Economic Outlook

July 2025 – Colorado Chamber of Commerce

Nicholas Sly

Denver Branch Executive, Vice President and Economist

The views herein are those of the author and are not official views of the Federal Reserve.

FEDERAL RESERVE BANK OF KANSAS CITY

Denver / Oklahoma City / Omaha

Current Considerations

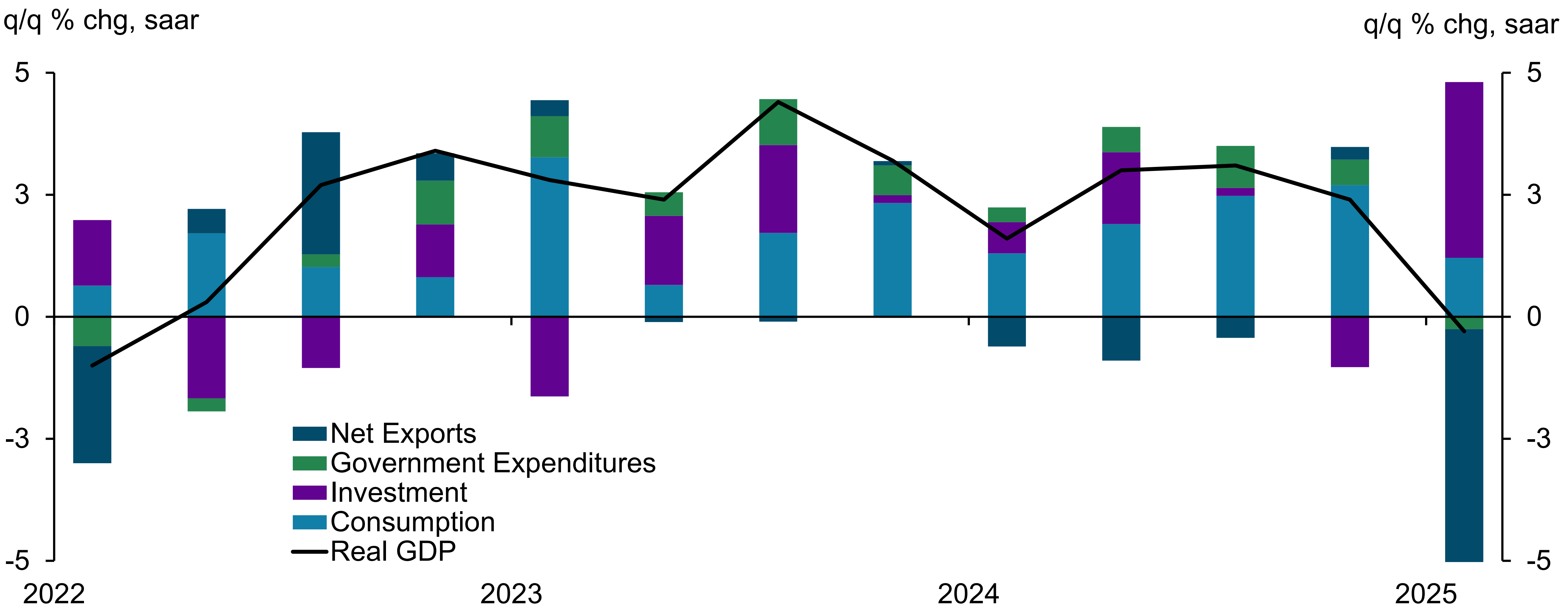
- Economic conditions have been solid, with employment near its long-run sustainable level and inflation moving closer to 2 percent.

- However, the economic policy environment has been dynamic, financial markets volatile, recent data mixed, and the outlook highly uncertain.

- Tariff rates have increased substantially and driven businesses' materials and input costs higher, but the effects on consumer prices have been modest thus far.

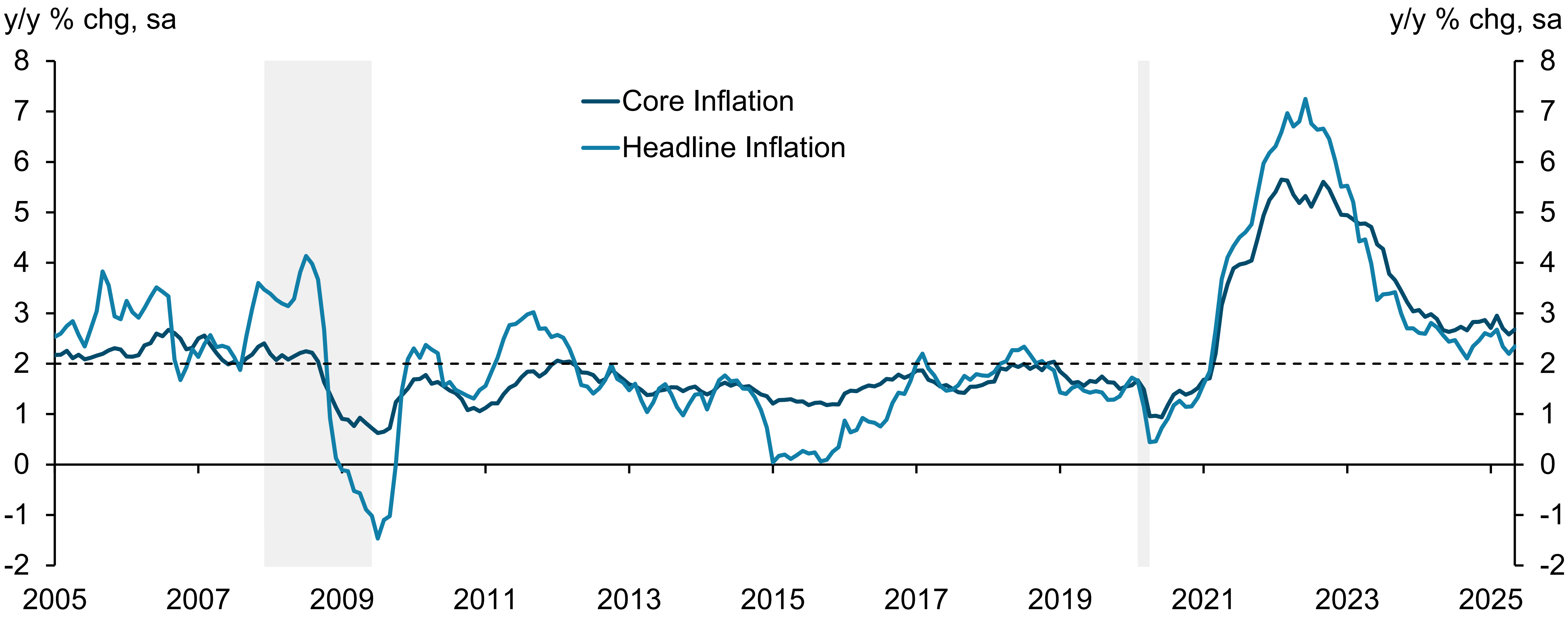
- Heightened uncertainty typically weighs on capital expenditures and consumption with some persistence, and current conditions point to a potential slowing of growth in coming quarters.

Overall U.S. economic growth was negative during the first quarter, but the composition of its drivers was irregular



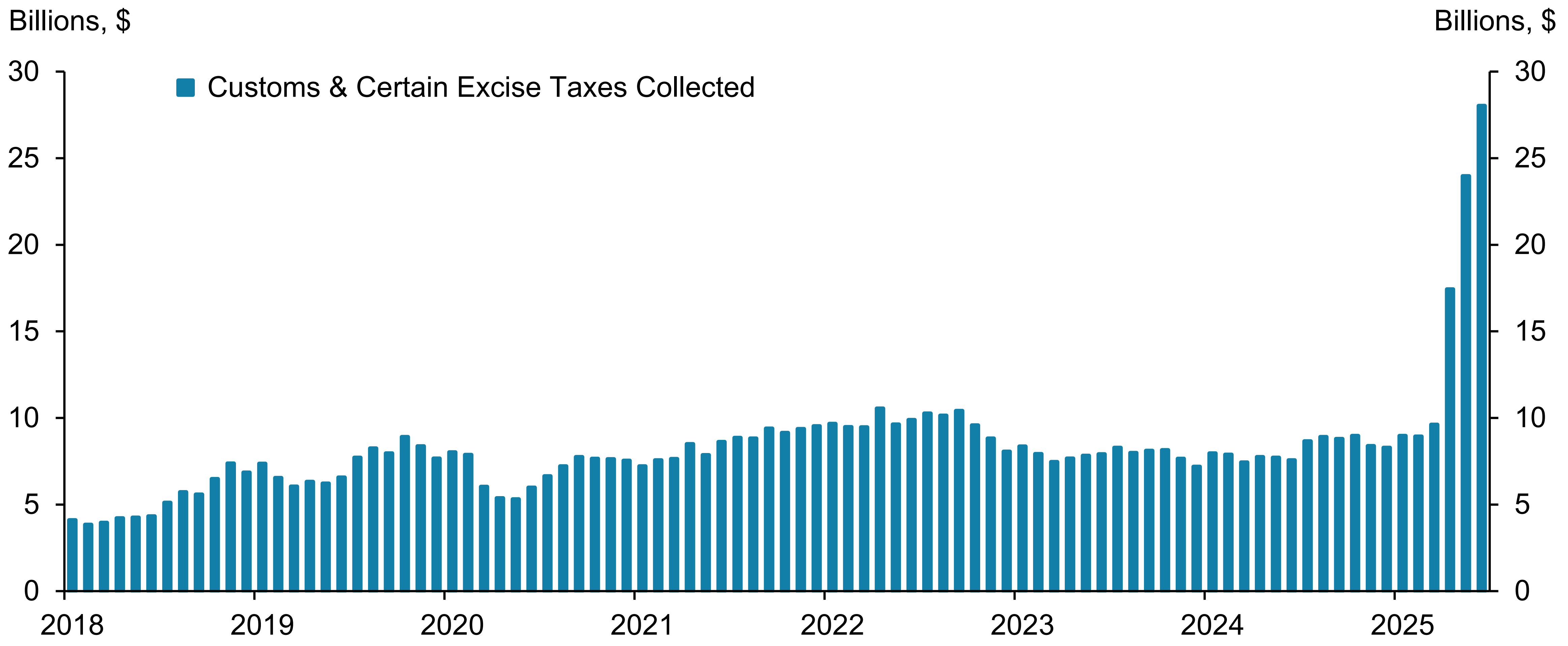
Sources: BEA, Haver Analytics

Inflation is near the Fed’s 2 percent target



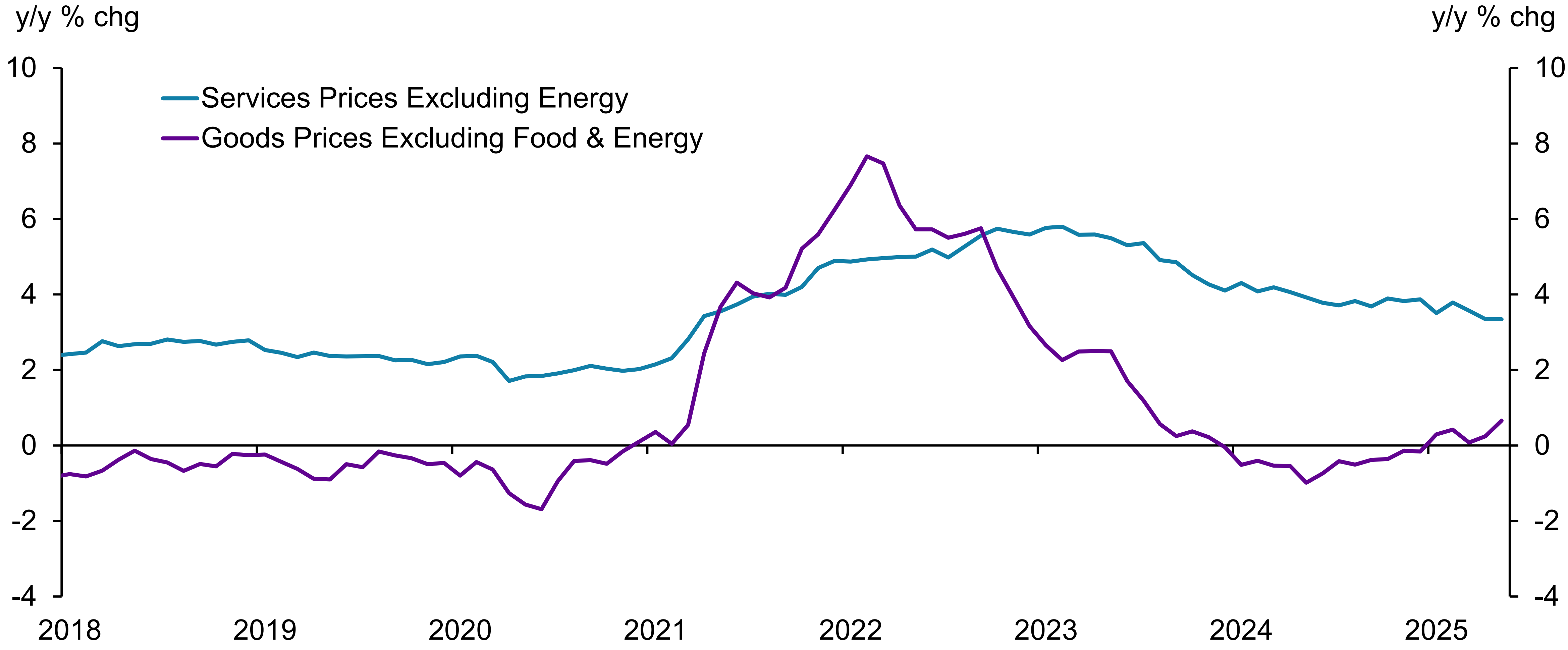
Sources: BEA, Haver Analytics
Note: Gray bars indicate recession periods

The costs of tariffs are being realized



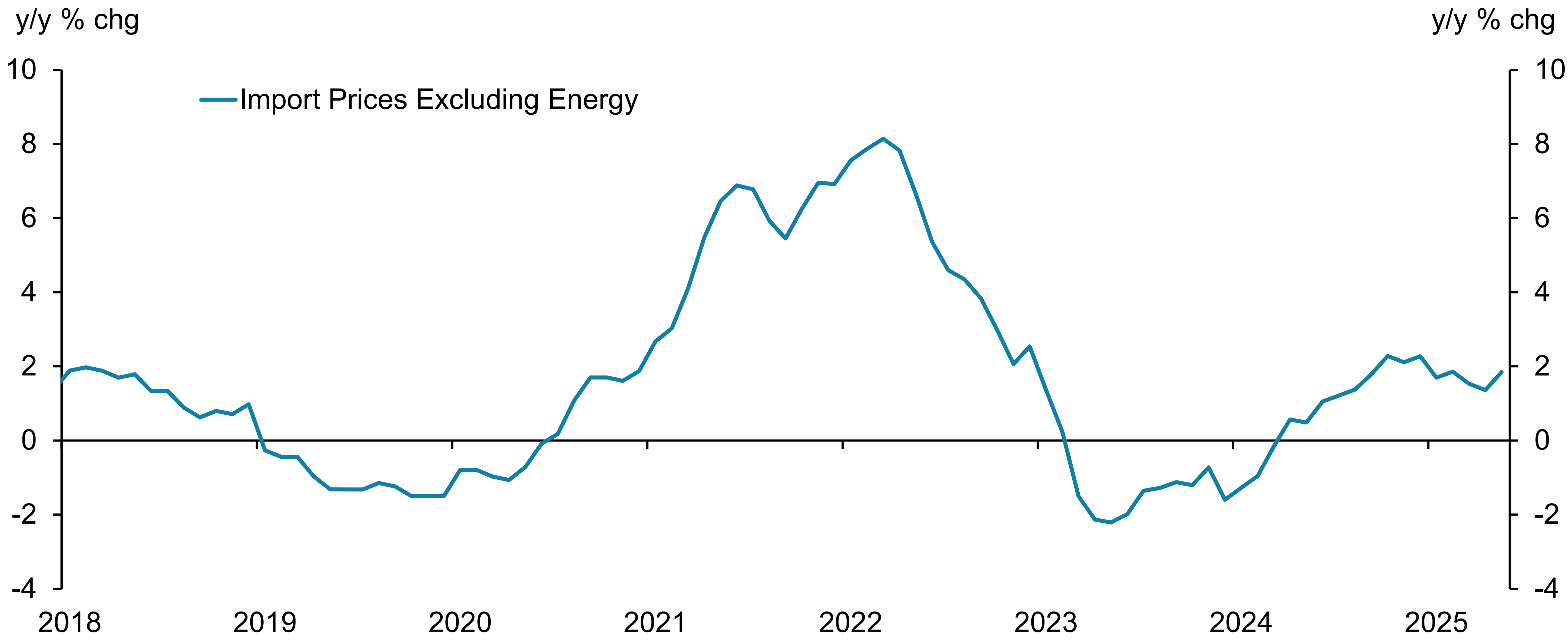
Sources: U.S. Treasury, Haver Analytics

But the apparent effects of tariffs on consumer prices are modest so far, even within goods prices



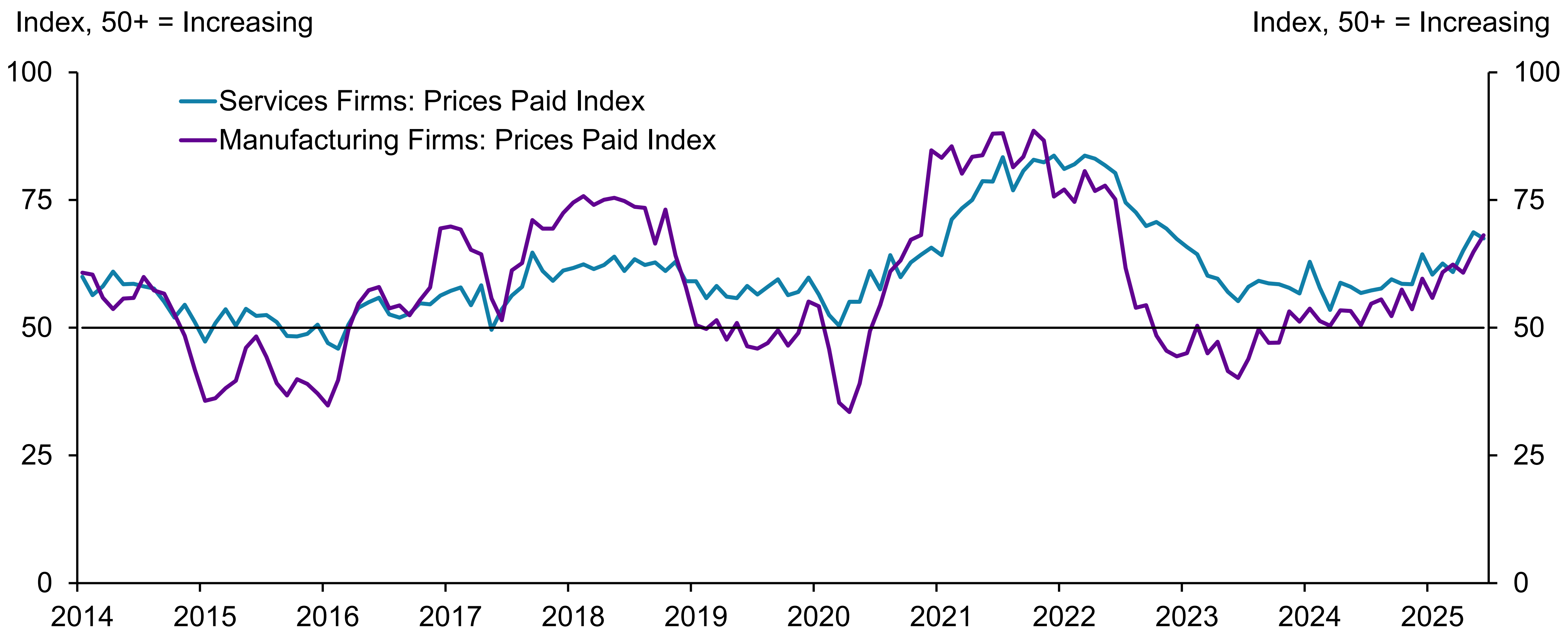
Sources: Bureau of Economic Analysis, Haver Analytics

Little sign that foreign suppliers are paying the tariff



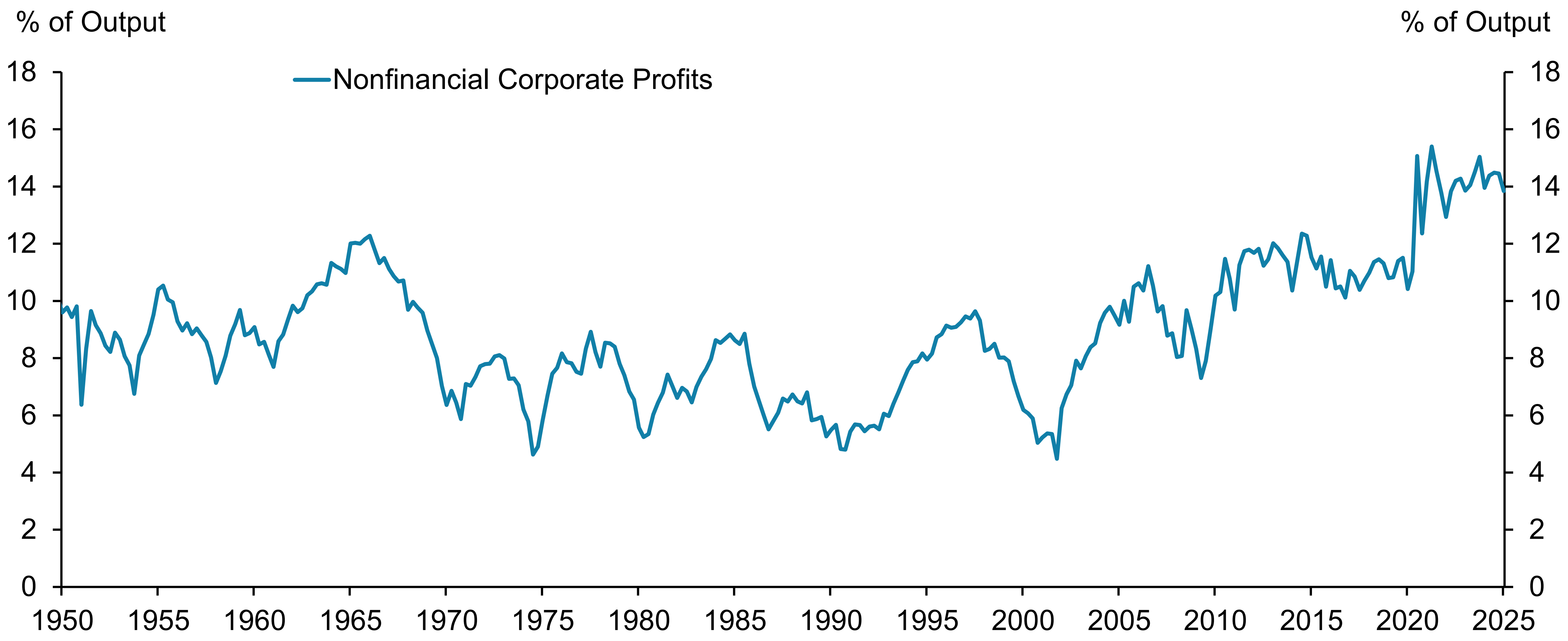
Sources: Bureau of Labor Statistics, Haver Analytics

U.S. firms report paying higher input prices



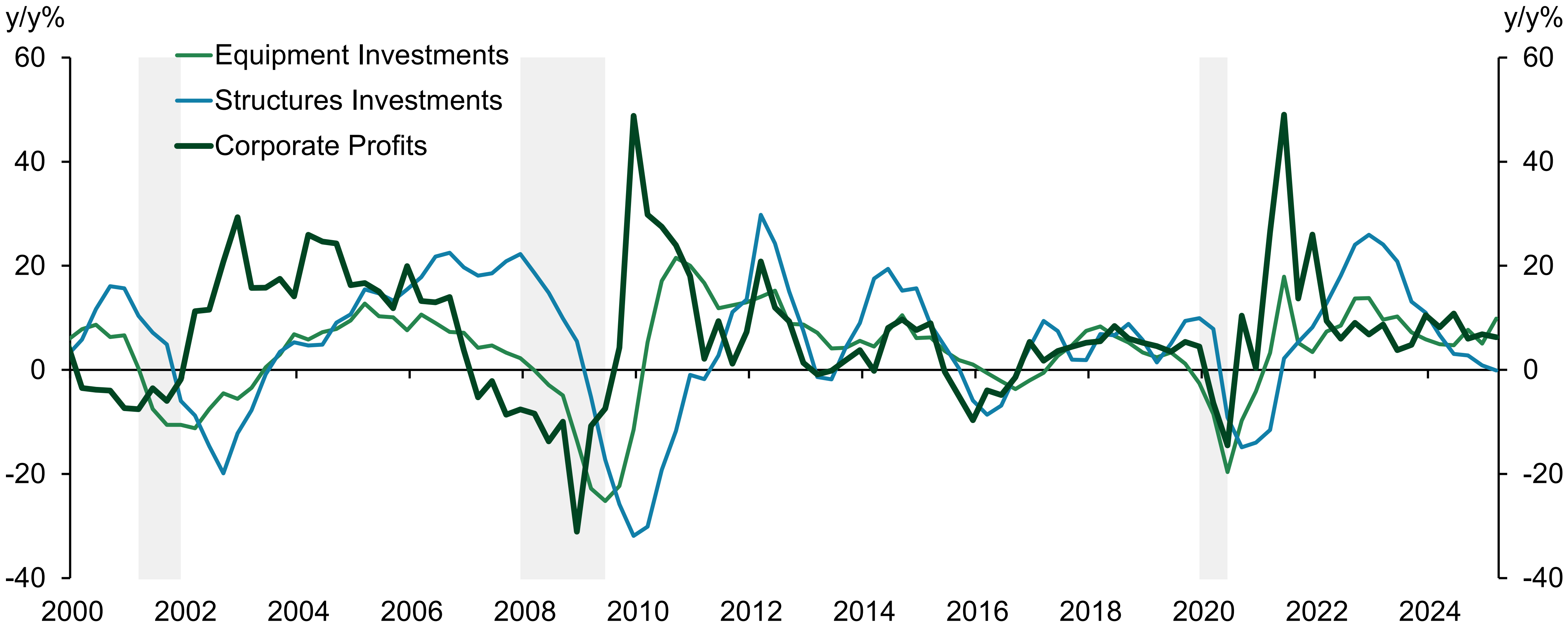
Sources: Institute for Supply Management, Haver Analytics

Profit margins are elevated, giving firms some scope to absorb tariffs if they cannot pass along to consumers



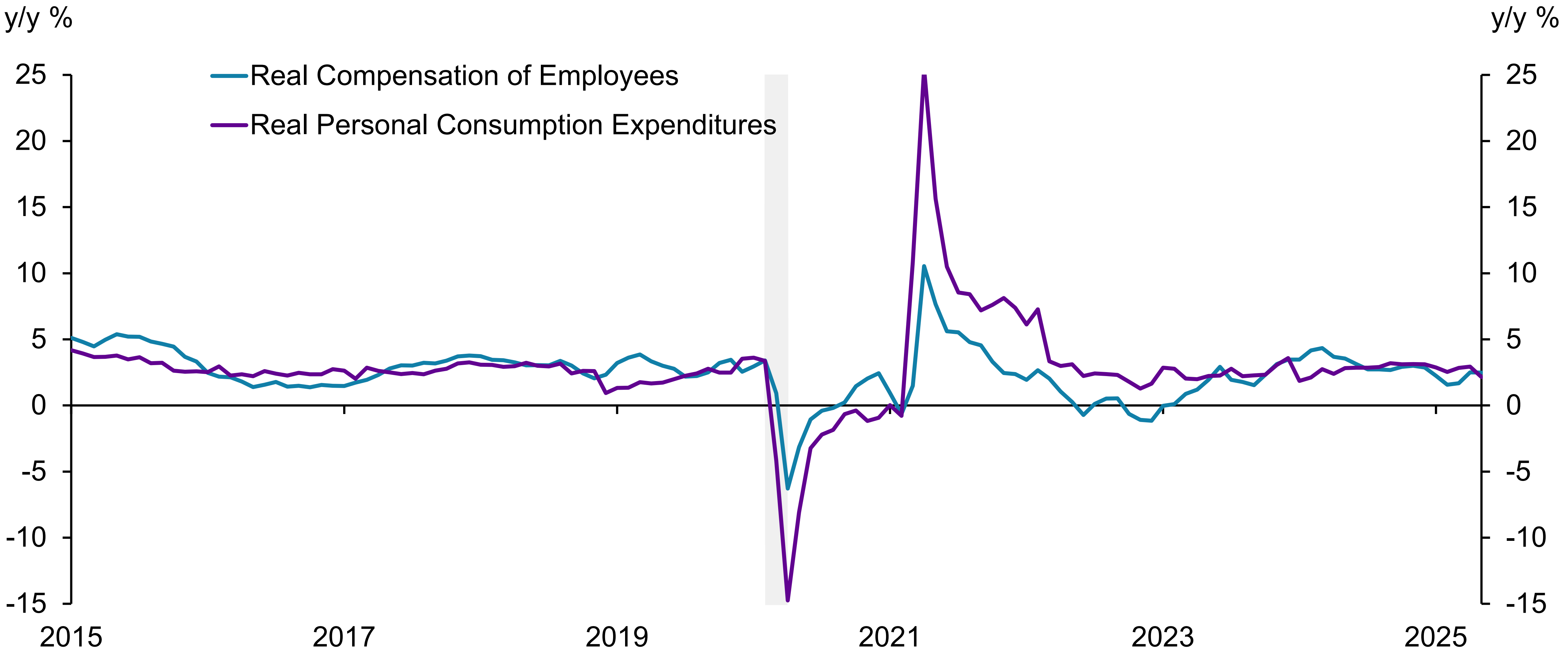
Sources: Bureau of Economic Analysis, Haver Analytics

Changes in profit margins tend to lead changes in planned capital expenditures, and anecdotal indictors point to slimming margins



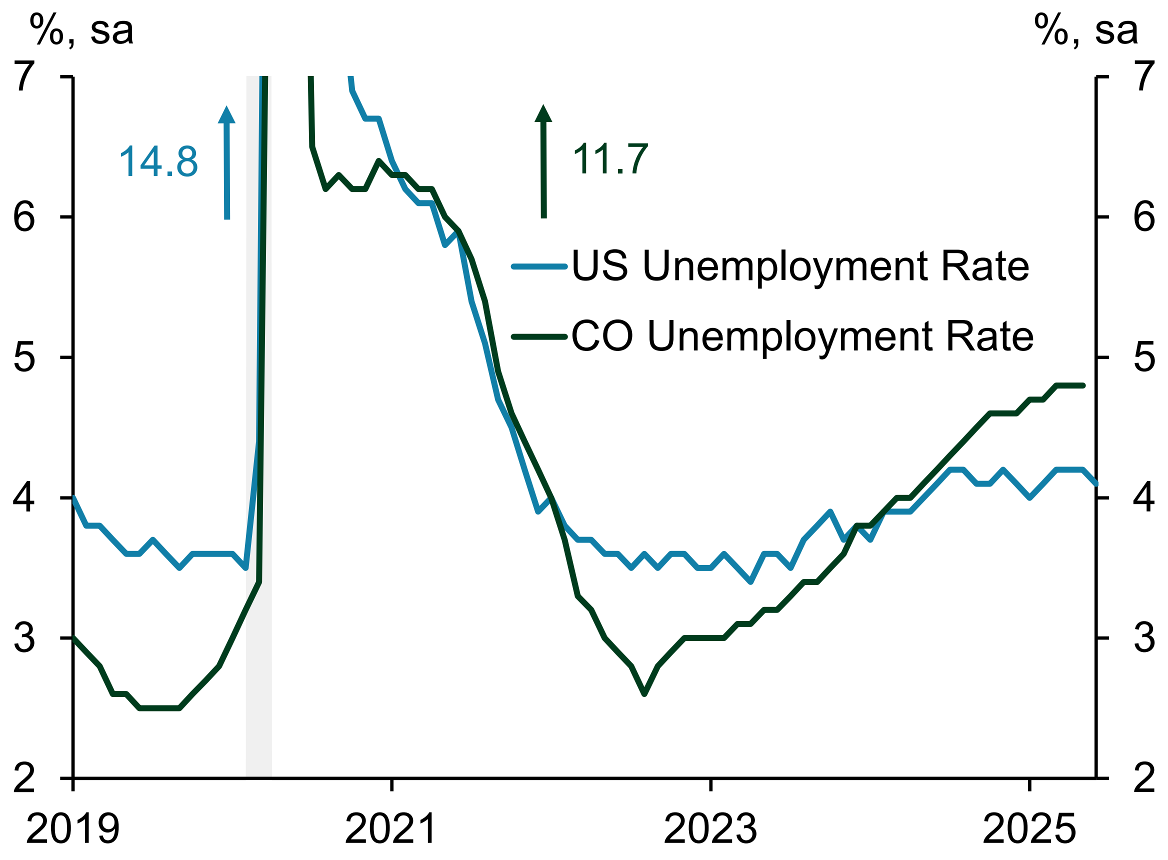
Sources: BEA, Haver Analytics
Note: Gray bars indicate recession periods

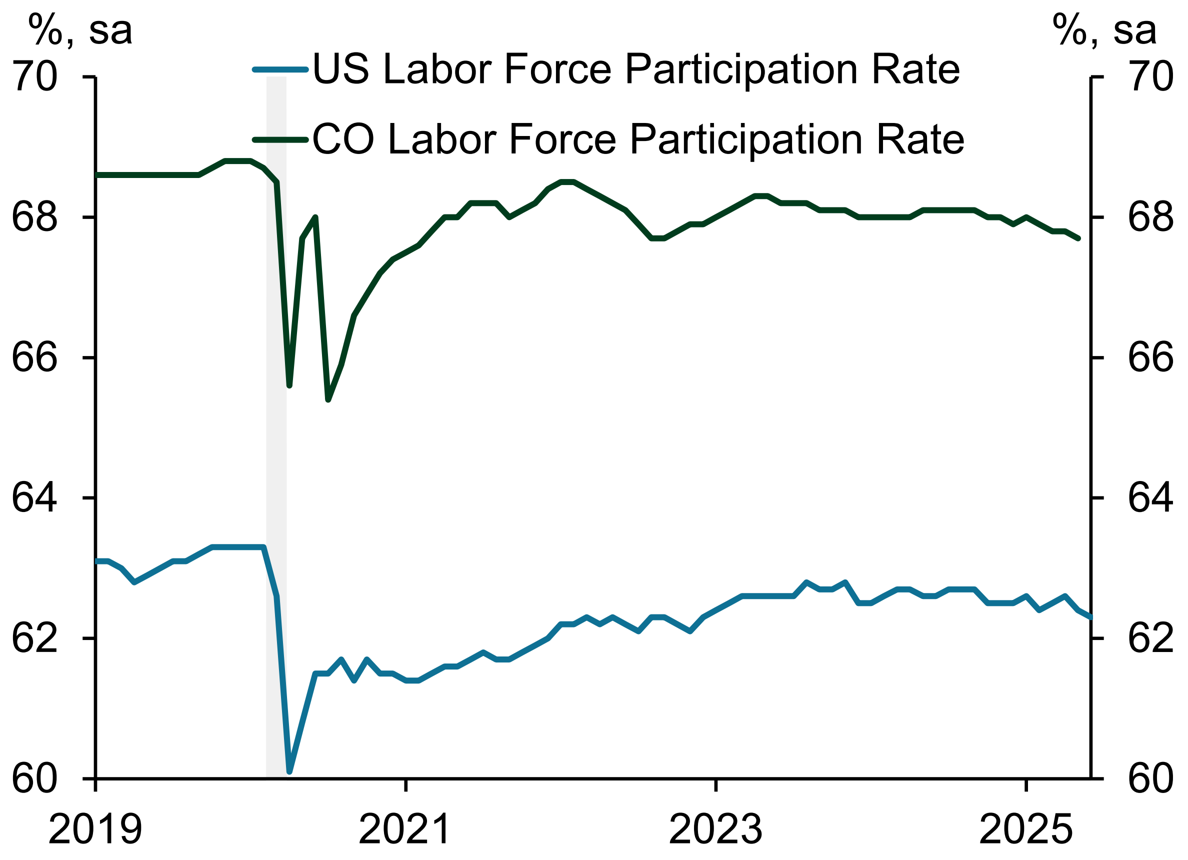
Consumption growth is healthy alongside steady earnings growth among workers, though their price sensitivity is reportedly rising



Sources: BEA, Haver Analytics
Note: Gray bars indicate recession periods

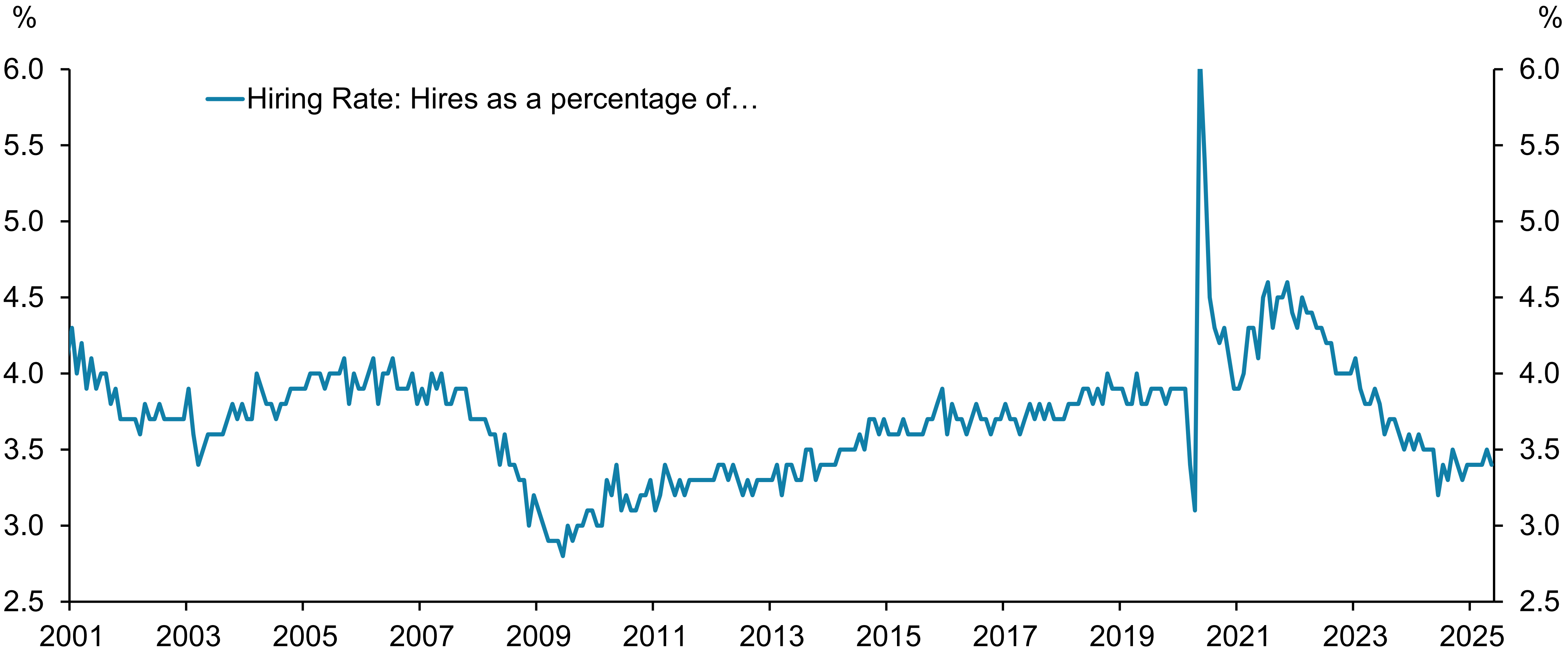
Unemployment rates and labor force participation rates remain near most estimates of their longer-term levels





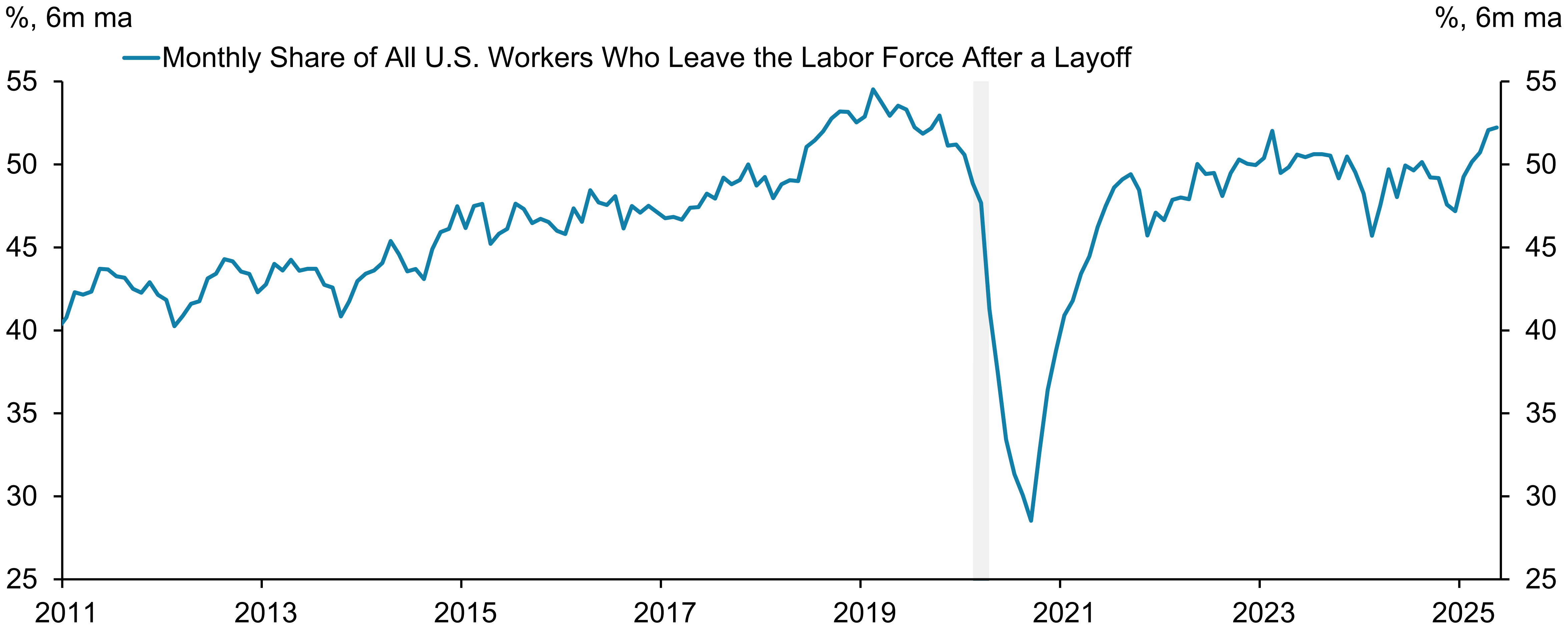
Sources: BLS, Haver Analytics
Note: Gray bars indicate recession periods

While the unemployment rate remains low, hiring activity is cooling



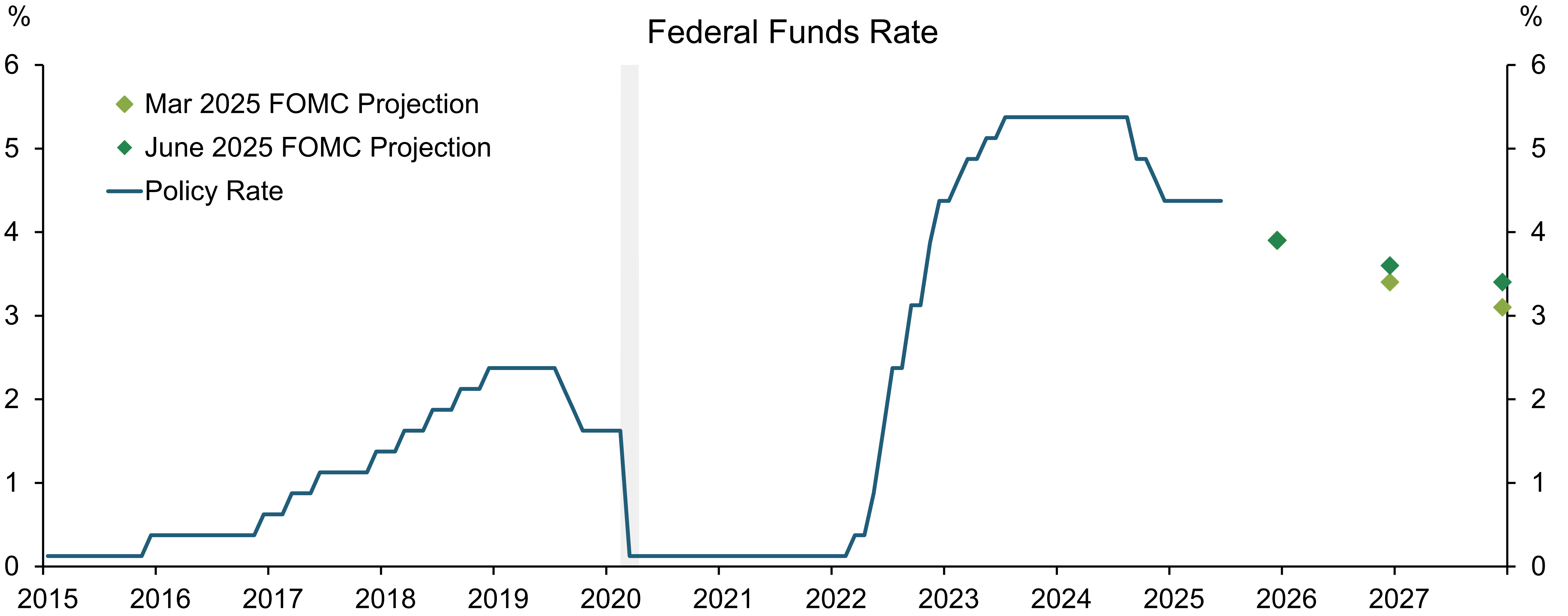
Sources: Bureau of Labor Statistics, Haver Analytics

Workers that lost a job recently are somewhat more likely to leave the labor force compared to historical norms



Sources: Ellieroth & Michaud (2024), Minneapolis Fed; FRED
Note: Gray bars indicate recession periods

Summary of Economic Projections



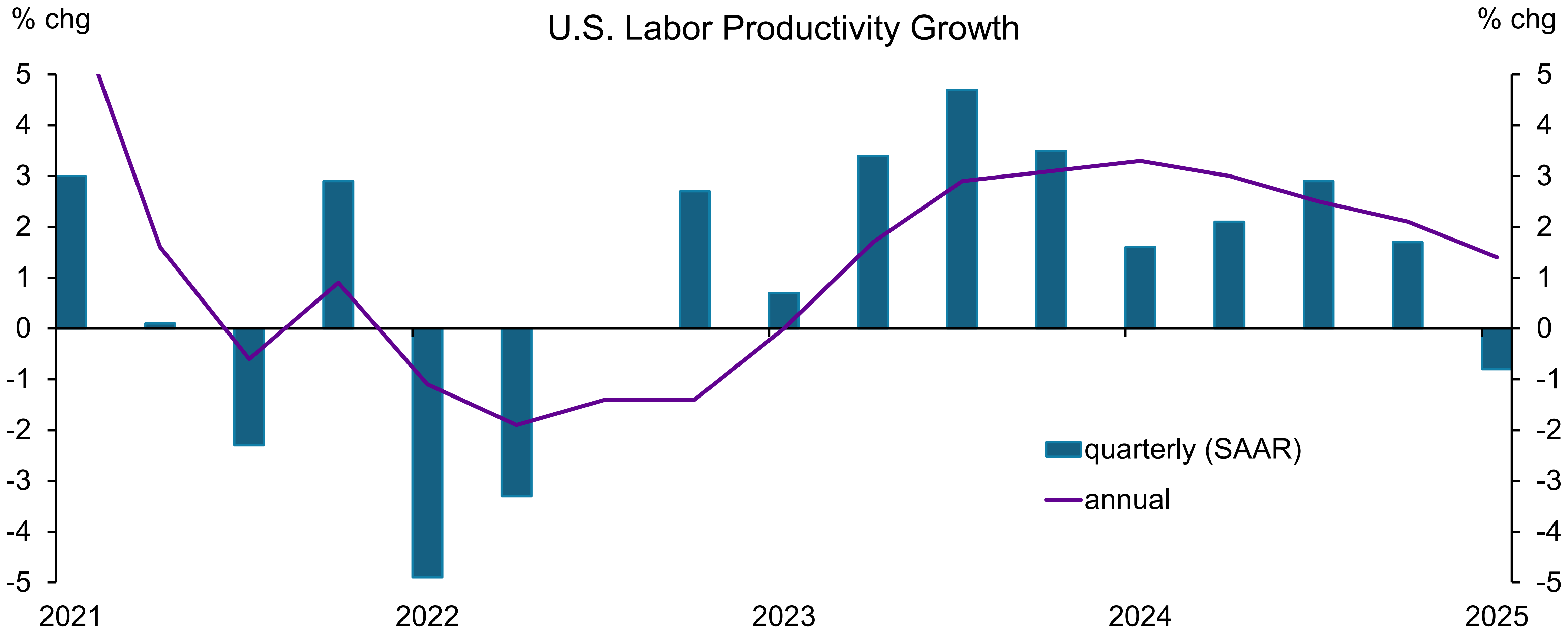
Sources: Federal Reserve Board, Haver Analytics
Note: Gray bars indicate recession periods.

Some longer-term considerations

- Over the long-run, the natural interest rate depends closely on productivity growth, demographics, and Treasury market fundamentals.

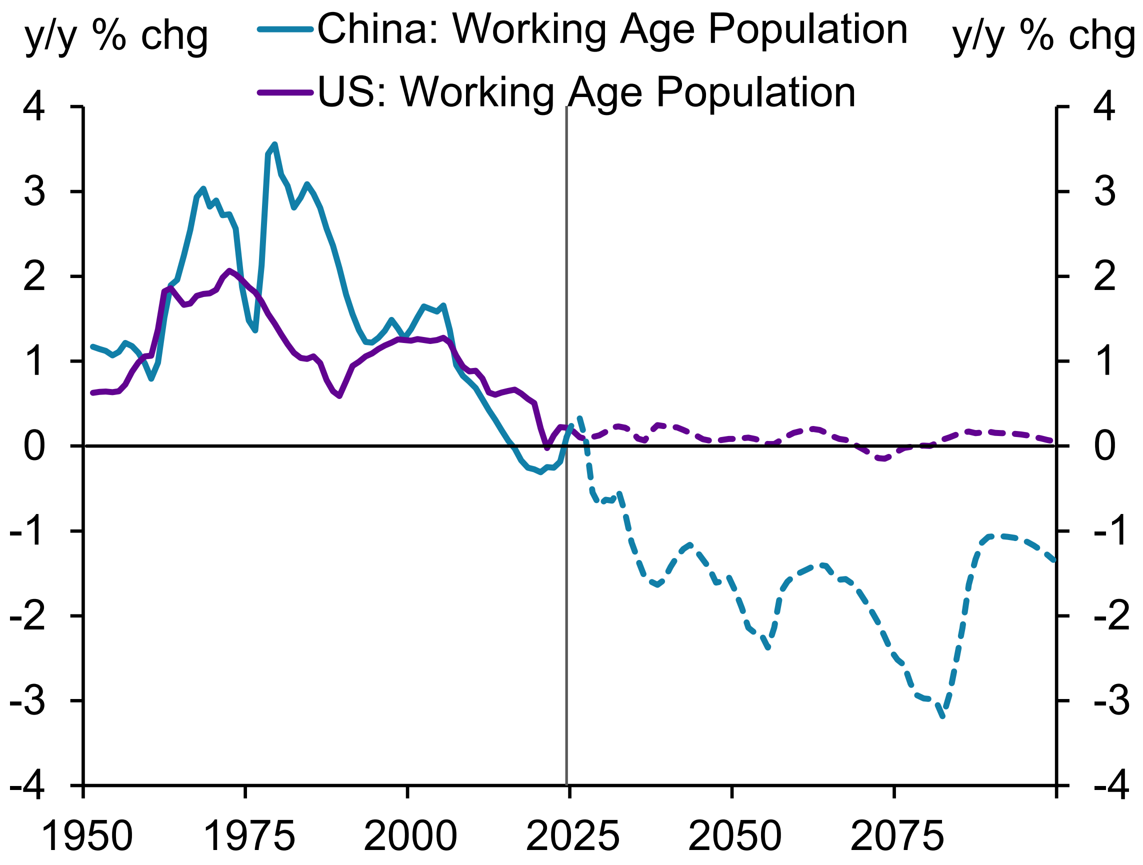
- Each of these factors are showing signs of shifting, putting pressure on the longer-term level of rates, likely in opposing directions.

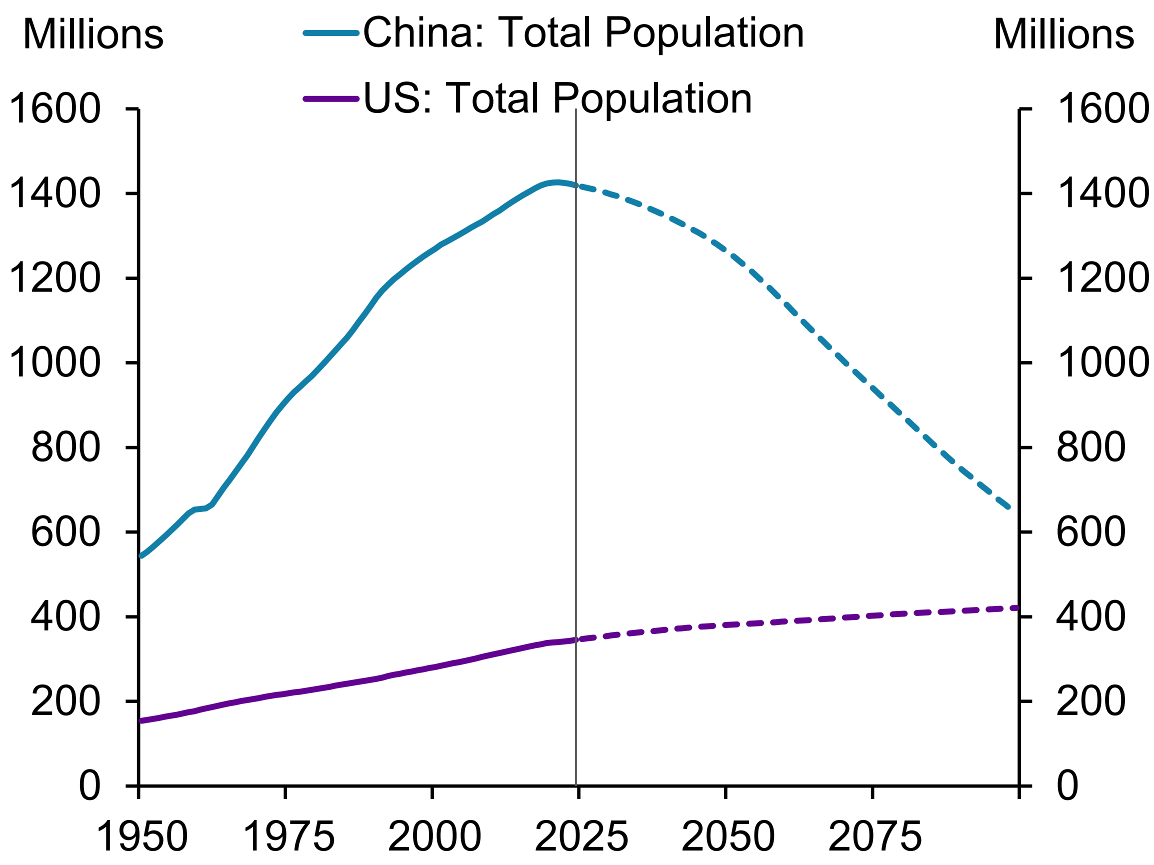
U.S. productivity growth has been robust, but began to decline in recent months and could remain soft amid supply shocks



Sources: BLS, Haver Analytics

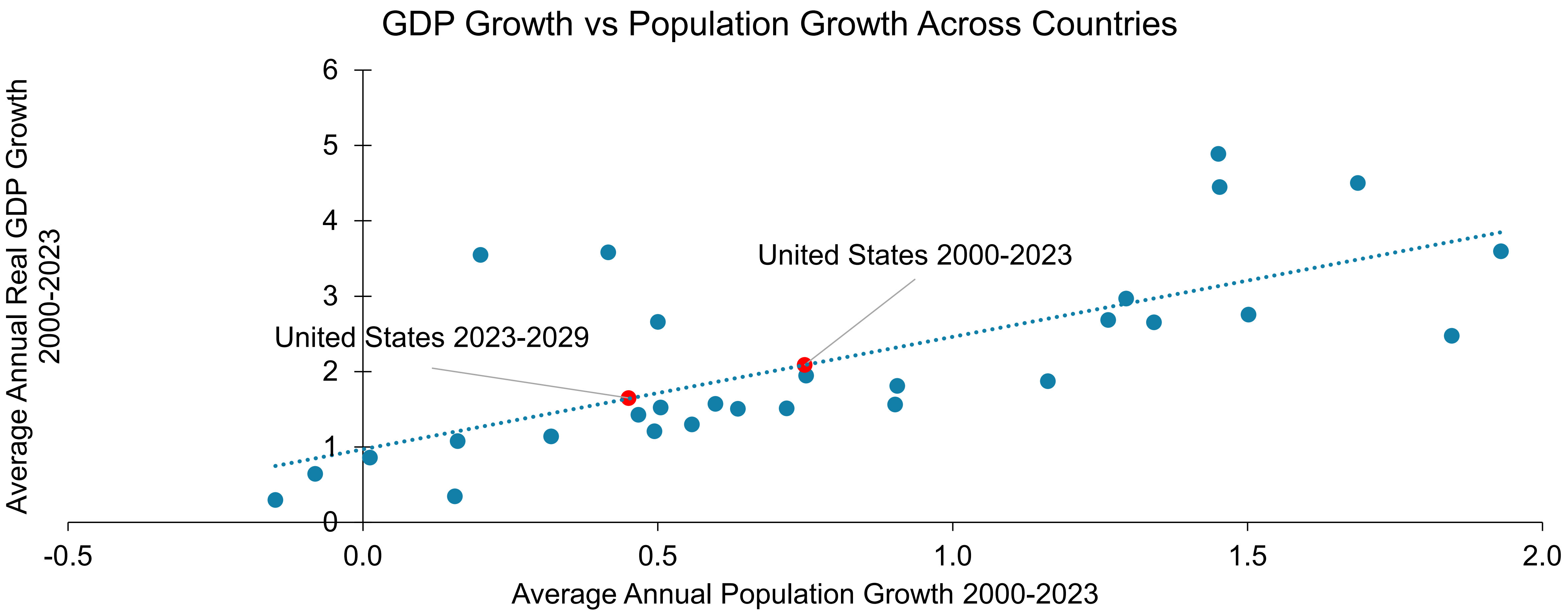
Population growth is poised to slow, or even decline





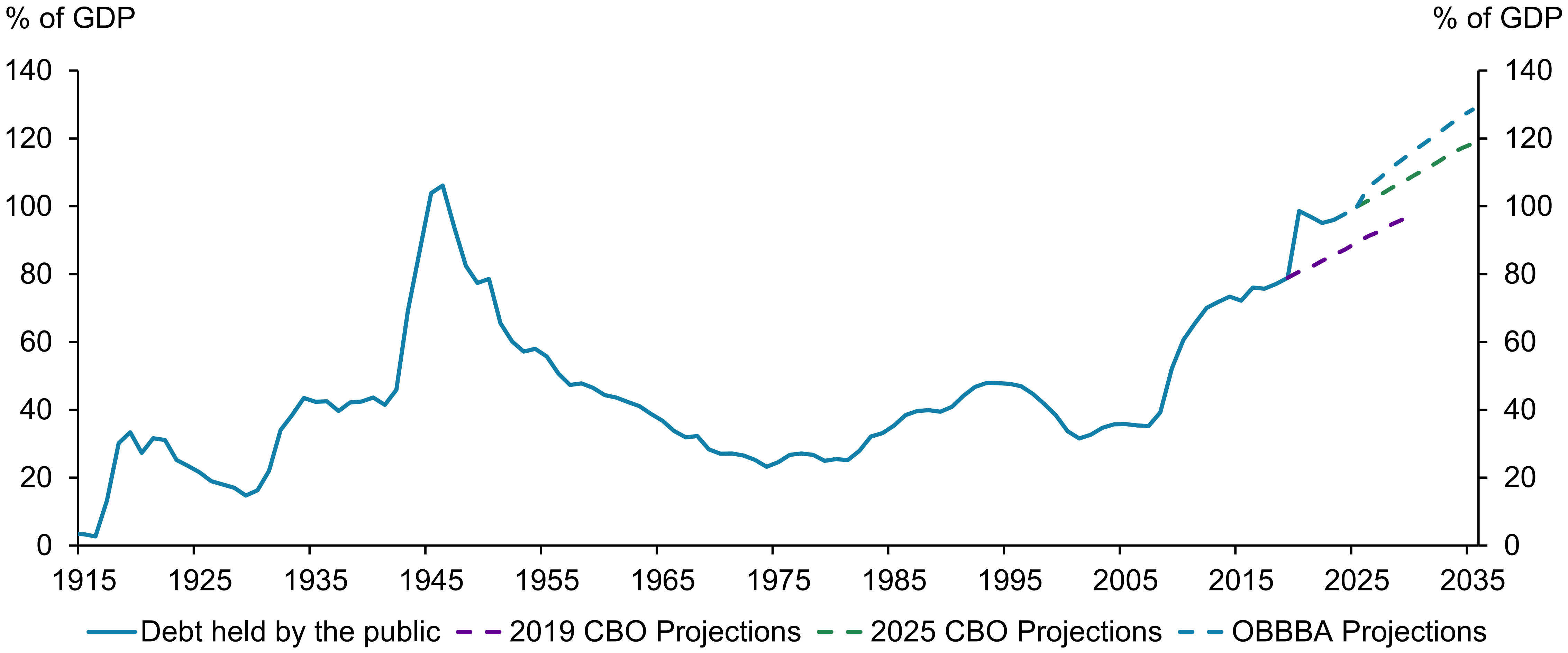
Sources: UN, Congressional Budget Office, Haver Analytics

Slower population growth tends to be associated with slower growth



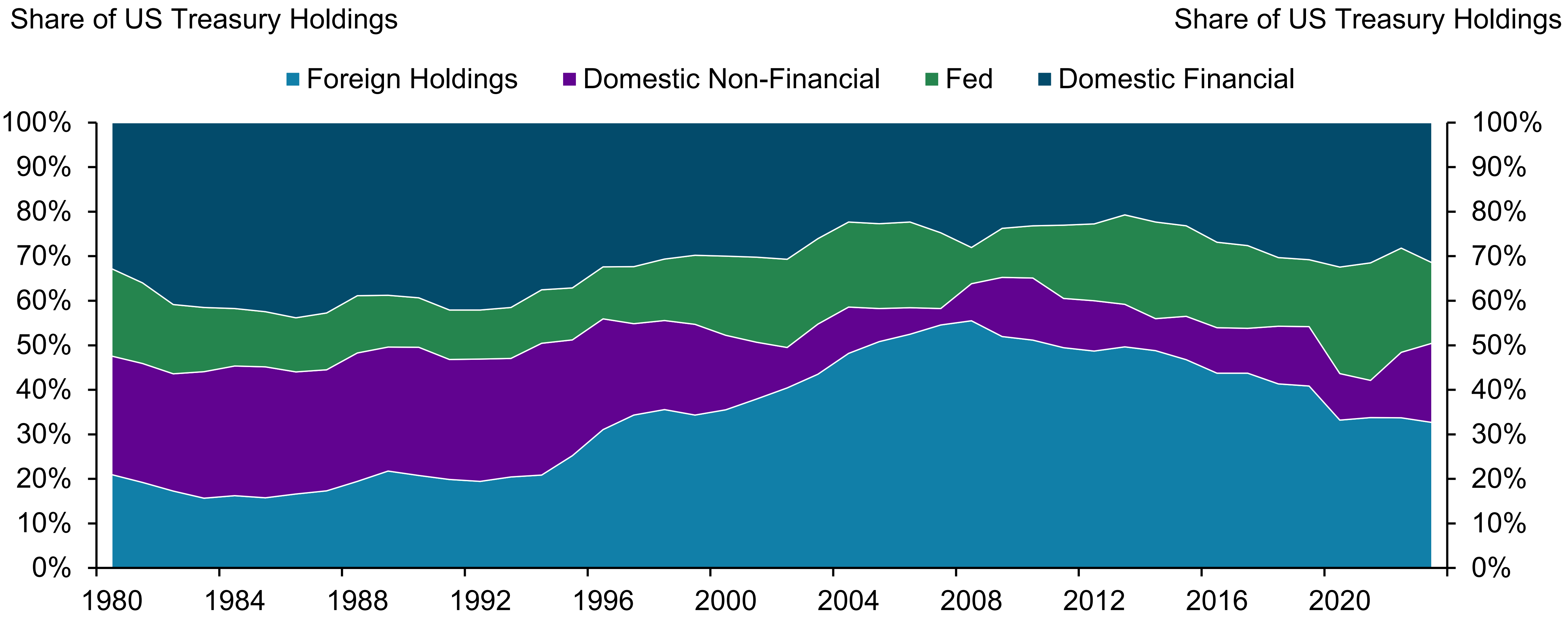
Source: IMF

The supply of government debt continues to grow



Sources: Congressional Budget Office, Committee for a Responsible Federal Budget

Foreign demand for US Treasuries could decline



Sources: FRB, Haver Analytics

KC Fed Research

FEDERAL RESERVE BANK OF KANSAS CITY

Email Alerts

Resources from the Kansas City Fed's Economic Research Department

- Beige Book

  Anecdotal information on current economic conditions in the District.

- 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.

Stay up to date on our latest research: Subscribe to KC Fed Research Email Alerts