U.S. Economy in a Snapshot
Research & Statistics Group
July 2019

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 11, 2019.

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• Real consumer spending rose solidly in May.
  - Real expenditures on durable goods rose strongly, while real nondurable goods expenditures fell modestly. Services expenditures rose moderately.
  - Retail sales were robust in May.

• Real business equipment spending fell modestly in 2019Q1, as investment continued to weaken from its pace in 2018.
  - New orders of nondefense capital goods excluding aircraft remained below shipments in May, and continue to suggest weak near-term momentum.

• Housing activity indicators were mixed.
  - Existing home sales rose in May, but new home sales fell. Single-family housing starts and permits remained lackluster. A still-strong labor market and lower mortgage rates potentially could provide more support to the housing sector.

• After being soft in May, payroll growth was robust in June. The unemployment rate and the labor force participation rate ticked up, while the employment-to-population ratio was unchanged.
  - Even with a low unemployment rate, some measures of labor compensation growth have flattened in the past few months.

• Core PCE inflation stabilized in May but remained below the FOMC’s longer-run objective.

• U.S. equity indices rose over the past month. Implied volatility fell modestly. The nominal 10-year Treasury yield was little changed on net. The market-implied expected policy rate path moved down modestly further. The broad trade-weighted dollar index fell moderately. Oil prices rose over the month.

**Output moderately above potential GDP estimate**

- The level of real GDP in 2019Q1 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 3.7% unemployment rate in June was below most estimates of its natural rate, including that of the CBO (4.60%).

- 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.
OVERVIEW

**Labor Market Indicators**

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- Unemployment Rate (Right 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.

**Household survey indicators remain solid**

- The unemployment rate was 3.7% in June, up 0.1 percentage point from May.
  - An alternative measure of unemployment, U6, which includes marginally attached workers and workers who hold part-time jobs for economic reasons, also rose 0.1 percentage point to 7.2% in June.
- The labor force participation rate rose to 62.9% in June.
  - The rise in the labor force participation rate may partially explain the uptick in the June unemployment number.
- The employment-to-population ratio was unchanged in June at 60.6%.

**PCE Deflator**

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- Total PCE
- Core PCE
- FOMC Objective

Source: Bureau of Economic Analysis via Haver Analytics
Note: Shading shows NBER recessions.

**Inflation remains soft**

- The total PCE price index rose 0.2% in May after rising 0.3% in April. The core PCE price index (which excludes food and energy prices) increased 0.2% in May, higher than the monthly average in the first quarter of 2019.
  - Energy prices fell 0.6% in May, and are up 0.1% relative to one year ago. Food prices rose 0.3% and are up 1.3% compared to one year ago.
- The 12-month changes in the total PCE and core PCE price indices were +1.5% and +1.6%, respectively.
  - In the first half of 2019, both total and core PCE inflation were softer than they were in 2018.
  - Headline and core PCE inflation currently lie below the FOMC’s 2 percent longer-run goal.
Real GDP growth surprises to the upside in 2019Q1

- Based on the third estimate, real GDP rose 3.1% (annual rate) in 2019Q1. The four-quarter growth rate was 3.2%, the fastest since 2015Q2.

- The underlying details suggest the economy is in transition to a slower growth rate. Growth of final sales to domestic purchasers slowed to 1.6% in 2019Q1 from a recent peak of 4.0% in 2018Q2. Growth of real personal consumption expenditures was 0.9% (annual rate), down from 3% over the second half of 2018. Growth of private fixed investment was sluggish but stronger than over the second half of last year.

- In contrast, inventory investment remained brisk in 2019Q1, contributing 0.6 percentage point to the overall growth rate. In addition, growth of real exports was robust while imports fell, resulting in a 0.9 percentage point growth contribution.

Manufacturing activity expands in May

- Manufacturing production increased 0.2% after declining 0.5% in April.
  - The 12-month change in manufacturing production was +0.7%, slightly above the negative number in April.

- The ISM manufacturing headline index decreased 0.4 percentage point to 51.7 in June.
  - The Prices paid index declined 5.3 percentage points to 47.9 in June, indicating that raw material prices fell following the increase in May.

- Regional Fed manufacturing surveys generally indicated sluggish activity in June.
  - The Dallas and Richmond Fed manufacturing surveys indicated modest growth, while the Philadelphia Fed, Kansas City Fed and Empire State surveys saw sharp declines in their headline indices.
Real PCE growth steady in May

- Real PCE rose 0.2% in May, after a (upwardly revised) increase of 0.2% in April.
  - Durable goods expenditure increased a strong 1.6%, while spending on nondurables declined 0.2%. Real service expenditure increased 0.2%.

- Real disposable income increased 0.3% in May, after rising 0.1% in April.
  - Employee compensation increased 0.2 percent in May, somewhat slower than in the previous months, while there was a sizeable increase in personal interest income.

- The personal saving rate was 6.1%.
  - The May saving rate was in the lower part of the range that has prevailed over the past 5 years.

Despite a fall in June, consumer confidence still high

- Both major consumer confidence measures declined in June.
  - The Conference Board measure fell more sharply and was at its lowest level of this year.
  - The Michigan measure had only a modest decline, and was above the levels of the first two months of the year.

- For both of the headline indices, the major contributor to the declines was the expectations component.
  - In contrast, the current conditions index in the Michigan survey rose slightly, while the present situation index in the Conference Board survey fell moderately.
  - Perceptions of job availability in the Conference Board survey deteriorated some, but remained quite positive.

- Even with the June declines, consumer confidence measures are still relatively high.
  - The Conference Board index was near its 2017 average, and the Michigan index was near its 2018 average.
**Equipment Investment and Capacity Utilization**

- **4-Quarter % Change**
- **% of Capacity**

- **1980**
- **1984**
- **1986**
- **1989**
- **1992**
- **1993**
- **1994**
- **1998**
- **2004**
- **2009**
- **2010**
- **2016**

- **Manufacturing Capacity Utilization Rate** (Right Axis)
- **Real Business Investment in New Equipment** (Left Axis)

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

Note: Shading shows NBER recessions.

**Equipment spending falls in 2019Q1**

- Real business equipment investment fell at a 1.0% annual rate in 2019Q1. Over the last 4 quarters, equipment spending rose 3.4%, the slowest in the last 2 years.
  - In 2019Q1, spending rose for transportation equipment, was flat for information equipment, and declined for other equipment and industrial equipment.
  - The equipment spending share of nominal GDP remained below its average share in 2013–15.

- Recent soft equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
  - This rate was 75.7% in May, 2.6 percentage points below its long-run average.
  - Historically, utilization rates near the May level are associated with modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- **Bil. $, 3 MMA**

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

**Capital goods orders remain subdued in May**

- Shipments of nondefense capital goods excluding aircraft rose 0.7% in May.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.

- New orders of nondefense capital goods excluding aircraft rose 0.4% in May.

- Except for March, new orders of nondefense capital goods excluding aircraft have been below shipments since December, suggesting weak near-term momentum in equipment spending.
### HOUSING SECTOR

#### Housing Starts
- **New Single Family Sales** (Left Axis)
- **Total Multifamily** (Left Axis)
- **Single Family** (Right Axis)

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

#### Housing starts decline modestly in May
- Total housing starts fell by a modest 0.9% in May to 1,269 million units at a seasonally-adjusted annual rate (SAAR). The 12-month change was -4.7%.
- Single-family housing starts fell by 6.4% in May to 820,000 units. Over the 12 months ending in May single-family starts were down 12.5%. Single-family permits increased 3.1% in May to 810,000 units, which is below the May level.
  - Sales of both new and existing single-family homes have rebounded in recent months due to the substantial decline of mortgage interest rates. But thus far we have not seen a rebound of single-family starts.
- Multi-family starts rose 10.9% in May to 449,000 units, following a 10.7% increase in June. Multi-family permits fell 3% in April but remained at the relatively high level of 489,000.

#### New and Existing Home Sales
- **New and Existing Home Sales**
- **Existing Single Family Sales** (Right Axis)
- **New Single Family Sales** (Left Axis)

- **Source:** Census and National Association of Realtors via Haver Analytics
- **Note:** Shading shows NBER recessions.

#### Home sales on an overall uptrend in recent months
- Single-family existing home sales increased 2.6% in May to 4.75 million units (seasonally adjusted annual rate).
  - Single-family existing home sales are 0.8% below a year ago, but have surpassed early 2000s prevailing levels.
- Single-family new home sales decreased 7.8% (SAAR) in May to 626,000 units.
  - Relative to a year ago, sales are down 3.7%, the first negative reading this year.
  - Following a robust increase in the first quarter, the pace of new home sales has slowed modestly thus far in 2019Q2, yet the level remains above that in the second half of 2018.
- Favorable labor market conditions and a substantial decline in mortgage interest rates are important factors in the increase of existing home sales, although they have not yet showed an effect on new home sales.
GOVERNMENT SECTOR

**Real Government Consumption and Gross Investment**

- **Partial gov’t shutdown slows federal spending growth**
  - After increasing at a progressively faster pace over the year ending in 2018Q3, the four-quarter percentage change of real federal spending slowed to 2.7% in 2018Q4 and to 2.0% in 2019Q1. The slowing occurred in the nondefense category.
  - Federal spending is expected to rebound in 2019Q2 as postponed spending takes place.
  - As of 2017Q3, the 4-quarter growth rate of real consumption and gross investment at the state and local level was -0.9%. Since then, growth of real spending at the state and local level has gained strength, reaching 1.8% in 2019Q1, the fastest pace of growth since 2016Q2. This ramping up of growth has been concentrated in the structures investment category, which includes infrastructure spending. This type of spending looks to be growing very rapidly again in 2019Q2.

**Real State & Local Consumption & Gross Investment**

- **State and local sector rebounds**
  - State and local government consumption and gross investment spending growth rebounded in 2019Q1, after slowing in 2018Q4.
  - The growth slowdown and rebound were both driven by gross investment.
    - The 4-quarter growth rate of gross investment rose from 1.9% in 2018Q4 to 6.7% in 2019Q1.
    - The 4-quarter growth rate of gross investment has now been positive for 5 consecutive quarters, which has not happened since 2015-16.
  - Consumption spending 4-quarter growth ticked up to 0.71%.
    - State and local consumption grew 0.63% in 2018Q4.
    - State and local consumption consists largely of employee salaries and makes up about 80% of the sector’s spending.
INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods

- The trade deficit increased significantly to $55.5 billion in May from $51.2 billion in April. In real terms, both exports and imports were up by a lot over the month.
  - Real goods exports grew 3.1% over the month in May. This increase was mainly due to higher real exports of agricultural and capital goods (excluding autos). Oil goods exports contracted in real terms.
  - Real nonoil goods imports were up by 3.7% in May on the back of higher real imports of autos as well as capital and consumer goods. Oil goods import volumes jumped up over the month.

- Net exports added 0.94 percentage point to GDP growth according to the third estimate of 2019Q1, 9 and 2 basis points lower than in the first and second estimates, respectively.

Dollar Exchange Rate and Nonoil Import Prices

- Import prices for autos and consumer goods are largely unchanged.
  - Note that import price data do not include tariffs.
  - Prices for goods from China are down 1% over the year.
  - Chinese exporters are not lowering prices to offset tariffs.

- Exceptions include lumber with prices down 30%.
  - The metals index is down 5%.
  - Commodity prices tend to fall when the dollar appreciates.

- Capital goods excluding computers are unchanged.
  - The price index for computers and related equipment is down 5% after being flat in 2017 and 2018.
Payroll Employment and Aggregate Hours

- Nonfarm payroll employment increased 224,000 in June, above the Bloomberg median forecast of +160,000.
  - The three-month moving average of payroll employment gains remained solid at 171,000, moderately below the 2018 average monthly gain of 223,000.
- Payroll employment was revised down slightly for May (from +75,000 to +72,000) and for April (from +224,000 to +216,000).
  - Revised figures result in net downward revision of 11,000.
- Private payroll employment rose by 191,000 in June, while government payroll employment increased by 33,000.

JOLTS – Quits Rate

- The quits rate, which is an indication of workers’ ability and willingness to change jobs, remained constant at 2.3% in May.
  - The quits rate has remained at 2.3% since July 2018.
- The job openings rate – representing the number of job openings relative to the sum of employment and job openings – declined to 4.6% in May from 4.7% one month prior.
  - The total number of job openings dipped slightly to 7.3 million in May from 7.4 million in the previous month.
LABOR MARKET

Multiple Jobholders as Percentage of Employed

Percent, 3MMA

Percent, 3MMA


Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.

Percent with multiple jobs hovers around 5 percent

- The three-month moving average of the percentage of workers who hold multiple jobs was 5.1% in June.
  - The series is well below its pre-recession high of 5.5% attained in October 2004.

- The fraction of the employed who hold multiple jobs has remained at or just below 5% since 2010.
  - The series attained a post-recession low of 4.7% in January 2014.

- In June, 4.5% of men reported holding multiple jobs compared to 5.5% of women, (down from 4.6% and 5.6% in May, respectively).
  - This number has been higher for women by 0.5 to 1 percentage point in every year since 2000.

Growth of Average Hourly Earnings and ECI

12-Month Percent Change

12-Month Percent Change


Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.

June earnings growth slightly below recent trends

- Average hourly earnings for all employees rose 0.22% in June – below the Bloomberg median forecast of 0.3%.
  - The 12-month change in the average hourly earnings was 3.14%, only slightly below the first quarter average of 3.27%.

- Average weekly earnings for all employees increased by 0.22% over the month and by 3.1% on an annual basis.

- For production and non-supervisory employees, average hourly earnings rose 3.35% over the last 12 months.
INFLATION

CPI Inflation: Core Goods and Core Services

- **Core CPI inflation picks up in June**
  - After four consecutive soft readings, the June increase in core CPI was above the median of private forecasts.
  - Core CPI rose 0.3% in June, the largest increase since January 2018. The 12-month change in core CPI was 2.1%: It has fluctuated between 2.0% and 2.1% since February.
  - After falling in the previous four months, core goods prices rose in June. Core service prices, including shelter, rose at a rate similar to that of recent months.
    - Core goods prices increased 0.4% in June after decreasing 0.1% in May. The 12-month change in core goods prices in June was +0.2%, after being negative in April and May.
    - Core services prices rose 0.3% in June, compared to a 0.2% increase in May. The 12-month change in this index was +2.8%, up from 2.7% in May: It has fluctuated between 2.7% and 2.8% since January.

3-Year Ahead Inflation Expectations

- **Consumers’ inflation expectations tick up in June**
  - The Federal Reserve Bank of New York’s Center for Microeconomic Data released the June 2019 Survey of Consumer Expectations, which shows an increase in median inflation expectations at both the one- and three-year horizons.
    - Median inflation expectations increased by 0.2 percentage point at the one-year horizon and by 0.1 percentage point at the three-year horizon, with both reaching 2.7% in June, after declining for two consecutive months.
  - Median inflation uncertainty—or the uncertainty expressed regarding future inflation outcomes—increased at the one-year horizon.
  - Median home price change expectations were stable at 3.0% in June, the seventh consecutive reading at this level.
U.S. Equity Market Index and Volatility

- U.S. equity markets increased during the last month.
  - The S&P 500 index gained 3.1% between June 10, 2019 and July 8.
  - Since the start of 2019, the S&P 500 index increased about 19%.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), declined.
  - The VIX Index closed at 13.96 on July 8, 2019, almost 2 points below its close on June 10, 2019.

USD Exchange Rates

- The exchange value of the dollar against a basket of global currencies remained practically flat, registering 0.14% increase between June 10 and July 8.
  - Over this same period the dollar depreciated by 1.55% against the Mexican peso, but appreciated by 0.86% against the euro and by 0.25% against the Japanese yen.
- Since the start of 2019, the dollar has appreciated less than 0.1% against a basket of global currencies.
**FINANCIAL MARKETS**

**U.S. Bank Equities Performance**

![Graph showing the performance of bank equities compared to the S&P 500 with SP500 Index, KBW Index, and XLF ETF.]

- **Bank stocks gain value, but less than the S&P500**
  - As measured by the KBW Nasdaq bank index, bank equities increased 2.4% between June 10 and July 8, 2019.
    - The index increased by 0.7 percentage point less than the S&P 500.
    - As of July 8, the index is up 12.9% year-to-date.
  - The XLF financial sector ETF increased 2.4% between June 10 and July 8, 2019.
    - Since the start of the year, the XLF ETF has gained 16.7% in value.

**Expected Federal Funds Rate**

![Graph showing the expected federal funds rate with maturity years ranging from 1 to 5 years.]

- **Implied path for fed funds rate long-end shifts down**
  - The expected path of the federal funds rate implied by rates on overnight index swaps (OIS) moved down for shorter and longer maturities over the period from June 10 to July 8, 2019.
    - The expected federal funds rate decreased more than 10 basis points at the 6-month horizon, and more than 30 basis points at the five-year horizon.
  - The market-implied path remains well below the median path of the FOMC’s June 2019 Summary of Economic Projections and the June 2019 NY Fed Survey of Primary Dealers at longer horizons.
**10-Year Treasury and Term Premium**

- Longer-term Treasury yields decreased, continuing the down trend since the end of 2018.
  - The 10-year yield decreased 12 basis points between June 10 and July 8, 2019.

- Estimates from the Adrian-Crump-Moench term structure model attribute the decline 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 8 basis points between June 10 and July 8, 2019, reaching another new all-time low at 87 basis points.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) changed little in recent weeks.
  - The five-to-ten year breakeven inflation rate decreased by 2 basis points between June 10 and July 3, 2019.
  - Year-to-date, breakeven inflation decreased by 8 basis points.

- 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 decreased by 7 basis points year-to-date.
SPECIAL TOPIC: REGIONAL EMPLOYMENT

Job growth slows in much of the NY-NNJ region

- Job growth in New York City remains strong, but has been somewhat slower in the broader downstate area.
- Job growth remains sluggish in upstate New York, northern New Jersey, and Fairfield County.
- Employment remains flat in Fairfield County.

Labor markets exceptionally tight

- Unemployment rates are well below their historical averages across the District.
- Tight labor markets are making it difficult for some employers to find workers with the skills they need.
- The lack of available workers is contributing to the region’s slow job growth.

**2nd District Employment Trends**

Index, Nov. 2007 = 100


**Long-Run and Current Unemployment Rates**

SPECIAL TOPIC: REGIONAL EMPLOYMENT

Puerto Rico and USVI Private-Sector Employment

Puerto Rico recovering as US Virgin Islands struggles

- Private-sector employment in Puerto Rico has edged down in recent months but remains near its 3-year high.
  - Resilience in private-sector employment has been offset by ongoing shrinkage in government, leaving overall employment just shy of its pre-hurricane level.

- By contrast, private-sector employment in the US Virgin Islands remains well below pre-hurricane levels, weighed down mainly by its key tourism sector.