

Economic Conditions and Outlook

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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

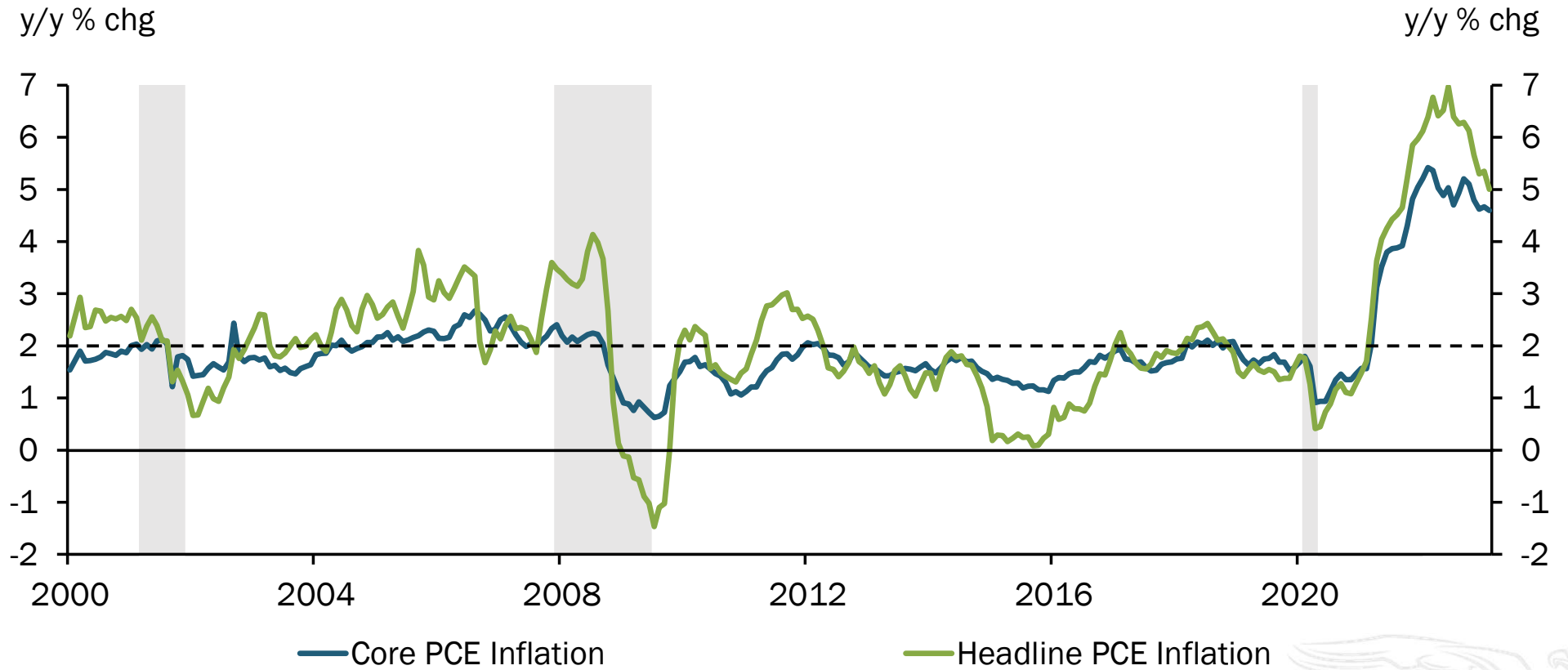


Overview

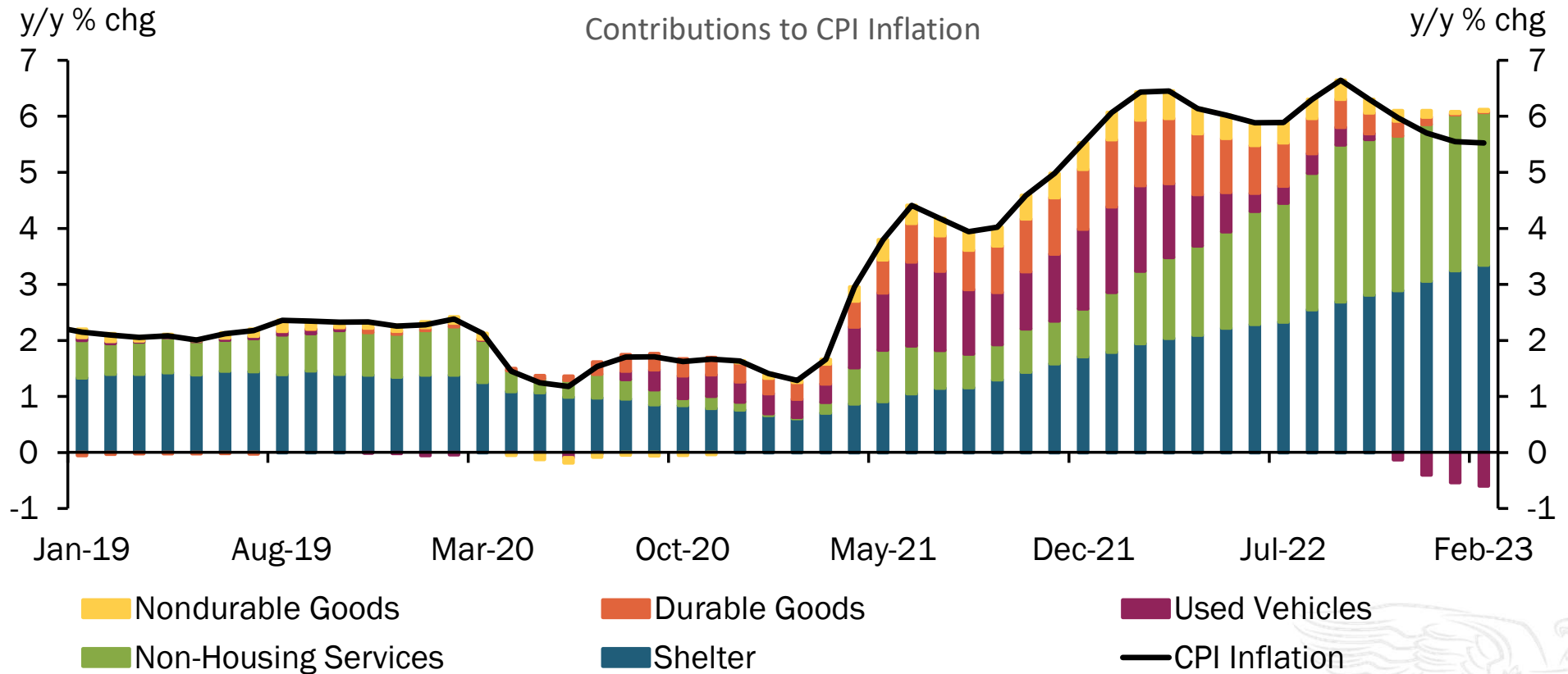
- Inflation pressures continue to rotate toward services that are labor intensive
- Wage pressures remain elevated and labor markets remain tight in several consumer service sectors
- Business investment activities are declining, while consumption growth slowed to trend levels
- Banks expect to further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



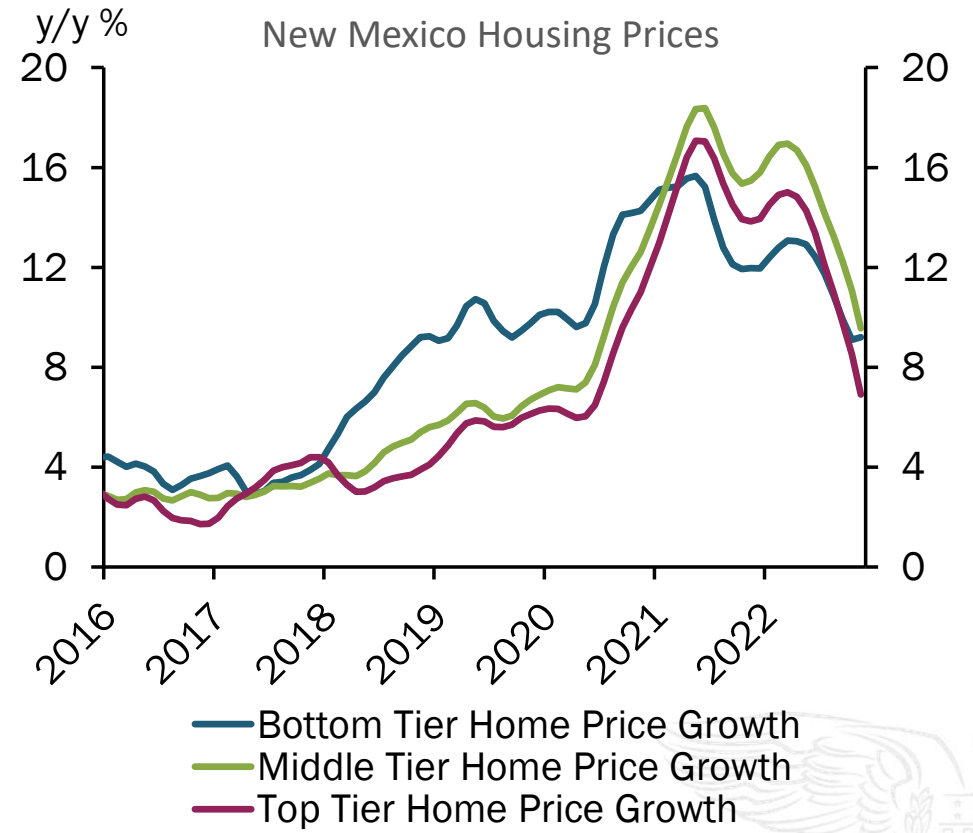
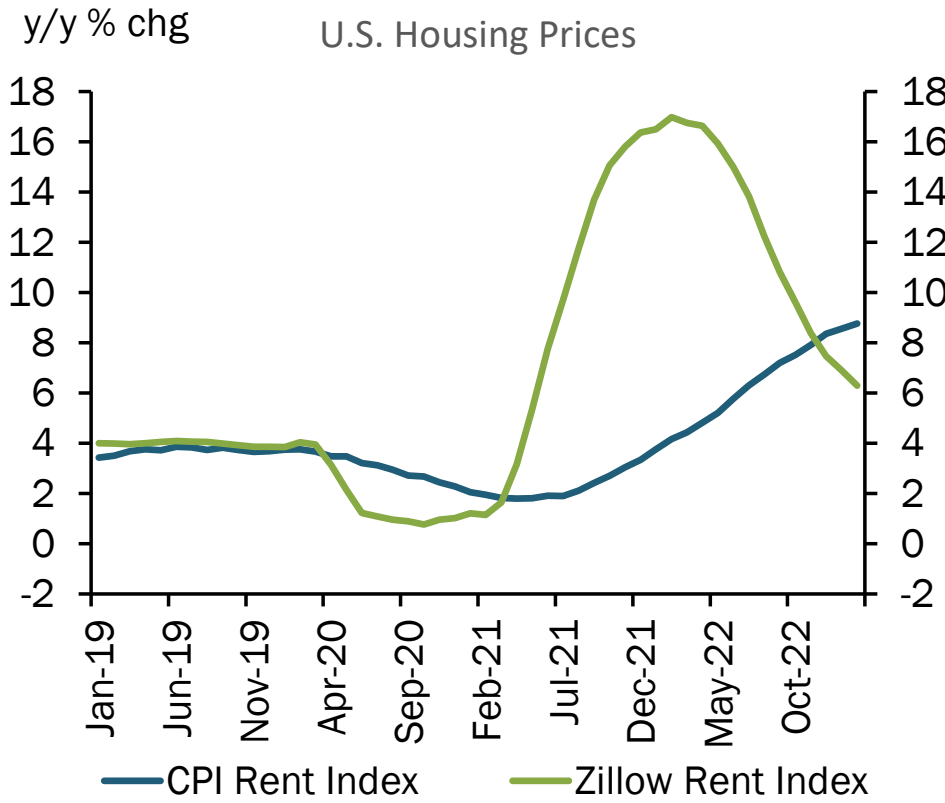
Inflation remains elevated



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



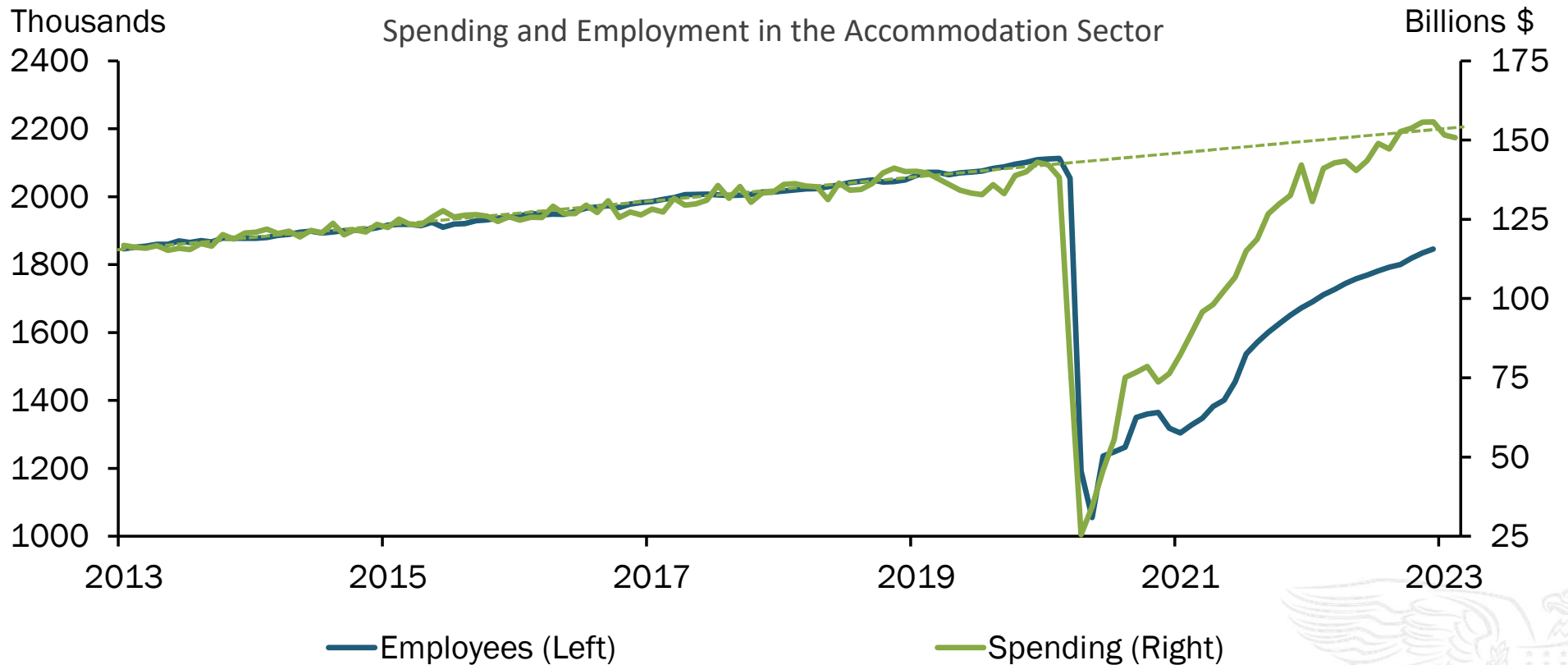
Rent inflation for new leases has slowed, but lags in the reset of existing leases imply some further momentum in housing price pressures



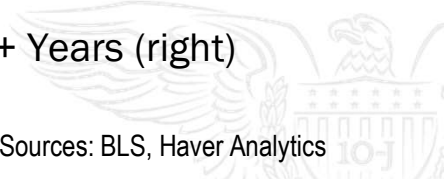
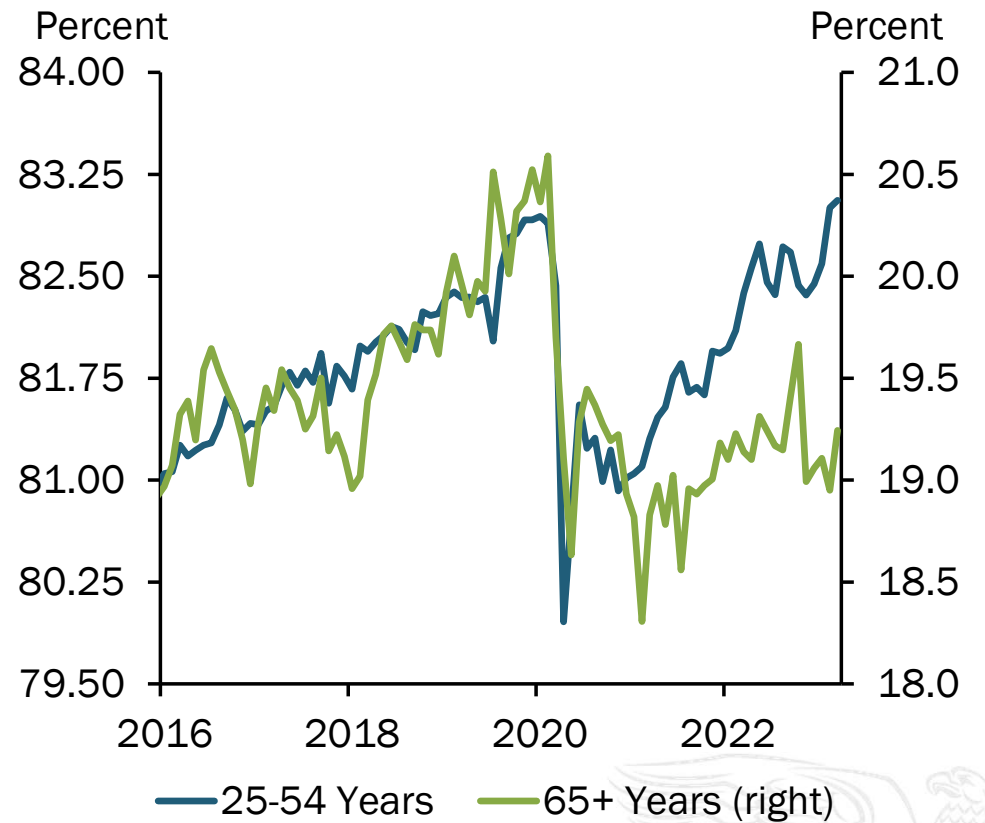
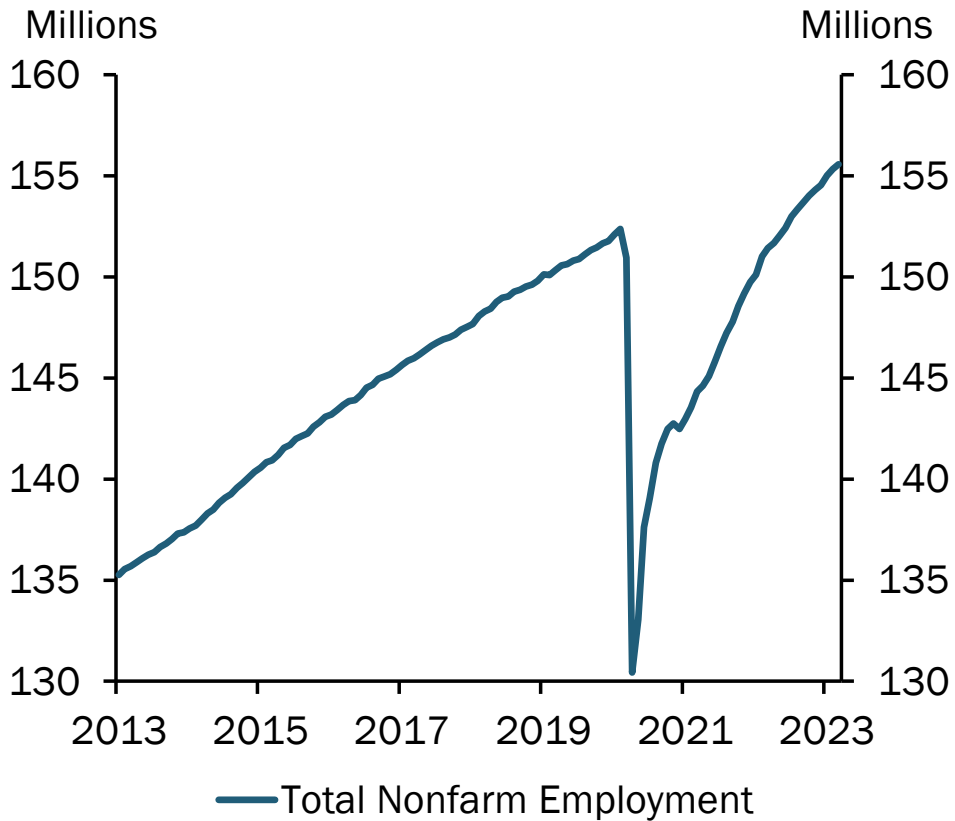
Source: BEA, Zillow, BLS, Staff, Haver Analytics



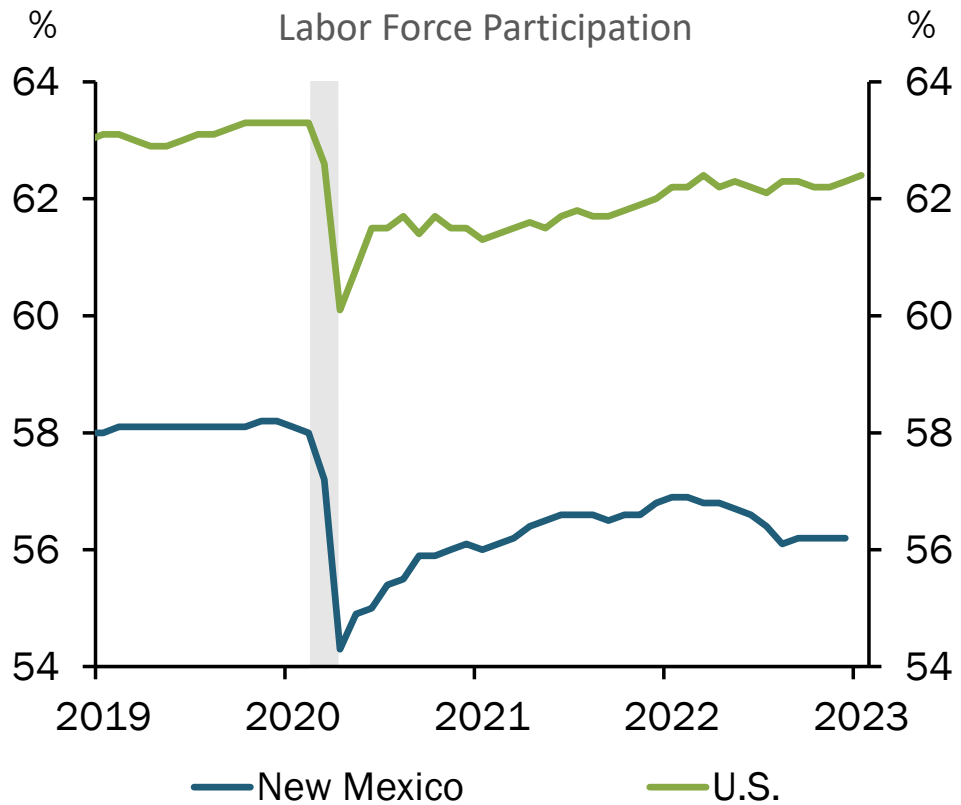
Demand imbalances in the accommodation sector are placing persistent pressure on prices for these non-housing services



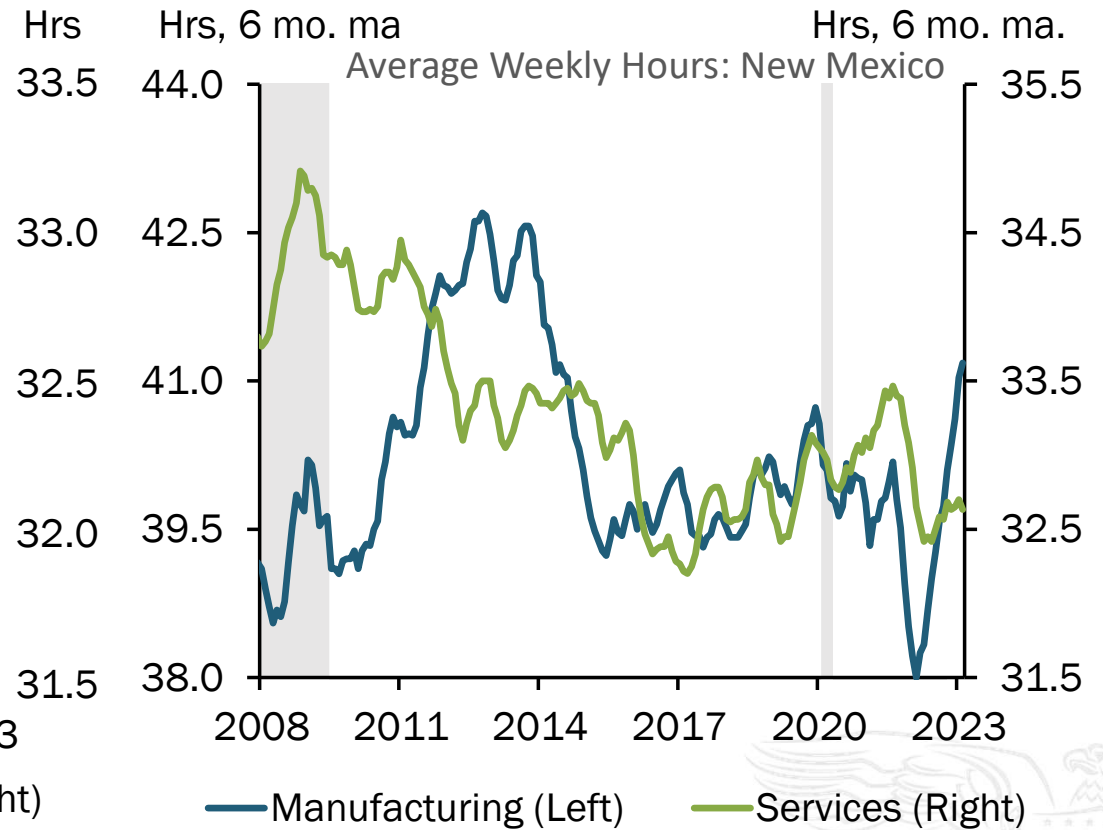
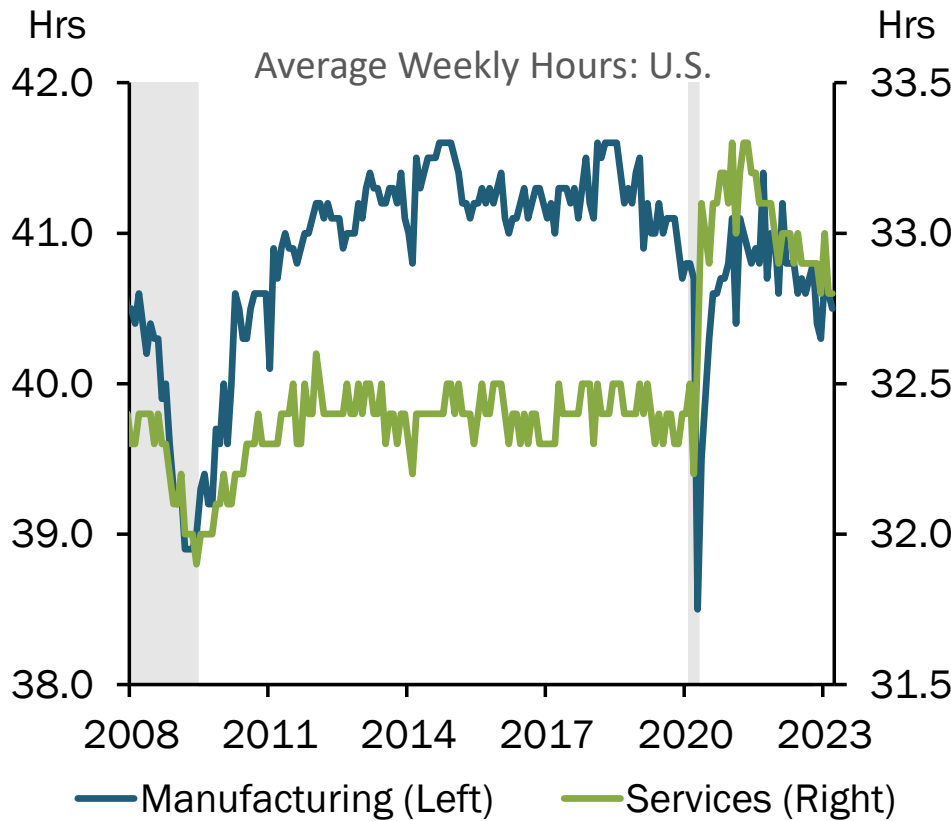
Across the U.S., labor market tightness more about demand than supply



In New Mexico, unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth

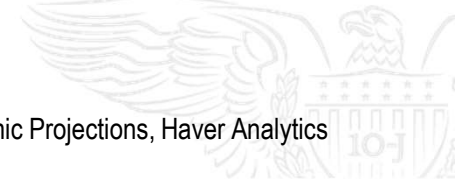
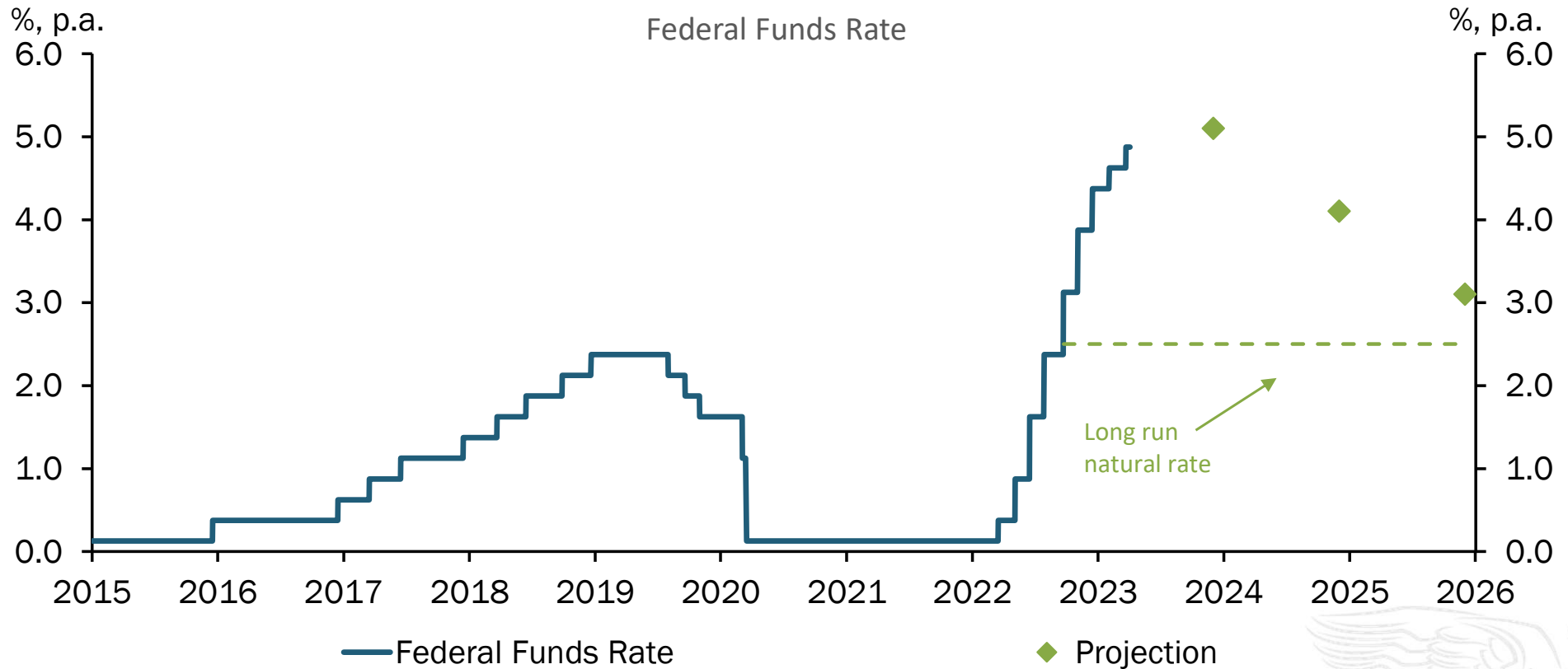


Also, hours worked in service sectors rose across the nation during the pandemic, but much less so in New Mexico

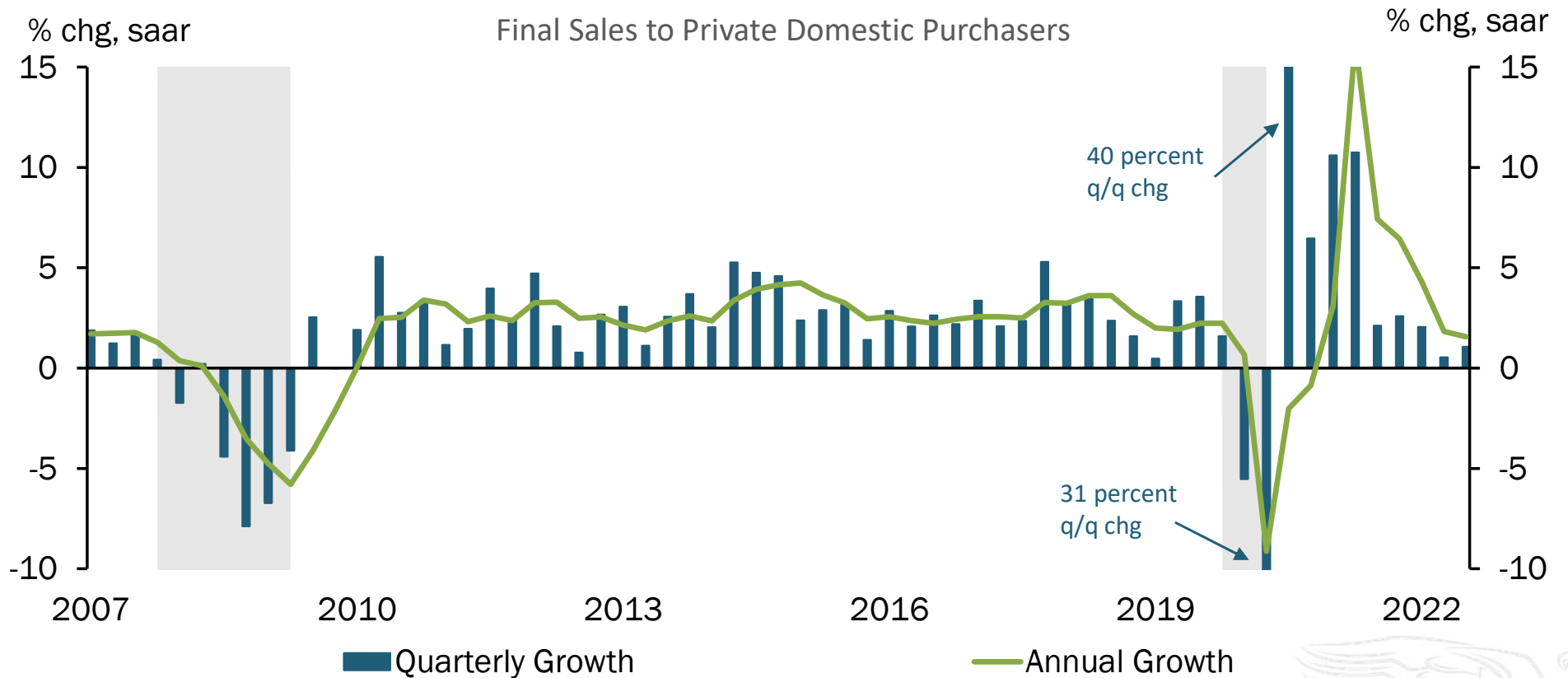


Source: BLS, NBER, Haver Analytics
 Note: Grey bars indicate recession shading

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

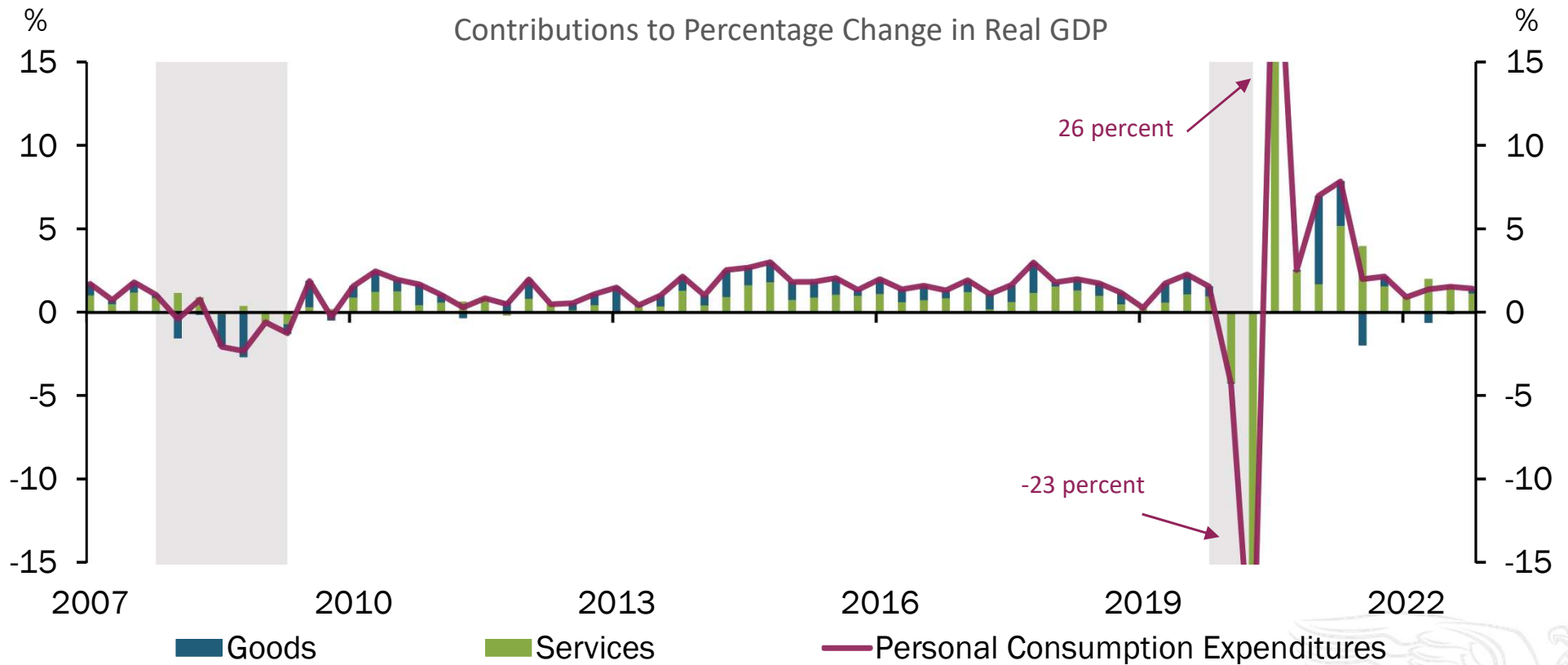


Overall economic activity is likely to slow this year

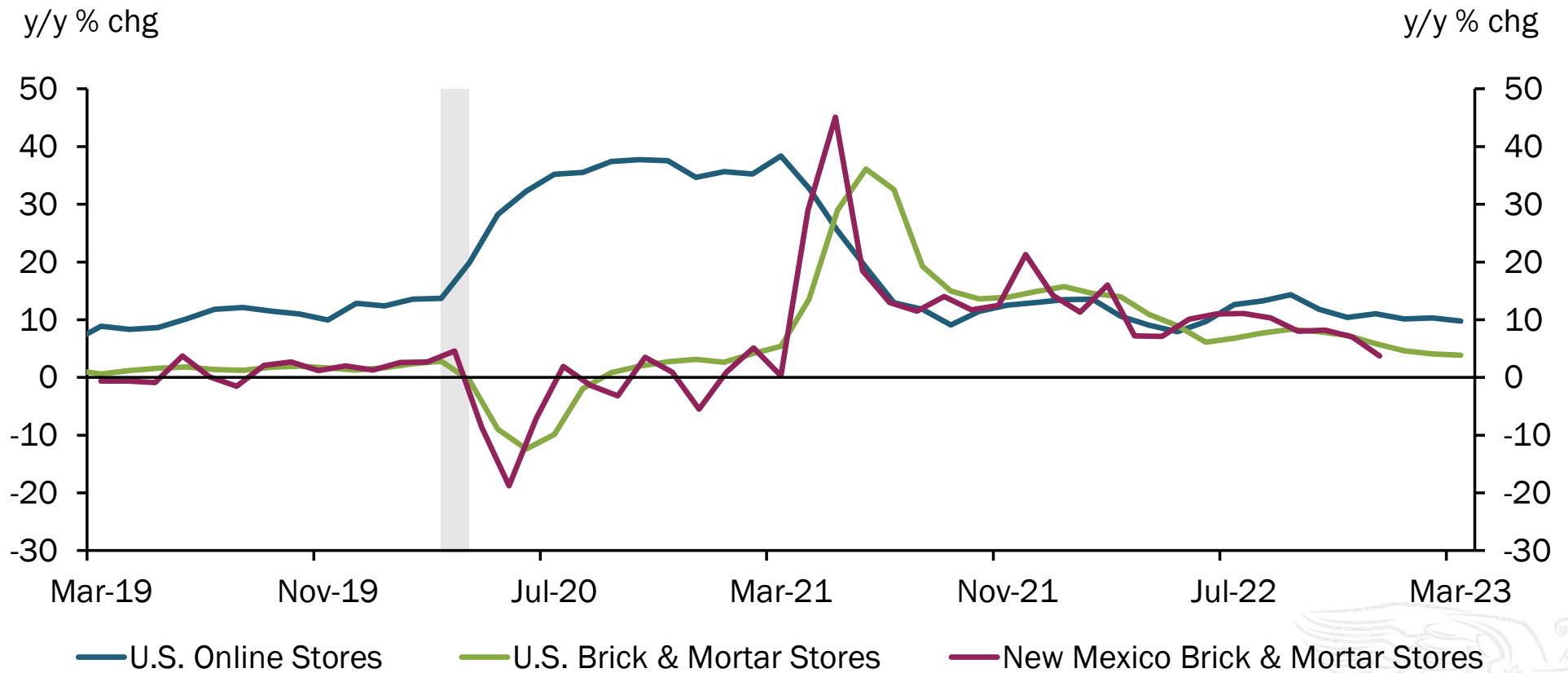


Source: BEA, Haver Analytics
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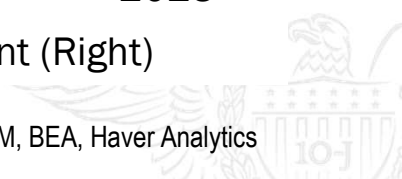
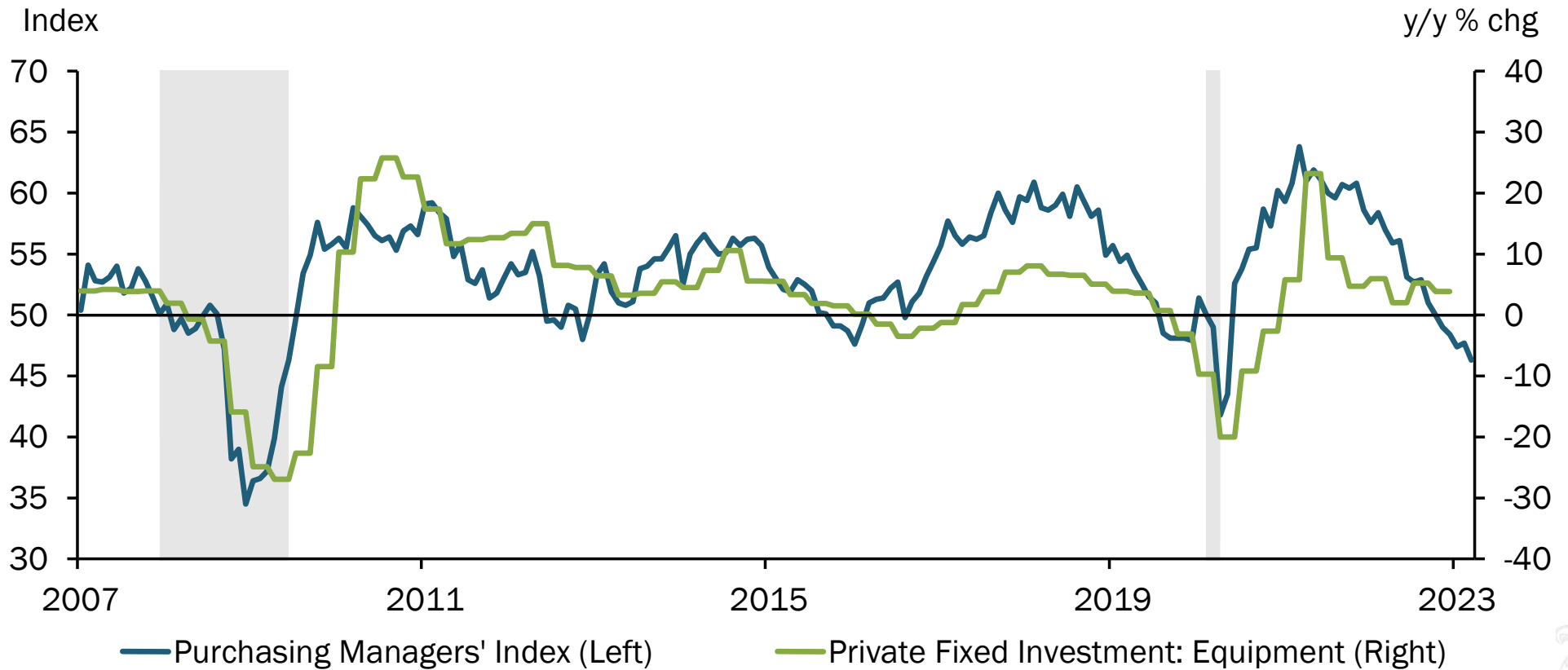
Consumer spending growth slowed in recent months, reverting to its trend level of contribution to overall growth



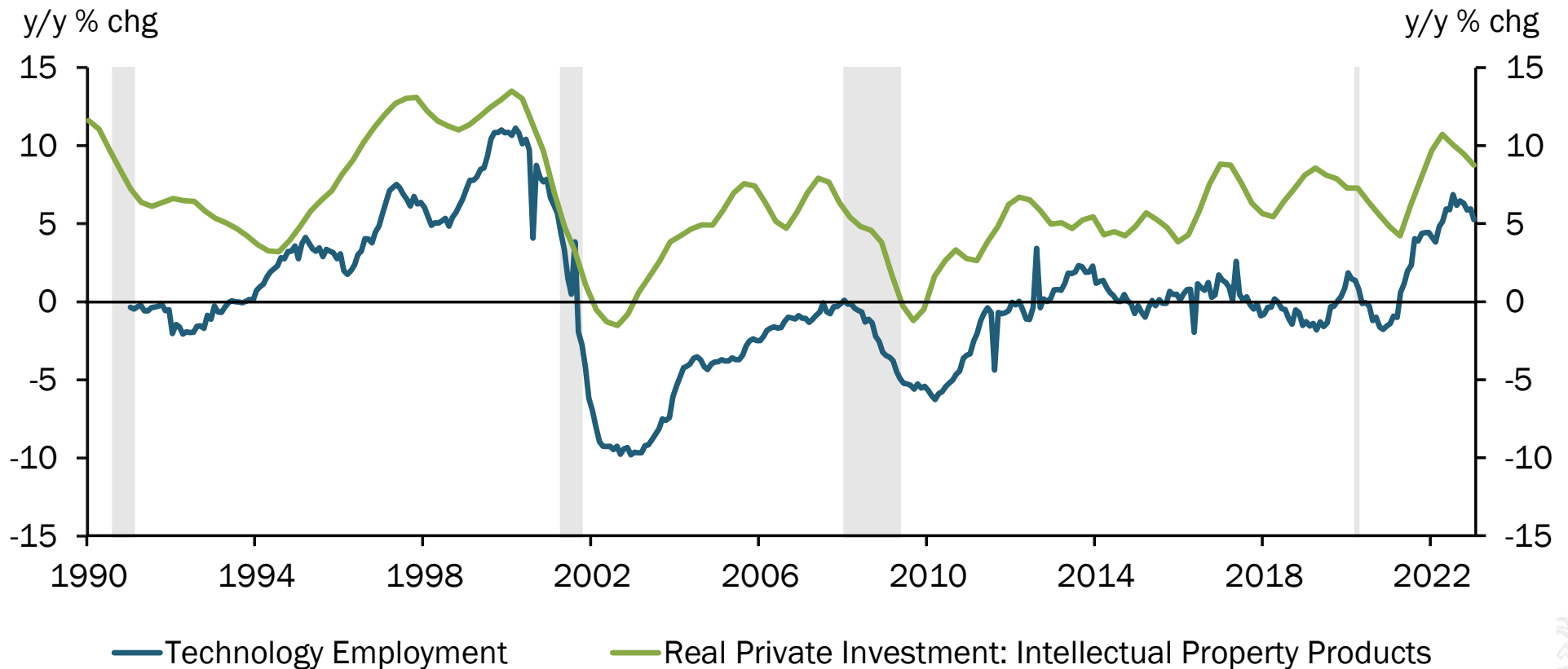
Consumer spending is returning to something akin to a new trend growth level, rebalanced between online and in-store locations



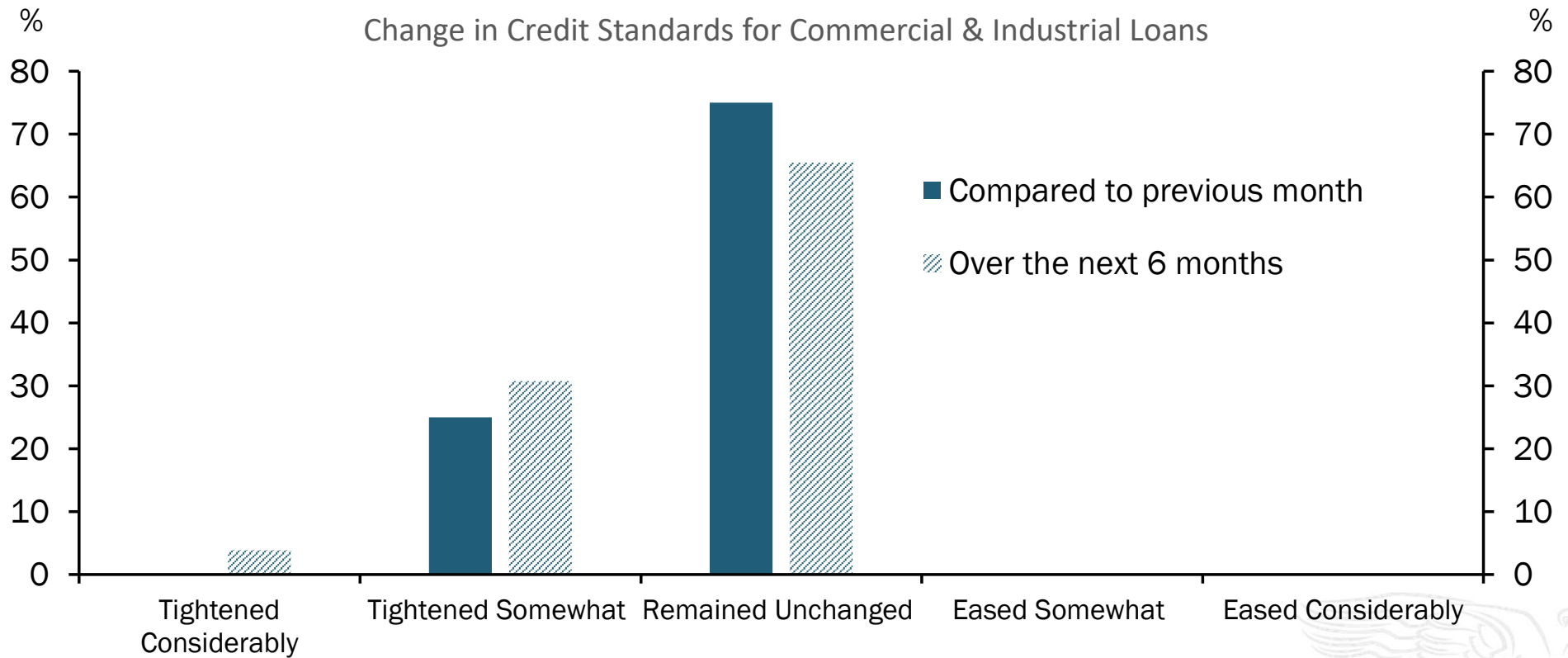
Businesses' purchases of materials, equipment and other capex spending are slowing



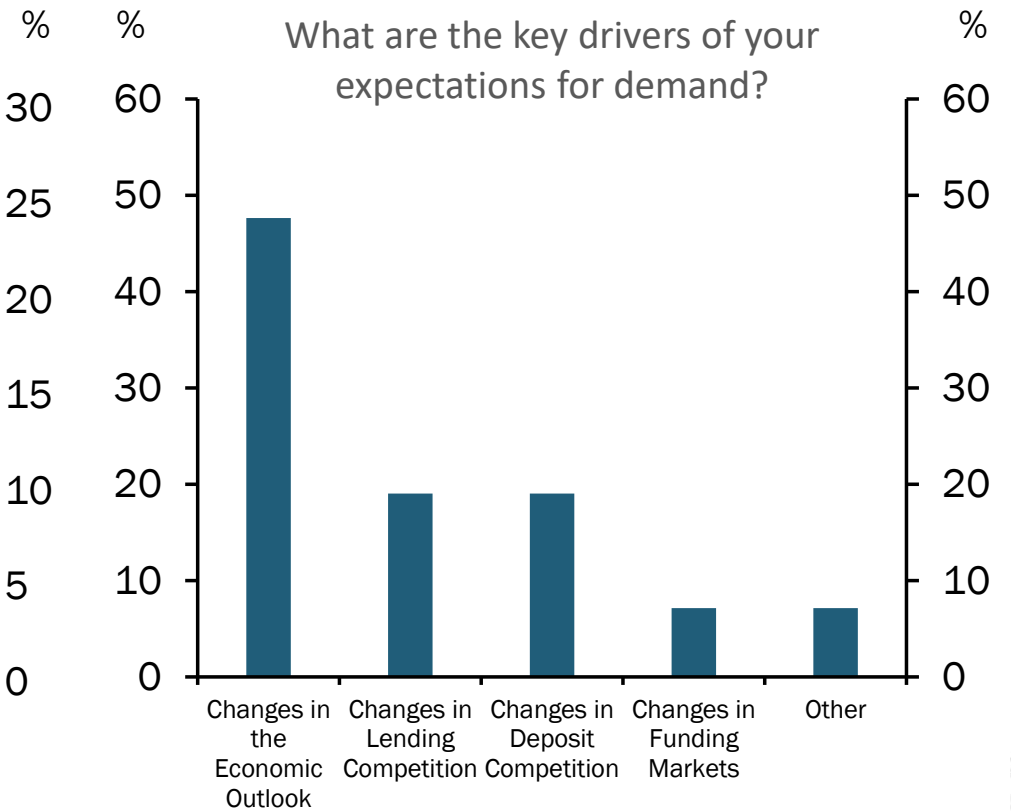
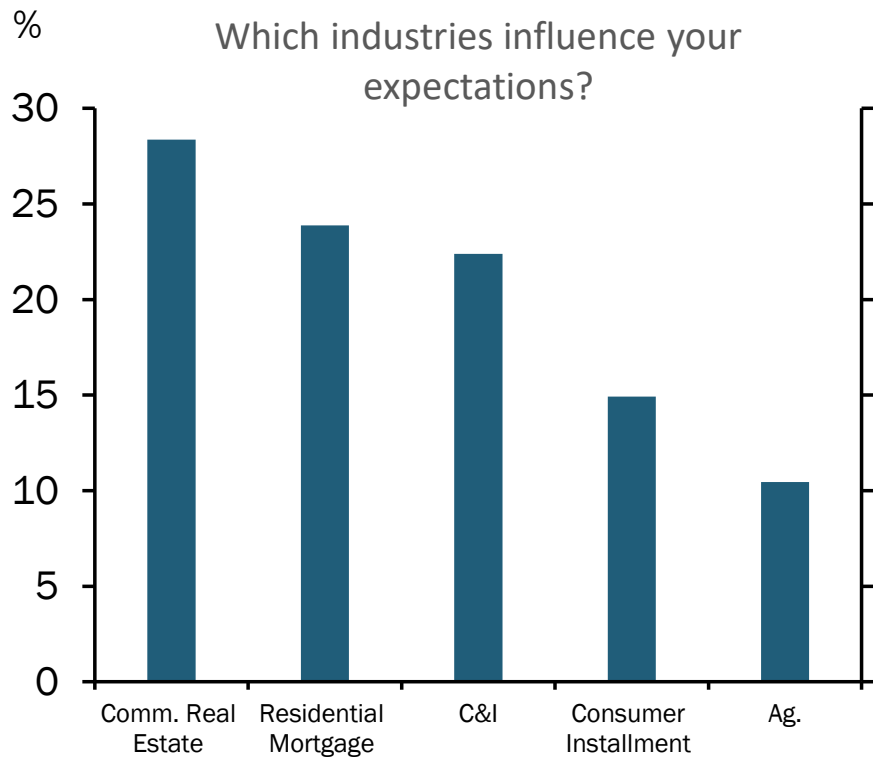
Slowing employment growth in technology occupations likely indicates that investment in intellectual property is also poised to slow



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



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



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



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