# 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.
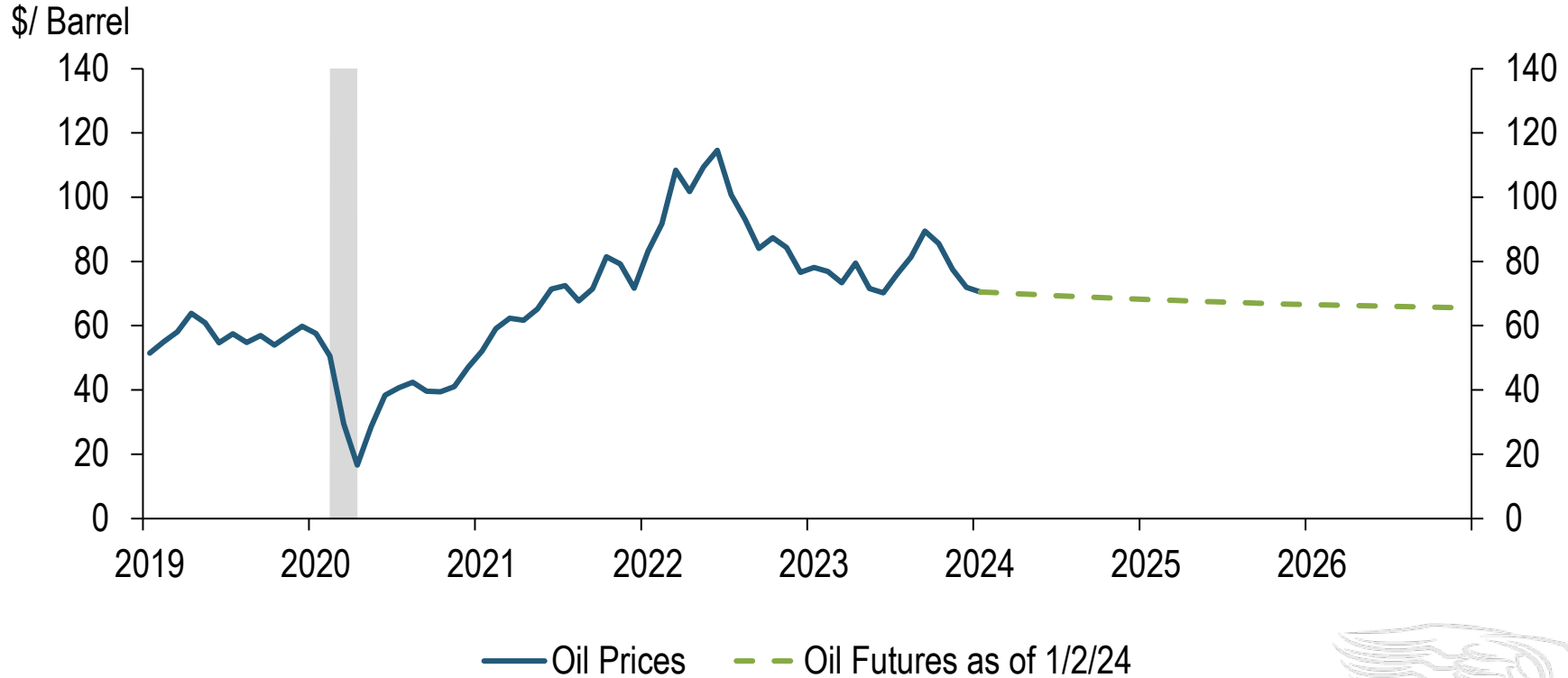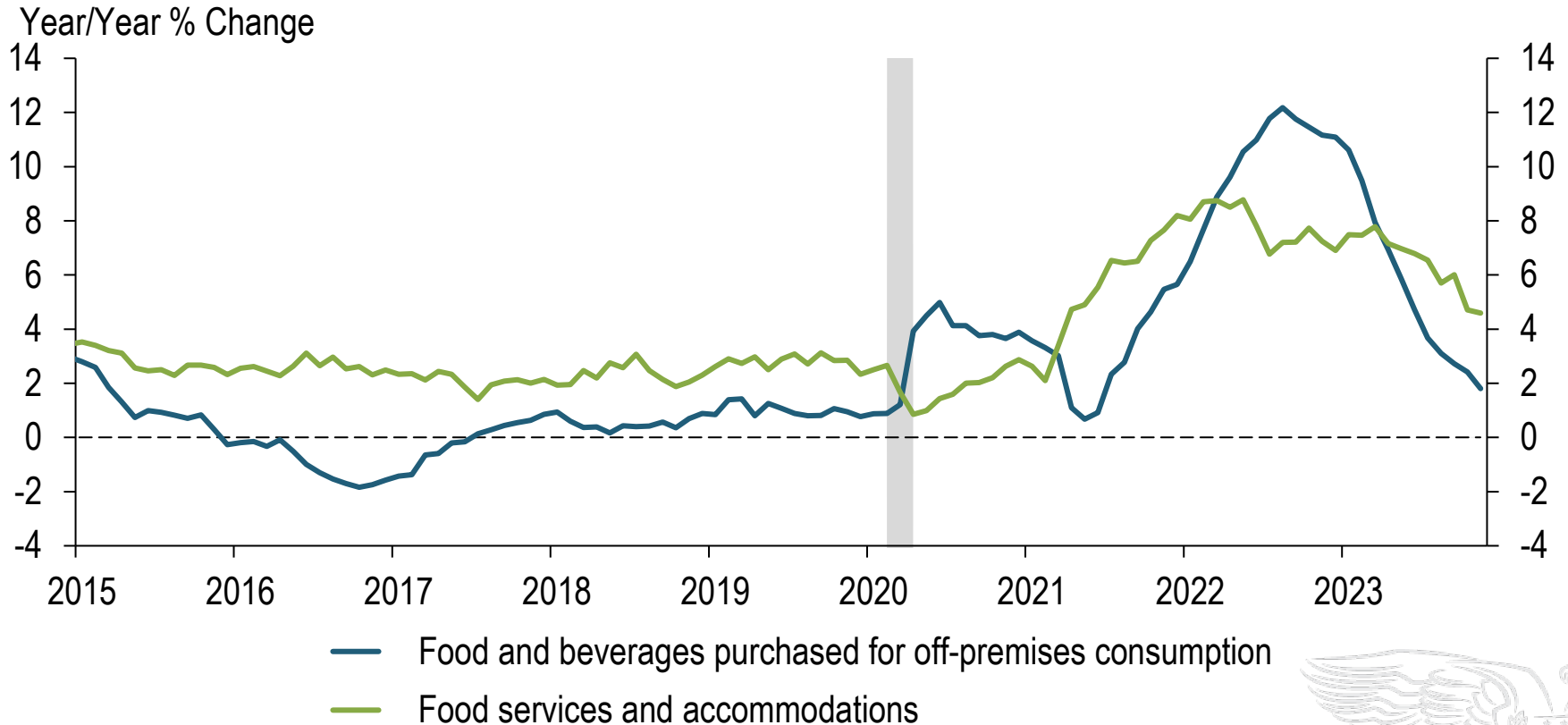
Inflation has continued to ease.

Year/Year % Change

Sources: BLS, Haver Analytics
*Inflation measured using PCE
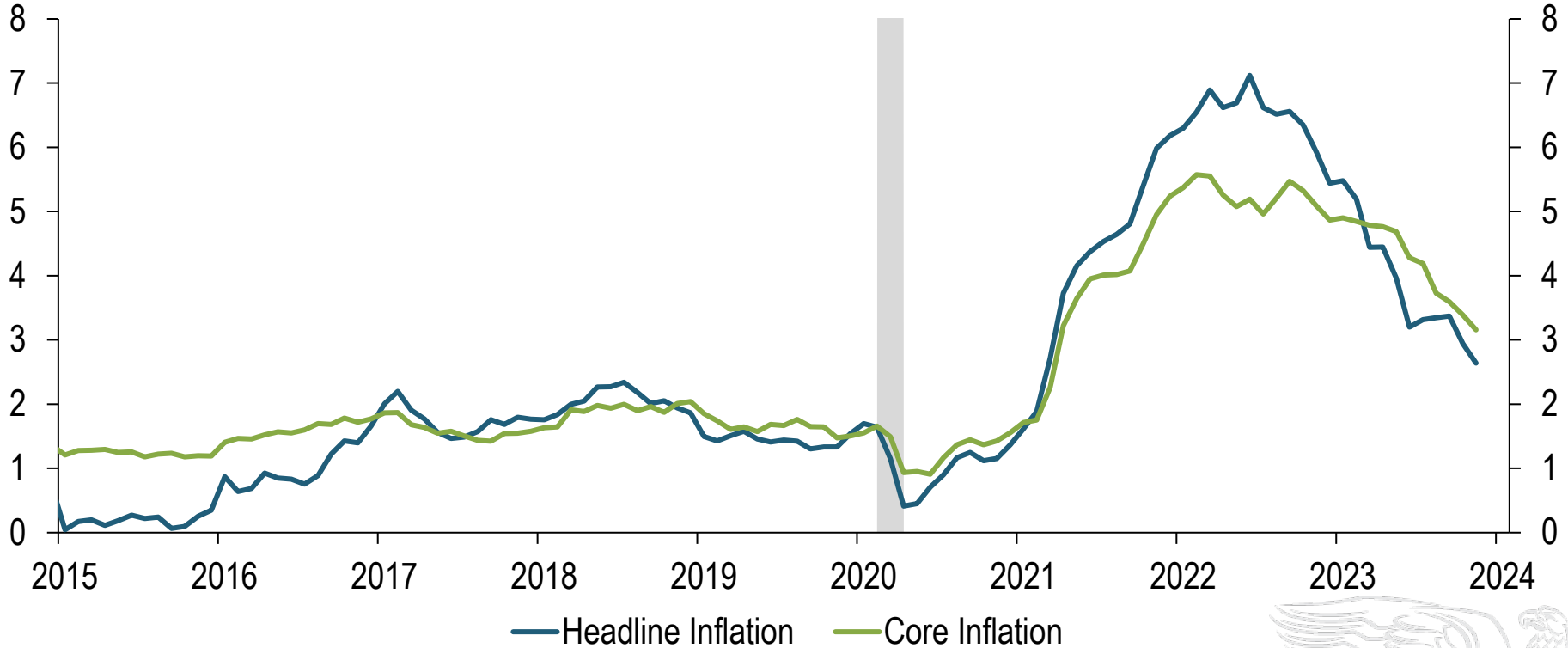
Lower oil prices have helped, but their drag is unlikely to continue.

$/ Barrel

Legend: Oil Prices — Oil Futures as of 1/2/24

Food inflation has declined, especially for food consumed at home.

Year/Year % Change

Food and beverages purchased for off-premises consumption

Food services and accommodations

5

Sources: BLS, Haver Analytics

Core inflation has fallen less due to services inflation.

Year/Year % Change

Core Goods and Services   Core Goods   Core Services ex. Housing

6

Sources: BEA, Haver Analytics
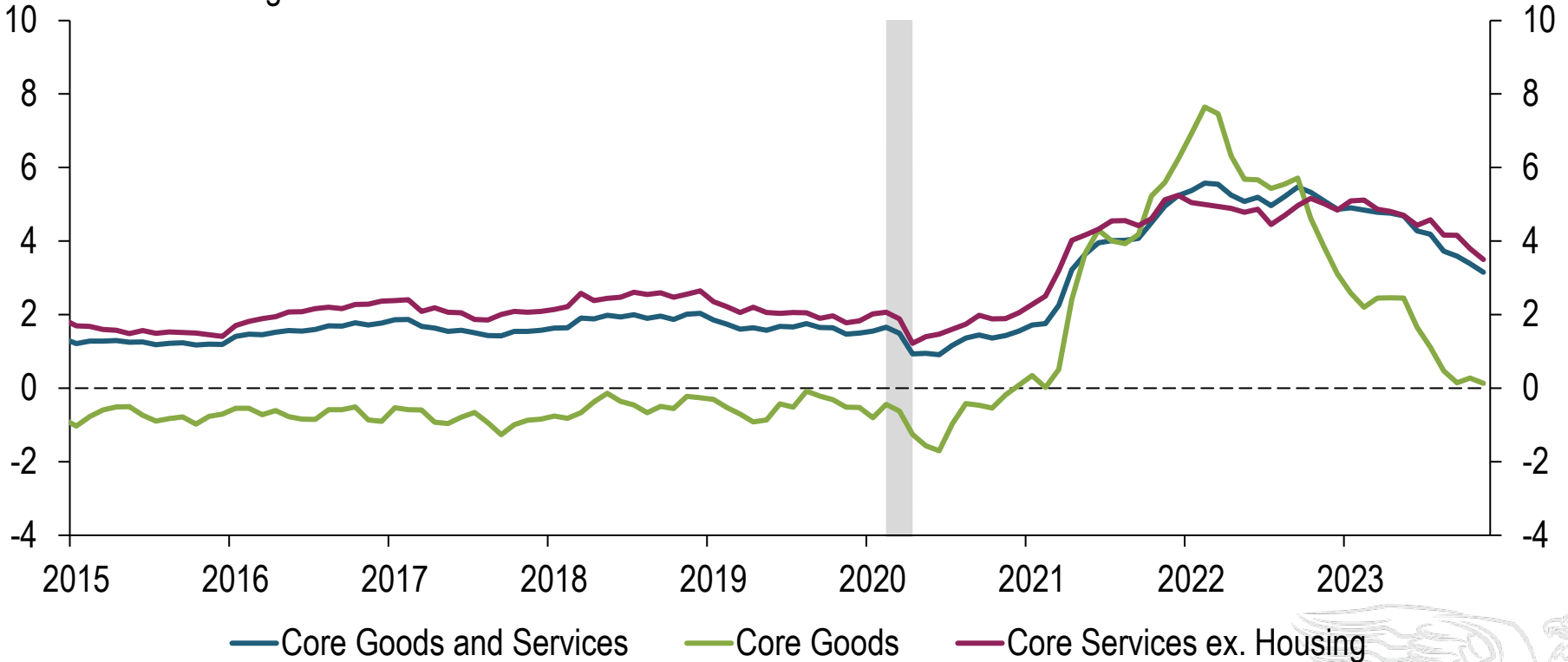
The stubbornness of services inflation is related to the only gradual loosening of the labor market.
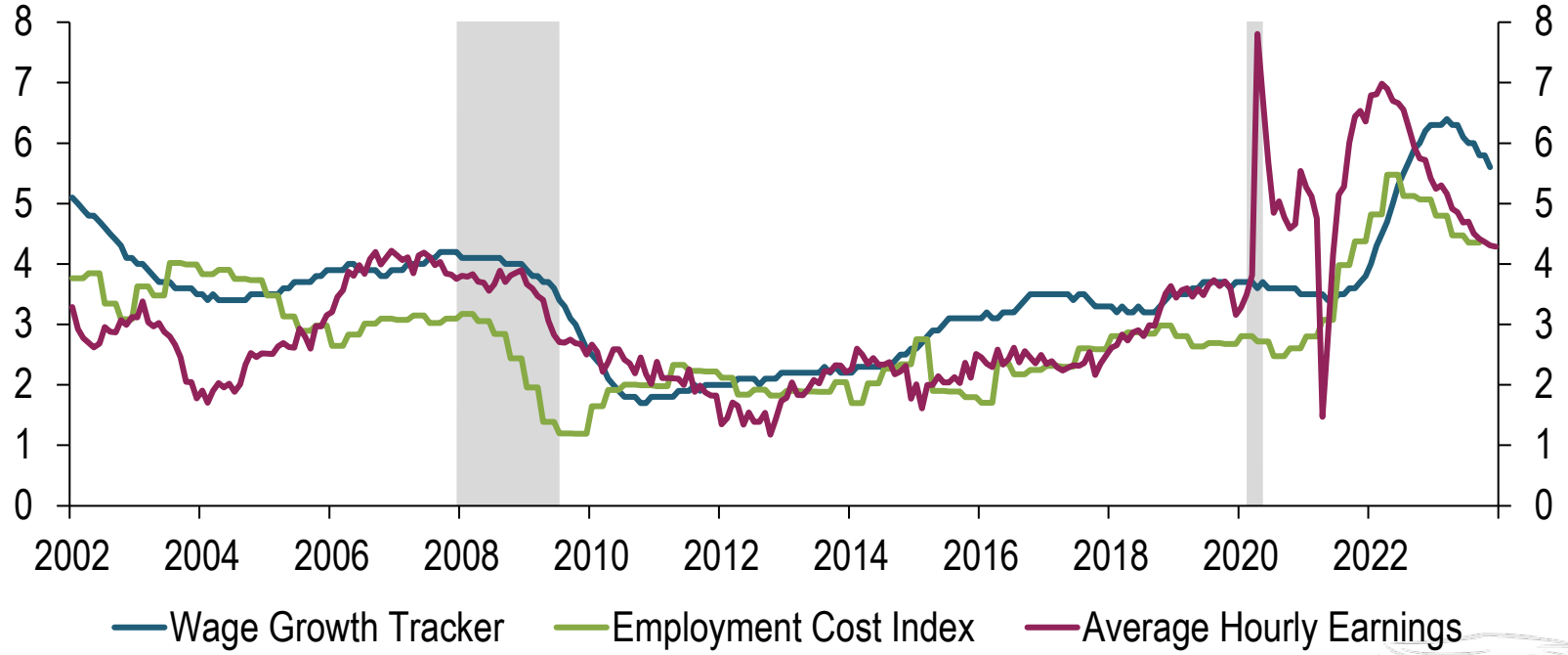
Sources: BLS, Haver Analytics
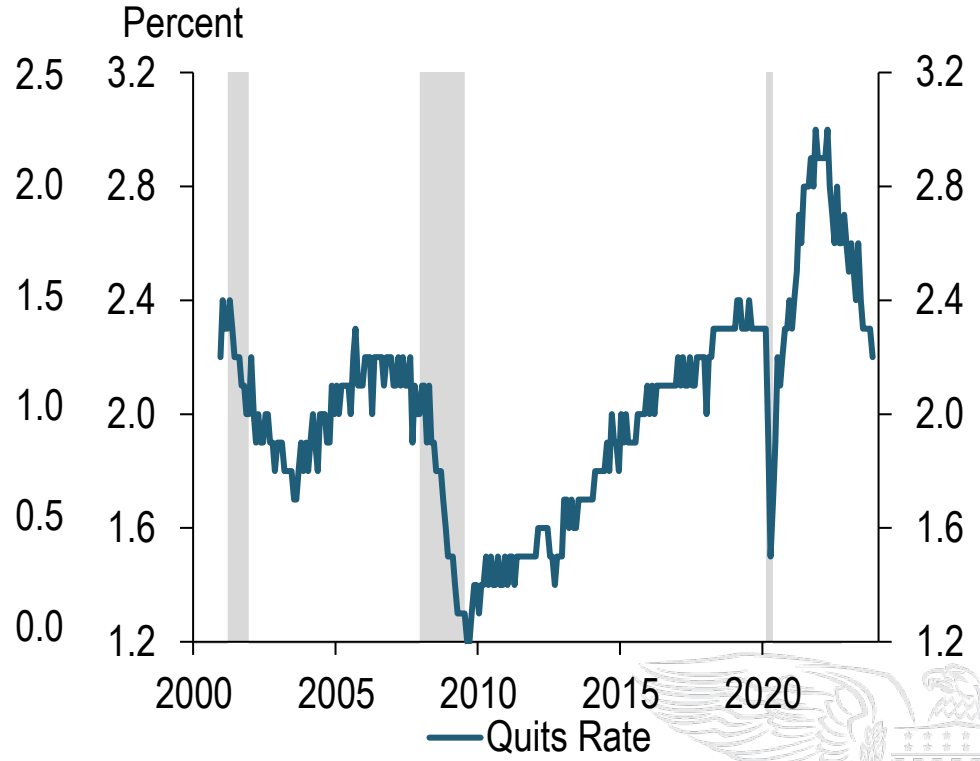
Indeed, the KC Fed's labor market conditions indicators suggest labor market activity is only slowly returning to historical norms.
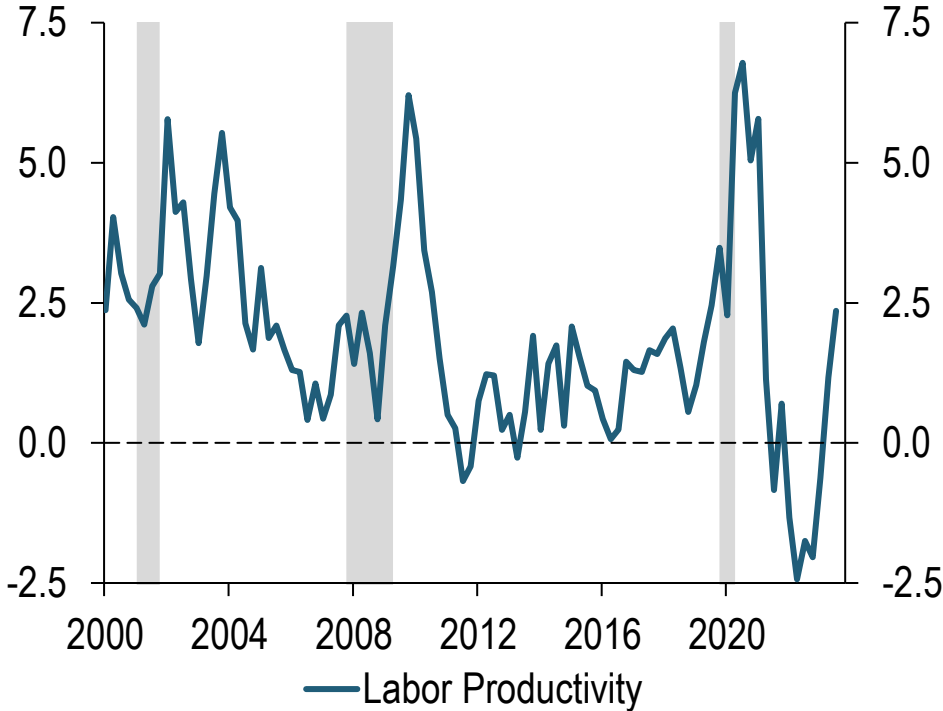
Index, Mean=0

Level of Activity
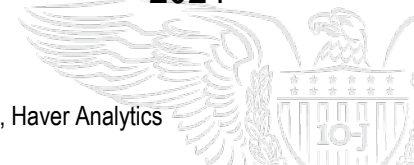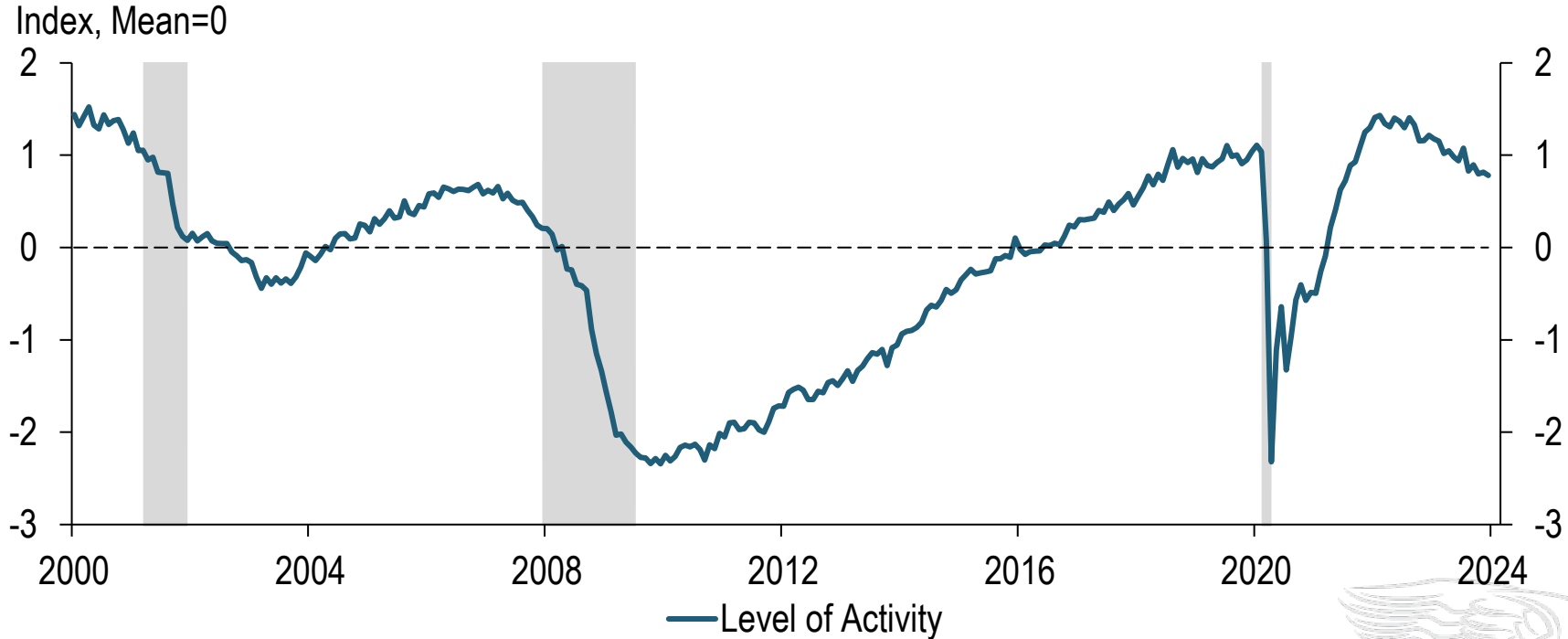
The loosening labor market has helped bring down wage inflation.

Year/Year % Change

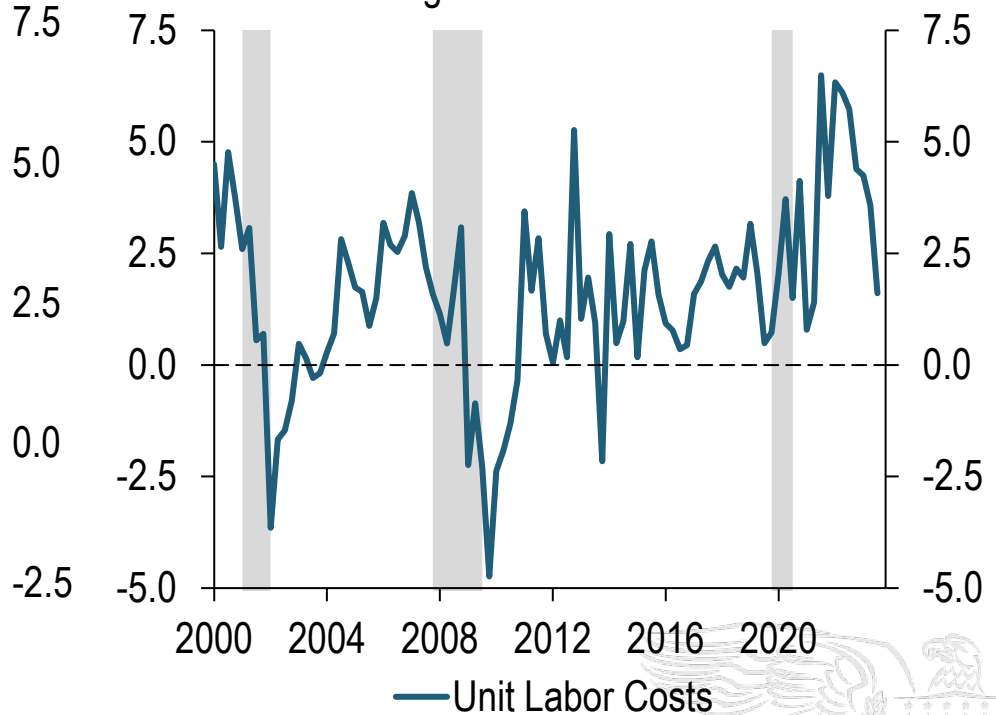Wage Growth Tracker ——— Employment Cost Index ——— Average Hourly Earnings
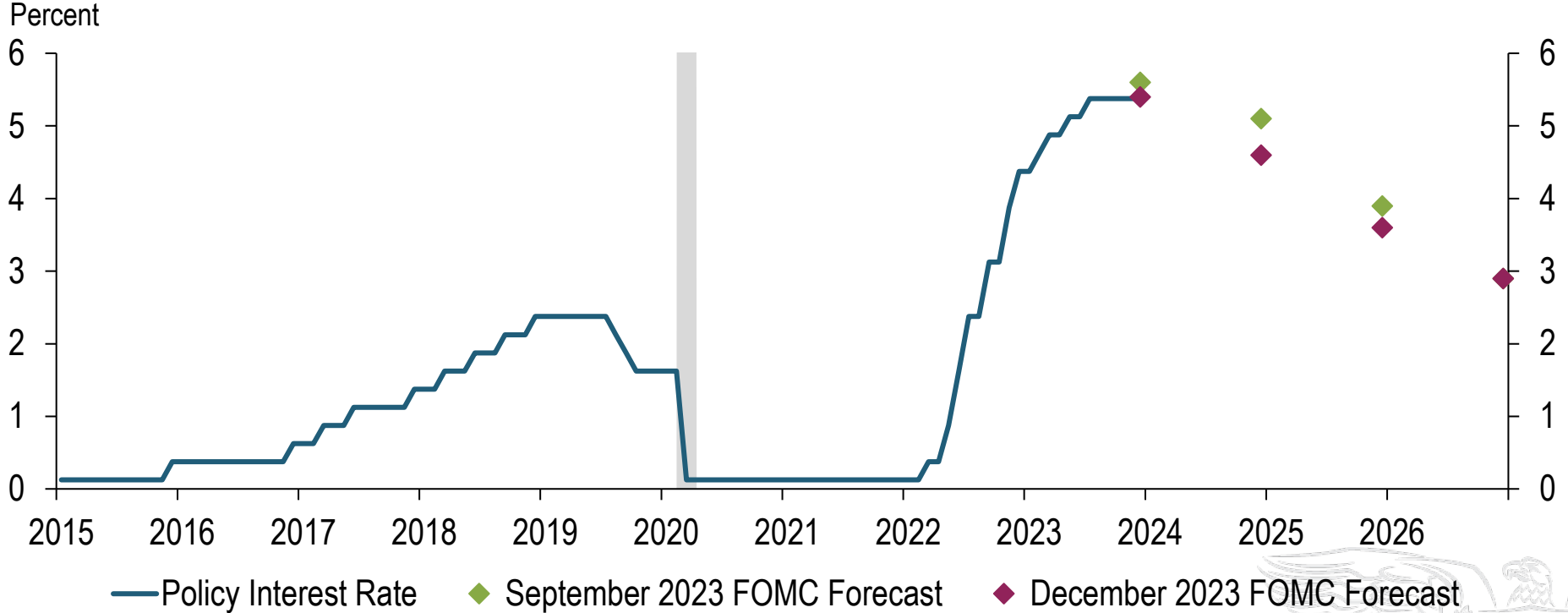
Labor productivity has also improved, which has brought down labor costs.
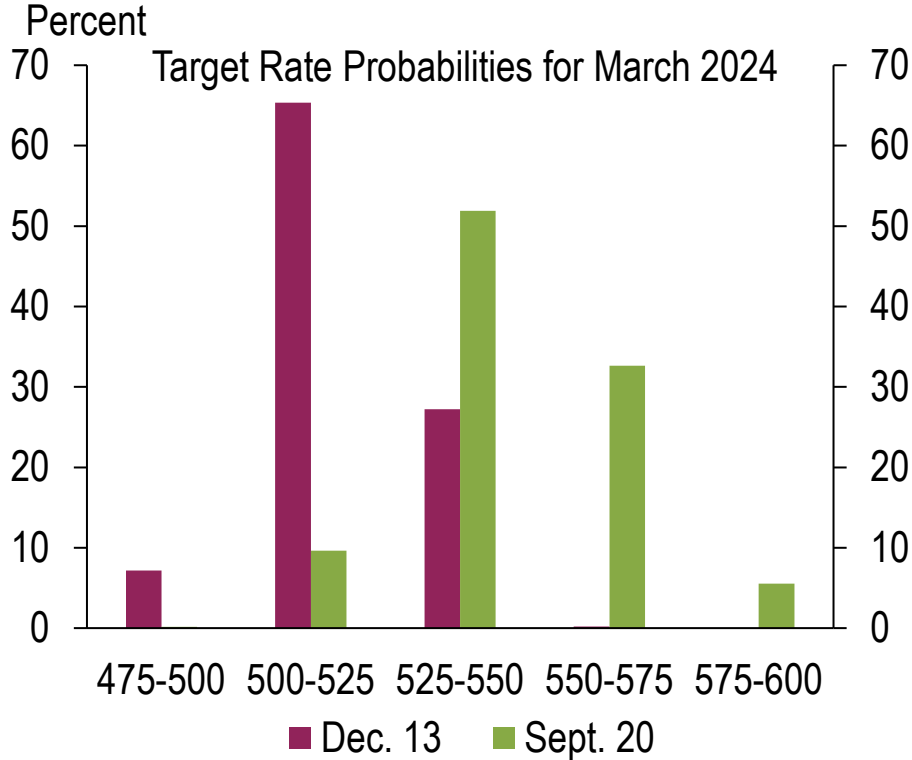
Year/Year %

Year/Year % Change
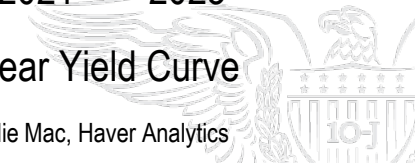

Labor Productivity

Unit Labor Costs

Source: BLS,NBER, Haver Analytics

Overall, the string of positive inflation readings led the Committee to mark down its policy path.

Percent

Sources: FRB, Haver Analytics

Legend: Policy Interest Rate | September 2023 FOMC Forecast | December 2023 FOMC Forecast

Market expectations of future policy actions have shifted.

Target Rate Probabilities for March 2024 / Target Rate Probabilities for June 2024

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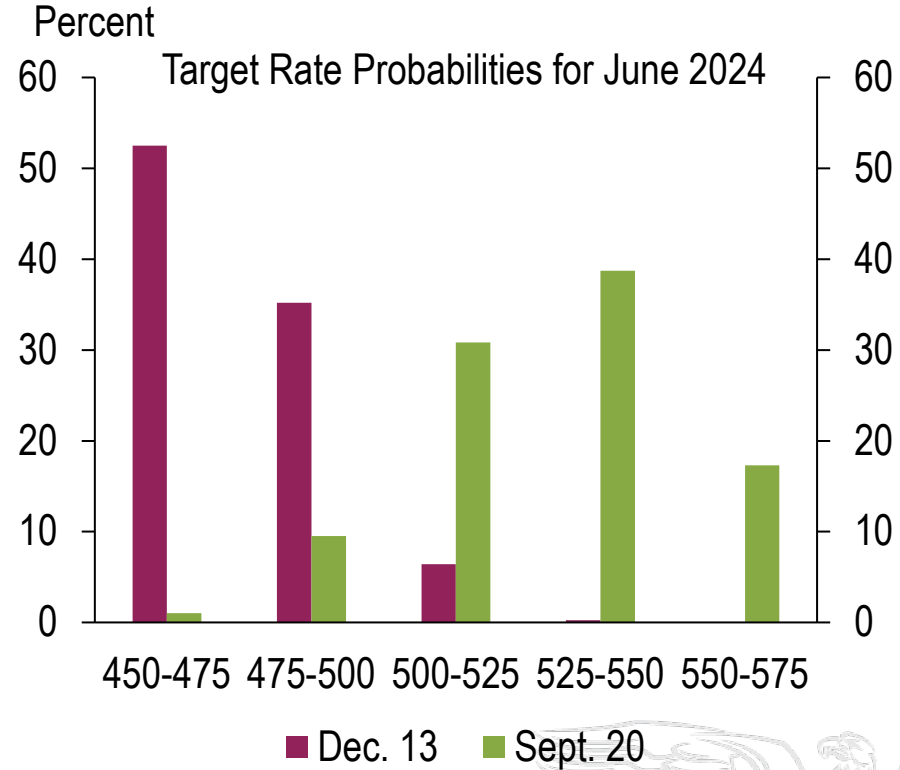
Longer-term interest rates have retreated.

Percent

Percentage Point

30-Year Fixed Mortgage Rate
10-Year Treasury Rate

10-Year minus 2-Year Yield Curve

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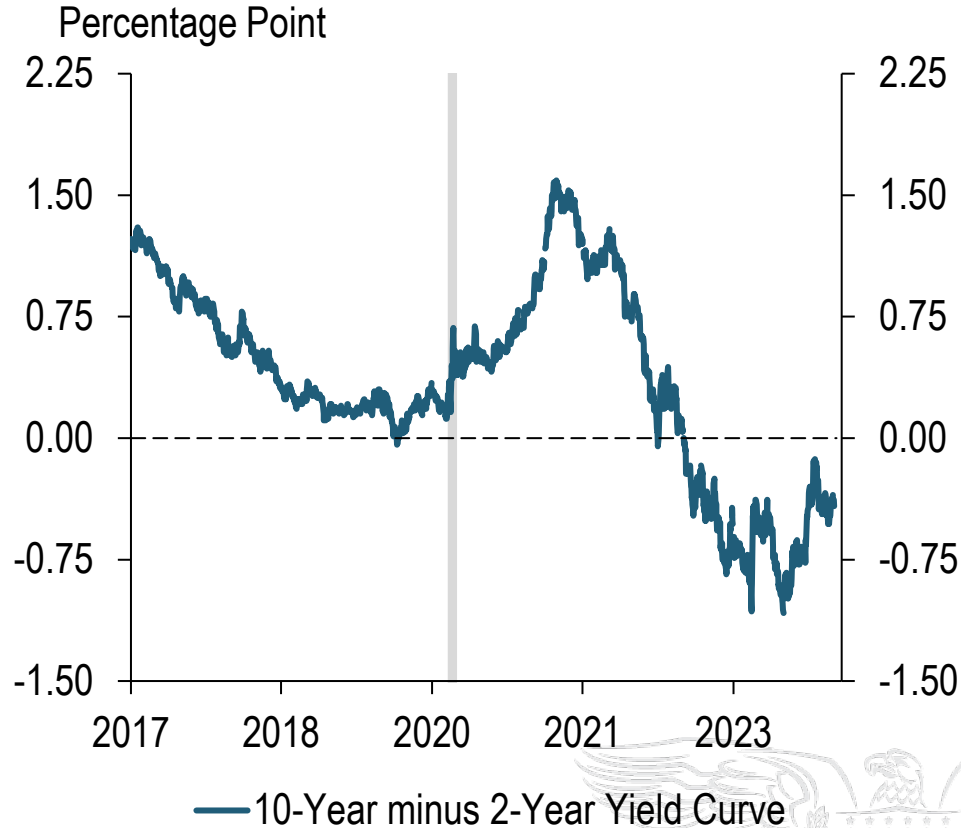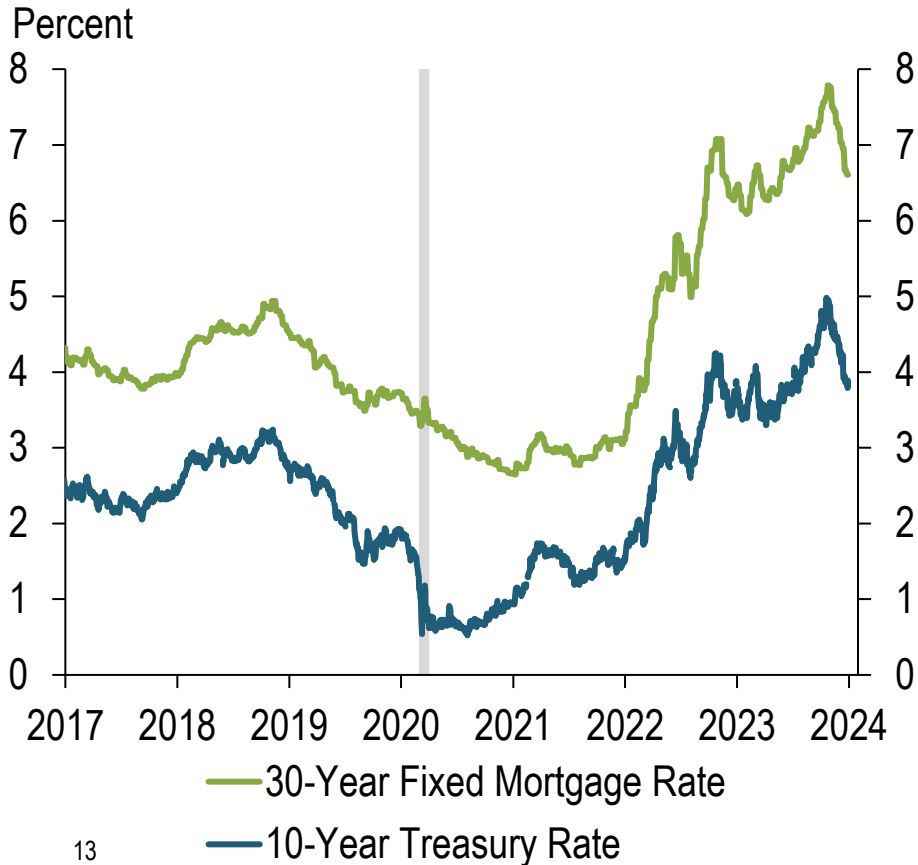
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Resources from the Kansas City Fed's Economic Research Department

- **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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