U.S. Economy in a Snapshot
Research & Statistics Group
July 2023

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 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 July 12, 2023.
OVERVIEW

- **Output**
  - GDP growth slowed to a still solid pace in Q1.
  - Consumption, government spending, and net exports were substantial contributors to growth.
  - Fixed investment spending was flat while inventory investment was a large drag.

- **Monthly indicators**
  - Consumer spending was unchanged over the month and the personal saving rate rose.
  - Real disposable income recovered in May after falling in April.
  - New home sales in May were up substantially over the year, while existing home sales were down.

- **Labor market**
  - Payroll growth was solid in June and the unemployment rate fell slightly.
  - The employment-to-population ratio for prime-aged workers was above its pre-pandemic level.
  - The rate of increase in hourly earnings, measured over the year, was unchanged.

- **Inflation**
  - Core CPI inflation over the year fell in June, with declines in both core services and core goods inflation.
  - Rent inflation appears to have peaked in March.
  - Food-at-home prices have been unchanged since December.

**Real GDP**

Trillions of 2012 dollars, annualized

Q1 output was modestly below its pre-pandemic trend

- GDP has grown at a 1.7% annual rate since Q4 2019.
  - In the March Summary of Economic Projections (SEP), the median estimate for the longer-run GDP growth rate was 1.8%.
  - The March Blue Chip survey had expected average annual growth over the 2025-29 period at 1.9%.
  - Q1 GDP was about 0.5% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.
The unemployment rate fell

- The unemployment rate decreased from 3.7% in May to 3.6% in June.
  - The rate averaged 3.6% in 2022.
  - The labor force participation rate was unchanged, leaving it 0.5 percentage point below the 2019 average and 0.4 percentage point above the 2022 average.

- The unemployment rate was below its longer-run normal level.
  - The February unemployment rate was below both the Blue Chip consensus forecast of 4.2% for the average unemployment rate over 2024-28 and the median SEP projection of 4.0% for the longer-run unemployment rate.

PCE inflation over the year decreased in May

- PCE inflation over the year fell from 4.4% in April to 3.9% in May.
  - Food inflation eased from 7% to 6% and energy inflation moved from -6% to -13%.

- Core PCE inflation decreased from 4.7% to 4.6%.
  - Core goods inflation stayed at 2.6%.
  - Core services inflation eased from 5.5% to 5.4%.

- Core PCE inflation over the previous six months rose from 4.4% (annualized) to 4.6%.
  - Core goods inflation increased from 1.4% to 2.7%.
  - Core services inflation fell from 5.6% to 5.3%.
  - Food inflation fell from 2.6% to 1.9%.
ECONOMIC ACTIVITY

GDP Growth

Quarterly % change annualized

Q1 output was revised up

- GDP rose at a 2.0% annual rate in Q1, upwardly revised from the previous estimate of 1.3%.
  - The four-quarter change was 1.8%.
  - The personal consumption expenditures component was the major contributor to the Q1 increase, while net exports contributed to much of the revision.
  - Final sales to private domestic purchasers (consumption plus private fixed investment) rose solidly in the quarter.

- In contrast, real gross domestic income (GDI) decreased at a 1.8% annual rate in Q1, its second straight decline.
  - The four-quarter change in real GDI was -0.8%.
  - The gap between GDP and GDI widened in Q1, with GDP now well above GDI.

Manufacturing Index

Index, 2017=100

Manufacturing activity was unchanged

- The manufacturing index in May was unchanged over the month.
  - The index moved higher in Q2 2022, retreated in Q4, and has been essentially flat so far in 2023.

- Manufacturing was unchanged over the year.
  - Durable goods production was up 0.5% and nondurable goods production was down 1%.
  - The motor vehicle sector was an outlier, with its production up 10%.
### The growth in real disposable income increased

- Nominal disposable personal income growth over the year was unchanged at 8.0% in May, while real disposable income growth increased from 3.5% to 4.0%.
  - Real disposable income was roughly 5% below its trend growth path.

- The growth in real personal consumption spending over the year was essentially unchanged at 2.0% in May.
  - The personal saving rate rose from 4.3% to 4.6%.
  - The saving rate averaged 3.6% in 2022.
  - The saving rate was well below its pre-pandemic level of around 9%.

### The growth in spending on goods was modest

- The growth in real spending on goods over the year was unchanged at 1.1% in May.
  - Spending on durable goods rose 2.4% and spending on nondurables rose 0.4%.
  - The level of spending on both durable and nondurable goods has been largely unchanged since mid-2021.
  - Durable goods spending was around 10% above its trend growth path and nondurable goods spending was 2% above.

- The growth in real spending on services over the year fell from 2.8% to 2.6%.
  - Spending was around 2% below its trend growth path.
**Business Investment Spending on Equipment**

Billions of 2012 dollars, annualized

- **Equipment spending declined again in Q1**
  - Real business equipment spending decreased at an 8.9% annual rate in Q1, its second straight decline.
    - Equipment spending subtracted 0.5 percentage point from the annualized GDP growth rate in the quarter.
    - Spending fell in the information processing, transportation, and “other” categories, and rose in the industrial category.
    - Equipment spending was down 1.2% over the year.
  - Orders of capital goods rose solidly in May.
    - Nevertheless, nominal orders have risen only modestly since mid-2022.
    - Even though the pace has slowed recently, prices for capital equipment have risen briskly since mid-2022.

**Source:** Bureau of Economic Analysis via Haver Analytics

**Business Investment in Nonresidential Structures**

Billions of 2012 dollars, annualized

- **Spending on nonresidential structures rose in Q1**
  - Real nonresidential structures investment spending increased at an 15.8% annual rate in Q1, its second straight double-digit increase.
    - Structures investment contributed 0.4 percentage point to annualized GDP growth in the quarter.
    - Spending was up 3% over the year but still down 19% relative to Q4 2019.
  - Spending on manufacturing structures surged in Q1 and has risen more than 25% in the past year.
    - Spending on those structures was 19% above its Q4 2019 level.
    - Spending on mining exploration, shafts, and wells also rose strongly in Q1, but was still 11% below its Q4 2019 level.

**Source:** Bureau of Economic Analysis via Haver Analytics
HOUSING SECTOR

Residential Investment
Billions of 2012 dollars, annualized

Residential investment spending fell in Q1

- A drop in residential investment spending took 0.2 percentage point off annualized Q1 GDP growth.
  - Investment spending was down 4% (annualized) over the quarter and was down 19% over the year.

- Investment in single-family housing was down 18% (annualized) over the quarter in Q1, while investment in multi-family structures was up 15%.
  - Single-family construction was down 27% over the year and multi-family construction was up 10%.
  - Housing starts in April and May were down 11% over the year, with single-family starts down 18% and multi-family starts up 2%.

Existing Single-Family Home Sales
Thousands, annualized

Existing home sales were down

- Existing single-family home sales in April and May were down 21% over the year.
  - Sales were 19% below the 2019 average.

- New single-family home sales in April and May were up 15% over the year.
  - Sales were 5% above the 2019 average.

- Prices for existing single-family homes peaked in June 2022 and have since fallen 2% through April 2023.
Federal Government Spending

- Billions of 2012 dollars, annualized
- Defense spending increased
- Nondefense spending increased

Federal spending increased in Q1
- Federal government spending added 0.4 percentage point to annualized real GDP growth in Q1.
  - Nondefense spending added 0.3 percentage point and defense spending added 0.1 percentage point.
- Total real spending was 3% above its year-ago level.
  - Nondefense and defense spending were both up 3% over the year.

State and Local Government Spending

- Billions of 2012 dollars, annualized
- S&L government consumption was up 3% (annualized) over the quarter.
  - Consumption was up 2% over the year.
- S&L government investment spending rose 10% (annualized) over the quarter.
  - Investment spending was up 5% over the year.

Source: Bureau of Economic Analysis via Haver Analytics
Core CPI Inflation

Core CPI inflation eased

- Core inflation over the year fell from 5.3% in May to 4.8% in June.
  - Core goods inflation fell from 2.0% to 1.3%, with inflation for used motor vehicles moving from -4.2% to -5.2%.
  - Core services inflation fell from 6.6% to 6.2%, with rent inflation dipping from 8.7% to 8.3%.

- The core CPI rose 4.6% (annualized) over the previous six months, down from the 5.1% pace set in May.
  - Core goods inflation went from 2.5% to 2.6% over that period, with used motor vehicles inflation going from 2.1% to 5.3%.
  - Core services inflation decreased from 6.1% to 5.4%, with rent inflation falling from 7.9% to 7.2%.

CPI Inflation: Food at Home

Food inflation dropped significantly

- The food-at-home component of the CPI was up 4.7% over the year in June, a drop from 5.8% in May.
  - Inflation over the previous six months fell from 1.6% (annualized) to 0.4%.
  - For comparison, prices rose at an average pace of 1% in decade before the pandemic.

- Prices for cereals and bakery products were up 9% over the year, meats were up 1%, and dairy products were up 3%.

- The food-at-home index was 25% above its 2019 average.
LABOR MARKET

Employment growth remained solid
- Nonfarm payroll employment increased by 209,000 in June, below the average of 278,000 in the first six months of 2023.
  - Most of the increase was in health care (65,000), government (60,000), professional and business services (21,000), and leisure and hospitality (21,000).
- The Household Survey’s employment-to-population ratio for the 16-64 years-old cohort remained at 72.4%.
  - The ratio averaged 71.3% in 2022.
  - The ratio was 1.0 percentage point above the 2019 average.

Average hourly earnings growth was unchanged
- The growth in average hourly earnings over the year remained at 4.4% in June.
  - Earnings growth peaked at 5.9% in March 2022.
  - Earnings growth over the previous six months stayed at 4.1% (annualized).
  - For comparison, earning rose 3.2% over the year in Q4 2019.
- The growth in the employment cost index over the year fell from 5.1% in December to 4.9% in March.
  - Growth in the index over the previous six months fell from 4.7% (annualized) in December to 4.6% in March.
  - For comparison, the index rose 2.7% over the year in Q4 2019.
Regional business activity was mixed in June

- Activity increased in the region’s manufacturing sector, but edged lower in the service sector, according to the June regional business surveys.
  - The Empire Survey’s headline index (manufacturing) climbed 38 points to 7, continuing its see-saw pattern of monthly ups and downs, and the Business Leaders Survey’s headline index (services) rose 12 points to -5.
  - Employment growth picked up to a modest pace in the service sector, but employment continued to decline slightly among manufacturers.
  - Price increases slowed significantly, especially among manufacturers.

Job growth mixed across the region in May

- Employment growth was sluggish in New York, though Puerto Rico saw strong gains.
  - While employment grew by 2.6% nationally over the prior 12 months, employment increased by 1.8% in downstate New York, 1.2% in upstate New York, 2.2% in Northern New Jersey, and 2.7% in Fairfield CT.
  - Employment remained 2.0% below pre-pandemic levels in downstate New York and 2.6% below in upstate New York. Employment was above pre-pandemic levels by 1.2% in Fairfield, 2.2% in Northern New Jersey, and 2.4% for the nation as a whole.
  - Employment in Puerto Rico grew by 5.4% on a year-over-year basis in May and was 8.8% above pre-pandemic levels.
**INTERNATIONAL DEVELOPMENTS**

**Exports and Imports of Goods and Services**

<table>
<thead>
<tr>
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<th>Billions of 2012 dollars, annualized</th>
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<tbody>
<tr>
<td>Exports</td>
<td>Import</td>
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<td>2023</td>
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Source: Bureau of Economic Analysis via Haver Analytics

**Net exports contributed to Q1 growth**

- Exports and imports both rose in Q1.
  - Higher exports added 0.9 percentage point to annualized GDP growth, while higher imports subtracted 0.3 percentage point.

- Exports rebounded after falling in Q4.
  - Increases in sales of food, petroleum, and consumer goods were partially offset by a decrease in nondurable industrial supplies.

- Imports rose after falling in the previous two quarters.
  - Increases in autos, petroleum, and durable consumer goods were partially offset by declines in food, durable industrial supplies, computers, and nondurable consumer goods.

**Crude Oil Prices**

<table>
<thead>
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<th>Dollars per barrel (WTI)</th>
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<tbody>
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<td>2022</td>
<td>120</td>
</tr>
<tr>
<td>2023</td>
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</tbody>
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Source: Energy Information Administration via Haver Analytics

**Oil prices were relatively stable**

- Oil prices (WTI) fell from $72/barrel in May to $70/barrel in June.
  - Prices were near $70/barrel in early July.
  - Prices averaged $68/barrel in 2021 and $95/barrel in 2022.

- The Department of Energy's July forecast projects that global inventories will tighten in the second half of 2023, largely offsetting the rise in the first half of the year.
  - Most of the 2023 increase in global consumption is set to come from China and the rest of Asia.
  - Global production is set to be flat this year, with higher production in the U.S., Norway, Brazil, and Canada offset by lower OPEC output.
### Implied path for the federal funds rate shifted up

- Between June 12 and July 10, the expected path of the federal funds rate implied by overnight indexed swaps increased for all maturities. The curve has a downward slope after about 5 months.
- The market-implied federal funds rate at the end of 2024 was at around 4.1%, which is below the median value of 4.6% in the FOMC’s Summary of Economic Projections (SEP) from June 2023.
- At the five-year horizon, the market-implied federal funds rate was at around 3.2%, which is above the median SEP longer-run federal funds rate of 2.5%.

### Ten-year Treasury yield increased

- The 10-year Treasury yield increased by 28 basis points between June 12 and July 10 to 4.01%.
  - The yield averaged 0.89% in 2020, 1.44% in 2021, and 2.95% in 2022.
  - Estimates from the Adrian-Crump-Moench term premium model suggest that the increase in the 10-year Treasury yield from June 12 to July 10 was due to increases in both the expected interest rate path and the term premium.
**FINANCIAL MARKETS**

**U.S. Equity Market Index and Volatility**

- **Equity prices rose**
  - U.S. equity prices, as measured by the S&P 500 index, increased moderately over the past month.
    - The S&P 500 index was up 2% on July 10 relative to June 12, and was up 15% year-to-date.
  - Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), increased slightly from 15.0 on June 12 to 15.1 on July 10.
    - The index recently peaked at 26.5 on March 13.
    - The index averaged 21.6 over the past 12 months.

**Dollar Exchange Rates**

- **The dollar index was flat**
  - The Federal Reserve's trade-weighted broad dollar index was unchanged between June 9 and July 7.
    - The index was down 1.5% year-to-date.
  - On July 7, the dollar was 2% weaker against the euro and 2% stronger against the yen relative to June 9.

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

Note: Five-day rolling averages.