U.S. Economic Outlook

June 2024
Outlook Themes

- Labor market tightness has eased from pandemic highs as labor supply has moved into better alignment with labor demand.

- However, labor markets remain tight, demand remains strong, and inflation remains too high, particularly services inflation.

- After large declines last year, progress on inflation has slowed which partly reflects ongoing catchup in healthcare and housing services prices, suggesting it may take some time to wring inflation out of the economy.

- Even after inflation returns to 2 percent, interest rates could remain higher than pre-pandemic.
Labor market tightness has eased from pandemic highs

Sources: BLS, Haver Analytics

Job Openings Per Each Unemployed Individual


Ratio

0.0 0.5 1.0 1.5 2.0 2.5


Job Openings Per Each Unemployed Individual
Growth in labor supply has helped to ease labor market tightness

Sources: BLS, Haver Analytics
The labor market remains tight

Sources: BLS, "Building a composite Help-Wanted Index" (Barnichon, 2010), and Haver Analytics
Wage growth remains elevated

Sources: BLS, Haver Analytics
Demand remains strong, supported by growing labor income and elevated liquidity

Sources: BEA, NBER, Haver Analytics
Progress towards the 2 percent inflation target has slowed

Consumer Price Inflation (Excluding Food and Energy)

Sources: BEA, Haver Analytics
Lingering inflation does not reflect unanchored inflation expectations

Estimated Pass-Through from Inflation to Long-Term Inflation Expectations

Sources: Bloomberg, Federal Reserve Board, Haver Analytics, Staff Calculations
Inflationary pressures are concentrated in services

Components of Consumer Price Inflation

- Core Services Inflation
- Core Goods Inflation

Sources: BEA, Haver Analytics
Reductions in services inflation are likely to be slowed by ongoing catchup in healthcare and housing prices.

Sources: BEA, BLS, Zillow, Haver Analytics
Amid strong demand and elevated inflation, expectations are growing for the FOMC to remain patient on rate cuts in 2024.

Sources: CME and Staff Calculations
Markets do not expect rates to decline back to pre-pandemic levels

Market-Implied Federal Funds Rate Path, Percent

- December 2019 Futures
- May 2024 Futures

Sources: CME, Staff Calculations.
Increases in government debt could keep interest rates higher than pre-pandemic

Sources: Congressional Budget Office

Percent of GDP

Debt held by the public
2019 CBO Projections
2024 CBO Projections

Sources: Congressional Budget Office
Market expectations are for the Fed’s balance sheet to remain large, with runoff slowing in June and expected to end next year.

Fed’s Security Holdings

Primary Dealer Expectations For End of Balance Sheet Decline

Sources: FRB New York, Board of Governors, and Haver Analytics.
Resources from the Kansas City Fed's Economic Research Department

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

- **Economic Bulletin**
  Timely, accessible snapshots of the Kansas City Fed's latest economic findings and perspectives on national and international economic conditions and issues related to monetary policy, industries and markets.

- **Economic Review**
  A quarterly research publication with articles on macroeconomics and monetary policy, regional and international economics, and banking and financial markets.

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