John C Williams: A tale of many economies

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at University at Albany-SUNY, Albany, New York, 11 July 2019.

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As prepared for delivery

Thank you for that kind introduction and for having me to speak today.

I'm an economist, so I naturally have a fascination with data, statistics, and what we can learn from them. But the reason I find economics so interesting isn't the numbers or the charts—it's how they shape the everyday lives of people. And that's the reason running a Federal Reserve Bank is such a privilege. The work we do—our public mission—plays a big role in helping people get jobs, take out mortgages, or grow their businesses.

Today I'm going to talk a bit about that work and the health of the economy—both at the national level and for this region, the Federal Reserve's Second District.

Before I go any further I need to give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee or others in the Federal Reserve System.

I've just referred to the Federal Open Market Committee and the Federal Reserve System, but I know it's not always entirely clear to people what they are, or what they do. The Federal Reserve has two monetary policy goals set by Congress: keeping prices stable, and ensuring there are as many jobs in the U.S. as possible.

Underpinning both of these goals is a strong economy, and we use monetary policy to support that. A major part of monetary policy is setting interest rates, and we do this at Federal Open Market Committee—or FOMC—meetings in Washington, D.C.

The Federal Open Market Committee consists of the presidents of the 12 Federal Reserve Banks and the Board of Governors, who sit down as a group every six weeks to decide what interest rate will ensure sustainable growth. We don't want the economy to grow so fast that it's unsustainable, or so slowly that it discourages jobs and investment. Just like Goldilocks and her porridge, we don't want it too hot or too cold—we want it just right.

The Macro Outlook

We make those decisions by examining a wide range of data and information. Given that our goals are price stability and maximum employment, we tend to focus a lot on data such as the inflation rate, employment, unemployment, and GDP growth. But, that's not all—we also collect and analyze enormous amounts of other information to help us assess the state of the economy and the economic outlook.[1]

So, what does all that information tell us about the current economic outlook?

After surging ahead last year, the U.S. economy appears now to be growing at a more moderate pace. I expect GDP growth to be around 2-1/4 percent this year, moderately above my estimate of the long-run sustainable growth rate for the economy.

In my past speeches, I often mentioned the fact that we're *nearing* the longest expansion on record. Well, as of this month, I can finally say that we've *reached* that milestone. The economy has been growing for 121 months—a little over 10 years.

While this is undoubtedly good news, the headline data mask a more nuanced economic picture. Consumer spending has been an important driver of growth, and the most recent readings have been very positive. However, other signs point to slowing growth. In particular, the latest indicators suggest that business fixed investment has softened and that manufacturing production is in decline. And the outlook for growth outside the United States has dimmed, which will weigh on demand for U.S. products.

This mixed picture is mirrored in the employment data. On one hand, the unemployment rate, which stands at 3.7 percent, is near the lowest we've seen in 50 years. On the other, job growth has slowed this year relative to last year's pace.

Finally, turning to prices, the latest data show that underlying inflation is 1.6 percent, below our 2 percent goal. The major challenge with inflation that's persistently lower than 2 percent is that low inflation feeds into inflation expectations. If inflation stays too low, people will start to expect it to stay that way, creating a vicious cycle, pushing inflation further down over the longer term, and making it harder to achieve our goals through monetary policy.

The Second District

All of these numbers tell the story of the U.S. economy at the macro level, but they're not always reflected in the real experiences of Americans across the country. I referred at the beginning of this speech to the Second District—which includes New York State, parts of New Jersey and Connecticut, Puerto Rico, and the U.S. Virgin Islands—and is the area the New York Fed is responsible for. I spent yesterday and today meeting with district business leaders, community organizers, and elected officials, hearing about their work, their successes, and their challenges.

People's experiences are influenced by the macro level, but their local economy plays an equal, and often more important role in shaping their economic opportunity.

One aspect of the Fed that we don't talk about enough is the work our regional economists and our outreach teams do, trying to understand what's going on at the local level.

While the U.S. economy has been growing for the last 10 years, analysis by New York Fed economists shows that not everyone is feeling the benefits equally.

Growth is concentrated in the largest cities like New York and San Francisco, and those who benefit the most are those who already have high incomes.[2] A large part of this is because current economic conditions favor highly skilled workers who tend to flock to cities. These big metropolitan areas are successful, but they also suffer from some of the starkest wage inequality in the country.

By contrast, upstate New York is less unequal, but the disappearance of manufacturing jobs has held back growth. More equal wage growth is only good news if people have jobs. But many have found themselves in the position of leaving the area in which they grew up to look for work.

The Albany area has bucked this trend. The mix of colleges and universities specializing in innovative subjects like nanotechnology, and high-tech businesses, alongside its position as a state capital, has created a real economic success story. I know there are a lot of students in the room, and choosing SUNY was a wise move. Investing in an education that equips you for the future will pay off over the long term.

The Tale of Many Economies

So what can the Fed do about this complex picture—the tale of many economies I've talked about today?

Monetary policy is an important tool, but it alone cannot address all the economic issues that we face. The policies we enact at the FOMC are vitally important for sustaining growth at the national level, but they can't determine everything that happens at the local level.

This is where our community development work comes in. Through our research and outreach, we put data and analysis into the hands of community leaders to give them tools to strengthen their local economies. We have programs that use our convening power to bring together stakeholders to share knowledge—our workforce development program is a key example. And finally, we use our research to catalyze action and investment. Tools such as our resource guidebooks serve as a starting point for investors.

Conclusion

I started by talking about our goals—keeping prices stable and ensuring maximum employment. These things are essential for a strong and prosperous economy. And while the current picture is complex, the economy is in a good place.

But not every community has benefited from the growth of the last decade to the same degree. At the New York Fed, we are committed to understanding what drives growth, economic inequality, and what creates opportunity. Those are the insights that drive my fascination with economics and my commitment to the Federal Reserve and its public mission. Those are the insights from the data we need to leverage, so that all parts of the U.S. economy can reach their full potential.

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1 John C. Williams, Monetary Policy: A 'Data Dependent' Approach, Remarks at the New Jersey Bankers Association's Economic Leadership Forum, Somerset, New Jersey (January 18, 2019).

2 Abel, Jaison R. and Richard Deitz, Why Are Some Places So Much More Unequal Than Others?, Federal Reserve Bank of New York, *Economic Policy Review*, forthcoming 2019.