

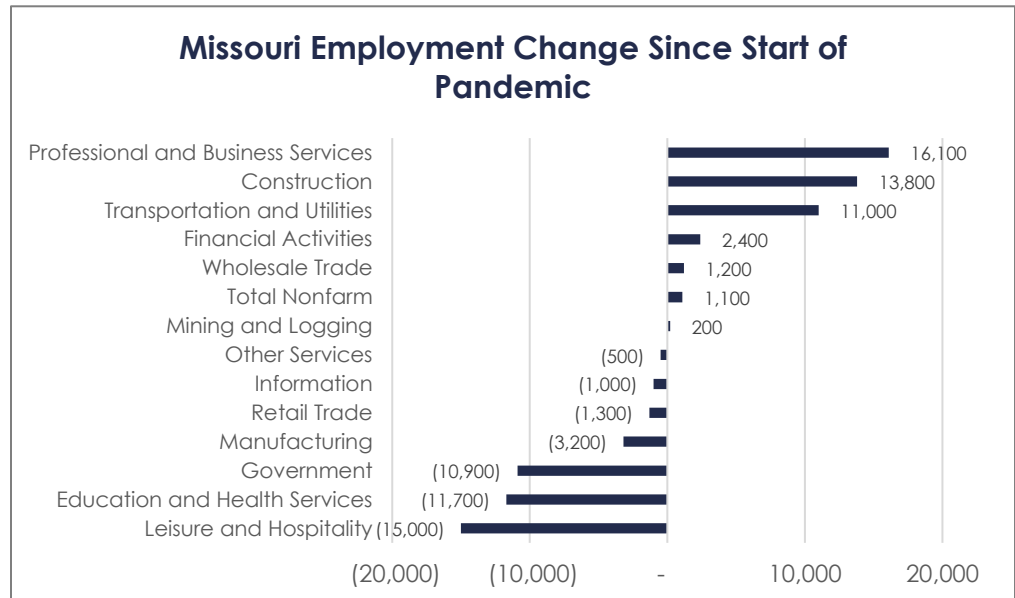


## Fighting Inflation Delays Missouri's Economic Resurgence

October 19, 2022

### Latest Numbers —

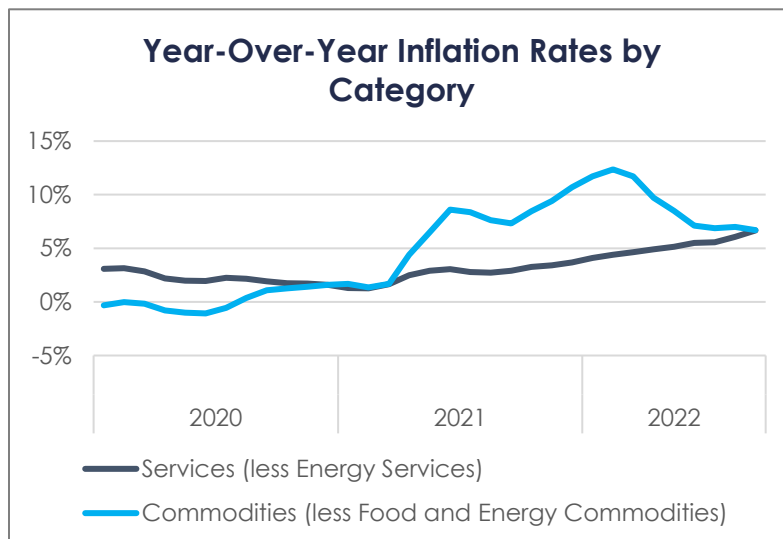
Missouri employment rose by 2,700 in September to 2,926,500. Growth was led by the leisure/hospitality and professional/business services industries, which added 4,800 and 4,000 jobs, respectively. The government sector was down 7,700 jobs for the month. When we take a longer look



Source: MERIC

at Missouri's industry growth since before the pandemic, we are seeing some considerable change. Missouri has 16,100 more professional/business service jobs than in February 2020. In Missouri, most of these jobs are on the technical side. We have also seen strong growth in construction and transportation. On the other side, hard-hit industries like leisure/hospitality and education/health are still working to regain the jobs they lost during the pandemic.

Missouri's unemployment rate fell to 2.4% in September - well below the national rate of 3.5%.

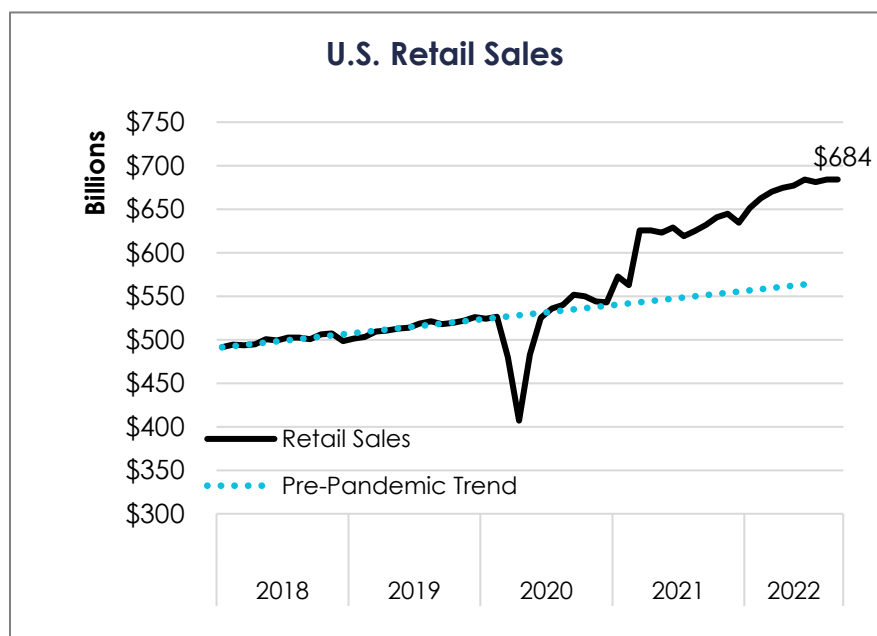


Source: Bureau of Labor Statistics

**Big Picture —** A very high and consistent inflation rate continues to dominate national economic news. The Federal Reserve Bank has been aggressive in raising interest rates, hoping to curb inflation by tapping on the economy's brakes. We have also seen significant relief in gas prices, which in Missouri have fallen to \$3.36 a gallon, down from \$4.60 in June. The overall inflation rate has fallen over the past few months, but just barely, and it remains at uncomfortably high levels (8.2% for the year ending in

September). A big reason why inflation has been so stubborn is that higher prices are no longer concentrated in a few products like gasoline and automobiles. Core inflation (which removes the volatile energy and food sectors) is up 6.6% on the year. While the inflation rate on physical goods has started to come down, inflation rates in services (things like shelter, health care and insurance) [have increased](#). Inflation in services tends to be more problematic, because those higher prices are typically due to higher wages, while the cost of commodities can ebb and flow due to shortages, surpluses, and supply chain issues. Wages don't ebb and flow in the short term.

Further concerning for the Fed is the fact that higher interest rates appear to have only slightly cooled the hot labor market. U.S. employment was up 263,000 in September. For the year ending in September, the economy has added more than 5.6 million jobs. For comparison, the U.S. added 2.1 million jobs a year in the three years leading up to the pandemic (2017-19). With such a tight labor market and businesses struggling to find and retain workers, they are [reluctant to cut employment](#) even as the economy looks more uncertain.



Source: U.S. Census Bureau

Higher interest rates and higher prices have also barely slowed the U.S. consumer as retail sales, although leveling off in recent months, remain well above pre-recession trends.

**Takeaways** — The fight against inflation is increasingly looking like a long-term one. The Fed has been rather hawkish when describing the fight, so we can expect to see continued interest rate hikes through the rest of the year. The growing concern is that they will eventually do

too much and drive the economy into a recession. The key metrics to be watching as this inflation battle plays out are: obviously the inflation rate itself (we would like to see meaningful decline in the coming months), U.S. employment, and retail sales. A cooling off period in these last two would suggest that the Fed's efforts to slow the economy are starting to work, and they could consider easing up on the interest rates hikes.

Missouri should be eager to get past this current inflation fight because the state has rebounded strongly from the recession, and in some ways, has reinvented itself in order to take on the challenges of the next economy.

### Jeff Pinkerton

Director of Economic Research

Missouri Department of Economic Development

[Jeff.Pinkerton@ded.mo.gov](mailto:Jeff.Pinkerton@ded.mo.gov)

(573)616-8714