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 July 12, 2018.
- Real consumer spending was essentially flat in May.
  - Even though both durable and nondurable goods expenditures continued to grow at a solid pace, services expenditures declined.

- Business equipment spending rose moderately in 2018Q1 and has exhibited solid growth over the past four quarters.
  - New orders of capital goods (excluding aircraft) have moved slightly above shipments, suggesting some momentum over the near term.

- Housing indicators point to continued gradual improvement in this sector.
  - Tight housing supply and a strong labor market have the potential to provide continuing support to the housing sector, even with higher mortgage interest rates.

- Payroll growth remained robust in June, and was upwardly revised for both April and May. The unemployment rate ticked up, partly due to a rise in labor force participation. The employment-to-population ratio was unchanged.
  - The latest readings of various measures of labor compensation continued to point to modest firming of wage growth.

- Core PCE inflation continued to run at a level roughly consistent with the FOMC’s longer-run objective.

- Amid some notable fluctuations, U.S. equity indices were little changed over the past month, and volatility rose slightly. The nominal 10-year Treasury yield declined moderately. The broad trade-weighted dollar index increased modestly. Non-energy commodity prices generally fell.

---

**Output near its potential level**

- Real GDP in 2018Q1 was 0.2% below the Congressional Budget Office’s (CBO) measure of real potential GDP.
  - Over the four quarters through 2018Q1, the real output gap declined about one percentage point, as real GDP increased 2.8% and real potential GDP rose 1.8%.
  - The 4.0% unemployment rate in June was below many estimates of its natural rate, including that of the CBO (4.62%).

- The CBO output gap indicates little resource slack in the U.S. economy, while the unemployment gap signals tighter resource constraints.
  - However, capacity utilization rates remain below their historical averages, suggesting some remaining slack by that measure.
### Employment situation is stable

- The labor force participation rate ticked up from 62.7% in May to 62.9% in June.
- The unemployment rate rose from 3.8% in May to 4.0% in June.
  - This was the first monthly increase in the unemployment rate since August 2017.
  - The June increases in the unemployment rate and the labor force participation rate were partly due to more than 0.4 million workers moving from non-participation into the labor force.
- The employment-to-population ratio was unchanged at 60.4%.

### Inflation running near FOMC's longer-run objective

- The total PCE price index rose 0.2% in May, the same as in April. The core PCE price index (which excludes food and energy prices) increased 0.2% in May, slightly above the 0.17% rise in April.
  - Energy prices rose a strong 0.9% in May, while food prices fell 0.2%.
- The 12-month changes in the total PCE and core PCE price indices were +2.3% and +2.0%, respectively.
  - The May reading marked the third consecutive month that total PCE inflation has been at or above 2%, the first occurrence since early 2012.
  - Headline and core PCE inflation have maintained their recent higher pace and are consistent with an outlook of inflation remaining near 2 percent over the near term.
**ECONOMIC ACTIVITY**

**GDP Growth**

- Output growth revised down further in 2018Q1
  - According to the third estimate, real GDP rose at a 2.0% annual rate in 2018Q1.
    - The second and first estimates of 2018Q1 growth were +2.3% and +2.2%, respectively.
  - The lower GDP growth rate primarily reflected weaker consumer spending, inventory investment and exports that were partly offset by stronger nonresidential fixed investment.
  - Real gross domestic income (GDI), an alternative measure of economic activity, increased at a 3.6% annual rate in Q1.
    - The four-quarter change in real GDI was 2.3%, notably below the 2.8% increase for real GDP.

**Manufacturing and ISM Manufacturing Index**

- Manufacturing activity contracts in May
  - Manufacturing production fell 0.7% in May following a 0.6% increase in April.
    - Manufacturing production rose by 1.7% in May on a 12-month change basis.
  - The ISM PMI rose 1.5 percentage points to 60.2 in June.
    - The Prices Paid Index fell 2.7 percentage points in June, but remains at an elevated level of 76.8, indicating continued upward pressures in raw materials prices.
  - All regional Fed manufacturing surveys indicated continued expansion in June.
    - The Empire State and Richmond Fed surveys indicate expansion at a faster pace than in May.
**Households**

**Disposable Income and Consumption**

- Real personal consumption expenditures (PCE) remained flat overall in May, as an increase in expenditures on goods was offset by a fall in services expenditures.
  - Real durable goods expenditures and real nondurable goods expenditures both rose 0.3%, while services expenditures fell 0.2%.
  - Real disposable personal income increased 0.2%.
    - Personal dividend income rose solidly by 1.5%.
    - Employee compensation increased by 0.3%, the same as in April.
  - The saving rate increased 0.2 percentage point to 3.2 percent.

**Retail Sales: PCE Control Excluding Gasoline**

- Total retail sales increased 0.8% in May, and retail sales excluding motor vehicles and parts rose 0.9%.
  - The 12-month changes in the two categories were +5.9% and +6.3%, respectively.
  - Both increases were significantly larger than the corresponding changes in April.
- Sales of the PCE control excluding gasoline, which includes the categories used to estimate consumption in the GDP accounts, increased 0.6% in May.
  - The 12-month change in the PCE control ex-gasoline was +5.0% in May.
  - This change was above the corresponding changes in the previous 3 months.
**Business Sector**

**Equipment Investment and Capacity Utilization**

- Real business equipment investment rose at a 5.8% annual rate in 2018Q1 and 9.2% over the past 4 quarters.
  - All major categories had solidly positive 4-quarter changes, with the largest rises in information and “other” equipment.
  - The equipment spending share of nominal GDP remained below its average share in 2014–15.

- Equipment investment has risen only moderately over the past three years, as the manufacturing capacity utilization rate remains fairly low.
  - This rate was 75.3% in May, the same as in January 2012 and 3 percentage points below its longer-term average.
  - Historically, utilization rates near 75% have been associated with rather modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- Monthly data on new orders and shipments of nondefense capital goods excluding aircraft are high frequency indicators of business investment in equipment.

- Shipments of these goods increased 0.2% in May after rising 0.8% in April.
  - On a 12-month basis, shipments increased 6.3%, below the corresponding April increase of 7.7%.
  - This pace is below the strong growth of this category in the last three months of 2017.

- New orders for this category increased 0.3% in May, and remained somewhat above shipments.
**HOUSING SECTOR**

**Housing Starts**

- **Thousands, 3 MMA**

![Graph showing Housing Starts](image)

- **Total Multifamily (Left Axis)**
- **Single Family (Right Axis)**

**Source:** Census Bureau via Haver Analytics  
**Note:** Shading shows NBER recessions.

**Housing starts remain on a gradual uptrend**

- Total housing starts rose a strong 5.0% in May to 1.35 million units (seasonally-adjusted annual rate), 20% above the May 2017 level and the highest since mid-2007.

- Single-family starts rose 3.9% in May and were up 18.3% over year-ago levels. While single-family starts were up over the year in all major Census regions, the strongest increase was in the South.

- Multi-family starts, which tend to be quite volatile, were up 7.5% in May and were up 25.1% over the past year.

- The strong labor market continues to provide scope for further improvement in the housing sector.

**Single Family Housing Market**

- **12 Month % Change**

![Graph showing Single Family Housing Market](image)

- **Single Family House Price Index (Left Axis)**
- **Months’ Supply (Right Axis)**

**Source:** CoreLogic, National Association of Realtors via Haver Analytics  
**Note:** Shading shows NBER recessions.

**Home prices continue to display solid increases**

- The CoreLogic single family national home price index rose 7.1% in May from a year ago.
  - Since the last quarter of 2017, this index has been above its pre-recession high set in April 2006.
  - All states experienced year-over-year home price increases this May.

- The inventory of single family homes was 1.65 million units in May, equivalent to a 4.1 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.
GOVERNMENT SECTOR

Real Government Consumption and Gross Investment

Growth of government spending is firming

- Following relatively sluggish growth in 2016 and 2017, growth of consumption and gross investment by the government sector has firmed over the past two quarters.

- As of 2018Q1, growth of consumption and gross investment by the federal government rose to 2.0% (four-quarter percent change), the strongest since 2010Q4.
  - The pickup in growth was concentrated in the national defense category, which was up 3.6% over the four quarters ending in 2018Q1. Nondefense spending declined slightly over the same period.

- At the state and local level, consumption and gross investment was up a more modest 0.7% over the four quarters ending in 2018Q1.

State and local government spending remains weak

- Real state and local government consumption expenditures strengthened slightly in the first quarter.
  - Real consumption expenditure grew 0.9% in the four quarters ending in 2018Q1, up from 0.7% in 2017Q4.
  - The four-quarter change in consumption expenditures remained well below those recorded over 2015-2016.
  - Consumption, comprised mainly of wages and salaries, is about 80% of state and local government spending.

- Real state and local gross investment spending continued to decline.
  - Investment spending fell 0.4% in the four quarters ending in 2018Q1.
  - Real state and local government investment spending has declined over 17% in the last decade.
INTERNATIONAL DEVELOPMENTS

**Real Exports and Nonoil Imports of Goods**

- 12 Month % Change
- 12 Month % Change
- Exports
- Nonoil Imports
- Source: Census Bureau via Haver Analytics
- Note: Shading shows NBER recessions.

---

**The trade deficit drops again in May**

- The trade deficit declined to $43.1 billion in May from a barely revised $46.1 billion deficit in April. In real terms, both exports and imports grew over the month.
  - Real exports of goods increased 1.7% over the month in May. This was mainly due to increased real exports of capital goods (excluding autos) as well as foods, feeds and beverages goods, with the latter driven by a large boost in soybean exports.
  - Real nonoil imports of goods went up by 0.4% in May, owing to growing import volumes of capital goods (excluding autos). Oil import volumes declined over the month.

- Net exports had a zero contribution to GDP growth in the third estimate of 2018Q1 GDP, which is a downward revision from the net export growth contribution in the second estimate.

---

**Dollar Exchange Rate and Nonoil Import Prices**

- 12 Month % Change
- 12 Month % Change
- Nonoil Import Prices (Right Axis)
- Dollar (Left Axis)
- Source: Federal Reserve Board, Bureau of Labor Statistics via Haver Analytics
- Note: Dollar is Board's trade-weighted measure.

---

**Import price inflation holding steady**

- The import price index (excluding oil) was up 1.8% over the year in May.
  - Import price inflation has been running just under 2.0% since the beginning of the year.

- Prices for industrial supplies were up 7.6%.
  - There were substantial increases for a broad range of goods including metals, lumber, and chemicals.

- Prices for autos and consumer goods were essentially unchanged over the year.
  - There has been little inflation for either category of goods in recent years.
**LABOR MARKET**

### Payroll Employment and Aggregate Hours

- **Payroll growth remains robust in June**
  - Total nonfarm payrolls rose by 213,000 in June.
    - Private payrolls rose by 202,000 and government payrolls rose by 11,000.
    - April and May payrolls were revised upward by 16,000 and 21,000, respectively, resulting in a net gain of 37,000 jobs.
  - Aggregate hours rose by 0.16% in June.
    - Aggregate hours increased by 2.19% over the last 12 months.
    - Average weekly hours remained at 34.5 hours for the fifth consecutive month.

### Share of New Jobs Created by New Businesses

- **Share of jobs created by new businesses in decline**
  - The share of new jobs created by newly formed business establishments has declined over the last 20 years.
    - The fraction of new jobs created by new establishments has declined from 22% in 1994Q1 to 18% in 2017Q3.
    - Existing business establishments, therefore, are responsible for a greater share of gross job creation today than they were in past decades.
  - The share of new jobs created by newly formed establishments has over the past 20 years consistently been 4-5 percentage points higher in the services sector than in the goods sector.
LABOR MARKET

Median Duration of Unemployment

- The median duration of unemployment was 8.9 weeks in June, its lowest point since the end of the Great Recession.
  - In the period before the Great Recession from January 2002 to December 2007, the median duration of unemployment was 9.1 weeks on average.

- The post-recession minimum in the median duration of unemployment is accompanied by a series high in the ratio of job vacancies to unemployed.
  - According to the JOLTS survey, the ratio of vacancies to unemployed was 1.1 by the end of May, and hence there were more job openings available than there were people looking for jobs.

Growth of Average Hourly Earnings and ECI

- Average hourly earnings rose by 0.19%, from $26.93 in May to $26.98 in June.
  - The 12-month change in June was an increase of 2.74%.
  - The 12-month change in the service-producing sector was +2.85%; in the goods-producing sector, it was +2.25%.

- Average weekly earnings rose by 0.19% from $929.09 in May to $930.81 in June.
  - The 12-month change in June was an increase of 3.04%.
### CPI Inflation: Core Goods and Core Services

- **Core CPI inflation continues to trend higher**
  - The 12-month change in core CPI was 2.3% in June, up from 2.2% and 2.1% in May and April, respectively.
    - The 12-month change in June was the biggest gain since January 2017.
  - On a 12-month change basis, core CPI services inflation was 3.1% and has steadily risen from its 2.6% reading in January.
    - Hotel prices declined sharply in June, but other gauges of shelter costs continued to exhibit steady gains.
  - The decline in core CPI goods prices continued to moderate, with the 12-month change in the price index slowing to -0.2% in June from -0.3% in May.

### Mean Probabilities for Core PCE Inflation in 2018

- **Forecasters predict higher core inflation in 2018**
  - The U.S. Survey of Professional Forecasters provides density (histogram) forecasts that show the probability that inflation will fall into 10 separate ranges.
    - The 2018Q2 survey was fielded from late April through early May, with results released on May 11.
  - Compared to last quarter, survey respondents have increased the probability that core PCE inflation measured from 2017Q4 to 2018Q4 will be above 2.0%.
    - Compared to the previous survey, forecasters now see inflation in the 2.0%-2.4% range as the most likely outcome.
    - Forecasters reported a 66% chance that core PCE inflation will be at or above 2.0%, up from 48% in the previous survey.
**U.S. Equity Market Index and Volatility**

- U.S. equity markets have been broadly stable during the past month and remain below their all-time highs.
  - The S&P 500 index rose 0.5% between June 7 and July 9 and is up 7.8% from its recent low on April 2, but remains 3% below its January 26, 2018 all-time high.
  - As of July 9, the index was up 4.1% year to date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains low.
  - The VIX Index closed at 12.69 on July 9, well below its 37.32 multi-year high on February 5, but above its 2017 year-end value of 11.04.

**U.S. Bank Equities Performance**

- As measured by the KBW Nasdaq Bank Index, bank equities declined 2.4% between June 7 and July 9, but are 3.3% higher than their recent low on July 3 and 3% higher than their low on March 23.
  - As of July 9, the index was up 0.3% year-to-date.

- The XLF financial sector ETF also declined 2.7% between June 7 and July 9, but is up 3% from its recent low on July 3 and 1.7% from its low on March 23.
  - As of July 9, the index was down 2.2% year-to-date.
**US Dollar Appreciates Modestly**

- The exchange value of the dollar against a basket of global currencies increased 0.3% between June 7 and July 9.
  - Over this same period, the dollar appreciated by 0.4% against the euro, 1% against the Japanese yen, and depreciated 6% against the Mexican peso.

- Since the start of 2018, the dollar has appreciated 1.2% against a basket of global currencies.

**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 slightly up for short maturities and down for longer maturities between June 7 and July 9.

- The market-implied path remains somewhat below the median path of the FOMC’s June 2018 Summary of Economic Projections and the June 2018 NY Fed Survey of Primary Dealers at longer horizons.
**Financial Markets**

**10-Year Treasury and Term Premium**

- Longer-term Treasury yields have decreased slightly since early June.
  - The 10-year yield declined about 6 basis points between June 7 and July 9, but remains close to its highest level in the past four years.

- Estimates from the Adrian-Crump-Moench term structure model attribute the decrease exclusively to a more negative term premium, while the path for the short-term interest rate remained broadly unchanged.
  - The 10-year term premium decreased by 6.1 basis points between June 7 and July 9.
  - The estimated path for the short-term interest rate increased by 0.1 basis point in the same period.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations ("breakevens") were little changed in recent weeks.
  - The five-to-ten year breakeven inflation rate was 2.15% on July 9, little changed over the last month but up by about 20 basis points year-to-date.

- 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 13 basis points year-to-date.
**SPECIAL TOPIC: CHINESE ECONOMIC ACTIVITY AND CREDIT GROWTH**

### China: Aggregate Credit, M2 and Bank Assets

- **Aggregate Credit**
- **M2**
- **Bank Assets**

Source: PBOC, CEIC Data

Note: Aggregate credit adjusted for local government swaps.

### China tightens macroprudential policy

- Over the last year, Chinese authorities have intensified efforts to address the build-up of risks in China's financial sector, primarily by tightening macroprudential policy and strengthening regulatory oversight of the financial system.
  - The effects of these efforts have been evident in:
    - The pace of growth of aggregate credit, money supply, and bank assets all reaching historic lows;
    - Sharp deceleration in non-traditional (i.e., “shadow”) credit, intra-financial lending (i.e., bank claims on other banks and non-banks) and wealth management products;
    - Large and increasing share of new credit supported by more closely regulated traditional bank loans.

### Fixed Asset Investment and Retail Sales

- **FAI (Real)**
- **Retail Sales (Real)**
- **FAI (Nominal)**

Source: NBS via CEIC Data, author's calculations.

### Credit tightening is contributing to growth slowdown

- Tighter credit conditions appear to be having a direct impact on investment expenditure.
  - The total nominal value of fixed asset investment (FAI) slowed moderately in 2017, from 8.1% to 7.2%.
  - The monthly growth rates of both nominal and real FAI slowed more noticeably during the second half of 2017 before stabilizing somewhat this year; however, FAI growth slowed sharply in May.

- Consumer spending may also be decelerating.
  - The 12-month growth rate of real retail sales slowed from 9.2% to 7.8% between December 2016 and December 2017, respectively, and dipped further this year, to 6.8% in May.
  - Survey data have also shown a slowdown in real per-capita expenditure growth between 2017Q1 and 2018Q1.
**SPECIAL TOPIC: CHINESE ECONOMIC ACTIVITY AND CREDIT GROWTH**

### GDP growth slowdown still appears to be moderate

- Manufacturing activity has weakened only slightly.
  - The quarterly growth rate of real value-added of industry has hovered around 6.3% to 6.5% (on an annual basis) from September 2017 through May of this year, compared with a peak of about 7.5% in May 2017.
  - The manufacturing Purchasing Managers’ Index printed at 51.5 in June, lower than the 51.9 registered in May, but within the same range (between 51 and 52) that has held since 2016Q4.

- External demand has also supported growth thus far this year. The real growth rate of China's exports averaged about 7.7% (year-over-year) during the first five months of this year, somewhat higher than the 5.8% growth rate recorded in the second half of 2017.

### Managing slowing growth will be a challenge

- Continued macroprudential tightening while ensuring a sufficient flow of new credit to the real economy to avoid a sharp slowdown in economic growth will be challenging. Near-term watch points include:
  - Continued efforts to rein in shadow credit and household borrowing, which has surged in recent years;
  - Increasing number of defaults in the onshore corporate bond market, reflecting both signs of corporate distress and authorities’ push to reduce implicit guarantees.

- The policy response has been to balance a mix of macroprudential tightening with increasing banking system liquidity, lower market interest rates, and targeted fiscal easing amid increasing trade frictions with the U.S.
  - Required reserve ratios have been cut by 150 basis points since April.