



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economy in a Snapshot

Research & Statistics Group

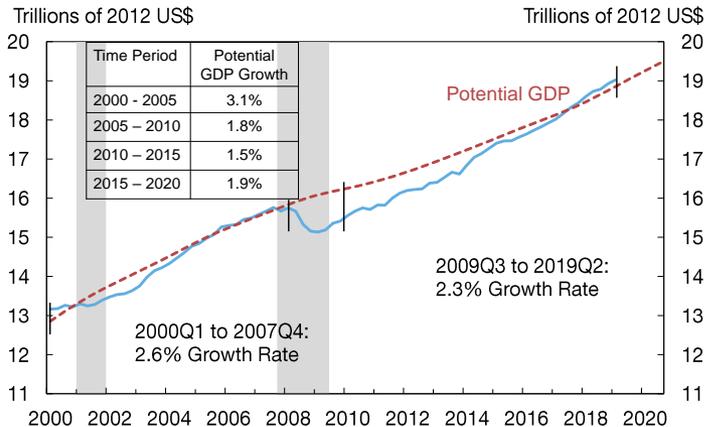
August 2019

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 9, 2019.

OVERVIEW

- Real consumer spending rose moderately in June.
 - **Real expenditures on nondurable goods rose strongly, while real durable goods expenditures fell modestly. Services expenditures rose slightly.**
 - **Retail sales increased solidly in June.**
- Real business equipment spending remained sluggish in 2019Q2, and its growth over the first half of 2019 was well below its pace in 2018.
 - **New orders of nondefense capital goods excluding aircraft rose solidly but remained below shipments in June, continuing to suggest weak near-term momentum.**
- Housing activity indicators remained soft in June.
 - **Existing home sales fell in June, while new home sales only partially rebounded. Single-family housing starts and permits remained anemic. A still-strong labor market and lower mortgage rates could provide more support to housing.**
- Payroll growth was solid in July, albeit a touch softer than in June. The unemployment rate was unchanged, while the labor force participation rate and the employment-to-population ratio both edged up.
 - **Even with a low unemployment rate, some measures of labor compensation growth have flattened in the past few months.**
- Core PCE inflation remains below the FOMC’s longer-run objective.
- U.S. equity indices fell significantly over the past month, while implied volatility rose. Nominal 10- and 30-year Treasury yields declined markedly, and were well below short-term rates. The market-implied expected policy rate path moved down further. The broad trade-weighted dollar index increased. Oil prices declined substantially over the month.

GDP



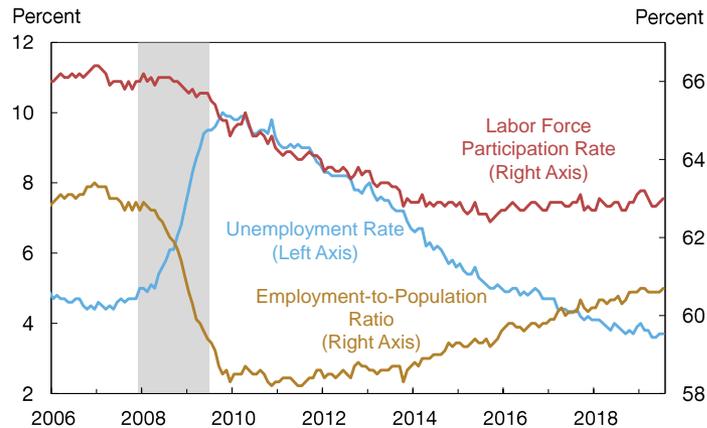
Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics Note: Shading shows NBER recessions.

Output moderately above potential GDP estimate

- The level of real GDP in 2019Q2 was about 0.9% 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%.**
 - **Over this expansion, real GDP has grown at a 2.3% annual rate, compared to the 1.6% growth rate of real potential GDP.**
 - **The 3.7% unemployment rate in July was below most estimates of its natural rate, including that of the CBO (4.60%).**
- The current output and unemployment gaps signal tight resource constraints in the U.S. economy.
 - **However, capacity utilization rates remain below their historical averages, suggesting looser constraints by that measure.**

OVERVIEW

Labor Market Indicators



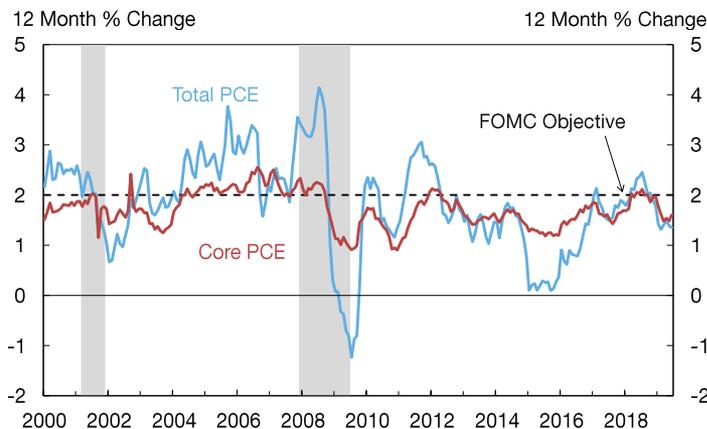
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Unemployment rate steady, participation ticks up

- The unemployment rate held steady at 3.7% in July.
 - An alternative measure of unemployment, U6, which includes marginally attached workers and workers who hold part-time jobs for economic reasons, declined from 7.2% to 7.0% over the month.
- The employment-to-population ratio increased by 0.1 percentage point in July to 60.7%.
- The labor force participation rate rose to 63.0% in July.
 - The prime-age (25-54) participation rate was 82.0% in July, down from 82.2% the month prior.
 - The participation rate for workers age 55 and over, which has remained around 40% for the last ten years, increased 0.5 percentage point to 40.5% in July.

PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

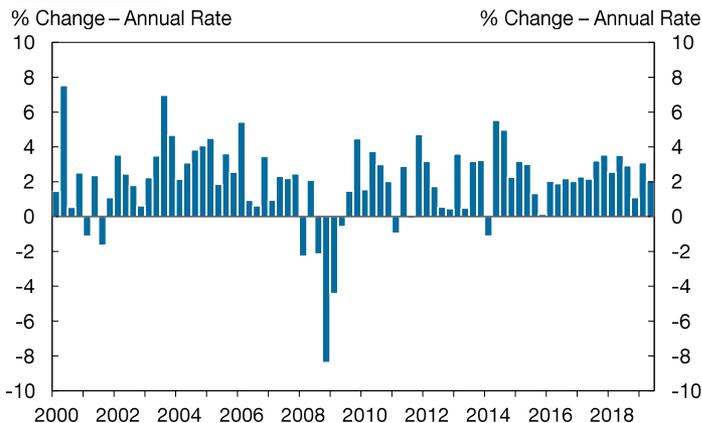
Note: Shading shows NBER recessions.

Inflation continues to run below 2 percent

- The total PCE price index rose 0.1% in June, same as in May. The core PCE price index (which excludes food and energy prices) increased 0.25% in June, compared to 0.15% in May.
 - Energy prices fell 2.3% in June, and are down 3.4% relative to one year ago. Food prices fell 0.1% and are up 1.1% compared to one year ago.
- The 12-month changes in the total PCE and core PCE price indices were +1.4% and +1.6%, respectively.
 - In the first half of 2019, both total and core PCE inflation were softer than they were in 2018.
 - Headline and core PCE inflation remain below the FOMC's 2 percent longer-run goal.

ECONOMIC ACTIVITY

GDP Growth



Source: Bureau of Economic Analysis via Haver Analytics

Growth of real GDP slows to 2.1% in 2019Q2

- Based on the first estimate, growth of real GDP came in at 2.1% (annual rate) in 2019Q2. Growth of real GDP was 3.1% in the first quarter and 2.5% (Q4/Q4) for all of 2018.
- Real personal consumption expenditure rose at a 4.3% annual rate in Q2, up from a sluggish 1.1% in Q1. Growth of real PCE for the entire first half of 2019 was 2.7% (annual rate), comparable to the 2.6% growth of 2018.
- Real government consumption and gross investment rose robustly at both the federal and the state and local levels.
- In contrast to consumer and government spending, both real business fixed investment and real residential investment were quite weak in the second quarter. In addition, the pace of real inventory investment slowed while real exports declined sharply.

Manufacturing and ISM Manufacturing Index



Source: Institute for Supply Management, Federal Reserve Board via Haver Analytics

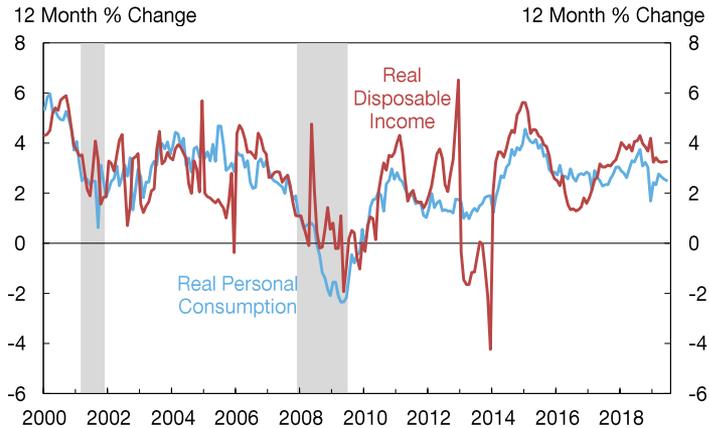
Note: Shading shows NBER recessions.

Manufacturing activity edges up in June

- Manufacturing production increased 0.4% in June following a 0.2% increase in May.
 - **Manufacturing production increased 0.4% in June on a 12-month basis.**
- The ISM PMI decreased in July to 51.2 from 51.7 in June.
 - **The Prices Paid Index fell by 2.8 percentage points to 45.1 in July, indicating a faster rate of decline in raw material prices.**
- The regional Fed manufacturing surveys were mixed, but on balance point to continued weakness in manufacturing.
 - **Manufacturing activity rebounded strongly in the Philadelphia District, but grew only modestly in New York and the Dallas District. Activity remained flat in the Kansas City District but sharply declined in the Richmond District.**

HOUSEHOLDS

Disposable Income and Consumption



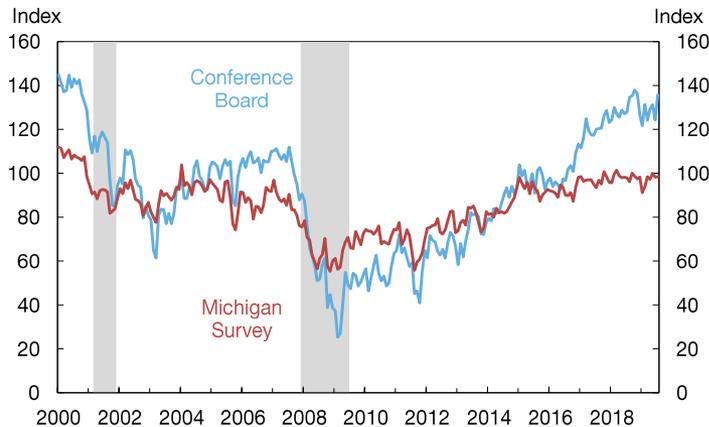
Source: Bureau of Economic Analysis,
Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Consumption continues to pull the economy

- Real Personal Consumption Expenditures (PCE) were up 0.2% in June, compared to 0.3% in the previous two months.
 - Durable goods consumption fell 0.1%, while nondurable goods and services consumption rose 0.7% and 0.1% respectively.
- Real disposable personal income was up 0.3% in June, the most since February.
- After the recent annual update to the NIPAs, the saving rate has been revised higher by about 2 percentage points over the most recent period, following an even larger upward revision last year. It was 8.1% in June.
- After some weakness around the turn of the year, real consumption has returned to the steady pace of growth near 2.5% that has prevailed since 2016 and it continues to power the economy forward.

Consumer Confidence



Source: Conference Board,
University of Michigan

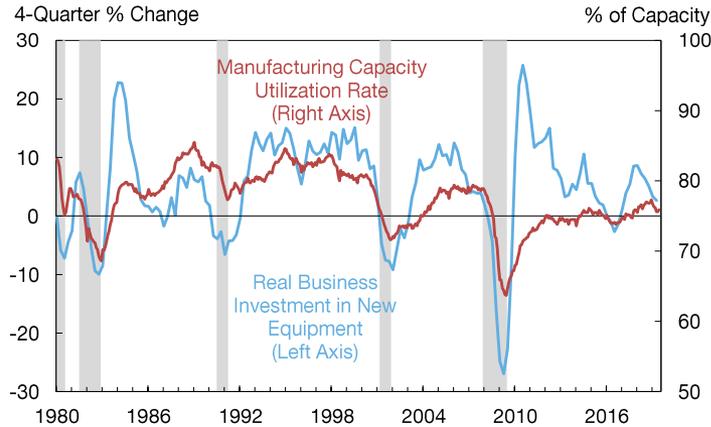
Note: Shading shows NBER recessions.

Consumer confidence rebounds in July

- The Conference Board's Consumer Confidence Index increased to 135.7 in July from 124.3 in June.
 - The increase in July's headline index completely offset its decline in June.
 - The Conference Board index now stands at a high for 2019 and close to its record high since the end of the recession.
- The rebound in the Conference Board Index was driven by the Expectations component.
 - The Present Situation component rose more modestly.
 - Perceptions of job availability also improved markedly.
- The behavior of consumer confidence in the Michigan survey has been less volatile but broadly consistent.
 - Headline index rose from 98.2 to 98.4, close to post-recession high.
 - Inflation expectations declined in both surveys.

BUSINESS SECTOR

Equipment Investment and Capacity Utilization



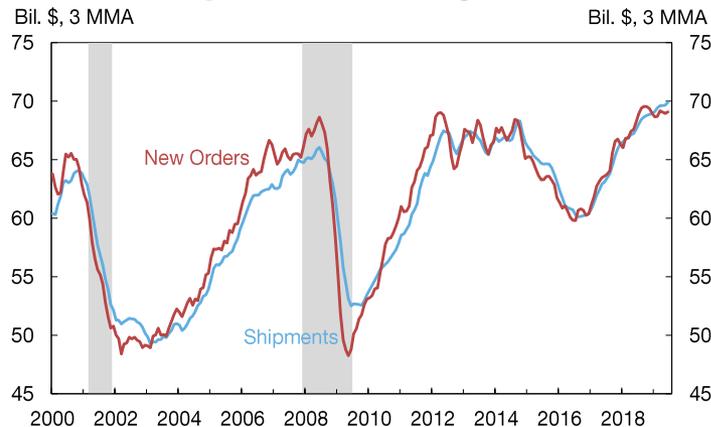
Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

Equipment spending remains sluggish in 2019Q2

- Real business equipment investment rose 0.7% (annual rate) in 2019Q2, after falling slightly in Q1. Over the last 4 quarters, equipment spending rose 2.7%, the slowest since 2017Q1.
 - In 2019Q2, spending rose for information equipment and other equipment, was flat for industrial equipment, and declined for transportation equipment.
 - The equipment spending share of nominal GDP remained below its average share in 2013–15.
- Recent sluggish equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
 - This rate was 75.9% in June, 2.4 percentage points below its long-run average.
 - Historically, utilization rates near the June level are associated with modest growth of equipment investment.

Nondefense Capital Goods Excluding Aircraft



Source: Census Bureau via Haver Analytics

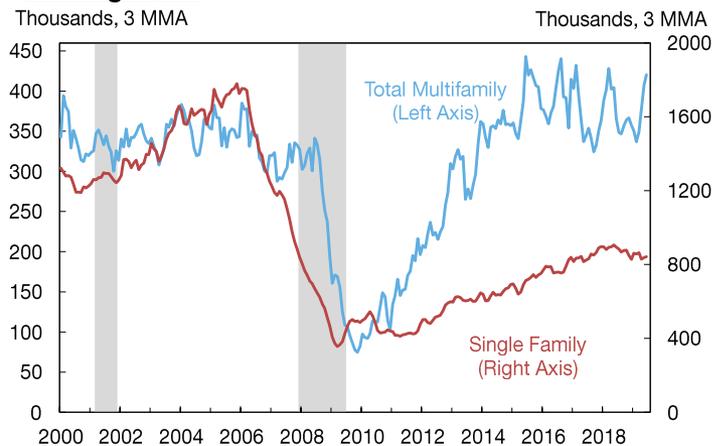
Note: Shading shows NBER recessions.

Durable goods manufacturing rebounds in June

- Shipments of nondefense capital goods excluding aircraft rose 0.6%.
 - This measure is a proxy for investment spending that is available at the monthly frequency.
- Orders of nondefense capital goods excluding aircraft moved up 1.9% in June, following a 0.3% rise in May.
- In spite of the increase in new orders, these remained below shipments in June, suggesting weak near-term momentum.

HOUSING SECTOR

Housing Starts



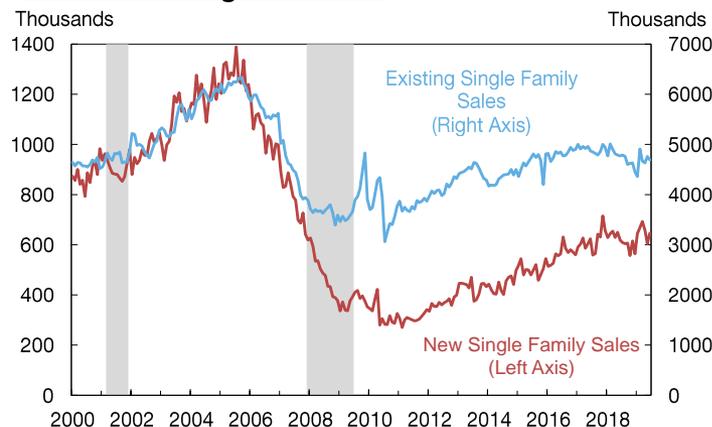
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

Total housing starts edge lower again in June

- Total housing starts declined by 1% in June to 1.25 million units (seasonally-adjusted annual rate). This follows a 0.4% decline in June. However, relative to June of 2018, total housing starts were up 6.2%.
- Single-family housing starts rose 3.6% in June to 850,000 units. This follows a 5.1% decline in June. Single-family starts were essentially unchanged over the last 12 months.
- Multi-family (2+ units) starts fell 9.2% in June to 406,000 units. This follows a 9.6% increase in June. Relative to June of 2018, multi-family starts were up 24.5%.
- With mortgage interest rates now down roughly 100 basis points since the beginning of the year, we expect to see some improvement in single-family starts in the months ahead.

New and Existing Home Sales



Source: Census and National Association of Realtors via Haver Analytics

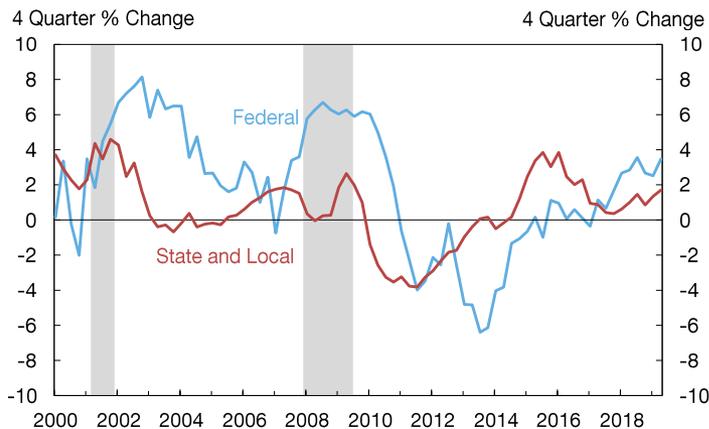
Note: Shading shows NBER recessions.

Home sales remain lackluster

- Single-family existing home sales decreased 1.5% in June to 4.69 million units (seasonally adjusted annual rate).
 - Single-family existing home sales are 1.7% below a year ago, but have surpassed early 2000s prevailing levels.
- Single-family new home sales increased 7.0% (SAAR) in June to 646,000 units.
 - Relative to a year ago, sales are up 4.5%, registering a positive reading after a negative one last month.
 - Following a robust increase in the first quarter, the pace of new home sales has slowed modestly in 2019Q2.
- Favorable labor market conditions and a substantial decline in mortgage interest rates continue to act as positive forces. Inadequate inventories in affordable price ranges continue to be a drag on sales and to fuel home price increases.

GOVERNMENT SECTOR

Real Government Consumption and Gross Investment



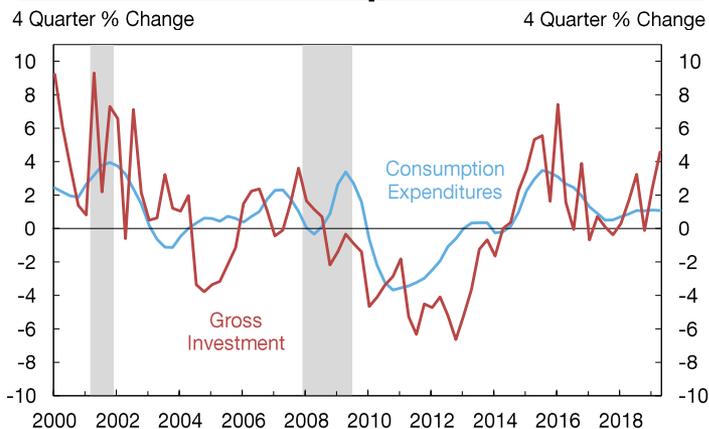
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

Growth of real government spending strong in 2019Q2

- Over the four quarters ending in 2019Q2, real federal consumption and gross investment was up 3.5% while spending at the state and local level was up 1.7%.
- Federal spending rebounded in Q2 following the slowing in spending in Q1 resulting from the partial government shut-down. Despite the rebound, the four-quarter growth rate in Q2 was somewhat below that of 2018Q3. This category of spending is expected to slow but remain positive over the next several quarters.
- The four-quarter change of real state and local spending has been strengthening since the end of 2017. However, employment and construction spending growth rates at the state and local level have been slowing in recent months. Thus, some slowing in this category is also likely.

Real State & Local Consumption & Gross Investment



Source: Bureau of Economic Analysis via Haver Analytics

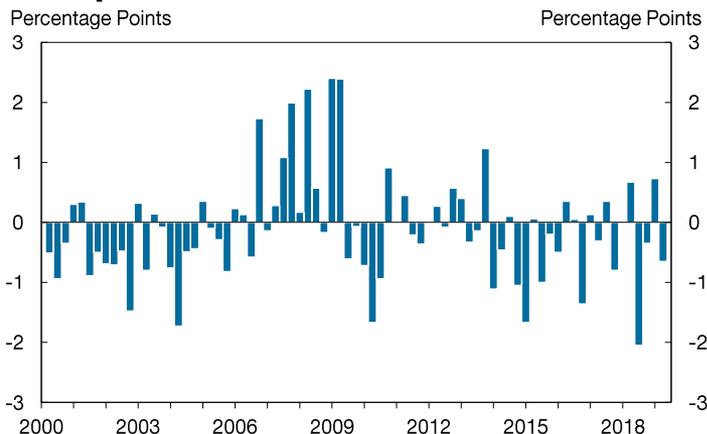
Note: Shading shows NBER recessions.

State and local rebound continues

- State and local government consumption and gross investment continued to rebound in the second quarter of 2019.
- Despite significant revisions in the NIPA data, gross investment rose year-over-year.
 - Growth in gross investment was revised down sharply, but is nonetheless positive for both first and second quarters.
- Consumption growth has held steady at about 1% annually for the last year.
 - Consumption expenditures consists largely of employee salaries and makes up over 80% of the sector's spending.

INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

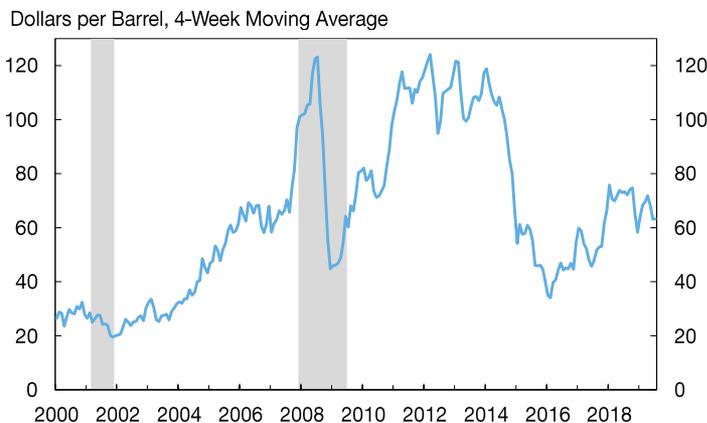


Source: Bureau of Economic Analysis via Haver Analytics

Net exports dampen GDP growth in 2019Q2

- According to the advance release, net exports subtracted 0.65 percentage point of GDP growth in 2019Q2.
 - Real exports fell 5.2% (SAAR), whereas real imports grew slightly at 0.1% (SAAR).
 - Relative to the preceding quarter, Q2 export growth slowed down significantly and import growth rebounded somewhat.
- The trade deficit was \$55.2 billion in June compared to a \$55.3 billion deficit in May.
 - Real goods exports fell 1.9% over the month in June, due to lower exports of consumer goods and capital goods (excluding autos). June oil exports increased substantially.
 - Real goods imports declined 1.3% between June and May. Nonoil goods imports were 0.6% lower, owing to shrinking autos, consumer goods (excluding autos) and industrial supplies (excluding oil) imports. Oil goods imports fell significantly in June.

Crude Oil Prices



Source: Energy Information Administration via Haver Analytics

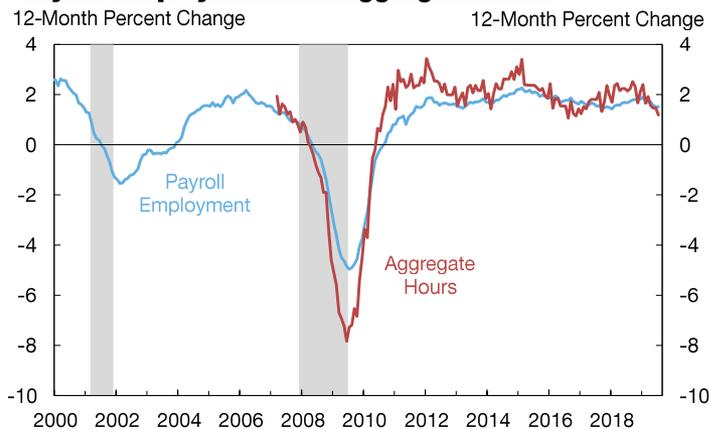
Note: Shading shows NBER recessions.

Oil prices held down by higher U.S. production

- The WTI oil price benchmark has hovered around \$55/barrel in early August.
 - The average price for the year is \$57/barrel.
 - This is down from the 2018 average of \$65/barrel.
- Higher U.S. production has offset lower production in a number of countries.
 - The supply cuts are from Iran, Venezuela, and Saudi Arabia.
 - U.S. production has more than offset these declines.
- Global oil demand is being driven higher by China and India.
 - U.S. demand growth set to slow this year.
 - Oil demand in Europe and Japan is expected to be unchanged.

LABOR MARKET

Payroll Employment and Aggregate Hours



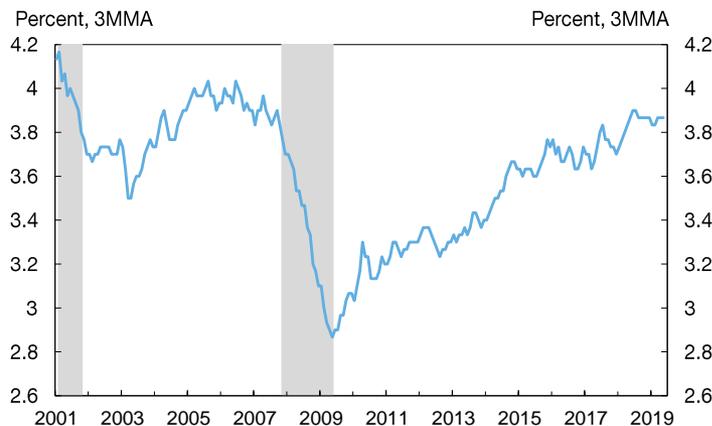
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Solid but softening employment growth

- Nonfarm payroll employment increased 164,000 in July, lower than in June.
 - Payroll employment was revised downward for both May and June, resulting in a total revision of -41,000.
 - July marks the sixth consecutive month of payroll growth below the 2018 average of +223,000.
- Private payroll employment rose 148,000 over the month.
 - July experienced solid gains in employment in education and health services (+66,000) and financial activities (+18,000).
- Government payroll employment increased by 16,000, driven mostly by gains in local government (+14,000).

JOLTS – Hires Rate



Source: Bureau of Labor Statistics

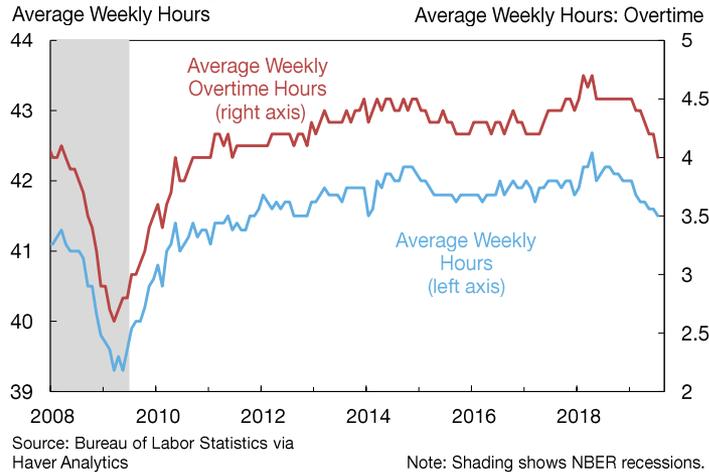
Note: Shading shows NBER recessions.

Slight decline in job openings in June

- The three-month moving average of the hires rate remains near an expansion-high at just below 3.9%.
 - The hires rate represents the number of hires relative to total employment.
- The quits rate remained constant at 2.3% in June.
 - The quits rate provides an indication of workers' ability and willingness to change jobs.
- The JOLTS also reported there were 7.3 million job openings as of the last business day of June, a decline of 36,000 from one month prior.

LABOR MARKET

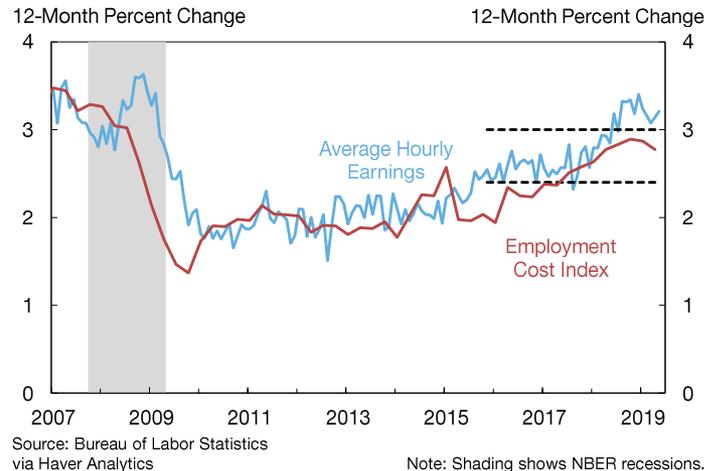
Average Weekly Hours: Manufacturing



Manufacturing work hours fall to recent lows

- Hours worked in the manufacturing sector, a measure of labor demand in the goods-producing sector, have been steadily falling since reaching an expansion-high in April 2018.
- Average weekly hours worked in manufacturing ticked down to 41.5 in July, its lowest mark since January 2014.
 - The measure reached a post-recession peak of 42.4 hours per week as recently as April 2018.
- Average weekly overtime hours dropped sharply from its level of 4.5 in January, reading just 4 hours in July.
 - Overtime hours last stood below 4 hours per week in August 2010.

Growth of Average Hourly Earnings and ECI

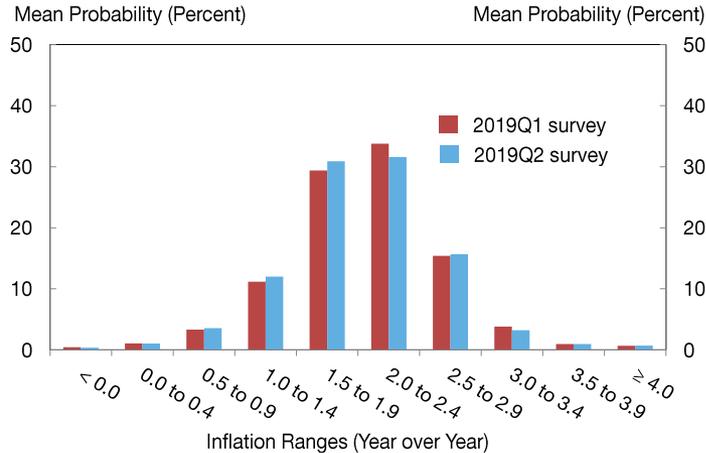


July earnings growth aligns with recent trends

- Average hourly earnings for all employees rose 0.29% in July, above the Bloomberg median forecast of 0.2%.
 - Average hourly earnings rose 3.21% on an annual basis, in line with the 2019 first-half average of 3.2%.
- The 12-month change of average weekly earnings for all private sector employees was 2.61% in July, below the growth seen in 2018 and the first half of 2019.
 - Over the past month, average weekly earnings were essentially unchanged (-0.01%), suggesting a soft reading for the wage and salary component of personal income growth.

INFLATION

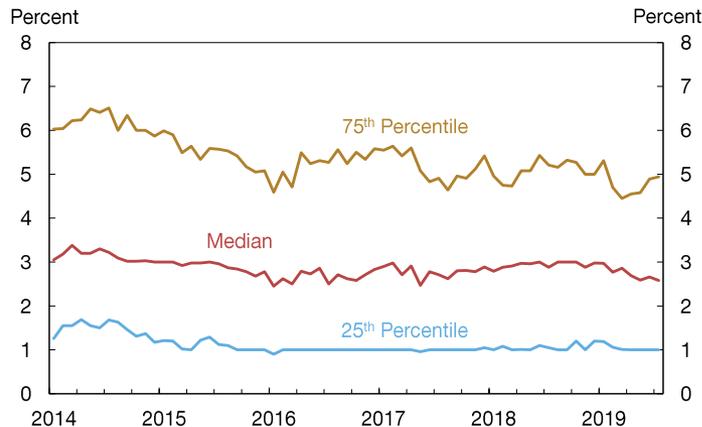
Mean Probabilities for Core PCE Inflation in 2019



Inflation forecast distributions shift down slightly

- The U.S. Survey of Professional Forecasters requests density (histogram) forecasts that show the probability of inflation falling into 10 separate ranges.
 - The 2019Q3 survey was fielded from late July through August 6, with results released on August 9.
- Compared to last quarter, the forecast distribution for core PCE inflation in 2019 (Q4/Q4) shifted slightly to the left, with more probability on the 1.0 – 1.9% range.
 - The average probability of core PCE inflation being 2% or higher in 2019 was a little above 39%, about 5 percentage points less than in the 2019Q2 survey.
 - The forecast distribution for 2020 core PCE inflation (not shown) also shifted slightly to the left: The average probability of 2% or higher inflation was about 52%.

3-Year Ahead Inflation Expectations

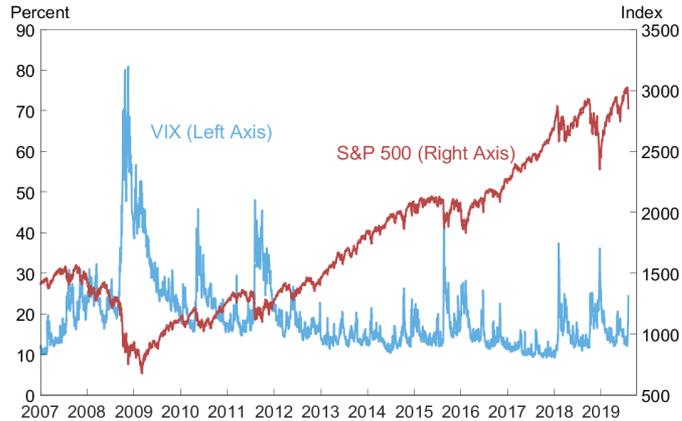


Inflation expectations decline slightly

- Median inflation expectations declined by 0.1 percentage point at both the one- and three-year horizons to 2.6% in July.
 - Most other household expectations were stable.
 - In particular, house price, income and spending expectations stayed unchanged.
- Expectations about the labor market and household finance remain optimistic.

FINANCIAL MARKETS

U.S. Equity Market Index and Volatility

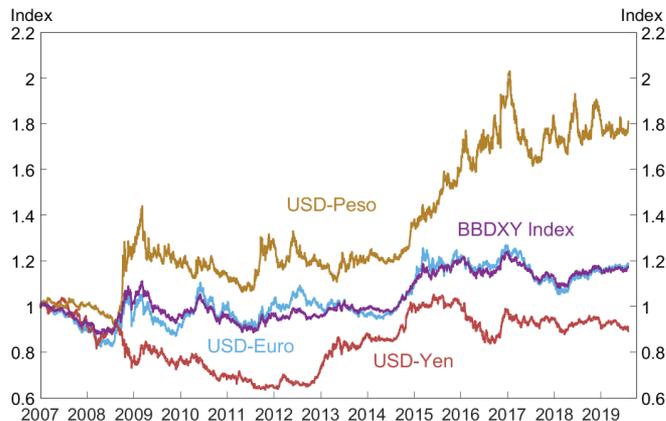


Source: Bloomberg Finance L.P.

U.S. equity markets decline

- U.S. equity markets declined over the past month.
 - The S&P 500 index declined 4.4% between July 8 and August 5, and is down 6.0% from its July 26 record high.
 - The index remains higher by 13.5% year to date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), rose over the past month.
 - The VIX Index closed at 24.6 on August 5, up from 14.0 on July 8, and is at its highest level since early January.

USD Exchange Rates



Source: Bloomberg Finance L.P.

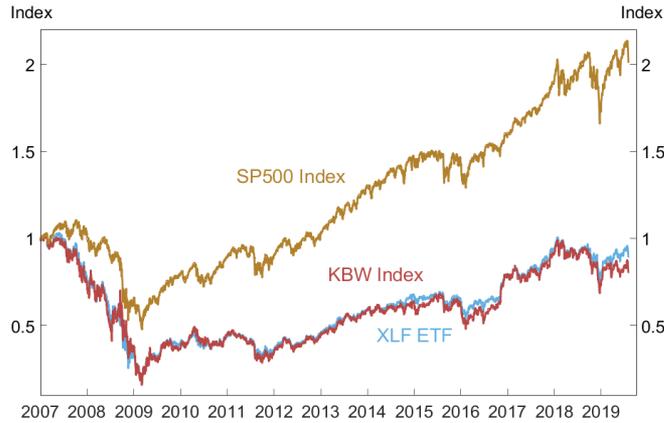
Note: Start date 01/03/2007 = 1.

U.S. dollar performance mixed

- The exchange value of the dollar against a basket of global currencies increased 0.8% between July 8 and August 5.
 - Over this same period the dollar appreciated by 0.1% against the euro and by 6.5% against the Mexican peso, but depreciated 2.3% against the Japanese yen.
- Year to date, the dollar has appreciated 0.8% against a basket of global currencies.

FINANCIAL MARKETS

US Bank Equities Performance



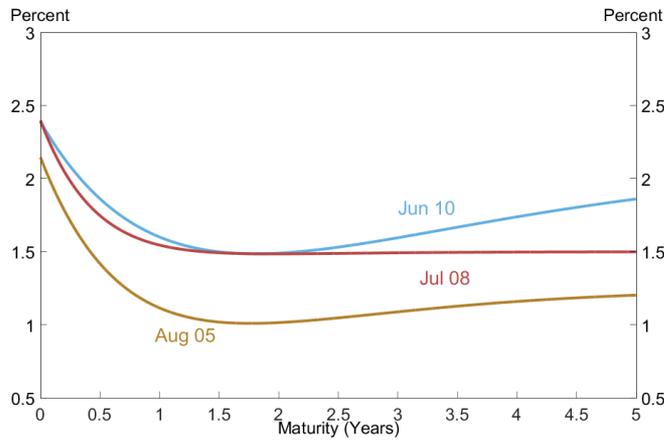
Source: Bloomberg Finance L.P.

Note: Start date 01/03/2007 = 1.

Bank stocks perform in line with broader market

- As measured by the KBW Nasdaq bank index, bank equities declined 4.2% between July 8 and August 5.
 - As of August 5, the index was up 10.1% year to date.
- The XLF financial sector ETF declined 4.4% between July 8 and August 5.
 - As of August 5, the index was up 13.5% year to date.

Expected Federal Funds Rate



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

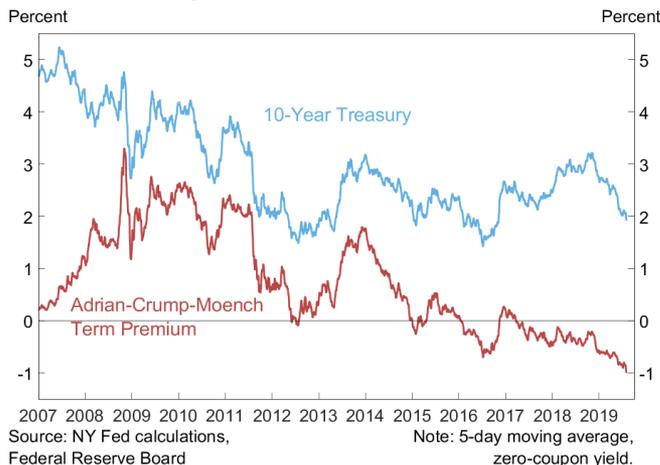
Note: Estimated using OIS quotes

Implied path for federal funds rate shifts down

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved down between July 8 and August 5.
 - The expected federal funds rate decreased over 30 basis points at the 6-month horizon and over 40 basis points at the one-year horizon.
- The market-implied path remains well below the median path from the FOMC's June 2019 Summary of Economic Projections and the June 2019 NY Fed Survey of Primary Dealers.

FINANCIAL MARKETS

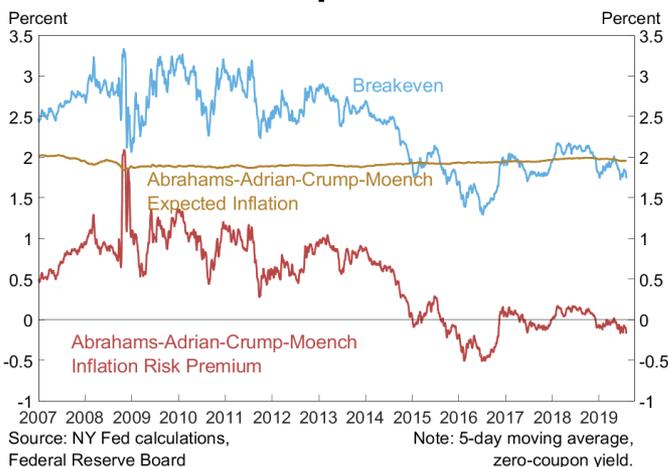
10-Year Treasury and Term Premium



Longer-term Treasury yields decline

- Longer-term Treasury yields declined over the past month to their lowest levels since November 2016.
 - The 10-year yield decreased about 10 basis points between July 8 and August 5, and is now down roughly 80 basis points year to date.
- Estimates from the Adrian-Crump-Moench term structure model attribute the entire decrease in the 10-year yield since July 8 to a more negative term premium, and not to a lower path for the short-term interest rate.
 - The 10-year term premium decreased by about 10 basis points between July 8 and August 5, reaching a new all-time low of -100 basis points.

5-10 Year Forward Decomposition

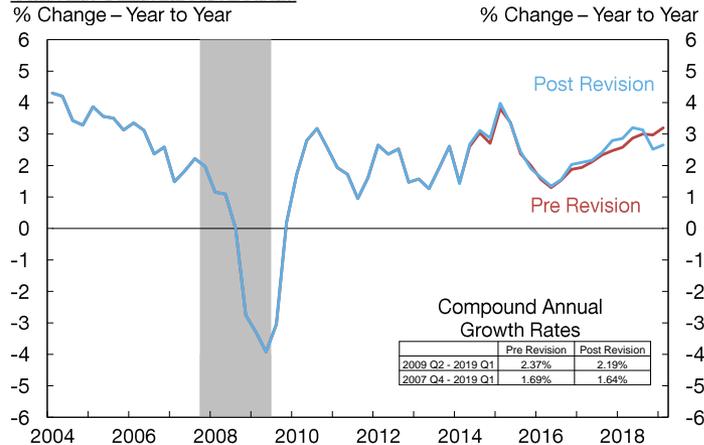


Breakeven inflation little changed

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) were little changed over the past month.
 - The five-to-ten year breakeven inflation rate was 1.74% on August 5, down 2 basis points from July 8 and 7 basis points year to date.
- According to the Abrahams-Adrian-Crump-Moench model, most of the year to date movements in forward inflation compensation reflect movements in the inflation risk premium.
 - The estimated five-to-ten year inflation risk premium has decreased about 10 basis points year to date.

SPECIAL TOPIC: NIPA REVISIONS

Real GDP Growth Rate



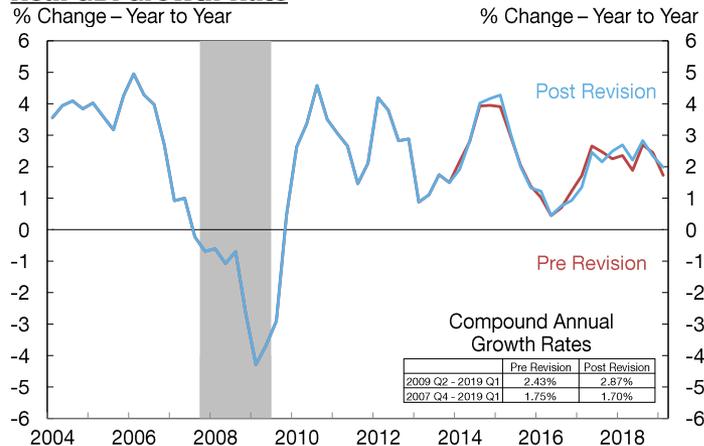
Source: Bureau of Economic Analysis

Note: Shading represents NBER recessions.

Modest net revision to real GDP growth for last 5 years

- The release of the advance estimate of GDP for 2019Q2 also included the annual revision of the national income and product accounts (NIPA) data.
 - These revisions incorporate new and revised source data as well as statistical changes that affect the history of GDP over the past five years.
- The net revision of real GDP growth over the past 5 years was small, but the pattern of recent growth changed somewhat.
 - Real GDP growth over 2013Q4 – 2019Q1 is now estimated at 2.46% (annual rate), compared to 2.44% pre-revision.
 - Growth over 2017 and early 2018 was stronger than previously estimated, but was weaker later in 2018.
- Net revisions to expenditure components generally were small.
 - Modest downward revisions to investment and exports were offset by upward revisions to government spending.

Real GDI Growth Rate



Source: Bureau of Economic Analysis

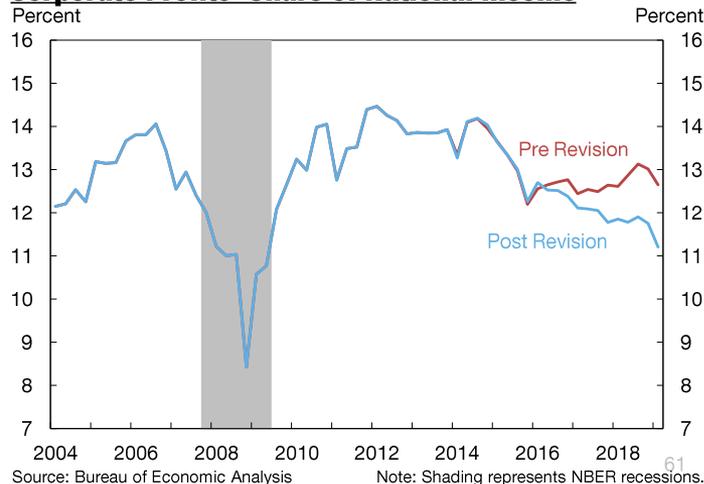
Note: Shading represents NBER recessions.

Revisions to real GDI growth also modest

- An alternative to measuring GDP from expenditures is to measure it from the income of factors used to produce it, which is called gross domestic income (GDI).
 - Theoretically, GDP and GDI should be equal, but in practice they rarely are.
- As was the case for real GDP, the revisions to real GDI growth were generally fairly modest in this annual revision.
 - Real GDI growth over 2013Q4 – 2019Q1 is now estimated at 2.29% (annual rate), compared to 2.19% pre-revision.
 - Much of that difference reflected a substantial upward revision to 2019Q1 GDI, as labor compensation was revised upward considerably.
- The difference between nominal GDP and GDI in 2019Q1 (statistical discrepancy), was revised downward to about \$45 billion (0.2% of GDP) from about \$135 billion (0.6% of GDP).

SPECIAL TOPIC: NIPA REVISIONS

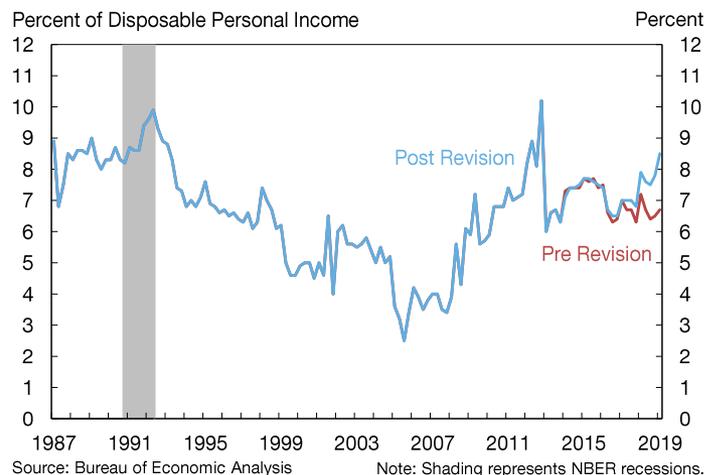
Corporate Profits' Share of National Income



Corporate profits revised downward

- One factor mitigating the upward revision to gross domestic income was a downward revision to the NIPA measure of corporate profits.
 - Although the downward revision becomes apparent after 2015, it is notably stark in 2018 and 2019Q1.
 - For 2019Q1, corporate profits are now estimated to be \$2.01 trillion, compared to \$2.25 trillion pre-revision.
- Consequently, the pattern of the profit share of national income changed significantly with this revision.
 - Rather being roughly constant since 2015, the profit share now appears to be on a downward trend.
 - The 2019Q1 profit share was the lowest since 2009Q2.

Personal Saving Rate



Personal saving rate revised upward

- In contrast to corporate profits, personal income since 2016 was revised upward.
 - Real disposable personal income is now estimated to have risen at a 3.34% annual rate over 2013Q4 – 2019Q1, compared to the previous estimate of 3.07%.
 - There were upward revisions to dividend and interest income and to (for 2018 and 2019Q1) labor compensation.
- With relatively little revision to personal outlays, the personal saving rate over the past few years was revised substantially upward.
 - The 2019Q1 personal saving rate is now reported to be 8.5%, compared to the previous estimate of 6.7%.
 - The personal saving rate appears further elevated given the high level of the household wealth-income ratio.