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 August 7, 2017.
- Real personal consumption expenditures were essentially unchanged in June, suggesting that consumer spending entered Q3 with weak momentum.

- Investment in business equipment increased solidly in Q2, but capital spending indicators are signaling only modest near-term momentum.

- Despite some pause in Q2, housing indicators still point to continued gradual improvement in this sector.
  - **Real residential investment declined in Q2 largely from the flattening in multi-family starts and some payback for a weather-related sizable rise in single-family starts in Q1.**

- Payroll growth was solid in July and the unemployment rate fell back to its lowest reading since May 2001. The employment-to-population ratio and the labor force participation rate increased slightly.
  - Growth in labor compensation measures remained subdued.

- Monthly readings on PCE inflation continued to be soft, suggesting inflation may be stabilizing for now at a level that is somewhat below the FOMC’s longer-run objective.

- U.S. equity indexes rose and the price of oil has firmed since early July. The nominal yield on the 10-year Treasury note and the trade-weighted index for the U.S. dollar both moved down. Volatility remains very low.

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### Output now close to its potential level

- The gap between real GDP and the Congressional Budget Office's (CBO) measure of real potential GDP was about 0.3% in 2017Q2.
  - CBO estimates of the output gap in recent quarters have narrowed, as real GDP was revised slightly upward and potential GDP was revised a bit downward.
  - The July unemployment rate of 4.3% is below many estimates of its natural rate, including that of the CBO (4.74%).

- The CBO output gap now indicates little resource slack remains in the U.S. economy, while the unemployment gap indicates no slack remains.
  - However, capacity utilization rates remain below their historical averages, suggesting more substantial resource slack than other activity gap measures.
### Labor Market Indicators

- **Unemployment Rate (Left Axis)**
- **Labor Force Participation Rate (Right Axis)**
- **Employment to Population Ratio (Right Axis)**

**Source:** Bureau of Labor Statistics via Haver Analytics

**Note:** Shading shows NBER recessions.

### Labor market conditions remain solid

- The unemployment rate fell from 4.4% in June to 4.3% in July.
  - The share of long-term unemployed (27+ weeks) in the pool of unemployed workers increased for the third consecutive month, rising from 24.3% in June to 25.9% in July.
  - Since July 2016, this share has fallen 0.7 percentage point.

- The labor force participation rate rose slightly from 62.8% to 62.9% in July.

- The employment-to-population ratio rose 0.1 percentage point to 60.2%.

### PCE Deflator

- **Total PCE**
- **Core PCE**
- **FOMC Objective**

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

**Note:** Shading shows NBER recessions.

### Inflation still running below the FOMC’s objective

- The total PCE price index was flat in June for the second consecutive month. The core PCE price index (which excludes food and energy prices) increased 0.1% in June, the same as in May.
  - Energy prices fell 1.7% in June, the fourth sizable decline in five months, and are up a little over 2% from a year ago.
  - Food prices fell 0.1% in June and are down 0.1% from a year ago.

- The 12-month changes in the total PCE and core PCE price indexes showed increases of 1.4% and 1.5%, respectively.
  - After peaking at 2.2% in February, the 12-month change in the total PCE price index has moved down for four consecutive months.
**Output growth firmed in Q2**

- According to the advance release, GDP expanded at a 2.6% annual rate in 2017Q2.
  - Output growth in Q1 was revised up from 1.4% to 1.8%.
  - Consumer spending and investment in business equipment contributed 1.9 percentage points and 0.45 percentage point, respectively, to Q2 growth.
  - Residential investment, however, provided a drag of a little under 0.3 percentage point to Q2 growth.

- GDP growth has averaged 2.1% during the current expansion, which began in the middle of 2009.
  - The 1960s and 1990s witnessed expansions with longer durations during which growth averaged 4.9% and 3.6%, respectively.

**Manufacturing activity expanding**

- Manufacturing production increased 0.2% in June after decreasing 0.4% in May.

- The ISM manufacturing index fell 1.5 percentage points to 56.3 in July, indicating continued expansion but at a slower pace compared to its June peak of 57.8.
  - The New Orders, Production, and Employment indices all showed expansion in July, but at a slower pace than in June.
  - The Prices Paid index jumped by 7.0 percentage points in July, indicating raw material prices rising at a faster rate.

- All regional Fed manufacturing surveys indicated continued expansion in July.
Households

Disposable Income and Consumption

12 Month % Change


Real Disposable Income

Real Personal Consumption

Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics
Note: Shading shows NBER recessions.

Consumer spending was flat in June

- Real personal consumption expenditures (PCE) were little changed in June.
  - Real PCE grew at a solid 2.8% annual rate in Q2, but the June data indicate soft momentum entering Q3.
  - The 12-month change in real PCE showed a gain of 2.4% in June, down from 2.7% in May.

- Real disposable income fell 0.1% in June after rising 0.5% in May.
  - The fluctuations reflected a spike in dividend income for May.

- The personal saving rate was 3.8% in June.
  - The saving rate over the past year was revised down appreciably as part of the annual revision of the national income and product accounts (NIPA) data.

Services, Durables, and Nondurable Goods

12 Month % Change


Durable Goods

Services

Nondurable Goods

Source: Bureau of Economic Analysis via Haver Analytics
Note: Shading shows NBER recessions.

Spending on services and goods diverge in June

- Real expenditures on services increased 0.1% in June, the second consecutive increase of that size.
  - In Q2, real services expenditures rose 1.9% (annual rate).

- Real expenditures on goods decreased 0.2% in June.
  - Durable goods spending declined 0.1%, following rises in the previous four months.
  - Nondurable goods expenditures fell 0.2%, as real spending on gasoline fell.
  - Over the entire second quarter, real expenditures on durable and nondurable goods rose robustly.
**Equipment Investment and Capacity Utilization**

- Business equipment investment rose 3.0% over the four quarters ending in 2017Q2.
  - Four-quarter changes were positive for all of the major categories except for transportation equipment.
  - The level of real business equipment investment in 2017Q2 was still below the levels in the second half of 2015.

- A key factor behind sluggish equipment investment has been the low manufacturing capacity utilization rate.
  - This rate was 75.4% in June, 3 percentage points below its longer-term average, and has fluctuated in a narrow range in recent years.
  - Historically, strong growth of equipment investment has not occurred until the capacity utilization rate surpassed 80%.

**Investment in Nonresidential Structures**

- Over the four quarters ending in 2017Q2, real business investment in nonresidential structures was up 7.7%, the strongest four quarter change since the end of 2014.
  - After declining sharply during 2015 and 2016, investment in petroleum and natural gas structures was up a strong 71% over the four quarters ending in 2017Q2.

- Excluding petroleum and natural gas structures, the four quarter change in real investment in nonresidential structures was essentially zero over the four quarters ending in 2017Q2.
  - Growth of real investment in new office buildings remains strong, while real investment in new healthcare-related and manufacturing-related structures is declining.
HOUSING SECTOR

Housing Starts

- After three consecutive monthly declines, total housing starts rebounded in June, rising 8.3% to 1.215 million units at a seasonally-adjusted annual rate (SAAR).
  - Single-family starts rose a robust 13.3% in June to 850,000 units, close to the recent peak of 877,000 this past February.
    - Single-family market conditions appear to be tight, with home prices rising steadily and low inventories of units for sale.
  - Multi-family starts increased in June to 366,000 units, but remain significantly below levels reached in 2015 and 2016.
    - Multi-family starts seem to have peaked for the near term from a high volume of units now under construction, a modest rise in the overall rental vacancy rate from 2016Q3-2017Q1, and a recent flattening out in tenant rent inflation.

New and Existing Home Sales

- Single-family existing home sales fell 2.0% in June to 4.88 million units (SAAR).
  - Single-family existing home sales are 0.6% higher from a year ago and are comparable to mid-2002 levels.
- Single-family new home sales increased 0.8% (SAAR) in June to 610,000 units.
  - Single-family new home sales have risen 9.0% over the past year, but are still below pre-recession levels.
- A low supply of existing and new homes (below historical averages) has contributed to upward pressure on home prices.

Source: Census Bureau via Haver Analytics
Note: Shading shows NBER recessions.
**Government spending flat**

- Over the four quarters ending in 2017Q2, real consumption and gross investment spending by both the federal and state and local governments were up just 0.2%.

- Federal spending is now being supported by increases in defense spending.
  - Defense, which comprises 60% of federal consumption and gross investment spending, resumed growth this year and was driven by gross investment.
  - Real defense investment spending is up 8.3% from 2016Q2.

- State and local spending has been weighed down by substantial declines in infrastructure investment.
  - Real state and local investment is down 3.4% from 2016Q2.

**Government receipts strengthen**

- After declining 0.4% over the four quarters ending in 2016Q4, federal receipts rebounded in 2017Q1 and were up 5.5% from a year ago.
  - Total personal current taxes and contributions for social insurance accounted for much of this faster growth, while corporate tax receipts (excluding payments by the Federal Reserve to the Treasury) declined in the first quarter.

- Receipts of state and local governments were up 3.8% over the four quarters ending in 2017Q1, up from 3% over the four quarters ending in 2016Q1.
  - Year-over-year growth of sales and property taxes has been increasing, while grants-in-aid from the federal government declined over the past year.
INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

According to the advance release, net exports added 0.2 percentage point to GDP growth in Q2.
- Real exports rose 4.1 percent (SAAR) and more than offset a 2.1 percent increase in real imports.
- Export growth was driven by exports of food, industrial supplies, and services, while imports increased on higher capital goods and industrial imports.
- The trade deficit fell to $43.6 billion in June from a revised $46.4 billion in May.
  - Real exports increased 1.6 percent from May, pushed up by food and capital goods.
  - Real imports were little changed between May and June, as increases in autos and nonoil industrial supplies were offset by a steep decline in oil imports.

Net Financial Outflows from China

China’s central bank bought reserve assets in Q2
- Net financial outflows from China increased to $53 billion in Q2, up from $18 billion in Q1.
  - This represents a slowdown from last year when net outflows reached $200 billion.
- Private net outflows in Q2 were again modest at $21 billion.
  - Private net outflows hit $640 billion in 2016.
  - Part of the downshift this year is attributable to tighter capital controls.
- The central bank bought $32 billion worth of foreign assets in Q2 after seven quarters of selling.
  - The central bank sold $443 billion in foreign assets in 2016.
LABOR MARKET

Payroll Employment and Aggregate Hours

Payroll employment growth above expectations

- Nonfarm payroll employment rose by 209,000 in July.
  - Median expectations called for an increase of 180,000.
  - Monthly employment gains have averaged 184,000 in 2017, despite the weak payroll gains in March (+50,000).

- Payroll gains were broad based, with the one-month diffusion index (which reflects the balance of industries increasing and decreasing their employment over the month) at 63.2, very similar to its June reading of 62.5.

- Average weekly hours were unchanged at 34.5 hours.
  - With the rise in payrolls, aggregate hours worked by all private employees rose 0.2% in July.
  - The 12-month change in aggregate hours was 2.0%.

Job-Finding Rates by Duration of Unemployment

Job-finding rate continues to improve

- The job-finding rate continued to improve, with the 12-month moving average increasing from 25.8% in June to 26.2% in July.
  - The job finding rate was 24.4% in July 2016.

- The job finding rate improved for those unemployed less than 15 weeks and for those unemployed longer than 53 weeks, but worsened slightly for those unemployed between 15 and 52 weeks.

- The percentage of long-term unemployed workers (those unemployed for 27 weeks or more) increased from 24.3% in June to 25.9% in July.
Labor Force Participation Rate by Gender, Ages 25-54

- Participation rate increases for women
  - The rise in the labor force participation rate (LFPR) was entirely due to increases in the female LFPR.
    - The female LFPR increased from 57.0% to 57.3%, whereas the male LFPR declined slightly from 69.0% to 68.9%.
  - Over the last two years, the labor force participation rate has risen for women of all age groups.
    - The prime-age (ages 25-54) female labor force participation rate has shown the largest increase and has risen by 1.6 percentage points.
  - The prime-age male participation rate has been essentially flat over the last year.

Growth of Average Hourly Earnings and ECI

- Compensation growth remains modest
  - Average hourly earnings rose 0.3% in July and 2.5% over the past 12 months.
    - Average hourly earnings increased slightly from $26.27 per hour to $26.36 per hour.
  - Average weekly earnings increased 0.34% from $906.32 to $909.42.
    - The 12-month change in average weekly earnings was 2.8%, higher than the 2.5% increase in average hourly earnings.
  - The employment cost index rose 2.4% for the 12 months ending in June 2017.
INFLATION

CPI Inflation: Core Goods and Core Services

Core CPI inflation readings remain soft

- The core CPI rose 0.1% in June, the same as in May and April.
  - The 12-month change in the core CPI was 1.7%, the same as in May, but down from a recent peak of 2.3% in January.

- Core CPI services prices rose 0.2% in June, the same as in May, after weak readings in both April and March.
  - The 12-month change in core CPI services prices has now moved down to 2.5%.

- Core CPI goods prices continue to fall, with the 12-month change remaining roughly stable at around -0.5% since the end of 2014.

Michigan Inflation Expectations 5 to 10 Years

Long-term inflation expectations remain stable

- According to the July Michigan Survey of Consumers, median long-term (5-10 years) inflation expectations edged up from 2.5% in June to 2.6%, the highest reading since January of this year.
  - The 75th percentile of the cross-sectional distribution, however, dropped from 3.7% in June to 3.4%, resulting in a decline in the mean expectation from 3.0% in June to 2.8%.
  - These measures are towards the middle of the narrow range that has prevailed over the last two years.

- Median near-term (one-year ahead) inflation expectations were unchanged from June at 2.6%.
**U.S. Equity Market Index and Volatility**

- **S&P 500 (Right Axis)**
- **VIX (Left Axis)**

Source: Bloomberg Finance L.P.

**U.S. equity markets largely unchanged**

- U.S. equity markets valuations were little changed.
  - Between July 7 and August 7, the S&P 500 index increased 2.3 percent.
  - The S&P 500 index achieved an all time high on August 7.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX), remains low.
  - The VIX closed at 9.93 percent on August 7, a decrease of 1.26 percentage points from its level on July 7.
  - From July 7 to August 7, the VIX showed little volatility, remaining in a band between 9 percent and 11.5 percent.

**U.S. Bank Equities Performance**

- **SP500 Index**
- **XLF ETF**
- **KBW Index**

Source: Bloomberg Finance L.P.  
Note: Start date 01/03/2007 = 1.

**U.S. bank stocks decrease**

- As measured by the KBW Nasdaq bank index, bank equities decreased 0.2 percent between July 7 and August 7, compared to an increase of 2.3 percent for the S&P 500 Index.
  - The XLF financial sector ETF increased by 1.2 percent over the same period.

- For 2017 year-to-date, U.S. bank equities are higher, but not as much as the broader stock market.
  - For 2017 year-to-date, the KBW index is up 4.6 percent, while the XLF ETF is up 7.8 percent and the S&P 500 has increased 9.9 percent.
**USD Exchange Rates**

- **Dollar declines slightly against global currencies**
  - During the period from July 7 through August 7, the exchange value of the dollar against a basket of global currencies decreased by 2.3 percent.
    - On net, the dollar depreciated by about 2.8 percent against the Japanese yen, depreciated by about 0.9 percent against the Mexican peso, and depreciated by about 3.4 percent against the Euro.

**Expected Federal Funds Rate**

- **Lower implied path for federal funds rate**
  - Between July 7 and August 7, the expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) shifted down at all maturities and flattened.
    - The expected federal funds rate decreased by about 10 basis points at the one-year horizon and by 25 basis points at the five-year horizon.
  - The current market-implied path out to five years remains below the reported longer-run value of the median respondent of both the FOMC’s June 2017 Summary of Economic Projections and the June 2017 NY Fed Survey of Primary Dealers.
Longer-Term Treasury yields decreased

- The 10-year nominal yield decreased by 10 basis points between July 7 and August 7, and Treasury yields remain low by historical standards.
  - The 10-year yield is down about 36 basis points from its year-to-date high observed in March.

- Estimates from the Adrian-Crump-Moench term structure model attribute the decline in the 10-year yield over the last few months to both a reduction in the term premium and a modest downward revision to the expected average short-term interest rate over the next decade.
  - The estimated 10-year term premium remains at very low levels.

Breakeven inflation decreased

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) decreased in July.
  - The five-to-ten year breakeven inflation rate moved down 22 basis points between July 7 and August 7.

- According to the Abrahams-Adrian-Crump-Moench term structure model, most of the movements in forward inflation compensation continues to reflect movements in the inflation risk premium.
SPECIAL TOPIC: ANNUAL REVISION OF THE NIPA DATA

Modest revisions to the level and growth rate of GDP

- The latest GDP release included the annual revision of the national income and product accounts (NIPA) data of the preceding three years.
  - The expenditure data suggest the revisions to real GDP were minor.
    - Real GDP growth was revised up some in 2014 and 2015 and revised down a bit in 2016.
    - The upward revisions to GDP were largely attributable to stronger consumer spending.
    - The (compound) annual rate of growth of real GDP over the period from 2013Q4 through 2017Q1 was revised up to 2.11% from 2.05%.

Notable downward revisions to personal saving rate

- In contrast to the expenditure data, there were more meaningful revisions to the income data.
  - Real disposable personal income was revised down by $103.8 billion through 2017Q1, primarily due to lower estimates of compensation of employees.

- The personal saving rate was revised down throughout 2016 and early 2017 from both an upward revision to the level of real PCE and a downward revision to the level of real disposable income.
  - The 2017Q1 personal saving rate is now reported to be 3.9%, compared to the previous estimate of 5.1%.
  - Weaker income growth in 2016 suggests that rising household wealth has been supporting consumer spending recently.