

Fed executive: Production driving area rebound Economy in U.S., Ohio still underperforming

BY LARRY P. VELLEQUETTE
BLADE BUSINESS WRITER



Sandra Pianalto, president and CEO, Federal Reserve Bank of Cleveland, speaks to the Global Interdependence Center and University of Toledo at the Crown Plaza.

The president of the Federal Reserve Bank of Cleveland told a receptive audience inside a downtown Toledo hotel Thursday that the nation is still recovering from its long recession and that the region's strong manufacturing base was helping to bring back Ohio as well.

"After lackluster output growth in the first half of this year, the third quarter looks like it was somewhat better, with growth that I estimate to be roughly 3 percent. But overall, the economy is still underperforming relative to past recoveries," said Sandra Pianalto, one of 12 regional Fed presidents.

Her district includes Ohio, western Pennsylvania, eastern Kentucky, and portions of West Virginia.

In a 45-minute address to a symposium sponsored by the University of Toledo and the Global Interdependence Center at the Crowne Plaza Hotel, Ms. Pianalto said that, while technological and productivity advances have helped

manufacturers improve their costs, the nation and the region are falling behind in their "development of human capital," forcing companies to locate elsewhere.

"One of the most important factors that will determine where companies will locate is the development of human capital," with increased education and skill levels for workers, the regional Fed chief said.

"The U.S. is falling behind," in terms of the percentage of adults with college degrees among the 20 largest developed nations, dropping from No. 2 in 1995 to 13th in 2008, "and Ohio is 38th among the states in terms of adults with college degrees. That's not a good record."

She spoke at length about the relationship between slow consumer spending — which represents about 75 percent of the nation's economic activity — and how it is hampered by prolonged unemployment.

"A particularly troubling aspect of our current unemployment problem is the long duration of unemployment experienced by many individuals," Ms. Pianalto said. "The most important reason for our high unemployment rates is that spending by consumers, businesses, and government still remains uninspiring. In other words, these higher rates of unemployment are predominantly cyclical in nature."

As economist by training, Ms. Pianalto has been with the Federal Reserve for 28 years and has been its

Cleveland president and chief executive officer since 2003. She said she has been a supporter of the controversial measures taken by the Federal Reserve this year and last to promote an economic recovery in the nation, such as its policy of purchasing assets like mortgage-backed securities from member banks to improve their liquidity and purchasing treasury bonds in an effort to lower mortgage rates to their current historic lows, in hopes of reviving the nation's housing sector.

Before and during her speech yesterday, a handful of demonstrators marched on the sidewalk along Summit Street in the cold afternoon mist yesterday to protest her presence.

The regional Fed leader said national economic growth was likely to continue on its present path next year at about 2.5 percent, and that prolonged high levels of unemployment would continue to dog the economy as household spending is held down by uncertainty.

"Housing markets remain subdued, the government sector is very constrained, and international markets are unsettled. These headwinds continue to create challenges for businesses, employees, and families," she told the audience at the forum.

After her address yesterday, Ms. Pianalto and Mark Sniderman, executive vice president and chief policy officer for the Cleveland Fed, spoke to The Blade's editorial board about the regional economy.

"In the region, because of the manufacturing sector, we've been performing pretty much at the national average, in some pockets maybe a little bit better, partly because manufacturing has been one of the sectors that has rebounded," she said. "We're not anywhere near our prerecession levels in terms of output, but manufacturing activity did pick up and so that helped our region a bit with some employment growth in our region."

George Mokrzan, chief economist with Huntington Bancorp in Columbus, said yesterday that, while his projection of 2.1 percent for third-quarter growth was lower than Ms. Pianalto's 3 percent, he is, like her, "kind of bullish on Ohio."

He pointed to growth in payrolls between June, 2009 — the official end of the last recession — and August, 2011, when national aggregate payrolls grew by an anemic 0.57 percent.

"But if you look at Ohio and the states that border Ohio, the growth in payroll is 1.46 percent. There's about a 0.89 percentage point difference. If the rest of the country grew as fast as our part of the country, then the country would have 1 million more jobs than it does today," Mr. Mokrzan said.

"Ohio's done great, with a 1.3 percent growth during that period, and a lot of it during the last year and a lot of it in places like Toledo," he said.

Mr. Mokrzan said Toledo's aggregate payroll grew by 2.2 percent during that same period — higher than the statewide rate but trailing places such as Youngstown at 2.9 percent and Akron at 2.6 percent. "The smaller [metro areas] and the ones that were hit the hardest by the manufacturing decline in the last decade, they're showing the strongest recovery. There's the beginnings of a resurgence in those areas, and not just a recovery."

Ms. Pianalto said outside events have impacted the nation and region's recovery.

"It's not that we're contracting. We've had a very slow recovery," she said. "What's happened is that we've had a couple, maybe three quarters where we've had 'above-trend' growth. It started last year with a strong first quarter, and then we had the summer the first phase of the European sovereign debt crisis" and continued to be impacted

by the Japanese tsunami in March of this year and the debt crisis that roiled Washington this summer. "It really did shake business confidence."

Mekael Teshome, an economist with Pittsburgh-based PNC Bank, said he and the bank were forecasting a 2.1 percent national growth rate for the third quarter, but that places such as Toledo and Pittsburgh were outperforming the national average.

"That has to do in Toledo's case with its strong manufacturing base," he said. "There's been a good rebound in manufacturing, and the demographic trends have also turned in Toledo's case recently," Mr. Teshome said. "Even if Toledo performs at the national average, that's still a great thing because of how long it has underperformed. I'm very optimistic on Toledo, because the downturn was so severe that the rebound will be sharper."

Contact Larry P. Vellequette at: lvellequette@theblade.com or 419-724-6091.

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The Toledo Blade Company, 541 N. Superior St., Toledo, OH 43660, (419) 724-6000

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