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Economic Outlook for Delaware and Beyond

2025 Lyons Economic Forecast
Newark, Delaware

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Good afternoon!

I thank Lyons Companies, the Alfred Lerner School of Business and Economics, and all of today's organizers and sponsors for making this annual event possible. And of course, I thank all of you for attending and being part of it. I took note that the first edition of this convening was held in 2006, which would make today the 20th annual event. So, I further offer my congratulations on this milestone.

I look forward to the discussion with Christian and Michael that will follow my remarks.

I also cannot understate how much of a pleasure it is to once again be on campus at the University of Delaware. Serving as president of this institution holds a very special place in my personal and professional history as well as my heart. Throughout my tenure, I aspired to lead through the University's motto, “Knowledge is the light of the mind.”

In many ways, those words were the inspiration for us when the decision was made to purchase a shuttered automotive manufacturing facility and convert it into this space we find ourselves in today. Many a future career has been ignited here. The STAR Campus remains, to me, one of my proudest achievements.

If you find me to be more in a reminiscent mood today, there's a reason. As you may know, at the end of June I will reach the Federal Reserve's time and service limits as president and CEO of the Philadelphia Fed. As I contemplate that retirement, it is giving me an opportunity to look back over the course of my career.

Or, quite possibly, it's looking around my office at all the books, framed mementos, and accumulated knick-knacks that I need to find boxes for that is jogging me down memory lane!

Also, as today marks my last formal visit to the First State as president of the Philly Fed, I ask you for one final time to listen to the Fed disclaimer: The views I express this afternoon are my own and do not necessarily represent those of anyone else in the Federal Reserve System or my colleagues on the Federal Open Market Committee (FOMC).

Before I get to my economic outlook, allow me to again express my real appreciation in being presented with the James B. O'Neill Award for Excellence in Economic Education and Entrepreneurship. It truly is an honor.

Jim's vision to equip teachers to better teach economics in their own classrooms has made profound contributions to economic education for thousands of students in Delaware and around the world. The Master of Arts in Economics and Entrepreneurship for Educators (MAEEE) program that he created has prepared hundreds of teachers to be the nation's economic education leaders. In fact, economic education staff at many of the Reserve Banks, including in Philadelphia, and at councils and centers for economic education across the country have either graduated from the MAEEE program, been mentored by Jim, or otherwise been touched by his work. Jim's commitment to equipping teachers to be the field's force multipliers has ensured that generations of elementary, middle, and high school students have learned economics, personal finance, and entrepreneurship before they graduated.

None of the work I have ever undertaken, whether as a professor, a dean, a university president, or as president of the Philly Fed has ever been in the pursuit of earning some sort of award. To me, seeing students succeed, institutions succeed, the public succeed, and our society prosper through our work is enough.

Additionally, I know that I did not earn this award on my own. At every step and in every phase, I've been lucky to have numerous professionals around me upon whom I could rely to see our common vision come to fruition. This is true, especially, of my time here at UD as well as at the Philly Fed. I didn't wake up one morning and build the STAR Center — it took a tremendous team. And likewise, at the Philly Fed, I haven't single-handedly done the work of producing the materials that are used in countless classrooms throughout the Third District to educate students on the Federal Reserve System and its role in our nation's economy. Nor have I single-handedly maintained the Philly Fed's exhibit that informs the thousands of individuals visiting our Bank.

Education may be an individual pursuit — and at times a lonely pursuit — but it pays societal dividends. I hope that is something we never lose sight of. So, again, I am honored and humbled to have been named this year's recipient, but I feel even more privileged to share this recognition with those whose hard work made it possible.

Now, allow me to change gears and move on to my economic outlook.

And I will start with the issue that I know is very much top-of-mind: inflation. To be sure, while we have certainly made progress in our work to get annual Personal Consumption Expenditure inflation — or PCE — back to our annual target of 2 percent, inflation remains elevated. And regardless of whether you've been following the news or been paying attention to prices at the store, you also know that inflation is taking us, as monetary policymakers, on a bit of a bumpy ride. In fact, over the shorter term of the last several months progress toward the 2 percent target has slowed.

And that was even before January's Consumer Price Index — the CPI — surprised us on the upside. But, if you take a quick look at history, you'd see that January CPI inflation has surprised us on the upside more often than not — in fact, it has done so in nine of the past 10 Januarys. To repeat what I said at a conference last week, five days after the CPI's release, my belief is that seasonal adjustments are struggling to keep up with a fast-changing economy. So, there is much more that can be gleaned by looking at longer-term trends than there is at a specific moment in time.

But what does this mean for monetary policy? Over the last four months of 2024, we reduced the policy interest rate to its current range of 4.25 to 4.5 percent, and that is where it stands after our decision during the year's first FOMC meeting to hold steady. I believe this is the right call. The policy rate remains restrictive enough to continue putting downward pressure on inflation over the longer term, as we need it to, while not negatively impacting the rest of the economy. And the caution I am taking is to look at all the data and not be moved to act, in either direction, based on one report covering one month.

If you'll allow me an oversimplified analogy, take the Eagles' season. They opened a bumpy two and two, trading wins and losses across four weeks. But the team didn't panic and stuck to its game plan and let that play out over the entire season. And I'd say that ended rather successfully, even if it gave us fans some moments of stress.

So, that said, I am taking a similar posture when it comes to monetary policy. In other words, let's stick to the game plan.

Now, certainly, there are outside factors that are throwing in some uncertainty, including changing policies in Washington or elsewhere around the world that may have an impact on inflation dynamics. There are also situations such as the bird flu epidemic which is decimating egg production and leading to higher prices on the shelves — and I don't think I need to point out the importance of poultry to Delaware's economy.

But this is why we watch the data and then react, if we must. Again, I am of a position that we let monetary policy continue to work, for a couple of reasons.

First, labor markets have largely returned to balance and the economy is creating jobs at roughly the rate it was in the months and years immediately prior to the pandemic. Yes, the number of monthly new jobs is lower than what we had seen through much of the past four years, but I would not confuse "deceleration" with "decline." We came out of the pandemic in a full sprint, a pace which was unsustainable over the long run. We're now settling into a solid pace — we haven't stopped and we're certainly not moving backward.

We're seeing this right here in Delaware, where the unemployment rate sits about where it was prior to the pandemic. Payroll employment continues to move in a positive direction, though at a slower rate than it was previously, and unemployment claims remain low.

Second, GDP growth, while moderating, likewise remains in growth territory. Consumer spending over the longer term has remained positive, buoying GDP, though it does present some concerns. Whether they advance beyond concerns is yet to be seen. But my concern, nonetheless, rests in credit cards, which is a significant industry here in Delaware. The data we have at the Philly Fed tells us that more than one in 10 credit card accounts are currently only being maintained through balance-holders making only the minimum monthly payments.

This is not necessarily a flashing red light to me, but a yellow one. Not every minimum payment is a precursor of a missed payment. Not every account is destined to fall into delinquency. Some consumers, surely, will cure their accounts and clear their balances. But the data clearly tell us that many consumers are under stress in managing their finances in the midst of higher-than-target inflation. So, this is a space worth keeping an eye on, and I will. Closely.

All in all, given those reasons, I see an American economy that entered 2025 in a position of relative health and strength despite inflation being above target. And I believe the same holds true, too, for Delaware's economy.

I mentioned the employment picture a moment ago. But overall business conditions as measured by the Philadelphia Fed's State Coincident Indexes, a summary metric of economic activity, continues to signal green. Delaware's Coincident Index increased 3.1 percent throughout 2024, above the US average of 2.7 percent, and well above the other states of the Third District — New Jersey was at 2.3 percent and Pennsylvania was at 2 percent.

Moreover, new business applications in Delaware remain at a high level, averaging nearly 5,000 per month as of December's numbers. Leading up to the pandemic, this number was about 2,000 per month.

Before my FOMC colleagues and I return to Washington in mid-March for our next meeting, we will receive an additional unemployment report, plus two inflation reports — one each of both PCE and CPI — among a host of other economic data. I will certainly be looking for any emerging trends and I will certainly do what I can to block out any noise, or at least to ascertain where it's coming from. But, again, from the macro view, the data I currently see allows me to provide an economic outlook that is optimistic, despite the ongoing challenge of getting inflation back to target.

Yet the data also helps me to understand why, on the micro level, not every American family or business may be feeling similar optimism. They feel inflation, and they feel it in very real terms. Many see housing prices which remain out of reach — and I'd note here that Delaware, as a whole, is struggling with home affordability as measured by the Atlanta Fed's Home Ownership Affordability Monitor.

So, as policymakers, we still have much work to do. And even though my time is limited — just slightly more than 120 days — I am going to remain committed to the task ahead until my retirement. And, moreover, I know the Philly Fed staff to whom I turn for guidance will be keeping to the task, too.

But we certainly cannot do it alone. Yes, the hard data we take in on a regular basis tells us a lot about the state of the economy. But those numbers are so often presented in stark black and white. And the world is not drawn in black and white.

For the past near-decade, I have relied on contacts up, down, and across the Third District to provide me and my team with the soft data that turns the black and white into living color. In some way, every conversation I or someone else at the Philly Fed has with you or your colleagues helps to fill in those empty corners.

Through you, we have been able to get a much more vibrant picture of economic conditions across not just Delaware, but also Southern New Jersey and Eastern and Central Pennsylvania. What's important about that is that we are the smallest Federal Reserve District by area, which means that an economic happening in one corner of the Third District may not be an independent event but can have a ripple effect all the way to the other corner.

Your reports on conditions as you see them have allowed us to track those ripples from the moment they are first felt so we can work accordingly for the benefit of the entire District.

I cannot thank you enough for your insights. I cannot thank you enough for never being shy about your thoughts and opinions. I cannot thank you enough for the way in which you have always welcomed me and others from the Philly Fed into your communities for in-depth discussions on what you're seeing, what you're hearing, and what you think we need to take a look at, too.

These insights aren't just invaluable to us at the Philly Fed, but I take them directly to the FOMC conference table, too.

I think here is where I'll wind down my prepared remarks and take my seat with Christian and Michael for our discussion.

So, once again, thank you for inviting me to be part of this annual event.

But, even more so, thank you again for all that Delaware has meant to me over the past 18 years. There's always going to be a part of me that is a fightin' Blue Hen.