

U.S. and Regional Economic Outlook

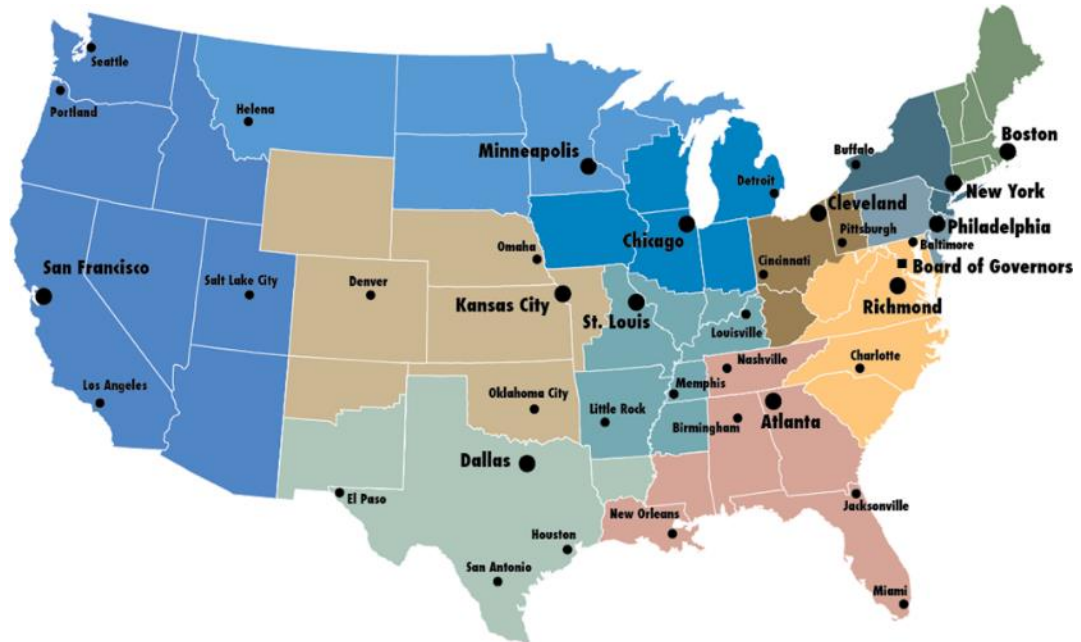
*76th Annual Meeting of the Midwestern Legislative Conference
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Vice President and Oklahoma City Branch Executive

*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



Structure & Functions of the Federal Reserve



The “Fed” consists of three main entities:

- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent by design
- Federal Open Market Committee: 19 members; 12 voting

Primary responsibility areas:

- Monetary policy
- Bank regulation
- Financial services



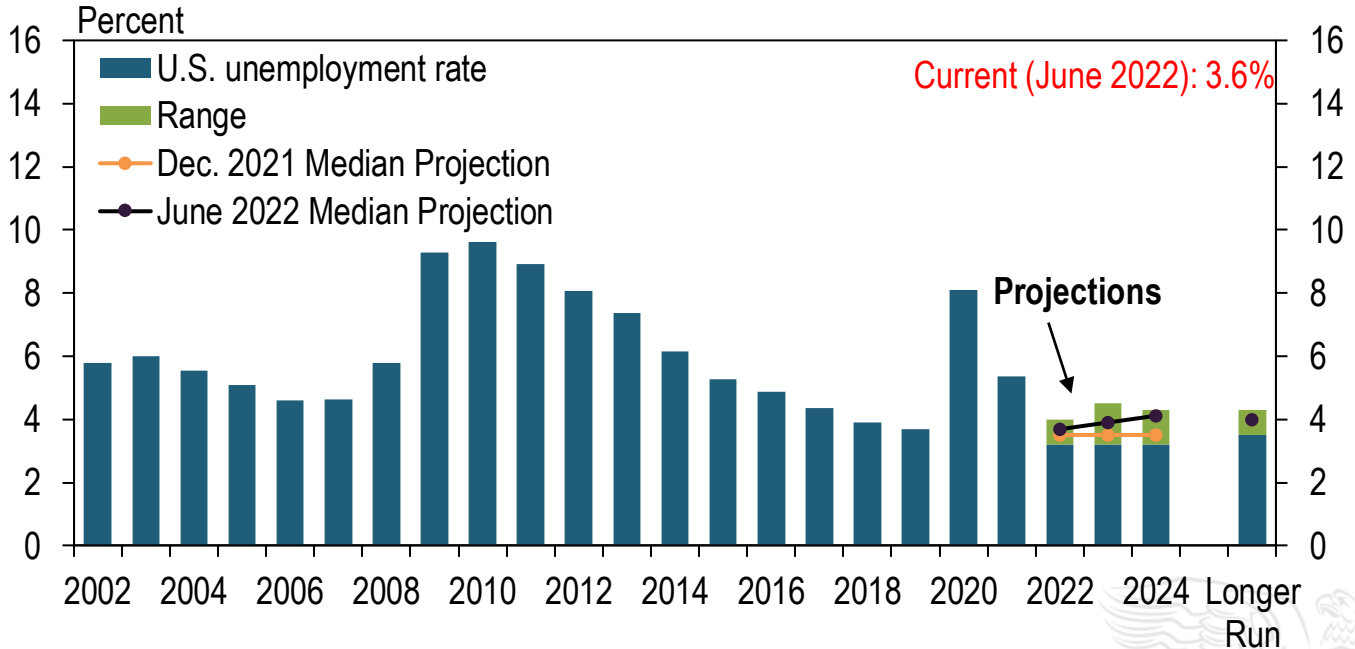
Overview

- The U.S. economy remains solid, with strong job growth and very low unemployment, but inflation is too high
- Several factors have boosted inflation over the past year, and several factors should help bring it back down, including Federal Reserve actions
- The upper Midwest and Plains economies have been strong, but agriculture and energy uncertainty persists



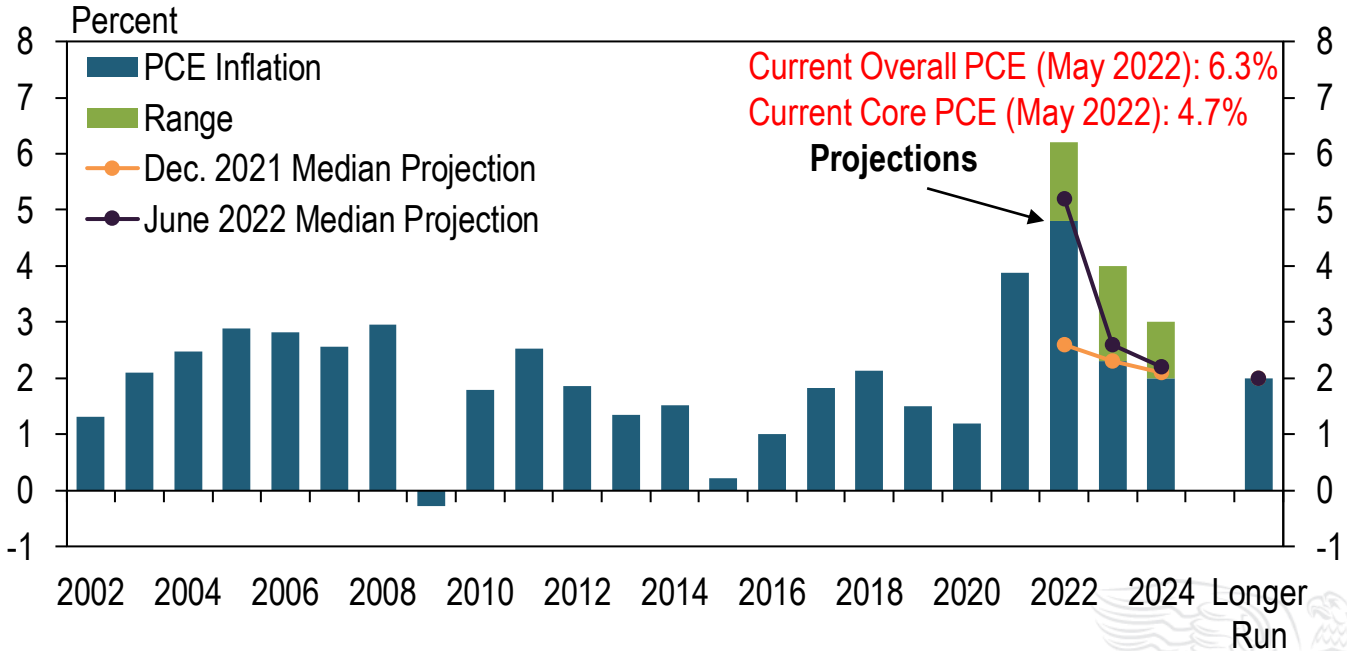
U.S. unemployment remains historically low and is projected to remain very low in coming years

U.S. Unemployment Rate



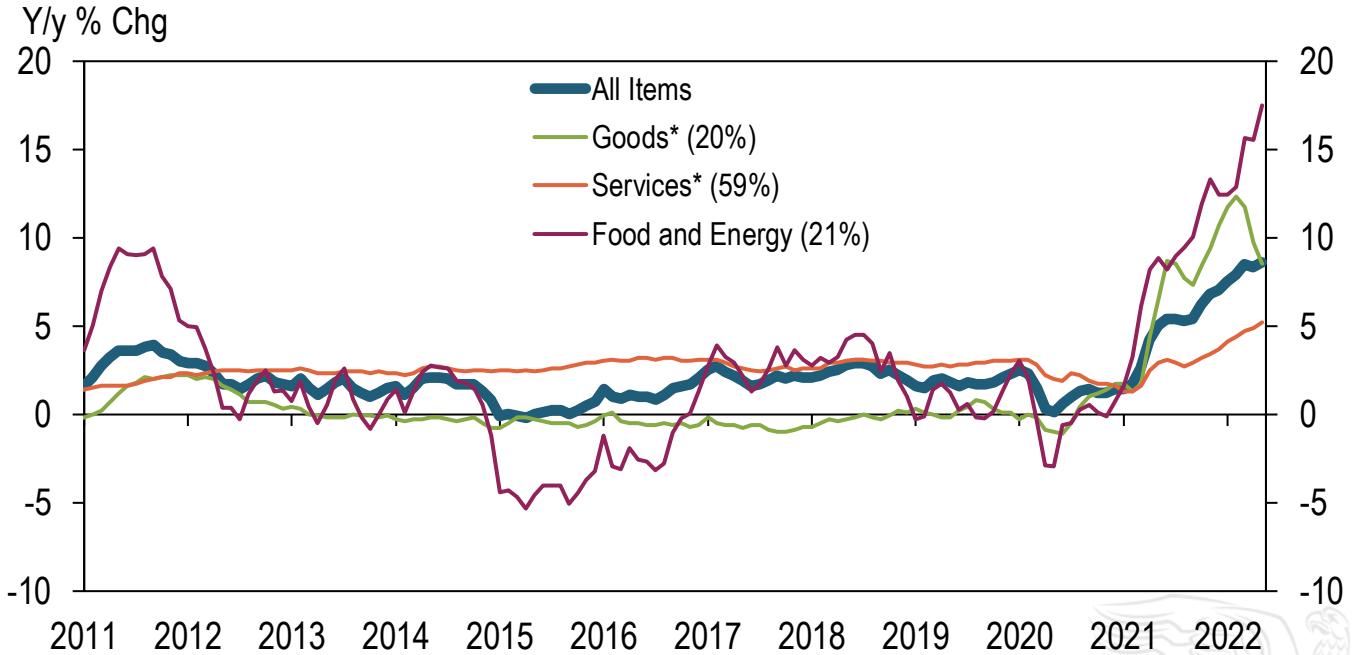
Inflation has moved well above the Fed's 2% target but is expected to ease heading forward

PCE Inflation Index



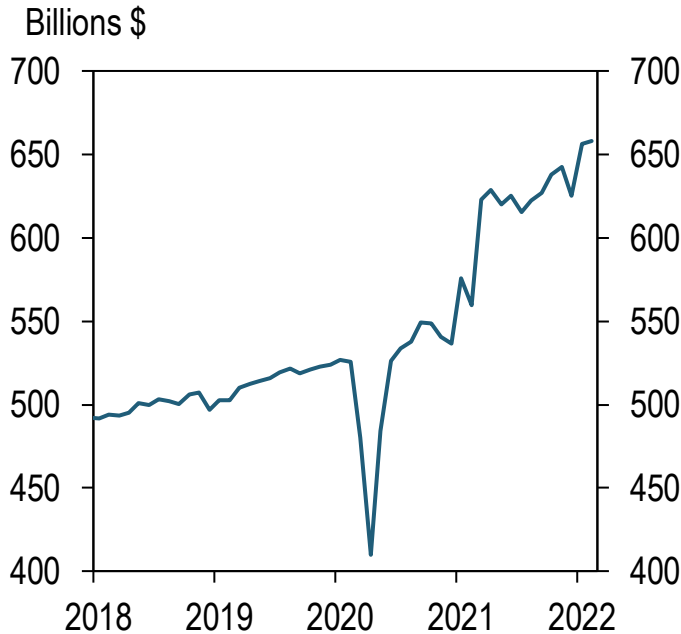
CPI inflation rose again in May to 8.6%, the highest rate in 40 years, driven recently by food and energy prices

Consumer Price Index

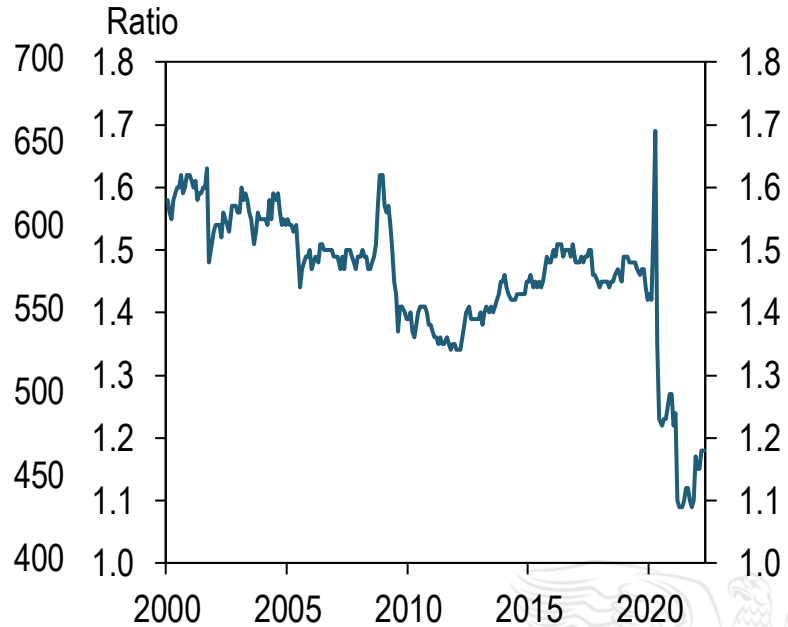


Why is inflation high? Demand has been strong, especially for goods, and inventories are tight

U.S. Retail Sales and Food Services

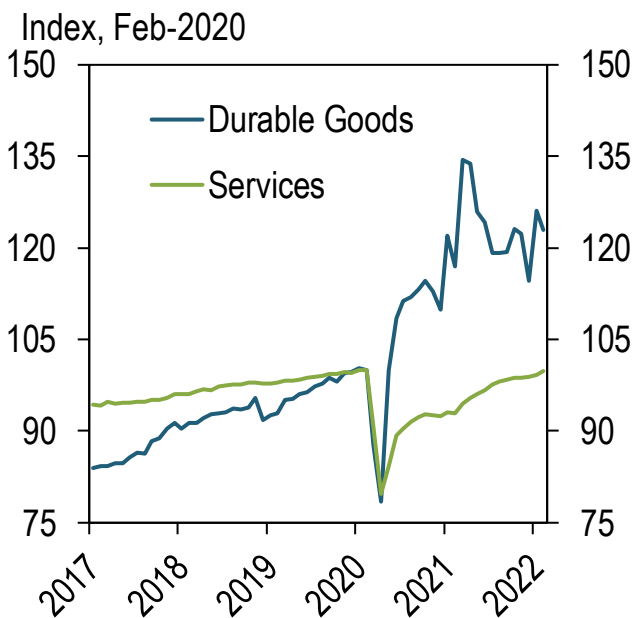


U.S. Inventory to Sales Ratio

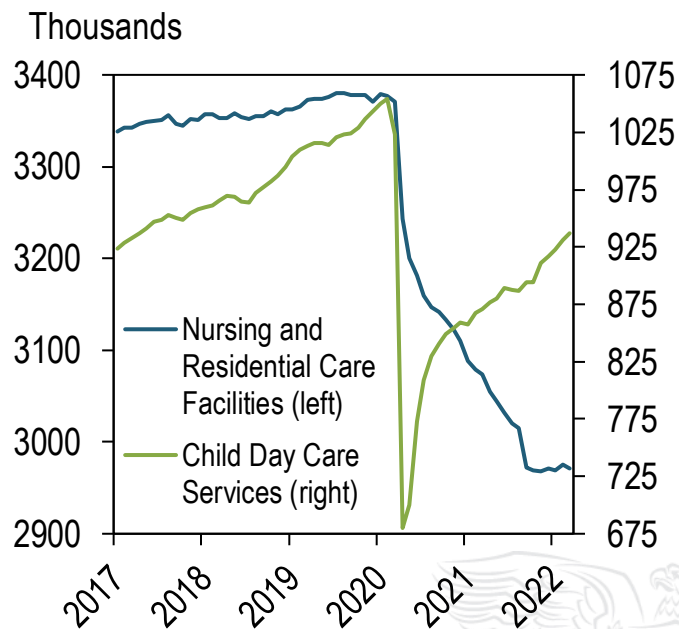


Why is inflation high? Supply is constrained by a shift in consumption and disruptions to labor supply

U.S. Consumption

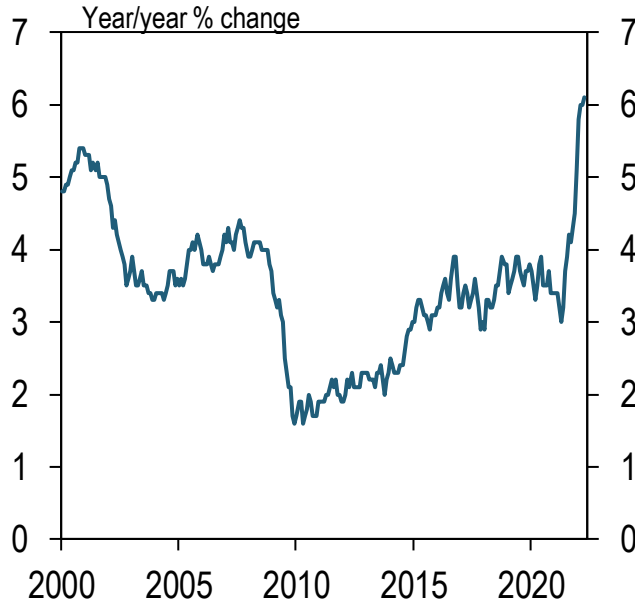


U.S. Employment

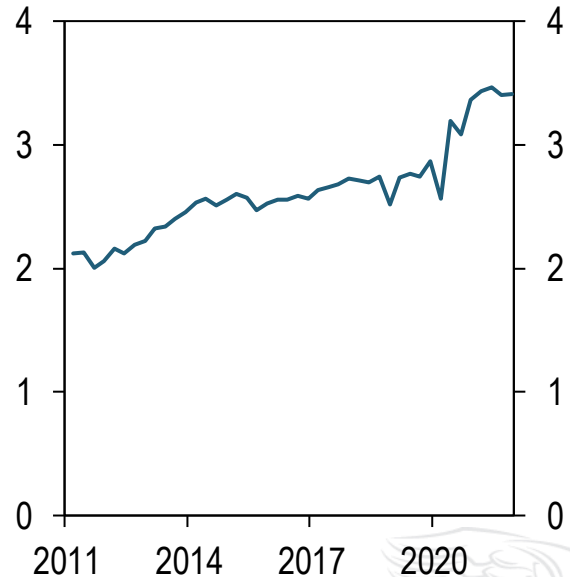


Demand has been supported by rising wages and healthy household balance sheets

U.S. Wage Growth

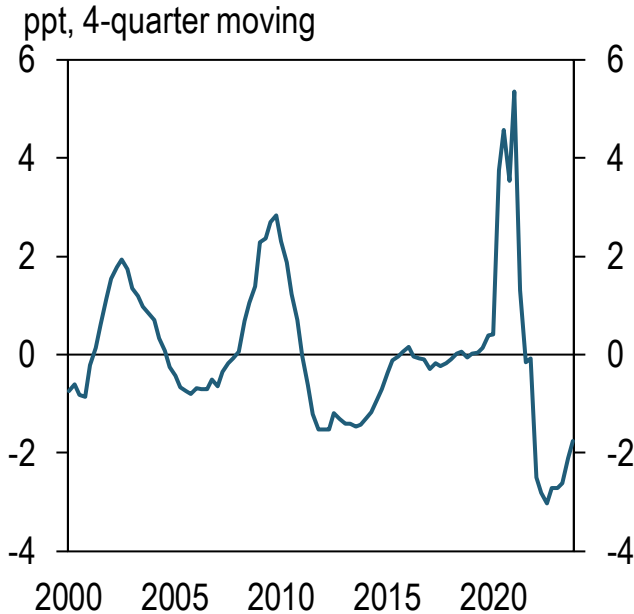


U.S. Household Net Worth/GDP

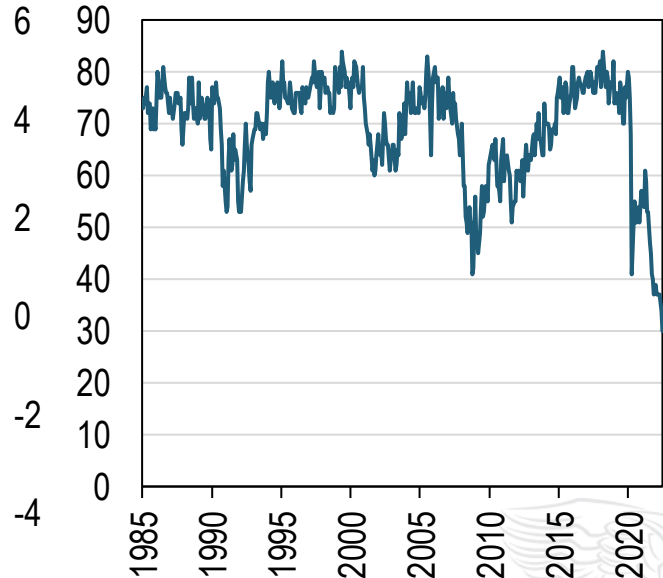


Where is inflation going? Demand easing as stimulus fades and consumers react to higher prices

Fiscal Policy Contribution to Real GDP Growth

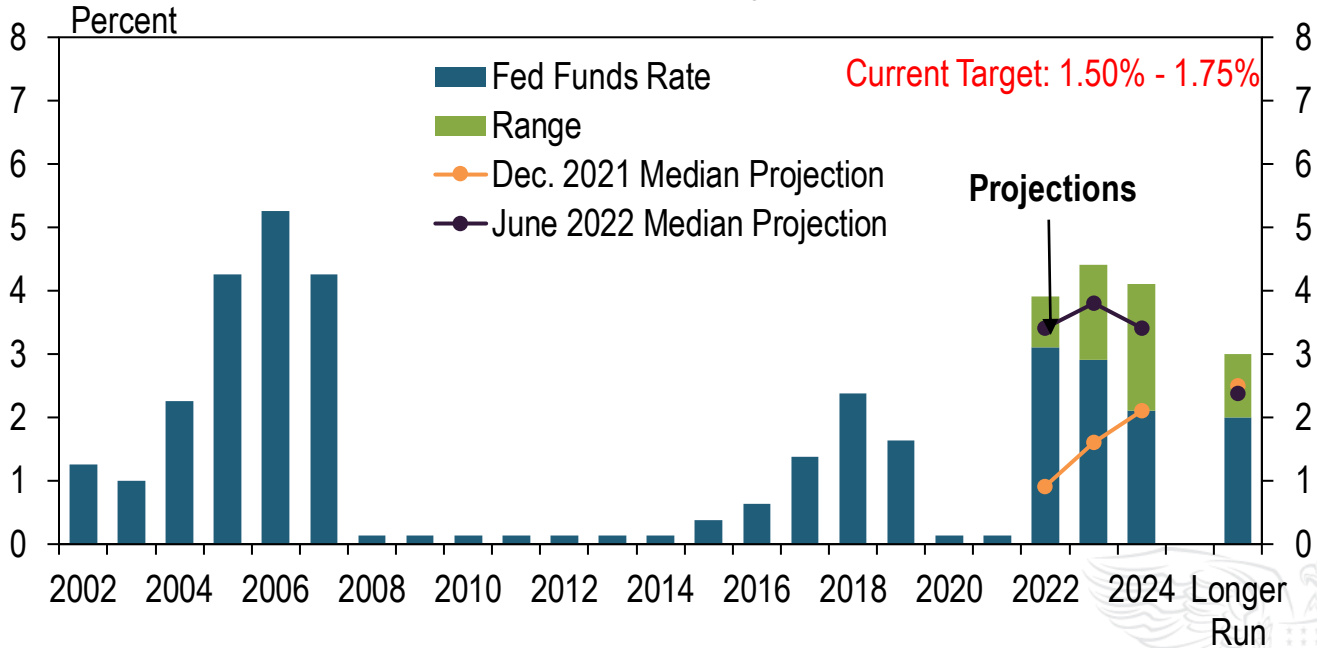


Buying Conditions for Large Household Goods

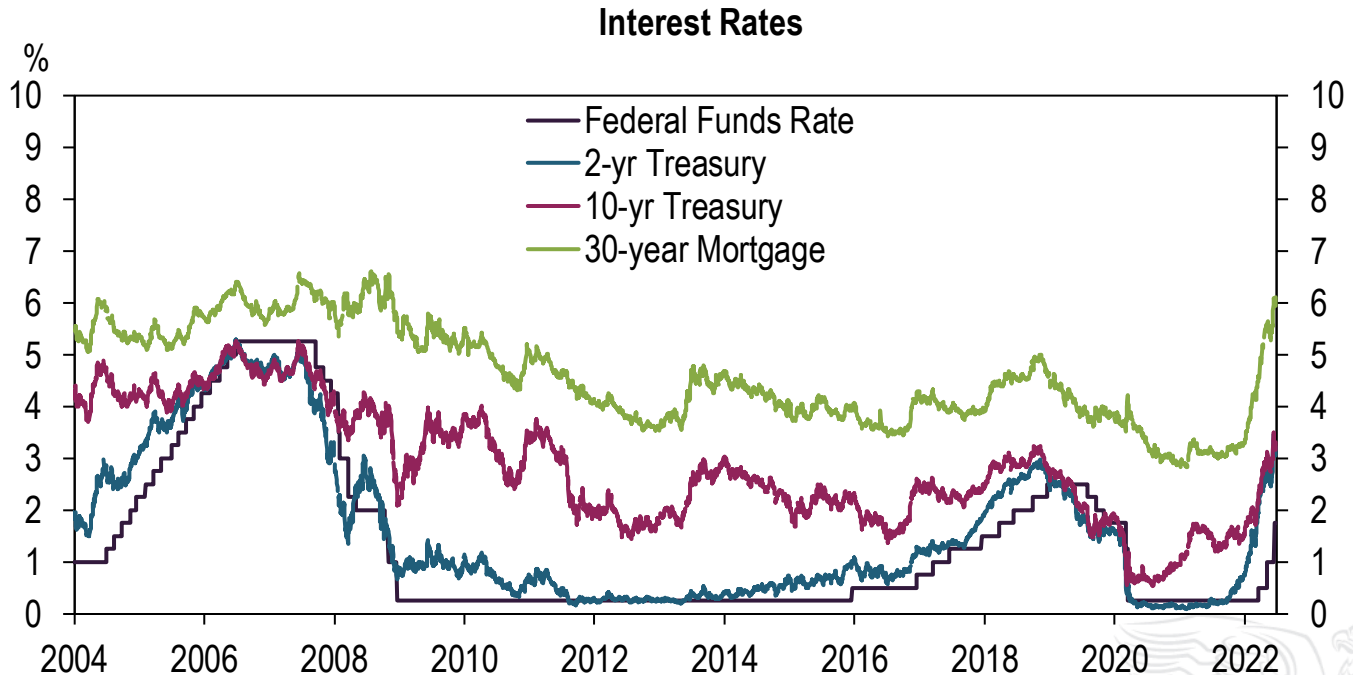


The Fed raised the overnight federal funds rate by 0.75% in June, with more rate increases expected

Federal Funds Rate
Year-End Target

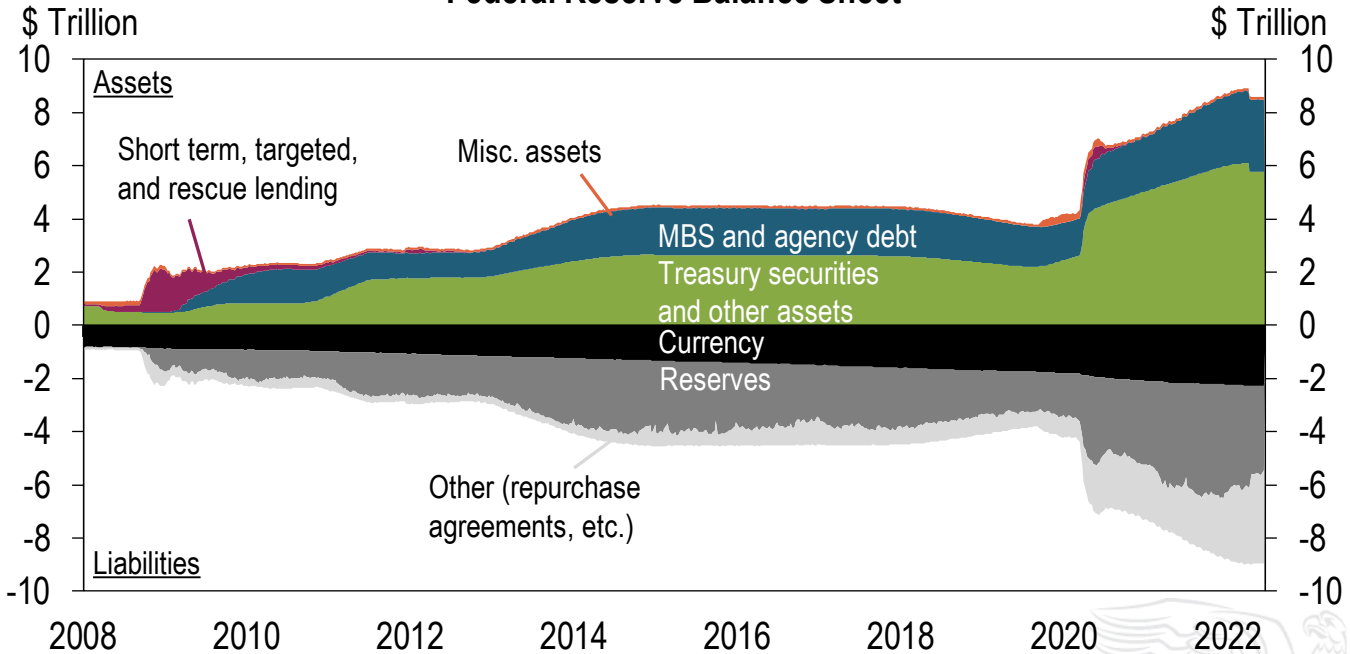


Market interest rates have increased considerably this year, which will likely reduce demand for some goods



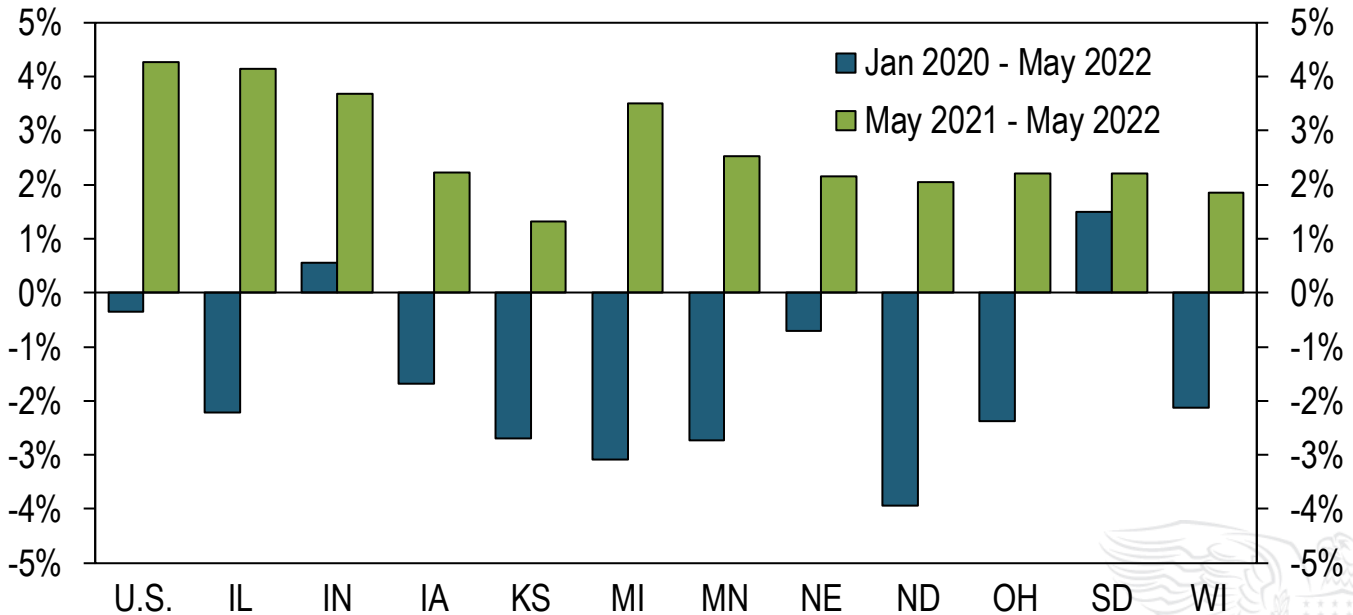
The Fed is also beginning to reduce its balance sheet of Treasury and mortgage-backed securities

Federal Reserve Balance Sheet

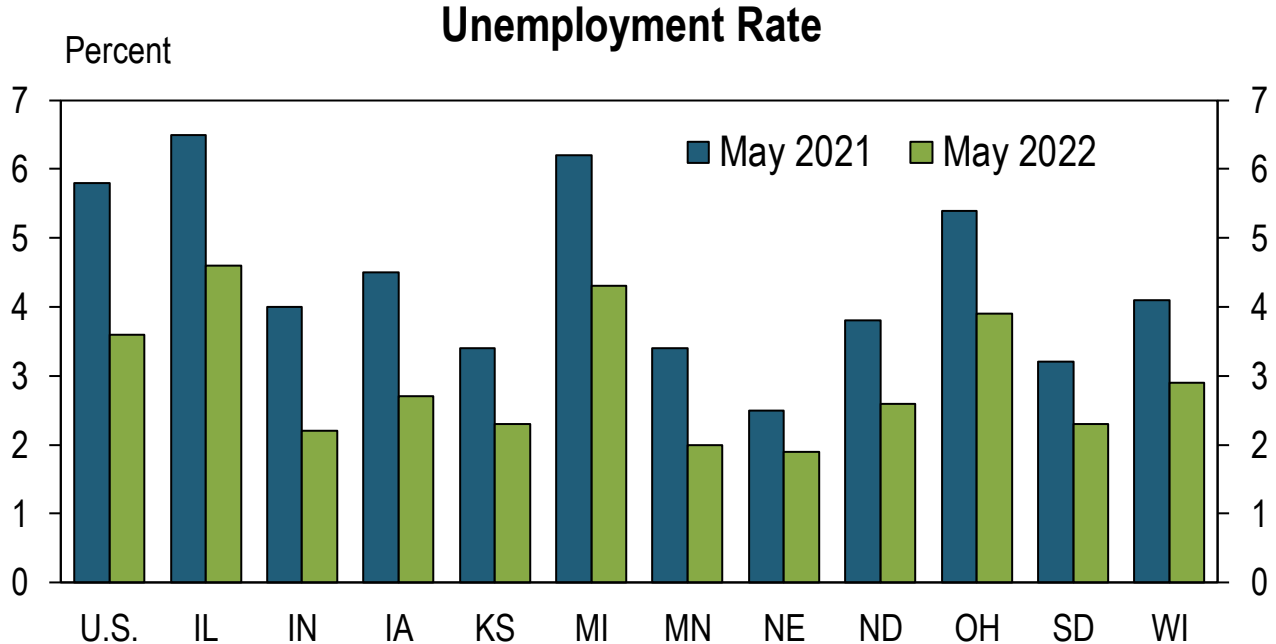


Although all Midwesternern states have added jobs since last year, only IN and SD are above Jan. 2020 levels

Non-Farm Employment Growth

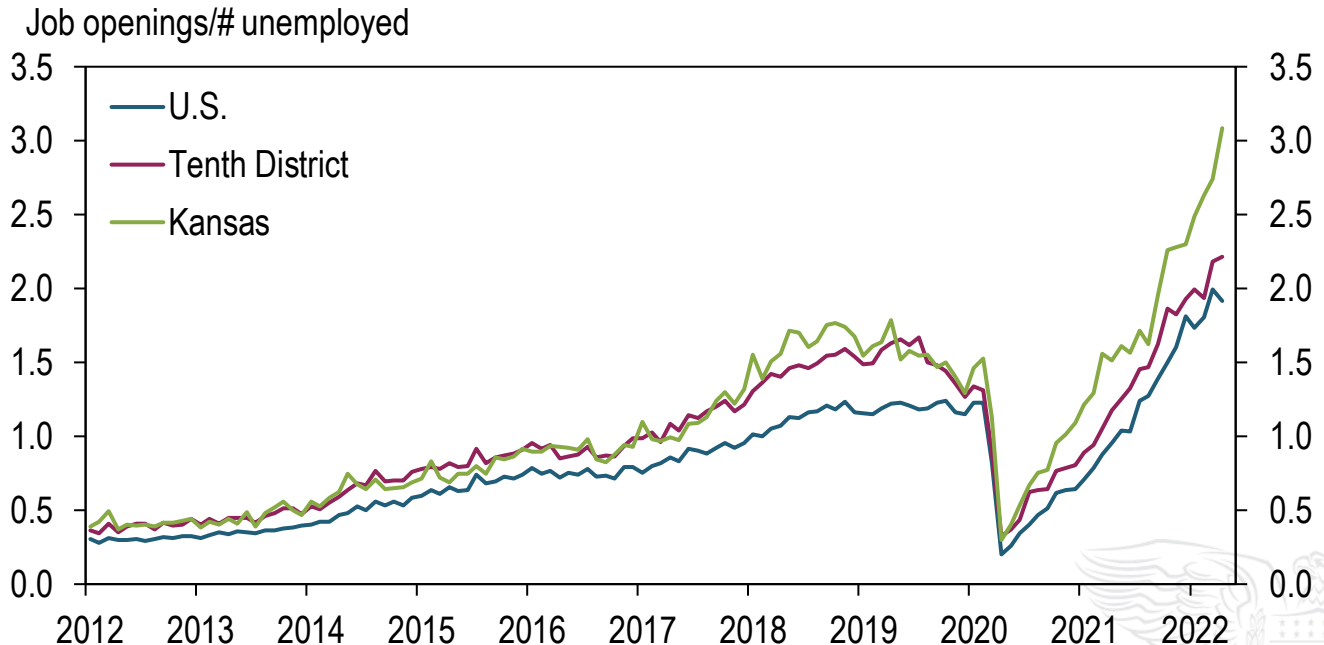


But unemployment is below the national average in most Midwestern states, and very low in several states



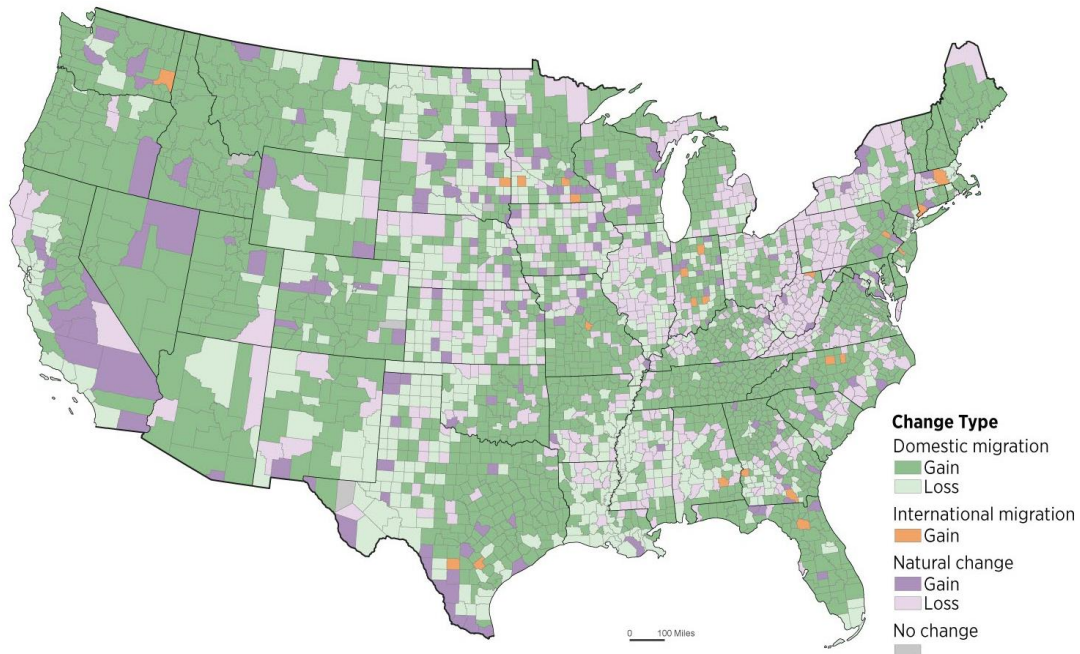
The number of job openings greatly exceeds the number of unemployed workers in the region

Job Openings/Unemployment Ratios



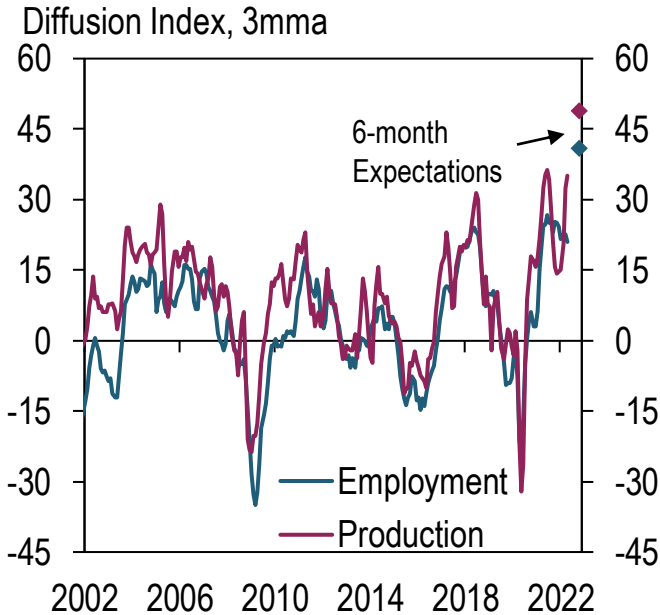
Domestic migration and natural population growth trends varied across Midwestern states during COVID

Population Gain or Loss and Major Component of Change: 2020-21

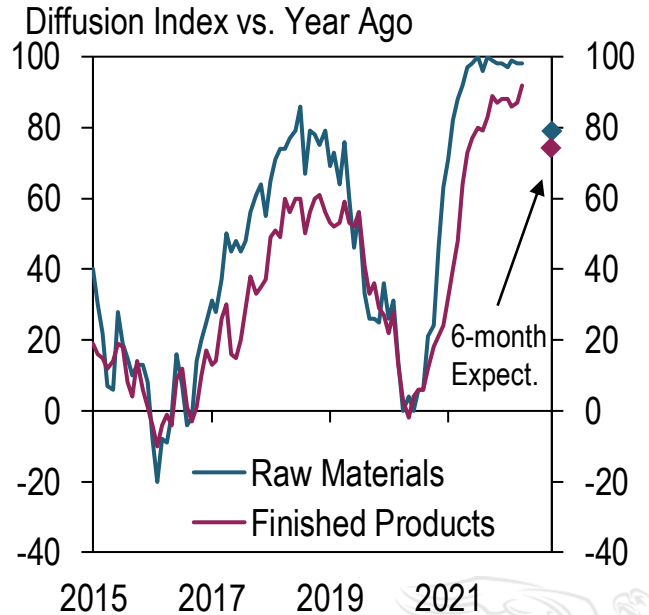


Regional factory activity has remained solid, with expectations for more growth despite high prices

KC Fed Manufacturing Survey

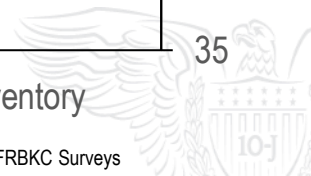


Manufacturing Survey Price Indexes



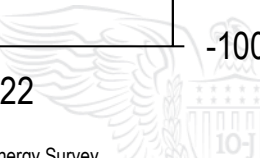
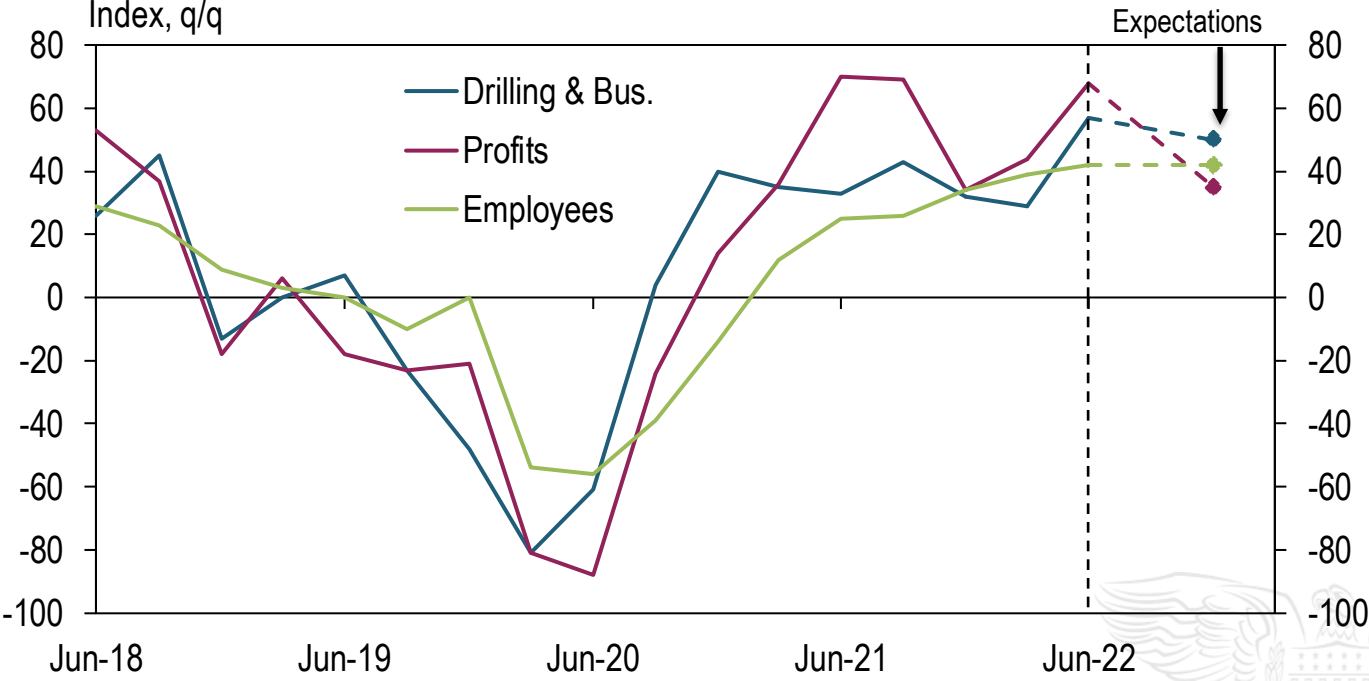
Although factory orders and production dipped slightly in June, firms continued to add employees and stocks

Manufacturing Survey Components Index



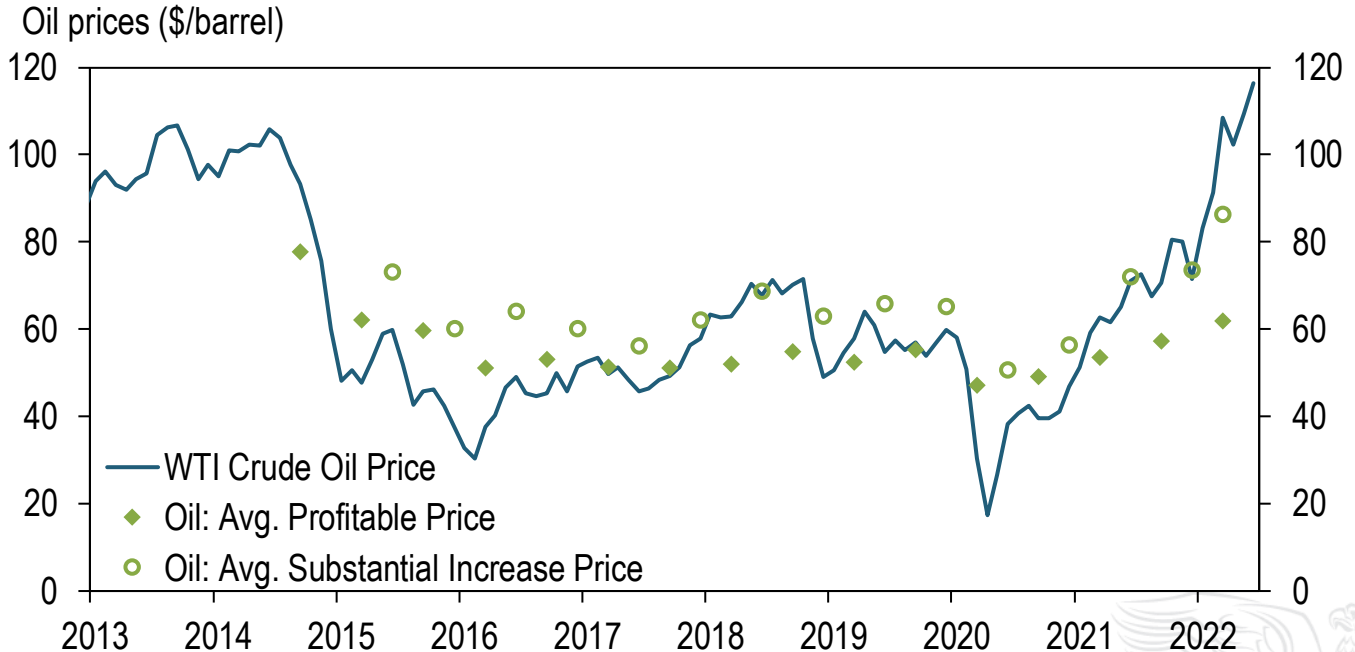
Energy is an important sector in several Midwestern states, and drilling activity accelerated in Q2

Energy Survey Indexes



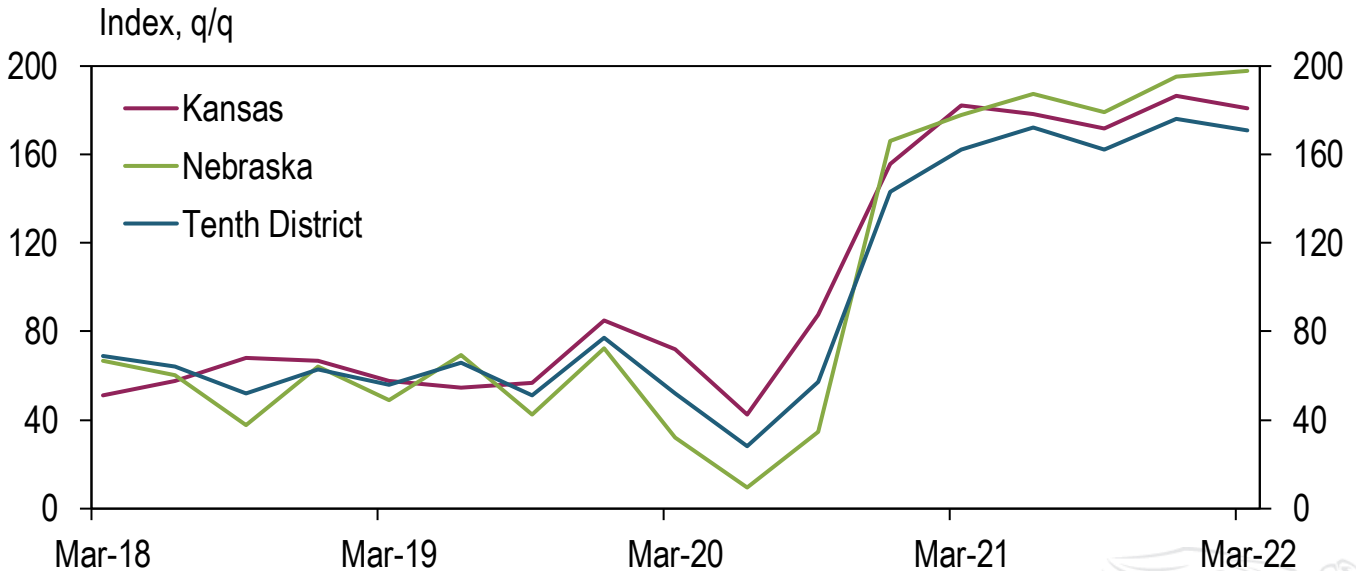
Oil prices have risen considerably, and remain highly profitable for most regional firms despite recent easing

Energy Prices



Midwestern farm income was strong in 2021, but is expected to slow somewhat in coming quarters

Farm Income



Summary

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Questions?

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