FEDERAL RESERVE BANK *of* ST. LOUIS

FedListens REPORT

September 4, 2019

The Federal Reserve Bank of St. Louis

Gateway Conference Center

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St. Louis Fed President James Bullard and Federal Reserve Governor Michelle Bowman.

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On Sept. 4, 2019, the Federal Reserve Bank of St. Louis hosted a Fed Listens event, one of several sessions held around the country as part of a yearlong effort by the Federal Reserve System to assess its monetary policy strategy, tools and communication practices.

This event was held at the St. Louis Fed's headquarters and assembled members of the Bank's six advisory councils: its four Industry Councils (representing agribusiness, health care, real estate and transportation), its Community Development Advisory Council and its Community Depository Institutions Advisory Council.

The event began over lunch with opening remarks from St. Louis Fed President James Bullard and Federal Reserve Governor Michelle Bowman. Following lunch, each council met in concurrent working sessions to discuss questions related to the labor market, inflation, interest rates and Fed communications, among other topics. Then, during an afternoon plenary, the councils presented summaries of their discussions to and fielded questions from President Bullard and Gov. Bowman. A video of the reports and subsequent Q&As is available at **https://www.stlouisfed.org/about-us/fed-listens**.

The following is a summary of the key points raised by the councils in their working sessions and in their oral summaries during the afternoon plenary.

AGRIBUSINESS INDUSTRY COUNCIL

Labor Market

- Many council members reported that their respective (often rural) regions had higher unemployment rates than the national average, yet nearly all noted a challenge in attracting and retaining skilled and, particularly, unskilled labor. Employers on the council reported having a difficult time filling jobs, with reasons cited including the difficulty of attracting highly skilled labor to rural areas, mismatched skills to jobs, the challenges of retaining seasonal labor, and workers not being motivated to remain employed as they lack a willingness and ability to come to work every day and on time. Council members employed in the corporate sector expressed less concern about finding skilled labor, but noted that costs were higher to recruit and retain employees.
- One "bright spot" was the H-2A visa program, with several members noting that it's working quite well. One member highlighted their organization's success in obtaining workers from South Africa, who are skilled, motivated and effective. This, in turn, was helping elevate the performance of domestic workers. Several members commented that they hoped to see the program continue and expand.
- One member who works in R&D reported that layoffs could occur as regulations on ethanol from the Environmental Protection Agency have caused demand for corn to soften in some areas. This member noted the effect of ethanol plant closures (15 plants to date with an estimated 2,500 jobs lost) and predicted further plant closures and more job losses unless regulations change (e.g., the adoption of E15 standards or the elimination of waivers for refiners). However, the member did express optimism that St. Louis will continue to be a leader in agricultural science and will drive this region's growth.
- The majority of members reported that local labor shortages are leading them to offer more competitive compensation. This was split into two categories: "hard compensation" like higher salaries and bonuses; and "soft compensation" like increased benefits, retirement plan options and additional vacation time. One member reported paying $400 in bonuses for seasonal labor (with half paid upfront and the other half paid at the end of the season) for the first time in the company's history. Another member noted that the corporate office is trying remote working as an additional bonus, while bankers on the council reported poaching workers from competitors with additional compensation. There was consensus on the council that benefits were needed to attract a new generation of workers, but several remarked that these incentives weren't necessarily successful in attracting more skilled labor than in the past. Moreover, one member noted that farming requires long and inflexible working hours outdoors during the growing season, and that can't be changed.
- Should an economic downturn or recession occur, there was agreement that layoffs and damage to farmers would likely be minimal. Some members remarked that farming was "already in a recession" relative to the economy overall. Council members agreed that farmers were already operating with high leverage, low margins and low commodity prices. The current trade/tariff situation has been creating uncertainty, delaying investment and possibly driving further consolidation and layoffs in the industry. Another member pointed to the high debt levels of farms and expressed concern

Tania Seger, Agribusiness Industry Council about what happens in a downturn as these farms have "been in the red too long."

- Unlike farmers and farm collectives, council members employed in the corporate sector suggested that their employers were likely to be more affected by a recession. These members also noted, however, that agribusiness already operates with a lean labor force in a cyclical industry, and that retirements, attrition or simply not hiring for open positions could reduce the workforce naturally.
- Almost all members acknowledged the use of workforce development programs, but noted these programs are in their infancy. Some members have developed specific partnerships with industry or university groups with some success, perhaps filling a gap in the education system in some areas. Other council members spoke of programs—such as ACT in the Mississippi Delta that trains and certifies workers—or partnerships with state departments of agriculture and local universities. Several remarked that workforce development programs may replace vocational tech training, but noted that there is still a mismatch between what training is available and what fits with actual job requirements. Most members reiterated the need for soft skills training, including partnering with high schools or other educational organizations to provide certification or fill the gap in education.
- The council expressed optimism on the future of R&D and automation in farming. Technological developments are likely to increase crop yield and productivity. The automation cited included self-driving farm equipment, mechanical picking (at night), use of drones (with current regulation preventing widespread adoption), drying crops with computers, and shared service centers (on the corporate side). Many members believed that automation will increase the demand for technical or highly skilled labor. One member remarked that the new generation of workers wants to implement technology, and a different skill set is needed to understand how computers are running the business. The council agreed that the jobs that automation could eliminate are typically the jobs that members can't fill, and that automation is a way to fill the labor gap and to substitute capital for labor.
- One member working in R&D noted that agribusiness has benefited from technological advancement, with crop yields expanding twofold or threefold over their lifetime, particularly with genetically modified crops. The member commented that the future push will be for genetically modified husbandry: cow, poultry and pig. The bigger issue for the industry is regulation (particularly acceptance of these crops in places like Europe). Another issue to address in the industry is better investment in cell and high-speed internet services in rural areas to implement the technological advancements mentioned. One bright spot is that new technology could allow skilled labor to return to farms as a viable career.

Inflation and Interest Rates

- Council members agreed that inflation and the Federal Reserve's 2% inflation target are "not on the top of anyone's mind" in agribusiness. One member noted surprise that inflation is not higher despite the Fed employing various forms of unconventional monetary policy like quantitative easing during the Great Recession. Members were more concerned with crop price deflation and low commodity prices in general. One member remarked that he would like inflation, but there has been deflation in agriculture since the 2009 financial crisis.
- Most members reported that some input costs had increased, with one member noting that input costs for farmers have increased while input costs for livestock producers have decreased. Others noted that fuel prices have been stable. The cost areas that were mentioned as trending higher were housing costs (particularly in northwestern Arkansas), general construction costs and insurance rates. There was consensus that output/crop prices were dropping faster than input prices, creating an unsustainable business model over time for farmers.
- Nearly all members highlighted the inability to push price increases on to consumers. There is belief that large chains or retailers will not accept price increases, even with the uncertainty posed by the current trade situation. There was further discussion about competition among suppliers and a recognition that farmers can't lose money forever.
- Members acknowledged that agriculture is a global industry and that American farmers are price takers. Some members expressed hope that the Fed would consider this point when determining policy rates, as the strength of the U.S. dollar directly affects agricultural exporters. Still others noted that they do not think of the federal funds rate often and have confidence the Fed is setting the benchmark rate where it needs to be. Yet,

others commented that the rest of the world is lower or negative in terms of interest rates, and the U.S. may be too high by comparison.

- Nearly all members noted the cost of business credit as an important issue. One member remarked on the very large lines of credit extended to most of agribusiness and especially to younger or smaller farmers that have highly levered balance sheets. There was a general sense that credit conditions for agribusiness are tight currently, but members clarified that this was not due to high interest rates, but rather because of preexisting high levels of debt. One council member said, regardless of future government payments to farmers (due to historic flooding or otherwise), large numbers of farmers have their credit fully extended and will receive no further aid through credit channels. This could force consolidation and have a domino effect in causing lenders to pull back on further lending to farmers with good credit.

Communications and the Role of the Fed

- Council members expressed interest in clear, concise and credible—even predictable—communications from the Fed. They want to have confidence that the Fed knows what it is doing to help the economy. One member noted that the Fed should hike or cut rates as it sees fit, but should explain why it was done and why it will help the economy over the long run. Then, businesses can adjust to that accordingly.
- Council members agreed that the communications need to be in layman's terms so that they're easily understandable to the public. Several members expressed the desire for consistency of Fed messaging, remarking that if the Fed changes its policy course, it's best for the Fed to explain why it's doing so and communicate that clearly so Main Street can understand it.
- There was widespread consensus that the Fed should remain apolitical and above the political fray as much as possible.
- Several members raised the topic of consistency, noting that it is confusing for there to be so many Fed officials making comments and opining about Fed policy and decisions in times of uncertainty. Some council members said that the Fed should act like a board room where even if there is spirited debate and disagreement behind closed doors, once a decision has been made, there is solidarity among officials that they took the optimal path of policy. Another member remarked that the economy has been good for a long time, so the Fed must be doing something right.
- In terms of community-related issues, the council agreed that educating rural communities on finances and debt is important for agribusiness. Other issues noted in the discussion were a lack of infrastructure (such as roads and cell service), poor education and trouble attracting skilled labor in rural areas. Many on the council feel there is a divergence between national and rural economic trends.

COMMUNITY DEPOSITORY INSTITUTIONS ADVISORY COUNCIL

Labor Market

- The current low unemployment rate is supporting local economies in the Federal Reserve's Eighth District. But retaining employees, or hiring new ones, is becoming increasingly difficult as labor expenses rise across the board. At higher levels of employment, some banks poach talented lenders from one another with significant signing bonuses. Wages for tellers paid by some banks are also increasing.
- Banks have responded to job market pressures with wholesale policy changes involving expanded benefits, including more vacation, more flexible hours, better health care options, better retirement programs and college tuition reimbursement programs. Smaller banks, in particular, offer a culture that balances work and life (encouraging employees to attend their children's school events, care for aging parents, etc.). "Creativity" in hiring, benefits and work-life balance is becoming increasingly necessary.
- Part-time and temporary employees are increasingly being used to supplement core workforces. This provides a buffer against a potential economic downturn. In this regard, however, bankers don't foresee any significant staff reductions in the near future. Bankers also stated that they were further insulated from future downturns by "lessons learned following the Great Recession." Workforce development occurs privately within firms through various training programs. One bank is figuring out a way to train internally: "If we can't find talent, we create it." Initiatives include formal training programs and, increasingly, student internships. Public initiatives, alternatively, provide free tuition to community colleges and technical schools for high school graduates as well as adults. High school students benefit from technical training programs. Access to universities is advantageous.

Kelley Workman, Community Depository Institutions Advisory Council

Inflation and Interest Rates

- Inflation is not considered an issue at this point, but bankers are concerned about the impact of inflation in particular industries, such as health care, education and pharmaceuticals. Some regions of the Eighth District are being impacted by wage increases mandated under state minimum wage laws. Fierce competition limits the capacity of banks to pass on higher operating costs. Eventually, costs could be passed on to consumers, but bankers generally agreed that, "We're not there yet."
- Bankers are concerned about the yield curve, noting that it is "difficult to make money with an inverted yield curve." Some bankers suggested that the fed funds target rate might be too high.
- Pressure to increase prices to offset higher labor costs is being offset by increases in productivity, particularly in information technology, which has reduced back-office costs. Bankers are seeing an increase in their ability to automate mundane tasks through technology. A large slate of new and emerging financial technologies is enabling banks to deliver accessibility at lower cost. Neural networks to detect credit card and other fraud are increasingly being used.

Communications and the Role of the Fed

- Fed communications, overall, were described as "positive." Bankers said the Fed is managing the economy well in a very challenging environment. However, they strongly emphasized the importance of the Fed's independence from political and other influences: Actual and perceived independence was seen as "more important than ever."
- Bankers noted that comments by Fed officials are no longer parochial; they echo around the world. As a result, they stressed that the Fed needs to "speak with one voice" to create stability. One banker touted the advantages of the approach used in bank board rooms: "When board members meet, there may be disagreement, but when they come out, they are unified."
- Bankers said the Fed should not rigidly defend a commitment to a previous statement if data changes. Bankers generally agreed that there can also be "too much transparency," which can serve to confuse markets. Bankers also identified several emerging issues they believed warranted attention by the Fed, including a lack of banks in rural areas, student loan debt ("There are young people coming out of college with a mortgage sized debt, but no house to go along with it.") and a lack of access to small-dollar lending.

Timothy Lampkin (at podium), Community Development Advisory Council

COMMUNITY DEVELOPMENT ADVISORY COUNCIL

Labor Market

- Council members agreed that the national unemployment rate—currently at a record low of 3.7%—is not necessarily reflective of what the people in the communities they serve are experiencing. The unemployment rate among minorities (especially African Americans) and in rural places (like Arkansas and the Mississippi Delta) is much higher than the national rate.
- Labor force participation rates are also lower than what they were prior to the Great Recession. Several members of the council suggested that issues such as the high costs of child care, lack of transportation, lack of affordable and quality housing, large employers overusing temporary workers, high incarceration rates, and the opioid epidemic are inhibiting many Americans from fully participating in the labor force.
- There was a consensus among members that there are many additional barriers to employment that exist in their communities. They identified groups like the formerly incarcerated, nonwhite, disabled, immigrants and veterans as being the most impacted by these barriers.
- Members from the Louisville region noted that while jobs in the service, retail and logistics industries are bountiful, they do not pay wages that are sufficient enough to sustain a living.
- The council identified various opportunities as means of improving the conditions of the labor market, including:
  - Offering free tuition for community college students
  - Collaborations among various industries and sectors
  - Loosening hiring requirements (including eliminating marijuana testing and increasing hiring efforts for applicants with criminal convictions)
  - Offering a low-interest loan product to help immigrants get certified in varying professional services

- A member noted concern about the number of service jobs being greatly reduced due to pending automation and artificial intelligence.
- The council highlighted workforce development programs like Kentuckiana Builds (which offers free training and job placement) and SLATE (a Missouri job center that provides a variety of free employment services).
- Council members perceive that many areas in the Eighth District are experiencing an overreliance on temporary workers instead of hiring full-time workers with benefits.

Inflation and Interest Rates

- There was a consensus among the council that the availability of credit and cost of credit are salient issues for their communities, and the rates and costs have a disproportionate effect on low- and moderate-income (LMI) groups.
- A member stated that most people with low incomes can afford a home in a low-cost neighborhood, but few qualify for a decent mortgage rate, if a mortgage at all.
- The council discussed the possibility of the Federal Reserve aiding community development financial institutions in compiling data on the availability of credit and interest rates, especially considering the historical and residual implications of redlining.

Communications and the Role of the Fed

- The council also noted the value provided by the data, research and analysis the Fed has done regarding LMI communities.
- There was a consensus among members that the Fed continues to use its voice in addressing historical inequities.
- Council members stated their appreciation of the Fed for being a nonpolitical convener that consistently brings together leaders and individuals from diverse groups and backgrounds to discuss the issues of LMI communities.

From left, Robert “Bo” Ryall, Lisa M. Klesges and Rhamy Alejeal of the Health Care Industry Council

HEALTH CARE INDUSTRY COUNCIL

Labor Market

- Overall, the council members generally agreed the labor market for health care workers is tight, leading to higher wages and benefits. Employers on the council largely agreed it was hard to find skilled workers to fill open positions. Companies have tried to address this via initiatives such as increasing benefits offerings, accepting candidates with fewer skills, lowering requirements for employment, seeking out nontraditional portions of the labor market (e.g., college students and people coming out of retirement) and offering unconventional benefits. Some council members said a general trend in the industry was a shift to more flexible working environments, particularly when it came to scheduling and telework.
- Some of the unconventional benefits the members mentioned as being offered included financial and employee wellness programs, as well as 401(k) matching and insurance for employees who weren’t previously getting those benefits. Several council members said they were seeing more applicants for positions who didn’t strictly meet the job requirements (e.g., having an associate degree instead of a bachelor’s degree), while others mentioned that employers in the industry were considering more lenient requirements, if possible, when it came to criminal past and drug testing.
- Most council members saw upward pressure on wages, as well as the need for additional financial compensation measures. For example, a few members of the council reported that new nurses could see starting bonuses of as much as $20,000. They noted that firms were also offering increases in retention bonuses and employers were increasing the budgeted amount for employee insurance programs. In addition, one council member in the health care technology field noted that firms’ equity valuations were high and some companies were offering equity incentives as a recruitment tool, particularly when trying to attract employees from the West Coast.

- With fewer qualified workers, several council members noted that employers were finding new ways to be productive and innovative with a smaller workforce. Some pointed out that there are already "abandoned markets" where there are fewer available workers, and that was breeding innovation. Also due to the tight labor market, health care companies across the District were emphasizing an investment in students and training programs. Several council members reported that more firms were funding education and training programs.
- The council anticipates that the labor market in the health care industry will continue to tighten even in the event of an economic downturn, due mostly to an aging workforce and an increase in demand from an aging population. Council members generally expected that the number of health care providers will decline, with retirements expected to be high in the next five to 10 years. There was concern among many of the council members about how to backfill those jobs, particularly when training can take as long as eight years in the case of doctors or when technology changes rapidly and skills quickly become outdated.
- Demand in health care is somewhat disconnected from the broader economy, the council noted, and therefore most don't expect large layoffs in the event of a recession. Staff turnover in the health care industry is already generally higher than in other industries, so if the economy slows, most of the council members expect hiring to slow and lower employment to happen through attrition.
- One member in the health care technology field noted that, in some ways, remote working has made it harder to find workers. With the rise of telework, employees can work for a San Francisco firm from their home in Tennessee, for example. On the flip side, council members pointed out that, because people can work virtually, local firms can find and recruit workers from around the U.S.
- Finally, the members noted that while the labor market in the health care industry in the aggregate was tight, there were still parts of the District—particularly in low- and moderate-income communities—that were experiencing higher levels of unemployment. The council was generally hopeful that if low unemployment is sustained, more organizations will reach out to and employ more people in such communities. To reach workers in these communities, the council saw a need for offering financial training and deferred compensation plans for individuals who don't necessarily want to see rising wages because of childcare benefits and other subsidies. It wasn't clear if these benefits were being used in the industry.

Inflation and Interest Rates

- Most of the council members agreed that the current level of inflation was good, with several members expressing their expectation that inflation would not become an issue in the near term. The council noted that higher inflation itself is not necessarily a problem for the industry in general, as long as any increase in inflation is modest, predictable and slow-moving. Many noted that inflation in the health care industry is generally higher than in the overall economy, so inflation a bit higher than 2% was not a big deal for most council members. Those members agree that stability matters more than the actual level.
- Council members also generally agreed that interest rate levels are still manageable. Several members of the council representing hospital systems said they would see an impact over the longer term if interest rates were to rise, but that they would not expect to see an impact in the shorter term. Several council members involved in the financing side of the health care industry generally noted that access to credit overall is easy. Still, these members pointed out that they expected the industry to continue to invest in new technology and not in new hospital systems and other brick-and-mortar expansions in the near term.
- Some of the council members agreed that one negative when the Federal Reserve tries to adjust the interest rate to give cushion against a potential downturn is that the stock market has an outsized impact, and that impacts income statements. One member said the current interest rate level was manageable but also worried lower rates could reduce the Fed's ability to respond to a recession.
- One council member pointed out that the low interest rate environment can hurt aging people, a group that is normally the largest consumer group of health care and that doesn't participate in the stock market and instead invests in low-return, risk-averse CDs. Council members noted that it was important for monetary policymakers to

think about how inflation and interest rates are affecting families that can't afford lines of credit to borrow on and are not saving money or earning much interest off savings that could help them offset costs of health care.

- The council reported that businesses in the health care industry are generally more highly leveraged in areas they haven't been in the past, due to rapid changes in technology that incentivize leasing or temporarily financing equipment. Just as households are turning towards renting houses and leasing cars rather than buying, businesses are leasing equipment more, a member pointed out. One health care system member noted that 70% to 80% of their equipment is leased, and another noted that the lifespan of health care equipment is changing quickly with things becoming obsolete faster.

Communications and the Role of the Fed

- Council members were mostly pleased with the level of transparency coming from the Fed. They noted that transparency was important for investment decisions, with one member saying, "Transparency leads to clarity, clarity leads to confidence, and confidence leads to investment." Overall, the members noted that the Fed is still very highly trusted by the industry.
- That said, the council also noted that the industry—including the council members present—probably understands the Fed better than most people. One member summed it up: "It's not clear how much the general population understands about what it's hearing." Another member suggested that the Fed could be out there more and making efforts to better educate everyone on the Fed and its decisions.
- The health care council members generally expressed appreciation for the opportunity to interact with the Fed, noting that there were other opportunities for the central bank to connect with the local community. Many council members encouraged the Fed to do a better job of communicating in communities of color and communities that are unbanked or underbanked. It was also mentioned by council members that the Fed should find ways to engage with a more youthful demographic. Several called on the Fed to better educate people about monetary policy and how to interact with banks, with one suggesting additional outreach in high schools and colleges.
- While council members generally expressed appreciation for more transparency, one member noted that the Federal Open Market Committee press conferences and statements were enough and that they appreciated a succinct reasoning of the decisions. The council discussed how much transparency is too much, with the majority noting that transparency on goals and decisions is good, but fighting on Twitter and in public is not. At least one member noted that more openness from the FOMC in the past 10 years has more clearly shown the differing views on the FOMC, which may be hindering a unified message.
- All members of the council agreed that the Fed needs to remain politically independent and "stay above the fray," with one member saying this independence is "essential," and another saying policymakers need to avoid being dragged down into "the swamp."

REAL ESTATE INDUSTRY COUNCIL

Labor Market

- All members reported that the labor market is tight. St. Louis members reported that the strength of area labor unions and their opposition to recruiting nonlocal labor have made it harder to attract workers from other cities, with particular difficulty in the construction business as older workers retire while others are growing weary of long hours and declining to work weekends or overtime.
- A St. Louis member reported that the area's labor shortage is resulting in a cap on company expansions, as firms assess the labor market's dynamics and choose to look elsewhere. St. Louis members also reported widespread delays in the completion of construction projects throughout the region due to the labor shortage.
- Firms have had to adopt creative ways to entice people into trade-related jobs. For instance, St. Louis City has an apprenticeship program specifically targeted toward women and minority groups. Several Eighth District cities have also introduced academies in high schools (and even in middle schools) that equip students with the technical skills needed to enter the job market right out of high school without higher education.
- A Little Rock member noted that area school districts are forming academies dedicated to health care, IT and construction. A Louisville member described similar academies, adding that area businesses are incentivized to assist in these workforce development programs given their need for skilled labor.
- Members from Louisville also talked about the adverse impact that Amazon is having on the job market in outlying areas by offering competitive wages and good working conditions. It is making it harder for smaller firms in these outlying markets to attract labor, and it is also dissuading other companies from moving to the region and trying to compete with Amazon.
- Members reported that the hospitality sector was dealing with labor shortages by adopting new operating procedures that require less labor. Examples include awarding more reward points to customers who opt out of daily cleaning (thus cutting down on the cleaning staff), switching to materials that do not require heavy cleaning and replacing single-use toiletries with larger, pump-topped bottles.
- All members agreed that the real estate market would have to find ways to incorporate underused labor sources, including potential employees who are recovering from addiction or mental illness, and applicants with criminal convictions who seek to reenter the workforce.

From left, Lester T. Sanders and Madison C. Silvert of the Real Estate Industry Council

Construction

- Members reported dual trends of downsizing and increased density, both in residential and commercial real estate. In residential real estate, members reported that there was increased demand for small- to medium-sized homes, with interior amenities plus lifestyle features like walking trails and centralized green spaces. In commercial real estate, members cited a turn toward modularization in construction along with increasing demand for open floor plans, which allow firms to densify their operations and reduce leasing expense.

- Most members reported a wave of downsizing in office construction. A member reported that a major firm in downtown St. Louis is trying to accommodate triple the number of its current employees in the same office space by renovating the building with an open floor plan.
- A member from Louisville underscored that occupancy rates for office spaces used to be a good metric to study employment conditions. However, the shift to open-plan offices has reduced the accuracy of this metric.
- A member from Memphis reported a healthy demand for commercial construction. They observed that nearly 30,000 square feet of office space was undergoing reorganization to bring different parts of firms under the same roof, since Memphis is cost-effective relative to other cities. The member further noted that there was around $9 million of speculative construction underway in Memphis.
- A member from Little Rock reported that the rise in construction costs has severely limited speculative construction. Members from Louisville and Little Rock also reported that landlords are no longer willing to spend the money to renovate older buildings because they are unable to keep up with the rising labor and material costs.
- Another construction trend reported in the hospitality industry in particular is panelized construction, in which the structural components of, for example, a hotel room are assembled in a central factory—including built-in mechanical systems, duct work and even furnishings—and then shipped as a fully assembled pod to the construction site, significantly reducing or eliminating the need for local labor for onsite assembly. This trend enables hotels and other companies to minimize the uncertainties and costs associated with local labor shortages as well as the variability in quality of local assembly.

Inflation and Interest Rates

- Most members were ambivalent about the potential impact of inflation above 2%. Some members stated that they would welcome higher inflation to some extent if it would help raise wages and, in turn, lead to increased consumer spending. Many members, though, were averse to higher inflation in input prices and noted that it is difficult to square a figure of 1.7% inflation with construction cost increases of 15% to 20% in recent years.
- Members also stated that since inflation has been low and stagnant for several years now, it would be hard to visualize a high-inflation environment.
- A member from Kentucky stated that it would be difficult to determine how higher inflation would affect the hospitality sector given recent changes in the industry. In particular, the shift in travel decisions from a six-month to a six-week window due to technological enhancements that make reservations easier for travelers was cited.
- Members also noted that higher inflation would have varying effects by demographic groups and regions. Members argued that regions in Kentucky, for example, with cheaper input costs may be more resilient to higher inflation than regions in states such as Illinois where new or higher state fees and taxes have been instituted to address budget issues.

Communications and the Role of the Fed

- All members stated that the Federal Reserve's efforts toward transparency have been appropriate and welcomed, and many members cited transparency as being particularly effective for those who understand the Fed as well as the economy. A concern by some members is that other audiences who don't understand the Fed may tend to oversimplify and criticize the Fed's decisions. Also, some expressed a concern that transparent communication somewhat diminishes the aura of mystery around the Fed that some may have seen as a positive.
- Some members suggested that the Fed consider tailoring the complexity of its message according to its audience, since audiences have greater trust in information that they understand.
- Members also stated that the uncertainty surrounding interest rate changes is problematic for the real estate market. It is not the actual movement of rates, one member said, but the perception that there might be movement coupled with lack of certainty of the timing and amount of a rate increase that can cause market concerns. More predictability and consistency in rate moves might be better, some members suggested.

- All members expressed their desire to see the Fed continue to be unbiased and apolitical. The members said that the public views the Fed as a nonpartisan authority, and so it would be beneficial if the Fed were to better publicize its economic reports and publications that exemplify its strength in serving as a neutral, informed provider of economic information.
- Several members also stated that they would like the Fed to mediate in the lending market for low-income housing by easing regulatory standards, noting that housing affordability concerns continue to be widespread.
- Some members stated that they would like to hear the Fed talk more about how global conditions—such as Brexit or China's slowdown—might affect the real estate sector. One member noted that the Fed is viewed as a thought leader and that thoughtful audiences will appreciate hearing the Fed's point of view on these key international issues.

TRANSPORTATION INDUSTRY COUNCIL

Labor Market

- Council members uniformly expressed concern about the increasingly tight labor market in the current period of economic growth. The supply of jobs continues to grow faster than the rate of qualified workers, with one council member describing it as a “rat race to find qualified people.”
- A prime reason cited for the labor shortage is a decline in vocational and technical education in high schools. More and more, there is a mismatch between skills that are needed and skills that students emerge with after graduating from high school or college. Following high school, parents tend to steer their children toward “prohibitively expensive” four-year colleges under the assumption that transportation and manual-labor jobs are undesirable. One member talked about the challenge of changing mindsets after generations of sending a message that one needs to go to college to be a success. Meanwhile, labor shortages in some parts of the District are being addressed by immigrants, such as Bosnian and Uzbekistani immigrants in the St. Louis area taking jobs as truck drivers.
- While employers in the transportation industry cope with labor shortages, workers are reaping the benefits. Companies have taken steps to entice employees with incentives related to wages, benefits, flexible scheduling, vacation time and parental leave. Employees are increasingly expecting and demanding a work lifestyle conforming to less time on the road and more time with their families. A Memphis council member said that employees “hold the key to the bank if they have a good skill set” and that Memphis companies commonly “steal” skilled workers from each other. There was general agreement among council members that employees’ lifestyle expectations will not reverse course, meaning that employers will need to find innovative solutions to address their demands.
- As an example of how workers are benefiting, technicians at a District truck and refrigeration company average $60,000, with several earning over $100,000. In addition, there is a need at a District airport for trained and licensed electricians, as well as for plumbers, pipefitters and HVAC workers.

From left, David Tatman and Zach Wagner of the Transportation Industry Council

- Although jobs have become harder to fill, signs of optimism are emerging, including greater efforts to build a pipeline among K-12 students. There is enhanced emphasis on apprenticeships and innovative workforce development solutions, as well as incorporation of Occupational Safety and Health Administration training in some high schools so that students can receive proper certifications before entering the workforce full time. The Kentucky FAME (Federation for Advanced Manufacturing Education) program, originally started by Toyota, was cited as a success story. This industrial maintenance and technician program has been adopted by the state’s 16 community colleges. It’s a five-semester program in which students work three days a week and go to school for two days. Each year, about 1,000 students graduate from the FAME program and are qualified for industrial maintenance jobs.
- As another method to counteract the labor shortage and expand the pool of potential hires, members discussed

the increasing willingness to, in some cases, relax policies related to typical employment disqualifiers such as criminal offenses and drug use. At one distribution center, a member mentioned that 57% of recent applicants failed the drug test. The marijuana issue is particularly challenging because even though there are states in which marijuana is legal to varying degrees, it is still illegal under federal law. For those people who may have done “one stupid thing” in their past, a council member said that companies should give them hope by providing training to help them jump back into the workforce.

- Nevertheless, in an industry in which safety is a vital concern, there is still hesitation toward overlooking certain offenses or forgiving failed drug tests for applicants in jobs considered high risk and safety sensitive. A rail representative said that he cannot envision his sector voluntarily relaxing polices related to drug and alcohol use.
- Although there is some applicability of robotics and artificial intelligence in the transportation industry to fill the labor void, there is more focus on refining process and using data analysis to make better business decisions. One council member described his business as highly technical and analytical, while an airport representative said that human interaction is still important for security reasons.
- Innovation in the industry is centered on preventative maintenance and expediting repairs more so than on advancements in new automation. The primary focus is on eliminating waste and inefficiencies within processes and equipment that already exist. In the case of autonomous trucks, adoption will move slowly, though it is already taking root in ports. With fewer people in tightly controlled environments such as ports, driverless vehicles create less of a safety concern while leading to a better understanding of how autonomous systems work.

Inflation and Interest Rates

- A few council members expressed that they are OK with occasional spikes in inflation because it stresses the system and weeds out weaker businesses while enabling stronger and more innovative businesses to gain market share. They indicated that some amount of inflation adds discipline to business practices and brings a degree of rhyme and reason to growth. As one member put it, “Bad practices are developed in good times.” But because the industry operates on thin margins, continued inflation of a year or longer is considered undesirable.
- It was mentioned that inflation has an impact on a company like Walmart, which strives to deliver the lowest prices for customers. Any semblance of inflation prevents the retailer from realizing that goal. Said the council member, “To be everyday low price, you have to be everyday low cost.”
- Higher inflation typically has an effect on consumer travel. Families will take staycations rather than making road trips or booking flights. Businesses tend to cut back on travel and use Skype for meetings.
- One council member mentioned that new car sales are down 4% nationally as more buyers are opting to purchase used vehicles.
- Council members’ greater concern is with global trade and tariffs, with a couple members pointing out the disruptions that are caused by tariffs.
- Another issue that was raised is the rise of electro-mobility in the transportation industry, which results in lower fuel taxes. One council member said that if a solution for the fuel-tax loss due to the rise of electric vehicles is not figured out, it will negatively affect the needed repairs of the nation’s roads and bridges. The fuel tax is largely what funds road and infrastructure projects. Similarly, the increased amount of fuel-efficient cars on the road also results in less fuel tax collected.
- Council members did not have strong feelings on whether the federal funds rate is too high or too low. One member said that it’s hard to gauge a right answer and that it’s probably as low as it needs to be.

Communications and the Role of the Fed

- Council members were very positive about Fed communications. In general, the members expressed the opinion that more communications is preferable. They said that if the Fed doesn’t tell its story, then others will tell it instead, complete with inaccuracies.
- Members said that they seek stability and clarity from the Fed. With issues like Brexit and trade disputes swirling and creating so much uncertainty, investors become

reluctant. In such an environment, it's especially crucial for the Fed to stay the course with transparent, open and honest communications.

- There was a strong desire for the Fed to remain apolitical and continue to take a measured approach by making intelligently informed decisions that are not influenced by politics.

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