FEDERAL RESERVE BANK OF KANSAS CITY

Economic Conditions and Outlook

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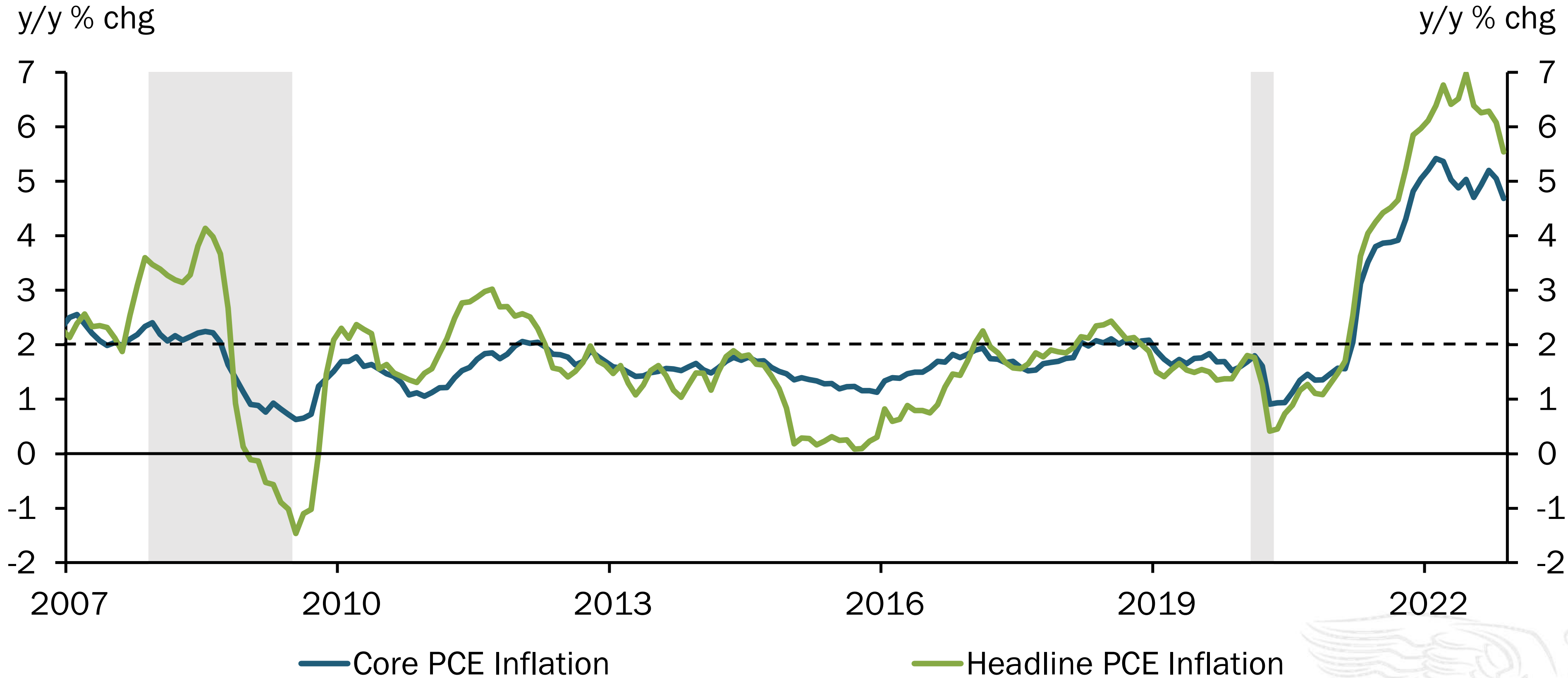
Overview

- Several sources of inflation pressures continue to have momentum, even as overall inflation readings have declined
    - albeit to still-elevated levels of price growth

- Wage pressures remain elevated, even as labor demand is softening broadly across industries

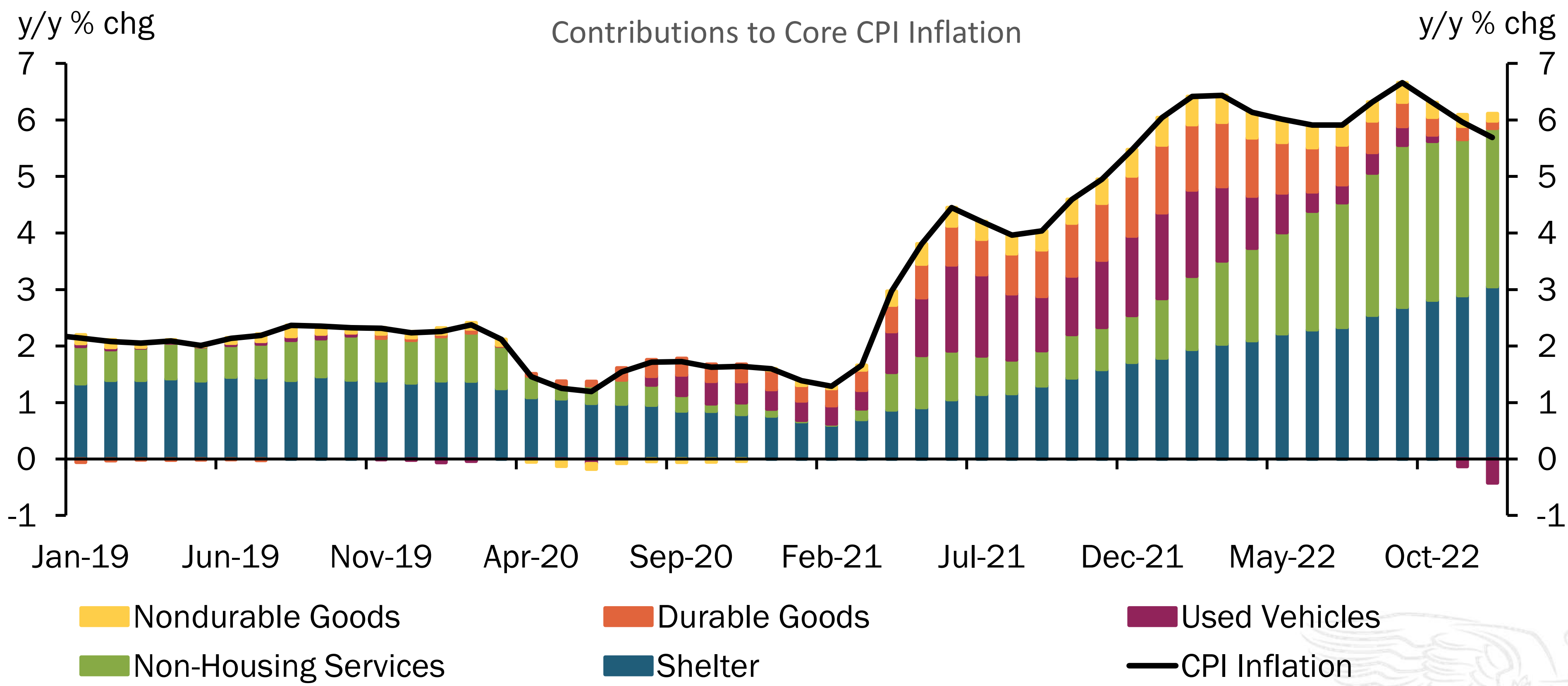
- The Fed slowed the rate of increases in interest rates recently, even as projections for the duration of time rates lengthened

Inflation remains elevated even though pressures from volatile commodity prices lessened recently



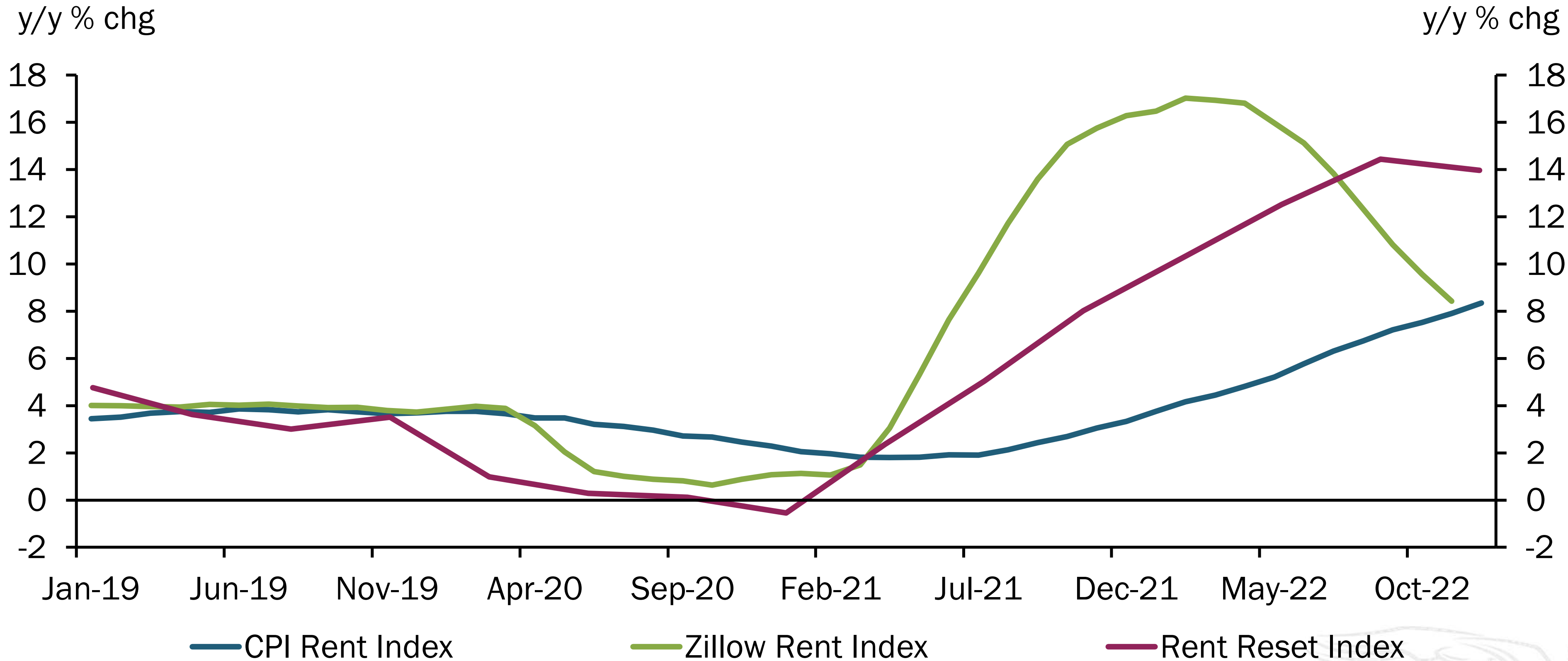
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Housing prices and other services prices continue to exert outsized inflation pressures on core inflation



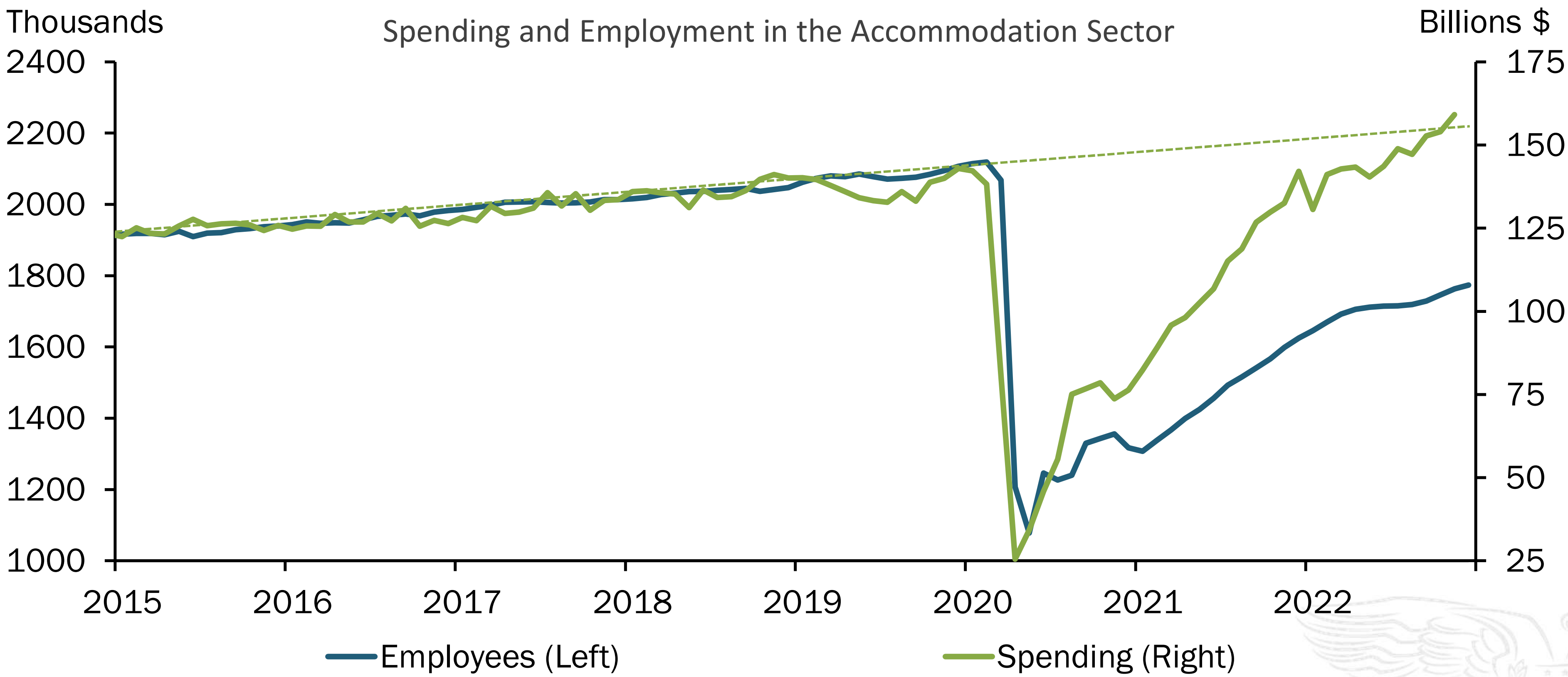
Source: BLS, Haver Analytics

Rent inflation for new leases has slowed, but lags in the reset of existing leases imply momentum in housing price pressures



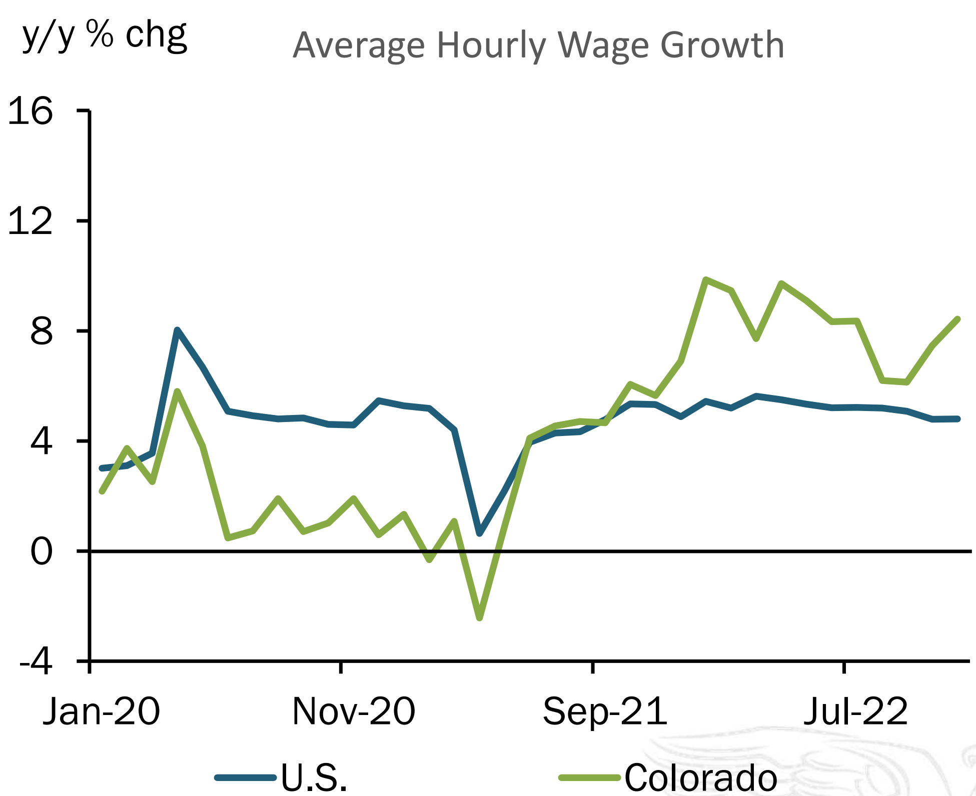
Source: BEA, Zillow, BLS, Staff, Haver Analytics

Labor shortages and robust demand in the accommodation sector are placing persistent pressure on prices for these non-housing services



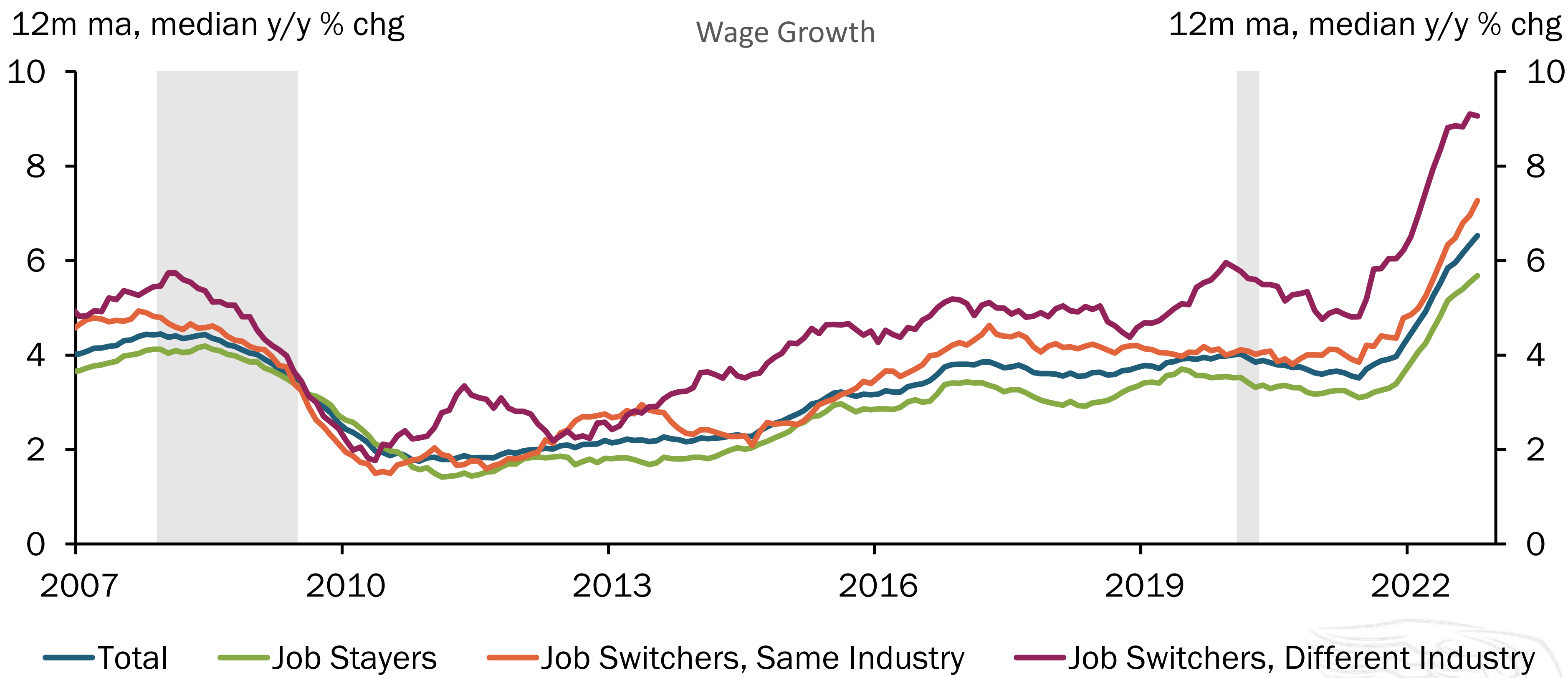
Source: BLS, BEA, Haver Analytics

The labor market remains tight and wage pressures elevated



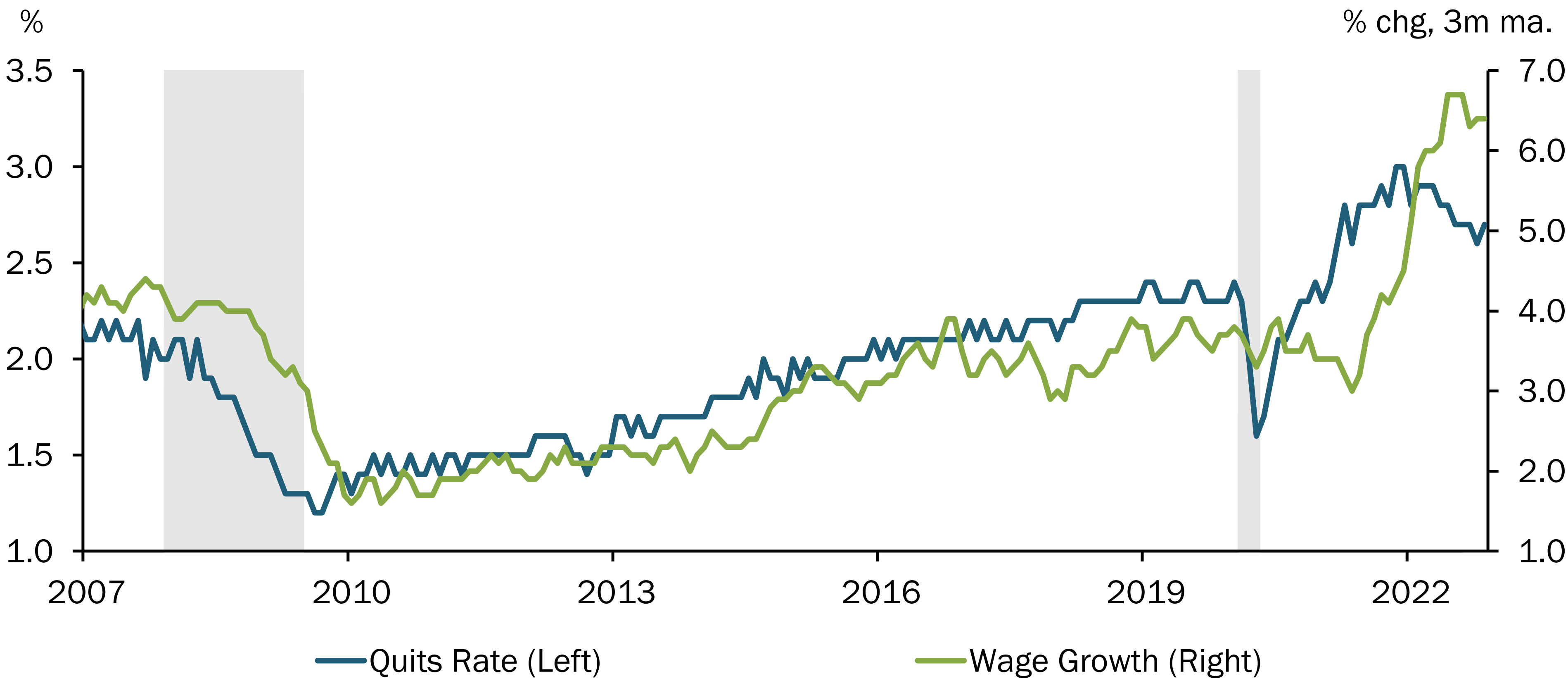
Source: BLS, Haver Analytics

Wage growth is larger among workers who switched to a different job and industry



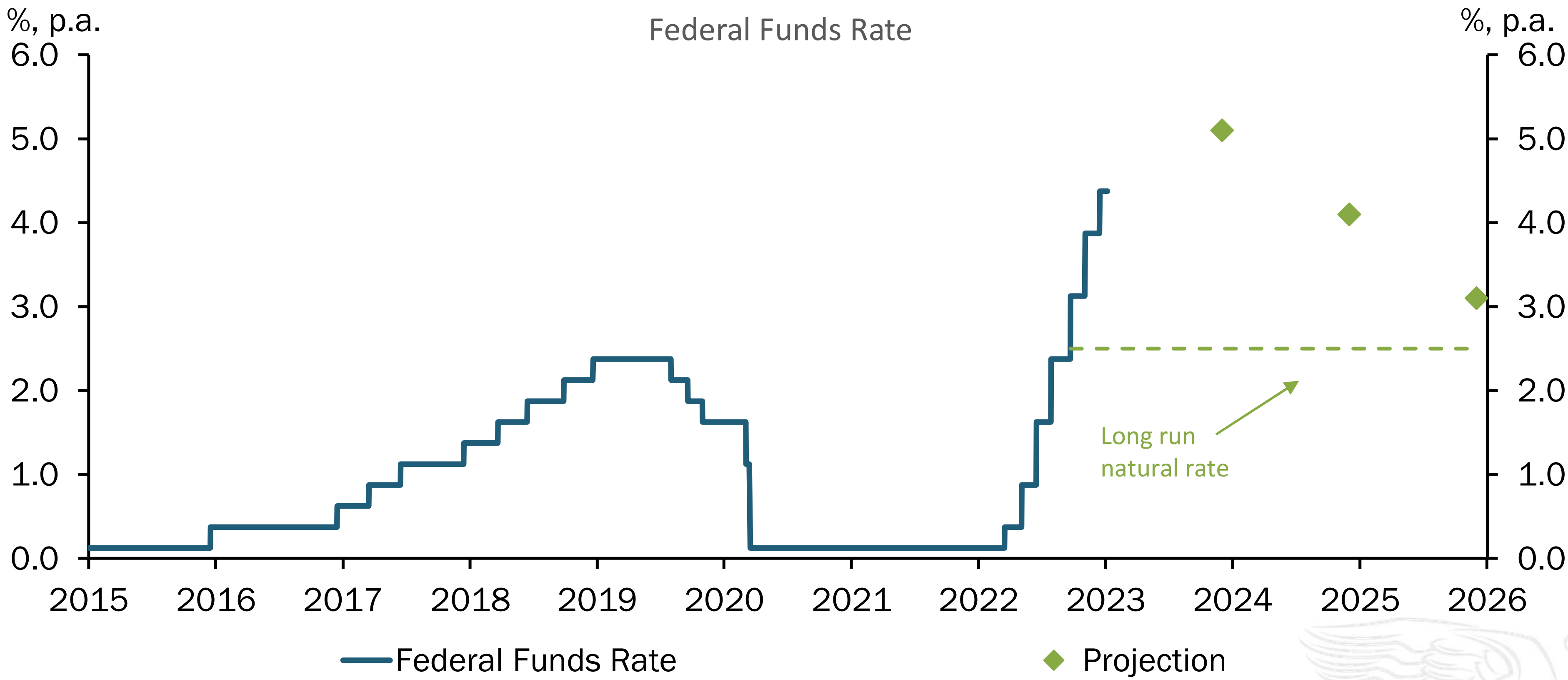
Source: Atlanta Fed Wage Growth Tracker, Staff

Quits rates are declining but remain elevated, sustaining upward pressure on wage growth for the near-to-medium term



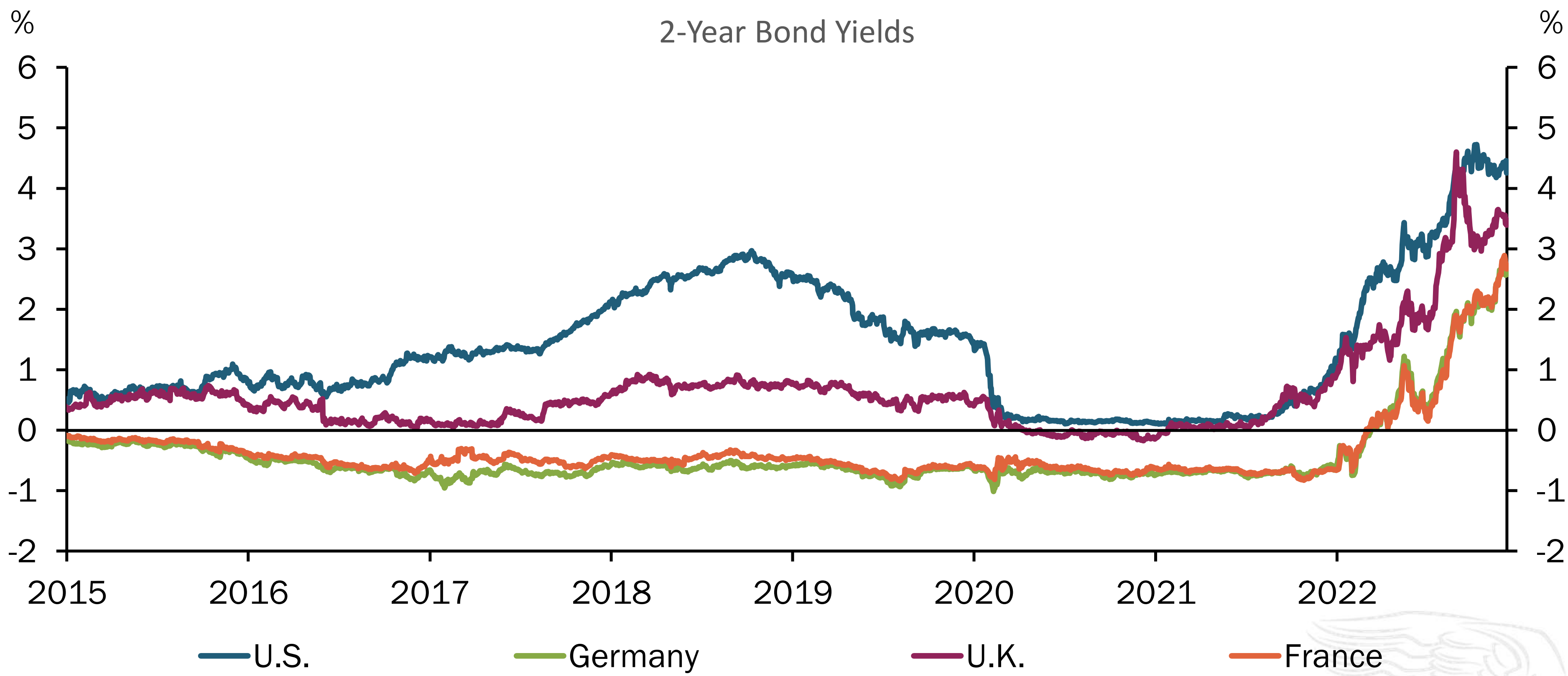
Source: Atlanta Wage Growth Tracker, BLS, Haver Analytics
Note: Grey bars indicate recession shading

The Federal Reserve raised interest rates rapidly over the past six months, and projects that rates will likely remain elevated over the medium term



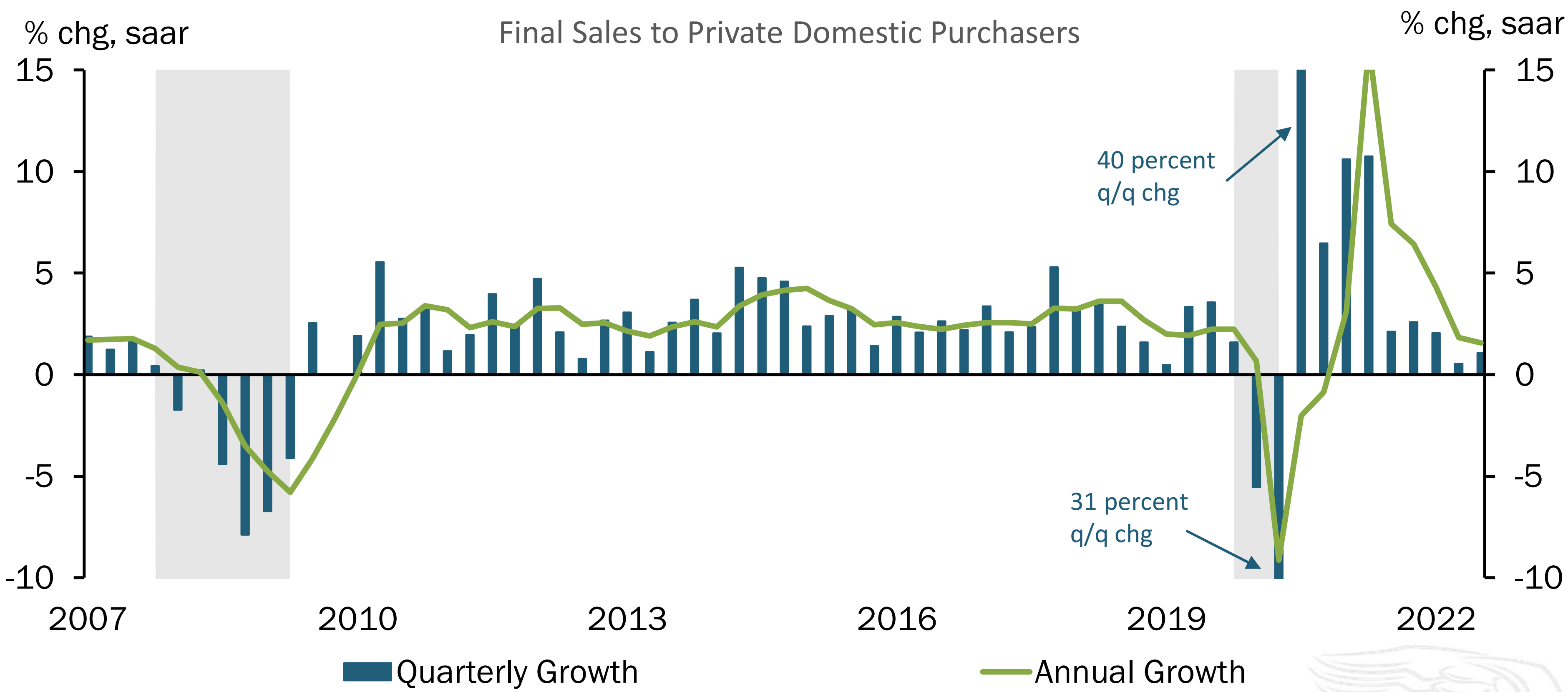
Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics

Interest rates are rising, and financial conditions are tightening, globally



Sources: Bloomberg

Overall economic activity is likely to slow this year



Source: BEA, Haver Analytics
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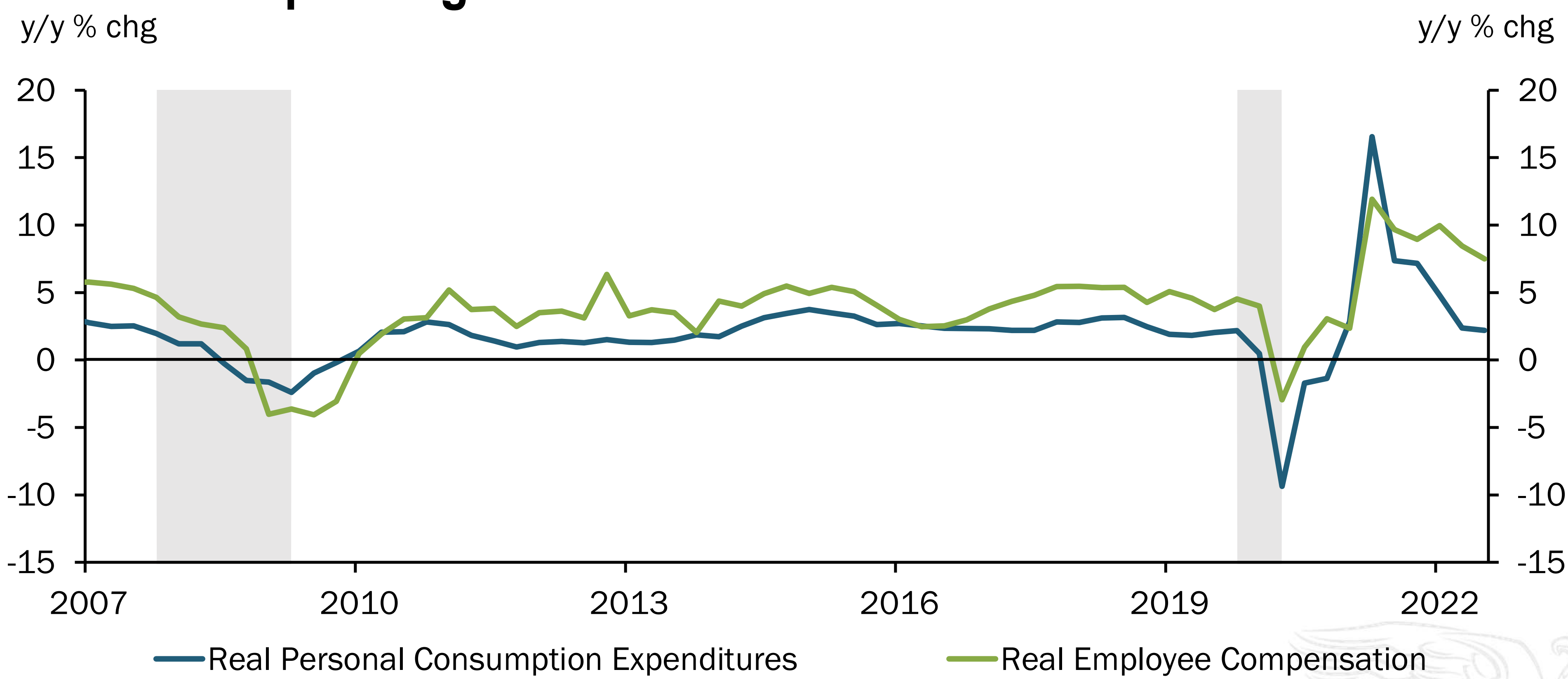
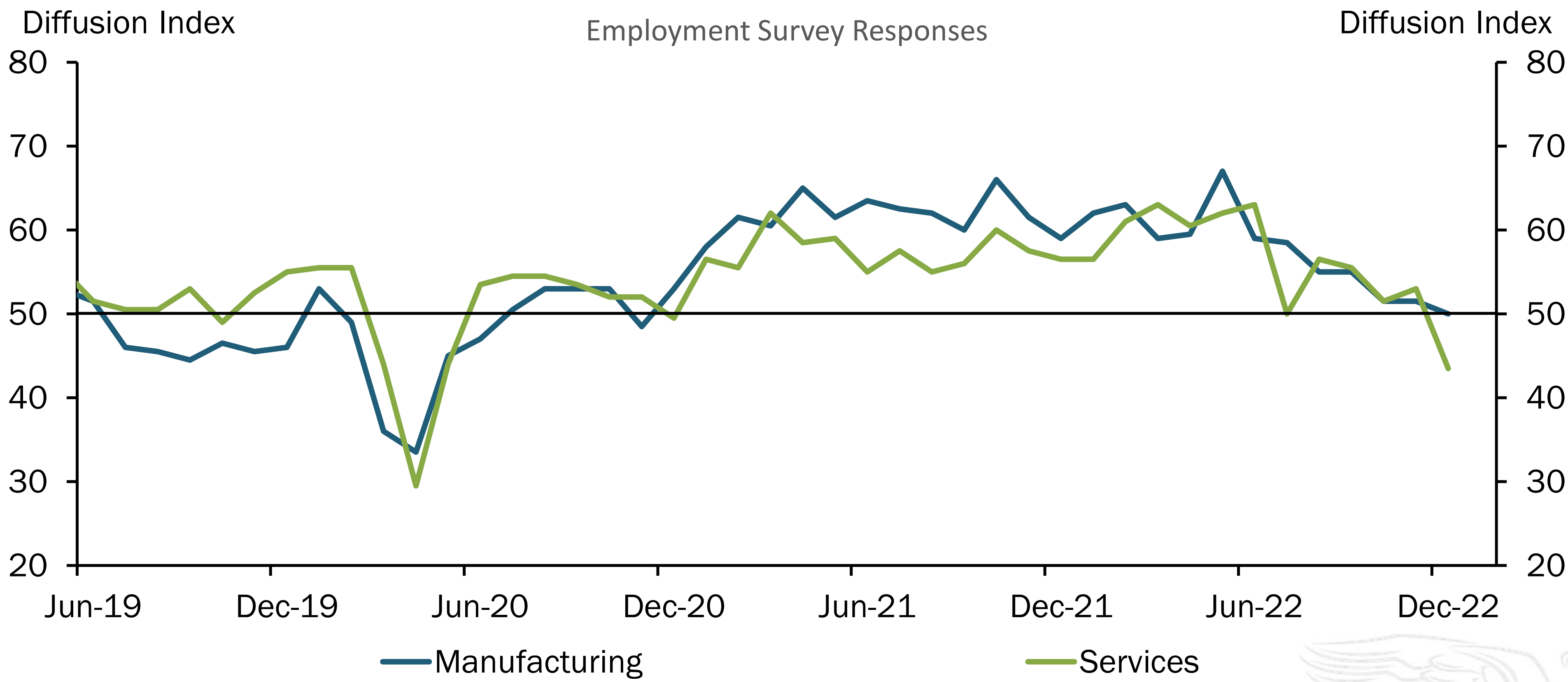
Total growth in worker compensation is slowing, which will likely weigh on consumer spending in the near-to-medium term



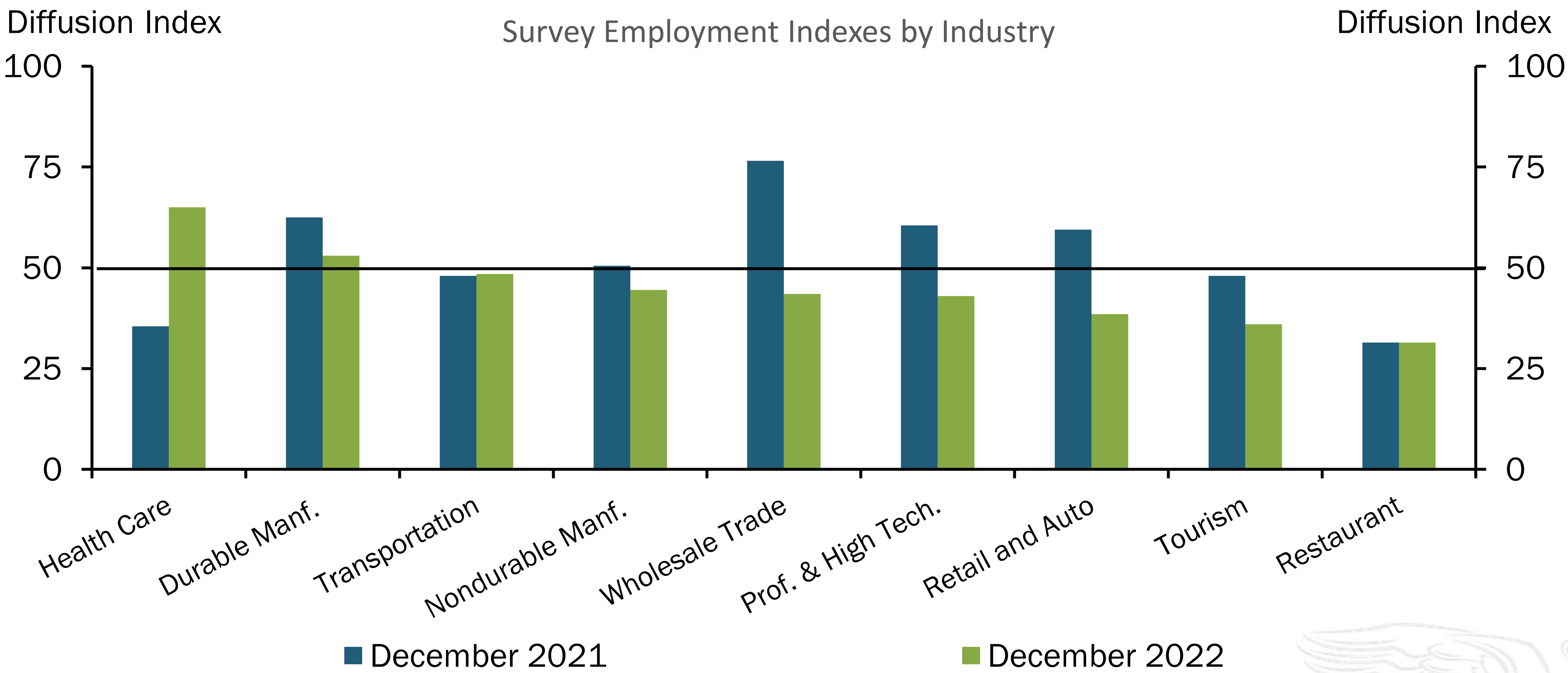
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Businesses report that their demand for labor is declining



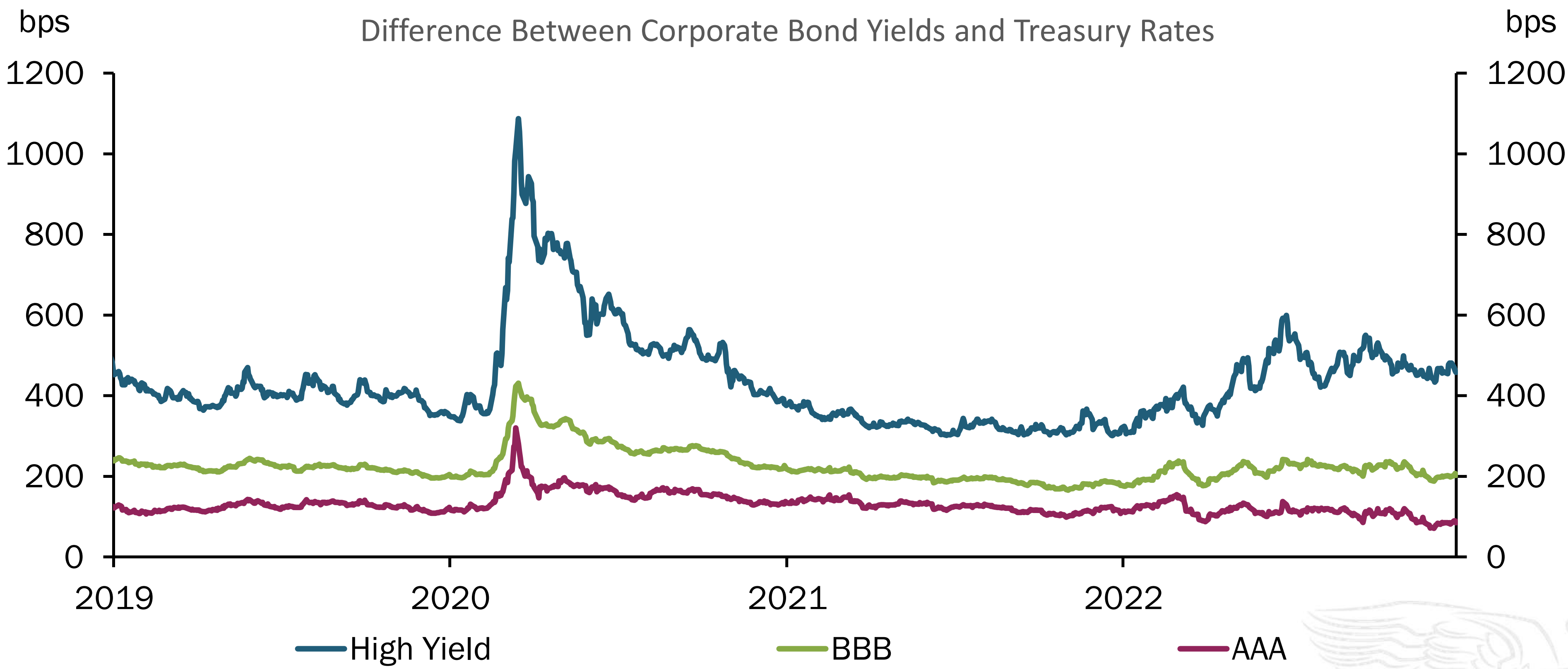
Source: FRBKC Surveys
Note: An index below 50 indicates decreasing activity

Softening labor demand is broad-based across industries



Source: FRBKC Surveys
Note: An index below 50 indicates decreasing activity

As economic conditions continue to soften, financial markets are repricing credit risks



Sources: FRED

Looking ahead

- Curtailing inflation pressures will require slowing growth in the prices of services, which are historically less volatile and larger contributors to overall inflation
- Contacts across the region are reporting wage growth continues to have momentum, even as labor demand is cooling
- Thus far, job losses have been isolated to a few sectors, which have a higher concentration here in the Rocky Mountain region.
- The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability

https://www.KansasCityFed.org/Speeches