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 January 5, 2018.
Overview

- After a weak reading in October, real consumer spending growth rebounded strongly in November.
  - There were solid increases for nondurable and durable goods expenditures, as well as for services expenditures.

- Business equipment spending rose briskly for much of 2017, with capital spending indicators pointing to further solid growth over the near term.

- Housing indicators point to continued gradual improvement in this sector.
  - Tight market conditions continued to promote a gradual rise in single-family starts, which reached the highest level since September 2007.

- Payroll growth continued apace in December. The unemployment rate, labor force participation rate and employment-to-population ratio were all unchanged.
  - Growth of labor compensation firmed slightly in December but remains subdued.

- Core PCE inflation continues to run below the FOMC’s longer-run objective, with near-term momentum moderating slightly.

- In the past month, U.S. equity indices rose to record highs. The nominal 10-year Treasury yield increased moderately, but the yield curve remained fairly flat. The broad trade-weighted dollar index declined. Volatility remained low.

Output slightly above its potential level

- Real GDP in 2017Q3 was 0.2% above the Congressional Budget Office’s (CBO) measure of real potential GDP.
  - Based on current data, real GDP had not been above the CBO estimate of real potential GDP since 2007Q4.
  - The December unemployment rate of 4.1% is below many estimates of its natural rate, including that of the CBO (4.74%).

- The CBO output gap indicates no remaining resource slack in the U.S. economy, while the unemployment gap signals even tighter resource constraints.
  - However, capacity utilization rates are still below their historical averages, suggesting appreciable remaining resource slack by that measure.
**Labor Market Indicators**

- **Labor market conditions unchanged**
  - The unemployment rate remained at 4.1% in December. This is the lowest the unemployment rate has been since December 2000, when it was 3.9%.
  - The labor force participation rate was also unchanged in December at 62.7%.
  - The participation rate has generally fluctuated between 62.7% and 63.0% since the beginning of 2016.
  - The employment-to-population ratio remained at 60.1% in December.
  - The employment-to-population ratio is up 0.3 percentage point since December 2016.

**PCE Deflator**

- **PCE inflation remains below FOMC objective**
  - The total PCE price index rose 0.2% in November, after a 0.15% increase in October. The core PCE price index (which excludes food and energy prices) increased 0.1% in November, down from a 0.2% rise in October.
  - Energy prices rose 4.3% in November and are up 10.4% from a year ago.
  - Food prices fell 0.1% in November, but are up 0.6% from a year ago.
  - The 12-month changes in the total PCE and core PCE price indices were +1.8% and +1.5%, respectively, in November.
  - Near-term momentum in core PCE inflation moderated, as the 3-month change in the core PCE price index fell from +1.9% (annual rate) in October to +1.8% in November.
Slight downward revision to Q3 GDP growth

- According to the third estimate, real GDP rose at a 3.2% annual rate in Q3, a slight downward revision from the second estimate of a 3.3% increase.

- The downward revision to real GDP growth primarily reflected a downward revision to consumer spending that was partly offset by an upward revision to state and local government spending.

- Real gross domestic income (GDI), which provides an alternative measure of economic activity, increased at a 2.0% annual rate in Q3.
  - The four-quarter change in real GDI was +1.3%, notably below the 2.3% increase for real GDP.

Productivity remains in a “low-growth” regime

- Labor productivity, measured as output per hour in the nonfarm business sector, is an important indicator of the economy’s potential growth rate.

- Labor productivity has picked up compared to the first part of the year, reaching its highest level since 2014Q3.
  - It increased at a 3.0% annual rate in the second quarter of 2017, with a four-quarter change of 1.5%.

- Despite the recent improvement, labor productivity has remained low in recent years.
  - Productivity growth during the 2011-2017 period averaged 0.7% per year, well below the long-term rate of 2.3% per year from 1947 to 2007.
**Households**

**Disposable Income and Consumption**

- Real personal consumption expenditures rose 0.4% in November after being flat in October.
  - Goods expenditures rose 0.5% and service expenditures rose 0.4%, bouncing back from the flat October reading.
- Real disposable income rose 0.1% in November, after increasing 0.3% in October.
  - Employee compensation recovered from the October growth slowdown by increasing 0.4%.
- The personal saving rate declined to 2.9% in November, the lowest rate since December 2007.

**Total Light Vehicle Retail Sales**

- Sales of light motor vehicles (automobiles and light trucks) in December were 17.9 million units at a seasonally-adjusted annual rate (SAAR), up from 17.5 million units in November.
  - Automobile sales and light truck sales in December were 6.1 million units and 11.8 million units, respectively.
- While light motor vehicle sales totaled 17.3 million units in 2017 and have exceeded the 17-million mark for three consecutive years, they declined 1.6% from 2016.
  - The annual decline in light motor vehicle sales was the first since 2009 and was due to lower auto sales, which fell from 7.1 million units in 2016 to 6.3 million units in 2017.
  - In contrast, light truck sales rose from 10.4 million units to 10.9 million units over the same period.
**Equipment Investment and Capacity Utilization**

- **Equipment investment rises solidly**
  - With a robust increase in the third quarter, real business equipment investment rose 6.4% over the four quarters ending in 2017Q3.
    - All major categories had positive four-quarter changes, with the largest rises in information and industrial equipment.
    - The level of real business equipment investment hit a new peak in 2017Q3.
  - Even with the Q3 increase, equipment investment has risen sluggishly over the past three years, as the manufacturing capacity utilization rate remains low.
    - This rate was 76.4% in November, two percentage points below its longer-term average.
    - Historically, robust growth of equipment investment has not occurred until the capacity utilization rate surpassed 80%.

**Nondefense Capital Goods Excluding Aircraft**

- **New orders and shipments are strengthening**
  - New orders for nondefense capital goods excluding aircraft continued to increase at a brisk pace, rising 8% over the twelve months ending in November. Shipments of nondefense capital goods excluding aircraft rose 8.9% over the same period.
  - The November gains in orders and shipments were somewhat slower than October, but these are noisy series from month to month. As shown in the chart, the three-month moving average indicates that both orders and shipments are on a strong upward trajectory.
  - These developments suggest strengthening of business investment in new equipment in the months ahead.
Housing starts remain on a gradual uptrend

- Total housing starts rose 3.3% in November on the heels of a 8.4% increase in October. The November level was just shy of 1.3 million units (SAAR).
- Single-family starts rose 11.8% over October and November combined, reaching 930,000 units, the highest since September of 2007.
- Multi-family starts were essentially unchanged in November after rising 23.9% in the previous two months. This increase comes after a roughly nine-month decline.
- Continued improvement in the labor market has the potential to strengthen the rate of recovery in this sector.

Home prices continue to display solid increases

- The CoreLogic single family national home price index rose 7% in November from a year ago.
  - This is the fourth month of consecutive year-over-year growth measuring above 6%.
  - All states experienced 12-month home price increases, with Washington, Nevada, Utah and Idaho showing double-digit increases.
- The inventory of single family homes was 1.47 million units in November, equivalent to a 3.5 months’ supply at the current sales pace.
  - Since late 2015, the inventory of single family homes for sale has remained below the normal range of 5-7 months.
  - The lean supply of homes for sale along with a healthy job market have created upward pressures on home prices.
Real government spending unchanged over past year

- As of 2017Q3, real consumption and gross investment by both the federal and state and local governments were essentially unchanged from a year earlier.
  - At the federal level, both defense and nondefense spending were roughly unchanged over the year ending in 2017Q3.
    - Defense spending, comprising 60% of federal consumption and gross investment, had been contracting sharply as recently as 2013. In contrast, nondefense spending grew 3.2% in 2015 but has slowed since then.
  - After rising 2.8% over the four quarters ending in 2015Q3, spending at the state and local level has slowed to essentially zero since then.

State and local public sector remains weak

- Real state and local government consumption expenditures weakened further in the third quarter.
  - Real consumption expenditures rose just 0.6% in the four quarters ending in 2017Q3.
  - Annual growth in consumption expenditures has been weakening since mid-2015.
  - State and local consumption, comprised mainly of wages and salaries, is about 80% of state and local spending.

- Real state and local investment spending continues to decline.
  - Infrastructure spending fell 3.4% in the four quarters ending in 2017Q3.
  - Save for a seven-quarter period in 2014-16, infrastructure investment has been falling for almost a decade.
INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods

The trade deficit continues to increase

- The trade deficit increased to $50.5 billion in November from a revised $48.9 billion deficit in October, with both imports and exports increasing in real terms over the month.
  - Real exports of goods increased 2.5% over the month in November, owing to large increases in capital and consumer goods export volumes. Real oil exports fell over the month.
  - Real nonoil imports of goods increased 2.3% in November, driven predominantly by higher import volumes of consumer goods and capital goods (excluding autos). Real oil imports were only up 0.8% in November, after increasing 4.7% in October.

- Net exports added 0.4 percentage point to GDP in the 2017Q3 third estimate, as in the previous Q3 estimates.

Dollar Exchange Rate and Nonoil Import Prices

Import prices showing less volatility

- Non-oil import prices were up 1.4% over the year in November.
  - Import price inflation stayed near 1.0% over the course of 2017.

- Prices for industrial supplies rebounded last year after falling in the previous five years.
  - The index for these commodity goods has reached the levels recorded in early 2015.

- Prices for capital goods, autos and consumer goods were essentially unchanged in 2017.
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Payroll Employment and Aggregate Hours

Payroll employment growth below expectations
- Nonfarm payrolls increased by 148,000, below the Bloomberg median forecast (+190,000).
  - Revisions to October and November payrolls lowered employment gains by 9,000, bringing the average monthly increase in payroll employment to 204,000 over the past three months.
- Average weekly hours was unchanged at 34.5 hours.
  - Aggregate weekly hours increased by 0.2% over the month.
- Private payroll employment increased by 146,000.

Unemployment Rate by County 2016

Unemployment rate varies across counties
- The national unemployment rate was 4.1% in December, below its pre-recession level of 4.4% in May 2007.
- This aggregate number masks substantial regional heterogeneity in the unemployment rate.
- As of 2016, several counties still had unemployment rates above 8%.
  - Counties in California, Arizona, New Mexico, Alaska and West Virginia were among them.
LABOR MARKET

U-to-E and U-to-N Transition Rates

Unemployed are finding jobs at healthy pace

- The job-finding rate (the transition rate from unemployment to employment) was 27.7% in December.
  - This rate has improved substantially from its recessionary low of 15.4%.

- The transition rate from unemployment to non-participation was 24.5% in December.

- These numbers indicate that more than half of unemployed people leaving unemployment are finding jobs.

Growth of Average Hourly Earnings and ECI

Earnings growth remains moderate

- Average hourly earnings increased by 0.34% from $26.54 in November to $26.63 in December.
  - The 12-month percent change in average hourly earnings was 2.50%.

- Average weekly earnings also increased by 0.34% from $915.63 to $918.74.
  - The 12-month percent change in average weekly earnings was 2.80%.

Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.
**CPI Inflation: Core Goods and Core Services**

- Core CPI was up 0.1% in November compared to 0.2% in October. The 12-month change in the core index was 1.7%, down from 1.8% in October.

**Core inflation slows down in November**

- Core goods prices resumed their fall after rising in October, while services prices did not rise as much as they did in October.
  - Core goods prices fell by 0.1% in November, after rising 0.1% in October.
  - Core services prices rose 0.2% in November, down from the 0.3% increase recorded in October.

**3-Year Ahead Inflation Expectations**

- According to the December 2017 FRBNY Survey of Consumer Expectations (SCE), median inflation expectations at the three-year ahead horizon increased from 2.8% in November to 2.9% in December.

**Inflation expectations edge up**

- Median year-ahead inflation expectations increased from 2.6% in November to 2.8% in December.

- Median inflation uncertainty—or the uncertainty expressed by respondents regarding future inflation outcomes—increased slightly at both horizons.
**U.S. Equity Market Index and Volatility**

- U.S. equity markets continued their 2017 rally, and registered new all-time highs in the first week of 2018.
  - On January 5, the S&P 500 index achieved a new all time high at 2743.
  - The S&P 500 index increased 19.4% through 2017.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX), remains near historically low levels.

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**International Equity Indices**

- Global equity indices generally outperformed the S&P 500 over the past month.
  - The FTSE 100 Index increased 4.5% and the Nikkei increased 4% from December 8 to January 5, compared to a 3.5% increase in the S&P 500.
  - Over the same period, the DAX 30 Index increased by 1.25%.
  - During 2017, the Nikkei Index increased 19%, the DAX 30 Index increased 12.5%, and the FTSE 100 7.5%. All three underperformed compared to the S&P 500.
**USD Exchange Rates**

- The exchange value of the dollar against a basket of global currencies decreased about 1.7% over the last month.
  - Over this same period the dollar appreciated by about 1.3% against the Mexican peso, and depreciated about 2% against the euro and 0.4% against the Japanese yen.

- During 2017, the dollar depreciated about 8.5% against a basket of global currencies.

**Expected Federal Funds Rate**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) increased 16 bps over the past month.

- The current market-implied path out to five years rose to 2.53%.
  - The reported longer-run value of the median respondent of the FOMC’s December 2017 Summary of Economic Projections is 2.8%; the longer-run value of the median respondent of the December 2017 NY Fed Survey of Primary Dealers is 2.75%.
**FINANCIAL MARKETS**

### 10-Year Treasury and Term Premium

![Graph showing 10-Year Treasury and Term Premium](image)

- **Source:** NY Fed calculations, Federal Reserve Board
- **Note:** 5-day moving average, zero-coupon yield.

### Longer-term Treasury yields remain low

- 10-year Treasury yields remain low by historical standards.
  - The 10-year yield has increased 8 basis points from December 8 to January 5, 2018, and 35 basis points from its recent low in early September.
  - Estimates from the Adrian-Crump-Moench term structure model attribute the increase in the 10-year yield over the past month to a higher expected path of the short-term rate.
  - The estimated 10-year term premium remains at very low levels.

### 5-10 Year Forward Decomposition

![Graph showing 5-10 Year Forward Decomposition](image)

- **Source:** NY Fed calculations, Federal Reserve Board
- **Note:** 5-day moving average, zero-coupon yield.

### Breakeven inflation little changed

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) were up 13 bps over the past month.
  - The five-to-ten year breakeven inflation rate stands at around 2 percent, which is up by over 64 basis points from the record lows observed last year.
  - According to the Abrahams-Adrian-Crump-Moench term structure model, most of the movements in forward inflation compensation continue to reflect movements of the inflation risk premium.
SURVEY OF CONSUMER EXPECTATIONS: LABOR MARKET

**Job Transitions**
Current labor market status of those employed four months ago

![Graph showing job transitions]

Source: Survey of Consumer Expectations
Federal Reserve Bank of New York

**Transition rate to a different employer increases**
- The results of the November 2017 FRBNY SCE Labor Market Survey show that among those who were employed four months ago, 89.5% were still with the same employer, similar to the proportion of 89.8% in the July survey.
- The transition rate to a different employer jumped up from 3.8% in July to 5.2% in November, the highest level since November 2016.
- Reported satisfaction with promotion opportunities at current jobs edged up.

**Proportion of job seekers decline**
- The proportion of individuals who reported searching for a job in the past four weeks declined from 22.7% in July to 21.8%, still above the average proportion in 2016.
  - The decline was primarily driven by younger (aged 45 or less), college-educated, and male household heads.
- The distribution of the number of offers received by the respondents became slightly more dispersed, with the proportion of individuals receiving one job offer increasing and the proportion of individuals receiving three or more job offers declining.
- The average full-time offer wage received in the past four months increased from $49,250 in July to $59,110 in November.
**SURVEY OF CONSUMER EXPECTATIONS: LABOR MARKET**

**Job Offer Expectations**

Percentage who expect one or more job offers in the next four months

Source: Survey of Consumer Expectations
Federal Reserve Bank of New York

**Expectations on job transitions are unchanged**

- Expectations regarding job transitions over the next four months among those currently employed were largely unchanged.

- The distribution of the number of expected offers shifted to the left, with the proportion of individuals expecting to receive one offer increasing and the proportion of individuals expecting to receive two or more offers declining.

- Among respondents who reported a likelihood of receiving at least one offer in the next four months, the average expected annual salary of job offers declined from $50,790 in July to $49,855 in November.