U.S. Economy in a Snapshot
Research & Statistics Group
August 2022

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 August 10, 2022.
The unemployment rate fell, consumer spending was unchanged, and core CPI inflation over the month eased.

- Output declined in Q2.
  - Drags on growth included inventories, consumer spending on food and gas, and residential investment.
  - Spending on consumer services and exports increased.
- Real disposable income fell slightly in June.
  - The level was below its trend growth path.
  - Real consumer spending has been flat since October 2021.
  - The personal saving rate was at a low level.

- Payroll employment grew at a strong pace and the unemployment rate fell.
- Core PCE inflation over the year increased slightly in June, while prices for food and energy prices were up sharply.
- Core CPI inflation over the month fell broadly in July.
- The 10-year Treasury yield fell, the S&P 500 stock index rose, and the dollar was stable.

### Q2 output was below its pre-pandemic trend path

- GDP has grown at a 1.0% annual rate since Q4 2019.
  - The median estimate for the longer-run GDP growth rate was 1.8% in the June Summary of Economic Projections (SEP).
  - The March Blue Chip survey had expected average annual growth over the 2024-28 period at 2.0%.
  - GDP in Q2 was around 2¼% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.
- Unemployment was below its longer-run normal level.
  - The 3.5% unemployment rate in July was below both the Blue Chip consensus forecast of 3.8% for average unemployment over 2024-28 and the median SEP projection of 4.0% for the longer-run unemployment rate.
  - The labor force participation rate in July was more than one percentage point below pre-pandemic levels.

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**Real GDP**

Trillions of 2012 dollars, annualized

![Graph showing Real GDP from 2015 to 2022](image_url)

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

### Unemployment Rate

The unemployment rate decreased in July

- The unemployment rate ticked down to 3.5% in July.
  - This marks the first time that the unemployment rate was back to its pre-pandemic level.

- The Household Survey's measure of employment increased by 180,000.
  - Employment was up 3.7% over the year.

- The labor force participation rate decreased by 0.1 percentage point to 62.1%.
  - This decline was driven by a fall among men that more than offset an increase among women.

*Source: Bureau of Labor Statistics via Haver Analytics*

### PCE Deflator

**PCE inflation over the year increased in June**

- PCE inflation over the year increased from 6.3% in May to 6.8% in June.
  - Food prices were up 11% and energy prices were up 44%.

- Core PCE inflation increased from 4.7% in May to 4.8% in June.
  - Durable goods inflation fell from 6.6% to 6.1%, with inflation for motor vehicles dropping from 12.6% to 9.5%.
  - Housing inflation rose from 5.1% to 5.5%.

- Core PCE inflation over the month increased from 4.3% (annualized rate) in May to 7.5% in June.
  - Housing inflation jumped from 7.6% to 9.0%.

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

**GDP Growth**

Quarterly % change, annualized

- GDP fell at a 0.9% annual rate in Q2, after declining at a 1.6% rate in Q1.
  - Despite the two straight quarterly declines, output was up 1.6% over the year.
  - The inventory investment component was the major contributor to the decrease.
  - Final sales to private domestic purchasers (consumption plus private fixed investment) was flat in the quarter.

- Real disposable personal income decreased at a 0.5% annual rate in Q2, its fifth consecutive decline.
  - The decline reflected continued high inflation.
  - The personal saving rate was 5.2%, below pre-pandemic levels of around 7.5%.

**Output declined again in Q2**

**Manufacturing Index**

Index, 2017=100

- The manufacturing index fell 0.5% in June.
  - The index was up 4% over the year and was 3% above its pre-pandemic level.

- The motor vehicles index fell 1.5%.
  - The index was up 13% over the year and was near its pre-pandemic level.
  - The index suggests the industry has largely overcome its 2021 supply-side issues.

- The ISM manufacturing index was unchanged in July at a level suggesting modest growth.
  - The new orders component fell.
  - The supplier deliveries index pointed to fewer bottlenecks.
Real disposable income fell in June

- Real disposable income fell slightly over the month in June, while nominal personal income rose 0.6%.
  - Nominal compensation was up 0.5%, proprietors’ income was up 1.4%, investment income was up 0.6%, and transfers were up 0.4%.
  - Over the year, nominal income was up 6%, with compensation up 9%, proprietors’ income up 5%, investment income up 4%, and transfers down 4%.
  - Real disposable income was down 3% over the year, pulled lower by inflation and higher tax payments.

- Real personal consumption spending was unchanged over the month in June and was up 2% over the year.
  - Spending has been flat since October 2021.
  - The personal saving rate remained unusually low.

Consumer spending on goods was flat in June

- Real spending on goods was unchanged over the month and was down 3% over the year.
  - Spending on durable goods has been flat since mid-2021, while spending on nondurables has trended down since the beginning of the year.
  - Purchases of food have fallen back to the series trend growth path.
  - Spending on goods was roughly 5% above its trend growth path.

- Real spending on services was flat over the month and was up 4% over the year.
  - Spending was around 3% below its trend path, with shortfalls in recreation, health care, public transportation, and personal care.
**Business Sector**

**Business Investment Spending on Equipment**

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<th>Billions of 2012 dollars, annualized</th>
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Source: Bureau of Economic Analysis via Haver Analytics

**Equipment spending fell moderately in Q2**

- After rising briskly in Q1, real business equipment spending fell at a 2.7% annual rate in Q2.
  - Equipment spending subtracted 0.2 percentage point off annualized GDP growth in the quarter.
  - Spending fell in the information and industrial categories and rose in the transportation category.
  - Equipment spending was up 2.7% over the year.

- Orders of capital goods rose solidly in June and remained at a high level.
  - Even so, orders data in recent months suggest sluggish real equipment spending, especially as recent increases partly reflect higher prices.

**Business Investment in Nonresidential Structures**

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<th>Billions of 2012 dollars, annualized</th>
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Source: Bureau of Economic Analysis via Haver Analytics

**Spending on nonresidential structures fell in Q2**

- Real nonresidential structures investment spending decreased at a 11.7% annual rate in Q2.
  - Structures investment was a 0.3 percentage point drag on annualized GDP growth in the quarter.
  - Spending was down 6.4% over the year and down almost 25% since Q4 2019.

- Spending in the energy sector increased for the seventh straight quarter.
  - Spending on mining exploration, shafts, and wells was still down 12% from its Q4 2019 level.

- Nominal private nonresidential construction spending in June was down modestly from the December 2021 level.
HOUSING SECTOR

Residential investment faltered in Q2

- A drop in residential investment spending took 0.7 percentage point off annualized Q2 GDP growth.
  - Spending was still 10% above its Q4 2019 level.

- Investment continued to be relatively high in both single-family and multi-family structures.
  - Single-family construction in Q2 was up 23% relative to Q4 2019 and multi-family construction was up 21%.
  - The main drags on residential investment were from lower spending on improvements and commissions.

- Housing starts fell in June to 10% below the Q1 2021 average.

Home sales were down again in June

- Existing single-family home sales were down 5% over the month in June and were 15% below the Q1 2022 level.

- New single-family home sales were down 8% over the month and were 24% below the Q1 2022 level.

- Home prices were up 20% over the year in May.
Federal spending was again a drag on growth
- Federal government spending subtracted 0.2 percentage point from annualized GDP growth in Q2, following negative contributions in each of the prior four quarters.
  - Nondefense spending subtracted 0.3 percentage point from growth, while defense spending added 0.1 percentage point.
  - Overall spending was down 5% over the year, with consumption down 6% and investment spending unchanged.
- The part of the drag from nondefense spending reflects a statistical quirk.
  - Federal government sales from the Strategic Petroleum Reserve subtract from government consumption but add to private inventories, with no net effect on output.

State and local government spending dipped in Q2
- Real state and local government spending subtracted a slight 0.1 percentage point from annualized GDP growth in Q2.
  - Spending was unchanged over the year.
- S&L government consumption was flat over the quarter.
  - Spending was up 2% over the year.
- Investment spending fell 3% over the quarter, with a 4% drop in construction and a 2% decline in equipment purchases more than offsetting a 1% increase in spending on intellectual property products.
  - Total investment spending was down 8% over the year, with construction spending down 11%.
Core CPI inflation over the month slowed sharply

- Core inflation over the year stayed at 5.9% in July.
  - Core goods inflation fell from 7.2% in June to 7.0% in July.
  - Core services inflation was unchanged at 5.5%, with an increase in rent inflation from 5.8% to 6.3%.

- The core CPI rose 0.3% over the month (3.8%, annualized) in July, a steep drop from the 0.7% pace set in June (8.8%).
  - The monthly inflation for core goods decreased from 0.8% to 0.2%.
  - The monthly inflation rate for core services fell from 0.7% to 0.4%.

Shelter inflation over the month eased in July

- Shelter inflation over the year increased slightly from 5.6% in June to 5.7% in July.
  - The index has grown at a 3.8% (annualized) pace since the start of the pandemic.
  - The index grew at a 3.3% rate in the years before the pandemic.

- Shelter inflation over the month fell from 7.6% (annualized) to 6.7%.
  - Inflation for the rent component decreased from 9.7% to 8.8%.
  - Rents were up 6.3% over the year and have grown at a 3.8% annual rate since the beginning of the pandemic.
**Labor Market**

**Payroll Employment**

Index, 2019=100

- Nonfarm payroll employment rose by 528,000 in July.
  - Nonfarm payroll employment was back to its February 2020 level.
  - The most notable increases were in education and health services, leisure and hospitality, and professional and business services.

- The Household Survey's employment-to-population ratio was 60.0% in July.
  - The ratio has stayed within a narrow band around 60% for the last six months.

Source: Bureau of Labor Statistics

**Average Hourly Earnings and the ECI**

Year-over-year % change

- Average hourly earnings increased by 0.5% over the month in July (5.8%, annualized), close to the pace set in June.
  - Hourly earnings were up 5.2% over the year.

- Wage growth in leisure and hospitality slowed down to 0.6% in July and moderated to 8.7% over the year.

- The Q2 employment cost index was up 5.0% over the year, an acceleration from the 4.5% pace set in Q1 2022.

Source: Bureau of Labor Statistics via Haver Analytics
Regional business activity was mixed in July

- Activity declined in the service sector for the first time in over a year, while manufacturing activity grew modestly, according to the July regional business surveys.
  - The Business Leaders Survey's headline index (services) fell 13 points to -10.7, while the Empire Survey's headline index (manufacturing) climbed 12 points to 11.1.
  - Firms no longer expect activity to increase over the next six months. The Empire Survey's future headline index fell to -6.2, and the Business Leaders Survey's future headline index fell to zero.
  - While still elevated, current and future price indexes moved noticeably lower across the board.

Employment growth remained strong in some areas

- Job growth in downstate New York, Northern New Jersey, and Puerto Rico outperformed the nation in June, but remained below the national pace in upstate New York and Fairfield.
  - Over the prior 12 months, employment increased by 5.3% in downstate New York, 5.3% in Northern New Jersey, 2.7% in Fairfield CT, and 2.9% in upstate New York, compared with 4.3% nationally.
  - Employment remained 4.6% below pre-pandemic levels in downstate New York, 4.3% below in upstate New York, 0.9% below in Northern New Jersey, and 2.7% in Fairfield, compared to a 0.3% job shortfall nationally.
  - Employment in Puerto Rico grew 6.4% on a year-over-year basis in June and was 4.8% above prepandemic levels.
Exports and Imports of Goods and Services
Billions of 2012 dollars, annualized

- Imports and exports both rose in Q2.
  - Higher exports added 1.9 percentage points to annualized GDP growth, while higher imports subtracted 0.5 percentage point.
  - The increase in exports was not enough to bring foreign sales back to pre-pandemic levels.
  - Higher exports were led by industrial supplies, durable consumer goods, and tourism.
- Imports were well above pre-pandemic levels.
  - Imports slowed after large increases in the previous two quarters.
  - The level of consumer goods imports continued to be well above its trend growth path.

Net exports were a boost to Q2 growth

Crude Oil Prices
Dollars per barrel (WTI)

- Oil prices (WTI) declined from $115/barrel in June to $102/barrel in July.
  - Prices in July were up 40% over the year.
  - Prices went from around $120/barrel in mid-June to around $100/barrel by mid-July and to around $90/barrel in early August.
- The Department of Energy’s August forecast projects that oil production will exceed demand in the second half of 2022.
  - The forecast has higher U.S. and OPEC production and relatively slow global demand growth.
  - In addition, Russia's output is forecasted to rebound in the second half of 2022 and then fall sharply in 2023.

Oil prices fell in July
**Implied path for the federal funds rate shifted down**

- The expected path of the federal funds rate implied by overnight indexed swaps decreased across all maturities longer than one year between July 11 and August 8.

- The market-implied federal funds rate at the end of 2023 was still around 3.0%, which is below the median value of 3.8% in the FOMC’s Summary of Economic Projections (SEP) from June 2022.

- At the five-year horizon, the market-implied federal funds rate dropped to around 2.2%, which is below the median SEP longer-run federal funds rate of 2.5%.

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**Ten-year Treasury yields moved lower**

- The 10-year Treasury yield was at 2.77% on August 8, 22 basis points lower than the yield on July 11.
  - The yield averaged 1.76% in January 2020.
  - The yield averaged 0.89% in 2020, 1.44% in 2021, and 2.51% in the first seven months of 2022.
  - Estimates from the Adrian-Crump-Moench term structure suggest the decrease in the 10-year Treasury yield from July 11 to August 8 is due to both a lower expected future interest rate path and a decline in the term premium.
Financial Markets

Equity prices rose

- U.S. equity prices, as measured by the S&P 500 index, were up 6% on August 8 relative to the July average.
  - The S&P 500 index was down 14% year-to-date on August 8 after being up 29% over the course of 2021.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), decreased from 26.2 on July 11 to 21.3 on August 8.
  - The median VIX Index value was 17.9 over the period from the beginning of 2000 through August 8.

The dollar was stable

- The Federal Reserve’s trade-weighted broad dollar index on August 5 was unchanged relative to the July average.
  - The index was up 15% relative to the 2021 average.

- The dollar on August 8 was unchanged against the euro relative to the July average and 1% weaker against the yen.