Richmond Fed

Tom Barkin

Learning from Our Community

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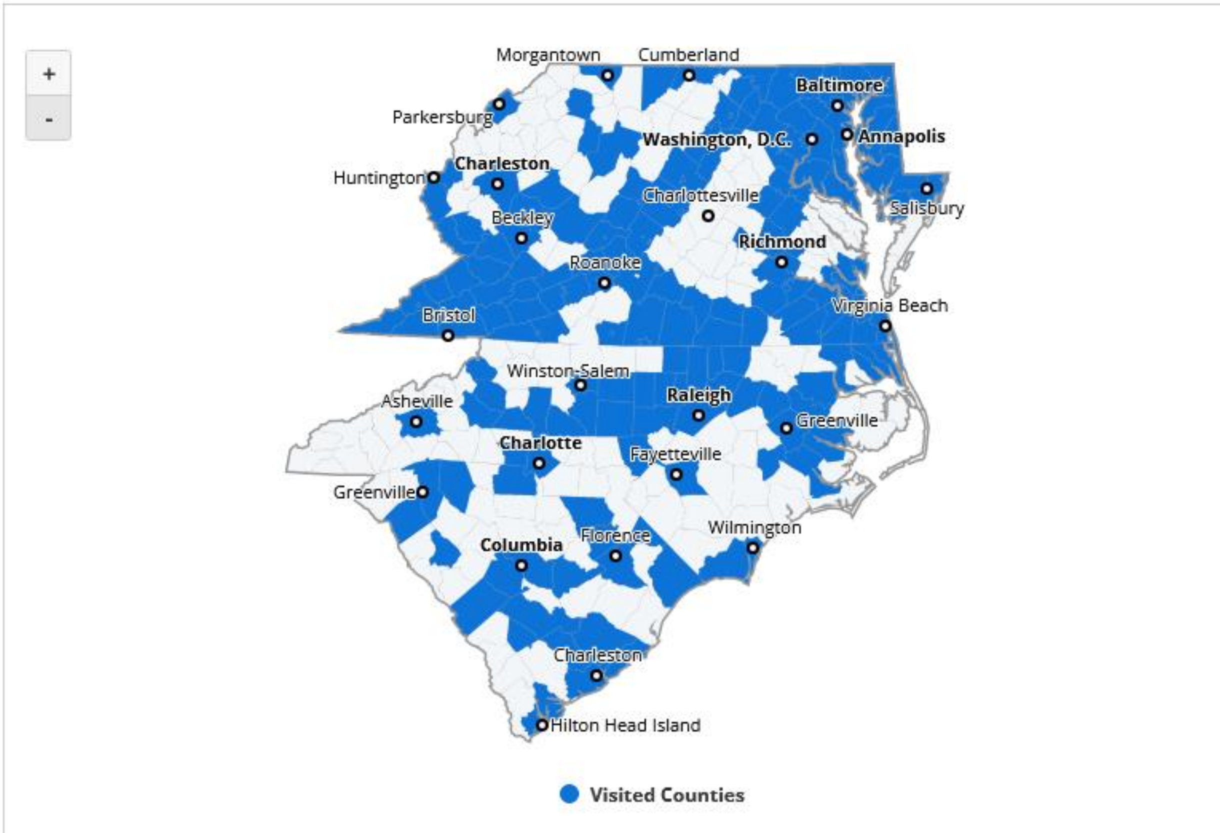
The Richmond Fed has a beautiful building in downtown Richmond. It's in a great location, overlooking the river, and serves as a focal point for collaboration, mentorship and connection. But physically, it is quite literally an ivory tower. As we try to assess the macro forces affecting the economy, we don't want our thinking to match the exterior of our building.

So, we have oriented the Federal Reserve Bank of Richmond outward. My colleagues and I are on the ground in the Fifth District constantly, meeting and learning from community members. Last year, we had over 1,700 engagements with external contacts — with bankers, business and community leaders, workers and public officials. These meetings take us to every corner of our district — you can see on this map where I've been in the last few years.



Accessible version of map data

I've been on the other side of these conversations. During my time in business in Atlanta, I gained a lot from interacting with the Atlanta Fed and Dennis Lockhart (the president at that time). I learned from them, and hoped I helped them learn a little something too.

But this kind of high-touch outreach requires time and effort. And — perhaps most importantly — it relies on the generosity of community members to share their time and perspective with us. Why go to all this effort?

The national numbers and narratives are vital, but it is community members who help us see what is beneath the data.

Take consumer demand. Overall, it looks solid, but conversations with retailers in our district have helped us understand the nuance. Lower-price retailers tell us their customers have pulled back amid inflation and recession fears. As lower-income consumers are squeezed on the essentials, say at the pump and the grocery store, their demand for items like washing machines and TVs has dropped. In contrast, higher-priced retailers are still seeing wealthier consumers spend.

Our conversations also help us see differences across geography more clearly than if we only relied on local statistics, which often come with a lag and high margins of error. Take this recent post-pandemic recovery period. Foot traffic was back in South Carolina long before it returned in the District of Columbia. But we haven't just learned about when areas recovered, we've also gotten insight into the nature of their recovery. For example, a business serving restaurants in the D.C. area told one of my colleagues that lunch demand has still not recovered, likely given continuing remote work in the DMV area.

But beyond the basic facts, these conversations help us move beyond "what is happening" to "why."

For example, why has the labor market stayed tight — even as rates have risen, sentiment has fallen and the economy has slowed? On the demand side, employers tell us they are reluctant to let go of workers they fought for months to hire. They don't want to lose them unless absolutely necessary.

On the supply side, we hear about workers facing new challenges that keep them from work even as pandemic-related barriers fade. We saw this up close in a recent visit to southern Virginia (part of our Community Conversations event series which allows us to dig in deeply to local economies). My colleagues and I learned that the escalating costs of gas, housing and child care have raised the barriers to working, even as wages have been rising. This may be particularly problematic in rural areas given the distances required to drive to work and the challenges providing basic services in less dense areas.

We get the chance to learn what's next, catching real-time turning points in the economy.

The national data we get comes a month late and can be revised multiple times over the next year. It is far from definitive on what is happening in real time, so we supplement it with conversations with our contacts who help us better understand how things are changing.

For instance, in market outreach, we saw early signs of the housing market turn when contacts shared that furniture sales had started to recede. And outside residential, we've heard about more projects in the commercial real estate space being put into "wait and see" mode and many being canceled outright.

But we aren't just relying on anecdotes. Our team fields rigorous economic surveys throughout our district. Take our monthly manufacturing and non-manufacturing surveys — the two that probably get the most attention. The labor market has been tight across the board, but they helped us spot a subtle shift. At the beginning of the year, firms reported that it was relatively more difficult to fill low- to –mid-skill jobs than higher-skill positions. More recently, we are hearing that it is now harder to fill mid- to –high-skill jobs, including everything from roles that require a CDL for truck driving to roles like marketing executives and accountants.

All these insights are invaluable, so we share them broadly across the Fifth District, highlighting the lessons we learn and the promising practices we see.

We find this especially important for small towns and rural communities. The data reports that these communities are falling behind in employment, health and education. On-the-ground conversations allow us to understand what is being done to improve these outcomes.

For example, one underlying gap is access to capital. Our community development team has heard about the challenges preparing for and absorbing capital. We saw this in the early days of COVID-19, as communities told us they weren't resourced to access even basic relief funding. But we've also found people throughout our district working on creative solutions to increase local capacity. These initiatives include investing in intermediary organizations, offering technical assistance and creating mentorship opportunities for aspiring leaders. We shared these findings at our 2022 Investing in Rural America Conference. We are already looking forward to our 2023 conference, where we hope to keep learning and sharing.

In 2023, sensing will be key.

We have 14 Community Conversations scheduled for the year ahead and our team will have hundreds of touch points with business and community leaders throughout the Fifth District. Here's what I'll be watching:

Is inflation calming? Are consumers slowing spending? Are supply issues resolving? What are business leaders' attitudes toward pricing? How are consumers reacting to higher prices?

Is the labor market cooling? Will we see layoffs spread beyond housing and tech? Will those on the sidelines finally come back into the workforce? Will compensation increases continue, or slow?

Are we headed for a recession? Businesses seem to have pulled out and updated their recession playbooks. What happens next? Do they turn the pages in the book, or return it to the shelf?

How much of the pandemic economy sticks around? Do the sectors that benefitted from COVID-19 (e.g., recreational goods) get a permanent boost? How will commercial centers evolve in the context of hybrid work?

We will find answers to these questions (and likely learn of new ones) as we meet with members of our community this year. Thanks to all of you who have given and plan to give your time, thoughts and insights. We value and depend on you greatly.