Regional and National Economic Outlooks

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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.
Overview

- Inflation is well above levels experienced over the last several decades, creating difficulties for many households in meeting regular expenses.

- Labor markets are extremely tight, with resilient demand for workers exceeding the persistently constrained supply of workers.

- Monetary policy has moved into a restrictive stance 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 drivers of inflation shifted back toward services, with shelter prices exerting an outsized influence on overall inflation.
More households are experiencing difficulty paying their typical expenses compared to a year ago.

Share of Households Reporting Difficulty Paying for Household Expenses

<table>
<thead>
<tr>
<th>Household Income: Less than $50k</th>
<th>June 2021</th>
<th>June 2022</th>
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</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>50%</td>
<td>60%</td>
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<tr>
<td>Tenth District</td>
<td>40%</td>
<td>70%</td>
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Source: U.S. Census Bureau, Staff calculations

Note: Data was taken during the survey periods June 9 – 21, 2021 and June 1 – 13, 2022. Tenth District refers to the 10J region of the Federal Reserve System.
Consumption growth slowed over the past several quarters and business investment declined recently

Real Final Sales to Private Domestic Purchasers

% chg, saar

Sources: BEA, Haver Analytics
Unemployment rates are at or below pre-pandemic lows
Labor demand remains elevated

- **Job Openings per Unemployed Person**

  - **Ratio**

  - **Source:** BLS, Haver Analytics, Staff calculations
  - **Note:** Grey bars indicate recession shading

- **Missing labor force fills vacancies**

- **Missing labor force becomes unemployed**
Elevated rates of workers leaving their jobs further tightened the labor market, and drove broad-based wage growth over the past 18 months.
National labor markets are extremely tight, but workers are quitting their jobs somewhat less frequently and job posting rates are lower in NM.
While labor supply remains constrained
Productivity declined since the beginning of the year, adding to supply constraints of the U.S. economy
The Federal Reserve is moving interest rates into a restrictive stance of monetary policy to restore price stability.
Measures of production across the region point to declining activity, while job growth and labor demand remain healthy.
Measures of new demand growth are also softening nationwide, but the level of overall demand remains elevated.

### ISM Manufacturing Survey Components

<table>
<thead>
<tr>
<th>Component</th>
<th>Mar-22</th>
<th>Apr-22</th>
<th>May-22</th>
<th>Jun-22</th>
<th>Jul-22</th>
<th>Aug-22</th>
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<tbody>
<tr>
<td>Production</td>
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<td>New Orders</td>
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<tr>
<td>Backlog of Orders</td>
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<tr>
<td>Employment</td>
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</table>

Sources: Institute for Supply Management, Haver Analytics

Note: An index level above 50 indicates the level of activity is increasing.
The housing market is cooling as the numbers of existing homes sold and the number of new homes constructed are falling.
Parts of the region where residents continue to spend more time working at home have experienced faster growth in home prices.

Source: Greene and Sly (2022)

Note: Each dot corresponds to an individual county in the Tenth District. The green dots indicate New Mexico counties.
Looking ahead

- Uncertainty about the near- and medium-term outlooks remains elevated

- Contacts across the region are reporting varied actions to ‘right-size’ their business, which often means considering how many open job vacancies to fill rather than jobs to cut

- Lags in the pass-through of cost increases to customers are pinching profit margins, which is beginning to inhibit future capex plans for some businesses

- The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability