Economic Conditions and Outlook


Nicholas Sly
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

- Several sources of inflation pressures continue to have momentum, even as overall inflation readings have declined
  - albeit to still-elevated levels of price growth

- Wage pressures remain elevated, even as labor demand is softening broadly across industries

- The Fed slowed the rate of increases in interest rates recently, even as projections for the duration of time rates lengthened
Inflation remains elevated even though pressures from volatile commodity prices lessened recently.
Housing prices and other services prices continue to exert outsized inflation pressures on core inflation
Rent inflation for new leases has slowed, but lags in the reset of existing leases imply momentum in housing price pressures.

Source: BEA, Zillow, BLS, Staff, Haver Analytics
Labor shortages and robust demand in the accommodation sector are placing persistent pressure on prices for these non-housing services.
The labor market remains tight and wage pressures elevated

Job Openings / Unemployed

Average Hourly Wage Growth

Source: BLS, Haver Analytics
Wage growth is larger among workers who switched to a different job and industry.
Quits rates are declining but remain elevated, sustaining upward pressure on wage growth for the near-to-medium term.
The Federal Reserve raised interest rates rapidly over the past six months, and projects that rates will likely remain elevated over the medium term.

Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics
Interest rates are rising, and financial conditions are tightening, globally.
Overall economic activity is likely to slow this year.
Total growth in worker compensation is slowing, which will likely weigh on consumer spending in the near-to-medium term.

Source: BEA, Haver Analytics

Note: Grey bars indicate recession shading.
Businesses report that their demand for labor is declining

Source: FRBKC Surveys
Note: An index below 50 indicates decreasing activity
Softening labor demand is broad-based across industries

Survey Employment Indexes by Industry

Source: FRBKC Surveys
Note: An index below 50 indicates decreasing activity
As economic conditions continue to soften, financial markets are repricing credit risks.
Looking ahead

- Curtailing inflation pressures will require slowing growth in the prices of services, which are historically less volatile and larger contributors to overall inflation.

- Contacts across the region are reporting wage growth continues to have momentum, even as labor demand is cooling.

- Thus far, job losses have been isolated to a few sectors, which have a higher concentration here in the Rocky Mountain region.

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