

Economic Outlook

August 1, 2022 - National Conference of State Legislatures

Nicholas Sly

Assistant Vice President, Economist and Denver Branch Executive

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

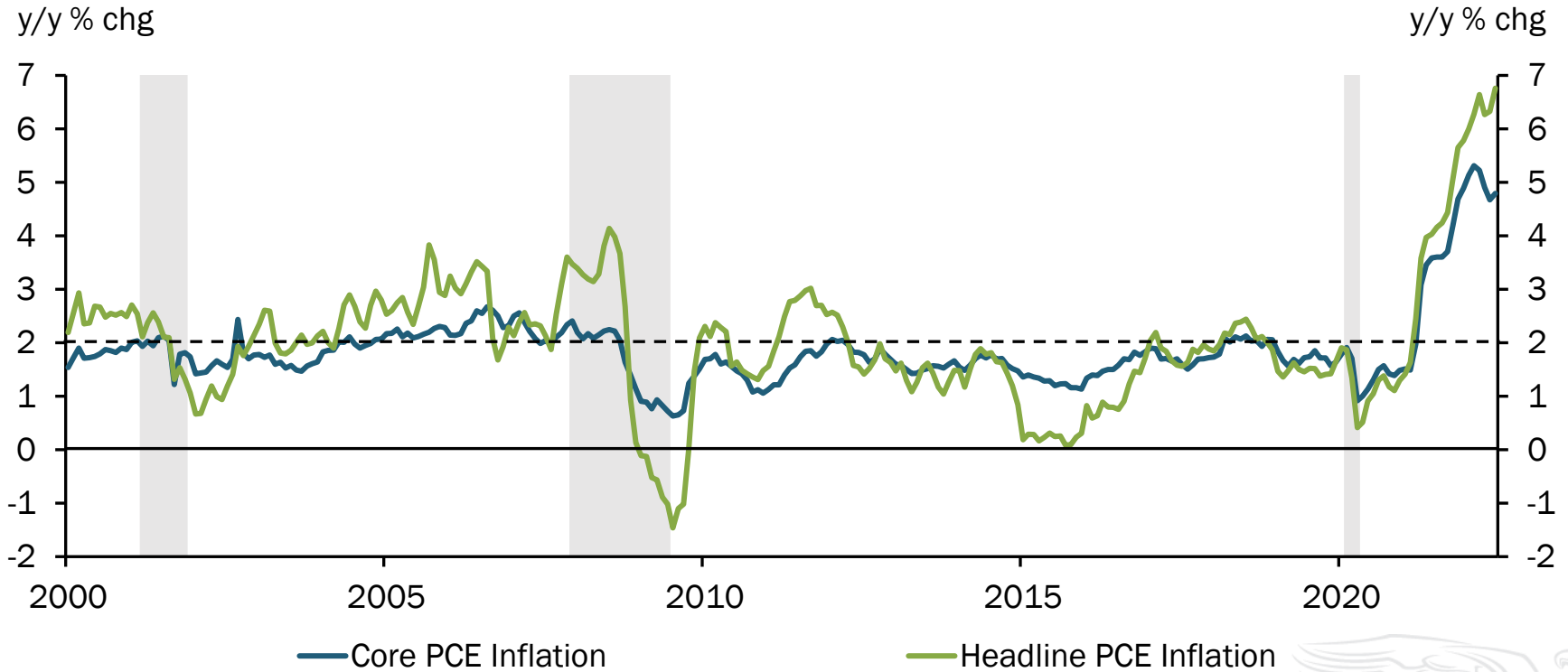


Overview

- Inflation is above levels experienced over the last several decades, creating difficulties for many households in meeting regular expenses
- Unemployment is below historical levels, with demand for workers exceeding the still-constrained supply of workers
- Monetary policy continues to tighten, raising interest rates in order to restore price stability
- Indicators from several sectors point to the effects of tighter monetary policy slowing overall demand growth

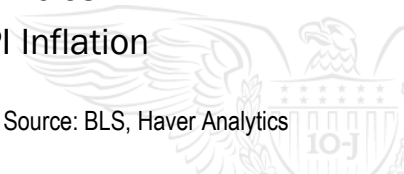
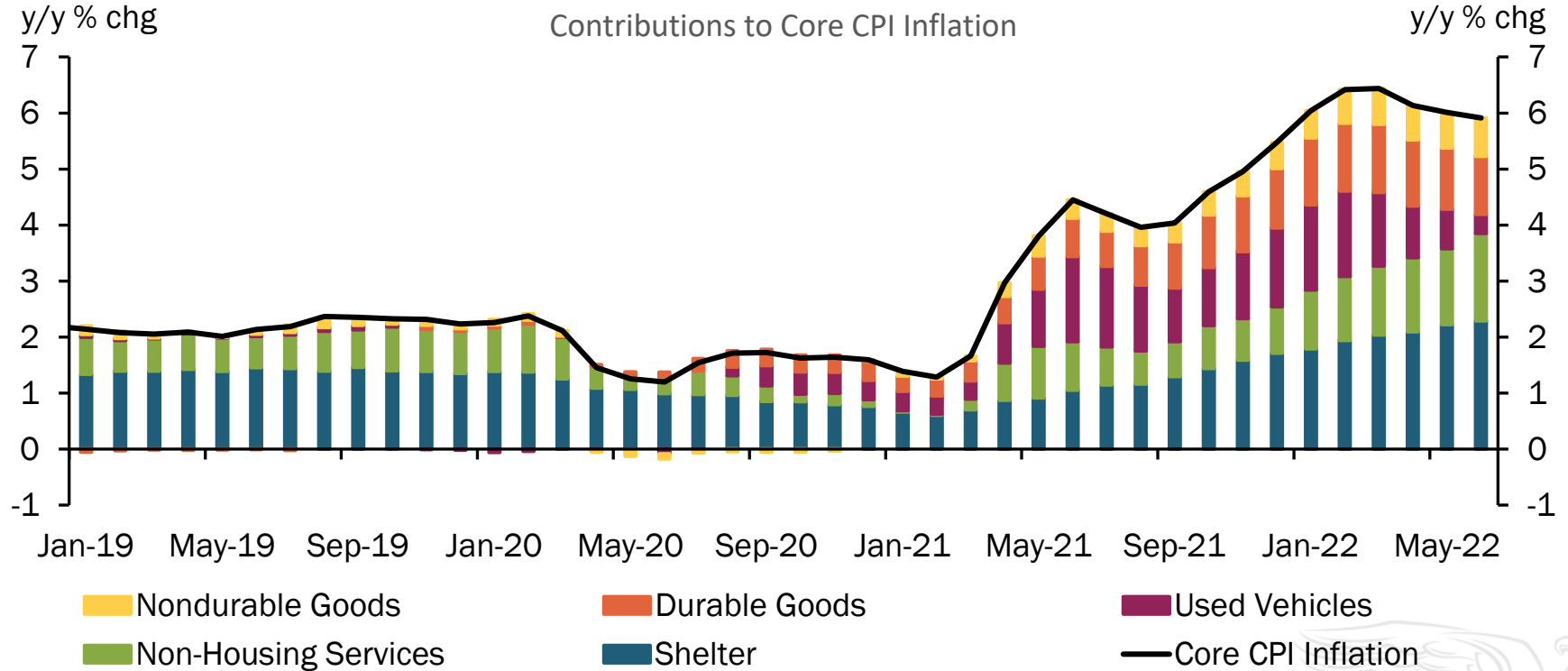


Inflation remains well-above historic norms and the Fed's 2 percent target

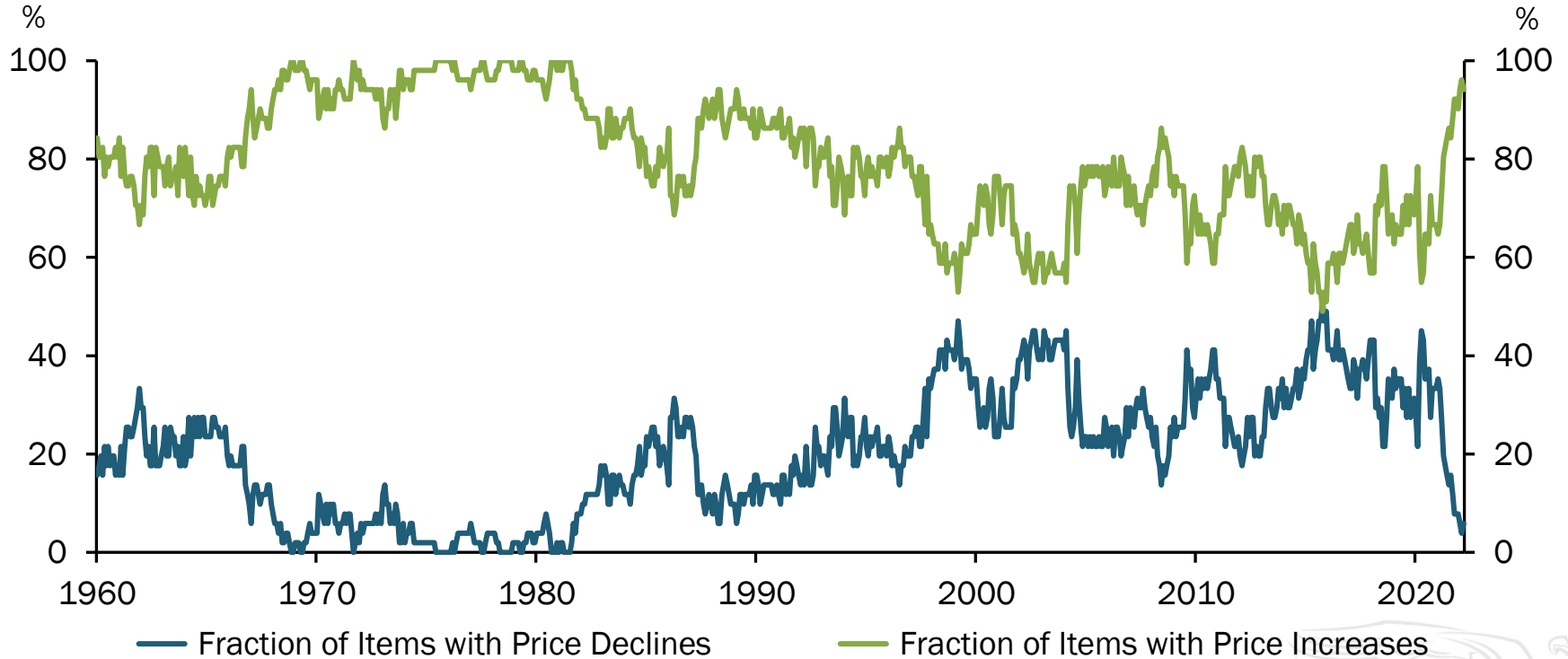


Source: BEA, Haver Analytics
 Note: Grey bars indicate recession shading

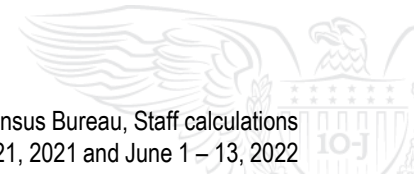
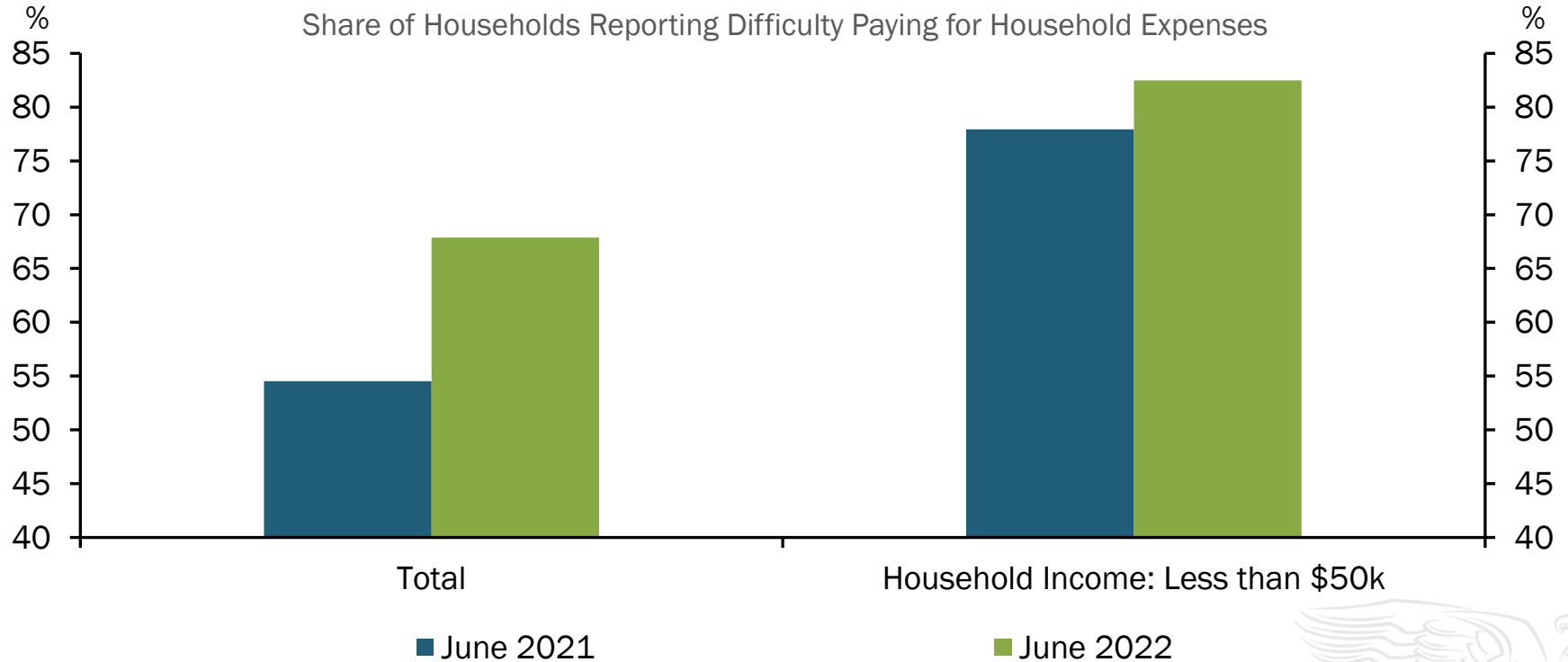
Over the past year the prices of services began to exert an outsized influence on overall inflation



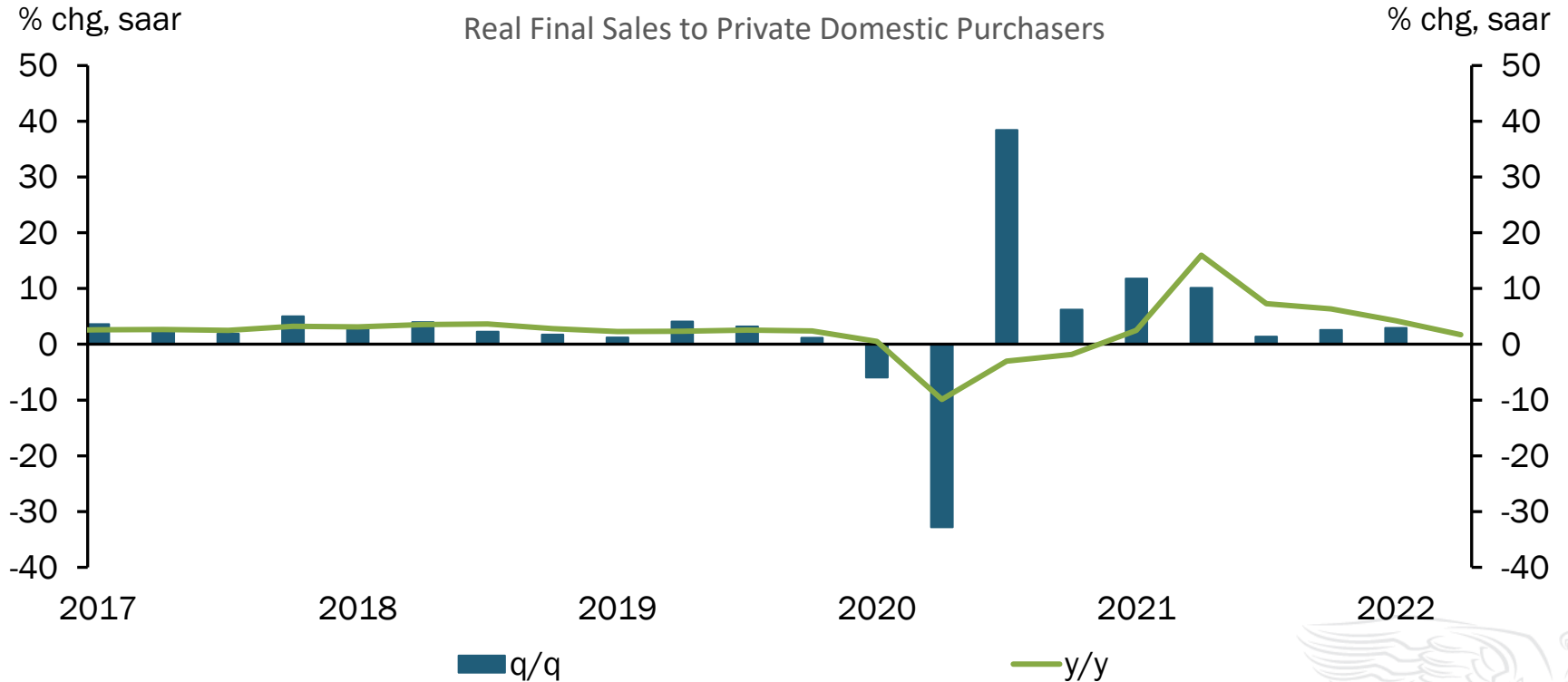
And now prices are increasing for almost all goods and services



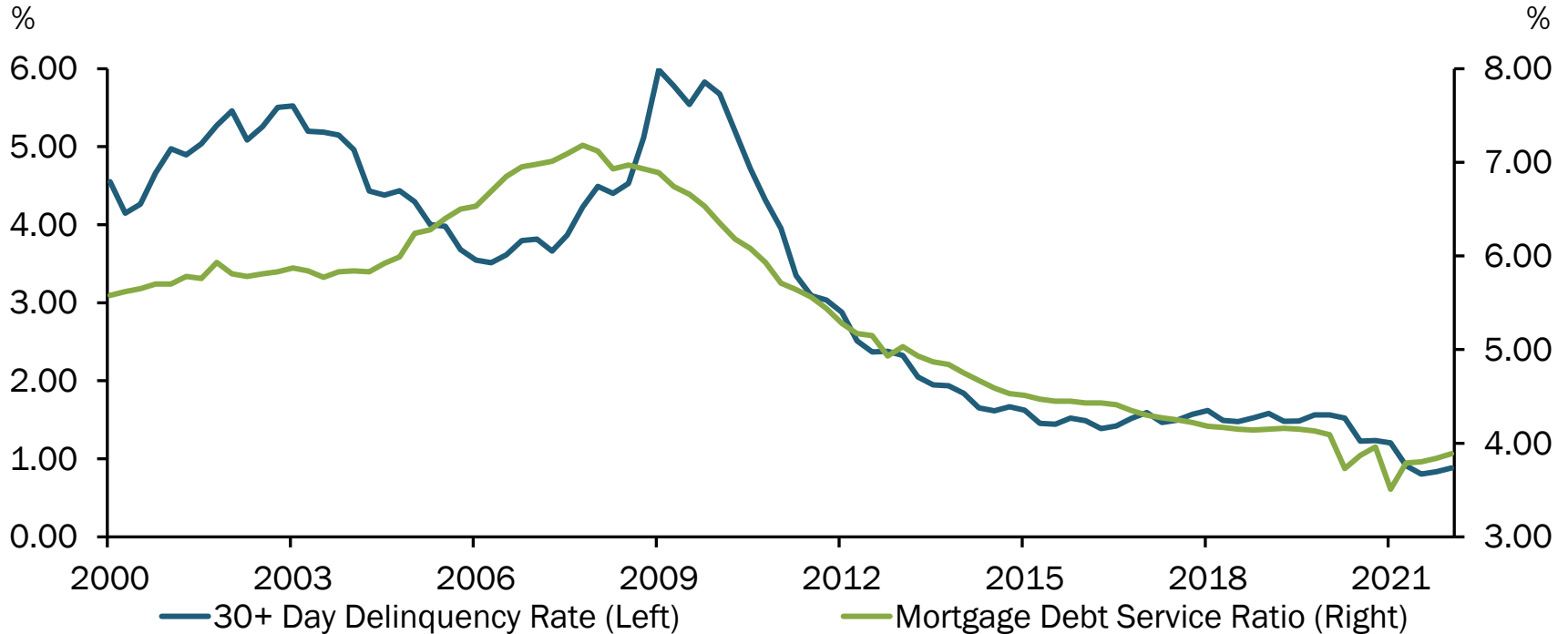
More households are experiencing increased difficulty in paying their typical expenses



Consumption growth slowed over the past several quarters and business investment declined recently



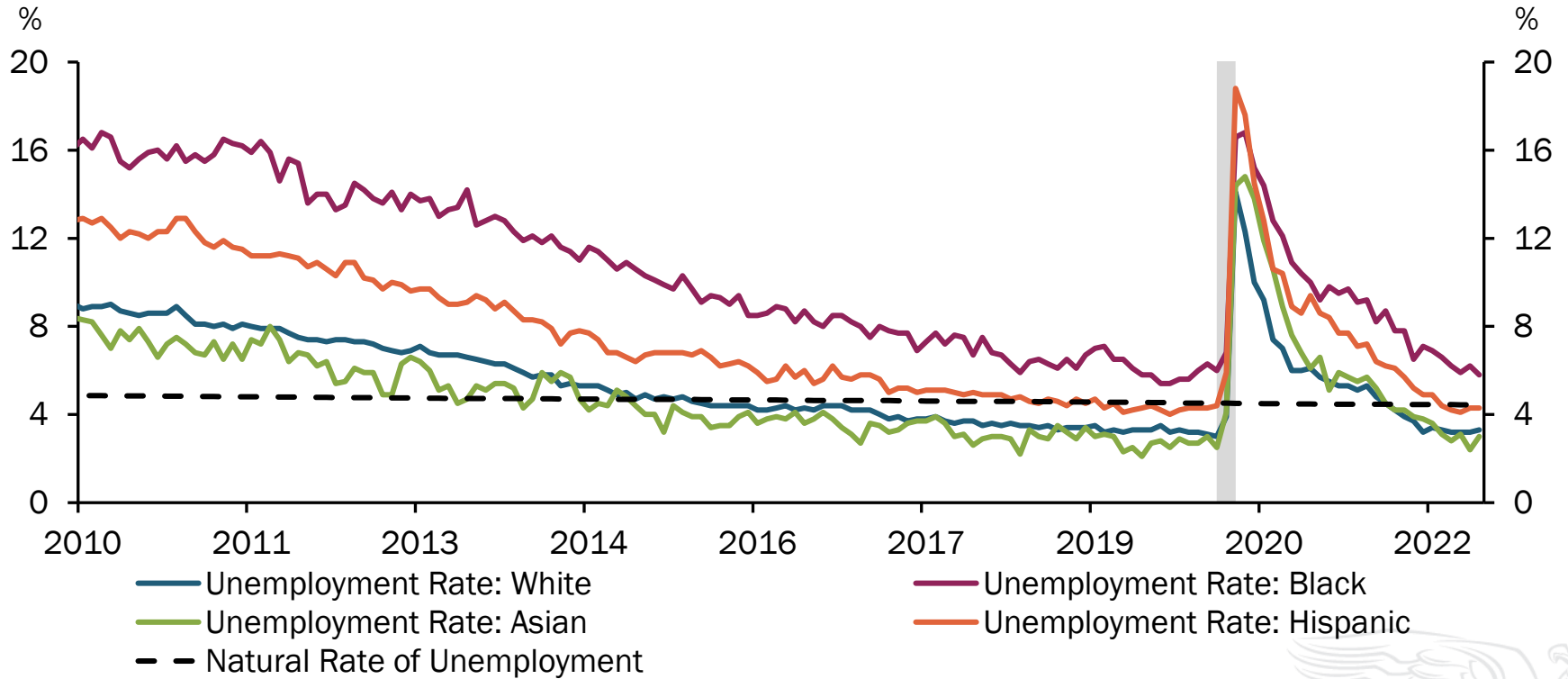
Debt burdens are low historically and household balance sheets remained strong early this year, supporting overall consumption



Sources: Federal Reserve Board, S&P, Haver Analytics

Note: Debt service ratios measure the ratio of debt-service payments relative to household disposable income.

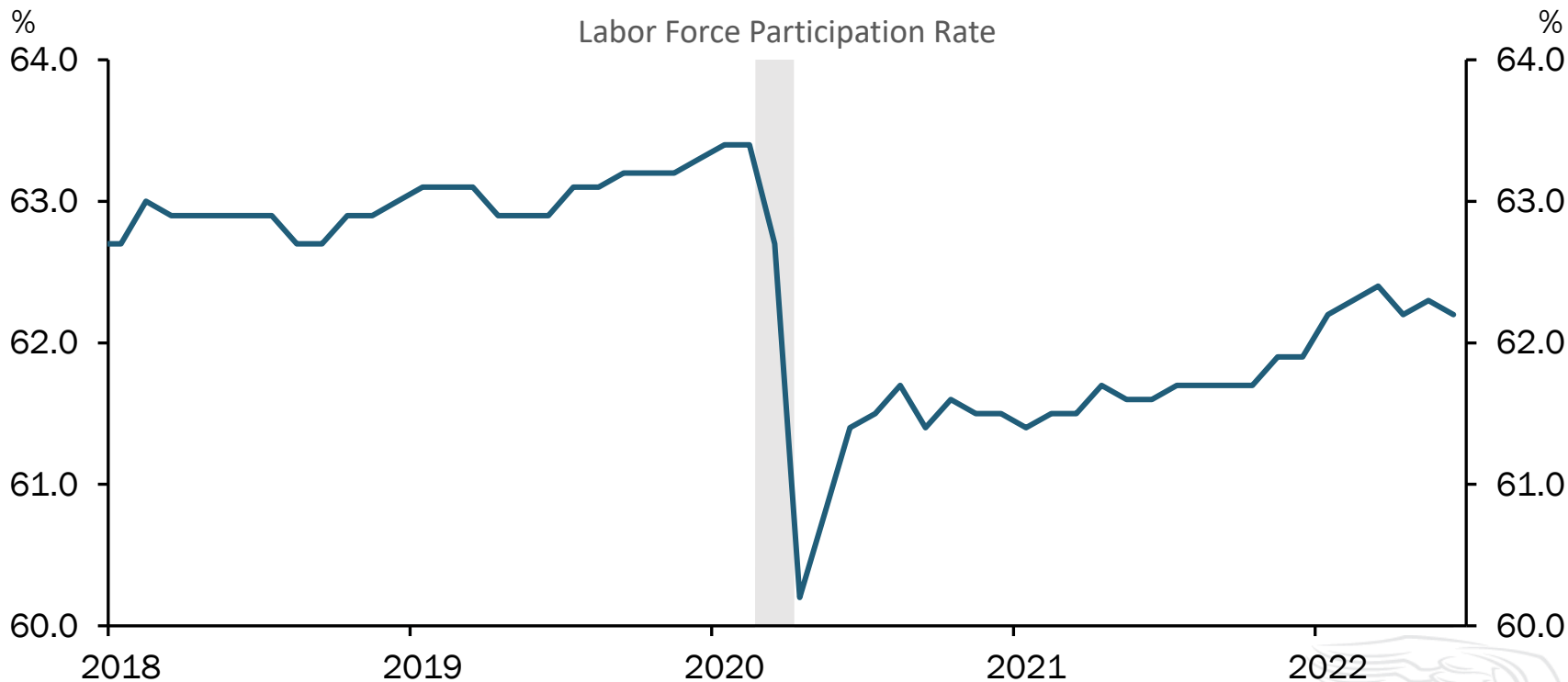
Unemployment rates are at or below pre-pandemic lows



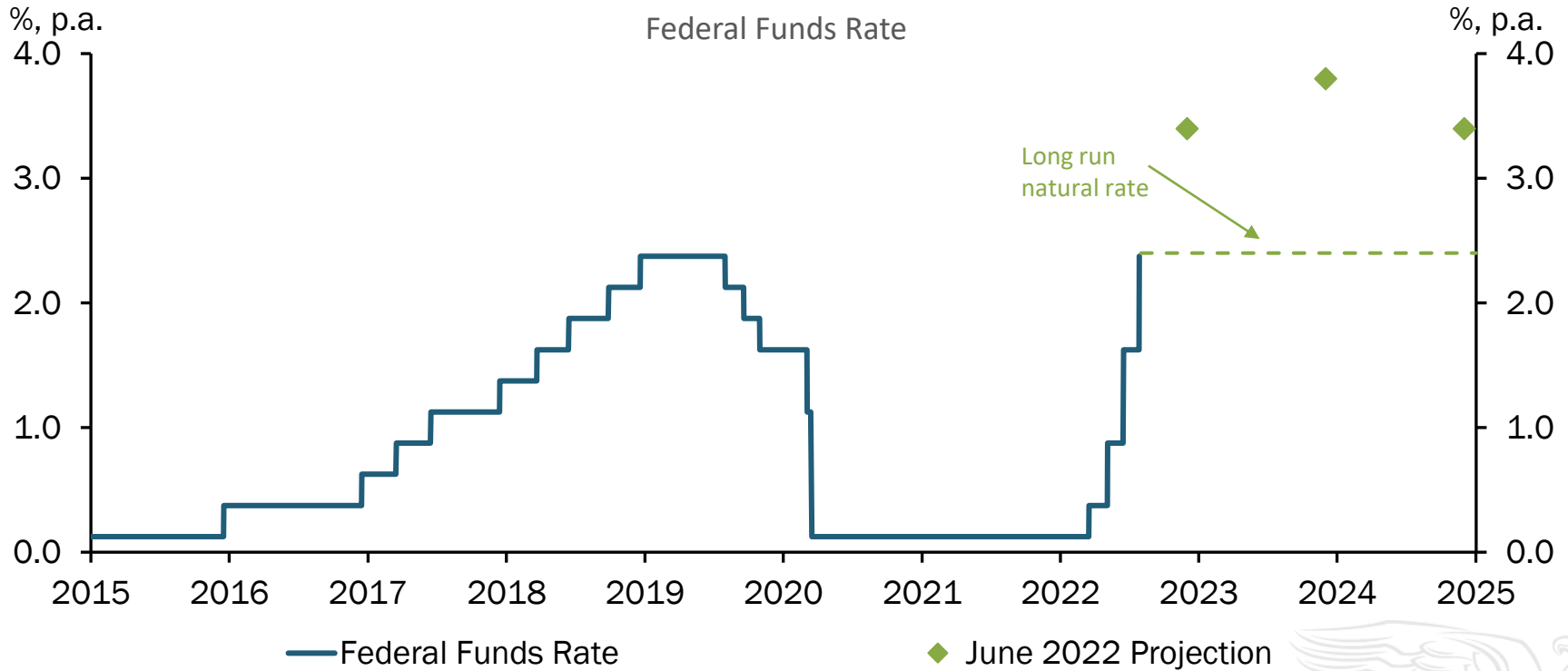
Labor demand remains elevated



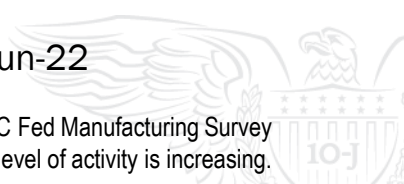
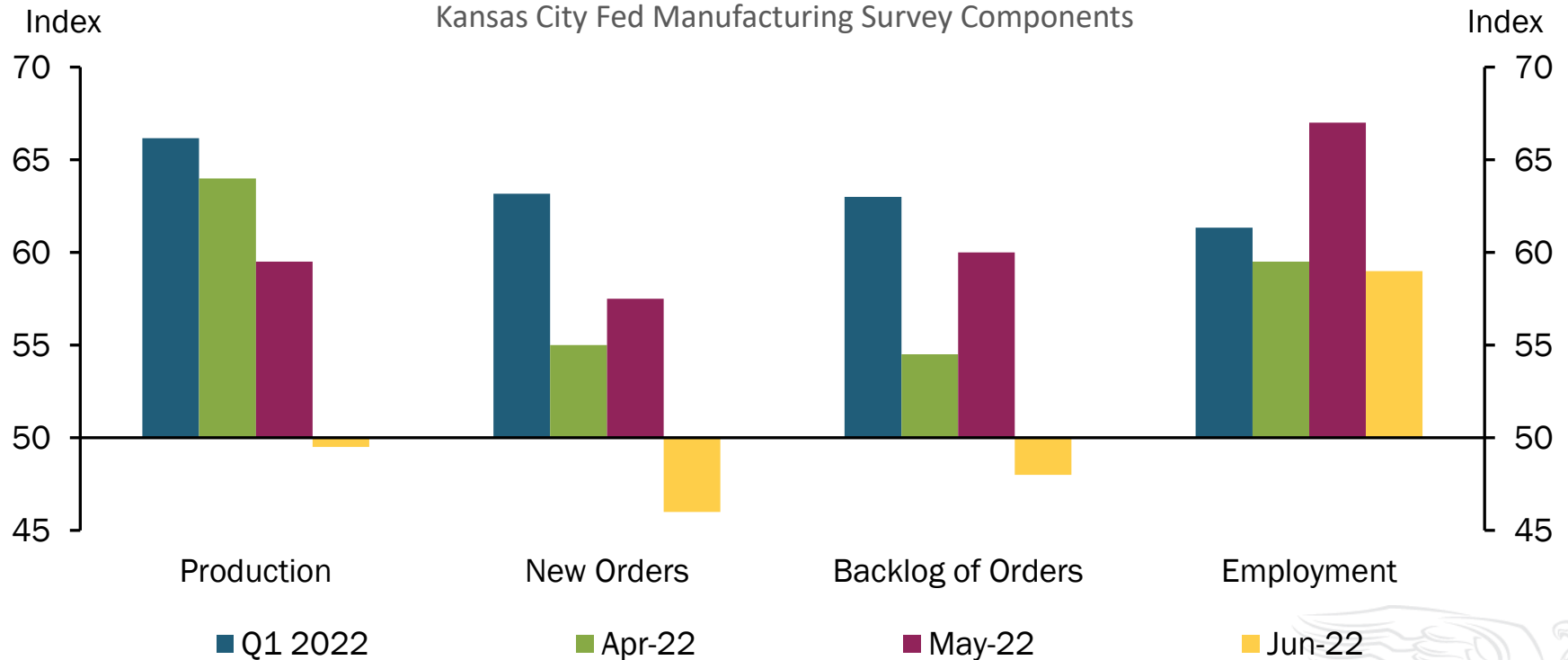
While labor supply remains constrained



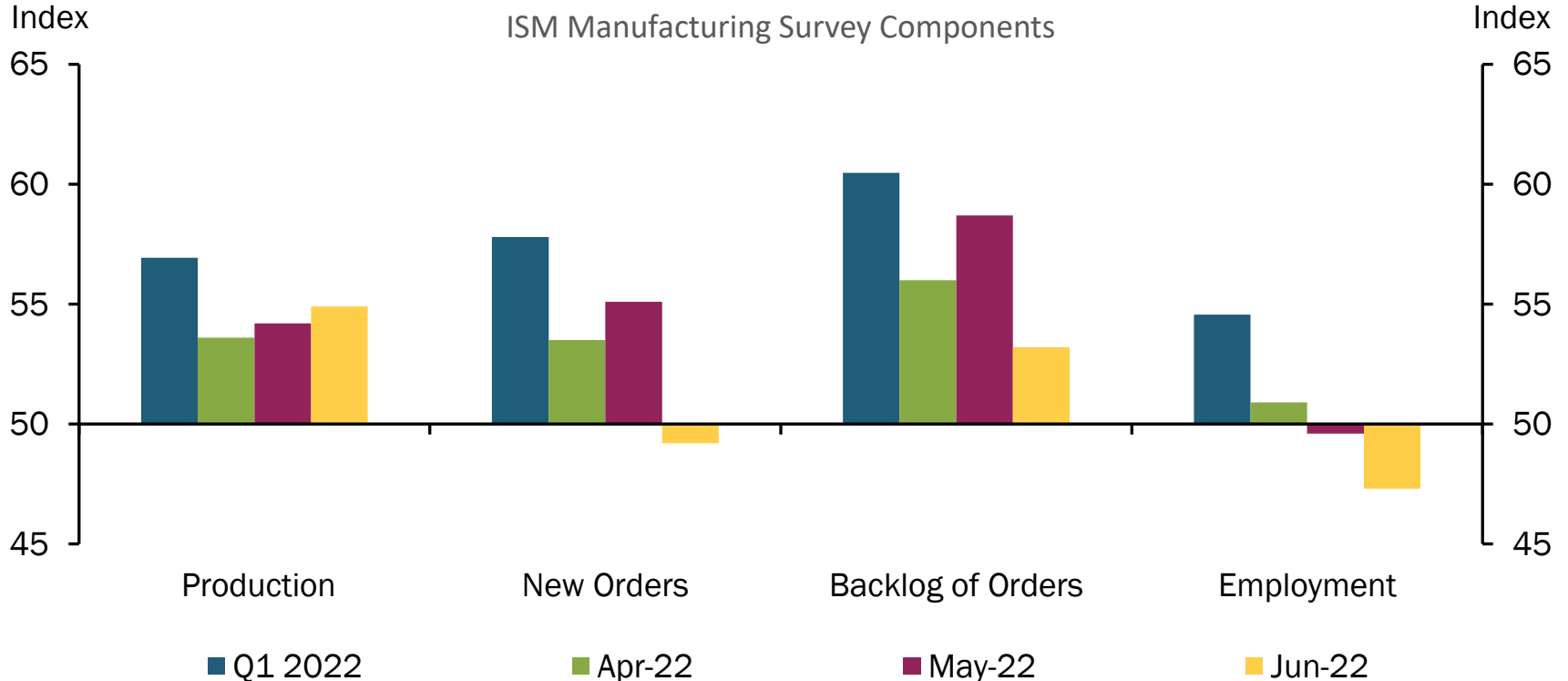
The Federal Reserve is moving interest rates to restore price stability



Measures of production across the region point to declining production, while job growth remains healthy



Declines in production have been less severe across the country, highlighting regional differences

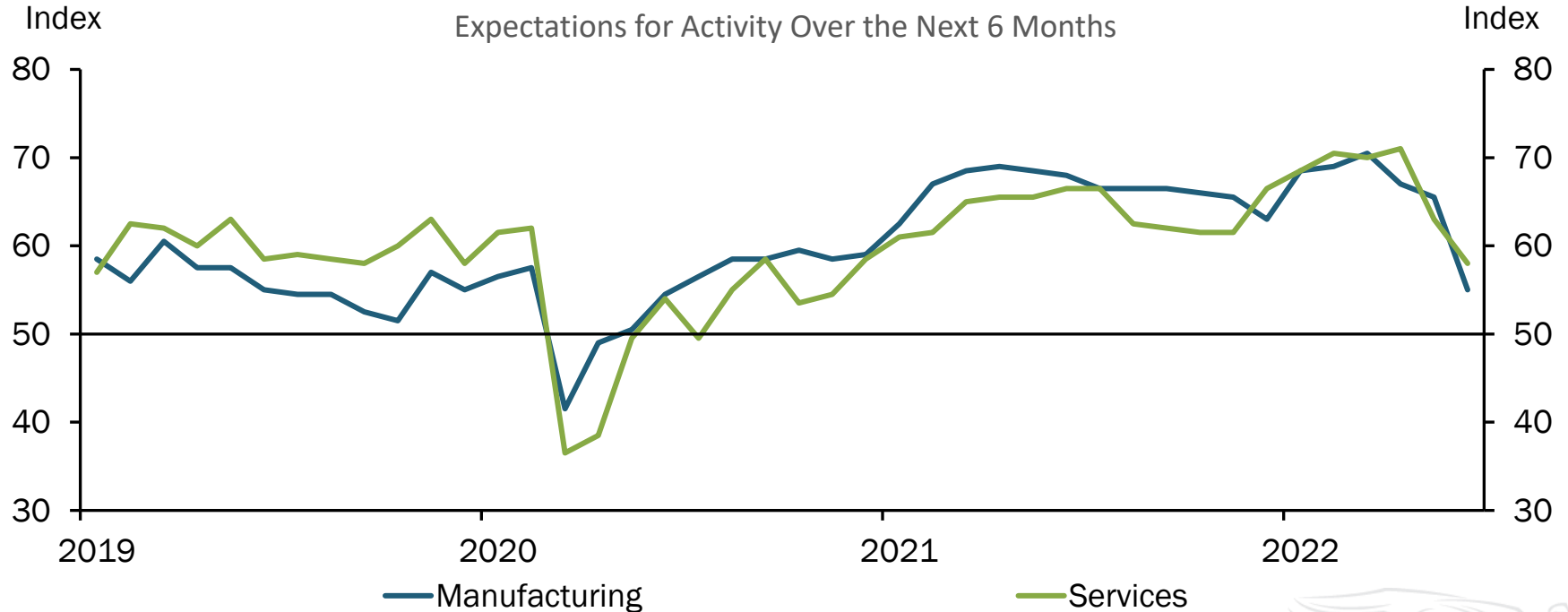


Sources: Institute for Supply Management, Haver Analytics

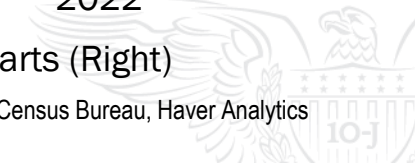
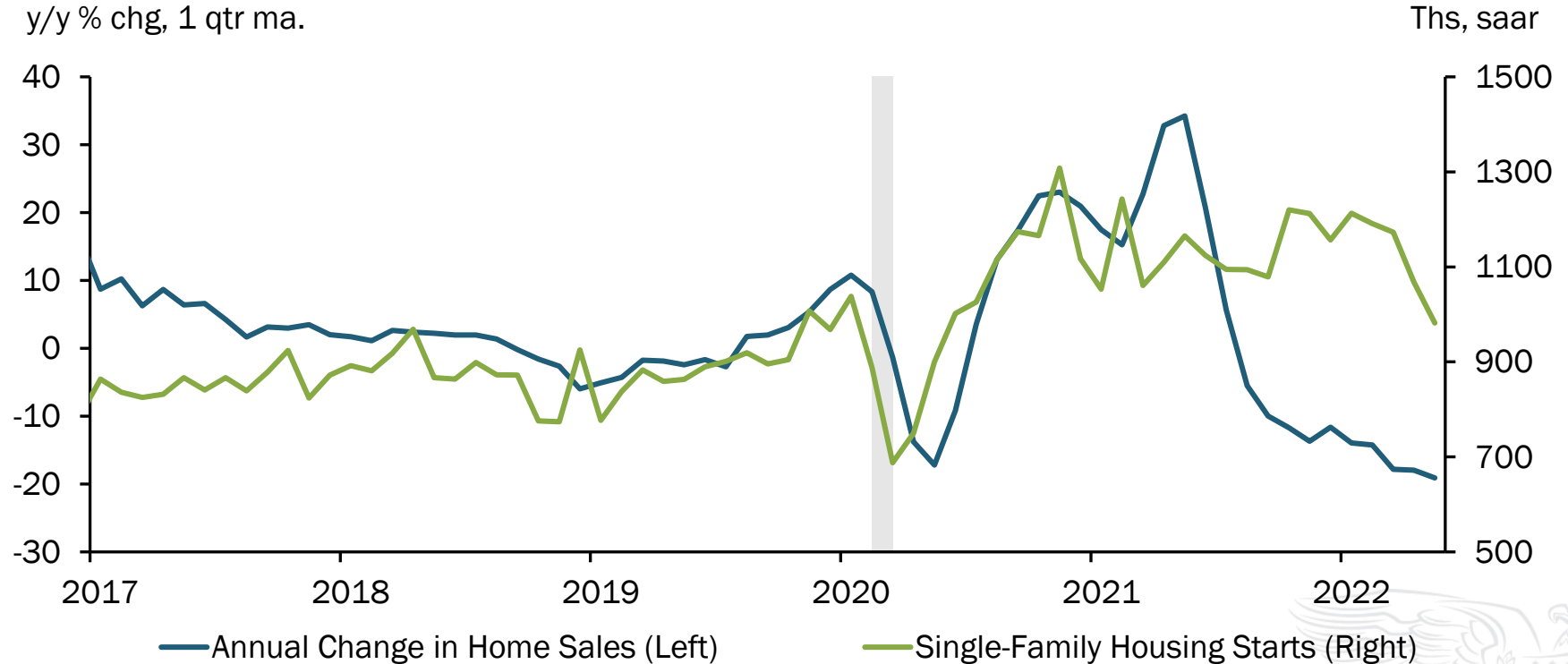
Note: An index level above 50 indicates the level of activity is increasing.



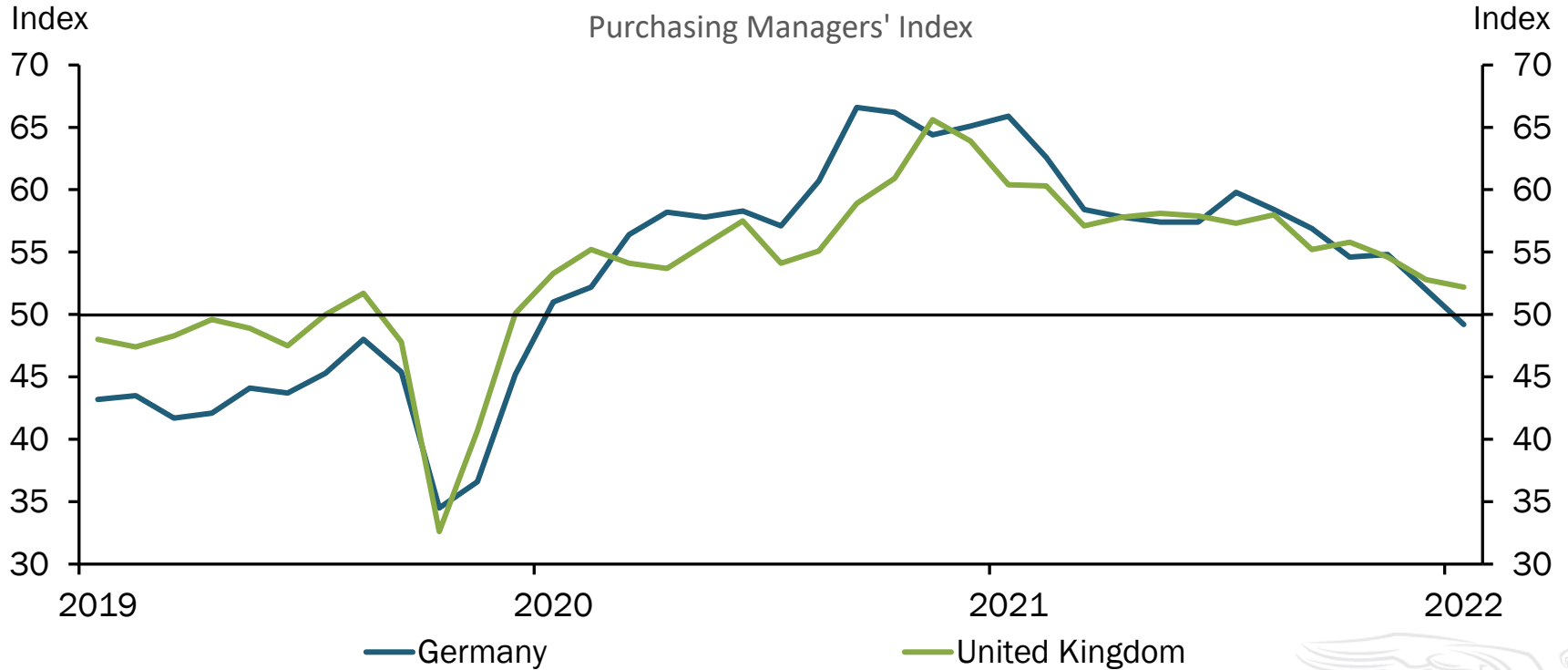
Expectations for future business activity in the District are softening



The housing market is cooling as the number of existing homes being sold and the number of new homes being constructed are falling



Business activity is also slowing globally



Sources: S&P Global, Bloomberg

Note: An index level above 50 indicates the level of activity is increasing.

As economic conditions begin to change, financial markets are repricing credit risks

