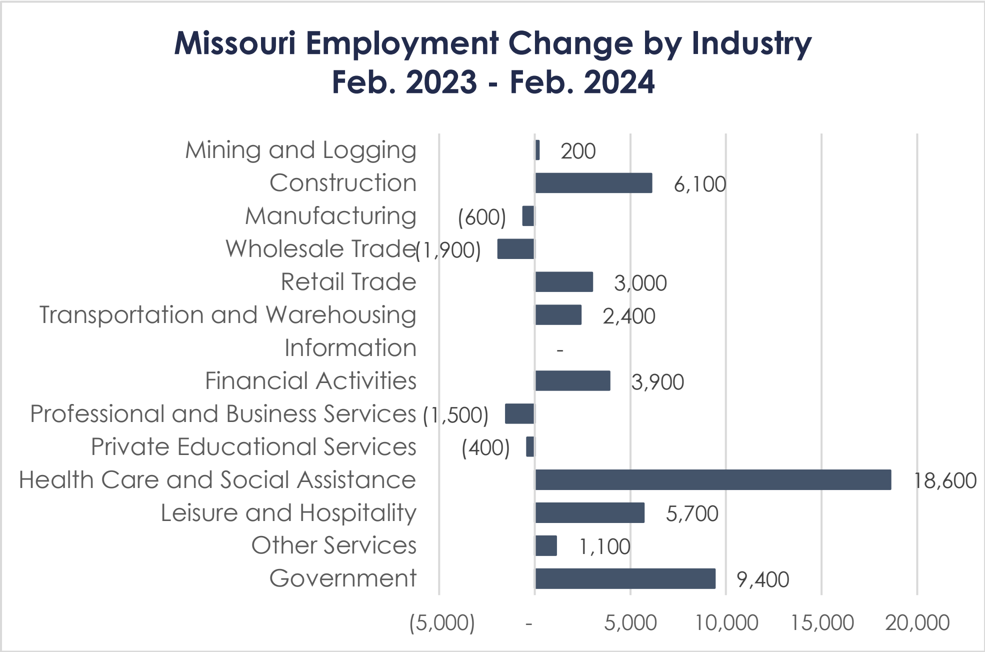
MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

Strong economy, but stubborn inflation

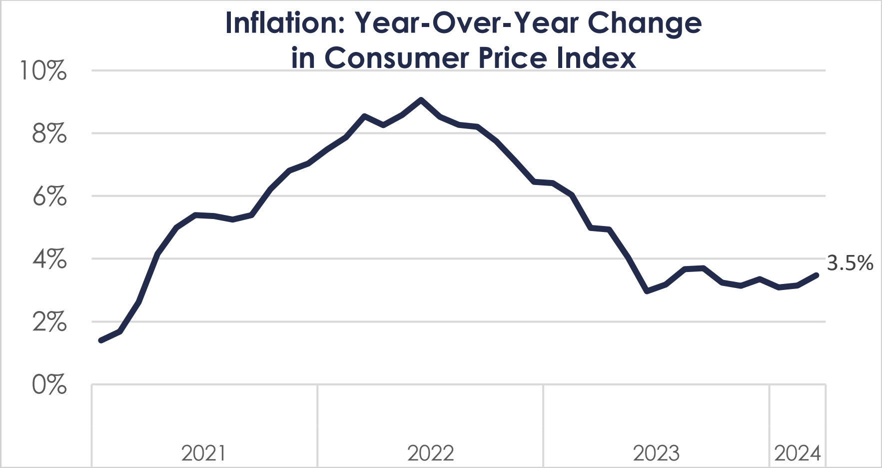
April 11, 2024



Source: MERIC, Bureau of Labor Statistics

Latest numbers - By just about any meaningful measure, the U.S. and Missouri economies are strong. We just recently received the 2023 fourth quarter GDP numbers for Missouri. Our economy grew at a healthy 3.3% annualized rate in Q4. National growth was 3.4%. Missouri's growth ranked 27th nationally, but third among 14 Midwest states we often compare ourselves to.

Employment growth has also been strong. For the year ending February, Missouri has added 46,000 jobs, a 1.6% increase (nationally employment was up 1.8%). Health care was the leading job creator with more than 18,000 new jobs. Government (mostly local government) and construction have also posted strong gains. Manufacturing and professional-business services are large sectors that saw some decline year-over-year, but both sectors showed growth in recent months.



Source: Bureau of Labor Statistics

Even population growth has been solid in Missouri. Census population estimates show Missouri's population grew by more than 18,000 people in 2023 (ranking us 21st). Recently released data shows us that this growth was widespread throughout Missouri as growth was seen in 83 of our 115 counties.

The big picture - There is clearly a lot of positive economic news to be excited about, but there is also a rather large “however.” Inflation’s stubbornness is a significant cloud on an otherwise sunny sky.

Inflation peaked at 9.1% in mid-2022 and fell sharply to 3% by mid-2023. Unfortunately, inflation’s retreat has stalled. March’s inflation rate was up to 3.5%, which is well above the Fed’s 2% goal.

Stubborn inflation is a problem on at least two fronts. One, higher prices eat at consumers’ purchasing power. Even as workers have seen wages increase, higher prices have eaten away at least some of that increase. And two, on the macro level, stubborn inflation is likely going to cause the Fed to keep interest rates elevated longer than people anticipated just a few months ago. To combat inflation, the Fed raised interest rates multiple times in the last few years.

Inflation did fall and economists had predicted 2024 to be a year with multiple interest rate cuts. These rate cuts would help the economy by lowering the cost of borrowing and thereby making major economic development investments more affordable. Lower rates could also help spur more activity in the stalled housing market. Currently, many would-be home sellers are not selling their homes because they have a lower rate mortgage and would have to take on a higher rate should they purchase a new home.

Takeaways - Underneath all this talk about inflation and interest rates is a strong fundamental positive feedback loop in the economy. Consumers are spending despite higher prices. Businesses are hiring to meet this demand. These workers are also consumers who are spending - and the cycle continues. We are in the midst of a strong economic recovery, but sometimes it doesn’t feel like it.

For good reason, inflation is grabbing the economic headlines as of late. Its persistence is bringing a great deal of uncertainty to the economy. Will we get rate cuts this year? How many cuts might we get? Should businesses delay their expansion plans? Will the housing market break out of its state of gridlock?

These are all good questions without good answers. It is hard to imagine the economy working full tilt until we get some clarity. The Fed will be watched very closely over the next several months as the decisions they make will have long-term ramifications.

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