Jodi Schwan:

I think I know most of you in the room. But just in case, good morning, I'm Jodi Schwan. I'm the founder of SiouxFalls.Business which later on this month will mark six years in business. So, thank you. Thank you.

Many of you were here when I launched. You're the reason why I launched. You're certainly the reason why we're still here, as is this tremendous business community. So, very excited to bring what I think is a first ever event, a first ever CEO summit to Sioux Falls. It's a really timely moment to do so. And we're looking forward to a great day.

Full disclosure, I wrote this a week ago maybe. I said we're looking for a day of timely information, true. Candid conversation, I'm a reporter so let's hope I can make that happen. And maybe even a little breaking news which just goes to show if you put it out there in the universe, maybe it actually happens because I think we might break a little news today.

So, with that, I would like to introduce Matt Paulson who is the founder and CEO of MarketBeat. Another huge reason why this event is happening today and just a terrific success story on his own and a great supporter of our business community. So, Matt, thank you.

Matt Paulson:

Well, I'm really excited we were able to put this event together. Our community has lots of events for people interested in startups and real estate and biotech and these different verticals. What we haven't had is a forum for C-level executives to gather and talk about what's happening in our city and in the economy. So, that's kind of what Jodi and I are really trying to create today. Our hope is that this can be an annual event where business executives gather in the community to talk about the future of the community.

One of the things that we care about at MarketBeat is giving back to the community but not in a way where we're just kind of sustaining what we already have in terms of amenities and social services and leadership training. We really want to make the institutions at our city better. And we really want to encourage everyone in this room to find innovative solutions to meet the challenges that our community has today.

What a better way to do that than to gather a lot of our key leaders in our community together and share and talk about ideas that will move our community forward. So, that's kind of what I got. So, Jodi.

Jodi Schwan:

Thanks. And if you are not following MarketBeat by the way, you need to do that. Sign up for what they do. They're my source for stock news and they just do a terrific job.

So, the whole idea of a summit is that we want to look at those big pictures, most high-level issues that are driving our community. And what better way to do that than to start at the top, very happy that our mayor was able to join us this morning to say a few words about the direction of our city in the years ahead. Please help me welcome Mayor Paul TenHaken.

Paul TenHaken:

Jodi, [inaudible 00:03:07].

Jodi Schwan:

You got it.

Paul TenHaken:

All right. All right. Jodi, Matt, thank you. Good morning, everybody.

Participants:

Good morning.

Paul TenHaken:

All right, it sounds like my church. Good morning. How we doing? If the breaking news today is that we are getting a Trader Joe's, it would make my phone ring a lot less at City Hall. So, that would be great, Jodi, if you could wave your wand and make it happen.

Super cool event. Honestly, a little surprise. We haven't pulled something like this together before. Lot of great people in this room right now that have helped get this community and the city to where we are right now today. I was talking with Neel just a little bit right before this and you're going to hear from him in a minute. Great guy and a great get to have at this event. So congratulations, Jodi. But telling him about just the rocket ship that we've been on in Sioux Falls the last couple years.

And I just want to share a few numbers of where we've gone the last couple years. In 2021, we added 7,000 people to the city. Last year, we added about 6,300. So, roughly 13 to 14,000 people in the last two years.

In 2021, we had 19.3% sales tax growth over '20. And then in '22, we had north of 12% over '21. Now, there's inflation in that and there's the yeah-buts, all the yeah-buts that people want to say. But even accounting for all those economic factors, still tremendous growth, tremendous growth.

Building permit valuations which is something ... Communities judge their fiscal health on a couple things, housing units, sales tax growth, building permits. $1.9 billion in building permits last year. More than Omaha, Nebraska, a city twice our size. And also up from $1.1 billion in permits in 2021.

Now, yes, there's labor cost issues in that. Yes, there's inflationary numbers in that and there's supply chain issues in that, but not to the tune of 80% or 70%. So, tremendous growth and there's a lot of people in this room that are playing a part in that growth.

And then the last thing that we always keep an eye on which is the topic du jour in almost any community in our country right now is housing. What's going on with housing? How do we get more housing units? And last year in the city of Sioux Falls, we permitted more housing units than any time in the history of the city. Almost twice of what we did in 2021, doubled the numbers. And 2021 was a record.

So, we are building housing units as fast as some of you builders can put them up, but still quality. But we're building them quickly. A lot of multi-family, a lot of single family. And part of that growth, if I just have to put kind of an umbrella over why all this growth is happening, it would be this. It would be the fact that I think, and this is not because of a Mayor TenHaken administration or a Mike Huether administration or a Bob Mundt leadership at the Development Foundation.

This city has had years and decades of just smart, consistent, pragmatic leadership that we don't swing too far one way or the other. We put smart policies in place around things like crime and things like growth and urban planning. And we're just hitting it down the middle of the fairway consistently year after year.

And so, I was speaking with a gentleman yesterday who was maybe considering running for city council and I'm like, "What's your why? Why would you want to do that?" I said it differently but, "What's your why?" And he said, "You know what, I just feel a responsibility to keep driving that ball down the center of the fairway."

So, there's no big swing in changes that we need to make. We just need to keep doing what we've been doing and doing it in a consistent way. And the voters will tell you if they don't like it. They spoke loudly in Chicago last night. Mayor Lori Lightfoot, incumbent, didn't make the runoff because policies have been swinging so dramatically that it's made people upset with the direction of their city.

And I would say that a majority of this community ... We got issues, we got potholes, we got challenges. But a majority of the people ... Neel, you got potholes in Minnesota?

Neel Kashkari:

Never.

Paul TenHaken:

Never. Wow. Tim Walz, great job. But for the most part, if you look at just the overarching condition of Sioux Falls, this is a great community. And I just want to say thank you to the people in this room who have carried that forward and have made this community great. There are some great leaders that I'm looking at as I look out here that have had a lot to do with that. So, thank you.

So, it does give me a lot of pleasure to introduce Neel Kashkari who's going to be our speaker today. Neel is president of the Minneapolis Fed, one of the Federal Reserve Systems 12 regional banks with the district including Minnesota, pothole-free Minnesota, the Dakotas, Montana, Northern Wisconsin and the upper peninsula of Michigan.

Neel serves as a voting member of the Federal Open Market Committee which sets the nation's monetary policy. Neel began his career as an aerospace engineer developing technology for NASA space missions. And he later held a variety of roles in public service and finance, most notably as Assistant Secretary of the Treasury during the 2008 financial crisis where he oversaw the Troubled Asset Relief Program, TARP.

Who remembers the TARP program? Okay. Here's the guy.

Neel lives with his wife, two young children and a Newfie dog in Orono, Minnesota. So, please give Neel a big Sioux Falls welcome for being here today.

Neel Kashkari:

Thank you.

Jodi Schwan:

Thank you, Mayor. Thank you, Neel. Before we get started, I do want to do one more welcome which is to our viewers online. We are streaming this live in multiple places, the SiouxFalls.Business Facebook page. So, welcome to all of our SiouxFalls.Business readers. We're very grateful for you.

The Minneapolis Fed is sharing it on their page. And then I just heard this morning, I believe that Bloomberg is also going to be sharing this. So, they must know that I'm a reader. Nice. Good start of the day.

Thanks so much for being here. Do you have some opening comments, first of all, that you would like to share?

Neel Kashkari:

Well, first of all, thank you for inviting me. This is a wonderful event. Thank you to the mayor for the kind introduction. And I can confirm we have no potholes in the entire state of Minnesota.

The mayor talked about there are 12 Federal Reserve banks in the country. Congress did something unique when they created this nation's central bank. They said they didn't want it simply housed in the nation's capital. They want it spread out around the country so all the different regions of the country have a voice in the policy process.

So my job, my colleagues and I who are here is to represent all of you. We spend a lot of our time traveling around our district. It's a very large district. It's very diverse in terms of the industries represented because we want to know what's happening in the local community. And then I go back to Washington, D.C. every six weeks for Federal Open Market Committee meetings. And we set interest rates for the nation.

Now, we cannot set a different interest rate for South Dakota and for New York and for California. It's the same dollar so it's one monetary policy for the United States. But we want to make sure that this region is represented in that deliberative process. So, conversations like this are great for me because it gives me a chance to hear from leaders in the local community about what you all are seeing.

So obviously, we are seeing very high inflation. We've been seeing very high inflation for the last couple years. And the Federal Reserve's job is to adjust monetary policy to bring that inflation back down to our 2% target. You will hear us talk about our dual mandate. Congress has assigned us two goals. One goal is maximum employment, as many Americans as possible working and contributing to our economy. And the other goal is stable prices, 2% inflation.

And you can think of those two things as like sides of a seesaw. Typically, when the economy gets hot and the unemployment rate drops, businesses have to pay up to get workers then that leads to more inflation. And then in that situation, the Federal Reserve will raise interest rates to bring the economy back into balance.

Well, when the pandemic hit, the economy shut down, a lot of stimulus was put out. We had these different ways of COVID. And then the economy reopened very quickly. Boy, it's been a very unexpected and unpredictable recovery. We've seen very high inflation.

And what's interesting and what's challenging about this is the inflation that we are experiencing is not being driven by the labor market, at least not yet. And so, the sources of inflation have been different than what we are normally looking for. And so, we're trying to understand where is inflation headed? Where is the underlying economy going? And it's things like supply chains that were gunned up. It was a lot of fiscal stimulus. It was the war in Ukraine. All of these things conspired to lead to these very high prices that we're all paying.

And so, a couple years ago, I said and many of my colleagues said, "Well, some of these factors looked like they're temporary or transitory." Supply chains are going to get sorted out. So, maybe we don't need to overreact. Well, it took a lot longer than we expected. And now, you're seeing wages climbing. And wages are climbing to try to catch up to that inflation rather than leading the inflation.

But now, wage growth is at a level that it actually is too high to be consistent with our 2% inflation target. And so, this is a very complicated economic environment that we're in in terms of our ability to analyze it using the traditional analytical tools that we have.

So, conversations like this, I did a couple round tables yesterday as well, these are very helpful to help us make sense of the mixed economic signals that we're seeing. So, what's top of mind for me and what I would love to hear from you as we have our conversation, I heard yesterday that the Sioux Falls economy is basically booming. That businesses ... I mean, there are of course challenges but overall, business is doing very well in this community that, yes, the single-family housing market has slowed down a lot as you would expect as we've raised interest rates.

But multi-family is still quite strong, though I also heard the outlook for multi-family beyond a year or so is quite uncertain. So, some people said there may be a cliff of multi-family is going to build a lot this year and then really unclear what happens in '24. But the services economy continues to be very strong.

We're not yet seeing much of a sign of our interest rate increases slowing down the services side of the economy. And that is concerning to me. So ultimately, what do we want to do? We want to achieve what's called a soft landing. We raise interest rates. We tap the brakes in the economy. We gently bring the economy back down to 2% inflation environment.

Think about the economy that we had just before the pandemic hit. We had low inflation. We had low unemployment. We had healthy growth. It was a pretty good economy. That's where we want to get back to. The challenge, of course, is typically when the central bank raises interest rates to cool down inflation, most of the time, it leads to a recession.

And so, we would like to avoid a recession but we know we have to get inflation down. Getting inflation down is job one. And so, that's why conversations like this can be so helpful. So, hopefully that was a good stage setting and I look forward to our conversation.

Jodi Schwan:

Absolutely. As he said, this is a town hall which means we want to hear from you. I'm a reporter. I could ask questions all day long and I will. But we want to know what's on your mind. So, I'm going to ask a few guiding questions and then please be thinking of those. And we will be roaming the room and you can ask Neel whatever is on your mind.

I'd ask you to just elaborate maybe a little, first of all, on your experience so far in Sioux Falls. You had a number of conversations yesterday. Maybe speak to the industries that you heard from and some of the other key takeaways there.

Neel Kashkari:

We heard from a range of industries. One was focusing on construction just because we know that there's a lot of investment and there's more infrastructure that's money coming from the federal government. So, what's happening in this construction space, it really is a tale of single-family homes versus everything else. Single-family market is slowing down a lot because mortgage rates have climbed from 3% to 7%. That's what we would expect to happen. So, I'm not surprised by that.

But what's interesting about this, if you look at construction employment in the United States of America, it continues to grow. So, the fact that we've raised rates and we've tapped the brakes on the single-family housing market, it's not showing up yet in jobs for people who build things. Now, maybe they're moving from building single-family homes to building apartment buildings, but there's no imprint yet on construction employment. And we would expect there to be an imprint on construction employment.

So, construction was one big topic. We heard from services companies, advertisers. One advertising leader yesterday was talking about his customers who were tourism, higher ed., government, restaurants, financial services. They're growing gang busters that they're a service provider providing services to other service providers, also growing gang busters.

I mean, it's a big country. And so, the boom that Sioux Falls continues to experience I'm guessing is not shared everywhere across the country. Sioux Falls has had a lot of good things going for it for a long time as the mayor talked about. And so, we got to take this with a little bit of a grain of salt, but it definitely is helpful for us to try to make sense of the otherwise mixed economic signals that we're seeing.

Jodi Schwan:

Well, and maybe just drilling down even a bit more to the region level, we at SiouxFalls.Business have a great relationship and a growing relationship with the Minneapolis Federal Reserves. So, Neel's team comments on your CEO survey that you do quarterly for us. And then, we now have begun inviting you to participate in the surveying that the Federal Reserve does of the region. And South Dakota has delivered, by the way, some of the best response rates of your survey of late which has been great.

Are these conditions consistent across your region or does South Dakota stand out to you in some area or another?

Neel Kashkari:

Well, I think overall, the region continues to be quite strong. One thing that I talked about some of the groups yesterday was state budgets, generally speaking in our region, are very flush. So in Minnesota, we typically have a $50 billion, $50 billion state budget. We currently have a $17 billion surplus. It's a monster surplus.

Other states in the region also have similar scale surpluses, meaning about 30% of extra revenue. And so the question is, on one hand, that's great. State governments are doing well. Local governments are doing well as the mayor talked about.

Some of the states are talking about rebating that money to taxpayers. As a taxpayer, that sounds pretty good to me. But as a monetary policy maker, that sounds like more stimulus. And if that's putting more money in people's pockets to go out and spend on airplane tickets and food and buying things, again it's hard to say that's bad but it does feel like more stimulus. And that gives me pause saying, "Hey, maybe there's more stimulus yet coming," even if it's not coming from the federal government.

And so, the region continues to do very well overall. Obviously, there are ups and downs. The oil sector got hit hard in the pandemic. It has recovered quite quickly. Commodity markets saw a lot of turmoil with the invasion of Russia invading Ukraine. Some of those commodity prices have come back down to earth but it's mixed.

Jodi Schwan:

I want to talk about the labor market as you mentioned. It's always top of mind when we ask CEOs and business leaders in our community, "What are some of your challenges?" And it's workforce. I mean, here in Sioux Falls, we continue to have, as you said, low unemployment. We also have high labor force participation. We have growing per capita income.

Are these similar forces at play elsewhere? And I mean, do you have any insight as to how we might address what continues to be a persistent challenge?

Neel Kashkari:

Well, I would segment it into two time periods. Right now, we are in an acute hot labor market nationally in part because the pandemic hit, the reopening of the economy, a lot of stimulus. We're also still missing workers relative prior to the pandemic.

So, a few factors. Where did they go? Always remember, million Americans died from COVID. And each one of those is a human tragedy, but it also represents a lot of labor potential that's no longer here. We saw a lot of immigration dry up before and especially during the pandemic who are also missing workers across the economy that has not recovered yet.

We also have people who are facing childcare issues, having their own healthcare issues, taking care of sick family members, etcetera. We also saw a lot of Americans who were close to retirement age, retire early. Pandemic hit, they just said, "I don't want to deal with it. I'm going to retire now because I can."

So, a bunch of factors are going on at the same time. So, that's an acute pressure that we're all feeling right now. That's real. And places like Sioux Falls have had a structural challenge for a long time from before the pandemic. And that is, hey, business is booming here. Population, you draw workers, you draw young people from around the region to move to Sioux Falls. But you have a structural problem, too.

So, I look at it both ways. So, one is monetary policy can try to bring the economy in the balance in the short run. But the long run structural issues, monetary policy can't do anything about. That is up to all advanced economies around the world are facing labor challenges. Because advanced economies, we're all having fewer kids than prior generations. And those are fewer workers to produce things in the future. And there are fewer consumers to buy things in the future.

So, unless we ... The only real solution to this because ... Japan is trying to pay their families to have more babies. It doesn't work. Just short answer, it doesn't work. The only answer is immigration. And so, this is a structural issue which is we as a country have to get our head around sensible immigration policy that meets the needs of our economy.

I'm not making a political statement. I meet with Republicans and Democratic leaders who all understand this. It's simply math. If we want our economy to grow to its full potential, we need more workers to produce things and consumers to buy things. And the only answer to that is immigration but it's up to the American people to design that immigration system.

Jodi Schwan:

Okay. Get your questions ready, everybody. I think this will be my last one unless you allow me to ask more. So, Neel, I saw you interviewed, I believe it was New York Times recently. And you talked about how you believed Wall Street was inherently culturally optimistic. But if they didn't think that the Fed was going to do what it needed to do, they were mistaken.

So, I know you all want to know about rates next meeting. What do you think, 25 basis points or 50 basis points?

Neel Kashkari:

Well, we raised rates very aggressively last year. Once we concluded that our model's understanding the inflation were not working because of these dynamics are so unique, we realized we just had to get aggressive and catch up so we were not falling further behind. So, we raised rates 4.75 basis point moves in a row, then downshifted to 50 then downshifted to 25.

And so, there's a lot of attention to the next meeting in March. Is it going to be 25 or is it going to be 50? I'm open-minded at this point about whether it's 25 or 50 basis points. To me, what's much more important than whether it's 25 or 50 is what we signal in what's called the dot plot.

So every three months, every participant in the FOMC writes down on a piece of paper a projection of what we think optimal monetary policy looks like. And because markets are forward-looking, this signal about where we think rates are headed actually contains a lot of really important information.

So, in December when I jotted down my dots, I dot jotted down that I thought we would get rates up to 5.4% and then hold them there for an extended period of time. And I was on the more hawkish distribution amongst my colleagues. I was not the most but I was on the more hawkish side.

Given what the data that we've gotten in the last month which has been a very strong jobs report, higher inflation that we expected, I mean, these are concerning data points suggesting that we're not making progress as quickly as we would like. At the same time, we shouldn't overreact to one month's data even if the data is troubling.

So to me, whether 25 or 50 is less important than what the dots look like. And at this point, I have not decided what my dot is going to look like but I lean towards continuing to raise further that I would continue to push up my policy path. We've got another inflation reading yet to come. We have another job report yet to come before the meeting. Ultimately, that will inform me but I think the bottom line is I think where the dots end up is going to be much more important than whether we raise by 25 or 50 at the next meeting.

Jodi Schwan:

Okay. There you go. All right, who's got a question to kick us off? Come on, guys. I got a whole list of them but, you know.

Neel Kashkari:

So, my impression, I've visited South Dakota a lot of times, South Dakotas are not shy. So, please fire away. If you disagree with me, please I'd love to hear it. Microphone's going to come to you, sir.

Jodi Schwan:

Thank you, Jack.

Speaker 6:

You talked about the fiscal stimulus that the government's put out there and the budget surpluses that the states are having. Minnesota having $17 million out of a $50 million, that's 30% increase. How much of this fiscal stimulus that is out there still with the governments putting in that ... What kind of effect is that having? Because as long as they continue spending and having the surpluses, I see that this is going to be a continuing problem. I mean, we've got a lot of money to absorb.

Neel Kashkari:

Yeah. So, this is what's concerning and what our economic models do a bad job capturing is ... So, let's say the state governments have a lot of money. They rebate it out to their taxpayers. And then their taxpayers go spend it. And then guess what? The government then has a lot of tax revenue received from that.

And so, the question is, is this just an ongoing cycle that just perpetuates itself? Well, it's our job to break that cycle. And monetary policy can break that cycle. And the question is how high we have to go in order to break that cycle if that cycle is in fact happening as it appears to be happening right now? That's why it's a concerning fact for me as I look at it as a central banker.

And that's why we pay a lot of attention to the labor market. What is happening to the wages? Wages have grown. They're now, depending on how you measure it, growing at about 4% to 5% per year. We would need to get wages closer to 3% per year to be consistent to our 2% inflation target given where productivity is. And so, it's something I watch a lot. I don't know how embedded it is but it's our job to make sure that it does not become embedded.

Jodi Schwan:

South Dakota for instance is looking at a very slight reduction in sales tax. I mean, different than a one-time rebate.

Neel Kashkari:

Right.

Jodi Schwan:

But still.

Neel Kashkari:

But still, on the margin simulative.

Jodi Schwan:

Okay.

Speaker 7:

Excuse me. Is the concern that Central Bank raised the rate too high given the inflation volatility could be high when the inflation is at a high level. So, let's say for instance next quarter or sometime when we see the owners' equivalent part of the inflation is coming down a little bit and we see a better inflation number. And is the concern that Central Bank tightens a little bit too much? And also, there could be the earnings, corporate earnings that's coming down. So far, they're pretty good. And so, what's your take on overtightening their monetary policy?

Neel Kashkari:

Yeah, thank you. It is definitely a risk. A lot of people talk about ... One of the challenges in what we're doing is that monetary policy operates with a lag. Now, parts of the economy get hit right away. So, the single-family housing market gets hit right away because when we adjust interest rates, it flows through the mortgages then that affects home-buying right away.

Other parts of the economy take longer. Sometimes a year, it could be up to two years for the full effects to be felt. And we've now raised rates aggressively last year and we have not felt the full effects yet. Absolutely true. So, there is a risk given those lags of overtightening because we are continuing to pay attention to the inflation.

But I will just tell you from my seat, the risk of underdoing it is a much greater risk for the US economy than the risk of overtightening. Because if in the worst scenario we didn't do our jobs and inflation expectations became unanchored and they became embedded in the fabric of our economy, then we would have to raise rates dramatically to break that psychology and bring them back down. That's what happened in the 1970s.

And so, I think my colleagues agree with me that the risk of undertightening is the worst risk than the risk of overtightening. If we overtighten, we will ultimately see it and we'll be able to respond to it and adjust to that. But the risk of undertightening potentially has much longer duration concerns that would come with that.

Kevin Tupy:

Hi, Neel. Kevin Tupy, Cresten Capital. Thank you for being here and thank you for giving us the opportunity to ask you these questions. Hopefully this isn't a dumb question, but how does the Fed handle all of these institutions, high-net-worth individuals and all this capital sitting on the sidelines kind of waiting for a guidance of interest rates to go down? And then, are you concerned when that happens that there's just going to be the sentiment, okay, good times are going to start to roll again and we're going to see the overbuilding and investing that caused everything to kind of get to where we are now?

Neel Kashkari:

Well, we pay attention to, I mean, overwhelming amounts of financial data and economic data. And we look at people's balance sheets, how much cash are on families' balance sheets across the income distribution. If you looked at people who had $1,000 in their checking account, some banks said that at the peak, they had $7,000 during COVID because they got a lot of stimulus money. If you looked at higher net-worth families that maybe they used to have $10,000 in their checking account then they had $20 or $30,000.

So, we look at a lot of different slices of this. And it does seem like lower income families have been spending down their excess savings. Higher income families still have a lot of excess cash on the sidelines. And then, a lot of this manifests itself in where are long-term rates, how much investment capital is out there versus how much demand for investment capital. So, it's a very complicated question that you're asking.

As you mentioned to me, there is this in Wall Street, this institutional cultural exuberance that just at any moment, they're looking for an excuse to get excited. And then all of a sudden, they get all excited again with one little piece of good news.

I don't overpay too much attention to the stock market, gyration stock. The stock market goes up, stock market goes down. I don't really care. I am much more focused on interest rates. And ultimately what drives investment decisions, it's not overnight interest rates, it's long-term interest rates. So, I pay a lot of attention to where our 10-year rates, 10-year treasury rates are moving around between 3.5% and 4%. Real rates are positive now across the curve. All of this suggests to me that our policy is having the desired effect of tapping the brakes on the economy.

But I am conscious of, hey, if we declare victory too soon, then there's going to be this flood of exuberance. And then we're going to have to do even more work to bring that back down. And so, we have to continue doing what we're doing until we finish the job. And I'm committed to doing that.

Speaker 9:

Hi, Neel. You mentioned today and we talk a lot about lagging indicators like jobs and inflation. What are the forward-looking indicators that you and your colleagues look to on monetary policy?

Neel Kashkari:

Well, I mean, some of the important ones are forward looks at inflation. So, where do financial investors ... If you look at the bond market, there are many different instruments that can give you a guidance of where investors think inflation is heading. Where is inflation going to be a year from now, two years from now, 10 years from now? That's helpful for us because it gives us a sense of are inflation expectations anchored?

So, if you looked at the forward say 10 year inflation expectations, they have been anchored throughout the pandemic. They've just little tiny wiggles around that 10-year line. That's comforting because it means they've got a lot of confidence that we're going to do our jobs over a 10-year horizon.

Then short-term inflation expectations did rise quickly. They have fallen quite a bit. So, those are things that we pay attention to. I'll give you another just specific example. When the war in Ukraine happened, Russia invaded Ukraine, energy markets skyrocketed. We did a conference, the Minneapolis Fed and the Dallas Fed focused on the energy market. And we had energy executives from around the country talking about their outlook. And are they going to go drill more because they got these very high prices?

Well, what's interesting thing is even when the prices were so high almost a year ago, the futures market, energy futures suggested that energy investors thought that oil prices would fall back down to earth. So, you did not actually see a massive amount of new drilling take place because they were looking to the future and said, "We don't think these high energy prices are here to stay." And they have fallen back down.

So, we look at a lot of different indicators. Financial markets are not perfect. So, if you looked at the inflation expectations three years ago, financial markets also didn't see the high inflation coming. So, we pay attention to it but we don't take too much signal from it because markets can be wrong, too. And we were all wrong about this high-inflation shock at the same time.

Jodi Schwan:

Good questions, everyone. Who else has one? Great. Thank you, Dana.

Speaker 10:

Neel, we've been talking about interest rates. And that's one of the factors that goes into it. Another one is the Fed's own balance sheet, the buying of bonds and the expansion of the Fed's balance sheet. Could you review with us the last few years what's happened and what you see happening in the next few years?

Neel Kashkari:

Yeah, thanks for the question. So, back to the gentleman's question where I talked about long-term rates really drives investment decisions. Think about the mortgages. If you're a family, you don't care about an overnight interest rate that banks pay each other. You care about the mortgage rate you're going to pay on a 30-year mortgage or a 20-year mortgage.

Well, long-term interest rates are really what drives economic activity and drives affordability for either a factory to be built or a family to buy that house. And so, one of the reasons that we use what's called quantitative easing is once we cut interest rates to zero, the question was are we out of ammunition? And the answer is no. By buying long-term treasury bonds, we are able to have some influence on long-term bond rates and yields. And then that has an effect on the economy and economic output.

So, our balance sheet got really big during the pandemic as a source of first providing some financial stability to markets, but also providing stimulus to the economy. And now, we're doing what people call QT. We're shedding our balance sheet, letting it run off and shrinking it actually very aggressively about twice as fast as we shrunk it after the last financial crisis. And so, that is also putting some upward pressure on long-term treasury rates.

So, you can think of it this way. There are two ways right now that we are tapping the breaks in the economy. One way is we're raising this federal funds rate where we just talked about it, whether a 25 or 50 basis points at the next meeting. Then second way is we're letting our balance sheet shrink and that should be putting some upper pressure on long-term rates. Those are both ways that we are, in effect, reducing stimulus or tapping the brakes in the economy. That's going to continue now for quite a while because our balance sheet is still quite large relative to where it needs to be.

Speaker 11:

So, we talked obviously about the impact of interest rates on consumers and businesses. I'm curious on your perspective of the government because as they run a deficit, the federal government, their borrowing rates are going to go up. And when their borrowing rates go up, they're going to offer less services obviously to consumers and businesses. So, I'm curious as to what you see the impact there as the interest rates go up and it puts a bigger burden on the federal government.

Neel Kashkari:

Well, I'll just be blunt. It's not the Fed's job to think about the federal government's finances. That's the Treasury's job and Congress's job. Our job is to achieve the dual mandate goals. And this is the separation that advanced economies have figured out over a long period of time actually works best. Keep monetary policy to the central bank, fiscal policy to the fiscal authorities and the elected officials.

But you're right, obviously, if we're in a higher interest rate environment, that creates a burden on governments to try to pay for their spending and fund their deficits. And this is why, by the way, long term, this is why it's so important that we keep inflation expectations anchored. Because if we were not to do our jobs, if we were to allow inflation expectations to get anchored and you'd have a high interest rate environment for an extended period of time, then the burden on the federal government would become enormous.

Because it's one thing to say, "Well, there's an inflation spike. And the Treasury finances itself over many years." That doesn't have a huge effect on their fiscal position. But if inflation expectations got embedded at 4% or 5%, all of a sudden, that would have big implications on the federal government's ability to finance itself. And crowding out, paying the debt would crowd out other spending priorities. And so, ultimately, it's their job. We have our job to do. We're going to do our job.

Jodi Schwan:

I see a hand over here.

Speaker 12:

Since monetary policy is really driven for the whole economy, for the whole US, a lot of the economy is driven by our coasts. What are you seeing in the other regions? Are they as hot as us? Are they slowing down more? Is there anything we should be keeping an eye on going forward?

Neel Kashkari:

Yeah. One sector and some of my colleagues, other presidents talk about it a lot, is if you look at manufacturing, most indicators of manufacturing is that manufacturing slowed down quite a bit across the country for a variety of reasons. I mean, manufacturing saw a lot of supply chain issues. They saw high shipping costs. Supply chains are getting better. Shipping costs have fallen back down in many cases to pre-pandemic levels. And yet most manufacturing indices suggest that manufacturing is in a contraction.

So, that's something that we pay attention to and a lot of other regions see more of than we see here. Our region, it benefits because it's quite diversified. And we've got obviously a lot of agriculture. We've got energy sector. We've got mining. We've also got a lot of health care. We've got a lot of education. So, our regional economy really benefits by this diversity. When one sector is down, the other sectors tend to be more resilient. So, that helps us but that's something that I hear about a lot, especially in other regions of the country.

And if you look at the tech sector, it gets a lot of attention. Layoffs among big tech companies, these are very, very small numbers relative to their base of employees. The tech companies that have laid off people with big announcements, in many cases, they hired tens of thousands of people in the last few years and they're just cutting back a little bit relative to that very strong growth.

So, I'm not yet seeing much evidence even of the tech sector that there's a meaningful downturn there. They're really just on the margin so far, though the headlines are noteworthy.

Speaker 13:

So the area you serve has a high diversity of rural and urban areas. How does it affect your monetary policy?

Neel Kashkari:

It's a complicating factor because the experiences that different regions, urban versus rural feel can be very different. So, a lot of rural communities for years have been, even longer than years, have been seeing declining populations as their young people move to the city, the urban centers. So, that's by the way to Sioux Falls' benefit, but some of the local communities who are sending their young people to Sioux Falls, they're saying, "Hey, what's going to happen to our future community?"

And so, that dynamic of what's going to happen to a lot of the small towns across our region, that's a challenge that's been going on for a long time. And some towns have been able to embrace immigration as a source of new people, new energy to keep their towns vibrant. So, that's kind of an ongoing challenge.

I don't see it having a big effect on my outlook for monetary policy, but it does have a big effect on what's happening. Cities are growing. They're building a lot. Their schools are full. Small towns in many cases are not growing. It's very hard to build out there. Their schools are shrinking. So, just the local dynamics and the local challenges are very different, but it's not clear to me that that has much of an effect on. Because monetary policy is for the nation as a whole, it's hard to see that that actually changes what monetary policy decisions we need to make.

Sammy:

Hi, Neel. I'm Sammy from Dakota State University. I actually just had a question. One of the things big in higher ed. right now is like innovation, right? I mean, it's big everywhere. But you mentioned early on in your opening remarks that the traditional way of approaching the situations that we're in are not going to work for the current situation we are in and seeing on the horizon.

So, I'm just interested what are you and your cohort doing differently to engage the innovators? I mean, you've got a room of 30, under 30 in here, right? So, engaging that group but then also the group that's helps establish especially in the Sioux Falls, the South Dakota area, the consistency that we've had. So, you've got this dynamic of some places have been doing it really well consistently due to the great leadership we've had and others are really needing help. On top of all of that, as you mentioned, innovation is really required to fix this because we haven't had this situation before.

So, I'm just interested what are you and your cohort doing differently truly to find another way through the path?

Neel Kashkari:

Well, a lot of things differently. Partly, I mean, the questions we're asking are different because the economic condition is different. So, I've been doing town halls like this for seven, eight years now. And these are always great. I always learn a lot. But the things we're talking about are different because the questions we're asking are different and the challenges we're facing are different.

We also are doing lots of different ... We're surveying different people. We're more focused on small businesses. There's been a lot of entrepreneurship in the last few years which is really good. We want to see more entrepreneurship, specifically trying to reach out to what are those entrepreneurs experiencing? What are the challenges that they're seeing? And then looking at ... Businesses are learning from each other. How do you get through this? How do you get through structurally? If you have a worker shortage, how do you change things?

I'll give you just a little anecdotal example. A lot of hotels shifted to cleaning their hotel rooms every other day because they didn't have enough staff. Well, you know what? I think we all figured out it's okay to clean my hotel room every other day. Did we really need to have it cleaned every single day? Was that actually an efficient use of labor? I doubt it. I think every other day works just fine if I'm staying in the same room for several days in a row.

Or McDonald's, another, is using kiosks for ordering. There are a bunch of innovative technologies and business techniques that because of necessity have been pioneered. And I think now we're learning, "Hey, we can learn from this and we can use this going forward. Same thing with remote video conferencing technologies. It has improved so much in the last three years.

I still believe deeply ... We have a policy in our bank of three days a week in the office. All of our leaders are there every day. But for staff, the standard is at least three days a week in the office. We're learning from other businesses. Is that the right mix? Should it be less? Should it be more? I think there's a lot of innovation taking place and we just need to keep communicating and learning from each other because we'll all benefit from one another's experience.

Speaker 15:

So, I'm guessing the world looks at the United States very closely with monetary policy and whatnot. How much does a Federal Reserve look at the world in setting monetary policy for the US?

Neel Kashkari:

We pay a lot of attention to it. We have a whole team of economists. Well, we've got economists all around the Federal Reserve in all the 12 banks. And we have a whole team in Washington of people focused on the international economy. We're not setting monetary policy for the rest of the world, but we pay attention to the rest of the world because it affects America.

And so, we want to know what's happening in Europe. We want to know what's happening in China because of the bounce back, kind of the effects that we have on them and then the effects that they have on us. We need to pay attention to that as we think about where the US economy is headed.

I'll give you a very specific example. When COVID hit, of course, COVID first hit in China. And we wanted to know, "Okay, what's happening in China and what does that mean about what's going to happen in America?" So, one of the things I did is I called global companies that I know that have operations in China in March of 2020. And I said, "I need to know what's happening in your operations in China," because I want to try to get some sense of what may be coming to America.

So in many cases, they put us on the phone with the head of their Chinese operations for these manufacturing companies and said, "This is what we're experiencing. This is what's happening to our workers. This is what's happening to our supply chain. This is what we think it's going to take, how long it's going to take till we get through this." They didn't have perfect insight but it helped us prepare for what may be coming in America.

And so, we do pay a lot of attention to it. But importantly, we are setting monetary policy to achieve the dual mandate for the US economy not to serve the needs of the world. It's to serve Americans' needs.

Jodi Schwan:

Who else? Yeah.

Speaker 16:

Neel, a question. Depending upon who you follow, who you listen to, which economists you're hearing on the day, some people feel that we're already in recession. Some people comment it's coming third or fourth quarter. Some say early 2024. What's your position right now in your ability to land at a soft landing as opposed to full-blown recession?

Neel Kashkari:

Well, I'll first of all say we're not in a recession right now. A year ago, the first two quarters of GDP were negative. And traditionally, when you have negative GDP for two quarters in a row, that typically is an indicator that, "Hey, you're in a recession."

But usually when you're in a recession, you have a lot of job losses. We've experienced over the last year and last month very strong job growth. So, the idea that we're in a recession when we're seeing very strong job growth, that doesn't make sense to me. So, I do not think we're in a recession right now. And certainly, the conversations that I've had in Sioux Falls the last two days do not suggest that Sioux Falls is in a recession.

Now, whether we can achieve the soft landing, the answer is I don't know. The track record is not good in being able to slow down the economy this much without going a little too far and heading into recession.

But the dynamics are different. We have supply chains that are getting better. We do have families that have strong balance sheets. We do have states that have strong balance sheets. There are a lot of really healthy things going on in the US economy right now that give me some optimism. But at the same time, we know we need to get inflation back down. So, I don't know the answer to that.

I will say, typically, when the central bank has caused a recession by raising interest rates, the bounce back can be very fast. So even the great terrible recession in the early 1980s engineered by the Volcker Fed to crush the high inflation in the 1970s, the recovery was brisk. It was a very rapid recovery as opposed to the recovery from the great financial crisis which was very, very slow.

So, I don't know how comforting that is that the recovery can be very quick but we have to get inflation down.

Speaker 17:

Good morning and welcome to Sioux Falls. One of the things about the Ninth District that you're very familiar with is it's broad. You've got mining. You've got timber. And obviously part of the bread basket of the nation is here, 30% of the wheat in the country is produced in your district.

What do you see the ag economy doing over the next maybe three to five years or maybe even a one-year outlook? Because as goes the ag economy goes a lot of the businesses that operate not only in Sioux Falls but in the surrounding region.

Neel Kashkari:

I think, I mean, obviously different crops are different and there are weather events that are always taking place somewhere. But the fundamentals from what I can see of the ag economy are strong. I mean, their markets are strong. People are buying their products. There's always volatility.

And we'll see what happens with the war in Ukraine. Heaven forbid, there could be more negative shocks yet to come that could cause more volatility in ag markets. But it seems to me that the fundamentals of the ag economy are quite strong.

Long term, the biggest challenge that I hear from farmers is they can't get workers. And the cost that they're having to pay to try to find the workers to harvest the crop continues to be a challenge. It is only looking to be an increasing challenge going forward. So, that's a challenge.

Having said that, farmers have been brilliant innovators and getting more productive, doing bigger harvest with fewer workers. It seems like every year, they find ways to even become more and more efficient. So, that gives me optimism. But it seems to me that the ag economy fundamentally is strong.

I mean, long term, we've got climate change. That's a long-term issue that could be affecting us. And workers is a long-term issue. But otherwise, it seems like the fundamentals of the ag economy are quite strong.

Paul TenHaken:

Can we switch gears?

Neel Kashkari:

You're the mayor.

Paul TenHaken:

Okay. And I know this is out of your lane but I'm really curious on your perspective on cryptocurrency and Bitcoin and the role that that will play in our national and global economy going forward. Because whether it's Jamie Dimon and Warren Buffett who hate that, too, there's much more bullish people and there's no consistent it seems like outlook on the future of crypto. And I know that's out of your lane.

Neel Kashkari:

No.

Paul TenHaken:

But you're a brilliant financial miner. I'd love to know where you see crypto in the market in the next few years.

Neel Kashkari:

Yeah. So, four or five years ago, I compared Bitcoin to Beanie Babies. And then, I tweeted recently that my apology to Beanie Babies is long overdue. It's been 10 years and no one can articulate any actual usefulness in the real world. I go around to audiences ... Every time I go to a university some young people ask me about it. And I always ask them, "Has anybody in this room ever bought anything with Bitcoin? I mean, a sandwich, a cell phone, a book, anything?" Crickets, crickets.

And then all the proponents argue, "Well, it might be better for financial inclusion." It could be better for lowering the cost of cross-border remittances. There might be efficiency gains." And I always ask, "Is there any evidence?" "No." But then, here's the Bitcoin crypto rhetorical playbook. Identify an issue that's a problem in society. So, financial inclusion is an issue. Bitcoin might be better for financial inclusion. And then spend 10 minutes talking about why financial inclusion is a problem in society, but offer no evidence that Bitcoin actually addresses the underlying issue.

So, it's been 10 years. Nobody's been able to point to anything other than financing illegal activity, nobody had been able to point to any actual usefulness in the real world for real people. So, I'm deeply skeptical. And my skepticism, I used to say it was 95% noise, fraud and confusion. I'm now at 99% noise, fraud and confusion. I'm holding out that hope that that 1%, that something useful may come of this in the future. But nobody's been able to point it out.

Jodi Schwan:

Great question.

Speaker 18:

Hi. Thanks. I want to acknowledge and appreciate the leadership that the Minneapolis Fed has done in childcare and early education. So, specifically thinking about max employment and the research that the Minneapolis Fed has done regarding childcare, can you speak to that and what we can expect with that?

Neel Kashkari:

Yeah. So for 20 years, long before I joined the Minneapolis Fed, the Minneapolis Fed has done really important research on the value of investing in early childhood education. And this affects the labor market because it affects people's ability to work. But it also affects our future workforce. The more educated our young people are, the more productive our economy is going to be. And this is where productivity comes from. And so, it's enormously important.

And speaking of personally, I have a two-year-old and a four-year-old in daycare. And we're very fortunate. My wife and I have the luxury of being able to afford very high-quality childcare for our kids.

But it's a huge financial cost even for us. And if people were less fortunate than us, their options would be severely constrained. So, it's a big, big, big challenge.

And it's funny, it took me a long time to figure this out because childcare is a very complicated market. Let me go back to ag. Somebody asked about ag earlier. If you look around the world, almost every country subsidizes agriculture. And I couldn't figure out why. And it finally dawned on me, because governments want low prices for consumers and high prices for farmers. Those two things are in conflict. And the only way you can achieve both is with government subsidies.

Now, look at childcare. If we want decent wages for childcare workers and affordability for families, those two things are in conflict. And so, ultimately as a country, we have to decide is this something that we are going to prioritize or not? There's no way of squaring those two things without some form of government support.

You all can decide for yourselves and the elected leaders can decide. But that is a fundamental tension in this market that there's no other way of addressing. And so, it's enormously important. As a parent, I feel it. As a policymaker, I feel it. Anyway, helping all of our citizens be able to participate in the economy is important.

Jodi Schwan:

Fantastic. Great questions, everyone. Thank you so much. And as I'm sitting here, I couldn't help but think to myself how glad I am that someone who worked at NASA is helping engineer a soft landing. So, we are very fortunate that you are in the chair that you are. You've clearly shown why you are. And I just can't thank you enough for helping lead off our first ever CEO summit. So, thanks very much, Neel.

Neel Kashkari:

Well, thank you for having me. It's been a great conversation. Really appreciate it. Thank you.

Jodi Schwan:

Thank you.