Fed Listens: Perspectives from the Midwest

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LESLIE MCGRANAHAN: All right. Thanks, Austan. So to get us started, I wanted to introduce our four fabulous panelists who are going to share their insights and experiences with us from the perspectives of households, automotive supply, manufacturing, the agricultural sector, and residential construction.

So starting from my far left, we have Kate Maehr. Kate is the Executive Director and CEO of the Greater Chicago Food Depository. The Food Depository is the organization that makes sure that there is food at the food pantry network across Chicagoland.

Next, we have Razzaaq McConner. Razzaaq is the Chief Purchasing Agent at Adient, the leading vehicle seeding supplier, and is headquartered in Plymouth, Michigan.

Kelli Lawrence. Kelli is the CEO of Onyx+East, which is an Indianapolis-based residential builder that also operates in Ohio and Florida.

And next to me, Chris DeLong. Chris is the President and Treasurer of the DeLong Companies, which is an agribusiness located in Clinton, Wisconsin. So really appreciate all of you joining us today.

[APPLAUSE]

Thank you. So I wanted to start with something of like a stage-setting question to help us understand your business or organization. So really just taking us back to where we were in 2020. So five years ago, before the start of the COVID pandemic, what was happening in your business and organization? And where did things stand at that point?

So I wanted to start with Kelli, and then go to Kate, Chris, and Razzaaq. So Kelli, starting with you, where were things in 2020?

KELLI LAWRENCE: Sure. Good morning. It feels like that was a lot longer than five years ago. But thinking back to 2020, we were really focused on actually what had happened the prior 10 years after the GFC, because there was just a massive undersupply of housing, particularly for-sale housing. And so we recognized that structural imbalance in the market and saw a great opportunity, especially with changing demographics, millennials aging into their peak home buying years.

And so that was really the focus of our team and of our company, especially because we built more infill housing focused on attainable housing for first-home buyers and move-up homebuyers really centered around those live, work, play type centers, which had seen a lot of apartment construction, but not for-sale housing construction. So that was really what we were focused on and where our strategy was trying to meet those needs.

The market fundamentals were very healthy. We had predictable access to both debt and equity capital. Prices and costs of the homes we build were fairly predictable. We knew in a project in our world is going to take anywhere from one to five years.

So they're long cycle projects. We could know that our prices are going to go up. Our costs are going to go up maybe 2% to 3% per year. The home prices we would expect to go up 3% to 5% per year. So again, it was a pretty predictable business as we were looking to make these massive investments to grow our platform.

The customer side was very strong. Again, you had a lot of great demographic tailwinds that were supporting what we were doing and the growth in household formation, the growth for housing demand. And there were also strong, low mortgage rates that were supporting people moving into homeownership.

So again, both on the supply and the demand side, it felt like the market was very much in balance and was very stable. And our biggest challenge, really, at that point was growing our team and growing our land pipeline.

LESLIE MCGRANAHAN: Kate, turning to you.

KATE MAEHR: So I appreciate so much starting this conversation with where we were five years ago, in part because where we were five years ago was not a great place. And I think it's important to acknowledge that.

I am fairly certain, if you would have invited me in January of 2020 to come and talk with all of you, I would have told you that we had a crisis that we were experiencing across a network of largely volunteer-run food pantries and soup kitchens operating out of the basements of churches in largely low income communities, largely Black and Brown communities in Chicago.

At that time, which is now a time that we look back at as thinking of as the best of times, we were serving on average each month more than 120,000 households. So households coming in to get food. And what we had already begun to see in 2020 was this shift away from what food banks and food pantries had largely been conceived of as a response for people who were unable to work to being, in fact, the provider of people who were working.

And the reality that we were experiencing five years ago was that people were doing all of the things that we expect people to do. They were working one, two, sometimes three jobs. And when they got to the end of the month, there was enough money maybe to put gas in the gas tank, but not also to be able to buy food. And so increasingly, we were seeing neighbors make the very smart decision to go to a food pantry to get that free bag of groceries so that they could save their dollars for rent, for gas, for the other needs that they had to have covered in their household.

What I also am certain I would have said if I were here in January of 2020 is that we know that many people in our community are one paycheck away from falling into need, and that's exactly what happened in March of 2020. Within seconds of the emergency stay at home order going into effect, we saw people falling so quickly into such deep need.

I need to acknowledge Nicole Robinson is in the room. Nicole leads the YWCA of Chicago. She was my colleague at the Greater Chicago Food Depository at the time. And it's hard to look at her without getting emotional because we spent many hard moments in communities watching lines that were measured in blocks-- and sometimes miles-- of people having to come to the emergency food system.

I'll fast forward to where we are today. Oh, thank you. I'll fast forward to where we are today, which is, it is really tough out there. In September, again in October, and again in November, the Greater Chicago Food Depository hit new records for the number of people we are serving. It is a down and dirty measure of people who show up at food pantries. And that record is for the entire history of our organization. We are now regularly serving more than 200,000 households each month, and there is no sign that that is beginning to decrease.

LESLIE MCGRANAHAN: So, Chris, where were things sitting for you?

CHRIS DELONG: Yeah. So in 2020, prices and the cost of doing business was somewhat predictable. We saw generally between 2% and 3% wage inflation for the last handful of years leading up to 2020. Supply chain was somewhat reliable. We've never had an issue as an organization sourcing seed or inputs to grow row crops.

Container availability. We're a large exporter of grains, and oilseeds, and feedstuffs via container. There's always been supply chain issues, but overall, they would last maybe two weeks to a month. So overall, it was somewhat predictable. Margin structure for commercial handlers like ourselves, I would say it's at the lower end for the previous five years leading up to 2020. And margin structure at the farm level was probably on the lower side as well. As far as other major issues, it was pretty normalized. Yeah.

RAZZAAQ MCCONNER: And on my side from the automotive industry, I think we entered 2020 in a fragile state. Because if you recall, September of 2019 is when GM had a 40-day strike. And so you had that snowball effect of their 34 plants being down and Adient being a supplier of General Motors.

And so you had that impact on the supply chain there, where you saw companies laying off workers. You saw salaried employees connected to GM actually having to take unpaid leave to manage cash at that time. You saw companies who couldn't weather that 40-day storm-- have bankruptcies, consolidations as well. And so you enter 2020, and then it was that snowball effect as pandemic set in. And then it was, how do you adjust your operations in an environment like that?

And so I think I paid an exorbitant amount of money for masks and other PPE. You were scrounging the world to find safety items and equipment. And how do I reorganize manufacturing operations so that people sitting next to each other wouldn't affect each other? And then we also had large numbers of employees who were afraid and scared to come to work. And so we've had to manage through that as we entered and navigated 2020.

LESLIE MCGRANAHAN: So sort of taking that 2020 context and thinking, like as Austan noted, one of the most notable features of the past five years was the run-up in inflation, and then the subsequent decline in inflation. So thinking about this inflation trajectory, I'd like to understand what you buy, what you sell, how those prices are set, and how this inflation trajectory affected your business, your organization, or your community. So Razzaaq, I want to start with you with that. How did this inflation dynamic affect your world?

RAZZAAQ MCCONNER: So giving you a general idea of my world, Adient is the largest seat provider. So if you think about F-150, RAM truck, Wrangler, we make all of the seats there. We have 200 plants globally. I manage 42 of them in the Americas. So within that network, I have 5,000 suppliers. And then I manage a little bit over $1.3 billion annually.

I mean, for us-- can you go back to the question? So I buy all of that, and then we sell the seats to little bit of who's who that make vehicles for the most part. And so just during that time period for us, everyone came in for price increases. You were actually resetting all of the pricing in the market. You had labor inflation, where you had to pay more for people to work in plants. And then you also had the run-up on raw materials.

So I buy all of the stamping components that go in the seats. I buy the vinyl and the leather that cover your seats, and we also make the foam. And so all of the inputs that went into those seats, I saw the prices rise. And all of my suppliers came in to either reset the pricing to make sure that they can be healthy financially and maintain healthy margins. But at the same time, those who didn't come in and adjust their pricing structure, they went into financial distress quickly or immediately. And so you saw that effect throughout the supply base as well.

So I manage the supply-- I mean, the buy side. And then I have customer groups that sell to all of the OEMs that make the vehicles. And so I was managing the dynamics related to all 5,000 of those suppliers that operate plants globally.

LESLIE MCGRANAHAN: And how does the pass-through work between what you pay your suppliers and what you're able to charge your customers?

RAZZAAQ MCCONNER: It's a delicate dance because, when I buy something, doesn't mean I'm necessarily going to get full recovery from my customers. And so we are constantly in discussion, making sure they understand the cost increases that we are taking, and what that does, and impacts them.

The raw material side, we're pretty much insulated because we have index agreements on the majority of our raw materials. So when you think crew, American metal market, those steel indexes that are publicly available, we kind of peg our prices there. And so the raw material piece, we're OK. But then it is a tug of war on how do we manage the cost, because the car manufacturers want to maintain a profit margin and so do we as well.

And so it is a delicate dance, and we have to be very careful, and decide what portion of the cost do we take on, and what portion of the cost do we pass on to our customers. And quite frankly, we had to have some very tough conversations with some of our customers to make sure that Adient did not bear all of the cost as we saw the inflationary factors coming through with COVID.

LESLIE MCGRANAHAN: I want to sort of address the same question to Kelli. How did the inflation trajectory influence your business?

KELLI LAWRENCE: Sure. So we are both a land developer and a home builder. So we do everything from acquiring the raw land entitlement, the horizontal or site development, the vertical construction.

And I think during this period, we are locking in. As I said, we have long-cycle projects. So we're locking in our capital structure, our budgets for a four to five-year project up front as we secure debt and equity for a project.

Our typical model in 2020 was that we would try to sell as many homes as early as we could in that process. So we would do a great groundbreaking. We would again have a pre-sale environment. We would, through that time, based on the demand for that community, raise prices along the way based on what the market would absorb.

But during the period of inflation, that model became really problematic because we had again locked in our capital structure. We had started a pre-sale activity. And it was very strong because again, there was a lot of demand for housing, a lack of supply.

So again, the fundamentals on the demand side were so strong, we were increasing pricing, but we hadn't recognized what was happening to our costs because lumber is a huge part of our building components. It's about 10% of our total home cost, including land-- about 20% if you look at just the vertical cost of the home. And it rose five to six times its historical level and hung there for quite some time.

So again, while we had strong demand, we were raising prices. We were not raising prices enough to account for what happened on the cost structure of what we were building. So again, it looked like a great market. It didn't feel like a great market necessarily from our margin perspective because we weren't able to pass those increased costs initially along to customers because again, we had already sold the homes, and were under contract, and honored those contracts with our customers.

As the inflation picture continued, we were able to then pass along the increased cost to customers where the market would accept those increased costs. However, some projects just became infeasible. So we had kind of a two-pronged approach to handling it as the inflation continued of increasing our prices.

Again, the interest rate environment on the mortgage side allowed us to do that as well. Or again, some projects just came off the drawing board, and unfortunately, we weren't able to maybe build as many homes as we would like. So that was how we saw that inflation impacting our strategy and the execution of what we do.

LESLIE MCGRANAHAN: Chris, turning to you.

CHRIS DELONG: Yeah, yep. So the main thing that we buy and sell is corn, soybeans, wheat, soybean meal, and DDGS. And as COVID hit, we saw rapid price increases in all of those. Probably even a bigger factor in the last five years was the beginning of the Ukraine invasion as well for commodity prices. We're a commercial hedger, so we didn't really take on a lot of extra risk. With that being said, the ability to finance that extra inventory cost did put some pressure on the industry.

On the input side, things like dry fertilizer seed, especially at the start of COVID, supplies got incredibly tight. We saw basically everything double in price. To go back to the commodity side for a second. So when prices ran up so aggressively, we did see a fair amount of producers that forward contract actually default on those contracts. And during those years, the NGFA, which is the governing organization for all grain and feedstuffs in the US, saw a record amount of arbitration cases just because the number of defaults. So there was some stress in the industry on that.

Probably the biggest impact for us as an organization in a lot of ways delays were a supply chain company. And we do a lot of things with over-the-road trucks, rail cars, containers, and vessels. During COVID, we saw substantial freight increases. Some of the things like truck freight went up by, depending on the market, 10% to 30%. Container freight went up by 300%, which is absolutely massive.

And then things like rail freight, the cost structure went up by 10% to 20%. But probably the even bigger impact to that was instead of rail cars arriving on time, they would arrive maybe a month to six months late, which is not even normal.

The other thing during that time period that affected us was that we were in the process of building a couple of greenfield sites and upgrading some existing facilities. Basically, it felt like in a matter of two months, those project costs went up by 10% to 30%. And even worse than that, they got delayed by, in some case, a year just because those millwright companies were having a problem sourcing labor.

I would say, lastly, another big impact during the last five years has just been insurance rates on our business. I know that's been a big factor for the US in general. The ag industry was a little bit harder hit because we had some isolated events, like the derecho event that hit Iowa and then Illinois, where rates substantially increased and coverage went down.

And then, lastly, kind of where we're at today as far as at the producer level, margins are arguably the worst they've been in the last four to five years. Commodity prices have come down and the cost of inputs has risen with this last trade war.

LESLIE MCGRANAHAN: So, Kate, I'm going to direct a slightly different question to you because you don't charge for anything, so you don't have that side of the pricing equation. But how do you get your food? Like, how does that work? And how did inflation affect that part of the business model?

KATE MAEHR: I will say, inflation has had two terrible impacts on the work that we do. So I'm going to start. I'm going to pick up the story. I told you that we saw this dramatic increase in the number of people turning to us in March of 2020.

With apologies to the statisticians in the room, our data collection in that period is a little rough. There were a lot of post-it notes and index cards with check marks. We think we doubled in the early days of the pandemic the number of people who were showing up at food pantries.

But then something amazing happened. Congress took action and did some really important things, including extending the benefits, deepening the benefits of the program known as SNAP. Sometimes people refer to it as food stamps. This really, along with a couple of other moves, including the Child Tax Credit, helped to stabilize low income households in important ways, and that took the pressure off.

But all of a sudden, at the exact same moment that inflation began to come forward, those programs got pulled back. And so we saw two things happening at the same time in that spring. And that was, as prices went up at grocery stores, all of a sudden, people had to turn to food pantry. Some of these were people who had been in the food pantry line before, had been able to get out, but now are back. Some were people who were there for the first time.

Again and again, the stories we heard from people were, I just can't afford to buy groceries. And so that $25 more, that was enough to push people into needing the emergency food system.

But unfortunately for us, that was not the only impact. One of the things that people may not be aware of-- and this is true not just of the Greater Chicago Food Depository, but for most of the food banks in the Feeding America Network-- we have had to become not just organizations that are agile at getting donated food, most of us are also purchasing food.

In the case of the Food Depository, we purchase about $30 million of food annually. And unlike for-profit businesses, we have a lot of constraints. We have to go out and raise that money in order to be able to buy that food, and we have to adhere to our budgets. And so all of a sudden, when price increases began, we just can't buy as much food.

And we also have to make tough tradeoff decisions about the types of food that we can distribute. One of the tough tradeoff decisions that we had to make, we have long been really committed to making sure that households who rely on SNAP can also get access to really important household items like soap, and diapers, and laundry detergent, which you can't use your SNAP benefits for. Unfortunately, those were among the first things that we had to step back from.

We had to make tough decisions. To make sure that there was food in food pantries often meant that there then couldn't be diapers in food pantries. That continues today. We are still struggling with the prices and how we ensure that there is adequate supply for the food pantries at a time that people are continuing to turn to us.

LESLIE MCGRANAHAN: So I wanted to follow up a little bit. Inflation has come down, but the price level has stayed high. And how does that affect the households that you're serving?

KATE MAEHR: Yeah. I mean, what we are seeing today-- and so I saw Austan's eyebrows go up a little bit when I said the numbers that we are seeing. And I think, candidly, every conversation I have had with every donor, it's met with that same disbelief. I don't understand. The world seems like it's getting better.

And yet, the reality for so many of the neighbors that we are serving is, first of all, inflation. The rate of the increase may be slowing, but those food prices are still high. Food companies didn't all of a sudden decide that they would reduce their food prices. So we still see food prices substantially higher than they were three years ago.

And we now see this is trickling down to rents. It took a while, but what we are hearing anecdotally as people are showing up in the food pantry lines, it's, I'm having trouble paying my rent. And so the same households-- and while I know that wages are going up, they are not going up for everyone. And we have incredible wage disparity.

I'll also note, one of the things that the data-- when you hear about the fact that we are serving more than 200,000 households each month, I think it's really important. And I know that this might feel a little uncomfortable, but it is really important to talk about. It's not just that we are seeing more people. We are seeing the disparity widen. The households that we are serving disproportionately are Black and Brown households and households with children.

It is shocking to me, but more than 25% of the households in our city, more than 25% of the households with children are food insecure. And there are enormous applications to that. We know the data is very clear on what happens when children do not have adequate access to nutritious food in the first five years of their life. So not only are we in a crisis today, I am worried about the crisis that we are creating for the next generation.

LESLIE MCGRANAHAN: So, Kelli, I want to stay with you and talk about the price level. What's the story with housing affordability, and just the fact that we had this inflation run-up and things that are more expensive?

KELLI LAWRENCE: Sure. I mean, housing affordability is a huge challenge in every market that we're building homes. And I think as you look at, while some of the input costs to building home-- like lumber I mentioned earlier-- has leveled off and has gotten to a more normal range, there's a huge component that goes into the cost of housing in land, impact fees locally, the costs of code changes and other regulatory changes that are continuing to increase and increase rapidly, and are a major component of the total cost of a home-- 20% to 40% of the cost of the home.

So we still have this whole basket of costs that go into the production of housing that are continuing to increase, making it really challenging to deliver housing at affordable and attainable price points. We're seeing just difficulty, again, getting new projects started because the equity markets are very disrupted, especially for private builders and developers that rely on them for securing their financing. So it's difficult to get new homes into production. Again, very difficult to get any project that has a more attainable price point to underwrite.

And those customers that are at that more attainable level are looking for a more affordable home. The interest rate environment and the mortgage side is just extremely challenging. So their affordability has really weakened. So we're seeing a lot of people that are kind of locked into their house right now.

There is demand. They need a different type of house to meet how their lifestyle has changed. They want to move up or down the housing spectrum, but they're really kind of stuck because of these structural factors and not being enough choice for them in the housing market, not being able to afford their payment, which is how people shop for housing largely.

So again, you have these bottlenecks in the system, despite there being significant amount of demand and household formation. And again, the cost of producing housing is continuing to increase, and getting more difficult and time-consuming.

LESLIE MCGRANAHAN: Thanks. So we've covered sort of the inflation side. I want to switch a little bit to the other side of our dual mandate and talk about the labor market. What has the labor market looked like over the past five years? How are things currently, and how are you responding to the current conditions? And I want to start with you, Chris. And also, just in addition to your own experiences, the experiences of some of those firms that you have a window into from your perspective.

CHRIS DELONG: Yeah, absolutely. So prior to 2020, it was very common for our business to increase our workforce by roughly 15% when we were in season for peak agricultural timeframes-- i.e. harvest or planting. And as we got into the COVID time period, we saw a couple big things happen. Most notably, blue collar wages rapidly increased. Not so much on the white collar jobs, but really on the blue collar level, where we were competing against Amazon warehouses, or other trucking fleets, or just other parts of the economy that are a little bit more service focused. So we saw a huge wage increases in those folks.

In addition to that, we had a lot of people that were going to retire probably in the next five to two years that retired early. They just didn't want to deal with the mask mandates. So through that, right around when the government started giving direct checks to individual citizens, we saw a huge cliff in our workforce where we had a huge amount of job vacancies. Usually, we average about 2% to 3%. There was one point we were roughly 13%.

We didn't have to close any facilities down, but we had to really come up with some innovative ways to get people to actually come through the door, show up to work, and stay at work. So we started doing things like retention bonuses. If they showed up on time a couple weeks in a row, we would actually give them a bonus for that. Referral bonuses.

So during that time period, we really took a step back at our business and said, we've always had an issue with seasonal labor. This isn't going away. There's an aging demographic. Really, what we have to do is invest in automation and efficiencies to be a viable organization in the future, which we did. At all 42 of our facilities, we made some sort of investment to get away from seasonal workforce, to get away from a little bit more labor intensive aspects of our business which, looking back, I'm very, very happy that we've done that.

Going to our customer side, we deal with roughly 2,500 family farms in 20 different states in the US. We had a little bit of an advantage recruiting people because we have a full-time HR staff. We have a benefits plan. We have people that are actively recruiting for new employees. At the farm level, you don't have that. A lot of the times when they're hiring people, it's their next door neighbor, one of their relatives, or someone that lives in a 1,500-person town.

So during that, we saw a lot of producers that quite literally had machinery parked in the shed during some key points of the year because they did not have people to actually man that. So the strategies that they employed were, again, some people actually retired or maybe merged their farm with somebody else. The big one, though, is they bought larger, more sophisticated machinery so they could plant and harvest in a faster fashion.

LESLIE MCGRANAHAN: I want to follow up a little bit. How has the rural employment picture kind of differed from your perspective from the urban narrative?

CHRIS DELONG: So we have facilities in some urban areas like Chicago, Milwaukee, Newark, New Jersey. The big thing that we've really noticed, especially in the last five years, is in the rural communities that we operate in, it's incredibly easy for people to get any type of work. The unemployment rate, it feels much, much lower than some of these urban areas that we're in.

So it's been a struggle. We've had actually recruit people from some urban areas, which is very difficult. A lot of people don't want to live in a town of 1,500 people in the middle of nowhere. But unemployment's definitely low in these rural areas.

LESLIE MCGRANAHAN: Razzaaq, I want to direct that. What has your labor market experience been, both for you and for these 5,000 suppliers that you have a lot of window into their labor market needs?

RAZZAAQ MCCONNER: I'd say along the lines of a lot of the things he suggested. Labor has been a real challenge for us during this time period. Because if you think about it, when the government started to supplement people, you could make more money not working.

And so you had people who did not want to work in a plant and work 12 hours, 7 days a week, or what have you. And then we also saw the shift to a gig economy, where people could work at Uber or do DoorDash on the time frame that they want to work. And so we saw massive shortages of blue collar labor across our whole supplier network, as well as in our facility.

And the natural reaction was you had to pay people more to work. And that worked to a certain extent. But you also had competing factors where, in some cities in Michigan, you could make more money working at McDonald's than you could in an automotive factory, and you could also be paid daily. And so we were also competing against those factors. You also had the dynamic of folks not wanting to risk their health, being in a plant and working close to someone. And so we had to work worked through a lot of those challenges.

And then we also know that, I mean, once you increase the labor cost, it's not going down. And so now your entire cost structure has changed and you've got to manage through that piece. And we tried to partner with suppliers where they had a lot of shortages. We would connect them with the contract labor companies that we were using. And in extreme circumstances, we actually had to send our employees to work at our suppliers so that we can maintain part supply and not shut down some of our customers. And so that was the blue collar side.

And then the white collar side during this time frame, we saw massive turnover because especially with, I'll say, millennials or folks who had entered our workspace one to two years. Because rather than a merit increase for 1% to 3%, they could go across the street, and get another job, and get an increase for 15% to 20%. And so it was that balance of how do you manage merit increases that average around 3%, versus someone going to work somewhere else for 15% to 20% to keep up with inflation as well? And so those dynamics were tough to balance.

And like he mentioned as well, you're going to see an increase in automation because to offset the labor costs, you're going to have to take heads out and be more efficient. So whatever I can automate, and not use labor for, and divert that labor somewhere else, you're going to start to see a lot more of that, not only across automotive, but across multiple industries.

LESLIE MCGRANAHAN: Razzaaq, how are things right now? Like, how does the labor market feel?

RAZZAAQ MCCONNER: Stable for the most part. Yeah, I would say stable for the most part. I think having had to have large and hard conversations with my suppliers, and understand and recognize the labor challenges that they were having in resetting the prices, that's kind of stabilized the blue collar labor market. And so things are OK for now.

We're seeing people show up at plants, but also supplemented. And they're still doing the gig economy things, but on the side and after work to kind of make additional money. So all in all, things have stabilized, knock on wood, at least for now.

CHRIS DELONG: I have one more comment, Leslie. I forgot one of the biggest things that we saw as far as the trend in agriculture was the adoption of H-2A programs, or TN visa programs to actually get people from out of this country. I mean, like 10 years ago, I didn't even know there was such a thing.

And ourselves, we've hired it. Every single cooperative in the US has been hiring a significant portion of H-2A workers. One of the largest farms in the state of Wisconsin, that's 85% of the workforce now. So it's definitely made a huge impact as far as us being able to hire people.

RAZZAAQ MCCONNER: I would agree with that. We have partnered with several companies that bring employees from Puerto Rico. And they stay here for two years, and they provide them transportation and housing. And so that's been a stabilizing factor for us in the automotive industry as well.

LESLIE MCGRANAHAN: And Kate, Kelli, do you want to add anything on the labor market?

KELLI LAWRENCE: I would say it's kind of stable for us at this point as well. There's definitely more availability of labor on the construction trade side from our suppliers. It's a more competitive environment, which helps us to manage our costs. So it feels pretty stable.

KATE MAEHR: I'll just add, I mean, there is a book that I'd like to write at some point about managing organizations and people during the period that we're in. And probably that's not a book that I should be on record with. So it's hard.

I will lift up a couple of things that I'm really proud of. So I'll just note that the mission of the Greater Chicago Food Depository is not to distribute pounds of food, though that is what we do every day. Our mission is to end hunger, which means our goal is actually, we don't want to be this big.

I don't want to distribute 120 million pounds of food every year to a network of food pantries. It is absurd that in the greatest city-- you are right, we are now the home of the first American Pope-- in the greatest city in the greatest country that we have people who work so hard, and they still don't have enough money to be able to go to a grocery store and buy food of their choice. That is just fundamentally broken.

And so we think a lot about what are those solutions beyond our commitment to making sure that there is food and food pantries. I fundamentally believe that part of the solution is access to jobs, but not just any jobs. We have to think about what are jobs that pay people thriving wages.

And as we began to really lean into this commitment, we knew that it had to start with us. I can't come into rooms like this and wag my finger if I am not making some commitments in my own organization. And so we have made a commitment that everyone who works in our organization will earn a thriving wage. We use a series of tools to determine what that is. We're trying to be super transparent. But right now, for us, the lowest rate you can earn per hour is $22 an hour.

The dirty secret is there are a lot of human service organizations-- and I know that there are also for-profit. I'll let others worry about that. But in the human services world, we have so many organizations that are forced to pay salaries that allow their employees then to be eligible for the very benefits that they are trying to connect people to. And I think again, our values require us to come into this work differently.

And so among the challenges that we are taking on, in addition to committing to paying a thriving wage, we are also-- and I'm sure there are some of you who have been on the receiving end. And if this feels uncomfortable, I apologize. I don't want discomfort. But we are asking all of our partners, our donors, the people we buy goods and services from. We are asking them, what is your entry level wage of pay? And I don't mean that as a condemnation, but I think we have to have a conversation. When people work so hard that they can't buy food, something isn't working.

LESLIE MCGRANAHAN: So I wanted to ask kind of a big-picture question. If we look back at the past five years, what do you think? What do you see as the big permanent changes from everything we've been through about labor market supply chains, whether it's your clients, your relationship with your suppliers? What do you feel is like changed in a lasting way? And from these past five years, what is permanently different?

And Kate, I want to start with you. From 2020 to today, what seems to be the permanent takeaway going that we've inherited?

KATE MAEHR: I'm going to answer that in a slightly disruptive way because I hope this is not permanent. It is shocking to me, one of the most significant shifts.

Five years ago, when Nicole and I were standing and watching all of these individuals and families line up for food, it was really hard work, but we were wrapped in love by this community and by the world. Our truck drivers would tell us that they would drive on city streets in Chicago, and people would be applauding for them.

And there were a lot of-- I joke, we had sleeping bags at the food bank. There were a whole lot of weeks where in that early part of the pandemic, we didn't see our families very much. It was hard work, but we had people standing with us, and that made it possible to go out and do hard work.

It does not feel like that now. I get death threats. I get incredibly angry voicemails and letters. People are mad, and they resent that there might be people who are getting something. And I will just say, it has been shocking to see how quickly that has shifted, that we have lost our empathy for our neighbors.

As amazing as I think the work that food pantries do every day is, the truth is, there's not a single person standing in a food pantry line who wants to be in that line. And so to suggest that people are gaming a system, there's no game in the system. And so I am not willing to say that that is a permanent shift.

I am worried because I hear the same rhetoric right now as we are going through a very significant conversation in Washington around the budget-- and in particular, the budget on the United States Department of Agriculture-- and what that means. I hope it's not permanent, but it is the moment we are in a significant shift.

LESLIE MCGRANAHAN: Kelli, can I ask you what of what we've been through seems permanent? And how has your business and your business model sort of changed in a way that's more permanent from your perspective?

KELLI LAWRENCE: Sure. There are some things that have definitely shifted. There are some things I don't know that I expect to be permanent, but are probably going to be the way we operate until there's some relief, either on supply or interest rates, et cetera. But I do think one of the things we're seeing relative to the challenges of affordability on a product side is this openness to smaller homes, smaller lots, more attached housing.

Particularly outside of Chicago, you're very used to attached housing. In other Midwest markets, it's not as common to live in townhomes, row homes, other types of attached housing. So we're seeing the growing acceptance of different housing types and different lifestyles as people are searching for what is an affordable home homeownership option for me.

And we're seeing limited choice. I think you've seen a lot of builders that are limiting the choice that people can have in choosing a new home. Some of that is to control costs and more predictability of cost. You're seeing controlling their supply chain, making sure their cycle times are known. So again, you're seeing people selling more spec homes or homes with more limited option selections than what the homebuying experience maybe had been historically. And I think some of those changes we're going to continue to see.

We have, though, seen for us that we've done a strategic pivot. Unfortunately, we aren't really going after that attainable housing segment. It's not because there is not demand. It's not because I don't want to supply homes to that segment, but we really can't do it. We cannot drive our costs down low enough to really meet what I think is that attainable segment. So we've pivoted and we've started to build purpose built, single family rental homes in a neighborhood context where we're seeing demand for single family living, but we're seeing not the ability to purchase the home you want.

So we've developed that business line to serve that segment right now. And we're seeing a lot of demand for people that want to live in a more single family setting, but just can't get there yet. And we're seeing customers waiting longer. So you're seeing a lot more spec home inventory on the market.

So part of that is this limiting of choice. But part of it is because customers aren't buying a dirt sale, as we would call it. They aren't buying early in the sales cycle. They want more certainty of what their interest rate is going to be, or what their ultimate cost of that home is going to be in terms of a payment. So they're waiting until much closer to the date they need the home to make that buying decision. So that also limits production of housing, because we are selling much later and want to manage our spec inventory to meet what those buyers need.

And you're seeing mortgage rate buydowns are continuing to be a tool to give customers certainty. So some of it is about affordability, but some of it is just certainty of what is my home going to cost. And so that is a tool for home builders I think is going to continue until there's some other shifts in the mortgage rates.

So one of the changes we have right now is that we can't pass along any cost increases we may feel to our customers. Our customers, again, affordability is a significant challenge. They can no longer accept increases to the price of the homes, given they're seeing their cost of borrowing increasing.

So again, we're seeing just reduced purchasing power from our customers. And at some point, if there are increased costs in terms of the inputs of housing, it's going to have to come out of other parts of the housing production continuum, whether it be our suppliers, builder margins. So those are some changes. I think some will be permanent in terms of what we're building and how we're building it, but I think some are just how we're addressing the current market and the current environment.

LESLIE MCGRANAHAN: Chris?

CHRIS DELONG: Yeah. As far as permanent changes go, volatility in the commodities markets is standard. We're used to that.

Obviously, I don't think-- you never know, but the volatility that we saw in the last five years was very pronounced. We're probably going to have some larger events continue to happen in the future. Recruitment of qualified personnel really became a main focus for ours during the COVID era, but it's going to continue to be a focus for us. Other portion is just monitoring our costs and rightsizing our business.

Insurance has been a giant headwind for us, as well as labor rates. But in addition to that, things like electricity, natural gas. I mean, anything that we buy, instead of monitoring that maybe on a quarterly basis, we are now doing it on a monthly basis just to make sure we're monitoring our costs. Again, efficiencies has always been very important for agriculture, but we're still pushing very, very hard on that. That's going to be a permanent thing going forward.

I felt like we progressed probably 15 years during the last five years as far as getting efficient, getting people out of the way from actually doing manual labor. But that's a trend that's going to continue to happen. And the players that are not adopting automation and some of these efficiency measures, they have been leaving the marketplace. So we have seen a significant amount of closures of grain warehouses in the Midwest and the Great Plains related to that. Again, it's kind of been a trend, but it definitely got more pronounced.

And then the last one that I have is the adoption of technology at the farm level. The average age of the US producer is mid-60s, and our industry has been very late to adopt many technological advances that you folks would use every day in your lives, like using a banking app, or ordering a pizza online, or something like that.

When we originally released our mobile app, I think it was 2018, and we had to make constant phone calls just for people to download it. We actually had them come into our office, and physically download it for them, and show how to navigate it. During COVID, our usage rate went up by a factor of five. Very, very significant for our business. And it's been able to keep our cost structure low.

LESLIE MCGRANAHAN: Go ahead, Razzaaq.

RAZZAAQ MCCONNER: On my side in the automotive industry, I think there's going to be two permanent changes. One is just around reducing the amount of labor we use. As the labor rates increase, like I mentioned earlier, we will automate as much as we can to try to either offset the rising labor costs or to, quite frankly, take labor out and use less people. So you're going to see that as well as we are devoting a lot of time in investigating how to use AI to do some of the things and tactical things that employees do, all in an effort, again, to manage the labor costs.

And then the second thing that you're going to see as far as a permanent change, especially coming out of pandemic, is supply chain mapping. I now need to understand, if I do business with a company, I need to understand their supply chain all the way down to the raw material. Because any issues that I have, we noticed during the pandemic, it may be some small company in a rural area that we had no idea supplied a critical component to one of my suppliers, and that weak link in the chain disrupted everything for us. And so now we are investing a lot of time and effort.

And then also looking at different software. If it's offerings from a company called Everstream or Resilinc, that would map our entire supply chain by part number down to the raw material so that we understand all of the companies that indirectly we are doing business with. And so managing labor and then the supply chain will be two critical permanent changes in the automotive industry.

LESLIE MCGRANAHAN: OK, so thanks. I am going to turn it over to Austan to ask the last question before we close out.

AUSTAN GOOLSBEE: OK, my final question is to each of you, which is next Friday, one-- this next Friday, right?

LESLIE MCGRANAHAN: Thursday and Friday,

AUSTAN GOOLSBEE: Thursday and Friday-- less than one week-- we're going to Washington DC for the framework review conference. If I asked you for your industry or from what you've seen in the last five years, we're setting the goals and the, here's what America and the 7th District say to the Fed for setting monetary policy. What's your most important thing you want me to go and tell Chair Powell?

CHRIS DELONG: I can take that one first. The biggest thing that is impacting our business in agriculture right now is the ongoing trade war. There is a significant amount of uncertainty around that. I know part of it's a negotiation strategy, and it may or may not be in the best interest of America. But at the end of the day, a lot of the products that we sell are heavily impacted by international markets.

We're a fairly large international exporter. And just the main thing is just the uncertainty. And these deadlines keep on getting pushed back. And we're not really getting incredibly concise language from them, either. So that'd be the main thing, is just the uncertainty surrounding that.

And then you think about the supply chain for international export. The stuff just doesn't arrive overseas in two days. It's a 60-day supply chain window from getting it from the farm level-- well, can be more than 60 days, getting it from the farm level to an international customer. So it definitely puts some bottlenecks and a huge amount of uncertainty in the process.

KELLI LAWRENCE: I would just add that I think the current policies and interest rate environment is really hurting both the production of housing and it's hurting our customers' affordability, which ultimately is going to end up producing less housing, which creates a further housing shortage and increased prices for housing. So I think there needs to be more tools to recognize what's happening in the housing market.

It takes a long time to produce housing. It's getting longer to produce housing. So I think what data can be monitored to better assess what's actually happening in the housing market before we wait to have another 2010 to 2020 where we are so grossly under supplying the housing market and creating more affordability challenges.

RAZZAAQ MCCONNER: For me-- and I think you've heard it from all four of us-- I think you have to be mindful of the decisions that you make, because at the end of the day, they impact everyday people. So as you set policy, as you have the discussions, just keep that in mind. Because even us all as leaders in our industries and our companies, we recognize that too, that the decisions that we make ultimately impact citizens. So just be mindful of that and have some empathy, knowing that your decisions are going to impact everyday people.

KATE MAEHR: I really hope that this isn't a rhetorical device and you really are going to take this forward, because I think the chairman needs to hear that right now in the budget framework, there is a requirement that the USDA eliminate $230 billion from their budget, and there is no way to do that math without significant cuts to the food stamp or SNAP program. There is a dangerous myth in this country, and I think in Congress, that charity can fill this gap.

If you take the output of all the entire emergency food system-- the thousands of food pantries, the food banks in this country-- and you express that output in terms of meals, for every meal charity provides in this country, the SNAP program provides nine. So even a 10% cut, a 20% cut, even restricting access to certain populations or shifting costs to states, every one of these proposals suggests that charity will step in. And I will tell you, we cannot.

At the risk of lacking humility, I think we are probably the strongest and certainly the greatest food bank in the country. And I will tell you, the Greater Chicago Food Depository, we cannot double, triple, or quadruple in size. So what will happen is people will go without food. People will go hungry. And unfortunately, it will be the most vulnerable. It will be children. It will be older adults. It will be people who live with disabilities. It will be the very most vulnerable.

I feel like I am watching a slow motion car accident and nobody is seeing it. So I would beg you to take that message forward.

LESLIE MCGRANAHAN: So I want to thank everyone for participating. And to Razzaaq's earlier question, the reason we do this is to make sure the voices from the Midwest are heard as part of this conversation, and that we're able to bring these Midwest perspectives, Midwest perspectives forward into this monetary policy conversation.

So I want to just thank the panelists again for participating. Thank our audience here and on online. And there is a brief reception in the vestibule. So please join us out there. Thank you.

[APPLAUSE]