

National Economic Outlook

May 9, 2025

New York State Large Credit Unions CEO Roundtable

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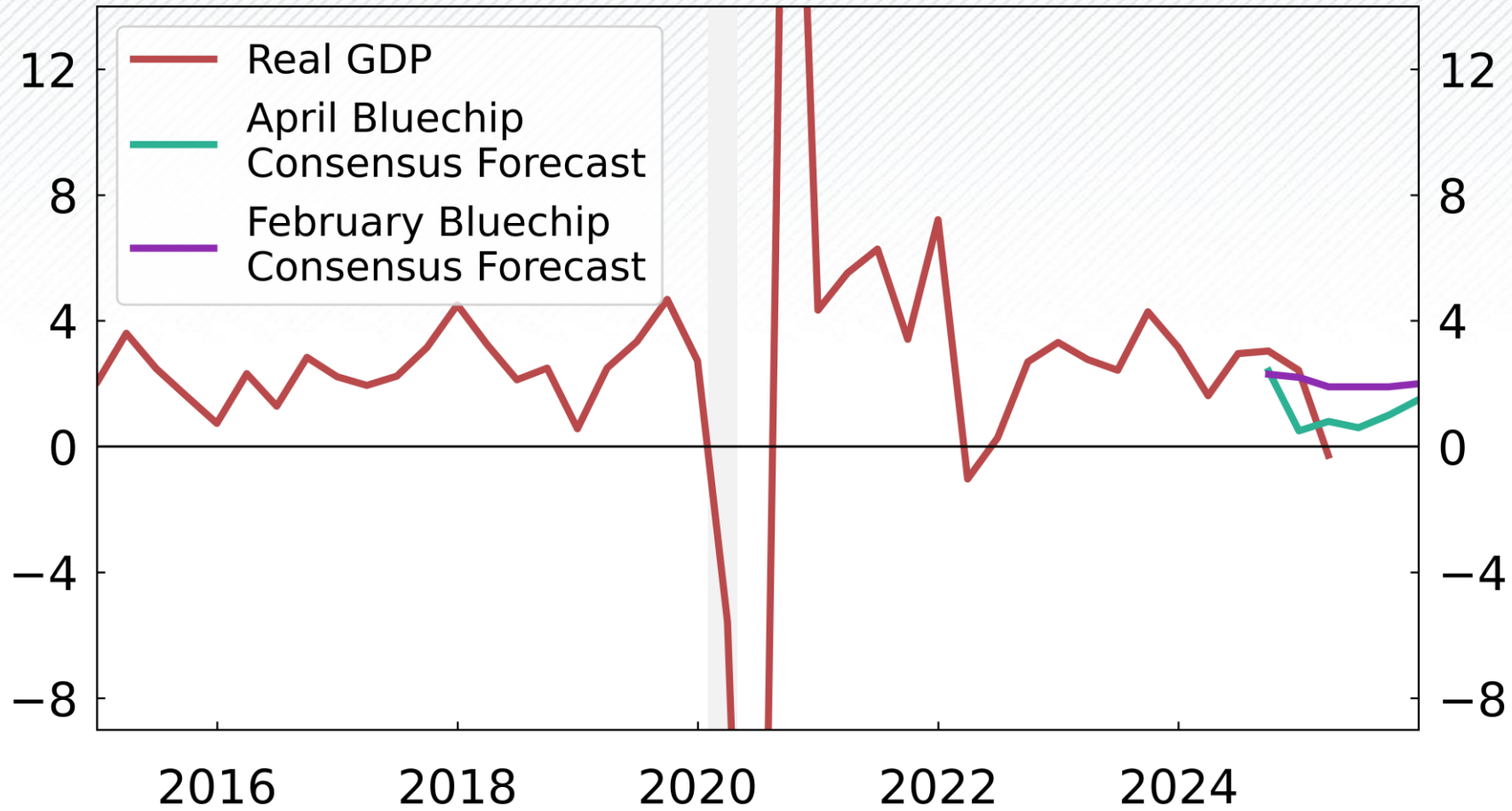
Current State of the Economy

- **Growth:**
 - Real GDP shrunk at a -0.3% annual rate in 2025Q1, expecting higher growth in Q2
- **Labor market**
 - Conditions remained balanced, but surveys suggest some softening
- **Inflation**
 - Above target still
- **Uncertainty is *elevated***

Zooming Out on GDP Growth A Bit...

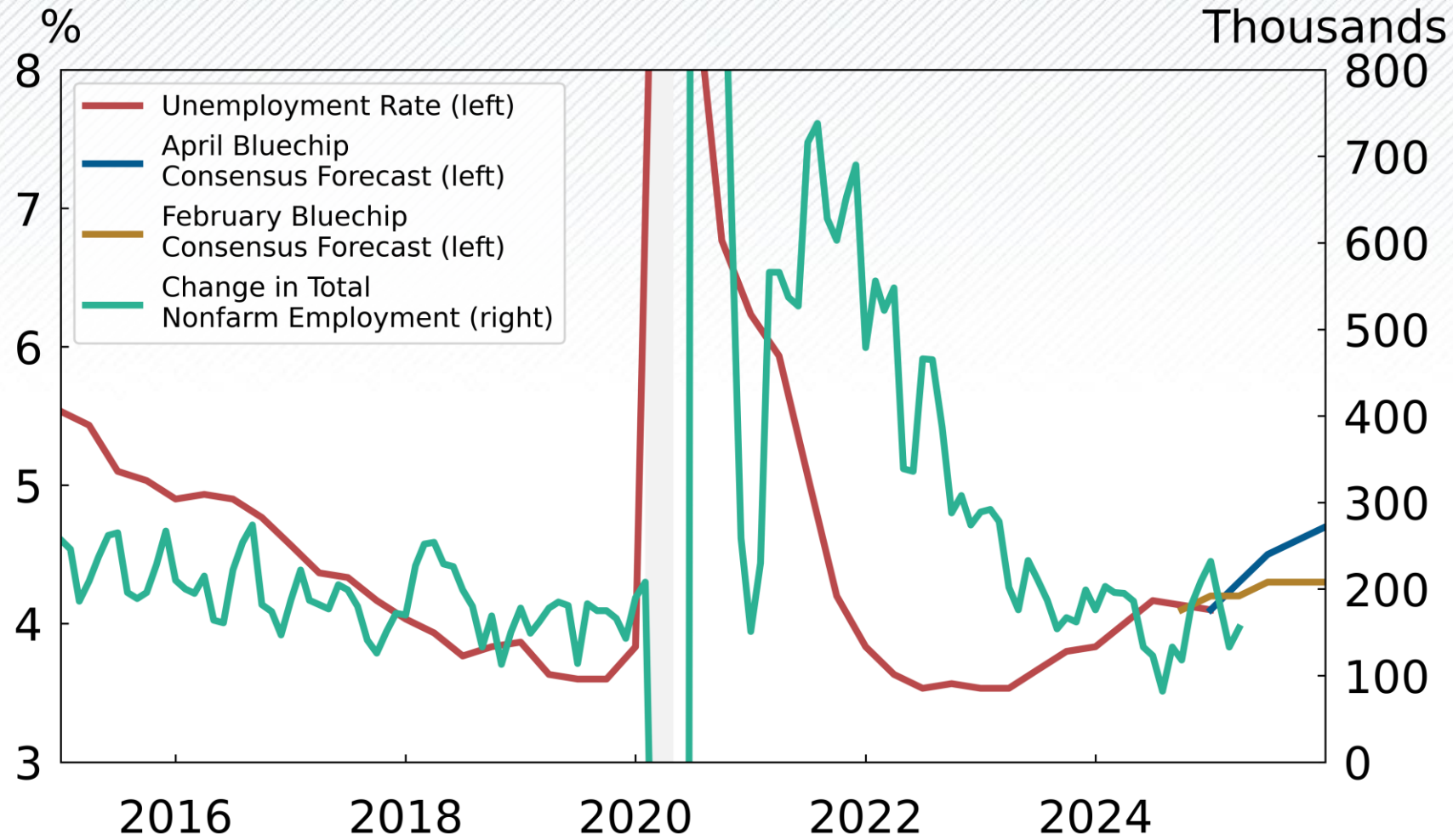
1-Q % chg. annualized

1-Q % chg. annualized



Sources: Bureau of Economic Analysis, Wolters Kluwer via Haver Analytics

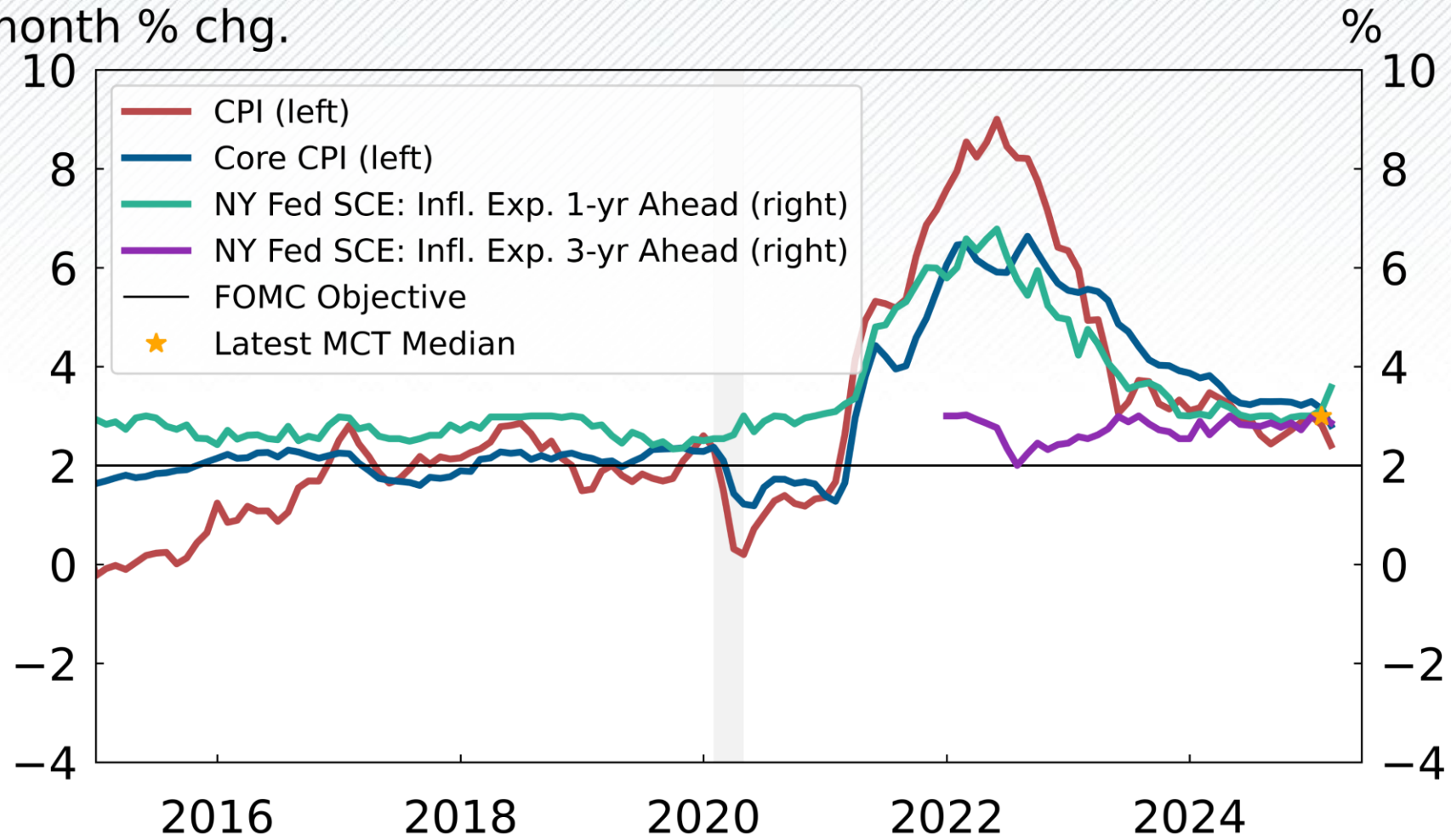
Zooming Out on the Labor Market A Bit...



Sources: Bureau of Labor Statistic, Wolters Kluwer via Haver Analytics
 Notes: 3-month average (right)

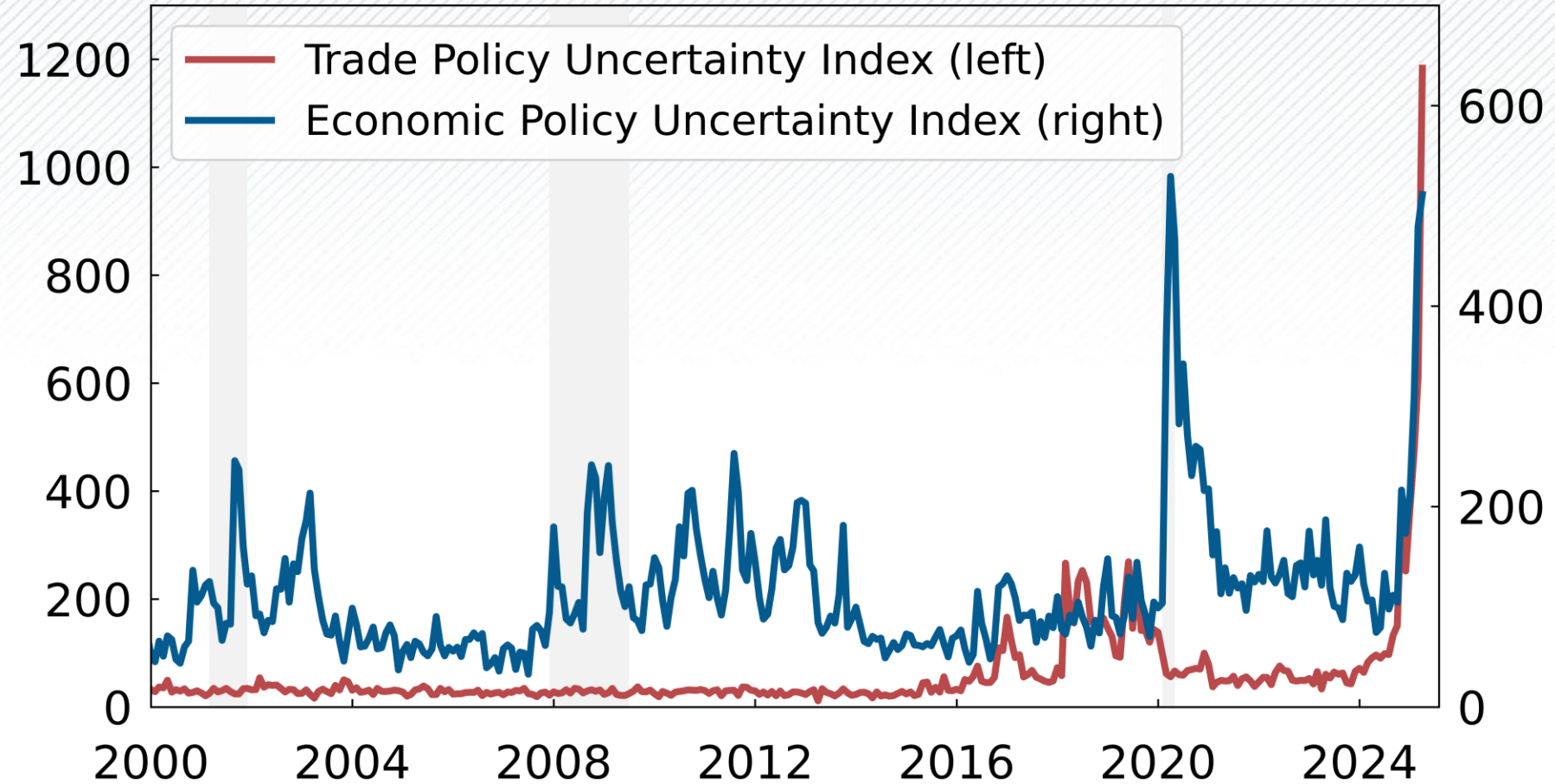
Zooming Out on Inflation A Bit...

12-month % chg.



Sources: Bureau of Labor Statistics, NY Fed Survey of Consumer Expectations via Haver Analytics

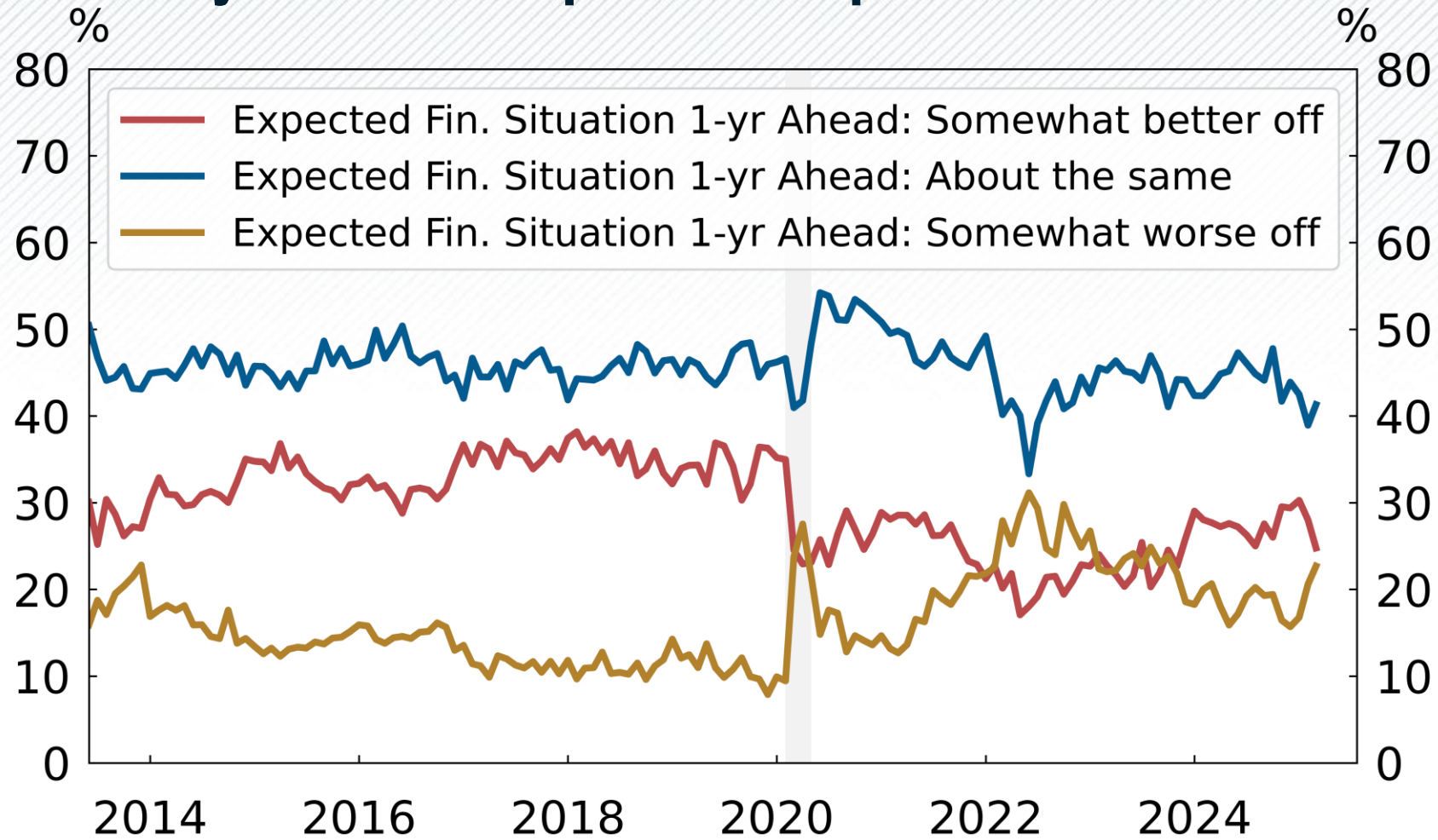
All Up in the Air Right Now...



Sources: PolicyUncertainty.com (Baker, Bloom, Davis) via Haver Analytics; Matteo Iacoviello
 Notes: Monthly average of daily data

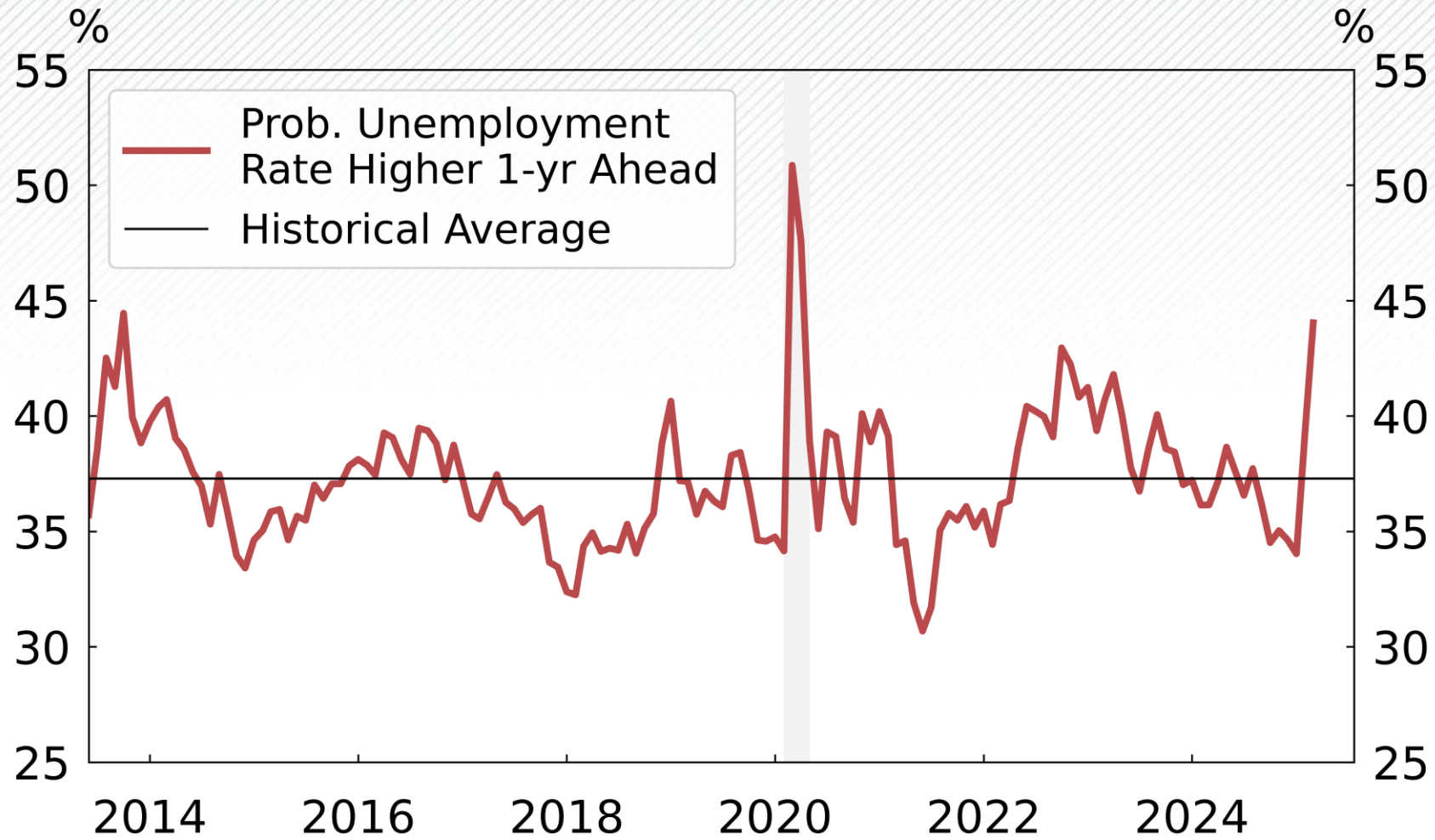
Households Are Feeling It...

NY Fed Survey of Consumer Expectations: Expected Financial Situation



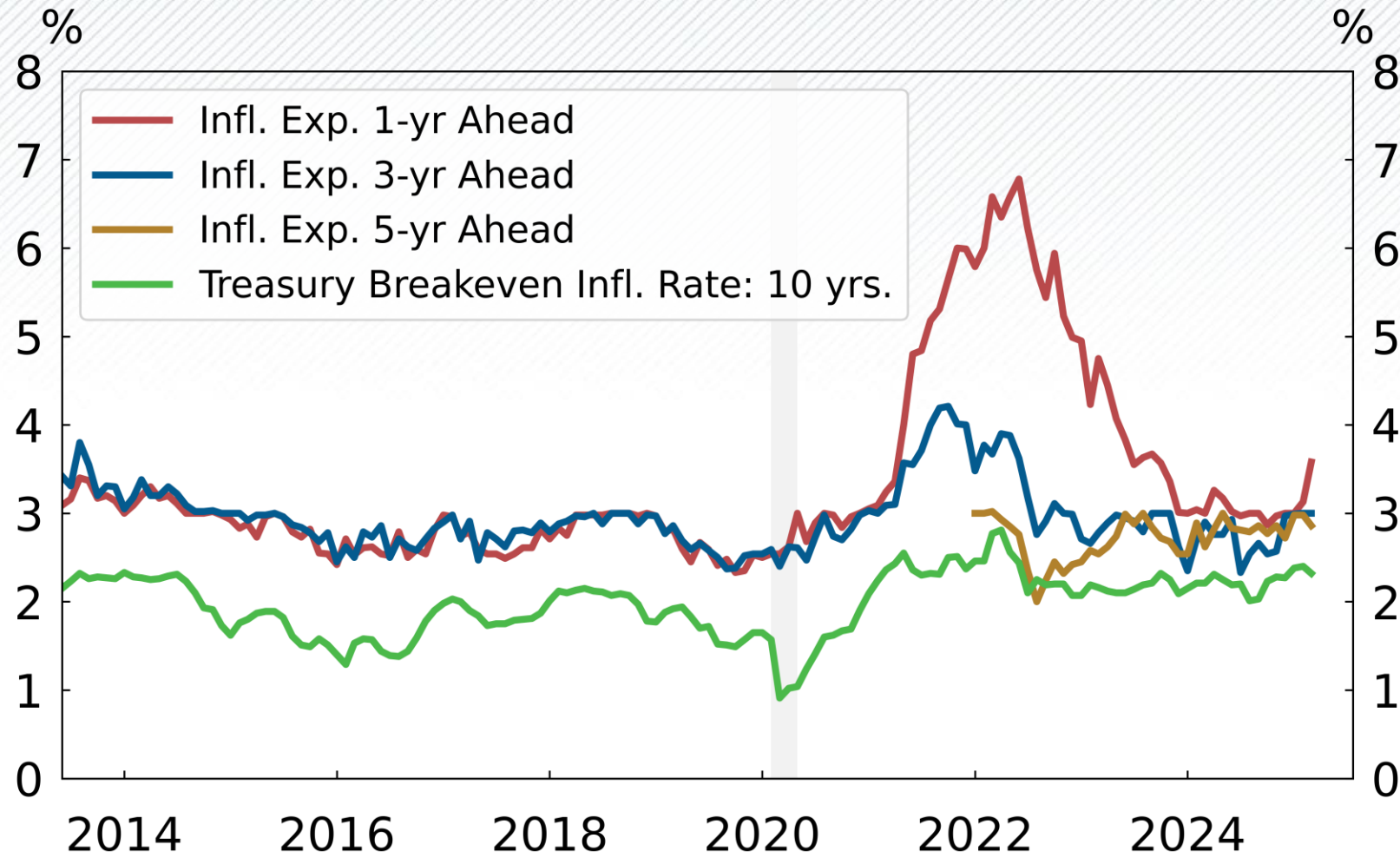
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

Employment Expectations Deteriorating...



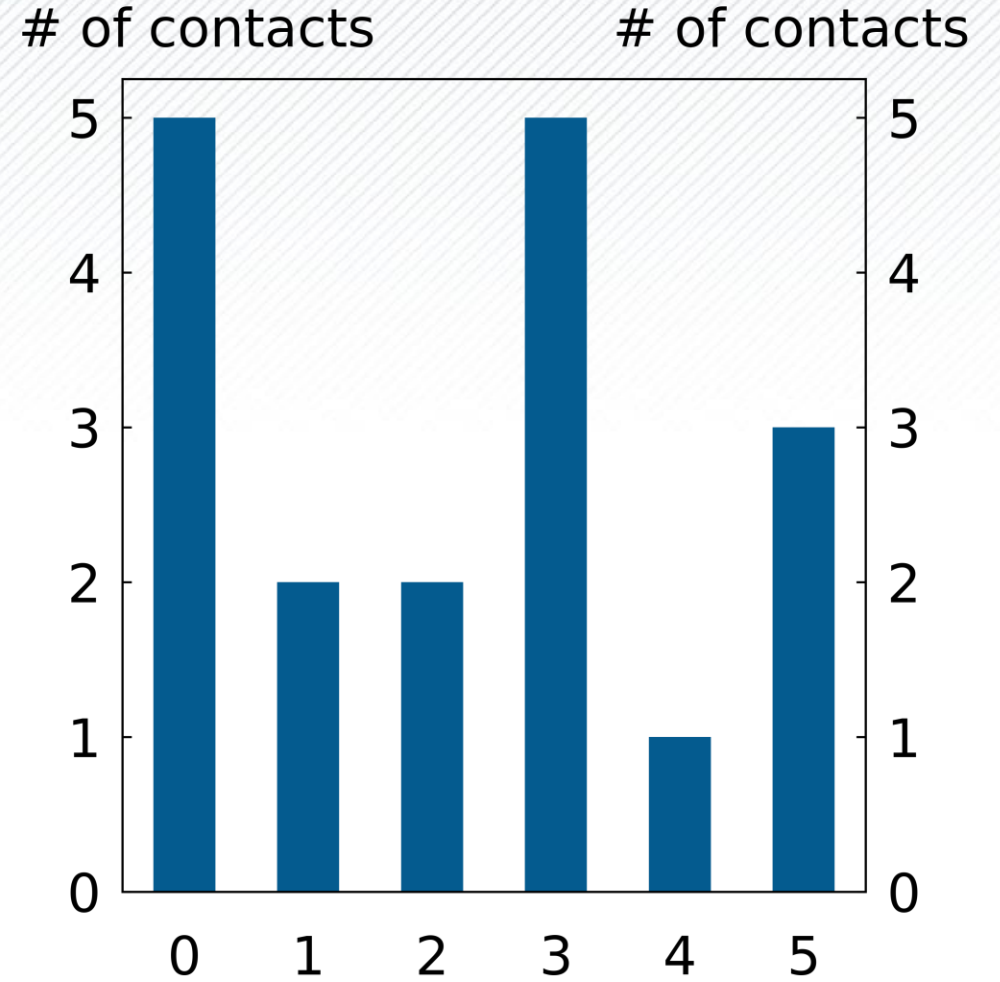
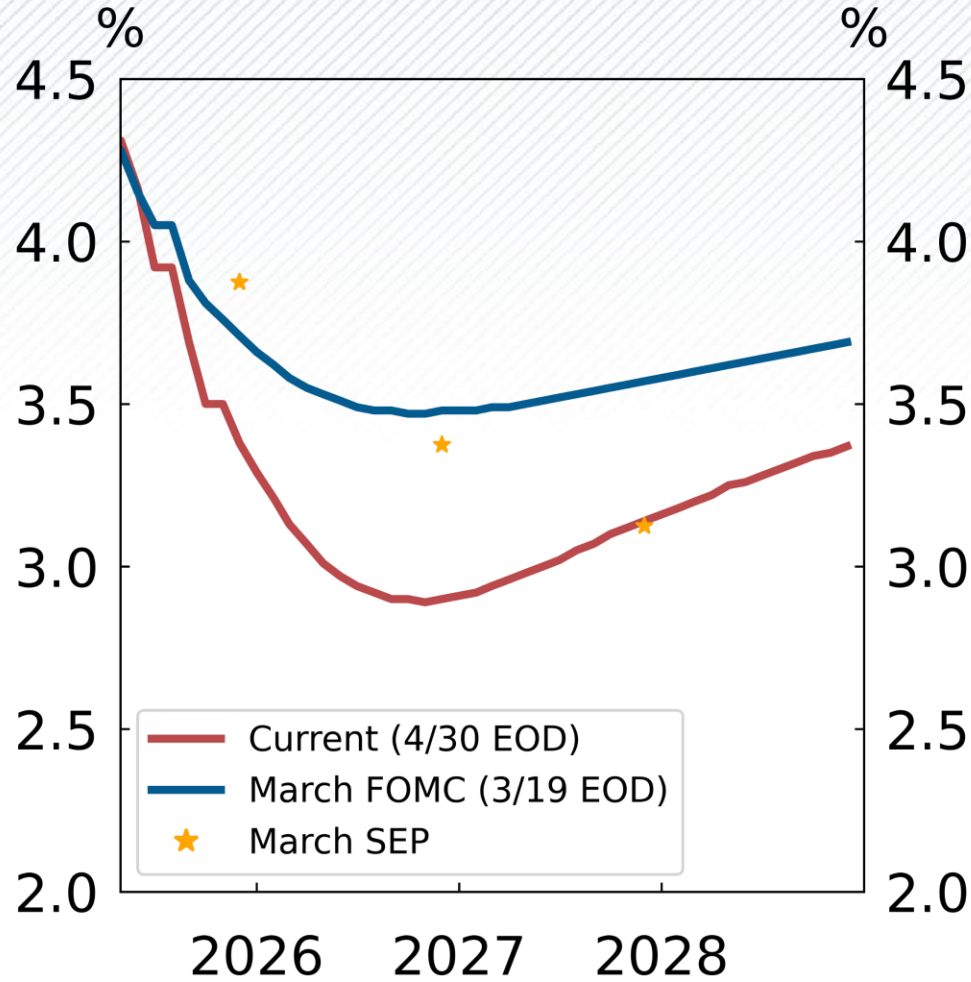
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

But Inflation Expectations Remain (Mostly) Anchored...



Sources: NY Fed Survey of Consumer Expectations, U.S. Treasury via Haver Analytics

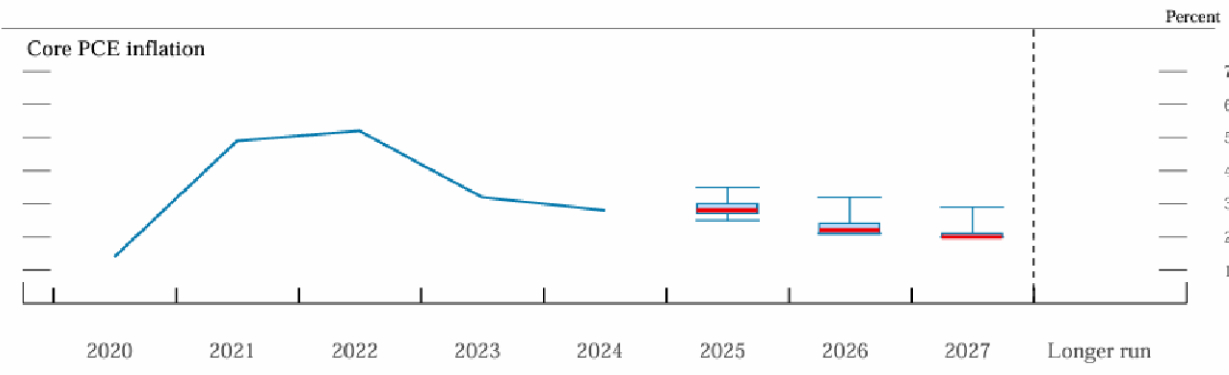
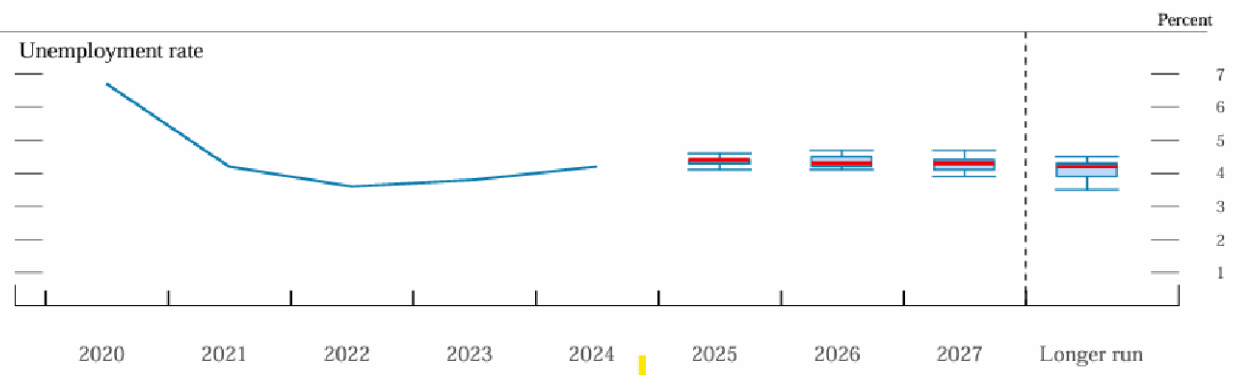
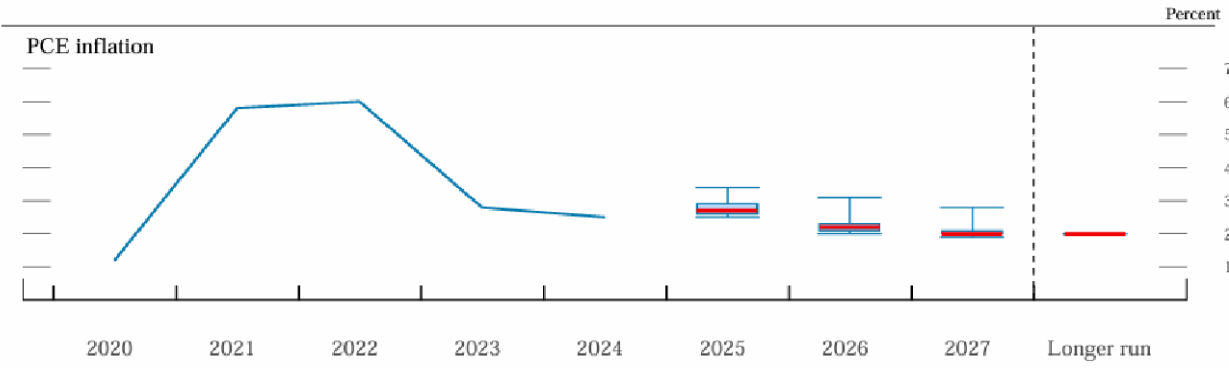
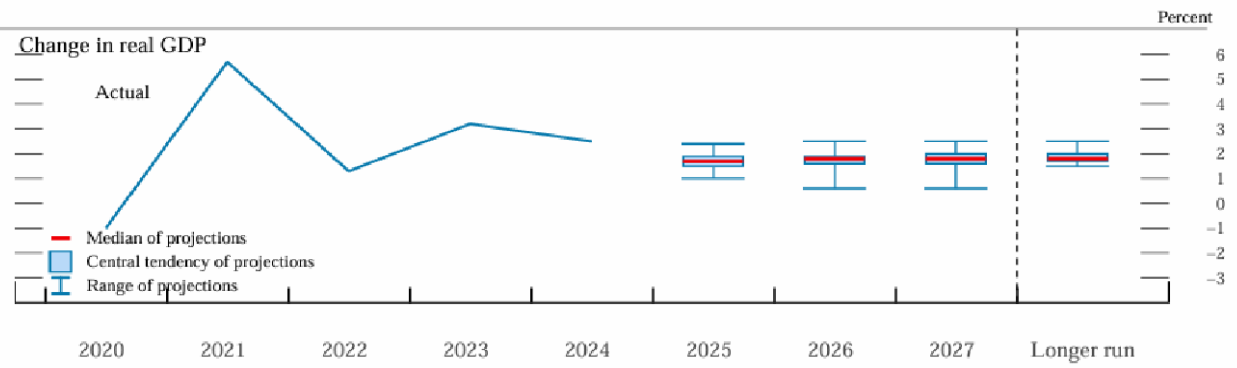
Where To? Market-implied rate path has shifted lower since the March FOMC; baseline expectations remain dispersed



Sources: Bloomberg

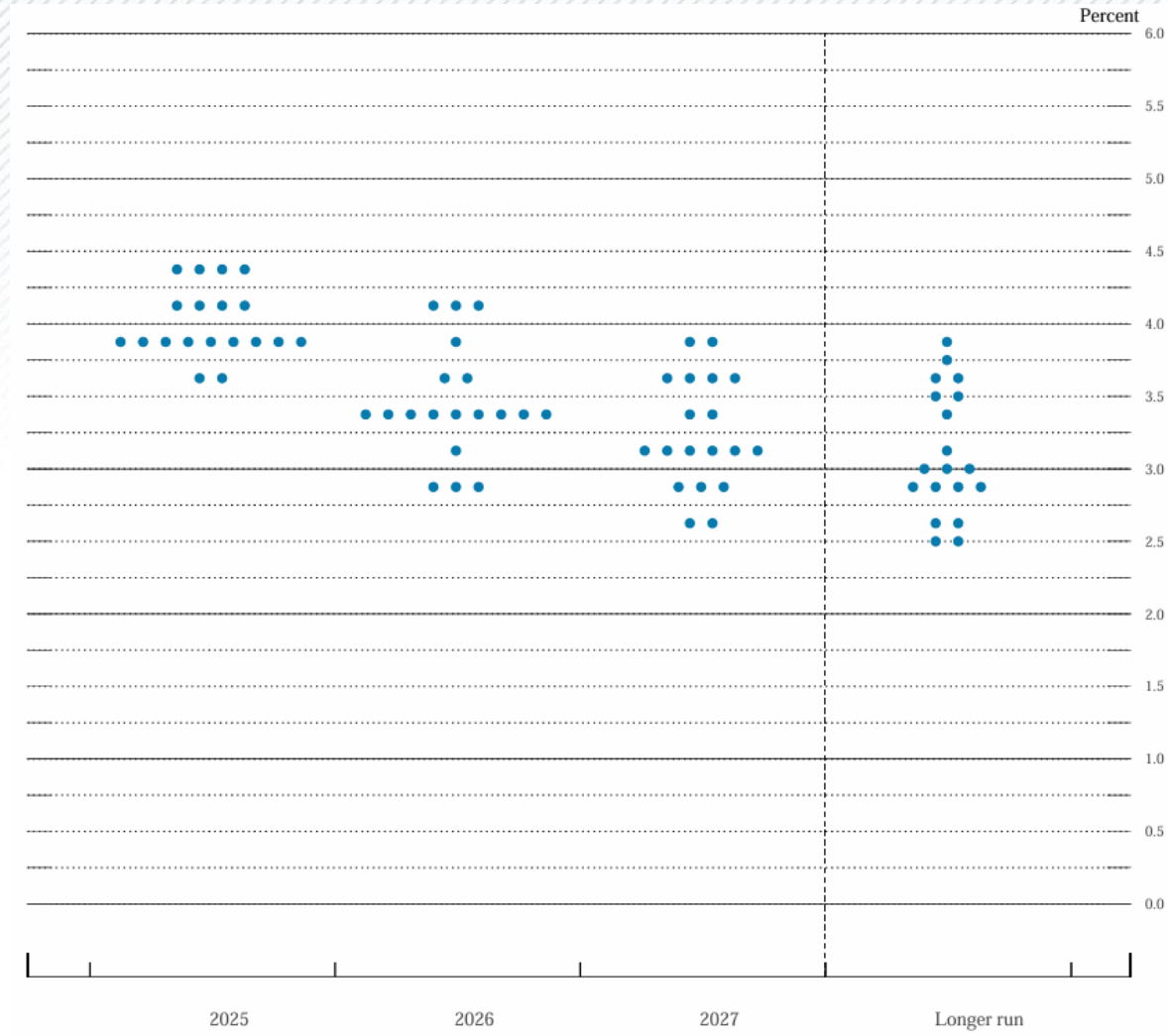
Notes: Market-implied path derived from fed funds and SOFR futures, adjusted for SOFR-FF basis (left); number of 25bp cuts expected in 2025 (right)

FOMC Economic Projections



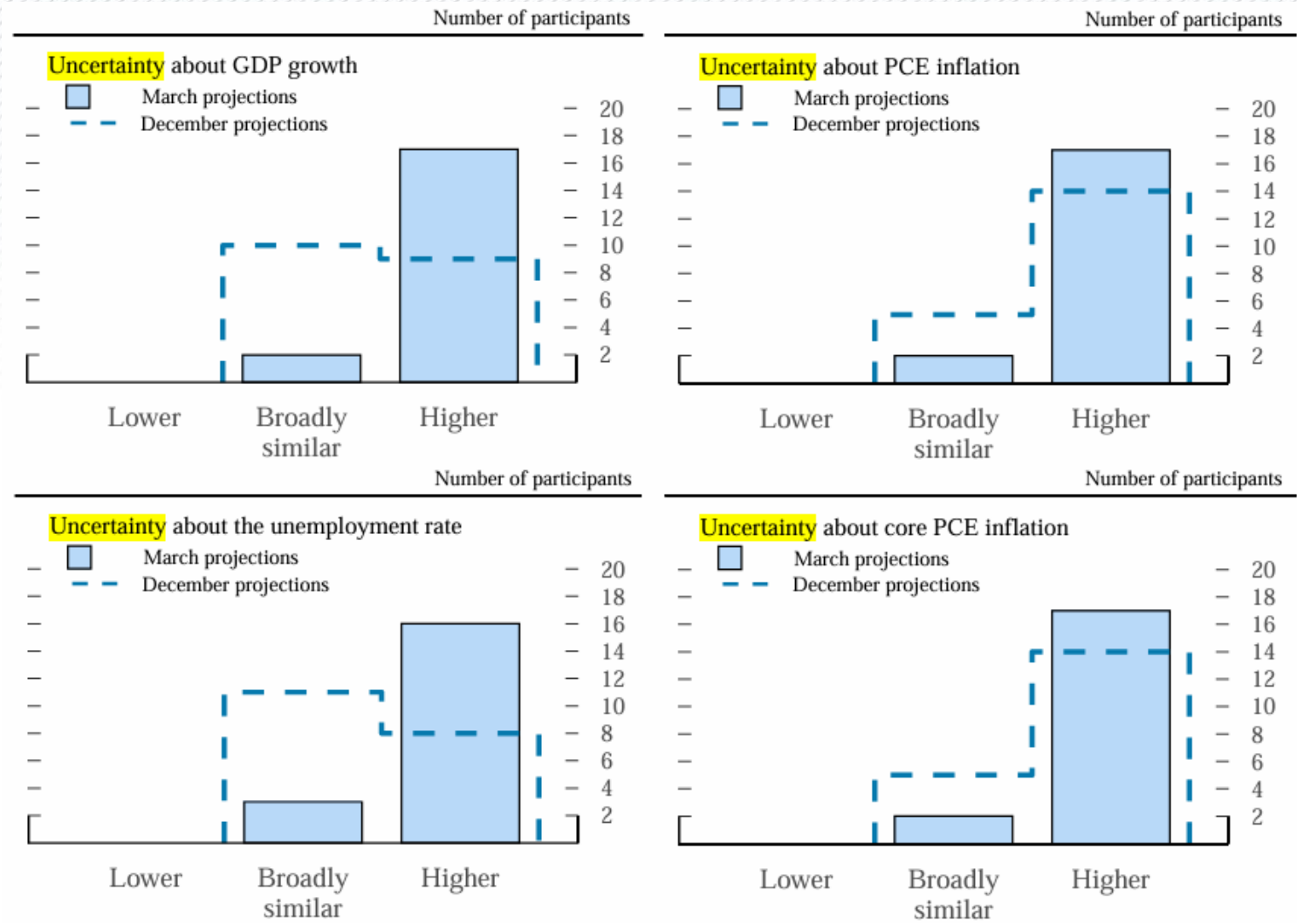
Sources: Federal Reserve Board

FOMC Dot Plot



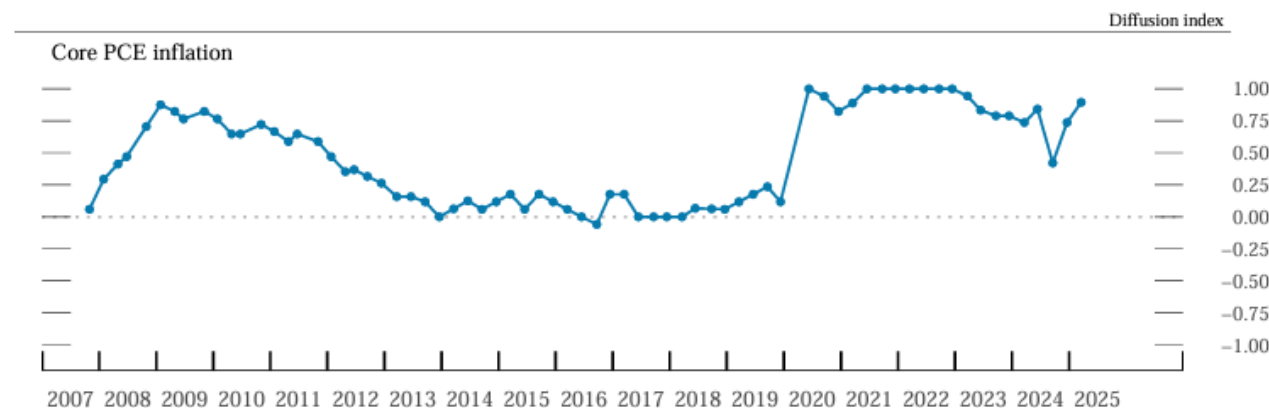
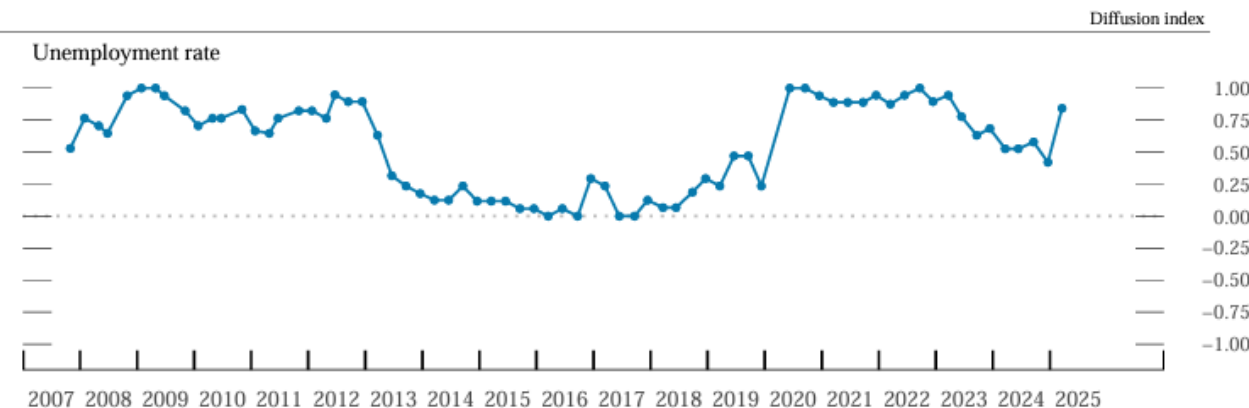
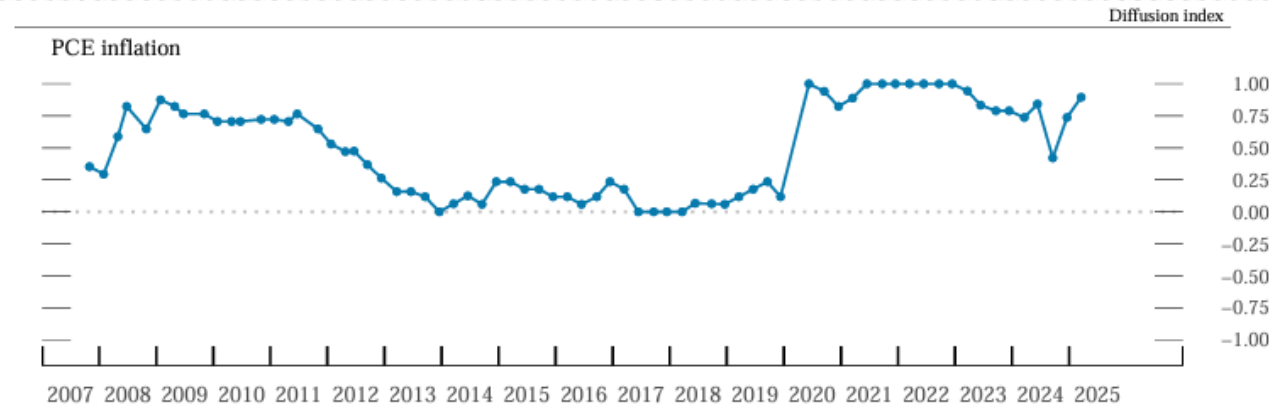
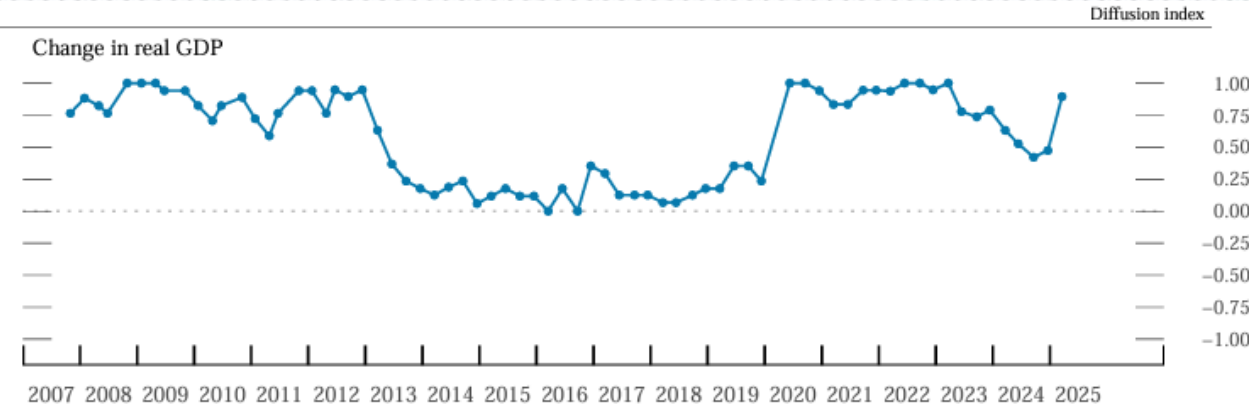
Sources: Federal Reserve Board

Uncertainty in Projections...



Sources: Federal Reserve Board

Uncertainty in Projections...



Sources: Federal Reserve Board

Notes: Responses to “Please indicate your judgment of the uncertainty attached to your projections relative to the levels of uncertainty over the past 20 years;” index = (# of “Higher” responses – # of “Lower” responses) / # of participants

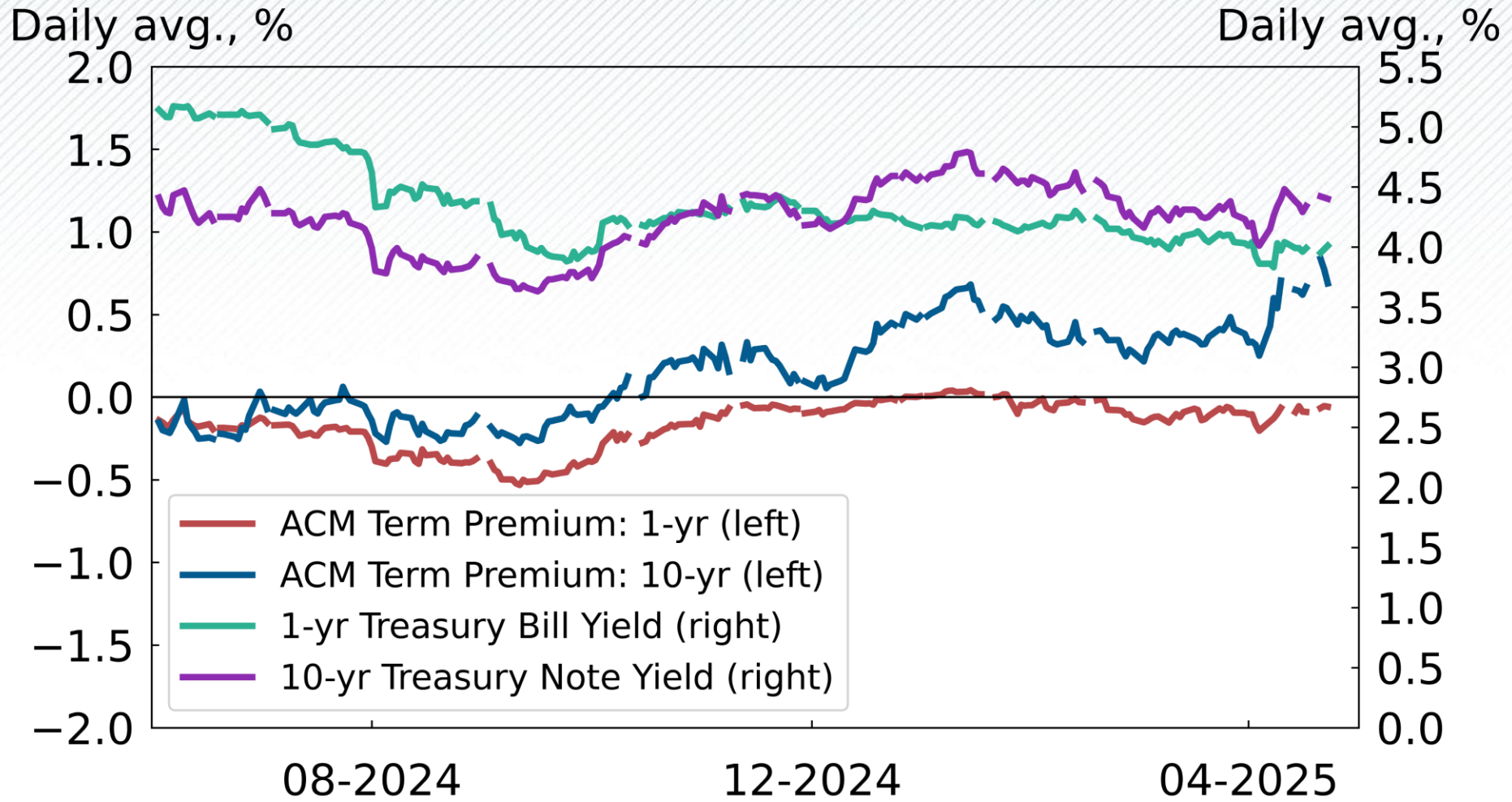
More Details From March FOMC Meeting

- **Uncertainty:**
 - “These moves appeared to reflect increased perceived risks—rather than a base case—of a significant deterioration of the U.S. outlook, as investors responded to both weaker-than-expected consumer spending and sentiment data as well as to **developments in trade policy that had raised uncertainty**”
 - **“Foreign central banks were increasingly noting that elevated uncertainty about trade policies was clouding their economic outlooks”**
 - “Uncertainty” appeared 21 times in the meeting minutes (17 pages excluding cover page)

May FOMC Statement

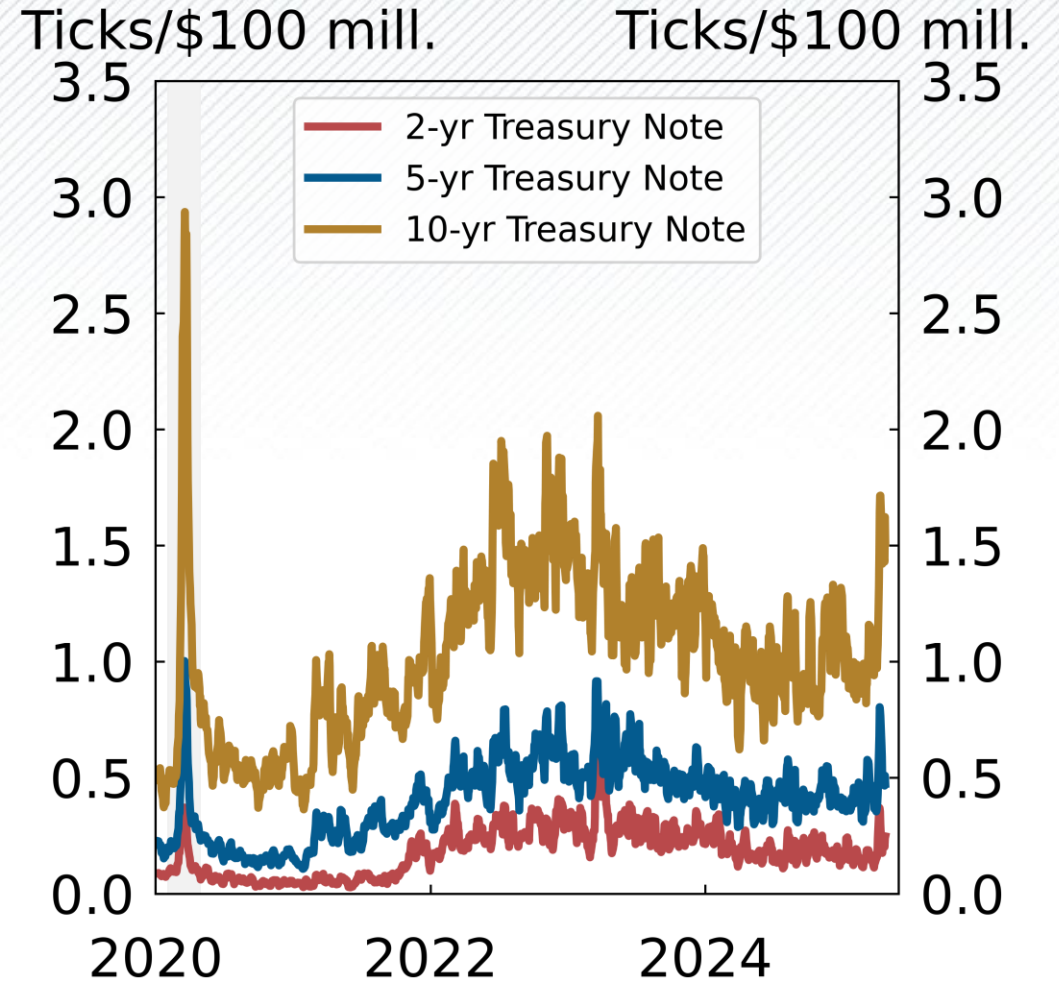
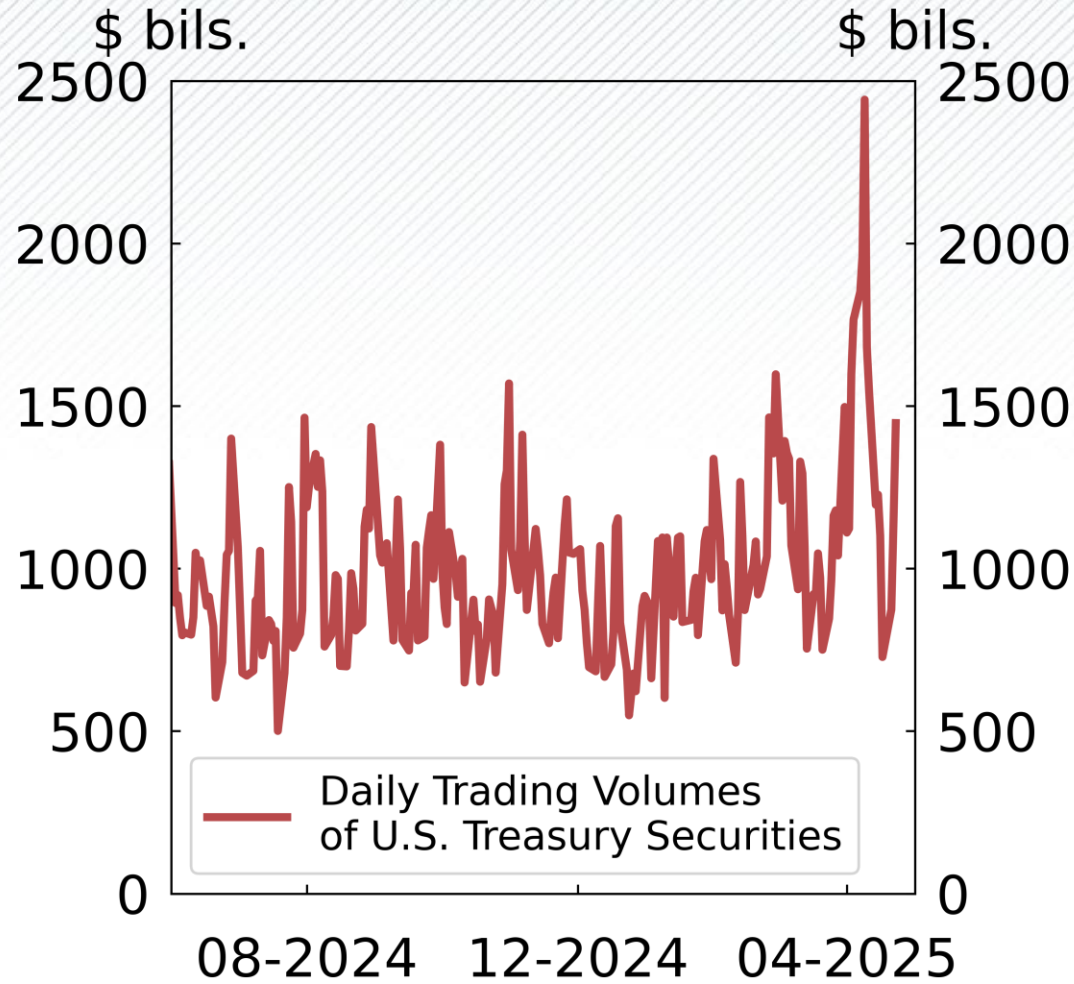
- **Uncertainty**
 - **"Uncertainty about the economic outlook has increased further.** The Committee is attentive to the risks to both sides of its dual mandate and judges that **the risks of higher unemployment and higher inflation have risen."**
- **Fundamentals**
 - **"The unemployment rate has stabilized** at a low level in recent months, and labor market conditions remain solid. **Inflation remains somewhat elevated."**

Treasury Markets—How Are They Working?



Sources: Federal Reserve Board

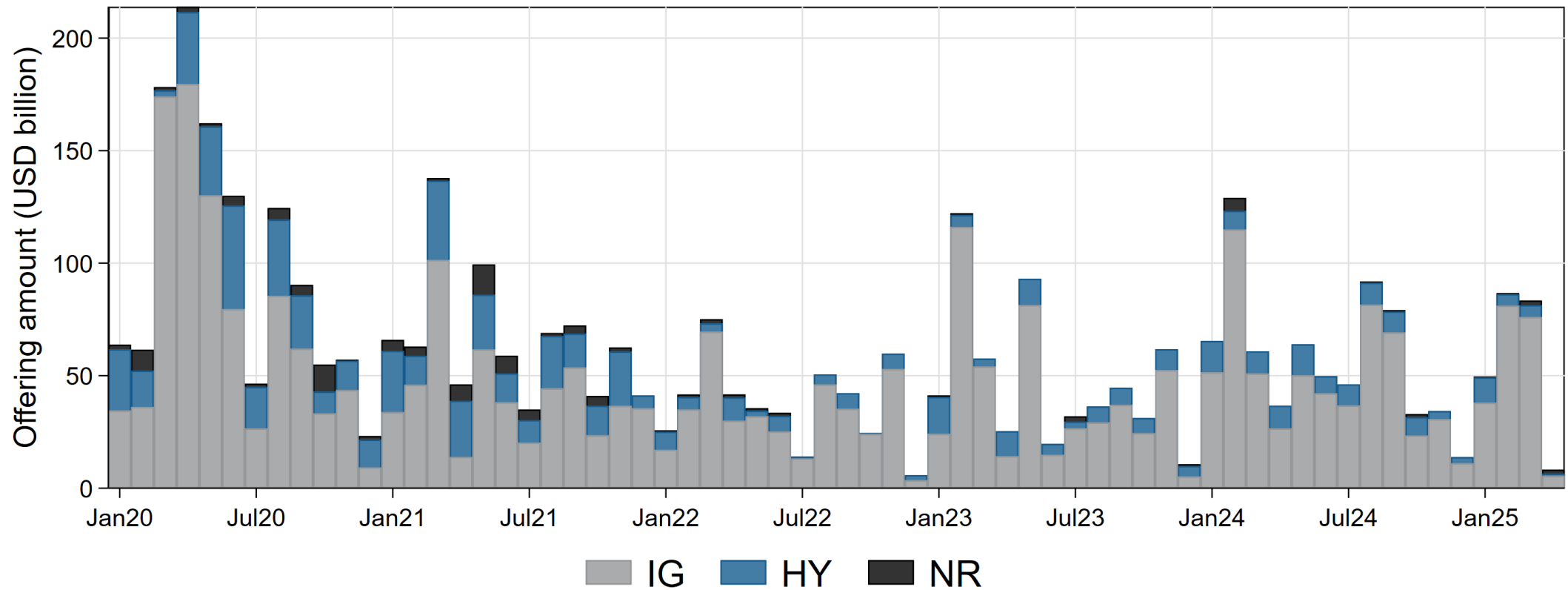
Treasury Markets—How Are They Working?



Sources: FINRA Trade Reporting and Compliance Engine (left), Brokertec (right)

Notes: 5-day moving average of on-the-run price impact, which is the rise in price that typically occurs with a buyer-initiated trade (right)

Corporate Bond Markets—How Are They Working?



Sources: FINRA Trade Reporting and Compliance Engine (TRACE), Mergent Fixed Income Securities Database (FISD), ICE, NY Fed
 Notes: IG = Investment grade; HY = High-yield; NR = Not rated

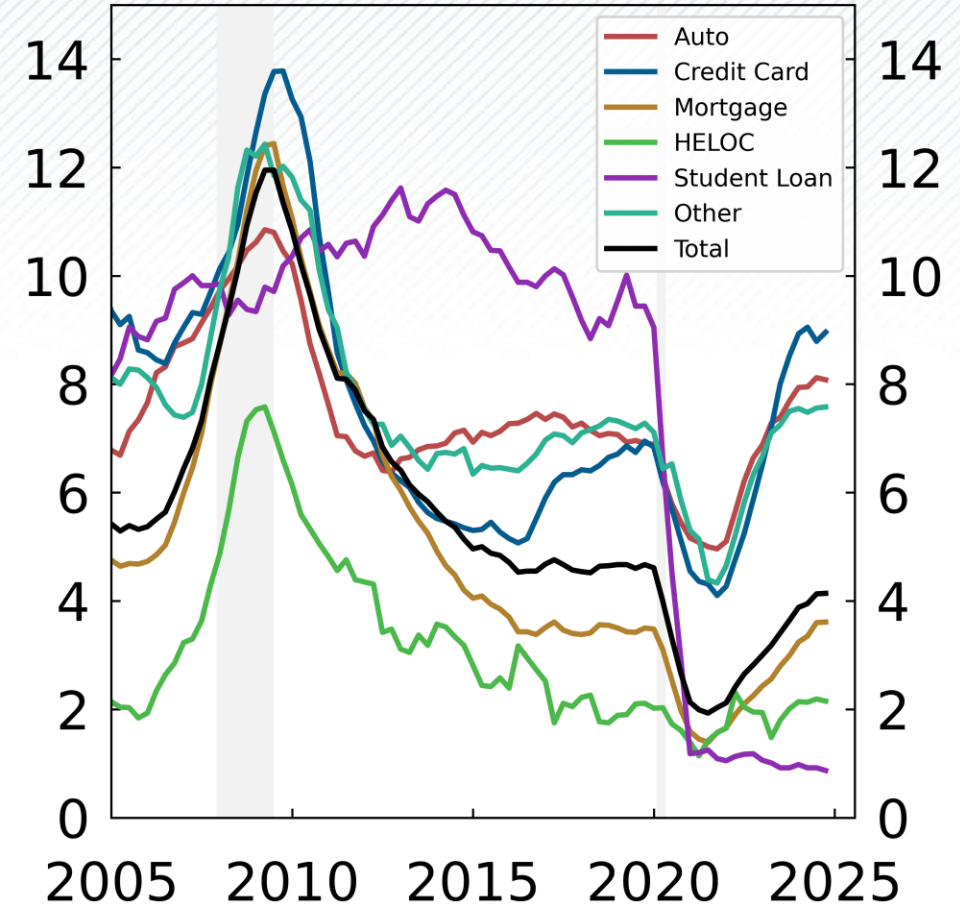
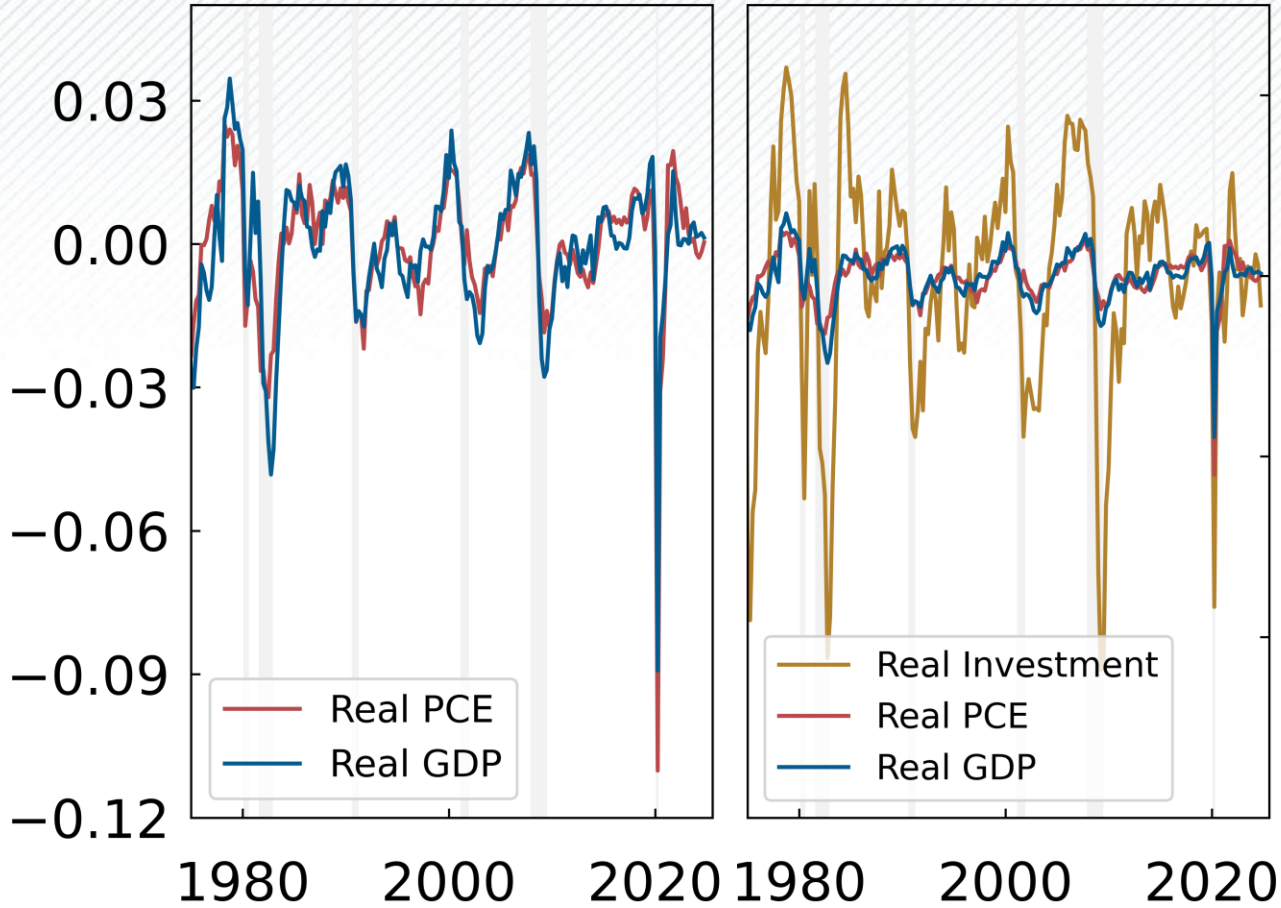
Checking on the Consumer—They *Don't* Fall Down by Themselves

Flow into Early

Log dev. from trend

Log dev. from trend % of bal.

Delinquency (30+ days) % of bal.



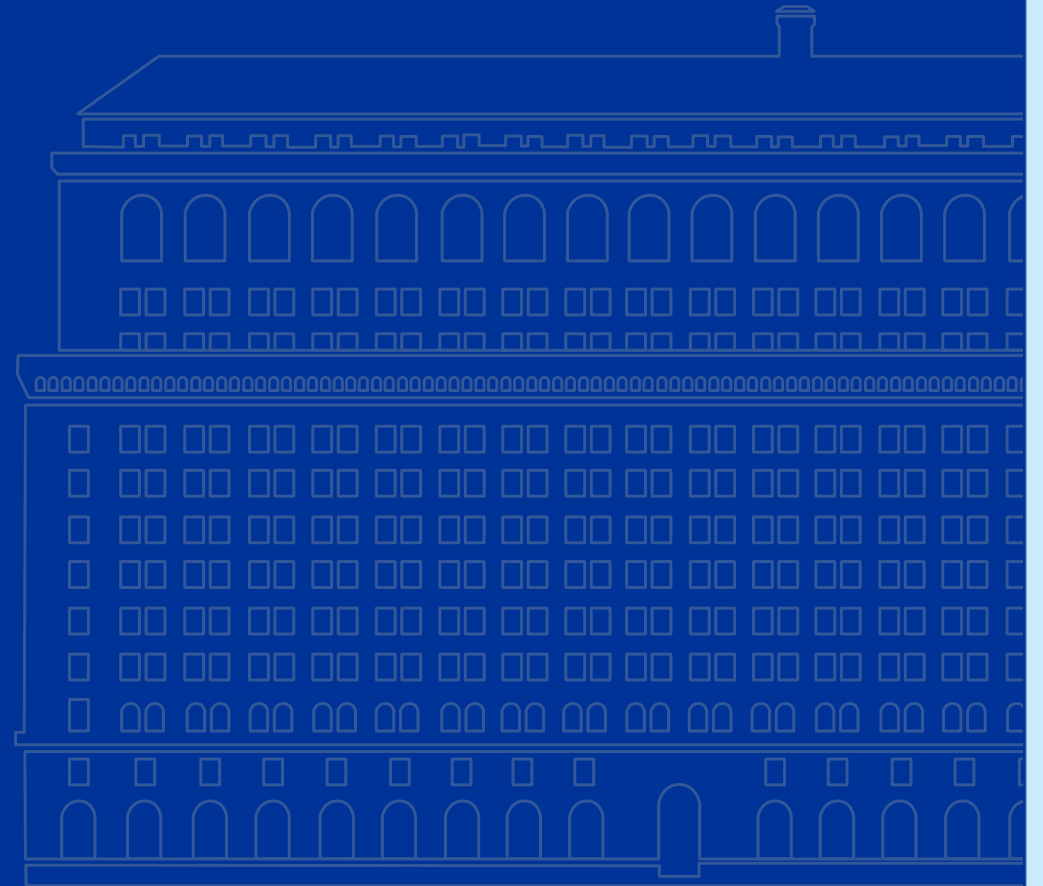
Sources: Bureau of Economic Analysis via Haver Analytics; New York Fed/Equifax

Notes: PCE = Personal consumption expenditure, series are HP-filtered cycles (left); 4Q moving average (right)

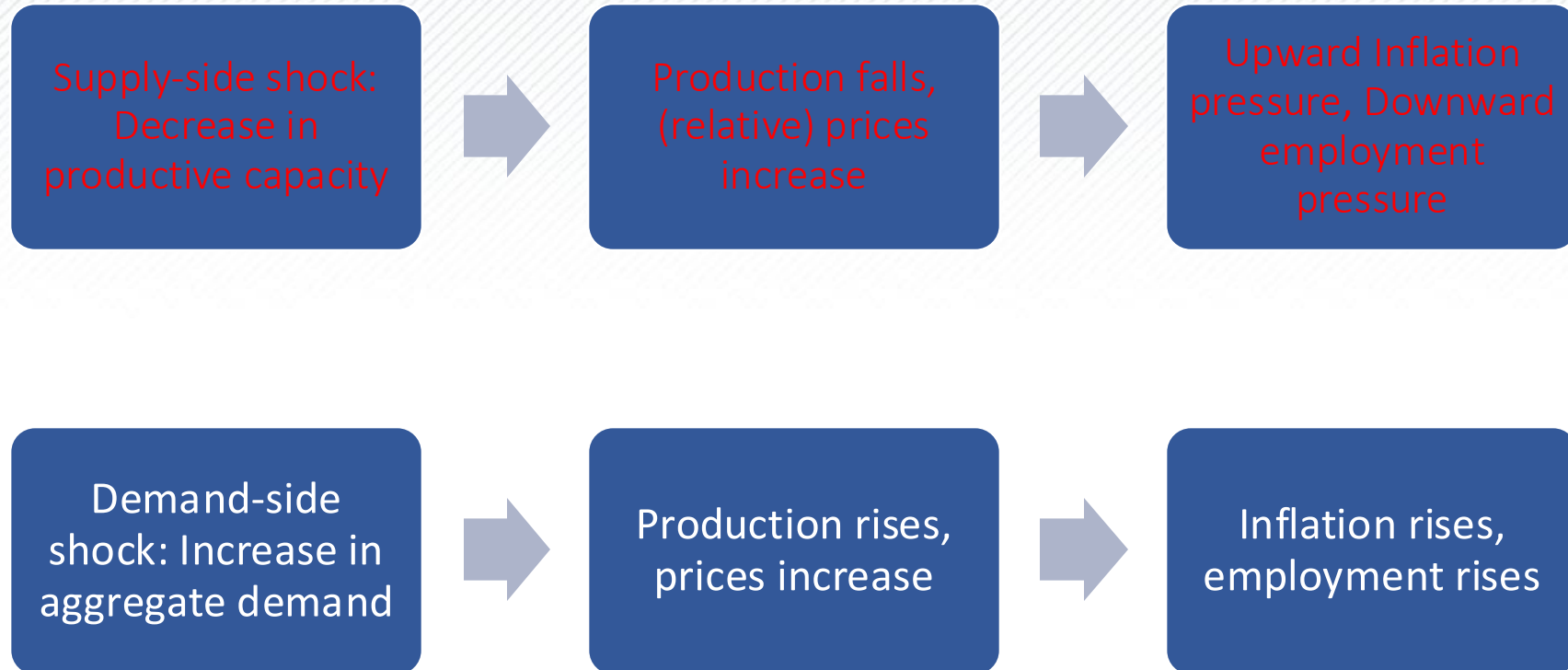
In Conclusion

- **Recession-free disinflation was well underway, remarkable in US history so far.**
- **Things have shifted. Fed policymakers expect slowing growth, not recession, at this time.**
- **Uncertainty is very elevated.**
- **Consumers don't just fall down by themselves.**

Appendix



Policy Scenarios: Supply-side Shock vs. Demand-side Shock



Monetary Policy Framework Review

- **January FOMC minutes:**
 - “This review is focused on two specific areas: the Committee’s **Statement on Longer-Run Goals and Monetary Policy Strategy**, which presents the Committee’s approach to the conduct of monetary policy, and the Committee’s **policy communication practices**... occasional reviews of monetary policy frameworks were seen as useful in **adapting to evolving economic environments, promoting transparency, and fostering public understanding**”

- **March FOMC minutes**
 - “Participants acknowledged that it is **difficult to assess maximum employment** and that they have been well served by **monitoring a wide range of indicators** that can vary depending on labor market and economic conditions... **reviewed the relationship between the dual-mandate goals and noted that those goals are not necessarily in conflict when both unemployment and inflation are low**”

Simplified Federal Reserve Balance Sheet

Assets	Liabilities
Treasury securities	Currency in circulation
Mortgage-backed securities (MBS)	Reserve balances
Loans	ONRRP
Other assets	Treasury General Account (TGA)
	Other liabilities
	Capital

More Balance Sheet Details...

■ Implementation

- Convey monetary policy stance through federal funds rate target range
- Sets administered rates to support federal funds trading within target range
 - Rate of interest on reserve balances (IORB)
 - Offering rate for overnight reverse repo facility (ONRRP)
- Directs Open Market Desk at the New York Fed to conduct operations to promote money market conditions consistent with target range
- Other tools include the balance sheet and forward guidance

More Balance Sheet Details...

- **Expanding securities holdings and reserves:**
 - Desk purchases securities on the open market
 - In ample reserves regime, two types of purchases: QE and reserve management

- **QE (2009-2014, 2020-2022)**
 - Mostly to accommodate low rates
 - Also used at times to address market dysfunction

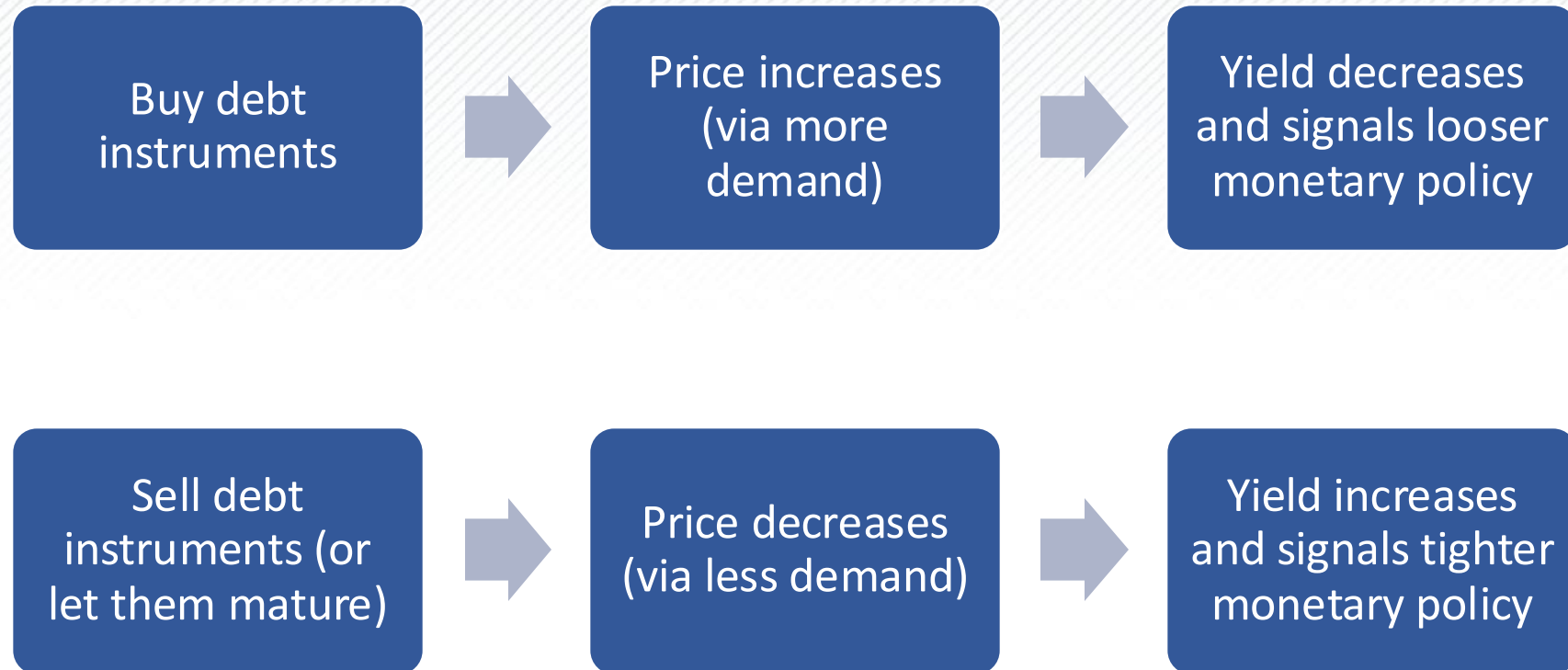
- **Reserve Management (09/2019-02/2020)**
 - Help maintain ample reserve balances as economy grows or reserve demand increases

More Balance Sheet Details...

- **Reducing securities holdings and reserves:**
 - Desk hasn't sold securities in quantity on open market since the GFC
 - In ample reserves regime, two types of purchases: QE and reserve management

- **QT (2017-2019, 06/2022-present)**
 - Maturing Treasury securities in SOMA
 - Principal payments (primarily early repayments) of MBS
 - Current caps:
 - \$60 billion per month for Treasury securities
 - \$35 billion per month for MBS

Quantitative Easing/Tightening Process



Relevant New York Fed Content

- **Trade**
 - Do Import Tariffs Protect U.S. Firms?
 - Does Trade Uncertainty Affect Bank Lending?
 - The Global Supply Side of Inflationary Pressures
 - The Impact of Import Tariffs on U.S. Domestic Prices
 - Do Import Tariffs Help Reduce Trade Deficits?
- **Monetary Policy**
 - Why Do Forecasters Disagree about Their Monetary Policy Expectations?
 - The Federal Reserve and its Monetary Policy Implementation Framework
 - Firms' Inflation Expectations Have Picked Up
- **Household Issues**
 - Borrower Expectations for the Return of Student Loan Repayment
 - When the Household Pie Shrinks, Who Gets Their Slice?
- **Banking Matters**
 - Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas
 - The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit
- **Treasury Market**
 - Measuring Treasury Market Liquidity