

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

Signature Event

Tom Barkin

Speaker

**Tom Barkin
President and CEO
Federal Reserve Bank of Richmond**

Interviewer

**Barbara Humpton
CEO, USA Rare Earth, Inc.
Chair, Global Initiative, The Economic Club of Washington, D.C.**

Thursday, September 24, 2026

BARBARA HUMPTON: Tom Barkin, welcome to The Economic Club of Washington. And I think you've gotten your frequent-visitor card check today, haven't you?

TOM BARKIN: Now, well, I mean, one of my little metrics as I travel my district is, can I show up in a room and find myself with a hundred friends? And that's how I feel here. So many of you have had the chance to meet and be with over the years. So, thank you for coming.

MS. HUMPTON: Yeah. And, by the way, I have loved hearing from Tom. He's come regularly, partly because, you know, we've been dealing with a lot of change. And so, it's always enlightening. And I love to start with current events. Now, let's see if we can –

MR. BARKIN: OK. I haven't checked my phone in an hour, so I don't know –

MS. HUMPTON: I actually – [laughter] – and that is how fast things are going. I mean, here we are at a moment with, frankly, the hike recently happened. And we've got war. We've got potential tariffs. We've got import-export bans. There's all kinds of things. The last time I had the chance to talk to you, you said, "we're driving through fog." Give me your take on where things are right now.

MR. BARKIN: Well, I talk to lots of businesses. And last year when I was here, that's exactly what I said. Which is, you know, it's hard to drive through fog. If you put your foot on the gas you're going to go over a cliff, and if you put your foot on the brakes someone's going to crash into you. And so, people were pulled over on the sidelines. And I do think that's a shorthand for last year. I'd say when it comes to hiring, that's still the case. Whatever combination of caution about the future, thoughts of productivity you could enable out of AI, those are still keeping people by and large out of the hiring market. But I think the investing market has turned fundamentally. And the people I talk to basically say this is the new normal and I've just got to deal with it.

So, the baseline is we're going to have volatility, I'm just going to have to get to the other side of it. That's, of course, been enhanced and empowered by AI, because there's a big set of investments out there and you've just got to make it. And the companies in that space are investing, you know, a trillion dollars in the future. And so, we're seeing investment levels first half of the year more than double what you'd normally see – double-digit kind of investment growth levels. And that's just, you know, where we are, I think.

Oil prices up, down, up. People sort of assume they're going to be up. Tariffs, they were on. You've had refunds. You've had the Canada thing. People assume you're going to have tariffs and tariff changes. And they just have to get to the other side of it.

MS. HUMPTON: OK. So, hey, clarity, did that provide you the clarity you need?

MR. BARKIN: Oh, did you want direct answers to direct questions? I didn't realize. [Laughter.] I didn't realize that's what I was supposed to do.

MS. HUMPTON: You're good at this, Mr. Tom Barkin. Actually, let's do this. What I'd like to do is just step back for a minute and make sure that this room gets a great insight into the Federal Reserve Bank of Richmond.

MR. BARKIN: OK.

MS. HUMPTON: Kind of where it sits in the overall system, and let's then talk about that mandate you have as president – as bank president.

MR. BARKIN: OK. So Federal Reserve System is Washington. That's Kevin Warsh and the Board of Governors. And there are 12 individual reserve banks, one of which happens to be in Richmond. Each have a district. My district is Maryland, West Virginia, D.C., North and South Carolina, and Virginia. In that job, I do three or four things. One is I am a member of the Federal Open Market Committee. So, we do vote on interest rates. And that's what gets the news. And we've got a research department, and we're trying our best to understand the economy every day.

We oversee the banks in our district. So, you know, the biggest banks in our district would be Bank of America, Capital One, First Citizens, Truist. But we've got 170 other smaller banks. We operate the payments rails. We're a big part of the payments rails for the country. So, the ACH system, there's a cash processing operation. If you ever want to come visit, there's something just fundamentally enjoyable about being in a room with a lot of cash. [Laughter.] Parentheses, you can't take any of it with you. [Laughter.] And in Richmond, we oversee technology for the Federal Reserve system. And so, all of the cyber issues you've got, all of the data center cloud, all those come through Richmond as well.

So that's what we do. I'll also say that if you drive down 95 and you go through Richmond and you look to the left on the river, you'll see our building. And it's a gorgeous and quite literally ivory tower. And so, when I took the job, I told my board – and Barbara serves on it, thank you for your service – I said, if you want someone to try to understand the economy from the building, I'm the wrong guy. I think you want somebody you know who's going to go in the market. And so, what I do every week is what I'm doing this week. I've been in Baltimore. I've been here. I'm going to Frostburg this afternoon. I'm in West Virginia tonight and Friday.

In each of these I'll do small roundtables, big roundtables, talk one-on-one to businesses, and try to understand as best I can what's happening to demand, how people are thinking about pricing, how people are thinking about investing and hiring, just like we're talking about. And that doesn't mean you ignore the data, because the data tells you something, but it does provide, I think, a pretty vital check and balance against a bunch of data that comes in late, is revised three times, survey responses are down. And you often get a ton of insight too. And so that's what we try to do.

MS. HUMPTON: So, a leader who's out understanding what's going on across the district. When you meet with other bank presidents, what's your sense of how different your district is from others in the 12?

MR. BARKIN: Great question. I should have said one more thing. Just advertising. On your tables is a survey form. And so, we do a bunch of surveys too. And those of you who have something to give, if you're interested, you know, join our survey and stuff. We get information from that too.

So, the district I described, the number-one most important difference is of course this metro area. I mean nobody else has D.C. And certainly, as we've gone through the last couple years, and I go to FOMC meetings, I talk about what's happening in this economy because it has been different in this economy than it has been in large parts to the rest of the country. The rest of our district, you know, hurricanes hit us more than normal. I mean, there are differences, but I think the D.C. metro's the biggest difference.

MS. HUMPTON: Well, and we had been concerned, as a board, about, hey, what's going to happen in the wake of COVID? We've seen this massive change in the way cities are used. We'd come from a, you know, almost zero lending environment. We knew maturities on commercial real estate were about to hit. And then we had a massive change in government. What are you seeing?

MR. BARKIN: Well, there was a lot in that question. I mean, the overarching D.C. metro topic, of course, is the question of, you know, where the federal government is allocating its spending. And so, there are sectors – you know, defense would be one – that have not been hit as hard. There have been sectors, you know, folks in the climate or nonprofit world, education world that have been hit more. I'd say, you know, if you go back a year, we were in the immediate DOGE era. And most everyone I talked to was depressed. I'm not saying D.C. was in a depression, other than emotionally. But emotionally, people were very depressed. I had Mary sample the crowd. I think what's the answer, Mary, wary? People were cautious and wary today.

I think it's sort of come back, but it's still, I think, a lot of wariness about, you know, where that spending is going to go, and how the city or the region is going to recover. One number that I track pretty closely is workforce growth or population growth. I mean, it's hard to grow an economy if you don't grow the workforce. And in my district in North and South Carolina, those are two of the four biggest workforce growth states in the country right now. They're growing at about two percent a year. That's people moving in. D.C. and Maryland actually have been shrinking in the last couple years. And Virginia, actually, in the most recent numbers took a step down as well.

And if, you know, workers are leaving your community – for whatever combination of cost of living or job prospects or whatever matters – then it's really hard to grow an economy. I still remain fundamentally upbeat, because this is the greatest place to live in the world. And so people are going to want to live here. But I think it is – there is this sort of mix of jobs, and cost, and, you know, momentum that over time have to get rebuilt.

MS. HUMPTON: Yeah. Tom has referred to the role of the board in supporting the Federal Reserve System. And I've been struck by the viewpoints of people in your boards. I serve on the Richmond board. We have representatives here from the Baltimore board. There's also a

Charlotte board. And you've gathered together stakeholders who are in industry, like me, or utilities, or banks, nonprofits, universities. And there's this incredible, you know, sort of difference of – I'm kind of curious about how you see those complementary voices, how that helps you to form your view on policy?

MR. BARKIN: Well, you know, you sort of run – I guess, on the policy side, you sort of run a daily refresh of a mental model. You know, I walk out of a meeting. We just raised rates the last meeting. I have some thoughts about where I think demand is, and supply is, and pricing, and everything else. Then I go have all these sessions. And we bring our board together a week or two before each meeting. And it's – I'll call it my last sanity check of what I'm actually hearing. And so, we do try to have a diverse set of members on the board. I was on the board in Atlanta. That's how I ended up in this business. And it was an unbelievably interesting experience because you do hear from all these industries. We had a hospital CEO on during COVID. And he was talking about, you know, when he thought the thing would pass.

You get a lot of checks and balances. And I really do use it to sort of test my assumptions. And one of the skills that's really hard to be good at is believing that you're not always right. I'm not great at that. [Laughter.] You guys are probably all better than I am. But I think it is helpful to have people you really respect who will tell you, what are you talking about? You know, we're not investing. Or we're laying people off. Or, we're hiring. I mean, you're going to learn a lot if you get the right people in the room.

MS. HUMPTON: Yeah, so I really want to get into the – you know, the mechanics of what's going on in the economy. But first, let's go to the top of the house. I mean, there's been a change of leadership at the top of the house. And there was a meeting in Jackson Hole, Wyoming, and a non-prediction speech. But you've come away – and, you know, the last time you spoke to our board – noting that we've come through five years of being above target on inflation. You know, the dual mandate – stable prices and maximum employment. And here we are on the stable prices front, and you've now that – what happened between Jackson Hole and this last meeting?

MR. BARKIN: What happened at – OK, so she started with new leadership so I thought I was going to get a question on that. [Laughter.] Well, I mean, you started with new leadership, so let me just say, I have the deepest respect for anyone who would be foolhardy enough to take on the leadership of the Federal Reserve System. [Laughter.] I like to describe it, if you like a log flume, it's kind of like riding a log flume. And if you remember the last time you were on a log flume, you go slowly up the hill of the last ramp, and then you go full speed down into a pool of water. And the pool of water comes and soaks the guy in front. That's Kevin Warsh, or Jay Powell. [Laughter.] The rest of us are in back. Our hands are in the air. We're having a great time. [Laughter.] But that's a hard job.

MS. HUMPTON: Yeah.

MR. BARKIN: And, you know, the way I think about what happened is Kevin took the job. And he made a number of, I think, very profound calls. One of which is, inflation's been high for, whatever it was at the time, 62 months in a row. And we probably should do something

about it. And if you'd had a conversation, and I had a conversation with a bunch of real estate people on this last night, you know, you could argue two sides of that case. One side is, yeah, it's been high, but it's really being driven by oil prices and tariffs and the AI buildout boom. And a lot of these things are going to, you know, morph on the other side. A good example of that would be gas prices which, if you go back to June, had come down and were actually, you know, in the southern part of my district in the low threes. And so you're like, OK, things are coming back to normal.

Well, what happened over the summer is I think it just got a lot clearer to me, and maybe to others, that this gas price thing, that was going to endure for a while. We had this Canada tariff thing. The tariff thing is going to endure for a while. The AI buildout, those costs – you know, Apple and a bunch of the other chip-enabled tech providers raised their prices. So that's going into costs. You could add, by the way, healthcare costs, transportation costs, diesel. There's a lot of things you could throw into the cost mix. And so, if inflation's not going to come down relatively quickly, then you have to look in the mirror and say, inflation looks like it's been here for a while. So maybe we should do something about it. I think that's what happened.

MS. HUMPTON: Yeah, so it wasn't the magic of Jackson Hole?

MR. BARKIN: Kevin did do a very clever introduction to his speech, where he said, you know, Jackson Hole is a great place. And for those who've been there, it's a great place to hike. And, you know, all of a sudden, everyone kind of raised their eyebrows. [Laughter.]

MS. HUMPTON: Love it. Love it. Now, you do love a good hike. Does our new chairman enjoy the great outdoors? We understand Chairman Powell when he was serving loved biking to work and swimming in the river in Basel. And do we have another athletic leader at the top?

MR. BARKIN: He sure looks like an athletic leader. I haven't – I don't know for sure what he – what he does for sports. But I'm sure he – I'm sure he does a lot of them. I will say, as best I can tell, he's full on the job. I mean, it's a big job. You've got to, you know, get your hands around what's sometimes an unruly committee of people. You have to master the dynamics of what's going on. You come in from the outside. You're joining a race in the middle of it, not at the beginning. We have all kinds of issues that go on, whether they be, you know, outages in the payment system, or what's happening in supervision, or policy changes. And so, you know, it's a big job. I don't know if he's had quite as much time for recreation as you might imagine.

MS. HUMPTON: [Laughs.] For sure. Now we've talked a little bit about those things that have been impacting inflation. And, you know, there's been that ongoing question of the, you know, do we have transitory things going on?

MR. BARKIN: I don't use the word transitory. [Laughter.]

MS. HUMPTON: I was going to try to get you into that. [Laughs.] But, yes, OK, so I hear you saying no, no, no. We understand that we've got to use the tool we've got. And let's do everything in our power to bring this back under control. Meanwhile, looking at the labor

situation, I'd love for you to share your take on what's going on with the workforce. What's the state of employment right now?

MR. BARKIN: Well, so it's – I think Jay once called it a curious balance. The unemployment rate is 4.1 percent. For those of you keeping score at home, in the hundred years that we've measured the unemployment rate, we've never had more consecutive months of unemployment below 4 ½ percent. It's the all-time record. Well, it sure doesn't feel like that, but that's an interesting stat just to reflect on. Initial unemployment claims, people filing for layoffs for unemployment insurance after being laid off, that's, in aggregate numbers, where it was in 1969 when the labor force was, you know, whatever, 40 percent smaller. So, there's no carnage in the labor force. In fact, it's pretty stable. That's the good news.

The bad news, as I said earlier, is people aren't hiring for the most part. And so new job growth is relatively slow. There's lots of caution in the workforce. New college grads are having trouble getting jobs, all the things you read about. And so how do you mentally put those two things together? You know, I'd say two things. One is the quit rate is extremely low. So, there's fewer vacancies. Turnover's down everywhere. The quote is people are "hugging jobs." I think that's people are worried about the future and so they're not leaving. So that cuts the hiring. That's one part of it.

But the second part is that the denominator has been going down. You know, the Baby Boomers, my generation, are aging. I'm not, but they are. [Laughter.] And retiring. And it's not just people turning 65 and retiring. It's the cohort of Baby Boomers are now between 62 and 80. And every year that cohort gets a year older, unfortunately. And, you know, the 67-year-olds work at a certain percentage, 68-year-olds work at a lower percentage, 77-year-olds work at a certain – you know? And so, you've got a million, a million-three a year leaving the workforce just due to demographics. So that's a big drop. A million a year is like 100,000 jobs a month, right? And then immigration. Hard to get good numbers, but call it 2 million a year fewer people coming into the country. So that's another 170,000 a month.

So, you're talking, sort of, 300,000 a month of jobs that we used to create and fill that we now no longer create. But the good news is we don't have 300,000 of those people looking for work. So, we're in balance, but it doesn't feel as dynamic as you might hope because we don't have all the job gains.

MS. HUMPTON: Yeah. I've been warning my children I plan to live to 120. And the big question is, you know, how long do you work, in a world where we're all lasting longer. But, you know, as I think about this, we've also been warned about AI. And you're hearing very specific messages from businesses about the role of AI.

MR. BARKIN: Well, so everybody, especially if you're a large public company, you have to stand up and say that AI is fundamental to our business and it's transforming it. Everybody's doing that. I think excitement about AI is broad spread, but it's most intense in this – in the concentric circle around Silicon Valley. And then it gets a little bit less intense there. There are use cases that are real and are driving productivity. Coding would be a good example. Call centers would be a good example, though I had a pretty bad experience with my Lyft call center

last week – bot in the call center. Compliance documents, you have big, long paper, you got to fill it out. Engineering. I mean, there's lots of use cases.

I don't think those use cases are yet leading to the headcount Armageddon that people fear. And the reason they're not is, in part, many of them are immature. You know, I'll talk to lawyers, who will tell me stories of people filing briefs with citations that weren't accurate and that need to get better. Tony, I think I actually heard that one from you. So, you know, what's that? It wasn't yours, was it? [Laughter.] So, there's immaturity. You know, that's part of it. Earnings are very strong. And, you know, I don't mean this in a bad way, but when your earnings are very strong, your motivation is not to lay people off. It's actually to reinvest people in growth. And so, it might be a different environment if earnings were less strong, but when it comes to coding you might have a much more efficient coding, but everybody's got a backlog of technology projects. So, they're using the increased coding capacity to do more coding.

So, all of that has led to – and I think that the unit of a[n] AI-enabled task is not precisely the same as a mid-level manager and what they do. And so, people just haven't yet sorted out how to move from a task being made more efficient to a staffing model being made more efficient. It'll happen in time. And, yes, there'll also be jobs that'll grow, and all the rest of it. But, you know, I think there's a lot of talk about, you know, the AI-apocalypse, but I think we're not yet – we're clearly not yet there. And, you know, I think there's a lot less fervency in the conviction that we're going to be there than there was six months ago.

MS. HUMPTON: And that's what I'm hearing. And the key thing that I just hear, put simply, is people asking, what more can I do now that I couldn't do before? And so, we're seeing – we are beginning to see the benefit of these new technologies.

MR. BARKIN: An interesting story I'm hearing more and more is, can AI actually enable people into the workplace who otherwise would not have been enabled? And so, my simple version of this is an auto mechanic. I don't know anything about fixing a car, but I assume that the best auto mechanics have a mental checklist. If you've got a rattle under the hood and you bring the car in, they look for a rock, they look for a loose valve, they, you know, go through the list. These are jobs that are very hard to find, trained people on. But, you know, could a person who's maybe not technically as good as great get great with an AI assistant right next to him, helping him think through all the things you do? I think that actually could get a lot of people in off the sidelines into the workforce, into some of these jobs that are pretty hard to fill.

MS. HUMPTON: Yes. And, in my experience at USA Rare Earth this past year, I've been seeing this. I mean, we've got to – we've got to teach a whole workforce something that hasn't been done in the United States in decades. So, the use of technology right now is truly transformative.

So, all right. A view of the workforce that isn't maybe as doomsday as some would like for headlines, but then, you know, a key question is, people have really struggled with where is the economy going? We've heard talk, post-COVID especially, about a K-shape to the economy. And your research team actually has a different view. I'd love for you to share that with our club.

MR. BARKIN: Well, you say my research team has a view. We did a presentation. One person on my research team has a view that she shared. [Laughter.] And if you've got one economist on my team agreeing on something, then you have one economist on my team agreeing on something.

I'd have to come up with the letter, but the point she was making is the upper part of the K-shaped economy point is totally legitimate. Wealthy people in this economy have more wealth. It's mainly asset price driven, whether that be house, or bitcoin, or equity values, or whatever. And they're spending that wealth. And you can see that with World Cup tickets, or whatever your favorite story this summer is. You know, first class seats to Europe or whatever. It is also true that the inequality gap between those – the best off and those who are the least well off – has expanded. And that's true, you know, the 10 percent versus the 90 percent, that's true the 1 percent versus the 10 percent, versus the – all of that's true. And so, if your K is a firm of these people are doing better than those people, OK. I think that's also true.

The point she was making is that the people at the bottom end of the pyramid are not worse off than they were before. In fact, they're actually a little better off. So, she was arguing that the bottom part of the K, they're not sloping down, they're sloping sort of level. And so you could call this a little bit too much argumentation about the slope of a letter in the alphabet, but I think it's an interesting thing to reflect on because, you know, take your average entry-level worker. Maybe it's somebody who worked at Arby's. Well, Arby's minimum wage five or six years ago was, I don't know, \$12 an hour. Today it's probably \$17 an hour. So, they're actually making more. And, yes, inflation has expanded, but she was making the case that their real incomes are actually better than they were before.

And so, when we say the worse are worse off than the well off, that's absolutely true. When she says the worse are worse off than they were before, she was challenging that assumption. So that's – I think it's just interesting to think about it that way.

MS. HUMPTON: An interesting take. And, folks, if you are ever invited to support the bank as a director of one of the boards, jump at the opportunity. I mean, as you say, this chance to learn from peers, to hear how economists think about the things we observe in our daily work, it is truly a privilege and very exciting.

I want to just close, before I open this up – and I want to ask everybody, this is your opportunity to ask questions, but as you get your questions ready – Jermaine, I'm talking to you – I want to close with just a little bit of a personal thought. You're not going to be in this job forever. [Laughs.] The time will come to rotate. As you have been thinking about leadership preparation and what do you think are the right qualities that your board should be looking for in your successor?

MR. BARKIN: Such a good question. I'm so tempted to say someone exactly like me, of course. [Laughter.] But, you know, I think that obviously if you're trying to think about who leads a regional reserve bank, you want to start with somebody who can have an influence on monetary policy. I mean, that's sort of the core of what we do. And there are lots of ways to

have an influence. But I think you'd want to be able to think through, you know, what that vector of influence is. And it could be academic reputation. It could be outreach in the way that I do it. But there are lots of different ways to have impact. And so, I think that's probably where you'd start.

You want somebody to have the maturity to lead a large organization. And we've got a 3,000-person organization. Don't worry, they're not all economists. They're mostly technology people, you know, in the system. And so that's something you want to do. And then I guess I would advocate for someone who's committed to trying his best to be an insider in every community in the district. And that's what I try to do. But, of course, I like what I try to do.

MS. HUMPTON: Yeah. Getting out there. Good. Well, folks, what I'd like to do then is open up the floor. And we have mic runners. And, Jeffrey, I think if you can run a mic right over here to table number one, and I see a few other hands coming up. Jermaine, thanks.

Q: All right. Thank you, Barbara. Thank you, Tom. Jermaine Johnson, PNC Bank. And it's been a pleasure to serve on the Fed Board of Richmond.

So, a hike – a 12-0 vote from the FMOC to hike in the last meeting. I heard during the meeting, Kevin Warsh came out and he talked about price stability, and especially price stability for the bottom part of that K. My question to you, Tom, is how do you balance trying to establish price stability for the bottom part of the K, while at the same time an additional input and cost to that same community who's probably feeling pretty bad right now?

MR. BARKIN: So maximum employment is very important. Price stability is very important. You're always trying to, you know, weigh those two balances and where do you go. It's pretty easy to go, well, always you should bias on the employment side because the first people to get laid off are the least well off. But I think if there's one thing that we relearned over the last five years; it's just how much everybody hates inflation. And everybody is at the top of the K and the bottom of the K.

And I was talking earlier, Jim Davis, who's here, actually did a workshop for me three or four years ago with a bunch of construction workers in Reston. And we were asking about inflation. And the thing that came clear to me is if you're a business, it's not that hard to balance your income and your outflows. It's called margin. And if your costs are up and your revenues are up, your margins are up, you're not that stressed about it. If your margins are down, you are.

But humans don't have that – you have wages, which are earned and well deserved. And then there's prices, which is somebody screwing you. And nobody puts those together and say, you know, I talked about real wages – nobody else does that metric. And so, you look at the consumer sentiment data, it's terrible. Why is it terrible? It's inflation. And people don't like higher prices. And so – and, by the way, those least well off, by definition, spend almost everything they have. And so, they're more subject to higher prices than people who are less well-off too.

And so, you know, I don't think solving higher prices is a burden on low-income Americans. I think it's actually a help to low-income Americans. And if we can – and the magic of low inflation is it sustains itself. You know, we had a 30- or 40-year period where it sustained itself. And so, if you can do the short-term work to get it there, then you get the long-term benefits of stable, and then you can grow the economy.

MS. HUMPTON: Do we have a mic already out? Ah, yes. Thank you, Mark [sp].

Q: Oh, thanks. Hey, Tom. Murray Piper, George Mason University.

MR. BARKIN: Full disclosure, business school classmate of mine. So, who knows what's coming.

MS. HUMPTON: [Laughs.] Brace yourself.

Q: I want you to think even bigger than you already do, OK? So the Netherlands, and I don't think they were the only country, moved some of their gold out of our, you know, fortress a couple weeks ago. Stability in the dollar. Does the Fed worry about this? Do you need to worry about this? Because every time – I teach global business, and I travel a lot. And every time I'm in another country, typically developed countries but not always, there's a there's a question how much can we keep in dollars, how much do we have to do something else with. And I just wonder, I mean, that certainly affects prices, but is that something that the Fed thinks about, talks about? And do you need to or can you not?

MR. BARKIN: Well, we certainly, you know, monitor what's happening to the dollar and versus other currencies. And, of course, it does have an impact. You know, if, you know, the dollar's more valuable, it's cheaper to travel to Europe. And if the dollar is less valuable – if the dollar – you know, imports can be, you know, less expensive. So, all that stuff is a fundamental part of it. We're not the primary agent when it comes to the dollar. That's really Treasury. And Treasury spends time working on it. But we absolutely, you know, spend time thinking about it and monitoring it.

MS. HUMPTON: Let me ask a follow-on question as we – oh, no, no. We've got a question right over here.

Q: Thank you. Dan Crowley, K&L Gates.

One of the biggest problems facing the country is we have \$40 trillion in debt. And that's putting pressure on long-term rates as we're trying to refinance that debt. Most recently, Treasury Secretary Bessent has done a couple of things, including bailing out the Japanese currency to try to keep those rates down. More recently, he's experimenting with some new form of quantitative easing using Treasury instead of the Fed. What are your thoughts on Treasury's ability to control long-term rates?

MR. BARKIN: So, thank you for the opportunity to comment on what the Treasury Department's doing. [Laughter.] I think I'm – I think I'm going to pass on that opportunity.

[Laughter.] But I think it is really interesting to look at what's happening to the yield curve right now and long-term rates. And I'm sort of a simple person. I think of the price of any bond as a supply and demand metric. And we know that the supply of Treasuries is up. I mean, the deficit is big. We're financing that deficit. You know, at different times we're doing it in different durations. But, you know, the number of Treasuries in the market just obviously, you know, is up.

And so, then you have to ask the question, what's happening to the demand, such that the rates are moving around? And I think there are a few things that are pretty obvious. The Fed is no longer purchasing debt at scale like it was during the quantitative easing part. So, you've got one buyer out of the marketplace. If you look at the numbers, you'll see China is much less in the marketplace. We could speculate on why that is. I've kind of wondered whether it wasn't also relevant to international buyers of Treasuries, that they now have positive-yielding local sovereign debt. Because 10 years ago it was all negative yielding, and it would have been hard for me to get my head around buying a negative-yielding debt. Maybe I would have gone to the U.S. and taken my currency risk.

And then again, obviously, the hyperscalers are in the market for debt in a huge way. And so you've got lots of competing demands for people who want debt with, you know, companies that seem pretty well rated and are offering a little bit higher yield. And so, I just think you've got a supply-demand equation going on there that's heavily influenced by supply, but also being influenced by demand.

MS. HUMPTON: Great. Thank you. I'm just glancing. I want to get the whole room involved. I'm looking at you folks back there. But meanwhile, here we have a question here in the front.

Q: Ken Bentsen with Securities Industry and Financial Markets Association.

You talked about inflation and the AI boom that's going on. In the '80s and '90s the Fed thought about capacity utilization as a factor to consider in inflation. And that seemed to go away in the 2000s. Is that a factor that's coming back now that, you know, thinking about if capacity utilization is running above 60-65 percent, that that's putting pressure on inflation?

MR. BARKIN: Well, so we still track capacity utilization. You know, before every FOMC, I get a report that shows what capacity utilization looks like. And if you look at the number, you know, it's good, but it's not overheated. That's how I would describe current situation of capacity utilization. Of course, the manufacturing sector is a much smaller piece of the economy than it was, you know, 30 or 40 years ago. And so, I think that direct measure is relevant, and the manufacturing sector is a little less relevant. What is relevant is supply capacity. And you'll remember, you know, with some pain, five years ago when you couldn't get chips into cars. And, you know, we can't get ammunition, you know, into our – you know, parts of our military – Patriot missiles into the – we've got – so we've got issues of capacity in lots of places.

And so, we're trying new and different ways to try to understand and metric, you know, whether we've got our supply chains working in a way that we've got capacity available. To me, it's a little bit less about whether there's room to run a third shift, and a little more about

transportation networks. Obviously, the Panama Canal is low, and the Straits of Hormuz, and the Red Sea, and all those things. But I do think this notion of can we get supply there, and is that going to lead to shortages or overheating, that's a very fundamental thing we need to be spending time on.

MS. HUMPTON: Yeah. I think this is going to be a fascinating set of questions for our economy going forward, how much we actually make. I see – oh, a question over here. Thank you.

Q: Hi. Good morning, Tom. Chris Bruch with Donohoe.

So, I apologize. This is an AI question. I know we're all tired of talking about AI in all of these meetings. But the markets and the and the Federal Reserve are very reliant on data from the federal government. It's reported monthly and quarterly, and that informs decisions going forward. But it seems like every single quarter we are – the government is recasting the previous reporting period's numbers, consistently, always. And so why can't the federal government and its agencies utilize AI to aggregate data and to make decisions more accurately and more timely to inform markets and to inform the reserve bank? And then, second, would the Richmond Bank and your group, who does technology, consider your own AI analytics to inform you and your region, separate and apart from the federal government?

MR. BARKIN: That sounds like a plea to fill out the survey that's on your desk, so we can get some information. I don't think it's a mystery that the data we're getting from the federal government, which was set up in the '20s as sort of a gold standard of how we could get data on the economy, you know, is struggling against this issue of response rates. And so, you know, political pollsters have the same problem. Nobody answers their home phone anymore, if you even have a home phone. If it's an unidentified number on your cellphone, you also don't answer that. If you do answer it, you're going to have to talk about whether you have a Medicare exemption. At least, that's the calls I'm getting. [Laughter.]

And so, the response rates in these federal government surveys are significantly down. And they're working very hard to try to get responses up to normal levels. And three months later, when responses come close to normal levels, then you have better data, but it's revised just as you describe. So, I just want to support what you're saying about, you know, the data not being – the first readout of the data being as – having as much confidence as I used to have. And but I think it's not – it's just that telephone survey data collection is no longer the way to do it. So federal government's experimenting with it. We're experimenting with it. Other ways to get data.

I was teasing about the surveys, but that's one of the reasons we do these surveys, trying to get alternative sources of data. You know, I track now credit card spending every week. I get a report on, you know, what people – and it's, you know, by each of 15 segments, and it's by higher-income versus lower-income people, and it's even by region. So, you can get a lot better real-time data into the mix. We've got a taskforce out running. The president of Walmart is on – or, the former president of Walmart is on it, to try to force ourselves to ask the question, what

are different ways to do it? So, I think it's a totally legitimate question. And we realize the need as much as anybody.

MS. HUMPTON: Not only that, you actually have a very talented IT system, IT organization, that is supporting the researchers and bringing AI into the operations. And so, I think it's – you're on the same evolutionary curve that the businesses in your district are.

MR. BARKIN: Well, we have a model. It's called FRB/US – we actually published it – which is a Federal Reserve proprietary, I'll call it AI but you could tell me it could get a lot more intelligent, forecasting model for the economy. And we're constantly trying to make and improve that. Now, of course, forecasting the economy is not as easy as it is to forecast the weather. That was supposed to be a joke. [Laughter.] And so, I'm not sure if it's as good as it needs to be. But I think that we're trying to invest in that as best we can.

MS. HUMPTON: Yeah. In just about every meeting, we'll hear information where economists, as you say, from Richmond and then New York are both looking at critical indicators. And it's fascinating to see how the most educated economists in the world could take a look at the same data and draw different conclusions.

MR. BARKIN: Back to my, if you've got a point of view from one economist, you've got it from one economist.

MS. HUMPTON: There you go. Yeah, and by the way, weather follows the laws of physics. [Laughs.] Sadly, the economy doesn't. All right, we have more questions. Usman.

Q: Usman Ahmed with PayPal.

You mentioned the paradox of earnings being up, labor force being – new labor force going down, but new openings also being flat, or down, and therefore the unemployment rate kind of staying stable. If you see that go on for longer, are there steps you would take, even though the mandate of maximum employment is there in the sense that unemployment is staying flat? And what would be the tools that you would be able to use to incentivize companies to use those earnings to create more jobs?

MR. BARKIN: No, I think it's – I mean, where we are today is a reasonable equilibrium. It's not the normal equilibrium. It's not the high hire, high workforce growth equilibrium we've had at various times in our past. It's a low workforce growth, low hiring equilibrium. Obviously, you worry about if you're low hiring, then you're only an inch away from firing, versus if you're hiring a lot then you've got a step to take before you start firing. And so, it feels more fragile. But don't forget, if you've got a bunch of companies that haven't been hiring for two or three years now, then if demand continues to be healthy eventually they're going to need to meet customer needs, one presumes. So maybe it could break to the hiring side.

So, I don't personally have any discontent with where we are. It's just unusual. I mean, the hiring rate looks a lot like 2010, not a good year. The layoff rate looks a lot like 2018, a really good year. I don't know what to make of that. But that's where we are.

MS. HUMPTON: You know, if you study mathematics, you know, algebra, and, you know, how many variables do you need to solve, you know, an equation. And in this case, we have two goals and really one instrument, the interest rate.

MR. BARKIN: Yeah, one blunt instrument.

MS. HUMPTON: [Laughs.] A blunt instrument. All right, good. I think Amy had a question as well, but I'm looking – oh, good. We have the rest of the room getting involved. OK, great.

Q: I'm just curious, in your view –

MS. HUMPTON: Introduce yourself.

Q: Oh. I'm Jason Jones with FTI Consulting.

I'm just curious, in your view what development over the next six to 12 months do you think might most influence monetary policy?

MR. BARKIN: Well, I can give you lots of great developments. We might find that these increases in input costs, whether they be oil or supply costs or commodity costs, are in fact temporary and inflation comes down, and we start seeing month-over-month readings on inflation that look more consistent with our target. That would be very influential for monetary policy. You could see companies start to break their point of view on the labor market, either toward a lot more hiring, as I was just suggesting, which would suggest a strengthening in the labor market, or a lot more firing, which would suggest a weakness in the labor market. We could have three more external events that could show up that could be inflationary on the supply side. And that would be – so think I've given you the two-by-two matrix. But all of those things could happen. Pretty hard to know, you know, how it breaks.

MS. HUMPTON: How influential are geopolitics in all of that?

MR. BARKIN: Could be very influential. I mean, I like to say that the – you know, the wall fell in 1989. And, you know, with the exception of 9/11 and the Great Recession, you could say the next 30 years were pretty calm from a macroeconomic standpoint. I mean, inflation was stable during that entire period. You had a couple demand shocks, but, you know, otherwise you had a healthy growing – workforce was growing. I mean, it was just – GDP was sort of up 2 or 3 percent most every year there. So very, very solid. It absolutely feels that the last five or six years have been less stable on a geopolitical lens. You know, deglobalization being a big part. You know, wars in the Middle East. You can go through – Russia-Ukraine. You can go through the list. And if you look through history, it's not the case that history is filled with really long, stable periods. So, yeah, it could matter a lot.

MS. HUMPTON: Mmm hmm. Thank you. Amy.

Q: Hey, Tom. I really enjoyed our conversation. Amy Gilliland, GDIT.

But I'm actually asking you a question as a mother right now. So, you mentioned that –

MR. BARKIN: Good, because my wife really never asked me any questions.

Q: About how hard it is for college graduates to find jobs right now. I have a ninth grader aspiring to something, I'm not sure what in the moment. But why do you think that unemployment exists, aside from the job market that you described? Is it a mismatch of skills? Like, what is the reality? And any recommendations for a mother on directing their child to the right career in the future? Thanks.

MR. BARKIN: Really good at economics. Not that good at parenting. [Laughter.]

MS. HUMPTON: Aw, you sell yourself short.

MR. BARKIN: No. So, you know, a couple obvious things, which are if you're a company and you're nervous about the future of the economy, or you kind of wonder whether you'll get great productivity enhancements from AI, you'll decide to cut back on your hiring. That's what people are doing. And the first place you cut back is your entry-level college programs. And so I think there's no question that entry-level college hiring has cut back. By the way, a significantly disproportionate of, I'll call it, sort of, our kids' college hiring has gone over the years into finance and consulting and tech.

And so, tech has clearly cut back the hiring. Consulting is back, but they've cut it back. And so, there's just – there's fewer opportunities against what they were doing. I'm sorry, coding would be the other part, under tech. So that's not a permanent thing. That's a temporary thing. People eventually hire again, and at least the consulting firms I'm talking to are in fact hiring again. But you did have a couple year period where those folks sort of pulled back from campus out of whatever version of productivity caution or earnings caution.

OK, the second thing which I hadn't realized till I looked at it, is when I was in college, which was a couple minutes ago, you know, there was a computer lab. And I think we had five computer majors. But today, computer science is the biggest major at almost every campus. And it's been, like, 20 percent of the graduates. And so, I said earlier, the most obvious place where AI has affected hiring – affected job growth is in coding. And if 20 percent of your graduates were doing coding, that seems like kind of a mismatch. So, yes, there's some of that mismatch thing.

You know, by the way, there are a lot of other college graduates who are pretty excited about environmental science. I think there are probably fewer jobs in that space than there were today. And so I think there has been a reordering or resettling. I'm not worried about your ninth grader at all, because your ninth grader knows how to use technology. Your ninth grader is going to figure out AI. And this economy is going to need people who know how to figure out AI. And the odds are very good that your ninth grader is going to be better at it than anybody in this room is going to be. And so, I'm not worried about them. But I do think you've got a

couple year mismatch issue, where the traditional hires pulled back, and the traditional no-regrets majors all of a sudden started to have regrets.

MS. HUMPTON: I think one of the places we can look is to the wake of the financial crisis, and to see how economics graduates in that era, where are they now? And it turns out – [inaudible].

Q: Shameless opportunity, but if any of you have coding or computer science graduates, we're hiring at GDIT. [Laughter.]

MS. HUMPTON: OK, great. You heard it here.

MR. BARKIN: On behalf of the economy, we thank you.

MS. HUMPTON: But one more plug is I would say tell your kids to pay attention to jobs in the real world. And building things is a really – taking care of people, connecting human to human, is a great, great opportunity. Do I see hands up over here? We can take a few more. OK.

Q: Good morning, Tom.

MR. BARKIN: Hey, Joe.

Q: Joe Thomas with Freedom Bank.

There's a bunch of bankers in the room. So, we don't want to let you leave without commenting on your role in terms of bank regulation and supervision. Tell us a little bit about what you're seeing, areas of influence from the bank regulatory standpoint.

MR. BARKIN: Yeah. So, bank regulation, you guys all know this, is driven by the Board of Governors. And there's a whole policy process there. Bank supervision is led by the banks under the delegated authority from the Board of Governors. You know, I think part of that question is sort of a layup because the health of the banking system, as evidenced by delinquencies or capital levels, right now is extremely high. Very low delinquencies, very high capital levels. You know, you've got, by all accounts, a safe and sound banking system. And that's sort of the number one priority.

I'd say the bankers I talk to – and, Joe, you can jump on this ship or jump off the ship – are actually pretty enthusiastic about their pipelines and about the lending activity that's going on in their markets. I hear a lot of noise about deposit growth and deposit gathering. So, I think that's more of a challenge. I often then say, well, I think if you raise rates that would be less of a challenge, but they don't always like listening to me say that. And so, the funding of the loan growth, I think, is a challenge. But I'm not hearing a lot of noise anywhere.

And if you remember, even three or four years ago we were talking about commercial real estate as though it was going to bring down, you know, whole segments of the lending market. And, you know and I know, that there have been a lot of commercial real estate write-offs and sales and whatever, but it seems like there's been a lot more equity in these deals than

there used to be in the eras that we remember more carnage. And so while there have been bank, you know, charge-offs there, they've really been more equity charge-offs, in my mind, than they've been borrowing charge-offs. And so, I think it's gotten to a very healthy place. Constant vigilance, as Mad-Eye Moody once said, is always a good thing. But I think so far – so far so good.

MS. HUMPTON: And we note that Silicon Valley Bank was not in the District Five, Richmond. [Laughter.]

MR. BARKIN: If it's in doubt. Well, I mean, that was a strange situation. But it did cause a lot of people to take fresh looks at their assets and their liabilities. I mean, there were a lot of underwater assets on a lot of bank balance sheets that, because of accounting – that were in fact underwater, but according to accounting principles were not accounted for as underwater. And so the actual capital at a set of banks was lower than the reported capital. And then you had a bunch of uninsured deposits. I think they were 96 percent uninsured. And in general, those weren't deposits that people thought ran very easily. But it turns out, that was wrong. And so, you know, the banks I've talked to have certainly learned those lessons and adjusted appropriately.

MS. HUMPTON: Good. Good. I saw two other questions over here. A couple, several. One here.

Q: Hi, Tom.

MR. BARKIN: Hey.

Q: Anne Cress. I'm the president of Northern Virginia Community College. But I'm actually standing up as a board member of the Capital Area Food Bank.

And the food bank recently released its Hunger Report for the region. And I found that hunger across the DMV was at its highest point. Thirty-eight percent of the residents across the region report food insecurity. And the affordability of the region was a key component of that. Folks who lost their jobs from the federal government found new jobs, but there was a lag six months or more, often at a reset wage. So, when – I'm going back to where you started this morning. And you talked about the growth in South Carolina and North Carolina, the lack of growth in Maryland and Virginia. And I can't help but think affordability is part of that, especially housing affordability. So, can you talk a little bit about the differences you see on those aspects across the region that the Fed serves?

MR. BARKIN: Thanks for your question. And I have heard from Radha and others that food bank usage is up, like, 30 percent year over year nationally. And a big part of that, sadly, is people who aren't the lowest income band, but are, I'll call it, low to moderate. And as they work creatively to get by, have said, OK, one way to fund the rest of my spending is to, you know, go to the food bank, despite whatever stigma or whatever they might face. It's a sad situation.

So, the most stark thing – so I think the greatest exercise to do in my job, which is I get in a car and drive around and go to meetings like this, is to cross a state line. And I'm going to West Virginia tonight. So, I'll go to Hagerstown and then I'll drive, you know, to Shepherdstown or Charles Town, West Virginia. And the second you cross the state line out of Maryland into Delaware, into Pennsylvania, or into West Virginia, you'll immediately see thousands of tract houses built by the national developers. Similarly, if you drive south on the Chesapeake Highway from Norfolk into North Carolina, you'll see the exact same thing. You'll cross the state line, and you'll see thousands of tract houses built by the national developers.

And I say all that because housing is a huge part of this thing. And there is a generation here that cannot afford the houses in the more expensive places and want a place to live. They're moving to exurbs and they're moving to places where they can afford the houses. And the housing developers, who can build anywhere, are choosing to build in places where they have more certainty of ability to get the land at relatively low price, and certainty of getting the construction done. And so, I definitely think – I mentioned that North and South Carolina are two of the four fastest growing workforce states. They're also two of the four fastest growing housing states, together with Texas and Florida. And I think that's all about, you know, how communities choose to support or not support the building of that housing.

MS. HUMPTON: I apologize that I'm sadly going to have to cut off questions. We could talk to you all morning, Tom Barkin, but I want to end – thank you all for your questions. What I want to do is end with a little bit of a story. In this world of digital assets and the whole world going high tech, there is a place for cash money. And your district got hit with a big storm. And cash money became an absolutely critical feature. I'd love for you to tell The Economic Club the story of how the bank came to the rescue.

MR. BARKIN: Well, it's a real cautionary tale because all of our lives are electronic, and all of our lives are dependent on electronics. And so, sadly, I don't know either one of my two kids' phone numbers, which seems like a mistake as I'm saying it. Back to why I'm not a parenting role model. And you may not either. But Hurricane Helene hit Asheville, and the electricity was out for a week. And with the electricity out for a week, you can't use a credit card. Couldn't get on the computer to buy anything. Couldn't have anything shipped. Couldn't buy anything at a store. Couldn't go to one of the few places that are open. You also couldn't use an ATM card. So, you couldn't get cash.

So, the entire terms of trade – it was like going back to the barter system. And we actually trucked cash down to Asheville and the surrounding markets, so that the banks in that area had access to the cash they needed so that people could get access to the cash in their accounts so that they could, you know, fund whatever it is they needed to buy to, you know, insulate or repair their houses. So, it was – you know, we all know cash is going away. There's probably nobody in this room who's, you know, spent a 20 in the last week. But it still got its use.

MS. HUMPTON: A system that was built, a proud institution. We are so thrilled that you are steward of this district.

MR. BARKIN: Oh, well thank you.

MS. HUMPTON: And thank you, again, for visiting The Economic Club of Washington.
[Applause.]

MR. BARKIN: Always great to be with you. Thank you.



Tom Barkin
President and CEO
Federal Reserve Bank of Richmond

Tom Barkin is the president and CEO of the Federal Reserve Bank of Richmond. He has held this position since 2018.

Tom serves on the Fed's chief monetary policy body, the Federal Open Market Committee, and is also responsible for bank supervision and the Federal Reserve's technology organization. He is "on the ground" continually in the Fed's Fifth District, which covers South Carolina, North

Carolina, Virginia, D.C., West Virginia and Maryland. His engagement in the region has brought real attention to areas facing economic challenges.

Prior to joining the Richmond Fed, Tom was a senior partner and CFO at McKinsey & Company, a worldwide management consulting firm, where he also oversaw McKinsey's offices in the southern United States.

Tom earned his bachelor's, MBA, and law degrees from Harvard University.