Summary of the Kansas City Fed's *Fed Listens* Event

As part of the Federal Reserve System's *Fed Listens* program, the Federal Reserve Bank of Kansas City and Federal Reserve Chair Jerome H. Powell hosted a roundtable session with a group of local business and community leaders on October 9, 2019. This dialogue was part of the Fed's review of its strategy, tools, and communication practices related to its congressionally mandated policy objectives of price stability and maximum employment. Chair Powell and Kansas City Fed President Esther George listened to Missouri and Kansas leaders discuss a range of economic issues, such as labor market conditions, local banking, and community development challenges. A webcast of the session is available at https://youtu.be/oJ68LF6Fhnk.

The following is a summary of some of the key points raised during the Kansas City Fed's *Fed Listens* discussion:

Labor market

U.S. employment growth has generally remained solid in 2019 at a time when the unemployment rate remains very low. Discussion participants were asked to characterize labor market conditions based on recent developments in their industry or area. Most respondents said that the top challenge they face is attracting and retaining quality workers. One participant noted that in the construction industry the pipeline for talent has been limited because many people left the industry after the Great Recession and have not returned. Combined with this, an aging workforce nearing retirement has created multiple challenges to provide workers for the construction jobs that are currently available. Another participant shared that in the food service industry a tight labor market and less participation among youth have made it difficult to keep staffing at adequate levels. Many firms are turning to technology and automation to replace the jobs they cannot keep fully staffed.

Workforce development organizations that are working to help people move back into the labor force face a three-fold problem. The first problem is accessibility: the place where training, childcare, and work occurs. The second problem is affordability: the ability of people to afford training, childcare, and travel to and from work. And the third problem is availability: the time at which training, work schedules, and childcare are available. In a 24-hour economy, these three factors represent the primary barriers that limit many people from joining the labor force. To improve the skills and training of potential workers that are now demanded by employers, one participant advocated for an expansion of the school system from the current kindergarten-through-12th-grade model to a kindergarten-through-14th-grade system that would incorporate additional credentialing and certification programs that prepare individuals for skilled employment.

Wage inflation

Discussion participants were asked to characterize the current pace of wage increases for workers in their industry or area. Several participants noted that current conditions, with limited available workers for most positions, have been pushing wages higher. But small business are particularly impacted by tight labor markets because they cannot afford to keep pace with the wage increases of larger firms. These smaller firms also have more challenges than larger firms in getting access to credit, so even when they have opportunities to expand their businesses, they have limited options in attracting talent and obtaining the financing needed to expand operations.

Inflation

Participants were asked to discuss the major cost and pricing pressures that firms in their industry and area are facing. A participant noted that in the construction industry most of the upward cost pressure is coming from higher labor costs, which are primarily being driven by increases in health care costs. Additional cost pressures include materials costs for construction, such as higher steel prices. Another participant similarly noted that in the IT industry labor costs are the biggest pressure, though compliance costs associated with the numerous regulations that firms need to comply with are a secondary cost.

Current economic conditions

Participants were next asked to comment more broadly on economic conditions, including comparing today's situation with conditions from five to ten years ago. A participant from the agriculture industry shared that this industry is struggling for three main reasons. First, a glut of agricultural commodities is putting downward pressure on prices. Second, the current trade policy disputes and trade disruption have created additional downward pressure on prices through a decline in demand for U.S. agricultural commodities. And third, the elevated value of the U.S. dollar has decreased the competitiveness of U.S. agriculture in the global market. These forces have combined to lower annual revenues for the agriculture industry by 50 percent relative to six to eight years ago.

In discussing the Kansas City metro area, another participant noted that while Kansas City experienced moderate growth during most of the current expansion, growth has slowed in recent years. In particular, a concerning factor is that Kansas City is falling behind the pace of growth of its peers. One of the factors that may be limiting the current pace of growth is the industry mix for Kansas City, as it is perhaps not quite as diverse relative to its peers. A limited industry mix may be constraining current growth due to current weaker conditions in the agriculture and manufacturing industries. Another limiting factor may be the workforce, where nine out of ten new workers in Kansas City are minorities. These workers typically have less education and skill training that than white households and therefore have a more challenging time in terms of competing for jobs. The positive news is that a number of innovative partnerships between public group and private employers are being created to promote broader prosperity for the citizens of the Kansas City metro area.

A participant in the civil and structural engineering industry noted that economic conditions are very strong, but a notable shortage of workers is limiting the pace of business expansion. A high level of competition for engineers in the Kansas City metro area is driving wages higher. Many firms are focusing on developing their own talent via additional investment in the training of younger engineers.

Sustainable economic growth

For the final topic, participants were asked to discuss constraints currently facing businesses, households, and communities with regard to cultivating economic opportunity and the path toward improved economic outcomes. One participant in the nonprofit sector noted that nonprofits face the same issues as for-profits, including rising business costs, wage inflation, and challenges in training workers. Through a strong commitment to workforce development and creation of a charter school, this participant's organization is preparing a broad group of students from low-to-moderate income communities for college and employment in skilled jobs. The organization also runs a low-income credit union to contribute to a local economy where many of its customers are underbanked.

Another participant emphasized the importance of efforts by community development financial institutions (CDFIs) to deploy capital in low-income communities. These efforts can help address economic and income disparities by assisting communities that have not been able to accumulate much wealth. One recent effort has focused on providing micro loans to small businesses in these communities.

Several participants noted that the public education system would benefit from increased support and funding so that it can help the next generation of workers enter the labor force with the skills employers are seeking. In recent years, the pace of funding for education has not keep pace with growth in the private sector.