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 December 16, 2019.
OVERVIEW

- Consumer spending growth was moderate in October.
  - Real spending on durable goods fell, while growth of real expenditures on nondurable goods and services was moderate.

- Real business equipment spending declined in 2019Q3, and its growth year-to-date was well below its pace in 2018.
  - New orders of nondefense capital goods excluding aircraft rose solidly in October. They were roughly equal to shipments, suggesting somewhat better near-term momentum.

- On balance, housing activity indicators displayed further gradual improvement in October.
  - Single-family housing starts and permits have been on an upward trend over the past five months. New and existing home sales also indicate solid conditions. A still-strong labor market and low mortgage rates have provided some support to the housing sector.

- Payroll growth was robust in November, and remained solid year-to-date. The unemployment rate and the labor force participation rate both edged down, and the employment-to-population ratio remained at its expansion high.
  - Various measures of labor compensation growth remained moderate.

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

- U.S. equity indices rose broadly over the past month, while implied volatility remained low. The nominal 10-year Treasury yield declined slightly. The market-implied expected policy rate path has a shallow downward slope in 2020 and flattens out in the summer of 2021. The broad trade-weighted dollar index was little changed.

Output moderately above potential GDP estimate

- The level of real GDP in 2019Q3 was about 0.8% 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 3.5% unemployment rate in November was below most estimates of its natural rate, including that of the CBO (4.56%).

- 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

Unemployment rate returns to 50-year low

- The unemployment rate edged down to 3.5% in November, returning to the 50-year low recorded in September.

- The employment-to-population ratio stayed at 61.0% for the third consecutive month in November.
  - The employment-to-population ratio for prime-age workers remained at 80.3%.

- The labor force participation rate ticked down to 63.2%, remaining close to the expansion high recorded in October.
  - For prime-age workers, this rate remained at 82.8%.

PCE Deflator

Inflation continues to run below 2 percent

- The total PCE price index rose 0.2% in October, after being little changed in September. The core PCE price index (which excludes food and energy prices) rose 0.1% in October after being essentially flat in September.
  - Energy prices rose 2.6% in October, and are down 4.2% relative to one year ago. Food prices rose 0.2% and are up 1.1% compared to one year ago.

- The 12-month change in the total PCE index was unchanged at +1.3%, while the 12-month change in the core PCE index declined to +1.6%.
  - Both total and core PCE inflation remained softer than they were over most of 2018.
  - Core PCE inflation remains below the FOMC's 2 percent longer-run goal.
2019Q3 real GDP growth revised upward modestly
- The second estimate of real GDP growth for 2019Q3 was 2.1% (annual rate), up from 1.9% in the advance estimate. Real GDP growth over the first three quarters of 2019 was 2.4% (annual rate).
- An upward revision to the inventory investment growth contribution was the primary factor in the GDP revision.
- Real personal consumption expenditures rose at a 2.9% annual rate in Q3, little revised from the advance estimate.
- Real nonresidential fixed investment fell in the third quarter, its second straight decline.
- Real residential investment increased in Q3 after 6 consecutive quarterly declines, as the housing market improved amid lower mortgage rates.

Sluggishness in manufacturing continues
- Manufacturing production decreased 0.6% in October after decreasing 0.5% in September.
  - The 12-month change in manufacturing production was -1.5%, the lowest this change has been since May 2016.
- The ISM manufacturing headline index decreased to 48.1 in November from 48.3 in October.
  - The Supplier Deliveries index was the only component index above the breakeven of 50, registering 52.0 in November.
- The regional Fed surveys continue to point to sluggish manufacturing growth in most districts in November.
Income growth weaker than expected in October

- Nominal income was flat, and real disposable income fell, but this was likely due to temporary factors as the growth in wage and salary income remained strong.
  - Nominal personal income was flat in October. Disposable personal income fell 0.3% in real terms.
- Personal consumption expenditures grew in line with expectations.
  - Real PCE rose 0.1% in October and 2.3% on a 12-month basis. The personal saving rate fell from 8.1% to 7.8%.
  - On a 12-month basis, growth in goods consumption remains strong while that in services consumption has weakened notably since last year.

Consumer confidence declines in November

- The Conference Board’s Consumer Confidence Index decreased to 125.5 in November from 126.1 in October.
  - The decline was driven primarily by the Present Situation component.
  - The fraction of respondents expecting better business conditions over the next six months declined from 18.7 to 17.2 percent.
- The Michigan Survey’s Index of Consumer Sentiment was 96.8 in November, up from 95.5 in October.
  - The index has bounced back since the summer but has exhibited substantial volatility.
**Equipment Investment and Capacity Utilization**

- **4-Quarter % Change** vs. **% of Capacity**

- **Equipment spending falls in 2019Q3**
  - Real business equipment investment declined 3.8% (annual rate) in 2019Q3. Over the first 3 quarters of 2019, equipment spending fell at a 1.0% annual rate, compared to the 5.0% increase over 2018 (Q4/Q4).
    - In 2019Q3, spending declined for information equipment, transportation equipment, and other equipment, and rose for industrial equipment.
  - Recent weak equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
    - This rate was 74.7% in September, 3.6 percentage points below its long-run average.
    - Historically, utilization rates near the September level are associated with modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- **Bil. $, 3 MMA**

- **Capital goods shipments rebound in October**
  - Shipments of nondefense capital goods excluding aircraft rose 0.8% in October after falling 0.8% in September. The October level of these shipments was 0.2% above the average in 2019Q3.
    - This measure is a proxy for equipment spending that is available at a monthly frequency.
  - Orders of nondefense capital goods excluding aircraft grew 1.2% in October, following a 0.5% fall in September.
  - New orders for these goods are now roughly in line with shipments, suggesting neutral near-term momentum for equipment spending.
**HOUSING SECTOR**

**Single-family starts continue to improve**
- Total housing starts rose by 3.8% in October after falling by 7.9% in September.
- Single-family starts rose by 2.0% in October, the fifth consecutive monthly increase and are now up 8.2% on a year-over-year basis. The roughly 100 basis point decline of mortgage interest rates over the past year is now boosting the single-family construction sector. Single-family housing permits are also now on an upward trend.
- Multi-family housing starts, which are notoriously volatile from month to month, rose 8.6% in October after plunging 25.3% in September. Multi-family building permits have also moved higher in recent months.

**Mortgage underwriting remains tight**
- The median credit score of newly originated mortgages has remained stable for nearly 7 years and is now at 765. While this loosened very slightly since 2009-2012 when it peaked at over 780, underwriting standards remain much tighter than they had been in the years preceding the Great Recession.
- The 10th percentile, which could be interpreted as the minimum required score to get a mortgage, is just above 650.
- This distribution reflects the underlying origination volume; only a small share of newly originated mortgages are to non-prime borrowers, while the origination volume to those with scores over 760 has remained high (although it has fluctuated with refinance booms).
**Real Government Consumption and Gross Investment**

- **Growth of real government spending strong in 2019Q3**
  - Over the four quarters ending in 2019Q3, real government consumption and gross investment was up 2.2%, comparable to the previous quarter.
  - Real federal spending was up 3.7% over the four-quarters ending in 2019Q3, the strongest since 2010Q2. Spending for national defense was up 4.6% while nondefense spending was up 2.5%. Growth of federal spending is expected to slow but remain positive over the next several quarters.
  - Real spending by state and local governments has been strengthening since the end of 2017. This rebound has been led by investment spending. Employment growth in the state and local government sector has picked up over the second half of 2019 after slowing over the first half of the year.

**Real State & Local Consumption & Gross Investment**

- **State and local sector spending holds steady**
  - Growth of real consumption at the state and local level has held steady at about 1.0% 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 slowed, rising 2.5% over the four quarters ending in Q3 versus 4.1% in Q2.
    - 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

12 Month % Change

[Graph showing real exports and nonoil imports of goods from 2005 to 2019, with shaded areas indicating NBER recessions.]

Source: Census Bureau via Haver Analytics
Note: Shading shows NBER recessions.

The trade deficit drops again in October

- The trade deficit declined again to $47.2 billion in October from $51.1 billion in September. Both real exports and imports declined over the month, as in the previous month.
  - Real goods exports fell 0.5% between September and October, mostly due to lower export volumes of capital and consumer goods (both excluding autos) as well as agricultural goods. Real exports of oil goods increased over the month.
  - Real nonoil goods imports dropped a significant 2.3% in October, as import volumes of autos and consumer goods declined over the month. Real oil goods imports increased in October.

- Net exports subtracted 0.11 percentage point off GDP growth according to the second estimate of GDP in 2019Q3, 3 basis points more than in the first estimate.

Crude Oil Prices

Dollars per Barrel, 4-Week Moving Average

[Graph showing crude oil prices from 2000 to 2018, with shaded areas indicating NBER recessions.]

Source: Energy Information Administration via Haver Analytics
Note: Shading shows NBER recessions.

Oil prices have stayed near $55/barrel since June

- Stability due to higher U.S. production is being offset by lower supply from Saudi Arabia, Iran, and Venezuela.
  - 2019 global oil consumption growth set to be the same as in 2018.

- Oil prices will face downward pressure next year with large increases in supply from the U.S., Brazil, and Norway.
  - Inventories will rise without cuts by OPEC.

- Half the global increase in 2019 oil demand has been from China.
  - Oil consumption in industrial countries has been unchanged.
**LABOR MARKET**

### Payroll Employment and Aggregate Hours

- **Payroll growth exceeds expectations**
  - Nonfarm payrolls rose by 266,000 in November, above the Bloomberg median forecast of 185,000.
    - Combined revisions for September and October implied additional employment gains of 41,000.
  - Private payroll employment increased by 254,000, and government employment grew by 12,000 in November.
  - Average weekly hours worked by all private employees remained at 34.4 for the third consecutive month.
    - Average weekly hours have fluctuated in a narrow range between 34.4 and 35.5 since January 2016.
    - Aggregate weekly hours worked by all private employees were up 0.2% in November.

### Payroll Employment and Aggregate Hours Diagram

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

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### Quits Rate and Ratio of Job Openings to Unemployed

- **High quits and vacancy rates continue to flatten**
  - The quits rate remained unchanged at 2.4 at the end of September.
    - This rate has remained fairly flat since mid-2018, which is consistent with the flattening of the ratio of job openings to unemployed workers seen over this same period.
  - The ratio of job openings to unemployed workers, a measure of labor market tightness, was 1.22 at the end of September.
    - This level is in line with the average of the previous twelve months of 1.21.
    - The ratio has exceeded one since March 2018, implying that there are more job openings than unemployed people in the labor force.
**LABOR MARKET**

**Fraction of Men and Women Holding Multiple Jobs**

- **More women hold multiple jobs compared to men**
  - The fraction of male and female multiple jobholders, calculated by dividing the number of male and female multiple jobholders by the number of men or women employed, show that the share of women who hold multiple jobs remains higher than the share for men.
  - While the two groups had similar shares in the mid-to-late 1990s, the trend has diverged between the two.
    - The difference between the shares of multiple jobholders reached its peak this past summer.
  - On average, in the period between November 2018 and November 2019, the share for female multiple jobholders was 5.7%. For men, that number was 4.7%.

**Growth of Average Hourly Earnings and ECI**

- **Earnings growth edges up in November**
  - Average hourly earnings rose 0.25% percent in November, on par with the average for 2019 to date.
    - Average hourly earnings increased 3.14% on an annual basis, above the 2018 average of 2.99%.
    - Nevertheless, the 12-month change in average hourly earnings in November was below that in November 2018 (3.31%).
  - In November, average weekly earnings for all private sector employees increased to $973.18, up 0.25% from October.
    - The 12-month change in average weekly earnings was 3.14% in November, above the average of 2.76% for 2019Q3, but below the average in 2018 of 3.28%.
INFLATION

CPI Inflation: Core Goods and Core Services

Core CPI inflation continues to move sideways

- Core CPI rose 0.2% in November, the same as in October.
- Core services prices rose 0.3% in November, after increasing only 0.2% in October.
  - Inflation in rent of primary residence rebounded to 0.3% after a modest 0.1% rise in October.
- Core goods prices were flat in November after falling for the previous two months.
  - After declining steadily between 2012 and 2018, the level of core goods prices has been on a bumpy, but mildly upward trajectory for the past year, providing crucial support to overall inflation.

3-Year Ahead Inflation Expectations

Medium-term consumer inflation expectations tick up

- Median three-year ahead inflation expectations increased from 2.4% to 2.5% in November.
  - Median one-year ahead inflation expectations showed a very small increase (0.02 percentage point) at the one-year horizon, to 2.4% after rounding. Median inflation uncertainty declined at both time horizons.
- Home price growth expectations rose again.
  - Median expected change in home prices rose to 3.0% in November, returning to a level last observed in July.
- While remaining optimistic about the labor market, expectations about spending growth declined sharply.
  - Median household spending growth expectations declined from 3.3% in October to 2.8% in November, its lowest reading since September 2017.
**U.S. Equity Market Index and Volatility**

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

**U.S. equity markets at all-time highs**
- U.S. equity markets have moderately increased during the past month and remain near their all-time highs.
  - The S&P 500 index rose 2.25% between November 1 and December 9. The index is currently at 3136, just below an all-time high of 3154, which occurred on November 27.
  - As of December 9, the index was up 24.9% year to date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains low.
  - The VIX Index closed at 15.86 on December 9, well below its 2018 year-end closing value of 25.42.

**USD Exchange Rates**

**U.S. dollar appreciates modestly**
- The exchange value of the dollar against a basket of global currencies increased 0.47% between November 1 and December 9.
  - Over this same period the dollar appreciated 0.92% against the Euro, 0.56% against the Peso, and 0.34% against the Yen.
- Since the start of 2019, the dollar has depreciated 0.003% against a basket of global currencies.
**Strong performance in Bank stocks**
- As measured by the KBW Nasdaq bank index, bank equities gained 4.76% between November 1 and December 9, and are currently near all-time highs.
  - As of December 9, the index was up 26.91% year to date.
- The XLF financial sector ETF also gained 4.02% between November 1 and December 9, and is also trading near all-time highs.
  - As of December 9, the index was up 26.10% year to date.

**Implied path for federal funds rate rises**
- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved up slightly for short maturities and steepened between November 1 and December 9, with a bit more than one hike difference at the 5-year horizon.
- The market-implied path remains below the median path of the FOMC’s September 2019 and December 2019 Summary of Economic Projections at medium and long horizons. With respect to the October 2019 NY Fed Survey of Primary Dealers, the market-implied path is lower for medium horizons, but higher for the 4-5 year horizon.
**10-Year Treasury and Term Premium**

Longer-term Treasury yields have increased slightly since early November.

- The 10-year yield increased about 3 basis points between November 1 and December 9, closing at 1.82%.
- Estimates from the Adrian-Crump-Moench term structure model attribute the increase to a slightly less negative term premium.
- The 10-year term premium increased by 3.9 basis points between November 1 and December 9.
- The 10-year term premium is currently 34 basis points above its most negative level on September 3.

**Breakeven inflation little changed**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) were little changed in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.73% on December 9, representing a 10 basis point increase over the past month. Breakeven inflation is down by about 6 basis points year-to-date.
- According to the Abrahams-Adrian-Crump-Moench model, most of the year-to-date movements in forward inflation compensation continue to reflect movements in the inflation risk premium.
  - The estimated five-to-ten year inflation risk premium has decreased 16 basis points year-to-date but increased by 8 basis points this past month.
**SPECIAL TOPIC - STUDENT LOAN OUTCOMES**

### Average Student Loan Balance Per Borrower

![Chart showing average student loan balance per borrower over time for different zip code demographics: White-majority, Black-majority, Hispanic-majority, and Black-majority zip codes.](chart.png)

- **Dollars ($)**
  - 0, 5,000, 10,000, 15,000, 20,000, 25,000, 30,000, 35,000, 40,000


**Source:** New York Fed Consumer Credit Panel / Equifax; Census Bureau

**Note:** Borrowers are grouped by their zip code’s race majority and represent area composition.

### Higher average balances in black-majority areas

- New York Fed Consumer Credit Panel (CCP) data show that average student loan balances are higher in black-majority areas, at nearly $38k.

- White and Hispanic majority areas have lower average balances, at $34k and $29k respectively.

- Since 2010, average balances have grown more rapidly in black-majority areas.

- Note, race and ethnicity are not available in the CCP, but a proxy for race is created by grouping borrowers by the majority race group in their zip code (as reported by the Census Bureau).

### Majority-minority areas have higher default rates

- Higher delinquency and default rates reflect greater repayment difficulties among borrowers from areas where blacks and Hispanics represent the majority.
  - Borrowers from majority-Hispanic and majority-black zip codes experience higher default rates, at 13% and 18% respectively.
  - The share of borrowers in default is 9% in areas where the majority of residents are white.

- While the benefits of a college education generally outweigh the costs, higher default rates suggest this may not be true for all borrowers, particularly among those who may not have completed their degree.

**SPECIAL TOPIC - STUDENT LOAN OUTCOMES**

**Borrowers in Default, 2019:Q3**

- **Percent**
  - 0%, 2%, 4%, 6%, 8%, 10%, 12%, 14%, 16%, 18%, 20%

- **White-majority zip codes**
  - 6%

- **Black-majority zip codes**
  - 18%

- **Hispanic-majority zip codes**
  - 10%

**Source:** New York Fed Consumer Credit Panel / Equifax; Census Bureau

**Note:** Borrowers grouped by their zip code’s race majority and represent area composition.