Economic Conditions and 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.
Overview

- Inflation pressures continue to rotate toward services that are labor intensive
- Wage pressures remain elevated and labor markets remain tight in several consumer service sectors
- Business investment activities are declining, while consumption growth slowed to trend levels
- Banks expect to further tighten their credit standards over the medium term
Housing prices and other labor-intensive 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.
Labor shortages and robust demand in the accommodation sector are placing persistent pressure on prices for these non-housing services.
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 year, and projects that rates will likely remain elevated over the medium term.

Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics
Overall economic activity is likely to slow this year

Final Sales to Private Domestic Purchasers

Quarterly Growth

Annual Growth

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Consumer spending growth slowed in recently months, reverting to its trend level of contribution to overall growth.
Businesses’ purchases of materials, equipment and other capex spending are slowing
Slowing employment growth in technology occupations likely indicates that investment in intellectual property is also poised to slow.
Declining worker productivity has been a headwind to growth recently, but may be normalizing to trend levels.
An increased share of banks expect to further tighten their credit standards over the next six months.

Change in Credit Standards for Commercial & Industrial Loans

- Compared to previous month
- Over the next 6 months

Source: FRBKC
Banks in the region are reportedly tightening conditions most in real estate because of shifts in the economic outlook.

Which industries influence your expectations?

<table>
<thead>
<tr>
<th>Industry</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comm. Real Estate</td>
<td>29</td>
</tr>
<tr>
<td>Residential Mortgage</td>
<td>25</td>
</tr>
<tr>
<td>C&amp;I</td>
<td>24</td>
</tr>
<tr>
<td>Consumer Installment</td>
<td>14</td>
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<tr>
<td>Ag.</td>
<td>12</td>
</tr>
</tbody>
</table>

What are the key drivers of your expectations for demand?

<table>
<thead>
<tr>
<th>Driver</th>
<th>%</th>
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<tbody>
<tr>
<td>Changes in the Economic Outlook</td>
<td>57</td>
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<tr>
<td>Changes in Lending Competition</td>
<td>14</td>
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<tr>
<td>Changes in Deposit Competition</td>
<td>12</td>
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<tr>
<td>Changes in Funding Markets</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
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</tbody>
</table>

Source: FRBKC
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

• Tighter financial conditions are resulting in slower demand growth and, as a result, declining business investment activity

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

• Recent financial volatility and associated uncertainty are substantial downside risks to the outlook