Economic Outlook and Building an Inclusive Recovery

The Center City Proprietors Association
Philadelphia, PA (virtual)

July 15, 2020

Patrick T. Harker

President and Chief Executive Officer
Federal Reserve Bank of Philadelphia

FEDERAL RESERVE BANK
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Good afternoon, everybody, and thanks to Suzette for that very kind introduction. It's great to be here among such an impressive group of people who care deeply about our city.

Given that today's lunch is virtual, I won't do the standard thing and urge you to try the salmon and tip the waiters. But I still have to do another standard thing, which is to give you my usual Fed disclaimer: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

The New Abnormal

We're now about four months into the coronavirus crisis and the onset of what I don't want to call the "new normal." None of this — including the fact that we're meeting virtually today — is normal.

Over that period, we went from enjoying strong economic growth, stable prices, and near-record low unemployment to a sharp contraction of economic activity and tens of millions of job losses. Meanwhile, more than 130,000 of our fellow citizens across the country have lost their lives to COVID-19 — and the number continues to rise each day.

It has been a heartbreaking period.

I was trained as an engineer right here in Philadelphia, and one of my guiding principles has always been to trust the science. We're learning that lesson anew during this period. Despite the enormous sacrifices made by tens of millions of Americans, the country has still failed to control the virus.

That is first and foremost a public health crisis. And it's an economic one, too. A Fed president might like to think otherwise, but there is only so much policymakers can do right now to affect the economy. Our country's economic performance in a large part depends on what happens with COVID-19.

The projections I'm about to share with you, in other words, come with a huge caveat: They're constantly changing along with the path of the virus. Still, doing a bit of averaging, I can tell you that forecasts are suggesting about a negative 20 percent real GDP growth in the first half of this year followed by a 13 percent growth in the second half. Growth in 2020 would end up at around minus 6 percent. That's a much sharper recession than we experienced during the financial crisis.

None of this is to suggest that policymakers sit on their hands until the virus passes, of course. Indeed, the pandemic has brought forth a policy response commensurate to its gravity. Congress provided significant fiscal support for the economy, which has blunted the pain of the contraction.

Fed Actions

And the Federal Reserve's role in mitigating this crisis has been to use our lending powers to maintain our underlying economic infrastructure by making sure that every sector of the economy has access to liquidity. Our lending facilities are meant as backstops to the private sector. We don't want to disintermediate the private sector — we simply want to be there to support market functioning.

We've done this, first and foremost, by lowering our policy interest rate to near zero fast and early. We kept this stance unchanged at last month's FOMC meeting. As shown by the Survey of Economic Projections, almost all my colleagues believe, as do I, that it will be appropriate to maintain the policy rate near zero if the economy evolves as expected. Using the discount window, we are also actively encouraging banks to borrow money from the Fed at ultra-low interest rates, to make sure they have the funds they need to serve their customers at this critical time.

In order to keep markets functioning, beginning in March, we started buying large amounts of Treasury bonds and mortgage-backed securities. We have now purchased more than $2 trillion of these products. The markets have largely stabilized, and we've slowed the rate of purchases. But we're not stopping. We intend to keep buying about $120 billion worth of Treasury bonds and MBS each month. As a backstop, we have also purchased some corporate debt, and as the economy and credit markets heal, we will disengage from that market as prudently and as expeditiously as possible.

Backed by credit protection from the U.S. Treasury, we've also launched the Main Street Lending Program, which provides support for small and mid-sized businesses that were in good financial standing before the COVID-19 pandemic. The program opened in June and offers a variety of five-year loans to U.S companies employing up to 15,000 workers or with revenues of up to $5 billion, while deferring principal payments for two years and interest payments for one year. In conjunction with the Treasury, we are also considering ways to broaden the program to include nonprofit organizations, which play a vital role in our communities and local economies.

There has been somewhat limited interest in Main Street — only about 400 banks have registered to participate in this program. But in a way, that's actually a good sign for the economy because it means that firms have access to capital without having to use the Fed. Because if you recall, in all of this, we are simply a backstop. On the other hand, if there is another major downturn in the economy, these facilities will still be in place to offer funding.

At the same time, we're bolstering the heavily used Small Business Administration's Paycheck Protection Program (PPP) by supplying liquidity to financial institutions that are issuing loans to those businesses that are receiving aid through the program. There has been a lot interest in PPP, with more than 4.5 million loans issued to the tune of more than $520 billion.

We've also rolled out a program to help cash-strapped local governments. The Municipal Liquidity Facility, whereby we buy bonds from municipalities and states whose tax revenues have collapsed, is designed to provide essential liquidity as they navigate the twin crises of the pandemic and the economic downturn. The State of Illinois has already tapped this, and we are also opening it to multistate agencies like the Port Authority of New York and other transit authorities.

An Inclusive Recovery

We will recover from this period, and there are already small signs that a rebound is underway. But it will take time. And as the recovery takes shape, I want to make sure that the coming growth is not only strong, but inclusive. It's worth noting that even though we went into the COVID-19 crisis with a very strong economy, far too many Americans — disproportionately Americans of color — were not sharing in the country's prosperity.

Personally, I'm serving on the Greater Philadelphia Chamber of Commerce's Regional Recharge and Recovery Task Force. Our goal there is to make sure that the recovery from the COVID-19 crisis is not only stronger in terms of growth, but also that it includes more of our fellow citizens.

The next period of growth should be strong and more inclusive than the last.

So, how do we do ensure that? Our work could include doing things like improving access to credit for small businesses and especially microenterprises. I don't need to tell you that small businesses are the lifeblood of our communities. In the City of Philadelphia, fully 99.5 percent of businesses have fewer than 500 workers. And of those, 54 percent employ fewer than five workers — these are microenterprises.

Many of these microenterprises don't have the benefit of established banking relationships — many have never banked at all. That leaves them at a huge disadvantage, as we saw when many were unable to obtain PPP loans. And this is a problem that has disproportionately affected racial minorities and communities of color.

To be sure, there are many historical and structural reasons why so many of our microenterprises remain unbanked. But that doesn't mean this is a status quo we have to accept. As we work toward recovery, we should be thinking about how to tear down the impediments to those microenterprises having access to the banking system.

Creating economic and professional mobility is also going to be key in making sure all segments of the country benefit from the recovery that is coming. Last month, the Philadelphia Fed released a paper that provides an encouraging roadmap for how that might take place, and I'd like to share some of our findings with you.

Fed researchers looked at the skill sets of people in 33 metro areas across the country, including the Philadelphia area, who are holding those jobs that are most at risk of disappearing. They then matched those skills to jobs that would pay at least 10 percent more than their current wage and that don't require a traditional four-year degree.

The bottom line is this: We don't have to accept that those in at-risk, low-wage jobs will remain so forever. Researchers found that nearly half of lower-wage employment can be paired with at least one higher-paying occupation requiring similar skills. And the pay differences are significant, with an average bump in wages of almost $15,000 — a 49 percent increase in salary — for transitions connecting the most similar occupations identified in the study. Transitioning people into the right new job can mean the difference between a life of poverty and a solid, middle-class standard of living.

The possibilities for creative public–private partnerships are very exciting. Transitioning low-wage workers into higher-paying jobs not only helps companies themselves, insofar as they are tapping underutilized human capital, but it also helps redress structural inequities. Communities of color stand to benefit because they have for far too long and far too often been shut out of higher wage work.

At the Philadelphia Fed, we've helped launch just such a program, working in partnership with Comcast and Philadelphia Works, our local workforce investment board. Philadelphia Works provides upfront investment in a pilot job-training program for Comcast. Comcast then pays for outcomes once they are achieved, such as staying on the job for over six months. It's a tremendous example of what thoughtful public–private partnerships can accomplish. We can't push this all on the public sector, which, especially now, doesn't have the bandwidth or the money. But intelligent public–private partnerships could be a very promising way forward.

Rather than staying stuck in this new normal or moving back to the old normal, I am confident that together we can forge a better future — a better normal, perhaps — for all of us. Thank you.

And now, I'm happy to take some questions.