Economic and Community Advisory Council  
March 1, 2019 – Meeting Summary

The Federal Reserve Bank of Philadelphia’s Economic and Community Advisory Council (ECAC) convened in March for its first meeting of 2019. The ECAC consists of national and regional leaders from a broad range of perspectives encompassing business, philanthropic, academic, and community development voices. The March meeting was held at the Bank and featured a comprehensive discussion of economic trends and market conditions in the Third District and across the country.

ECAC chair and Senior Vice President of the Robert Wood Johnson Foundation Donald Schwarz and the Bank’s Strategic Outreach and Engagement Officer Erin Mierzwa opened the meeting by welcoming three new members: Ali Houshmand, president of Rowan University; Angelique X. Irvin, president and CEO of Clear Align; and Steve Somers, president and CEO of Vigon International. These leaders will bring new perspectives and backgrounds to council discussions and will help foster a comprehensive, cross-sector dialogue on regional issues.

After Philadelphia Fed President Patrick Harker provided his reflections on the state of economy, the meeting continued with an in-depth economic outlook from Michael Dotsey, the Philadelphia Fed’s executive vice president and director of research. Dotsey’s remarks touched on a wide variety of economic conditions at both the regional and national levels, including economic growth projections, trends in consumer and business confidence, and an analysis of labor market trends in the region.

Following each section of the presentation, council members participated in a robust roundtable discussion with Bank leaders, responding to the data and issues presented. One major theme, touched upon by several members from varying industries, was the need to invest in innovation. Multiple members noted that innovation was at a premium in their sectors and that emphasizing innovative practices would be crucial to promoting productivity growth moving forward.

Similarly, members noted that the rise of the startup economy and the prevalence of venture capital in that space has led to a perceived shortage of capital for midsize firms. This stratification of capital access, which favors large incumbent firms and small startups with higher growth potential, has led to a stagnation in middle market investment and caused a drag on innovation. Bank leaders noted the important role that opportunity zones and similar
development policies will play in promoting investment in underserved areas. These policies will seek to address some of the issues surrounding capital access and help to direct capital efficiently and equitably.

Business leaders reported steady growth, though several noted a slowdown in consumer sentiment in the final quarter of 2018. This general uneasiness regarding outlook for 2019 and 2020 seems to be based more on expectations regarding the end of the current economic expansion than on underlying data or trends. While the footprint of ongoing trade disputes with China and other major partners on our regional economy is relatively small, members noted examples of industries or local businesses that have been directly and acutely impacted. Economic and environmental reforms in China have also caused supply chain disruptions for firms in the region, though not to a significant extent.

On a related front, members commented on the effect that trade disputes have had on the region’s housing market, as rising input costs have led to a slight slowdown in new construction. Additionally, local communities have pushed back on development projects in outlying areas surrounding larger cities in the region, which has led to a slowdown in development and increased housing prices.

Other members highlighted the need to maintain a strong pipeline of student-age workers in the region to train for entry into the workforce. Demographic challenges and the financial cost of college education make this difficult, however. Members also emphasized the impact that student debt has had on consumer behavior and financial decision-making, including delaying first home purchases. Income-to-debt ratios are especially high among first-generation college graduates, which further constrains their opportunities. The council also discussed the increase in student debt among middle-aged populations, who take on loans for their children, and the impact this has on their financial well-being and future retirement plans. Bank leaders highlighted the work that the Philadelphia Fed’s Consumer Finance Institute does on these issues and the importance of further research in this space.

These trends were tied to the tight labor market, as members reflected on the importance of growing talent pipelines across the District. Several members highlighted the need to prepare young workers for the jobs of the future and the need for academic and vocational institutions to be flexible and adapt to changing labor and industry trends. Members also cited the significance of building students’ hard and soft skills and further aligning efforts between educational institutions and workforce development organizations. Given the impact
that automation, artificial intelligence, and technological advances will have on the future of work, members remarked on the importance of this issue.

More broadly speaking, members noted the impact that political uncertainty, both domestically and abroad, plays in long-term business and economic planning. Members pointed to recent slowdowns in developing nations and uncertainty over Brexit and protests in France as particularly impactful. Domestically, uncertainty over policies in sectors such as healthcare and housing finance have affected business planning and forecasting.

Further, public health concerns such as the opioid crisis are having tangible effects on the well-being of communities and neighborhoods in the region. Apart from the health effects of this epidemic, combating the opioid crisis also forces state and local governments to redirect social investment away from other worthy causes such as education and childcare. Additionally, members noted that drug addiction is one of the main barriers to employment in the region, as many working-age adults are unable to pass a drug screening. Labor force participation in an increasingly tight labor market is a noted concern among members from the business community, several of whom noted some firms in their areas are declining purchase orders due to labor shortages.

Bank staff left the meeting with a plethora of new perspectives regarding economic issues facing the Third District. The Economic and Community Advisory Council will meet next in August, and the group will continue this productive dialogue and discuss ways to proactively address these economic challenges and promote equitable growth.