

# National Economic 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*



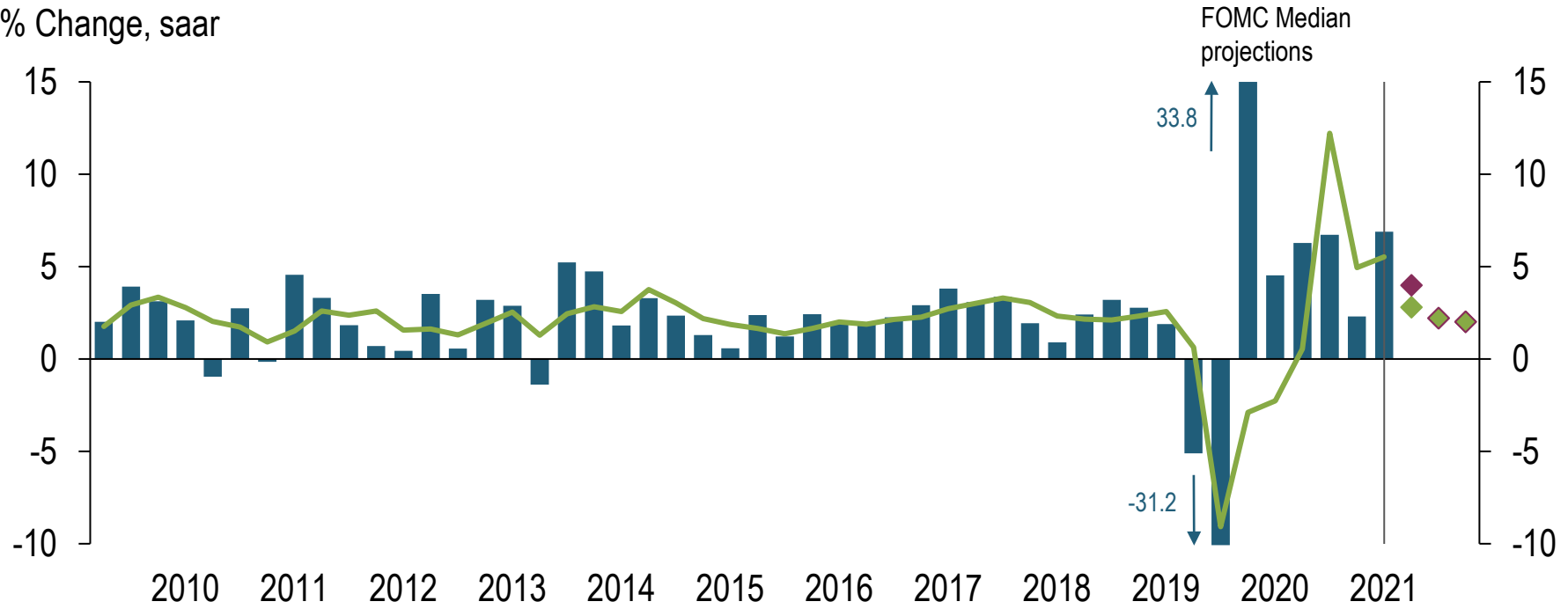
# Outlook themes

- Following strong growth in 2021, the outlook has softened a bit alongside slower consumer spending.
- Wage gains offer support to spending, but consumer sentiment is declining as inflation moves higher.
- Following the March FOMC meeting, markets expect more rate increases.
- Tensions in Ukraine remain a source of uncertainty in markets.



# Real GDP growth is expected to moderate over the near term.

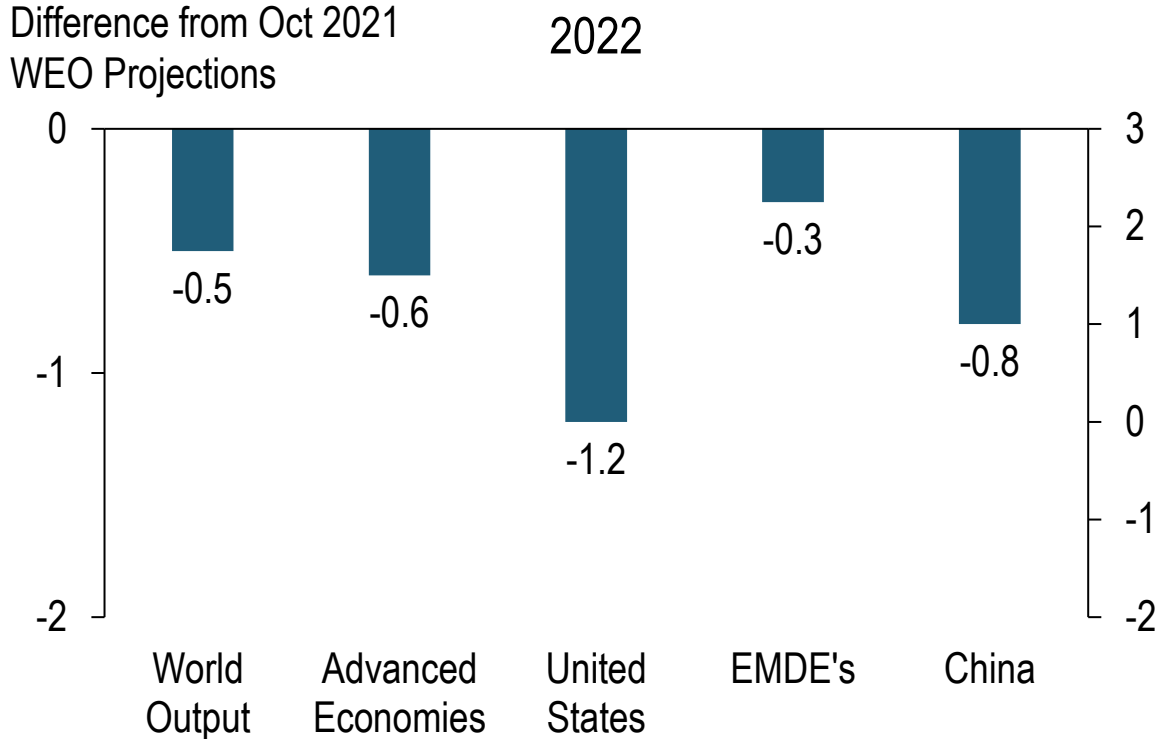
% Change, saar



■ Real GDP q/q   
 — Real GDP y/y   
 ◆ March 2022 SEP Projections   
 ◆ December 2021 SEP Projections



# Forecast of global growth also eased mostly in U.S. and China.

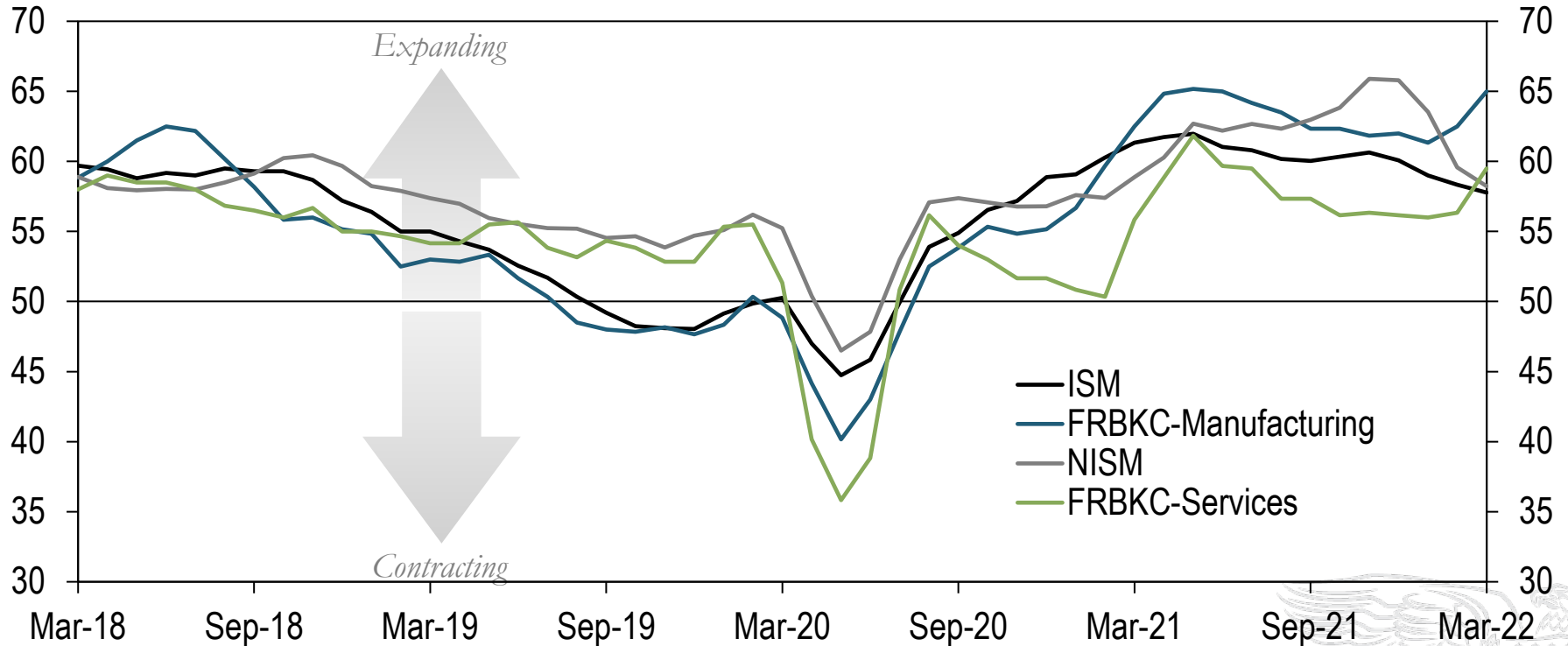


- Global growth expectation for 2022: **4.4%**
- China growth target for 2022 : **5.5%**



# Business activity in the nation and region continue to expand.

Diffusion Index, sa, 3mma

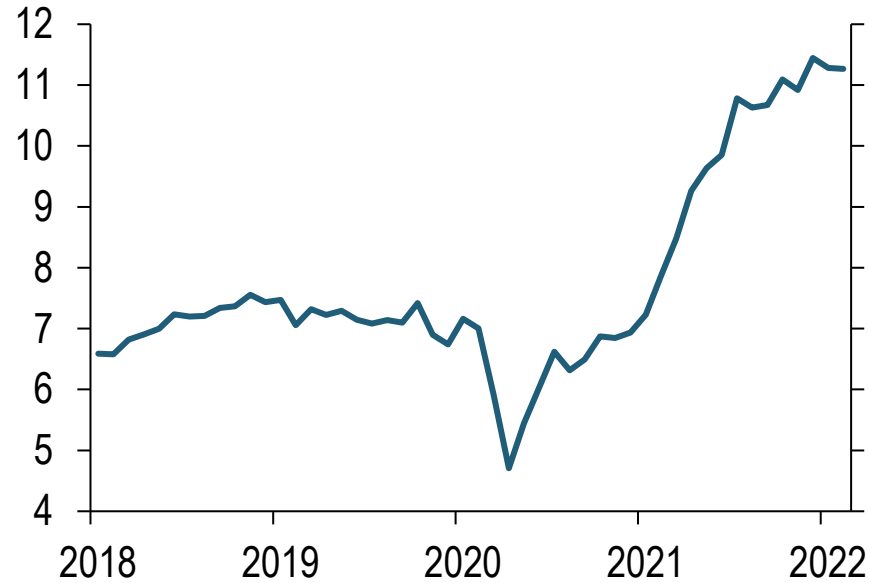


Source: Institute for Supply Management & Federal Reserve Bank of Kansas City/Haver Analytics.



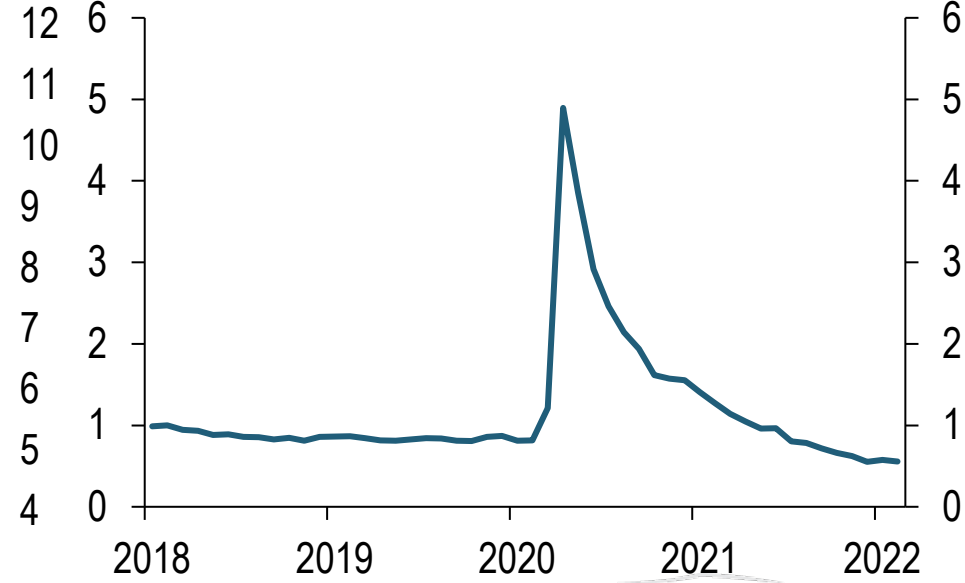
# Labor markets are very tight with about 0.6 unemployed workers available for each job opening.

Level, Millions

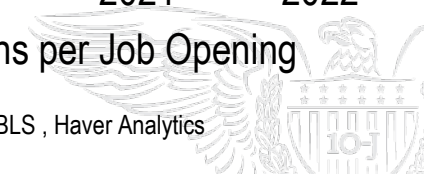


— Job Openings

Ratio

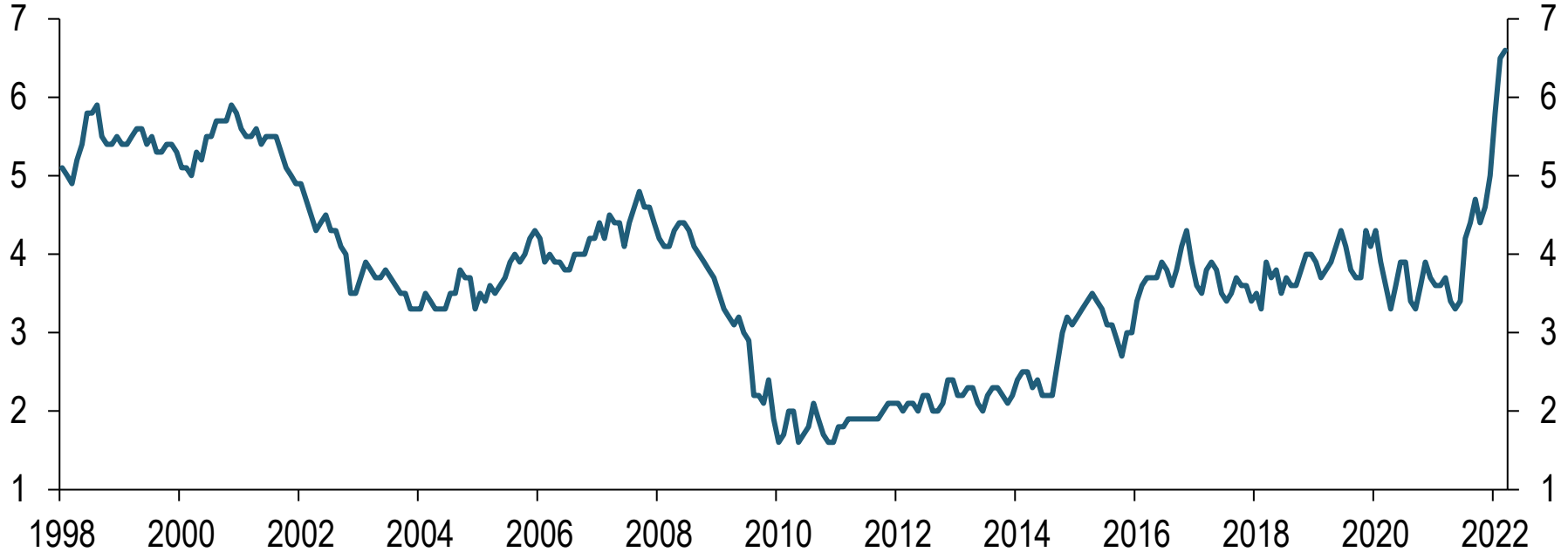


— Unemployed Persons per Job Opening



# Tightness is leading to wage growth continuing to increase.

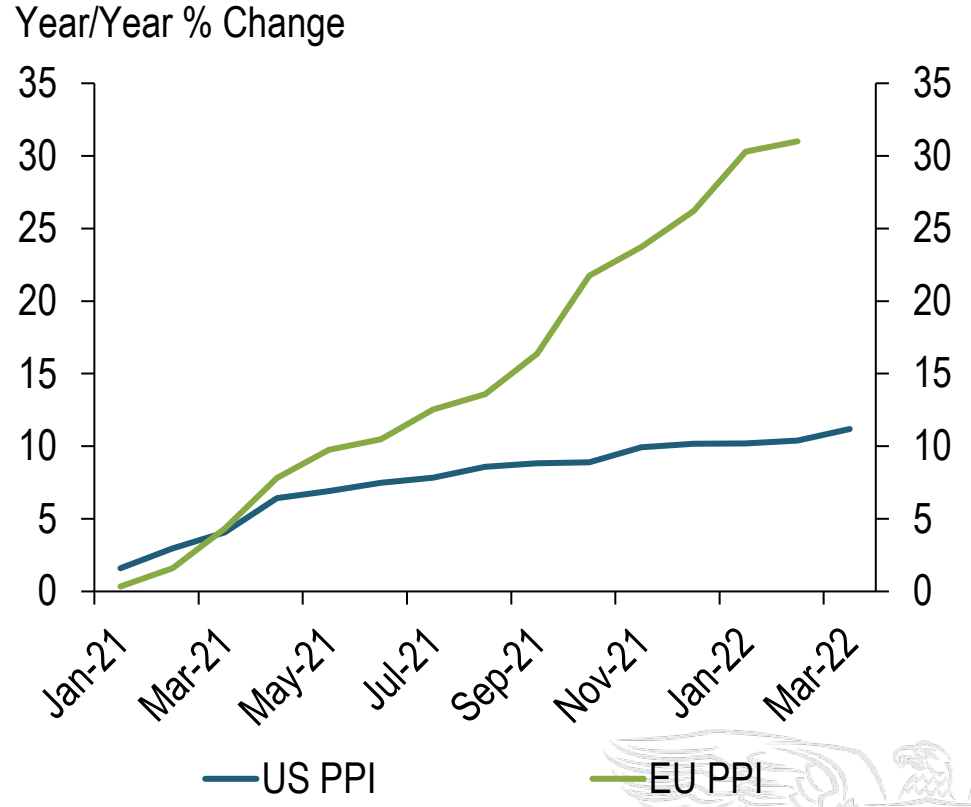
Year/Year % change, 3-month moving average



—Atlanta Wage Growth Tracker

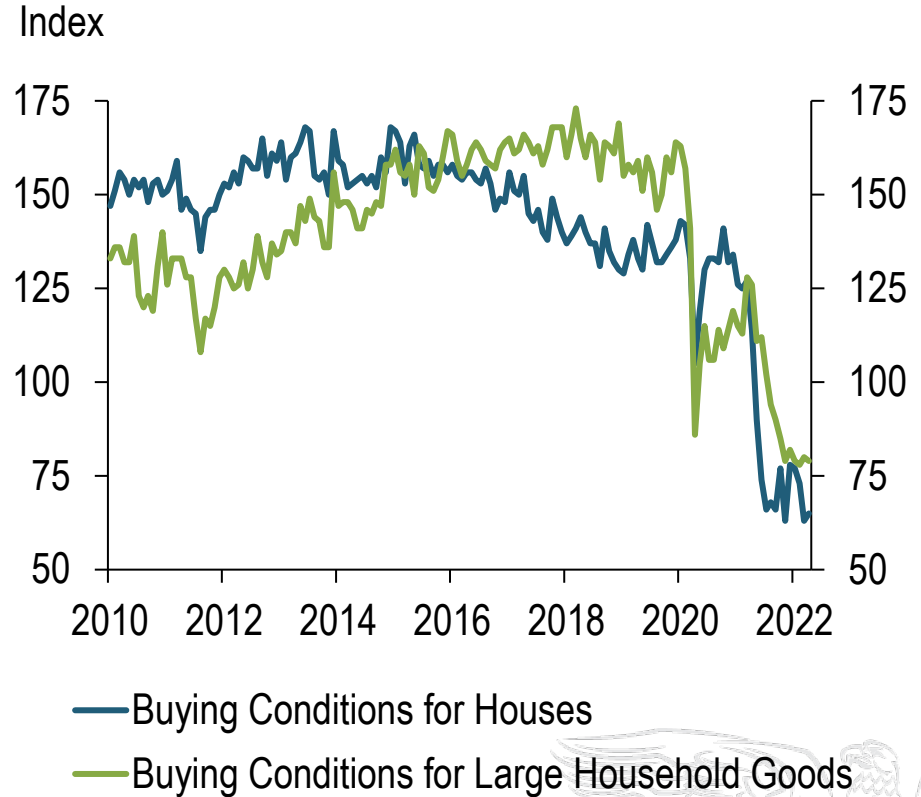
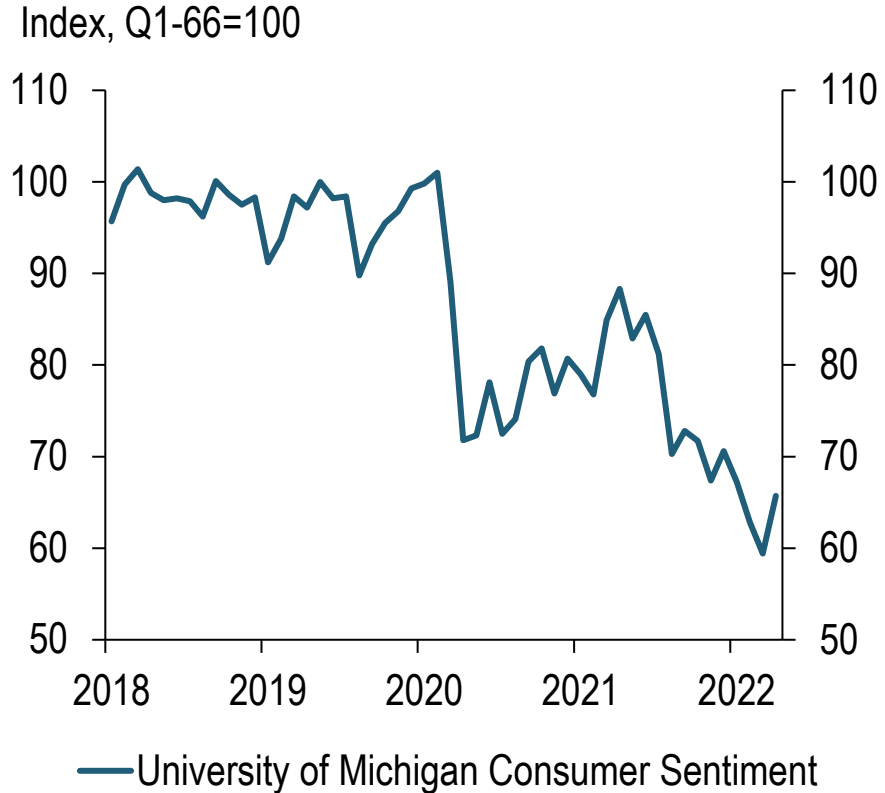


# Measures of consumer and producer inflation are rising.



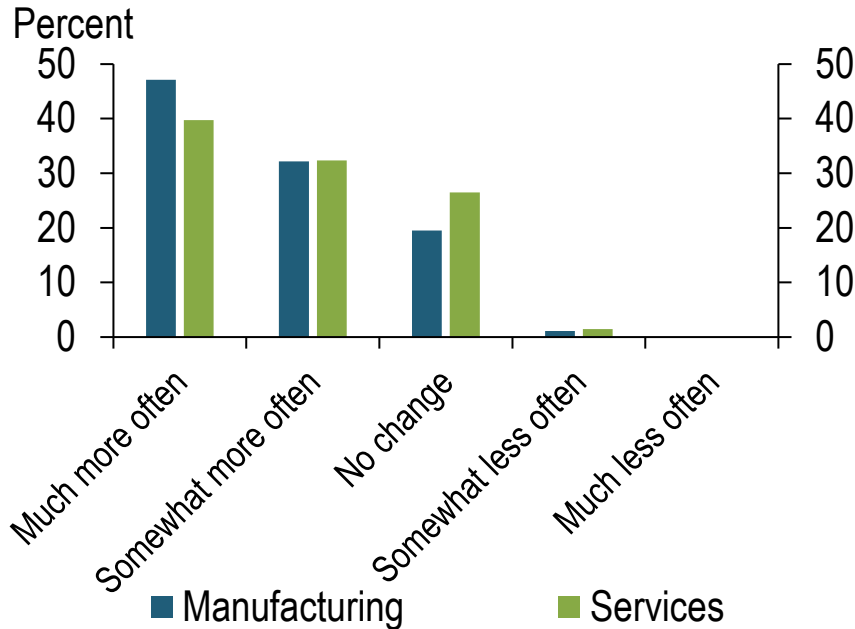


# Rising prices are causing consumer sentiment to fall.

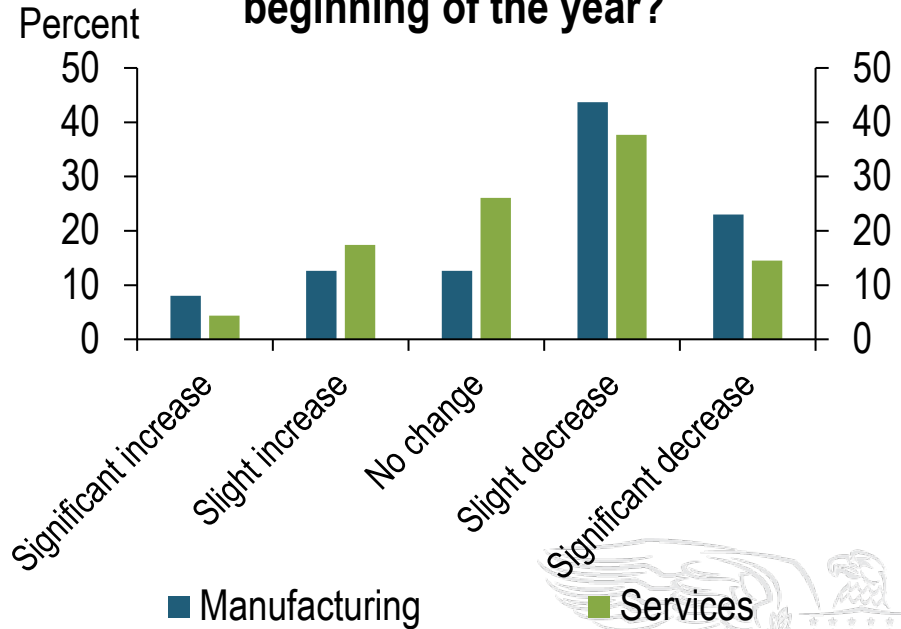


# Our business contacts report more frequent price changes and compressed margins.

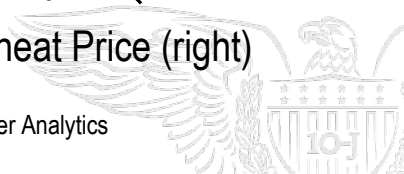
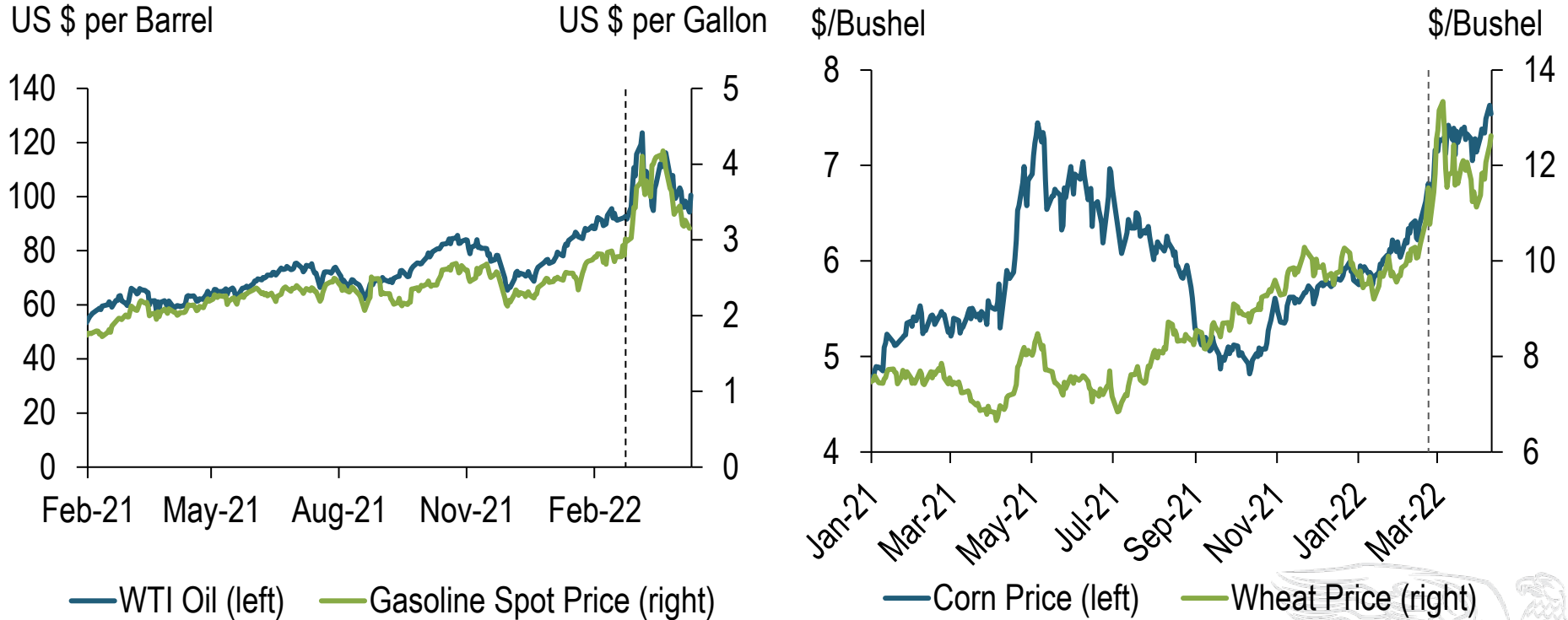
How much more or less frequently is your firm changing prices compared to last year?



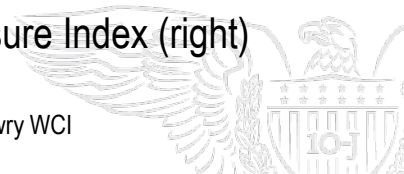
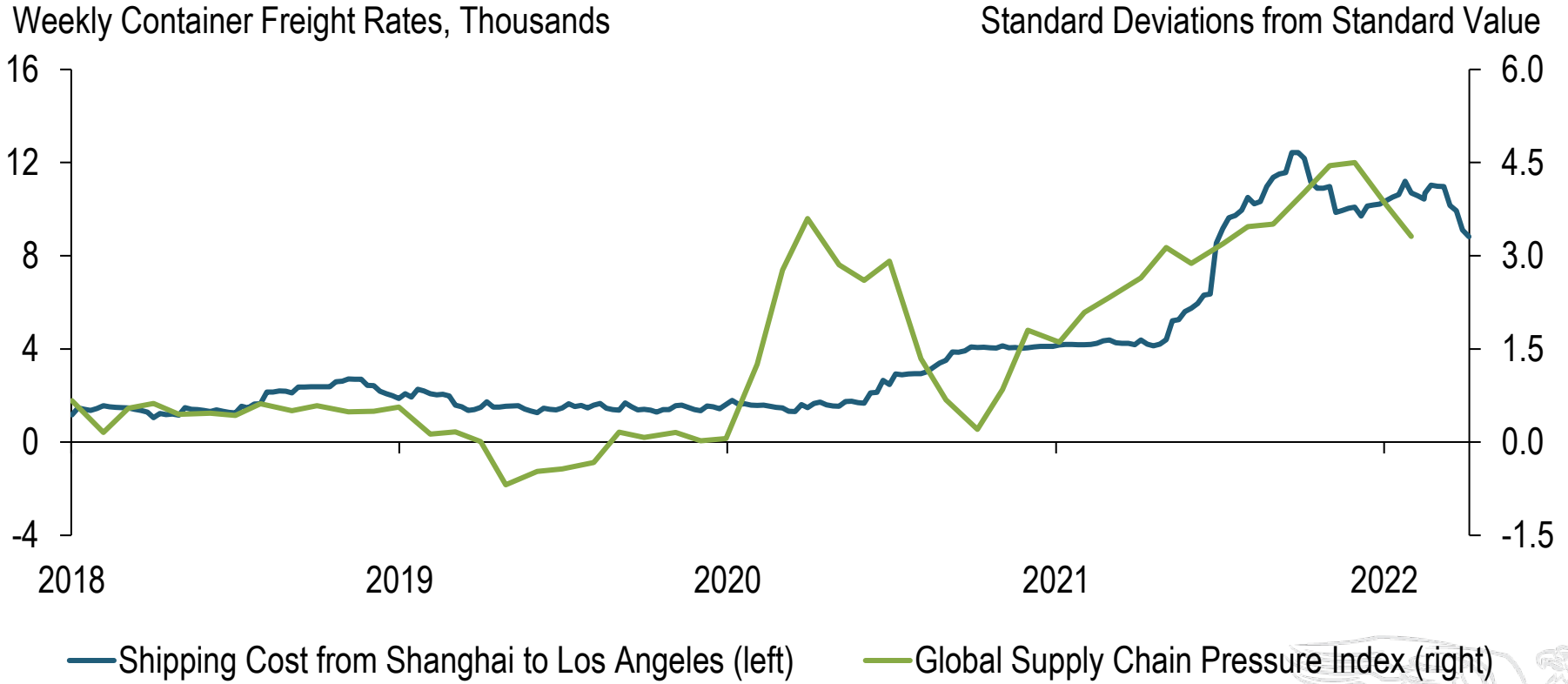
Given current price pressure, how have profit margins changed for your firm since the beginning of the year?



# Commodity prices increased further after Russia's invasion of Ukraine.



# Stress on supply chains is also expected to increase further.

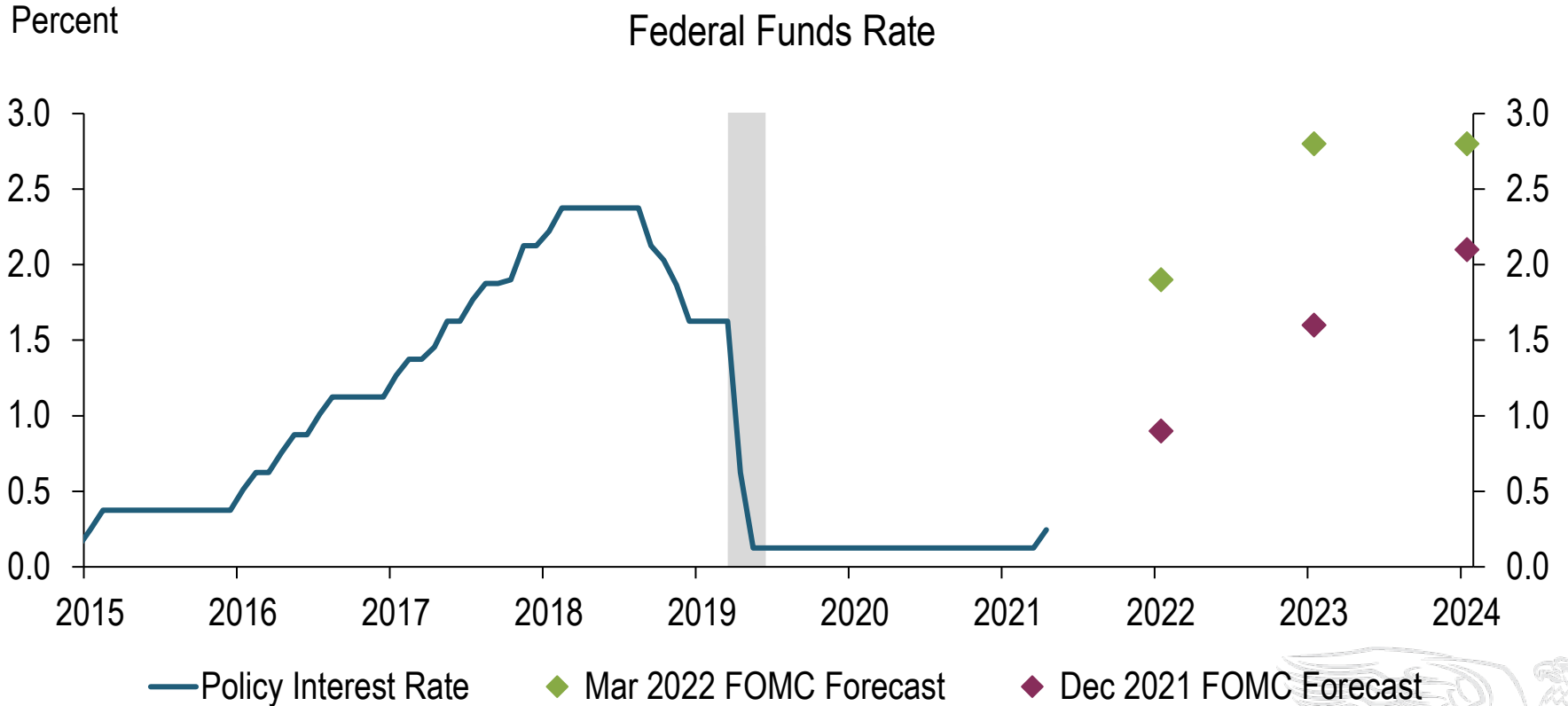


# FOMC raised the federal funds rate 25 basis points at March meeting.

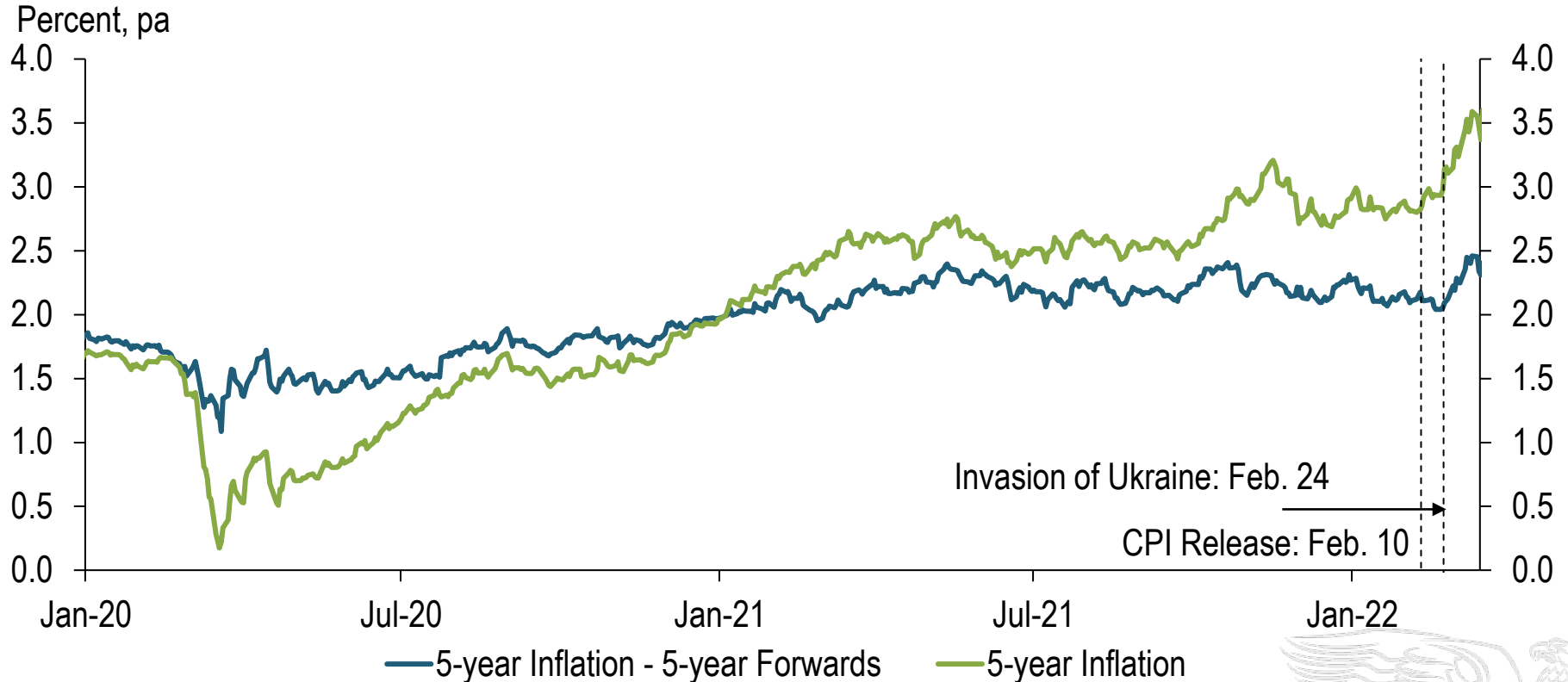
- “the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and **anticipates that ongoing increases** in the target range will be appropriate”
- “expects to **begin reducing its holdings** of Treasury securities and agency debt and agency mortgage-backed securities **at a coming meeting.**”
- Markets now expect a much steeper path of rate increases



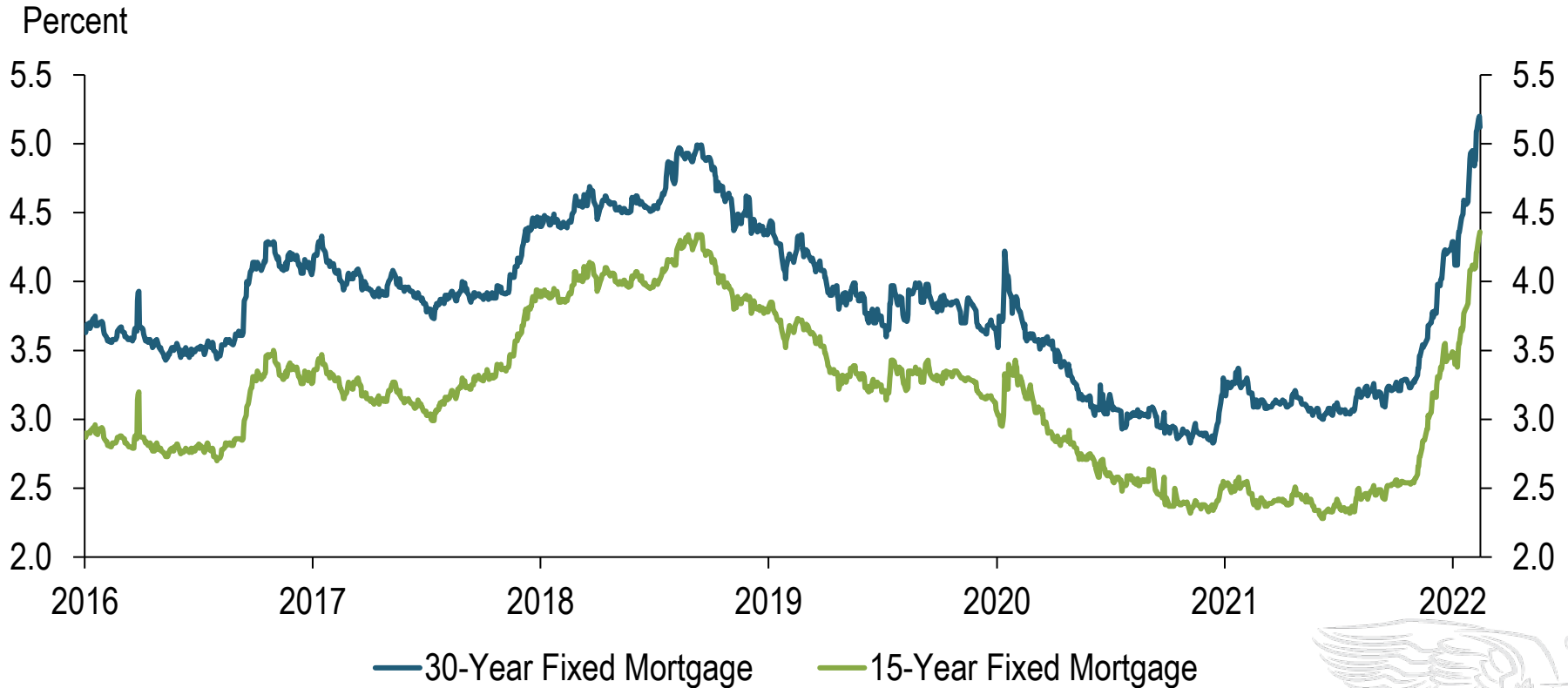
# FOMC projections imply a much steeper path in policy.



# Market expectations of inflation have drifted slightly higher



# ...as have mortgage rates.





# Treasury yields are rising and US dollar continues to strengthen.



— 10-Year Treasury Yield (left)

— FRB Broad Trade-Weighted Dollar Index (right)



# Risks to the Outlook

- Further escalation of tensions in Europe.
- Existing and future lockdowns to control COVID in China pose risk of additional supply chain pressure.
- More supply chain pressure could bring more inflation from imbalance of supply and demand.



