



Federal Home Loan Bank
NEW YORK

Looking Ahead to the Great Reopening

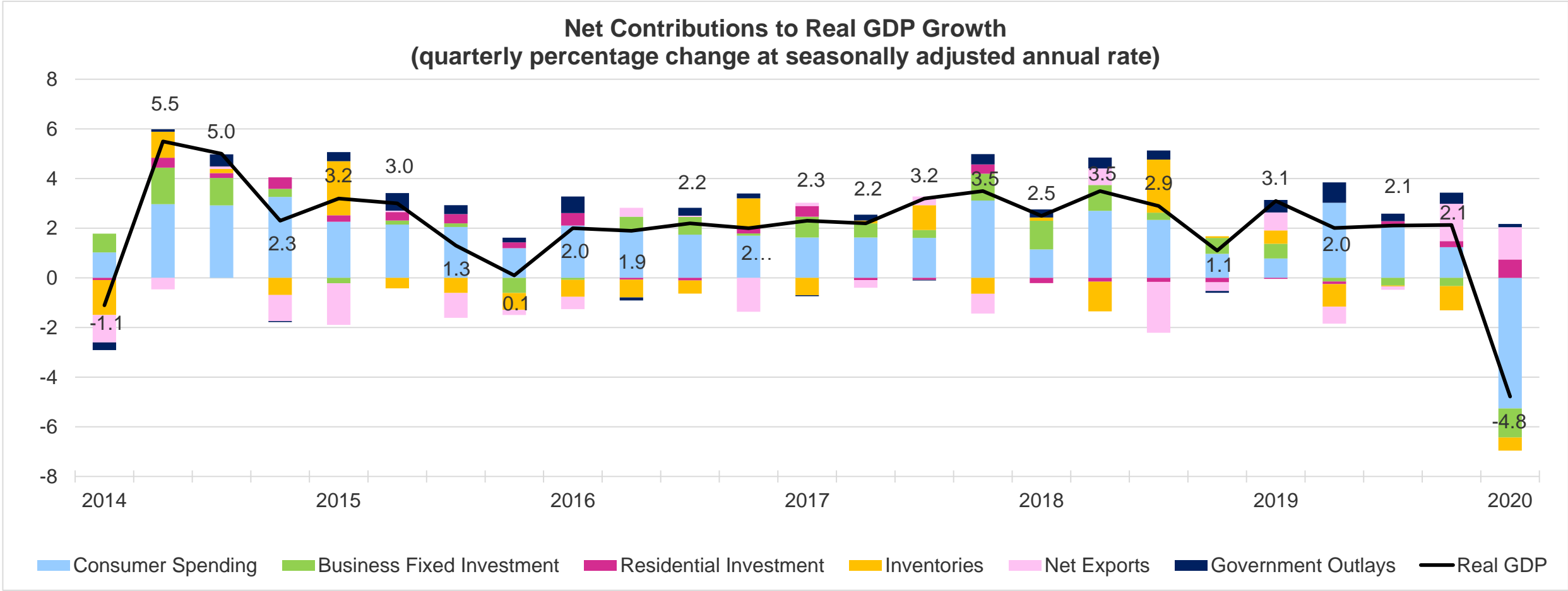
An economist's perspective of what is to come post-crisis.

Presented by: Brian Jones, Financial Economist, FHLBNY and
Tom Settino, Vice President, Director of Member Relations, FHLBNY

May 14, 2020

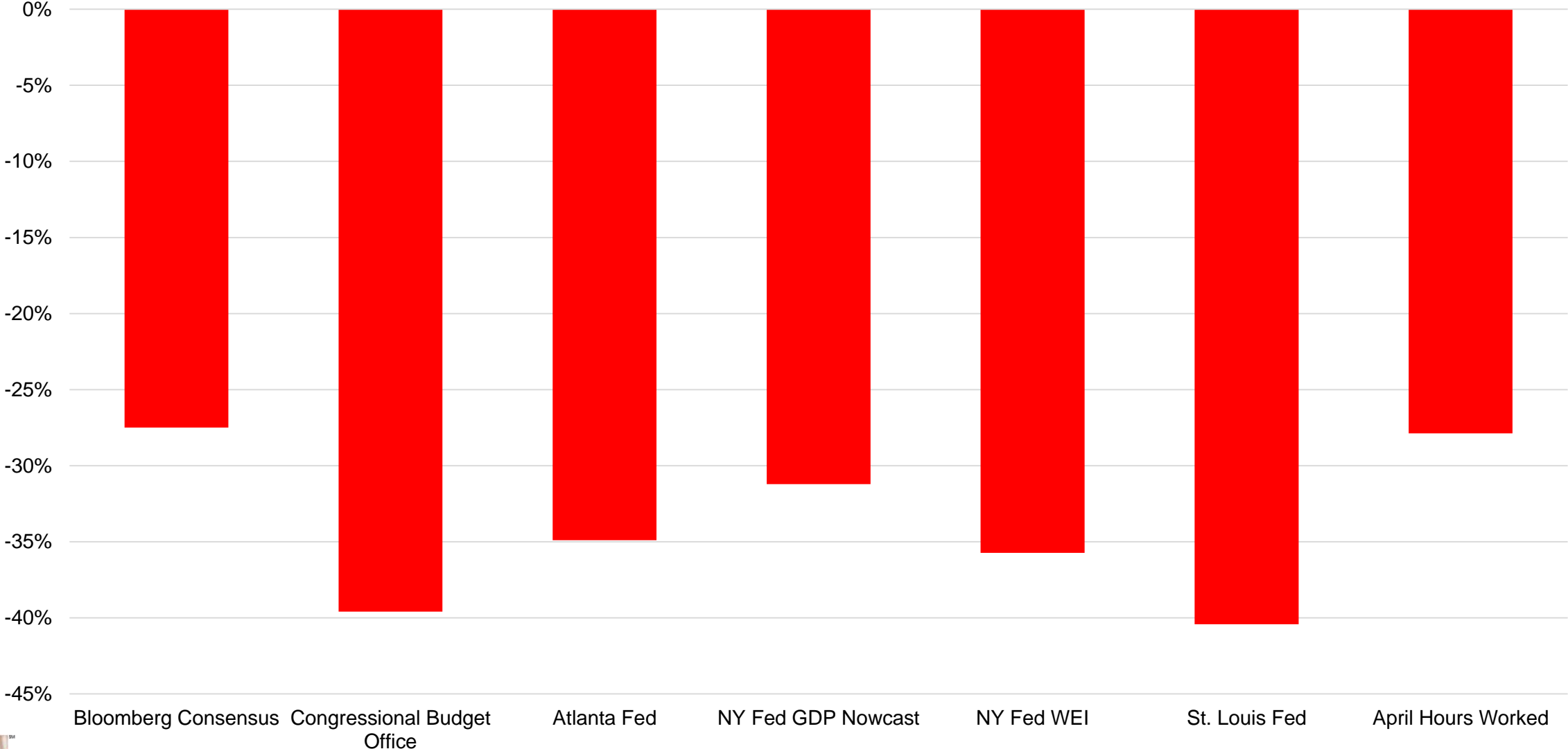


The Shuttering of the U.S. Economy in March Ended the Record-Long Expansion



Source: Bureau of Economic Analysis

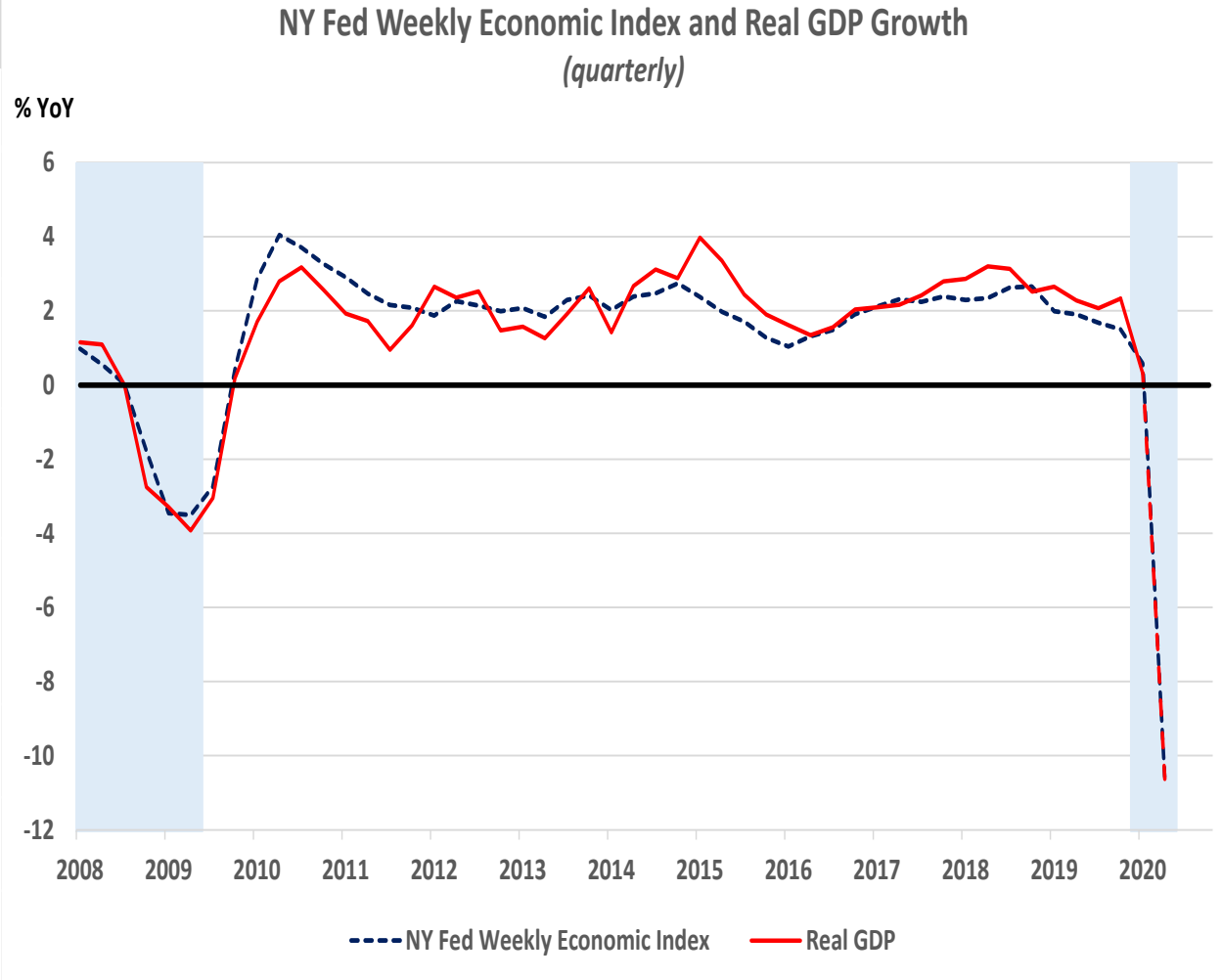
Just How Big Will the Contraction in Q2 Real GDP Be?



Federal Reserve Bank of New York Weekly Economic Index Closely Tracks Real GDP Growth

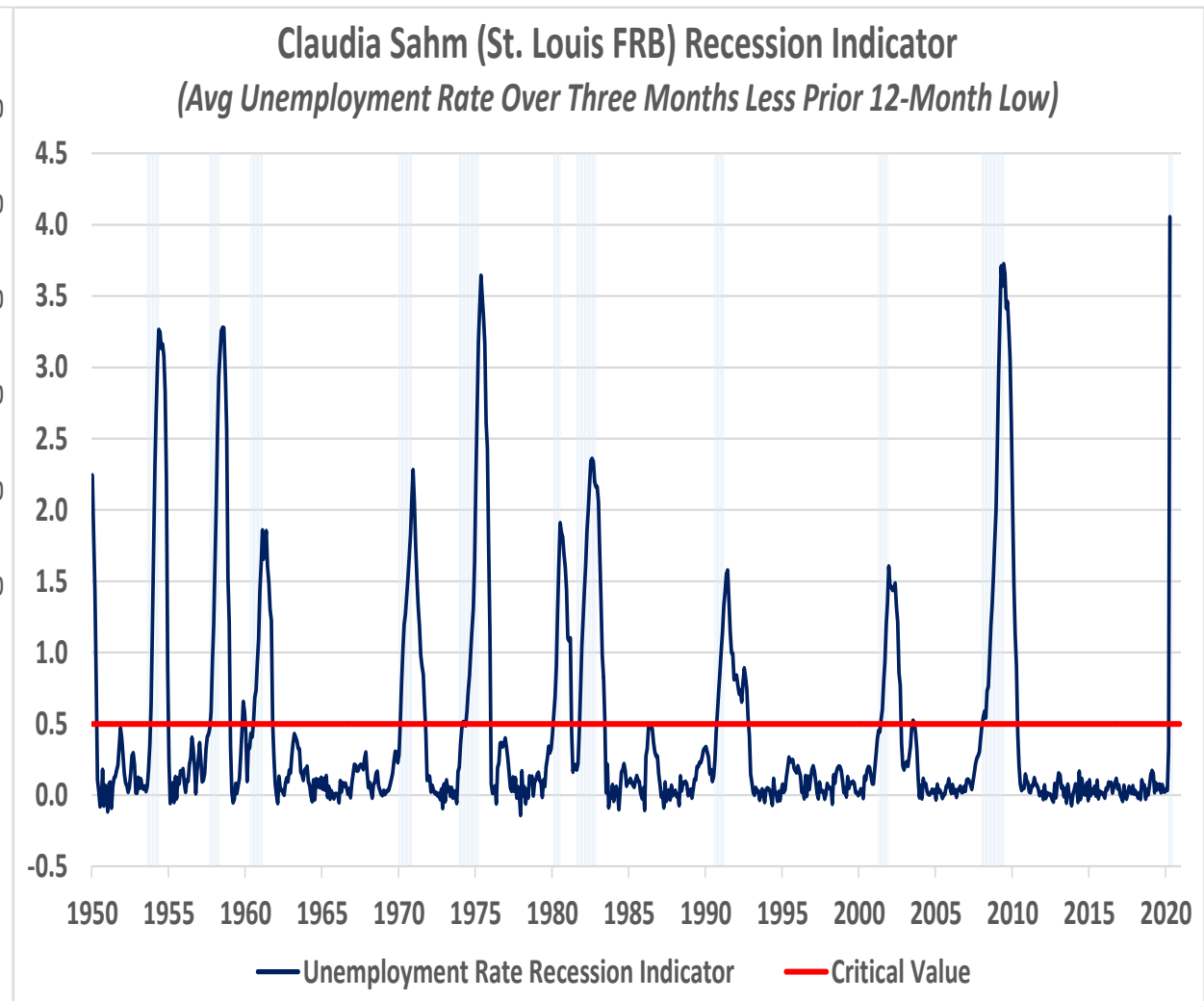
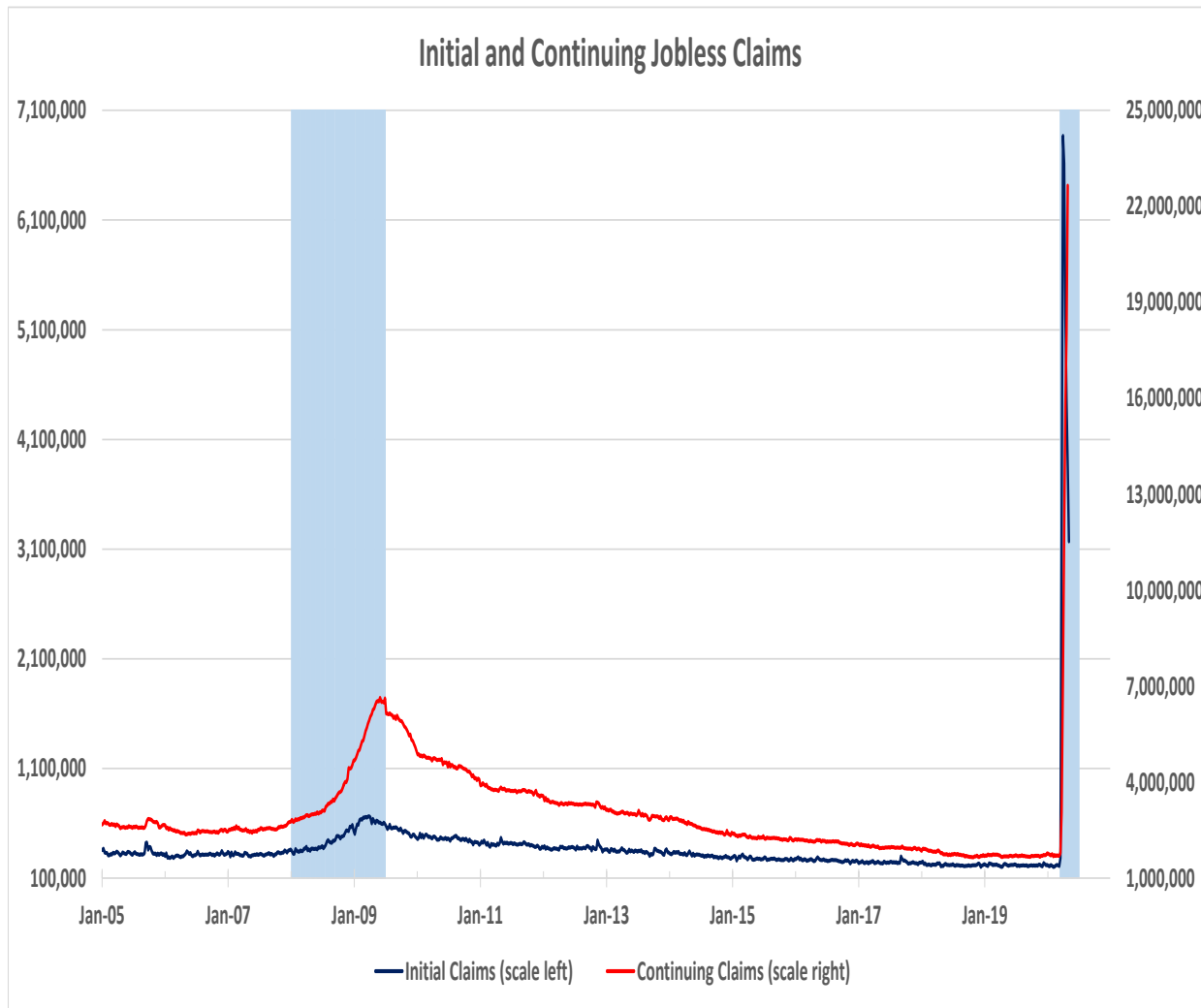
Data Series Employed in the WEI

	Description
Redbook Research: Same-store retail sales average	Measures year-over-year same-store sales growth for around 9,000 general merchandise store in the United States
Unemployment insurance: Initial claims, state programs	Reports the number of people making new unemployment insurance claims from state unemployment offices
American Staffing Association Staffing Index	Tracks temporary and contract employment with data coming from a large panel of staffing companies
Rasmussen Consumer Index	Constructed with a daily survey of 1,500 American adults using questions about personal finances and the economy more broadly
Raw steel production	Estimates the weekly production of raw steel from domestic producers
Electric utility output: United States ex. Hawaii and Alaska	Measures electricity output from the United States excluding Alaska and Hawaii
U.S. fuel sales to end users	Estimates gasoline, diesel and jet fuel to retailers and end users



Sources: Bureau of Economic Analysis, Federal Reserve Bank of New York, FHLBNY estimates

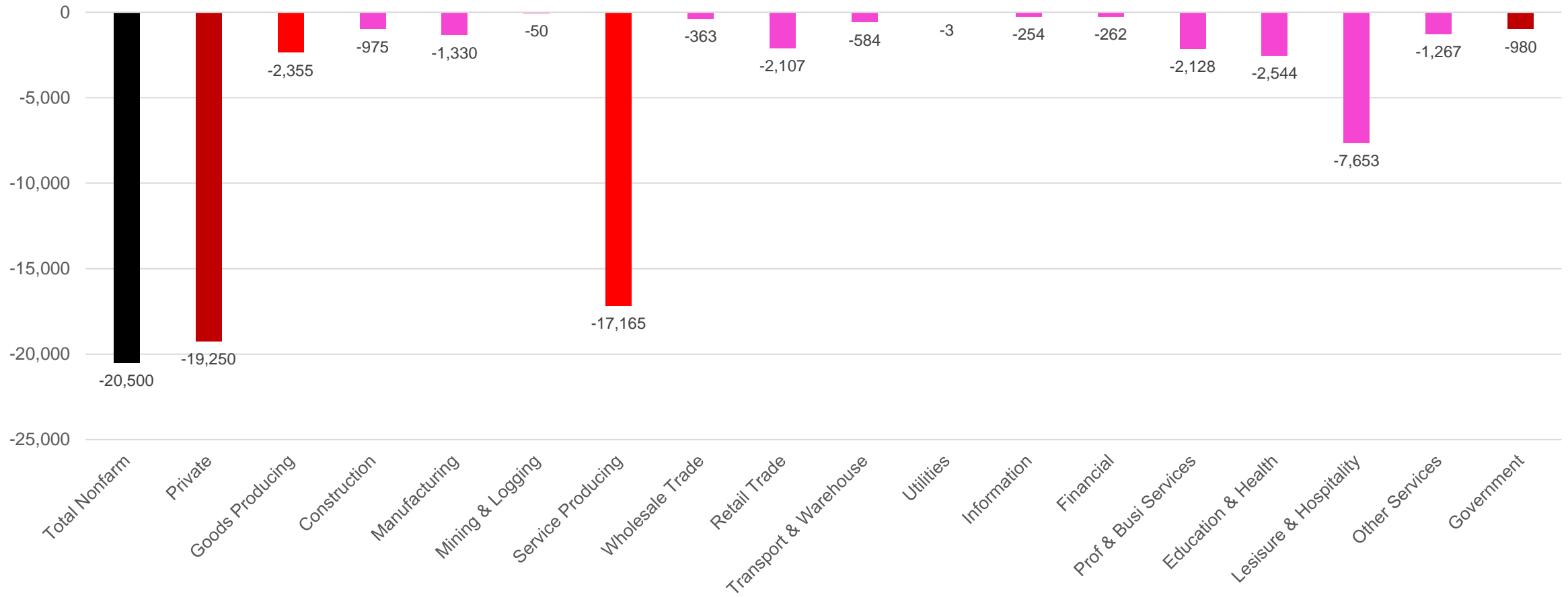
Labor Market Conditions Have Collapsed in the Wake of the COVID-19 Crisis



Note: Shaded areas denote recessions. Sources: U.S. Department of Labor, Federal Reserve Bank of St. Louis

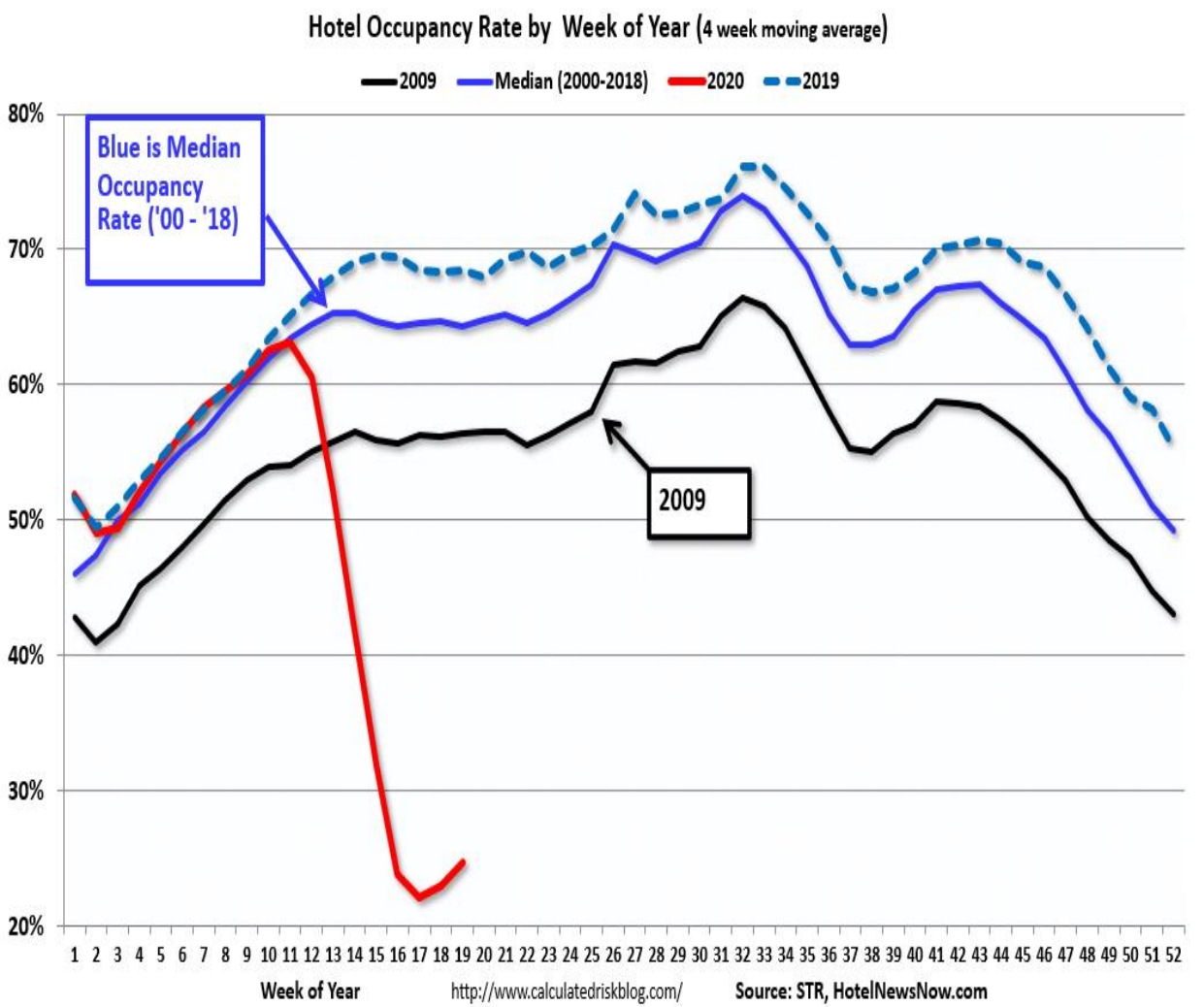
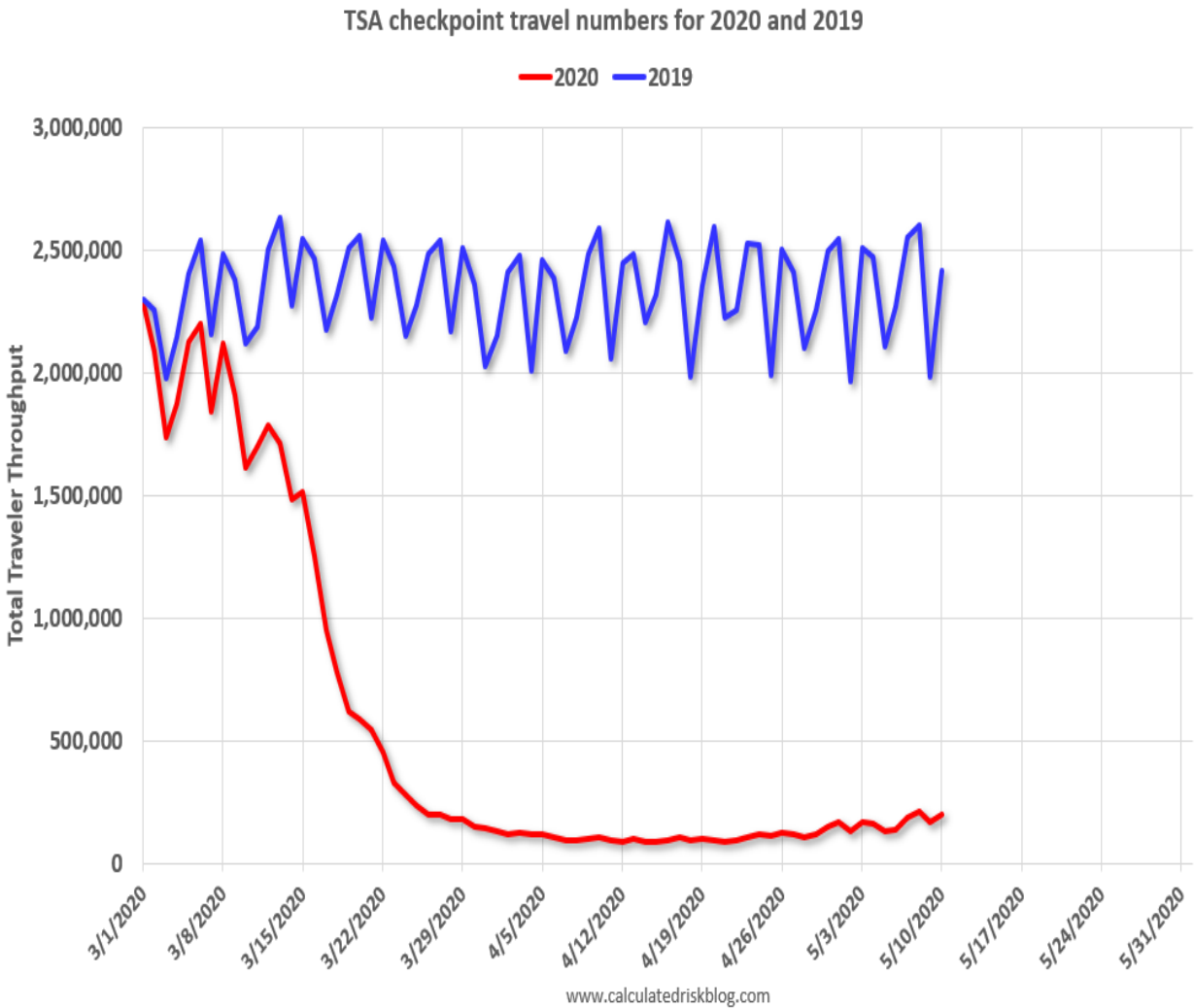
Private-Sector Job Losses Were Staggering in April

April Changes in Nonfarm Payrolls
(thousands, seasonally adjusted)



Source: Bureau of Labor Statistics

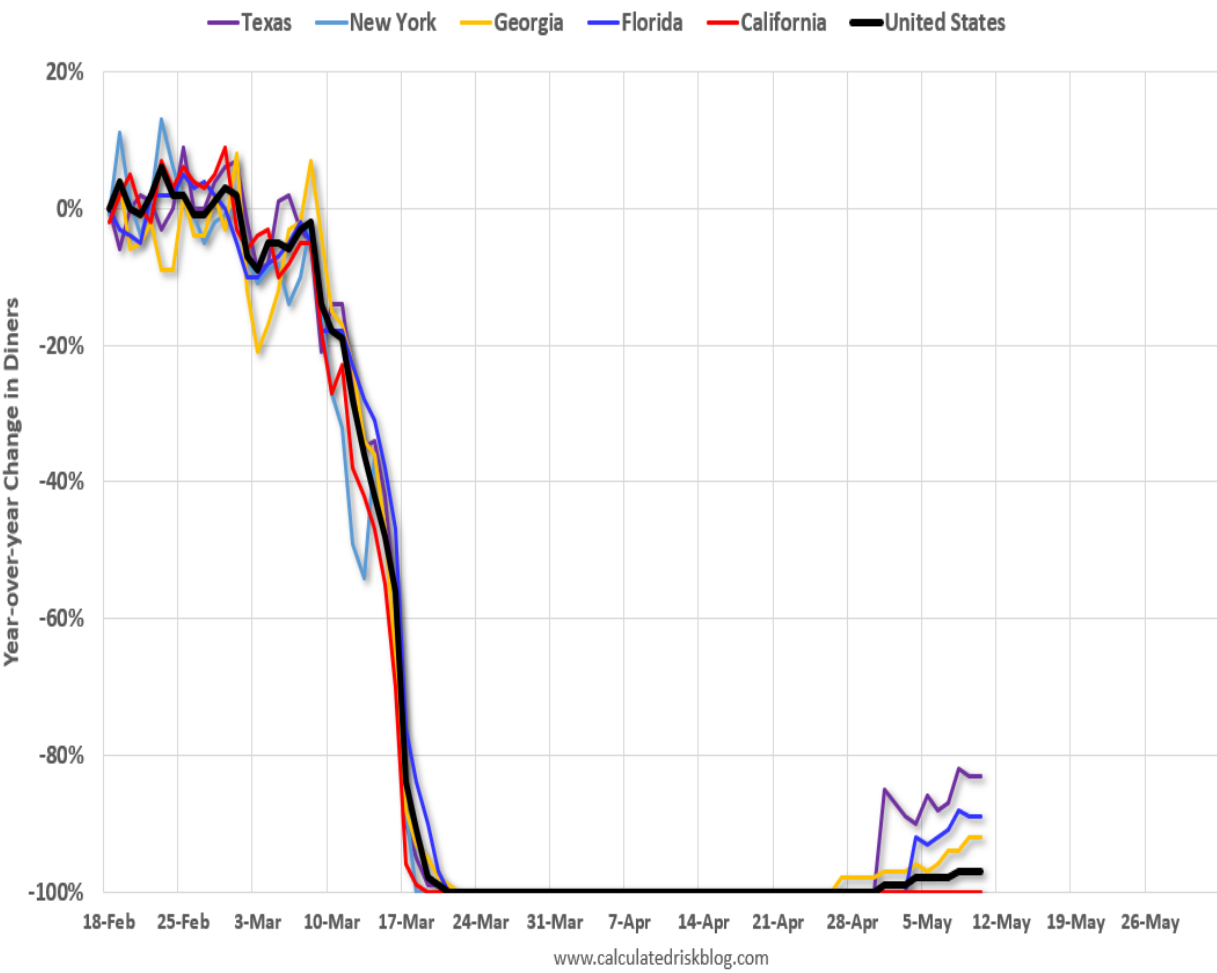
Service-Producing Industries Have Been Particularly Hard Hit By COVID-19 Crisis



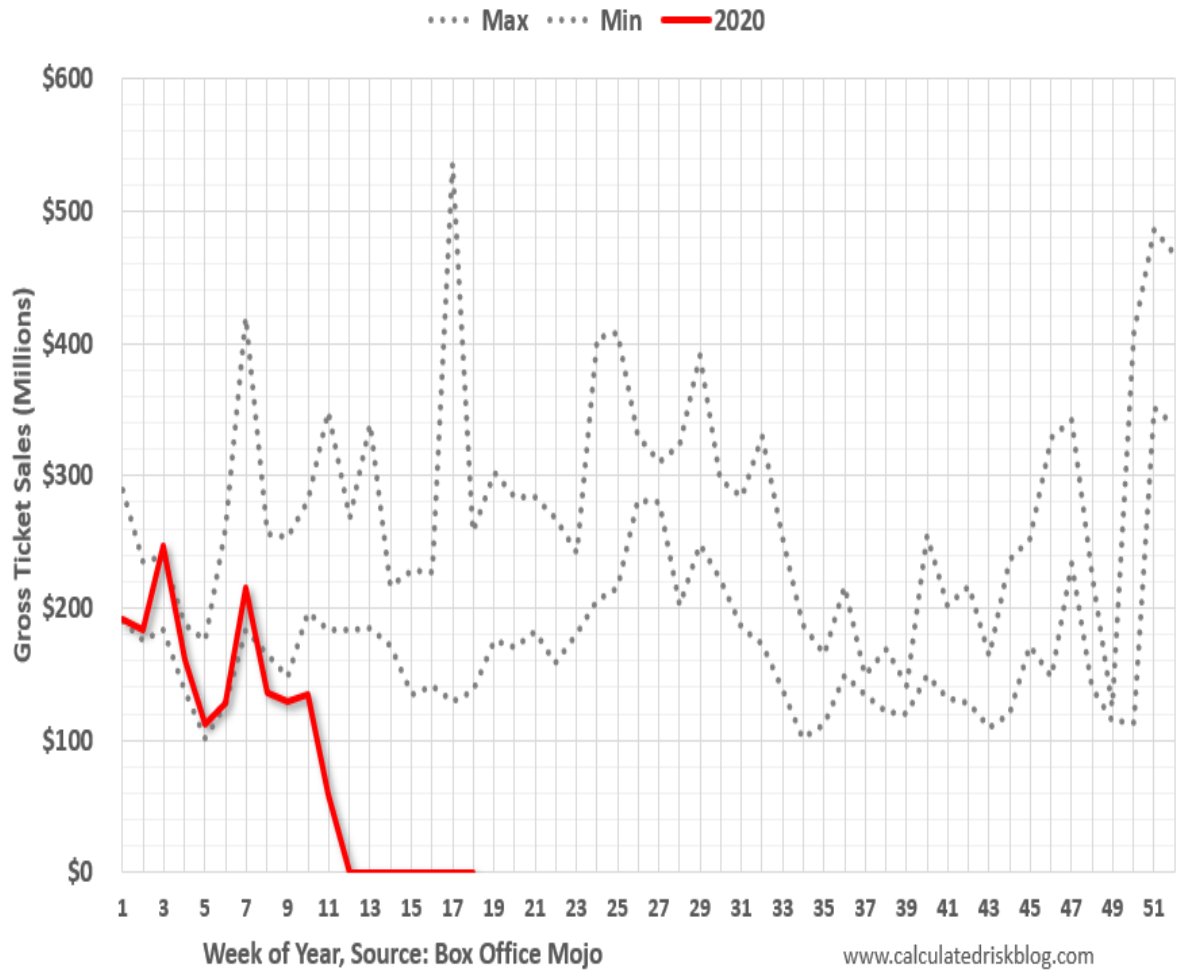
Source: Calculated Risk

Service-Producing Industries Have Been Particularly Hard Hit By COVID-19 Crisis

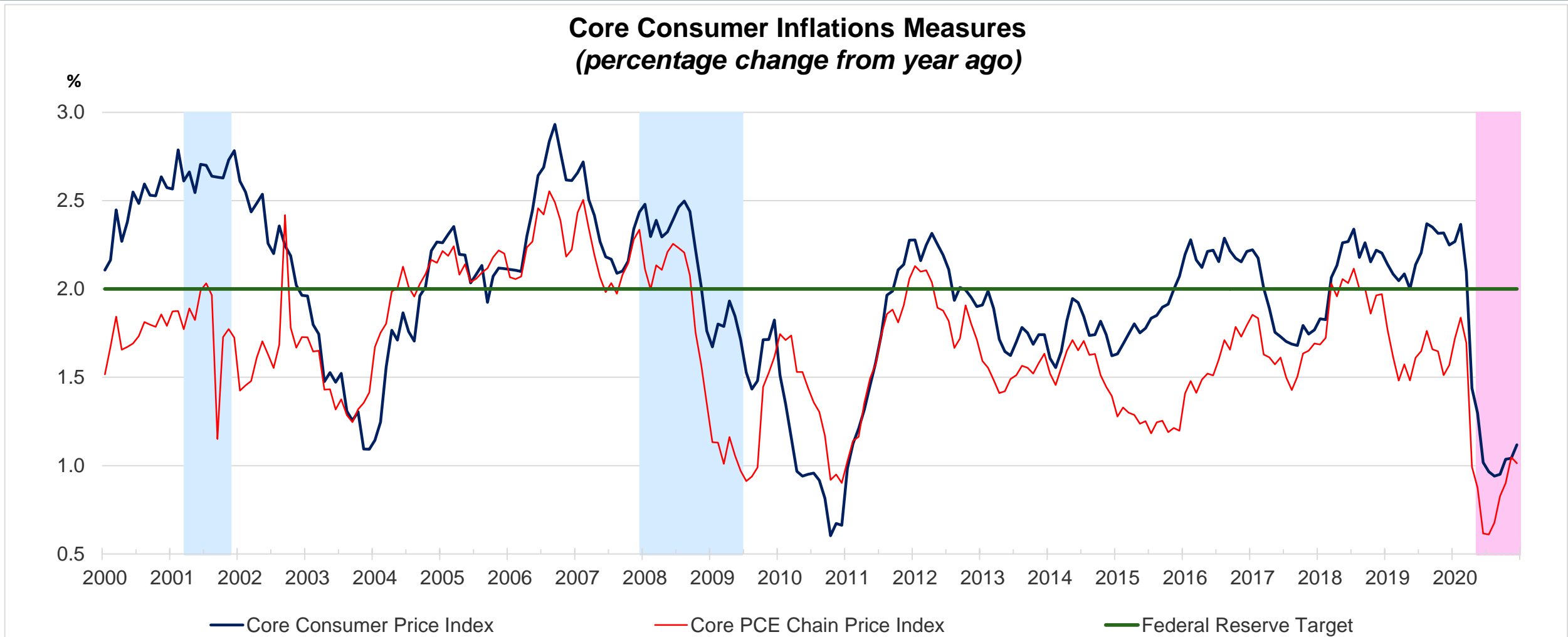
Year-on-year change in diners Source: OpenTable



Gross Movie Sales Weekly, Max and Min for 2016 - 2019



Core Consumer Inflation Gauges Will Remain Well Below Fed Target in 2020



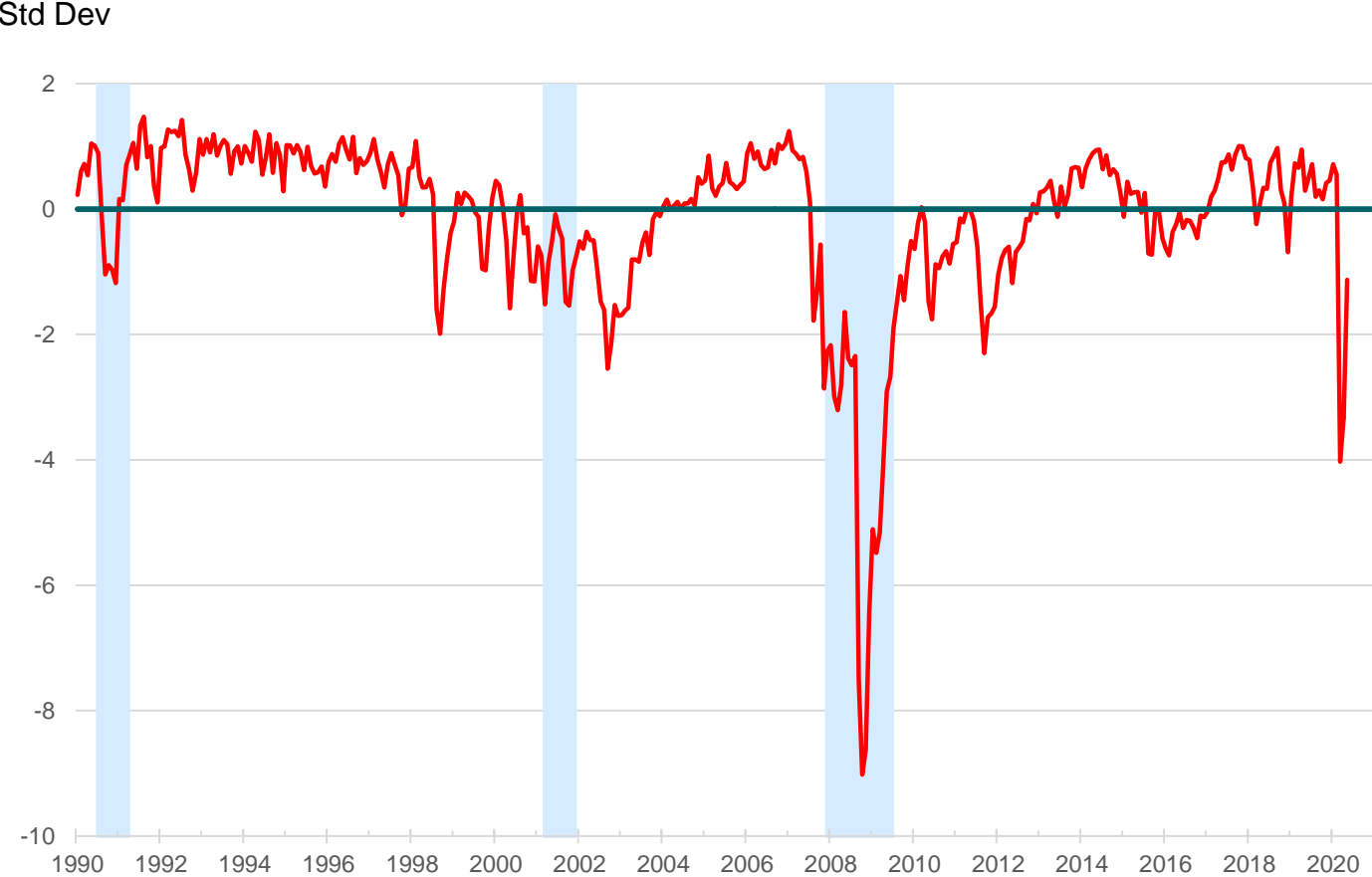
Notes: Light blue shaded areas denote recessions. Pink shaded area denotes projections.

Sources: Bureau of Labor Statistics and FHLBNY



Financial Conditions Have Improved in Response to Monetary and Fiscal Policy Measures

Bloomberg United States Financial Conditions Index



	24-Apr-20	12-May-20	Change
US Financial Conditions	-2.64	-1.07	1.57
Money Market Spreads:			
TED Spread	78.80	32.93	-45.87
Libor/OIS Spread	81.16	38.46	-42.70
Com Paper/T-Bill Spread	46.69	17.43	-29.26
Bond Market Spreads:			
Baa/10-Yr Treasury Spread	272.92	275.98	3.06
High-Yield/10-Yr Treas Spread	7.75	7.22	-0.53
Muni/10-Yr Spread	94.84	62.36	-32.48
Swaption Volatility Index	72.83	67.65	-5.18
Equity Market:			
S&P 500	2836.74	2922.33	85.59
VIX S&P Volatility Index	35.93	27.49	-8.44

Note: Shaded areas denote recessions.

Source: Bloomberg



Federal Reserve Has Taken Aggressive Measures to Support the Economy and Financial Markets

Cut the federal funds rate target range to 0 to 0.25%, returning it to the Great-Recession low. Reduced the discount rate by 1.5% to 0.25%.

Expanded reverse repo operations, adding \$1.5 trillion of liquidity to the financial system to stabilize money markets. Later boosted by an additional \$500 billion.

Restarted quantitative easing with the purchase of \$500 billion in treasuries and \$200 billion in mortgage-backed securities. Later expanded by an additional \$625 billion, with a commitment to continue purchases to support the smooth functioning of markets.

Expanded the scope of mortgage-backed securities purchases to include commercial mortgage-backed securities.

Accelerated the planned transition to a different type of bank reserve system by lowering reserve requirements to zero and encouraging banks to use their capital and liquidity buffers to lend.

Introduced a variety of programs to help preserve market liquidity including: the Commercial Paper Funding Facility (CPFF), the Primary Dealer Credit Facility (PDCF), the Money Market Mutual Fund Liquidity Facility (MMLF), the Primary Market Corporate Credit Facility (PMCCF), and the Secondary Market Corporate Credit Facility (SMCCF).

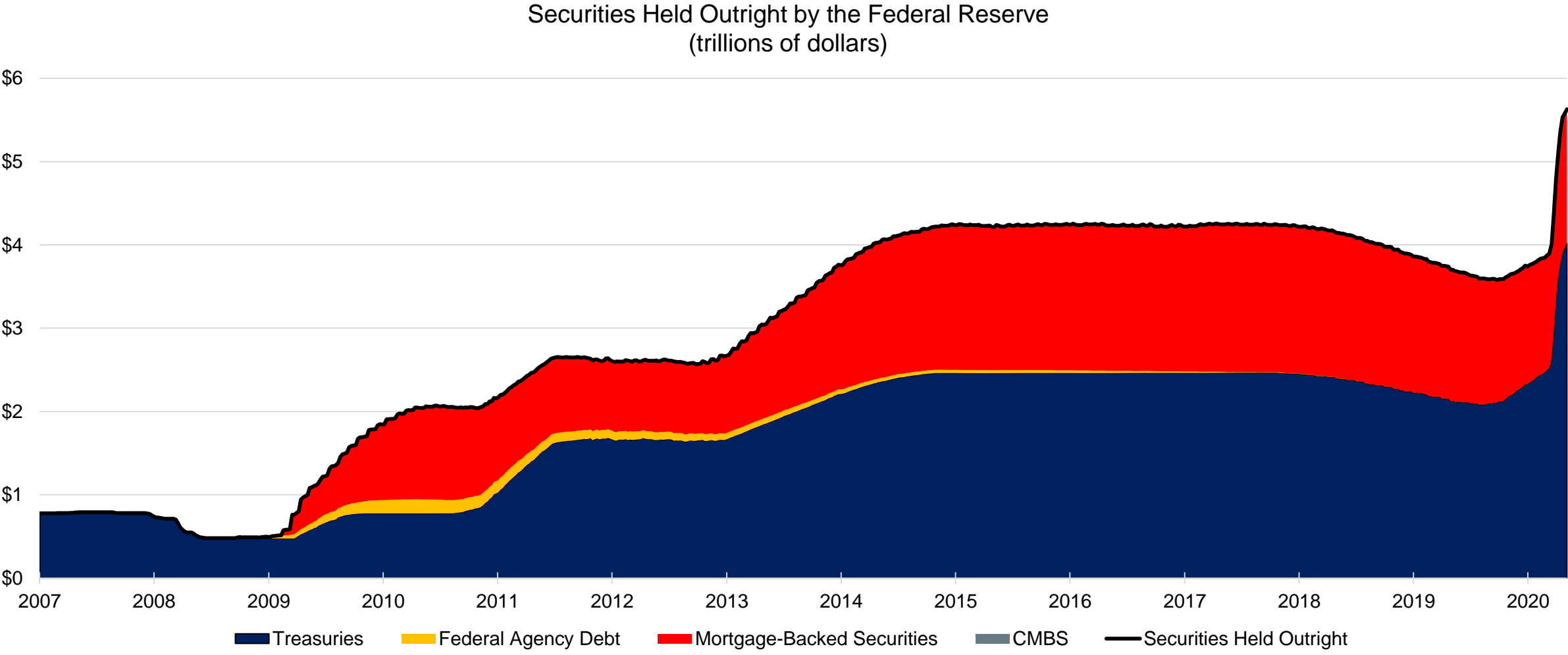
Re-established the Term Asset-Backed Securities Loan Facility (TALF) to purchase securities backed by auto loans, student loans and small business loans.

Introduced the Paycheck Protection Facility Program, the Main Street Lending Program and the Municipal Liquidity Facility to support small businesses, states and municipalities.



Source: Federal Reserve

Fed Has Ramped Up Its Securities Holdings in Response to COVID-19 Crisis



Source: Federal Reserve Board

Four Stimulus Packages Passed and More Possibly on the Way

Stimulus Phase 1 (\$8.3 billion):

Extra funding for the Centers for Disease Control and Prevention, Food and Drug Administration, National Institutes of Health, the State Department, the Small Business Administration, and the United States Agency for International Development. Includes \$4 billion to make more coronavirus tests available, and \$1 billion in loan subsidies for small businesses.

Stimulus Phase 2 (\$104 billion):

Provides free coronavirus testing including for the uninsured, two weeks of paid sick and family leave, increased federal funds for Medicaid and food security programs, and increased unemployment benefits.

Stimulus Phase 3 – The CARES Act (\$2 trillion):

- Two rounds of direct payments to taxpayers, on April 6 and May 18, costing \$250 billion each. The amounts would be based on income level and family size.
- \$300 billion in small business loans. (Firms with 500 employees or fewer eligible.)
- A \$50-billion bailout for the airline industry.
- \$150 billion to other industries including hotels, casinos, cruise line operators and shopping mall operators.
- Guaranteed money market mutual funds.

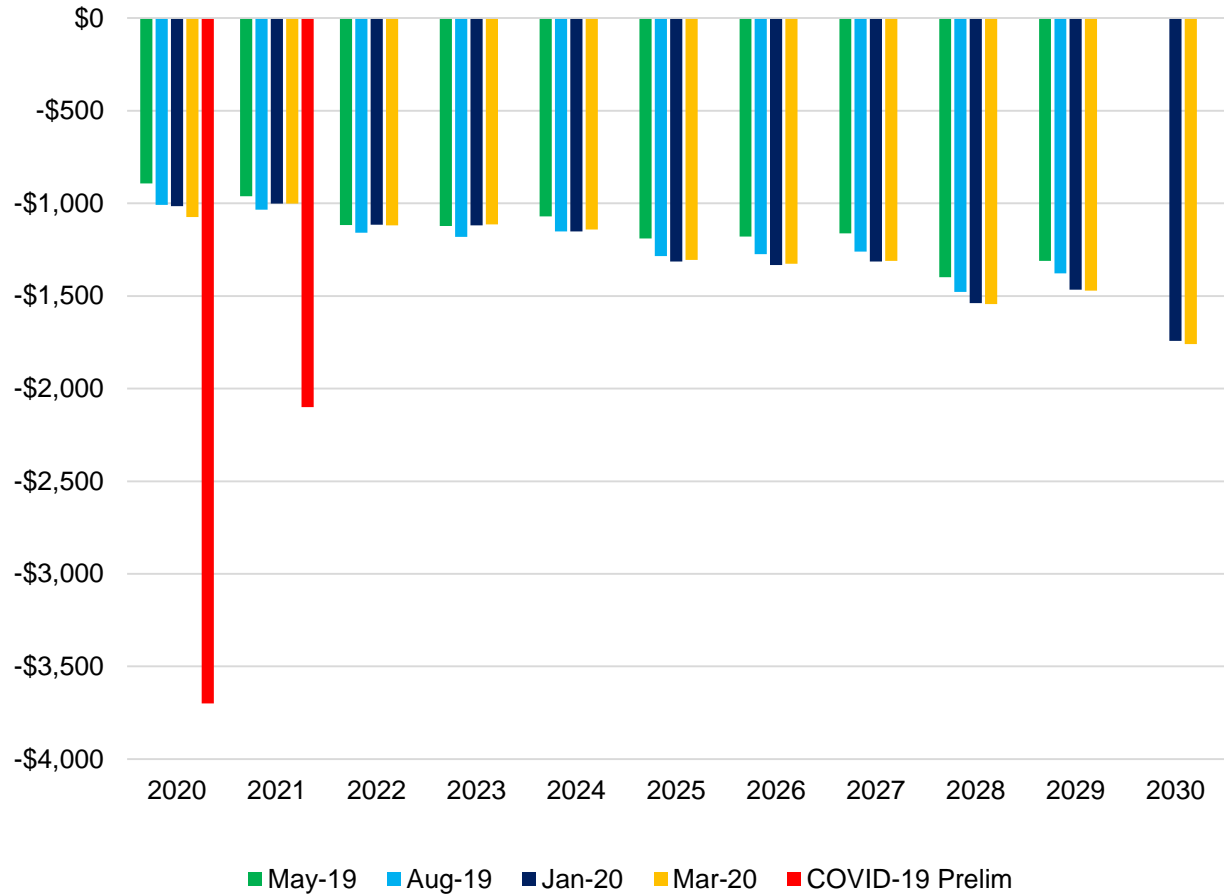
Stimulus Phase 3.5 – Amendment to CARES Act (\$484 billion):

- \$321 billion to replenish the Payroll Protection Program; \$60 billion of these funds set aside for small, midsize and community lenders to avoid forcing smaller firms to compete with larger ones funds.
- \$50 billion for Economic Injury Disaster Loans and an additional \$10 billion for Emergency Injury Disaster Loan Grants.
- \$75 billion to the Public Health and Social Services Emergency Fund for hospitals and other health care providers to prevent, prepare for, and respond to coronavirus. This fund is managed by the Department of Health and Human Services.
- \$25 billion to the Public Health and Social Services Emergency Fund specifically for expenses surrounding the research, development, validation, manufacture, purchase, administration, and expanding of capacities for COVID-19 testing.

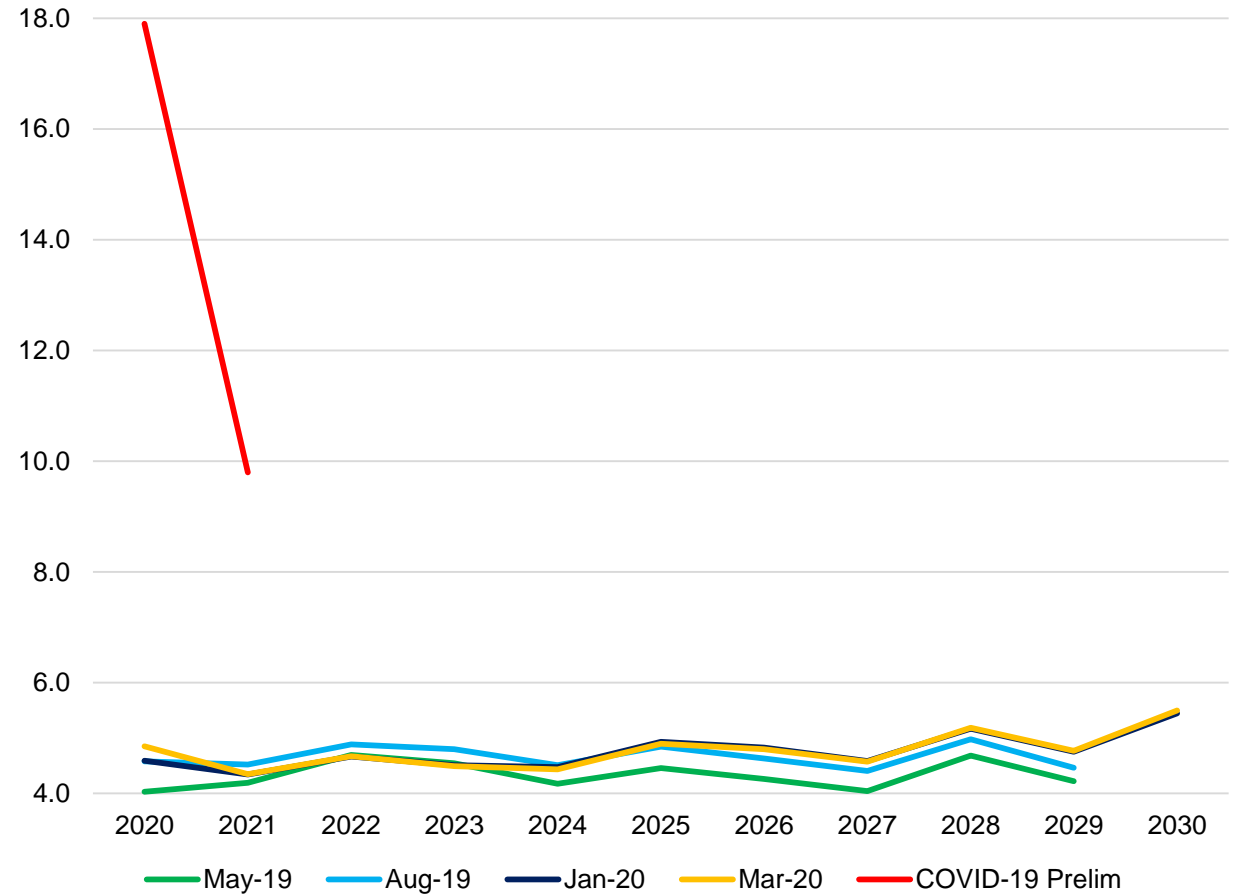


Fiscal Measures in Response to Shuttering Economy Will Produce Massive Budget Deficits Going Forward

CBO Federal Deficit Projections 2019-29
(billions of dollars)



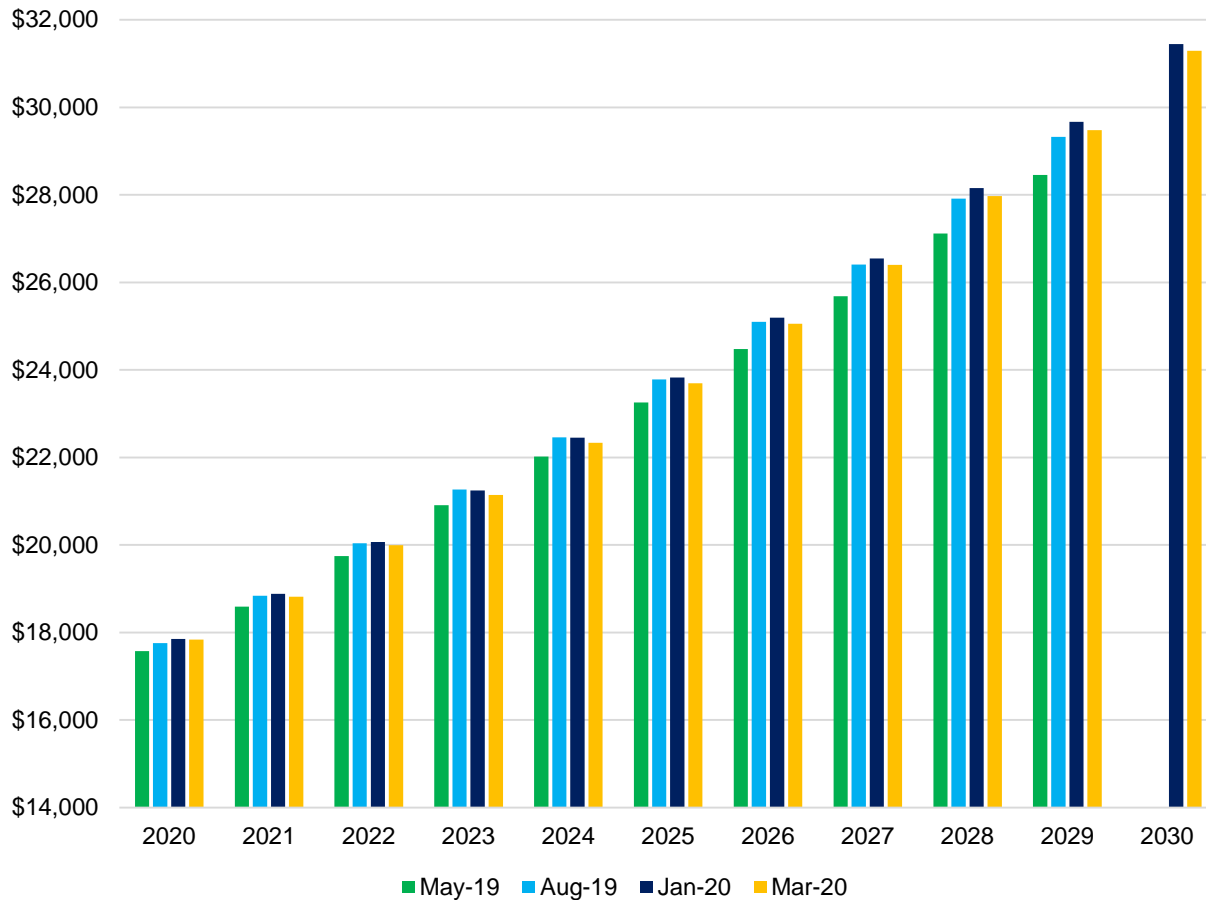
Projected Federal Budget Deficit as a Percent of GDP



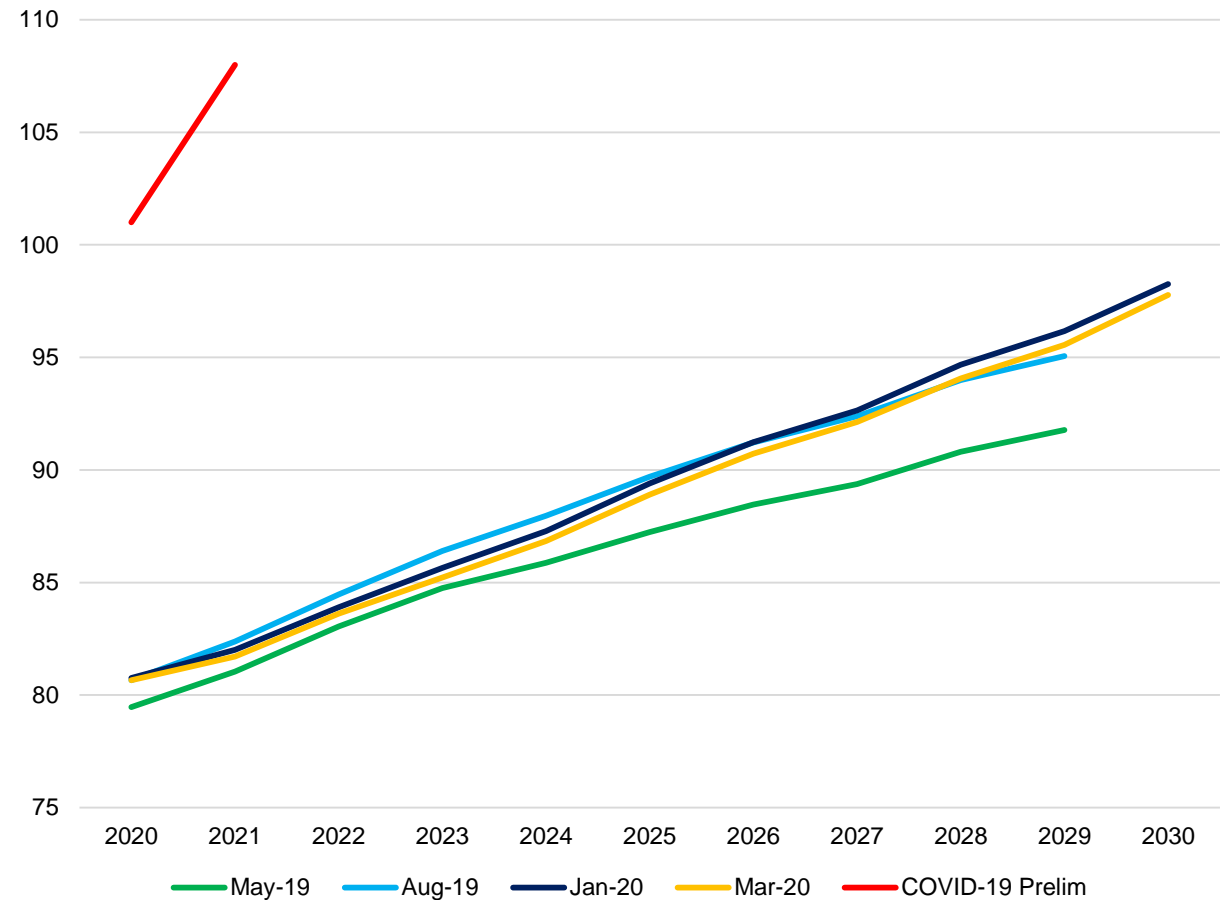
Source: Congressional Budget Office

Requiring Considerable Increases in Treasury Securities Held by the Public

**Projected Debt Held by the Public
(billions of dollars)**



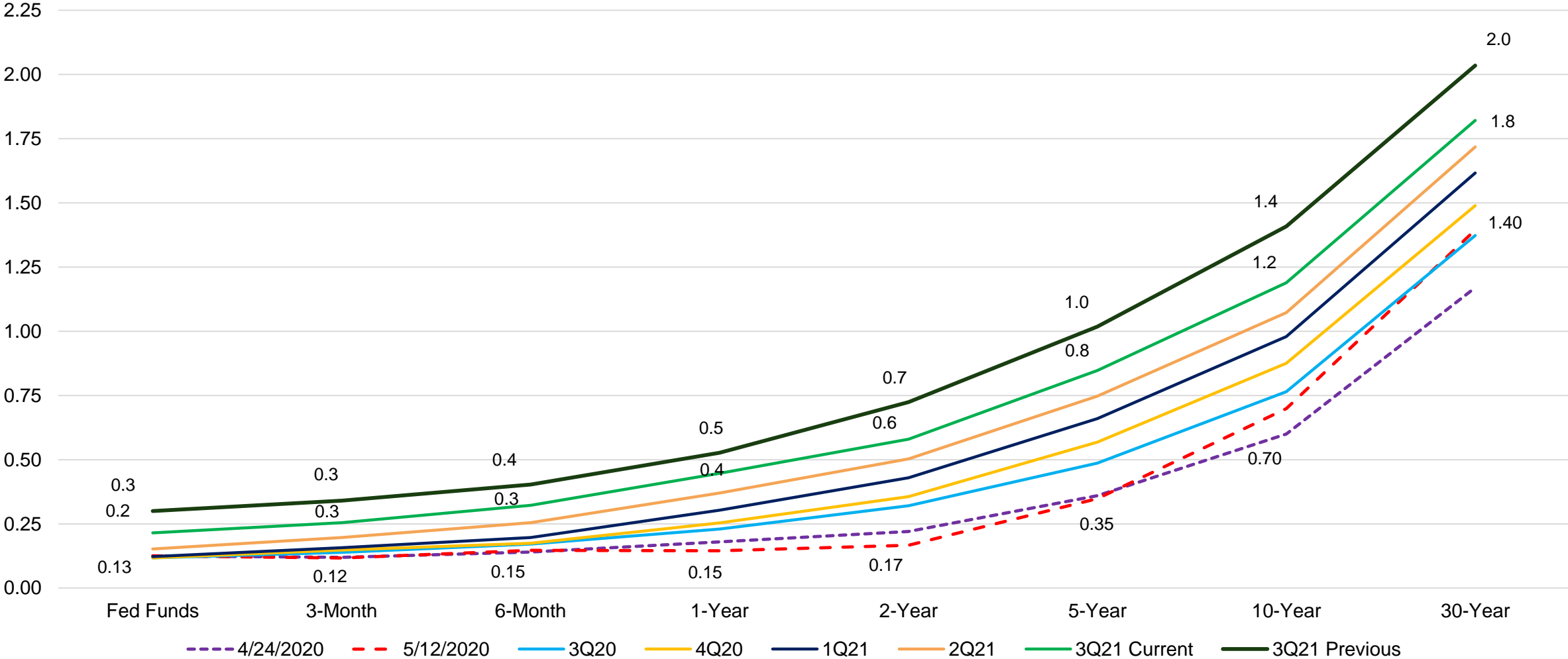
**Projected Debt Held by the Public
(as a percent of GDP)**



Source: Congressional Budget Office



Consensus Projections Call for Steady Rise in Treasury Rates Through Summer 2021

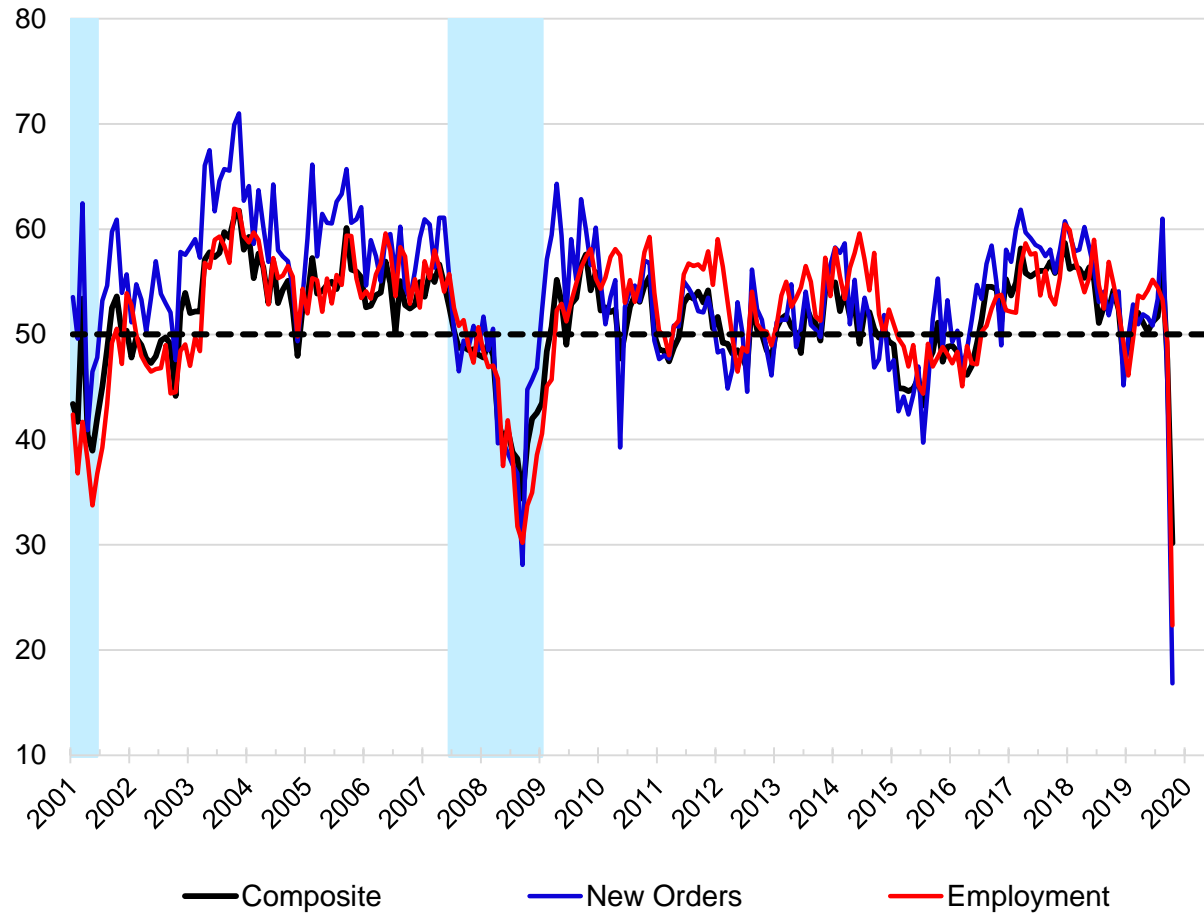


Sources: Bloomberg, Blue Chip Consensus

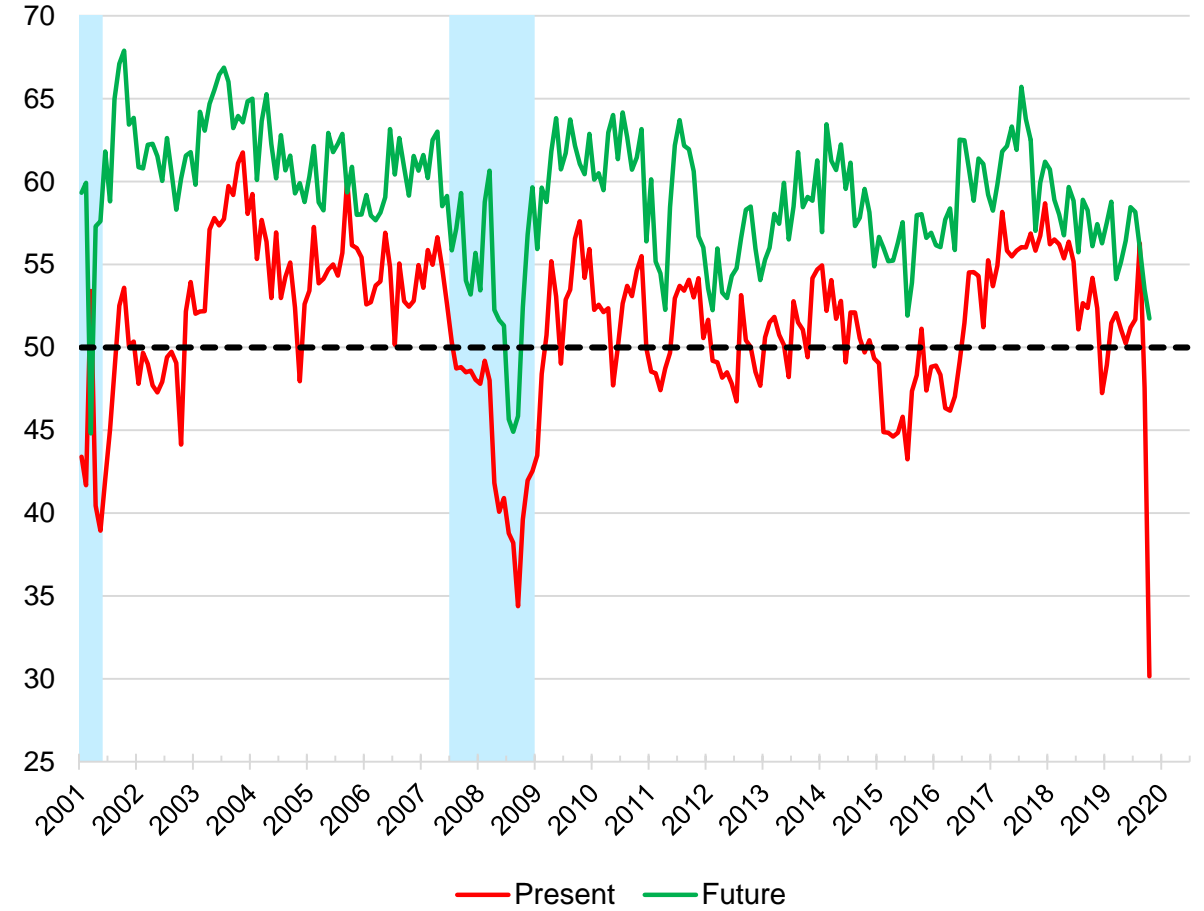


N.Y. Factory Activity Plunged in April, but Firms Remain Hopeful About the Future

Empire State Manufacturing Survey (diffusion indexes, 50 = no change from prior month)



Empire State Manufacturing Composite Indexes

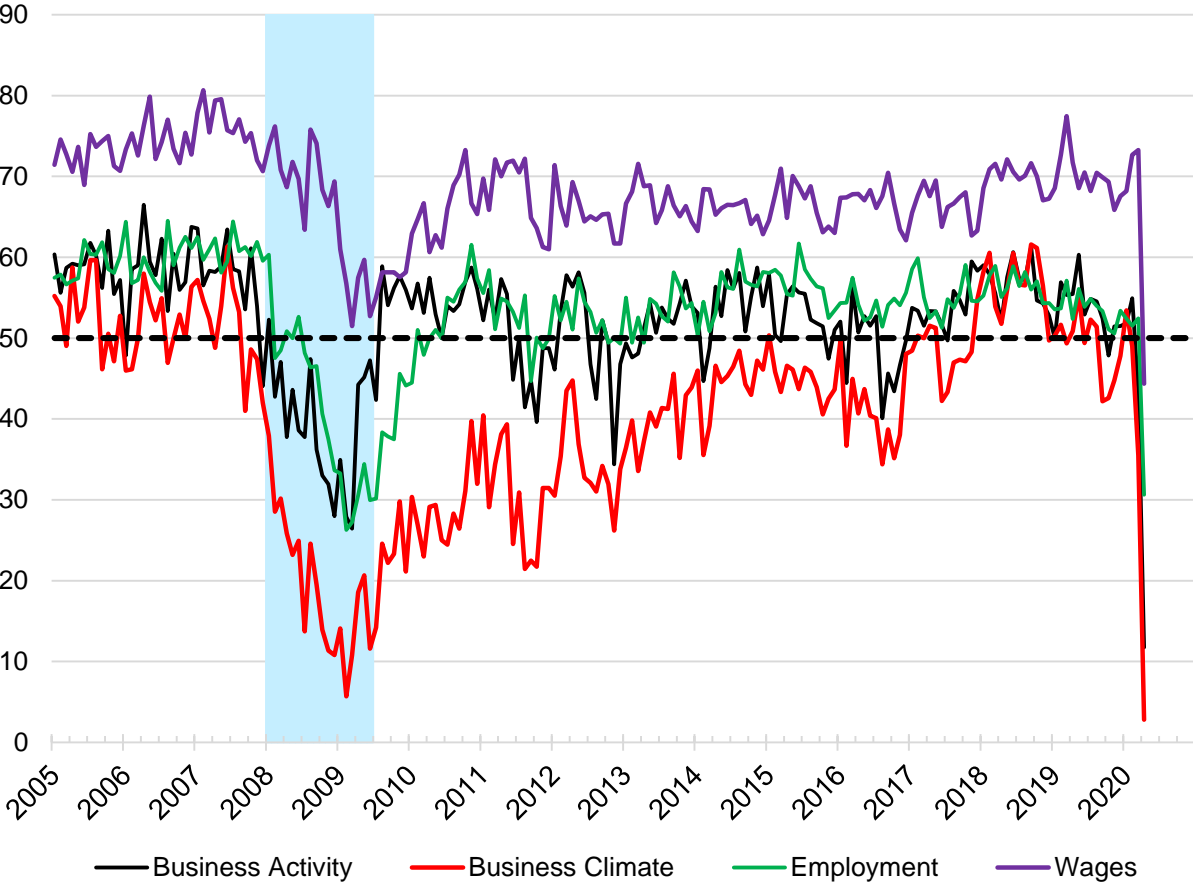


Note: Shaded areas denote recessions. Sources: Federal Reserve Bank of New York, FHLBNY estimates



Local Service-Producing Activity Ground to a Halt; Companies Concerned About the Future

**New York Fed Business Leaders Survey
(diffusion indexes, 50 = no change from prior month)**

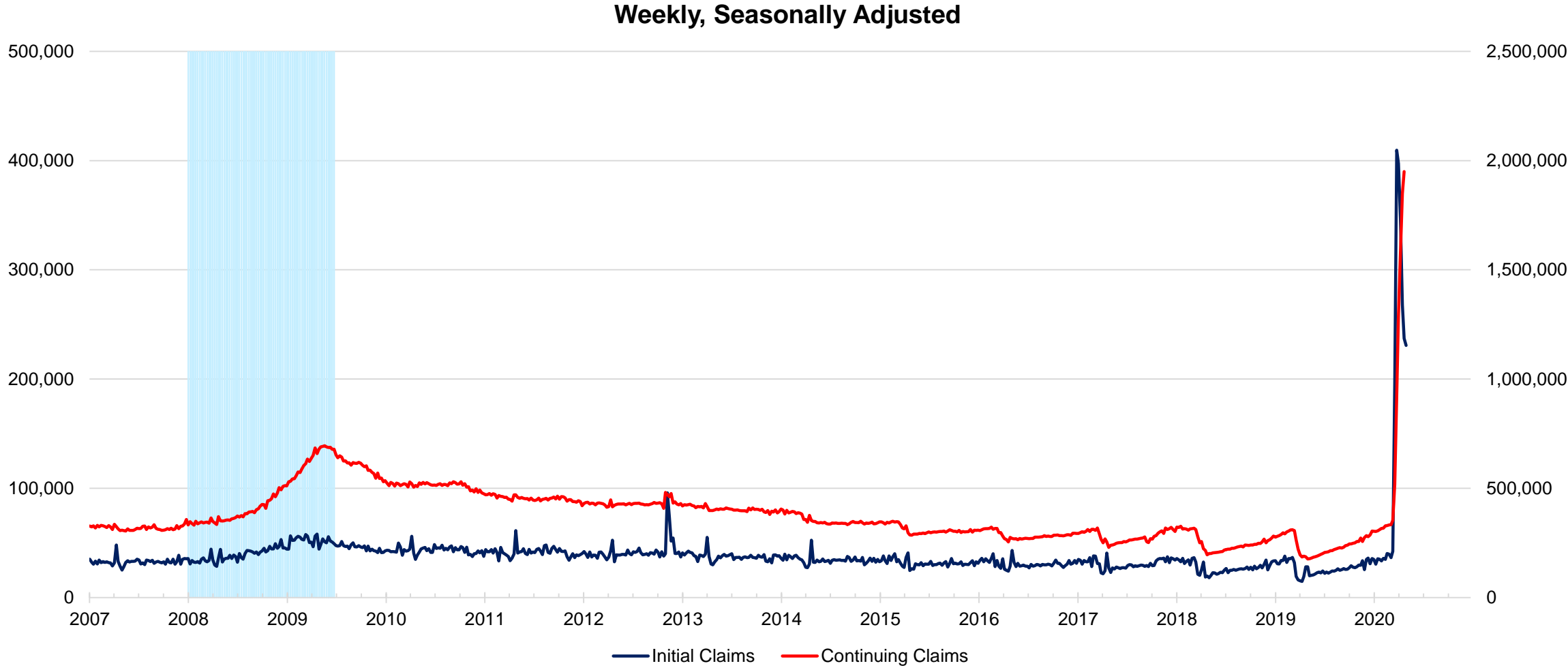


**New York Fed Business Leaders Survey
(diffusion indexes, 50 = no change from prior month)**



Note: Shaded areas denote recession. Sources: Federal Reserve Bank of New York, FHLBNY estimates

Jobless Claims Have Soared in the FHLBNY District

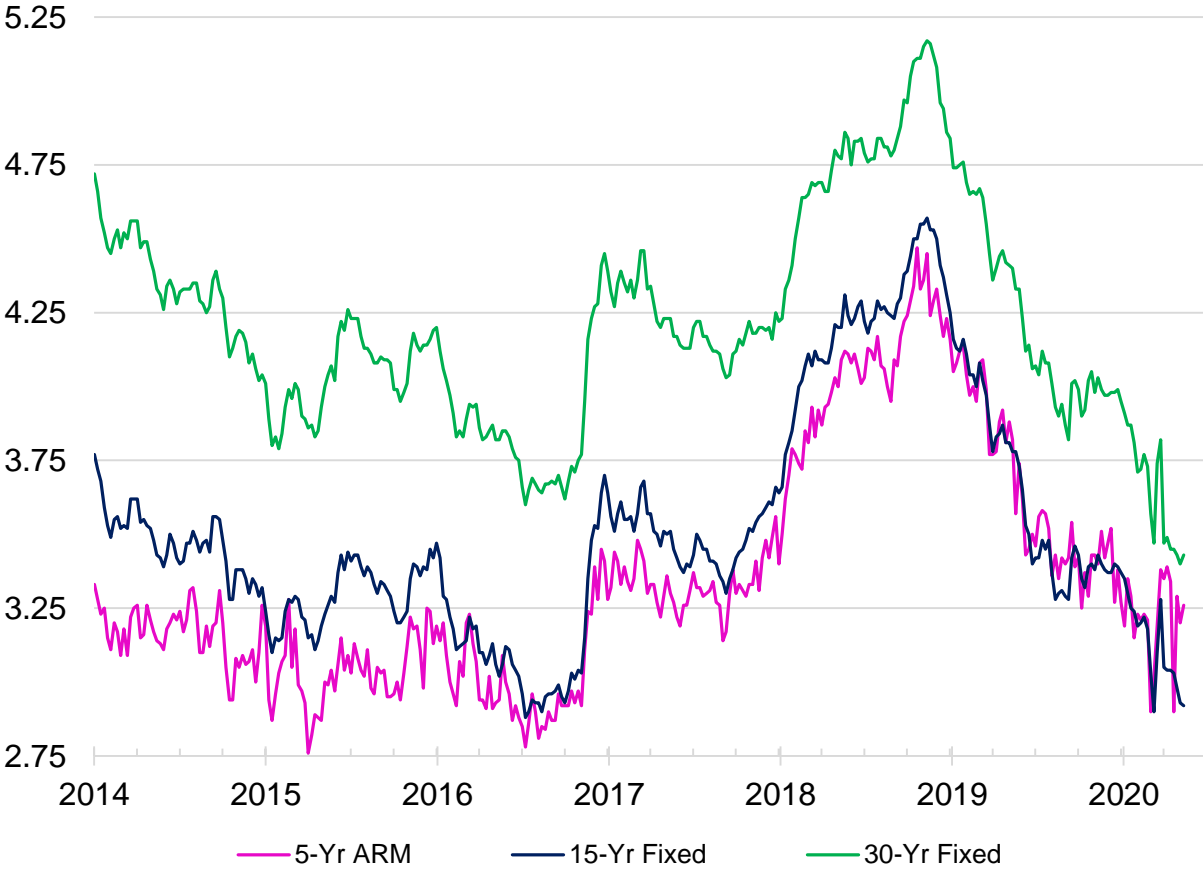


Note: Shaded areas denote recessions. Source: U.S. Department of Labor, FHLBNY estimates

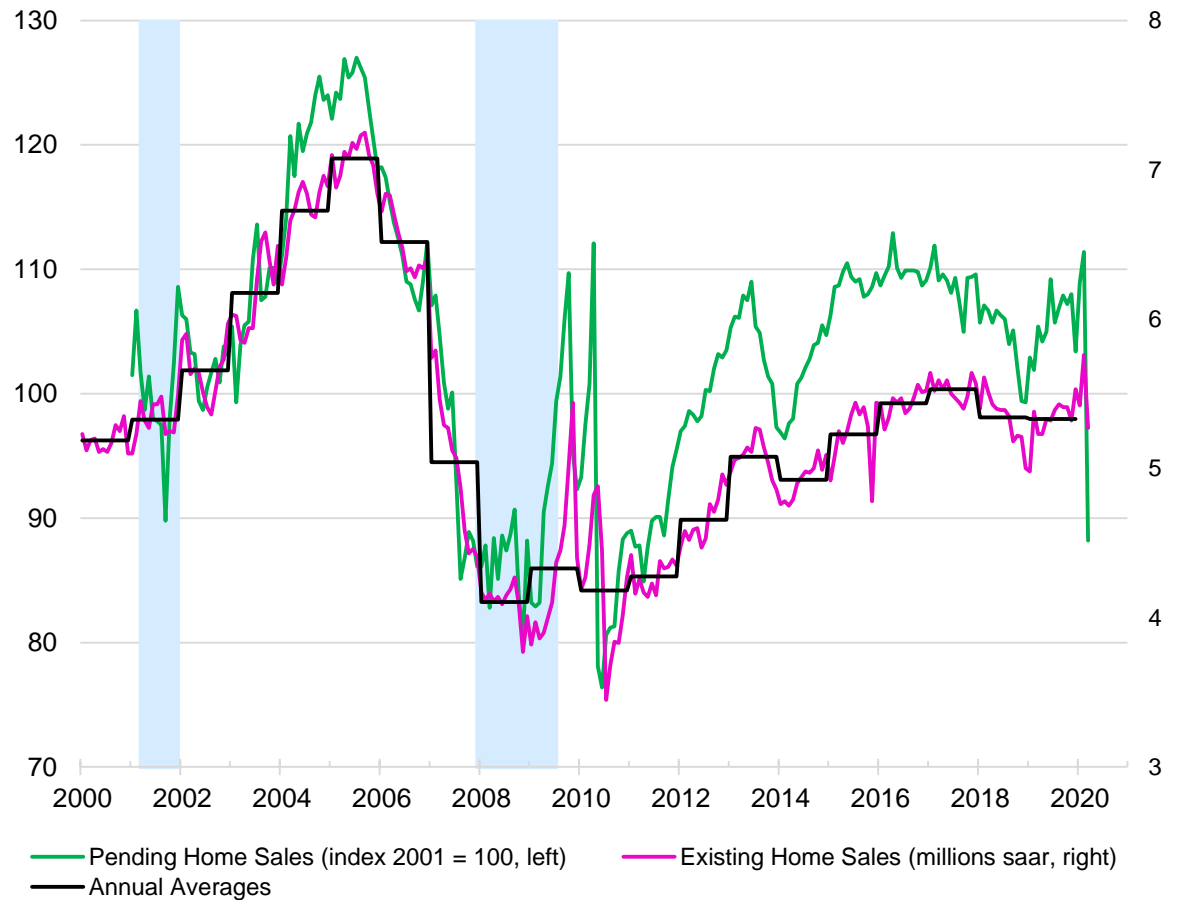


Lower Mortgage Rates Were Boosting Home Sales Until the COVID-19 Outbreak

Mortgage Interest Rates



Pending & Existing Home Sales



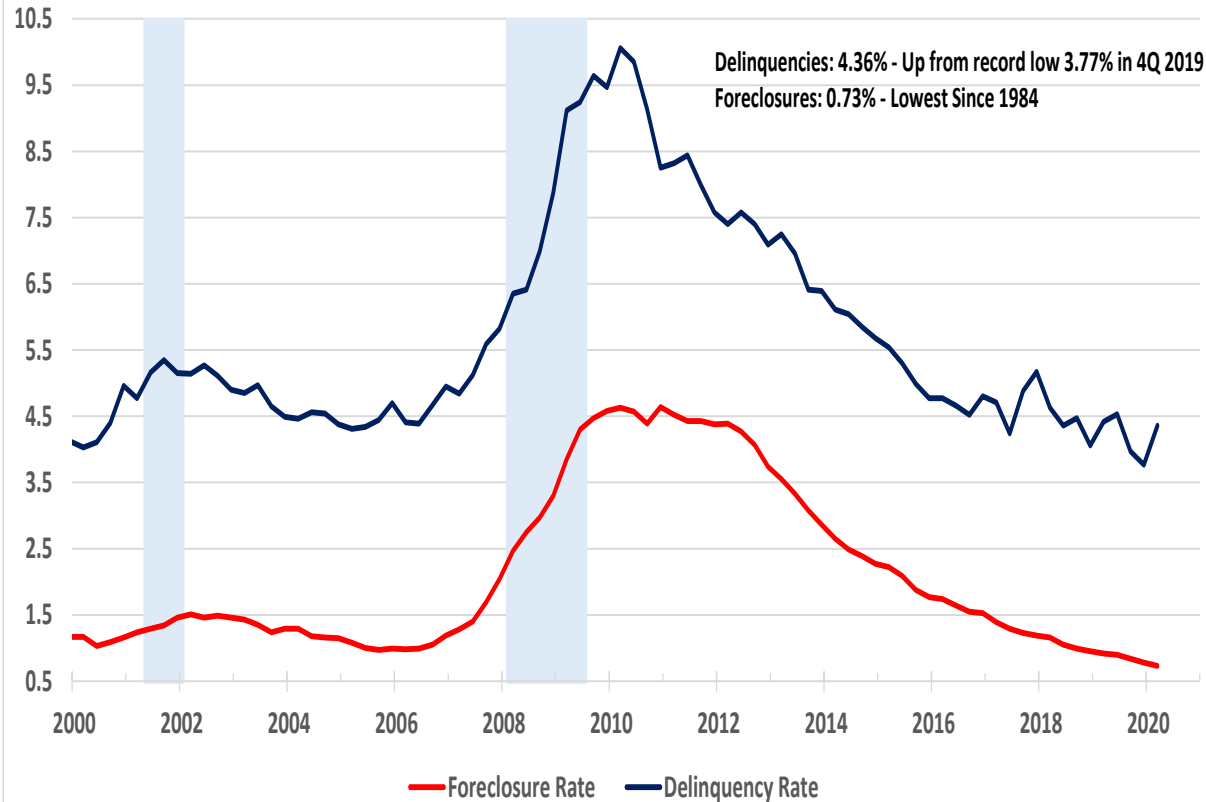
Note: Shaded areas denote recessions.

Sources: Mortgage Bankers Association, National Association of Realtors

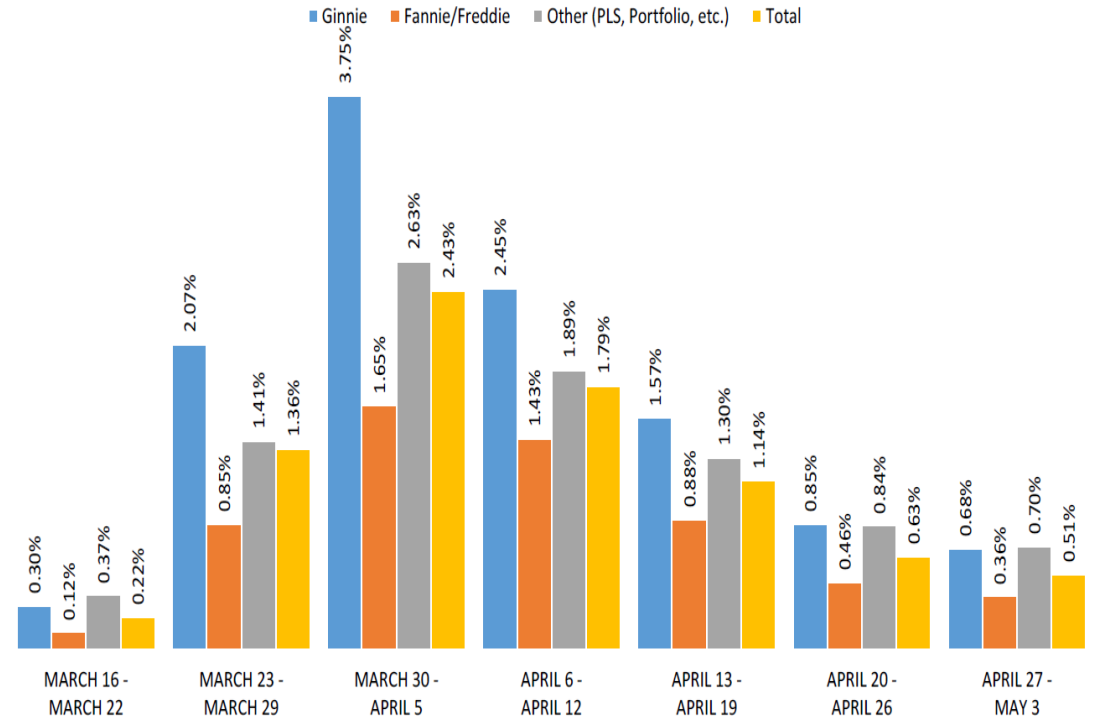


Mortgage Delinquencies Poised to Climb in Q2, But Foreclosures May Not Follow

Mortgage Delinquencies & Foreclosures
(percentage of all loans outstanding)



Weekly Borrower Forbearance Requests as % of Servicing Volume (#)



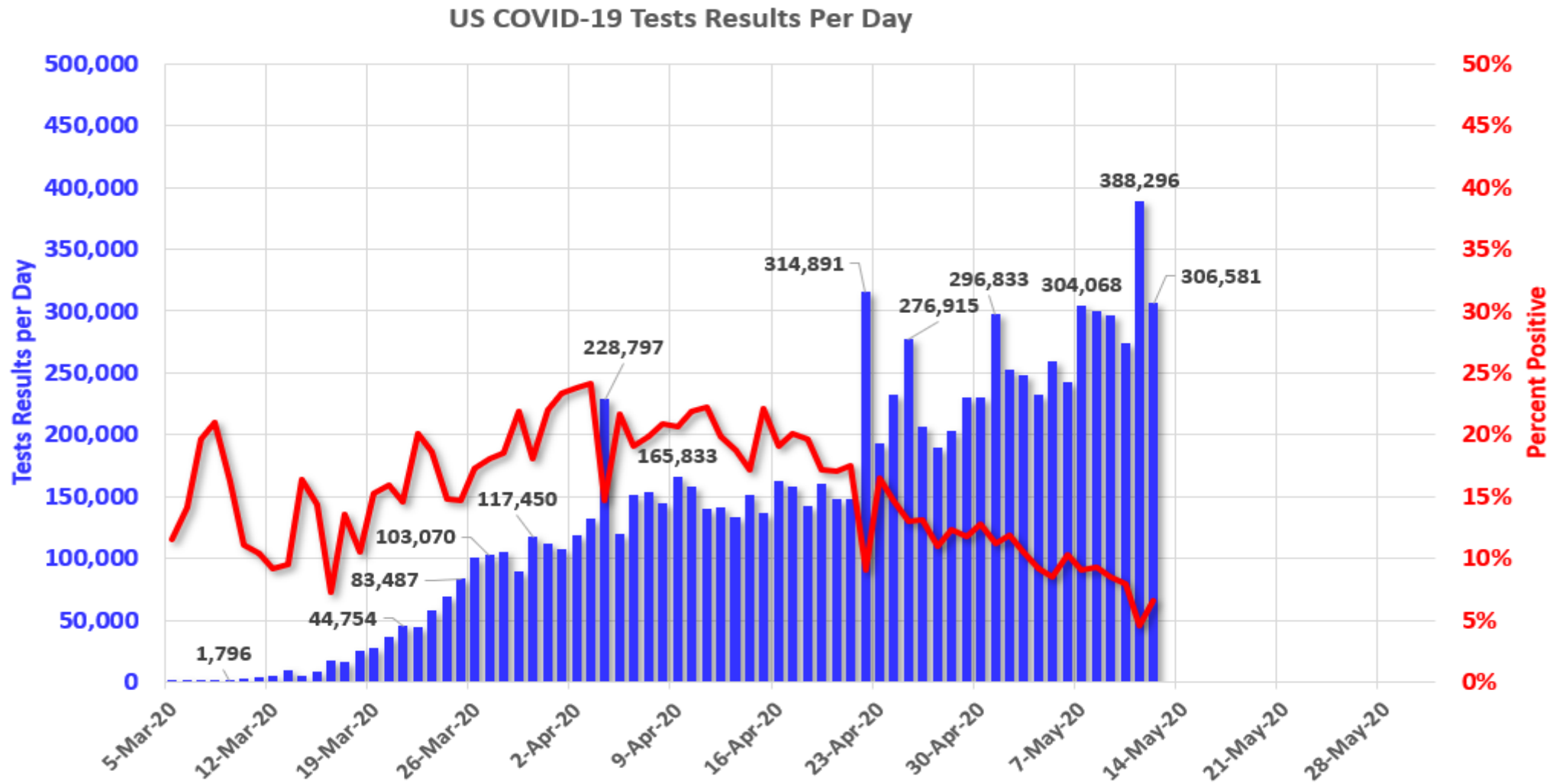
Source: MBA's Weekly Forbearance and Call Volume Survey, as of 5/3/20

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Notes: Shaded areas denote recessions. Source: Mortgage Bankers Association

The Most Important Data to Watch

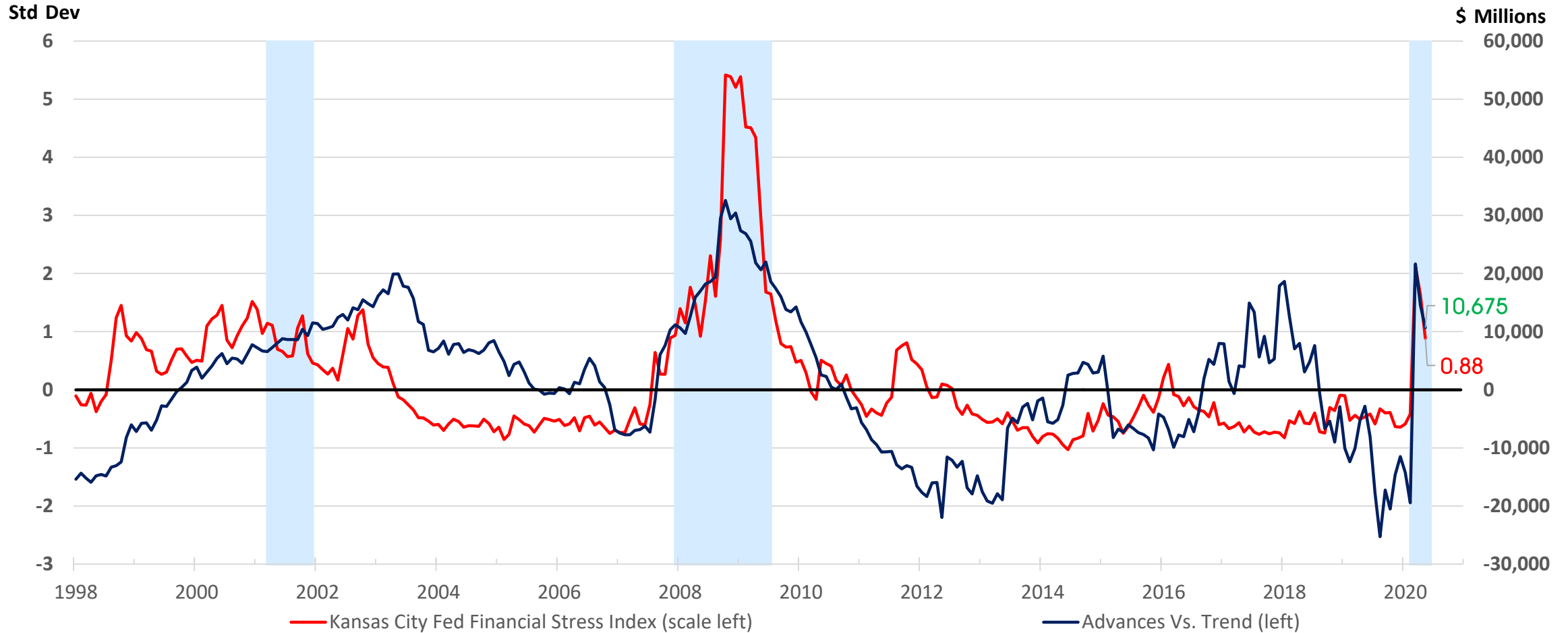


www.calculatedriskblog.com



When Financial Stress Rises, the FHLBNY Stands Ready to Lend

Financial Stress & FHLBNY Advances vs. Trend



Note: Shaded areas denote recessions. Sources: Federal Reserve Bank of Kansas City, FHLBNY estimates





Federal Home Loan Bank
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