Speaker 1:

Of the Federal Reserve Bank of Minneapolis since January 1st, 2016. Not much going on over the past few years, so I'm sure it's just been steady with no surprises. He serves as a member of the Federal Open Market Committee, bringing the ninth Federal Reserve District's perspective to monetary policy and discussions in Washington, DC. In addition to those responsibilities, Neel oversees the Minneapolis Fed operations and leads its many, many initiatives. We look forward to hearing his remarks, and I personally am very interested to hear his remarks today on our economy and what our path forward might look like. So please help me provide a warm welcome to Neel Kashkari.

Neel Kashkari:

I guess good morning or good afternoon. It's great to be with you. I'm just going to speak for a few minutes just to set the foundation of why I'm here and the discussion that I'm looking forward to having, and then Doug is going to come up and we're going to have a Q&A, and I importantly want to hear from all of you, and I'll explain to you why that's so important to me. But let me back up and explain to you what the Federal Reserve Bank of Minneapolis is. So we're obviously part of our nation's central bank. The Federal Reserve was created in 1913 by Congress, and our overall job, if you could think of it this way, is to try to manage the ups and downs to the US economy. We talk a lot about a dual mandate, one of which is maximum employment, another is stable prices, and trying to keep balance between those two things. I'll jump to the conclusion. Those are not in balance right now. I know we're going to talk more about that.

But in 1913, Congress was very specific and they said they do not simply want the central bank housed in the nation's capital. They want all of the different regions of the country represented in that policy process. So they created the Board of Governors in Washington, DC. The governors, there are seven governors appointed by the President of the United States, confirmed by the US Senate. You've probably heard of, if you're old enough, Alan Greenspan, and then Ben Bernanke and Janet Yellen, and our current chair, Jerome Powell. Jay Powell, we call him Jay, was first appointed by President Trump and then reappointed by President Biden and confirmed by the Senate. But then Congress created 12 independent Federal Reserve banks, the ninth of which is here, the Minneapolis Fed, and our jobs are literally to represent this region, to represent all of you in that policy process.

And what do I do? I go around and I travel around the region, many of my economists do that as well, and I meet with business groups, I meet with individual companies, I meet with civic leaders, I meet with labor leaders, I meet with workers to understand what is happening here in our regional economy. And then I go back to Washington, DC every six weeks. I'm going to go back in mid-December. And part of what I'm doing in our Federal Open Market Committee meetings is talking about what's happening in our regional economy. So meetings like this are great. They're really important for me to get to hear from you. So when we get to Q&A, you're welcome to ask me questions, but I also want to hear from you. What's happening on the ground in your businesses across the state of Minnesota. That'll make me smarter so when I go back to Washington, DC.

One more comment on the process. We cannot set a different monetary policy for Minnesota and a different monetary policy for California. We all use the same dollar. So we have to set monetary policy for the nation as a whole. But I want to make sure that what's happening in our regional economy is part of that deliberative process so we can optimize that for the country as a whole. And that's why this feedback is really helpful to me, and I appreciate Doug and the chamber inviting me to meet with you today. So just a few minutes about the economy, and then I'm going to invite Doug up here to have our discussion. The economy, before COVID was quite strong. We had a low unemployment rate, we had pretty good growth, the economy was growing, and then obviously COVID hit us. We're always looking for what might come around the corner and hit us. And as much as we look, we could never see it, right?

We didn't see the '08 crisis coming, and we certainly didn't see the pandemic coming. The US economy went through a rapid shutdown as we were trying to make sense of COVID, states imposed their own policies, but a lot of people just said, "I want to protect myself and protect my family." That led to an acute downturn. And of course, Congress was very aggressive in saying, "We need to support small businesses and support workers that have lost their jobs," which was critical to help people get through the pandemic. The PPP program, I know I imagine many of you participated in the PPP program. That was actually a vitally important program that Congress created.

Now, something happened that was on the positive side. It turned out that vaccines, highly effective vaccines became available much sooner than public health experts expected, within a year, which is quite a remarkable scientific achievement. And that allowed the economy to reopen more quickly than maybe many of us had expected in the depths of the pandemic. And the reopening has been uneven. When the downturn happened and many of us started working from home, people were not able to go to restaurants, not able to get on airplanes, not able to go into service industries. Those service industries were dramatically affected. But people spent their money on goods. So buying stuff, Amazon, mail order soared through the roof. So that created an imbalance in the economy, and now as the economy is reopened, something remarkable is happening. The services sector is picking back up, people are going back out to restaurants, getting back on airplanes, but the good spending has stayed elevated.

So it's really curious what is going on. Right now the US economy is sending us some wildly mixed signals that it's hard to make sense of exactly where the US economy is. And of course, we've all experienced the very high inflation over the past year or so that has surprised me and surprised many of my colleagues at how high the inflation has gotten. So ultimately it's the Federal Reserve's job to keep inflation in check. I talked about our dual mandate, stable prices and maximum employment. The way we think it normally works is as the economy heats up, the unemployment rate goes down, we hit maximum employment, that leads to inflation as businesses have to pay more. That's not what has happened this time. This has not been wage driven inflation. This is a confluence of a lot of demand, but also impaired supply, because supply chains that you've all experienced have been gummed up. You also have the war in Ukraine. You've had multiple COVID waves. So it's a constellation of factors that have led to this very high inflation.

Nonetheless, it is our job at the Federal Reserve to bring supply and demand into balance. We do not have the ability to increase supply. Only you have the ability to increase supply. But we have the ability to restrain demand. And we do that by tightening monetary policy and increasing interest rates. So we are on that path to do that. We are all united in our commitment to getting inflation back down to our 2% target. It's an open question of how far we're going to have to go with interest rates to bring that demand down into balance. One of the challenges that we face is that monetary policy operates with a lag. If we raise interest rates in December, we're probably not going to feel the full effects of that for maybe a year or more. We have raised interest rates a lot this year, so there's a lot of tightening in the pipeline we have not felt the full effects yet. And yet inflation is still very high.

So this is a challenging time for policy makers, but we are committed to doing what we need to do to get inflation back down to 2%. But one more question is are we going to get more help on the supply side? If we get more help on the supply side, then we don't have to bring demand down as far to bring those two into balance, and that is an open question. So look, I know we're going to get into all of these topics in a lot more detail. Why don't I ask Doug to come up here? I just wanted to level set with that. Thank you for that and I look forward to our discussion.

Doug:

Okay, there's a mic there for you. Neel, thank you for giving us some of your time. I know you're a very sought after speaker, and I know also that there are natural guardrails around what you can say.

Neel Kashkari:

You'd be surprised.

Doug:

But if we touch any of those guardrails, you'd just say, "Ah, can't do that one." And that includes questions from the audience. Because I'm sure you're all thinking, "What's happening with my 401k fund? And where are inflation rates actually going?" But let's talk a little bit about right now the unevenness of the economy. We went through the pandemic and it treated businesses uneven. And we come out of the pandemic and we're hopefully going to see full recovery, but it's still uneven. Tell us what does that mean from the Fed's perspective?

Neel Kashkari:

Well, this goes back to really the supply side of the... Both sides, actually, supply and demand. So I talked about in the demand side, if you look at the data of consumer spending, as I said, the services spending is catching up to where we would've expected it to be. People are going back out to restaurants and getting on airplanes and going back to hotels. But the good spending has remained elevated. So for example, some consumption, consumer spending data came out recently. The American consumer still looks very healthy and is still spending a lot of money. So it's still... It's just surprising. And how long is it going to take? Are we going to go back to the spending patterns that we all experienced prior to the pandemic or are there going to be more enduring changes? I don't know the answer to that.

And just think about work from home is something some economists and I were discussing this morning. At the Minneapolis Fed, I'm back every day, I've been back every day since November. Most of our staff are back three days a week with some flexibility about when. How enduring are those changes going to be or are more changes to come? That could lead to changes on both the supply side and the demand side. And if you're a restaurant owner down here in the North Loop and a lot of the workers are permanently working remotely, that's going to affect your business. So I think that there are long term effects of the pandemic and some of these changes. It's going to be a while before we really see where the new normal is.

Doug:

So you serve on the Federal Open Market Committee of the Federal Reserve. First I'd like you to tell us what the scope of that work is, but it's designed around really helping to control inflation through the interest rates. But yet, as you talked about, there's still a lot of, seems like, cash in the economy, a lot of fuel out there. How much of that do you consider potential spending by government, and how does spending from government impact consumption?

Neel Kashkari:

You're all going to walk away from here saying, "Wow, there's a lot of things he's saying that they don't really know," but it's actually true. So Congress was very generous, as I said, because nobody knew how deep the downturn would be and how long it would be. It ended up being shorter than we expected because vaccines came along more quickly than expected. So that's a good problem to have. And I think in hindsight you would say, "Well, some of this support was more than was necessary because they didn't know at the time that the support was being sized." So if you look at checking account balances, for example, one of the CEOs of the big banks that talks about this a lot is the CEO of Bank of America talks about it a lot. And he said, I think I looked at his last earnings call, he reported, this is all public, that their average Bank of America customer that had less than $1,000 in their checking and savings account before the pandemic still has more than $5,000 in their checking and savings account today. 5 X.

And higher up the income distribution it's a smaller multiple, maybe it's 3 X or 2 x, but there's still a lot of what we would call excess savings on household balance sheets. So that's a good thing. Households feel more secure. How quickly are they going to spend that down? I don't know. Like the savings rate prior to the pandemic... Before the Great Recession, the savings rate was very low, almost zero. After the great recession, people were scarred by that and the savings rate was permanently higher to around 7%. The savings rate has now fallen back to around 3%, so people are feeling more comfortable to spend, but they're not spending down that accumulated savings yet on average.

So is that accumulated savings changing behavior? Is it making people feel more confident to go out and spend more because they know they have that nest egg out there? It's possible. So part of the thing about economics that's interesting, it's a little bit science. Part of it's trying to understand mass psychology of how consumers are feeling, how the public is feeling, how much confidence they have, and how do their decisions change as economic conditions change? So we get a lot of stuff wrong and it's hard to play mass psychologists, but that's really at the heart of decisions that you and I make every day.

Doug:

Let's switch over to workforce and unemployment. We have new numbers out today. Minnesota's at 2.1% unemployment. Arguably that's reaching full capacity. We also have, by the way, a growing or has been growing, a labor force participation rate. So saying some folks have basically left employment, no longer in the economy like we'd like to say. And we need them back. Last month we were looking at added, Minnesota added 4,200 jobs, and the numbers just came out today, we're at 17,000 new jobs. So we're adding jobs back in. We need workers. What are some of those... What's the realities of where unemployment is and the labor force participation, and is there capacity there for be adding back workers at a time when we need them?

Neel Kashkari:

There's definitely the need. As I travel around our region, the number one issue I hear from businesses large and small is the difficulty in finding workers. That's consistent everywhere I go. And you're right, before the pandemic, we kept getting a surprise. We thought we were at full employment and then the US economy kept creating more jobs and people kept coming off the sidelines. So it turns out people want to work. That's a good thing. Then the pandemic hit and we've been surprised that the labor response has not been as strong as it might have been. So what happened? Where did the workers go? We've analyzed this a lot. One place workers went is older Americans who could tended to retire early, much earlier than we expected. Now retirement tends to be a sticky state, meaning when somebody retires, they're usually, they stayed retired. But it's not necessarily a permanently sticky state. People can unretire, can unretire part time. So that's one element of it, a big element of it.

Also, don't forget a million Americans died from COVID. There's human tragedy for each of those lives. There's also lost workers that are obviously permanently lost. So that's a second factor. Another factor are childcare constraints, are caring for family member constraints. Those are enduring for many folks as well. And then COVID continues to spread. COVID has come through my house twice. My wife and I have two young children, a two year old and almost four year old. And when our kids are out of daycare, even though we've had very mild cases, thankfully, boy does it turn our work... My wife and I, our ability to work, our ability to contribute to the economy, so to speak. It turns it upside down for a couple weeks.

So as COVID continues to cycle around the economy, it's also having an effect on our productive capacity, and long COVID is another issue that is affecting a lot of people as well. So there's not one answer. The one thing I didn't mention which is important is lost immigration. Immigration has been a vital source of workers in our economy, both low skilled workers and high skilled workers to meet our businesses' needs and our economy's needs. That has really dried up in the pandemic, and we've got to address that if we really want our economy to be competitive going forward.

Doug:

Well, I'll just comment on immigration because Minnesota has been a benefactor of global migration and domestic migration historically, and both have dropped way off, and it is one of the pressure points I think our economy faces. On global immigration, which is truly a federal policy issue, it's one of those that we do work on, because the system is not being responsive, regardless of the pandemic, the system is not being responsive to the marketplace and we like to see it get back into that position, because Minnesota can benefit from migration to our state. Let's just stay on workforce real quick. You are in the ninth district of the Federal Reserve and you have six states under your purview. Two of them are partial states. Whoever did your map, I don't know. But slow population and workforce constraints has been actually a national concern. As you look across your six states, are there tactics in those states that maybe you can bring to Minnesota or offer us today that we can think about in addition to immigration or migration? What are those things that are working elsewhere that maybe we should consider?

Neel Kashkari:

Well, one of the things that is true in many parts of our country is an affordable housing challenge. No matter where you go, red state, blue state, in our region, it's a huge problem. And with the introduction of telework and broadband being rolled out across our district more completely, with Congress putting a lot of money into broadband as an example, you could imagine that Minnesota would be a great place for people who say, "You know what? I don't want to live in New York City anymore. I don't want to live in California anymore. It's simply too expensive. I want to work in the northern plain states because there's high quality of life, on average there are good schools." If broadband is available now all of a sudden it becomes accessible. So this is potentially a competitive tool to enhance net migration into Minnesota and into this region.

But we have to get some stuff sorted. Why is affordable housing... We're not short of land, just to point out. You drive around, we're not short of land. Affordable housing is a problem all around our region because people like you and me who own our own homes do not want people building more homes. That's it. Not in our neighborhoods. We all say you can build in somebody else's neighborhood. So we erect all sorts of local barriers, all under the guise of, "Well, we want to protect the environment or we want to protect our culture or whatever it is, safety," we come up with all these rules that prevent new development from coming in.

And when we all do it just raises the cost and it makes it unaffordable. So the question is, as a country, do we want to embrace immigration? It's a huge competitive edge for America. As a state do we want to make this place affordable? If we really want to make it affordable, we'll have lots of people from the coast who say, "Wow, this is a great place to live." But if we don't want them to come, then let's continue putting up barriers to make it unaffordable.

Doug:

I couldn't say it better myself because affordability is a key ingredient and I think it's been an asset asset of our state for a long time. And I fear that we're becoming less affordable. Housing is one of those. But the connectivity piece you talked about on broadband, talk more about that. Because there's a lot of money flowing into it and Minnesota can be fully connected. Do you see that in our future?

Neel Kashkari:

I think so. I served on... Governor Walz, had a task force on the economy last year, over the last couple years that I was happy to be invited to serve on, and I served on it. And one of the priorities of that task force was to make it clear between the state money and the extraordinary amount of federal money that's coming, there's an opportunity to just finish the job. End to end, anywhere you go in Minnesota, you ought to be able to get affordable high speed broadband. And that could be a real engine of economic competitiveness. And I think the governor certainly agreed with that. Certainly the members of the task force agreed with that. So I think we now need to execute.

I speak to all of our elected leaders at the federal level, both sides of the aisle, regularly, just to talk about the economy and what they're seeing. And I've asked all of them about the broadband issue. They all agree how important it is, though I've heard some say that there's too much money now, that we're not going to be able to deploy it intelligently. I've heard others say that there's enough money now, but I think we can get a long way there. So we just now need to go and execute.

Doug:

Let's stay on Minnesota's economy. We did a study a couple of years ago called Minnesota 2030: A 10 Year Look at the Economy. Our analysis showed that we were lagging some other peer states around the country in our GDP growth. Coming out of the pandemic we're still not hitting on all eight cylinders. As you look at Minnesota, and as a Minnesotan you have a stake in this, but also from your Federal Reserve perch, how does Minnesota stack up in our economic potential and are we reaching it?

Neel Kashkari:

I think our economic potential is very strong. On average, we have a highly educated workforce. On average, we have good schools though those averages mask wide disparities. And right now we're leaving a lot of people behind in Minnesota. A lot of Minnesotans are being left behind. So if we can do a better job reaching those Minnesotans to fully include them in the economy, they're going to be potential workers for your businesses and we'll increase our economy's potential. And then if we can get our house in order in terms of some of the affordability issues that we talked about, I think Minnesota is exceptionally well positioned. We've got a great engine of economic growth with all the businesses that are in this room with the global businesses that are headquartered here and the spinoffs that they then generate as well. There's a great ecosystem here. So the fundamental components are here. I think we now just need to address some of the issues that we're aware of and there's no reason we couldn't be as competitive with anybody in the country.

Doug:

Okay, let's unpack a couple of those things. We talked a little bit ago about taxation in Minnesota. We are in the top brackets in many, many forms, individual rates, corporate rates, business property tax. Talk a bit about corporate tax. It's my understanding we're number two in the country right now in the corporate tax rates, and New Jersey is number one and theirs blanks off I think in a couple of years. Tell us what that impact is, perception or in reality about... And how does that potentially slow down our economy?

Neel Kashkari:

Well, you started the discussion by saying one of the things I'm not going to talk about, and tax policy-

Doug:

Can you expand on that?

Neel Kashkari:

Tax policy is... When Congress created the Federal Reserve, there's a distinction between monetary policy, interest rates go up and down to try to manage demand, and fiscal policy, how much we get taxed, who gets tasked, and then what that money is spent on. And that is the job of Congress and the state legislature as well at the state level. So that's really their purview. Obviously the tax environment is one of the contributors to economic competitiveness, it's one of the factors that businesses will weigh when they decide if they want to relocate where they want to relocate, but beyond that, I think you all have a good understanding of those issues.

Doug:

All right, fair enough.

Neel Kashkari:

Nice try.

Doug:

Can't help. Let's go back to just one aspect of workforce. In the absence of finding workers, businesses can, and many are, investing in new technology to increase productivity. So there's a balance there, correct? Are you seeing efforts on productivity? Do you see the future of our state's economy through productivity and workforce growth we hope? And talk about what you may be seeing across your six states.

Neel Kashkari:

Absolutely. So where does economic growth come from? It comes from more population growth, workers to produce things, consumers to buy things. But the other half of the equation is productivity. Doing more with the workers and the inputs that we have. So yes, usually when these terrible shocks at the economy, one of the upsides can be it forces us to learn different ways and better ways of doing things. Some of those might be enduring. So I just give you an example at the Federal Reserve. Prior to the pandemic, all of our Federal Open Market Committees were 100% in person 100% of the time. And in my six or seven years on it, the only time I was aware of anybody missing a committee meeting, because these are really important meetings, was when I missed one for parental leave at the birth of my second child. He was supposed to be born right after the FOMC meeting, he came a few days early. But you know what? I'll forgive him for that.

Doug:

You can't schedule that can't?

Neel Kashkari:

Well, we tried, it didn't work. But when the pandemic hit, all of a sudden we adopted technology to have very secure video conferencing and we worked remotely. Now we're all back in person, except once in a while somebody's under the weather and they take the meeting remotely. People got sick before. So what did you do when you got sick before? You went to the meeting? So there are permanent benefits like that of, "Hey, we're going to be smarter going forward because this technology is going to make us smarter." Now someone's less likely to bring the flu and spread it all to the rest of the FOMC, as an example. So that's one small little example.

More recently, I was at a gas station near my children's daycare going and getting some soft drinks and something was very different in the gas station. There are 25 coolers around the perimeter of the convenience store in the gas station, and they had replaced all the doors of the coolers with full size computer screens. It was really jarring because it felt like you were walking into a TV studio. Instead of just seeing a clear glass door, you're seeing this computer screen. And on the computer screen are digital images of the soft drinks and the water and the milk that are in the coolers. So I said to the manager, as I was checking out, I said, "I don't understand the point of these screens. Why not just leave them as glass?" And he said, "Oh no, no, no, no. The point of these screens is not for our customer's benefit. The point of these screens is for our benefit."

And I said, "I'm confused. How was it in your benefit?" And he said, "Before, when we wanted to change prices, somebody had to go manually and change all the tags by all the soft drinks and all the coolers and it took all day. But we're short staffed. Now, because the prices are on the computer screen, we just push a button and the prices update." So first of all, as a central banker whose job it is to keep inflation at 2%, that was almost a traumatic experience for me to hear this of how businesses were responding to high inflation. But it was an example of adopting technology to solve the intersection of two problems, rising prices, because they have to update their prices, and labor scarcity. So I'm not sure if more gas stations will adopt it. I'm imagining it's an expensive solution. But that's a little example of people adopting technology to try to become more efficient with the workers that they have. And those things are long term going to be good for the economy.

Doug:

But it also requires training and training up existing staff so that they can meet the new expectations of labor. So those things in our mind go hand in hand. I'm going to touch on a report from the Minnesota Chamber Foundation, Brett talked about it, that we did on entrepreneurship, and it came as a result of our Minnesota 2030 report that showed some startling information around business startups in Minnesota. I'll summarize it as best I can. We have been historically slowing on our business startups, but there in the pandemic we actually saw a couple of years of increase in business startups, and we're wondering if this is a new trend. How do we support that?

Because Minnesota's good at growing businesses. We're not really good at importing them. We're really good at growing them here in Minnesota and they become our large corporations that we're very proud of. And we need to make sure that, I refer to it as a conveyor belt, of new business startups are right there to make sure that we have a strong future going forward. So as you look around your purview, business startups is absolutely key, entrepreneurship is absolutely key. Do you see a pattern here emerging or are we going to be back into the spot that we were in before?

Neel Kashkari:

It's a great question. It's one of those things that I just don't know. I mean, necessity is the mother of invention, did I get that right? When the economy turned down and people lost their jobs, some people said, "Well, I lost my job. I've always wanted to start a business. Now's the time to go start a business." When there are jobs, good jobs available, are people going to still make that choice? I don't know. One example, back to childcare, before the pandemic hit home childcare centers in Minnesota were closing at a pretty rapid clip. Some people pointed to regulation and I'm sure that's part of the it.

But if you actually did the math on the take home pay of a home childcare center, the people who ran it basically made minimum wage. It's a tough business to get paid minimum wage. And then as your businesses were paying more, they said, "You know what? I can go down the street. I can get a job at Target making 13 bucks an hour. Why am I killing myself in this home childcare business?" So that home childcare business was a startup, it was an entrepreneur who said, "You know what? It's going to be easier for me to go to an established business." So I don't know if these are going to be enduring trends or not.

Doug:

We hope so, because one of the things that we also saw in our report is that we're top in the nation of business survival after five years. So we're historically slow at starting them, but they have a high rate of success. As you look at Minnesota, maybe it just goes to our entrepreneurial spirit of persistence, but do you see that in other states and what makes us unique in the survivability?

Neel Kashkari:

I don't have a good answer to that. I mean, I do think it helps that there are some world class established institutions here. I mean, of course the University of Minnesota and our university system, the global companies that are here that are all innovative companies, each in their own industries. I think that that helps to throw out spinoff talent, spin off ideas that are well positioned for success. But I don't have a better answer than that.

Doug:

I think that's an excellent answer. We're going to go to questions here in a minute. Beth is over there. Lauren is over there. One second, we're going to do... Yeah, let's just... Jen, go ahead. We got one right here going to... And then I'll come back with another question.

Jen Schultz:

Thank you, Jen Schultz, state legislator. This is basically a yes or no, I don't know if you can answer this, but I've got three quick questions. One, do you think there's an appetite at the federal level for extending opportunity zones, because we've heard a lot about housing shortages today and I'm hearing from developers, and those expire in a few years. And two, I think the Economic Policy Institute put out a paper talking about inflation and a large part of the price increase is going to corporate profit. Do you agree with that research that was done? And then three, I just ran for Congress and we have seven tribes in the eighth congressional district and I'm just wondering what the Federal Reserve Bank this district is doing to help tribal nations and bands in terms of their economic development.

Neel Kashkari:

Thank you. The first question is, I don't know the answer on that. I just don't have a sense of the political environment around opportunity zones, I apologize. So corporate profits, you're absolutely right. So this is an example of weird things that are coming out of the economy that they're hard to make sense of. So for example, prices are high, wages are rising, but wages are not rising as much as inflation. So real wages are declining. Usually you would think if we have a really tight labor market, real wages would be climbing. So those two, there's a disconnect. Corporate profits are at record highs, absolutely true. So profits are very high. How is that consistent and why aren't businesses paying more to hire more workers since they're making more money? So there's a constellation of things that are happening at the same time that are hard to square with each other.

So I think that that is true. And I don't have a very clear... I'm actually working on this issue right now with our economist at the bank to try to unravel, how do we explain this in light of what we're seeing in the economy and what does it mean about the future of the economy? Because there are a lot of confusing signals. On the third point, thank you for asking about tribal nations. We actually have a research center at the Minneapolis Fed called the Center for Indian Country Development, and it's a national center, but we spent a lot of time working with tribes to understand what are their economic challenges, what are their constraints, what help do they need? I'll give you a specific example. When the pandemic hit and Congress allocated a lot of money in the CARES Act among other things, some of that money was allocated to tribes, and the US Treasury Department said, "That's great, but we need help and allocating that money because we just don't have the in-house expertise."

So it was actually some of our staff at the Minneapolis Fed we sent the treasury to say go support the treasury department to give them the assistance that they need. And they did that and we're really proud that they were able to play that supportive role. And one of the things that that illuminated was that there's a lack of data on what is happening in tribal economies, basic economic data. So we now actually have a major research initiative to try to fill that data void, working with tribes in our region and nationally to just get better data so that policy makers at the state level and the federal level will just have a basic understanding of what's happening in tribal economies, so that when you design programs, we can be thoughtful and make sure that they're designed in a way that tribes can participate in. And thank you for asking it. It's a big area of focus for us.

Doug:

Let me just touch on real quick, and we have another question over here, the achievement gap in Minnesota is a persistent problem. This has been known for years, it continues to seemly get worse. You guys have done quite a bit of research on the importance of education to help fill some of those gaps. Talk about what do you see from early childhood where the Fed has had a long history to higher ed, how do we make sure Minnesota's on the right path and are there some solutions out there besides a constitutional amendment, which seems to be really hard to do? What are some of the things that are practical that we can try to get done?

Neel Kashkari:

Well, the Minneapolis Fed for 20 years has done a lot of work on the value of early childhood education and making the economic argument that investing in especially low income kids who otherwise do not have good early ed opportunities, that it pays off for taxpayers, it pays off for society overwhelmingly over the course of their lives. That's unambiguously true. And Minnesota has done a lot. It's not gone all the way, but Minnesota has as a state embraced it quite well. And I think there's more to do, but I think we should be proud of the steps that we've already taken and continue to go forward. But K through 12 matters too. There are wide, wide disparities in the quality of K through 12 experience that Minnesota kids are getting. It's not simply minority kids in The Twin Cities. Low income Caucasian kids in urban or rural areas in many cases are not getting the great education that they deserve. And higher ed, there are also disparities and who has access to higher ed.

All of this affects our economy. I mean, there's a moral issue and a issue of right and wrong and you can decide that for yourself. I'm just here to make the economic argument. You think about where your workers are going to come from, if we're leaving behind 20 or 30% of Minnesota kids because they're not able to perform at basic grade level of math and science and reading, or maybe more than that, maybe 40% in some slices, that's a huge slice of potential workers that you're not going to be able to access. And by the way, those are also potential customers for you. So it's just a question of where are workers going to come from? I mean, does it make sense to leave behind a big tranche of Minnesotans and say, "Well, let's go import workers?" Maybe we ought to do both.

Doug:

I think we have to do both. Let's go back over here. Lauren?

Brennan McCarthy:

Hi Neel, it's Brennan McCarthy. Thanks for coming in. I would love to be a fly on the wall for some of those FOMC meetings, but the question I have is what is the primary data that you use for making those interest rate decisions, specifically with core CPI, I think the conversation around what component housing has in that factor and knowing the delay, you talked about it earlier, raising interest rates can take 12 to 18 months to reverberate through the economy. So what kind of data are you looking at and what are you seeing that makes you think we need to be aggressive? Listening to some of your comments specifically back in August saying the market got this wrong, we need to keep raising rates. So can you talk a little bit about that?

Neel Kashkari:

Sure. I'll try to give you a fairly brief answer. We look at a lot of data. Before every FMOC meeting we get more than a hundred pages of data and analysis just from Washington, let alone the research that our own staff at the Minneapolis Fed do, looking at every slice of the US economy. So just take inflation. We look at CPI, which you mentioned. We look at PCE, which is our official target, headline, core, trim mean. We slice it in as many different ways as you can imagine to try to get a sense of what is the underlying inflation doing. We look at goods inflation versus services inflation, housing inflation. We normalize for the fact that we think we know where housing inflation is going. What does that mean for other components of inflation? That's just the inflation measures.

Then we do the same kind of analysis on wages. We do the same kind of analysis on spending and consumption. We take a lot of different slices to try to understand where do we think the economy is headed over the next few months, over the next year, over the next two years. So for me, in July we had a surprising inflation reading where inflation came in low, really low, much lower than expectations, and people celebrated, "Yay, inflation is turning around." Then August and September, inflation rocketed back up again. So we cannot be overly persuaded by one month of data. We need to stay at it until we're at least sure that inflation has stopped climbing. Now there's some evidence, we've seen a couple... The PPI report and the CPI report were both positive. They're both the same direction. Okay, that's starting to look like maybe it's some evidence that inflation is at least plateauing.

And then I'll give you my own personal view. Once we're certain that inflation has really... We've hit the ceiling, then I feel like, "Okay, we can take some time and let some of the catching up take place. Let's see the full effects of our policy." But I need to be convinced that inflation has at least stopped climbing, that we're not falling further behind the curve before I would advocate stopping a progression of future rate hikes. So we're not there yet. So I told you a short answer, but that was a longer answer, but it was a complicated question.

Doug:

Other questions? Well, let's close with this.

Neel Kashkari:

There's one more, there's one more. There's a gentleman there.

Speaker 7:

Thank you. Hey, good afternoon. [inaudible 00:41:33] from SABIS Educational Systems. Just to follow up on that question, one of the things again struggling with is recruiting and bringing in staff, and many of the challenges... One of the challenges that we're facing as well as housing, which was discussed earlier, and with mortgage rates going up. Any forecast as to we can see some of that starting to stabilize or start going down to try and, again, attract... Because somebody indicated housing generally is one of the big factors in recruiting people into the state.

Neel Kashkari:

So it's really going to be determined by what happens to inflation. Most indicators in financial markets project that inflation should fall pretty rapidly over the course of 2023. I hope they're right. In 2022, they were wrong. In 2021, they were wrong, as were we. So we all were wrong in the same direction. If financial markets are right, that inflation's going to fall rapidly over the course of 2023, then I would imagine at some point in 2023, we would stop raising interest rates and then eventually be in a position to start to normalize rates in the other direction. But in my view it's really going to be determined by what happens with inflation.

So here's the thing, we are raising interest rates to try to cool down demand. And the overwhelming feedback I'm getting from all of you is you still have plenty of demand and you can't find workers to meet that demand. So I'm not seeing much evidence of cooling in this room. So have we done enough? I don't know. So until we start seeing some evidence that underlying demand is really starting to moderate, it makes me very hesitant to try to predict when we're going to be done raising interest rates, because our objective is to reduce demand and bring that into balance with supply, and you are all telling me you still have a lot of demand. Maybe that's not the message you wanted to send me, but that's the message I'm taking away from this conversation.

Doug:

The retailers out there are certainly hoping that there's lots of demand yet. Let me just say thank you, Neel, to you and your team. We appreciate having the Federal Reserve here in this state. It allows us great access to an amazing body of work. So thank you for your leadership, thank you for your team, and thank you for being with us today. Please-

Neel Kashkari:

Let me just say thank you to Doug and your team. We've had a very good partnership and working relationship and I really appreciate the work that we've done together and look forward to doing more work going forward.

Doug:

Fantastic. Please give Neel a warm thank you.