U.S. Economic Outlook

May 24, 2023 – KC Fed Economic Forum – Casper, WY

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

- Many of the economic 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.

- Job growth has slowed and workers who have lost their job are facing more difficulties finding new employment in recent months.

- 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
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
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.

Source: BEA

Note: Grey bars indicate recession shading.
Even though wage growth is moderating, workers’ compensation is rising faster than historical norms.

U.S. Wage and Earnings Growth

- Average Hourly Earnings
- Average Weekly Earnings

Source: BLS
Note: Grey bars indicate recession shading.
Rent inflation for new leases has slowed after peaking last September.
The mountain region is experiencing higher price growth in non-discretionary categories like shelter and food at home.

Source: BLS, Haver Analytics
Consumer spending growth slowed in recent months, reverting to its trend level of contribution to overall growth.
Job growth remains strong but is decelerating to near its trend level.

Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading.
Workers who recently lost their jobs are facing more difficulties finding new employment opportunities.

Source: BLS, Haver Analytics

Note: Values correspond to workers who have been unemployed less than 5 weeks. Grey bars indicate recession shading.
Businesses’ purchases of materials, equipment and other capex spending are declining
An increased share of banks expect to further tighten their credit standards over the next six months.
Banks in the region are reportedly tightening conditions most in real estate because of shifts in the economic outlook

Which industries influence your expectations?

- Commercial Real Estate: 30%
- Residential Mortgage: 25%
- C&I: 20%
- Consumer Installment: 15%
- Ag.: 10%

What are the key drivers of your expectations for demand?

- Changes in the Economic Outlook: 50%
- Changes in Lending Competition: 25%
- Changes in Deposit Competition: 15%
- Changes in Funding Markets: 10%
- Other: 5%
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.
- Several signs of labor markets softening have begun to emerge, including a downshift in expected wage growth over the coming year.
- 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.