William C Dudley: Prospects for the local economy and the importance of workforce development

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Onondaga Community College, Syracuse, New York, 25 September 2017.

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Good morning. It is a pleasure to be here with you in Syracuse, and I want to thank Onondaga Community College for hosting us. This is my fourth visit to Central New York as president of the New York Fed, and I always look forward to coming back as part of our regular visits to different parts of our district. These trips and our meetings with stakeholders in the region give me and my colleagues important insight into what's happening in the economy.

Today, I will briefly discuss my outlook for the U.S. economy and what we are seeing at the regional level, and offer some reflections on the challenges and importance of workforce development in the region and across the nation. As always, what I have to say reflects my own views and not necessarily those of the Federal Open Market Committee (FOMC) or the Federal Reserve System.[1]

Two years ago, I spoke in nearby Rochester on the topic of workforce development.[2] Since then, the need for effective workforce development has become no less pressing, and both the New York Fed and the Federal Reserve System have focused greater efforts on this critical issue. This morning, I will return to some of the themes from that speech and look at lessons we have learned.

The U.S. Economic Outlook

Although the damage wrought by Hurricanes Harvey, Irma, and Maria has imposed immeasurable hardship on many and will undoubtedly disrupt commerce for a time, these effects are likely to be relatively short-lived in the context of the overall economic outlook. Natural disasters tend to depress economic activity initially, but once the recovery and reconstruction efforts get underway in earnest, such disasters actually serve to lift economic activity.

Looking beyond the storm effects—which will make interpreting near-term economic data releases more difficult—the U.S. economy remains on a trajectory of slightly above-trend growth, which is gradually tightening the U.S. labor market. Over time, this should support a rise in wage growth. The fundamentals supporting continued expansion are generally quite favorable. Low unemployment, sturdy job gains, and rising wages—even at a pace below previous expansions—are lifting personal income. Household wealth has been boosted by rising home and equity prices, and household debt has been growing relatively slowly, contributing to a healthy household balance sheet. Thus, consumer spending should continue to advance in coming quarters.

Business fixed investment outlays are also likely to continue to rise. With the supply of labor tightening, there are greater incentives for businesses to invest in labor-saving technologies. Investment spending should also benefit from a better international outlook and improvement in U.S. trade competitiveness caused by the dollar's recent weakness. The softer dollar and solid growth abroad also suggest that the trade sector will no longer be a significant drag on economic growth.

With a firmer import price trend and the fading of effects from a number of temporary, idiosyncratic factors, I expect inflation will rise and stabilize around the FOMC's 2 percent objective over the medium term. In response, the Federal Reserve will likely continue to remove monetary policy accommodation gradually.

The Regional Economy

While the national economy has been growing steadily since the end of the Great Recession, the economies of Upstate New York have lagged behind, with job growth running at only about half the national pace through much of the expansion. And, over the past year, job growth in Upstate New York has slowed considerably, particularly in Rochester and Buffalo.

Here in Syracuse, job growth has also been disappointing through most of the expansion, with an even slower pace of growth than many other upstate areas. In fact, today, almost 10 years after the Great Recession, Syracuse has still not fully recovered all of the jobs that were lost—a benchmark most of Upstate New York passed some time ago.

However, this slow growth does not imply that the region is standing still. Indeed, there is a lot of activity going on beneath the surface. The Syracuse economy and labor force are evolving and becoming better positioned for the future. But, more needs to be done to help workers adapt to change, a theme I will return to in a moment.

As is the case in much of the country, Syracuse has experienced a dramatic decrease in manufacturing jobs, reflecting the dual forces of technological change and globalization. These were well-paying jobs that supported a vibrant middle class. Now, I am a firm believer in the overall positive effect that open trade has had on the United States, but I also recognize that its benefits and costs are distributed unevenly, and the positive and negative consequences can be geographically concentrated.[3] On the whole, we have not done enough to recognize the vast consequences of these changes and to help those hurt by technological change and globalization.

The Syracuse economy has changed considerably from 25 years ago, when manufacturing was the dominant source of jobs and income. The number of manufacturing workers has been cut in half since then, reducing the sector's share of employment from 15 percent to 8 percent—a share that is now on par with the nation. This transition has been painful, but has resulted in a more diversified and stable regional economy.

In manufacturing's place, the healthcare and education sectors have picked up the slack, and have been a stabilizing force for the Syracuse economy. Offsetting the 20,000 manufacturing jobs that were lost over the past 25 years are around 25,000 jobs added in education and healthcare. Those two sectors now employ almost 20 percent of the workers in the region. Other sectors, like business services and leisure and hospitality, have also been creating new job opportunities that differ from the ones the region previously relied on.

In addition, jobs are being created in innovative hot spots in the region. For example, start-up companies rising from the Syracuse Tech Garden, as well as a new global center for unmanned aerial systems, are providing exciting new opportunities. While these particular efforts are still relatively small in scale, they have the potential to change the trajectory of the regional economy over time. However, Syracuse will need workers with deep skill sets to fill such jobs.

To that end, it can be difficult for workers to adapt to these changes, and they may need help to get there. Taking a broader view, the good jobs being created in today's economy require more education, training, and, ultimately, skill than ever before. The skill requirements for virtually all jobs are increasing, and workers will need to rise to the occasion to thrive in today's economy.

The challenge facing all of us is how to best help workers develop the skills necessary to land a good job, and how to enhance those skills over time as work requirements evolve. Workers with years of experience in jobs that are no longer in demand have it especially hard, as their skills may not be sufficient or match current opportunities—an all-too-familiar story for workers in the Syracuse area.

Workforce Development

Workforce development must, therefore, be a top priority for everyone involved: workers, employers, communities, government, and educational and training institutions. There is no silver bullet or one-size-fits-all solution. This is a complex challenge that requires a combination of strategies. But one thing is clear: it requires a holistic approach encompassing the "three P's" I described two years ago—Partnerships, Programs, and Placement—and then some. Before delving deeper into these, let me first explain why we, as the nation's central bank, care about workforce development.

As many of you know, the Federal Reserve is tasked by Congress with a dual mandate: maximum employment in the context of price stability. Clearly, we cannot declare success if we have people who want to work but lack the skills to fill available jobs. A skilled workforce that is matched to the needs of employers is necessary for the economy to grow and prosper, and for individuals to reach their potential. Monetary policy can help labor markets recover by providing incentives for firms to invest and grow. However, monetary policy cannot by itself solve skill mismatches and gaps that exist in the economy.

So, what can we do? The Federal Reserve provides research and analysis, and leverages its convening ability to bring together diverse stakeholders to better understand the issues and identify practices that work. For example, we run the Leading the Way video campaign with P-TECH schools and employer partnerships.[4] This competition challenges teams of high school students in the Rochester area to create public service announcements detailing skills required to work in industries that are currently hiring. We also participate in the New York City Data Science Task Force to increase the number and diversity of students in the metropolitan area prepared to enter graduate school or the workforce with data science skills. And, we are finalizing the results of a survey of community colleges across New York State that looks at their engagement with employers for the purposes of workforce development. I will talk a bit more about the survey's preliminary results shortly.

In addition, we are working with the Federal Reserve Board of Governors and our fellow regional Reserve Banks on broader initiatives to promote investment in workforce development and encourage partnerships, including next month's Investing in America's Workforce Conference in Austin, Texas. The conference is a joint effort by the Federal Reserve System and several leading institutions in the field[5] intended to connect businesses, government agencies, non-profits, academics, and philanthropic organizations. The goal is to reframe workforce development as an investment, attract new resources, and leverage existing ones to improve economic mobility and job opportunities for potential workers.

The Three P's of Workforce Development

The core of any workforce development effort is the need to help workers build the skills necessary to adapt to change, meet the challenges of an evolving economy, and find good-paying jobs. We have been hearing from business owners across our district, on our advisory councils, and through surveys for several years about the skills gaps they face, in areas as diverse as engineering, long-haul trucking, welding, and metalworking. What they all have in common is that they require specific skills and training, whether through a certification program, a two- or four-year degree, or a formal apprenticeship—an approach that has been very successful in countries such as Germany and the UK, but has not been as widely used here.

This is where the partnership concept comes into play. Partnerships entail cooperative efforts between local employers and educational institutions to determine the best strategies to help workers develop the skills employers need. The good news is that New York State seems to be ahead of the curve in this area.

As I mentioned, we are in the process of completing a survey of community colleges in New York State. The early results are encouraging: we have found that all community colleges in the state offer some workforce development programming, and partnerships with employers are the norm. In fact, the median number of employer-partners among community colleges is over 100, and there are partnerships in every industry, from healthcare to utilities to agriculture. Such partnerships are growing in importance and fill a need for both local workers and employers. This goes to my second P: Programs. Community colleges in New York are becoming very adept at creating programs tailored to the current skills required by local employers.

Locally, I'd like to highlight Onondaga Community College's partnership with Madison County manufacturers, which trains workers through the Apprentice Career Training program. This program provides paid training for students that can lead to four-year apprenticeships in participating businesses in advanced manufacturing, where they will develop skills necessary for jobs that are in high demand, including maintenance mechanics, tool makers, and machine operators.

I would also like to call attention to Work Train's job training and industry collaboration,[6] as well as the work of the Onondaga Citizens League to quantify the types of jobs that are in Central New York, what job opportunities will likely exist in the future, and other critical workforce-related questions. I anticipate that the Citizens League's report on how Central New York works will serve as an important resource for shaping workforce development programs in the area.[7]

However, while training and skill-building are foundational, they are not enough. Placement into good jobs—my third P—is a critical component of effective workforce development, especially for those currently unemployed. Recent work by Federal Reserve economists highlights some of the hurdles to job placement that will need to be overcome. This research leveraged the New York Fed's Survey of Consumer Expectations to examine how people find work.[8] The difference between those looking for work while employed versus those who are unemployed is stark. Relative to the unemployed, employed workers spend less time searching for jobs but have three times higher contact rates and two times as many job offers. Furthermore, workers hired from another job do better than those who are unemployed, receiving 28 percent higher wages and twice the level of benefits. While we have always known how difficult it is for recent high school or college graduates to find their first job, it seems that those currently unemployed face an even greater hurdle, and this is an issue that we need to address.

Another finding from this work is the importance of networking and references for those seeking employment. Referrals accounted for 40 percent of total job offers, and while 60 percent of all job applications were the result of job board searches, these accounted for only 24 percent of offers. This all suggests that workforce development providers need to build relationships and trust with employers as a way to help their job-seekers find available opportunities and successfully apply for them.

Having covered the three P's, I'd like to now focus briefly on the "and then some," which refers to addressing a number of social and structural factors that work against even the best workforce development efforts.

In my travels throughout the region and my interactions with workers, business leaders, workforce development practitioners, and others, I regularly hear how access to transportation and childcare are preventing able and willing workers from actually working. People's inability to get to jobs relatively far from where they live—either because they can't afford a car or there is no viable and reliable public transportation. This is a challenge we are seeing both in sparsely populated areas, like the North Country, and in cities, where jobs may be available in the surrounding suburbs and exurbs with no easy public access. With regard to childcare, cost and access are what we hear most as hindering people's ability to fill jobs. And, even for those who can afford childcare, irregular scheduling by employers makes it very difficult to plan effectively. Additional adverse factors include a decline in geographic mobility—that is, people's ability or willingness to relocate to where the jobs are—and the opioid epidemic, which Chair Yellen recently spoke about as having a significant negative impact on our workforce.[9]

While I am not an expert on these subjects, I can say that the inefficiencies these impediments create are keeping us from realizing our full potential individually and as a country, and that addressing them as part of a comprehensive workforce development solution is essential.

I would like to conclude by saying that Syracuse, as well as Upstate New York more generally, has been dealing head-on with the consequences of economic change for a long time. Perhaps because of this, the region has developed a deep understanding of the importance of helping its people adapt through workforce development programs. The issue of workforce development is a complex one that requires a holistic approach and close collaboration among all interested parties. The good news is that many great organizations in the area are trying different approaches to discover what works best. Our region is in many ways leading the way, and we at the New York Fed will continue to support these efforts.

Thank you for your kind attention. I would now be happy to take a few questions.

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1 Jaison Abel, Jason Bram, Gerard Dages, Tony Davis, Richard Deitz, Jack Gutt, and Anand Marri assisted in preparing these remarks.

2 See William C. Dudley, Workforce Development and Reinvention in the Rochester Economy, August 12, 2015.

3 See William C. Dudley, Benefits and Challenges from Globalization, May 11, 2017.

4 P-TECH stands for Pathways in Technology Early College High School.

5 Some of these institutions include the John J. Heldrich Center for Workforce Development at Rutgers University, the Ray Marshall Center for the Study of Human Resources at the University of Texas at Austin, and the W.E. Upjohn Institute for Employment Research.

6 Work Train is a program of the CenterState Corporation for Economic Opportunity.

7 How CNY Works, Onondaga Citizens League, 2017.

8 R. Jason Faberman, Andreas I. Mueller, Ayşegül Şahin, Rachel Schuh, and Giorgio Topa, How Do People Find Jobs?, Federal Reserve Bank of New York Liberty Street Economics (blog), April 5, 2017.

9 Smialek, J. (2017, July 13). Yellen Says Opioid Use Is Tied to Declining Labor Participation. Bloomberg News.