Dave Bartlett:

Morning everyone. My name is Dave Bartlett. I'm vice president of Land Entitlement for Brookfield Properties Development in Southern California and I am honored to serve as board chair for the Orange County Business Council this year. Thank you to our OCBC investors who have joined us in the room this morning. And to all of you that are on livestream, this is great. It's my distinct pleasure to introduce Mary Daly, the 13th President and Chief Executive Officer of the Federal Reserve Bank of San Francisco.

Now a few comments about Mary. As President and CEO of the Federal Reserve Bank of San Francisco Mary Daly leads an organization dedicated to building healthy, inclusive and sustainable economy in the Federal Reserve Systems 12th District, the largest and most diverse district within the Federal Reserve system. Mary has chartered a vision of the San Francisco Fed as a premier public service organization dedicated to helping create underserved opportunity for all Americans. And this is the best part in my opinion, emphasizing that opportunity is not a luxury but a necessity that needs to be accessible to everyone. She works to broaden and deepen engagement with the communities the bank serves. Mary champions initiatives to make San Francisco Fed's policies and decision making more transparent. She actively supports the bank's commitment to understanding the economic and financial risk of climate change and inequities, issues that materially affect the Fed's mandate and the growth and competitiveness of our nation.

Now Mary's going to share some comments with us before having a dialogue with Jeff Ball, our CEO of the Orange County Business Council. And then we're going to open the floor to our investors for comments. So Mary, welcome to Orange County and we look forward to hearing your comments. Everybody, Mary Daly, please.

Mary Daly:

Thank you. Thank you very much.

Well, good morning everyone, and let me just say it's delighted to be here. Thank you Dave for the kind introduction. Thank you Jeff for hosting us and allowing me to come and speak at this point in a time. I really appreciate that. I'm competing with the proverbial turkey and turkey day and yet you all came.

It is a commitment of the Federal Reserve system and in particular the Federal Reserve Bank of San Francisco, that we not just make policy that affects every American, but that we share how we think about it with as many Americans as we possibly can, because ultimately we are public servants and we are accountable to each and every one of you. And so that's the spirit of my remarks today and I look forward to our questions and answers and questions from each of you.

So without further ado, let me go forward. Let me get started.

So these days, and I think this won't surprise you, I am often asked how I think about monetary policy decisions. It really does make sense right now people have fears that have really stark trade offs. We're either going to have high inflation that never goes away or going to have a hard recession that devastates the economy. Those are trade offs that feel very severe. So people ask, how are you going to make this impossible trade off? And my answer is this, I'm going to be resolute and I'm going to be mindful. Resolute in achieving our goals, price stability, full employment, and mindful about how we do it.

Now to some those two goals, those two principles rather, may seem in conflict. People worry that resolute actually means at any cost. And on the other side people hear mindful and they start to worry that that means we will not go far enough and they will stop short of getting the job fully done. But to me, resolute and mindful are complimentary principles. So today what I will do is share how they both inform my decisions as we strive to deliver on our dual mandate goals, low and stable prices, full employment and ultimately an economy that works for all.

Before I go on, if you've ever been to a Fed event, you know that I have to give the standard disclaimer, but it's an important one that the remarks I make today are my own and do not necessarily reflect anyone else in the Federal Reserve system.

So before I talk about where we're headed, I like to talk about where we are and how we got here because actually that lays the stage for what lies ahead. So as many of you know, probably most of you know, Congress gave the Federal Reserve two mandates, and I already mentioned those, but they are price stability in maximum employment.

Right now, by almost anyone's measure, we are only meeting one of those goals. The labor market, the goal we're meeting, is very strong and well aligned with our employment mandate. In contrast, inflation is unacceptably high, I mean unacceptably high, hurting many, many people. It has been that way for almost two years. This high inflation environment feels unfamiliar to many of us. Before the pandemic, the US had enjoyed almost four decades, I mean 40 years, of low and stable prices with inflation fluctuating only very modestly between expansions and contractions or downturns. In fact, and I was talking to a few people before the talk today that in fact after the financial crisis of 2008, the Federal Reserve and other central bank officials across the globe were struggling to get inflation up to target because it had been persistently too low, which could leave the economy, and we all knew this, quite vulnerable to deflationary pressures and slower long run growth. So clearly we had a different problem then.

But then COVID-19 hit our shores and plunged the United States and the world into a steep economic decline, a downturn. The Federal Reserve cut interest rates immediately, we purchased long term assets and we opened a variety of lending facilities all in an effort to bridge the economy through the worst of the pandemic. And US fiscal agents took equally aggressive action, eventually putting about $5 trillion in federal spending, federal monies, into the economy.

These unprecedented efforts that we threw at the economy because we hadn't been in a pandemic in 100 years and it was so severe, these unprecedented efforts worked. US economic growth bounced back quite rapidly. And by the second half of 2020, less than a year from when the pandemic started, the labor market was growing, demand was growing, and in fact the labor market was on track to recover. Supply chains, as we all know, were lagging, but with vaccines coming online, there was quite a bit of hope that production would quickly return to full capacity. And unfortunately, in case you don't recall, that did not happen. The supply chains, global production and supply continue to lag. So by early 2021, price pressures were starting to build. First in a few sectors that were most directly affected by the pandemic, but then more broadly as imbalances between robust demand, which just wouldn't stop, were meeting limited supply throughout the economy.

By the fall of 2021, inflation had risen further and it looked to be gaining momentum, it was spreading and getting faster. At the same time, if you recall, unemployment was steadily declining at that point and heading back not only to something that looked better but to something that was like its historically low pre pandemic level. So in response, the Fed needed to tighten policy and we needed to do it much more quickly than we had previously signaled.

But there was a key challenge. At the time, back in the fall of 2021, most market participants, businesses and households expected the Fed to maintain near zero interest rates until late 2022 or even into 2023. And while we had the asset purchase program that we were running had begun to wind down that November, it was not expected to conclude until the middle of 2022. So policy needed to adjust in fall of '21, but people didn't expect it to even begin to adjust into well into 2022.

Now a long history suggests that surprising people with abrupt changes to Fed monetary policy can be costly, potentially disrupting financial intermediation and leaving lenders and borrowers unprepared for the change. Moreover, because people have come to expect that the Fed will be transparent about its projected policy actions, catching people off guard can actually erode hard won trust. So in that fall of 2021 FOMC participants, myself included, began to communicate that policy could change earlier the previously thought. And in December of 2021, the FOMC announced after our regularly scheduled FOMC meeting that we would phase out our asset purchase program more rapidly than we had planned and we'd be prepared, prepared to raise interest rates as early as March of 2022.

So this statement and other forward guidance that we provided throughout the fall as we began to communicate had an immediate impact. Almost overnight financial conditions tightened. Market participants began pricing in expected future rate hikes and businesses and households started readying themselves for a new interest rate landscape, pulling forward real estate purchases, restructuring debt obligations and locking in longer term fixed rate loans. In other words, and this is really important, before we ever raise...

I wanted to show this figure because it really highlights this by the first official rate hike of 25 basis points in March of 22, represented by the vertical black line, mortgage interest rates, the 30 year fixed mortgage rate, which is the green line had already been rising. And in fact, just by calculation they had risen three quarters of a percentage point before we ever raised rates. And the red line, which is a financial conditions in tax from Goldman Sachs, had risen by a full percentage point before we ever took a single rate hike. All of these increases, the green line in the red line, are a reflection of the forward guidance and the statement that we had put in place in that fall of 2021.

The responsiveness of financial conditions to our communications was notable. I remember being at board and council meetings from the Fed and also in the community and hearing I didn't understand forward guidance until I saw it in real life, it really happened. Because we had communicated this, the financial conditions changed. So it was really notable, but it was also quite helpful. It gave us, and I would say us as not only the Fed but collectively, it gave us a head start on adjusting policy, making that pivot agile even more than people might have thought if they just looked at the funds rate and it helped us mitigate the cost of an abrupt and unexpected change to the actual policy rate.

Now of course, and we all remember this, the job was far from done. Inflation at the time was still on a troubling upward climb and businesses and families were feeling the pain. Not just a little pain, a lot of pain, right? I mean, we're still feeling it. Prices rising at the rate that they've been rising, it actually really disrupts families and businesses in their attempts to just live their lives and create livelihoods. We also know that left untamed, inflation can distort investment decisions, longer run investment decisions, it can exacerbate inequalities that already exist in our society and it can reduce confidence in the Fed's ability to achieve its goals and deliver on our mandates. And of this, all of those features, can bridle longer run growth.

So this pain of so many Americans, which was quite visible and still is coupled with the potential for long term damage to the economy, prompted the Fed to take even more aggressive action. We began raising rates more quickly, expeditiously as we called it. Moving the Fed fund federal funds rate up in 75 basis points increments. And this allowed us to swiftly withdraw accommodation. Remember we had rates at near zero and we needed to really remove that accommodation, so we were able to do that and bring policy more in line with prevailing economic conditions, which clearly indicated that the economy no longer needed our monetary policy support.

And as of our last meeting just a few weeks ago in early November, the target range of the federal funds rate now stands at 3.75 to 4%. And that's judged to be modestly restrictive relative to the neutral rate of interest, or where the economy's neither being stimulated nor bridled. So it's modestly restrictive at this point. We've also signaled and that we did this in the statement, but also Chair Powell did in his press conference, that there is more work to do. That resolve, that sentence about more work to do has some people worried. Maybe you are worried, but many are concerned that resolute means unwilling to stop in policy adjustments until the economy breaks or inflation comes back down to 2%.

This is important. That is not how I think about policy, nor is it the path communicated by the FOMC in its last FOMC statement. Resolute does not mean heedless and this is really critical right now as we move to the next phase. And in many ways the more difficult phase of policy tightening. As we work to bring policy to what we call a sufficiently restrictive stance, which really in simple terms means the level required to bring inflation down and restore price stability, we will need to be mindful. Adjusting too little will leave inflation too high and adjusting too much could lead to an unnecessarily painful downturn, underlining unnecessarily painful.

So what specifically, I think would be the right question, do we need to be mindful of? Well, there are many things of course, but in our November FOMC statement we mentioned three in particular: the cumulative tightening already in place, the lags in monetary policy and the evolution of the data.

So I'd like to start with cumulative tightening. Historically, the Fed has used progress on the Fed funds rate and where it stands relative to this neutral value as a gauge for policy restrictiveness, you look at the funds rate, you look at the neutral rate and you say that's how restrictive we are. But in today's world, that is not a complete picture. The funds rate does not capture the impact of all the other tools in our toolkit, including the reduced asset holdings associated with balance sheet roll off. So as balance sheets roll off, asset holdings are falling, that's a tightening of policy. The forward guidance that we've provided about the future path of policy, which we've already seen from the chart, has an impact. The funds rate also misses the fact that central banks across the globe are tightening policy at the same time, simultaneously, likely amplifying the effects of our own rate hikes.

So a more comprehensive way to gauge the actual level of tightening in the economy, how much restraint is really there is to look at financial market conditions more broadly. And several researchers have done just this and found that the level of financial tightening in the economy is right now far higher than the funds rate tells us. You can see this in the figures. So the blue line in the figure is the funds rate, it's the effective funds rate. So we have a range, so you have to average the range and that's the average of the range there or where it's at. So you can see right now it's a little over three, this is before we raise the rate the last time. So that's the effective funds rate.

If you look at the proxy rate though, is the green line, it's actually far higher than that. So, that has started happening, that often happens, you can see in the financial crisis, the proxy funds rate, how tight financial conditions were was actually looser than the zero lower bound. That's the classic zero lower bound problem. But you can see in the recent period when we started increasing or pivoting our policy, the proxy funds rate started moving up and it's got well out of alignment with the actual printed funds rate. And today the funds rate is between 3.75 and 4% as I said. But financial markets are acting like it's really around 6%. So if you think about financial market tightening, it's more 6% than the 4% of the funds rate.

So as we make decisions about further rate adjustments, it's going to be extremely important to remain conscious of this gap between the printed funds rate and the proxy fund rate because that's going to tell us how tight conditions really are and how much bridling is being done in the economy. And if we ignore this gap, it raises the chances of tightening too much this overcorrection that we want to avoid. Of course, we also have to account, as I mentioned, for the fact that while financial markets react very quickly as you just saw to our policy changes or our projected policy path, the real economy, the bread and butter of how the economy works takes longer to adjust.

Overlooking this lag between financial market adjustments and real economy adjustments you do it with peril. Why? Because you might think, oh, the data haven't improved yet, we need to tighten more. But in reality we just have to wait for the earlier policy actions to fully work their way through the system, through the economy. So it might not surprise you, especially if you follow this, that economists have spent decades trying to estimate the lags in monetary policy. There's a large, large literature and if you're ever interested you can spend a year catching up on it. But there's a large literature on monetary policy lags because it's a serious issue that all central banks have to contend with.

There is no clear consensus on what the exact number of quarters or months is. And there's also a great recognition that it differs between what variables you're looking at. Interest sensitive sectors respond first, employment tends to respond only after those sectors of adjusted and then inflation is the one of the most lagging and adjusts last. What we do have in addition to those sectoral differences, is that there is very broad agreement that there is some kind of lag, that there is not an immediate adjustment of the real economy to our policy changes and that it can at least take several quarters. So let's look at the data.

I would argue that the data that we're seeing are very consistent with what we know from this research on lags. The Fed started tightening policy close to a year ago, interest sensitive sectors started to cool immediately. Housing is the best example. As mortgage rates rose, home sales, construction activity and the pace of house price gains slowed. Labor markets right now remain quite solid, some would argue they're tight depending on what sector or area you're in. But we are seeing early signs of cooling. Very early, but we are seeing it. One of those signs of the job openings, the number of posted vacancies has come down about 10% since March of this year. Job growth, which is a good marker of where we're at relative to where we need to be, has cooled from the rapid pace it was earlier this year. We were adding close to well over 300,000 jobs and now we're in the 250,000 job range. Now remember, we only have to have 100,000 jobs per month to sort of keep pace with what we need, labor force growth, entry and reentry. But we are still slowing, so that's a bright spot in the idea of slowing is important to get the economy back into balance.

Whenever I say bright spot, I'm always mindful that on the other side of that slowdown is a human, a person, a worker. So we always want to be mindful of that. But the truth about policy is we have to slow the economy to bring inflation down. So, this is why central banking's rarely popular, but it's also why the responsibility's one to take quite seriously.

So let me turn to inflation. Although one month of data does not a victory make, and I think I should underline that or say it three times, although one month of data does not a victory make, the latest inflation report did have some encouraging numbers and I think one of the ones that I focused on the most was the long awaited decline in goods price inflation. We had been waiting for goods, price inflation to come down after consumers rotated back to some service consumption, went back outside and also as ports and other things started to open. We had been waiting for a while, but we finally got that piece of information and we'll have to continue to see if that sticks with the data and we get further improvements in that area.

So looking ahead then, what will I be watching for? Well I'll be watching for further calming in these areas that I just mentioned. As well as signs that pandemic related imbalances between supply and demand continue to subside, and that's very important. I will also be in continuous dialogue with people like yourselves, business leaders, workers, community members in the district. Policy decisions require that we use our models, we use our history, all the empirical information we can get the published data, but they also require that we look forward. Real time conversations with the people working in the economy tell us several things, how are people faring right now? What are they looking for in the future? How are they making decisions that are going to affect our growth a year from now? In those situations, I learned things well before I ever see them in the published numbers. And that's why it's critical to have conversations like this and be in dialogue with each and every one of you.

So as we navigate our way back to price stability, we will need to pay attention to all of the things I just mentioned and adjust policy accordingly. And because the economy is dynamic, it's ever changing, we will need to do this not just once at one meeting and then set out a plan, but on an ongoing basis. We have to commit to constantly calibrating our stance of policy to meet the evolving conditions.

So let me conclude by saying this. While resolute and mindful are not in conflict and I strongly believe that, there is a tension and that's what you want out of policy making. You actually, in my judgment, want that tension. You want the resolute to get to our goals because we want to go far enough to get the job done. That is the resolute part. But we don't want to go so far that we overdo it, and that's the mindful part. And putting these things in tension is what makes me confident that we will make policy that each and every time is the best we can do at that moment. And then the next day we'll turn around and ask how could we have done better?

So my ending note to you is we will march unwaveringly forward toward our goals. Those are the ones that Congress gave us. And they're ones each and every one of you depend on us achieving. We will be resolute and mindful in doing that until the job is fully done. Thank you.

Jeff Ball:

Well, President Daly, first of all, it's an honor and a privilege to have you here in Orange County. Thank you for taking the time to come to share those thoughts and to meet with some of our business leaders. You have a very diverse group of business leaders from Orange County here before you.

A couple of things here to help set the stage as far as Orange County. Orange County has the sixth largest population in the nation, I believe we're the third largest in your district. We have the fifth highest gross regional product, higher than 27 states. So this is a very substantial economic area, certainly within your district and across the country. Our median household income, as you have seen with a lot of your regional data has increased here too. We have the highest regional median household income in the state at 94,000. And our unemployment has improved here in Orange County, we're now back to pre pandemic levels below 3% in regards to unemployment.

But it doesn't mean we don't have challenges. And we certainly recognize and emphasize with a lot of the points that you made relative to the national economy and how it impacts us here within the region. We also have one of the widest income gaps of counties within the state and the nation. And you talked about a number of different data points that you look at and I want to expand on that in a moment, but I will share that one of the data points we look at is our enrollment with CalOptima, which is our county organizational health system that was established in 1993. We now have a population over a million within that system, that backup fail safe system and they have been adding 10 to 12,000 enrollees a month. So we know we have a lot of underlying issues within the county as well.

So you talked about constant reevaluation, you talked about some different data points that you look at. I wanted to start with the concept of the proxy funds rate because that may actually be a new term for some people in the room. So maybe you could just expand a little bit about what that means because obviously you're looking at that very closely in relation to the gap with the Feds fund rate.

Mary Daly:

Sure. And I will say that the proxy fund rate is a naming convention that the researchers came up with. These are researchers on the San Francisco Fed team and then he works with other people in the country and they put together this idea. The concept is very simple. It is one where you recognize that not all the tools we use as a Fed are captured in the single benchmark rate that we change, and so how do you go about trying to figure out how tight financial conditions really are and then map that back into federal funds rate space so we can compare it to history.

So what they did, it's really quite clever in my mind, in my judgment. They looked at historically how the federal funds rate, what level it's been at when financial conditions have been this tight. They took the relationships from those periods of history and they said, okay, if we apply those now and financial conditions are as tight as they are, which we can use by looking at financial conditions indices, many places have these, I showed you one from Goldman Sachs, but there are a variety of these, they used many of them. If you do that, what does it imply about where the federal funds rate would normally be or really is in terms of that in the Fed funds rate space? And it says it's closer to 6% now even though we've only moved it up to 3.75 to 4%. So I find that to be really, and that's why I've talked about it, as an FOMC we talk about the Fed funds rate and our forward guidance and our balance sheet policy, but I wanted something where I could actually calibrate those two together and ask how big is the gap?

When you think about that gap being as sizeable as it is, then it's really important as we get to this next phase of tightening where we're trying to get exactly the right level of tightening to be sufficiently restrictive. Well we have to be mindful of the fact that there is a gap between those two rates. So we're up going to publish this rate on our website so you can see it. But I think it's just an acknowledgement that as the Fed has evolved and used and expanded our toolkit so that we have balance sheet policy, we have forward guidance, that we have to find a way to calibrate our policy stance using those things as well as the funds rate. And that's what that gap means.

So the term proxy rate will be unfamiliar almost everyone, unless you've read his research because I kept asking him, what am I going to call this thing? And he said, well, let's just call it the proxy rate. And I said, well that's as good as anything. So we already have our trouble because we have to use the effective funds rate because we have a range, and so then you have to see where it's trading. It's in a world now that is much more complicated than it was just 15 years ago and I think what the research is doing is expanding and changing so that we understand the complexities of our world and we can use them to our advantage as we make policy.

Jeff Ball:

So, I hope that was helpful for everybody in understanding-

Mary Daly:

Was it helpful? I hope so. I could always do it again.

Jeff Ball:

But it's a key rate obviously that you're looking at in terms of measuring what the impact has been-

Mary Daly:

I am looking at it.

Jeff Ball:

Recently you provided comments about thinking that we may need to get to 4.75, 5.25 before we see-

Mary Daly:

In funds rate space.

Jeff Ball:

In funds rate space. Is that still your thinking today? And besides the proxy rate, what are some of the other indicators that we should be watching that might help to form the guidance as you continue to reevaluate?

Mary Daly:

Sure. So I'd like to, yeah, I think this is a great opportunity to talk about how do we pick numbers, just how do you do it? And so it's not that I'm just picking a number that seems nice. I we're really rigorous in how we think about this. So right now the federal funds rate is at 3.75, 4% and we've got early signs of that slowing that I talked about in the housing market in other interest rate sensitive sectors. But inflation in the last report still printing at 7.7% on a year over year basis. That's clearly not price stability. We are looking for something on average of 2% and there's no one in the world I think that thinks 7.7% is close enough to say that's price stability. So we have a lot of work to do.

So then the question is how much more work do you do before you get to what I would think of as the third phase of tightening? There's three phases of tightening. First is remove all the accommodation, that's completed. Second is get to a point that's sufficiently restrictive and the third is hold it. So I seek of this as the raise and hold. You raise to the level you think it would be appropriate and then you hold it for some time until you fully see the policy tightening working its way through. So when I'm balancing these, how long can we hold it versus how high does it need to be? What I'm thinking of is based on history, based on the amount of inflation out there, based on the lags and monetary policy that we understand, how high do I think the rate will need to go to get this job done? And right now my own outlook is around 5%.

When I was on being asked about this, I said, but we don't know. If I knew what that was with a capital T truth, we could just get there tomorrow. We could all agree at the FOMC, that's it, but we don't know. So 5% is a modal outlook, but something in between 4.75, which is a little less than 5, or a little more than 5, 5.25, also seems like a reasonable range. So I go into this with a lot of clarity that we don't know the destination with certainty. And it's another reason that we've talked about slowing the pace of adjustments because it's easy to have 75 basis point increments when you have clarity on the destination. The destination was get to neutral or slightly restrictive. Everyone agreed, we know what that is roughly, we head for it.

But now that we're entering this other phase where it's less clear and we have to look at a variety of things, things that are complicated and hard to measure, cumulative tightening, lags in policy and the evolution of the data in an uncertain world, well then we have to take a more judicious approach to achieving that. Otherwise, we run the risk of over tightening because we weren't as thoughtful as we needed to be as we went forward in incorporating all of these things. So I'll be watching the data, I'm watching all the evolution of the uncertainties in the data. We have a lot of global headwinds when you think about it. We have China announced today another impact on its movements and transit systems and production because of the no COVID policy. The war in Ukraine has been escalating. The winter in Europe could be, if it's a hard winter in terms of weather wise, well that's hard when you already have limited food and energy supplies, those things spill over. They hurt real output growth in those countries and they affect price inflation in our country.

So these are all things that I will be watching. And so when I say 5% is my outlook and something between 4.75 and 5.25 is where I think we could end up, I also want you to recognize that that is not set in stone. That's the whole point of being mindful is it evolves as we evolve. It's not a one meeting, one projection and we're done. It's a projection each and every time we get new information so that we really are calibrating policy for the economy we have.

Jeff Ball:

Great, and I appreciate some of those comments. I think you referenced other central banks in your comments. But Orange County has a very significant amount of international activity. In the room here we have Bank of America and Cafe Bank, two of our leaders locally in trade finance. So obviously what's happening in regards to international trade, the impact of all this on the value of the dollar plays a significant role in our local economy here in Orange County. So, I appreciate those comments and the focus that you have on that.

Also, within Orange County, we have a major crisis around housing. We have a lack of supply. We have identified this as our number one crisis here in the county. Obviously the interest rate impacts certainly play a role there, what tools can the Fed provide understanding what the Fed needs to do in controlling the inflationary environment and the rising housing costs? Although it's not in the core number certainly contribute to a lot of those concerns. What are some of the things, what are tools that the Fed can provide for us in our local market as we're looking to address our housing issues?

Mary Daly:

So this is the challenge of central banking, of the Fed. So we're an independent central bank, Congress gave us two goals and we have one instrument. We have many ways to execute on that instrument, but we really have one instrument, the interest rate, our interest rate policy. And that interest rate policy is a blunt tool and is trying to achieve two goals: price stability, full employment. And it means that we don't really have levers for the kinds of things that you're talking about, especially when one of the real problems in housing, and this is not just an Orange County or a California phenomena, this is a national phenomena. One of the states in our district, the 12th district, it's all of our district is Idaho and Boise, Idaho is really been a place where house price appreciation is so high that it completely priced out first time home buyers made the news almost in every kind of news outlet you could think of. Why? Because housing supply is well below housing demand. And that is true across the nation.

We have a housing shortage. Builders and local governments and private public sector partnerships are trying to work to solve that problem. Here's what I hear, well that's great, but when the Fed raises interest rates, it doesn't make that job easier. Here's what I will offer, that we also know that high inflation doesn't make that job easier. That high inflation means that input prices rise, margins get compressed, long term planning gets distorted because how can you invest when you're not even sure that you could write a forward contract on a building project? The Fed has that job to create price stability so that the foundation of the economy is functioning and we as a society with our elected officials and our private sector companies can take on the hard job of solving these bigger issues.

But without the fundamental work that the Fed does to restore price stability and put the economy back on a sustainable path, the economy's so vulnerable that we're not going to really solve that equation between housing supply and housing demand. So while the raising of interest rates doesn't allow for us to speed up and solve this problem, my belief is it is critical, it is a criticality to get that solved, restoring price stability, so that these other problems can even be attacked and challenged and fixed.

Jeff Ball:

Great. Well I appreciate those comments and I want to transition a little bit now while we're talking about Orange County. And another area of focus for us is around workforce development. I might get a little more personal here for you. But one of the things that we're very focused on is, as I talked earlier, we have this income gap between different sides of our county and working on ways that we can help to approve the attainment of education within certain communities. We're very proud of the work we do with our first generation students, and the personal aspect of this is the fact that you yourself are a first gen student. We're proud of the fact that the president of Cal State Fullerton is first gen, our chancellor at UC Irvine is first gen, our president in Concordia University Irvine is first gen.

So my question to you is any thoughts that you have for us as a business community as we approach this issue? I shared with you earlier the things that we're doing in educating these communities around how education works. But, what are some of the ways that we can work with the Fed, ideas that you have for business? Because we have a strong workforce need in certain segments that we believe this could help satisfy.

Mary Daly:

So you will have as many good ideas about how to solve this as I will on this. But let me tell you why it's so important, let me start there. When you think of it, and I don't think I'll have any disagreement here, our people are our biggest asset. That's true in any firm we work in, the institution. But it's also true as Orange County, as California, as our nation, our people are our most important asset. We live every year so much talent on the table in the United States, we simply don't have ways for that talent to access the needs that we have as a society to have them get jobs and all of that talent we leave on the table, I always say this, and I think it's true, if I asked any of you entrepreneurs, any of you business leaders, if you were running this company, you would say, I'm discarding half of my resources, a large part of my resources I'm leaving completely out of the equation of my production and you would never tolerate it.

So then the question is, how do we tolerate it as a society? Why aren't we leveraging the great talents we have here to make everyone's life better and make the pie larger? So then the question is, how do you do that? I think one of the lessons I got out of the pandemic, there were so many to learn from the pandemic, but the pandemic put a big magnifying glass spotlight, whatever I choose, magnifying glass on the things that are in our society that need repair. And one of them was just the difference in how we think about workers relative to the needs we have. And so we talk about the middle group. So you hear a lot about high skilled workers, we can't find enough of them, and then low skilled workers, they get devastated, decimated in the pandemic and now we're in super short supply.

But the place where really missing talent across the United States is in this middle group. People who don't necessarily make it their life journey or really can't even afford the time it takes to do it to get a four year college degree. But they really want to contribute in a way and show their skills and talents. And so those are the bridges I think could really help lift. People can do things over time. You start with a vocational degree or certificate, then you say, this company's terrific to work for. If I got a two year degree, think of how it could contribute. Oh, I'd like to get a four year degree. But that doesn't have to be done between 18 and 22, it can be done over a life journey. So the two messages I have are people are our best asset and we leave too much talent on the table.

And the second one is that the big innovation we can all learn from, I think, is that people don't get fixed and invented all in four years between 18 and 22. It's a life journey. And if we continue to think of each and every time people move in their job as a life journey that we can contribute to, not only for our own companies and institutions, but for the society around us, I think we'd just be in a better place.

That's the commitment of the Federal Reserve Bank of San Francisco and if you all have ideas about how we can partner, we're more than happy to do it because ultimately that's what makes a productive economy and that's what will help us with many of the problems we have.

Jeff Ball:

Great. Well we absolutely do and we look forward to working with you and your team. At this point I would like to open it up for questions from the floor. Yasmin will come to you with a microphone if you have any questions-

Mary Daly:

Are they going to come up in secret ballots like that? That's good.

Jeff Ball:

I was just given a reminder on the time, I have very good staff like you do. But I do want to remind you that we are on livestream, so all of your questions are going to be broadcast around the world. And also when you ask a question, if you could tell us your name and what organization that you represent, I think that would be helpful. So does anybody have a question that they would like to ask? Yes, Michael.

Michael Hunn:

So Michael Hunn, CEO at CalOptima Health, the Medicaid health plan here in Orange County. Thank you President Daly for being here. I really enjoyed your remarks.

So we represent about 950,000 individuals here in Orange County that qualify for Medicaid. Out of the 3.1 million that live in Orange County in a population, that means that about a third of the residents of Orange County live below the federal poverty level. So, in the category of mindful, what we see is kind of the super leading edge of what might be happening in the economy. And we're averaging right now, as Jeff mentioned, 10 to 12,000 new individuals joining CalOptima, the Medicaid plan, on a monthly basis. That tells us at the federal poverty level, so for an individual that means they're making less than 17,600 a year and for a family of four less than 38,000. I think as you look at policy, we're seeing an early trimming in the employment end of things. An early trimming if you will, and maybe the number of hours an individual get or access into entry level jobs.

So as that starts to unfold, I think policy should take into account not just the number that is put forward as unemployment, because some folks have just given up, but clearly it would be an opportunity for you all to be mindful that those living at that extreme federal poverty level are very important to pay attention to. I think in your mindful comments, you've captured that so I wanted to say thank you.

Mary Daly:

Absolutely. Well thank you for that comment. I want to just highlight something that not everybody knows and so if you aren't knowledgeable about this I want to share it. One of the things that the Federal Reserve system, if you recall, we did what we call a framework review in advance of the pandemic and we came out with a new framework in August of 2020. And that new framework, we did a series of things called Fed Listens. And in Fed Listens at every reserve bank and at the board of governor, we hosted conferences where we had people who were from community groups, worker groups, business leaders, et cetera, talking about inflation and full employment. What does it mean to have those things? And what came out in all of that and was really affected our what, even the data we look like, how we think, look at how we think about things, what came out in that framework is that the average numbers do not tell the story of the economy we live in and that you have to pay attention to the distributional things even when you can't affect them directly.

So much of the distributional outcomes in our society, the inequities, we don't have levers to work on but we absolutely do have to understand them. And importantly to your comment, we have to know where the leading indicators are. And I've been a long student of labor economics, as many of you might have read, and one of the things you learn is that the workforce transitions we see in slowing. They happen first to those least able to bear it typically.

So we have to be very mindful, as you said about where we're looking in the distribution, what are the leading indicators? If we wait for the average to adjust, we often miss all of that that's going on here, which is not only hardship, which you just said, but it also is indicators of where the economy's heading. So incentives are all aligned among policy makers and business leaders and others is that we want to restore price stability but we want to do it as gently as we can. Because if we do it harshly and without regard, then we're in a worse situation that we were in before. But if we do it as gently as we possibly can, and we give people in that group, people who are struggling with poverty, inflation is very much a regressive tax. Inflation is hurting those individuals more than any other people in our economy. So we have to be mindful of that. So I appreciate your comment.

I just wanted to tell all of you that my FOMC colleagues and myself, and I never speak for my colleagues but in this way I feel completely comfortable speaking for us as a group, that we absolutely pay attention to those distributional things. We have done so for a long time, but the Fed Listens events we did put a fine point on how critical that is, especially as you're navigating through these challenging waters.

Jeff Ball:

And to emphasize the point, he talked about a third of the population on this backup program, and I told you we have less than 3% unemployment. So it gives you an idea of the challenges that we have within our county around affordability.

Mary Daly:

Absolutely.

Jeff Ball:

Anybody else? We have time for one or two more questions. Oh, she's telling me one more question. Anybody else want to ask a question? Dr. Walrod?

Dr. Walrod:

Yes. What a pleasure, President Daley, I was going to ask you, because of your extensive background in labor market dynamics about labor participation rate, the troublesome low level of that, and what things like lack of affordable childcare might be a factor. But I think I have to be a bit provocative and timely, and ask you in light of the-

Mary Daly:

That wasn't going to be provocative and timely?

Dr. Walrod:

No, that's provocative. But in light of the FTX situation, what are your thoughts now on a central bank digital currency?

Mary Daly:

So, on the FTX, the way I think about central bank digital currency and so let me say that with the Fed Reserve system, the Board of Governors will decide along with Congress whether we will have this. But when we put out the white paper, what was really clear in that white paper and is exactly how I think about it as well, is that what's the business case for digital currency and then there's a continuum of ease of everything against privacy, fraud, et cetera. So we have to balance all of those things.

So when I write down the business case for a digital currency, one of the things that you may or may not know is that the Federal Reserve is already taken up this effort on a project called FedNow. And FedNow is, in technical language, a realtime gross settlement system. It means that transactions will clear unlike they do in ACH and other things, they'll clear immediately in real time 24/7, 365. We're going to open that up in the spring of next year as my understanding, certainly by the middle of next year.

So that solves a lot of the business case, which is ease of transactions and other things. What other countries are doing is saying, well, if we do those things, what's left on the business case and then how would we think about this? So I don't think of FTX and the difficulties that it's been having as really changing that conversation. We obviously, and Chair Powell said this, obviously we're likely to have a digital currency at some point in time. But doing it quickly likely means doing it not well. Doing it slowly, thoughtfully, carefully, means that we can really optimally balance that ease, convenience, all the use cases with importantly, privacy and fraud, which are just as important as those things.

Vice Chair Michael Barr gave his first testimony to Congress just this past week and he said something that I'll just repeat or paraphrase. He said, we're always about balancing innovation with protection. I think that's how you should think of all the things that we are thinking about. Innovation, we don't want to stifle innovation on the financial system because we know that helps with growth, but we have to do it carefully, talked about mindful, mindfully because we absolutely want to be the other part of our job is a safe and sound payment system and a safe and sound financial system along with other regulators. So those two things, I guess maybe I'll end this then by saying policy making done well always has tensions. Today I talked about monetary policy, resolute and mindful. But anything you're doing well, you've got these tensions pulling against each other and then you get people in there that discuss and figure out how do we do our best work so that we can continue to go forward. So thank you very much.

Dr. Walrod:

Thank you.

Jeff Ball:

Great. Well, in wrapping up, I want to tell you that first of all, here at the Orange County Business Council, we're very focused on economic development, we are resolute in that. But we're also mindful of the fact that we need partners and we appreciate the fact that we know we have the Fed as a partner who can help us in looking at our regional issues. You mentioned Boise as an example for housing, welcome you to look at Orange County as an example as well because we have very much the same issues with different parameters that I think could be helpful.

We are so appreciative to have you here and I would like to invite you to come back. To come back and spend a little more time in our beautiful county, to have an opportunity to see some of our amazing healthcare centers where we're seeing more development, we're very proud of our children's hospital, we're very proud of our cancer center that City of Hope just opened and many others. We'd love to have you come back and see that. Come back and see some of our master plan communities, the work that we have done with Great Park, also some of the innovative development that we have coming with ocV!BE in Anaheim. A lot of exciting things. And most of all, I want to take you and Shelly to Disneyland. Can we do that? Because-

Mary Daly:

I haven't been to Disneyland since fourth grade. But my deputy chief of staff was just there last weekend and he built the lightsaber and he is super excited about having this lightsaber.

Jeff Ball:

I want the front row of a Space Mountain car with you. Ladies and gentlemen, thank you for being here. Mary, thank you to you and your team. I want to thank my team as well. Great to have this pulled together, we appreciate your time and the partnership that we know that we'll have. And everybody have a happy Thanksgiving. Thank you so much.

Mary Daly:

Thank you so much. Thank you.

A pleasure. Truly a pleasure.

Jeff Ball:

Great to have you.

Mary Daly:

Thank you.