William C Dudley: "Remarks at the New York Fed's Economic Press Briefing on the Regional Economy"

Opening remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Economic Press Briefing on the Regional Economy, Federal Reserve Bank of New York, New York City, 18 August 2016.

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Good morning and welcome to the New York Fed's Economic Press Briefing. I am pleased to have this opportunity to speak with the journalists covering our region. You are an important communication channel to the people in our District. This morning I want to focus on economic conditions in our region, giving particular attention to job growth. I also want to discuss our ongoing work on Puerto Rico. As always, what I have to say reflects my own views and not necessarily those of the Federal Open Market Committee or the Federal Reserve System.

The New York Fed is deeply committed to serving our region. This commitment manifests itself in several ways. We produce business surveys and local economic indexes to help our constituents track regional economic conditions. My staff writes papers and blog posts on economic issues important to our region. We meet with a number of advisory boards comprised of community and business leaders. And, I regularly visit different parts of our District so that I can meet with local businesses, community development professionals, and the people who live and work here. This on-the-ground intelligence is valuable to me and helps inform my view of the region and the economy, which, in turn, plays an important role in shaping my outlook on policy.

Let me now talk a bit about job growth in our region.

Job growth in the region

Nationally, the labor market has added 2.4 million jobs over the past year. And, the strong jobs reports released over the past two months have helped allay concerns that arose earlier this year that job growth was beginning to stall. Indeed, these reports reinforce my view that labor market conditions continue to improve.

Turning to conditions closer to home; job growth in our region has generally been somewhat below the national pace. One important exception is New York City, where job growth has been strong, despite the relatively sluggish performance of the financial services industry. In the past, the City has counted on job growth from Wall Street to fuel economic growth during recoveries and expansions. This time around, however, job gains in the securities industry have been meager. Instead, the City's job growth has been quite widespread in sectors outside of finance. One that is especially noteworthy is the City's burgeoning technology sector, which has been creating jobs in industries such as internet publishing, online shopping, and scientific research and development. Growth in these high-paying jobs is picking up much of the slack created by the softness of the securities industry.

In fact, strong growth in New York City has been helping many of its surrounding areas, including northern New Jersey, Long Island and Fairfield County. Many workers residing in these areas commute to New York City and have access to the City's vast, diverse and expanding job market. For example, Long Island's unemployment rate is now below 4 percent, its lowest level in nearly a decade. In Connecticut, Bridgeport has also benefited. When I visited a few months ago, I saw firsthand some of this resurgence. Bridgeport is both the largest and poorest city in Fairfield County, and for decades had seen its population and job base steadily decline. But, since 2000, its population has started to grow again for the first time since the 1940s. Even as other parts of Fairfield County struggle with a number of high-profile corporate relocations, jobs have begun growing and Bridgeport is showing signs of revival.

In upstate New York, economic growth has generally been modest, with job growth running well below the national pace. This isn't new, as upstate New York has historically tended to grow much more slowly than the nation. Though growth has been slow for the region as a whole, some places are doing relatively better than others. In particular, job growth has picked up in Buffalo, and the Capital Region continues to see sturdy growth coupled with significant manufacturing job gains.

However, not all parts of upstate New York are seeing the same degree of economic progress. There has been little to no growth in the center of the state, and Utica and Binghamton continue to see employment declines. Binghamton stands out as being particularly challenged, as its economy has yet to see any meaningful recovery from the Great Recession. Steep manufacturing job losses have weighed heavily on the area, though these losses appear to be nearing an end. I had the opportunity to visit Binghamton earlier this summer, and I was encouraged by what I saw. The region is making serious efforts to boost economic growth, with Binghamton University playing a key role in fostering local business activity. And, like many places dealing with steep manufacturing job losses, there is a large swath of displaced workers that need assistance returning to the labor market. This has proved challenging and remains a priority.

Update on Puerto Rico

On balance, I think it's fair to say that the economic news from much of the Second District has been quite positive. An important exception, though, has been the fiscal crisis faced by the Commonwealth of Puerto Rico, home to 3.5 million U.S. citizens. Unfortunately, Puerto Rico continues to struggle under the weight of economic stagnation, employment declines and outmigration. This year, the government has been unable to make its debt payments on schedule and has lost access to the public debt markets. The pressures that culminated in these missed payments have been building for some time. This is an issue that we have been focused on for several years. We have published a number of reports in order to help highlight challenges and opportunities, to inform the discussion around solutions.

I have visited Puerto Rico on several occasions, and had the opportunity to talk to residents and hear about the challenges they face. As an outgrowth of one of these trips – taken in 2011 – I commissioned my staff to produce a report on the competitiveness of the Island's economy. We released this report in 2012, and it served, I believe, a useful purpose in providing technical analysis and identifying some important issues deserving of policy attention. Over the following two years, the Island's fiscal problems worsened. Consequently, in 2014 we published an update to the initial report – this time focusing on the Island's public finances – and again offering suggestions for consideration.

In June, Congress and the Obama Administration took action providing a framework to help address the Commonwealth's fiscal crisis. Part of that agreement re-emphasized that the Commonwealth's fiscal sustainability depends crucially on an expanding economy. In an effort to continue to shed light on the important issues, last week we published in our Liberty Street Economics blog a five-part series entitled "Restoring Economic Growth in Puerto Rico." Some important conclusions emerged from our analysis, and I want to emphasize those today.

First and foremost, Puerto Rico's current level of public debt is unsustainable. Achieving fiscal sustainability requires real reforms and a significant adjustment to the Commonwealth's debt burden, as Congress and the Administration have recognized. To illustrate this point, our analysis demonstrates that even if growth were to return to between 2 and 2.5 percent per year – an optimistic scenario – debt as a share of GDP would continue to rise under the current fiscal balance and debt structure. This underscores that the current regime is not sustainable. Second, while fiscal reform is definitely needed, restoring economic growth remains a crucial ingredient to achieving a sustainable fiscal regime. Puerto Rico slipped into recession in 2006, and a decade later a recovery has yet to materialize. Any fixed level of debt will grow even more burdensome if the economy is shrinking. Consequently, this long deep recession has exacerbated the Island's fiscal woes.

Much of last week's analysis focused on a key contributor to economic growth – the labor force – so let me point out a few conclusions that I drew from that work. Puerto Rico's outmigration remains an important concern, and is both a cause and an effect of the economic decline. Although the skills of those who have migrated to the Mainland look much like those who remain, the departure of tens of thousands of residents each year represents a huge drain on Puerto Rico's potential growth. Among those who remain on the Island, low labor force participation, an aging population and relatively poor preparation for skilled jobs represent significant headwinds to growth.

While our analysis seems to paint a somewhat dark picture of economic conditions on the Island, it's important to remember that there are significant opportunities for action that can leverage the Island's strengths to foster economic growth. These include its bilingual adult population, an open economy occupying a central position in the Caribbean, wide experience as host to international corporations, and close economic ties to the U.S. mainland. It is in exactly this spirit that we present this analysis – in the hope that it will help policymakers focus on actions that can help to restore growth and prosperity to the Commonwealth. Going forward, we will stay engaged in this effort.

Middle-wage jobs returning

Let me conclude by returning to the theme of the labor market. Job growth is essential to the vitality of an expansion, but the types of jobs being created are also important. While the labor market has continued to add jobs at a solid pace, many remain concerned about a lack of job opportunities for the middle class. Indeed, growth of middle-wage jobs has been lackluster for the past few decades, with gains occurring disproportionately in higher-wage and lower-wage sectors. This long-term hollowing out of jobs in the middle of the wage distribution has helped fuel rising wage inequality, and has contributed to a growing sense for some that they are being left behind in the current economic expansion. At a previous press briefing, we showed that many middle-wage jobs disappeared during the Great Recession with very few of these jobs returning during the early stages of the recovery. This made it especially difficult for many workers who lost their jobs to rejoin the economy.

Today, our economists will show that the tide has begun to turn. For the first time in quite a while, gains in middle-wage jobs actually outnumber gains in higher- and lower-wage jobs nationwide. These middle-wage jobs include teachers, construction workers, mechanics, administrative support personnel and truck drivers, just to name a few. I believe this is an important development in the economy, because, if it were to continue, it would create more opportunities for workers and their families who have been struggling up to now. Middle-wage jobs are also being created in our region, though such gains have been more evident in some places than others.

I will now ask Jaison Abel to provide more details about job growth in our region.