Economic Trends and Outlook

January 18, 2024 – Urban Land Institute – Emerging Trends

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

- Gains on the supply side supported economic growth despite tightening of financial conditions over the past year
- Inflation is slowing but rent growth and other consumer services’ price growth remain elevated
- Many businesses are reporting lower expected growth in their upcoming hiring and compensation plans compared to last year, but relatively few are indicating they expect declines in employment
Overall growth and unemployment continued a positive trajectory despite policy tightening over the past year.

- Contributions to Percentage Change in Real GDP
- Unemployment Rate

Source: BEA, BLS, Haver Analytics
Labor force participation among prime age workers picked up substantially last year, but remains subdued among older workers.
Supplier delivery times improved, easing supply side inflationary pressures

Source: Institute for Supply Management, NY Fed, Haver Analytics

Note: A supplier deliveries index above 50 indicates slower deliveries. A GSCPI index above zero indicates the number of standard deviations above the historical average value of the index.
Productivity growth firmed throughout 2023

Source: BLS, Haver Analytics
Producer price pressures eased as well

Source: BLS, Haver Analytics

Note: Stage 4 includes goods for final demand, while stage 1 is primary inputs.
Various measures of price growth show that inflation pressures have lessened but still show signs of being elevated.
Business contacts are reporting declines in business activity and softening demand

Source: KC Fed Surveys, Haver Analytics

Note: An index below 50 indicates decreasing activity relative to a month prior.
Looking ahead, fewer business contacts report they expect to grow the size of their workforce next year, indicative of softening labor demand.

Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next twelve months?

Source: KC Fed Surveys
Business contacts report they are being more selective about offering wage increases to attract new hires.

Which of the following best describes your use of changes in starting wages and/or salaries to attract new hires?

- Firm is not actively hiring
- Raising starting wages and/or salaries for most job categories
- Raising starting wages and/or salaries for only selected job categories
- Not raising new hires’ starting wages and/or salaries

Source: KC Fed Surveys
Workers’ earnings growth is softening but still elevated above trend

Source: BLS, Haver Analytics
Credit card debt levels rose last year, but remain low relative to incomes.
Commercial real estate activity is subdued across the region, but contacts report very different conditions across markets and property types.
FOMC participants revised their projections for the appropriate stance of policy at the last meeting.
Looking ahead

• Many of the supply shocks over the past year may not be repeated again this year, suggesting that demand factors may be more important in returning inflation to target going forward

• Consumer spending growth remains steady, but anecdotal information indicates that strength is waning

• Declines in new orders and backlogs suggest modest declines in business activity ahead