Labor Markets in Interest-Rate-Insensitive Industries Appear to Be Responding to Monetary Policy Tightening

by: Karlye Dilts Stedman and Emily Pollard

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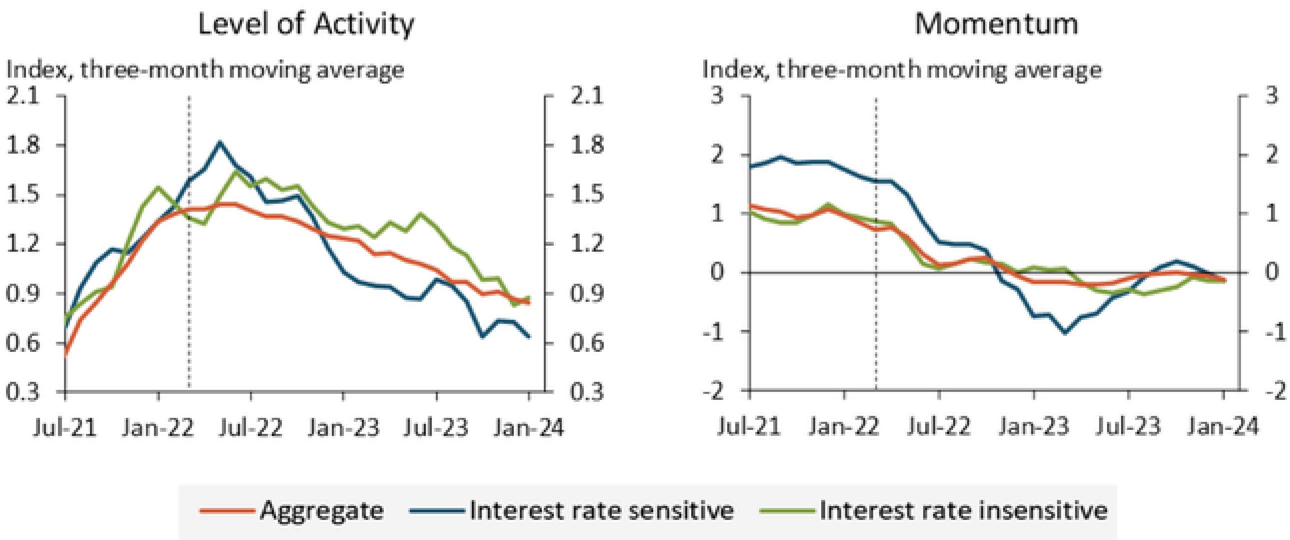

Notes: All series have a mean of zero over the period January 1992 through January 2024. The y-axis unit is standard deviations of the aggregate LMCI series. The dashed vertical line denotes the start of monetary policy tightening in March 2022. Information on series construction and sources for model input data can be found in the data appendix of Dilts Stedman and Pollard (2023).Sources: Dilts Stedman and Pollard (2023) and authors' calculations.

Dilts Stedman and Pollard's (2023) industry-level versions of the Kansas City Fed's Labor Market Conditions Indicators (LMCI) provide evidence that labor markets in interest-rate-insensitive industries were slower to respond to monetary policy tightening during the first year of the current tightening cycle, in line with historical trends. However, labor markets in these industries now show signs of cooling, with the level of activity (a measure of labor market tightness) trending downward since June 2023. In addition, labor market momentum in interest-rate-insensitive industries turned negative in March 2023, even falling below interest-rate-sensitive momentum during the second half of 2023, a sign of softening labor market conditions.

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Karlye Dilts Stedman is a Senior Economist in the Macroeconomics and Monetary Policy Division at the Federal Reserve Bank of Kansas City. Ms. Dilts Stedman joined the Bank in 2019, after earning her Ph.D. in Economics from the University of North Carolina at Chapel Hill. She also holds a M.A. in International Relations and International Economics from the Johns Hopkins University School of Advanced International Studies (SAIS) and a B.A. in Economics from New College of Florida. Her research focuses on international dimensions of monetary policy and monetary policy transmission at the zero lower bound of interest rates.

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After I graduated from Carleton College in 2016 with a BA in mathematics and economics, I was excited to join the research team at the Federal Reserve Bank of Kansas City. During my time as an RA, I supported José Mustre-del-Río, Andy Glover, Brent Bundick, and Lee Smith. Currently, my main role is to help support the monetary policy briefing process. I also run the Kansas City Fed's Labor Market Conditions Indicators (LMCI) model and collaborate with economists on Bank publications. I really appreciate the variety of work I've gotten to do at the bank and the flexibility given to RAs to explore their interests.