Consumer spending and business investment are fueling elevated growth for the U.S. economy

Contributions to Percentage Change in Real GDP
The pace of job gains remains above trend, and unemployment is low

Source: BLS, Haver Analytics
The number of people working part-time because they cannot find full-time work remains subdued.
Wage growth slowed significantly over the past year but remains somewhat elevated, consistent with higher worker productivity.
States with higher levels of immigration saw wage growth decelerate faster, but other factors drove wage growth where immigration was low.
The use of home equity lines of credit has grown for the last two years.
Although inflation pressures have lessened, they still show signs of being elevated persistently above the Fed’s 2 percent target.
Businesses report that they are raising prices somewhat more frequently compared to last year, but expectations remain well-anchored.

How frequently is your firm changing prices compared to last year?

<table>
<thead>
<tr>
<th>% respondents</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much more often</td>
<td></td>
<td></td>
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<tr>
<td>Somewhat more often</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>No change</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Somewhat less often</td>
<td>10</td>
<td>20</td>
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<tr>
<td>Much less often</td>
<td>10</td>
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</tbody>
</table>

Source: KC Fed Surveys, Bloomberg

Market Based Inflation Expectations

- 2-Year Breakeven Inflation Rate
- 1-Year Breakeven Inflation Rate

Source: KC Fed Surveys, Bloomberg
However, many businesses are adding higher escalator clauses to their contracts to protect against price growth.
Businesses are also adding other clauses that allow for renegotiation and shorter contract durations

Apart from cost escalators, which terms and conditions in your supplier and customer contracts changed in the last 6 months?

- Shorter contract duration
- Longer contract duration
- Added clauses for cost pass through
- Added renegotiation clauses for material cost changes
- Added additional escape clauses

Source: KC Fed Surveys
Business contacts are expressing lots of disagreement about the outlook, a circumstance that often precedes periods of softening employment.
Some of that disagreement stems from differences in exposure to the stimulative effects of fiscal policy.
Businesses report their employment outlooks are less vulnerable to a deterioration in conditions compared to 6 months ago.

Hypothetically, how would your firm respond if demand for your product(s)/service(s) over the next 6 months were 10 percent lower than you currently anticipate?

- Reduce headcount by selectively laying off workers
- Reduce headcount by not attempting to replace workers who leave the firm
- Reduce the number of open positions
- Reduce hours
- Maintain the same headcount

% respondents

Source: KC Fed Surveys
Credit spreads have narrowed as investor appetites for risk grew over the past several months.

 ![Graph showing the difference between corporate bond yields and Treasury rates from 2017 to 2024. The graph indicates a narrowing credit spread trend.]
Commercial real estate activity is subdued across the region, but contacts report highly mixed conditions across markets and property types.
Higher CRE loan concentrations were associated with lower bank stock returns during a recent shock to the financial sector.

Source: FFIEC, Bloomberg, FRED, Pandolfo and Marsh (2024)
The participants of the FOMC updated their projections for the path of the Federal Funds Rate at their meeting in March.

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

Note: The dots correspond to the median projection among FOMC participants.
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