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Fed Gov. Bies: Is job growth too strong?

By Joe Pangburn, Inside Tucson Business

When the nation's economic gurus at the Federal Reserve look into their crystal ball they worry, because it's getting smaller every day.

Fewer workers are entering the job market, and with the baby boom nearing retirement age, America's productivity could suffer the consequences.

Speaking to an overflow crowd at the University of Arizona's Berger Auditorium Thursday, Federal Reserve Gov. Susan Bies said labor, rather than inflation or debt, might be emerging as the issue most worried about in the years ahead.

Bies said the six member board is "keeping a close eye on job growth" as the Baby Boom begins heading into retirement.

"The standard number for job growth used to be 140,000 jobs per month," she said. "By 2007, we expect to see that number fall to 110,000 jobs per month."

The total could just keep heading down from there, and that raises concerns about the long-term picture for the economy.

"The majority of the baby boomers are more skilled than others in their jobs and they will be leaving," she said. As they leave, they take their skills with them. "We're watching what is happening with productivity as a result of this."

Also creating concern is the lack of workers ready and able to follow them. Already, the average age for skilled labor has been rising, as total employment in the skilled trades falls. "Skilled labor is becoming a scarce resource," Bier said.

For the immediate future, she said the picture is brighter.

Despite a large slowdown in the residential housing industry, Bies said the economy is very strong. A fall in the real gross domestic product, from rising 3.25 percent the previous two years, down to 2.6 percent in the middle of last year does not worry Bies or the rest of the Federal Reserve Board.

"The fall can be directly linked to the housing slow down which is a much needed correction period," she said.

Bies is not worried because the Fed is seeing uncommonly good things in this correction period.

"In most soft periods usually jobs are cut and we fall into bad economic conditions, but we haven't seen that here," she said. "Right now, we have a strong economy, strong unemployment rate and a strong foundation for income growth that puts a floor on the demand for housing which helps us deal with the excess."

One area that has helped keep the economy strong is the business market said Bies.

"We've continued to see corporations strengthened over the last few years," she said. "They have paid down debt and refinanced at lower interest rates, they are showing profit margins near historic levels. Which could act as a shock absorber for consumers should inflation rise."

On the matter of inflation, excluding food and energy, core prices rose 2.2 percent over 12 months earlier, which is slightly higher than the 2.1 percent increase over the previous 12 months.

However, the decline in energy prices, "if sustained, should reduce cost pressures along the production chain," she said.

Bies was appointed in 2001 to the Board of Governors for the Federal Reserve System by President George W. Bush to a 10-year term. She is currently the only female member of the board that watches the economy and votes whether to raise prime interest rates. There are another 12 presidents of Federal Reserve district who are given the opportunity to vote as well.

Concerns over potential will weigh into the decision facing the Federal Reserve when it meets again Jan. 30 to determine whether to adjust the prime interest rate.

Bies wouldn't say how she's likely to vote but she said the market is "strong currently" and that doesn't suggest a major change in direction is likely to be considered.

E-mail comments for publication to editor@azbiz.com. Contact Joe Pangburn by e-mail at jpangburn@azbiz.com or call (520) 295-4259.