

# Stable Data, Varying Sentiment & Familiar Uncertainties

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# Overview

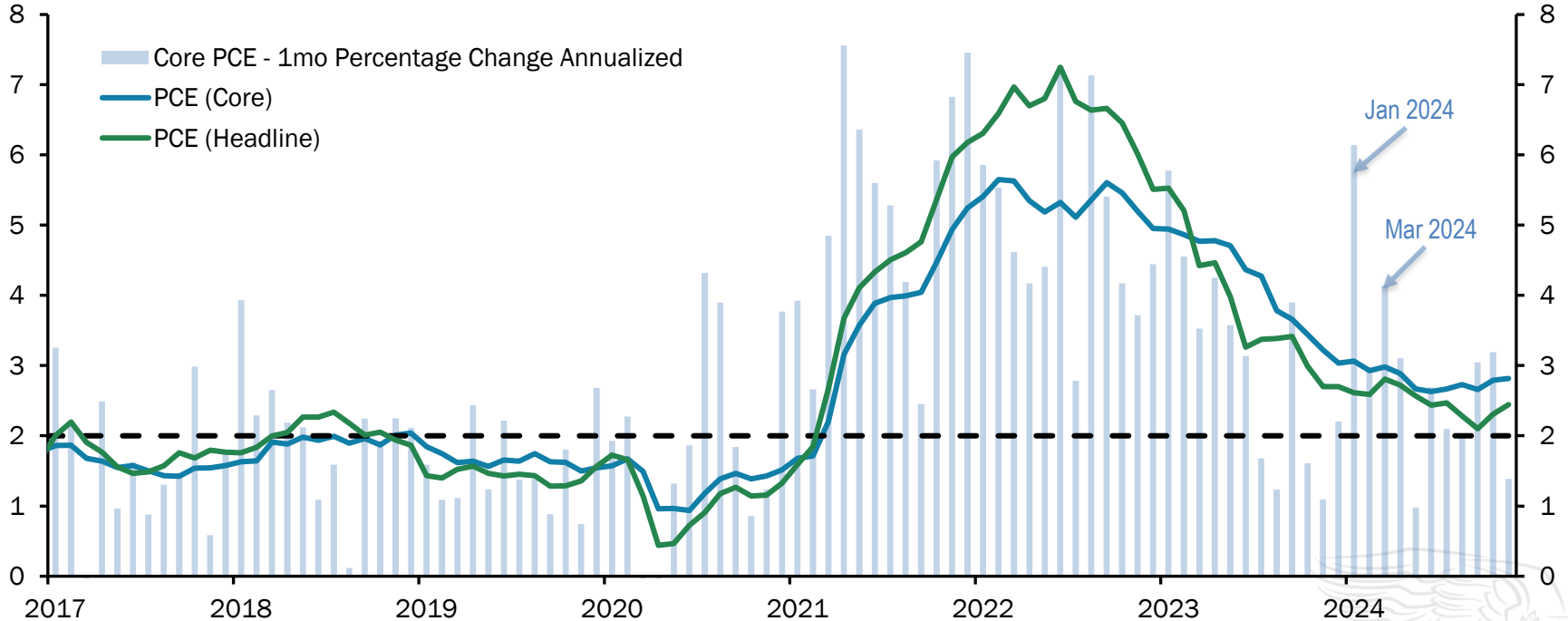
- Overall economic growth, consumption activity, inflation readings, and job gains were stable over the last several months.
- In contrast, business expectations and consumer sentiment rose, but the extent to which favorable expectations are driving behavior is unclear.
- Uncertainty about the economic outlook remains elevated, with some familiar questions about the outlook over the near term.



# Inflation is approaching the Fed's 2% target, but firm tailwinds and gusting headwinds warrant a cautious outlook for price growth

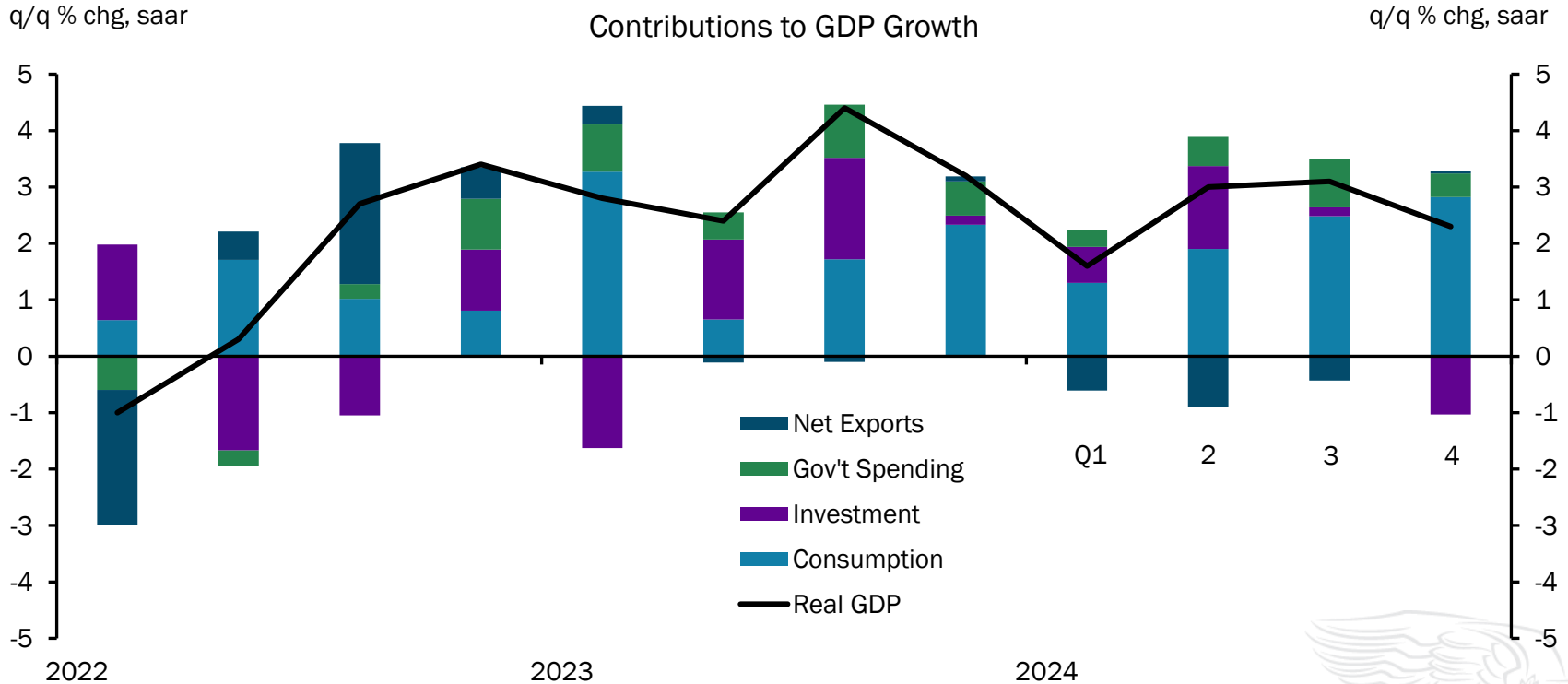
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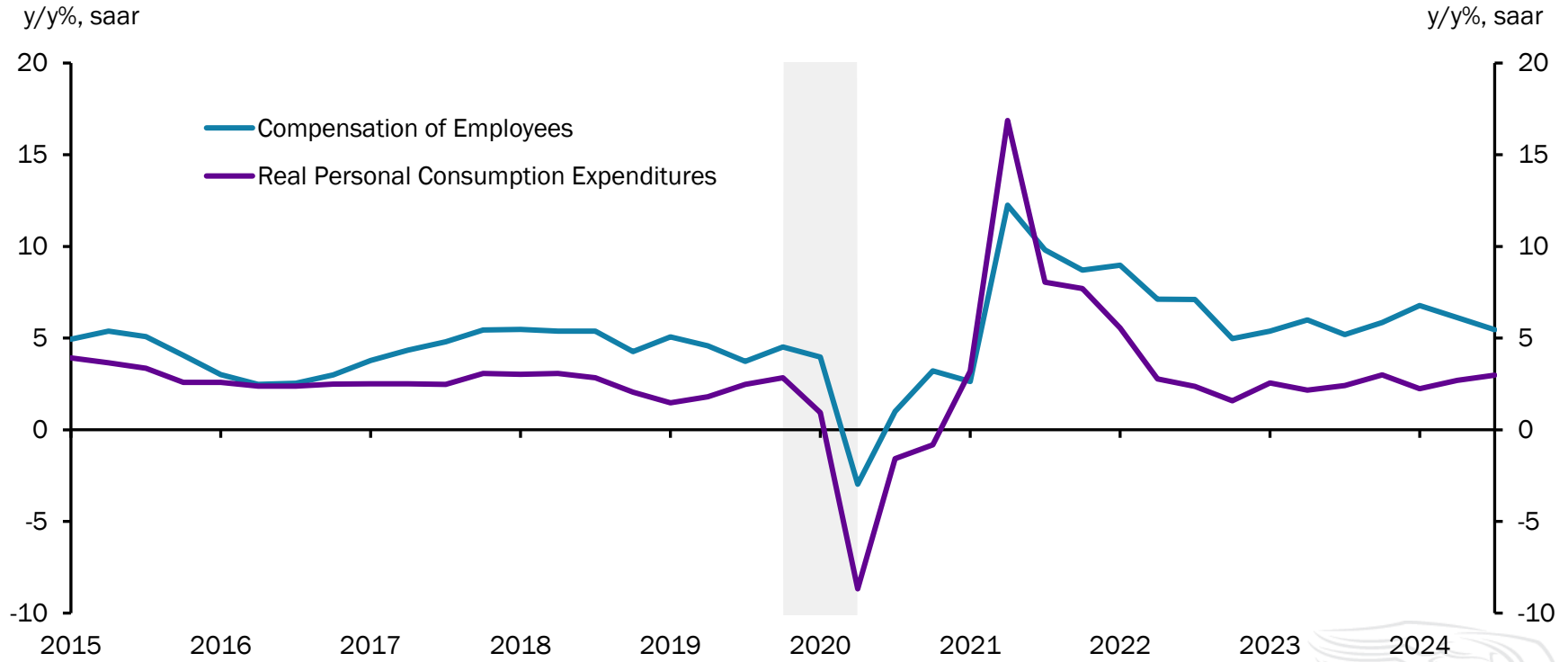


Source: US Bureau of Economic Analysis, Haver Analytics  
 Note: Dashed line represents Fed's 2% target

# Overall economic growth remains healthy, driven by elevated consumption and high productivity levels

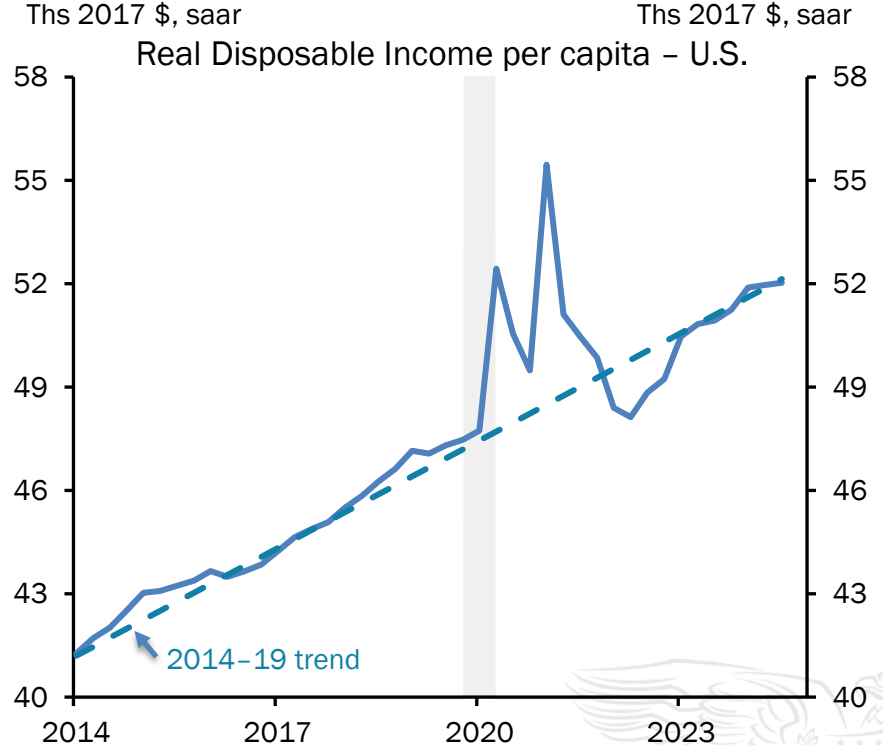
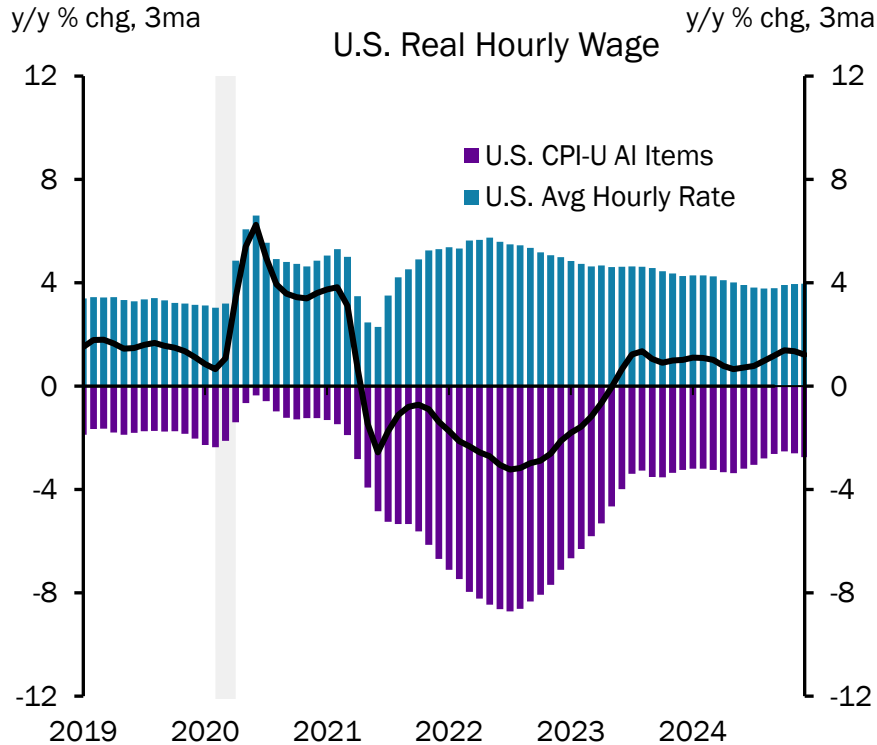


# Consumption growth is supported by ongoing compensation growth



Sources: US Bureau of Labor Statistics, Haver Analytics  
 Note: Gray bars indicate recession periods

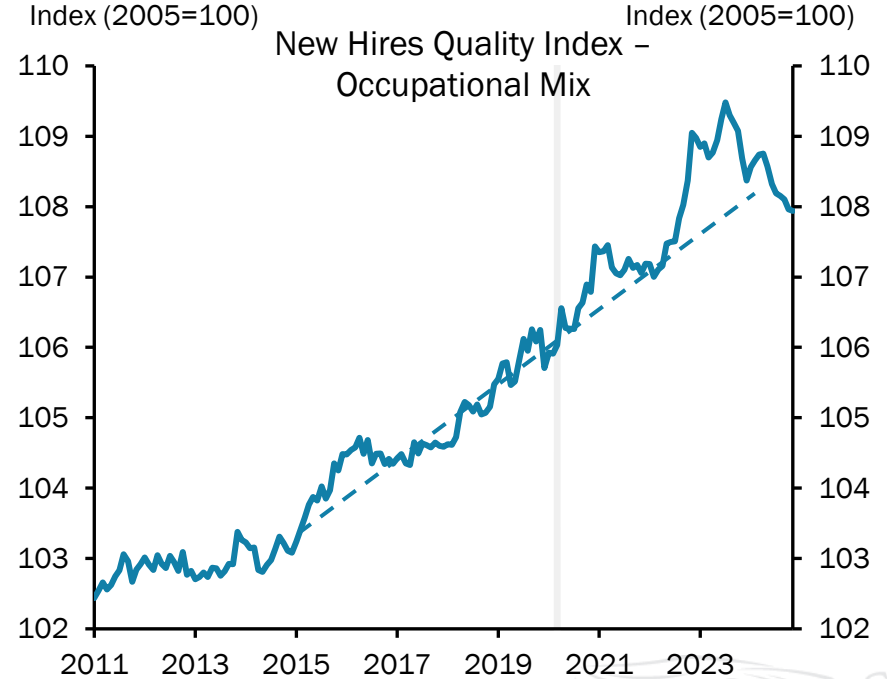
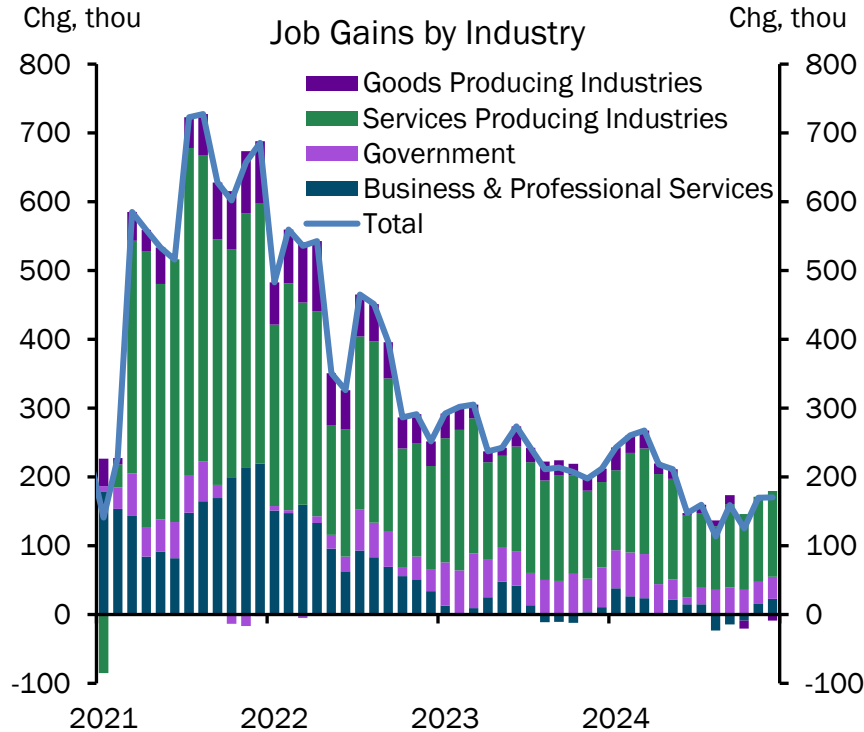
# Compensation growth exceeds inflation and is aligned with past trends



Source: US Bureau of Labor Statistics, Bureau of Economic Analysis, Haver Analytics, staff calculations

Note: Gray bars indicate recession periods.

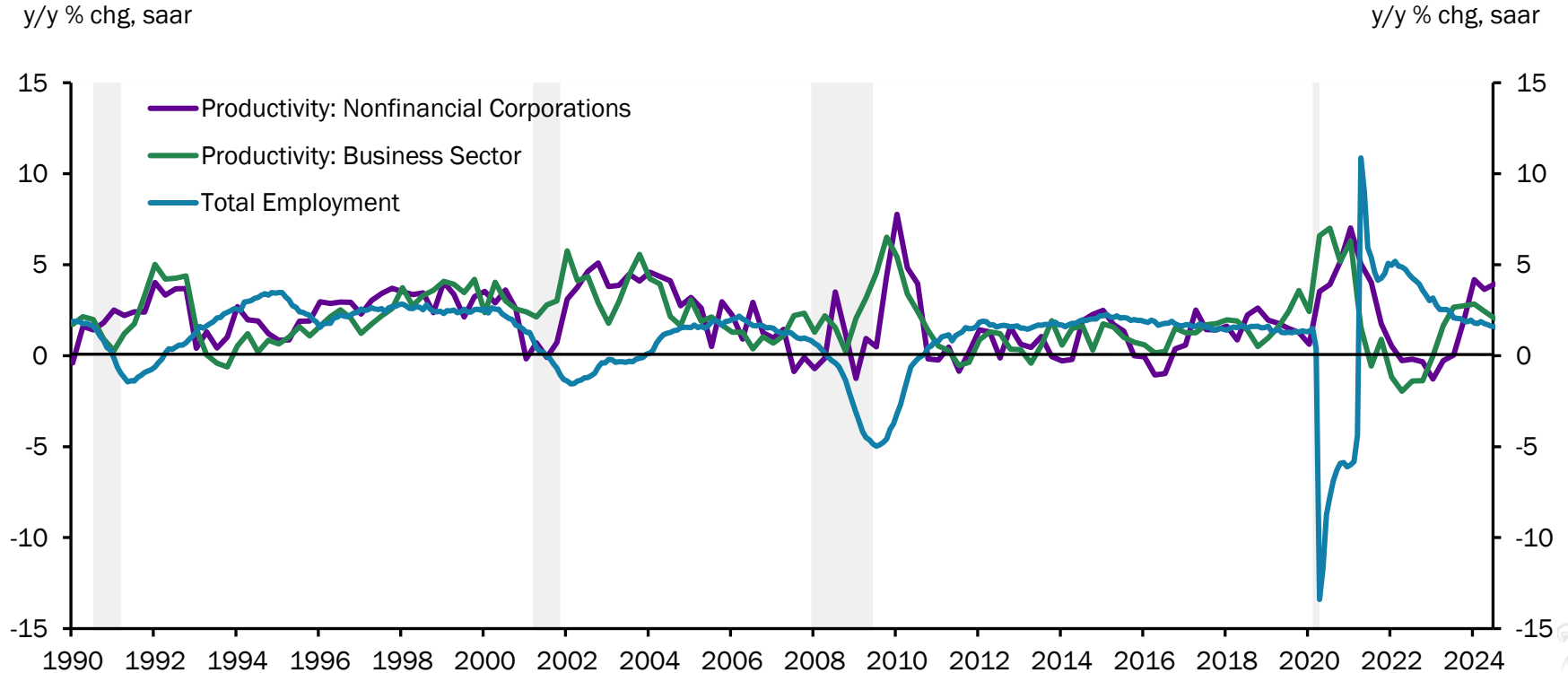
# Recent job gains have been stable, and the types of jobs being added align with past trends in terms of occupational mix



Sources: US Bureau of Labor Statistics, Upjohn Institute, Haver Analytics

Note: Job gains shown as a 3-month moving average. Gray bars indicate recession periods.

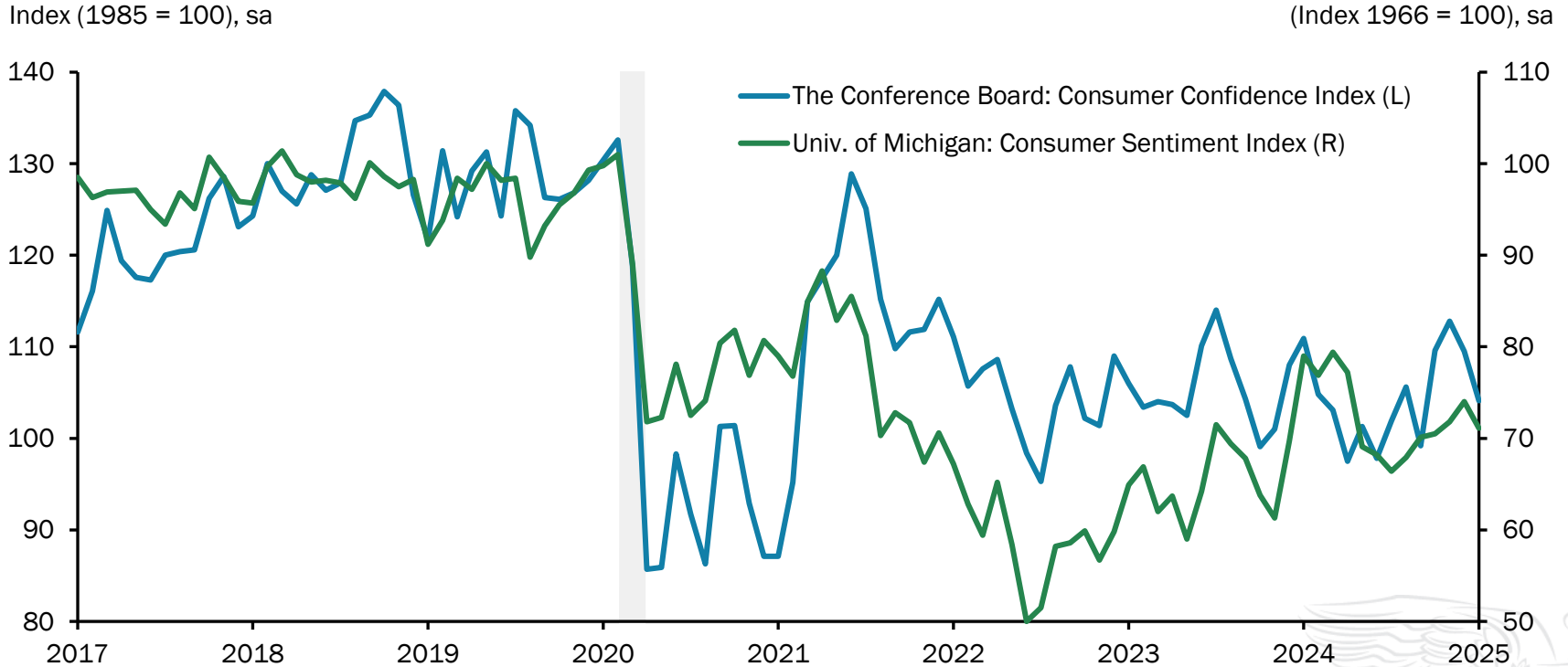
# Slower labor market dynamics have been a boon to productivity, as fewer resources need to be devoted to training workers



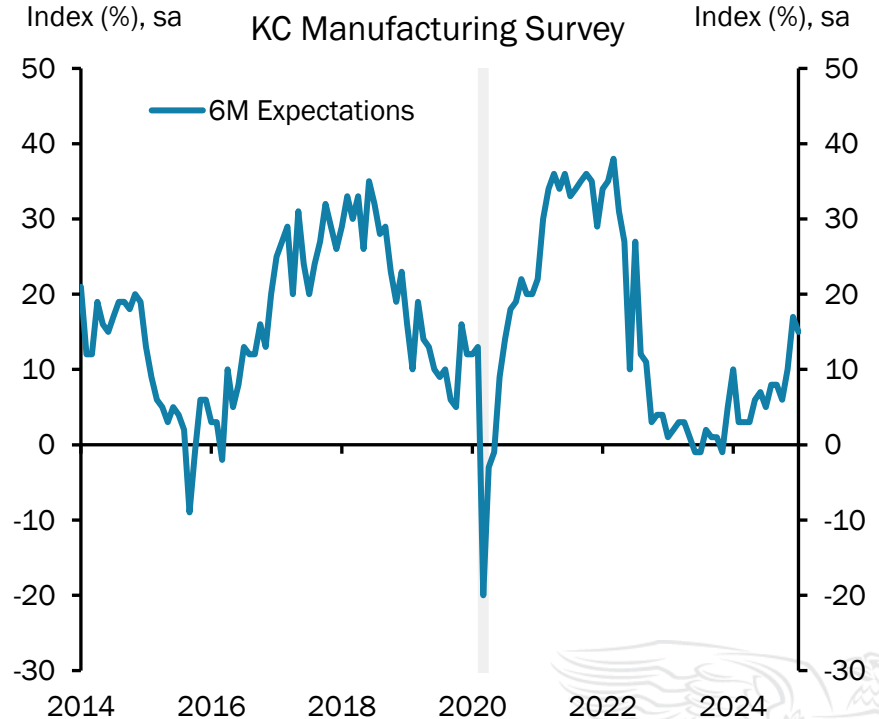
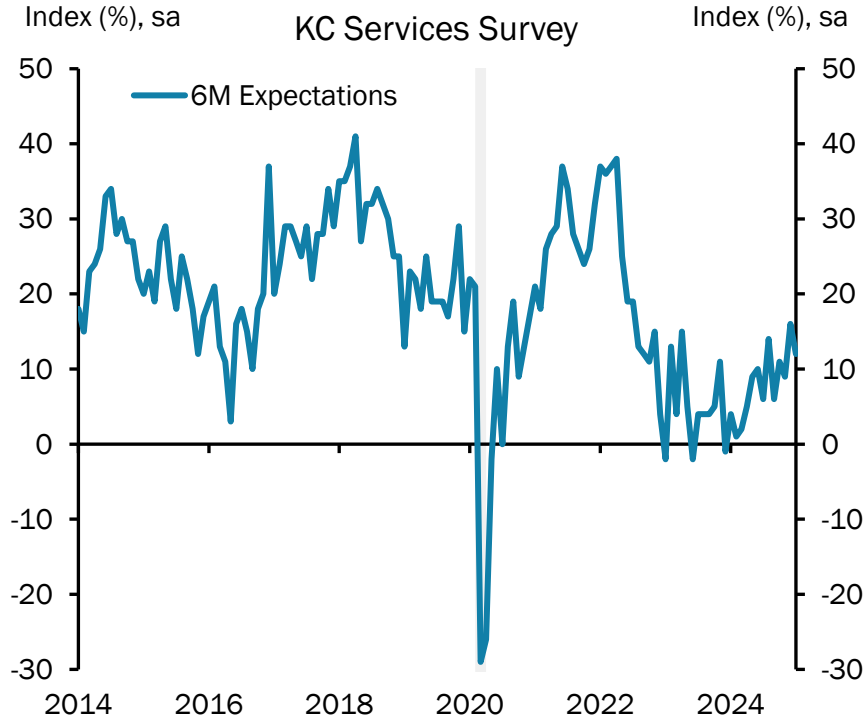
Sources: US Bureau of Labor Statistics, Haver Analytics  
Note: Gray bars indicate recession periods



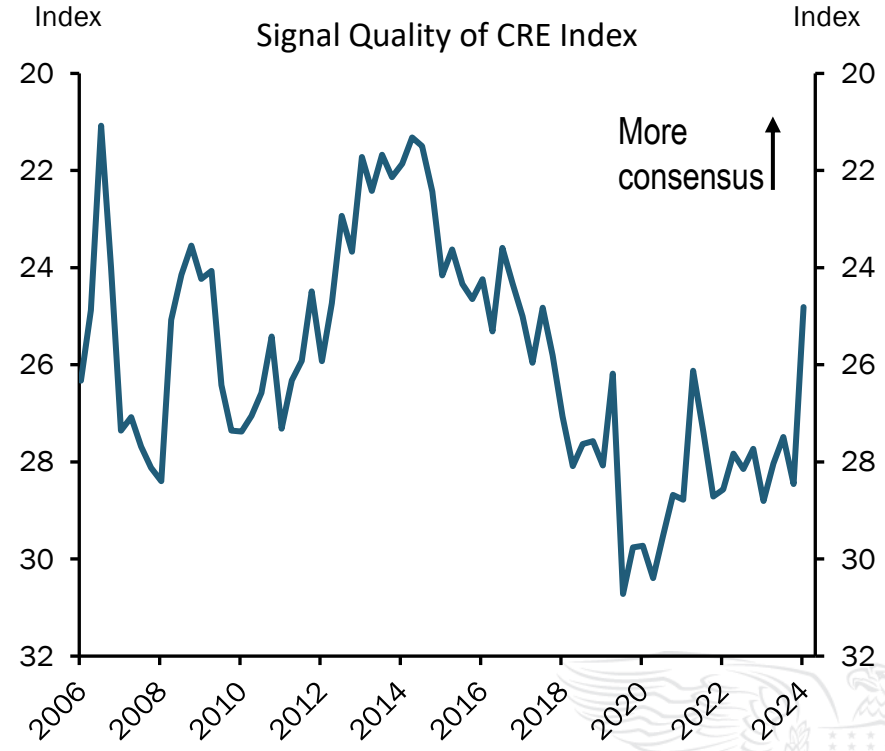
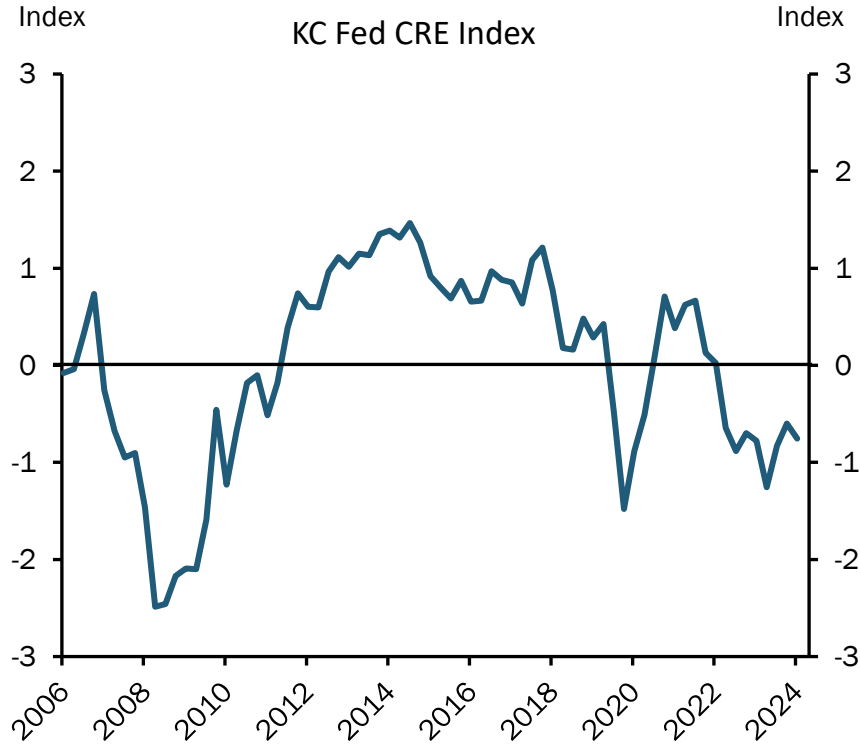
# Consumer sentiment rose somewhat over the past year, albeit with relatively large changes from month to month



# Business optimism rose broadly over the past year, but hiring plans and planned capital expenditures are relatively stable

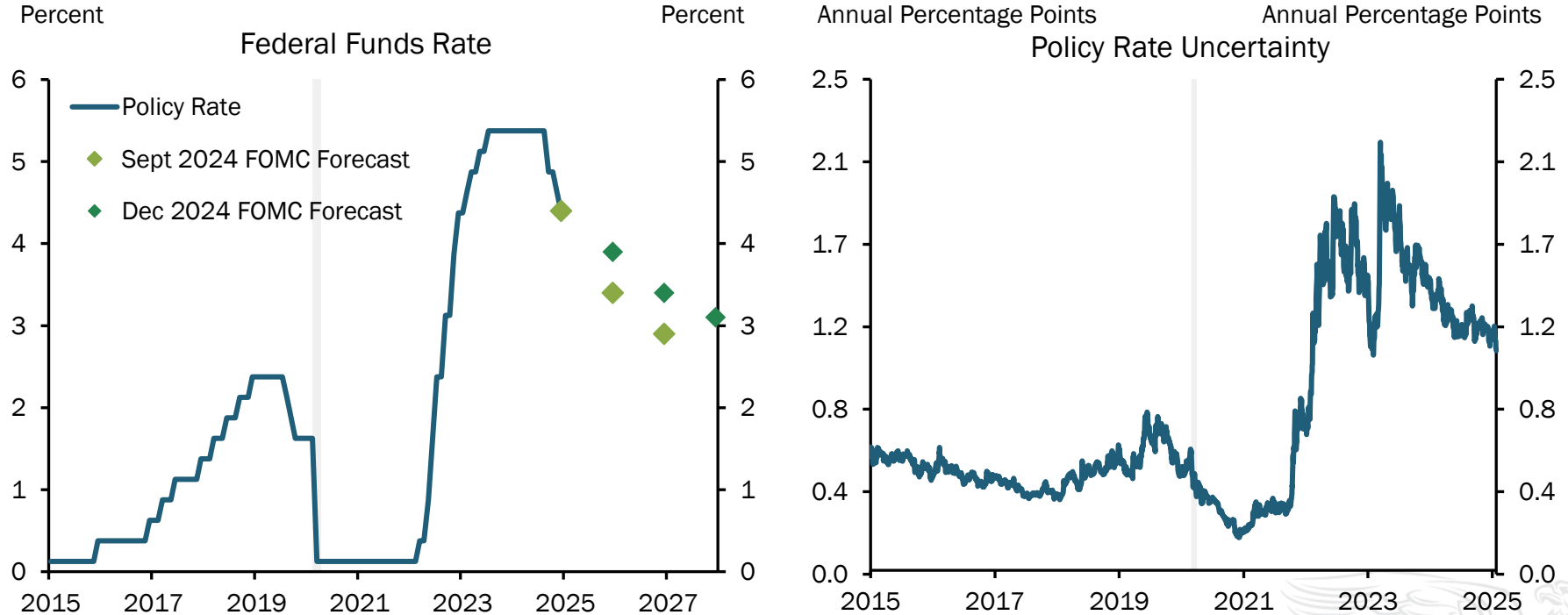


# Similarly, commercial real estate activity continues to stabilize and market participants' views about risks are becoming more aligned



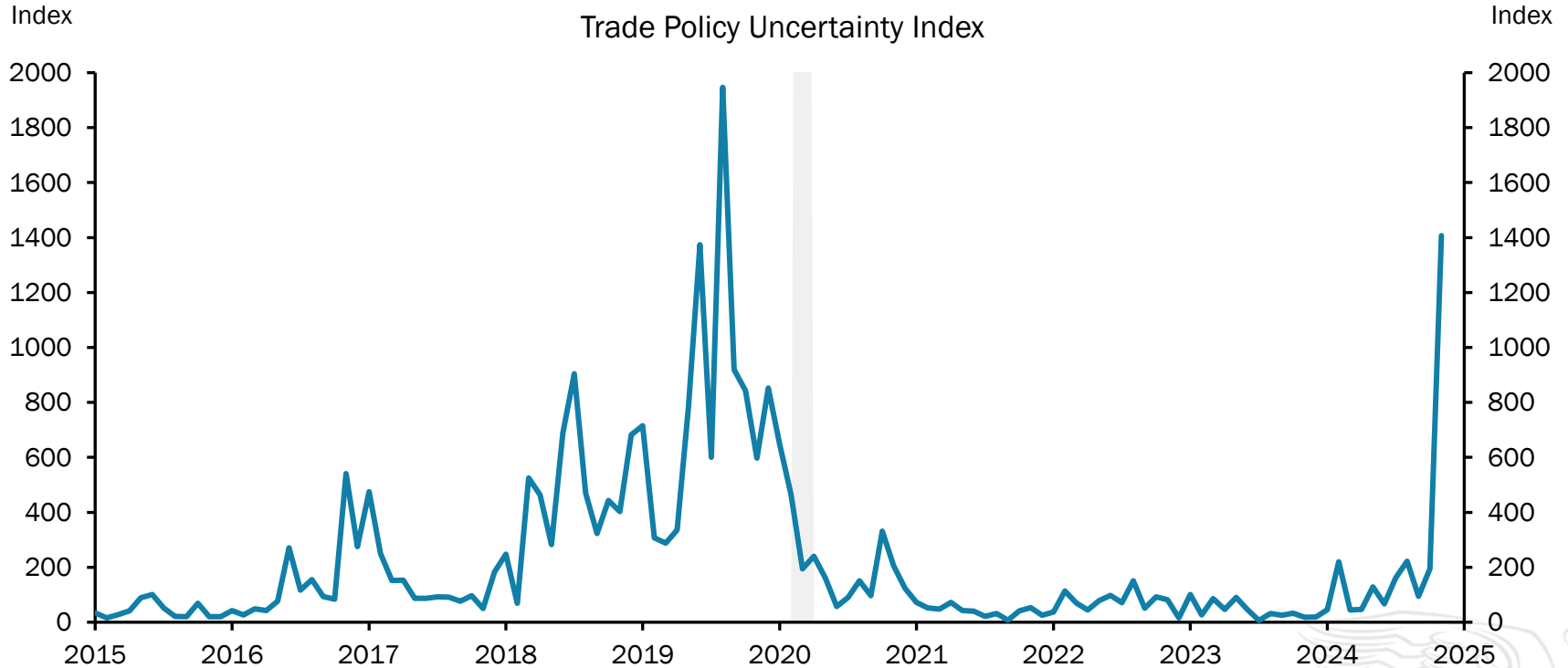
Sources: KC Fed CRE Index, staff calculations

# The most recent projections for the policy rate showed fewer declines this year, but monetary policy uncertainty remains elevated



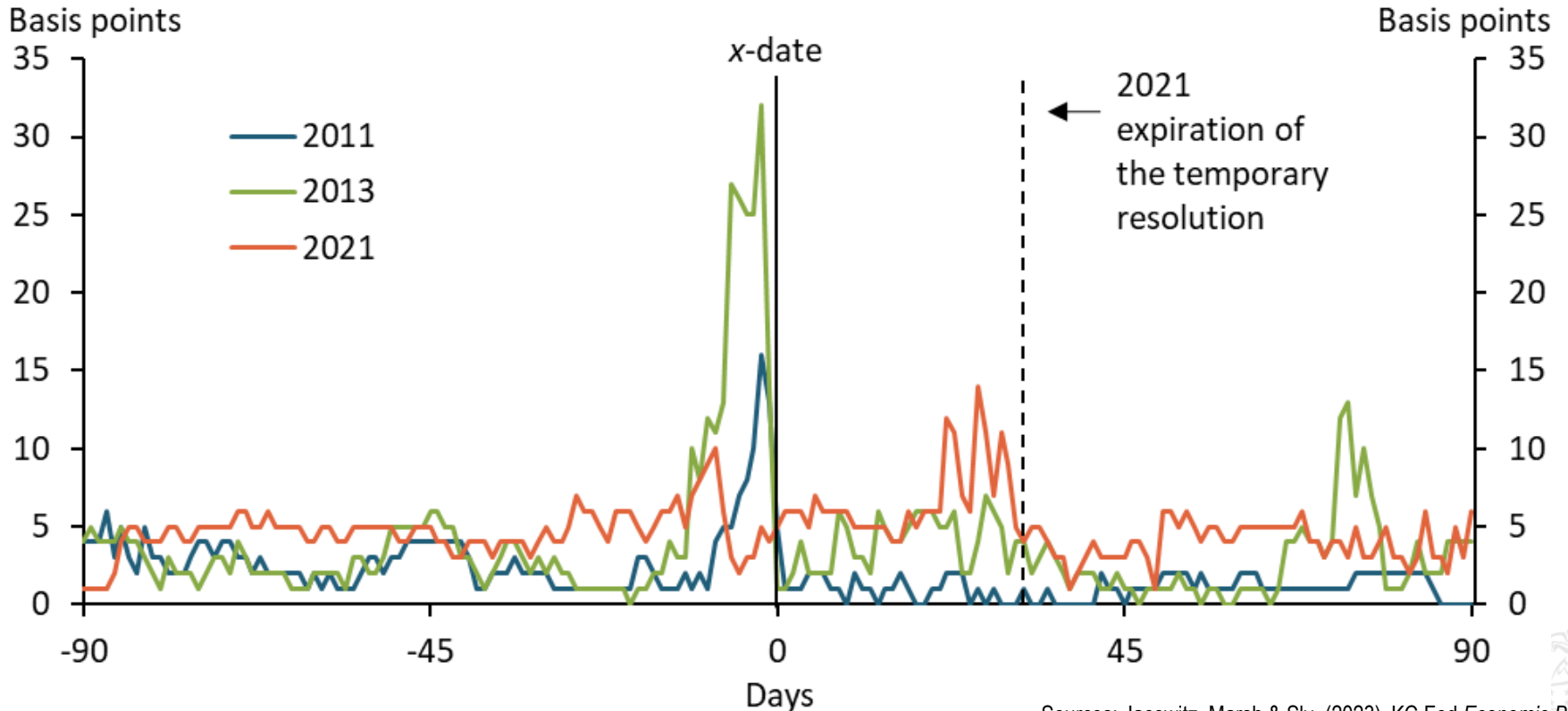
Sources: Board of Governors, Kansas City Fed's Policy Rate Uncertainty (KCPRU), Haver Analytics  
 Note: Gray bars indicate recession periods

# Elevated trade policy uncertainty is affecting firms' inventory planning, but shows no real impact on hiring or investment yet



Sources: Baker, Scott R.; Bloom, Nick; Davis, Stephen J., FRED  
 Note: Gray bars indicate recession periods

# Short-term Treasury rates rose ahead of past debt ceiling “x-dates,” and volatility persisted for months after issues were resolved



## Summary and Looking Ahead

- As both inflation and labor market activity cool, the risks to the outlook appear more balanced regarding the Fed's dual mandate: maximum employment and price stability.
- Business fixed investment declined even as business optimism rose, raising questions about firms' capital expenditure plans for the new year.
- Consumer activity has substantial momentum coming into the new year supported by a solid labor market.





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