U.S. Economic Developments and Outlook

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FEDERAL RESERVE BANK OF KANSAS CITY

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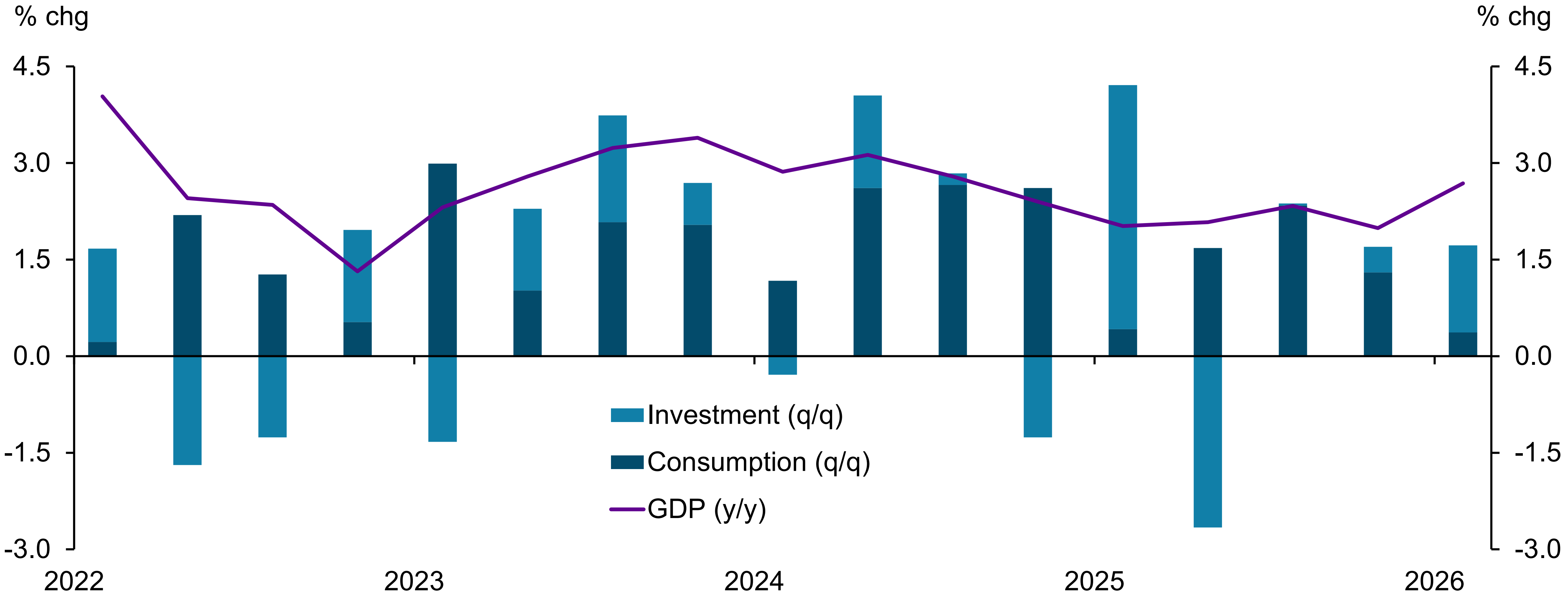
Outlook Themes

- U.S. economic growth remains resilient amid substantial supply shocks
- Business investment is growing but unevenly
- Unemployment remains steady and the labor market is in balance
- Inflation remains elevated, with shocks to price pressures that are shifting across spending categories

Economic growth remains solid



Source: Bureau of Economic Analysis, Haver.
Note: Bars indicated contributions of each component to overall GDP growth in each quarter.

Key Developments

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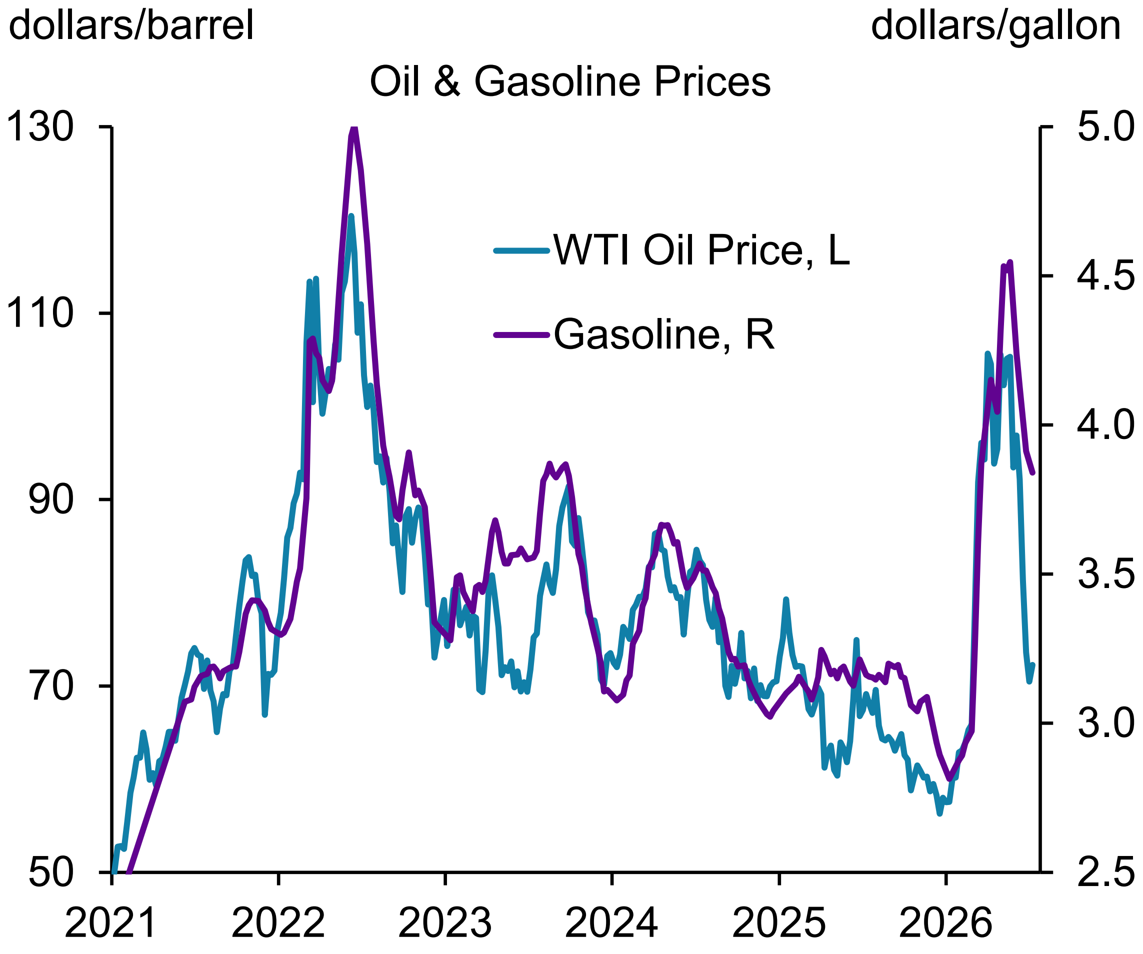
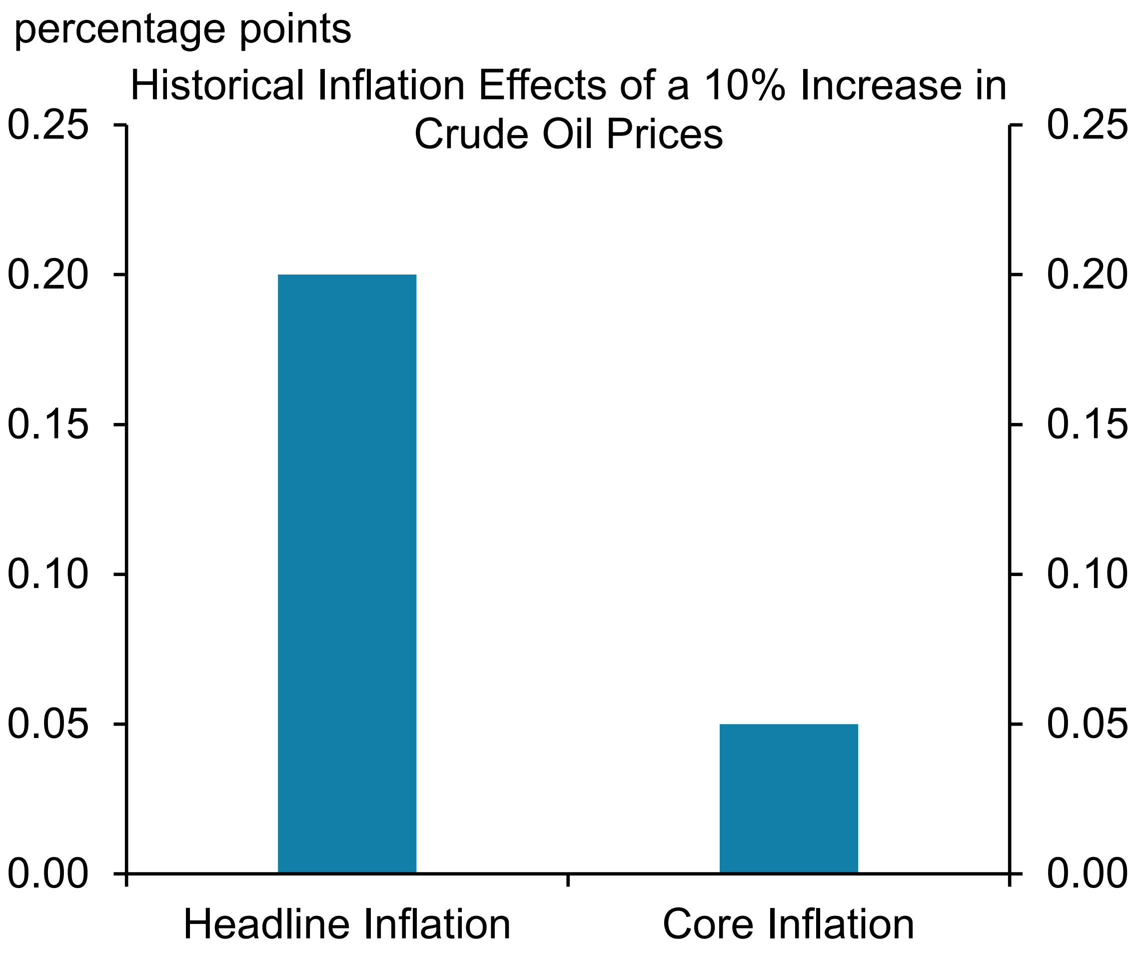
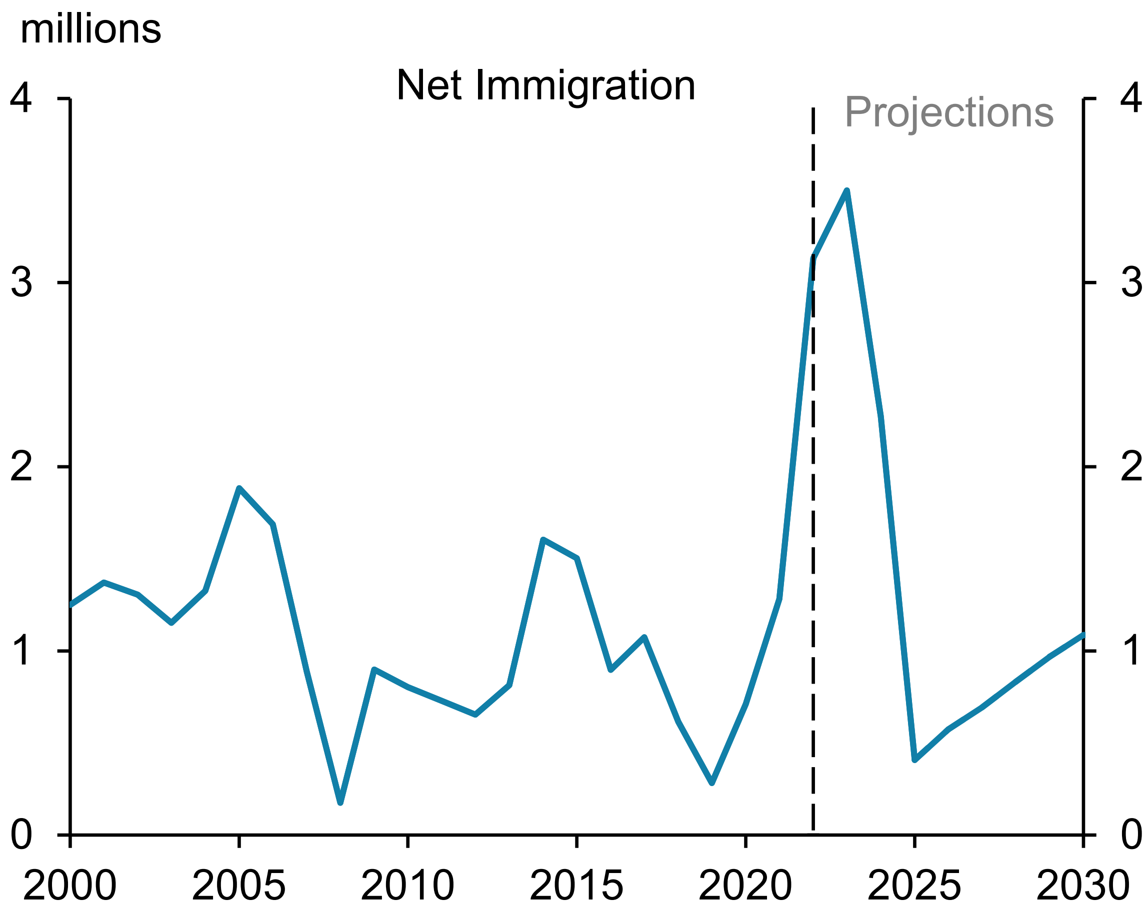
Higher oil prices are pushing inflation higher

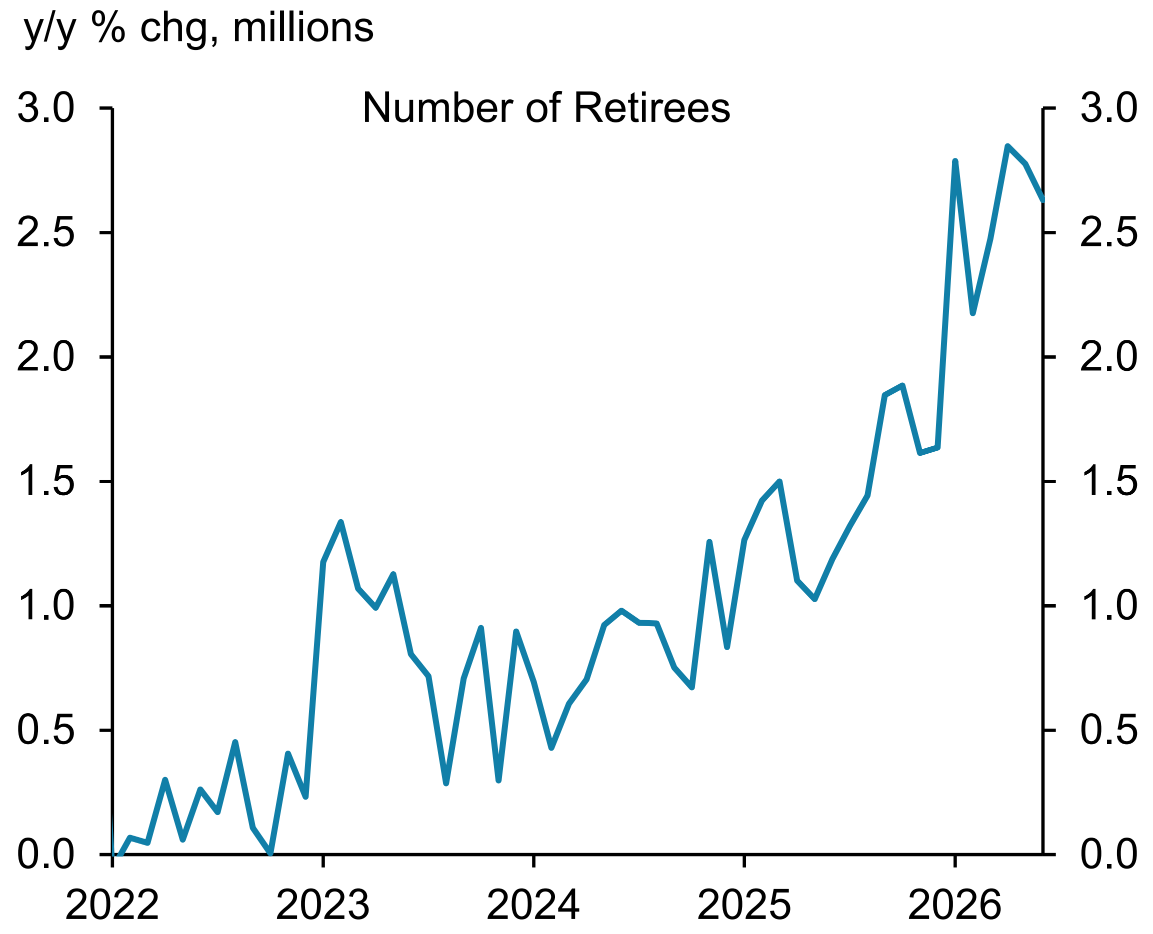




Sources: Energy Information Administration, Staff Estimates, Haver Analytics

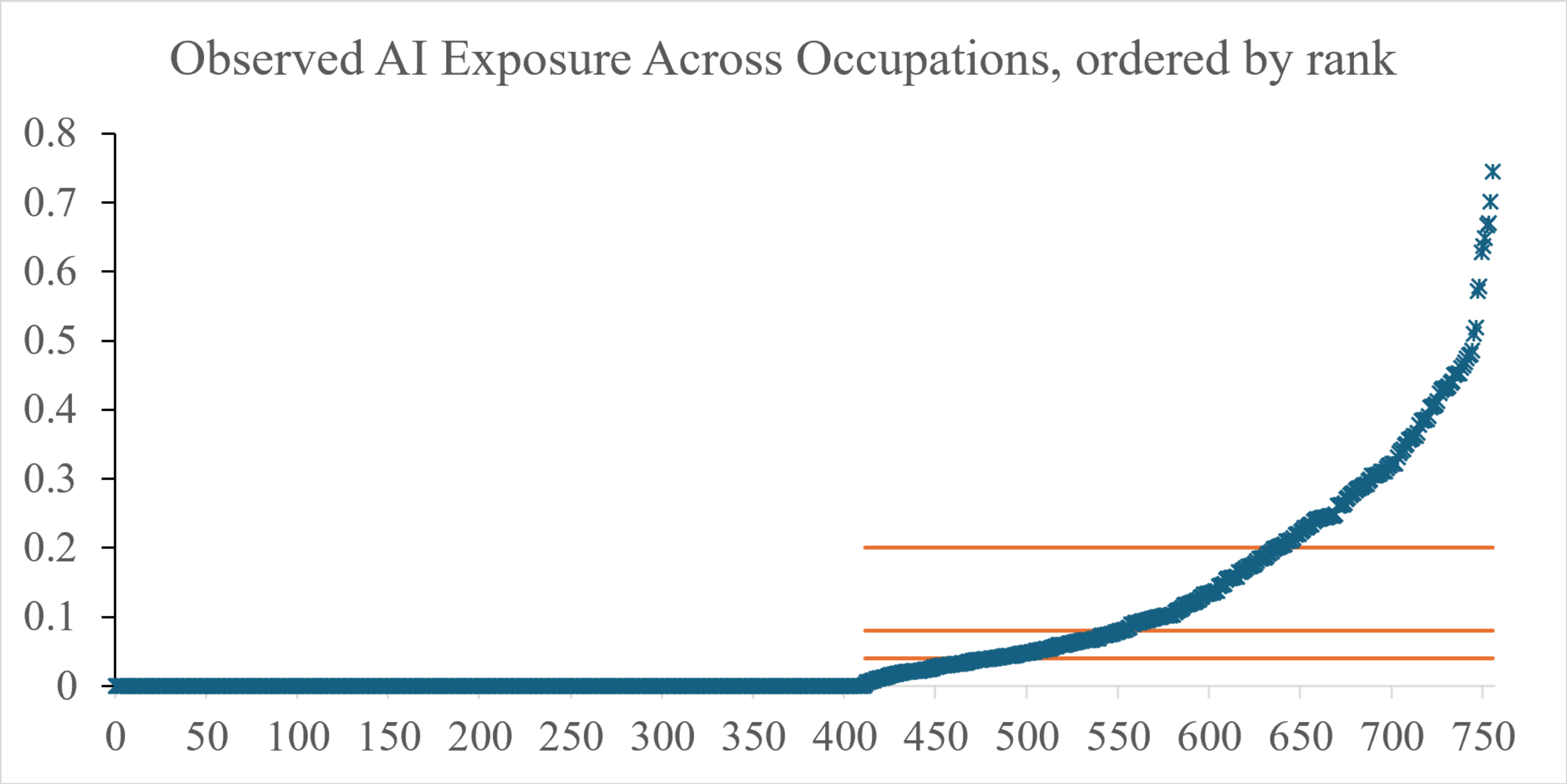
Demographics are reshaping the labor force





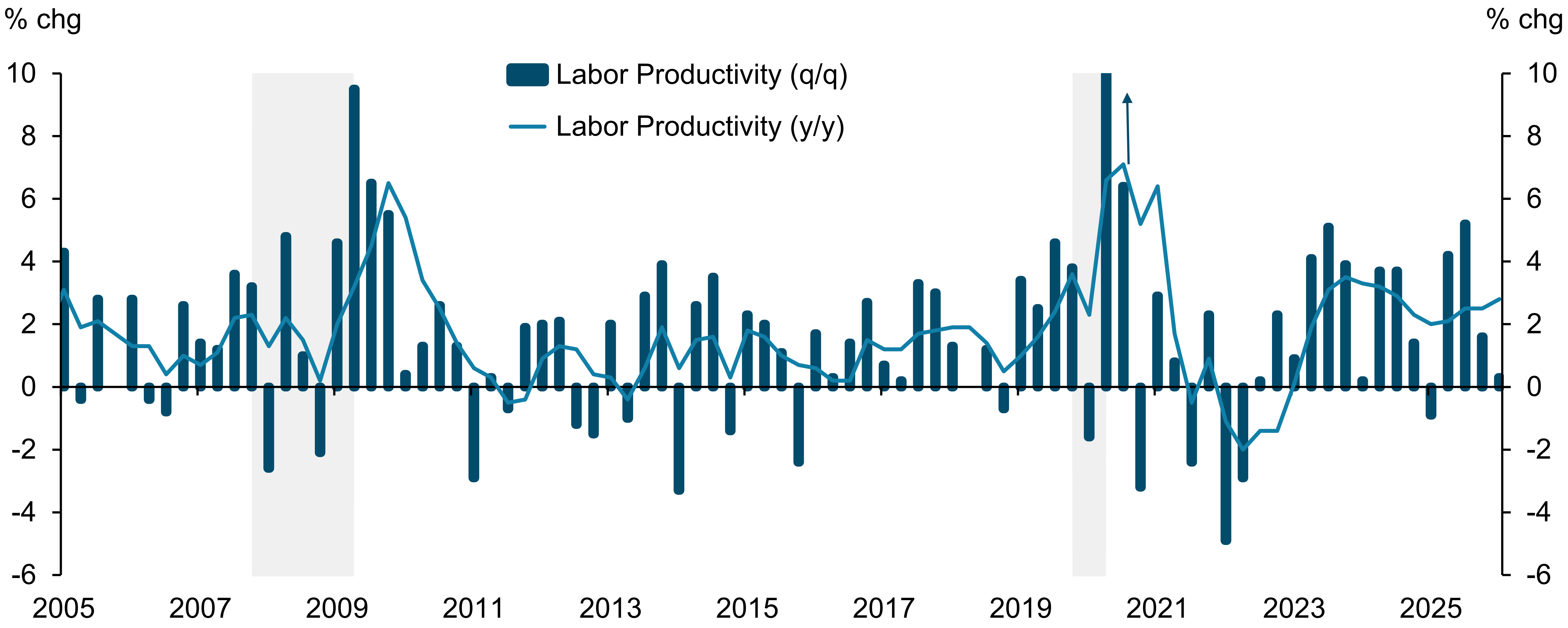
Source: Bureau of Labor Statistics, Congressional Budget Office, Haver.
Note: The Number of Retirees is inferred from the Current Population Survey using the number of individuals who are over the age of 55, not in the labor force, and report that they do not want a job. Plotted as a 6-month moving average.

AI is driving reallocations in capital and labor markets



Source: Anthropic Economic Index

Productivity growth remains firm in aggregate but is more concentrated within certain industries than in recent years



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

Economic Outlook

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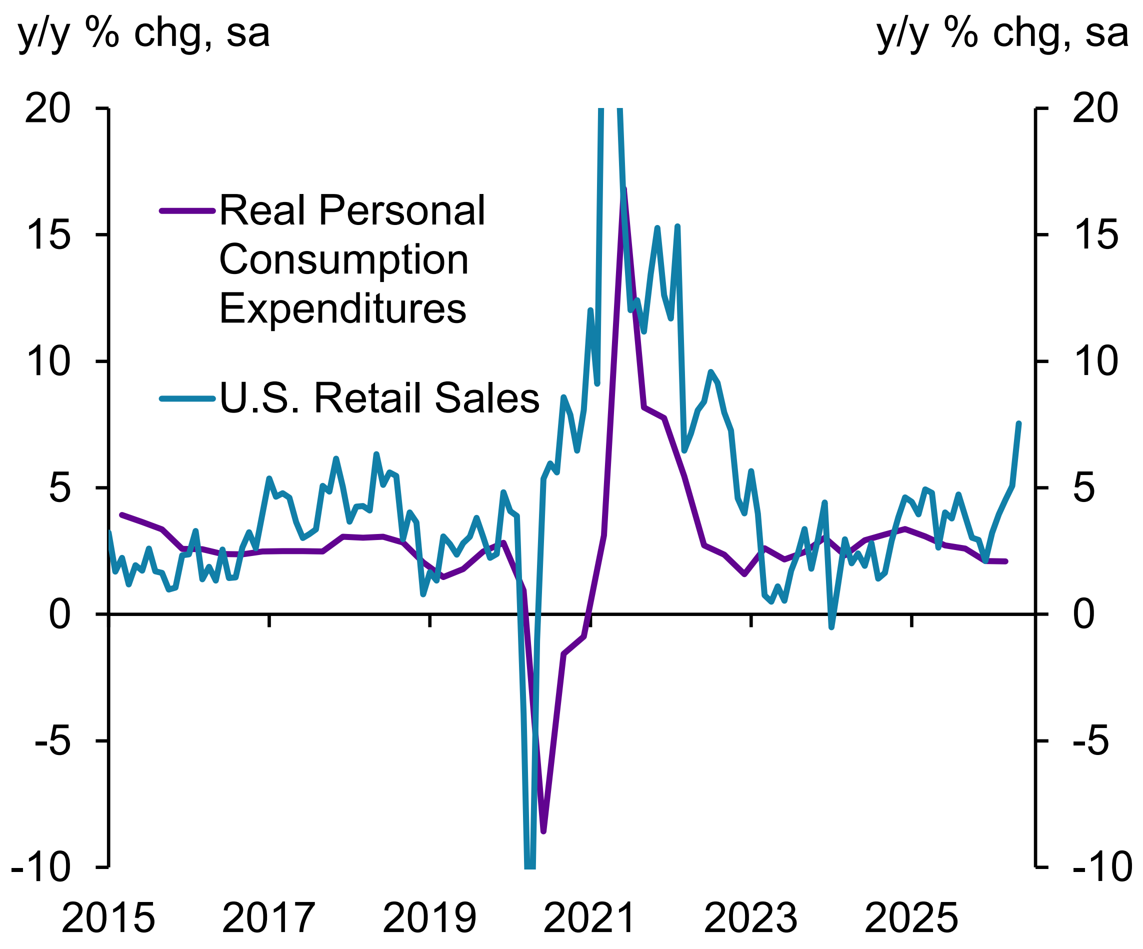
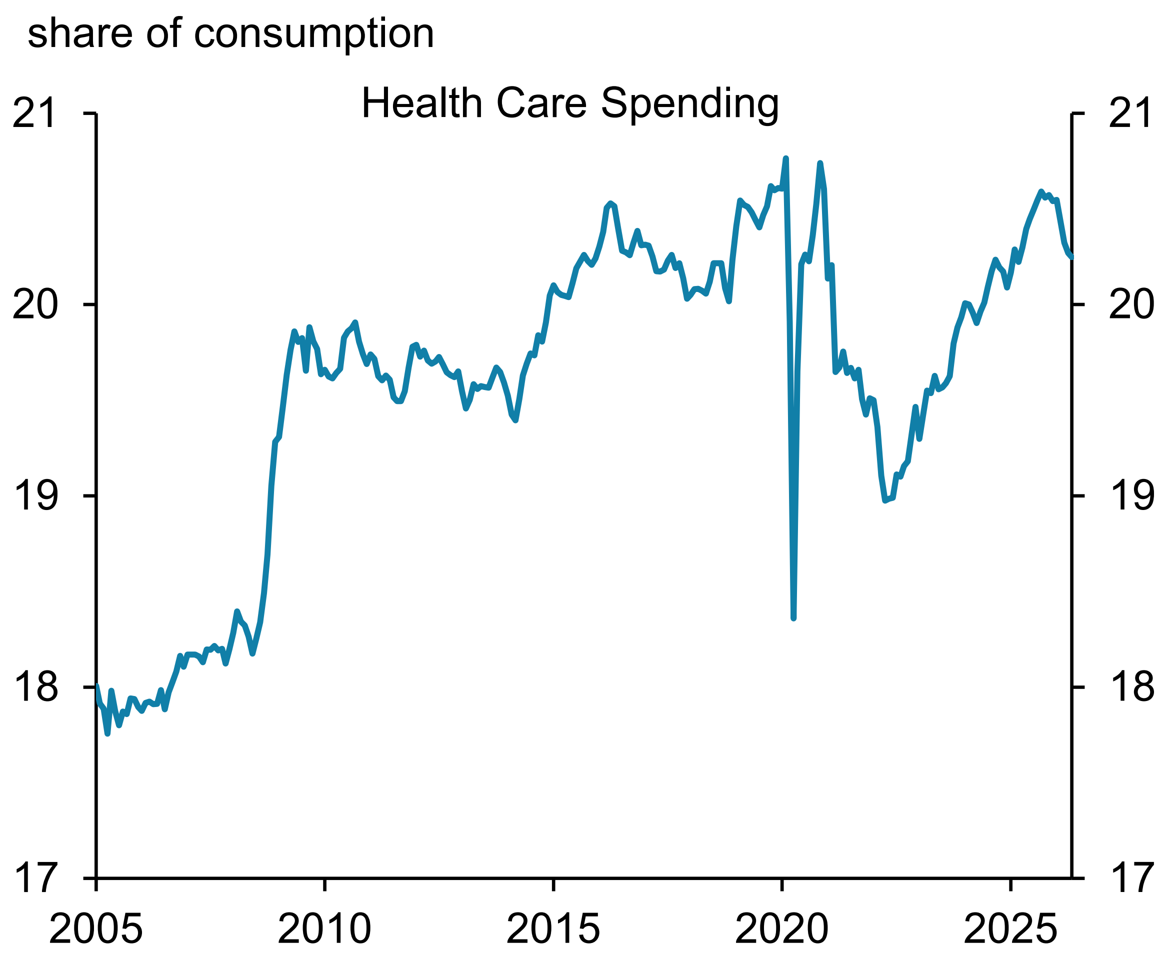
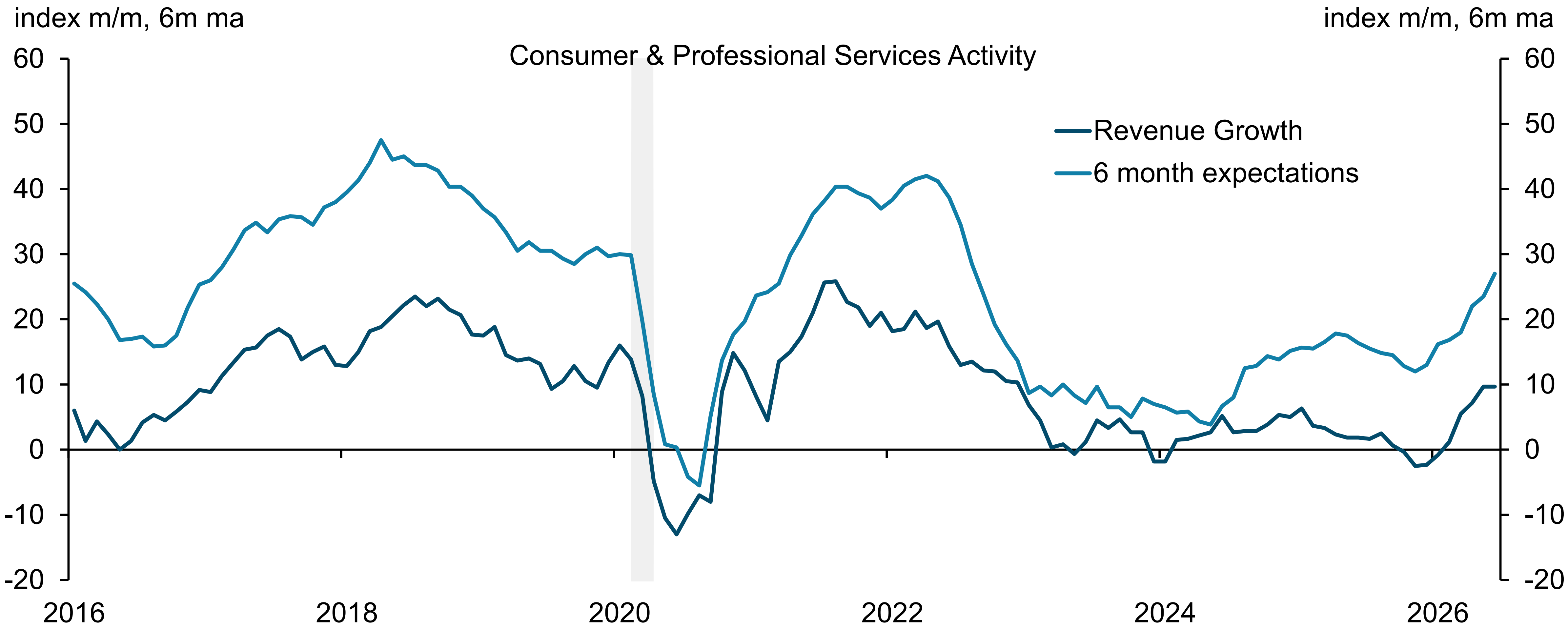
Consumption is strong, with growth increasingly oriented toward aging population





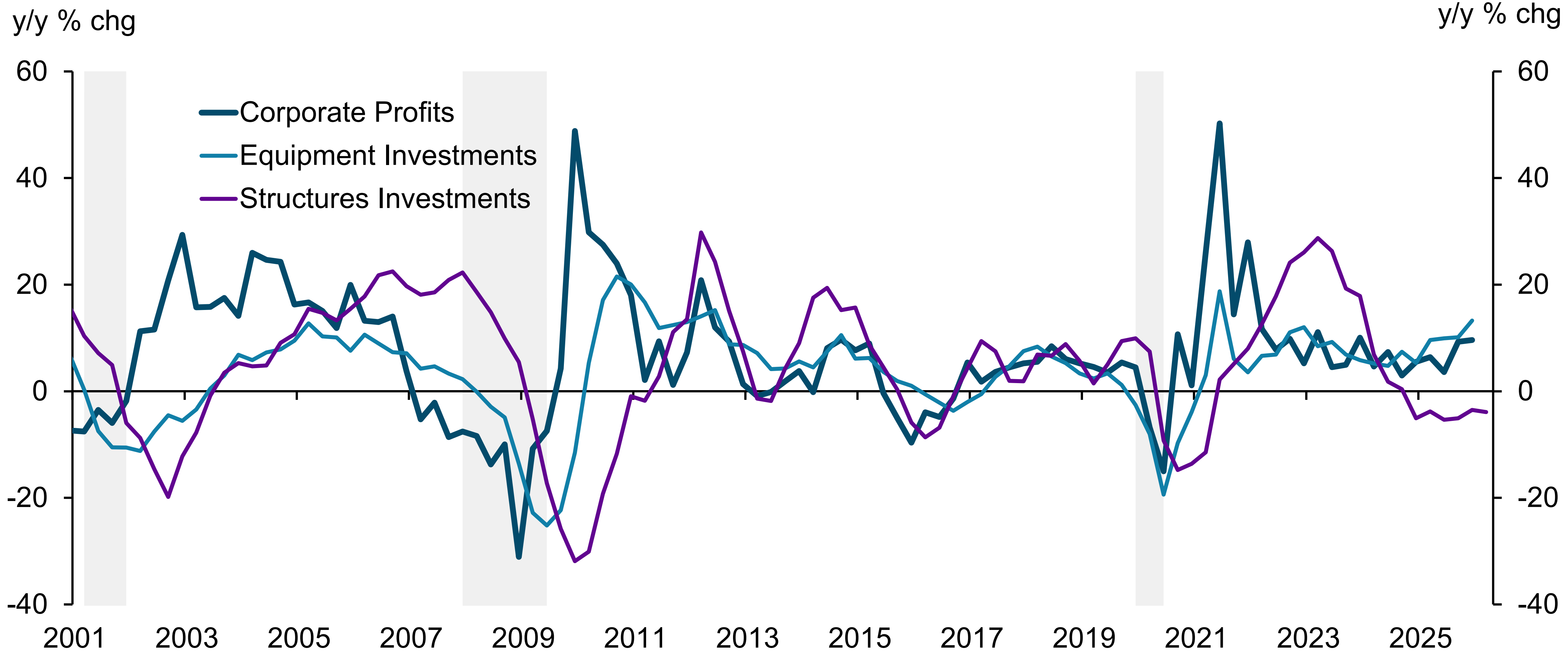
Sources: Bureau of Economic Analysis, Census Bureau, Haver.

Consumer spending is rising and businesses expect further growth ahead



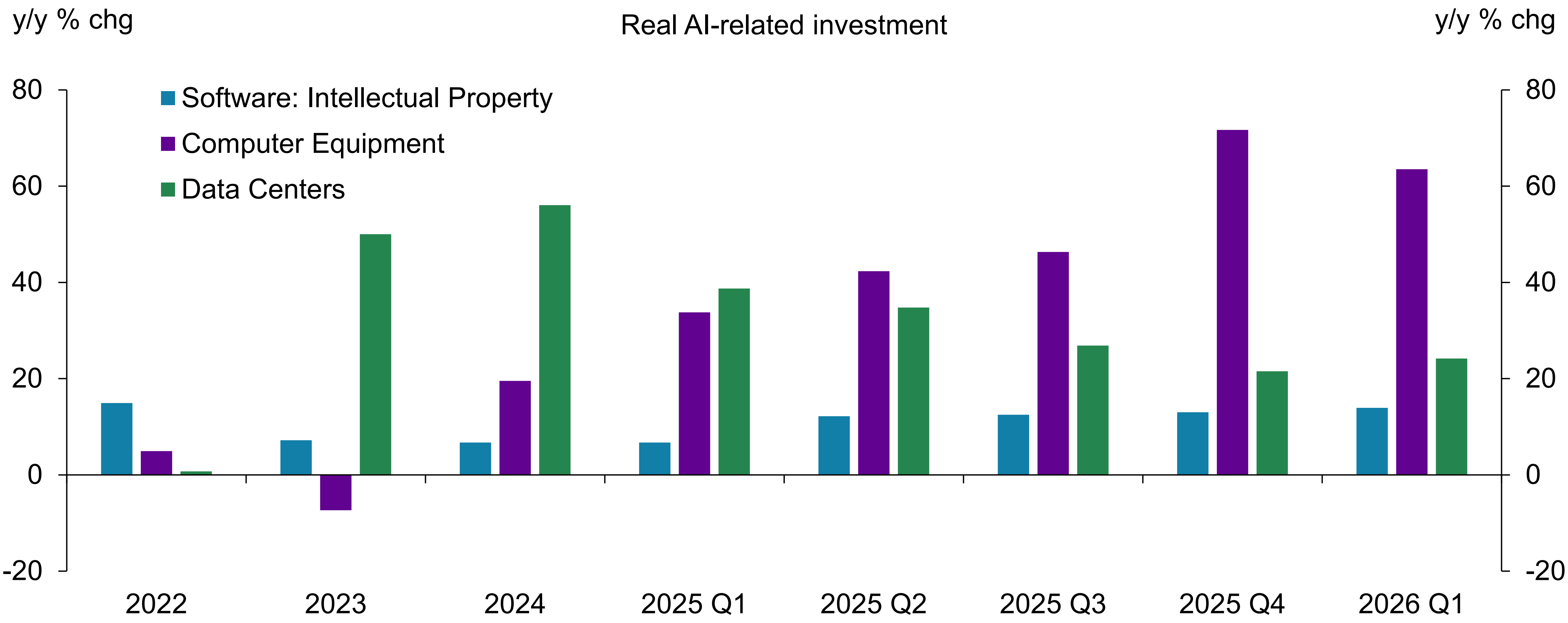
Sources: KC Fed Services Survey, Census Bureau, Haver.
Notes: Gray bars indicate recession periods.

Stable corporate profits support the outlook for investment



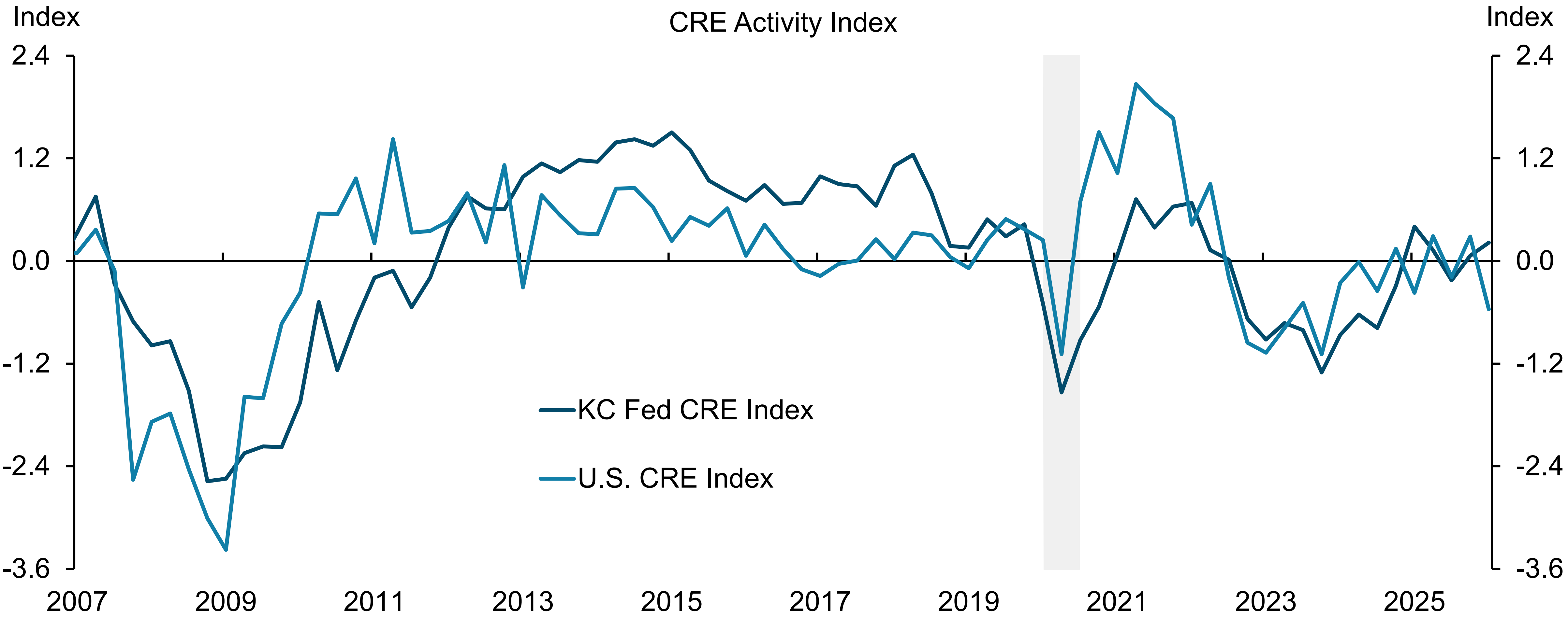
Sources: Bureau of Economic Analysis, Haver.
Note: Gray bars indicate recession periods.

Data centers, AI, and associated capital expenditures are key part of overall business investment growth



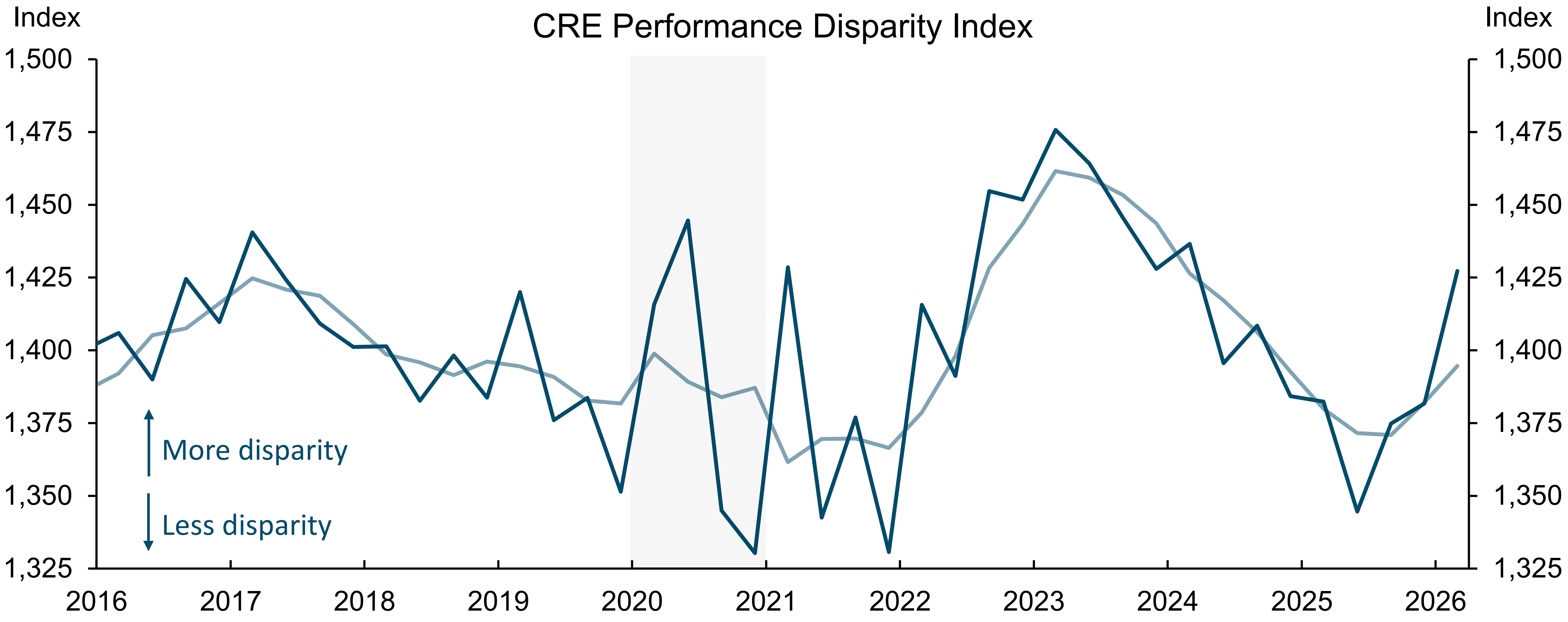
Sources: Bureau of Economic Analysis, Haver.

After six consecutive years of volatility in CRE activity, conditions were generally stable throughout 2025 and have picked up recently



Sources: KC Fed, Federal Reserve Board, FRED, CoStar Realty Information, Inc., staff calculations
Note: Gray bars indicate recession periods.

As aggregate CRE conditions stabilized, asset performance showed increasing granularity with higher dispersion in yields across locations and segments



Sources: FRED, CoStar Realty Information, Inc., staff calculations
Note: Gray bars indicate recession periods.

The Fed’s Dual Mandate

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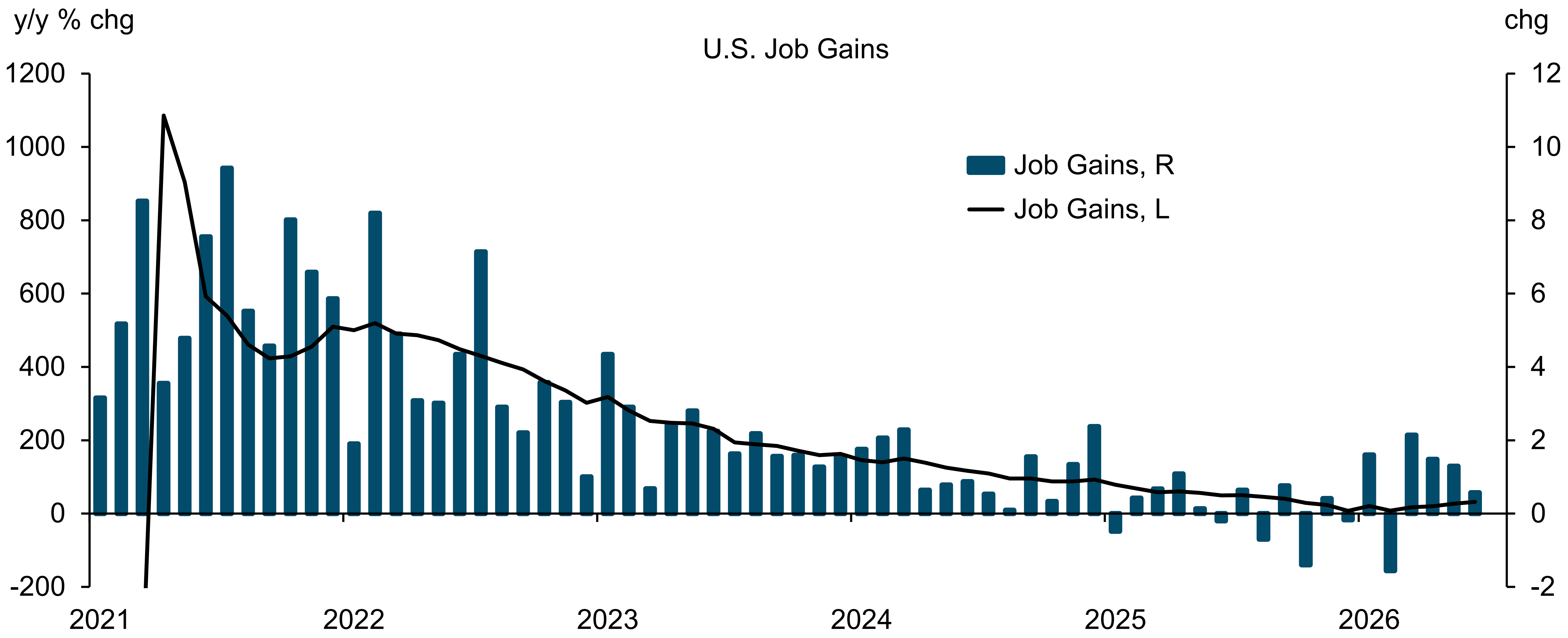
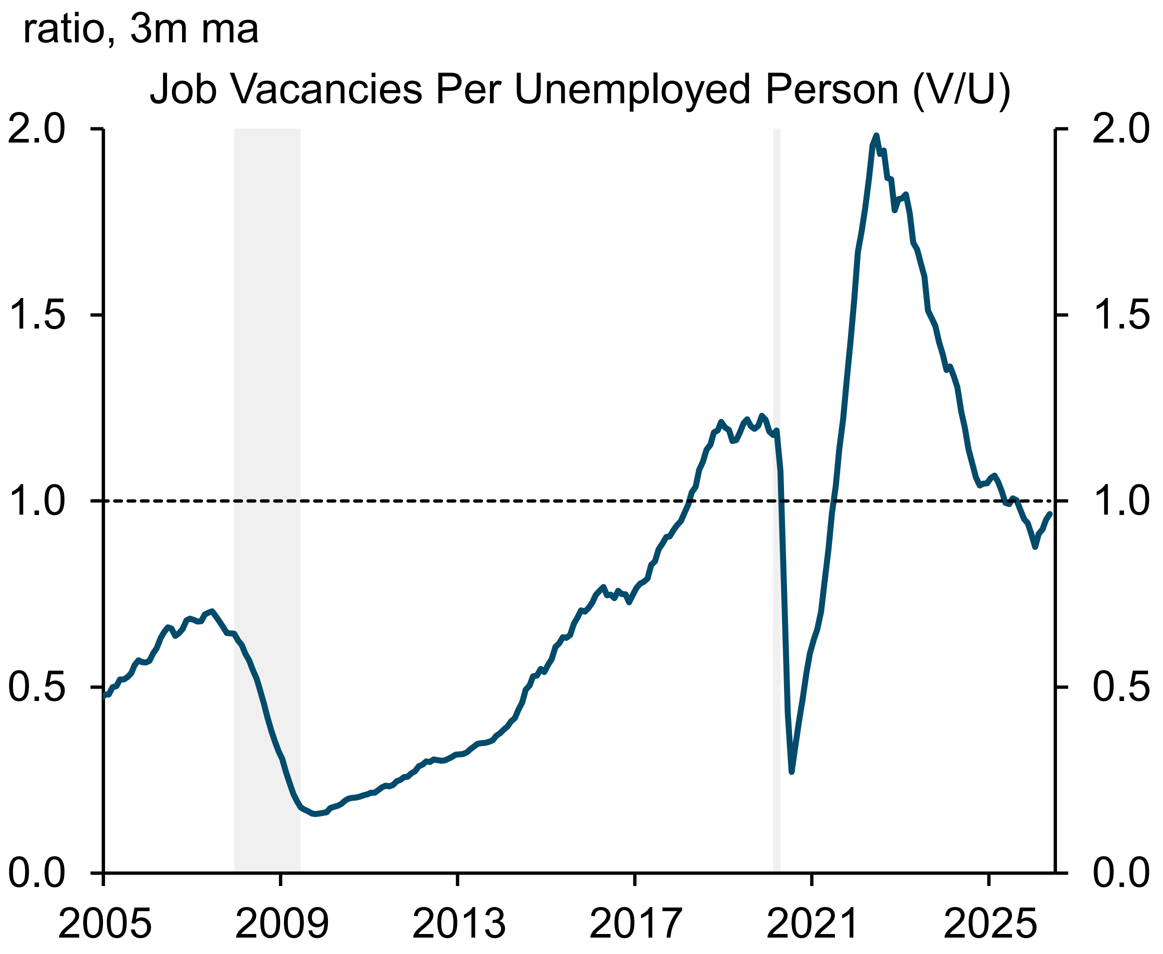
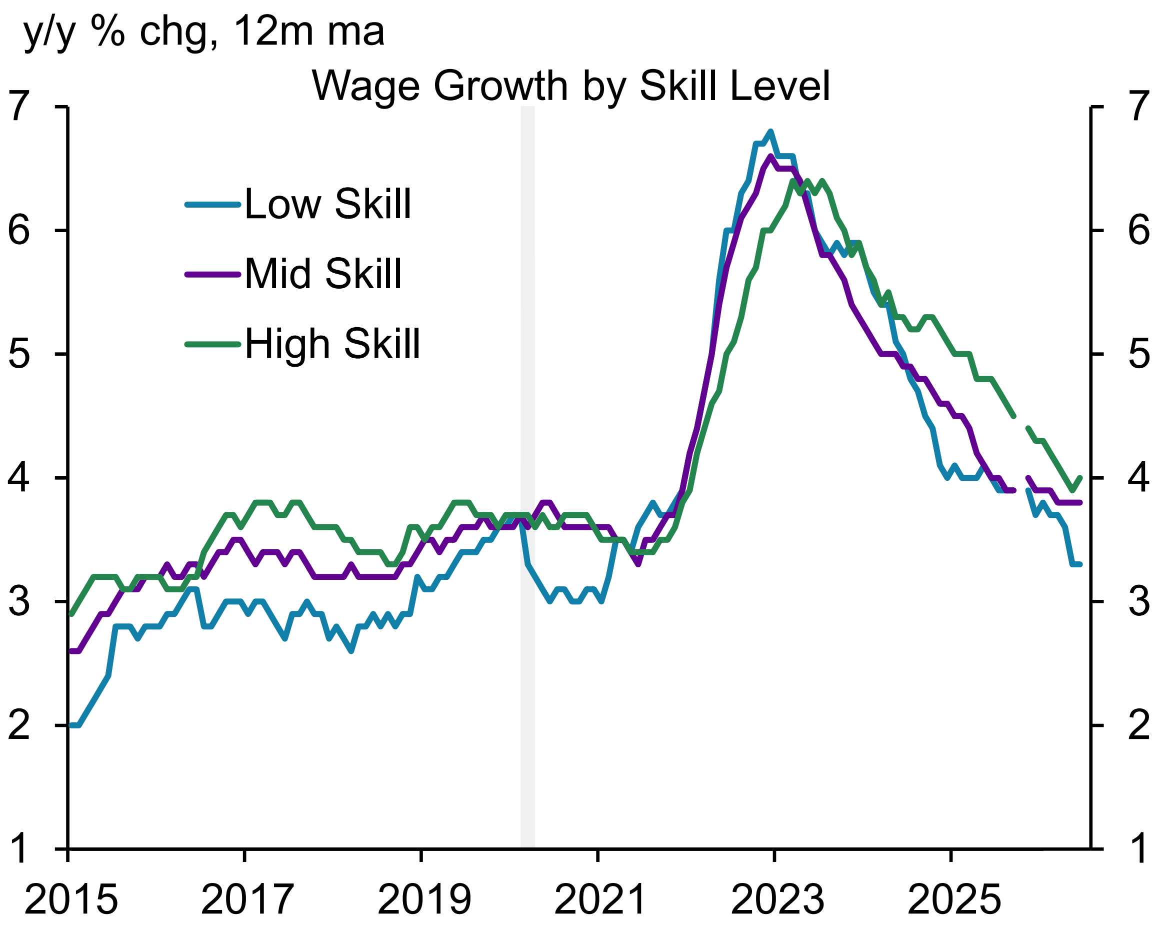
Job gains were flat through 2025 with some recent pickup in hiring



Sources: Bureau of Labor Statistics, Haver.

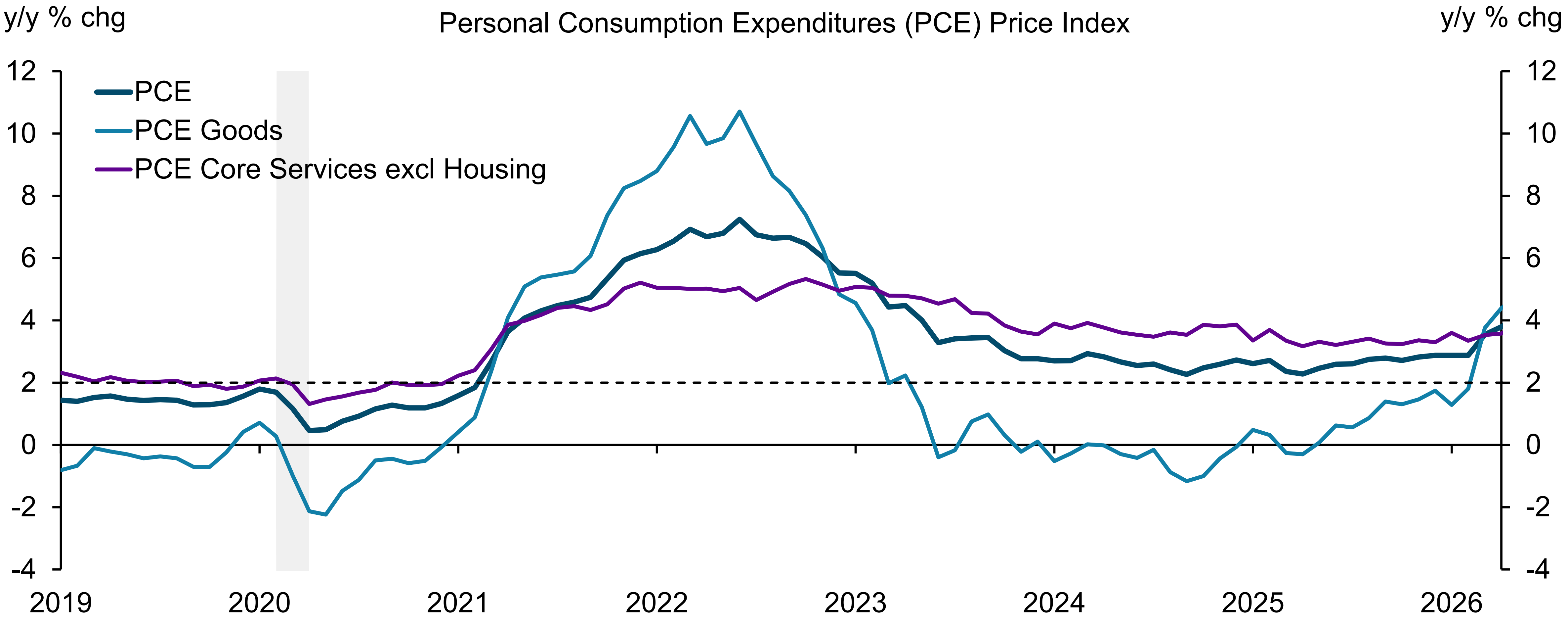
Overall, the labor market appears to be in balance





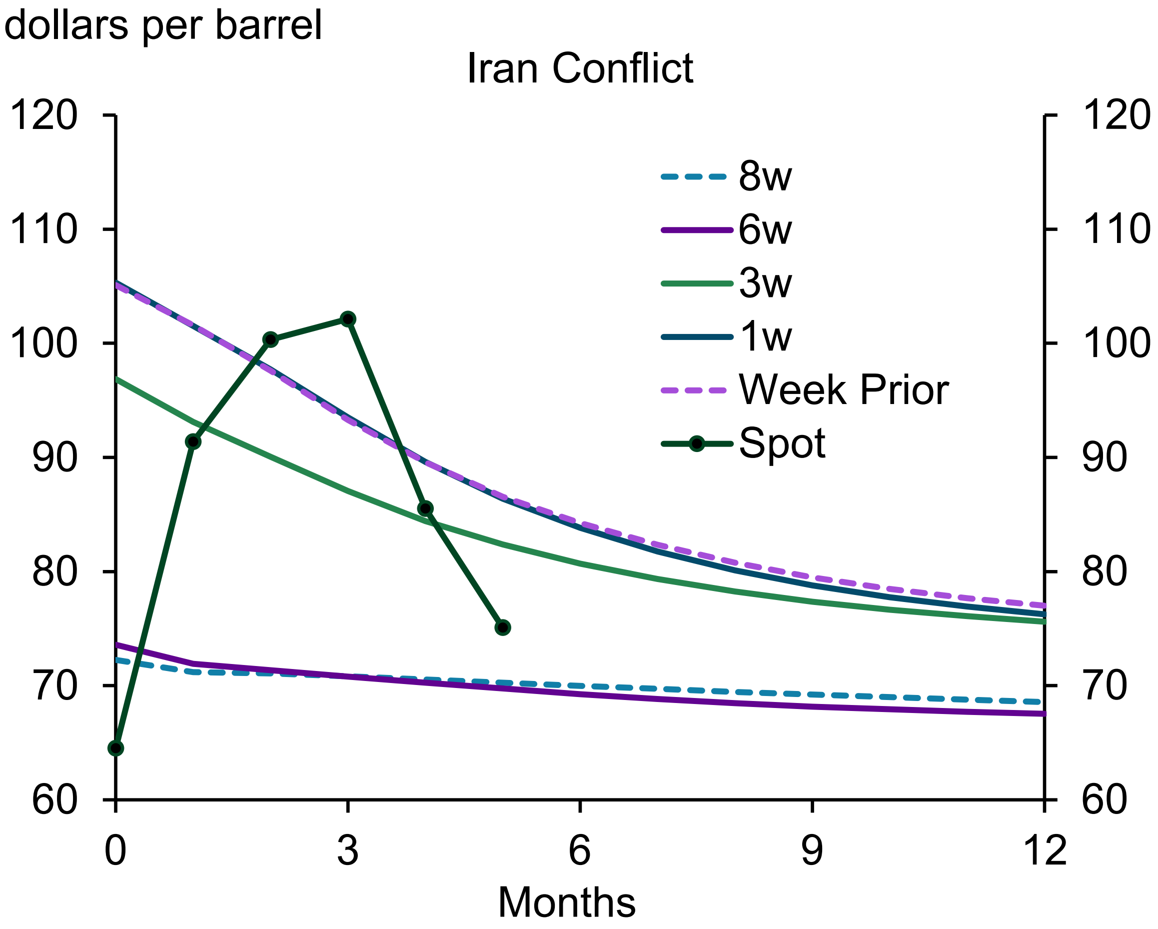
Sources: Bureau of Labor Statistics, Atlanta Fed, Haver.
Notes: Gray bars indicate recession periods. October 2025 data not published.

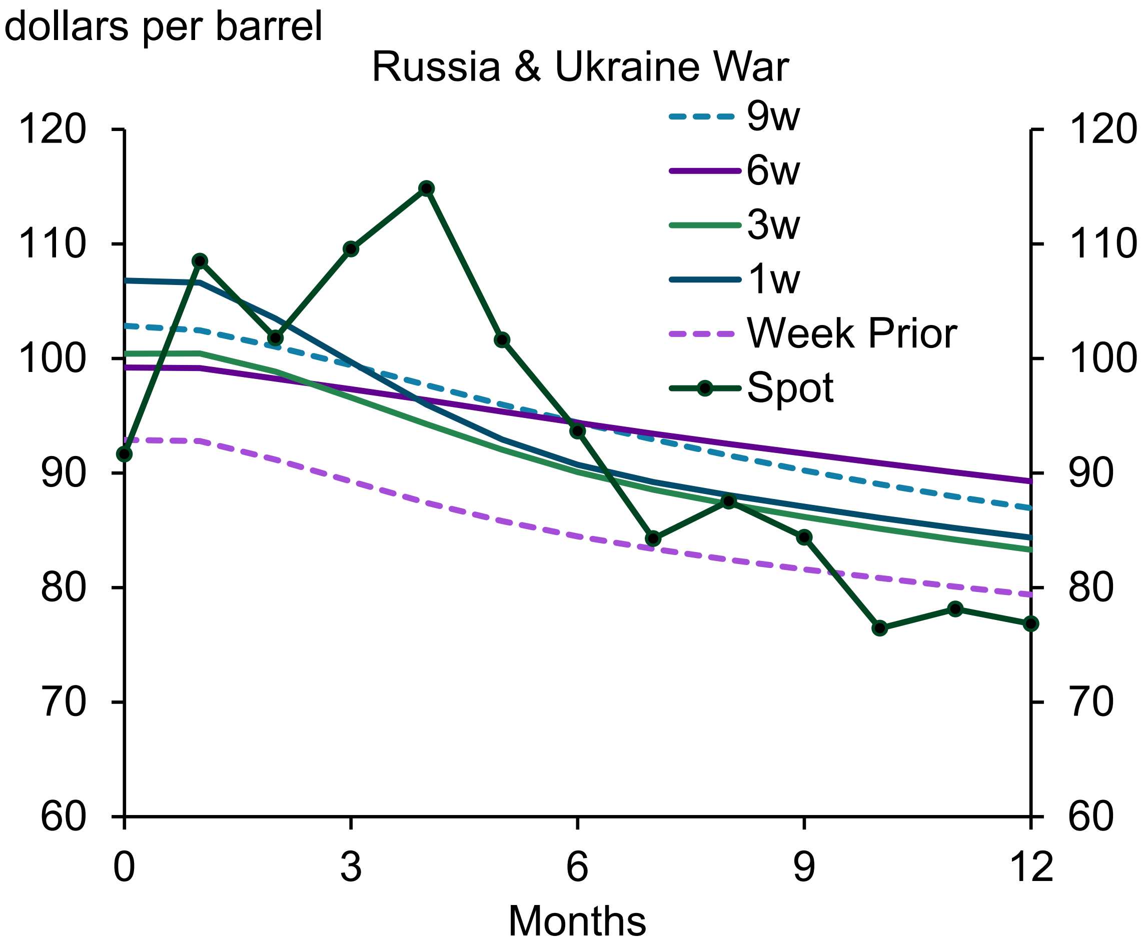
Inflation remains above target, including service prices that historically account for a larger share of price growth in the U.S.



Sources: Bureau of Economic Analysis, Haver.
Notes: Gray bars indicate recession periods.

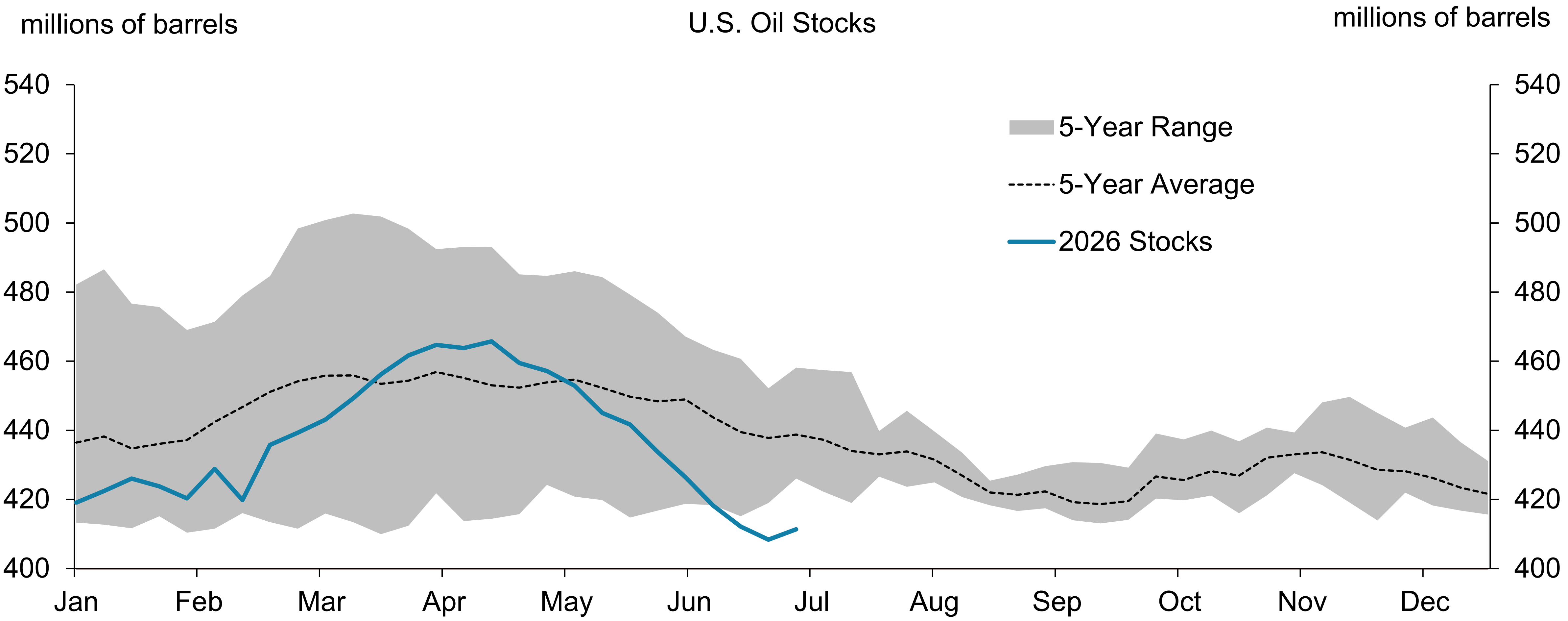
Oil prices have been volatile over recent months, and markets continue to update expectations about the severity and duration of higher prices





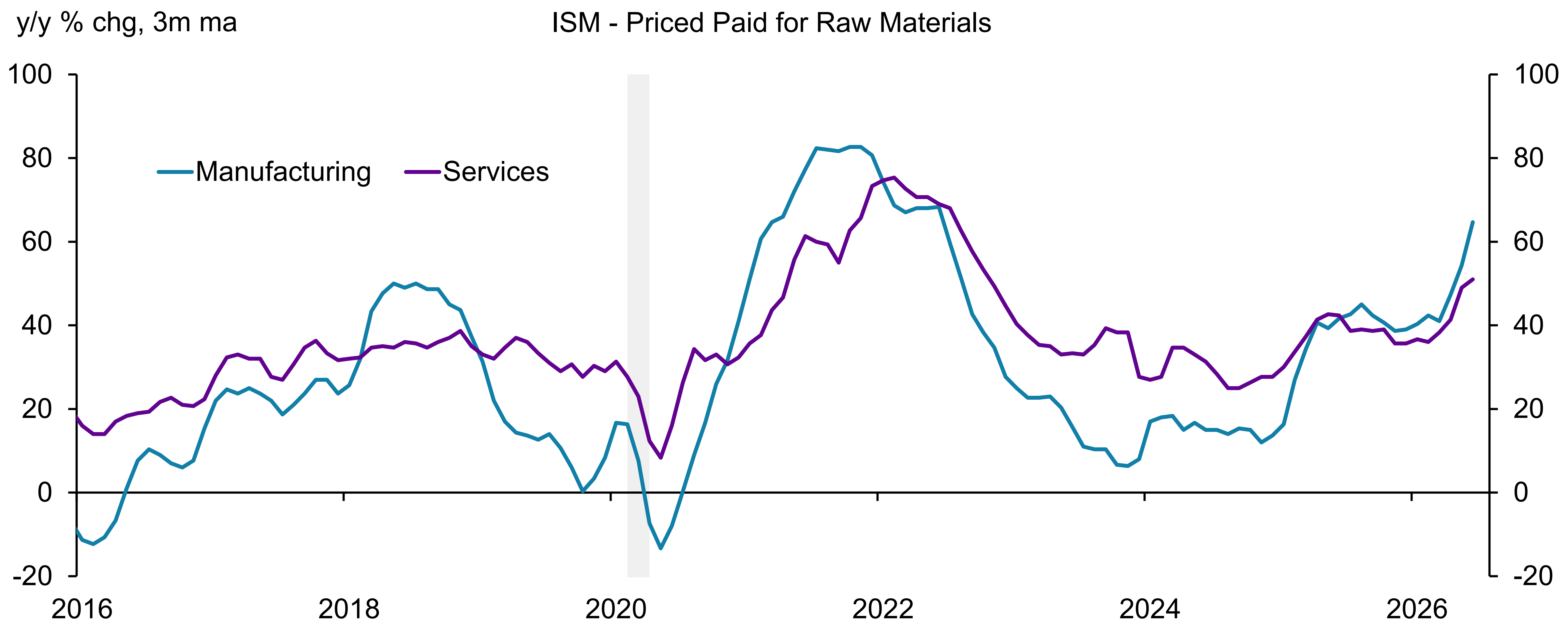
Sources: Energy Information Administration, Haver.

U.S. oil stocks have diminished substantially



Sources: Energy Information Administration, Haver.

Materials and input prices for businesses accelerated recently



Sources: Institute for Supply Management, Haver.
Note: Gray bars indicate recession periods.

Financial Markets

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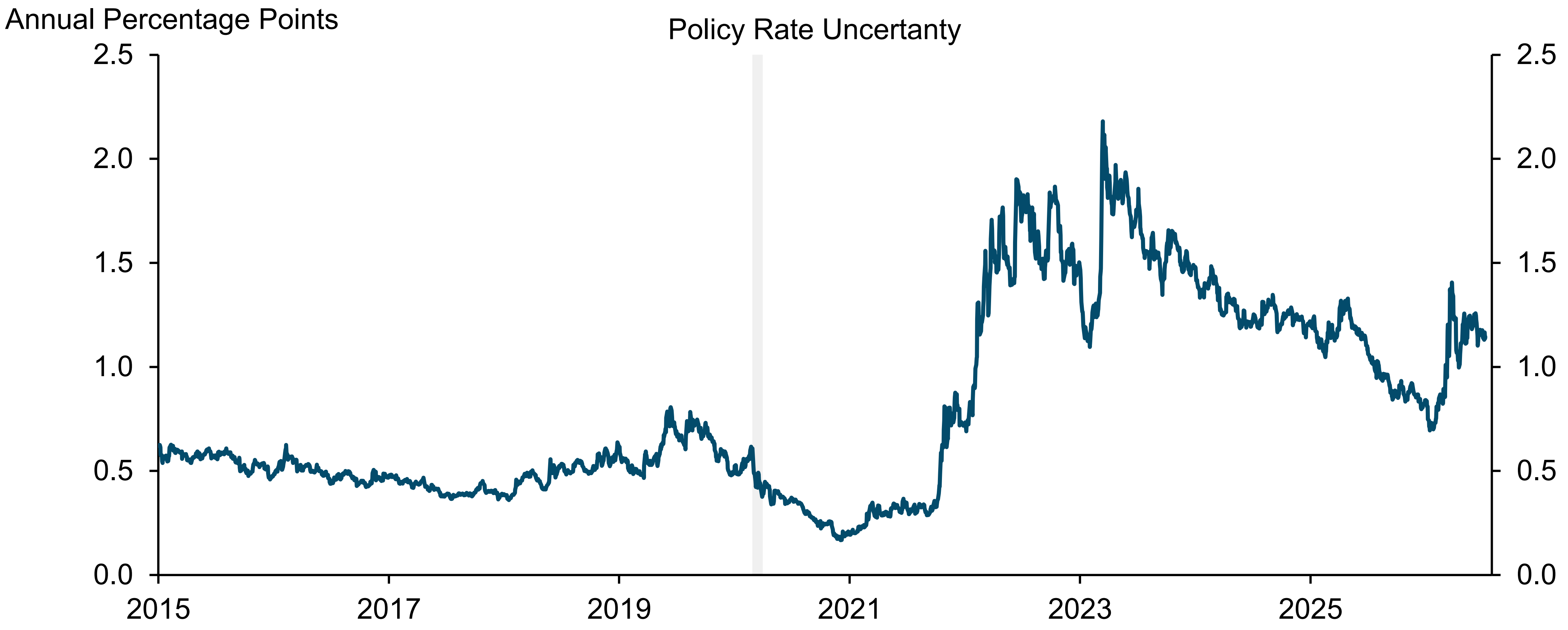
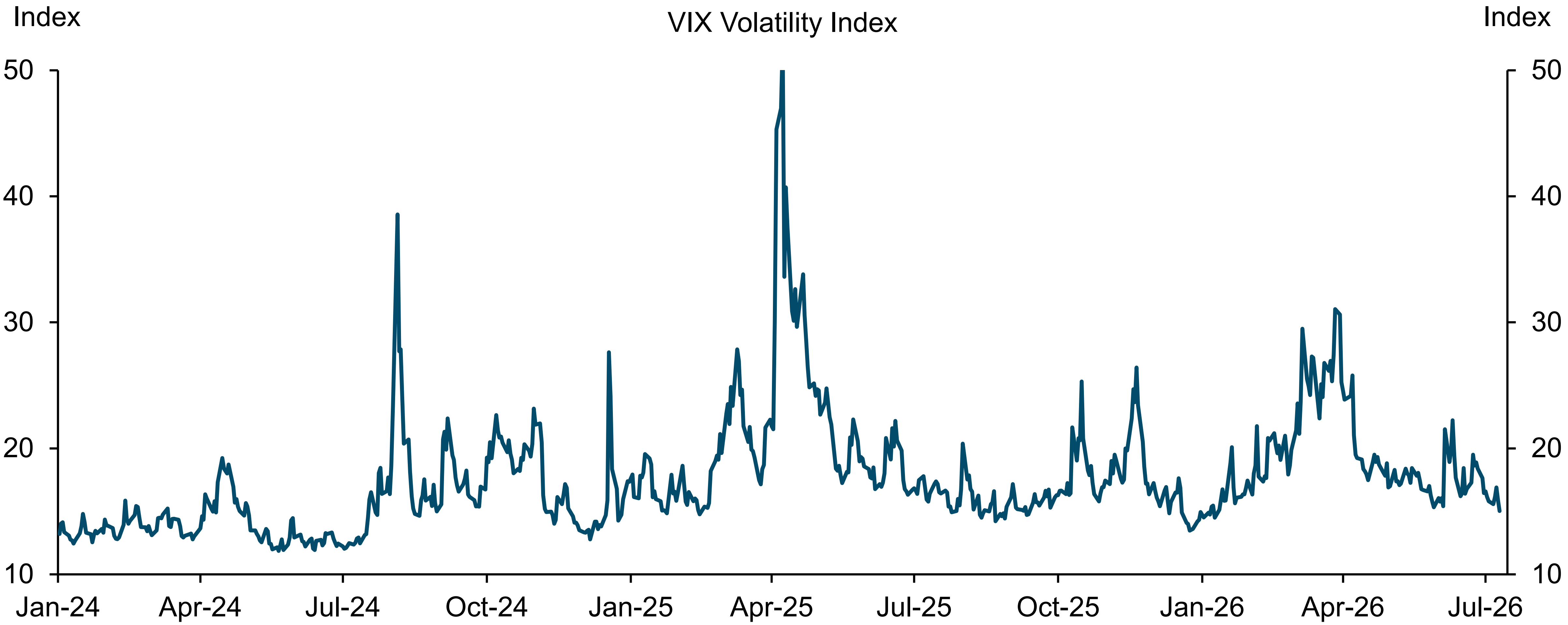
Financial markets show more uncertainty about the path of monetary policy



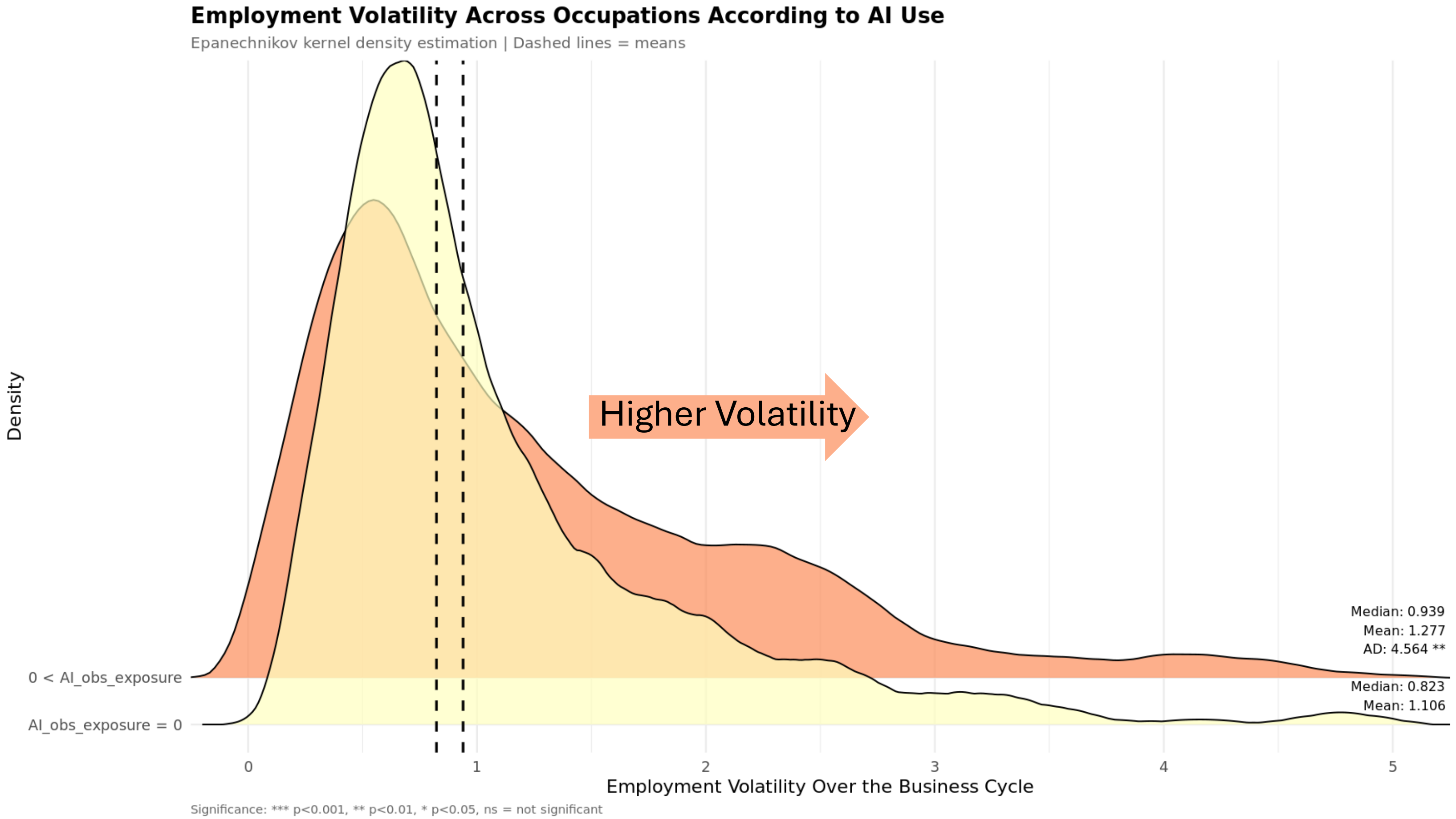
Sources: KC Fed
Note: Gray bars indicate recession periods.

Policy developments have led episodes of financial volatility



Sources: Chicago Board Options Exchange (CBOE), Haver.

Jobs more exposed to AI are also those that are historically more volatile over business cycles



Sources: Author's Calculations, Anthropic Economic Index, Bureau of Labor Statistics, Haver.

KC Fed Research

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.

- Community Connections
  Get information on community and economic development trends across the Tenth Federal Reserve District.

- 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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