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 June 13, 2023.
OVERVIEW

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

- **Monthly indicators**
  - Consumer spending picked up in April and the personal saving rate fell.
  - Manufacturing activity has stalled after faltering at the end of last year, while spending on manufacturing facilities has been robust.
  - The housing market appears to have stabilized.

- **Labor market**
  - Payroll growth was solid in May, while the unemployment rate rose from a very low level.
  - The rate of increase in hourly earnings, measured over the year, dropped slightly.

- **Inflation**
  - Core CPI inflation over the year fell in May, with a decline in core services inflation and no change in core goods inflation.
  - Used motor vehicles prices have moved higher in the last two months.
  - Food prices have been unchanged since December.

**Q1 output was modestly below its pre-pandemic trend**

- GDP has grown at a 1.6% 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 0.75% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.

Source: Bureau of Economic Analysis via Haver Analytics
OVERVIEW

**Unemployment Rate**

The unemployment rate rose

- The unemployment rate increased from 3.4% in April to 3.7% in May.
  - 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 May 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.

Source: Bureau of Labor Statistics via Haver Analytics

**PCE Deflator**

PCE inflation over the year increased in April

- PCE inflation over the year rose from 4.2% in March to 4.4% in April.
  - Food inflation eased from 8% to 7% and energy inflation moved from -10% to -6%.

- Core PCE inflation increased from 4.6% to 4.7%.
  - Core goods inflation increased from 2.5% to 2.6%.
  - Core services inflation increased from 5.4% to 5.5%.

- Core PCE inflation over the previous six months rose from 4.3% (annualized) to 4.5%.
  - Core goods inflation rose from 0.8% to 1.4%.
  - Core services inflation fell from 5.7% to 5.6%.
  - Food inflation fell to 2.6%.

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

Quarterly % change annualized

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<th>Year</th>
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Source: Bureau of Economic Analysis via Haver Analytics

**Output increased moderately in Q1**

- GDP rose at a 1.3% annual rate in Q1, after rising at a 2.9% rate in the second half of 2022.
  - The four-quarter change was 1.6%.
  - Personal consumption spending was the major contributor to the Q1 increase, while inventory investment was a significant drag.
  - 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 2.3% annual rate in Q1, its second straight decline.
  - The four-quarter change in real GDI was -0.9%.
  - The gap between GDP and GDI widened in Q1, with GDP now well above GDI.

**Manufacturing Index**

Index, 2017=100

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<tr>
<td>2023</td>
<td>105</td>
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</tbody>
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Source: Federal Reserve Board via Haver Analytics

**Manufacturing activity rebounded**

- The manufacturing index rebounded in April after a large drop in March.
  - The index was 0.5% above the Q1 average.
  - The index moved higher in Q2 2022, retreated in Q4, and has been essentially flat so far in 2023.

- Manufacturing in April was down 1% over the year.
  - Durable goods production and nondurable goods production were both down 1%.
  - The motor vehicle sector was an outlier, with its production up 8%. 
HOUSEHOLDS

Disposable Income and Consumption

- Nominal disposable personal income growth over the year rose from 7.6% in March to 7.9% in April, while real disposable income growth increased from 3.3% to 3.4%.
  - Real disposable income was roughly 5% below its trend growth path.

- The growth in real personal consumption spending over the year rose from 2.0% in March to 2.3% in April.
  - The personal saving rate fell to 4.1%.
  - The saving rate was well below its pre-pandemic saving rate of around 9%.

Source: Bureau of Economic Analysis via Haver Analytics

Consumer Spending

- The growth in real spending on goods rose over the year increased from 0.9% in March to 1.5% in April.
  - Spending on durable goods was up 2.6% and spending on nondurables was up 0.8%.
  - 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 spending was 2% above.

- The growth in real spending on services over the year rose from 2.5% to 2.7%.
  - Spending was around 2% below its trend growth path.

Source: Bureau of Economic Analysis via Haver Analytics
**Equipment spending declined again in Q1**

- Real business equipment spending decreased at a 7.0% annual rate in Q1, its second straight decline.
  - Equipment spending subtracted 0.4 percentage point from the annualized GDP growth rate in the quarter.
  - Spending fell sharply in the transportation and “other” categories, rose in the industrial category, and was little changed in the information processing category.
  - Equipment spending was down 0.7% over the year.

- Orders of capital goods rose solidly in April.
  - Nevertheless, nominal orders have been roughly flat since mid-2022.
  - Even though the pace has slowed recently, prices for capital equipment have risen briskly since mid-2022.

**Spending on nonresidential structures rose in Q1**

- Real nonresidential structures investment spending increased at an 11.0% annual rate in Q1, its second straight double-digit increase.
  - Structures investment contributed 0.3 percentage point to annualized GDP growth in the quarter.
  - Spending was up 2% over the year but still down 20% relative to Q4 2019.

- Spending on manufacturing structures again surged in Q1 and has risen more than 20% in the past year.
  - Spending on those structures was 14% above its Q4 2019 level.
  - Spending on mining exploration, shafts, and wells also rose strongly in Q1, but was still 8% below its Q4 2019 level.
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 5% (annualized) over the quarter and was down 19% over the year.

- Investment in single-family housing was down 20% (annualized) over the quarter in Q1, while investment in multi-family structures was up 11%.
  - Single-family construction was down 27% over the year and multi-family construction was up 9%.
  - Housing starts in April were down 22% over the year, with single-family starts down 28% and multi-family starts down 11%.

Existing home sales were stable

- Existing single-family home sales in April were unchanged from the Q1 average.
  - Sales were 19% below the 2019 average.

- New single-family home sales in April were up 6% relative to the Q1 average.
  - Sales were equal to the 2019 average.

- Prices for single-family homes fell 2% from June 2022 to March 2023.
**GOVERNMENT SECTOR**

**Federal Government Spending**

- Billions of 2012 dollars, annualized
- Source: Bureau of Economic Analysis via Haver Analytics

**Federal spending rose in Q1**
- Federal government spending added 0.5 percentage point to annualized GDP growth in Q1.
  - Nondefense spending added 0.3 percentage point to growth and defense spending added 0.2 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
- Source: Bureau of Economic Analysis via Haver Analytics

**State and local government spending increased**
- Real state and local government spending added 0.4 percentage point to annualized real GDP growth in Q1.
  - Spending was up 4% (annualized) over the quarter and 2% over the year.
- S&L government consumption was up 3% (annualized) over the quarter.
  - Consumption was up 2% over the year.
- Investment spending rose 7% (annualized) over the quarter.
  - Investment spending was up 4% over the year.
INFLATION

Core CPI Inflation

12-month % change

Core CPI inflation over the year fell

- Core inflation over the year fell from 5.5% in April to 5.3% in May.
  - Core goods inflation was unchanged at 2.0%, with inflation for used motor vehicles moving down from -6.6% to -4.2%.
  - Core services inflation fell from 6.8% to 6.6%, with rent inflation dipping from 8.8% to 8.7%.

- The core CPI rose 5.1% (annualized) over the previous six months, up from the 4.8% pace set in April.
  - Core goods inflation went from 0.9% to 2.5%, with used motor vehicles inflation going from -10.1% to 2.1%.
  - Core services inflation decreased from 6.3% to 6.1%, with rent inflation falling from 8.5% to 7.9%.

CPI Inflation: Durable Goods

12-month % change

Prices for durable goods were unchanged over the year

- Inflation over the year for durable goods moved from -0.2% in April to -0.1% in May.
  - Inflation over the previous six months went from -1.3% (annualized) to 0.9%, pulled up by a rebound in prices for used motor vehicles.

- Prices for new motor vehicles were up 4.7% over the year, while prices for used vehicles were down 4.2%.

- Prices for household furnishings were up 4.3%, prices for recreational goods were up 2.3%, and prices for IT goods were down 5.5%.
**Labor Market**

**Payroll Employment**

Index, 2019=100

- Nonfarm payroll employment increased by 339,000 in May, near the average of 314,000 in the first five months of 2023.
  - Most of the increase was in health care (75,000), professional and business services (64,000), government (56,000), and leisure and hospitality (48,000).

- The Household Survey’s employment-to-population ratio ticked down from 60.4% in April to 60.3% in May.
  - The ratio stayed close to 60.0% over the course of 2022.
  - The ratio was 0.5 percentage point lower than the 2019 average and near the 2018 average.

**Average Hourly Earnings and the ECI**

Year-over-year % change

- The growth in average hourly earnings over the year fell from 4.4% in April to 4.3% in May.
  - Earnings growth has trended down since hitting 5.9% in March 2022.
  - Earnings growth over the previous six months fell from 4.1% (annualized) to 3.9%.
  - Earnings were up 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.
  - The index was up 2.7% over the year in Q4 2019.

Source: Bureau of Labor Statistics via Haver Analytics
Regional business activity declined in May

- Activity declined in the region's manufacturing and service sectors, according to the May regional business surveys.
  - The Empire Survey's headline index (manufacturing) plunged 43 points to -31.8, continuing its see-saw pattern of monthly ups and downs, and the Business Leaders Survey's headline index (services) fell 7 points to -16.8.
  - Employment edged slightly higher in the service sector and continued to decline among manufacturers.
  - The pace of price increases was little changed in May.

Job growth remains sluggish in parts of the region

- Employment growth remained strong in downstate New York and in Puerto Rico.
  - While employment grew by 2.7% nationally over the prior 12 months, employment increased by 2.8% in downstate New York, 2.4% in Northern New Jersey, 1.4% in Fairfield CT, and 1.9% in upstate New York.
  - Employment remained 1.2% below pre-pandemic levels in downstate New York, 2.1% below in upstate New York, and recovered to pre-pandemic levels in Fairfield.
  - Employment was 2.2% above pre-pandemic levels in Northern New Jersey and the nation as a whole.
  - Employment in Puerto Rico grew 3.9% on a year-over-year basis in April and was 7.8% above pre-pandemic levels.
INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services

Source: Bureau of Economic Analysis via Haver Analytics

Net exports were flat in Q1
- Exports and imports both rose in Q1.
  - Higher exports added 0.6 percentage point to annualized GDP growth, while higher imports subtracted 0.6 percentage point.
- Exports rebounded after falling in Q4.
  - Increases in sales of food, oil, and non-durable consumer goods were partially offset by decreases in exports of non-oil industrial supplies and transport services.
- Imports rose after falling in the previous two quarters.
  - Increases in autos and consumer goods were partially offset by declines in imports of food, non-oil industrial supplies, and capital goods.

Crude Oil Prices

Source: Energy Information Administration via Haver Analytics

Oil prices were relatively stable
- Oil prices (WTI) fell from $79/barrel in April to $72/barrel in May.
  - Prices were around $70/barrel through mid-June.
  - Prices averaged $68/barrel in 2021 and $95/barrel in 2022.
- The Department of Energy’s June forecast projects that global inventories will rise in the first half of 2023 and then be unchanged in the second half and in 2024.
  - Most of the 2023 increase in global consumption is set to come from China and the rest of Asia.
  - Higher production in the U.S., Norway, Brazil, and Canada in 2023 is expected to more than offset lower OPEC output.
**FINANCIAL MARKETS**

### Implied Fed Funds Rate

![Graph showing implied Fed Funds Rate](image)

- **May 08**: Initial rate
- **Jun 12**: Path shifted up
- **Apr 10**: Baseline rate

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

*Note: Estimated using OIS quotes.*

### Implied path for the federal funds rate shifted up

- **Between May 8 and June 12**, 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 2.5 months.
- **The market-implied federal funds rate at the end of 2024** was at around 3.7%, 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 3.0%, which is above the median SEP longer-run federal funds rate of 2.5%.

### 10-Year Treasury and Term Premium

![Graph showing 10-Year Treasury and Term Premium](image)

- **10-Year Treasury**
- **Adrian-Crump-Moench Term Premium**

Sources: NY Fed and Federal Reserve Board via Haver Analytics

*Note: Five-day rolling averages.*

### Ten-year Treasury yields increased

- **The 10-year Treasury yield increased** by 21 basis points between May 8 and June 12 to 3.73%.
  - The yield averaged 0.89% in 2020, 1.44% in 2021, and 2.95% in 2022.
  - Estimates from the Adrian-Crump-Moench term premium suggest that the increase in the 10-year Treasury yield from May 8 to June 12 was due to a higher expected interest rate path more than offsetting a decrease in the term premium.
**Financial Markets**

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

- **Equity prices increased**
  - U.S. equity prices, as measured by the S&P 500 index, were stable over the past month.
    - The S&P 500 index was up 5% on June 12 relative to May 8, and was up 13% year-to-date.
  - Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), decreased from 17 on May 8 to 15 on June 12.
    - The index recently peaked at 26.5 on March 13.
    - The index averaged 22.6 over the past 12 months.

**Dollar Exchange Rates**

- **The dollar appreciated**
  - The Federal Reserve's trade-weighted broad dollar index increased by 2% between May 5 and June 9.
    - The index was unchanged year-to-date.
  - On June 9, the dollar was 2% stronger against the euro and 3% stronger against the yen relative to May 5.

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

Note: Five-day rolling averages.