The Economic Club of New York

115th Year
650th Meeting

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March 30, 2022

Webinar

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Leonard N. Stern School of Business
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Introduction

Chair John C. Williams

Well, good afternoon and welcome to the 650th meeting of The Economic Club of New York. I'm John Williams. I'm the Chair of the Club and I'm President and CEO of the Federal Reserve Bank of New York. So it's an honor to be here with all of you in this milestone year for the Club. This is our 115th anniversary. And throughout our history, the Club has served as the preeminent nonpartisan forum for discussions on economic, social and political issues. And a special welcome to members of the Economic Club of New York's 2022 Class of Fellows – a select group of diverse, rising, next-generation business thought leaders as well as graduate students from the NYU Stern School of Business, City University of New York Graduate Center, Fordham University and Villanova University.

Today, I'm honored to welcome Esther George, the President and CEO of the Federal Reserve Bank of Kansas City. Esther has been an extraordinary colleague of mine and leader in the Federal Reserve System for a long time. And I've had the great privilege of working with Esther a little over ten years now on the FOMC that we've both been on, the Market Policy Committee.

Esther has a longstanding and really a unique career at the Fed with so much experience and expertise in many of the – I would say, almost all, of the critical areas that we do. She was a bank examiner. She was the Head of HR. She was a Chief Operating Officer. She was the head of supervision. And obviously now has been the CEO and President and member of the Federal Open Market Committee. She represents the Tenth Federal Reserve District on the FOMC and provides her perspectives based on all of her experience that I just mentioned.

She also leads, and this is another one of the things – Esther is just expert at so many things – leads the development of the FedNow Service, which will provide financial institutions with the ability to settle payments in real-time, 24/7/365. And, of course, she hosts the Fed's annual Jackson Hole Economic Policy Symposium.

The format today will begin with opening remarks by Esther followed by a conversation, and we're honored to have the Club's Vice Chair, Peter Blair Henry, as our moderator. Peter is Dean Emeritus, New York University, Leonard Stern School of Business and the William Berkley Professor of Economics and Finance. We'll end promptly at 1:45, and the questions that were submitted from Club members were shared with Peter for this conversation. In addition, we'll be using the chat box for the conversation. So feel free to enter questions directly in the chat box. As a reminder, the conversation is on the record as we do have media on the line. So Peter, if you're ready, I can pass the microphone over to you.

Opening Remarks by Esther George

VICE CHAIR PETER BLAIR HENRY: Thank you, John, and President George, Esther, we look forward to your remarks.

ESTHER GEORGE: All right. Thank you. Thank you, John. My thanks to The Economic Club of New York for inviting me to speak today. I look forward to today's conversation with you, Peter.

It's certainly been encouraging to see the economy emerge from the shadow of the pandemic. As we see public health restrictions being lifted, workers commuting again, I think there's a sense that things are beginning to return to normal, even if that normal isn't quite the same normal that we left behind. Over the past two years, there was an unprecedented use of the word "unprecedented" to describe the economy and I think understandably so. We had a record decline in jobs, then a record rebound. A historic drop in output followed by a historic gain. And all supported by a previously unimagined level of fiscal and monetary policy support. So that it was "unprecedented" in the nation's economy, I think is no exaggeration.

Now as many of us begin to return to offices after a two-year hiatus, dust off our desks, and probably wish we had taken that potted plant home in March of 2020, the economy faces yet another challenge, and that is high inflation. Instead of calling it unprecedented, though, I often hear people suggest that the current economy has an uncomfortable resemblance to that of the 1970s with inflation now running at a pace not seen since that era. And without elaborating on what I see as important differences between today and the 1970s, I think the focus on high inflation, of course, is undebatable.

For policymakers, understanding the nature of today's inflation dynamics is essential. How will this extraordinary shock of the pandemic ultimately play out relative to the dynamics that have shaped economies over time, and of course what lessons can be drawn from past inflationary periods. I think both aspects are going to be relevant to how the economy is likely to evolve, particularly as it relates to inflation.

So I'm going to take just a few minutes this afternoon to talk about the factors that I see shaping the outlook for economic activity and inflation and how those inform my own thinking about the appropriate path for monetary policy.

Consumers, of course, have continued to spend and I think the underlying fundamentals for consumption are positive right now, including the ongoing recovery of the labor market, rapid income growth, and the strength of household balance sheets. Consumption has been so robust that demand has outpaced the available supply of goods and services, especially as pandemic-related disruptions continue to weigh on product and labor markets and, of course, geopolitical conflict has further disrupted the supply of many commodities.

This imbalance of supply and demand has pushed inflation to a 40-year high. We saw CPI come in at nearly 8% in February with core inflation well over 6%. And it seems likely that the outlook for inflation could be affected in a couple of ways. Supply constraints will eventually ease as workers reenter the labor force and transportation and production networks untangle, which should take some pressure off inflation. But the time line for seeing that kind of relief has proven elusive.

Demand growth is also expected to cool as fiscal policy becomes less expansionary and monetary policy accommodation is removed. And that process, of course, is just getting underway and at a time when global dynamics point to upside risk to the inflation outlook.

While the pandemic has fortunately taken a bit of a backseat here in the U.S. for now, the effects continue to be felt in other parts of the world with the capacity to disrupt. We see that in the U.K., in Europe, as they witness rising case counts as an even newer variant takes hold. And I think a particularly salient risk is the continued threat of lockdowns in China as that country's zero-Covid strategy runs up against ever more transmissible variants. Shutdowns, of course, will aggravate already disrupted global supply chains likely boosting prices, even as those lockdowns could weigh on China's demand and global growth.

And, of course, the conflict in Ukraine presents a variety of risks to the outlook, both on the supply and the demand side. Prices have moved up sharply for a number of commodities, both as Ukrainian production has been affected and the sanctions limit Russian exports. Given Russia's importance in global energy production, we've seen a sharp rise in oil and natural gas prices and the conflict has further boosted inflation and it threatens to extend or even worsen supply chain disruptions.

So, against this backdrop of high inflation, last week the FOMC began adjusting the stance of policy. The Committee raised the policy rate by 25 basis points and signaled that it would soon be appropriate to begin the process of running down the Fed's balance sheet. Given the state of the economy with inflation at a 40-year high and the unemployment rate near record lows, it's clear that removing accommodation is required. But how much and how aggressively accommodation should be removed, I think, is far more uncertain.

Real interest rates, those adjusted for the pace of inflation remain highly negative encouraging borrowing and consumption, and the balance sheet of course now stands at a record $9 trillion. By holding a substantial share of U.S. Treasury debt as well as mortgage-backed securities, those assets are putting significant downward pressure on longer-run interest rates, by some estimates as much as 150 basis points. So all in all, monetary policy is likely as accommodative as it's ever been at a time when inflation is well above the Fed's target and labor markets are tight.

With the current stance of policy then out of sync with the state of the economy, we face a challenging set of global and domestic dynamics as we begin the process of removing accommodation, and I want to talk about some of the factors that influence my own thinking about the path ahead.

The first thing that I take into account are these continued risks to the outlook that are associated with further pandemic-related disruptions in Europe, in Asia, as well as the spillovers that we may see from the Russia-Ukraine conflict. Much of the economic fallout so far has been directed toward further disruptions to supply although these risks have implications for demand as well. And assessing that balance in real time is going to be difficult. That's not an argument for stalling the removal of accommodation but I do think it suggests that a steady deliberate approach for the path of policy will provide space to monitor developments there as they unfold.

Another consideration for policymakers, I think, is judging how responsive economic activity is going to be to the level of the interest rate. That responsiveness is likely to change over time and change with the state of the economy. For example, thinking about how consumption has skewed toward durable goods, which tend to be more interest-sensitive than other components of spending, it's possible that higher rates will have a more pronounced impact on the economy than we've seen in the past. On the other hand, we have high levels of liquidity and healthy household balance sheets, which might make consumption for resilient to higher interest rates and require a steeper path of rate increases to slow demand growth and to bring inflation down. Again, a steady and deliberative approach to removing accommodation will allow policymakers to see where this equilibrium might be.

And the third and last thing I'd mention in this regard is the interaction of higher policy rates with a large balance sheet is something that I'll be thinking about. Raising short-term rates while the balance sheet continues to depress longer-term yields will contribute to a flattening or an inversion of the yield curve. And already, as markets have anticipated a rapid increase in short-term rates, the spread between the yield on the two-year and the ten-year Treasury bond briefly turned negative yesterday.

Of course, there are a number of things that influence longer-term yields – the growth outlook, foreign demand for Treasuries, the quantity and maturity of Treasury debt issuance. The Fed's asset holdings also play a role here. These purchases have aimed to depress longer-term rates and the roll-off of those assets is likely to put some upward pressure on rates, possibly steepening the yield curve.

And so here I should be clear. My concern about an inverted yield curve is not related to the intensely debated issue of its predictive properties of recession. My focus is on its implications for financial stability through reach-for-yield incentives. An inverted yield curve also threatens traditional bank lending models that rely on net interest margins, or the spread between borrowing short and lending long. In my own region, thousands of community banks, for example, rely on net interest margins to maintain their profitability and provide access to credit for customers including in rural areas in particular where people depend on the health of community banks.

So as the FOMC begins the process of removing accommodation, not only will the policy rate need to rise, but the balance sheet will need to decline significantly. Negative real rates and a large balance sheet have distortive effects. For example, by owning roughly a quarter of the MBS market along with a significant portfolio of longer-term Treasuries, the Federal Reserve's presence in financial markets can muddy price signals, encourage excessive risk-taking, and can foster instability. Asset prices remain historically high today and remain vulnerable to economic and policy uncertainty.

So given the state of the economy, with inflation at a 40-year high, the unemployment rate near record lows, we need to move expeditiously to a neutral stance of policy while shrinking the balance sheet. At the same time, how fast we get there and perhaps beyond means keeping an eye on the factors I just mentioned, including monitoring the risk out there, seeing how the economy responds to interest rate changes and yield curve developments.

The degree to which fading disruptions contribute to an easing of inflation and the lags of policy actions are going to be relevant for what happens after a more neutral policy setting is accomplished. If inflation shows signs of remaining elevated at that point, more restrictive policy could be needed to meet our price stability objective and to reinforce an anchoring of inflation expectations.

I'll close by noting that the start of a tightening cycle is always fraught with challenges. The public's focus quickly pivots from asking "When will they start?" to "When will they stop?" When I look back at the December 2015 tightening cycle, it too proved to be a difficult transition. Although the initial rate increase at that time was almost fully expected, it soon became apparent that expected was not the same as understood. And it proved challenging to articulate a compelling narrative for the path of policy throughout 2016.

Of course, today's policy landscape is very different. The rationale for removing accommodation is not difficult when inflation is high, demand is strong, and the labor market is hot. Under those conditions, a soft landing is possible but of course it's not guaranteed. While an outlook of easing supply constraints and moderating demand growth is consistent with inflation stepping down even as the labor market remains strong, less favorable outcomes are certainly possible. In the event inflation were to remain high while demand turns down and the labor market falters, policymaker resolve could be tested under those circumstances.

If the assumption of temporary pandemic effects on supply and demand turn out to be overstated, if the imbalance between strong demand and lagging supply persists, the potential to dislodge inflation expectations and price-setting dynamics could further complicate policymakers' task. And here I think the comparison to the 1970s is apparent, when persistently high inflation over several years led to the unanchoring of inflation expectations that then became embedded in price and wage setting behavior. Unlike that period, however, Fed policymakers today have emphasized a commitment to act decisively to restore price stability. Still, the landscape we face is going to be murky and it seems clear that uncertainty and risk will accompany each step on the path to policy normalization, which will demand both flexibility and resolve. Thank you very much, and Peter, I look forward to our conversation.

Conversation with Esther George

VICE CHAIR PETER BLAIR HENRY: Very good. So thank you for your remarks. It's good to see you as always.

ESTHER GEORGE: It's good to see you.

VICE CHAIR PETER BLAIR HENRY: So I want to sort of set the stage. You talked about the 1970s and we don't want to get into all the details of the 1970s, as you said, but you also mentioned how accommodative monetary policy has been. And I think it is helpful just to have some sense of order of magnitude. So in 1975, just a few years before the Humphrey-Hawkins Act was passed, if you looked at, kind of core inflation was about 12%, real rates were negative 6%, so there was about an 1,800-basis point spread as kind of the measure of just how accommodative monetary policy was back then.

Today, we're looking at kind of 6% core inflation, again negative real rates about 6%, so there's about a 1,200-basis point spread there. So not as accommodative as in 1975, but still pretty accommodative. And as you mentioned in your remarks, it took some eight years to get rid of that inflation and real rates had raised basically to 1,300 basis points. So there was a swing, if you will, of about 1,300 basis points to get rid of inflation. And as we think about, kind of what's been talked about, kind of the order of magnitude of how much increases are going to have to happen, people are talking sort of 200 basis points, maybe 250 basis points. That's a pretty small fraction of the 1,300-basis point rise it took to get rid of inflation in the 1970s.

So if you could, just talk to us a bit about, you talked a bit about pacing and order of magnitude, but how are you thinking about engineering a soft landing given just how big the task is ahead of you?

ESTHER GEORGE: Yes, it's something I think we have to think about, Peter. But again, without delving into a compare and contrast of the 70s and today, I think there are many things that are different. And one of the things I would highlight is just how long the inflation cycle had been underway before the actions that were taken during that Volcker era had to be so dramatic.

What we're facing today is something, and again I'm going to use that word unprecedented in the context of such a major shock to our economy and that we have now seen, over the period of the past year or so, a sense that those inflation dynamics have taken hold. So we don't have, I think, to this stage, embedded in our psyche and in the reaction of the economy, some of those same factors.

The other thing you see today is the Federal Reserve has been very clear that it has established a long-run target for inflation, that it intends to get back there. And I think the question today, obviously when you see inflation running at the levels it was last month, year over year, when you see the other dynamics going on in the economy, we wouldn't have these kinds of policy settings. We ought to be at something more neutral. So getting there is the task that's underway. It is not an overnight fix and so we will have to be very decisive and deliberate even as we watch many of these moving parts that I referenced.

So the path ahead of us is likely to be a long one, one that we will be focused on. But I think again occurring in the context of an economy that is operating in a pretty strong fashion. We see that for the consumer. We see that for business right now. Frankly, we see it for state and local governments that are pretty flush right now given the transfers that have come from the federal government over the past couple of years. So we're in a position where we have an opportunity now to follow through, even as we pay attention to the moving parts here. And I think that dynamic sets us up for something different than what we saw decades ago.

VICE CHAIR PETER BLAIR HENRY: As you think about that slow, deliberate, cautious path back to neutral, the question that comes up is how do you think about what a neutral rate is, given all the uncertainties that you've talked about? Where do you see neutral?

ESTHER GEORGE: So I think my starting point is something that I pencil in when I think about the longer-run numbers that we put in our dot plots in the Summary of Economic Projections. So I might have in mind something in the 2.5% range as a starting point. But as I said, we are now moving into an economy where we're seeing some very different patterns. People have decided that during a time when we couldn't spend on services, we couldn't go to the gym, we couldn't go to movie theaters, restaurants, people shifted their spending pretty quickly to goods. And that, while I think will eventually shift back to a more normal pattern, really hasn't seen much sign of abating and services are still relatively depressed.

So does that mean that higher interest rates will cool that in a more traditional, in a quicker way? Does it mean as people have more spending capacity, so you hear a lot about excess savings that consumers have, that they'll be more resilient and continue that demand? I think we just can't know that yet, even as we aim toward a marker that we think might be neutral, we will have to be watching how the economy unfolds to get a sense of where that interest rate policy is getting traction.

The other thing I would mention in that regard, it's not just the short-term rate, right? I think also about that sizable balance sheet. So once the committee gets to a point of deciding the balance sheet runoff, I think we'll have to think about both of those in tandem to understand what amount of accommodation is coming out of the economy and how do we then think about the path of short-term interest rates in conjunction with reducing the balance sheet.

VICE CHAIR PETER BLAIR HENRY: You've long emphasized the importance of the balance sheet and those longer-term assets, Esther. And in that spirit, one of the questions that came through from a Club member was why has the Fed waited so long to engage in balance sheet reduction, given the importance, as you mentioned, for instance, net interest margins for banks?

ESTHER GEORGE: So thinking about the role of the balance sheet, you know, I had an evolution through this pandemic beginning initially around some real concerns around market functioning. And that role, again important to stabilizing that market and then thinking about the accommodation that would be provided through using that balance sheet. And I think last year, as it became clear that inflation was taking hold, we were seeing the economy bounce back in a pretty rapid way, the process of beginning to back away from that was undertaken. So the tapering exercise, which is really the beginning of slowing that down. I think as that process was occurring, and again thinking about past periods of balance sheet reduction influencing this idea of being sure we were communicating clearly, beginning to bring that down. The pressures that were coming around inflation just became, I think, more apparent.

So the Committee has been talking about that. We heard the chairman in his most recent press conference talk about the progress that we would make on doing that, and in a coming meeting would be in a position to really describe how the balance sheet would shrink relative to the principles that were put out in January. So I think that's a very important step. For the very reasons that the Committee has engaged in balance sheet policies to push down on longer-term rates, I think we have to think about, as always, what some of those consequences are and how the unwinding of that will play out in the economy, even as we're raising short-term rates.

VICE CHAIR PETER BLAIR HENRY: So speaking about potential implications of balance sheet reduction and higher long-term rates, you mentioned a very important fact of asset prices and asset price inflation. There's been a lot of talk about the stock market, but as we know real estate prices are also quite high. And as you think about the consumer and you think about banks, how are you thinking about the potential for a softening of the real estate market, how that might impact banks, how it could have knock-on effects? What are you seeing right now? What's got you focused? I won't use the word concerned.

ESTHER GEORGE: Yes, well, always, again as John mentioned in the introduction, my bank examiner background keeps those risks in front of me all the time. We think about where could those vulnerabilities be. And I think the Board of Governors issues a report a couple of times a year, the Financial Stability Report. And I think it's a very good way to lay out, again, where might the vulnerabilities be in the economy. Again, always hard to know which one of those might be triggered by some kind of shock to the economy, some contagion. So if you look there, you will see that asset valuations have been elevated and there are vulnerabilities associated with that, whether they come in real estate or in leveraged lending markets where you think about equity valuations.

I think there one of the things I've observed as the Committee has undertaken balance sheet policies is over the past decade, we did not see those translate to price inflation. I would argue you did see an influence on asset markets. And so again the process of making adjustments there, just as any time we remove accommodation, is in front of my mind to say how might that affect those valuations when things may be relying on a very low interest rate environment and that adjusts, how will that adjustment take place? And the hope is the economy will continue to be strong enough that those adjustments can take place in an orderly fashion. It's only when something happens where things unwind in a disorderly fashion that you get some of the consequences that I worry about with financial stability.

VICE CHAIR PETER BLAIR HENRY: One thing, without getting into too many of the details here, but I think that people are thinking about is given kind of the slow, kind of evolution of back-to-work and kind of high vacancy rates still in offices, are you concerned at all about the commercial real estate, particularly in urban areas? Is that something that's come across your radar scan? How are you guys thinking about commercial real estate given the structural changes we seem to be undergoing?

ESTHER GEORGE: Yes, so that would be one of the things on my watch list, if you will. Both because community banks in particular can have concentrations in this area. We do see the structural changes that are taking place right now where maybe fewer people going into offices, in some cases where businesses have decided they may not return to some of those offices. I think we will have to watch and see how those play out and what kind of softening may take place in the office market relative to some other things.

When I look at the low interest rate environment, Peter, over a period of time, you can watch systematically how cap rates can change. You can see how the extension of terms can unwind in ways that will make that adjustment more or less orderly again. So I think always real estate markets are quite sensitive to interest rates and how those move. And given that we've come through this period of very highly accommodative policy, watching how that transition in market values, in addition to this idea now society is making changes – people are thinking differently about how they want to work – how those things will come together for that adjustment process.

VICE CHAIR PETER BLAIR HENRY: I want to come back to your remarks about supply and demand for a minute. You very importantly talked about the uncertainty of consumer responses to the interest rates and in particular the role of durable goods. So, as you mentioned, we saw this massive shift from, demand composition from services to goods during the pandemic, and what have you and your colleagues learned in terms of where we think rates, interest rates, sort of consumption sensitivity might be to interest rates going forward, particularly with respect to goods? Because, as you said, if there's been a structural change, you might see either a much faster softening than you would expect or maybe not much of a softening at all.

ESTHER GEORGE: So I think that's going to be a very important thing to watch and to see which of those dynamics emerge and at what speed they emerge. So, for example, you would think with goods consumption, the demand that we see there, that you might see higher interest rates begin to soften. I expect that's going to happen. We have also been expecting, though, that supply chains will eventually be able to meet some level of demand. And right now we've seen some, in fact, earlier this year. The New York Fed has an index which looks at global supply chain pressures and we've seen some improvement over the past few months in that. We've seen companies really be resilient in figuring out how to bring inventory on and where they source that.

So at some point you would expect that we are going to see supply also begin to meet some of this demand. And figuring out where that intersection is, is going to have effects, both on our policy removal, both on how we see maybe the rotation back between a consumer that is so focused on goods purchases, as the economy allows, and they begin to move back into more of the services part of that. And to see if we, those dynamics, I think will all play into both how we see demand, how we see supply and, of course, ultimately how we see those inflation dynamics responding in the end. And that, of course, is front and center where many of us – myself included – are focused in saying what are the things that will begin to see that inflation come down toward our target for the long run.

VICE CHAIR PETER BLAIR HENRY: Let's talk about the importance, Esther, of the international dimension to this. Supply shocks everywhere. Just talk to us in a little more detail, if you will, about how you think about the relative importance of, for instance, labor supply shocks under zero-Covid policy, in say China, the effect on supply chain versus the impact of commodity and energy prices in particular coming out of the invasion in Ukraine. And also potentially weakening demand in Europe, falling consumer sentiment given the proximity of all of those events.

ESTHER GEORGE: It's a very important aspect of how you put together an outlook for the U.S. economy is understanding the dynamics of the global economy. So much of what goes on in any given country is subject to those global dynamics and spillovers.

And so even as the FOMC, even as we focus on thinking about the domestic economy, of course we are always looking at those global connections.

I mentioned what's going on in China – China is a very large economy – as they go through these issues of Covid-related pressures. They're a big manufacturing hub. They have a lot of influence over ports around the world. And so how they are able to both respond to the supply aspects of that, but also thinking about the demand implications for their own economy, right, will have effects around the globe.

When you look at what's happening with this geopolitical conflict, again people will draw the parallels that there may not be a lot of direct connections back to the U.S. but of course there are to Europe, for example. And to the extent Europe was an important trading partner for us, struggles either on the growth aspects of that with inflation, those spillovers are sure to have some influence on our economy as well.

So I think all of those are going to have to be important considerations and that's why I mentioned that even as we start down this path of removing accommodation, as there always are, there are things that we have to keep an eye on to understand how those risks are moving. Are they materializing in ways that alter the outlook for the U.S.? Are they speeding up inflation, as we've seen more recently in ways we need to understand? All of those just critically important to how we understand the outlook for the U.S. economy.

VICE CHAIR PETER BLAIR HENRY: I want to come back from the international spillover effects back to the domestic economy and something that you and your colleagues have been focused on for the last couple of years, and I think in a very important way, the labor market.

As you mentioned, the labor market is tight. During the first sort of year of the pandemic, sort of early 2021, we saw real wages were actually rising. We now know that prices are rising faster than wages, wages are coming down. But what's your sense at this point of, you know, given the tightness, looking at some of the other factors you and your colleagues were looking at, particularly inequality in the labor market, working mothers not being able to return to the workforce, talk to us a little bit about the inequality picture and what you're seeing and what concerns you given the stronger focus you have placed on essentially full employment.

ESTHER GEORGE: It's a key question. Of course, it's an important issue because that is part of the FOMC's mandate – price stability and maximizing employment. And so we absolutely look carefully at what's going on in the labor market. A couple of things that I have been keeping an eye on, even as we talk about how tight the labor market is, I think what's interesting today, when we look back to where we were pre-pandemic, we have some two million people that still have not returned to the workforce. And when you see wages rising, you see a tight labor market, the number of job openings there today, I think it's an important question to say why is that? What's going on in that labor market today that has that supply on the sidelines that would be so important to meeting some of this demand and some of the issues we're talking about around inflation.

A couple of things I observe with that participation today, one of the things you will see, and we saw this over the last year, when people explained why they hadn't returned, it often had something to do with family care responsibilities. And so when you look at employment, for example, in the childcare sector, you will see it is still off some 10%, which means capacity is not back and the prices are going up. And so if you're someone that is looking for childcare, your ability to take advantage of that so you can go back to work is going to be a factor of can I afford that? Or is it even available to me?

And so, again, over time that capacity should come back but it's not just childcare. We also see, when you look at employment in nursing facilities, residential care facilities, that is still down and we don't see much recovery there at this point, about 12% in that sector. So it tells you that some of these family care responsibilities have really shifted to households in a way that is impeding the ability of that supply to come back into the labor force.

The second thing that I find really interesting right now has to do with retirements. And we hear a lot about people deciding to hang it up and retire in this period. When you look at retirees, in normal times, you will see a pretty steady flow of people that leave the workforce coming back. And sometimes they do that because of financial reasons, sometimes they do it out of personal interest. We don't see that flow of retirees back into the workforce just yet.

And again, why is that? I don't know. Maybe people have nest eggs now that give them more financial security. Home prices or equity markets, maybe there's still some lingering concerns about health and whether it's safe to go back. But again both of those reasons, family care, retirees, and whether they will come back into the workforce are an important part of supply and understanding really the story of how labor markets are functioning today. In the meantime, we continue to hear, and I hear this from my business contacts, it is really challenging to bring people into the workforce right now. So the sooner that labor supply can find its way back, that will be an important dynamic, I think, in understanding really the overall health of the labor market as opposed to just how tight it is right now.

VICE CHAIR PETER BLAIR HENRY: So kind of a bigger picture question for you, Esther, not that we haven't been talking about big picture issues. You very importantly highlighted a number of structural factors in the economy that, while they affect the way in which you execute on the Humphrey-Hawkins Act, they're not directly under your purview. How do you, as President and CEO of the Kansas City Fed, think about when you make public remarks, how much do you sort of focus on your knitting – as it were – versus bringing to the attention of policymakers some of these really important structural issues such as access to childcare and other things which will affect supply?

ESTHER GEORGE: I think it's an important part of a Reserve Bank's President's job, Peter, to understand fully what the dynamics are that influence the economy. And we do that through data but, of course, as you know, one of the really important ways we figure out what's going on are connections in the communities that we serve and represent.

So, in my case, I have a seven-state region. Those seven states sometimes look similar, sometimes they can look very different depending on the composition and the economic activity that's going on there. So it means getting out into the economy, the real economy, and sitting down and talking to people. And that includes talking to people in the community that will tell you what's getting in the way of labor coming back in. How are they responding? How are they recruiting? And then listening.

There are a number of community groups that really can give you an important lens on what are those barriers. What does it mean when you don't have transportation to get to a job? What does it mean when you don't have, as we said, the childcare available to you in a reliable way that lets you come in to the workforce? So even though we don't have some of the direct levers, I think it's critical that we understand broadly what are the structural elements that impede that workforce so that we understand where policy can best be applied.

And, as you know, there are other parts of the work that goes on in the Federal Reserve including our working community development space that really helps to inform some of that. The better we understand the dynamics around economic and community development, I think the better we understand how all the moving parts that affect the U.S. economy come together.

VICE CHAIR PETER BLAIR HENRY: Esther, thank you very much. Our Chairman of our Club has made an appearance which means that we're out of time. But thank you very much, Esther, President George. It's been a pleasure to be with you as always.

ESTHER GEORGE: Thank you very much, Peter. Good to talk to you.

CHAIR JOHN C. WILLIAMS: Thank you, Esther. And thank you, Peter, for a really terrific conversation. And Esther, your last comments about how the Fed, you know, interacts and engages with the communities, I thought that was a really important message. I think people often think we just sit at our computer screens all day. And, of course, now that we're getting back out into the actual real world, that's an important part of what we do. But, again, we're out of time unfortunately. This conversation could have gone on for quite a bit longer. So thanks again for spending your valuable time with us today.

Now I am pleased to report that we have many great speakers lined up for the spring. Some of them are virtual, some in-person. So it's going to be really exciting in April. Please invite your guests to our events. So next, on April 4th, we've got Roger Lowenstein. He's the author of *Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War.* He's going to have a discussion with Greg Mankiw, Robert Beren Professor of Economics at Harvard University. I'm really looking forward to reading that book and hearing that discussion. Then on April 11th, we have Thasunda Brown Duckett, President and CEO of TIAA, also on our board here. So that will be an in-person Signature Luncheon. Then on April 13th, we have Brad Jacobs, CEO of XPO Logistics. And then Rochelle Walensky, the Director of the CDC on April 14th. So that's just some of the next few weeks, we have all these events. We also have several Signature in-person luncheons, and as with all of our in-person events, everyone will have the option of attending in person or digitally. So we have my colleague, Charlie Evans, the President and CEO of the Chicago Fed. That's on April 19th in person. Hugh Frater, the CEO of Fannie Mae, on May 10th. That's a digital event. And then we have

John Rogers, the Chair and Co-CEO of Ariel Investments. It'll be in person on May 16th. And Arvind Krishna, the CEO of IBM on June 7th in person. So a lot of great events coming up in the next few months.

I'd like to take a moment to recognize those of our 345 members of the Centennial Society joining us today as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming both now and in the future. So I'm looking forward to seeing many of you finally in person for some of these events that are coming up, but also see you at the virtual events. So everybody, enjoy the rest of your day and stay safe.