Cleveland Fed keeping an eye on Pittsburgh-area businesses to see if trade war slows hiring, investment

TIM GRANT
Pittsburgh Post-Gazette
tgrant@post-gazette.com

OCT 18, 2019

Pittsburgh is less vulnerable to the trade war with China than some parts of the country since this region has less exposure to manufacturing, but the Steel City could be affected if businesses here pull back on plans to hire and invest due to concerns about a weakening U.S. economy, Cleveland Federal Reserve President Loretta Mester told the Post-Gazette Thursday.

“Let’s remember, some of this is about sentiment,” Ms. Mester said. “That’s why we can’t discount that this could have an effect even on our economy here in Pittsburgh.”

She said Fed officials are watching for any signs of those types of business reactions.

As U.S. trade policy and tariffs imposed by President Donald Trump’s administration have impacted regional economies across the country, Ms. Mester said the Cleveland Fed — which covers Pittsburgh — is keeping a close eye on manufacturing and business investment, especially since a number of firms in this district have reported being more cautious.

“They are taking a little bit of a wait-and-see attitude,” she said. “This trade policy uncertainty has gone on long enough that they’ve rethought their supply chain and moved supply chains.

“But the majority of the firms, including the ones in Pittsburgh, are saying: we’re concerned about it; we are watching it; but we haven’t changed investment plans so far. Nor have they changed hiring plans because of it.”

Ms. Mester was in Pittsburgh Thursday to attend a meeting of the Federal Reserve Bank of Cleveland’s Community Advisory Council, which is made up of experts and leaders of social service agencies addressing issues that affect lower income residents.

“The Federal Reserve not only cares about monetary policy and regulation of banks, but we also have a big function that works on issues that concern communities — low- and moderate-income communities in particular,” she said.

The community advisory council is currently focused on transit and challenges related to getting people to and from work.

But the primary function of the Federal Reserve Bank is to support the nation’s banking system and to formulate monetary policy, which includes setting the nation’s benchmark interest rate — the federal funds rate.

The federal funds rate is the interest rate at which banks loan money to other banks on an overnight basis. All other interest rates are based on the federal funds rate.

That rate is currently 1.75% to 2%. That’s after the Fed cut it a quarter of a percentage point on Sept. 18.

The Federal Reserve Bank of Cleveland is one of 12 such banks spread out across the country.

The Federal Open Market Committee, which is a branch of the Federal Reserve Board that determines the direction of interest rates, is set to meet Oct. 29-30.

Ms. Mester was a voting member of the FOMC in 2018, but not this year. The Cleveland Fed alternates voting years with the Chicago bank. The 12 banks alternate years, with the exception of the New York Federal Reserve Bank, which votes every meeting.

“The way the FOMC works is everybody is a participant whether you vote or not,” Ms. Mester said. “It doesn’t matter in terms of your ability to participate in the meeting and give your views on your district and the economy and what you are seeing out there. It’s only at the end of the meeting when they take the vote does it matter whether you are voting or not.”

The information she and her staff gathers from Pittsburgh in terms of official data and speaking with business contacts helps to inform the views she shares with the FOMC.

“I think my role as a reserve bank president is actually to bring what’s happening in my district to those FOMC meetings,” Ms. Mester said.

Ms. Mester also addressed a mild panic that occurred in the U.S. financial system on Sept. 17, which caused interest rates in the repo market to spike to 10% from about 2% the week before.

Repo is short for repurchase agreements, transactions that amount to collateralized short-term loans made overnight. Repo deals let big investors — such as mutual funds — make money by briefly lending cash that might otherwise sit idle, and the deals enable banks and brokers to get needed financing by loaning out securities they hold in return.

But the week of Sept. 16, a lot of cash flowed out of the repo system just as more securities were flowing in, which meant that suddenly there wasn’t enough cash for those who needed it. That mismatch drove overnight rates to 10%. It forced the Fed to make its first injection of cash to the banking sector since the 2008 financial crisis.

The Fed injected as much as $75 billion a day in cash over four days to calm the funding crunch.

“It had nothing to do with the economy and the health of the economy,” Ms. Mester said. “It really is a technical issue about making sure there’s enough liquidity in the economy so that it can move around. So what we are doing is basically raising that liquidity that we have in the market, raising the level or reserves.”

Tim Grant: tgrant@post-gazette.com or 412-263-1591.