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 April 10, 2020.
- Consumer spending growth remained modest in February.  
  - Real spending on durable goods fell, while real expenditures on nondurable goods and on services grew modestly.  
  - Consumer confidence fell sharply in March.

- Real business equipment spending declined again in 2019Q4, and fell over the course of 2019.  
  - New orders of nondefense capital goods ex-aircraft were modestly below shipments in February, suggesting near-term momentum for equipment spending was weak.

- Housing activity indicators were still positive in February.  
  - Single-family housing starts and new home sales remained robust. Existing home sales rose significantly. The impact of the COVID-19 pandemic on the labor market and incomes is likely to have a severely adverse effect on the housing market despite low mortgage rates.

- Payroll employment fell abruptly in March. The unemployment rate rose sharply while the labor force participation rate and the employment-to-population ratio declined significantly.  
  - Initial unemployment insurance claims rose substantially beyond their historical highs.

- Core PCE inflation remained below the FOMC’s longer-run objective.

- U.S. equity indices continued to display considerable volatility. Implied volatility also remained high. The nominal 10-year Treasury yield remained near all-time lows. The market-implied expected policy rate path over the next year remained near zero. The broad trade-weighted dollar index rose substantially. Oil prices remain low.

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**Output above potential in 2019Q4**

- The level of real GDP in 2019Q4 was about 0.6% above the estimate of real potential GDP from the Congressional Budget Office (CBO).  
  - For comparison, the historical (1949 – 2019) average of this measure of the output gap is -0.6%.
  - Real GDP likely will fall below real potential GDP in the first half of this year because of the impact of COVID-19.  
  - The 4.4% unemployment rate in March was near many estimates of its natural rate, including the CBO’s (4.44%). It likely will be well above those estimates in coming months.

- The recent data on unemployment gaps signaled that resource constraints in the U.S. economy had already loosened considerably by March.  
  - Capacity utilization rates already were below historical averages.

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**GDP**

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Potential GDP Growth</th>
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<tr>
<td>2000–2005</td>
<td>3.1%</td>
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<td>2005–2010</td>
<td>1.8%</td>
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<td>2010–2015</td>
<td>1.5%</td>
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<td>2015–2020</td>
<td>1.9%</td>
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Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics  
Note: Shading shows NBER recessions.
**Labor market conditions begin to weaken in March**

- The unemployment rate jumped to 4.4% in March from 3.6% in February.
  - These data reflect primarily the situation in the first part of the month, prior to many business and school closures.

- Nonfarm payrolls fell by 701,000 in March.
  - Two-thirds of the decline was concentrated in leisure and hospitality (-459,000), likely largely related to the impact of the COVID-19 outbreak.

- In March, average weekly hours fell by 0.2 to 34.2 hours, their lowest level since 2011.
  - Average weekly hours in leisure and hospitality dropped from 25.8 to 24.4.

**Inflation continues to run below 2 percent**

- The total PCE price index rose 0.1% in February, after rising 0.1% in January. The core PCE price index (which excludes food and energy prices) rose 0.2% in February, also in line with the January reading.
  - Energy prices fell 2.1% in February, and are up 2.8% relative to one year ago. Food prices rose 0.4% and are up 0.8% compared to one year ago.

- The 12-month changes in the total and the core PCE price indices both rose slightly to +1.8%.
  - Core PCE inflation remains below the FOMC’s 2 percent longer-run goal.
2019Q4 real GDP growth little revised in 3rd estimate

- The third estimate of real GDP growth for 2019Q4 was 2.1% (annual rate), the same as the first and second estimates. Real GDP growth over 2019 (Q4/Q4) was 2.3%, compared to 2.5% in 2018.
- Real personal consumption expenditures rose at a 1.8% annual rate in Q4, slightly above the second estimate.
- Real nonresidential fixed investment fell 2.4% (annual rate) in Q4, slightly weaker than in the second estimate.
- Real residential investment rose 6.5% (annual rate) in Q4, an upward revision as the housing market improved amid lower mortgage rates.
- Largely due to a fall in imports, net exports were a positive contributor to GDP growth in Q4. Lower inventory investment offset part of the net export contribution.

Manufacturing declines in March

- The ISM PMI fell 1 percentage point in March to 49.1.  
  - 4 out of the 5 component indices indicate contraction.  
  - The high reading of the Supplier Deliveries index is primarily due to COVID-19 related supply problems.

- Manufacturing production increased 0.1% in February.  
  - The 12-month change in manufacturing production was -0.4%.

- 4 out of the 5 regional Fed surveys showed pronounced declines in manufacturing in March as the COVID-19 outbreak took hold.  
  - The exception, Richmond, had most of the survey responses in February.
Disposable income still strong ahead of COVID-19

- Nominal personal income rose a strong 0.6% in February, the month prior to the COVID-19 outbreak. The increase was above Bloomberg’s median expectations.
  - Disposable personal income increased 0.5% in nominal terms, and 0.4% in real terms.
- Real PCE increased a modest 0.1% in February, as it did in January, and was below market expectations.
  - Goods consumption declined 0.2%, with durables declining 0.7% and nondurables rising 0.1%.
  - Service consumption grew 0.2%.
- On a 12-month basis, real PCE increased 3.0% in February.
- The personal saving rate increased to 8.2% in February.

Consumer confidence drops sharply in March

- The Conference Board’s Consumer Confidence Index decreased from 132.6 in February to 120.0 in March.
  - It must be noted however that the latest figure does not account for developments late in the month because the index was calculated with data collected before March 19.
- Consumers’ short term economic outlook turned more pessimistic in March.
  - The fraction of respondents expecting worse business conditions increased sharply from 7.2% to 14.9%.
  - The proportion of respondents expecting fewer jobs to be available increased from 12.0% to 17.1%.
**Business Sector**

**Equipment Investment and Capacity Utilization**

- Real business equipment investment declined 4.3% (annual rate) in 2019Q4. Equipment spending fell 1.8% in 2019 (Q4/Q4), compared to the 5.0% increase in 2018.
  - In 2019, spending declined for transportation equipment, industrial equipment, and other equipment. Spending rose moderately for information equipment.

- Weak equipment investment over 2019 occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
  - This rate was 75.0% in February, 3.2 percentage points below its long-run average.
  - Historically, utilization rates near or below the February level have been associated with weak equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- Shipments of nondefense capital goods excluding aircraft fell 0.7% in February. The January-February average level of these shipments was 0.3% above the average in 2019Q4.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.

- New orders of nondefense capital goods excluding aircraft decreased by 0.8% in February.

- New orders for these goods were modestly below shipments in February, suggesting near-term momentum for equipment spending was weak in the month.
**Housing Sector**

**Housing Starts**
- Total housing starts fell by 1.5% in February to 1.599 million units but the February level was still near the high for the expansion.
- Single-family starts rose 6.7% in February to their highest level in the expansion.
- After rising strongly in the previous two months, multi-family starts decreased 14.9% in February.
  - Nevertheless, multi-family starts had been on a strong uptrend over late 2019 and early 2020.
- Single-family permits increased by 1.7%, while multi-family permits decreased 18.3% in February.
  - Single-family permits had risen solidly since April 2019.

**New and Existing Home Sales**

**Home sales still robust in February**
- Single-family existing home sales increased 7.3% in February to 5.2 million units (seasonally adjusted annual rate).
  - Single-family existing home sales are 7.3% above a year ago.
- Single-family new home sales decreased 4.4% (SAAR), but remained at a relatively high level of 765,000 units in February.
  - Relative to one year ago, sales are up 14%, a strong increase but still below that of prior two months.
- Home sales continued to be robust in February spurred by continued low mortgage rates and still-solid labor market conditions. However, the significant worsening of the labor market may adversely impact home sales going forward.
**GOVERNMENT SECTOR**

### Real Government Consumption and Gross Investment

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**Federal**

**State and Local**

- **Growth of real government spending picks up**
  - Over the four quarters ending in 2019Q4, real government consumption and gross investment grew 3.0%, the highest figure since the fourth quarter of 2009.
    - Increased real government spending contributed 0.52 percentage point to growth in 2019, the most in a decade.

- Real Federal spending was up 4.3% over the four quarters ending in 2019Q4, the highest since mid-2010.
  - Federal defense and non-defense spending grew at a roughly equal pace in 2019. Together, these items contributed 0.28 percentage point to growth over the year.

- Real spending by state and local governments was up 2.2% in 2019, contributing 0.24 percentage point to growth.

### Real State & Local Consumption & Gross Investment

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**Consumption Expenditures**

**Gross Investment**

- **State and local sector spending grows moderately**
  - Over the four quarters ending in 2019Q4, growth of real consumption at the state and local level rose to about 1.2% on a four-quarter change basis.
    - Consumption expenditures consist largely of employee salaries and make up over 80% of the sector’s total spending.

- State and local gross investment spending growth jumped to about 6.9% over the four quarters ending in 2019Q4, the highest rate since early 2016.
  - The categories of gross investment are, in order of importance, new equipment such as computers, intellectual property products such as software, and public works and infrastructure projects.
INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods

- For a second consecutive time the trade deficit fell significantly in February to $39.9 billion from $45.5 billion deficit in January. Real exports increased over the month whereas real imports decreased.
  - Real goods exports increased 2.5% between January and February, owing mostly to higher real oil goods exports with real auto exports declining.
  - Real goods imports declined 2.3% over the month, with real nonoil goods imports falling 2.9%, as capital goods imports (excluding autos) dropped due to global supply chain disturbances stemming from the COVID-19 pandemic. Real oil goods imports were up in February.

- Net exports added 1.48 percentage points to GDP growth according to the third estimate of GDP in 2019Q4, 5 basis points lower than in the second estimate.

Crude Oil Prices

- Stay-at-home policies set around the world have dramatically reduced the demand for oil.
  - The stand down has caused an unprecedented drop in oil demand.

- The oil market was already dealing with excess supply issues as U.S. production by itself was set to satisfy all new demand in 2020.
  - Additional supplies were also expected from Brazil and Norway.

- The pandemic prevents demand from responding to the drop in oil prices.
  - Adding to inventories will support prices, but oil supply will need to adjust dramatically.
**LABOR MARKET**

**Payroll Employment and Aggregate Hours**

- **Payroll employment contracts in March**
  - Nonfarm payrolls fell by 701,000 in March, about seven times more than the median forecast of -100,000.
  - About two-thirds of the decline was concentrated in leisure and hospitality, in particular in food and drinking places.
  - Note this data reflects the situation in the first part of the month, prior to many business and school closures.

  - Private payroll employment dropped by 713,000, while government employment increased by 12,000 in March.

  - Aggregate weekly hours worked by all private employees decreased by 1.1% in March, the largest monthly decline since March 2009.

**Unemployment Rates**

- **Unemployment rate rises in March**
  - The unemployment rate in March rose to 4.4% from 3.5%.
  - This is the largest one-month increase since January 1975.
  - The rise reflects survey responses for the week of March 8 to March 14.

  - This increase was largely driven by a sharp increase in workers on temporary layoff, from 800,000 to 1,800,000.
  - Despite BLS instructions that workers absent from work due to coronavirus-related business closures be classified as unemployed, there was a sharp increase in workers classified as employed but absent from work.
  - If workers absent from work due to coronavirus-related businesses closures were properly classified, the unemployment rate could be a full percentage point higher.
**Unemployment Insurance Initial Claims**

- There was a record 6,648,000 initial claims for unemployment insurance for the week ending March 28.
  - This figure is twice as high as the record set in the week prior, whose revised figure was 3,307,000.

- This increase was driven by large states such as California and New York, as businesses closed due to the COVID-19 pandemic.

- The insured unemployment rate increased to 2.1% from 0.9% for the week ending March 21.
  - The number of insured unemployed increased to 3,029,000 from 1,245,000.

**Growth in average hourly earnings remains strong**

- Average hourly earnings rose by 0.39% in March from $28.51 to $28.62.
  - This percentage increase exceeds the average for the first two months of 2020 (+ 0.25%).
  - This increase may partly reflect a changing mix of employment, given the sizable decrease in employment in the lower-wage leisure and hospitality industry in March.

- Average weekly earnings dropped by 0.20% over the month, from $980.74 in February to $978.80 in March.
  - Average weekly earnings increased by only 2.20% over the year, much lower than the 2019 average of 3.02%.
  - The drop in weekly earnings was particularly pronounced in service-providing industries.
Core inflation weak amid COVID-19 induced volatility

- The March inflation report was disappointing if taken at face value, as it shows core inflation moving further away from FOMC’s longer-run goal. But the signal to noise ratio in the current release is arguably lower than usual, both because of collection problems and the extreme volatility in individual components.
  - Core CPI fell 0.1% in March, its first monthly decline since January 2010.
- Core service prices were flat, but this was mainly due to a staggering decline in the index for lodging away from home.
- Core goods prices fell in large part because apparel prices declined as much as 2%.

Inflation uncertainty increases in March

- Median three-year ahead inflation expectations decreased from 2.6% to 2.4%.
  - Median 1-year ahead expected inflation remained at 2.5%.
  - Dispersion in inflation expectations across respondents and inflation uncertainty increased at both horizons.
- The median one-year ahead expected change in home prices plunged to a new series’ low of 1.3%.
- Households’ expectations regarding their labor market and financial situation deteriorated sharply.
  - Expected households’ income and spending growth dropped.
  - The mean perceived probability of missing a debt payment jumped to 15.1%.
  - The mean perceived probability of losing one’s job in the next 12 months jumped to 18.5%.
**U.S. Equity Market Index and Volatility**

- U.S. equity markets have declined during the past month after reaching all-time highs in February.
  - The S&P 500 index declined 7.6% to 2664 between March 10 and April 6.
  - As of April 6, the index is down 17.6% since the start of 2020.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains high.
  - The VIX Index declined slightly from 47.3 on March 10 to 45.2 on April 6, far above its long-term median of around 17.

**USD Exchange Rates**

- The exchange value of the dollar against a basket of global currencies increased by 5.2% from March 10 to April 6.
  - Over the same period, the dollar appreciated 4.5% against the euro, appreciated 3.4% against the yen, and appreciated 18% against the Mexican peso.

- Since the start of 2020, the dollar has appreciated 7% against a basket of global currencies.
**FINANCIAL MARKETS**

**US Bank Equities Performance:**

- Bank stocks decline more than the broad market
  - As measured by the KBW Nasdaq bank index, bank equities declined 15.2% between March 10 and April 6.
    - As of April 6, the KBW index is down 42% since the start of 2020.
  - The XLF financial sector ETF declined by 12.8% between March 10 and April 6.
    - As of April 6, the XLF ETF is down 31.6% since the start of 2020.

**Expected Federal Funds Rate**

- Implied path for federal funds rate declines
  - The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved lower by 100 basis points for short maturities and by 10-20 basis points for intermediate maturities between March 10 and April 6.
  - The market-implied path is below the median path of the FOMC’s Summary of Economic Projections from December 2019 and the NY Fed’s Survey of Primary Dealers from January 2020.
**10-Year Treasury and Term Premium**

- Long-term Treasury yields remain below 1%, near all-time lows.
  - The 10-year yield decreased by 13 basis points between March 10 and April 6 as a 5-day moving average.
  - The 10-year yield is currently 120 basis points lower than its level at the end of 2019.

- Estimates from the Adrian-Crump-Moench term-structure model indicate the term premium increased alongside the decline in yields.
  - The 10-year term premium increased by 11 basis points between March 10 and April 6 as a 5-day moving average.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) have declined in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.29% on April 6, declining by around 12 basis points since March 10 as a five-day moving average.

- According to the Abrahams-Adrian-Crump-Moench model, expected inflation remains stable.
  - The estimated five-to-ten year expected inflation rate declined by 1 basis point between March 10 and April 6 as a five-day moving average.
**SPECIAL TOPIC: CONSUMER EXPECTATIONS**

### One-Year Ahead Spending Growth Expectations

- **Graph**
  - Title: One-Year Ahead Spending Growth Expectations
  - X-axis: Dec-19 to Mar-20
  - Y-axis: Percent (ranging from -3 to 6)
  - Key events: China contacts WHO, First China death, First US case, First US death, WHO Pandemic, Stimulus package signed
  - Data source: New York Fed, Survey of Consumer Expectations

### Consumer expectations plummet in March

- **Text**
  - The March 2020 results from the NY Fed’s Survey of Consumer Expectations show a substantial deterioration in financial and economic expectations.
    - The results point to a gradual worsening in expectations over the course of the month.
  - While initially more stable, household spending growth expectations exhibited a sharp decline in the third week of March.
    - The series trended into negative territory during the last few days of March.
  - Respondents’ year-ahead outlook for credit availability and the average perceived risk of layoff displayed persistent deterioration during the month.

### Proportion Expecting to be Financially Worse Off

- **Graph**
  - Title: Proportion Expecting to be Financially Worse Off
  - X-axis: Dec-19 to Mar-20
  - Y-axis: Percent (ranging from 0 to 60)
  - Key events: China contacts WHO, First China death, First US case, First US death, WHO Pandemic, Stimulus package signed
  - Data source: New York Fed, Survey of Consumer Expectations

### Consumer expectations plummet in March

- **Text**
  - The share of respondents expecting to be financially worse off a year from now increased sharply during the month, climbing over 40%.
  - Most of the change in expectations started either after the first death from COVID-19 in the U.S. or around the time the World Health Organization declared the outbreak a pandemic.
  - One-year ahead home price growth expectations, household income growth expectations, household spending growth expectations are among the series that reached a new (post-June 2013) low in March.