

Economic Outlook

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- Introduction to CRE Panel Discussion

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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

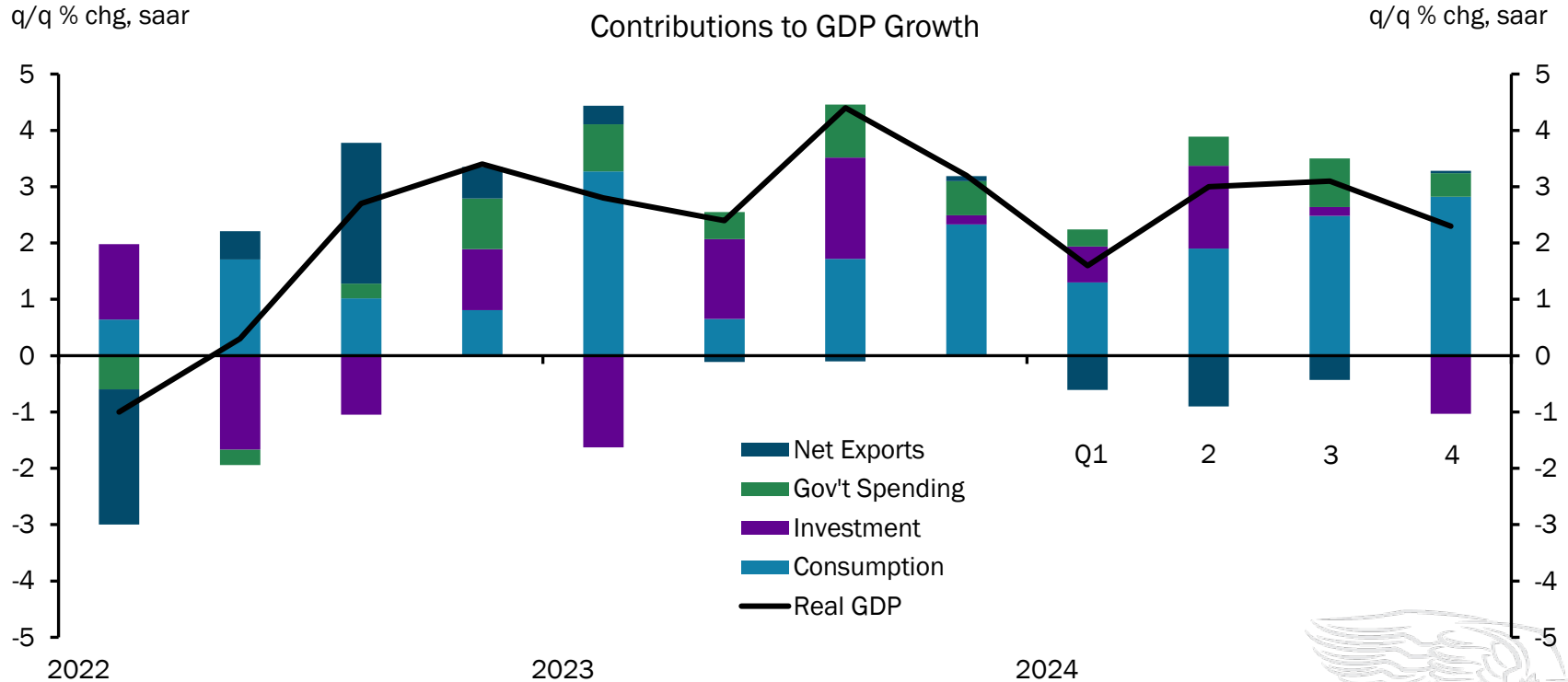


Overview

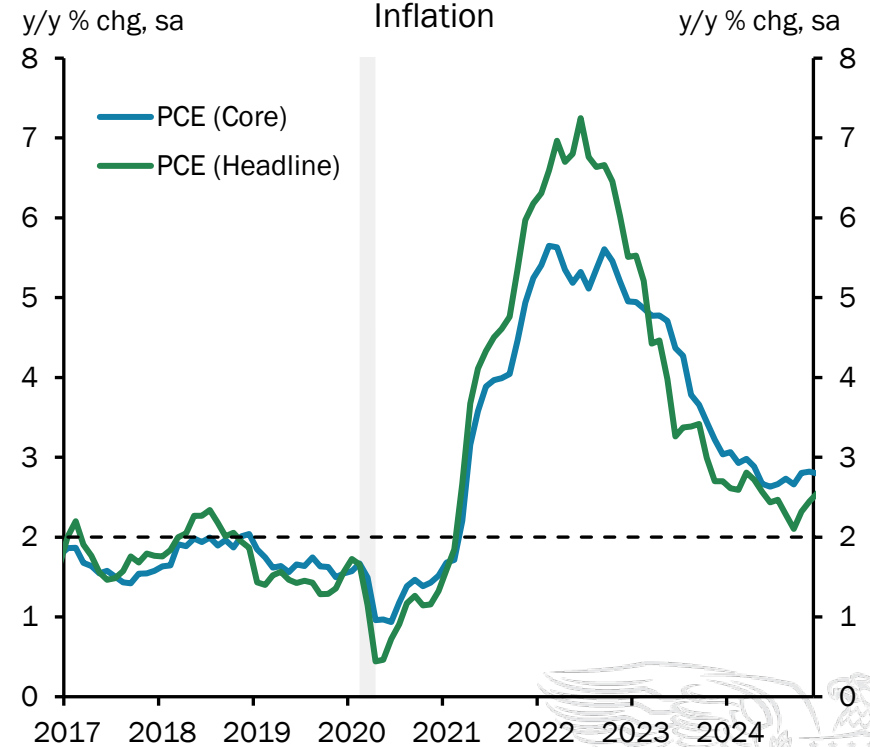
- Overall economic growth, consumption activity, and job gains had considerable momentum coming into the new year as inflation continued to stabilize.
- Business expectations and consumer sentiment were rising as the data remained stable, but, as sentiment has churned, the extent to which that momentum is being sustained is unclear.
- Uncertainty about the economic outlook is elevated, with some familiar questions about how that uncertainty affects the outlook over the near term.



Overall economic growth ended the year at strong pace, and was driven by elevated consumption and high productivity levels



Unemployment is low and inflation is approaching the Fed's 2% target, but gusting headwinds and firm tailwinds warrant a cautious outlook



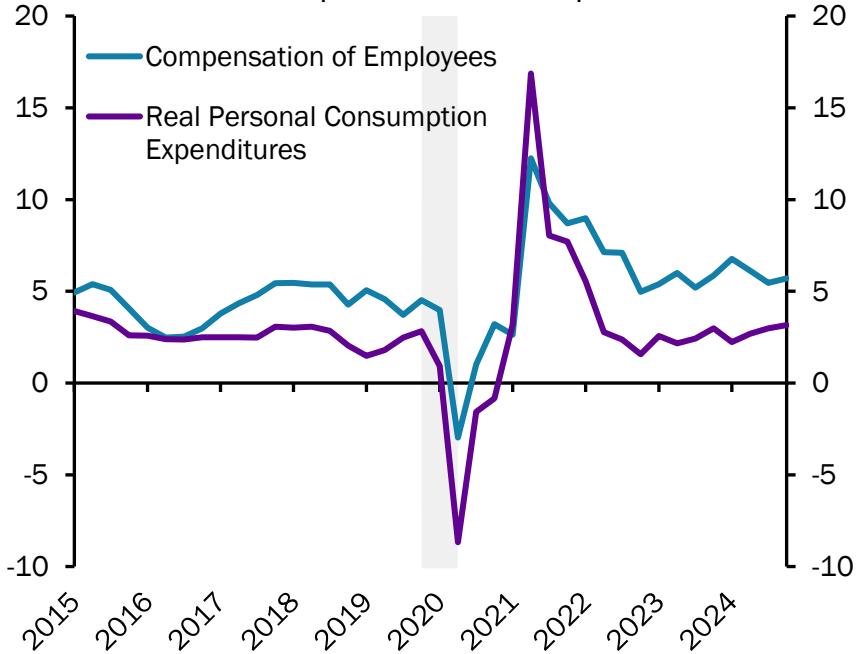
Source: BLS, US Bureau of Economic Analysis, Haver Analytics

Note: Gray bars indicate recession periods. Dashed line represents Fed's 2% target

Consumption growth is supported by ongoing compensation growth, but recent indicators point to softer growth in discretionary spending

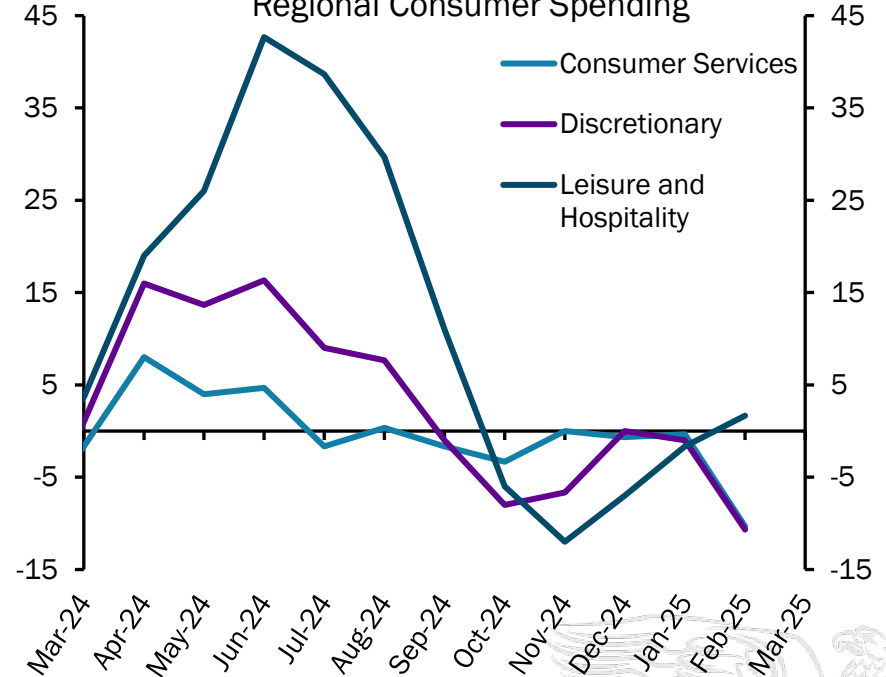
y/y%, saar

U.S. Compensation and Expenditures

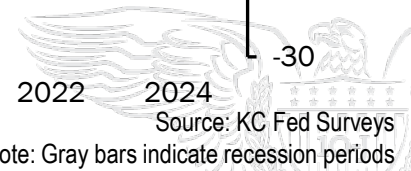
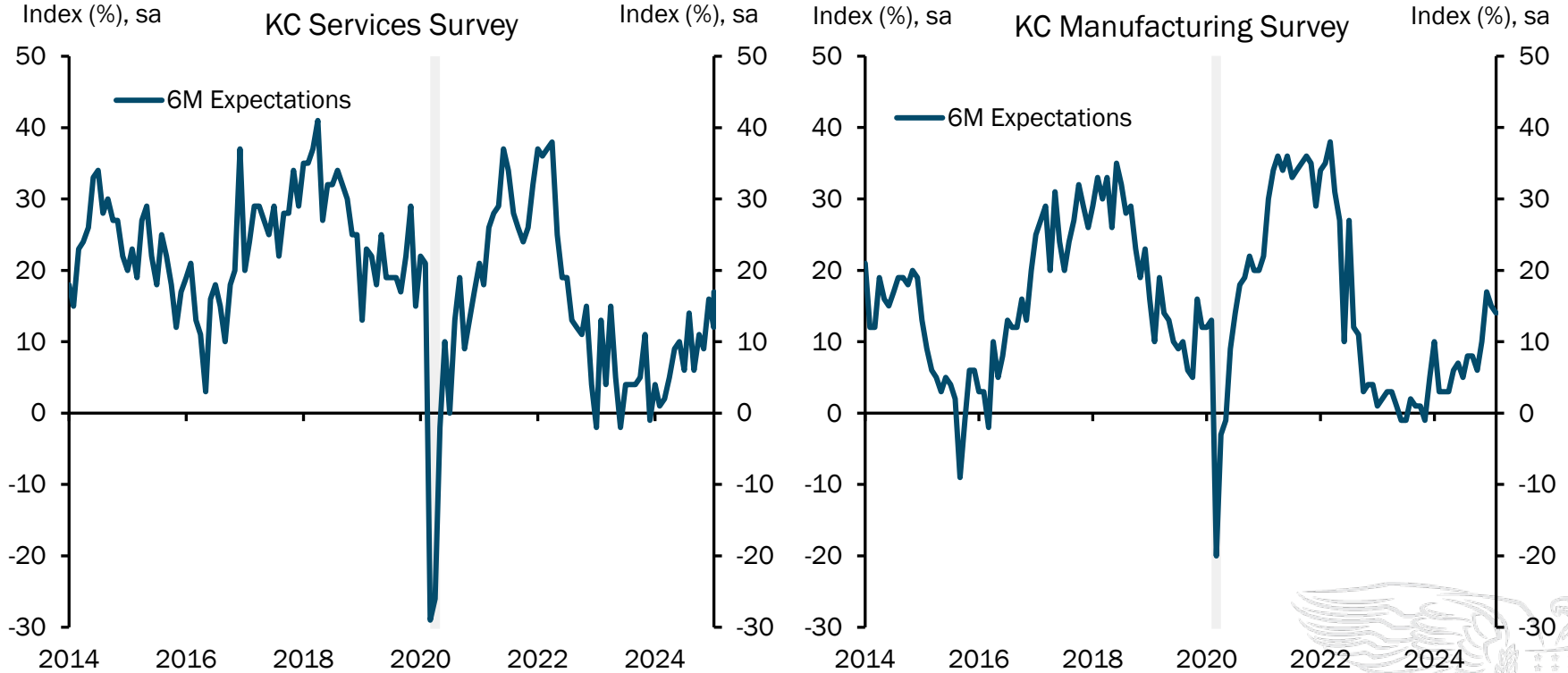


m/m diffusion index, 3-mma, sa

Regional Consumer Spending



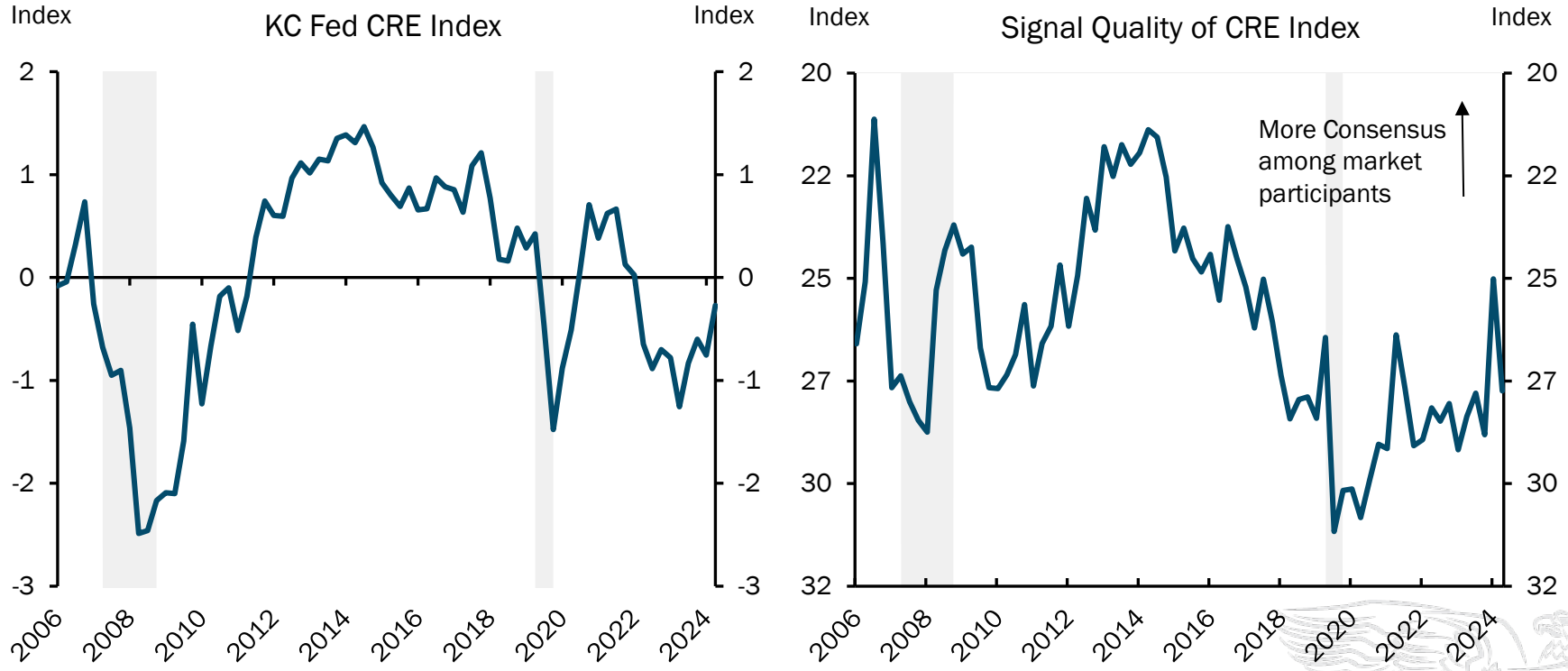
Business expectations rose broadly over the past year, but hiring plans and planned capital expenditures have been modest or delayed recently



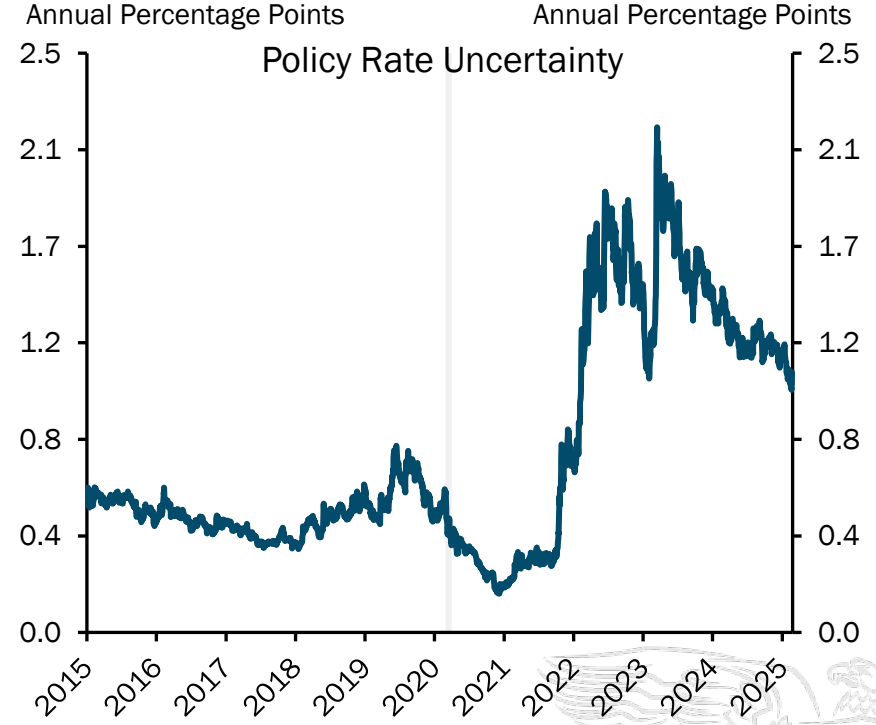
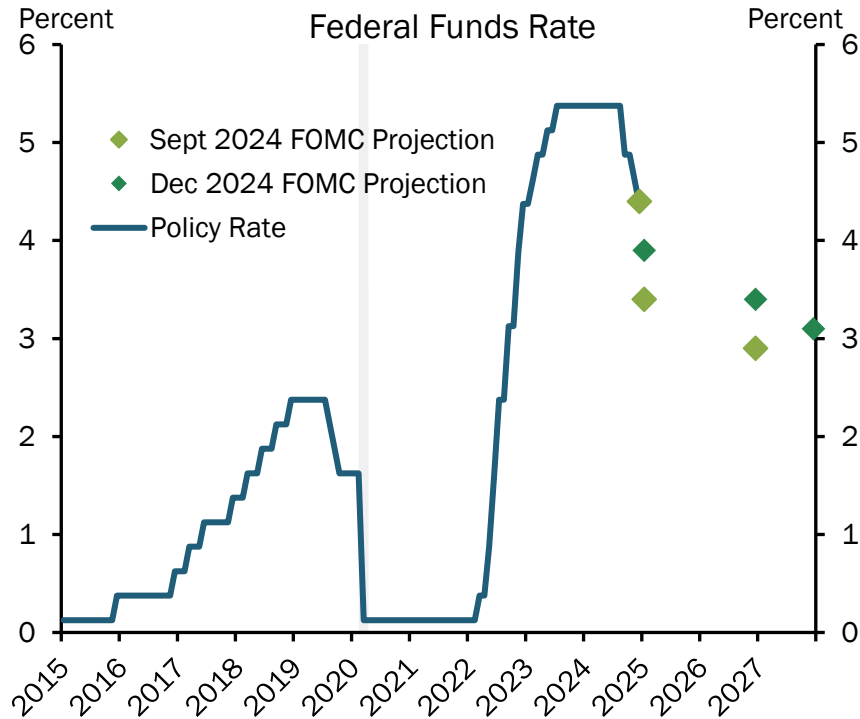
Source: KC Fed Surveys

Note: Gray bars indicate recession periods

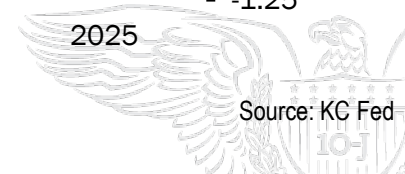
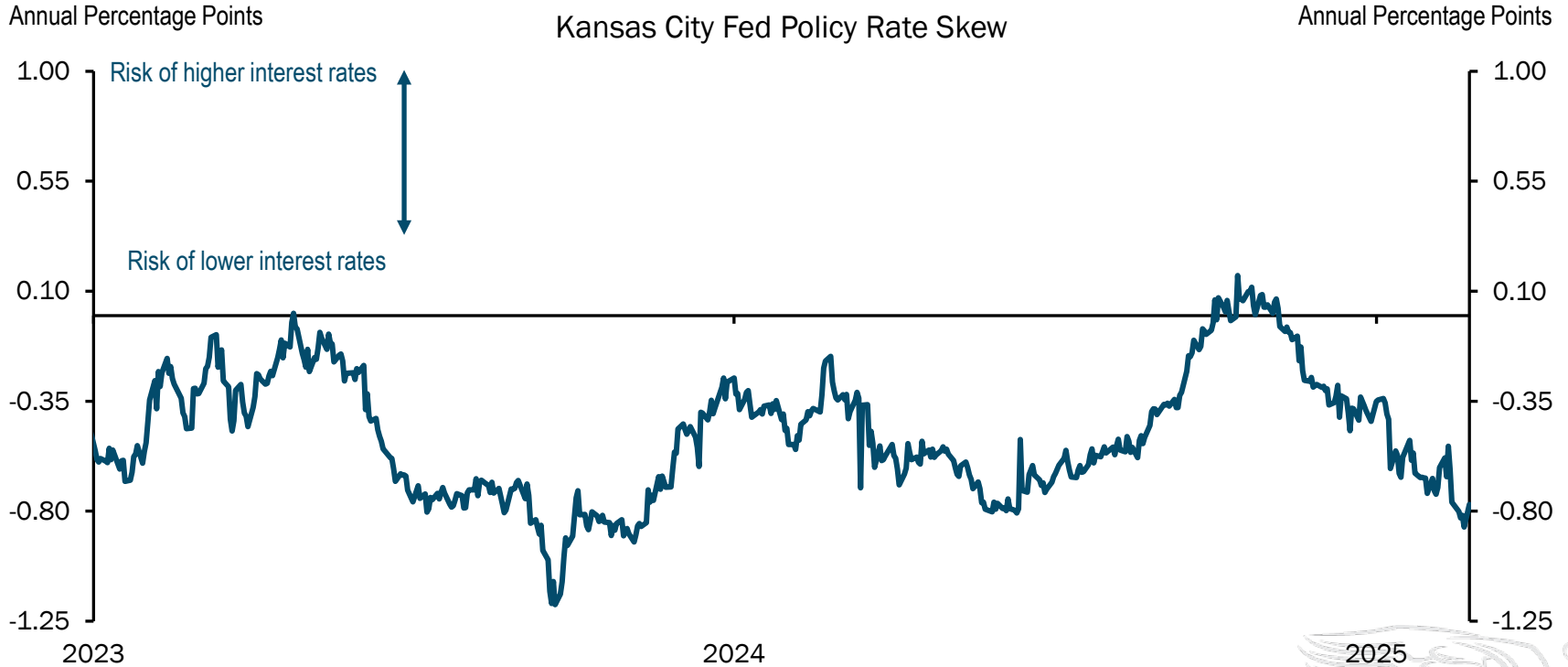
Commercial real estate activity continues to stabilize and market participants' views about risks are becoming more aligned



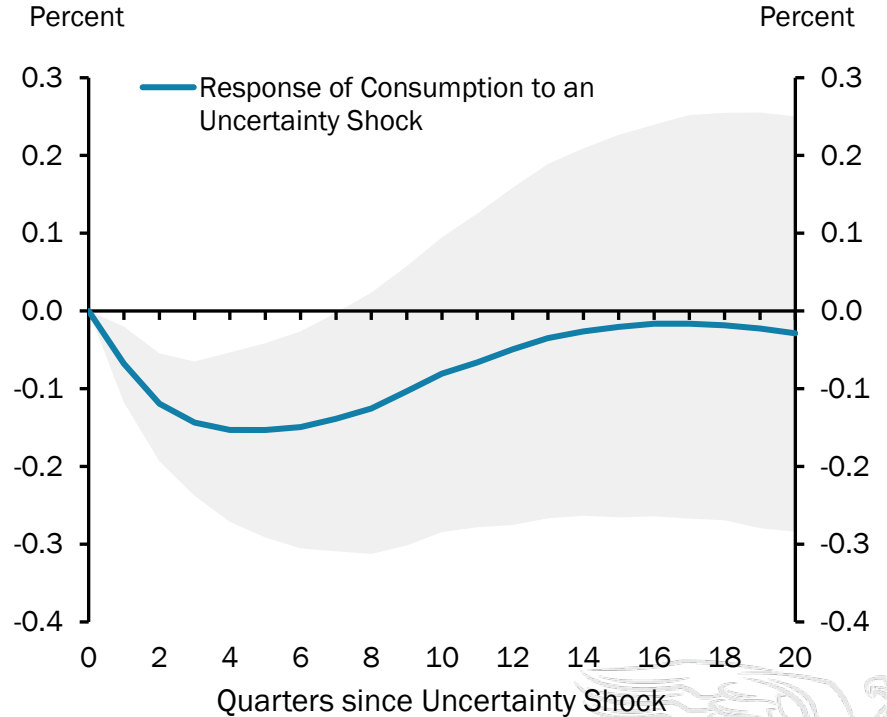
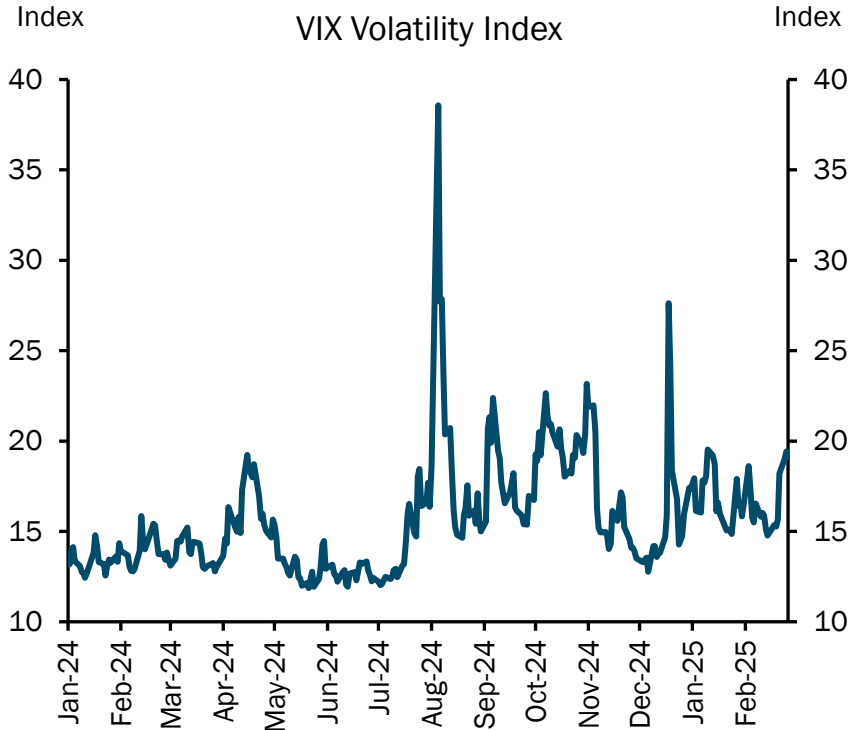
The most recent projections for the policy rate showed fewer declines this year, but monetary policy uncertainty remains elevated



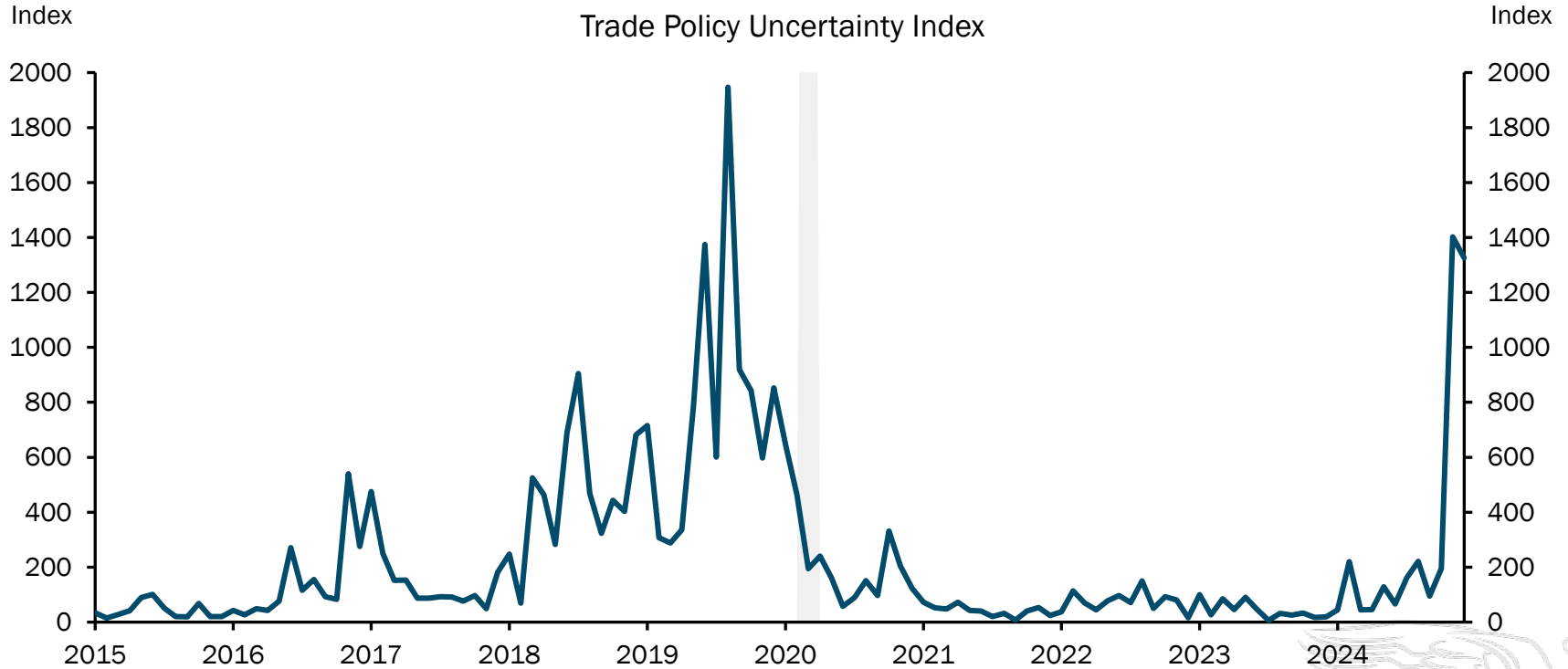
The risks around the policy rate were balanced at the time of the latest rate projections, but financial markets are now pricing in risks for lower rates



Uncertainty about the outlook is rising, which could lead to delays or reductions in consumer and business spending

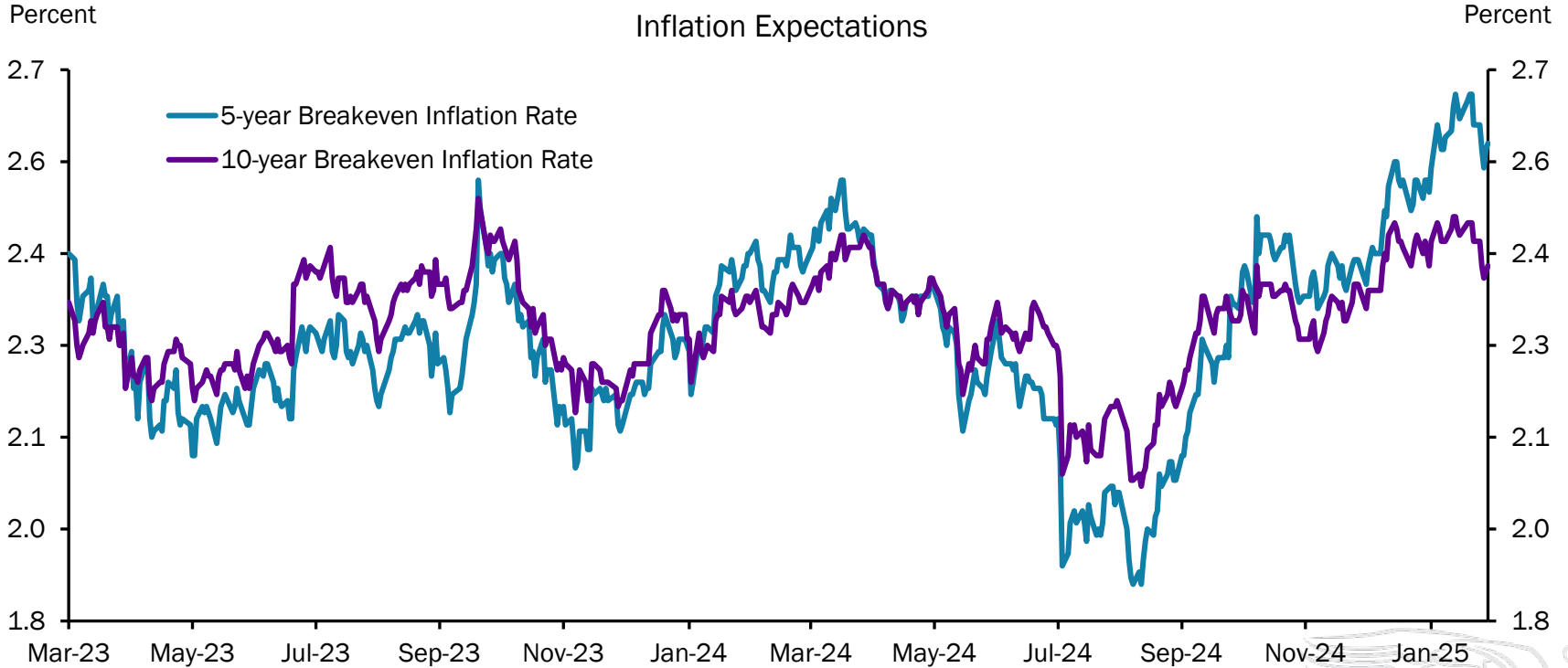


Elevated trade policy uncertainty is affecting firms' inventory planning and pricing decisions, but not yet affecting hiring or investment



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

Inflation expectations for the medium term have risen in recent weeks, and now exceed expectations for the longer term



Source: Federal Reserve Bank of St. Louis via FRED

Summary and Looking Ahead

- As inflation remains firm and labor market activity cools, the risks to the outlook appear more balanced regarding the Fed's dual mandate, if not more tense.
- Business fixed investment declined even as business optimism rose over the past year, raising questions about firms' capital expenditure plans for the new year.
- Consumer activity had substantial momentum coming into the new year supported by a solid labor market, but some signs of softening sentiment are beginning to emerge.





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