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 February 17, 2020.
OVERVIEW

- Consumer spending growth softened in December.
  - Real spending on durable goods declined slightly, while growth of real expenditures on nondurable goods and services was moderate.

- Real business equipment spending declined again in 2019Q4, and fell over the course of 2019.
  - New orders of nondefense capital goods ex-aircraft were roughly equal to shipments, suggesting neutral near-term momentum for equipment spending.

- On balance, housing activity indicators displayed further gradual improvement in December.
  - Single-family housing starts and existing home sales rose robustly. New home sales also indicate continued solid conditions. A still-strong labor market and low mortgage rates have provided support to the housing sector.

- Payroll growth was robust in January. The unemployment rate edged up, but the labor force participation rate and the employment-to-population ratio both rose, with the latter reaching a new expansion high.
  - Labor compensation growth firmed a bit in January.

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

- U.S. equity indices rose over the past month, reaching new highs. Implied volatility rose modestly. The nominal 10-year Treasury yield declined. The market-implicated expected policy rate path moved down moderately. The broad trade-weighted dollar index increased modestly. Oil prices fell significantly.

Output moderately above potential GDP estimate

- The level of real GDP in 2019Q4 was about 0.6% 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 3.6% unemployment rate in January was below most estimates of its natural rate, including the CBO’s (4.44%).
  - In January, the CBO revised its estimates and projections of potential GDP. Current potential GDP was revised upward, but projected future growth was revised downward.

- The current output and unemployment gaps signal tight resource constraints in the U.S. economy.
  - Capacity utilization rates remain below historical averages.
### Labor Market Indicators

- **Labor market conditions remain solid**
  - The unemployment rate edged up to 3.6% in January from 3.5% in December.
  - The employment-to-population ratio rose to 61.2%, after remaining at 61.0% for four consecutive months, reaching a new expansion high.
    - This ratio was 83.1% for prime-age workers, implying a 0.6 percentage point increase over the year.
  - The labor force participation rate rose to 63.4% in January.
    - For prime-age workers, this rate was 83.0% in January, up from 82.4% in January 2019.

### PCE Deflator

- **Inflation continues to run below 2 percent**
  - The total PCE price index rose 0.3% in December, higher than in November. The core PCE price index (which excludes food and energy prices) rose 0.2% in December, up from 0.1% in the previous four months.
    - Energy prices rose 1.5% in December, and are up 3.7% relative to one year ago. Food prices were essentially unchanged and are up 0.8% compared to one year ago.
  - The 12-month change in both the total and the core PCE price indices rose slightly to +1.6%.
    - Both total and core PCE inflation were softer in 2019 than in 2018.
    - Core PCE inflation remains below the FOMC’s 2 percent longer-run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

% Change – Annual Rate

![](chart1.png)

Source: Bureau of Economic Analysis via Haver Analytics

**Real GDP growth is moderate again in 2019Q4**

- The advance estimate of real GDP growth for 2019Q4 was 2.1% (annual rate), the same as in 2019Q3. Real GDP growth over 2019 (Q4/Q4) was 2.3%, compared to 2.5% in 2018.
- Real personal consumption expenditures rose at a 1.8% annual rate in Q4 following two quarters of robust growth.
- Real nonresidential fixed investment fell 1.5% (annual rate) in Q4, its third consecutive decline.
- Real residential investment rose 5.8% (annual rate) in Q4, its second straight increase as the housing market improved amid lower mortgage rates.
- Largely due to a fall in imports, net exports were a positive contributor to GDP growth in Q4. Lower inventory investment largely offset the net export contribution.

**Manufacturing and ISM Manufacturing Index**

12 Month % Change

![](chart2.png)

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

**Manufacturing turning the corner**

- Manufacturing production rose 0.2% in December.
  - The 12-month average change in manufacturing production was -1.3%.

- The ISM Manufacturing PMI rose by 3.1 points to 50.9 in January.
  - This reading is indicative of expansion in manufacturing following five months of contraction.

- Regional surveys by the Dallas, Richmond and Philadelphia Feds show manufacturing activity picking up.
  - Empire State Manufacturing Survey suggests manufacturing in New York is still sluggish.
**Income and consumption balanced in December**

- The growth rates of income and consumption have softened over the course of 2019, but they both currently appear to be near trend, with the personal saving rate roughly stable around 8%.
  - The spikes in income (down) and consumption (up) at the end of the accompanying chart are due to the anomalous data for December 2018 dropping out of the calculation of the 12-month percent change.

- Real PCE rose a weak 0.1% in December (0.051 unrounded), compared to 0.3% in November, which was also the monthly average for 2019.
  - In December, durable goods consumption fell 0.3%, nondurable goods consumption rose 0.2% and services consumption was up 0.1%.

**Consumer Confidence Index increases in January**

- The Conference Board’s Consumer Confidence Index increased to 131.6 in January, from a revised level of 128.2 in December.
  - The reading of the index was far above the median forecast of 128.0 in the Bloomberg survey.
  - The increase in the headline index reflected increases in both the Expectations and Present Situation components of the index.

- Consumers’ short-term outlook on both business conditions and employment improved in January.

- Near-term (one-year) household inflation expectations edged up to 4.5% from 4.4% in December.
  - This is the first increase the series displayed since August 2019.
**Business Sector**

**Equipment Investment and Capacity Utilization**

4-Quarter % Change vs. % of Capacity

- **Manufacturing Capacity Utilization Rate (Right Axis)**
- **Real Business Investment in New Equipment (Left Axis)**

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

*Note: Shading shows NBER recessions.*

**Equipment Spending Falls Again in 2019Q4**

- Real business equipment investment declined 2.9% (annual rate) in 2019Q4. Equipment spending fell 1.5% in 2019 (Q4/Q4), compared to the 5.0% increase in 2018.
  - In 2019, spending declined for transportation equipment, industrial equipment, and other equipment. Spending rose moderately for information equipment.

- Recent weak equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
  - This rate was 75.2% in December, 3.1 percentage points below its long-run average.
  - Historically, utilization rates near the December level are associated with modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

*Bil. $, 3 MMA*

- **New Orders**
- **Shipments**

*Source: Census Bureau via Haver Analytics*

*Note: Shading shows NBER recessions.*

**Capital Goods Orders Decline in December**

- Shipments of nondefense capital goods excluding aircraft declined by 0.4% in December 2019.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.

- New orders of nondefense capital goods excluding aircraft fell by 0.9% in December 2019.

- New orders for these goods were roughly equal to shipments in December, suggesting neutral near-term momentum for equipment spending.
**Single-family starts continue upward trend**

- After reaching a low in April 2019, single-family housing starts have rebounded sharply as mortgage interest rates have fallen by nearly 150 basis points since November 2018.
  - The three-month moving average level of single family starts reached 973,000 units in December, more than 17% above its April level, and the highest figure since before the 2007-09 recession.
- The more volatile multi-family starts series has also jumped upward since early in 2019.
  - The three-month moving average reached a multi-decade high of 468,000 units in December.

**Home prices firm after slumping earlier in 2019**

- The CoreLogic single-family home price index, a broad-based measure that captures a large share of the single-family market, was up 4.0% over the course of 2019.
  - Recent readings of this measure have been stronger, following declining growth rates between Spring 2018 and summer 2019.
- Sales of both new and existing homes have picked up, bringing inventories to very low levels.
  - For sale inventories are now equal to 3.0 months of the sales at their current pace, the lowest level observed in this cycle.
**Real Government Consumption and Gross Investment**

![Graph showing the 4 quarter % change in real government consumption and gross investment from 2000 to 2020. The graph is divided into Federal and State and Local sectors.]

**Growth of real government spending picks up**

- Over the four quarters ending in 2019Q4, real government consumption and gross investment was up 3.0%, the highest figure since the fourth quarter of 2009.
  - Increased real government spending contributed 0.52 percentage point to overall GDP growth in 2019, the most in a decade.

- Real federal spending was up 4.3% over the four quarters ending in 2019Q4, the highest since mid-2010.
  - Real defense spending was up 4.5%, while non-defense spending was up 4.0%. Together, these items contributed 0.28 percentage point to GDP growth in 2019.

- Real spending by state and local governments was up 2.2% in 2019, contributing 0.24 percentage point to GDP growth.

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

![Graph showing the 4 quarter % change in real state and local consumption and gross investment from 2000 to 2020. The graph includes Consumption Expenditures and Gross Investment lines.]

**State and local sector spending grows moderately**

- Growth of real consumption at the state and local level rose to about 1.2% 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 jumped to about 7.1% over the four quarters ending in Q4, the highest rate since early 2016.
  - 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

Net Exports: Contribution to GDP Growth

- Based on the advance release, net exports added 1.48 percentage point to GDP growth in 2019Q4.
  - Real exports grew 1.4% (SAAR) and real imports declined 8.7% (SAAR).
  - Compared to Q3, export growth was higher whereas imports went from moderate growth to a steep decline.
- The trade deficit went up to $48.9 billion in December from $43.7 billion in November.
  - Real goods exports grew 1.0% over the month, owing mostly to higher oil goods exports. Real exports of autos and consumer goods fell in December.
  - Real goods imports went up 2.6% in December. Nonoil goods imports increased 1.8%, due to higher imports of industrial supplies and modestly higher imports of capital and consumer goods. Oil goods import growth rebounded.

Global Manufacturing and Services PMIs

- Global purchasing managers’ indexes (PMIs) for January point to stronger growth heading into the new year.
  - The global services PMI rose 0.7 points to 52.7, the highest reading since last April.
  - The global manufacturing PMI rose 0.3 points to 50.4—still lackluster, but the highest reading since last March.
- These survey results would ordinarily be consistent with global GDP growth of 2.5% on a weighted-average basis.
  - New orders indices for both sectors rose to multi-month highs, suggesting that the pickup in activity could persist.
  - These surveys readings, however, were taken largely before the more acute turn in the coronavirus outbreak in China.
  - Survey results for February will be important for gauging the impact of the outbreak on global activity.
**Payroll Employment and Aggregate Hours**

12-Month Percent Change

- Payroll Employment
- Aggregate Hours

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

**Payroll employment gains remain solid**

- Nonfarm payrolls rose by 225,000 in January, above the Bloomberg median forecast of 165,000.
  - Combined revisions for November and December implied additional employment gains of 7,000.

- Private payroll employment increased by 206,000, while government employment grew by 19,000 in January.

- Average weekly hours worked by all private employees remained at 34.3 for the third consecutive month.
  - Aggregate weekly hours worked by all private employees rose 0.2% in January and 0.9% over the past 12 months, on the softer side of the recent readings.

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

Percent, 3MMA

- Quits Rate (Left Axis)
- Job Openings/Unemployed (Right Axis)

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

**Job openings rate declines further**

- There were 6.4 million job openings at the end of December, 364,000 below the level at the end of November.
  - The largest decreases were in transportation, warehousing, and utilities, and real estate and rental and leasing.

- The job openings rate – the ratio of job openings to employment and job openings – decreased from 4.3% in November to 4.0% in December.
  - This reading continues a moderate downward trend since an expansion peak of 4.8% in 2019.

- The quits rate remained unchanged at 2.3%.
  - As a result of the dynamics in hires and separations in the month, the net employment gain in December was 177,000.
**Prime-Age Labor Force Participation by Gender**

- **Labor force participation rate continues to rise**
  - Continuing an upward trajectory, the labor force participation rate among prime-age individuals (those aged 25-54 years) increased to 83.1% in January.
  - This reflects an increase of 0.6% over the last 12 months.
  - Notably, January's increase in labor force participation was almost entirely concentrated among prime-age women.
  - The participation rate among prime-age women increased from 75.9% to 77.0% over the last twelve months.

**Growth of Average Hourly Earnings and ECI**

- **ECI Growth remains steady**
  - The Employment Cost Index, which attempts to control for compositional shifts among occupations and industries, rose 0.7% in 2019Q4, matching the 0.7% growth in the previous quarter.
  - The four-quarter growth rate in the ECI was 2.74%, below its level in December 2018 (2.89%).
  - Average hourly earnings increased 0.25% in January, up from 0.11% in December 2019.
  - Average hourly earnings rose 3.12% year over year, well below both the 2019 average (3.32%) and the 12-month change recorded in January 2019 (3.26%).
INFLATION

CPI Inflation: Core Goods and Core Services

- The January inflation report was encouraging, with core CPI inflation moving toward a level consistent with the FOMC objective.
- Core services inflation was supported by a rebound in shelter inflation while core goods prices were again flat.
  - Core CPI rose 0.2% in January, above the December increase. The 12-month change in the core index was 2.3%, above expectations.
  - Core services prices rose 0.3% in January, after increasing 0.2% in December. Their 12-month increase was 3.1%, up from a 3.0% rise in the previous three months.
  - Core goods prices were flat again in January; over the past 12 months they declined 0.3%.

Mean Probabilities for Core PCE Inflation in 2020

- The U.S. Survey of Professional Forecasters requests density (histogram) forecasts that show the probability of inflation falling into 10 separate ranges.
  - The 2020Q1 survey was fielded from the end of January through February 11, with results released on February 14.
- Compared to last quarter, the forecast distribution for core PCE inflation in 2020 (Q4/Q4) shifted to the left, giving more probability to the 1.5 – 1.9 percent range and less probability to the 2.0 – 2.4 range.
  - Forecasters reported a 56% chance of core PCE inflation below 2%, 10 percentage points more than in the 2019Q4 survey.
  - The forecast distribution for 2021 core PCE inflation (not shown) was roughly similar to the one for 2020: The probability of core inflation being below 2% was about 54%.

Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.
U.S. Equity Market Index and Volatility

- U.S. equity markets have been broadly stable during the past month and have reached all-time highs.
  - The S&P 500 index rose 1.2% between January 13 and February 7 to 3,328, closing just below its all-time high.
  - As of February 7, the index is up 3% since the start of 2020.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX index), remains low.
  - The VIX Index increased from 12.3 on January 13 to 15.5 on February 7, remaining below its long-term median of around 17.3.

USD Exchange Rates

- The exchange value of the dollar against a basket of global currencies increased by 1.2% between January 13 and February 7.
  - Over the same period the dollar appreciated 1.7% against the euro, depreciated 0.2% against the yen, and depreciated 0.2% against the Mexican peso.
- Since the start of 2020, the dollar has appreciated 1.9% against a basket of global currencies.
**US Bank Equities Performance**

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

Source: Bloomberg Finance L.P.

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

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**Modest decline in bank stocks**

- As measured by the KBW Nasdaq bank index, bank equities declined 2.8% between January 13 and February 7.
  - As of February 7, the KBW index is down 4.1% since the start of 2020.
- The XLF financial sector ETF was relatively unchanged and remains near all-time highs, gaining 0.1% between January 13 and February 7.
  - As of February 7, the XLF ETF is up 0.5% since the start of 2020.

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**Expected Federal Funds Rate**

- **Jan 13**
- **Dec 09**
- **Feb 07**

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

Note: Estimated using OIS quotes.

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**Implied path for federal funds rate moves down**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved around 20 to 30 basis points lower for maturities longer than one-year between January 13 and February 7.

- The market-implied path remains somewhat below the median path of the FOMC’s December 2019 Summary of Economic Projections and the NY Fed’s December 2019 Survey of Primary Dealers.
FINANCIAL MARKETS

10-Year Treasury and Term Premium

- **10-Year Treasury yields decrease**
  - Longer-term Treasury yields have decreased since early January.
    - The 10-year yield decreased by about 25 basis points between January 13 and February 7.
  - Estimates from the Adrian-Crump-Moench term-structure model attribute the decrease to a more negative term premium.
    - The 10-year term premium decreased by 20 basis points between January 13 and February 7.

5-10 Year Forward Decomposition

- **Breakeven inflation somewhat lower**
  - Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) declined modestly in recent weeks.
    - The five-to-ten year breakeven inflation rate was 1.67% on February 3, declining about 10 basis points since January 13.
  - According to the Abrahams-Adrian-Crump-Moench model, most of the year-to-date movements in forward inflation compensation continue to reflect changes in the inflation risk premium.
    - The estimated five-to-ten year inflation risk premium declined by about 7 basis points between January 13 and February 3.
SPECIAL TOPIC - MORTGAGE ORIGINATIONS

Mortgage Originations by Credit Score

- Mortgage originations (which include purchases and refinances) picked up notably in 2019Q4, with $752 billion in new mortgages originated on credit reports.
- This was the largest volume in mortgage originations seen since the boom years prior to the Great Recession.
- In contrast to the boom years, the originations were dominated by loans to higher credit score borrowers.

Mortgage Originations by Type

- The refinance component of new originations, in gold, increased through 2019 with a big increase in 2019Q4.
- Purchase originations have been following an upward trend for some time.

Source: New York Fed Consumer Credit Panel/Equifax (2019Q4)
Note: Credit Score is Equifax Riskscore 3.0
Source: New York Fed Consumer Credit Panel/Equifax (2019Q4)
Note: Shading shows NBER recessions.
**SPECIAL TOPIC - MORTGAGE ORIGINATIONS**

**Mortgage Refinance Balance and FRM**

- **Favorable mortgage rates in 2019 spur refi boom**
  - Since 2011, the volume of refines has been negatively correlated with the mortgage rate.
  - While mortgage rates have been very low for some time, 2019's low rates may have spurred a number of refines.

Source: New York Fed Consumer Credit Panel/Equifax (2019Q4); Freddie Mac.

Note: Shading shows NBER recessions.