

FEDERAL RESERVE BANK OF KANSAS CITY

U.S. and Regional Economic Outlooks

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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

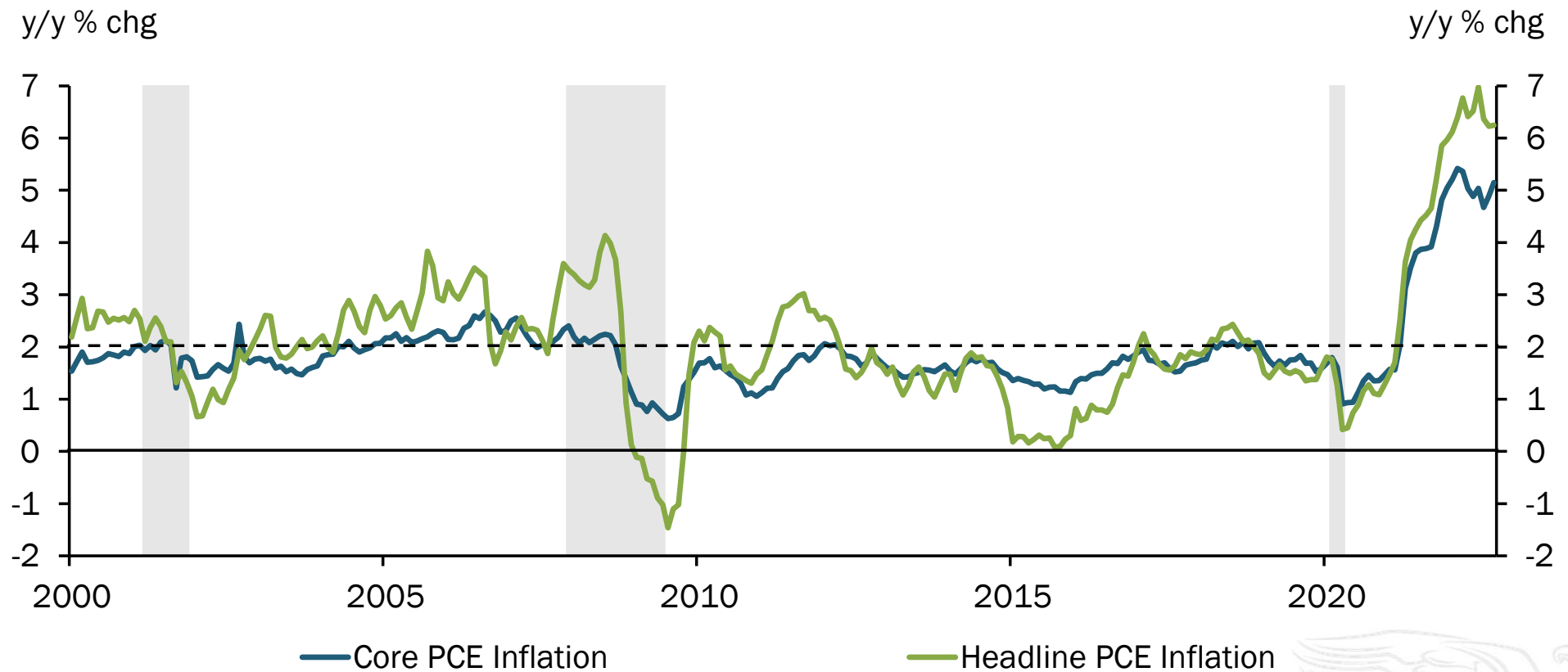


Overview

- Inflation continues to be elevated, even as the drivers of price pressures have rotated
- Labor markets remain extremely tight and wage growth is above historical norms
- Monetary policy recently moved further into a restrictive stance in order to restore price stability
- Indicators from several sectors point to the effects of tighter monetary policy slowing overall demand growth, albeit with varying levels of transmission to different parts of the economy

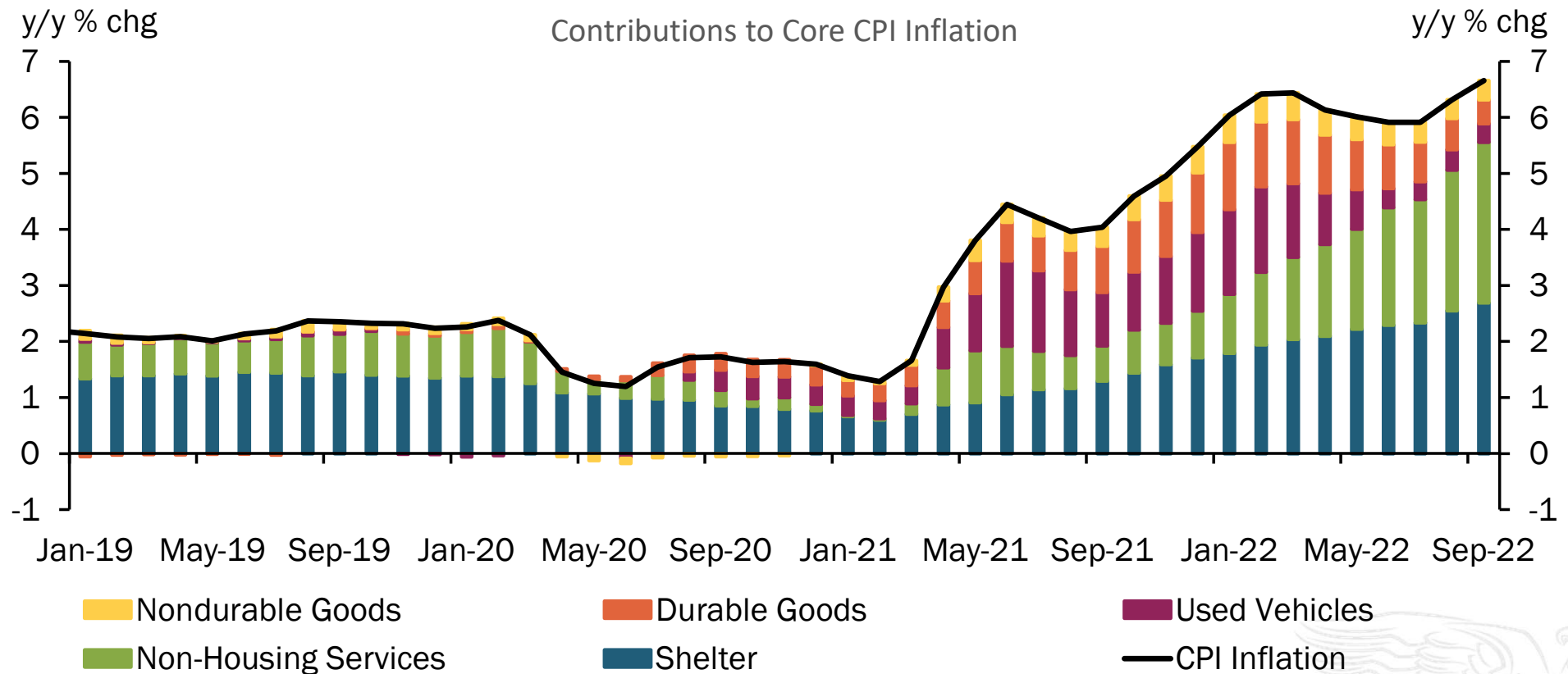


Inflation remains well-above historic norms and the Fed's 2 percent target

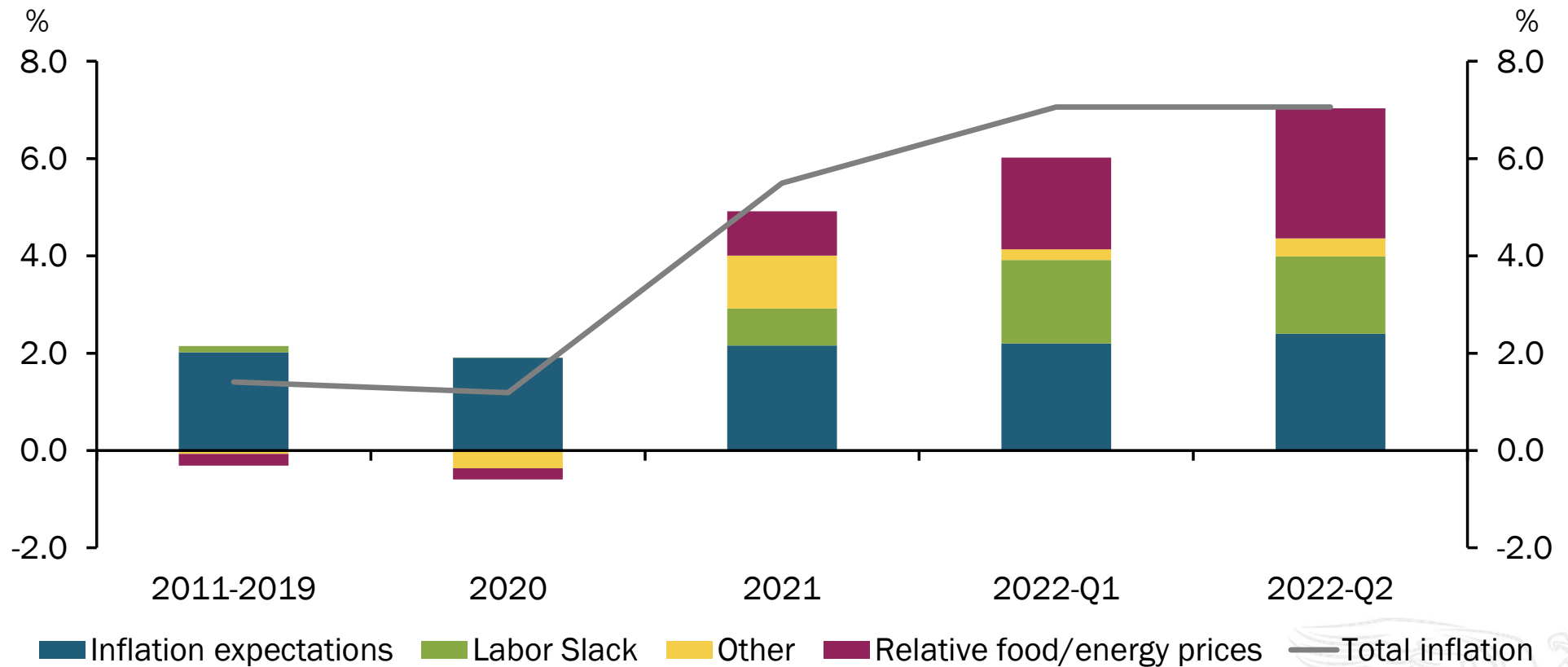


Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Over the past year, the drivers of inflation rotated back toward services, with growth in goods prices softening over the last several months



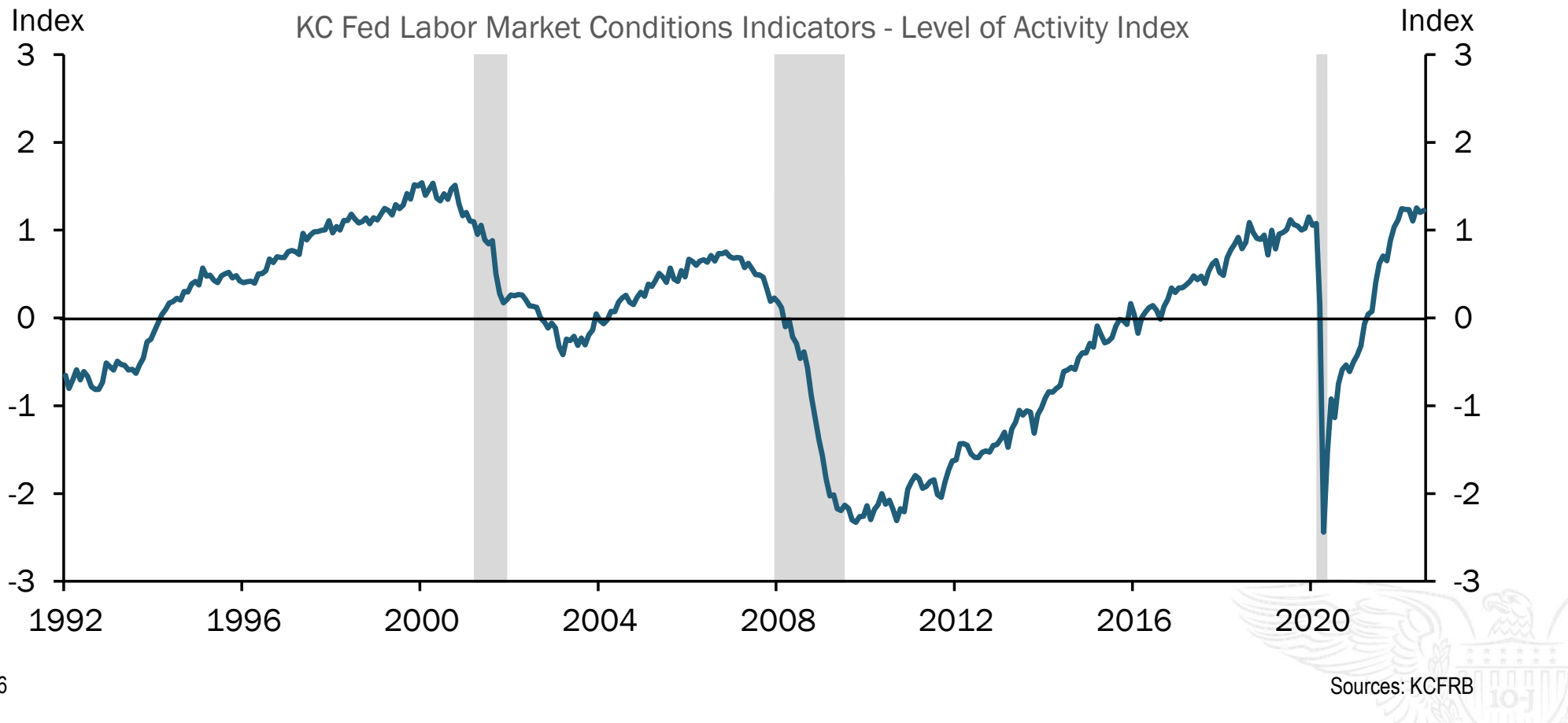
Inflation pressures reflect the imbalances of persistently strong demand relative to ongoing shortfalls in supply



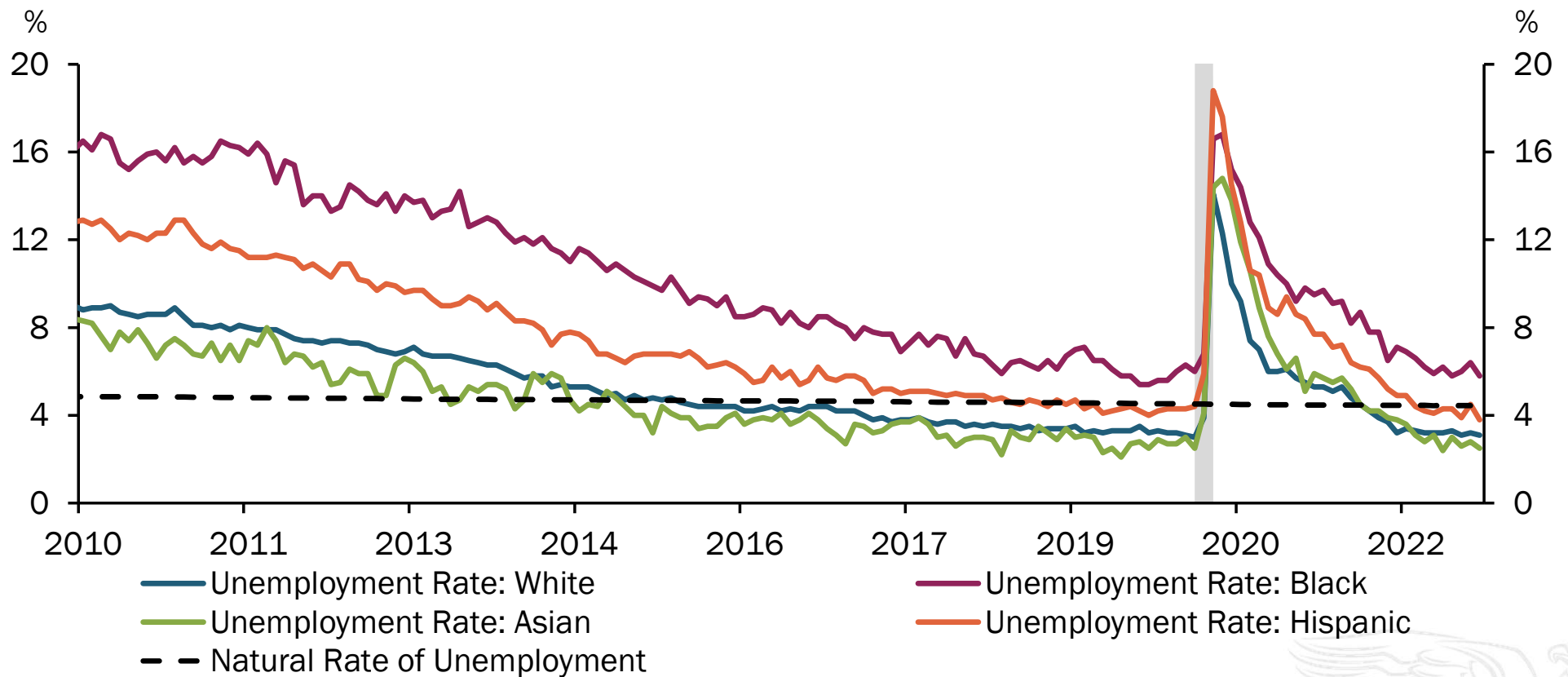
Sources: Staff, BEA, BLS, CBO, SPF

Note: Annualized PCE Inflation, total and portion attributable to specific factors

In particular, labor market conditions are historically tight

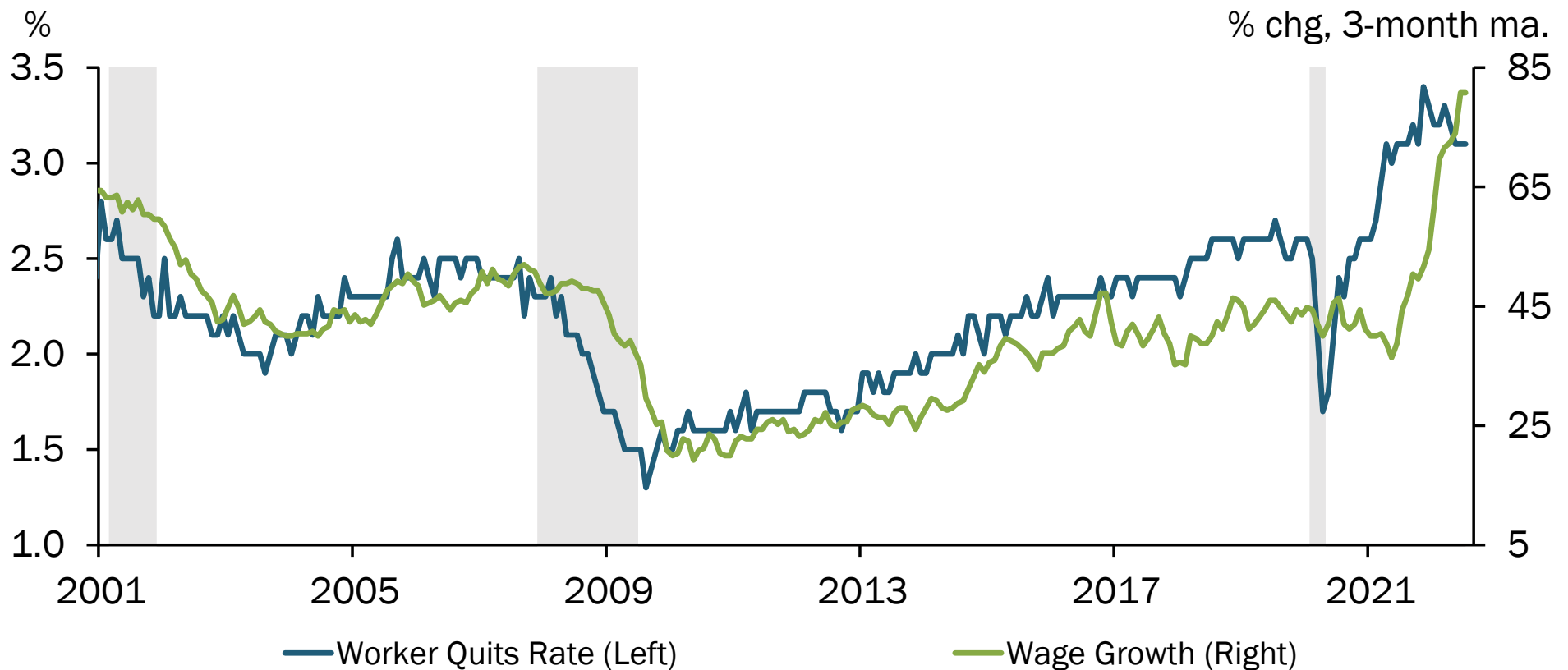


Unemployment rates are at or below pre-pandemic lows

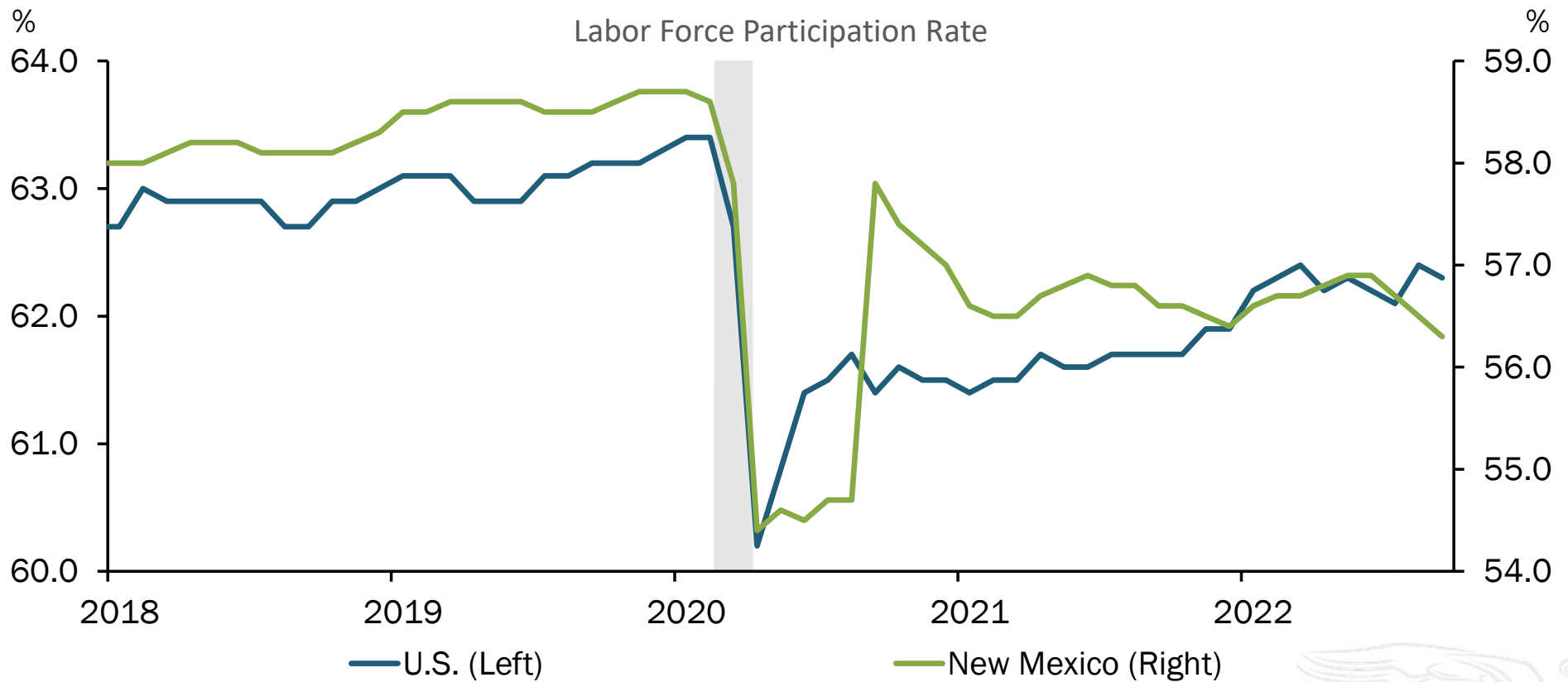


Source: BLS, Haver Analytics
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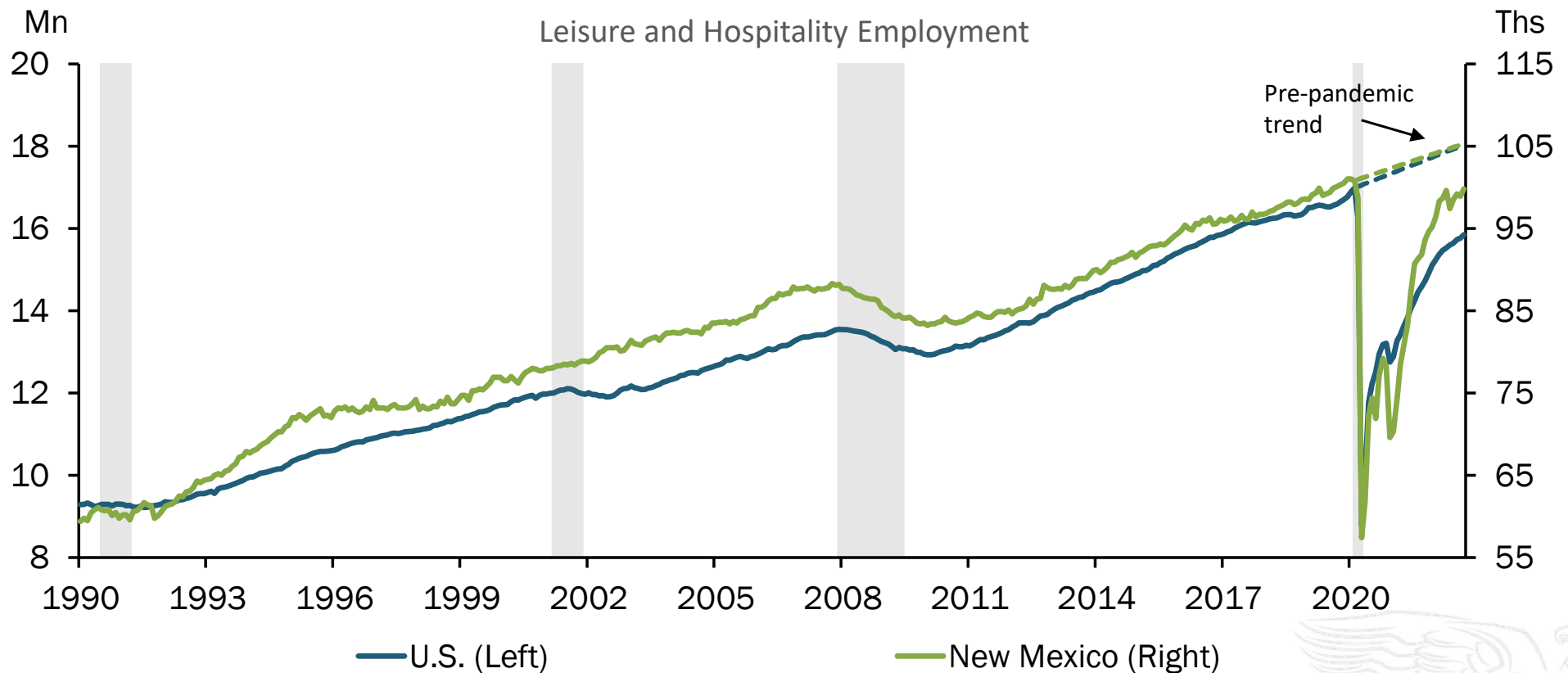
Workers left their jobs at elevated rates over the past 18 months, further tightening the labor market and driving broad-based wage growth



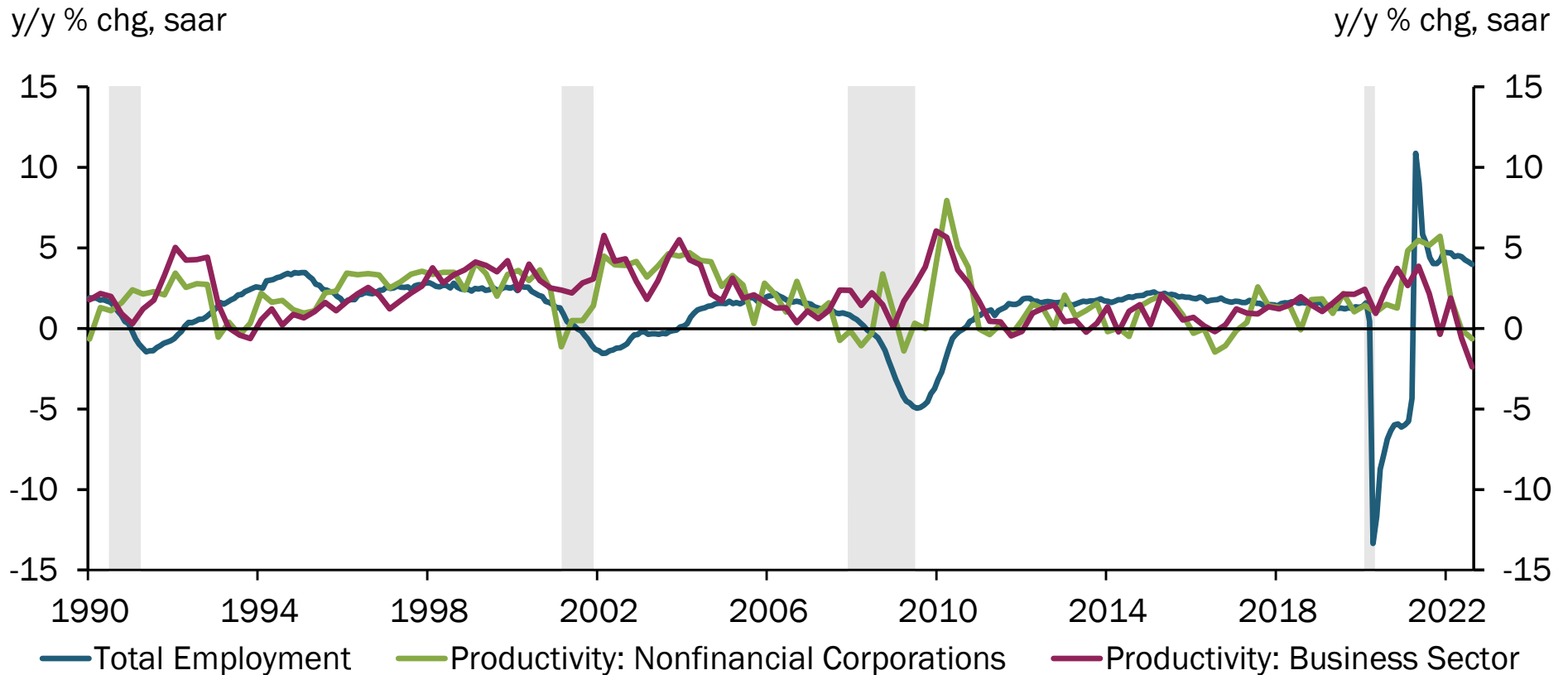
Labor supply remains constrained broadly



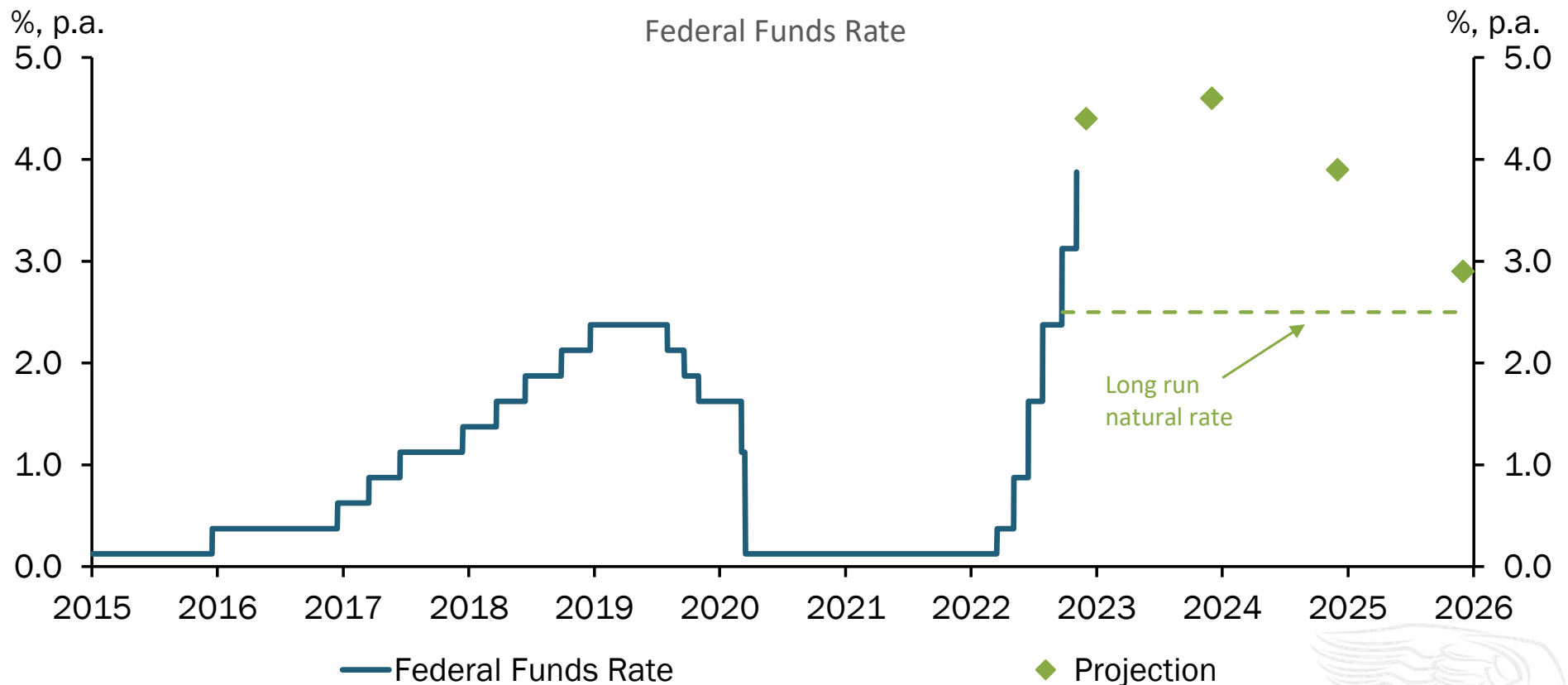
Employment shortfalls in leisure and hospitality remain acute, adding to cost pressures in that segment of the service sector



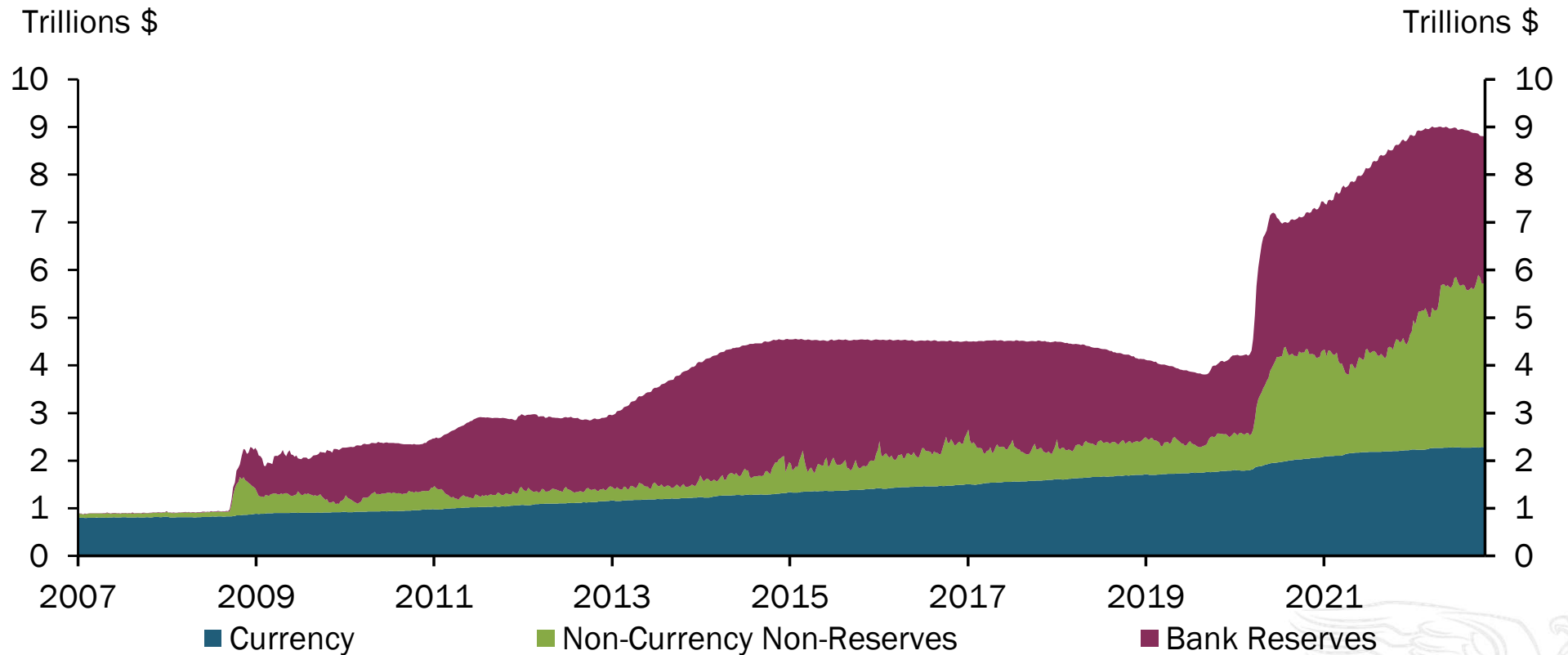
Dismal labor productivity has exacerbated supply constraints, but productivity tends to be subdued during periods of rapid job growth



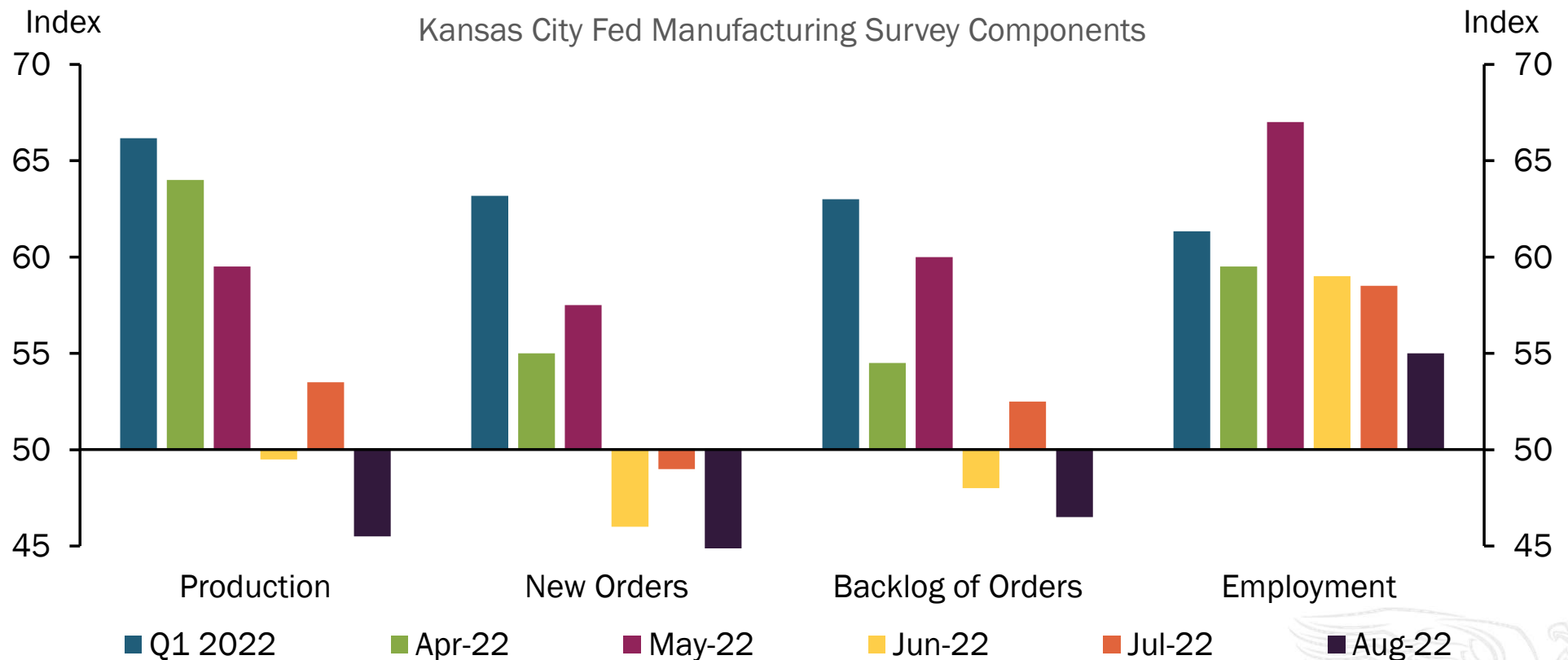
The Federal Reserve is moving interest rates further into a restrictive stance of monetary policy to restore price stability



The Federal Reserve is reducing the size of its balance sheet



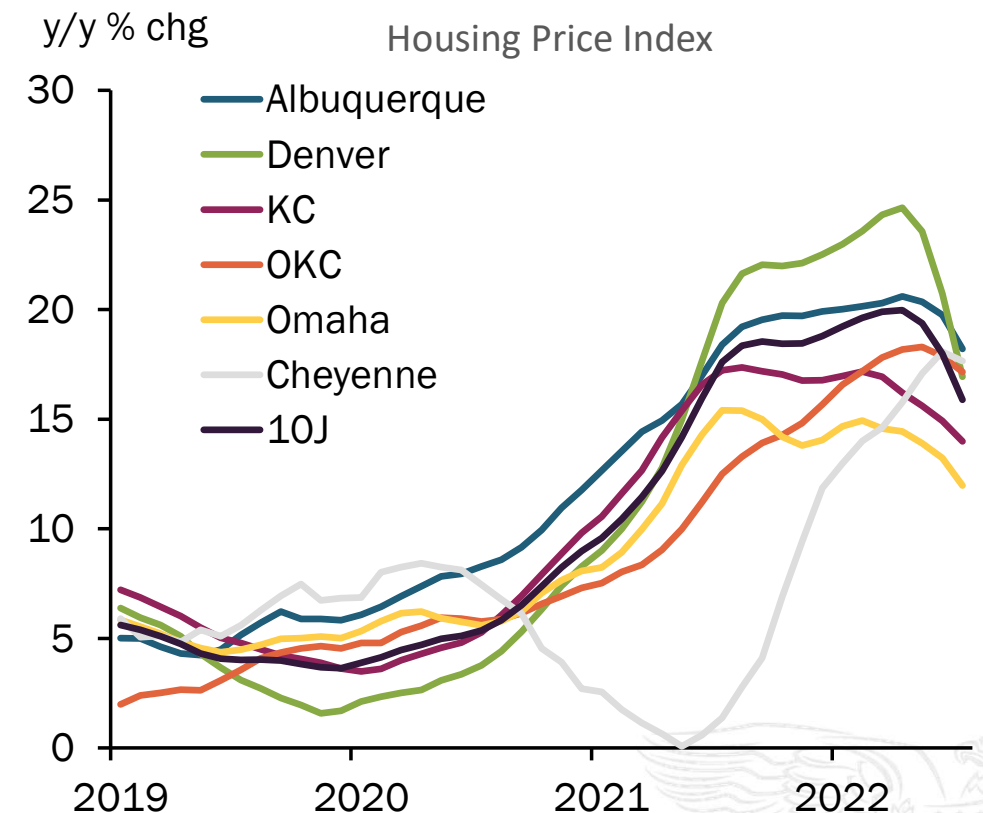
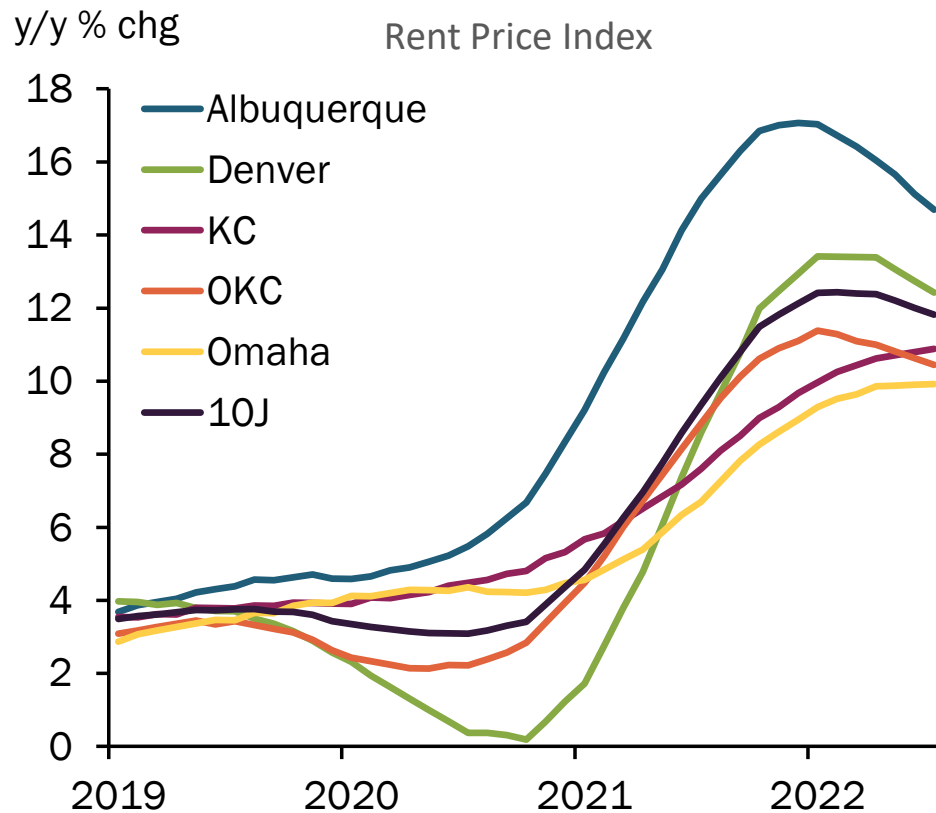
Measures of production across the region point to declining activity, while job growth and labor demand remain healthy



Sources: KC Fed Manufacturing Survey

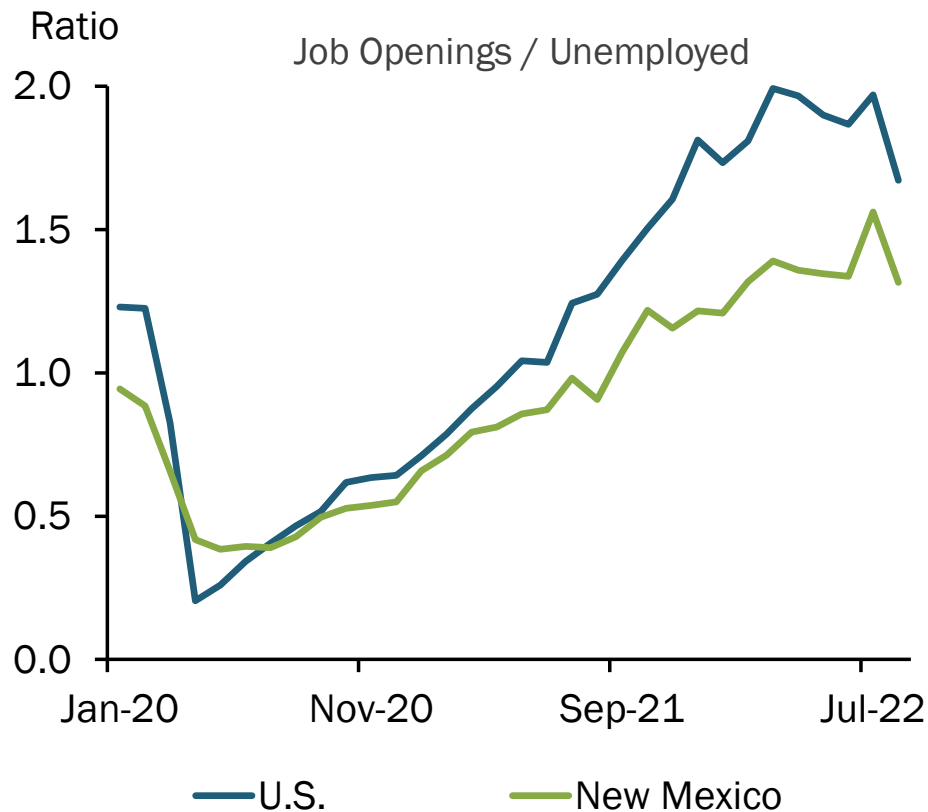
Note: An index level above 50 indicates the level of activity is increasing.

The housing market is cooling as the number of existing homes sold and the number of new homes constructed are falling

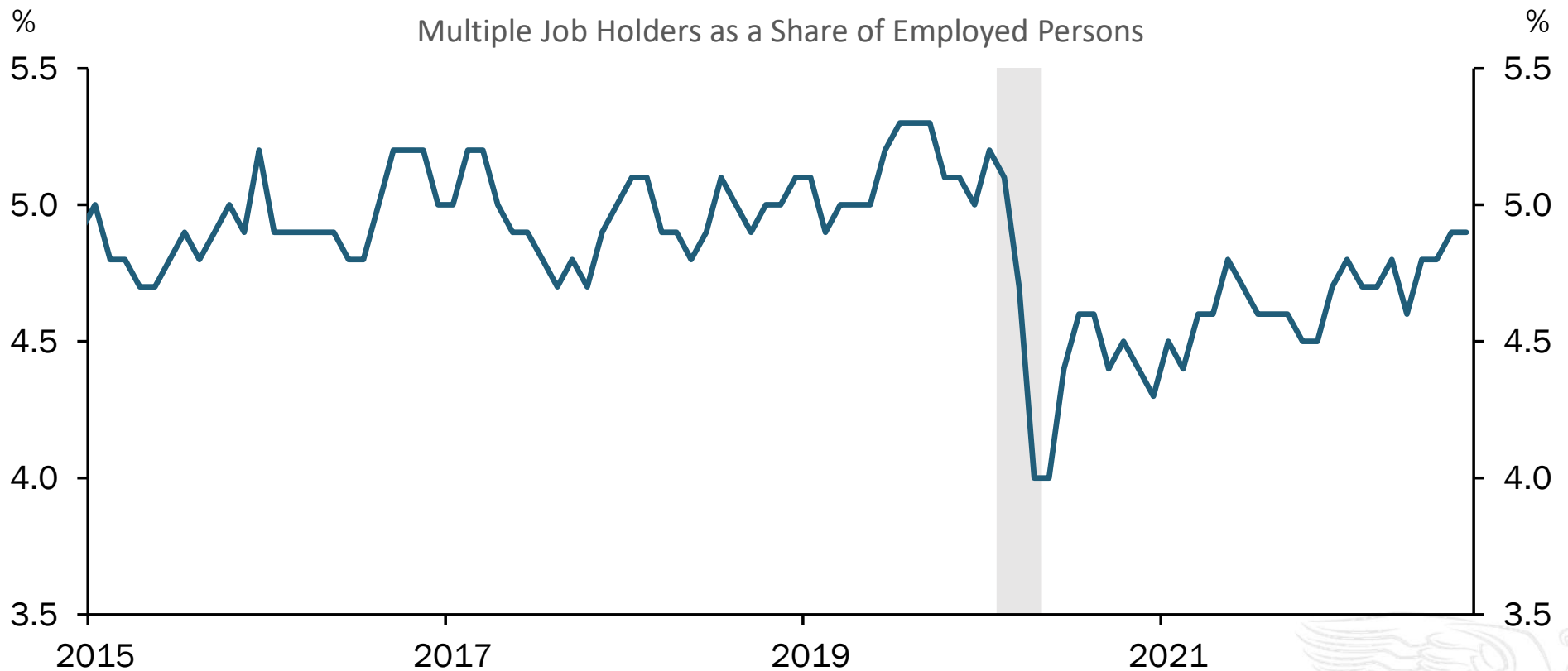


Source: Zillow, Haver Analytics

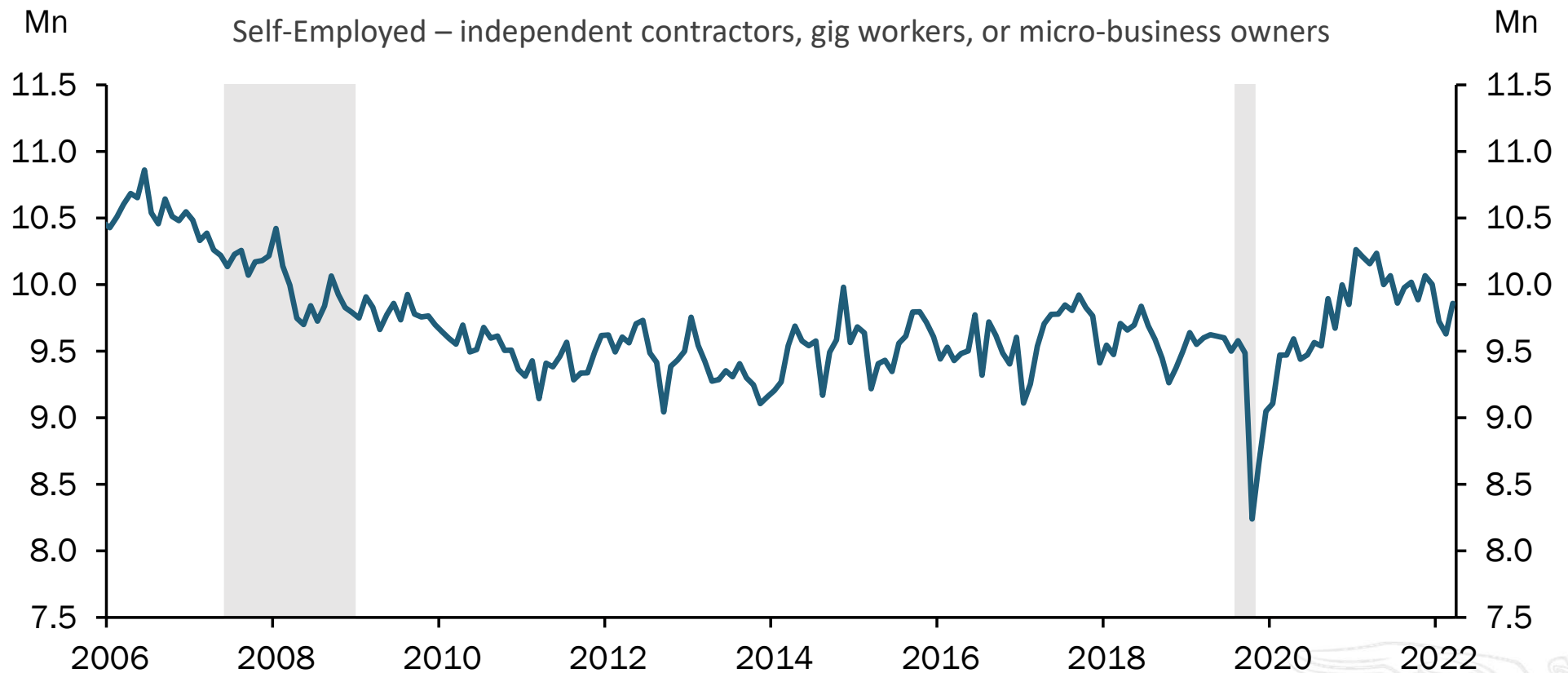
Worker quits rates and job posting rates are starting to soften, but wage growth remains elevated



The share of employed individuals with more than one job has increased over the past few months



Informal and non-traditional employment levels have softened somewhat



Source: Current Population Survey, FRED
Note: Grey bars indicate recession shading

Looking ahead

- Uncertainty about the near- and medium-term outlooks remains elevated
- Contacts across the region are reporting varied actions to ‘right-size’ their business, which often means considering how many open job vacancies to fill rather than jobs to cut
- The Federal Reserve has stated that a sustained stance of restrictive policy is likely to be appropriate to restore price stability



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