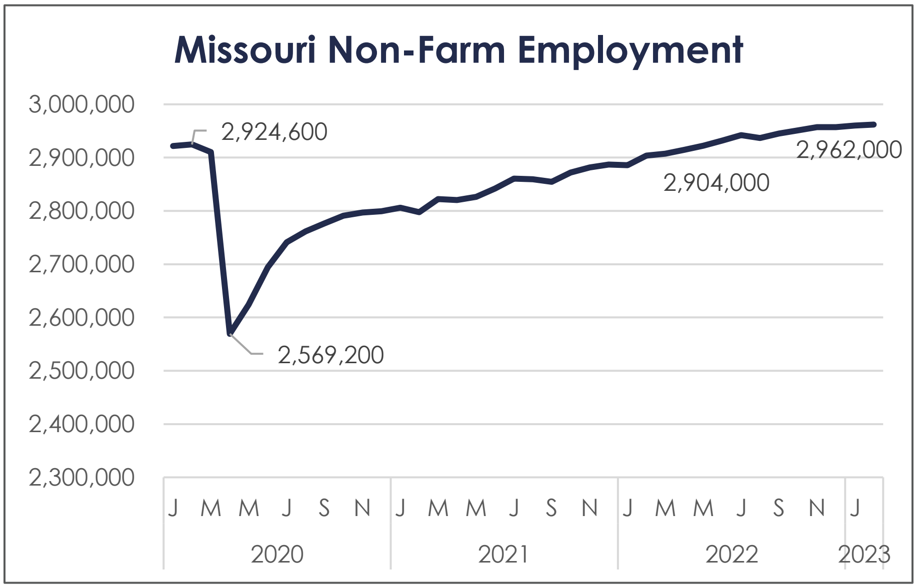
Job Growth, Stubborn Inflation and Bank Troubles

March 21, 2023



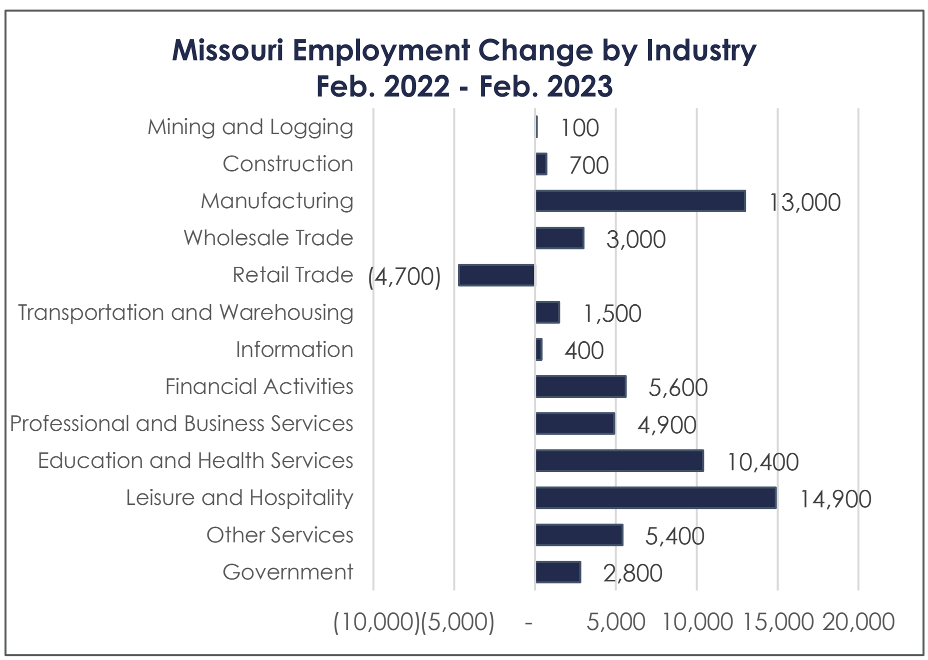
Source: MERIC

Latest Numbers – The latest [Missouri job numbers] tell us that the state continues to grow and, in fact, has been growing even faster than we originally thought. At this time of year, the Bureau of Labor Statistics re-benchmarks employment data and revises past data. 2022 was a strong year for employment growth based on the original data, but the revisions added 32,500 additional jobs. 2023 also got off to a solid start with 5,000 new jobs added (3,200 in January and 1,800 in February).

Missouri's job growth has been widespread with all industries (except retail), adding jobs for the year ending February. The sectors with the most growth were leisure/hospitality, manufacturing, and education/health services. (Side note: Missouri's manufacturing employment is up 4.7% for the year ending February. Nationally, it is up just 2.6%.)

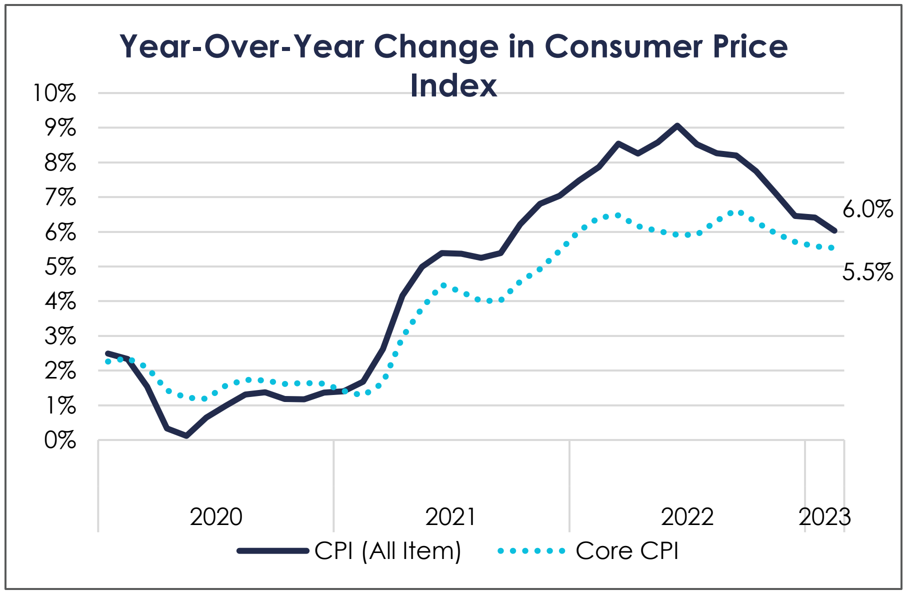
Missouri's unemployment rate remains at historically low levels (2.6%), below the national rate of 3.6%.

Big Picture – Missouri is not alone in strong employment growth. Nationally, the U.S. economy added 4.3 million jobs for the year ending February. Another sign of a growing economy can be seen in retail sales. U.S. retail sales did dip between January and February, but overall, sales remain elevated, suggesting that consumers are feeling confident despite paying higher prices due to inflation.



Source: MERIC

However, there is a disconnect between what *is* happening (strong economic indicators like employment and spending) and what *should* be happening. In a period of still-high inflation (6% year-over-year in February) and rising interest rates, history tells us the economy should be slowing.



Source: Bureau of Labor Statistics

The Federal Reserve Bank's interest rate hikes are designed to slow the economy and get inflation back down to normal levels. Inflation is dropping, but slowly, and too slowly for the Fed's liking. Their rate hikes do not seem to be dampening employers' desires to increase hiring. It may be a case where businesses have had a difficult time finding workers in recent years and are more concerned about staffing up than preparing for a potential economic slowdown.

These economic conditions *should* give the Fed a green light on more interest rate hikes, but a new factor has entered the discussion. On March 10, Silicon Valley Bank collapsed. Other banks have since been taken over by the Federal Deposit Insurance Corporation, or have received some assistance to remain solvent.

With this new crisis, the Fed finds itself in a difficult spot. They will be meeting on March 21 to decide their next course of action. Slowly declining inflation and a still-hot labor and consumer market strongly suggest another rate hike, but a rate hike could cause more angst in the financial sector. Pausing rate hikes might help the financial sector to take a breath, but that might keep the economy hot and slow, or maybe reverse inflation's downward trajectory.

Takeaways – We are probably going to remain in a period where things like interest rates and inflation dominate economic news for a while. But, as always, these times do pass, and the real "bricks and mortar" part of the economy can retake center stage. When it does, recent data tells us the Show-Me State's economy is strong, diverse, and poised for growth.

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