U.S. and Regional Economic Outlook

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*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.
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

Current (June 2022): 3.6%

Projections

Note: Data and FOMC projections are for year-end.

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation has moved well above the Fed’s 2% target but is expected to ease heading forward

PCE Inflation Index

Percent

-1 0 1 2 3 4 5 6 7 8


Current Overall PCE (May 2022): 6.3%
Current Core PCE (May 2022): 4.7%

Projections

Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC
CPI inflation rose again in May to 8.6%, the highest rate in 40 years, driven recently by food and energy prices.

*Goods excluding Food; Services excluding Energy.
Note: Relative Importance as Share of CPI shown in parenthesis.

Sources: BLS/Haver Analytics
Why is inflation high? Demand has been strong, especially for goods, and inventories are tight.
Why is inflation high? Supply is constrained by a shift in consumption and disruptions to labor supply.

Sources: BEA, BLS/Haver Analytics
Demand has been supported by rising wages and healthy household balance sheets

**U.S. Wage Growth**

**U.S. Household Net Worth/GDP**

Sources: BLS, FRB Atlanta/Haver Analytics
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

Sources: Hutchins Center, BEA, University of Michigan, WSJ/Haver Analytics
The Fed raised the overnight federal funds rate by 0.75% in June, with more rate increases expected.

**Federal Funds Rate**

*Year-End Target*

Percent

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Current Target: 1.50% - 1.75%

**Projections**

- Fed Funds Rate
- Range
- Dec. 2021 Median Projection
- June 2022 Median Projection

Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC
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.
Although all Midwestern states have added jobs since last year, only IN and SD are above Jan. 2020 levels

Source: U.S. Bureau of Labor Statistics/Haver Analytics
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

Job openings/# unemployed

- U.S.
- Tenth District
- Kansas

Source: FRBKC Surveys
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.
Although factory orders and production dipped slightly in June, firms continued to add employees and stocks.

Manufacturing Survey Components Index

- Production
- New Orders
- Employment
- Inventory

Sources: FRBKC Surveys
Energy is an important sector in several Midwestern states, and drilling activity accelerated in Q2.
Oil prices have risen considerably, and remain highly profitable for most regional firms despite recent easing. 

**Energy Prices**

![Chart showing WTI Crude Oil Price, Avg. Profitable Price, and Avg. Substantial Increase Price from 2013 to 2022.](chart-image)

Sources: EIA/Haver Analytics, FRBKC Energy Survey
Midwestern farm income was strong in 2021, but is expected to slow somewhat in coming quarters

Source: FRBKC Ag Credit Survey
Summary

• 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
Questions?

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