Economic Outlook

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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

- Inflation is showing signs of moderating, but price growth for essential spending items has remained elevated as inflation has cooled overall
- Consumer spending has been solid along its typical growth path
- The labor market remains tight, but some indicators show signs of softening conditions
Inflation has moderated but core inflation is maintaining momentum

Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading
Household essentials are contributing an outsized amount to inflation
Lower income households experienced higher wage growth alongside faster price growth, primarily due to the composition of their spending.

Source: CEX, CPS, Staff Calculations
Household spending continues to drive steady economic growth overall

Contributions to Percentage Change in Real GDP

Source: BEA, Haver Analytics
The composition of spending is also near its typical growth path.

Source: BEA, Haver Analytics
Unemployment rates across racial groups have reached decade lows

Unemployment rates across racial groups have reached decade lows. The chart shows the unemployment rates for White, Black, Asian, and Hispanic populations, as well as the natural rate of unemployment. The data is sourced from BLS and Haver Analytics. Grey bars indicate recession shading.
Employed workers are more likely to find full-time jobs if they prefer.
However, labor demand is exhibiting some early signs of softening
Workers who recently lost their jobs are facing more difficulties finding new employment opportunities compared to last year.

Sources: BLS, 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.
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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