



# THIS WEEK'S PROGRAM

July 12, 2022

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## Tom Barkin, President and CEO, Federal Reserve Bank of Richmond

by **Elly Clary**

He's confident the Fed can curtail inflation, the CEO of the Federal Reserve Bank of Richmond told Rotarians and guests. He's not so sure about avoiding a recession.

Tom Barkin presides over a territory that includes both Carolinas, the Virginias, Maryland, and the District of Columbia. He sees the inflation rate, widely pegged at more than 8 percent annually, as stubborn.

"Inflation has persisted, risen, and become ever broader-based," he said.

Charlotte has fared better than most of the country, Barkin observed. "The workforce here has grown, not shrunk. You're attracting more and more employers. Your political and business leadership seem well-aligned. But even in Charlotte, you feel inflation."

So, the Fed needs to act, Barkin continued, as he emphasized he was speaking for himself and not for the Federal Reserve.

In three years, he said, the Fed has raised interest rates 150 basis points, started trimming its balance sheet, and signaled future rate hikes.

"We're committed to return inflation to our 2 percent target," Barkin said, but added a caution. "The Fed's tools work over time, so expect inflation to

come down, but not immediately, not suddenly and not predictably. I expect inflation to bounce around on its way back to our target.”

He likened America’s inflation situation to the aftermath of a war.

“War upends economies,” Barkin said. “At the end of a war, inflation typically spikes.”

His comparison: During the war on Covid, \$6 trillion in fiscal stimulus hit the economy. Many workers haven’t returned to jobs while businesses struggle to meet demand and deal with supply chain disruptions. Lockdown-weary consumers have been revenge spending. Meanwhile, the actual war in Ukraine has driven up commodity prices.

“But I do see inflation coming down,” he said, “and I see it coming down in three lanes.”

First, demand should flatten, he said, and higher interest rates should slow the economy. Second, supply-chain pressures should subside as the pandemic eases. Early signs are that both are happening.

The commodities lane is where he admitted the Fed has little influence, although a broad range of commodities prices has started dropping. Absent jarring events such as a natural gas shutoff in Europe or another Covid surge, commodities could continue to normalize.

“So, there is a path to getting inflation under control,” he said. “But a recession could happen. No one cancelled the business cycle. Eight of the last 11 Fed tightening cycles have been followed by some sort of recession.”

Still, a return to a more normal economy promises an upside, he said, characterized by “products on shelves, restaurants fully staffed and cars at auto dealers. It doesn’t have to require a calamitous decline in activity.”

\*A recording of the program is available here: <https://vimeo.com/729693300>  
The speaker’s presentation begins at 18:00 minutes.