Economic Conditions and Outlook

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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

- Economic growth and labor market conditions are strong, but high inflation remains key challenge for households and businesses

- Inflation pressures have persisted and are becoming more broad-based, with renewed pressures stemming from geopolitical developments

- Monetary policy has begun to remove accommodation, moving to restore price stability
Economic growth continues to be strong with support from consumers
Consumer demand for services has recovered and spending on goods remains elevated

![Graph of U.S. Retail Sales](image)

Sources: U.S. Census Bureau, Haver Analytics
Household consumption is supported by strong labor market conditions.
Job gains remain strong and broad-based across sectors

Sources: BLS, Haver Analytics
Job openings are well above the number of workers seeking employment.

Sources: BLS, Haver Analytics

Note: Grey bars indicate recession shading.
Strong labor market conditions are supporting wage gains for workers

Average Weekly Earnings

- Low-skill jobs
- Middle-skill jobs
- High-skill jobs

Source: CPS
Note: Grey bars indicate recession shading
Despite economic strength, inflation poses many challenges for households and for businesses.

Source: BEA, Haver Analytics

Note: Grey bars indicate recession shading.
High inflation is weighing on consumer sentiment

Index of Consumer Sentiment

Index, 1966Q1 = 100

Sources: University of Michigan, Haver Analytics
Higher materials costs are headwinds to profitability for businesses

![Producer Prices Indices Along Supply Chains](chart)

Sources: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Some inflation pressures are likely to moderate in coming months, in particular for durable goods and some pandemic-sensitive services.
Other inflation pressures are likely to persist further, such as shipping and transportation costs.
Energy prices that affect household utilities costs and gasoline prices rose amid geopolitical developments in Europe

Sources: EIA, Haver Analytics
Interest rates are projected to normalize and rise in order to ease inflation pressures over the coming years.
The FOMC expects to begin reducing the size of its balance sheet at an upcoming meeting.
Looking forward

- Strong labor market conditions are likely to continue providing support for consumer activity and overall economic growth

- Although some inflation pressures are likely to moderate, healthy demand and new developments affecting food and energy prices

- Some cost pressures that were tied to disruptions during the pandemic are showing signs of moderating, but overall inflation remains above its 2 percent target