



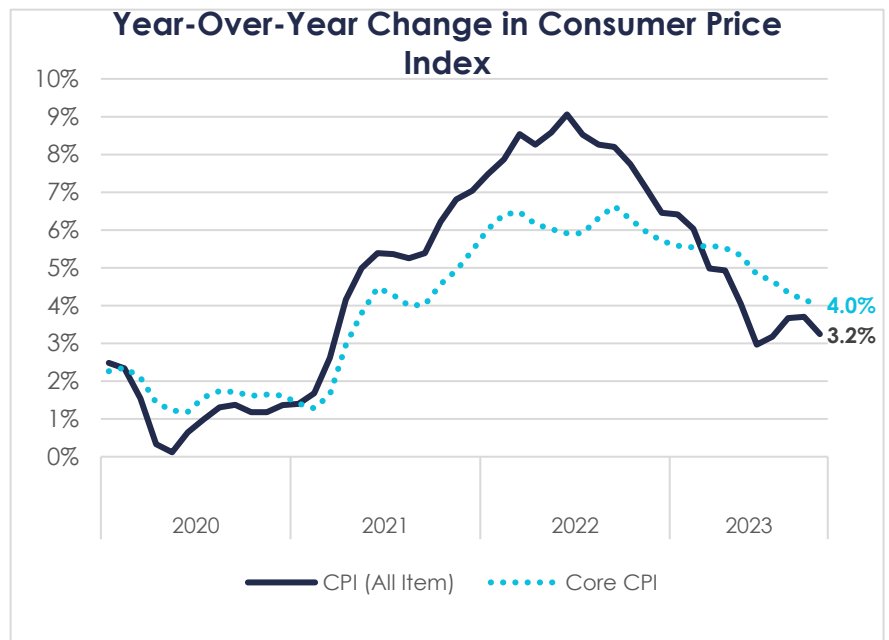
MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

Returning to Normal?

November 21, 2023

Latest Numbers – There's a common theme in the recent economic numbers at both the national and state levels: normalization. Let's start with perhaps the most-watched economic variable over the past year, which is inflation.

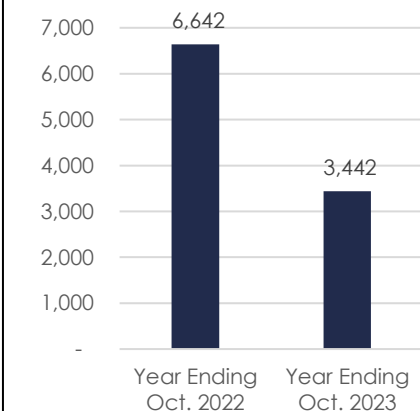
After peaking at about 9% in the middle of 2022, inflation has fallen fairly steadily and now sits at an annual rate of 3.2%. We're still not at the desired rate of 2% the Fed is targeting, but the downward trajectory is clear and most economists believe the economy will reach those target levels without the Fed needing to increase interest rates further. Interest rates cuts, however, may still be a ways off, with [experts citing next May as the most likely time to see](#) cuts.



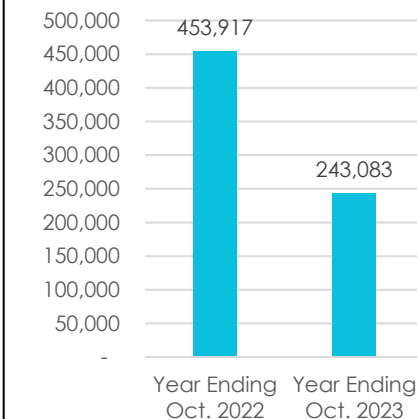
Source: Bureau of Labor Statistics

Average Monthly Employment Change

Missouri



U.S.



Source: MERIC, Bureau of Labor Statistics

Even as the economy dealt with higher inflation, the labor market remained red hot, but that too is starting to show signs of cooling.

Nationally, the employment picture is still strong. The U.S. has been adding 243,000 jobs per month over the last year, but this is down from more than 453,000 per month in the prior year.

It's the same story in Missouri, where we have been averaging 3,442 jobs per month over past year, which is a solid number when you look at history (Missouri averaged 1,700 jobs per month between 2017 and 2019), but this is nearly half the pace we had for the year ending October 2022 (6,642).

One key sector where we have yet to see much moderation is retail sales. You may recall that the U.S. consumer proved to be quite resilient in recent years despite facing higher prices. It would be fair to say that the consumer and their willingness to spend was the [main reason the economy weathered this latest inflation fight without dipping into a recession](#).

Big Picture – One could rightly say that the economy is never “normal.” Every era has its unique issues. But, without question, the economic story of the last several years has been unusual. We had higher inflation rates and resultant interest rates that would normally halt the economy, yet strong economic and employment growth buoyed by a strong consumer. This era seems to be fading and things appear to be regressing to the mean. What might this look like? Well, in a word, it will look... normal.

We can expect to see inflation slide back to normal levels in 2024. As this happens, we can also expect the Fed to start lowering interest rates. This would be welcome news as the costs of taking on large economic development projects will effectively decline. This may also finally provide some relief in the housing market, which is the one segment of the economy that did freeze up as a result of interest rate hikes.

Takeaways – During the Fed's inflation fight, there was a lot of talk about a “soft landing” (getting inflation back down to normal levels without pushing the economy into recession). At this point, it appears that the Fed has done exactly that. Inflation is retreating and the U.S. economy appears healthy (U.S. GDP growth was 4.9% in Q3!). Growth should continue, albeit at a more moderate pace as we head into 2024.

As for Missouri, we appear to be positioned for growth as the economy moves on. Consider that, since the start of the pandemic, Missouri has added nearly 70,000 jobs and seen the economy grow by 6%. In a turbulent time, Missouri has proven that it's resilient and ready to grow - no matter how “normal” or “unusual” the next economy is.

Jeff Pinkerton

Director of Economic Research
Missouri Department of Economic
Development

Jeff.Pinkerton@ded.mo.gov

(573)616-8714