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 16, 2020.
- Consumer spending growth was solid in November.
  - Real spending on durable goods rose robustly, while growth of real expenditures on nondurable goods and services was moderate.

- Real business equipment spending declined in 2019Q3, and its growth year-to-date was well below its pace in 2018.
  - The October-November average of shipments of nondefense capital goods ex-aircraft was roughly equal to the Q3 average, suggesting that business equipment spending could remain soft in Q4.

- On balance, housing activity indicators displayed further gradual improvement in November.
  - The six-month upward trend in single-family housing starts and permits has been firming. New home sales also indicate solid conditions. A still-strong labor market and low mortgage rates have provided support to the housing sector.

- Payroll growth was solid in December, and was somewhat firmer in the second half of 2019 than it was in the first half. The unemployment rate, the labor force participation rate and the employment-to-population ratio were all unchanged, with the latter remaining at its expansion high.
  - Labor compensation growth softened in December.

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

- U.S. equity indices rose over the past month, reaching all-time highs. Implied volatility remained low. The nominal 10-year Treasury yield was roughly unchanged. The market-implied expected policy rate path was little changed. The broad trade-weighted dollar index declined slightly. Amid some volatility, oil prices fell on net.

**Output moderately above potential GDP estimate**

- The level of real GDP in 2019Q3 was about 0.8% above the estimate of real potential GDP from the Congressional Budget Office (CBO).
  - For comparison, the historical (1949 – 2019) average of this measure of the output gap is -0.6%.
  - Over this expansion, real GDP has grown at a 2.3% annual rate, compared to the 1.6% growth rate of real potential GDP.
  - The 3.5% unemployment rate in December was below most estimates of its natural rate, including that of the CBO (4.56%).

- The current output and unemployment gaps signal tight resource constraints in the U.S. economy.
  - However, capacity utilization rates remain below their historical averages, suggesting looser constraints by that measure.
**Labor Market Indicators**

- **Unemployment Rate** (Left Axis)
- **Labor Force Participation Rate** (Right Axis)
- **Employment-to-Population Ratio** (Right Axis)

*Source: Bureau of Labor Statistics via Haver Analytics*

*Note: Shading shows NBER recessions.*

**Labor market conditions remain strong**

- The unemployment rate was unchanged at 3.5% in December, matching the 50-year low recorded in September.

- The employment-to-population ratio stayed at 61.0% for the fourth consecutive month in December.
  - The employment-to-population ratio for prime-age workers was 80.4%, up 0.8 percentage point over 2019.

- The labor force participation rate remained at 63.2%, ending 2019 with an increase of 0.2 percentage point.
  - For prime-age workers, this rate was 82.9% in December, up from 82.3% in December 2018.

**Inflation continues to run below 2 percent**

- The total PCE price index rose 0.2% in November, slightly less than in October. The core PCE price index (which excludes food and energy prices) rose 0.1% in November, same as in October.
  - Energy prices rose 0.8% in November, and are down 0.7% relative to one year ago. Food prices were essentially unchanged and are up 0.9% compared to one year ago.

- The 12-month change in the total PCE index rose slightly to +1.5%, while the 12-month change in the core PCE index declined slightly to +1.6%.
  - Both total and core PCE inflation remained softer than they were over the course of 2018.
  - Core PCE inflation remains below the FOMC’s 2 percent longer-run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

- The third estimate of real GDP growth for 2019Q3 was 2.1% (annual rate), the same as the second estimate. Real GDP growth over the first three quarters of 2019 was 2.4% (annual rate).
- Final sales were revised upward, but they were offset by downward revision to inventory investment.
- Real personal consumption expenditures rose at a 3.1% annual rate in Q3, up from 2.9% in the second estimate.
- Real nonresidential fixed investment fell in Q3, its second straight decline.
- Real residential investment increased in Q3 after 6 consecutive quarterly declines, as the housing market improved amid lower mortgage rates.

**Manufacturing and ISM Manufacturing Index**

- Manufacturing production rose 1.1% in November.
  - The 12-month change in manufacturing production was still negative at -0.8%.
- The ISM Manufacturing PMI decreased in December to 47.2 from 48.1 in November.
  - This is the lowest PMI in 10 years.
- The regional Fed surveys continue to point to sluggish manufacturing growth in most districts in December.
### Disposable Income and Consumption

- **Income growth rebounds in November**
  - Both nominal income and real disposable income rebounded from soft October readings.
    - Nominal personal income rose 0.5% in November. Disposable personal income increased 0.4% in real terms.
  - Personal consumption expenditures grew solidly in November, suggesting somewhat stronger consumer spending in Q4 than implied by the October data.
    - Real PCE rose 0.3% in November and 2.4% on a 12-month basis. The personal saving rate rose slightly to 7.9%.
    - On a 12-month basis, growth of real goods consumption remained strong, while that of real services consumption continued to be moderate.

### Consumer Confidence

- **Consumer confidence decreases marginally**
  - The Conference Board’s Consumer Confidence Index decreased to 126.5 in December, from a revised level of 126.8 in November.
    - The slight decline in the headline index is driven by a decrease in the Expectations component.
    - The Present Situation Index increased from 166.6 to 170.0.
  - Consumers’ short-term outlook on business conditions improved, while their short-term outlook on employment deteriorated.
  - Near-term (one-year) household inflation expectations declined to 4.4 percent from 4.5 percent in November.
    - The series has been on a declining trend since August 2019, when it edged up to 4.9.
**Business Sector**

**Equipment Investment and Capacity Utilization**

- **Equipment spending falls in 2019Q3**
  - Real business equipment investment declined 3.8% (annual rate) in 2019Q3. Over the first 3 quarters of 2019, equipment spending fell at a 1.0% annual rate, compared to the 5.0% increase over 2018 (Q4/Q4).
    - In 2019Q3, spending declined for information equipment and transportation equipment, rose for industrial equipment, and was little changed for other 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 November, 3.1 percentage points below its long-run average.
    - Historically, utilization rates near the November level are associated with modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- **Capital goods shipments decline in November**
  - Shipments of nondefense capital goods excluding aircraft fell by 0.3% in November 2019. The October-November average level of these shipments is roughly equal to the average in 2019Q3.
    - This measure is a proxy for equipment spending that is available at a monthly frequency.
  - New orders of nondefense capital goods excluding aircraft increased by 0.1% in November 2019.
  - New orders for these goods are slightly above shipments, suggesting some near-term momentum for equipment spending.
**Housing Sector**

**Housing Starts**

- **Single-family housing starts on an upward trend**
  - After bottoming in April of 2019, single-family housing starts are now on an upward trend. This recovery stems primarily from the fact that mortgage interest rates are now slightly more than 100 basis points below their November 2018 level.
  - On a three-month moving average basis, single-family starts increased nearly 11% from April to November, reaching 919,000 units (seasonally-adjusted annual rate), the highest of this expansion.
  - As is often the case, multi-family housing starts have been quite volatile of late, with no clear trend over the past several years.

**New and Existing Home Sales**

- **Home sales improve over the past year**
  - The decline of mortgage interest rates over the past year has also provided a boost to both new and existing home sales.
  - Sales of existing homes (single-family and condos/coops) bottomed out at 4.93 million units (seasonally-adjusted annual rate) in January of 2019. As of November, they are up 8.5%, reaching 5.35 million units. However, this remains below the peak for this expansion—5.64 million units reached in November of 2017.
  - Sales of new single-family homes bottomed in October of 2018 and as of November were up 29.1% to 719,000. Recent levels have been near the peak of this expansion.
**Real Government Consumption and Gross Investment**

- Over the four quarters ending in 2019Q3, real government consumption and gross investment was up 2.2%, comparable to the previous quarter.
- Real federal spending was up 3.7% over the four-quarters ending in 2019Q3, the strongest since 2010Q2. Spending for national defense was up 4.6% while nondefense spending was up 2.4%. Growth of federal spending is expected to slow but remain positive over the next several quarters.
- Real spending by state and local governments has been strengthening since the end of 2017. This rebound has been led by investment spending. Employment growth in the state and local government sector has been rising steadily since 2013 and was up 0.7% over the 12 months of 2019.

**State and local sector spending holds steady**

- Growth of real consumption at the state and local level has held steady at about 1.0% on a four-quarter change basis.
  - Consumption expenditures consist largely of employee salaries and make up over 80% of the sector’s total spending.
- State and local gross investment spending growth slowed, rising 2.8% over the four quarters ending in Q3 versus 4.1% in Q2.
  - The categories of gross investment are, in order of importance, new equipment such as computers, intellectual property products such as software, and public works and infrastructure projects.
### International Developments

#### Real Exports and Nonoil Imports of Goods

- **The trade deficit shows another decline in November**
  - The trade deficit declined for a third consecutive time to $43.1 billion in November from $46.9 billion in October. In real terms, exports increased and imports declined over the month.
  - Real goods exports grew 0.5% over the month in November, which was mostly due to higher real exports of autos, capital goods and consumer goods. Real oil goods exports declined in November.
  - Real nonoil goods imports fell 1.2% between November and October owing to lower real imports of capital and consumer goods (both excluding autos). Real oil goods imports also decreased over the month.
  - Net exports subtracted 0.14 percentage point off GDP growth according to the third estimate of GDP in 2019Q3, 3 basis points more than in the second estimate.

#### Dollar Exchange Rate and Nonoil Import Prices

- **Import prices down modestly at the end of 2019**
  - Import prices (excluding oil) were down 1.4% over the year in November.
    - Prices rose 1.0% in 2018.
  - Prices for industrial supplies fell after rising in 2017 and 2018.
    - Prices for autos and consumer goods were relatively unchanged.
  - Prices for capital goods excluding computers continued to be stable.
    - Computer prices, though, fell at an unusually fast pace in 2019. The decline was particularly pronounced in imports from Mexico.
LABOR MARKET

Payroll Employment and Aggregate Hours

Payroll growth picks up in second half of 2019
- Nonfarm payrolls increased by 145,000 in December, slightly below the Bloomberg median forecast of 160,000.
  - With the December reading, the average monthly payroll growth averaged 176,000 in 2019, well below 2018 (223,000) but on par with 2017 (179,000).
- Private payroll employment rose by 139,000 and government employment rose by 6,000 in December.
- Average weekly hours remained at 34.3 in December.
  - Aggregate weekly hours worked by all private employees were up 0.11% in December.
  - This reflects an increase of 0.9% over the past 12 months, well below the annual increase of 2.1% in 2018.

Quits Rate and Ratio of Job Openings to Unemployed

Job openings rate ticks up
- The job openings rate rose to 4.6% in October from 4.4% in September.
  - The ratio of job openings to unemployed workers, a measure of labor market tightness, has exceeded one since the beginning of 2018, implying that there are more job openings than unemployed people in the labor force.
- The separation rate dropped slightly to 3.7% in October, while the quits rate remained unchanged.
- The net employment gain in October was 128,000, the lowest implied net gain since February 2019.
  - Despite falling below the 12-month average, the net employment gain remains at a healthy level.
**LABOR MARKET**

**Share of Women in the Workforce**

- For the second time in history since the beginning of the decade, women hold the majority of jobs as of December 2019.
  - The share of female employees in non-farm industries has only hit 50% once before (at the beginning of 2010) since data collection began.
  - Because the employment-to-population ratio of women remains lower than that of men, this implies that there are more women than men holding multiple jobs.

**Growth of Average Hourly Earnings and ECI**

- Average weekly earnings rose 0.11% in December, down from 0.32% in November and below the 2019 average.
  - Average hourly earnings increased 2.87% on an annual basis, below the 2019 average of 3.15%.

- In December, average weekly earnings for all private sector employees increased to $971.38.
  - These increases were driven by retail trade (+1.01%), transportation and warehousing (+0.76%), and manufacturing (+0.39%).
  - Industries that saw decreases in average weekly earnings include mining and logging (-1.14%) and wholesale trade (-0.91%).
**INFLATION**

**CPI Inflation: Core Goods and Core Services**

- With core service inflation sluggish and core goods prices flat, the report did not provide any indication that core inflation is returning to the FOMC’s longer-run goal.
  - Core CPI rose 0.1% in December, below both private sector expectations and the November increase.
  - The 12-month increase in the core index was 2.3%, unchanged from November.
  - Core services prices rose 0.2% in December, after increasing 0.3% in November. The 12-month increase in this index was 3.0%, the same as in the previous two months.
  - Core goods prices were flat again in December; their 12-month change was 0.1%, unchanged from November.

**3-Year Ahead Inflation Expectations**

- Inflation expectations changed little in December.
  - Median inflation expectations increased by 0.1 percentage point at the one-year horizon to 2.5%, and remained unchanged at the three-year horizon at 2.5%.

- Other expectations were also unchanged.
  - Expectations for home price changes, earnings growth, unemployment, and income growth remained roughly unchanged in December.

- Labor market expectations worsened slightly.
  - Consumers were slightly more pessimistic about the perceived probability of losing one’s job or the perceived probability of finding a new job.
U.S. Equity Market Index and Volatility

U.S. equity markets at all-time highs
- U.S. equity markets have moderately increased during the past month and remain near their all-time highs.
  - The S&P 500 index rose 4.85% between December 9 and January 13. The index is currently at 3288, which represents its all-time high.
  - As of January 13, the index was up 31.0% since the start of 2019.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains low.
  - The VIX Index closed at 12.31 on January 13, a 22.3% decline from its value on December 9.

USD Exchange Rates

U.S. dollar depreciates modestly
- The exchange value of the dollar against a basket of global currencies decreased 0.59% between December 9 and January 13.
  - Over this same period the dollar depreciated 0.63% against the Euro, 2.26% against the Peso, and appreciated 1.28% against the Yen.
- Since the start of January 2019, the dollar has depreciated 0.59% against a basket of global currencies.
FINANCIAL MARKETS

Modest growth in bank stocks
- As measured by the KBW Nasdaq bank index, bank equities gained 0.88% between December 9 and January 13, and are currently near all-time highs.
  - The index reached an all-time high on January 2 and has since declined by 2%.
  - As of January 13, the index was up 28.0% from the start of January 2019.
- The XLF financial sector ETF gained 2.01% between December 9 and January 13, and is also trading near all-time highs.
  - As of January 13, the index was up 28.6% from the start of 2019.

Implied path for federal funds rate little changed
- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved very little between December 9 and January 13.
- The market-implied path remains below the median paths of both the FOMC’s December 2019 Summary of Economic Projections and the December 2019 NY Fed Survey of Primary Dealers.
**FINANCIAL MARKETS**

**10-Year Treasury and Term Premium**

- Longer-term Treasury yields have increased slightly since early November.
  - The 10-year yield increased about 6 basis points between December 9 and January 13, closing at 1.87%.
  - Estimates from the Adrian-Crump-Moench term structure model attribute the increase to a slightly less negative term premium.
  - The 10-year term premium increased by 10 basis points between December 9 and January 13.
  - The 10-year term premium is currently 44 basis points above its most negative level on September 3.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations were little changed in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.78% on January 13, representing a 5 basis point increase over the past month. Breakeven inflation is down by little more than 1 basis point since the start of 2019.
  - According to the Abrahams-Adrian-Crump-Moench model, most of the year-to-date movements in forward inflation compensation continue to reflect movements in the inflation risk premium.
  - The estimated five-to-ten year inflation risk premium has increased by 6 basis points over the past month but is 11 basis points lower than the start of 2019.
SPECIAL TOPIC - REGIONAL

FRBNY Regional Business Surveys

Regional business surveys point to sluggish conditions

- The headline indices for both the Empire State Manufacturing Survey and Business Leaders Survey have hovered just above zero for the past several months, indicating that business activity has been sluggish.
- These surveys’ employment indices have followed a similar pattern, hovering modestly above zero in recent months, signaling restrained hiring activity.
- Optimism about future conditions has improved in recent months but remains subdued.

Employment Growth in the Tri-State Area

Job growth slows across the tri-state region

- While New York City remains an engine of growth for the region, job growth has slowed there and in the downstate New York region more broadly.
- Job growth has stalled in Northern New Jersey and Fairfield County.
- Job growth has been sluggish in upstate New York, and has slowed further in recent months.
**SPECIAL TOPIC - REGIONAL**

### Employment in Puerto Rico and the US Virgin Islands

- **Puerto Rico and the US Virgin Islands rebound**
  - After substantial rebuilding efforts, Puerto Rico and the US Virgin Islands have rebounded to near pre-storm levels.
  - While private-sector employment has fully recovered to above pre-storm levels in Puerto Rico, public-sector employment has languished at multi-decade lows.
  - Puerto Rico employment in the business services, construction, and manufacturing sectors has risen noticeably above pre-storm levels, helping to buoy the economy.

### Unemployment Rates Across the Second District

- **Labor markets remain tight**
  - Unemployment rates are well below their historical averages across the District, especially in New York City.
  - The lack of available workers is restraining hiring activity, contributing to the region’s slow job growth.

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Source: Bureau of Labor Statistics via Moody’s Economy.com

Note: Dashed line represents hurricanes Irma and Maria.