Learning From Our District

My Richmond Fed colleagues and I are on the ground in our district constantly, meeting and learning from community members. Last year, we had over 1,700 such engagements — with bankers, business and community leaders, workers, and public officials. These meetings take us to every corner of the states we serve.

But this kind of high-touch outreach requires time and effort. And it requires us to call upon the generosity of the people who share their time and observations with us. So why do I believe in this approach? Broadly speaking, there are three reasons.

First, while national numbers are vital, community members help us see what's beneath the data. Take consumer demand. Last fall, it looked solid overall, but conversations with retailers in our district gave our understanding more depth. Lower-price retailers told us their customers had pulled back amid inflation and recession fears. As lower-income consumers were squeezed at the gas pump and the grocery store, their demand for items like washing machines and TVs dropped. In contrast, higher-priced retailers were still seeing wealthier consumers spend.

Our conversations also help us see geographic differences more clearly. In the post-pandemic recovery period, for example, foot traffic was back in South Carolina long before it returned in the District of Columbia.

Second, these conversations help us move beyond *what* is happening to *why* it's happening. For example, why has the labor market stayed tight — even as rates have risen, sentiment has fallen, and the economy has slowed? On the demand side, employers tell us they are reluctant to let go of workers they fought for months to hire; they don't want to lose those workers if they can avoid it.

On the supply side, we hear about workers facing new challenges that keep them from working even as pandemic-related barriers fade. In a visit to southern Virginia as part of our Community Conversations event series, we learned that the escalating costs of gas, housing, and child care have raised these residents' barriers to working, even as wages have been increasing.

Third, conversations on the ground give us the chance to learn what's next, catching real-time turning points in the economy. The national data come with a lag and may be revised multiple times over the following year. It is far from definitive on what is happening in real time, so conversations with our contacts help us better understand how things are changing. For instance, we saw early signs of the housing market turn when contacts shared that furniture sales had started to recede. And we've heard about more projects in the commercial real estate space being put into "wait and see" mode and many being canceled outright.

But we aren't just relying on anecdotes. Our team fields rigorous economic surveys throughout our district, and those surveys help to identify shifts in activity. For example, our index of new orders for manufacturing started to show contraction in the spring of 2022, indicating a softness that didn't show up in national measures of manufacturing until months later.

This sensing process remains essential in these uncertain times. In my conversations and staff briefings, here's what I'm watching:

Is inflation calming? Are consumers slowing spending? What are business leaders' attitudes toward pricing?

Is the labor market cooling? Will we see layoffs spread? Will those on the sidelines finally come back into the workforce? Will compensation increases continue or slow?

Are we headed for a recession? Businesses seem to have pulled out and updated their recession playbooks. Banks have faced significant pressure from recent bank failures and may pull back. What happens next?

We will find answers to these questions — and learn of new ones — as we continue to meet with members of our community. Thanks to all of you who give your time and insights.

Tom Barkin
President and Chief Executive Officer