

The Economic Outlook and Monetary Policy

Remarks by

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The views expressed by the author are his own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

Thank you for joining me today. It's always a pleasure to be in Oklahoma City, and I'm especially honored to be invited to the Rotary Club, an organization—as the slogan goes—that is committed to “Service Above Self.” The power of an organization like this arises from the value of its mission and the size of its membership. I'm told the Oklahoma City Rotary Club is among the largest in world. Talk about strength in numbers! When an organization has a large membership committed to a worthy mission, the collective impact can be extraordinary.

I see many parallels between the Rotary Club and the organization I lead, the Federal Reserve Bank of Kansas City. We too have a public service mission: to promote economic and financial stability. The Fed was deliberately structured as a decentralized institution, with 12 independent and regionally defined Reserve Banks. At the Kansas City Fed we take very seriously our connection and service to the region. Our workforce is spread across the seven-state District we serve—in our head office in Kansas City, as well as our offices in Omaha, Denver, and right here in Oklahoma City under the local leadership of Branch Executive and economist Cortney Cowley. By being rooted and present in the communities we serve, we are best positioned to understand the economic challenges and opportunities of the region.

As president and CEO of the Kansas City Fed, an important part of my job is to travel the Tenth District and meet with civic groups, business leaders, and community organizers. We also hold regular meetings with our boards of directors at each office and various advisory groups. In fact, while I'm visiting Oklahoma City, I'm meeting with our district-wide Community Development Advisory Council. For the past 25 years, this council has provided valuable insights into community and economic development challenges faced by low- to moderate-income communities. Those insights, together with events like today, help inform my

understanding of economic conditions and prepare me to participate in the Federal Open Market Committee's monetary policy deliberations.

While much of our outreach is centered on information gathering, we also provide research and analysis that is focused on the economic life of businesses and communities in the region. I'd like to take this opportunity to highlight some of that work. Staff on my Community Development team recently published "The Byways Report: The Scenic Route to Rural Prosperity." I encourage you to look it up on our website, [KansasCityFed.org](https://www.kansascityfed.org).¹ This extensive report looks at the importance of byways tourism to our region's economy. Our hope is that the report also offers useful insights so that local development officials learn from the success of others. Tourism is an important industry in many rural regions in the Tenth District, and byways are important channels that support the industry. This report is just one example of how the Fed invests in understanding the regional economy, while also contributing to the region's economic success.

The timing of the report coincides with the 100th anniversary of Route 66, one of the most recognized byways in the world and an important link tying together four of the seven states in our District. Oklahoma boasts 400 miles of Route 66, more than any other state. To many, Route 66 is the epitome of Americana, with its wide-open spaces interrupted only by unique and distinctive local communities, each exceptional in its own way. This is the story of America, a set of distinct regions and economies, linked together to form a more powerful whole. The fundamental importance of regionalism to the nation's development and ultimate strength continues today in the structure of the Federal Reserve. We are your bank, and we work every day to make sure you have a voice in the nation's economic policy.

¹ See <https://www.kansascityfed.org/community/the-byways-report/>.

I will now turn to what I am seeing in the economy. But I very much look forward to hearing about what you are experiencing during the Q&A following my remarks.

Economic Outlook

We enter the spring with the economic winds swirling in a number of directions, sort of like the Midwest weather this time of year. There are tailwinds propelling the economy forward, as well as some headwinds that could restrain activity.

I'll begin on a positive note by discussing the economic tailwinds. I see a number of fundamental strengths in the U.S. economy, including solid demand momentum, strong productivity gains, and relatively low unemployment.

The economy expanded by a little over 2 percent last year, in line with the average pace of growth in recent decades. Estimates for growth in the first quarter of 2026 suggest that the economy continued to expand at about a 2 percent annualized rate. This steady pace of growth has been driven by business spending related to artificial intelligence as well as resilient consumer demand.

While the AI buildout has increased the pace of investment in the economy, consumption remains the largest driver of GDP growth, representing two-thirds of overall spending. The recent strength in consumer demand has been underpinned by rising spending on healthcare. While many may personally deny it, collectively as a nation we are aging. This is not just a trend for the future; it is happening now. The share of the U.S. population over the age of 75 has reached an inflection point and is projected to soar in coming decades. An aging population is a headwind to the workforce—a point I will return to momentarily. However, it is currently

boosting demand for healthcare services and pharmaceuticals. In 2025, healthcare spending was the largest single contributor to consumption growth.

In addition to the growing demand for healthcare, consumer spending has been supported by accommodative fiscal policy as well as strong aggregate household balance sheets. Relative to recent years, many households are seeing larger tax refunds, which are increasing disposable income. At the same time, household net worth relative to income remains near all-time highs due to large increases in equity and home prices over the past few years. These high levels of wealth are leading many households to spend more and save less, as can be seen by the decline in the personal saving rate. With tax refunds hitting people's pockets and saving rates relatively low, consumer demand has remained resilient.

The second tailwind I see is the strong pace of productivity growth. While the GDP numbers have been solid, this growth has come about with zero growth in the working age population. Instead of adding more workers, growth is being driven by increasing output per worker. Therefore, behind the steady pace of GDP growth is a remarkable increase in productivity.

What is behind this pickup in productivity? While AI is certainly all the buzz these days, according to research by my staff it is not the primary force behind the observed rise in productivity.² Instead, other factors, such as reductions in labor market churn as well as the high pace of business formation are likely more important. Further evidence can be found by looking abroad. Compared to peer countries, U.S. productivity has been a standout in recent years. This suggests that American entrepreneurialism and ingenuity may again be at work, features that

² Nida Cakir Melek and Sydney Miller. "[A New U.S. Productivity Chapter? What Industry Data Says About AI.](#)" Kansas City Fed Economic Bulletin. February, 2026.

have made the American economy the most dynamic and innovative in the world for much of its 250-year history.

A third tailwind for the economy is the relatively low rate of unemployment. While there has been some concern about fragilities in the labor market, there are also strengths worth highlighting. The unemployment rate at 4.4 percent is somewhat higher than it was last year but is still low relative to historical norms. Moreover, prime-age individuals between ages 25 and 54 who are less affected by schooling and retirement decisions are participating in the labor market at higher rates than we've seen in decades. The employment-to-population ratio for prime-age workers is roughly at 2019 levels and well above average employment rates over the last 20 years. Simply put, with a large share of prime-age workers employed and earning paychecks, the labor market continues to support growth.

Much of the concern around the labor market stems from the very low pace of hiring. In fact, job growth has averaged nearly zero over the past 6 months. However, there has also been very little growth in the size of the working-age population. Therefore, the economy doesn't need to add many jobs to keep the unemployment rate stable. Notwithstanding some risks to employment during this period of structural change—stemming from both aging and slower labor force growth—it seems that the labor market is adjusting and remains broadly in balance.

This brings me to the headwinds that could restrain economic activity going forward, including population trends and the recent large increase in oil prices.

Population trends are likely to limit the pace of economic growth in the years ahead. Population growth has historically been an important driver of economic growth. A growing population adds to the labor force and increases the productive capacity of the economy. As I noted earlier, in 2025 we saw virtually zero growth in the working age population, something

that has never happened outside of a war or pandemic. Reductions in immigration, together with the growing number of baby boomers aging into retirement, led to the slowdown in workforce growth last year.

However, as discussed in an important paper presented at last year's Jackson Hole Economic Policy Symposium hosted by the Kansas City Fed, fertility rates have been declining globally for some time, including in the United States.³ Therefore, little to no growth in the working-age population is likely to be a fixture of the U.S. economic outlook in the years to come. As I noted, the aging population is currently providing a boost to demand growth through increased healthcare consumption. However, over the medium- and longer-term, slower growth in the workforce will likely lower the speed limit on how quickly the economy can grow.

A second and more immediate headwind to the economy stems from the recent rise in energy prices. At this time, it looks like the economy will absorb a significant increase in oil prices. While there is a lot of uncertainty about how the conflict in Iran will unfold, oil futures indicate prices are likely to end the year near \$80 per barrel, and some analysts and businesses are preparing for even higher prices.

Large oil price increases have historically had a negative impact on U.S. economic growth. Much of this history stems from the severe oil shocks experienced in the 1970s and 1980s. I expect that the growth effects today will be less severe. One important reason is because the economy is now far more energy efficient. In the 1970s, we consumed roughly 12,000 BTUs of energy to produce \$1 of GDP. Today, that number is closer to 3,000 BTUs. In addition to increases in energy efficiency, the U.S. has also since shifted from being an energy importer to being a net energy exporter. Even as a net energy exporter, the U.S. is not insulated from

³ See "[The Downside of Fertility](#)," by Claudia Goldin. Presented at the 2025 Jackson Hole Economic Policy Symposium.

disruptions abroad since oil is priced in a global market. However, the switch does mean that increased spending on energy is no longer a transfer of money from U.S. energy consumers to foreign energy producers. Instead, it is more akin today to a transfer of money from U.S. energy consumers to U.S. energy producers. Oklahoma City understands this well.

Despite some of these mitigating considerations, I still expect that sustained higher oil prices would be a modest drag on economic growth. Every extra dollar spent on gasoline is one less dollar that households can spend elsewhere, effectively reducing real incomes and weighing on consumption. Some of this extra spending on gasoline will flow to domestic energy producers and could be redeployed on new rigs and other capital expenditures. However, many producers today are more cautious about chasing higher prices and are likely to be restrained in their deployment of capital. In the Kansas City Fed's energy survey, Tenth District producers report needing prices above \$75 per barrel to substantially increase drilling. While there is a reasonable probability that futures prices will sustain above those levels, uncertainty about the price outlook could keep many producers on the sideline.

The effects of the recent rise in energy prices on inflation are far less ambiguous. Higher energy prices will increase inflation. Headline inflation figures will be directly affected by higher gasoline prices. However, measures of inflation that exclude energy prices—referred to as core inflation—will increase as well. From food production to delivery and transportation costs to airfares, higher energy prices will also increase core measures of inflation. As I will turn to next, an important role for monetary policy is to ensure that the knock-on effects from higher energy prices on inflation are limited.

Monetary Policy Outlook

My outlook for monetary policy is guided by the Federal Reserve's dual objectives of promoting maximum employment and 2 percent inflation. With many cross currents in the economy, some of which are pushing employment and inflation in different directions, policymakers face tradeoffs in pursuing this dual mandate. How should monetary policy respond? As I weigh those tradeoffs, I'm more focused on the risks to inflation at this time. In part this reflects the conditions we faced heading into this shock.

From a growth and employment standpoint, the economy enters this period of heightened geopolitical risk from a position of strength. A number of times in recent years the economy has brushed aside recession concerns. While it's important as a policymaker to never become complacent about risks to the outlook, the resiliency of the U.S. economy should not be underestimated.

My optimism for the economy is underpinned by the tailwinds I laid out earlier: momentum in business spending from the AI buildout, growing healthcare demand, strong household balance sheets, high productivity growth, and a labor market that is operating near full employment. For example, just in terms of the fiscal boost, the timing and size of larger tax refunds could help to soften the hit to consumption from higher gasoline prices.

In contrast, I viewed high inflation as the more salient risk to our dual mandate even before the energy shock arrived. The latest price data for February indicates that inflation was near 3 percent before energy prices jumped. Inflation has run above the FOMC's 2 percent target for five years. More concerning is that progress towards that target appears to have stalled, with inflation running near 3 percent for several years now.

As described earlier, recent developments in the Middle East are likely to add further pressure to inflation. Under different circumstances a case could be made to look through the rise in energy prices as a transitory increase in inflation. However, this oil shock comes at a time when inflation already has been too high for too long. I don't think we can be complacent about the risks to inflation expectations. With inflation already running hot, now is not the time to assume that the inflation from higher oil prices will be transitory.

As I see it, price pressures never arise as either intrinsically persistent or transitory. Rather, whether a price shock is ultimately transitory or not depends on the Fed's perceived actions, and not some internal dynamic independent of the central bank. We must remain focused on our headline inflation objective, otherwise I believe there is a real risk that inflation will get stuck closer to 3 percent than 2 percent in the long run.

Along these lines, I take little comfort from the fact that most measures of medium- and long-term inflation expectations have not moved higher of late. As I've said before, I view inflation expectations not as an input into our policymaking process but instead as an output. The observed stability in inflation expectations reflects the earned credibility of the Fed and the belief that monetary policy will keep inflation in check. It is now our job to follow through with policy actions that validate those expectations.