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Federal Reserve Bank of Boston®

"Perspectives on the Eventual Economic Recovery"

Eric S. Rosengren
President & Chief Executive Officer
Federal Reserve Bank of Boston

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The views expressed today are my own, not necessarily those of my colleagues on the Federal Reserve Board of Governors or the Federal Open Market Committee.

Good morning, and thank you for inviting me to address the Yale Economic Development Symposium. The theme of this gathering, rebuilding an inclusive economy, is highly relevant to the current moment, and is central to many policy discussions. I am pleased to be able to offer my own perspectives with you today on this important topic.

The most recent policy statement from the Federal Reserve's interest-rate-setting Federal Open Market Committee (FOMC) noted how "the ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook."[1] Indeed, the impact of COVID-19 has been extraordinary, damaging individuals, families, businesses, and the economy overall. And the disparate economic outcomes for some individuals and groups during the pandemic have further exacerbated long-standing issues in our economy.

Fortunately, vaccine distribution across the United States is underway – and while not as seamless a rollout as any of us would have hoped, the vaccines represent a very promising development. Although COVID-19 infection rates have recently declined, they remain at a relatively high level. While it seems likely that the economy will continue to grow despite this elevated infection rate, a more rapid pace of economic activity will be realized only when there are widespread inoculations. Indeed, a successful vaccination rollout by the middle of the summer suggests that by the second half of this year a robust economic recovery should be underway – supported by the current accommodative stance of both monetary and fiscal policy.

Today, I will first focus on the outlook for the U.S. economy, including some discussion of economic conditions in Connecticut. The uneven nature of this downturn has highlighted the need to rebuild the economy in a more inclusive way. I will suggest some development policies that I believe will help complement the traditional macro policy responses, to build a more equitable economy.

Over the past several months, economic trends have largely been determined by the path of the virus and the resulting health policy responses. I expect, unfortunately, that the evolution of the virus will continue to determine the course of the economy through the middle of the year, as the U.S. and our trading partners continue to grapple with the continually evolving public health crisis.

I will emphasize today that the pandemic has had significantly divergent impacts on different industries and workers, leading to very different economic outcomes across different segments of the population. The sectors most impacted by social distancing, due to significant customer-facing interaction – recreation, entertainment, retail, restaurants, travel, and hotels – are also large employers of workers who receive relatively low wages. Many of the employees working in these sectors are Black or Hispanic. In addition, many are women and many are younger workers. As a result, these segments of the population have suffered disproportionately during the pandemic.

In contrast, Americans with jobs that can be performed remotely, although certainly constrained by the pandemic, have been able to continue working – albeit from home. As a result, certain segments of the economy – those where working at a computer or over the phone is feasible – allow these businesses to be conducted from socially distanced locations, largely uninterrupted. In fact, this evolution in the way we work and collaborate might have long-lasting effects on the workplace of the future. There are also some goods-producing industries where production lines can achieve some social distancing, and these industries have flourished. Many of the workers in minimally affected jobs have found themselves saving more money as the pandemic limits spending on travel, entertainment, and other things.

Given this added savings, we should see a significant increase in demand for many of the activities that have been limited by social distancing once consumers no longer feel threatened by the virus. Of course, this requires that public health officials can successfully vaccinate a large share of the population, and that the vaccinations continue to keep up with new variants of the virus.

Despite a potentially difficult road ahead over the next few months, monetary policy is quite accommodative, and fiscal policy has been and likely will continue to be forcefully deployed. From my perspective, both the monetary and fiscal policy responses have been quite appropriate, given the severity of the public-health-induced economic crisis.[2]

Perhaps, however, it is not enough to focus solely on the macroeconomic response to the pandemic. The recovery provides us a unique opportunity to ensure that the economic rebuilding process advances a more inclusive economy. Indeed, the pandemic has highlighted the critical importance of finding ways to improve workforce development, increase workplace flexibility, and revitalize areas where many low-income workers reside.

A number of programs can continue to make a difference along these dimensions. I will focus today on initiatives that are improving child care, improving the quality of jobs, and providing additional financing targeted to those communities most impacted by the pandemic.

The Economic Outlook

Figure 1 highlights the scope of the tragic effects of the COVID-19 virus. For the U.S. as a whole (the blue line), deaths per million of population late last year surpassed the comparable number reached last spring, during the early stages of the pandemic, and remain elevated. In Connecticut (the green line), the death rate per million of population is substantially lower than in the spring, but still not much different from the national average. The persistent severity of the pandemic continues to limit individuals' willingness to venture much beyond their own residence, with many people preferring to shelter at home while waiting for the supply of vaccines to catch up with demand.

Mobility data – which is measured by cell-phone-based data on foot traffic to over 5 million points of interest – capture how individuals' movements have been altered by social distancing. As **Figure 2** shows, for the U.S. and Connecticut, government mandated restrictions last spring meant that many individuals either chose to curtail their visits to restaurants and to establishments involved in non-essential retail (for instance, discretionary shopping) or were forced to, because the establishments were shut down. As the distancing restrictions reduced infection rates, mandates were relaxed, and there was a significant pick-up in visits to restaurants and stores.

However, as we approached winter and the second wave of infections swelled, many states that had scaled back restrictions saw infections and deaths rise once again, with people reducing their mobility accordingly. Mobility in Connecticut data has largely mirrored the national trends. And the weaker economic data that we have seen for the end of last year are consistent with the reduced mobility.

Note that the reaction to the even more severe second wave – in terms of reduced mobility – is, in part, more modest than the reaction to the initial wave last spring, as firms and consumers have adapted to the constraints imposed by the virus. High-frequency spending data, shown in **Figure 3**, highlight that spending fell dramatically in the spring and has remained depressed for the spending categories that are most impacted by social distancing.[3] However, consumers have substituted goods that can be delivered to the home for services that require leaving the house. The right side of the chart shows data for Connecticut; the series are somewhat different as they are changes in spending per transaction rather than changes in total spending. The data show a similar pattern to the U.S., with depressed spending on social distance-sensitive segments relative to all other spending. While social distance-sensitive spending started to rebound as cases declined in the late spring and summer, it retreated as cases rose again.

Consistent with the spending data, we have seen sharp fluctuations in employment, particularly in industries most affected by social distancing, shown in **Figure 4**. There were dramatic declines in payroll employment in the spring, some recovery during the summer, and further declines at the end of last year. Not surprisingly, the Arts, Entertainment, and Recreation category shows the biggest decline, with many businesses in this segment of the economy still being restricted by limits on congregating. Employment in Connecticut in these sectors, shown on the right side of the figure, has largely mirrored that of the nation.

Figure 5 shows the change in employment from February 2020 through January of this year, for the U.S. as a whole. Even though employment has generally been expanding since May, given the sharp declines in payroll employment in these industries last March and April, we remain well below the employment levels we saw roughly one year ago. Unfortunately, because of the composition of the workforce in many of these industries, Black and Hispanic workers have borne a disproportionate share of the pain.

To capture the extent of the differences in labor market outcomes across segments of the population, **Figure 6** focuses on a broader measure of labor market slack, the U-6 measure of unemployment. As well as including people unemployed and actively looking for work, the U-6 measure also encompasses people who are working part time for economic reasons and persons who are marginally attached to the labor force. By this broader U-6 measure, labor market outcomes for Blacks and Hispanics since last February have been significantly worse than for White workers. Note, however, that race is not the only distinguishing feature of how the pandemic has impacted the workforce. **Figure 7** shows that *younger* workers have also suffered disproportionately, with the U-6 measure for younger workers roughly double that of older workers. These race and age patterns in unemployment are not uncommon during a recession and the early stages of a recovery, but they are nevertheless important to highlight if as a society we want to achieve more equitable outcomes.

Women in the workforce have been disproportionately impacted by the pandemic as well. While a U-6 measure by gender would not show a dramatically different experience for men and women, other measures highlight the disproportionate impact of the pandemic on women. **Figure 8** shows the labor force participation rate for men and women by age categories. Overall, the labor force participation rate for women has fallen by more than that for men. The differential is more pronounced by age category. For the younger age groups, women's labor force participation rates have fallen by over a full percentage point more than men's labor force participation. The younger age categories are those where families might have child care issues during the pandemic which could cause a parent, likely a woman, to leave the labor force.

A closer examination of labor market outcomes in the pandemic also reveals differences in the type of unemployment. **Figure 9** shows that temporary layoffs have been much more prevalent than during previous downturns (they are shown in the dark blue area at the base of the figure).[4] **Figure 10** shows that the industries that account for much of the significant rise in temporary layoffs have been those most impacted by social distancing – such as leisure and hospitality. While temporary layoffs would normally come with the expectation of being rehired, perhaps quickly, such an expectation reflects in part that temporary layoffs in the past often involved large firms that were likely to recall workers once demand started to recover.[5] Indeed, **Figure 11** shows that roughly 30 percent of temporary layoffs currently involve workers who have been on layoff for 27 or more weeks. Though temporary layoffs have fallen dramatically from their peak of over 18 million workers, to just under 3 million workers, there are worrying possibilities to consider. To the extent that many of these nominally temporary layoffs are occurring at relatively small firms, whose reopening status is uncertain, the transition back to employment for these remaining temporary unemployed workers may be more difficult than in previous recessions – unless the recovery is exceptionally strong or policy relief immediate.

Fortunately, macroeconomic policies have been forceful since the start of the pandemic. The federal funds rate, the short-term interest rate that the Federal Reserve targets, has been between 0 and 25 basis points since March, and as the January 27 FOMC statement indicated, Fed policymakers expect this level to persist until the committee's stated 2 percent inflation target has been reached. The Federal Reserve is also continuing its purchases of Treasury and mortgage-backed (MBS) securities, which makes it easier and less expensive for individuals and firms to borrow at longer horizons. These purchases will continue until there is substantially more progress in lowering unemployment and raising inflation.

Importantly, fiscal policy is the most effective option when monetary policy has reached the lower effective bound for interest rates. Fiscal policymakers have already taken significant action, and further actions are under discussion in Washington. To my eye, policymakers have reacted aggressively to the current pandemic-driven economic situation and appear prepared to continue with additional fiscal and monetary policy actions as needed in order to avoid further impairment of labor markets and the economy as a whole.

Community Development Actions

While improving near-term public health and macroeconomic conditions are critically important, my own view is that policymakers should also take the time, as we rethink so many things coming out of the pandemic, to resolve some of the problems that have been brought to the forefront over the past year. "Essential employees," for instance, have always been essential, but the prevalence of COVID-19 has made the challenges faced by that segment of the workforce more apparent. Indeed, we have been frequently reminded anew that these workers provide services that all of us need to survive.

One example is illustrated in **Figure 12**, which looks at income levels and the composition of service workers in New England prior to the pandemic. The low-wage nature of service jobs is clear as 35 percent of service workers have family income less than 200 percent of the Federal Poverty Level, compared with 20 percent among workers overall. And, a larger share of service workers rely on Supplemental Nutrition Assistance Program (SNAP) benefits to feed their families despite having a job. And finally, it shows that Hispanics in particular hold a disproportionate share of these jobs. Moreover, many of these jobs did not come with benefits packages.

Particularly striking is the disparity in access to any form of health insurance coverage for non-health care essential workers in New England at the onset of the pandemic, shown in **Figure 13**. While 7.7 percent of White essential workers were uninsured, 10.5 percent of Black essential workers and 13.6 percent of Hispanic essential workers did not have health insurance. In addition, essential workers who have health insurance often face the challenging prevalence of high-cost, high-deductible plans. Along with health insurance, there is a need for safe workplace environments, with employers investing sufficiently to protect their employees. The rethinking of the workplace that will come as we move beyond the pandemic should also redouble thinking on safety, broadly speaking – along with the public health benefits that may accrue from better access to primary care, medical visits, and sick leave.

We should all remember that prior to the pandemic, a major concern of employers across New England was filling job openings in very tight labor markets. At the same time, in my visits to many New England locales – including, for example, East Hartford, Connecticut – potential workers noted the impediments created by inflexible job characteristics that limited their ability to participate in the workforce.

In the economics field, we often focus on the need for workers to have sufficient skills to match the needs of employers. Indeed, a worker's investment in education and in other work-related skills can have a significant impact on wages and on the likelihood of holding onto a job in an economic downturn. But as **Figure 14** illustrates, the other side of the equation is important; employers can and should consider how to tweak or tailor jobs to the workforce they can attract and need to attract. Features that raise "job quality" can be a win not only for workers, but also for employers seeking to attract and retain talent. In particular, finding ways to adapt or alter regular hours so that workers can more easily commute and deal with child care or elder care could make a big difference toward the goal of raising labor force participation – especially if coupled with more significant benefits that include health insurance, sick and family leave, and taking advantage of technology to allow working from home when appropriate.

Other actions may require more partnerships between employers and government. The pandemic has left many families struggling with remote schooling and a lack of child care options. Many parents have made difficult family and financial decisions to provide for the needs of their children during the pandemic, with some choosing (at least temporarily) to exit the workforce. I believe we can do more as a nation to make sure these parents can return to the workforce even after the pandemic has subsided. These solutions, however, will require creative thinking, and employer and government support for affordable, quality child care – which continues to be an issue for so many families – and early childhood education. Absent such an effort, many individuals will continue to be held back from participating in the labor market, with negative repercussions for the economy as a whole.

Finally, one of the challenges during the pandemic has been maintaining momentum to advance important economic development goals in an economic context that has changed considerably. Prior to the pandemic, the Federal Reserve Bank of Boston had been working with a number of cities and rural communities around New England to provide collaborative solutions to community problems through our Working Places initiative.[6]

Here in Connecticut, for instance, the effort involves a partnership between the Boston Fed, the state, members of the private sector and philanthropic communities, and five Connecticut cities. The program consists of a three-year grant funding competition designed to strengthen civic infrastructure in the participating communities by supporting teams of leaders collaborating across sectors on shared economic goals, an approach supported by Boston Fed research.[7] The cities of Danbury, East Hartford, Hartford, Middletown, and Waterbury are working on a variety of efforts geared toward systemic change, engaging residents, addressing racial equity, and learning and adapting to build a more inclusive and equitable local economy for their residents (**Figure 15**).

While the work is not yet completed, we have already seen many cities achieving the milestones they set out for themselves. This sort of cross-sector collaboration at the state and local level is, in my view, critical to our ability to rebuild for a more inclusive economy set up for more widespread prosperity, better business conditions, and more resilient long-term growth.

Concluding Observations

The past year with the pandemic has been grueling. Eleven months after the initial outbreak, economic outcomes for individuals and businesses still remain closely tied to finding and implementing effective public health policy. However, with the successful development of multiple vaccines, it is now possible to imagine much better macroeconomic outcomes ahead.[8] My view is that policymakers must work to ensure that the benefits of the eventual recovery are widely shared.

As I've mentioned, I believe that as we think about recovery from the pandemic, we should take the time to look for ways that our economy can be reimagined for the better with what we have learned during this trying period. We should learn from the challenges that the pandemic brought to the forefront – but were simmering even before COVID-19. And we should capitalize on the opportunities that stem from realizing new ways of working and extend them more broadly to benefit more workers – especially those in low- and moderate-wage occupations – along with employers, industries, and local economies.

Thank you for having me, and I wish you all continued good health in 2021.

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[1] See Jan. 27, 2021 FOMC statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20210127a.htm.

[2] It is worth noting that this strong fiscal and monetary policy response is needed, in part, because the public health response was not as forceful as it needed to be.

[3] Year-over-year percent change of four-week moving average. United States figures are total spending by category. Connecticut figures are credit card spending per transaction by category by residents living in Connecticut.

[4] The U.S. Bureau of Labor Statistics (BLS) defines people on temporary layoff as people who have been given a date to return to work or who expect to return to work within 6 months.

[5] Because the aggregate temporary layoffs displayed in Figure 8 are seasonally adjusted whereas the figures by industry displayed in Figure 9 are not, there is a difference in the pattern for the most recent data. The emphasis in Figure 9 is not on the trend but on the composition of layoffs.

[6] For more about Working Places, see: https://www.bostonfed.org/workingplaces.aspx

[7] For more discussion of the research on which the Working Places initiative is based, see: Lessons from Resurgent Cities - Federal Reserve Bank of Boston (bostonfed.org)

[8] For more discussion, see Jan. 12, 2021, talk by Eric S. Rosengren entitled, *The Economic Outlook – Optimism Despite the Challenges Ahead*.