FEDERAL RESERVE BANK OF KANSAS CITY

Monetary Policy Developments and Their Influence on Regional Economic Outcomes

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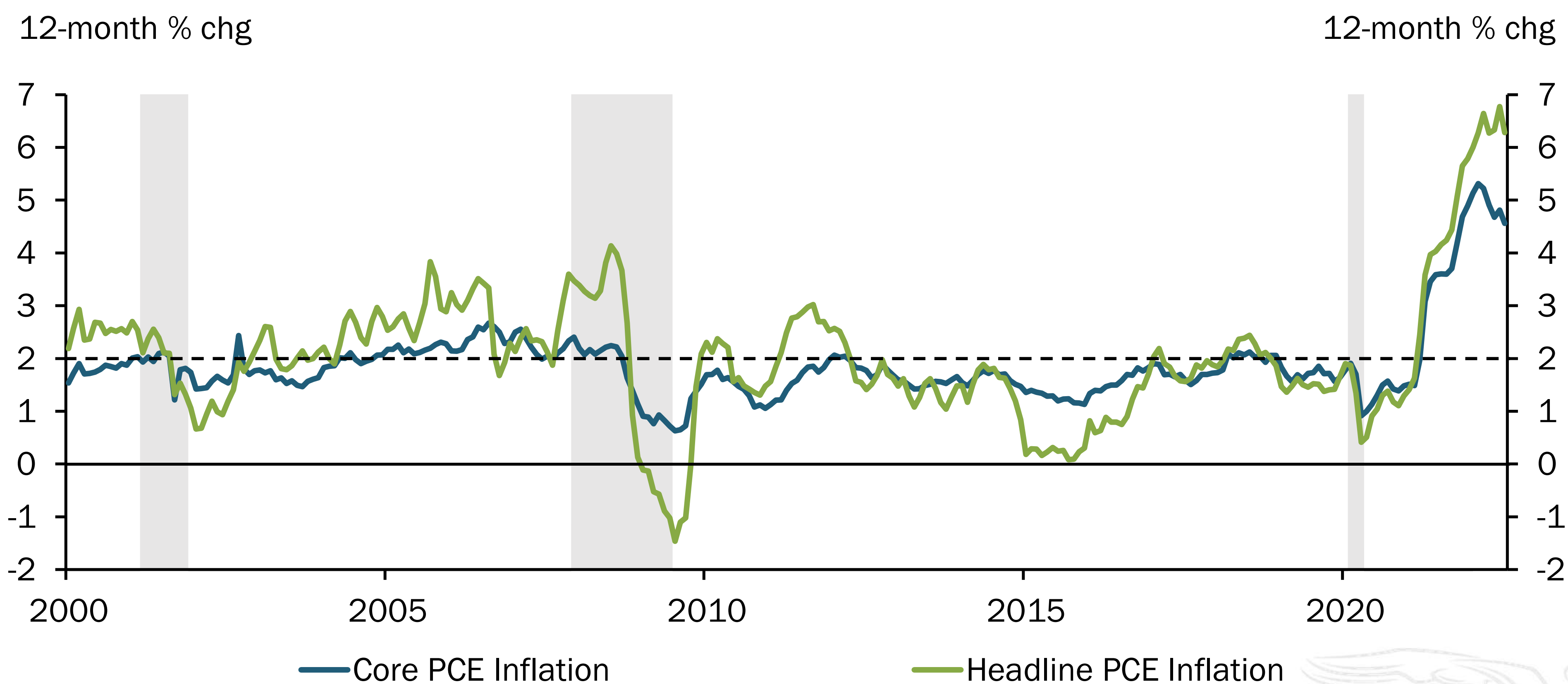
Overview

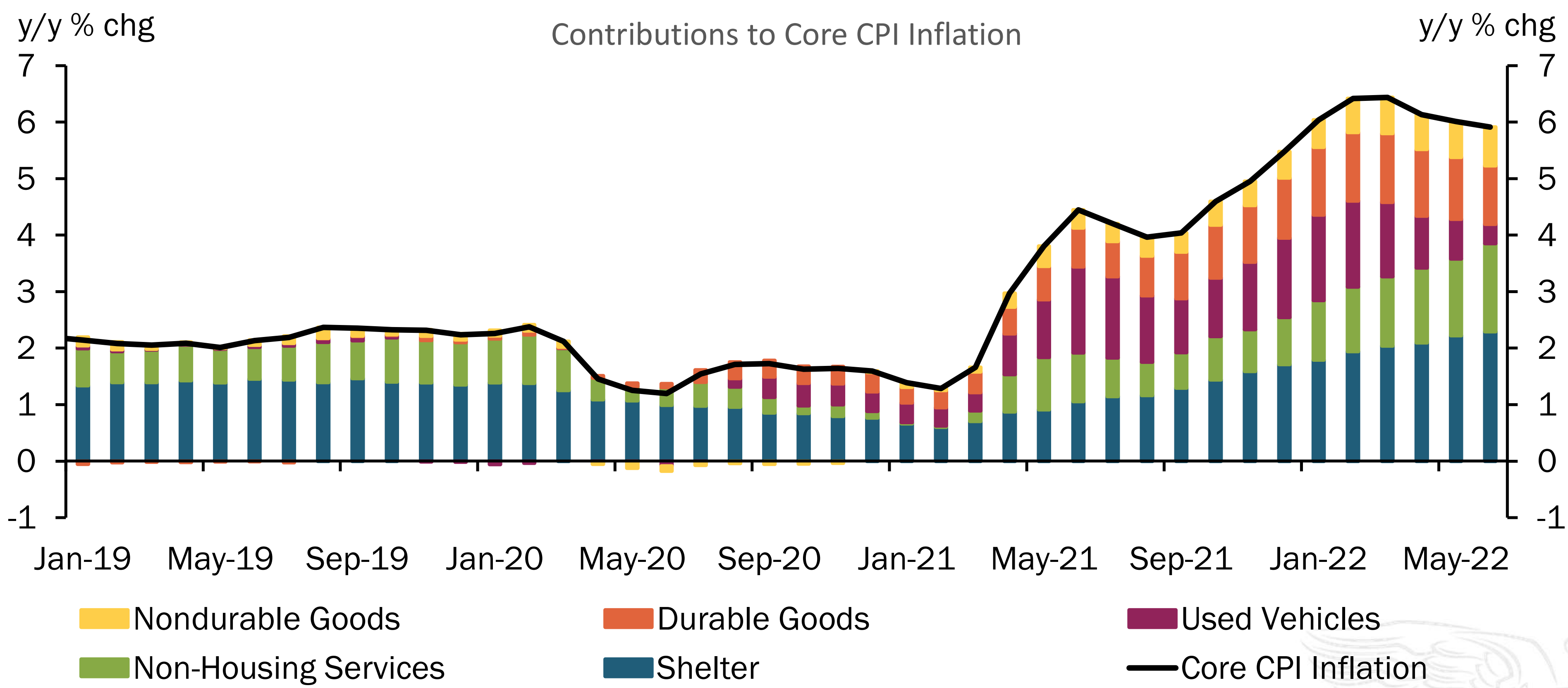
- Inflation is well above levels experienced over the last several decades, creating difficulties for many households in meeting regular expenses
- Labor markets are extremely tight, with resilient demand for workers exceeding the persistently constrained supply of workers
- Monetary policy has moved 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

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



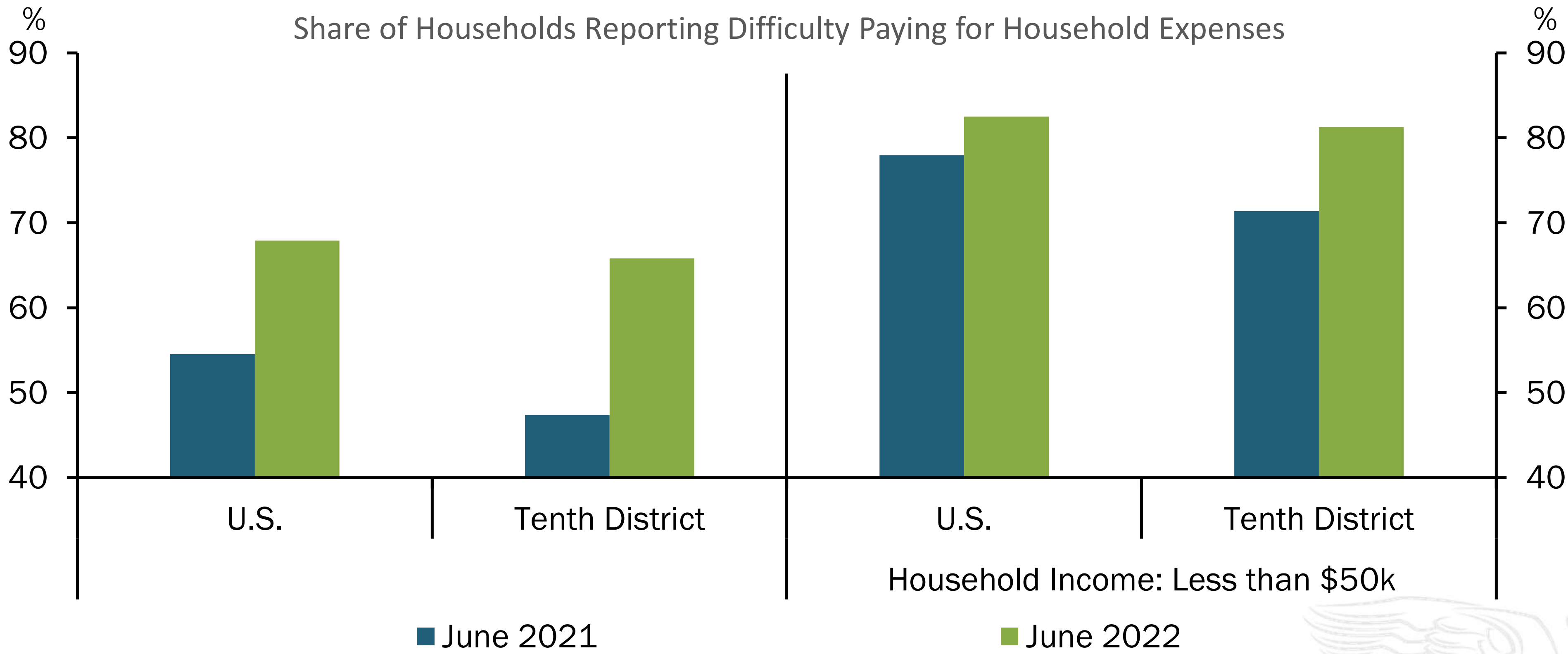
Source: BEA, Haver Analytics
Note: Grey bars indicate recession shading

Over the past year, the drivers of inflation shifted back toward services, with shelter prices exerting an outsized influence on overall inflation



Source: BLS, Haver Analytics

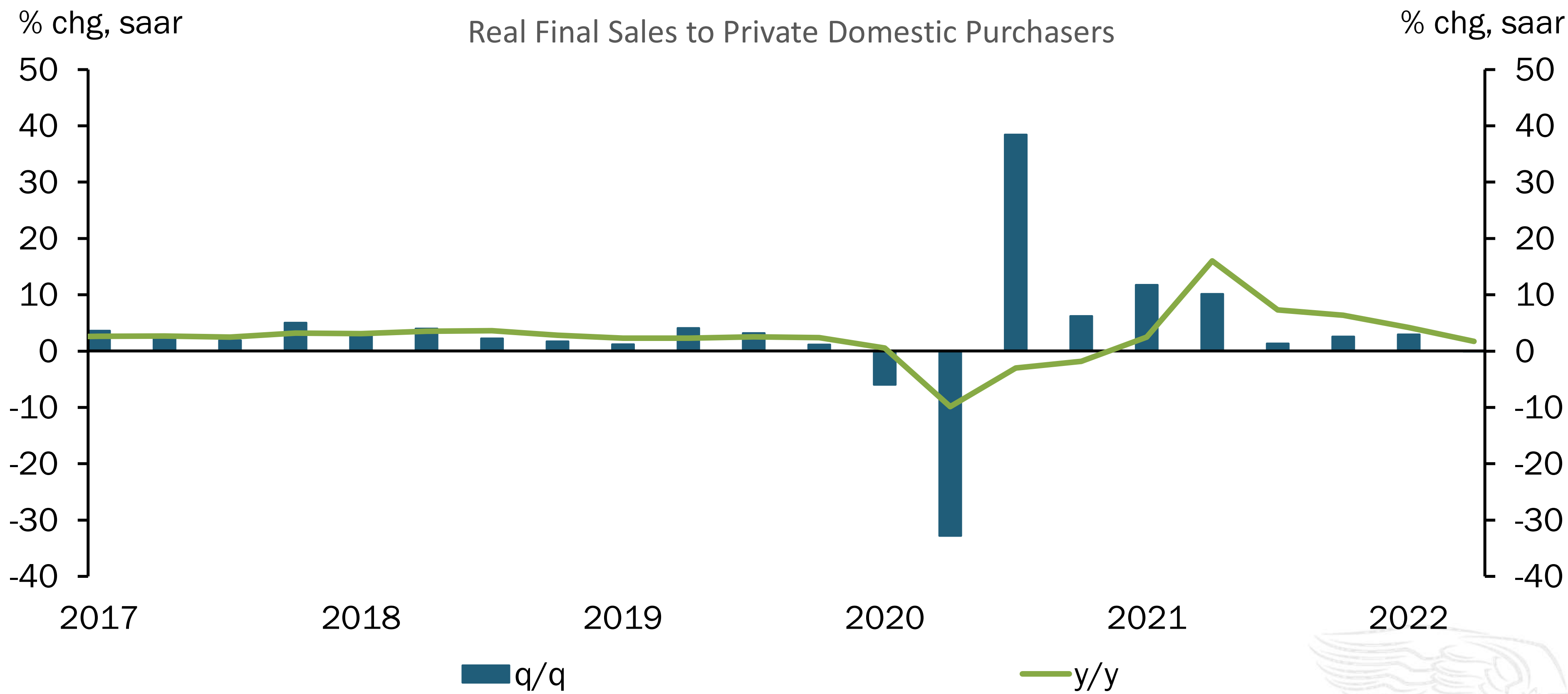
More households are experiencing difficulty paying their typical expenses compared to a year ago



Source: U.S. Census Bureau, Staff calculations

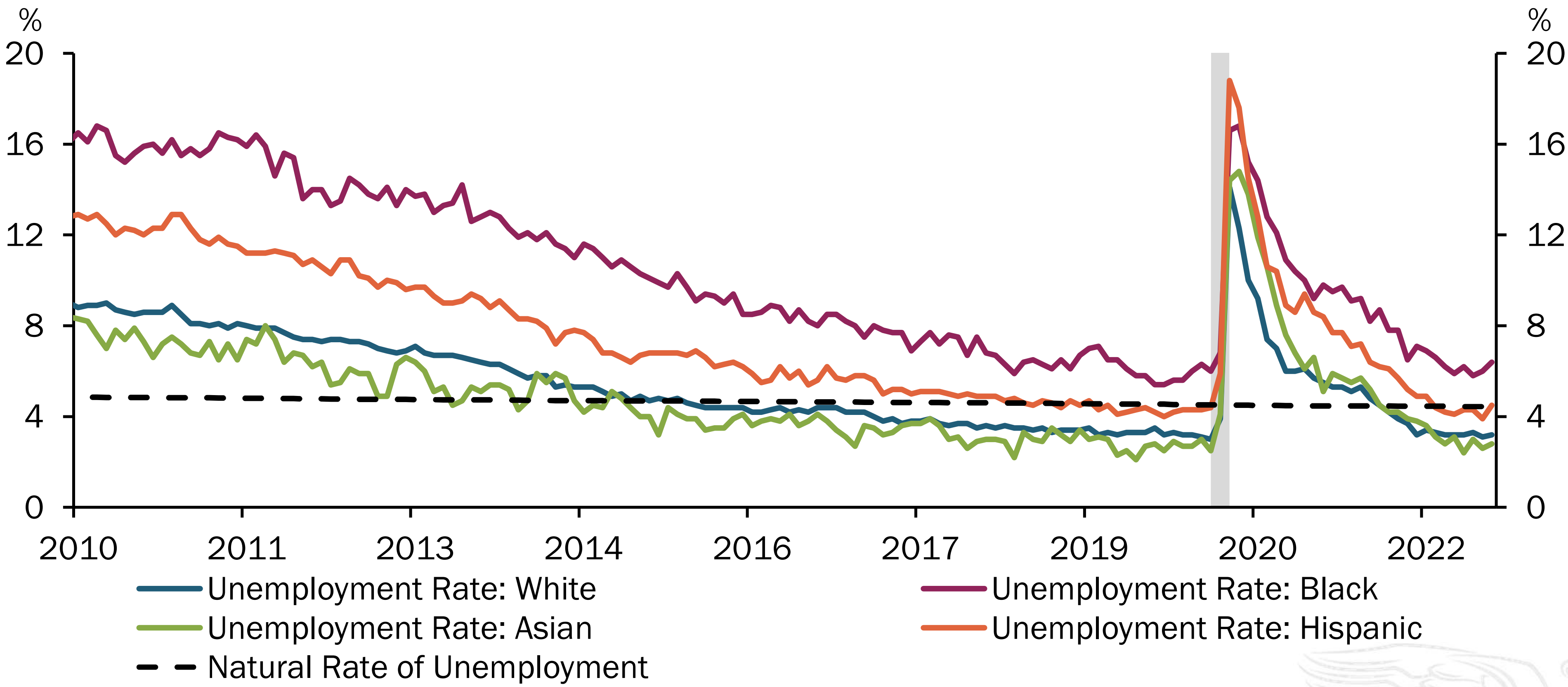
Note: Data was taken during the survey periods June 9 – 21, 2021 and June 1 – 13, 2022. Tenth District refers to the 10J region of the Federal Reserve System

Consumption growth slowed over the past several quarters and business investment declined recently



Sources: BEA, Haver Analytics

Unemployment rates are at or below pre-pandemic lows

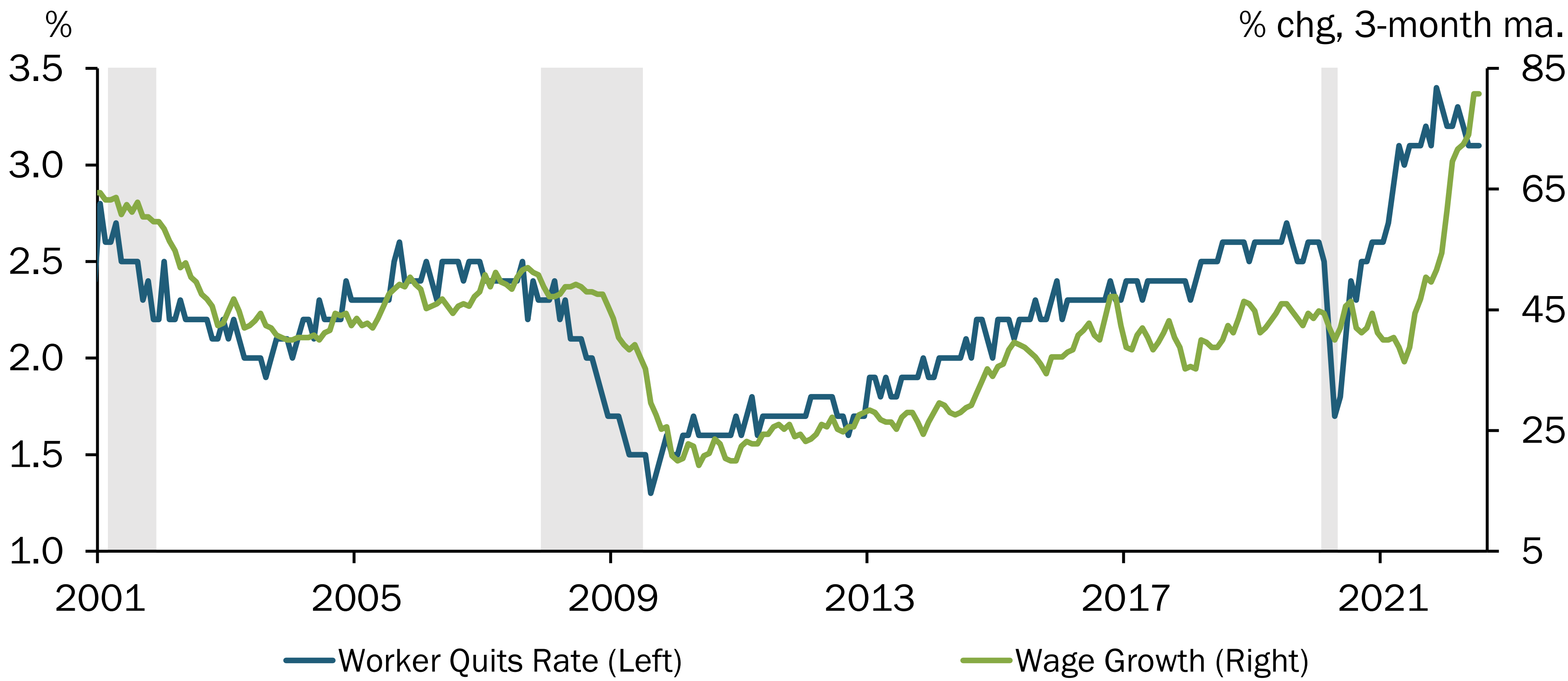


Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading

Labor demand remains elevated

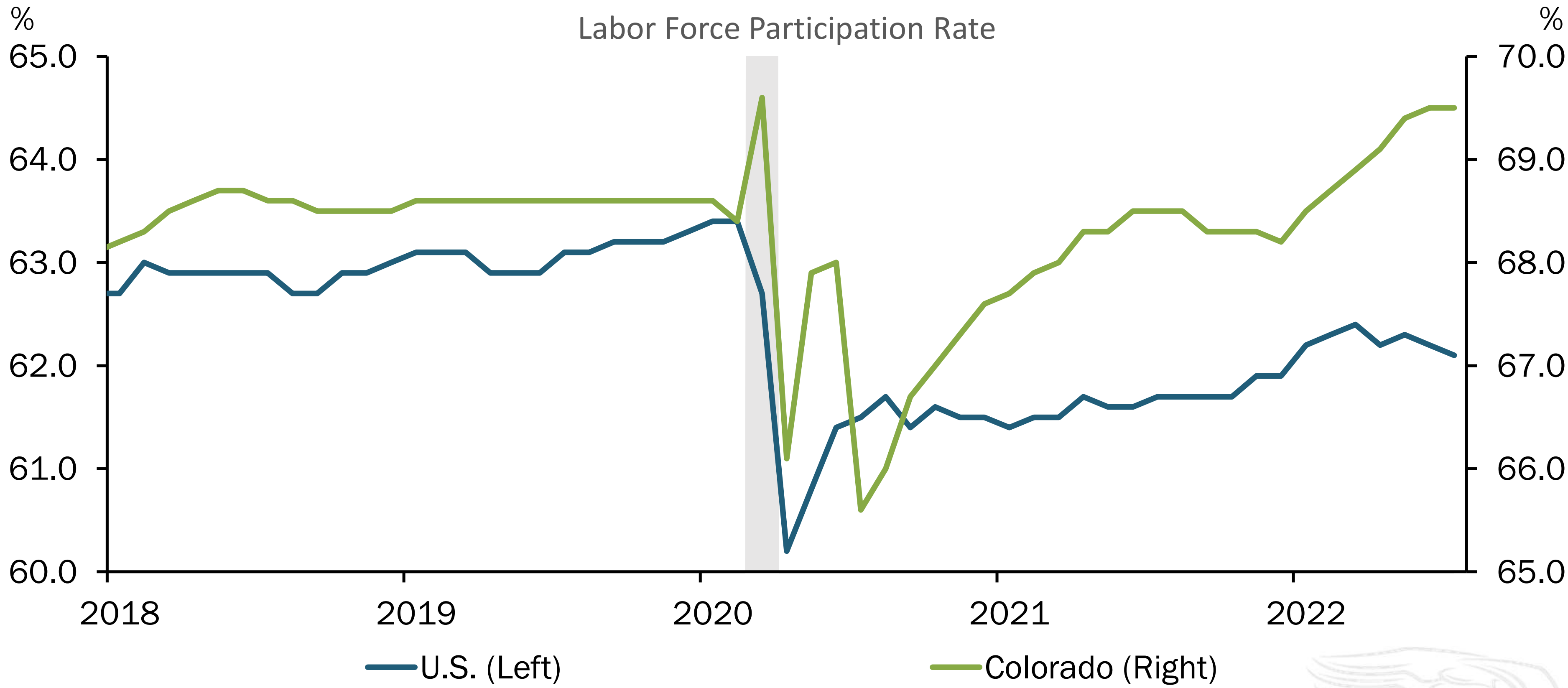
Source: BLS, Haver Analytics, Staff calculations
Note: Grey bars indicate recession shading

Elevated rates of workers leaving their jobs further tightened the labor market, and drove broad-based wage growth over the past 18 months



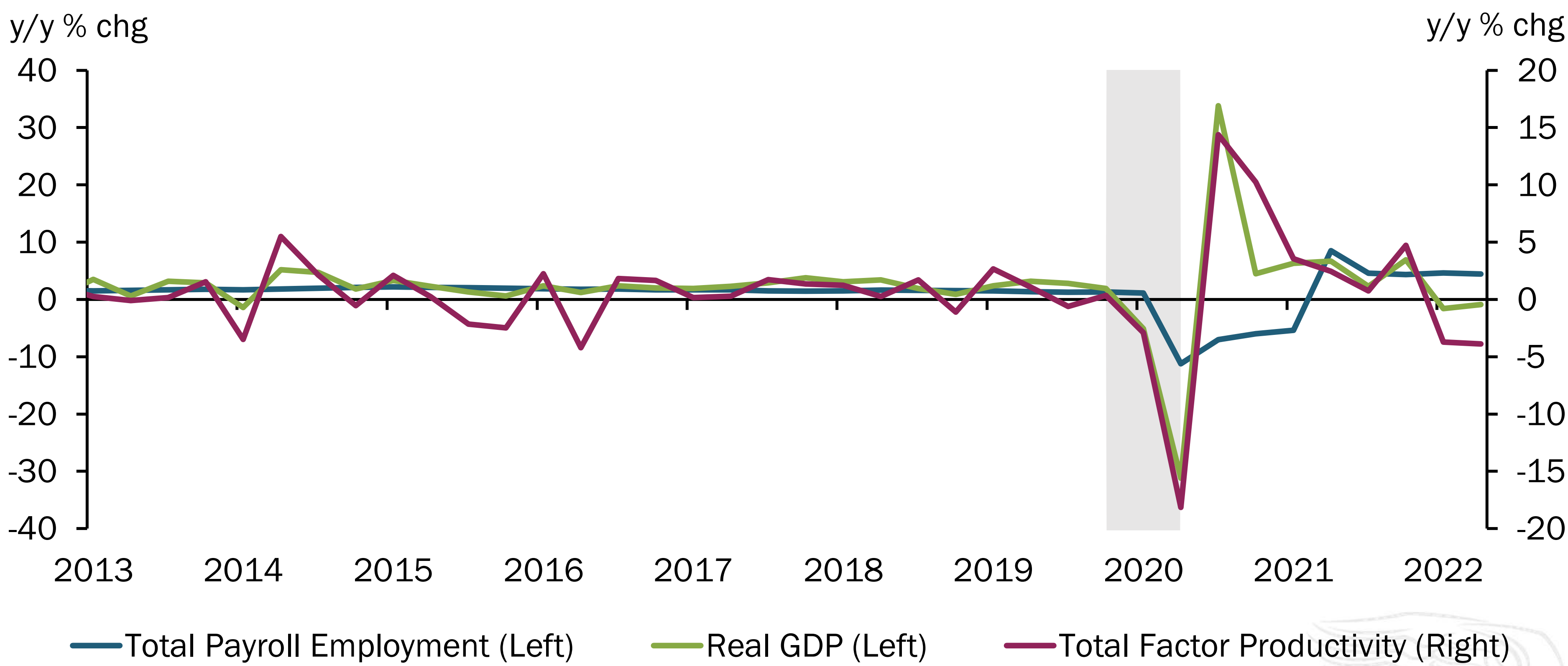
Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading

While labor supply remains constrained nationally



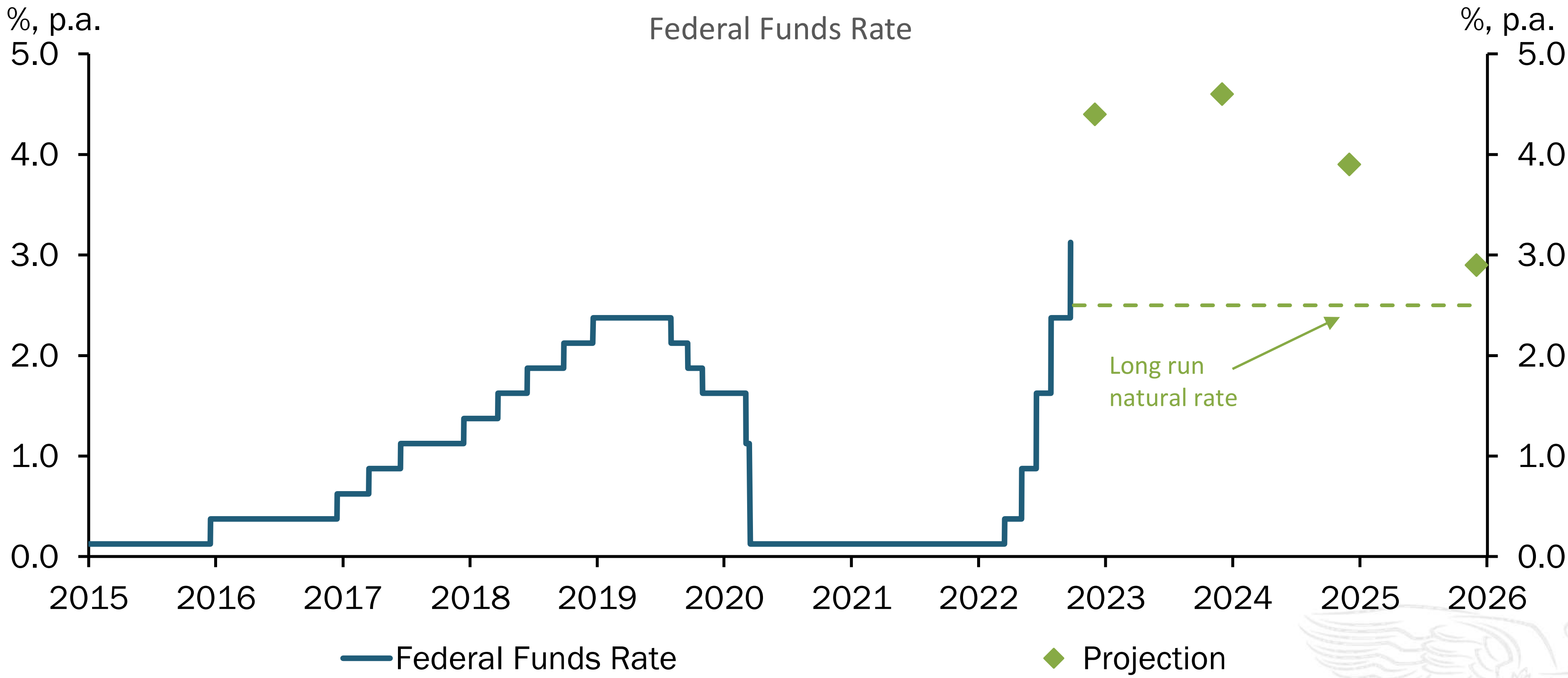
Source: BLS, Haver Analytics
Note: Grey bars indicate recession shading

Productivity declined since the beginning of the year, adding to supply constraints of the U.S. economy



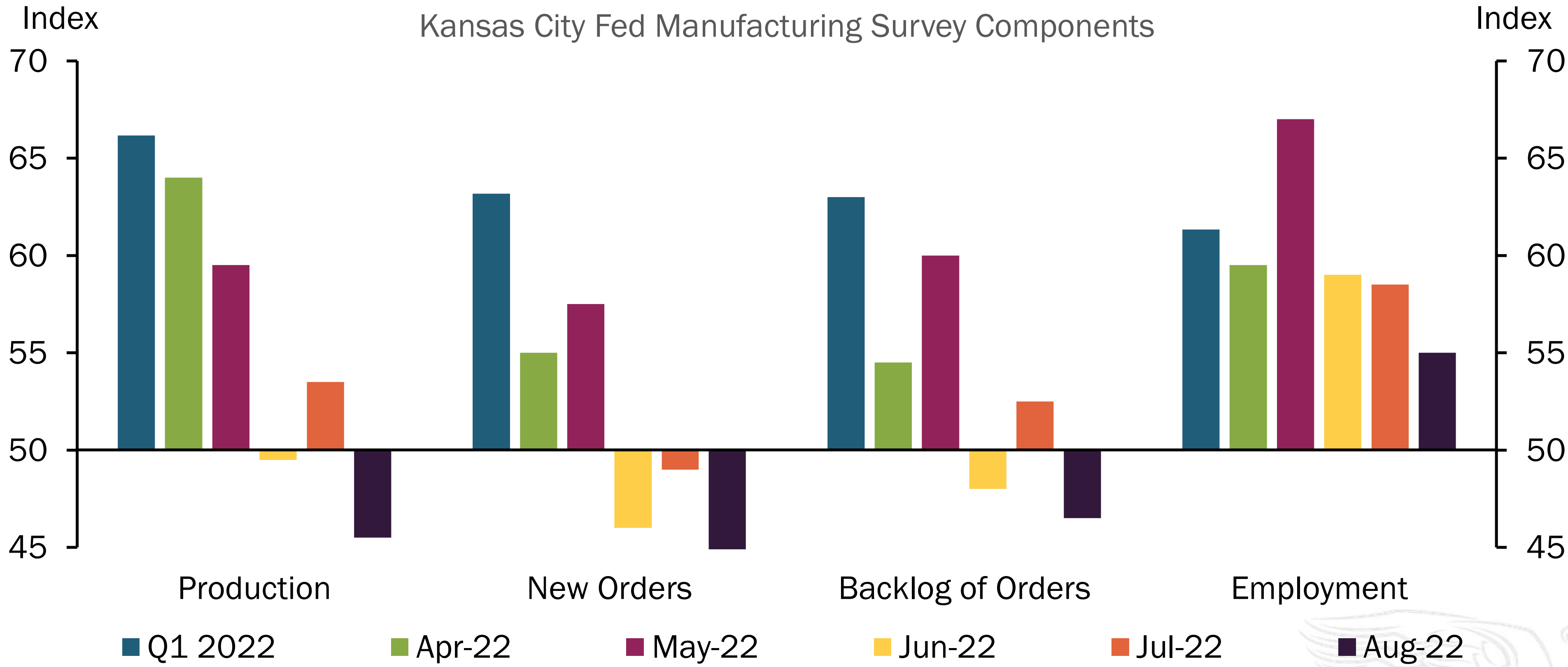
Sources: BLS, BEA, FRBSF, Haver Analytics

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



Sources: Federal Reserve Board, Summary of Economic Projections

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

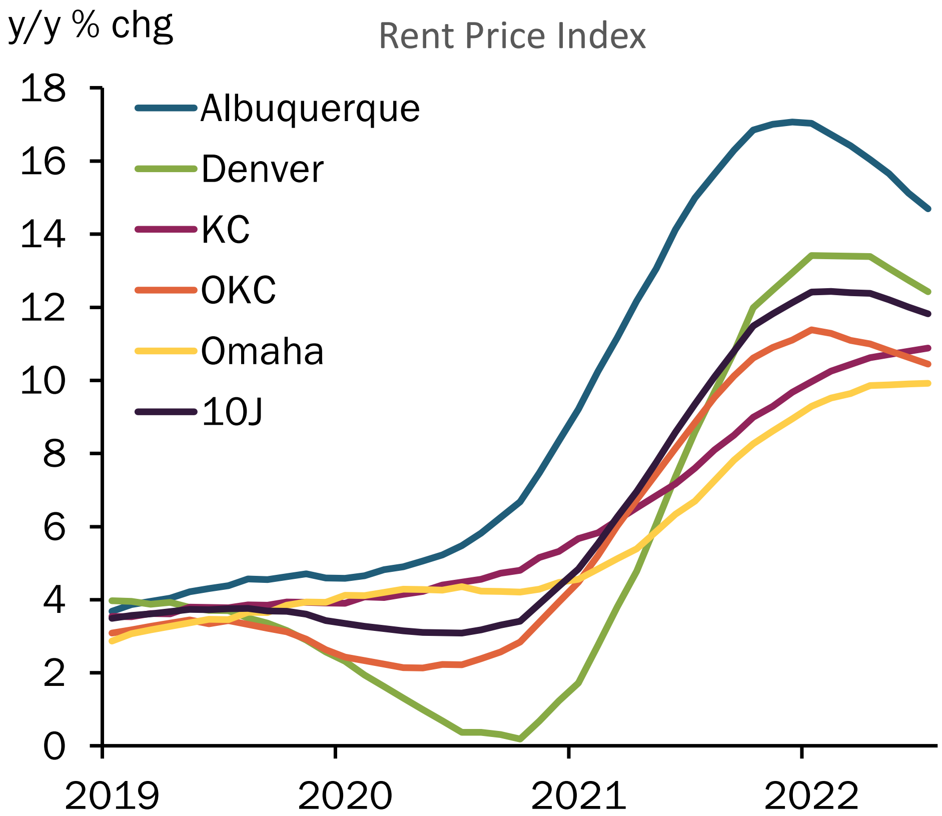


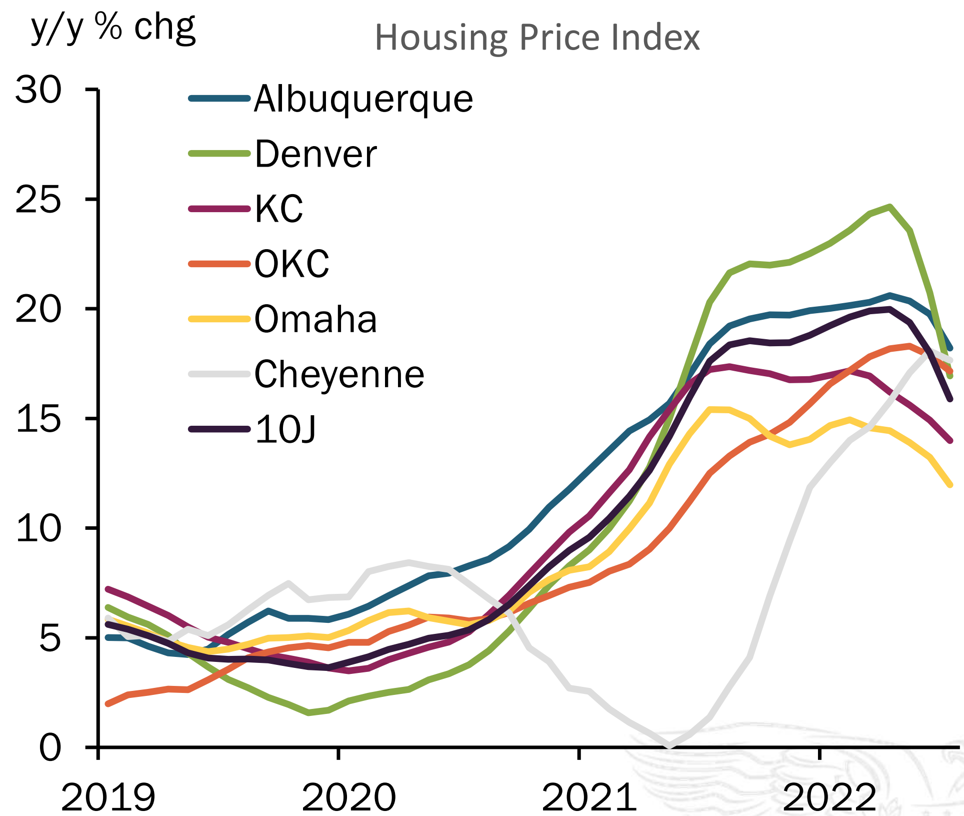
Sources: KC Fed Manufacturing Survey
Note: An index level above 50 indicates the level of activity is increasing.

Measures of new demand growth are also softening nationwide, but the level of overall demand remains elevated

Sources: Institute for Supply Management, Haver Analytics
Note: An index level above 50 indicates the level of activity is increasing.

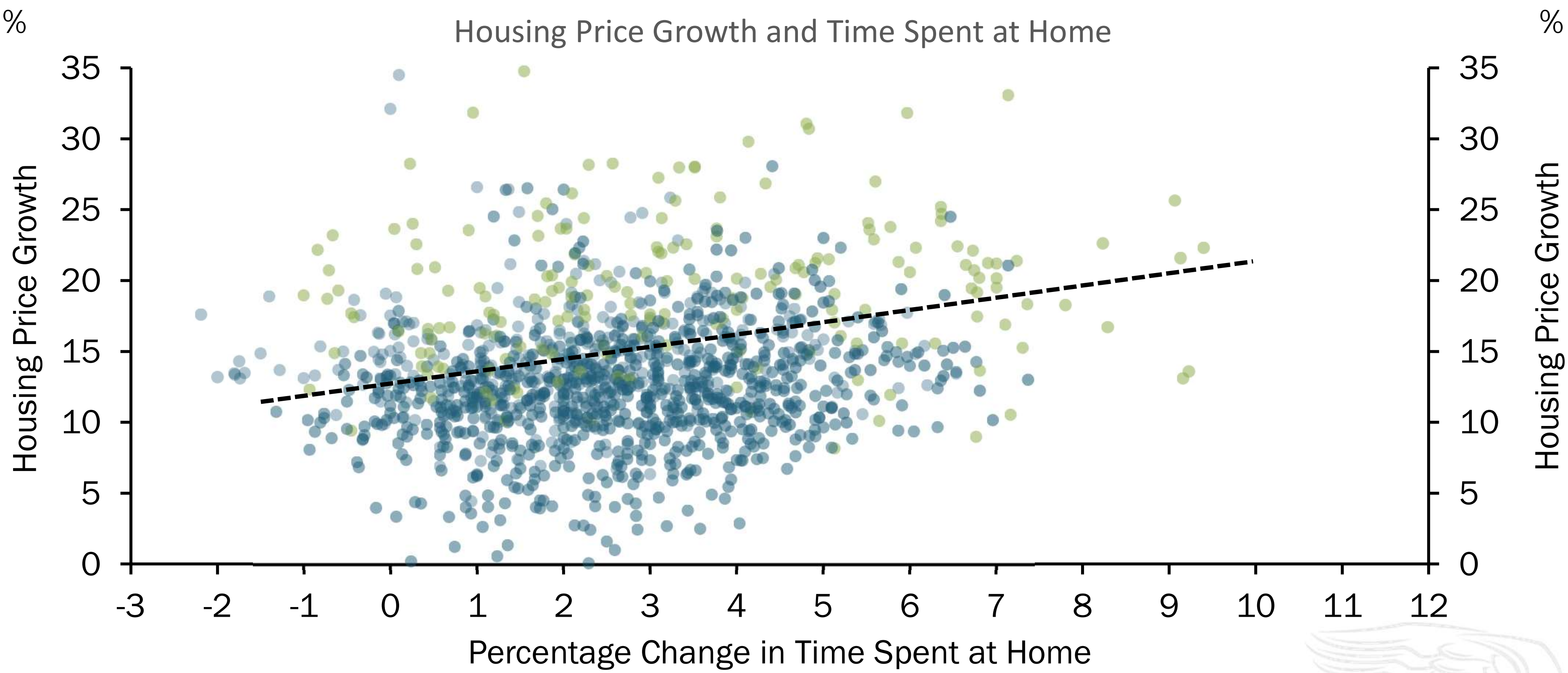
The housing market is cooling as the numbers of existing homes sold and the number of new homes constructed are falling





Source: Zillow, Haver Analytics

Parts of the region where residents continue to spend more time working at home have experienced faster growth in home prices



Source: Greene and Sly (2022)

Note: Each dot corresponds to an individual county in the Tenth District. The green dots indicate Colorado counties.

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
- Lags in the pass-through of cost increases to customers are pinching profit margins, which is beginning to inhibit future capex plans for some businesses
- 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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