

Fed Unfiltered, Transcript

2/25/22 – Patrick Harker, Interview: Wharton Business Daily

Dan:

Well, the Federal Reserve is obviously a focal point of a lot of what's going on in and around the us right now, specifically around the economy and the expectations of the path of the Central Bank, what it will take this year around interest rates is one that seemingly may have a little bit more clarity, but is being impacted obviously by the economic data that we see come out on an almost daily basis.

Dan:

A pleasure to have with us, Pat Harker, President and CEO of the Federal Reserve Bank of Philadelphia, who was Dean of the Wharton School at the University of Pennsylvania in his prior days. Pat, great to have you with us. Thanks for a few moments today.

Patrick Harker:

Thanks for having me, Dan. Good to be back virtually.

Dan:

Yeah, exactly. How are you viewing the state of the economy right now? Because I think it's interesting to talk with a lot of the Fed presidents. You get similarities in the conversation realizing where this economy has kind of gone over the last couple of years.

Patrick Harker:

So, absolute inflation, we'll talk about inflation for sure. The economy is pretty strong. I mean, you look at unemployment rates, you look at people who are looking for jobs, job openings are at, they were at record highs, they remain very high. So there are lots of good things going on in the economy. There are problems as well, and inflation is number one on that list for sure.

Dan:

Has the run-up of the level of inflation surprised you to any degree? Because I think that's one of the things we're talking about inflation for a long time. It was so hard to get to two percent that now that we're at seven, seven and half almost 8 percent, it seems like it's really jumped ahead a level.

Patrick Harker:

The supply chain disruptions are lasting longer than I anticipated, and I think most people anticipated and that's all due to the pandemic. I mean, I think the pandemic has lasted, let's go back to what the root cause is. The pandemic has lasted longer than any of us had wished for had hoped for. It just happened, so we have to deal with it. And you see that also in people not coming back into the workplace.

Patrick Harker:

So there's not only supply chain issues. There's just the labor force issues. And that again, much of that is pandemic induced. If you look at who's not coming back in, it's predominantly women and women with kids, kids who are of school age, and they make a logical decision not to go back to work because of the uncertainty of childcare.

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So when you look at some of the data that comes out monthly around the labor force, the numbers seemingly say, we've got about four, four and a half million people that we're short from where we were pre-pandemic in the workforce. Yet when you look at the jolts numbers, you're talking about 10, 10 and a half million jobs that are out there. So even if we get to even truly full employment down the road, we're still going to have lots of opportunities out there for people.

Patrick Harker:

Absolutely. And again, think back, and it's hard for us to think back pre-pandemic. But if you think back to that situation, we had tight labor markets then as well. And so the fundamental problems that we had in the economy had just been accelerated, exacerbated by the pandemic. We still need to get more people off the sidelines with the right skills into the jobs of the future.

Patrick Harker:

That's the kind of work we've been doing a lot at the Philly Fed, but we call opportunity occupations, jobs that are paying above minimum wages where you don't necessarily need a four-year college degree. And what we've seen in this recovery from the pandemic is that if you look at say unemployment persons per job opening, that's pretty much just where it was in February of 2020 right now.

Patrick Harker:

But who's really gained are people at the lower income levels. There's lots of jobs there, but they need skills. And so that work remains in front of us, how to get people effectively into the workforce to fill those jobs. Businesses need this, and of course the people and their communities need it.

Dan:

So the big talking point is going to be around interest rates over the next several months. Where do you stand on the path you think the Fed needs to take at this point?

Patrick Harker:

So at this point, we do need to take action. We need to take action. I am supportive of our next meeting taking action. That said, I'm still on the camp of the 25 basis point increase and continuing to do 25 basis point increases because it's really remember a three-prong approach. We're stopping the asset purchases, that will happen. We start raising the fed fund rate, and then when we're sufficiently away from zero, we can argue what that is, 100 basis points, 125 basis points or less. We start reducing the size of our balance sheet. And that is an active debate in the FMOC right now of how to do that.

Patrick Harker:

But I'm supportive of all three things. We finished the take asset purchases, let's get the rates going up, and again, then we'll start reducing the size of a very large balance.

Dan:

So that idea of a 50 basis point increase has obviously been talked about a lot here in the last few weeks. What is your case against a 50 point basis rate increase at least in the short-term?

Patrick Harker:

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So I don't think it's necessary right now. I think we take steps because there's so much uncertainty. There's uncertainty about the virus. There's uncertainty about the tragic events that are unfolding right now in Eastern Europe and Ukraine. And so there's just tremendous uncertainty. So let's not add more uncertainty right now.

Patrick Harker:

Let's get it going with 25. And the markets by the way are doing a lot of our work and that's what we want. So we're seeing rates at the long end, the 10-year, 30-year, look at mortgage rates. They are going up. So we're already starting to see action.

Patrick Harker:

What we don't want to do is step too hard on the breaks and then ruin what otherwise we were just talking about is a relatively good economy. So again, I would not say never to a 50 basis point increase. If inflation really comes out at our next reading, much higher than we had hoped, we're not seeing any movement downward, I would be more open to it. But right now I'm not, I need to let the data speak.

Dan:

So two things off of what you just said, and obviously with Russia and Ukraine ongoing right now, how does that factor into that decision process for you and the other Fed presidents?

Patrick Harker:

I think it's fundamentally about uncertainty and just adding more volatility to the situation we already face. But that said, I still am supportive even in the face of that uncertainty, we need to start moving rates up to start to get inflation under control. I don't think this should stop us from doing that.

Dan:

We're joined by Pat Harker, Philadelphia Federal Reserve Bank President. Obviously when you talk about inflation, I think also the discussion about who is being impacted the most because of the level of inflation comes back once again. And obviously that division between the haves and the have-nots in many cases, I think really is exacerbated when you see gasoline prices, the way they've been, milk prices, beef prices and how it may be impacting lower income families right now in comparison to those making say \$100,000 a year or more.

Patrick Harker:

So that's where we go back to not wanting to move too quickly on the rate increases. Again, we may have to do that down the road here this year, but right now let's start with 25 because you're right. The people hurt the most with inflation are the lower to moderate income families.

Patrick Harker:

And they're benefiting from an economy right now, which has a lot of jobs for them. So let's not ruin the latter part of that by stepping too hard on the brakes to try to control inflation too quickly. Let's see how, we have some time to let this play out.

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One of the areas that the Philadelphia Fed focuses on in terms of the data that you provide is around manufacturing. And you just had your recent Philly Fed manufacturing report come out. What did that report tell you about the manufacturing sector that may correlate more towards this larger picture nationally in the United States?

Patrick Harker:

Yeah, so what we saw is we're still in expansionary territory with manufacturing. It bumps up and down, but it's still in good shape. What's holding it back? The supply chain issues and the labor issues. They are the fundamental issues we need to resolve in order for manufacturing to be not so bumpy, but continuing on its growth trajectory.

Dan:

Are you getting to the point where, and I think a lot of people are feeling better about the fact that COVID cases are down right now, and obviously that was a big player in all of this over the last two years, that while maybe you can't totally put it to the side in terms of issues that are in the mix, but it's maybe lessened itself a little bit in the last month or two than what it was say six months to eight months ago.

Patrick Harker:

Yeah. I mean, I thought that was the case a couple of waves ago as well, but this one does feel different. This does seem different when we talk to experts primarily because of vaccinations. I mean, we have a highly vaccinated population now. We still need work to do on that. And also people who have had COVID have the immunity.

Patrick Harker:

So it feels better, but we need to be cautiously optimistic. I am optimistic, but cautiously optimistic because this could hit us again, so we can't completely let down our guard

Dan:

In and amongst your conversations with your colleagues, is there starting to be more of a consensus on not only just that you have to probably do something here in March, but what that path probably needs to be over the next several months? And I know that with the dynamics of the data, that obviously can throw a wrench into the mix, but is there starting to be more unison on what probably has to occur over the next several months?

Patrick Harker:

So I'm okay with not having a unified view. I think that's healthy that we have debate within yet FMLC, and we do. I think generally though there's a broad consensus on this path of let's get going and let's get moving on getting inflation under control without doing damage to an economy that is growing.

Dan:

Finally for you, I wanted to touch on another topic if I could. Susan Collins recently named to lead the Boston Fed. Obviously, there are some very important issues in and around equity and diversity in and around the entire labor force. If you can, just talk about having Susan named to lead the Boston Fed and the importance of that in terms of where the Fed is headed as an organization.

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Patrick Harker:

So I welcome Susan joining us into the Conference of Presidents, as we call it at the Fed. And I also welcome her, especially as I am a recovering university president. And she's soon to be a recovering university provost. These are some of the toughest jobs in America right now, leading higher education. So I welcome her as a colleague from the academy.

Dan:

Well, one final thing, if I can, because you mentioned before about where the labor force is going and that there will be maybe a growing number of jobs that maybe will not require a college education. You as somebody that obviously has that background of having been in around the education sector and Susan as well, how important do you think that may become as we move forward?

Patrick Harker:

Oh, I think it's very important. It was important before, and it continues to be important again before the pandemic hit. Just look at my neighborhood. I mean, I live in a nice neighborhood. My electrician lives in my neighborhood and he has his own business and he has a nice life. So we have to honor those trades.

Patrick Harker:

I think we've lost sight of the fact, I'm from a family of union pipe fitters and steam fitters. I'm the first generation college kid to go. These jobs are good, solid jobs and we need these people with these skills. So first we should encourage people to follow the path that is right for them, not the path that they think they should follow, but what's right for them. And in some cases that's working with your hands and working in the trades.

Patrick Harker:

And then we need to double down on workforce training programs to get people those skills, and that's the kind of work with the opportunity occupation work we've been doing.

Patrick Harker:

I'll just mention one thing very quickly. We have this tool on our website and it's the Occupational Mobility Explorer. And here you can actually go on and say, what skills do I have right now? And with a little bit of training, what job could I get and what would be my bump in salary? And actually this lets you then say, if I get that one, what's the next move, and then what's the next move in terms of me moving along for myself and for my family?

Patrick Harker:

Powerful tool, we're encouraging people to look at this particularly planners, policy makers, to help develop, and by the way, it's broken down by geographic region so it's not a national focus. You can see in the Philadelphia region what are those jobs that are available and what skills do I need to fill them?

Dan:

So more of a thought process of thinking about career at all levels across the labor spectrum and not necessarily in what would be considered the white collar jobs?

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Patrick Harker:

Absolutely. These are careers too, and we have to honor those careers.