U.S. Economy in a Snapshot
Research & Statistics Group
December 2020

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 18, 2020.
Consumer spending rose in October at the slowest pace since April.
- Real expenditures on services rose more than spending on goods, but both gains were small.
- Overall spending was down 2% over the year, with purchase of goods up 8% and those for services down 6%.

Spending on business equipment spending was fairly robust in October.
- Shipments of nondefense capital goods ex-aircraft were up 3 percent over the Q3 average.

Housing activity continued to increase in October.
- House starts were up sharply over the year, with the strength all in single-family housing. Multi-family starts are down.
- Home sales were up substantially over the year-ago level.

Payroll employment grew at a slower pace in November. The unemployment rate fell, pulled down by a decline in the labor force participation rate. The employment-to-population ratio fell.

Core PCE inflation eased in October, with softer readings for both goods and services.

U.S. equity indices rose to record levels, while volatility declined. The 10-year Treasury yield increased modestly and the market-implied expected policy rate path was unchanged. The dollar depreciated.

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**Real GDP Relative to Potential**

The level of real GDP in Q3 was 3.6% below the CBO's estimate of potential GDP.
- The Q3 output gap narrowed considerably from -9.9% in Q2.
- Even though it has fallen sharply since April, the 6.7% unemployment rate in November was above the CBO's estimate of its longer-run natural rate (4.4%).
- The CBO projects that real potential GDP will grow at a relatively slow rate of 1.4% over the next year.

Other measures also indicated that there is considerable resource slack in the U.S. economy.
- Despite rebounding since April, capacity utilization rates continued to be at low levels.
**OVERVIEW**

**Labor Market Indicators**

- **Labor force participation rate**
- **Employment-to-population ratio**
- **Unemployment rate**

Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.

**Labor market recovery slowed in November**

- The unemployment rate ticked down from 6.9% in October to 6.7% in November.
- Nonfarm payrolls rose by 245,000 in November, well below the average gain of 1.3 million in 2020Q3.
  - Employment in private service-providing industries increased by 289,000, with notable increases in transportation and warehousing, professional and business services, and education and health services.
  - Employment in goods-producing industries rose by 55,000, driven by increases in manufacturing and construction.
- The employment-to-population ratio fell from 57.4% in October to 57.3%.

**Inflation slowed in October**

- The PCE price index was up 1.4% over the year in October, an easing from the 1.6% pace set in September.
  - Energy prices were down 8.1% over the year while food prices were up 3.9%.
  - Services were up 2.0% and prices for durable goods were up 0.4%.
- Core PCE inflation dropped from 1.4% to 1.2%.
  - Core PCE inflation remained below the FOMC's 2 percent longer-run goal.
ECONOMIC ACTIVITY

Q3 GDP growth was little revised in 2nd estimate
- GDP surged at a 33.1% annual rate in Q3, after falling 31.4% in Q2. The 4-quarter change was -2.9%.
  - Personal consumption expenditures rose 40.6%.
- Upward revisions to private fixed investment and exports were offset by downward revisions to inventories and state and local government expenditures.
- Real gross domestic income rose at a 25.5% annual rate. Its 4-quarter change was -3.9%.
  - The personal saving rate was 16.1%.

Manufacturing Rises and ISM Index Dips
- Manufacturing production increased 0.8% in November after rising 1.1% in October.
  - The November level of manufacturing production was 4% below the February level.
  - Manufacturing production was down 4% over the year.
- The ISM manufacturing index slipped in November but remained at a level typically consistent with solid growth.
  - The headline composite index declined 2.8 points to 57.5.
  - The Employment index fell 4.8 index points to 48.4, slipping back below the 50 breakeven level.
**Households**

**Disposable Income and Consumption**

- 12-month % change

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

Note: Shading shows NBER recessions.

**Consumer Spending Rose in October**

- Real Personal Consumption Expenditures (PCE) increased 0.5 percent in October, a slowdown from 1.1 percent in September.
  - Retail sales data had spending on goods falling in November.

- Real disposable personal income fell 0.8 percent in October, more than erasing the 0.6 percent gain in September.
  - Personal current transfer receipts plunged 6.2 percent, or $252.6 billion (SAAR), led by a $209.7 billion fall in the lost wages supplemental payments from the Disaster Relief Fund. Unemployment insurance fell by another $50.4 billion.

- The personal saving rate was 13.6 percent in October, down from 14.6 percent in September.

**Consumer Spending**

- 12-month % change

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

**Services Outperform Goods in October**

- Real personal consumption expenditures on goods grew 0.2 percent in October.
  - Spending on durable goods was up 0.8 percent.
  - Spending on nondurable goods was unchanged.

- Real expenditures on services rose 0.6 percent.

- Expenditures on services were below their February level by 7 percent, while those on goods were 8 percent higher, driven by a 14 percent jump in spending on durable goods.
**Equipment spending rebounds in Q3**

- Real business equipment investment spending shot up at a 66.6% annual rate in Q3, after dropping at 35.9% in Q2. The 4-quarter change was -2.9%.
  - Spending rose for all four major categories of equipment. The rise was particularly sharp for transportation equipment, although that category was still 21% below its year-ago level.

- The rebound in equipment spending helped push up the manufacturing capacity utilization rate in November.
  - Still, this rate was only 72.6%, which is 5.6 percentage points below its long-run (1972–2019) average.
  - Low utilization rates typically have been associated with weak equipment investment.

**Nonresidential structures spending fall in Q3**

- Real nonresidential structures investment declined 15.8% (annual rate) in Q3. The 4-quarter change was -15.5%.

- In Q3, spending declined for all major categories of structures. The most severe fall occurred for mining exploration, shafts, and wells.

- Over the past several quarters, structures spending has been weak for petroleum and natural gas.
  - Structures investment outside of energy also has been sluggish or falling in recent quarters.
HOUSING SECTOR

**Housing Starts**

- Total housing starts rose 5% in October, putting them up 14% over the year.
  - Total building permits were unchanged.

- Single-family starts rose 6% to 1.18 million units (annual rate), 29% above the October 2019 level.
  - The three-month average of single-family starts surpassed its recent highs and was at its highest since July 2007.

- Multi-family starts, which are notoriously volatile from month to month, were unchanged at 351,000 units (annual rate), 18% below the October 2019 level.

**New and Existing Home Sales**

- Single-family existing home sales increased 4% in October to 6.1 million units (SAAR).
  - Single-family existing home sales were 27% over the year.

- Single-family new home sales fell 0.3% (SAAR) in October to 999,000 units.
  - Relative to one year ago, new home sales were up 42%.

- Home sales continued to display significant strength due to historically low mortgage rates and increased demand due to widespread adoption of remote work.
Federal deficit widened during the pandemic

- The federal budget deficit soared amidst the pandemic, reaching 14.9% of GDP in the fiscal year (FY) ending in September.

- This sharp increase owes entirely to an increase in federal outlays, which rose from 21% of GDP in FY 2019 to 31% in FY 2020. Revenues held steady at 16%.

- Income support payments to households and Paycheck Projection Program payments to businesses accounted for much of the increase in outlays.
  - These payments are transfers and do not count as government expenditure in the GDP accounts.

S&L government employment remains distressed

- State and local government employment was down 6.5% over the year in November, a decline of 1.28 million.
  - The pandemic has caused an unprecedented contraction in state and local government jobs, eclipsing the Great Recession’s peak-to-trough decline of 747,000 jobs lost.

- Many of the job losses have been in education.
  - 78% of the November year-on-year decline was in the education sector, which comprised over half of state and local government employment in 2019. This total includes both instructional employees and non-instructional employees.
**Internationally Developments**

### Real Exports and Nonoil Imports of Goods

- **Exports and Imports Continue to Rebound**
  - U.S. exports and imports of goods both rose by 3% in real terms over the month of October.
    - Goods imports were above their pre-pandemic levels, while exports were catching at a slower pace.
  - The rise of exports was primarily driven by higher sales of industrial supplies (excluding petroleum), capital goods, and consumer goods.
  - The increase in imports was broad based, with solid growth in industrial supplies excl. petroleum, capital goods, autos, and consumer goods.

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

### European Composite Output PMIs

- **Survey data for Europe show economies stabilizing**
  - European survey data recovered in December after earlier contractions from the Covid-19 resurgence.
    - In the euro area, the composite purchasing managers’ index rose 4.5 points to 49.8 in December, to stand just below the break-even line of 50.
    - In the UK, the composite PMI rose 1.7 points to 50.7 in December, a level consistent with mild expansion.
  - Detailed surveys show services activity still contracting in both economies (though only mildly in the UK), but manufacturing activity expanding briskly.
  - The improved December PMI readings come alongside modest pickups in mobility indexes.

Source: Markit Economics via Haver Analytics

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Labor Market

Payroll Employment and Aggregate Hours

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Employment growth weakens in November

- Nonfarm payroll employment rose by 245,000 in November.
  - This increase was well below the monthly payroll employment gains in Q3.
  - Payroll employment was 9.8 million below its February level.

- Private payroll employment rose by 344,000, largely driven by an increase of 289,000 in service-providing industries.
  - Payroll employment growth in leisure and hospitality slowed (+31,000) relative to the Q3 average of 883,000.
  - Government employment fell by 99,000, pulled down by the end of 93,000 temporary 2020 Census jobs.

Job Finding Rates of Unemployed Workers

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Job finding rates tick down slightly in November

- The job finding rate (JFR)—defined as the fraction of unemployed workers in a given month who find jobs in the consecutive month—ticked down slightly in November for both temporarily and permanently unemployed workers.
  - The JFR for temporarily unemployed workers fell from 30.7% to 30.3%. For permanently unemployed workers, the rate fell from 26.7% to 26.1%.
  - While the JFR for permanently unemployed workers remained slightly below its pre-COVID level, the JFR for temporarily unemployed workers was less than half of its pre-COVID level.

- The decline in the job finding rate suggests that it is harder to find jobs in the economy.
The Black unemployment rate remains elevated

- The Black unemployment rate, which was already high compared to the White unemployment rate, fell from 10.8% in October to 10.3% in November.
  - The White unemployment rate fell from 6.0% to 5.9%.

- The Black unemployment rate rose steeply in the Spring and has been recovering more slowly compared to the White unemployment rate.

Average hourly earnings increase in November

- Average hourly earnings ticked up from $29.49 in October to $29.58 in November, an increase of 0.3%.
  - On a 12-month basis, average hourly earnings rose by 4.4%.
  - Average hourly earnings of private-sector production and nonsupervisory employees increased by 0.3% to $24.87.

- Average weekly earnings rose by 0.3% over the month, from $1,026.25 in October to $1,029.36 in November.
  - Average weekly earnings increased by 5.9% over the year.
Core CPI Inflation was Stable in November

- The 12-month change in core CPI was 1.6 percent in November.
  - COVID-19 induced noise (the seesaw pattern in several components observed over the past few months) is masking the downward trend in shelter inflation.

- The 12-month change in core services prices was 1.7 percent, the same as in October but well below the 3.1 increase in February.

- The 12-month change in core goods prices was 1.4 percent, compared with 1.2 percent in October.

Shelter Inflation Continues to Ease

- The 12-month change in the shelter component of core CPI was 1.9% in November, down from 3.3% in February.

- The 12-month changes in the rent of primary residence and owners’ equivalent rent were 2.4% and 2.3%, respectively, in November, down from 3.8% and 3.3% in February.

- The index for the other category of shelter, lodging away from home, was down 10.8% over the year. It was up 0.8% in February.
**U.S. Equity Market Index and Volatility**

![Graph showing U.S. Equity Market Index and Volatility](source: Bloomberg Finance L.P.)

**Equity markets hit record highs**

- U.S. equity markets reached all-time highs.
  - The S&P 500 index increased 3% between November 9 and December 9. It is up 64% from its recent low on March 23 and achieved a record level on December 8.
  - As of December 9, the index was up 14% year to date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), declined.
  - The VIX Index closed at 22.3 on December 9, well below its 82.7 record high on March 16, 2020, but still above its 2019 year-end value of 13.8.

**U.S. Dollar Exchange Rates**

![Graph showing U.S. Dollar Exchange Rates](source: Bloomberg Finance L.P.)

**U.S. dollar depreciates**

- The exchange value of the dollar against a basket of global currencies decreased 2% between November 9 and December 9.
  - Over this same period the dollar depreciated by 2% against the euro, 1% against the Japanese yen, and 2% against the Mexican peso.

- Since the start of 2020, the dollar has depreciated by 4% against a basket of global currencies.

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**US Bank Equities Performance**

![Graph showing US Bank Equities Performance](image)

Source: Bloomberg Finance L.P.

**Bank stocks performance improves**

- As measured by the KBW Nasdaq bank index, bank equities increased 7% between November 9 and December 9, 69% higher than their low on March 23.
  - As of December 9, the index was down 16% year to date.

- The XLF financial sector ETF increased 6% between November 9 and December 9 and is up 62% from its low on March 23.
  - As of December 9, the index was down 7% year to date.

**Expected Federal Funds Rate**

![Graph showing Expected Federal Funds Rate](image)

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

**Implied path for federal funds changes little**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps increased marginally for short maturities but was essentially unchanged for longer maturities between November 9 and December 9.

- The market-implied path is closely aligned to the median path of the FOMC’s Summary of Economic Projections from September 2020 and the NY Fed’s Survey of Primary Dealers from November 2020.
**10-Year Treasury and Term Premium**

- On a five-day moving average basis, longer-term Treasury yields have slightly increased from 0.86% on November 9 to 0.95% on December 9.
  - The 10-year yield is about 100 basis points lower than its level at the end of 2019.

- Estimates from the Adrian-Crump-Moench term structure indicate that the term premium increased.
  - On a five-day moving average basis, the 10-year term premium increased by about 12 basis points between November 9 and December 9.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations ("breakevens") increased slightly in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.91% on December 9, increasing by about 15 basis points over the past month as a five-day moving average.

- According to the Abrahams-Adrian-Crump-Moench model, the inflation risk premium increased.
  - The estimated five-to-ten year inflation risk premium has increased by 11 basis points as a five-day moving average.
  - The model estimates that expected inflation is mostly unchanged.
**FORBEARANCE**

**New forbearances peaked in May**

- **Number of forbearances peaked in May**
  - Number of borrowers (millions)
  - Number of borrowers
  - **Stock of Auto Loan Forbearance**
  - **Stock of Mortgage Forbearance**
  - Mar-20, Apr-20, May-20, Jun-20, Jul-20, Aug-20, Sep-20

Source: New York Fed Consumer Credit Panel / Equifax

**Moratoria on debt service payments**

- Many borrowers were able to opt-in to forbearance on their debts, giving them temporary relief.
  - The CARES Act provided for 6-month forbearances on federally-held mortgages.
  - Auto and credit card lenders offered forbearances outside of the CARES Act provisions.
  - Most borrowers entered forbearance in April and May.

- Auto loan forbearances, offered voluntarily by lenders, appears to have been shorter in duration, with many borrowers exiting forbearance since June.

**Delinquency rates among forbearance participants fall upon enrollment**

- **Percent**
  - Auto (entered forbearance in April and May)
  - Mortgage (entered forbearance in April and May)
  - t-3, t-2, t-1, t+1, t+2, t+3, t+4

Source: New York Fed Consumer Credit Panel / Equifax

**Participants differ from non-participants**

- Those who entered forbearances were more likely to be struggling before the pandemic hit.

- For forbearance participants in both auto loans and mortgages had credit scores were about 40 points lower, on average, than non-participants.
  - Their remaining balances were approximately 30% higher than non-participants.
  - They were more likely to have been delinquent before the forbearance began.

- Many forborne borrowers were made current on their credit reports, causing a decline in overall delinquency rates in April and May.