Fed Unfiltered, Transcript
2/16/22 – Neel Kashkari, Speech: Q&A with United Natural Foods Inc.

John Howard:

Welcome UNFI associates and the public watching this broadcast. My name is John Howard and I'm the CFO at UNFI, for those not familiar with UNFI, let me introduce ourselves. UNFI is one of the largest wholesale food distributors in North America, serving grocery and specialty retail customers in all 50 states, as well as all 10 provinces in Canada. We are also the largest food retailer in Minnesota with our Cub Food stores. We employ about 30,000 associates and generated $27 billion in our net fiscal year, last year. As everyone in the country knows we are operating in a very unique environment, so we wanted to provide UNFI associates with insights on some of the macro trends impacting our work. And there's no better source to discuss these trends than with the Federal Reserve Bank. Today, we have the pleasure of meeting with Neel Kashkari, president of the Federal Reserve Bank of Minneapolis.

John Howard:

Neel has served as president and CEO of the Federal Reserve Bank of Minneapolis since 2016. He serves as a member on the Federal Open Market Committee, bringing the ninth district's perspective to Washington DC. And in addition, Neel oversees the Minneapolis Fed operations and leads its many initiatives. Among them, he was instrumental in establishing the Opportunity & Inclusive Growth Institute whose mission is to ensure that world class research helps to improve the economic wellbeing of all Americans. More recently, he joined with retired Minnesota Supreme Court Justice Alan Page to propose amending Minnesota's constitution to make quality public education, a fundamental right. This effort supports the Fed's mandate to achieve maximum employment with education being a key to obtaining a good job. Under Neel's leadership the Minneapolis Fed also released an action plan on ending Too Big to Fail, which calls for tighter bank regulations to avoid future taxpayer bailouts of large financial institutions.

John Howard:

A little background on Neel, he earned his bachelor's and master's degrees in mechanical engineering from the University of Illinois. He became an aerospace engineer, developing technology for NASA missions, eventually turning to finance and public policy. He earned his MBA from Wharton School of Business, joined Goldman Sachs and served in several senior positions at the US treasury, including overseeing TARP during the financial crisis. Before joining the Minneapolis Fed, he ran for governor of California in 2014 on a platform focused on economic opportunity. He lives with his wife, Christine, children, Ulysses and Tecumseh and Newfoundland dog, Webster, in Orono, Minnesota. Neel also made history in November, 2020 when he became the first US central banker to abstain from attending the Federal Open Market Committee meeting while taking paternity leave, an important show of leadership and normalizing parental leave. Welcome Neel.

Neel Kashkari:

Thank you, John. It is great to be with you. I appreciate the opportunity.

John Howard:

As do I, and I wish we could do this live, but we'll do this virtual. Maybe we can do live event at some point in the future. We're have three segments to our event today. First Neel is going to kick us off with an overview of the Federal Reserve System, its priorities, and Neel's role within the Federal Reserve. Then I'll moderate a discussion with Neel about the Fed's perspectives and actions related to the current economic dynamics. And then I'll pose some questions we received from the UNFI associates. With that, Neel I'll turn it over to you.

Neel Kashkari:

Thank you, John. Well, good morning, everyone. It's great to be with you, I appreciate the opportunity. Let me just talk a little bit about why I'm here and why there's a Federal Reserve Bank of Minneapolis at all. The Federal Reserve is our nation central bank. We were created by Congress in 1913 and think of it this way, our charge is to manage the ups and downs of the US economy. Think about an economy that is growing with steady growth, not overheating, but also not going into recession hopefully or limping along. And Congress in 1913 did something unique. They said, we don't simply want the central bank housed in the nation's capital, Washington, DC. We want it spread out around the country, so the different regions of the country had a direct voice in that policy process, so they created the Board of Governors in Washington DC.

Neel Kashkari:

You've probably heard of them. The chairman of the Board of Governors is Jerome Powell, appointed by president Trump into that role, and now recently renominated by president Biden for a second term. And he has to go through confirmation by the United States Senate. And then they created 12 independent Federal Reserve Banks that are scattered around the country. The ninth of which is here in Minnesota, the Minneapolis Fed and our jobs are to represent this region. And that's Minnesota, North and South Dakota, Montana, the upper peninsula of Michigan and Northwestern Wisconsin. That's a big region, so a big part of our jobs are to virtually or physically travel around the region, understand what is happening in our regional economy. And then when I go back to Washington DC, every six weeks for FOMC meetings, Federal Open Market Committee meetings, part of what I'm doing in those meetings is talking about what's happening here in our regional economy.

Neel Kashkari:

Now we cannot set a different monetary policy or a different interest rate for Minnesota versus California or New York. We all use the dollar, so it's the same monetary policy for the whole nation, but we want to make sure that this region has a voice in that process, so when we set monetary policy for the nation, we're part of that deliberation and we can come up with the right monetary policy for the country as a whole. And so opportunities like this to meet with leading businesses, leading employers in our region. They're a great opportunity for me, both to share with all of you what we're doing, but also to hear from John, hear from your colleagues about what you all are seeing every day in your markets and in the work that you all are doing. And so that's why I appreciate this opportunity. And I really look forward to having a robust, rich discussion.

Neel Kashkari:

Let me just spend a moment on monetary policy and then I'm going to hand it back to you John. Congress has given us what we call our dual mandate, so first of all, we are created by Congress and then Congress has assigned us our responsibilities. We talk about our dual mandate, one of those two mandates is maximum employment. As many Americans gainfully employed and contributing to our economy as possible. And the other one is stable prices, what we've defined as inflation is 2%. Now, how are those things related? We typically think of these two things as sides of a seesaw. When the economy gets hot and businesses have to compete to find workers, the unemployment rate goes down and then businesses have to pay more in terms of wages, that leads to more inflation. Then you could say, okay, the economy's a little bit out of whack, out of balance.

Neel Kashkari:

And then typically the Federal Reserve in that situation would raise interest rates to tap the brakes in the economy or let our foot off the gas and even things back out. Now, how do interest rates do that? Well, if we raise interest rates that should then translate into higher borrowing costs when a family wants to go get a mortgage, so if it's more expensive, if your mortgage interest rate is 4%, instead of 3%, you're going to be able to afford less house for the same monthly payment or more expensive for a business to get a loan, to go build a new distribution center or a new factory, so by raising interest rates, we can in a sense, tap the brakes in the economy and bring things back into balance, so before the COVID crisis hit, the economy was in a pretty good place. We had low unemployment rate around three and a half percent, and we had low inflation and steady growth.

Neel Kashkari:

For the 10 or 20 years prior to the pandemic, one of the challenges that we faced was at least the 10 years low inflation, like we said, we want to achieve 2% inflation. We kept thinking, well, we're running out of workers it's going to lead to more inflation, turns out there were more workers coming off the sidelines and it didn't lead to high inflation, so that was a really good environment that we're in. Well, then the pandemic hit, we went through a rapid shutdown, as we all know, and we all experienced. A lot of changes in the economy where people buy food, what they eat, how they work, and now the economy is reopening, but that reopening is not happening in a linear smooth manner. There's been a big surge of demand for products on the shelves that we all go to at grocery stores like your own grocery stores. There's been a big demand for cars and for durable goods.

Neel Kashkari:

And people had not been spending on services because travel was largely shut. Well that rebalancing process away from goods back toward services, that's happening slowly. And the demand for workers has rebounded more quickly than the supply of workers. We're still some three to 4 million workers short of where we would've been had there been no pandemic. And so that combination of factors, in addition to a lot of fiscal stimulus, putting money in family's pockets, which is a good thing given the pandemic, but that combination of factors has now led to much higher inflation certainly than I expected and that many of my colleagues expected, and it has lasted longer, so we have already signaled that we are taking measures to try to bring the economy back into balance using our tools. Some of that's going to happen on its own because the surge of demand should fade.

Neel Kashkari:

The stimulus is not going to go on forever, we know that it's going to fade. As workers come back in, as people shift from buying goods to buying services, to spending on services, those rebalancing mechanisms should do some of the work for us, but in the meantime, we are going to follow through and we are going to do what we need to do to bring the economy into balance and to bring inflation back down. But that's the big issue that we are very focused on right now. My colleagues, all of us are very focused on that. And that's why having discussions with businesses such as yours really gives us a lot of insight because the supply chain, I know we're going to talk about that. That's been a big part of the story of, Hey, when are supply chains going to get back to normal so that some of these costs can go back to normal. And then we won't see these high prices that we're all suffering with right now, but that's a very rough overview, John, hopefully that provides a nice framework and I look forward to our discussion.

John Howard:

No, and I love that overview, Neel, thank you very much for that. And we are going to touch on all those topics that you mentioned, but one thing that I've always been interested in, and if you think about the types of books that I like to read, I'm always gravitating towards biographies and things, people's background is very interesting to me. Personal favor does the Bruce Springsteen, but that's topic for another day, so let's talk a little bit about your background very quickly and just to get a sense of who you are, you started off as an aerospace engineer, which is an outstanding option, it's a great career. And then you switched to banking and financing, getting your MBA, etcetera. What was the impetus for that career switch?

Neel Kashkari:

Thanks for asking. I got to tell you, out of engineering grad school, I worked for three years for a big NASA contractor. It's now Northrop Grumman. At the time it was TRW and Redondo Beach, California. I had a fantastic job, I was working on what just launched the James Webb Space Telescope, which launched in December. I was working on it as a rookie engineer. I mean, I was like a little tiny mosquito on the very big program, but it was really cool trying to launch, trying to design the replacement of the Hubble Space Telescope. That's too big to fit in one piece, you got to deploy it in this really complicated origami puzzle out in space. Is it even possible? And it was the conceptual phase where we were just trying to figure out how do you package it into the rocket, but at the time, which is what's interesting to me, it was supposed to launch in 2006, this is 97/98.

Neel Kashkari:

I was working on it and I asked myself, can I sit around here for 10 years until this thing launches? I don't think I've got the patience for it, so that's what ultimately led me to go back to business school and to say, let me go learn something new. Well, thankfully the mission is so far knock on wood, a spectacular success. I mean, it's just been beautiful, what the engineers and scientists have done, but it ended up not launching in 2007. It ended up launching in almost 2022. And so that ultimately is what led me to say, I'm not sure that I can work on one mission, one project for the next 10 years or 20 years. Let me go try something new, and that's what led me to go to business school.

John Howard:

Which makes total sense to me. And I can appreciate that duration that you're talking about. And then from business school, you get that and then you go and you get to Goldman Sachs, so how do you go from the business school, and then you get into Goldman Sachs and you go through that transition. And from there you get into treasury, right? You follow Hank Paulson. Help me understand that. What was the attraction there to join that, to leave Goldman's Sachs?

Neel Kashkari:

Sure I'd always, ever since I was a kid had a curiosity about government, just a fascination, probably watching Sunday morning shows with my father when I was a kid. Just because I found it interesting and curious. And so I mean the short story is when president Bush selected Henry Paulson to become treasury secretary, I basically cold called him. I was in California and doing tech banking and I said, look, I would love to come work for you. I don't care if you want me to lick envelopes. I just want a chance to serve. And I was a brand new vice president at the time, very junior. And he gave me a shot and I was just a random aide to the treasury secretary, doing random policy projects for him. People at Goldman thought I was crazy to give up my career and go to treasury and I just looked at them and I said, you're crazy for not understanding what an opportunity this is, just to learn about something, that chance to serve.

Neel Kashkari:

And what's the worst that can happen if I don't like it, I go back to the private sector and get another job, so it was a complete no brainer for me. And that was well before the financial crisis. We did not see the financial crisis coming. And then of course the crisis hit, and by that point I had built a good relationship with him and he knew me and trusted me, and then I was able to play a big role in that response. It was a genuine pursuit of real genuine interest in trying to learn, trying to serve, trying to contribute. And that has been, my path has been this meandering path of my career, but the consistency is this genuine pursuit of, Hey, this looks really interesting. This looks like I could learn a lot. I would like to apply myself towards this and if I'm genuinely interested and I apply myself fully, I will probably do reasonably well. And that'll lead to good things.

John Howard:

Which, and I love that attitude. And I've tried to follow similar theories myself. In 2008, you were put in charge of TARP and at a pretty young age to be in charge of what $400 billion of spend, help me understand what that's like to be 36, something along those lines.

Neel Kashkari:

Yeah, 35.

John Howard:

35 and in charge of $400 plus billion, how does that feel?

Neel Kashkari:

Well, honestly, the financial crisis felt like the economic equivalent of 9/11. We had a team of people who are desperately focused on trying to prevent the financial system from collapsing, where we would wake up one morning and be back in the great depression, so it focuses the mind. And I was part of a team, it was not like, Hey Neel, a 35 year olds in charge of everything. I was part of a team and it was led by Secretary Paulson and then Fed chairman, Ben Bernanke, who I think were very complimentary in their skills and their experiences. And so I'm really proud of the work that we all did together.

Neel Kashkari:

The group of people that we put together to work on this. At the end of the day, we didn't know if it would be effective. It was our best shot. We were trying lots of things that none of us had ever done before. But the good news is the suite of things that we did ended up being effective. And it was just, let's do everything we can possibly think of. And that was the spirit, it wasn't about whose idea it is or it's lets try everything we can to try to avoid this terrible outcome. And it ended up working much better than I think we had expected at the time.

John Howard:

Yeah, I would agree with that. And in 2008 there was another unique aspect to your background, which many people may not know, which is you were nominated as one of 2008's People's Sexiest Man Alive. Is that correct?

Neel Kashkari:

That issue of that, I don't subscribe to People magazine, but that issue had a lot of pictures in it. And I was like page 200 somewhere, little tiny picture, so that's my claim to fame.

John Howard:

When my team and I were talking about setting this up, I said, so let me make sure I understand at the time I thought we were going to be on stage together, so make sure I understand you're going to put me on stage with this brilliant economist, an actual rocket scientist, and one of the Sexiest Man Alive from People magazine. I'm not sure my ego could have taken that hit, so I'm actually glad we're doing this virtually. I appreciate the background on you, Neel. It's very helpful. I think it gives the audience a little bit of how you think about things, how you approach things, so let's jump into some of the current challenges that we are seeing certainly from a UNFI perspective.

John Howard:

But obviously the country is seeing these. When we think about supply chain and you've talked about some of the challenges caused by the shift in demand and services, as we've all seen that happen since it's been almost exactly two years at this point. As spending in consumption gets closer to a new normal. When do we think the supply chain's going to catch up? And we deal with this question a lot on our side, we get it from our investors, from the analysts, from our customers, we get this question a lot. When do you think you're going to see some of that normalization come back?

Neel Kashkari:

We are talking to a lot of businesses like yours to have help you guide us. And the best information that I get, large global businesses that we talk to have reported that as soon as they put out one fire in one corner of their supply chain, something else is brewing somewhere else. And it could be Omicron, when Omicron is spreading through Asia, now all of a sudden some factories are getting shut down in Asia and that's coming up supply chains here. And so people are guessing, they're telling us, Hey, we don't think anytime soon, maybe by the end of this year, things are going to start to get to normal. If you go back and read a lot of history about pandemics, it actually takes several years for the pandemic to transition into endemic where this is something we all know how to learn to live with.

Neel Kashkari:

Now I'll give you another example. And this is related to supply chains are partly about things getting gummed up and access demand. It's also about workers, when are the three or 4 million workers going to come back in. I'm going to give you a personal story. My wife and I are fully vaccinated, we're boosted, we're very careful. Our children are young. My daughter's three, my son is one they're both in daycare. They're too young to be vaccinated. Well, about three weeks ago, my daughter was sent home from daycare because there was an exposure in her class. One of her classmates had tested positive, so we had to bring her home and quarantine her. Okay, that disrupts our ability to work well, she did get COVID, so two days later she had a fever. Three days later, she tested positive. Then I got it, then my wife got it, then our son, the one year old, got it.

Neel Kashkari:

Now, thankfully, these were all mild cases, so that's the most important thing, but the disruption in my wife and my ability to do work, it's three weeks between when we had the initial quarantine and when my son is going to finally be able to go back to daycare, that's a three week hit and my wife and I both have very good jobs that allow us to work remotely, if we need to. Multiply that by millions of people across the country, many of whom do not have the luxury of the kind of jobs that we have. And all of a sudden, I start to realize, wow, this is going to be a while before this is something we are all comfortable living with and say, Hey, it's more like a cold or more like the flu than it is, so I think it's going to be a while for the supply chains to come back fully online. I also think it's going to be a while before the three or 4 million Americans who are not fully working right now, before they are able to fully come back to work.

John Howard:

Yep. And I totally understand that. I'm glad your family has recovered well from COVID, I'm glad that's worked out. When we think about the Fed in general, and we see the supply chain challenges, are there levers that the Fed can pull to the ease some of these constraints, are there actions that can be taken? What are your thoughts on that?

Neel Kashkari:

Not directly on supply chains, there's two issues going on as we read it, as I read it with supply chains, one is just the things that are gummed up because of a lack of workers, and COVID, et cetera. But the other thing is demand is very high right now, in some cases, demand is exceeding pre-COVID demand, so it's not simply that supply chains are gummed up because of COVID. Demand is far exceeding what they were demanding before, and supply simply has not been able to meet that higher level of demand. We can do something about that part, so the way monetary policy works is we can soften demand by raising interest rates and by tightening financial conditions, that can help alleviate some of the excess demand, but that's not going to do anything to deal with. Hey, the ports are jammed in part because they're not enough workers, or a factory in Asia is shut because of a COVID outbreak. There's nothing that we can do about that. But the demand side is something we do have the tools to help address.

John Howard:

Got it. Good appreciate that. The Federal Reserve Bank of New York recently unveiled this new barometer, this new index. When you think about that index, can you give us a little bit about that and how you plan on using that information from that new index?

Neel Kashkari:

Yeah, so our colleagues in New York have come up with a thoughtful new index, which tries to take a lot of these factors, so what's the cost to ship commodities, what is the wait times for delivery, various metrics in the US and globally, just to try to get a thermometer of how's the global supply chain environment doing. And you could look at it over time and see how it has changed. And you can see prior disruptions for weather events or natural disasters that have had some effect on supply chains, so it does seem like it is a useful barometer. And it is reading much more stressed levels than those prior episodes, like a natural disaster somewhere.

Neel Kashkari:

If a hurricane hits the Gulf Coast that can disrupt oil and gas production, that can disrupt refining, that can have an effect on supply chains, so those things will show up in the readings, but right now the levels are much higher than we have seen in prior disaster episodes. And so it's just one more useful tool to try to quantify, Hey, where are we relative to "normal"? What's the trend happening? And I think things are getting better, but they're just getting better very slowly is my read of it. And I'm not sure if that's consistent with what you all are seeing.

John Howard:

Yeah, I was going to say, I think it is consistent. We've talked publicly about how people have continued, our suppliers have continued to move out the get well date, as more information comes up, they have to adapt, they have to deal with labor challenges, all the things that you just mentioned, all the things that we all know about, they have to deal with those as well. And that just continues to kick that get well can down the road on us. And we're all hoping for the same outcome. We know it's going to come. It's just a function of when. Let's talk a little bit about labor because that's another one for us. We've got 28,000 associates between our DCs around the country and Canada, our retail business, largely in Minneapolis and in St. Paul area, so labor is obviously near and dear to our heart. What do you think is driving that three to 4 million shortfall right now, given some of the recovery that we've seen, but we still have that three to 4 million that's out there?

Neel Kashkari:

It's a complicated question.

John Howard:

Yeah.

Neel Kashkari:

If we'd had this discussion a year ago or nine months ago, I would've pointed to a few factors. I would've said we know that there are these enhanced unemployment benefits that are, if not creating an incentive, not to go back to work, giving people the option of saying, Hey, maybe I'll just wait for a little while before I go back, schools were shut. And then of course, fear of the virus. Well, those enhanced unemployment benefits are long gone, we saw no uptick in the data that all of a sudden there's this big surge of labor supply, schools are mostly re-open, but a lot of families are experiencing what we just experienced, which is yeah, they're open. My daycare was open, but my two children were out of it for three weeks, which had an effect on our ability to work.

Neel Kashkari:

We also see some people who've retired early, actually quite a few people who've retired early as a result of the pandemic. And so it seems like it's a mix of different factors from people caring for family members, either children or parents, as an example, or a sick relative. People who are still afraid of the virus, you had the Delta wave now Omicron wave. And hopefully that's behind us. Hopefully people will feel more confident to go back into those in-person areas, so that's another factor. And then retirees, I mean, I'm optimistic. I think one of my lessons prior to the pandemic was that the vast majority of people want to work. If they can get a decent job at a decent salary, they want to work.

Neel Kashkari:

And even people who we thought were retired, in many cases, they came back and they said, you know what, maybe I'm not going to work 40 hours a week, but I'll work 20 hours a week. And maybe things like Zoom will make it easier for people to work where they live, from where they live in some type of hybrid environment, so I'm optimistic, but I think it's going to take a while, longer than I had hoped. In the last recovery, after the financial crisis, it took 10 years to put everybody back to work. Now I sure hope it doesn't take 10 years this time, but it seems like it's going to take more than two to get everybody back.

John Howard:

When we think about that three to 4 million, do we have good processes to capture the gig economy associates that are sort not following a traditional job path?

Neel Kashkari:

We have some insight into that and we can see that through different measures that some people are doing that, or they're doing that on the side of other jobs that they may have to try to supplement their income. But that is another, that is a factor that has changed the nature of work that is going to be with us probably forever now. And I think we're always looking and the government data scientists are always looking for ways of making their tools and their measurements more accurate. And so I know that's something that they're working on.

John Howard:

Yep. Yeah. I think that's just to your point, it's just going to become more and more prevalent. I think that's going to just continue to grow as people either make multiple gig opportunities, the job, or use it to supplement something else.

Neel Kashkari:

Yes.

John Howard:

When you peel back the onion on some of that labor data, Neel, is there any particular industry or pocket that's tighter than others?

Neel Kashkari:

One thing in this tight and by the way, for 30 years, maybe for 40, there's a balance between what we look at labor and capital, the owners of businesses versus labor. The share of income, of national income that has been going to workers has been diminishing over the last 30 years. And in a sense, labor's power in the economy and it manifests itself in the labor union movement, but it manifests itself just in income. Labor's power, their share of the economy has been diminishing for about 30 years for a bunch of factors from technology, probably politics, a lot of different factors. Well, I think it's a healthy thing that the pendulum is swinging in the other direction. People are long overdue for a raise and it's nice that workers have choices now, so I think that's a good thing. And right now what I'm seeing is that there's a lot of churn in the labor market and people are moving away from some of the toughest jobs into better work environments.

Neel Kashkari:

And I'll give you an example. We hear a lot about boy, it's hard to find long haul truckers. And then I saw a labor representative who represents long haul truckers. And he said something like I'm paraphrasing, stop complaining that you can't find long haul truckers, these jobs stink. It is hard to be away from your family for a week at a time. And so you want more long haul truckers, make the job better or make it pay better. Versus people are saying, Hey, if I can drive locally, I can sleep in my own bed. And that's a better overall work environment for me and for my family. Or another example, you're seeing childcare workers way down relative to pre pandemic. And in Minnesota, prior to the pandemic, we were seeing home based childcare centers going away. And when we analyzed it was because if you looked at the take home pay of a home childcare provider, they made roughly minimum wage after all that hard work and all that headache.

Neel Kashkari:

And they said, well, wait, I can go to Cub Foods and make more than that, or I can go to Target, or I can go to Walmart. Why would I go through all this heartache if I can get a higher salary and a easier, better work life balance working somewhere else, so people are choosing to go to different jobs that have a better overall experience, both compensation, quality of life, headache. And that's putting real pressure on some of those really tough industries. I'll give you the childcare worker is a tough, tough job for not a lot of money. And I would say long haul trucking is a tough, tough job that not everybody is cut out to do.

John Howard:

Yep, no, I would agree with all of that. And UNFI, we have some jobs that are very difficult with that as well. And we're seeing some of the similar challenges, so I'm a pretty simple guy, Neel, when I see supply chain challenges that we're experiencing, I see the labor challenges that we're experiencing, the natural outcome of this is inflation. And so that's something that we focus on just to give you a little background on UNFI and how inflation hits us. Certainly the way our business, most of our contracts are structured, it's on a cost plus basis, so when the product comes in from one of our suppliers at X dollars and inflation is driving their costs up, they charge us more.

John Howard:

We get the charge on a cost plus basis to our customers, for most of our customers. And we work with our suppliers to try to find opportunities through information coming from them, for our contracts on when price increases are coming, looking for ways to leverage that, so we can better serve our customers, and better manage that inflationary impact to our customers. But then if you look through the rest of the PNL, it's not just a top line, we get a little bit of a gross margin lift because of that spread, that cost plus. You do the algebraic math on it, you get a little spread. But our inventory, most of our inventory is on LIFO, last in first out, so we have to restate the value of our inventory.

John Howard:

That's a negative to us on our financial, and of course the inflation aspect on our labor costs as they go up, we get it, so if you think about our PNL, it hits all parts of our PNL and in a typical inflationary environment broadly, it can be a positive for UNFI, but when you have the offsets that we're seeing between the dramatic increases in our cost of goods sold, the impact of LIFO, the dramatic increases and rapid increases in labor. It creates that the PNL challenges that you might imagine. When you think about inflation, from your perspective, how do you think... You talked earlier about those interest rate, how do you think that's going to impact and affect the time horizon on the inflationary environment that we're seeing right now?

Neel Kashkari:

Well, we focus on inflation. We look at a lot of different measures of inflation, as you might imagine. I'm very focused on year over year measures of inflation, and we can just do the math and look at when were prices really starting to move. And 12 months later you would expect to see, if you have a one time boost of prices that's painful for families who have to pay it, but that does not mean you have annual inflation year, after year, after year at these very high rates, so most public sector or most private forecasters estimate that inflation by the end of this year will probably be around the 3% number, so well below where we are right now.

Neel Kashkari:

Just a math of that suggests inflation should start coming down over the course of this year. Now, obviously if supply chains continue to be disrupted or get worse as an example, or if there's another wave of the virus that keeps labor supply on the sidelines, we'll have to reassess. But my guess is that by the end of this year, we're not going to be back to our 2% target, by the end of this year. But by the end of this year, we should be well in our way back towards that. And I mean, obviously I hope that is in fact the case, but we're going to watch the data over the next six months to see, are we in fact headed in that direction.

John Howard:

Yeah, absolutely. And I think it's that trending view, and we just want to see that trend improve. We've seen the December and the January acceleration, and I'm sure you've got to swarm of people monitoring this, but we just want to start to see that trend go where we think it's going to go back to that 3% or so towards the end of this year.

Neel Kashkari:

Yeah.

John Howard:

Yep, so when we think about your FOMC meetings and your voting on the funds rate that you mentioned earlier to the extent that you can provide some color on how is that policy vote decided, how does that work when you've got all the presidents of the various Feds, you've got Powell, how does that process work?

Neel Kashkari:

Yeah, it's a very deliberative process, so there's a curiosity of history where on a given year, some presidents vote and not others, so I am not a voter this year. I'm going to be a voter next year, we rotate around, but we all go to every meeting and we all offer our insights in the economy more broadly, and we all offer our recommendation for policy. And it's a two day meeting. And then at the last two minutes of the meeting, they take the formal vote. And you can tell already where people are headed based on the comments that they were making, so it's funny, it's a funny process where in advance of the meeting, we each get to take turns. It'll be my turn to speak about the economy, that it'll be your turn to speak about the economy. Same thing about the policy recommendation. We can request in advance of the meeting.

Neel Kashkari:

Do I want to speak early in that go around, we call it, or do I want to speak in the middle or do I want to speak late? I tend to speak late because I have a sense of what I want to say, but then I want to listen to everybody else. And then I generally adjust what I'm saying based on the comments that my colleagues are offering, anyway, I prefer that. Once in a while, I'll say I want to speak early, because I have something that I want to get out on the table, and I want people to react to. Usually I tend to speak late, but the Janet Yellen, the prior Fed chair started this where before every meeting, she would have a one-on-one call with every participant so that we could talk directly about how we're seeing the economy, how we're seeing policy. And also, so she wasn't surprised by what views people were going to offer in the meeting.

Neel Kashkari:

Chairman Powell, J. Powell has continued that practice and we all really appreciate it, because it's great to be able to speak with him one on one, hear from him directly, what are what's he focused on, what is most important to him, offer my same thoughts. I usually learn in those conversations and that just makes me even better prepared when I go to the meeting. I'll say one more thing. Politics never enters the deliberation and there's a transcript that's released five years later, so you can see that for yourself, but it truly is 17 or 18 people who are very, very well prepared, looking at the data and trying to make the best recommendation they can based on what is inevitably some mixed signals that we're seeing under the economy and so I think if most people could get a look into the room, they would be very proud that we have this body that is very genuinely trying to do the best they can for the people that we are charged to serve.

John Howard:

I love that. And personal side, I love the approach of speaking last. I've always tried to follow a philosophy of, I already know what I know, I want to know what others know and see how that influences, how I'm thinking about a subject, or an issue, or whatever it is. And going last I think is how you can help accomplish that.

Neel Kashkari:

And it's also a little bit fun because sometimes I can say, Hey president so and so said this, I think they're totally wrong. And here's why, and then it makes it little harder for them turn around and rebut what I just said, so there's a little bit of gamesmanship in it, too.

John Howard:

The strategy there.

Neel Kashkari:

Yeah. It's all good natured though.

John Howard:

I love that, so you recently wrote a really interesting essay, Neel, about balancing the risks of inflation to opposing risks. Can you tell us a little bit about that paper, because I thought it was fascinating?

Neel Kashkari:

Well, one part of it is what we've already talked about, which is you've got these high prices.

John Howard:

Yep.

Neel Kashkari:

You've got supply chains that are gummed up, you've got labor supply that's missing. And there's this risk that, Hey, these high inflation rates may be here for a long time. And if they become embedded in psychology, then your employees expect it, your suppliers expect it. Then it becomes a self-fulfilling process. And then we are in a high inflation environment. And in that situation, the Federal Reserve would have to act very aggressively to bring those expectations back down, so that's one risk. It's a real risk that we are paying attention to taking very seriously. But the other risk is prior to the pandemic, I mentioned, we were in this low inflation environment, low interest rates, low inflation. Why were we in that environment? We believe we are in that environment partially because of demographic factors. As our society is aging.

Neel Kashkari:

Our population, our workforce is not growing the way it to, it leads to a less vibrant economy and we think it leads to a low inflation environment. Well, that's all still true. If anything, that's more true than it was prior to the pandemic because we have a lot less immigration into our country now than we had in prior years. If I look at these two risks, one risk is we're going to be in a high inflation environment. The other risk is these big magnetic forces are going to draw us back down to the low inflation environment. I actually think we're more likely to end up in the low inflation environment in a few years than we are in the high inflation environment, so those are two opposing risks, but we can't ignore the former risk either. And so that's why I think it's appropriate that we are taking steps.

Neel Kashkari:

We already have taken steps to take our foot off the gas, to normalize monetary policy, to protect against this risk. But if we knew with certainty, we were destined to end up back in the low inflation environment. Then you could argue, we don't need to do anything. Just let the economy bring us back down there over time. We're not going to do that because we don't have perfect certainty that, that's where we're going to end up. So we have to protect against this high inflation scenario. But my caution to my colleagues and to myself is let's not overdo it. Let's not forget the fact that this magnetic pull of demographics is probably bringing this back down here. That's going to do some of the work for us because if we raise rates really aggressively, we run the risk of slamming the brakes on the economy, putting the economy into recession, which would then come, we'd be crashing back down into the slow inflation environment. And we certainly want to not do that.

John Howard:

Yep. No, I totally understand that over correcting that you're describing, I think is it is I'm sure that's the number one aspect you guys think about when you focus on raise, lower, how we're going to manage. I'm sure you just want to make sure you don't do it over correct, because that will bring everything right back down. Neel we're going to kick this into some of the open Q&A for our audience. Before we do the Q&A let me just tell you how much fun this is for me for two reasons. One, just to be able to sit with you and learn from you on these topics. And then two I'm usually the guy that has to answer the questions along with my CEO and the president and the COO. It's nice to be the one that's asking the questions.

Neel Kashkari:

Absolutely.

John Howard:

And getting the feedback and listening to that response really, really outstanding, so we're going to collect some Q&A from the audience right now, but we've got a couple that were submitted beforehand and I'm going to pick the one that was the one that I thought was most interesting to me, which is all 12 district banks of the Federal Reserve System are collaborating on racism and the economy initiatives. And I believe you started that to understand the structural racism in America's economy. Can you talk a little bit more about the initiative and what the Fed is trying to achieve?

John Howard:

And when I say that I'm going to give two aspects of color as to why it's near and dear to the hearts here at UNFI not just mine. One is being Minneapolis based, we obviously are very familiar with George Floyd's murder and the challenges, et cetera. And we're not going to rehash that, but that certainly was an impetus for a lot of positive change. And then two, our CEO, Sandy Douglas and the entire senior leadership team have been heavily focused on D&I initiatives and driving that diversity and inclusion. Although our CEO, I think properly says inclusion and diversity, you have to have the first before you can get to the second, so we are heavily focused on that. And I'd love to hear your thoughts on that?

Neel Kashkari:

Yeah, thanks for asking it. Actually the tragedy of George Floyd's murder was the impetus for the series. After George Floyd was murdered, our office is downtown Minneapolis and we live here and part of the community, my colleagues and I at Minneapolis Fed asked each other, what more can we do? We've had diversity and inclusion initiatives for a long time. We have an opportunity inclusive growth Institute doing research on economic conclusion, but we asked what more could we do? And I reached out to my colleague Raphael Bostic at the Atlanta Fed. Atlanta is an epicenter of many of these issues, just as much as Minneapolis is. And I said, is there something our two banks could do together?

Neel Kashkari:

And we brainstormed the series of let's just do it. A very honest assessment of racial barriers to economic conclusion in many sectors of the economy, in the labor market, in healthcare, in education, in criminal justice, in housing, we then brought in some colleagues from the Boston Fed and we launched the series. And before we knew it, all of our colleagues around the Federal Reserve System, all the other 11 Reserve Banks said, we want to be part of it too, so all 12 Federal Reserve Banks sponsored the series, all 12 presidents participated in the series. And we brought on board experts from around the country across the political spectrum.

Neel Kashkari:

I mean, I was really pleased that former Republican Senate Majority Leader Bill Frist, who's a physician and a healthcare expert spoke passionately about racial barriers in healthcare and how those need to be addressed. And so there's some of these things we can internalize in the Fed and what we do to make sure that we are operating with as inclusive intention as possible. But some of this is well outside of the scope of the Fed. And we were using our platform as a convener to bring these experts to shine a light on these issues. I mean, in no way are we done, I think if anything, it just opened our eyes to how much more work is needed. But I was really pleased that all 12 Reserve Banks came together and said, this is really important, and we're going to dive in with both feet to see what we can do to make a contribution.

John Howard:

Yeah. First of all, and I love the initiative. I applaud that, I think it's almost heartwarming to see all 12 unite the way you're describing. Once you get everything put together, what are you hoping to do with the data? Is it to work with companies, I mean where can that initiative go to really drive change?

Neel Kashkari:

I think it's a lot of ways, so one is we are already making some changes. I'll give you an example. The Federal Reserve Banks publish what we call the Beige Book, eight times a year, where we go out and survey businesses and say here are anecdotes that we're hearing from our region. Well, the series helped me to realize we were capturing business in the Minneapolis piece of the Beige Book. We were capturing the views of businesses pretty well. We were not capturing the views of workers very well. We were not capturing the views of small, women owned, and minority owned businesses very well, so we change what we're doing in our Beige Book, in who we survey and what we report to the public. That's a tangible example of something we've already changed. And we're looking at a lot of different things and some of our colleagues are on the Federal Reserve System are also looking at who they're talking to and how they get more diverse views.

Neel Kashkari:

I think there's some things like that internally that we control, that we produce that will evolve because of this work. Then I think there are things that we can do in collaboration with businesses like yours. We can learn from you. What have you done well on the inclusion and diversity front that you have found has been effective in your large organization? We'll share with you what we've done. We've made a lot of progress. Some of our initiatives have failed and I'd be happy to share with you and other businesses, what didn't work. And what did we learn from that? I think if we are all sharing and learning from each other, we're just going to be more effective together.

John Howard:

I would totally agree with that and would support any of that collaboration that we can execute on after we finish this call, I think there's huge opportunity.

Neel Kashkari:

For sure.

John Howard:

We're certainly not where we need to be as a company, as a country, we're not where we need to be. And as long as that opportunity exists, UNFI will be happy to collaborate with you on that.

Neel Kashkari:

That's great.

John Howard:

I know one of your personal passions is education and I applaud that. You've been a vocal supporter of the Amendment on the Minnesota constitution to address the education achievement gap. Talk a little bit about what your accomplishing there, what your ultimate goal is and where that can go?

Neel Kashkari:

When I moved to Minnesota six years ago, I was stunned to discover that Minnesota has some of the worst education disparities in the country, so children of color in Minnesota and low income white children all across the state are being very badly served by our education system today. We're some of the worst in the nation at this, so by some measures 48 or 49 other states are better than Minnesota in educating their low income kids and educating their kids of color. And so that was astonishing to me, and so I reached out to former Minnesota's Supreme Court Justice Alan Page more than three years ago, because I knew he spent 22 years on the Supreme Court. And I knew we had a lifetime of passion for education. And I said, what could we do to really break through the barriers that are preventing real reform?

Neel Kashkari:

And together, we looked at the Minnesota constitution and realized if you could invoke the real power of civil rights and actually make a quality education, a civil right, that you could drive real change. And what's exciting about this to me, it's completely nonpartisan. There are Democrats of color in Minnesota who are passionately supporting this and conservative Republicans from rural Minnesota who are passionately supporting this. The CEOs are the biggest businesses of Minnesota through the Minnesota business partnership. And Minnesota's attorney general, Keith Ellison, passionately supporting this. And so it's completely nonpartisan. It's simply saying enough is enough, we need to put children first. And this is a way to do that, so I'm proud to partner with Justice Page and just so pleased that leaders across the political spectrum have come together.

John Howard:

To me, it's always amazing what can happen when you get people together operating on one agenda. It's just amazing how all the other stuff just falls by the wayside and you focus on what the key issue is.

Neel Kashkari:

Yeah.

John Howard:

And a lot of great things can happen when you get that direction. One of our questions, another one that came in here is have you gone back to the office yet and if so, how did you arrive at that decision?

Neel Kashkari:

Yeah, good question. We've decided to bring, well, first of all, over the summer, we announced adopted a vaccine mandate for all of our staff. There were simply no way we could come back in person and maintain social distancing. And we think it's important to be in person. We're going to be more flexible going forward, but we do think it's important that we are largely a in person organization, so we are now 99% vaccinated and boosted, which is terrific. I really applaud all of my colleagues for embracing it. And so we brought all of our leaders back, our managers and our officers in November in anticipation of bringing the rest of our staff back in December, late December, early January, we pushed that back.

Neel Kashkari:

We pushed it first back because of Delta, then we pushed it back because of Omicron. We've now set a date for the end of February when we're going to be back in person. And we feel very good about that date, looking at the trends of Omicron, looking at the hospitals and whatnot, we're all trending in the right direction. Our office is going to be in terms of COVID about the safest place you can work given that 99% of us are going to be fully vaccinated. And so I'm excited to see everybody back. I can't believe it's been two years, but we'll see. I'm sure there are going to be some hiccups along the way there always are, but I'm excited about it.

John Howard:

Yeah. I think we opened our Providence office where I am today, I'm normally in Minneapolis. It's where I live, but I'm traveling this week to Providence. We opened it on a voluntary basis for fully vaxxed individuals. And we've had people coming back into the office, we did this sometime in December. We're hoping to open up the Minneapolis one sometime in the spring, we talked about doing it 30 or 60 days after Providence, our philosophy all long Neel had been, we want the reopening of our offices to be a very positive experience.

John Howard:

Reopening an office in Minneapolis in February didn't sound very positive, so I think we're going to do it in the spring under that same concept of voluntary, fully vaxxed, same approach we have here in Providence. We'll do the same thing in our Eden Prairie office. And I think it'll be hopefully a great return. I think folks have forgotten the value of being in an office with people. And I'm a fan of working remotely, personally. I think it serves a purpose and it has a place in the toolbox of how we can work with folks, but being in the office and being able to walk down the hall and talk to folks, you just can't beat that.

Neel Kashkari:

I totally agree.

John Howard:

We've got another question for you on your position, so is your position term based and if so, how long is the term, and what do Fed presidents do after their terms?

Neel Kashkari:

Good question, so it is term based. It is a five year term, so I was appointed in January, 2016 and then I was just reappointed a year ago, so I'm one year into my second term. I'm appointed by, we have a board of directors of business and civic leaders who oversee our bank. I'm selected and appointed by them. The chair of our board is the Dean of the Carlson School of Business at the University of Minnesota, Sri Zaheer. She's a wonderful Dean and she's a wonderful chair of our board. And then we have business leaders and non-profit leaders from around the region who make up the board. And so they're the hard stop for me if they're happy with my performance and by the way, my appointment and my reappointment is subject to approval from the Board of Governors in Washington, so my board gets to make the recommendation, but the Board of Governors in Washington have to second the appointment.

Neel Kashkari:

If everybody's happy with me in theory, I could get reappointed until I turn 65, there's a age limit, so to speak. And so that's... I'm 48 right now, so that's a long way away. Am I going to be here for another 15 years? I'd be surprised. A lot of people do this until they turn 65, so I was somewhat young when I got the job. I was 42 when I started, I think most people are closer to the end of their career, so for most people they will retire after serving as a Fed president, so they'll serve, let's say they join when they're

55, they'll serve till they're 65 and then they'll often retire or maybe go on some boards at that point. We'll see, I'm loving what I'm doing, I'm learning a ton, I'm working with wonderful people, getting to meet really interesting people like you, so I'm not looking to go anywhere anytime soon, but who knows what the future holds.

John Howard:

Yep. No, I understand. Neel, I really appreciate your time this morning very much, so it's been a pleasure talking with you. I know you're a busy person. I love that you're at the helm of the Minneapolis Fed. Thank you for that. Thank you for what you're doing for the country and the financing industry. And I'd like to thank the UNFI team, Andrew Pearson, Colleen Trahan, Dean Dolan, and others I'm sure I'm forgetting. And I apologize, but just for recording this with your team and to thank your team as well. And at some point, Neel, when everything is normalized, I'd love to sit down, grab some coffee with you and just continue to chat.

Neel Kashkari:

Absolutely. This is a great discussion, John. I really appreciate it. And look forward to meeting in person.

John Howard:

Great.