An Economic Outlook

Commercial-Industrial Realty Council's
25th Annual Joint Holiday Dinner
Wilmington, DE

November 13, 2019

Patrick T. Harker

President and Chief Executive Officer
Federal Reserve Bank of Philadelphia

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It's a pleasure to be back in Blue Hens territory, and I am truly happy to be here this evening.

I've worn a few professional hats in my day, each of which required a certain degree of measured speech and withholding personal opinion. There are things you can and can't say in almost every job, and that's never been more true, for me, than as a Fed president. We have to be measured and circumspect about how and when we speak. We steer away from controversial political and social issues. But I do feel, in this room tonight, that I would be remiss if I didn't draw attention to a flagrant blow to the heart of Delaware culture and tradition. How on earth is punkin chunkin moving to Illinois!?

Since I have, now, delved into a deeply important social issue, it's a good time to give my colleagues concrete deniability and share the requisite Fed disclaimer that the views I express today are my own and do not necessarily reflect anyone else's in the Federal Reserve System.

With that taken care of: I've spent a lot of years talking in front of crowds, mostly in the realm of academia. So my audiences have largely been required to show up and listen to the hour I had to fill. On this occasion, however, I'm going to keep my remarks short, because I get much more out of your questions and hearing what you have to say than I do from lecturing, and I'm positive it's also more interesting for you than listening to a policymaker drone on. Not to mention that I've found that those conversations are significantly more lively after everyone's had a good dinner and a glass or two of wine … so with that, I'll give a brief outlook on the economy and where I see policy headed, then turn it over to you for questions.

The headline on my views these days is: not much news. Despite spirited conversations on all aspects of the economy, my outlook has stayed relatively steady.

Starting with employment, I feel comfortable saying that we've met our remit. The labor market continues to evince remarkable strength. Unemployment is at a 50-year low, and the pace of job creation continues at above the rate we'll need to keep pace with growth. That continued resilience is important, particularly in the Philadelphia Fed's District — where many of our cities and towns trail national averages — because as the market gets tighter and tighter, it starts to finally reach the people who are most likely to miss out on the good fortune of positive economic trends. There are still people on the sidelines, and we have continued to see more of them reenter the workforce. More people on the margins are finding their way back into employment and a future. And from the business perspective, the biggest issue on the labor front has been a lack of skills and a lack of workers. So the more people, the better, all around.

I do want to note that this trend obviously can't go on forever and, at some point, the pace of job creation will slow. When that happens, there's likely to be a decent amount of doom and gloom in the headlines and laced through the commentary. But it's important to remember that about 100,000 jobs a month or so is trend; it's what we'll need to keep pace with growth, and we've been seeing rates much higher than that for several years. That said, I do still see unemployment staying below the 4 percent mark for the next couple of years, assuming that conditions play out more or less as expected.

Turning to the inflation side of our mandate, this is, of course, the one that's proven more difficult. Inflation has not only shied away from our 2 percent goal for some time, it's defied our predictions of when it will finally get there time and time again. With that in mind, I want to note that inflation is not running backwards; rather, it's edging up — to be fair, it is sometimes taking a step back after two steps forward. But it is on track, and it is heading, on average, in the right direction. Ultimately, I do see it reaching our goal in the next 18 to 24 months.

Growth has also captured some negative headlines, but again, I think they mischaracterize the data: On the aggregate, it has continued to meet our expectations. I remain of the opinion that we'll see GDP growth of a little above 2 percent for 2019, returning to trend of about 2 percent next year.

Whether or not 2 percent is an adequate pace of growth has been another subject of debate, but there is, by and large, consensus among economists and forecasters that this is trend. And from a policy perspective, there isn't much that monetary policy can do to change that. I've said before — ad nauseam, really — that the power and reach of monetary policy is relatively constricted. Meaningful change to the nation's growth trajectory requires fiscal policy. The Fed can create the conditions for growth to take root, but for it to flourish, it needs the nourishment of legislative action.

We are riding the wave of the longest economic recovery on record, and that's a positive. The economy is in a good place.

That said, there are, of course, headwinds, the strongest being uncertainty. Trade and international developments, including slowing overall global growth, have cast a shadow of ambiguity. And as anyone who's sat on a corporate board can tell you, in those situations, when the future is murky, you wait to make decisions. And while the consumer has been the hero of this year's growth story, that can't be the single engine. We need business investment to drive the economy as well.

Normally, that's where I'd stop with an outlook speech, but I have the premier collection of Delaware's real estate community in front of me, so I don't think I can get away without mentioning the housing market.

On the residential side, home price growth has slowed down noticeably in the past several years. However, the figures have been improving in recent months. And while current readings of inventory, as well as construction, of single-family housing remain low relative to their historical norms, they are improving. Low mortgage rates in the recent months have also had some impact. On the consumer side, delinquency rates continue to fall, signaling a healthier credit market. For the Fed's Third District, the overall story is similar to the national one. However, as with many indices in our area, the recovery has taken a bit longer to reach our local markets.

With the outlook generally positive, and the economy in a good place, I come to the part that everyone really cares about: rates. My own view is that we should hold steady for a while and watch how things unfold before taking any more action. I am not a voting member on the FOMC this year, but I held this same view regarding the last two cuts. I would have preferred to hold firm. And while it wasn't my preference, it does act as a good reminder that monetary policy in the United States is a deliberative process. Every region of the country is represented around the table, and policy made by a plurality of views and opinions will necessarily be thoughtful and temperate.

With all that said and done, it's time to move the floor over to you. One of the most important sources of information for a Fed president is the people who see major industries and sectors from the ground.

Your insight is invaluable, and I’m most looking forward to what you have to say. Especially about the catastrophic loss of punkin chunkin.