Transcript of Federal Reserve Board *Fed Listens* Event: Perspectives on Maximum Employment and Price Stability

October 4, 2019

GOVERNOR BOWMAN. Right. Well, welcome back, everyone, for the second panel of the Federal Reserve Board's *Fed Listens* event. In the earlier panel, we heard about the conditions in the labor market and what opportunities and challenges tight labor markets and tight labor market conditions create all for educating and training workers, for businesses, and for the workers themselves.

So now we turn to the other leg of the Federal Reserve's dual mandate, which is price stability. So price stability is something that we didn't have 40 or 50 years ago, but which we mostly take for granted today—and you will notice it, as our previous panel noted, when your orange juice costs more than it did in the grocery store before—so the topic of inflation may seem a little bit unfamiliar.

But we're going to talk in this session about what it would mean for the groups our panelists represent if inflation were higher and more variable than it is today or even if it were lower than it is today. But what does it really mean to have price stability and how much time do your communities spend thinking about inflation, and how does that impact the decisions they make to spend or to invest? So to start the discussion off, I'm going to ask each one of you to give a brief introduction of yourself and your organization and its mission, and then I'll ask you some questions. So, Holly, would you like to get started?

MS. WADE. Sure. I'm Holly Wade, the director of the National Federation of Independent Business Research Center. The National Federation of Independent Business was founded in 1943, and we are the largest advocate of small firms in the country, with a presence in all 50 states and in D.C. The Research Center fulfills its job in providing information that's not always available on small firms. And we do that in a number of ways: in studies and also a number of surveys. One of the surveys most notable is our Small Business Economic Trends survey. It's a monthly survey that we produce of a random sample of our members, and we've been conducting that survey for 46 years, since 1973.

Other surveys that we collect data on are of more operational-type areas of operating a small business, so we look at marketing and how they train employees, how they fill positions, payment, and those sorts of operations that are crucial for a small business. So we better understand them, and then we can communicate to a wider audience about the functions of small business. And small businesses, as an impact in the general economy, are roughly half of private GDP, the majority of net new jobs, but I find the most critical component of small business is, they're the research and development division of this U.S. economy and willing to, you know, find different ways of filling market opportunities and also reinventing themselves when environments change—so, balancing priorities of the U.S. economy but making sure that small business owners have the ability to move into markets and out of markets and shift and change and employ all sorts of levels of positions.

One of our more recent surveys that we published was on employee training and their ability to find employees and train employees and the resources that they're putting into filling positions. Our monthly survey employment component is one of the biggest stories that we have. But also in—30, 40 years ago, the big story was inflation and how they were dealing with increased costs and absorbing those costs into the operations of their business. We've seen that, certainly, throughout—in recent years, in the—around 2008, with the increase in energy prices. So I'll talk, certainly, more about that as we get into the discussion. But thank you for inviting the small business voice to be part of your discussions today.

GOVERNOR BOWMAN. Thank you. Lisa.

MS. MENSAH. Good afternoon. I'm Lisa Mensah, and I'm the president and CEO of the Opportunity Finance Network. And Opportunity Finance Network is a network of more than 275 mission-focused loan funds, community banks, venture funds, credit unions, small-business funds that take financial services to the people and places that traditional finance can't really reach. And as a national association of Community Development Financial Institutions, we're trying to maximize the effectiveness of CDFIs through direct financing, through learning opportunities, and through advocacy. And just so we have our bearings, in the U.S., there are over 1,000 CDFIs who manage now assets of about $185 billion. CDFIs operate in communities and serve customers that are outside of the economic mainstream.

And earlier this year, we were pleased to have Chairman Powell acknowledge the particular challenges facing high-poverty areas when, I think, you were the first to—the first Chair of a Federal Reserve Board to visit Itta Bena, Mississippi, and speak—

CHAIR POWELL. [Inaudible]

MS. MENSAH. Oh, that's wonderful. And you spoke at a forum organized by one of our members, Hope Enterprise Corporation. And I just have to quote you, because it's been so meaningful to us. You said that the data "show a strong economy," but that "unemployment is near a half-century low, and economic output is growing at a solid pace. But we know that prosperity has not been felt as much in" all "areas, including many rural places."[1] And "along with lower incomes and wealth, the rate of business start-ups in these areas is lower. And [their]

[1] Jerome H. Powell (2019), "Encouraging Economic Development in High-Poverty Rural Communities," speech delivered at "Rural Places, Rural Spaces: Closing Financial Services Gaps in Persistent Poverty America," a policy forum sponsored by Hope Enterprise Corporation, Itta Bena, Miss., February 12, p. 2, https://www.federalreserve.gov/newsevents/speech/files/powell20190212a.pdf.

residents have less access to financial services," and that "many of these disparities have existed for generations, and in some places have roots in [a] history of discrimination."[2]

And I just deeply appreciated the Chairman's remarks: your recognition that more must be done for communities that are still struggling, the communities that our CDFIs serve. The good thing about CDFIs is that we lend successfully, and we service our loans in these geographies that have otherwise been rejected by mainstream banks. And we are successful because we know how to tailor our loans to fit the particular nuances of the populations we serve. CDFIs understand that living outside the economic mainstream does not make you uncreditworthy but instead requires the special skill set of alternative credit comfort measures and dedicated customer-friendly servicing. So this is a terrific group. We feel part of the financial industry, just focused on a particular population. I'm very, very pleased to have a moment to be with you all today. Thank you.

GOVERNOR BOWMAN. Thank you. Nancy.

MS. LEAMOND. Thank you. I'm Nancy LeaMond. I'm the executive vice president of the Community State and National Group and the chief advocacy and engagement officer at AARP. Yes, indeed, I have the longest title at AARP. We are the largest membership and advocacy organization in this country. We have 38 million members: offices in Washington, D.C., but also, importantly, across the country in all states, D.C., Virgin Islands, and Puerto Rico. And I think a lot of you know about AARP. If you've turned 50 and you haven't gotten a letter from us, I'd be delighted to correct that by the end of the day. But, as you know, we are very focused on the range of issues that are important to people over the age of 50: principally, health care and financial security.

[2] See Powell, "Encouraging Economic Development," in note 1, pp. 2–3.

And I would say, increasingly, health care is seen through the financial security lens. And as we talk a little bit more about our constituency, I think I can give a little bit more of that picture. We work particularly in the financial security area both on the advocacy front, but also in educating our members and providing the kind of outreach that's important to them on issues like Social Security, pensions, financial literacy, and, increasingly, fraud and scams. And it is a cottage industry now in this country to go after older Americans, especially, with frauds.

I want to add to the applause for the Federal Reserve for conducting these kinds of listening sessions. And I know a number of other regulatory agencies have begun this, but as somebody who spends a lot of time talking to people who are very distressed with Washington and feel that it is quite remote from their world and doesn't really understand the concerns of day-to-day life for Americans, I can't emphasize enough how important this is.

And I appreciated earlier—I know you'll probably return to it—kind of how you and others can do more, how organizations like ours can help to provide this kind of discussion. I would say the overall message is that inflation and price stability play an important part in the financial well-being of older Americans. These are people who are very price sensitive—and we talked earlier, I'll talk in a minute—about the tremendous economic anxiety of older Americans. Rising prices affect their ability to pay for necessities, and lower interest rates affect the so-called safe savings vehicles that they've been educated to put their money into, and so this is an enormous issue for us. And thank you so much for including me today.

GOVERNOR BOWMAN. Great, thank you. Well, we look forward to the discussion. But I also wanted to note that Chad—maybe, Chad Moutray from the previous panel may also be jumping in, simply because he's got a good perspective from the manufacturing perspective on price stability and inflation. And I'd like to also invite the rest of our first panel to participate as well. A lot of these issues cross over, and you may have a perspective that you'd like to share with us as well.

So—but first, let's get started with our first question. So how does inflation affect your community or constituency? And has your community or constituency been adversely impacted by either too low or too high inflation, and can you give us a little bit of a sense of that, from your perspective?

MS. LEAMOND. I'm happy to start. When we look at older Americans—and it's not always good to kind of characterize in two groups, but I will for purposes of this. We have kind of the first 65 and older. And not everyone in that group is living on a fixed income, but a vast majority of people over the age of 65 are retired. And, I would say, there's a substantial portion who have reasonable assets. And I guess a point I would make about that group, though, is that they are, of course, interested in this kind of conversation we're having right now, about the 100-year life. And if you have some assets and you're thinking about the 100-year life, your first kind of thought is, "Well, my bucket list can be even longer. I can do more things. I can live more fully."

And then you kind of hit a point—unless you're very, very rich—of what I call the health-care sticker shock. And you know that, on average, people over the age of 65 will spend $250,000 in retirement on health care. And, I would say, the anxiety about living longer, which, on the one hand, it's a great, wonderful thing that people are living longer; on the other hand, worrying about depleting your savings is a source of great anxiety, and especially in light of health care. And it affects people's, I think, psychology in how they think about all of this. There is a cartoon, I think it was in the *Wall Street Journal*—I'm working on not being stuffy, so I thought I'd quote a cartoon. And it's a kind of every older person's fear, which is being—you know, having to impose on their kids or their grandkids. And there's a cartoon of these bedraggled parents, with all of their, kind of, luggage at the door of this obviously wonderful family. And they say, "Well, we've changed our mind. We do want to be a burden to you." [Laughter]

And, you know, that—so that's a part of the picture of the 65-plus. The other part, I would say, is something that I struggle with with my staff, to remind them every single day: 50 percent of people over the age of 65 are going to live on their Social Security check either exclusively or primarily. And that's about $1,500 a month. And probably, in this room and in the rooms with my team at AARP, most people are not anticipating living on $1,500 a month. So I don't think I have to say more to kind of emphasize how important it is to have predictable prices and to be able to kind of understand what's happening with your money.

The second group are Americans of 50 to 64. And again, I have a cartoon I always use to describe 50- to 64-year-olds. So it's a man and wife, and they're talking to each other, look at each other, and one says, "You know, I figured it out. We'll just squeak by if we take a late retirement and an early death." [Laughter] And for people who haven't yet—and I add to that, often, "an early, quick death," because of the concern about long-term care. And I think what that points out is that you have this group, 50 to 64, they're in the labor force, they're probably buoyed now that it's a tight labor market, they may not lose their jobs, but they're still worried about it. They're caring for parents or grandparents. They may be caring for kids or grandkids, and they may be also financially supporting them. And they have tremendous anxiety about what the future—what the future holds, even those who perhaps shouldn't have that kind of worry.

So that's typically the picture that we look at and, therefore, understand that anything related to the economy, anything related to their savings or interest rates are going to be extremely important to them.

GOVERNOR BOWMAN. Great. Lisa.

MS. MENSAH. Governor Bowman, I'm so thankful to be here at a panel on inflation. My family doesn't understand what I have possibly to contribute to a conversation on inflation. But it really is—it is so important to the communities we serve. In low-wealth communities where people are struggling to make the ends meet, even small increases in inflation can hurt, and we don't get the chance to say that very often. The CDFI industry is important to low-income communities, because CDFIs are offering responsible financial products. We are "punching above our weight" to get this finance out for people both to get homes and to finance their businesses and to construct housing and other facilities. But this question of inflation is kind of a two-part one for us, because it's important to the people we serve, but it's also important to us as institutions.

We feel we are a necessary part, and that we could be doing a lot more, and that the inflation question puts everything in perspective here. One of the tools that we count on is the Community Reinvestment Act—it's CRA. It's the CRA tool that requires banks to serve low- and moderate-income communities consistent with safety and soundness. And many banks choose to meet some of their CRA obligations by lending to us, by lending to the CDFIs. In fact, about half of our capital that our members borrow to lend in low-wealth communities comes from the banks that are motivated by their CRA obligations. And this interest rate that we are paying to banks on borrowed capital heavily impacts the volume of what we can do.

And it may surprise you to know that in recent years, the rates that banks charge CDFIs to borrow have not exactly tracked with the federal funds rate, the way one might expect. So everything we look at when you're looking at these levers—it's important both at an institutional level and an individual level. But I think, though, and so my answer is, we watch this both as lenders and we watch it for our consumers. And when you're in the business of lending to people on razor-thin margins, inflation hurts. It just makes it harder for CDFIs to drive affordable capital into our communities.

GOVERNOR BOWMAN. That's a great perspective. Thank you. Holly.

MS. WADE. Yes. So, inflation—when—I'm sure you've seen our charts on inflation and prices. And in the late '70s, early '80s, our charts look very erratic, as far as small business owners being able to handle and absorb inflation spikes and the like. Since about the '90s, it's stabilized, with little pockets of volatility with inflation. For small firms, the difficulty in absorbing cost increases on the variety of levels that they do is, first, it's a hit to earnings, and that's their main source of financing for expanding and growing their business. After that, it's trying to absorb the costs in different ways—at the very end, increasing prices themselves, because, obviously, they're competitive and they're establishing prices of their goods and services based on their local competitors in their area. And so to remain competitive, they usually absorb it internally before increasing prices externally.

One of the other areas that is crucial for small business owners is, most of their earnings is their savings for retirement. And so low, predictable inflation—as far as the challenges for them retiring, selling their business, passing their business on—is critically important into knowing how much of their savings can be used for retirement. We've done a number of surveys on retirement, what they do with their business when they're no longer interested in running it, and how much of their earnings is contributing to their overall household income.

And, for the most part, our membership—these are surveys of our membership, and so most—about 90 percent—are employers, about 10 percent nonemployers. But of those employers, the average employment is around four to six employees. So we're talking, very small. This ranges over all industries and across the country. But the impact to their family income, but also in their ability to operate their business and absorb those costs, are difficult. The last time that we saw an increase in those saying that inflation was their single most important problem, which is one of our questions in the survey, was in 2008. And that just went along with the rising energy costs that were being absorbed in all various areas. We haven't seen much of a problem since, and right now, it's employment and filling unfilled job openings and their ability to expand their workforce, which is their major headwind. But when inflation becomes a problem, it is clearly shown in our data how difficult it is for them to deal with it and absorb increased costs.

Every four years we produce a survey called Problems and Priorities that ranks 75 potential issues in operating their business. In 2016 was the last time that was conducted, and the costs of inventories and supplies in 2016 ranked 15 as their most critical issue, with 13 percent saying it was a critical issue in operating their business. By comparison, in 2008 it was ranked number 8, with 17 to 18 percent saying that it was a critical issue in operating in their business. So it is a challenge. It's one of their biggest challenges outside of taxes and regulations and health-care costs, which is one of their main challenges in operating their business for them—health-care costs for themselves, but also in offering the benefit to their employees and being competitive in filling those open positions. But in all of the different ways that costs contribute to operating their business, inflation is certainly a challenge when it appears.

GOVERNOR BOWMAN. Chad, would you like to—

MR. MOUTRAY. Sure. I mean, I think—well, one of the things to keep in mind about manufacturers is that they have very long time horizons. And so being able to have that certainty in terms of pricing is key, right? To be able to plan that. I mean, you hear that even in the tariff conversation now. I think the part of the thing that's lacking is the lack of certainty on that conversation. I wrote a few things down here. I try not to be too stuffy, but the things I thought of, some of which have already been said as well: When you go back to last June—June of 2018—a lot of our manufacturers, as I was traveling around the country, were complaining about increased pricing pressures. Now, part of that was the tariff conversation, especially as it related to steel and aluminum and some other things. But you were seeing other pricing pressures in the overall PPI and other things as well.

Those have decelerated pretty dramatically since then, which is a nice positive. But that was probably the last time you really were seeing that kind of rise, at least to the level that I was hearing about it when I was meeting with some of our executives. Some of the other things that I think are important: Health care continues to be a number—a big issue. You've heard that as well. The rising health-care costs really continue to be one of those things that—not just for the employees, but also for the firms that are providing it, that, certainly, especially for small and medium-sized manufacturers, can be a really big challenge. Energy costs—it kind of cut both ways, but we sometimes underestimate how important energy is as a sector for the U.S., especially for manufacturing.

So when the price of oil fell from $107 a barrel—West Texas Intermediate—to, like, $28 a barrel, you saw huge swaths, obviously, of the energy sector be affected, but you also heard—I would be somewhere completely remote from the oil fields, and you'd hear about manufacturers who weren't having that supply chain to be able to sell into it. My view is, the 2015–2016 slowdown—a lot of that had to do with where the energy markets were, in terms of that pullback that you were seeing. And the recovery that we've seen in 2017 and 2018 really have to do with the fact that the energy sector has largely recovered. And so I think energy costs certainly play into it, in terms of our manufacturers thinking not just in terms of the overall costs, but also in terms of the importance for that sector, I think, in the manufacturing realm.

The other thing I'll point out here is the U.S. dollar. The dollar obviously has risen about 10 percent over the last, say, 18 months or so. I don't say that as a criticism, I just say it's risen. It's just something that's out there. And you hear that from manufacturers. You certainly hear about it, in terms of overall earnings reports, in terms of squeezing profits. Again, the dollar also cuts both ways, right? So if you—we like a strong dollar, obviously, if we're traveling abroad. We like it, obviously, if we're buying imports, and so that's certainly is something that we like. But it also can squeeze the bottom line, obviously, when you're talking about exports. So it hurts our ability to grow those. And so you do hear that as well, as something that certainly manufacturers would be concerned about.

GOVERNOR BOWMAN. Anyone else from the panel want to add anything?

MS. SCOTT. One thing I would say is that the pressure to do more and have more impact has caused us to change our capital needs in CRA. Our capital sources are extremely important to us, but not enough anymore. We need longer-term capital. We need capital that is—that we can get at cheaper. And so the industry, I think—the CDFI industry—is, I think, moving to a place where, in addition to CRA on capital, that we look to the bond market directly for sources of capital that we can borrow the hundreds of millions in—at a much cheaper rate and have more impact. But some of the need for the longer term is so that we have more control over the fluctuations.

GOVERNOR BOWMAN. So in the context of inflation and businesses—and chime in where, I think, if you think it's irrelevant to your perspective—how does that impact their ability—those businesses' ability—to hire workers or retain their workers in a varying—for a stability environment or inflation environment?

MS. WADE. For small firms, there are so many components to the increased prices. For instance, you know, the increasing, or—the price increases in health insurance, if they offer the benefit. Health insurance is just such a huge factor for them, as I mentioned, in offering the benefit, but also in insuring themselves. And, over the last 20 years, the offer rate for those employers under 50 has fallen precipitously and continuously through that time period, and those who are—especially during the recession. So if there was, outside of wages, the benefit that cost the most is obviously health insurance, so that new firms coming on board and hiring their first, second, third employee, it's taking them longer to offer the benefit. And so the commitment to paying for a benefit that they don't generally take away—because it is such a foundational part of compensation when it is offered—is difficult for them to navigate. And so that component, that benefit, plays a large role in their ability to absorb costs in other areas.

The other part of it is the uncertainty aspect. I mean, I know that we talk about uncertainty a lot, and we have an uncertainty index with our monthly survey. We have two areas in our—two issues in our 75 problems: uncertainty over government actions and uncertainty over the economy. Well, uncertainty over government actions is the area that we hope to influence and stabilize so that that isn't an area that is of most concern for them.

Uncertainty over economic conditions—I mean, that's something that every business has to deal with, and everybody has to—that's challenged and has to navigate through. But alleviating some of the uncertainty when it comes to inflation and making sure that it's predictable—and so that can be less of a challenge for them, with all the other challenges that they face. But in increasing compensation and increasing wages to be more competitive in the tight labor market is certainly a challenge. It's absorbed through higher earnings of their firms. Sales are good so far—sales expectations has fallen off a bit, but still in strong levels. And the challenges of then dealing with higher costs, increases in the regulatory environment—and not so much on a federal level right now, but in some of the states is becoming increasingly burdensome for small firms, and also with the tax environment.

So having a more friendly regulatory environment for small firms or a more friendly tax environment for small firms makes them more competitive and able to deal with some of the inflationary problems that they might have. This last survey, we did ask about tariffs and whether they were—how they were being impacted by the recent changes in tariffs, or—the recent changes in trade policy with China. And about a third, or 30 percent—a little less than a third—said that they were negatively impacted by the recent changes in trade policy with China. And most of them were just in the somewhat negative category, and—but there were about 8 percent that were significantly impacted.

And the two industry sectors most impacted: obviously, agriculture, but the wholesale trades. Wholesale trades and then retail, and then manufacturing was the other one. And so being able to absorb those costs, along with all the other costs, is often a challenge. And then being able to balance that with increased wages and compensation, whether it's compensation—because, in our question, it's compensation includes wages and benefits. So those who are offering health insurance have the challenge of escalating costs there. But also being competitive, we see more and more small firms increasing wages to be competitive to retain and attract employees for those positions. And then—and navigating all of that, plus being competitive on the price end of their goods and services—you know, it's a daily challenge for small firms.

MS. MENSAH. I have a slightly distinct position as a financier of the small firms. And in our network of members, about half of our members specialize in small business or even micro loans. And so when we think about this question of how inflation may affect members who are running a business or who are lending to business, there is no question that those businesses supported by OFN's members have benefited from stable price inflation. But if this should change, the businesses in the very low-wealth communities will face difficulties in absorbing any kind of inflation spike, particularly if it was quick. And as Holly has said, business revenues will drop as customers, who are already struggling to make ends meet, are no longer able to afford many nonessential services. And at the same time, when business expenses rise due to the higher costs of output, that will make it struggle.

So Holly spoke about profit margins that get squeezed from both sides and puts in customer revenues, and this certainly will mean some businesses won't survive. But I think one of the things we are trying to do as the CDFI industry is to help mitigate any of those kinds of shocks with our business customers by keeping our debt service payments low via our low rates and longer terms, and that's something we can control. Inflation will always be very hard on the small businesses we serve and the CDFIs who work with them, but we are very mission driven.

That's a distinct part of our field, to support these businesses. It's just that inflation makes it much more difficult.

GOVERNOR BOWMAN. Chad, do you want to add something to that?

MR. MOUTRAY. So the thing that I would add there is, obviously, given the tight labor market and the issues that we talked about earlier, you are starting to see some signs of wage appreciation—perhaps not as much as you would expect, given where we are at a 50-year low, in terms of the unemployment rate. I mean, this morning's number—we were at 2.9 percent year-over-year, which is not—not "pull your hair out" or anything, but it was certainly a decent number, certainly up from where it was a year or two ago. I think, in certain occupations, you certainly are hearing a lot more about wage appreciation in some of those.

The truck drivers, which—I don't represent truck drivers, but I do—you do continue to hear about, because of the lack of truck drivers, there's a lot of signing bonuses and a lot of other things. And so—and there are other occupations, I think, also where that's an issue. So I do think that, in the tight labor market, you're seeing wage appreciation, but it's not what you would expect, given where we are in the unemployment rate at this point.

CHAIR POWELL. Do we know why that is? Not to put you on the spot, but it is—wages have gone up less than we would expect, as you say. And is it because businesses don't think they can pass it through, or is it—what really, if you have—what do your members say, and what do you—what's your thinking on that?

MS. WADE. I think that's certainly one of the problems that they're facing—is not thinking that they can pass the costs through to higher costs for their goods or services. I think it's also trying to absorb all the other costs, including health insurance, that are—that are outpacing wages. And so absorbing some of the benefits that they offer their employees, even if fewer are offering the benefit to begin with, those who are are having to observe those costs too. So it is a challenge in balancing how might—do you pass off more costs to the employees? But then you have fewer employees who are going to take up the benefit, and then you might not be over the threshold of being able to offer it to your employees.

So absorbing all of the costs and depending on what state—state regulatory costs and things like that for small firms. But the price part of it is a challenge, too, and being competitive with other neighboring businesses in their industry. And they're very hesitant to increase prices on goods and services also.

MR. MOUTRAY. Globalization obviously plays a role here, I think. I suspect the gig economy plays a little bit of a role in it, that was—she left, unfortunately, but I think that all plays a role in it.[3] Productivity growth also has been relatively slow over the last—certainly since the Great Recession. So if you were to add productivity and inflation—right?—you're probably getting comparable to what you would see in terms of overall wage growth. So I think all of those somewhat play into it. I don't think it's because businesses aren't willing to pay more. I think they certainly are, and I think I would expect to continue to see more wage appreciation moving forward. But it is one of those head scratchers, I think, that we have to say, "Why has it taken this long, really, for wage appreciation to pick up, to the extent that it has?"]

MS. MENSAH. It is what makes our communities—very low income communities—very concerned about this topic, because they haven't seen the wage appreciation that would allow you to afford an extra $0.10 on the gallon of milk. So that is—I'm very glad to have that question asked.

[3] Sara Horowitz left the event at the end of the first panel session.

GOVERNOR BOWMAN. So, Nancy, I'll shift gears and go to your constituency. How has our—the Fed's interest rate policy since the financial crisis affected retirees or those who are living on a fixed income?

MS. LEAMOND. Well, of course, part of our constituency are businesses who—and consumers who are borrowing money to go back to school or take training, so, of course, low interest rates are very appealing to them. But, on the other hand, the vast majority who are on fixed incomes look to the interest rate as part of their income or supplying part of their income. And so, when there are low interest rates on CDs and money markets, it has an impact. It obviously has an impact on the amount of money.

But more than that, we've heard increasingly, as we've done a lot of work on kind of financial literacy programs, about whether we're seeing a situation where, given that CDs, money markets are not yielding as much as people thought, are they getting into riskier investments? Are they kind of moving more into the stock market than they might have before? And we don't—I don't have any data on that. But I think it is something that we've thought a lot about as we've thought about our own financial education efforts.

GOVERNOR BOWMAN. I certainly don't want to preclude my colleagues from asking any questions, and—Lael.

GOVERNOR BRAINARD. Yes. I think if I could just continue on that same kind of line of questioning—you know, we do find ourselves in a very different kind of interest rate environment. The level of interest rates that seemed to be consistent with full employment and stable inflation is just much lower than it has been historically, and it looks like that's true internationally. And it looks like that could be true for a long period of time. And I just would like to hear from you, thinking a little more about, if this is the environment we're in, you know, does that have distributional effects? Are some groups able to take advantage of those low rates to make investments, or are some groups not able to—and I'm looking at Denise—or perhaps on the flipside, people who are in defined benefit plans, this might be a good environment for them.

But defined contribution plans, as you said earlier—you're just not going to see—and how does that affect, you know, their ability to consume? And the kinds of mechanisms that we usually use to promote greater activity works through that interest rate. Is that going to be less effective this time through, as it passes through to the various financial entities that may be promoting growth? So I'd just be interested in hearing a little bit more about that.

MS. SCOTT. Yes. As I mentioned, we're really looking to the places where we can get cheaper capital, so that's a goal. And the amount of it that, that—because of the term of it, we have the ability to control that service and a whole host of things, in terms of how we underwrite. But in our—I said earlier, on the earlier panel, that we are, for example, more tying into the health-care sector. The interesting thing is that the hardest part of our discussion with them is about—about the interest rate on the dollars that they're going to give up, because they're also trying to figure out how to maximize returns, in a way, on the cash that they're sitting on. But they're also sitting on significant money that is in reserves that could be unleashed for community development purposes.

And so there is a—maybe what's missing in our world is a source of capital that can be held extremely cheaply for very long periods of time that may not even have to come off the books but is providing guarantees and credit enhancement that would just enable us to do a whole lot more by way of making loans to small businesses, even during the most difficult times, that we could take the risk, because we have something to fall back on. We may lose something in the process, but not everything that we invested. So some percentage of what we're willing to lose is the other piece of it—it's guaranteed by money that's sitting on somebody else's book.

So we've been having a lot of conversations with different institutions, foundations, and whether they could be a source—more of a source of credit enhancement. It's just that we have to diversify, is what I am saying—our access to capital in order to mitigate some of the issues that we're—we know we have—historically, we've done this, but it has to be to a much larger scale if we're going to keep up with the need. That—so that's what we're about now.

MS. MENSAH. I would add to that, since I have one of my partner CDFIs at the table, I would say that coming out of the Great Recession, CDFIs—we were kind of the financial first responders. We could go in when other banks were having to reduce what they were doing or increase capital levels and credit quality. And that kind of financial first response is important to have in the economy, we feel. So, all the things that you are doing to allow our sector to remain, whether that's CRA or the kind of interest rate policies you're practicing—because when we hit a shock or when inflation—you're going to be sitting at this table in the future, and you'll be debating that question. We are going—we want to make sure that our lending is able to be there to provide affordable housing and small business loans and community facilities and so on.

So, yes, we are looking for future flows, and few have been able to go to capital markets. But I think our principal job in an economy—and I'm so glad you're listening to all of us who are out there, where this economy has been so uneven, where there's still so many paycheck-to-paycheck people. And I think you're looking at, what is the big movements that are happening to those families and where they can sustain very little shocks to the economy and where, even though the policies have been strong to keep the economy, we've still seen pieces of the economy that aren't rising? And I think that's why we feel that we're an important component of the solution base here.

And so, anyway, I appreciate the chance to weigh in and say, your very careful policies, which have kept inflation low, is—are very important to our communities.

GOVERNOR BRAINARD. Holly, do you want to talk a little bit about borrowing conditions, and—

MS. WADE. Sure.

GOVERNOR BRAINARD. —you know, whether they really have made a material difference to the small business sector, and, you know, how they think about their ability to sustain borrowing in an environment where interest rates look to be low for long?

MS. WADE. Yes. So, certainly, credit conditions and the availability of financing is the lifeline of small businesses. And so it's critically important that they're available for small businesses in all the ways that they are. Currently, our survey shows that it is clearly friendly credit conditions out there, and for the most part, they're able to access the borrowing needs that they're interested in. There hasn't been an increase in the number of regular borrowers like we thought there might be. But because of strong earnings, that is the main principal source of financing of their firm. And so most small business owners are using those earnings to reinvest in their business to grow and increase compensation and all the other things that they—that they would usually use financing for.

So it is an area that we talk a lot about. Right now, it is not one of their biggest challenges: Only around 3, 4 percent are saying that they're not getting all their borrowing needs met. And so, for the most part—but, you know, our members are more established firms, and so they generally have a relationship with their bank. One of the areas that we do see or that we do have, kind of in the back of our mind, concerns with is their ability to access independent local community banks, and in areas that where community banks—the number of community banks are declining.

And so those are the banks where they usually have the relationships with the loan officer, or they have dedicated small business loan officers that understand their community. And they are generally able to come up with better terms and financing there. But for the most part, it's a fairly friendly business financing environment for them. And so that has been lower on their challenge list, which is terrific, because it is so important to the operations of small firms. We certainly don't want it to be one of the front-running issues that—that is a challenge for them.

GOVERNOR BOWMAN. So are we seeing a difference in the confidence that people are feeling in the economy today versus in businesses—in particular, versus—today versus before the financial crisis? Can you give us a perspective on what it looks like?

MS. WADE. Certainly. So, for small firms, they have not—they've never been this optimistic. I mean, from 2016 to now, optimism has been at historic level highs. In August of 2018, we hit the all-time high of our optimism index, 108.8—that will forever be ingrained in my head, probably for as long as I live—which was a wonderful feat for the small business economy in their ability to grow and take advantage of market opportunities in their communities and increase employment and all the other good things that small businesses do for their communities and for themselves. But—so, optimism is at historic level highs. Before the recession, we were in a strong economic—small business optimism was also high and elevated, not to the levels that we are now.

Now we're in a more supportive tax environment and a more supportive regulatory environment, especially on the federal level—some challenges in certain states. But in 2008 and a few years before that, there were challenges with inflation for some small business owners in certain sectors, with energy costs rising, and the challenges then, as with now, of the rising cost of health insurance and trying to absorb those costs, too. So while they were optimistic then, and the environment was very supportive of them—for them, it's even more supportive now, with some of the change in policies and with the credit conditions and inflation not being headwinds for them.

MS. MENSAH. Slightly different from—for the communities we serve. The confidence that I think we all care about really comes from being able to provide for your family. That's what makes people feel strong. And it's just very hard to feel confident when you're living paycheck to paycheck, and your modest—your savings are too modest, and you're one emergency expense away from financial ruin. That's already been mentioned. So that when a CDFI comes in and provides affordable housing or supports a small business or supports community facilities or brings in a new kind of financial service, we're stepping in to absorb some of the shock. And I think—I want to go back to my Mississippi example, because that's an example—Moorhead, Mississippi—where our CDFI stepped in to a bank desert, where a bank had closed.

We all know those community banks are powerful, and they do help the economy. But when they're not there, we need somebody to step in. And in cases where we've been able to do that, we've been able to improve the kind of confidence both at the consumer level—you know, you can't move forward with just payday loans—and at the level of other businesses. So I think we'll get to a greater confidence when we're able to give people more of a sense of being able to provide.

GOVERNOR BOWMAN. Are you seeing a difference between rural versus urban confidence, or—

MS. MENSAH. I think that's an important—it's very important to look spatially at rural and urban. And that's why it's so good that you have this tour in many different places. But we're sitting here in the capital, and it's easy to overlook that many places look very different. And it's not—I had the pleasure of serving as undersecretary of rural development. And rural is not uniform either, and it is not all poor. And they've got—we've got successful pockets, we've got successful areas of production agriculture. But we've also got places where the broadband is not working yet, where the financial services are not strong. And it's this area, this unevenness that, I think, you're allowing us to have some spotlight on today.

And it's where, I think, mediating institutions like CDFIs have a key role to play. We may not get back to the same level of community banks, but we can come together and help finance in those areas to improve confidence. It's a provision of services and credit to fuel economic activity. And so, I would say, these are differences—not uniform, but an important time to look hard at what's going to drive. And you've already been putting the spotlight here, and I just encourage you to do that. This has not been a uniform growth as a country. And the kind of institutions that CDFIs are, we help mediate those differences and that unevenness.

GOVERNOR BOWMAN. Nancy, from your perspective, how is confidence?

MS. LEAMOND. Well, not surprisingly, it took quite a while after 2008 for our constituency to feel stable and good again. And, I would say, when we were polling in 2012 through 2014, 2015, numbers were good, people were feeling more optimistic, and that had continued. We did notice about seven or eight months ago that, again, for people over the age of 65—kind of, late 55, 64—starting to get more worried about the economy. And if you think of it, it kind of corresponds with a lot of talk about recession. And there is no group that responds more to nervousness, talking about recession, when they watch the local news or the evening news. So I think that had something to do with it.

The other thing—and I don't know whether this kind of is increasing exponentially or whether it's just always there—it is almost impossible to talk about older Americans and their view of the economy without talking about health-care costs. It is such an important part of the way they—we—see their personal economy. And I think, as we've seen recently, we're working a lot right now on the cost-of-prescription-drugs issue, and I'm struck—I've done this work for a lot of years. I am struck by, when we look at who is concerned about this issue—very much so if you're over the age of 50, you are. But, really, everyone. And I've said to my team, we may never again see an issue where no matter what your age, no matter what your gender, no matter what your race, whether you're left handed, right handed, whatever it is, you're concerned about these costs. And I think—I don't know what it all means in the longer term, but I think it's something we all have to—have to focus on.

CHAIR POWELL. Could I just—you know, you have a lot of numbers, it seems. So if—do you have a number for what percent of, let's say, Americans over 65 feel some level of stress over health care?

MS. LEAMOND. I do, probably. Not in front of me. But on—whenever we poll on concern about prescription drugs, it's 70 to 80 percent have a concern about prescription drugs. And it's really interesting. It's not, from what we've been able to tell—it's not just—and I don't use "just" in a de minimus way, it's not just "I have a disease for which there is $100,000 a year drug." It's also people like me, who go for a prescription—one month it's $2, and the next month it's $30, and the next month it's $25. And so people are, like, "What is going on?" But it is a very, very high number, which I can obviously provide—yes.

MS. WADE. To add on to what Nancy was saying about the talk of recession—our last survey that surveyed our members in August, there was a bit of a decline in those—in outlook of business conditions and sales expectations. And while outlook of business conditions is one of the more volatile components to our index, they watch the news, and they hear what's going on, and the feeling of pending recession—how that might impact them—we aren't seeing it, certainly, yet, because the jobs numbers that came out—our jobs numbers that came out yesterday showed that they are still looking to fill positions at record-level numbers. And so that part of it is still strong.

But the uncertainty part of what they're hearing in the news and on the radio, where they get most of their information, is a challenge. You know, what they're seeing, as far as consumer confidence and consumer support in their business, up against what they are hearing in kind of the more general news about the U.S. economy and what that looks like and what that means for them—balancing all of that is certainly weighing on them and weighing on their outlook for business conditions.

GOVERNOR BOWMAN. Great. Any other questions before I ask our final one about the—before we move on to our audience questions—about how Fed actions and communications are watched or received by people in your constituencies or communities? And then, how could we be more effective in our communications, from your perspective? Nancy.

MS. LEAMOND. And I thought the suggestions earlier were all very, very good ones. I was talking with somebody the other day who said that if only there could be a musical like

Hamilton on every subject you all care about, we'd be able to do some incredible education. But, unfortunately, there isn't. I think a couple of things. So I think the kind of outreach that the previous panel talked about is all really important. And I think working with trusted institutions in the community and trying to talk to people is very valuable.

I'm always struck—our folks tell me all the time how important it is. We did this a few years ago. We started this effort where we put listening posts at every meeting we did. And we just put a question up. I thought it was a terrible idea, because I thought everybody would write, you know, "We hate so-and-so," and there would be all kinds of backlash. But it turned out to be really interesting. We found out that people were—we were really concerned about, you know, a major health-care issue, and everybody in the community was concerned about the new bike path. And I think finding ways to do that—we've worked with a lot of officials in the government on tele-town halls, which give you an opportunity to talk to people, but also make sure that you can kind of have thematic discussions.

And then the other piece—and I'm very serious about this, from a lot of work we've done on health care. I was on a little advisory committee once on patient-centered health care with a lot of leaders of the health-care industry. And during the first meeting, I only understood about three things we talked about all day. It was all kind of jargon that everybody understood. So I kind of at the end said, "Well, we're talking about patient-centered health care. I think we need to have language that real people understand when we talk about this." And they really appreciated my insight and said that they would hire a PR firm at the end of the process to do that. And I thought it was, for all of us, an extreme missing of the point, which was that it isn't something we do kind of at the end of the process, but throughout. And I would say, you all have enormous respect, because people know how important the Fed is and how important your decisions are. And the ability to speak as you do or wherever you do in ways that people kind of can understand is going to go a long way.

MS. MENSAH. I would say that the action that you've taken today, that this is 1 of 14 listening tours, is just a breakthrough. I think, in our community, we've never seen that before. And my members almost enjoy being hosted by the Federal Reserve community many times a year. You welcome the community development field into your doors, you feed us lunch—we appreciate that. But this is even—this is even deeper. It—opening your doors, I—earlier this week, I had the privilege of speaking at the Richmond Fed's "Investing in Rural America" conference. And your convening power is astonishing: For a full day, a couple of hundred people from throughout Virginia and West Virginia and North Carolina and South Carolina sat together and really questioned, where are we heading as an economy? And I would encourage that kind of deep ability to convene, to throw open the doors.

And then I think you have something that is absolutely uncontroversial. You are fully bipartisan. No one suspects you of being political at a time where we need the clear—perhaps the economists are dismal, but they are clear, and no one questions that we need some of that clarity. And even the fact that you expose the differences—you know, that a business may feel a little different than a lender, you know—it's a very safe place for us to talk. So I would say, press on, on the way you are flinging open the doors, listening, and putting normal institutions into these very highfalutin areas of inflation and maximum employment, price stability, revealing your function for our economy. So thank you, and keep going.

CHAIR POWELL. Thank you.

MS. WADE. I agree with everything everybody just said. For small business owners, the—how they hear about Fed policy, how they know what's happening is when they go to their local bank and they talk to their loan officer and they see what's available to them, and they see what credit is going to cost, and their line of credit or a new business loan and the availability of that. And when they hear—and outside of that is listening to the news and hearing what, you know, Bloomberg or CNBC or CNN, Fox, all of it, and trying to navigate what's being said versus going to their bank and hearing what's available. And then the uncertainty of, do I wait to see if things will get better? Do I, you know, look for a line of credit now? What—Could credit availability ease a little bit, you know, in the next four to six months?

And so kind of taking all of those inputs in can be a challenge for many small business owners. So what you're doing, especially with the Banks and their outreach to the small business community, is critically important for them to better understand your process and how you impact the—you know, their ability to access financing and letting in the credit markets is hugely important. I've certainly heard from our members about participating in some of the outreach that the Banks around the country have been engaged in.

And then, also, obviously, you know, we greatly appreciate your inviting the voice of small business to participate in your listening tours, and hearing about their challenges and what matters to them in operating their business through these conferences is hugely helpful. So thank you very much.

GOVERNOR BOWMAN. Chad, we engaged you in the last rounds. So do you have anything you want to add to that?

MR. MOUTRAY. No.

GOVERNOR BOWMAN. Okay. Do we have any questions from the audience? We can entertain a few before our time—Don?

MR. HINKLE-BROWN. Thanks. Thank you for doing this, folks, I really appreciate it. My question is about something we didn't discuss as much, and it's about when interest rates or inflation is too low. I know there was an allusion to when rates are too low, it diminishes your stimulus ability in a slowing economy. And I would just want to flag for you that there are many others using that stimulus, so you're not the only ones hampered in that environment. Other federal agencies use low rates for particular programs to draw people to particular activities: rural lending, ag, infrastructure. State and local governments use low- or no-cost loans that become less powerful at triggering supply of the things they're trying to get built in the environment. CDFIs use below-market-rate interest rates and as does philanthropy. And all of those players also lose power when interest rates are held artificially low, because their ability to stimulate their particular missions or the particular local outcomes that they want are also diminished.

CHAIR POWELL. I was thinking about bringing that up. You know, it comes in this form: We think our inflation is a little bit lower than we'd like it to be, but we realize that, for many people, that sounds a little bit crazy. You know, we actually want inflation to be a little bit higher. And I wonder if you have any good advice to us on how to explain that to the public, because the sense of it is exactly what you said: It's that if inflation is too low, then rates are going to be even lower, and we're going to have less power, and, over a business cycle, there would be even less ability—less ability to support maximum employment and stable prices. Nonetheless, we—it starts with the thought that we have to get inflation back up to 2 percent. We want it to be symmetrically around 2 percent. Do you think we'll have a hard time explaining that to the general public?

MR. HINKLE-BROWN. Absolutely. [Laughter]

CHAIR POWELL. Do you have any great ideas on how to do that?

MR. HINKLE-BROWN. I think you're going to need another three hours for that. [Laughter]

MS. MENSAH. But it's also because if wages don't rise at the same time, that's where people feel caught. And, you know, that's the hardest part. You don't control all the levers in the economy. And the first panel explained so beautifully what's sticky about all of these other things. And I think that's the catchword in here—that we have such deep fear, because there isn't a sense that the communities are ready to provide for each other. And so it is a tough challenge, and I think it does—I loved being in the second panel, because the first panel had to go with the tough issues of employment and wages. And I think that's where the inflation—inflation will help all of us who are debtors or help those of us who are invested in the markets who want to see, but—and so that, we'll see an immediate gain. But when your wage does not rise, that will always be hard for us.

CHAIR POWELL. We'll be trying to persuade you that, in the long run, wages will be higher, because we'll have more power to support maximum employment. But I take your point—in the short run, it might not feel that way.

MS. WADE. I think it's similar to small business owners and their challenge of thinking, "Okay, if the target is higher than inflation is now, how do we absorb those costs?" And, you know, where is the line of being able to absorb those costs on top of, kind of, the other challenges of operating their business? And they're seeing it day-to-day in trying to navigate all of that. And so there ends up being a bit of a fear factor of how they're able to incorporate this and absorb it, you know, in earnings and increased sales—and all the while, trying to navigate, you know, is consumer confidence and consumer spending going to hold up and allow for the absorption of some of these cost increases? And so there is a bit of a fear factor when it comes to increased inflation.

MR. HAILE. If you think about it, because it is so complex—and I think one of the things to think about is the audience that we're focusing on, right? And Lisa hits the nail on the head with this, really, and there's data to suggest that there are one out of three working adults who feel that the economy for them is the same today as it was in the worst components of the Great Recession. And so, how do you—how do we—and I don't know the answer, but the question, I think, is, how do we convey to them, notwithstanding the fact that you've been at a static pace in a difficult way with all of the balancing that you have to do between paying your bills, and perhaps you're not seeing the opportunity to attain some form of post-secondary education certificate otherwise that can get you to that other level—and then, to suggest on top of that, that we're pursuing a higher inflation level. So if that's the conversation—and, particularly, as you think about penetrating communities with this kind of conversation, I'd be thinking about that conversation with those communities and making sure that they understand.

MS. SCOTT. Getting to the long—you said, in the long-term, it will have an impact—the higher inflation—and I think we agree, I think. But for many of our communities, the distance to the long term, we don't—we just don't survive that, that's part of the problem. The business closes. People don't get to make the choice, say, for higher education. Families just can't buy the milk today. I think that's the challenge. Like, how do we—

CHAIR POWELL. I mean, to be clear, it's—we're looking to have inflation just a little bit higher and to avoid it going down and sliding down toward zero, the way it has in other, you know, advanced economies around the world. That's what we're really thinking.

MR. MOUTRAY. And I think the key there is explaining why that's a problem, right? And the fact that we are not getting inflation up to 2 percent is because of X, Y, and Z, right? And, certainly, in the manufacturing space, we also had optimism that was pretty high last year. Now it's a three-year low, right? And a large part of that has to do with the global economy and the whole trade war issue, et cetera.

And so I think all of those things play into it, and the fact that, now, suddenly, we're not spending—business spending is falling, right? So you've got to find a way to turn that around, right? And the way to turn it around, then, is through implementing these policies. And so I think the conversation is less about getting us up to 2 percent and more about, why is that a problem, and how can you fix that?

GOVERNOR BOWMAN. Well, thanks to our panelists and to everyone in our audience today. We really appreciate the opportunity to engage you in these discussions and to hear your—your perspectives on these issues. And I think that's all. Thank you so much.

MS. MENSAH. Thank you.

MR. MOUTRAY. Thank you.

[Applause]