Missouri Department of
Economic Development
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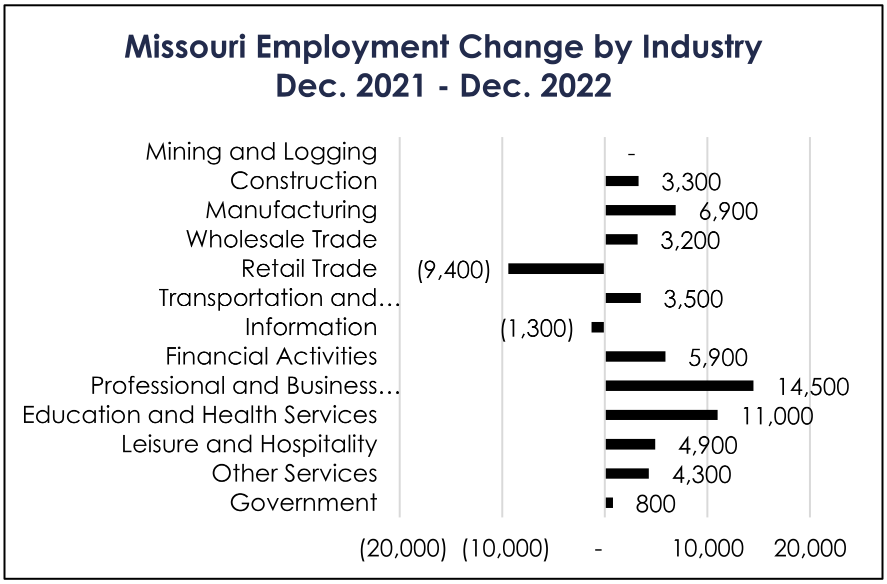
U.S. economy may be winning the war against inflation but look for slower growth in early 2023

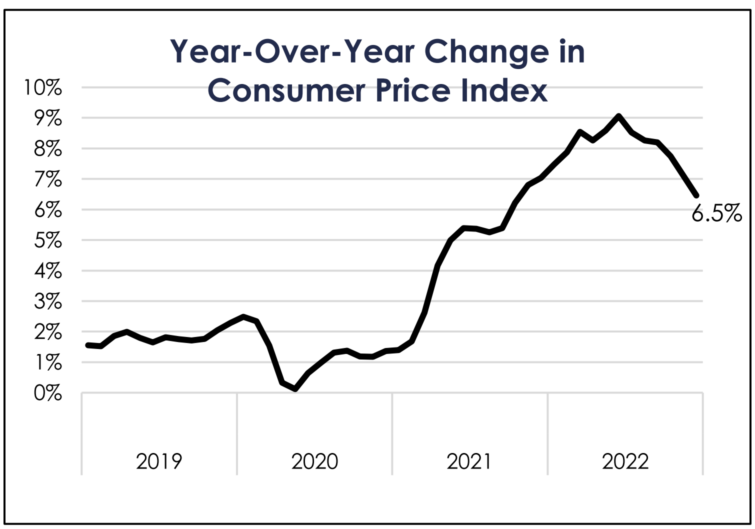
January 25, 2022



Source: MERIC

Latest Numbers – Missouri employment fell by 5,000 in December, ending a three-month growth streak. The decline was focused in two industries, construction (-4,400) and leisure/hospitality (-3,600). There was solid growth in health care/education (1,700) and "other" services (1,100). "Other" services includes personal services like repair, laundry and beauty. Other industries showed only modest changes on the month.

For the year ending December, Missouri employment is up 47,600 with professional/business services (14,500) and education/health (11,000) being the fastest growing industries.



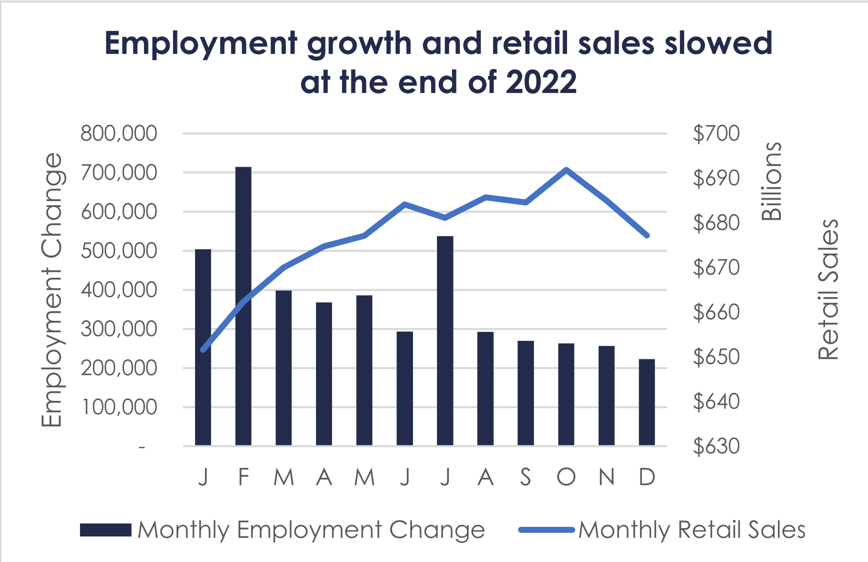
Source: Bureau of Labor Statistics

December saw yet another strong increase in Missouri's labor force. After declining in the early part of 2022, the labor force has grown for four consecutive months. The labor force participation rate also rose in December and now stands at 62.6%, above the national rate of 62.3%.

Big Picture – Nationally, the economy continues to make progress against inflation. The year-over-year increase in inflation stood at 6.5% in December. We have seen six straight monthly declines since peaking in June at 9.1%.

However, the Fed's interest rate hikes that are largely responsible for moderating inflation are also starting to apply the brakes on other parts of the economy as well.

2022 will go down as a tremendous year for U.S. employment growth with over 4.5 million jobs created, but the pace of employment growth has clearly slowed in recent months. And on the consumer side, retail sales were very strong throughout 2022, despite inflation, but even that has wavered in recent months.



Source: Bureau of Labor Statistics and Census Bureau

All these events together have put the Fed on a bit of a tightrope. When inflation rates were at 40-year highs and employment and the consumer stayed strong, aggressive rate hikes were something of a no-brainer. But as inflation moderates and we see more signs of a slowing economy, [the Fed has some questions to answer.] Do rate hikes continue as inflation remains high? Or is the fact that inflation is easing enough to pause rate hikes and keep the economy from potentially entering a recession?

The likeliest course of action will be continued but smaller rate hikes (25 basis points) early this year. If inflation remains on a downward trajectory, we could see the rate hikes end and maybe even see rate cuts later in the year.

Takeaways – Considering the level of inflation we saw just six months ago, most economists would consider us fortunate to be in our current position. Inflation is heading down, the economy is still creating jobs at a strong pace, and consumers remained active despite higher prices. The prospects of a soft landing (successfully getting inflation back to normal without tipping the economy into a recession) is looking more and more possible with every new economic release. However, the economy still has a price to pay for this successful inflation fight.

Housing typically accounts for about 15% of GDP. Due to high mortgage rates, that market has suffered in 2022 and will likely continue to in 2023.

While overall employment has remained strong, we are seeing increases in layoffs in certain sectors, especially tech and finance. Is this the start of a broader trend or will the layoffs stay concentrated in a few sectors that are returning to normal after soaring during the early months of the recovery?

And finally, is the recent drop in retail spending just temporary, or are consumers signaling a lack of confidence in their economic future?

All this leads to more economic uncertainty, and economic uncertainty usually leads to a more cautious, slower-growing economy. In 2023, we will hopefully be able to put the inflation fight behind us but look for more modest growth as a result.

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