



**Upstate New York Regional Advisory Council Meeting
Federal Reserve Bank of New York
33 Liberty Street
10F, Paul Volcker Boardroom
Tuesday, March 22, 2016**

AGENDA

10:30am Introductory Remarks
Jack Gutt, Executive Vice President

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

11:10am-11:30am Regional Update
Jason Bram, Research Officer

11:30am-12:00pm International Update
Matthew Higgins, 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 2016?
3. Has demand for your product or service increased sufficiently that you plan to increase investment in plant and equipment in 2016?
4. Can you please give us a brief overview of the process you typically go through and the major factor you take into account when setting average wage increase and starting wages for your workforce? In particular, how do you factor in recent and expected inflation — specifically, changes in the cost of living for your workers?
5. Has your access to credit changed in 2016?
6. How is the labor market in meeting your needs?

2:00 pm Adjourn



**Upstate New York Regional Advisory Board
Federal Reserve Bank of New York
33 Liberty Street
New York, NY
Tuesday, March 22, 2016**

ATTENDEE LIST

Board Members

Scott Bieler
President & CEO
West Herr Automotive Group

Melanie Littlejohn
Regional Director
National Grid

Kenneth M. Fransiak
Chairman
Calamar

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

William Gisel
President & CEO
Rich Products Corporation

Martin Mucci
President & CEO
PayChex, Inc.

Dr. Anne Kress
President
Monroe Community College

Robert L. Stevenson
President
Eastman Machine Company

Jordan Levy
NY Partner
Softbank Capital

Carlos Unanue
President
Goya de Puerto Rico, Inc.

Federal Reserve Bank of New York

William Dudley
Jack Gutt
Richard Peach
Matthew Higgins
Anika Pratt
Jason Bram
Luis Uranga
Tony Davis
Angela Sun

President
EVP, Head of Communications & Outreach Group
SVP, Research & Statistics
VP, Integrated Policy Analysis
AVP, Outreach & Education
Research Officer, Research & Statistics
Officer and Chief of Staff, Chief of Staff's Office
Director, Community Engagement, Outreach & Education
Associate, Legal



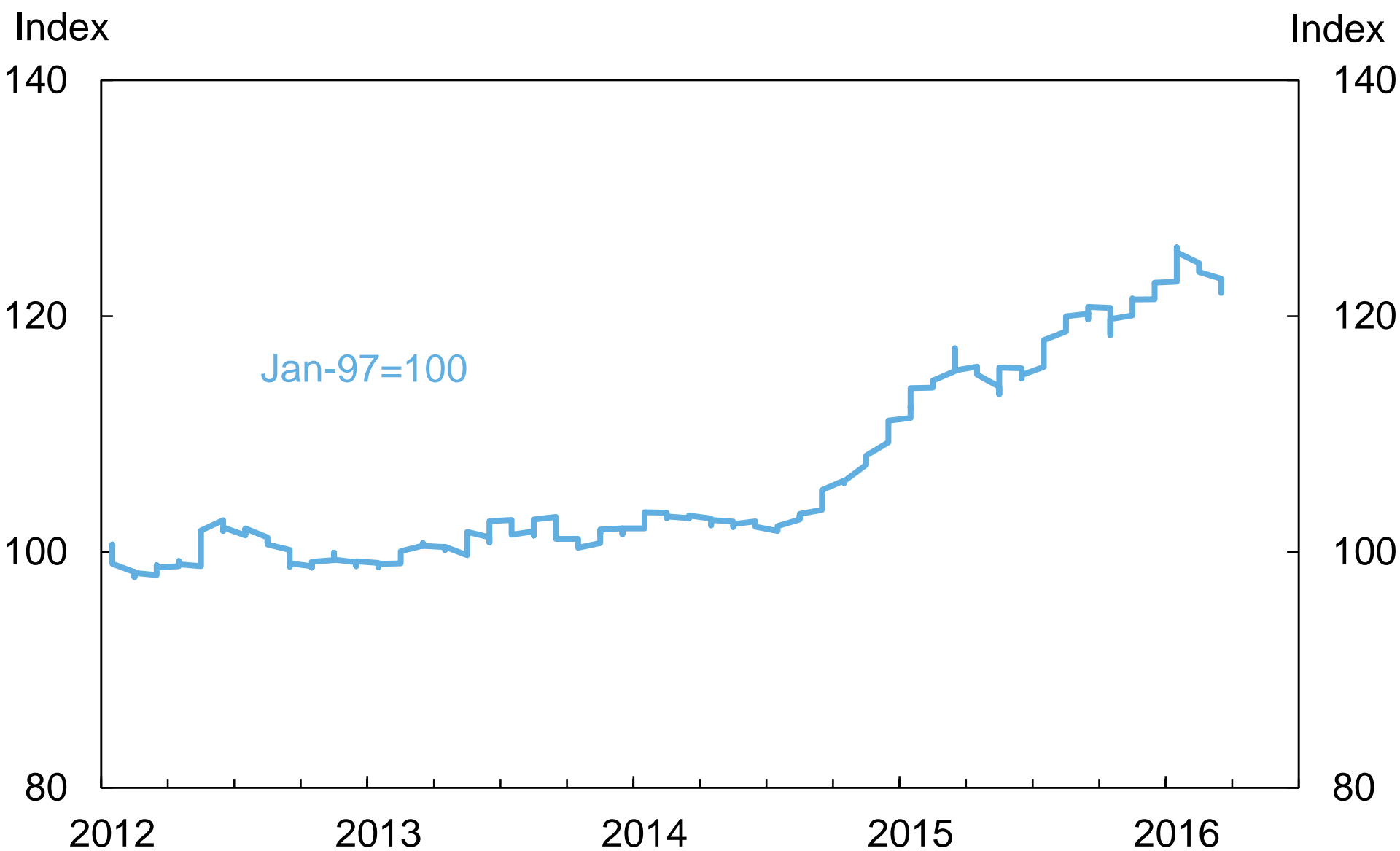
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US Macro Overview
March 22, 2016

Overview

- US economic growth slowed over the course of 2015 due primarily to slower growth among our trading partners and substantial dollar appreciation.
 - Consumer spending and housing continued to be the engines of growth.
 - Growth of business fixed investment slowed substantially, due in part to the sharp contraction in oil and gas drilling activity.
 - Net exports exerted a substantial drag.
- The labor market is showing all the classic signs of being at or near full employment.
- Core inflation has moved up of late.
 - Rent inflation continues to edge higher.
 - Health care price inflation has turned the corner.
 - Rate of decline of core goods prices has slowed substantially.
- What is in store for 2016? Is the worst of the dollar shock behind us?
 - There are some “green shoots”.

Nominal Trade-Weighted Value of US\$

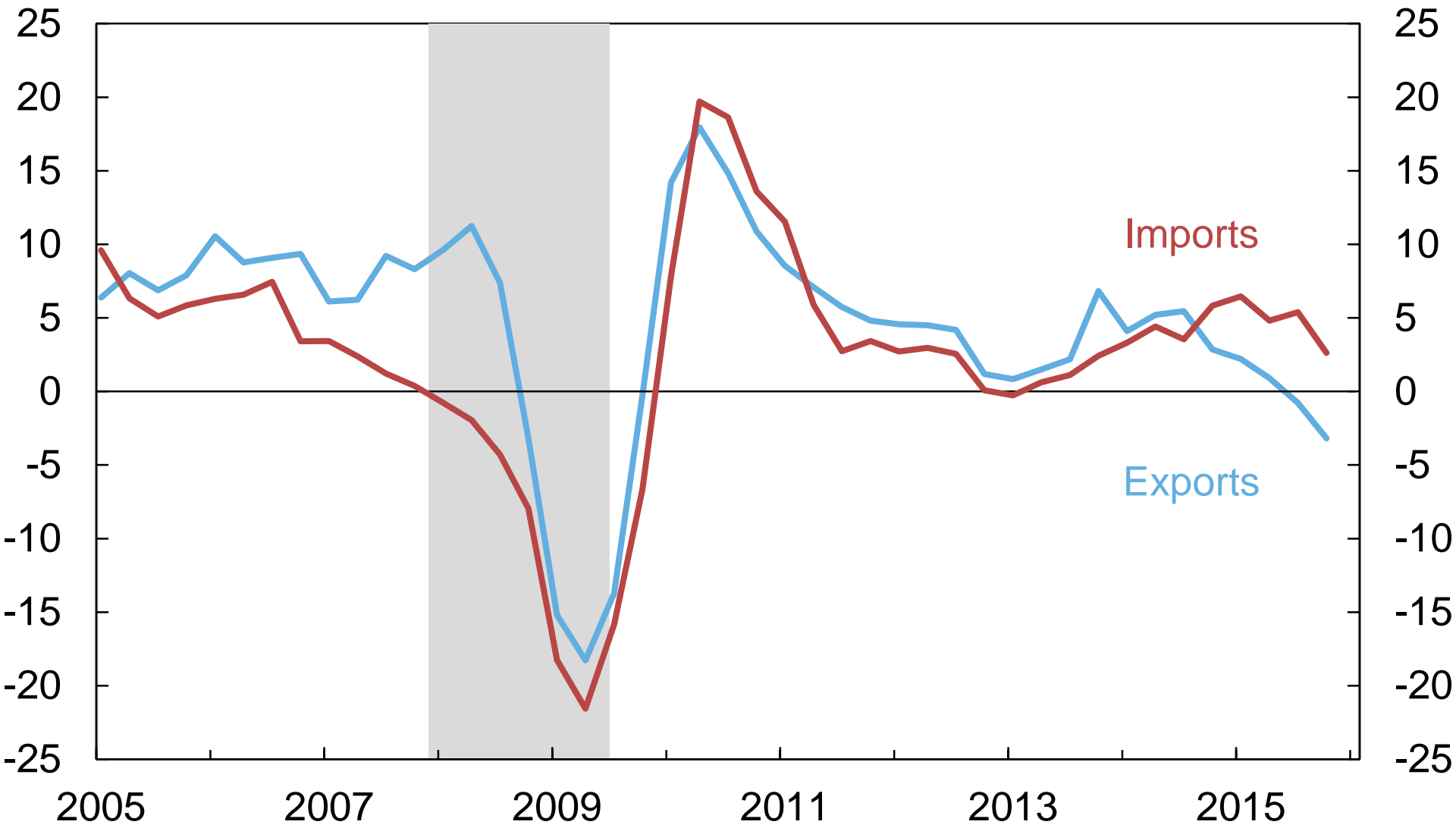


Source: Federal Reserve Board

Imports and Exports of Real Goods

4 Quarter % Change

4 Quarter % Change



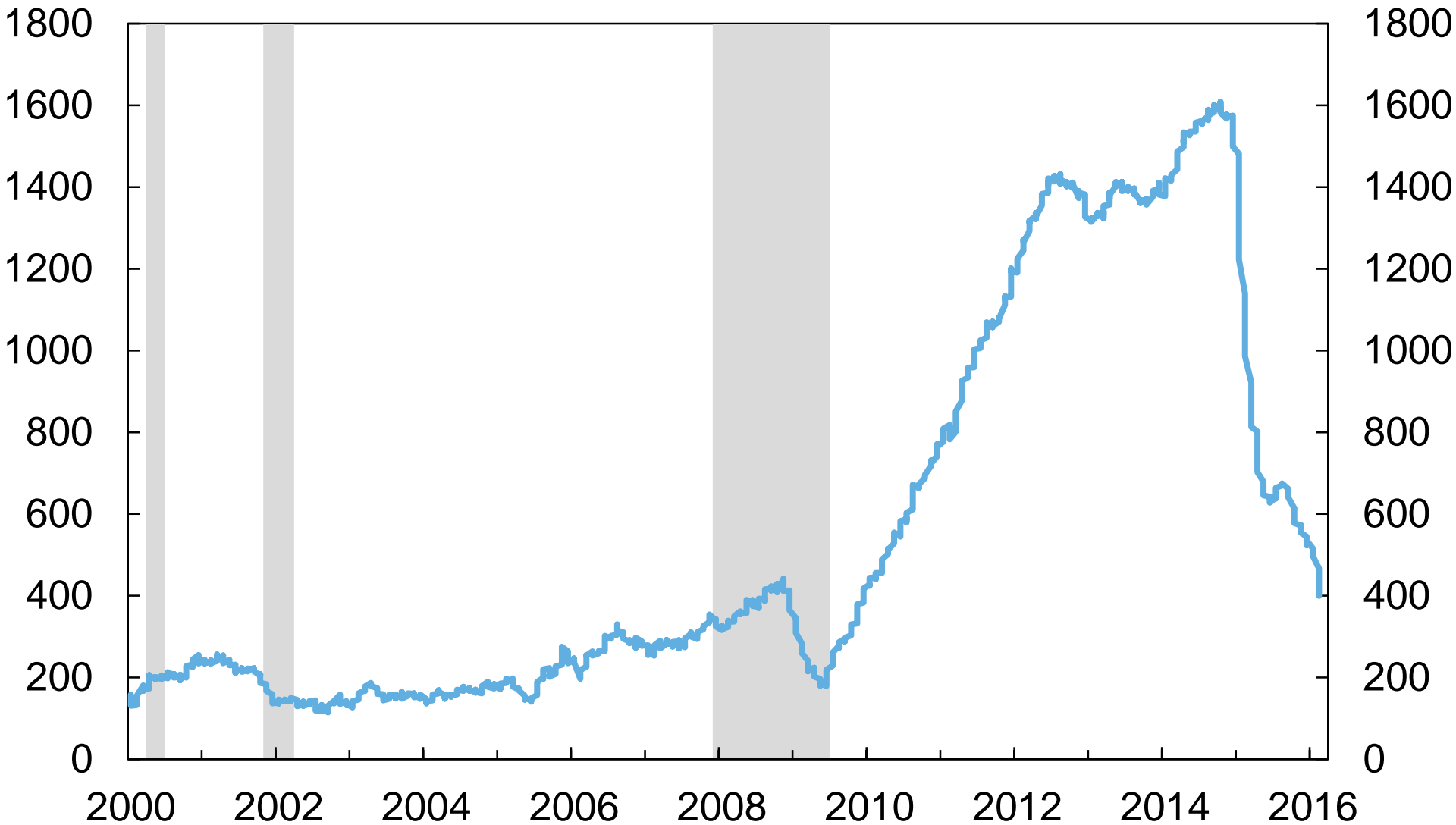
Source: Bureau of Economic Analysis

Note: Shading shows NBER recessions.

Baker Hughes US Oil Rig Count

Active Oil Rigs

Active Oil Rigs



Source: Baker Hughes

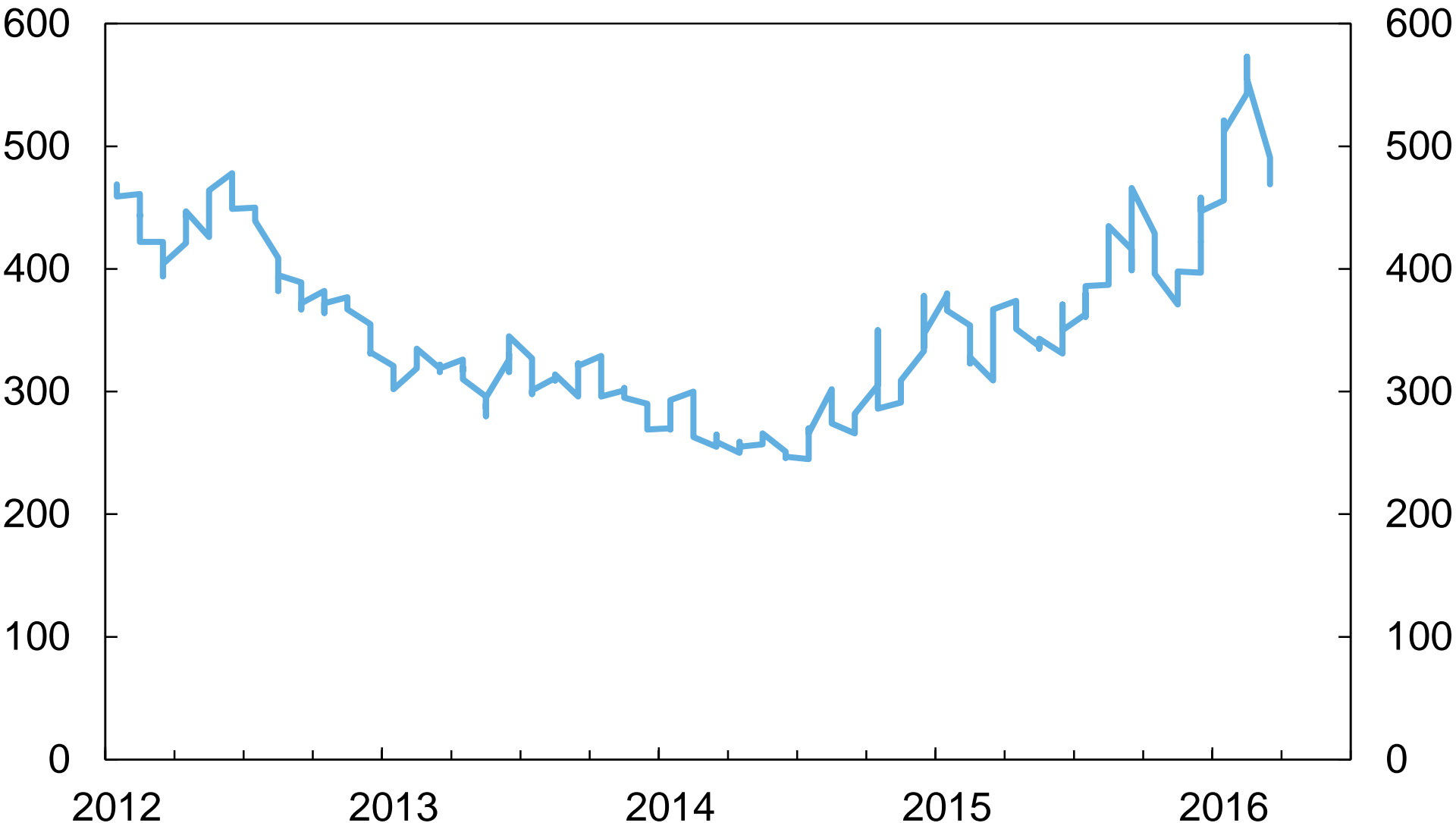
Note: Shading shows NBER recessions.



Non-Investment Grade Corporate Bond Spread

Basis Points

Basis Points

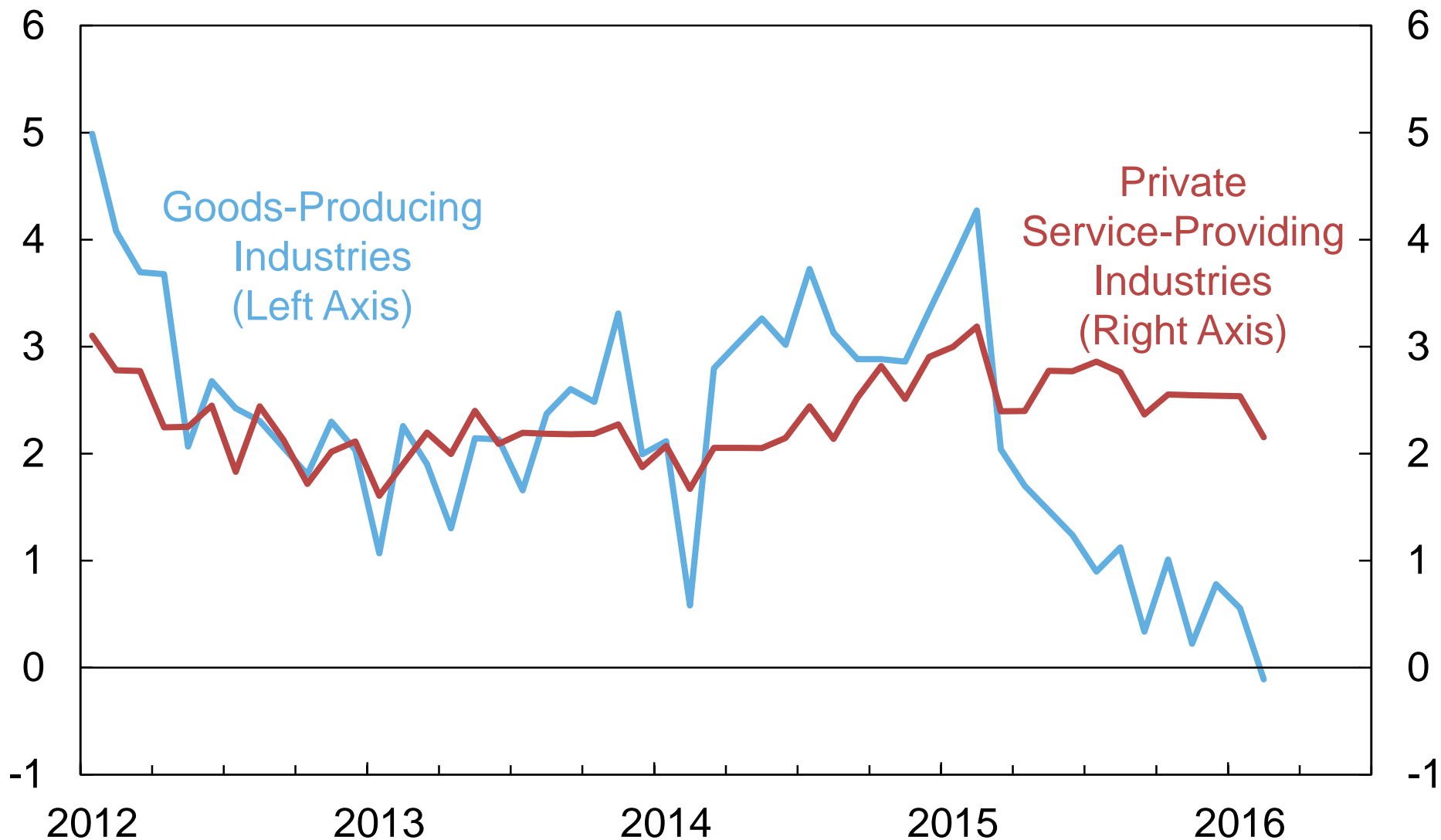


Source: Standard & Poor, Federal Reserve Board

Aggregate Weekly Hours Worked

Y/Y % Change

Y/Y % Change

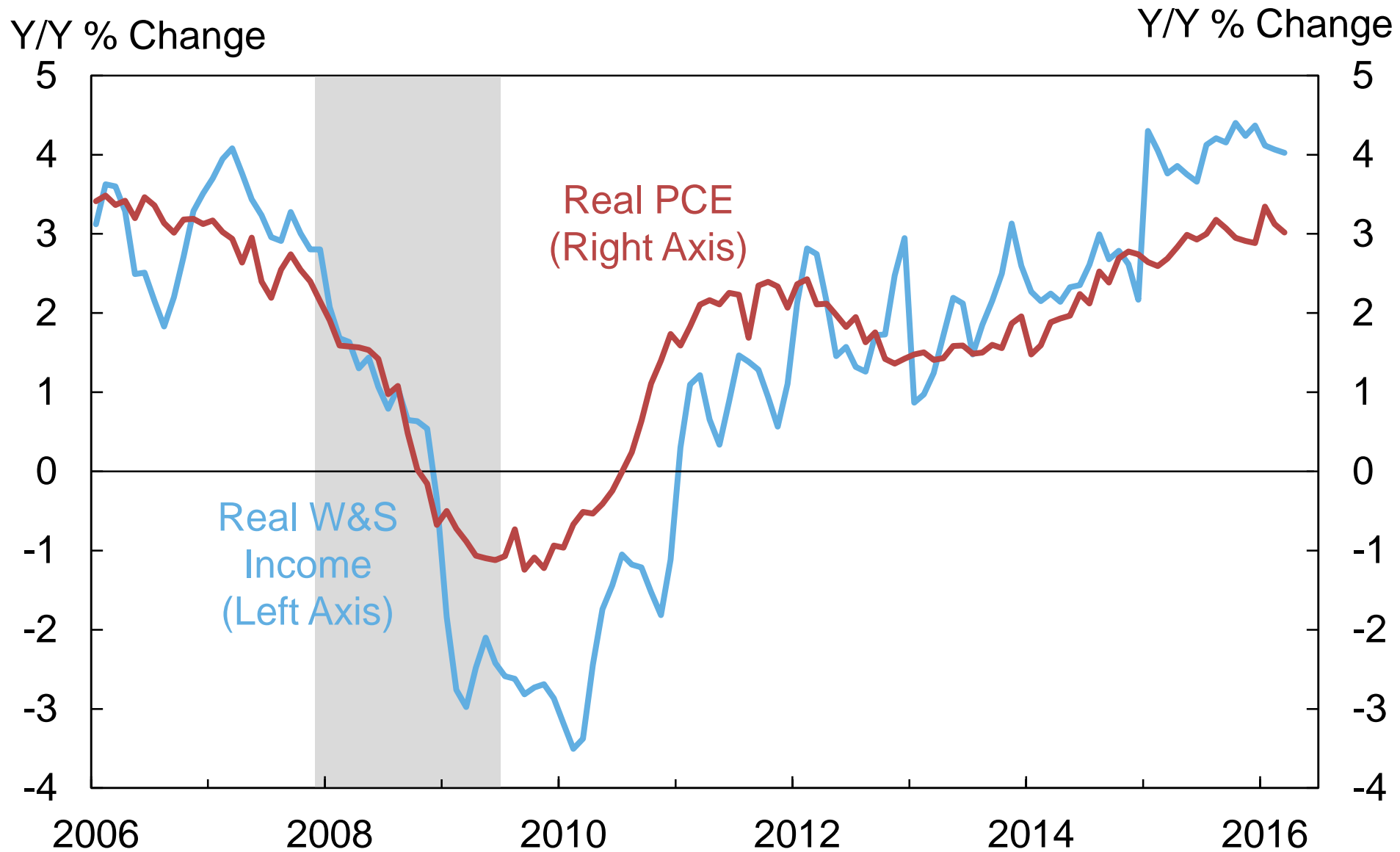


Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.



Real Wage & Salary Income versus Real PCE



Source: Bureau of Economic Analysis

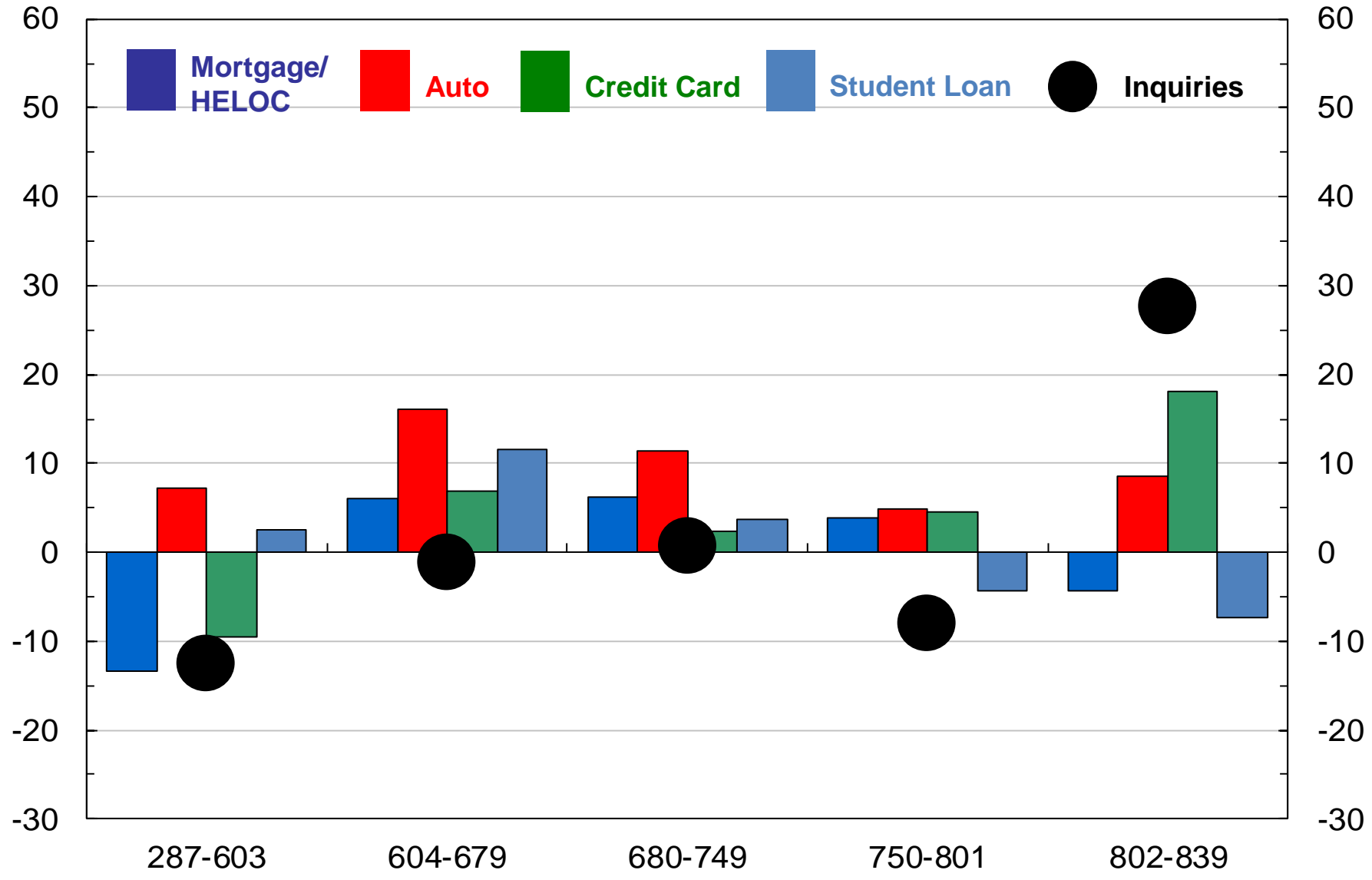
Note: Shading shows NBER recessions.



Change in Debt 2014Q4-2015Q4 By Credit Score Quintile

Percent

Percent



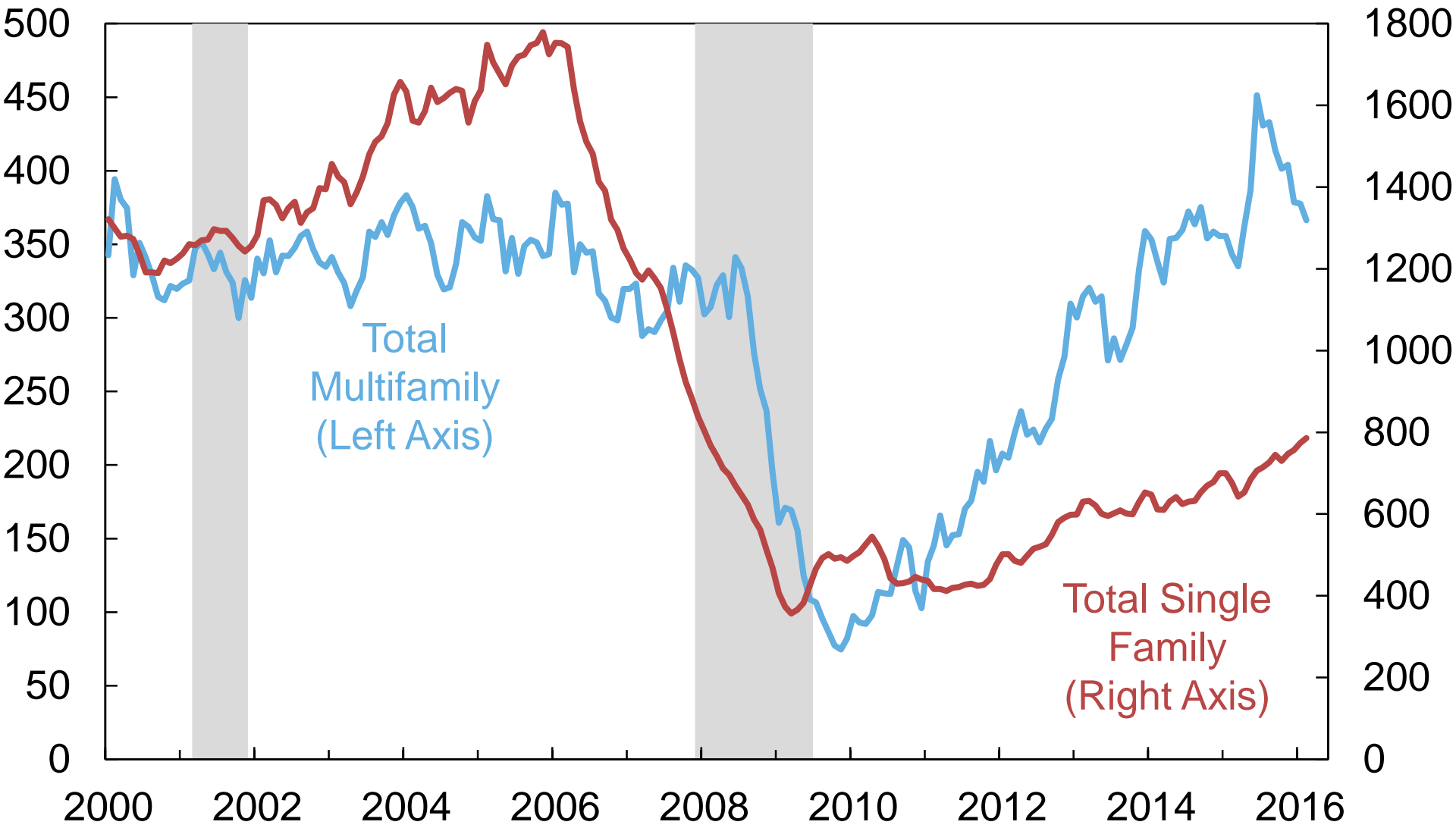
Equifax Risk Score Quintiles*

Note: * 2014Q4 Quintiles

Housing Starts

Thousands, 3 MMA

Thousands, 3 MMA



Source: Census Bureau

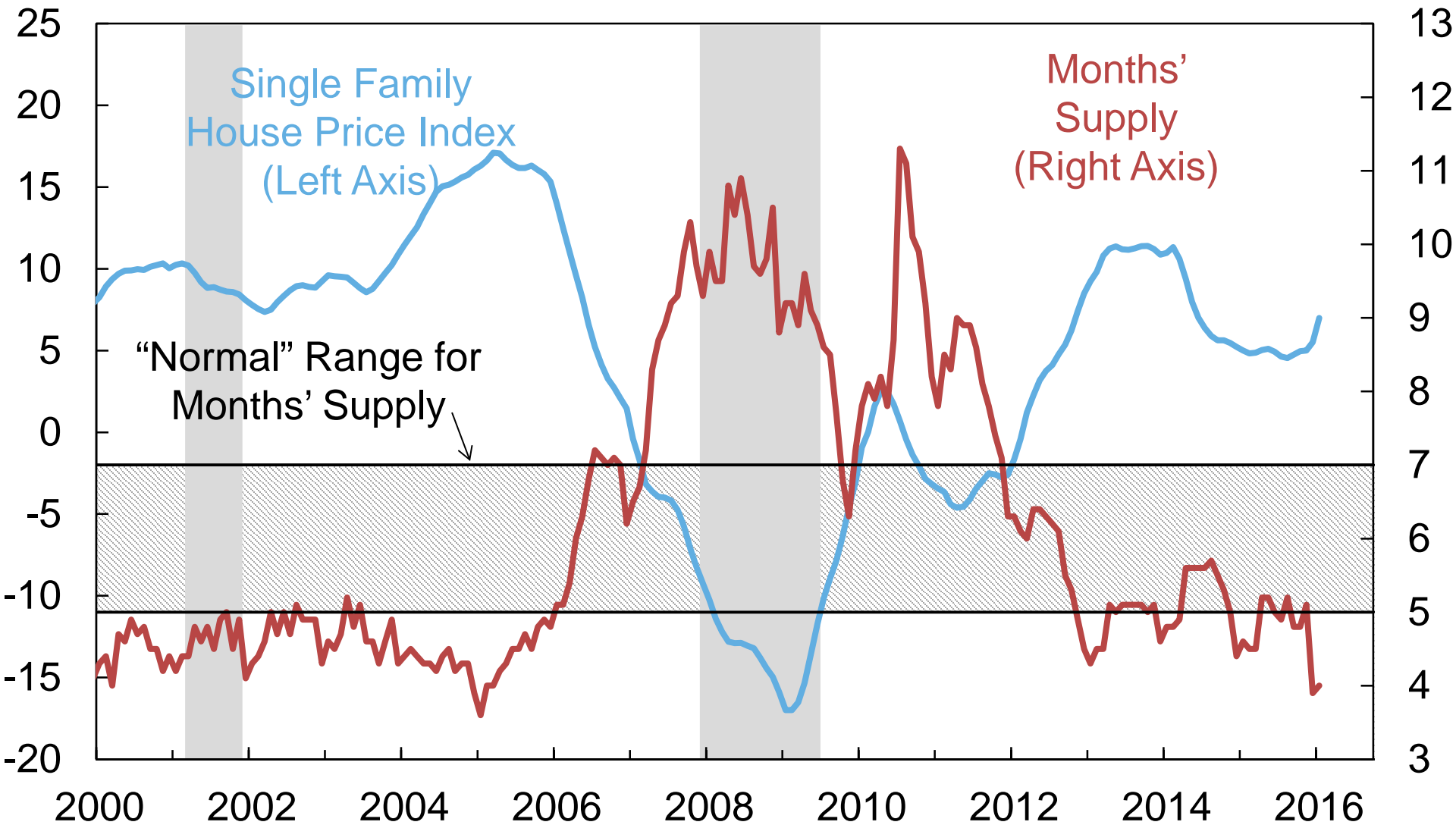
Note: Shading shows NBER recessions.



Single Family Housing Market

12 Month % Change

Months



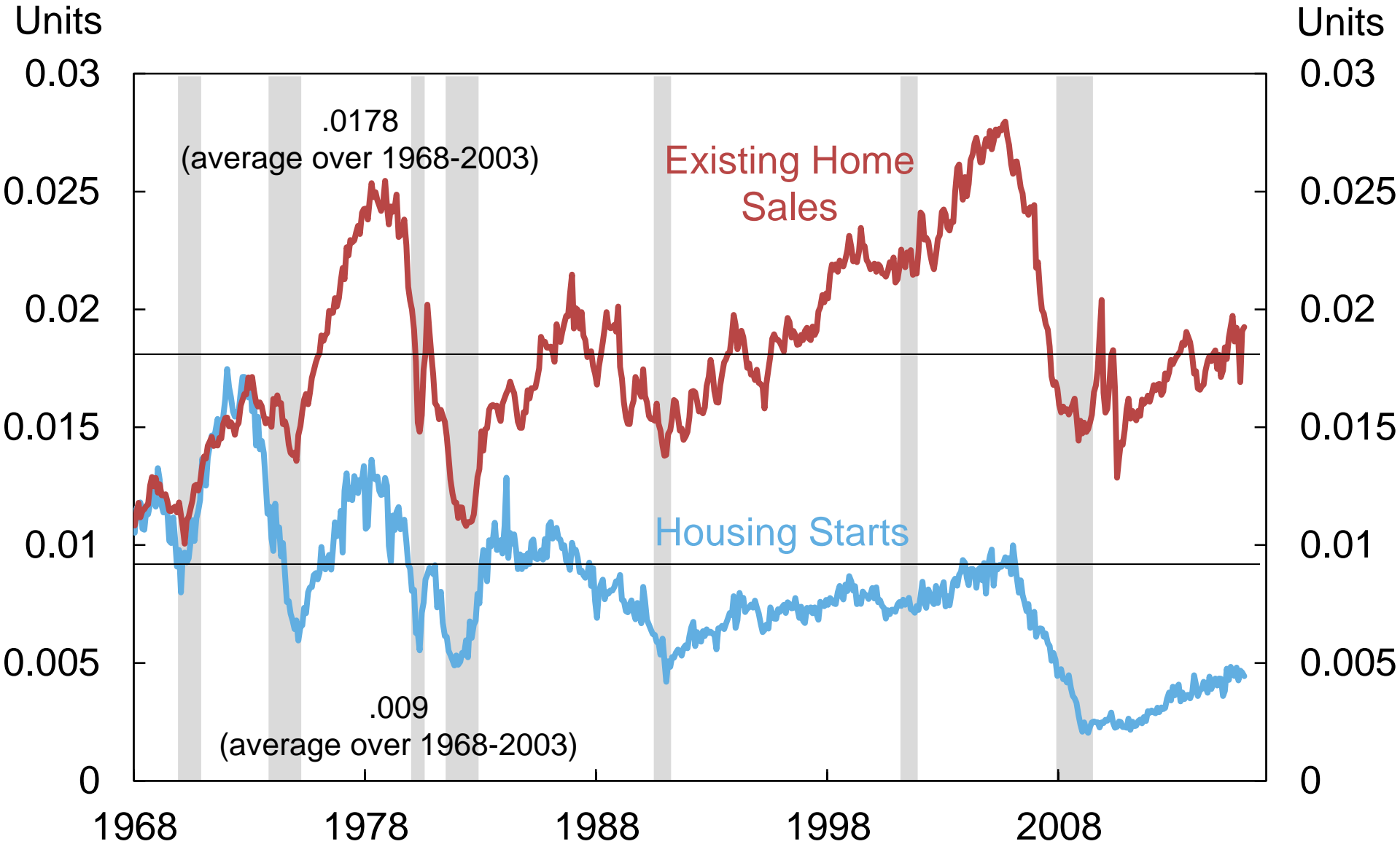
"Normal" Range for Months' Supply

Months' Supply (Right Axis)

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

Note: Shading shows NBER recessions.

Housing Starts and Existing Homes Sales Per Capita



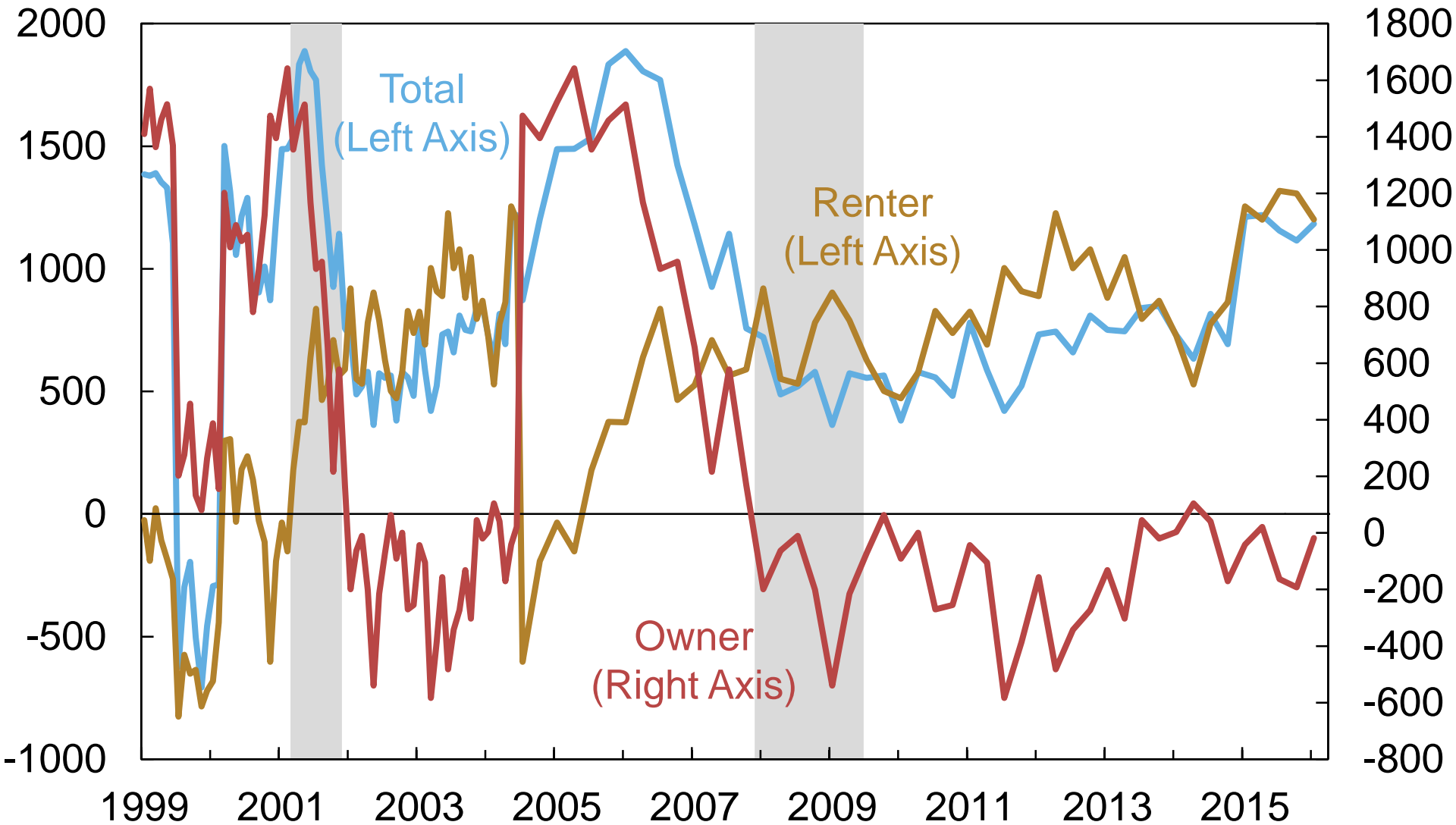
Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.

Household Formations

2 Year Avg. Change

2 Year Avg. Change



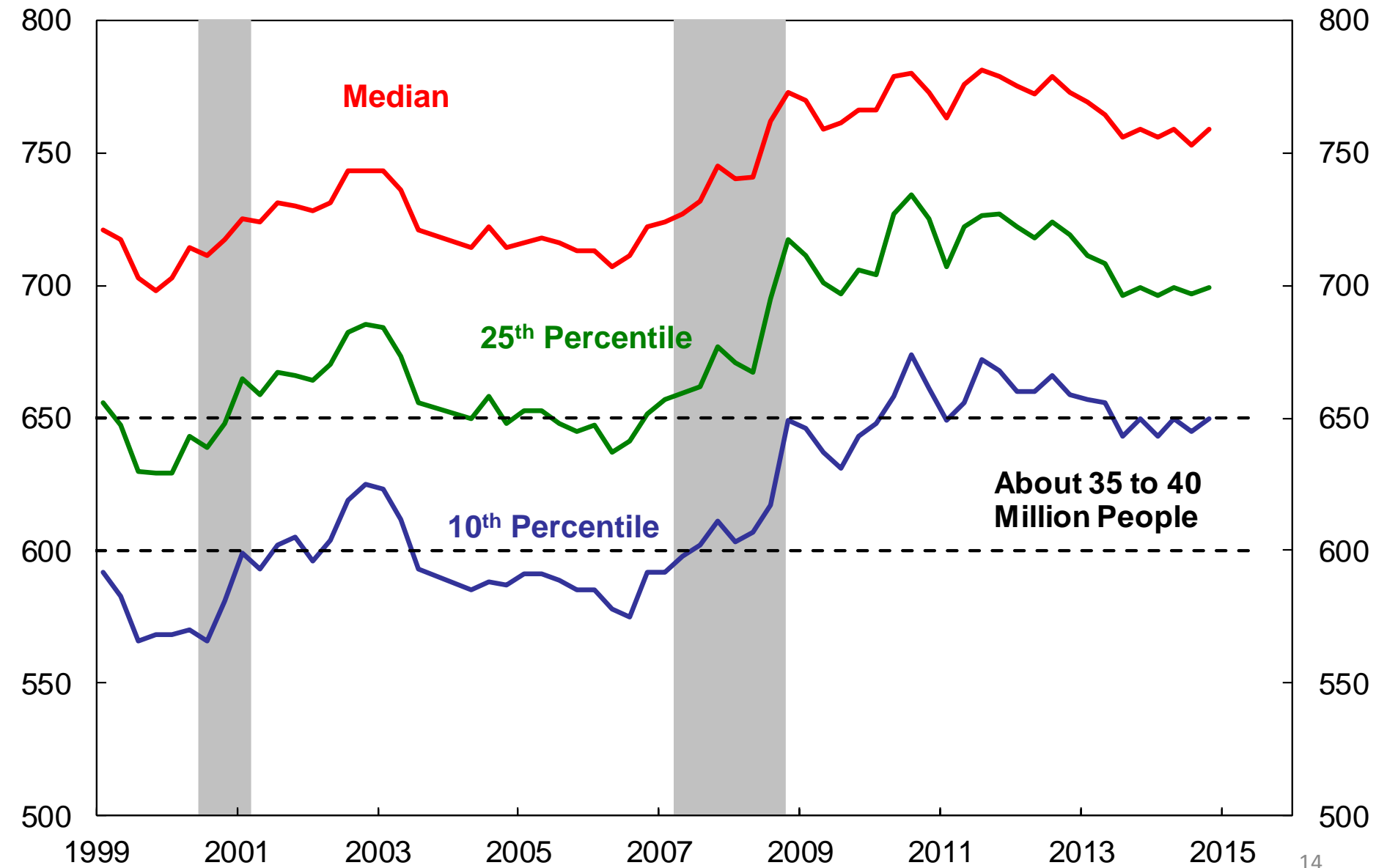
Source: Bureau of the Census

Note: Shading shows NBER recessions.

Credit Score at Mortgage Origination: All First Mortgages

Credit Score

Credit Score

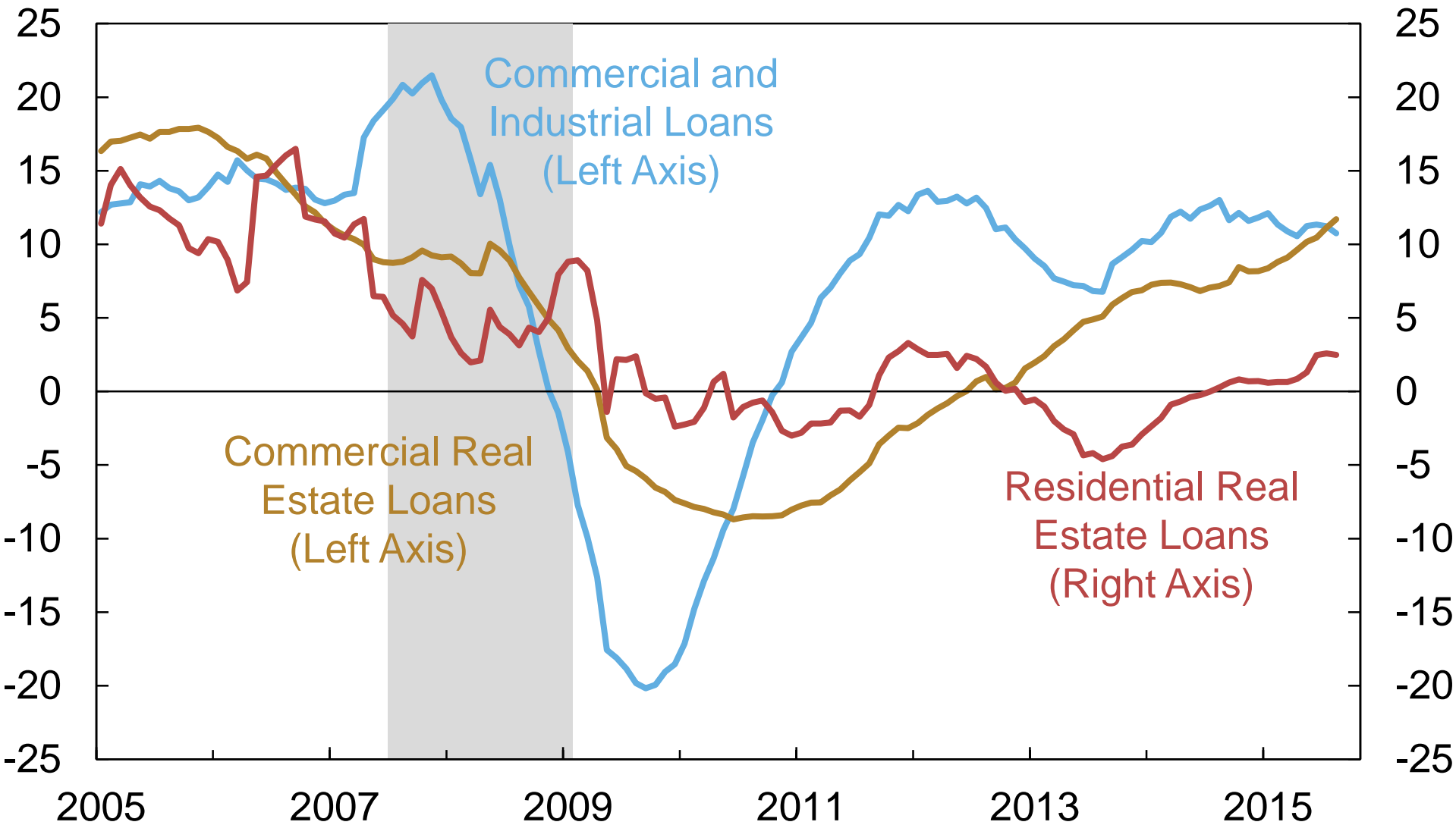


Source: FRBNY Consumer Credit Panel

Bank Assets: Domestically and Foreign Chartered Banks

% Change Year-to-Year

% Change Year-to-Year



Source: Federal Reserve Board

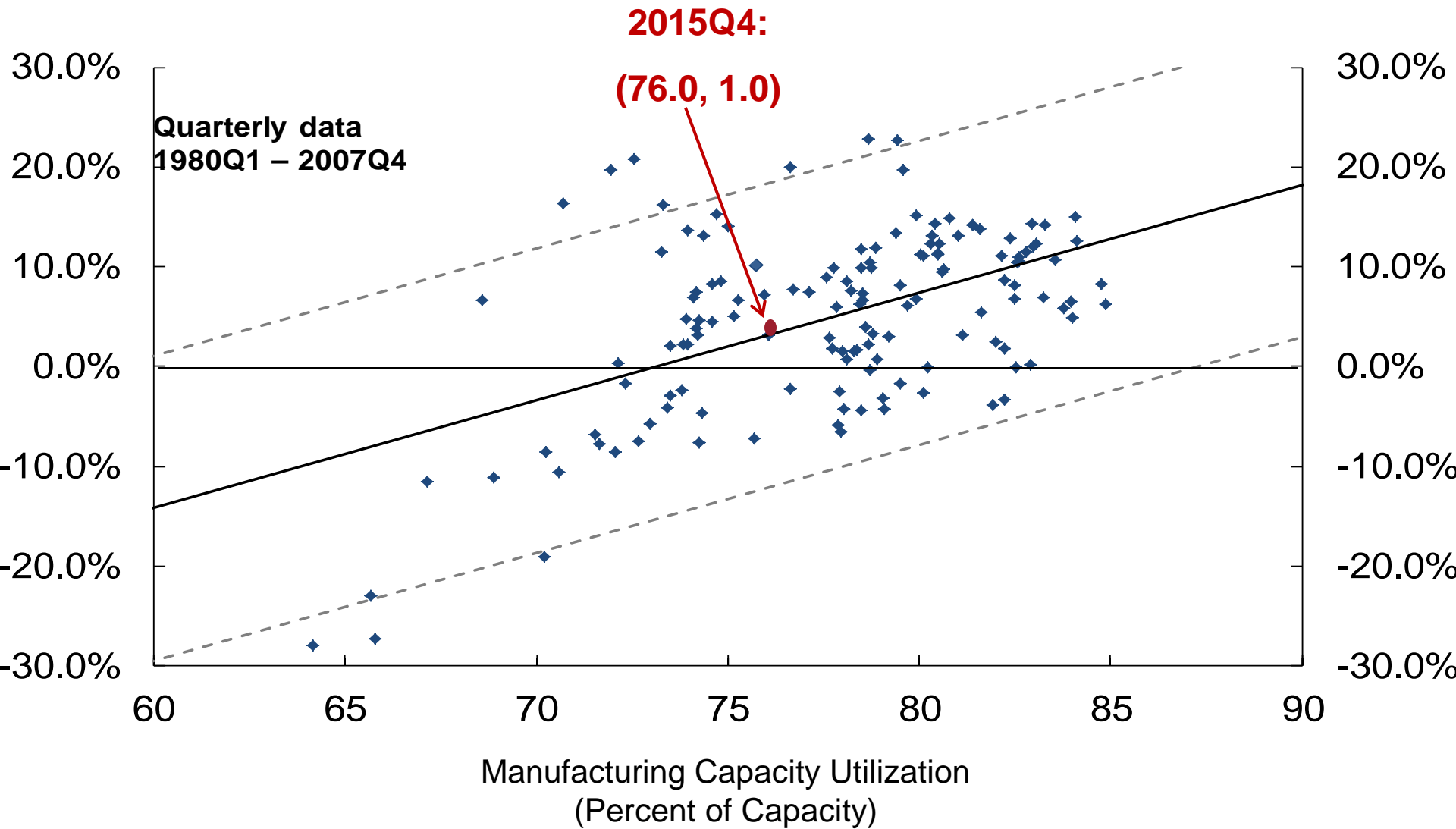
Note: Shading shows NBER recessions.



Equipment Investment Spending and Capacity Utilization

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

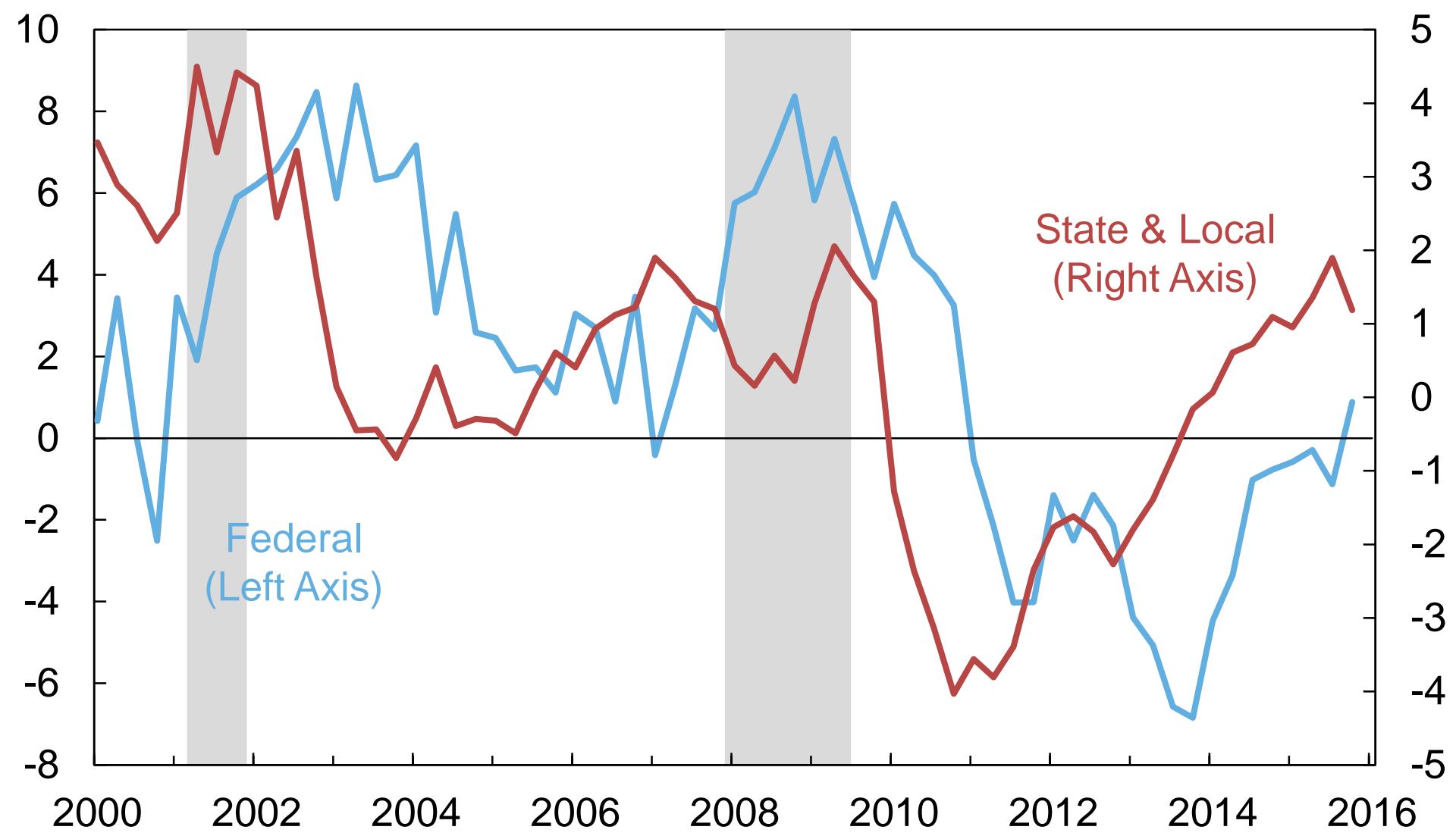
Real Business Investment in New Equipment
(% Change – Year to Year)



Real Government Consumption and Gross Investment

4 Quarter % Change

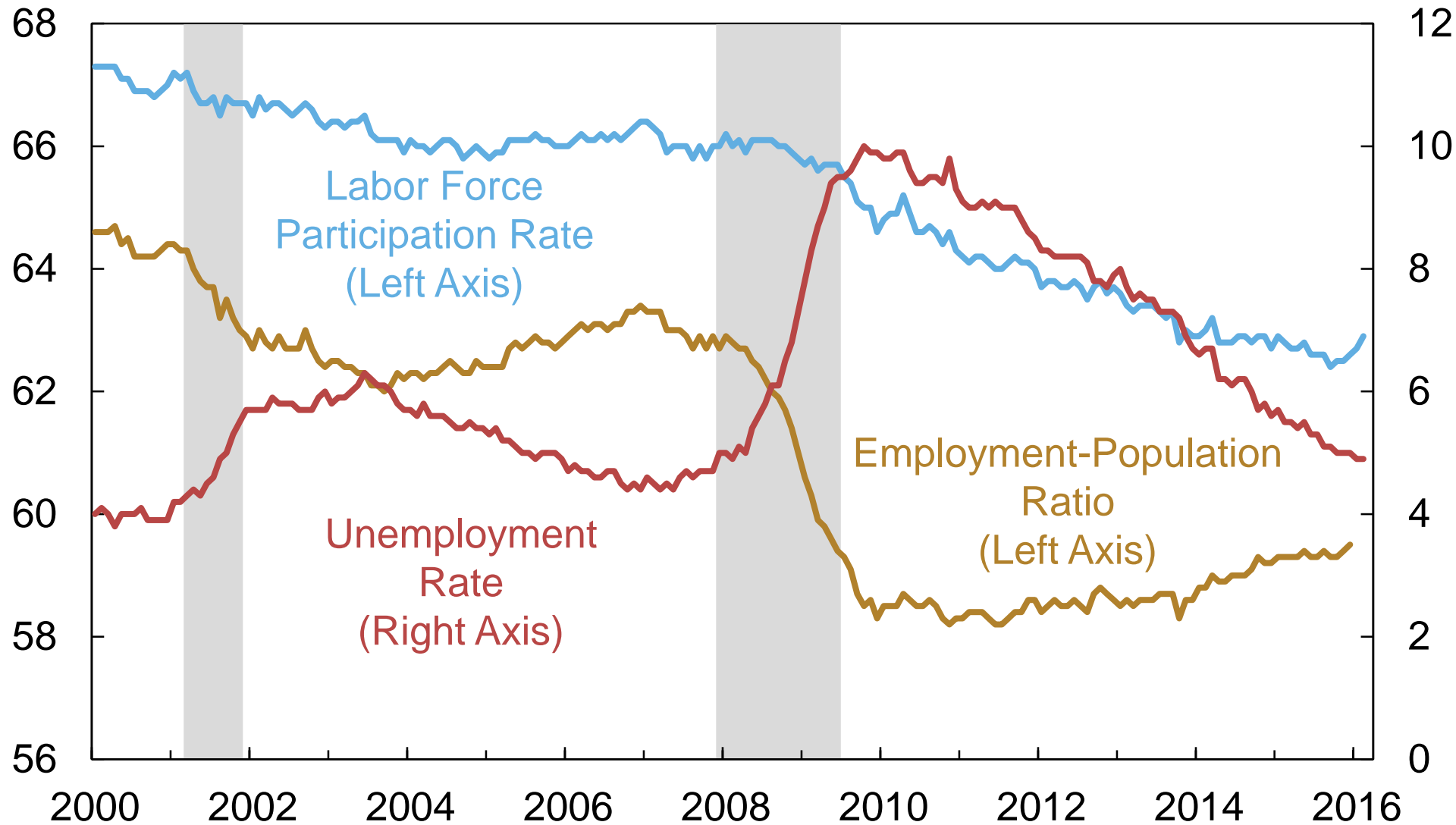
4 Quarter % Change



Labor Market Indicators

Percent

Percent



Source: Bureau of Labor Statistics, via Haver Analytics

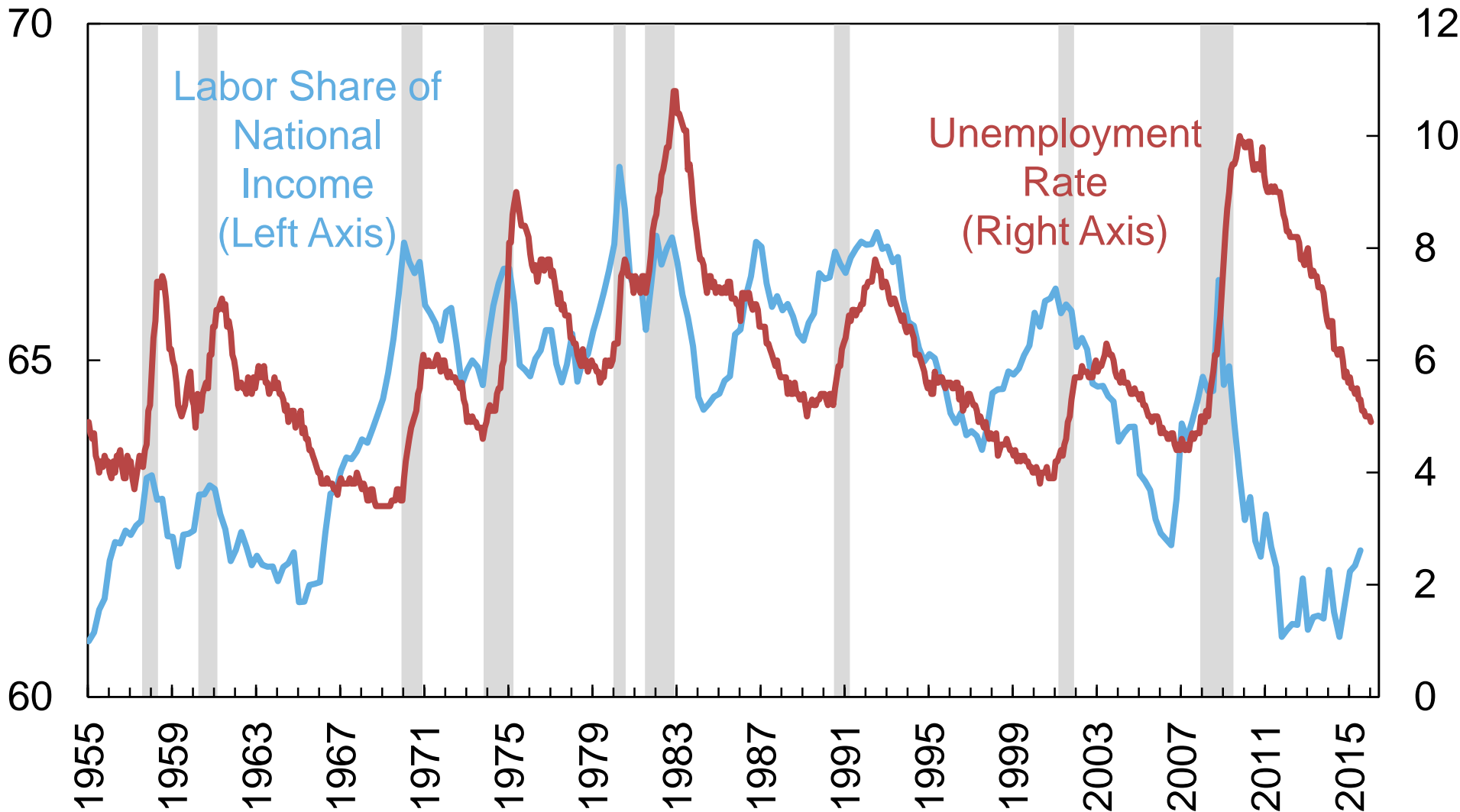
Note: Shading shows NBER recessions.



Labor Share of National Income and Unemployment

Percent

Rate



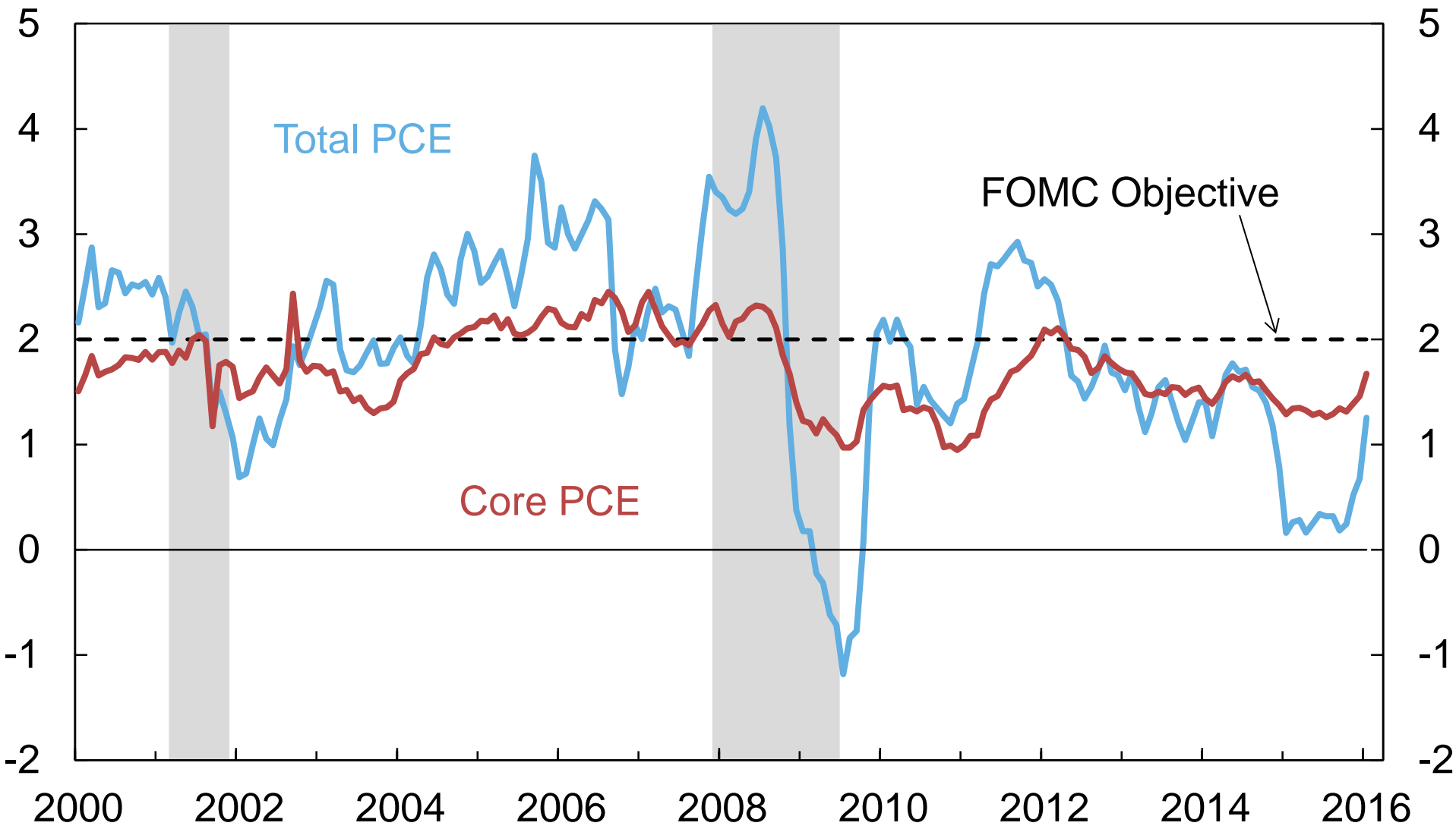
Source: Bureau of Economic Analysis, BLS

Note: Shading shows NBER recessions.

PCE Deflator

12 Month % Change

12 Month % Change



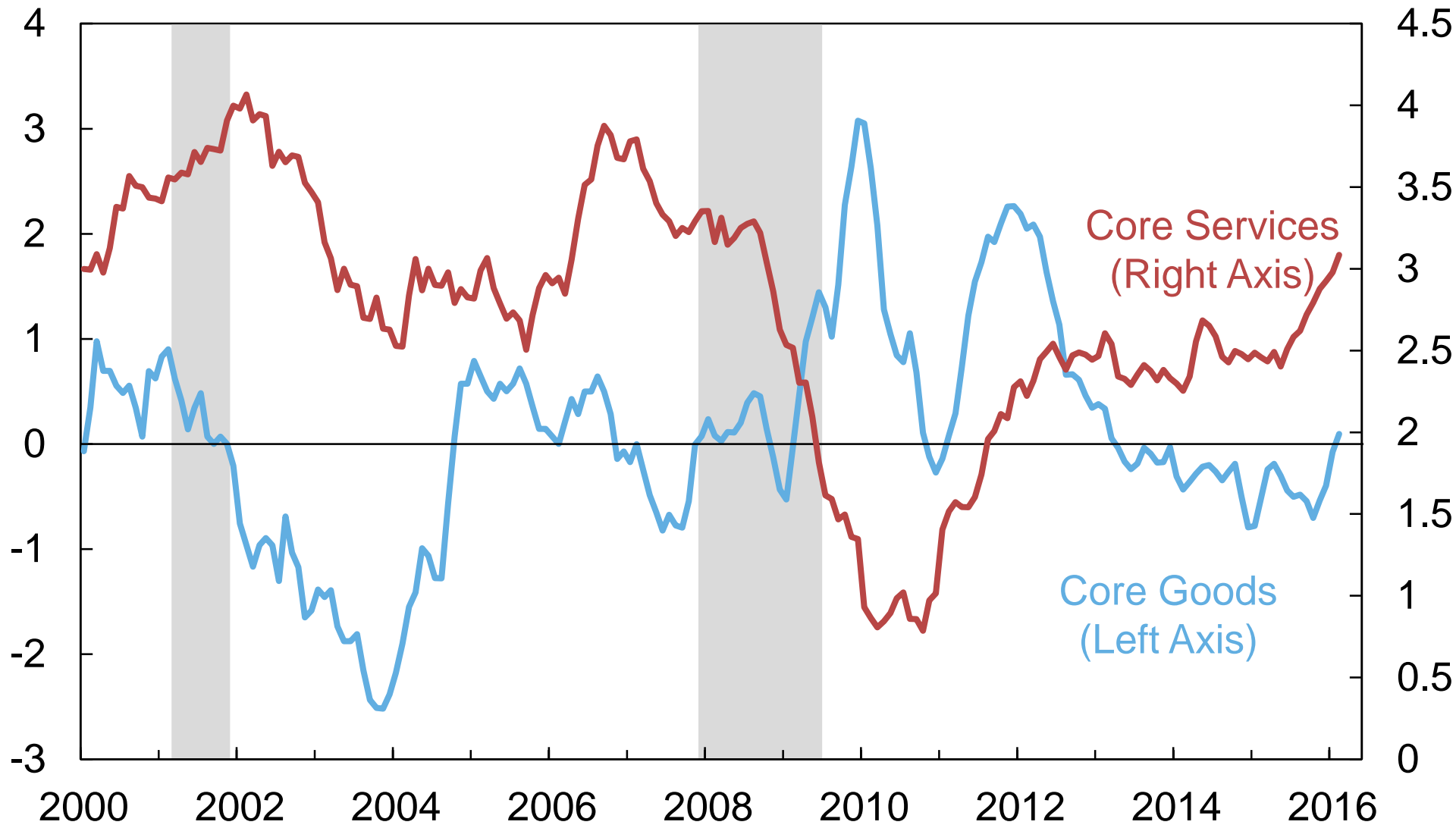
Source: Bureau of Economic Analysis, via Haver Analytics

Note: Shading shows NBER recessions.

CPI Inflation: Core Goods and Core Services

12 Month % Change

12 Month % Change



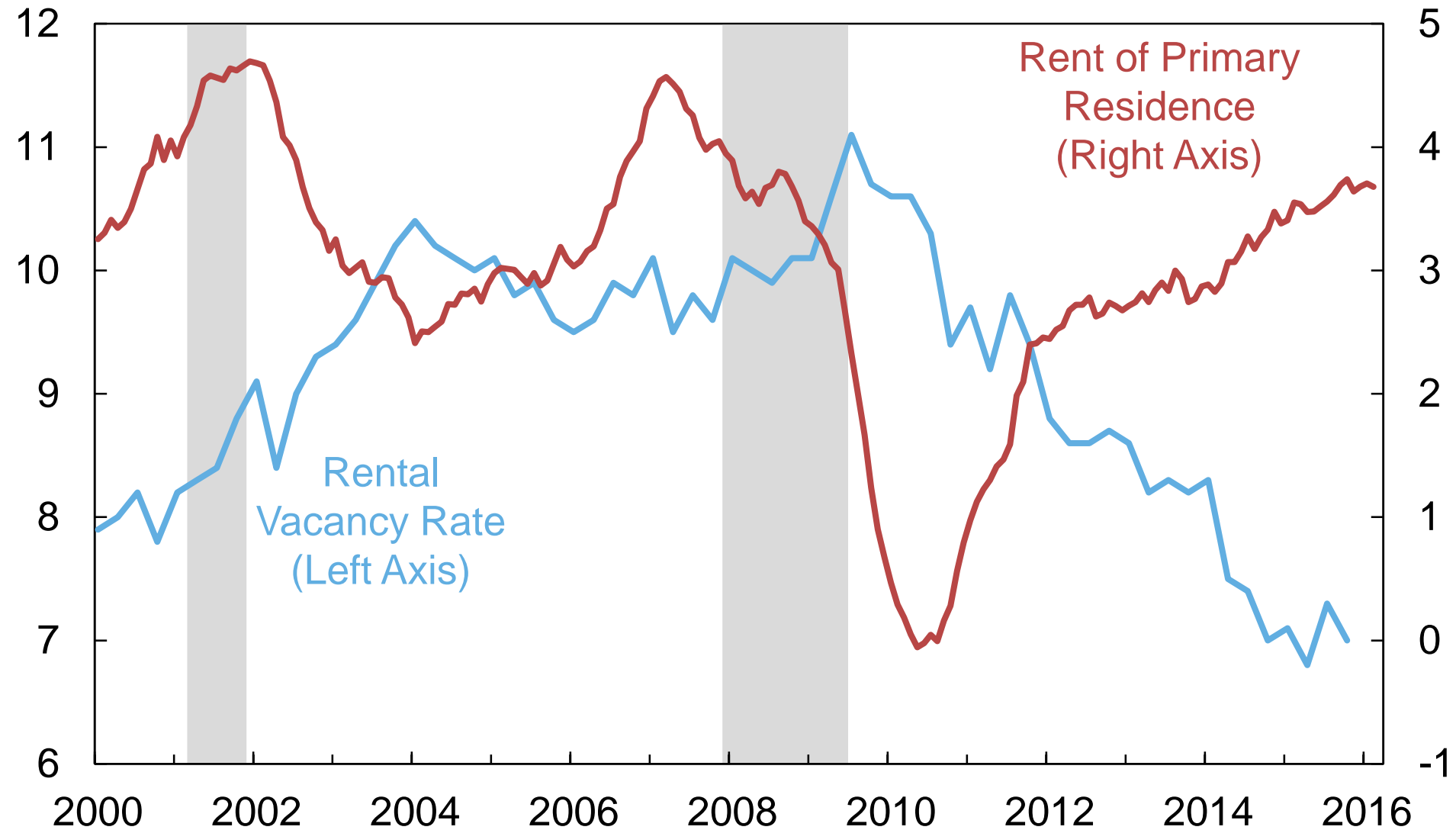
Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Rental Vacancy Rate and Rent of Primary Residence

Percent

12 Month % Change



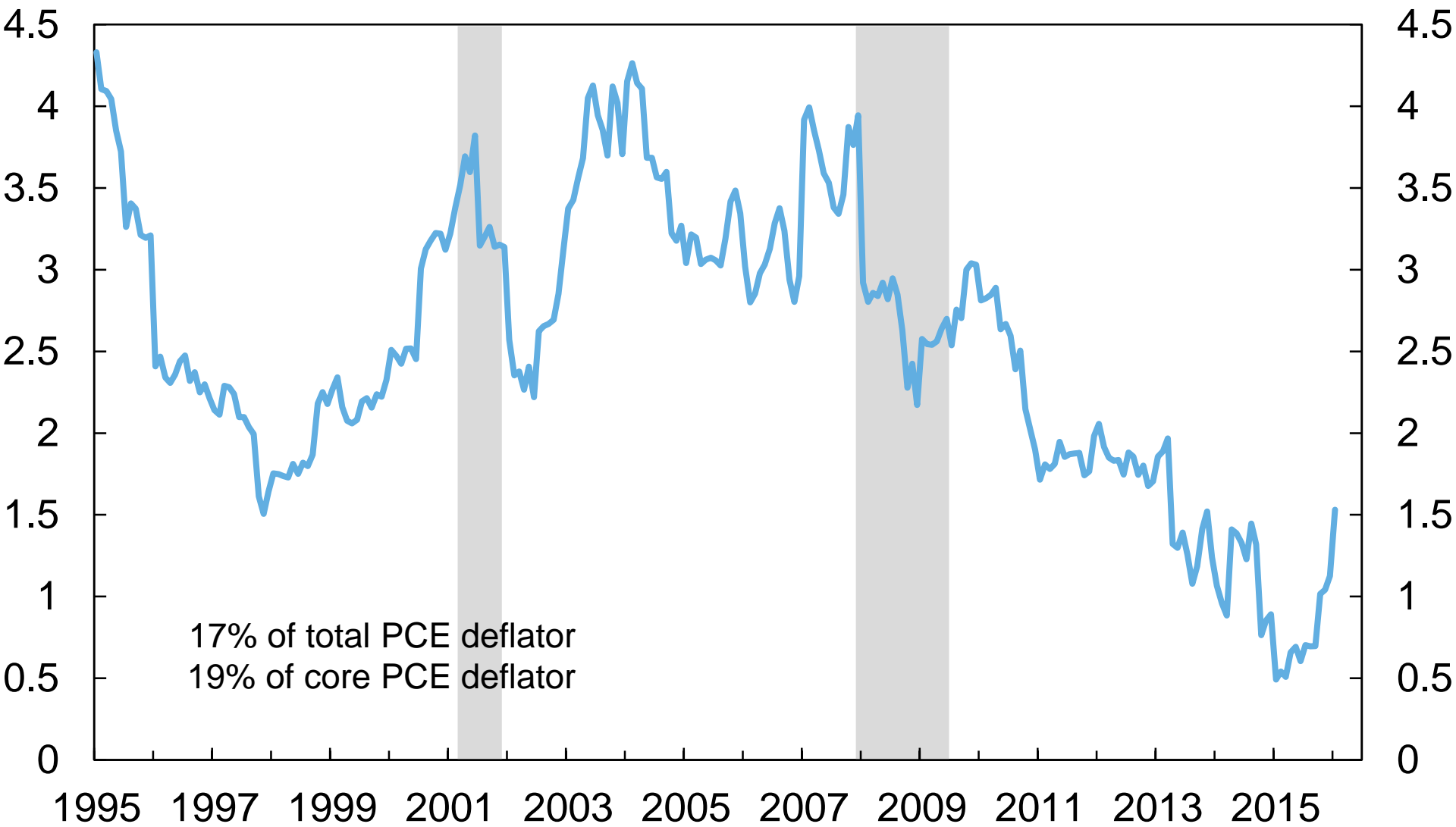
Source: Census Bureau, BLS

Note: Shading shows NBER recessions.

Personal Consumption Expenditures: Health Care Price Index

12 Month % Change

12 Month % Change

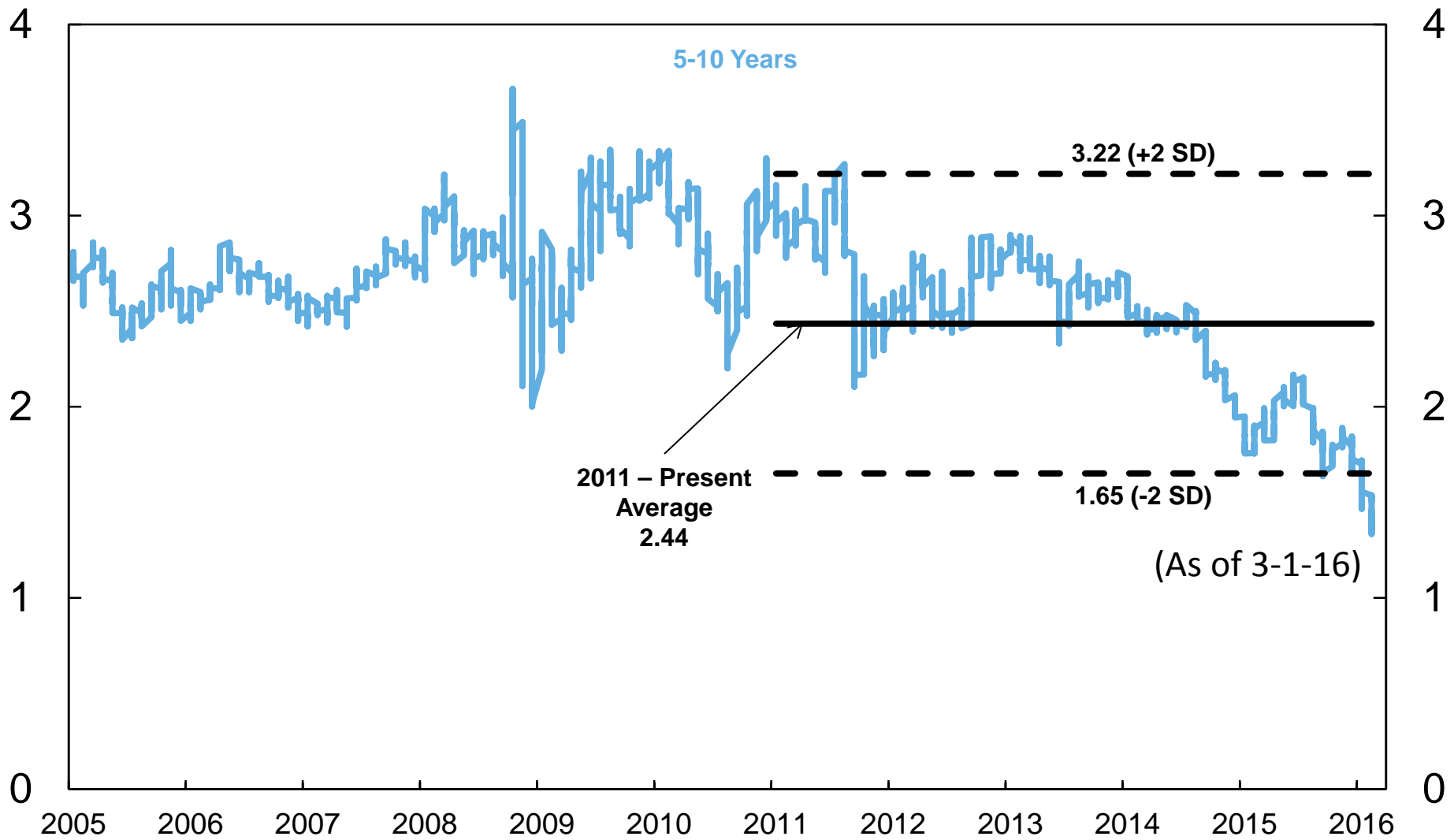


17% of total PCE deflator
19% of core PCE deflator

TIPS-based Inflation Expectations

Percent

Percent



2011 - Present
Average
2.44

5-10 Years

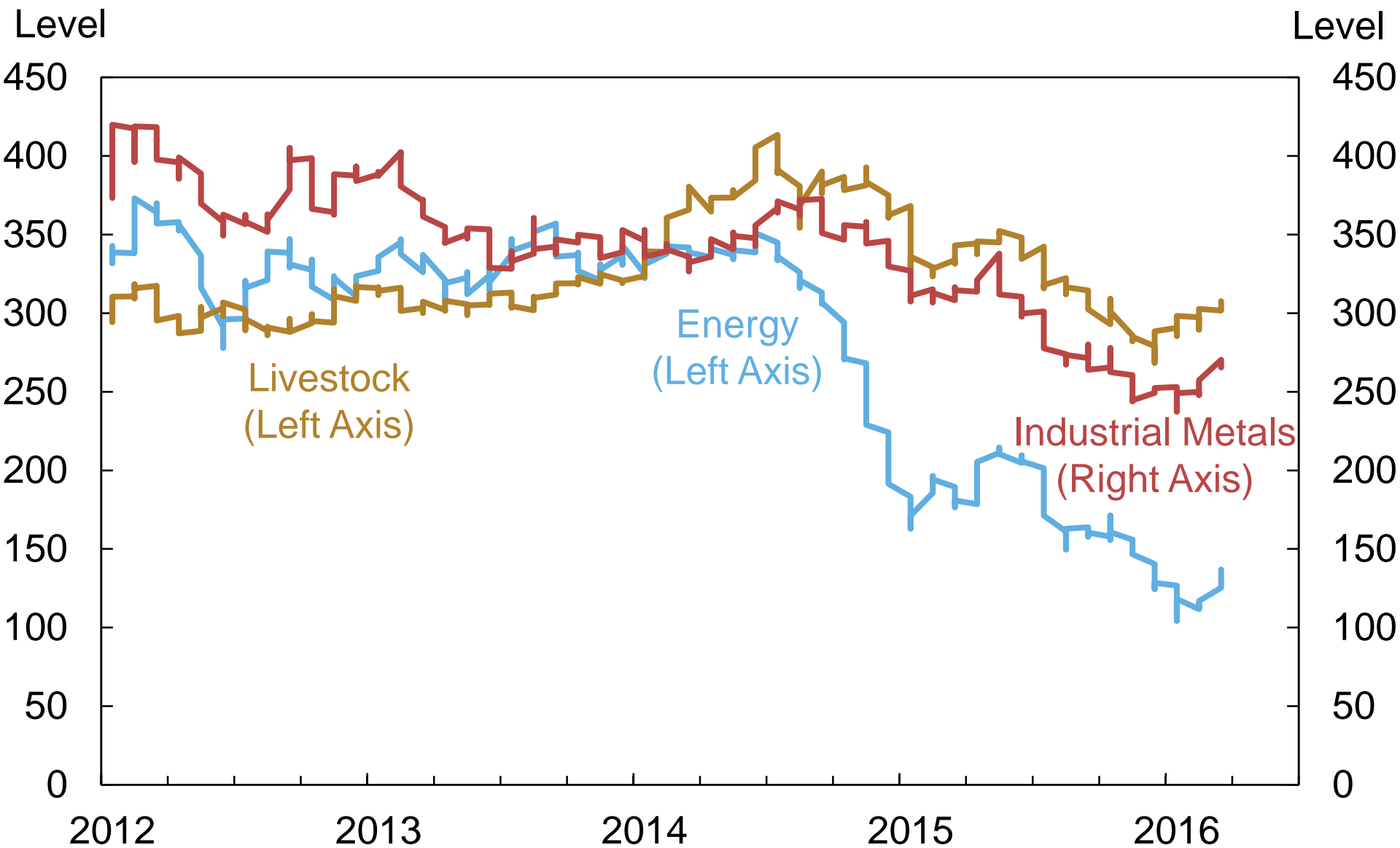
3.22 (+2 SD)

1.65 (-2 SD)

(As of 3-1-16)

Note: Dashed lines represent 2 standard deviations from the mean.

Energy, Industrial Metals and Livestock



Note: Shading shows NBER recessions.

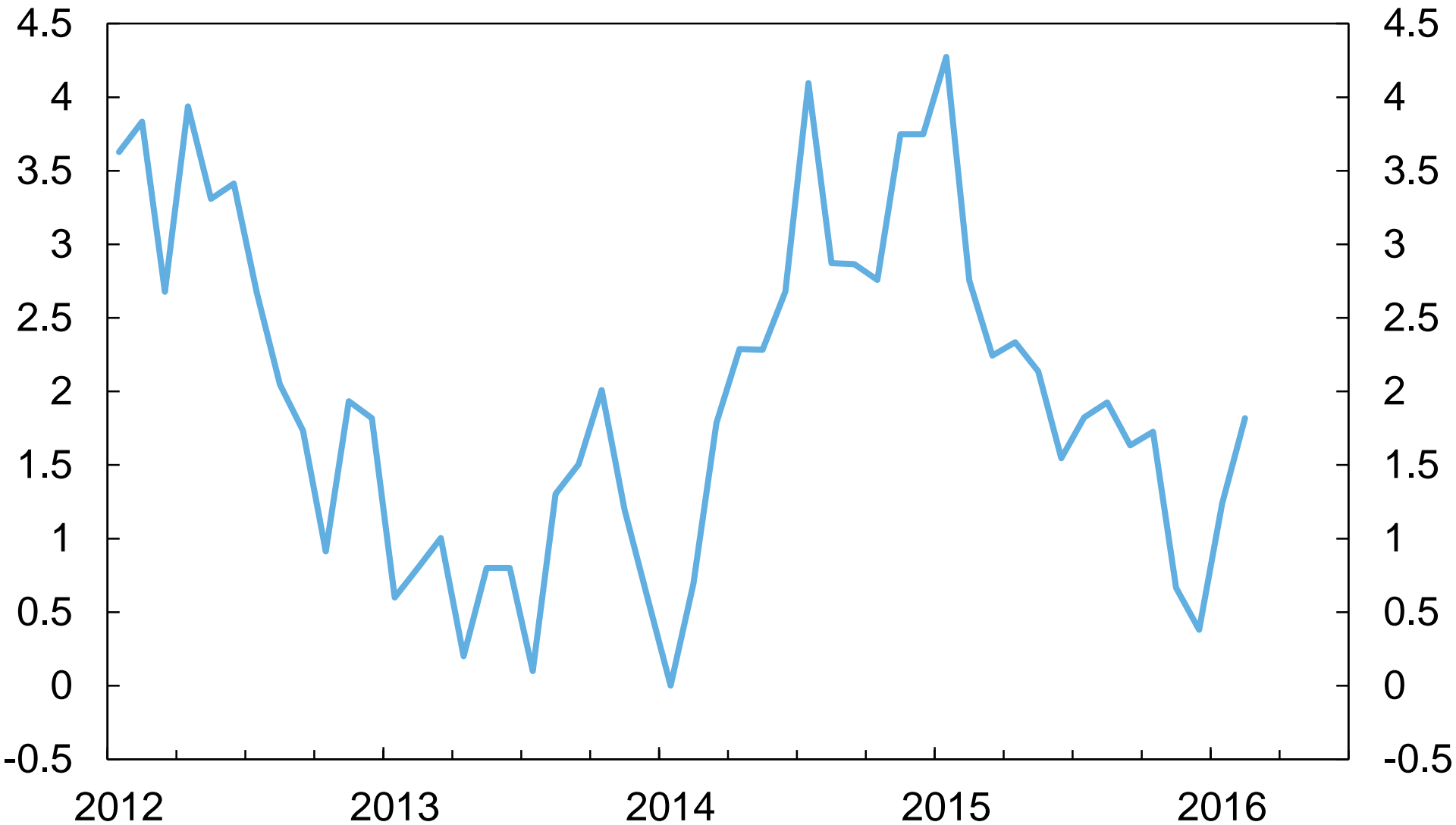
Index Dec-31-1969=100

Source: Standard & Poor's

Industrial Production: Manufacturing

Y/Y % Change

Y/Y % Change



Source: Federal Reserve Board

Note: Shading shows NBER recessions.



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Overview of the Regional Economy

Presentation to the Upstate New York Regional Advisory Board

Jason Bram, Research Officer

March 22, 2016

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.

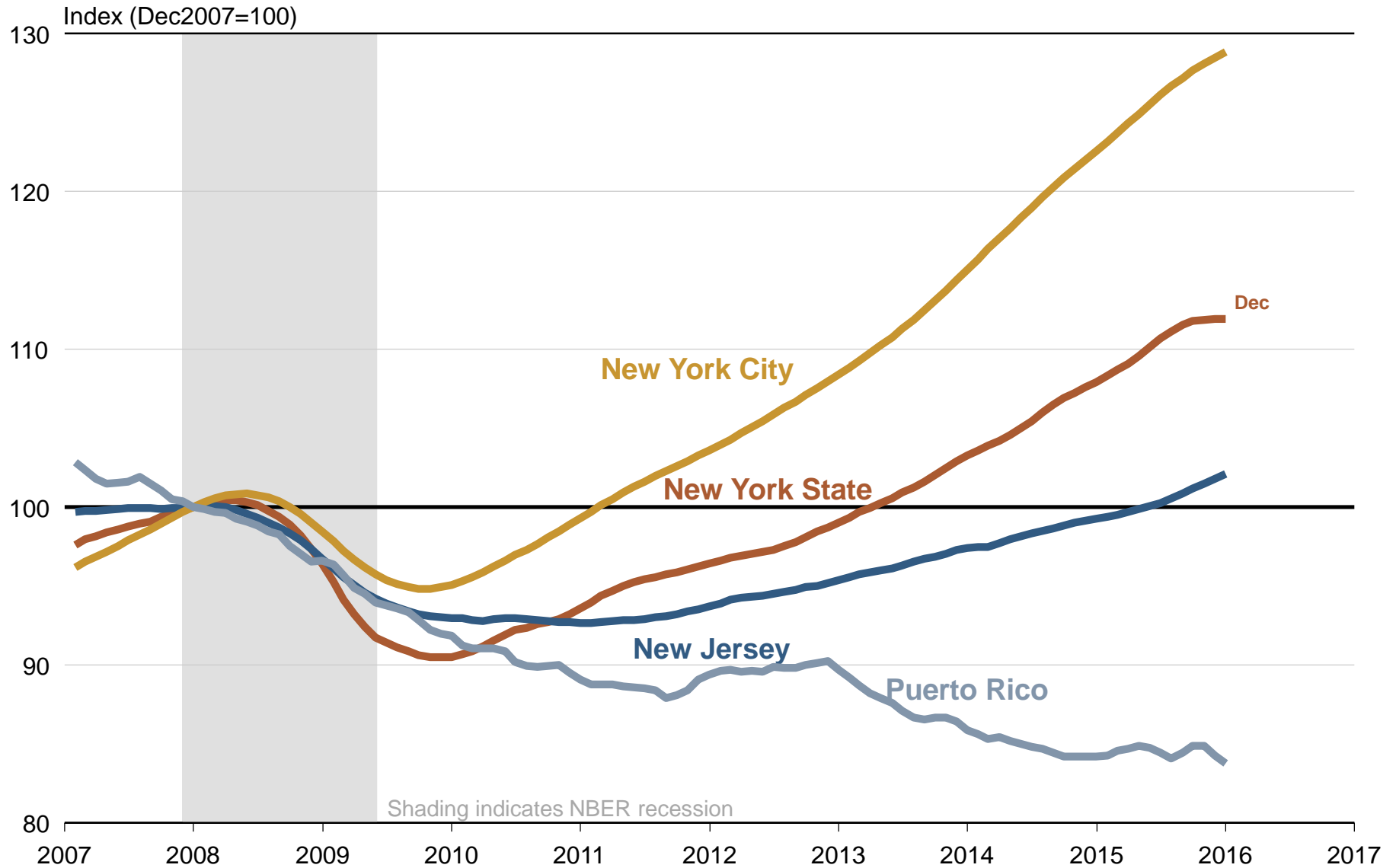
Overview of Regional Conditions

- Recent benchmark revisions show slower job growth in upstate New York, while home prices remain buoyant.
- New York City's economy continues to grow briskly.
- New Jersey's economy is looking a bit stronger after benchmark revisions.
- Puerto Rico's economy continues to languish at depressed levels.



Regional Economic Activity

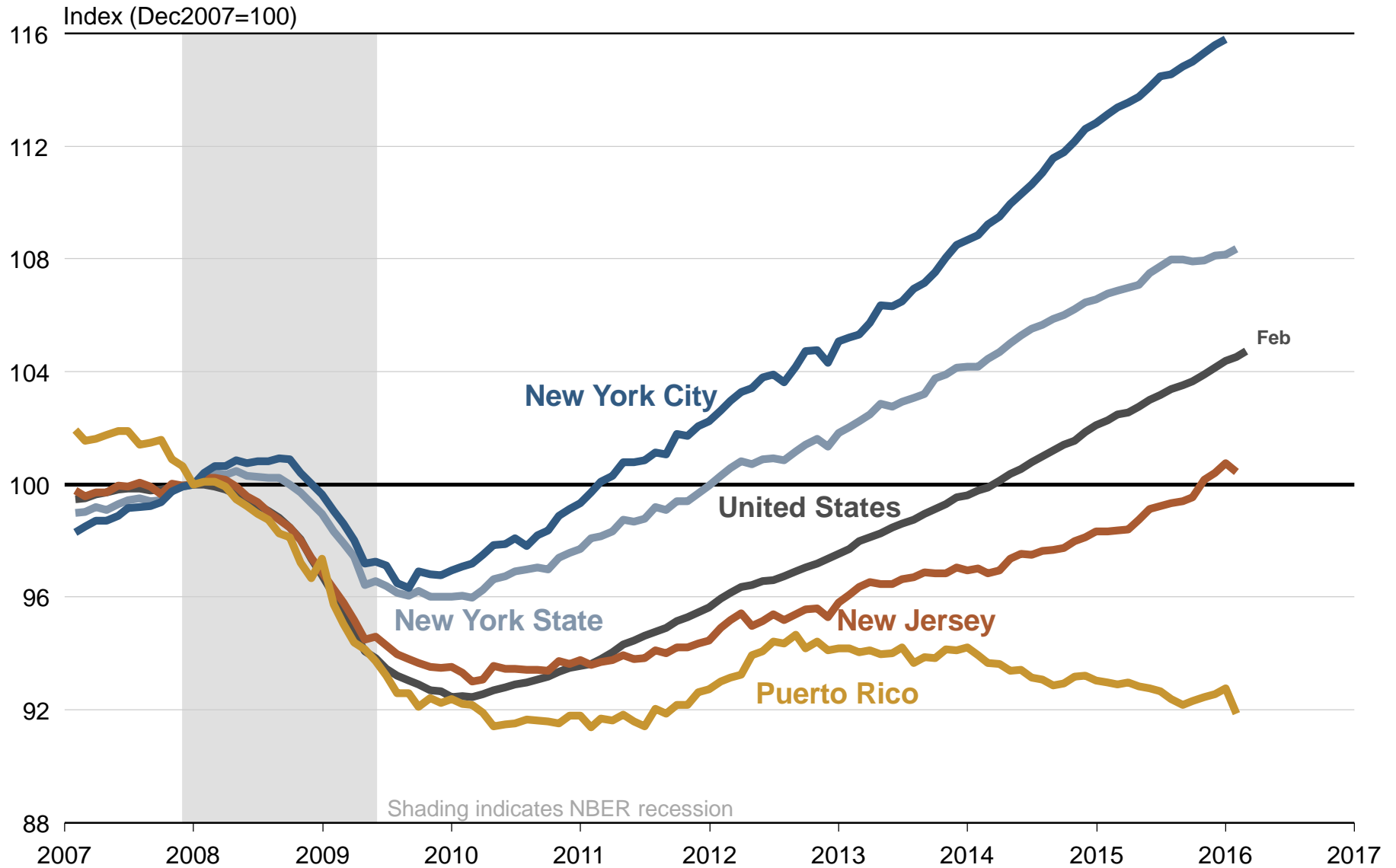
Index of Coincident Economic Indicators (CEI)



Source: Federal Reserve Bank of New York

Private-Sector Employment

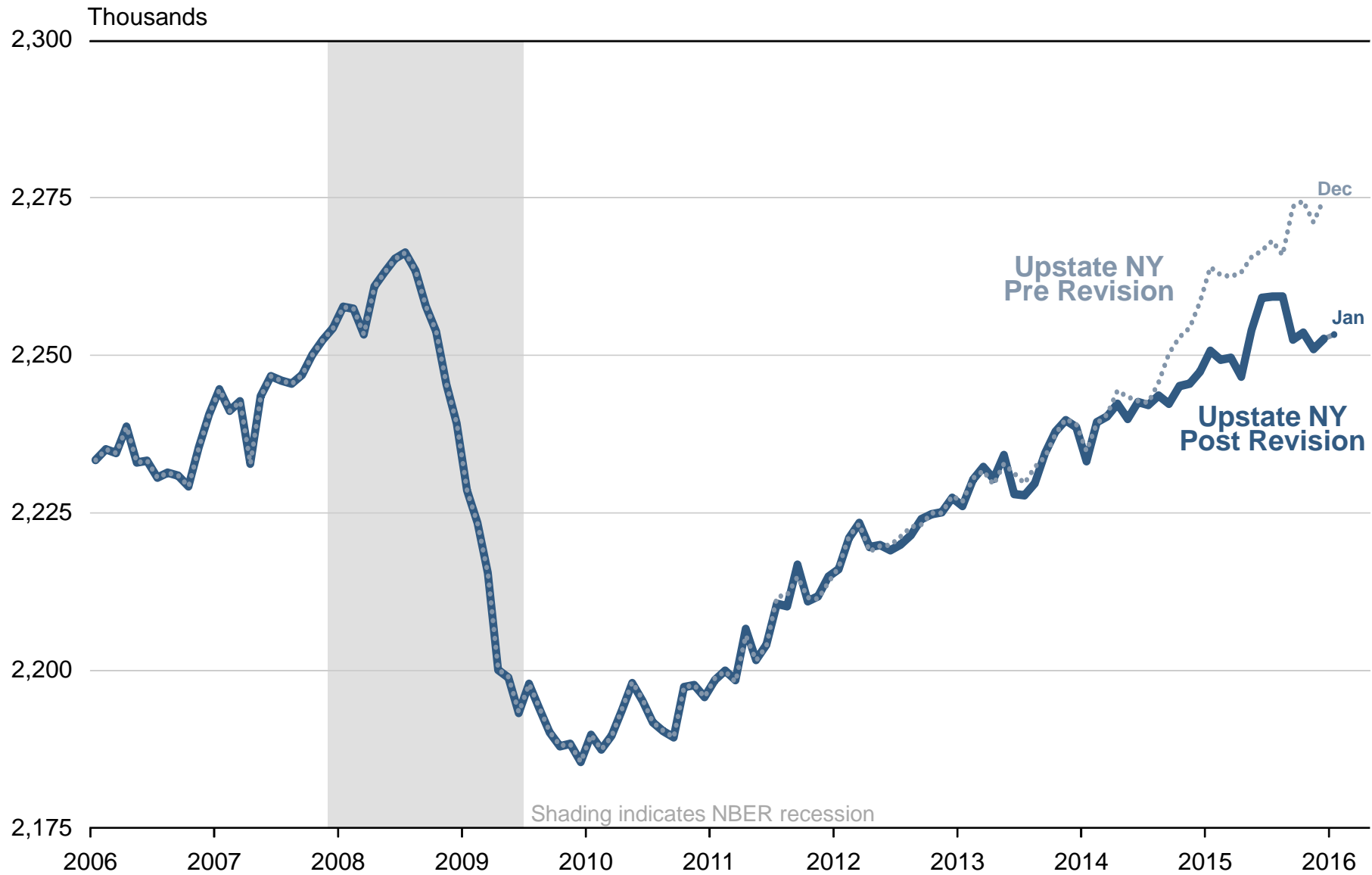
Seasonally Adjusted Index



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

Employment Growth in Upstate NY

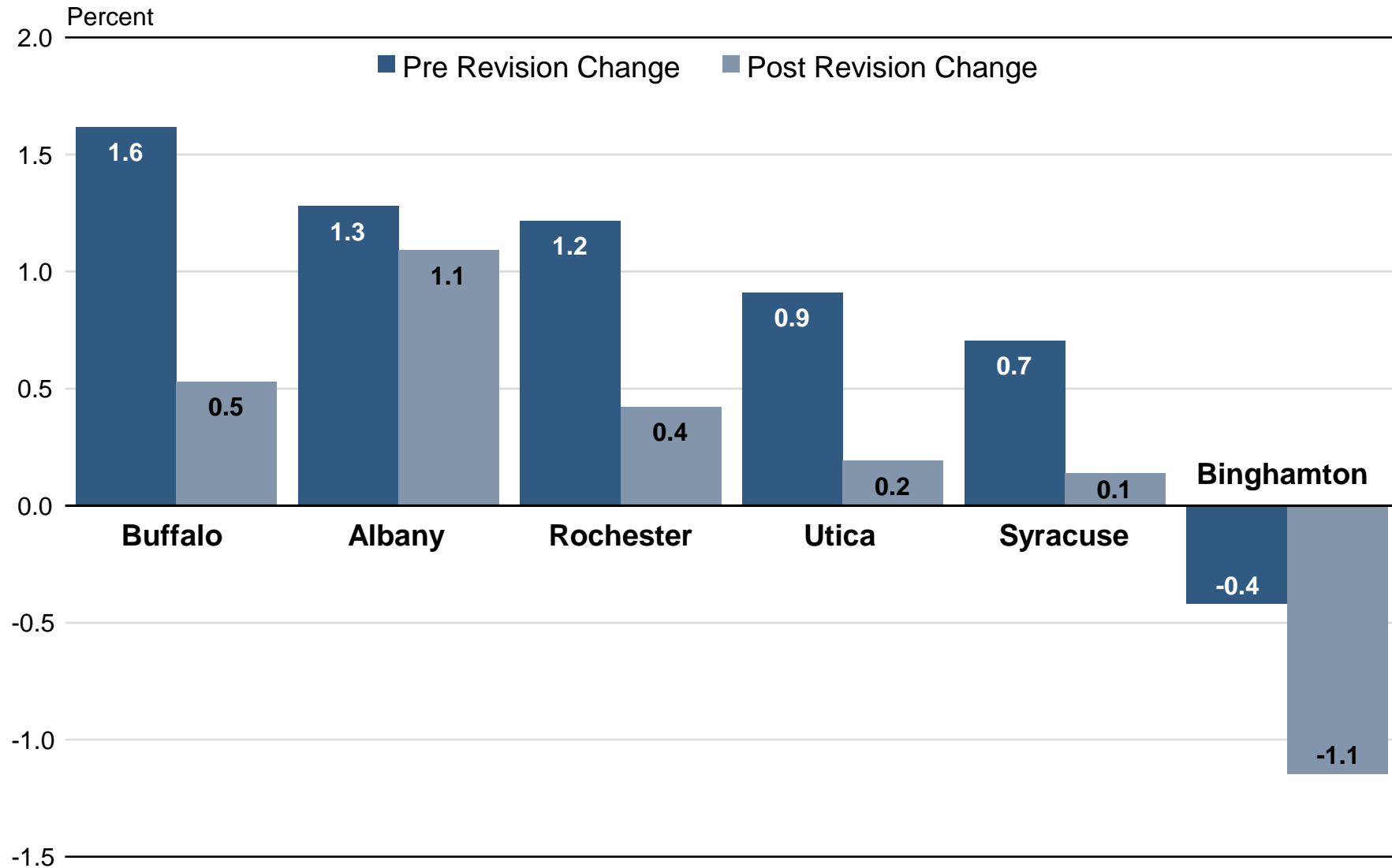
Before and After Benchmark Revisions



Source: New York State Department of Labor, Bureau of Labor Statistics, and Moody's Economy.com

Employment Growth in Upstate NY

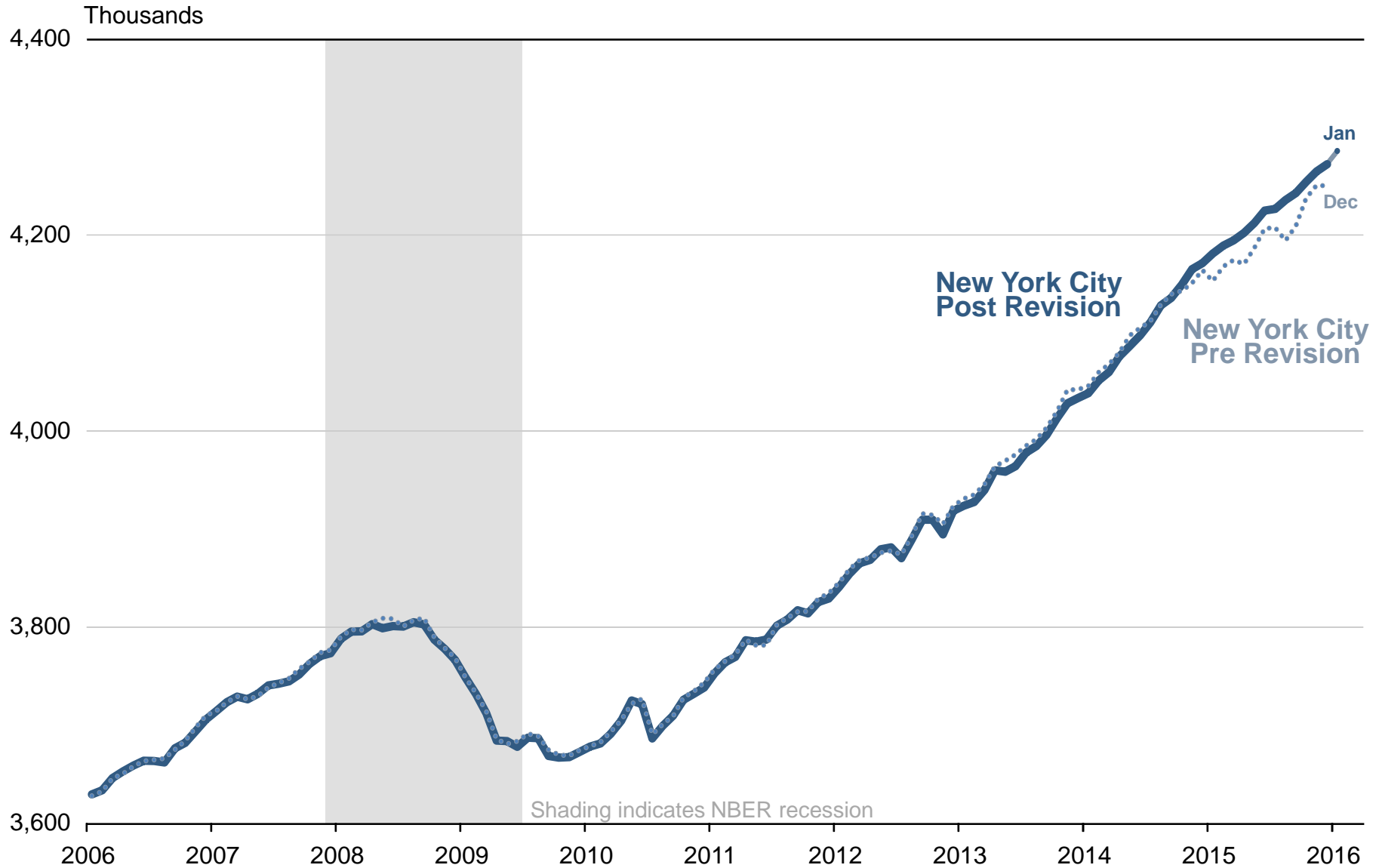
Before and After Benchmark Revisions



Source: New York State Department of Labor, Bureau of Labor Statistics, and Moody's Economy.com.
Note: Employment growth calculated as percent change between 2014 and 2015 annual total employment.

Employment Growth in New York City

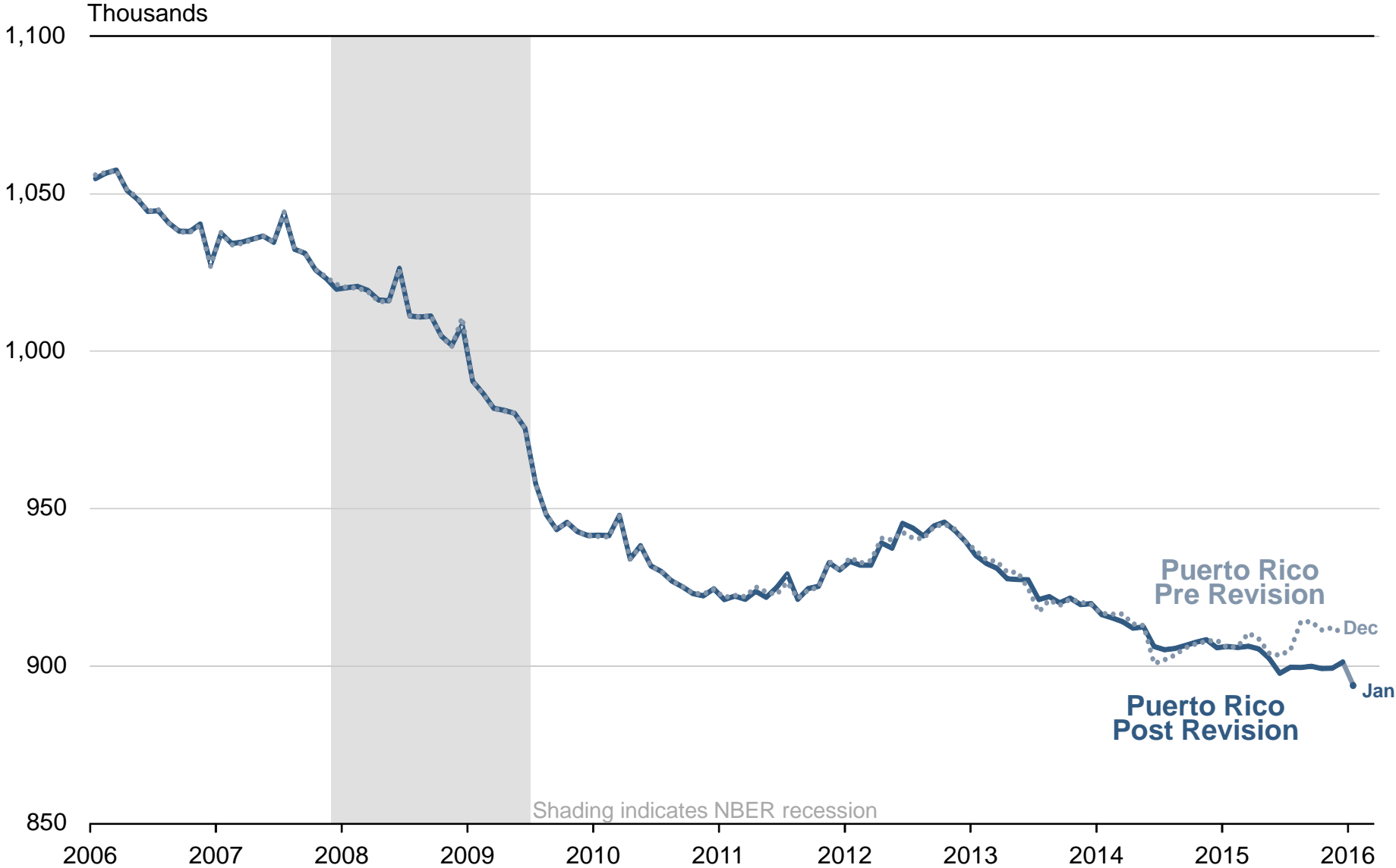
Before and After Benchmark Revisions



Source: New York State Department of Labor, Bureau of Labor Statistics, and Moody's Economy.com

Employment Trends in Puerto Rico

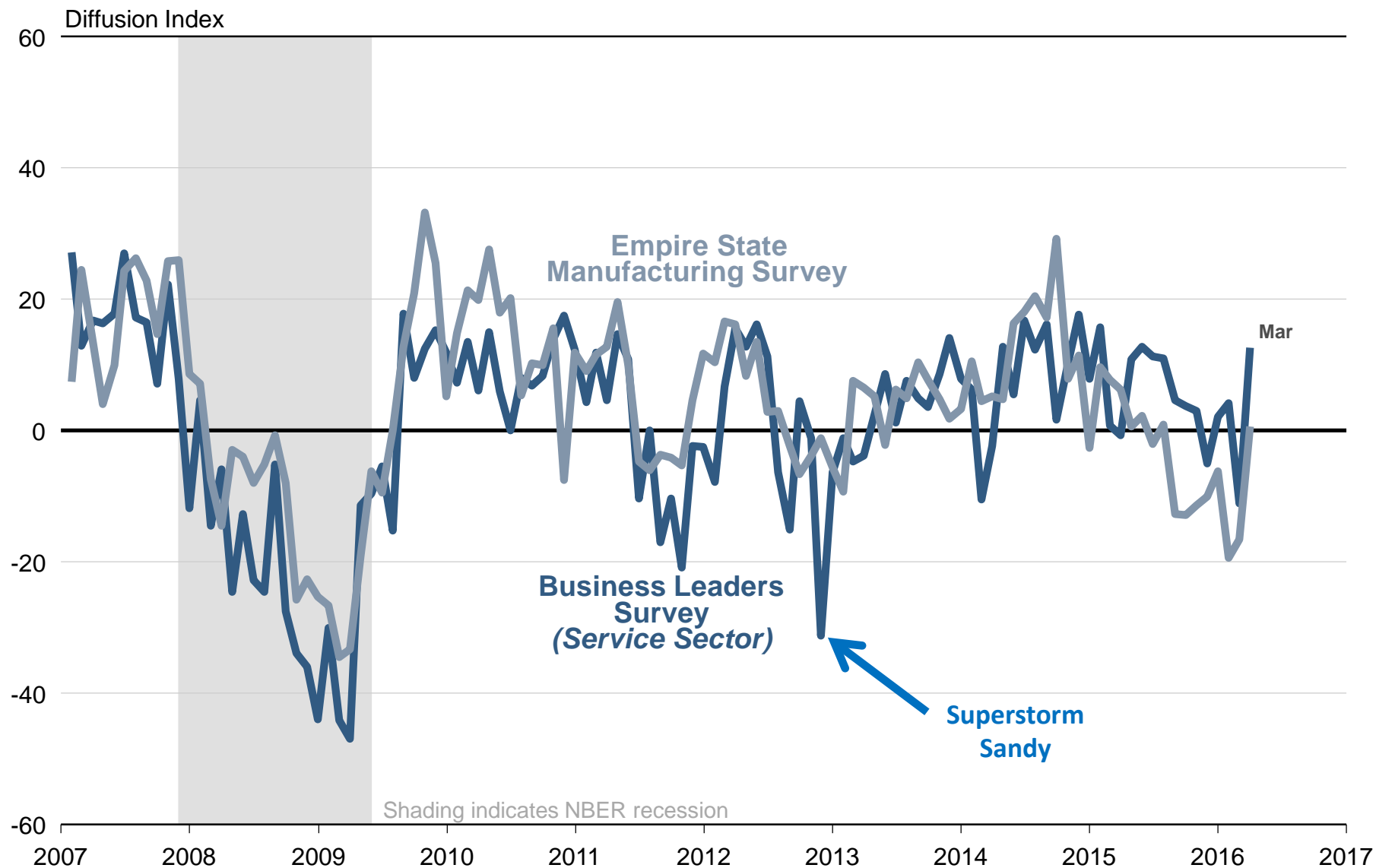
Before and After Benchmark Revisions



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

Current Economic Conditions

FRBNY Business Surveys, Current Conditions



For more detail on these two surveys, please see https://www.newyorkfed.org/survey/business_leaders/bls_overview and https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html

Source: Federal Reserve Bank of New York

March 2016 Supplementary Questions

FRBNY Business Surveys

By what percentage do you expect each of the following to change over the next 12 months?

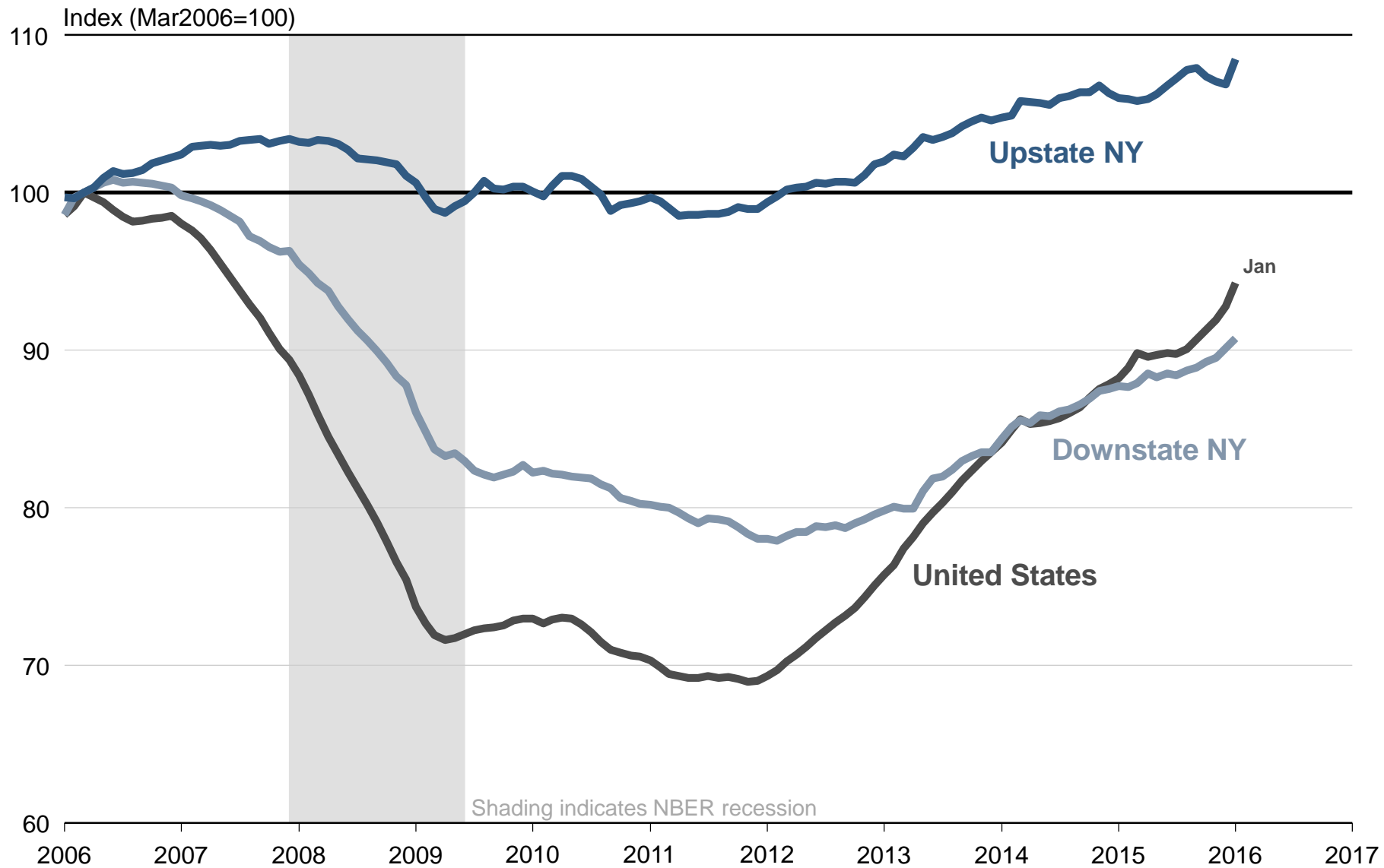
	Empire State Manufacturing Survey		Business Leaders (Service Sector) Survey	
	<u>Mean</u>	<u>Median</u>	<u>Mean</u>	<u>Median</u>
Compensation your firm will pay per employee (for wages and benefits)	2.79	3.00	3.44	3.00
Prices your employees will pay (for goods and services where they live)	2.27	2.00	2.69	2.00
Prices U.S. consumers will pay (for goods and services)	2.03	2.00	2.64	2.00

For full report, please see

https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2016/2016_03supplemental.pdf

Home Prices

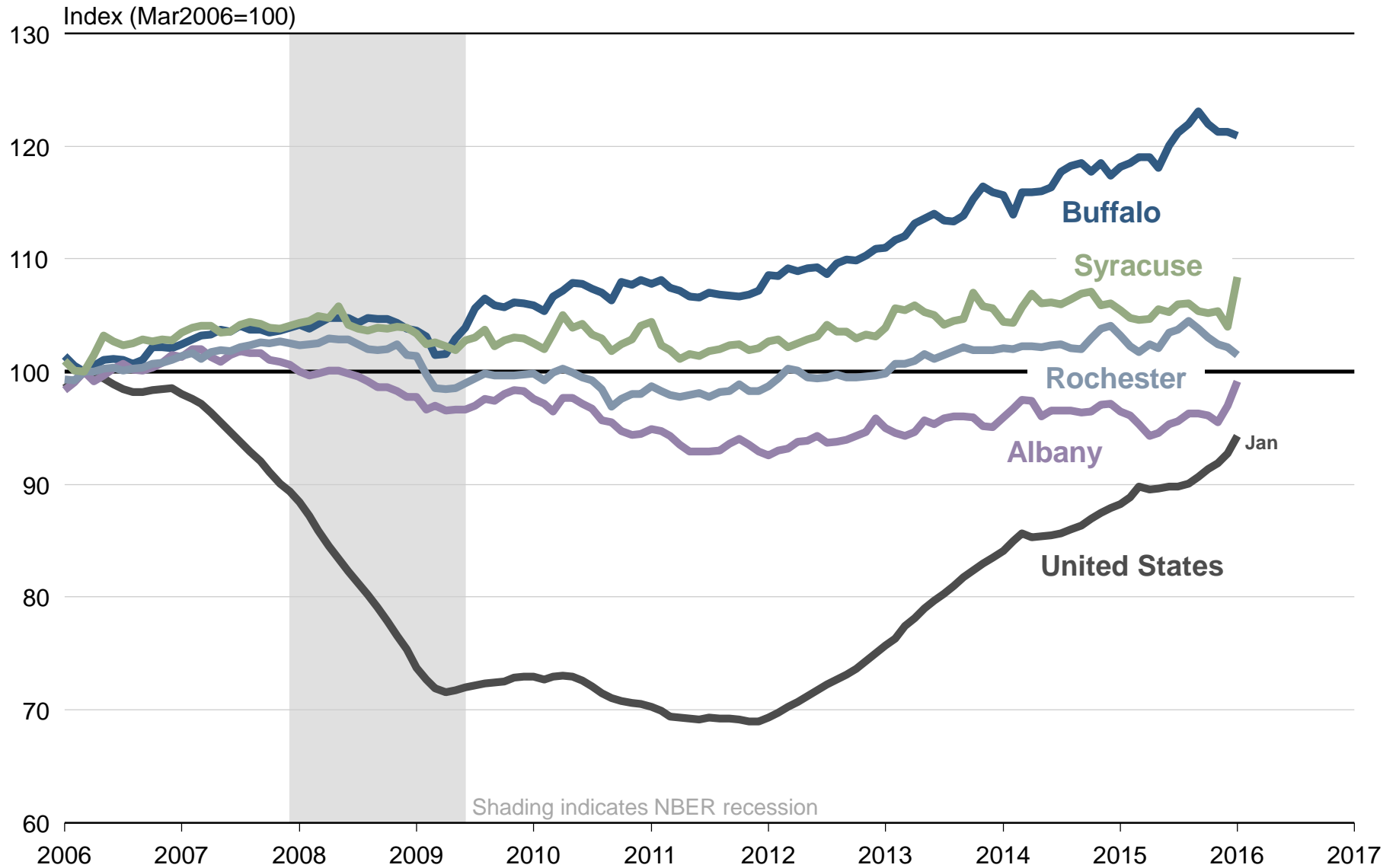
CoreLogic Home Price Index, Seasonally Adjusted



Source: CoreLogic Home Price Index (including distressed sales)

Home Prices

CoreLogic Home Price Index, Seasonally Adjusted



Source: CoreLogic Home Price Index (including distressed sales)



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Global Economic Outlook

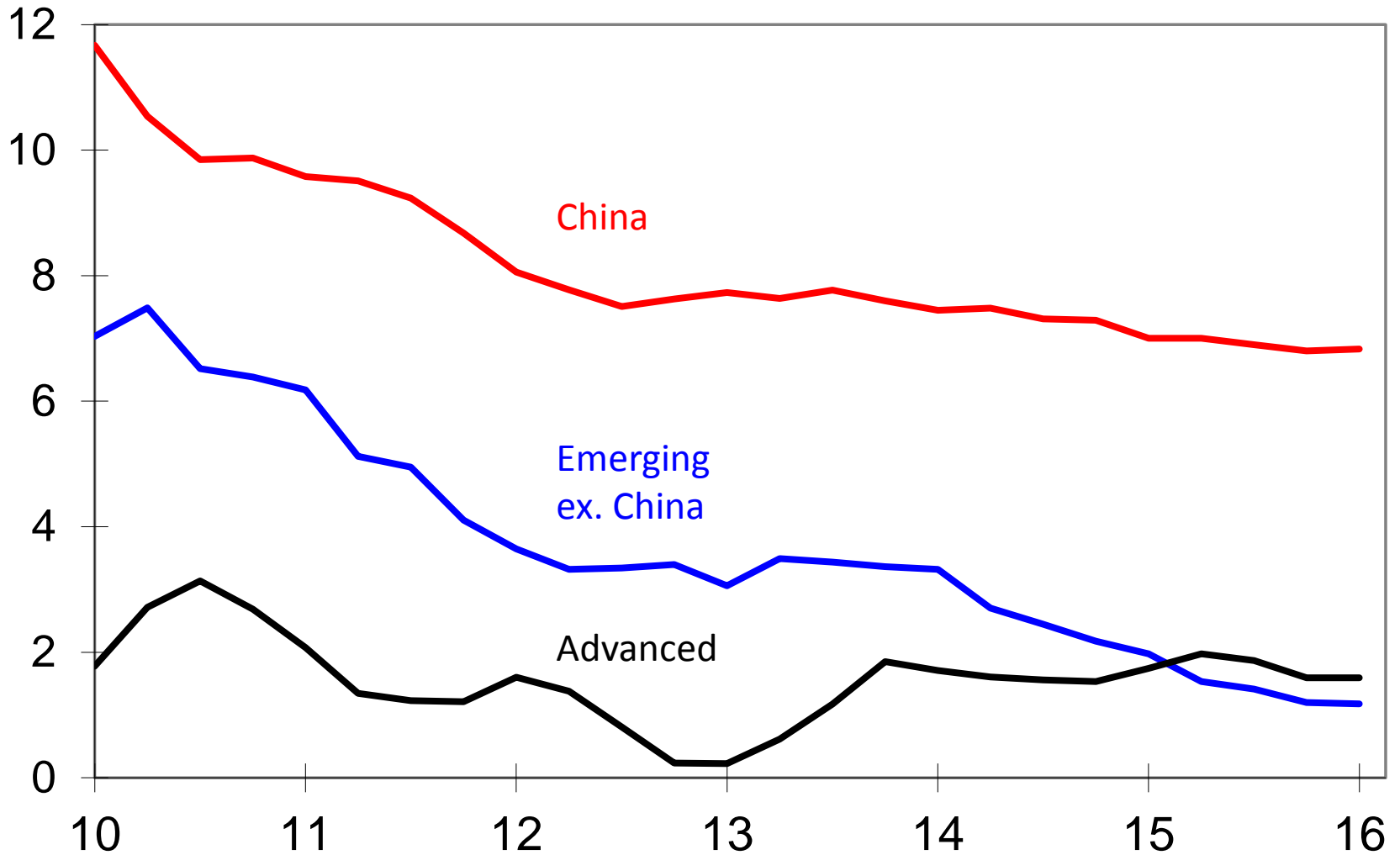
Upstate New York Regional Advisory Board
Matthew Higgins, March 2016

Roadmap

- Foreign advanced economies' struggle to escape "lowflation"
- Political economy risks in Europe
- Market and economic stresses facing EMEs
- China's ongoing economic slowdown and recent policy surprises
- High EME corporate debt and the risk of disorderly deleveraging

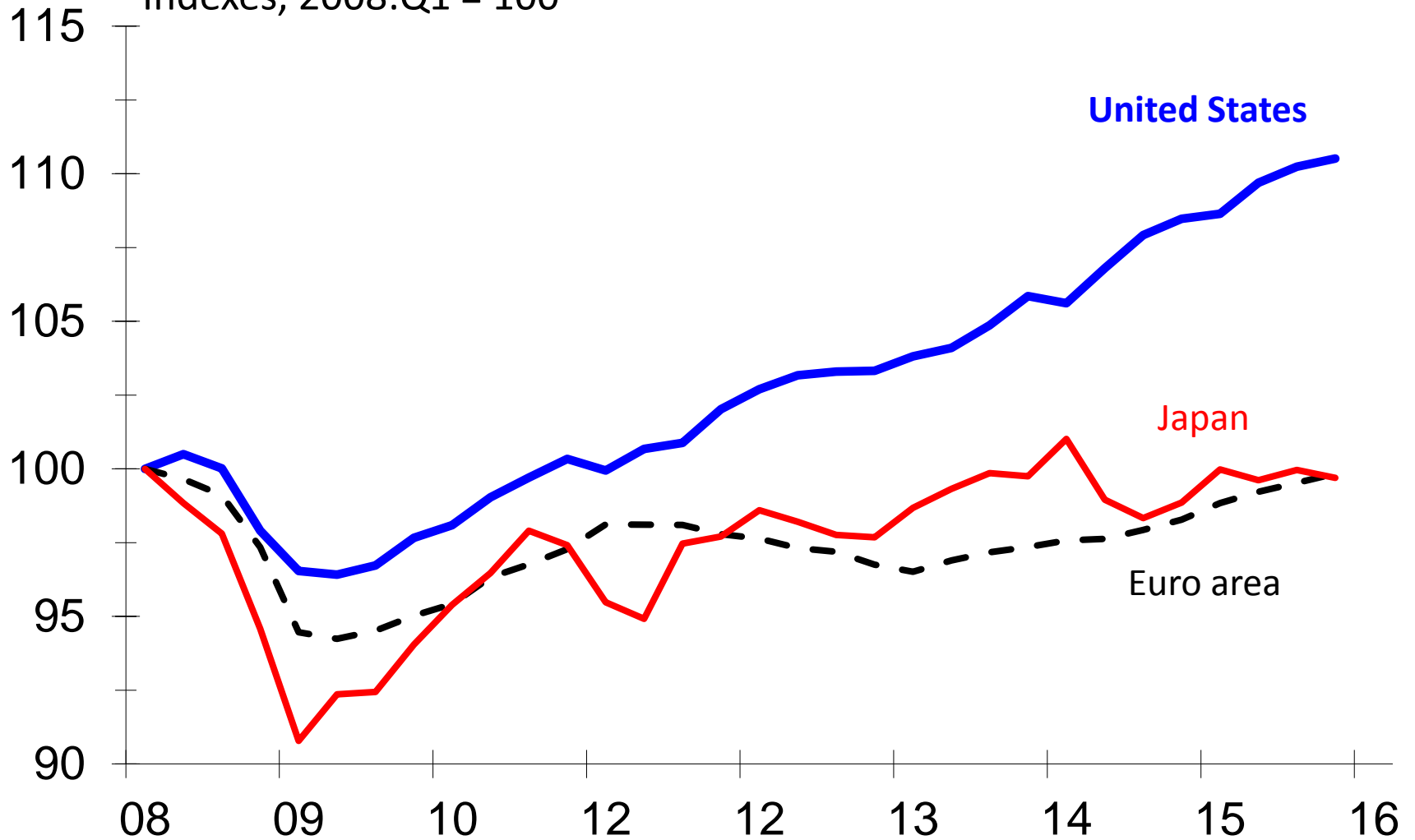
Global GDP Growth

Percent Q/Q-4



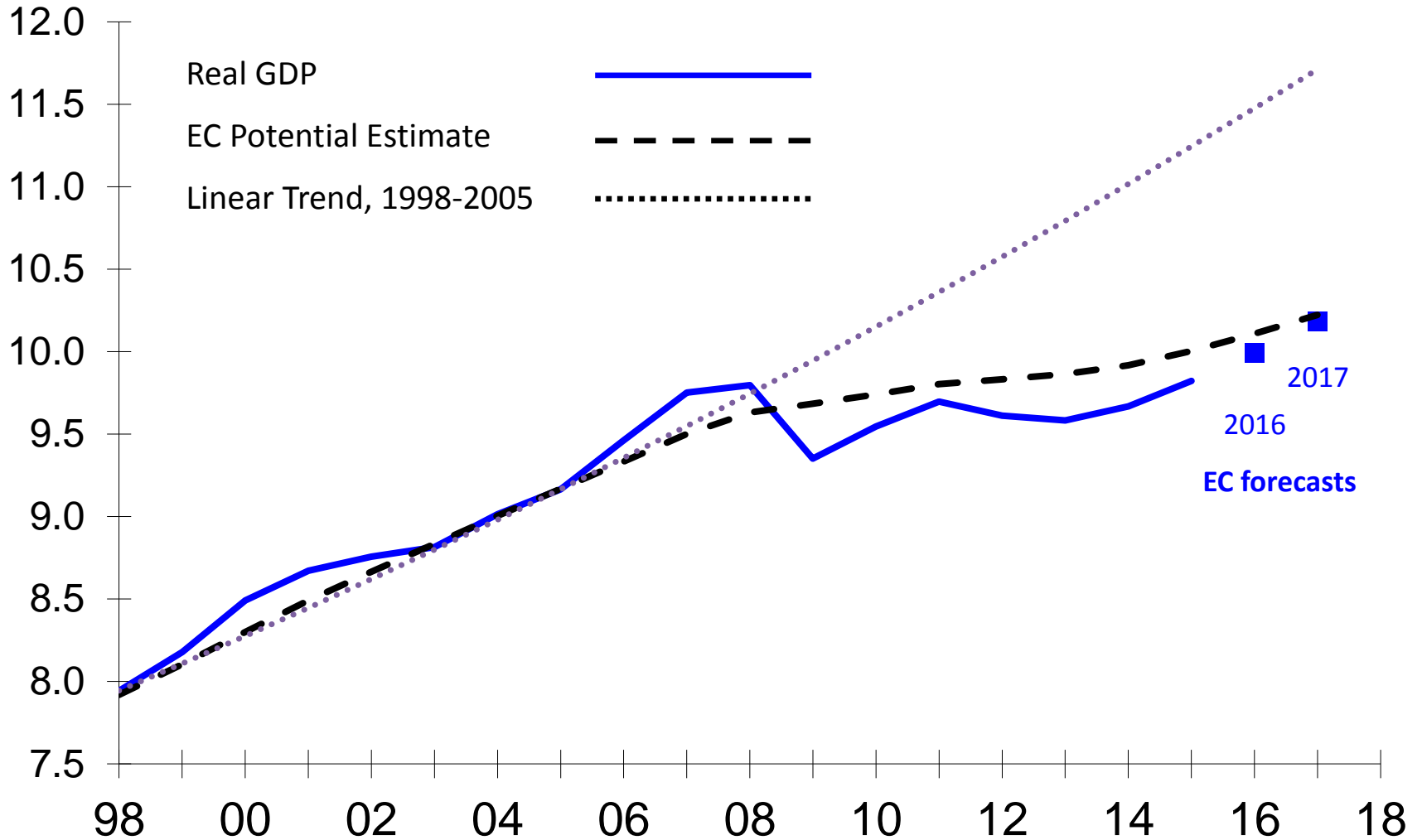
Advanced Economy Real GDP

Indexes, 2008:Q1 = 100



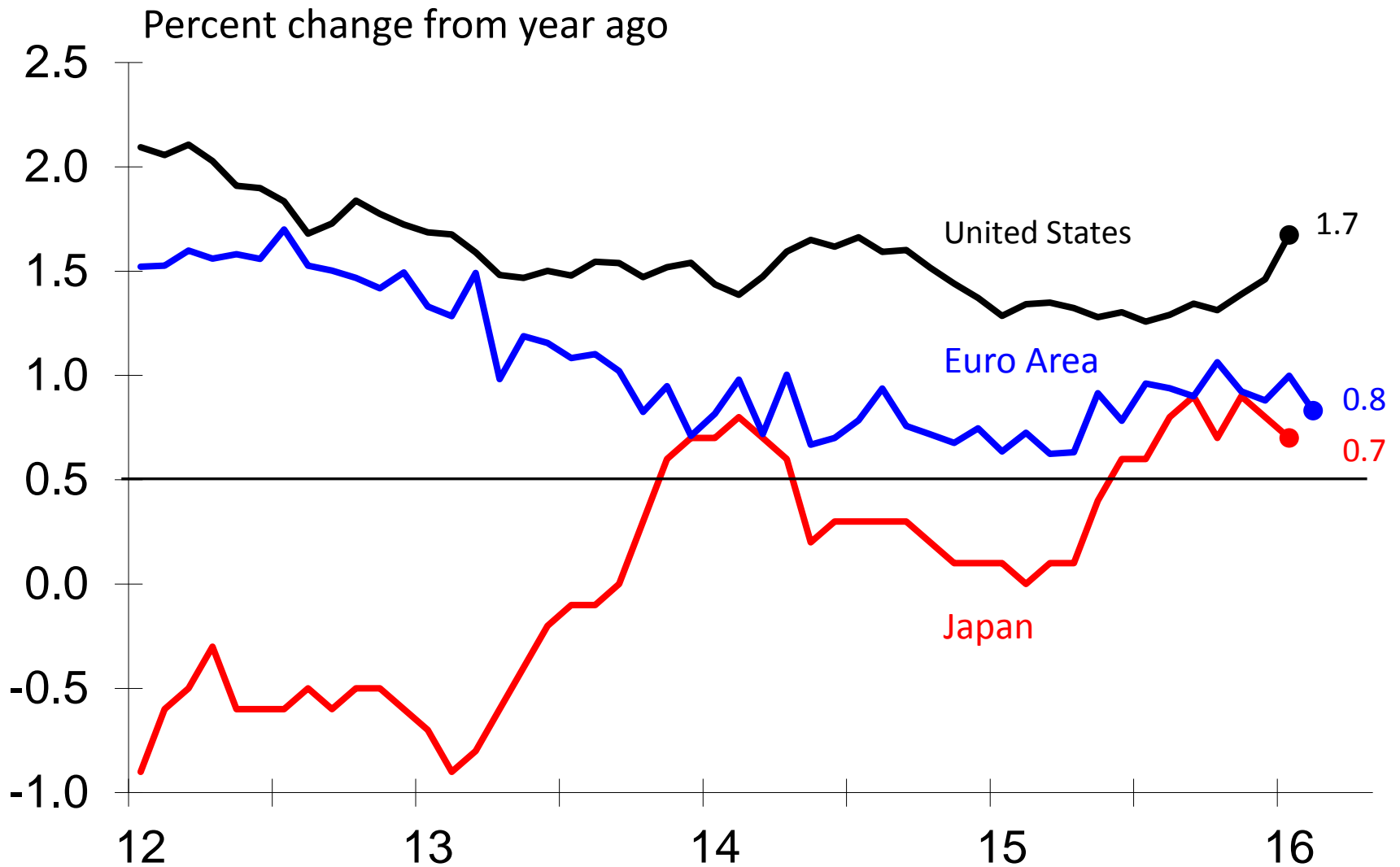
Euro Area: Real GDP vs. Potential

Trillions of 2010 euros



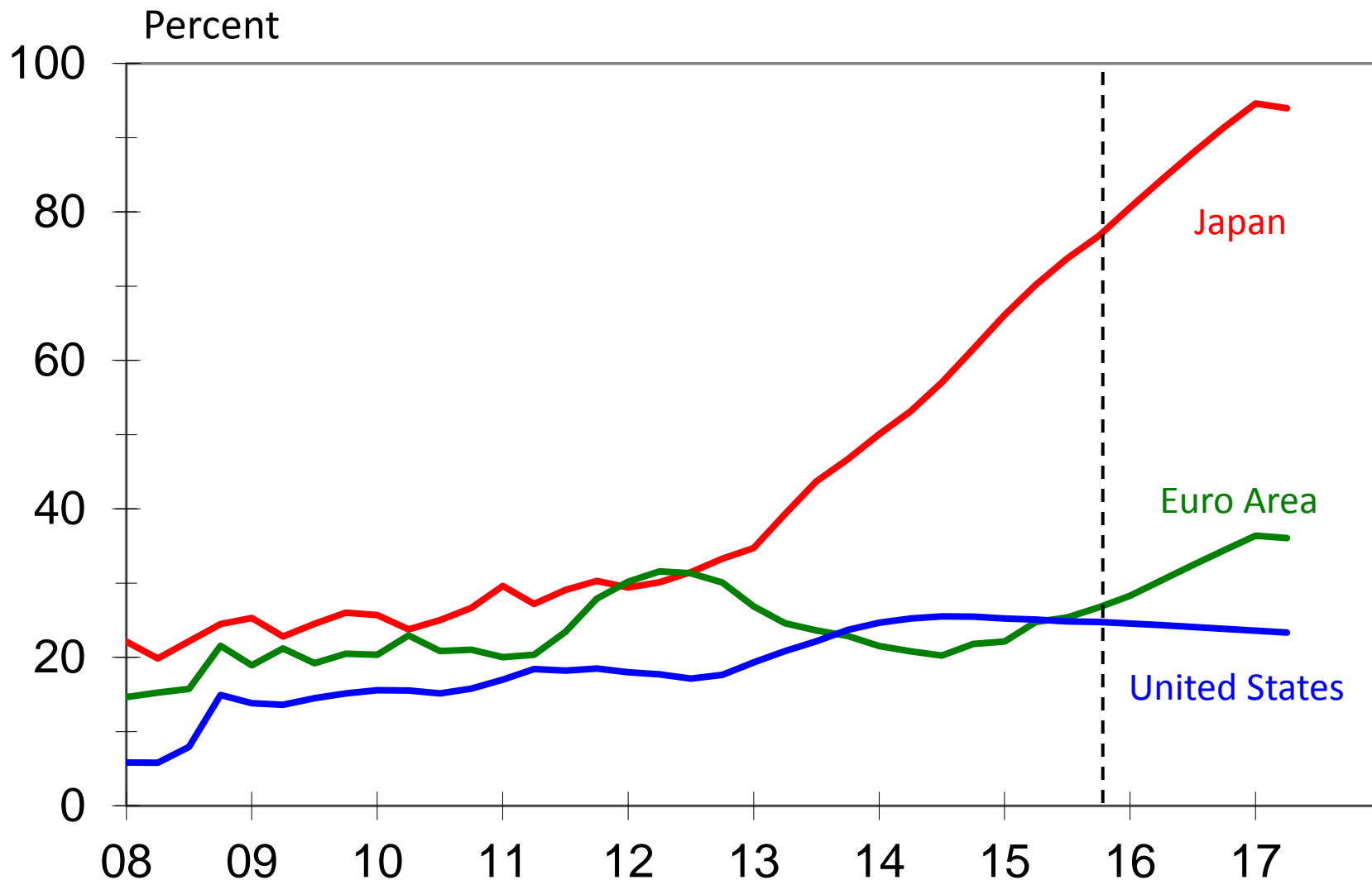
Sources: Eurostat, EC CIRCA database.

G-3: Core Consumer Price Inflation



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

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.

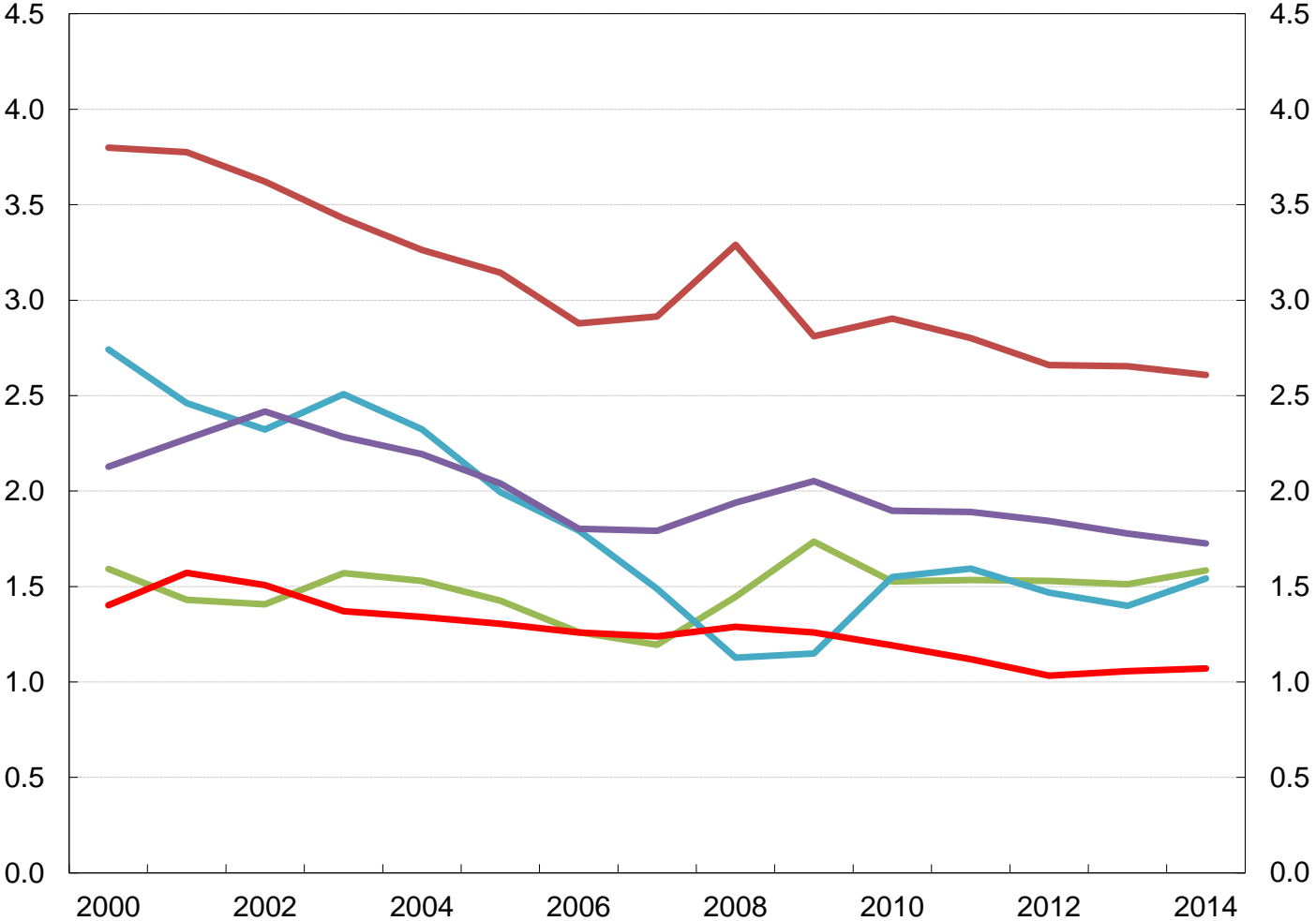
AE Core Inflation Performance with Negative Policy Rates

Country	Date Adopted	Initial Core Inflation	Current Core Inflation
Japan	January 2016	0.8	0.7
Sweden	February 2015	0.9	1.4
Switzerland	December 2014	0.2	-1.0
Denmark	September 2014	1.0	1.3
Euro Area	June 2014	0.7	0.8

Sources: National sources, OECD. Policy rates are as follows: Japan, marginal current account balances; Sweden, repo rate; Switzerland, 3-mo. LIBOR target; Denmark, CD rate; Euro Area, deposit rate.

Bank Net Interest Margins

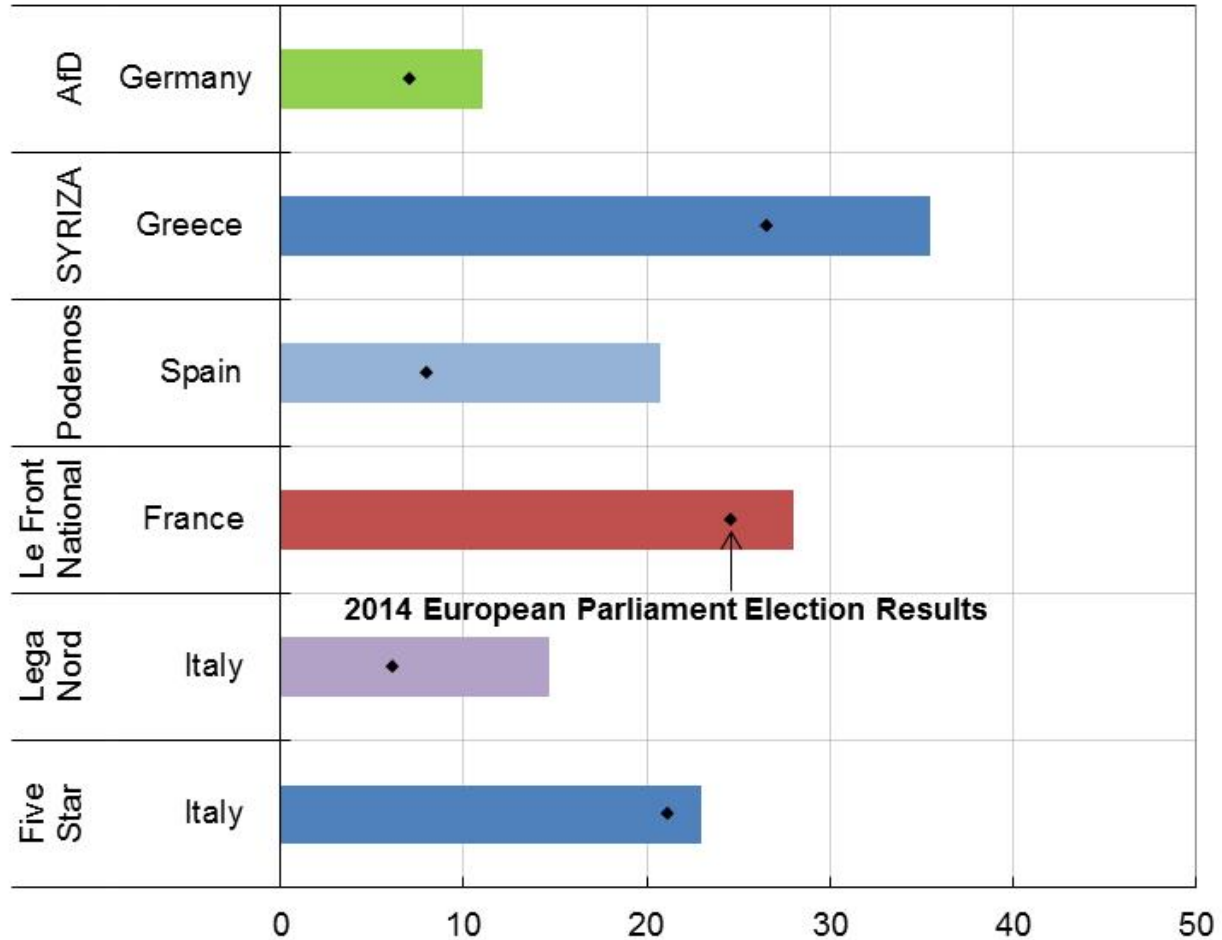
Percent Eurozone UK Canada Japan US Percent



Source: Bloomberg, Federal Reserve Board

Support for Radical Political Parties

Percent

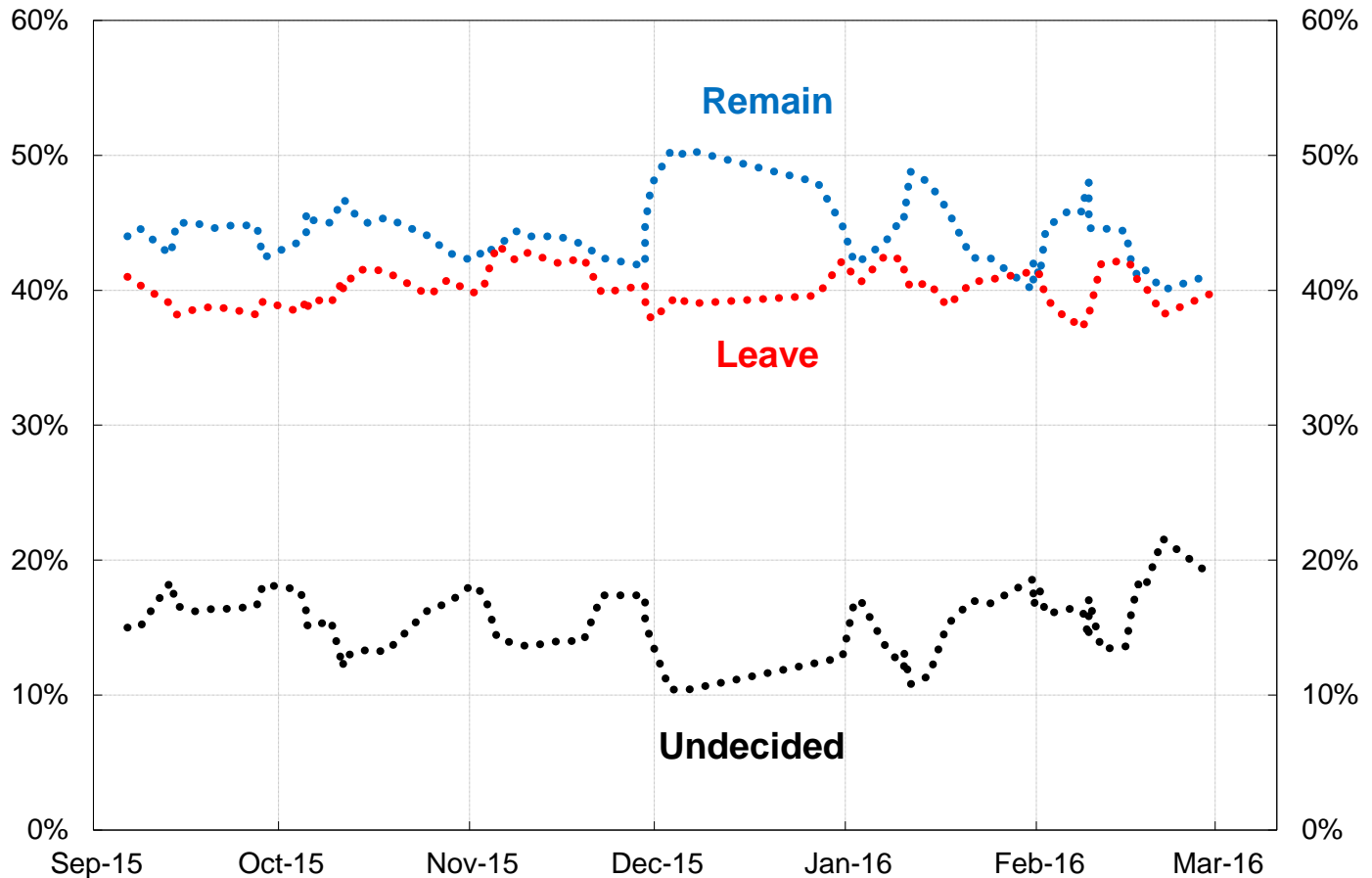


Note: The 2014 European Parliament elections performance is compared against the last general election in Greece (September 2015) and Spain (December 2015), and recent regional elections in France. In Italy, the 2014 EP performance is compared against recent polls. Le Front National, Lega Nord, and the Five Star Movement are classified as euroskeptical parties, given their stance opposed to the merits of continued euro area membership. Sources: National polling organizations; poll data as of March 2016.

UK Poll: Should the UK Remain in the EU?

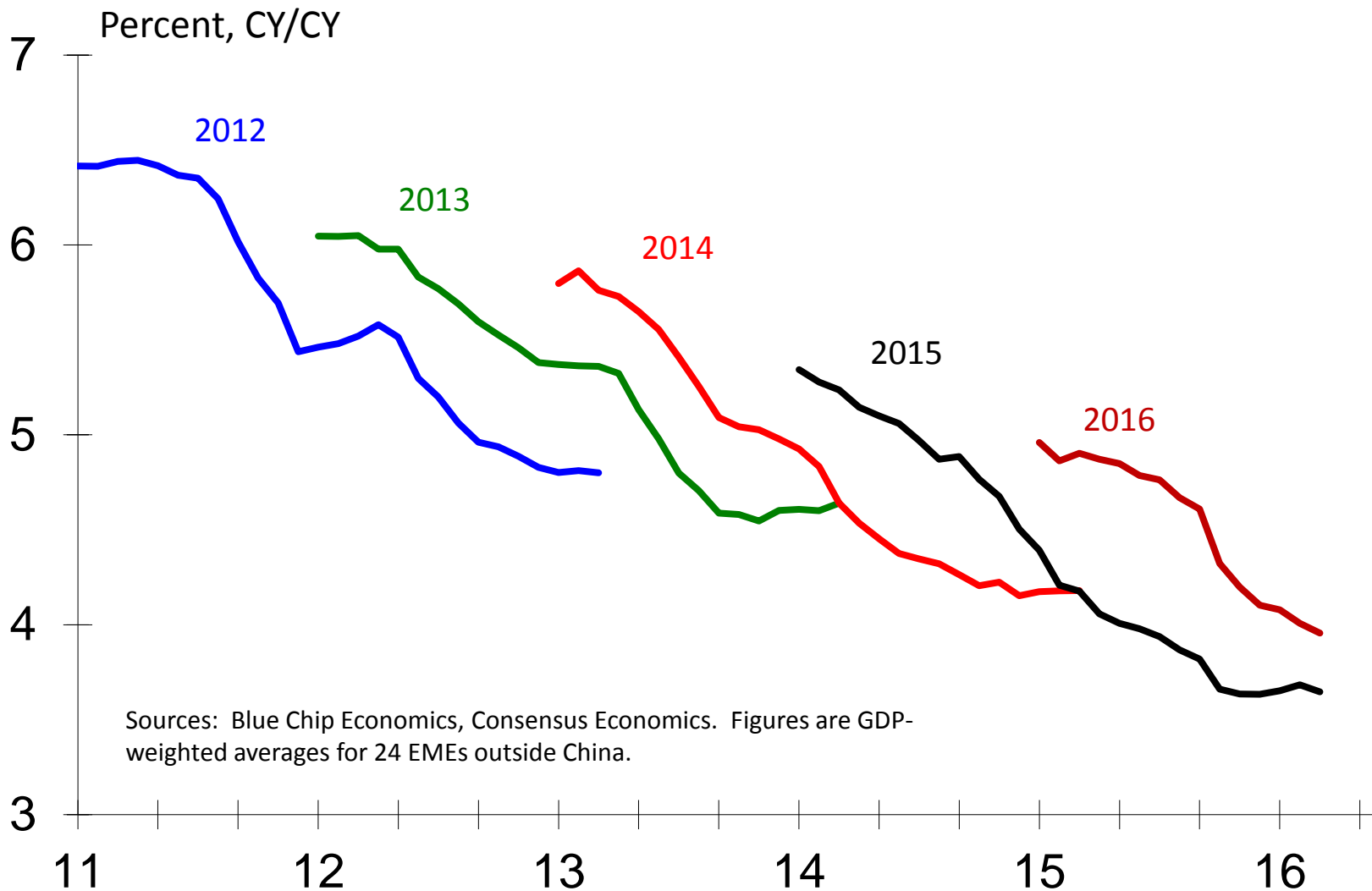
5-poll moving average

5-poll moving average



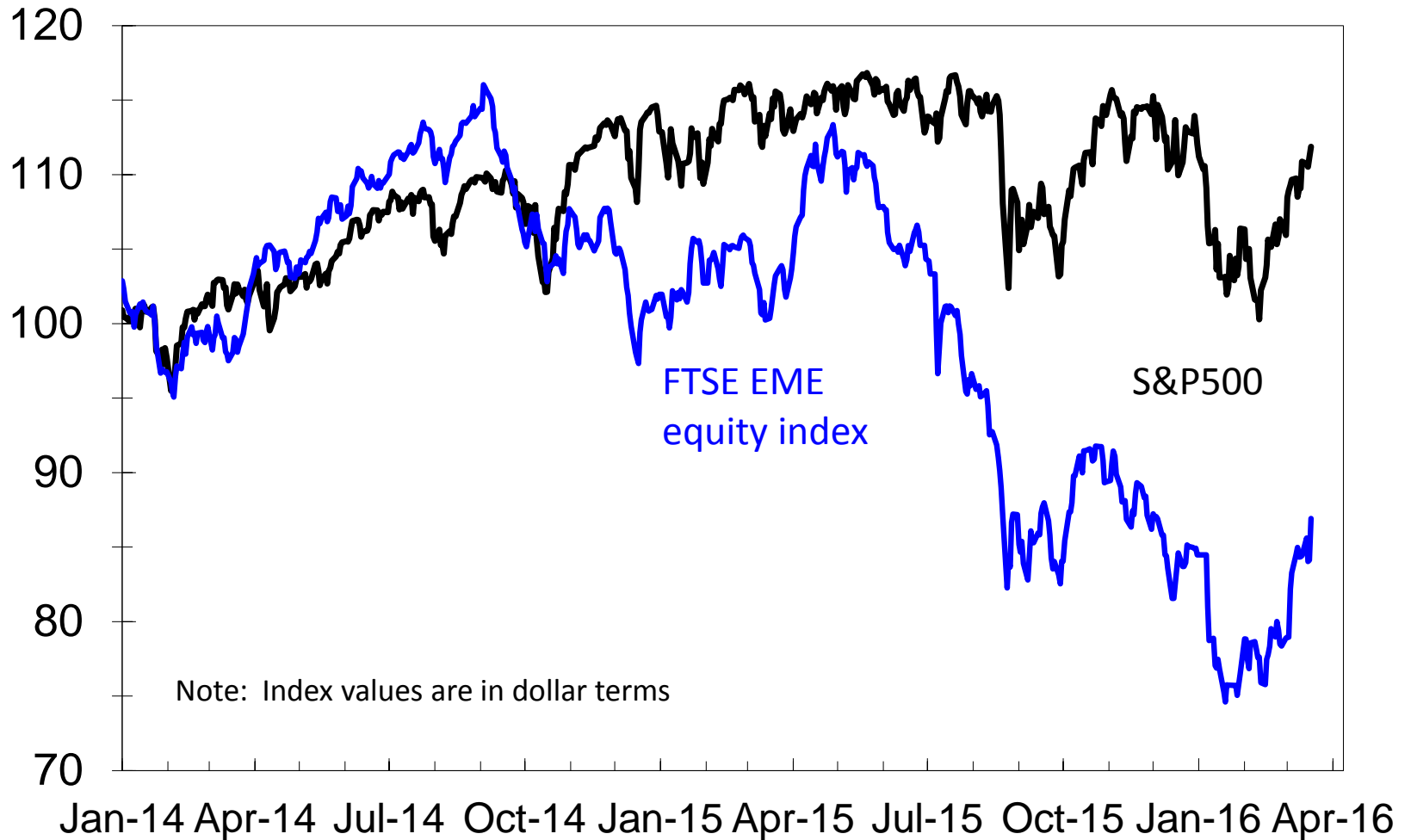
Source: Whatukthings.org.

Evolution of EME Market Growth Forecasts



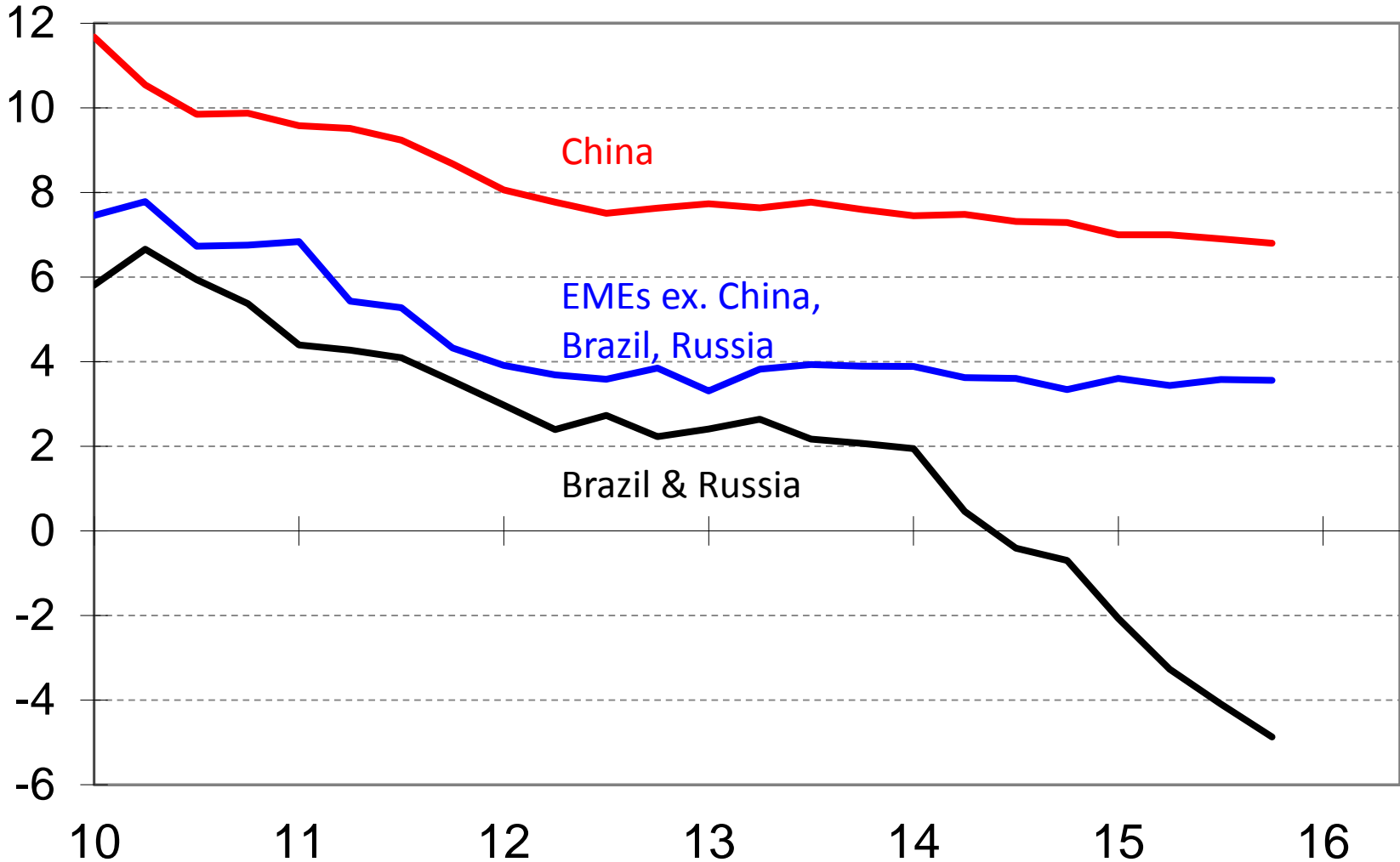
U.S. and EME equity performance

Indexes, January 2014 = 100



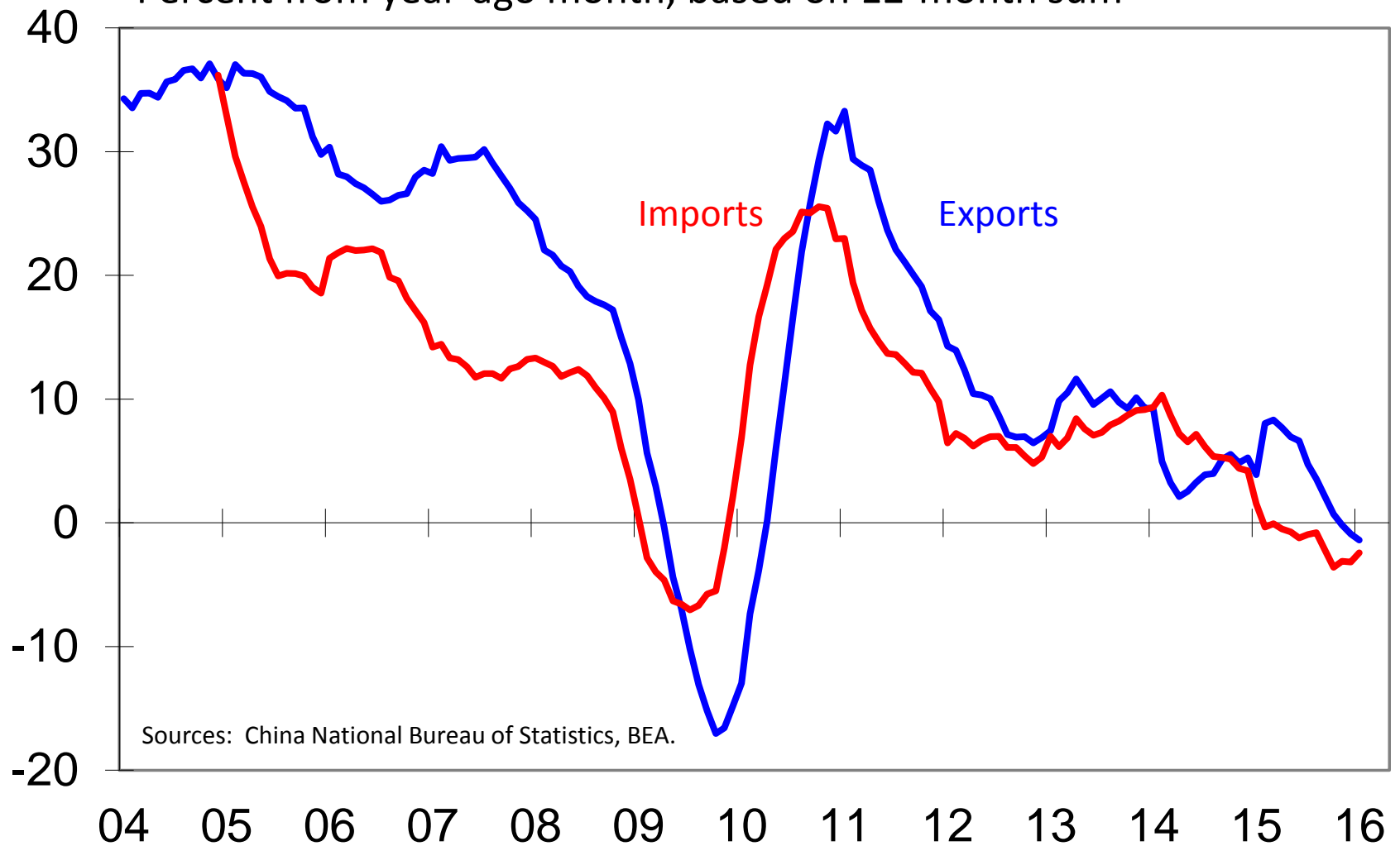
Emerging Economy GDP Growth

Percent Q/Q-4

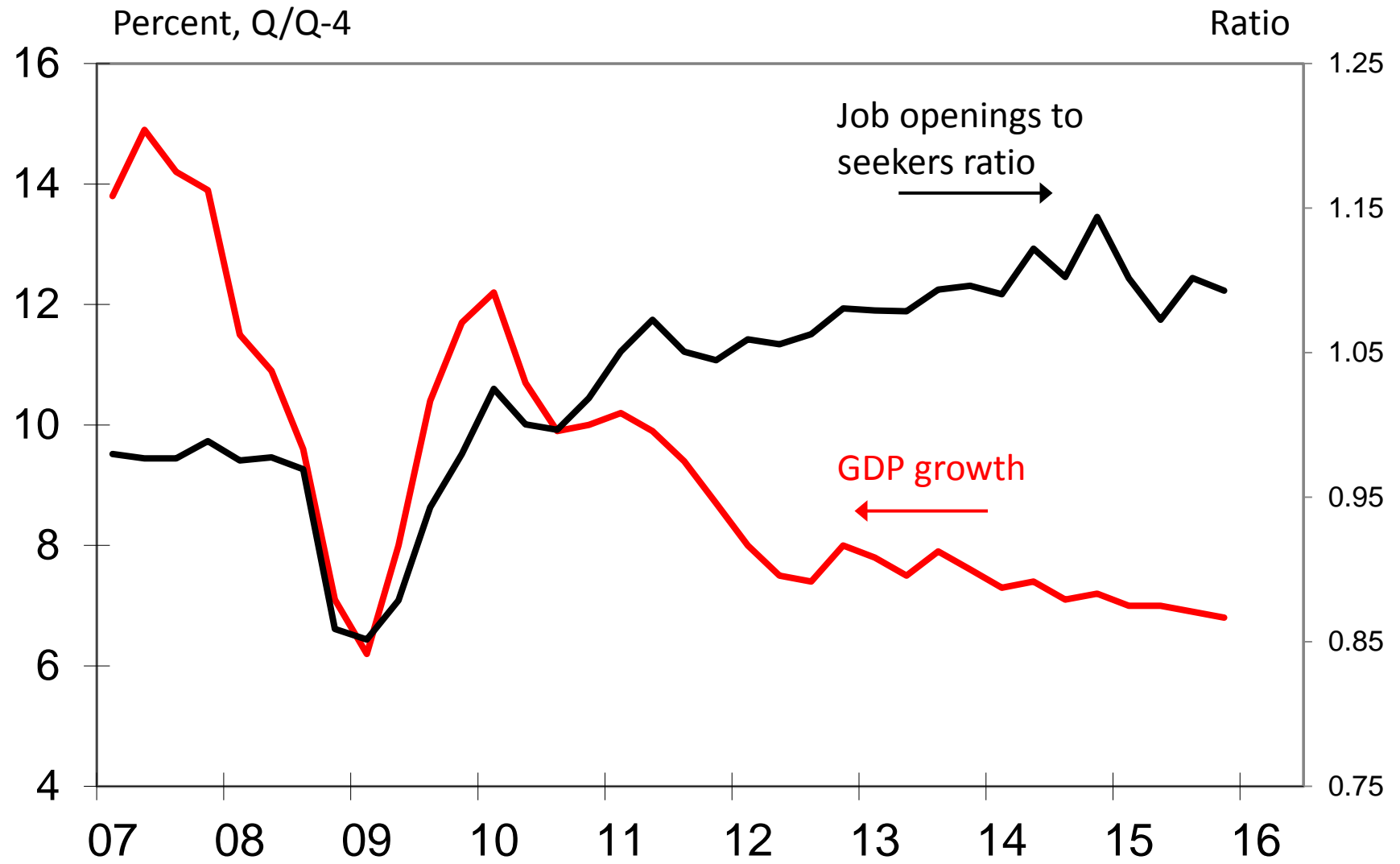


China: Export and Import Volume Growth

Percent from year-ago month, based on 12-month sum

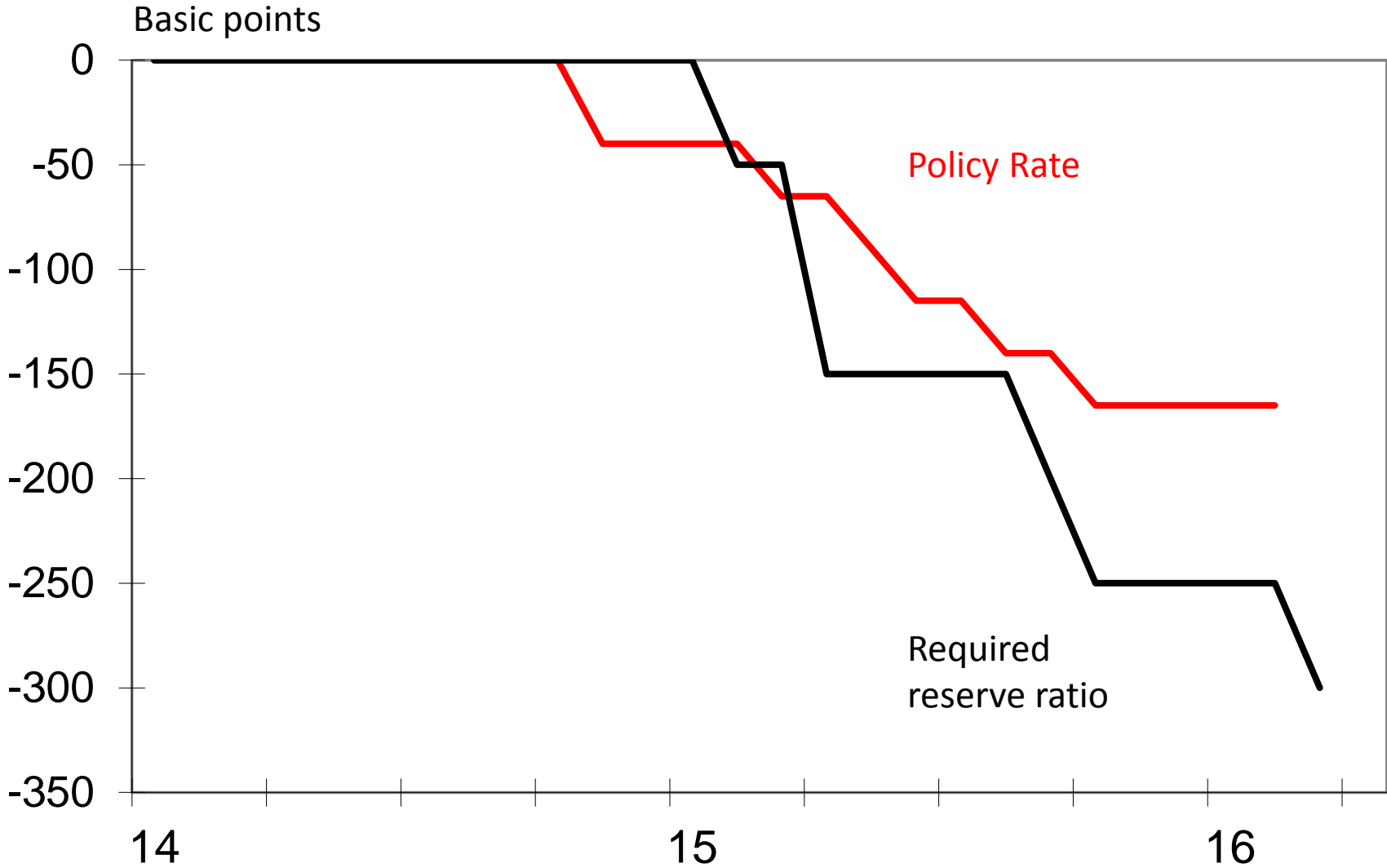


China: GDP growth and labor market tightness

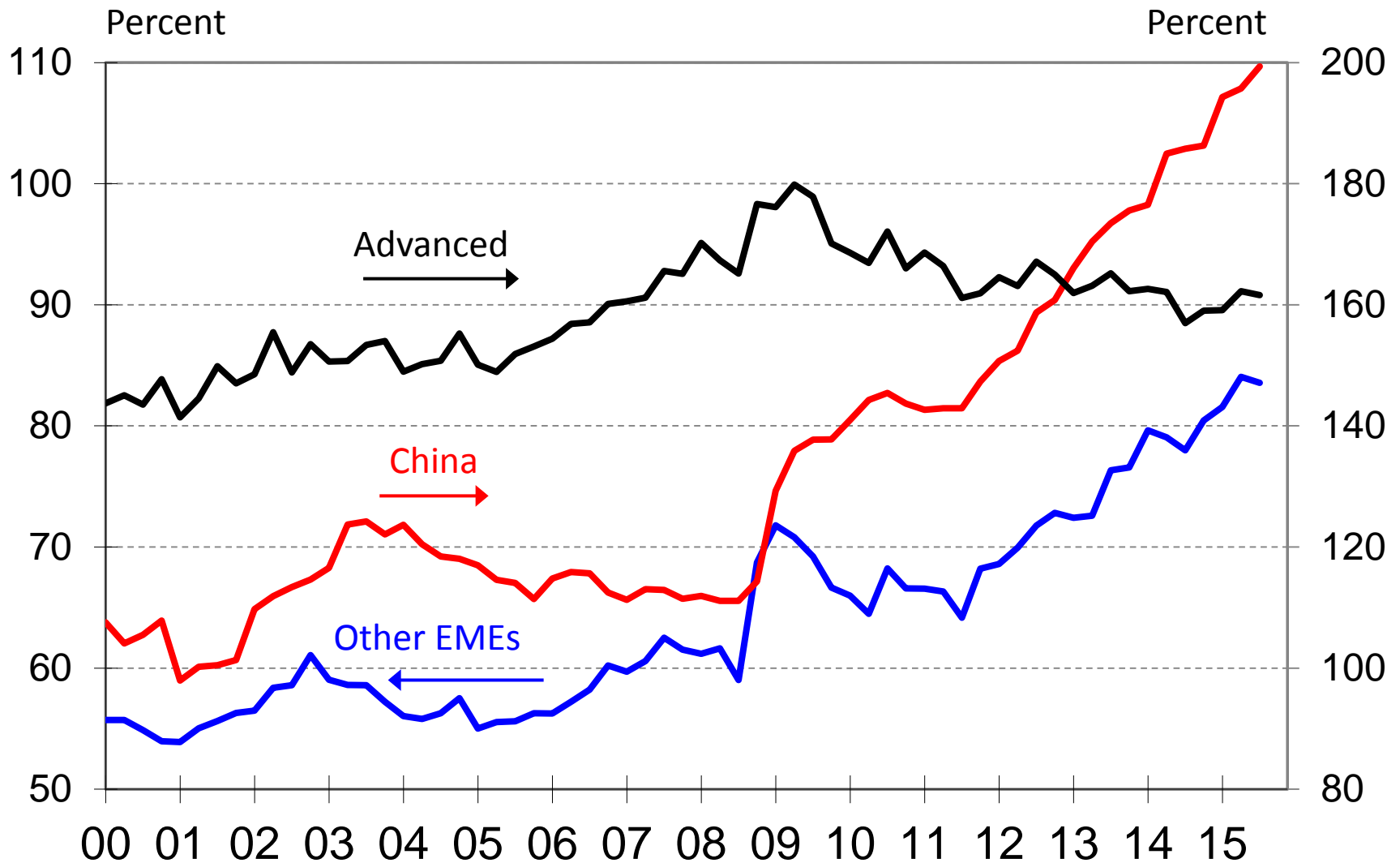


Sources: National Bureau of Statistics, Ministry of Human Resources and Social Security.

China: Cumulative Rate and RR Cuts



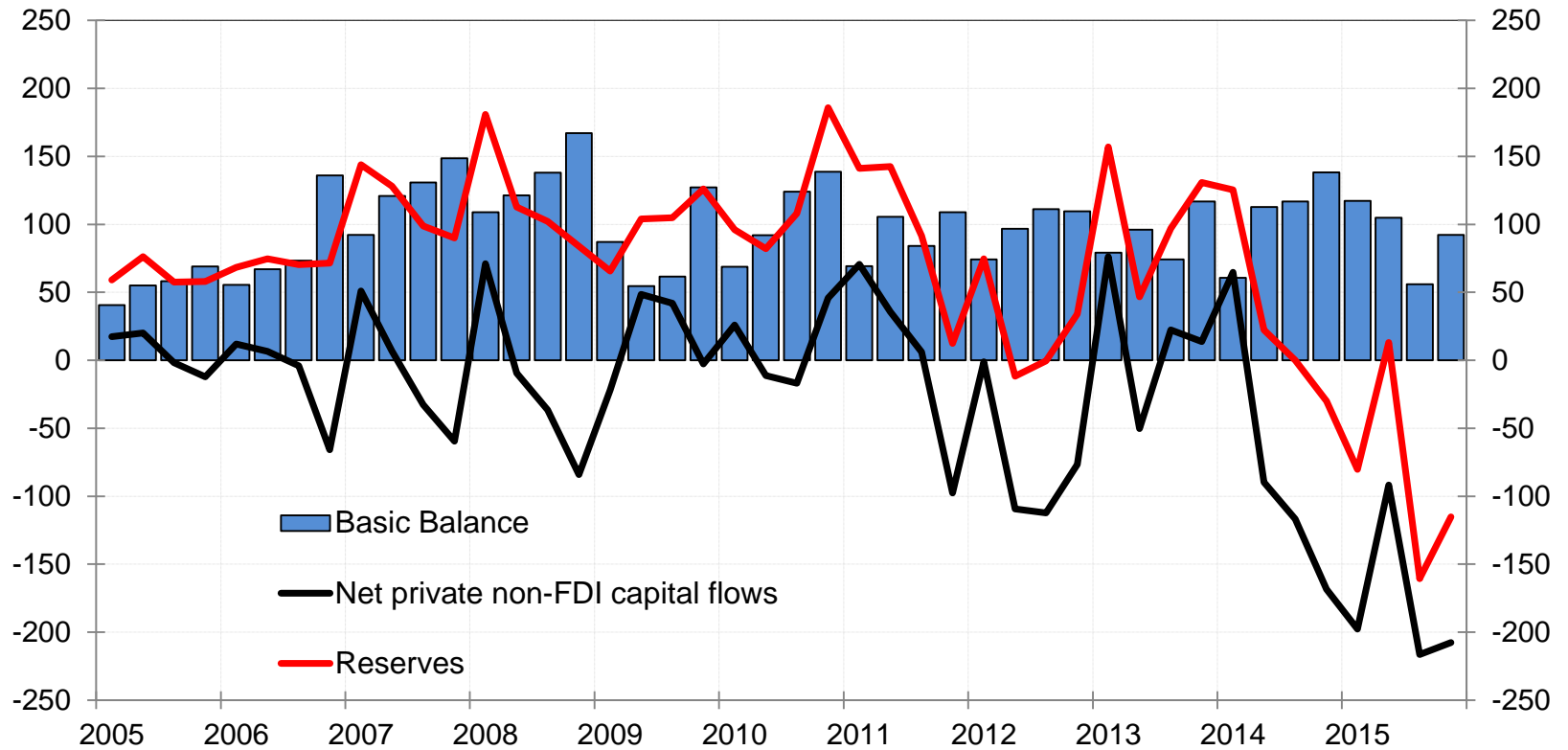
Credit to Private Nonfinancial Sector (% GDP)



Source: BIS.

China: Basic Balance and Net Capital Flows

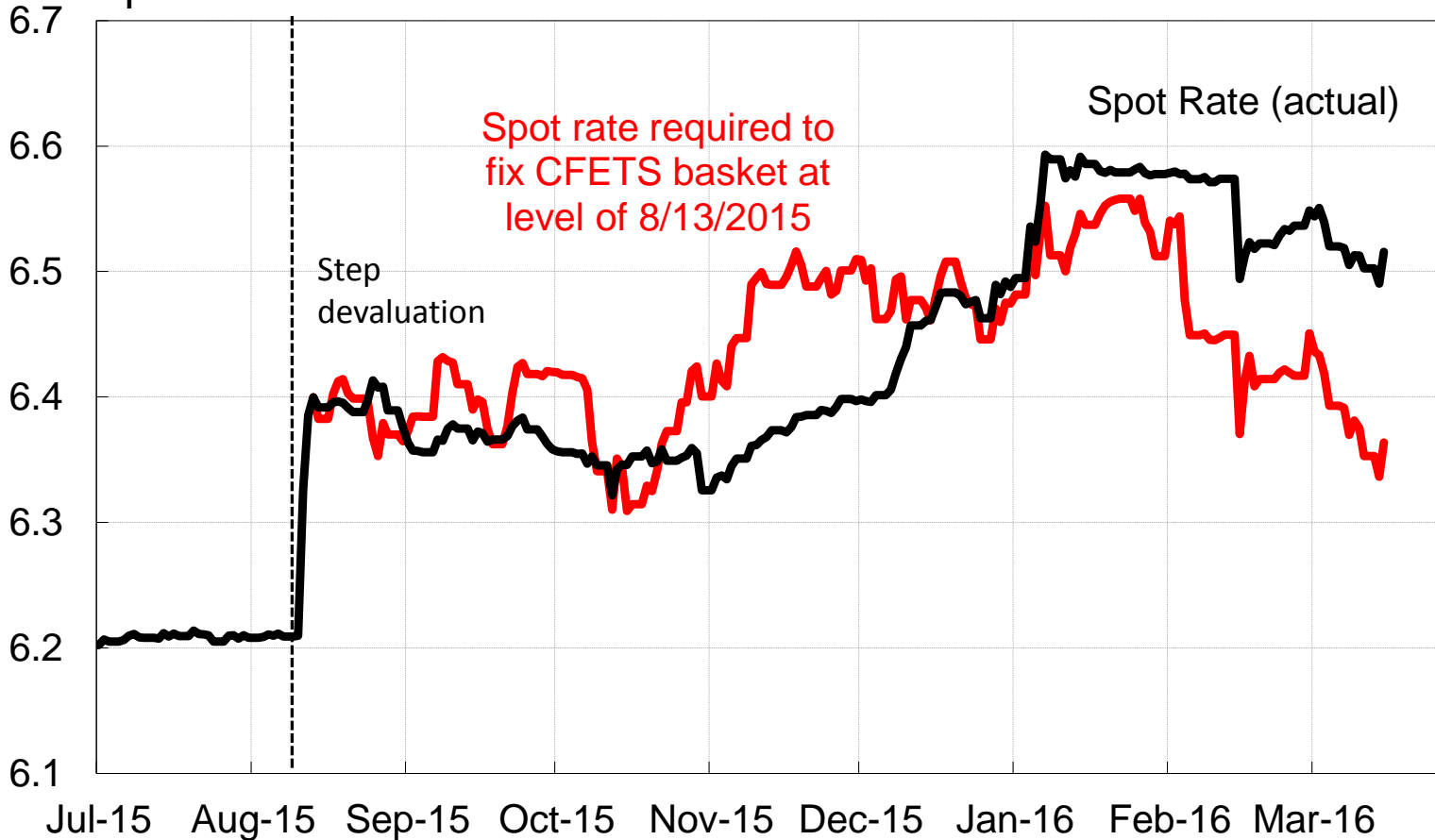
\$U.S. billions



"Basic balance" includes current account and net FDI. Net private non-FDI financial flows includes errors and omissions. Last data point for reserves is estimated from partial data.

China: Hypothetical Basket-Implied Exchange Rate

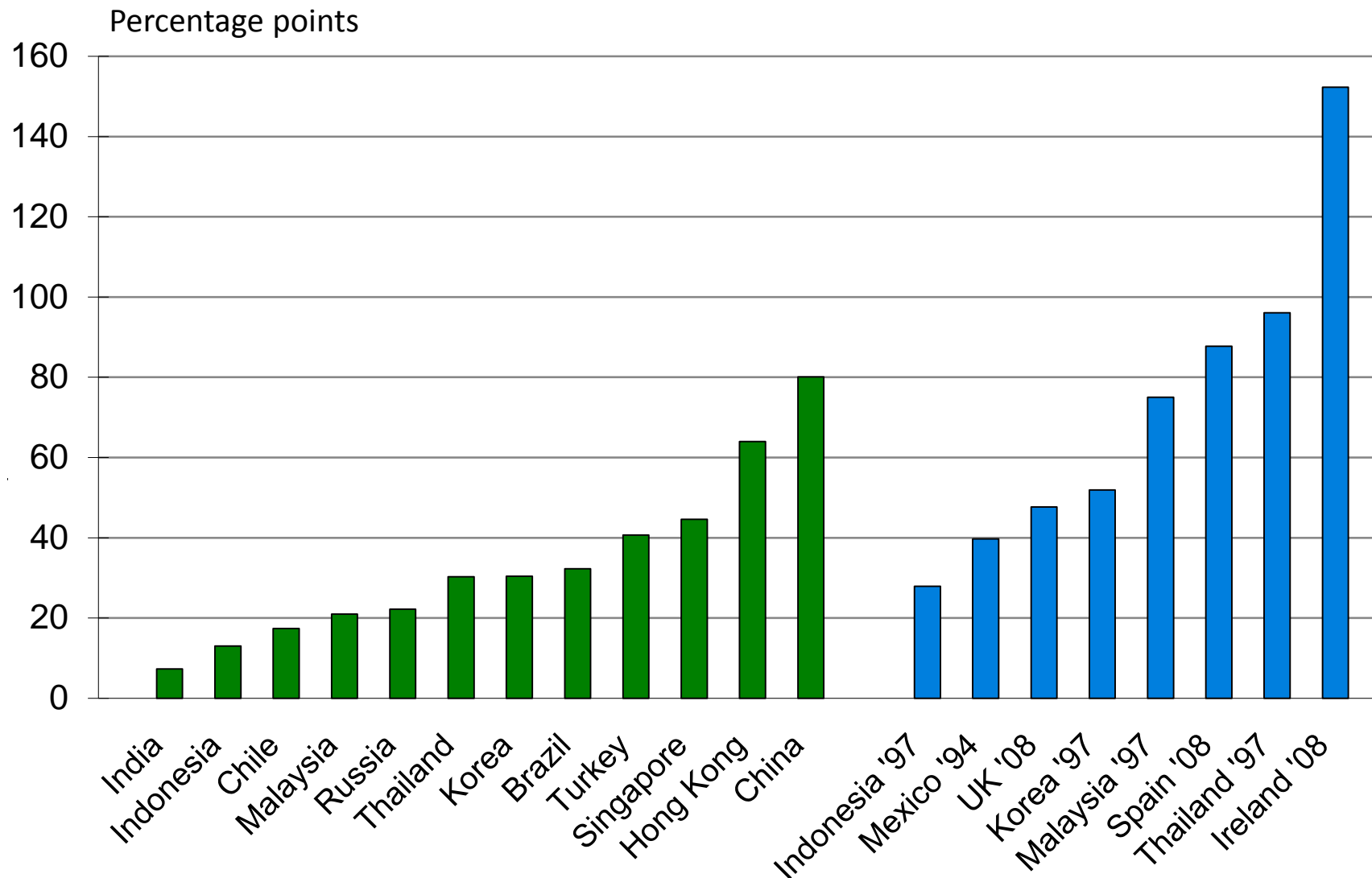
RMB per USD



Sources: Bloomberg, FRBNY calculations

Change in Private Credit to GDP Ratio

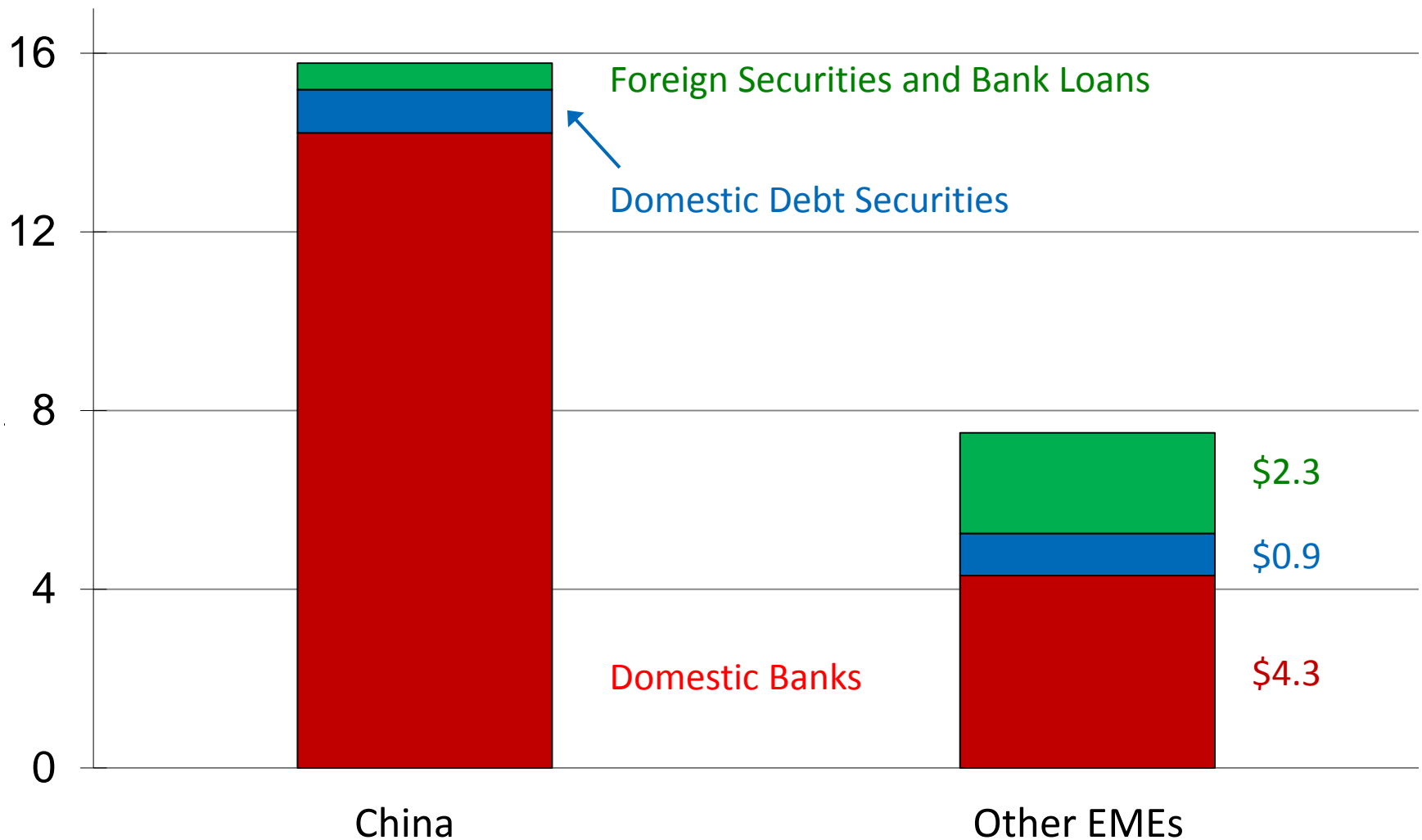
End-2007 to June 2015 or 7½ years preceding crisis



Sources: BIS, staff estimates.

Nonfinancial Corporate Credit by Source of Financing

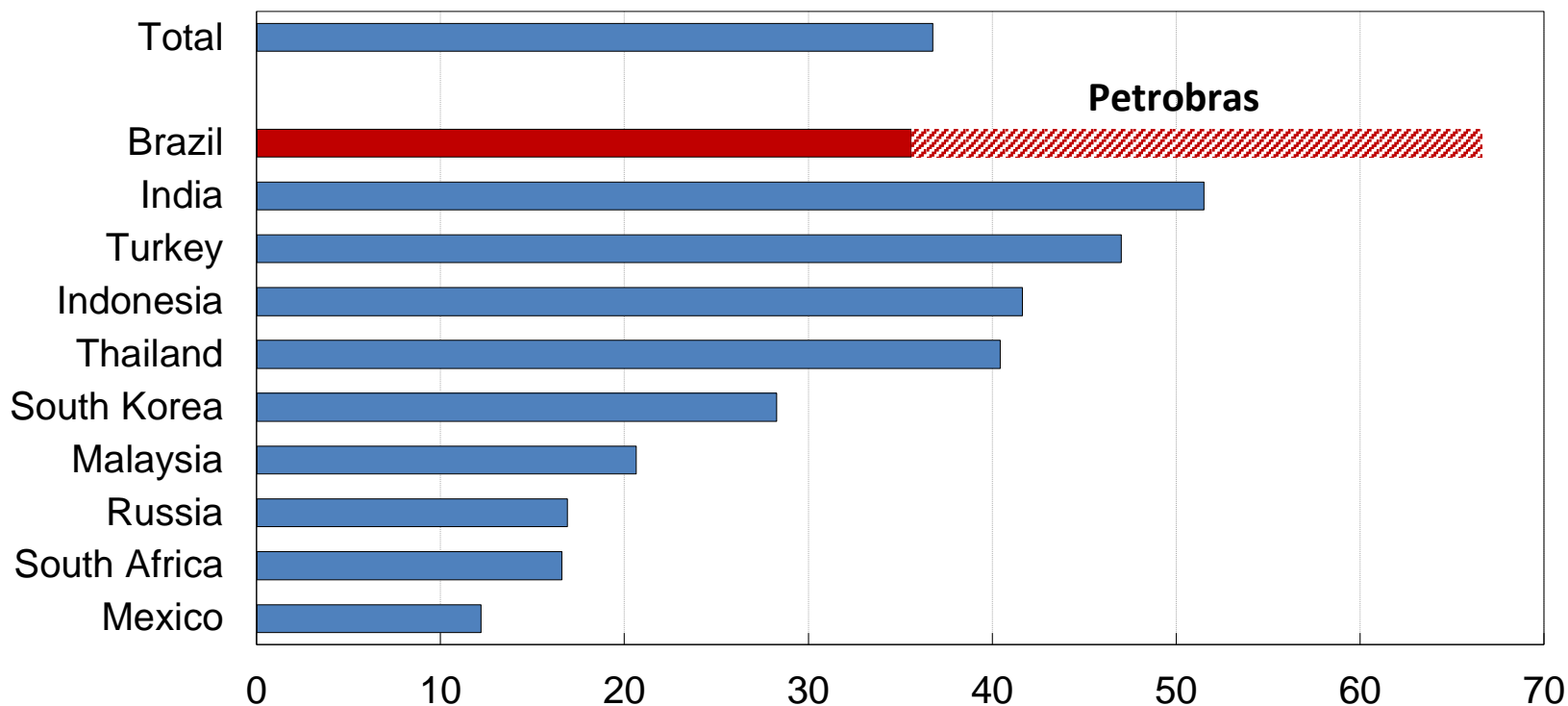
\$U.S. trillions, 2015:Q1



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

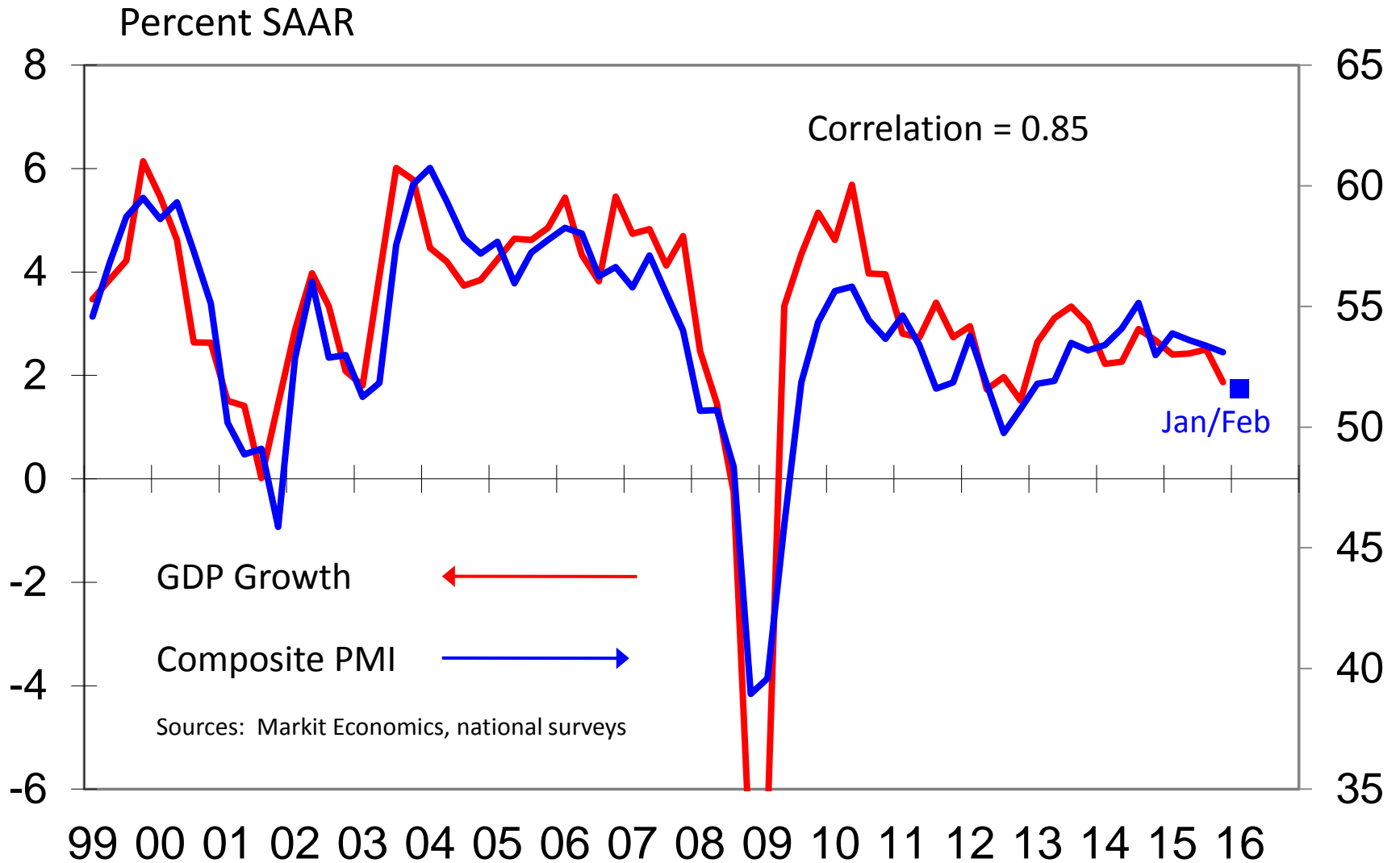


Note: Represents the 1,800 most indebted companies listed on the national stock exchanges in 10 EMEs. Firms at risk have ICRs less than 2.

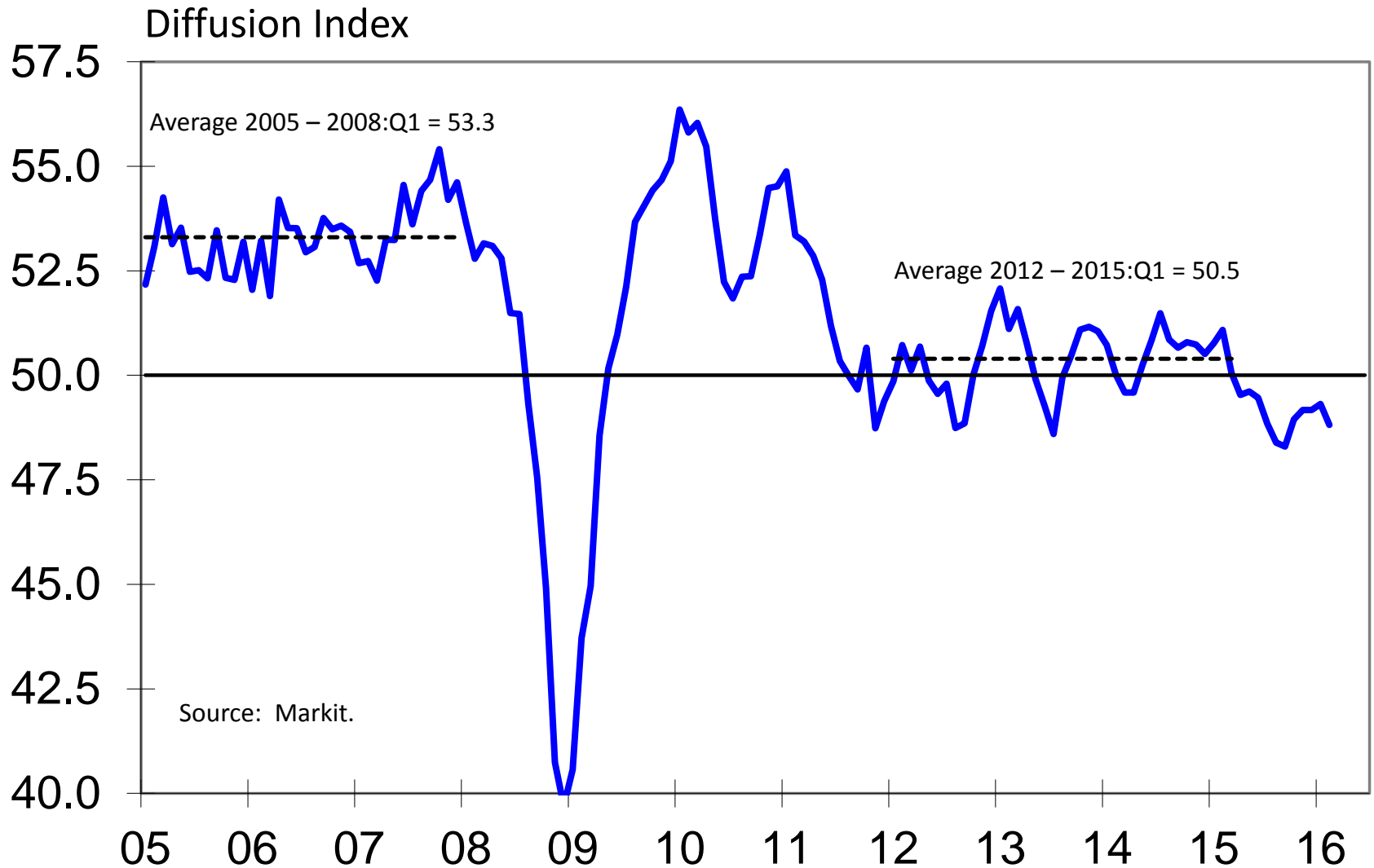
Source: Capital IQ, IPA estimates

REFERENCE CHARTS

Global GDP Growth and Global Composite PMI



Emerging Market Manufacturing PMI



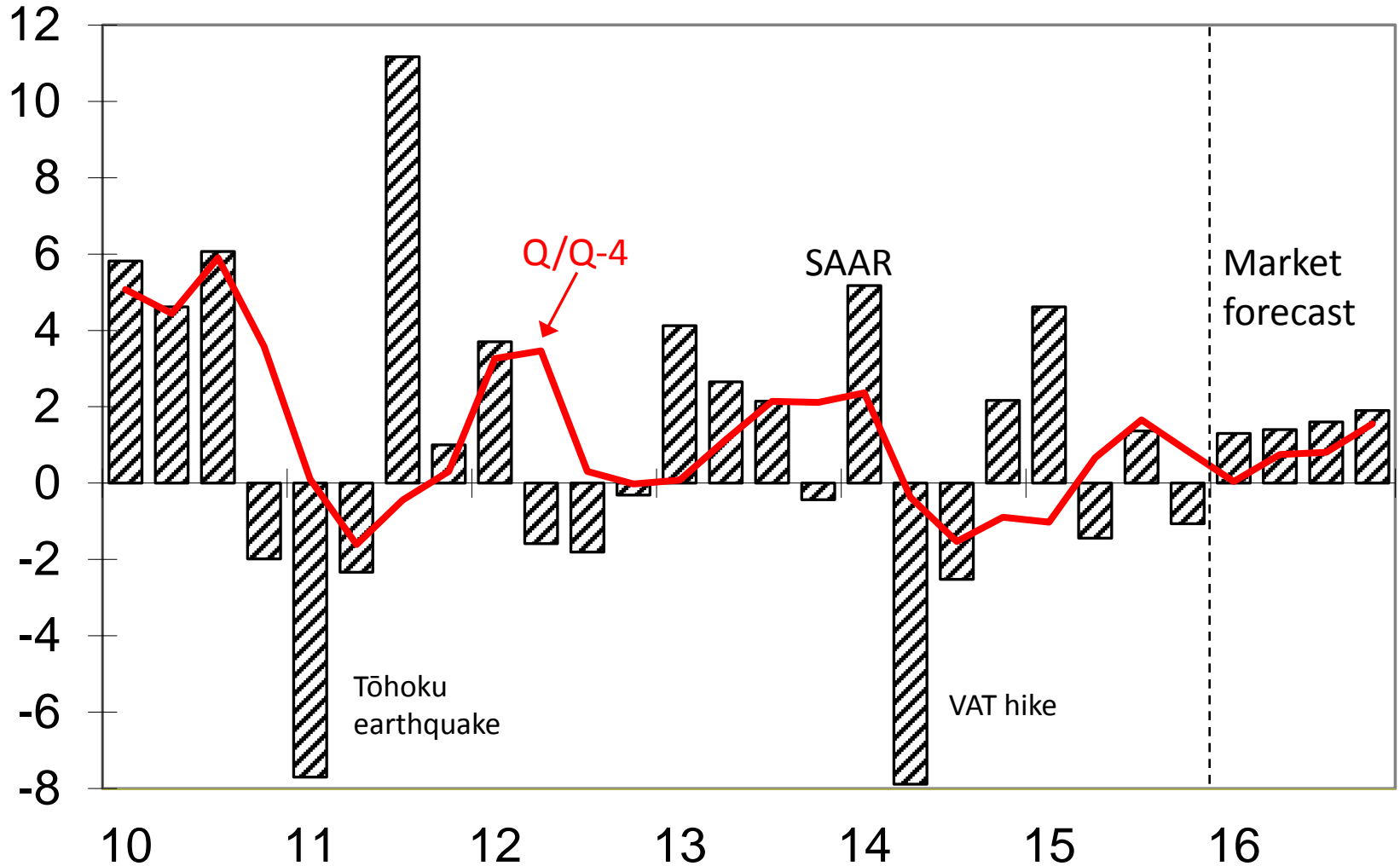
Global GDP Growth and Market Forecasts (% CY/CY)

	2015	2016F	2017F
World	2.6	2.7	3.1
Advanced	1.8	1.8	2.0
o/w: United States	2.4	2.1	2.4
Euro Zone	1.5	1.6	1.7
United Kingdom	2.2	2.0	2.2
Japan	0.4	0.8	0.7
Emerging Markets	3.6	4.0	4.7
o/w: China	6.9	6.4	6.2
India	7.4	7.5	7.5
NIE+ 1/	2.7	2.9	3.2
Russia	-3.7	-1.2	1.3
Brazil	-3.8	-2.9	1.0
Mexico	2.5	2.5	2.9

Sources: Blue Chip Economics as of March where available,
 Consensus Economics as of March or February elsew here.
 Aggregates are dollar-GDP weighted averages. 1/ Hong Kong,
 Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

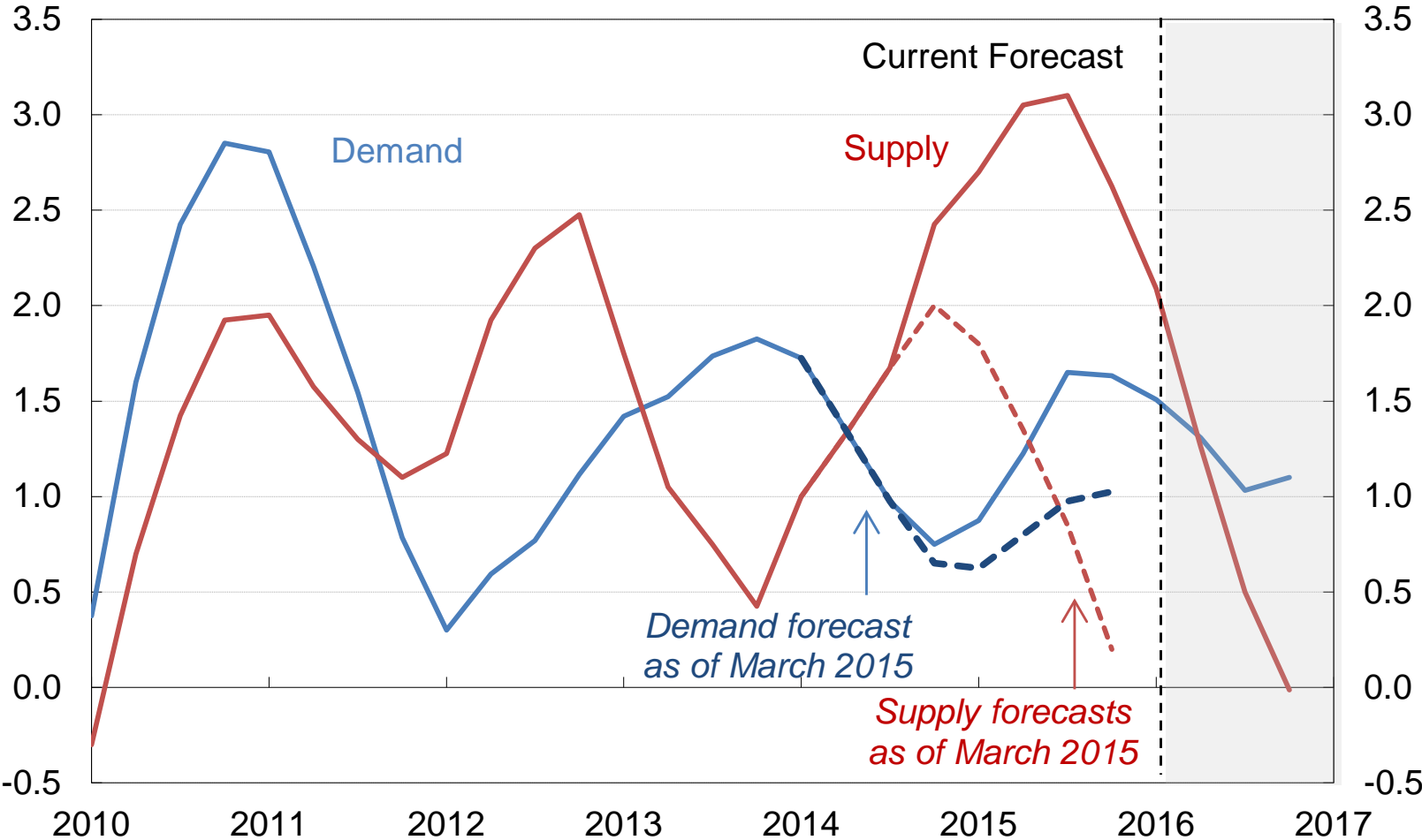
Japanese GDP Growth

Percent SAAR and Q/Q-4



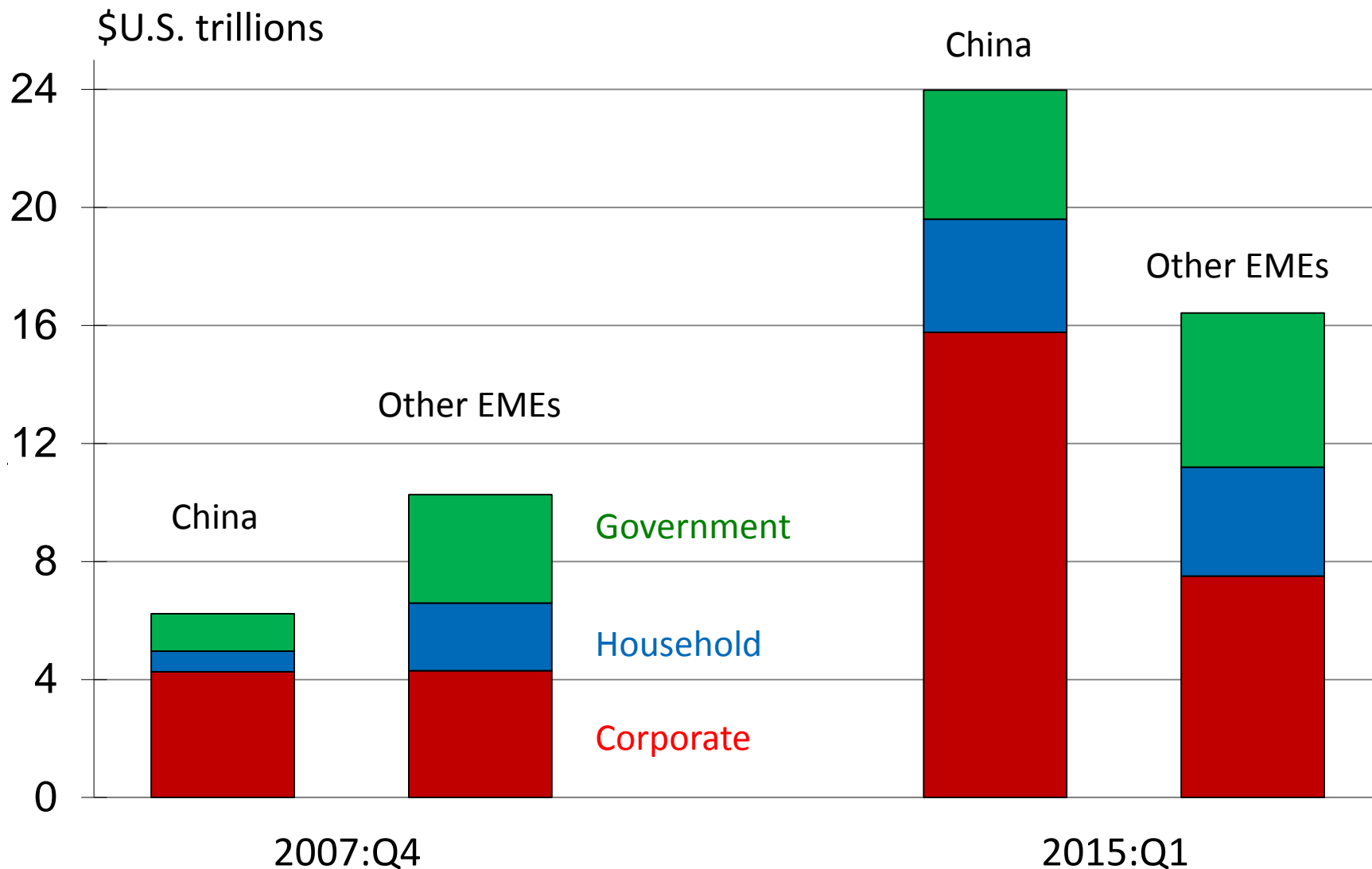
Oil: Supply and Demand Growth

Millions of barrels per day, 4 quarter moving average, y/y



Source: IEA. Forecast assumes OPEC ex-Iran supply continues at current rates, and Iran rejoins the market in Q3 at 0.6 mbpd . Forecast as of Feb-2015.

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.