For release on delivery
5:30 p.m. EDT
July 11, 2019

Perspectives on the Economy from Scranton

Remarks by

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at the

Community Bankers Roundtable

Scranton, Pennsylvania

July 11, 2019

Thank you to my colleague Pat Harker for the invitation to join him here this evening. In my time at the Federal Reserve, I have found that hearing directly from people around the country about how their communities are experiencing the economy is vital to carrying out my responsibilities. It helps me to understand what is working well and what the challenges are, and it provides ideas on how to improve economic opportunities. Today I look forward to hearing your perspective on the economy and the banking business in and around Scranton.

Before hearing from you, I was asked to provide my perspective on the national economy. Recent data suggest the economy is growing solidly. Consumer spending is robust, buoyed by the strong labor market and continued strong confidence. Last week's strong jobs report provided reassurance that employment has continued to expand at a healthy pace. Payrolls have risen at a 170,000 monthly pace over the past three months—more than enough to provide jobs for new entrants to the labor force. The unemployment rate remains near a 50-year low, wages are growing at a moderate pace, the percentage of prime-age adults who are employed is close to its pre-crisis peak, and claims have been hovering around historic lows. Furthermore, financial conditions overall remain quite supportive of continued employment and output growth.

By contrast, capital spending by businesses has been lackluster, and indicators of business sentiment have been soft. The recent G-20 summit provided a constructive change in tone about trade discussions, but business sentiment and investment plans will likely remain sensitive to uncertainty around trade and the global outlook. Fiscal policy is also a source of uncertainty, with both the debt ceiling and the federal budget needing to be resolved.

Over the past year, inflation has fallen short of the Federal Reserve's 2 percent objective, and that has been the case more often than not in recent years. On the one hand, that means the economy can continue to grow without pushing inflation too high. On the other hand, inflation that runs too low for long periods can pose difficult challenges. Below-target inflation reduces the amount of room the Federal Reserve has to cut the federal funds rate to cushion the economy from negative developments. And it could lead people to lower their expectations for future inflation, which in turn could lead to an increasing shortfall of inflation from our objective.[1] Indeed, some indicators of longer-run inflation expectations have been on the soft side in recent months.

Putting all of the pieces together, it appears the economy has been doing well so far this year, bolstered by confident consumers and a strong job market. And after fluctuations earlier in the year, financial markets currently appear supportive of growth, with borrowing rates low and the stock market at all-time highs.

While the modal outlook is solid, the downside risks, if they materialize, could weigh on economic activity. Taking into account the downside risks at a time when inflation is on the soft side would argue for softening the expected path of monetary policy according to basic principles of risk management. Of course, my judgment about the actual path of policy will continue to be influenced by the evolution of the data and the risks.

I am mindful that low spreads on corporate credit, together with risky corporate debt at historic highs, suggest financial imbalances are growing. We should be

[1] The federal funds rate was close to zero for nearly seven years following the financial crisis, and it likely would return to zero in a downturn. When nominal interest rates are zero, a drop in inflation expectations can be especially problematic, making the "real" interest rates that matter for household and business decisions higher than they would otherwise be and therefore less supportive of growth.

addressing these financial imbalances by activation of the countercyclical capital buffer, more rigorous use of stress tests, and active monitoring of leveraged lending.

So what does this mean for you and the families and businesses you serve in and around Scranton? I hope and expect that the progress you have made in transforming the region's economy will continue as the expansion extends into its 11th year. I am well aware of the challenges this area has been working to overcome since the Great Recession. And I am impressed by how much has been accomplished here. You have had important success in attracting new logistics jobs to take advantage of Northeastern Pennsylvania's proximity to major cities. You are making important investments in the forward-looking "eds and meds" (education and health-care) sectors by leveraging the 19 colleges and universities in and around Scranton. There are signs that these investments are paying off. Household incomes in Scranton are growing again. The area's unemployment rate is close to its lowest level in the past 40 years. I look forward to hearing from the community bankers gathered here today about the outlook for families and businesses in Northeastern Pennsylvania and how you are helping the region invest and grow.

And I am looking forward to continuing the discussions tomorrow, when I will visit with the Scranton Area Community Foundation to discuss the Northeastern Pennsylvania equitable transportation initiative, NEPA Moves, that is working on transportation solutions to connect residents with opportunity. I look forward to visiting Geisinger Fresh Food Farmacy and meeting with patients to hear about the innovative "food as medicine" program. I also look forward to visiting the Cedar Avenue corridor with the United Neighborhood Centers of Northeastern Pennsylvania to hear about the resident-driven revitalization there.

Let me again thank Pat Harker and all of you for having me here today. I look forward to our discussion.