



**Small Business & Agricultural Advisory Board
Federal Reserve Bank of New York
33 Liberty Street
10F, Paul Volcker Boardroom
Thursday, April 5, 2018**

AGENDA

10:30am	Welcome and Review of Council Charter & Antitrust Guidelines, Claire Kramer Mills, Assistant Vice President
10:40am-11:10am	The National Economy, Richard Peach, Senior Vice President
11:10am-11:40am	International Update, Matthew Higgins, Vice President
11:40am-12:00pm	Regional Update, Jason Bram, Officer
12:00pm	Adjourn to NWC Room-10F
12:15pm	Lunch
12:15pm-1:55pm	Round Table Discussion with William Dudley, President and Michael Strine, First Vice President

Your experiences can give us insight into current economic conditions.

Questions for discussion:

1. Have firms of your size and in your industry seen sales volume increase, decrease, or stay the same in the second half of 2017?
2. Do you expect sales for firms of your size and in your industry to increase, decrease, or stay the same in the first half of 2018?
3. Do you expect firms of your size and in your industry to increase investment (plant & equipment) in the first half of 2018?
4. Have firms of your size and in your industry faced any recent shortage of labor that has limited their ability to meet demand?
5. Do you expect firms of your size and in your industry to increase employment this year? Why or why not?
6. Do you expect input prices for firms of your size and in your industry to increase? Do you expect prices of products/services sold to increase?
7. Over the past two quarters, have you noticed any financing changes for firms of your size and in your industry? How have the terms and conditions for obtaining financing changed (tightened, eased, not changed)?

2:00 pm	Adjourn
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Federal Reserve Bank of New York
33 Liberty Street
New York, NY
Thursday, April 5, 2018**

ATTENDEE LIST

Council Members

Michael Arnoff
President
Arnoff Moving & Storage

Patrick Marotta
President and CEO
Marotta Controls

Charles Feit
President and Founder
OnForce Solar

Ranjini Poddar
Founder and CEO
Artech Information Systems, LLC

Federal Reserve Bank of New York

William Dudley
Michael Strine
Kausar Hamdani
Richard Peach
Matthew Higgins
Anand Marri
Claire Kramer Mills
Jason Bram
Julia Gouny
Angela Sun
Javier Silva
Maria Carmelita Recto
Edison Reyes

President
First Vice President
SVP, Communications & Outreach
SVP, Research & Statistics
VP, Integrated Policy Analysis
VP, Outreach & Education
AVP, Outreach & Education
Officer, Research & Statistics
Officer, Executive Office
Staff Attorney, Legal
Senior Associate, Outreach & Education
Associate, Outreach & Education
Associate, Outreach & Education



FEDERAL RESERVE BANK *of* NEW YORK

US Macro Overview

Richard Peach, Senior Vice President

Presented to SBAAC
April 5, 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.

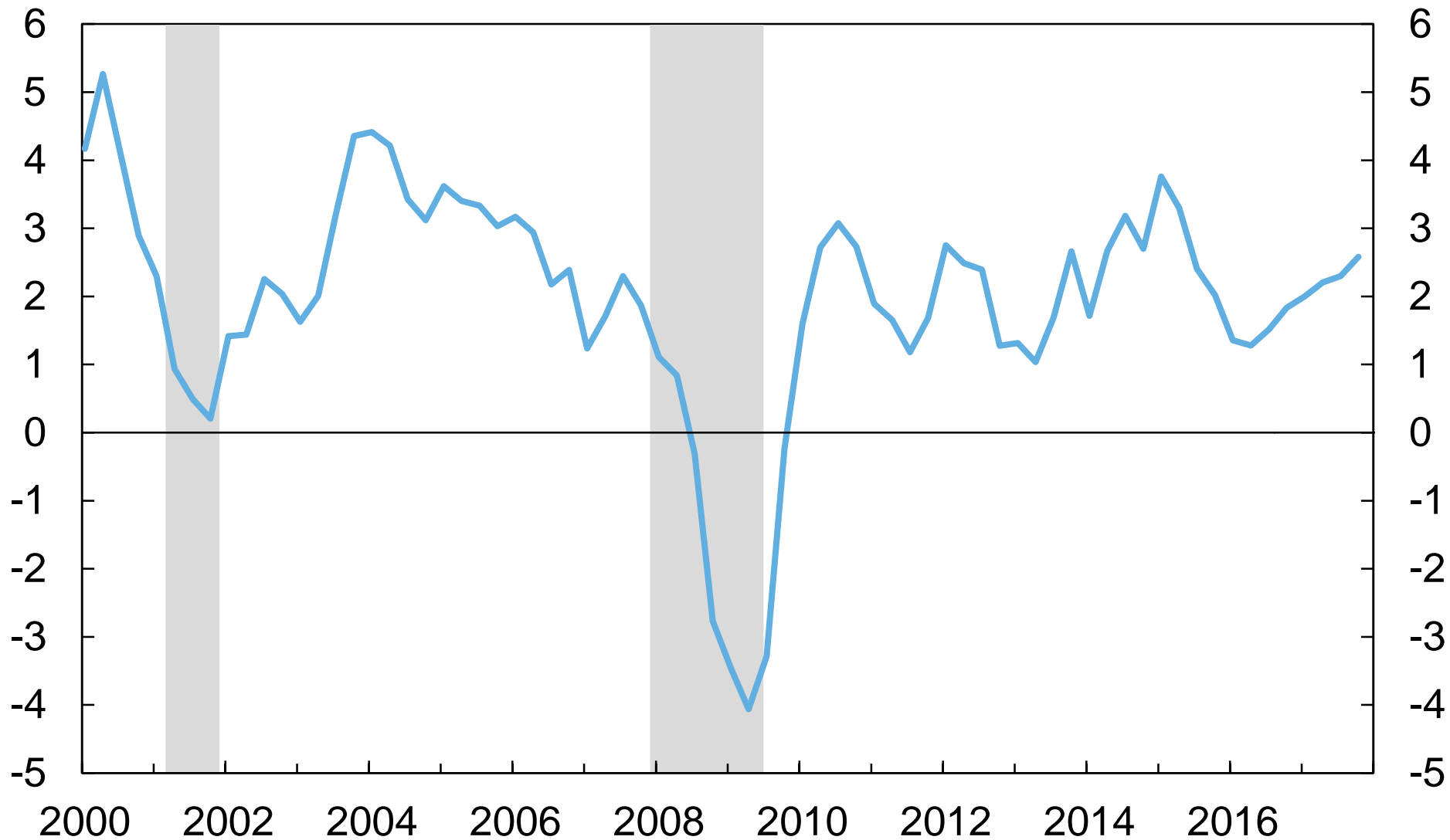
Overview

- 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

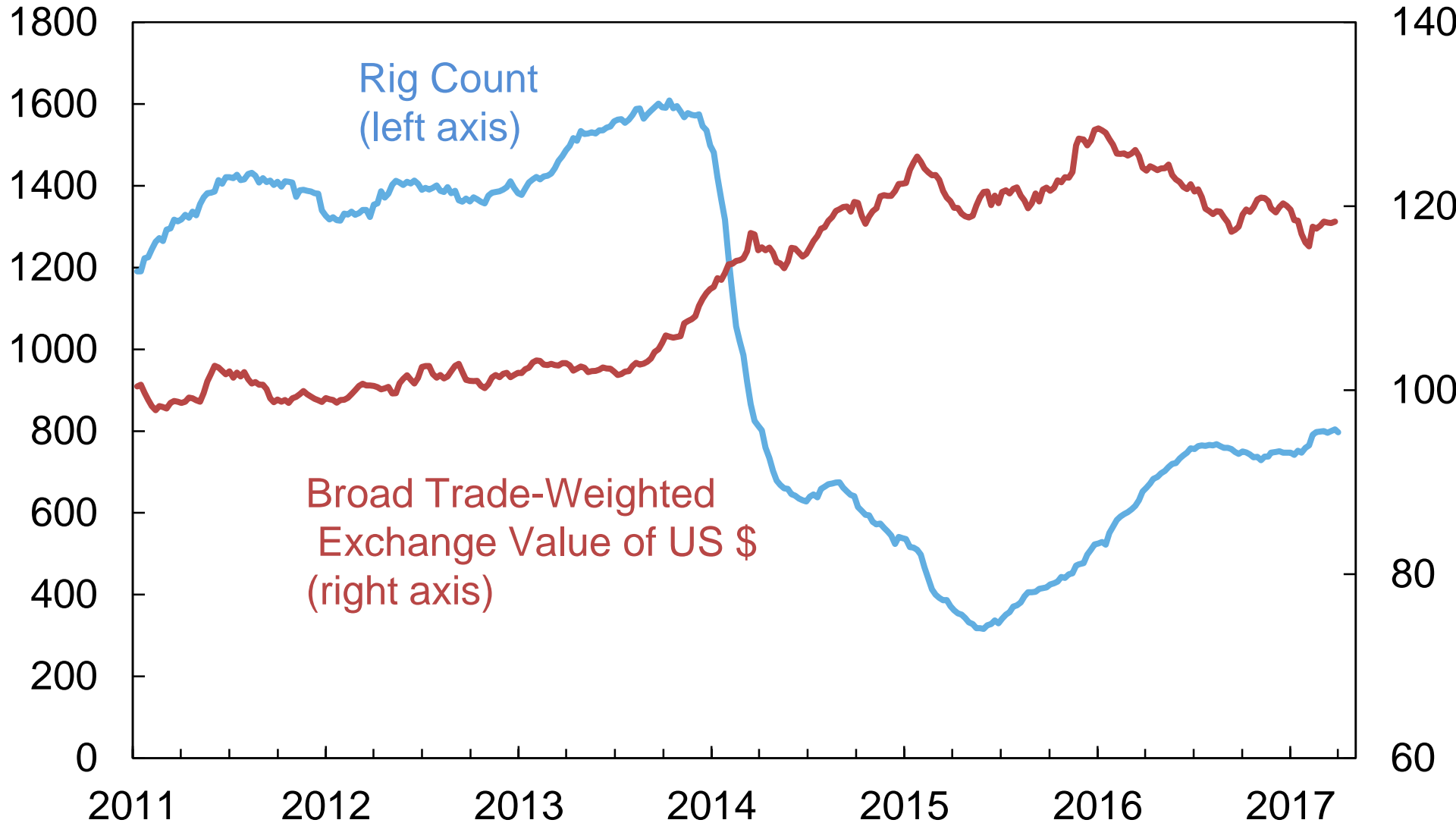
Four Quarter Percent Change



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

Active Oil Rigs

Index



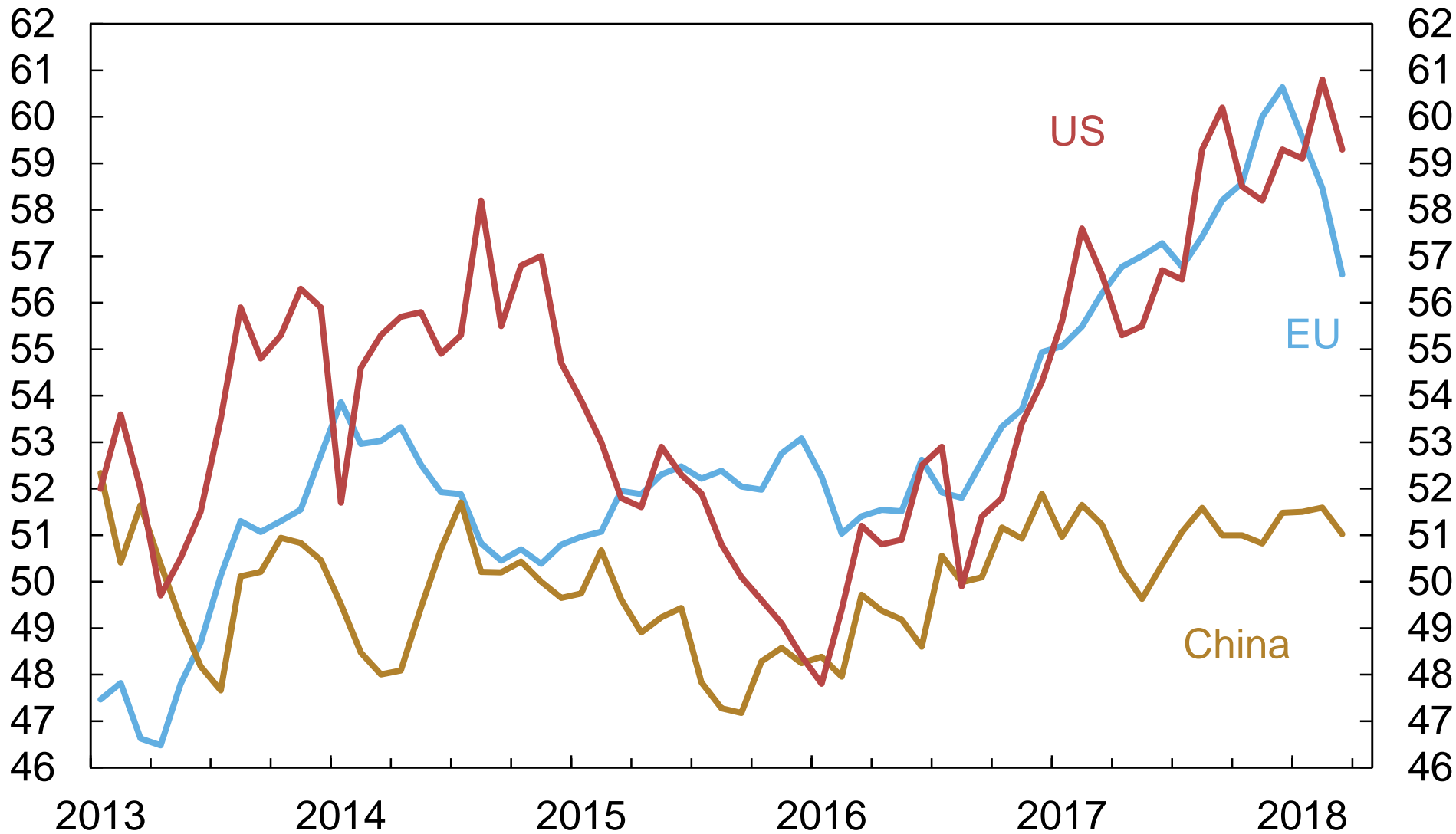
Source: Federal Reserve Board and Baker Hughes

Note: Shading shows NBER recessions.

Manufacturing Indicators for Major Economies

Index Level

Index Level

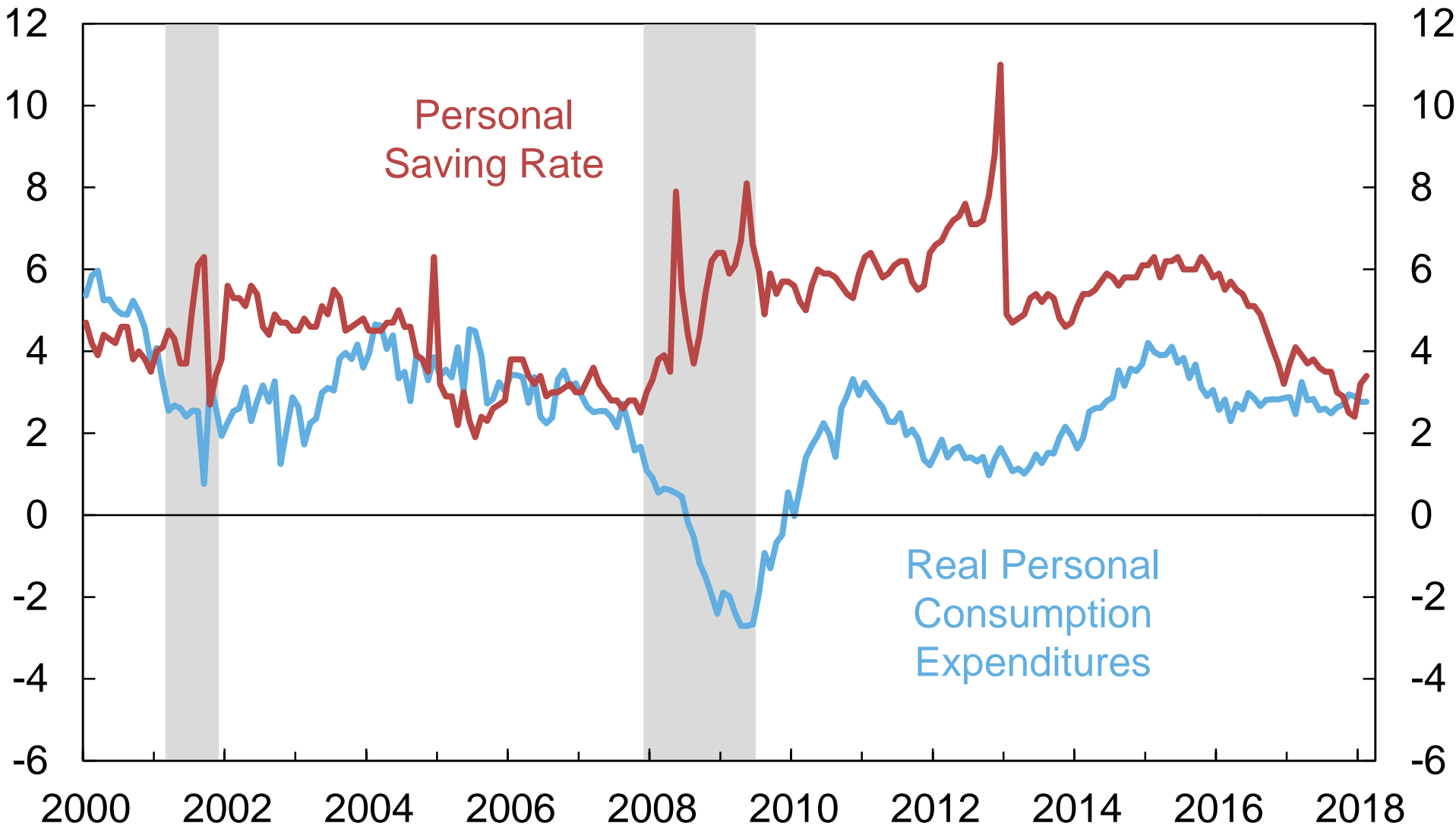


Source: IHS Markit and Institute for Supply Management via Haver Analytics

Note: Shading shows NBER recessions.

Real PCE and the Personal Saving Rate

12 Month % Change



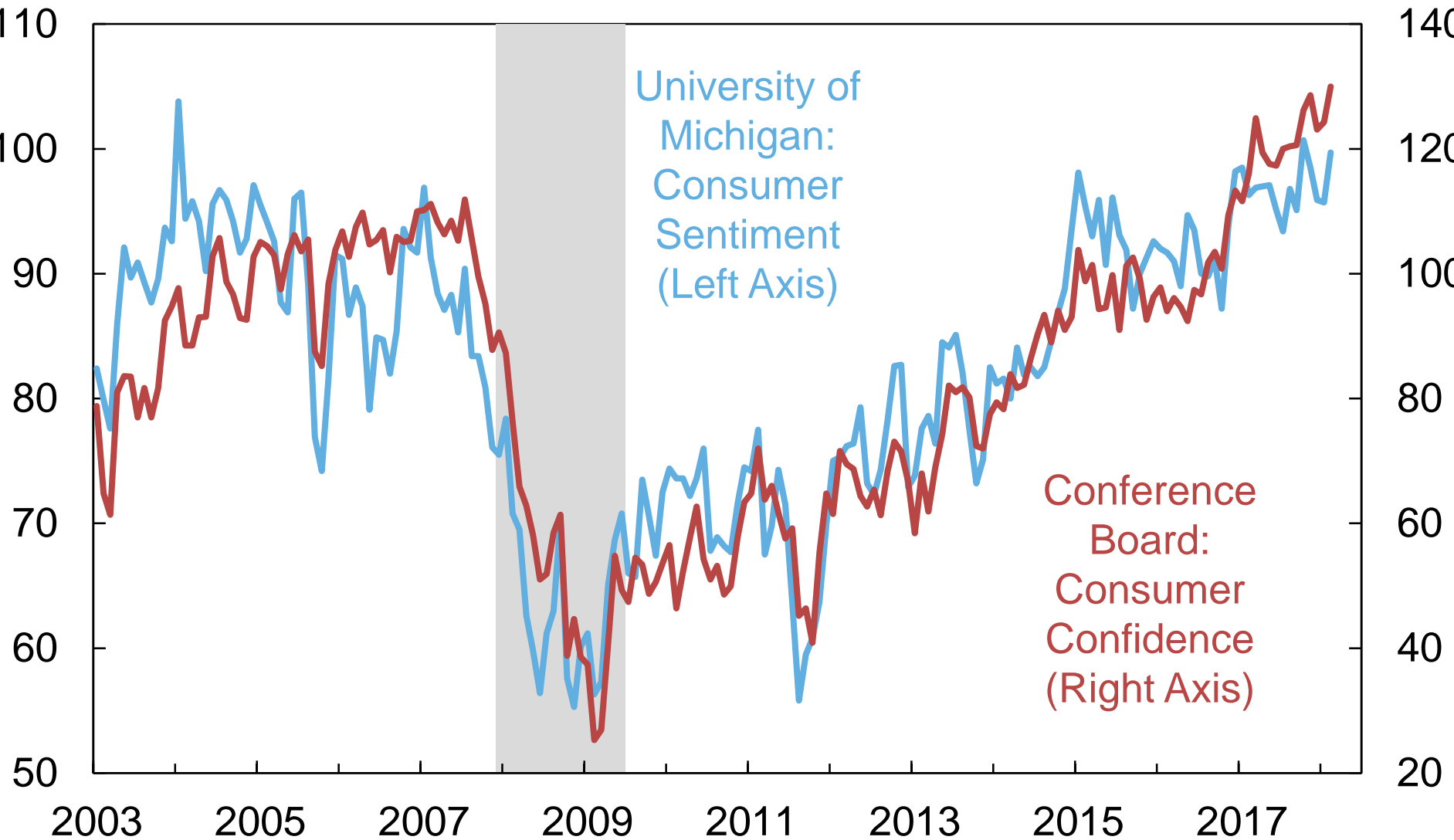
Source: Bureau of Economic Analysis,
Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Consumer Sentiment and Confidence

Index, Q1-66 = 100

Index, 1985 = 100



Source: University of Michigan, Conference Board.

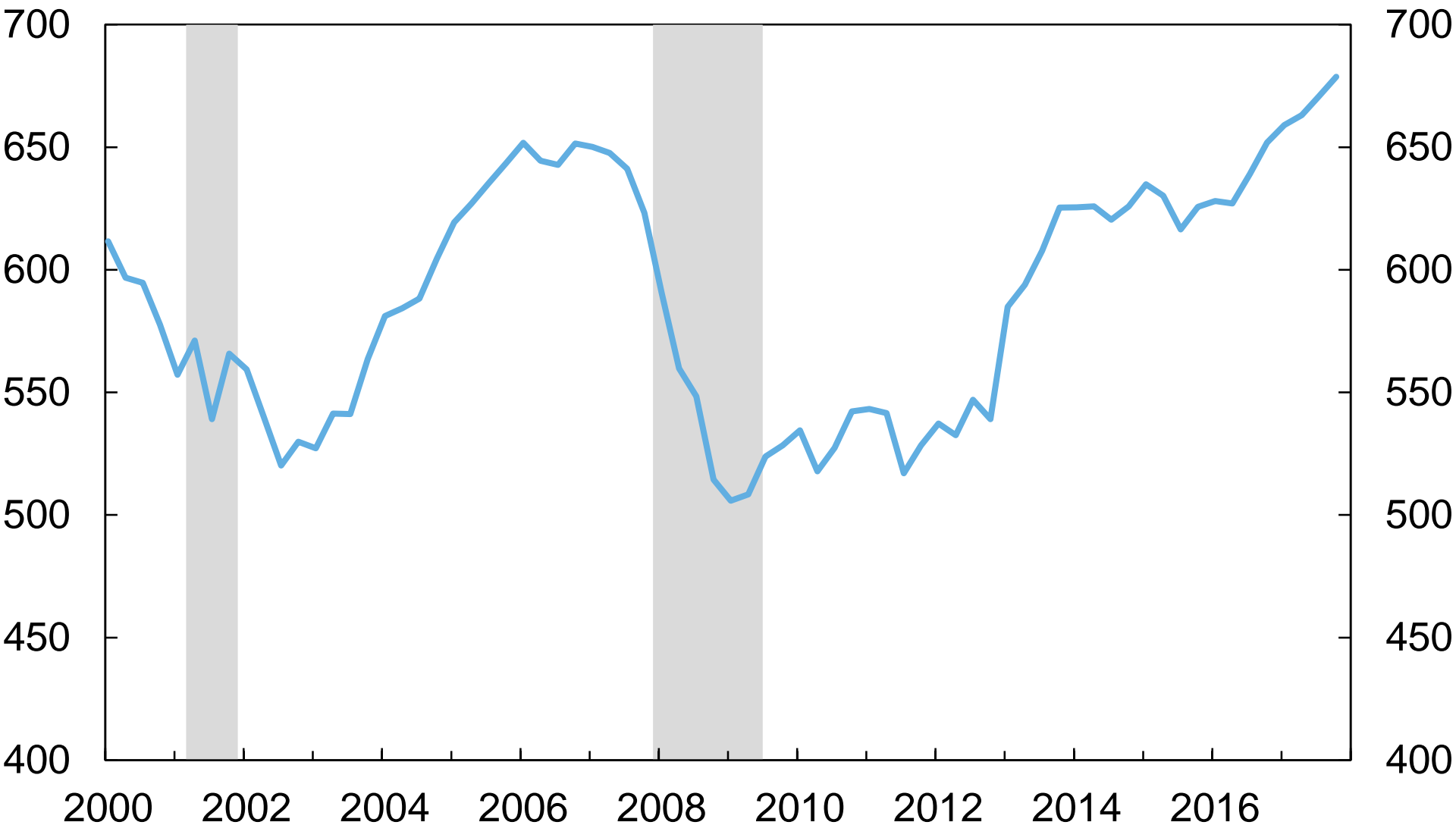
Note: Shading shows NBER recessions. 5

Household Net Worth at Record High

Percent

(Net Worth over Disposable Income)

Percent



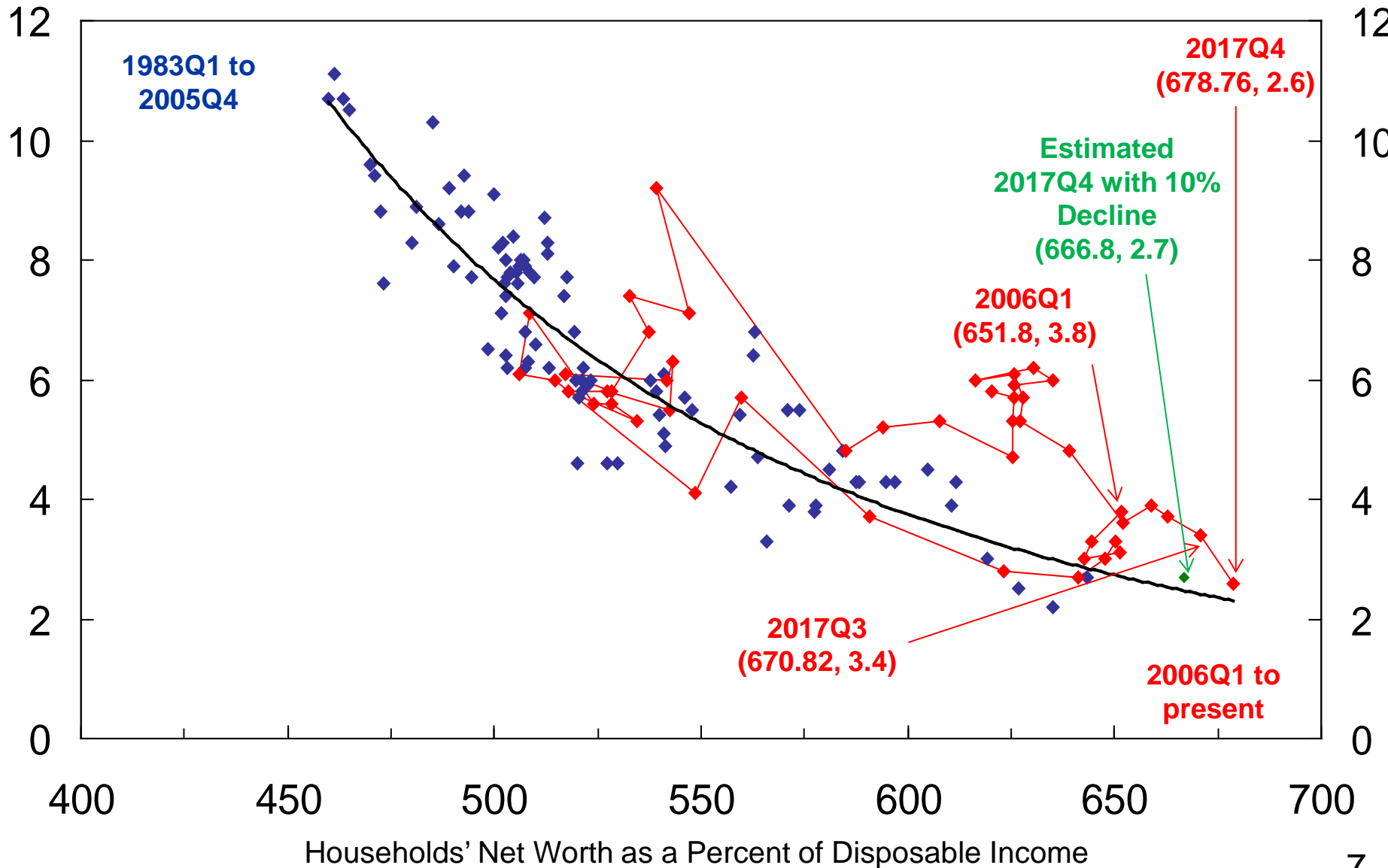
Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Personal Saving Rate and Household Net Worth

Personal Saving Rate (Percent)

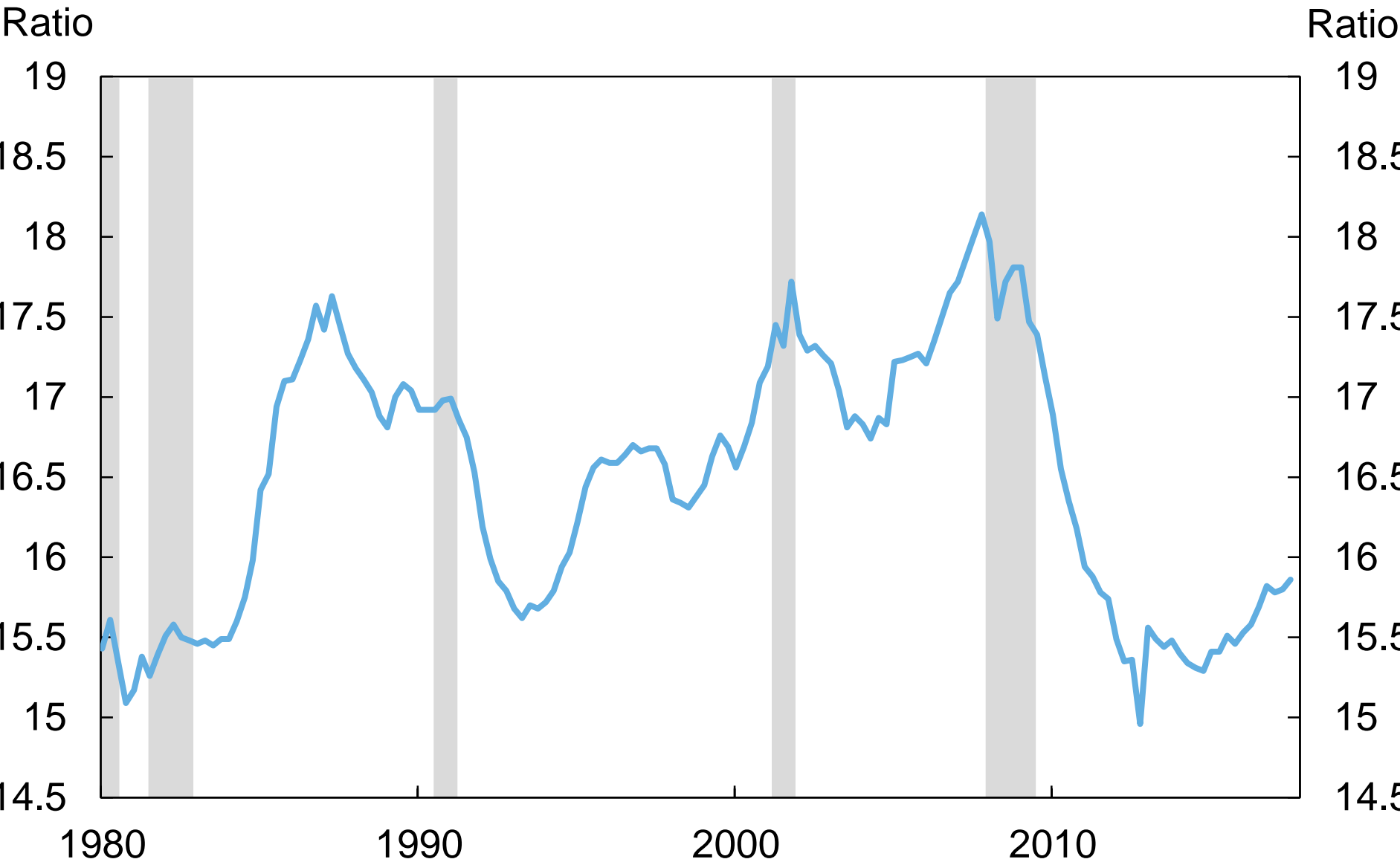
Personal Saving Rate (Percent)



Source: Bureau of Economic Analysis and Federal Reserve Board

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

Household Financial Obligation Ratio



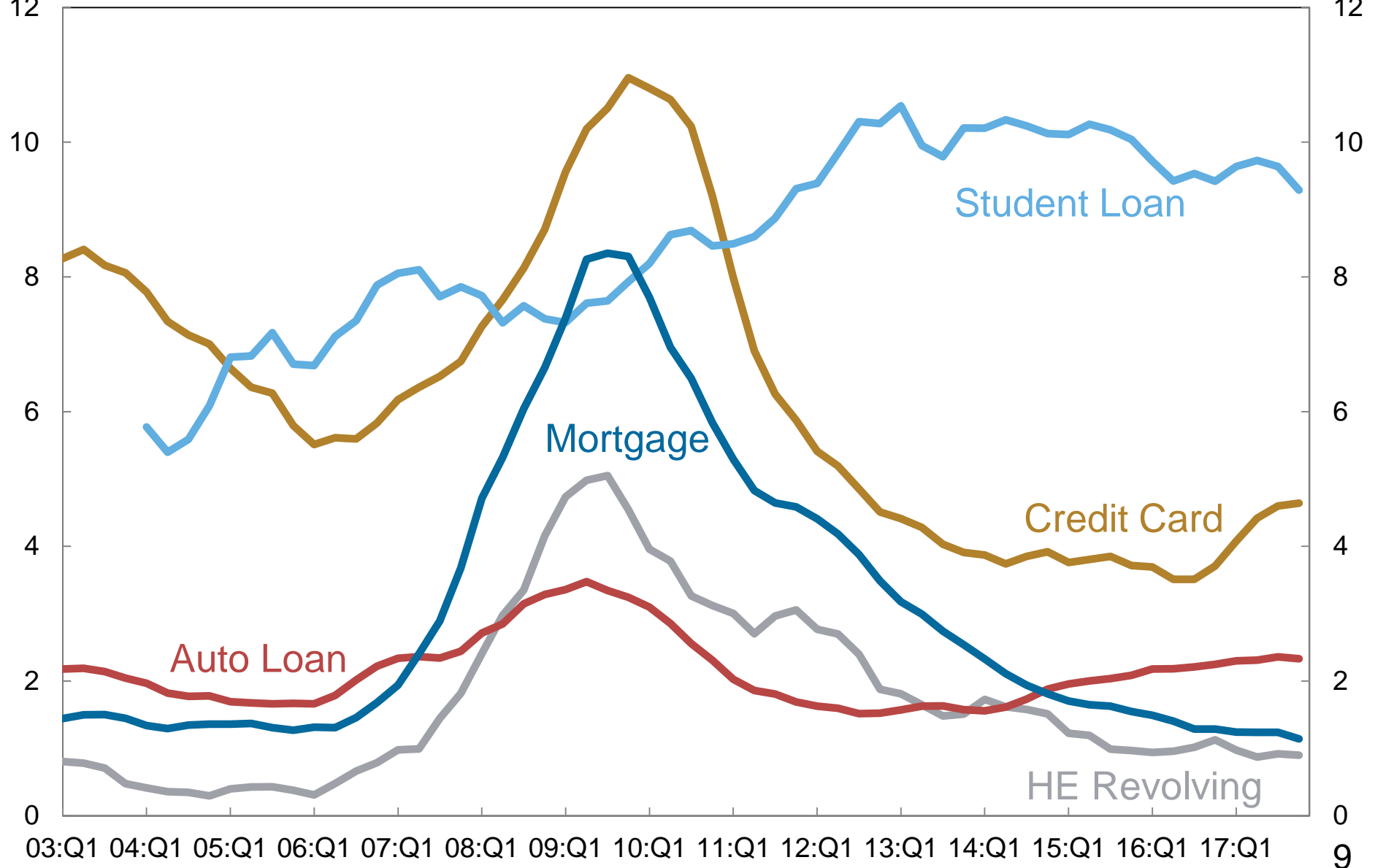
Source: Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Transition into Delinquency (90+) by Loan Type

Percent of Balance

Percent of Balance



Note: 4 Quarter Moving Sum

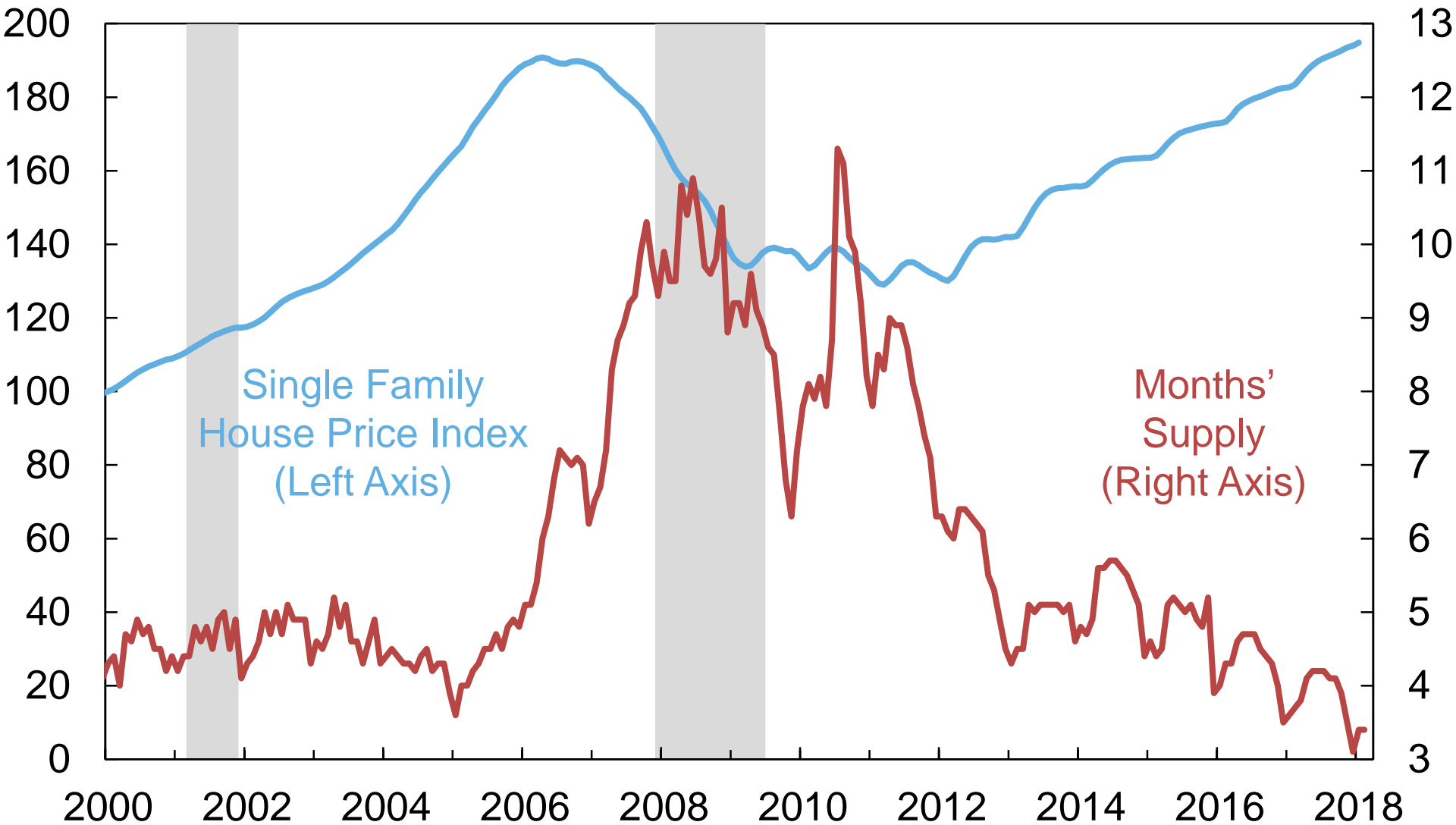
Student loan data are not reported prior to 2004 due to uneven reporting

Source: New York Fed Consumer Credit Panel/Equifax

Single Family Housing Market

Index Level

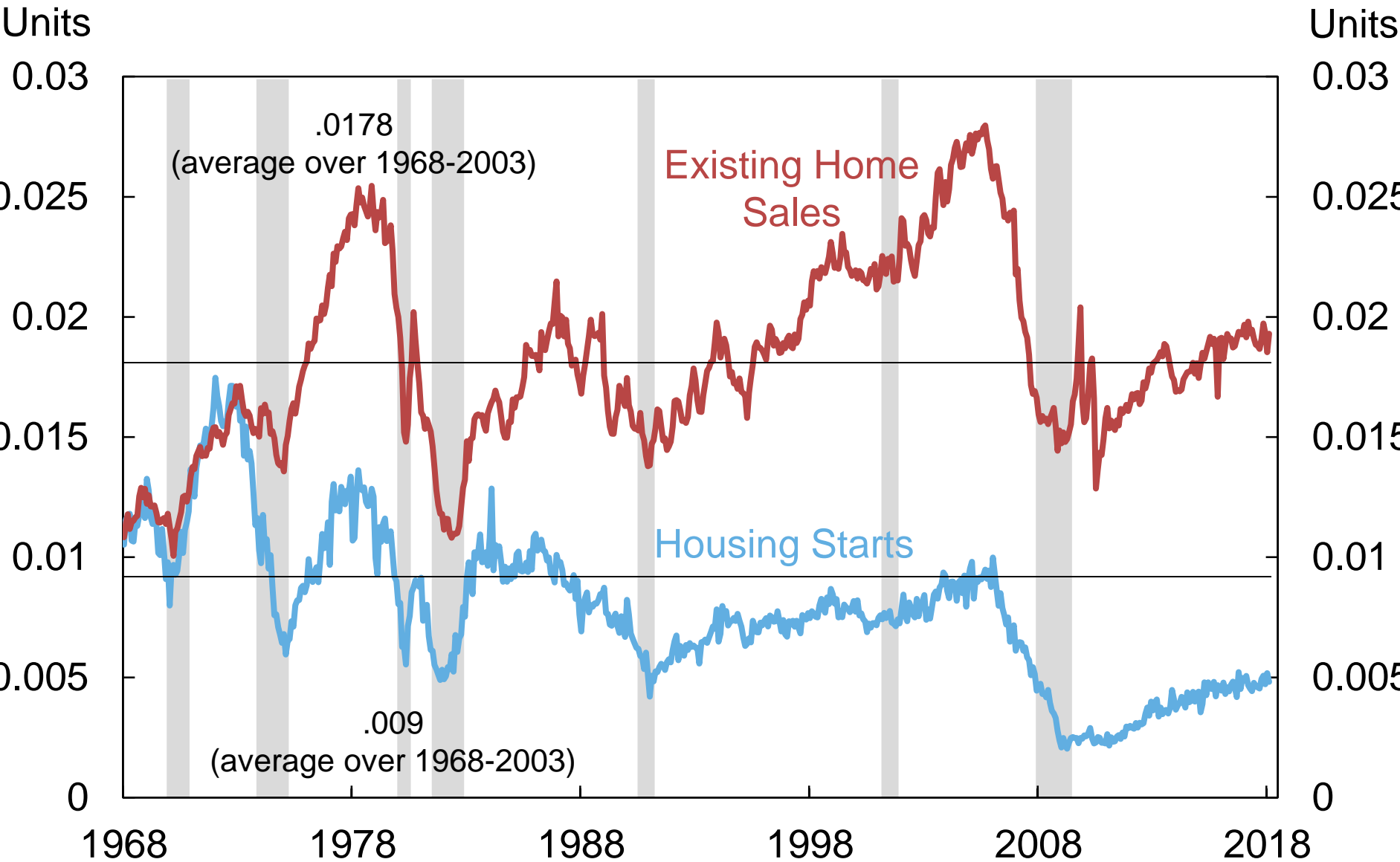
Months



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

Note: Shading shows NBER recessions.

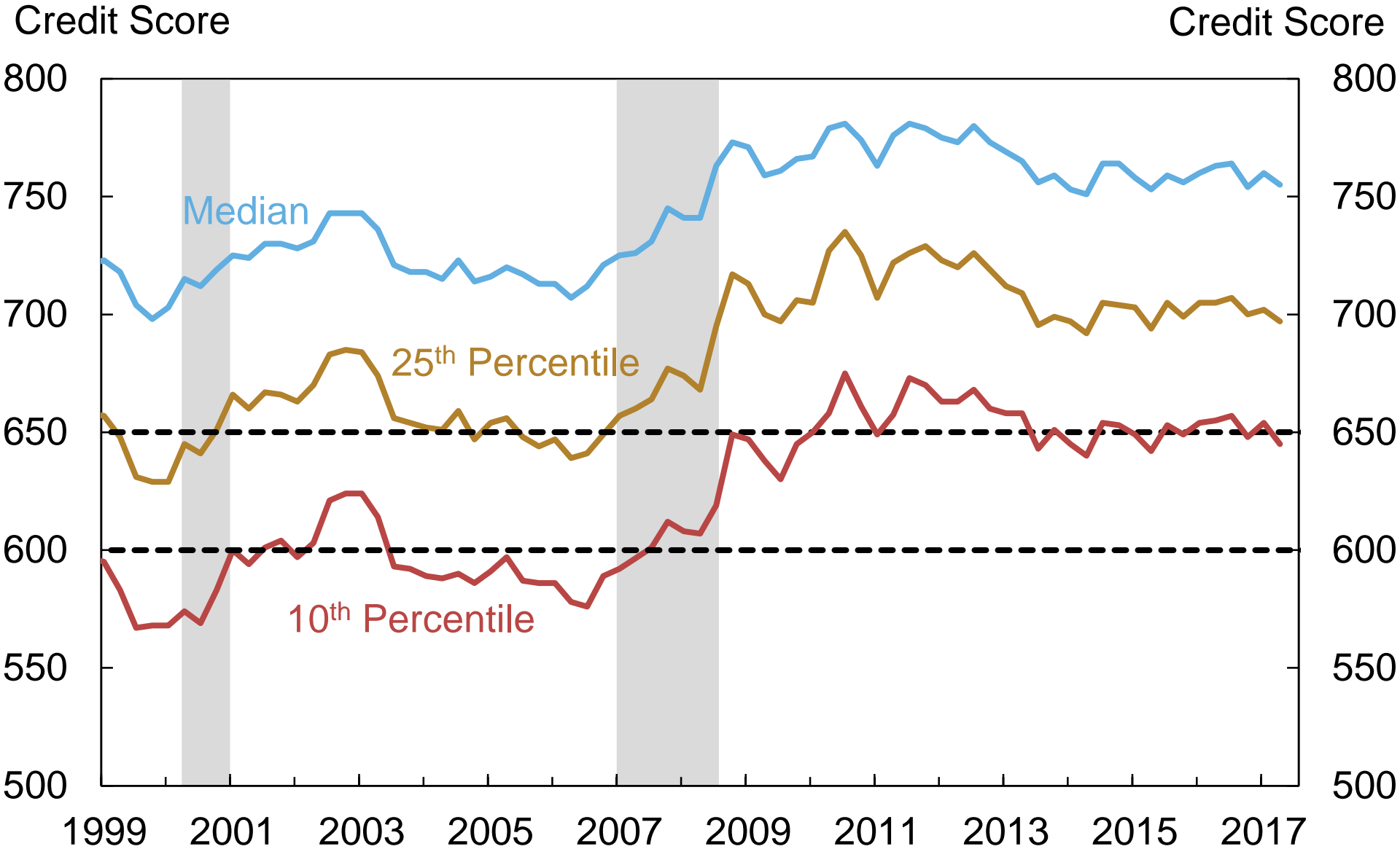
Housing Starts and Existing Homes Sales Per Capita



Source: BLS, Census Bureau, NAR

Note: Shading shows NBER recessions.

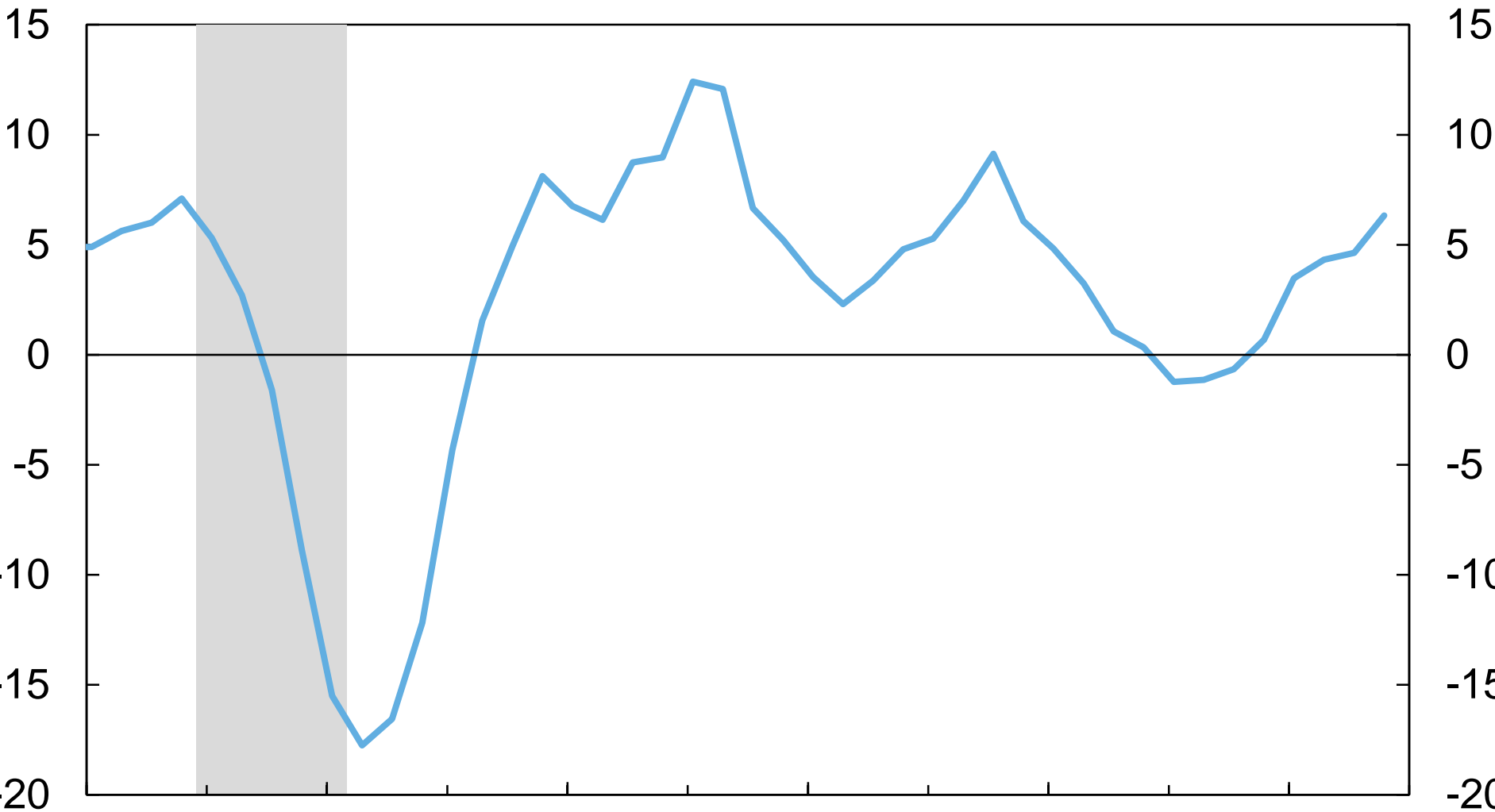
Credit Score at Mortgage Origination



Business Fixed Investment Firming

Four Quarter Percent Change

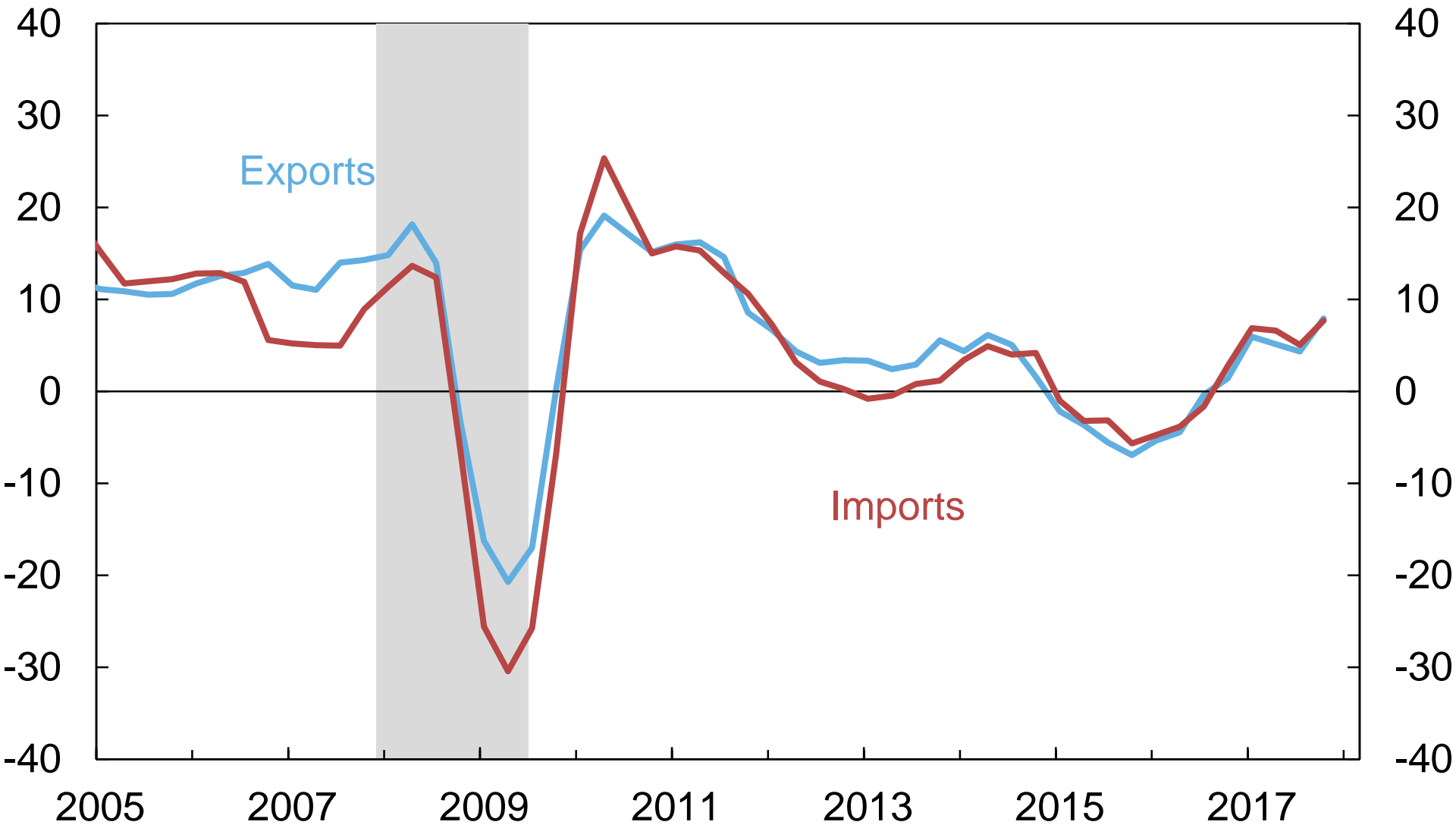
Four Quarter Percent Change



Real Exports and Imports

4 Quarter % Change

4 Quarter % Change



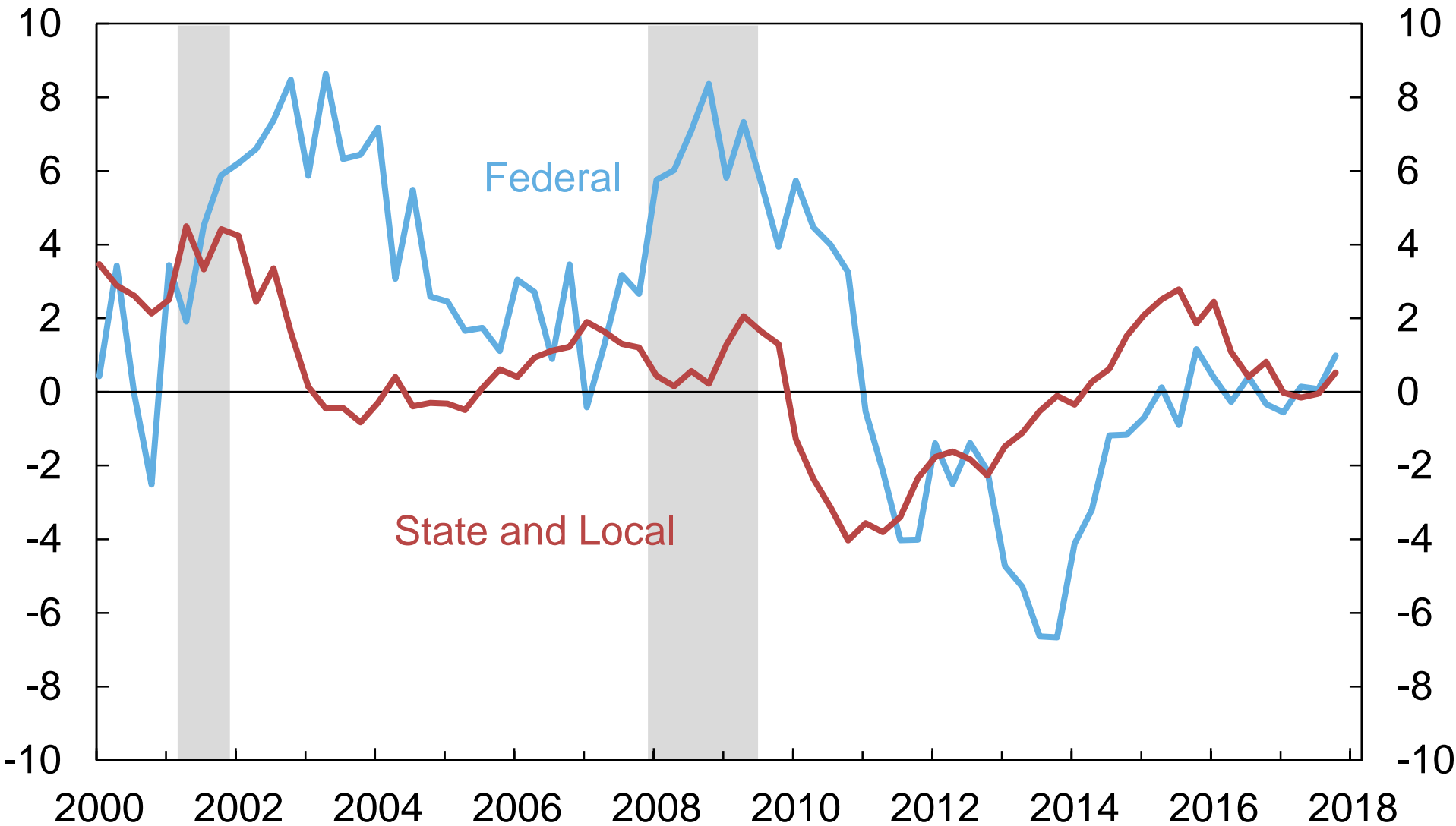
Source: Bureau of Economic Analysis
via Haver Analytics

Note: Shading shows NBER recessions.

Real Government Consumption and Gross Investment

4 Quarter % Change

4 Quarter % Change



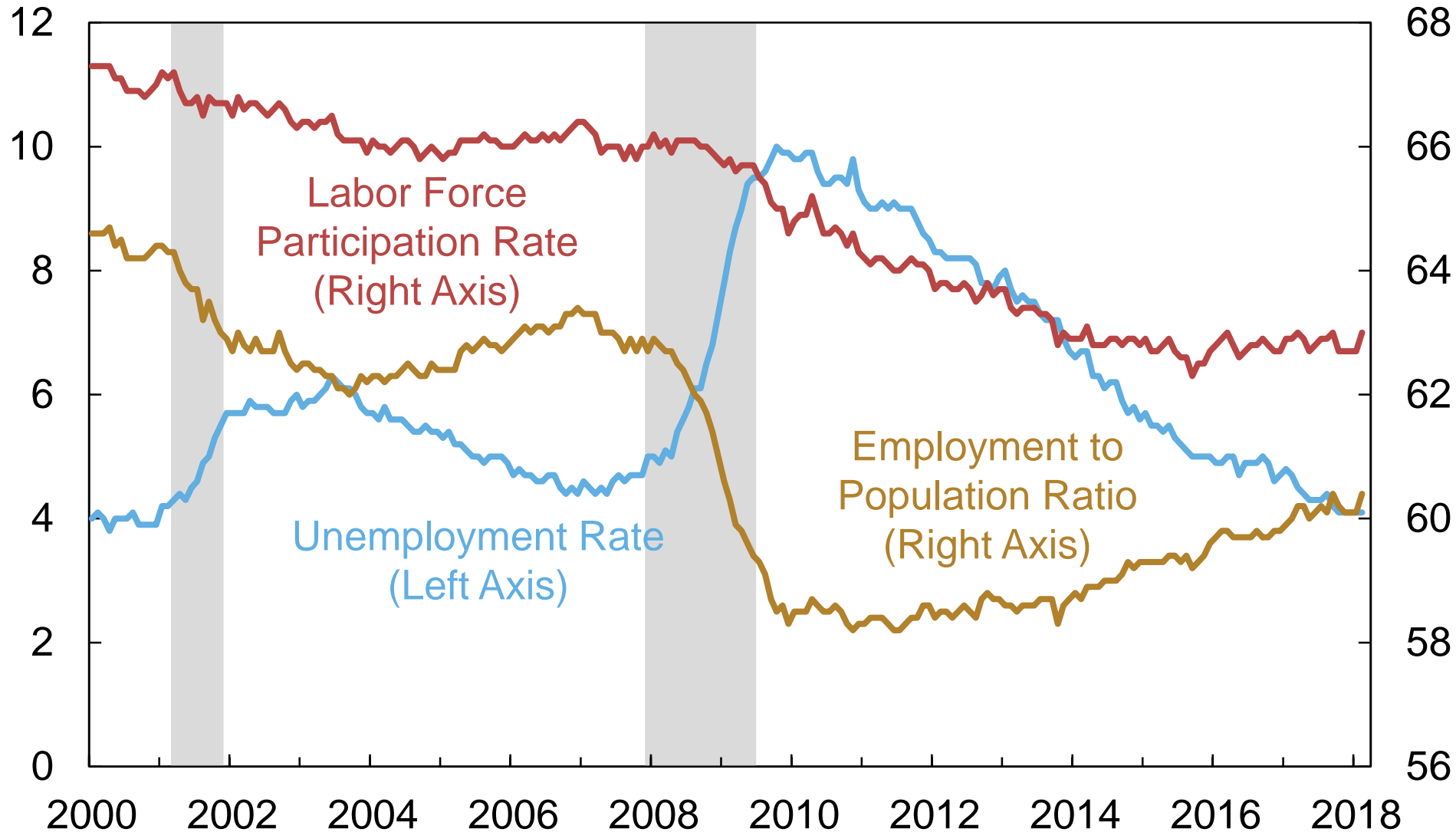
Source: Bureau of Economic Analysis
via Haver Analytics

Note: Shading shows NBER recessions.

Labor Market Indicators

Percent

Percent



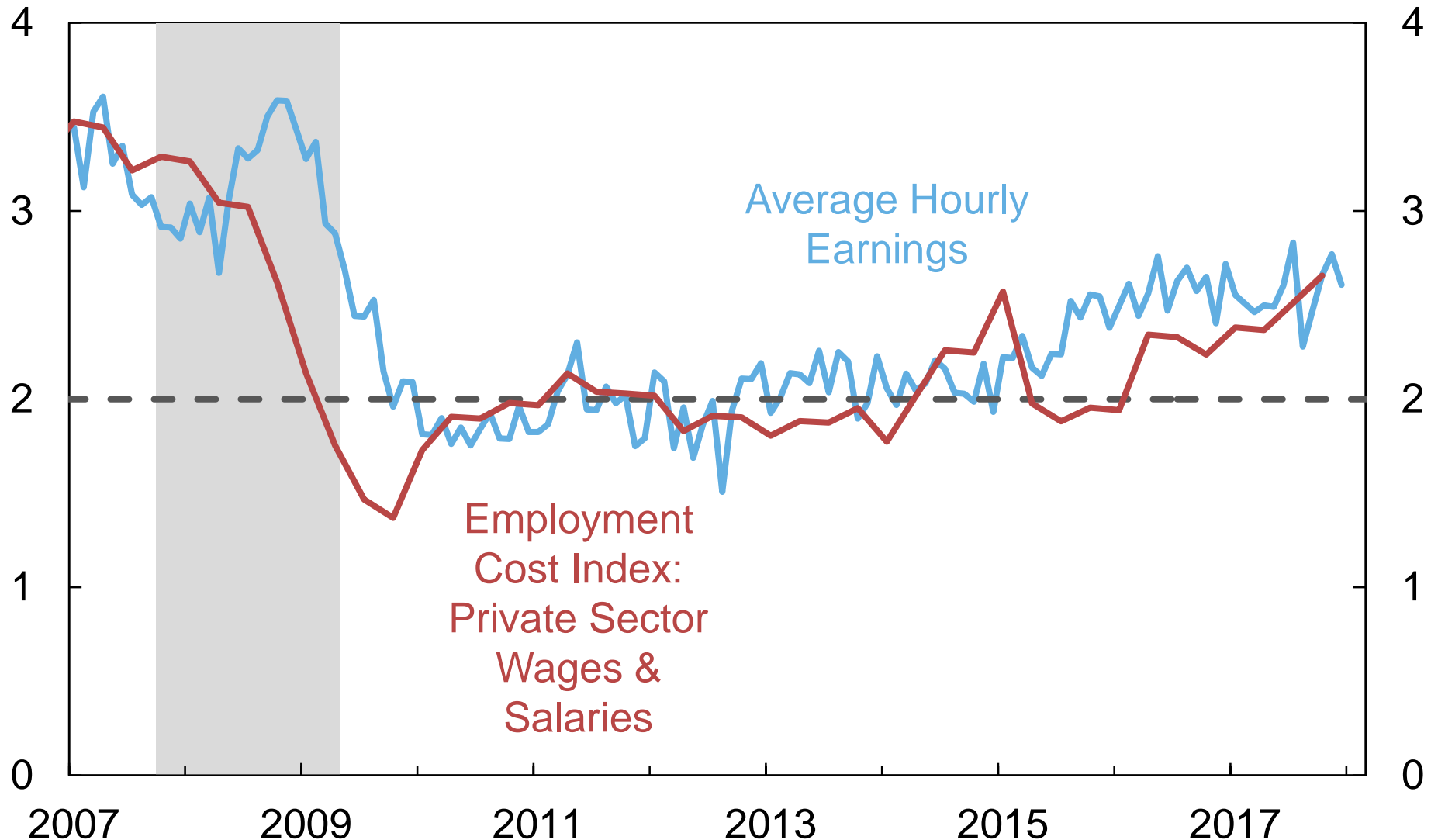
Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Growth of Average Hourly Earnings and ECI

Annual % change

Annual % change



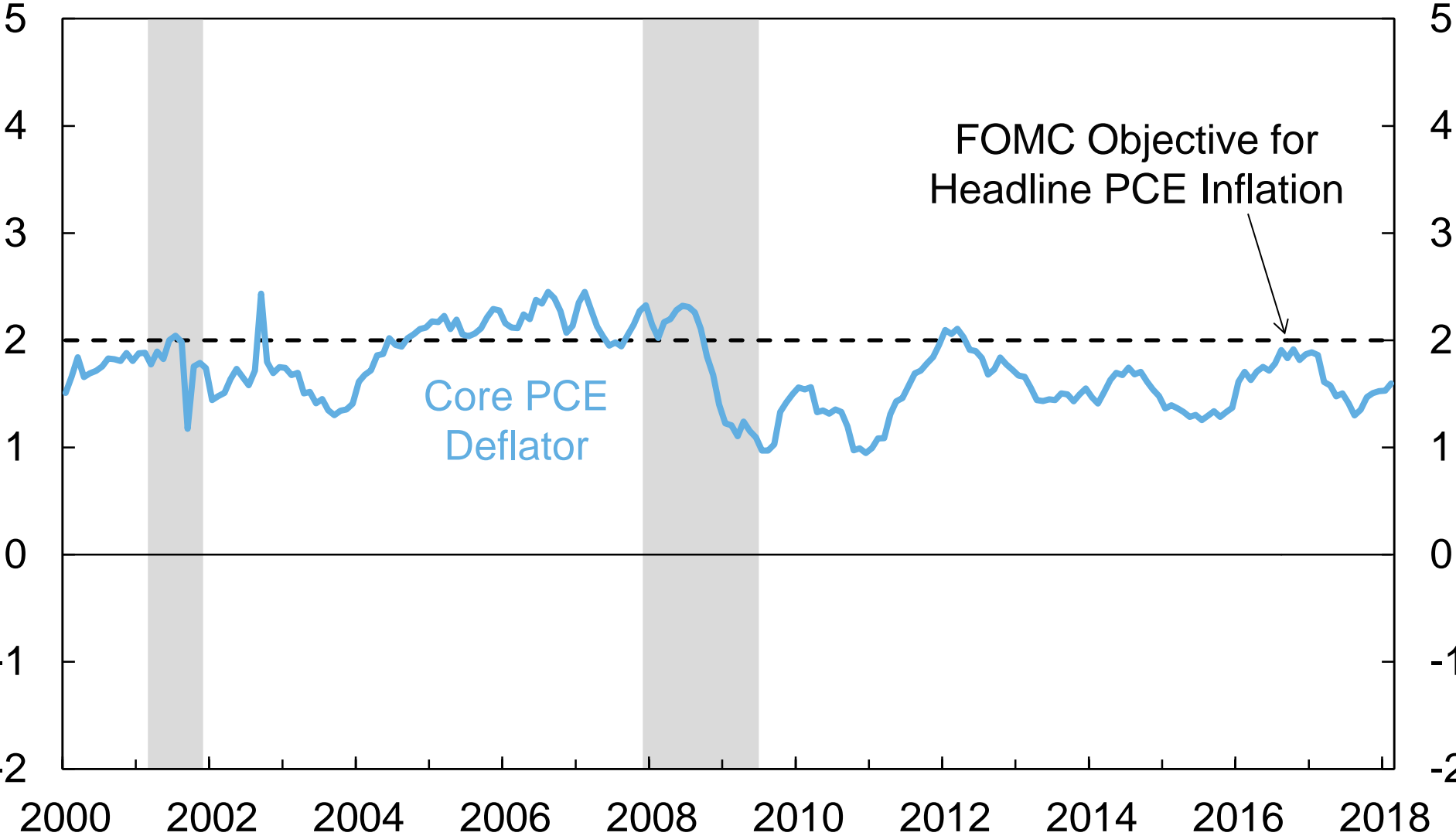
Source: Bureau of Labor Statistics
via Haver Analytics

Note: Shading shows NBER recessions.

Measure of Underlying PCE Price Inflation

12 Month % Change

12 Month % Change



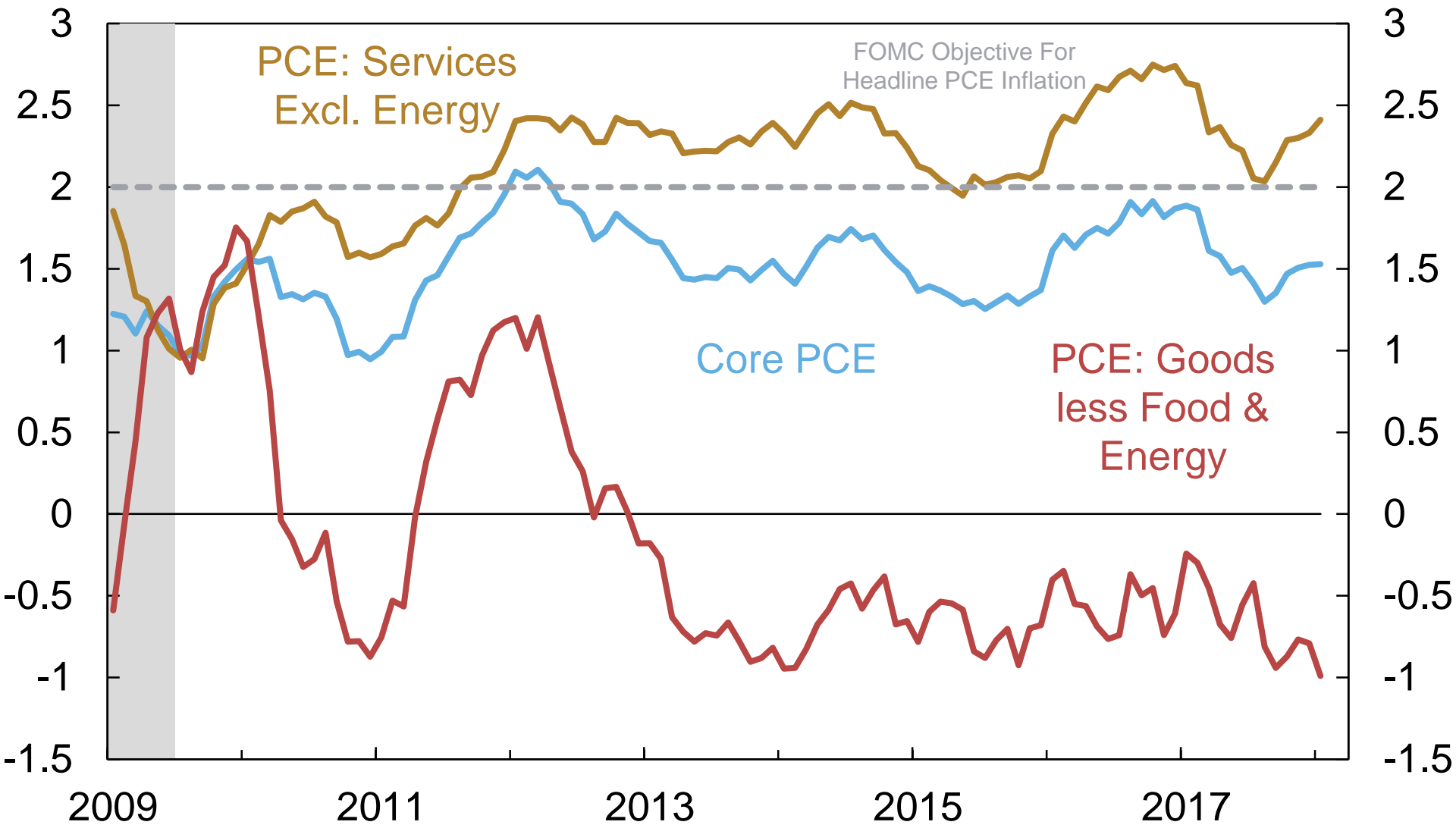
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions. 18

Personal Consumption Expenditures Price Indices

Percent Change Year-to-Year

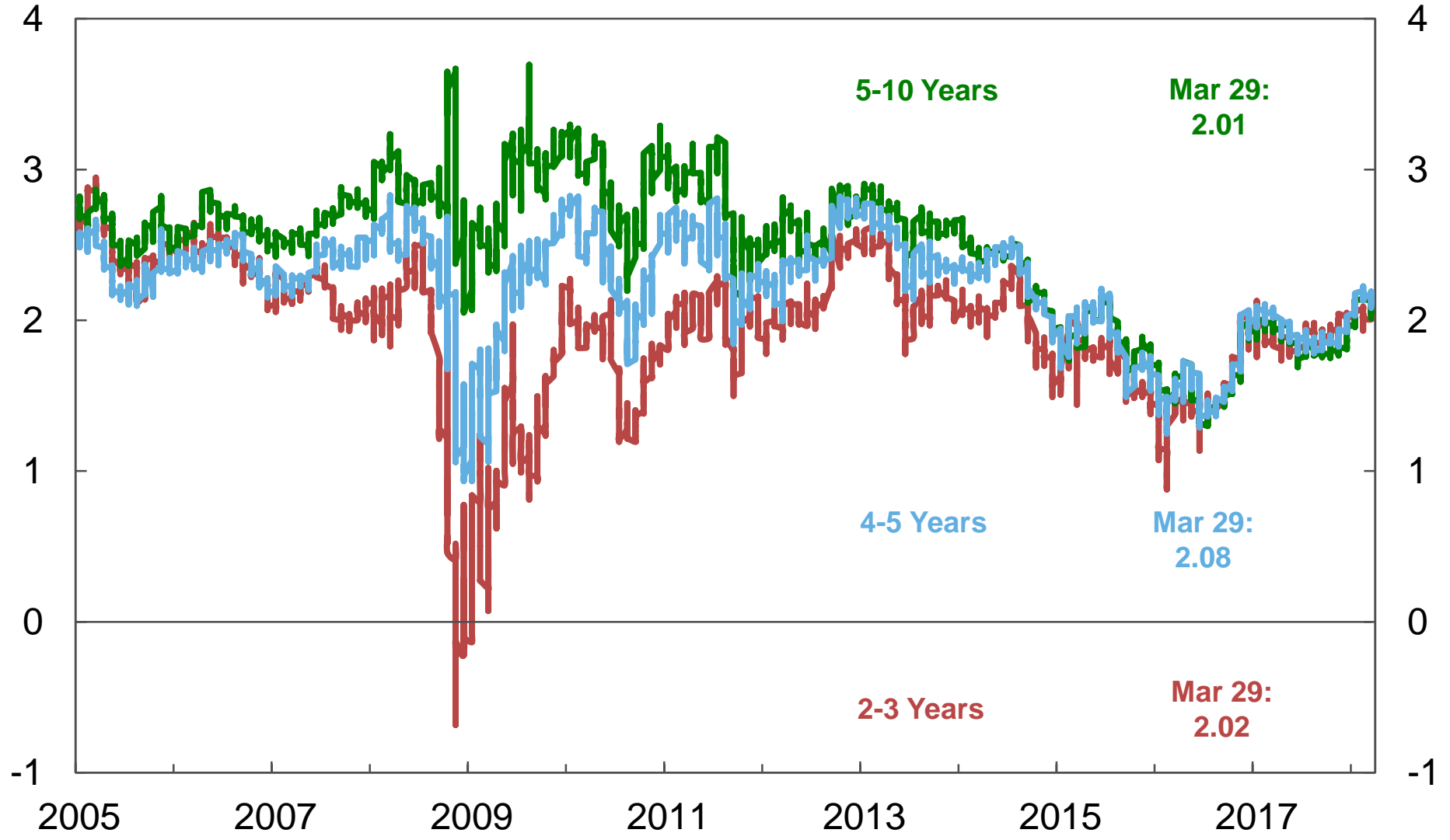
Percent Change Year-to-Year



TIPS Based Inflation Expectations

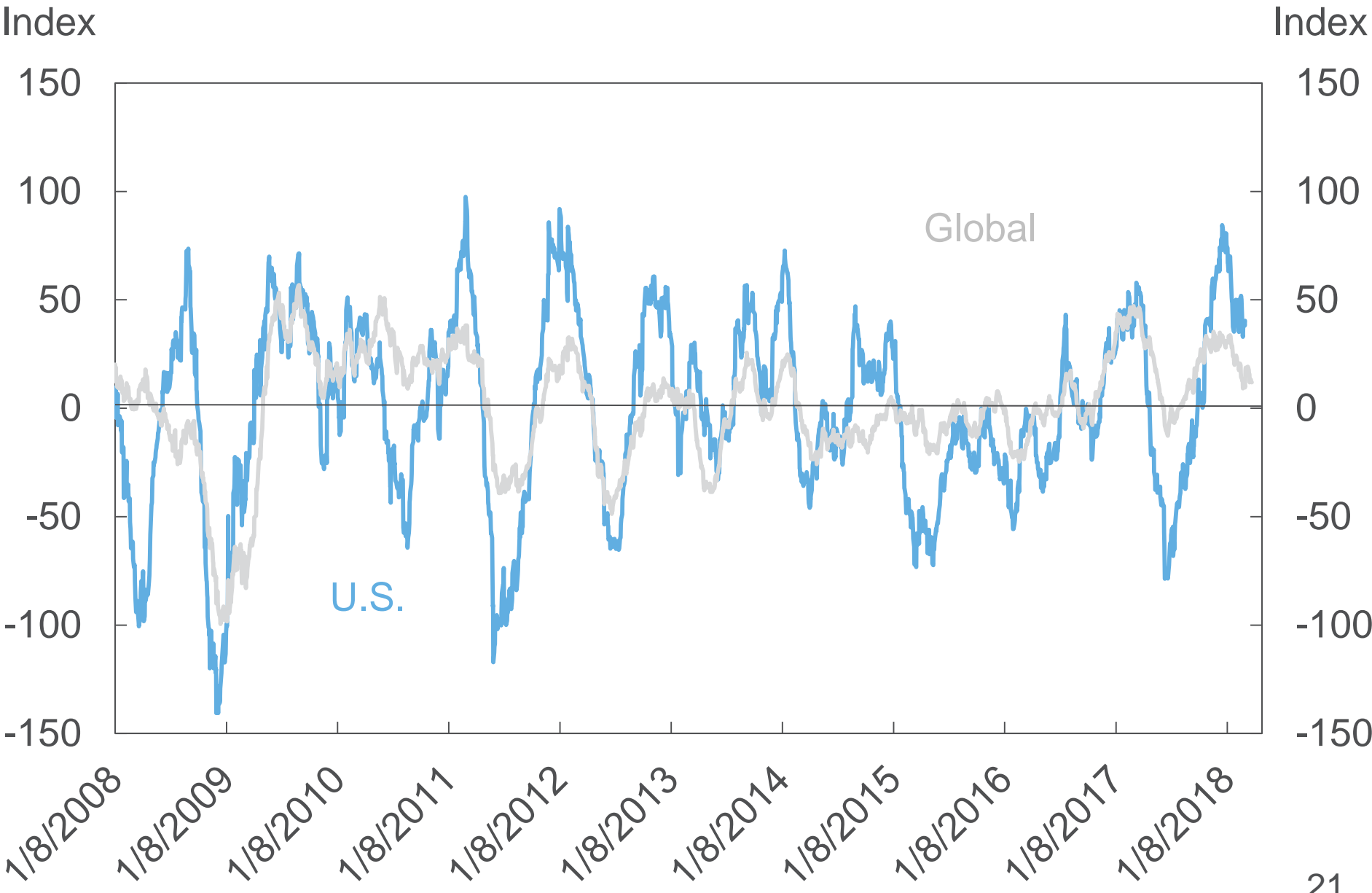
Percent

Percent



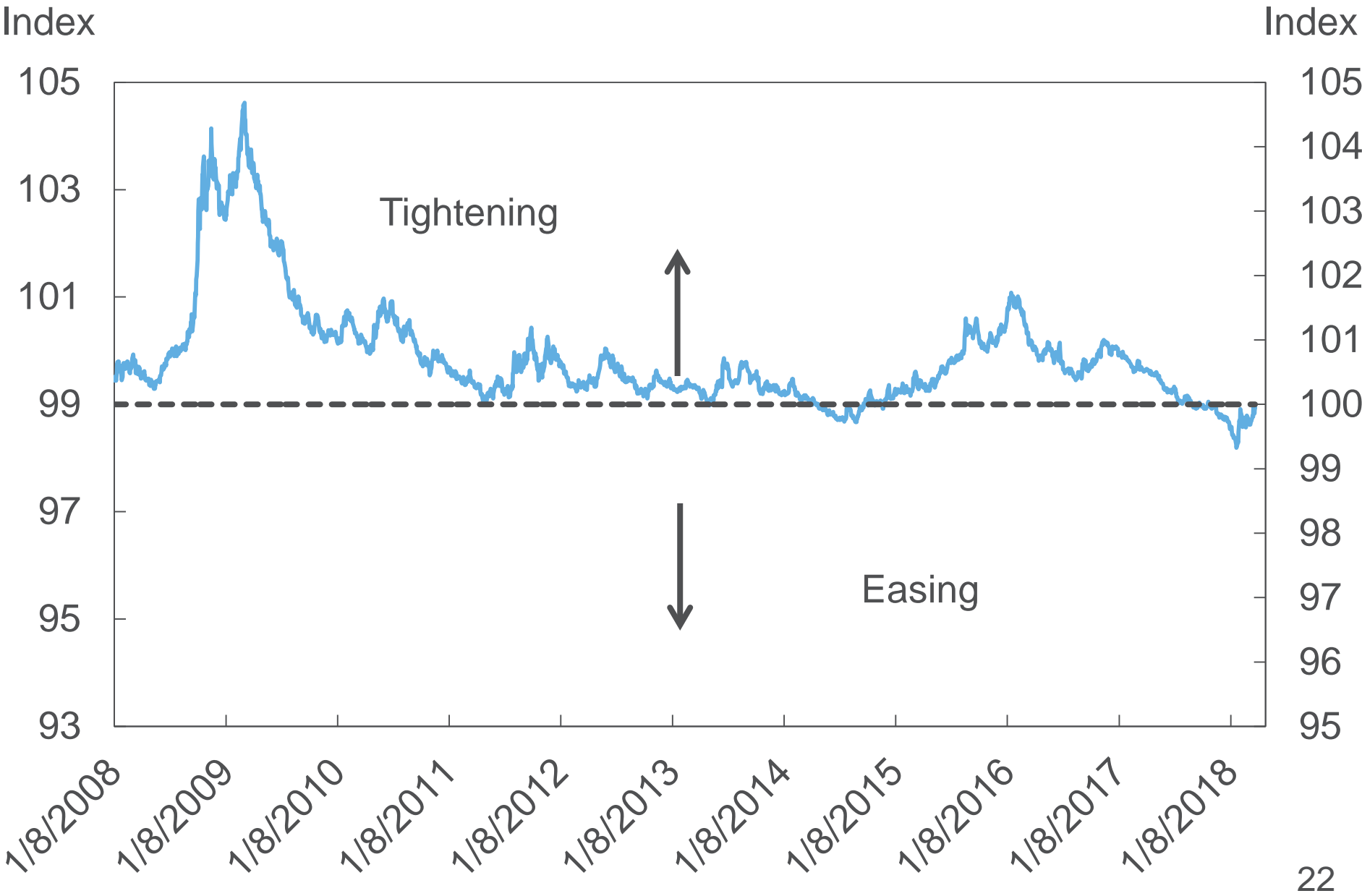
Reference Charts

Citi Economic Surprise Index



Source: Bloomberg.

Goldman Financial Conditions Index

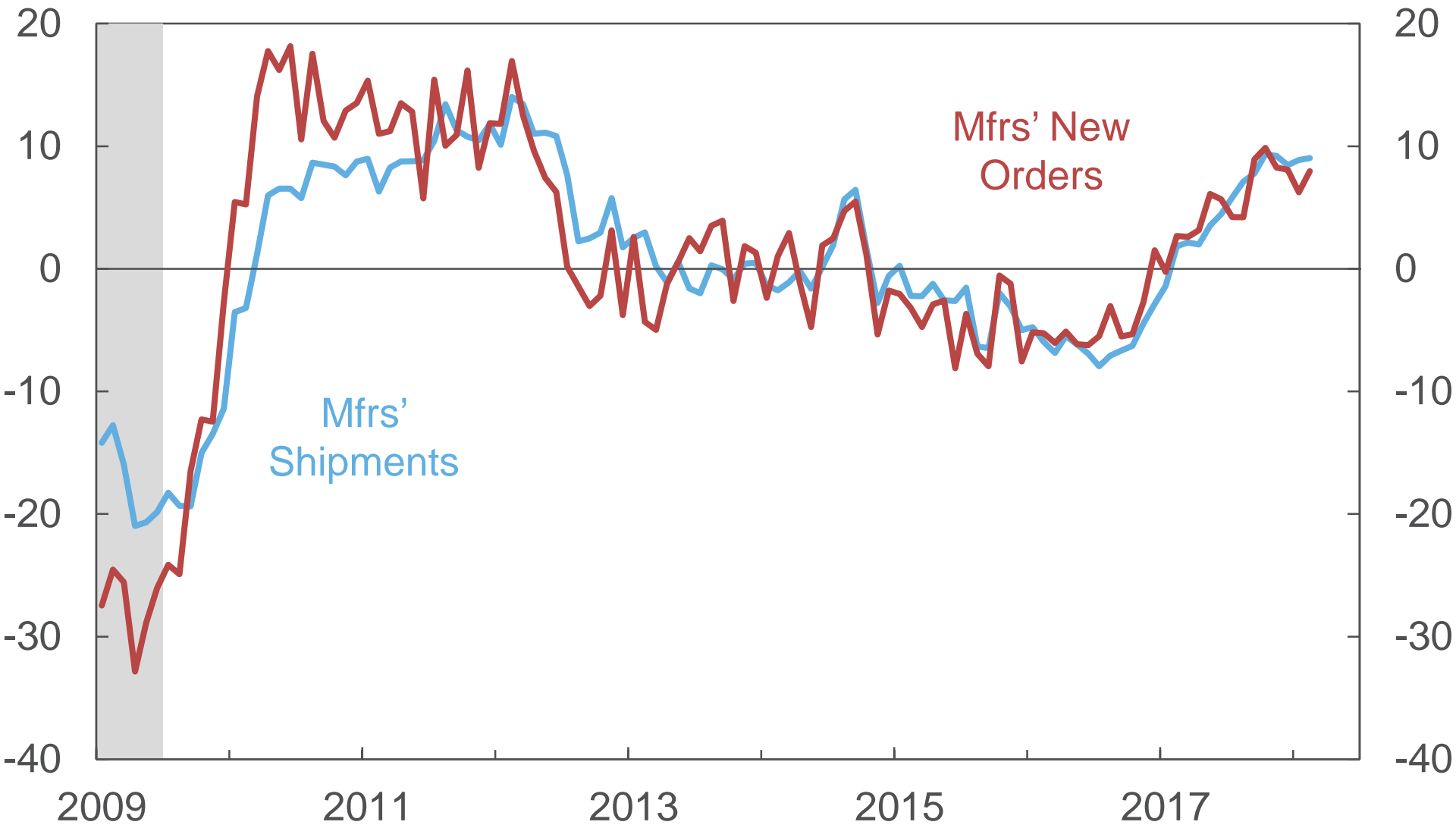


Source: Bloomberg.

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
Tax Reform for Individuals					
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
Business Tax Reform					
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
Taxation of Foreign Income and Foreign Persons					
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
Total (static)					
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

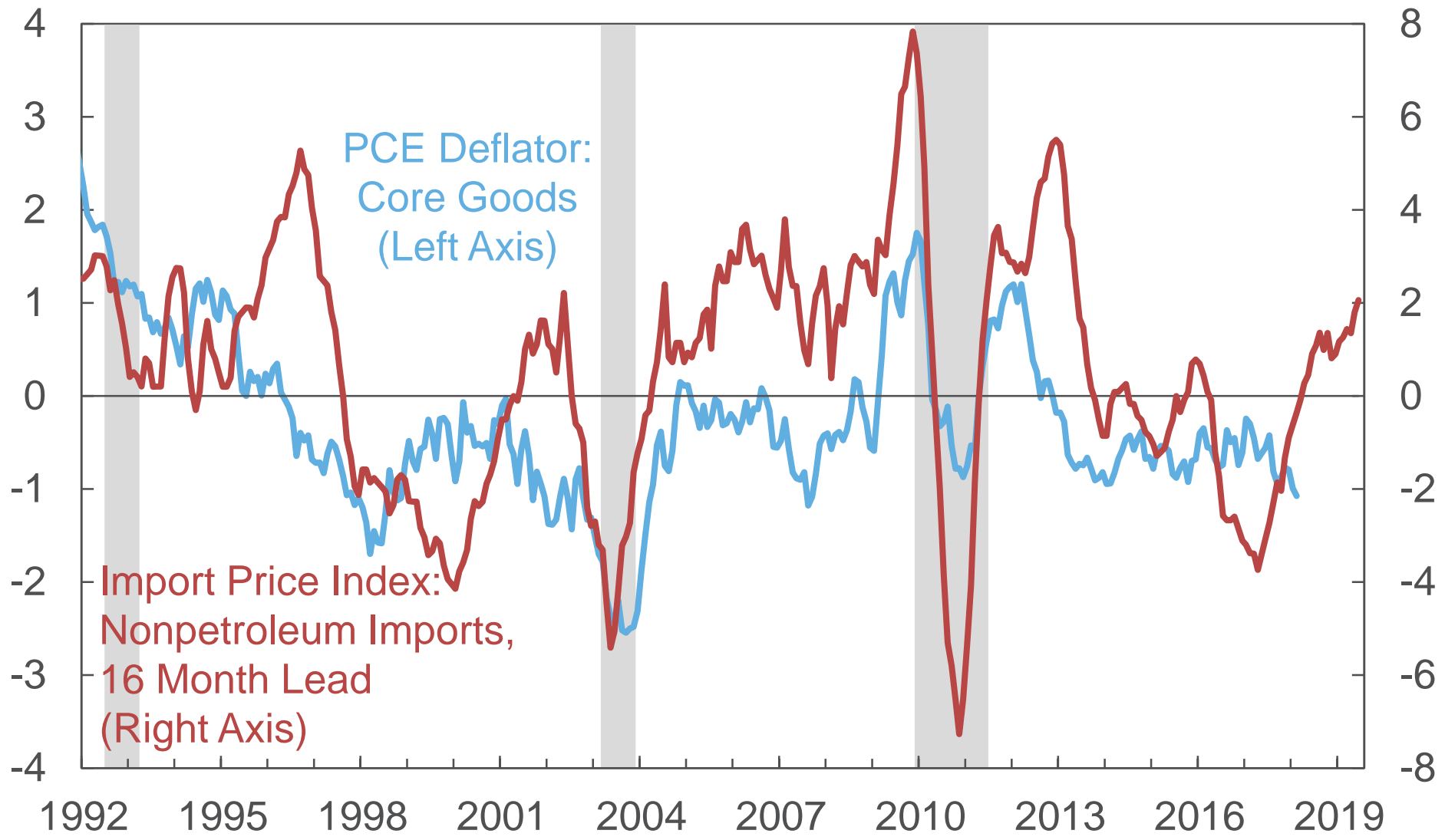
(Billions of Dollars, Fiscal Years)

		2016	2017	2018	2019
<u>Budget Control Act Caps</u>					
	Defense	548	551	552	562
	BA			80	85
	Nondefense	518	519	520	529
	BA			63	68
<u>Adjustments to Caps</u>					
	Defense	59	83	85	86
	Nondefense	26	36	36	35
<u>Total</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

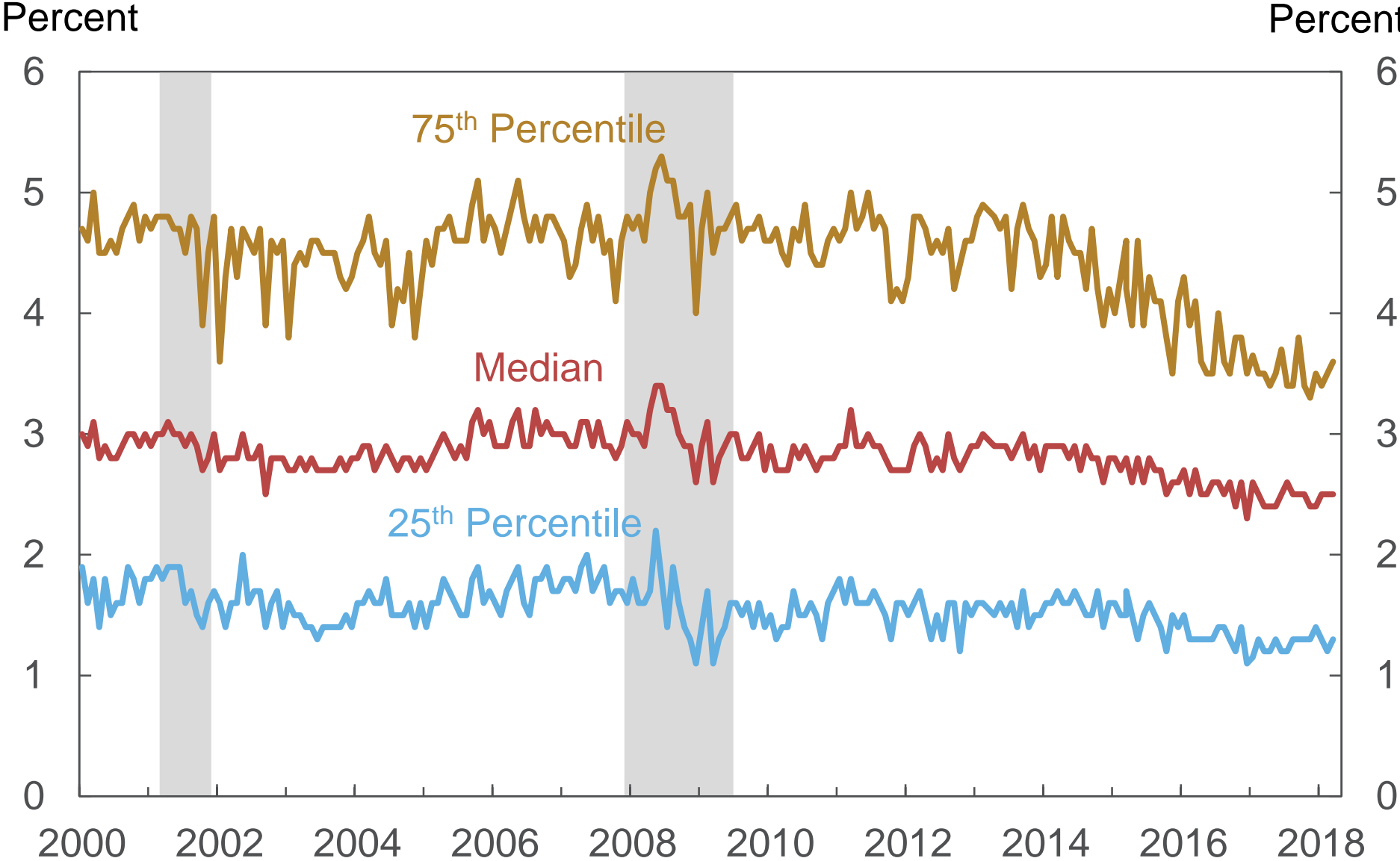
% Change – Year to Year



Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions. 26

Michigan Inflation Expectations 5 to 10 Years



Source: University of Michigan

Note: Shading shows NBER recessions.



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Global Economic Outlook

Small Business and Agricultural Advisory Council

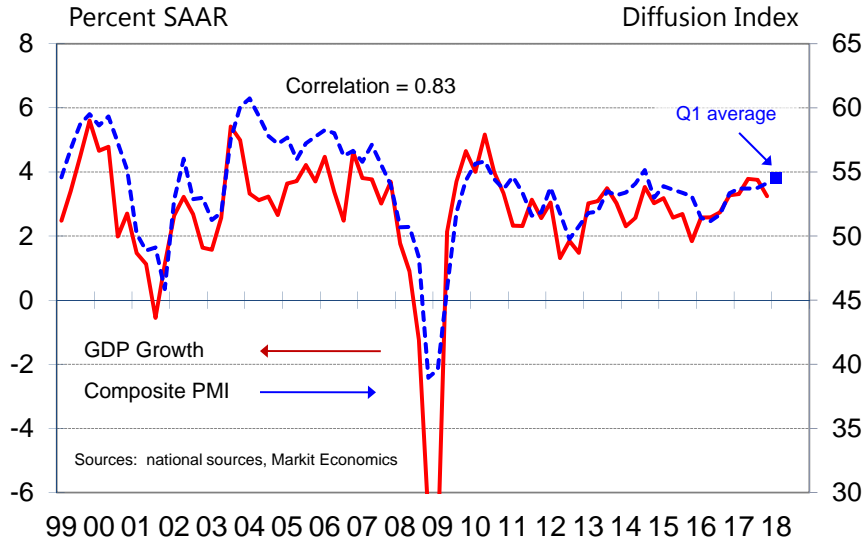
Matthew Higgins, 5 April 2018

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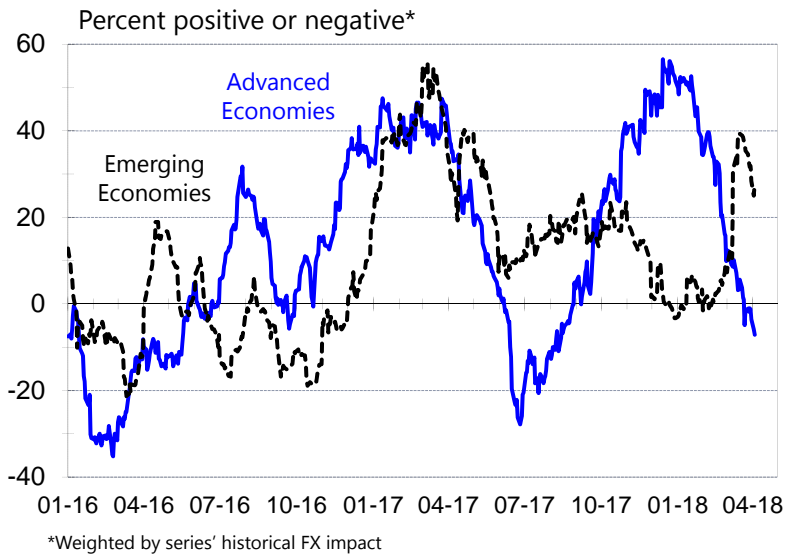
Roadmap

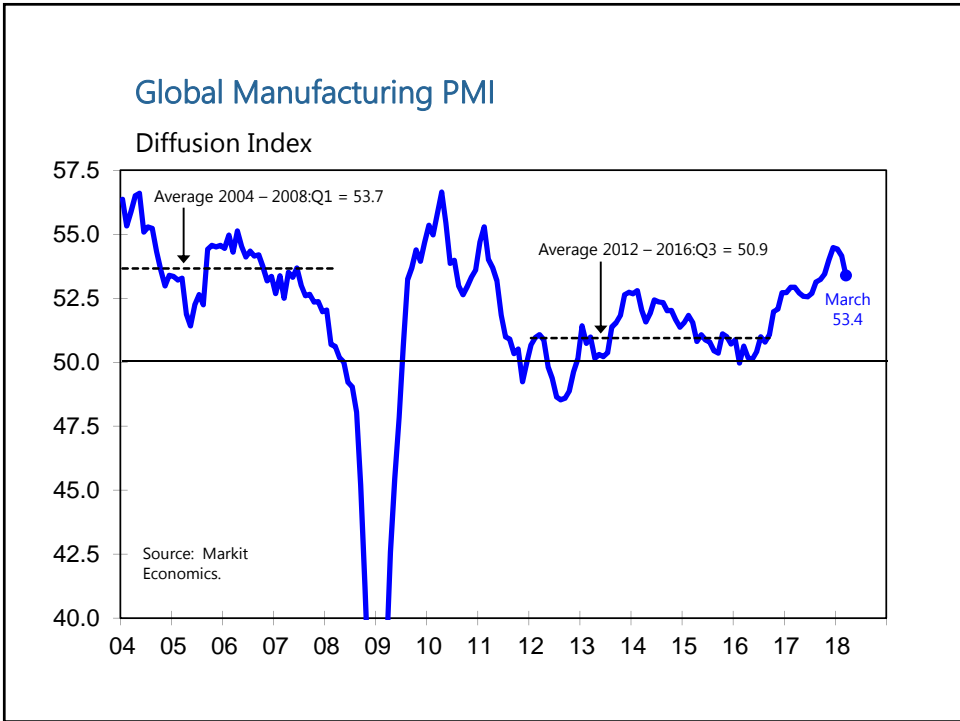
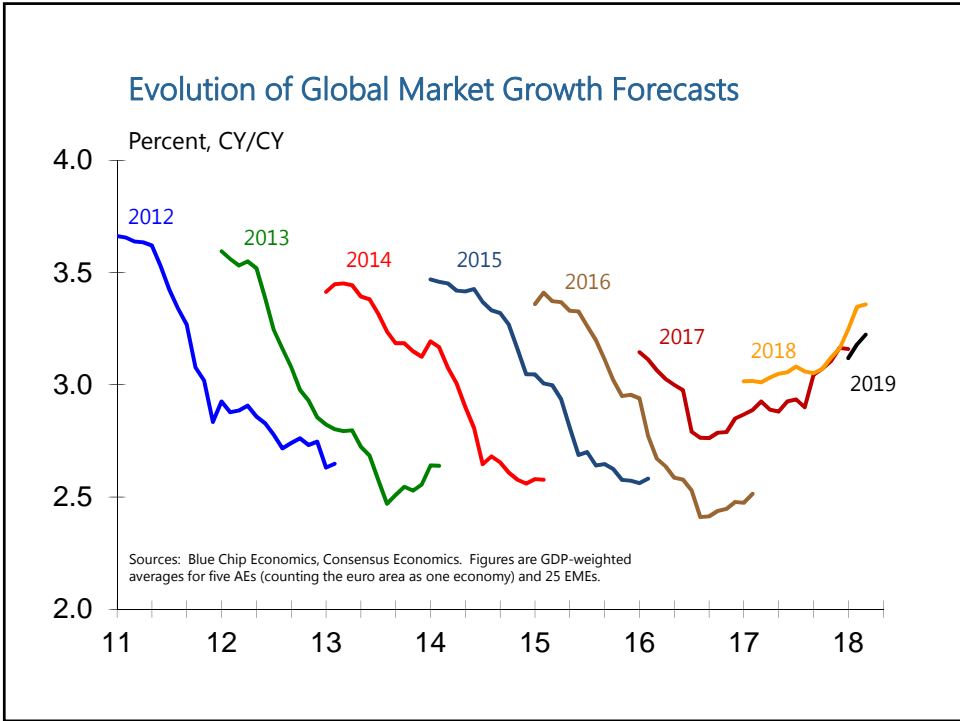
- Update on the global economic and industrial cycle
- Continuing “lowflation” in the advanced economies
- The TCJA and U.S. international competitiveness
- Impact of recent U.S. tariffs on steel products, aluminum and various Chinese goods

Global GDP Growth and Composite PMI

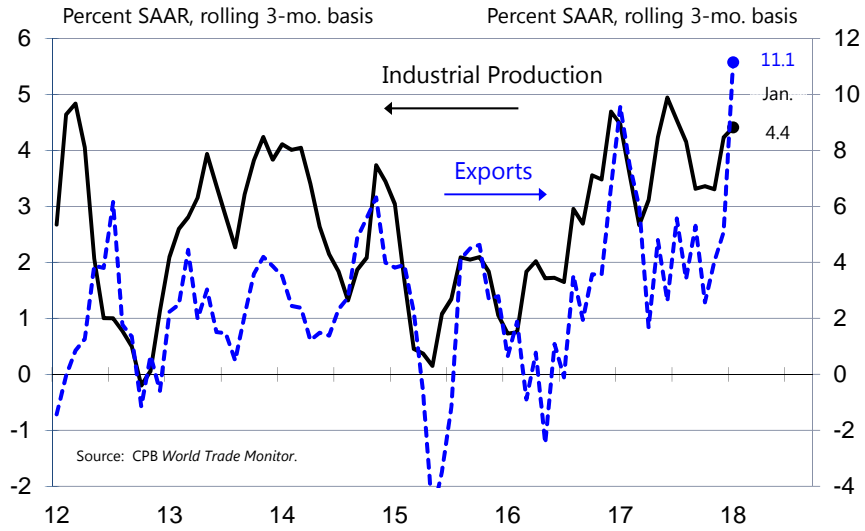


Citigroup Economic Surprise Indexes

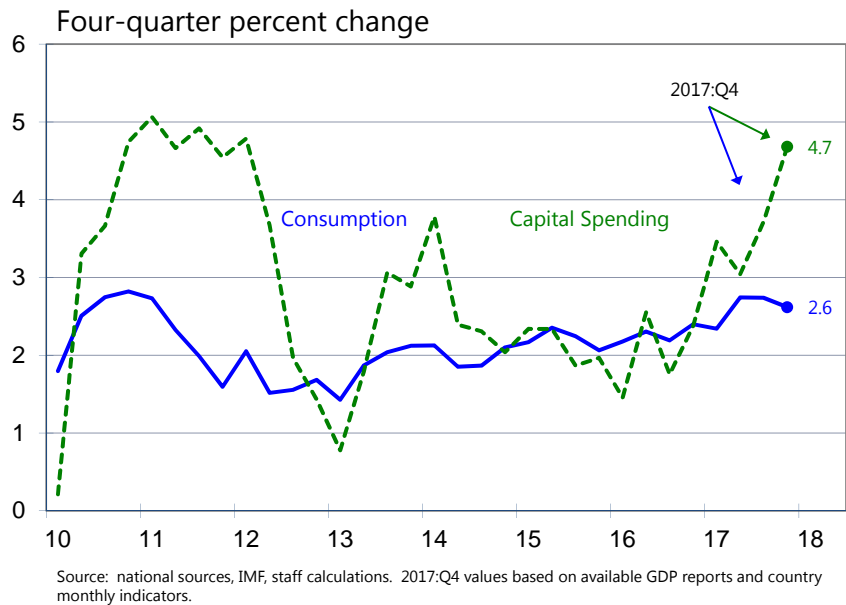




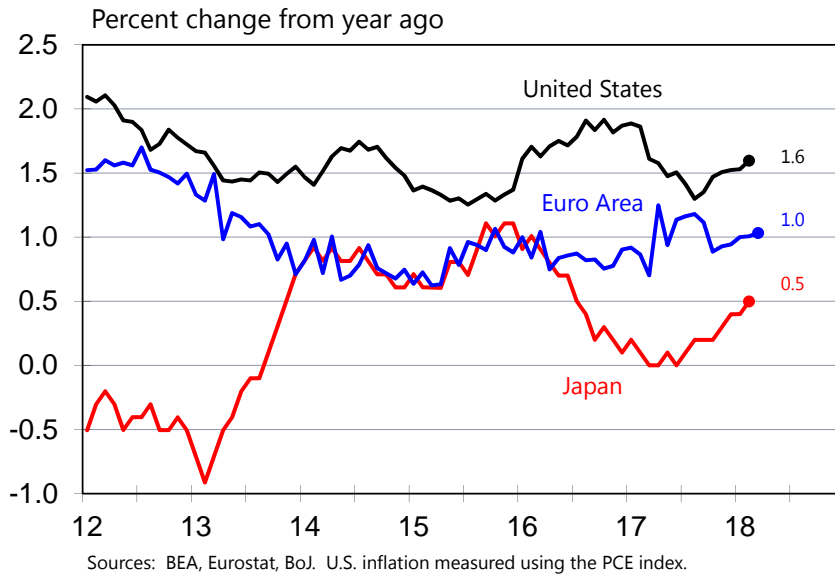
Global IP and Export Growth



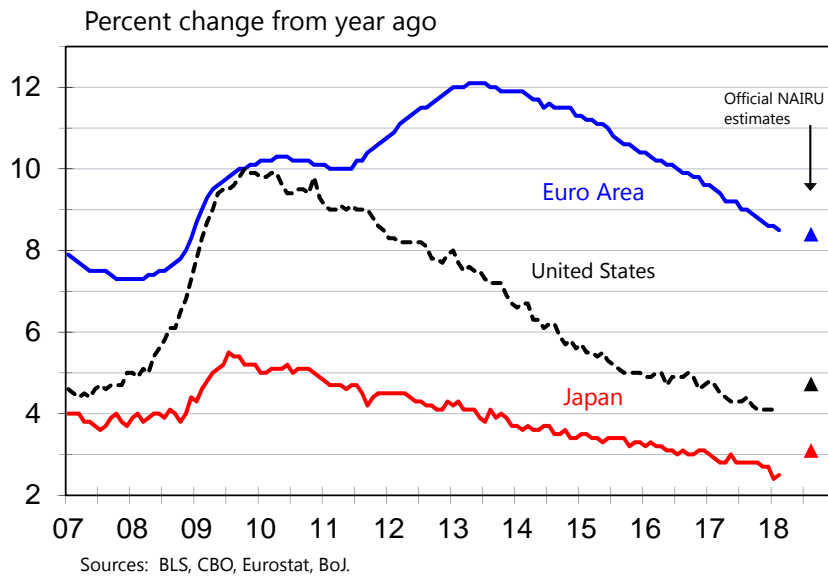
Global Consumption and Capex Growth (ex. China)



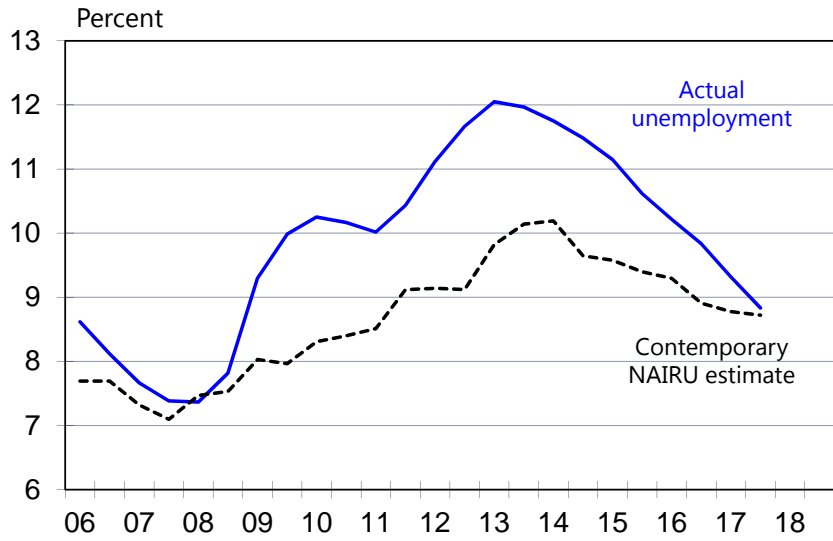
G-3: Core Consumer Price Inflation



G-3 Unemployment Rates

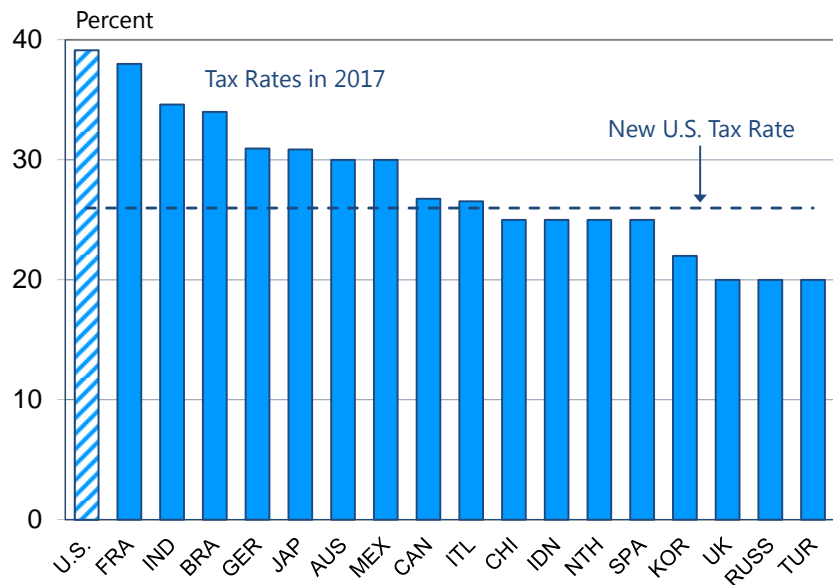


Euro Area Unemployment and NAIRU



Source: OECD *Economic Outlook* database, various editions. NAIRU estimates are for the current year, and from the fall and spring editions of the *Economic Outlook*.

Top Statutory Corporate Tax Rates

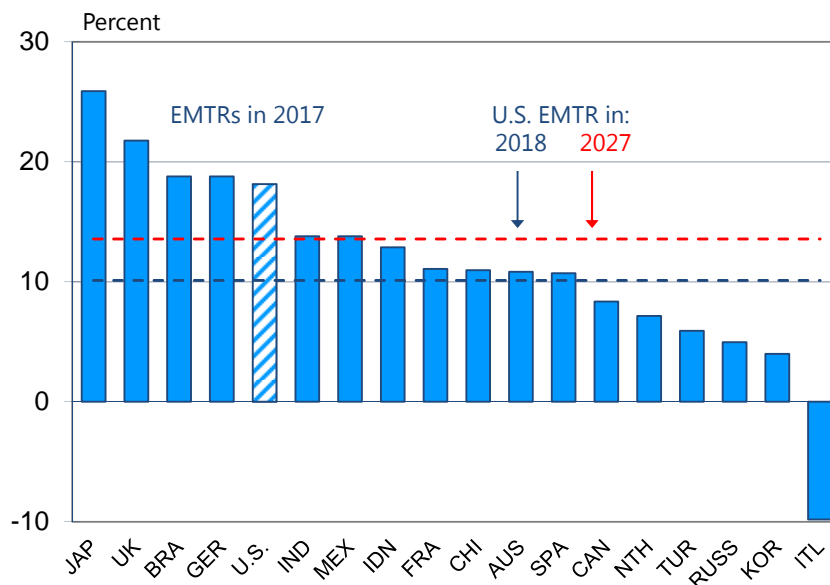


Sources: OECD, KPMG. Tax rates include taxes at both national and subnational levels, including any national tax allowances for subnational taxation.

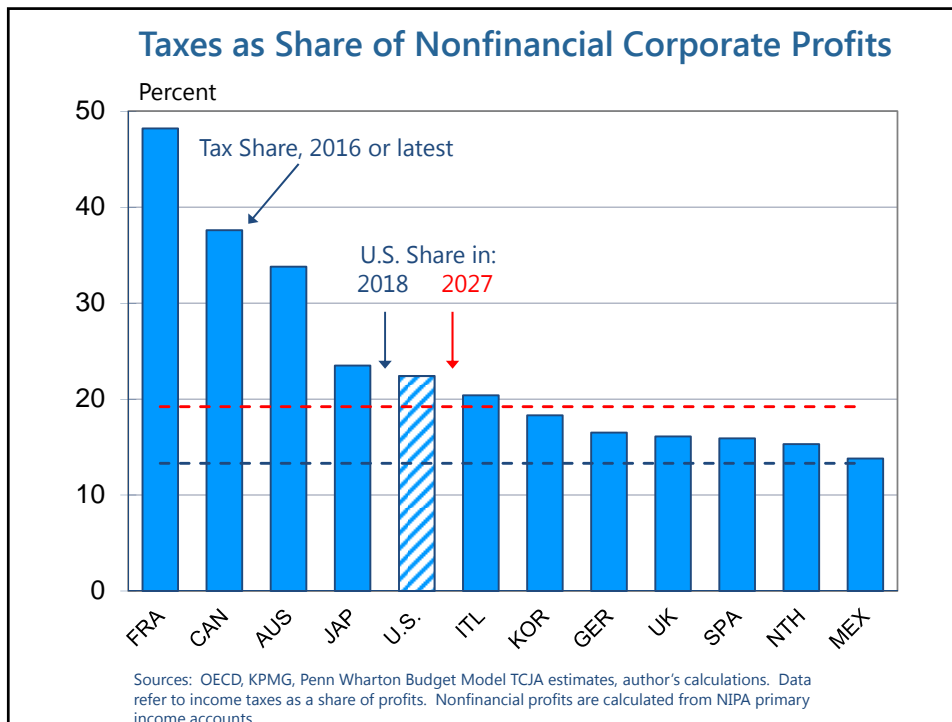
Measuring Marginal Tax Rates on Capital Income

- *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

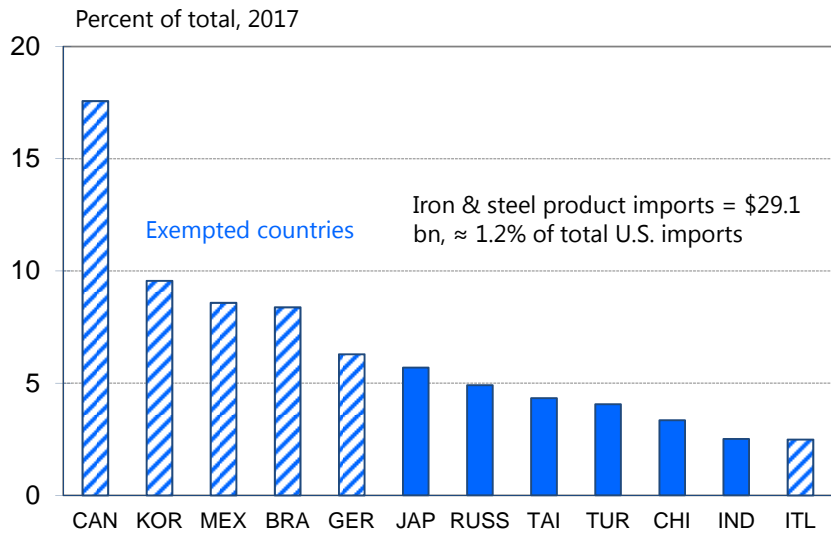


Recent U.S. Tariff Measures

- 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

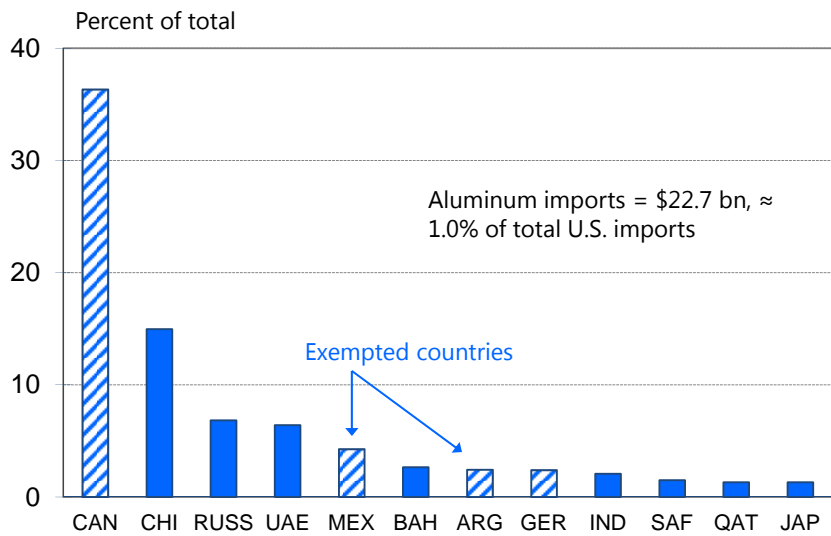
- The Administration has also announced 25% tariffs on \$50 bn in Chinese goods, citing violations of U.S. IP rights
 - China has responded with tariffs on \$50 bn in U.S. sales to China
 - Given the trade imbalance, tariffs announced to date would affect 38% of U.S. sales to China, but only 10% of Chinese sales to the U.S.

Main Sources of U.S. Steel Imports



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

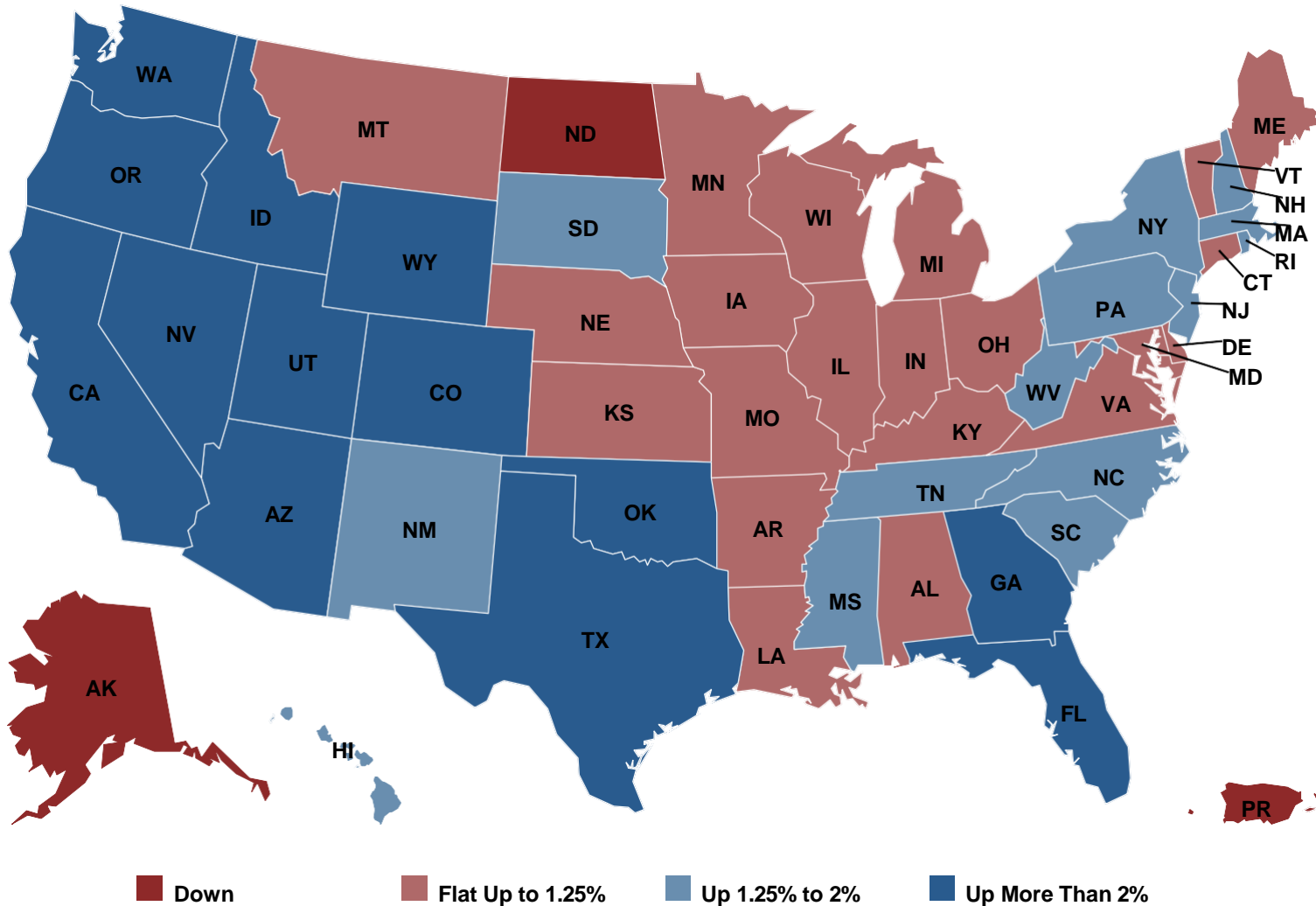
Jason Bram, Research Officer

Small Business & Agriculture Advisory Group Meeting – April 5, 2018

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Recent Private-Sector Job Trends

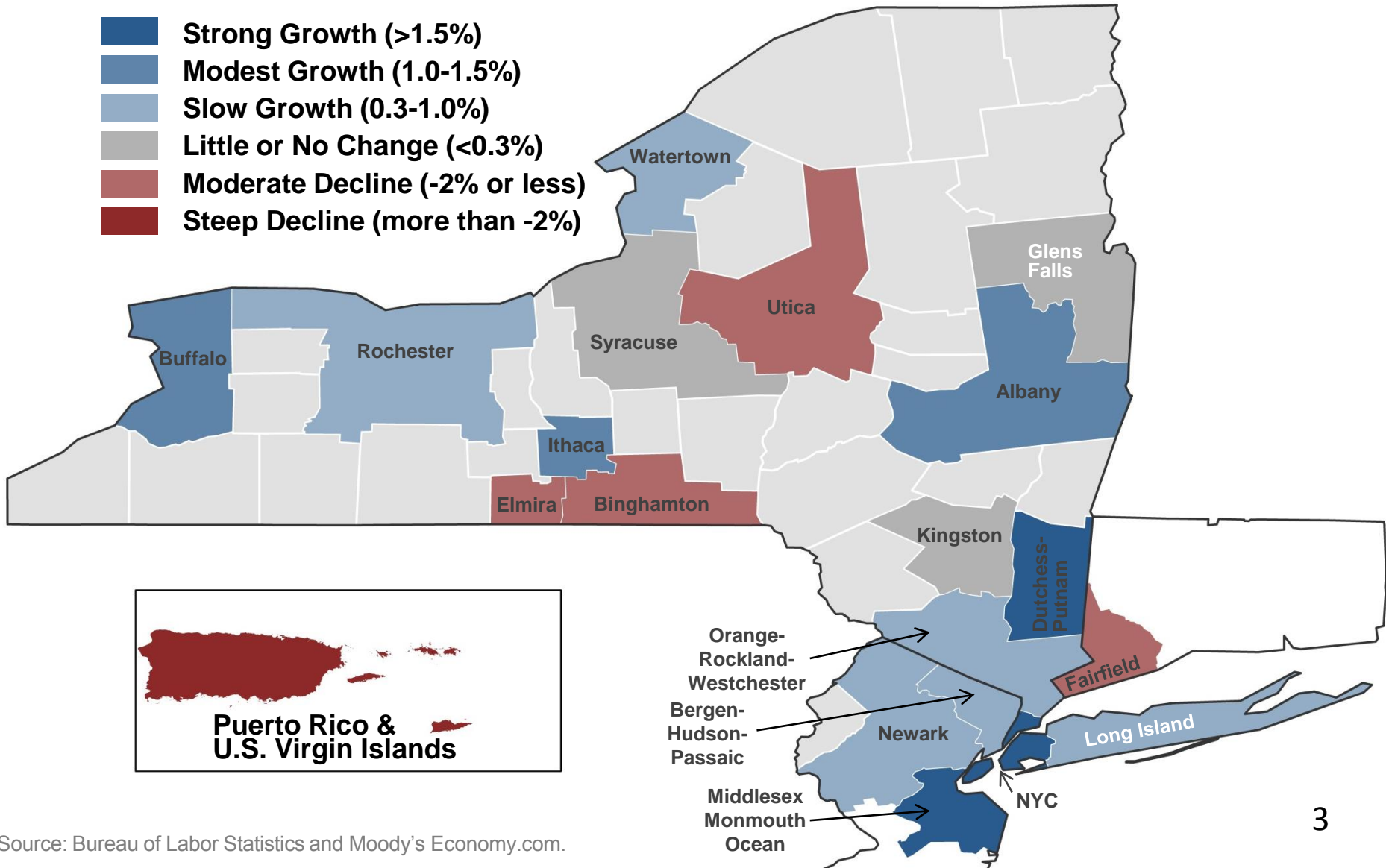
Year-Over-Year Percent Change as of February 2018



Recent Job Growth in the Region

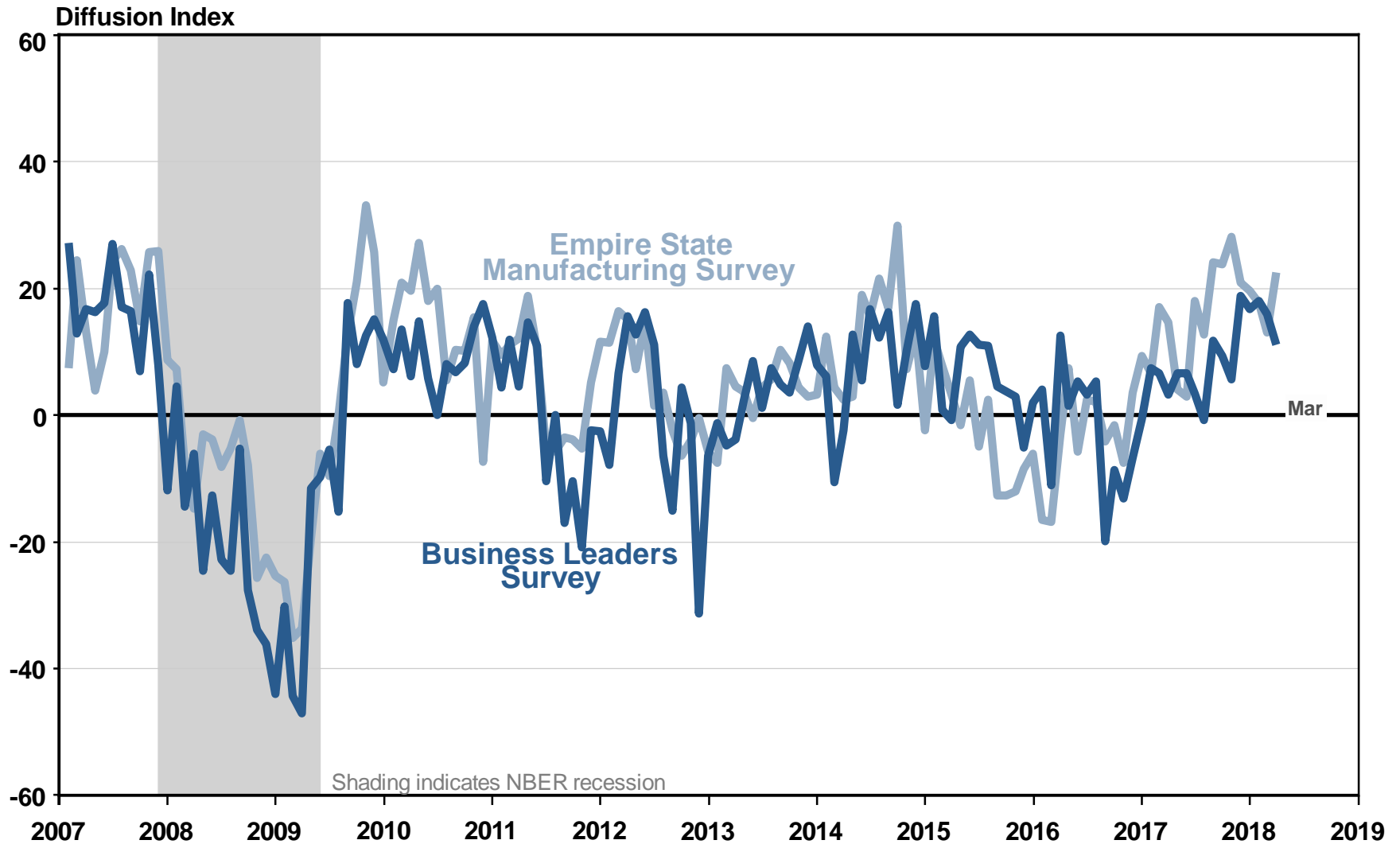
Percent Change from 2017 to 2018, Year-to-Date (Jan-Feb)

- Strong Growth (>1.5%)**
- Modest Growth (1.0-1.5%)**
- Slow Growth (0.3-1.0%)**
- Little or No Change (<0.3%)**
- Moderate Decline (-2% or less)**
- Steep Decline (more than -2%)**



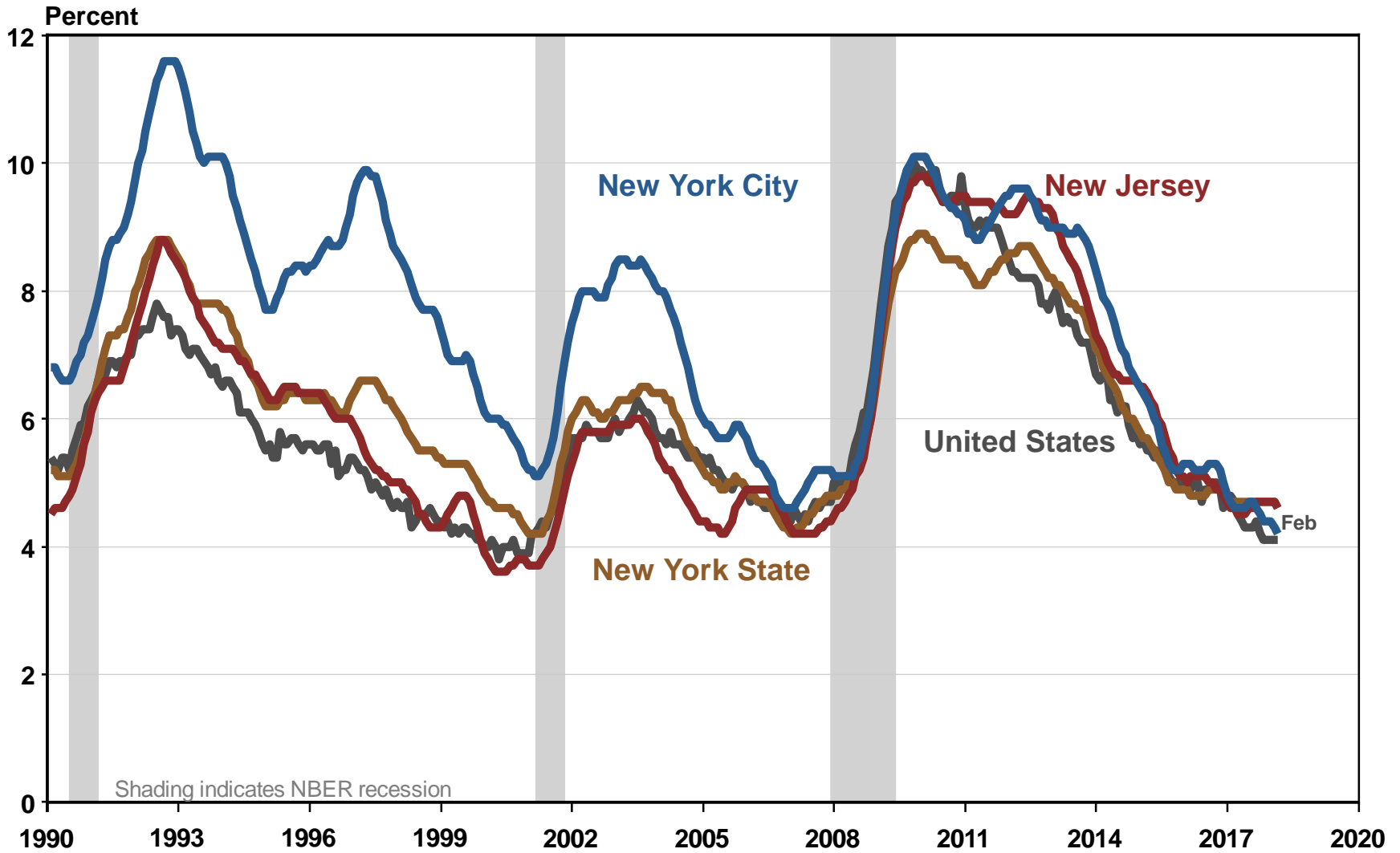
Current Economic Conditions

FRBNY Business Surveys, Current Conditions



Unemployment Rates

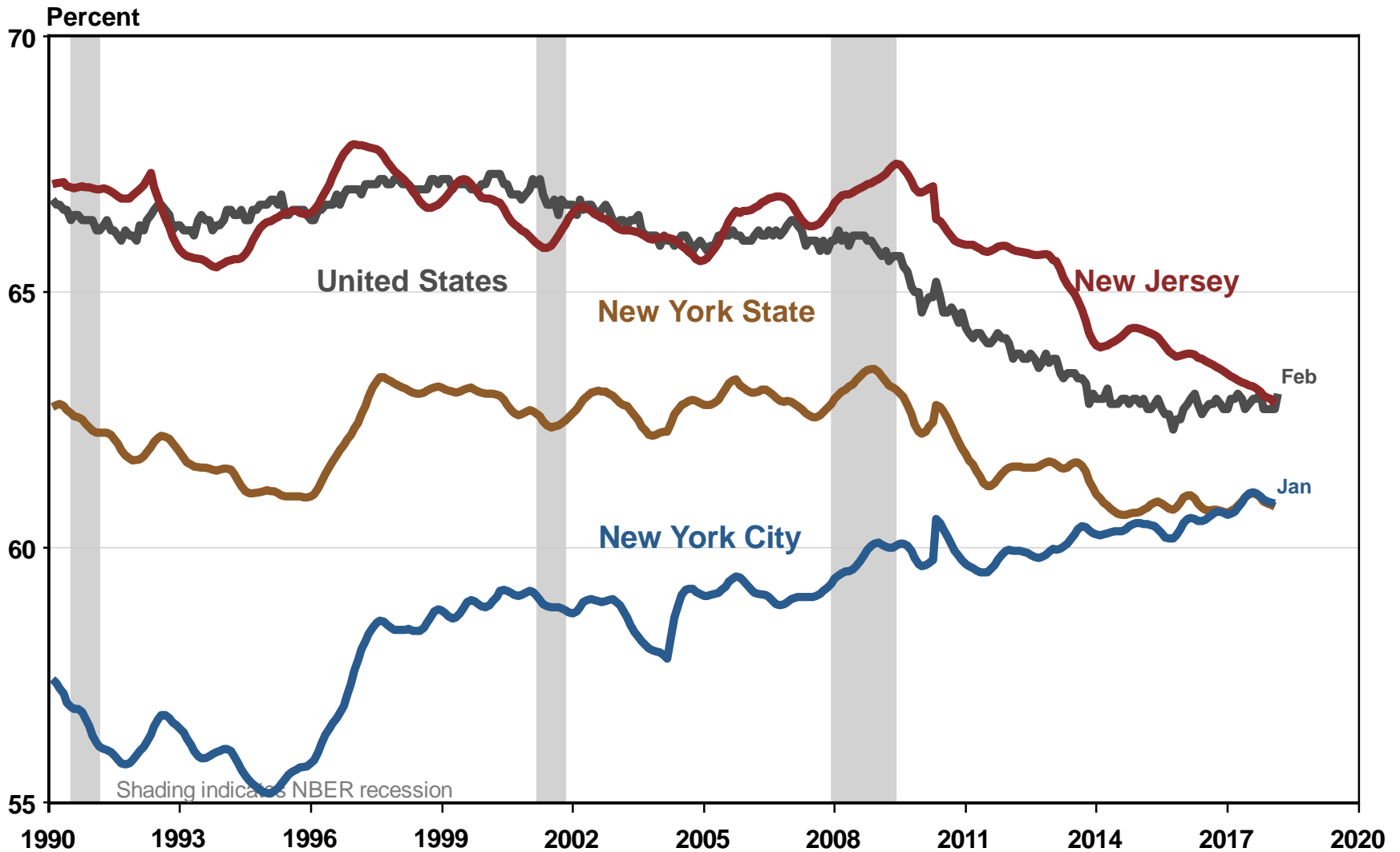
Seasonally Adjusted



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

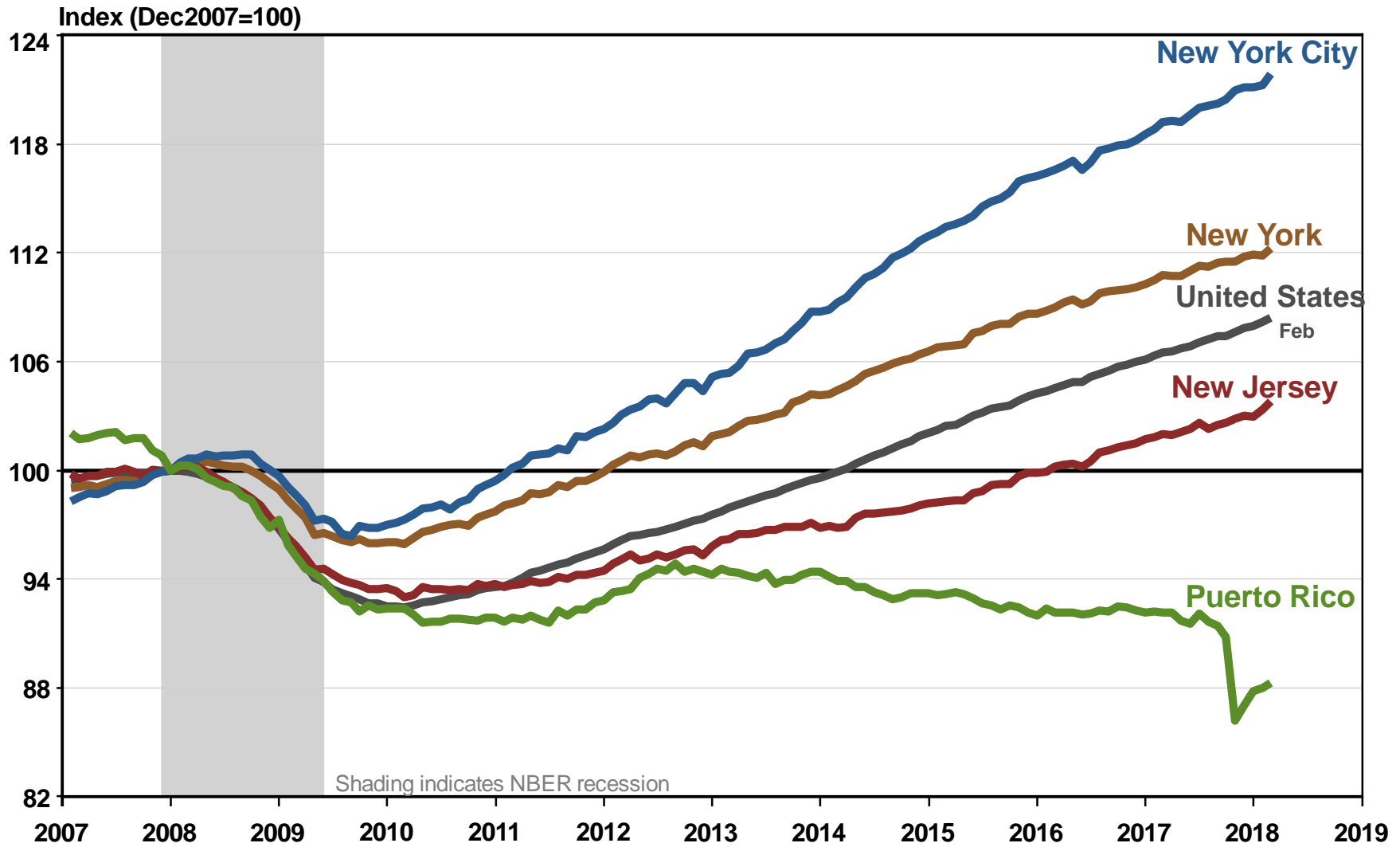
Labor Force Participation

Seasonally Adjusted



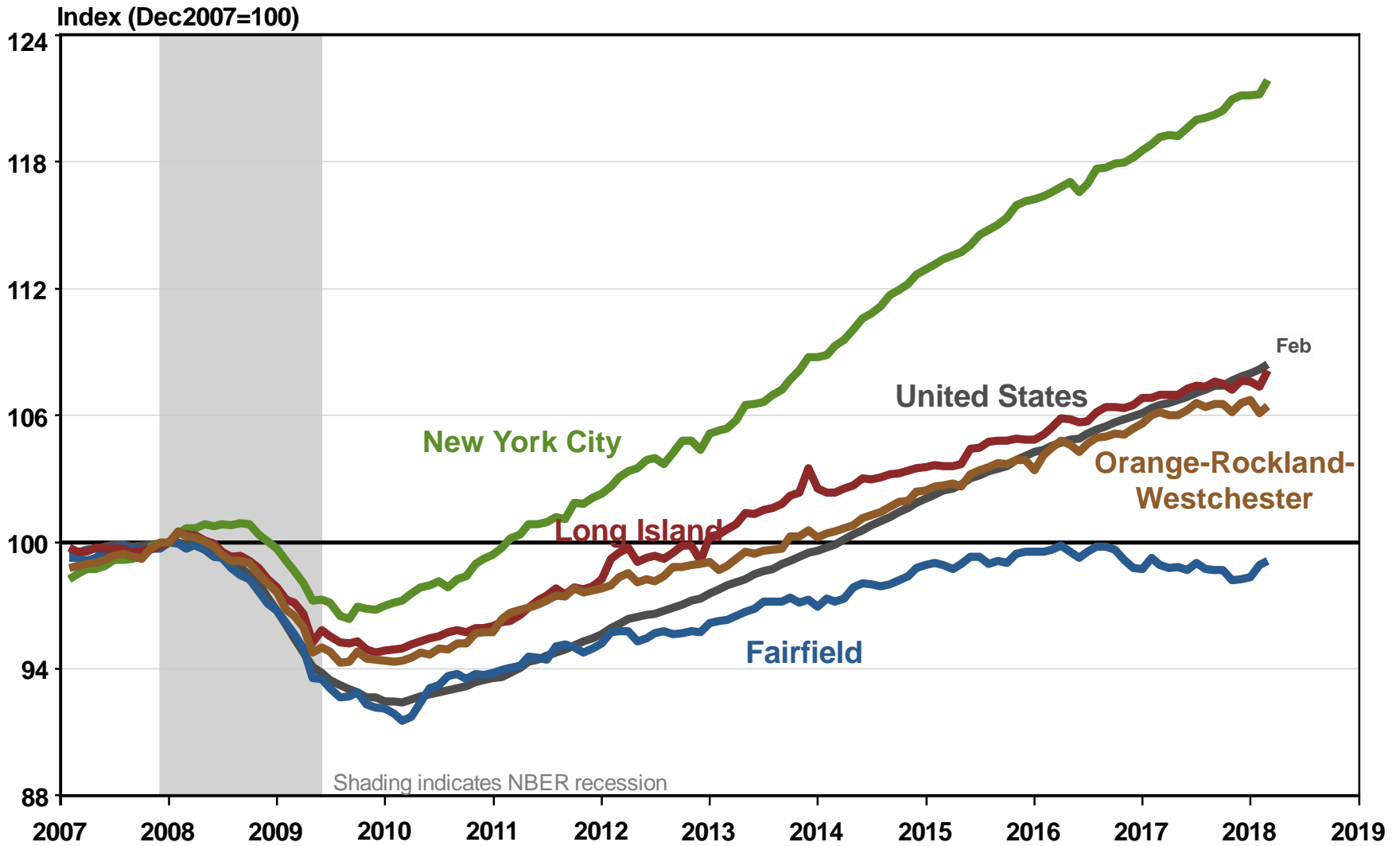
Private-Sector Employment

Seasonally Adjusted Index



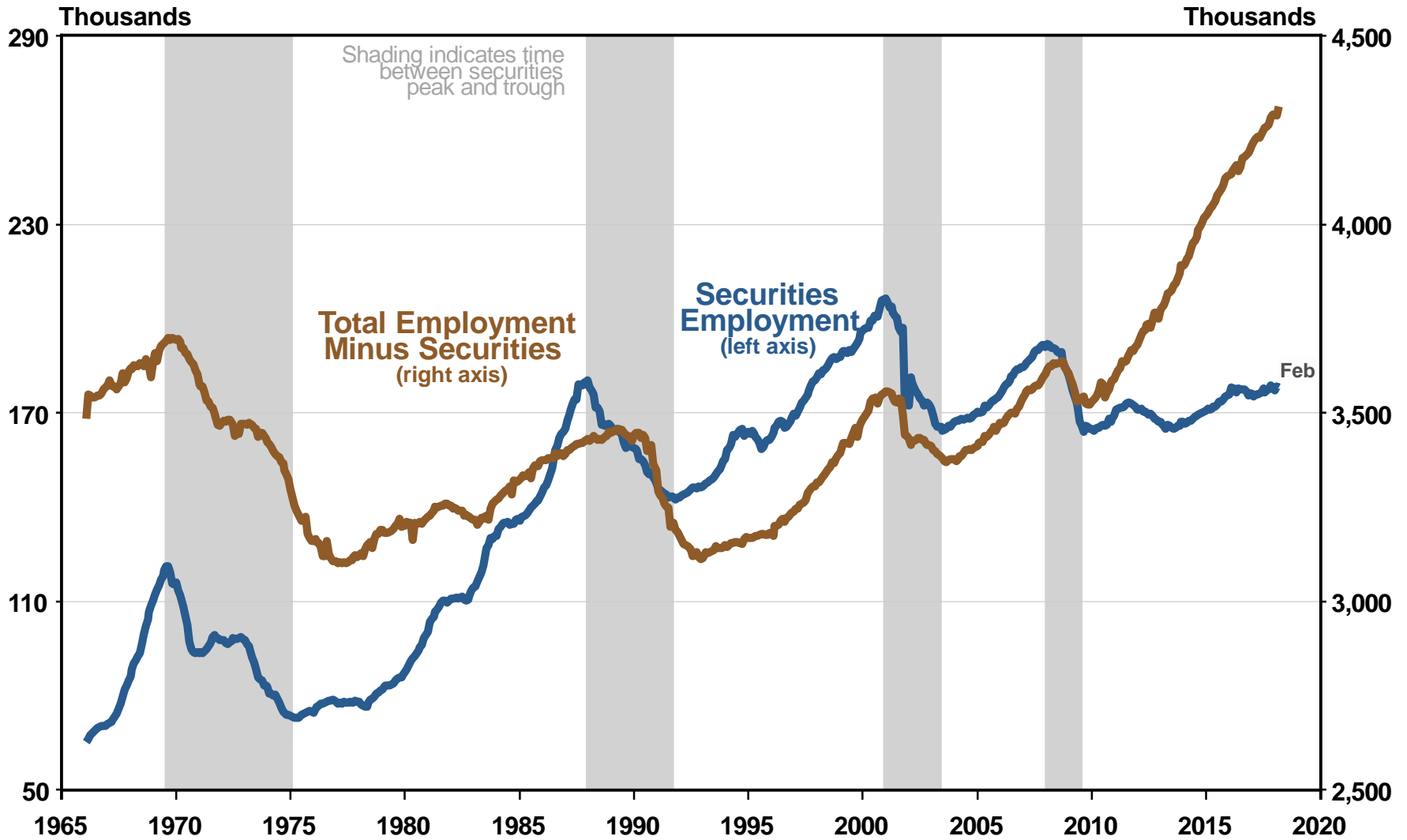
Private-Sector Employment

Seasonally Adjusted Index



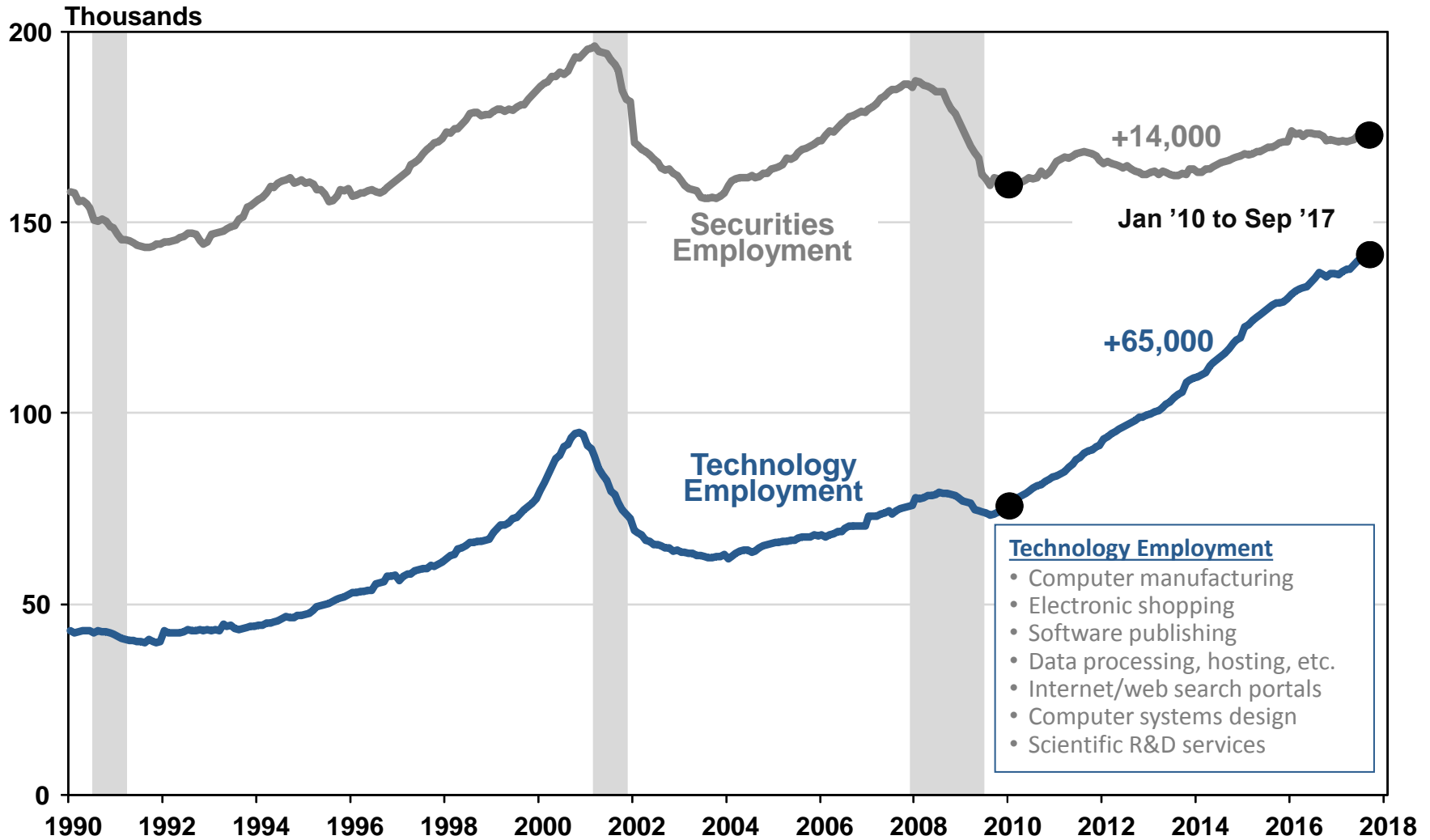
NYC Securities Employment

Seasonally Adjusted Levels



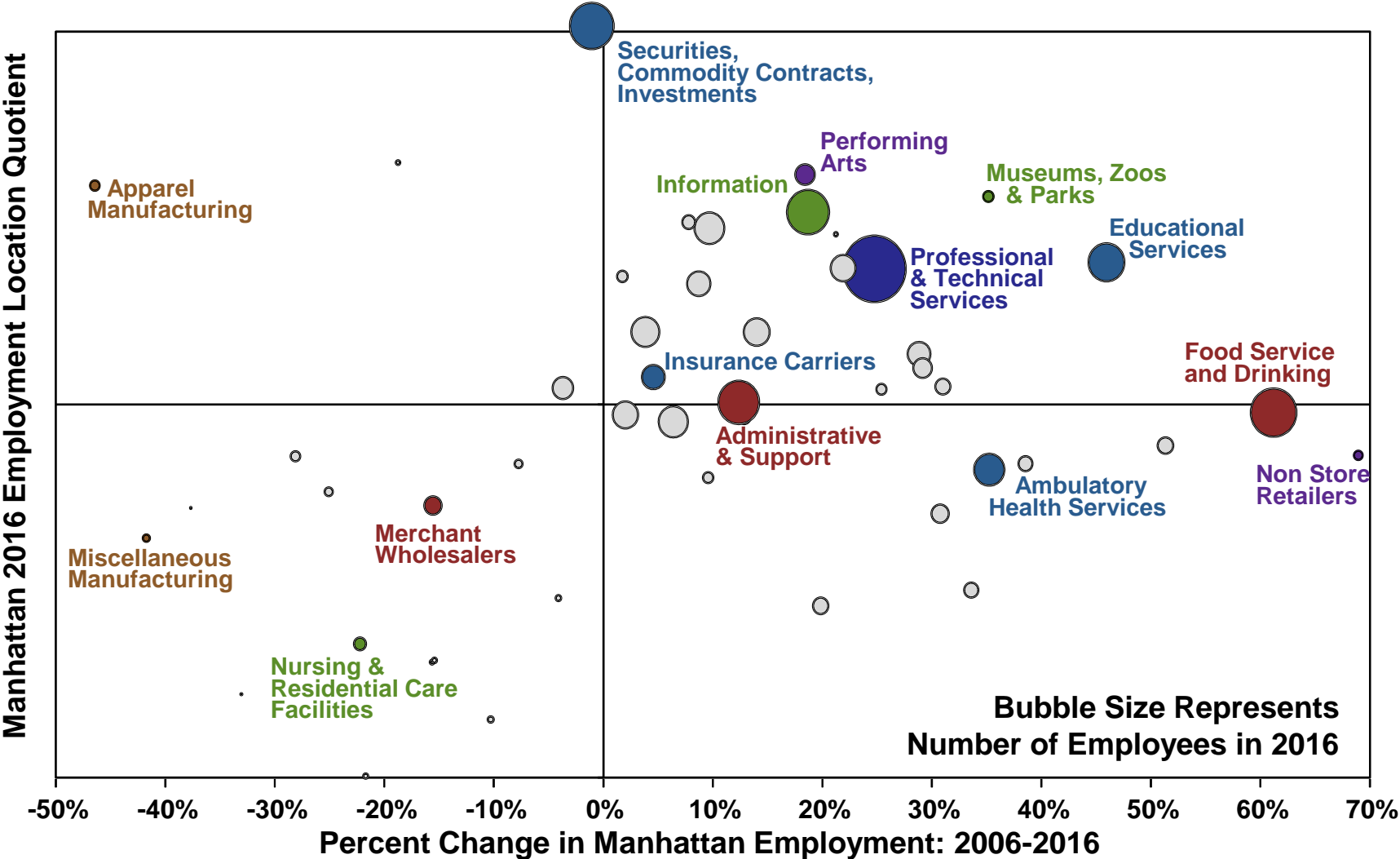
NYC Tech and Securities Employment

Thousands of Jobs



Manhattan Specialization

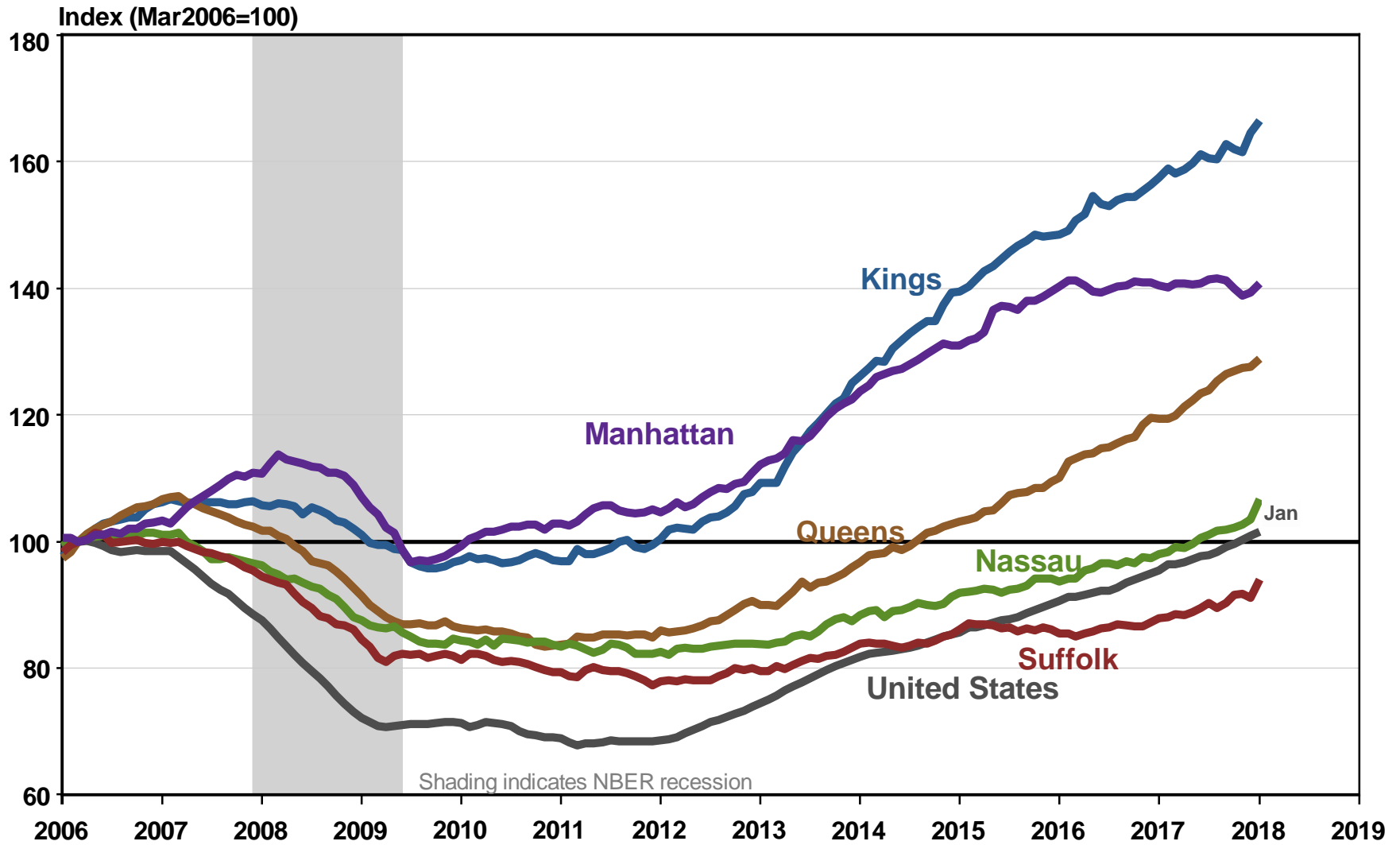
Employment Change, Location Quotient, and Sector Size



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW).

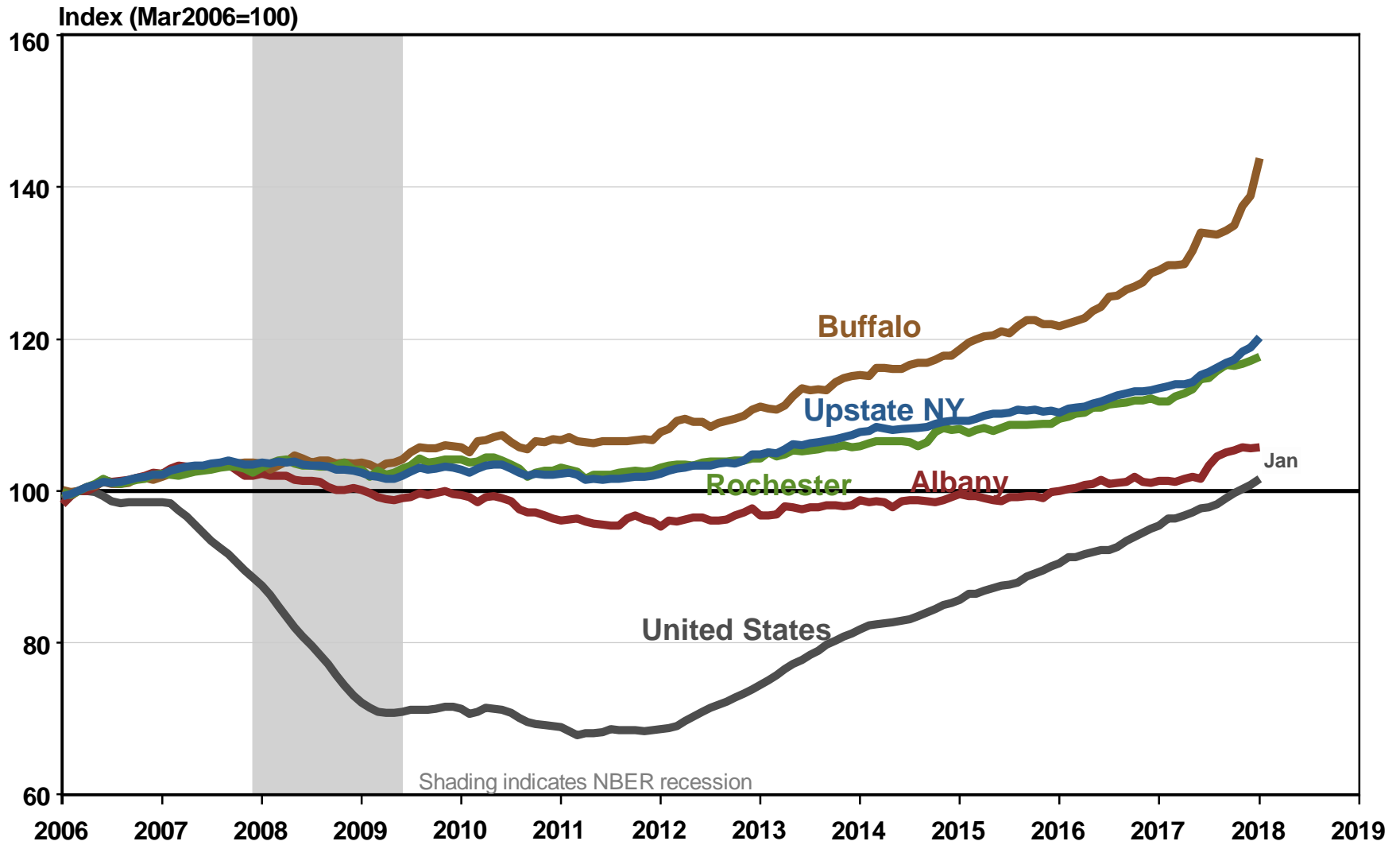
Home Prices

CoreLogic Home Price Index, Seasonally Adjusted



Home Prices

CoreLogic Home Price Index, Seasonally Adjusted

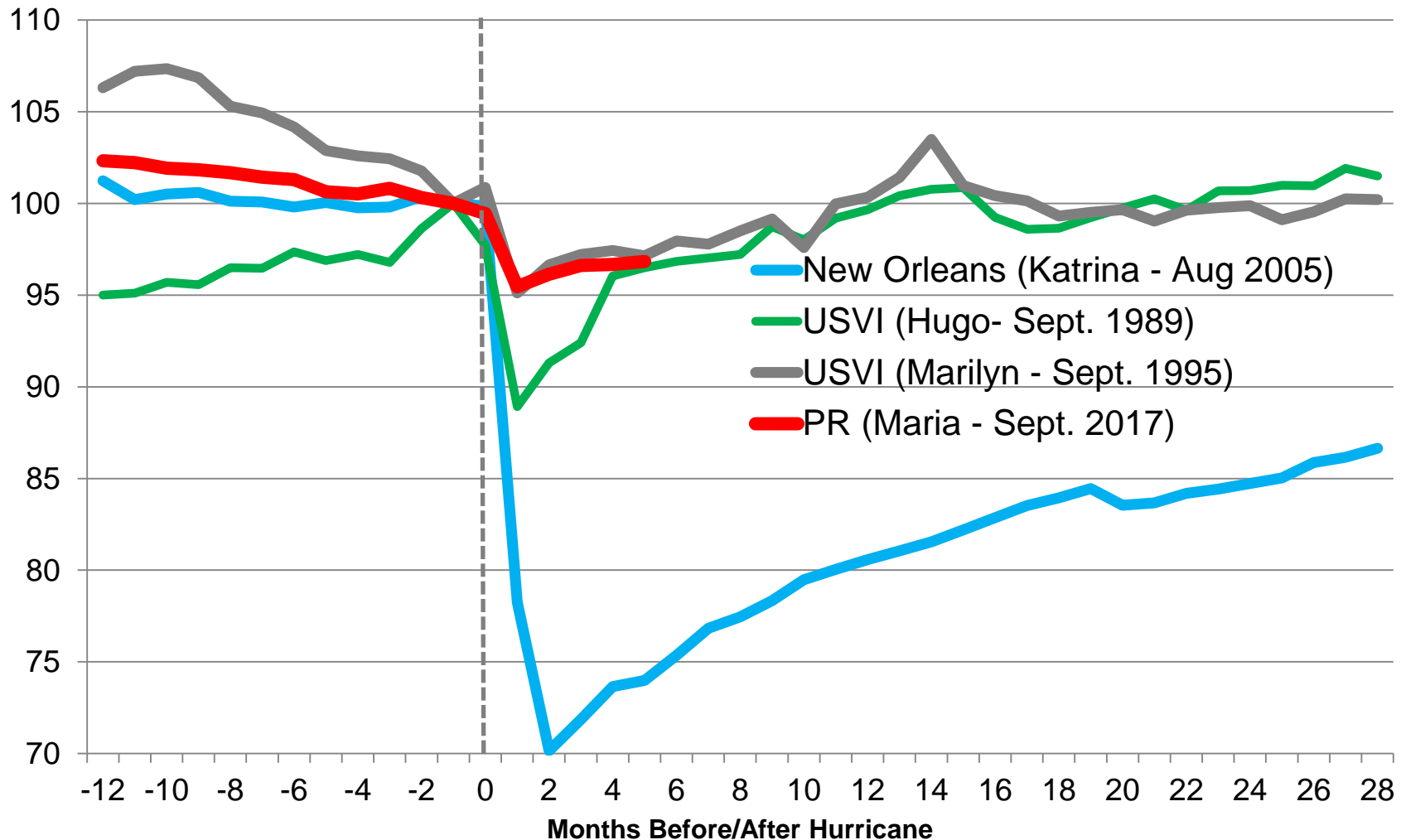


What Lies Ahead for Puerto Rico?

- Both territories were in precarious shape, economically & fiscally, prior to hurricanes Irma & Maria.
- Irma & Maria caused substantial damage and disruption:
 - More than 1,000 lost lives, attributable to the storms, in Puerto Rico.
 - Widespread damage to homes, businesses, infrastructure, agriculture.
 - Puerto Rico's power outage has been the biggest, by far, in US history.
- To begin to gauge the likely economic effect, we look at:
 - How severe have the measured job losses been thus far?
 - How many people left following the storms? and how many will return?
 - What can satellite imagery of nighttime lights tell us about the persistence and geographic breadth of the disruption?

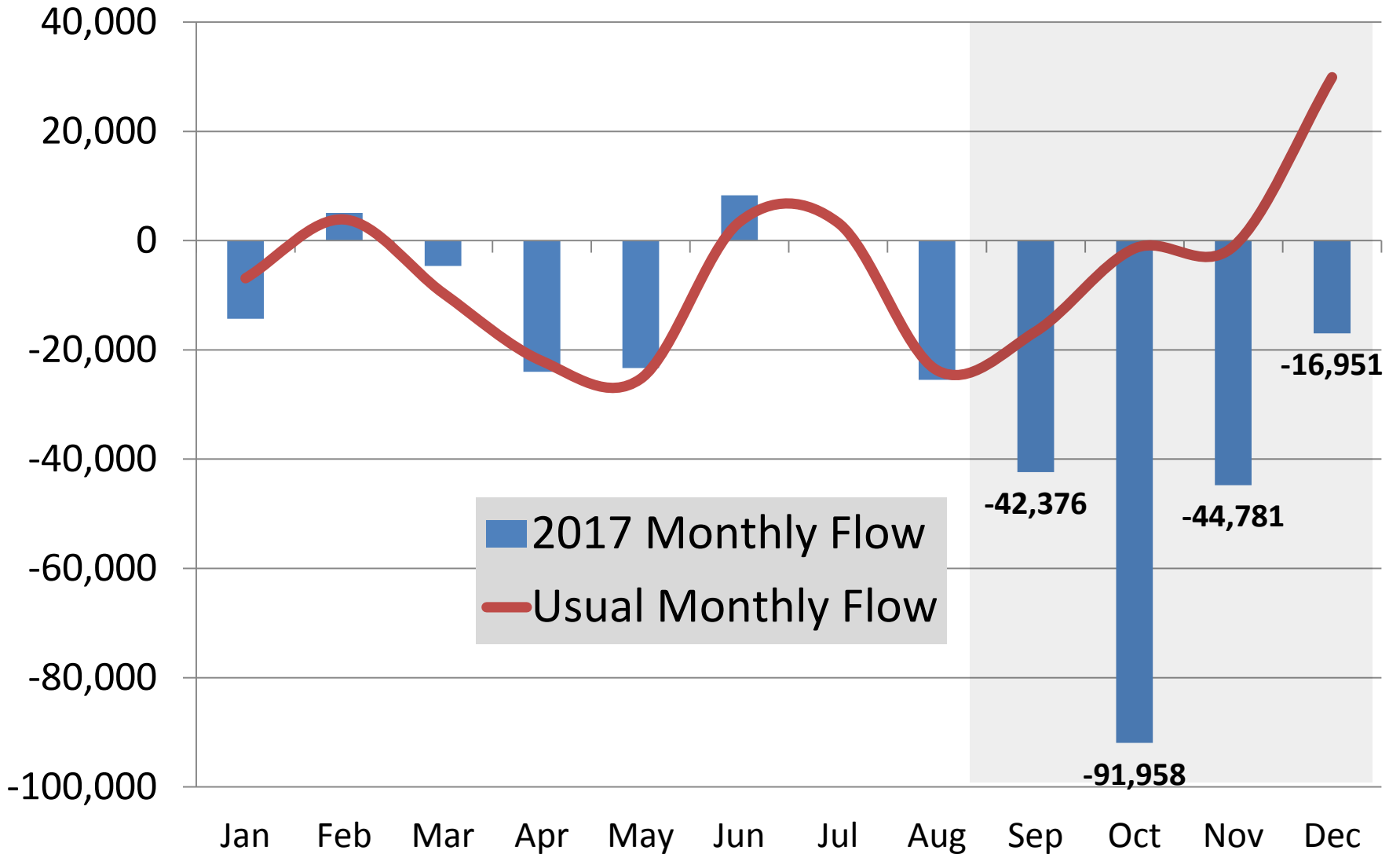
Employment Before & After Selected Hurricanes

Index (Month Before Hurricane = 100)



Net Domestic Air Passengers to Puerto Rico

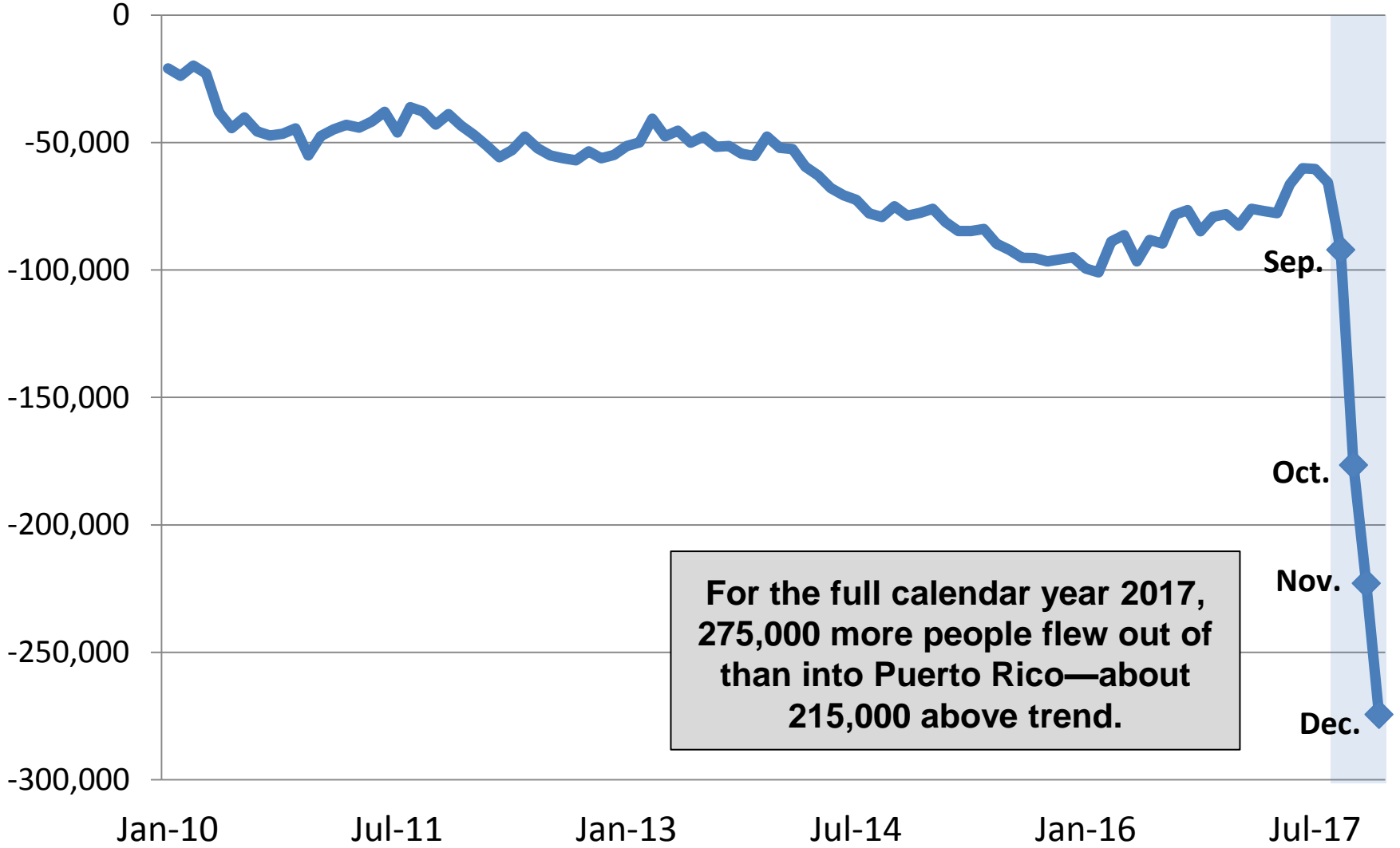
Net Passenger Flows by Month



Source: US Bureau of Transportation, FRBNY Staff Calculations

Net Domestic Air Passengers to Puerto Rico

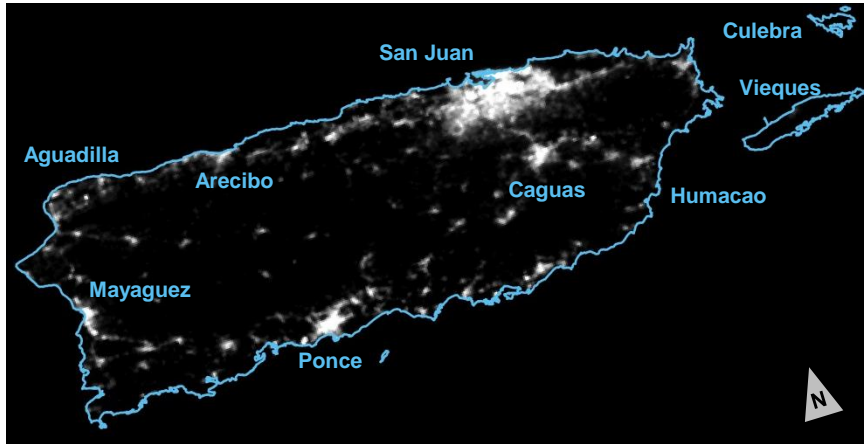
12-Month Rolling Sum



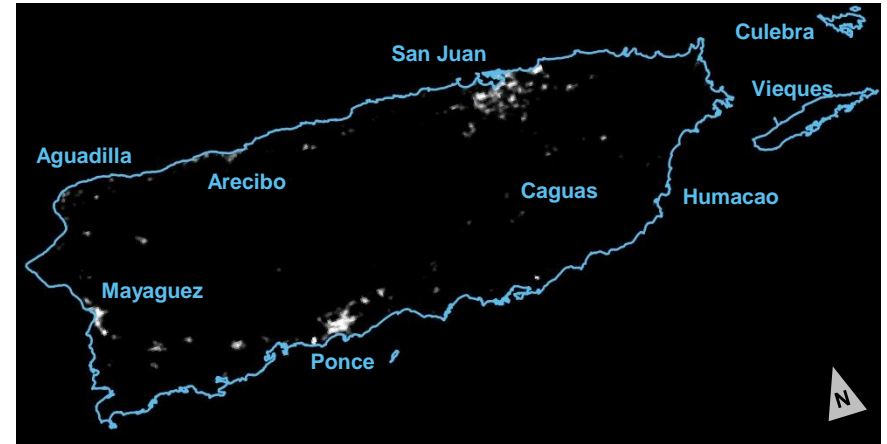
Source: US Bureau of Transportation, FRBNY Staff Calculations

Nighttime Lights in Puerto Rico

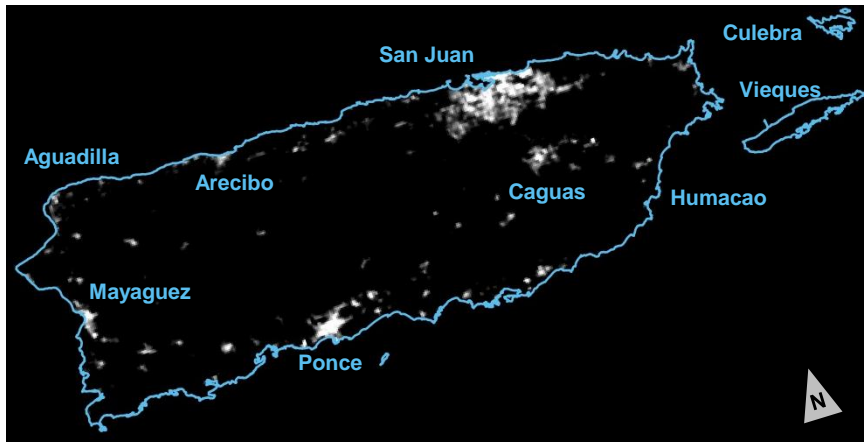
August



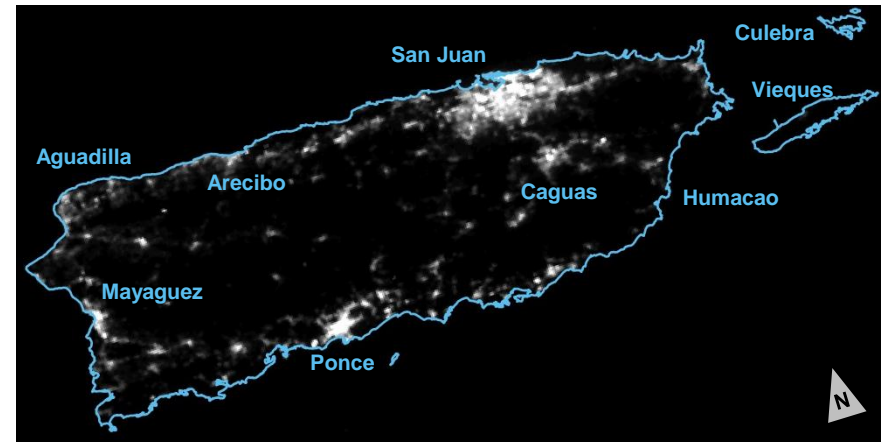
October



December



January



Regional Recap

- New York City has been the leader in job growth in the region.
- Areas adjacent to NYC have also seen fairly strong growth.
- Fairfield County has lagged, while northern NJ has picked up.
- For the first time in decades, Wall Street has not contributed to NYC's boom; tech has picked up some of the slack.
- Housing markets have been fairly robust in New York City and parts of upstate New York.
- Puerto Rico appears to be on a slow road to recovery from hurricanes Irma & Maria.