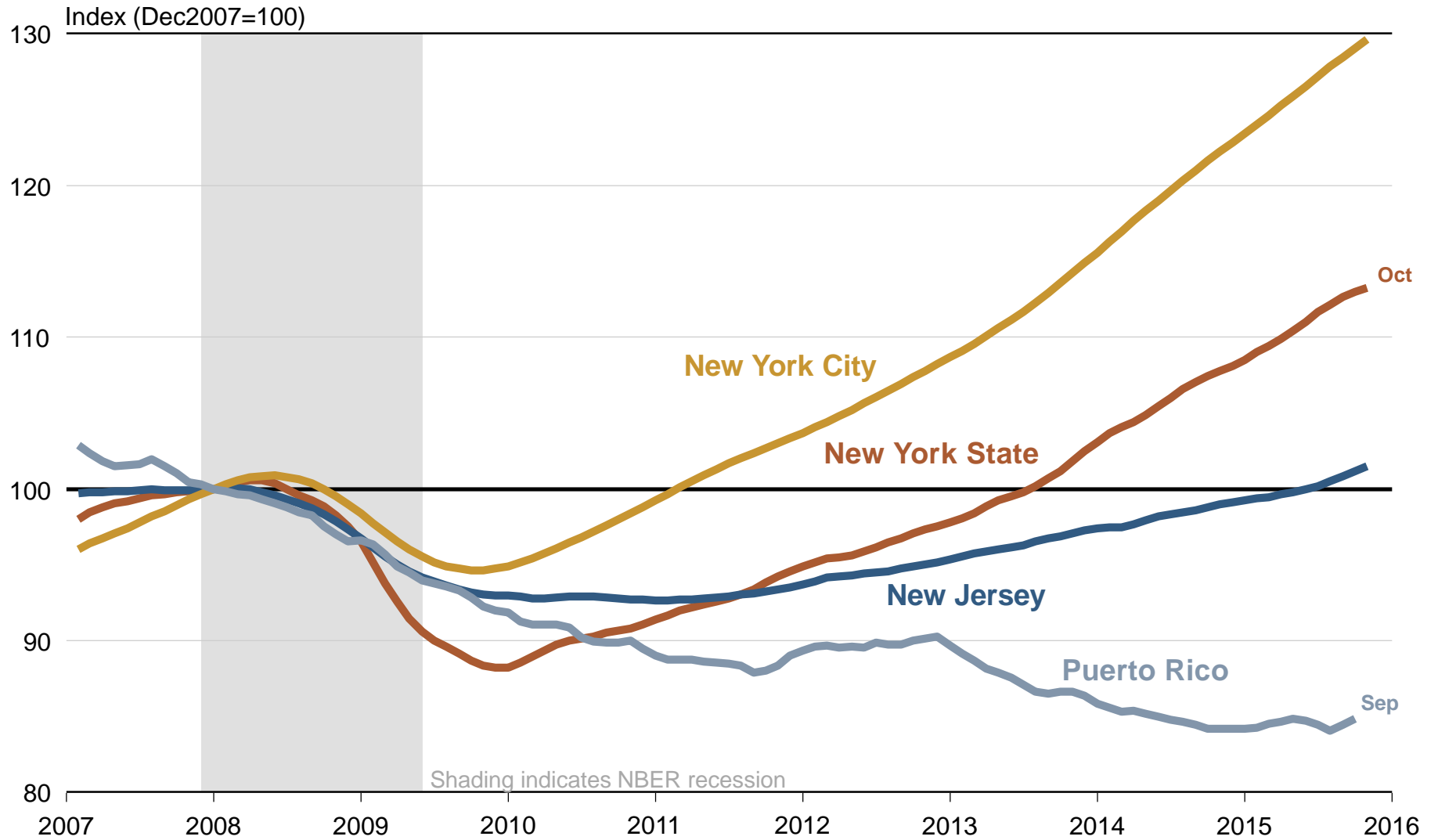
The views expressed here are those of the presenter and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.





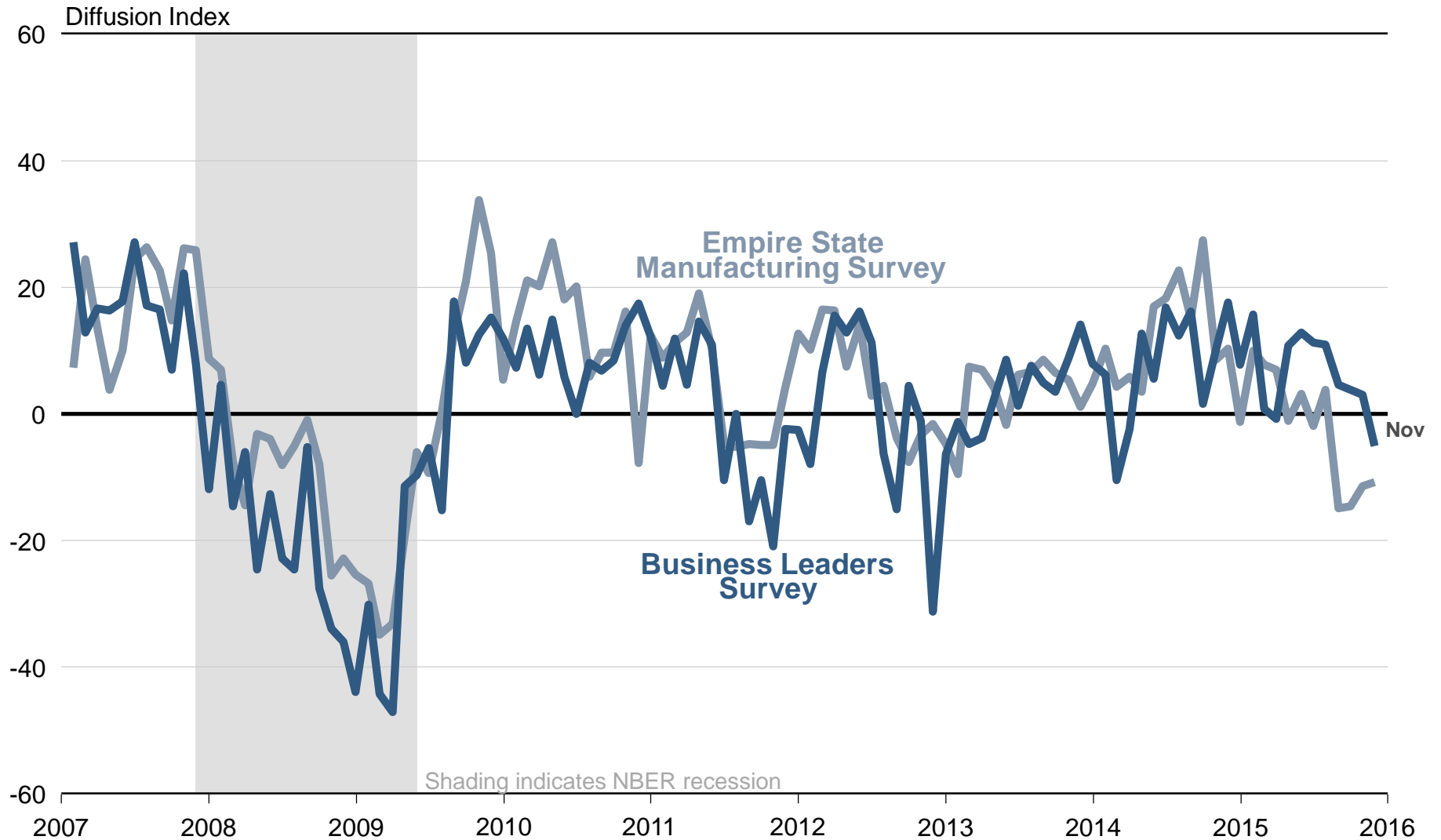
# Regional Economic Activity

## Index of Coincident Economic Indicators (CEI)



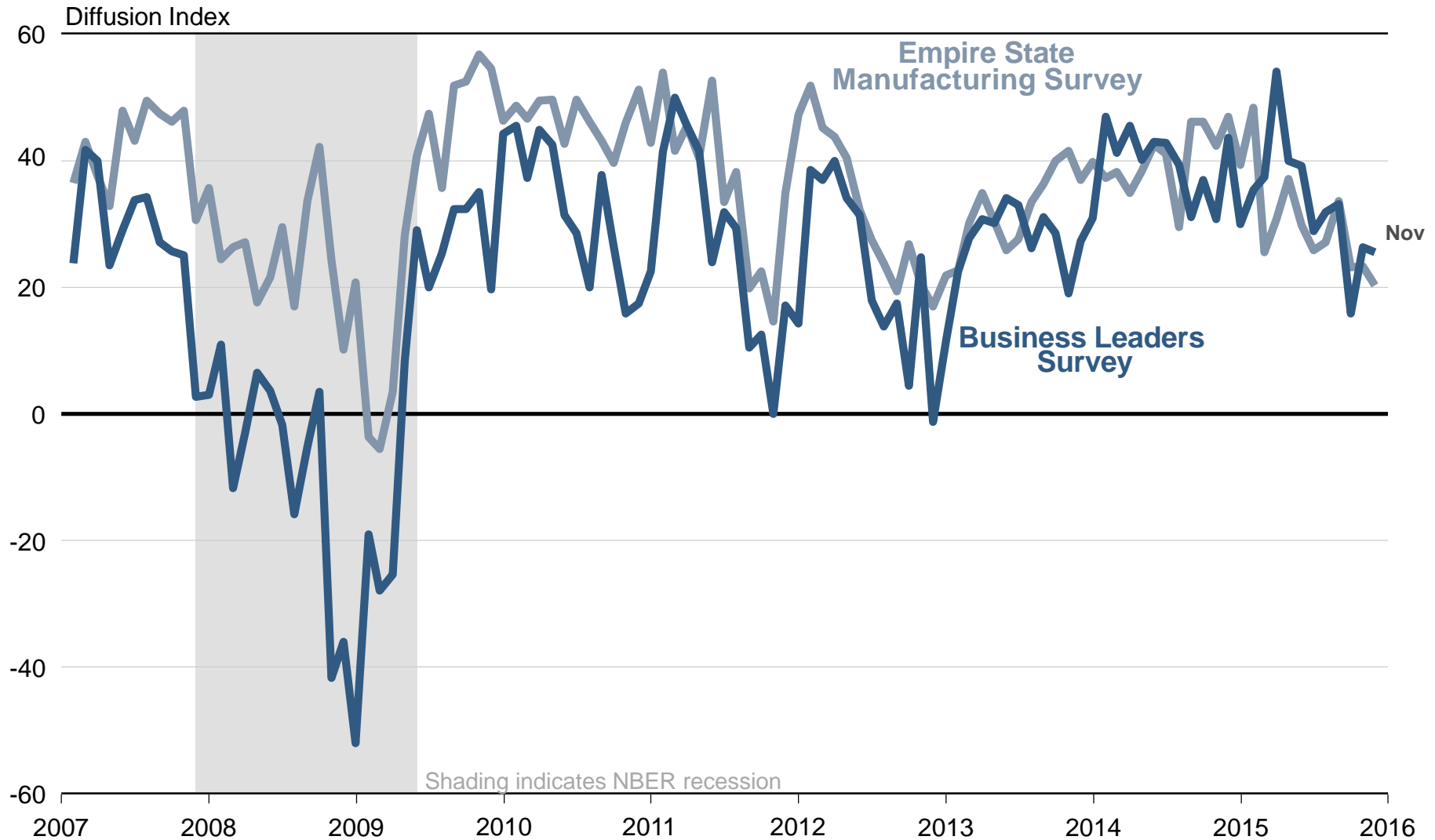
# Current Economic Conditions

## FRBNY Business Surveys, Current Conditions



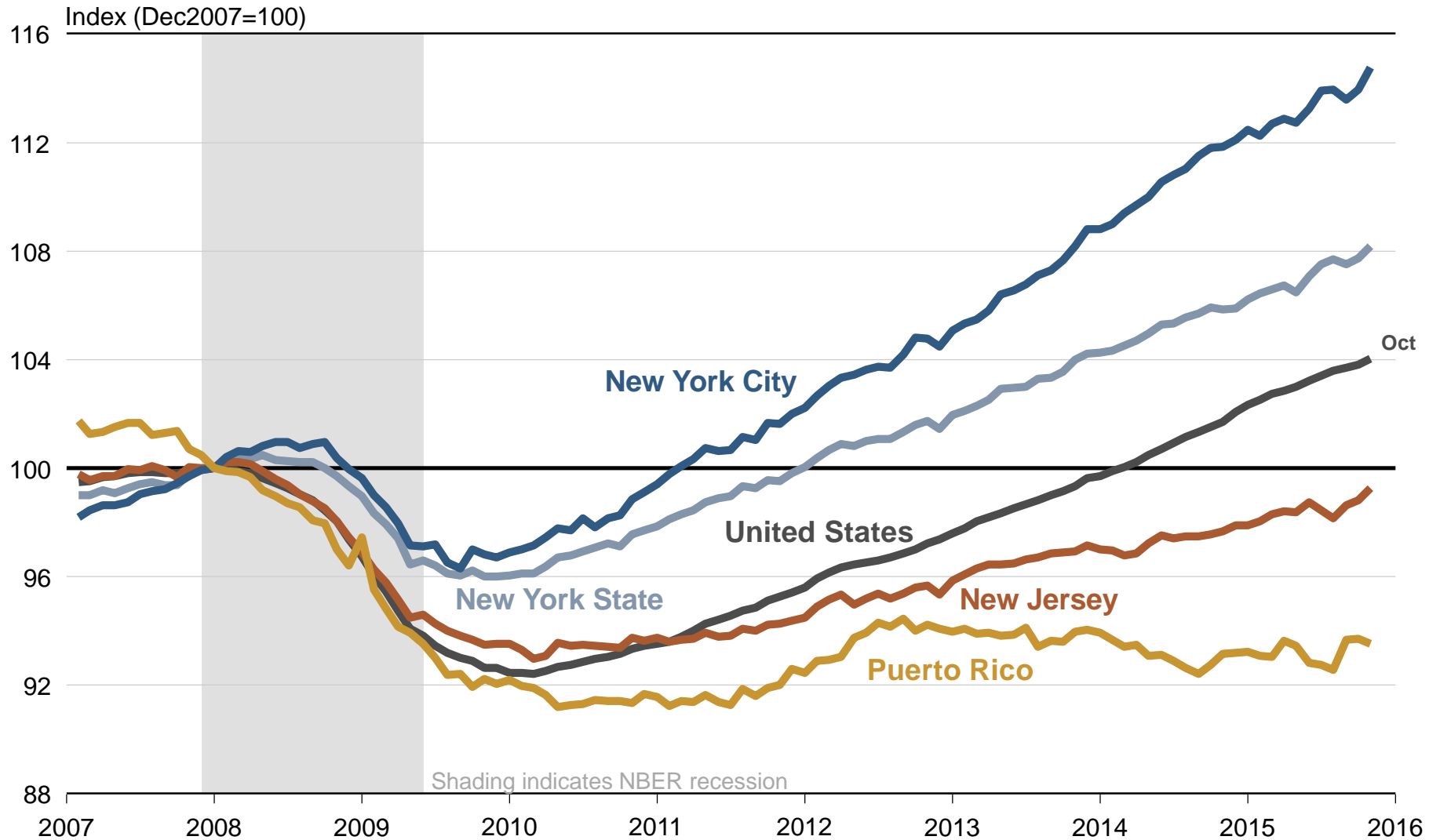
# Future Economic Conditions

FRBNY Business Surveys, Conditions Six Months Ahead



# Private-Sector Employment

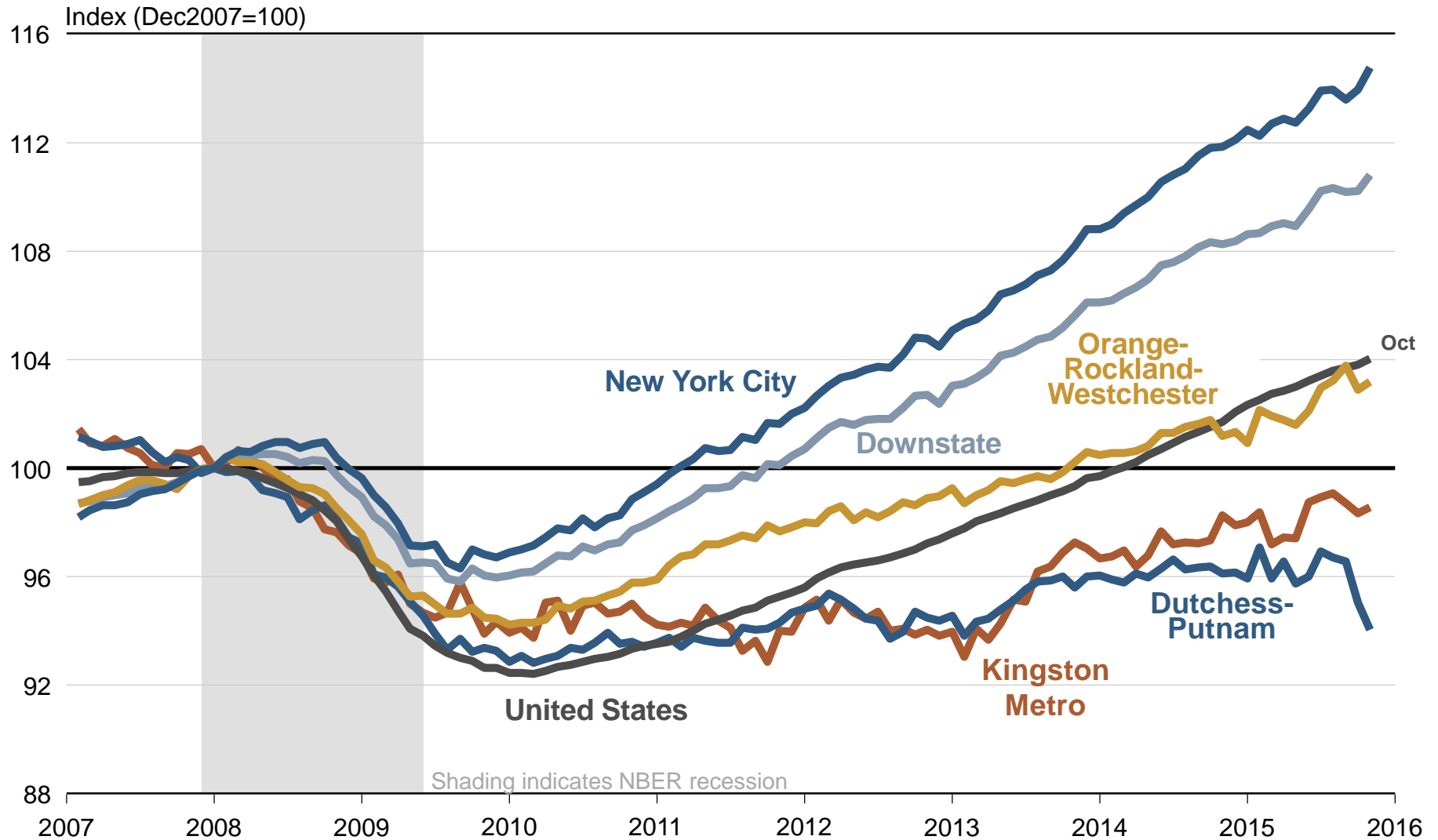
## Seasonally Adjusted Index





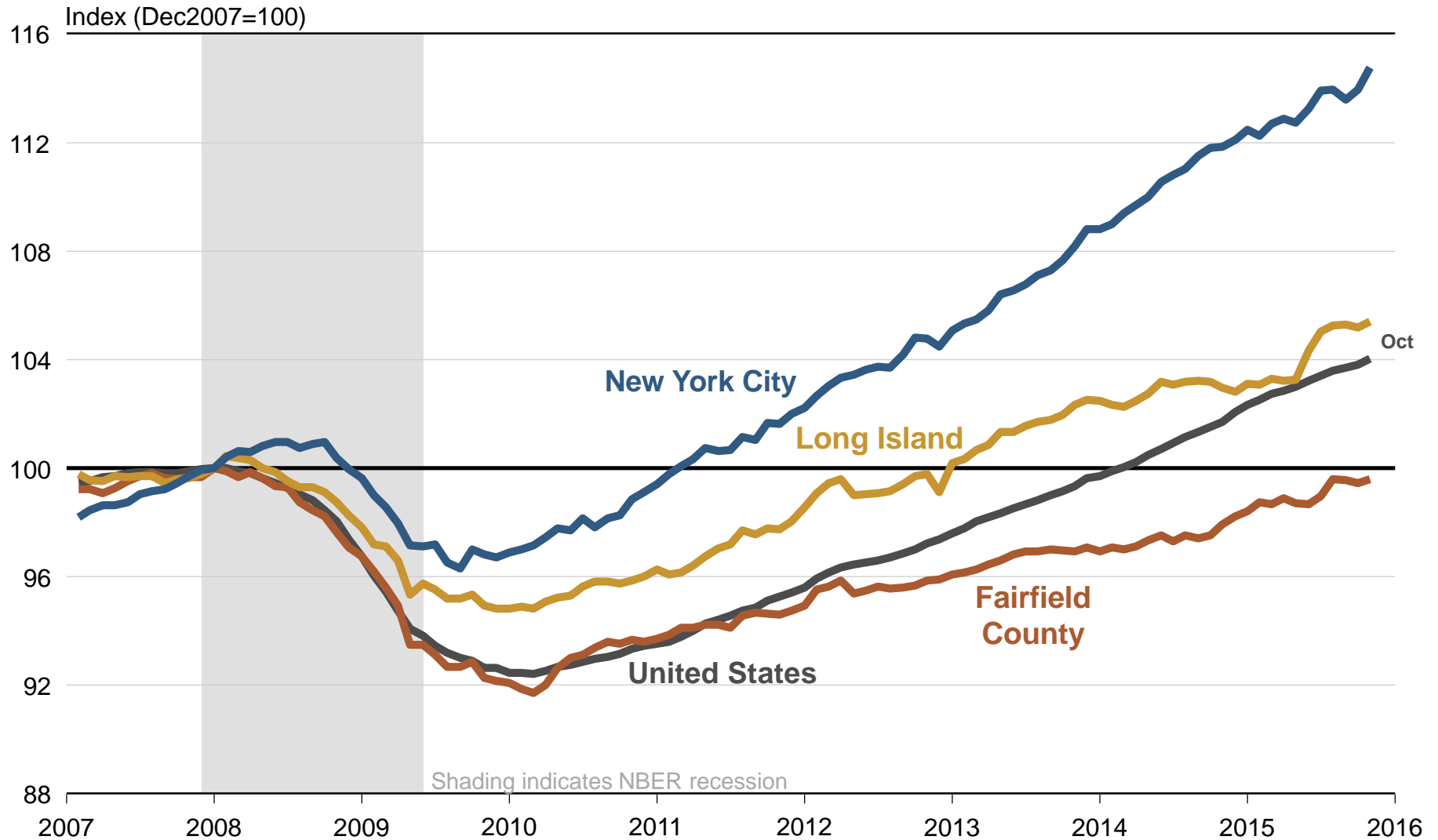
# Private-Sector Employment

## Seasonally Adjusted Index



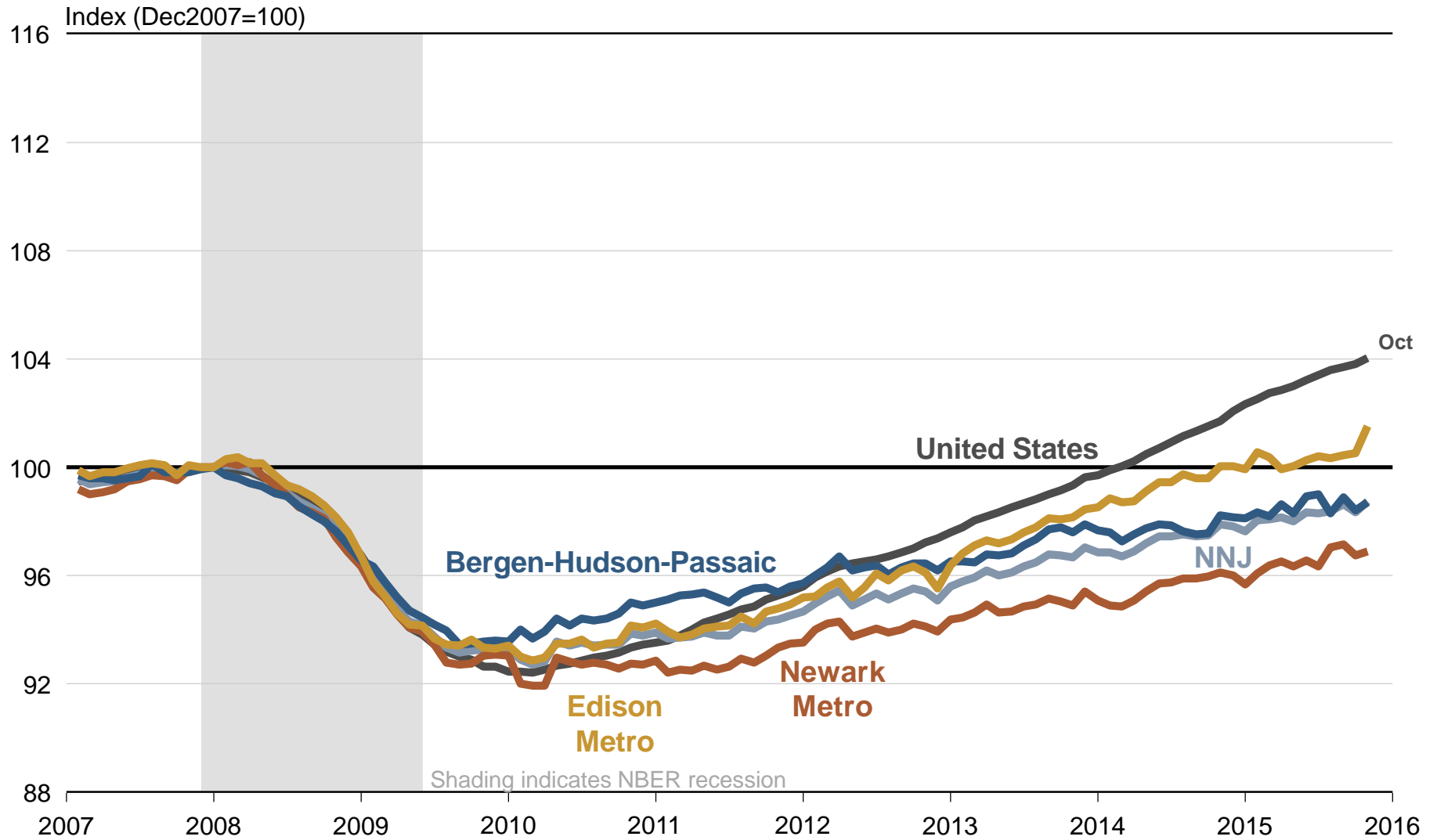
# Private-Sector Employment

## Seasonally Adjusted Index



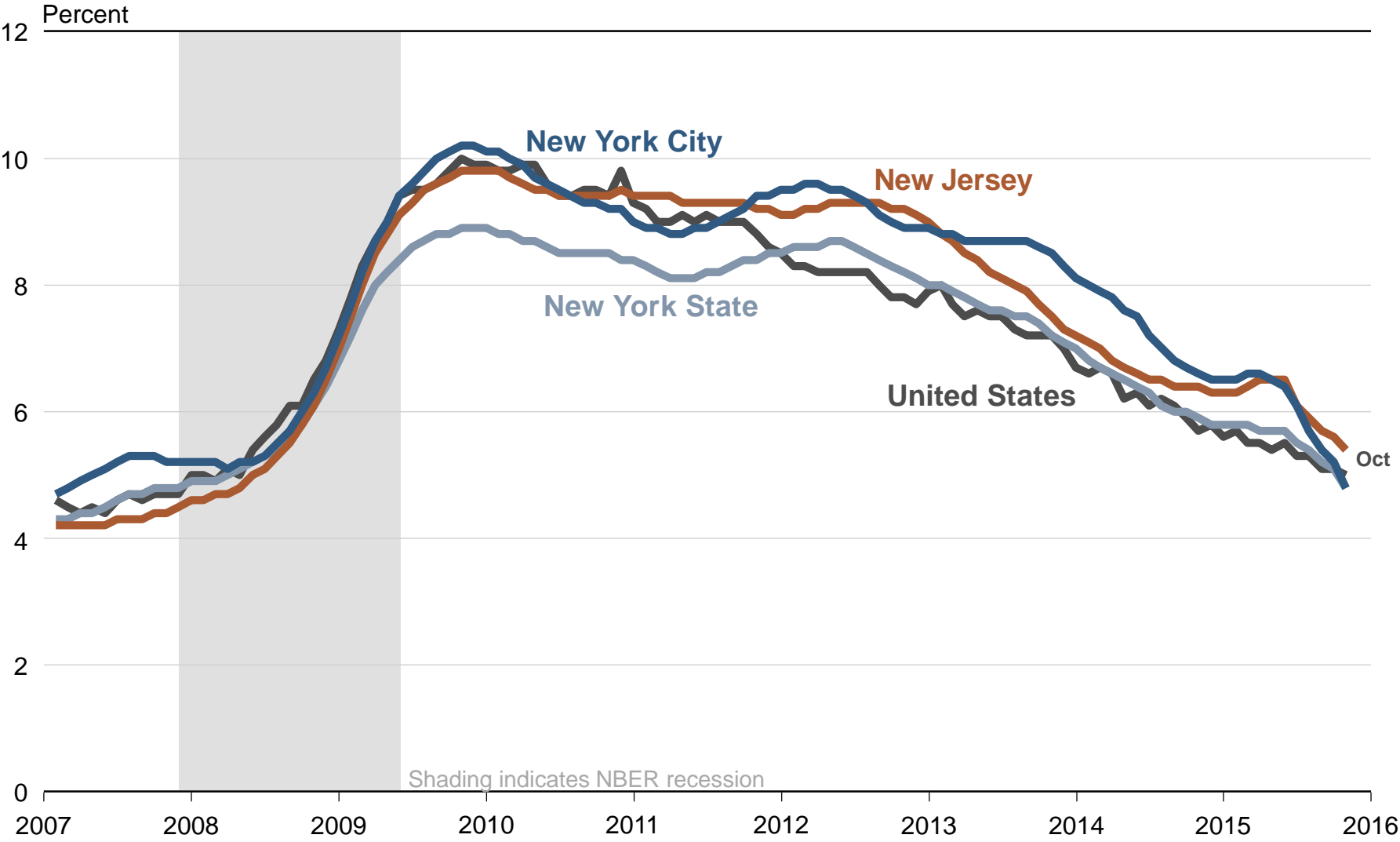
# Private-Sector Employment

## Seasonally Adjusted Index



# Unemployment Rates

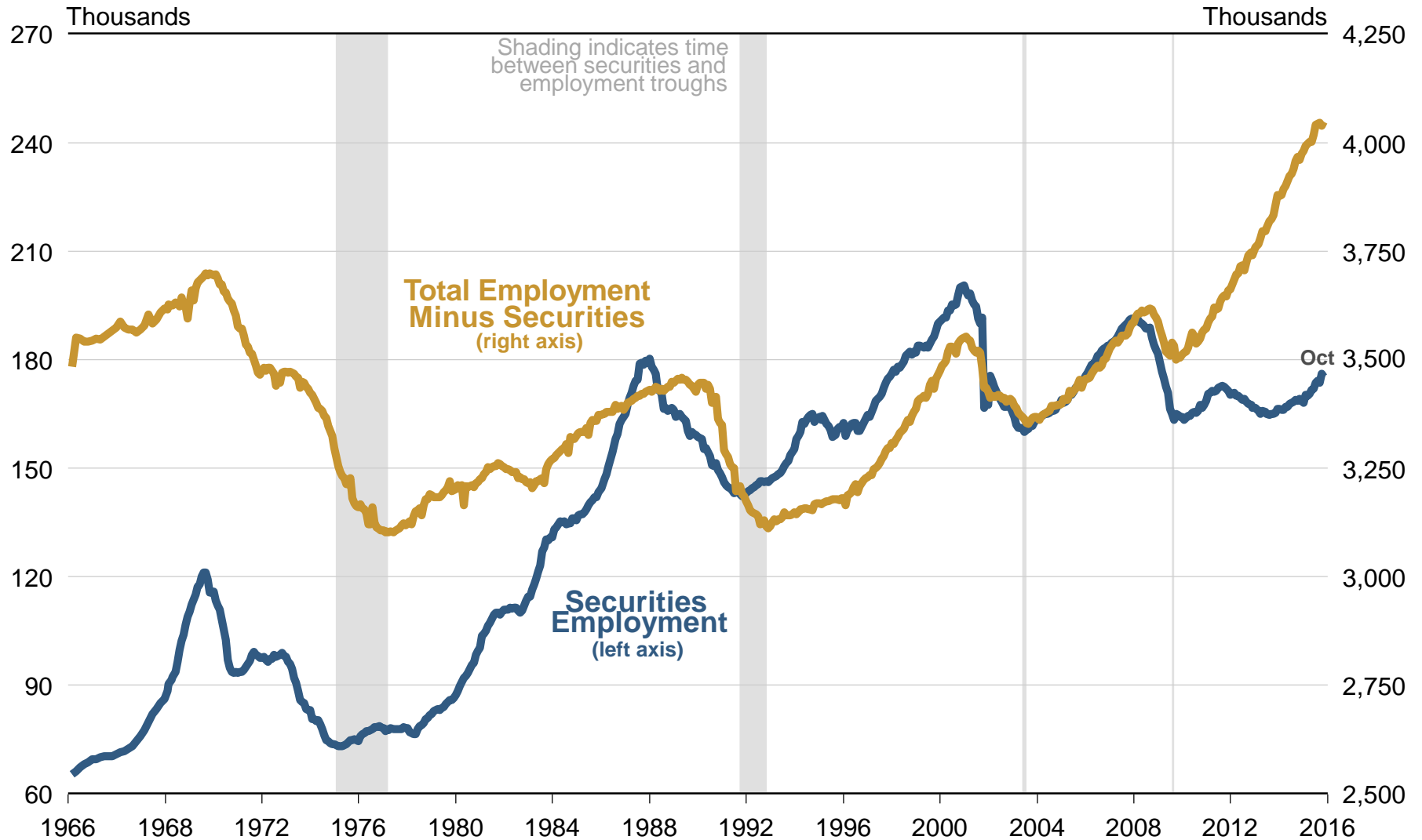
## Seasonally Adjusted



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

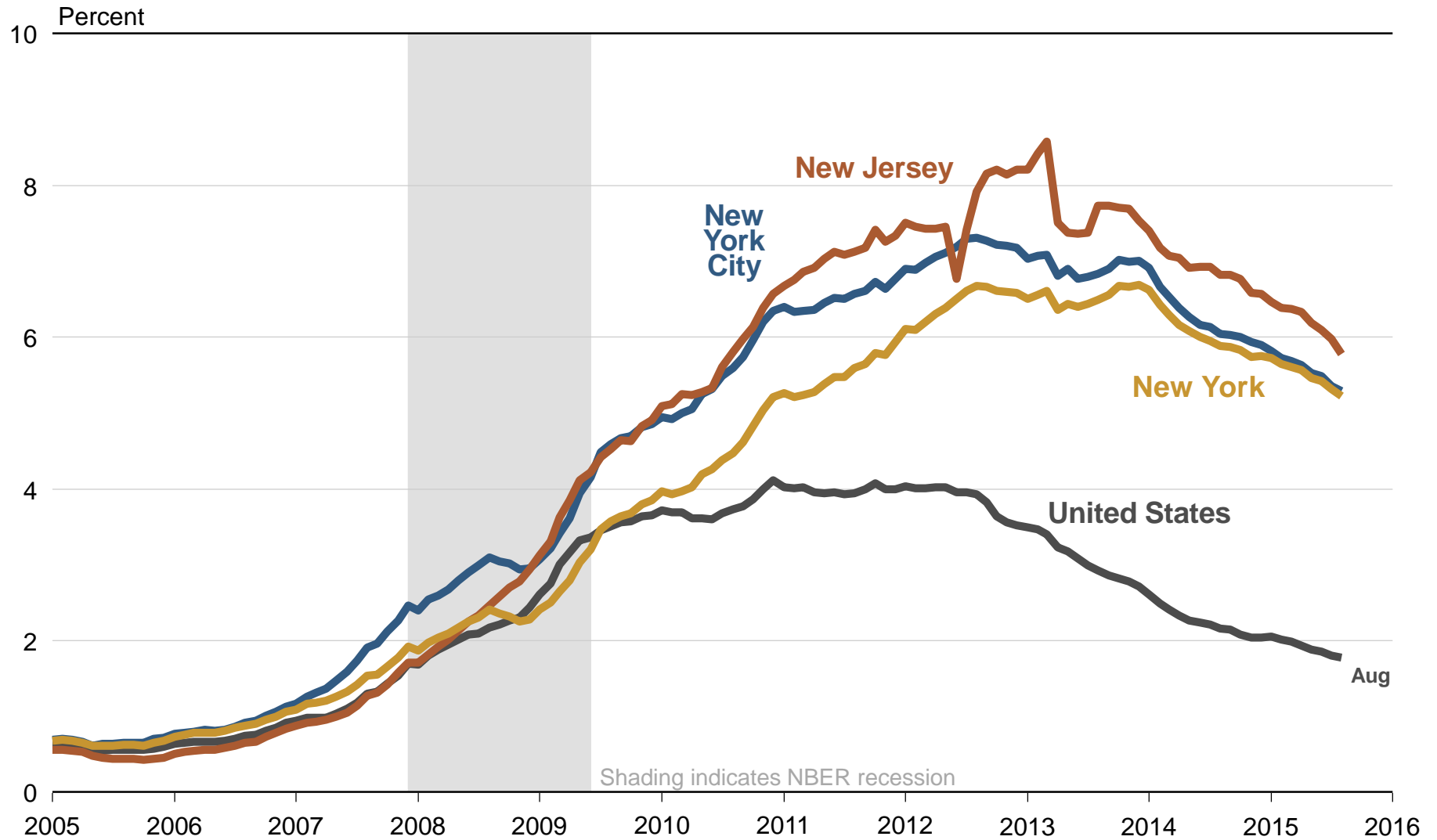
# NYC Securities Employment

## Seasonally Adjusted Levels



# Backlog of Foreclosures

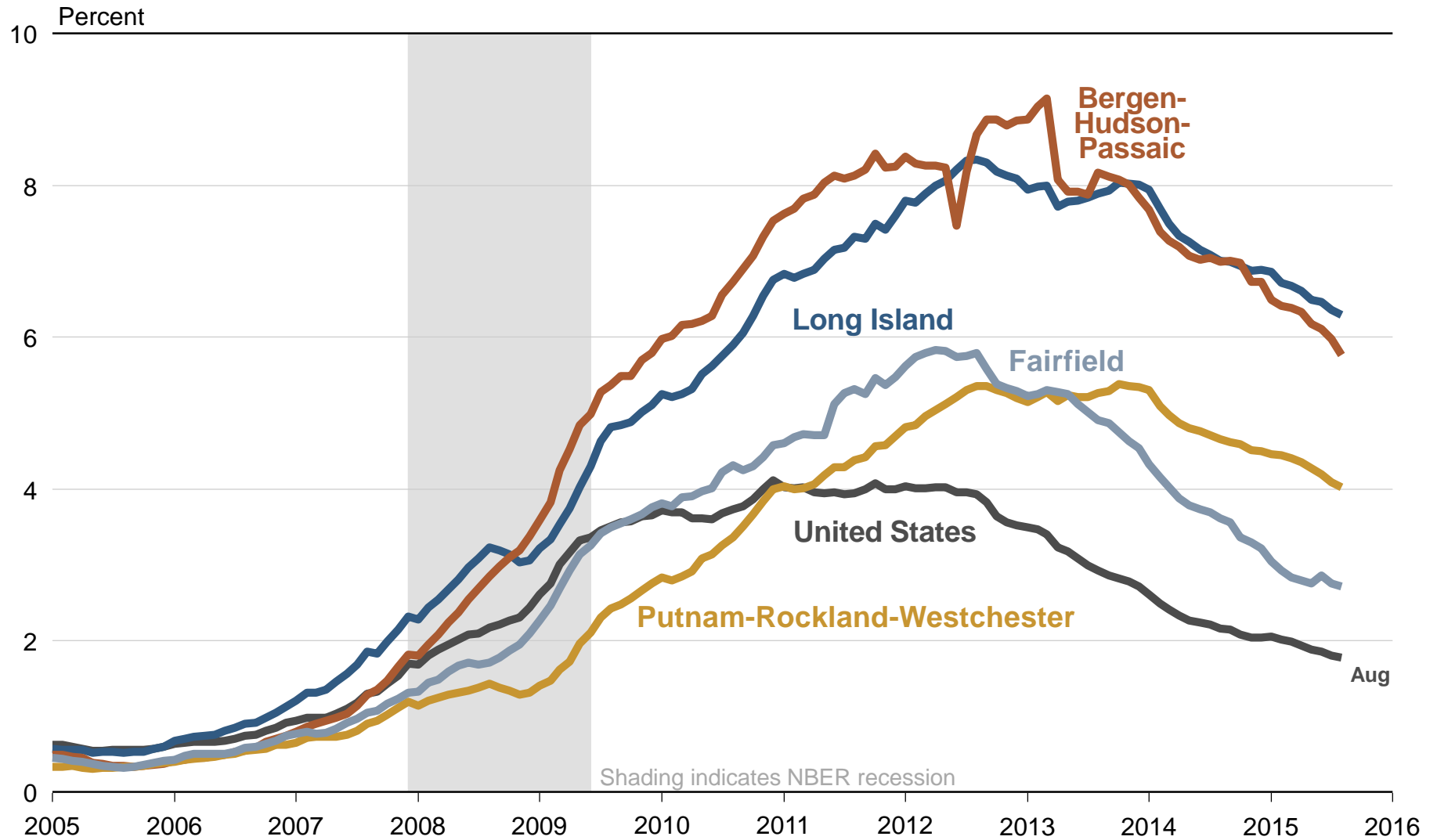
## Share of Mortgages in Foreclosure





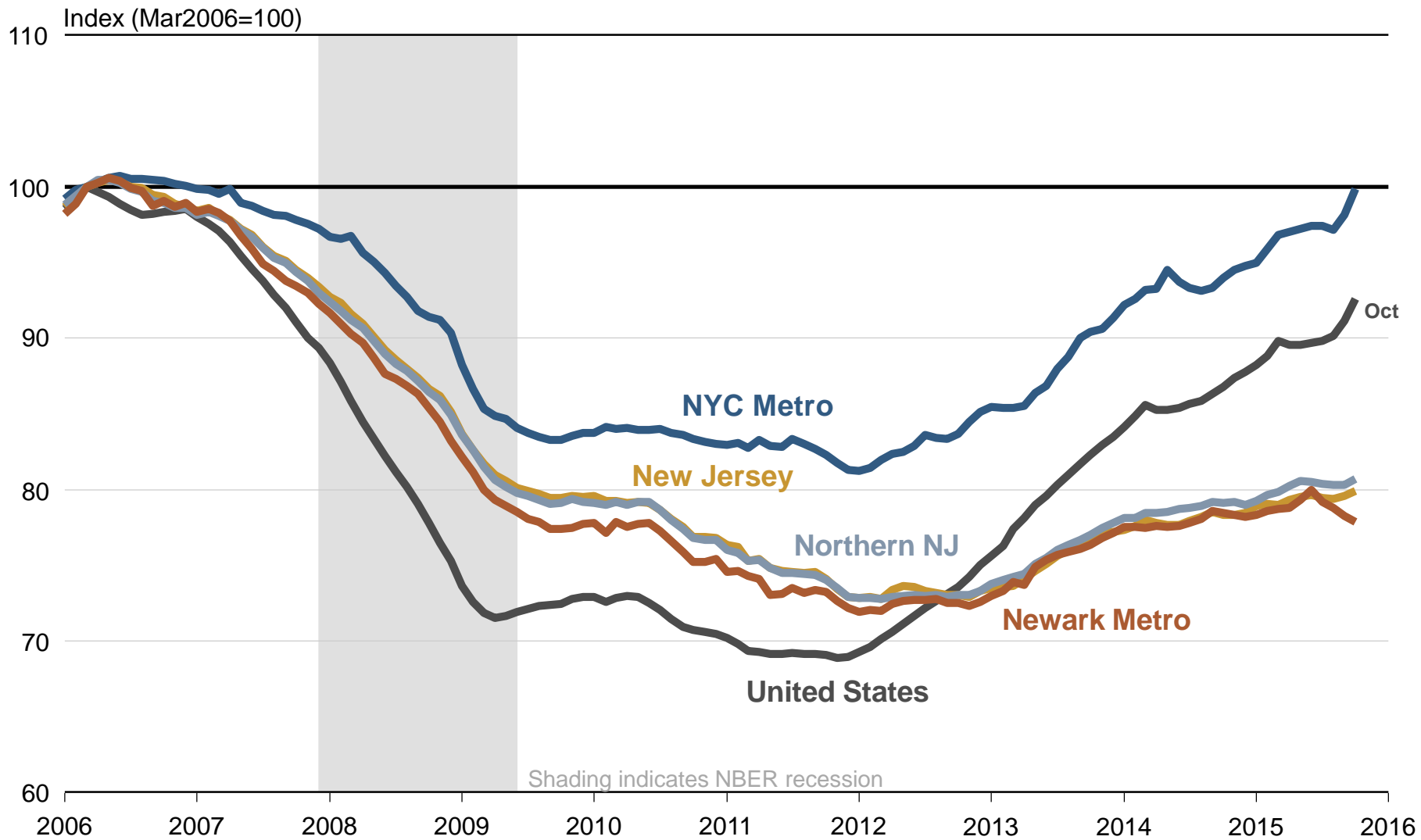
# Backlog of Foreclosures

## Share of Mortgages in Foreclosure



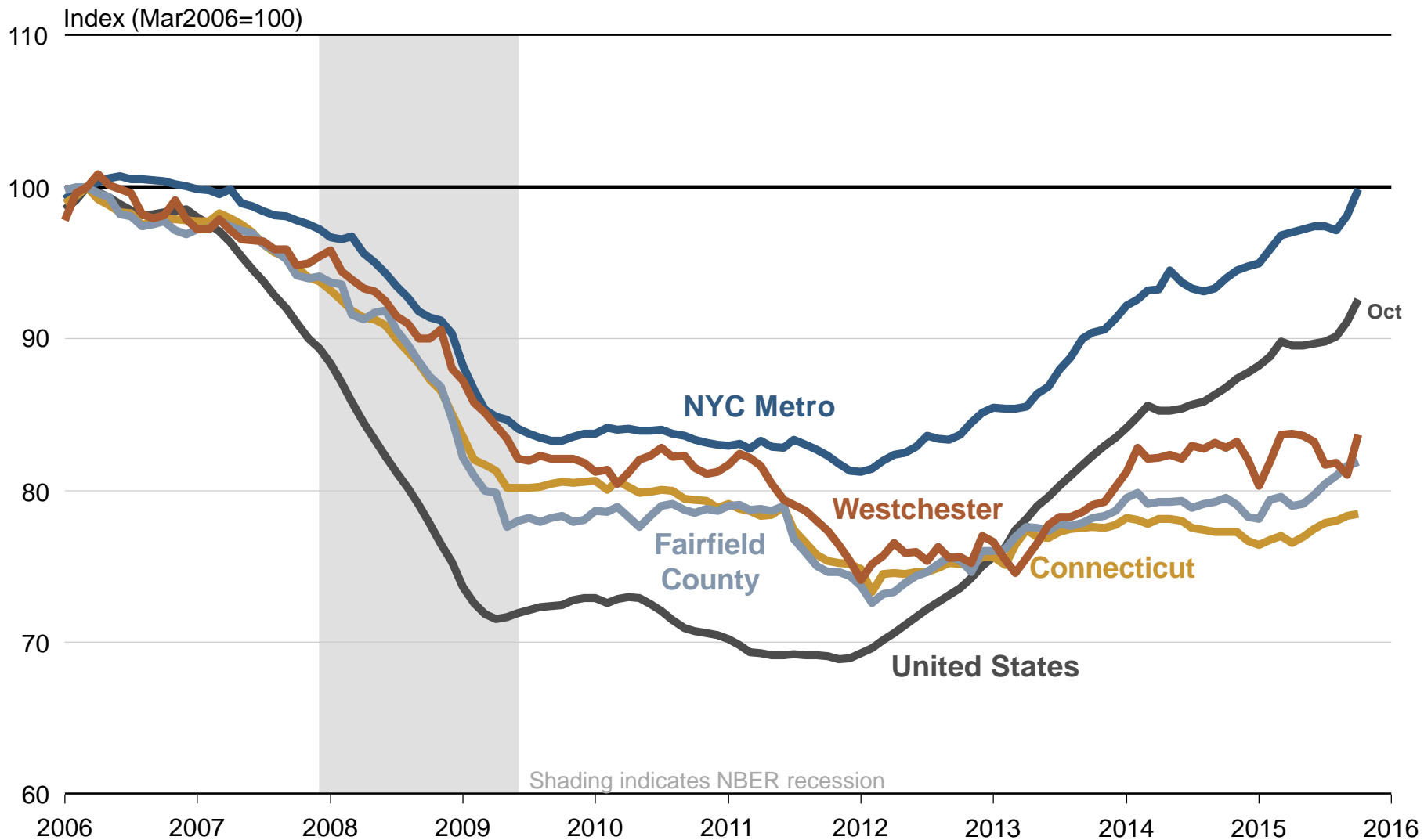
# Home Prices

## CoreLogic Home Price Index, Seasonally Adjusted



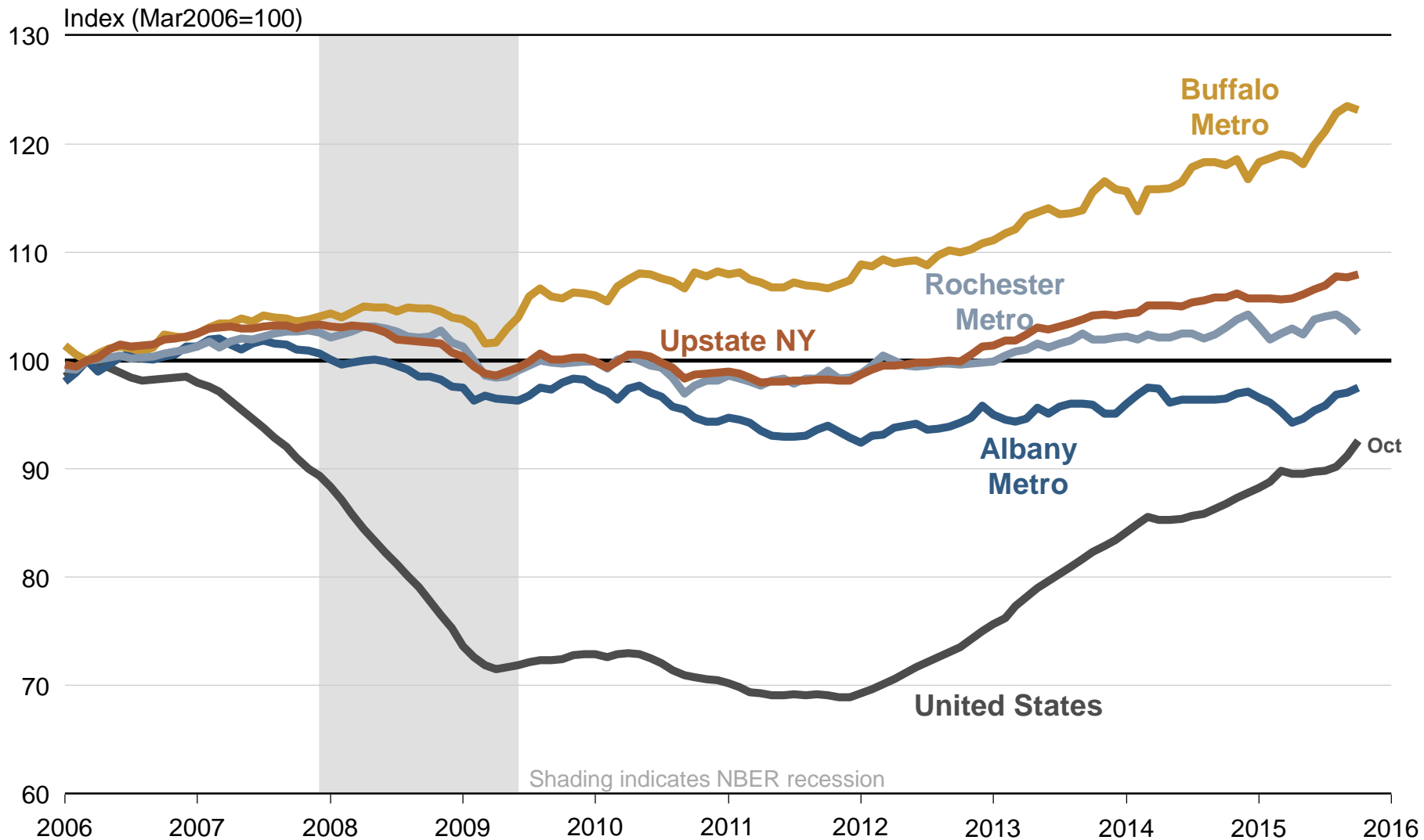
# Home Prices

## CoreLogic Home Price Index, Seasonally Adjusted



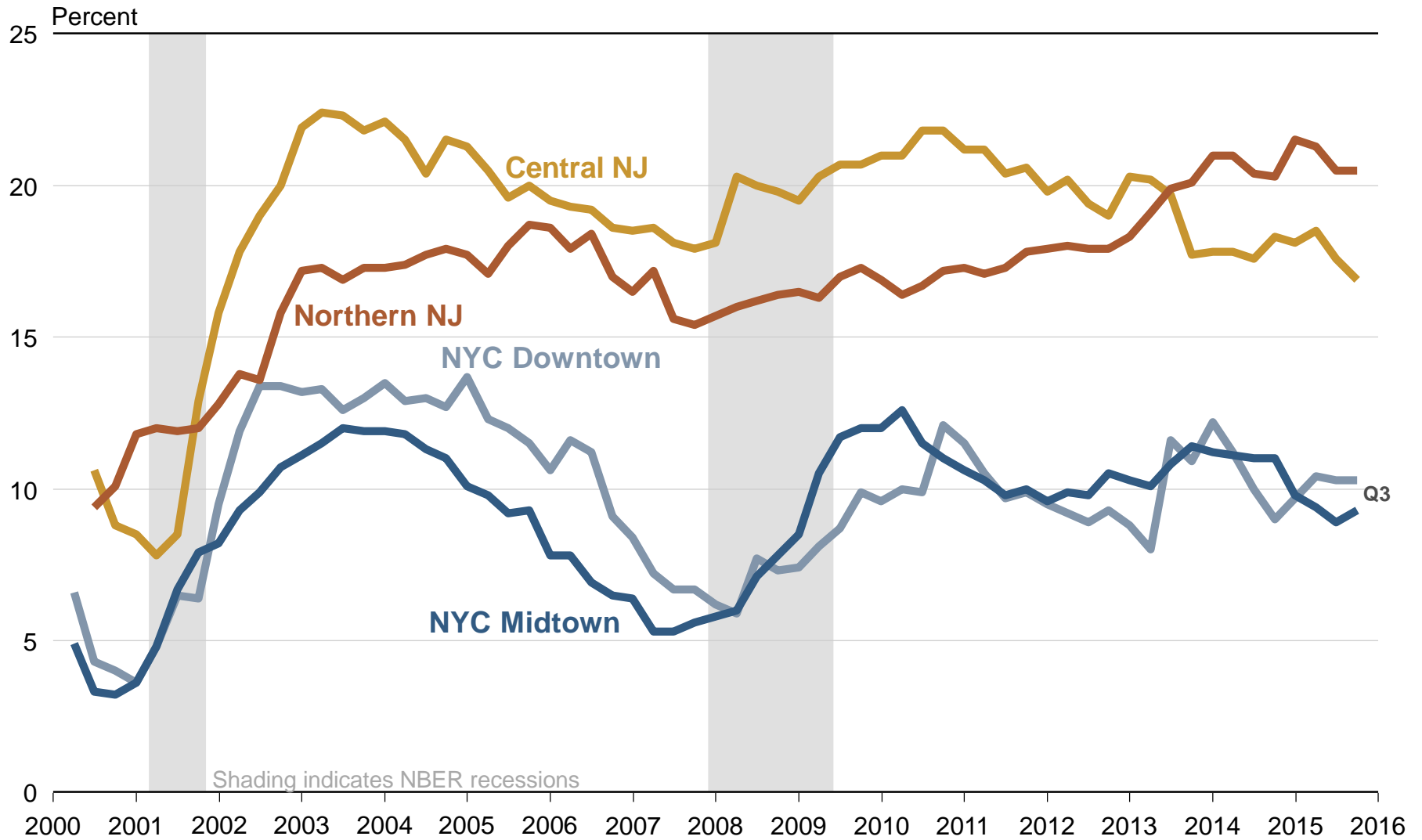
# Home Prices

## CoreLogic Home Price Index, Seasonally Adjusted



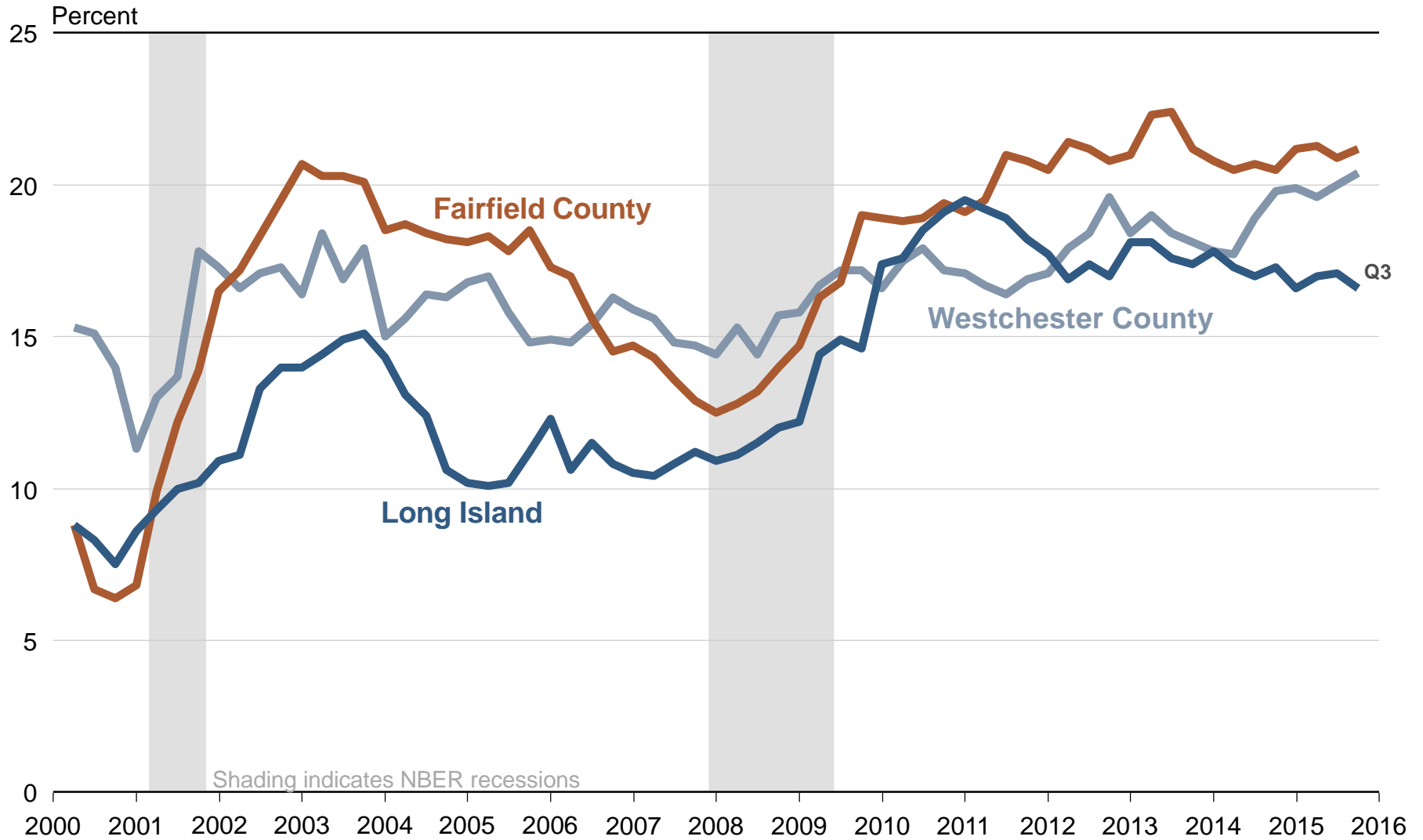
# Office Vacancy Rates

## Overall Vacancy Rates



# Office Vacancy Rates

## Overall Vacancy Rates

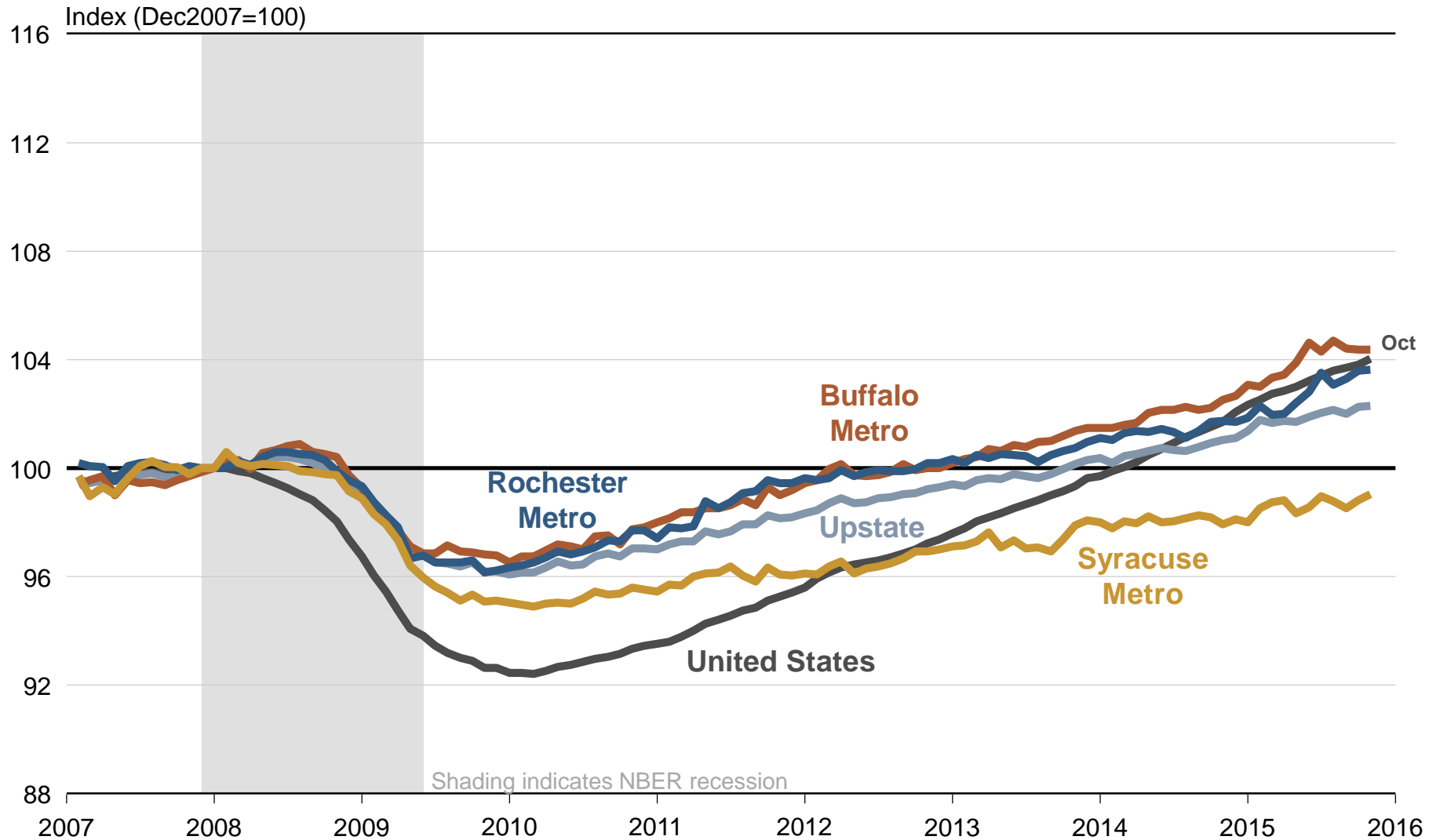




# Appendix

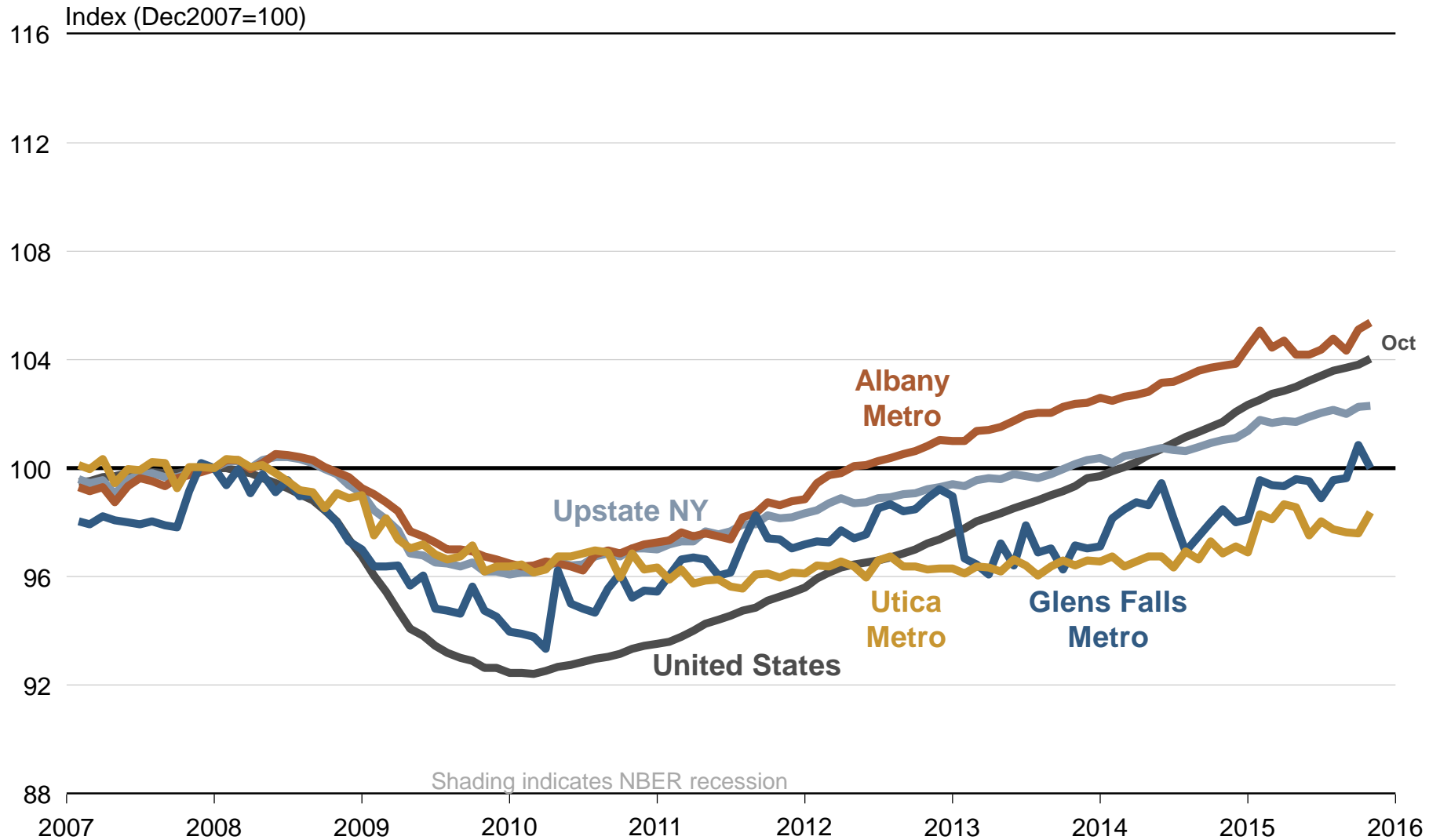
# Private-Sector Employment

## Seasonally Adjusted Index



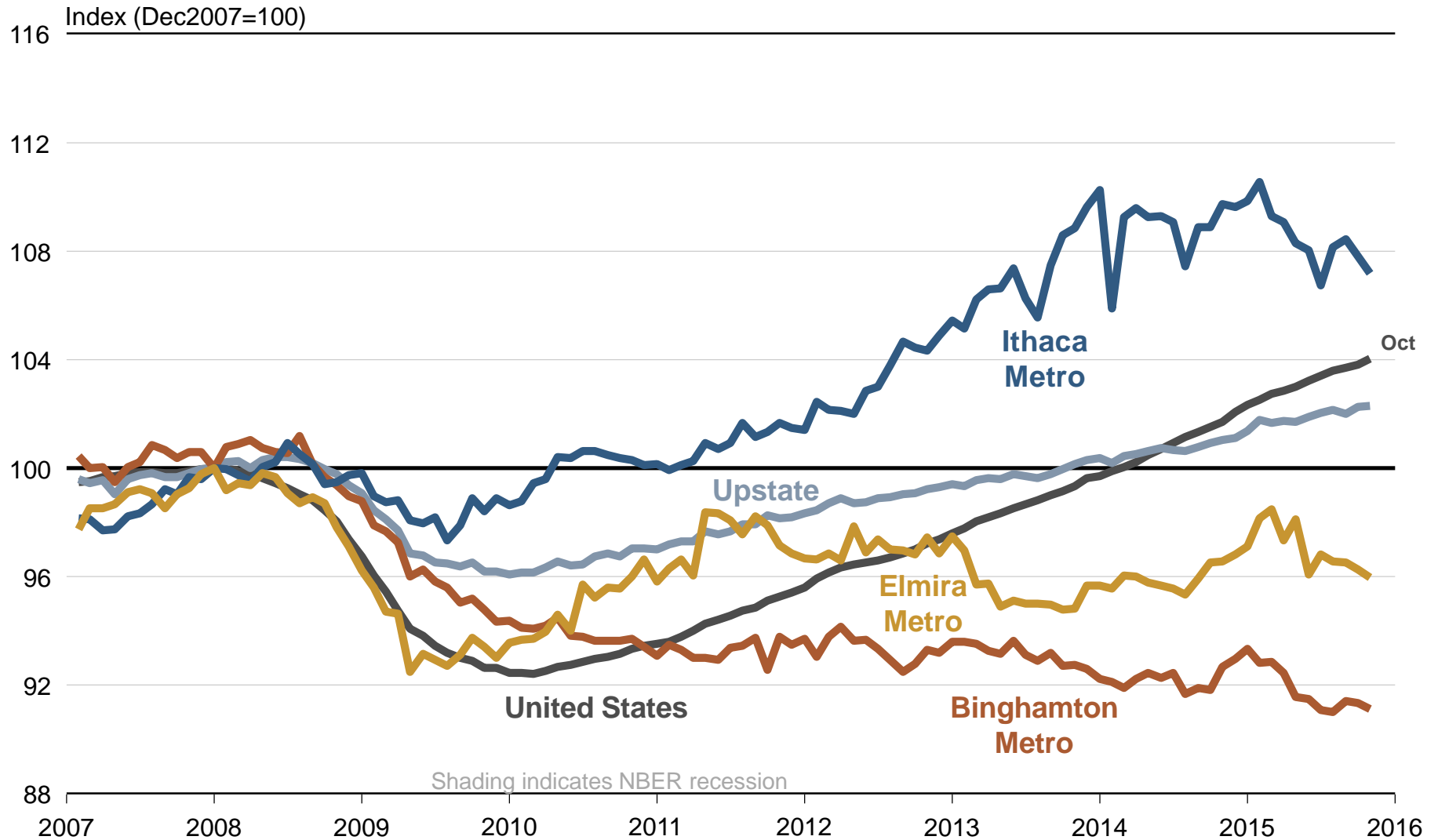
# Private-Sector Employment

## Seasonally Adjusted Index



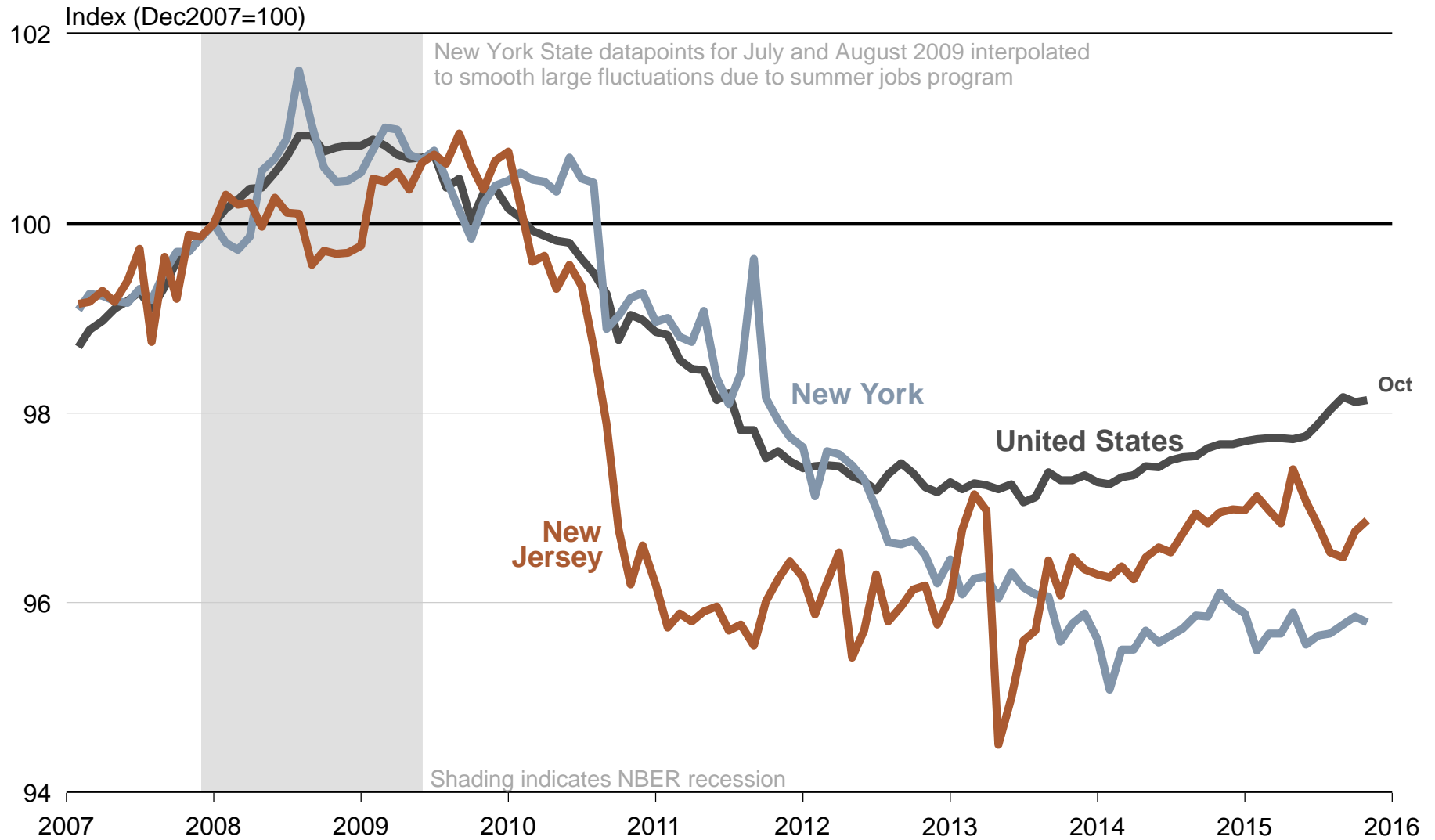
# Private-Sector Employment

## Seasonally Adjusted Index



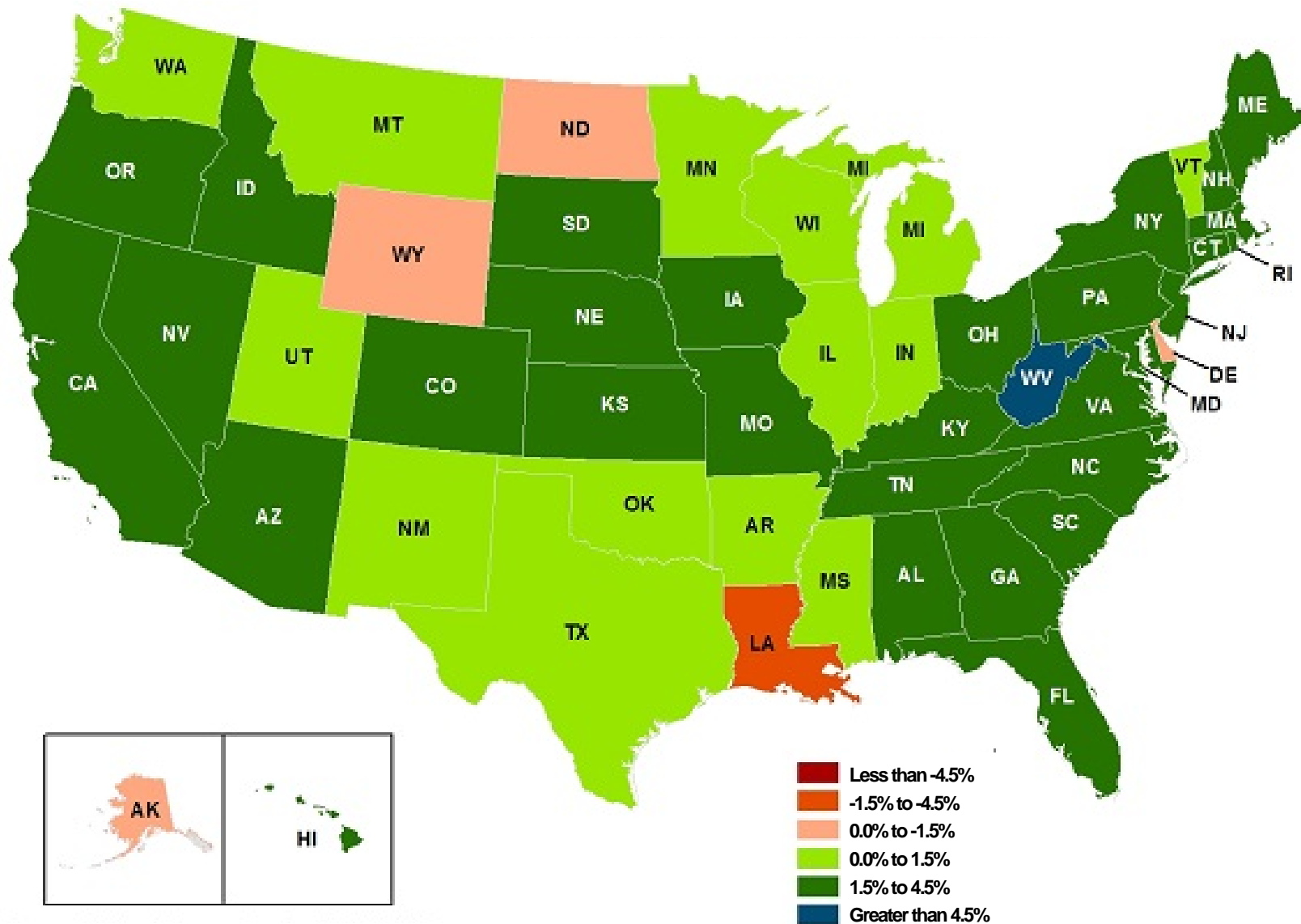
# State and Local Government Employment

## Seasonally Adjusted Index



# State Leading Indexes

Expected 6-Month Change in State Coincident Indexes as of Oct 2015



Source: Federal Reserve Bank of Philadelphia



# Job Growth by Sector

Year-Over-Year Percent Change, October 2015

	<u>United States</u>	<u>New York State</u>	<u>New Jersey</u>	<u>New York City</u>	<u>Connecticut</u>	<u>Puerto Rico</u>
Professional and Business Svcs	3.3	2.1	-0.2	2.6	1.5	1.3
Leisure and Hospitality	3.0	2.4	2.5	3.5	3.3	1.5
Education and Health	2.8	3.8	2.1	3.6	1.6	3.7
Transportation and Utilities	2.2	1.3	5.4	0.2	2.2	7.9
Retail Trade	2.0	1.3	-0.2	3.2	1.9	0.5
Finance	1.8	0.2	0.2	2.1	2.0	-0.7
Information	1.6	0.7	0.8	0.6	2.6	2.5
Construction and Mining	1.6	5.8	6.3	3.0	1.5	-14.0
Wholesale Trade	1.3	-0.4	3.1	-1.2	0.3	-3.3
Manufacturing	0.5	0.1	1.7	-2.2	1.4	-2.5
State and Local Government	0.5	-0.4	-0.1	0.3	0.2	0.6
Total Employment	1.9	1.8	1.4	2.3	1.4	0.5



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# US Macro Overview

## December 7, 2015

# Overview

- US economy likely to grow around 2% (annual rate) over 2015H2, down from 2.3% over 2015H1.
  - Consumer spending leading growth.
  - Residential investment growing but not firing on all cylinders.
  - But dollar appreciation and slower growth abroad continue to exert a substantial drag on growth.
  - Business fixed investment rather sluggish.
- The labor market is showing all the classic signs of being at full employment.
- Core inflation has been stable but at a level below the FOMC's objective.
  - Rent inflation continues to edge higher.
  - Health care price inflation surprisingly low.
  - Core goods prices declining.

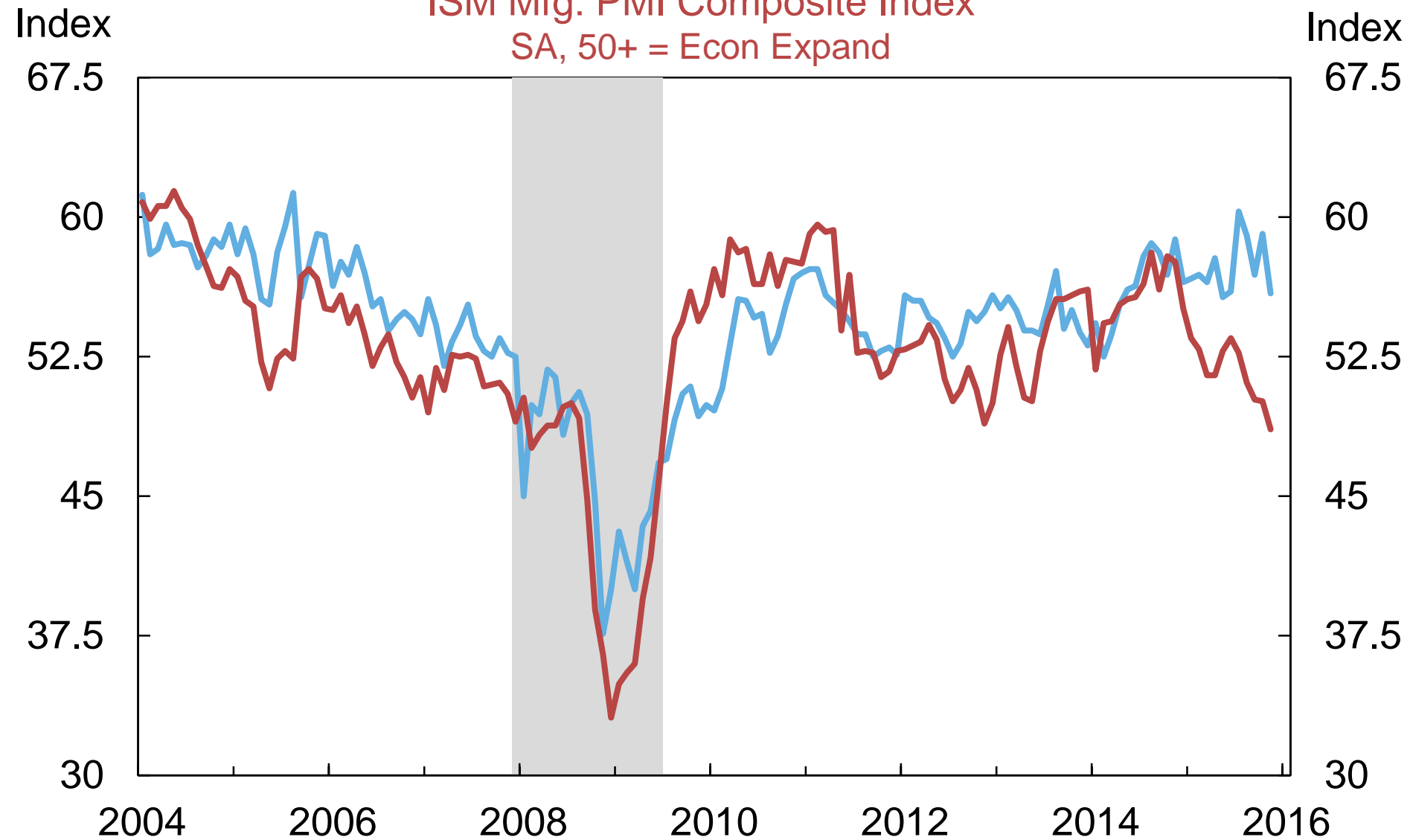


# ISM Nonmanufacturing: NMI Composite Index

SA, 50+= Increasing

# ISM Mfg: PMI Composite Index

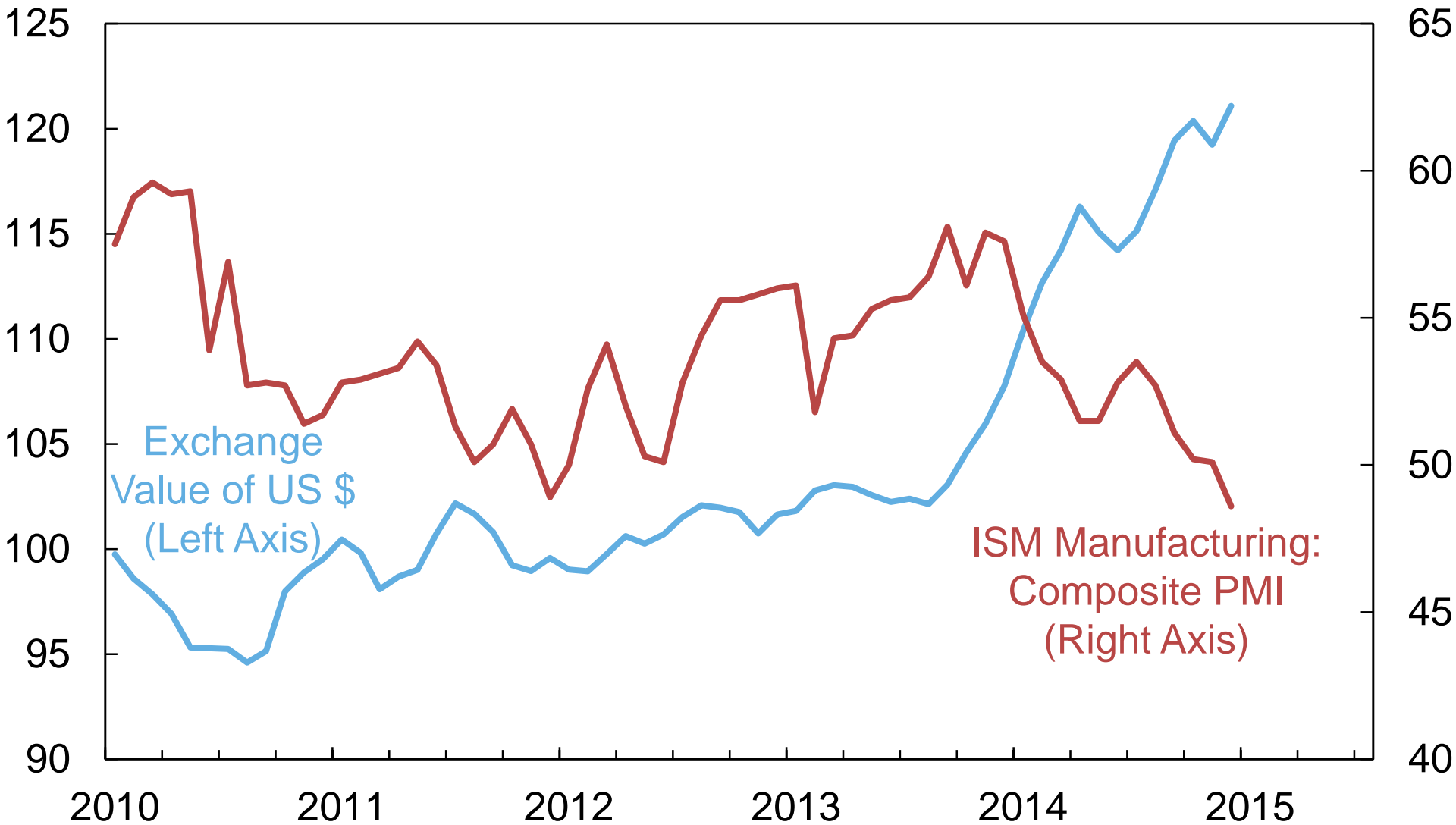
SA, 50+ = Econ Expand



# ISM Manufacturing versus Dollar Exchange Value

Trade-Weighted Value

Index



Source: Federal Reserve Board, Institute for Supply Management

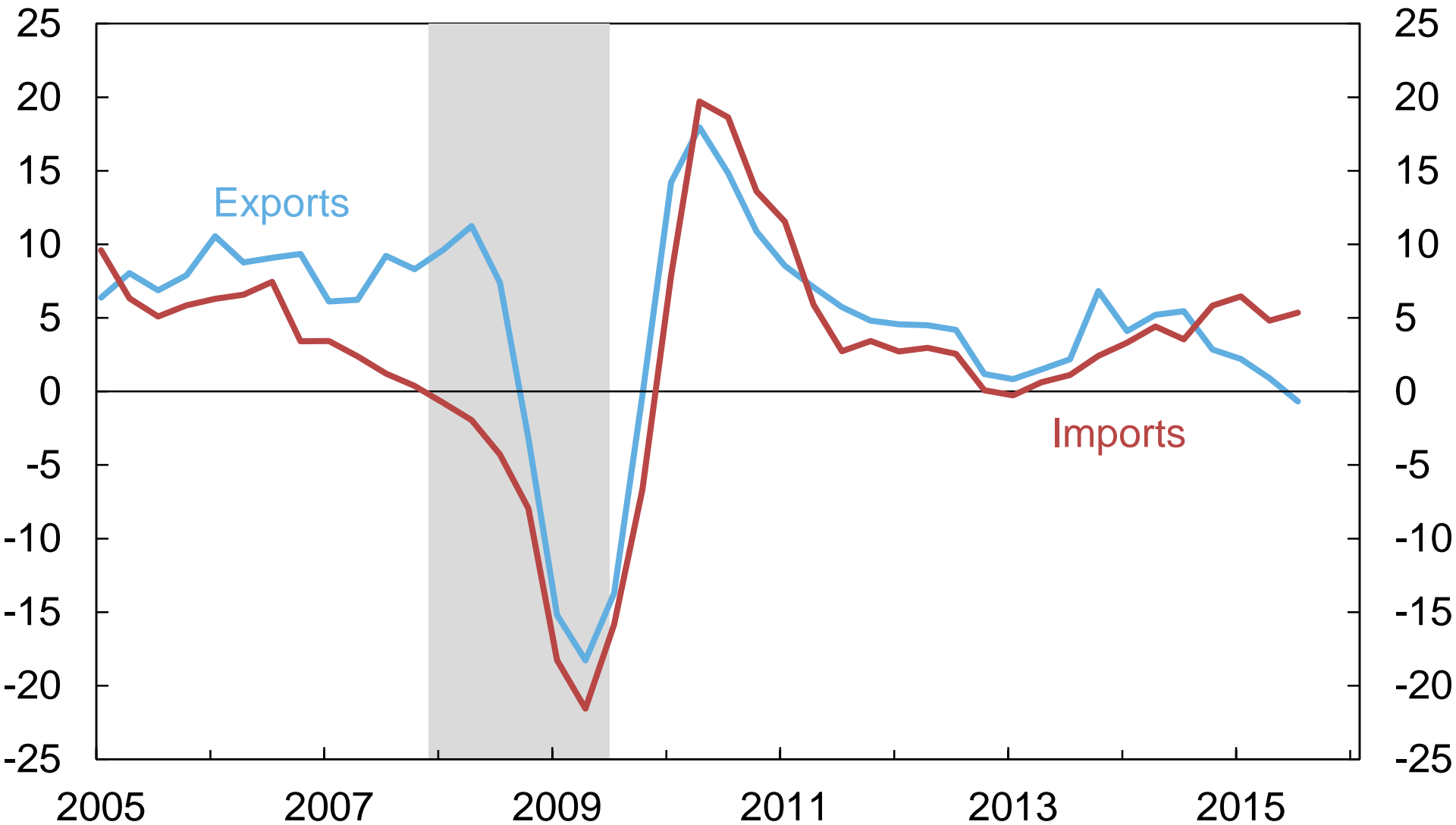
Note: Shading shows NBER recessions.



# Imports and Exports of Real Goods

4 Quarter % Change

4 Quarter % Change



Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.

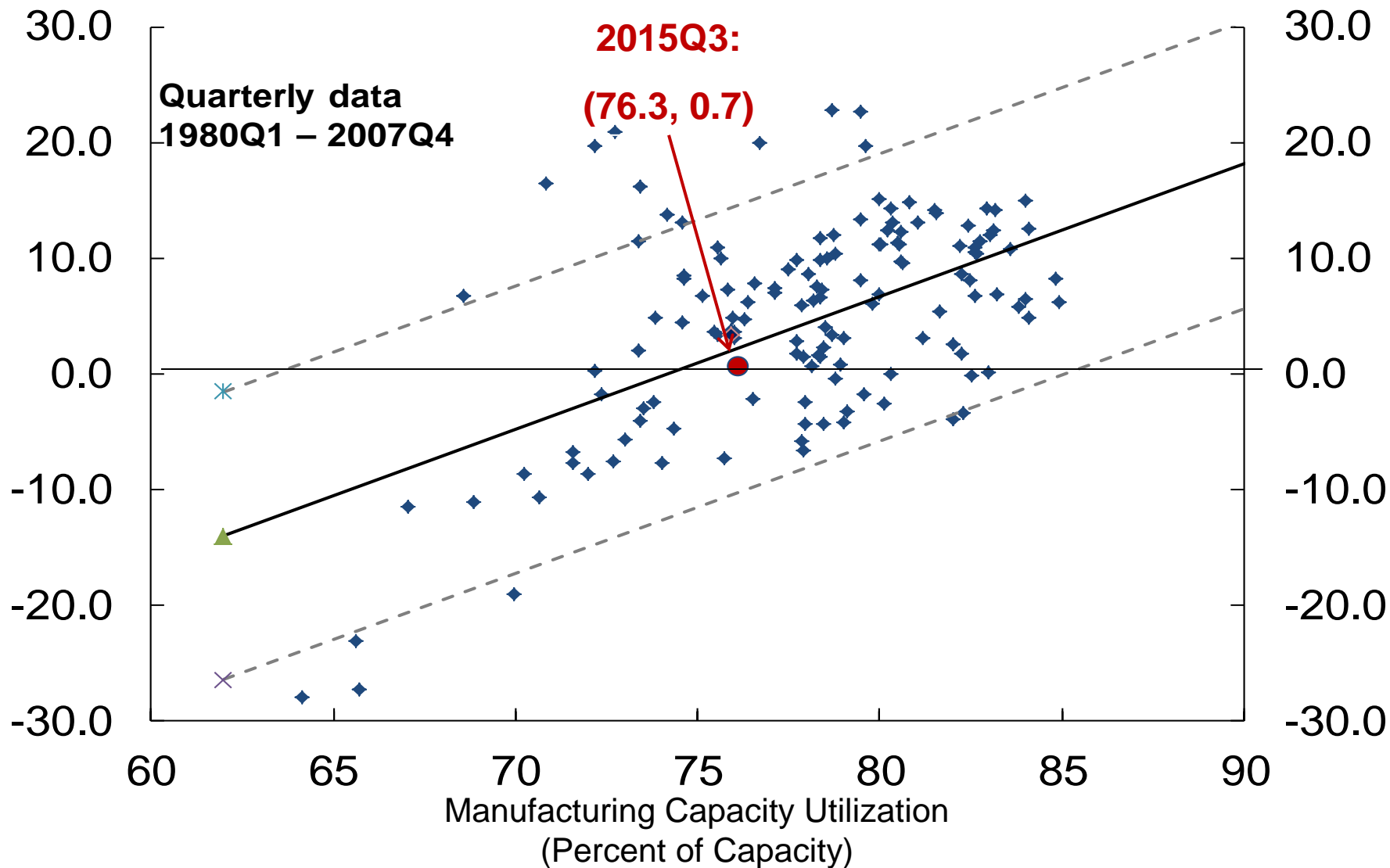




# Equipment Investment Spending and Capacity Utilization

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

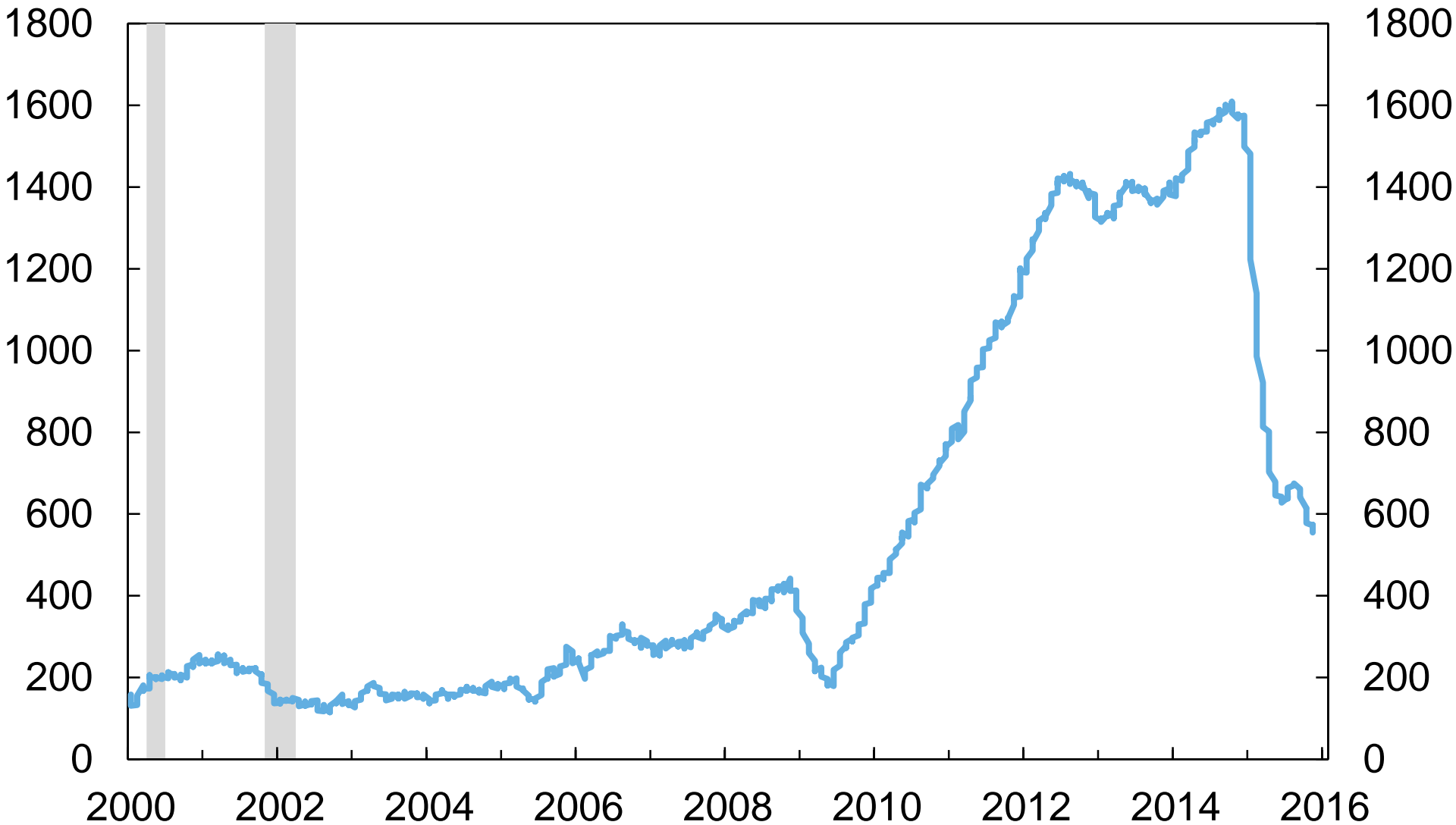
Real Business Investment in New Equipment  
(% Change – Year to Year)



# Baker Hughes US Oil Rig Count

Active Oil Rigs

Active Oil Rigs

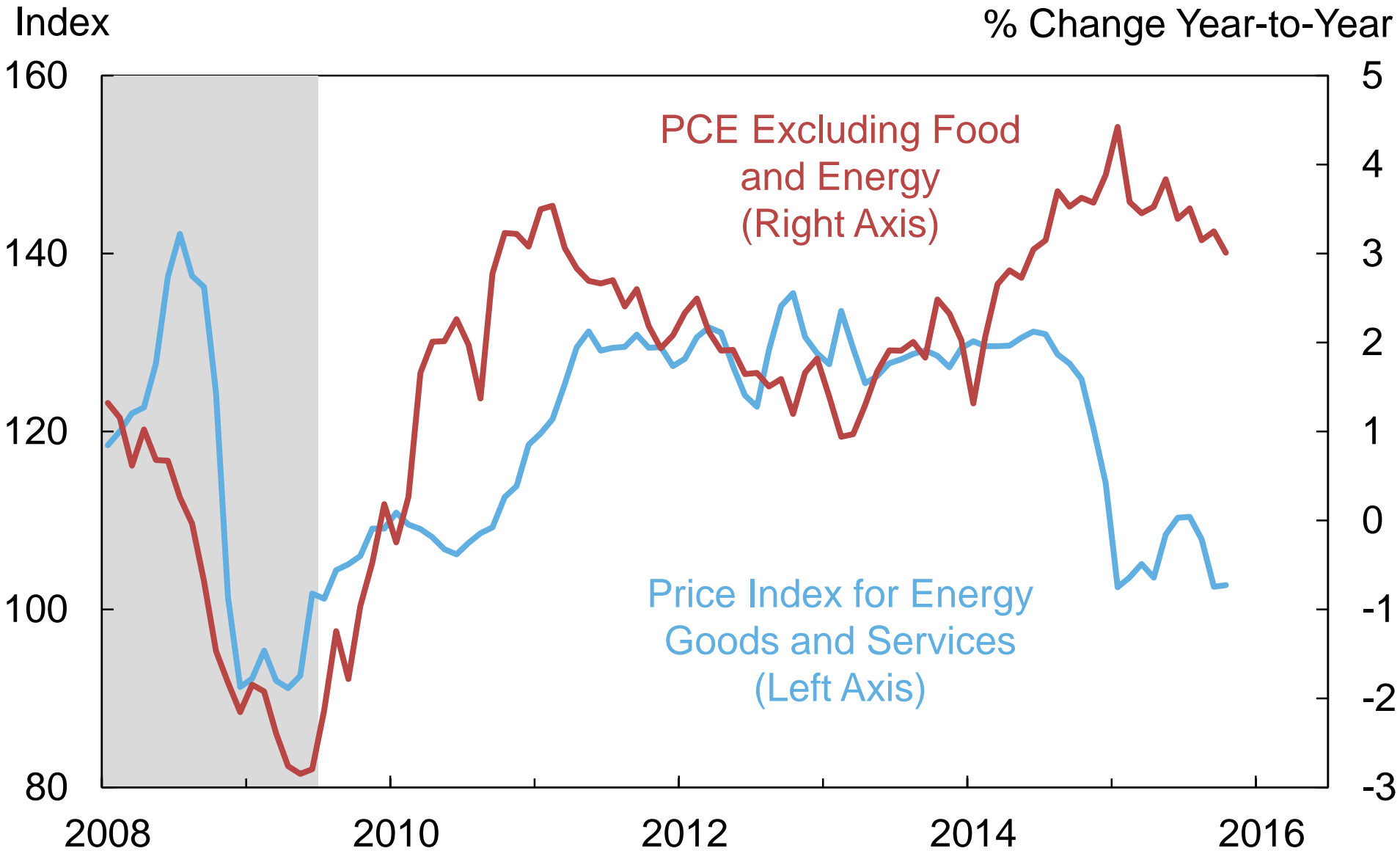


Source: Baker Hughes

Note: Shading shows NBER recessions.



# Growth of Real PCE and Energy Prices

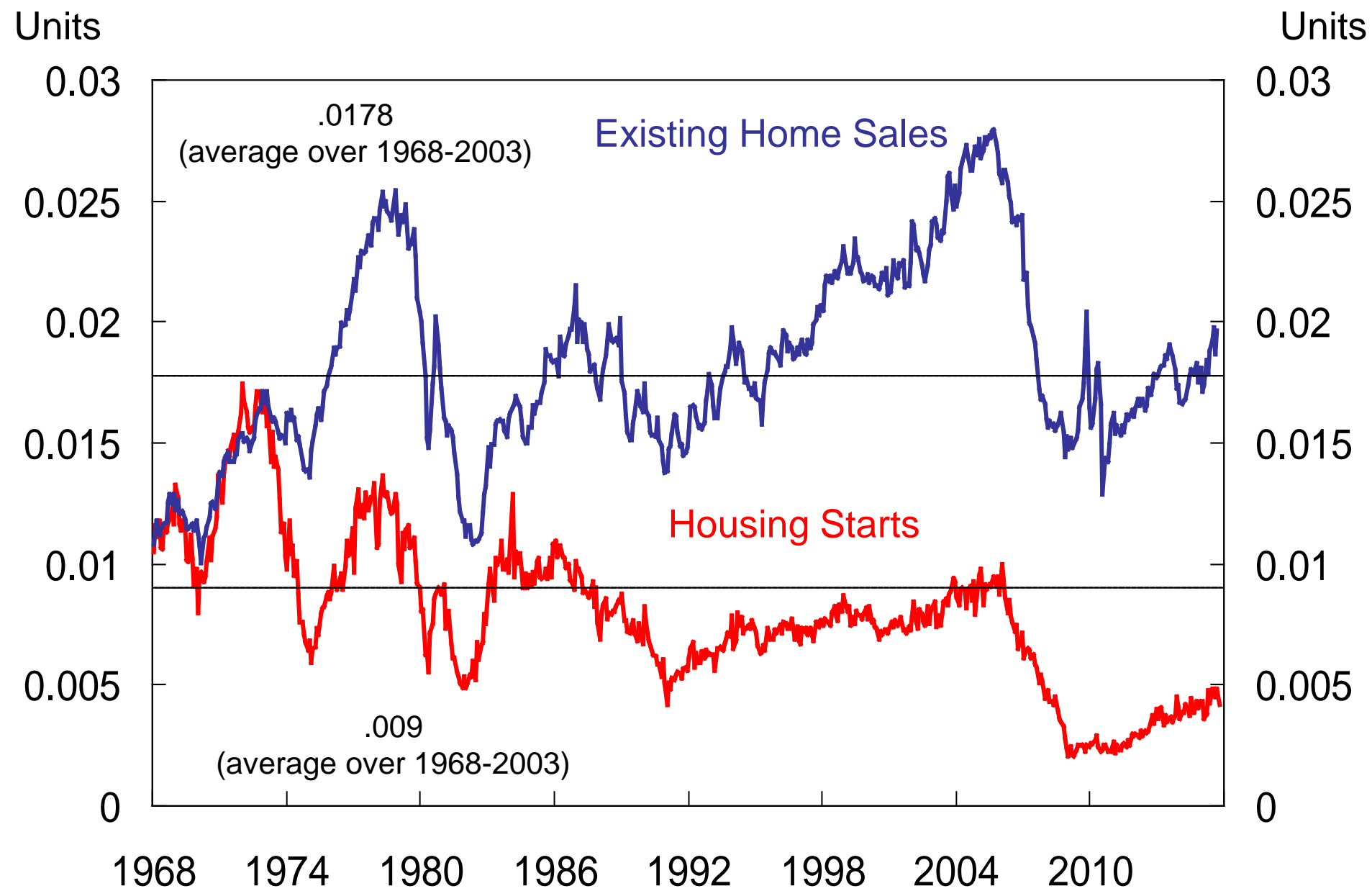


Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.



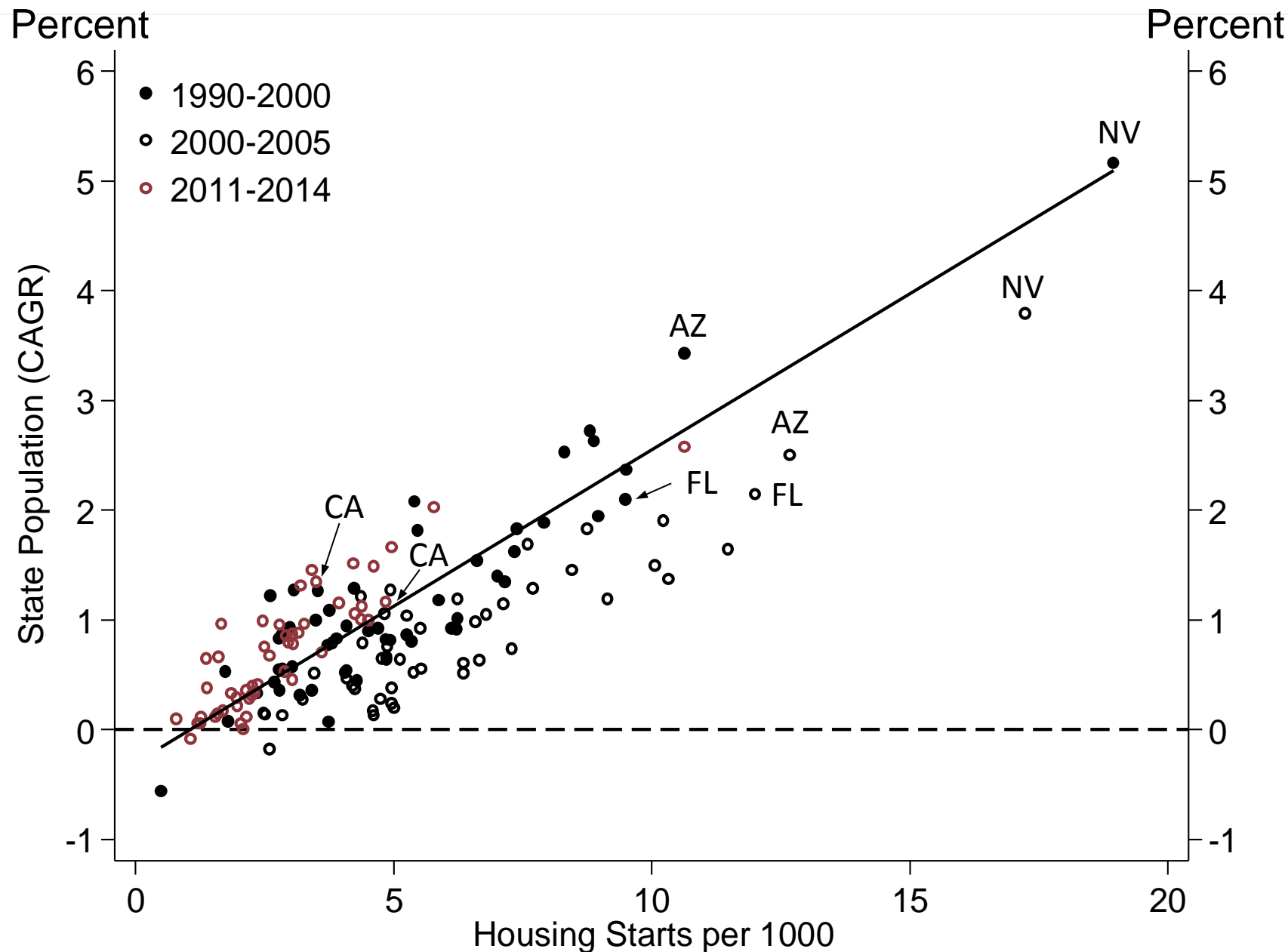
# Housing Starts and Existing Home Sales Per Capita



Source: BLS, Census Bureau, National Association of Realtors



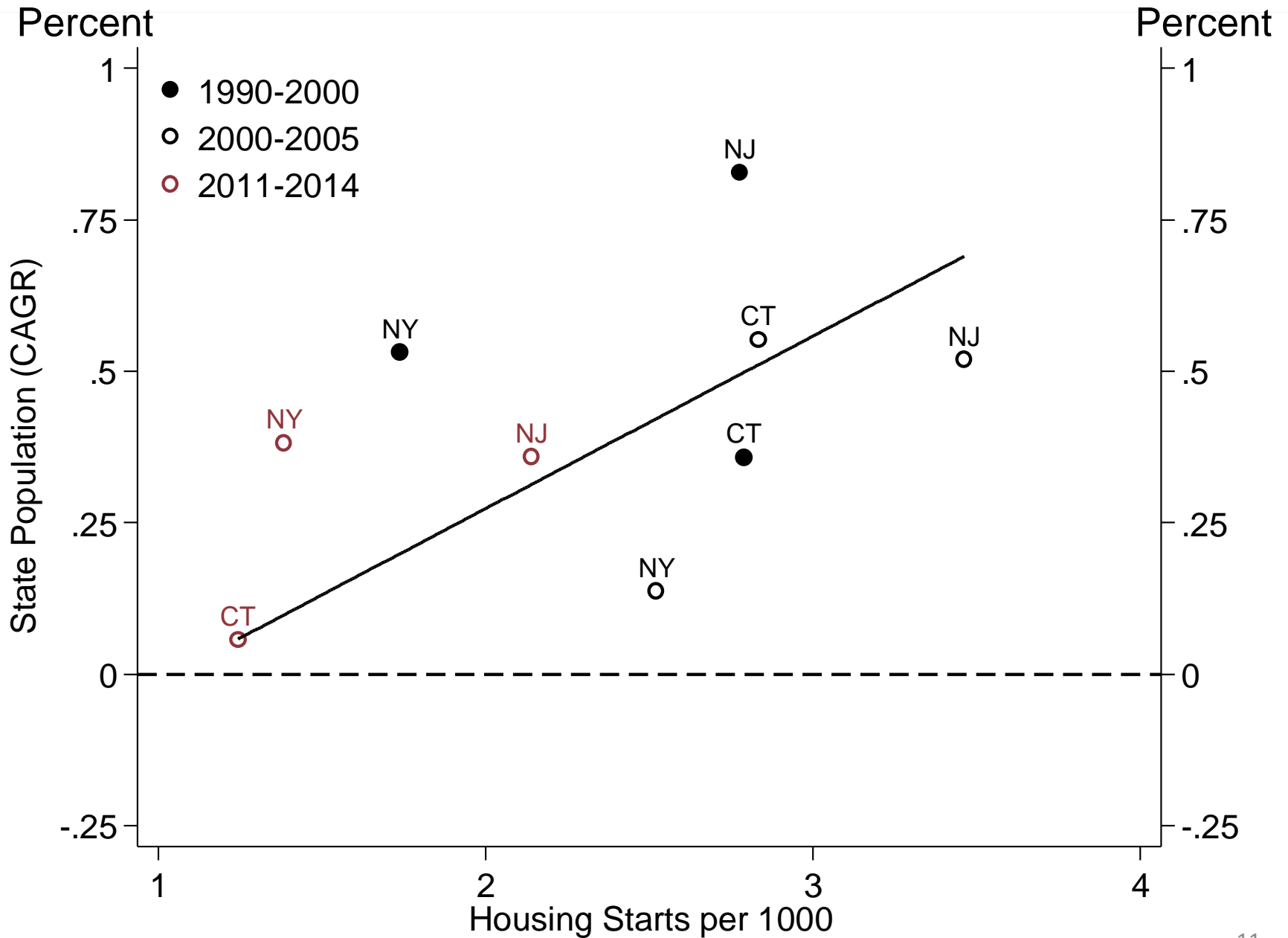
# Housing Starts versus Population Growth by State



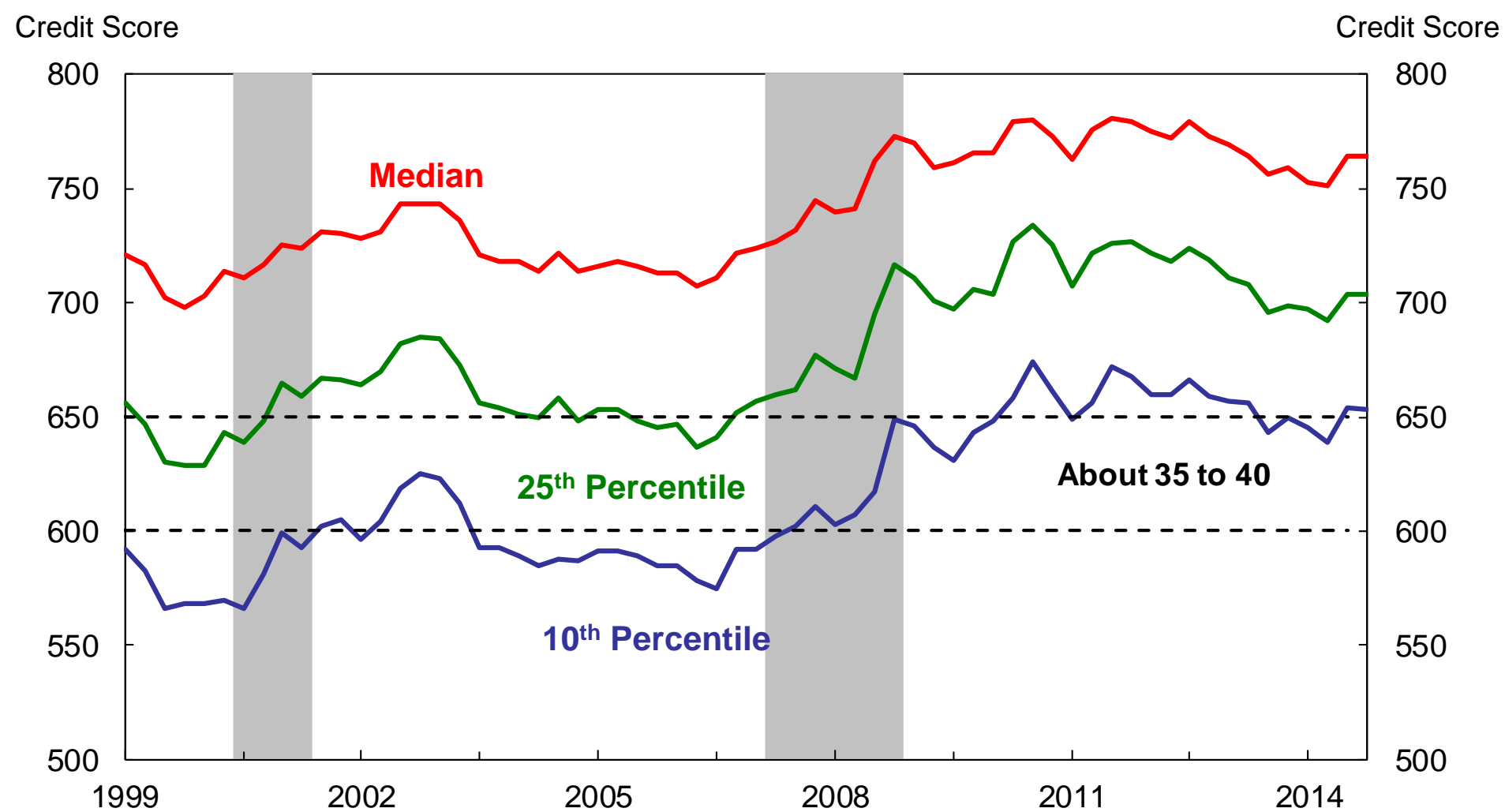
Source: BTMU, Census



# Housing Starts versus Population Growth by State



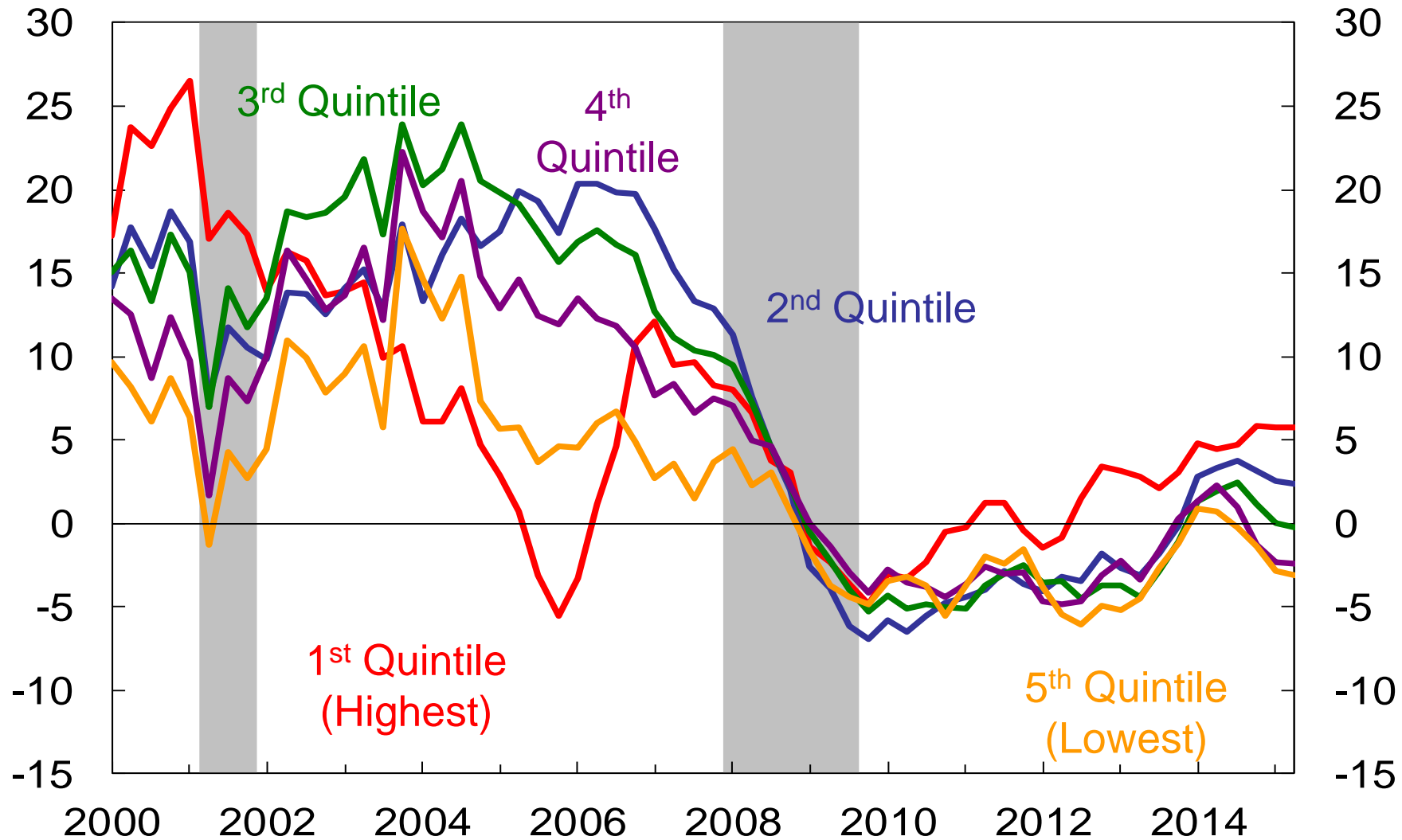
# Credit Score at Mortgage Origination: All First Mortgages



# Consumer Debt by Credit Score

% Change – Year to Year

% Change – Year to Year



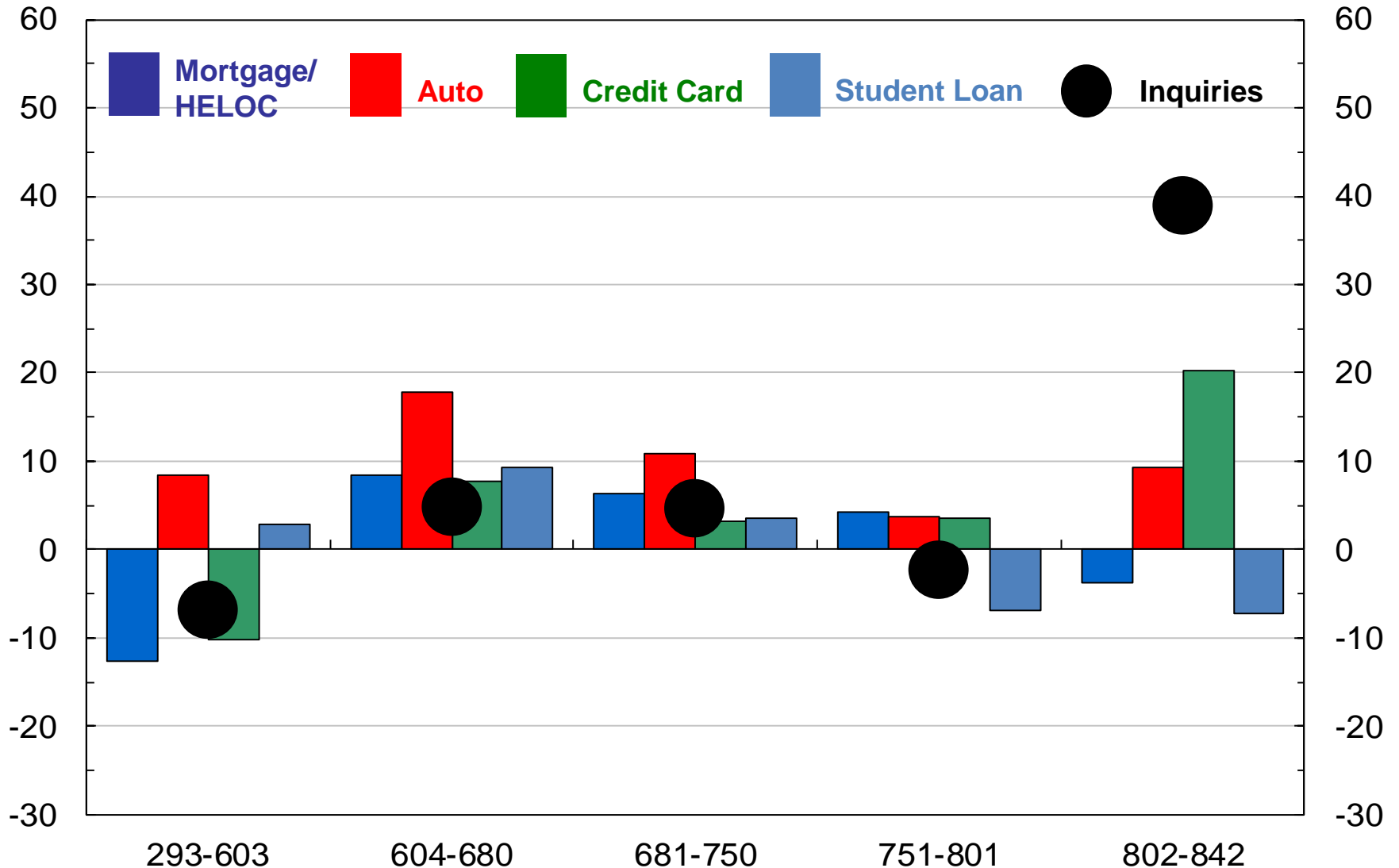




# Change in Debt 2014Q3-2015Q3 By Credit Score Quintile

Percent

Percent



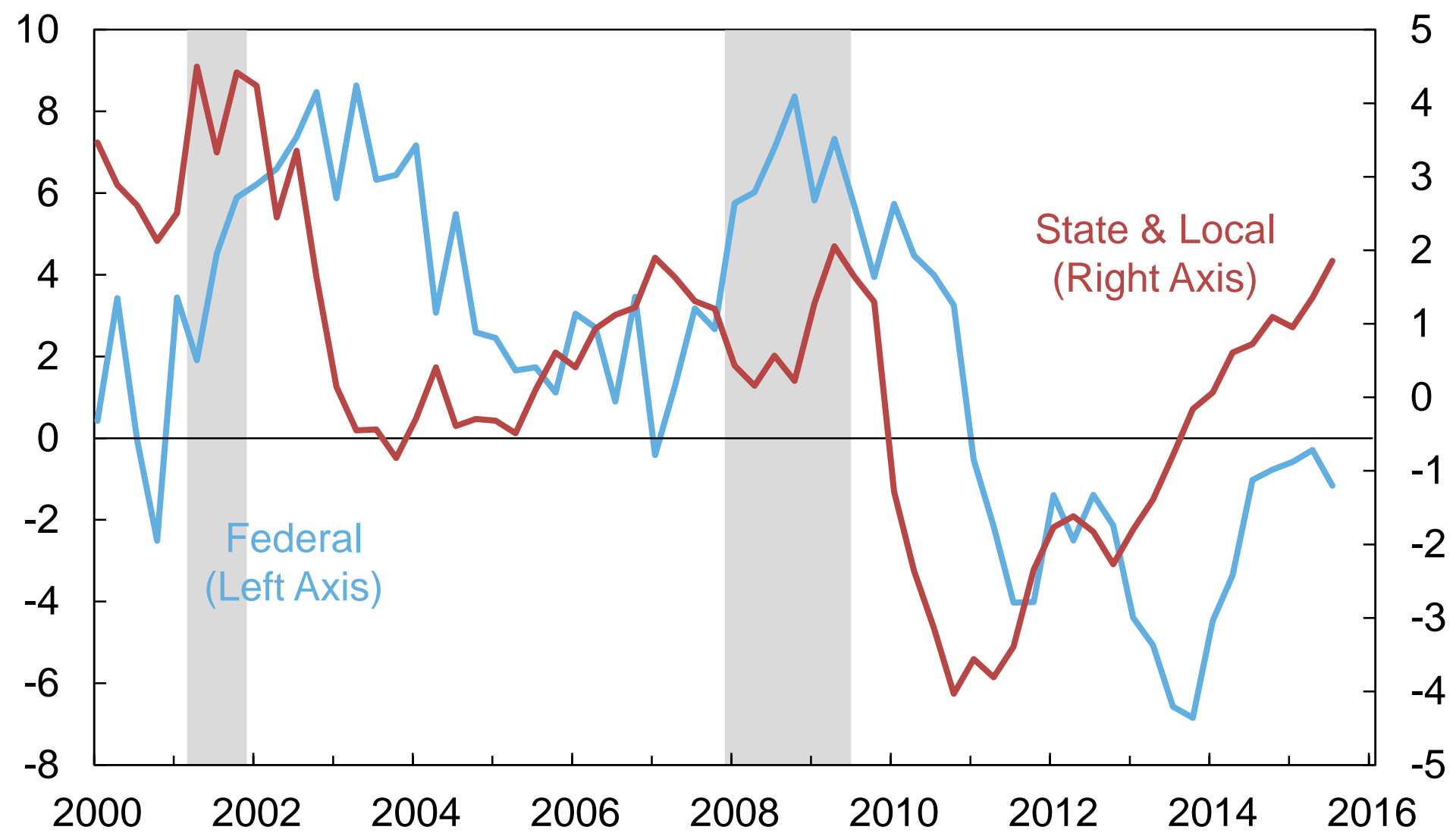
Equifax Risk Score Quintiles\*

Note: \* 2014Q3 Quintiles

# Real Government Consumption and Gross Investment

4 Quarter % Change

4 Quarter % Change



Source: Bureau of Economic Analysis

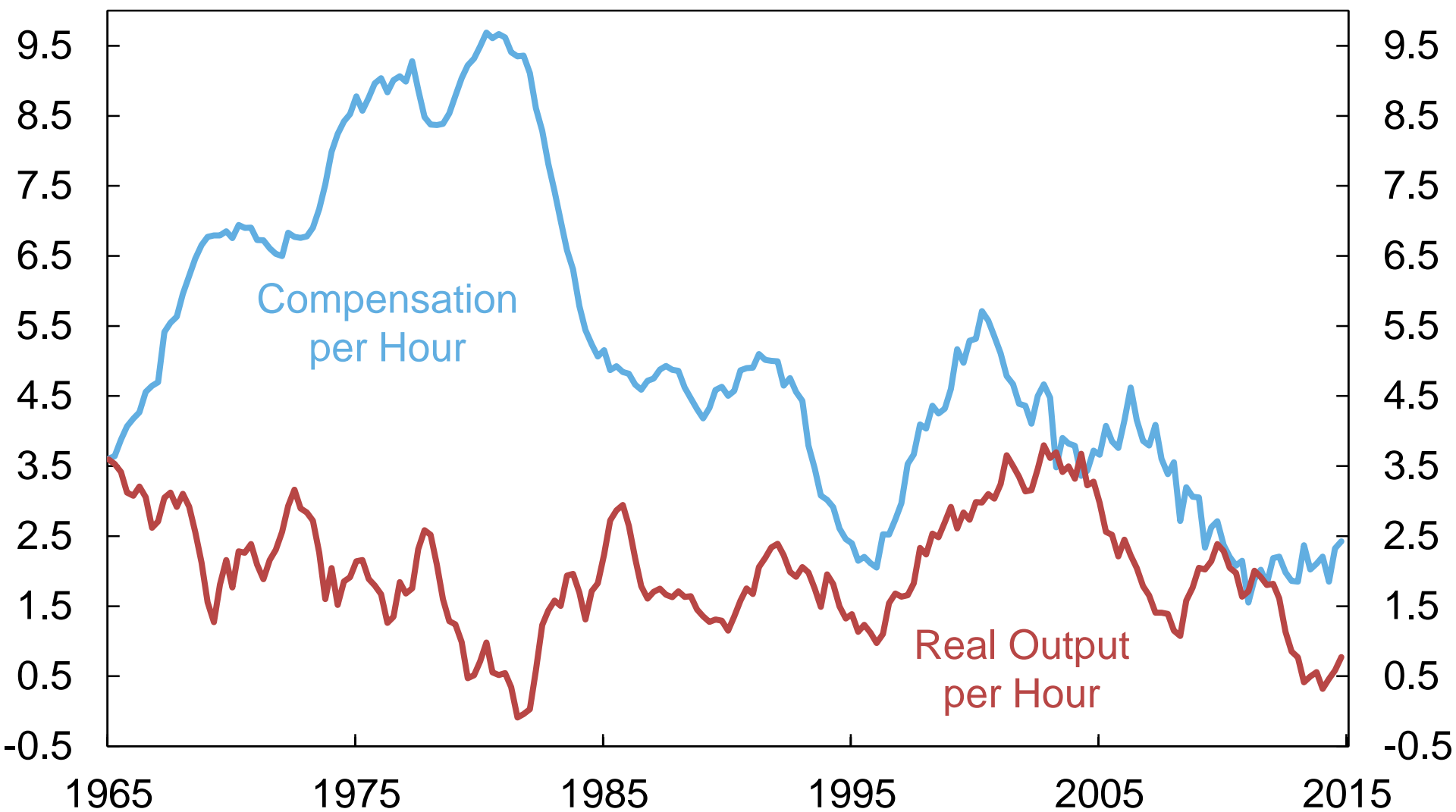
Note: Shading shows NBER recessions.



# Productivity Versus Compensation Per Hour

16-Qtr Annualized % Change

16-Qtr Annualized % Change

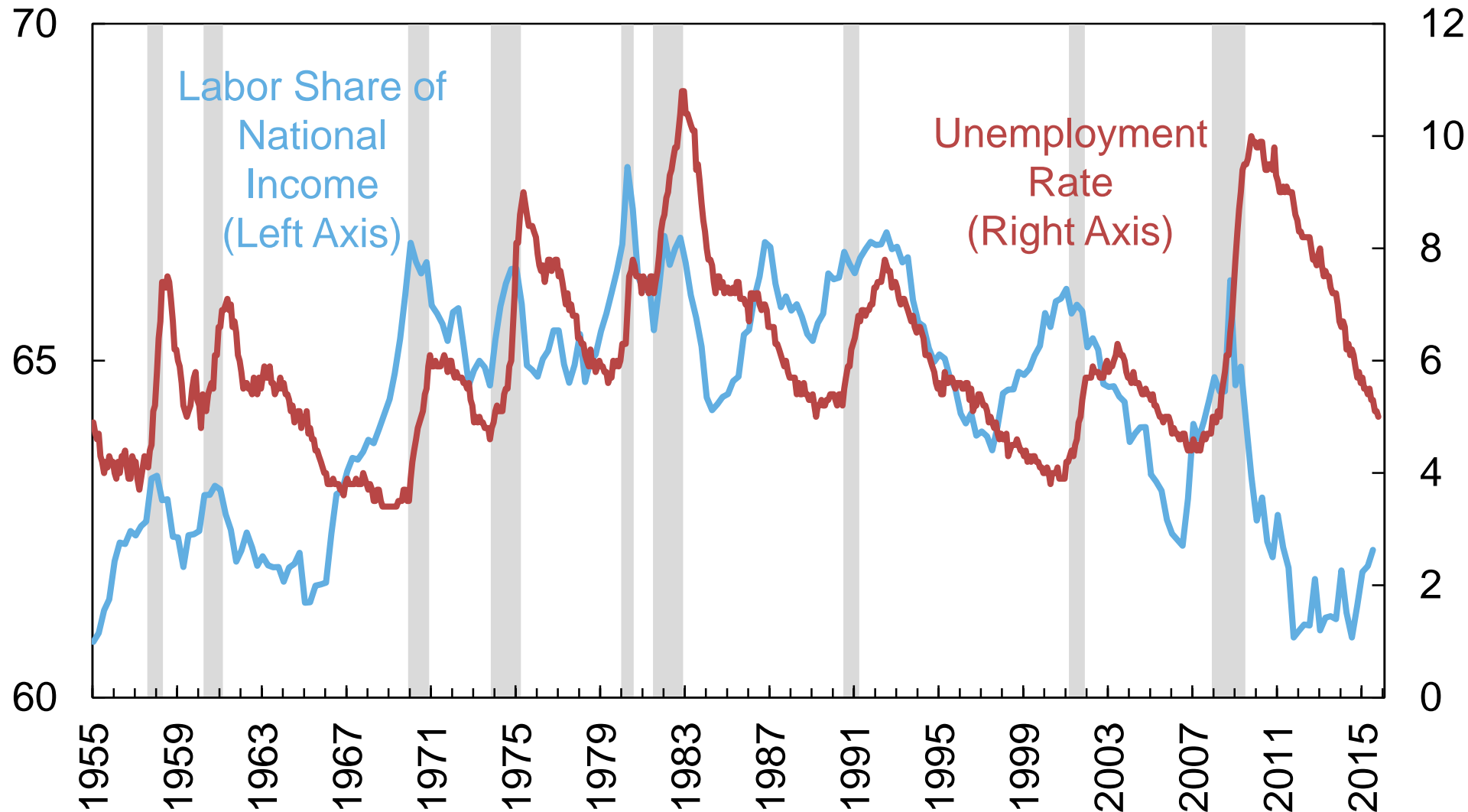




# Labor Share of National Income and Unemployment

Percent

Rate



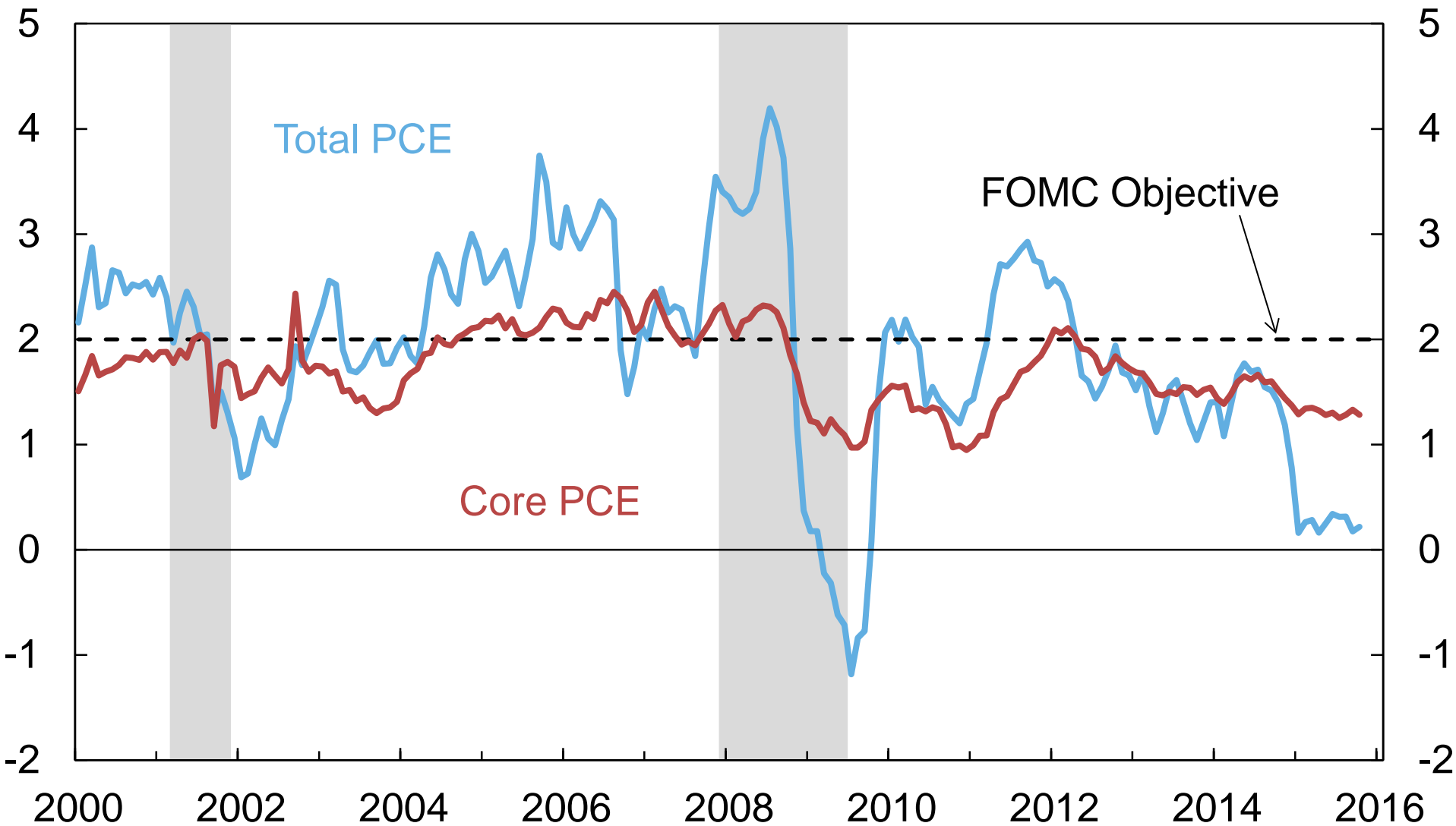
Source: Bureau of Economic Analysis, BLS

Note: Shading shows NBER recessions.

# PCE Deflator

12 Month % Change

12 Month % Change



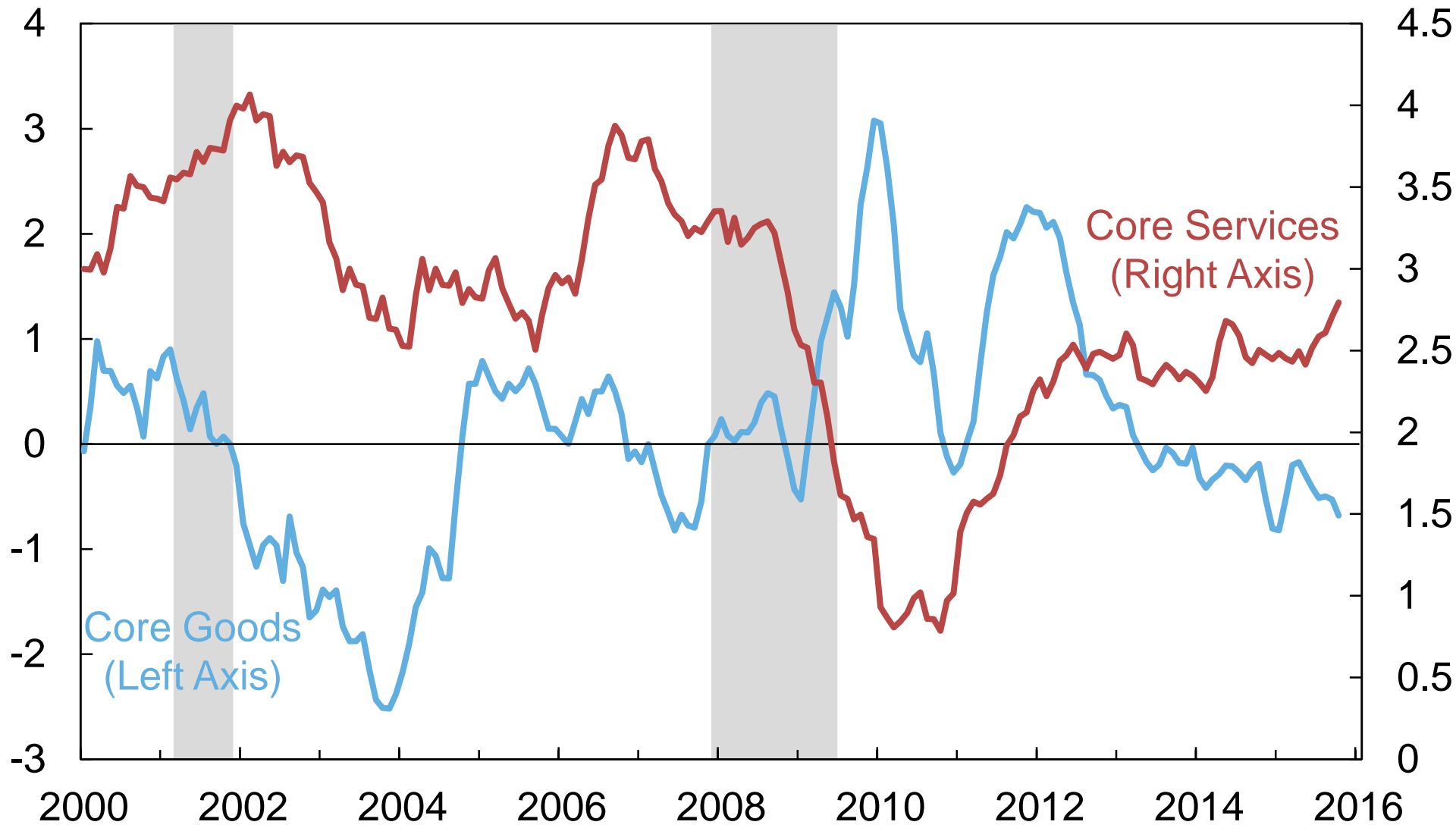
Source: Bureau of Economic Analysis, via Haver Analytics

Note: Shading shows NBER recessions.

# CPI Inflation: Core Goods and Core Services

12 Month % Change

12 Month % Change



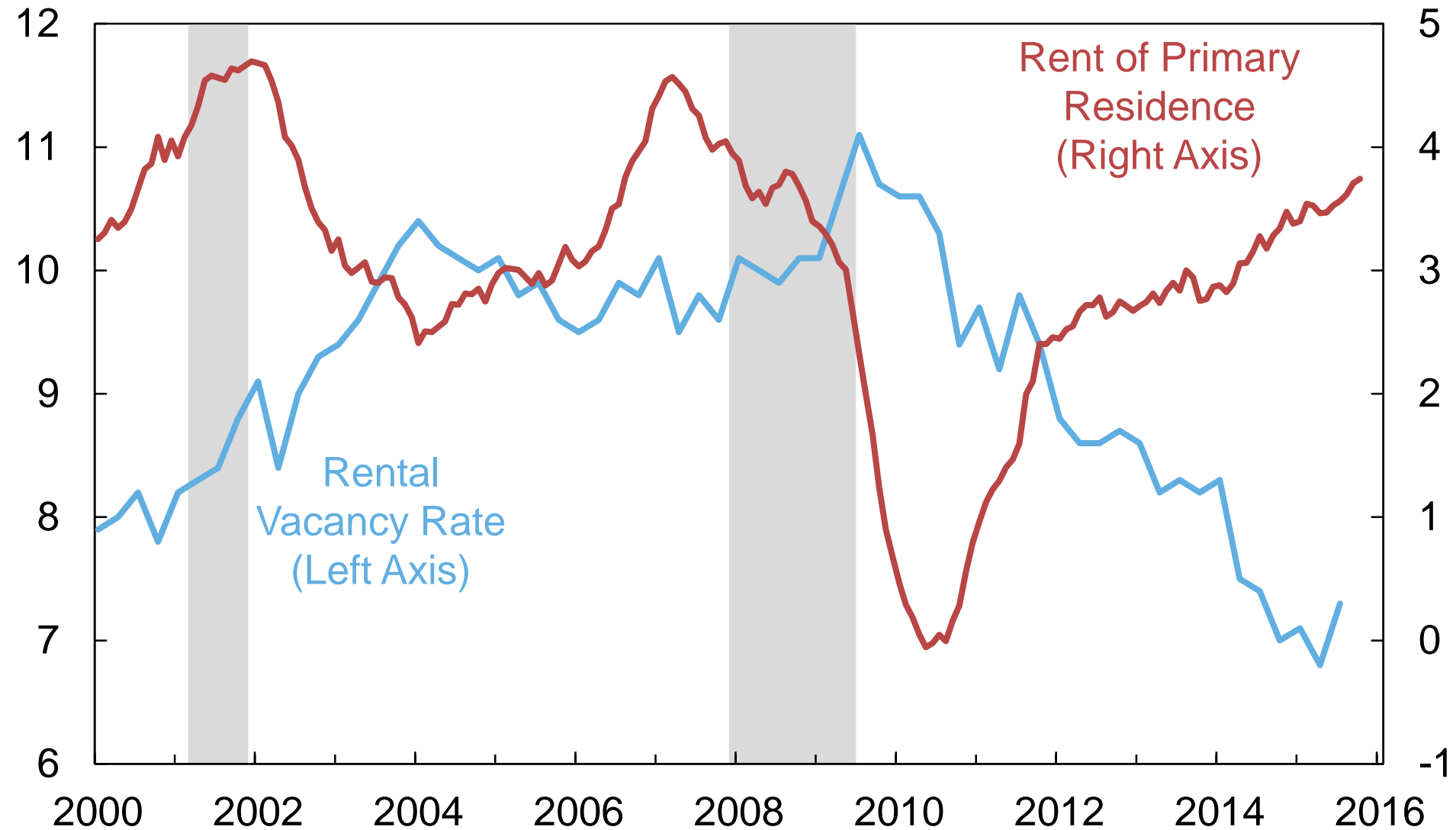
Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

# Rental Vacancy Rate and Rent of Primary Residence

Percent

12 Month % Change



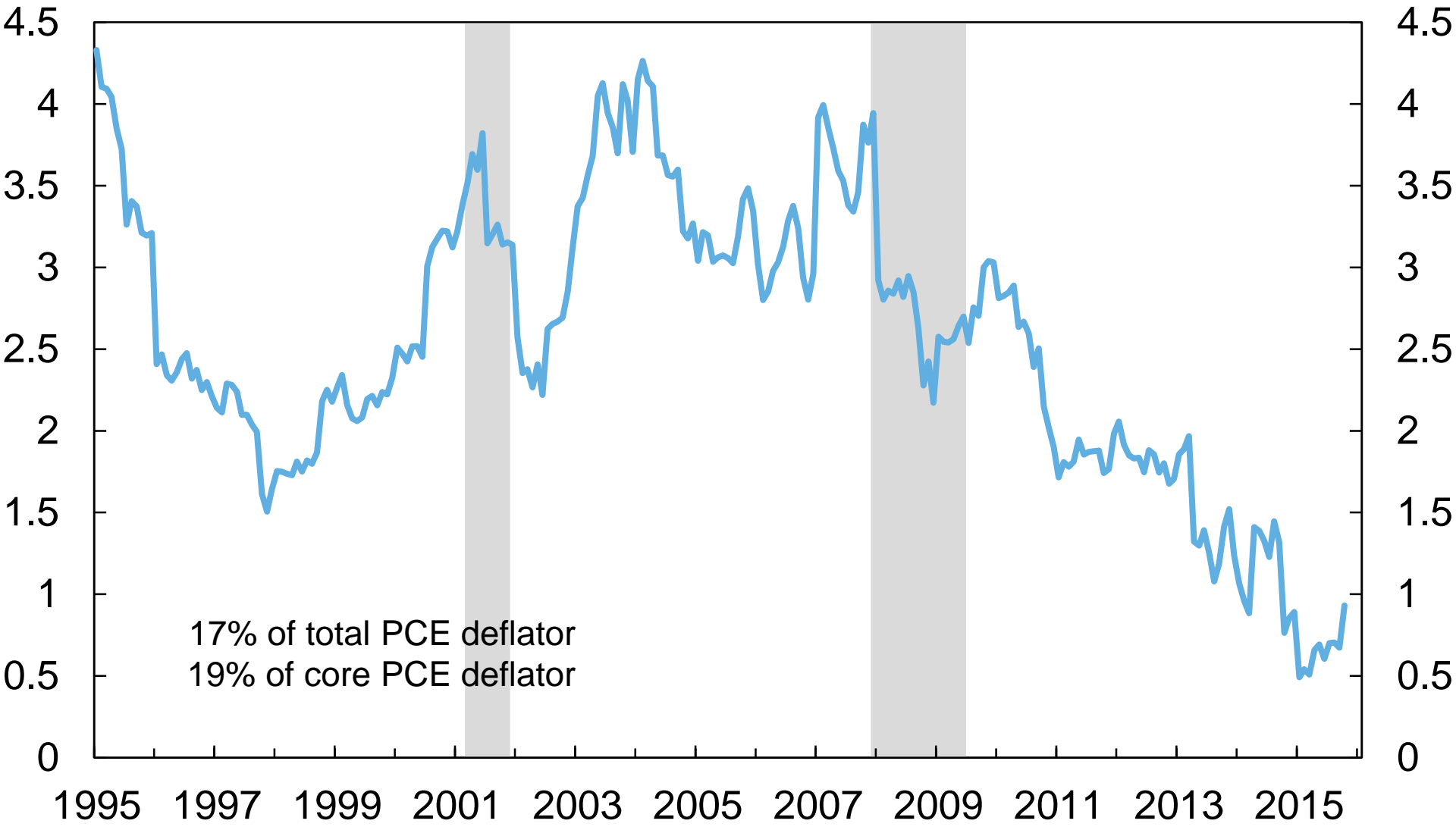
Source: Census Bureau, BLS

Note: Shading shows NBER recessions.

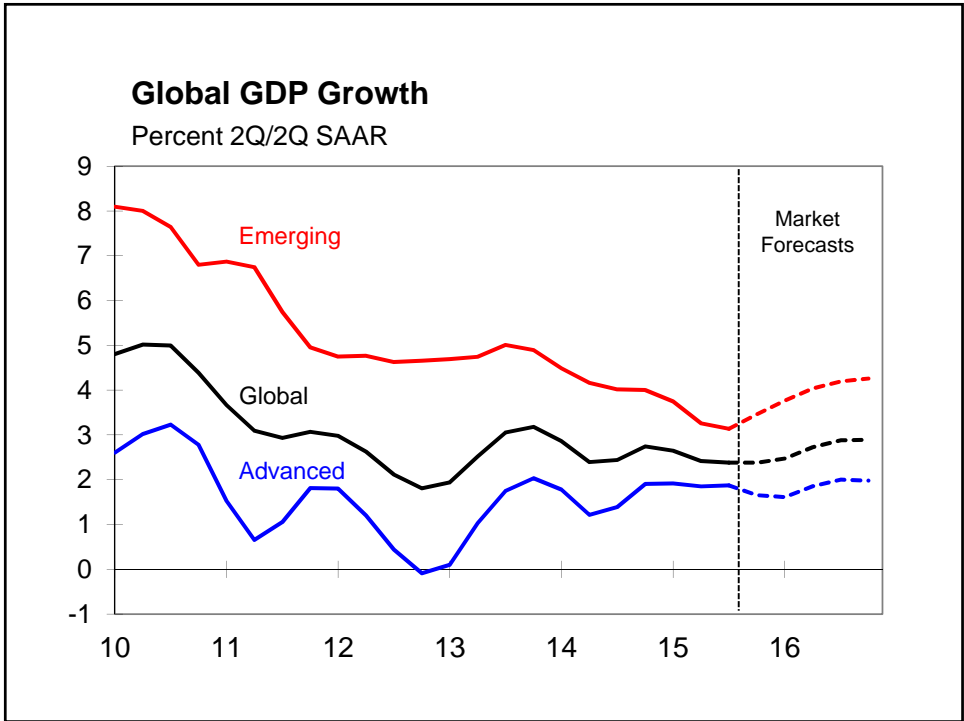
# Personal Consumption Expenditures: Health Care Price Index

12 Month % Change

12 Month % Change

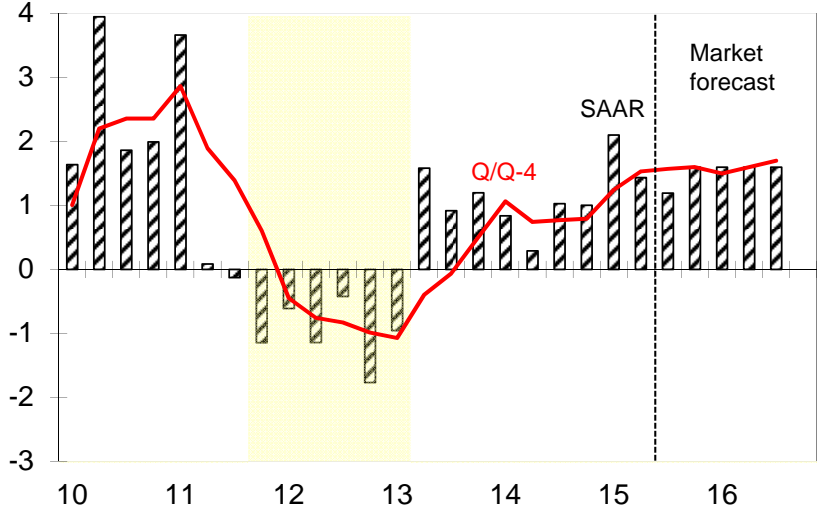






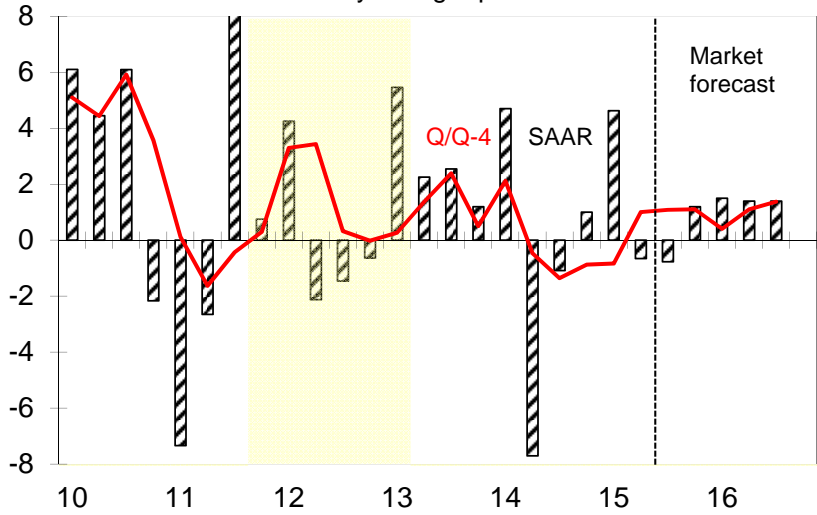
### Euro Area GDP Growth

Percent SAAR and from year-ago quarter

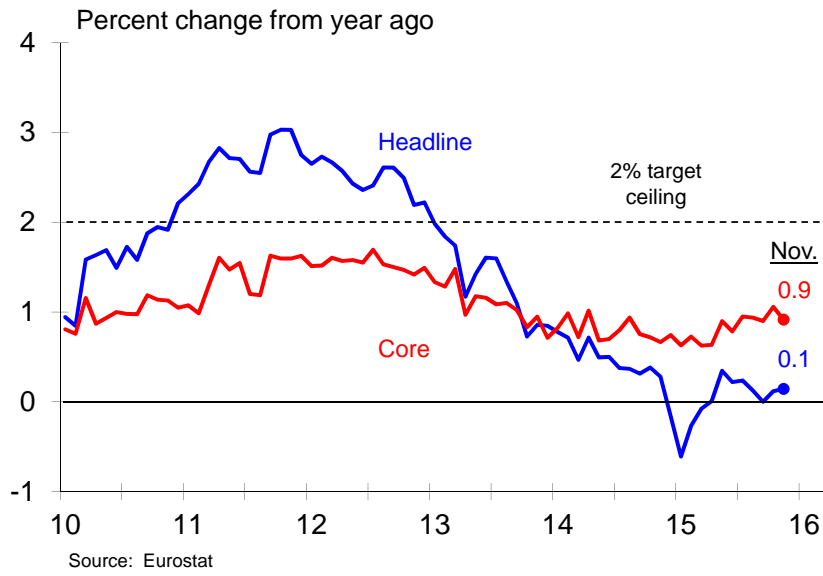


### Japan: GDP Growth

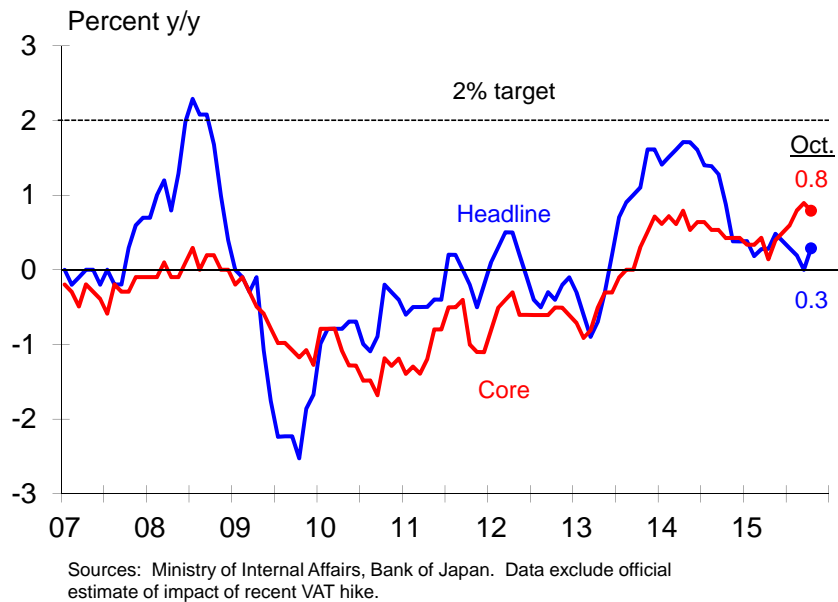
Percent SAAR and from year-ago quarter



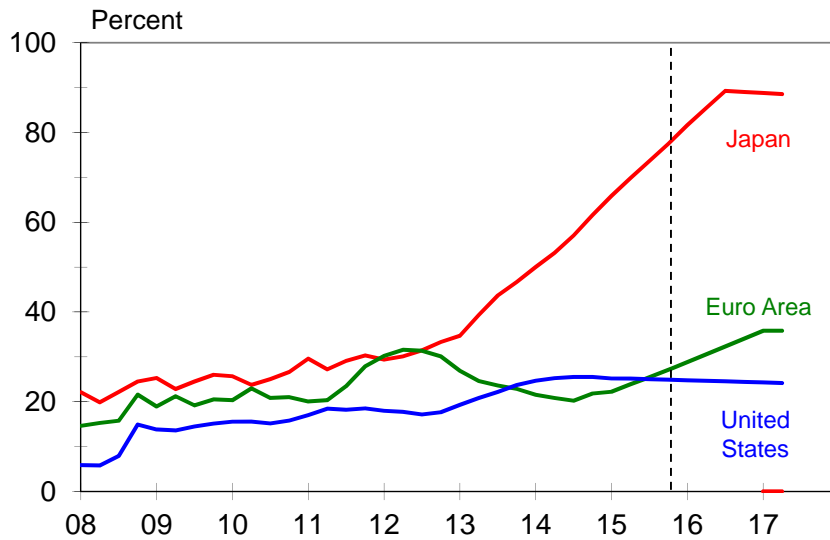
### Euro Area Consumer Price Inflation



### Japan: Consumer price inflation

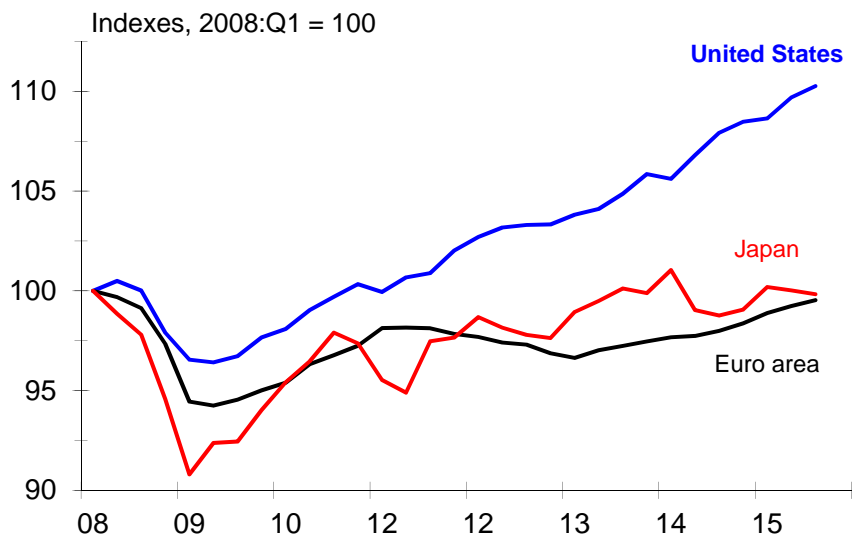


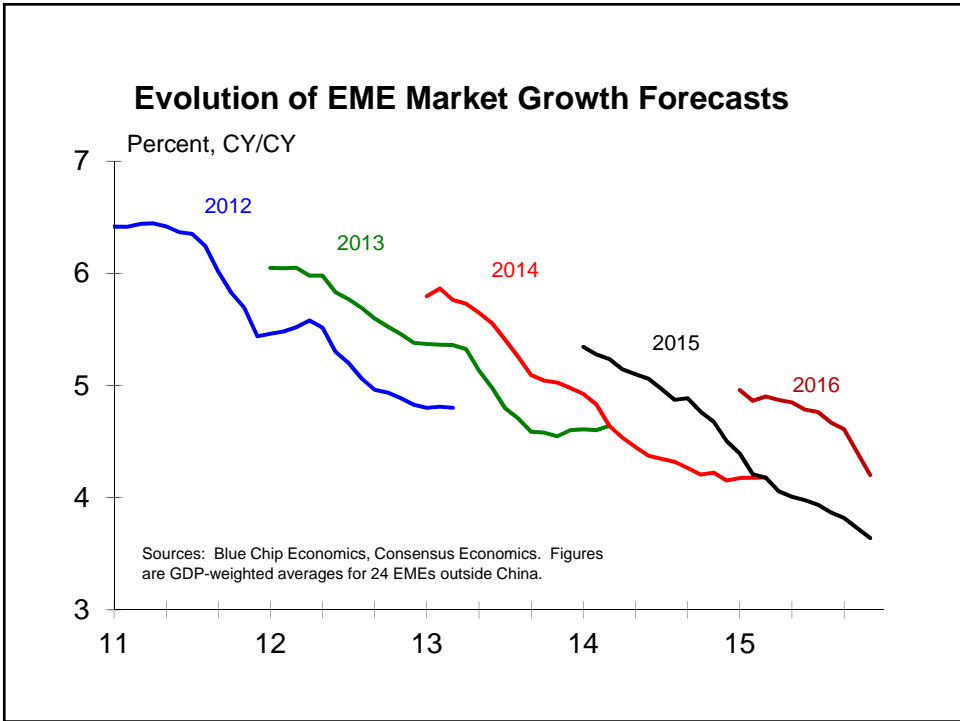
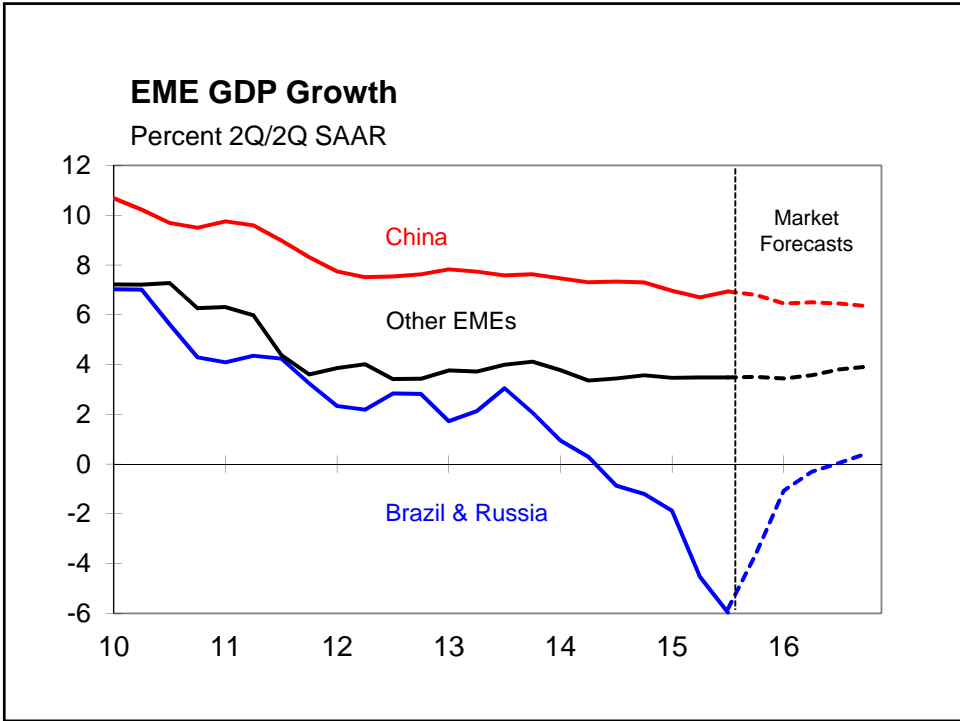
### Central Bank Credit as a Share of GDP

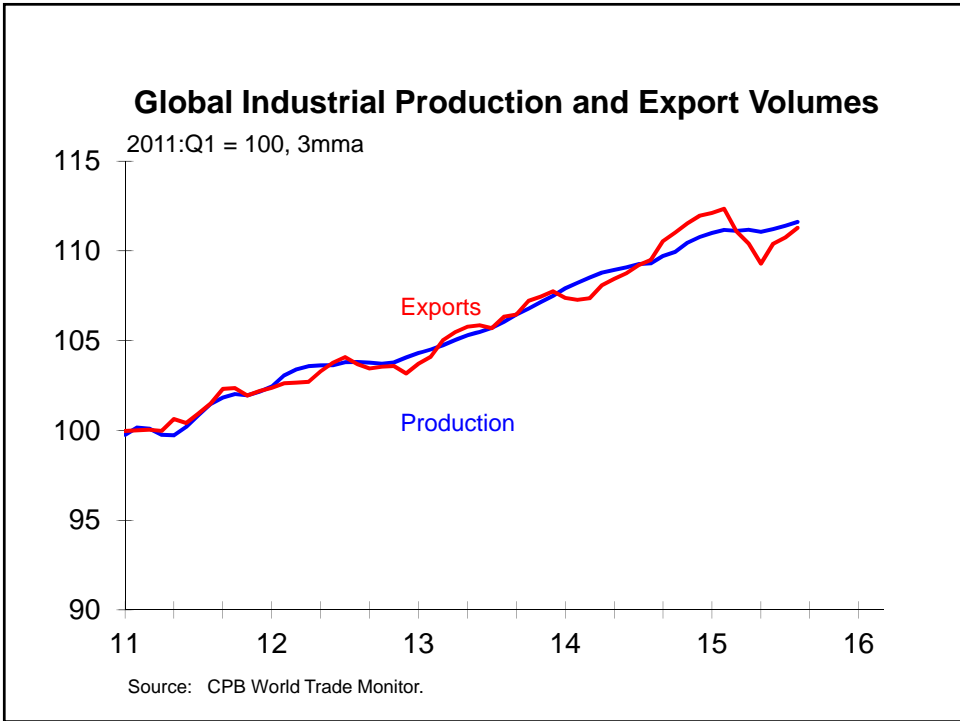
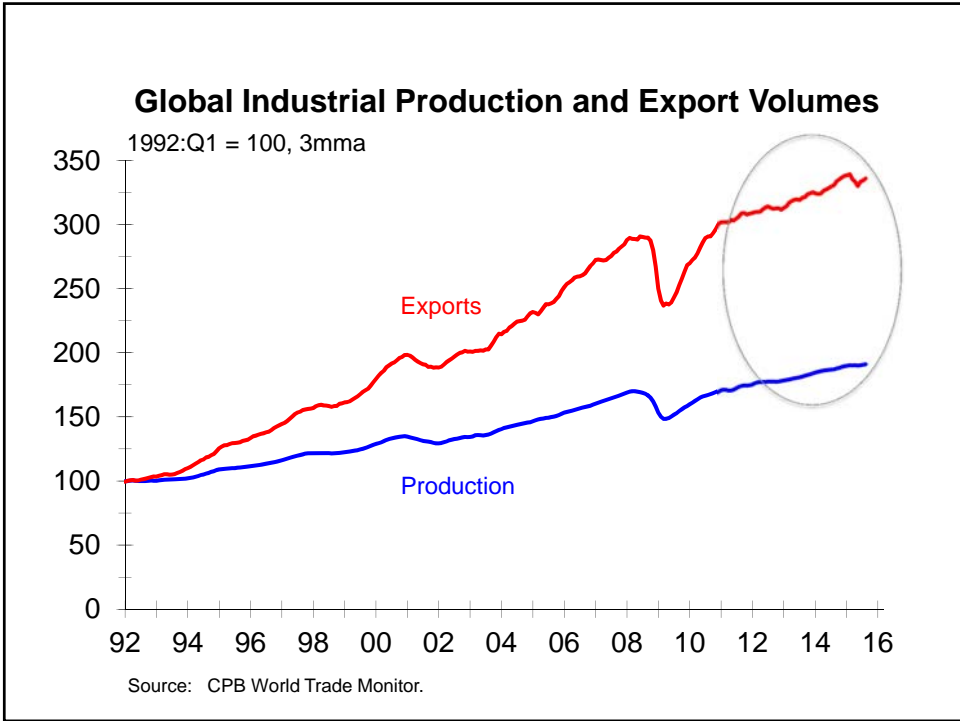


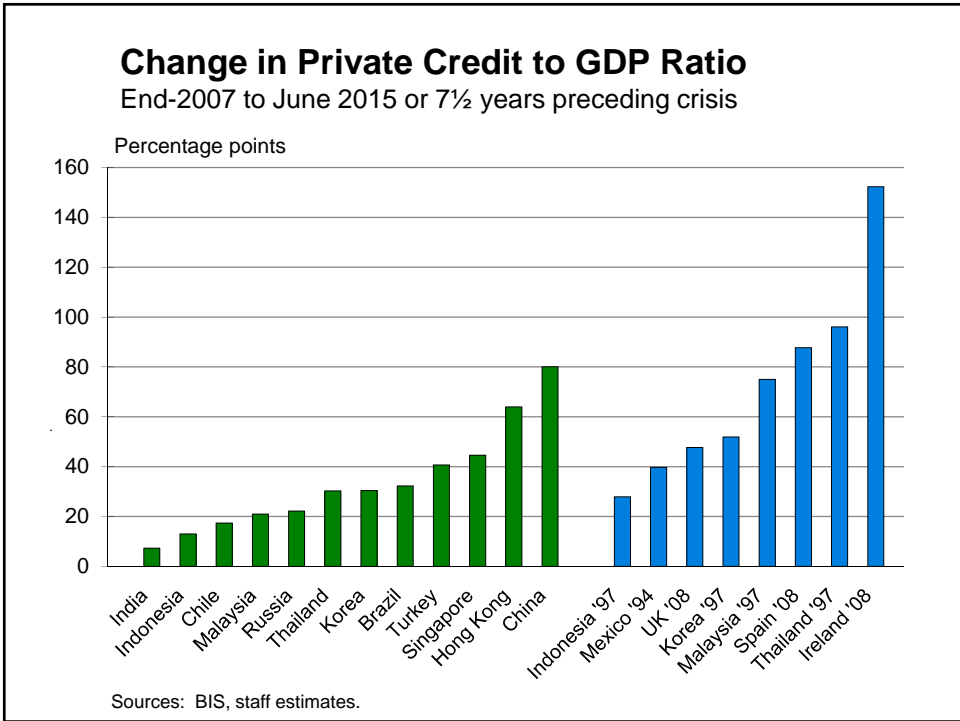
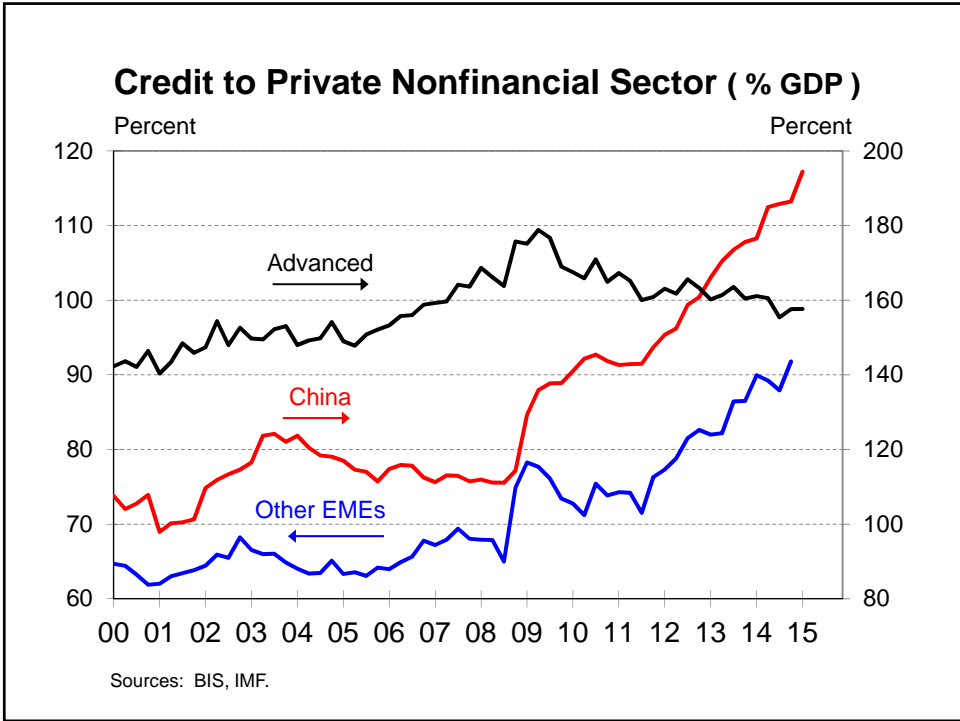
Sources: BoJ, ECB, Federal Reserve. Projections assume that announced BoJ and ECB asset purchase programs proceed as planned, and that Federal Reserve credit remains constant at its current level. Nominal GDP is assumed to grow in line with current market forecasts.

### Advanced Economy Real GDP

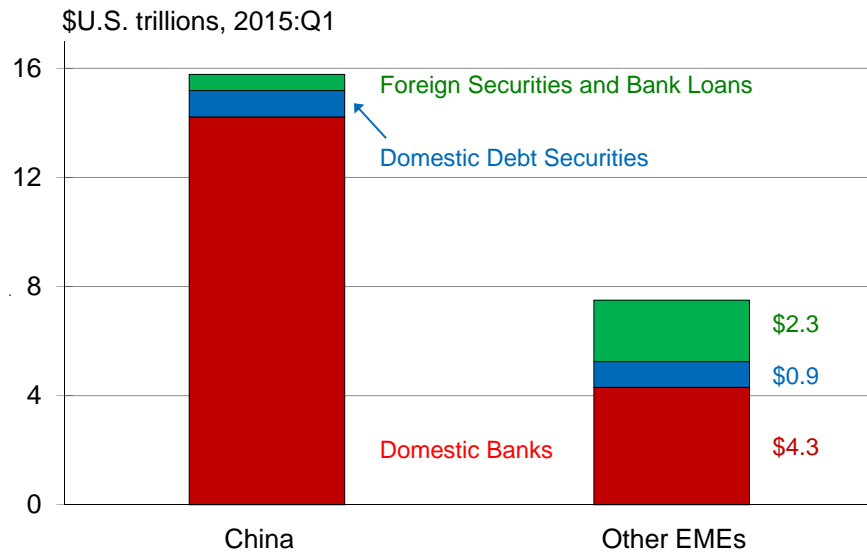






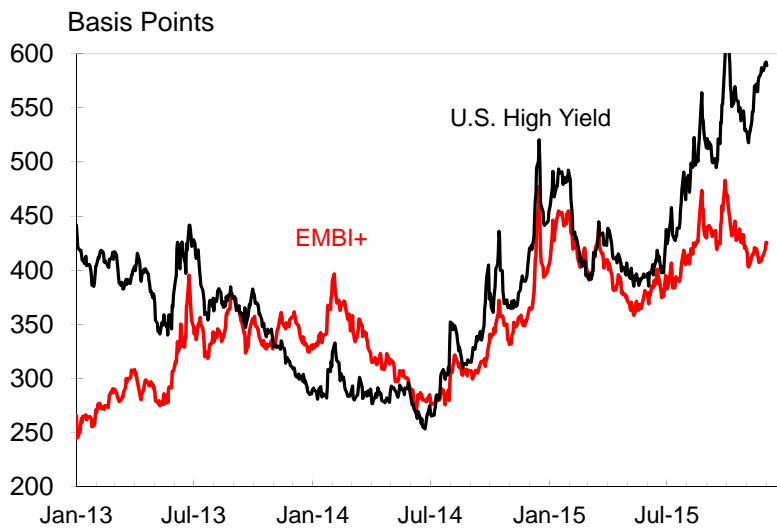


## Nonfinancial Corporate Credit by Source of Financing



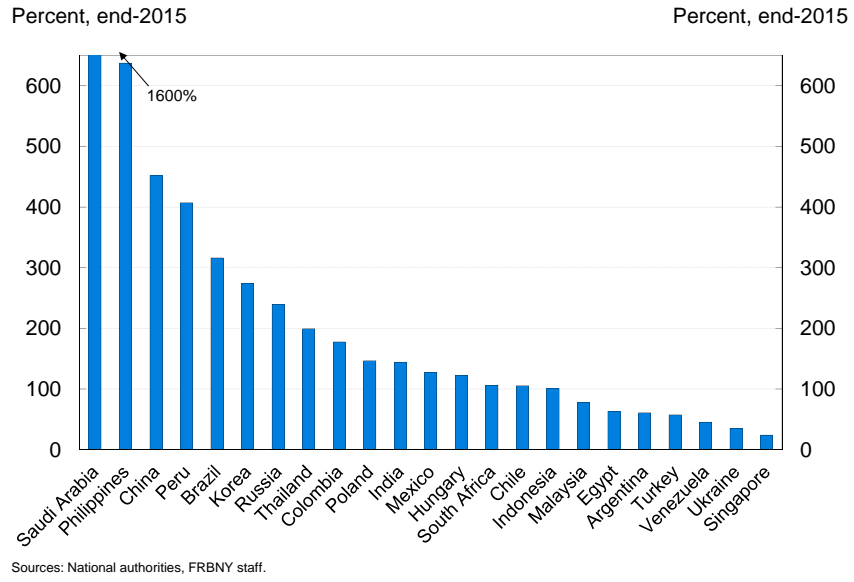
Sources: BIS, staff estimates. Other EMEs includes India, Indonesia, Hong Kong, Korea, Malaysia, Singapore, Thailand, Brazil, Mexico, Czech Rep., Hungary, Poland, Russia, Turkey and South Africa.

## U.S. High-Yield Corporate and EME Debt Spreads

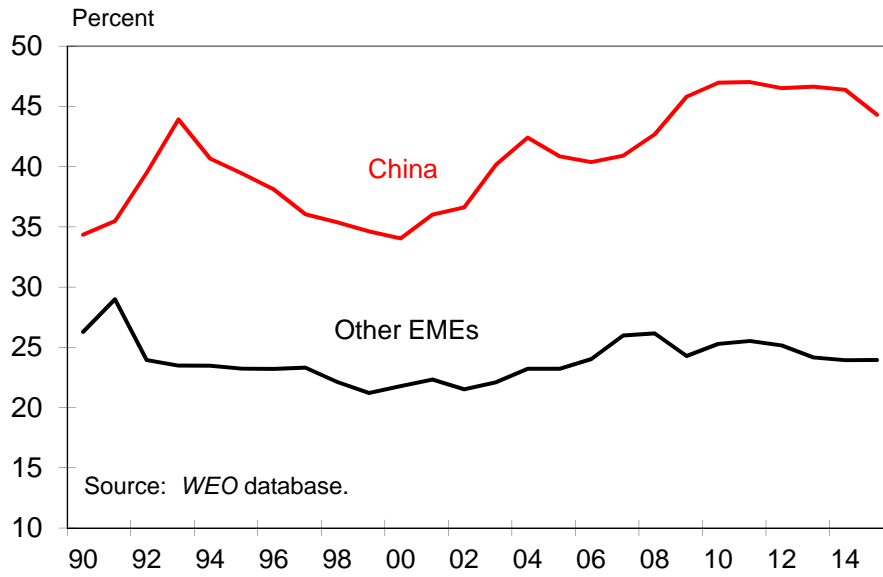




### EMEs: FX Reserves vs. Maturing Debt

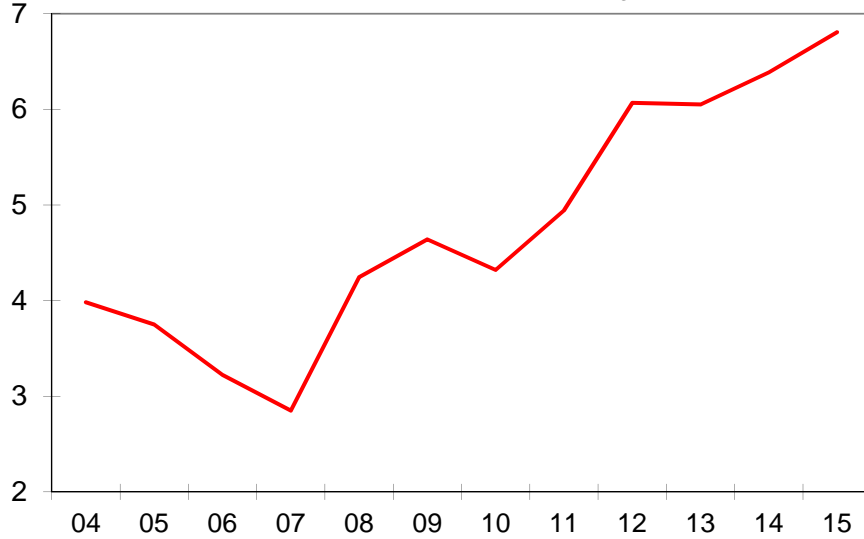


### China and other EMEs: Capex as a Share of GDP



## China: Incremental Capital – Output Ratio

Ratio of capital expenditure as a share of GDP to GDP growth



Source: China National Bureau of Statistics, staff estimates.

## Asia's high-income countries slowed after reaching China's current income level

### Per Capita Income Growth Around China's Income Level ( % )

Country and year	Decade Before	Decade After
Japan (1970)	7.9	3.3
Hong Kong (1978)	6.7	6.3
Singapore (1980)	7.4	5.2
Taiwan (1984)	6.7	6.2
Korea (1991)	8.7	5.1
China (2015)	8.9	TBD

Source: Penn World Tables 8.1, World Development Indicators, WEO data base. Annual compound growth rates of real per capita GDP at PPP.

## China may struggle to match Asia's success cases

- These cases were exceptional, with 10-year growth rates at or near the top of the historical range from China's income level
  - Global growth won't help, as it is likely to be slower
  - Already high export market penetration limits future growth
  - China aging rapidly; Asian economies felt demographic tailwinds
- China faces greater rebalancing and reform challenges
  - Capex-to-GDP significantly higher
  - Credit-to-GDP far higher, with major legacy issues
  - Heavier state control of product and financial markets
  - Clear political economy obstacles to relaxing state control

## China missing "software" for high-income status

**World Bank Governance Indicators** ( Mean = 0, STD = 1.0 )

	China 2005	China 2014	Upper-Middle Income Average	High-Income Average
Regulatory Quality	-0.13	-0.27	0.26	1.51
Rule of Law	-0.49	-0.33	0.07	1.65
Control of Corruption	-0.64	-0.33	-0.11	1.55
Government Effectiveness	-0.09	0.34	0.30	1.58
Voice and Accountability	-1.40	-1.54	0.20	1.32
Political Stability, Control of Violence	-0.18	-0.28	0.37	1.14

Source: *World Development Indicators*. Each indicator is constructed from a variety of surveys, which are normalized and combined via unobserved components analysis. The sample includes 121 countries, and excludes OPEC countries and those with populations of less than 3 million. Income categories are based on projected 2015 \$U.S. per capita income. High income countries occupy the top quintile (>\$18,700, about one-third the U.S. level), and upper-middle income countries the next highest quintile (\$6,632--\$18,699).

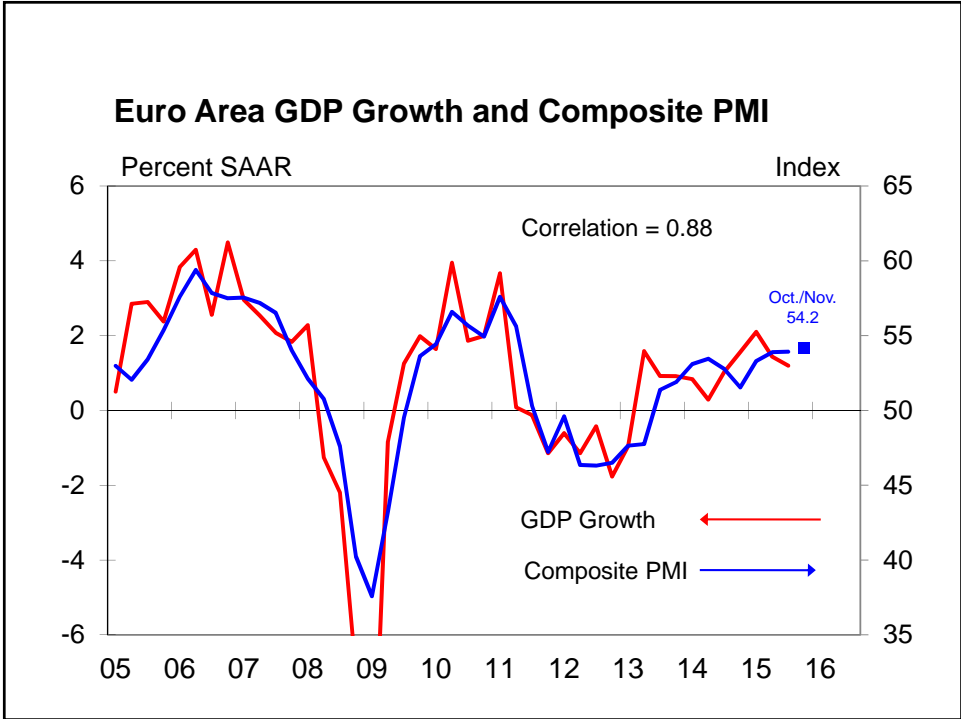
## Chinese authorities have tools to limit downside

- Large external liquidity buffer and still effective capital controls
  - Classical balance of payments crisis not in the cards
- High domestic savings rate
  - Readily tapped by official sector, supported by financial repression and capital controls
- Bank-centered financial system, with dominant state presence
  - Ample scope to “extend and pretend”
- Substantial fiscal space
  - Government debt only 66 percent of GDP (including locals)
- Role for government-directed capex to address pressing development needs
  - China’s vast interior remains a low-income country
  - Urbanization rate far below most development peers

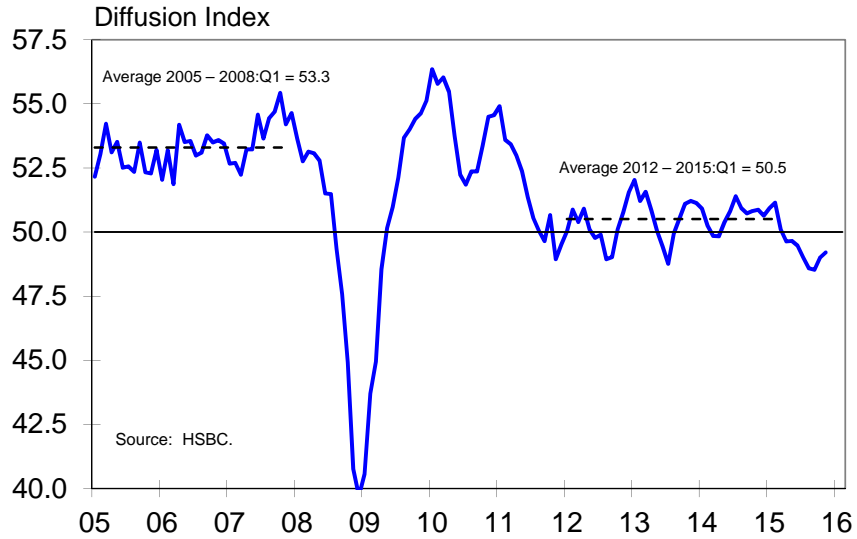
## Policies to support growth could derail reform

- Key risk: Chinese authorities will lean too heavily on familiar tools to reach growth targets, worsening existing imbalances
  - Continued build-up of embedded credit losses and contingent liabilities
  - Eventual bailouts exhaust fiscal space
  - Premature capital account opening would magnify crisis risk
- Longer term, difficult to gauge the way forward in China
  - Core issue: do authorities recognize extent to which their development goals require loosening economic control?
  - China’s economic and political system *must* reform, but *can* it reform?

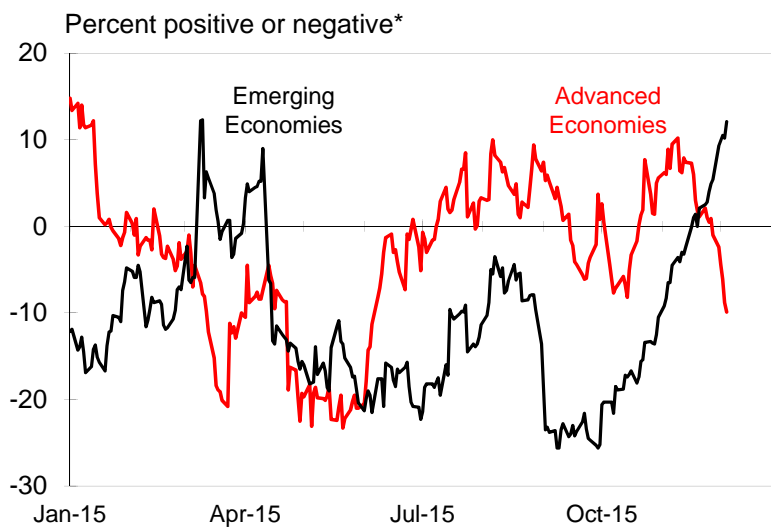
# Reference Charts



## Emerging Market Manufacturing PMI

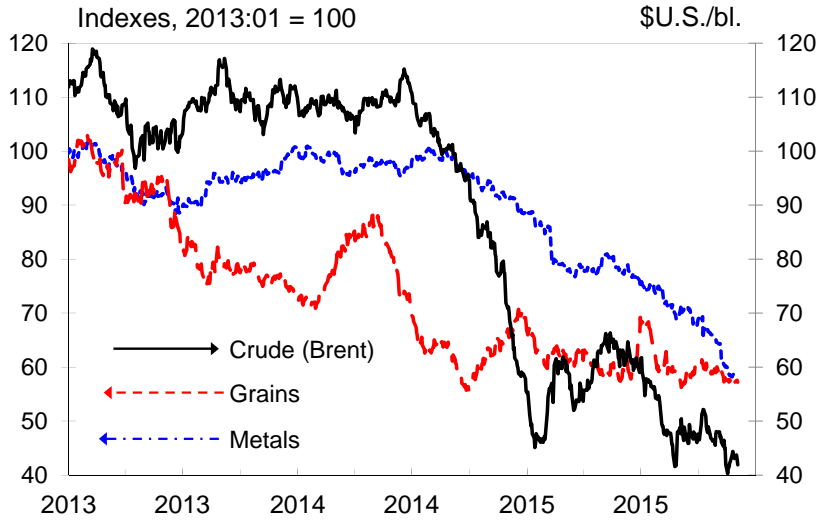


## Citigroup Economic Surprise Indexes

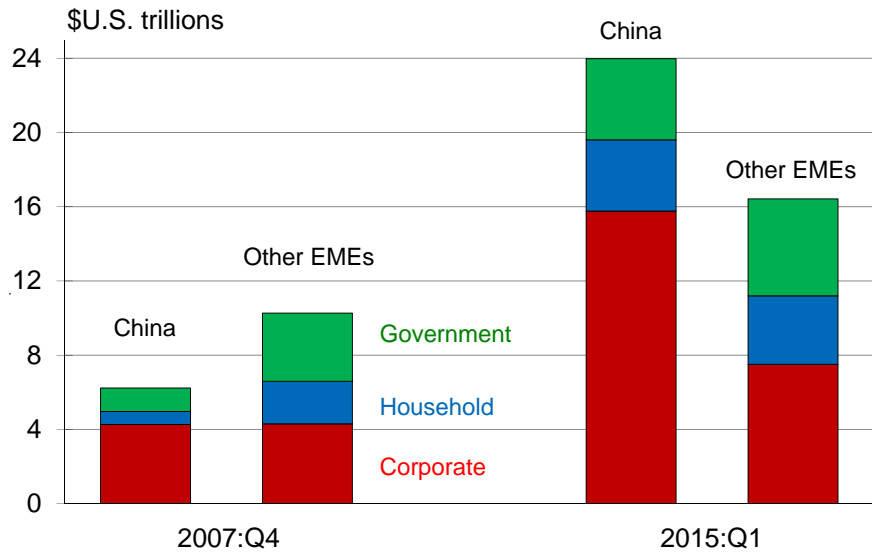


\*Weighted by series' historical FX impact

### Global Commodity Prices



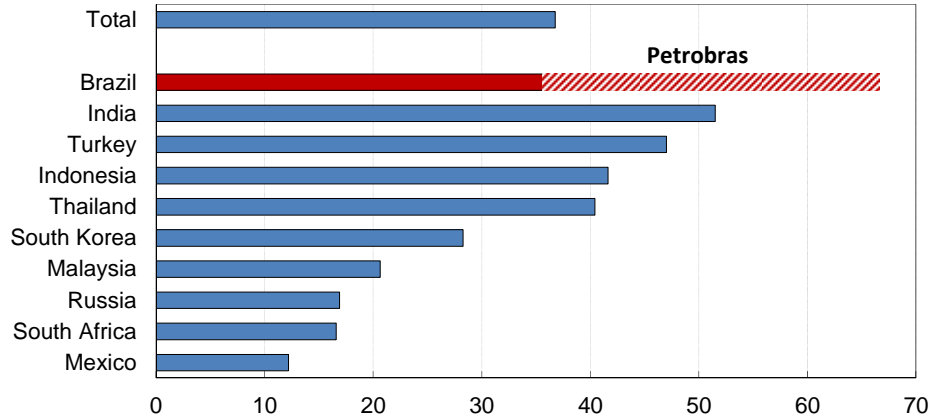
### Credit to the Nonfinancial Sector



Sources: BIS, staff estimates. Other EMEs includes India, Indonesia, Hong Kong, Korea, Malaysia, Singapore, Thailand, Brazil, Mexico, Czech Rep., Hungary, Poland, Russia, Turkey and South Africa.

## EME Corporate Debt at Risk

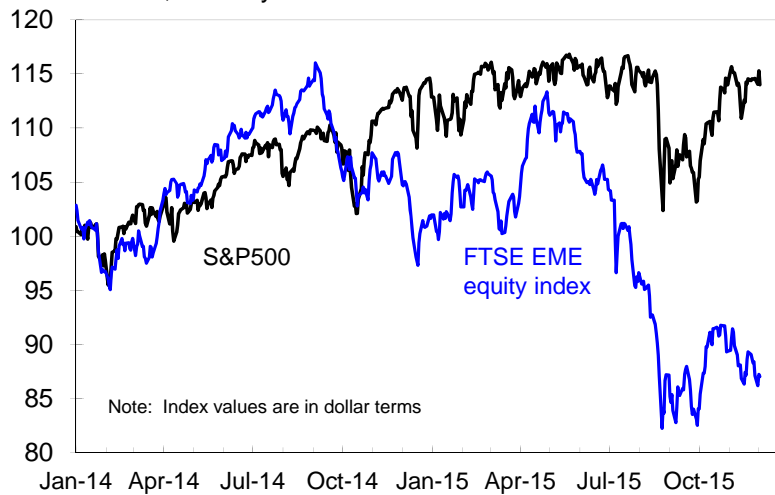
ICRs < 2x assuming a 200 bps rate hike and 25% EBITDA decline



Note: Represents the 1,800 most indebted companies listed on the national stock exchanges in 10 EMEs. Firms at risk have ICRs less than 2.  
Source: Capital IQ, IPA estimates

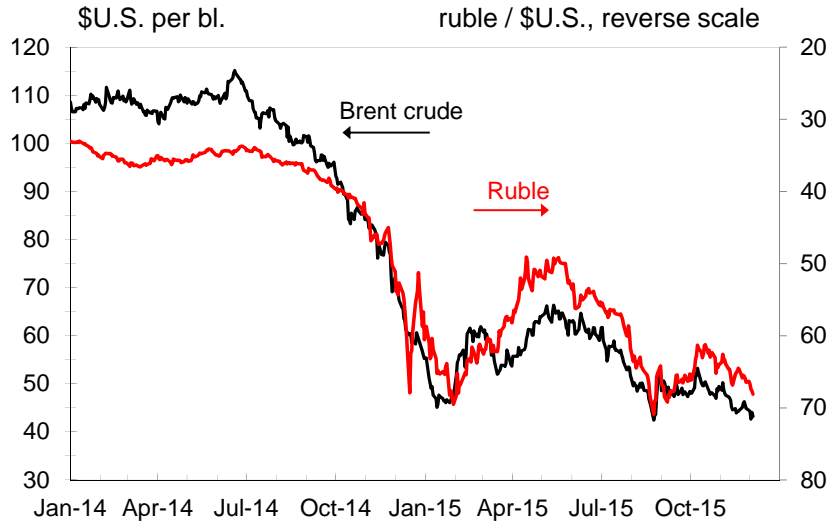
## U.S. and EME equity performance

Indexes, January 2014 = 100





### Oil Prices and the Russian ruble



### Brazil: General Government Primary Surplus

