Economic Conditions and Outlook

May 16, 2023 – COLOTRUST

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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

- Many of the sectors where inflation was outsized over the past two years are showing some signs of moderating, but inflation still has some momentum alongside a tight labor market

- Wage growth is beginning to moderate, but remains well-above historical averages

- Business investment activities are declining, while consumption growth slowed to trend levels

- Banks expect to further tighten their credit standards over the medium term
Inflation remains elevated, with core inflation maintaining momentum

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Inflation pressures were evident in several parts of the economy.
Now, inflation pressures associated with “non-labor costs” are softening along all stages of production, as input price growth is slowing.
Corporate profits are softening from their recent outsized growth rates
But even though wage growth is moderating, it remains persistently above historical norms.
The mountain region is experiencing higher price growth in non-discretionary categories.
Rent inflation for new leases has slowed, but lags in the reset of existing leases imply some further momentum in housing price pressures.
Growth in food prices remains elevated, with some signs that pace of food inflation is moderating.
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

Federal Funds Rate

Long run natural rate

Projection

Sources: Federal Reserve Board, Summary of Economic Projections, Haver Analytics
Consumer spending growth slowed in recent months, reverting to its trend level of contribution to overall growth.
In Colorado, unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth.
Consumer spending is returning to something akin to a new trend growth level, rebalanced between online and in-store locations.
Job growth in Colorado remains strong but is decelerating to near its trend level

Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading
Businesses’ purchases of materials, equipment and other capex spending are declining

Sources: ISM, BEA, Haver Analytics
Slowing employment growth in technology occupations likely indicates that investment in intellectual property is also poised to slow.
The 2001 downturn resulted in severe and persistent tech job losses in Colorado.

Panel A: U.S.
- Tech Employment (U.S.)
- All Other Industries (U.S.)
- Employment Avg. (U.S.)

Panel B: Colorado
- Tech Employment (Colorado)
- All Other Industries (Colorado)
- Employment Avg. (Colorado)

Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading
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](chart)

- **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?

- Comm. Real Estate: 28%
- Residential Mortgage: 19%
- C&I: 18%
- Consumer Installment: 15%
- Ag.: 10%

What are the key drivers of your expectations for demand?

- Changes in the Economic Outlook: 57%
- Changes in Lending Competition: 14%
- Changes in Deposit Competition: 13%
- Changes in Funding Markets: 11%
- Other: 5%

Source: FRBKC
Looking ahead

- Inflation still has momentum in many home spending categories, and slowing that momentum will be key to restoring price stability over coming months.

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

- The Federal Reserve has stated a sustained stance of restrictive policy is likely to be appropriate to restore price stability and it will be closely monitoring developments to guide future policy decisions.

- Recent financial volatility and associated uncertainty pose downside risks to the outlook, but spillovers to hiring and capex decisions have been minimal thus far.
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