



FEDERAL RESERVE BANK *of* NEW YORK

# U.S. Economy in a Snapshot

Research & Statistics Group

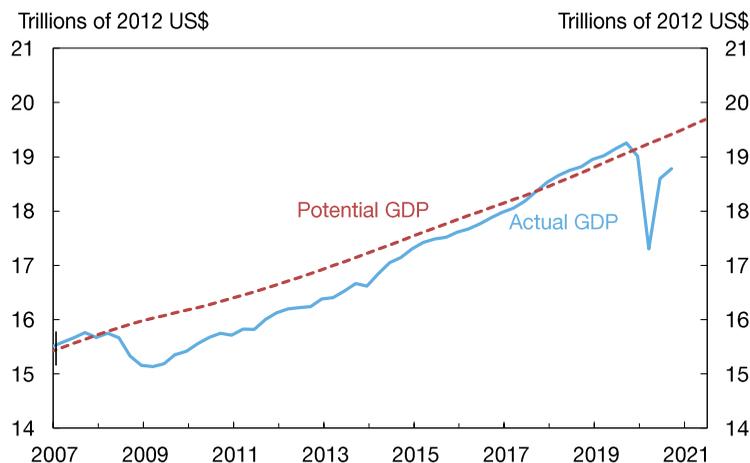
February 2021

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 12, 2021.

# OVERVIEW

- Consumer spending fell again in December.
  - Real expenditures on goods fell while spending on services was roughly unchanged.
  - Overall spending was down 3% over the year, with purchase of goods up 6% and those for services down 7%.
  - Lower spending and higher income pushed up personal saving.
- Business equipment spending continued to rise in December.
  - Shipments of nondefense capital goods ex-aircraft were up 6% over the February level.
- Housing activity increased in December.
  - House starts rose to a level not seen since 2006.
  - Existing home sales were 22% above the year-ago level.
- Payroll employment was essentially unchanged in January, while the unemployment rate fell because of a drop in the labor force participation rate.
- Core PCE inflation over the year rose to 1.5% in December.
- U.S. equity indices reached record levels in early February, while implied volatility fell. The 10-year Treasury yield increased, while the market-implied expected policy rate path was unchanged for short maturities. The dollar appreciated.

## Real GDP Relative to Potential



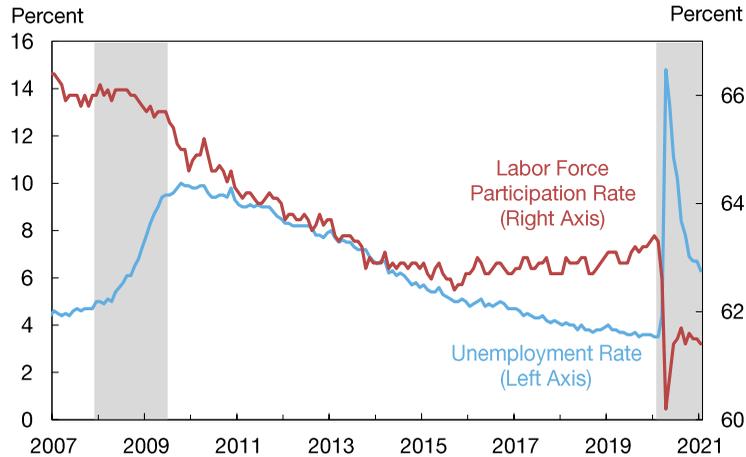
Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics

## Output in 2020Q4 was well below potential

- The level of real GDP in Q4 was 3.3% below the CBO's estimate of potential GDP.
  - The output gap was considerably narrower than the trough of 10% in 2020Q2.
  - The 6.3% unemployment rate in January was above the CBO's estimate of its longer-run natural rate (4.5%).
  - The CBO projects that potential GDP will grow this year at a rate of 1.9% (Q4/Q4).
  - The CBO raised its estimates of the potential growth rate for 2021–22. It also raised modestly its estimates of the natural rate of unemployment.
- Other measures also indicated that there is considerable slack in the economy.
  - Capacity utilization rates continued to be at low levels.

# OVERVIEW

## Labor Market Indicators

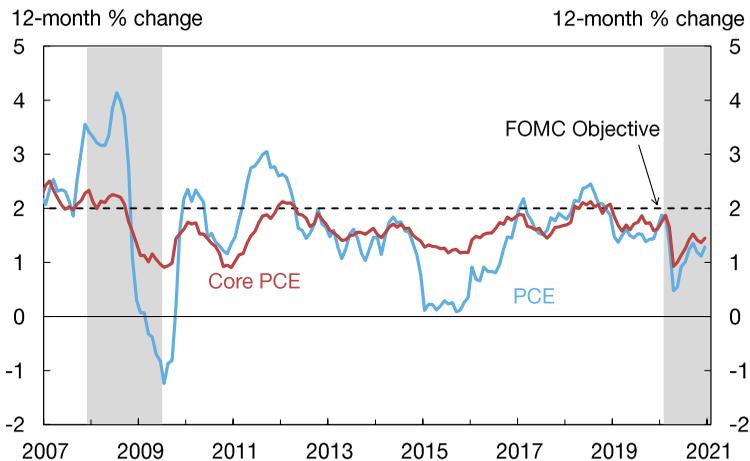


Source: Bureau of Labor Statistics  
via Haver Analytics

## Labor market recovery slowed in January

- Nonfarm payroll employment changed little in January, increasing by just 49,000.
  - In the services sector, notable gains in professional and business services (97,000) and educational services (34,000) were offset by losses in leisure and hospitality (-61,000) and retail trade (-38,000).
  - Payrolls fell in manufacturing (-10,000) and construction (-3,000).
- The unemployment rate declined to 6.3%.
- The labor force participation rate fell from 61.5% to 61.4%, driven by a decline in the rate for women from 55.9% to 55.7%.

## PCE Deflator



Source: Bureau of Economic Analysis  
via Haver Analytics

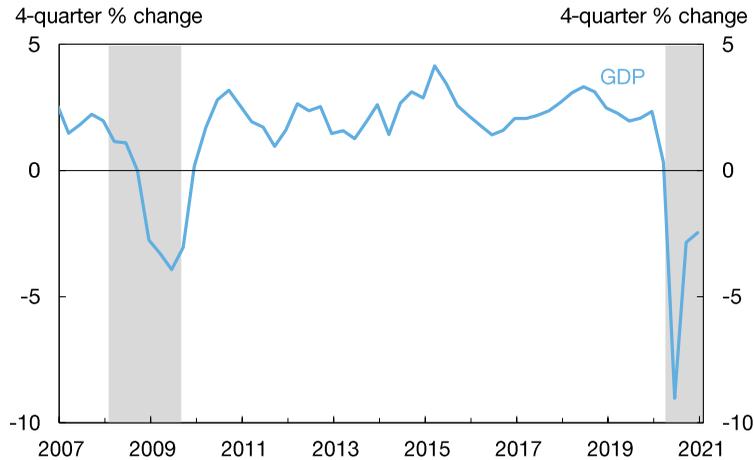
Note: Shading shows NBER recessions.

## Inflation rose in December

- The PCE price index was up 1.3% over the year in December, a pickup from 1.1% in November.
  - Prices for services rose 2.0% while those for nondurable goods fell 0.9%.
  - Prices for durable goods rose 1.3%, a swing from falling at a 2% rate in December 2019.
  - Energy prices were down 7.6%, while food prices were up 3.9%.
- Core PCE inflation over the year ticked up slightly to 1.5%.
  - Core inflation has recovered from being at 1.0% in Q2 2020.
  - Inflation remains below the FOMC's 2 percent longer-run goal.

# ECONOMIC ACTIVITY

## GDP Growth



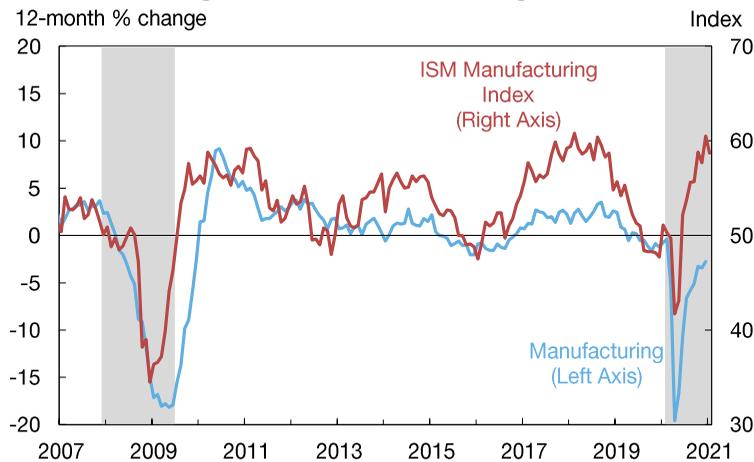
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

## Q4 growth was solid after the Q3 surge

- In the advance estimate, GDP rose at a 4.0% annual rate in Q4, after surging at a 33.4% rate in Q3. The 4-quarter change was -2.5%.
  - Personal consumption expenditures rose at a 2.5% rate.
- Nonresidential, residential, and inventory investment also contributed to GDP growth in Q4. Government spending and net exports were drags on growth.
- Real disposable personal income fell 9.5% (annual rate) in Q4, as transfer income declined.
  - It was still up 3.7% over the year.
  - The personal saving rate was high at 13.4%.

## Manufacturing and ISM Manufacturing Index



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

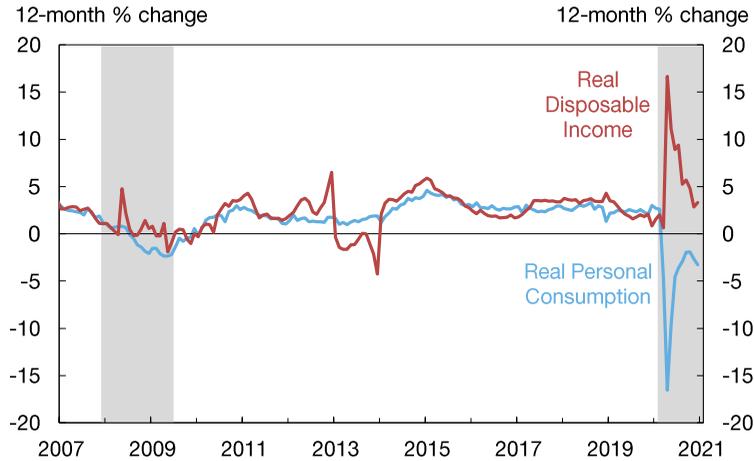
Note: Shading shows NBER recessions.

## Manufacturing fell in January

- Manufacturing production increased 0.9% in December after rising 0.8% in November.
  - The level of manufacturing was down 2.8% over the year.
- The ISM Manufacturing index fell to 58.7 in January.
  - The reading was still near record highs.
  - The index may have an upward bias because the Supplier Deliveries component is likely affected by COVID-19 transportation challenges.
  - The Prices index rose to a very high level.
- Regional manufacturing surveys were mixed
  - Philadelphia and Richmond Fed surveys indicate regional growth, while the New York and Dallas surveys were soft.

# HOUSEHOLDS

## Disposable Income and Consumption



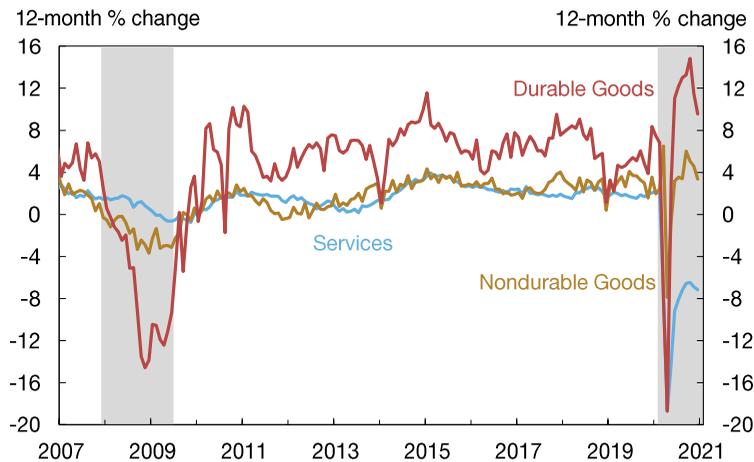
Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

## Spending declined while income rebounded

- Real Personal Consumption Expenditures (PCE) fell 0.6% in December, following a 0.7% decline in November.
- Real Disposable Income increased 0.2% in December, recovering after two months of declines.
  - **Nominal personal income increased 0.6%, reflecting increases in compensation and transfer receipts, while PPP loans to businesses continued to fall.**
- The personal saving rate inched higher to 13.7%.
  - **This was the first increase after declining since the April peak.**

## Consumer Spending



Source: Bureau of Economic Analysis via Haver Analytics

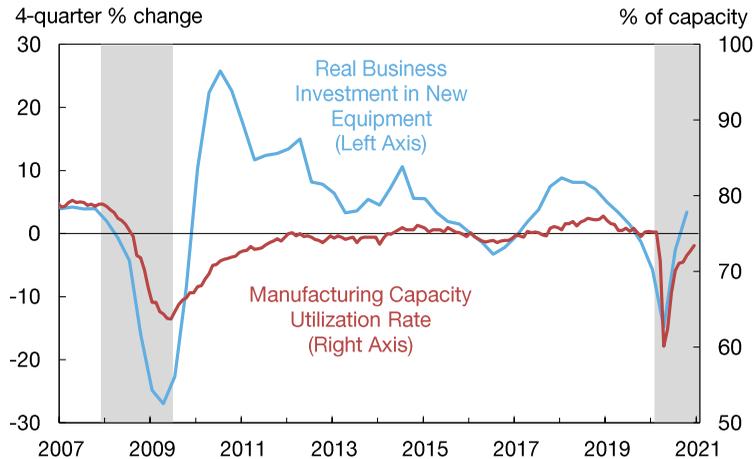
Note: Shading shows NBER recessions.

## Goods spending retrenched more than services

- Real spending on goods declined 1.4% in December.
  - **Durable goods expenditures dropped 1.3% and purchases of nondurable goods were down 1.4%.**
- Relative to February peaks, goods spending is up 5.3%.
  - **Durables are up 9.9%, while nondurables are up 2.9%.**
- Spending on services declined 0.2% in December and was 7.5% below the February level.

# BUSINESS SECTOR

## Equipment Investment and Capacity Utilization



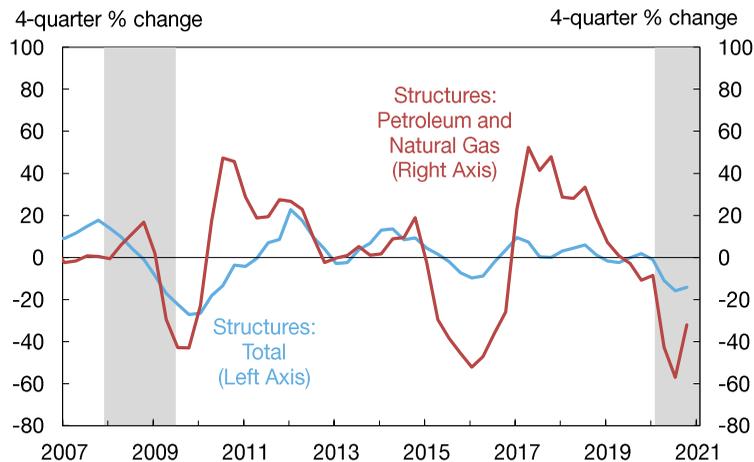
Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

## Equipment spending rose strongly again in Q4

- Real business equipment spending rose at a 24.9% annual rate in Q4, after surging at a 68.2% rate in Q3.
  - Spending rose in all four major categories of equipment, with the largest rise in transportation equipment.
  - Spending was up 3.4% from a year ago.
- Data through December on orders of capital goods suggest continued momentum in equipment spending.
- The rebound in equipment demand pushed up the capacity utilization rate for manufacturing.
  - Still, this rate was only 73.4% in December, which is 4.8 percentage points below its long-run (1972–2019) average.

## Investment in Nonresidential Structures



Source: Bureau of Economic Analysis via Haver Analytics

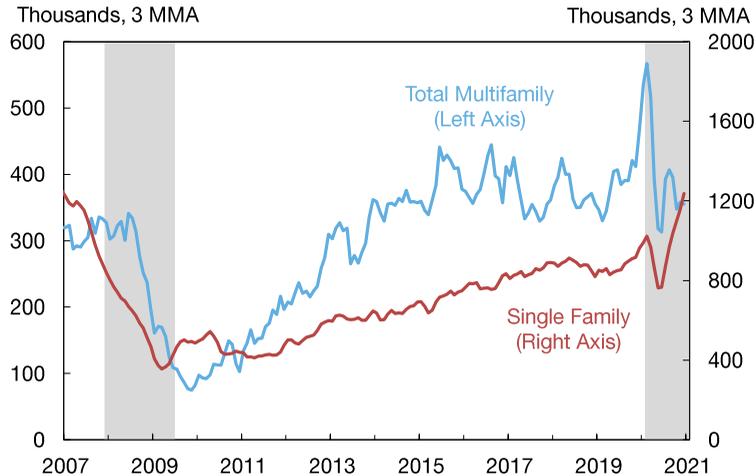
Note: Shading shows NBER recessions.

## Nonresidential structures spending rose in Q4

- Real nonresidential structures investment increased 3.0% (annual rate) in Q4, the first rise since 2019Q3. The 4-quarter change was still a depressed -14.1%.
  - The rise in spending was concentrated in the mining exploration, shafts, and wells category, which shot up from a very low level.
- Even with the Q4 rebound, the level of spending remained very low in the petroleum and natural gas sector.
  - Spending outside of energy has been sluggish or falling in recent quarters.
- Monthly data on nonresidential construction spending continued to be soft.

# HOUSING SECTOR

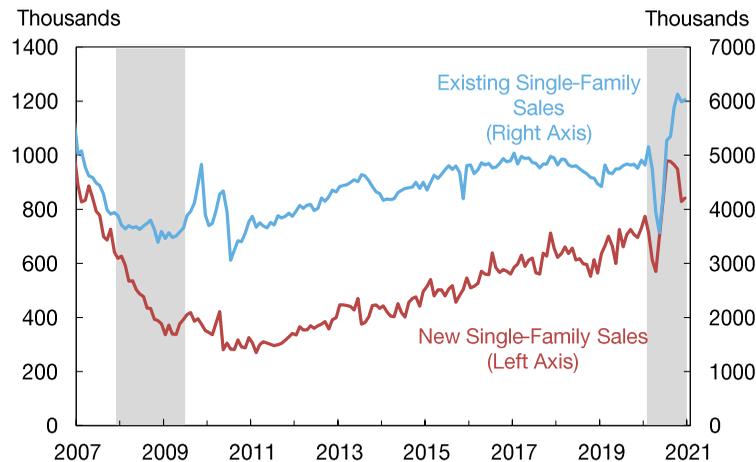
## Housing Starts



## Single-family housing starts continue to rise

- Total housing starts increased 5.8% in December led by the single-family sector, putting starts up 5.2% over the year.
  - **Building permits also rose for single-family housing.**
- Single-family starts rose 12.0% in December to 1.338 million units (annual rate), a 27.8% increase over the year.
  - **The three-month average of single-family starts was at its highest level since December 2006.**
- Multi-family starts, which are notoriously volatile, fell 13.6% in December, and were down 38.7% over the year.
  - **The three-month average of multi-family starts remained well below its high in early 2020.**

## New and Existing Home Sales

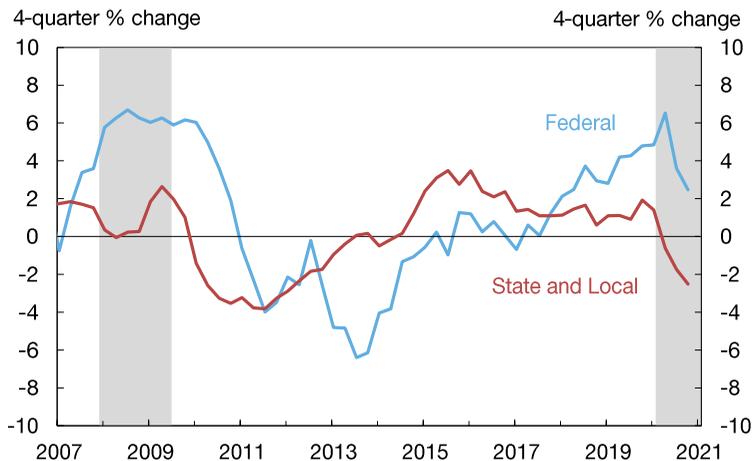


## Housing market conditions remain solid

- Existing home sales increased 0.7% in December to 6.0 million units.
  - **Sales were up 23% over the year.**
- New single-family home sales increased 1.6% to 842,000 units.
  - **Sales were up 15% over the year.**
- The growth in home sales moderated in November and December, which likely relates to the softening in the labor market.
  - **Home sales are well above pre-pandemic levels.**

# GOVERNMENT SECTOR

## Real Government Consumption and Gross Investment



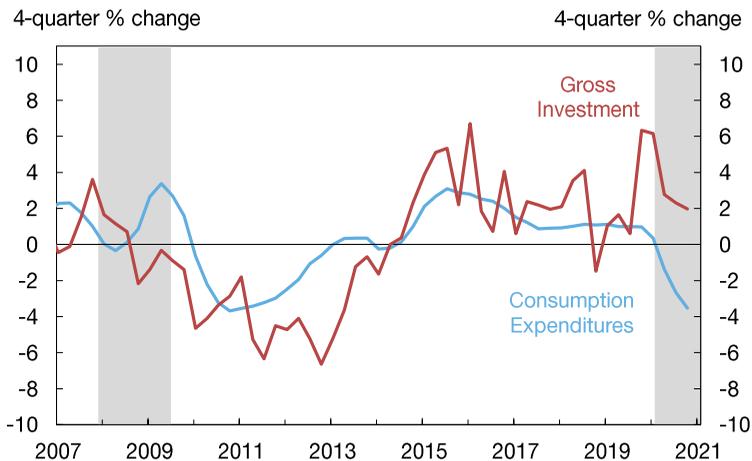
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

## Real government spending declined in Q4

- Real government spending and gross investment fell 1.2% in Q3 and 0.3% in Q4.
- Federal spending in Q4 was still up over the year.
  - The four-quarter change in federal spending was 2.5% in Q4, easing from 3.6% in Q3 and 6.5% in Q2.
  - The drying up of payments to banks for processing and administrating the Paycheck Protection Program loan applications was a drag on spending.
- State and local government spending was down 2.5% over the year.
  - Revenue shortfalls pulled spending down.

## Real State & Local Consumption & Gross Investment



Source: Bureau of Economic Analysis via Haver Analytics

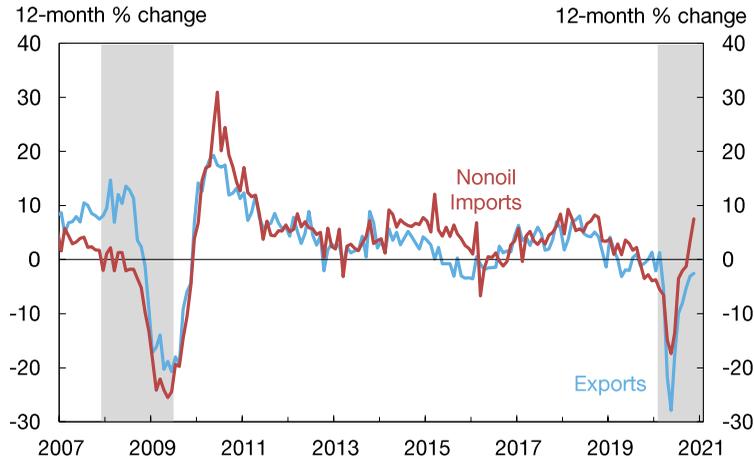
Note: Shading shows NBER recessions.

## State and local sector continues to decline

- Real consumption spending by state and local governments fell again in Q4 and was down 3.5% over the year.
  - Consumption expenditures consist largely of employee salaries.
- Investment spending held up much better than consumption in 2020.
  - Spending was up 2.0% over the year in Q4.
  - The categories of gross investment are, in order of importance, new equipment such as computers, intellectual property products such as software, and infrastructure projects.

# INTERNATIONAL DEVELOPMENTS

## Real Exports and Nonoil Imports of Goods



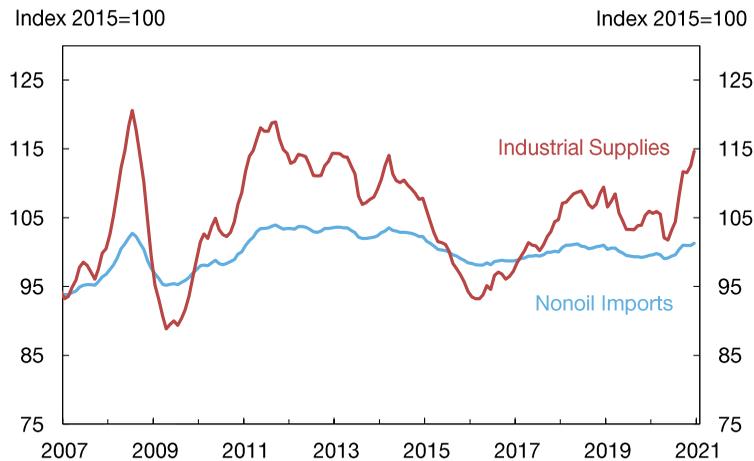
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

## Trade flows continue to rebound

- The trade deficit narrowed in December as exports rose faster than imports.
  - The goods and services deficit widened by \$100 billion for the year as a whole.
- December foreign sales were robust in several categories.
  - Real exports of food, capital goods, autos, and petroleum were up strongly.
  - Exports recovered to being down only 1% over the year.
- Real import growth was mixed across sectors.
  - Industrial supplies, capital goods, and autos rose.
  - Consumer goods fell, but were still up sharply over the year.
  - The level of imports was up 6% over its year-ago level.

## U.S. Import Prices



Source: Bureau of Labor Statistics via Haver Analytics

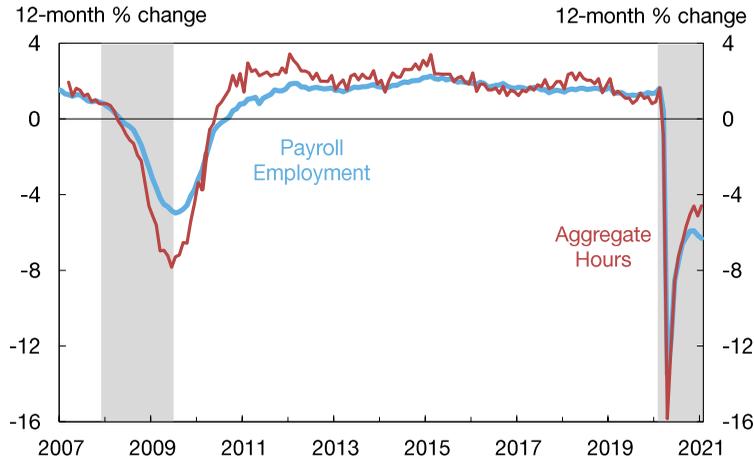
Note: Shading shows NBER recessions.

## Commodities pushed import prices higher

- Nonoil import prices were up 1.8% over the year in December.
  - The index had declined 1.5% in 2019.
- Historically, most of the volatility in import prices comes from commodities.
  - Prices for industrial supplies fell 3% in 2019 and rose 8% in 2020.
- The nonoil index has been largely stable over the past five years even with swings in commodity prices.
  - Nonoil import inflation averaged 0.5% a year over the past five years and 0.1% over the past ten years.

# LABOR MARKET

## Payroll Employment and Aggregate Hours



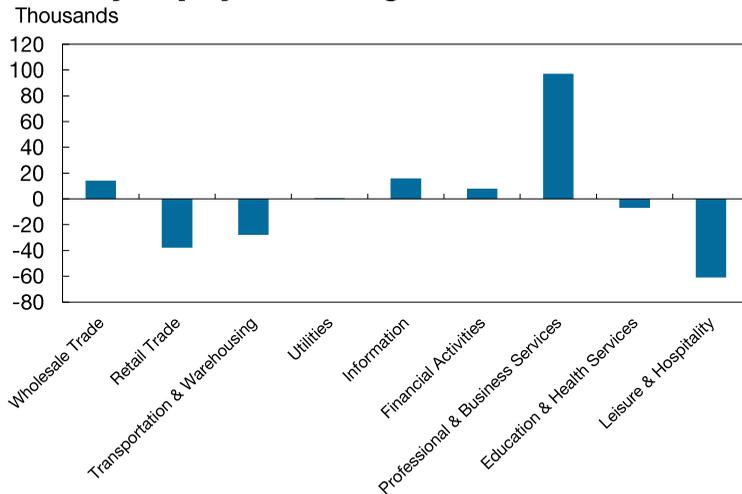
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

## Payroll employment changed little in January

- Nonfarm payroll employment increased by 49,000 in January.
  - Employment increases in November and December were revised down by a total of 160,000.
  - Employment remained about 9.9 million below its February level.
- Private payroll employment increased by 6,000, with an increase in service-providing industries partially offset by a decline in the good-producing sector.
- Aggregate weekly hours worked by all private employees rose by 0.9%.

## January Employment Changes in Services Sector



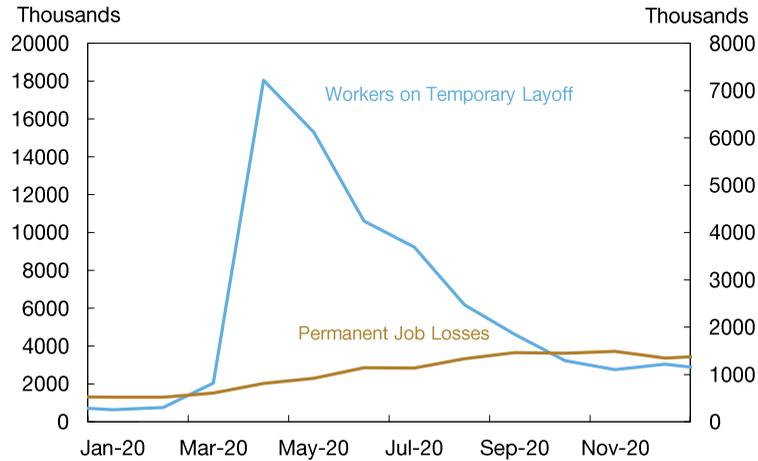
Source: Bureau of Labor Statistics via Haver Analytics

## High-contact sectors lost jobs in January

- Private service-providing industries saw a gain of 10,000 jobs in January.
  - Gains in professional and business services (97,000) and educational services (34,000) were offset by losses in leisure and hospitality (-61,000), retail trade (-38,000), health care and social assistance (-41,000), and transportation and warehousing (-28,000).
- Losses in leisure and hospitality and in retail trade indicate that the labor market continues to suffer the impact of COVID-19 and the efforts to contain it.
- Goods-producing industries reported 6,000 fewer jobs, with losses concentrated in durable goods.

# LABOR MARKET

## Temporary Layoffs and Permanent Job Losses

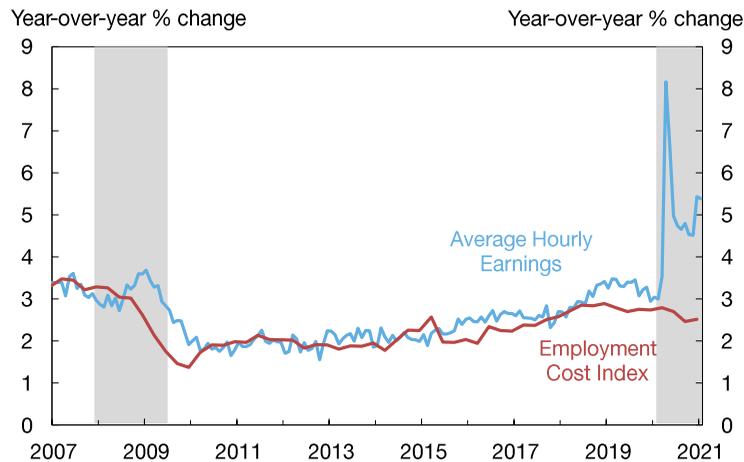


Source: Bureau of Labor Statistics via Haver Analytics

## The number of workers on temporary layoff fell

- The number of workers on temporary layoff dropped to 2.7 million in January.
  - The number of permanent job losses was essentially unchanged from the previous month at 3.5 million.
- The number of short-term unemployed workers fell, with those unemployed for less than 5 weeks at 2.3 million in January, down from 2.9 million in December.
  - The number of people jobless for 27 weeks or more increased from 3.96 million to 4.02 million.
- The median duration of unemployment fell from 16.8 weeks in December to 15.3 weeks in January.

## Growth of Average Hourly Earnings and ECI



Source: Bureau of Labor Statistics via Haver Analytics

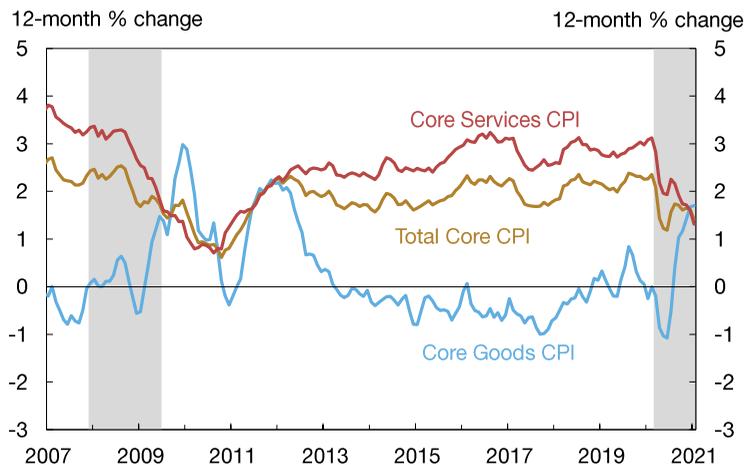
Note: Shading shows NBER recessions.

## Growth in wages and salaries picked up

- Average hourly earnings rose by 0.2% in January.
  - On a 12-month basis, hourly earnings increased by 5.4%.
  - These data are biased up as a disproportionate share of job losses have been in low-wage industries.
- The Employment Cost Index increased by 0.7% in Q4.
  - The 4-quarter change in the ECI was 2.5%.
  - Wages and salaries of civilian workers rose 2.6% over the year.
  - The growth rate in the ECI, which controls for compositional shifts among occupations and industries, was near its average over the last three years.

# INFLATION

## CPI Inflation: Core Goods and Core Services



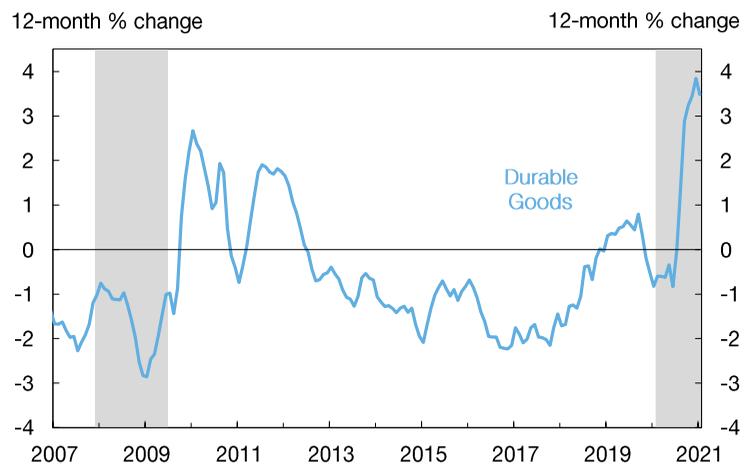
Source: Bureau of Labor Statistics  
via Haver Analytics

Note: Shading shows NBER recessions.

## Core CPI Inflation remained subdued in January

- Core CPI was unchanged from December.
  - The index was up 1.4 % over the year, a deceleration from 1.6% in December.
- Core services inflation remained weak, with a declining trend in shelter inflation.
  - The 12-month change in core services prices was 1.3%, down from 1.6% in December and well below the 3.1% rate in February.
  - Shelter inflation was 1.6%, down from 3.3% in February.
- Core goods inflation continued to be elevated.
  - This index was up 1.7%, compared with -1.1% in June.

## CPI Inflation: Durable Goods



Source: Bureau of Labor Statistics via  
Haver Analytics

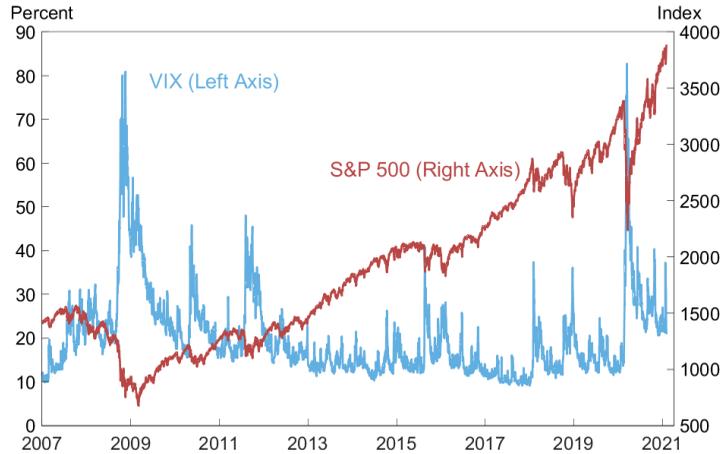
Note: Shading shows NBER recessions.

## Durable goods inflation picked up in 2020

- Prices for durable goods are rising at the fastest pace since 1984.
  - Inflation reached 3.9% over the year in December before easing to 3.5% in January.
  - The upswing over the course of 2020 reversed a downward trend in prices in recent years.
- The increase in durable goods inflation was broad based.
  - Notable contributors to higher inflation were major appliances, housekeeping supplies, tools, new vehicles, and video products.
- Notable exceptions were the stable inflation rates for furniture and IT goods.

# FINANCIAL MARKETS

## U.S. Equity Market Index and Volatility

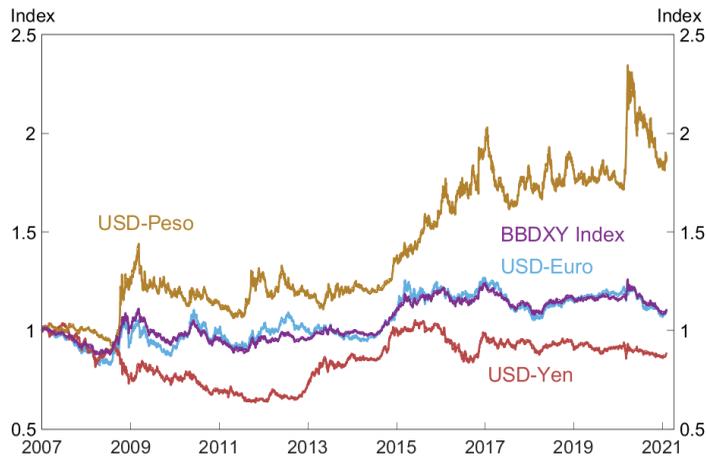


Source: Bloomberg Finance L.P.

## U.S. equity markets continue to gain

- U.S. equity markets continued to move higher.
  - The S&P 500 index increased 1.6% between January 8 and February 5, and 5.0% year-to-date.
  - It is 51% above the March 23, 2020 low, closing at an all-time high on February 5.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains elevated.
  - The VIX Index closed at 20.87 on February 5, comparable to its January 8 value of 21.56, but still above its historical median of 17.7.

## USD Exchange Rates



Source: Bloomberg Finance L.P.

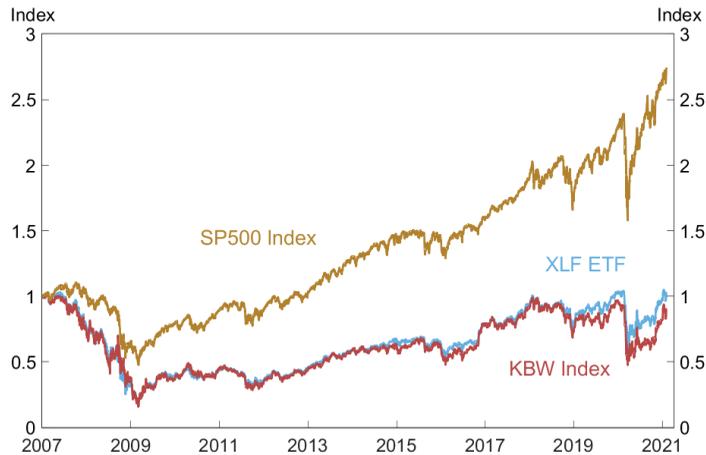
Note: Start date 01/03/2007 = 1.

## U.S. dollar value trended upward

- The exchange value of the dollar against a basket of global currencies increased 0.8% between January 8 and February 5.
  - Over this same period the dollar appreciated by 1.4% against the euro, 1.4% against the Japanese yen, and 0.4% against the Mexican peso.
- Since March 23, 2020, the dollar has depreciated 13% against a broad basket of foreign currencies.

# FINANCIAL MARKETS

## US Bank Equities Performance



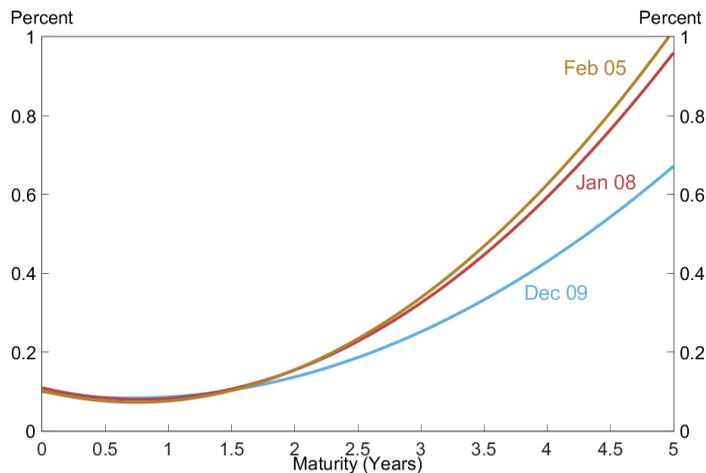
Source: Bloomberg Finance L.P.

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

## Bank stocks lagged the market over the month

- Bank equity prices, as measured by the KBW Nasdaq bank index, were flat between January 8 and February 5.
  - As of February 5, 2021, the index was up 89% since March 23, 2020.
- The XLF financial sector ETF was unchanged between January 8 and February 5.
  - As of February 5, 2021, the index was up 75% since March 23, 2020.

## Expected Federal Funds Rate



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

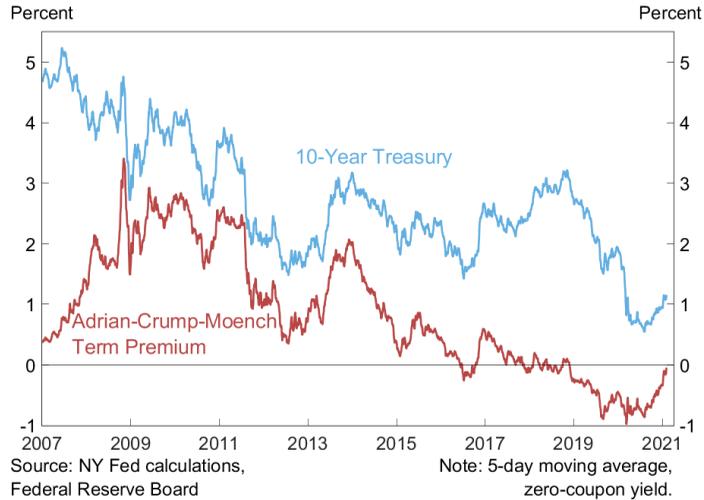
Note: Estimated using OIS quotes

## Implied path for federal funds rate was stable

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) was unchanged for short maturities but slightly increased for longer maturities between January 8 and February 5.
- The market-implied path remains below the median path of the FOMC's *Summary of Economic Projections* from December 2020 and slightly above the median path NY Fed's *Survey of Primary Dealers* from December 2020.

# FINANCIAL MARKETS

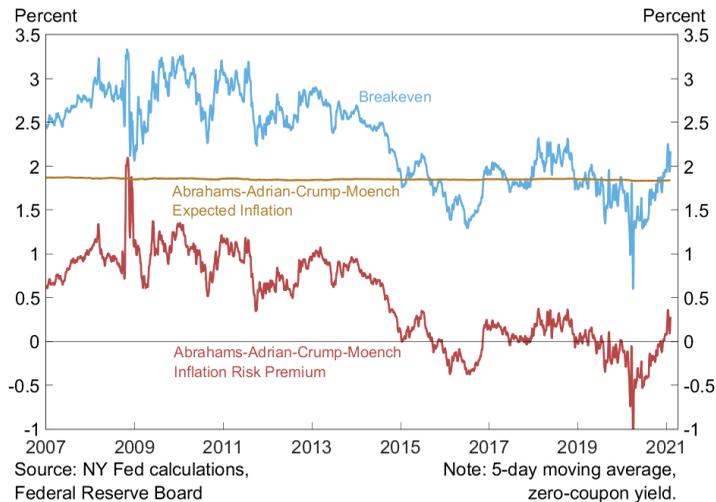
## 10-Year Treasury and Term Premium



## Longer-term Treasury yields increased

- On a five-day moving average basis, 10-year Treasury yields increased from 1.04% on January 8 to 1.16% on February 5.
  - On a five-day moving average basis, the 10-year yield is 206 basis points lower than its peak in November 8, 2018.
- 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 18 basis points between January 8 and February 5.

## 5-10 Year Forward Decomposition

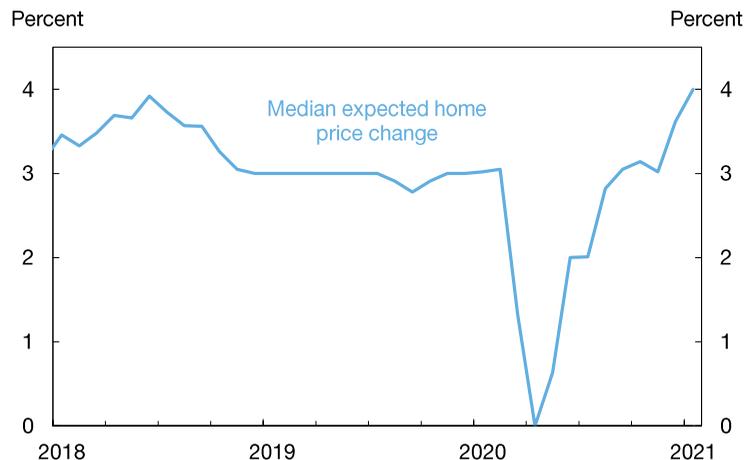


## Breakeven inflation increases

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) increased.
  - On a five-day moving average basis, the five-to-ten year breakeven inflation rate was 2.17% on February 5, up 8 basis points over the month.
- According to the Abrahams-Adrian-Crump-Moench model, the inflation risk premium increased.
  - On a five-day moving average basis, the estimated five-to-ten year inflation risk premium increased by 7 basis points.
  - The model estimates that expected inflation was unchanged.

# SPECIAL: CONSUMER EXPECTATIONS

## Home Price Expectations

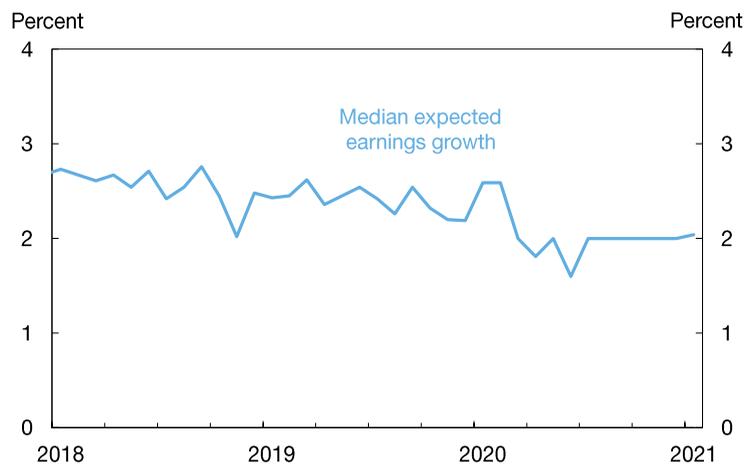


Source: New York Fed Survey of Consumer Expectations (SCE)

## Home price expectations have fully recovered

- Home price change expectations fell precipitously after the start of the pandemic.
  - In April 2020, the 1-year ahead home price change expectations elicited in the *Survey of Consumer Expectations* reached a series low of 0%.
- Home price change expectations rebounded during the summer 2020.
  - Median home price change expectations rebounded quickly after the April low, returning to its pre-COVID-19 level in September 2020.
- Home price change expectations have increased further in recent months.
  - Over the past two months the median home price expectations increased to levels not seen in 7 years.

## Earnings Growth Expectations



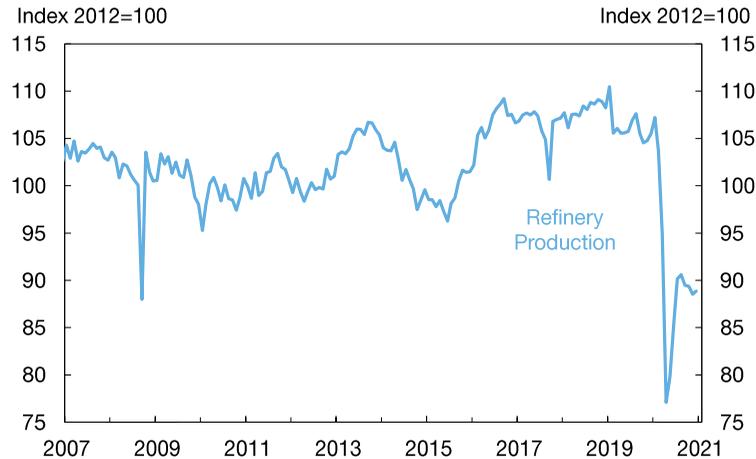
Source: New York Fed Survey of Consumer Expectations (SCE)

## Earnings growth expectations remain sluggish

- Households' earnings growth expectations declined sharply at the onset of the pandemic.
  - The median one-year ahead expected earnings growth elicited in the *Survey of Consumer Expectations* fell from 2.6% in February 2020 to 1.6% in June 2020.
- Earnings growth expectations have remained low.
  - After a partial rebound, the median one-year ahead expected earnings growth has remained unchanged for the past 6 months at 2.0%.

# SPECIAL: U.S. OIL INDUSTRY

## U.S Oil Demand



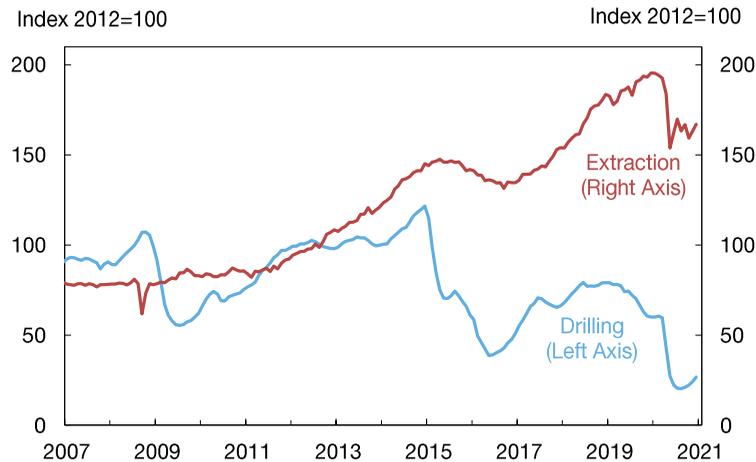
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

## U.S. petroleum demand collapsed in 2020

- Output from U.S. refineries (a proxy for demand) fell 15% in 2020.
  - Production in Q2 dropped 25% over the year-ago level.
- Oil demand has not recovered as fast as GDP.
  - In Q4 2020, GDP was down 2.5% over the year, while refinery production was down 15%.
- Jet fuel is a drag on overall oil consumption.
  - Gasoline and diesel production were both down around 10% over the year in Q4, while jet fuel was down 45%.

## U.S. Crude Oil Sector



Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

## U.S. crude oil industry struggled in 2020

- Crude oil extraction was down 8% last year
  - Extraction was up 8% in Q1 over the year then collapsed 10% in Q2 and Q3 and was down 15% in Q4.
  - Crude inventories rose sharply through mid-2020, but have since trended down.
- Firms cut spending to conserve cash when oil prices fell.
  - Drilling in Q3 was down 70% over the year.
  - The recent increase in oil prices caused a modest rebound, with drilling down a less dire 55% in December.
- Higher oil prices since November have helped cash flow, but extraction remains limited by continued soft demand.
  - Cuts in drilling will restrain how quickly U.S. firms can respond to a recovery in demand.