

# **Economic Outlook: Parsing aggregate, sectoral, and regional developments**

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**Nicholas Sly**

**Denver Branch Executive, Vice President and Economist**

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

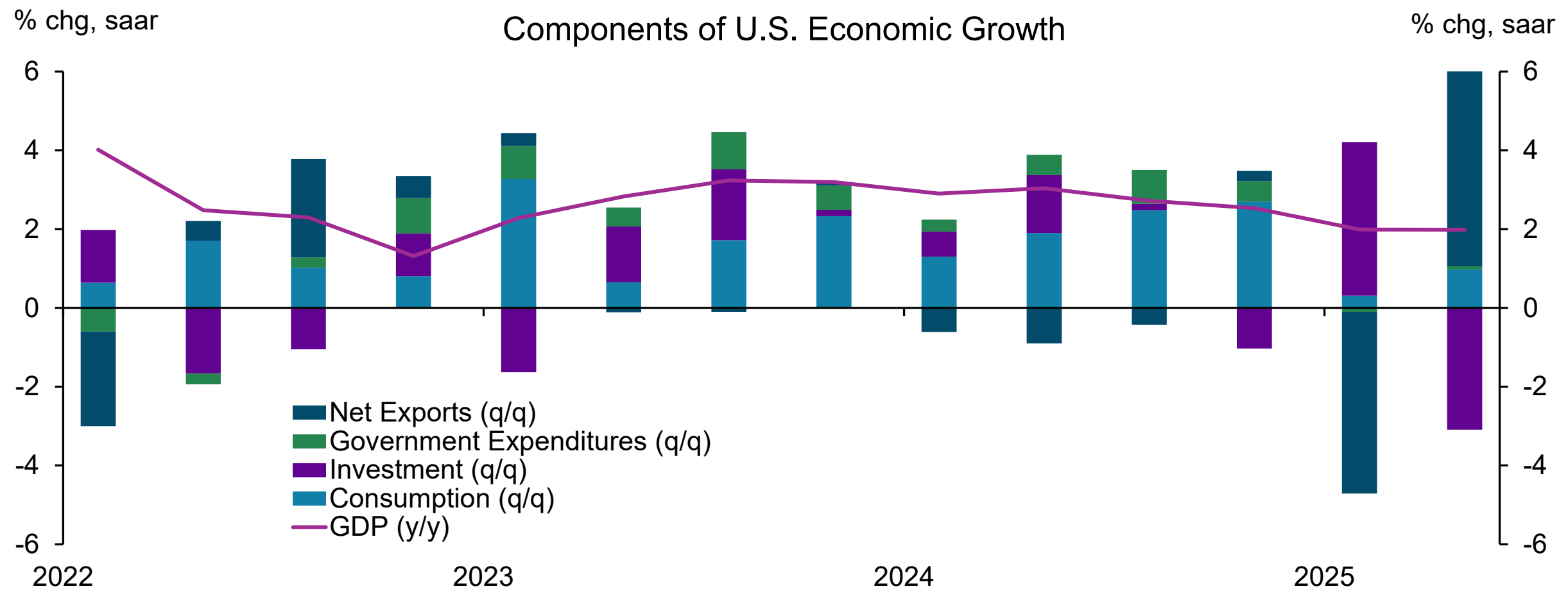


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## Outlook Themes

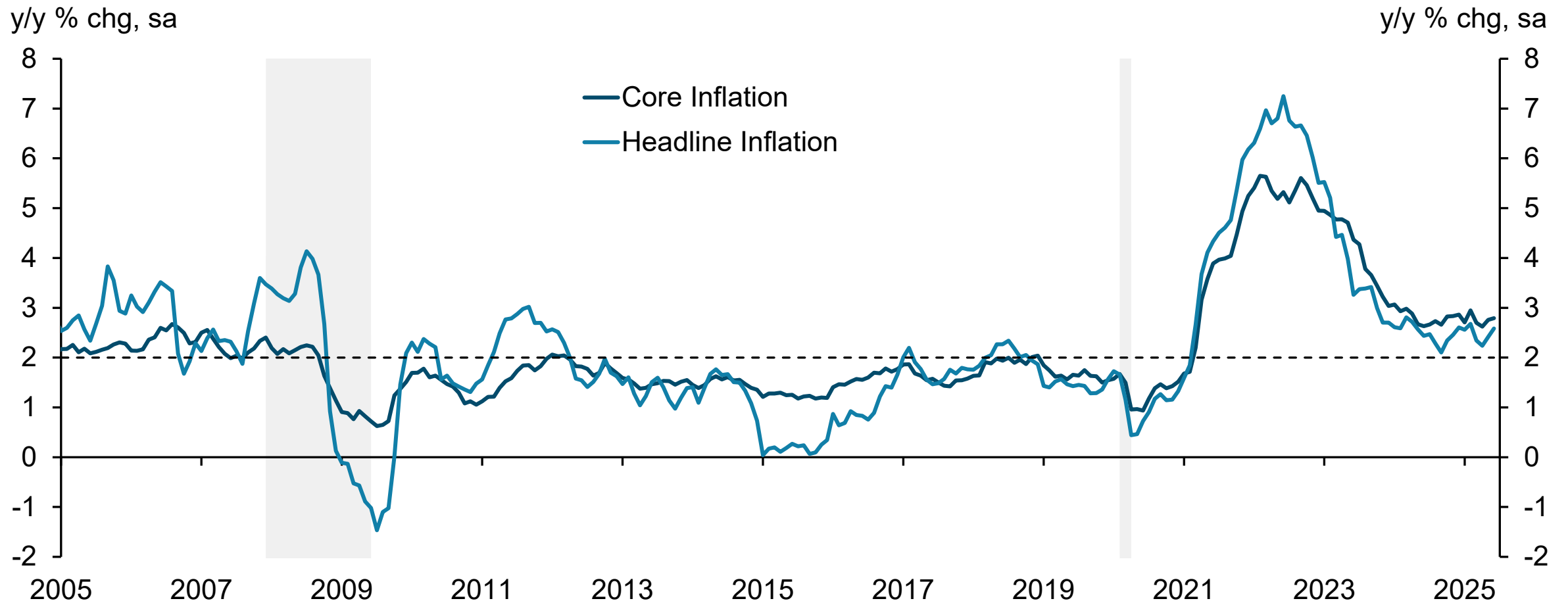
- Aggregate conditions show employment near its long-run sustainable level and inflation near 2 percent, even as economic policy has been dynamic, financial markets volatile, recent data mixed, and the outlook uncertain.
- Heightened uncertainty typically weighs on aggregate capital expenditures and consumption with some persistence.
- Tariff rates have driven businesses' materials and input costs higher and import duties have been a notable expense for certain industries, especially in heavy manufacturing and industrial sectors.
- Regional businesses most exposed to trade costs are facing declines in orders and sales, with demand remaining relatively more stable in other sectors.

# Consumer spending moderated during the first half of the year, while growth was more volatile in other segments of the U.S. economy



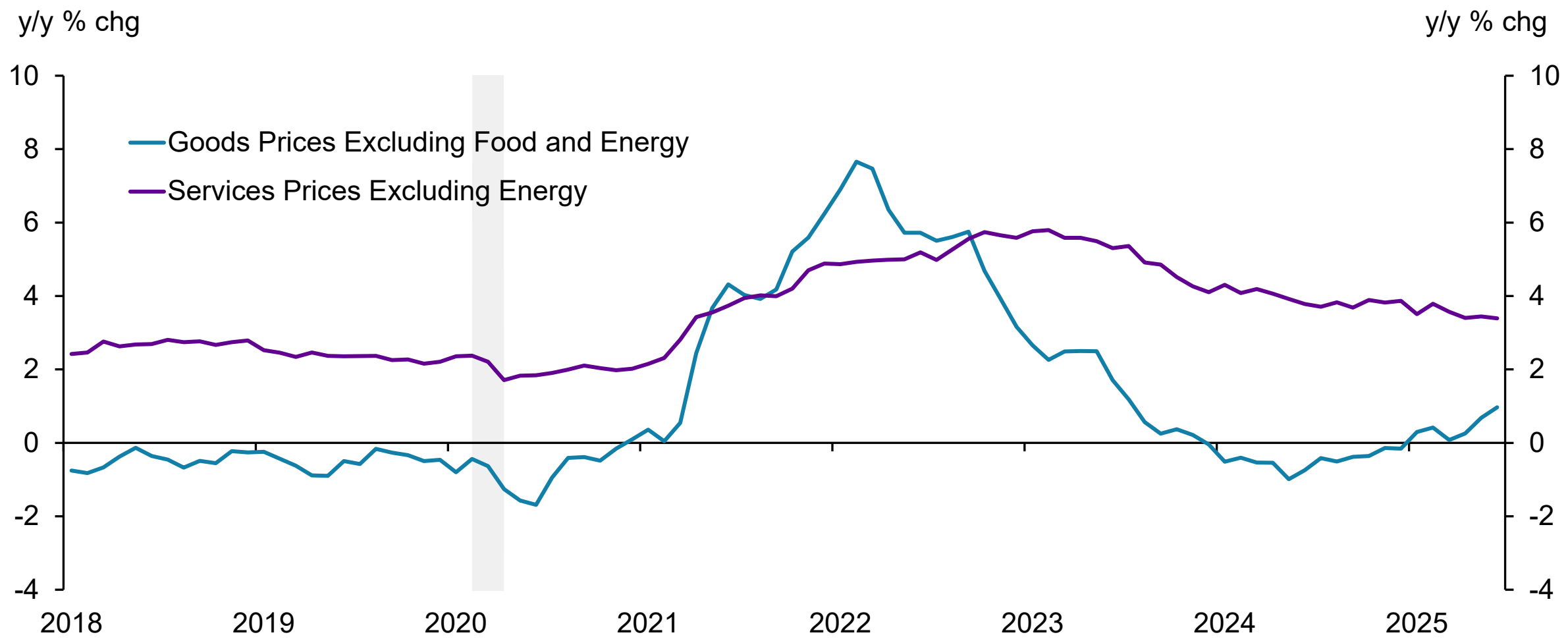
Sources: Bureau of Economic Analysis, Haver Analytics

## Inflation is near, but somewhat above, the Fed's 2 percent target



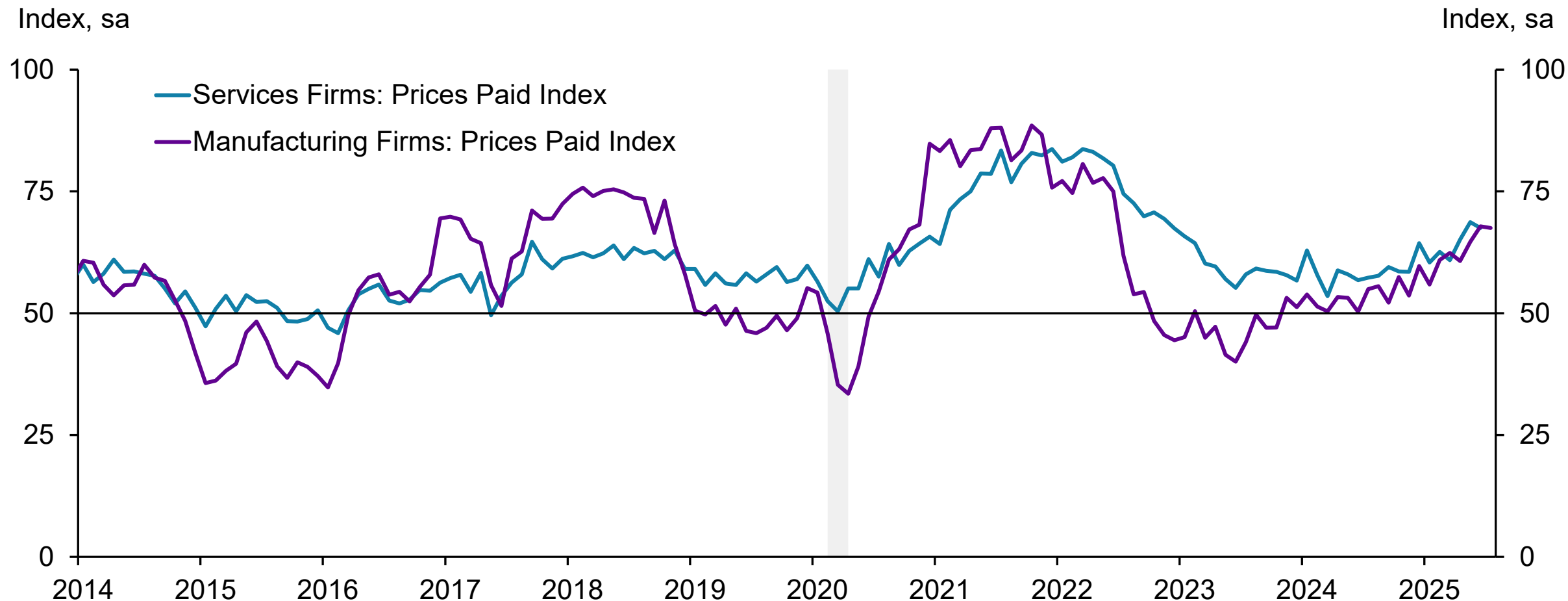
Sources: Bureau of Economic Analysis, Haver Analytics  
Note: Gray bars indicate recession periods

# Goods prices are showing some modest effects of tariffs while services price growth continues to moderate



Sources: Bureau of Economic Analysis, Haver Analytics  
Note: Gray bars indicate recession periods

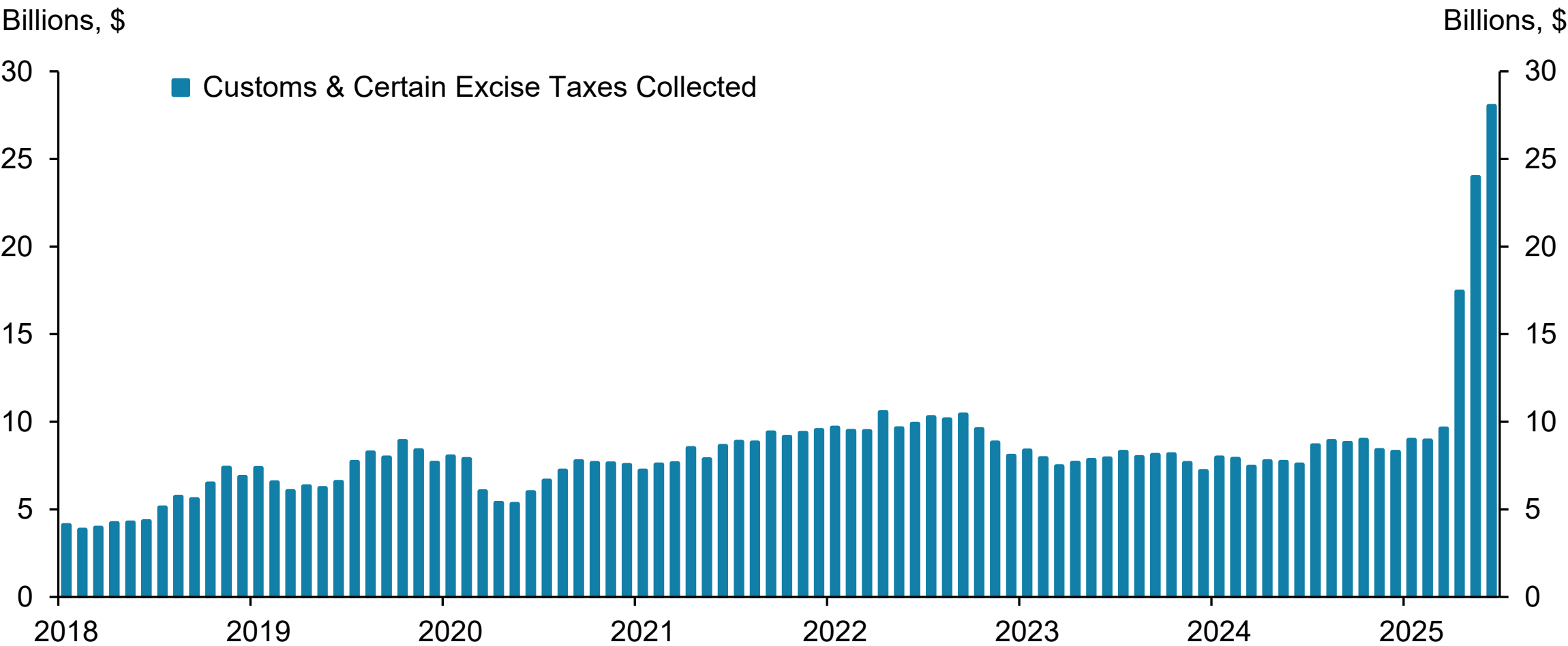
# U.S. firms report paying higher input prices



Sources: Institute for Supply Management, Haver Analytics

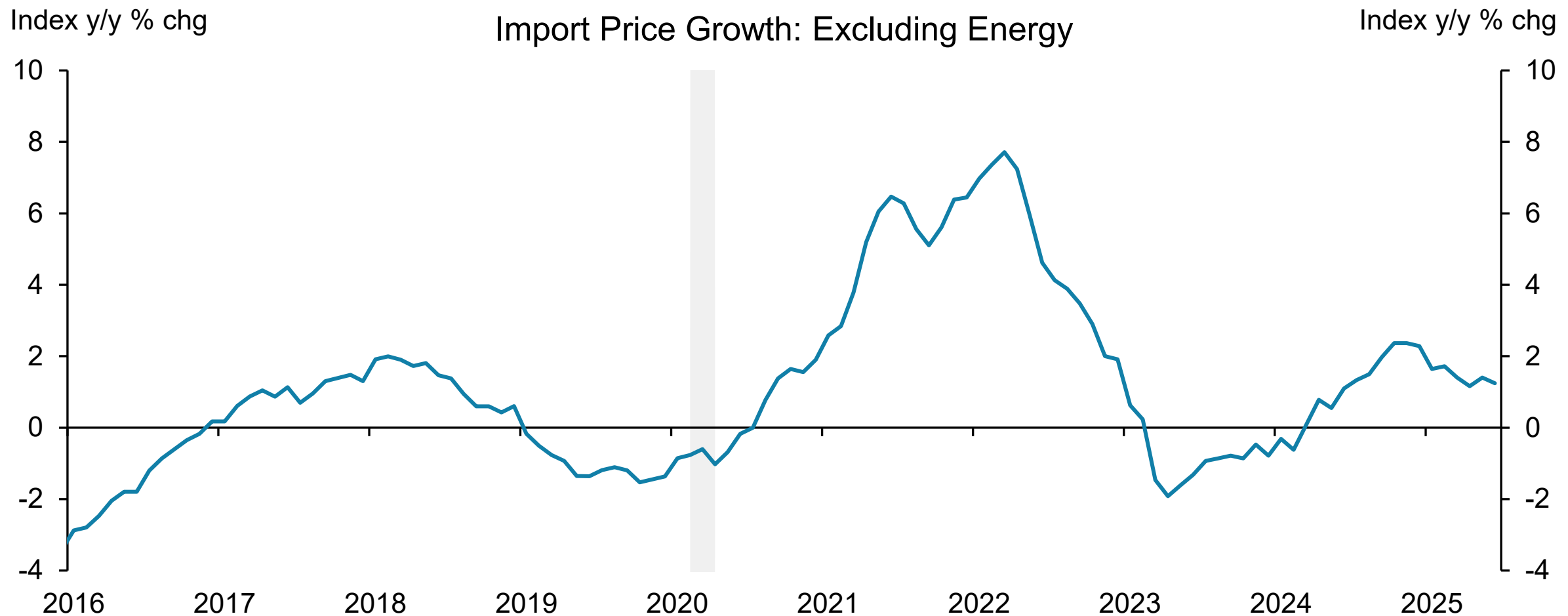
Note: Values above (below) 50 indicate more firms report input prices are rising (falling). Gray bars indicate recession periods.

# The costs of tariffs are being realized



Sources: U.S. Treasury, Haver Analytics

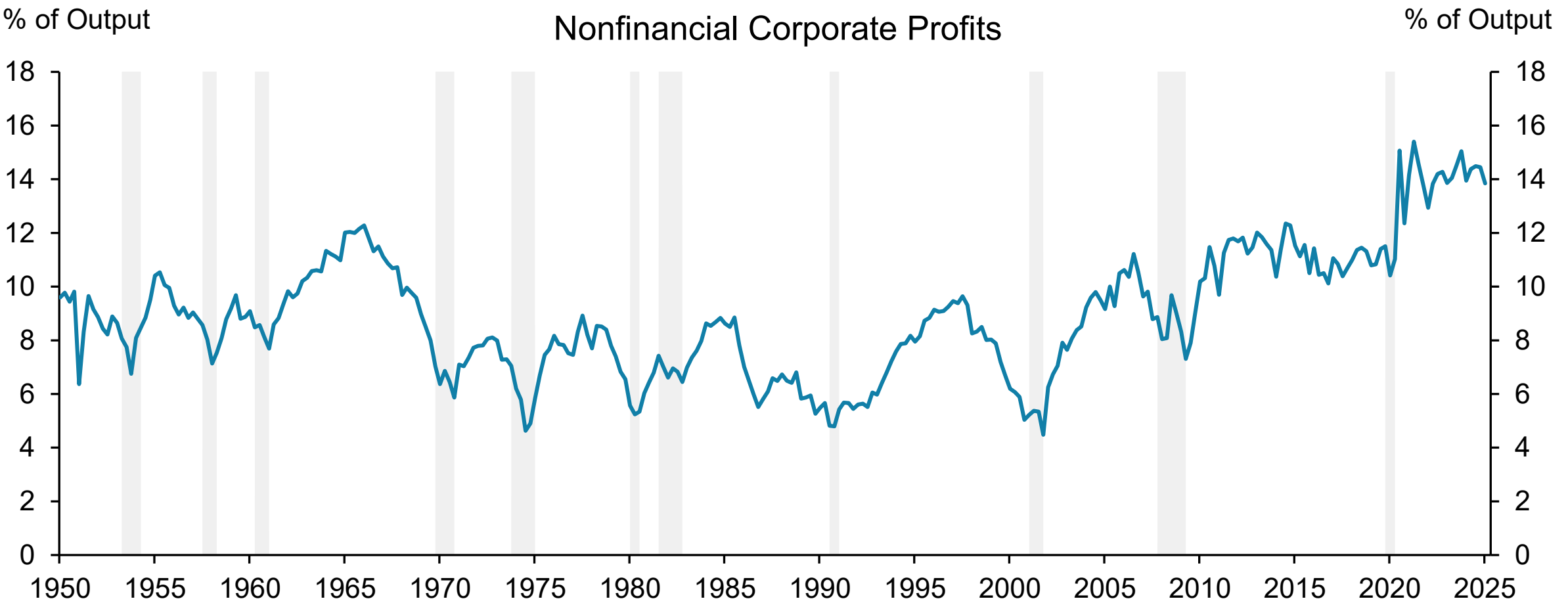
Little sign that foreign suppliers are paying a significant portion of the tariffs, as import price growth has remained firm



Sources: Bureau of Labor Statistics, Haver Analytics  
Notes: Gray bars indicate recession periods.

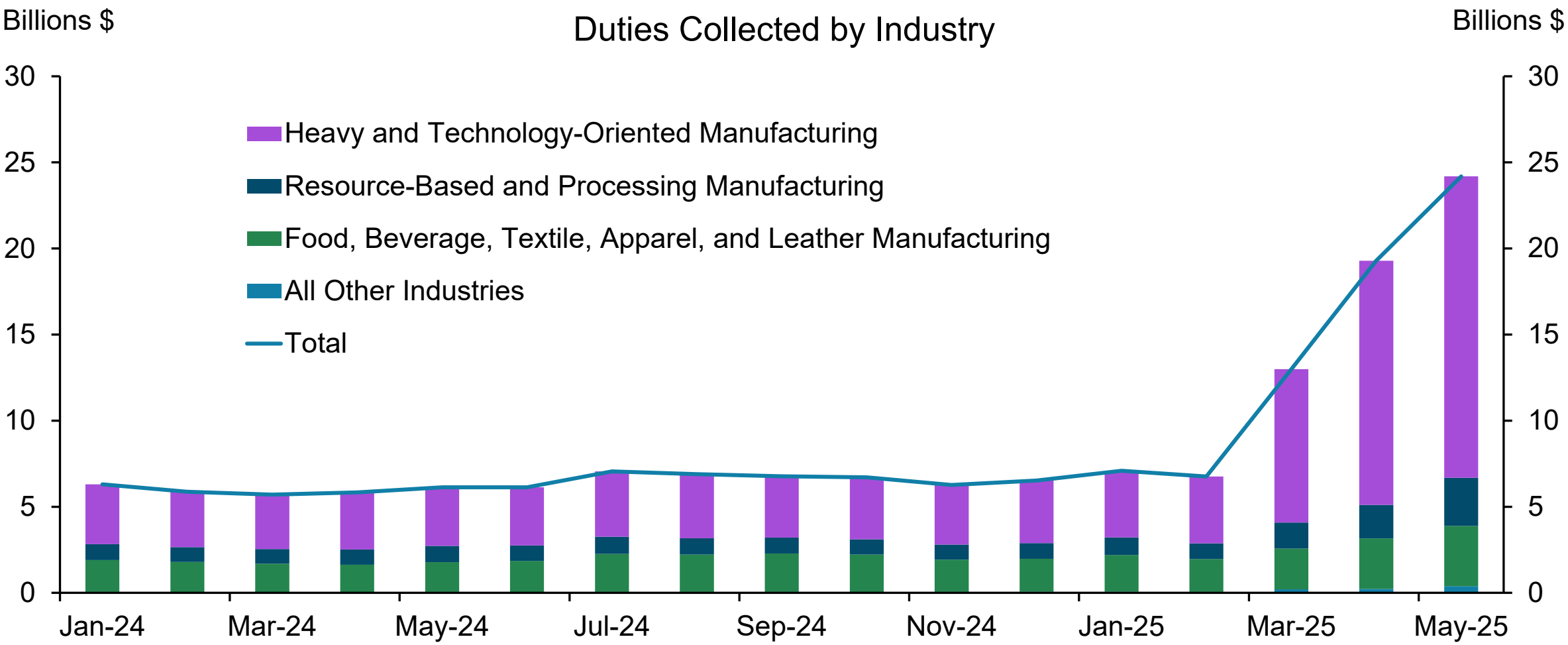


# Profit margins are elevated, giving firms some scope to absorb tariffs if they cannot pass along to consumers

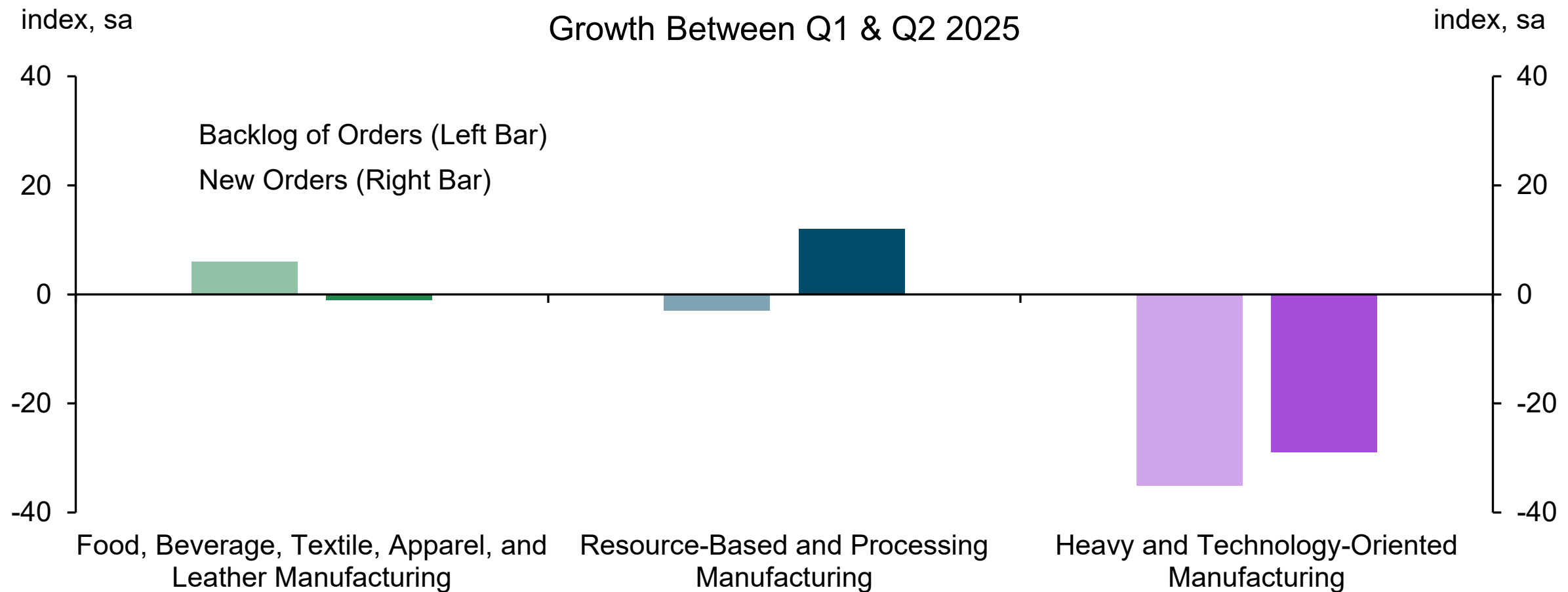


Sources: Bureau of Economic Analysis, Haver Analytics  
Note: Gray bars indicate recession periods

# The additional duties are being collected primarily from heavy manufacturing businesses – such as metals, transportation equipment and electronics

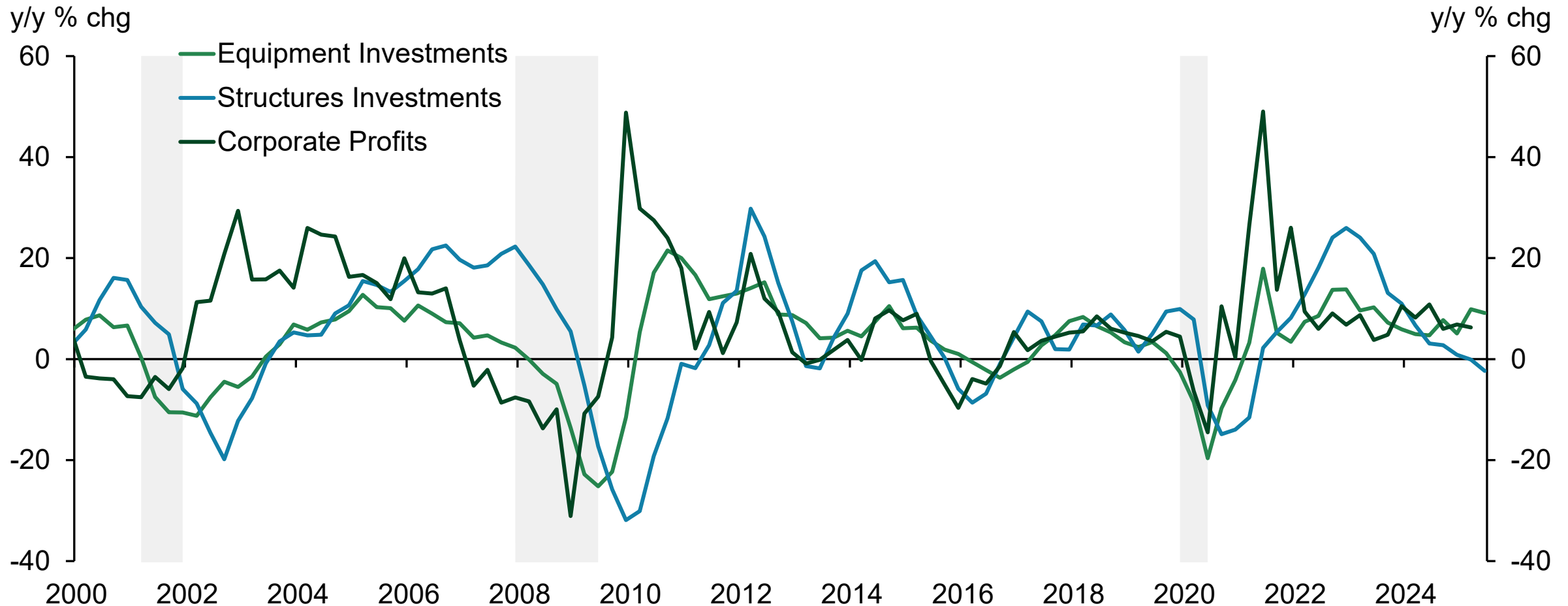


# Backlogs of orders and the volume of new orders at regional businesses declined in the sectors most exposed to import duties



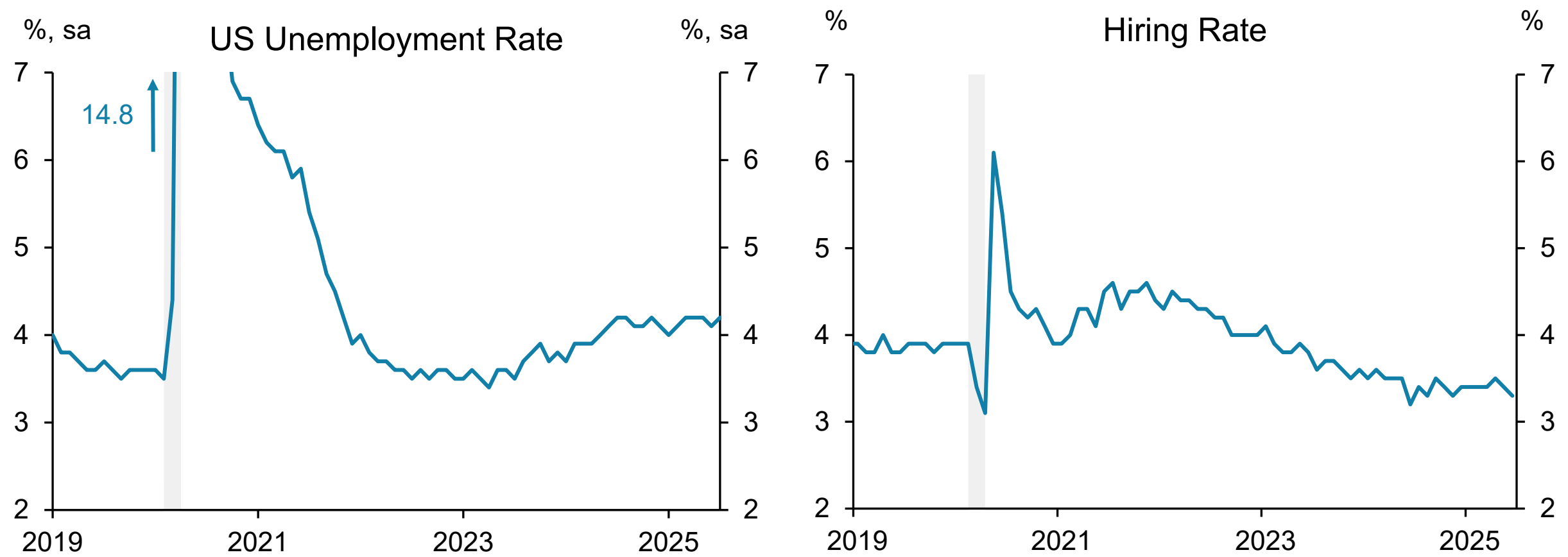
Sources: Federal Reserve Bank of Kansas City Manufacturing Survey.  
Note: Positive values indicate net number of firms reporting expansion, while negative values indicate those reporting declines.  
All values reported relative to their Q1 baseline.

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



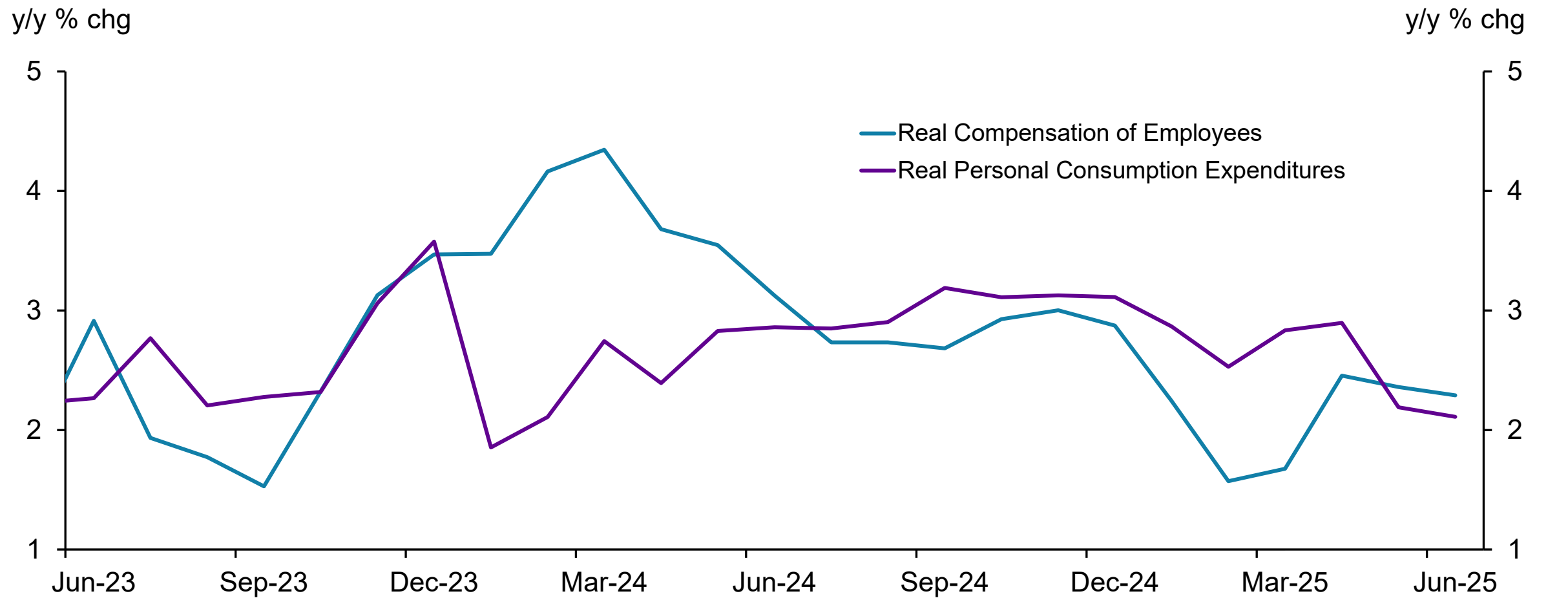
Sources: Bureau of Economic Analysis, Haver Analytics  
Note: Gray bars indicate recession periods

# Unemployment remains near most estimates of its longer-term level, though the pace of hiring is low



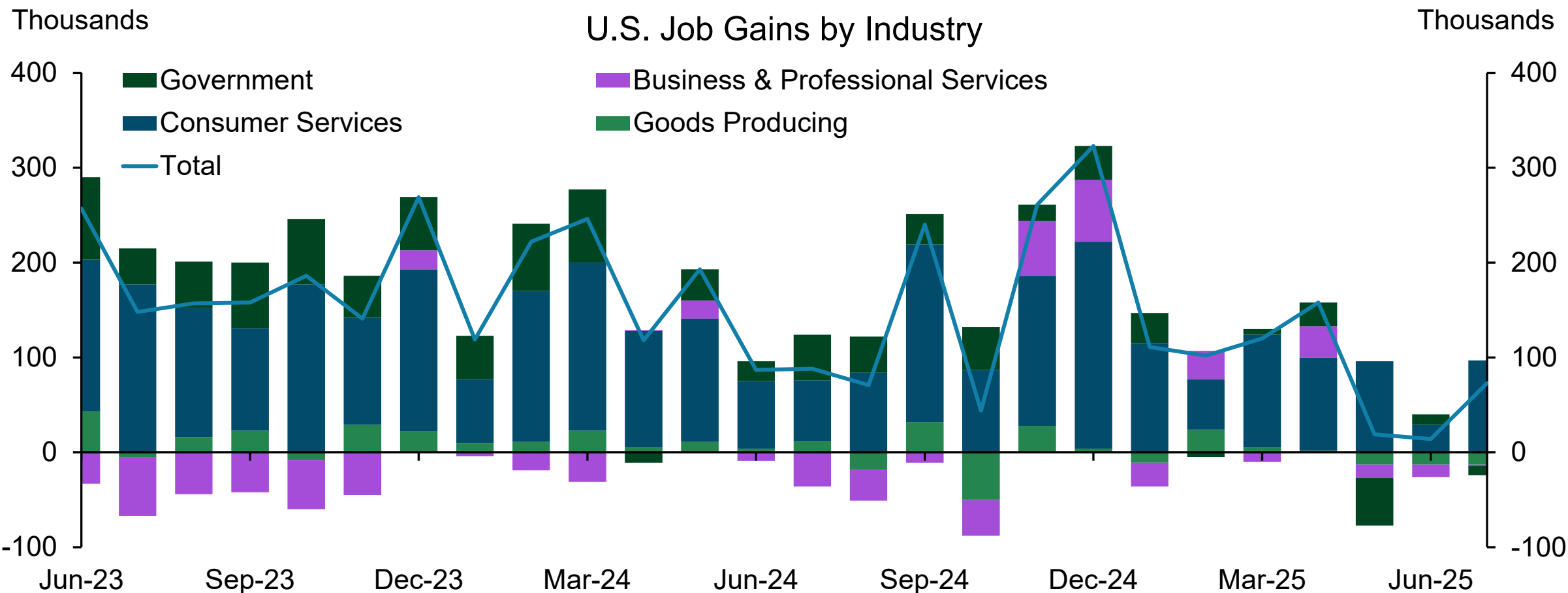
Sources: Bureau of Labor Statistics, Haver Analytics  
Note: Gray bars indicate recession periods

# Consumption growth decelerated earlier this year, but employee earnings remain stable



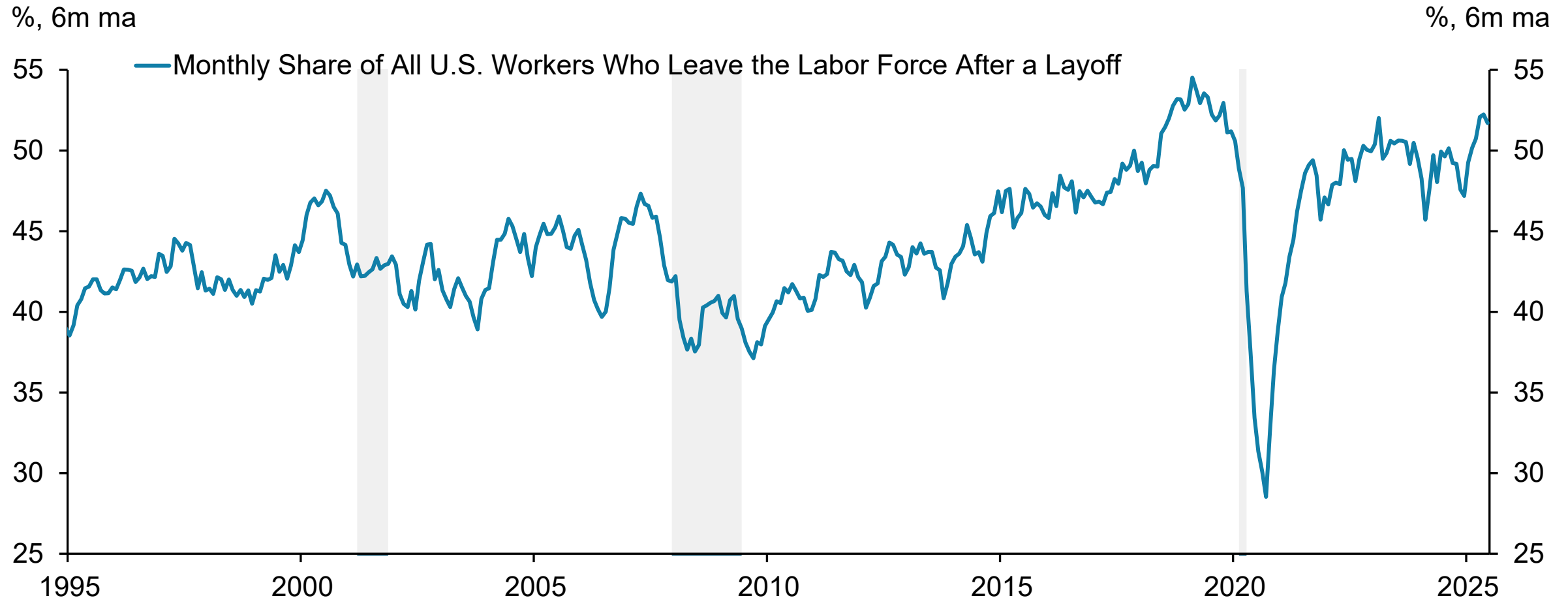
Sources: Bureau of Economic Analysis, Haver Analytics

# Job gains in service sectors remain steady but mild job losses in the goods and government sectors rose over the past quarter



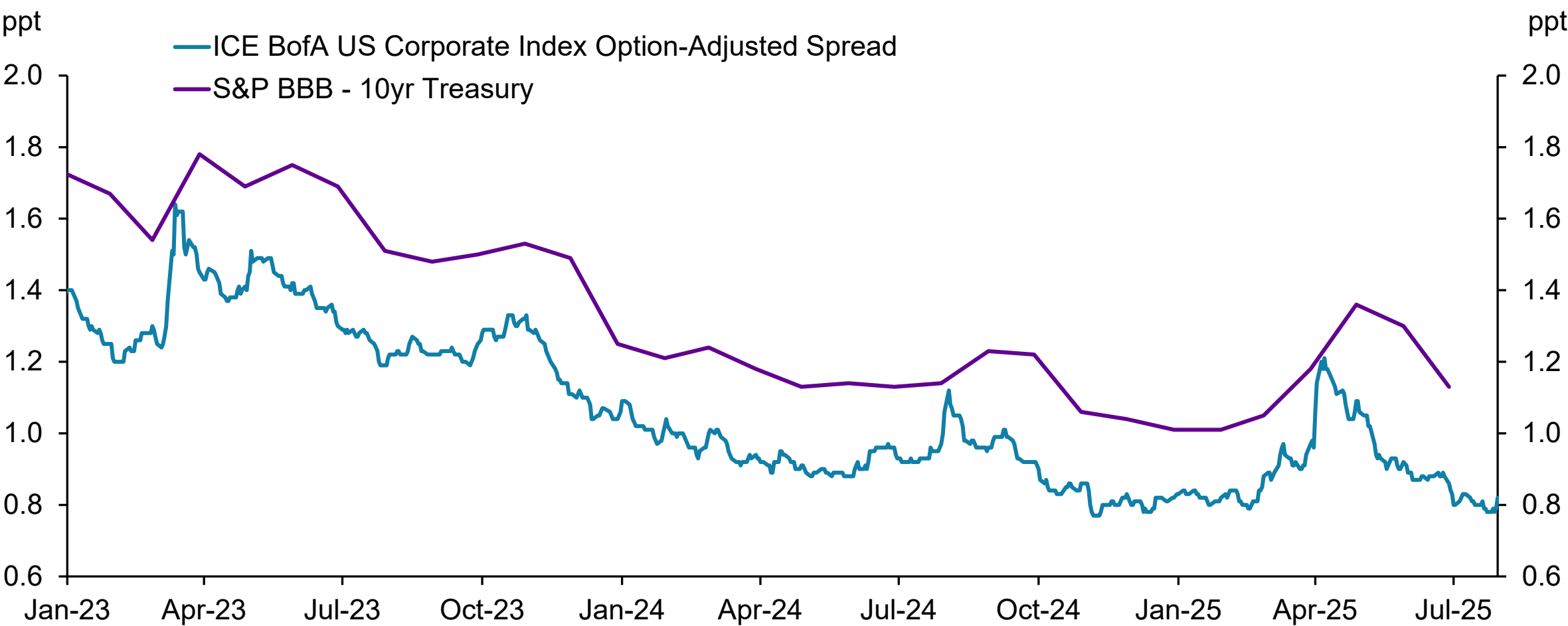
Sources: Bureau of Labor Statistics, Haver Analytics

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



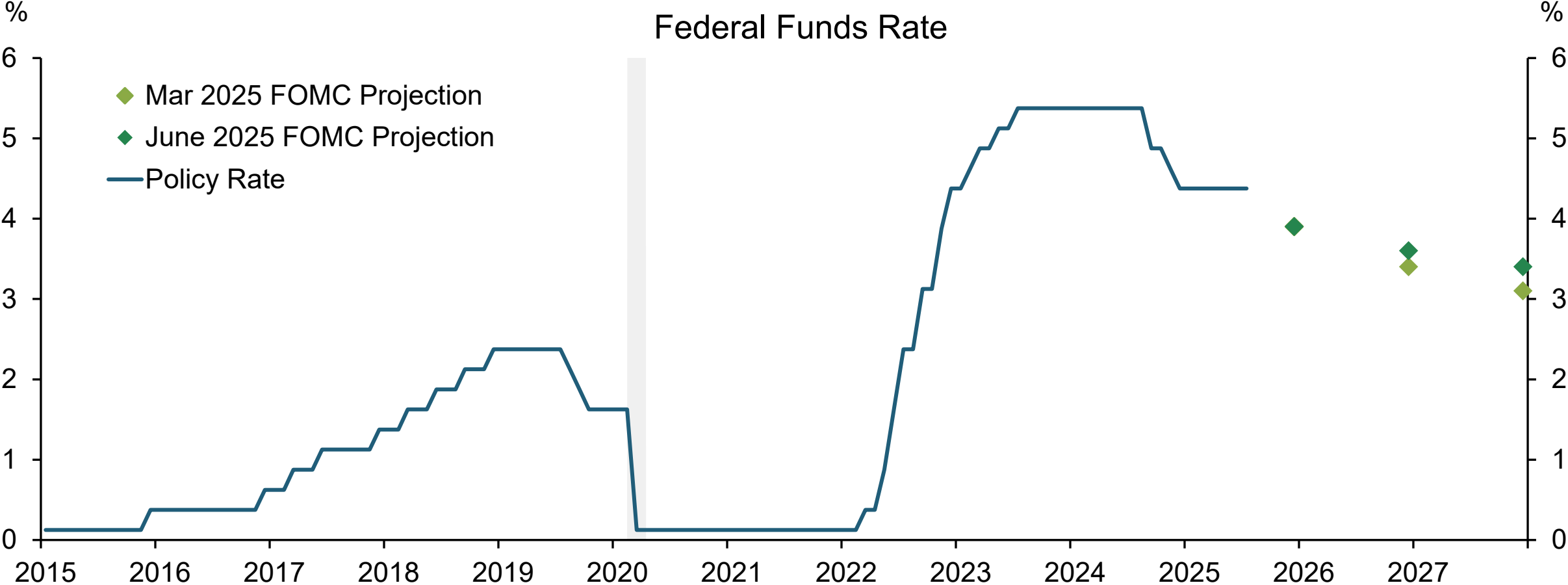


# Credit risk spreads have retraced from their climb earlier this year



Sources: S&P Global Fixed Income Research, Federal Reserve Board, Ice Data Indices, Haver Analytics

# Summary of Economic Projections



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

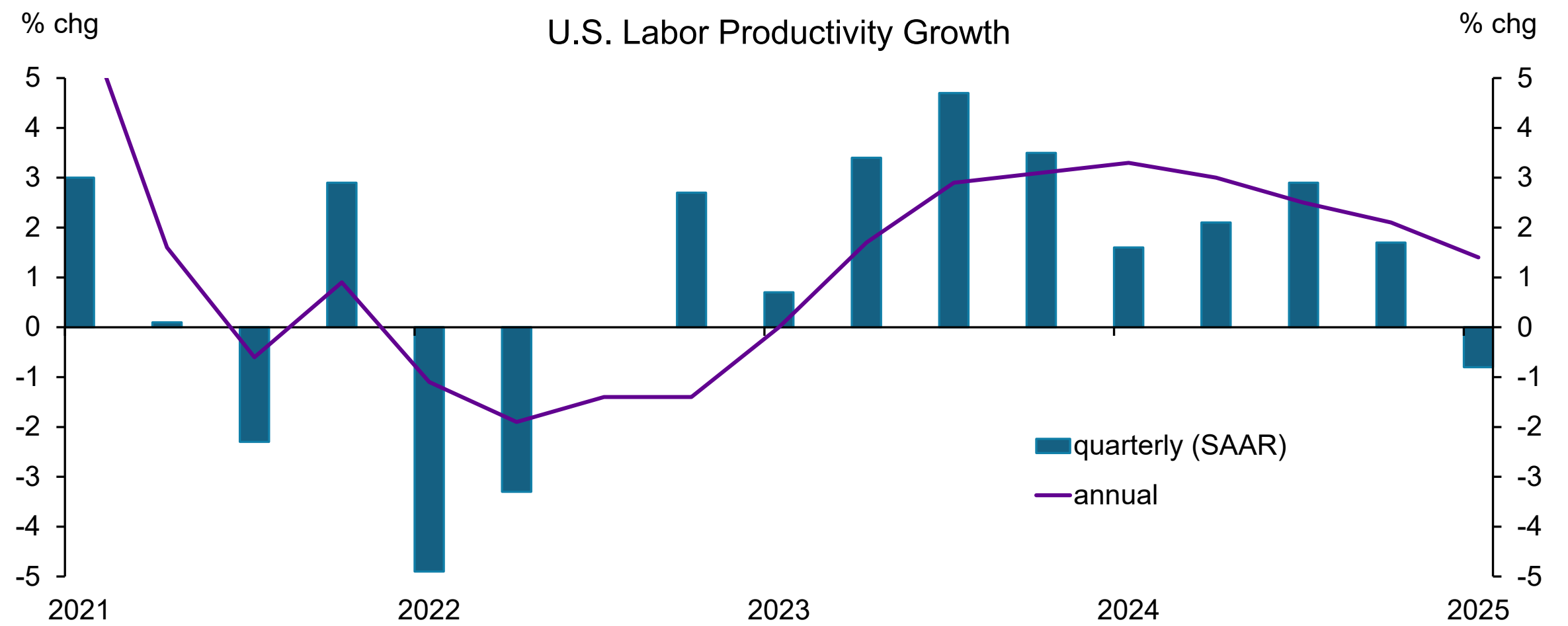


## Resources from the Kansas City Fed's Economic Research Department

- [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.

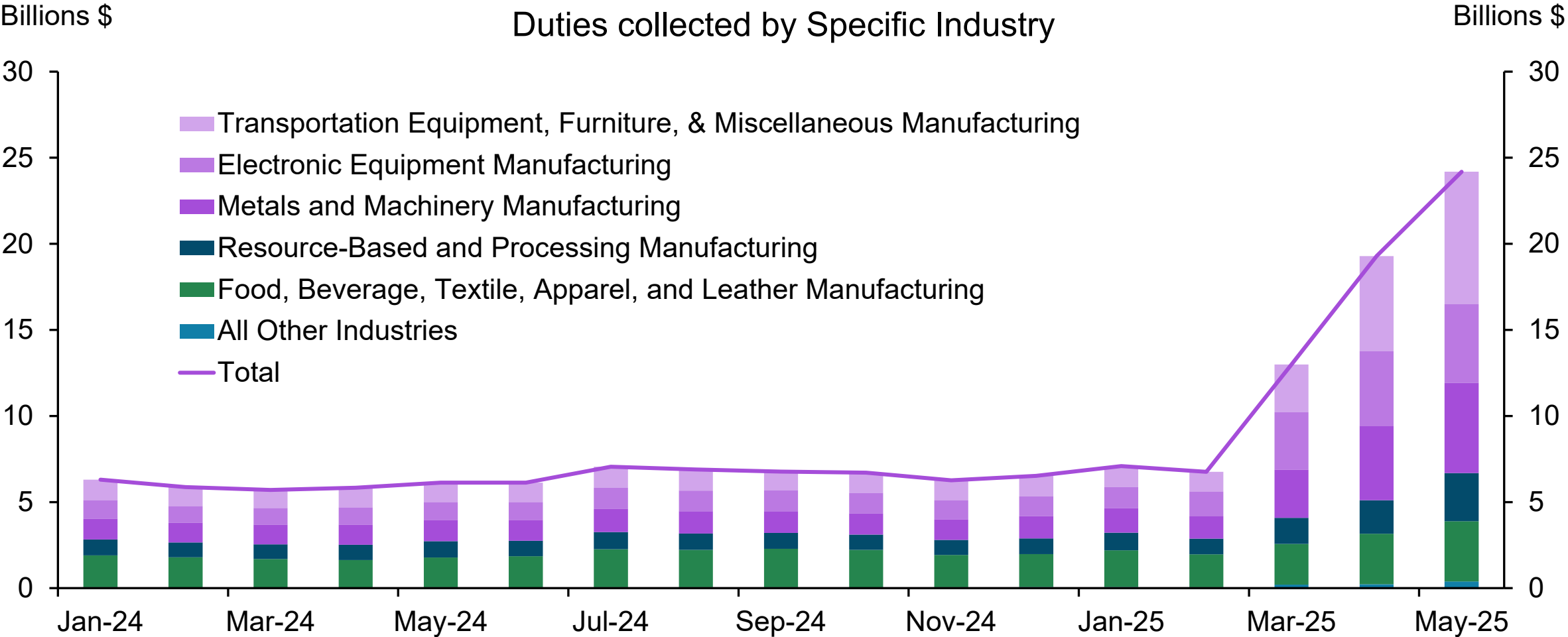
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# Appendix: U.S. productivity growth has been robust, but began to decline in recent months and could remain soft amid supply shocks



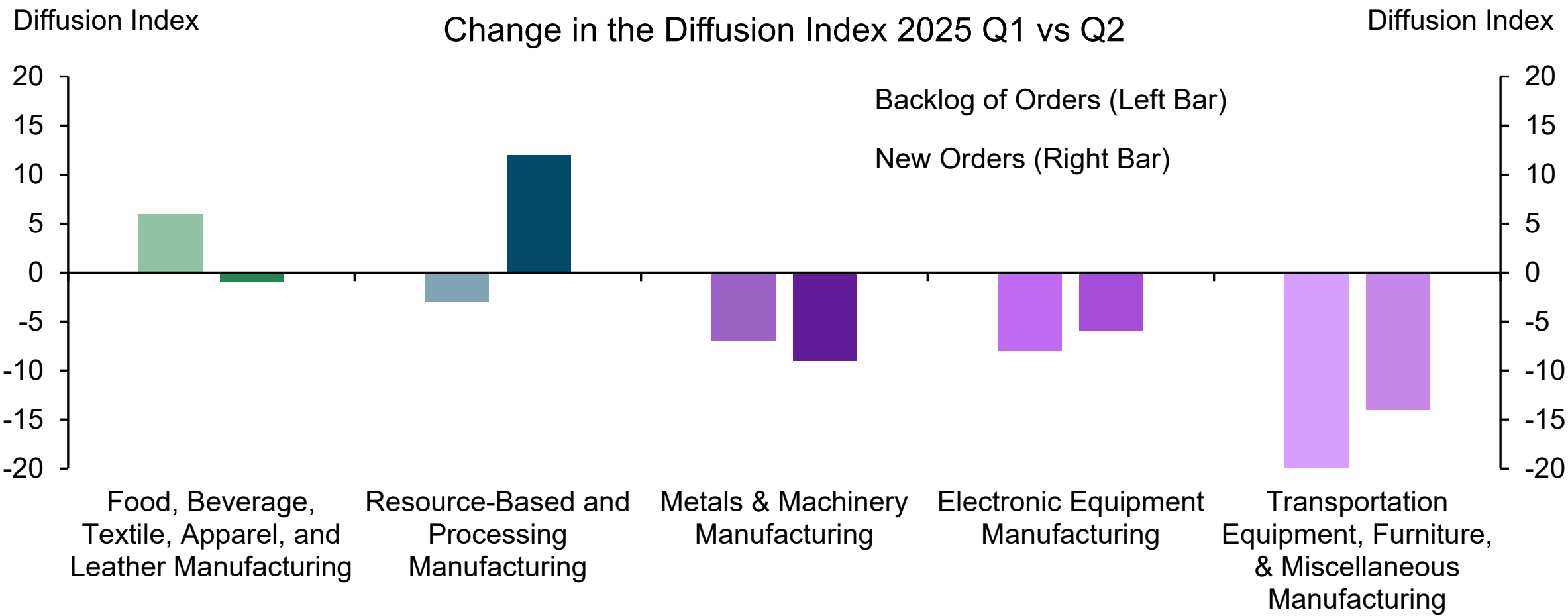
Sources: Bureau of Labor Statistics, Haver Analytics

# Appendix: The additional duties are being collected primarily from heavy manufacturing businesses, such as metals and electronics production



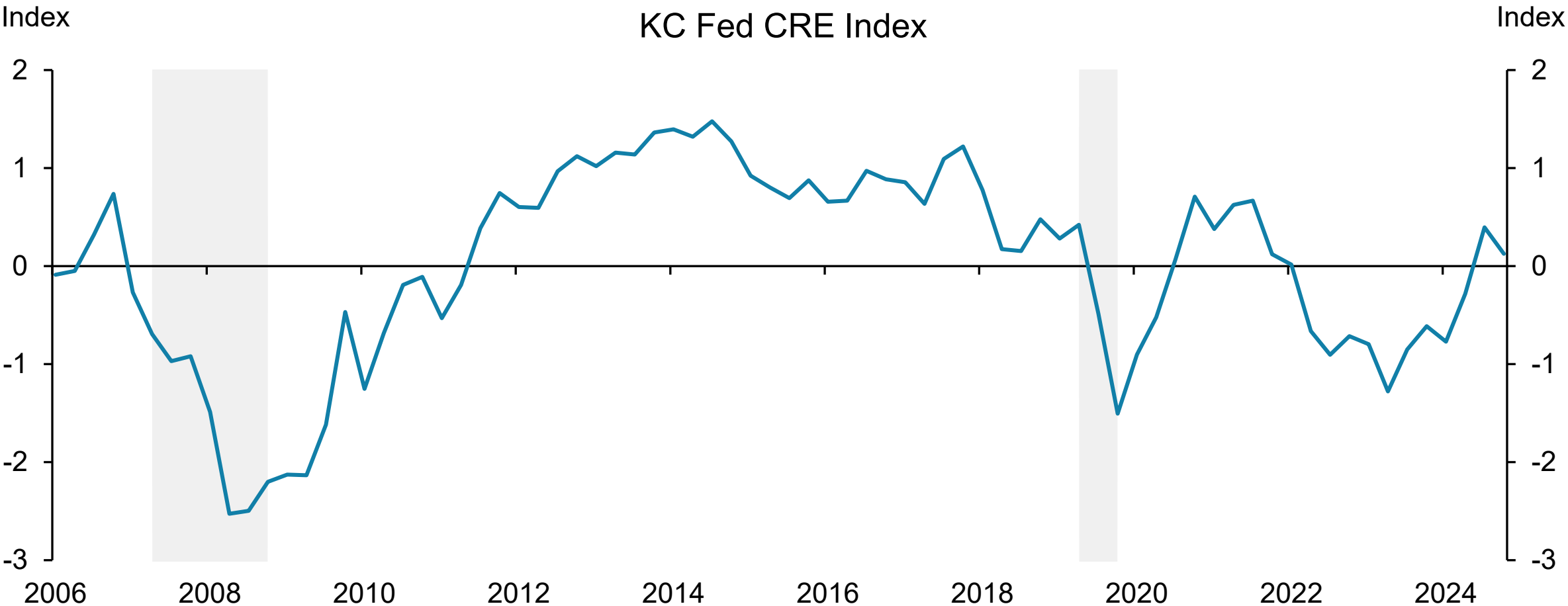
Source: Census Bureau

# Appendix: Backlogs of orders and the volume of new orders for regional businesses declined in sectors most exposed to import duties



Sources: Federal Reserve Bank of Kansas City Manufacturing Survey

# Appendix: CRE activity was steady near its historical norm in recent months, downshifting from the growth rate during past two years



Sources: Federal Reserve Bank of Kansas City  
Note: Gray bars indicate recession periods