FEDERAL RESERVE BANK
OF RICHMOND®

Richmond ▪ Baltimore ▪ Charlotte

Post Office Box 27622 • Richmond, VA 23261
Phone (804) 697-8000 • www.richmondfed.org

Federal Reserve Bank of Richmond 'Fed Listens' Event: May 8, 2019, Summary of Discussion

On May 8, 2019, the Federal Reserve Bank of Richmond held a Fed Listens community listening session. This session was part of a broader effort within the Federal Reserve System to review the strategy, tools and communication practices the Fed uses to pursue the monetary policy goals established by Congress: maximum employment and price stability. At Fed Listens events throughout the country, the Fed has heard from community members specifically on how monetary policy affects them.

The event was hosted by Governor Lael Brainard of the Federal Reserve's Board of Governors and President Tom Barkin of the Federal Reserve Bank of Richmond. The audience included 100 alumni of two of Virginia's key community-based leadership programs, Lead Virginia and Leadership Metro Richmond. The audience represented community and business leaders from across Virginia.

The event began with a brief introduction to the Fed's dual mandate by Renee Haltom, a regional executive of the Richmond Fed. Brainard then described the Fed's review of monetary policy strategy, tools and communication practices. She noted that the Fed wants to make sure the way it conducts monetary policy is keeping up with the way the economy is changing. She shared two changes in particular that together represent a "new normal" for the U.S. economy. The first feature is a low interest rate environment that is expected to continue due to fundamental features of the economy. Low interest rates present a challenge to traditional monetary policy in that there is less scope to cut interest rates if the economy were to encounter adverse developments. The second feature of the new normal is that inflation does not seem to move as much with economic activity or with employment as it has in the past. This "flatter Phillips curve" has some positive implications; for example, it means that labor markets can strengthen a lot without touching off a bout of inflation, and it means labor markets can pull in workers who may have been sidelined during the recession. However, one risk of the flatter Phillips curve is that it may be more difficult to boost inflation up to the Fed's 2 percent objective on a sustainable basis over time.

Brainard discussed two possible strategies for achieving the Fed's inflation objective in this new normal: make up for past misses on inflation by holding interest rates lower for a longer time than the Fed otherwise would, or consider averaging inflation over the longer term to evaluate price stability. Brainard finished by saying that these Fed Listens sessions will help provide necessary perspectives on how different citizens are affected by economic expansions and recessions, how different communities experience and view monetary policy, and what facts should inform Federal Reserve policymakers as they consider the consequences of monetary policy.

The listening session featured panelists from two nonprofit organizations and two businesses, and was moderated by Barkin. Each panelist briefly introduced themselves, described how the work of the Federal Reserve broadly impacts their sector and then responded to questions posed by Barkin. Later, there was a chance for the audience to ask questions of the hosts and panelists. The panelists were:

- Sherrie Armstrong, president and CEO, Community Foundation
- Tim Davey, principal, Timmons Group
- Shawn Smith, director of workforce development, Goodwill of Central and Coastal Virginia

- Bobby Ukrop, chairman and CEO, Ukrop's Homestyle Foods

The panelists began with broad observations on the impact of the Federal Reserve's monetary policy on their constituents, customers and communities.

In their opening remarks, the panelists offered a number of perspectives that connected with the Fed's monetary policy goals of full employment and stable prices. Sherrie Armstrong from the Community Foundation shared that the Fed affects her business in at least two ways. First, much of the Foundation's focus is facilitating philanthropy in the community, and how well the economy performs has a direct correlation with the level of charitable giving. Second, the Foundation focuses on educational attainment, workforce development, and affordable housing, and monetary policy touches each of these areas.

Tim Davey from Timmons Group, a professional services engineering firm, shared several ways in which the Fed's mandate affects his sector and its customers. He pointed first to how full employment presents a challenge in terms of finding labor — as is currently the case for many professional services firms. The limited availability of labor in a full employment environment poses a challenge to growing both geographically and in market share. Second, many of the firm's clients are in the real estate development business, where access to capital is an important determinant driving the level of activity. Third, he noted that the construction industry is currently booming in central Virginia and the region. Though overall inflation is subdued, prices related to construction are rising at a much faster rate. Finally, he noted that a trend driving all three perspectives is strong population growth in this region of the country, along with an overhang from insufficient construction in the past to keep pace with this population growth.

Shawn Smith, from the nonprofit Goodwill of Central and Coastal Virginia, noted that his organization utilizes a social enterprise model: As people donate to Goodwill stores, Goodwill translates that money into opportunities to support programs that help people find jobs. Many of the people they help have barriers to work, ranging from low educational attainment to cognitive issues. He said that a stronger labor market benefits their clients as they are often at the bottom rung of the ladder — in a good economy they are often left behind, and in a recession they are the first to be laid off.

Finally, Bobby Ukrop of Ukrop's Homestyle Foods, a food preparation firm whose products are sold to regional and national grocery store chains, noted that the firm is strongly impacted by wages. He reported that while his workers earn $10 to $14 per hour, and many have to work second jobs, he cannot raise wages because the company cannot easily pass on price increases to its customers. This is because the firm's products are viewed as commodities, and grocery stores are under pressure from changes in consumer behavior, specifically around competition from new online sellers. At the same time, he cited challenges in finding and retaining good employees who are needed to maintain high-quality food standards and who also must be willing to work at a the facility where the ambient temperature is around 45 degrees.

With unemployment at a 50-year low of 3.6 percent, can it go lower, or are we about done?

Smith compared the tight labor market to picking teams in gym class — the people he works with often are lower skilled and the last to be picked, and as the unemployment rate goes down, employers are forced to look at potential workers they might not have considered previously. For a lot of the jobs currently available, the people looking for work don't have the appropriate skills. Many end up in a cycle of finding lower-level jobs and second jobs in order to get by. So while there are opportunities presently, they're not necessarily opportunities that will provide everyone with a sustainable lifestyle.

Ukrop said that unless wages rise, it would seem difficult to find additional workers. His best pool of workers are sometimes relatives of his current employees. Many are first-generation Americans with a strong work ethic and desire to work. Too often he finds that potential employees don't want to work too hard or work in the cold.

Davey said that right now any worker in the professional services sector has many options on where to work. He described low unemployment and competition for workers as a "thumb on the scale" potentially limiting growth in that sector. At any given time, his firm has 50 or 60 openings (of 600 total employees) fueled by growth or turnover, and the latter is prevalent now because workers have many choices.

The next step, then, is to bring more people into the labor force. How can we do that? What barriers are you seeing to doing so?

Armstrong said that there is a sense of urgency on this topic now within the Richmond region and the community needs to take a systematic approach to workforce preparation and development. In Virginia, employers cannot find qualified workers for all the open jobs.

Davey shared that economic development teams are engaging with universities and community colleges as a solution to the current shortage of workers, as was the case with making the economic argument for bringing Amazon's HQ2 to Virginia.

Armstrong identified GO Virginia as a catalyst for convening a lot of different leaders in various areas of the state. She noted that the effort is often focused on higher-paying jobs, with additional efforts needed to create opportunities for all employees in Virginia.

Smith noted that more is happening with community colleges to promote certificate programs in various fields, but that many of these potential workers need "soft skills," guidance on basic practices such as resume-writing and interviewing, and wraparound services to improve their ability to navigate the life complexities that often lead to loss of employment. He said Goodwill works with its clients to deliver these skills and also stays with them in their first year of employment to help them stay in their jobs.

Ukrop mentioned that J. Sargeant Reynolds Community College has a new culinary program that trains people in the food industry. He also mentioned a new grocery store in Richmond, The Market @25th, that employs 100 workers from its own neighborhood, but he said that mission-oriented establishments also need to find a way to compete with larger chains to survive.

What, if anything, is preventing employers from raising wages to bring people in off the sidelines or to draw workers from competitors?

Davey indicated that his company has increased wages, and noted that a firm must also sell the value on the other end to its customers. He shared that while wages are an important element of his firm's recruitment and retention strategy, the company also focuses on strengthening its culture to attract employees.

Ukrop said employers need to start to look at innovative benefits for their workers. He identified one Charlotte, North Carolina, company that offers a “learn to swim” program for employees and their families. He suggested that “side benefits” are often the reason people stay in their jobs; it can make employees feel the employer is looking out for their best interests. He also remarked that “If you can’t raise your prices, it’s really hard to raise your wages.” He said his company can’t change product standards and has limited control over prices or wages, and so is looking at benefits. He said larger businesses seem to have “lost their heart” in caring for their employees.

Smith remarked that Goodwill employs the very people the organization helps. Goodwill starts its workers at $10 per hour, which Smith said is not a living wage, but comes with programs and other services to move employees forward in their careers so they can earn more outside of Goodwill.

What is stopping firms from trying to push through price increases to customers?

Davey stated that his company has had no choice but to increase prices, but along with those price increases Timmons has implemented increased customer service levels — to better connect with customers’ businesses to illustrate the importance of quality staff to shared success. He also noted that continued projects with an existing client can be more profitable than new projects with new clients, so teaching engineers “soft skills” that strengthen business relationships can be helpful. He feels that “culture” is important on the customer side, as well, because customers hire firms for reasons other than price.

Armstrong remarked that the nonprofit sector is a very viable part of the economy in that it is generating income and creating jobs. However, the fact that its chief funding source is philanthropy creates a mindset that its services should be provided very cheaply — even though its chief product is its skilled labor. That pressure makes it difficult to attract qualified people. She also noted the effects of technological disruption. The proliferation of online retail creates a “get it now” expectation, and foundations have to compete with donor-advised funds that charge only a 2 percent fee. Organizations like hers need to determine how to charge for what they do while attracting and compensating the right employees.

Are panelists feeling inflationary pressure in input prices?

Ukrop said he has faced rising input prices; for example, he noted that a single major fast food chain heavily drives the market price of chicken breasts, and this has a direct bearing on his company’s profitability because chicken breasts are used in many of its products. He observed that egg prices are down, packaging prices are up and the rest of the commodity prices have been stable. He noted that companies like his that are viewed as producing commodities must be innovative, finding either more workers or more markets for their products, for example, by finding innovative ways to differentiate their products to customers.

Davey observed that after years of hardship, the construction industry is impacted less by input price inflation and more by opportunity cost: Demand is so strong that contractors, from carpenters to plumbers to suppliers, don’t have to take a job unless they stand to earn a healthy profit. Consequently, construction costs have risen 7 percent to 8 percent each year for the last few years, which is starting to delay certain development projects because a good developer is only going to move forward when the numbers, including financing, work. For the construction sector, he anticipates an extended period of growth because pricing is so favorable right now that both suppliers and subcontractors are profitable. He said owners are waiting a little longer on projects, but when they see prices aren't coming down, they redo their project pro forma and proceed anyway.

Ukrop mentioned the Navy Hill project, a 10-block development effort in Richmond that includes a large affordable housing component, as an example of the extraordinary amount of construction going on in Richmond. He noted that these offer opportunity for extended growth and for economic improvement for people at the lower end.

What are the panelists hearing from low-to-moderate income households on the impact of inflation on them?

Smith stated that a slight increase in prices makes a difference to the people he works with, because of their financial vulnerability. He said they are particularly sensitive to changes in gasoline prices, and see little value in a well-performing economy and booming stock market.

Ukrop observed that hardworking people are resilient; they will work to help themselves.

How would targeting higher inflation for several years to "make up" for missing the target rate in the last few years play out for the community?

Davey said that it made sense. In the construction industry, predictability and reliability are more important than "low" costs because of the long investment horizon of real estate projects.

What is the impact on households and businesses of the Fed having moved its target interest rate from near 0 percent to 2.4 percent over the last several years?

Ukrop said his employees have been affected and many borrow from their 401(k) plans. He noted that people at the lower end are not very financially resilient.

Davey reiterated the importance of predictability of rates to those in the construction industry. Rate hikes make money competitive, which he feels has been extremely healthy for almost every customer of his involved in project development or construction, and that helps his business grow.

Smith said many of the people he works with are unbanked, so changes in interest rates really don't impact them directly.

Armstrong indicated that she sees the impact on housing. Higher interest rates, coupled with rising house prices, make it difficult for lower-income or younger people to enter the housing market, which creates or perpetuates wealth gaps.

Ukrop noted that the rising cost of private education, at both the secondary and college level, has started to make the option unaffordable for the middle class.

What are the panelists seeing as emerging community-related issues that should be on the Fed's radar?

Smith said a real concern is the "benefits cliff" that occurs because many government subsidies are based on earnings — as income rises, a worker can lose benefits. For example, if the typical cost of child care per child is $25 per day, then that equates to $500 per month or $6,000 annually. An employee who receives a $1 per hour wage increase, amounting to $2,000 per year, may risk losing that $6,000 benefit, which would actually leave them worse off. This keeps low-income workers from taking jobs with higher wages, and in some cases, keeps them from seeking better opportunities.

Armstrong echoed that benefits cliffs are an issue and asserted a need for policy change. It's not that low-income workers don't want a better job, she said, rather it's sometimes not in their financial best interest to make the change.

Ukrop said wage garnishment is an issue, and anytime there is a related change in policy, employers have to deal with a mountain of paperwork. The process is too complicated and may keep employers from providing wage increases for their workers.

How can the Federal Reserve do a better job connecting with the public and communicating our mission and the Fed's actions?

Davey said it is important to understand how monetary policy trickles down to the household, and how it affects areas of the country that are not as economically healthy. The Fed should educate the business community and the public on what works well and explain what challenges exist.

Armstrong said the Richmond Fed has been good about building relationships and communicating to the region it serves. Further, she stated that its reports, research and data are good, but called for the Fed to play a larger role in helping to shape solutions. She noted that the Fed has good resources, knowledge and data — such as its historical work on early childhood education — but this is not widely understood in the community, and she suggested that it's important for the Fed to provide this type of thought leadership. She also noted that community partners don't always think to bring the Fed in.

Ukrop mentioned the Greater Richmond Partnership as an example of an organization that is able to maintain connectivity with the business community. It's important for the Fed to reach out and connect with the people doing business.

Summary of Audience Q&A

I have not heard anyone today mention entrepreneurship. How can we take these lessons and bring them to the evolving entrepreneurial economy in the Richmond area?

Davey remarked that monetary policy is relevant to entrepreneurs since the segment relies on private capital initially and then lending in the long term for businesses to be sustainable. Successful entrepreneurs along with the Richmond Fed can help educate and inform new would-be entrepreneurs in their own backyard.

Ukrop observed that a $15 hourly wage rate does not mean total compensation, because on top of that, businesses have to pay a 7.5 percent employment tax.

I grew up in the 1970s where there was no money and rapid inflation. My father always told me that we need some level of inflation because people are willing to pay for some price increase if they can get a pay raise. Is that a correct way to think about the value of having low but stable inflation?

Barkin said that was a reasonable way to think about it. A similar concept could be applied to senior citizens who want a decent return on savings accounts.

A questioner noted that Davey endorsed the value that predictable inflation holds for the business community. He asked Davey to share his perspective on the prospect of the Fed allowing inflation to occasionally rise to "make up" for periods of too-low inflation — would that constitute less-predictable policy in a way that would not be good for business?

Davey responded that expectations would have to change in such a world. Understanding how those changes affect his firm's customer base would probably be most important. He remarked that as long as population growth locally remains strong, private developers, commercial developers and municipalities will have customers. Provided that remains the case, the sector could adjust its business model to changes in Fed strategy.

An audience member commented that with the current low unemployment rate — and considering that many workers need wraparound support to address family circumstances, substance abuse or low skills — efforts to bring people into the labor market can be scaled by sharing projects that have been proven to work rather than each community piloting new ones.

Armstrong said the community benefits from being organized and not addressing issues in a fragmented manner. It is important to coordinate with different entities so all citizens can benefit from the growing economy. For example, she pointed out that Smith's organization is working to bring many service providers together in central Virginia. Community organizations need to connect to a bigger strategy to help individuals go where they want to go, she said.

Ukrop described the great work that organizations such as Caritas do to help bring individuals back into the labor force. But sometimes a person will go through programs and still face a hurdle, such as failing a drug test, and those can be difficult cases.

Can the Fed influence immigration policy?

Barkin responded that the relevance of the issue to the Fed comes through the relationship of immigration to the economy's long-term growth potential, which is driven in part by an increase in the number of people working. He said this can be achieved through one of three ways: fertility, which takes a long time; legal immigration, for which numbers are higher than they were 10 years ago; and bringing people off the sidelines, the subject of much of the discussion at the event.

Brainard recalled that the Fed undertook nontraditional monetary policy actions during the financial crisis and Great Recession. She asked the panelists if they cared about how the Fed does its job and the tools it is using, or if they just cared about the outcomes, such as low inflation and healthy employment?

Davey answered that in the construction sector, predictability is the most important thing. He noted that his firm's clients interact with lending institutions, not the Fed, and currently have a lot of choices because banks are hungry to make loans. He said that in construction it comes down to prices and terms: Control the price and you can agree to any terms, or control the terms and you can agree to any price. Those factors are much more important to his customers than any tools the Fed is using.

Ukrop agreed that uncertainty is the bigger concern for businesses.

I have heard that there is a possibility of a recession in 2021. Are the panelists expecting that?

Davey responded that every customer is reading different barometers, and that it depends on the predictability of Fed policy. He also noted again that continued regional population growth has been a healthy sign. In all, his customers generally feel good about conditions through 2022.

Barkin remarked that long upturns in the economy are not unheard of, but this has been one of the longest in our history. However, Australia has had several decades of expansion, so it's not the case that we are "due" for a recession simply because of the length of our expansion. He noted that it is hard to have a recession when unemployment and interest rates are low and financial markets are relatively stable. At the same time, outside risks are always possible — event risk has driven the last couple of recessions.

Davey asserted that it is helpful for the Fed to say that publicly because it may be comforting to people making decisions about business two or three years from now.

Armstrong stated that her foundation is investing $800 million in community assets to grow endowment and return. She observed that investors do seem to worry that the economy is going to "turn," which is hard to square with how the economy's strength. This disconnect is ameliorated somewhat by the fact that she takes a long-term view in terms of managing investments.

In areas of the country where population is actually declining, what are the issues? How are conditions different in the Rust Belt compared with the Sun Belt? How have weather events, such as flooding in the Midwest, impacted areas differently?

Barkin noted that the Federal Reserve is a system of 12 regional Reserve Banks, and the presidents of each Reserve Bank track developments in their region and share those when they convene to make policy. He responded that in rural areas and small cities, there are issues with declining population and jobs moving out. This is a complex, multi-causal issue that the Richmond Fed has been studying.

Brainard echoed that a consistent theme in all regions of the country is that some rural areas are really struggling.

An audience member noted that transportation to work is an issue in many rural areas. He shared that his company, a security consulting company, invests in employees' transportation with them so the employee has skin the game. His firm also partners with community colleges for criminal justice degrees, a faster training route than working 20 years as a security officer before entering law enforcement. Another thing his firm does is give employees decoration for special skills, such as being trained in a drone unit. In all, he noted that wage increases aren't everything, and it can be effective to differentiate and incentivize people who are high performers.

There has been lot of talk about the low unemployment rate. The federal minimum wage has been at $7.25 for some time, while a "living wage" would be much higher. Does the Federal Reserve have any hand in the conversation over minimum wages, and does a higher minimum wage tie to inflation?

Barkin responded that the Fed does not have a direct hand in that conversation; the minimum wage is set by cities or states based on their labor markets. He commented that the labor force has been tightest at the entry level, which is where wages have risen most, independent of government action.

The final audience commenter mentioned a Stanford University project on "collective impact," a model that brings together different sectors to solve long-term community issues. The individual gave kudos to the Fed and to the panel for holding a discussion along the same lines.