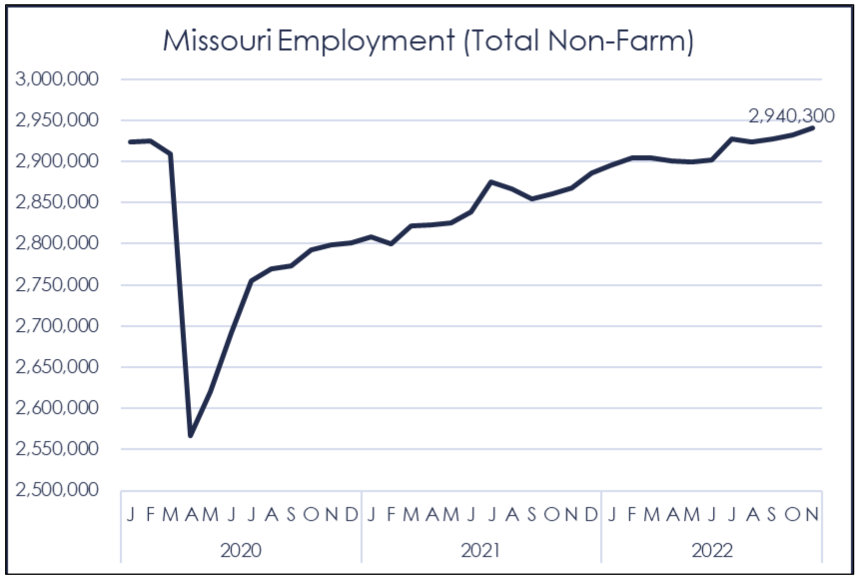
Missouri Department of
Economic Development
HELPING MISSOURIANS PROSPER

Missouri Employment Growth Stays Strong but Inflation and Interest Rates Cloud Our Future

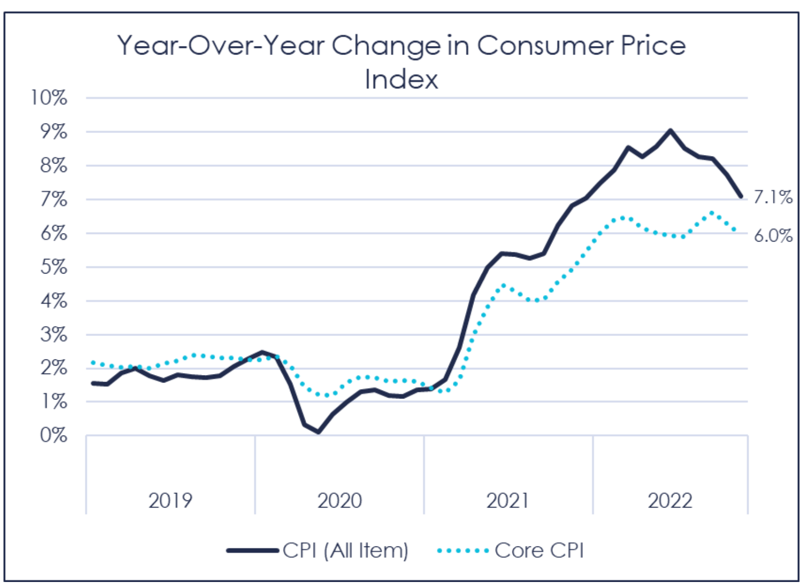
December 20, 2022

Latest Numbers – November was a strong month for Missouri employment, with a gain of 8,200 jobs. 8,200 new jobs ranks Missouri 14th nationally. It also marks the third straight month of employment gains and is the largest increase in Missouri since July. For the year ending November, we have added 72,800 jobs. The industries driving Missouri's growth over the year have been Professional/Business Services (up 24,600 jobs), Leisure/Hospitality (+12,900 jobs) and Construction (+11,700).



Source: MERIC, Bureau of Labor Statistics

The good news doesn't end there: Missouri also saw its labor force grow by more than 7,000 in November. This is the fourth consecutive month of growth after a sharp decline in the spring and summer. Missouri's unemployment rate rose to a still very low 2.7%, which is well below the national rate of 3.7%.

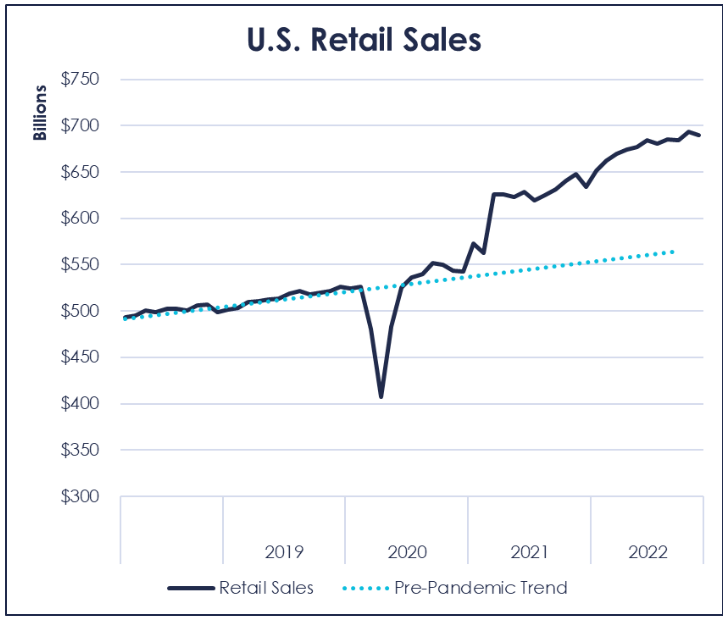


Source: Bureau of Labor Statistics

Big Picture – Inflation continues to be the biggest national economic story, and there is good progress to report on that front. The year-over-year overall inflation rate was 7.1% in November, which was better than expected. The core inflation rate, which removes the volatile food and energy sectors, fell to 6%. We are still a long way away from the normal rate of 2 to 2.5%, but we do seem to have turned a corner from the 9.1% annual inflation rate we saw in June.

Better than expected inflation news gave many people hope that the Fed could begin to consider slowing, and maybe even ceasing, their aggressive interest rate hikes. Those hopes were quickly dashed as the Fed went ahead with a 0.5% increase to their Federal-funds target rate. The 0.5% increase was expected, but what disappointed most Fed watchers was that the Fed indicated more interest rate hikes are expected into 2023. This tells us that even though we are seeing progress against inflation, the Fed sees that pausing or lowering interest rates too soon (and thereby reigniting inflation) is a bigger threat to the economy than slower growth or, perhaps, even a modest recession.

Takeaways – 2023 will start under a cloud of economic uncertainty. Despite making progress on inflation in recent months, the Fed will likely continue to raise rates well into 2023. Part of the Fed's determination to press on might be a direct result of the economy's reaction to interest rate increases so far. Yes, mortgage rates went up as the once hot housing market has turned cold, but in other segments of the economy, the rates don't seem to be having an impact yet. Employment is a good example. Like we have seen in Missouri, national employment growth has been strong and steady. Employers are doing their own math and deciding that, even in an uncertain economy, they are still looking to hire - especially after dealing with a tight labor market over the past few years (there are still over 10 million unfilled job openings nationwide).



Source: U.S. Census Bureau

Additionally, the U.S. consumer has been quite resilient even as they deal with higher prices. Retail sales spiked during the recovery from the pandemic, and although they dropped a bit in November, they have yet to come back down to pre-pandemic trend.

All of this economic resilience makes the Fed's job more difficult, and it may take an extended period of rate hikes to make sure inflation remains on its downward trajectory.

Looking closely at small percent changes in inflation and interest rates every month can take our focus off of the real story. These small changes have a profound impact on our national and state economy. Clearly, inflation causes widespread hardship as the consumer's dollar doesn't go as far as it once did. This forces families to make difficult decisions about how to budget their incomes. On the other hand, the rising interest rates designed to bring down inflation also make economic development more costly. With more interest rate hikes in the offing, businesses may decide to delay investment until things get back to more stable footing. Interest rates pushed too far could also bring about a recession if businesses do decide to cut employment (despite the great difficulty in finding workers) and consumers start to pull back on their spending.

Missouri's economy has been strong and resilient during the recovery, and it should be well-positioned to continue its growth once the economy gets the green light to move forward, but it might just take a while.

Jeff Pinkerton
Director of Economic Research
Missouri Department of Economic Development
Jeff.Pinkerton@ded.mo.gov
(573)616-8714