Delaware's Economic Recovery: A Work in Progress

Delaware State Chamber 2021 Economic Outlook

Wilmington, DE (Virtual)

April 13, 2021

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President and Chief Executive Officer
Federal Reserve Bank of Philadelphia

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Good morning! It's great to be back in Delaware. And thanks to the magic of virtual conferences, I didn't even have to fight traffic on I-95 to be here with you.

I'm really looking forward to our discussion today — especially the Q&A portion. But before we get to that, I'd like to offer you a few thoughts on where we are economically, both nationally and in Delaware. I'd also like to talk a bit about how we can build a more equitable and sustainable economy as we recover from the pandemic.

But before we do that, I need to give you my standard Fed disclaimer: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

The State of the Economy

I last addressed this group almost a year ago. At the time, this "new normal" we've all become accustomed to was still just that: new. Nonessential businesses were shuttered, COVID-19 cases were spiking, and vaccines still seemed only a distant hope.

Like most first-year anniversaries, ours is a fairly happy one.

That’s because, although last year and the early part of 2021 were really, really tough — and tragic for millions of Americans — things have noticeably begun to turn around.

Economic data like employment and manufacturing figures came in stronger over the last couple of months than many of us expected. While I’m concerned about the downside risks from COVID-19 variants and the alarming virus spikes in states like Michigan, I still think that a combination of increased vaccinations, falling COVID-19 case rates, and a huge dose of fiscal stimulus should buoy the national economy. For now, I’m expecting GDP growth to come in around 5 to 6 percent in 2021. I would expect the labor market to parallel GDP growth and unemployment to fall throughout this year.

For now, Fed policy is going to hold steady. We’ll keep the federal funds rate very low and continue making more than $100 billion in monthly Treasury bond and mortgage-backed securities purchases. While the economic situation is improving, recovery is still in its early stages, and there’s no reason to withdraw support yet.

Economic data for Delaware, meanwhile, indicate a real recovery is underway here as well. But it’s very much a work in progress.

Payroll data show that the state has recovered more than 60 percent of the jobs lost at the beginning of the pandemic — but we’re still around 24,500 jobs below where we were before COVID-19. That’s enough for the unemployment rate in the state to have fallen from 13.4 percent a year ago to 6.3 percent now. That’s encouraging, of course, though in February 2020, the unemployment rate in Delaware was 4.5 percent. Labor force participation is similarly improving, but it’s still down from pre-pandemic highs. It now sits at 61.3 percent, up from last April’s 60.1 percent, but down from last February’s 62.7 percent.

Those broad numbers mask vast disparities across different segments of the economy, of course.

Finance and insurance — collectively responsible for nearly 30 percent of Delaware’s GDP — have remained basically unscathed, a remarkable development for those of us who recall the Great Recession of 2008 and 2009.

The same cannot be said for tourism and hospitality. Net revenue at Delaware’s small businesses in the leisure and hospitality sector continues to hover around 50 percent of prepandemic numbers. But even here, there are hopeful signs. The Rehoboth Beach–Dewey Beach area is reporting an uptick in demand for weekend accommodations — demand now outstrips prepandemic times, likely a sign that people who may have traveled farther afield in other years are now sticking closer to home. And open job postings in hospitality and leisure have been climbing for months.

Manufacturing, collectively responsible for about 6 percent of the state's economic production, is also showing an increase in hiring, though it's still just slightly below the prepandemic trend. In a sign of increased productivity, the manufacturing of chemical products, as well as food, beverages, and tobacco products, are all up from 2019, despite a slightly smaller workforce.

And lastly, it may be bad news if you happen to be a chicken, but good news for Delaware's people: Agriculture has remained steady during this period. The number of operating farms in the state has not changed during the pandemic.

Introducing the Occupational Mobility Explorer

So, a recovery is clearly underway. And with that comes a great opportunity for all of us. We can shape what's coming to build a recovery that is equitable and durable.

Let me tell you a little bit about a new tool the Philadelphia Fed recently launched that I think you will find very interesting — and hopefully useful for your businesses.

The tool came out of work done by researchers at the Philadelphia Fed and the Cleveland Fed. They began by asking a question: How do we transition workers in low-paying, unstable jobs into what we call *opportunity occupations* — jobs that pay above the median wage and that don't require a college degree.

They came up with an ingenious idea: They looked at the skill sets of the people who currently hold those low-opportunity jobs. They then matched those skills to jobs that would pay at least 10 percent more than their current wage and that don't require a traditional four-year degree.

The findings were incredibly encouraging. Looking at 33 metro areas nationwide, they found that nearly half of lower-wage employment can be paired with at least one higher-paying occupation requiring similar skills. For transitions connecting the most similar occupations identified in the study, the pay differences are significant, with an average bump in wages of almost $15,000 — a 49 percent increase in salary.

We've recently launched an interactive online tool — [the Occupational Mobility Explorer] — to help workers and employers make those transitions. Once you are in Explorer, you can select your geographic location and current occupation, and you will find a variety of jobs that require similar skills and pay at least 10 percent more in wages.

For example, receptionists here in the Philadelphia–Wilmington area will find that they possess many of the skills necessary to become a medical secretary, a job that pays about 26 percent more — on average, a bump in salary from around $30,000 to $38,000. Bill collectors in the Wilmington area could bump their salary 45 percent, from an average of about $38,000 to nearly $55,000 by becoming a credit counselor — with the added bonus that people will actually want to answer the phone when you call.

The tool can also be used by workforce development practitioners, community colleges, and, of course, all of you. The Explorer can help inform your reskilling programs, employee recruitment, and hiring practices as millions of workers seek to reenter the job market as we emerge from the pandemic. There's a lot of talent out there that we would be foolish to leave on the sidelines.

Affordable Childcare

Another factor that has driven far too many talented people out of the workforce is a dearth of childcare options. The Philadelphia Fed, in partnership with the Delaware Chamber, is piloting a Research in Action Lab focused on providing childcare options. I know we are planning a full briefing sometime this summer, so I don't want to play the spoiler.

But I do want to point out the economic cost that all of us incur when people — and let's be frank, mostly *mothers* — leave the labor force because they can't find an affordable option for taking care of their kids during the workday. Like quality education, affordable childcare is not merely a "nice to have" — it's an economic necessity.

And it's an expensive one. Here in Delaware, it costs the median-earning family 20 percent of their income to pay for the care of a child under 5 years old. That's a heavy burden — even before COVID-19 shuttered many schools and childcare centers, further straining families.

Making childcare more affordable is a complex issue, but one that surely requires our attention. Already, one of the most oft-cited reasons couples give for having fewer children than they say they want is the cost of raising them.

My colleagues at the Minneapolis Fed have found that, at the outset of the pandemic, many parents of young children left the labor force — 3.4 percent of fathers and 2.9 percent of mothers dropped out altogether. But in the ensuing year, most fathers have returned to the labor force, while the participation rate of mothers of young children is still down 2.8 percentage points from before the pandemic. As with all those workers with skills languishing in low-opportunity jobs, too much human capital is lying untapped.

So, again, thank you so much for having me here. Hopefully this fall I'll see all of you when I'm cheering for the Blue Hens — in person.

And now, I'm happy to take questions.