National Economic Outlook

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Jason Brown
Vice President and Economist

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.

Sources: BEA, FRB, Haver Analytics
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%

WEO Projections:

- World Output: -0.5
- Advanced Economies: -0.6
- United States: -1.2
- EMDE's: -0.3
- China: -0.8

Sources: IMF, Haver Analytics
Business activity in the nation and region continue to expand.

Labor markets are very tight with about 0.6 unemployed workers available for each job opening.
Tightness is leading to wage growth continuing to increase.

Year/Year % change, 3-month moving average

Sources: FRB Atlanta, Haver Analytics
Measures of consumer and producer inflation are rising.

Sources: BLS, EuroStat, Haver Analytics
Rising prices are causing consumer sentiment to fall.

Sources: University of Michigan, Haver Analytics

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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?

Sources: FRBKC Surveys
Commodity prices increased further after Russia’s invasion of Ukraine.

Sources: WSJ, US Department of Agriculture, EIA Daily Energy Prices, Haver Analytics
Stress on supply chains is also expected to increase further.

Sources: New York FRB, Drewry WCI
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.

Sources: FRB, NBER, Haver Analytics
Market expectations of inflation have drifted slightly higher

Sources: Bloomberg

Invasion of Ukraine: Feb. 24
CPI Release: Feb. 10

Percent, pa

Jan-20  Jul-20  Jan-21  Jul-21  Jan-22

5-year Inflation - 5-year Forwards  5-year Inflation

Sources: Bloomberg
...as have mortgage rates.

Sources: WSJ, Haver Analytics
Treasury yields are rising and US dollar continues to strengthen.

Sources: FRB, Haver Analytics
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.