



FEDERAL RESERVE BANK
OF PHILADELPHIA

74TH ANNUAL FIELD MEETINGS

DELAWARE

OCTOBER 7, 2019



www.PhiladelphiaFed.org

| [@PhiladelphiaFed](https://twitter.com/PhiladelphiaFed)



Meeting Overview

- Welcome *(Jim Narron)*

- State of the Third District *(Bill Spaniel)*
 - Banking Conditions
 - Fintech and Community Banks
 - Examination Focus Areas
 - Regulatory Updates
 - Supervision Resources

- Regional Economic Update *(Ryo Tashiro)*
 - Summary of Conditions
 - Gross Domestic Product (GDP)
 - Employment
 - Most In-Demand Skills and Job Vacancy Duration
 - Inflation and Monetary Policy

- Closing Remarks *(Pat Harker)*



Welcome



Jim Narron
First Vice President
Federal Reserve Bank of Philadelphia



Submitting Questions

slido

- Use your cellphone, iPad, or computer to connect
- Slido does not require an app, just a browser:
www.slido.com
- To join this session, use the participant code:
[#fieldmeeting2019](#)



FEDERAL RESERVE BANK OF PHILADELPHIA

Banking Trends and Regulatory Updates

State of the Third District

www.PhiladelphiaFed.org | [@PhiladelphiaFed](https://twitter.com/PhiladelphiaFed)



Discussion Overview



William G. Spaniel

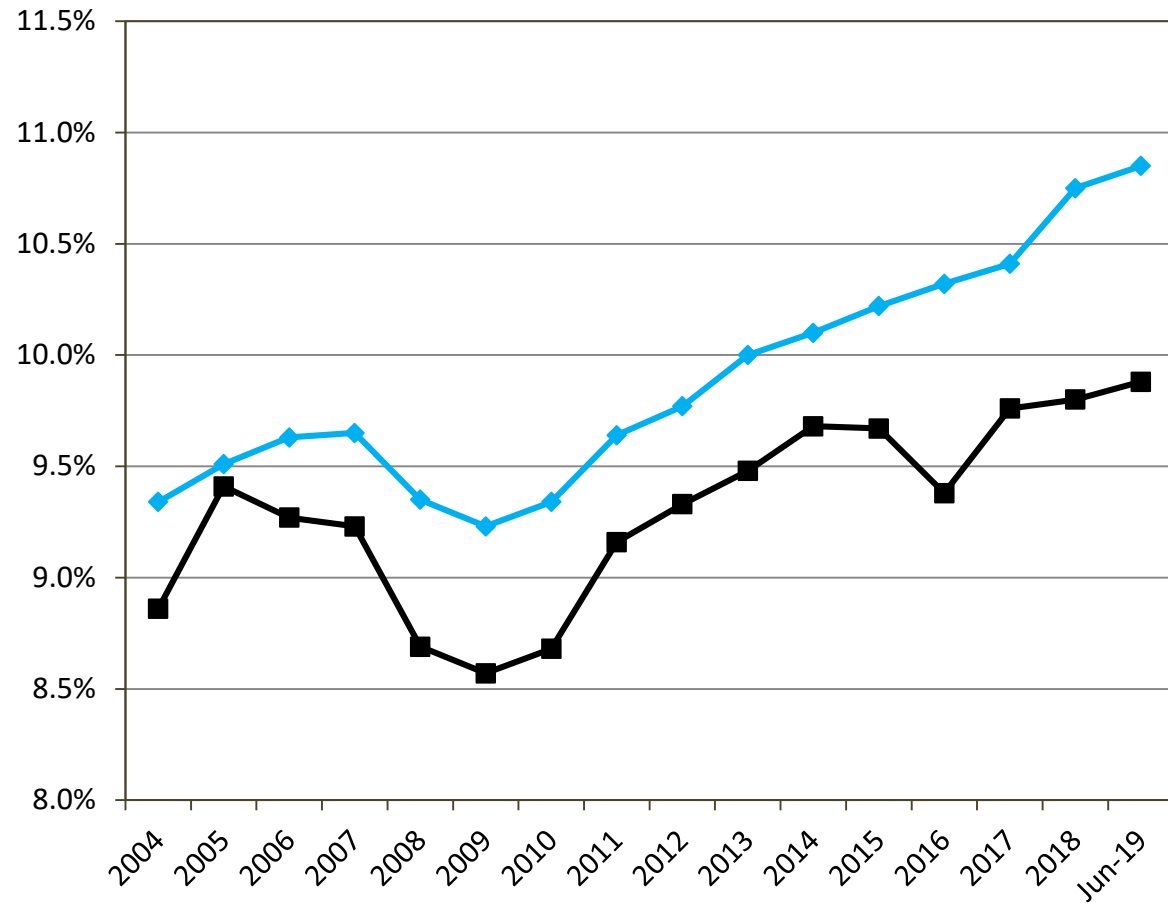
Senior Vice President & Lending Officer
Supervision, Regulation, and Credit

- Banking Conditions
- Fintech and Community Banks
- Examination Focus Areas
- Regulatory Updates
- Supervision Resources

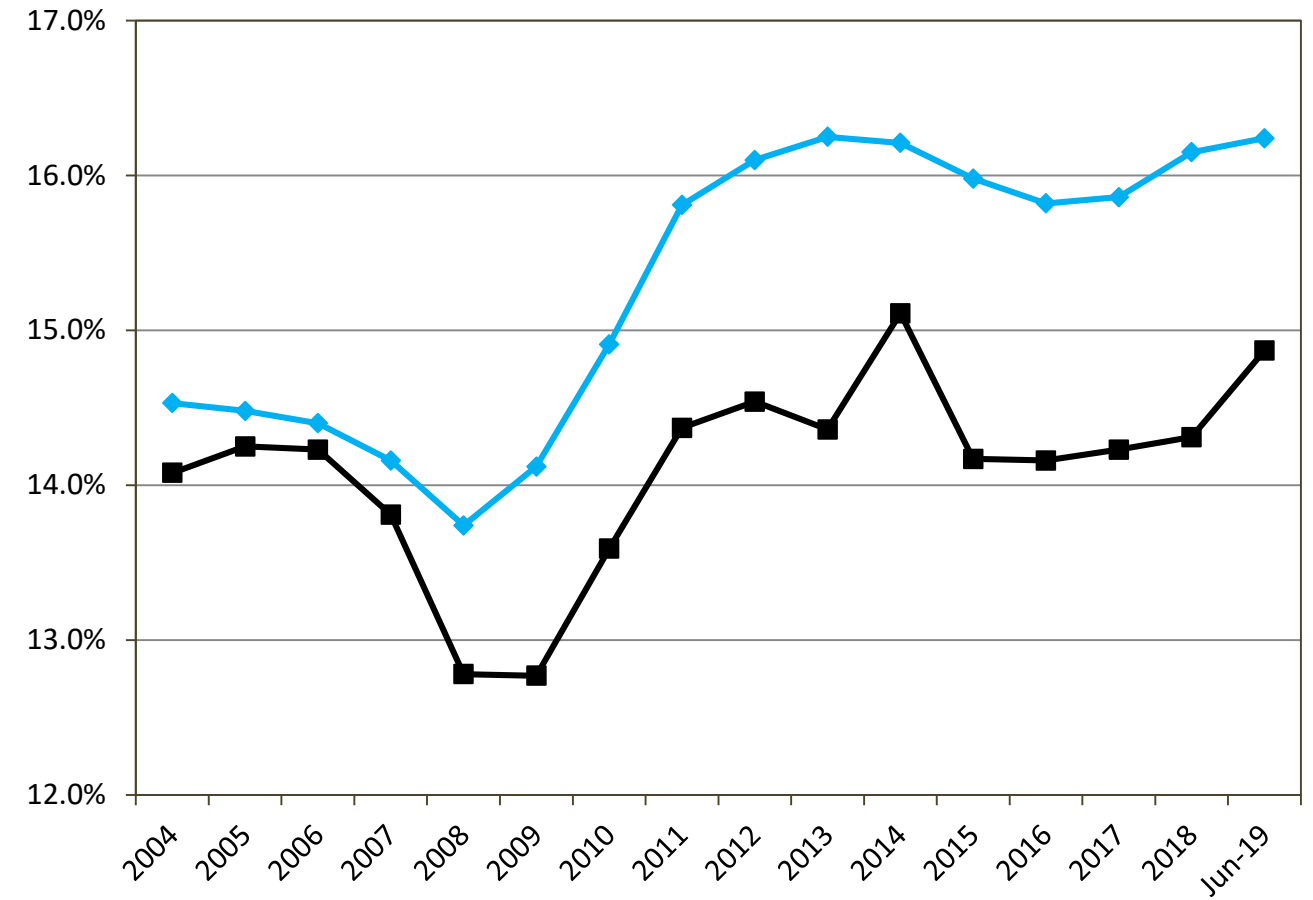


Banking Conditions: Capital

Tier 1 Leverage



Total Risk-Based Capital

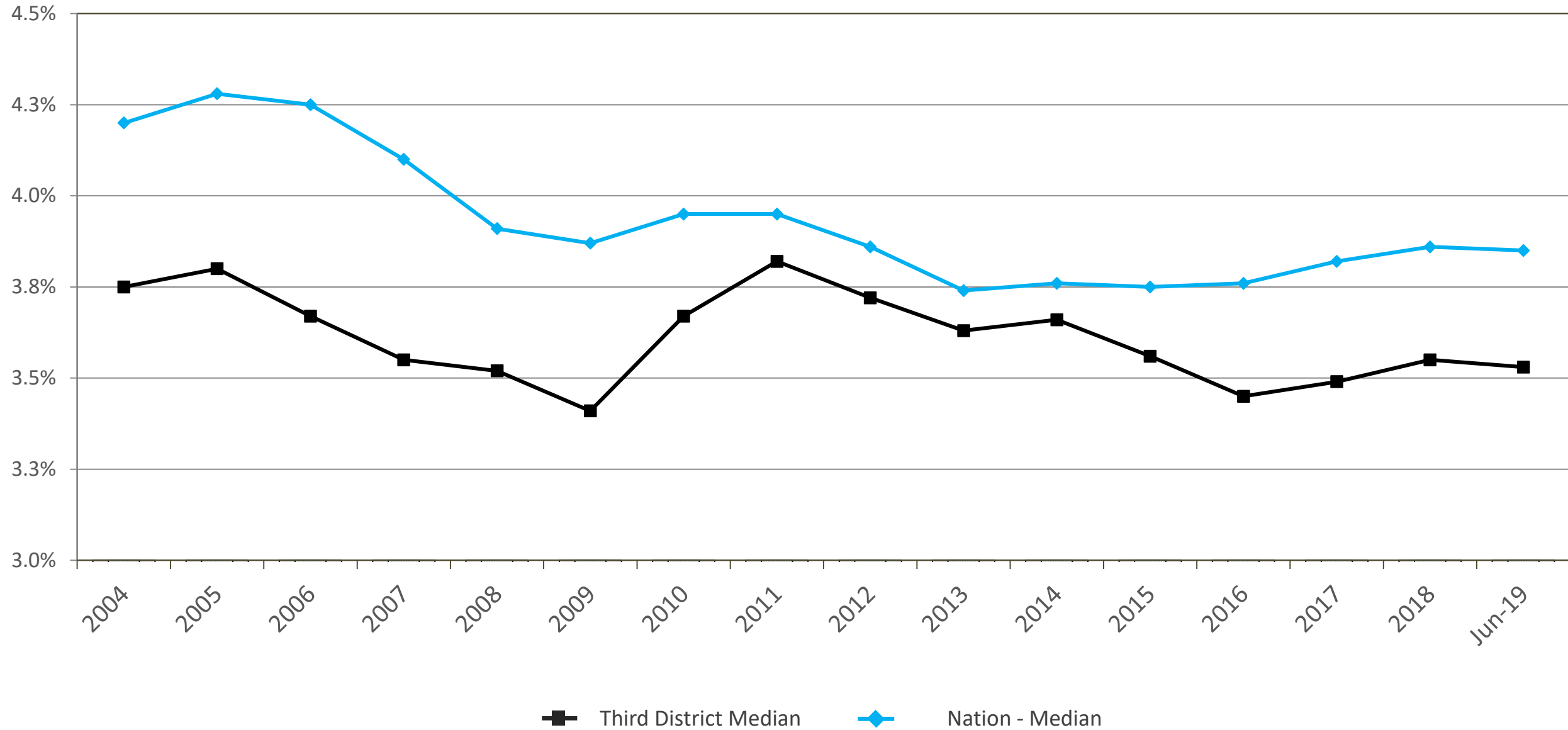


■ Third District Median ◆ Nation - Median



Banking Conditions – Earnings

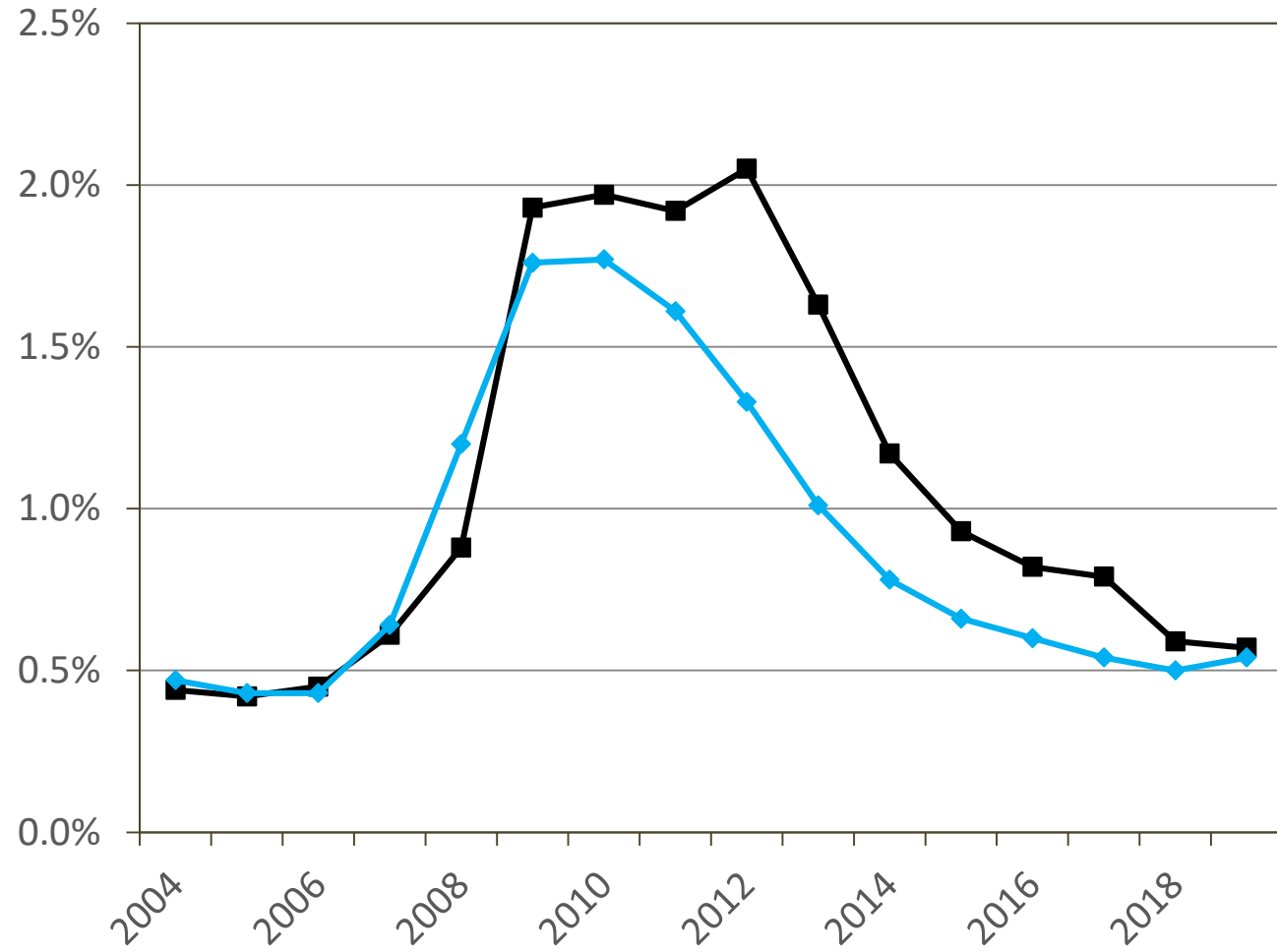
Net Interest Margin



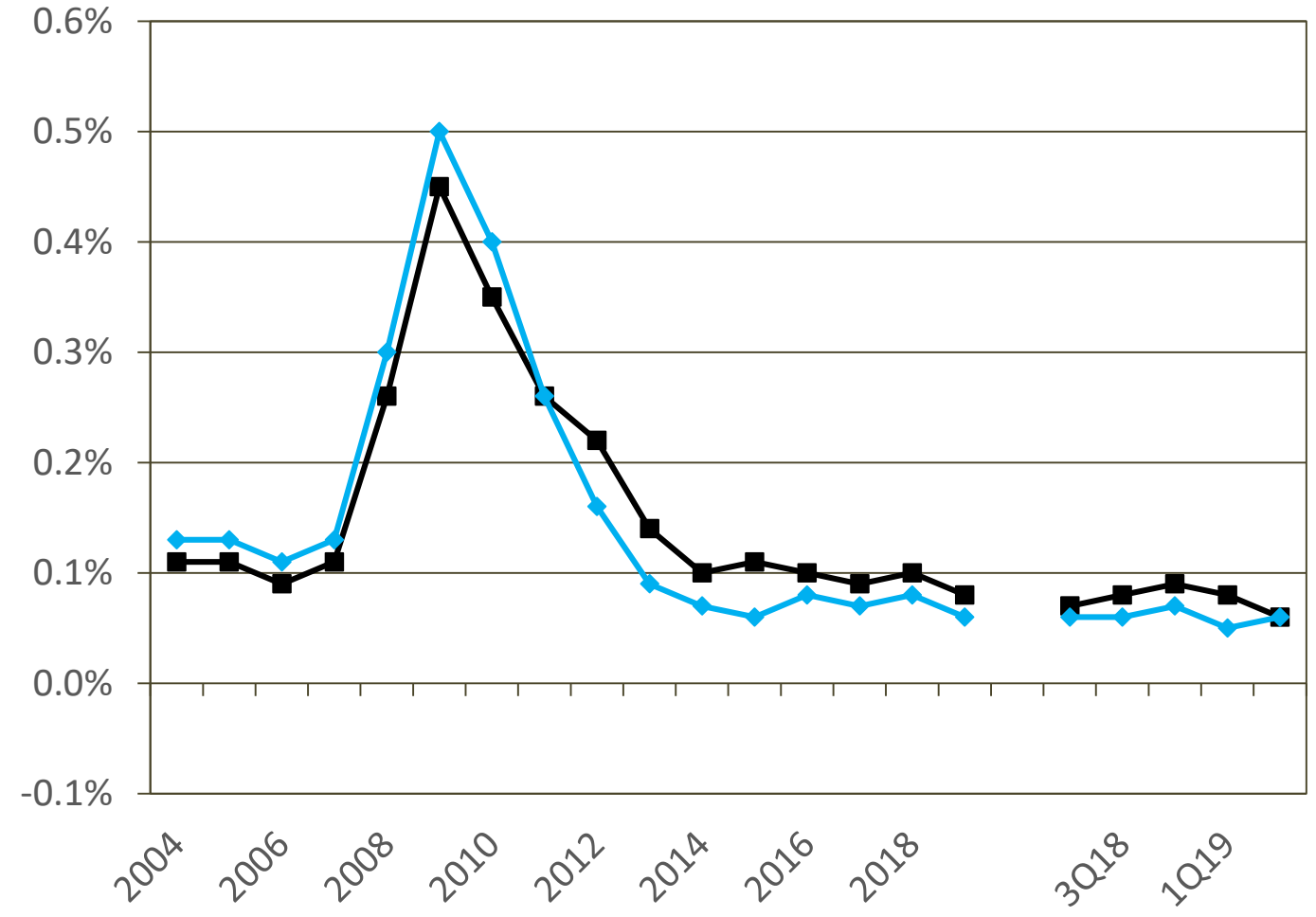


Banking Conditions – Asset Quality

Noncurrent Loan Rate



Provisions / Average Assets



■ Third District Median ◆ Nation - Median



Banking Conditions

Preparing for Changing Economic Conditions

- Inversion of the yield curve in August 2019
 - Short-term interest rates rose higher than long-term rates
 - Could lead to lower asset yields
 - Potential concern for asset-sensitive institutions if trend continues
- Loan growth
 - Currently is strong
 - Exceeds growth in securities portfolios
- Lacking increases in allowance and provision expenses by most banks could be an issue if asset quality deteriorates



Banking Conditions

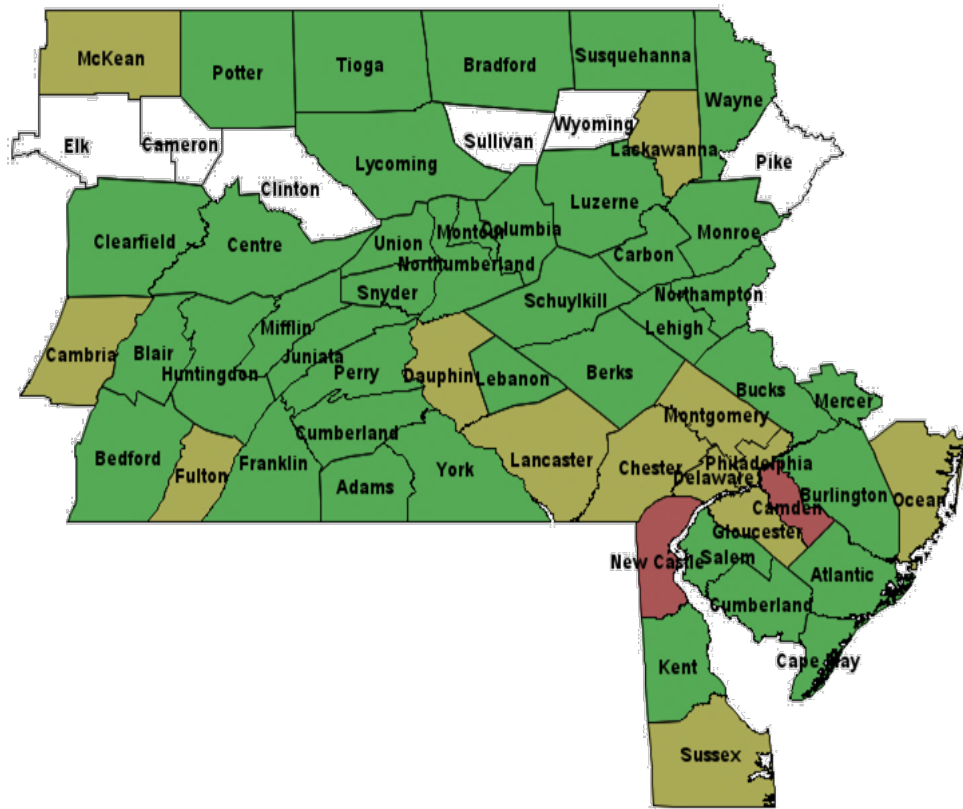
- FRBP uses an early warning indicator model to assess overall risk in an institution
- Primary drivers for improved bank performance include:
 - Efficiency ratios
 - Texas Ratio*
 - Net Interest Margin
 - CRE concentrations
 - Brokered deposits
 - Home Price Index (HPI) and low unemployment

* Texas Ratio is defined as (Non-performing assets / Tangible common equity + ALLL)

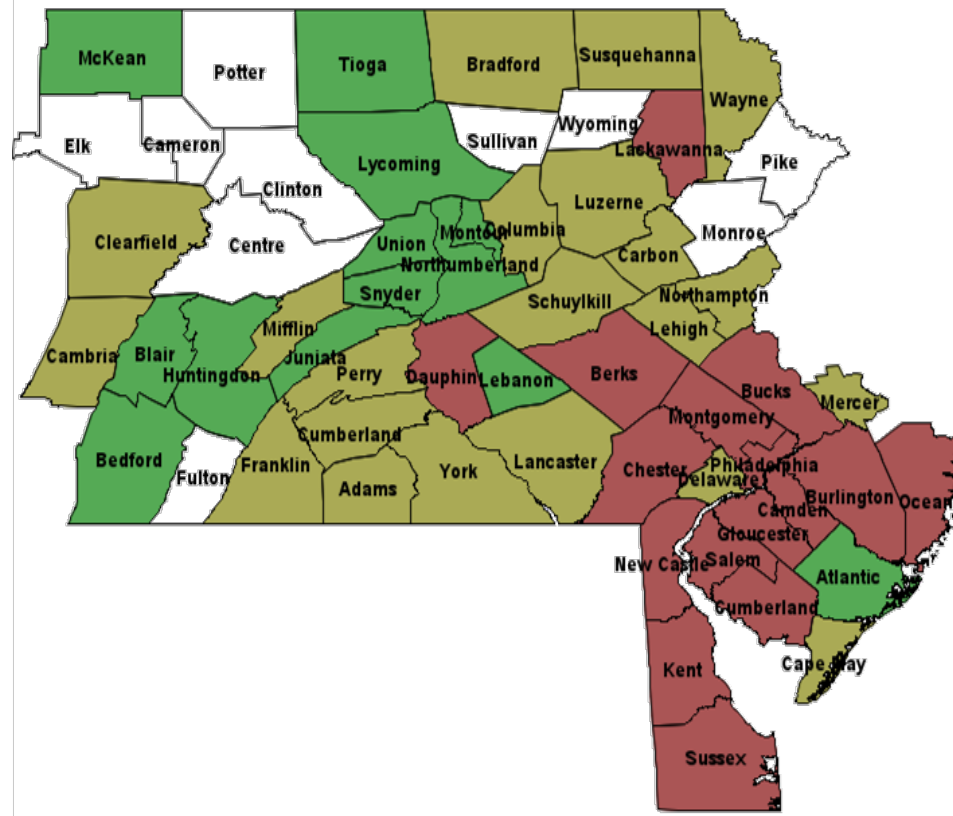


Evolution of Bank Risk in the Third District

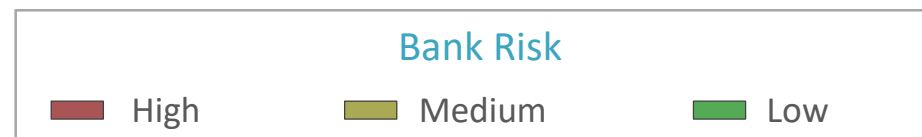
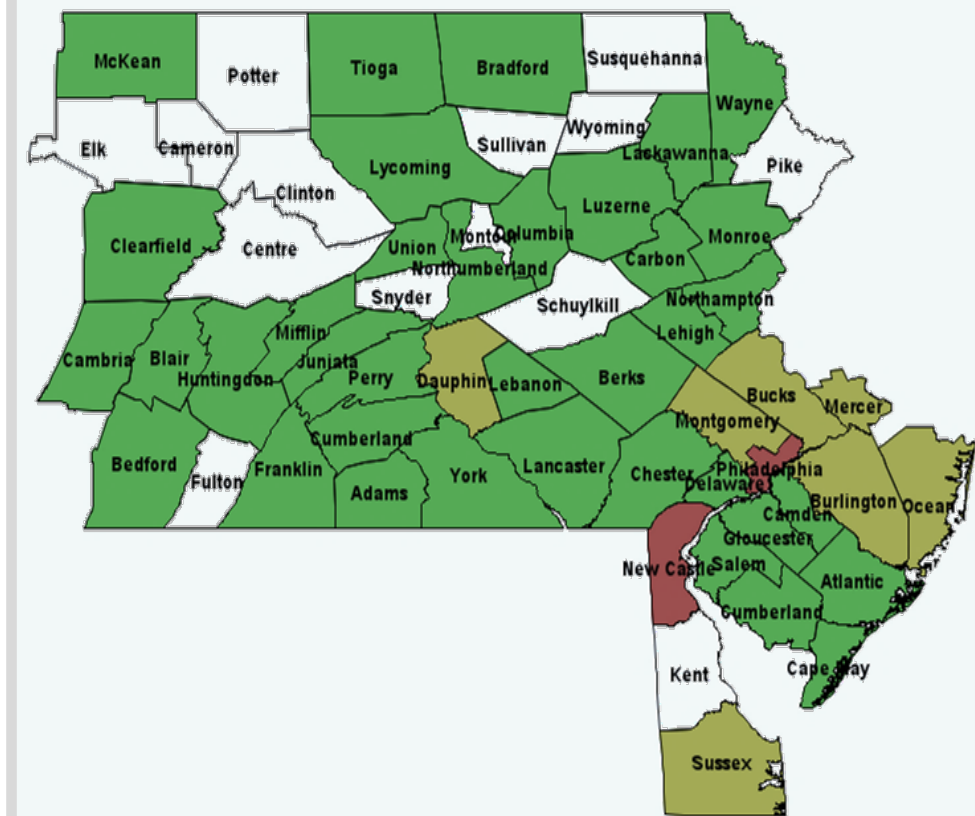
Pre-Crisis (2004)



Crisis (2010)



Present (2019)





Fintech and Community Bank Partnerships

Benefits

- Diversify loan portfolio and asset growth
- Serve more customers
- Lower operating costs
- Provide digital application process
- Address product gaps

Risks

- Data accuracy and stability
- Third-party vendor risk
- Consumer privacy
- Black box models

Examples: Loan Purchases, Co-brand and Joint Marketing



Examination Focus Areas

Safety & Soundness

- Cybersecurity
- Current Expected Credit Losses (CECL)
- Outsourcing/vendor management
- Bank Secrecy Act
- Succession Planning
- Liquidity
- LIBOR transition



Examination Focus Areas

Consumer Compliance

- Home Mortgage Disclosure Act (HMDA)
- Fair Lending
- Vendor management and Unfair or Deceptive Acts or Practices (UDAP)
- Regulation Z
- Flood insurance/climate change



Regulatory Updates

- Current Expected Credit Losses (CECL)
 - Updated frequently asked questions in 2019
 - Delayed implementation to January 2023
- Compliance matters
 - CFPB's advanced notice of proposed rulemaking on GSE patch
 - Private flood insurance rule
 - Fintech's use of data for credit decisions
- Community Reinvestment Act (CRA)



Regulatory Updates: Reducing Burden

- Regulatory Efforts
 - Small bank working group
 - Community banks project
 - Bank Exams Tailored to Risk (BETR, Supervisory letter 19-9)
- Final Rules
 - Exempt community banks from Volcker Rule
 - Simplify regulatory capital rules
 - Streamline regulatory reporting requirements
- Other
 - Proposal for adjusted leverage ratio for qualifying community banking organizations
 - Feedback on First Day Letter requests and size of examination teams



Supervision Resources

We provide a variety of related resources:

- Training and Educational Programs
- Events
- Publications
- E-newsletter updates

E-newsletter

SRC Perspective

- Quarterly e-newsletter on supervisory and regulatory matters
- Developed for supervised institutions

System Publications

Published by Federal Reserve Bank of Philadelphia

- *Consumer Compliance Outlook*
- *Community Banking Connections*



Produced by The Board of Governors

- *Consumer Compliance Supervision Bulletin*
- *Supervision and Regulation Report*



Submitting Questions

slido

- Use your cellphone, iPad, or computer to connect
- Slido does not require an app, just a browser:
www.slido.com
- To join this session, use the participant code:
[#fieldmeeting2019](#)



Questions and Discussion



William G. Spaniel

Senior Vice President & Lending Officer
Supervision, Regulation, and Credit
Federal Reserve Bank of Philadelphia



FEDERAL RESERVE BANK OF PHILADELPHIA

GDP, Employment, Skills, Vacancies, Inflation, Monetary Policy

Current Economic Conditions

www.PhiladelphiaFed.org | [@PhiladelphiaFed](https://twitter.com/PhiladelphiaFed)



Overview of Conditions and Discussion Outline



Ryo Tashiro

Regional Economic Advisor

Overview of Conditions

- The good:
Continued economic growth with strong labor market, despite some perceived weaknesses
- The risks:
Uncertainty over policy, tighter labor market with smaller supply of available workers, and global economic slowdown could lead to slower growth

Discussion Outline

- GDP and Near-Term Outlook (5 slides)
- Employment (5 slides)
- Most In-Demand Skills and Job Vacancy Duration (4 slides)



Submitting Questions

slido

- Use your cellphone, iPad, or computer to connect
- Slido does not require an app, just a browser:
www.slido.com
- To join this session, use the participant code:
[#fieldmeeting2019](#)



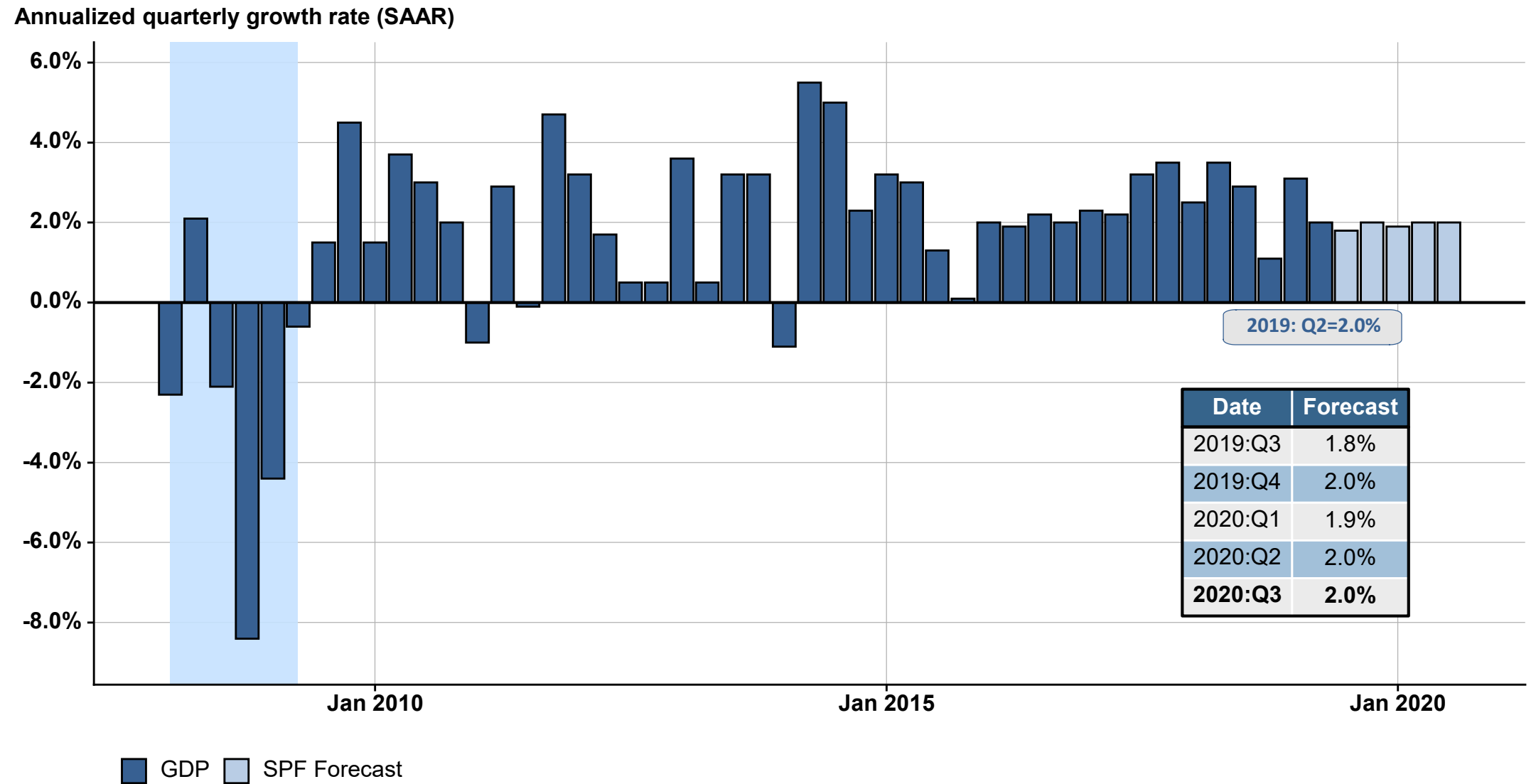
FEDERAL RESERVE BANK
OF PHILADELPHIA

GDP and Near-Term Outlook



Growth and Forecast for U.S. Real GDP

- Quarterly (SAAR): 2008:Q1 - 2020:Q3.
- The U.S. economy has grown at a solid pace in 2018 and so far in 2019.
- Economists predict a growth rate of around 2% for the remainder of 2019.

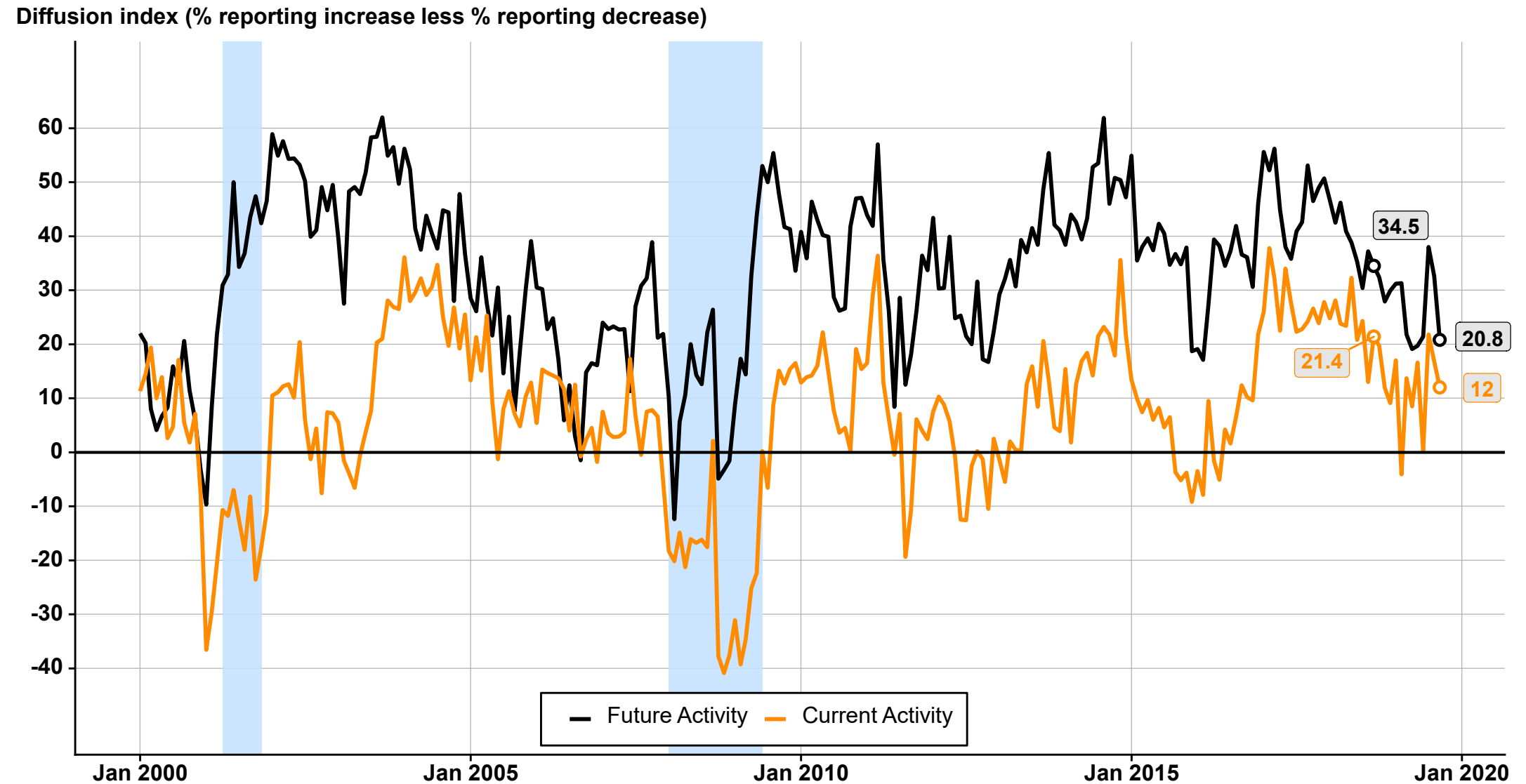


Source: BEA via Haver Analytics
 Quarters plotted (actual): 2008:Q1–2019:Q2 (third estimate)
 Quarters plotted (forecast): 2019:Q3–2020:Q3
 Blue shade represents recession quarters.



Third District Manufacturing Business Outlook

- Most recent and last year's values are labeled.
- Sharp decline in business activities in the recent months.
- A number of respondents expressed concerns over uncertainty of trade policy.

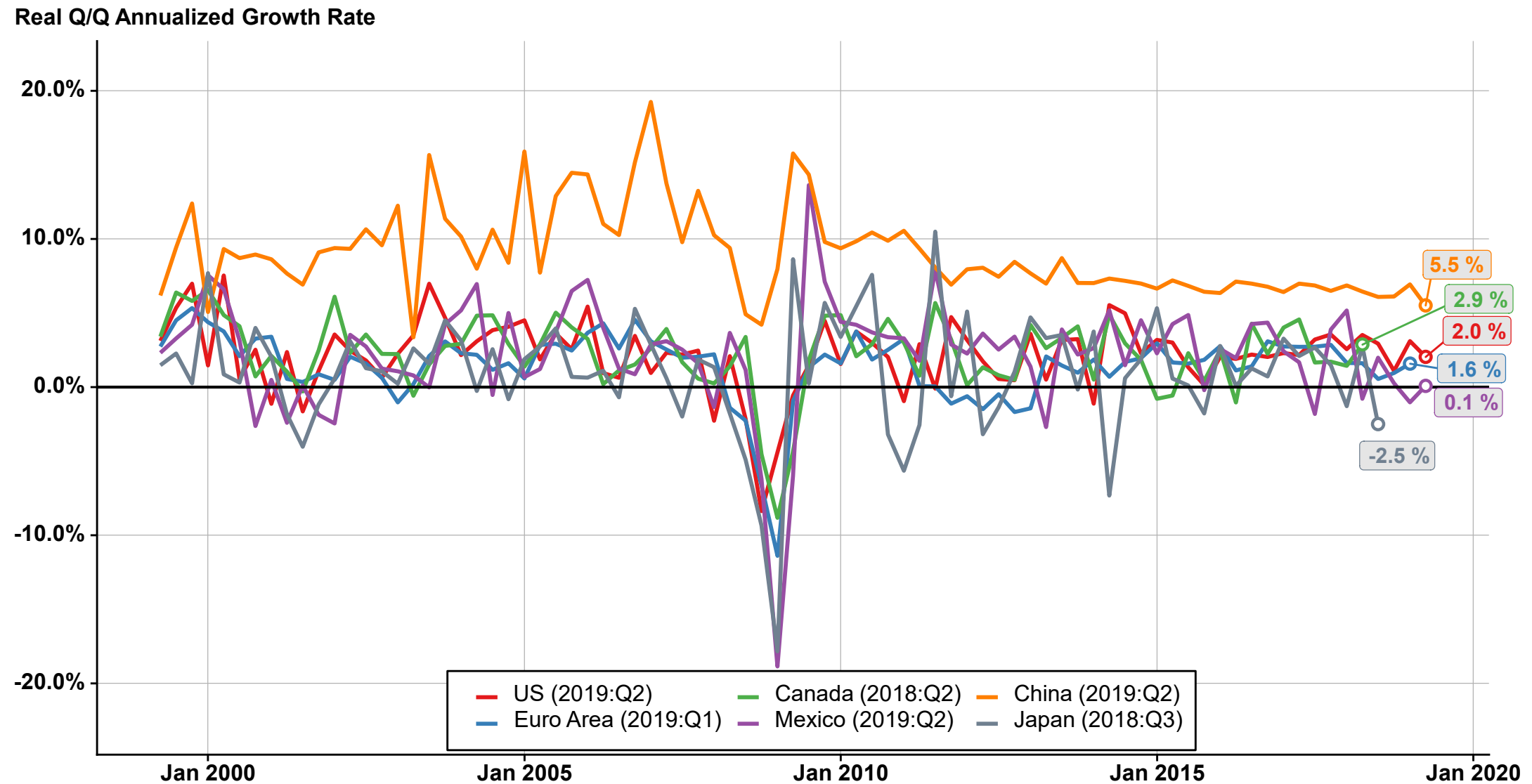


Source: FRB Philadelphia via Haver Analytics
Months plotted: Jan 2000 - Sep 2019
Blue shade represents recession months.



Real GDP Growth in Selected Areas

- Early signs of a slowdown among other industrialized nations, with both Mexico and Japan reporting negative growth in recent quarters.

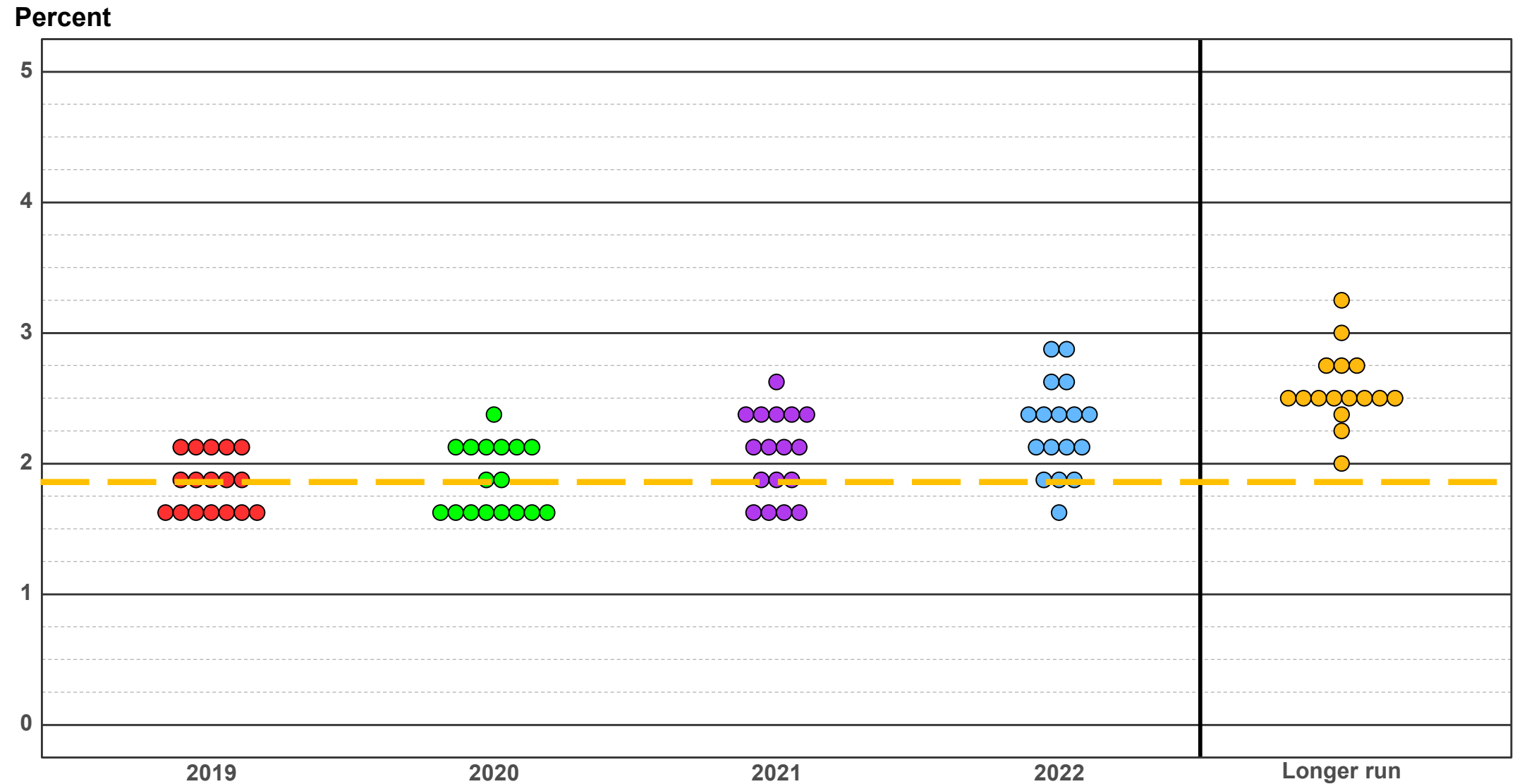


Sources: BEA, International Financial Statistics, and China's National Bureau of Statistics via Haver Analytics



FOMC Projections of Appropriate Policy

- 'Dot plot'.
- The committee seems to be split in terms of the path of monetary policy.



Source: FOMC Projections, September 2019



Market-Implied Probability of Rate Cut in 2019

- Probability based on CME Fed Funds Futures Contracts, as of September 30, 2019.
- Market has priced in at least one more rate cut with more than 70% probability.

Number of 25bp Rate Cuts	Implied Probability Before the end of 2019
0	27.5%
1	50.4%
2	22.0%

Source: Bloomberg



FEDERAL RESERVE BANK
OF PHILADELPHIA

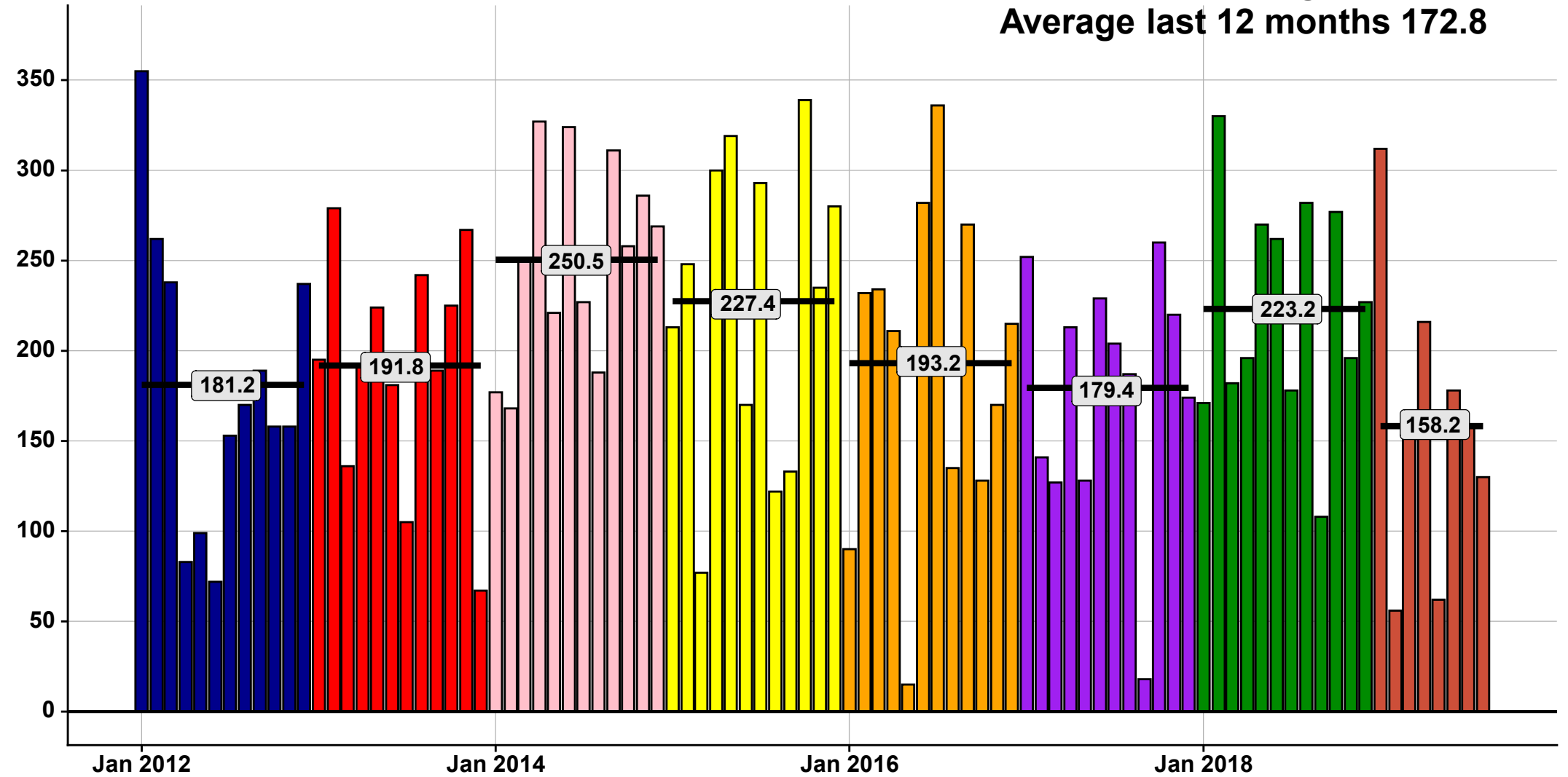
Employment



Change in Monthly U.S. Payroll Employment

- Black lines indicate annual averages (in thousands).
- Payroll employment growth remains strong in the country.

Change in payroll employment (thousands, SA)

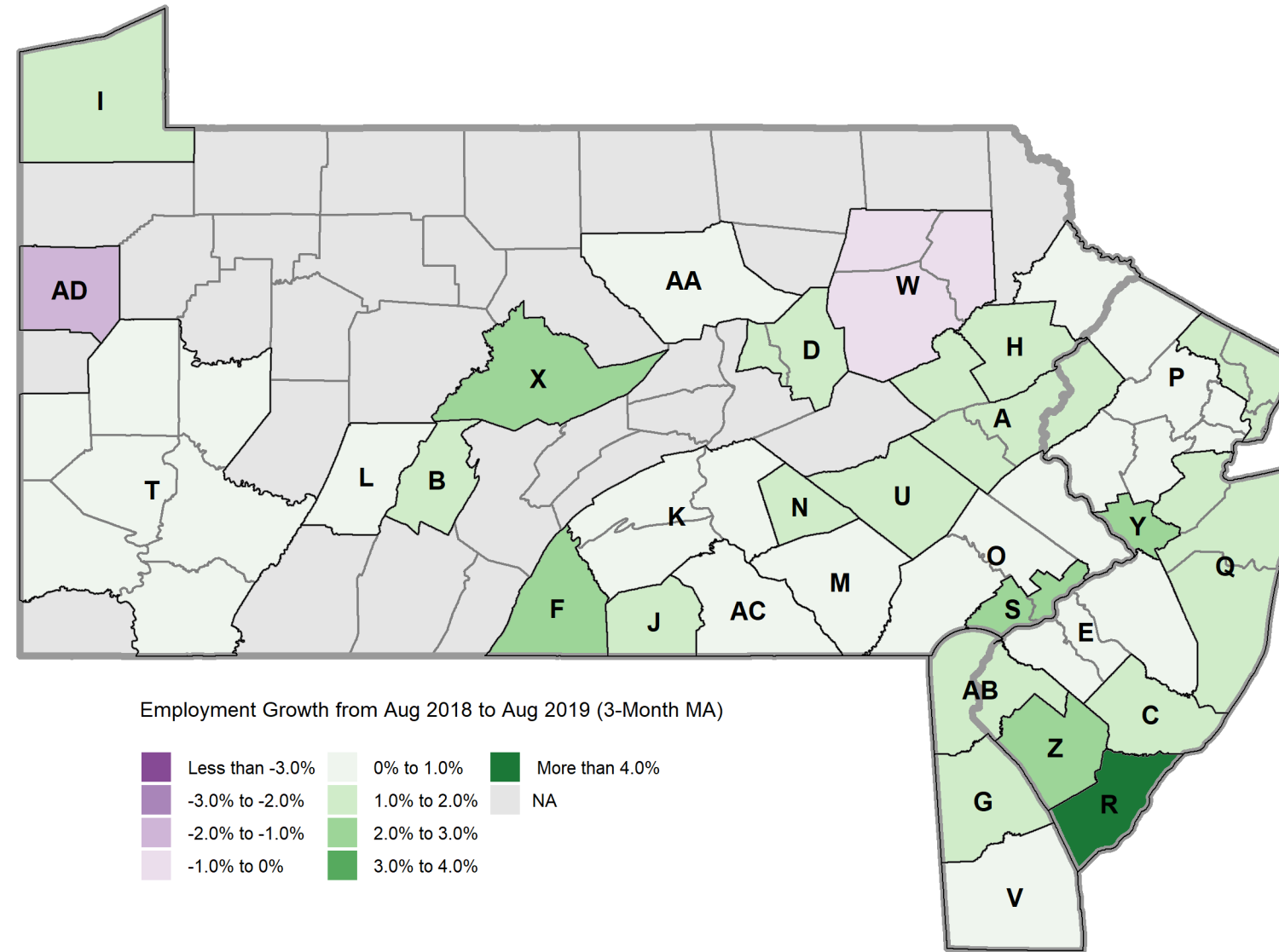


Source: BLS via Haver Analytics
Months plotted: Jan 2012 - Aug 2019
Black lines indicate annual averages.



Tri-State Metro Area Employment Growth

- Year-over-year percentage change (3-month moving average) .
- Most areas in Pennsylvania, including areas around Lancaster, saw some positive job growth.



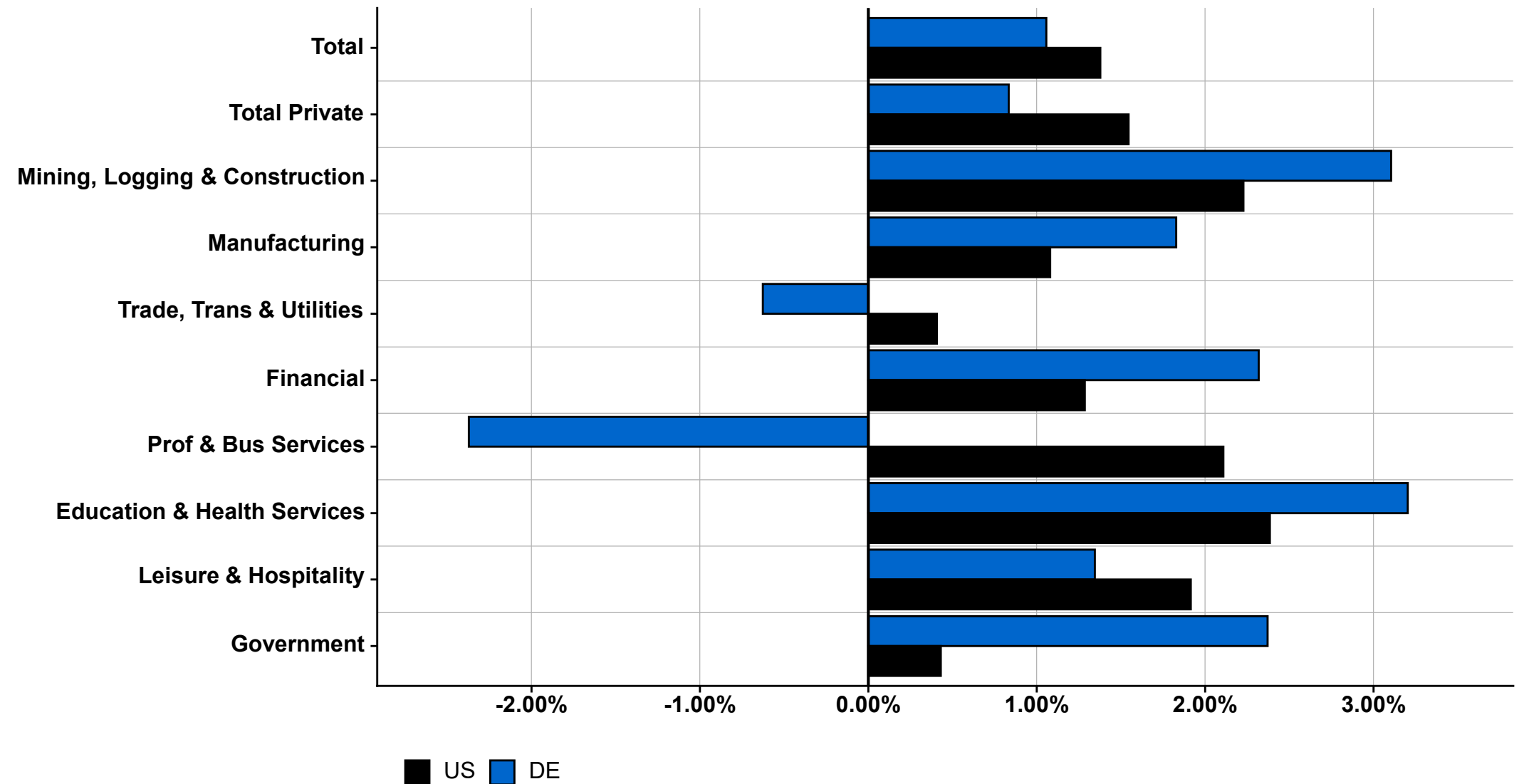
- A = Allentown-Bethlehem-Easton MSA
- B = Altoona MSA
- C = Atlantic City-Hammonton MSA
- D = Bloomsburg-Berwick MSA
- E = Camden Metro Division
- F = Chambersburg-Waynesboro MSA
- G = Dover MSA
- H = East Stroudsburg MSA
- I = Erie MSA
- J = Gettysburg MSA
- K = Harrisburg-Carlisle MSA
- L = Johnstown MSA
- M = Lancaster MSA
- N = Lebanon MSA
- O = Montgomery-Bucks-Chester County MD
- P = Newark Metro Division
- Q* = New York-New Jersey-White Plains MD
- R = Ocean City MSA
- S = Philadelphia-Delaware County MD
- T = Pittsburgh MSA
- U = Reading MSA
- V* = Salisbury MSA
- W = Scranton-Wilkes-Barre MSA
- X = State College MSA
- Y = Trenton-Princeton MSA
- Z = Vineland-Bridgeton MSA
- AA = Williamsport MSA
- AB* = Wilmington Metro Division
- AC = York-Hanover MSA
- AD* = Youngstown-Warren MSA
- * Also includes counties not shown on map.

Source: Calculations from BLS data via Haver Analytics.



Annual Employment Growth by Sector

- The nation's employment is broad-based.
- Trend for local labor market is similar to that of the nation.
- Service providing sectors continue to grow rapidly in the country.

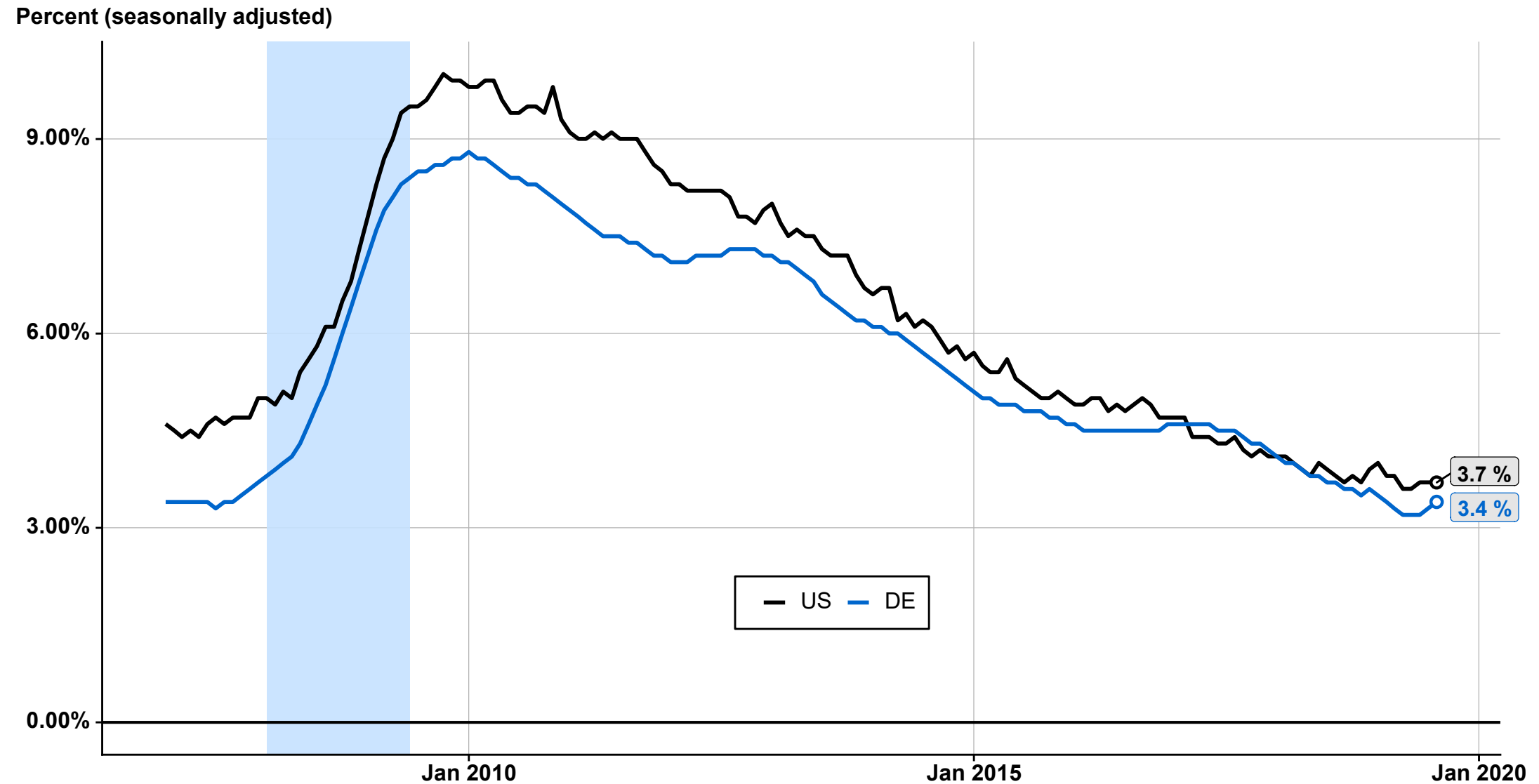


Source: Calculations from BLS via Haver Analytics.
Last month included: August 2019



U.S. and Delaware Unemployment Rates

- Monthly, seasonally adjusted (most recent value labeled).
- Unemployment rates have been falling steadily at all levels.

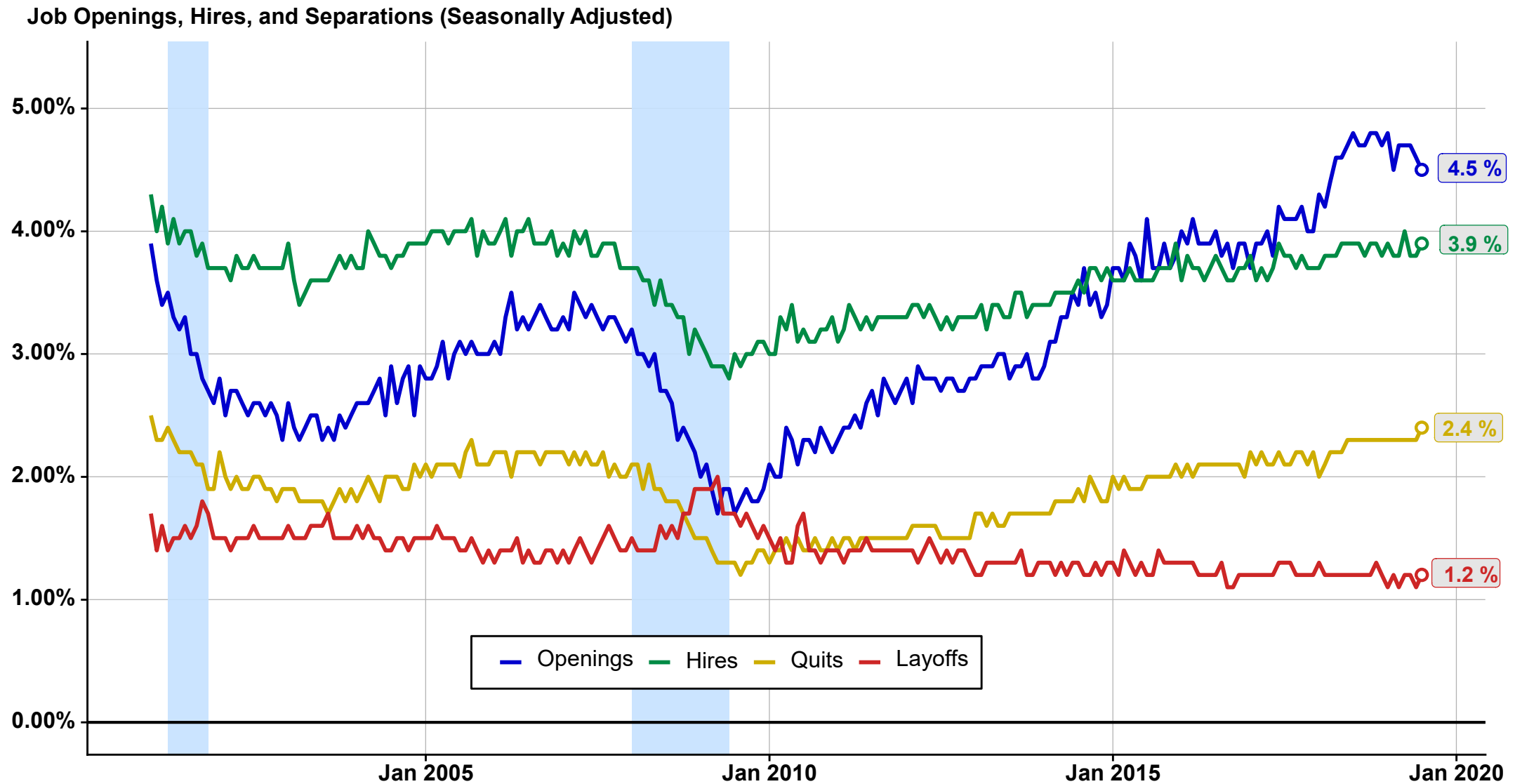


Source: BLS via Haver Analytics
Last month plotted: August 2019



Job Openings and Labor Turnover Survey

- United States, Seasonally Adjusted.
- Decrease in layoffs rate and increases in quits and openings rates signal a very tight labor market .
- There are more job openings than hires and unemployed people.



Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Jul 2019



FEDERAL RESERVE BANK
OF PHILADELPHIA

Most In-Demand Skills and Job Vacancy Duration



Most In-Demand Jobs in Financial Sector

- Top online job ads for financial sector, 2017.
- Both the state and the area follow the nation in terms of most in-demand jobs.

United States	Delaware	Philadelphia MSA
Teller	Software Developer/Engineer	Teller
Insurance Sales Agent	Business/Management Analyst	Financial Analyst
Customer Service Representative	Insurance Sales Agent	Software Developer/Engineer
Bookkeeper/Accounting Clerk	Financial Analyst	Personal Banker/Banking Sales Staff
Personal Banker/Banking Sales Staff	Customer Service Representative	Business/Management Analyst
Personal Financial Advisor	Project Manager	Personal Financial Advisor
Financial Analyst	Treasurer/Controller	Insurance Sales Agent
Loan Officer	Teller	Customer Service Representative
Software Developer/Engineer	Financial Manager	Financial Services Sales Agent
Sales Representative	General Manager	Sales Representative

Source: Calculations using data from Burning Glass Technologies.



Top Listed Skill Requirements in Financial Sector

- Most commonly listed skill requirements for job ads in the financial sector, 2017.
- Some skills are commonly required regardless of role.
- Both soft and technical skills are considered to be important.

United States	Delaware	Philadelphia MSA
Communication Skills	Communication Skills	Communication Skills
Customer Service	Problem Solving	Microsoft Excel
Microsoft Excel	Microsoft Excel	Problem Solving
Sales	Team Work/Collaboration	Customer Service
Problem Solving	Project Management	Team Work/Collaboration
Team Work/Collaboration	Detail-Oriented	Detail-Oriented
Detail-Oriented	Microsoft Office	Microsoft Office
Organizational Skills	Organizational Skills	Organizational Skills
Microsoft Office	Building Effective Relationships	Building Effective Relationships
Building Effective Relationships	Research	Sales

Source: Calculations using data from Burning Glass Technologies.



Occupations with Longest and Shortest Time-To-Fill (TTF)

Occupations with longest average TTF

Occupation	Type	Avg. TTF
Anesthesiologists	NRC	58.39
Psychology Teachers, Postsecondary	NRC	58.23
Psychiatrists	NRC	58.12
Nonfarm Animal Caretakers	NRM	56.72
Genetic Counselors	NRC	56.30
Family and General Practitioners	NRC	56.25
Biological Science Teachers, Postsecondary	NRC	54.66
Agricultural Equipment Operators	F	53.94
Clinical/Counseling/School Psychologists	NRC	53.64
Teachers and Instructors, All Other	NRC	53.34

Occupations with shortest average TTF

Occupation	Type	Avg. TTF
Farm Labor Contractors	F	3
Probation Officers	NRC	17.14
Radio/Cellular/Tower Equipment Installers	RM	19.64
Explosives Workers, Ordnance Handling Experts	RM	21.80
Tile and Marble Setters	RM	22.02
Correctional Officers and Jailers	NRM	22.45
Airline Pilots, Copilots, and Flight Engineers	RM	22.99
Drywall and Ceiling Tile Installers	RM	23.14
Court/Municipal/License Clerks	RC	23.16
Tank Car/Truck/Ship Loaders	RM	23.33

Source: Calculations using data from Burning Glass Technologies.

Note: "Type" refers to the occupation's classification on the Routine-Non-Routine and Manual-Cognitive scale; RM = Routine Manual, NRM = Non-Routine Manual, RC = Routine Cognitive, NRC = Non-Routine Cognitive, F = Farming, M = Military



What Makes Jobs Easy/Hard to Fill?

- Jobs that require more experience tend to take longer to fill, holding other factors constant.
 - This impact gets magnified as education requirement increases.
 - Additional year of required experience increases TTF by:
 - 0.5 days for jobs requiring high school education.
 - 1.5 days for jobs requiring college education.
- Skill counts are found to be negatively related to TTF.
 - Listing 3 additional skills shortens TTF by 2.5 days.
 - Listing skills makes job search more “directed.”
- Higher wages are associated with shorter TTF, but only for manual jobs.
 - No such relationship for cognitive jobs.
 - Manual jobs are more homogeneous, and thus pay is a key component of the job characteristics.



Summary: Current Economic Developments

- Growth for the remainder of 2019 will likely be slower than in 2018, but we can still be cautiously optimistic. Downside risks in 2019 include slowdown in the global economy and uncertainty over trade policy.
- Employment growth continues to be solid in the nation and in our region, with low levels of unemployment.
 - As the labor market grows tighter, increasing number of firms have difficulty finding qualified candidates for their openings.
- Market seems to have factored in more downside risks, and majority of participants priced in at least one more rate cut in 2019.



Contact Information

Ryo Tashiro

Ryo.Tashiro@phil.frb.org

Request a Fed Speaker:
<http://philadelphiafed.org/sbform>

Follow us on Twitter

@philadelphiafed

@philfedresearch



Like us on Facebook





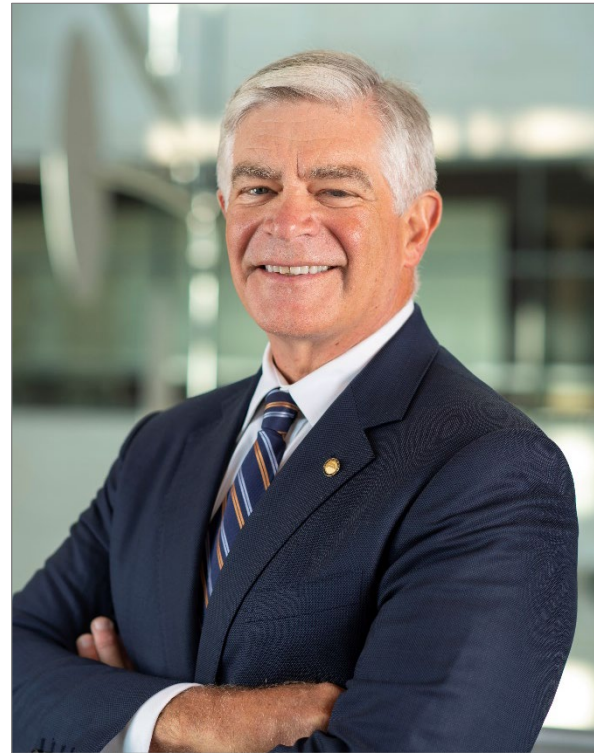
Questions and Discussion



Ryo Tashiro
Regional Economic Advisor



Closing Remarks



Pat Harker

President and CEO

Federal Reserve Bank of Philadelphia



FEDERAL RESERVE BANK
OF PHILADELPHIA

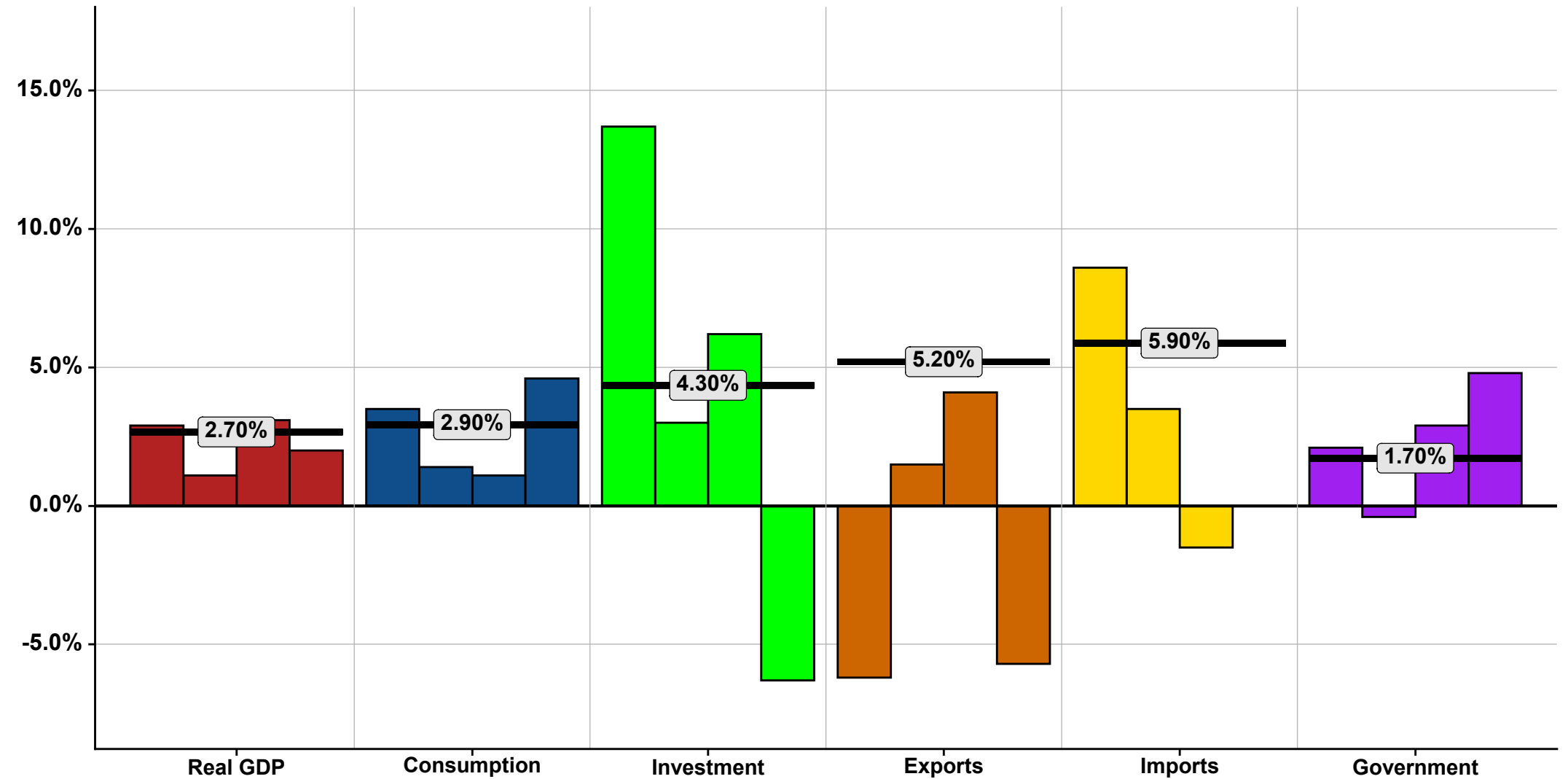
Appendix: Additional Statistics



GDP Growth by Sector

- Household consumption remains strong.
- Business investments and exports slowed down significantly in the last quarter.
- Direct impact from trade talks is likely to be modest.

Annualized quarterly growth (SAAR)

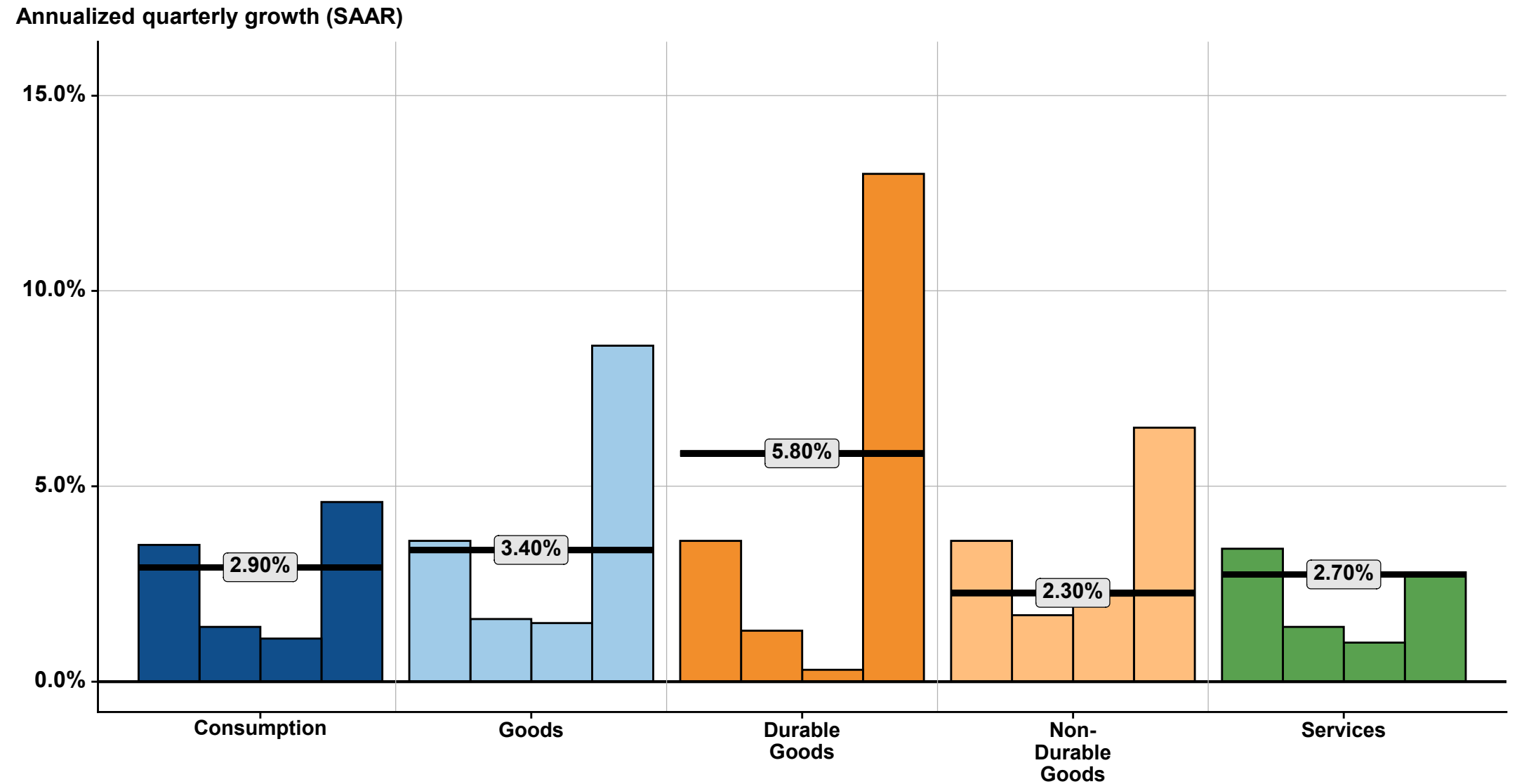


Source: BEA via Haver Analytics
Last quarter included: 2019:Q2 (third estimate)
Black lines indicate sector averages from 1980:Q1 to 2019:Q2



CONSUMPTION GROWTH OVER LAST 4 QUARTERS

- Black lines indicate historical averages from 1980:Q1 to 2019:Q2



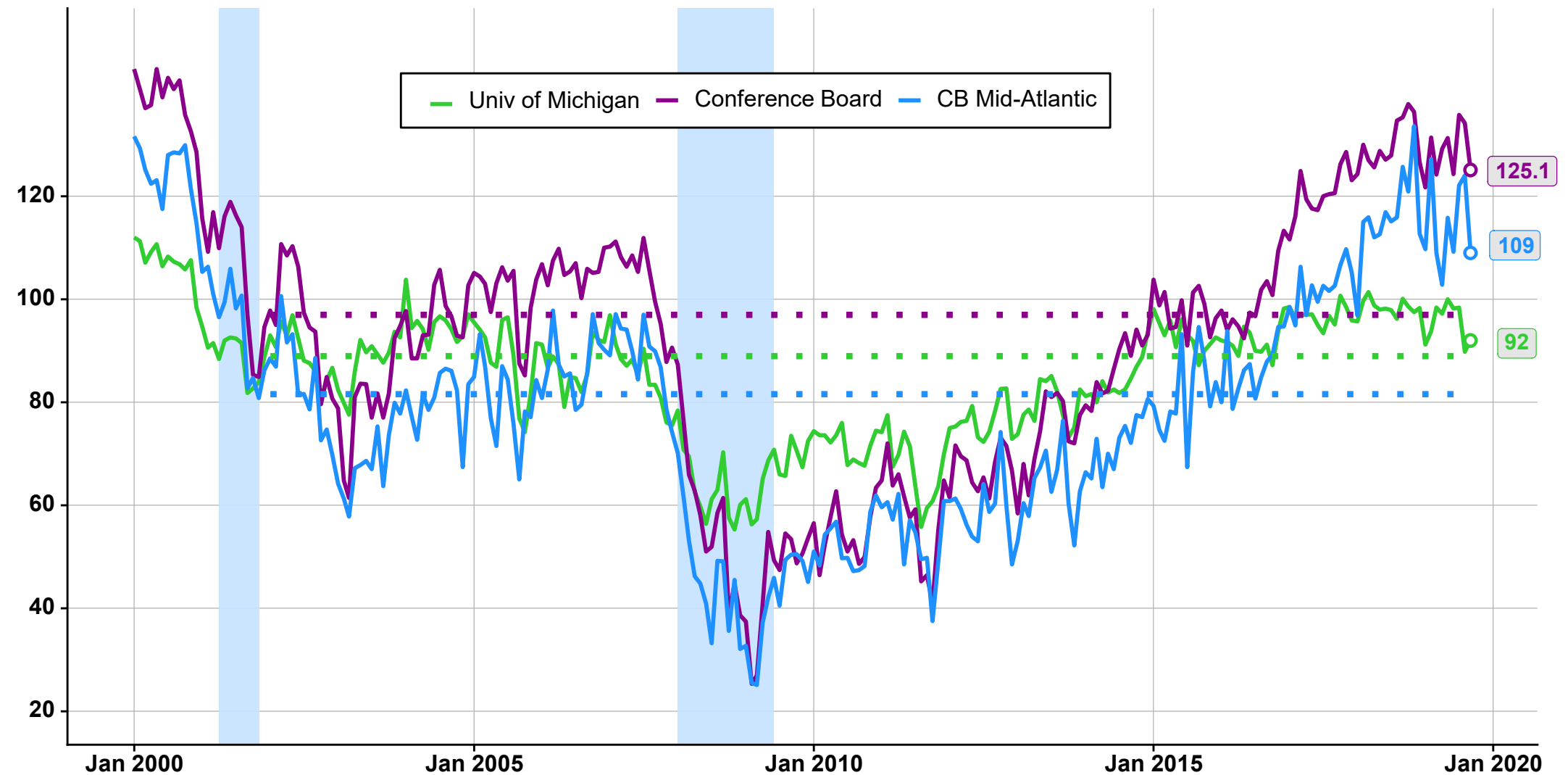
Source: BEA via Haver Analytics
Last quarter included: 2019:Q2 (third estimate)
Black lines indicate sector averages from 1980:Q1 to 2019:Q2



Consumer Confidence Indexes

- Consumer confidence remains at a high level.
- However, consumer confidence has been highly volatile in the past year as well.

Index (U Mich: 66Q1 = 100, Conference Board: 1985=100)

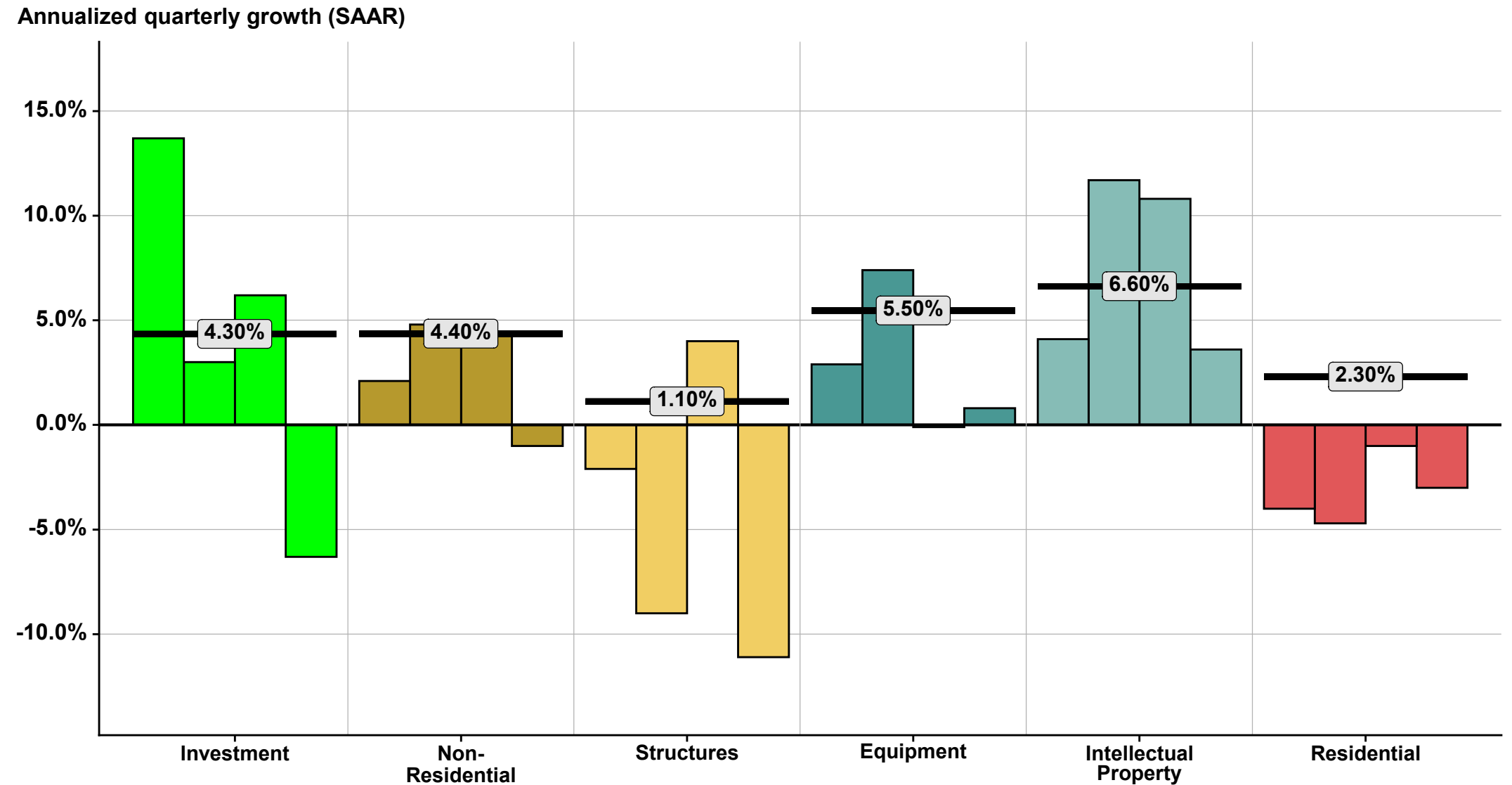


Source: University of Michigan and Conference Board via Haver Analytics
Months plotted: Jan 2000 to Sep 2019



INVESTMENT GROWTH OVER LAST 4 QUARTERS

- Black lines indicate historical averages from 1980:Q1 to 2019:Q2

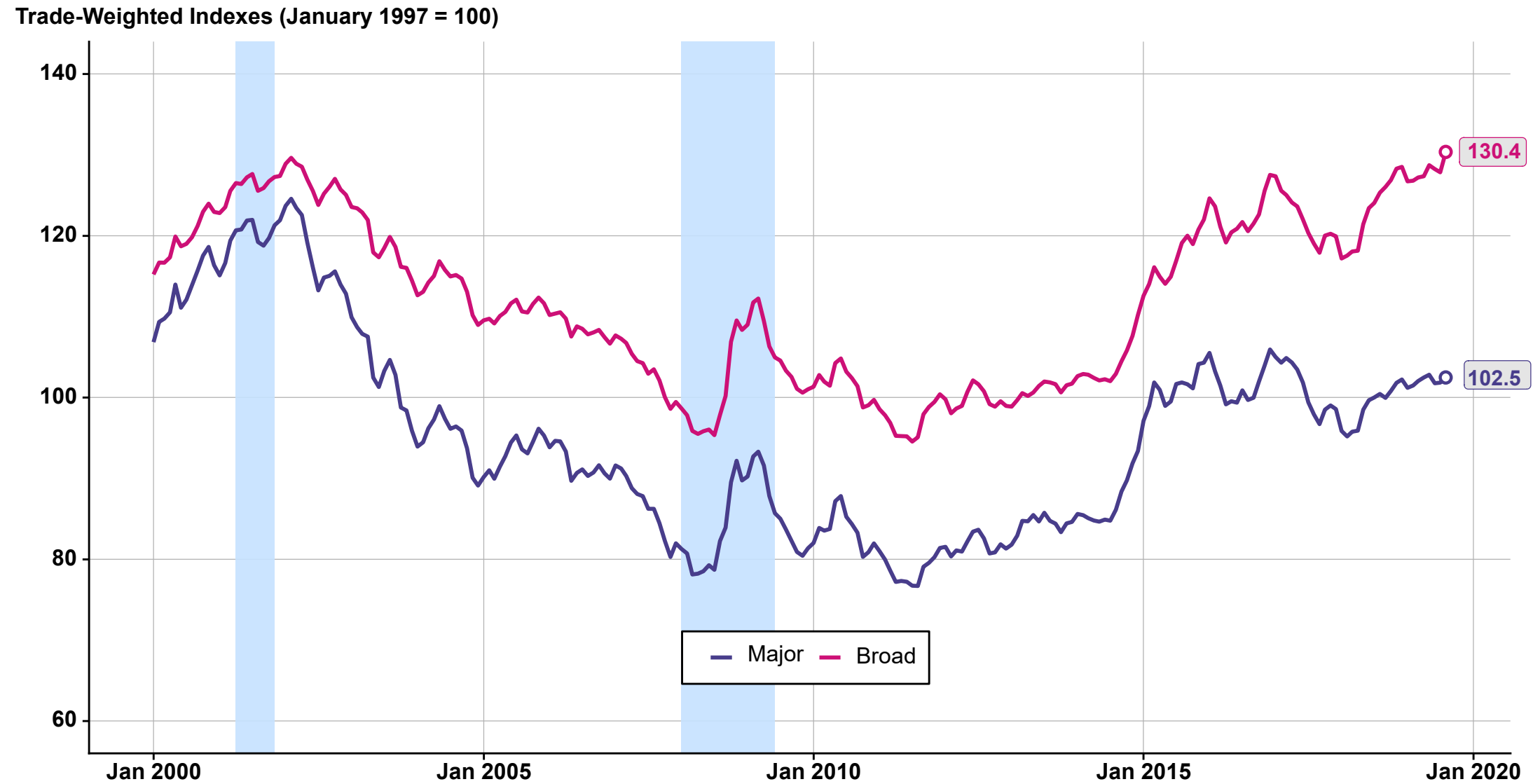


Source: BEA via Haver Analytics
Last quarter included: 2019:Q2 (third estimate)
Black lines indicate sector averages from 1980:Q1 to 2019:Q2



TRADE-WEIGHTED U.S. DOLLAR INDEXES

- (Nominal, not seasonally adjusted)

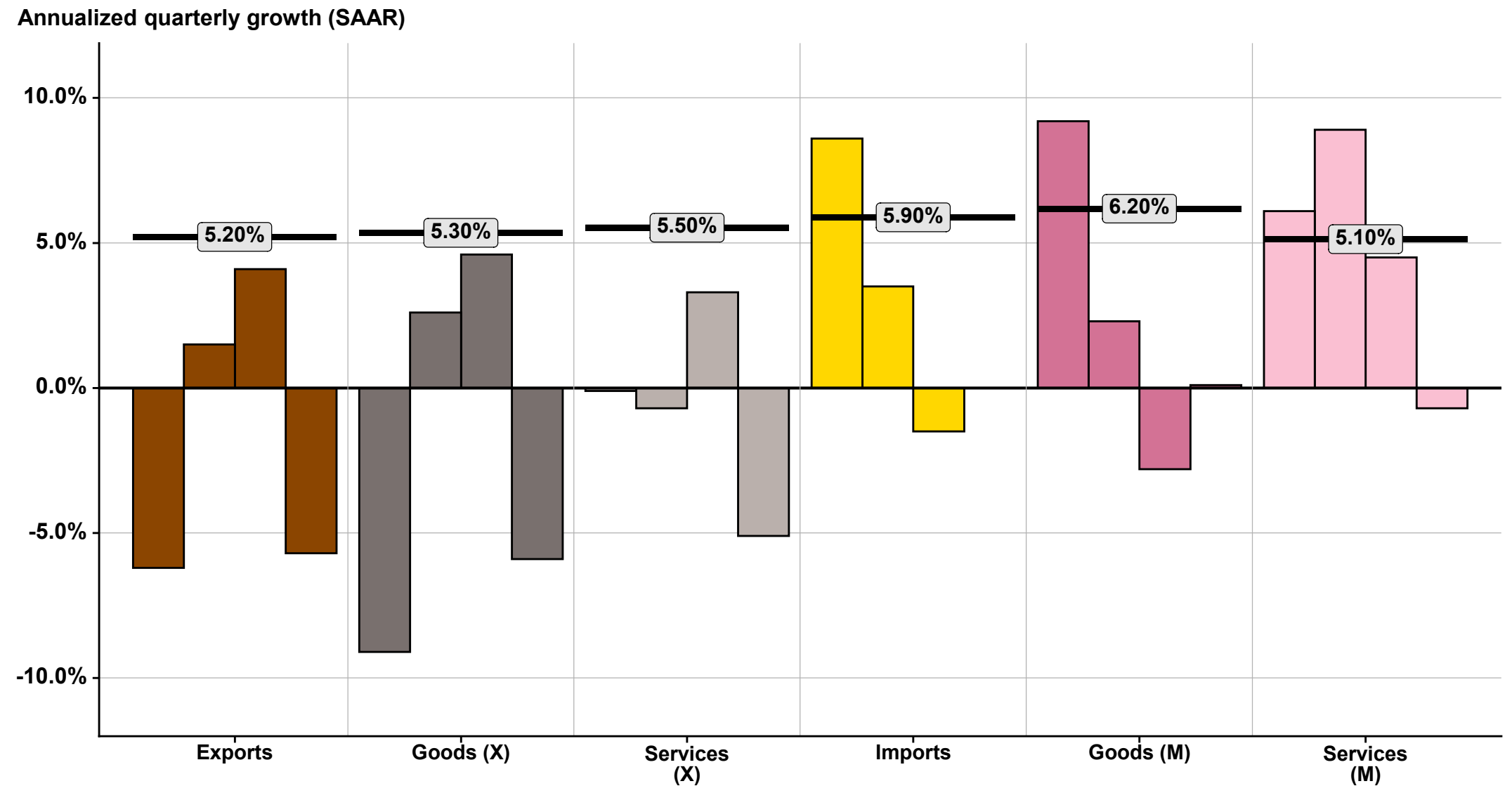


Source: Federal Reserve Board via Haver Analytics
Months plotted: Jan 2000 - Aug 2019



EXPORTS AND IMPORTS GROWTH OVER LAST 4 QUARTERS

- Black lines indicate historical averages from 1980:Q1 to 2019:Q2

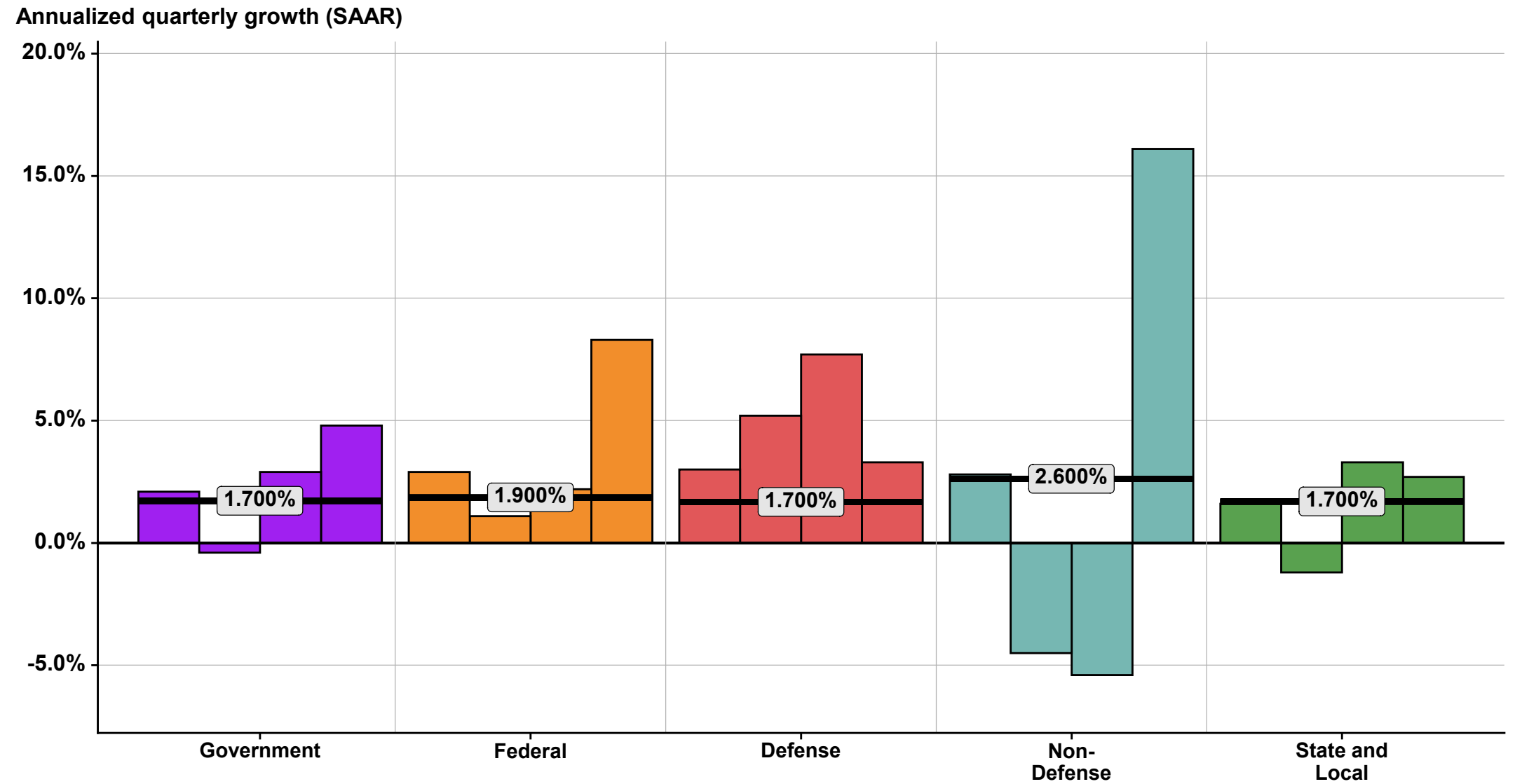


Source: BEA via Haver Analytics
Last quarter included: 2019:Q2 (third estimate)
Black lines indicate sector averages from 1980:Q1 to 2019:Q2



GOVERNMENT GROWTH OVER LAST 4 QUARTERS

- Black lines indicate historical averages from 1980:Q1 to 2019:Q2

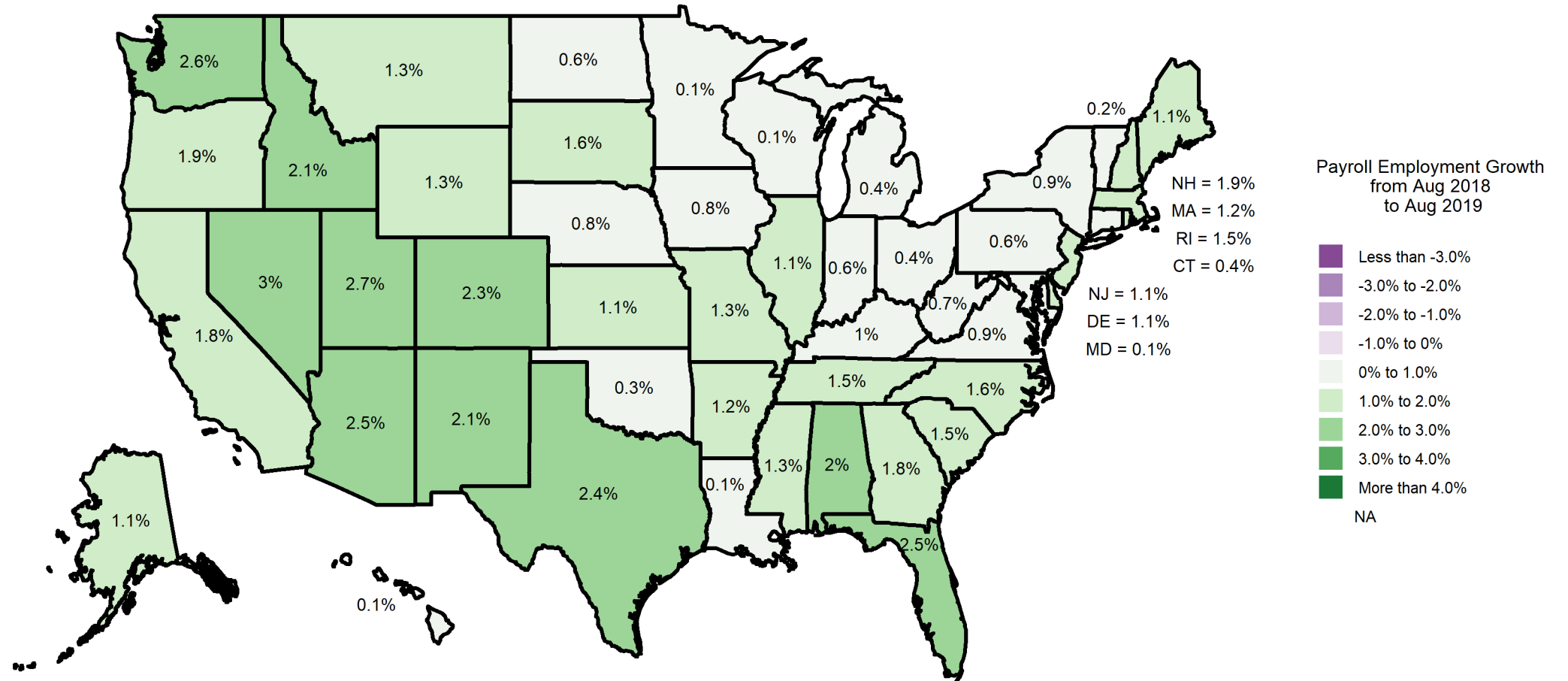


Source: BEA via Haver Analytics
Last quarter included: 2019:Q2 (third estimate)
Black lines indicate sector averages from 1980:Q1 to 2019:Q2



Annual State Payroll Employment Growth

- Year-over-year percentage change.
- Most states, including all states of the 3rd district, reported positive job growth in the past 12 months.

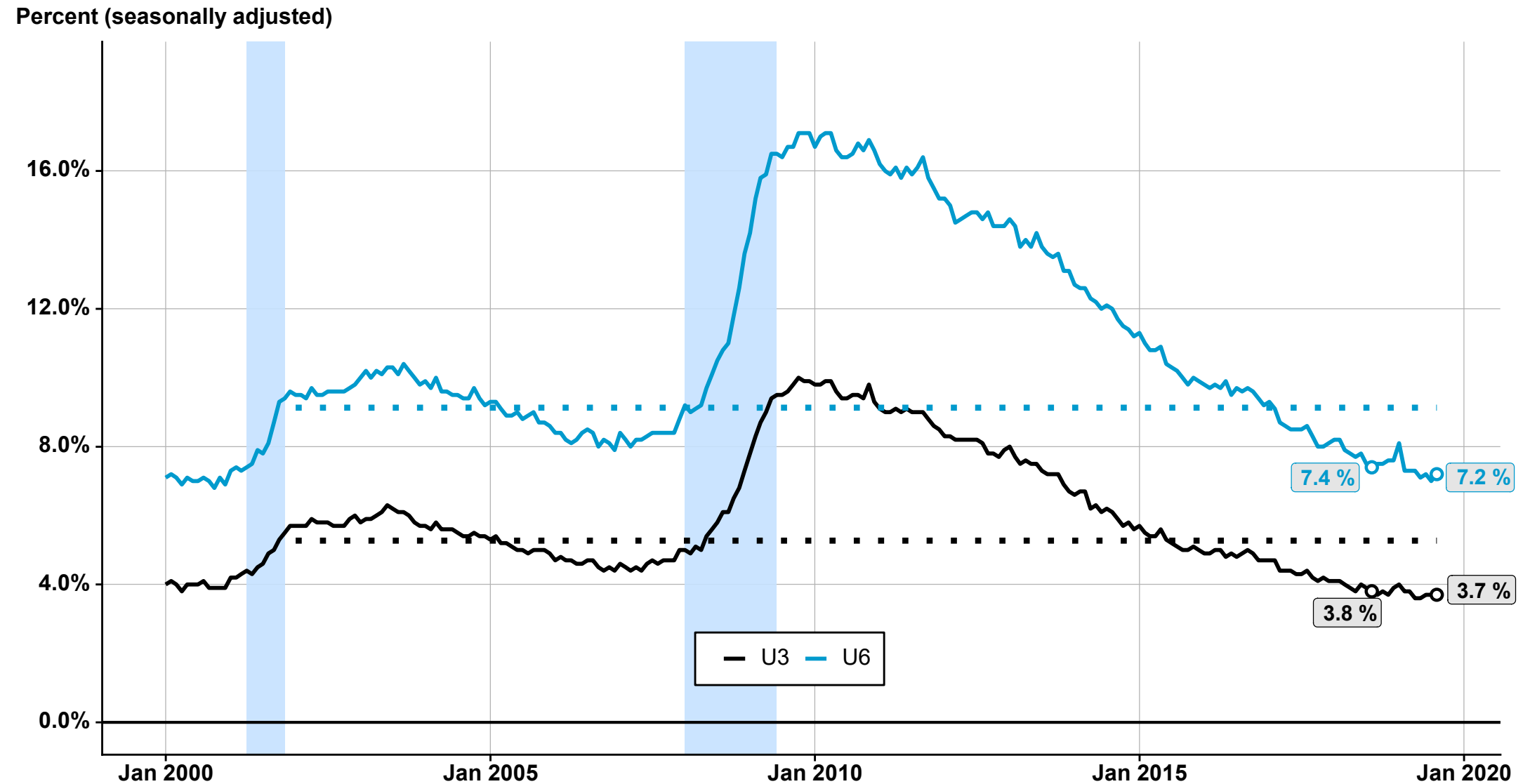


Calculations using data from Haver Analytics



U.S. Unemployment Rate

- Monthly, seasonally adjusted (most recent and last year's values labeled).
- Unemployment rate has been declining steadily over the past 10 years.

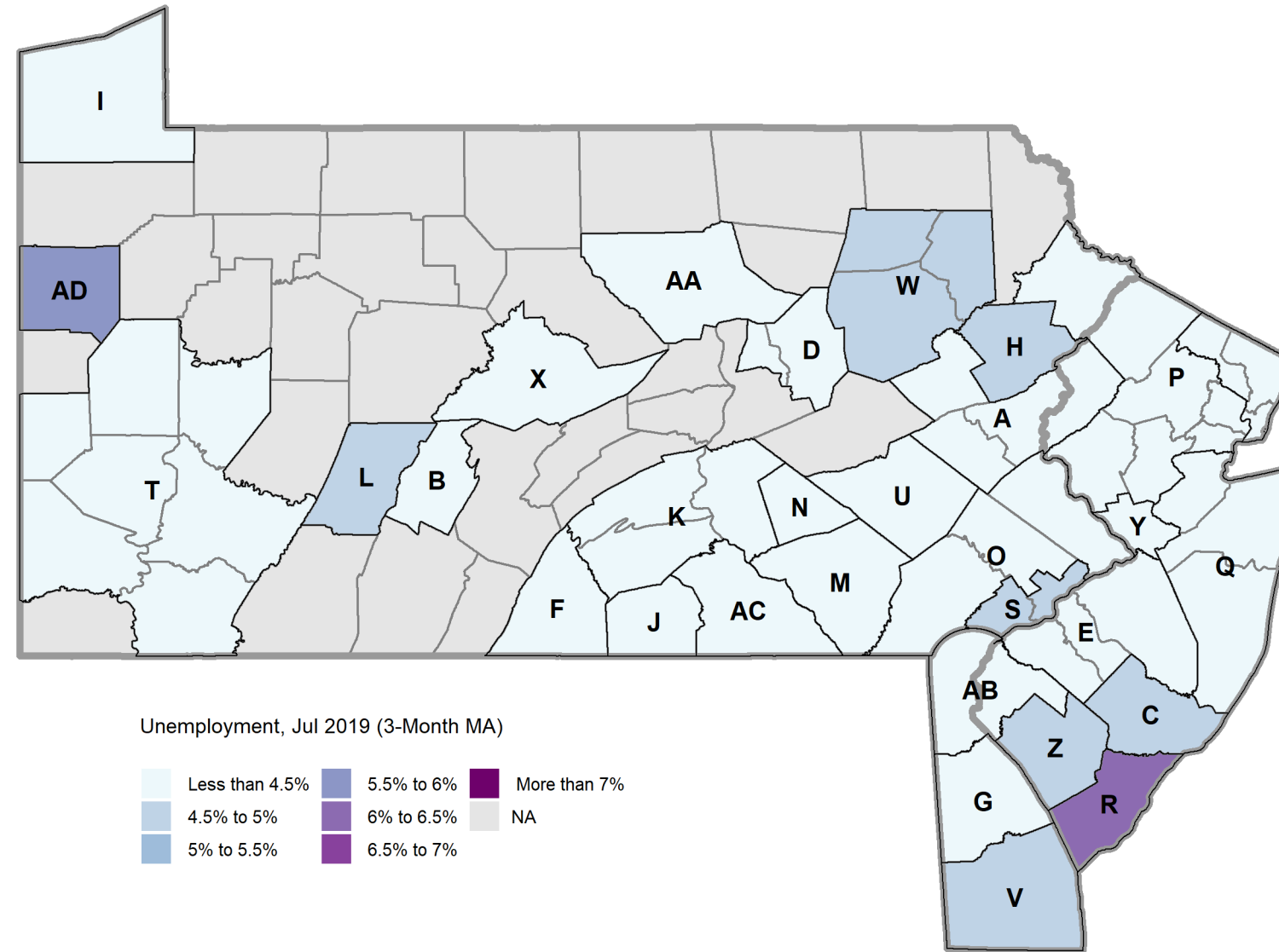


Source: BLS via Haver Analytics
Months plotted: Jan 2000 to Aug 2019
Dotted lines indicate average from 2002-2007.



Tri-State Metro Area Unemployment Rate

- Year-over-year percentage change (3-month moving average)



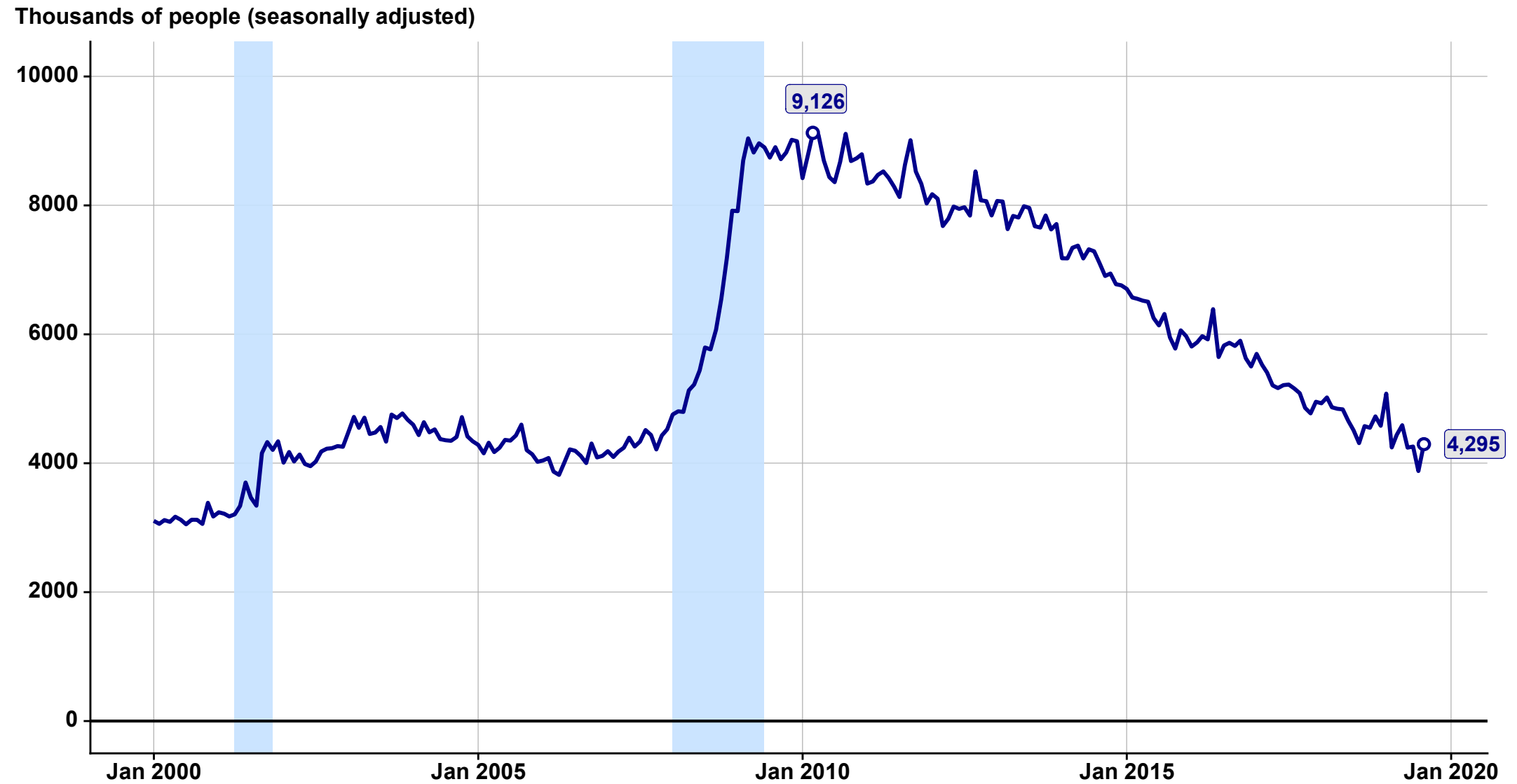
- A = Allentown-Bethlehem-Easton MSA
- B = Altoona MSA
- C = Atlantic City-Hammonton MSA
- D = Bloomsburg-Berwick MSA
- E = Camden Metro Division
- F = Chambersburg-Waynesboro MSA
- G = Dover MSA
- H = East Stroudsburg MSA
- I = Erie MSA
- J = Gettysburg MSA
- K = Harrisburg-Carlisle MSA
- L = Johnstown MSA
- M = Lancaster MSA
- N = Lebanon MSA
- O = Montgomery-Bucks-Chester County MD
- P = Newark Metro Division
- Q* = New York-New Jersey-White Plains MD
- R = Ocean City MSA
- S = Philadelphia-Delaware County MD
- T = Pittsburgh MSA
- U = Reading MSA
- V* = Salisbury MSA
- W = Scranton-Wilkes-Barre MSA
- X = State College MSA
- Y = Trenton-Princeton MSA
- Z = Vineland-Bridgeton MSA
- AA = Williamsport MSA
- AB* = Wilmington Metro Division
- AC = York-Hanover MSA
- AD* = Youngstown-Warren MSA
- * Also includes counties not shown on map.

Source: Calculations from BLS data via Haver Analytics.



PART-TIME EMPLOYMENT DUE TO THE ECONOMY

- Monthly, seasonally adjusted (most recent and max values labeled)

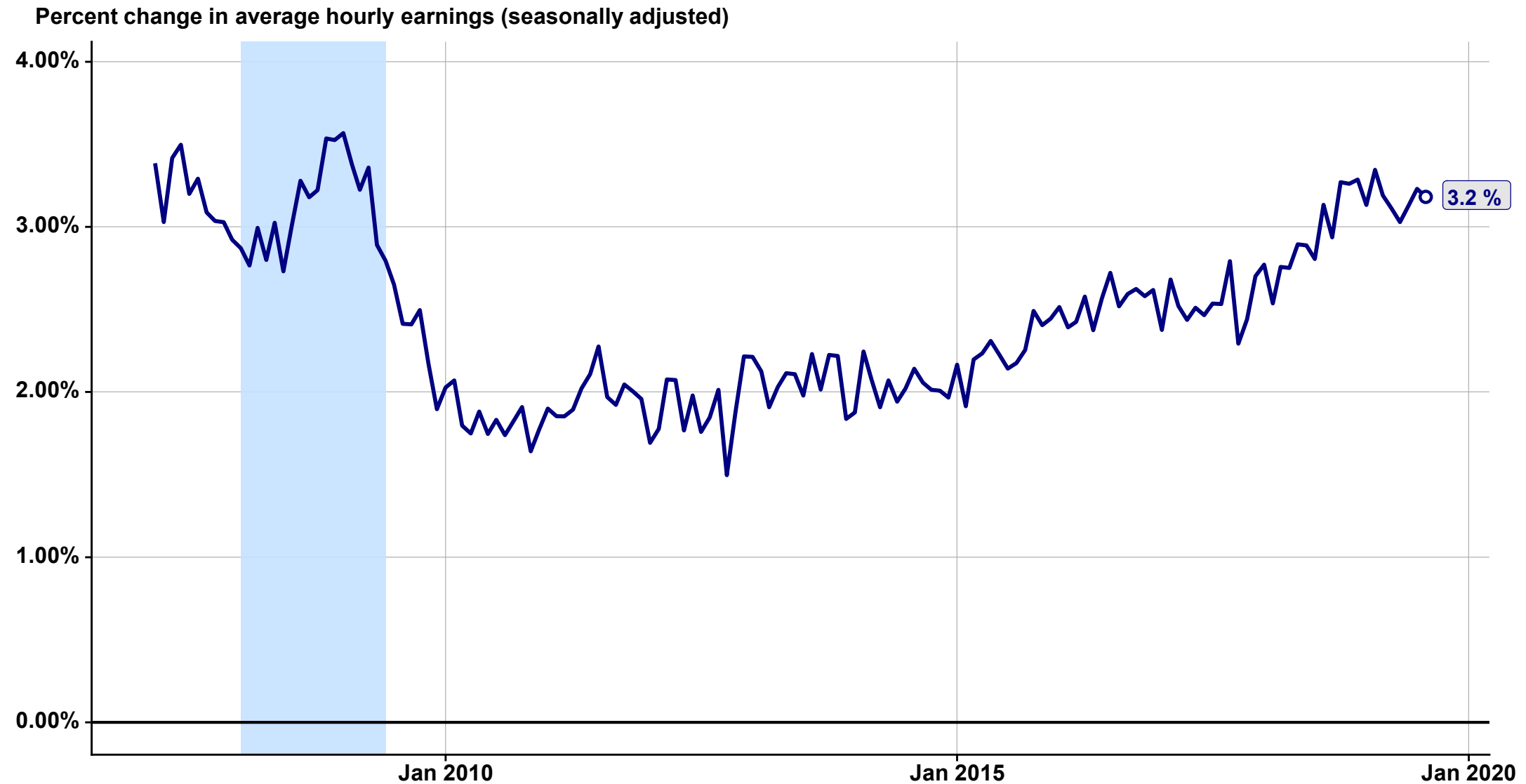


Source: BLS via Haver Analytics
Months plotted: Jan 2000 to Aug 2019



Growth in Average Hourly Earnings

- Year-over-year percentage change, total private.
- Wage growth has picked up slightly in the recent months, but still remains unexpectedly low.

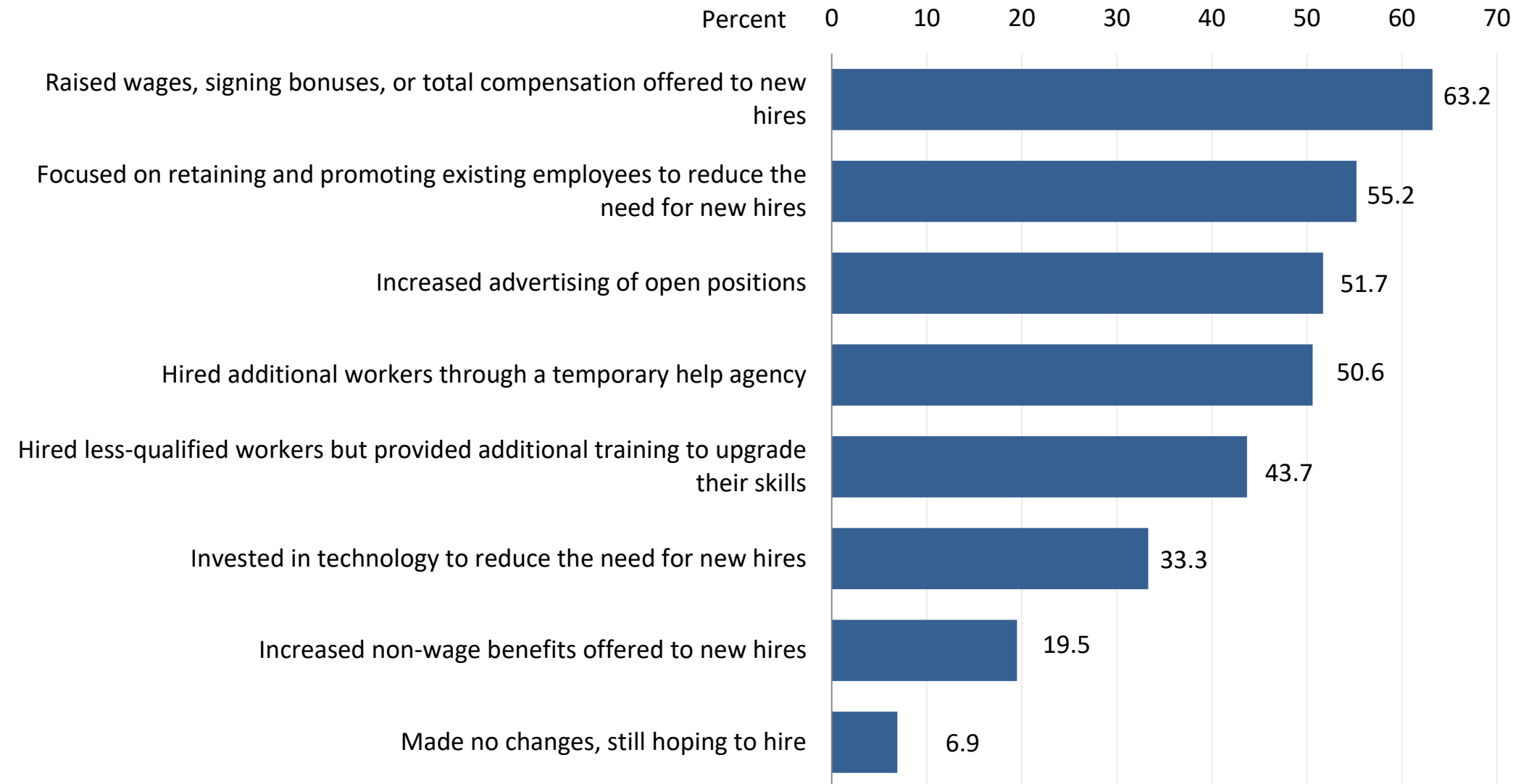


Source: Calculations from BLS
Months plotted: Mar 2007 to Aug 2019



Business Outlook Survey Special Question

- November 2018: *If you had difficulty hiring workers in the last three months, which of the following approaches have you tried?*
- Some evidence of wage pressure resulting from tight labor market.



Source: Federal Reserve Bank of Philadelphia



Most In-Demand Jobs

- Top online job ads, 2017.
- Both the state and the area follow the nation in terms of most in-demand jobs.
- Most of these jobs are from service-providing sectors.

United States	Delaware	Philadelphia MSA
Registered Nurse	Registered Nurse	Tractor/Trailer Truck Driver
Tractor/Trailer Truck Driver	Tractor/Trailer Truck Driver	Registered Nurse
Retail Sales Associate	Software Developer/Engineer	Retail Sales Associate
Software Developer/Engineer	Retail Sales Associate	Software Developer/Engineer
Sales Representative	Sales Representative	Sales Representative
Customer Service Representative	Retail Store Manager/Supervisor	Customer Service Representative
Retail Store Manager/Supervisor	Business/Management Analyst	Retail Store Manager/Supervisor
Office/Administrative Assistant	Customer Service Representative	Physician
Physician	Office/Administrative Assistant	Office/Administrative Assistant
Food Service Team Member	Food Service Team Member	Business Development/Sales Manager

Source: Calculations using data from Burning Glass Technologies.



Top Listed Skill Requirements

- Most commonly listed skill requirements for job ads, 2017.
- Some skills are commonly required regardless of industry.
- Both soft and technical skills are considered to be important.

United States	Delaware	Philadelphia MSA
Communication Skills	Communication Skills	Communication Skills
Customer Service	Customer Service	Customer Service
Team Work/Collaboration	Team Work/Collaboration	Team Work/Collaboration
Organizational Skills	Problem Solving	Sales
Sales	Microsoft Excel	Organizational Skills
Microsoft Excel	Organizational Skills	Microsoft Excel
Problem Solving	Sales	Problem Solving
Scheduling	Planning	Detail-Oriented
Physical Abilities	Detail-Oriented	Planning
Detail-Oriented	Microsoft Office	Scheduling

Source: Calculations using data from Burning Glass Technologies.



Longest and Shortest Time-To-Fill (TTF) by MSA

MSAs with longest average TTF

MSA	Average TTF
San Jose-Sunnyvale-Santa Clara, CA	43.83
Seattle-Tacoma-Bellevue, WA	41.69
Pittsburgh, PA	41.59
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	41.49
Bridgeport-Stamford-Norwalk, CT	39.51
San Francisco-Oakland-Hayward, CA	39.46
Baltimore-Columbia-Towson, MD	39.43
New York-Newark-Jersey City, NY-NJ-PA	39.16
Boston-Cambridge-Nashua, MA-NH	39.13
Los Angeles-Long Beach-Anaheim, CA	39.05

MSAs with shortest average TTF

MSA	Average TTF
Salt Lake City, UT	29.55
Denver-Aurora-Lakewood, CO	29.84
Las Vegas-Henderson-Paradise, NV	31.62
Jacksonville, FL	31.95
Phoenix-Mesa-Scottsdale, AZ	32.52
Des Moines-West Des Moines, IA	32.75
Columbus, OH	33.10
Virginia Beach-Norfolk-Newport News, VA-NC	33.23
Miami-Fort Lauderdale-West Palm Beach, FC	34.38
Tampa-St. Petersburg-Clearwater, FL	34.55

Source: Calculations using data from Burning Glass Technologies.