Economic Conditions

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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.
Outlook themes

- After several months of sustained economic recovery, the outlook is again tied to the uncertain path of the pandemic.
- The influence of the pandemic on both consumer demand and supply disruptions remained substantial into this summer.
- Labor shortages continue to challenge businesses, particularly for lower wage occupations.
- Recovery in employment has been uneven between small and large businesses, as well as across demographic groups.
- Cost pressures are elevated and inflation is currently running above 2 percent.
Overall economic activity has returned to pre-pandemic levels, but uncertainty about the outlook is growing amid rising COVID cases.
Consumer spending on goods is moderating from its surge during the pandemic, while spending on services is still recovering.
Household savings and improving labor market conditions will support moderate recovery in consumer spending.
Consumer demand for services will depend on the path of the pandemic; responses to the recent surge in cases remains uncertain.
The recovery in employment in New Mexico has been mixed across industries and somewhat delayed relative to the rest of the U.S.
Overall unemployment continues to decline quickly but remains elevated, particularly for minority workers.

Sources: BLS, Haver Analytics

Notes: Grey bars indicate recession shading.
While labor force participation in New Mexico has recovered to near pre-pandemic levels, it remains low compared to the rest of the nation.
Small Businesses account for a large share of overall hiring

Sources: U.S. Census Bureau, Current Population Survey
Note: Values are a 5 year average taken between 2015 and 2019
Although applications for new small businesses surged in New Mexico last year, relatively few of these businesses are likely to hire employees.
Workers feel confident about seeking new employment opportunities and are quitting their current jobs at historic rates.
Wage growth is showing some signs of moderating generally, but remains elevated for low-skill jobs by historical standards.

Sources: Current Population Survey, Staff, NBER, Haver Analytics
Notes: Grey bars indicate recession shading
In addition to wage pressures, cost pressures for materials at various stages of production are elevated due to supply constraints.
House prices continue to rise while overall housing cost indices are growing at subdued rates

Sources: BEA, Zillow, NBER, Haver Analytics

Note: Grey bars indicate recession shading
Inflation currently exceeds the Federal Reserve’s 2 percent target
Recent projections from the FOMC for the median participant indicate expectations for stability in the rate environment through 2022.
Looking forward

• Uncertainty about the outlook is rising, potential leading to some precautionary behavior that will moderate the speed of the recovery

• Although household savings and business cash holdings are somewhat elevated, risks remain tilted to the downside

• The stance of monetary policy remains accommodative