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Fed rep sees economic anxiety and growth

By Reece Alvarez

Addressing a packed ballroom of about 200 Connecticut business and government leaders at the Stamford Marriott Hotel and Spa recently, Joseph Tracy, executive vice president and senior adviser to the president of the Federal Reserve Bank of New York, delivered a cautiously optimistic overview of the national economic forecast with a particular focus on the New York metropolitan area.

"This is a very interesting time for the economy," he said. "A lot of people are very anxious. I think our best guess is still the U.S will continue to grow at a healthy pace this year."

While Tracy forecast the U.S. economy growing at a rate between 2 percent and 2.2 percent for 2016, Chris Bruhl, president and CEO of the event's host, the Business Council of Fairfield County, said the projection is not enough.

"I do think that people were hoping to hear that we are steadily building take-off velocity, that we are going to hear this January that were are going to hit 3 percent or 2.75 percent," he said. "Joe Tracy's comments would not lead you to believe we would have a recession this year, but he was realistic — we have downshifted into a new normal unless we address these fundamentals of productivity and labor force."

During his presentation, Tracy drew special attention to the changes in the labor supply since the 1970s, when the supply alone was adding more than two percentage points to the national economy's growth, but now sits at .5 percent, he said.

"If you had 1.5 (percent) productivity growth, which is decent, with 2 percent labor supply it is pretty easy to get to 3.5 percent." he said. "So for us to get to 3.5 percent we are going to have to have a productivity miracle. I'm not saying it can't happen, but we would need a real concerted strategy on how do we get productivity to more than double, otherwise we have to think about can we reverse or offset some of this decline in labor supply, which is really just demographics."

Tracy's comments coincided with the release of Department of Labor job statistics that showed the economy had picked up 151,000 jobs in January.

"That's on the soft side, it's not on the disaster side," Tracy said. "The consensus was around 190,000; that's meaningfully below that. That is going to feed a little bit more into the concern side of the story."

Tracy highlighted other cautious signs of slow to modest growth via a comparison of payroll employment and the aggregate hours worked by full-time and part-time employees.

"What is going on here is a lot of employers are working their current labor force longer hours, so business is picking up, but they are not yet as confident that it is going to be sustained that they are willing to hire," Tracy said. "But in that environment, usually we see that as long as the good news gets reaffirmed, firms pick up the pace of hiring."

With payroll employment and hours worked currently on par, Tracy said the current trend is "indicative of similar or weaker employment growth going forward rather than strengthening employment growth."

Bruhl said a key takeaway from the forecast grew from observations Tracy made regarding the post-recession economy.

Tracy said that while regional finance sectors have lagged behind the nation in their recovery, New York City's economy as a whole emerged from the recession much sooner than did either Connecticut or the nation due to strong growth outside of finance in sectors like information technology, leisure hospitality and health care.

Bruhl said the point revealed a lack of diversification in the Fairfield economy — an area that needs serious attention in tandem with efforts to increase the labor pool.

The region's emerging technology, entertainment, programming, production and distribution services need to be as well supported with the conditions to thrive as our hedge funds, Bruhl said.

"We need to intensify our efforts to grow other parts of our economy that we can see have promise here," he said. "We need to grow the population in order to grow the labor pool and we also need to grow participation in the labor pool — people who are undereducated, older people — if we want to achieve a growth rate of what the Fed is projecting."

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