Two Trends and a Risk

- Inflation is showing signs of moderating, but price growth for essential spending items has remained elevated even as inflation has cooled.
- Consumer spending has been solid along its typical growth path.
- The outlook for interest rates is uncertain, even among policy makers, and generally above ‘norms’ experienced over the last couple of decades.
Inflation has moderated but core inflation is maintaining momentum

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Growth in services prices has moderated only slightly

Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading
Household essentials are contributing an outsized amount to inflation

CPI Components: U.S.

CPI Components: Mountain Region

Source: BLS, Haver Analytics
The contribution of medical services prices to inflation has eroded from official statistics, and is running below typical levels.
Consumer pending growth over the past year is consistent with previous expansion periods.
The composition of spending is also near its typical growth path.

Source: BEA, Haver Analytics
Household spending continues to drive steady economic growth overall.

Contributions to Percentage Change in Real GDP

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<tr>
<th>Year</th>
<th>Real GDP Growth</th>
<th>Personal Consumption Expenditures</th>
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Source: BEA, Haver Analytics
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
Uncertainty is high among policymakers about the appropriate path of interest rates for coming years.

Sources: Federal Reserve Board, Summary of Economic Projections
Looking ahead

• The tight labor market is showing some early signs that the pressure is easing

• Several structural features of the economy have shifted through the pandemic, which raises questions about how much signal to take from historic norms in the labor market & inflation dynamics

• With restrictive monetary policy, it remains to be seen how much pull back in lending activity or tightening of standards is ahead

• With an uncertain, if not higher, outlook for rates, it remains to be seen how extensive the pullback is in borrowing activity
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