

# Resilience Tested: A Cautious Outlook for the U.S. Economy

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Denver / Oklahoma City / Omaha

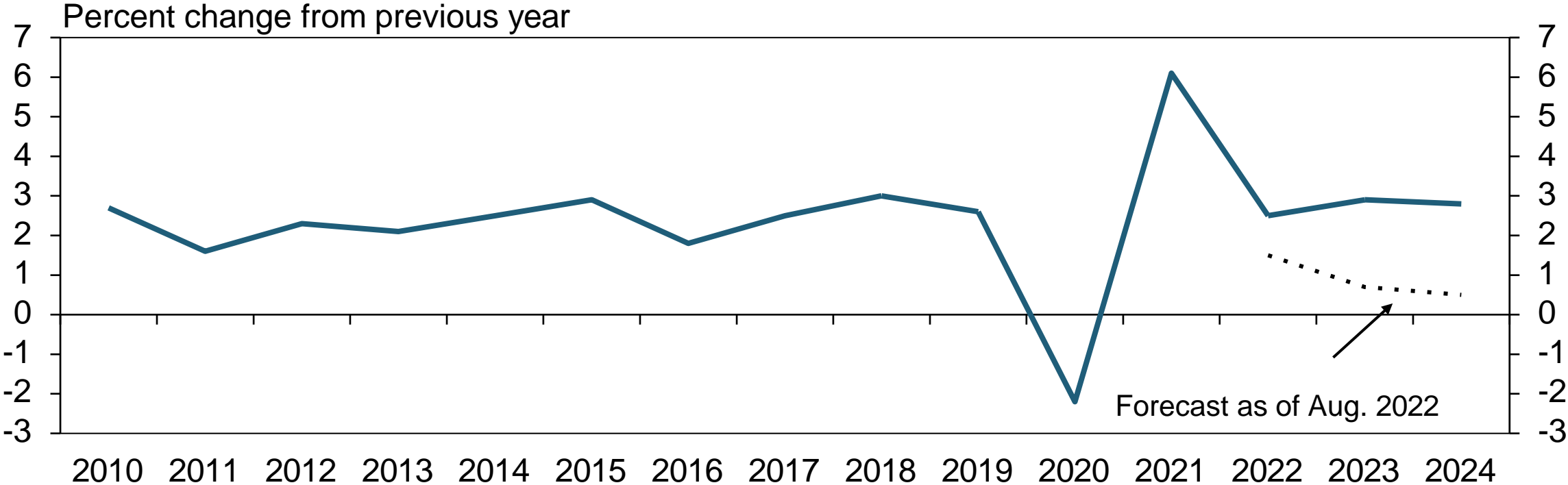
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# Outlook Themes

- The U.S. economy has been resilient over the past two years, supported by a strong job market and consumer spending.
- Over the past few months, however, consumer spending has slowed and economic activity has softened.
- Although inflation is near the Fed's long-term target, short-run inflation expectations have risen significantly.
- Markets signal heightened growth risks for the months ahead. Longer-term, growth (and interest rates) will depend on a multitude of factors.

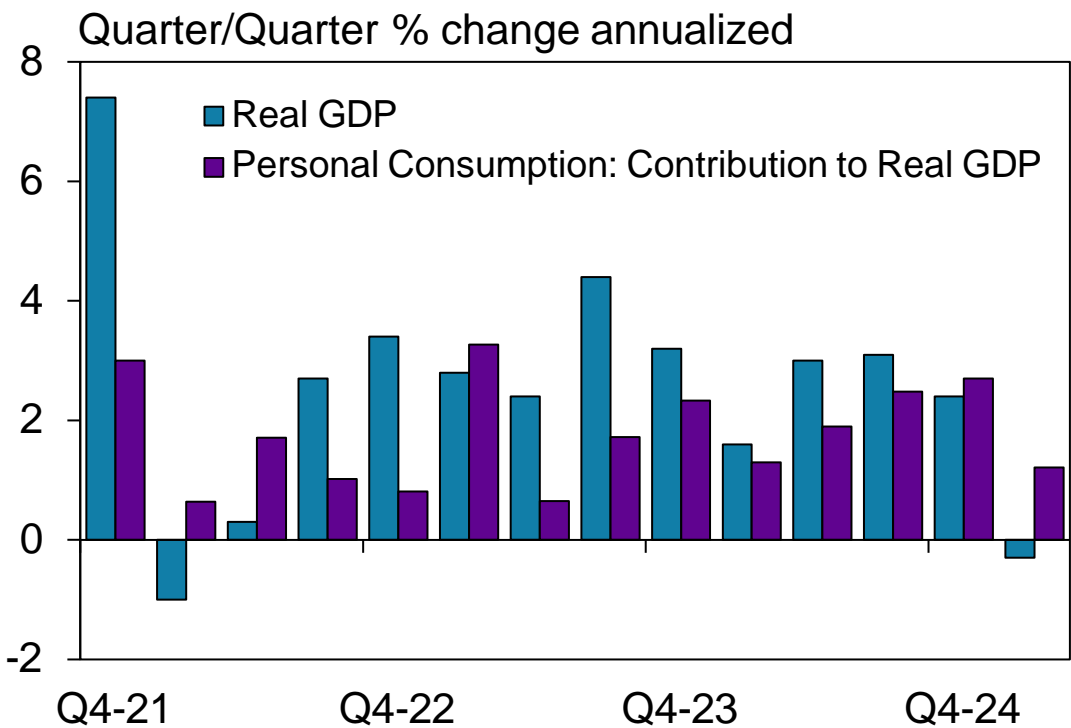
# Economic growth in the U.S. has been resilient over the past two years.

U.S. Real GDP Growth

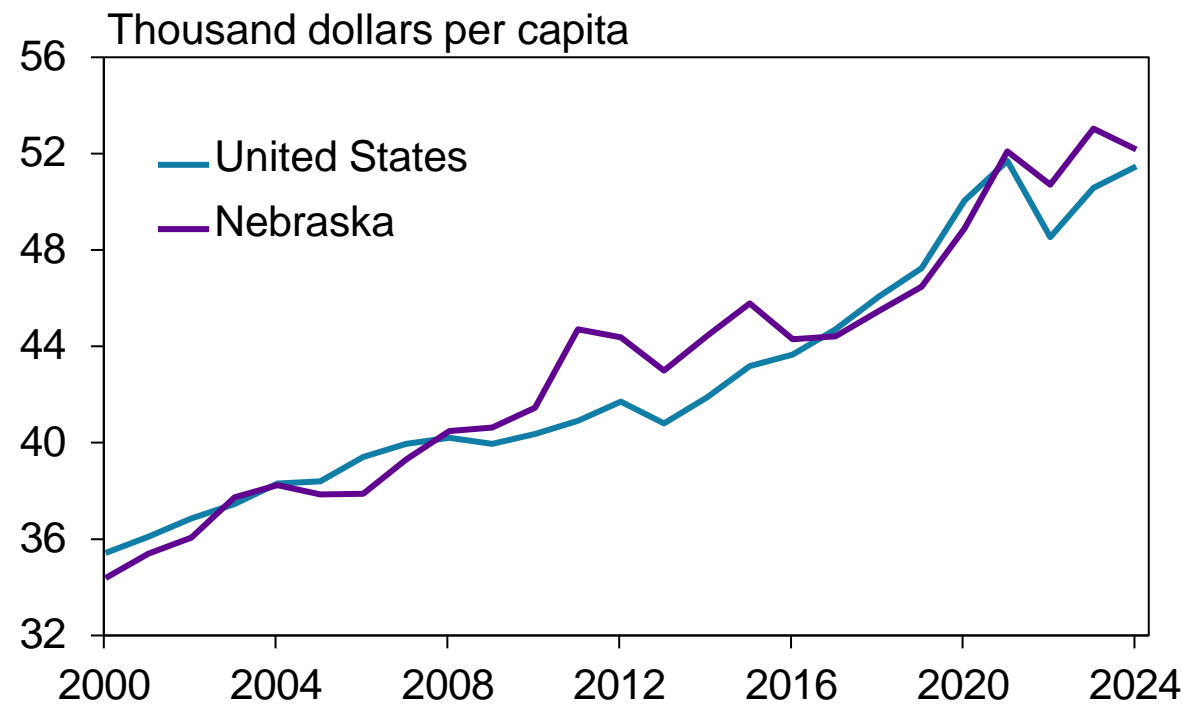


# Growth has been powered by the strength of U.S. consumers.

Contribution to U.S. Real GDP



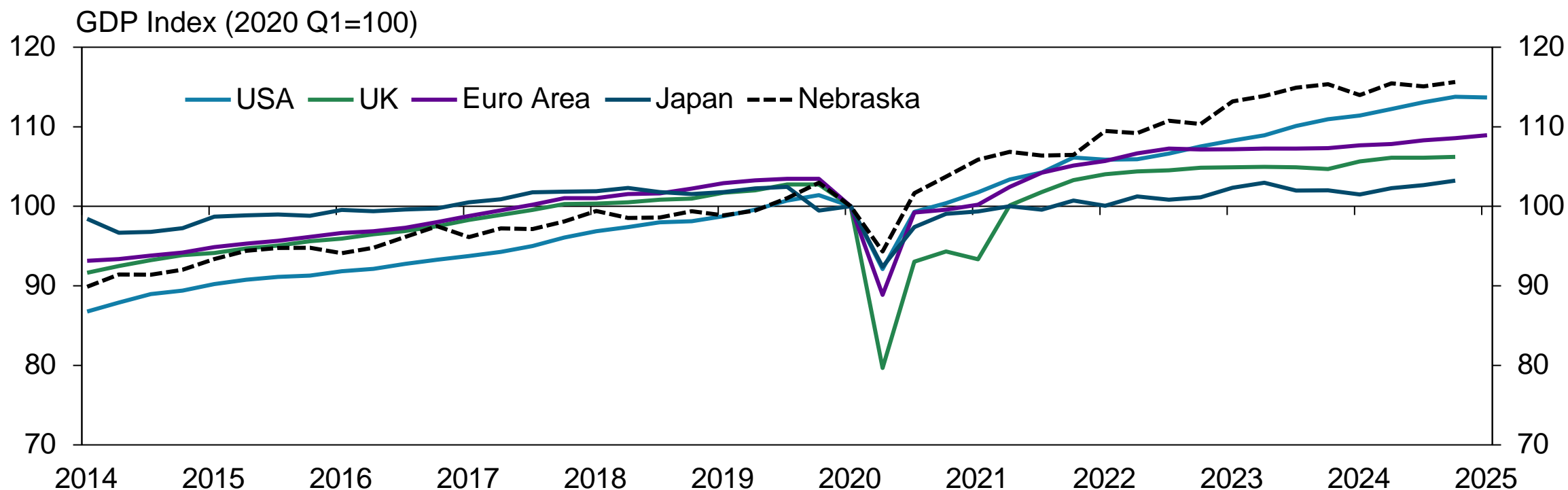
Real Disposable Personal Income



Sources: BEA and Haver Analytics

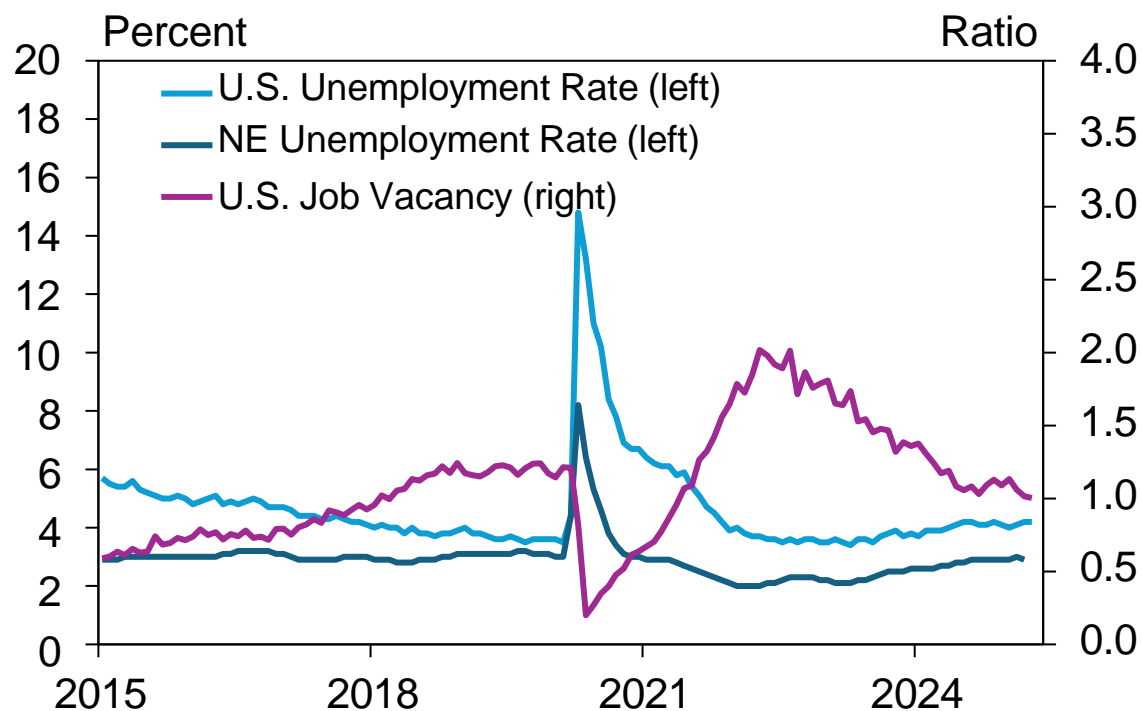
# The U.S. economy has outperformed relative to growth in other countries.

## Real Gross Domestic Product

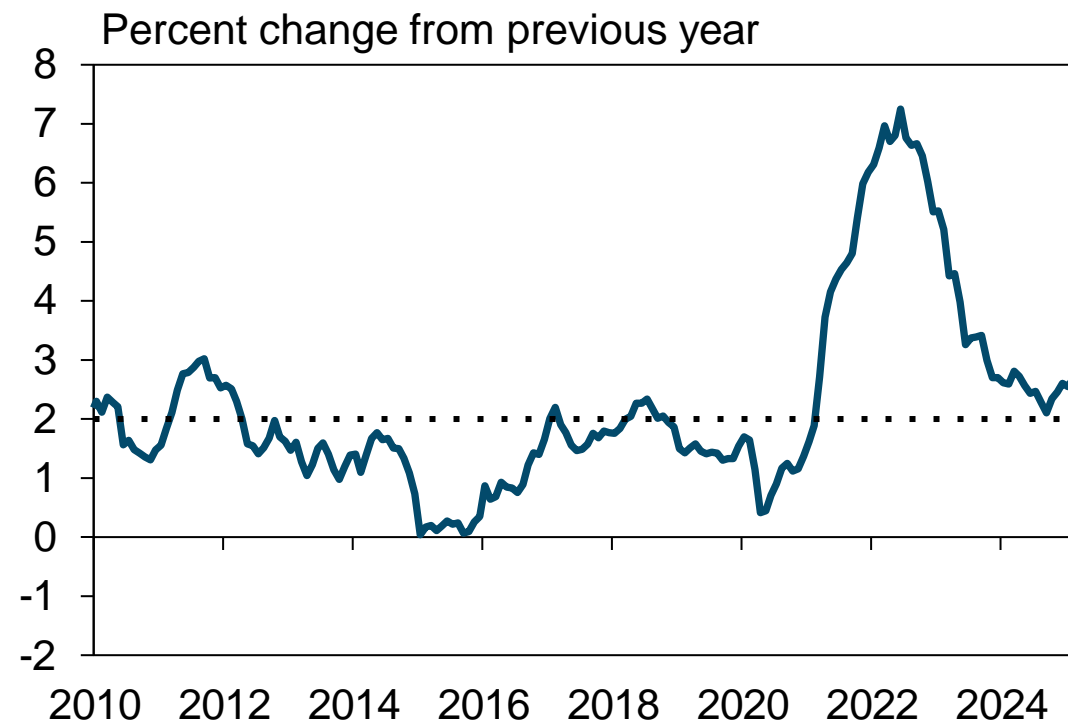


# Labor markets have cooled, but unemployment has been low and inflation has trended toward the Fed's target.

## U.S. Labor Markets

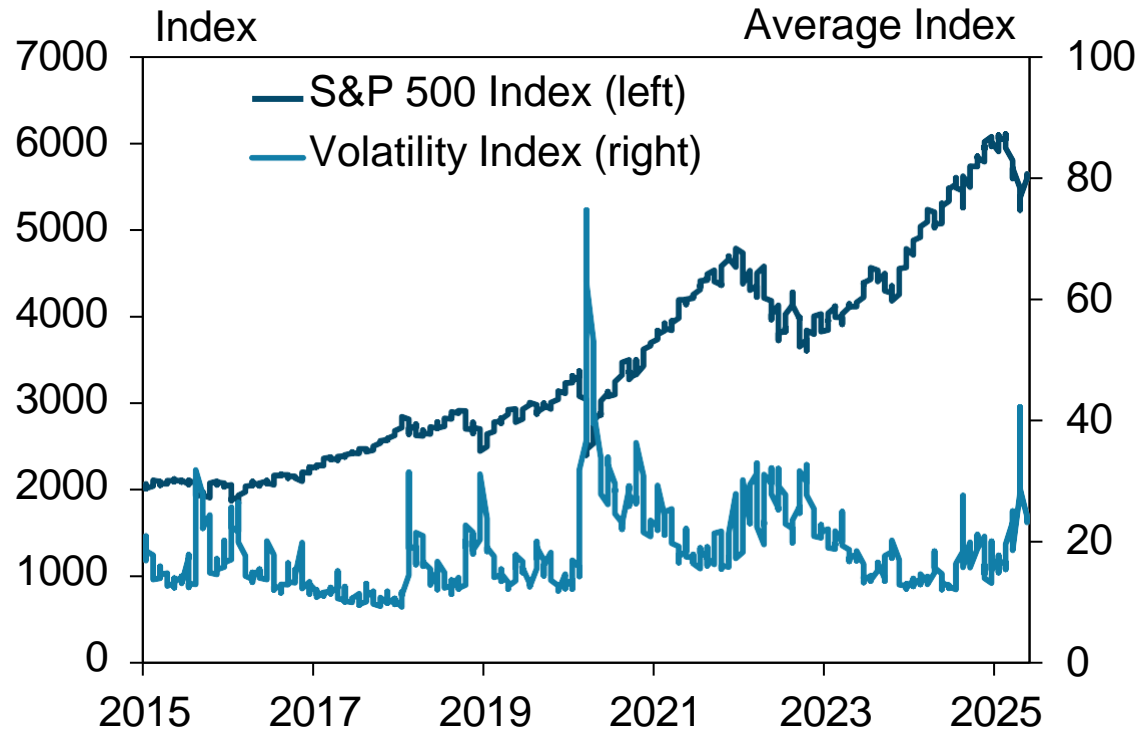


## U.S. Inflation

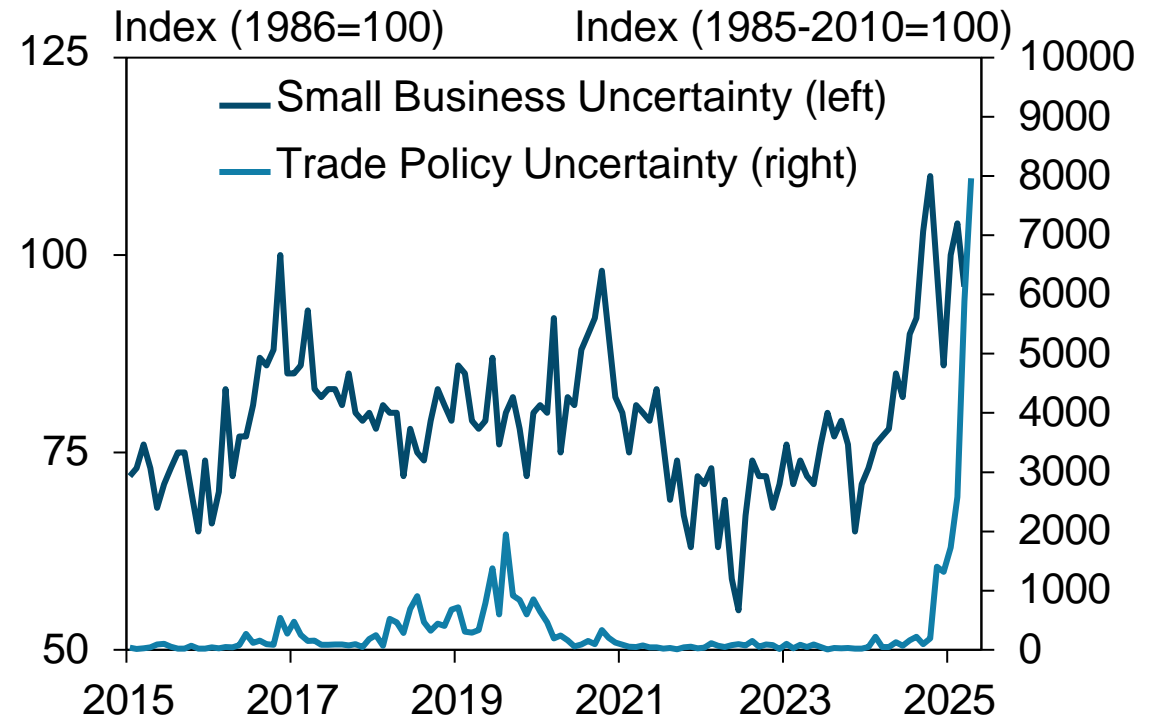


Over the past several weeks, however, financial markets have been volatile alongside heightened uncertainty.

U.S. Equity Markets

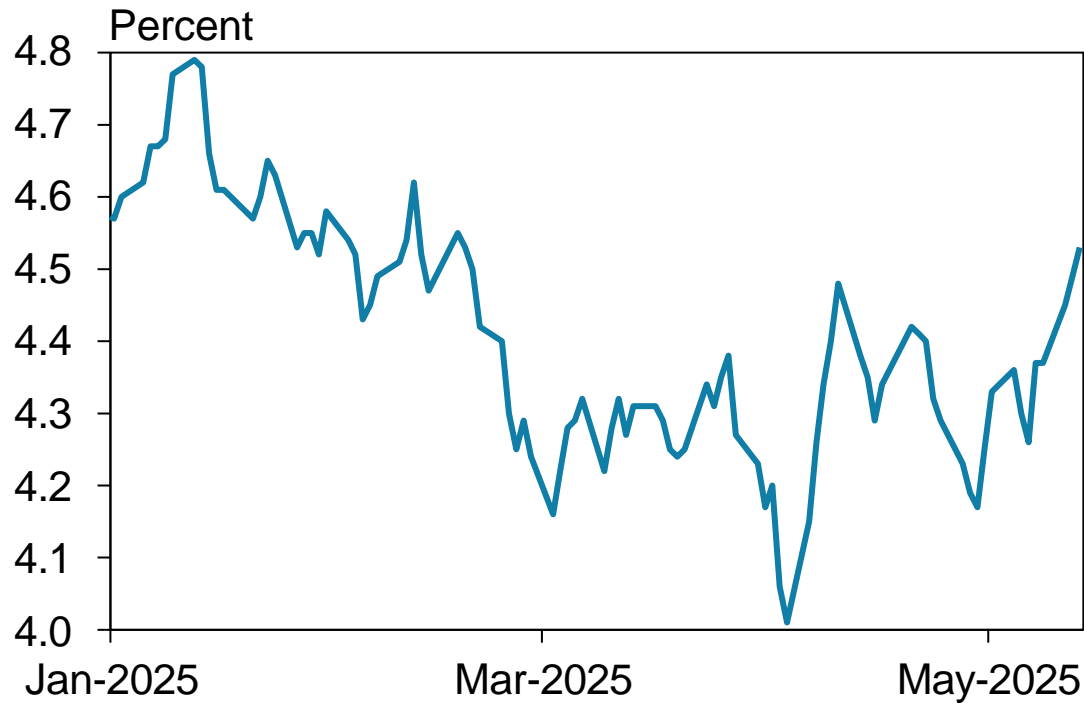


Business and Policy Uncertainty

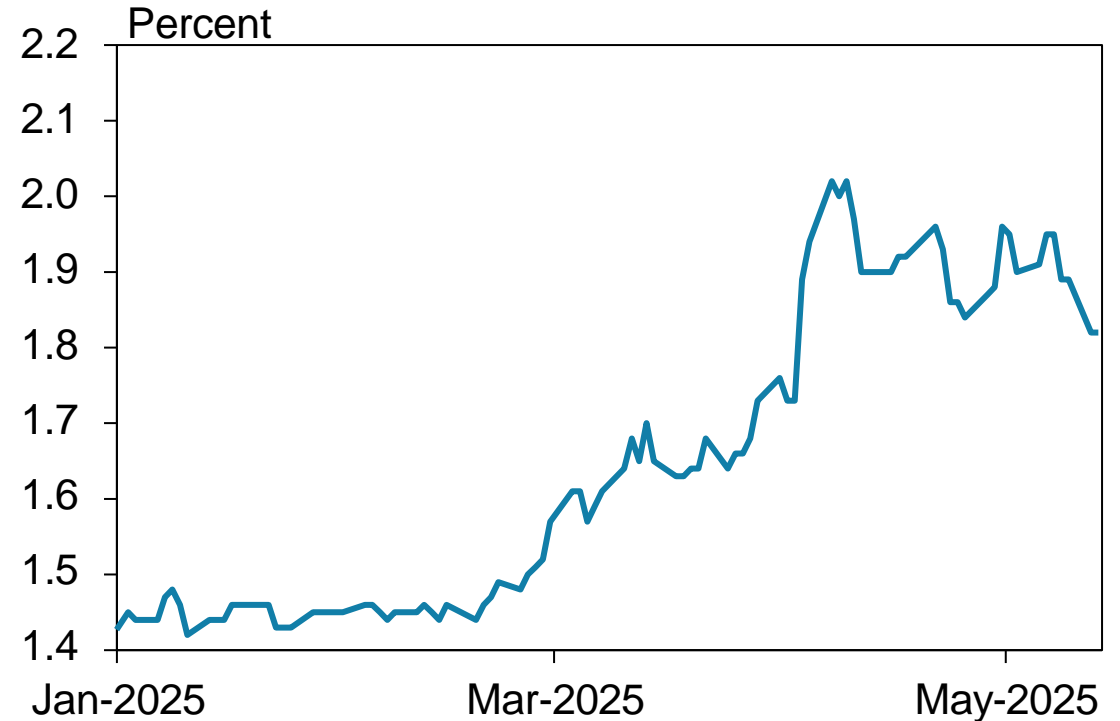


# While Treasury yields have trended lower, there has been a recent surge and wider spreads on corporate bonds.

## U.S. 10-Year Treasury Yield

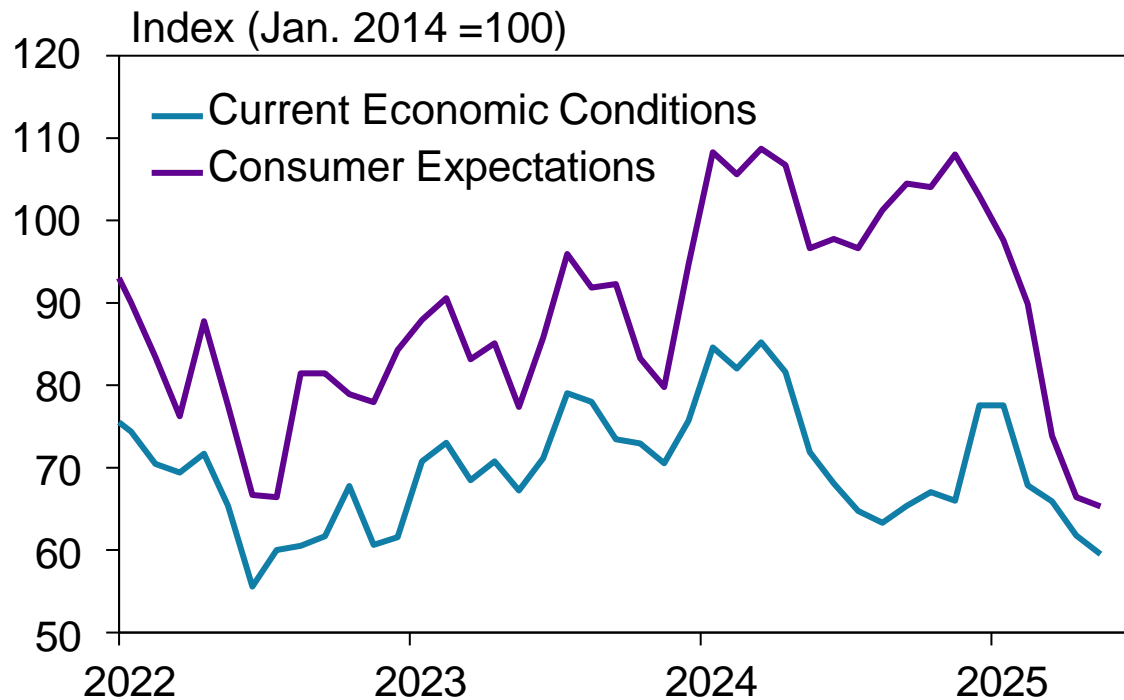


## Corporate Bond Yield-to-10 Year Treasury Yield

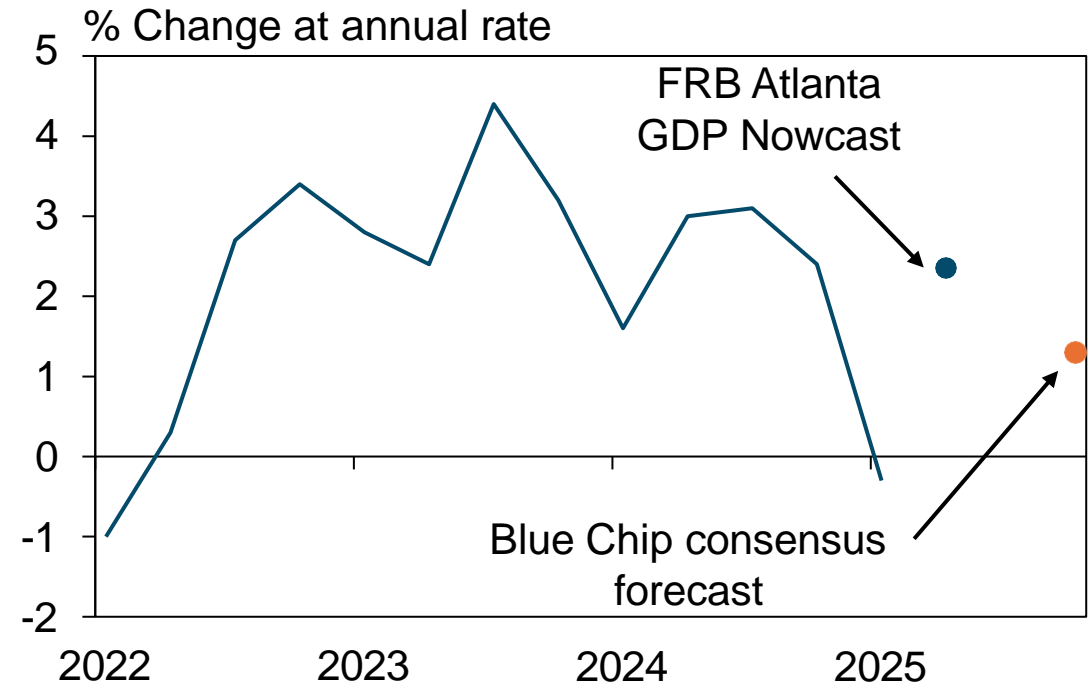


# Consumer sentiment has declined sharply, with a pullback in economic growth in the first quarter.

## U.S. Consumer Sentiment

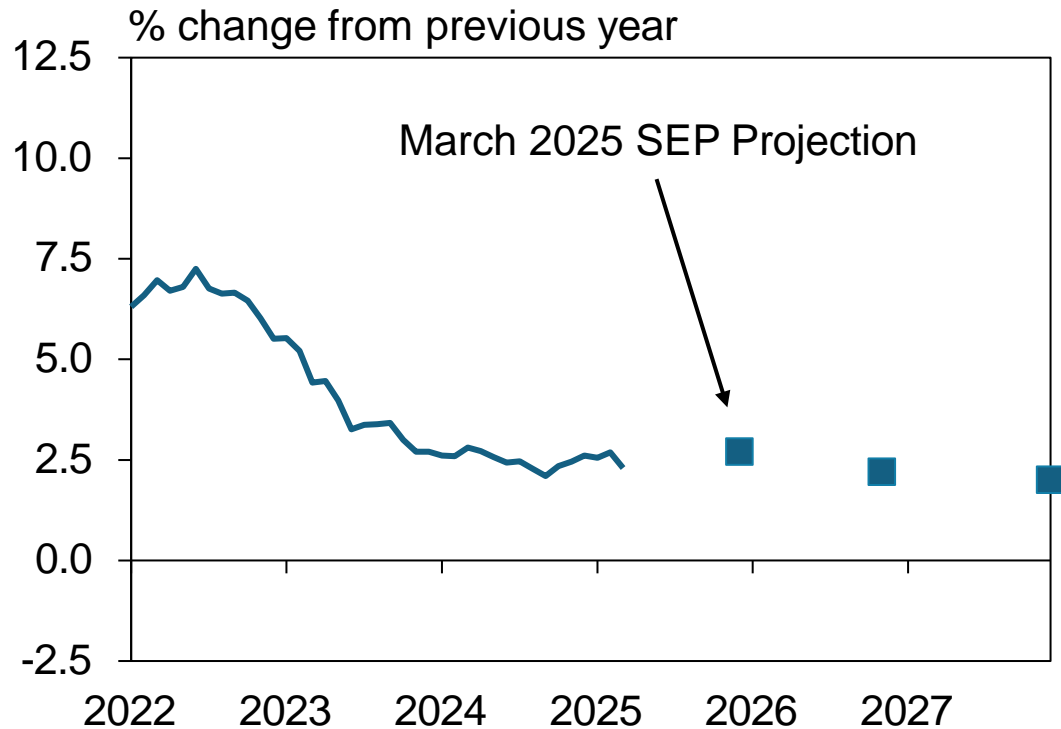


## Real GDP

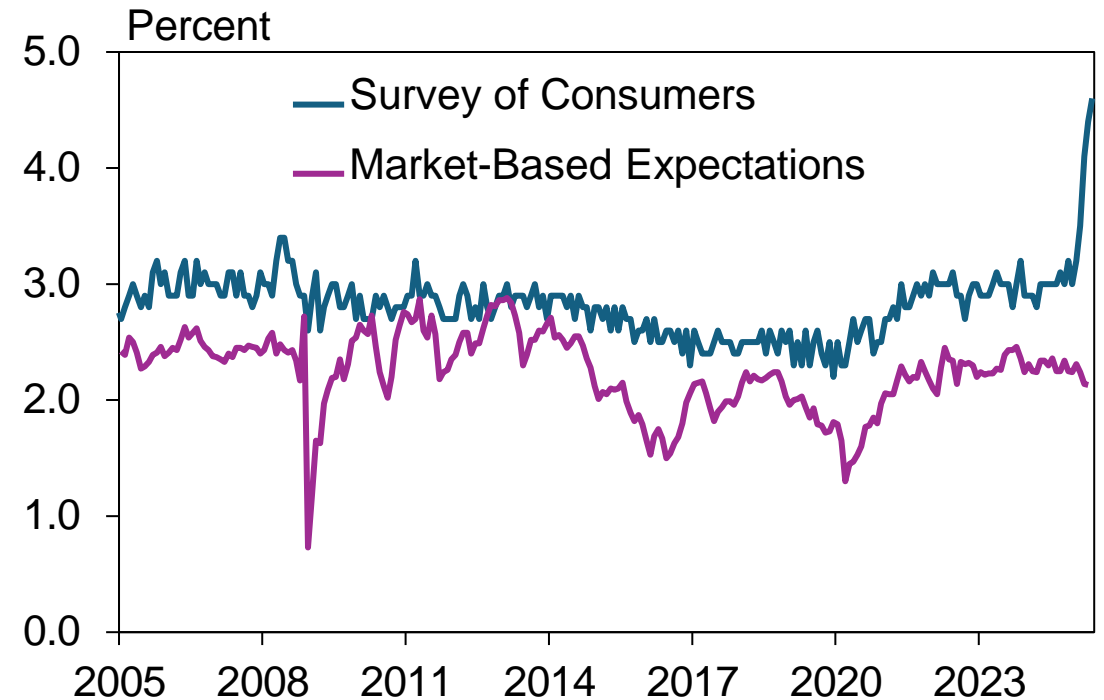


# Some inflationary pressures may have also resurfaced with heightened concerns about inflation expectations.

## U.S. Consumer Price Index

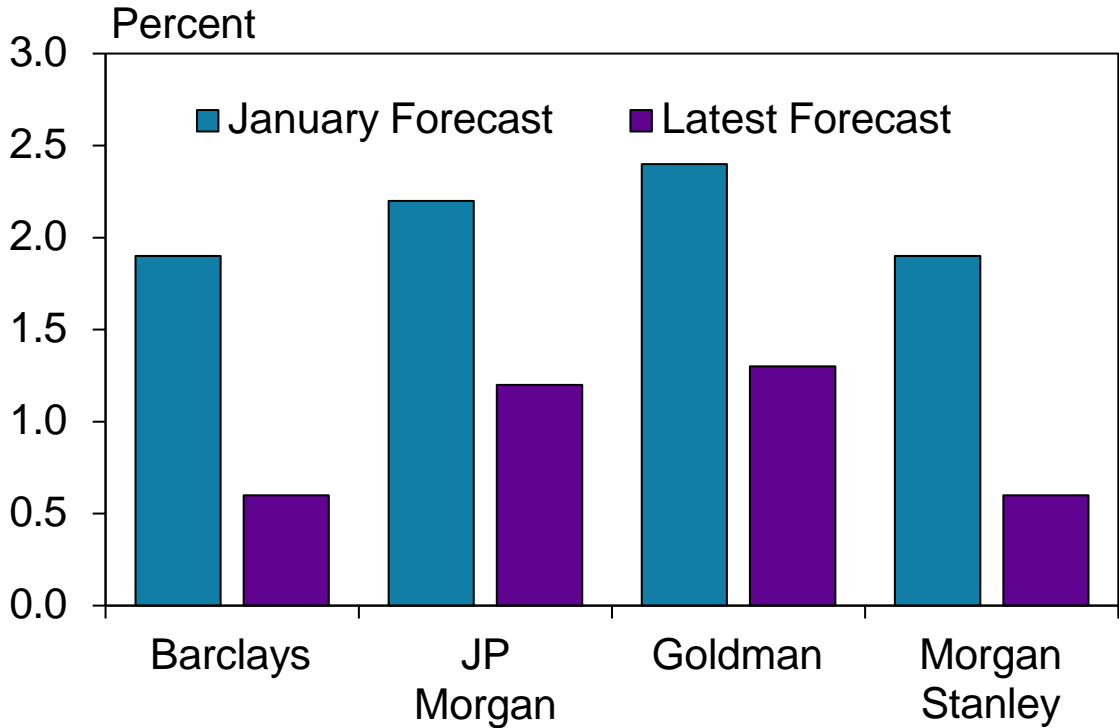


## U.S. 5-Year Inflation Expectations

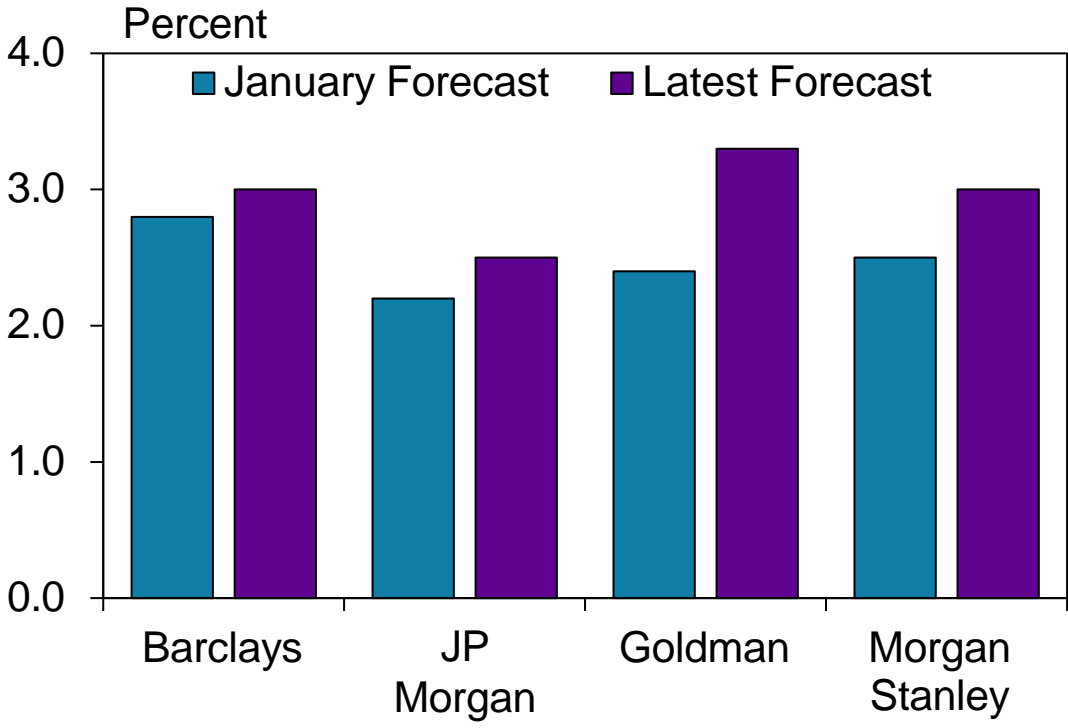


# Overall, forecasters have reduced their outlook for growth in 2025 and increased their expectations of inflation.

2025 U.S. GDP Growth Forecasts



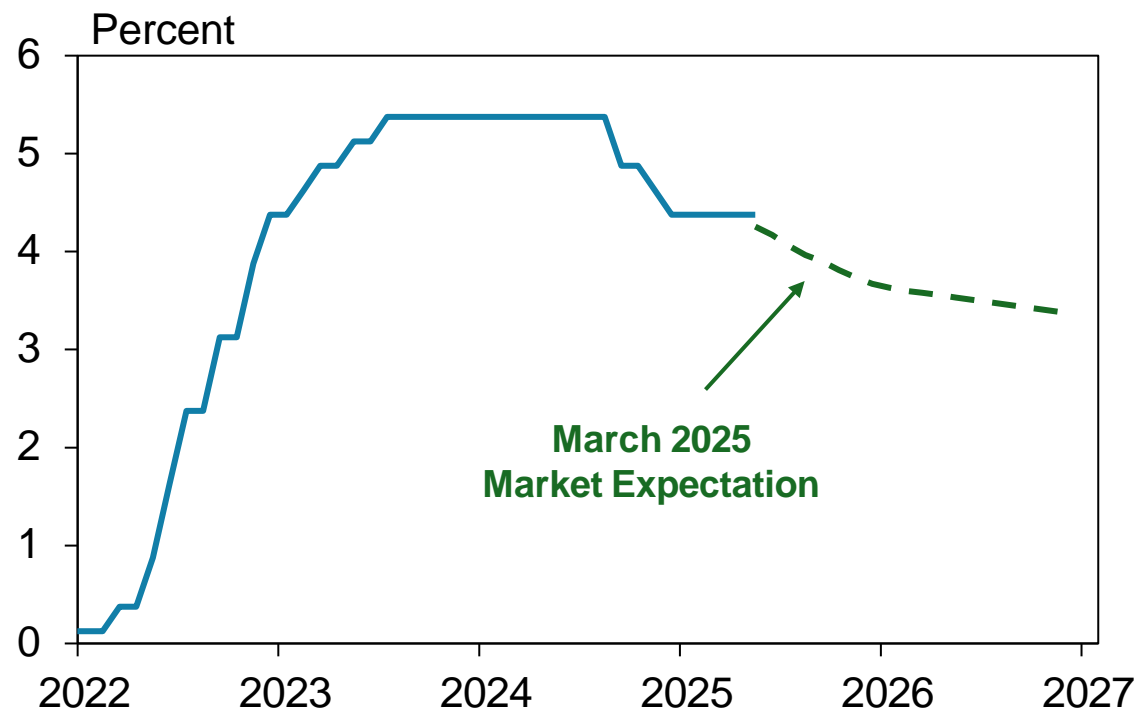
2025 U.S. Inflation Forecasts



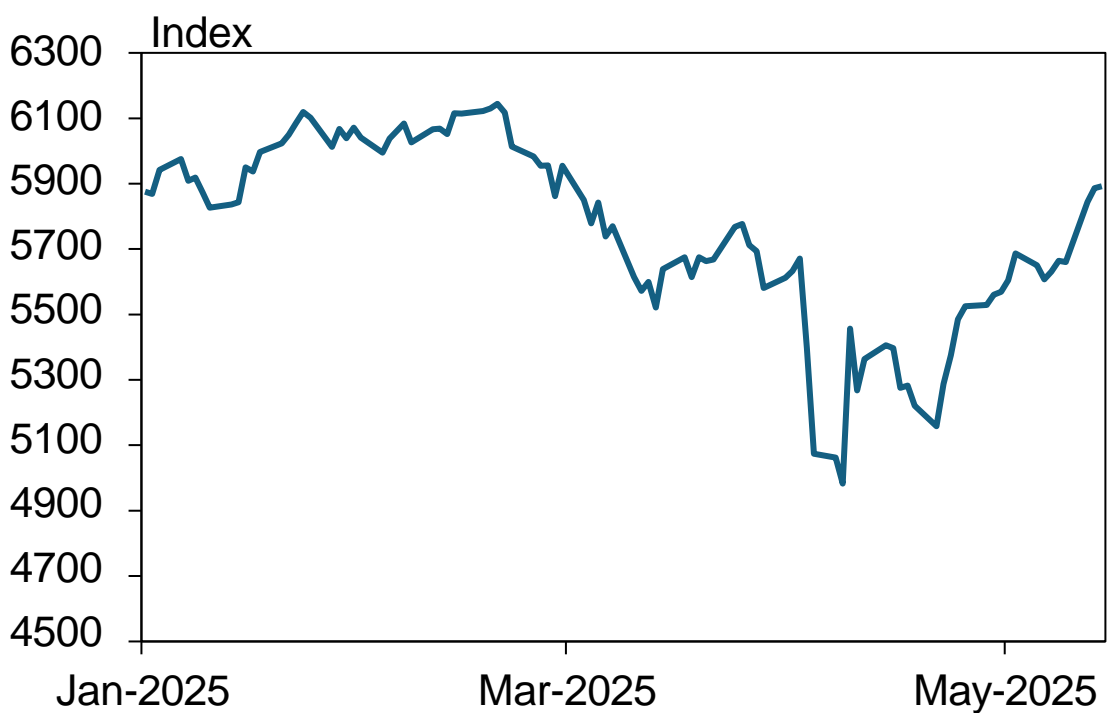
Sources: Barclays, JP Morgan, Goldman Sachs, Morgan Stanley, and Haver Analytics.

# Despite potential inflationary pressure, markets have revised their expectations about future changes to interest rates.

Federal Funds Rate



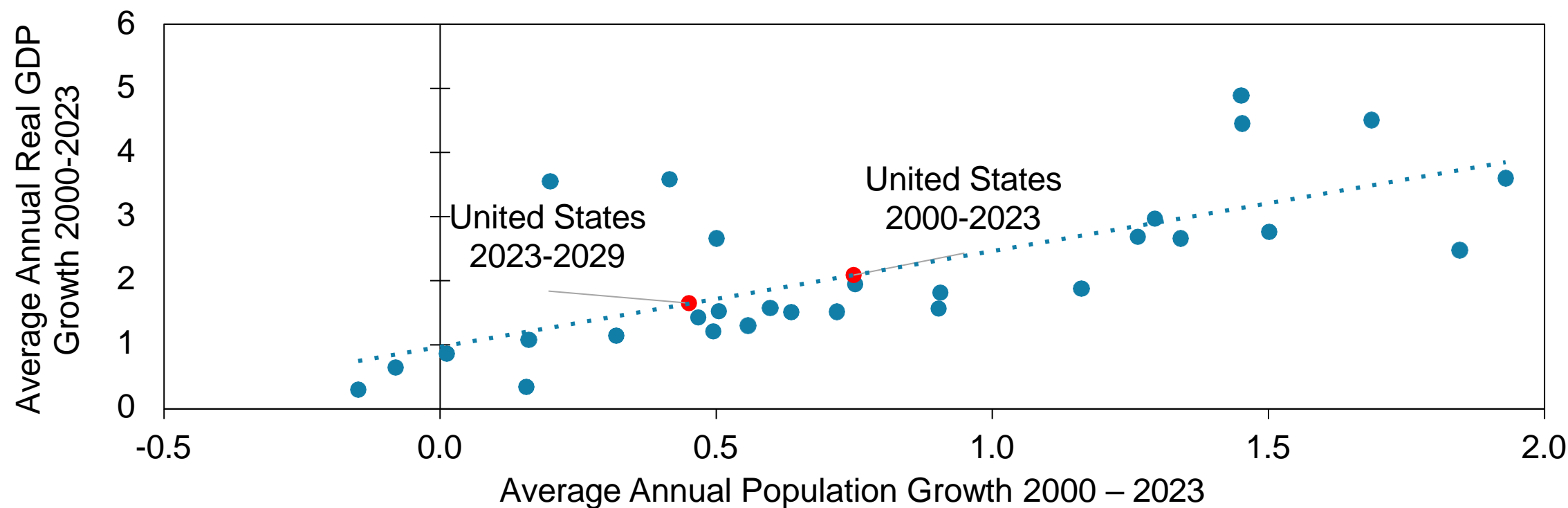
S&P 500



Sources: Federal Reserve Board, Chicago Board of Trade, Standard and Poor's, and Haver Analytics

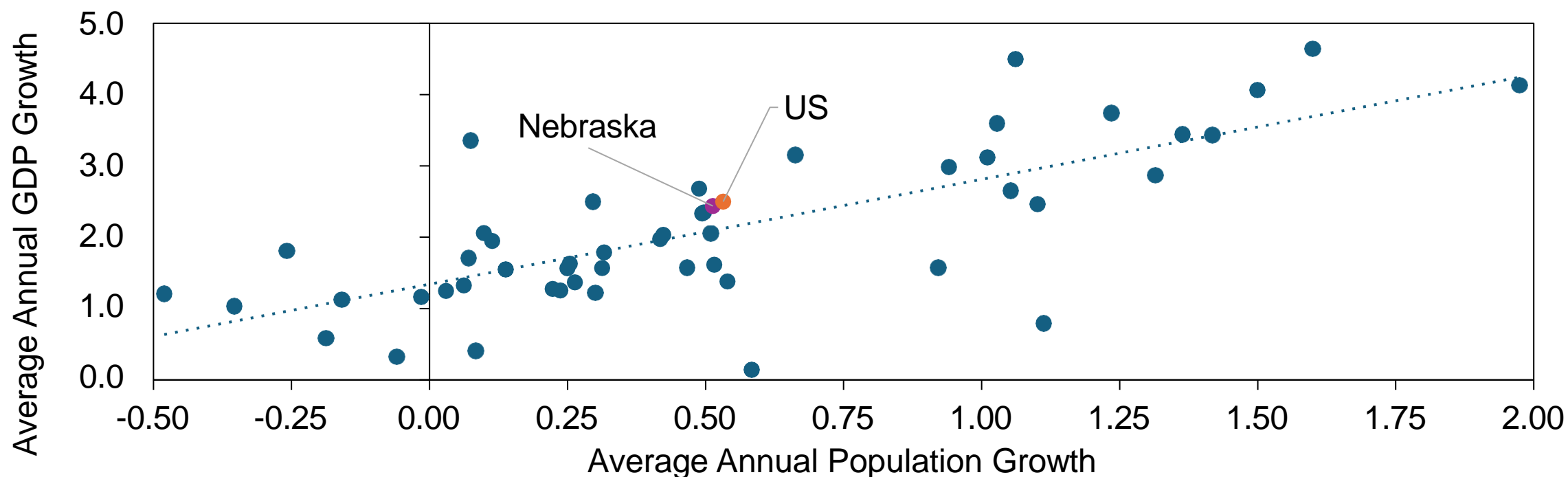
# Longer-term, demographics will play a key role in the determination of growth and interest rates.

GDP Growth vs. Population Growth Across Countries



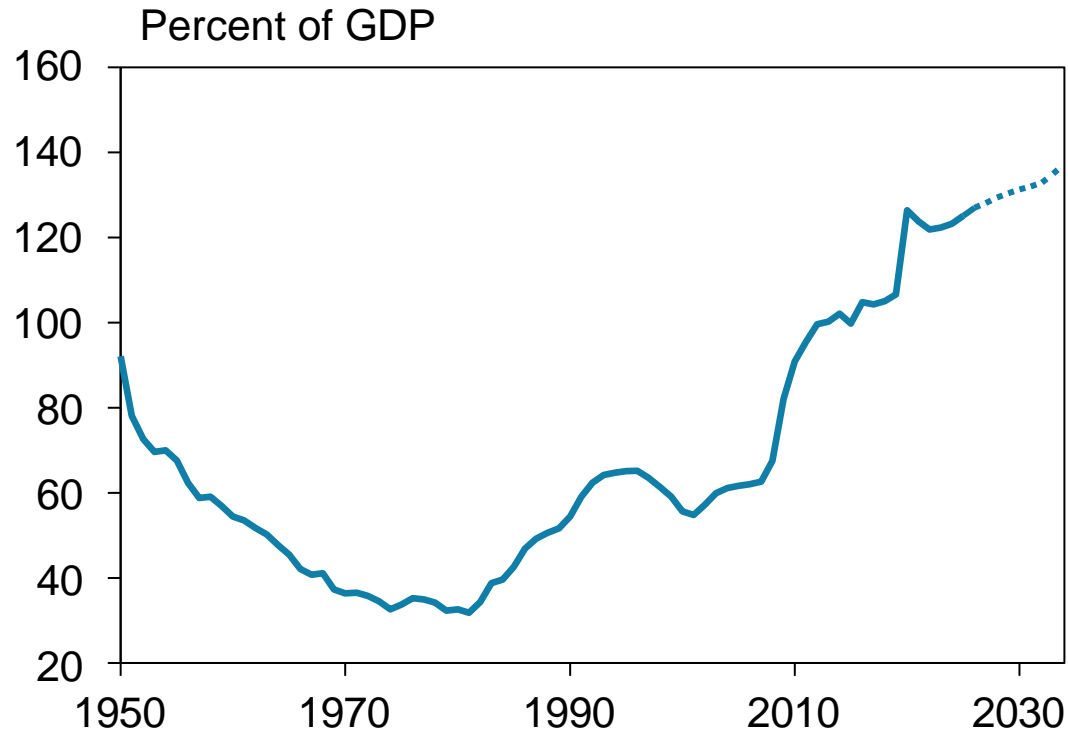
# Population growth and economic growth in Nebraska have been similar to the nation.

State GDP Growth vs. Population Growth, 2015 – 2024

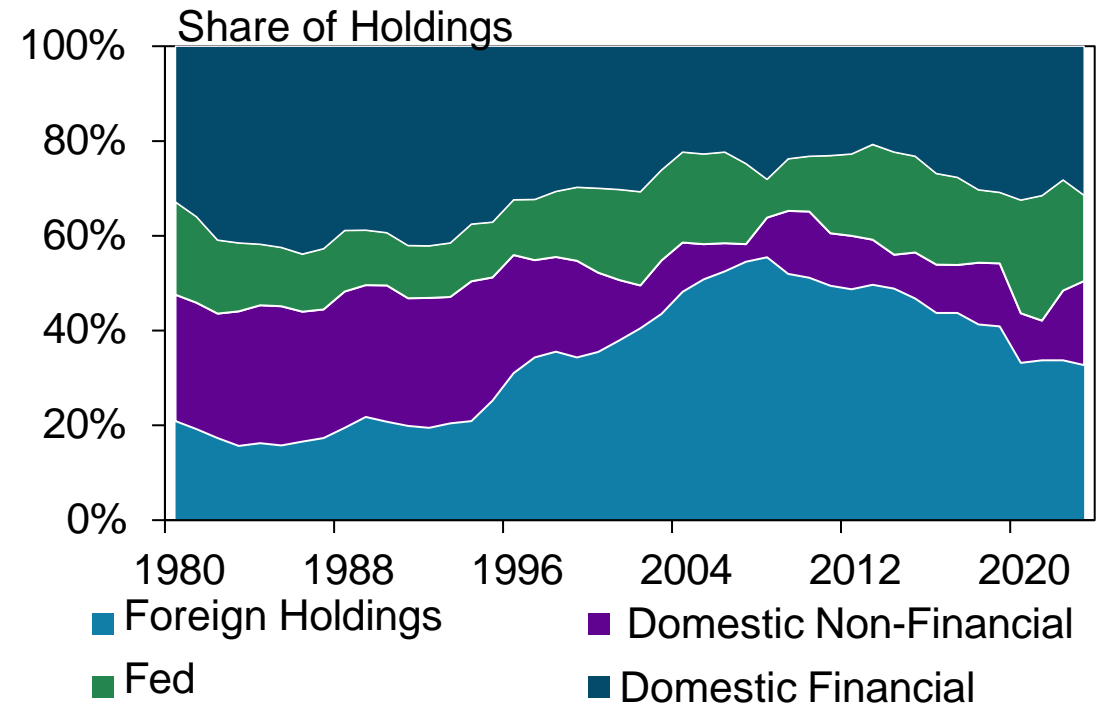


# Government debt and demand for U.S. treasuries will also have implications for long-term economic conditions.

## U.S. Federal Debt



## U.S. Treasury Holdings



# There are multiple scenarios over the long-term that will affect the path of economic activity and interest rates.

	Growth	Interest Rates
Productivity Boom	↑	↑
Demographic Decline	↓	↓
Debt Overhang	↓	↑

# Concluding Remarks

- Following post-pandemic years of strong economic growth, conditions have weakened in recent months alongside heightened uncertainty.
- Unemployment remains low, and could provide ongoing support to consumer spending and economic activity. However, contacts in the region have pointed to signs of slowing.
- The future path interest rates will depend on the relative balance between weaker economic conditions and heightened inflationary pressures.

# Questions?

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# Thank you!

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### Charting the Economy

Timely economic content curated by research staff at the Federal Reserve Bank of Kansas City.

### Labor Market Conditions Indicators

Two monthly measures of labor market conditions based on 24 labor market variables.

### Kansas City Financial Stress Index

A monthly measure of stress in the U.S. financial system based on 11 financial market variables.

### Agriculture and the Economy

The Kansas City Fed is a leader on topics related to the agricultural economy within the Federal Reserve System.

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