



Upstate New York Regional Advisory Council Meeting
Federal Reserve Bank of New York
33 Liberty Street
10F, Paul Volcker Boardroom
Tuesday, September 2, 2014

AGENDA

10:30am Introductory Remarks
Christine Cumming, First Vice President

10:40am-11:10am The National Economy
Richard Peach, Senior Vice President

11:10am-11:30am Regional Update
Jaison Abel, Senior Economist

11:30am-12:00pm International Update
John Clark, Senior Vice President

12:00pm Adjourn to NWCR-10F

12:15pm Lunch

12:15pm-1:55pm Round Table Discussion with
William Dudley, President

Questions for discussion with President Dudley:

Your experience and that of your customers and suppliers can give us insight into current economic conditions.

1. Has your firm experienced an increase in demand in recent months?
2. Has demand for your product or service increased sufficiently that you increased or plan to increase employment in 2014?
3. Has demand for your product or service increased sufficiently that you plan to increase investment in plant and equipment in 2014?
4. Has your access to credit changed in 2014?
5. This recovery can be characterized by spurts of growth, followed by a check and then another spurt of growth. Do you see signs that suggest the current growth rate will be sustained without such checking – or are you seeing signs of hesitation and slowing for the fourth quarter?

2:00 pm Adjourn



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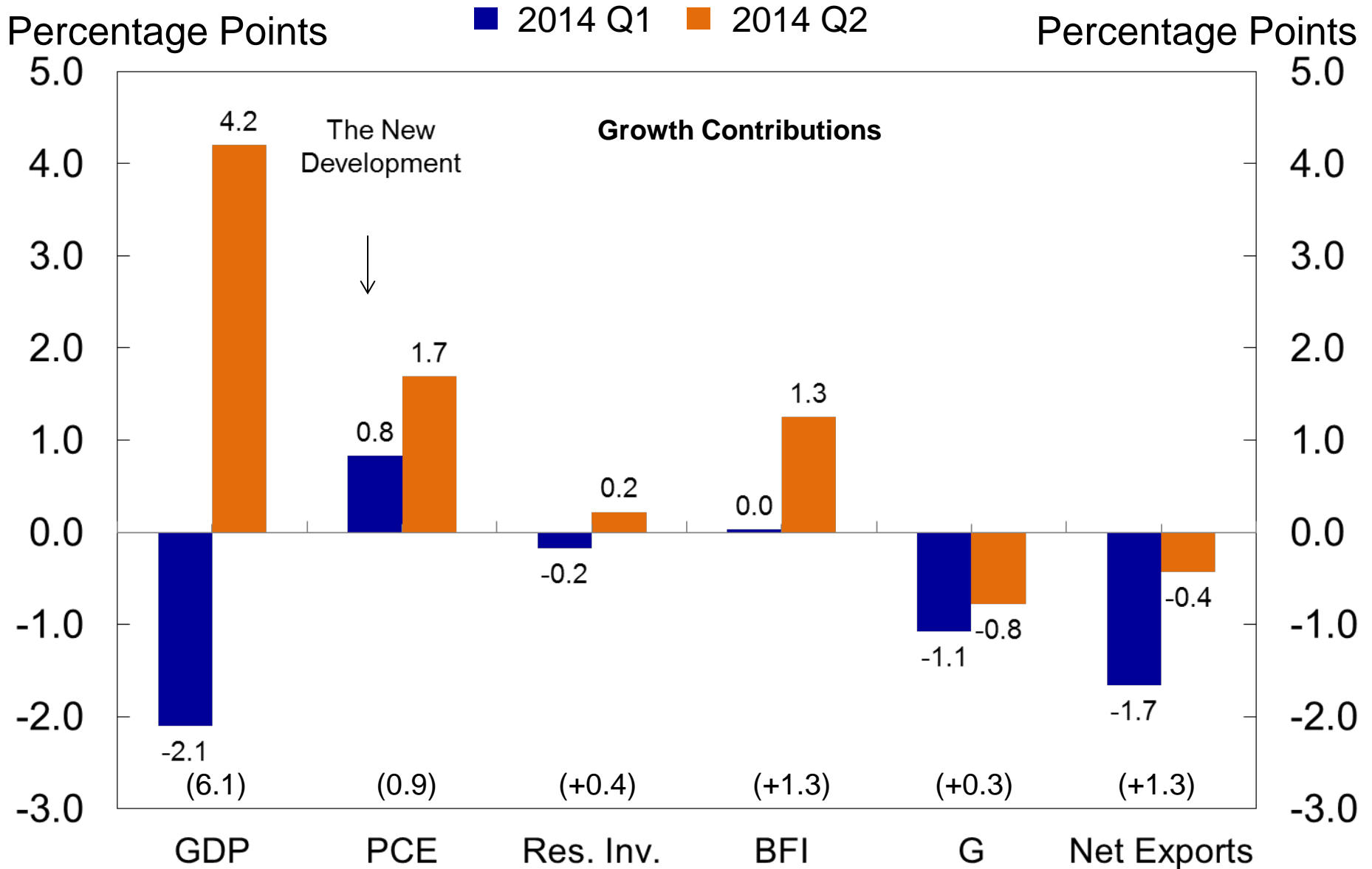
US Macro Overview

September 2, 2014

Overview

- Growth of real GDP over the first half of 2014 was about 1 percent (annual rate), as growth rebounded robustly in Q2 after the Q1 decline.
 - Recent data suggest that underlying growth rate of real consumer spending may be somewhat lower, and the equilibrium personal saving rate may be somewhat higher.
 - Still, a number of indicators point to stronger growth in the second half of the year.
- At the same time,
 - Labor market conditions are firming, and the unemployment rate has fallen faster than expected.
 - After increasing in the spring, core PCE inflation appears to be stabilizing at under 2 percent.
 - These developments raise the possibility that the economy's potential growth rate may be lower than we had been assuming.
- The spring increase of inflation coincided with slower productivity growth, leading to faster growth of unit labor costs.
 - This has led some analysts to conclude that the Fed could be falling “behind the curve”.
 - However, our research suggests that inflation expectations are the main driver of inflation, and those expectations remain stable.
 - If this research is correct, profit margins may come under downward pressure.

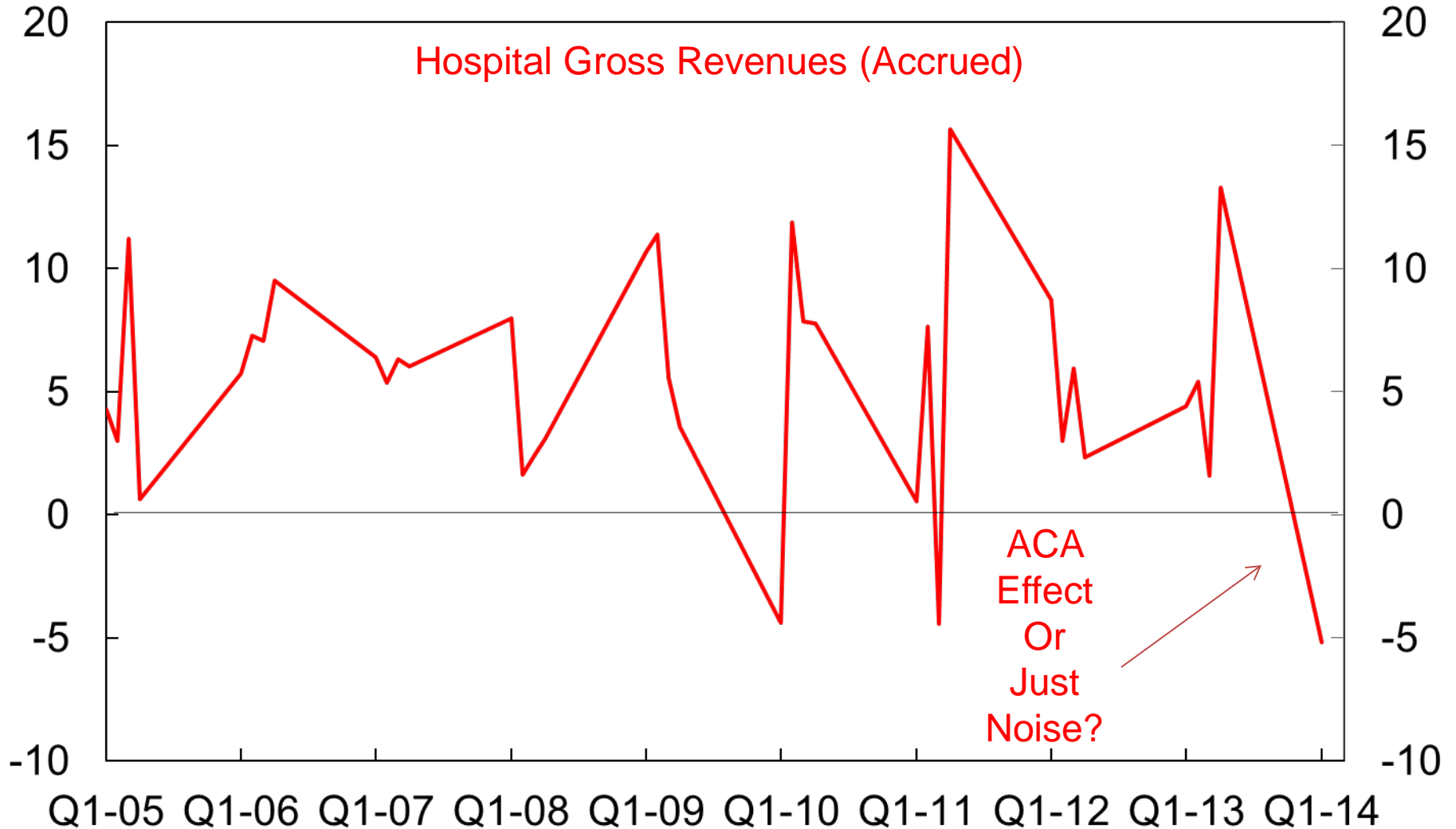
Sources of the Growth of Real GDP



Consumption of Health Care Services Collapsed in 2014Q1

Quarterly % Change (AR)

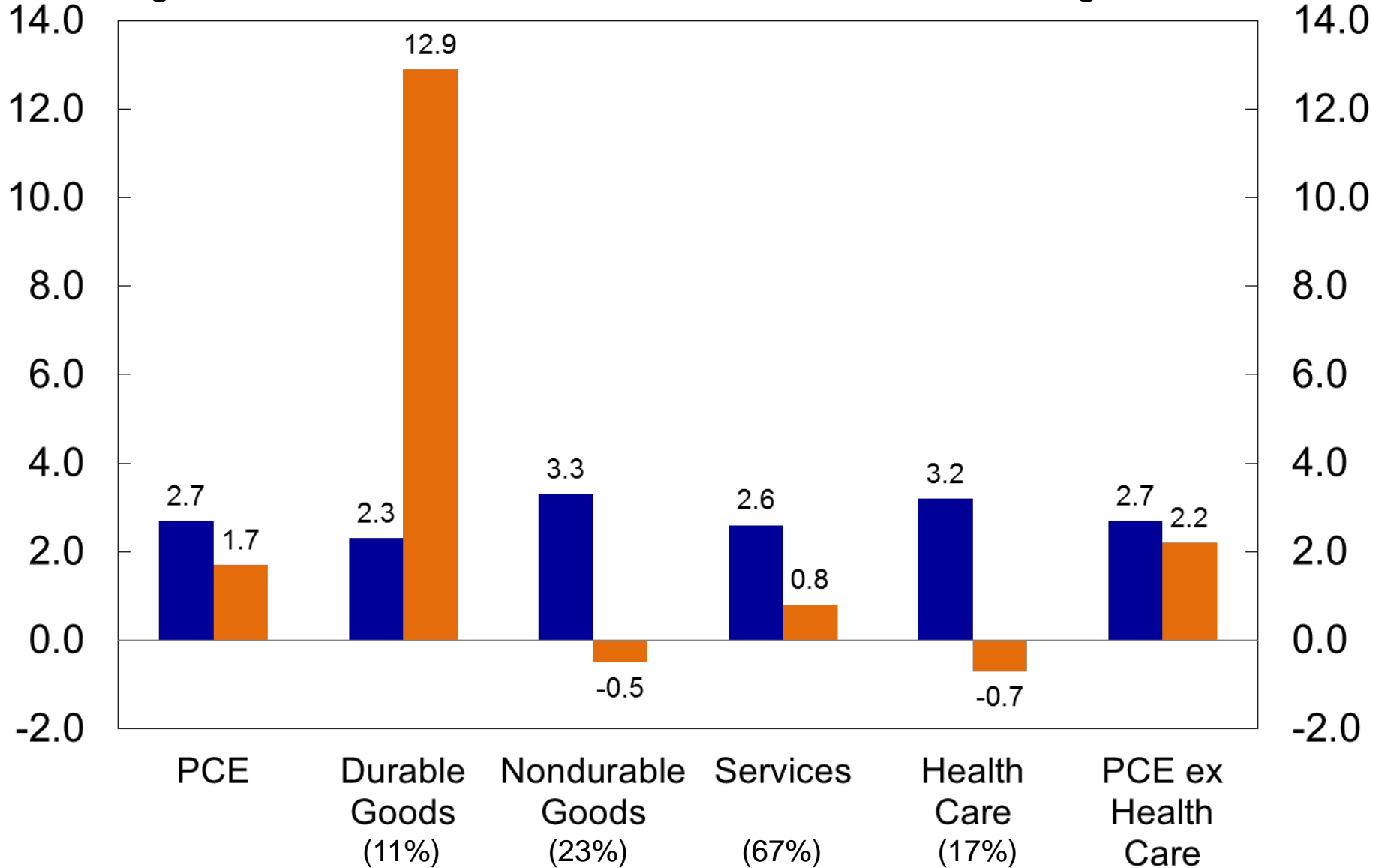
Quarterly % Change (AR)



Source: Quarterly Services Survey, Bureau of the Census

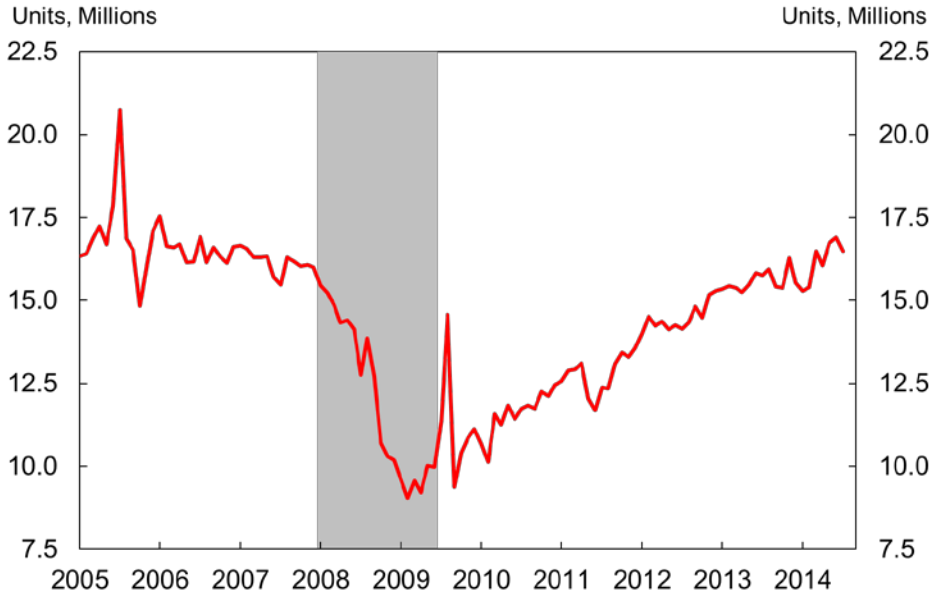
Sources of the Slowdown in Growth of Real PCE

% Change at Annual Rate ■ 2013 H2 ■ 2014 H1 % Change at Annual Rate



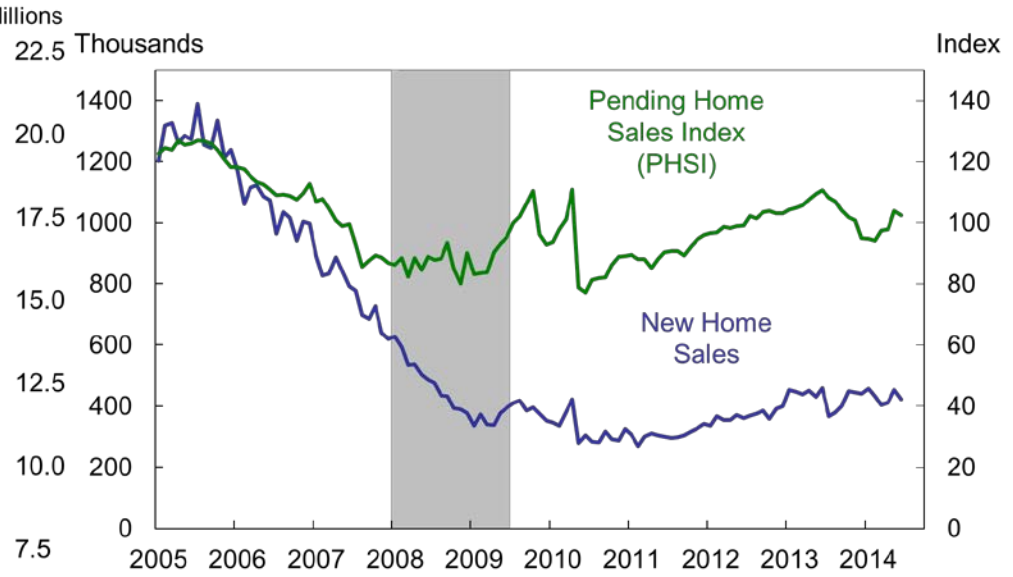
Source: Bureau of Economic Analysis

Total Light Vehicle Retail Sales



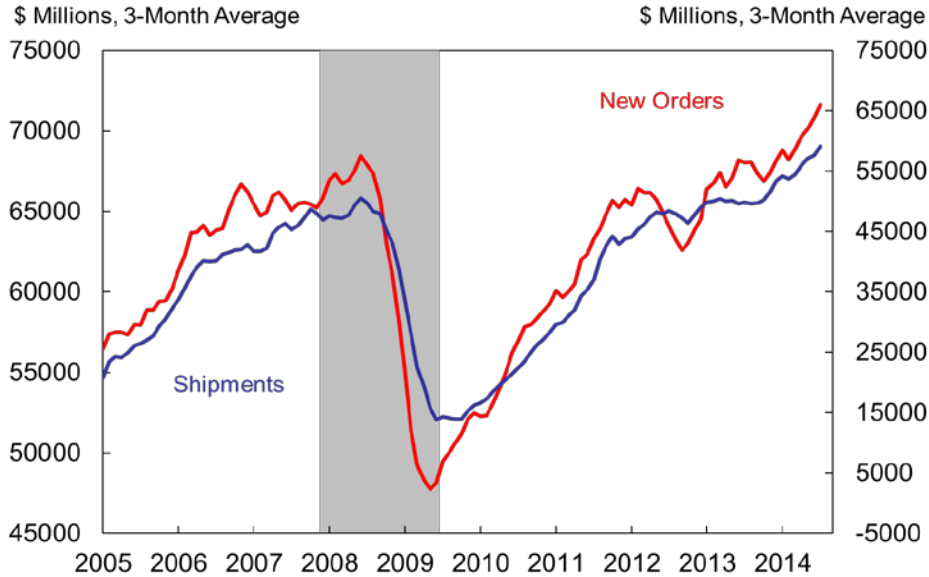
Source: Autodata

New and Existing Home Sales



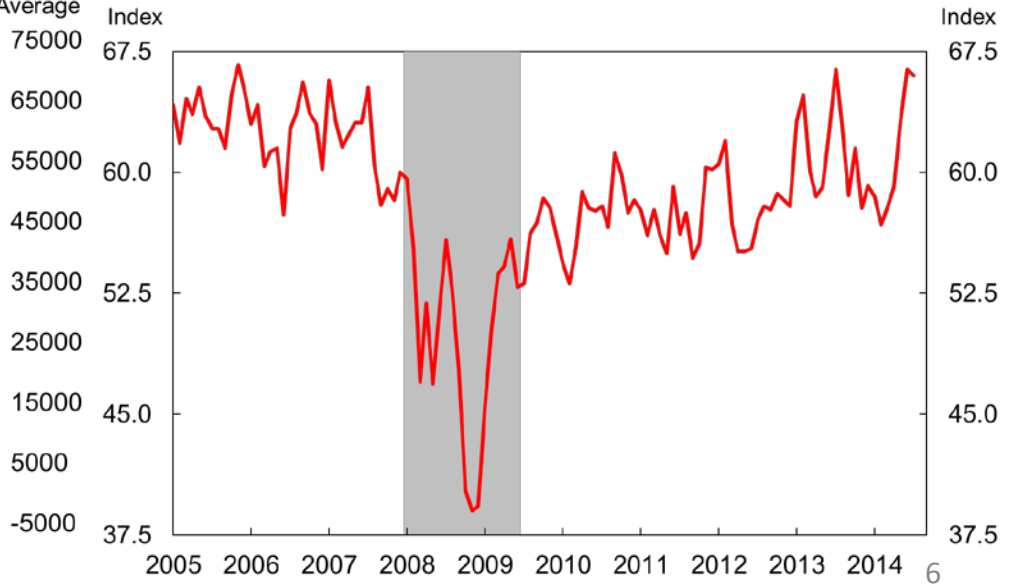
Source: Census Bureau, National Association of Realtors

Nondefense Capital Goods ex Aircraft



Source: Bureau of Labor Statistics

Architectural Inquiries for New Work Index

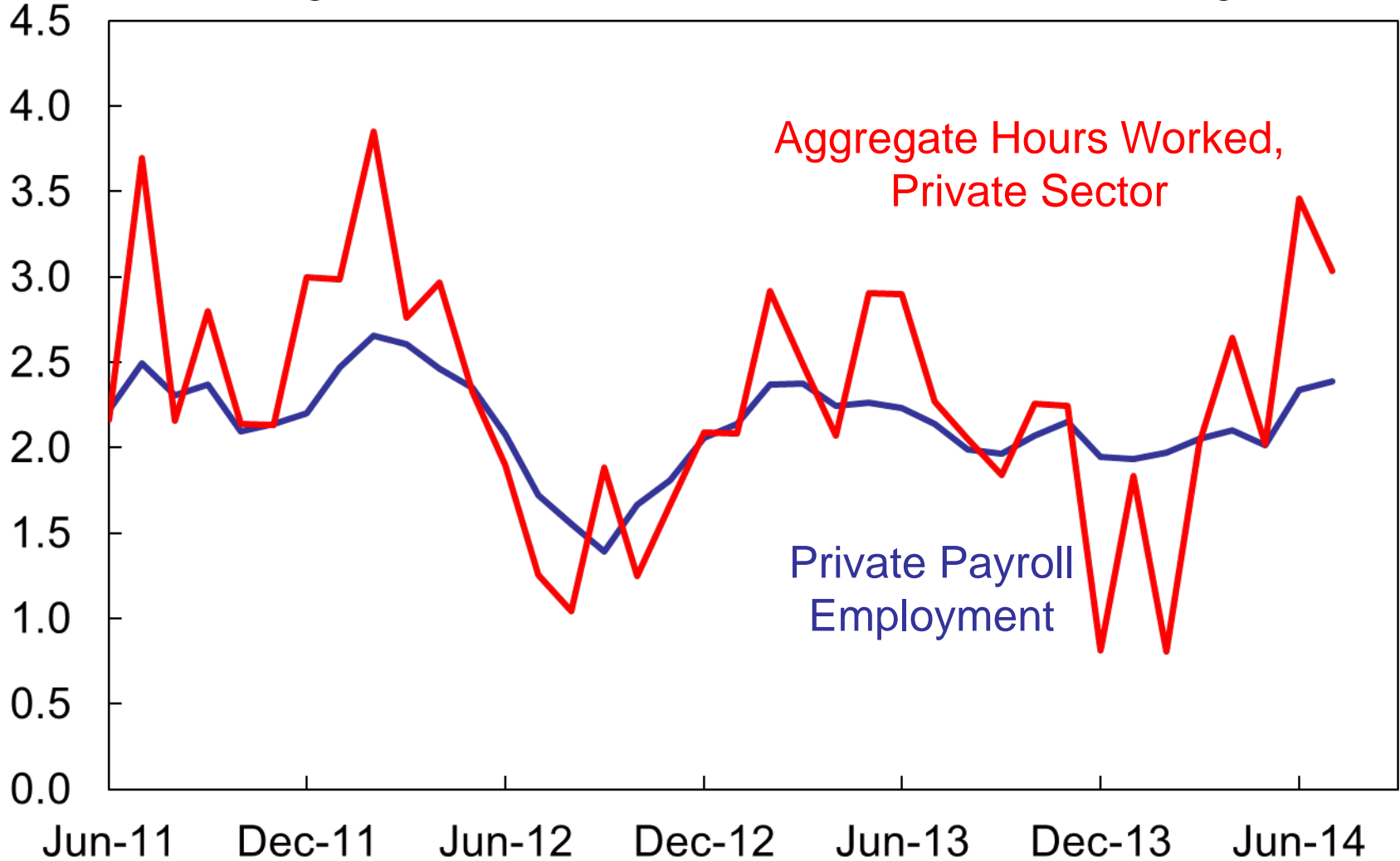


Source: American Institute of Architects

Demand For Labor Firmed in 2014Q2

6 Month % Change, Annual Rate

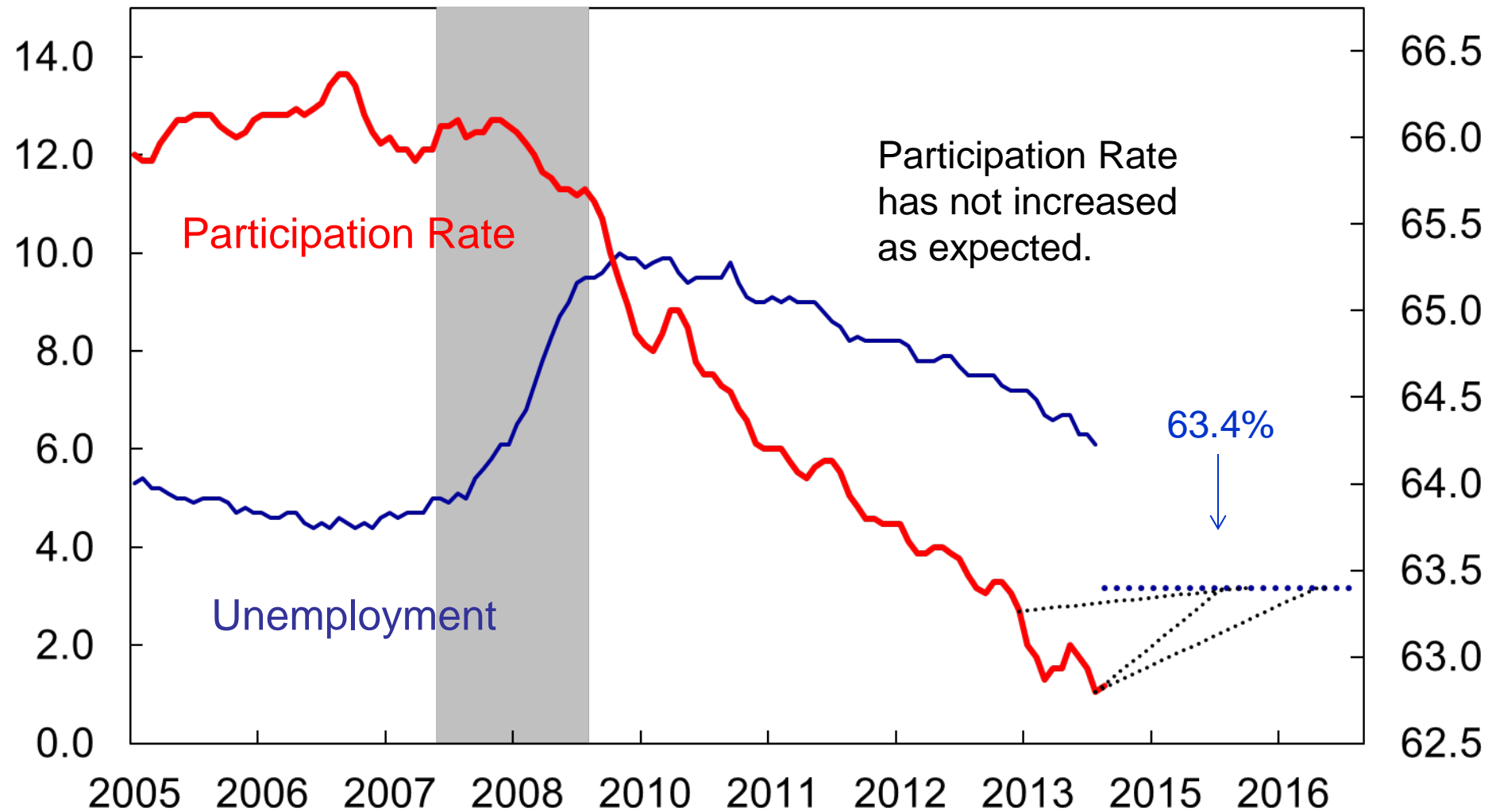
6 Month % Change, Annual Rate



Labor Force Participation Rate

Percent

Percent

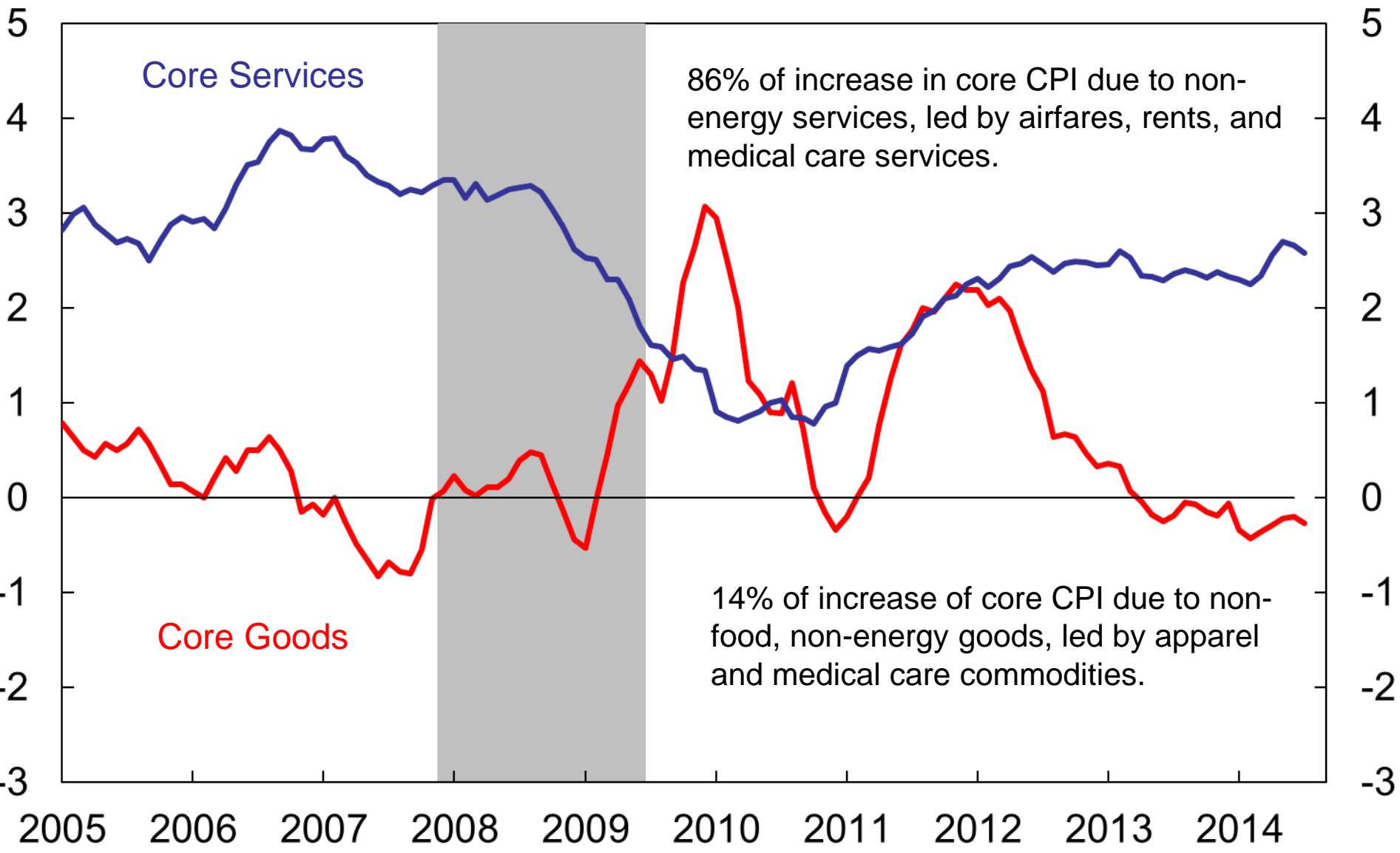


Source: Bureau of Labor Statistics

Inflation Breakdown: Core Goods and Core Services

Yr/Yr % Change

Yr/Yr % Change

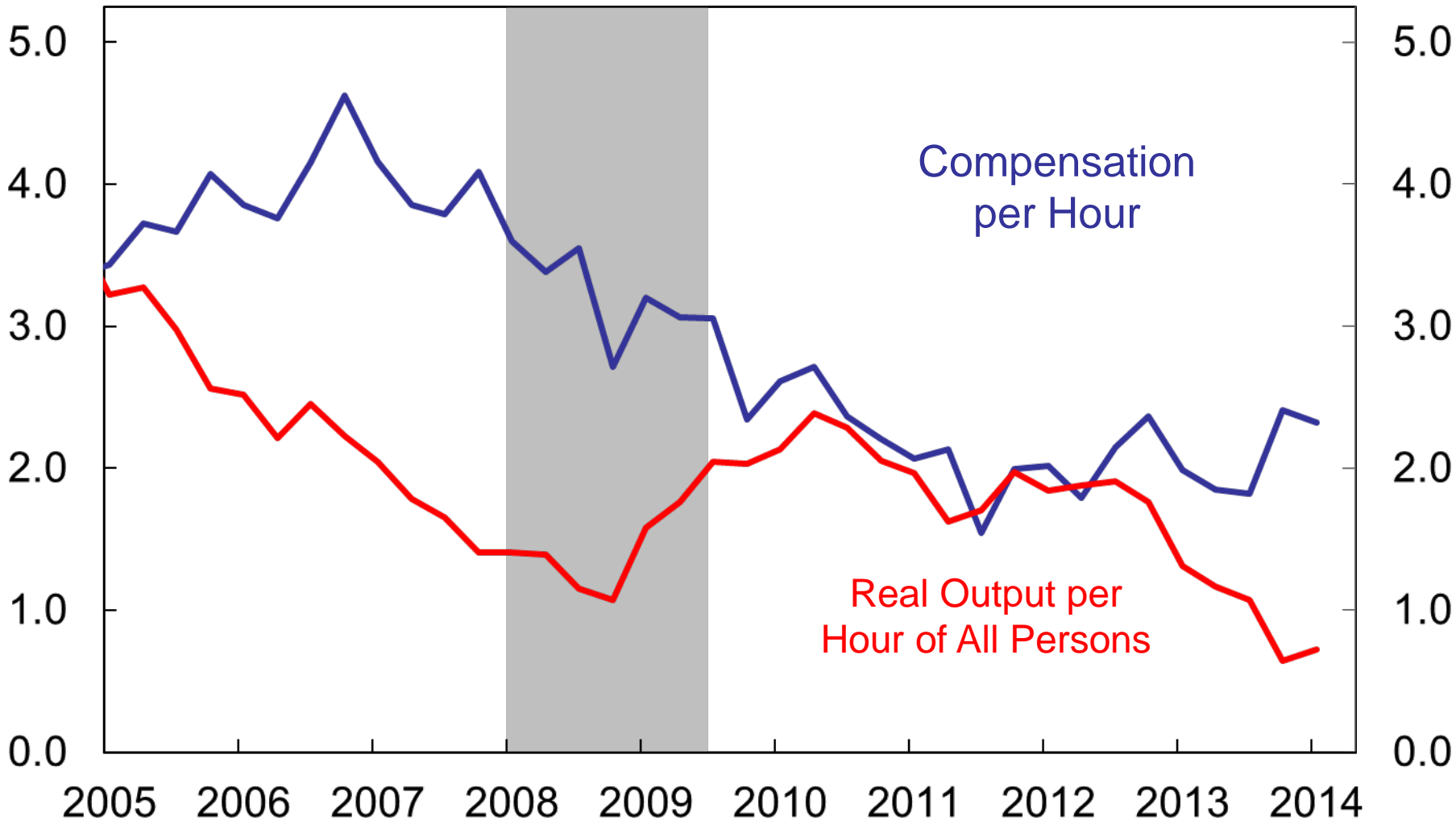


Source: Bureau of Labor Statistics

Nonfarm Business Sector

16 Quarter % Change, Annualized

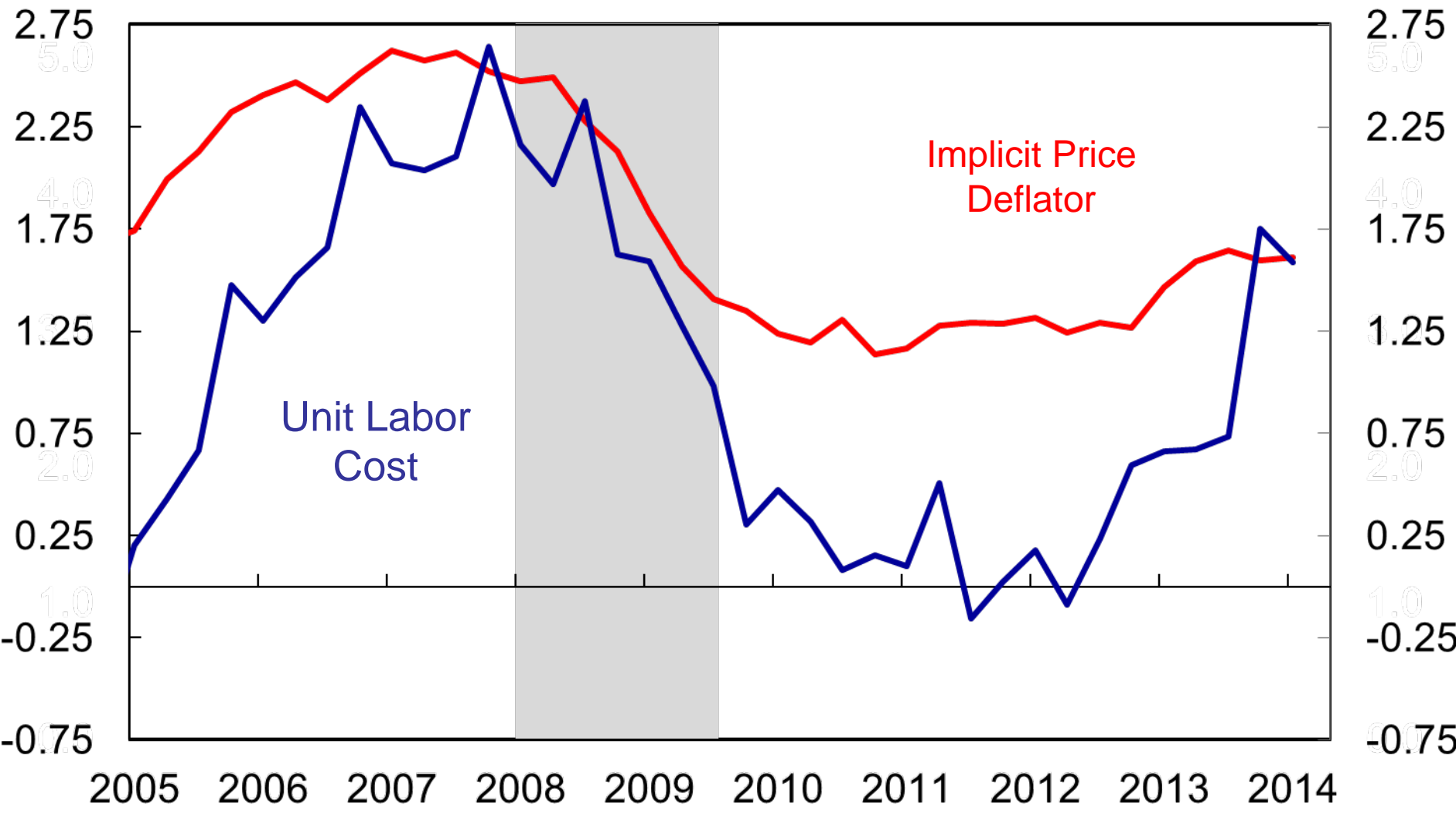
16 Quarter % Change, Annualized



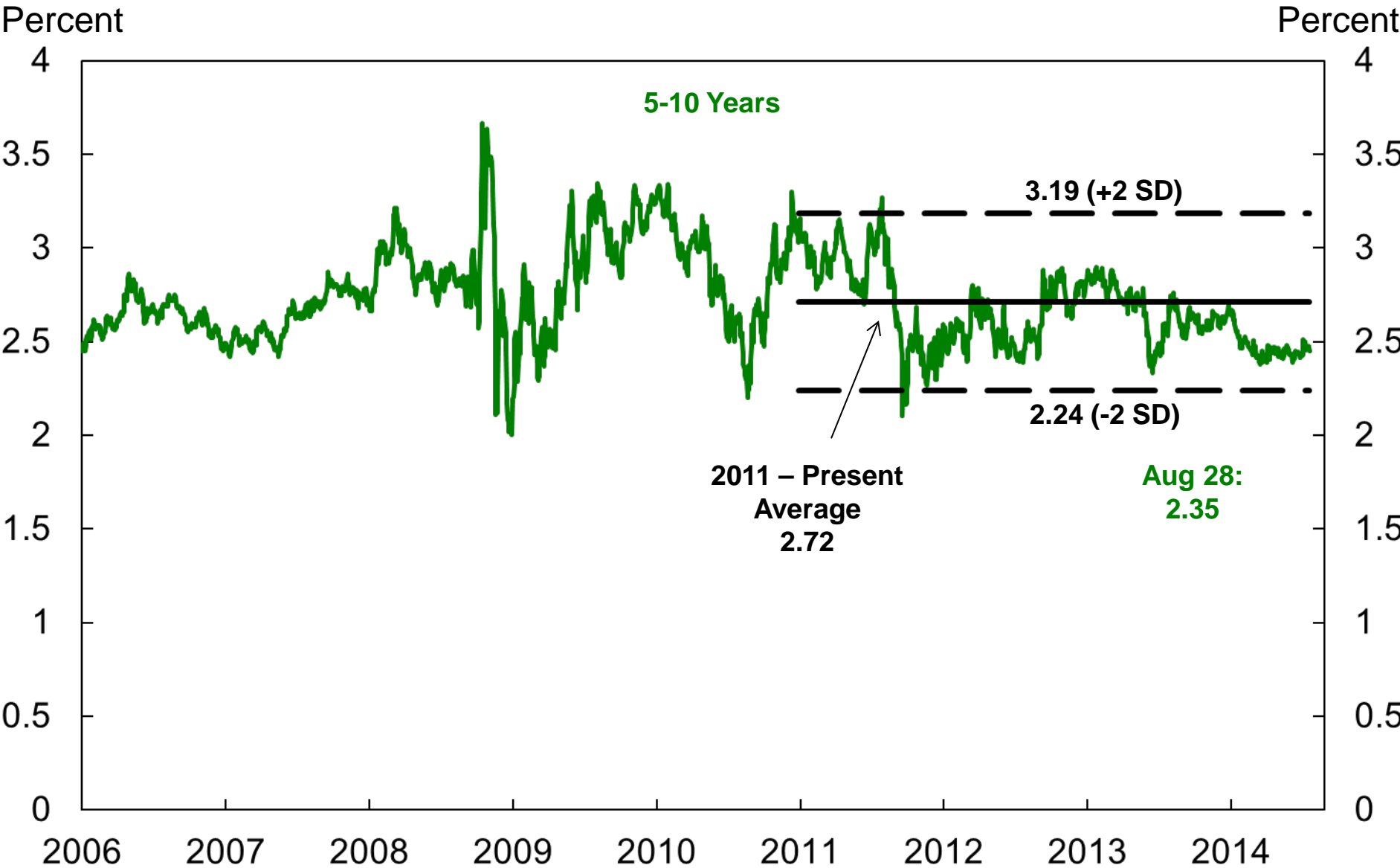
Nonfarm Business Sector

16 Quarter % Change, Annualized

16 Quarter % Change, Annualized

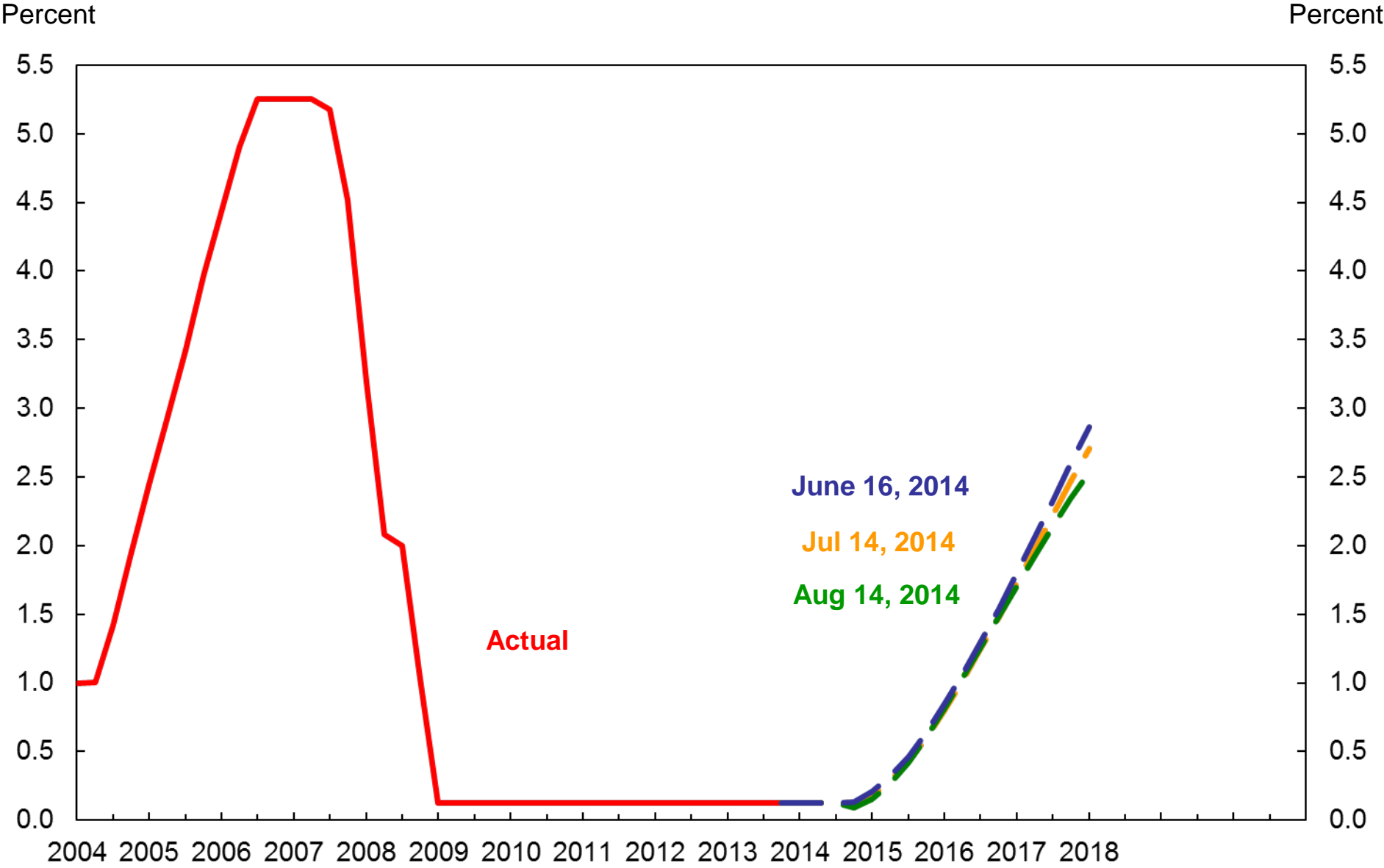


TIPS Based Inflation Expectations



Note: Dashed lines represent 2 Standard Deviations from the mean

Actual and Expected Fed Funds Target





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Economic Conditions in Upstate New York

Jaison R. Abel, Research Officer

Upstate New York Regional Advisory Board Meeting; New York, NY; September 2, 2014

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

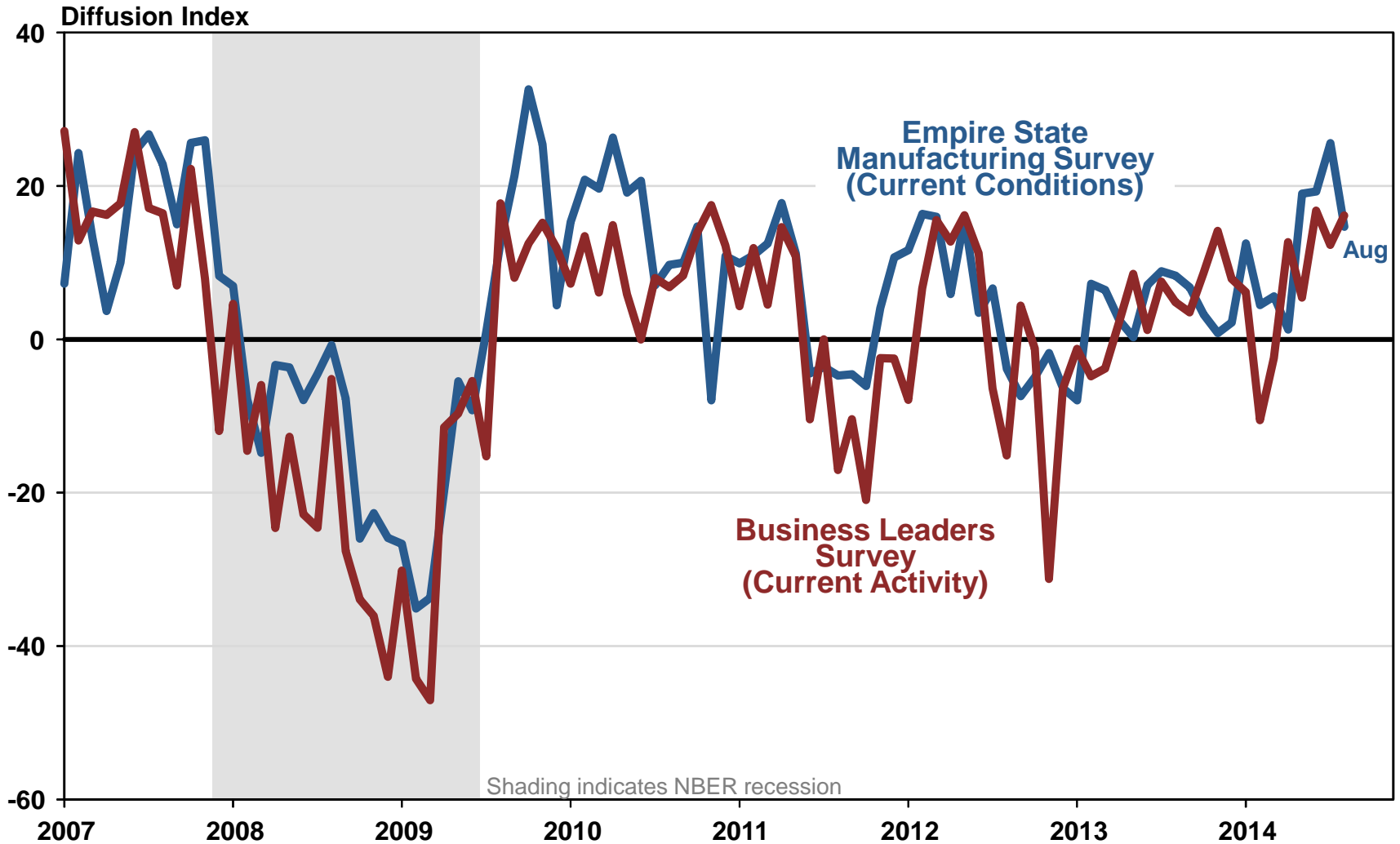
Overview of Regional Conditions

- Regional economic activity rebounded sharply over the summer following an unusually harsh winter.
- Job growth has been strongest in Western New York, weakest in Central New York and the Southern Tier, and more mixed in the Hudson Valley.
- Though a growing number of places have gained back the *number* of jobs lost during the Great Recession, the *types* of jobs in the region have changed:
 - Middle-skill jobs lost during the recession have not come back,
 - Higher- and lower-skill jobs have grown during the recovery.



Current Economic Conditions

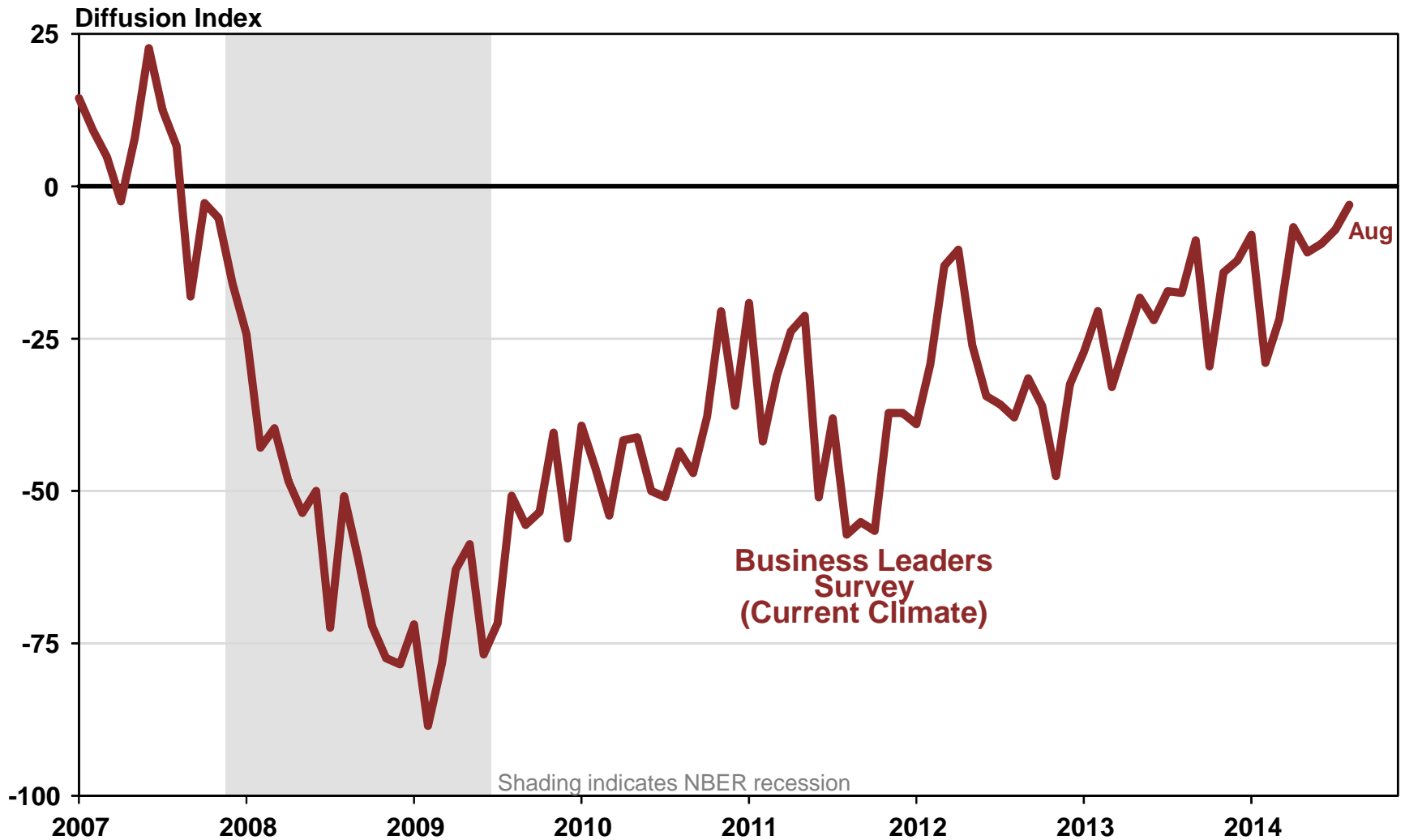
FRBNY Regional Business Surveys



Shading indicates NBER recession

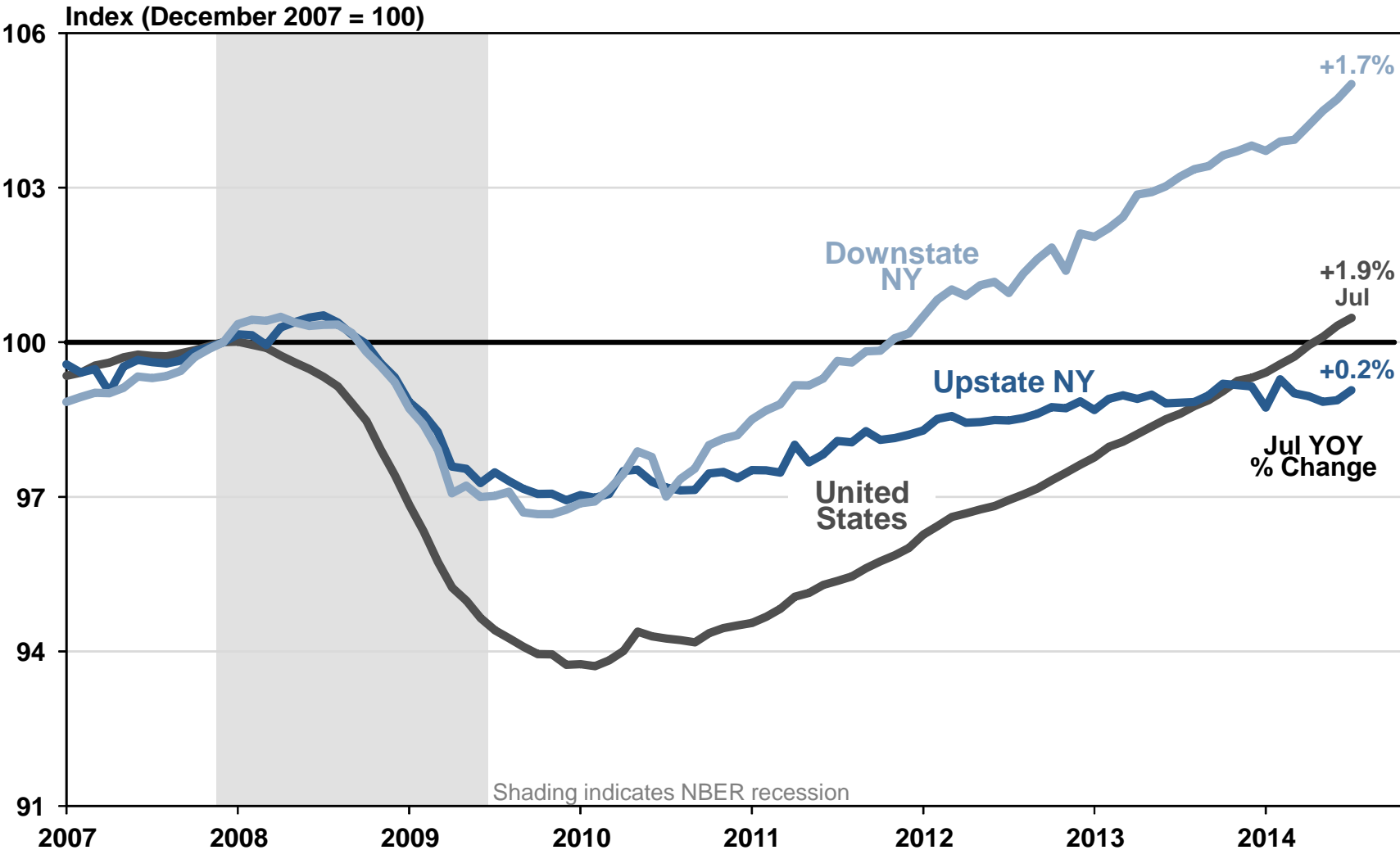
Current Business Climate

FRBNY Business Leaders Survey



Regional Employment Trends

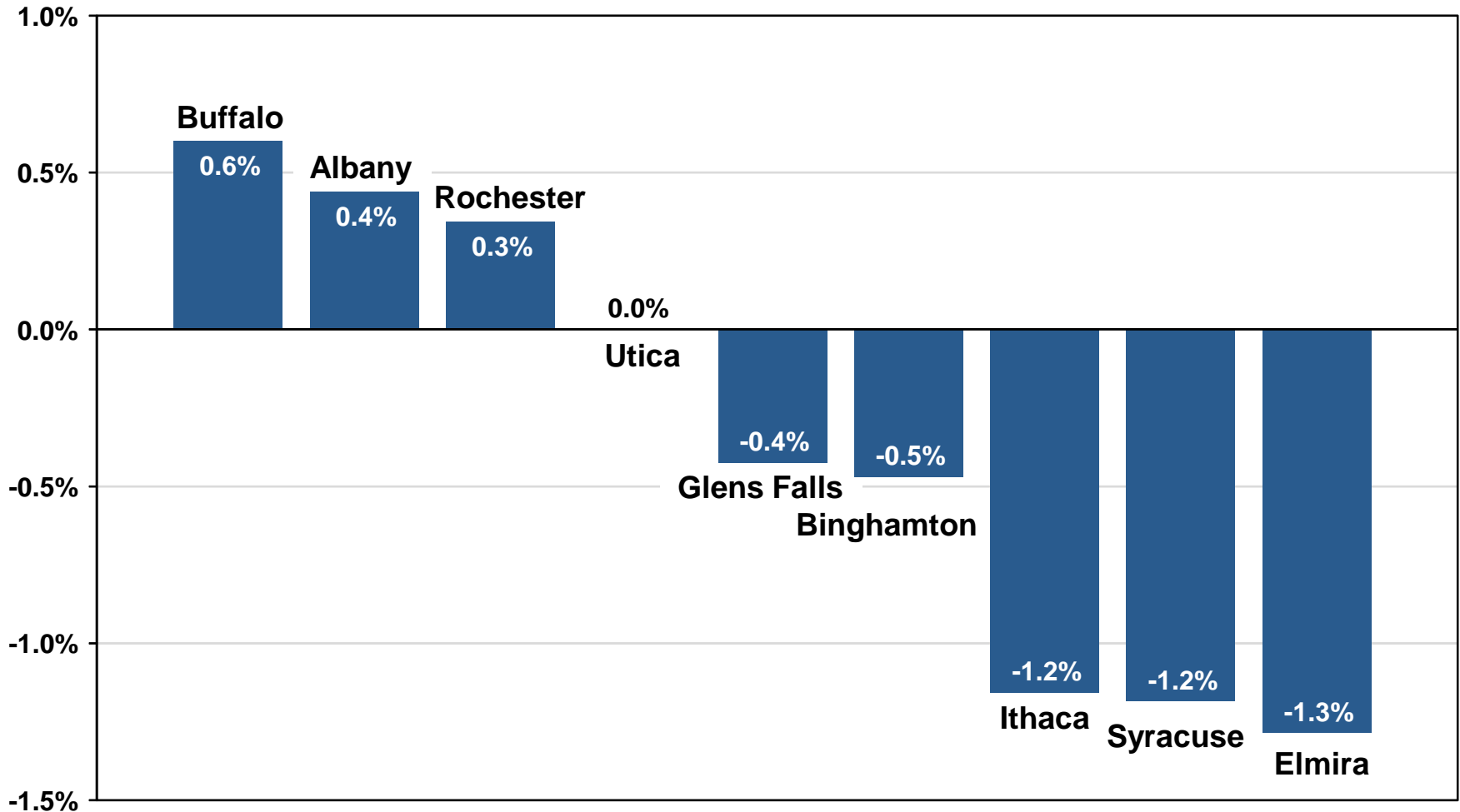
Total Employment, Seasonally Adjusted



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

Recent Job Growth in Upstate Metros

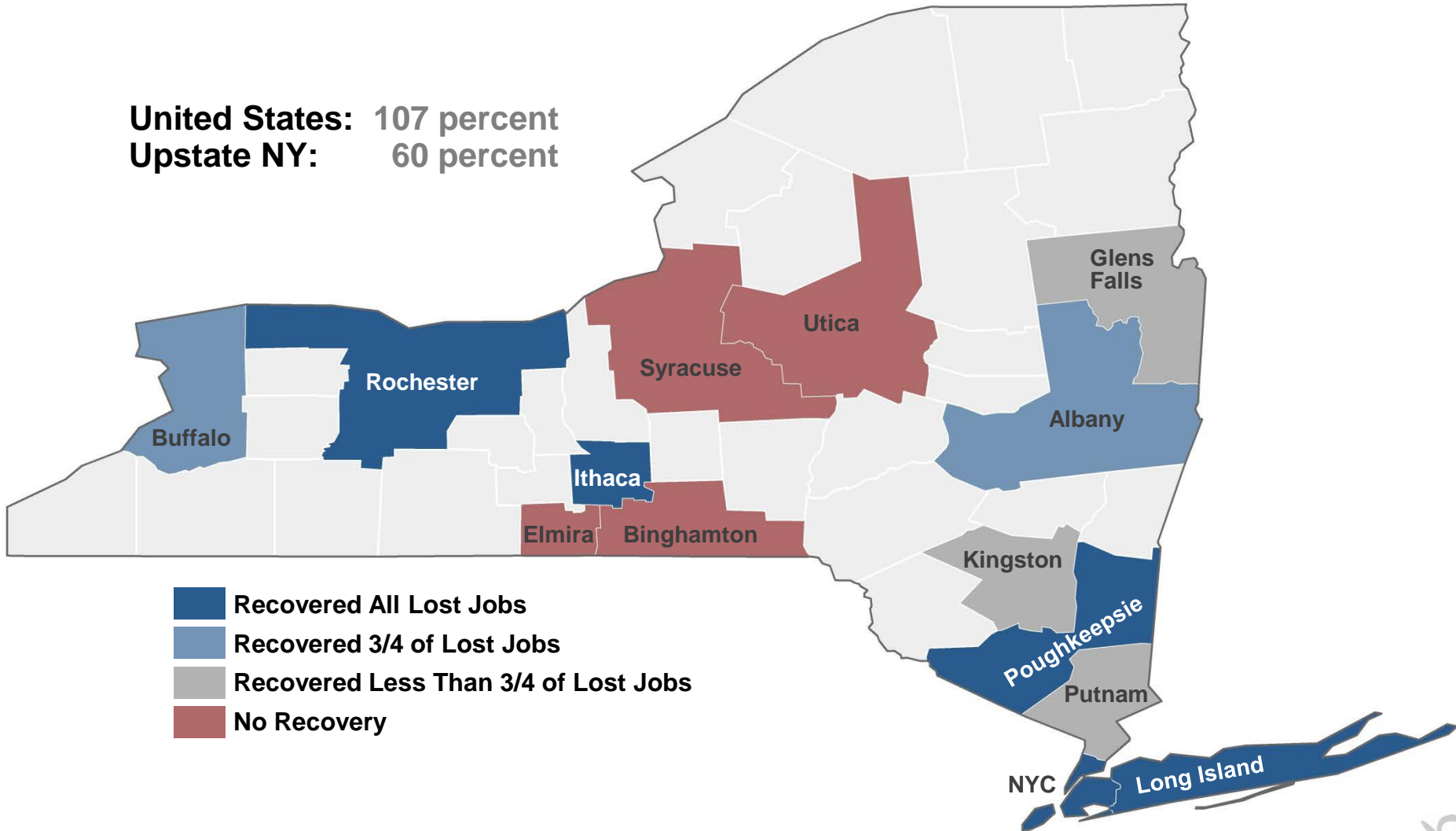
Year-Over-Year Percent Change (May-July Average)



Status of Jobs Recovery

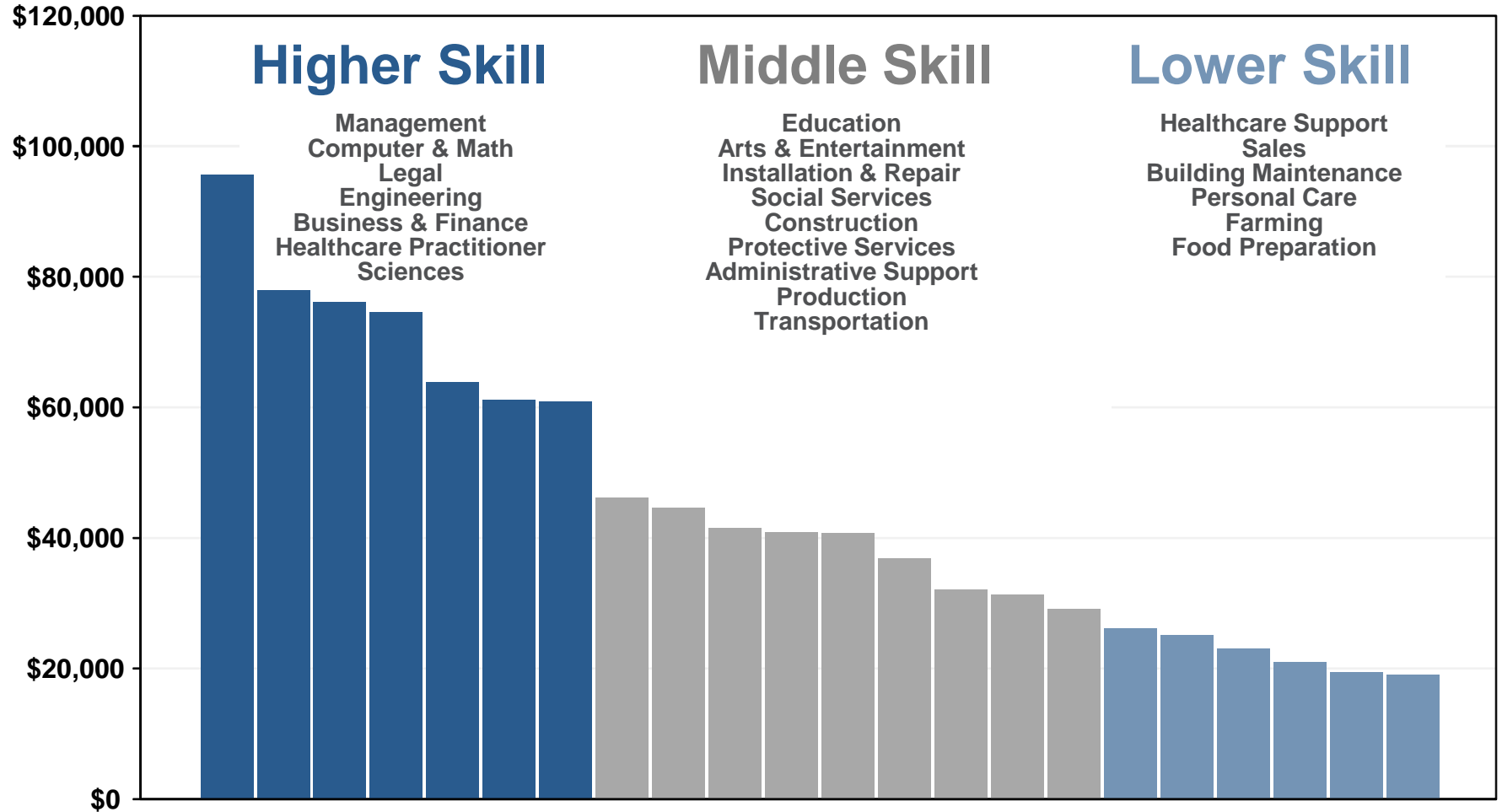
Share of Lost Jobs Gained Back During Local Recovery

United States: 107 percent
Upstate NY: 60 percent



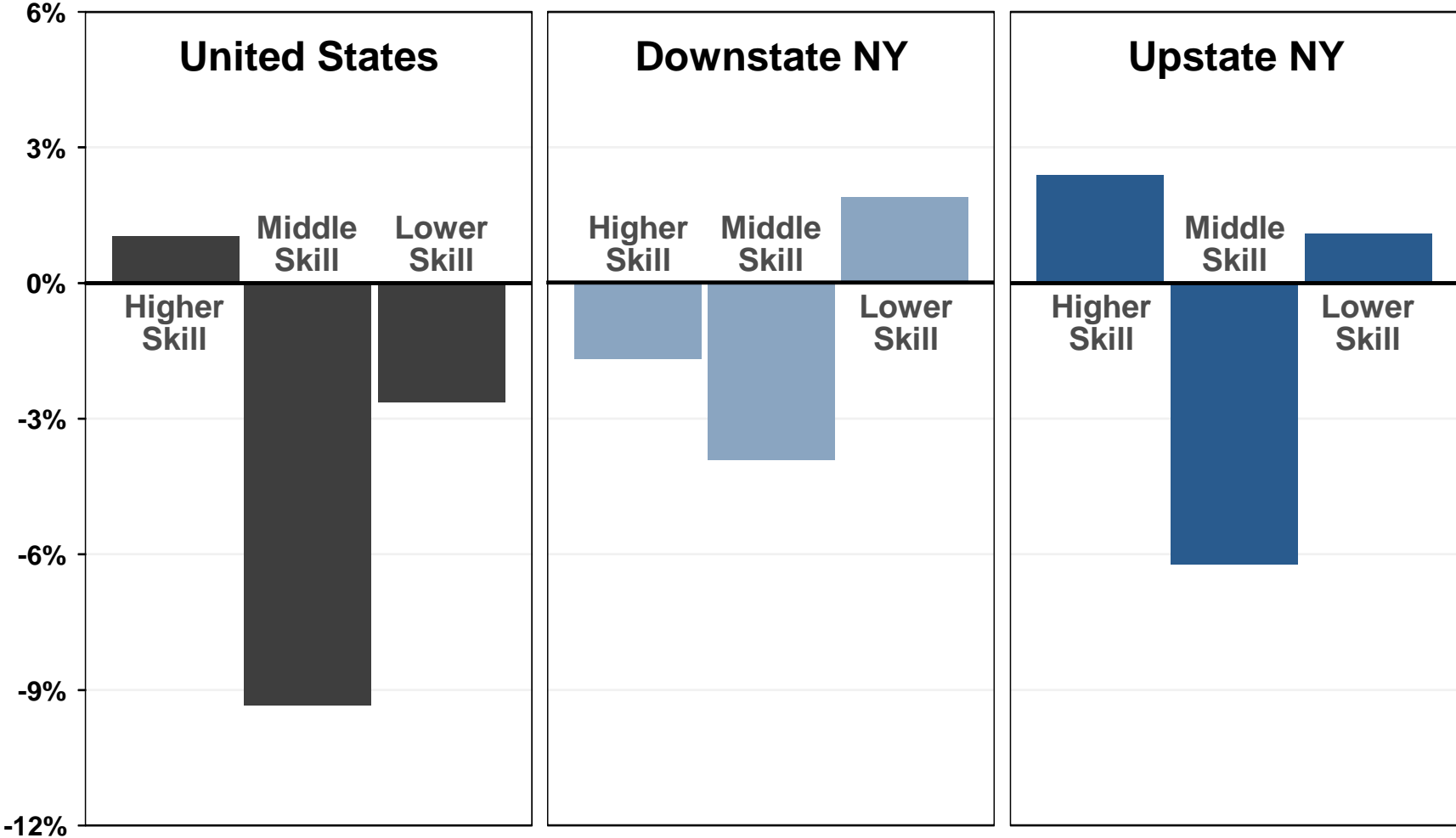
Types of Jobs Lost and Gained

Skill Categories, Based on 2013 Median Wage, United States



Job Change During the Great Recession

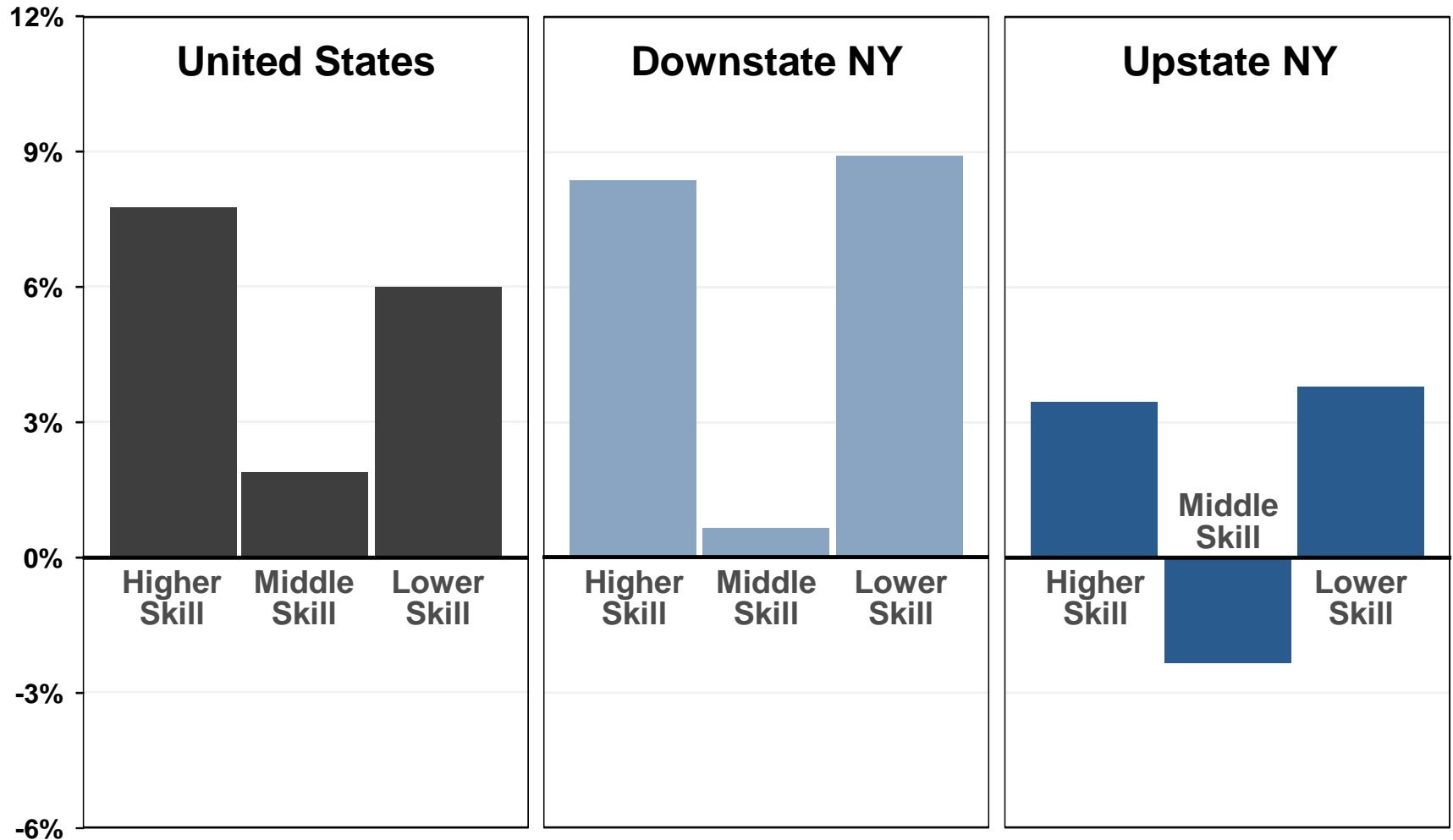
Percent Change, 2007 to 2010



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

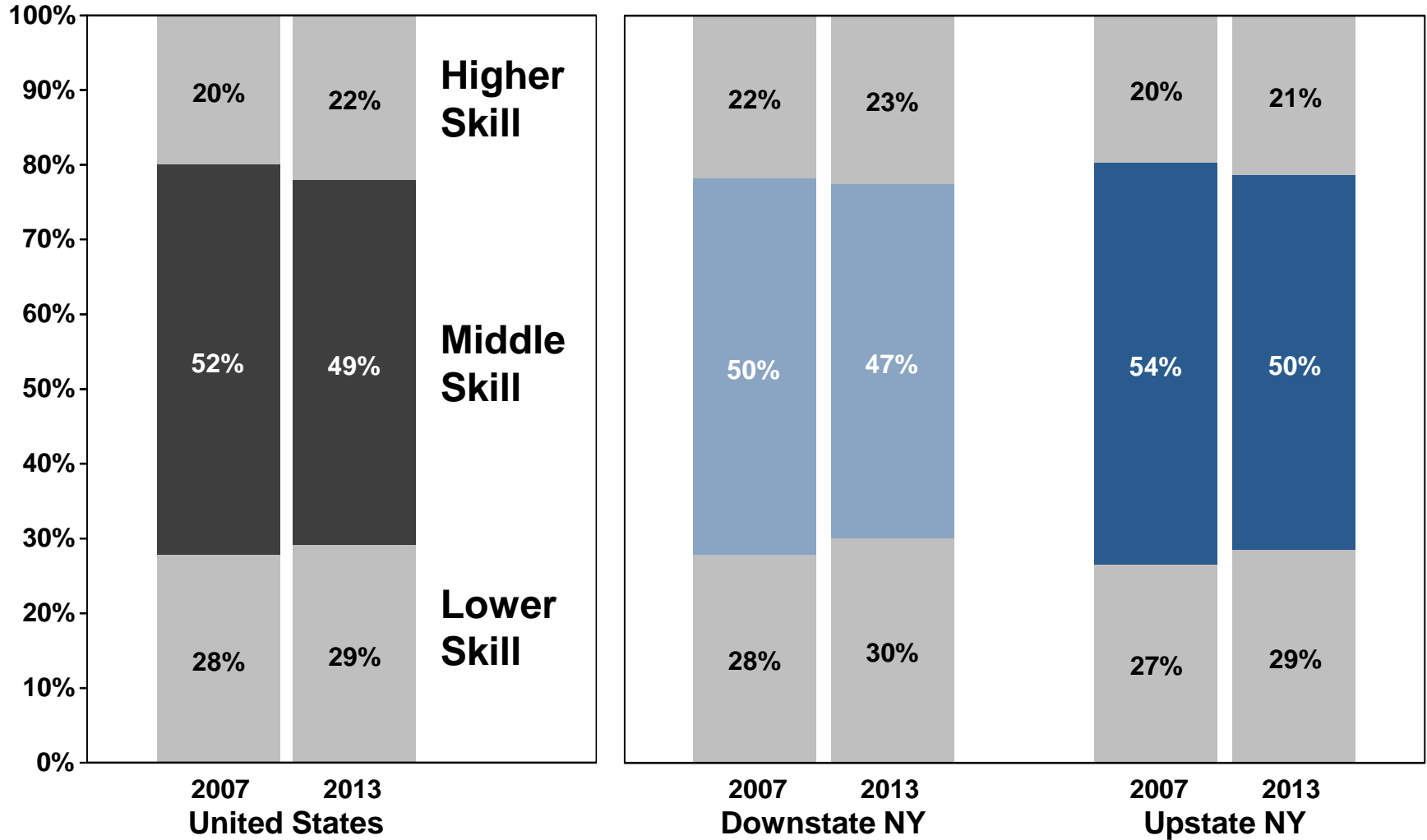
Job Change During the Recovery

Percent Change, 2010 to 2013



A Shrinking Middle

Share of Jobs by Skill Group, 2007 and 2013

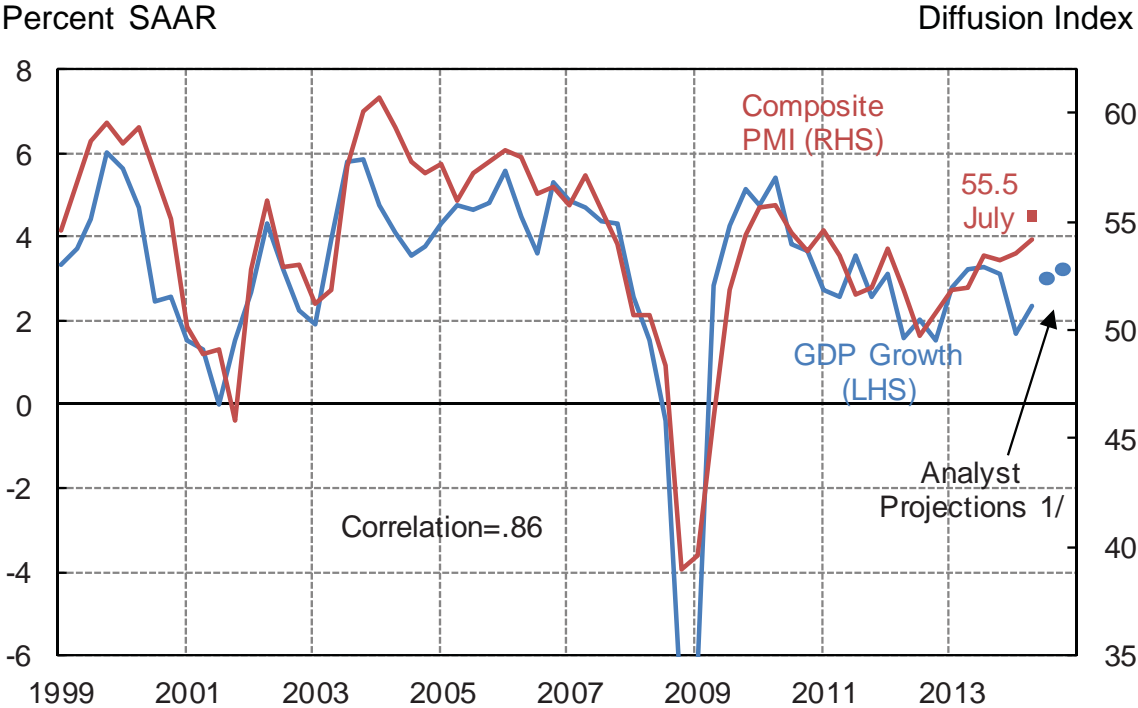


International Update

Presentation to the Upstate New York Regional
Advisory Board

John Clark
September 2, 2014

Figure 1 Global Growth and PMIs

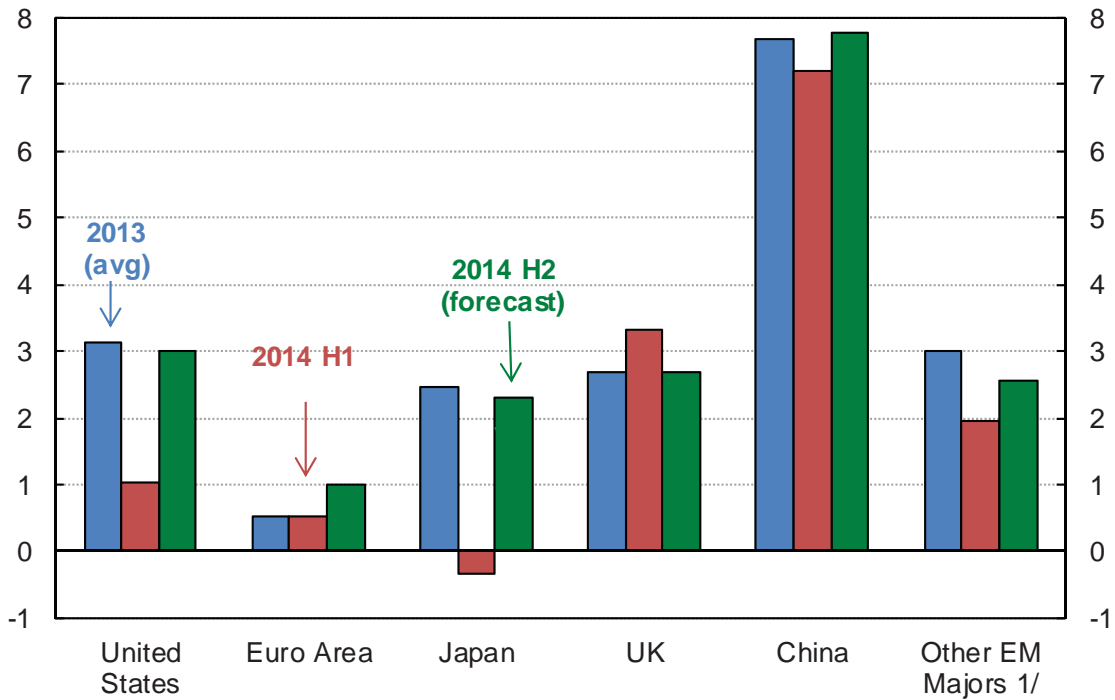


1/ Bloomberg consensus and staff estimates. Data as of 8/29.
Sources: Markit Economics, national authorities, Bloomberg.

Figure 2 Advanced and EM Economies: GDP Growth

Percent, quarterly average at an annualized rate

Percent



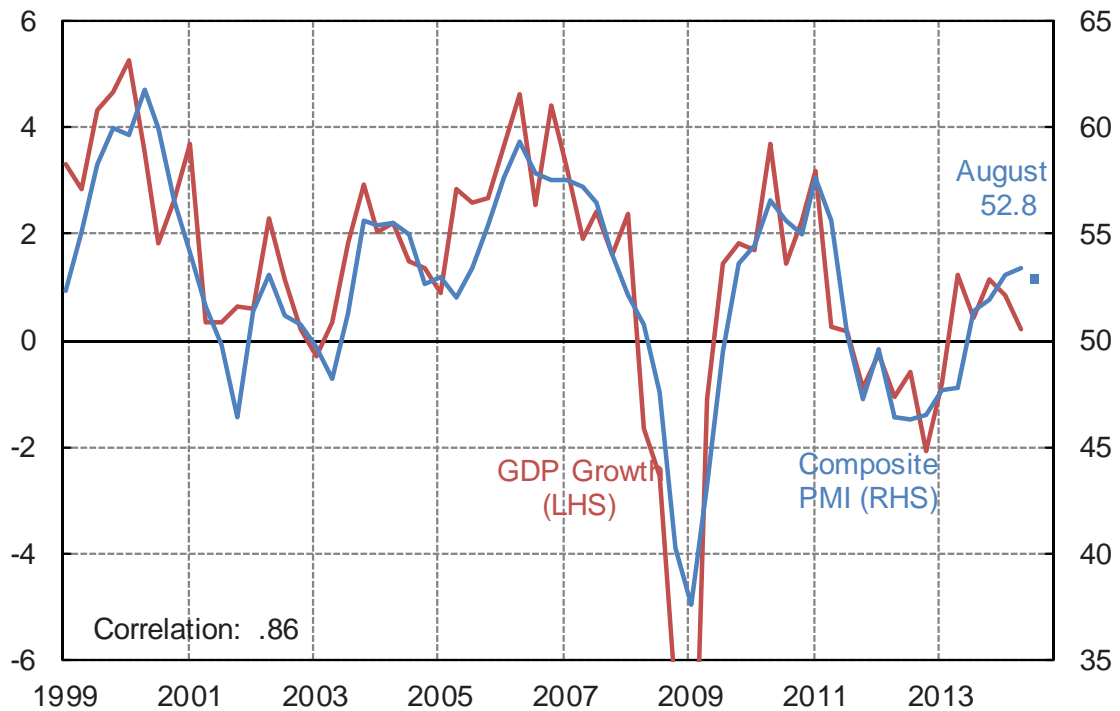
1/ Brazil, India, Russia, Mexico, and Korea.

Sources: National authorities, Bloomberg. Forecasted data as of 8/29.

Figure 3 Euro Area: GDP Growth and Composite PMIs

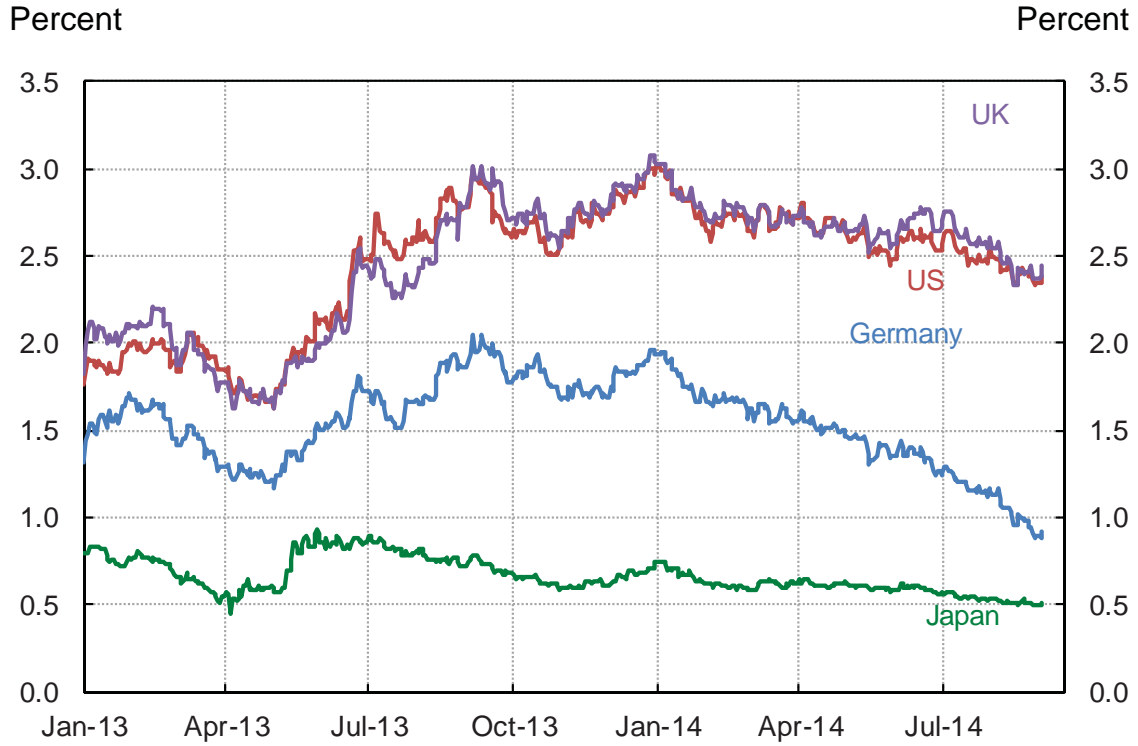
Percent, saar

Diffusion Index



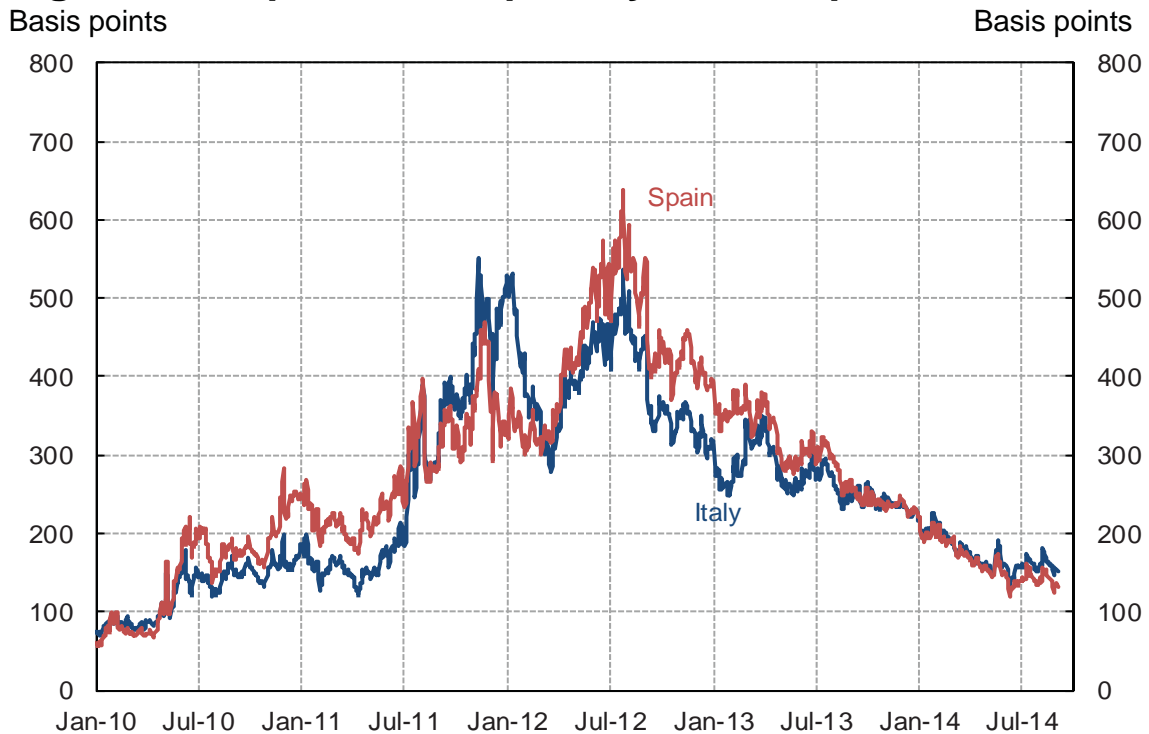
Source: Haver, Markit. Data as of July 10, 2014

Figure 4 AE 10yr Bond Yields



Source: Bloomberg, data through 9/2.

Figure 5 Peripheral Europe: 10yr Bond Spread to Bunds

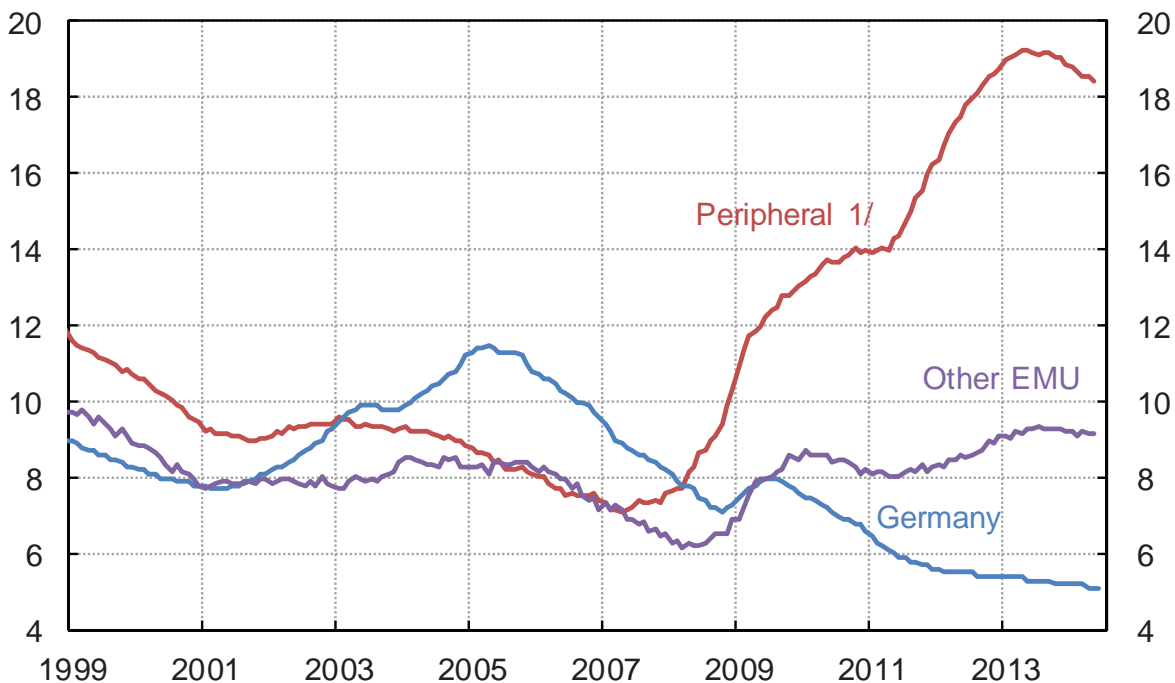


Source: Bloomberg. Data through 9/2.

Figure 6 Euro Area: Unemployment Rates

Percent, seasonally adjusted

Percent



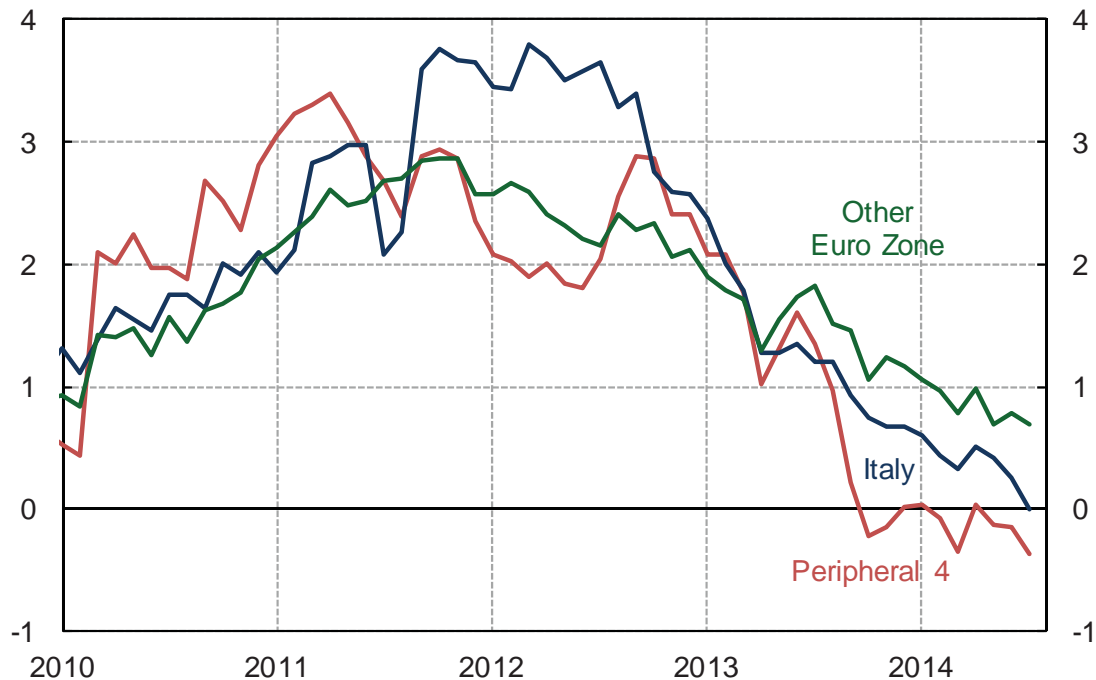
1/ GDP-weighted: Italy, Spain, Greece, Ireland, Portugal.

Source: EuroStat. Data as of 8/28.

Figure 7 Euro Zone Consumer Price Inflation

Percent y/y

Percent



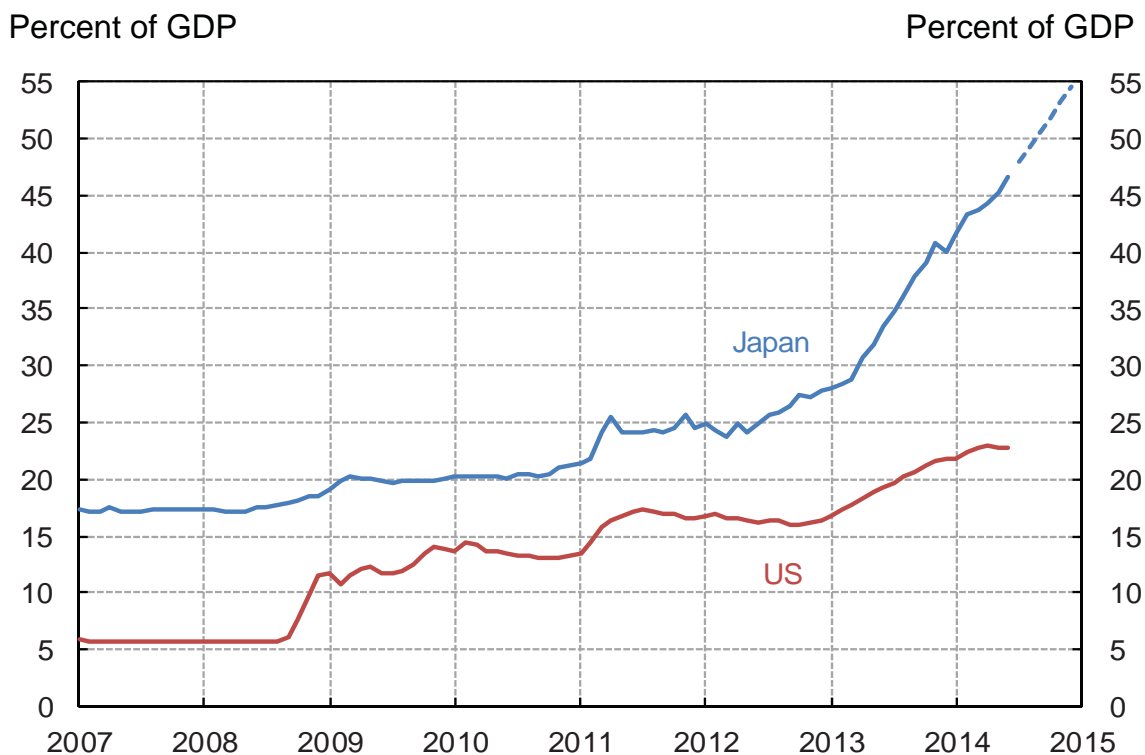
Note: GDP-weighted averages. Peripheral 4 includes Portugal, Spain, Ireland and Greece
Source: Eurostat. Data is through July.

Figure 8 ECB Policy Announcements on June 5

- **Main policy rate cut 10 bps to 15 bps, and deposit rate cut to -10bps**
 - Negative rate applies to excess reserves, Target 2 balances, and other deposits
- **Announced Targeted Long-term Refinancing Operations (TLTROs)**
 - Banks can borrow up to 7% of outstanding loans to private nonfinancial borrowers (excluding mortgages); equivalent to €400 billion in September and December
 - Banks can also borrow 3x improvement in lending to private nonfinancial borrowers (ex-mortgages) beginning in 2015
 - 4 year term at 25 basis points, but loan matures in 2 years if target lending declines
- **Suspended sterilization of SMP purchases**
- **Extended Fixed Rate, Full Allotment Procedures through Dec 2016**
- **Preparatory work for potential future purchases of Asset-Backed Securities (ABS)**

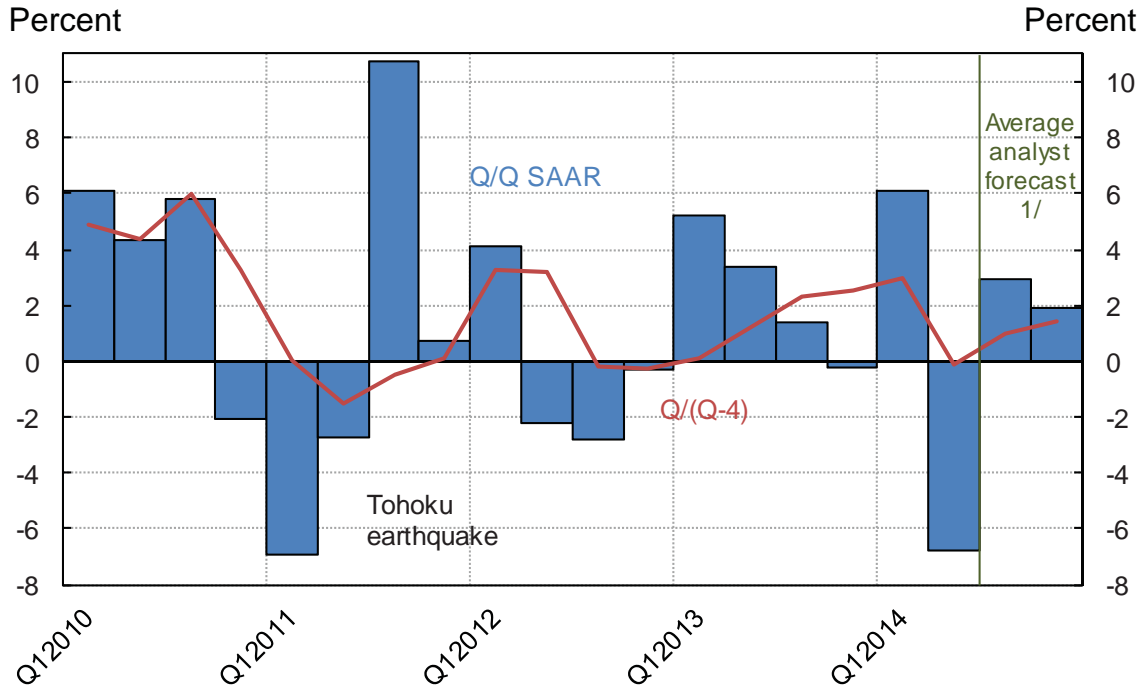
Source: ECB Press release

Figure 9 Japan: Monetary Base



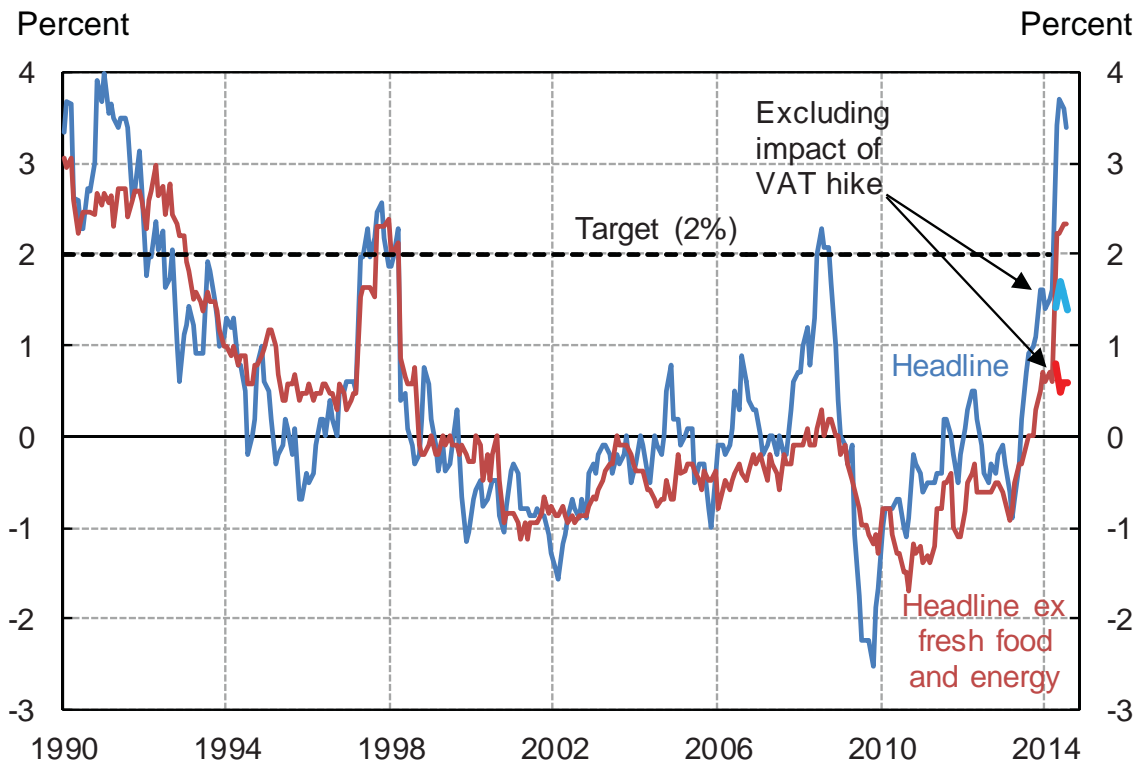
Source: National authorities, data as of 8/28.

Figure 10 Japan: GDP Growth



Sources: Cabinet Office, Bloomberg. Data as of 8/28.
1/ Bloomberg.

Figure 11 Japan: CPI Inflation

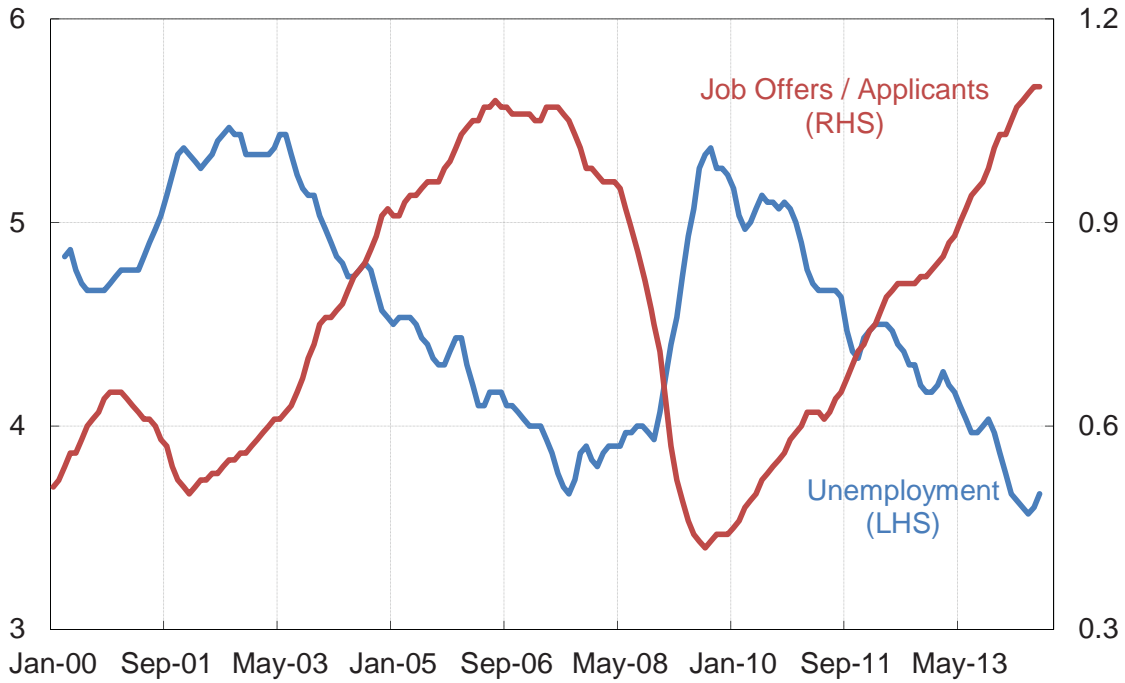


Source: Haver, data as of 8/28.

Figure 12 Japan: Job Openings and Unemployment

Percent SA, smoothed

Ratio, SA

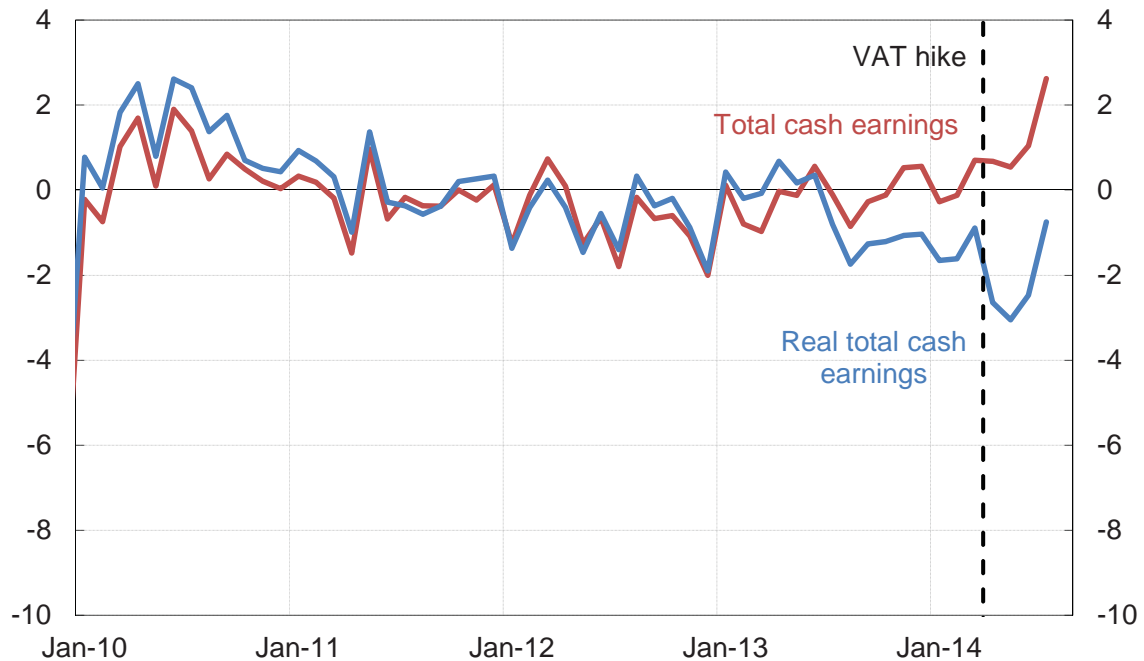


Sources: National authorities, Haver. Data through July 2014.

Figure 13 Japan: Nominal and Real Wages

Percent y/y

Percent y/y

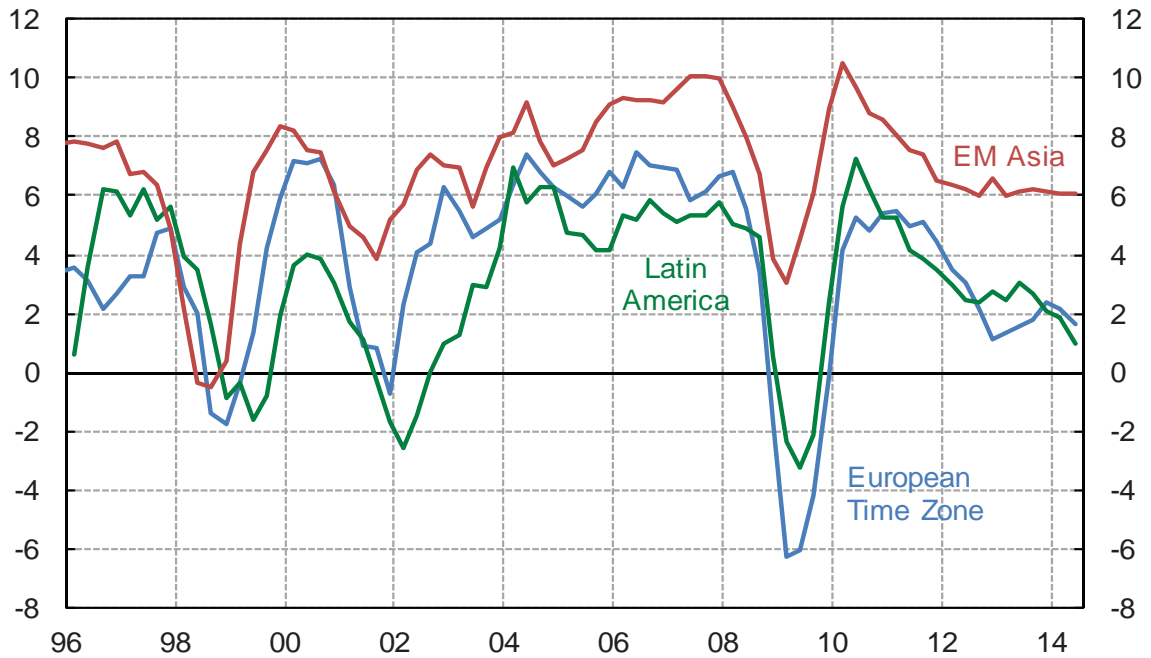


Sources: National authorities, Haver. Data through July 2014.

Figure 14 EMEs: Real GDP Growth

Percent change from year ago quarter

Percent

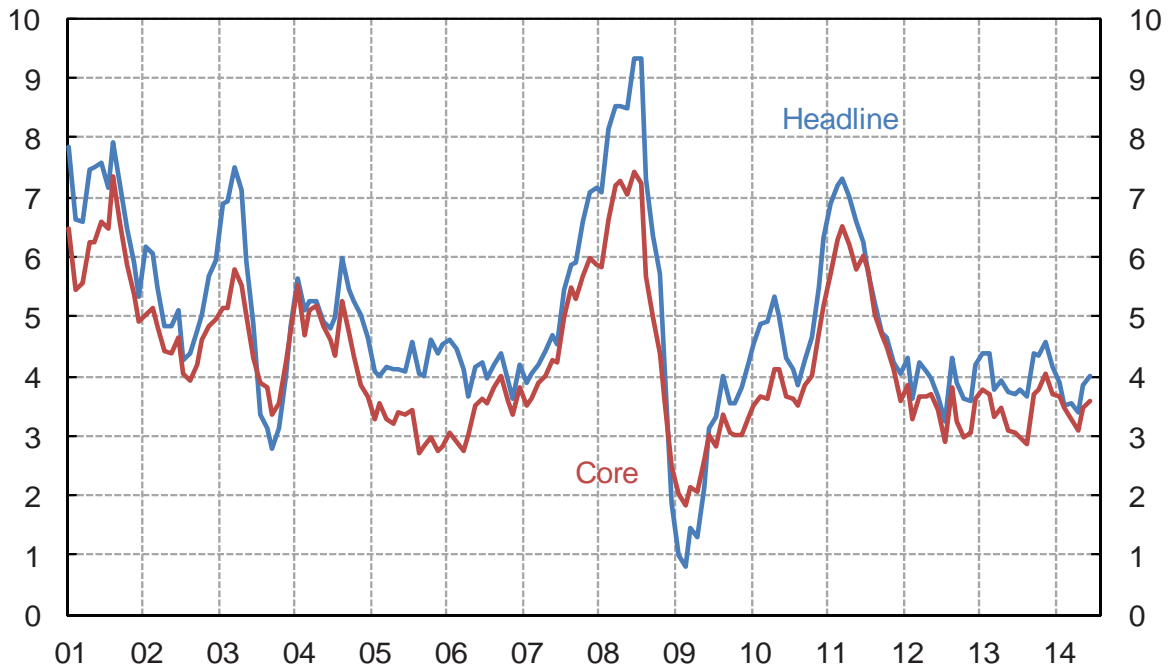


Source: National authorities

Figure 15 EMEs: Headline and Core Inflation

Percent, rolling 6m/6m saar

Percent

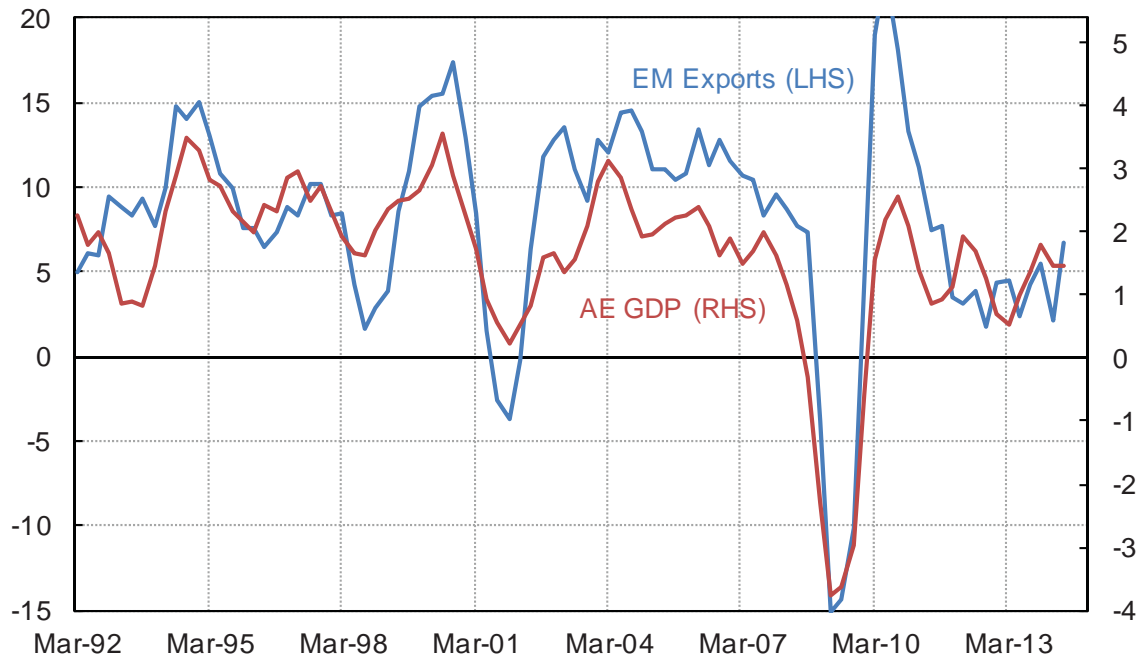


Source: National authorities, FRBNY. Data through June.

Figure 16 EME Exports and AE GDP

Percent, Q/Q-4

Percent, Q/Q-4 smoothed

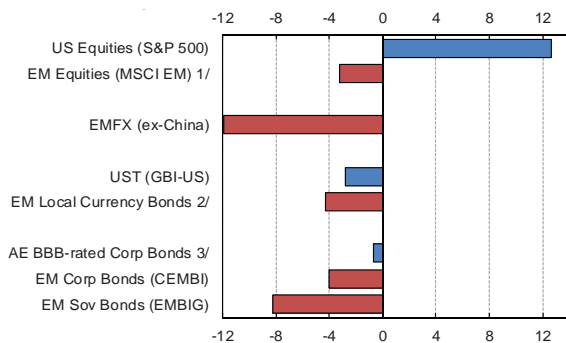


Sources: National authorities, Netherlands Bureau of Economic Policy Analysis, Haver. Data as of 8/28.

Figure 17 US and EM Asset Returns

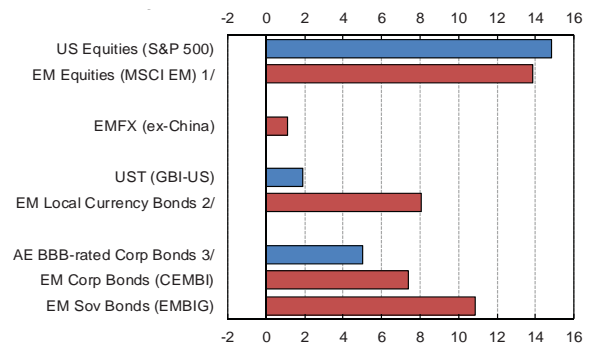
Percent change

May 1, 2013 to Feb 3, 2014



1/ Local currency return; GBI-EM (returns in local currency terms); 2/ JPMs JULI ex-EM index
Source: Bloomberg, MorganMarkets

Feb 3, 2014 to Present



1/ Local currency return; 2/ GBI-EM (returns in local currency terms); 3/ JPMs JULI ex-EM index;
Source: Bloomberg, MorganMarkets. Data through 8/28.

Figure 18 EMEs: Leading Structural Challenges

Leading Structural Challenges

	Argentina	Brazil	China	India	Indonesia	Korea	Mexico	Russia	Saudi Arabia	South Africa	Turkey
Distortional Tax Code	153	159	120	158	137	25	118	56	3	24	71
Inadequate Power	80	14	119	111	121	2	133	117	15	150	49
Inadequate Infrastructure	120	71	74	85	61	23	66	93	22	66	49
Excessive Energy Subsidies	2.9	0.2	3.8	4.5	5.4	1.5	2.4	6.3	16.7	4.3	1.0
Excessive Red Tape	57	121	19	186	147	2	71	10	127	80	38
Labor Market Rigidities	144	92	34	99	103	78	113	72	70	116	130
Health & Primary Education	61	89	40	102	72	18	73	71	53	135	59

Sources: IMF, World Bank, World Economic Forum

Figure 19 Major EM Elections in 2014

<u>Month</u>	<u>Country</u>	<u>Winner 1/</u>
March	Turkey (Municipal)	Inc
April	South Africa (Legislature and President) 2/	Inc
	Indonesia (Parliament)	Opp
May	India (Parliament)	Opp
July	Indonesia (President)	Opp
August	Turkey (Presidential)	Inc
October	Brazil (President, Legislature, Governors)	Inc 3/

1/ Incumbent (Inc) or Opposition (Opp) party

2/ The National Assembly elects the President following its election.

3/ Front runner, based on first round intentions .

Figure 20 China: Real GDP Growth

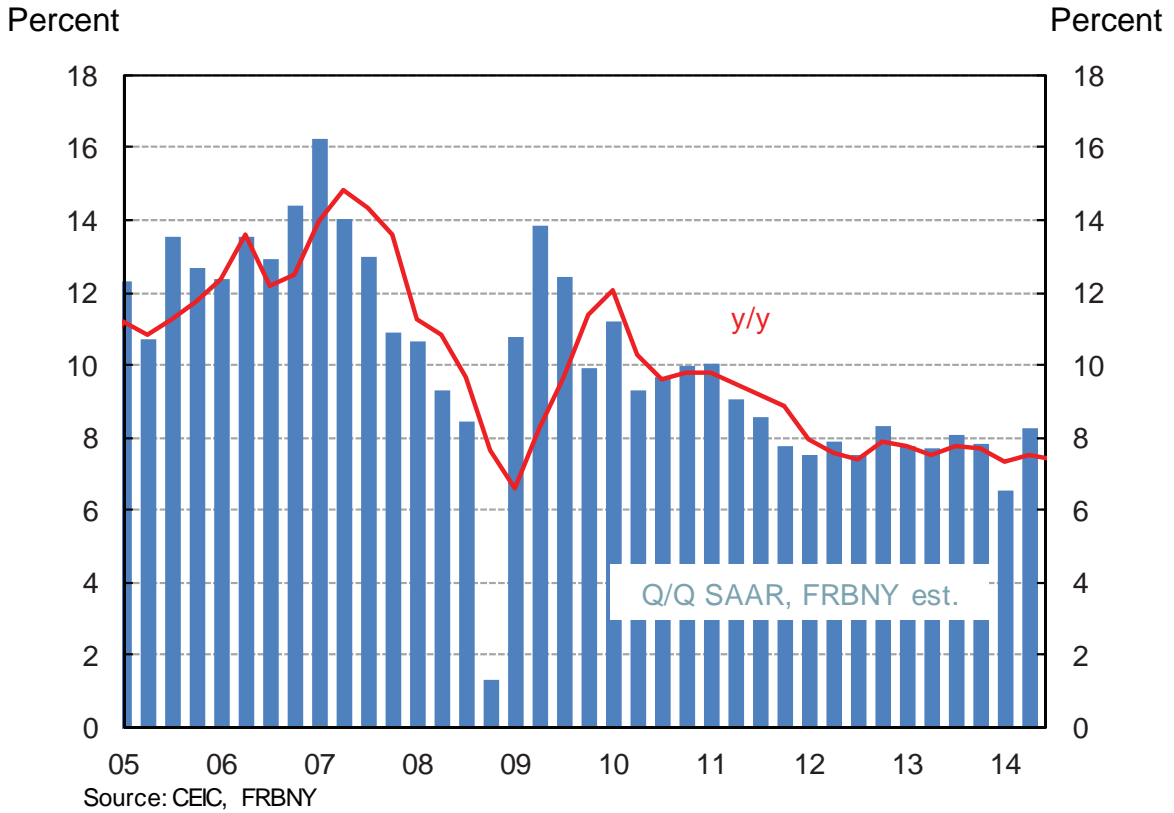


Figure 21 China: Bank and Shadow Credit, Total Financing

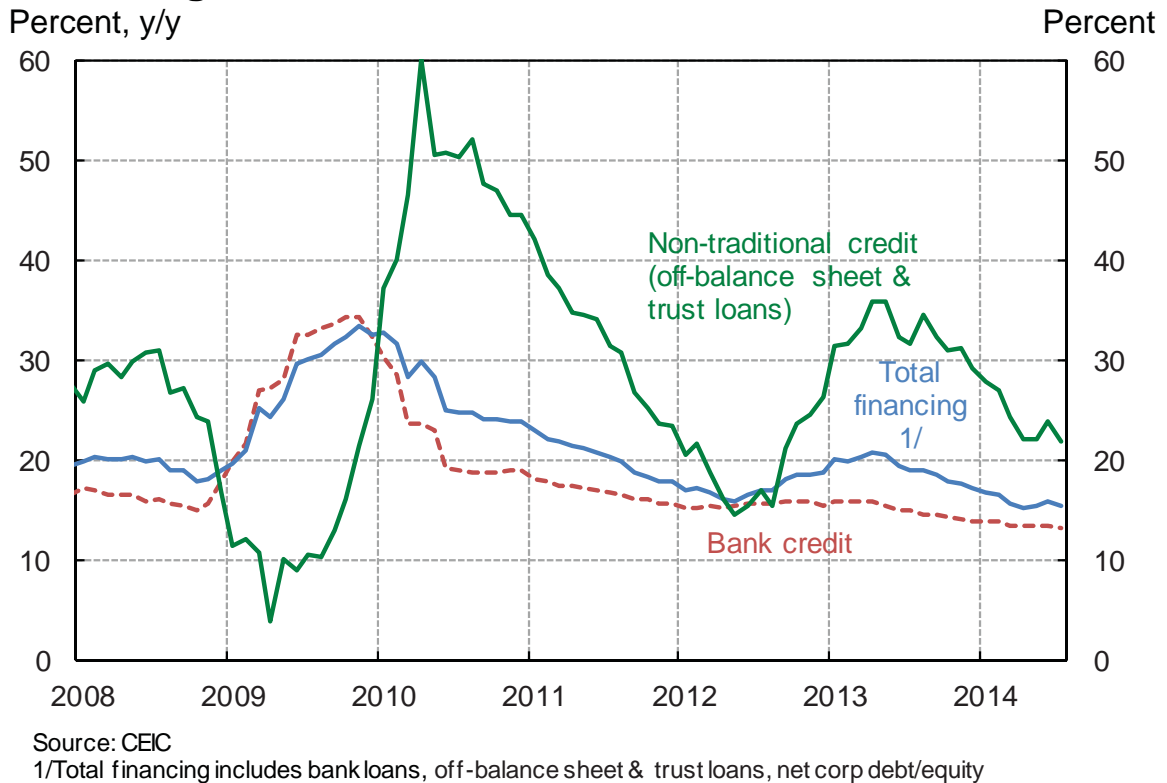
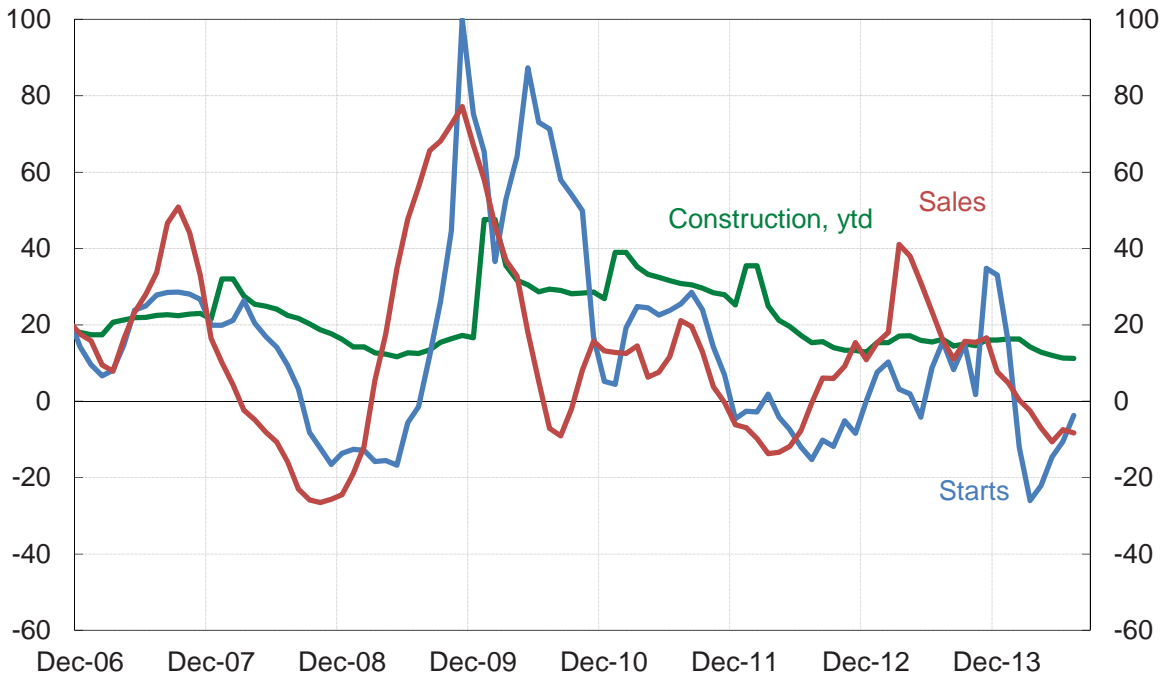


Figure 22 China: Commercial and Residential Real Estate

Percent y/y, 3mma, Floor

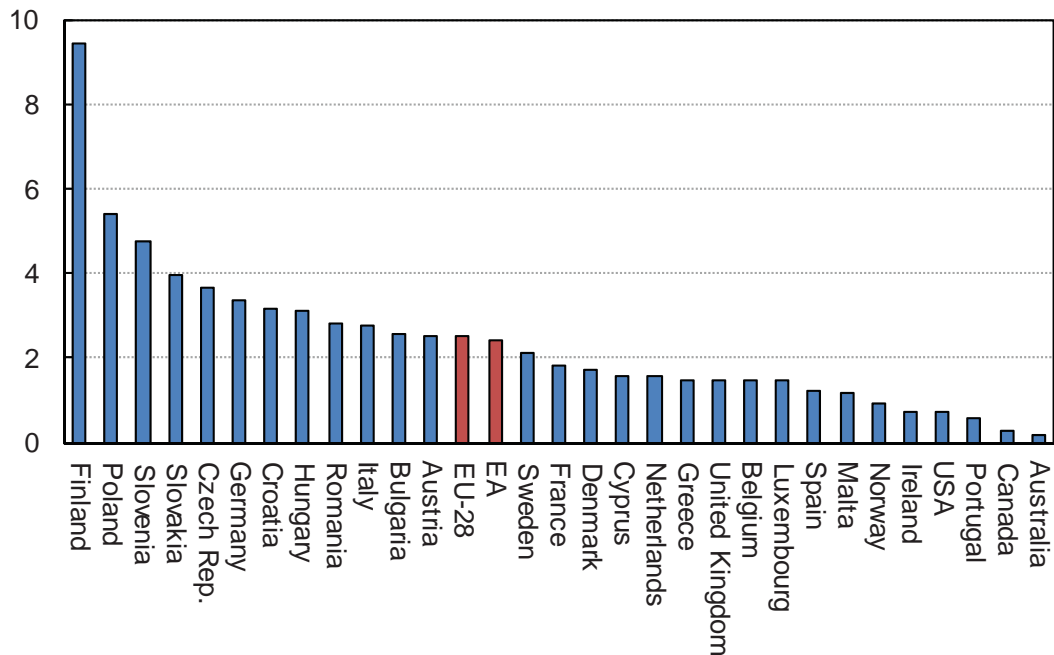
Percent



Source: CEIC

Figure 23 Exports to Russia as Percent of Total Exports

Percent of total exports

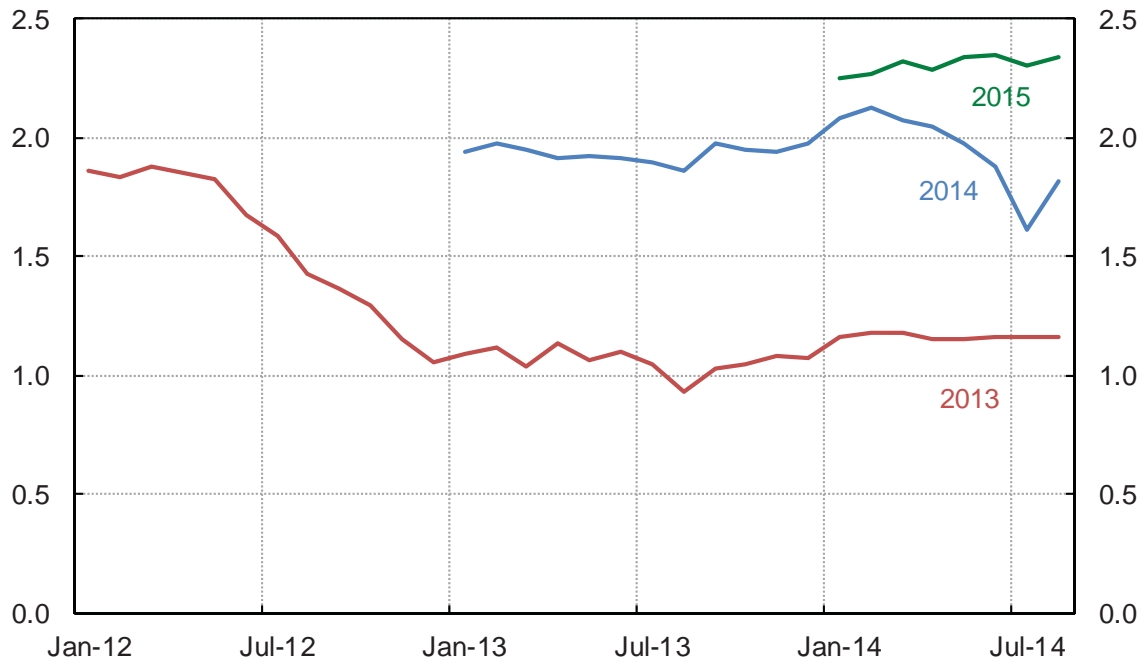


Source: UN Trade (2013; Austria 2012)

Figure 24 AEs: Evolution of Consensus Growth Forecasts

Percent, y/y

Percent

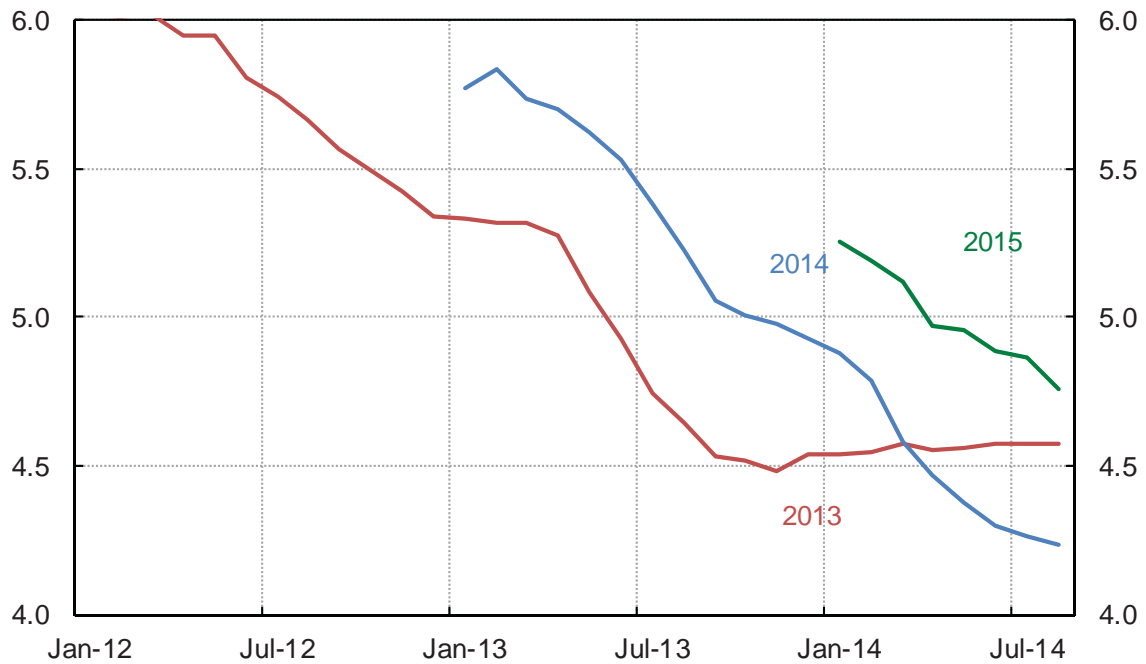


Source: Consensus Forecasts through June, July estimated from Blue Chip.

Figure 25 EMEs: Evolution of Consensus Growth Forecasts

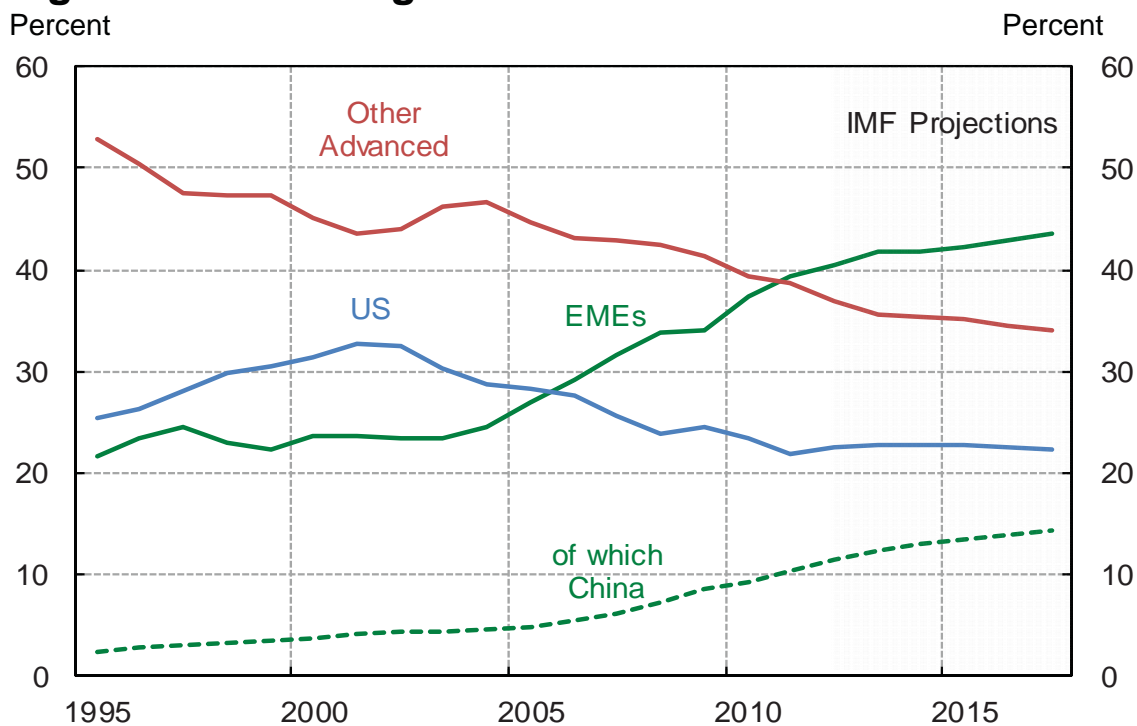
Percent, y/y

Percent



Source: Consensus Forecasts through June, July estimated from Blue Chip.

Figure 26 Percentage Distribution of Global GDP



Projections are shares of USD GDP
Source: IMF WEO. Data as of 8/28.

Figure 27 Consensus Forecasts

Percent y/y

	Consensus Forecasts			Forecast change since Feb	
	2013	2014	2015	2014	2015
Advanced 1/	0.0	1.8	2.3	-0.3	0.1
o/w: United States	2.2	2.1	3.0	-0.8	0.0
Euro Zone	0.0	1.0	1.6	0.1	0.2
United Kingdom	1.7	3.0	2.7	0.5	0.3
Japan	1.5	1.4	1.3	-0.3	-0.1
Emerging Markets 1/	0.0	4.2	4.8	-0.6	-0.4
o/w: China	7.7	7.2	7.1	-0.3	-0.3
Brazil	2.5	1.1	1.5	-1.2	-1.0
India	4.7	5.3	6.0	0.1	-0.1
Russia	1.3	0.1	1.5	-2.3	-1.3
Mexico	1.1	2.6	3.7	-0.8	-0.2
Korea	3.0	3.5	3.7	-0.1	-0.1

Data as of August 28th. Sources: Blue Chip as of August where available, Consensus Economics as of August. 1/ Dollar-GDP weighted average

Figure R1 Russia: Oil and Gas Exports to Europe

	Volume (Millions barrels per day) 1/	Value (Annual, billions of dollars) 2/	Share of European consumption	Share of Russian export revenue
Oil and products	4.4	164	32%	31%
Natural Gas	2.4	49	28%	9%

Sources: IEA, OECD, National authorities, and staff estimates.

1/ 2012 volumes, mbd equivalent for natural gas.

2/ Estimated, 2012 prices

Figure R2 Russia: External Debt

USD Billions, as of Q2 2014

Total	705
Sovereign and Central Bank	55
Banks	207
Corporates	444
Memorandum items	
<i>Offshore bond issues</i>	135
<i>Claims of BIS-reporting banks*</i>	209
<i>of which: US</i>	27
<i>Europe</i>	155
<i>o/w: France</i>	47
<i>Italy</i>	26
<i>Germany</i>	19
<i>Russian share of: MSCI-EM index</i>	5.3%
<i>EMBIG index</i>	10.7%

*As of Q1 2014

Source: Russian authorities and BIS