Fed Unfiltered, Transcript
5/23/22 – Raphael Bostic, Interview: Rotary Club of Atlanta

Shan:

First of all, let me say, it's an honor to be here today and it's real honor for me to be on stage today with my dear friend, Dr. Raphael Bostic. And I'm not going to read his bio to you, but I'm going to talk to you about the other side that many of you may not know about Raphael, and that is his heart and his giving back to this city. I had the honor of serving with Raphael as I led the Atlanta Committee for Progress and he was my go-to person I got to tell you. Yes, I was out there with these wonderful CEOs and everybody's great on ACP let me tell you, but there was something about Raphael when things were at their most chaotic, their most disruptive, he was the voice of reason in the room and he was always calm. Like the calm right before the real storms would come.

Shan:

And I just so appreciated that. He was also one that if you gave him an ear you knew the conversation stayed right there. And that's very, we all need someone in our lives just like that. So he's been that for me the last several years. In addition to that Raphael joined me and worked on the Beloved Benefit. So he's a giver. He has served as the head of the board for United Way, worked with Katie, is serving as her board chair for the Metro Atlanta Chamber. So he's more than just the title that we get to talk about. He really walks the talk and as busy as he is he's never been too busy to step up and just get the work done. And so he knows I have secrets and I have stories. And so he said to me, now keep this short Shan. And I said, well, I'm just going to say you were born, you live and you're here. And he said, that's perfect. So without further ado ladies and gentlemen, Raphael Bostic. Hello my friend. [inaudible 00:01:58] Hello.

Raphael Bostic:

Are you on?

Shan:

I think I'm on now. Are you on?

Raphael Bostic:

I think so. Yes.

Shan:

Wonderful. I'm getting ready to channel my inner Oprah. I love it. I love it. I love this moment. I love this microphone, but more importantly, I love being here with you Raphael. There's so much we want to talk about. All these people showed up for you today. You know that, right? Because-

Raphael Bostic:

I heard something about this.

Shan:

Yeah. We want to hear what you have to say.

Raphael Bostic:

Yeah.

Shan:

We got a lot to talk. We got a war going on. We've got inflation, we've got interest rates. We've got all this stuff, labor shortages, we've got supply chain issues. So a lot that we need you to talk with us about today. So I'm going to have a few questions here that I want to ask. Then I'm going to open the floor to the audience. So audience, I'm going to try to be brief because you all know I can be long winded, I'm a pastors kid. I love this microphone. So let's just jump right in here. Jump right in here, Raphael. So to start, can you give us a quick business or layperson explanation of the federal open market committee's latest policy actions and the path ahead. So what do we have to look forward to?

Raphael Bostic:

So first of all, good afternoon, everyone. It's good to see you all. I want to thank you for dealing with the change in schedule and having us move from January to May. You all still came out anyway so that's good.

Shan:

On a rainy day.

Raphael Bostic:

I also wanted say congratulations to Bill on his well deserved award. You've done so much for this club. In thinking about the economy and from a lay person I can make this quick. Inflation is high. Inflation is too high and we need to do things to bring it down. And so what you've seen from our committee over the last several months is the beginning of that process. We started this year, still in an emergency position. The pandemic brought a lot of pain and uncertainty into the economy. We moved quickly to make sure that monetary and financial markets were not going to be a source of additional disruption and pain. We didn't know how long that was going to last and so we wanted to make sure that when we started pulling back we had an opportunity for the economy to credibly stand on its own feet. I think it is pretty clear that the economy can and when that became the case we started moving with our interest rates.

Raphael Bostic:

So we've got two policies. The interest rate is our main policy trigger. We were basically at zero, we've now moved about to 1% and I think we've got a little more to go over the next several months. And again, but the goal being inflation has got to come down. Right now it's in the five or 6% range. Our target is 2% in the inflation space though that's not close. So we've got to get it back down to that. We're going to do whatever we can in that regard. We're also going to start reducing the size of our balance sheet. That was another area where there was a lot of concern about the ability of our financial markets to function. I think it's pretty clear they can function as well and so we need to pull back from that and make sure that we are as engaged as the economy, as the economy needs. And I think it needs a lot less now than it did at the beginning of the pandemic.

Shan:

Wonderful. You walked right into my second question which was around what are the things that you're weighing, as you look three months out, maybe even six to 12 months out, are there other things that you're thinking about?

Raphael Bostic:

So one of the things that we try to do at our building or in our building is really focus on the underlying fundamentals that are driving the dynamics. So when you think about price, price is the intersection of supply and demand. Those two things together will determine what price is and what the price level will ultimately be. So we've got to really step back and say, well, what are the drivers of the supply side and what are the drivers on the demand side? And in particular, what we know now is that when prices are accelerating, that means you've got more demand than you have supply. And there are lots of different reasons why that can happen. One of the things that's very interesting in today's economy is that the dynamic that's driven that is really different than what you historically see.

Raphael Bostic:

Usually you historically see the markets being very tight, labor markets being tight and businesses because they have to push to try to always get more profits start taking more risks and they start getting much more further out there into the extreme and that extreme then when it [inaudible 00:06:30] back on itself, leads the economy to contract or move backwards. That's actually not the dynamic we have today. We don't have a dynamic where businesses are going way out of their way to try to take risks to increase those margins. They're able to get these high margins because aggregate demand is just so much greater than the supply that's being able to be produced and they're able, so first of all, we have this auction situation, whenever demand's more than supply you got your Bayesian auction. And when you have an auction the good goes to the highest bidder.

Raphael Bostic:

And so businesses are always trying to figure out what's the highest price I can set. At the very beginning of the pandemic they didn't think they could move the prices at all. And we did, we do a lot of surveys at our bank and hopefully you guys are all subscribed to us so you're getting all those feedbacks as they come out. But we were not seeing businesses eager to pass through, but as their input costs continued to rise they felt increasingly they didn't have any choice, but to do that. And they found that businesses, that the consumers were willing to pay those prices. And so that is one issue. So what drives that imbalance? We know this, you've all heard of the supply chain challenges we just had, several weeks of our logistics folks talking about a lot of the challenges around supply and because of those challenges businesses have not been able to just meet the demand. Every business person I've talked to has basically said it hurts my heart.

Raphael Bostic:

I'm making record profits, but I could be making more. Right. And they're focused on the frustration of not being able to meet that demand. And that's a challenge. More recently you've heard about challenges in terms of labor markets and businesses having difficulty finding workers. That spiked. We're hearing less of that now, we're hearing much more emphasis on the supply chain issues. But that labor supply issue is one that is still out there. And then on the demand side, where is this demand coming from? And I actually think there are a couple of pieces to think about here. The biggest piece to my mind is the fact that for two years all of us sat at home. We didn't go to restaurants. We didn't go on trips. We didn't do, we didn't go to plays or theater or any of those sorts of things.

Raphael Bostic:

And it turns out it costs money to do those things and that's money that people were not spending. And so when I talked to bankers, what they tell me is that bank balances across the board are far higher than they were pre pandemic. So people have a lot of cash. And so you have that reality coupled with the fact that we all sat at home, we didn't want to do that anymore. That means everyone's going out and they're using that cash. And there's a lot of demand that is about people spending the money. Really I think about it as a catch up, we didn't go to plays for two years. I'm going to get back to that, but you can't really catch those things up. It's going to take a long time for that money to flow out of the economy. And then the other piece is policy. So we know that there's fiscal stimulus. We know there's monetary policy stimulus.

Raphael Bostic:

All of these things were designed to really minimize the amount of damage that the pandemic caused, to try to, the phrase I use is creative bridge from before the pandemic to after the pandemic and have families and households and businesses as close to where they were before, after. And it turned out those policies worked and they worked extremely well. So we don't see the disruption. We don't see the level of precarious we would've ordinarily seen in the context of a deep recession and just disruption and pain. So that leads to aggregate demand. So now the task and the challenge is to narrow those things, to pull demand down from its high levels, if possible, and to see if there's evidence that the supply chain is breaking up, the supply chain challenges are breaking up and we're starting to get resolution there. And that labor markets are starting to resolve themselves such that businesses are not fighting.

Raphael Bostic:

Five businesses are not fighting for every employee. Over the last nine, 10 months millions of jobs have been posted by businesses. They're only filling about 60% a month, which means there is a lot of basically auction for workers in the same way that you have auction for goods. And that tension creates a lot of difficulty. So we'll be looking for those sorts of things and trying to figure out where the economy's going and also how effective our policies have been.

Shan:

Wonderful. Thanks Raphael. So the next question, let's shift to the war, Russian and Ukraine. So we've seen to your point about the price increases around certain food and some and commodities, even in the energy space. So do you foresee, two part question, do you foresee that as a war continues those effects will lessen number one, and number two, how much of a drag on the economy do you foresee the war being or becoming? So your perspective on that.

Raphael Bostic:

Yeah. So those are two big questions.

Shan:

I know. Let's take the first one. Let's take the first one.

Raphael Bostic:

No, I'll-

Shan:

Okay.

Raphael Bostic:

Yeah. I'm used to people ask me five-

Shan:

Okay. Go. Wonderful. Wonderful.

Raphael Bostic:

Yeah. Most people-

Shan:

See I'm old. I couldn't remember.

Raphael Bostic:

... when they get the mic they figure this is my shot. I got to get all my questions out.

Shan:

Yeah all of our questions, right.

Raphael Bostic:

So for the war, first of all, dealing with the pandemic economy on its own is hard. There's a lot that we've never seen before. There's a lot we've never really had to encounter before. And so just trying to keep tabs and track of all of that requires an amazing amount of effort and my team has been great in getting us information early so we understand the twists and turns of the economy. I was giving, going to give a speech. No, I actually gave the speech, I guess. And we have been working on this speech for maybe four months and the week before we gave the speech basically the war started. And so we actually had to change the entire speech and start incorporating all these other sources of disruptions and challenges that were not on the table before. And I don't know about you. I was not an expert on the Ukraine economy and all the essential goods that come out of Ukraine.

Raphael Bostic:

I knew that Russia was significant in terms of oil and gas, and this was going to have implications for our energy sector, but it was not clear how all of this was going to feed through. We certainly didn't know, well, I didn't know at the time that the west would respond so quickly and so forcefully in terms of its economic sanctions and the like. So there was disruption and we see that, you see that in gas prices. I mean, we all see that. And so the energy sector was a pretty immediate impact, but there are lots of other things. So we know about neon now, we know about fertilizers and ammonia and all these other factors that are key inputs to goods and products that we all need. What I've heard is that for many of those downstream products the full effect of the war has not actually hit us yet.

Raphael Bostic:

And that when I talk to the agriculture sector, they say, look, the price of fertilizer is up, but the goods that are going to come out with that fertilizer are not going to be in stores until December, January, February. And so there are still some upward price pressure that has to come. Now, those realities actually exist in a whole host of other markets as well. That same dynamic, these are input goods and so they got to make the goods in order for that to then actually be realized into the marketplace. So that'll be something that we're going to watch. Another source of uncertainty when we think about the war is that all the initial predictions of this war were that it was going to be over in a week, that the Russian tanks were going to roll into Kiev and be done with this and we'd have a new equilibrium and that has just not turned out to be the case as well.

Raphael Bostic:

So I think it's the implications of that for all these things is very cloudy because there are going to be parts of Ukraine that are going to be able to continue producing in ways that maybe we did not expect, but then there are going to be other places where disruption and tension is going to persist for a long time. And this is another area where we were just going to have to really pay a lot of attention. The Fed in general, we have a large team, many of them in Washington, it's a Division of International Finance. They are tracking these things and so every time I go up there I get briefings on what they're saying, what they're learning, but Ukraine is a big, additional source of uncertainty which we're just going to have to monitor and adapt to.

Shan:

Great. Thank you. So let's talk a little bit about inflation. Couldn't let you leave the stage without using that word. So along with other federal policy makers you've said you'd like to see the month to month run rate of inflation start to decline. We've seen some positive signs, but how much optimism can we draw from those and is it enough hope to hope that inflation is actually peaked or is there more to come?

Raphael Bostic:

Yeah. So if I knew that that question a hundred percent clear, I'd be in a different place. This is a very hard question. So at the beginning of this year what I was telling people was I was less concerned about the annual rate of inflation because I knew that there had been spikes and so the baseline that, and the year ahead comparison was just not going to truly be meaningful. And what I was looking for much more was the month to month progression to see how things were going. And my hope was that month to month we would start to see pretty significant declines in our inflation rate. Now that has actually not turned out to be the case. The first couple months stayed much higher than I wanted and only now have we started to see slight declines in our month to month inflation.

Raphael Bostic:

We're going to have to keep watching that. And to one thing I will say is that how inflation evolves over this year will be an important driver of what the nature of our policy response is going to look like. Now, I still, so our guys in the building we have fights. I shouldn't say fights. We have discussions about this on a regular basis about how fast inflation can come down and what items might be triggers that should lead it to go up or to go down. And there's a lot of diversity of views and perspectives on those realities, but we all are of the same mind that it needs to come down. And so the question will be, as we see things evolve through the year, what does that mean? What is it telling us about the efficacy of our policy and the need to maybe do more or maybe do less?

Raphael Bostic:

One thing that has really surprised me over the last two months in particular has been how fast financial markets have responded to our policies. Even our forward guidance is leading to a lot of movement in financial markets. You see the 10 year treasury, the 30 year mortgage rate, they have moved a lot more than we've actually moved in our policy space and that's unusual. So that opens up some possibility that maybe other parts of the economy will respond faster than they have historically as well. Now we don't know that for sure. We're going to have to keep our eyes open, but this really is a two-sided issue. It could go faster, it could go slower and we've got to be ready to move in both directions.

Shan:

Great. Thank you. And Raphael, you talked a little bit earlier about the labor supply and businesses no longer having to kind of chase people down to come to work, but what will it take to bring the labor supply and demand into balance and how does that link to bringing down inflation?

Raphael Bostic:

All right, so this, there's an easy answer and a hard answer to this question.

Shan:

Okay. We got about nine minutes so just give me the easy answer and then somebody's going to ask a question about, you guys follow up that question okay.

Raphael Bostic:

Yeah. So there are a couple things. So one, I think when you think about labor supply in particular you have to come back to the pandemic. The pandemic caused a lot of families to reexamine how they were connected to the labor force in ways that they had never really done before. And so people became much more sensitive that childcare cost them a lot of money, commuting costs, cost them a lot of money. They actually like being around their family. The work conditions that you have actually matter so maybe it's not worth it to get $9 an hour for being in a hot place where you don't have benefits or any of those sorts of things. And families across this country are all doing that recalculation as we speak. And some are going to decide that they're going to go in more or maybe in a different way, others are going to decide, oh, we're not going to do this.

Raphael Bostic:

And you actually saw some of this, we had this surge of early retirements. A lot of that was calculation. People have started doing the math, started thinking about quality of life. I don't really want to do that anymore. And now though you're seeing some of those retirees actually come back as labor markets conditions have changed and that calculus has changed. So we have a very, very dynamic labor supply situation and much of it is a function of COVID and families changing their position relative to COVID. There are other things though. So good thing, some of my staff are here. So I think about the changing competition for workers. So Amazon Fulfillment Centers, Target increasing their minimum wage, Walmart, that actually changes the whole competitive environment, particularly for people at the lower end of the wage scale. So the demand for them has changed a lot.

Raphael Bostic:

And the supply of those workers has not changed nearly as much. So that is another type of contributing factor to challenges in labor market. So you have all that. And then on the other side, and I talked about aggregate demand. If aggregate demand can come down, then labor demand will come down. That's a one to one. So we're going to try, our policies are mainly on the demand side. We're going to try to do our part and my hope and I try to be optimistic. No, no I don't. I am optimistic. I hope that optimistic plays out, that optimism plays out is that as people start to resolve their positions in this, on the labor supply side, we'll start to get that equilibration really start to happen.

Shan:

Wonderful. I'm going to shift gears to a topic that you and I both hold dear to our hearts and that's affordable housing. It's been a lot of time you and I working and talking about what we should be doing here at Atlanta. And we've recently though been named a city now that is just unaffordable to live in. And I know you have an extensive background in the housing area. So two questions on this topic, and then I'll be ready to take questions from the audience. So you guys get ready. So talk to us a little bit about the importance of housing to society and on a human level, and then talk to us about that in terms of the macro economy. So why is housing so important? Why should we care?

Raphael Bostic:

So I think first of all there are a number of people here who probably answered this question far better than I honestly. I see you Egbert, I know you have opinions on this. When I worked at HUD, we used a phrase housing as a platform, that if you have stable housing and secure housing that becomes a platform that allows you to be able to do other things. If you don't have to worry about housing, where you put your head then you can invest in your human capital, you can do entrepreneurship, you can give your family an environment of security and stability so that they can then advance. If your housing is quality housing you'll be healthier because you won't have issues around say asthma or those sorts of issues. And so, and housing anchors you like where your house is, determines your school district, it determines your access to the grocery store, all those sorts of things.

Raphael Bostic:

So if people are housed well they got to leg up in actually being able to get ahead and be well in terms of the quality of their life. So housing is incredibly important, just on a consumption and use value basis. And then you think about housing as an investment property and an investment tool and for many households in the United States housing is the main source of wealth. Almost half of the economy, half of our population does not have a position in the stock market and so they're looking at things like housing as the way for them to build wealth and to be strong. So we need these markets to function and we need them to work both on the ownership side and on the rental side.

Raphael Bostic:

We have a tool, the home ownership affordability monitor, you guys should all watch that as well. We do this. We track affordability for every market in the United States and Atlanta's going in the wrong direction. There are a number of reasons for this, but we need to make sure that we're providing supply, producing supply and to the extent possible seeing that supply come into the market at multiple price points and not just at the high end, because if it's just at the high end then you're just pushing the pain down. It's going to be harder, not easier for those with fewer means.

Shan:

Thank you my friend. President.

Speaker 3:

Ready for some questions.

Shan:

Yes we are.

Speaker 3:

Fantastic. All right. Who wants to go first? I think we should go with RK.

Shan:

Welcome back RK.

Speaker 3:

We missed you RK.

RK:

Thank you. Thank you.

Raphael Bostic:

[inaudible 00:24:21] RK, you got a mic?

Shan:

Microphone.

Raphael Bostic:

Microphone.

RK:

Dr. Bostic, thank you for a wonderful presentation. It was worth waiting for. Let's give him another round of applause. Raphael, the question to you is you have many territories under your umbrella, six or seven states. Can you tell us one thing that the city of Atlanta or Georgia can adopt from other places that you go to that will improve our lot? Thank you.

Raphael Bostic:

So that's supposed to be an easy question, but that's a hard question. So here's what I would say. One of the things that I think we've seen in Georgia, which has been actually quite remarkable is even through the pandemic its growth has continued and it has found ways to continue to invest in the people here. So the skills of the population are growing, the attention and focus on inclusion that this is going to be an inclusive economy and try to make sure that prosperity reaches as many people as possible has been something that we've seen here. And I think nationally that's been heard. I think of Atlanta as probably the most powerful economy in my district.

Raphael Bostic:

And it has been really a leader in terms of how you do get growth and how you be ambitious and forward looking. Now I'll say there are a number of other cities that are trying to do the same thing. So I was just on a call earlier this morning about Miami and their investment in the cyber and the crypto and the FinTech space. So there's a lot of competitiveness that's going on, but I think Atlanta is well positioned to continue its growth and I think the policy makers are all focused on this. You hear Governor Kemp, you hear candidates, Stacy Abrams, they're all talking about how do you make this economy as strong as possible.

Speaker 3:

Okay, let's see, Jeff.

Jeff:

Raphael, I want to ask you about distribution because I think the Atlanta fed has taken the lead and you in some of your speeches. On the one hand if we fall into recession fighting inflation often the unemployment of black people go up, often twice as fast as white people and for black men I think it's the worst usually, in a normal recession. On the other hand, if the economy has a lot of money and is pumping along, the stock market goes up a lot, as you say that helps less than half the people. So on the one hand you have the inequality increasing, but the other hand if we fall in recession it's often black men that hurt. So could you help us think how you think through that and lead the fed in thinking through that?

Raphael Bostic:

Yeah. So thanks Jeff, for that question. Look, this is a knife edge. If you go too far one way you get more inequality. If you go too far the other way you get more inequality. And so we're really trying to strike a fine tuned approach to this. One thing that I say is that my goal is in this role never for us to have another recession. That's what I'm trying to get to. And it's because the longer we can get growth, the longer we can get expansion, the people who have been least attached to the economy have the best shot of moving forward and getting ahead. So as we start to tackle this inflation, as we start to move our policies, we're going to be mindful as much as possible to try to strike that perfect note. Now you've heard people talk about soft landing.

Raphael Bostic:

The idea of the soft landing is you get inflation under control, having no pain or damage in labor markets. That's incredibly difficult to do. But my mother told me very early, if you don't shoot high you won't get high. So that's where we got to try to get to, and we're going to do all that we can to make sure that while getting inflation down to our target range we're not creating undue pain and damage that could be avoidable. Now it may be the case the dynamic is such that we just wind up having to go super hard, but that's not my baseline case today and that's not my hope for where we will wind up having to get to.

Speaker 3:

Okay, let's see. Back in the back there, Zach.

Zach:

Mr. Bostic, my question is how high does inflation have to get to significantly impact social security and will social security be able to handle the increase in inflation that we're seeing now?

Raphael Bostic:

Well, I thought you were going to a totally different place than that. So there are a lot of dimensions on this. So one, social security is a contract between the federal government and the American people and if they're going to break that contract to change it, there's going to be a lot of discussion around that. I actually think inflation is not going to be a driving force in that. I think it'll be a bunch of other things that will matter in terms of how that plays out. Now inflation will have implications for how many people are in the workforce versus are not and the choices that people make for what they consume, how much they save, all that kind of stuff and what social security provides them in terms of an adequate level of support. And those things are real in terms of the demands on social security. What I would say is my goal and our collective goal is to try and make sure inflation leaves the list of things that people worry about.

Raphael Bostic:

If we can get it back down to our target as quickly as possible then it will have no implication or impact on people's expectations for what prices are going to be a month from now. And in that context then it will have no impact on what they feel they need in terms of income at any particular level of point in time. And ultimately that's where we want to get to. We want the basic function of the economy to just be invisible to people so that they don't feel like they have to make special decisions or choices on a month to month or week to week basis because they don't know where the price is going to be or they're afraid that milk is going to be too high or all those sorts of things. So my hope is that we're going to do what we need to do. No I'm going to say this differently. We're going to do what we need to do and hopefully inflation will come to heal relatively fast so that this does not become something that weighs on people for too long.

Speaker 3:

I think there's a question down here in the front.

Speaker 7:

I'll see [inaudible 00:31:37]

Raphael Bostic:

Yeah, we should just give them. You want, you just had...

Speaker 7:

Raphael, thank you so much. So a few of us had a conversation with Dennis Lockhart a few weeks ago and I also agree that it's, we're not in a stagflation type of environment, but for the middle America, not the lowest bracket, but the 40 somethings, they have some kids, they have a good paying job. What are some leading indicators that may indicate that they're under financial stress or having problems. I'm in the lending space and we watch a lot of the credit quality very, very closely.

Raphael Bostic:

Well, if you're in the lending space you know the answer to that question. So, no look clearly stress shows up in a number of different ways. One, do you spend out of savings? Two, do you buy different goods? So we have a number of contacts that sell goods from basic consumption all the way up to luxury and they can tell when there are shifts and we're selling less on the luxury side and more on just the basic side. There are some stores where they don't see people from certain zip codes unless you're getting to a stressful situation, actually even switched the stores they go to. So trying to pay attention to those sorts of things. Delinquency rates on credit and they are starting to rise as we speak, but still by historic levels quite low. Use of credit cards, I think MasterCard just reported a couple days ago that credit card usage is now up, back up to basically pre pandemic levels.

Raphael Bostic:

These are all signs that consumption is starting to get to people's limits on what their basic income can handle. So those are all things that we look at. One of the challenges we have in this environment though is that through the pandemic all of those measures were at historically good levels, like historically bank balances, delinquency rates incredibly low, all those sorts of things. And so pulling back a little off of those says that there's some stress, but it's like stress's just getting us back to where we were before and not a stress that suggests that we're on the cusp of something that's going to be incredibly painful or damaging.

Raphael Bostic:

Now any movement is stuff you got to look at and the pace of change is something that we also have to pay attention to, but right now it's almost as if the movements that we're seeing are movements toward normalization. And we don't like the word normalization, because it begs the question what normal is, but if you think about pre pandemic levels as normal, we are moving back to that kind of level, which should suggest as that narrowing of the supply demand imbalance, but we'll just have to see what it looks like.

Speaker 3:

See question from this side of the room. Okay, Peter

Raphael Bostic:

It's coming.

Peter:

Yes. When you consider inflation, how much attention do you give to the role of tariffs in affecting inflation?

Raphael Bostic:

So that's a good question. This perhaps could get us in a little bit of a technical space, so-

Shan:

Don't do it. No, I'm kidding. Answer the question.

Raphael Bostic:

Yeah. Okay. I'll fight my impulse.

Shan:

My job was to keep you out of trouble again so be careful.

Raphael Bostic:

That's good. So inflation is a rate of change of prices over time. So how much did the price increase as we've moved over time? A tariff on some level is just a shift, a one time shift in the level at which point then you start tracking the inflation. So if a tariff were going to be continually ratcheted up then it would be contributing to inflation because the change in the rate of pricing would be moving, would be getting higher and higher and higher. Now it could be the case though that a tariff can change the mix of goods that are purchased and put pressure on different parts of the goods, of family's goods basket such that it could lead to pricing pressure showing up in some places.

Raphael Bostic:

I've not actually looked at that to know, but the tariff is, it is kind of a different level, a different issue. I will say in the context of families that are having budget constraints, reducing a tariff does reduce the level. So the tension and the stress on that budget constraint is lower, but it won't be lower because its bringing inflation down, is lower because it's taking that step level change in a price, which is really a different thing.

Speaker 3:

I think we have one last question. Martha, did you have your hand? No, oh, you got it. Okay. Last question. Who's out there. Let's see. Oh, there you go, Bruce.

Bruce:

Dr. Bostic, back to the war a little bit more. Specifically the petroleum, natural gas, those kind of supply and demand and price increases and the impact over the next 6, 12, 18, 20 months.

Raphael Bostic:

Yeah, I didn't, I'll just talk about it. So there are two, at least two interesting aspects on this that I think we need to consider. So one is how much capacity do we have to increase above what we're producing right now? We know that through geopolitics there's been this separation such that providers of goods that are in certain parts of the world or in certain countries are not going to be accessible for us. And so the question is to what extent can we backfill that? And the question and the answer is, well, it depends on how much capacity we have to actually produce that amount. When I talk to energy folks in our district, what they tell me is that the amount of excess capacity is relatively small.

Raphael Bostic:

You think about natural gas, for us to get natural gas to Europe you have to have basically these plants that can cool the gas down, bring it into liquid form so that you can load it onto a ship and then that ship can transport. We are at full capacity levels today. And so we don't have the ability to increase really the amount of natural gas that we can move over to Europe to backfill those sorts of things. So we very much have to think about what kind of investments are possible and where is there excess capacity to try to mitigate all of these things. And then the second dimension is really what are our options in terms of changing the mix of energy sources that we use and maybe potentially shifting to places where there is excess capacity and from what I hear when I talk to business leaders, the challenge with that is that those shifts are not easily done in a two month period or a five month period.

Raphael Bostic:

Those require major investments such that you're going to wind up having some level of tension in these markets for more extended periods of time. On the backside you wind up, if you do it well in a more resilient space, but there is a transition and that transition is going to be a period where you're potentially going to have disruption and a lot of volatility and I think you're seeing a lot of that volatility in how markets are playing out today.

Speaker 3:

Raphael and Shan hearing your perspective is absolutely one of the highlights of our year. Thank you so much. Just a final, final reminder. Come join us as Gretchen said on June the sixth. There's no program next Monday for Memorial day. Have a wonderful holiday week and we look forward to seeing you for our club service day.