U.S. Economy in a Snapshot
Research & Statistics Group
July 2022

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 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 13, 2022.
The unemployment rate was unchanged, consumer spending fell, and core inflation remained high.

- Output declined in Q1.
  - The drop was due to a very large drag from the net exports component.
  - Consumer purchases grew at a modest pace, with higher spending on services and flat spending on goods.
  - Business spending on equipment picked up.

- Real disposable income was unchanged in May.
  - The level was below its trend growth path.
  - Real consumer spending fell to below its trend growth path.
  - The personal saving rate remained at a low level.

- Payroll employment continued to grow at a solid pace and the unemployment rate was unchanged.

- Core PCE inflation over the year eased slightly, while food and energy inflation continued to rise.

- The 10-year Treasury yield fell sharply, while the S&P 500 stock index was relatively stable. The market-implied federal funds rate path shifted down and the dollar appreciated.

**Q1 output was below its pre-pandemic trend level**

- GDP has grown at a 1.2% annual rate since Q4 2019.
  - 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 expected average annual growth over the 2024-28 period at 2.0%.
  - GDP in Q1 was about 1.5% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.

- Unemployment was below its longer-run normal level.
  - The 3.6% unemployment rate in June was below both the consensus forecast in the Blue Chip survey of 3.8% for average unemployment over 2024-28 and the median SEP projection of 4.0% for the longer-run unemployment rate.
  - The labor force participation rate in June was about one percentage point below pre-pandemic levels.
The unemployment rate remained unchanged

- The unemployment rate was unchanged at 3.6% in June.
  - This marks the fourth straight month that the unemployment rate was at this level.

- The Household Survey's measure of employment fell, bringing it in line with employment data in the Establishments Survey.
  - Employment was up 4.3% over the year in both measures.

- The labor force participation rate decreased by 0.1 percentage point to 62.2%.
  - This decline was driven by a fall in the prime-age participation rate.

PCE inflation over the year was unchanged in May

- PCE inflation over the year remained at 6.3% in May.
  - Food prices were up 11% and energy prices were up 36%.

- Core PCE inflation fell again and was down from its peak of 5.3% in February to 4.7% in May.
  - Durable goods inflation fell from 8.4% in April to 6.6%, with inflation for motor vehicles dropping from 15.7% to 12.6%.

- Core PCE inflation over the month came in at a 4.3% annualized rate.
  - The average annualized monthly rate was 6.0% in Q4 2021, 4.5% in Q12022, and 4.2% in the first two months of Q2.
**ECONOMIC ACTIVITY**

**GDP Growth**

*Quarterly % change, annualized*

- GDP fell at a 1.6% annual rate in Q1, a large reversal from the 6.9% rate of increase in Q4.
  - Despite the fall, output was up 3.5% over the year.
  - The net exports component was the major contributor to the drop, as imports surged and exports fell.
  - Consumer spending grew at a moderate pace and business equipment spending rose robustly.
- In contrast to GDP, real gross domestic income (GDI) rose at a 1.8% annual rate in Q1.
  - Continued strong growth in employee compensation helped offset a fall in corporate profits.
  - Real GDI was up 4.7% over the year.

**Manufacturing Index**

*Index, 2017=100*

- The manufacturing index fell slightly in May, after rising 1% over the month in April.
  - The index was up 5% over the year and was 4% above its pre-pandemic level.
- The motor vehicles index increased by 1%, after rising 4% in April and 8% in March.
  - The index was up 12% over the year, bringing it back to its pre-pandemic level.
  - The recovery suggests the industry has largely overcome its 2021 supply-side issues.
- The ISM manufacturing index fell in June, with a particularly large drop in the new orders component.
Real disposable income was flat in May

- Real disposable income was unchanged over the month in May, while nominal personal income rose 0.5%.
  - Nominal compensation was up 0.5%, proprietors’ income rose 1.5%, and personal transfer receipts were stable.
  - Over the year, nominal income was up 5%, with compensation up 10%, proprietors’ income up 4%, and transfers down 6%.
  - Real disposable income was down 3% over the year, pulled lower by inflation and higher tax payments.

- Real personal consumption expenditures fell 0.4% in May, leaving purchases up 2.1% over the year.
  - Spending was below its trend growth path.
  - The personal saving rate fell from 7.9% in Q4 2021 to 5.8% in Q1 and to 5.4% in May.

Consumer spending on goods fell in May

- Real spending on goods dropped 1.6% over the month and was down 3% over the year.
  - Spending has been on a downward trend since the start of the year.
  - There were notably large declines over the month in purchases of both new and used motor vehicles.
  - Spending on goods was roughly 5% above its trend growth path.

- Real spending on services rose 0.3% over the month and was up 5% over the year.
  - The steady rise in spending has closed the gap relative to its trend path to around 3%, with shortfalls in recreation, health care, public transportation, and personal care.
Equipment spending rose robustly in Q1

- After two soft quarters, real business equipment spending increased at a brisk rate in Q1.
  - Equipment spending added 0.7 percentage point to annualized GDP growth in the quarter.
  - Spending rose in the information, industrial, and other equipment categories, but fell in the transportation category.
  - Equipment spending was up 6.5% over the year.

- Orders of capital goods rose moderately in May after a modest rise in April, remaining at a high level.
  - Orders data in recent months suggest some moderation in the growth of equipment spending, especially as recent increases partly reflect higher prices.

Spending on nonresidential structures fell in Q1

- Real nonresidential structures investment spending decreased at a 0.9% annual rate in Q1.
  - Structures investment was a negligible drag on Q1 GDP growth.
  - Spending was down 4.1% over the year and down more than 22% since Q4 2019.

- In contrast, spending in the energy sector increased for the sixth straight quarter.
  - Spending on mining exploration, shafts, and wells was still down 14% from its Q4 2019 level.

- Nominal private nonresidential construction spending in May was little changed from December 2021.
HOUSING SECTOR

Residential investment remained elevated in Q1

- Residential investment spending was little changed in Q1.
  - Residential investment was 15% above its Q4 2019 level.

- Investment has been high in both single-family and multi-family structures since the end of 2020.
  - Single-family construction in Q1 was up 25% relative to Q4 2019 and multi-family construction was up 23%.
  - Relatively small increases in home improvements and equipment held down the growth in overall residential investment spending.

- Housing starts were robust in April but then fell sharply in May to 10% below the Q1 average.

Home sales fell sharply in May

- Existing single-family home sales declined again, with sales in May down 11% from the Q1 2022 level.
  - Sales were near pre-pandemic levels.

- New single-family home sales in May rebounded modestly over the month, but were down 11% from the Q1 2022 level.
  - Sales were near pre-pandemic levels.

- Home prices were up 20% over the year in May.
**Federal spending declined significantly in Q1**
- Federal government spending subtracted 0.5 percentage point from annualized GDP growth in Q1, following a drag of 0.3 percentage point in the previous quarter.
  - Spending was down 5.4% over the year, the largest four-quarter drop since 2013.
  - The end of spending tied to the Paycheck Protection Program and a 4.7% drop in defense spending were the key factors behind the four-quarter decline.
- The drag on Q1 growth came mostly from defense spending.
  - Defense spending subtracted 0.4 percentage point from annualized growth, while nondefense spending subtracted 0.1 percentage point.

**State and local government spending dipped in Q1**
- Real state and local government spending subtracted a slight 0.1 percentage point from annualized GDP growth.
  - Spending was up 1% over the year.
- S&L government consumption was flat over the quarter.
  - Spending was up 3% over the year.
- Investment spending fell 2% over the quarter, with a 4% drop in construction more than offsetting a 5% increase in equipment purchases and a 3% increase in intellectual property products.
  - Total investment spending was down 7% over the year, with construction spending down 11%.
INFLATION

Core CPI Inflation

12-month % change

- Core inflation over the year decreased slightly from 6.0% in May to 5.9% in June.
  - Core goods inflation fell from 8.5% to 7.1%.
  - Core services inflation rose from 5.2% to 5.5%, with an increase in rent inflation to 5.8%.
- The core CPI rose 0.7% over the month (8.8%, annualized), higher than the pace set in April (7.8%).
  - The average monthly inflation increased from 0.5% in Q1 to 0.6% in Q2.
  - The average monthly inflation for core goods increased from 0.3% to 0.5%.
  - The average monthly inflation rate for core services rose from 0.5% to 0.7%.

CPI Inflation: Energy Prices

Index 2015=100

- The energy component of the CPI was 42% above its year-ago level in June.
  - Gasoline was up 60% over the year, natural gas was up 38%, and electricity was up 14%.
- The energy index was 54% above its 2019 average.
  - Gasoline was 78% above its 2019 average.
- Prices for electricity and natural gas have been on an upward trend since August 2020.
  - Electricity was 18% above the 2019 average and natural gas was 59% above.
  - Both were largely unchanged from 2014 to 2019.
**Payroll Employment**

Index, 2019=100

Employment growth was solid in June

- Nonfarm payroll employment rose by 372,000 in June.
  - Nonfarm payroll employment was 524,000 (0.3%) below its pre-pandemic level.
  - Employment increased in all sectors except government.

- The Household Survey's employment-to-population ratio was 59.9% in June.
  - The ratio has stayed within a narrow band around 60% for the last five months.

**Average Hourly Earnings and the ECI**

Year-over-year % change

Hourly wage growth moderated in June

- Average hourly earnings increased 0.3% over the month in June.
  - This was below the average monthly rate of 0.5% in Q4 2021 and 0.4% in the first five months of the year.
  - Hourly earnings were up 5.1% over the year.

- Wage growth in leisure and hospitality fell from its peak, but remains elevated at 9.2% on a 12-month basis.

- The Q1 employment cost index was up 4.5% over the year, an acceleration from the 3.9% pace set in Q4 2021.
Regional developments

New York Fed Business Surveys: Current Conditions

- Activity was flat in both the manufacturing and service sectors, according to the June regional business surveys.
  - The Empire Survey’s headline index (manufacturing) rebounded by 10 points to -1, while the Business Leaders Survey’s (services) headline index fell 9 points to 2—its first sluggish reading in four months.
  - Employment expanded at a solid clip in both sectors.
  - Price indexes remained at or near record levels and supply shortages remained widespread.

Regional Employment Trends

- Job growth in downstate New York, Northern New Jersey, and Puerto Rico outperformed the nation in May, but remained below the national pace in upstate New York and Fairfield.
  - Over the prior 12 months, employment increased by 5.4% in downstate New York, 5.0% in Northern New Jersey, 3.5% in Fairfield CT, and 2.6% in upstate New York, compared with 4.5% nationally.
  - Employment remained 4.9% below pre-pandemic levels in downstate New York, 4.5% below in upstate New York, 1.4% below in Northern New Jersey, and 2.3% in Fairfield, compared to a 0.6% job shortfall nationally.
  - Employment in Puerto Rico grew 7.8% on a year-over-year basis in May and was 5.1% above pre-pandemic levels.
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 large drag on Q1 growth
- Imports rose and exports fell in Q1.
  - Lower exports subtracted 0.5 percentage point from annualized GDP growth and higher imports subtracted 2.7 percentage points.
- Exports remained below pre-pandemic levels.
  - Lower sales were led by food, fuels, and nondurable consumer goods.
  - Services exports moved only modestly higher, with tourism from abroad, particularly from Asia, still depressed.
- Imports were well above pre-pandemic levels.
  - Durable consumer goods accounted for 70% of the increase in Q1 imports, with capital goods and autos also up strongly.

Crude Oil Prices
Dollars per barrel (WTI)

Source: Energy Information Administration via Haver Analytics

Oil prices rose in June
- Oil prices (WTI) increased from $109/barrel in May to $115/barrel in June.
  - Prices in June were up 61% over the year.
  - Prices have trended down since early June and were below $100/barrel in mid-July.
- The Department of Energy’s July forecast projects that oil production will exceed demand from Q2 2020 through the end of 2023.
  - The forecast has higher U.S. and OPEC production and relatively slow global demand growth.
  - Russia’s output is estimated to have fallen sharply in Q2 and to continue to decline through 2023.
**Implied path for the federal funds rate shifted down**

- The expected path of the federal funds rate implied by overnight indexed swaps decreased across all maturities longer than six months between June 14 and July 11.

- The market-implied federal funds rate at the end of 2023 was around 3.2%, which is below the median value of 3.8% in the FOMC’s Summary of Economic Projections (SEP) from June 2022.

- At the five-year horizon, the market-implied federal funds rate was around 2.8%, which was above the median SEP longer-run federal funds rate of 2.5%.

**Ten-year Treasury yields moved higher**

- The 10-year Treasury yield was at 3.00% on July 11, 48 basis points lower than the yield on June 14.
  - The yield averaged 1.76% in January 2020.
  - The yield averaged 0.89% in 2020, 1.44% in 2021, and 2.44% in the first six months of 2022.
  - Estimates from the Adrian-Crump-Moench term structure suggest the decrease in the 10-year Treasury yield from June 14 to July 11 is due to both a lower expected future interest rate path and a decline in the term premium.
FINANCIAL MARKETS

**Equity prices were stable**
- U.S. equity prices, as measured by the S&P 500 index, were down 1% on July 11 relative to the June average.
  - The S&P 500 index was down 20% year-to-date on July 11 after being up 29% over the course of 2021.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), decreased from 32.5 on June 14 to 26.17 on July 11.
  - The median VIX Index value was 17.9 over the period from the beginning of 2000 through July 11.

**The dollar appreciated**
- The Federal Reserve’s trade-weighted broad dollar index was 4% higher on July 11 relative to the June average.
  - The index was up 17% relative to the 2021 average.
- The dollar on July 11 was 5% stronger against the euro relative to the June average and 2% stronger against the yen.