FEDERAL RESERVE BANK OF KANSAS CITY

Economic Conditions and Outlook

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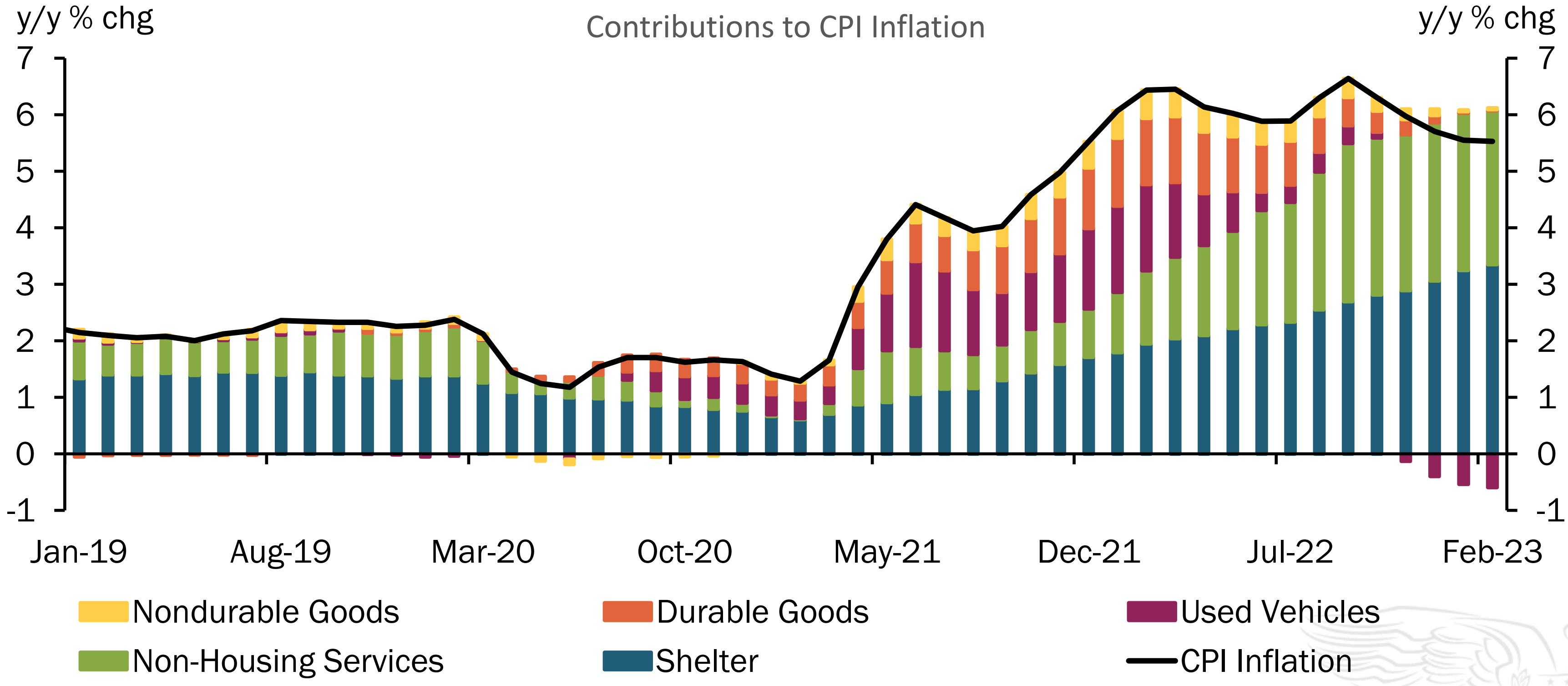
Overview

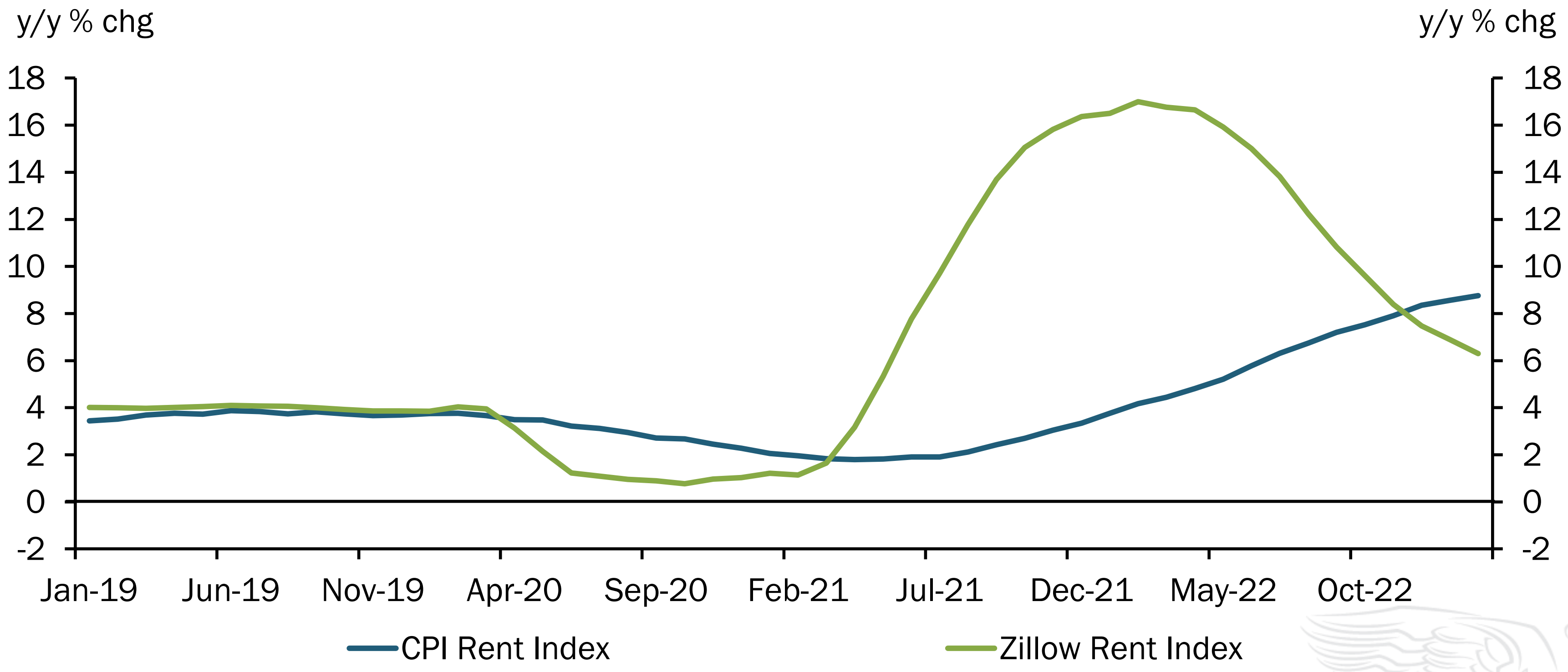
- Inflation pressures continue to rotate toward services that are labor intensive
- Wage pressures remain elevated and labor markets remain tight in several consumer service sectors
- Business investment activities are declining, while consumption growth slowed to trend levels
- Banks expect to further tighten their credit standards over the medium term

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



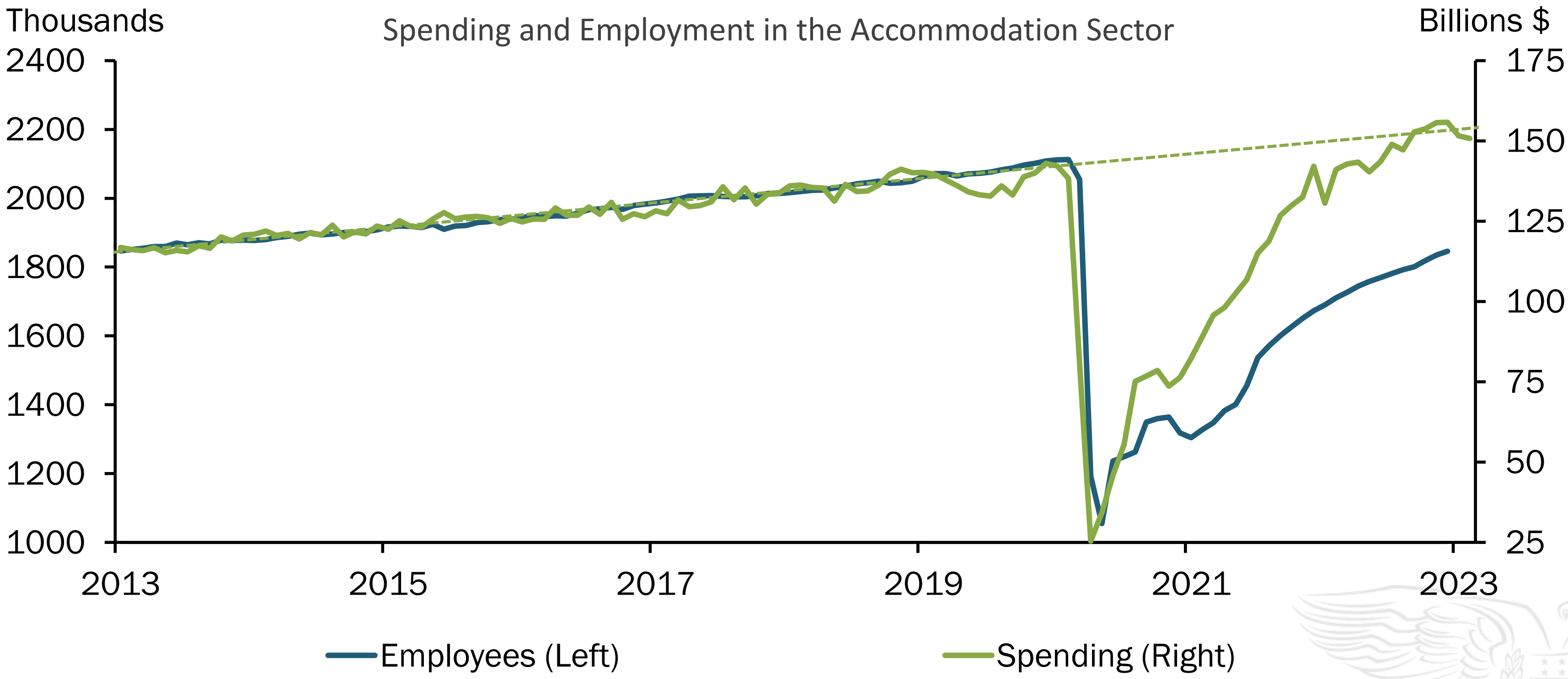
Source: BLS, Haver Analytics

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



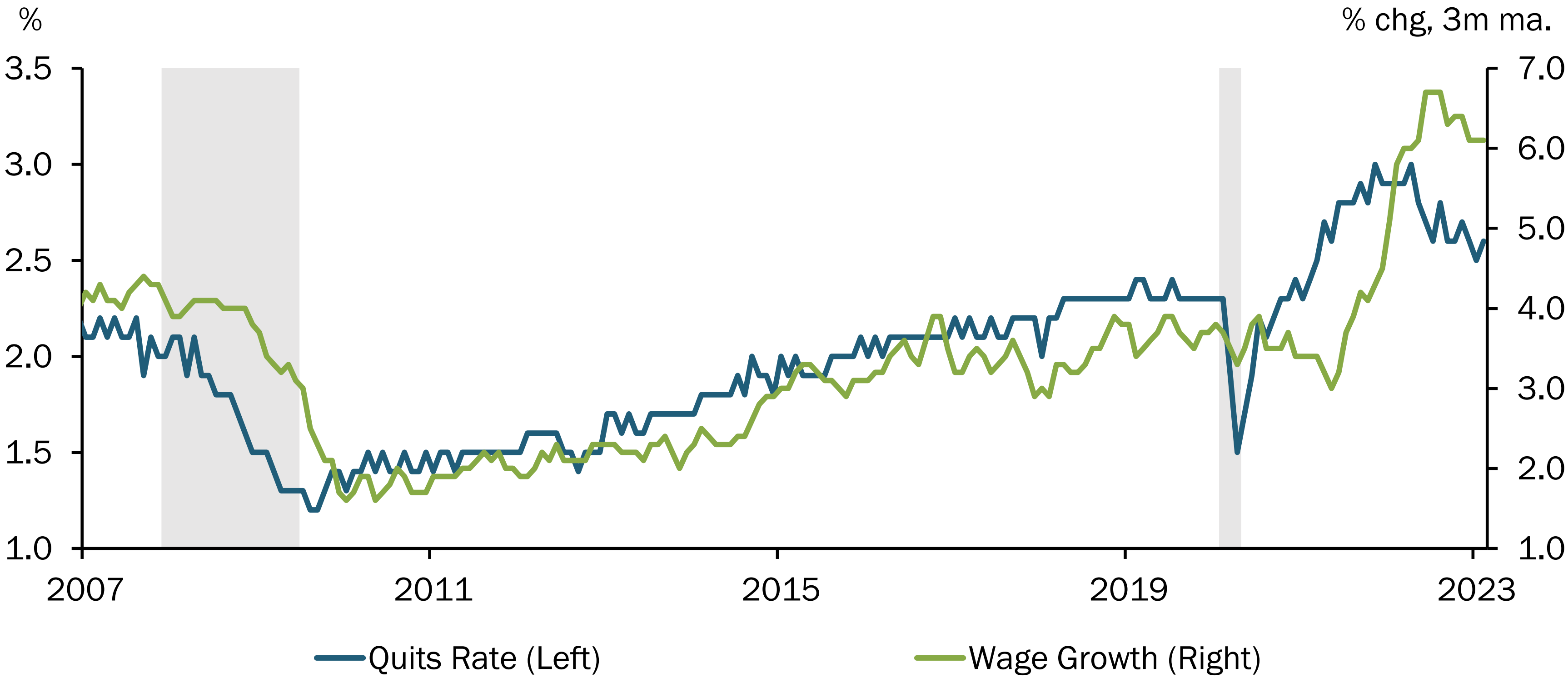
Source: BEA, Zillow, BLS, Staff, Haver Analytics

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



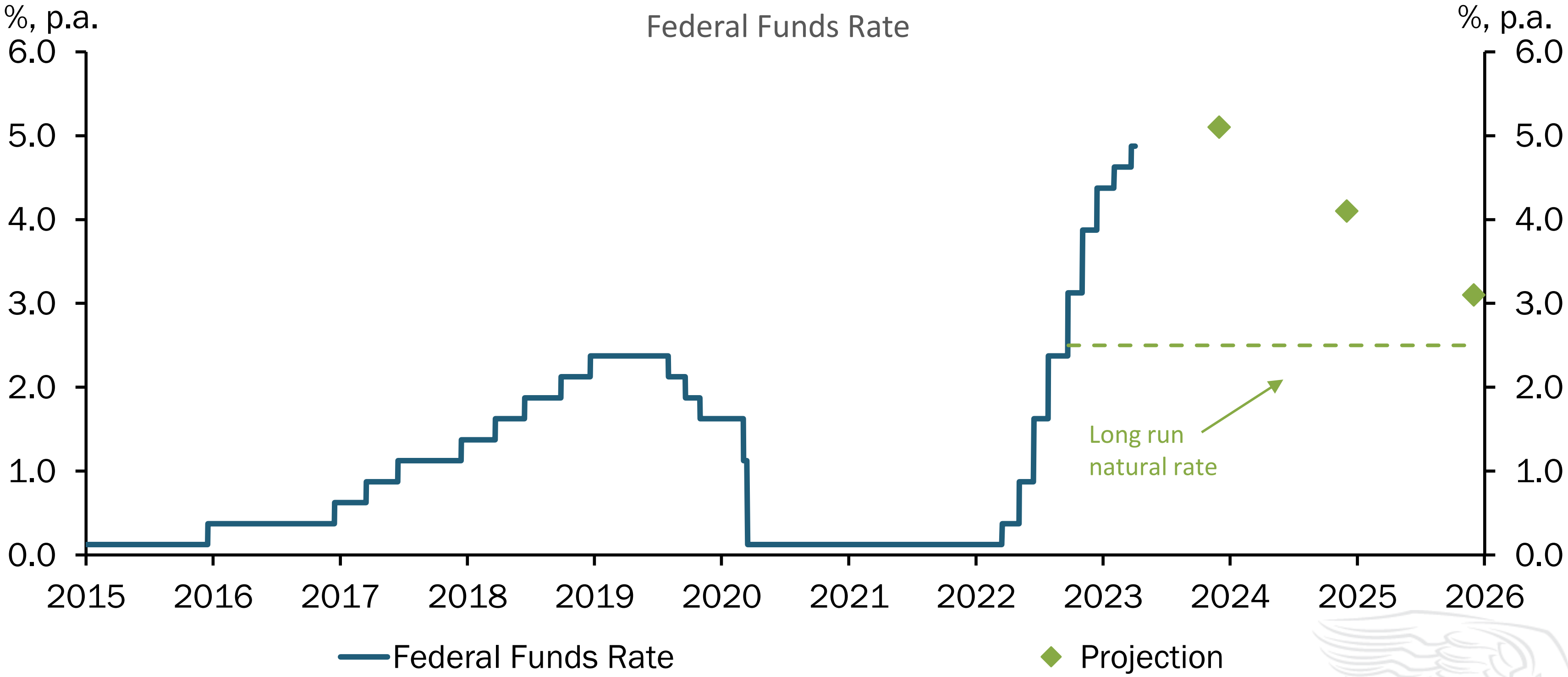
Source: BLS, BEA, Haver Analytics

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



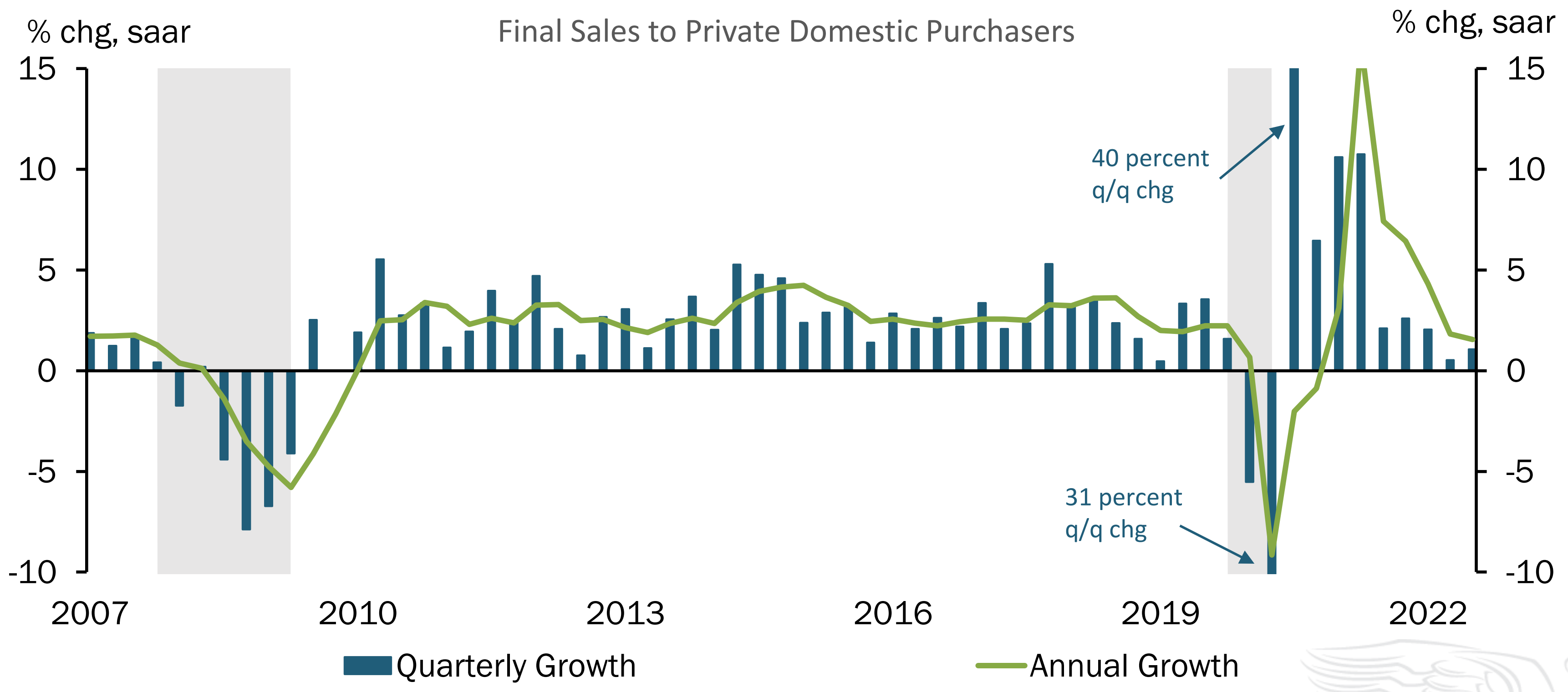
Source: Atlanta Wage Growth Tracker, BLS, Haver Analytics
Note: Grey bars indicate recession shading

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



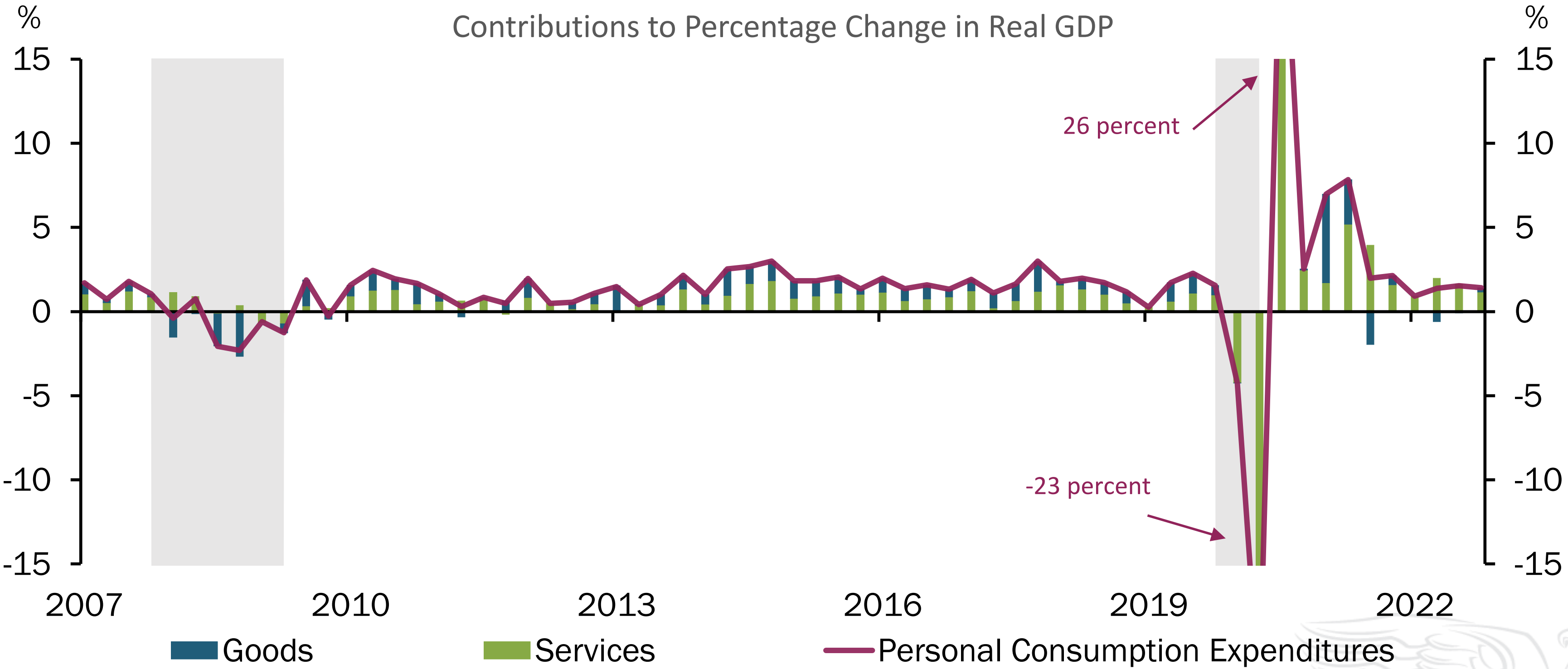
Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics

Overall economic activity is likely to slow this year



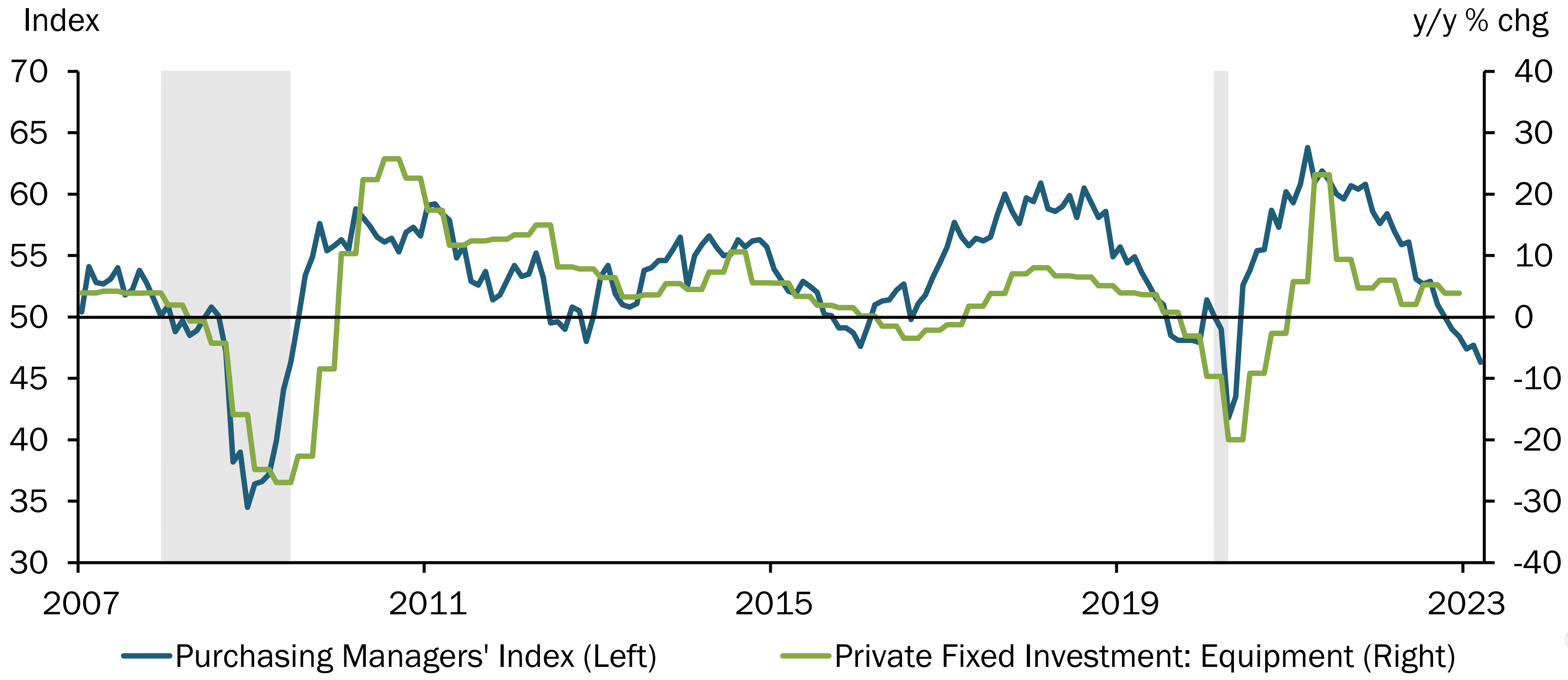
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Consumer spending growth slowed in recently months, reverting to its trend level of contribution to overall growth



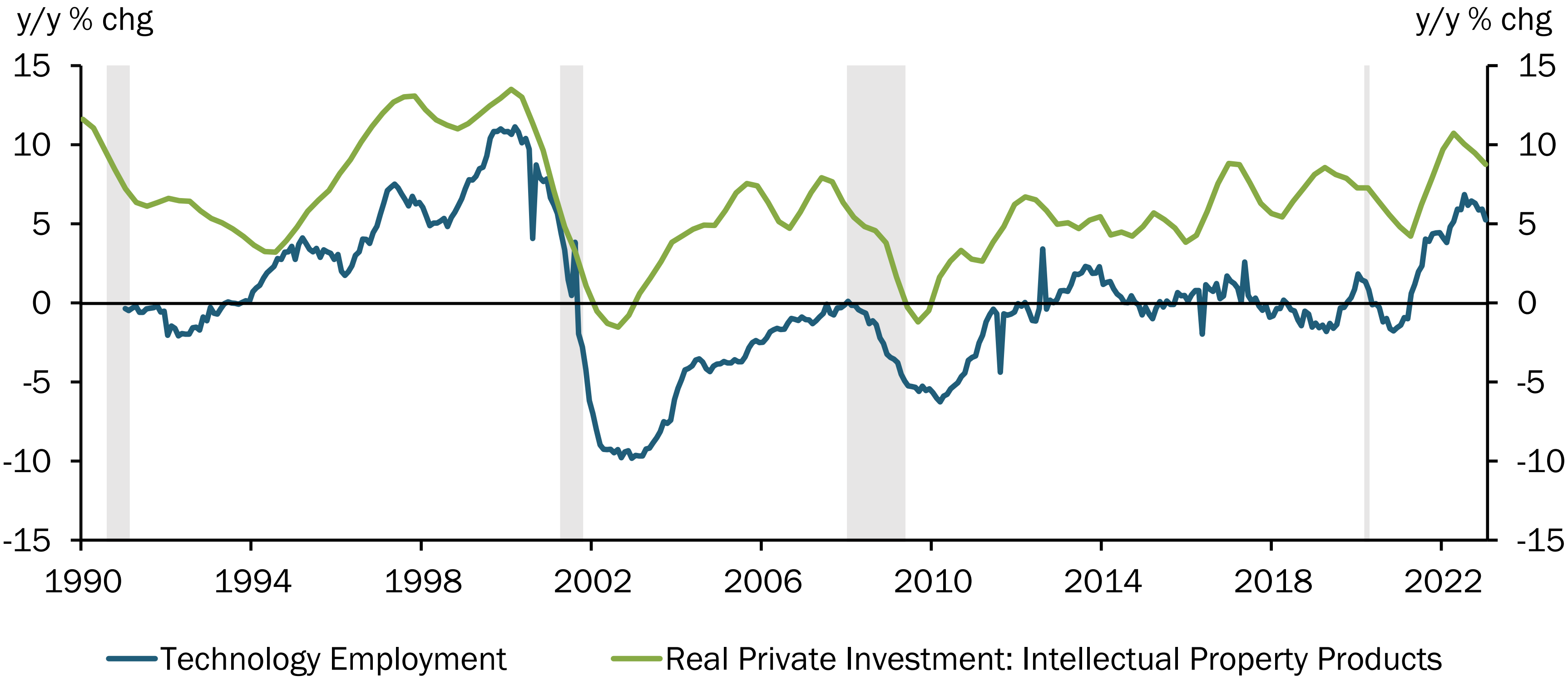
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Businesses' purchases of materials, equipment and other capex spending are slowing



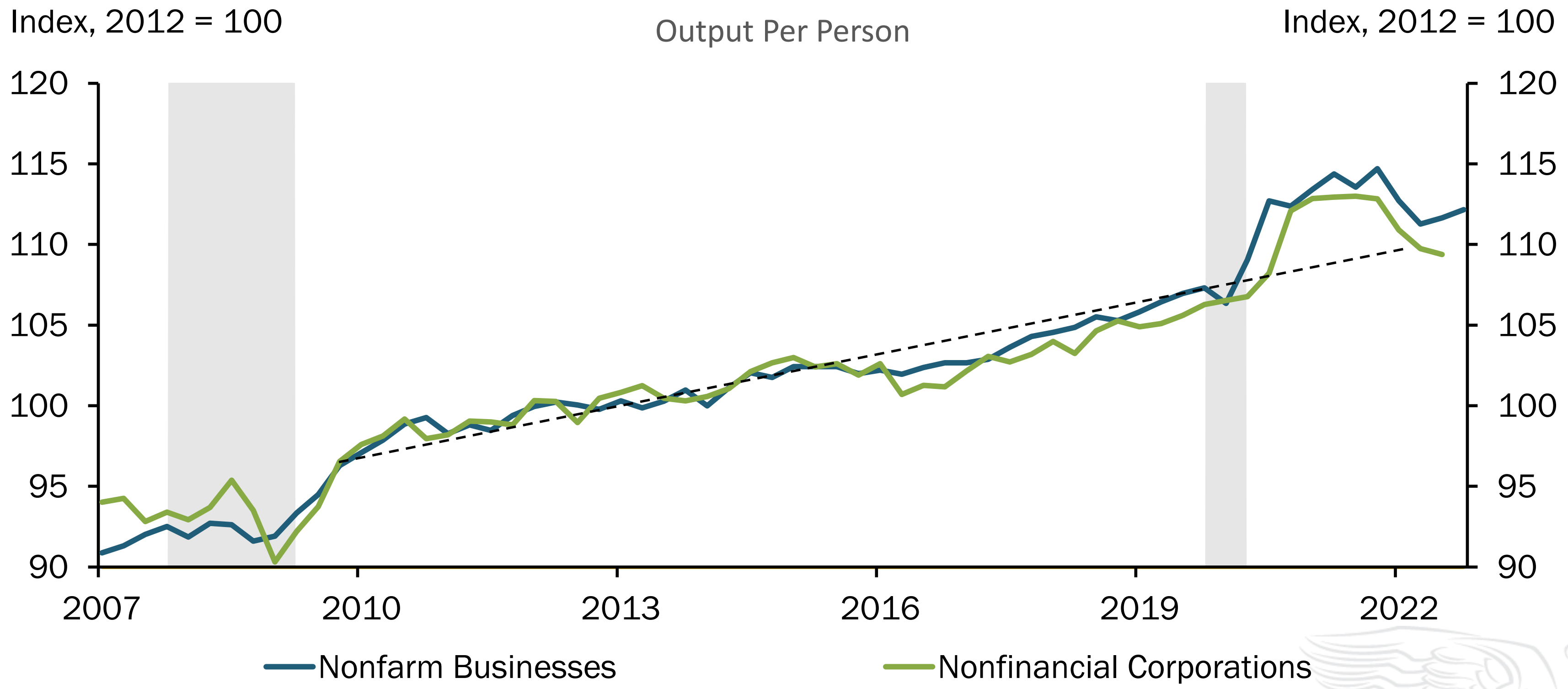
Sources: ISM, BEA, Haver Analytics

Slowing employment growth in technology occupations likely indicates that investment in intellectual property is also poised to slow



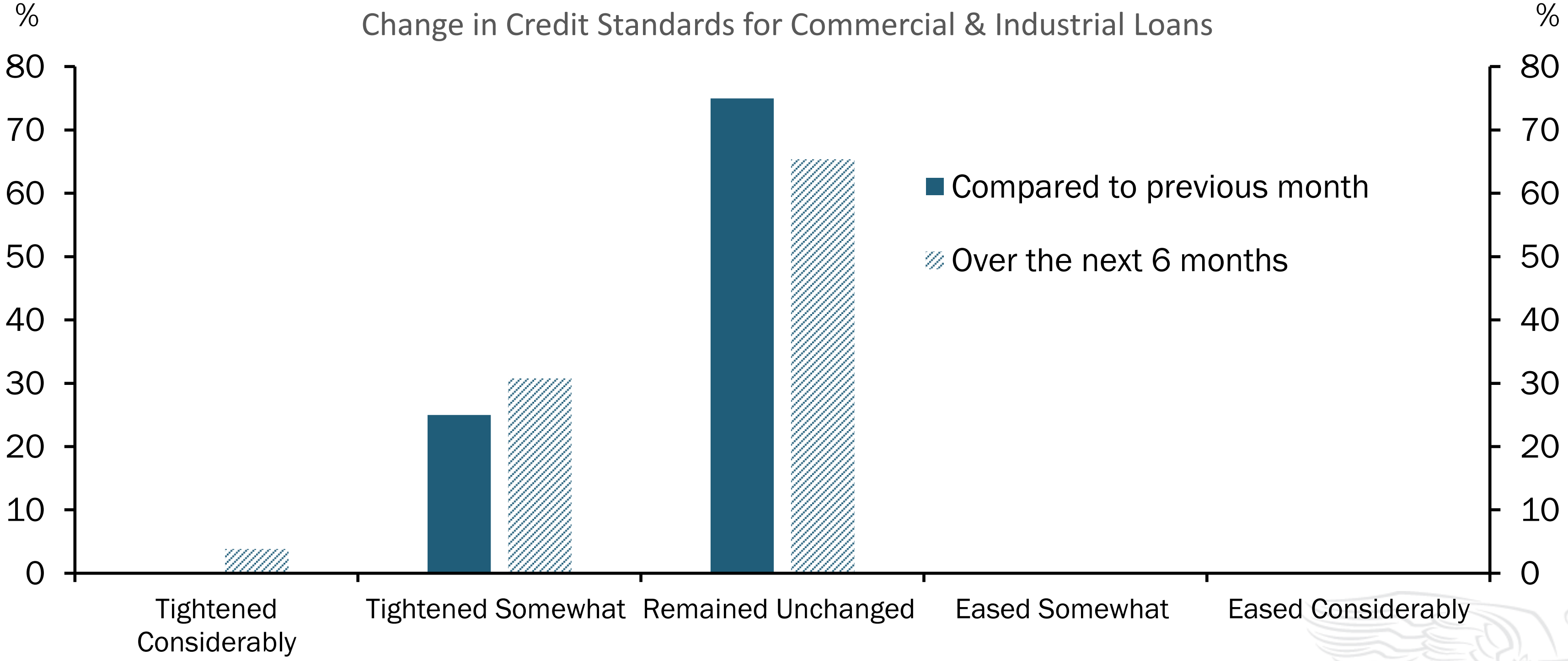
Sources: BLS, BEA, Haver Analytics

Declining worker productivity has been a headwind to growth recently, but may be normalizing to trend levels



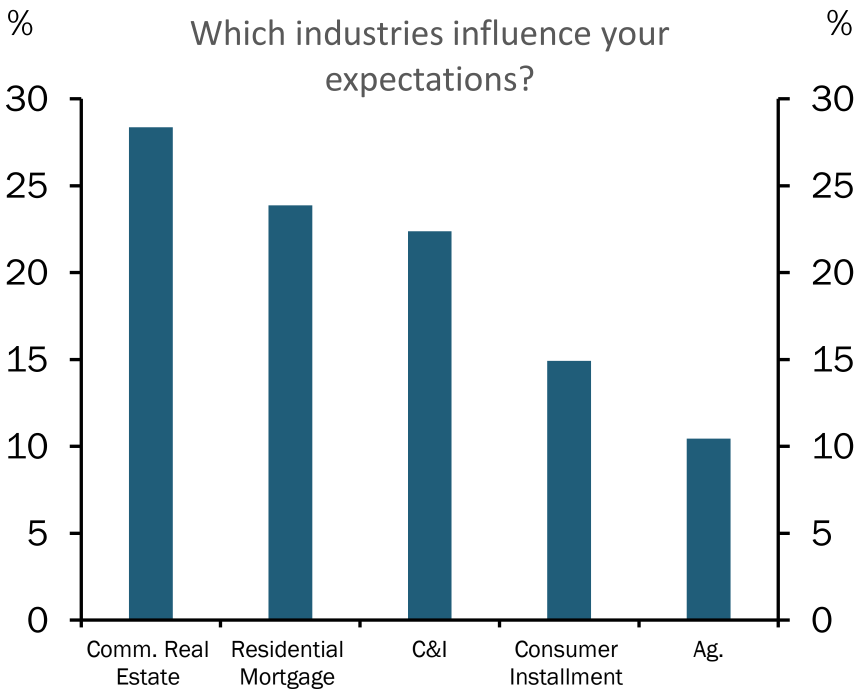
Source: BLS, Haver Analytics

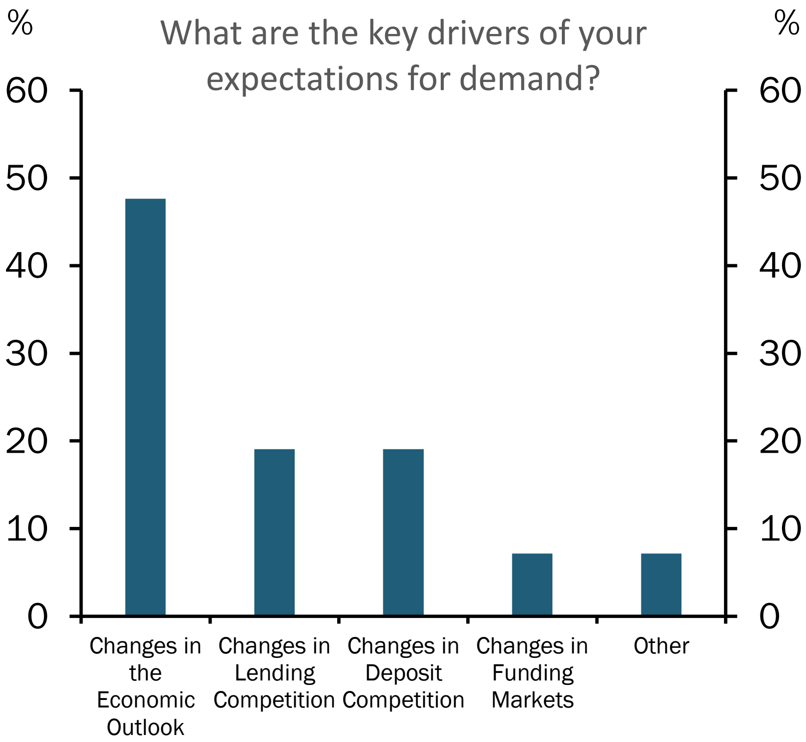
An increased share of banks expect to further tighten their credit standards over the next six months



Source: FRBKC

Banks in the region are reportedly tightening conditions most in real estate because of shifts in the economic outlook





Source: FRBKC

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
- Tighter financial conditions are resulting in slower demand growth and, as a result, declining business investment activity
- The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability
- Recent financial volatility and associated uncertainty are substantial downside risks to the outlook

https://www.KansasCityFed.org/Speeches