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 8, 2021.
Activity data over the month suggest an ongoing recovery and upward pressure on prices.

- Output in Q1 rose to near its year-ago level.
  - Consumption was the biggest contributor to growth, while exports and investment spending on structures underperformed.

- Personal income fell again in May because of a decline in government transfer payments.
  - Compensation and proprietors’ income data were strong.
  - Saving as a percent of personal income fell from 21% in Q1 to a still elevated 13% in the first two months of Q2.

- Housing starts were down in May relative to the March peak, but in line with pre-pandemic levels.

- Payroll employment growth increased in June, while the unemployment rate moved up slightly.

- Core PCE inflation over the year rose to 3.4% in May, with the annualized change since February 2020 at 2.4%.

- The 10-year Treasury yield declined through July 2 to around 1.50%, near the low end of the range observed in the last decade. The S&P 500 stock index was up 15% year-to-date. The marked-implied federal funds rate path shifted up between June 11 and July 2.

**Output moved closer to its pre-pandemic level in Q1**

- Even after rapid growth in the past three quarters, Q1 GDP was 0.9% below its Q4 2019 peak.
  - The median estimate for the longer-run GDP growth rate was 1.8% in the June Summary of Economic Projections (SEP).
  - The March Blue Chip survey had forecasted average annual growth over the 2023-27 period at 2.1%.
  - The Q1 GDP level is about 3% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.

- Labor market data suggest there still is significant slack in the economy.
  - The 5.9% unemployment rate in June was above the long-run forecasts of near 4.0% in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.
The labor market recovery picked up in June

- Nonfarm payroll employment increased by 850,000 in June.
  - Payrolls in private service-providing industries rose by 642,000, with notable gains in leisure and hospitality (343,000), education and health services (59,000), professional and business services (72,000), retail trade (67,100), and other services (56,900).
  - Employment in goods-producing industries changed little.

- The unemployment rate edged up from 5.8% to 5.9%.

- The labor force participation rate and employment-to-population ratio remained unchanged at 61.6% and 58.0%, respectively.

Inflation rose in May

- The PCE price index was up 3.9% over the year in May, an increase from 3.6% in March.
  - Durable goods inflation rose from 5.7% to 6.7%.
  - Energy inflation accelerated from 24.8% to 27.4%.
  - Food inflation dropped from 0.9% to 0.4%.

- Core inflation rose from 3.1% to 3.4%.
  - The indices for used cars (42%) and car rentals (115%) were up sharply, while a recovery in airfares and hotel rates stalled.

- Year-over-year calculations are distorted by the pandemic.
  - Overall inflation relative to February 2020 increased from 2.4% to 2.6%, annualized.
  - Core inflation rose from 2.2% to 2.4%.
Robust GDP growth continued in Q1

- GDP rose at a 6.4% annual rate in Q1, after rising at a 4.3% rate in Q4. The four-quarter change was 0.4%, the highest since Q4 2019.
  - Real consumer spending rose at a 11.4% rate.
- Consumption, business spending on equipment and intellectual property products, residential investment, and federal government spending contributed to GDP growth.
  - Business spending on structures, inventory investment, and net exports were drags on growth.
- Real gross domestic income rose at a 7.6% rate in Q1, putting it above its pre-pandemic peak.
  - The four-quarter change was 1.8%.

Manufacturing activity increased in May

- The manufacturing index rose 0.9% in May.
  - The index was up 1.6% relative to Q1 and up 2.1% over Q4 2020.
- The major outlier across industries was the motor vehicles sector, which jumped 6.7%, suggesting some easing of the semiconductor shortage.
  - The vehicle index was down 5.7% compared to Q4 2020.
  - Overall manufacturing excluding motor vehicles was up 2.8% relative to Q4 2020.
- The ISM index for manufacturing retreated in June.
  - The index remained unusually high, suggesting strength in the sector going forward.
Real income and consumption dropped in May

- Nominal personal income dropped 2.0 percent in May, after plunging 13.1 percent in April.
  - The declines in the last two months largely reversed the March surge when personal income was boosted by transfer payments provided by the American Rescue Plan.
  - Compensation was up 0.7% over the month and up 3.9% (annualized) since February 2020.

- Personal consumption expenditures (PCE) were virtually flat in nominal terms and down 0.4 percent in real terms.
  - Real PCE was 1.9 percent above its February 2020 level.

Consumer expenditures are slowly rebalancing

- Expenditures continued to rebalance away from goods (especially durables) in May and back towards services.
  - Some of this rebalancing might be the result of supply shortages and the jump in goods prices relative to services prices.

- Real expenditures fell 2.0% in goods (-4.3% for durables) and rose 0.4% for services.
  - The rebalancing of consumption has a way to go if goods and services expenditures are to return to their pre-pandemic trends.
  - Real services expenditures are 4.2% below their level in February 2020, while those for goods are 15.9% above.
  - Durable and nondurable expenditures were up 26.4% and 10.5%, respectively.
**BUSINESS SECTOR**

### Business Investment Spending on Equipment

Billions of 2012 dollars, annualized

- **Equipment spending increased in Q1**
  - Real business equipment spending rose at a 15.0% annual rate in Q1, its third straight double-digit increase.
    - Equipment added 0.8 percentage point to annualized GDP growth in the quarter.
    - The rise in equipment spending was most pronounced in the information processing category.
    - Equipment spending in Q1 was 5.2% above its pre-pandemic peak in Q1 2019.
  - Data through May on orders of capital goods suggest solid momentum in equipment spending.
  - The capacity utilization rate for manufacturing was 75.6% in May, below its recent peak of 78.2% in August 2018.

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### Business Investment in Nonresidential Structures

Billions of 2012 dollars, annualized

- **Nonresidential structures spending fell in Q1**
  - Real nonresidential structures investment spending decreased 2.0% (annual rate) in Q1.
    - There were declines in the commercial/healthcare, power/communication, and “other” categories.
    - The small drop in spending had little impact on GDP growth.
  - The level of spending in the energy sector was an outlier as it increased over the previous quarter.
    - Mining exploration, shafts, and wells spending was still down 35% over the year.
  - Monthly data on nonresidential construction through May do not yet point to a turnaround in the sector.

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Source: Bureau of Economic Analysis via Haver Analytics
Housing Starts

Thousands, 3-month average, annualized

- Total housing starts increased 3.6% in May to 1.6 million units (annual rate).
  - Starts were lower than the recent March peak.
  - Building permits declined modestly.

- Single-family starts rose 4.2% to 1.1 million units.
  - The three-month average of single-family starts remained significantly above pre-pandemic levels.

- Multi-family starts increased 2.4% to 474,000 units.
  - The three-month average moved above 2015-19 levels.

New and Existing Home Sales

Thousands, annualized

- Existing home sales fell for the fourth straight month, down 1.0% in May to 5.08 million units (annualized).
  - Sales were still up 39% over the May 2019 level.

- New single-family home sales decreased 5.9% in May to 769,000 units.
  - Sales were up 9% over the May 2019 level.

- Supply constraints and higher home prices continue to be headwinds to sales.
GOVERNMENT SECTOR

Federal Government Spending
Billions of 2012 dollars, annualized

- Real federal spending jumped in Q1
  - Real federal government spending contributed 0.9 percentage point to annualized Q1 growth.
    - Spending was up 5.3% over the year.
  - The increase was entirely in nondefense spending.
    - Real nondefense spending added 1.1 percentage points to growth, while defense spending subtracted 0.2 percentage point.
  - A surge in payments to banks for processing Paycheck Protection Program loan applications accounts for most of the pickup in nondefense spending.

Source: Bureau of Economic Analysis via Haver Analytics

State and Local Government Spending
Billions of 2012 dollars, annualized

- State and local government spending rose in Q1
  - State and local government spending added 0.1 percentage point to annualized Q1 GDP growth.
    - Spending was down 2.3% over the year.
  - S&L consumption rose for the first time since Q4 2019.
    - Spending tracks employment, which increased in Q1.
    - Employment grew at a faster pace in Q2.
  - Investment spending was dragged down by a small drop in spending on structures.
    - S&L spending has been stable during the pandemic.

Source: Bureau of Economic Analysis via Haver Analytics

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INTERNATIONAL DEVELOPMENTS

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

Imports continued to be strong while exports lag
- Exports and imports of goods and services headed in opposite directions in Q1.
  - Lower exports took 0.2 percentage point off annualized GDP growth and higher imports took 1.3 percentage points off.
- Exports remained below pre-pandemic values.
  - Demand for U.S.-produced capital goods remained weak.
  - Service trade, particularly tourism, was depressed.
- Imports have recovered from the COVID-19 shock.
  - Purchases of durable consumer goods and capital goods have been particularly strong.
  - High imports of goods offset low imports of services.

Crude Oil Prices
Dollars per barrel (WTI)

Oil prices continued to move higher
- Both supply and demand developments have pushed oil prices up to around $75/barrel.
  - China’s demand was at its historic high in Q2 2021 and OPEC continued to restrain its production.
- Demand for liquid fuels (crude + natural gas liquids) in Q2 is estimated to have been down 4% relative to Q2 2019.
  - China's demand was up 5%.
  - U.S. demand was down 4% and Europe’s demand was down 10%.
- Liquid fuel production is estimated to have been down 5% relative to Q2 2019.
  - U.S. production was down 3%, with crude oil extraction down 9%, and OPEC production was down 12%.
**Payroll growth exceeded expectations in June**

- Nonfarm payroll employment rose by 850,000 in June.
  - Strong job gains continued in the leisure and hospitality sector (343,000), and over half of this increase was in food services and drinking places (194,300).
  - With the June reading, payroll growth has averaged 567,000 over the past three months.

- Government payroll employment rose by 188,000, reflecting increases in state (69,000) and local (124,000) government payrolls and a slight decline in federal employment (-5,000).
  - Job growth in the education sector drove these increases.
  - Distortions in the normal seasonal buildup and layoff patterns during the pandemic have likely contributed to recent job gains in the education sector.

**The unemployment rate increased slightly**

- The primary unemployment rate (U3) ticked up 0.1 percentage point to 5.9 percent in June.
  - The total number of unemployed persons increased from 9.3 million to 9.5 million.

- Expanded alternative measures of unemployment decreased or remained stable from May to June.
  - The U6 rate, which includes marginally attached workers and workers who held part-time jobs but prefer full-time jobs, decreased 0.4 percentage point.
  - The U5 rate, which considers only unemployed, discouraged, and marginally attached workers, was unchanged at 6.9 percent.
**Labor Market**

**Monthly Employment Changes – Service-Providing**

- Employment of private service-providing industries was up 642,000 in June, driven primarily by leisure and hospitality employment growth.
- Leisure and hospitality employment grew by 343,000 jobs.
  - Average employment growth in leisure and hospitality increased from 208,000 in Q1 to 326,000 in Q2.
- Most of the remaining increases were in the retail trade, professional/business services, and the education/health services sectors.
  - Financial activities and utilities displayed little change in employment.

**Average Hourly Earnings and the ECI**

- Average hourly earnings rose by 0.3% over the month, following increases in May (0.4%) and April (0.7%).
  - Average hourly earnings rose 3.6% on a 12-month basis.
  - Wages in leisure and hospitality registered a 1.0% increase—the fourth consecutive month of growth of at least 1%.
  - The large employment swings during the pandemic complicate the analysis of average hourly earnings, which vary significantly across industries.
- The Employment Cost Index, which adjusts for compositional employment shifts between industries and occupations, rose 2.7% over the year in Q1, up from 2.5% in Q4 2020.
Core CPI Inflation

12-month % change

Source: Bureau of Labor Statistics via Haver Analytics

Core CPI inflation accelerated again in May

- The core CPI was up 0.7% in May, after rising 0.9% in April.
- The core index rose 3.8% over the year, an increase from 3.0% last month and 1.6% two months ago.
  - Some of the acceleration was due to soft prices last May.
  - There were unusually large price increases for used vehicles, car rentals, and air transportation.
  - There was also a broad firming of prices, such as for shelter.
  - Core services prices were up 2.9%, versus 2.5% in April.
  - Core goods prices were up 6.5%, versus 4.4%.

CPI Inflation: Durable Goods

12-month % change

Source: Bureau of Labor Statistics via Haver Analytics

The inflation rate for consumer durables was very high

- The consumer price index for durable goods was up 10.3% over the year in May.
  - Prices were up 8.5% (annualized) since February 2020.
  - The index was largely unchanged in 2018 and 2019.
- Inflation pressures have been created by unusually robust spending on consumer durables.
  - The price index for household furnishings was up 3.6% (annualized) over the pandemic period.
  - The indices for information technology goods and for toys fell, but at slower rates than in recent years.
  - The index for used motor vehicles was up 23.2%, while the index for new vehicles was up 2.6%.
**FINANCIAL MARKETS**

**10-Year Treasury and Term Premium**

- **Longer-term Treasury yields moved lower**
  - On a five-day moving average basis, the 10-year Treasury yield was down to just above 1.5% on July 2.
    - The yield was near the low end of the range observed in the period from June 2009 to January 2020.
  - Estimates from the Adrian-Crump-Moench term structure model attribute the decline in yields to a lower term premium.
    - On a five-day moving average basis, the ten-year term premium is estimated to be slightly below 20 basis points on July 2, near the average level observed over the 2017-18 period.

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

- **U.S. equity markets continued to gain**
  - U.S. equity prices increased over the month.
    - The S&P 500 index was up 15% year-to-date on July 2.
  - Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), fell.
    - The VIX Index closed at 15.07 on July 2, comfortably below its median value of 17.54 over the period from 1990 to the present.
    - The VIX index is now at its lowest level since the onset of the pandemic.
**Implied path for federal funds rate shifted up**

- The expected path of the federal funds rate on July 2, implied by rates on overnight indexed swaps, moved higher in the near term relative to the path observed on June 11.

- The market-implied federal funds rate at the end of 2023 was below the median value of the FOMC’s Summary of Economic Projections (SEP) from June 2021.

- At the five-year maturity, the market-implied expectation of the federal funds rate was under 1.5% - about 100 basis points below the SEP longer-run federal funds rate from June 2021, which stood at 2.5%.

**The dollar appreciated**

- The exchange value of the dollar against a weighted average of currencies increased 2.4% between June 11 and July 2.
  - The dollar appreciated by 2.8% against the euro and 2.0% against the Japanese yen.

- Since the start of 2021, the dollar has appreciated 3.2% against a weighted average of currencies.
China’s growth slowed during H1 2021

- Tighter macroeconomic policies contributed to a significant slowdown in investment spending during the first half of 2021.
  - Estimated real investment spending has been weakening, with the nominal figure up only 5.5% over the year in May.
  - The property sector has been slowing as well.

- Industrial production and exports have remained quite strong, up 8.8% and 27.9% over the year, respectively, in May.
  - Exports appear to have peaked, however.

- Real retail sales have been above the pre-crisis trend, but overall household consumption has been held back by pandemic restrictions.

Credit growth has started to slow

- The credit impulse (the change in the flow of new credit as a percent of GDP) has dropped sharply as stimulus has faded.
  - The credit impulse correlates well with China’s growth indicators.

- Both corporate and household loan growth have slowed.
  - However, mortgage lending remains robust, supporting a still growing property sector.

- While credit growth has started to moderate, authorities continue to indicate that aggregate credit growth will slow only gradually and support for certain sectors will remain.
SPECIAL TOPICS: U.S. OIL

U.S. Oil Demand

Index 2017=100

Source: Federal Reserve Board via Haver Analytics

U.S. petroleum demand has staged a recovery

- Output from U.S. refineries (a proxy for demand) has been rising in recent months.
  - Production in Q2 was still estimated to have been down 10% relative to Q2 2019.

- Oil demand has not recovered as fast as GDP.
  - In Q1 2021, GDP was up 0.4% over the year, while refinery production was down 11.6%.

- Jet fuel has been a drag on overall oil consumption.
  - Estimated gasoline production in Q2 was down 5% relative to two years ago, while jet fuel was down 25%.

U.S. Crude Oil Sector

Index 2017=100

Source: Federal Reserve Board via Haver Analytics

Crude oil production remained depressed

- Crude oil extraction is estimated to have increased 3% in Q2 relative to Q1.
  - Extraction was still down 9% relative to Q2 2019.

- Firms have increased investment spending from a very low level.
  - Drilling in Q2 was up 5% relative to Q1 and down 33% from Q2 2019.

- Low investment spending will limit growth in crude oil extraction.
  - The Department of Energy forecasts 2022 production will be below the 2019 level.