U.S. and Regional Economic Outlooks

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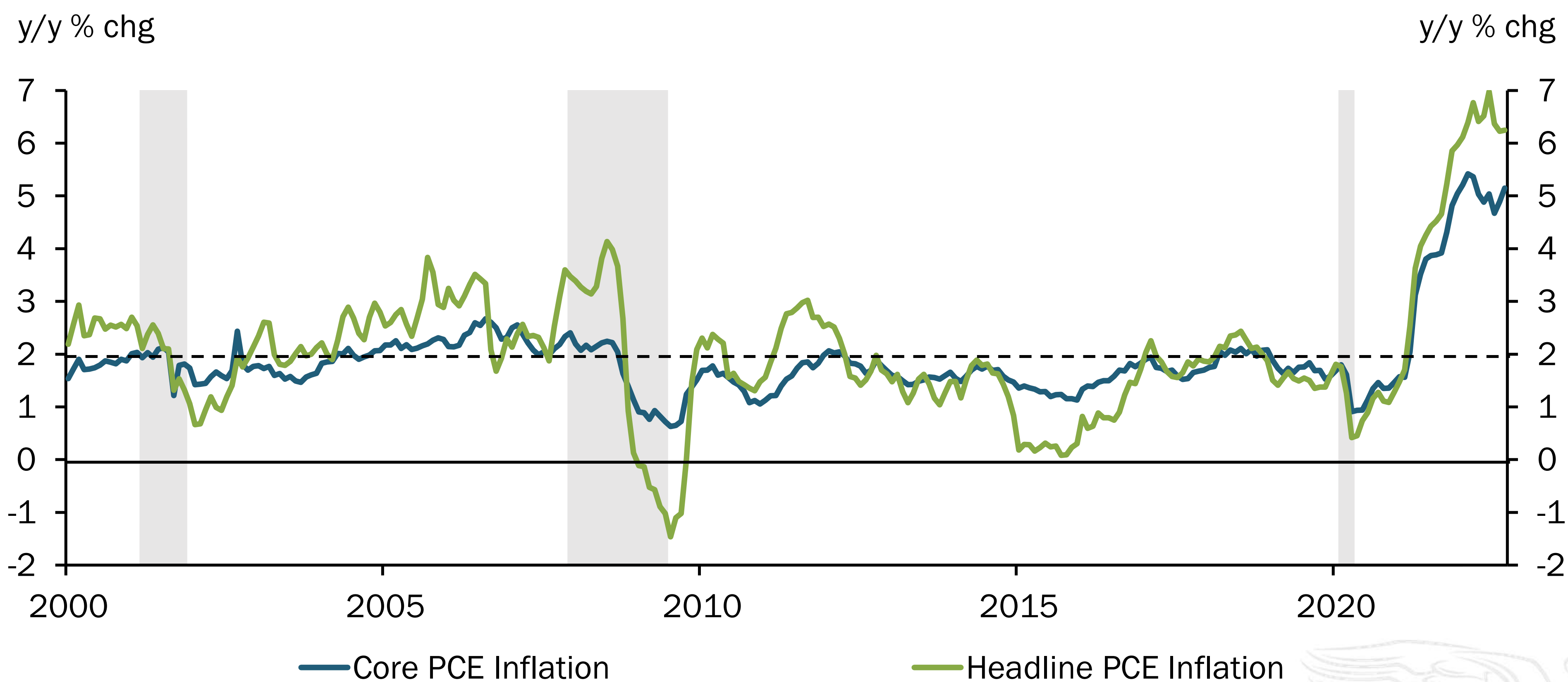
The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System

Overview

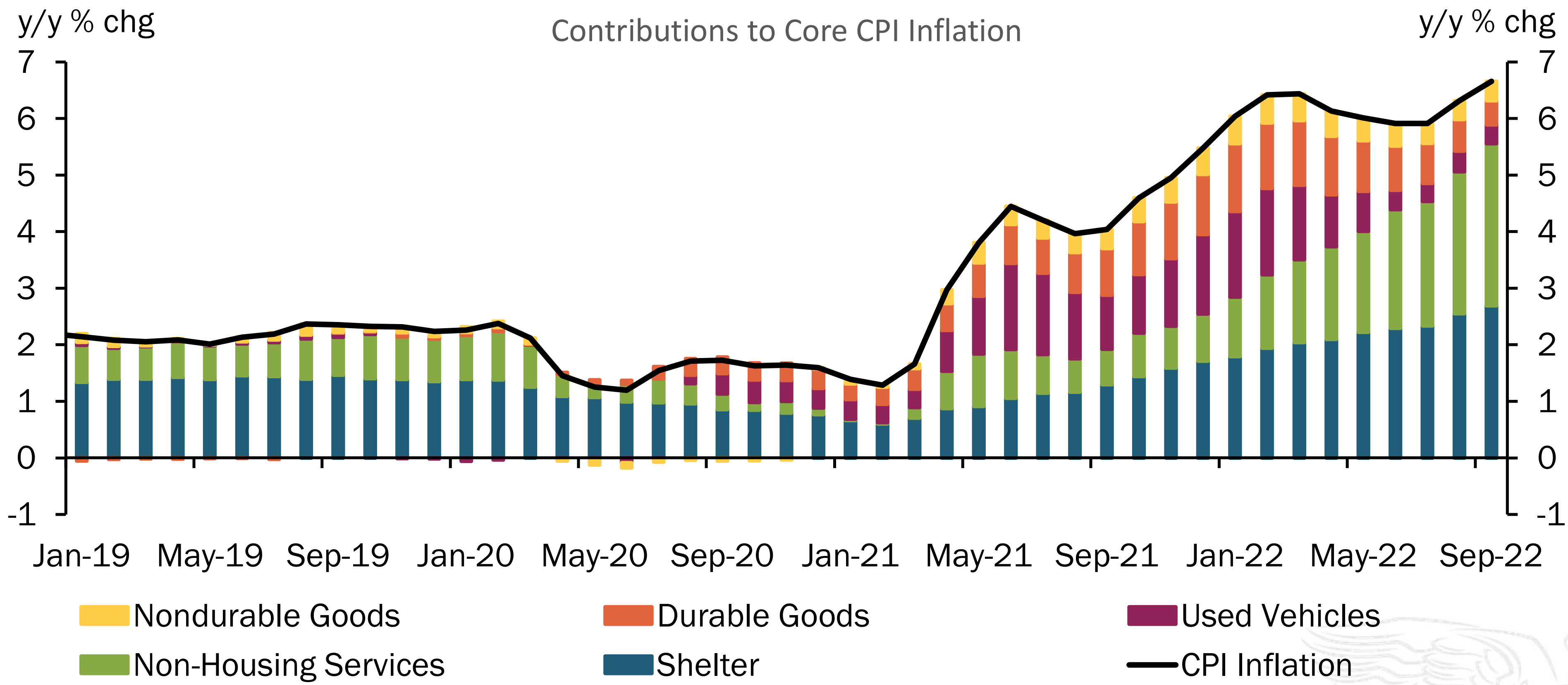
- Inflation continues to be elevated, even as the drivers of price pressures have rotated
- Labor markets remain extremely tight and wage growth is above historical norms
- Monetary policy continues to move further into a restrictive stance in order to restore price stability
- Indicators from several sectors point to the effects of tighter monetary policy slowing overall demand growth, albeit with varying levels of transmission to different parts of the economy

Inflation remains well-above historic norms and the Fed's 2 percent target



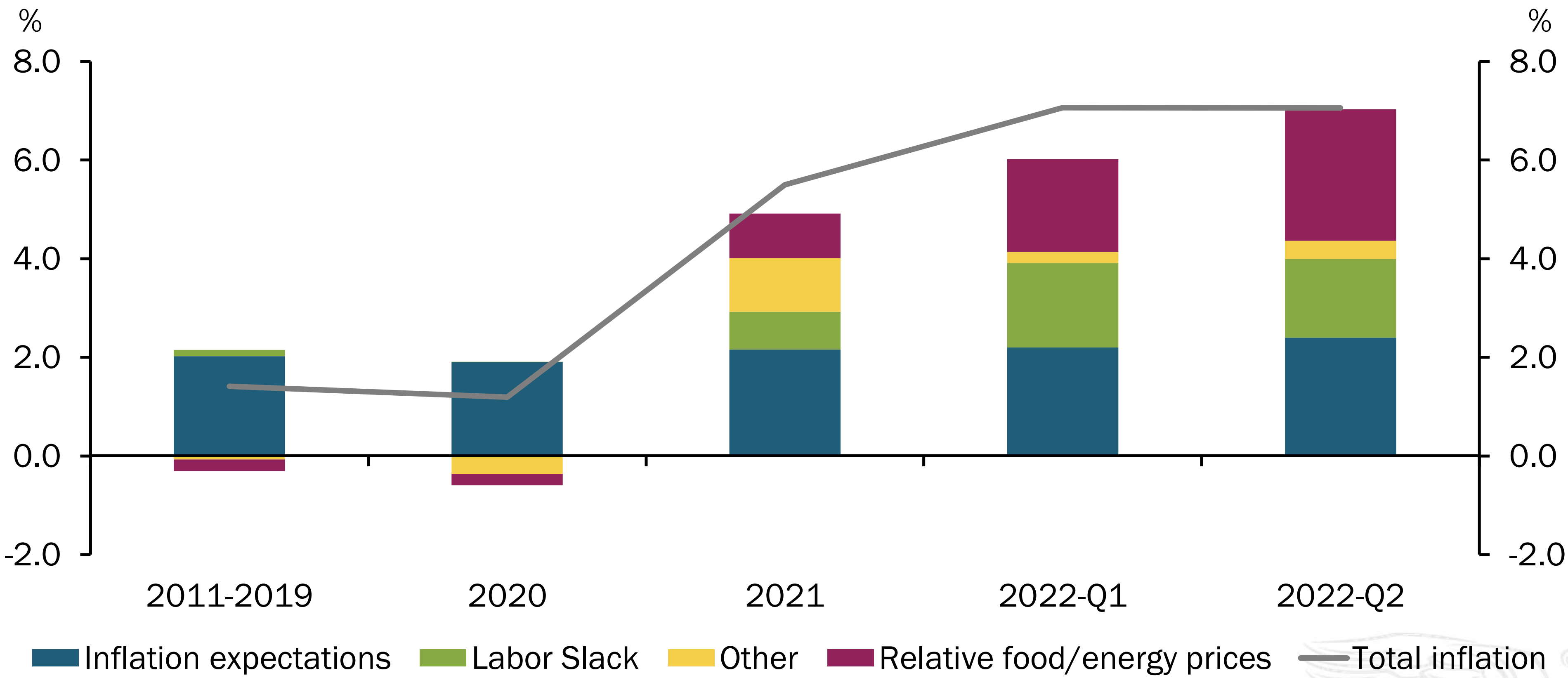
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Over the past year, the drivers of inflation rotated back toward services, with growth in goods prices softening over the last several months



Source: BLS, Haver Analytics

Inflation pressures reflect the imbalances of persistently strong demand relative to ongoing shortfalls in supply

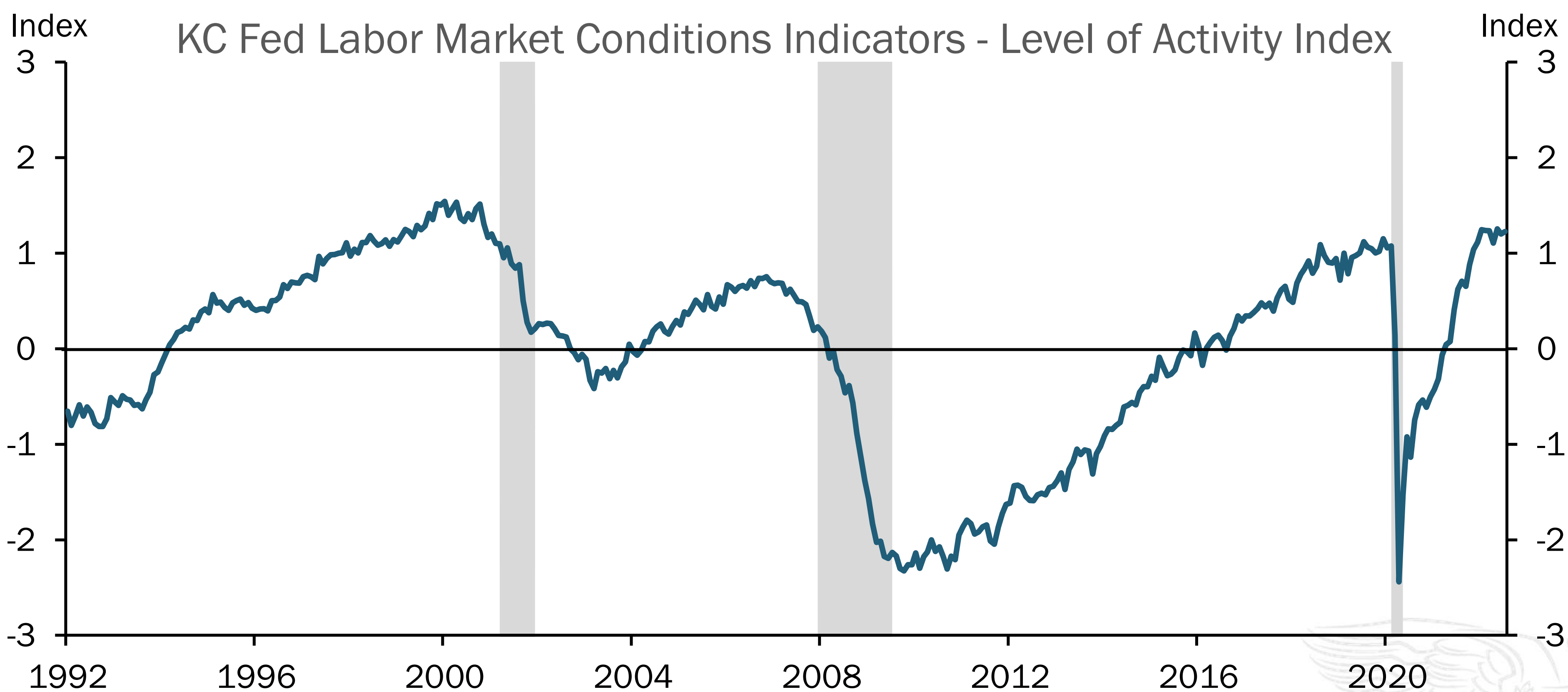


Sources: Staff, BEA, BLS, CBO, SPF

Note: Annualized PCE Inflation, total and portion attributable to specific factors

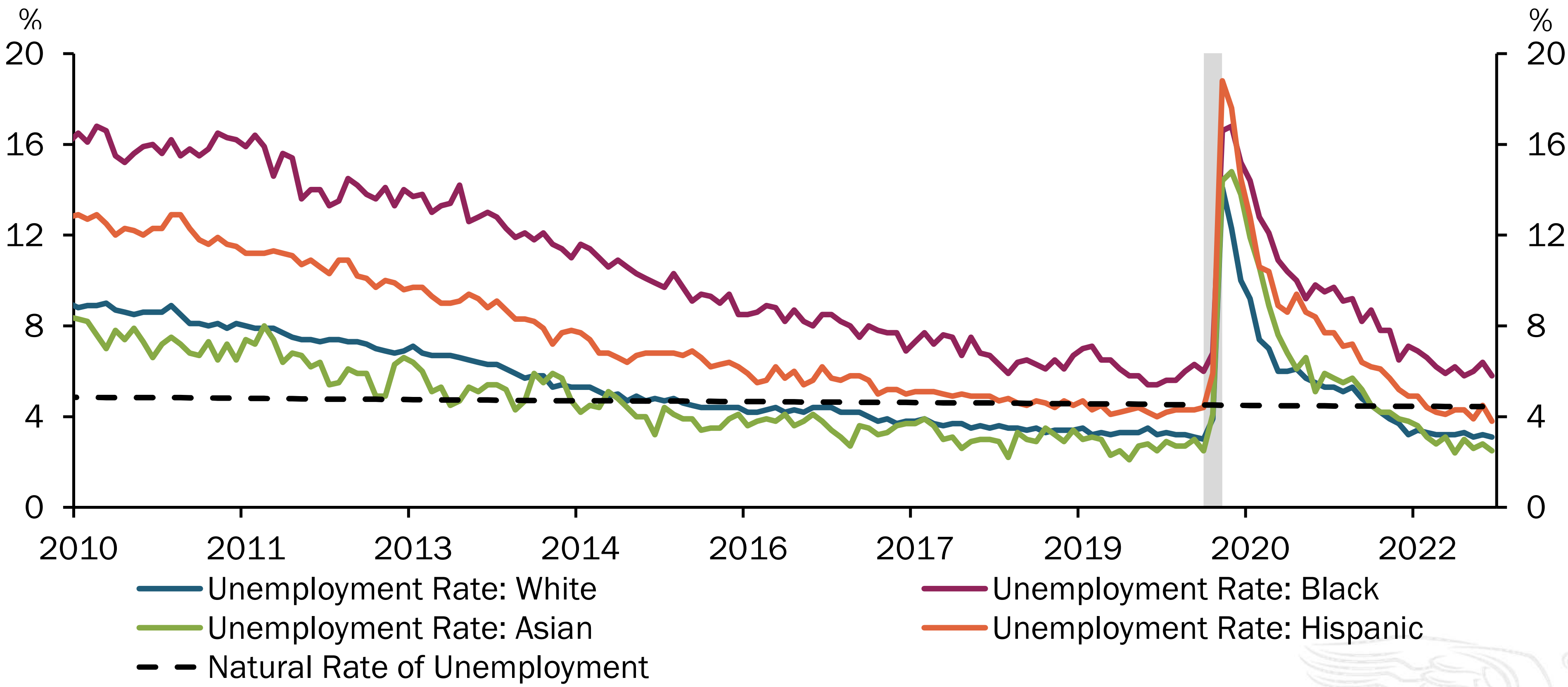
Indicators of demand and supply imbalances

Labor market conditions are historically tight



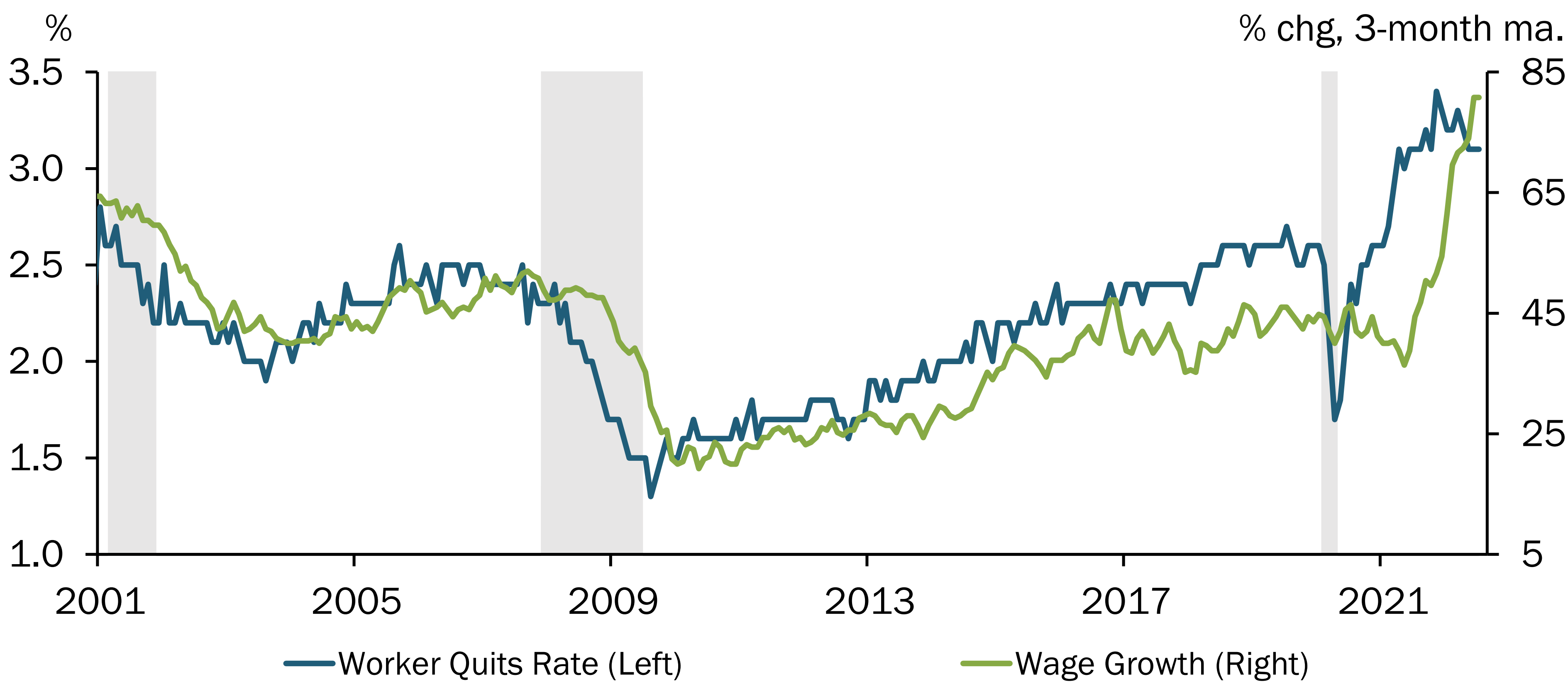
Sources: KCFRB

Unemployment rates are at or below pre-pandemic lows



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

Workers left their jobs at elevated rates over the past 18 months, further tightening the labor market and driving broad-based wage growth



Source: BLS, Haver Analytics
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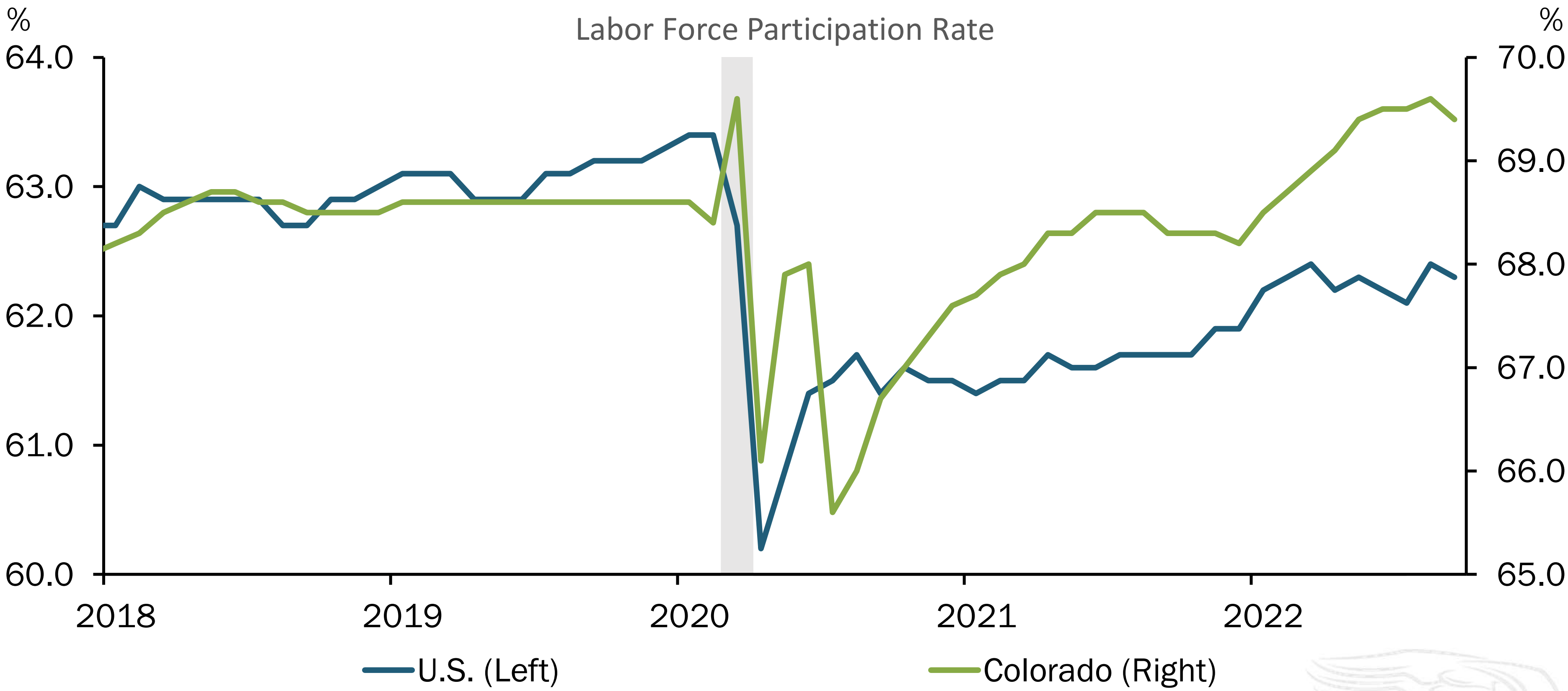
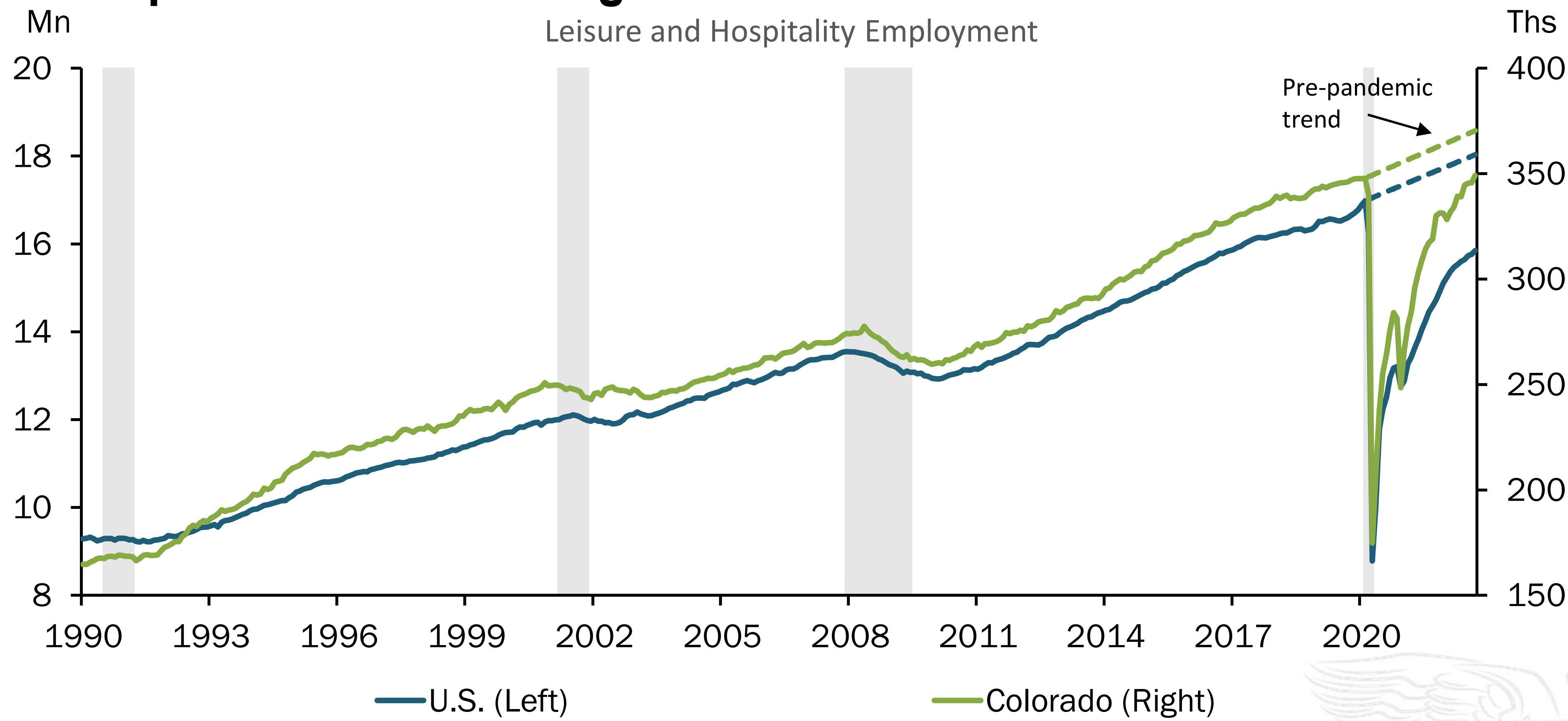
While labor supply remains constrained nationally



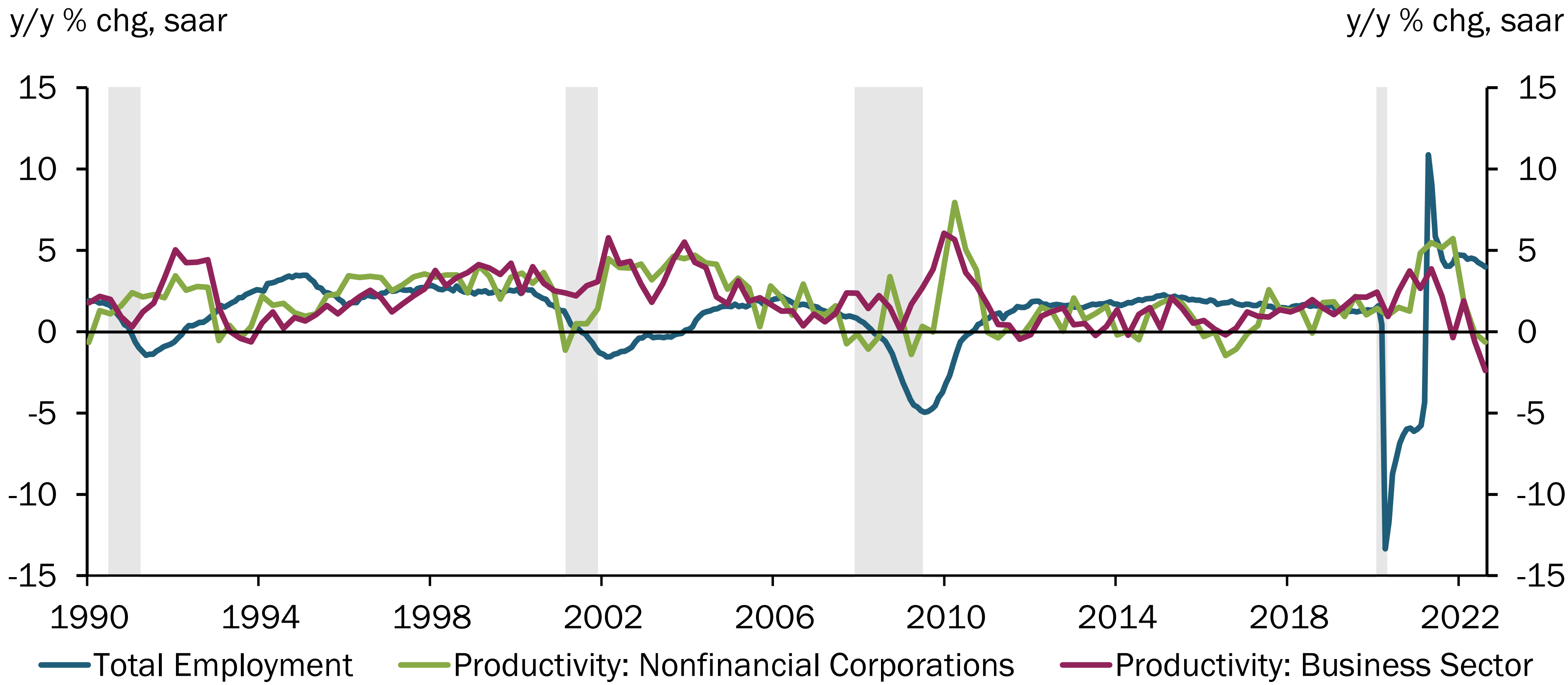
Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading

Employment shortfalls in leisure and hospitality remain acute, adding to cost pressures in that segment of the service sector



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

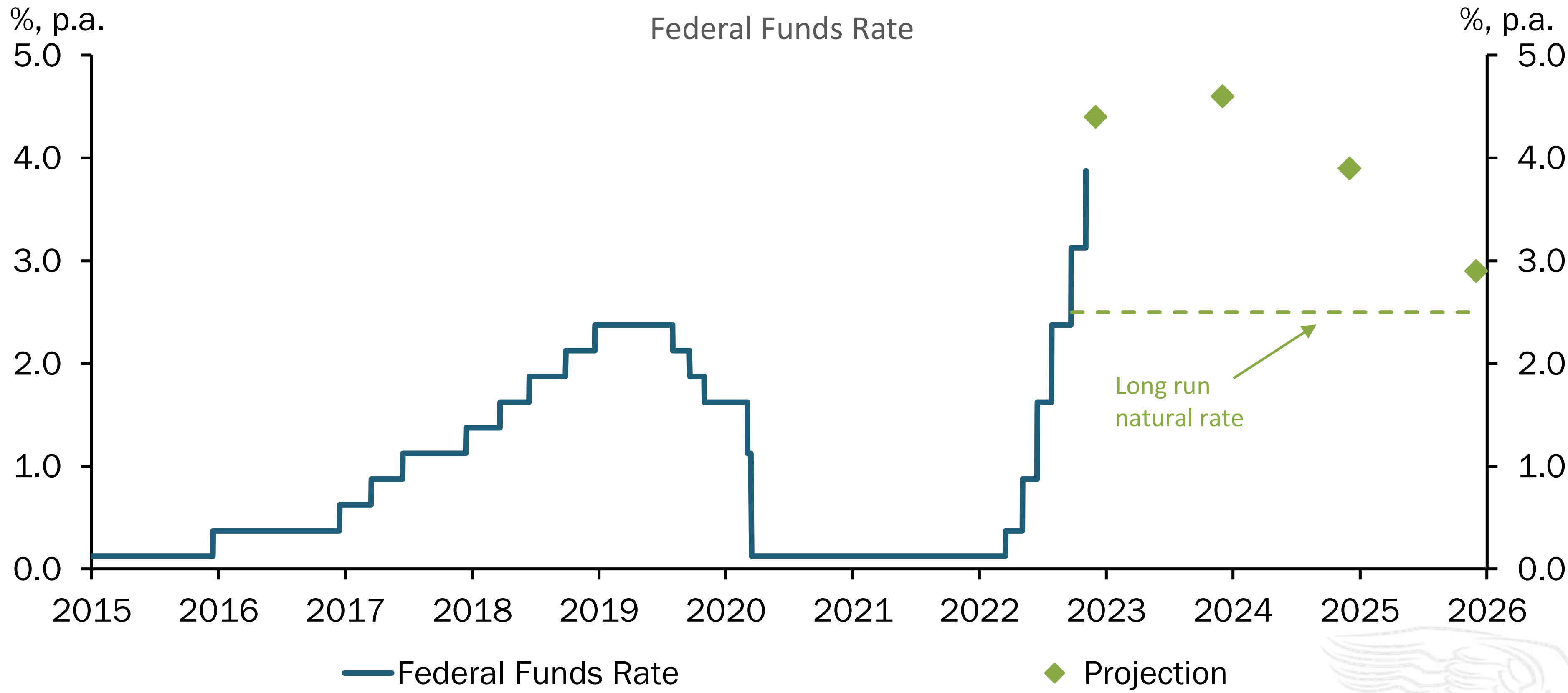
Dismal labor productivity has exacerbated supply constraints, but productivity tends to be subdued during periods of rapid job growth



Sources: BLS/ Haver Analytics

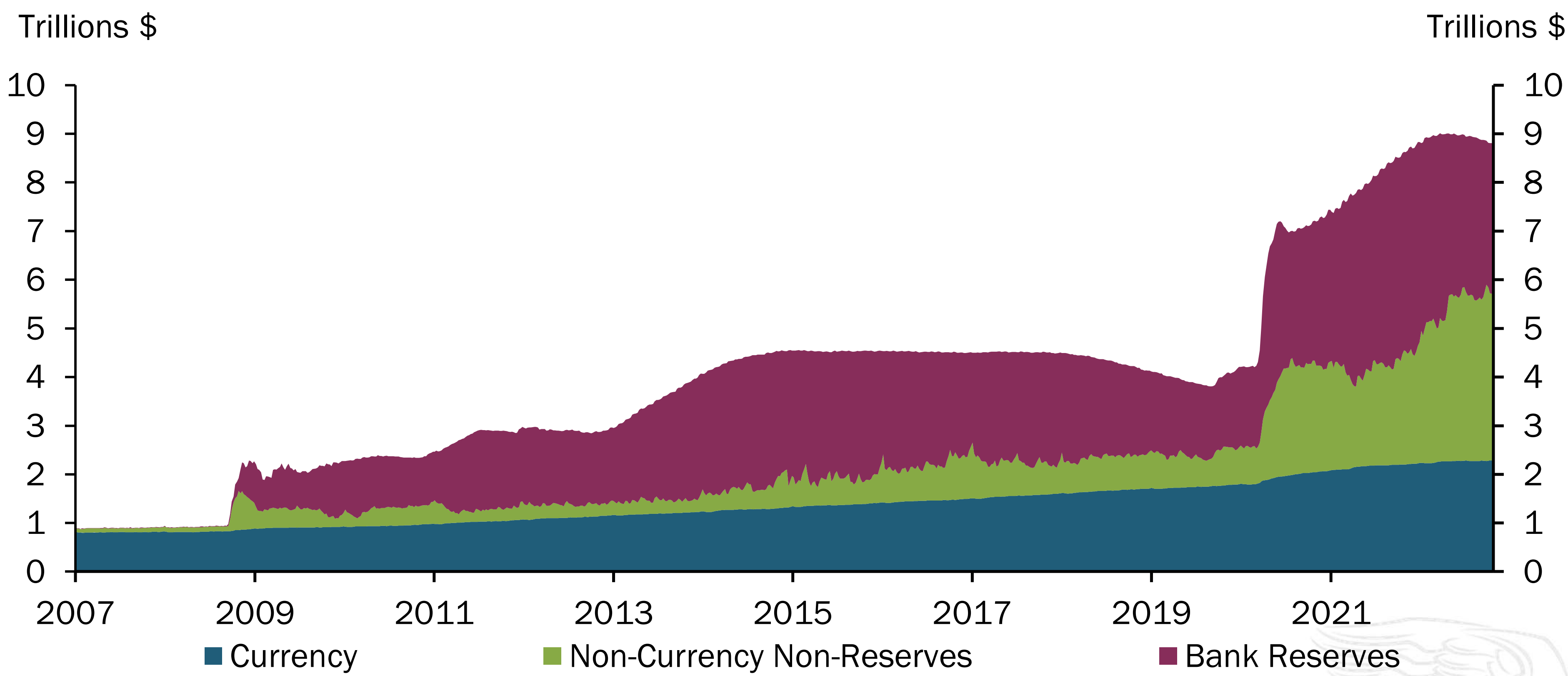
Monetary policy adjustments transmission to the real economy

The Federal Reserve is moving interest rates further into a restrictive stance of monetary policy to restore price stability



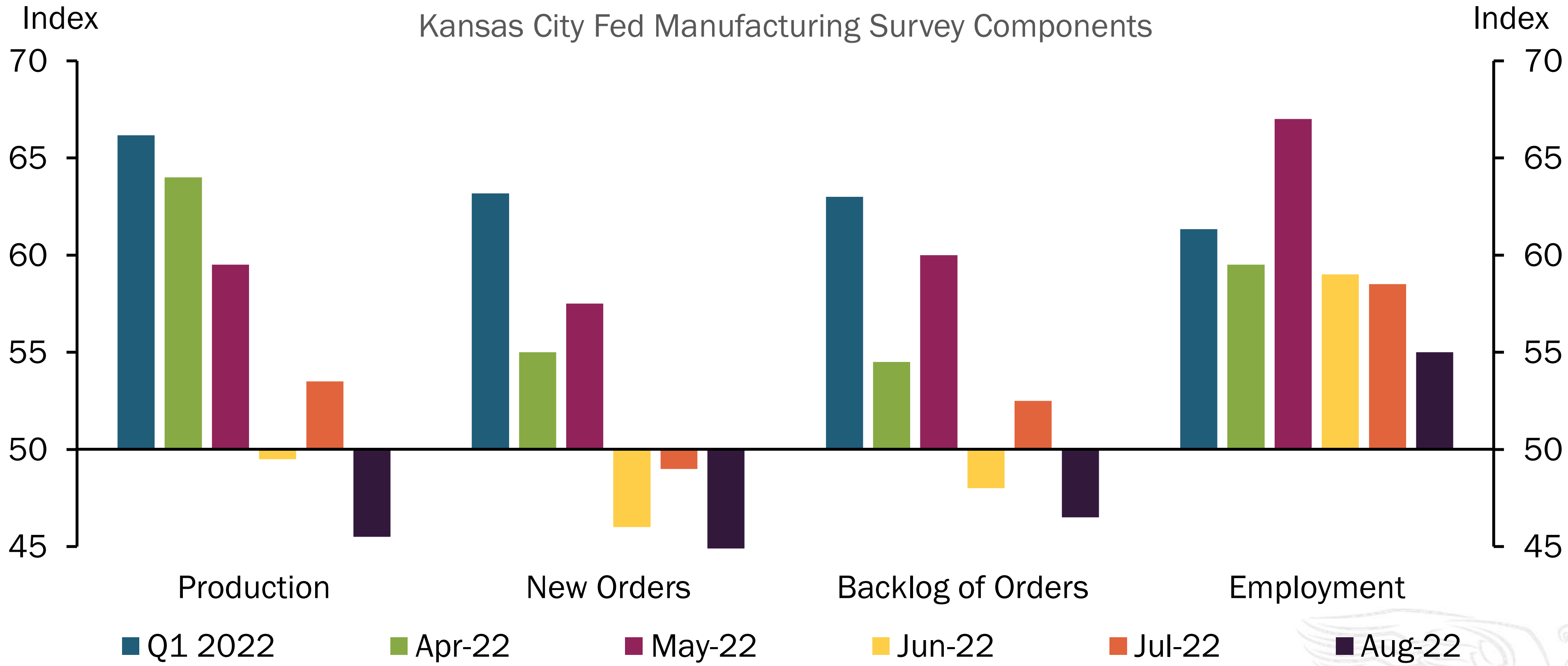
Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics

The Federal Reserve is reducing the size of its balance sheet



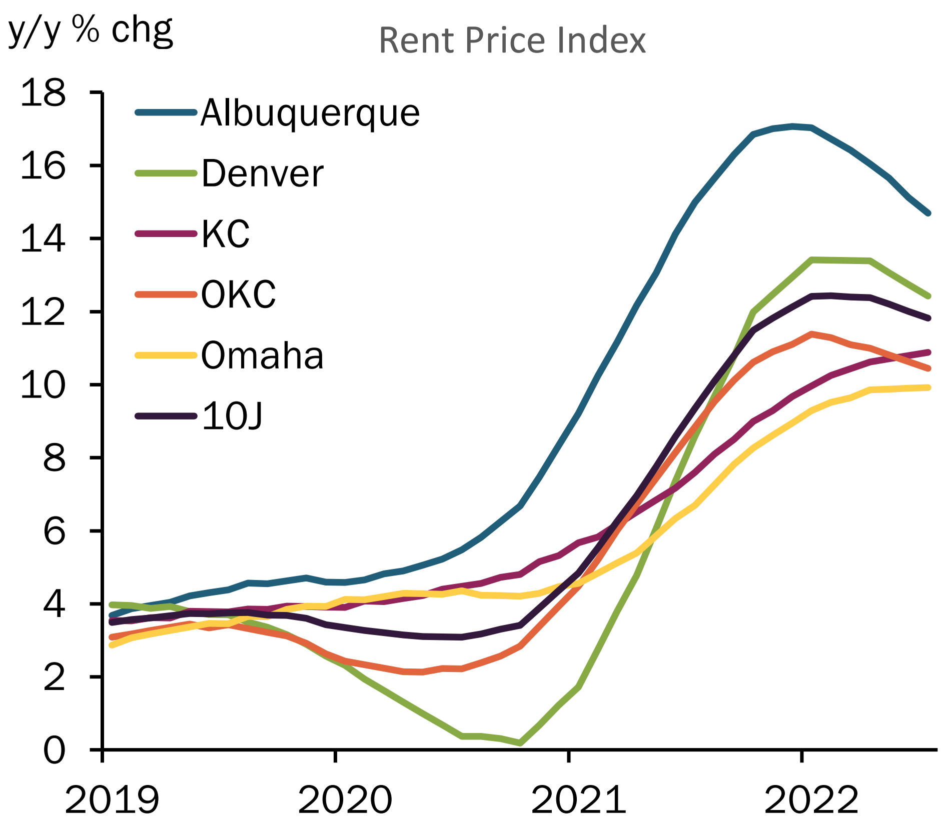
Sources: Federal Reserve Board, Haver Analytics

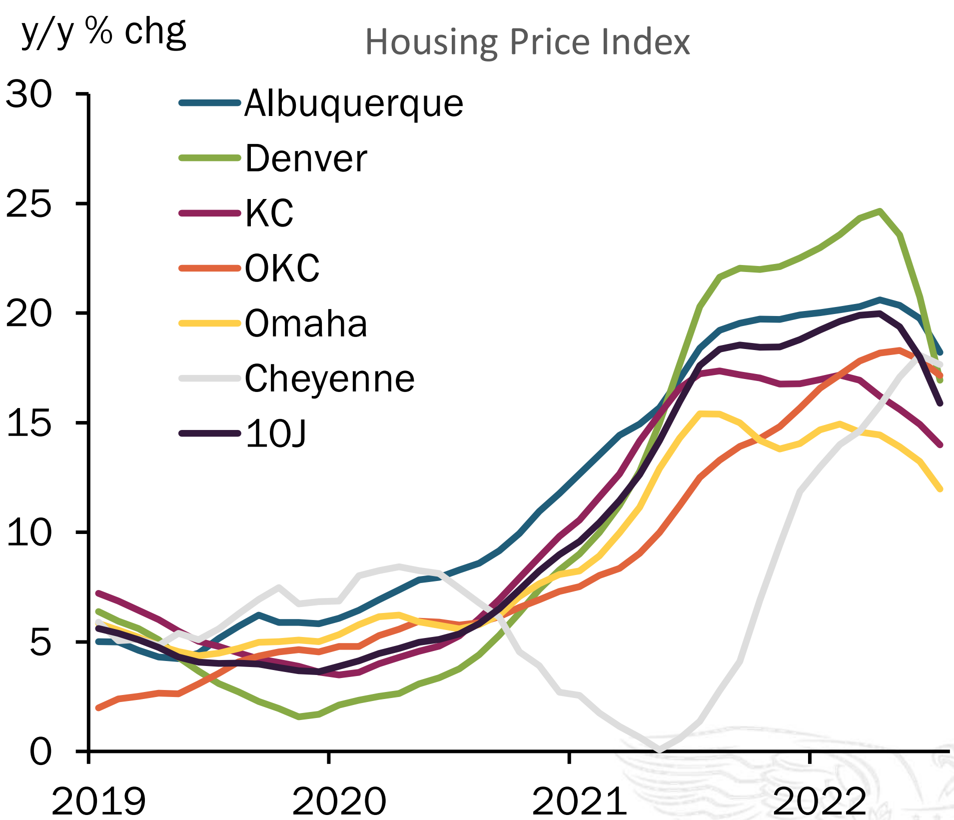
Measures of production across the region point to declining activity, while job growth and labor demand remain healthy



Sources: KC Fed Manufacturing Survey
Note: An index level above 50 indicates the level of activity is increasing.

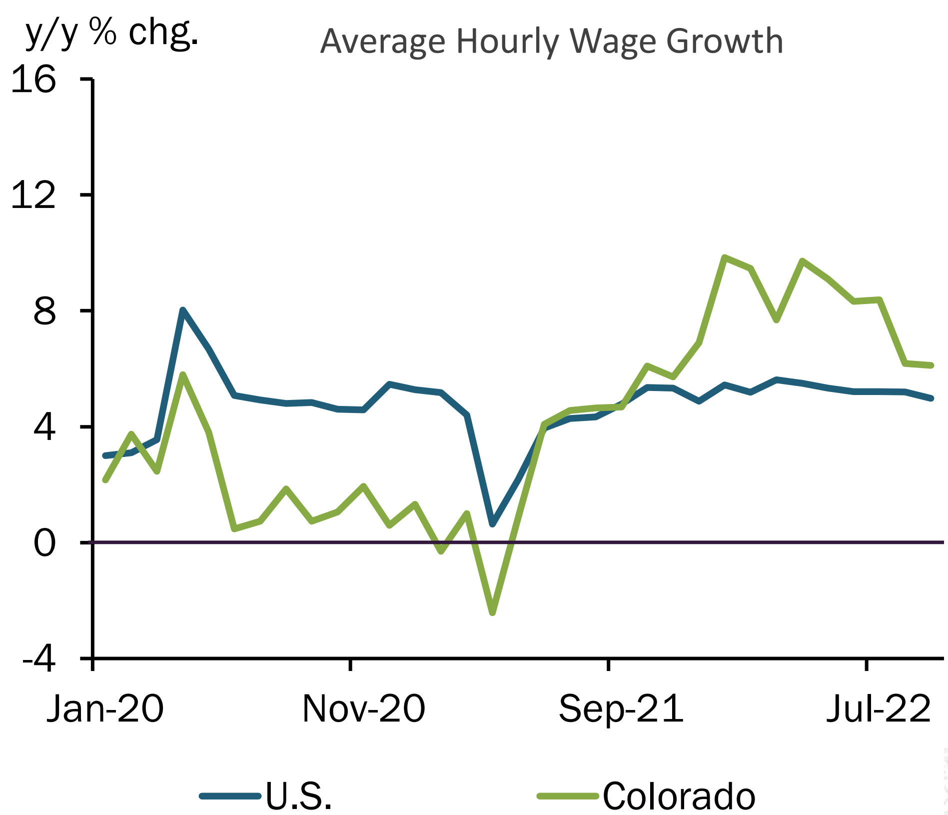
The housing market is cooling as the numbers of existing homes sold and the number of new homes constructed are falling





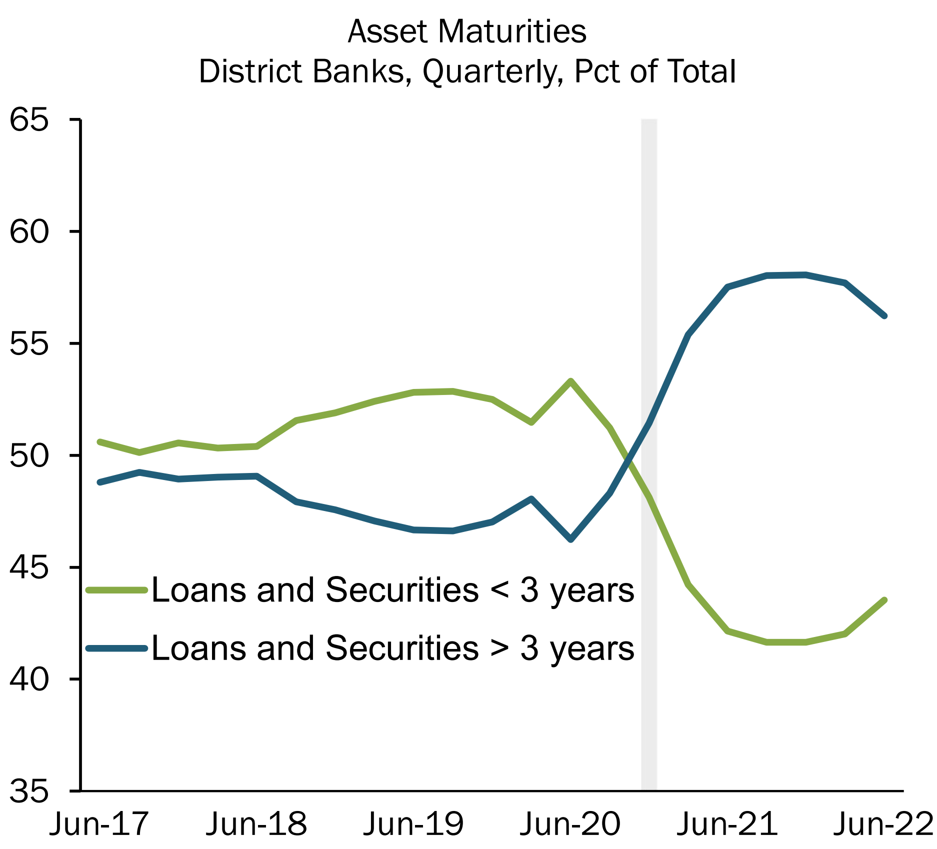
Source: Zillow, Haver Analytics

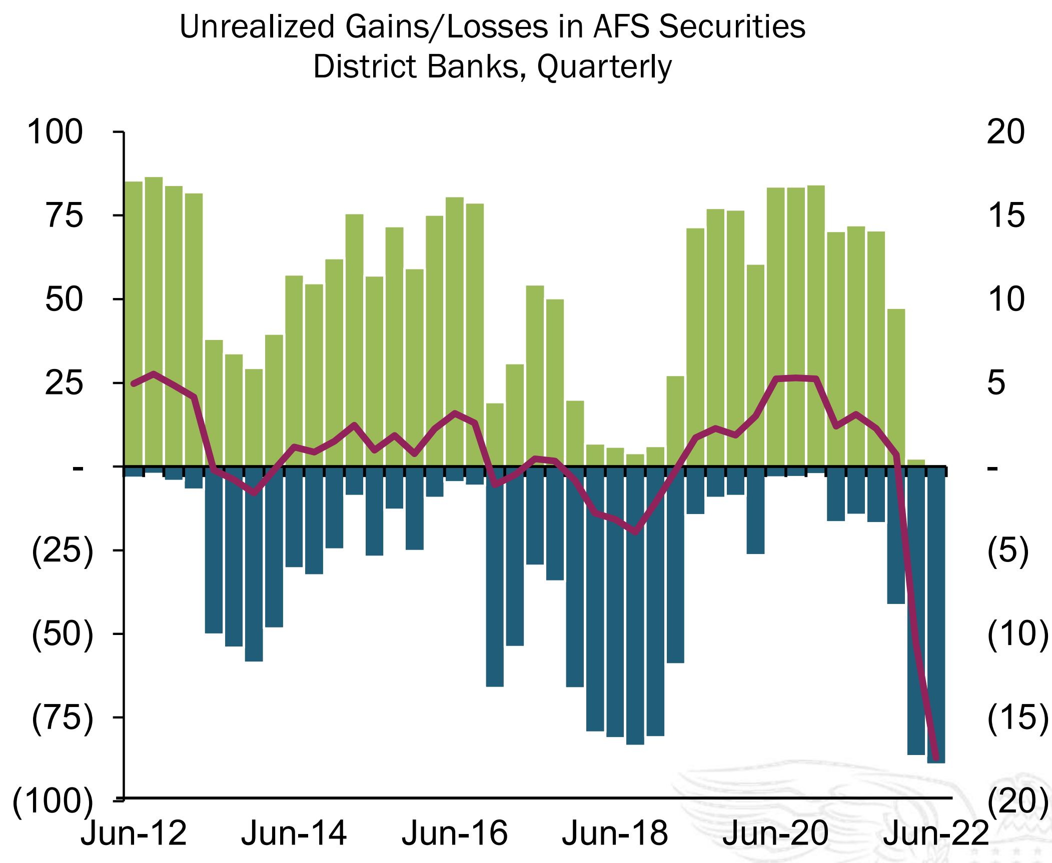
Worker quits rates and job posting rates are starting to soften, but wage growth remains elevated



Source: BLS, Haver Analytics

Prior to tightening of monetary policy, banks had extended the duration of assets on their balance sheets





Sources: Source: Reports of Condition and Income

Looking ahead

- Uncertainty about the near- and medium-term outlooks remains elevated
- Contacts across the region are reporting varied actions to 'right-size' their business. Recently, businesses in some sectors have started to reduce their employment to align with cooling demand
- The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability