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Right Now, It's Putting One Foot in Front of the Other

National Association of Corporate Directors – New Jersey Chapter
Economic Forecast 2025
Princeton

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Good morning, everyone, and Happy New Year!

My thanks to the leadership of the New Jersey Chapter for the invitation to start not just my day, but also my year with you.

And I want to give a special thanks to my fellow South Jerseyan Rick Mroz for that warm introduction.

I must pause to recognize that as we are gathered here our nation is preparing to bid farewell to former President Jimmy Carter. In fact, at this time, President Carter is on his final trip from the Capitol to Washington National Cathedral for his funeral. His life was one dedicated to service — to public service but even more so to serving people. What a tremendous legacy.

It is a distinct pleasure to be with you all this morning to give you my insights and thoughts on current economic conditions and, as best I can, where I think we may be heading. But even more, I am looking forward to having a conversation with you. So, I intend to keep my remarks relatively brief so we can get to the fireside chat with Rick and then open the forum to your questions.

Allow me to also dispense with the most-official piece of business I must attend to, and that is to deliver the standard Fed disclaimer! So, the views I express today are my own and do not necessarily represent those of my colleagues throughout the Federal Reserve System or on the Federal Open Market Committee (FOMC).

And, by the way, that's also the last time some of you may hear me say those words, but more on that later.

So, let's get going.

Allow me to state at the outset that, overall, our economy continues to be, arguably, strong and stable and indeed among the strongest and most stable in the world.

The strength of the U.S. economy has held despite the aftershocks of the pandemic, the runup in inflation, higher interest rates as the FOMC responded, and various geopolitical and other developments.

Although the torrid pace of the immediate post-pandemic recovery has slowed, GDP has maintained stable, if moderate, growth. The labor markets, overall, while having similarly decelerated from the post-pandemic's historic lows in unemployment, appear to have stabilized. Consumer spending, overall, remains strong and consumer sentiment appears to be on the upswing.

These conditions have allowed us, on the FOMC, to begin the process of rolling the policy interest rate back down and to recalibrate the monetary policy stance with a full percentage point of cuts from September to December 2024. Monetary policy remains restrictive, but less so.

All in all, the underpinnings of our macro economy remain strong.

Note, however, that key word, "macro." I fully understand that, on a family-to-family basis, their own economic circumstances may not be mirrored. And, as a policymaker, that's an important thing I must keep in mind. I must always remember that many of the indicators I look at in making my decisions are actually the accumulation of millions of actions of individuals throughout our nation and throughout our economy. Individually, they are varied and diverse.

So, while I can say "our economy is strong," I know that not every American household or business may be benefitting. My goal is to help them be able to do so.

Obviously, one way to do that is to continue the effort to push inflation down to our 2 percent annual target. As I mentioned, we're now nearly three years into this specific work. We have had a great amount of success in this, as well, as we've seen the rate of inflation drop nearly two-thirds from its post-pandemic high.

But, as we've seen over the past several months, inflation has proven to be a little bumpy. Moreover, we knew the path would not be a straight, downhill slide — especially if we want to stick the soft landing that is our goal. Regardless, while we are on the path back to 2 percent there remain some upside risks, as I'll discuss in a moment.

Suffice it to say, it's just taking a little longer to get back to target than initially anticipated. And our overall goal is to make sure that we help ease out the bumps and keep ourselves traveling in as smooth a lane as possible. That means remaining data dependent, keeping our eyes open, and not acting with haste.

There are positive signs to be sure. For example, shelter disinflation has finally enmeshed itself into the monthly readings after being the upside outlier for many, many months.

Here in New Jersey, especially, housing prices remain consistently above national averages, but to anyone who's spent any amount of time in this state this not a surprise. We are, historically, among the most expensive housing markets in the nation. But recently, the trend line of New Jersey prices appears to be decreasing in parallel with the national average and not diverging to the upside.

Additionally, new building permits in the state jumped above the national average about a year ago and remain steadily higher. That's a good sign as it means not only construction employment but also, in the long run, much needed additional housing units.

While this is good news, I will temper it by noting the increase in mortgage delinquencies, which is being observed in most counties.[1] Yet some of the highest rates of mortgage delinquency in New Jersey are in Cumberland and Salem counties. And I probably don't have to remind

[1] "November 2024 New Jersey Tri-State Tracking," Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/tristate-tracking.

anyone here that those are, historically, among the poorest counties in the state. So, that's a troubling statistic.

But it's also not just mortgages. The data tracked by the Philly Fed's Consumer Finance Institute (CFI) shows more middle- and moderate-income families and individuals are relying on credit cards that are nearing their maximum balances. This is a rather concerning sign that these households are starting to — or continuing to — struggle under the weight of higher prices. There is continued moderate growth in wages, above the inflation rate, but it will take time for wages to match the full increase we have seen in the price of essentials since 2020.

The implication here is that consumer spending is resting more and more on the shoulders of higher-income earners. The question is whether this is a sustainable scenario.

I do want to give one more thought on consumers. And this is to also give a plug to the Philly Fed's quarterly Labor, Income, Finances, and Expectations — or LIFE — Survey. The data for October 2024 noted an improvement in consumer sentiment as measured against the previous months.[2]

More than one-in-four respondents said they were having trouble paying their bills. This was up only slightly from the July 2024 survey, but still represented the highest proportion of responses since the LIFE Survey began looking at this data in early 2023. Moreover, the percentage of respondents who remain insecure about their ability to make ends meet over this upcoming year stood relatively unchanged not just from the July report, but roughly over the past year.[3]

But there is a potential bright spot here, as even though respondents' current conditions may not be fully positive, they expressed net optimism that their income will improve. This was especially noted by younger survey participants. Whether or not that optimism is rewarded obviously remains to be seen.

Some of that optimism could come from the fact that labor markets seem to be stabilized and back, largely, in balance. Wage growth has settled out. We have not seen large-scale layoffs and employers appear committed to retaining the workers they worked hard to hire in the post-pandemic chaos.

Certainly, though, when one looks at the monthly employment numbers, the numbers of new jobs pales in comparison to the monthly increases registered in the immediate post-pandemic years. However, to me, this should not be viewed as a weak pace of job creation and cause for concern, but rather a deceleration back to trend from the breakneck speed in which we exited the pandemic.

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[2] Tom Akana, "Labor, Income, Finances, and Expectations (LIFE) Survey Report — October 2024." Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/life-survey/cfi-life-report-oct-2024.pdf.
[3] Akana, "LIFE Survey Report — July 2024." Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/life-survey/cfi-life-report-july-2024.pdf.

Over the past year, the average number of jobs created per month was lower than in the past couple of years; however, it remains consistent with monthly averages seen in the years leading up to the pandemic.[4]

In other words, we're essentially back to where we were in 2018 and 2019, and the economy in those years was strong.

I am going to keep a close watch on the data to glean whatever nuances I can. But, again, in the overall we are still creating jobs, maybe just not at the pace of the past couple of years. Workers who want a job are still finding one — they may be having to spend a little more time on the job market, but they are ultimately securing positions.

Additionally, both the latest Manufacturing and Nonmanufacturing Business Outlook Surveys from the Philly Fed report generally optimistic views for both future activity and employment.[5] [6]

And the unemployment rate is roughly where I predicted it would settle.

Moreover, those who are finding steady employment appear more ready to stay in their current positions. At the Philadelphia Fed, we track the rates at which American workers transition from one employer to another in any given month.[7] This is the work of Philly Fed Senior Economic Advisor and Economist Shigeru Fujita, Visiting Scholar Giuseppe Moscarini of Yale University, and University College London Professor Fabien Postel-Vinay.

As you may expect, that rate of transition jumped post-pandemic as workers chased higher wages and — I'm sure in some cases — what they believed were better job fits. However, this transition rate is now back roughly to where it was a decade ago.

So, all of this together is evidence to me of a labor market that is stabilizing and finding its balance once again after a few tumultuous years.

Now, where do I think we go from here?

Unfortunately, I cannot give you any certainty, because I face none. And in an uncertain world, policy needs to remain data dependent and best positioned to deal with the risks ahead.

As I stated at the outset, the overall underpinnings of our economy remain strong. But we remain in very unsettled times and there remain, as I said earlier, numerous upside risks. Globally, the war in Ukraine, the situation in the Middle East, and the seeming instability of some governments in Europe are adding more uncertainty into the overall mix. Here at home, we await potential policy changes which may have an economic impact. And dare I mention the impact that, say, a bird flu outbreak, on top of everything else, could have on food prices.

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[4] U.S. Bureau of Labor Statistics, U.S. Department of Labor. January 2017–November 2024, https://www.bls.gov/.
[5] "December 2024 Manufacturing Business Outlook Survey." Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/mbos-2024-12.
[6] "December 2024 Nonmanufacturing Business Outlook Survey." Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/nbos-2024-12.
[7] "Fujita, Moscarini, and Postel-Vinay Employer-to-Employer Transition Probability." Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/surveys-and-data/macroeconomic-data/employer-to-employer-transition-probability.

But, as a policymaker, while I remain cautious of possible upside influences on policy, I can't and won't deal in hypotheticals. So, while I could, if I wanted to, engage in a parlor game of "if this happens then we could do X and, if not, we could do Y," that is not my job at this moment.

My job is to look at the data, in real time, and make decisions based on where we find ourselves at that given moment.

Now, to be sure, I still see us on a downward policy rate path. Looking at everything before me now, I am not about to walk off this path or turn around. But the exact speed I continue to go along this path will be fully dependent upon the incoming data. Keep in mind, a projection is, well, only a projection. It's not a promise.

So, at this moment, I'm still just putting one foot in front of the other.

However, this opinion is only valid until June 30th! That's the day when, as many of you already know, I will reach the Federal Reserve's age and time limit for serving as the president of a District Reserve Bank.

As I look across the past nearly 10 years in which I have had the honor to serve the Third District, I see a lot of which I am proud. Economically, we've been able to ride out some heady times and find ourselves stronger on the back end. But, overall, I am most proud of the partnerships we have built across this region — with community leaders, with business leaders, and with organizations like NACD-NJ.

Maintaining a strong, vibrant, and growing regional economy isn't something that can be done behind closed doors at the Philly Fed or anywhere else. It requires direct and regular outreach. It requires listening intently to voices across the District and then making sure those voices are heard at the FOMC conference room table.

So many of you, individually and collectively, have been among my eyes and ears across the past decade. You've helped to not only make my job a little bit easier, but you've also helped make it more rewarding. And for that I say, simply, thank you.

There are many Philly Fed programs and initiatives which I am going to continue to support and build upon during the remainder of my tenure. And one of the policy areas which I am focused on is one which will also impact every one of you and your businesses — the issue of the future of higher education and, with it, the future of workforce development.

As many of you know, I came to this post from academia — immediately prior as president of the University of Delaware and, before that, as dean of the Wharton School of the University of Pennsylvania. As a higher education leader and as a professor, I committed my career to ensuring the students before me were well-prepared to become the workers you could then foster to have successful careers.

And for many years, this pipeline from high school to college to the workforce has been the predominant means for upward occupational and economic mobility.

But we are now seeing this pipeline narrowing. There are no shortages of stories about students' decreasing interest in going to college and, because of this, the decreasing financial stability of colleges and universities, especially here in the Northeast. As my Philly Fed colleague and Special Advisor for Higher Education Finance Dubravka Ritter has shown in her recent work, numerous schools are teetering on the edge of a cliff — demographically, financially, and otherwise.[8]

Surely, there are many factors at play. For example, the escalating cost of a college education, when paired with the ongoing student-debt crisis, is making many students and families wonder if the investment in a college education is going to pay off in the long run.

And when the financial realities facing numerous institutions are factored in, those colleges and universities are put further behind an eight ball as potential students and faculty question whether it is worth it to apply to a school which may not make it through the immediate term.

On the other end of the scale, those potential workers without a two- or four-year college degree who nevertheless have the skills and drive necessary to succeed, find themselves on the outside looking in when job openings require degree attainment.

But here's my take: This isn't an either-or argument. It really must be a both-and discussion.

The fracture that exists between higher education and job training is, at the moment, serving no one for the better.

At the Philly Fed, we recently updated and expanded our online Occupational Mobility Explorer. This tool allows anyone to build a ladder of career success for themselves, either by starting with their current job and — based on their existing skills — see where they can go from there. Or, conversely, someone contemplating their career can find their end-goal dream job and work backward down the ladder to see where they can get their initial foothold.

Additionally, users can be directly linked to current job openings in their area.[9]

Especially for individuals without a college degree, the Explorer is there to give them proof and confidence that, in a skills-based economy, they can compete and succeed.

Certainly, some jobs do, and will into the future, require a higher education degree of some level. But that doesn't mean there's not someone out there, right now, who could be a contributing employee and for whom a degree, if it is needed, could come down the line as they work their way up the ladder.

The current uncertainty across the higher education landscape is without a doubt going to change the way workers are trained and found. I believe we are at a real inflection point with regard to higher education and its future. But no one should be waiting for those ripples to settle out and then change their own internal talent-search processes.

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[8] Robert Kelchen, Dubravka Ritter & Douglas Webber, "Predicting College Closures and Financial Distress." Federal Reserve Bank of Philadelphia, December 2024, https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2024/wp24-20.pdf.
[9] *Occupational Mobility Explorer*. Federal Reserve Bank of Philadelphia, https://www.philadelphiafed.org/surveys-and-data/community-development-data/occupational-mobility-explorer.

And, in this effort and others, the Philadelphia Fed will continue to bring our research to the fore to help guide discussions and to foster a thriving and inclusive economy across the Third District.

So, with that all said, I thank you for you being here this morning.

I thank you, again, for your partnership and friendship over the past nearly ten years. And I thank you, as well, for keeping the Third District's economy moving forward together.

I look forward to our conversation!