ECONOMIC ADVISORY PANEL MEETING

Federal Reserve Bank of New York
33 Liberty Street, New York, New York

Friday, May 15th, 2015

AGENDA

10:00 a.m. Coffee, Benjamin Strong Room, 10th floor

10:30 a.m. Economic Outlook Discussion

- Presentation on FRBNY Staff Economic Outlook. (FRBNY staff, see background on U.S. outlook)
- Discussion on economic outlook led by Julia Coronado and Jan Hatzius (see discussion questions on U.S. outlook)
- Presentation on global economic issues by Carmen Reinhart
- Discussion on global economic issues (see background and discussion questions on global issues)

12:30 p.m. Luncheon, Northwest Conference Room, 10th floor

U.S. Outlook Background

At this meeting of the Economic Advisory Panel, the FRBNY staff will be presenting its outlook for the U.S. economy. The staff forecast will be given at the meeting and posted online at that time. In this agenda, we provide some background on the evolution of private forecasts.

At the beginning of the year, the Blue Chip consensus forecast anticipated that real GDP growth in 2015 and 2016 would fluctuate between 2¾ and 3 percent (annual rate) [Figure 1]. As the data on expenditures and production proved to be generally weaker than expected, forecasts for 2015Q1 were marked down steadily; even so, the advance estimate of Q1 real GDP growth of 0.2 percent was below the consensus forecast just prior to the release. Nevertheless, most forecasters saw the slowdown in Q1 as transitory, and they projected that growth for the rest of 2015 and 2016 would be similar to their projections in January.

Even though real GDP growth was weak in Q1, labor market conditions generally continued to improve and the unemployment rate fell further. Consequently, the Blue Chip consensus forecast for the unemployment rate did not change much between January and May, with forecasters continuing to expect a gradual decline over the remainder of the forecast horizon to around 5 percent at the end of 2016 [Figure 2].

In January, the Blue Chip consensus forecast of CPI inflation anticipated the CPI would decline moderately in Q1 because of the sharp fall in energy prices, but that inflation would rebound fairly quickly to levels consistent with the FOMC objective (based on the typical divergence between CPI and PCE inflation) [Figure 3]. With energy prices falling further early in Q1, the CPI declined 3.1 percent (annual rate) in the quarter; however, oil prices have rebounded since and recent CPI readings were a touch higher than expected. As forecasters incorporated this information, the consensus projected path over the rest of the forecast horizon is little changed on net since January.

Discussion Questions on the U.S. Outlook

1. Real consumption expenditures grew more slowly in Q1, despite apparent strong fundamentals (lower energy prices supporting real income growth, rising household wealth, relatively robust consumer confidence). Do you expect consumption growth to rebound significantly over the rest of the year?
2. Real business investment expenditures on equipment rose only slightly in 2014Q4 and 2015Q1, and investment expenditures on structures fell sharply in Q1. What is your assessment of the role of lower energy prices in holding down fixed investment? What is your view about the investment outlook over the medium term?
3. What is your forecast for price- and wage inflation over the near- and medium-term?
4. The foreign exchange value of the dollar appreciated considerably over the second half of 2014. What are your views concerning the possible factors behind recent exchange rate movements as well as the impact of this appreciation on your real activity and inflation outlooks?

5. In its April post-meeting statement, the FOMC stated: "The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term."
    a. Beyond the unemployment rate, what indicators would you look at to assess whether the labor market has improved further?
    b. What developments would you need to see to be reasonably confident that inflation would return to the FOMC's objective over the medium term?

Global Issues Background

The outlook for the major foreign economies is mixed. Japan and the euro area appear to be gaining traction due in part to the collapse in oil prices, depreciations in their currencies, and aggressive monetary policy actions. China's growth rate has eased, with the country facing sluggish property investment and excess capacity, while commodity-exporting countries are adjusting to sharp declines in export revenues.

One concern is how Emerging Market Economies (EME) will react to prospects of tighter U.S. monetary policy, given the "taper tantrum" experience in the spring and summer of 2013. At that time, EM financial markets experienced declines in equity prices, a widening in sovereign debt spreads, and an increase in foreign exchange rate volatility. The response to an increase in U.S. policy rates over the near and medium term could be more moderate in the current environment, with EME countries helped by stronger U.S. growth and the loose monetary policies of the ECB and the Bank of Japan.

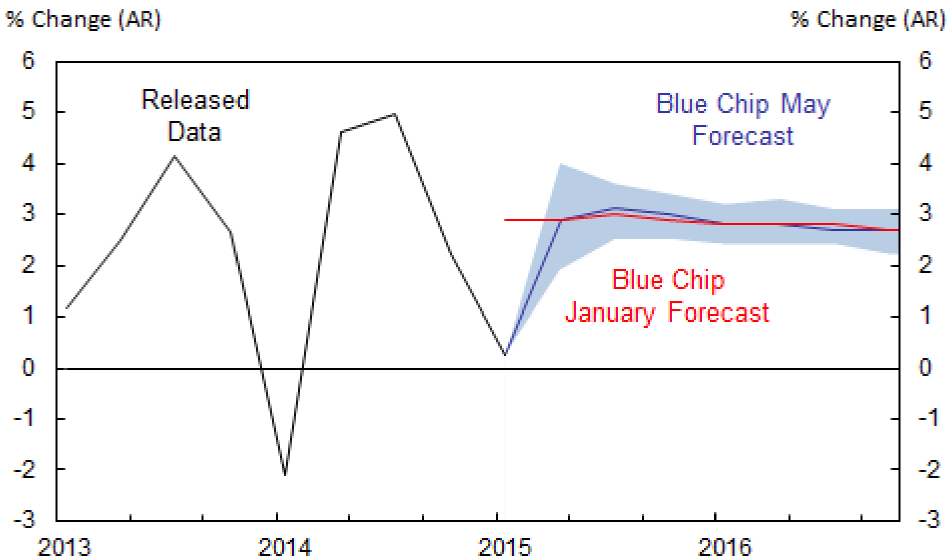
Another set of dynamic issues concerns Europe. Recovery in the euro area appears to have picked up, but still is delayed when compared to the U.S., opening up the possibility for a widening of policy divergences between the two regions. Additionally, the possibility of further stress related to Greek debt repayments and negotiations for additional concessions from creditors gives rise to possible negative spillovers in other financial markets.

Discussion Questions on Global Issues

1. What are your views concerning the impact on the economic outlook for advanced and emerging market economies from the market-anticipated divergence of future monetary policy stances across major economies?
2. Do you think that the reaction of EME financial markets to a U.S. monetary policy tightening, whenever it occurs, will be more muted than in the "taper tantrum"?
3. What are your views concerning the factors behind the very low, and in a number of cases negative, nominal sovereign yields in major advanced economies?
4. Do you see other risks to the global economic outlook?

Figure 1

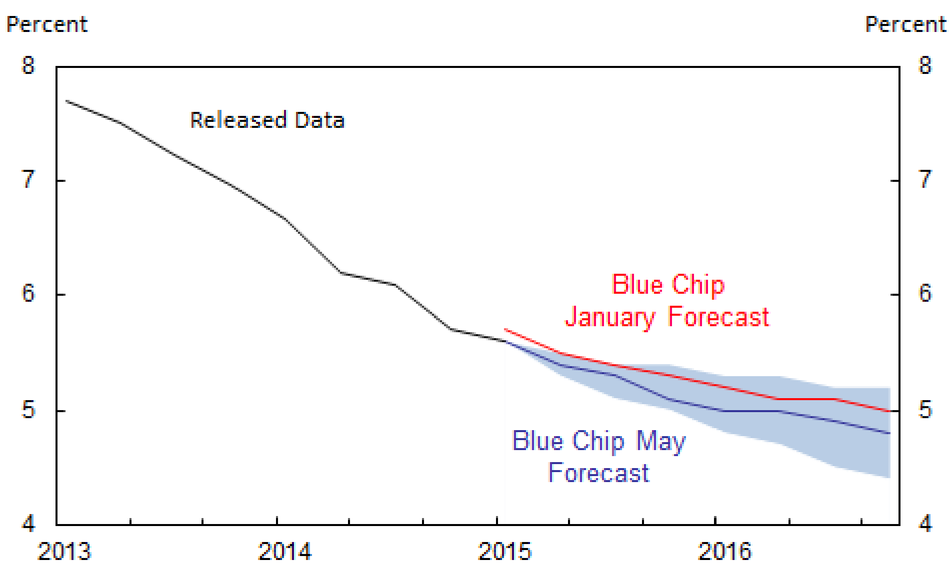
Real GDP Growth Forecasts



Note: The blue band represents the top 10 and bottom 10 averages of the May Blue Chip survey.
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators

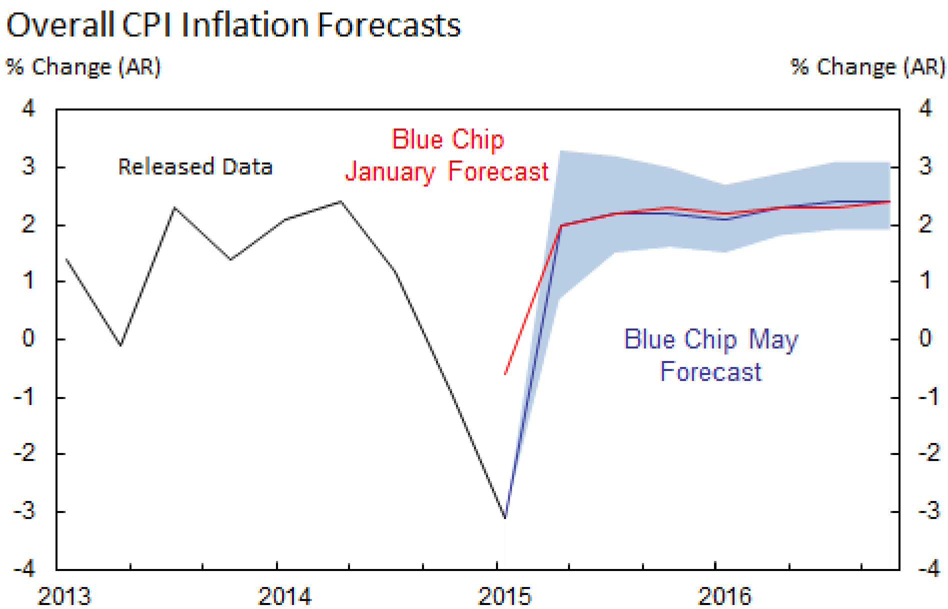
Figure 2

Unemployment Rate Forecasts



Note: The blue band represents the top 10 and bottom 10 averages of the May Blue Chip survey.
Source: Bureau of Labor Statistics and Blue Chip Economic Indicators

Figure 3



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