



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economy in a Snapshot

Research & Statistics Group

March 2022

The *U.S. Economy in a Snapshot* compiles observations of staff members of the Federal Reserve Bank of New York's Research and Statistics Group. The views, model results, and analysis presented are solely those of the individual contributors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System. The analysis presented herein is based on data released through March 15, 2022.

OVERVIEW

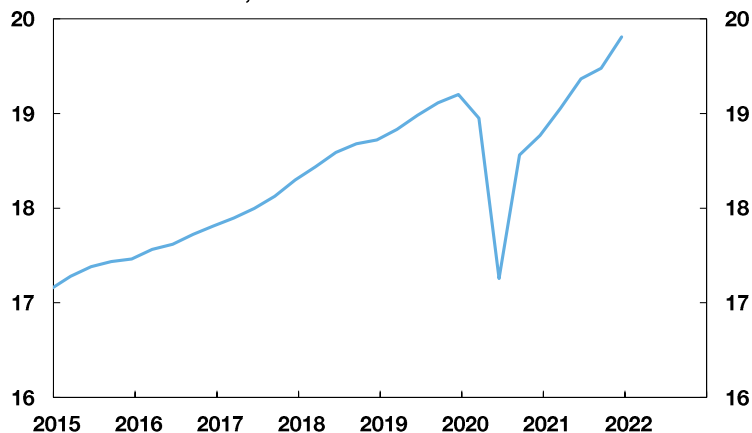
The unemployment rate fell, real disposable income continued to trend down, consumer spending on goods rebounded, and inflation remained elevated.

- GDP growth picked up in Q4.
 - **Most of the growth was due to inventory accumulation.**
 - **Consumer purchases grew modestly, with almost all of the increase due to spending on services.**
 - **Fixed investment spending rose, the net exports component was unchanged, and government spending fell.**
- Real disposable income dipped again in January.
 - **The level was unchanged over the year, putting it below its trend growth path.**
 - **Real consumer spending rose, with a jump in purchases of goods.**
 - **The saving rate fell to below pre-pandemic levels.**

- Payroll employment continued to grow at a solid pace in February and the unemployment rate fell.
- Core PCE inflation over the year increased in January and CPI data point to another move higher in February.
- The 10-year Treasury yield rose despite estimates that the term premium fell. The S&P 500 stock index fell over the month, putting it down 12% since the start of the year. The market-implied federal funds rate path shifted up.

Real GDP

Trillions of 2012 dollars, annualized



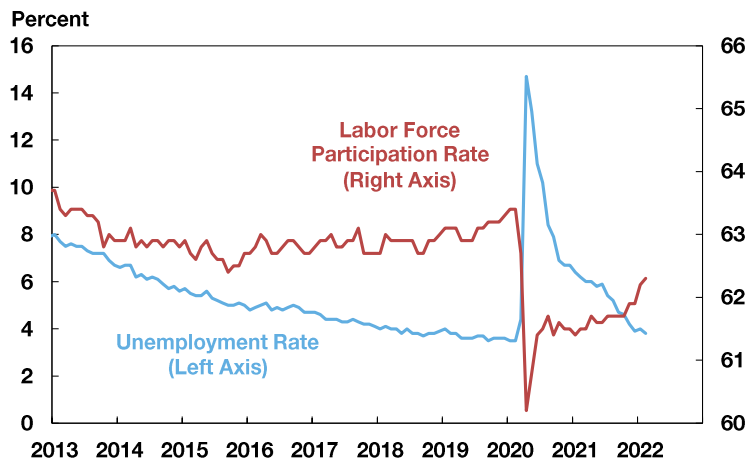
Source: Bureau of Economic Analysis via Haver Analytics

Q4 output was just below its pre-pandemic trend level

- GDP has grown at a 1.6% annual rate since Q4 2019.
 - **The median estimate for the longer-run GDP growth rate was 1.8% in the December Summary of Economic Projections (SEP).**
 - **The March Blue Chip survey had expected average annual growth over the 2024-28 period at 2.0%.**
 - **Q4 GDP was less than 1% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.**
- The unemployment rate was near its longer-run normal level.
 - **The 3.8% unemployment rate in February was equal to the consensus forecast in the Blue Chip survey for average unemployment over 2024-28 and below the median SEP projection of 4.0% for the longer-run unemployment rate.**
 - **The labor force participation rate in February was a little more than one percentage point below pre-pandemic levels.**

OVERVIEW

Labor Market Indicators

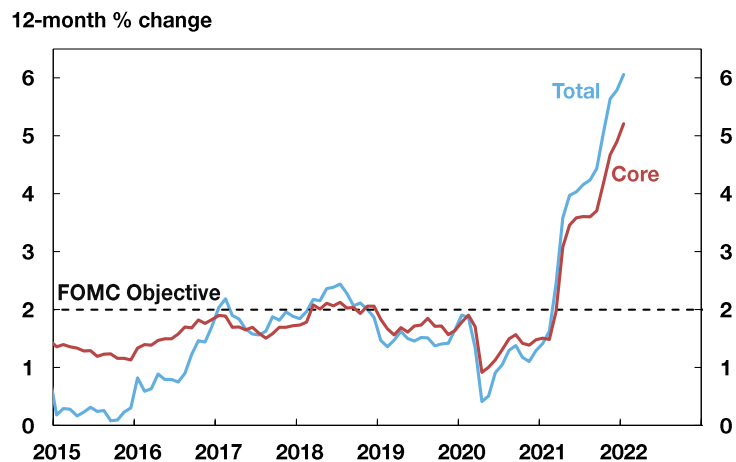


Source: Bureau of Labor Statistics via Haver Analytics

Employment growth remained solid in February

- Nonfarm payroll employment increased by 678,000 in February.
 - **Payrolls in private service-providing industries rose by 549,000, with notable gains in leisure and hospitality (179,000) and education and health services (112,000).**
- The unemployment rate fell to 3.8%, down from 4% in January.
- The labor force participation rate rose to 62.3% and the employment-to-population ratio increased by 0.2 percentage point to 59.9%.

PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

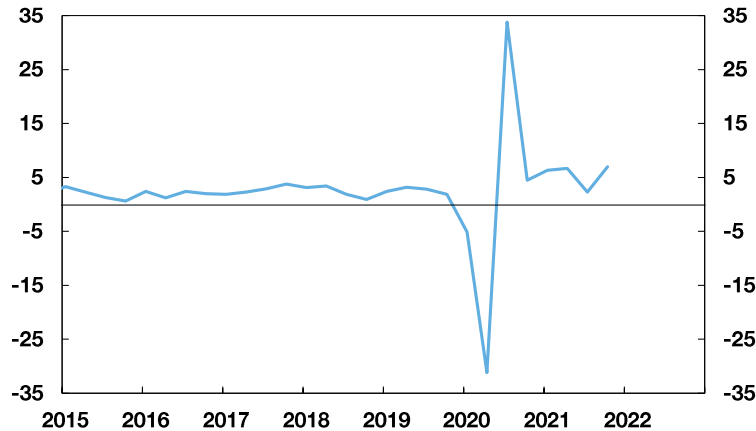
PCE inflation moved higher in January

- PCE inflation increased from 5.8% over the year in December to 6.1% in January.
 - **Food prices were up 6.7% and energy prices were up 25.9%.**
- Core PCE inflation increased from 4.9% to 5.2%.
 - **Durable goods inflation rose from 10.5% to 11.6%.**
 - **Prices for used vehicles were up 51%, prices for furnishings were up 13%, and prices for new vehicles were up 13%.**
 - **Prices for IT equipment were unchanged over the year and communication equipment prices were down 6%.**
- Core PCE index was up 0.5% over the month (6.4%, annualized) in January.
 - **The average monthly rate was 0.5% in Q4.**

ECONOMIC ACTIVITY

GDP Growth

Quarterly % change, annualized



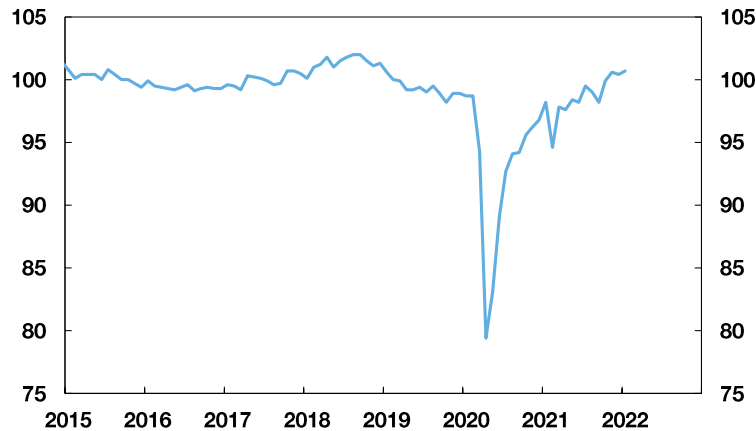
Source: Bureau of Economic Analysis via Haver Analytics

GDP growth was robust in Q4, capping a strong year

- GDP rose at a 7.0% annual rate in Q4, a pickup from the 2.3% rate in Q3.
 - **Over 2021, GDP grew 5.6% (Q4/Q4), the highest annual growth rate since 1984.**
 - **Inventory investment was the major contributor to Q4 GDP growth, as businesses restocked depleted inventories.**
 - **Consumer spending grew at a moderately faster pace.**
- Real disposable income fell in Q4 because of lower transfers and elevated inflation.
 - **The personal saving rate dropped to 7.6%, which was near pre-pandemic levels.**

Manufacturing Index

Index, 2017=100



Source: Federal Reserve Board via Haver Analytics

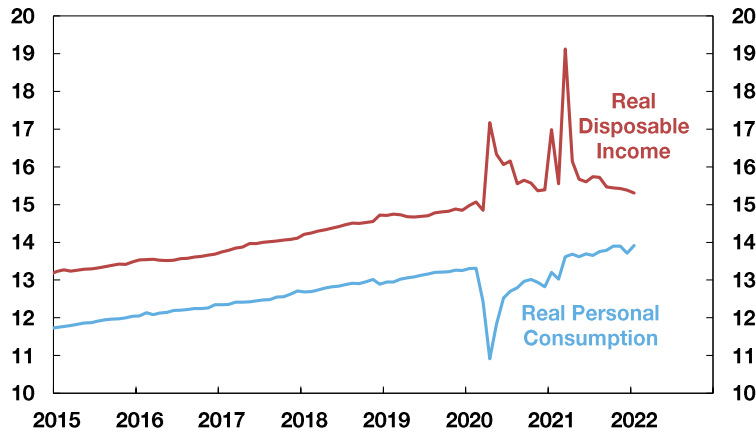
Manufacturing activity increased in January

- The manufacturing index rose 0.2% over the month in January, after falling 0.1% in December.
 - **The index was 2% above its pre-pandemic level.**
- The motor vehicles index fell 0.9%.
 - **The index was down 6% over the year and 6% below the pre-pandemic level.**
 - **Manufacturing excluding the motor vehicles sector was 3% above its pre-pandemic level.**
- The ISM manufacturing index was at a high level in February.
 - **The Suppliers Delivery component rose, consistent with continuing supply chain difficulties.**

HOUSEHOLDS

Disposable Income and Consumption

Trillions of 2012 dollars, annualized



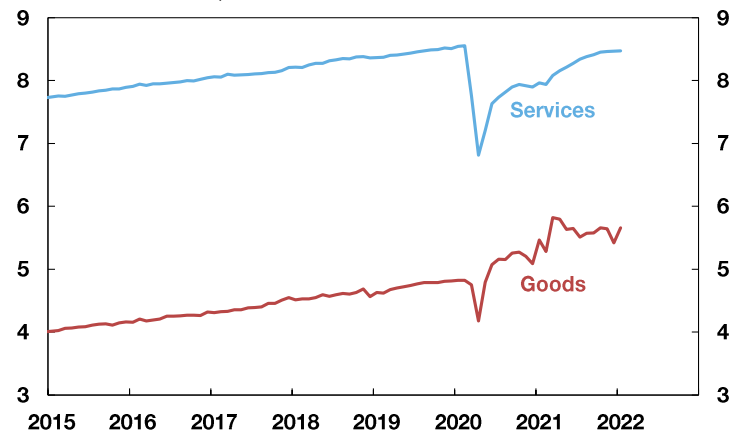
Source: Bureau of Economic Analysis via Haver Analytics

Consumer spending rose in January

- Real personal consumption expenditures rebounded 1.5% in January, after falling 1.3% in December.
 - The jump moved consumer spending back to its trend growth path.**
- Real disposal income decreased 0.5% over the month in January, while nominal personal income was unchanged.
 - Nominal compensation was up 0.5%, proprietors' income rose 0.4%, and personal transfer receipts were down 1.3% with the drop in the Child Tax Credit.**
 - Compensation was up 9% over the year, proprietors' income was up 12%, and transfers were down 32% from an elevated level.**
 - Real disposable income has fallen steadily since July, putting the level 3% below its trend growth path.**

Consumer Spending

Trillions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

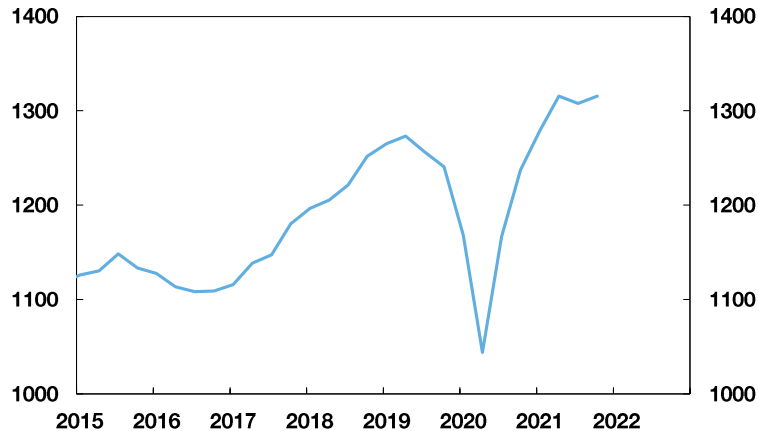
Spending on goods rebounded sharply in January

- Real spending on goods increased 4.3% in January, a rebound following a 4.1% decline over the previous two months.
 - Purchases of durable goods were up 9% over the month, after falling 7% in the previous two months.**
 - Spending on nondurables rose 2%, after falling 3% in the previous two months.**
 - Spending on goods was 10% above its trend growth path, with particularly high sales of IT equipment and phones.**
- Real spending on services was again unchanged in January.
 - Spending was 5% below its trend growth path.**
 - Lagging sectors included health care, entertainment, air transportation, and lodging.**

BUSINESS SECTOR

Business Investment Spending on Equipment

Billions of 2012 dollars, annualized



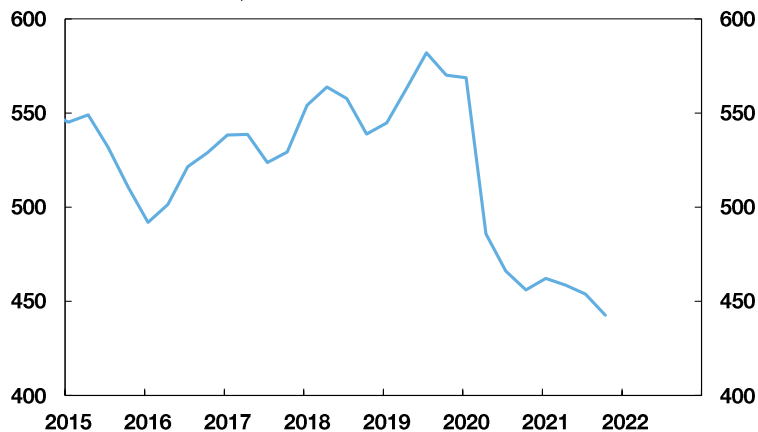
Source: Bureau of Economic Analysis via Haver Analytics

Equipment spending rose slightly in Q4

- After falling in the previous quarter, real business equipment spending moved slightly higher in Q4.
 - **Equipment spending added 0.1 percentage point to annualized GDP growth in the quarter.**
 - **Robust increases in the information and industrial equipment categories were offset by falls in the transportation and other equipment categories.**
 - **Despite a flat performance in the second half of the year, equipment spending was up 6.3% over the course of 2021.**
- Orders of capital goods continued to rise in January, but some of that strength is due to higher prices.

Business Investment in Nonresidential Structures

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

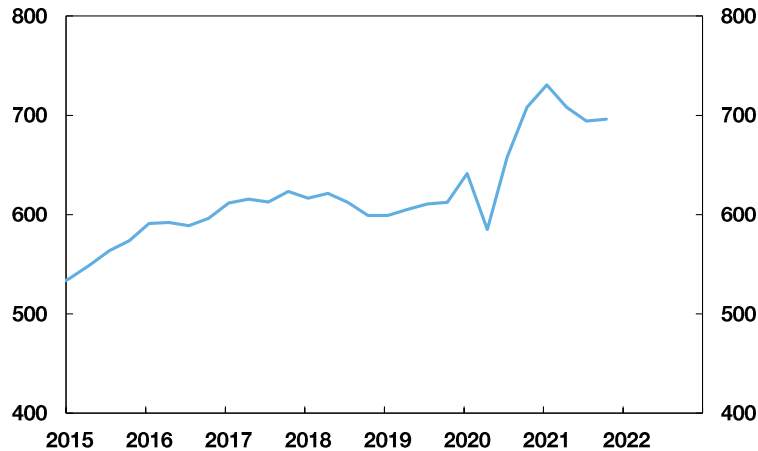
Spending on nonresidential structures fell in Q4

- Real nonresidential structures investment spending decreased at a 9.4% annual rate in Q4.
 - **The decline subtracted 0.3 percentage point from annualized GDP growth.**
 - **Nonresidential structures spending fell 2.9% over the course of 2021 and was down 22% since Q4 2019.**
- The level of spending in the energy sector was an outlier as it increased for the fifth straight quarter.
 - **Spending on mining exploration, shafts, and wells was still down 17% from its Q4 2019 level.**
- Monthly data on nonresidential construction through January do not yet point to a significant turnaround.

HOUSING SECTOR

Residential Investment

Billions of 2012 dollars, annualized



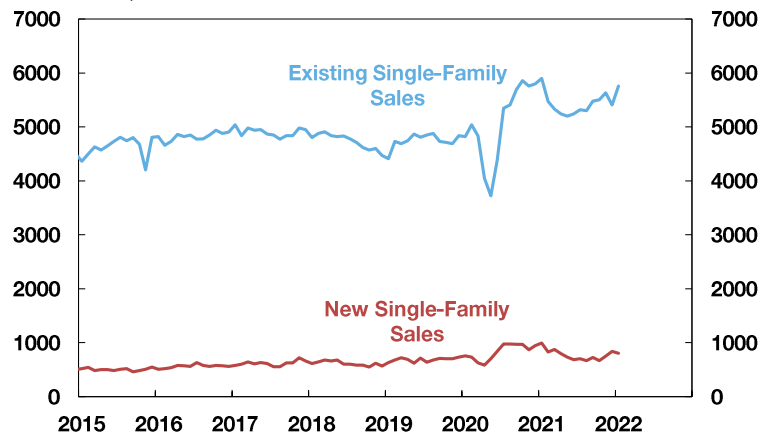
Source: Bureau of Economic Analysis via Haver Analytics

Residential investment spending was flat in Q4

- Residential investment was unchanged relative to Q3.
 - Residential investment was 14% above its Q4 2019 level.**
- Investment has been strong in both single-family and multi-family structures.
 - Single-family construction in Q4 was up 20% relative to Q4 2019 and multi-family construction was up 22%.**
 - Relatively small increases in home improvements and equipment held down the growth in overall residential investment spending.**
- Housing starts data for January showed no upward momentum in spending at the start of Q1 2022.

New and Existing Home Sales

Thousands, annualized



Source: Census and National Association of Realtors via Haver Analytics

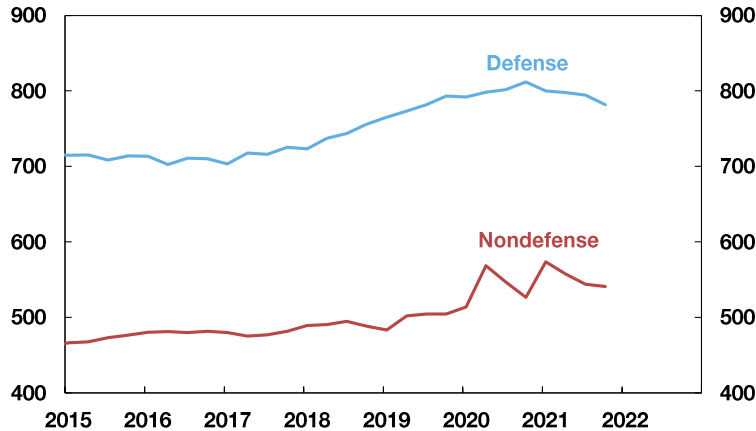
Existing home sales remained high

- Existing single-family home sales increased 6% in January, to 5.76 million units (annualized).
 - Sales were down 2% over the year, but were 20% above January 2019 levels.**
- New single-family home sales fell 5% to 801,000 units (annualized) in January.
 - Sales were down 19% over the year, but 6% above January 2019 levels.**
- Home prices continued to move higher.
 - The median sales price of existing single-family homes was up 16% over the year in January.**

GOVERNMENT SECTOR

Federal Government Spending

Billions of 2012 dollars, annualized



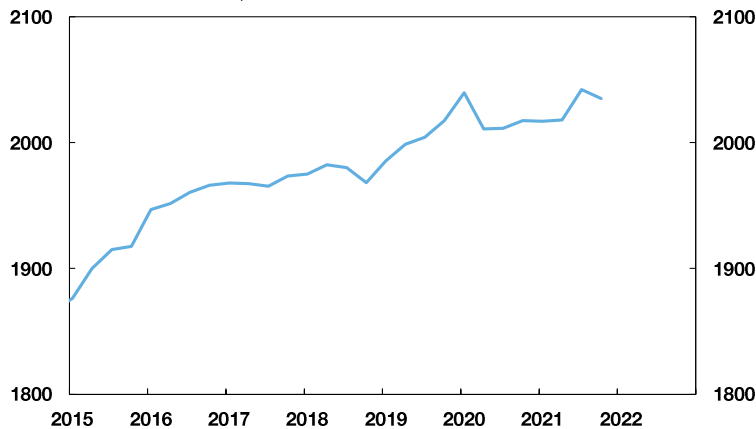
Source: Bureau of Economic Analysis via Haver Analytics

Federal spending slumped in Q4

- Federal government spending subtracted 0.3 percentage point from annualized GDP growth in Q4, following a drag of 0.4 percentage point in Q3.
 - **Spending was down 1.1% over the year, but up 2.0% since Q4 2019.**
- The drag on growth came largely from defense spending.
 - **Defense spending subtracted 0.2 percentage point from growth, while nondefense spending subtracted 0.1 percentage point.**
- The Paycheck Protection Program, which added volatility to quarterly data during the pandemic, has fallen out of the picture.

State and Local Government Spending

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

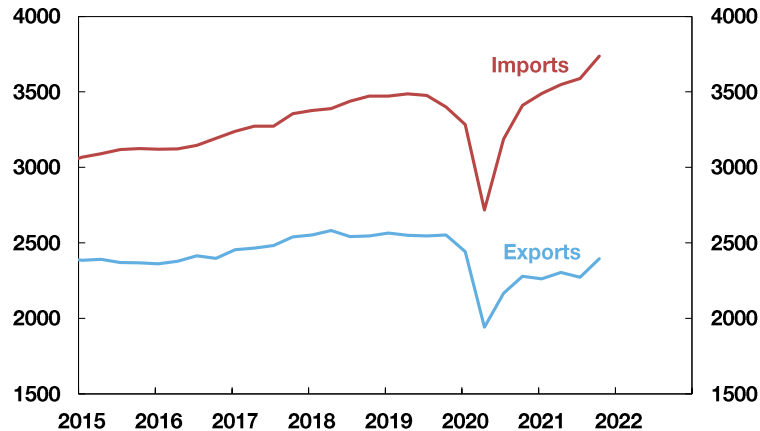
State and local government spending declined in Q4

- Real state and local government spending in Q4 fell 0.3% over the quarter, subtracting 0.2 percentage point from annualized GDP growth.
 - **Spending was 1% above the Q4 2019 level.**
- S&L government consumption was flat over the quarter.
 - **Consumption was 2% above the Q4 2019 level.**
- Investment spending fell 2%, with a 3% drop in construction and a 2% increase in equipment purchases.
 - **Total investment spending was down 5% relative to Q4 2019, with construction spending down 9%.**
 - **Purchases of intellectual property products were up 1% over the quarter and were 15% above the Q4 2019 level.**

INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services

Billions of 2012 dollars, annualized



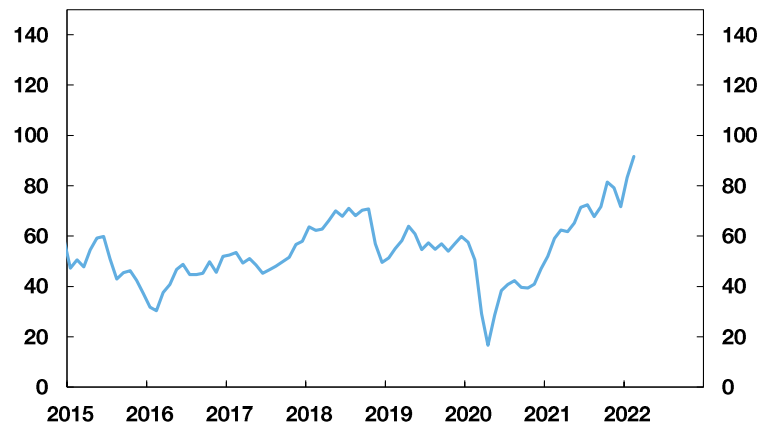
Source: Bureau of Economic Analysis via Haver Analytics

Net exports had no impact on Q4 growth

- Imports and exports rose by equal amounts in Q4.
 - Higher exports contributed 2.4 percentage points to annualized GDP growth and higher imports subtracted 2.4 percentage points.**
- Exports remained below pre-pandemic levels.
 - Higher sales were led by food, petroleum, motor vehicles, and nondurable consumer goods.**
 - Services exports moved higher, with more tourism from abroad, but the level remained depressed.**
- Imports were well above pre-pandemic levels.
 - Half the increase in Q4 was in consumer goods, with autos and computers also up strongly.**
 - The increase in services slowed as travel abroad rose at a reduced pace.**

Crude Oil Prices

Dollars per barrel (WTI)



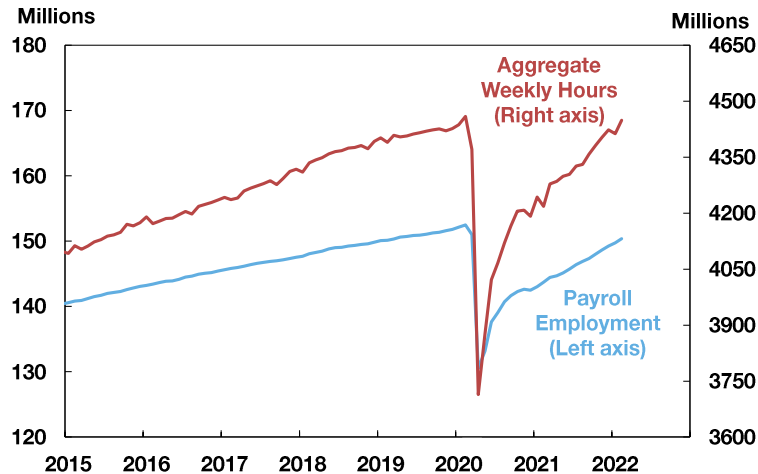
Source: Energy Information Administration via Haver Analytics

Russia's invasion pushed oil prices sharply higher

- Oil prices (WTI) increased from \$83/barrel in January to \$93/barrel in February.
 - Russia's invasion pushed prices as high as \$125/barrel in early March.**
 - Prices then retreated to below \$100/barrel by mid-March.**
 - The volatility reflects uncertainty about Russian exports.**
- The Department of Energy's March forecast projects the decline in global inventories, that started in Q2 2020, will end in Q1 2022, with levels then rising through the rest of the year.
 - Their forecast assumes steady Russian production and a rise in OPEC production.**

LABOR MARKET

Payroll Employment and Hours Worked

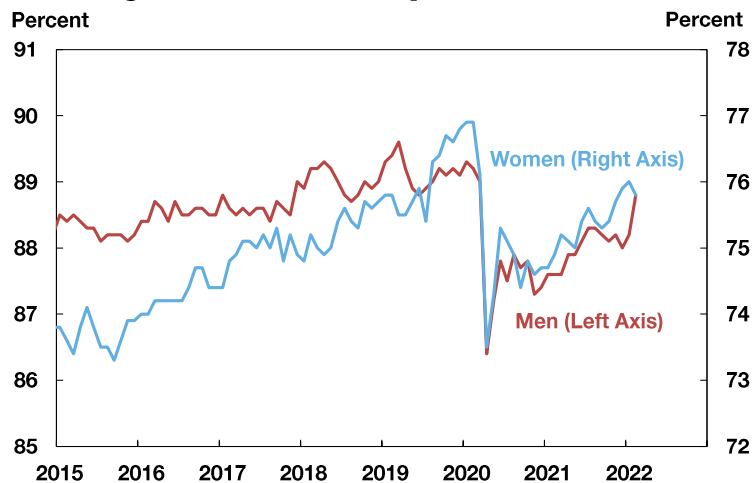


Source: Bureau of Labor Statistics

Employment growth remained solid

- Nonfarm payroll employment rose by 678,000 in February, following a 467,000 increase in January.
- Employment increased at an average monthly pace of 560,000 in 2021.
- Aggregate weekly hours worked by private employees remained essentially unchanged at 34.7 hours.
- The unemployment rate fell to 3.8%.

Prime-Age Labor Force Participation Rate



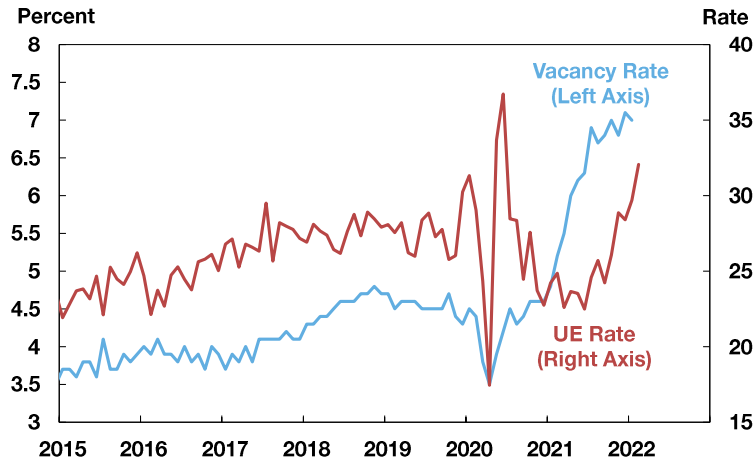
Source: Bureau of Labor Statistics via Haver Analytics

The labor force participation rate increased

- The labor force participation rate rose to 62.3% in February, driven by a large increase among prime-age men ages 25-54.
 - **The labor force participation rate for prime-age men rose 0.6 percentage point to 88.8%, representing the largest one-month gain since May of 2020.**
 - **The prime-age female labor force participation rate decreased slightly in February, falling to 75.8%.**
- February marked the highest overall labor force participation rate since the beginning of the pandemic, but participation remained well below pre-pandemic levels.

LABOR MARKET

Vacancies and UE Flow Rate

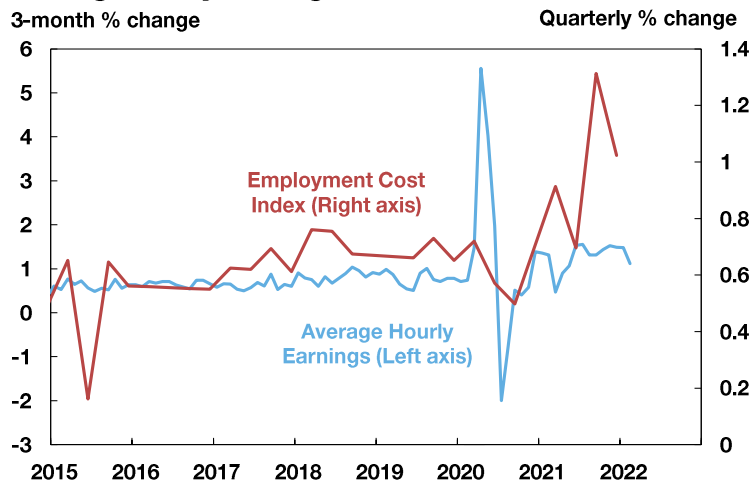


Source: Bureau of Labor Statistics

Flows into employment with vacancies at all-time high

- The flow rate from unemployment to employment rose to 32.1% in February, continuing its steep climb over the past four months.
 - **This represents a more than 7 percentage points increase over the year.**
- The vacancy rate was unchanged at 7.0%, an all-time high.

Average Hourly Earnings and the ECI



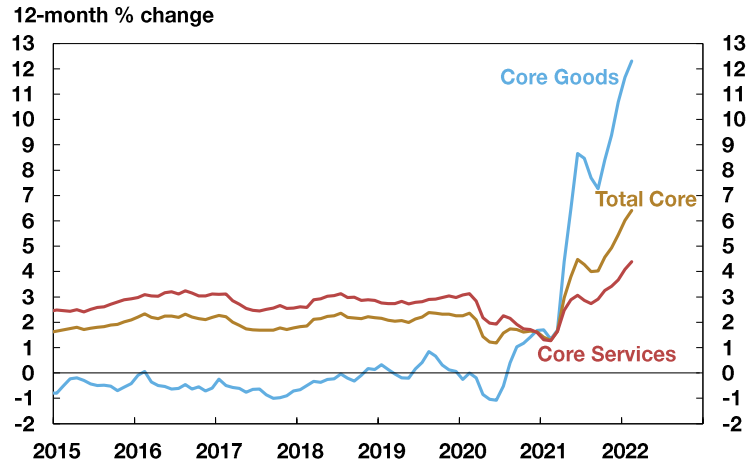
Source: Bureau of Labor Statistics via Haver Analytics

Wage growth showed signs of a slowdown

- Average hourly earnings remained essentially unchanged in February, perhaps an early sign of wage moderation.
 - **Average hourly earnings were up 5.1% over the year.**
 - **Average hourly earnings in leisure and hospitality were up 11.2% over the year.**
- The employment cost index was up 1.0% in Q4 2021 over the quarter.
 - **The index was up 4.0% over the year.**

INFLATION

Core CPI Inflation

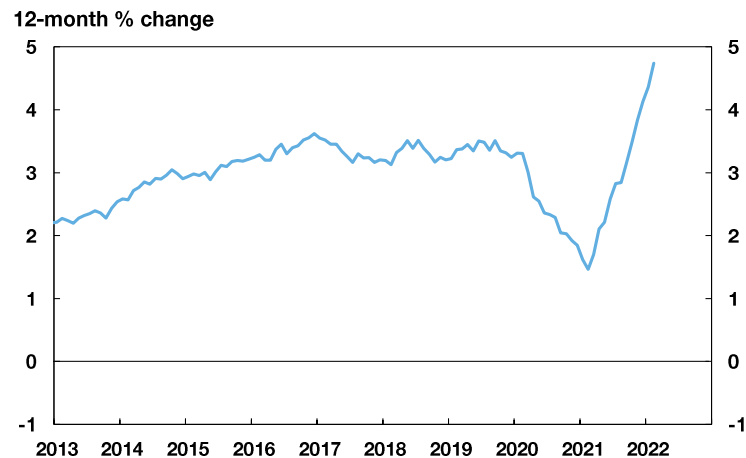


Source: Bureau of Labor Statistics via Haver Analytics

Core CPI inflation remained elevated in February

- The core CPI was up 0.5% over the month in February (6.2%, annualized), after rising 0.6% in January.
 - **Monthly changes averaged 0.6% in Q4 2021 and 0.5% in the first two months of 2022.**
 - **The monthly inflation rate for core goods fell from 1.0% to 0.5%, with a notable decline in the index for used motor vehicles.**
 - **The monthly inflation rate for core services prices increased from 0.4% to 0.5%, with a pick-up in shelter and transportation offsetting a decline in medical services.**
- Core inflation over the year rose from 6.0% to 6.4%.
 - **Core goods inflation increased from 11.7% to 12.3%.**
 - **Core services inflation rose from 4.1% to 4.4%.**

CPI Inflation: Shelter



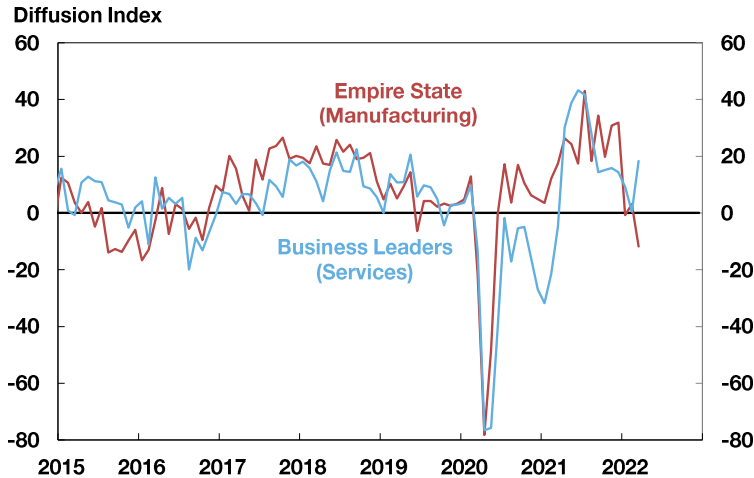
Source: Bureau of Labor Statistics via Haver Analytics

Shelter prices were up sharply over the year

- The shelter component of the CPI was up 0.5% (6.4%, annualized) over the month in February, an increase from 0.3% in January.
 - **Monthly changes averaged 0.5% in Q4 2021 and 0.4% in the first two months of 2022.**
- The shelter index was up 4.7% over the year in February, an increase from the 4.2% pace set in January.
 - **The relatively large increases in 2021 and early 2022 have made up for the modest increases in 2020.**
 - **The index was up 3.1% (annualized) over the last two years, near the 3.3% pace set in the years before the pandemic.**

REGIONAL DEVELOPMENTS

New York Fed Surveys: Current Conditions

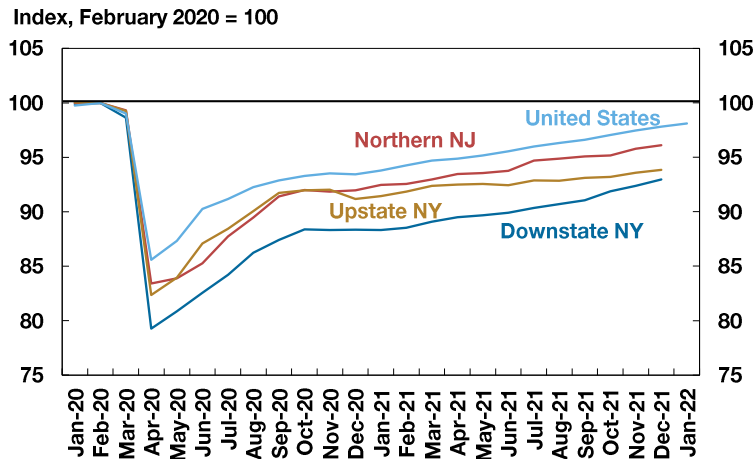


Source: Federal Reserve Bank of New York

District surveys sent mixed signals in March

- Activity looks to have declined in manufacturing and increased in the service sector, based on March business surveys.
 - The Empire Survey's headline index (manufacturing firms) fell 15 basis points to -11.8, the first negative reading since early in the pandemic. The indices for new orders and shipments declined and delivery times lengthened substantially.
 - The Business Leaders Survey's headline index (services firms) jumped 18 points to 18.3, with a dramatic turnaround in the leisure and hospitality sector. Firms expect conditions to continue to improve over the next six months, though optimism about the future deteriorated.

Regional Employment Trends



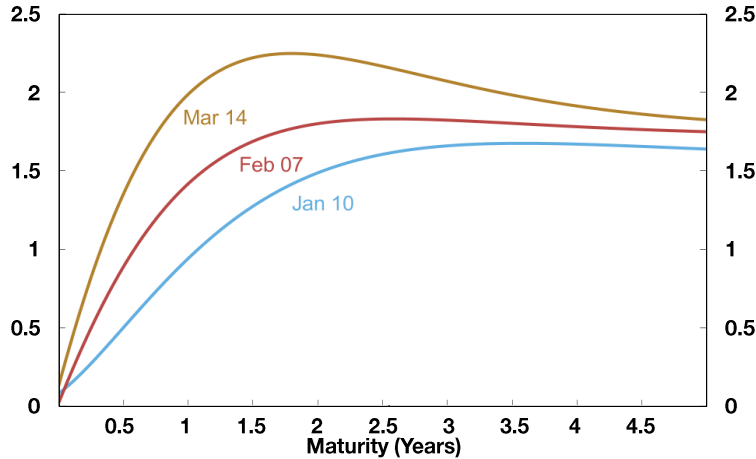
Source: U.S. Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by New York Fed staff.

Regional employment gains lagged the nation

- Job shortfalls remained more significant in the region than nationally.
 - Downstate employment increased 1.9% during Q4 2021, 0.8% in Northern New Jersey, 0.9% in Fairfield CT, and 0.6% in upstate New York, compared with 1.2% nationally.
 - Employment in December was 7.0% below pre-pandemic levels in downstate New York, 6.2% below in upstate New York, 3.9% below in Northern New Jersey, and 3.6% below in Fairfield, compared to a 2.2% job shortfall nationally.
 - Employment in Puerto Rico was 1.1% above pre-pandemic levels.

FINANCIAL MARKETS

Implied Fed Funds Rate



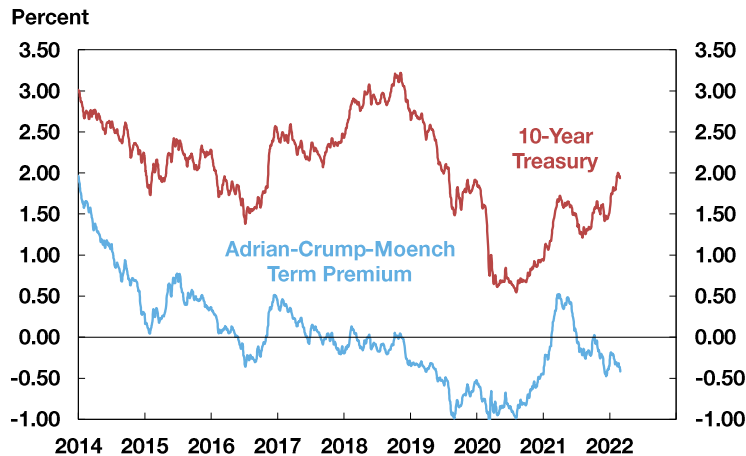
Source: NY Fed calculations, Bloomberg Finance L.P.

Note: Estimated using OIS quotes.

Implied path for the federal funds rate shifted up

- The expected path of the federal funds rate implied by overnight indexed swaps increased for short-dated maturities between February 7 and March 14.
- The market-implied federal funds rate at the end of 2023 was around 2.25%, which is above the median value of 1.6% in the FOMC's Summary of Economic Projections (SEP) from December 2021.
- At the five-year horizon, the market-implied federal funds rate was around 1.8%, which was below the median SEP longer-run federal funds rate of 2.5%.

10-Year Treasury and Term Premium



Sources: Federal Reserve Bank of New York and Federal Reserve Board via Haver Analytics

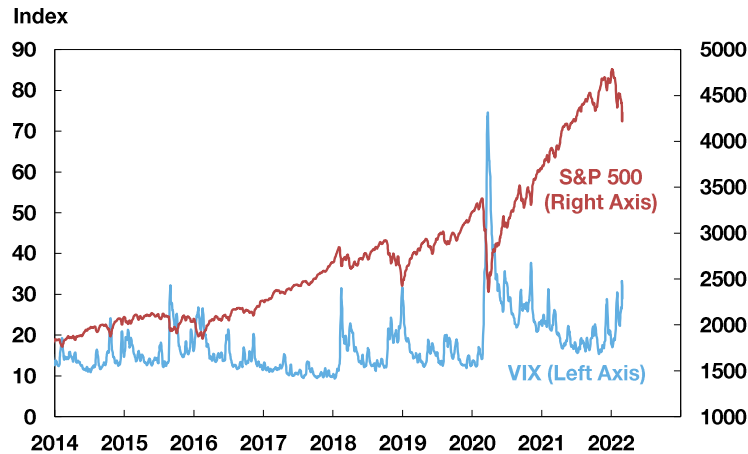
Note: Five-day rolling averages.

Ten-year Treasury yields moved higher

- The 10-year Treasury yield was at 2.14% on March 14, 22 basis points higher than the yield on February 7.
 - **The yield averaged 1.76% in January 2020.**
 - **The yield averaged 0.89% in 2020, 1.44% in 2021, and 1.85% in the first two months of 2022.**
 - **Estimates from the Adrian-Crump-Moench term structure model have the increase in the 10-year Treasury yield from February 7 to March 14 as due to an increase in the expected future interest rate path more than offsetting a decrease in the term premium.**

FINANCIAL MARKETS

U.S. Equity Market Index and Volatility



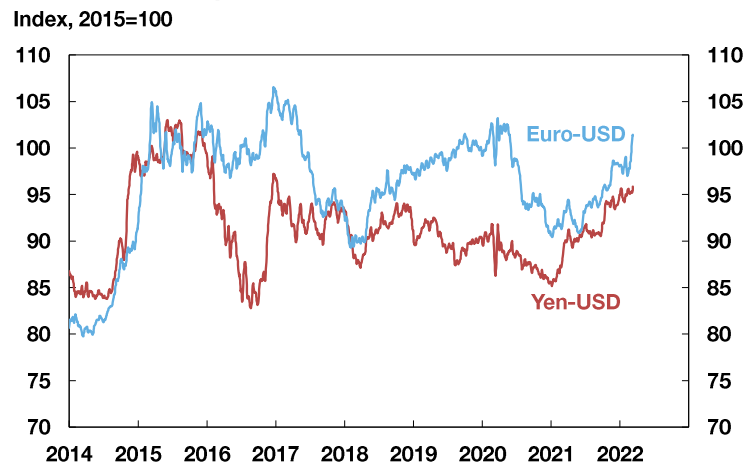
Source: Standard & Poor's and WSJ via Haver Analytics

Note: Five-day rolling averages.

Equity prices declined

- U.S. equity prices, as measured by the S&P 500 index, were down 6% on March 14 relative to the February average.
 - The S&P 500 index was down 12% year-to-date on March 14 after being up 27% over the course of 2021.**
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), increased from 25.7 in February to 31.7 on March 14.
 - The median VIX Index value was 31.8 over the period from 2000 to present.**

Dollar Exchange Rates



Source: Federal Reserve Board via Haver Analytics.

Note: Five-day rolling averages.

The dollar appreciated

- The Federal Reserve's trade-weighted broad dollar index was 2% higher on March 11 relative to the February average.
 - The index was up 2% relative to the 2021 average.**
- The dollar was 5% stronger against the euro on March 11 relative to February 7 and 2% stronger against the yen.