Economic Outlook

January 2024
Economic Outlook Themes

- Headline inflation has continued to decline aided by lower oil prices and weaker food and goods inflation.

- Core inflation, which excludes food and energy, has also come down, but by less, as the decline in services inflation has been more gradual.

- Overall, against the backdrop of positive inflationary readings over the past couple of months, the Committee marked down its median projection for the funds rate.
Inflation has continued to ease.

Sources: BLS, Haver Analytics

*Inflation measured using PCE
Lower oil prices have helped, but their drag is unlikely to continue.

Sources: Energy Information Administration, CME, Haver Analytics, Staff Calculations
Food inflation has declined, especially for food consumed at home.

Sources: BLS, Haver Analytics
Core inflation has fallen less due to services inflation.

Sources: BEA, Haver Analytics
The stubbornness of services inflation is related to the only gradual loosening of the labor market.

Sources: BLS, Haver Analytics
Indeed, the KC Fed’s labor market conditions indicators suggest labor market activity is only slowly returning to historical norms.

Sources: FRB KC, Haver Analytics
The loosening labor market has helped bring down wage inflation.

Source: BLS, FRB Atlanta, Haver Analytics
Labor productivity has also improved, which has brought down labor costs.

Source: BLS, NBER, Haver Analytics
Overall, the string of positive inflation readings led the Committee to mark down its policy path.
Market expectations of future policy actions have shifted.

Source: CME FedWatch Tool, FRB.
Longer-term interest rates have retreated.

Sources: FRB, Freddie Mac, Haver Analytics
Resources from the Kansas City Fed’s Economic Research Department

- **Charting the Economy**
  Timely economic content curated by research staff at the Federal Reserve Bank of Kansas City.

- **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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