



**Upstate New York Regional Advisory Council Meeting  
Federal Reserve Bank of New York  
33 Liberty Street  
10F, Paul Volcker Boardroom  
Tuesday, April 17, 2018**

**AGENDA**

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- 10:30am-10:40am    Introductory Remarks  
Tony Davis, Officer & Director
- 10:40am-10:45am    UNYRAB Charter and Antitrust Guidelines  
Tony Davis, Officer & Director
- 10:45am-11:10am    The National Economy  
Richard Peach, Senior Vice President
- 11:10am-11:35am    International Update  
Matthew Higgins, Vice President
- 11:35am-12:00pm    Regional Update  
Jaison Abel, Assistant Vice President
- 12:00pm              Adjourn to NWCR-10F
- 12:15pm              Lunch
- 12:15pm-1:55pm    Round Table Discussion with  
William Dudley, President

Your experiences can give us insight into current economic conditions.

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 2018?
3. Has demand for your product or service increased sufficiently that you plan to increase investment in plant and equipment in 2018?
4. Do you anticipate any change in your ability to access credit for the remainder of this year?
5. How is the labor market in meeting your needs?

2:00 pm              Adjourn



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**ATTENDEE LIST**

**Board Members**

Scott Bieler  
President & CEO  
West Herr Automotive Group

Linda MacFarlane  
President & CEO  
Community Loan Fund of the Capital Region

Kenneth M. Franasiak  
Chairman  
Calamar

Carlos Unanue  
President  
Goya de Puerto Rico, Inc.

Melanie Littlejohn  
Vice President and Regional Director-NY  
National Grid

**Federal Reserve Bank of New York**

William Dudley  
Michael Strine  
Jack Gutt  
Richard Peach  
Matthew Higgins  
Sarah Bell  
Anand Marri  
Jaison Abel  
Tony Davis  
Chelsea Cruz  
Angela Sun

President  
First Vice President  
EVP, Communications & Outreach  
SVP, Research & Statistics  
VP, Research & Statistics  
VP and Executive Chief of Staff, Executive Office  
VP and Head of Outreach & Education  
AVP, Research & Statistics  
Officer & Director, Outreach & Education  
Associate, Outreach & Education  
Associate, Legal



FEDERAL RESERVE BANK *of* NEW YORK

# US Macro Overview

## April 17, 2018

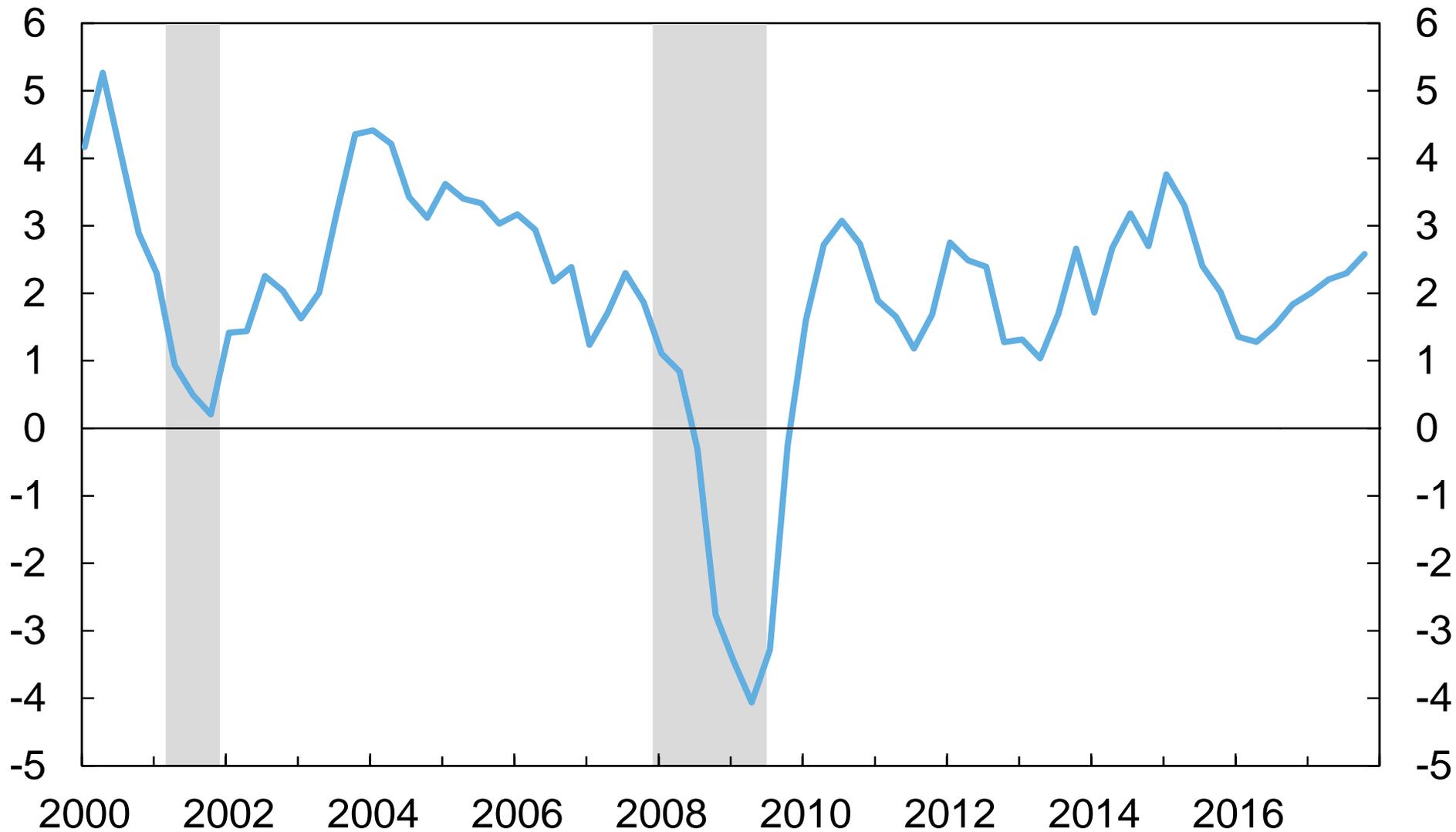
# Overview

- Growth in the US has firmed in recent quarters as the shocks that hit the economy in mid 2014—dollar appreciation and falling commodity prices—have largely run their course.
  - Fiscal stimulus will boost growth in 2018 and 2019.
- Several indicators suggest that the economy is at or near full employment, with clearer evidence that the rate of increase of wages/compensation has moved higher.
- Underlying inflation slowed in 2017 and remains below the FOMC's objective of 2%, but recent indicators suggest that an upturn in inflation is underway.

# Growth of Real GDP

Four Quarter Percent Change

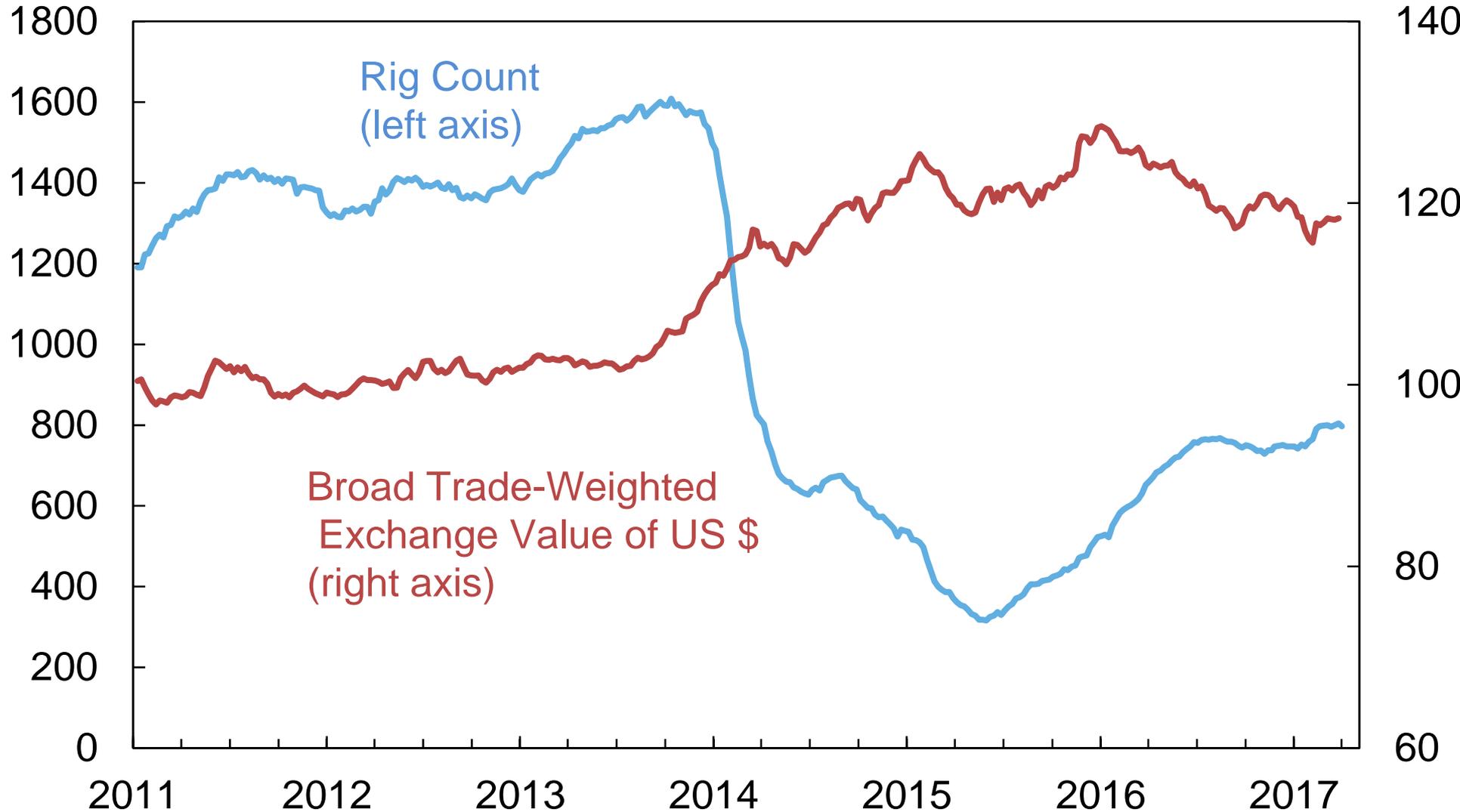
Four Quarter Percent Change



# Nominal Trade-Weighted Value of US\$ and Rig Count

Active Oil Rigs

Index



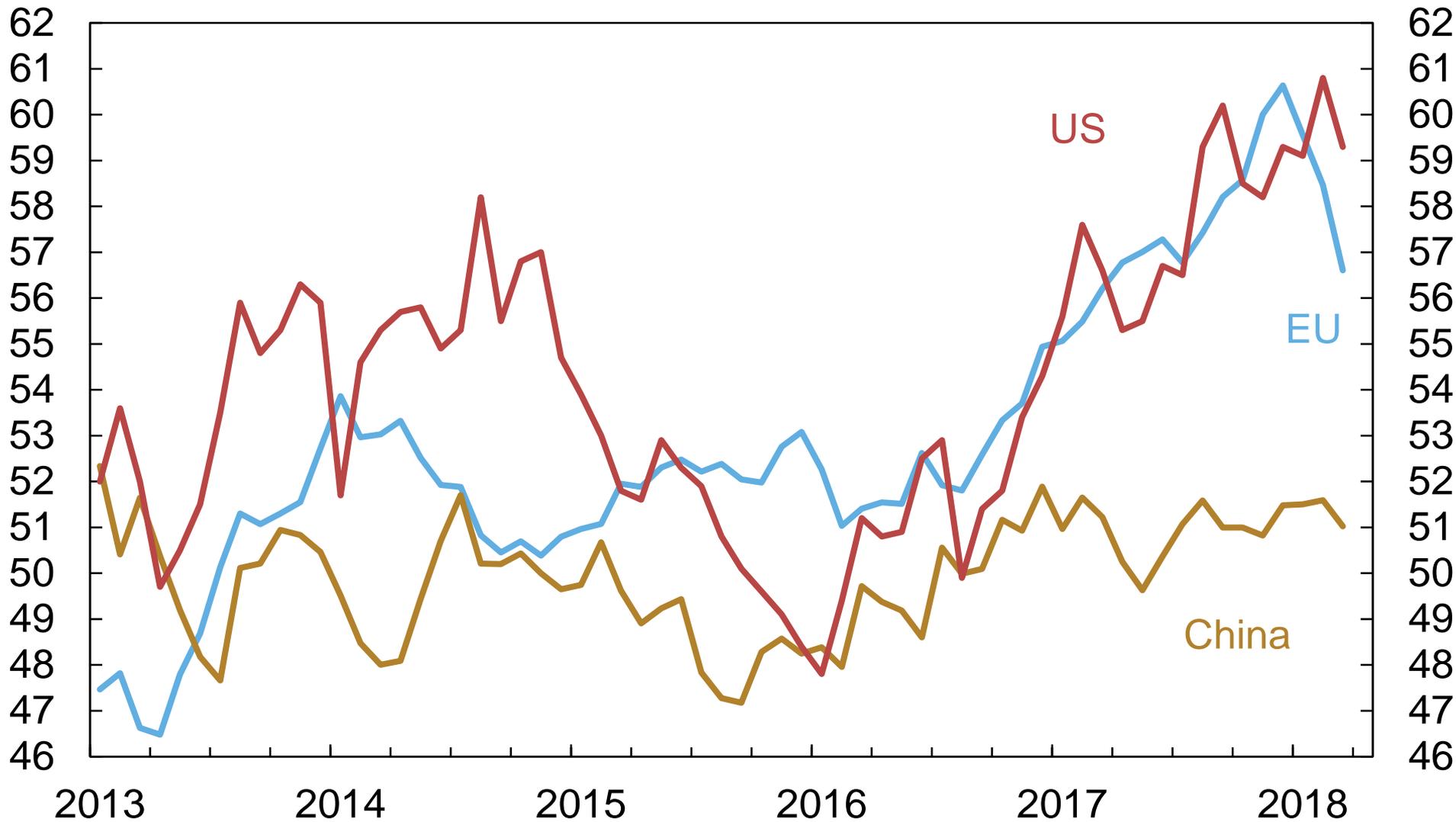
Source: Federal Reserve Board and Baker Hughes

Note: Shading shows NBER recessions.

# Manufacturing Indicators for Major Economies

Index Level

Index Level

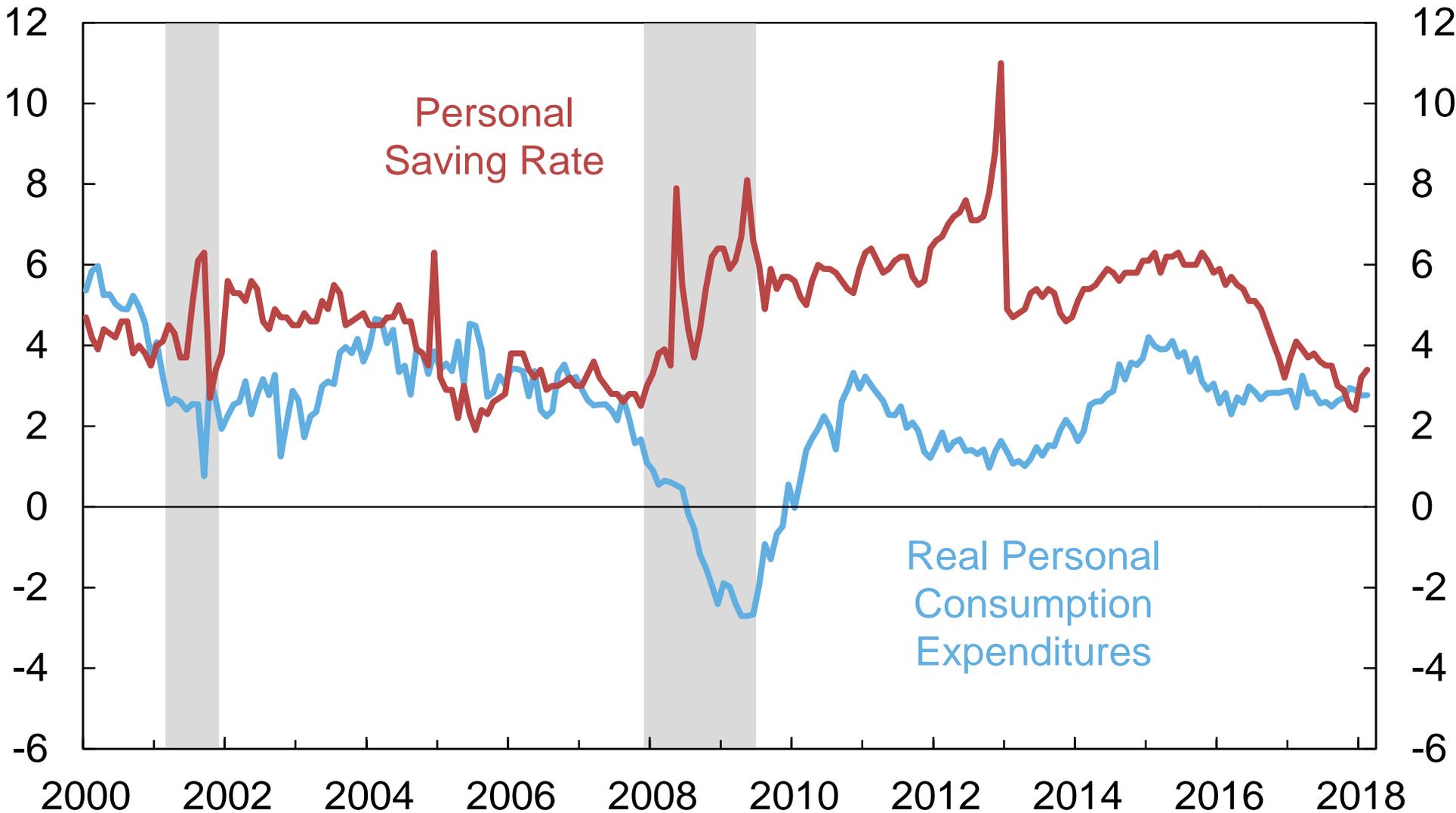


Source: IHS Markit and Institute for Supply Management via Haver Analytics

Note: Shading shows NBER recessions.

# Real PCE and the Personal Saving Rate

12 Month % Change



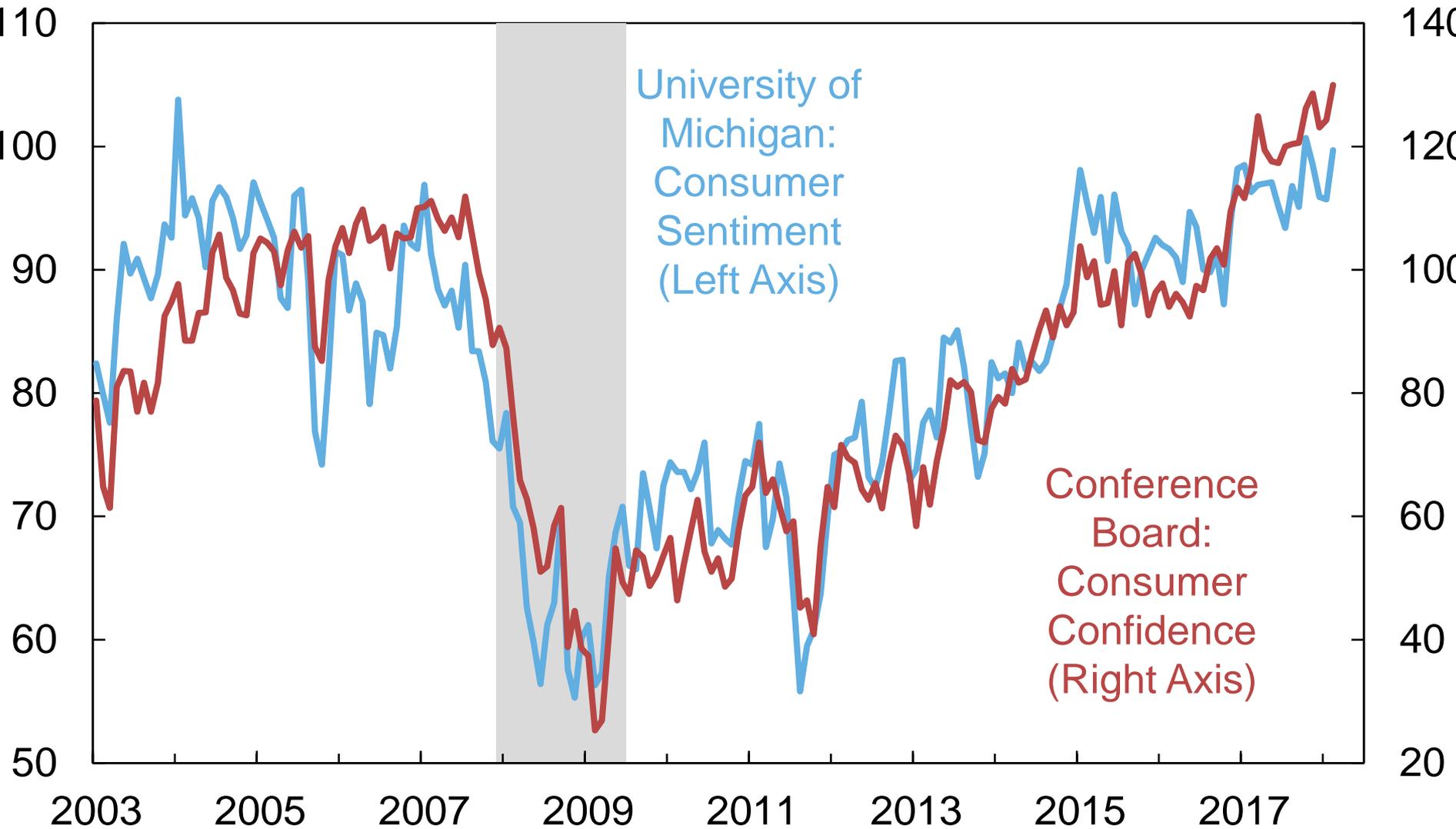
Source: Bureau of Economic Analysis,  
Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

# Consumer Sentiment and Confidence

Index, Q1-66 = 100

Index, 1985 = 100



Source: University of Michigan, Conference Board.

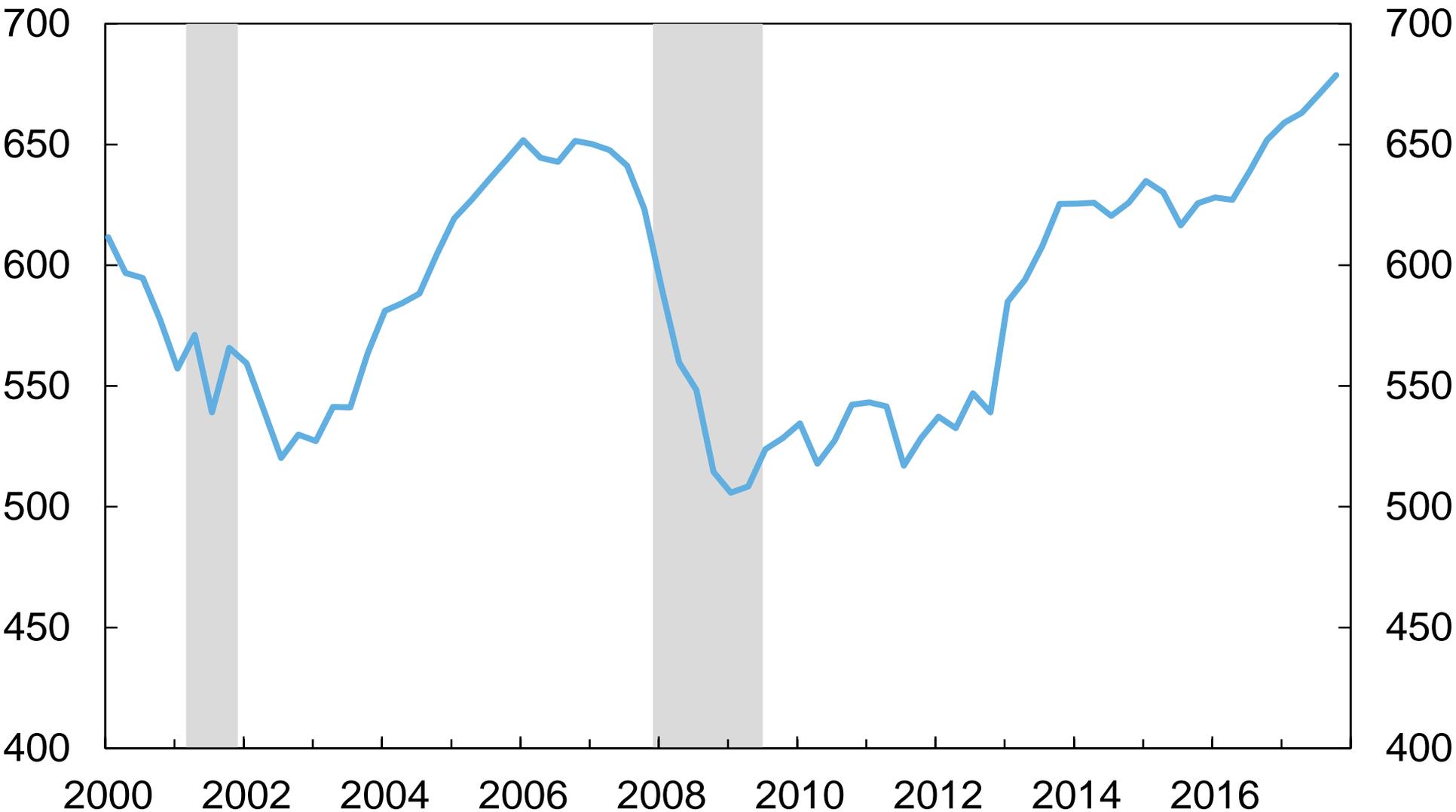
Note: Shading shows NBER recessions. 5

# Household Net Worth at Record High

Percent

(Net Worth over Disposable Income)

Percent



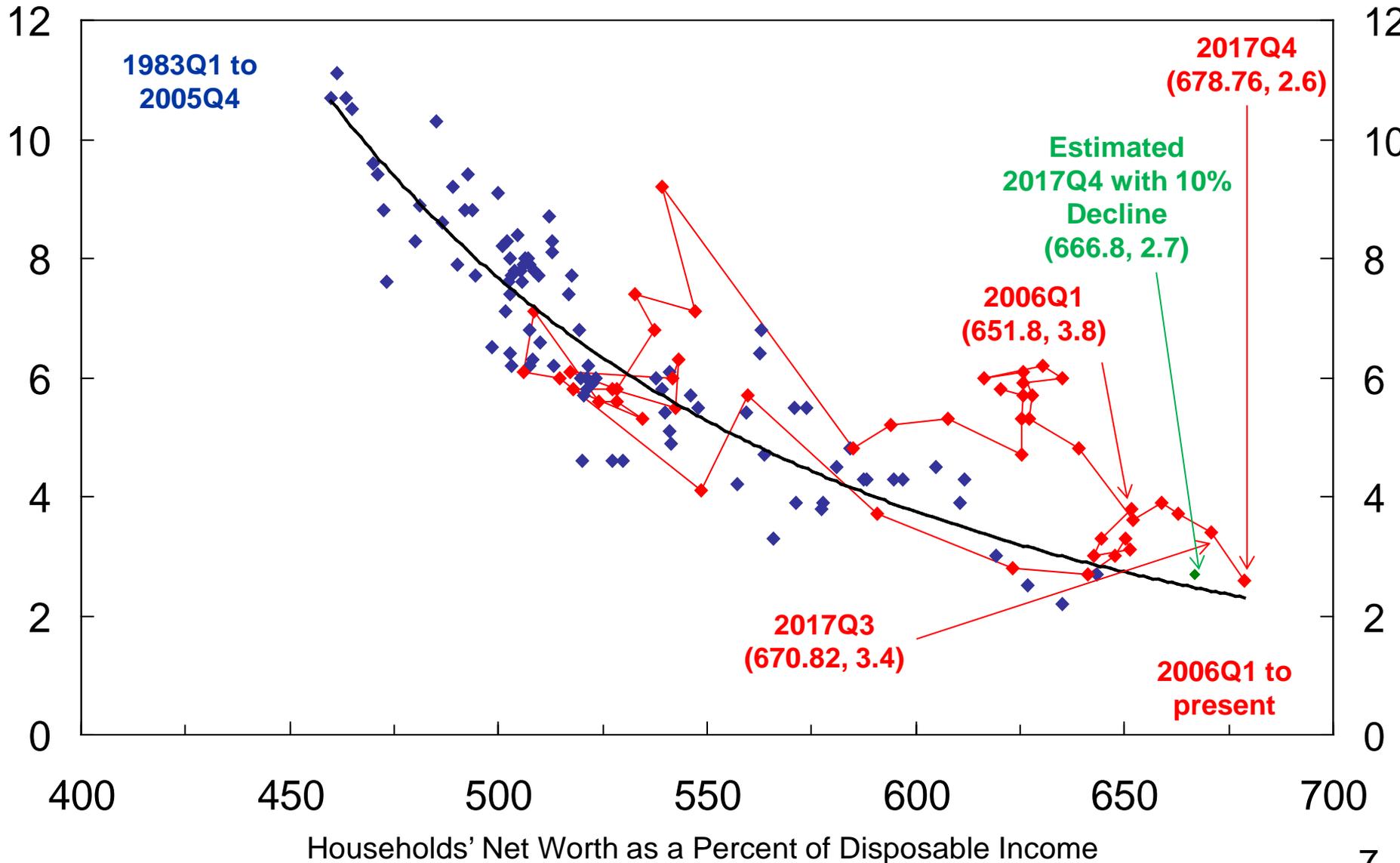
Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

# Personal Saving Rate and Household Net Worth

Personal Saving Rate (Percent)

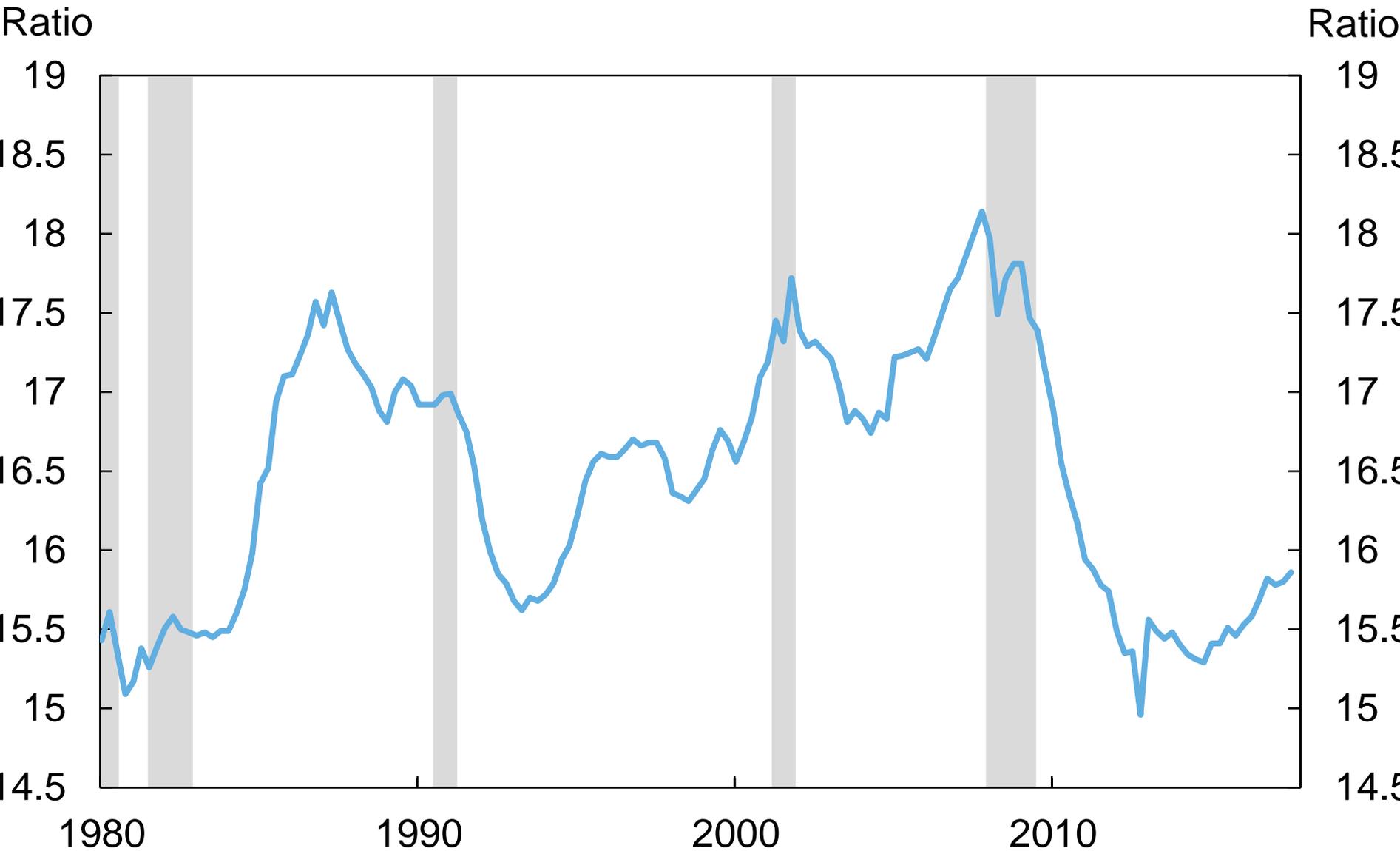
Personal Saving Rate (Percent)



Source: Bureau of Economic Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.

# Household Financial Obligation Ratio



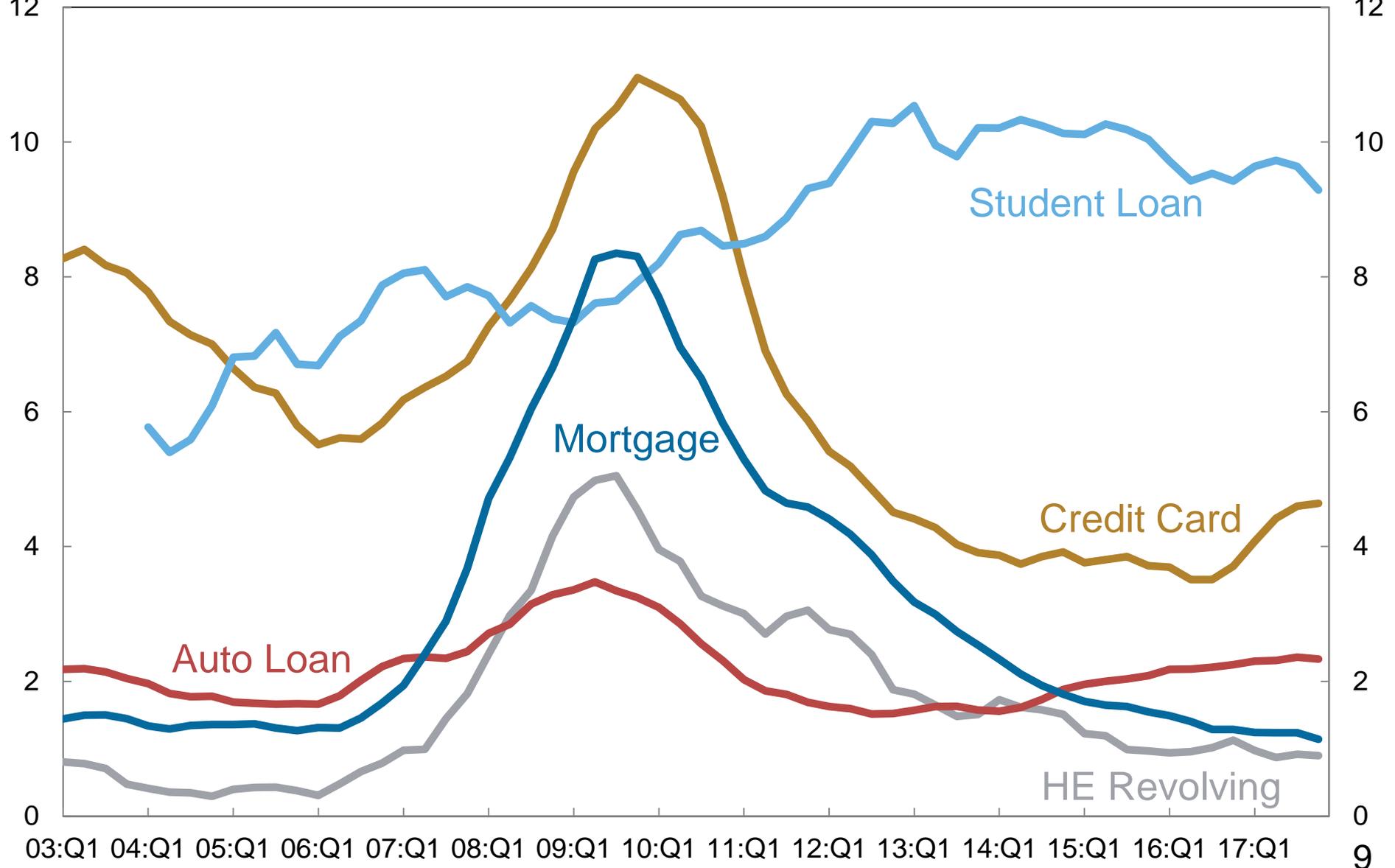
Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

# Transition into Delinquency (90+) by Loan Type

Percent of Balance

Percent of Balance



Note: 4 Quarter Moving Sum

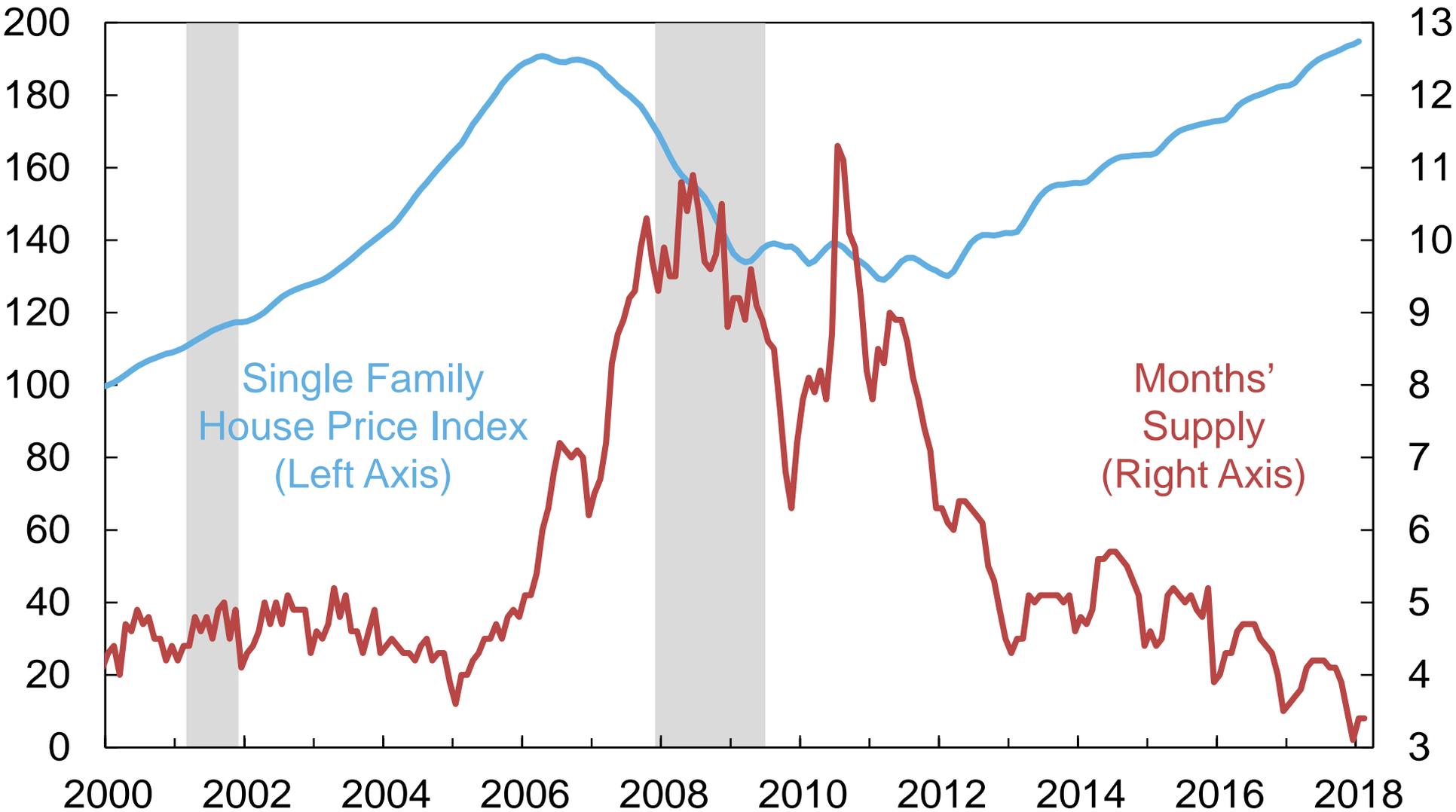
Student loan data are not reported prior to 2004 due to uneven reporting

Source: New York Fed Consumer Credit Panel/Equifax

# Single Family Housing Market

Index Level

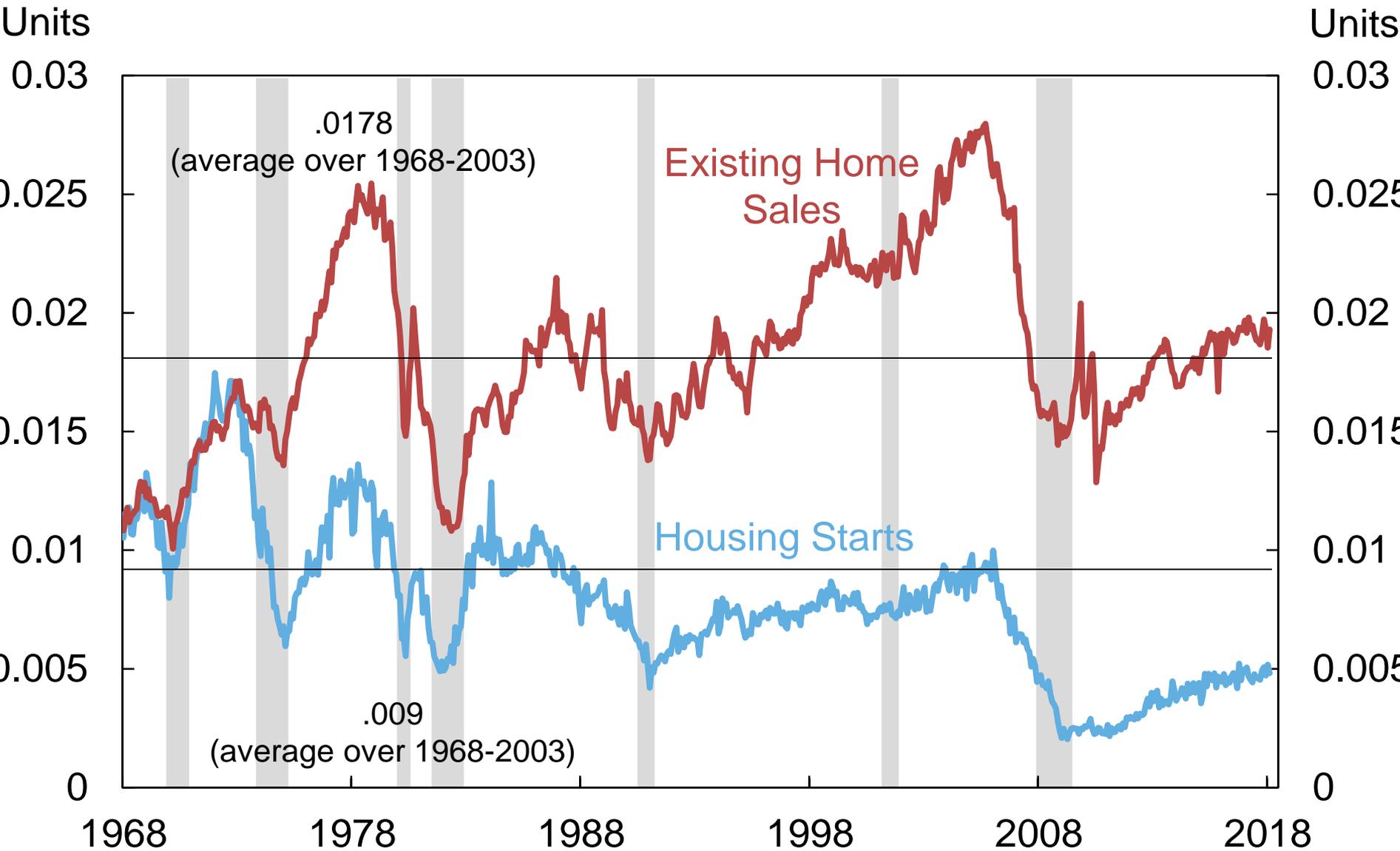
Months



Source: CoreLogic, National Association of Realtors, via Haver Analytics

Note: Shading shows NBER recessions.

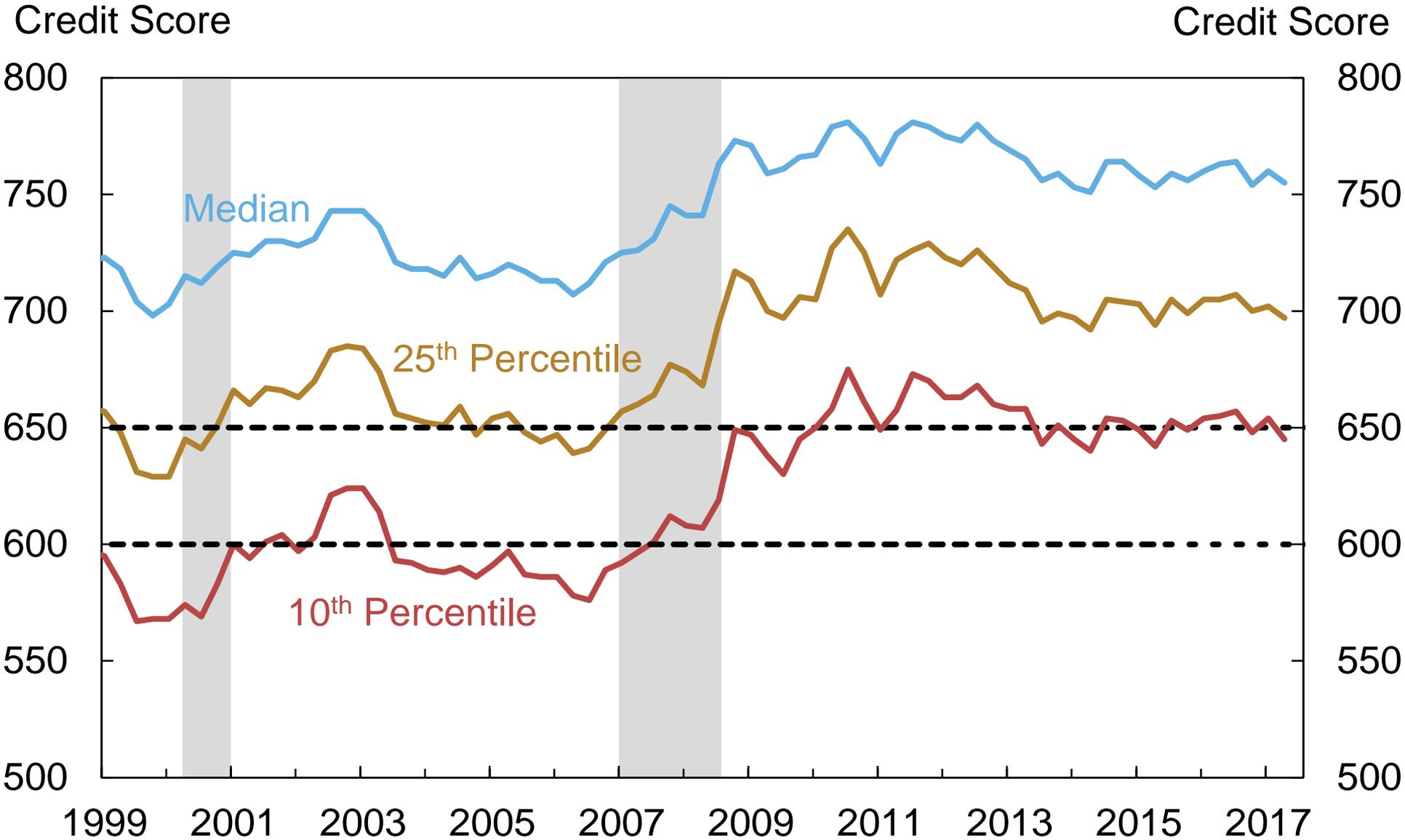
# Housing Starts and Existing Homes Sales Per Capita



Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.

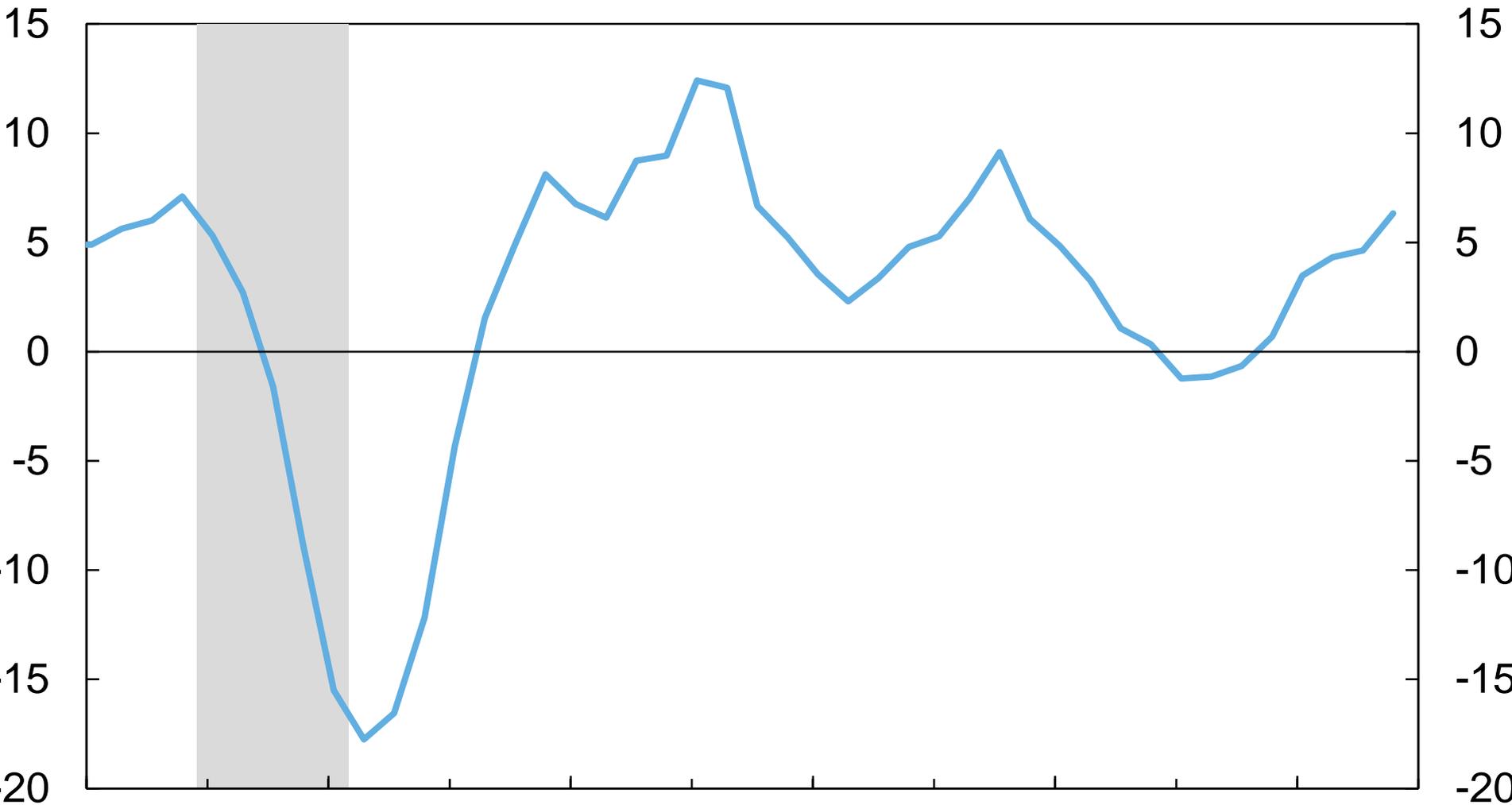
# Credit Score at Mortgage Origination



# Business Fixed Investment Firming

Four Quarter Percent Change

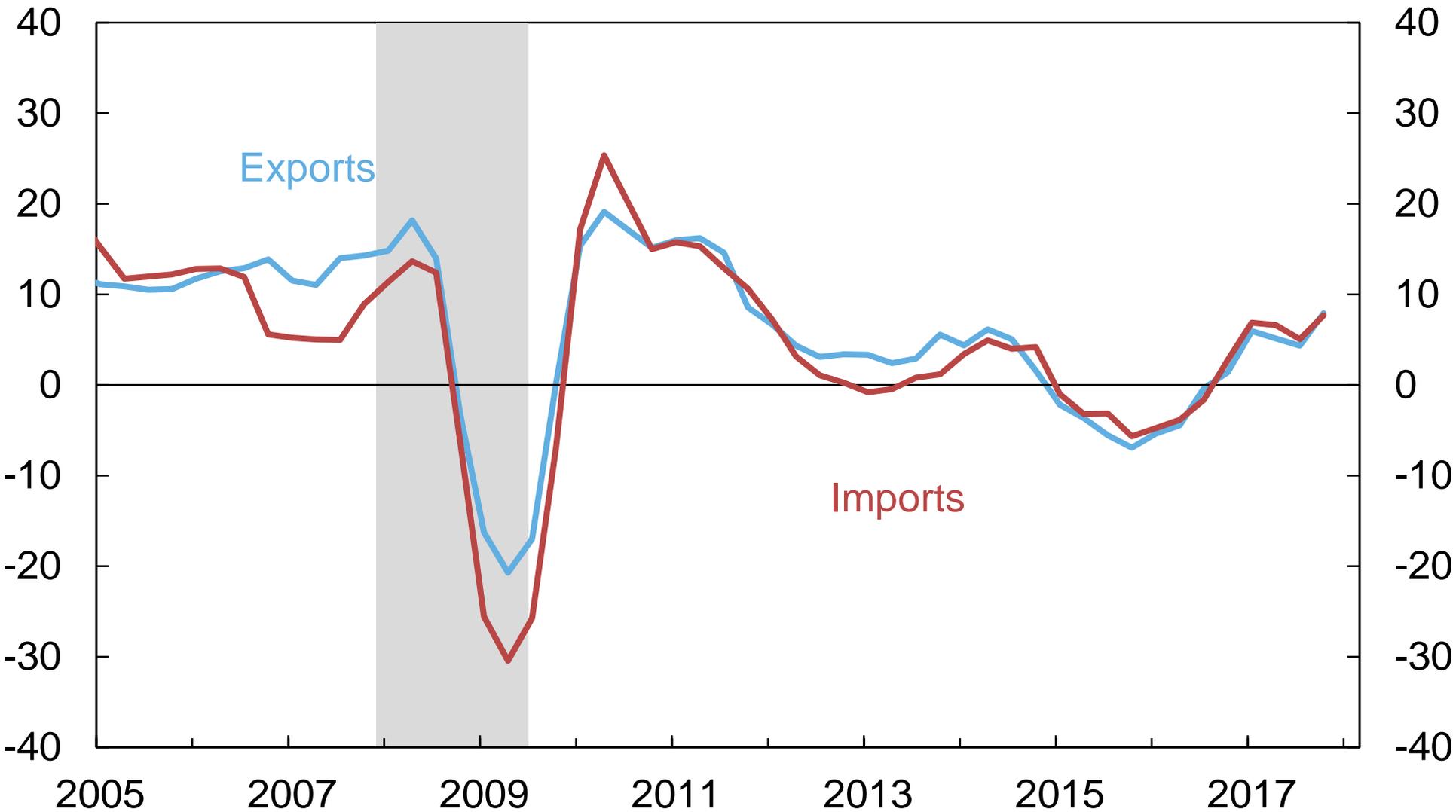
Four Quarter Percent Change



# Real Exports and Imports

4 Quarter % Change

4 Quarter % Change



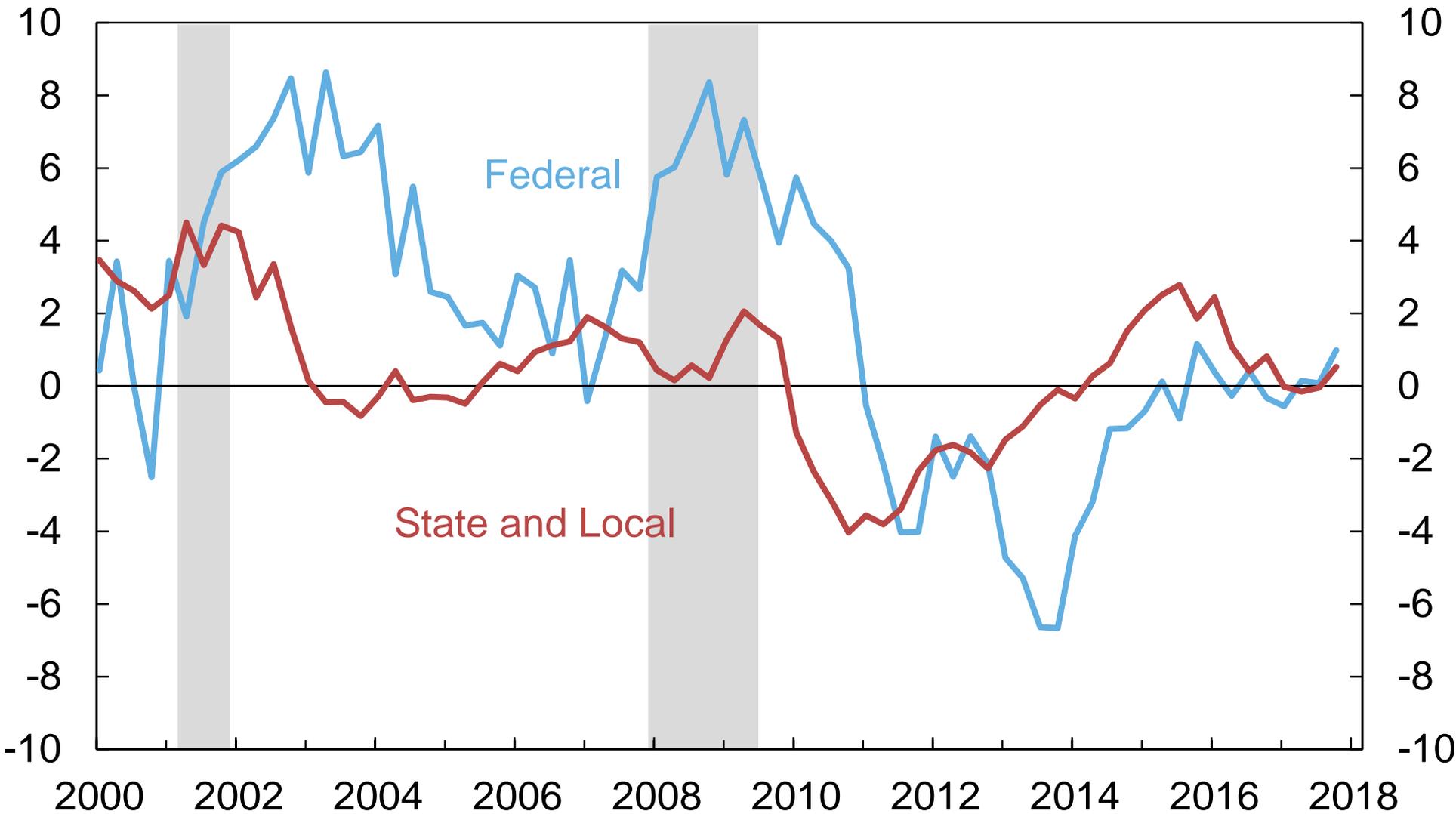
Source: Bureau of Economic Analysis  
via Haver Analytics

Note: Shading shows NBER recessions.

# Real Government Consumption and Gross Investment

4 Quarter % Change

4 Quarter % Change



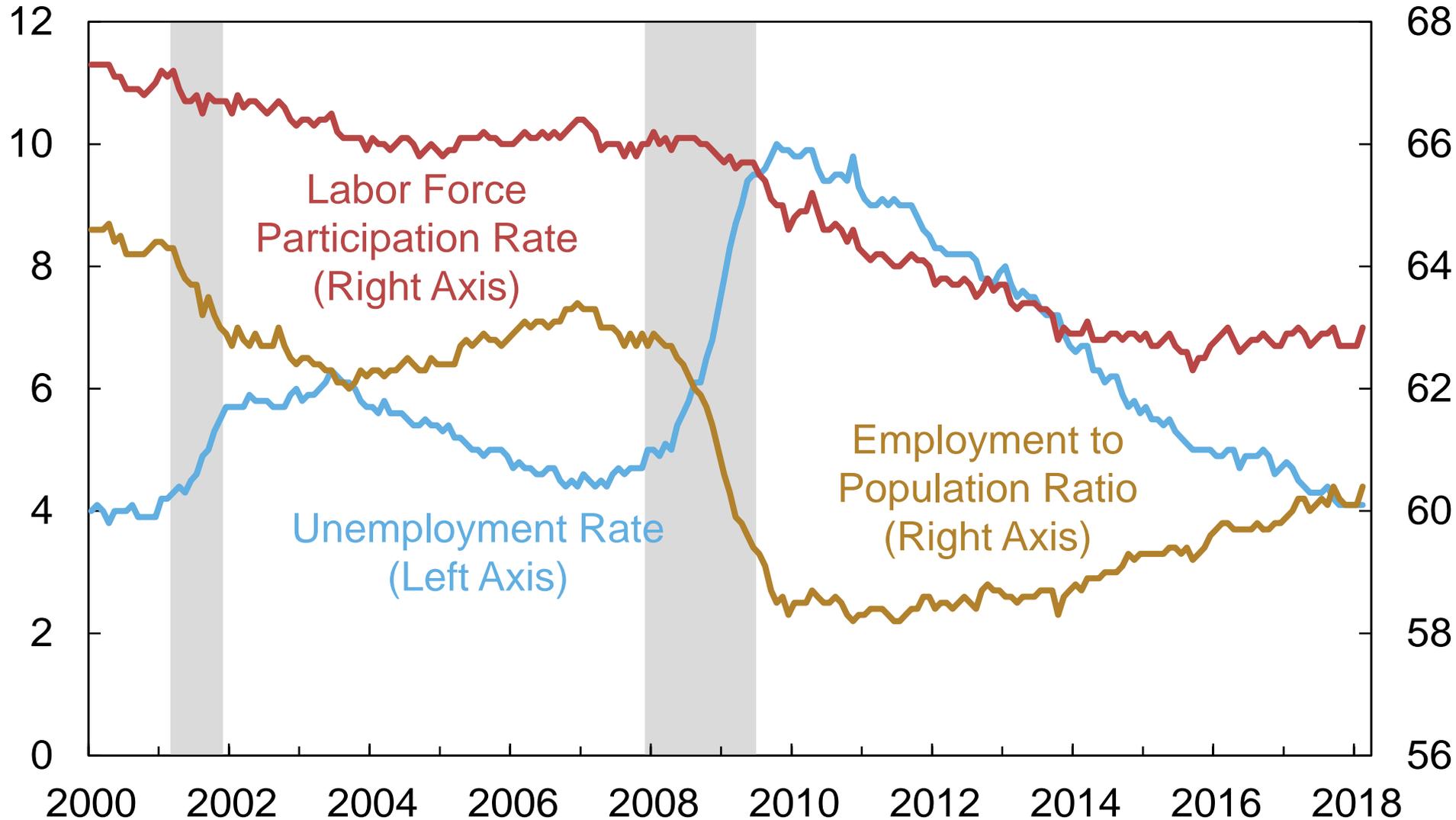
Source: Bureau of Economic Analysis  
via Haver Analytics

Note: Shading shows NBER recessions.

# Labor Market Indicators

Percent

Percent



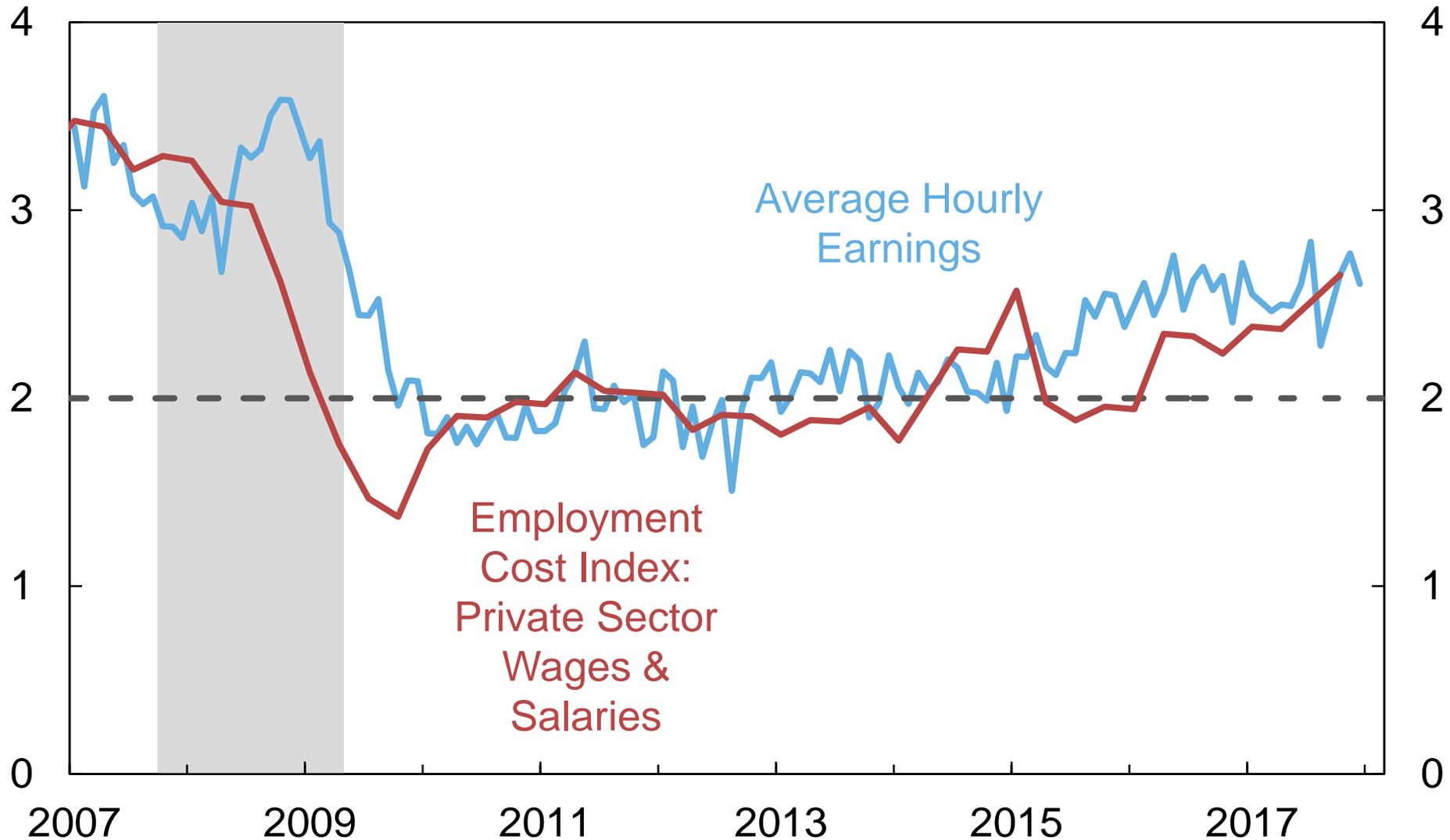
Source: Bureau of Labor Statistics  
via Haver Analytics

16  
Note: Shading shows NBER recessions.

# Growth of Average Hourly Earnings and ECI

Annual % change

Annual % change



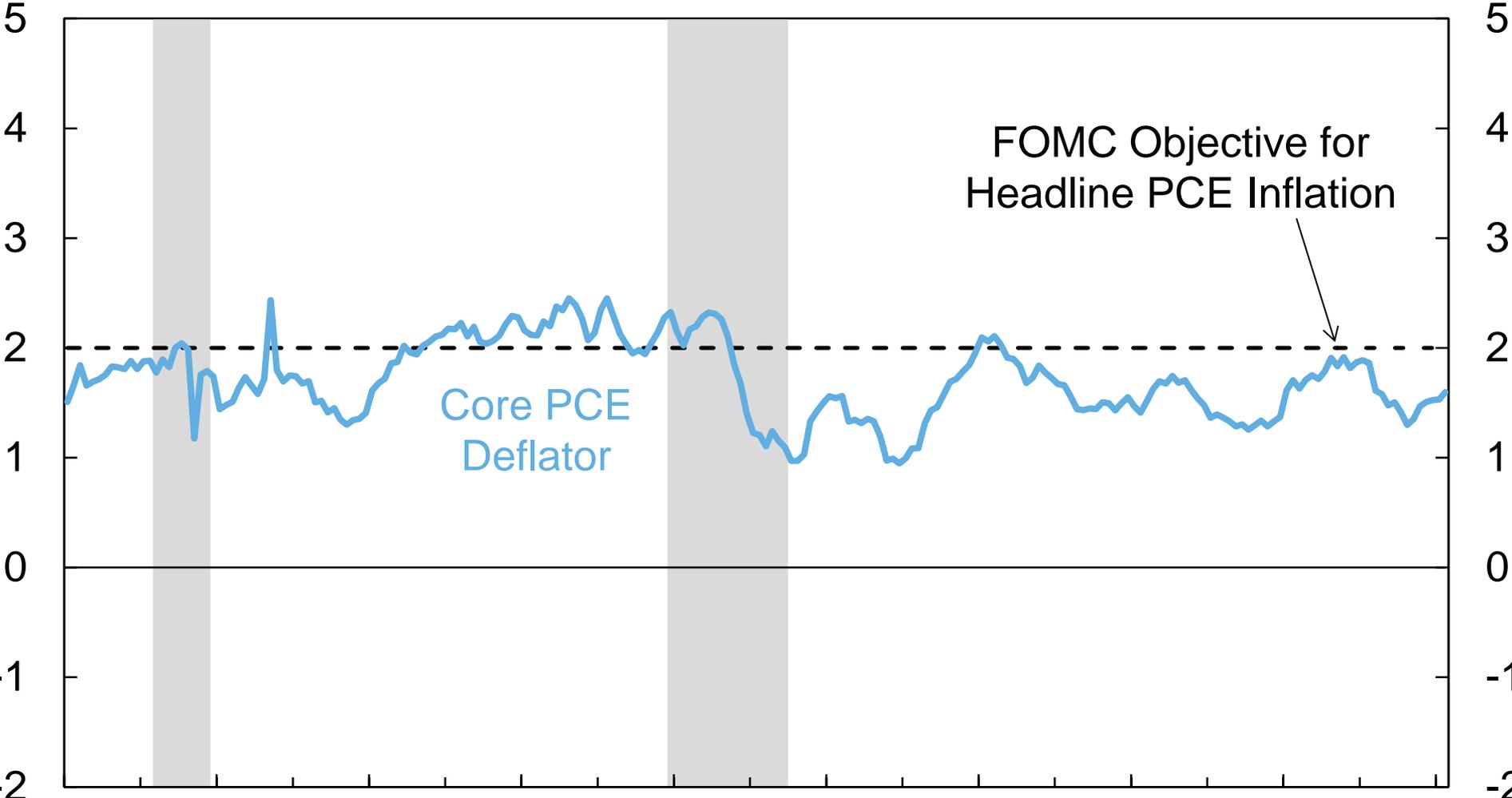
Source: Bureau of Labor Statistics  
via Haver Analytics

Note: Shading shows NBER recessions.

# Measure of Underlying PCE Price Inflation

12 Month % Change

12 Month % Change



Core PCE Deflator

FOMC Objective for Headline PCE Inflation

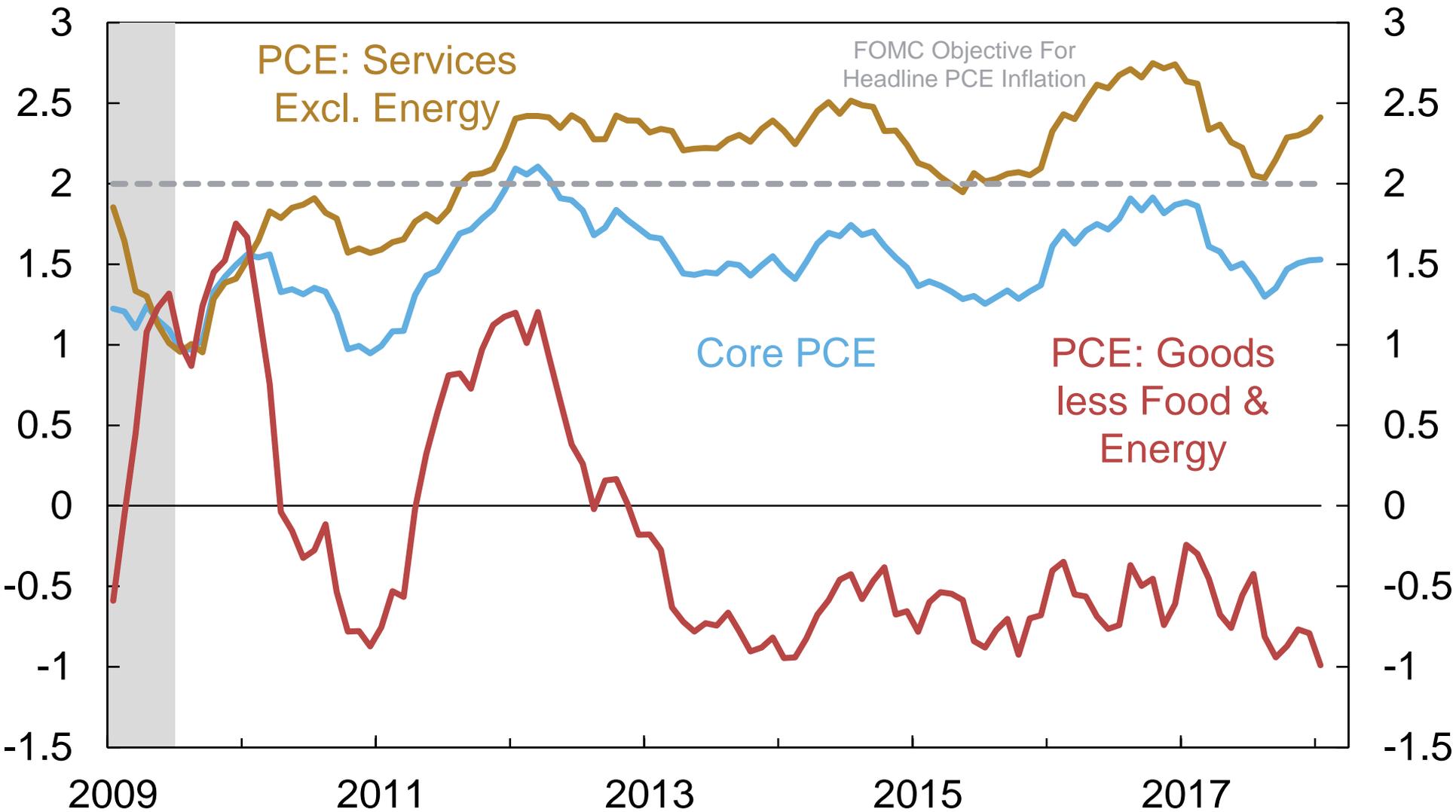
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions. 18

# Personal Consumption Expenditures Price Indices

Percent Change Year-to-Year

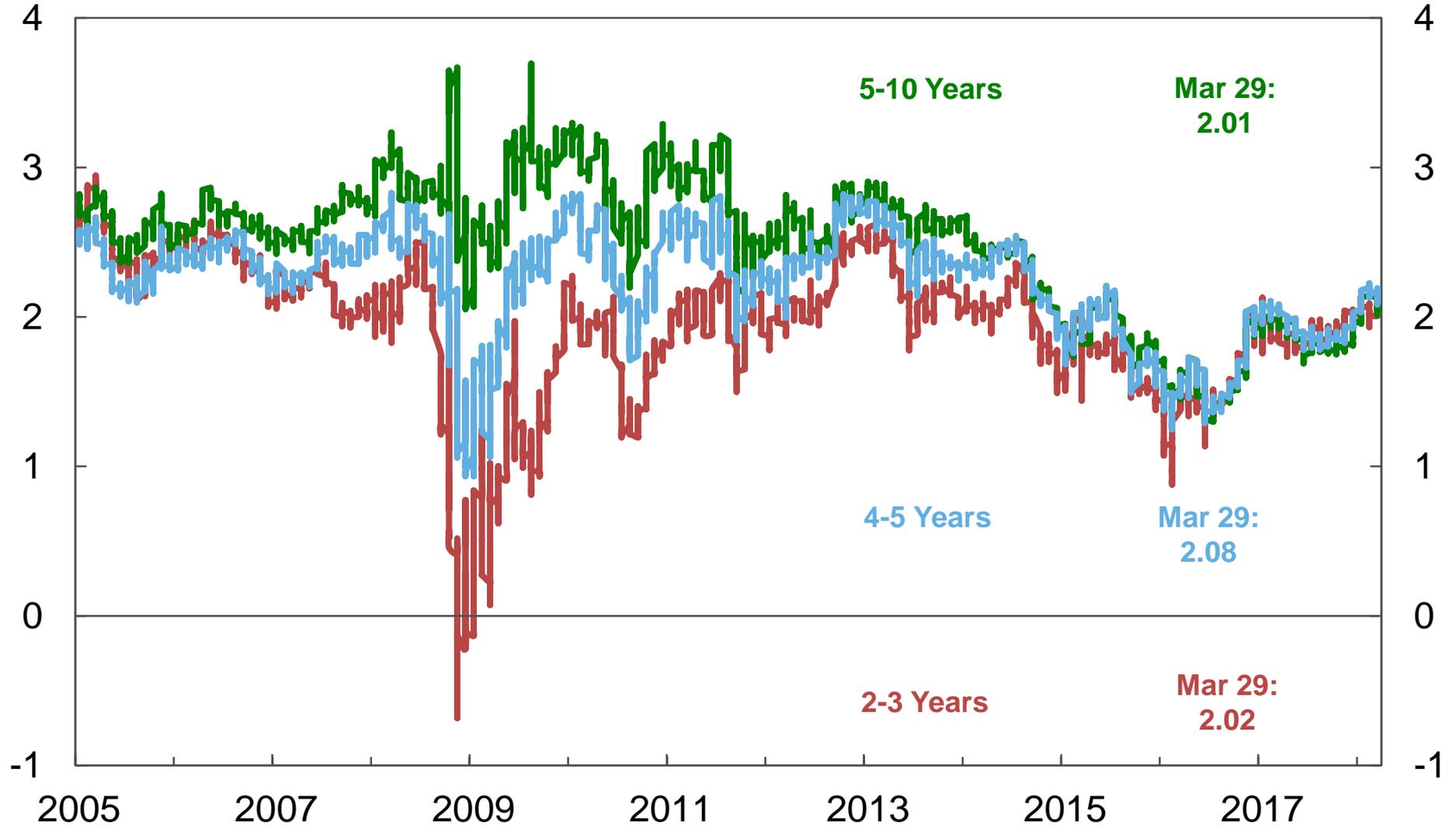
Percent Change Year-to-Year



# TIPS Based Inflation Expectations

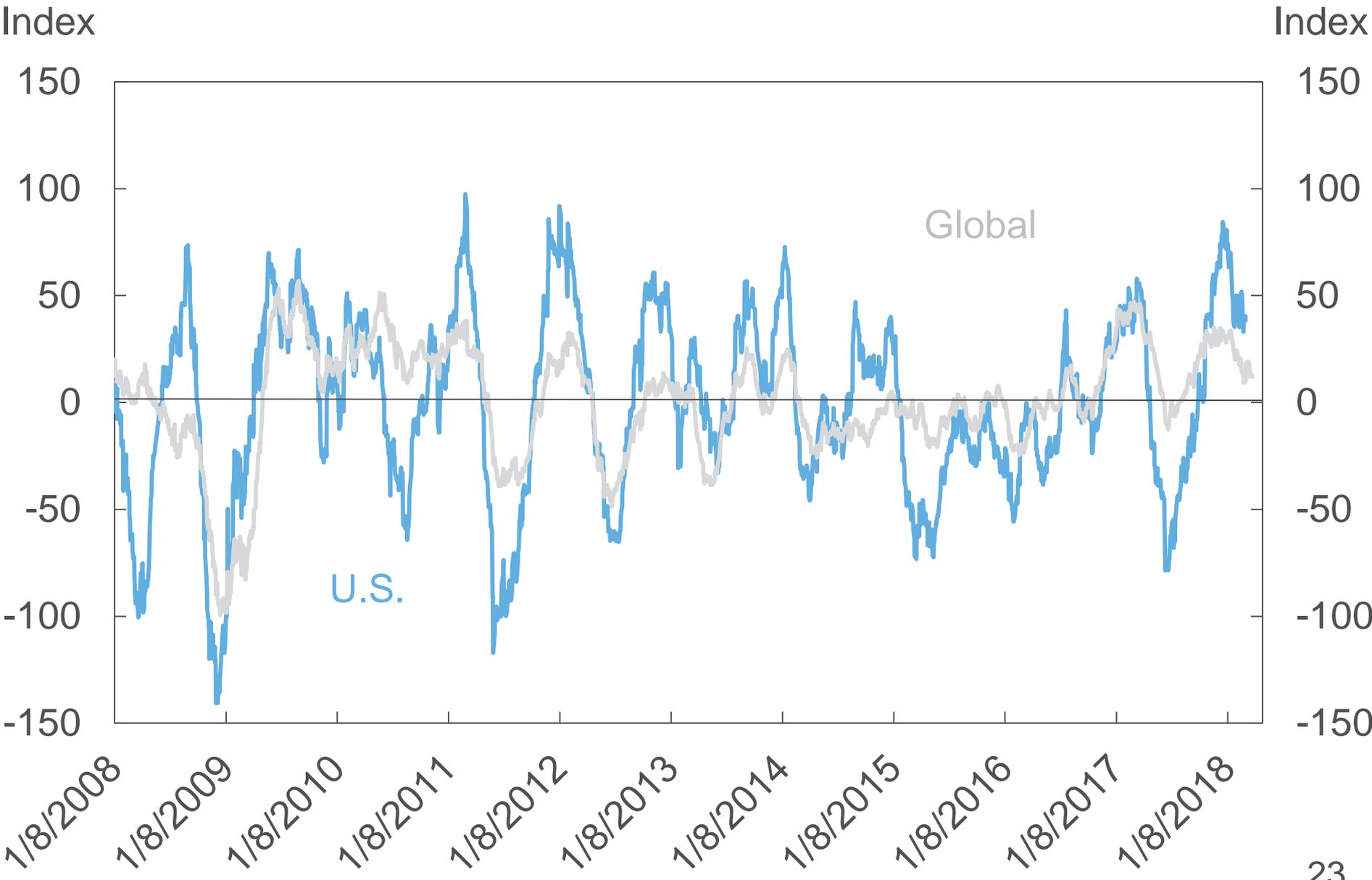
Percent

Percent



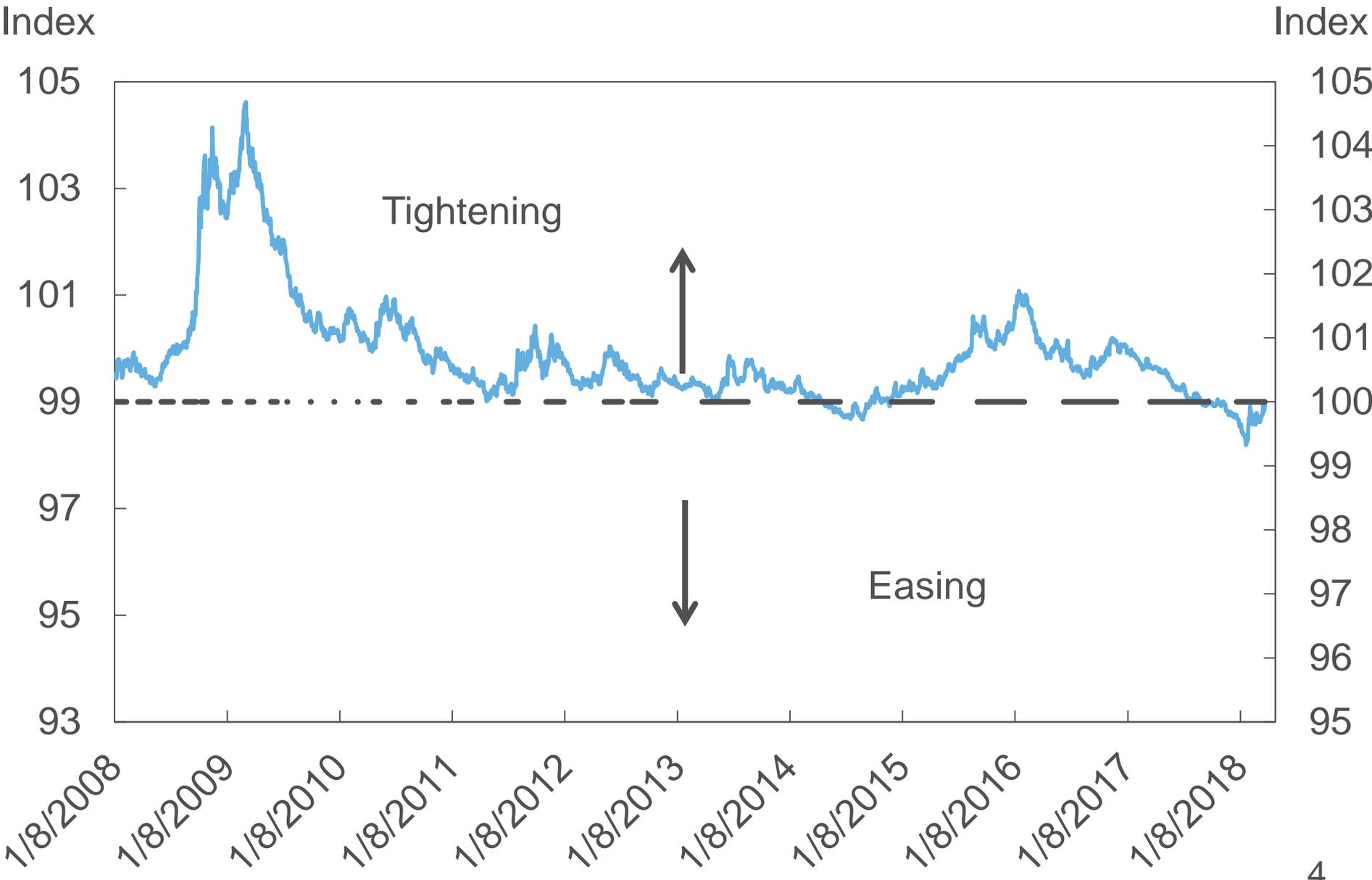
# Reference Charts

# Citi Economic Surprise Index



Source: Bloomberg.

# Goldman Financial Conditions Index

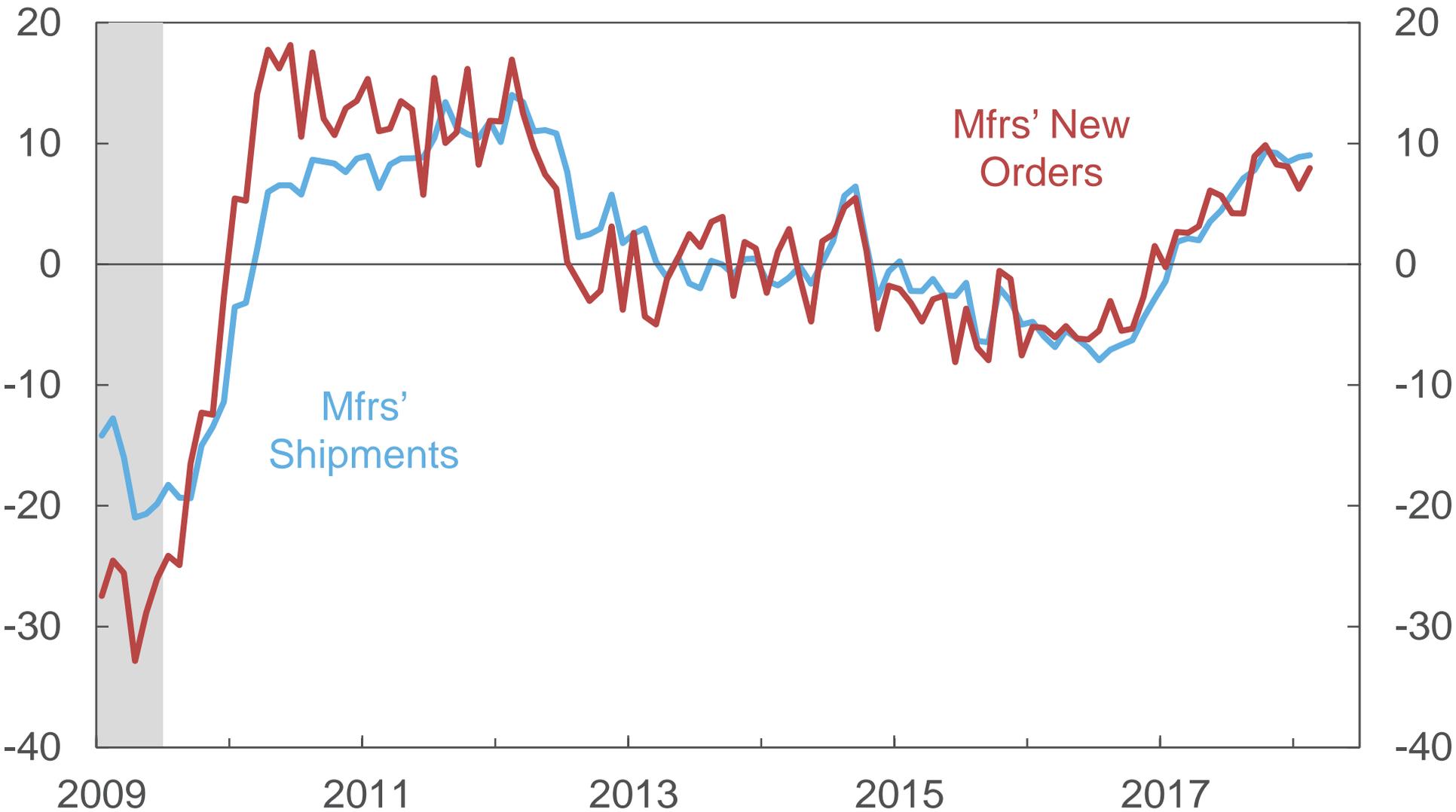


Source: Bloomberg.

# Nondefense Capital Goods excl. Aircraft

Percent Change Year-to-Year

Percent Change Year-to-Year



# Estimated Revenue Effects of The Tax Cuts and Jobs Act

## Fiscal Years 2018-2022 (Percent of GDP)

	2018	2019	2020	2021	2022
<b>Tax Reform for Individuals</b>					
House	-0.2	-0.6	-0.5	-0.5	-0.5
Senate	-0.3	-0.8	-0.7	-0.6	-0.6
Conference Agreement	-0.4	-0.8	-0.8	-0.7	-0.7
<b>Business Tax Reform</b>					
House	-0.6	-0.6	-0.5	-0.5	-0.4
Senate	-0.1	-0.4	-0.5	-0.4	-0.4
Conference Agreement	-0.6	-0.6	-0.5	-0.4	-0.2
<b>Taxation of Foreign Income and Foreign Persons</b>					
House	0.3	0.2	0.1	0.1	0.1
Senate	0.3	0.2	0.1	0.1	0.1
Conference Agreement	0.3	0.2	0.1	0.1	0.1
<b>Total (static)</b>					
House	-0.6	-1.1	-1.0	-0.8	-0.7
Senate	-0.2	-1.1	-1.2	-1.0	-0.9
Conference Agreement	-0.7	-1.4	-1.2	-1.0	-0.8

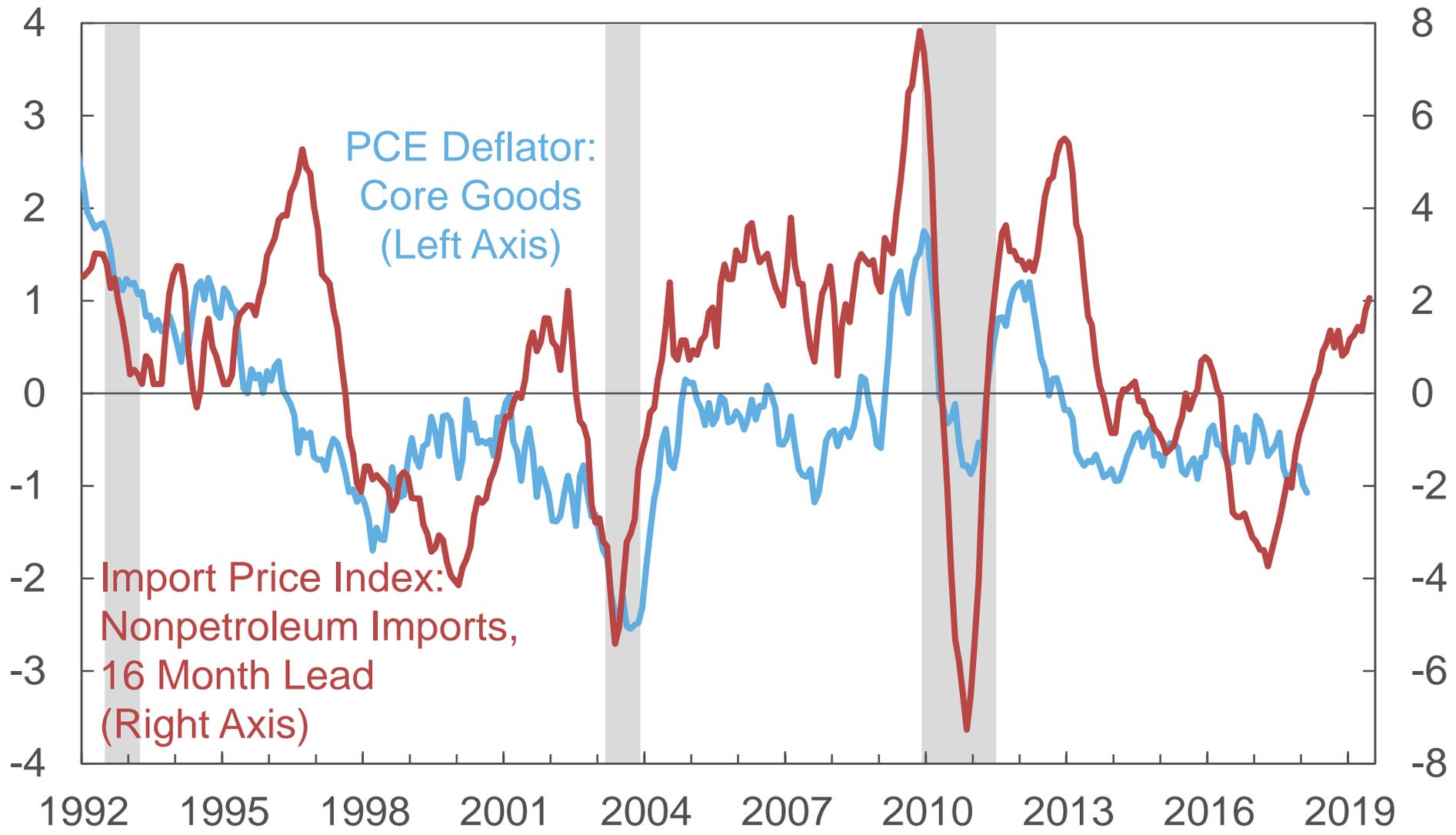
**Effect of Bipartisan Budget Act of 2018 on Discretionary Spending**  
 (Billions of Dollars, Fiscal Years)

		<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
<u><i>Budget Control Act Caps</i></u>					
	Defense	548	551	552	562
	BA			80	85
	Nondefense	518	519	520	529
	BA			63	68
<u><i>Adjustments to Caps</i></u>					
	Defense	59	83	85	86
	Nondefense	26	36	36	35
<u><i>Total</i></u>					
Nominal	Defense	607	634	717	733
	Percent Change		4.4	13.0	2.3
	Nondefense	544	555	619	632
	Percent Change		2.0	11.5	2.1
Real	Defense	555	570	636	642
	Percent Change		2.6	11.7	0.9
	Nondefense	484	481	525	525
	Percent Change		-0.6	9.2	0.0

# Import Price Index and the PCE Deflator for Core Goods

% Change – Year to Year

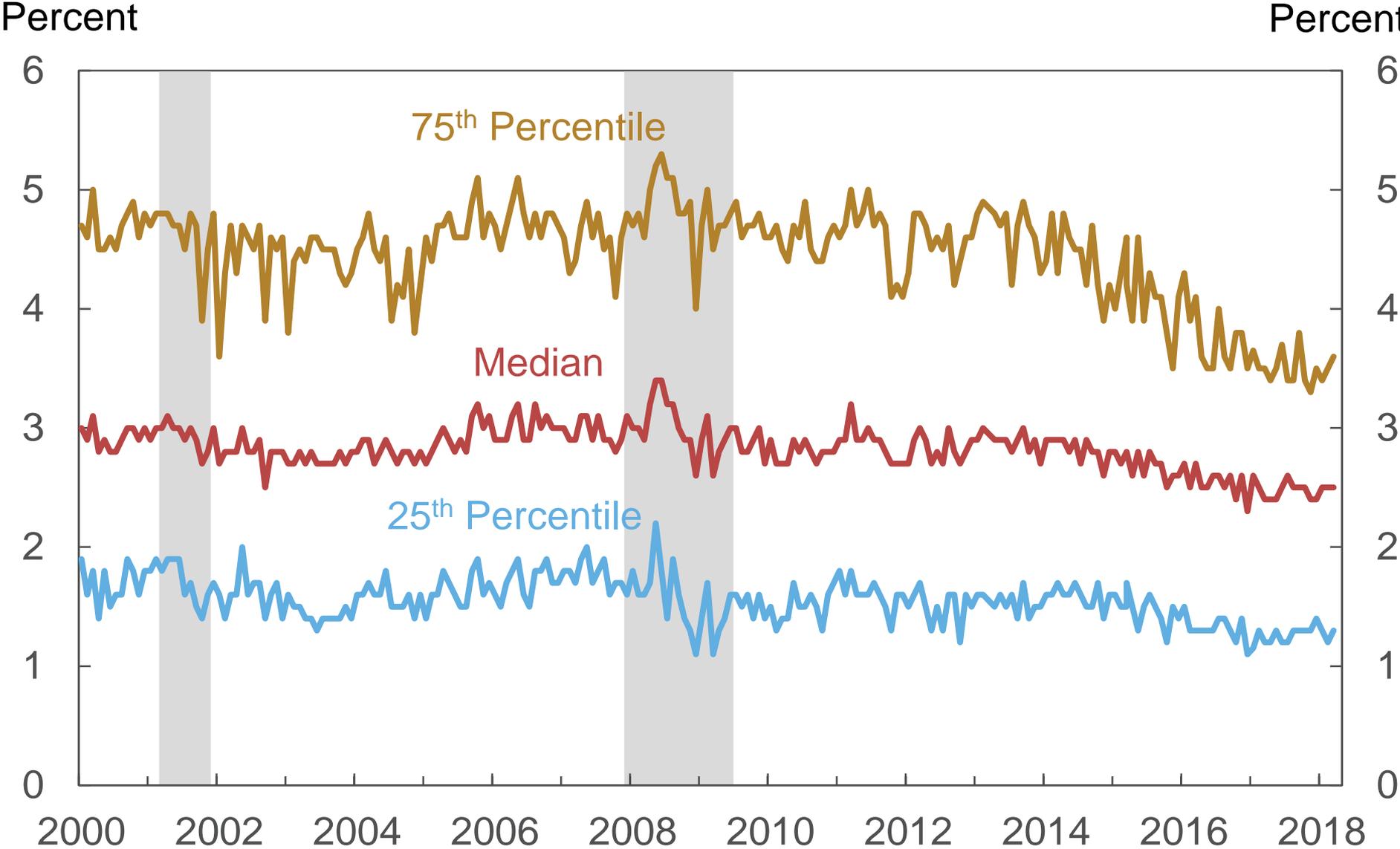
% Change – Year to Year



Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions. 27

# Michigan Inflation Expectations 5 to 10 Years



Source: University of Michigan

Note: Shading shows NBER recessions.



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# Global Economic Outlook

**Upstate New York Regional Advisory Board**

Matthew Higgins, 17 April 2018

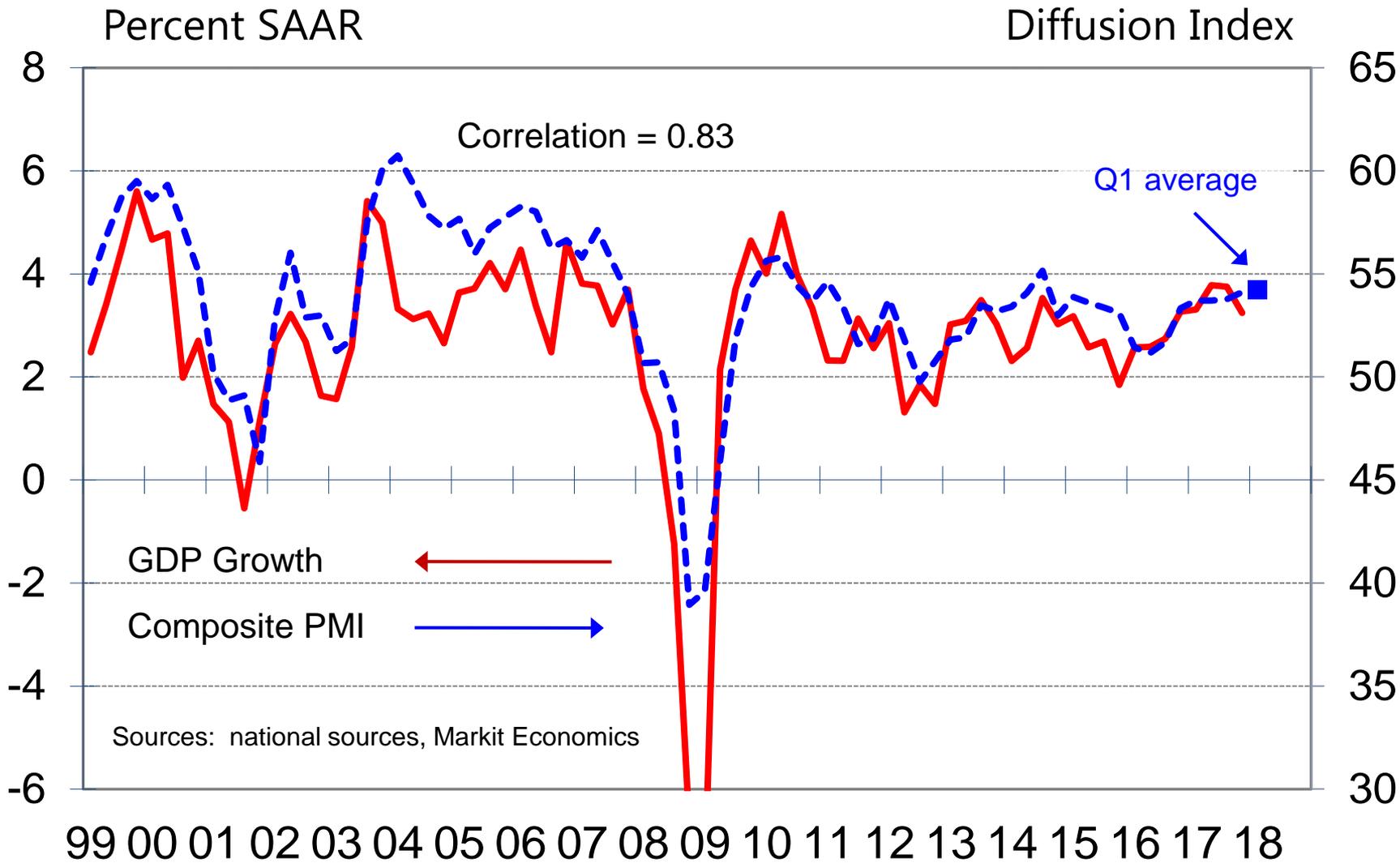
The views expressed here are those of the author, and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System

# Roadmap

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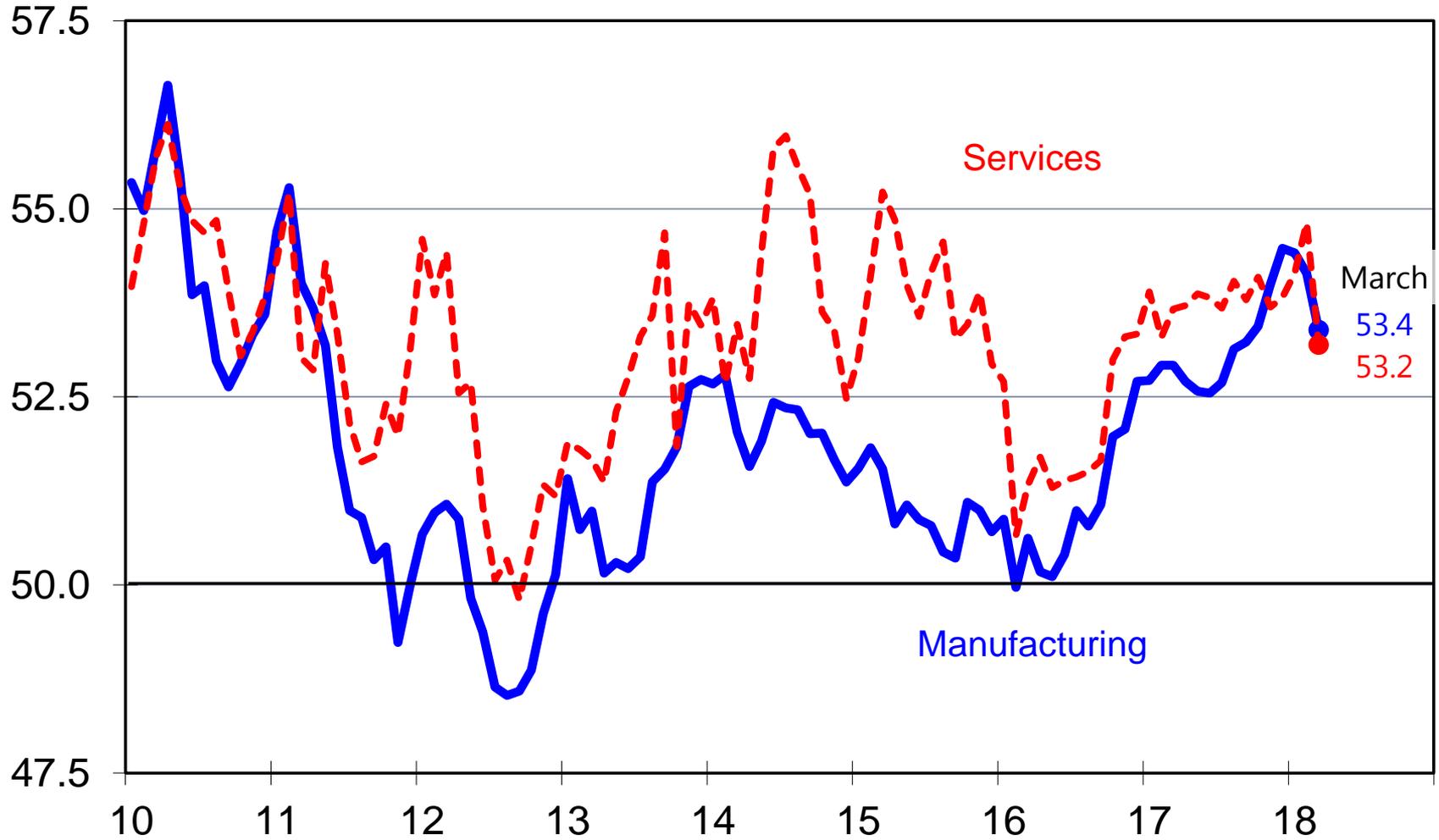
- Update on the global economic and industrial cycle
- Continuing “lowflation” in the advanced economies
- The TCJA and U.S. international competitiveness
- Impact of recent U.S. tariffs on steel products, aluminum and various Chinese goods

# Global GDP Growth and Composite PMI



# Global Manufacturing and Services PMIs

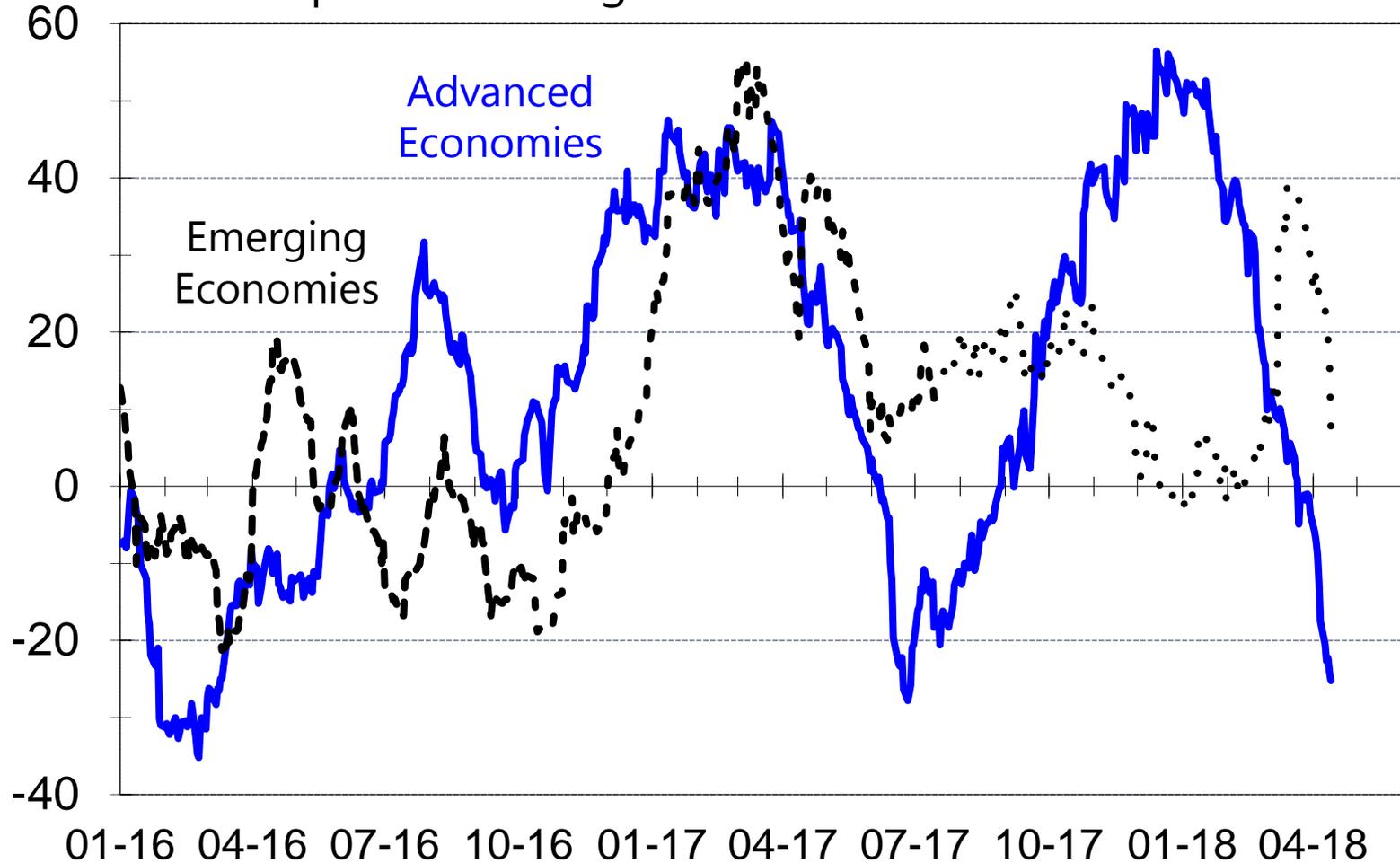
Diffusion Index



Source: Markit Economics.

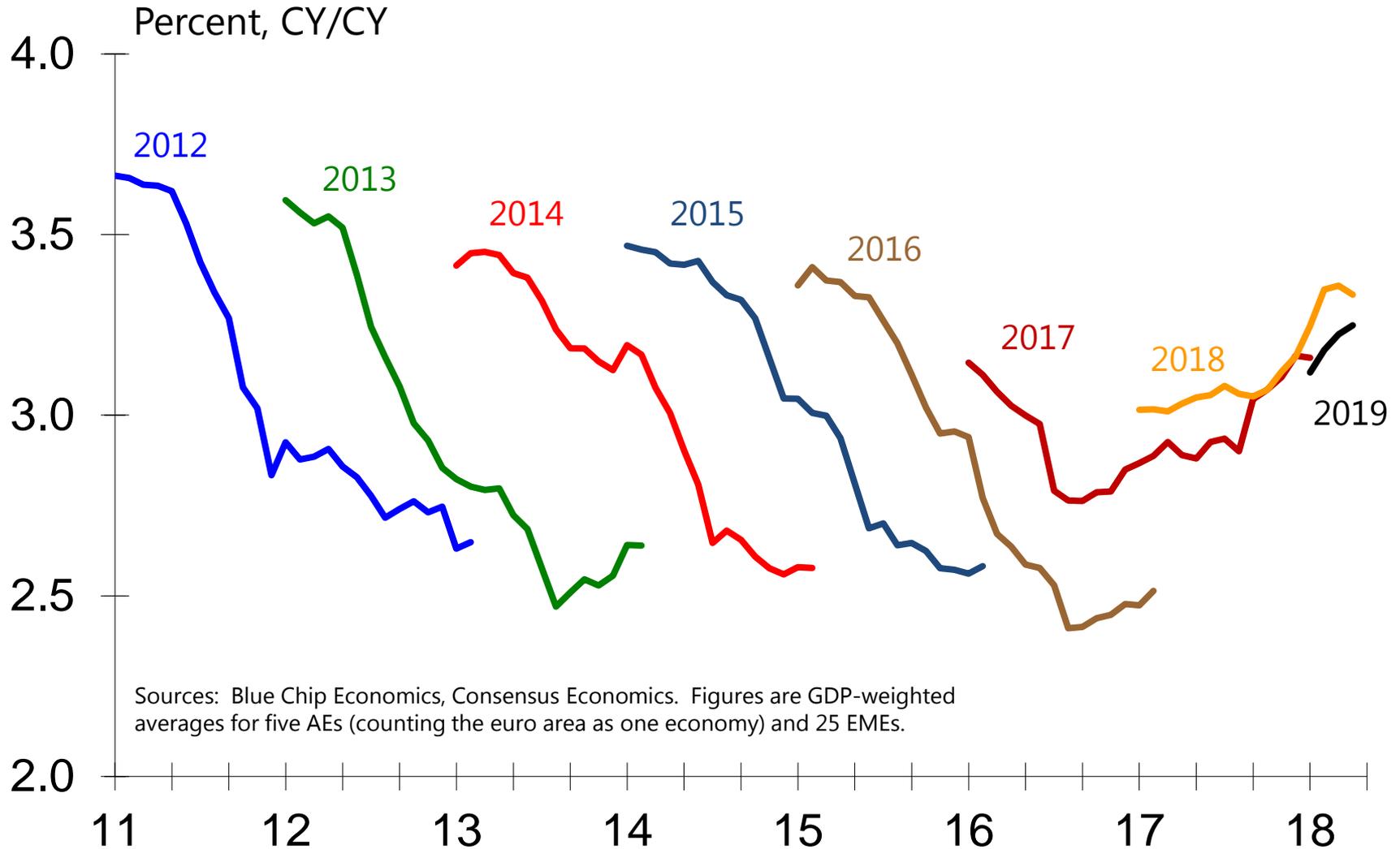
# Citigroup Economic Surprise Indexes

Percent positive or negative\*

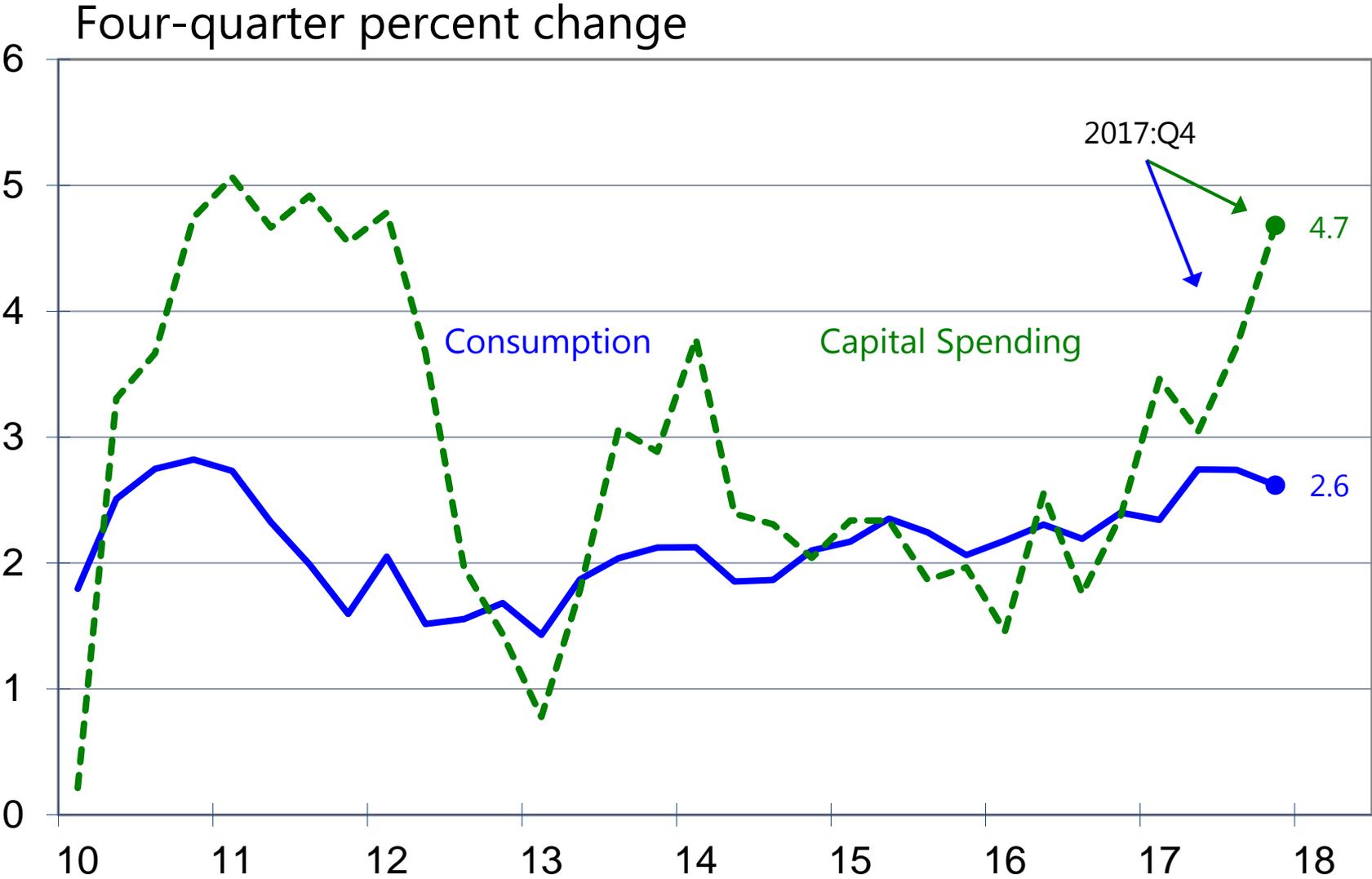


\*Weighted by series' historical FX impact

# Evolution of Global Market Growth Forecasts



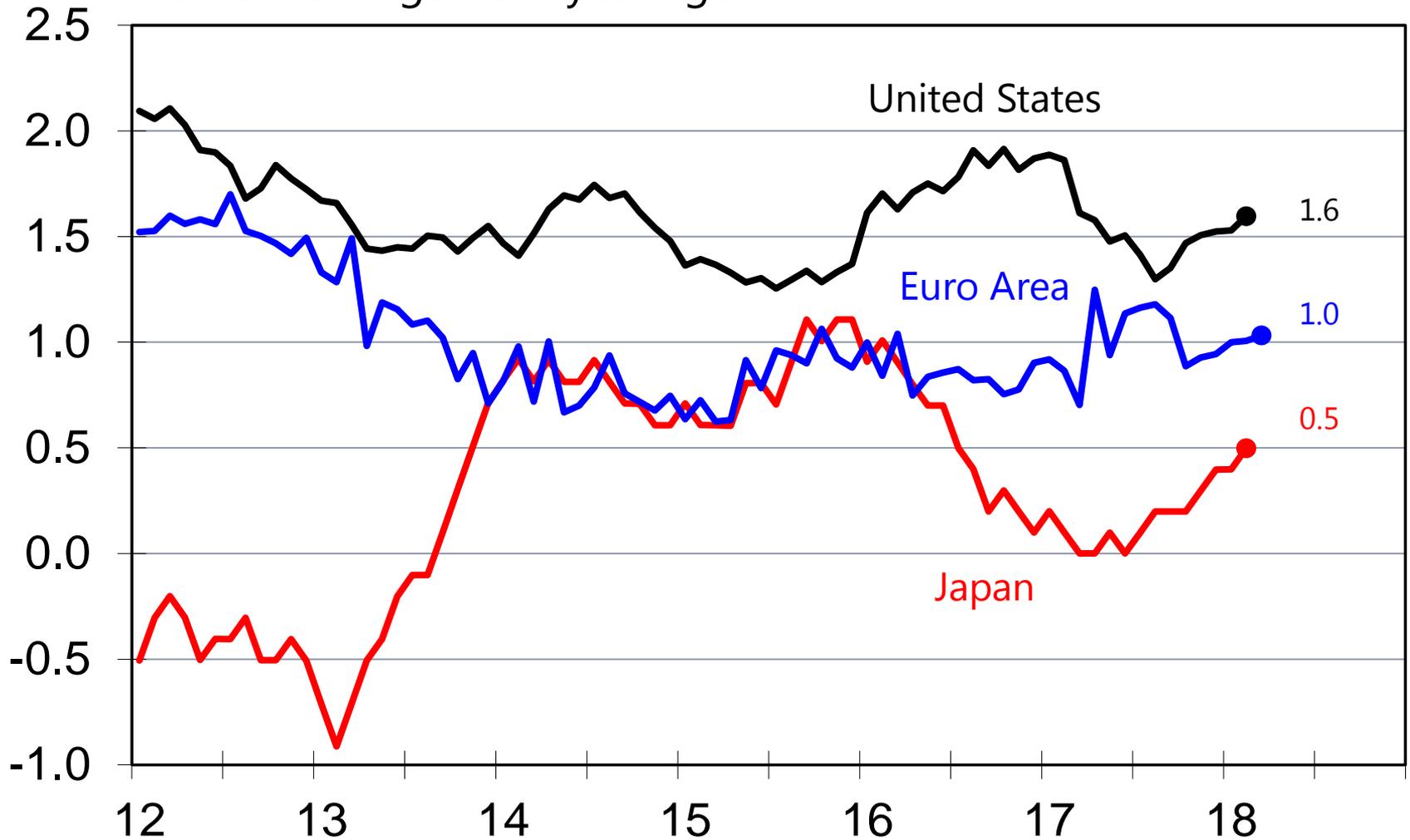
# Global Consumption and Capex Growth ( ex. China )



Source: national sources, IMF, staff calculations. 2017:Q4 values based on available GDP reports and country monthly indicators.

## G-3: Core Consumer Price Inflation

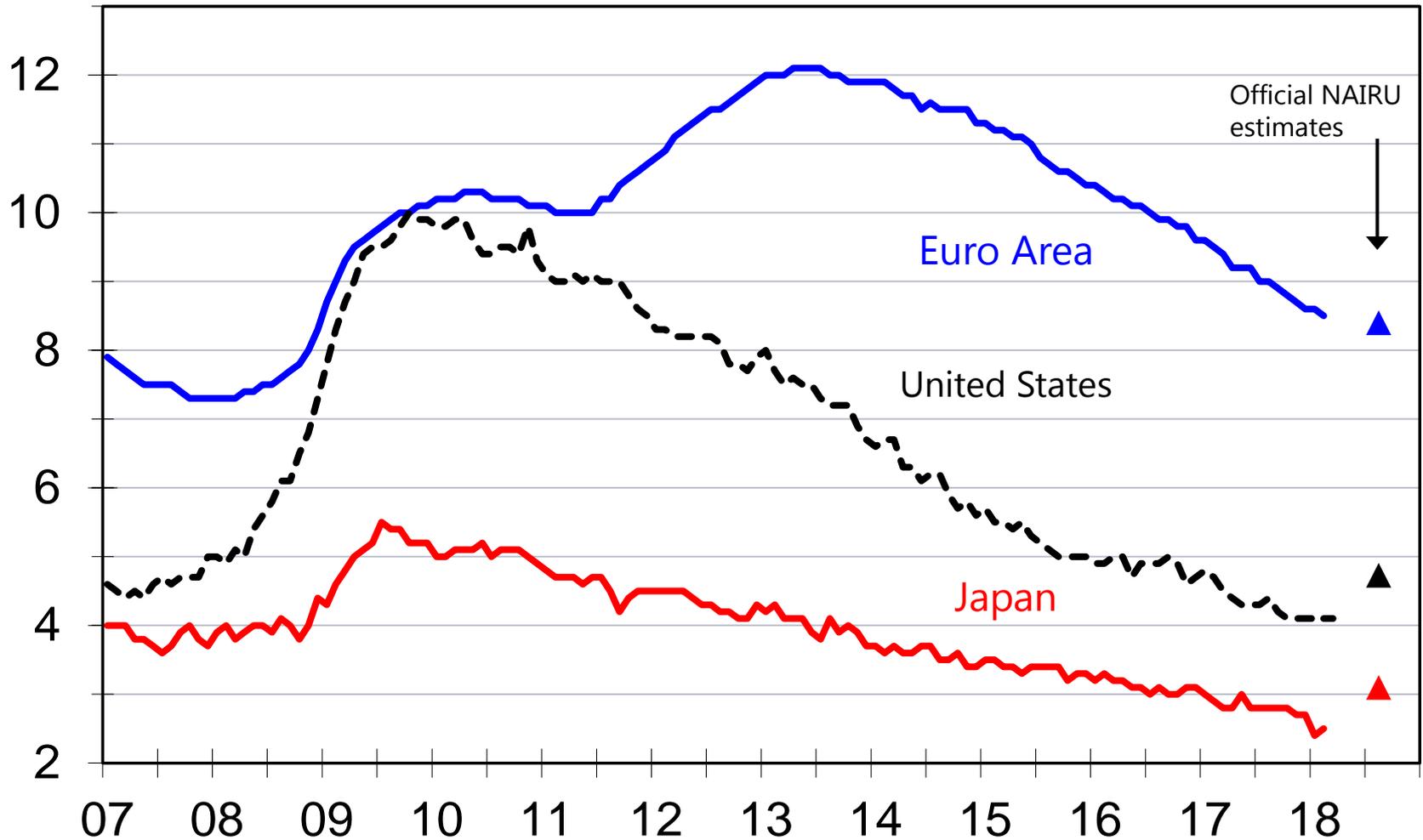
Percent change from year ago



Sources: BEA, Eurostat, BoJ. U.S. inflation measured using the PCE index.

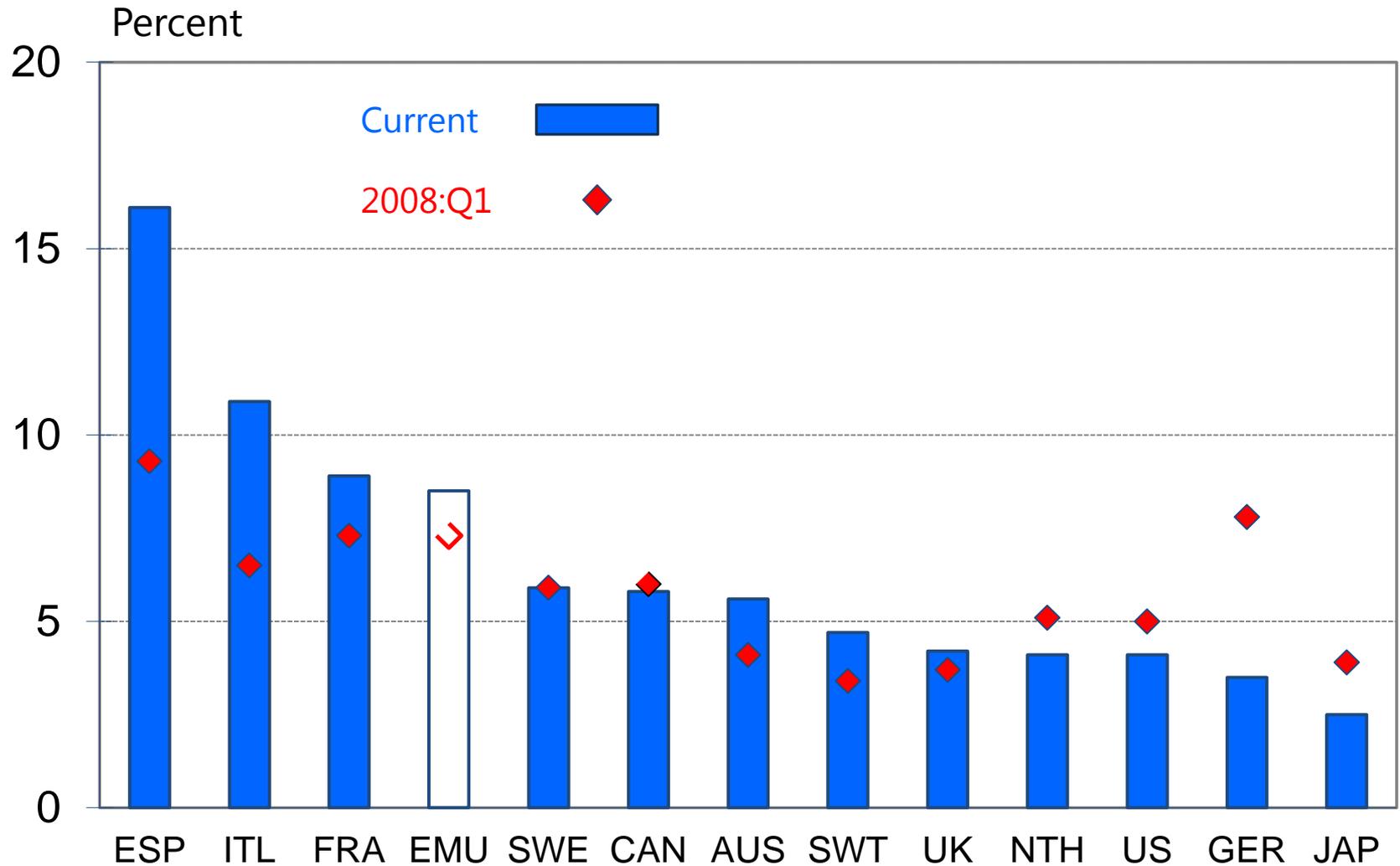
# G-3 Unemployment Rates

Percent change from year ago



Sources: BLS, CBO, Eurostat, BoJ.

# Advanced Economy Unemployment Rates



Sources: OECD, national sources.

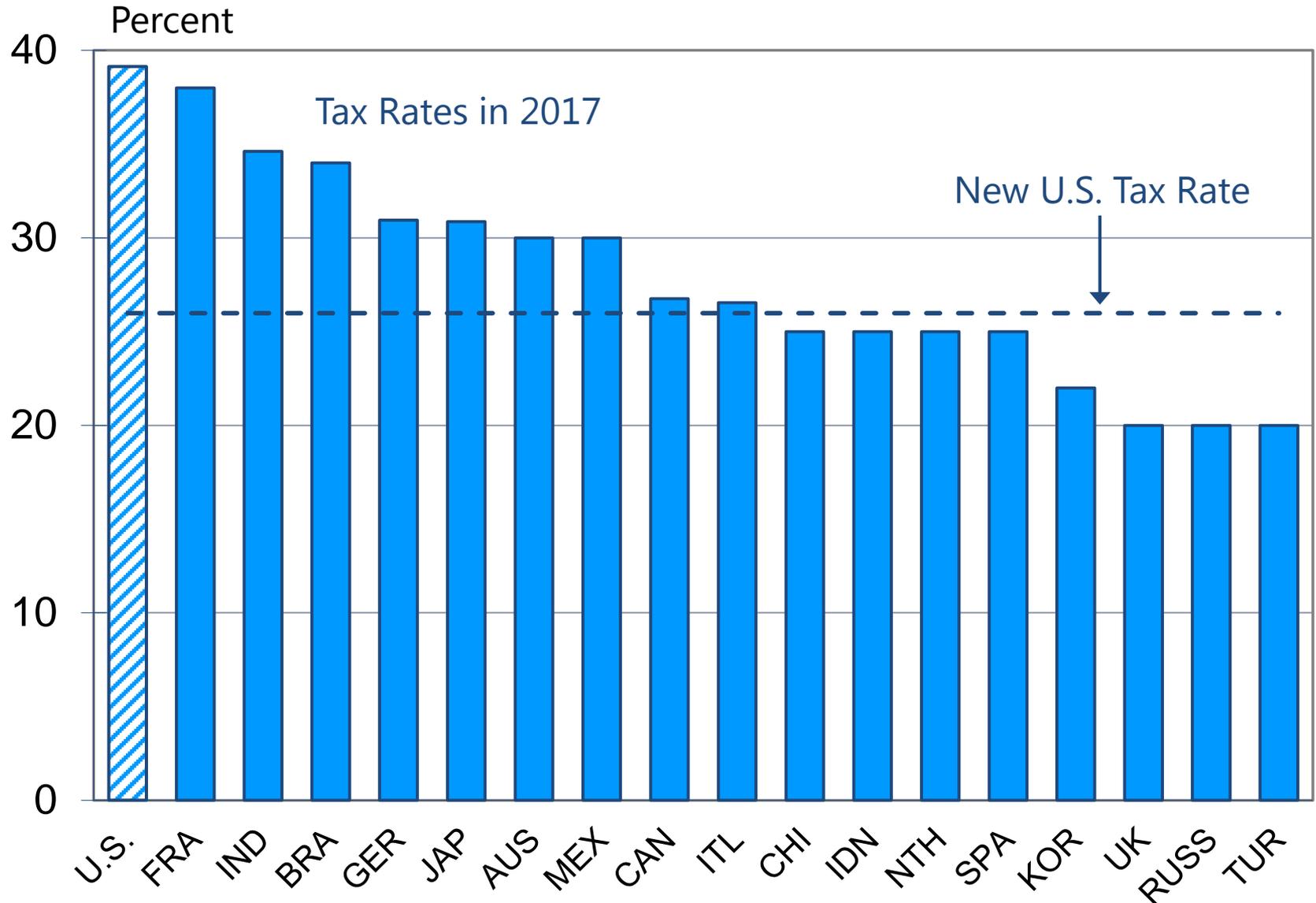
# Central Bank and Consensus Inflation Forecasts

Percent

	2017	2018	2019
<b>United States<sup>1/</sup></b>			
Central Bank	1.5	1.9	2.1
Consensus	1.5	1.9	2.0
<b>Euro Area<sup>2/</sup></b>			
Central Bank	1.5	1.4	1.4
Consensus	1.5	1.5	1.6
<b>Japan<sup>3/</sup></b>			
Central Bank	0.8	1.4	1.8
Consensus	0.5	1.0	1.1

1/ Central bank figures reflect FOMC members' median projection for core PCE inflation on a Q4/Q4 basis, from March. Consensus forecast is from Survey of Professional Forecasters, on a similar basis from February. 2/ Central bank figures reflect mean staff forecast for calendar year CPI inflation, from March. Consensus forecast is from Bloomberg survey, on a similar basis from March. 3/ Central bank figures reflect median policy board members' projection for CPI inflation ex. fresh food, on a fiscal year basis from January. Consensus forecast is from Bloomberg, on a calendar-year basis from March.

# Top Statutory Corporate Tax Rates

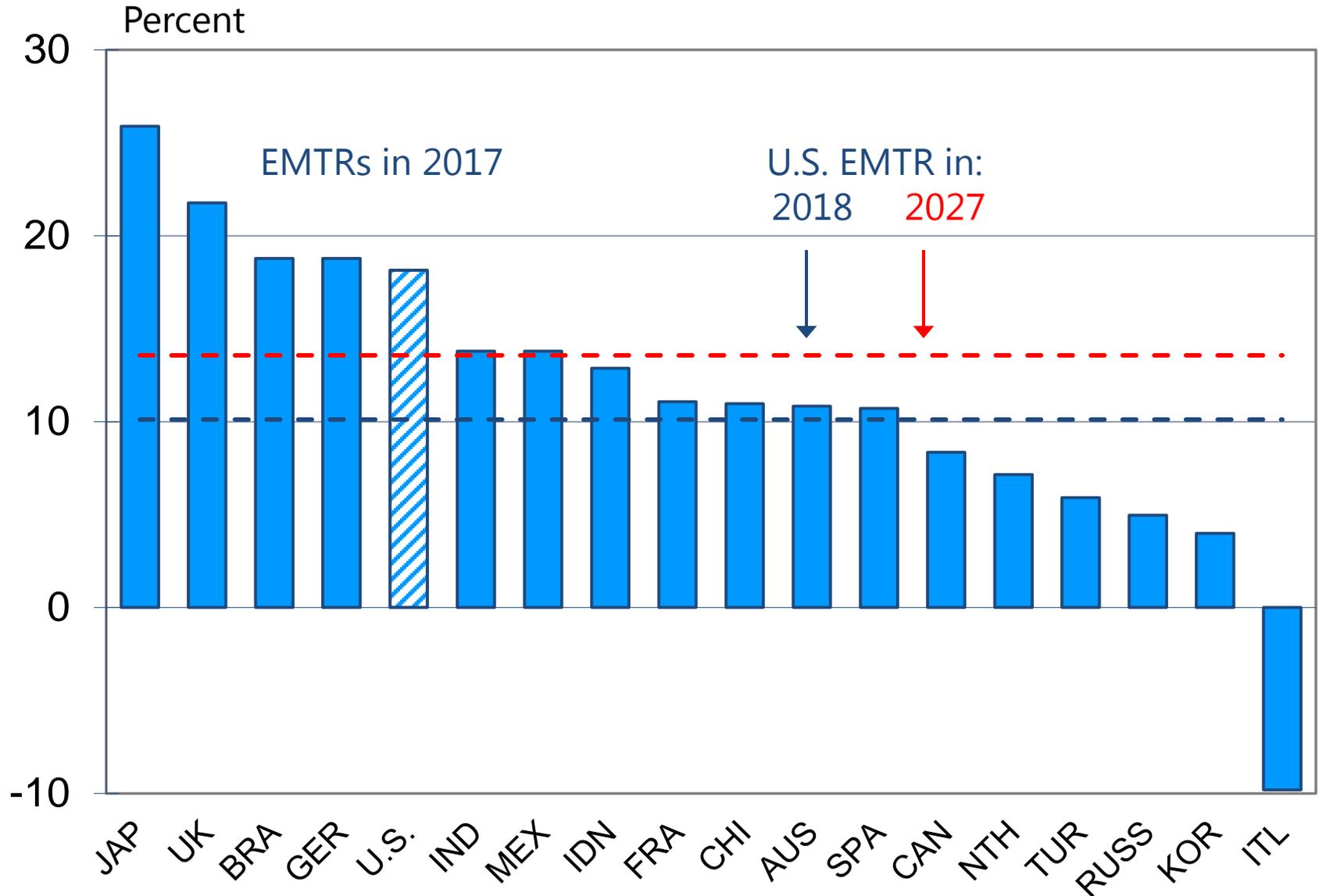


Sources: OECD, KPMG. Tax rates include taxes at both national and subnational levels, including any national tax allowances for subnational taxation.

# Measuring Marginal Tax Rates on Capital Income

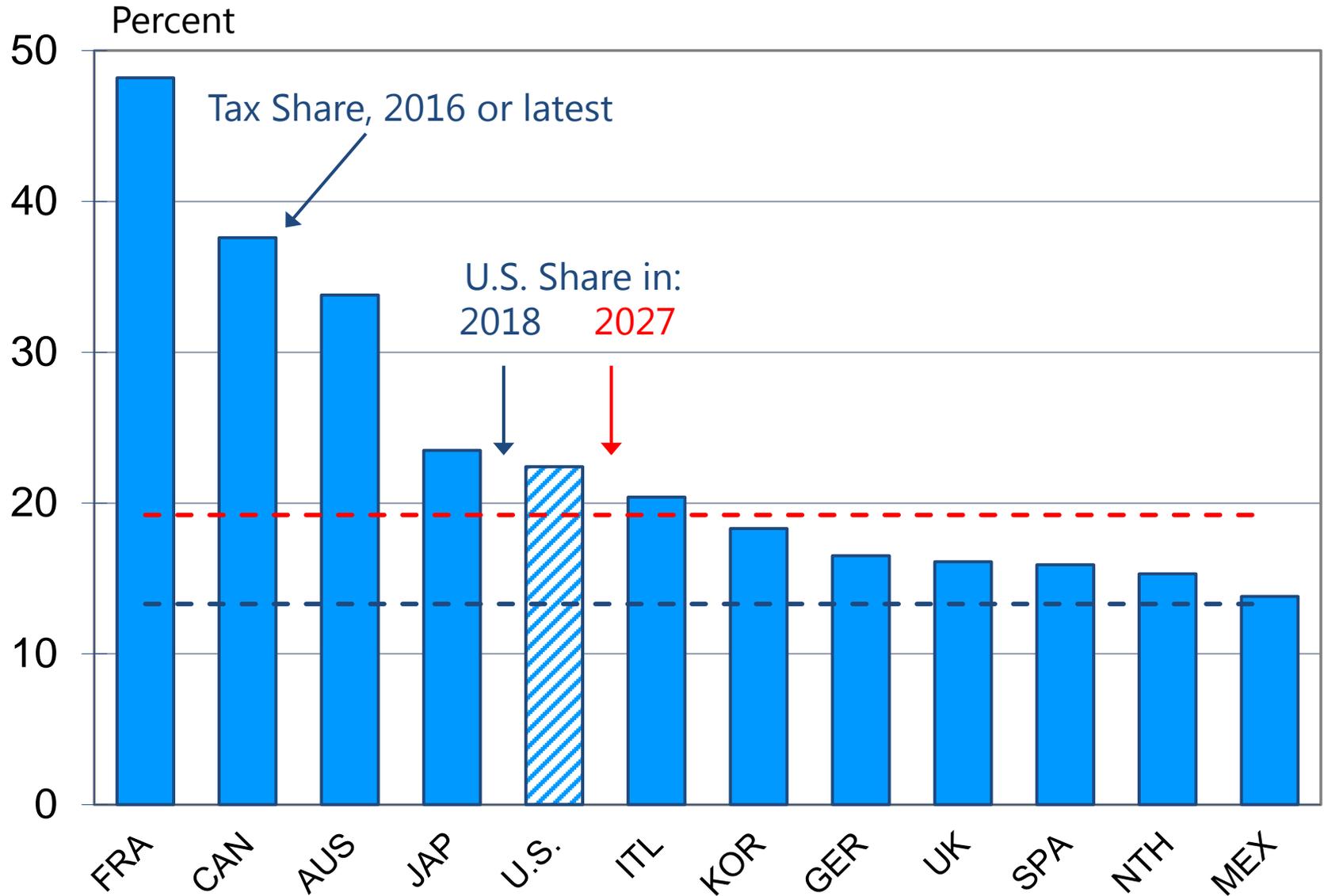
- *Effective marginal tax rates* are a measure of the corporate tax burden on a break-even investment
- The break-even investment earns just enough to pay investors' required return, depreciation costs and taxes
  - A function of borrowing costs, physical depreciation rates, tax rates, tax depreciation schedules, and required payouts to equity investors
- EMTRs are very sensitive to the tax treatment of depreciation
  - Full expensing is equivalent to a zero tax rate on the marginal investment
- Example: If tax provisions raise breakeven real returns from 7 percent to 10 percent, the  $EMTR = 3/10 = 30\%$

# Effective Marginal Corporate Tax Rates



Sources: OECD, KPMG, CBO, Centre for Business Taxation, author's calculations. Calculations assume a common set of economic parameters: Only tax rates and tax depreciation schedules vary.

# Taxes as Share of Nonfinancial Corporate Profits



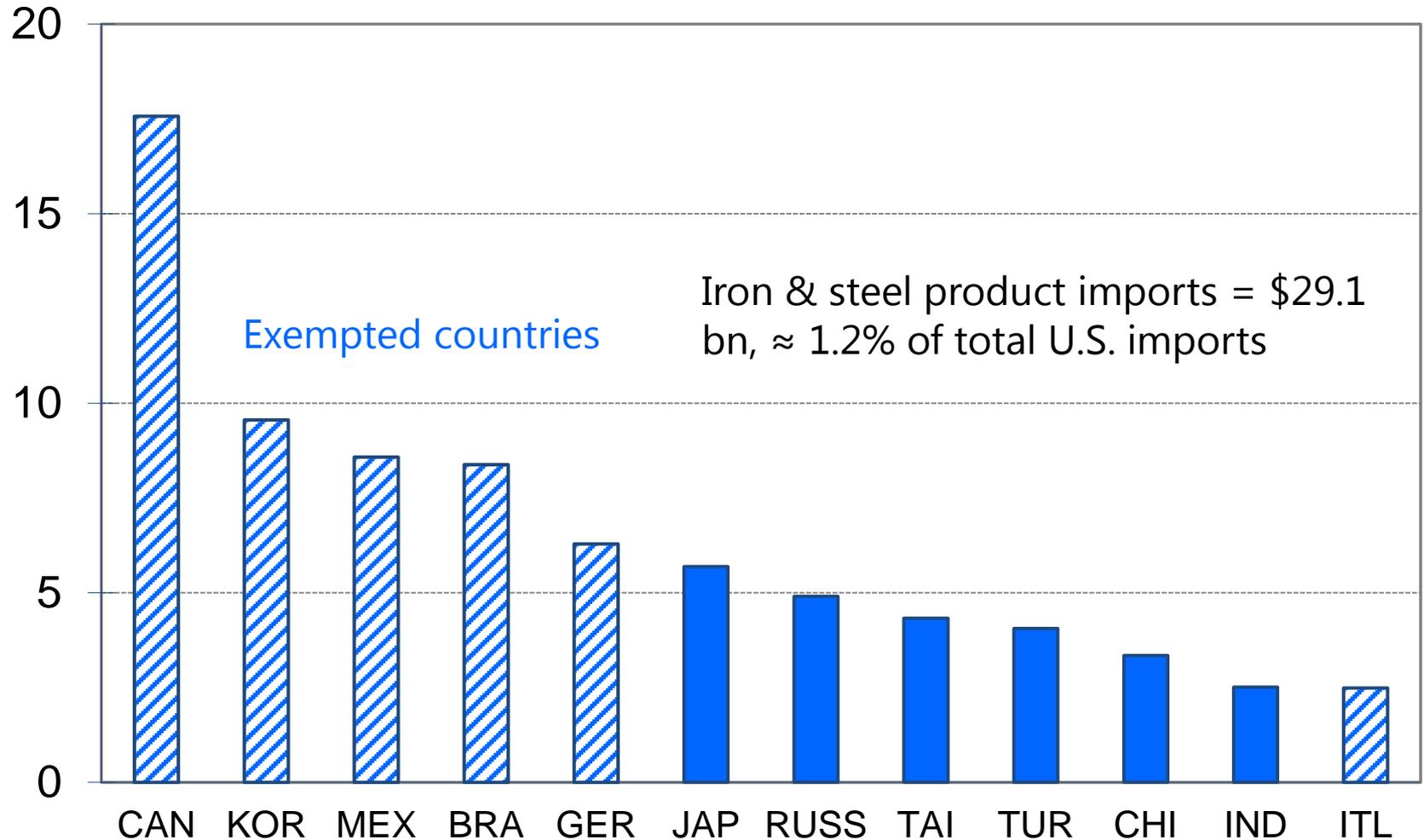
Sources: OECD, KPMG, Penn Wharton Budget Model TCJA estimates, author's calculations. Data refer to income taxes as a share of profits. Nonfinancial profits are calculated from NIPA primary income accounts.

# Recent U.S. Tariff Measures

- The Trump Administration has announced a 25% tariff on steel product imports and an 10% tariff on aluminum imports, citing national security concerns
  - Steel tariffs could affect roughly \$29 bn in U.S. purchases (1.2% of total U.S. imports), but most major sellers to the U.S. have been granted temporary waivers
  - Exempted countries include Canada, Mexico, the EU, Australia, Korea, Argentina and Brazil
  - Aluminum tariffs could affect roughly \$23 bn in U.S. purchases (1.0% of total U.S. imports), but the same sellers have been exempted
- The Administration has also announced 25% tariffs on \$50 bn in Chinese goods, citing violations of U.S. IP rights
  - China has responded with tariffs on \$50 bn in U.S. sales to China
  - Given the trade imbalance, tariffs announced to date would affect 38% of U.S. sales to China, but only 10% of Chinese sales to the U.S.

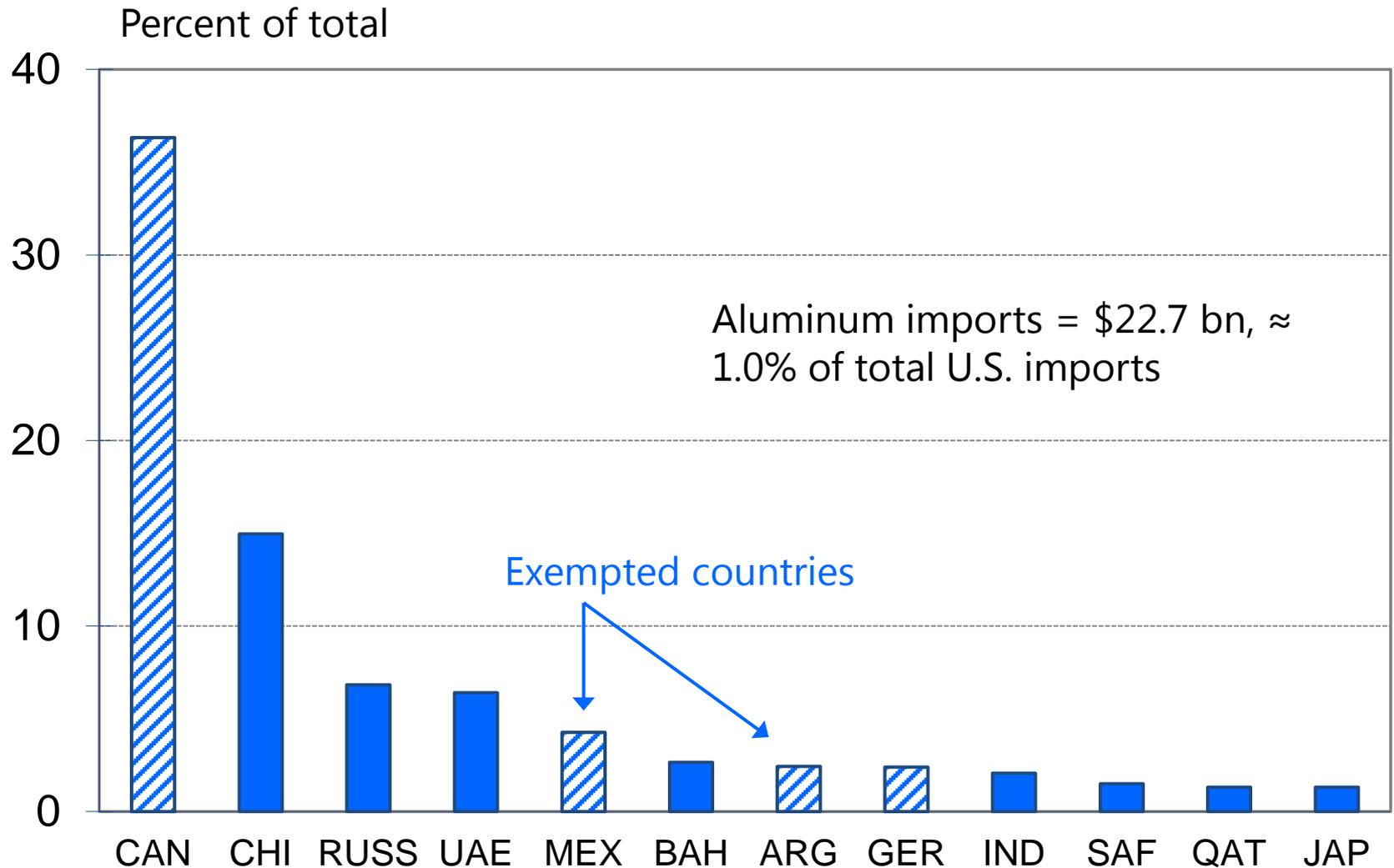
# Main Sources of U.S. Steel Imports

Percent of total, 2017

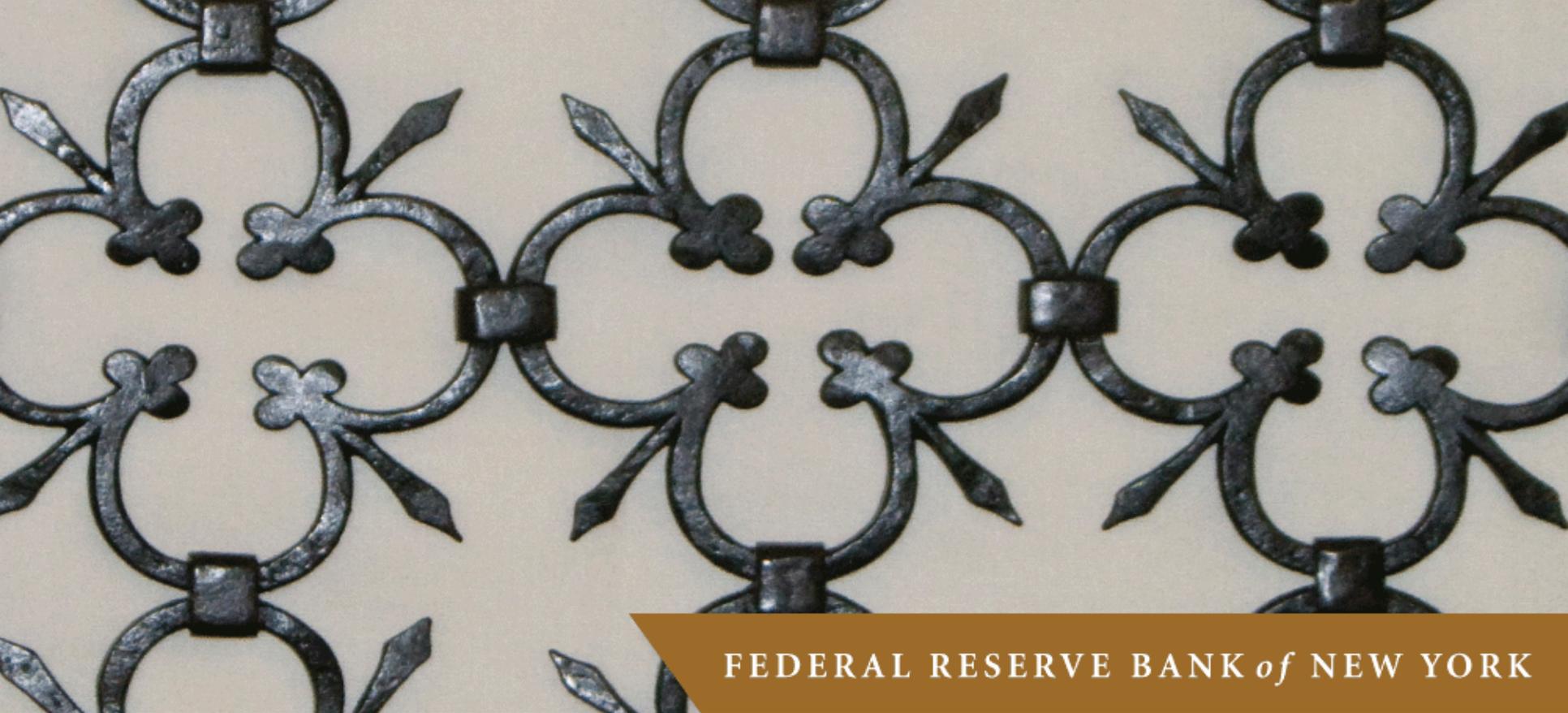


Source: Census Bureau. Data refer to imports by value in 2017. Cross-hatched bars denoted provisionally exempted countries.

# Main Sources of U.S. Aluminum Imports



Source: Census Bureau. Data refer to imports by value in 2017. Cross-hatched bars denoted provisionally exempted countries.



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# Regional Economic Conditions

Jaison R. Abel

Upstate New York Regional Advisory Board Meeting – April 17, 2018

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.

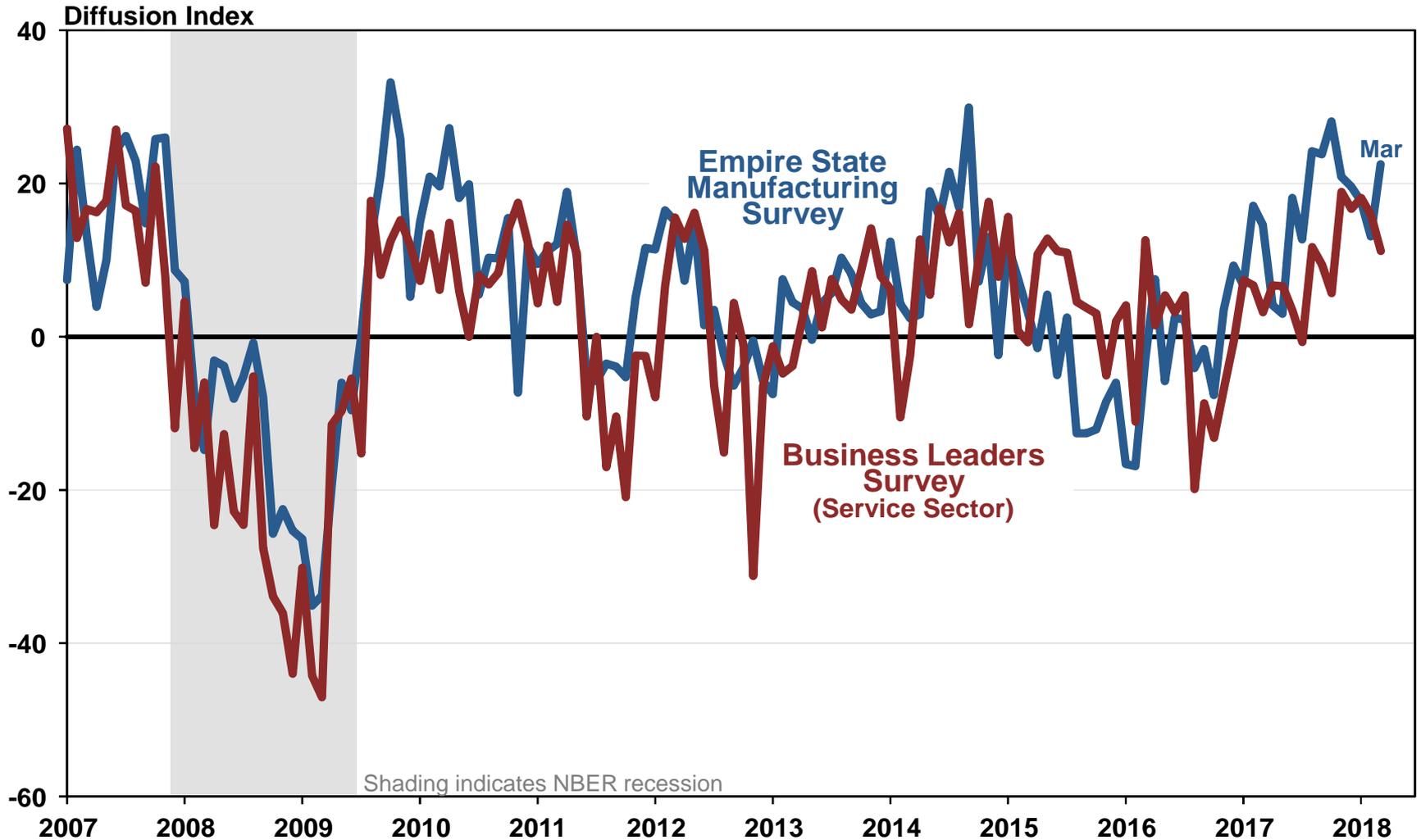
# Overview of Regional Conditions

- Business activity picked up noticeably in recent months, particularly in the manufacturing sector.
- Job growth has remained strongest in and around New York City, more moderate in Albany and Buffalo, and slower in most other parts of the region.
- Puerto Rico has continued to lose jobs, though the island appears to be on a slow road to recovery from the recent storms.
- Businesses in the region report that both input and selling price increases have become more widespread.



# Current Economic Conditions

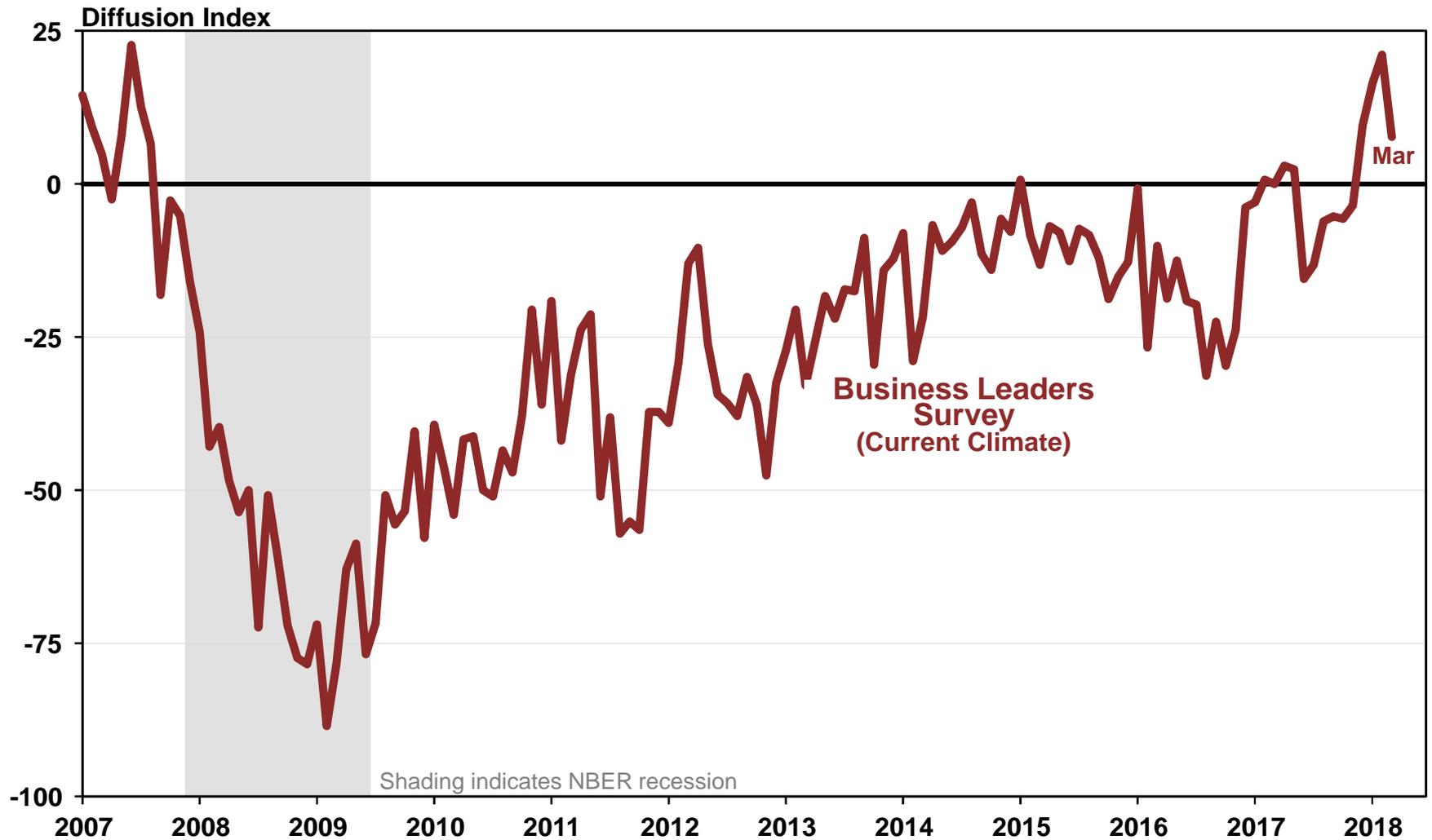
## FRBNY Regional Business Surveys



Shading indicates NBER recession

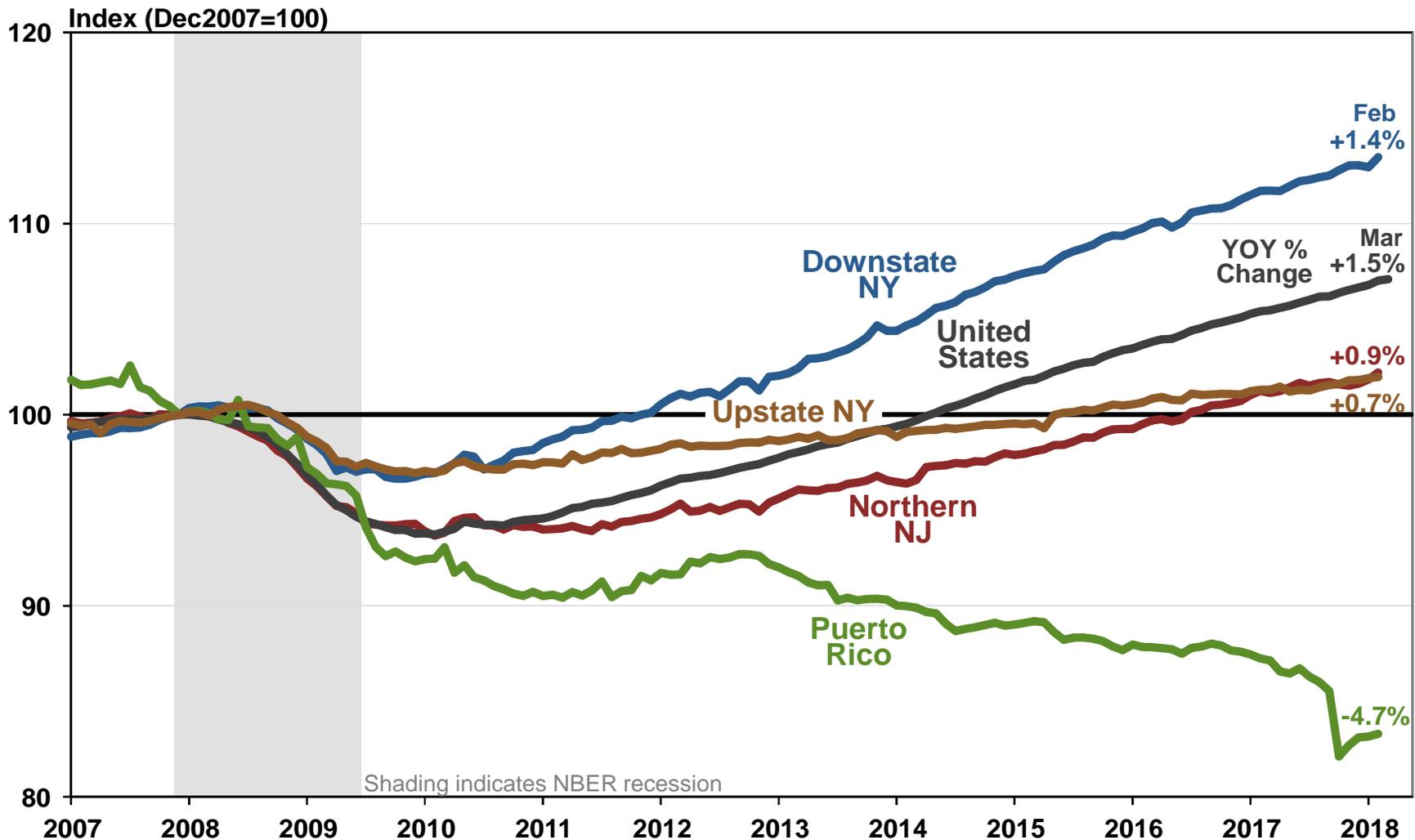
# Current Business Climate

## FRBNY Business Leaders Survey



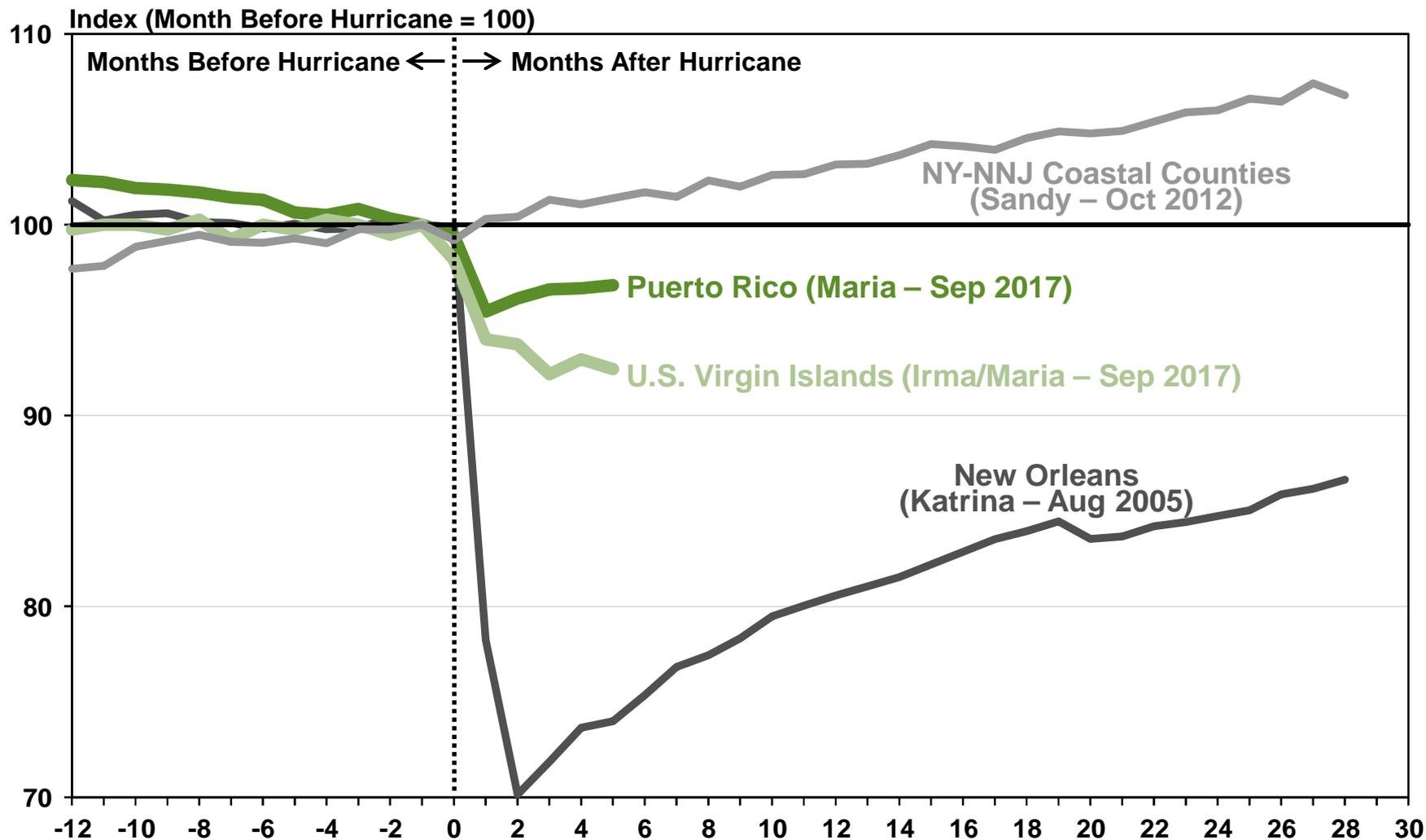
# Regional Employment Trends

Indexes of Total Employment, Seasonally Adjusted



# Post-Hurricane Employment Paths

Indexes of Total Employment, Seasonally Adjusted

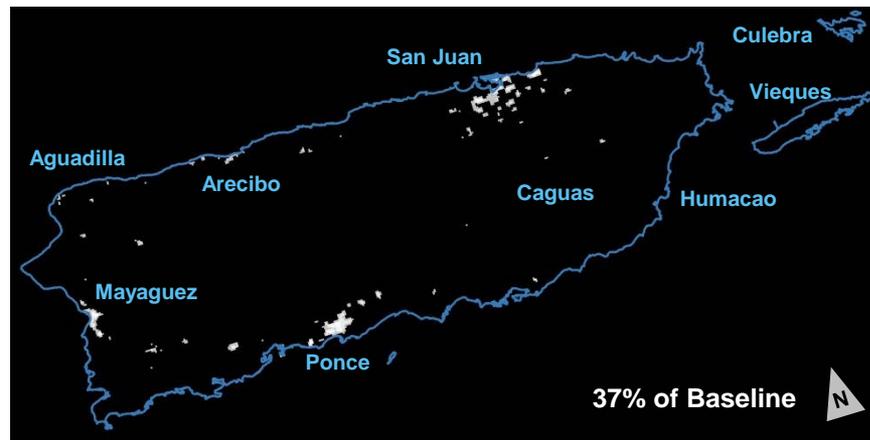


# Nighttime Lights in Puerto Rico

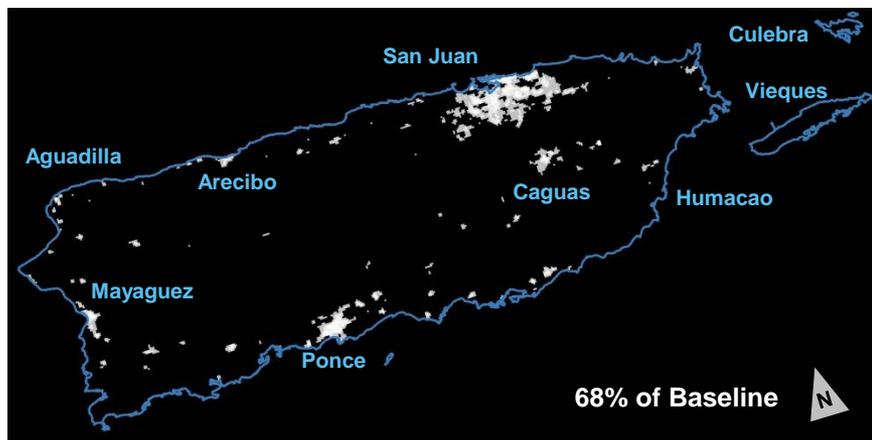
August 2017



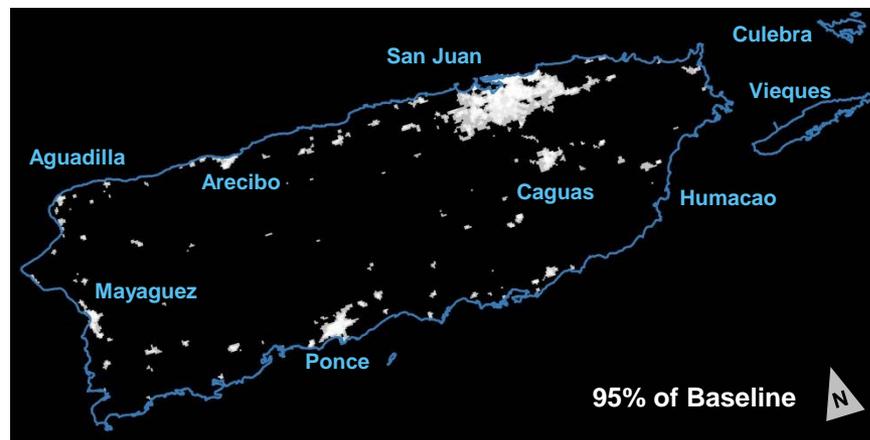
October 2017



December 2017

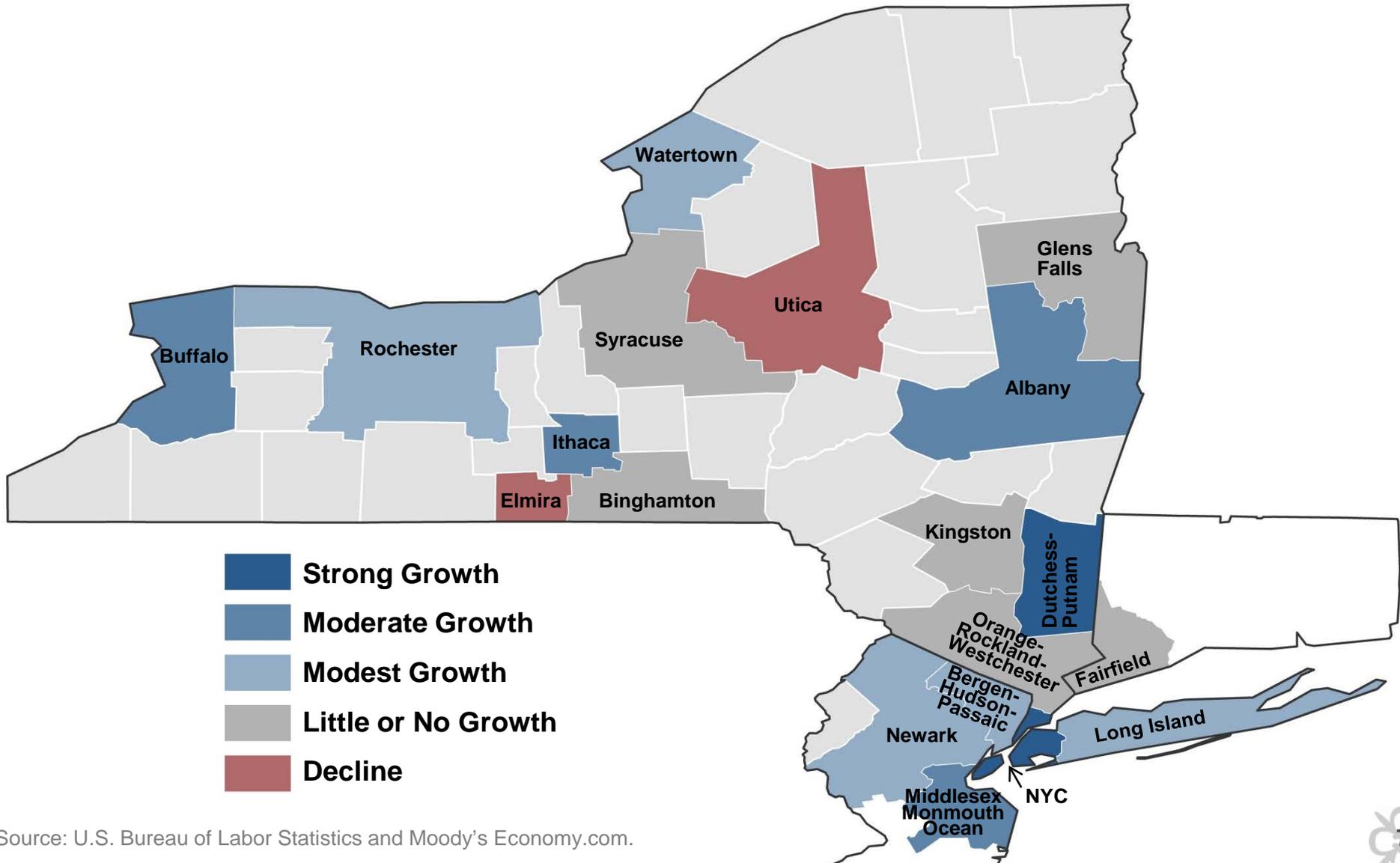


March 2018



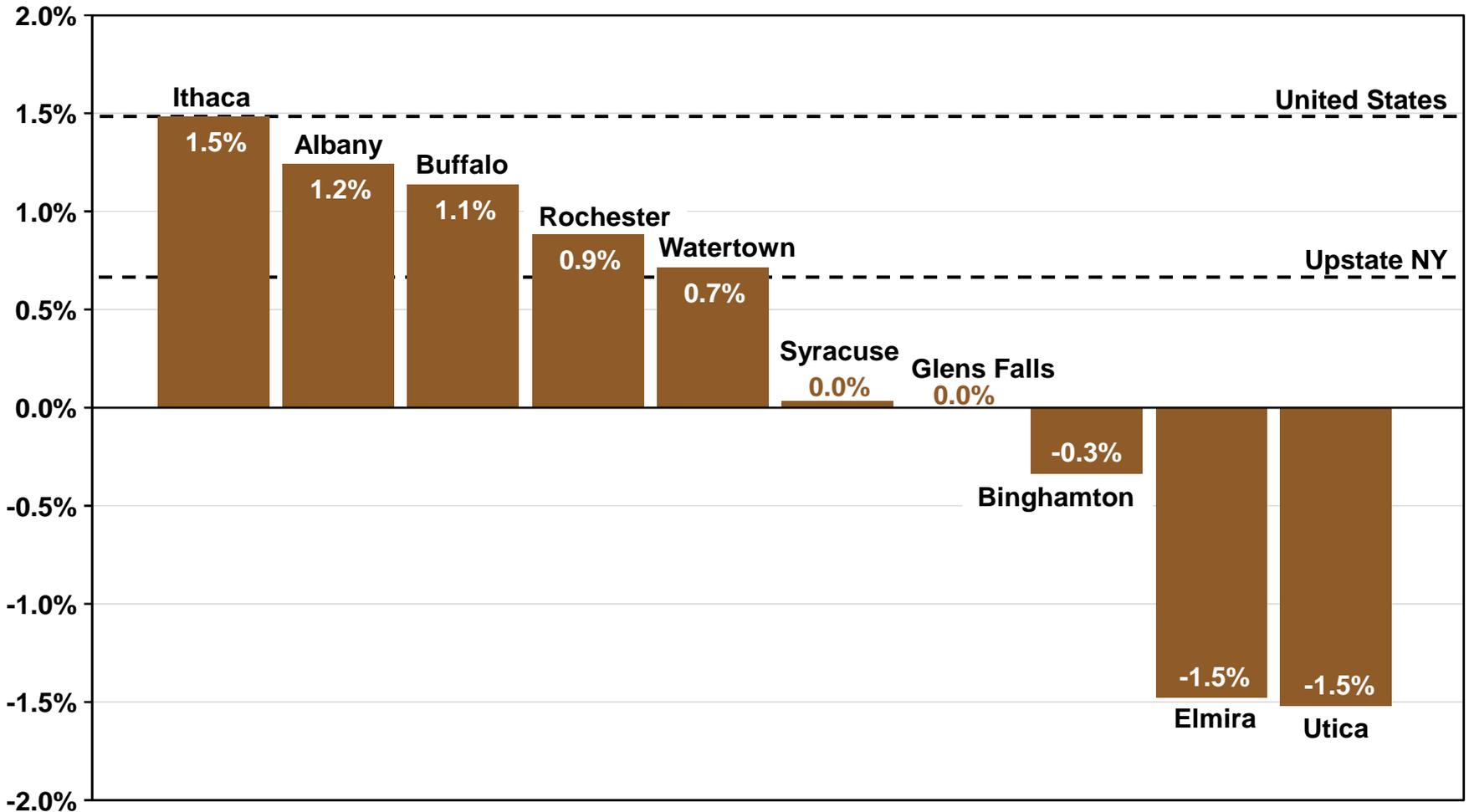
# Recent Job Growth in the Region

Percent Change from 2017 to 2018, Year-to-Date (Jan-Feb)



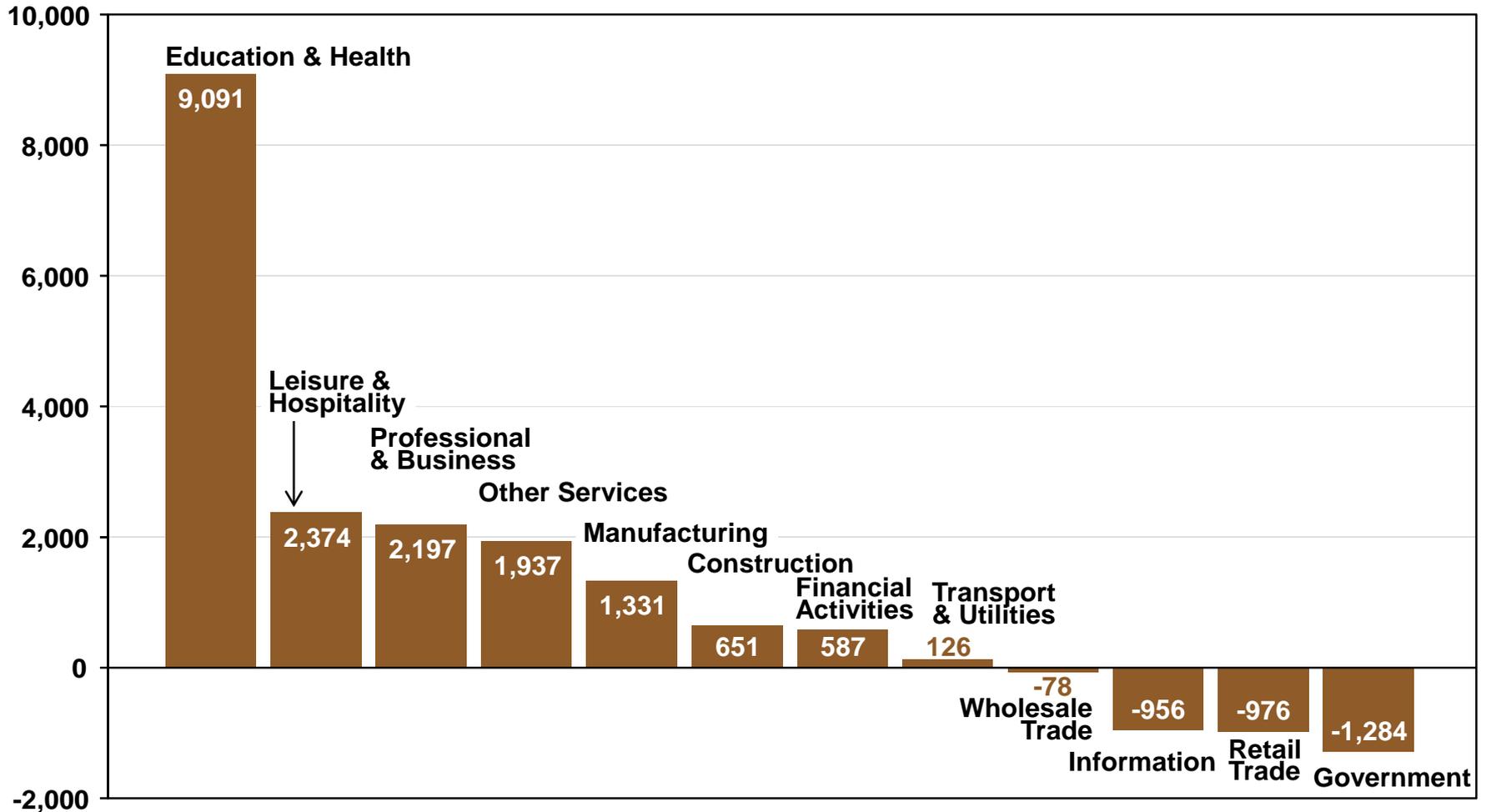
# Job Growth in Upstate NY

Percent Change from 2017 to 2018, Year-to-Date (Jan-Feb)



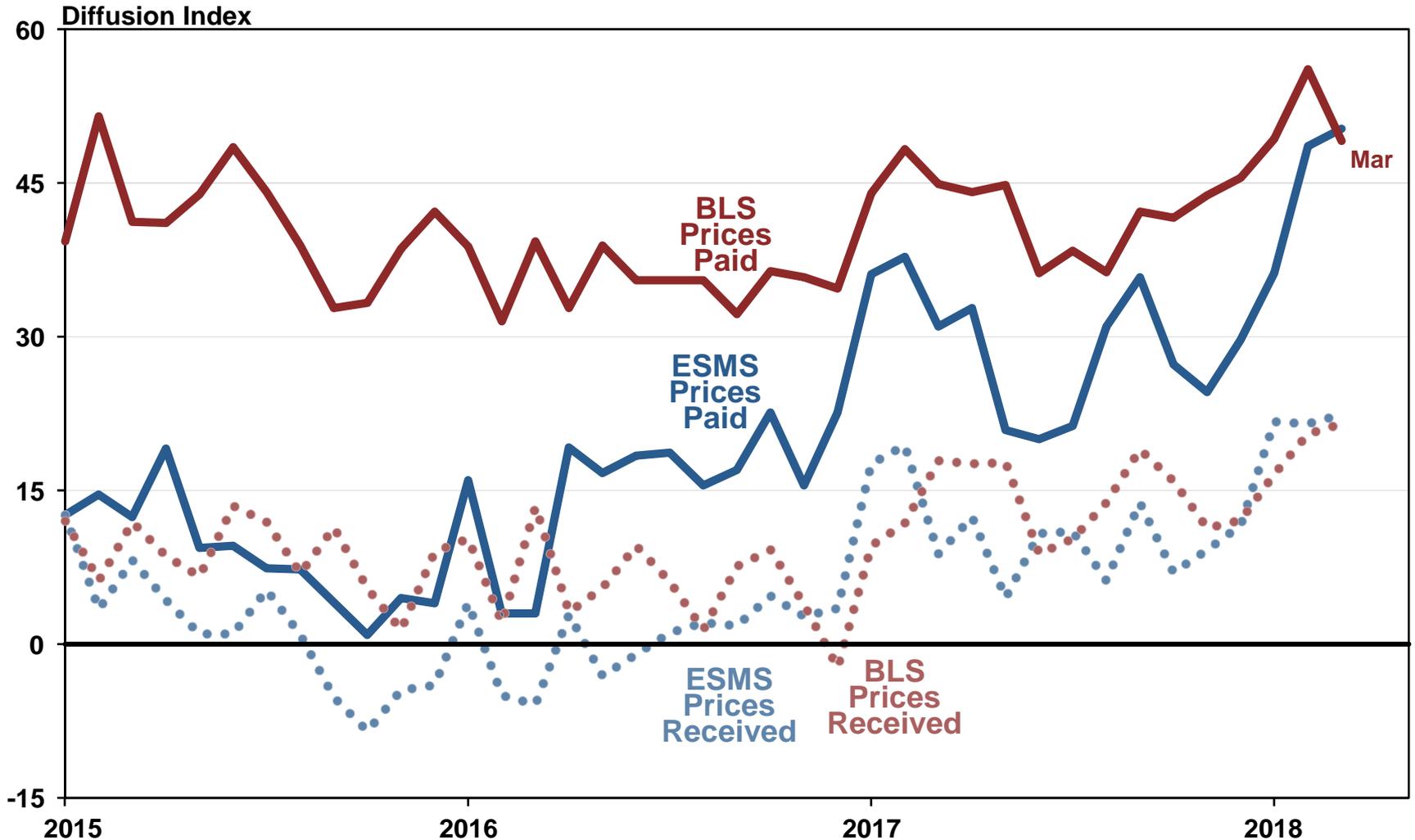
# Job Growth by Industry in Upstate NY

Levels Change from 2017 to 2018, Year-to-Date (Jan-Feb)



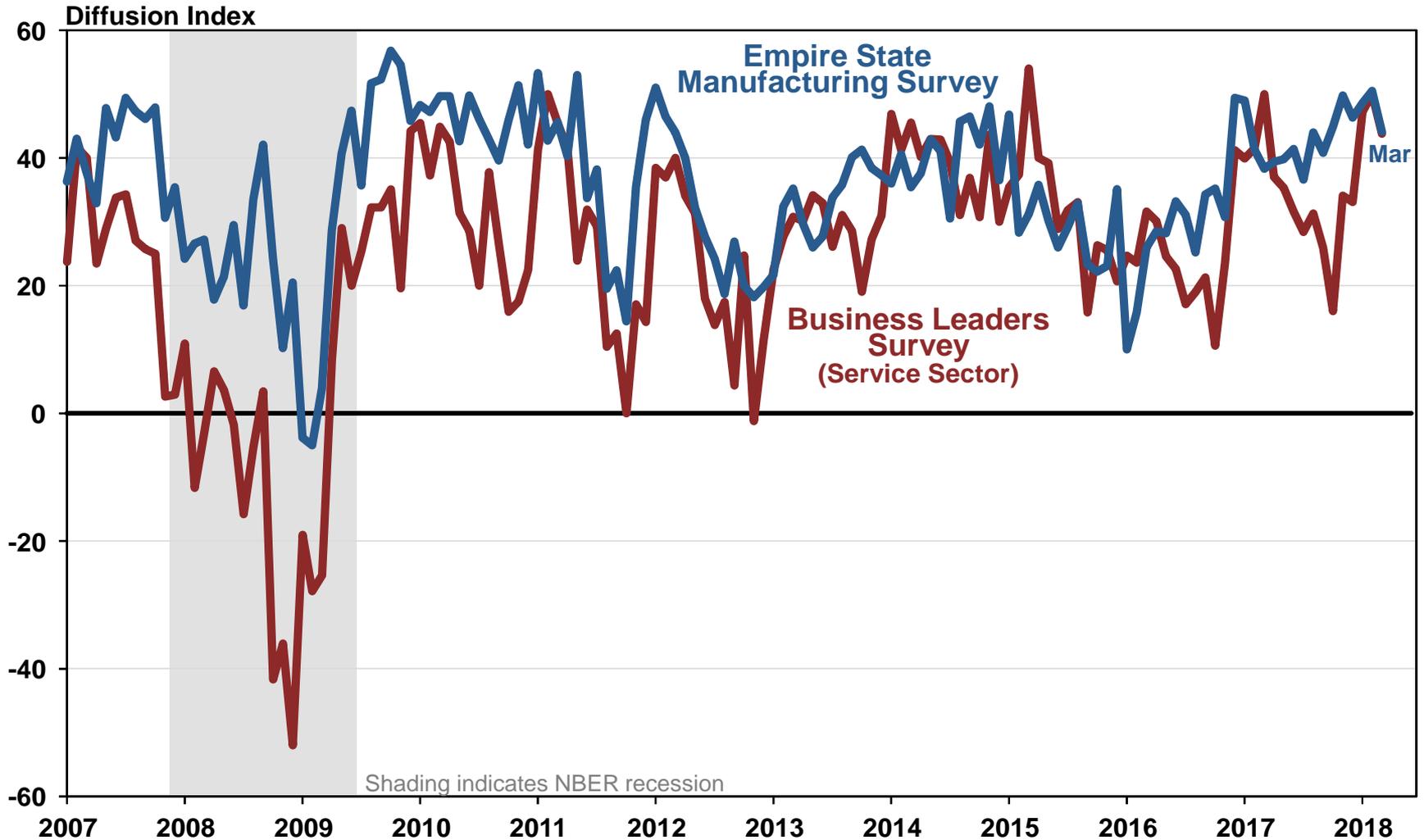
# Input and Selling Prices

FRBNY Regional Business Surveys



# Future Economic Conditions

FRBNY Regional Business Surveys, Conditions Six Months Ahead



Shading indicates NBER recession