U.S. Economy in a Snapshot
Research & Statistics Group
July 2020

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 14, 2020.
Consumer spending rebounded in May.
- Real spending on goods (especially durables) grew more quickly than that on services.
- Nominal personal income fell as the payments authorized under the CARES Act of 2020 declined in the month.
- Consumer confidence rose in June but remains below pre-pandemic levels.

Real business equipment spending declined sharply in 2020Q1, its largest fall since 2009Q1.
- New orders and shipments of nondefense capital goods excluding aircraft partially rebounded in May.

Housing activity rebounded only moderately in May.
- Single-family housing starts as well as new home sales rose, reflecting the easing of shutdowns stemming from the COVID-19 pandemic over the month.

Payroll employment rebounded further in June. The unemployment rate continued to fall, mainly due to a decline in temporary layoffs. Meanwhile, the labor force participation rate and the employment-to-population ratio both increased.
- The number of permanent job losers continued to rise.

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

U.S. equity indices declined slightly over the last month. Implied volatility remained elevated. The nominal 10-year Treasury yield fell moderately and remained near all-time lows. The market-implied expected policy rate path declined at horizons beyond 1 year. The broad trade-weighted dollar index was roughly unchanged. Oil prices recovered some.

Output falls below potential in 2020Q1
- The level of real GDP in 2020Q1 was about 0.7% below 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%.
  - Real GDP likely will fall further below real potential GDP in the second quarter because of the impact of COVID-19.
  - The 11.1% unemployment rate in June was well above the CBO’s estimate of its longer-run natural rate (4.39%).
  - This month, the CBO revised its estimates and projections of potential GDP. Current potential GDP was revised downward, as was projected potential growth over the next few years.
- There appears to be considerable resource slack in the U.S. economy.
  - Capacity utilization rates continue to be at very low levels.
OVERVIEW

**Labor Market Indicators**

- The unemployment rate decreased from 13.3% in May to 11.1% in June.
- Nonfarm payrolls rose by 4.8 million in June.
  - Employment in goods-producing industries saw an increase of 504,000, driven by increases in manufacturing (+356,000) and construction (+158,000).
  - Employment in private service-providing industries increased by 4.3 million, with large increases in leisure and hospitality (+2,088,000), retail trade (+740,000), and education and health services (+568,000).
- The employment-to-population ratio increased from 52.8% in May to 54.6% in June.

**PCE Deflator**

- The total PCE price index rose 0.1% in May, after declining 0.5% in April. The core PCE price index (which excludes food and energy prices) rose 0.1% in May, after falling 0.4% in April.
  - Energy prices fell 1.7% in May, and are down 18.5% relative to one year ago. Food prices rose 0.8% and are up 4.5% compared to one year ago.
- The 12-month changes in the total and the core PCE price indices both were unchanged at +0.5% and +1.0%, respectively.
  - Core PCE inflation remains appreciably below the FOMC's 2 percent longer-run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change – Annual Rate</th>
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<tbody>
<tr>
<td>2000</td>
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<tr>
<td>2002</td>
<td>8</td>
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<td>2014</td>
<td>-4</td>
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<tr>
<td>2016</td>
<td>-6</td>
</tr>
<tr>
<td>2018</td>
<td>-8</td>
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Source: Bureau of Economic Analysis via Haver Analytics

**Real GDP in 2020Q1 little revised in 3rd estimate**

- In the BEA’s third estimate, real GDP growth was -5.0% (annual rate) in 2020Q1, the same as the second estimate. The 4-quarter change was +0.3%.
- Downward revisions to inventory investment, consumer services spending, and exports offset upward revisions to nonresidential fixed investment and government spending.
- Real personal consumption expenditures fell at a 6.8% annual rate in Q1, its largest decline since 1980Q2.
- On the income side, corporate profits fell 12.3% (quarterly rate) in 2020Q1, a smaller decline than in the previous estimate, but still their most severe fall since 2008Q4.
- Real gross domestic income fell 4.4% (annual rate) in 2020Q1. Its 4-quarter change was +0.2%.

**Manufacturing and ISM Manufacturing Index**

**Manufacturing activity shows mild improvement**

- Manufacturing production increased 3.8% in May, after plummeting 15.5% in April.
  - The 12-month change in manufacturing production was -16.5%.
- The ISM PMI rose 9.5 percentage points in June to 52.6.
  - New Orders and Production rose 24.6 and 24.1 percentage points to 56.4 and 57.3 respectively.
- The headline index in all five Regional Fed surveys increased in June.
  - 3 of the 5 indices entered positive territory for the first time since the pandemic began, suggesting an improvement in manufacturing conditions.
### Disposable Income and Consumption

- **Nominal personal consumption expenditures (PCE) rebounded 8.2% in May, leaving them 11.7% below their peak in February.**
  - Goods consumption expenditures rose 14.1%, with durable and nondurable goods up 28.6% and 7.7% respectively; expenditures on services only recovered 5.4%.
- **Nominal personal income fell 4.2% in May, with the Economic Impact Payments declining $2 trillion, but unemployment insurance surging $625 billion (both numbers are at an annual rate).**
- The personal saving rate declined from 32.2% to a still very high 23.2%, leaving households in a reasonably good position to fuel a further rebound in consumption, if and when the Coronavirus risk recedes.

### Consumer Confidence

- **Consumer Confidence Indices increased in June.**
  - The Conference Board Index increased from 85.9 to 98.1 in June.
  - The Michigan Index of Consumer Sentiment increased from 72.3 to 78.1 in June.
- The increase in the Conference Board Index was driven by a large increase in current situation assessment.
  - The Present Situation Index increased for the first time since February. The increase was large, from 68.4 to 86.2.
  - The Expectations Index kept moderately improving, from 97.6 to 106.0.
- Consumer confidence remained far below pre-COVID-19 levels.
  - The Conference Board and Michigan indices were at 132.6 and 101, respectively, in February.
**Equipment Investment and Capacity Utilization**

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

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

**Note:** Shading shows NBER recessions.

**Equipment spending falls sharply in 2020Q1**

- Real business equipment investment declined 16.6% (annual rate) in 2020Q1, its largest fall since 2009Q1. It has fallen for three straight quarters. The 4-quarter change was -6.2%.
  - In 2020Q1, spending declined significantly for all major categories of equipment. The most severe fall occurred for transportation equipment.

- Weak equipment investment over recent quarters has occurred against a backdrop of low levels of the manufacturing capacity utilization rate.
  - This rate was 62.2% in May, below prior recession troughs and about 16 percentage points below its long-run average.
  - Historically, low utilization rates have been associated with weak equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

**Bil. $, 3 MMA**

Source: Census Bureau via Haver Analytics

**Note:** Shading shows NBER recessions.

**Capital goods shipments rebound slightly in May**

- Shipments of nondefense capital goods excluding aircraft rose 1.5% in May after falling 6.4% in April. The April-May average of these shipments was 6.8% below the average in 2020Q1.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.

- New orders of nondefense capital goods excluding aircraft rose 1.6% in May after falling 6.6% in April.

- New orders for these goods were roughly equal to shipments in May.
HOUSING SECTOR

**Housing Starts**

- Total housing starts rose by 4.3% in May to 974,000 units (annual rate). Housing starts fell 23.2% over the 12 months through May.
- Single-family starts rose a slight 0.1% in May. The 12-month change was -17.8%.
  - The May level of single-family starts was similar to those seen during 2014.
- Multi-family starts increased 15.0% in May. The 12-month change was -33.1%.
  - The May level of multi-family starts was similar to those seen during mid-2013.
- Single-family permits increased 11.9% in May, while multi-family permits rose 18.8%.

**New and Existing Home Sales**

**Existing home sales fall, new home sales rise in May**

- Single-family existing home sales decreased 9.4% in May to 3.57 million units (seasonally adjusted annual rate).
  - Single-family existing home sales are now 24.8% below a year ago.
- Single-family new home sales increased 16.6% (SAAR) in May to 676,000.
  - Relative to one year ago, new home sales are up 12.7%.
- Existing home sales declined but new home sales increased. While the adverse economic effects of the pandemic are far from over, the recent easing of shutdowns and low mortgage rates will likely act as positive forces in the housing market.
### GOVERNMENT SECTOR

**Real Government Consumption and Gross Investment**

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

- **Growth of real government spending slows**
  - Real government consumption and gross investment grew 2.5% over the four quarters ending in 2020Q1, down from 3.0% the prior quarter.
    - Increased real government spending contributed 0.44 percentage point over the four quarters ending in 2020Q1, down almost a tenth from 2019Q4.
  - Real Federal spending was up 4.2% in 2020Q1, down slightly from the prior quarter.
    - Growth in nondefense spending rose to a multi-year high of 6.4%, while growth in defense spending slowed to 2.8%.
  - Growth in real spending by state and local governments slowed to 1.5% for the four quarters ending in 2020Q1.

**State and local sector declines moderately**

- Over the four quarters ending in 2020Q1, growth of real consumption at the state and local level slowed mildly to about 0.64% 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 declined moderately to about 5.36% over the four quarters ending in Q1.
    - 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

- **Fall in exports drives increase in trade deficit**
  - The trade deficit was $54.6 billion in May, up 4.8 billion from a revised $49.8 billion in April.
  - Real exports of goods fell 5.9% over the month.
    - This change reflected a large decline in oil exports, along with industrial supplies and capital goods.
  - Real imports of goods declined by only 0.4% in May.
    - While there was a rise of industrial supplies and consumer goods, falls in imports of other goods, such as autos, offset these changes.

#### Global Manufacturing and Services PMIs

- **Global PMI surveys surge on economic re-openings**
  - Global PMI surveys surged in June, on the partial return to normal economic activities in many countries after COVID-19 shutdowns.
    - The global manufacturing PMI rose 5.4 points to 47.8.
    - The global services PMI rose 12.9 points to 48.0.
  - While these are the largest monthly increases on record, they leave the indices below 50, and would normally be consistent with continued contraction.
  - There is now good evidence, however, that PMIs are providing a misleading signal given current unusual conditions.
    - Global PMI readings registered even farther below 50 in May.
    - Hard data for May for most major economies point to strong growth in the month.
Labor Market

Payroll Employment and Aggregate Hours

- Payroll employment growth exceeds expectations
  - Nonfarm payrolls expanded by 4.8 million in June, significantly ahead of the Bloomberg median forecast of a 3.2 million increase.
  - Private payroll employment rose by 4.8 million, primarily due to an increase of 4.3 million in service-providing industries.
    - Employment rose sharply in leisure and hospitality (+2.1 million), reflecting a resumption of activity in this sector.
    - Combined gains of May and June of 3.5 million are still short of making up for the total job losses of 8.3 million experienced in leisure and hospitality in March and April.
  - Aggregate weekly hours worked by all private employees were up 3.6% in June.

Initial UI claims continue to decrease

- Seasonally adjusted (SA) initial claims for the week ending July 4th totaled 1,314,000.
  - This represented a decline of 99,000 relative to the previous week’s revised level of 1,413,000.
- The total number of NSA claims for the week ending July 4th was 1,399,699, a decline of 31,644 relative to one week prior, and 85,699 above the seasonally adjusted figure.
  - Non-seasonally adjusted (NSA) figures are reported because the seasonal adjustment can lead to an inflation of claims, though in the past two weeks the NSA numbers were higher than the SA ones.
LABOR MARKET

JOLTS Job Openings Rate vs. Hires Rate

Job hires increase while job openings remain muted

- The Job Openings and Labor Turnover Survey reports data on job openings, hires, and separations on a two-month lag.
- The July release for May’s data shows a historic high in both hires and the hires rate (4.9%), while the rebound in the job openings rate was little changed at 3.9%.
  - This dynamic can be explained by the historically large number of people who were unemployed on temporary layoffs and then rehired.
- The proportion of job losers on temporary layoffs decreased from 83.9% in May to 74.0% in June.

Growth of Average Hourly Earnings and ECI

Average hourly earnings fall further in June

- Average hourly earnings declined by 1.2% from $29.72 in May to $29.37 in June.
  - The monthly decline largely reflected recent job gains in industries with on average lower pay, such as leisure and hospitality and retail trade.
  - On a 12-month basis, average hourly earnings have increased by 5.0%.
- Average weekly earnings fell by 1.75% over the month, from $1,031.28 in May to $1,013.27 in June.
  - Average weekly earnings increased by 5.4% over a 12-month period.
### CPI Inflation: Core Goods and Core Services

- **Core CPI rises after consecutive declines**
  - Core CPI increased 0.2% in June after falling for the previous three months.
    - The prices of goods and services that had fallen dramatically since the onset of the pandemic, such as apparel, transportation, and lodging away from home, rebounded somewhat.
    - The 12-month change in the core index was 1.2%.
  - Core services prices rose 0.3% in June after being flat in May.
    - The 12-month change in this index was 1.9%, down from a 2.0% increase in May and a 3.1% increase four months ago.
  - Core goods prices rose 0.2% in June, and were down 1.1% over the past 12 months.

### 3-Year Ahead Inflation Expectations

- **Inflation expectations and uncertainty decrease**
  - Inflation expectations declined at both the one and three-year horizons.
    - Median one-year ahead inflation expectations declined from 3.0% in May to 2.7% in June, and decreased at the three-year horizon to 2.6% in May to 2.5% in June.
  - Median inflation uncertainty declined.
    - Median inflation uncertainty—or the uncertainty expressed regarding future inflation outcomes—decreased at both horizons but remains elevated relative to pre-COVID-19 readings.
  - Disagreement among respondents about the future path of inflation also declined, but remains above pre-COVID-19 levels.
**FINANCIAL MARKETS**

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

- U.S. equity markets have been broadly stable during the past month, yet remain below their all-time highs.
  - The S&P 500 index decreased 0.7% between June 7 and July 8. It is up 41.6% from its recent low on March 23, but remains 6.3% below its February 19, 2020 all-time high.
  - As of July 9, the index was down 2.7% year to date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains elevated.
  - The VIX Index closed at 28.08 on July 8, well below its 82.69 record high on March 16, 2020, but still well above its 2019 year-end value of 13.78.

**USD Exchange Rates**

- The exchange value of the dollar against a basket of global currencies decreased 0.1% between June 5 and July 8.
  - Over this same period the dollar depreciated by 0.3% against the euro, 2.1% against the Japanese yen, but appreciated 5% against the Mexican peso.

- Since the start of 2020, the dollar has appreciated 2.0% against a basket of global currencies.
**FINANCIAL MARKETS**

**US Bank Equities Performance**

- As measured by the KBW Nasdaq bank index, bank equities decreased 17.5% between June 5 and July 8, but are still 28.4% higher than their recent low on March 23.
  - As of July 8, the index was down 36.3% year-to-date.
- The XLF financial sector ETF also declined 11.7% between June 5 and July 8, but is up 31.2% from its low on March 23.
  - As of July 8, the index was down 24.7% year-to-date.
- As measured by the S&P 500 Index, the broader market declined only 0.7% over the past month.

**Expected Federal Funds Rate**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) was unchanged for short maturities but moderately decreased for longer maturities between June 5 and July 8.
- The market-implied path is slightly below the median path of the FOMC’s Summary of Economic Projections from June 2020 and the NY Fed’s Survey of Primary Dealers from June 2020.
**10-Year Treasury and Term Premium**

- Longer-term Treasury yields have decreased slightly since June.
  - The 10-year yield decreased about 15 basis points between June 5 and July 8.
  - The 10-year yield is 135 basis points lower than its level at the end of 2019.

- Estimates from the Adrian-Crump-Moench term structure indicate that the term premium also decreased.
  - The 10-year term premium decreased by 10 basis points between June 5 and July 8 as a five-day moving average.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) decreased slightly in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.34% on July 8 decreasing by about 10 basis points over the past month as a five-day moving average.

- According to the Abrahams-Adrian-Crump-Moench model, the inflation risk premium has declined as well.
  - The estimated five-to-ten year inflation risk premium has decreased 15 basis points as a five-day moving average.
SPECIAL TOPIC: REGIONAL ACTIVITY

Early signs of recovery in regional business surveys
- The regional economy has started to show some signs of improvement after three months of unprecedented decline due to the coronavirus pandemic.
- The headline index in the Empire State Manufacturing Survey increased from near zero to 17.2, consistent with moderate growth in manufacturing activity.
- The headline index in the Business Leaders Survey covering the broader service sector climbed 38 points to just below zero, reflecting a rebound in activity in retail and wholesale trade, but flat to modestly declining activity in other service sectors.

Severe job loss in the NY-Northern NJ region
- Pandemic-related job loss has been more severe in the New York-Northern New Jersey region than in the nation as a whole, particularly in and around New York City.
- By contrast, while still substantial, job losses have been a bit less steep than the US average in Puerto Rico and the US Virgin Islands, which have seen less spread of the virus.
- As non-essential businesses have reopened, many firms have started to recall workers that were furloughed or temporarily laid off and some have even hired new workers. However, even with this recent rebound, employment remains well below pre-pandemic levels in all parts of the Second District.
**SPECIAL TOPIC: REGIONAL ACTIVITY**

**Trends After Major Natural Disasters and Recessions**

- **Puerto Rico Hurricane Maria**
- **U.S. 2001 Recession**
- **PR 2020 COVID-19**
- **U.S. 2007-2009 Recession**
- **NYC 2020 COVID-19**
- **New Orleans Hurricane Katrina**

*Index (Start of Recession or Disaster = 100)*

- The magnitude and suddenness of the recent economic decline and job loss make the pandemic much more comparable to a major natural disaster than a typical recession.
- New York City has sustained the steepest percentage job losses, while Puerto Rico’s decline has been close to the nation’s.
- Thus far, the effects on job loss seem comparable to, if a bit less severe than, Hurricane Katrina’s effects on metro New Orleans in 2005-06. However, New Orleans’s subsequent recovery was hampered by a huge out-migration.

**FRBNY Regional Business Surveys Future Conditions**

- **Empire State Manufacturing Survey**
- **Business Leaders Survey**

*Diffusion Index*


Note: Shading shows NBER recessions.

- Businesses expect economic conditions to improve
  - Looking ahead, on balance, businesses in the region remain optimistic and expect conditions to continue to improve, though from very low levels and less so than last month.
  - After reaching a multi-year high in June, the future activity index for manufacturers fell 18 points to 38.4. Similarly, the index for future service sector activity dropped 18 points to 7.1.