



**Small Business & Agriculture Advisory Council
Federal Reserve Bank of New York
33 Liberty Street
10F, Paul Volcker Boardroom
Friday, July 18, 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
Jim Orr, Vice President

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. Did your firm's sales volume increase, decrease or stay the same in the first half of the year?
2. During the second half of the year, do you expect your firms' sales to increase, decrease, or stay the same?
3. Do you plan to increase investment in your firm (plant & equipment) during the second half of the year?
4. Has your firm faced any shortage of labor that has limited your ability to meet demand?
5. Do you plan to increase employment in the second half of the year?
6. Do you expect input prices to increase during the second half of the year? Do you expect prices of products/services sold to increase?
7. Over the past six months, how have the terms and conditions for obtaining financing changed (tightened, eased, not changed)?

2:00 pm Adjourn



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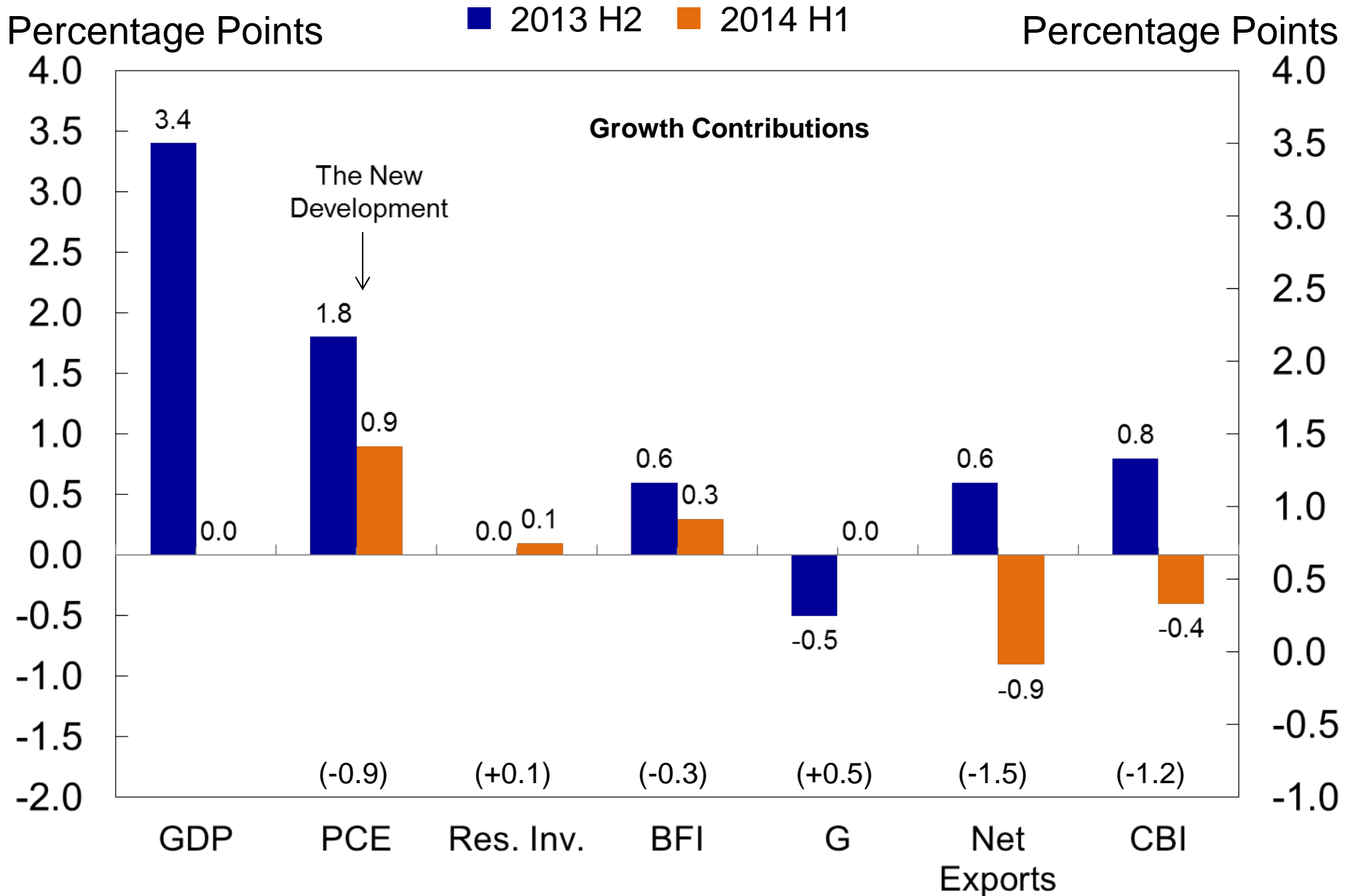
US Macro Overview

July 18, 2014

Overview

- Growth of real GDP over the first half of 2014 has been marked down to essentially zero.
 - Revised data suggests that underlying growth rate of real consumer spending may be somewhat lower, and the equilibrium personal saving rate may be somewhat higher.
 - Several 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 continues to fall faster than expected.
 - Core inflation increasing somewhat sooner than expected.
 - Suggests that the economy's potential growth rate may be lower than we had been assuming.
- The recent increase of inflation coincides with a slowing of productivity growth, leading to faster growth of unit labor costs and a narrowing of profits margins.
 - This has lead some analysts to conclude that the Fed is “behind the curve”.
 - However, our research suggests that inflation expectations are the main driver of inflation, and those expectations remain stable.
 - If this view of the inflation process is correct, profit margins will come under downward pressure.

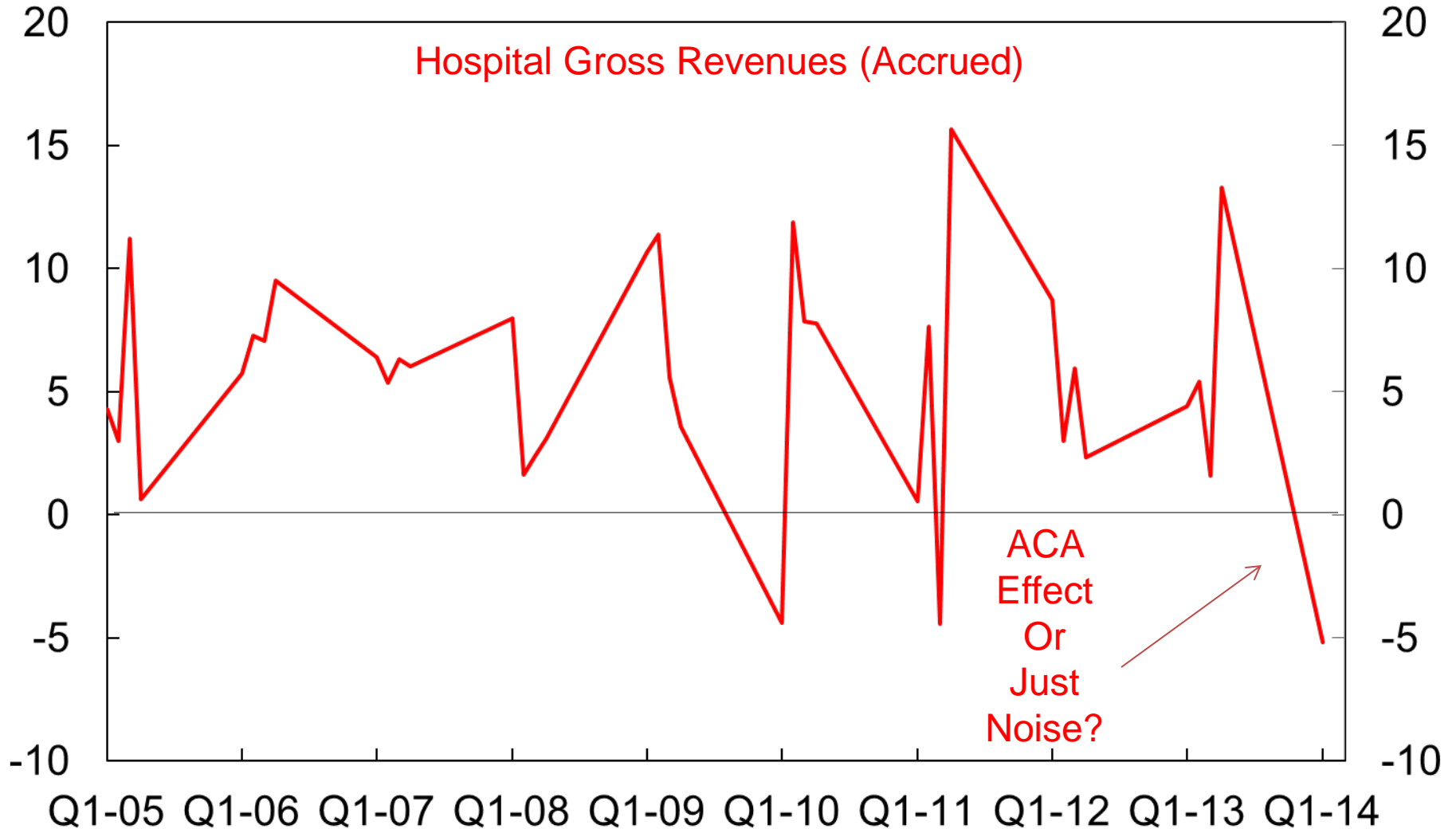
Sources of the Slowdown of Growth of Real GDP



Consumption of Health Care Services Collapsed in 2014Q1

Quarterly % Change (AR)

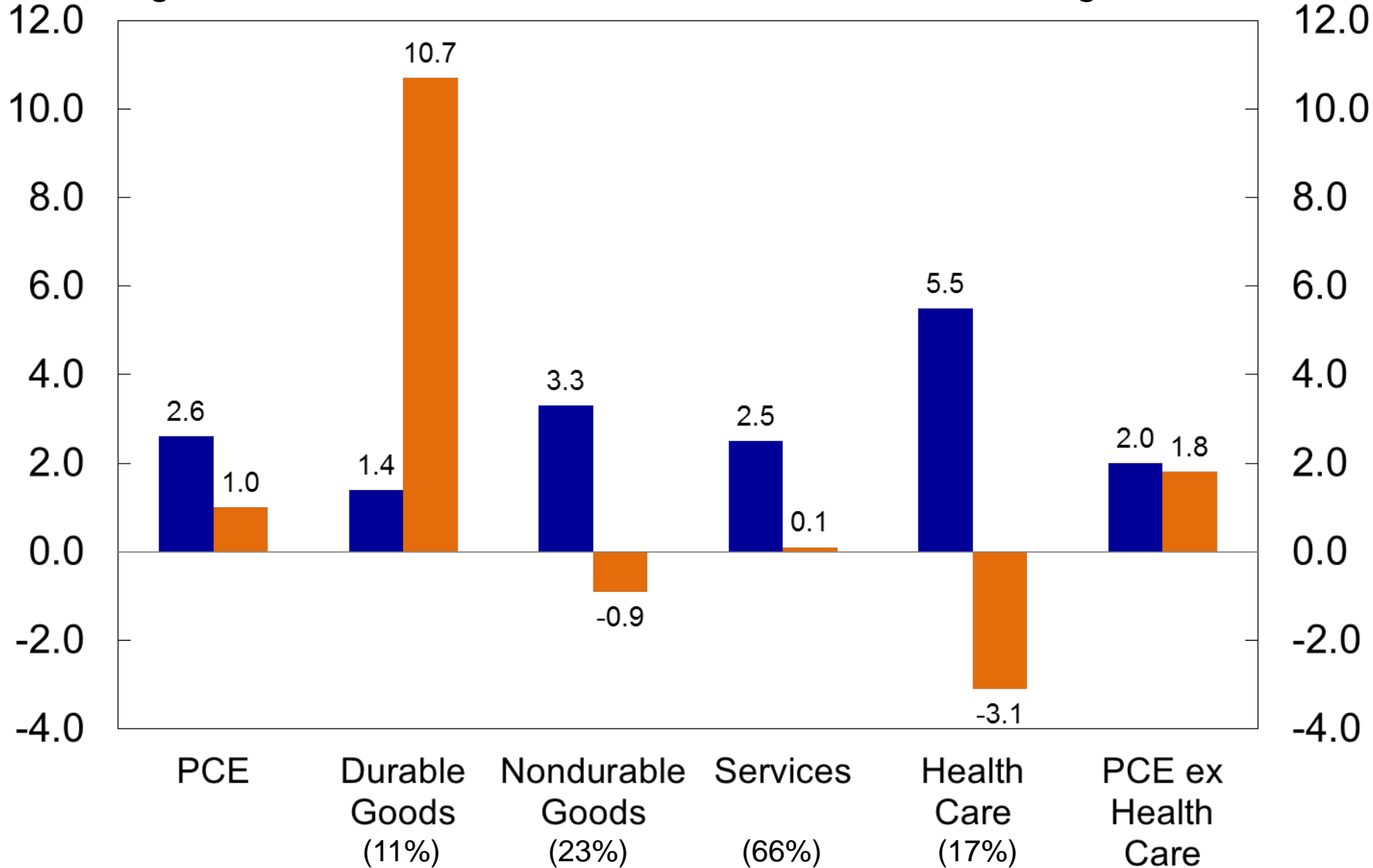
Quarterly % Change (AR)



Source: Quarterly Services Survey, Bureau of the Census

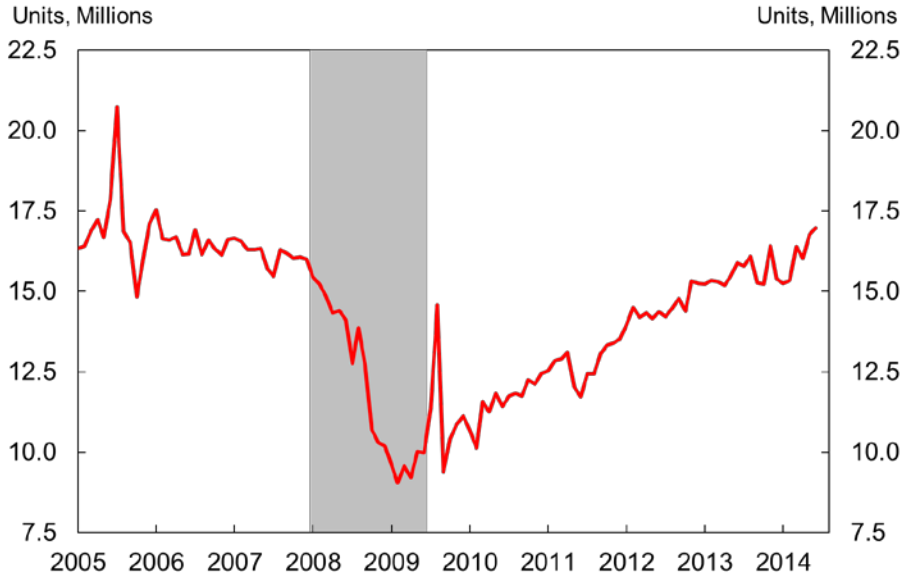
Sources of the Slowdown in Growth of Real PCE

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



Source: Bureau of Economic Analysis

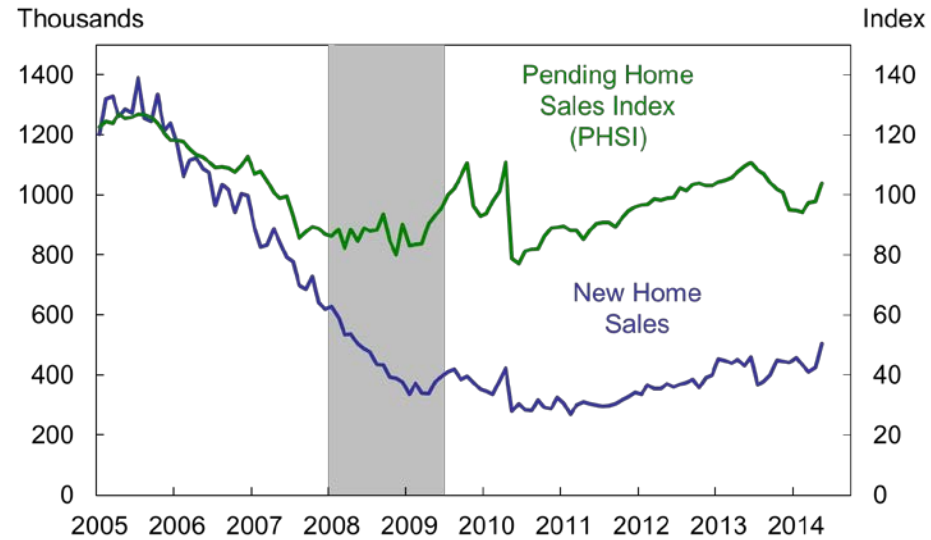
Total Light Vehicle Sales



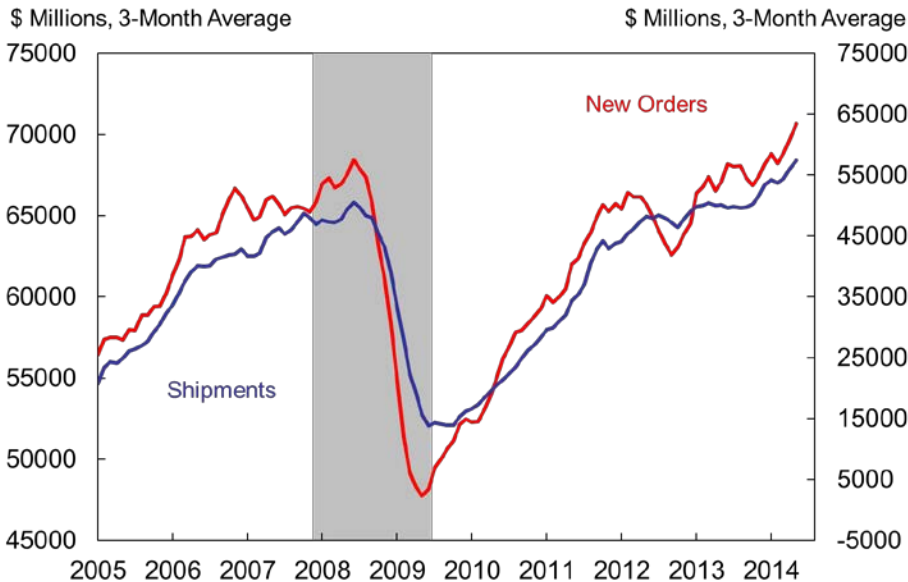
Source: Autodata

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New and Existing Home Sales



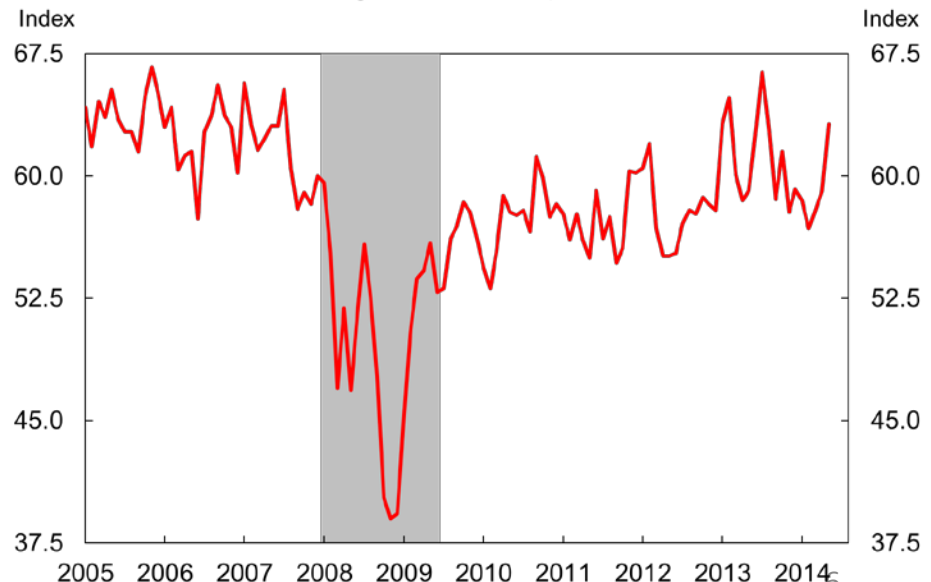
Nondefense Capital Goods ex Aircraft



Source: Bureau of Labor Statistics

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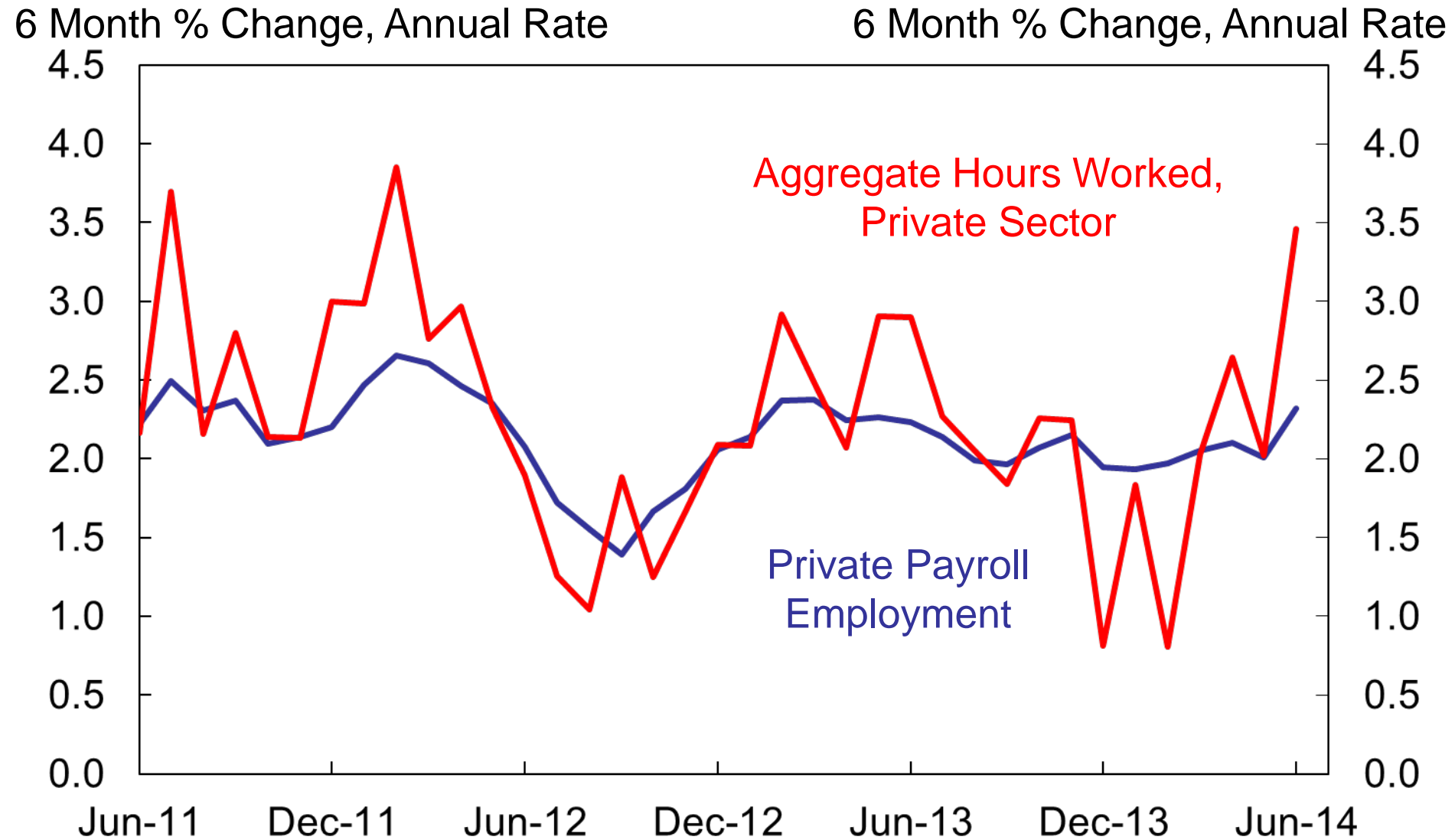
Architectural Billings Index: Inquiries for New Work



Source: American Institute of Architects

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Demand For Labor Firmed in 2014Q2

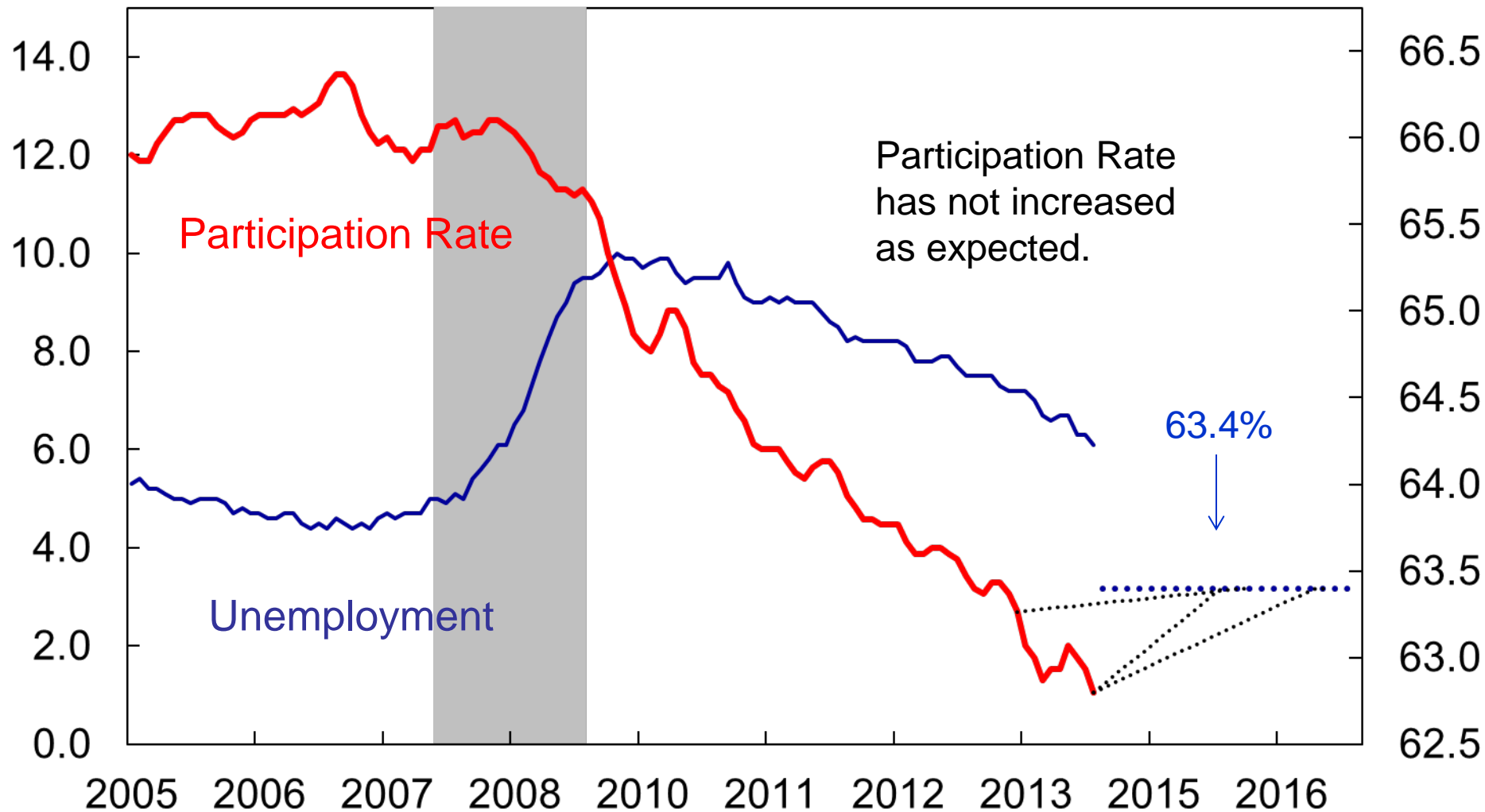


Source: Bureau of Labor Statistics

Labor Force Participation Rate

Percent

Percent

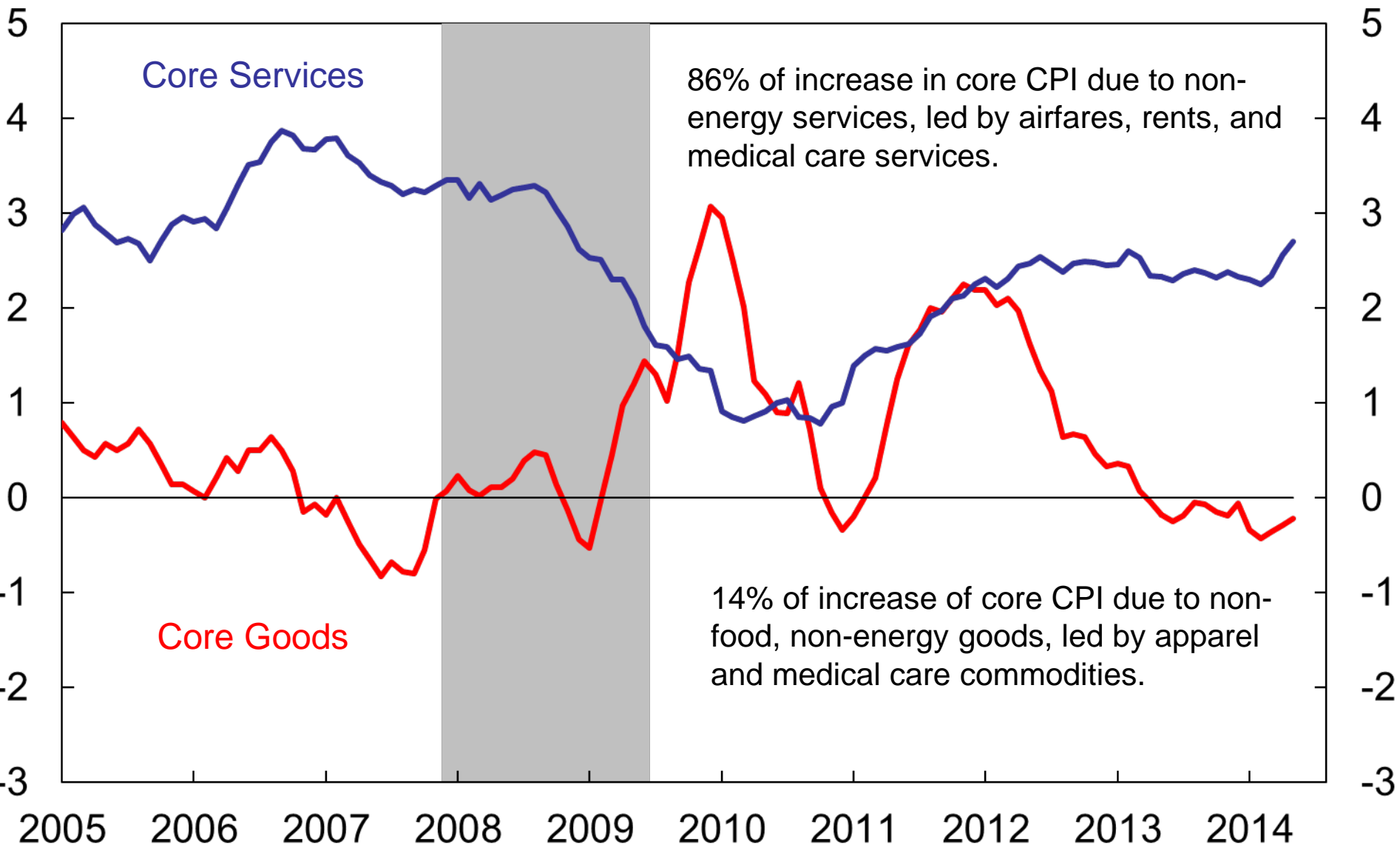


Source: Bureau of Labor Statistics

Inflation Breakdown: Core Goods and Core Services

Yr/Yr % Change

Yr/Yr % Change

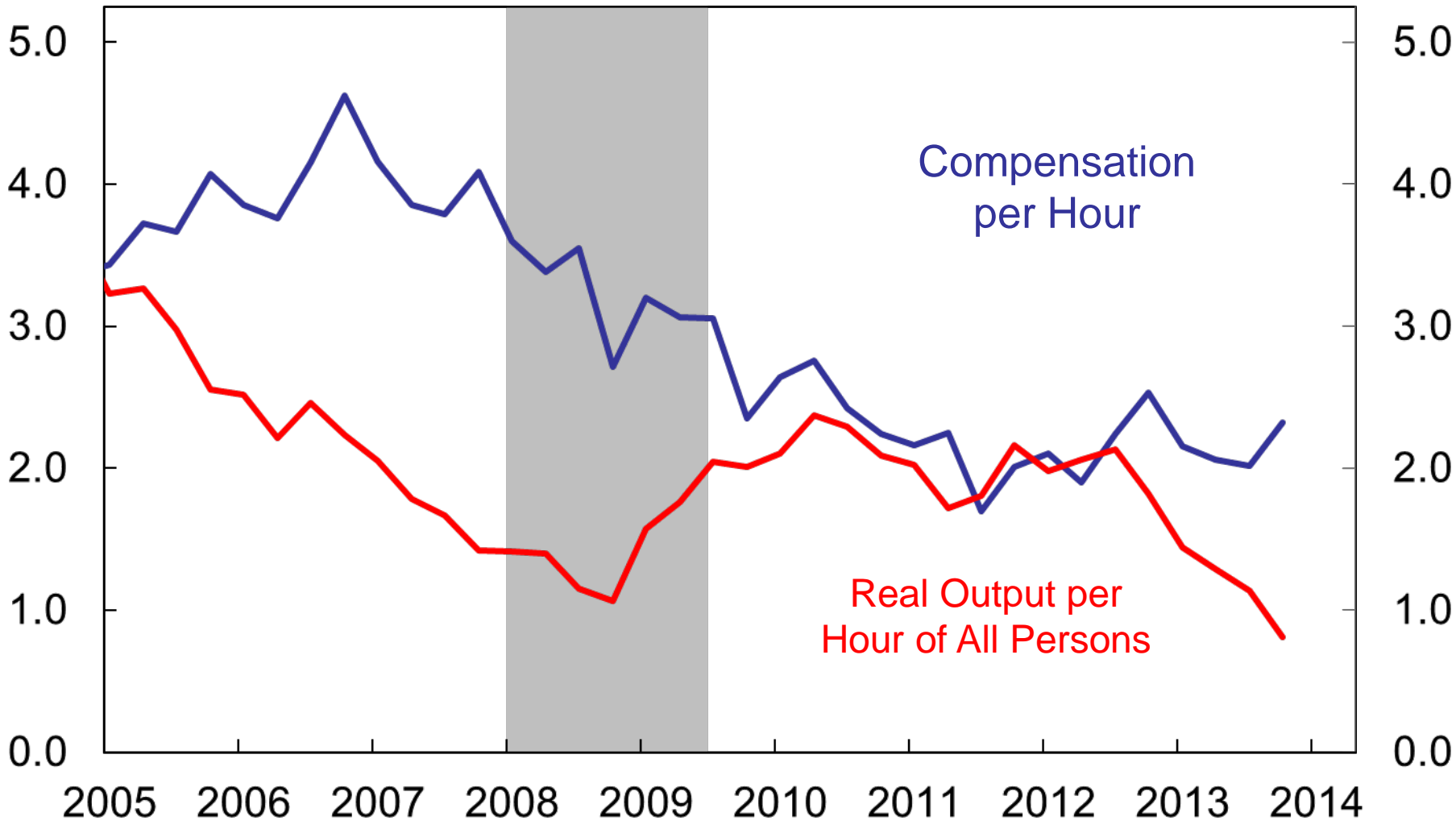


Source: Bureau of Labor Statistics

Nonfarm Business Sector

16 Quarter % Change, Annualized

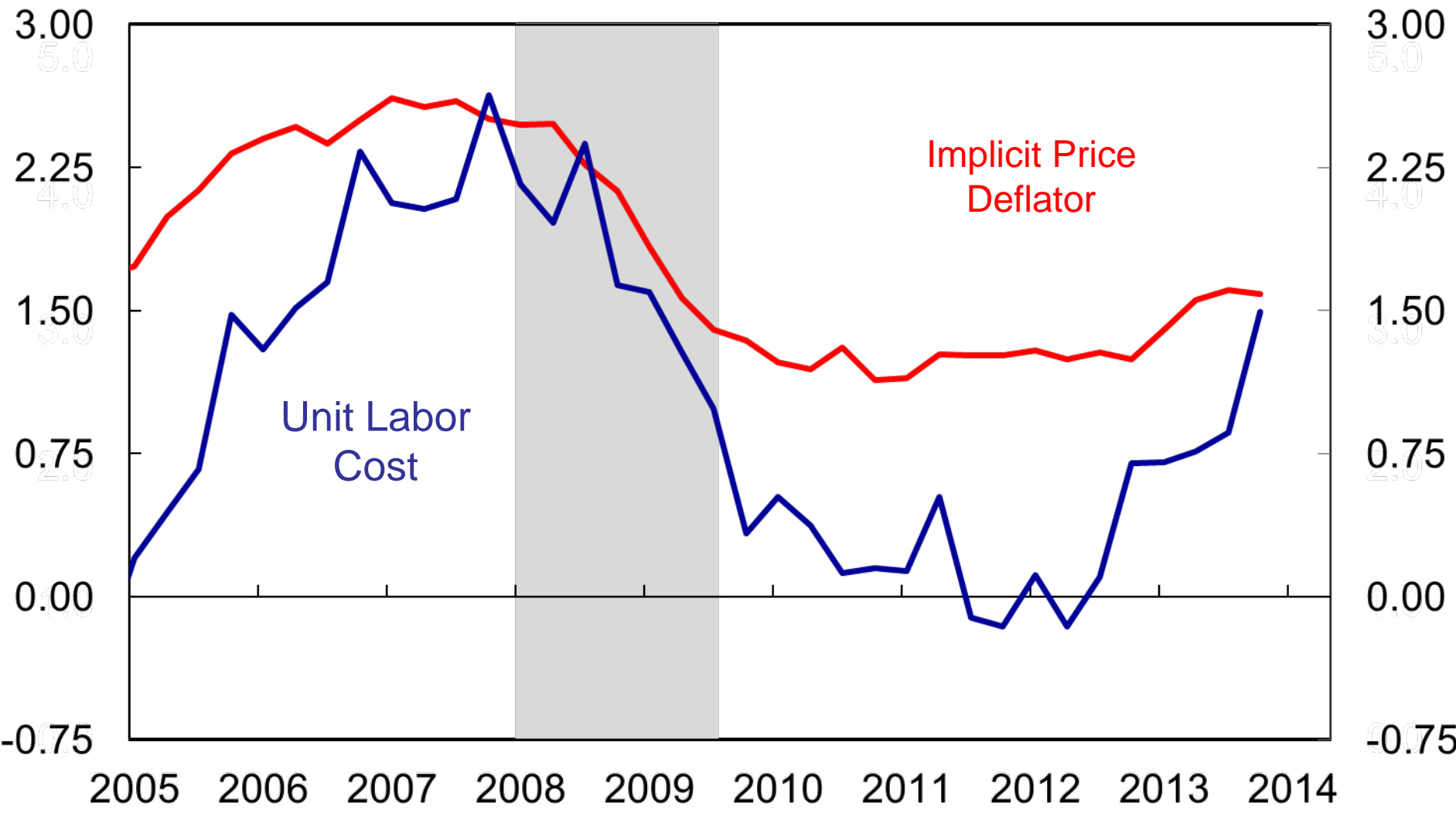
16 Quarter % Change, Annualized



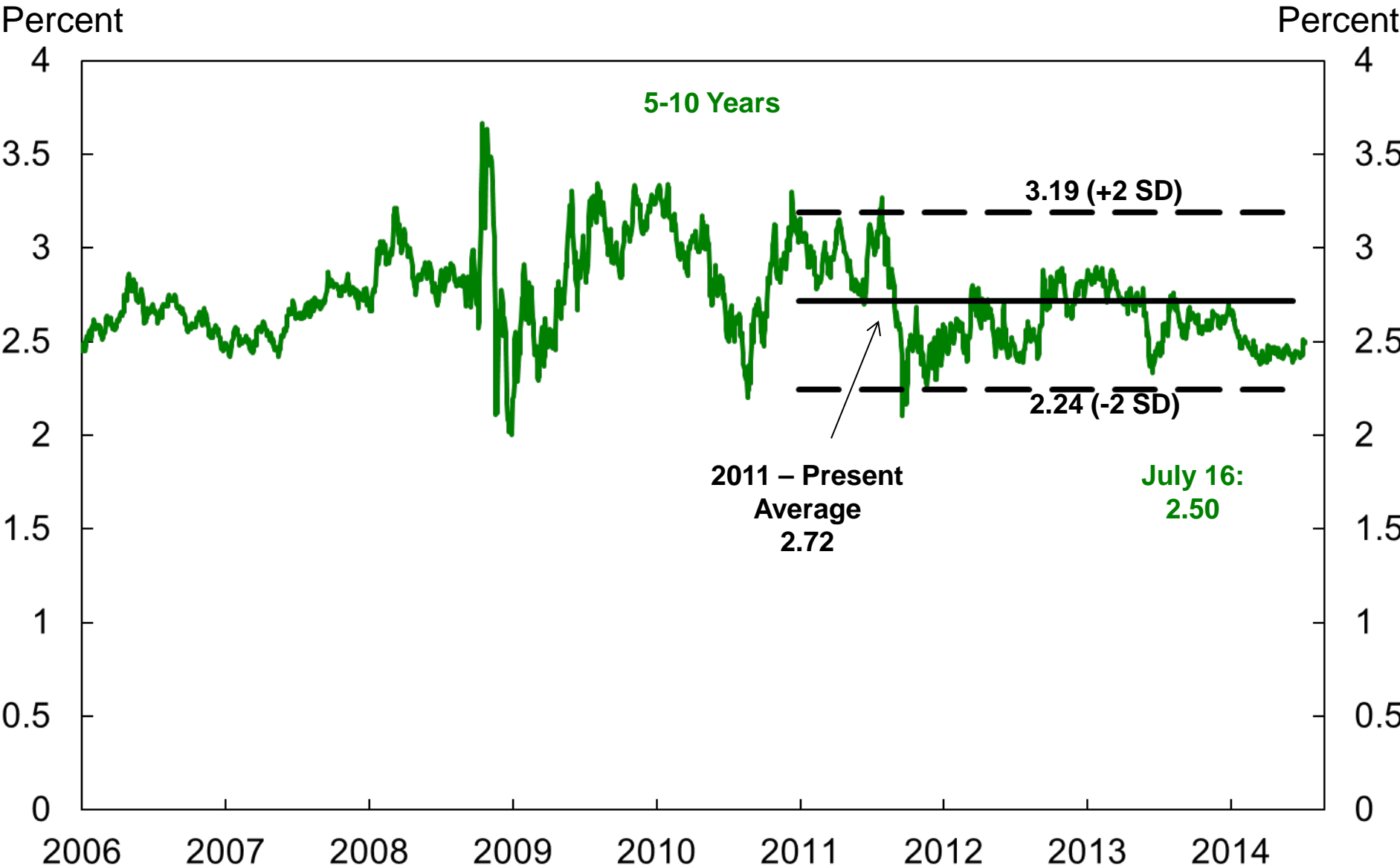
Nonfarm Business Sector

16 Quarter % Change, Annualized

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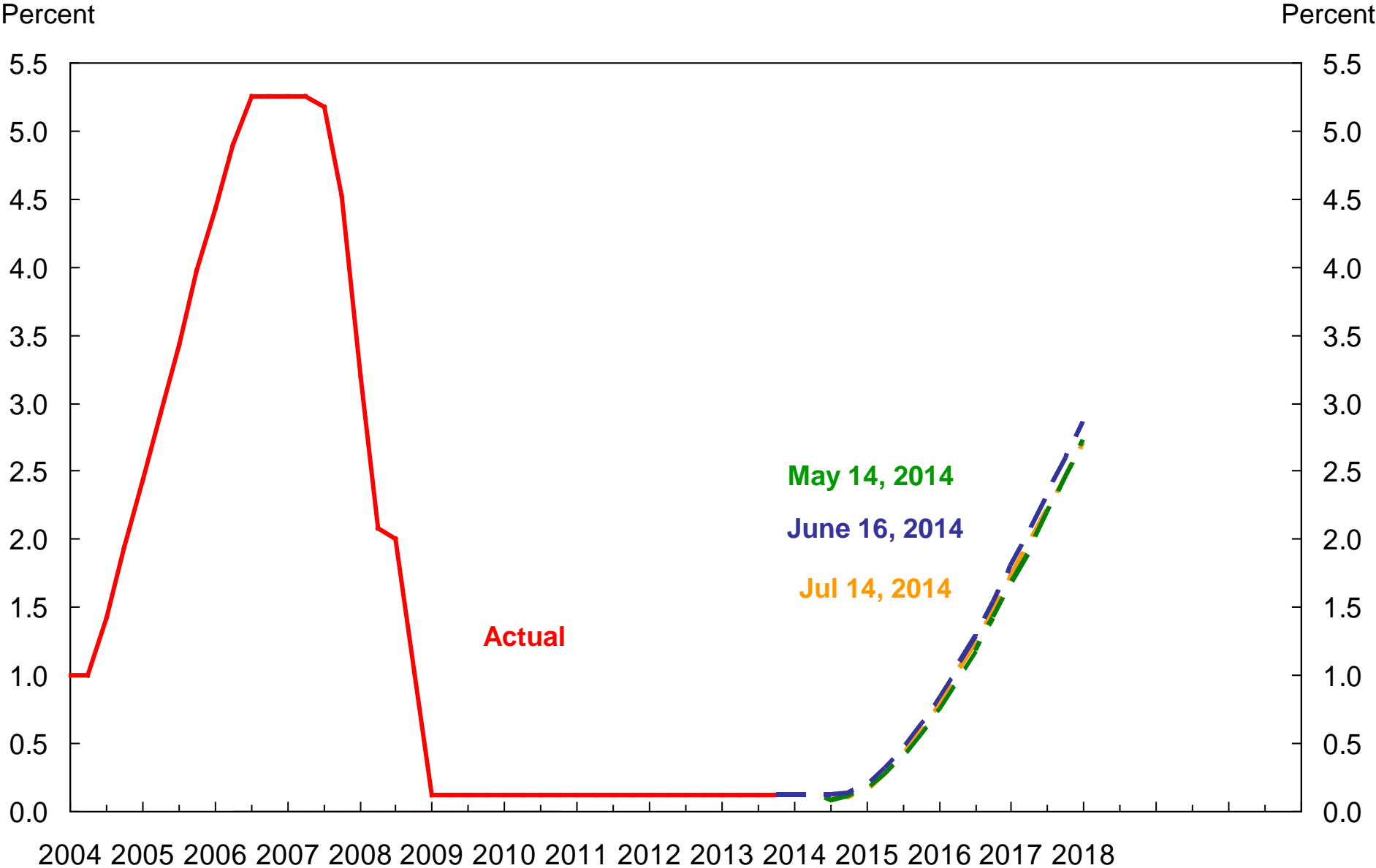


TIPS Based Inflation Expectations



Note: Dashed lines represent 2 Standard Deviations from the mean

Actual and Expected Fed Funds Target





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Regional Economic Outlook

Presentation to the Advisory Council on Small Business and Agriculture

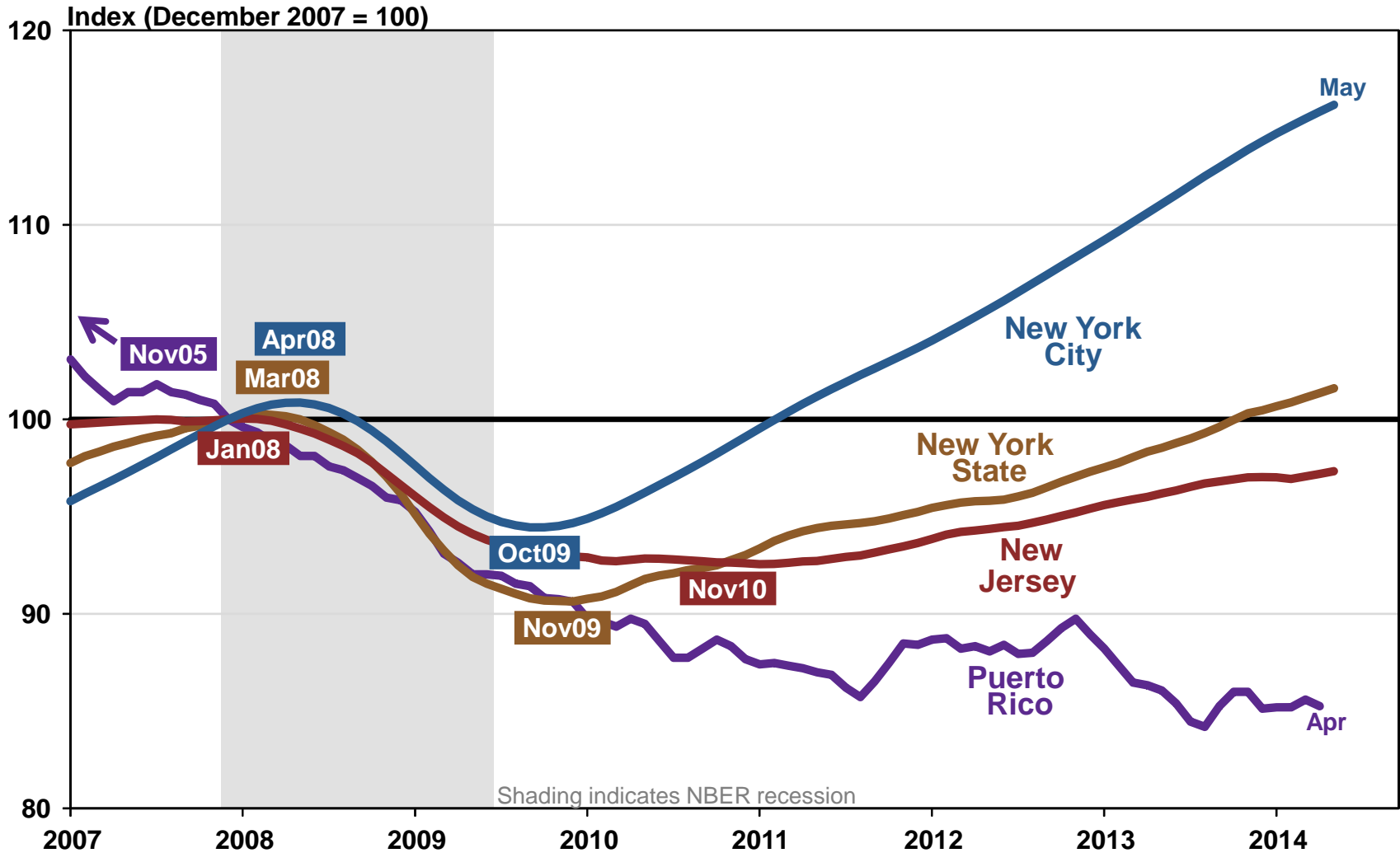
James Orr, Vice President

July 18, 2014

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)



Source: Federal Reserve Bank of New York; Puerto Rico Government Development Bank.

Note: The Puerto Rico composite index is based on a different methodology than the indexes produced by the FRBNY.



Current Economic Conditions

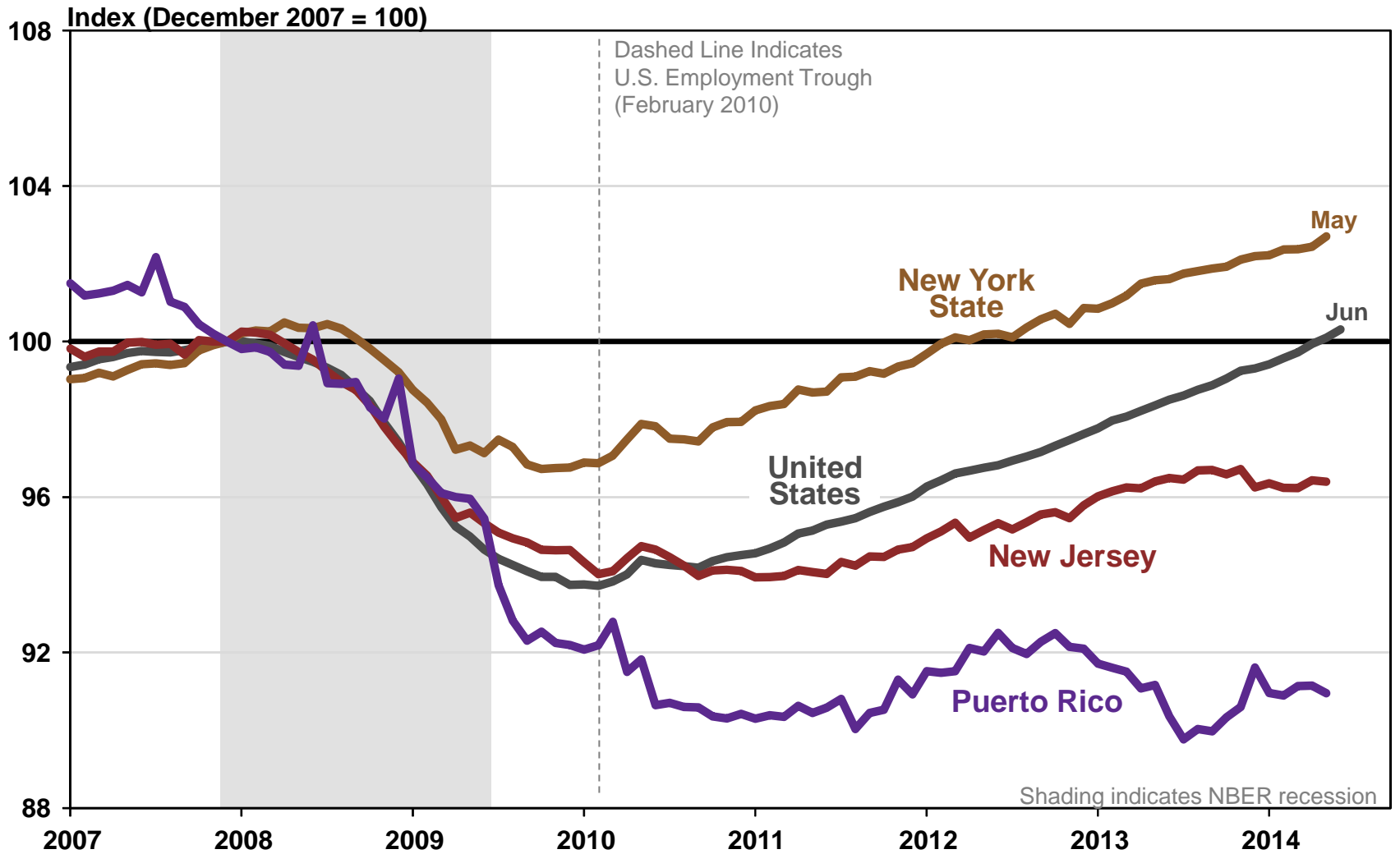
FRBNY Business Surveys, Current Conditions



Shading indicates NBER recession

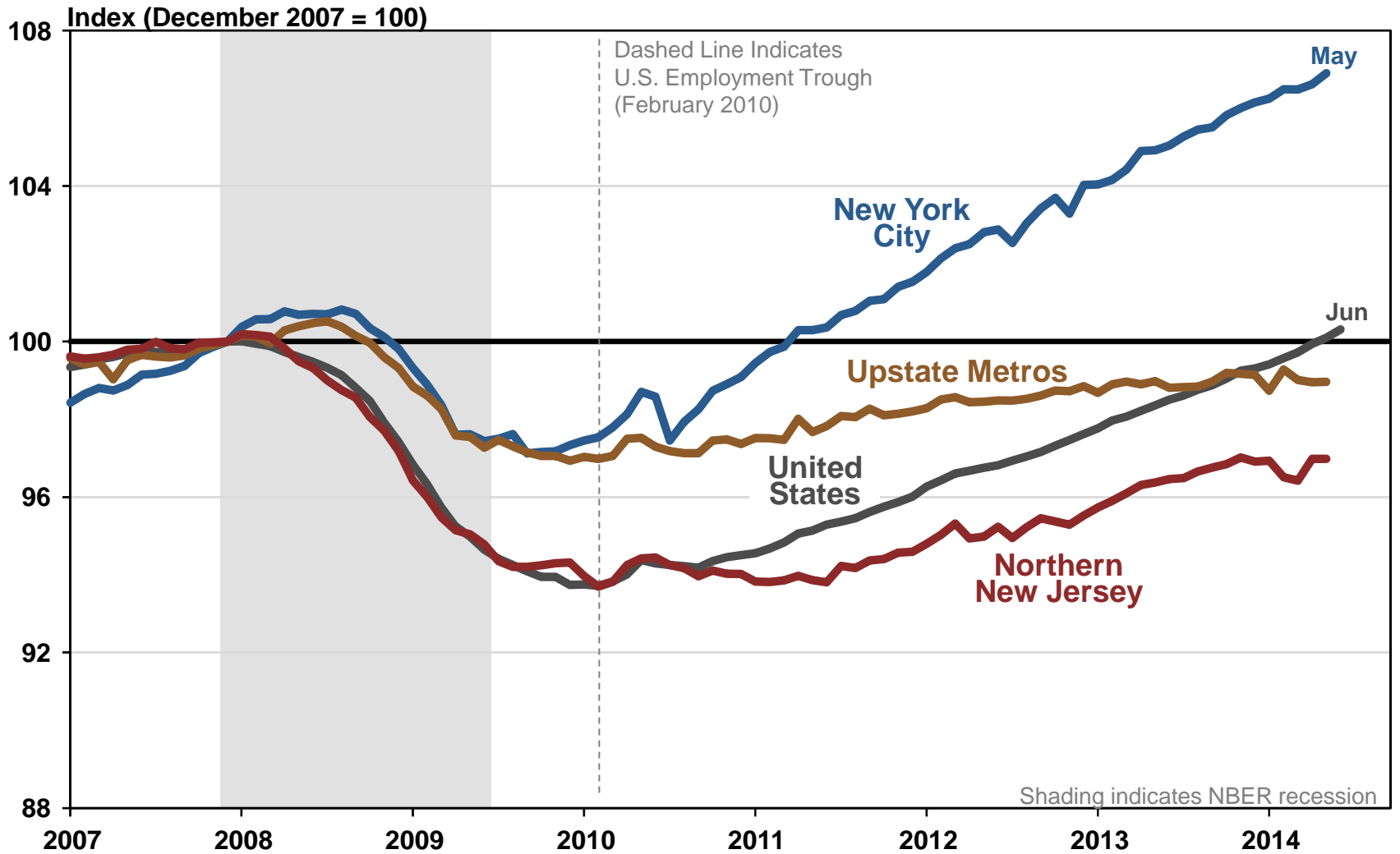
Total Employment

Seasonally Adjusted Index



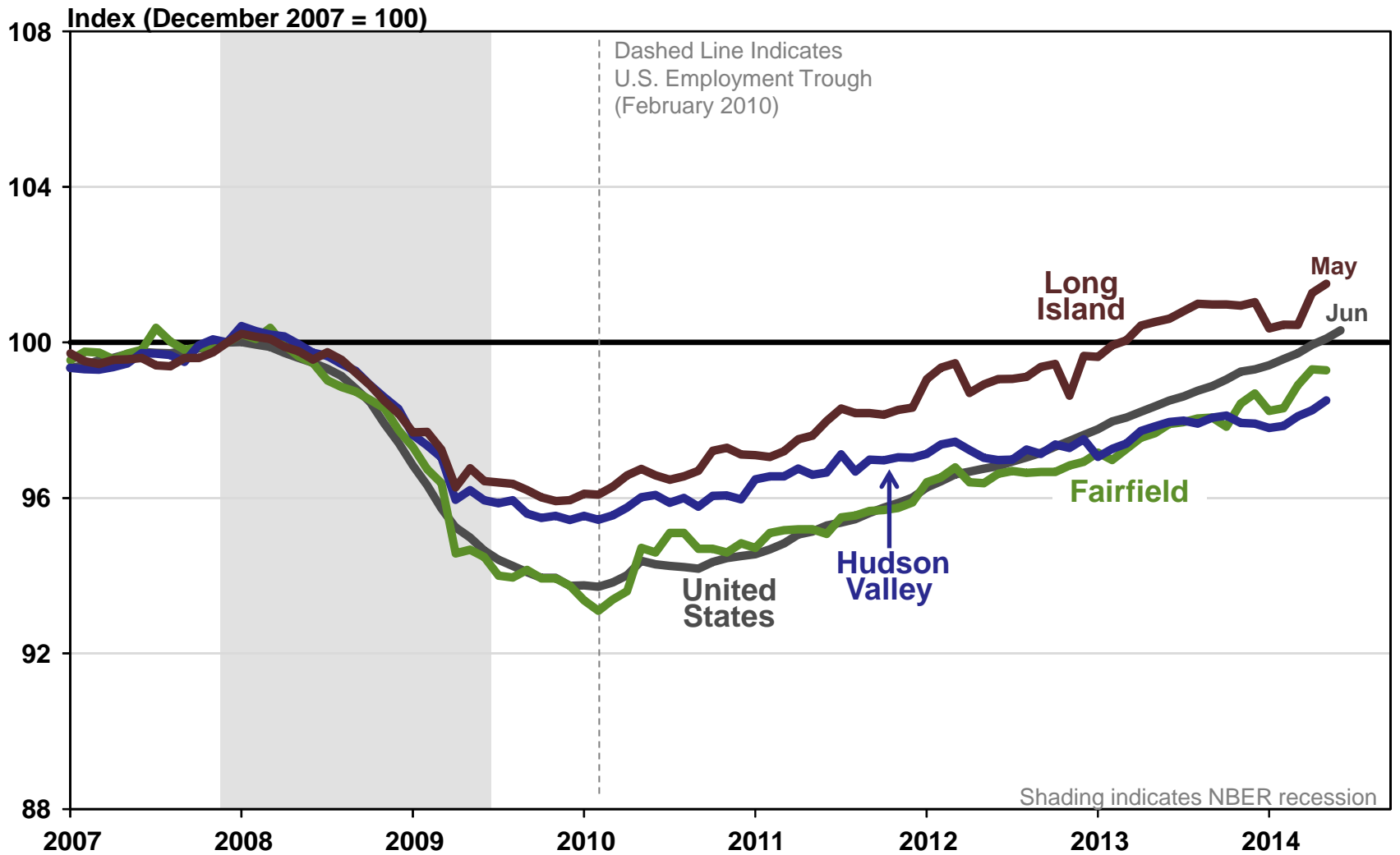
Total Employment

Seasonally Adjusted Index



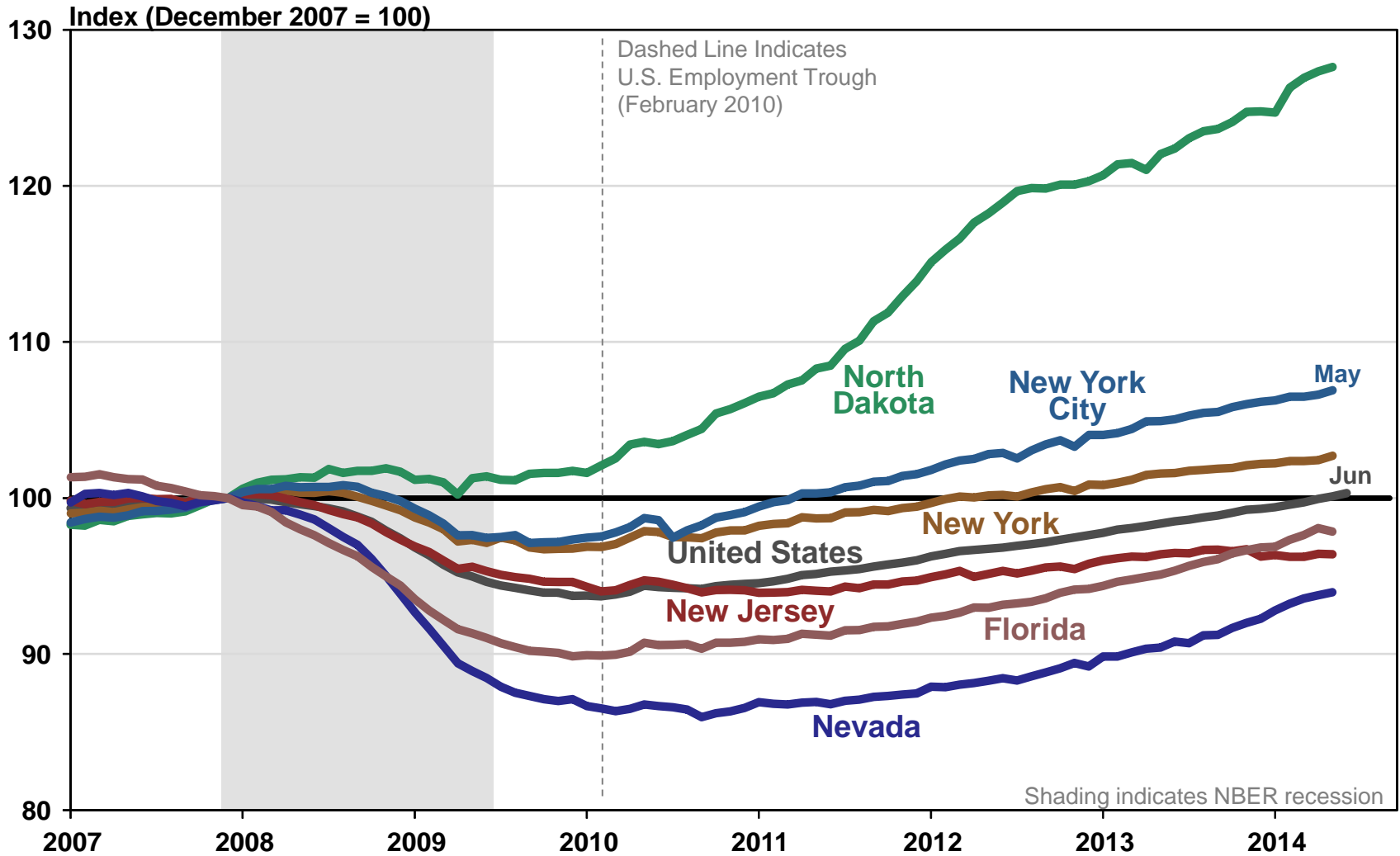
Total Employment

Seasonally Adjusted Index



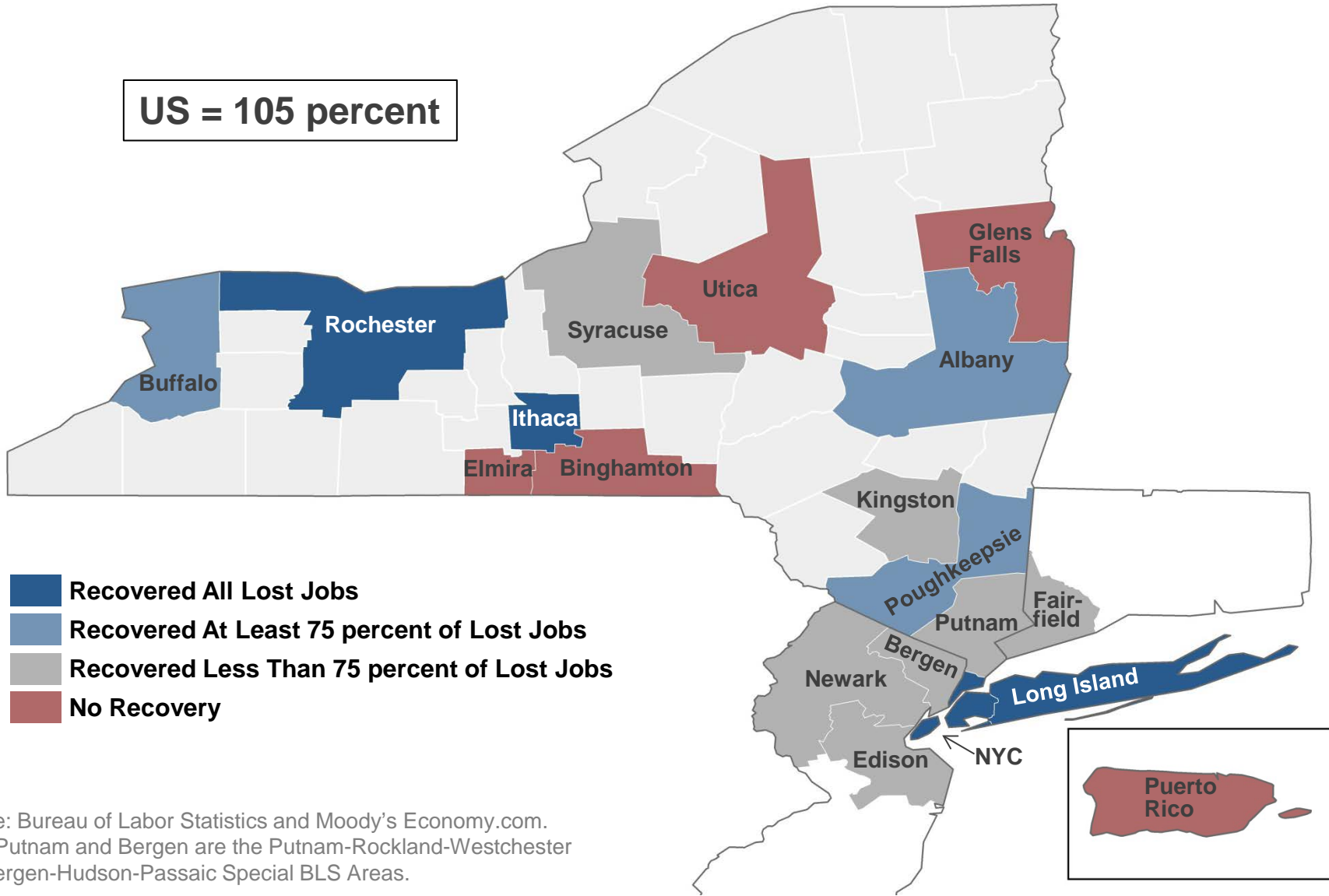
Total Employment

Seasonally Adjusted Index



Status of Jobs Recovery

Share of Lost Jobs Gained Back During Local Recovery



Source: Bureau of Labor Statistics and Moody's Economy.com.
Note: Putnam and Bergen are the Putnam-Rockland-Westchester and Bergen-Hudson-Passaic Special BLS Areas.

Job Growth by Sector

Year-Over-Year Percent Change, May 2014

	United States	New York State	New York City	New Jersey
Professional & Business Services	3.5	2.5	2.7	1.1
Construction	3.4	2.8	3.0	-6.6
Leisure & Hospitality	2.8	1.9	2.5	-0.5
Transportation & Utilities	2.4	1.8	1.3	2.2
Wholesale Trade	2.3	0.6	0.7	-0.3
Retail Trade	2.0	1.8	3.8	2.8
Education & Health Services	1.7	2.0	3.3	0.3
Manufacturing	0.9	-1.7	-0.1	-0.1
Financial Activities	0.6	-0.5	0.5	-2.4
State & Local Government	0.4	-0.3	-0.4	0.3
Information	-1.8	-0.5	0.0	-3.7
Total	1.7	1.1	1.9	0.1

Job Growth by Sector

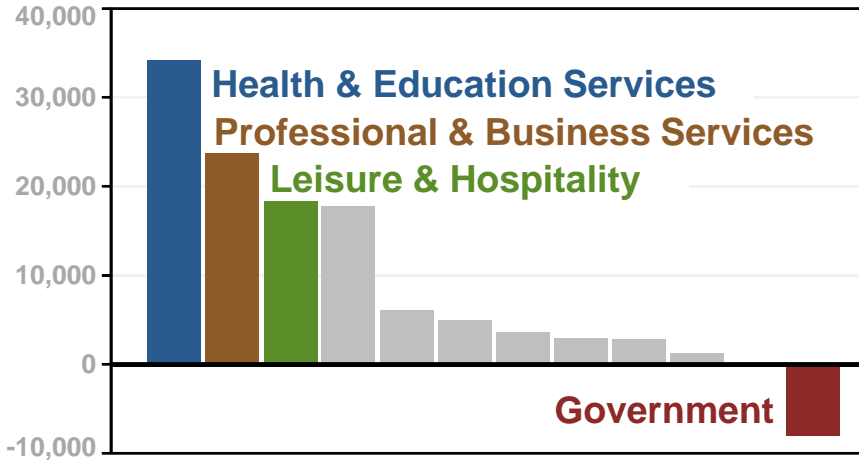
Year-Over-Year Percent Change, May 2014

	Connecticut	Puerto Rico
Professional & Business Services	1.4	5.1
Construction	3.5	5.1
Leisure & Hospitality	2.4	5.2
Transportation & Utilities	5.2	0.7
Wholesale Trade	2.5	0.0
Retail Trade	0.8	0.5
Education & Health Services	1.8	0.6
Manufacturing	-0.9	-0.7
Financial Activities	-0.8	-1.4
State & Local Government	-1.9	-3.3
Information	-2.2	2.1
Total	0.8	0.4

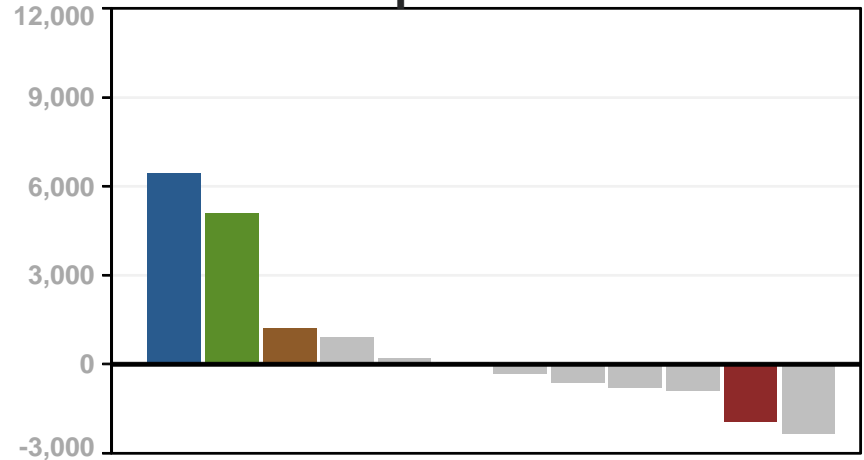
Sectors Driving Regional Job Growth

Change in Employment Over Past Year (As of April 2014)

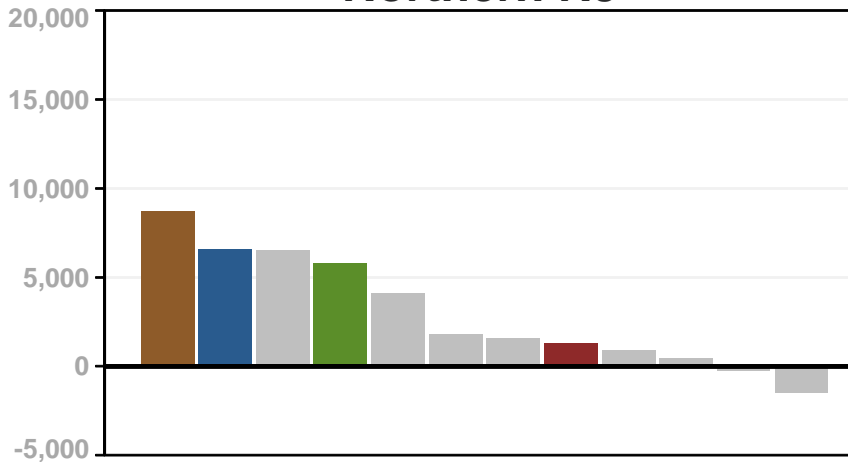
Downstate NY



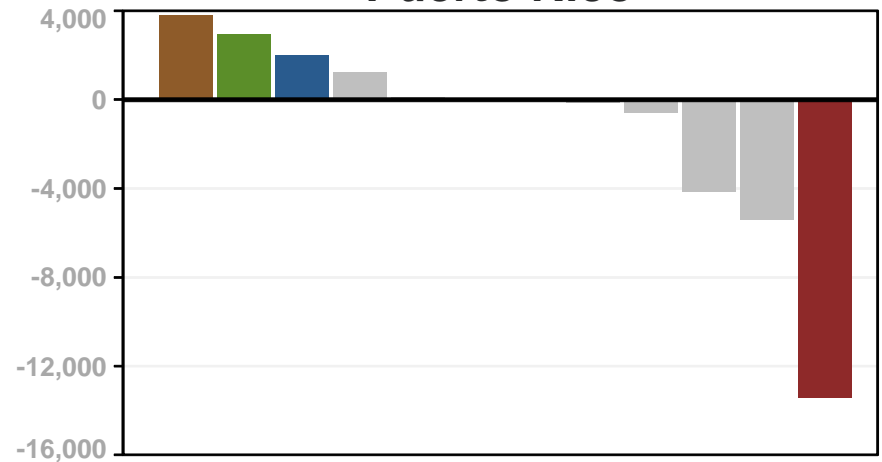
Upstate NY



Northern NJ

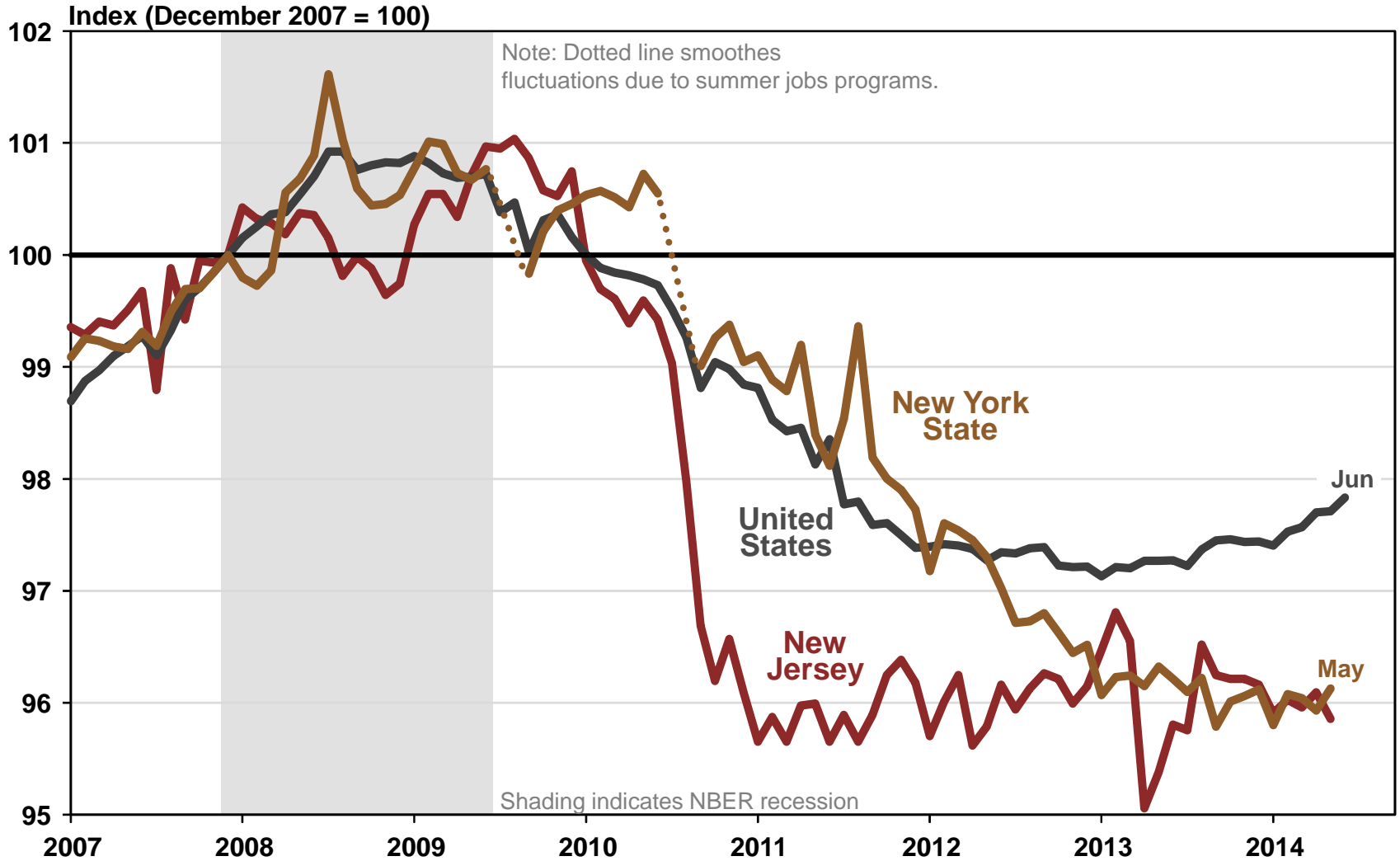


Puerto Rico



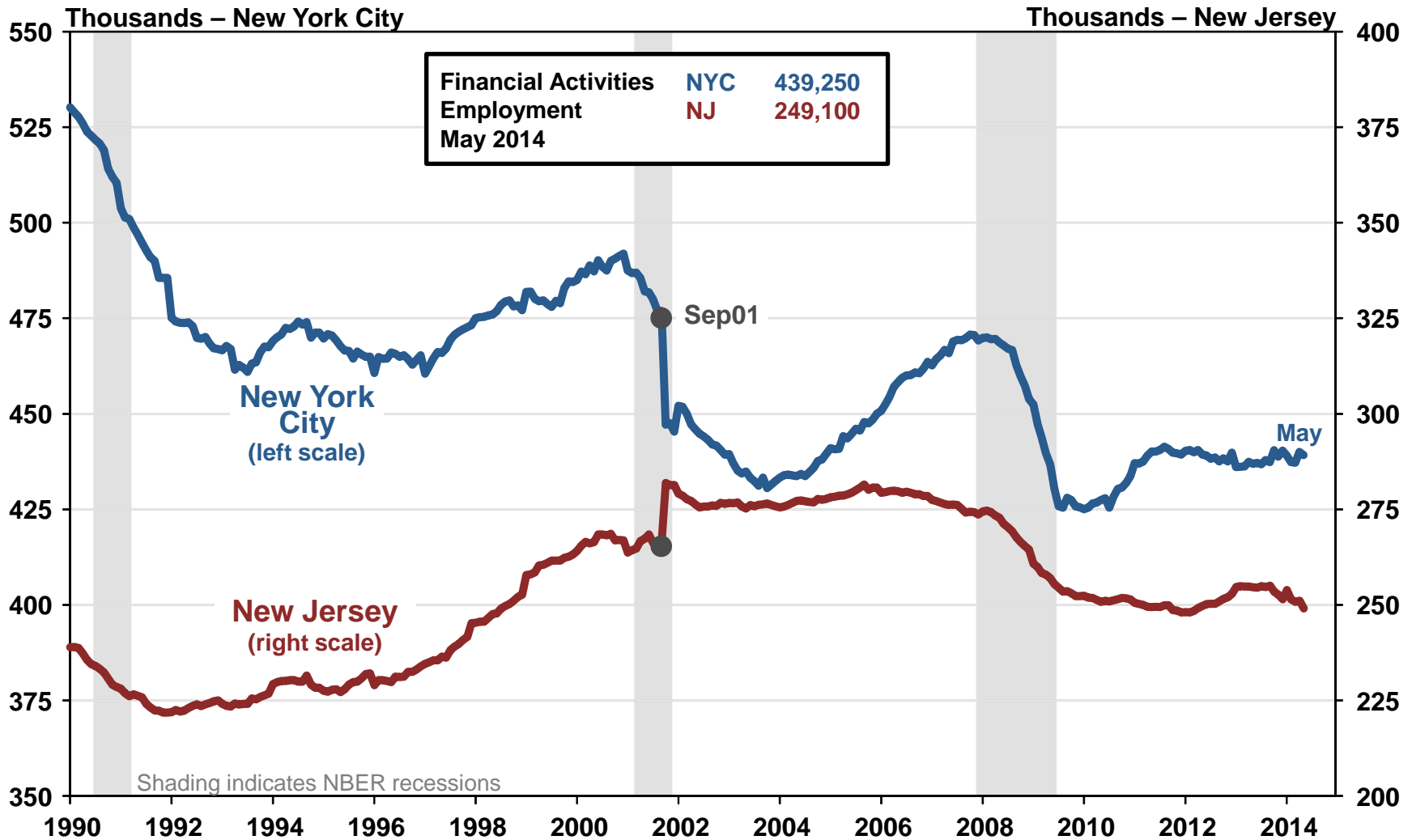
State and Local Government

Seasonally Adjusted Index



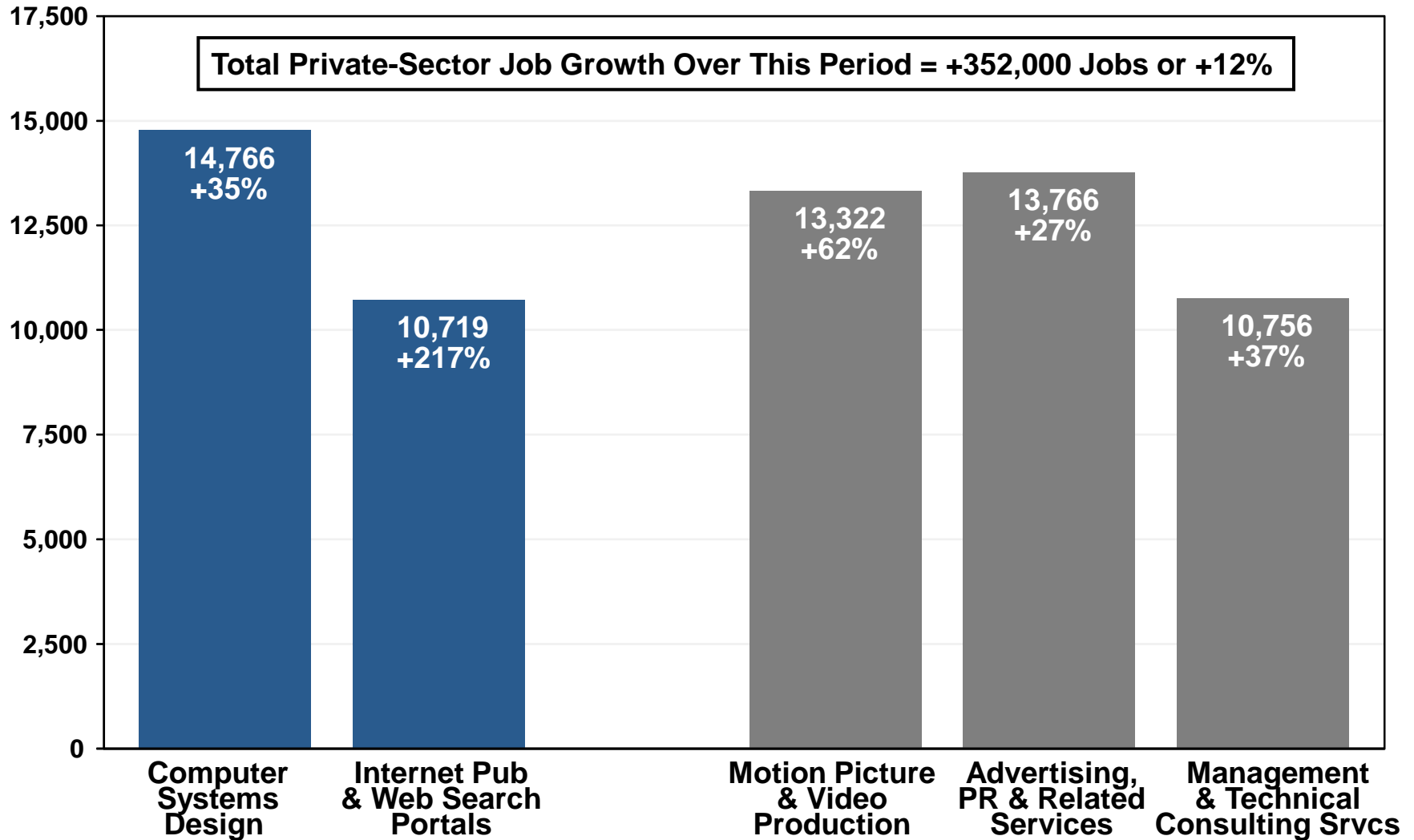
Financial Activities Employment

Seasonally Adjusted



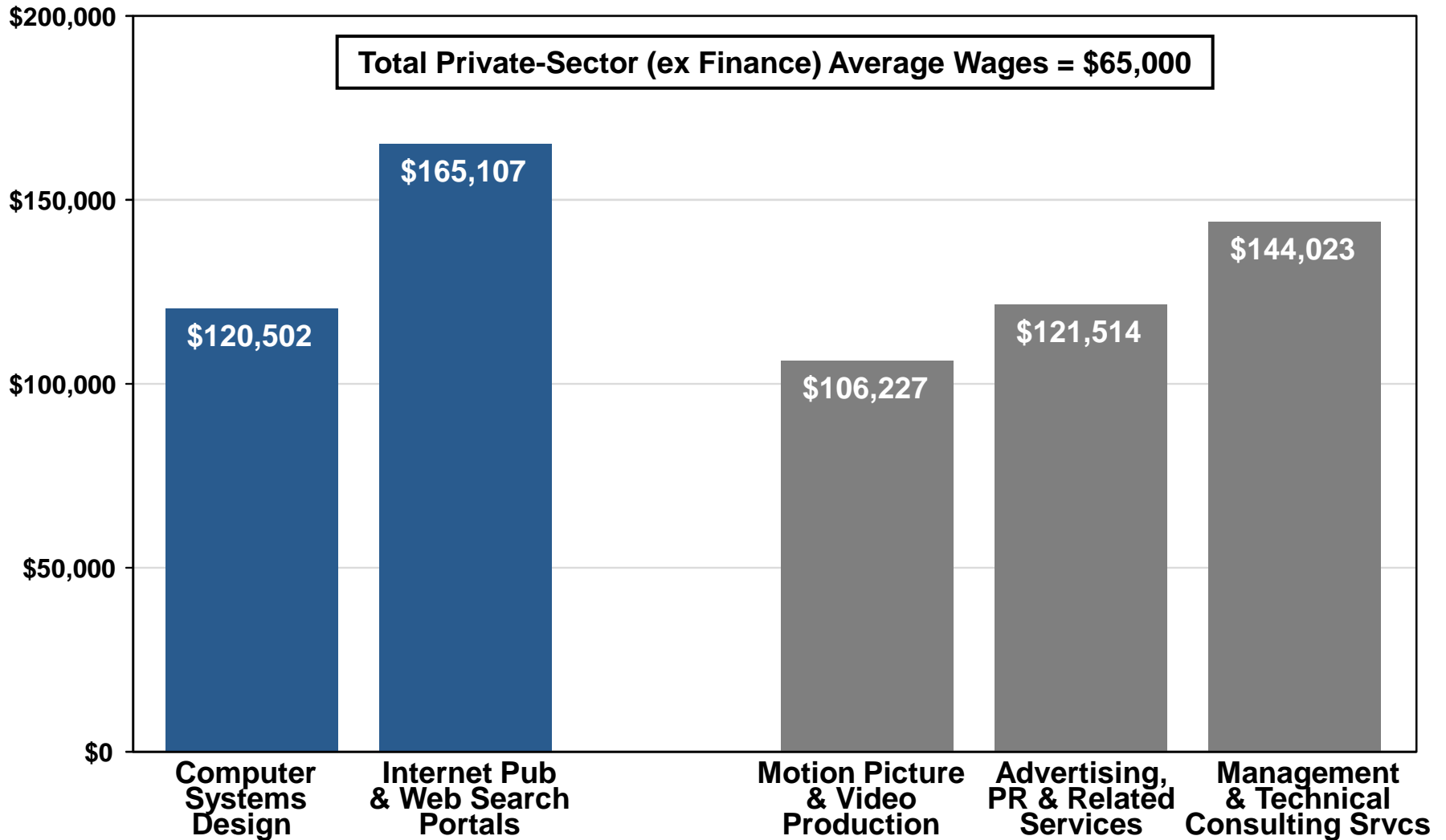
NYC Technology Employment

2009Q4 to 2013Q4



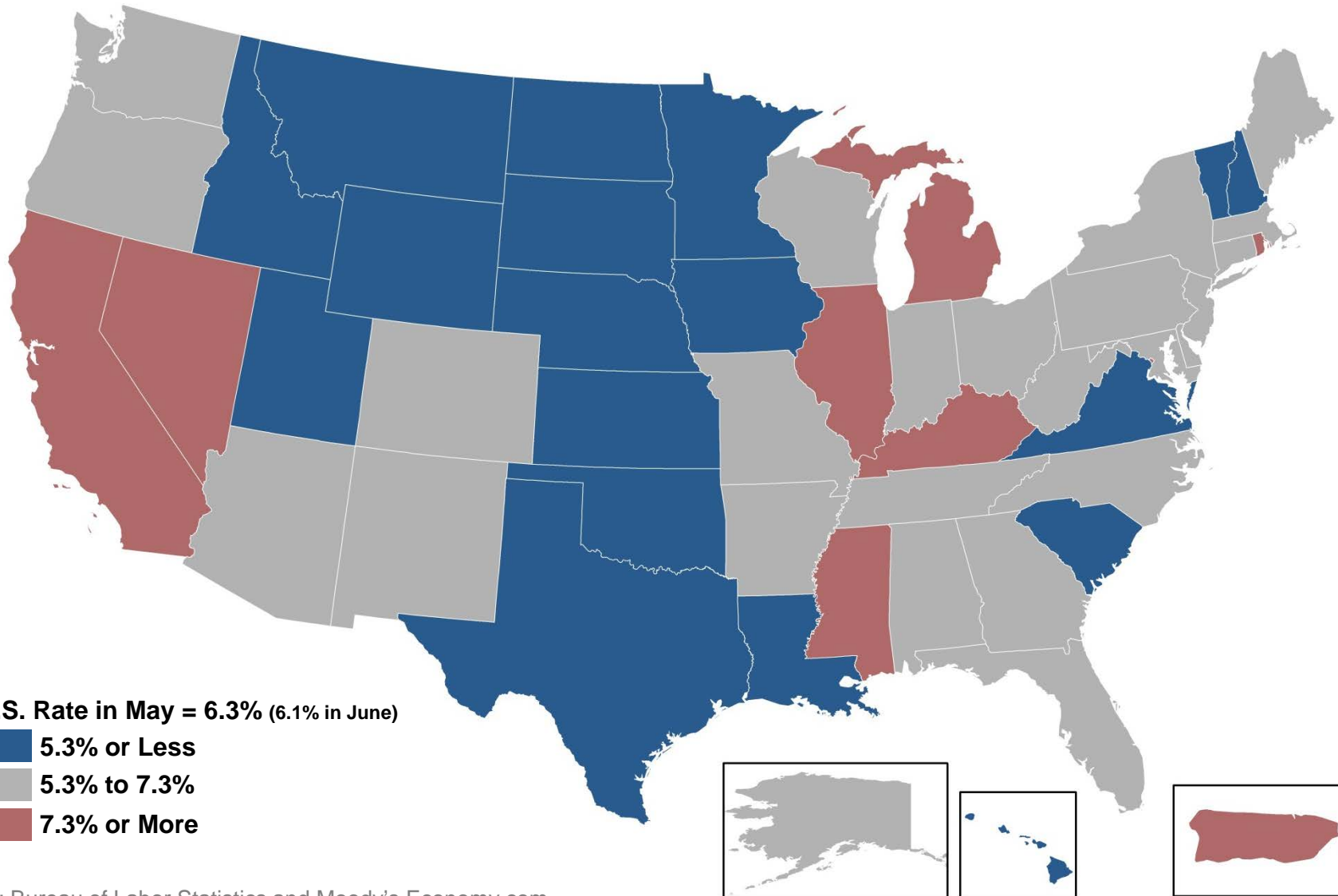
NYC Technology Average Wages

2013



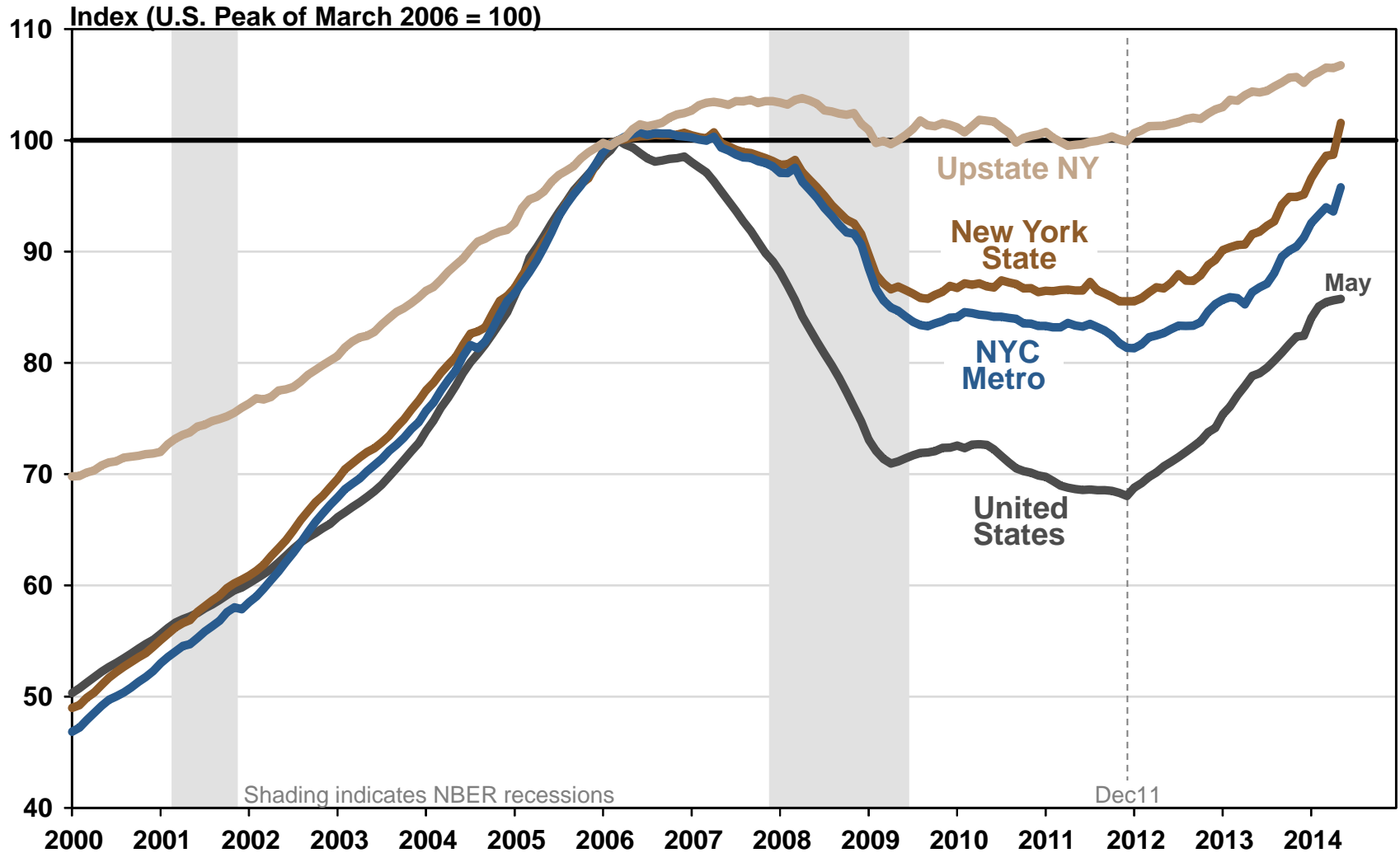
Unemployment Rates in the Nation

Seasonally Adjusted, May 2014



Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

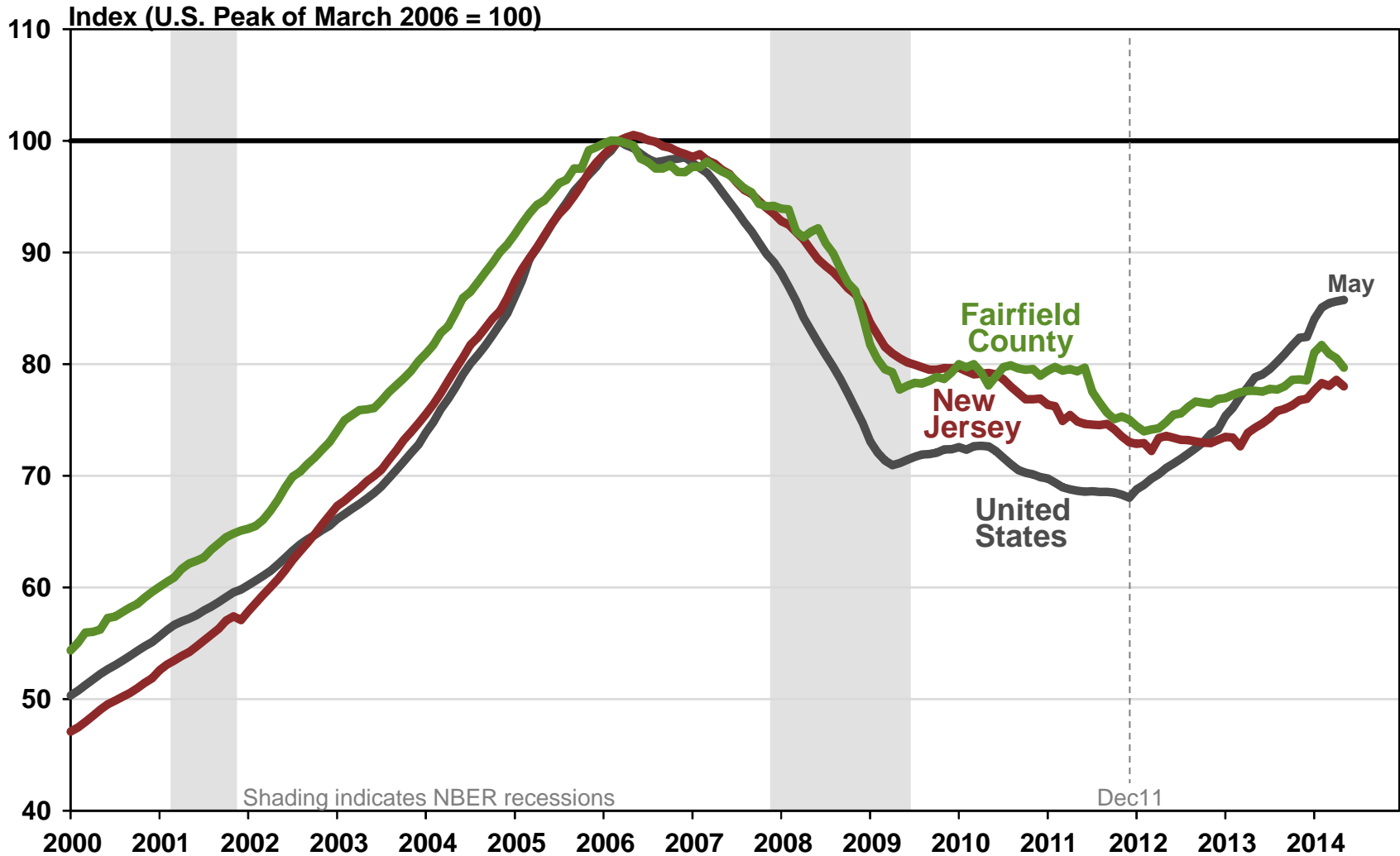


Source: CoreLogic Home Price Index (including distressed sales); Seasonally adjusted by FRBNY staff.

Note: 'NYC Metro' refers to the 'New York-White Plains-Wayne NY-NJ Metro Division.'

Home Prices

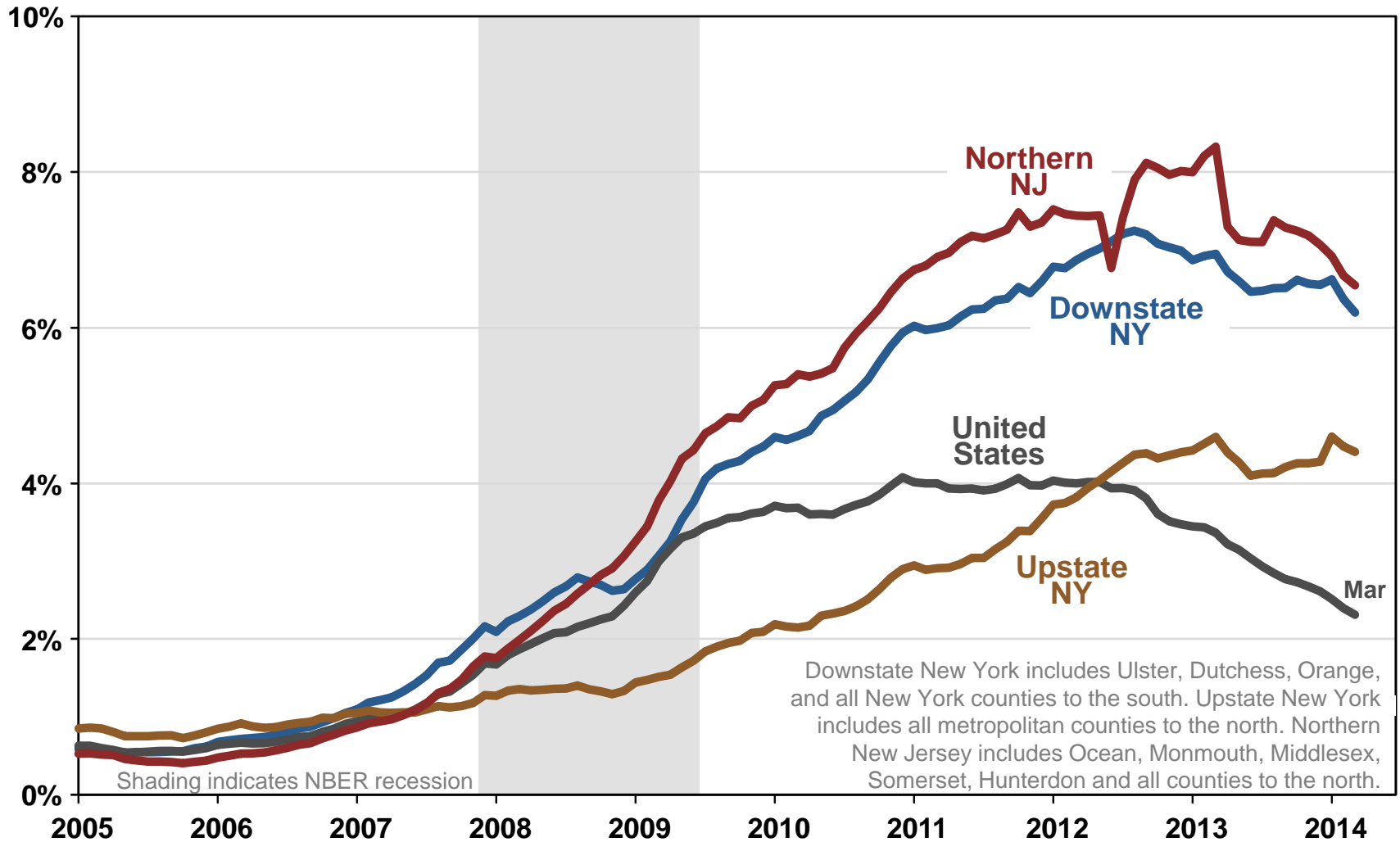
CoreLogic Home Price Index, Seasonally Adjusted



Source: CoreLogic Home Price Index (including distressed sales); Seasonally adjusted by FRBNY staff.
Note: 'NYC Metro' refers to the 'New York-White Plains-Wayne NY-NJ Metro Division.'

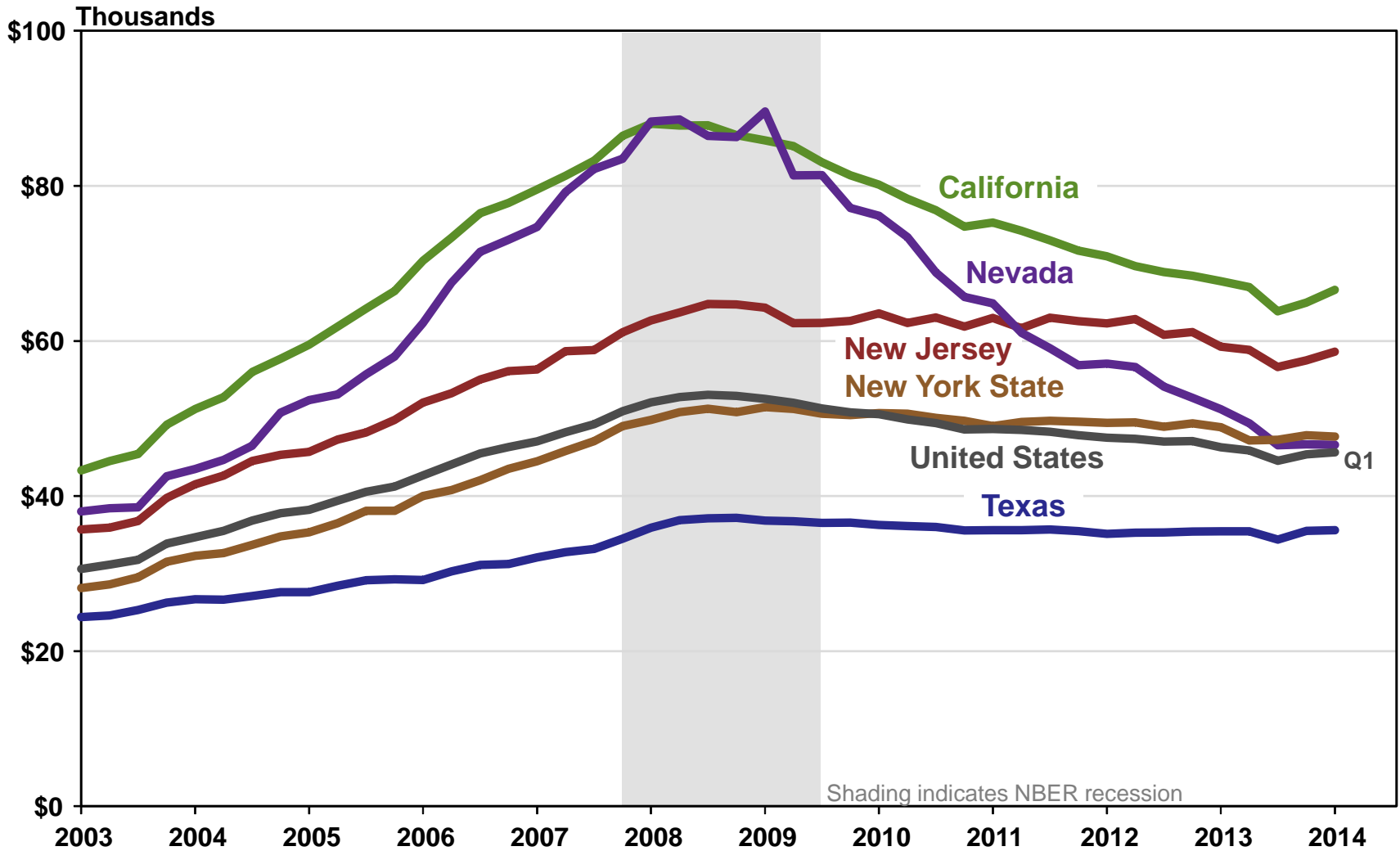
Backlog of Foreclosures

Share of Mortgages in Foreclosure



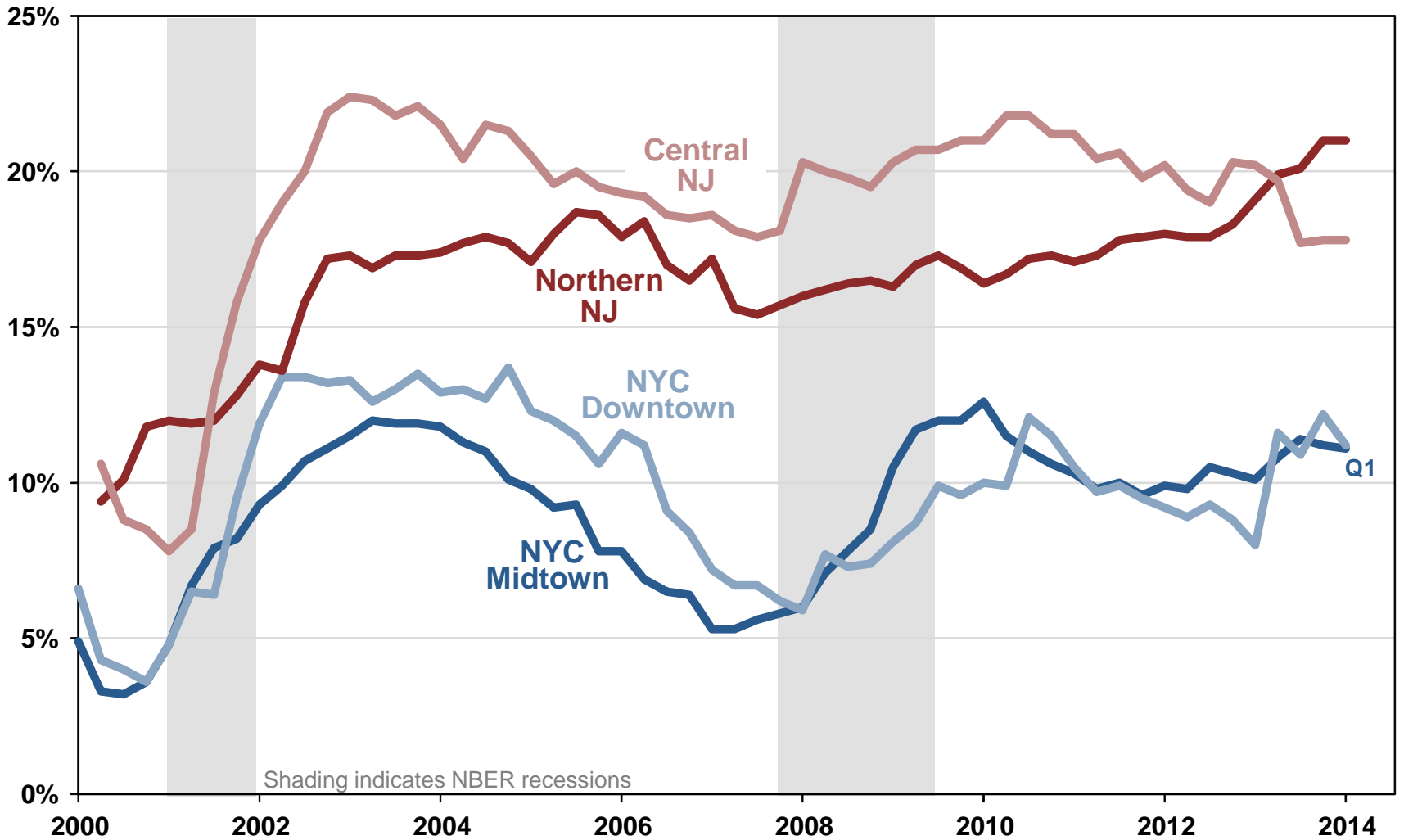
Household Debt

Total Debt Balance Per Capita



Office Vacancy Rates

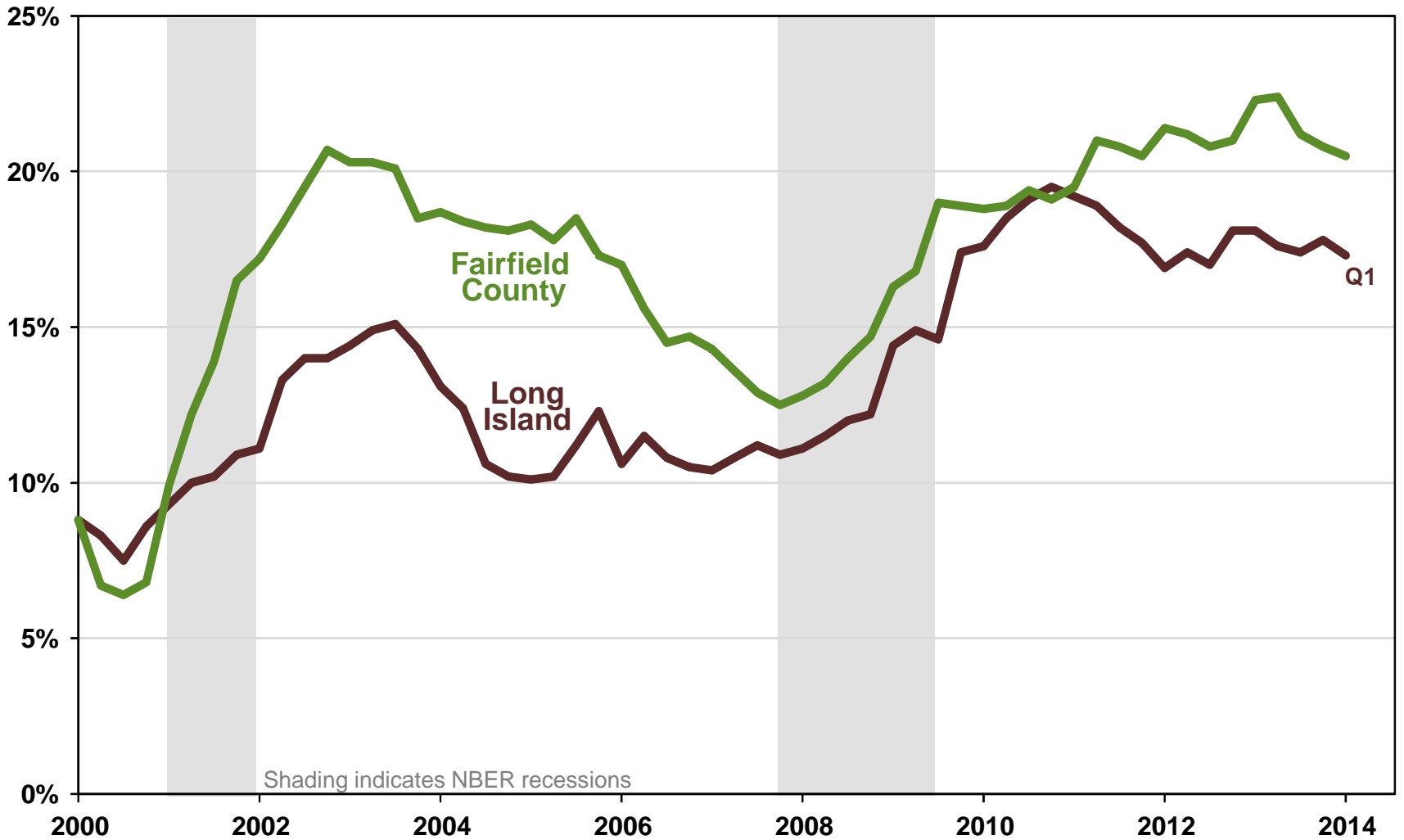
Overall Vacancy Rates



Shading indicates NBER recessions

Office Vacancy Rates

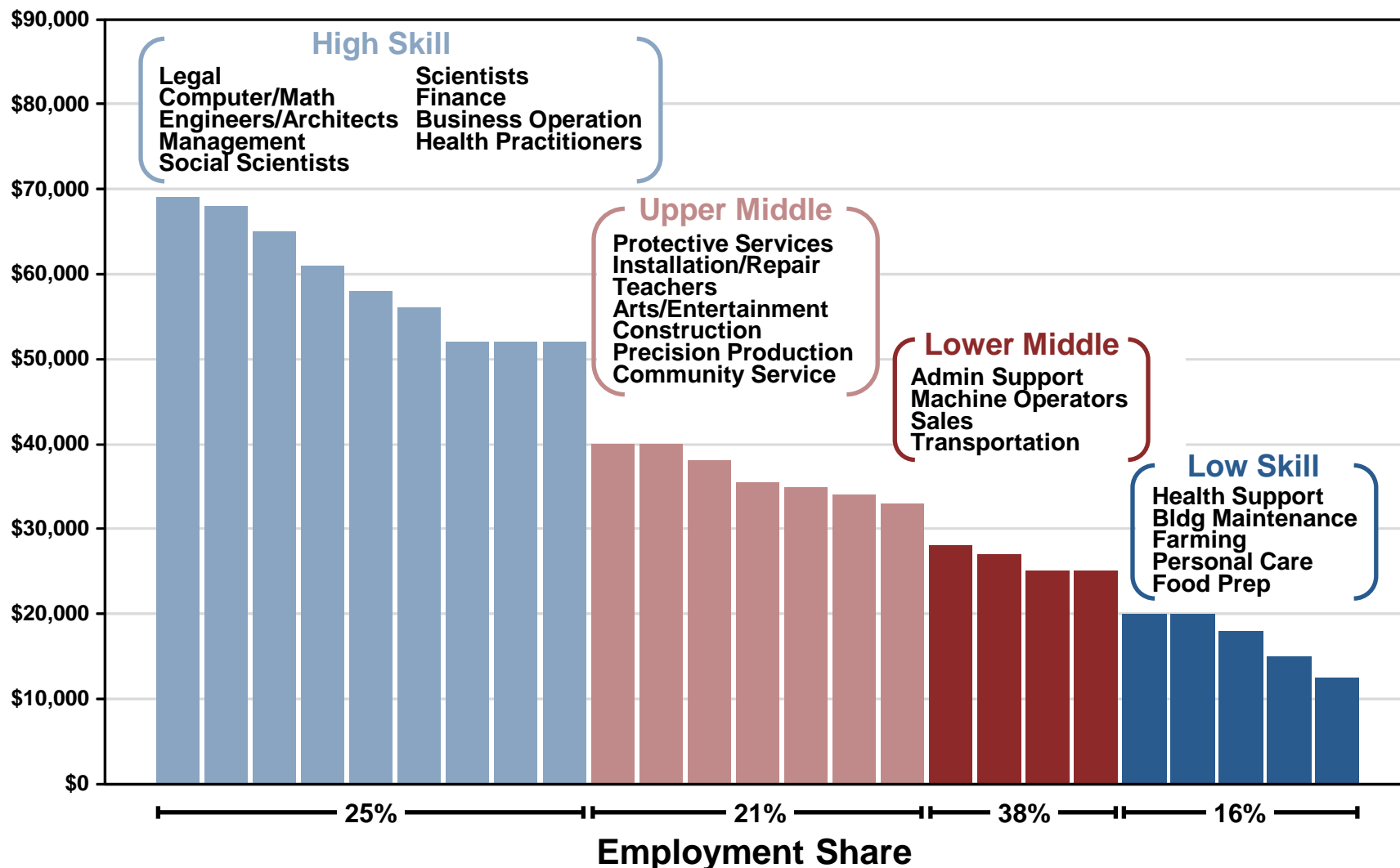
Overall Vacancy Rates



Job Polarization

Occupations by Skill Categories

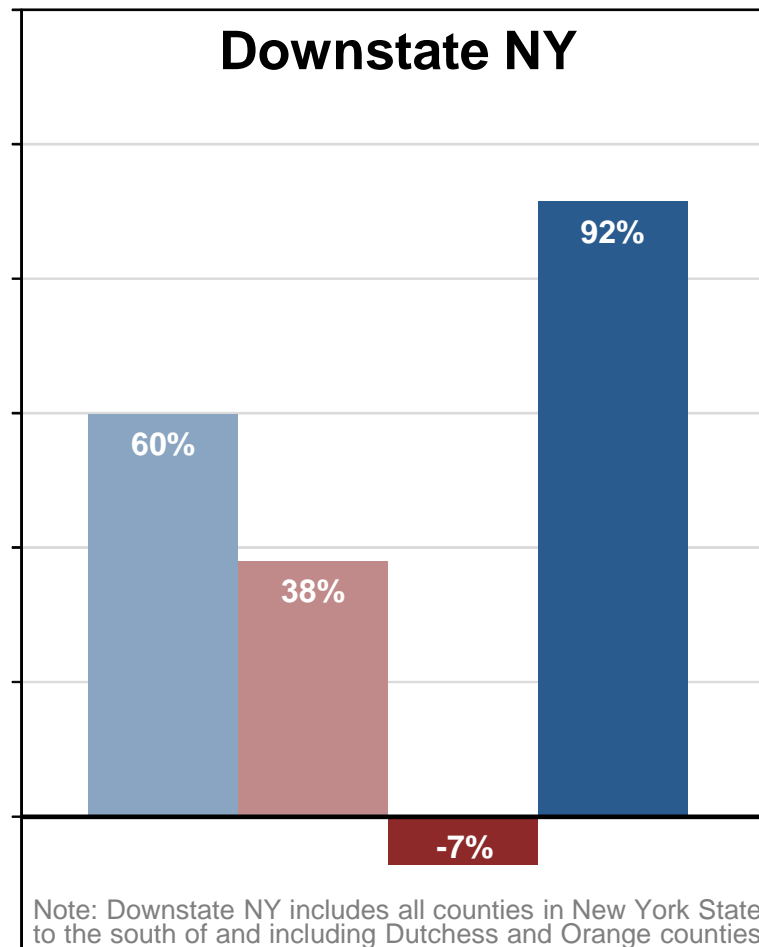
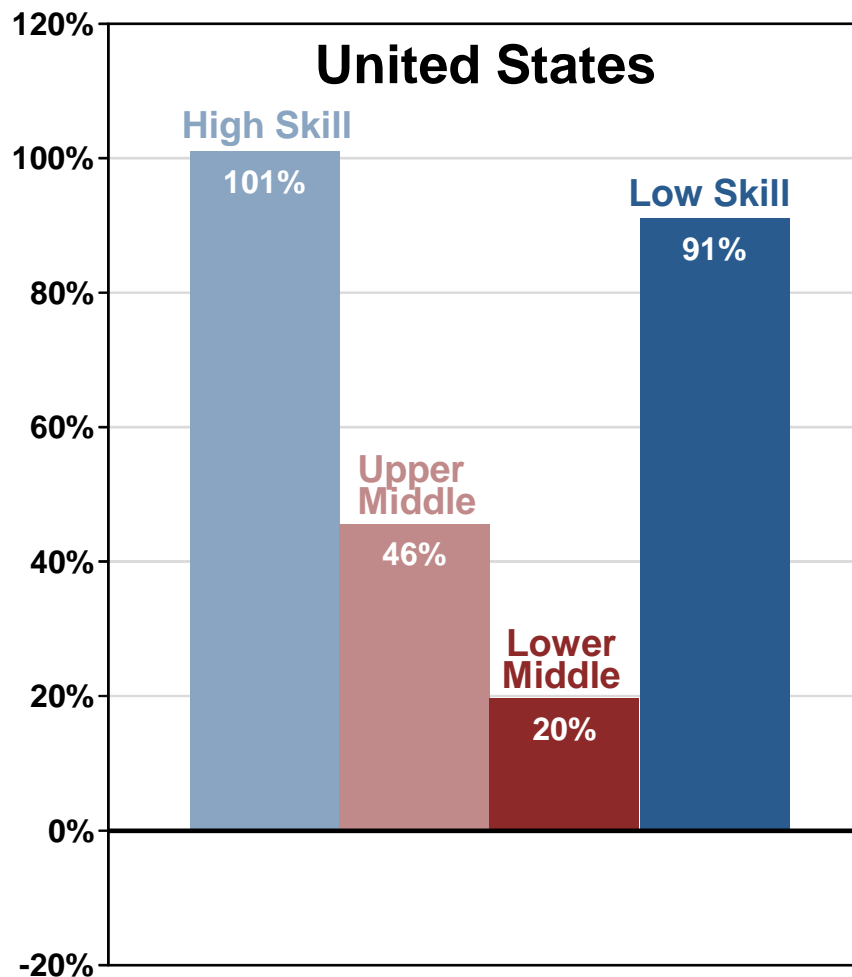
Based on 2010 Median Occupational Wage, United States



Source: U.S. Bureau of the Census and FRBNY Calculations.

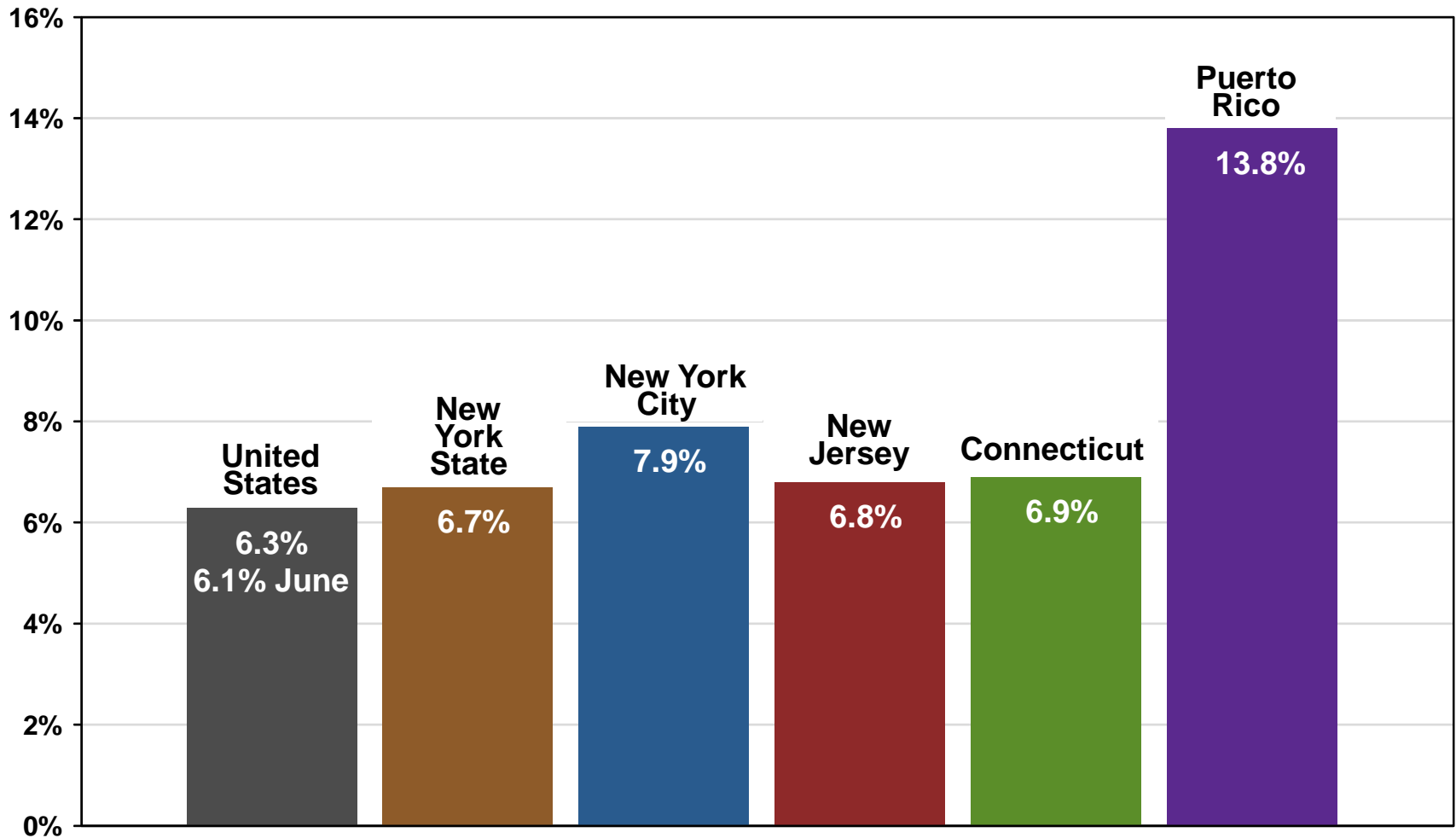
Job Growth by Skill Category

Change in Jobs: 1980-2010, Our Region



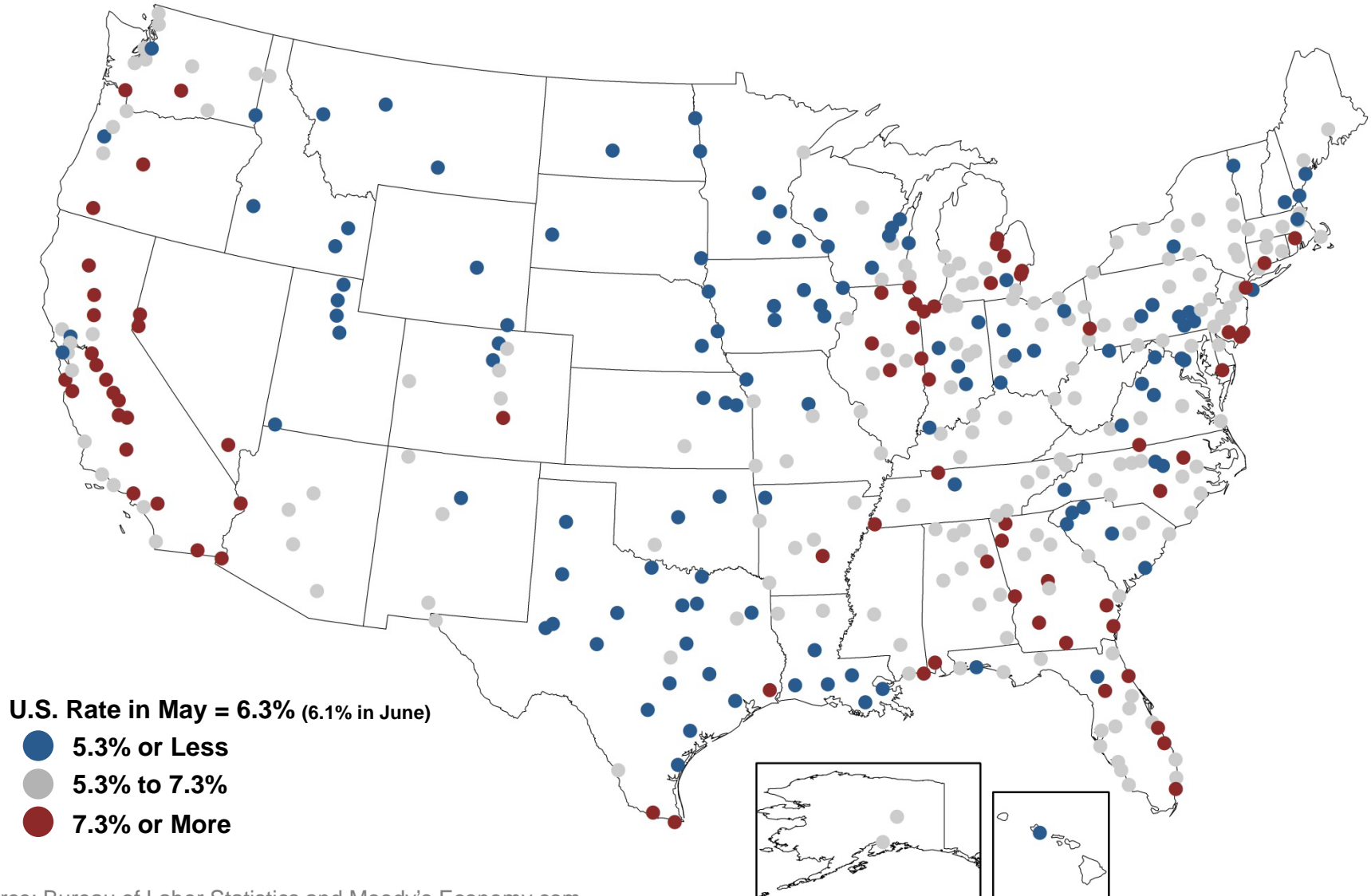
Unemployment Rates in the Region

Seasonally Adjusted, May 2014



Unemployment Rates in the Nation

Seasonally Adjusted, May 2014

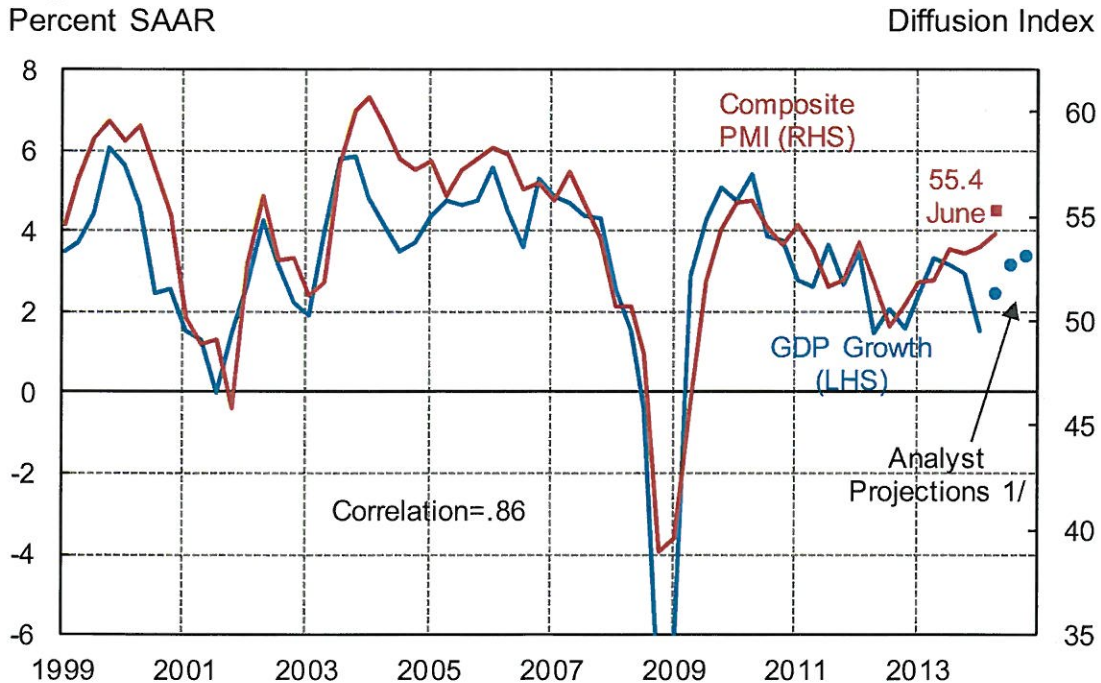


International Update

Presentation to the Small Business and Agriculture
Advisory Council

John Clark
July 18, 2014

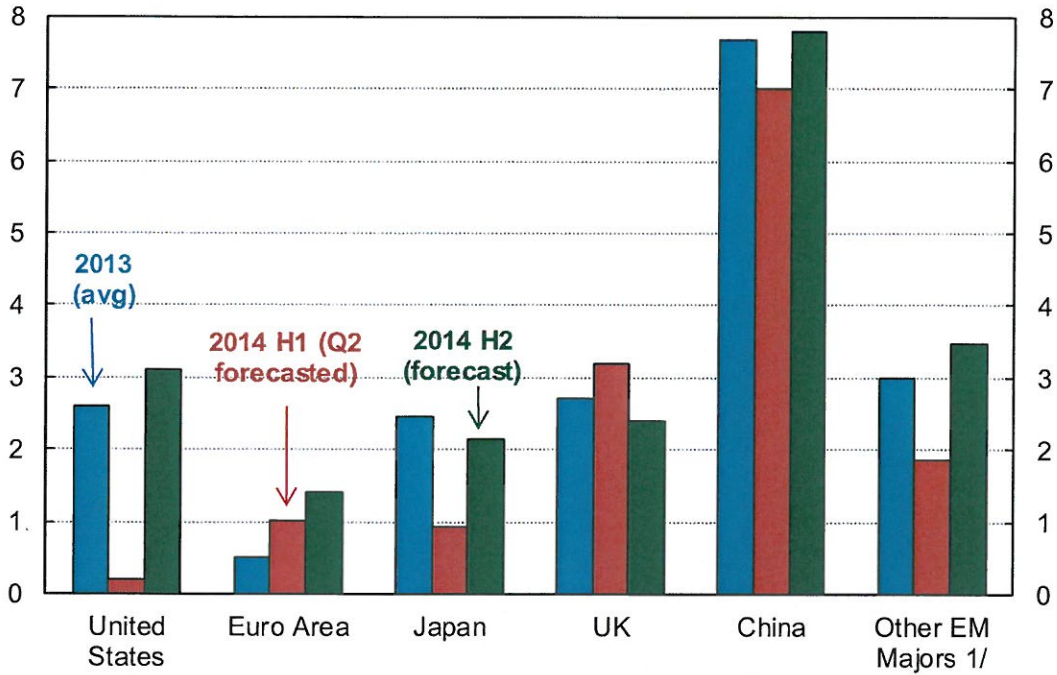
Figure 1 Global Growth and PMIs



1/ Bloomberg consensus and staff estimates.
Sources: Markit Economics, national authorities, Bloomberg.

Figure 2 Advanced and EM Economies: GDP Growth

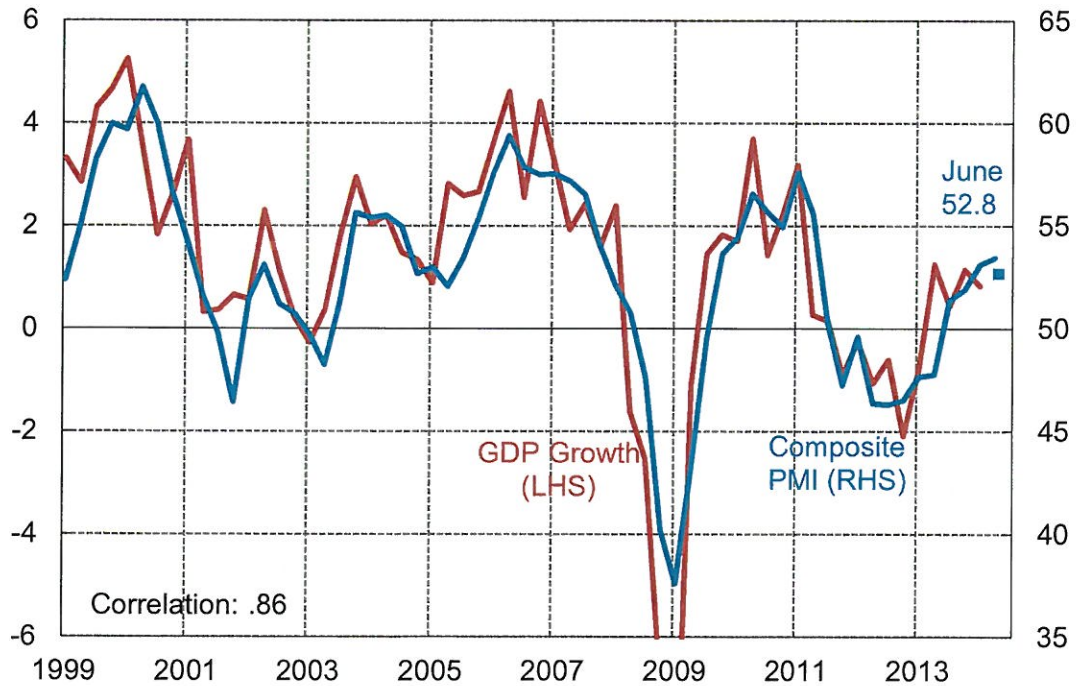
Percent, quarterly average at an annualized rate Percent



1/ Brazil, India, Russia, Mexico, and Korea.
Sources: National authorities, Bloomberg.

Figure 3 Euro Area: GDP Growth and Composite PMIs

Percent, saar Diffusion Index



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

Figure 4 Peripheral Europe: 10yr Bond Spread to Bunds

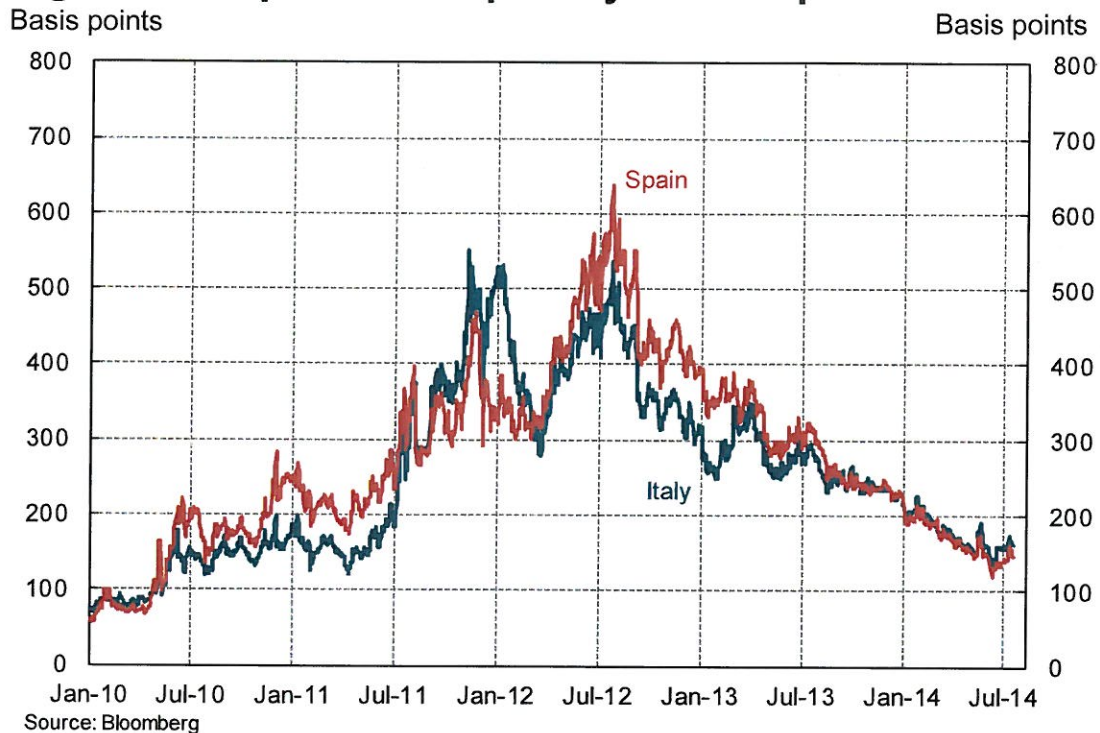


Figure 5 Peripheral Europe: 10yr Bond Spread to Bunds

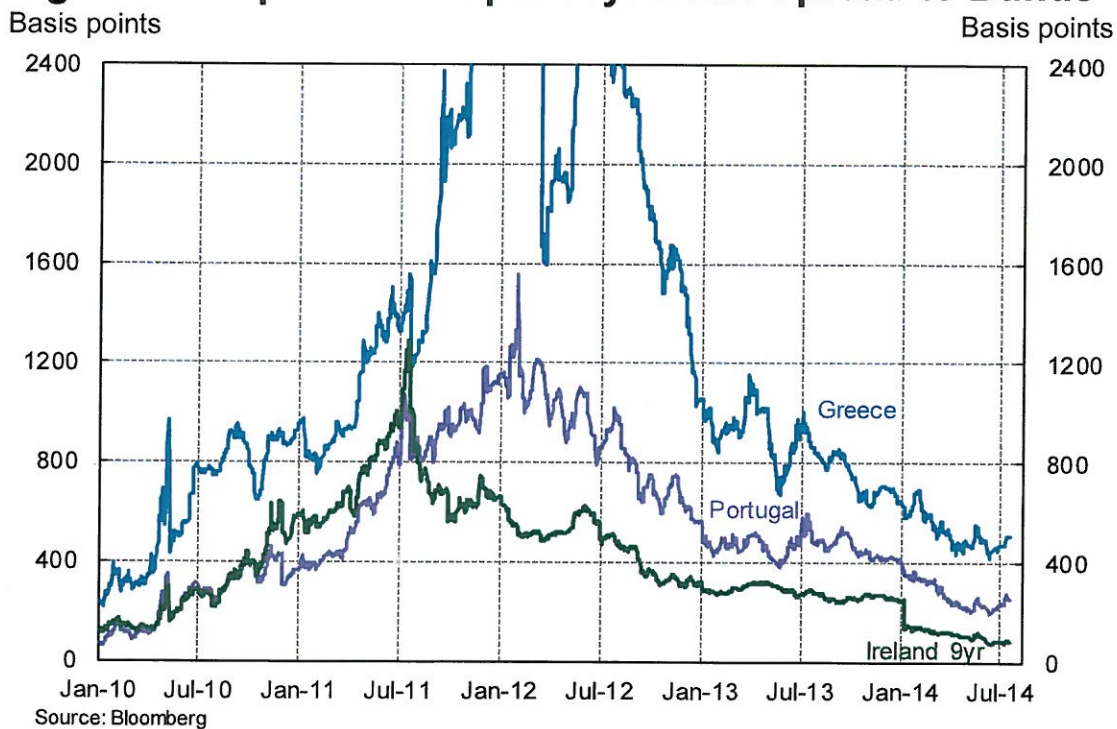
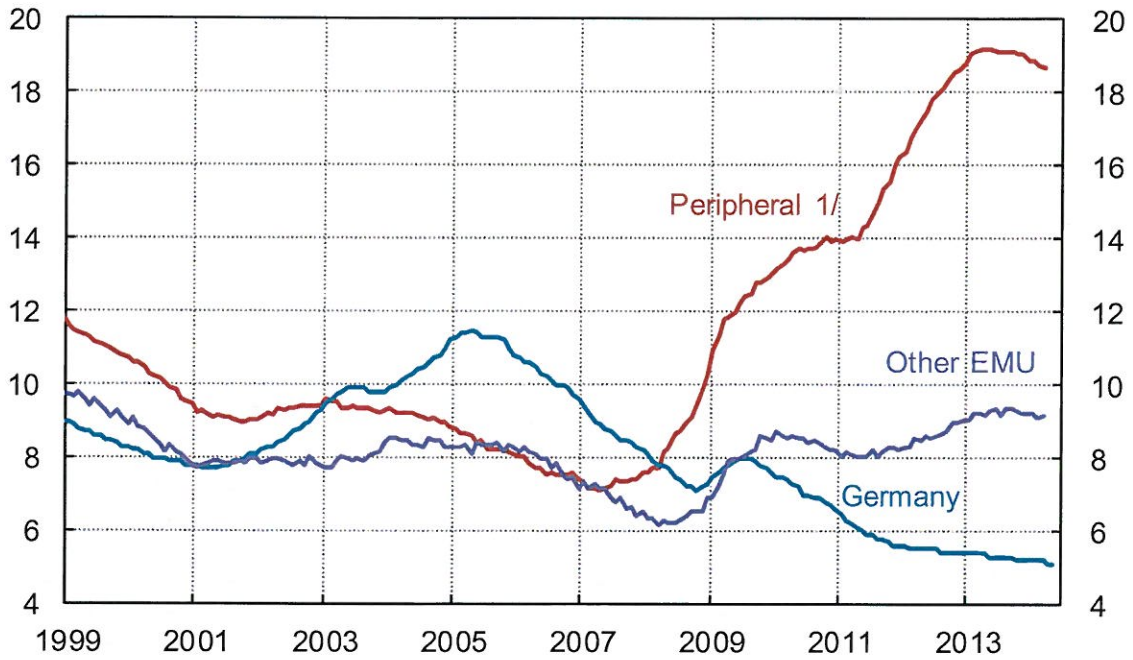


Figure 6 Euro Area: Unemployment Rates

Percent, seasonally adjusted

Percent

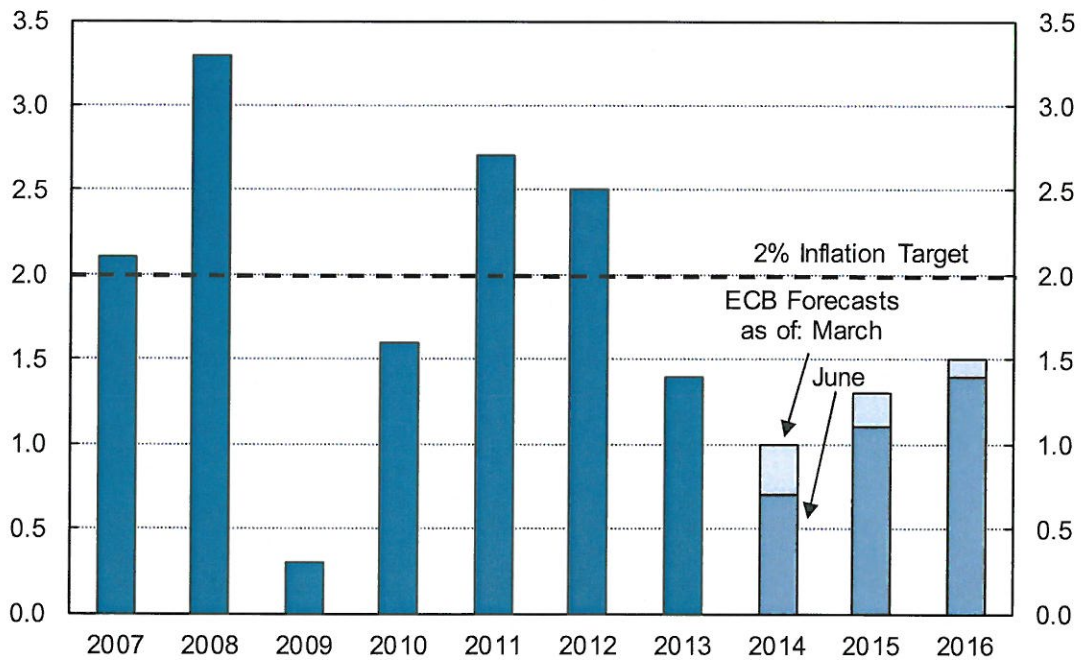


1/ GDP-weighted: Italy, Spain, Greece, Ireland, Portugal.
Source: EuroStat. Data as of July 2, 2014

Figure 7 Euro Area Inflation

Percent change, y/y

Percent



Source: European Central Bank. Data as of July 11, 2014

Figure 8 Japan: Monetary Base

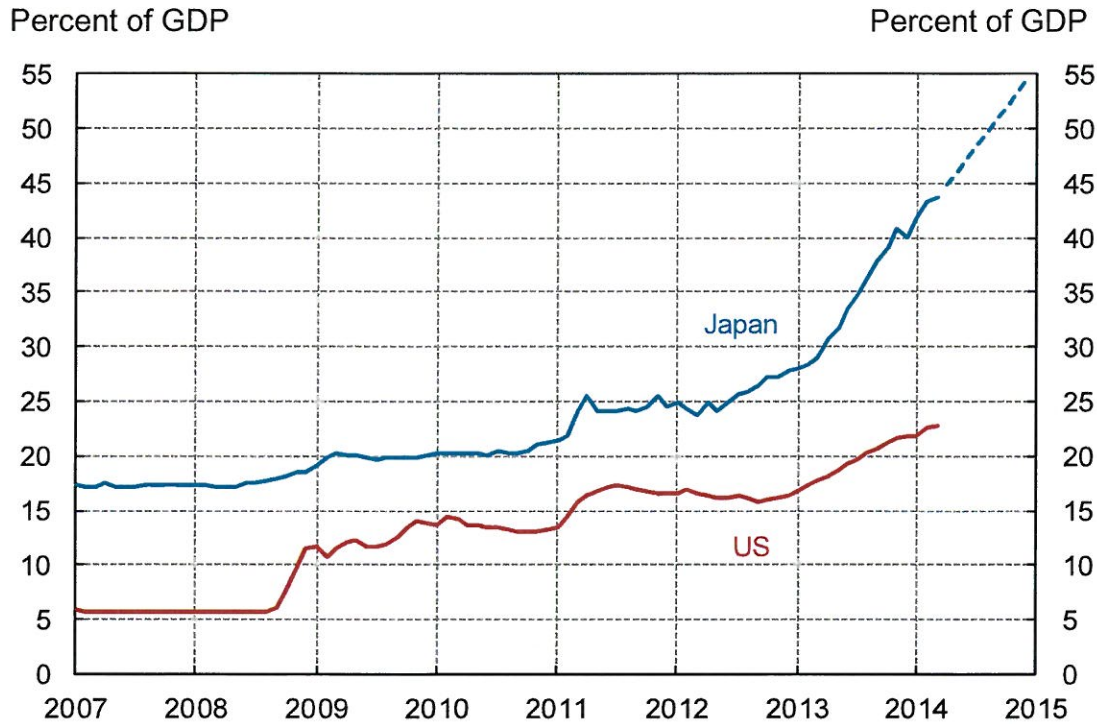
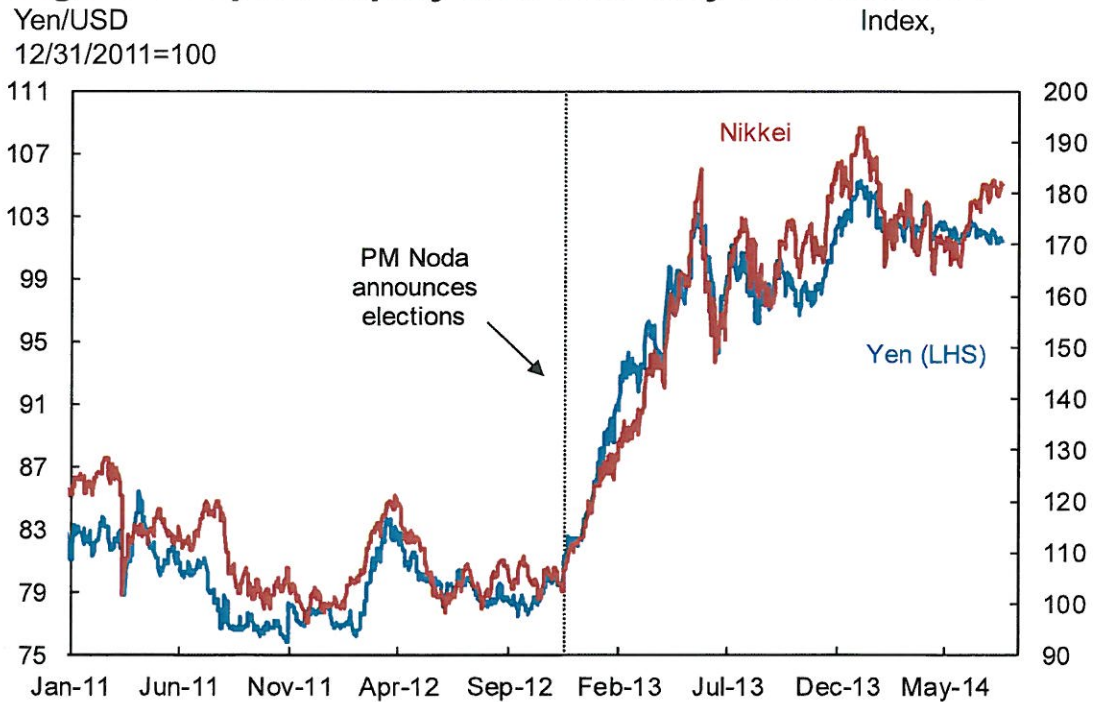


Figure 9 Japan: Equity and Currency Performance



Source: Bloomberg
Data updated as of 07/17/14

Figure 10 Japan: CPI Inflation

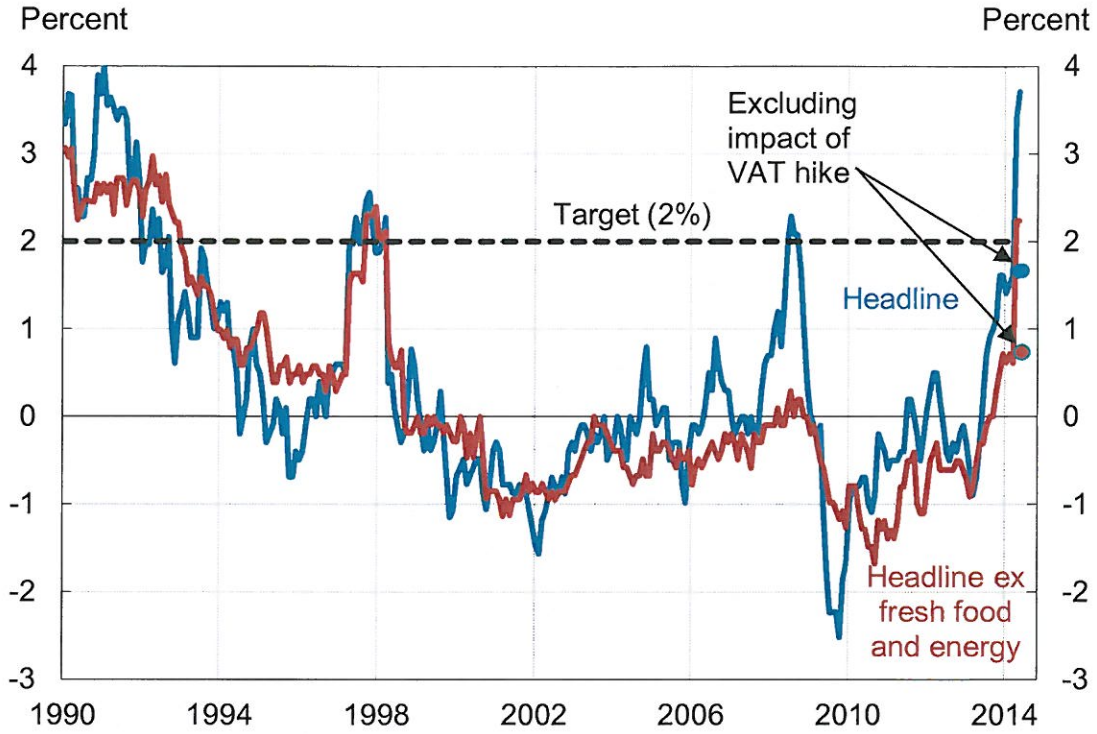
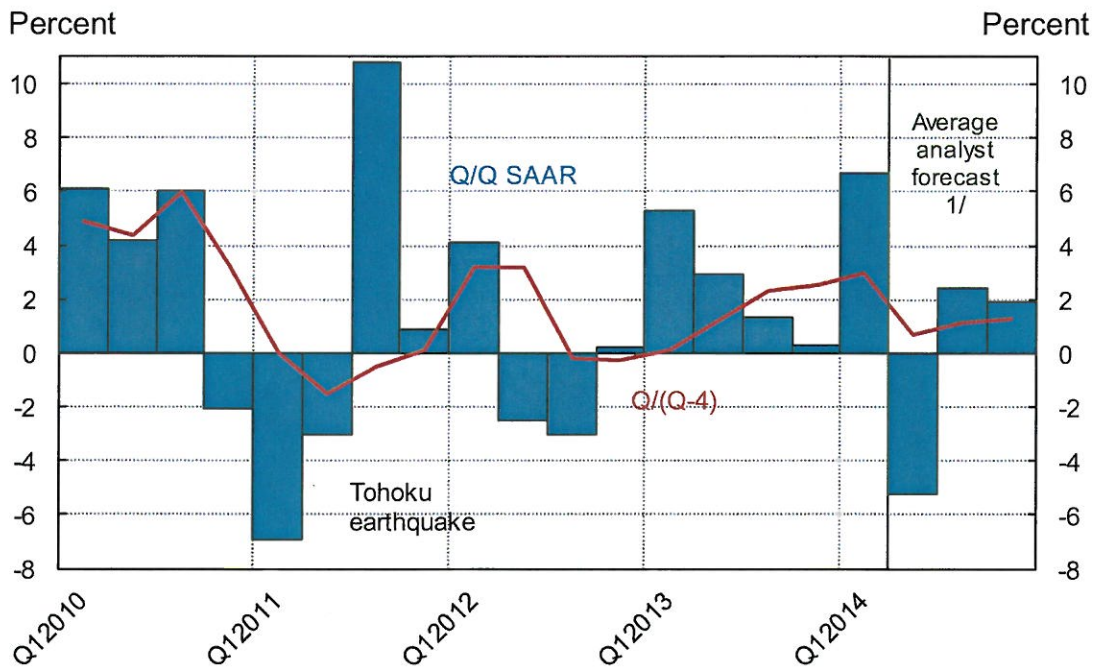


Figure 11 Japan: GDP Growth

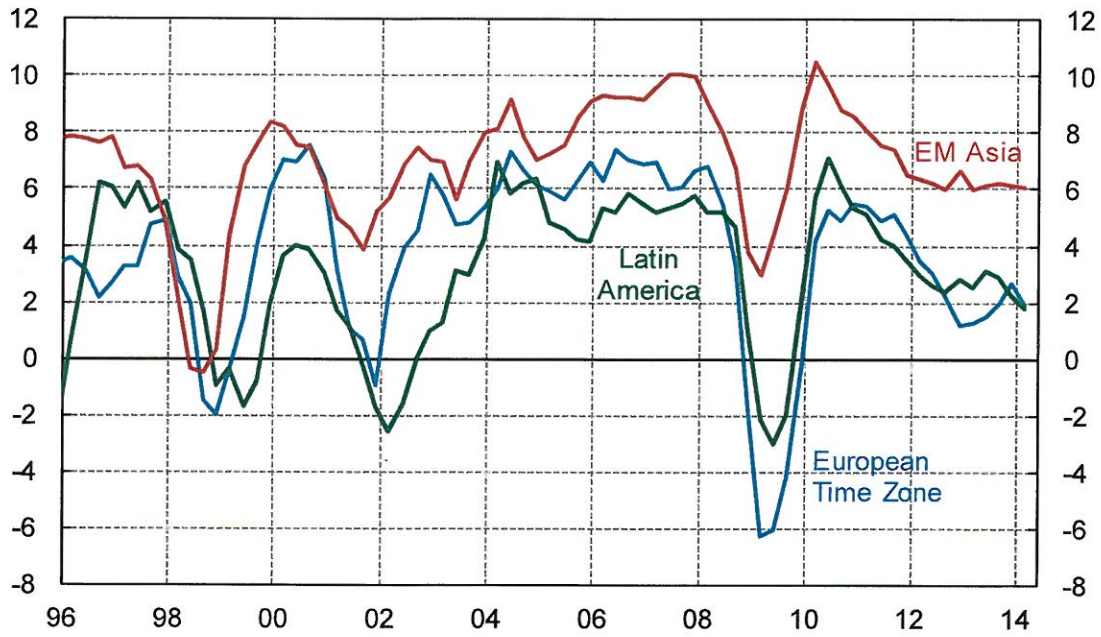


Sources: Cabinet Office, Bloomberg. Data as of July 10, 2014.
1/ Bloomberg.

Figure 12 EMEs: Real GDP Growth

Percent change from year ago quarter

Percent

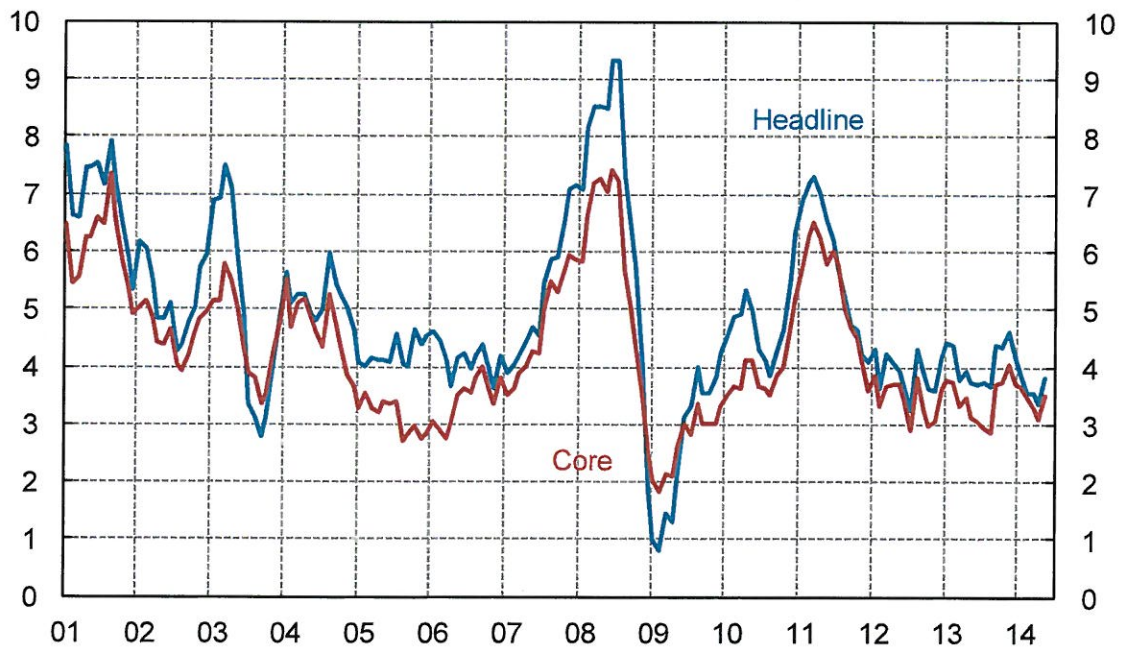


Source: National authorities

Figure 13 EMEs: Headline and Core Inflation

Percent, rolling 6m/6m saar

Percent

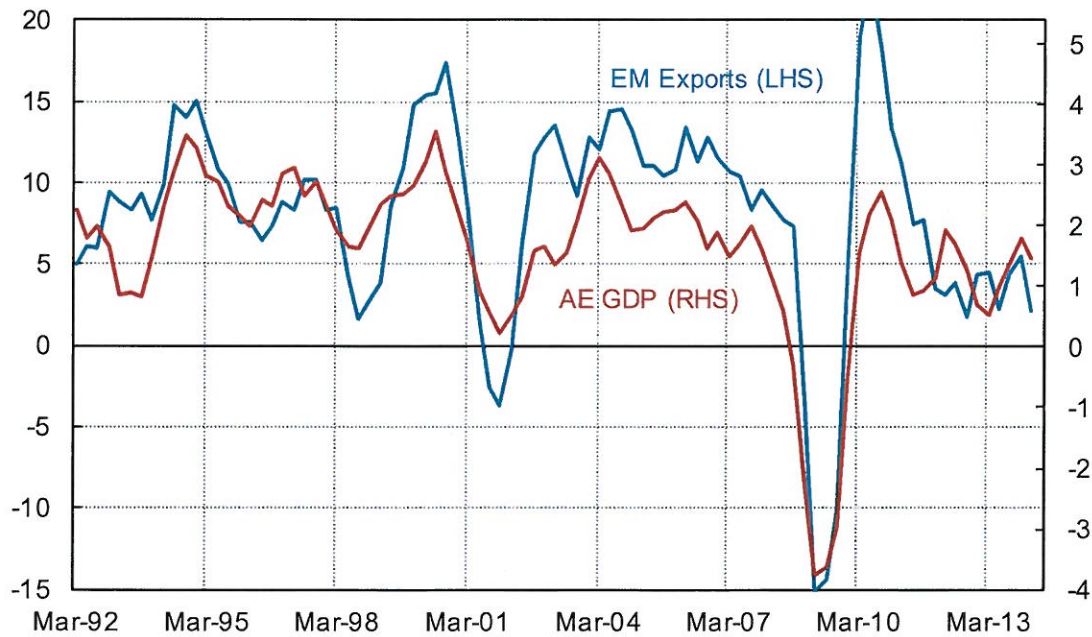


Source: National authorities, FRBNY

Figure 14 EME Exports and AE GDP

Percent, Q/Q-4

Percent, Q/Q-4 smoothed

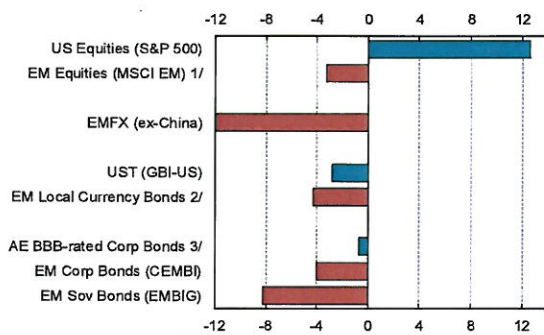


Sources: National authorities, Netherlands Bureau of Economic Policy Analysis, Haver.

Figure 15 US and EM Asset Returns

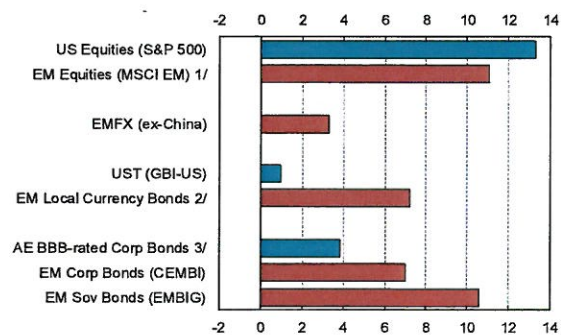
Percent change

May 1, 2013 to Feb 3, 2014



1/ Local currency return; GB-EM (returns in local currency terms); 2/ JPM's JULI ex-EM Index
Source: Bloomberg, MorganMarkets

Feb 3, 2014 to Present



1/ Local currency return; 2/ GB-EM (returns in local currency terms); 3/ JPM's JULI ex-EM Index;
Source: Bloomberg, MorganMarkets. Data through July 17, 2014

Figure 16 EMEs: Leading Structural Challenges

Leading Structural Challenges

	Argentina	Brazil	China	India	Indonesia	Korea	Mexico	Russia	Saudi Arabia	South Africa	Turkey
Distortionary 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	48
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 17 Major EM Elections in 2014

<u>Month</u>	<u>Country</u>	<u>Winner (actual or likely) 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/ Based on latest polls: Incumbent (Inc) or Opposition (Opp) party

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

3/ Likely winner of presidential and legislative elections.

Figure 18 China: Real GDP Growth

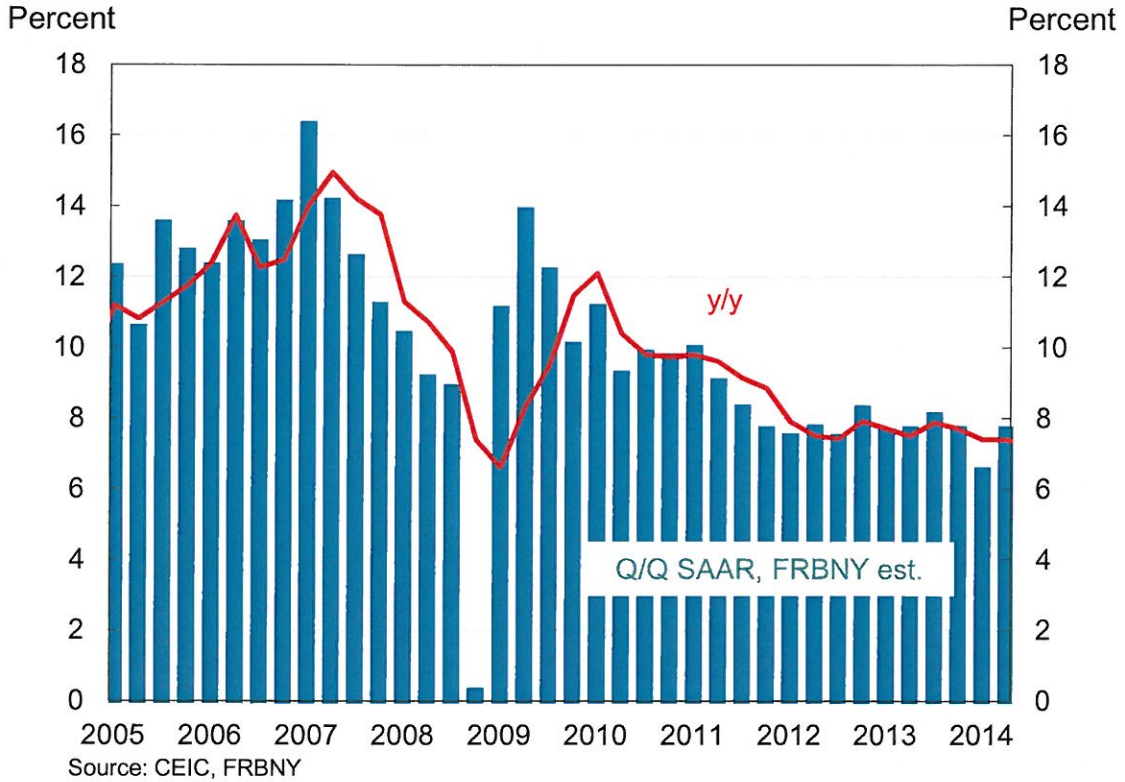


Figure 19 China: Bank and Shadow Credit, Total Financing

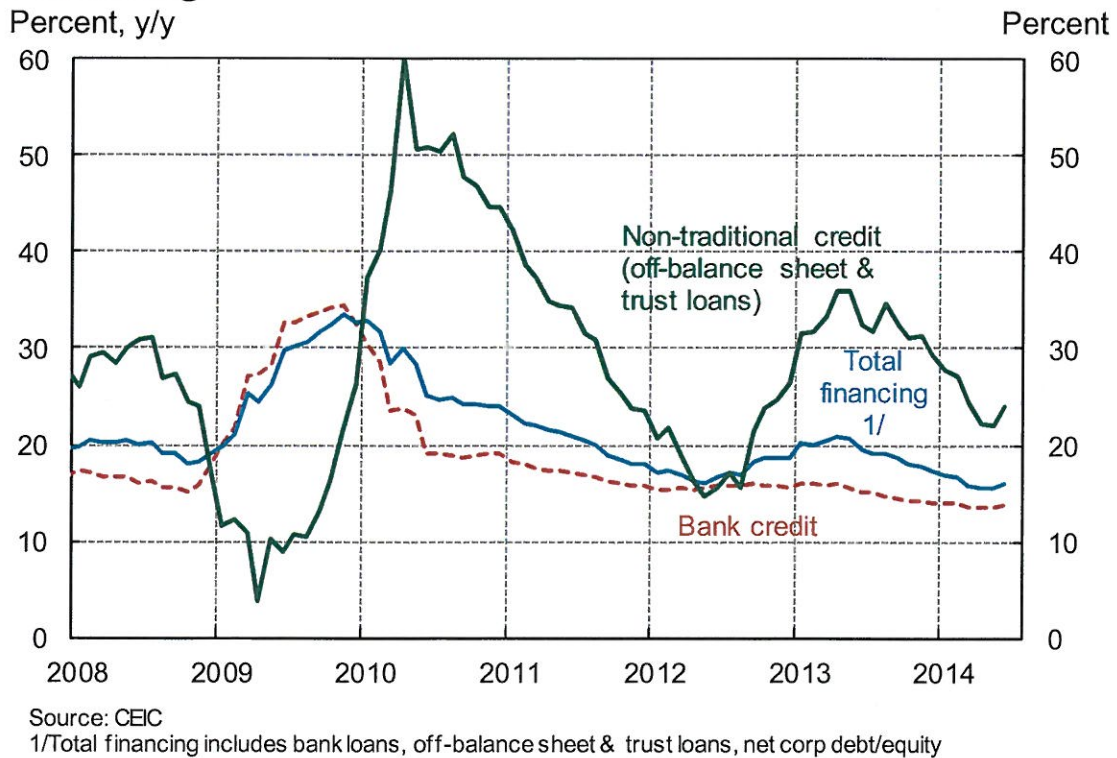
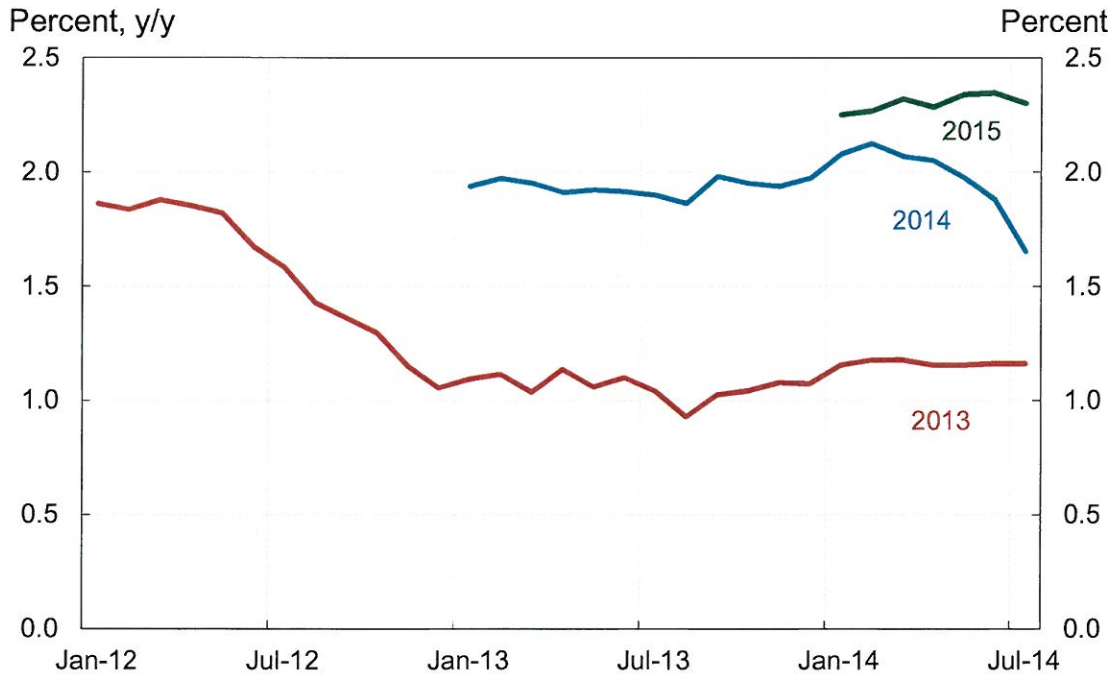
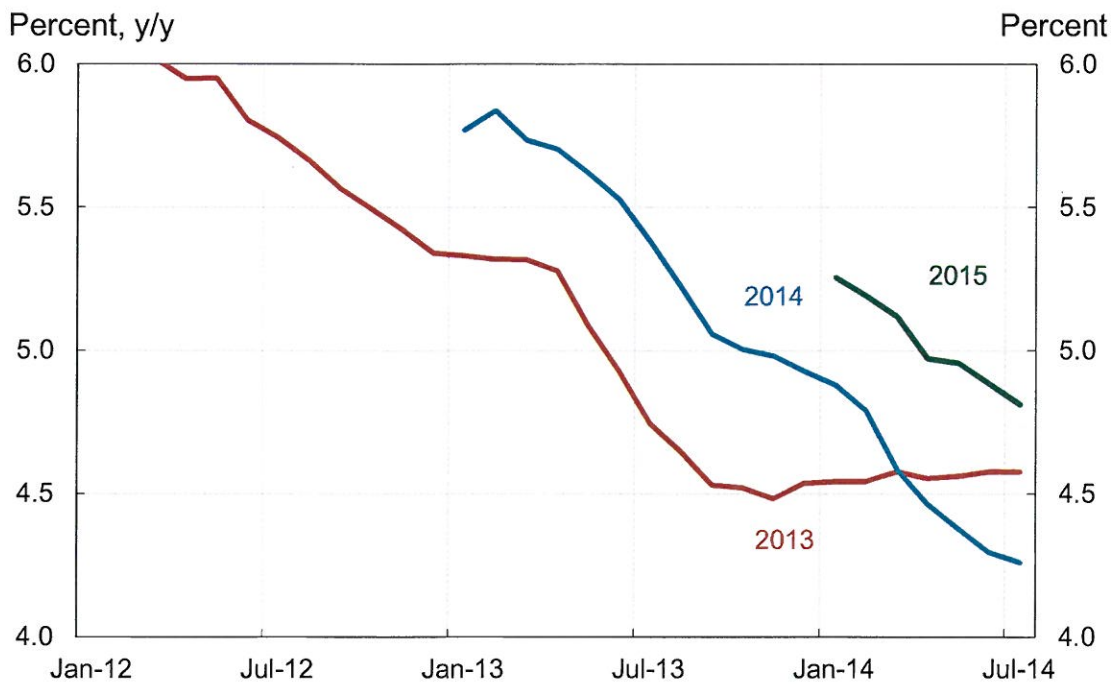


Figure 20 AEs: Evolution of Consensus Growth Forecasts



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

Figure 21 EMEs: Evolution of Consensus Growth Forecasts



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

Figure 22 Percentage Distribution of Global GDP

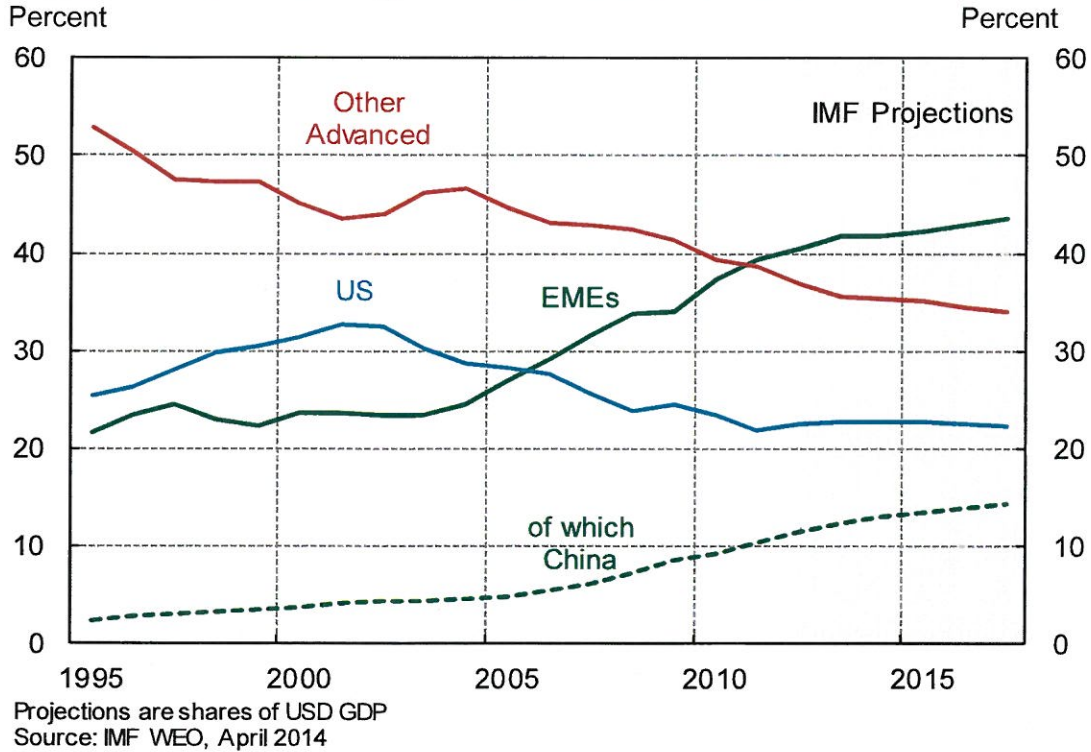


Figure 23 Consensus Forecasts

Percent y/y

	Consensus Forecasts			Forecast change since Feb	
	2013	2014	2015	2014	2015
Advanced 1/	1.2	1.9	2.3	-0.2	0.1
o/w: United States	1.9	1.6	3.0	-1.3	0.0
Euro Zone	-0.4	1.1	1.6	0.1	0.2
United Kingdom	1.7	3.0	2.6	0.5	0.2
Japan	1.5	1.5	1.3	-0.2	-0.1
Emerging Markets 1/	4.6	4.3	4.9	-0.5	-0.3
o/w: China	7.7	7.3	7.1	-0.2	-0.2
Brazil	2.5	1.5	1.8	-0.8	-0.8
India	4.7	5.2	6.0	0.0	0.0
Russia	1.3	0.4	1.8	-2.0	-1.1
Mexico	1.1	2.8	3.8	-0.6	-0.1
Korea	3.0	3.7	3.8	0.1	0.0

Data as of July 16th. Sources: Blue Chip as of July where available, Consensus Economics as of June. 1/ Dollar-GDP weighted average