Regional Economic Outlook

Economic Seminar Exclusive for Survey Participants
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*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
5 primary responsibility areas:
- Monetary policy
- Financial system stability
- Bank supervision & regulation
- Payment system safety & efficiency
- Consumer protection & community development

3 primary entities:
- **Board of Governors**: 7 members appointed by U.S. President
- **Federal Reserve Banks**: 12 total; semi-independent
- **Federal Open Market Committee**: 19 members; 12 voting
Overview

- U.S. economic growth has slowed in 2023 but remains positive, and unemployment remains very low
- Inflation remains too high, despite coming down from 2022 peaks
- The Fed has raised the overnight interest rate to over 5%
- Manufacturing has declined in recent months nationally and in the Tenth District, and growth in services activity has moderated
- Firms have generally retained or added to workforces and expect more increases in the future, despite slower growth and price pressures
U.S. GDP and employment have slowed but remained positive through mid-2023
GDP growth is expected to slow in 2024 before rebounding to near trend in 2025 and 2026
U.S. unemployment remains historically low and is projected to rise only moderately in coming years.

**U.S. Unemployment Rate**

Current (Aug. 2023): 3.8%

Sources: U.S. Bureau of Labor Statistics, FOMC

Note: Data and FOMC projections are for year-end.
Although inflation has come down from 2022 peaks and is expected to fall further, it remains elevated.
CPI inflation ticked up from 3.2% to 3.7% in August, with shelter and services elevated and energy prices rising again.
Longer-term inflation expectations remain anchored around their 20-year average, but consumers expect high inflation next year.

Expected Inflation Rate

Source: University of Michigan/Haver Analytics
The Fed held the federal funds rate steady in September, and the latest projections are shown.

Federal Funds Rate
Year-End Target

Current Target: 5.25% - 5.5%
FOMC Projections

Note: Data and FOMC projections are for year-end.
Sources: Bureau of Economic Analysis, FOMC
The Fed also continues to reduce its balance sheet of high-quality securities.

Source: Federal Reserve Board
Job openings still greatly exceed unemployed workers, but have edged down lately, helping ease wage pressures.

**Job Openings/Unemployment Ratio**

- **Job openings/# unemployed**
- **U.S.**
- **Tenth District**

**Average Hourly Earnings Growth**

- **3-mma y/y % chg.**
- **U.S.**
- **Tenth District**

Sources: BLS/Haver Analytics
Labor force participation still lags, mostly due to older workers, while immigration rebounded last year after several low years.

Source: BLS, Census Bureau/Haver Analytics
Jobs in Tenth District states have exceeded pre-COVID levels, and unemployment remains very low

Source: U.S. Bureau of Labor Statistics
Employment growth in District states has mostly lagged the nation recently, but unemployment remains lower than the national average.

Source: U.S. Bureau of Labor Statistics
Manufacturing has declined in recent months nationally and in the Tenth District, and growth in services activity has moderated.
In manufacturing, despite falling orders for the past year, firms have held on to or even added employees, maintaining some wage pressures.

Aug. 2023 Special Question: How much have wages changed overall for your workforce?

- In the last year
- In the coming year

Source: FRBKC Surveys
Manufacturing employees’ hours have declined modestly as firms work through their backlog, and supplier delivery time has decreased.
Regional services employment has also mostly held up while sales have been mixed, and services wage inflation is expected to ease.
Producer price increases have generally eased, but are expected to continue rising.
Profit margins have decreased but are expected to recover slightly, and a majority of firms report their applicants are just as qualified as six months ago.

**July 2023 Special Question:** Given current price pressures, how have profit margins changed for your firm since the beginning of the year?

**Sept. 2023 Special Question:** How have the overall qualifications of applicants for open positions changed in the following job categories over the last 6 months?

Note: Percentages reflect an aggregation of both manufacturing and services firms. Source: FRBKC Surveys.
Access to credit has decreased slightly more for services firms than manufacturing firms since March 2023.

**KC Fed Services Access to Credit Indexes**

![Graph showing the change in access to credit for services firms and manufacturing firms over the years, with a decrease in 2023.](image)

**Sept. 2023 Mfg. Special Question: How has your firm's access to credit changed?**

![Bar chart showing the percentage of manufacturing firms by change in access to credit, with a decrease in both the past few months and the last year.](image)

Sources: FRBKC Surveys
Through it all, District firms have mostly continued to make moderate expansions to capital investment.
Summary

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• Manufacturing has declined in recent months nationally and in the Tenth District, and growth in services activity has moderated

• Firms have generally retained or added to workforces and expect more increases in the future, despite slower growth and price pressures
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