

Economic Outlook, June 27, 2025

KC Procurement Roundtable

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Vice President and Economist

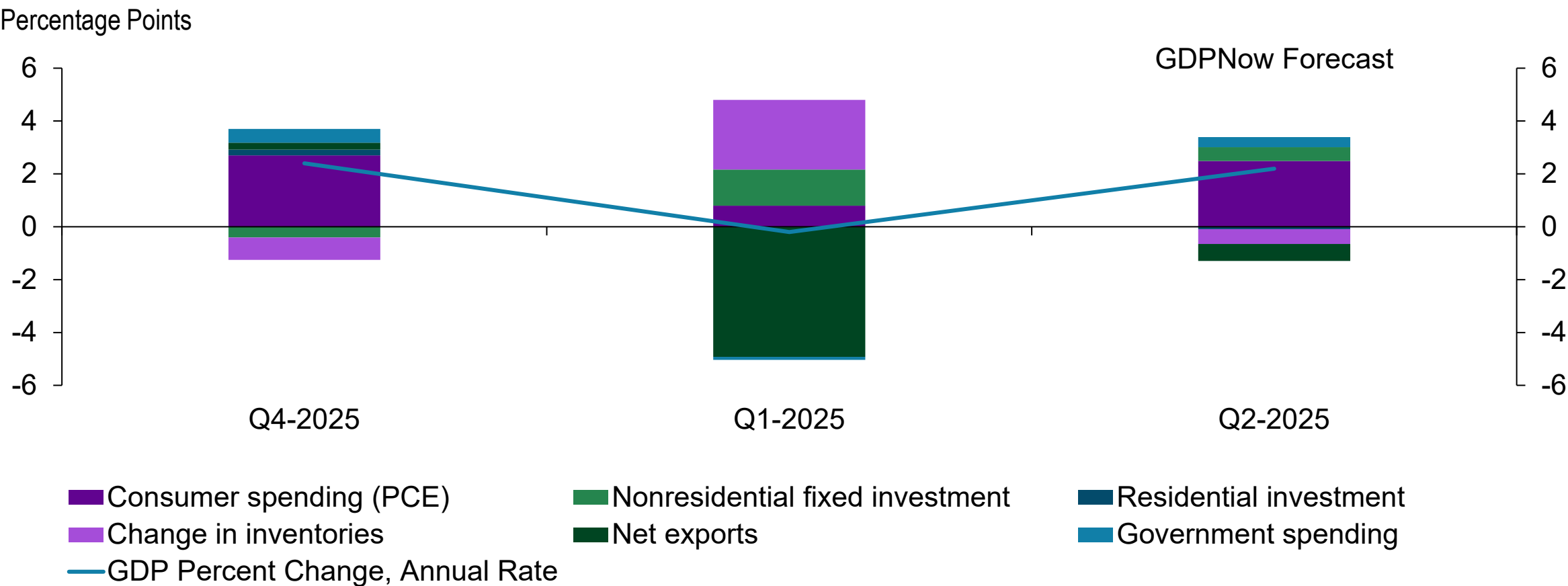


Denver / Oklahoma City / Omaha

Resiliency in the Face of Uncertainty

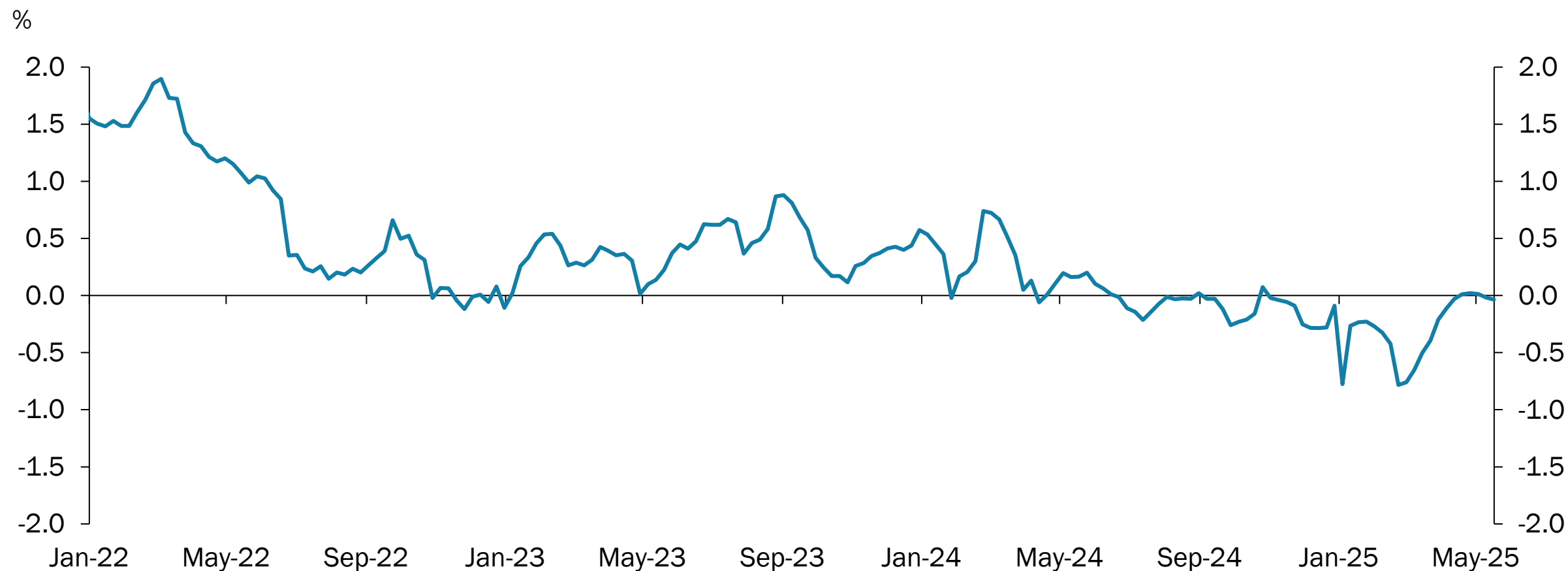
- Output growth was negative in the first quarter, largely due to strong import growth.
- Labor markets remain resilient and are supportive of spending growth.
- Current data suggests progress on inflation remains on track, though short-run inflation expectations are elevated.

Output growth contracted in the first quarter due to imports but appears poised to rebound



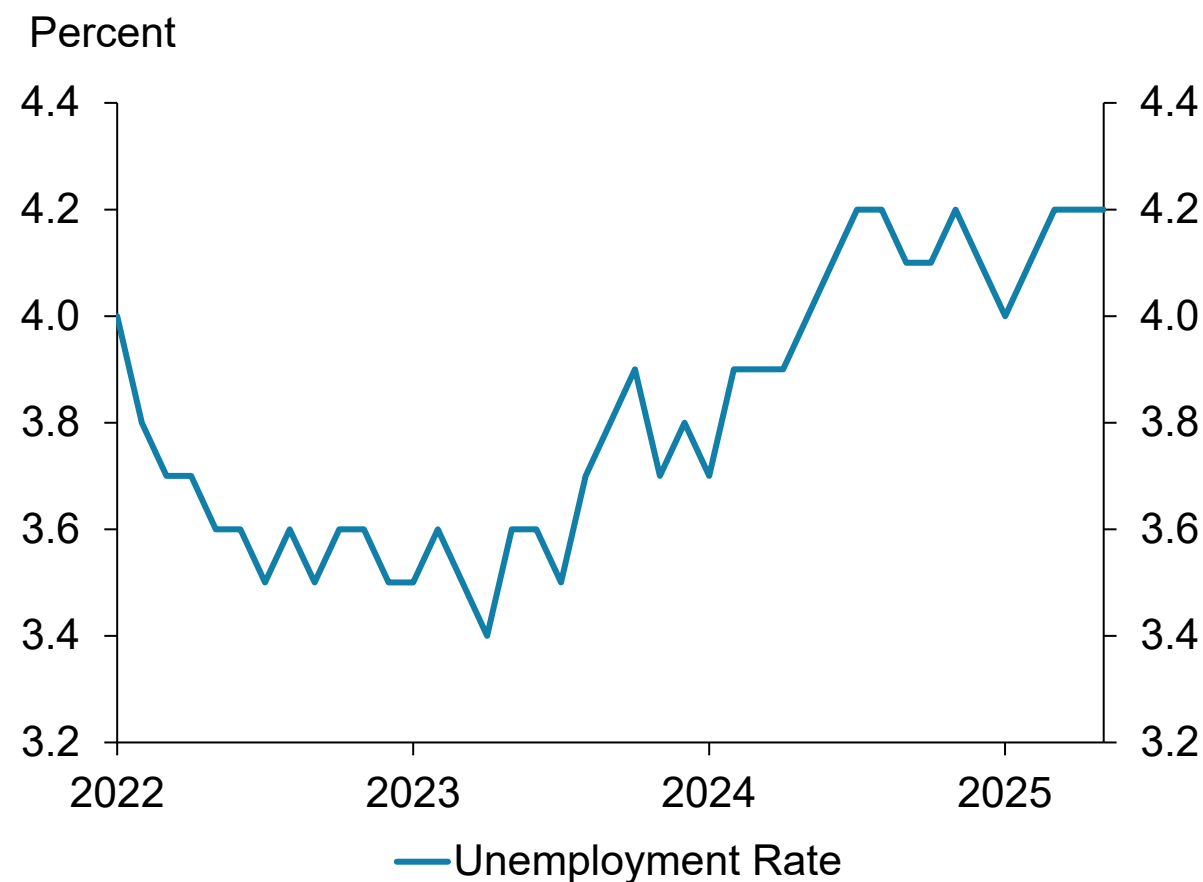
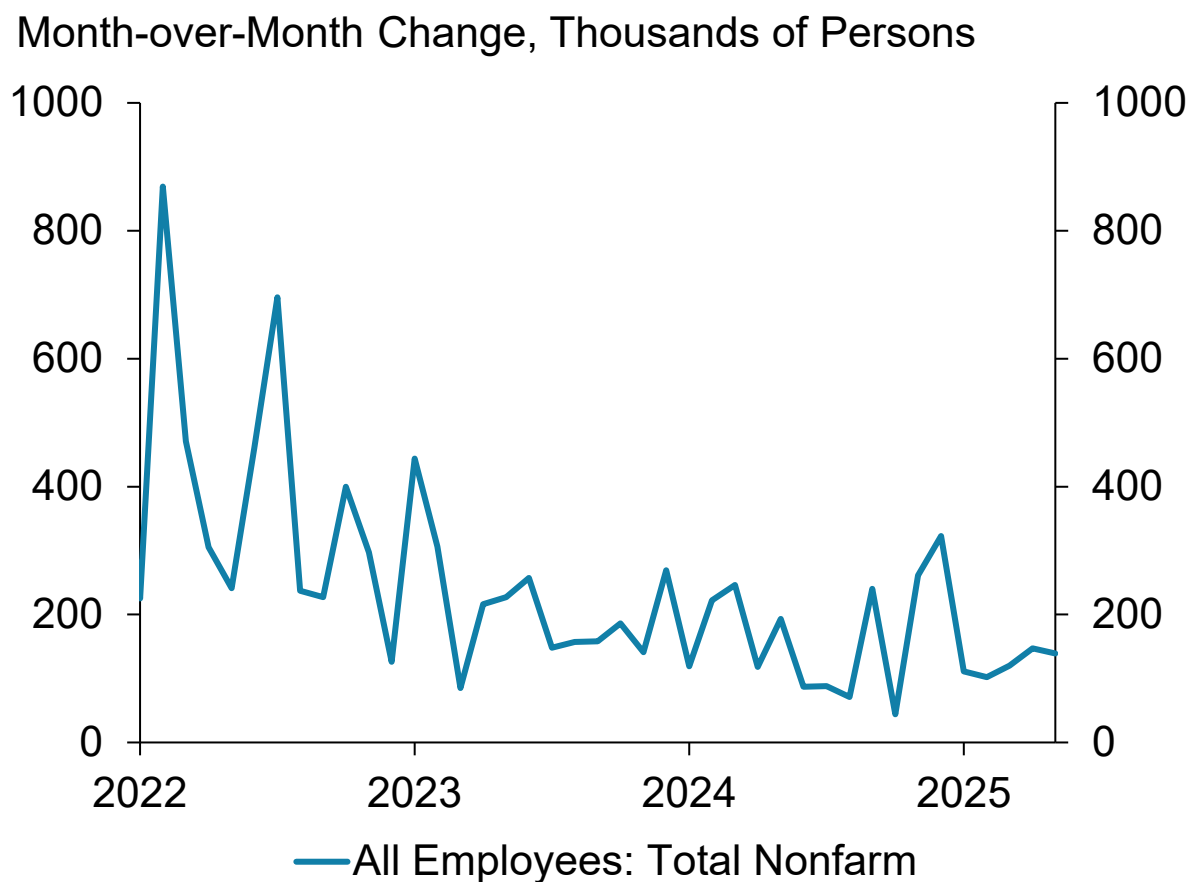
Sources: BEA, FRB Atlanta, Haver Analytics

Economic growth in the region is close to its historical average



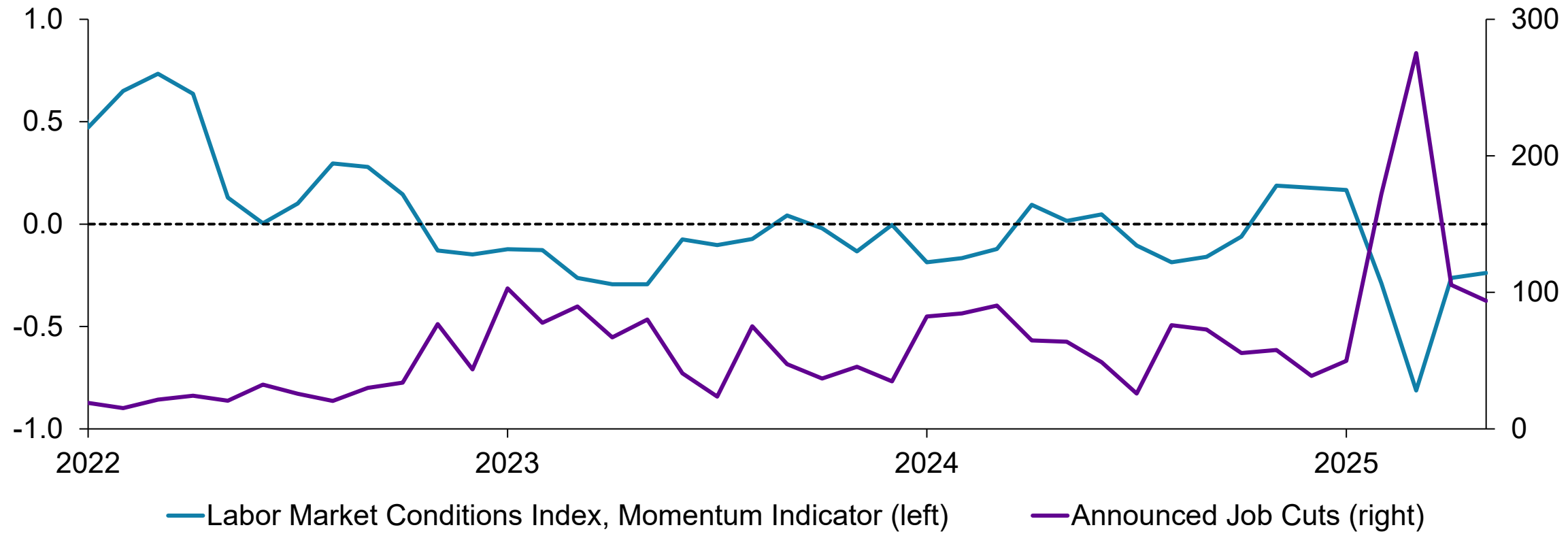
Sources: Baumeister et al. (2024)

Labor markets remain resilient.



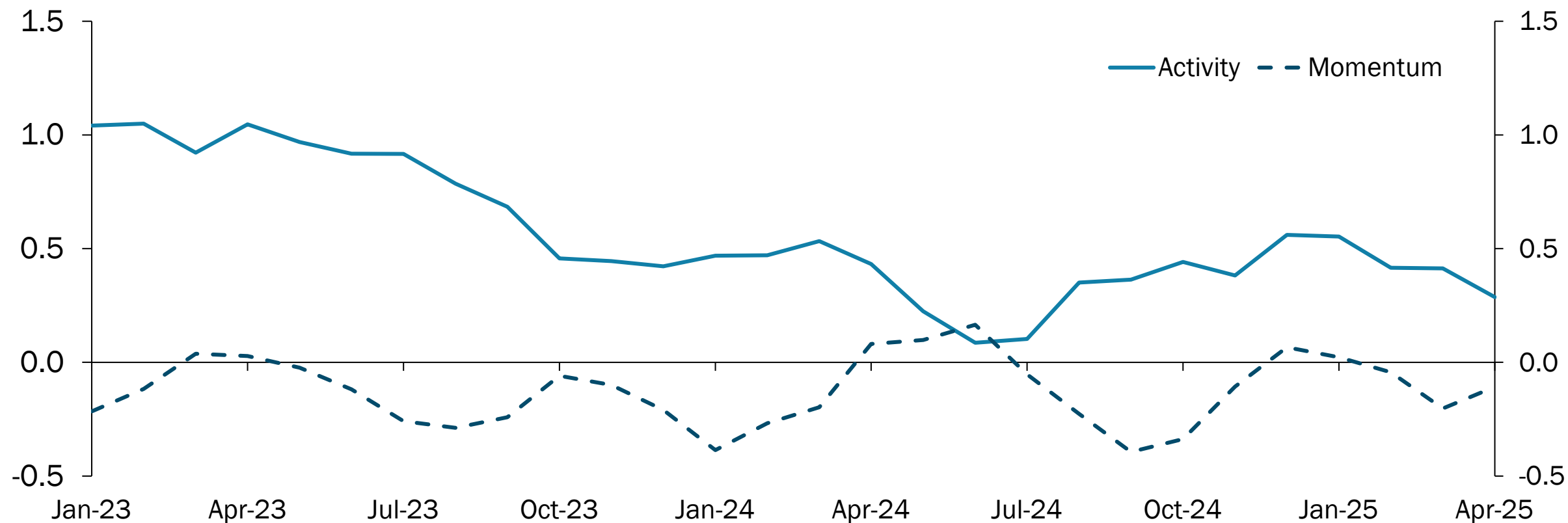
And forward-looking indicators have improved.

Positive = Above Long-run Average



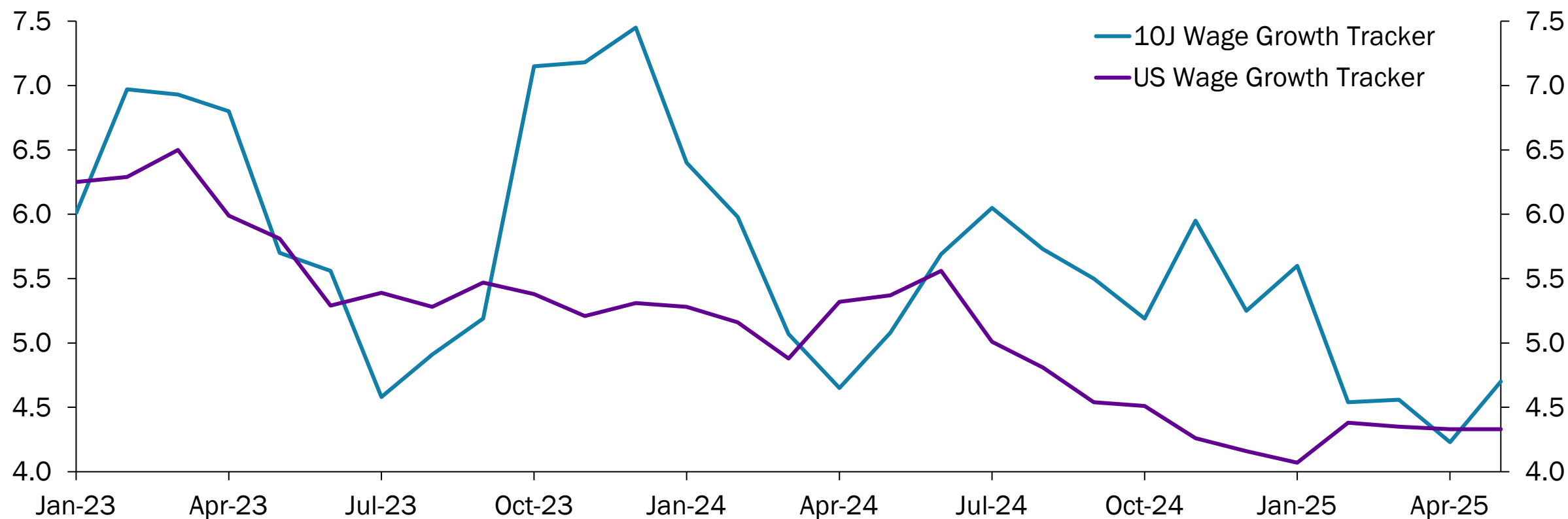
The regional labor market also appears healthy.

Index, Mean = 0, 3m ma



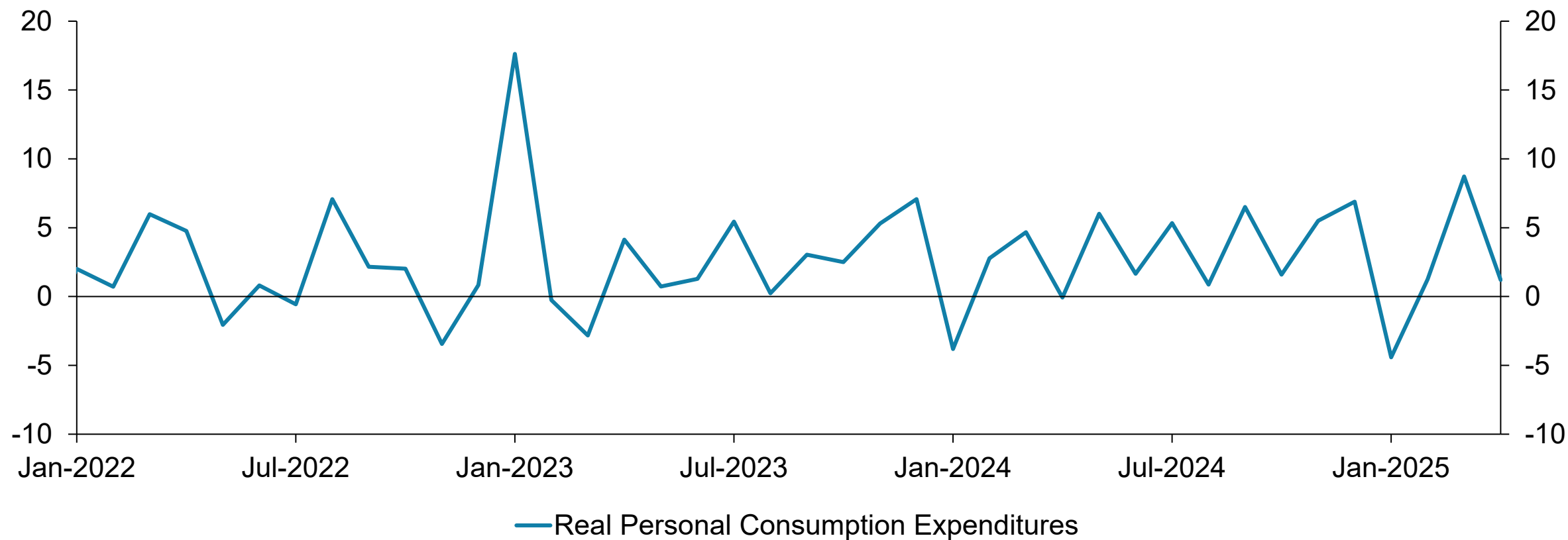
Wage growth remains positive but has slowed.

y/y % chg, 3 m ma

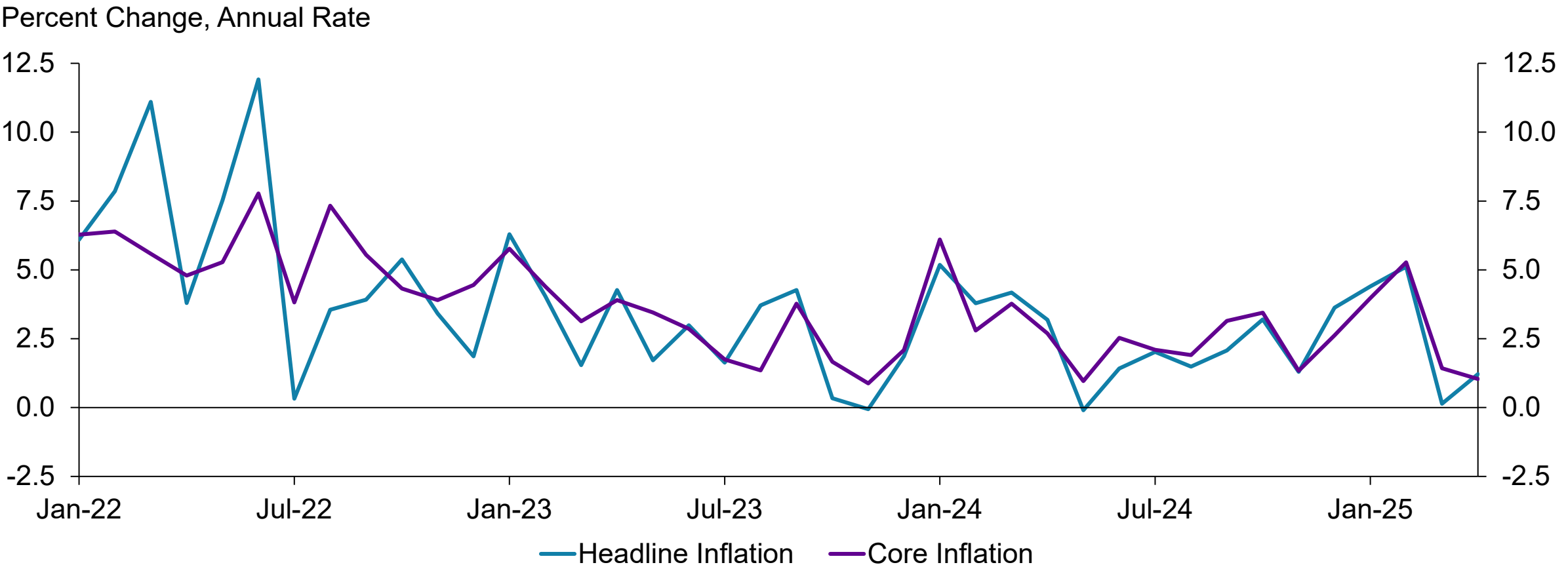


We have yet to see a persistent slowdown in spending.

Percent Change at Annual Rate

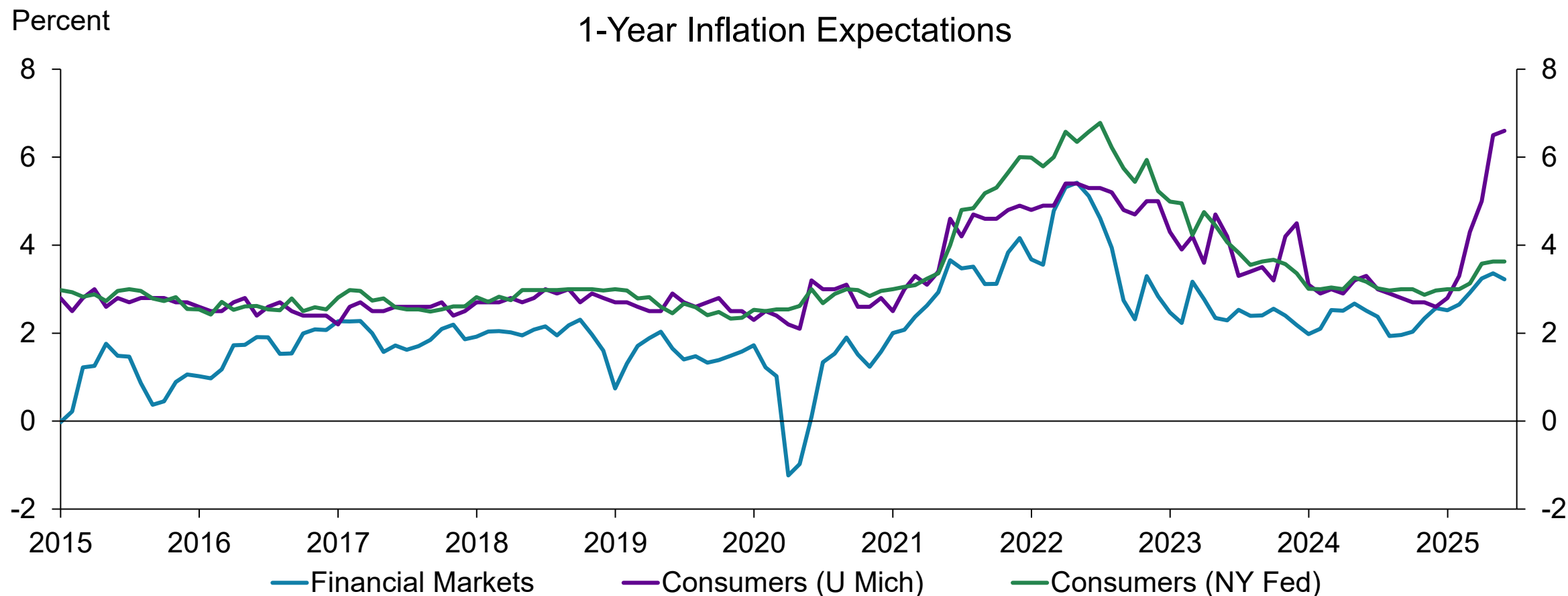


The most recent data suggests inflation remains on track to hit target...

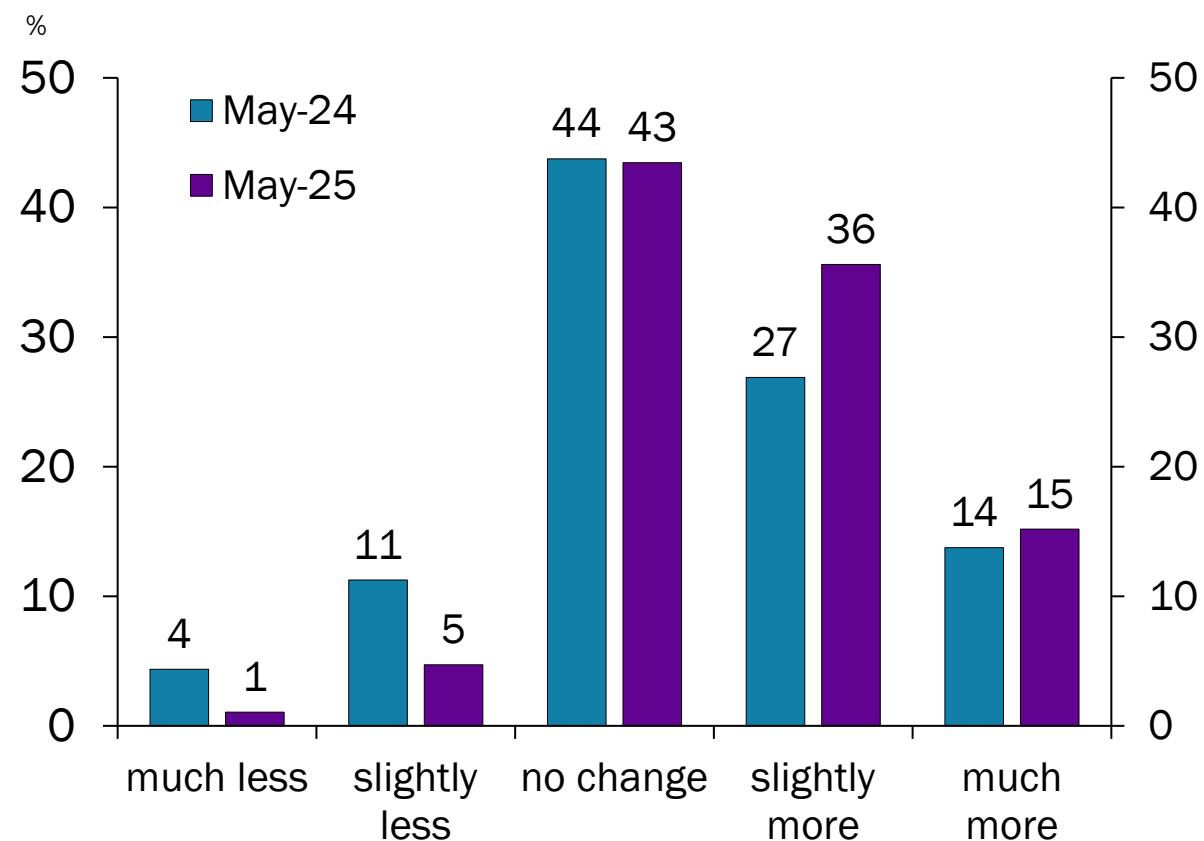
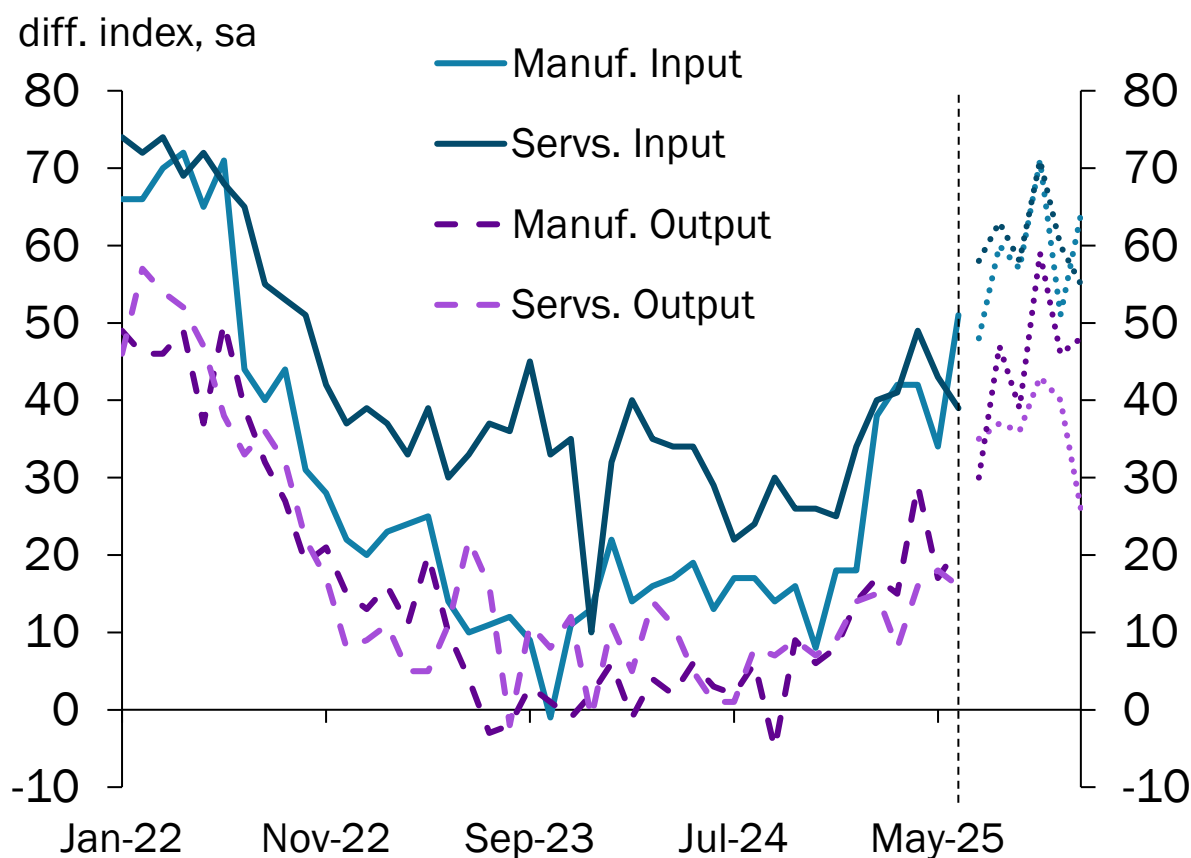


Sources: BEA, Haver Analytics

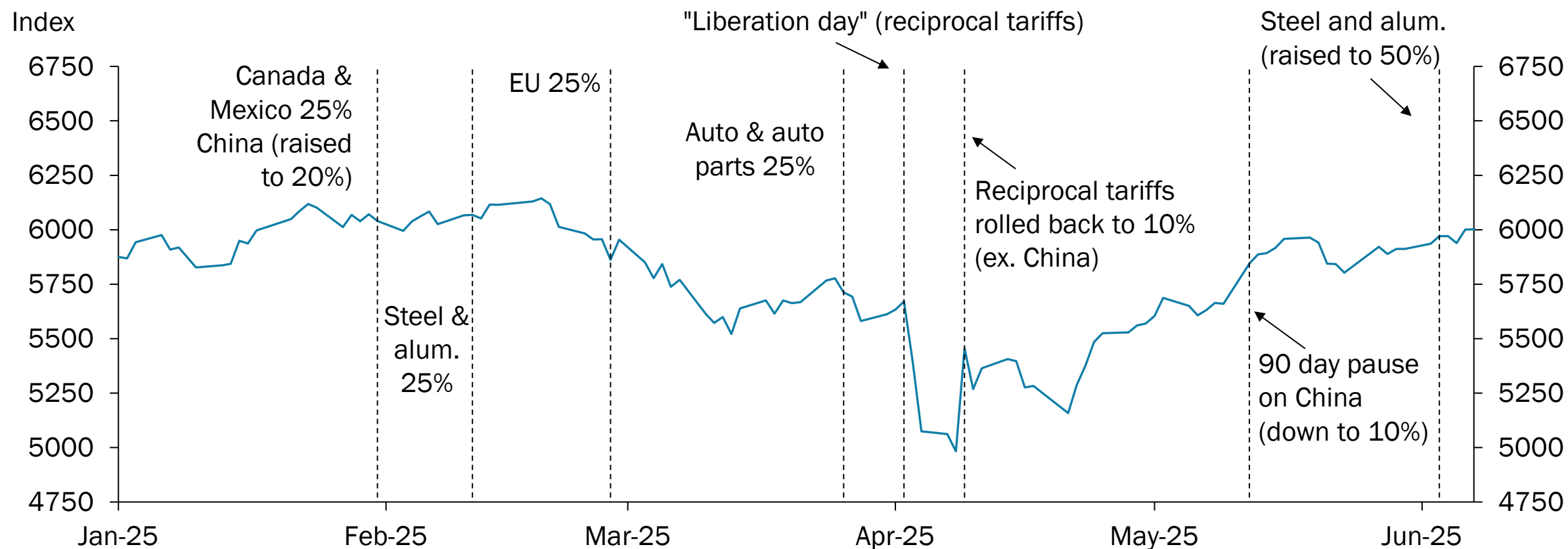
... but both market and household inflation expectations remain elevated.



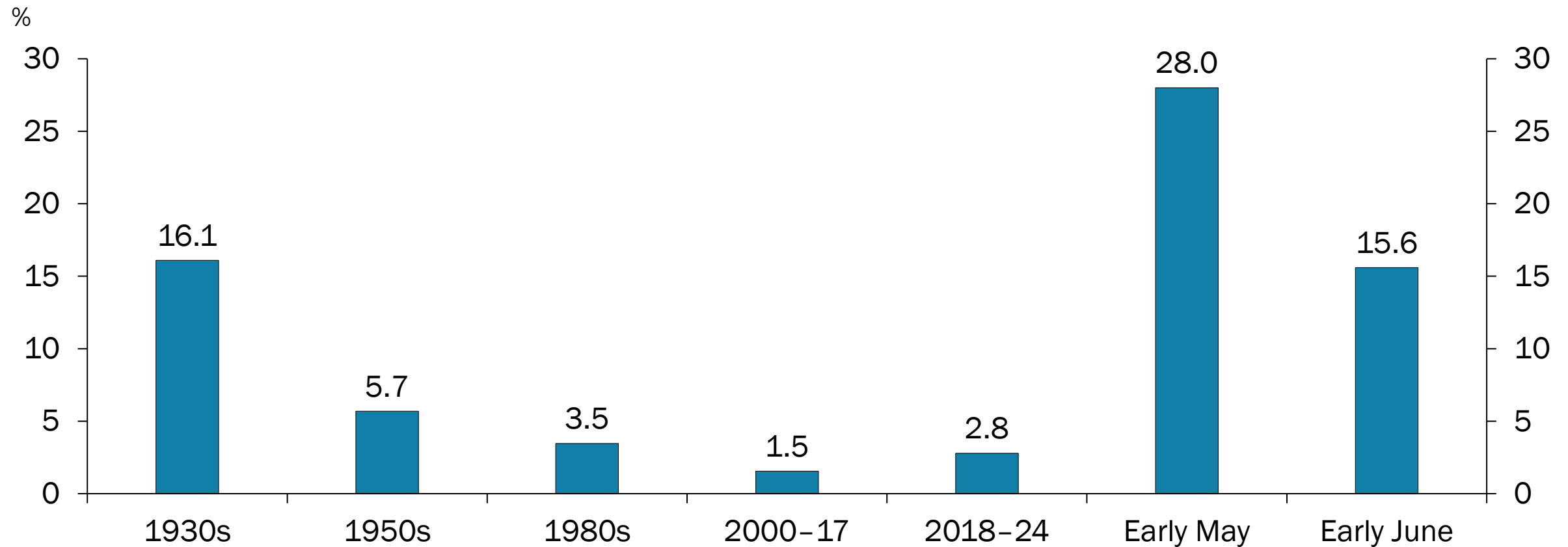
Contacts tell us that prices are still increasing, and the frequency of their price changes has increased.



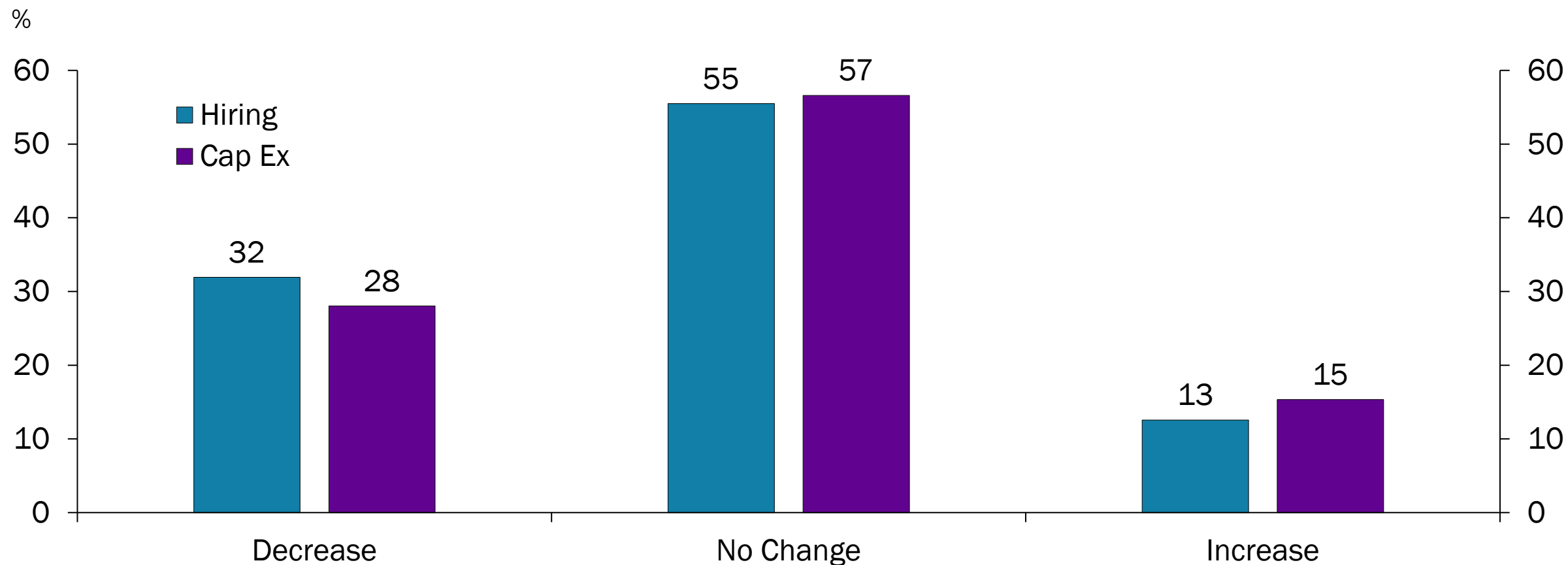
Overall, financial markets have stabilized since April.



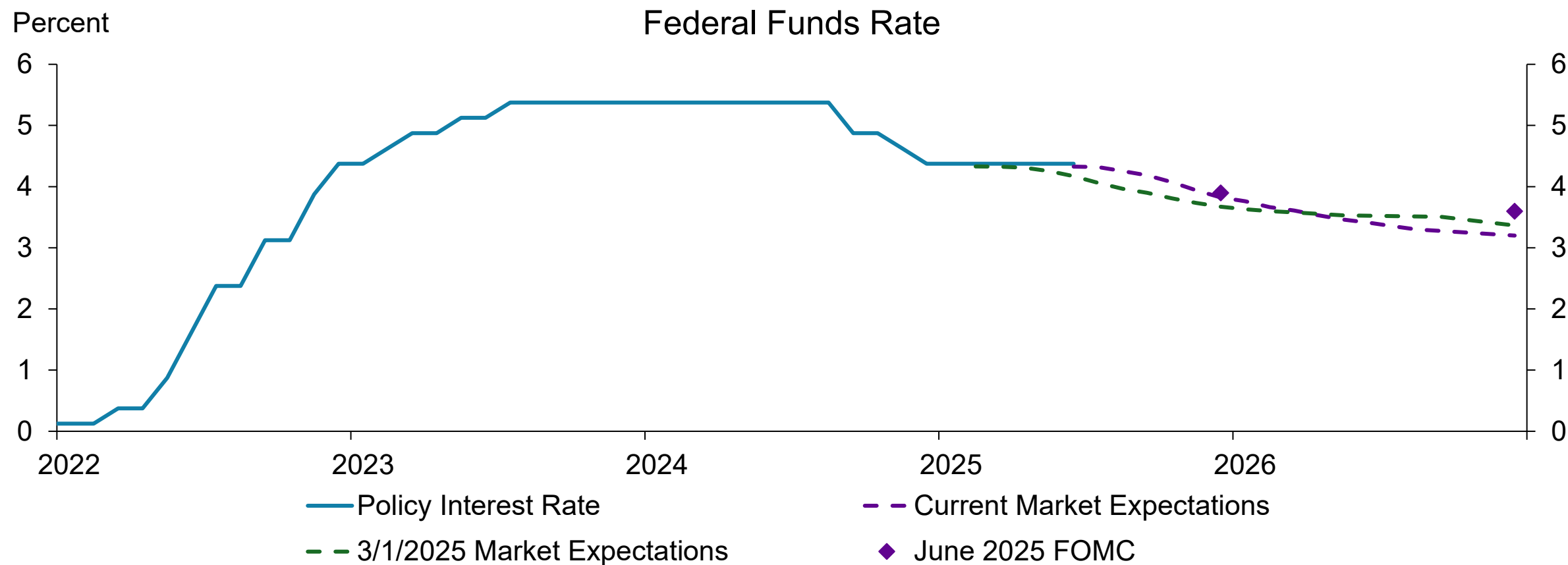
Implemented tariff rates have declined relative to early May.



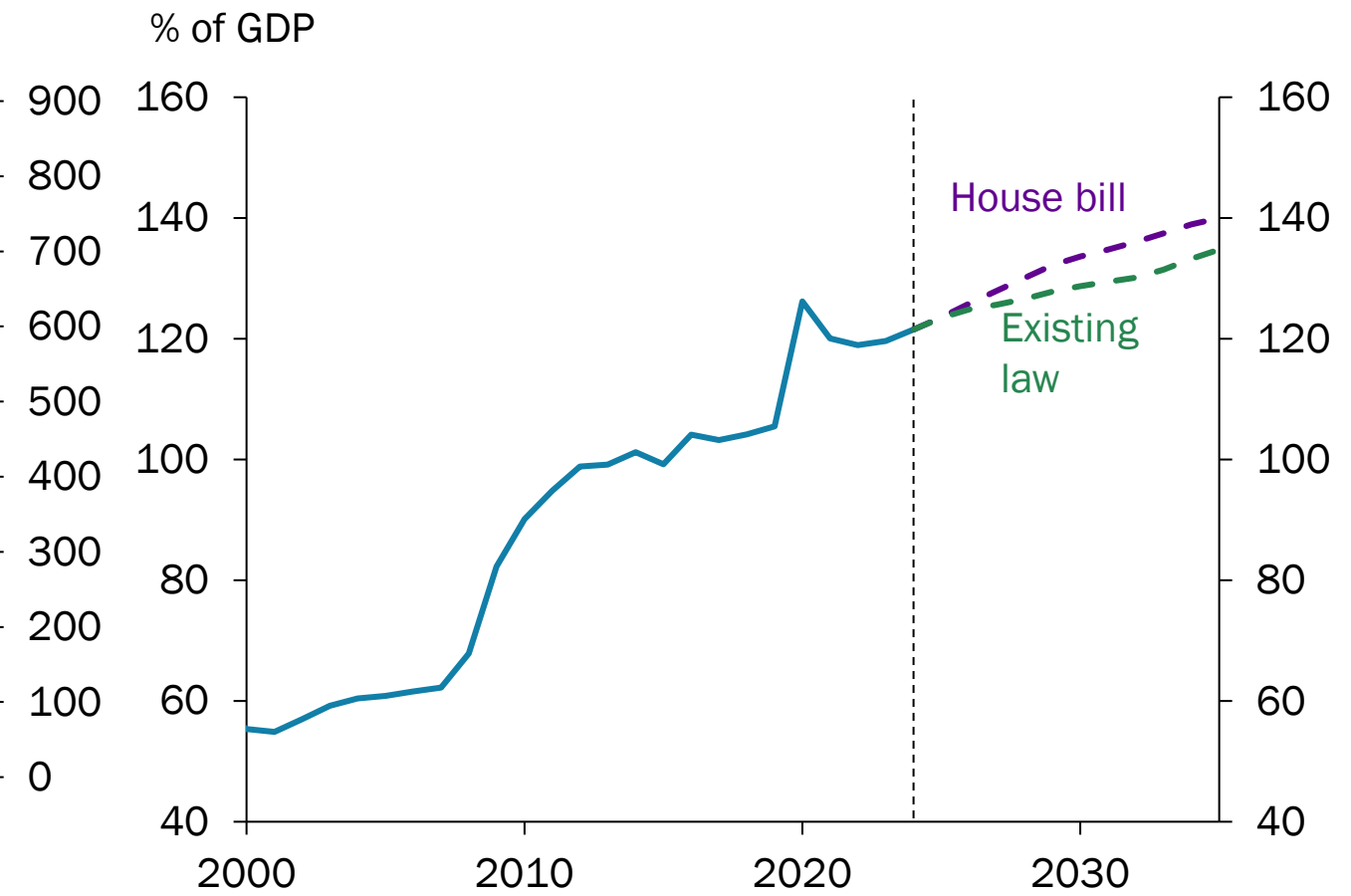
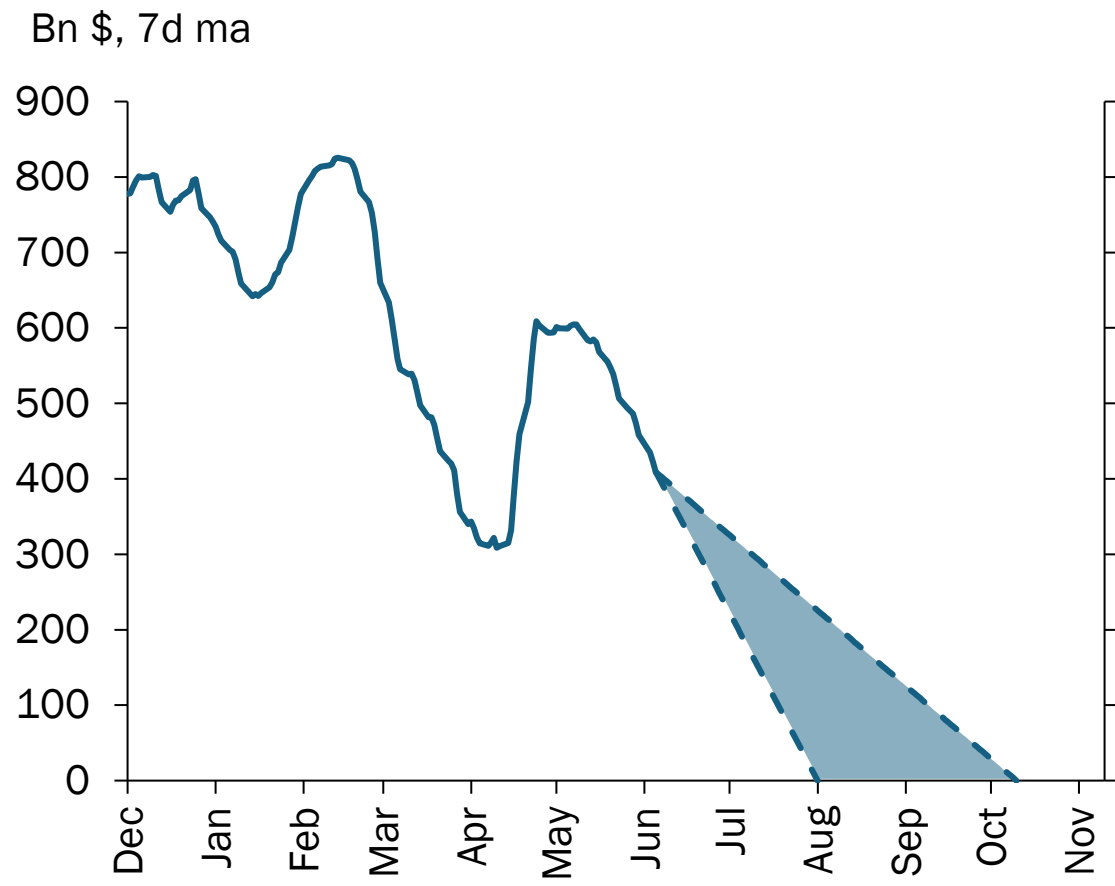
Contacts have lowered their expectations of hiring and capital expenditures compared to the beginning of 2025.



Markets and policymakers expect interest rate cuts later this year and into 2026.

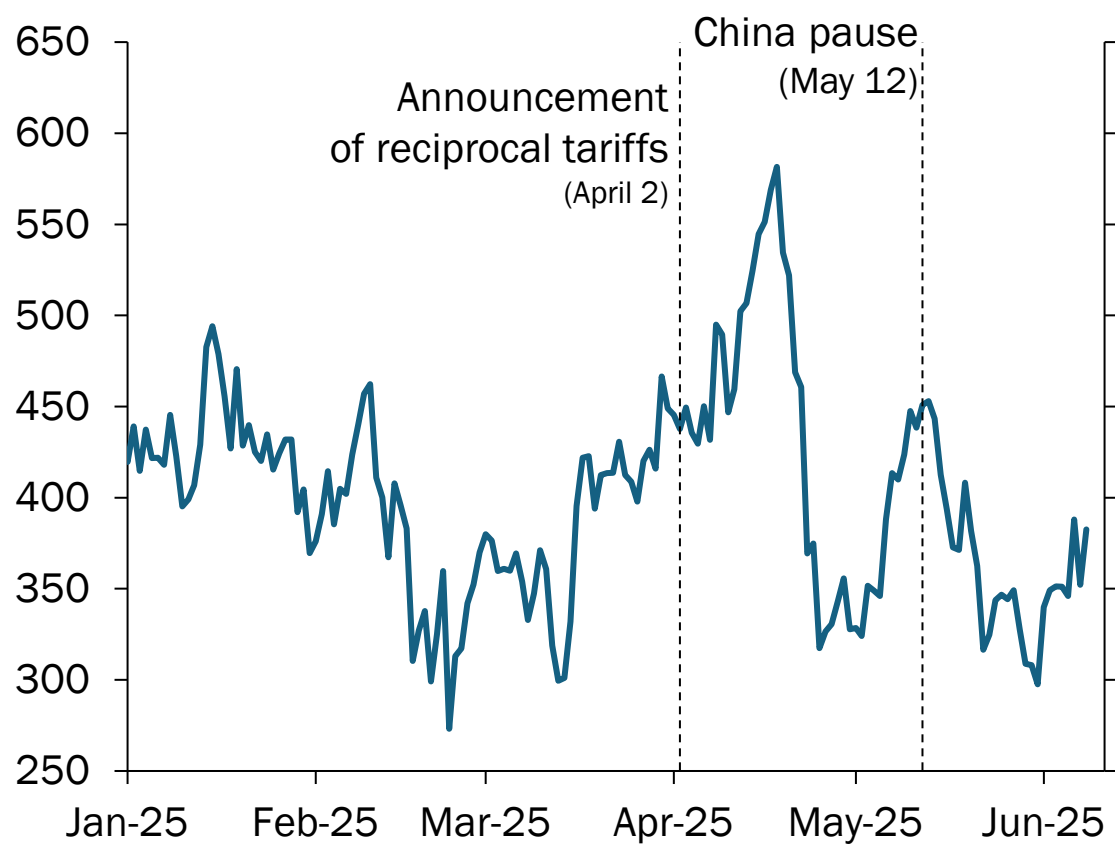


Risks to outlook include the debt ceiling, fiscal sustainability,...

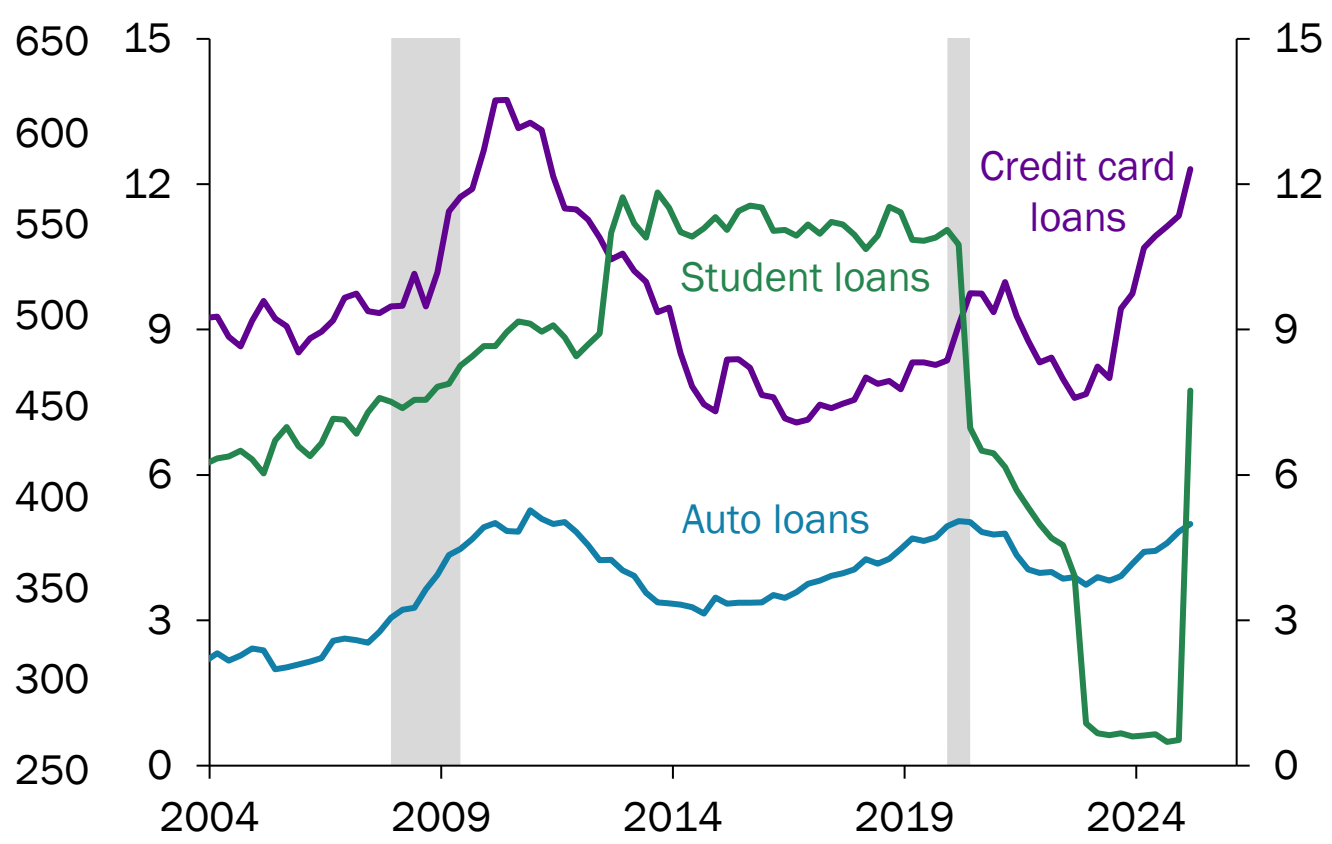


... supply chain bottlenecks, and stressed finances of some households.

Count, Ths, 15d ma



% of balance 90+ days delinquent



Summary

- Thus far the economy has been resilient despite heightened uncertainty.
- While the effective tariff rate has come down from May levels, it is still significantly higher (15.6 % vs. 2.8%).
- The effects of higher tariffs depend upon consumer's and business's ability to shift purchases to lower-tariff countries.
- Some businesses now expect lower levels of employment and capital expenditures compared to the beginning of the year.

Questions?

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Timely economic content curated by research staff at the Federal Reserve Bank of Kansas City.
- [Labor Market Conditions Indicators](#)
Two monthly measures of labor market conditions based on 24 labor market variables.
- [Kansas City Financial Stress Index](#)
A monthly measure of stress in the U.S. financial system based on 11 financial market variables.

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