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 12, 2022.
The unemployment rate fell, real consumer spending was unchanged, and inflation remained elevated.

- GDP growth slowed in Q3.
  - Consumer spending increased at a much slower pace, with a drop in purchases of goods offsetting more spending on services.
  - Investment spending on equipment, residential investment, exports, and federal government spending all declined.

- Real disposable income fell in November.
  - The level was unchanged over the year, putting it below its trend growth path.
  - Nominal compensation growth eased from a high rate.
  - Real consumer spending was unchanged over the previous month.

- Payroll employment growth slowed in December, while the unemployment rate fell.

- Core PCE inflation over the year increased in November, with prices for durable goods rising twice as fast as prices for services. Core CPI inflation picked up in December.

- The 10-year Treasury yield rose, with estimates attributing the increase to a higher term premium. The S&P 500 stock index was down modestly to start the year after rising 27% in 2021. The market-implied federal funds rate path shifted up over the month.

Output in Q3 was below its pre-pandemic trend level

- Q3 GDP was 1.4% above its previous peak in Q4 2019.
  - The median estimate for the longer-run GDP growth rate was 1.8% in the December Summary of Economic Projections (SEP).
  - The October Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.
  - Q3 GDP was about 2.0% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.

- The unemployment rate was near its longer-run normal level.
  - The 3.9% unemployment rate in December was about equal to the consensus long-run forecasts of 4.0% in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.
  - The labor force participation rate in December was still more than one percentage point below pre-pandemic levels.

Source: Bureau of Economic Analysis via Haver Analytics
**OVERVIEW**

### Labor Market Indicators

- **Employment growth slowed in December**
  - Nonfarm payroll employment increased by 199,000 in December.
  - Payrolls in private service-providing industries rose by 157,000, with the largest gains in leisure and hospitality (53,000) and professional and business services (43,000).
  - Government employment fell by 12,000, continuing its downward trend.
  - The unemployment rate declined from 4.2% to 3.9% for a total decline of 2.8 percentage points over the year.
  - The labor force participation rate was unchanged at 61.9%, leaving the rate 0.4 percentage point higher over the year.

### PCE Deflator

- **PCE inflation moved higher in November**
  - PCE inflation increased from 5.1% over the year in October to 5.7% in November.
    - Food prices were up 5.6% and energy prices were up 34.0%.
  - Core PCE inflation increased from 4.2% to 4.7%.
    - Consumer durable goods inflation rose from 8.9% to 9.7%.
    - The index for used vehicles was up 42% over the year and the one for new vehicles was up 11%.
  - The monthly change in core PCE averaged 0.5% in October and November.
    - The average monthly rate was 0.6% in Q2 and 0.3% in Q3.
ECONOMIC ACTIVITY

GDP Growth
Quarterly % change, annualized

- GDP growth slowed considerably in Q3
  - GDP rose at a 2.3% annual rate in Q3, after rising at a 6.5% rate in H1.
    - The slowdown reflected various supply constraints and the summer's rise in COVID-19 infections.
    - A subdued increase in consumer spending, with a large drop in purchases of motor vehicles, contributed significantly to the Q3 slowdown.
  - In contrast to GDP, real gross domestic income (GDI) grew at a robust 5.8% annual rate in Q3.
    - The four-quarter change in GDI was 8.9%, well above that of GDP (4.9%).

Source: Bureau of Economic Analysis via Haver Analytics.

Manufacturing Index
Index, 2017=100

- Manufacturing activity moved higher in November
  - The manufacturing index increased 0.7% in November after rising 1.2% in October.
    - The index was 2% above its pre-pandemic level and was at its highest level since December 2018.
  - The motor vehicles index continued to climb out of its September trough.
    - The index rose 10% in October and 2% in November.
    - The index was still down 6% compared to February 2020.
    - Manufacturing excluding motor vehicles was up 0.6% over the month and was 3% above the pre-pandemic level.
  - The ISM manufacturing index remained at a high level in December.

Source: Federal Reserve Board via Haver Analytics
### Consumer spending cooled in November
- Real personal consumption expenditures were unchanged in November, a slowdown from a 0.7% increase in October.
  - Consumer spending was near its trend growth path.
- Real disposable income decreased 0.2% in November, similar to October’s decline, while nominal personal income rose 0.4%.
  - The increase in nominal compensation slowed from 0.7% to 0.4%.
  - Proprietors’ income fell 0.3% due to a drop in income from PPP loans.
  - Personal transfer receipts rose 0.6%, with most of the increase from the Provider Relief Fund.
  - Real disposable income was unchanged over the year, putting the level below its trend growth path.

### Spending on goods fell in November
- Real spending on goods decreased 0.8%.
  - The average of spending on goods in October and November was up relative to Q3, but down relative to Q2’s high level.
  - Spending on goods was around 8% above its trend growth path, with durable goods 10% above and spending on non-durable goods 5% above.
  - Motor vehicles sales rose in November, with purchases of new vehicles near pre-pandemic levels and sales of used motor vehicles 15% higher.
- Real spending on services increased 0.5%.
  - Spending was 5% below its trend growth path.
  - Laggard sectors include health care, entertainment, air transportation, and lodging.
**Equipment spending fell in Q3**

- After rising at double-digit rates in the previous four quarters, real business equipment spending fell at a 2.3% annual rate in Q3.
  - Equipment spending subtracted 0.1 percentage point from annualized GDP growth in the quarter.
  - There was a decline in transportation equipment, a rise in industrial equipment, and only small changes in other categories.
  - Even with the fall, equipment spending in the quarter was 2.7% above its pre-pandemic peak in Q2 2019.

- Orders of capital goods remained high in November, indicating underlying strength in equipment spending.

**Spending on structures remained low in Q3**

- Real nonresidential structures investment spending decreased at a 4.1% annual rate in Q3.
  - The decline in spending subtracted 0.1 percentage point from annualized GDP growth.
  - Nonresidential structures spending was 2.6% below its year-ago level and 20% below its Q4 2019 level.

- The level of spending in the energy sector was an outlier as it increased for the fourth straight quarter.
  - Spending on mining exploration, shafts, and wells was still down 23% from its Q4 2019 level.

- Monthly data on nonresidential construction through November do not yet point to a turnaround in the sector.
**HOUSING SECTOR**

**Residential Investment**

Billions of 2012 dollars, annualized

- Residential investment fell in Q3 from a high level
  - Residential investment declined in Q3, taking 0.4 percentage point off annualized GDP growth.
  - Residential investment was still 13% above its Q4 2019 level.
  - Investment has been strong in both single-family and multi-family structures during the pandemic.
    - Single-family construction and multi-family construction were both up 23% in Q3 relative to Q4 2019.
    - Relatively small increases in home improvements held down overall investment spending.
  - Housing starts data for October and November showed a slight pick-up from Q3.

**Existing home sales remained high**

- Existing single-family home sales increased 1.6% in November, to 5.75 million units (annualized).
  - Sales were around 20% above pre-pandemic levels.
- New single-family home sales increased 12% to 744,000 units in November.
  - Sales were down substantially from the elevated level reached in the second half of 2020 and were back to pre-pandemic levels.
- Demand remained strong even though home prices were up 18% over the year in November.
**GOVERNMENT SECTOR**

**Federal Government Spending**

- Billions of 2012 dollars, annualized
- Source: Bureau of Economic Analysis via Haver Analytics

**Real federal spending slumped in Q3**
- Real federal government spending subtracted 0.3 percentage point from annualized GDP growth in Q3, following a 0.4 percentage point drag in Q2.
  - Spending was down 0.8% over the year, but up 3.2% since Q4 2019.
- The drag on growth came almost entirely from nondefense spending.
  - Nondefense spending subtracted 0.3 percentage point from growth, while defense spending was essentially unchanged.
- Lower payments to banks related to the Paycheck Protection Program accounted for most of the fall.

**State and Local Government Spending**

- Billions of 2012 dollars, annualized
- Source: Bureau of Economic Analysis via Haver Analytics

**Real state and local government spending increased**
- Real state and local government spending rose 1.2% in Q3, adding 0.5 percentage point to annualized GDP growth.
  - Spending was unchanged in the first half of the year.
- S&L government consumption rose 1.7% over the quarter.
  - Spending was up 2.2% relative to Q4 2019.
- Investment spending fell 1.0%, pulled down by a 1.1% drop in construction and a 2.9% decline in equipment purchases.
  - Total investment spending was down 3.2% relative to Q4 2019, with construction spending down 5.8%.
  - Purchases of intellectual property products moved higher and were 13.1% above the pre-pandemic level.
INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services
Billions of 2012 dollars, annualized

Source: Bureau of Economic Analysis via Haver Analytics

Net exports were a drag on Q3 growth
- Imports rose and exports fell in Q3.
  - Net exports took 1.3 percentage points off annualized GDP growth, as falling exports subtracted 0.6 percentage point from growth and higher imports subtracted 0.7 percentage point.
- Exports remained below pre-pandemic levels.
  - Foreign sales fell in Q3, pulled down by drops in exports of foods and petroleum products.
  - Services exports fell modestly from a depressed level.
- Imports were well above pre-pandemic levels.
  - Import rose despite declines in autos and consumer durable goods.
  - A jump in travel abroad pushed up service imports.

Crude Oil Prices
Dollars per barrel (WTI)

Source: Energy Information Administration via Haver Analytics

Oil prices have been relatively stable in recent months
- Oil prices (WTI) retreated from $81/barrel in October to $72/barrel in December and then back up to near $80/barrel in mid-January.
  - Prices averaged $66/barrel in Q2, $71/barrel in Q3, and $77/barrel in Q4.
- Demand for liquid fuels (crude and natural gas liquids) is projected to be flat in Q1 relative to Q4 2021, and then rise over the rest of the year.
- Global production is expected to increase 1.3% in Q1.
  - The Energy Department's forecast is that production will finally equal demand in Q1 2022, and then exceed demand for the rest of the year.
  - The forecast suggests limited upside risks to oil prices.
**Labor Market**

**Payroll Employment and Hours Worked**

- Nonfarm payroll employment rose by 199,000 in December, well below the monthly average job growth of 537,000 in 2021.
- Employment in leisure and hospitality and professional and business services continued their upward trends, with increases of 53,000 and 43,000, respectively.
  - Gains over the year in leisure and hospitality registered at 2.6 million while professional and business services recorded 885,000 employment growth over the year.
- Total nonfarm employment was down 3.6 million relative to the February 2020 level.

**Employment-population Ratio by Age**

- The employment-to-population ratio has nearly recovered to pre-pandemic levels for young and prime-age workers.
  - The employment-to-population ratio for prime-age workers (25-54) rose to 79% in December, capping off a year of steady growth.
  - The employment-to-population ratio for ages 16-24 came in at 51.5%, nearly 1 percentage point higher than six months prior.
- The employment-to-population ratio for workers 55 and over was 37.3% in December, still 2 percentage points below its pre-pandemic level.
  - This continues the trend of relatively flat employment growth for older workers over the past year.
**Labor Market**

**Unemployment Rate by Race**

The black unemployment rate increased
- The unemployment rate for the Black population increased by 0.6 percentage point to 7.1% in December while the unemployment rate for whites, Asians, and Hispanics decreased.
  - The unemployment rates for whites, Asians, and Hispanics decreased by 0.5 percentage point to 3.2%, 0.1 percentage point to 3.8%, and 0.3 percentage point to 4.9%, respectively.

- Despite having the highest peak unemployment rate during the pandemic, the rate for Hispanics has since dropped significantly below that of Blacks.
  - The difference between the Black and Hispanic unemployment rates widened to 2.2 percentage points in December.

**Average Hourly Earnings by Industry**

Average hourly earnings growth remained strong
- Average hourly earnings rose by 0.6% in December, the highest earnings growth since April.
  - Average hourly earnings were up 4.7% on a 12-month basis.
  - Average hourly earnings in leisure and hospitality were up 14% over the year.
  - Hourly earnings increases in the other major industry categories were largely within the range of 4-5%.
Core CPI Inflation increased in December

- The core CPI was up 0.6% over the month in December (6.8%, annualized), after rising 0.5% in November.
  - Monthly changes averaged 0.8% in Q2 and 0.2% in Q3, and 0.6% in Q4.
  - The monthly inflation rate for core goods rose from 0.7% to 1.1%, with high rates for used motor vehicles (3.5%), apparel (1.7%), home furnishings (1.3%) and new motor vehicles (1.0%).
  - The inflation rate for core services prices was unchanged at 0.4%, with a slight slowdown in shelter inflation.

- Core inflation over the year rose from 4.9% to 5.5%.
  - Core goods inflation increased from 9.4% to 10.7%.
  - Core services inflation rose from 3.4% to 3.7%.

Food inflation eased in December

- Prices for food consumed at home rose 0.4% in December (5.1%, annualized) and were up 6.5% over the year.
  - Monthly changes were unusually high from July through November, averaging 0.8%.
  - Inflation had been minimal from 2015 to 2019.

- The increases in food prices in 2021 were broad based.
  - The major outlier was the jump in the price index for meats, poultry, and fish, which was up 13% over the year.
  - Beef prices were up 19%, pork prices were up 15%, and poultry prices were up 10%.
  - Price pressures may be easing as the meat index was down in December relative to November.
**10-Year Treasury and Term Premium**

- **Ten-year Treasury yields moved higher**
  - The 10-year Treasury yield was at 1.78% on January 10, about 30 basis points higher than on December 10.
    - The yield was below the middle of the range observed in the period from the Global Financial Crisis until the beginning of the pandemic, but it remained about 1.25% higher relative to the lows observed in the summer of 2020.
    - Estimates from the Adrian-Crump-Moench term structure model attribute most of the rise in the 10-year Treasury yield during the past month to an increase in the term premium.

**U.S. Equity Market Index and Volatility**

- **Equity prices fell slightly**
  - U.S. equity prices fell 1% from December 10 through January 10.
    - The S&P 500 index was down 2% year-to-date on January 10 after being up 27% in 2021.
  - Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), moved lower.
    - The VIX Index was at 19.4 on January 10, above its median value of 17.8 over the period from 2000 to present.
    - The VIX Index was below its average of around 25 since March 2020 and the low 30s in early December.
**FINANCIAL MARKETS**

**Implied path for the federal funds rate shifted up**
- The expected path of the federal funds rate implied by overnight indexed swaps was higher by around 20 basis points on January 10 compared to December 10.
- The market-implied federal funds rate at the end of 2023 was around 1.60%, which equaled the median value of the FOMC’s Summary of Economic Projections (SEP) from December 2021.
- At the five-year horizon, the market-implied expectation of the federal funds rate was around 1.70%, which was below the median SEP long-run federal funds rate of 2.50%.

**Dollar Exchange Rates**

**The dollar has been stable**
- The Federal Reserve’s trade-weighted dollar index depreciated 0.4% between December 10 and January 7.
  - The dollar depreciated 0.4% against the euro and appreciated 2.0% against the Japanese yen over the corresponding period.
- The trade-weighted dollar index was roughly unchanged since the beginning of the year.