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.
• Real consumption expenditures have yet to show signs of a significant pickup from a slowdown in winter.
  – Growth has been tepid despite better weather, ongoing improvement in labor market conditions and lower energy prices from a year ago.
  – The personal saving rate remains at or near the highest levels since 2012.

• Business fixed investment fell in 2015Q1 and its current growth appears to be modest. There are tentative signs of moderate improvement in housing market conditions.

• Payroll growth again was solid in May. The unemployment rate, labor force participation rate, and employment-population ratio edged up slightly.
  – Although there were some signs of a modest pickup, wage growth remains subdued relative to pre-recession levels.

• Inflation remained well below the FOMC’s longer-term objective.

• Global sovereign bond yields rose further in the past month. U.S. equity prices and oil prices both fluctuated in narrow ranges. The dollar was little changed on net.

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Output is moderately below its potential level

• Compared to previous expansions, GDP growth has been subdued in this expansion. It picked up significantly from 2014Q2 to Q4, but real GDP fell 0.7% (annual rate) in 2015Q1.

• Gap between real GDP and the Congressional Budget Office’s measure of potential GDP was about 2½% in 2015Q1.
  – Resource slack by this measure seems larger than that implied by most estimates of the unemployment gap.

• Historically, inflation tends to be restrained if the economy is operating below potential.
Labor market improvement faster than Q1 pace

- The average change in total nonfarm payroll employment in April and May was around 250,000 per month, above that of 195,000 per month in 2015Q1.

- The unemployment rate was 5.5% in May, essentially unchanged from its range of 5.4-5.5% since February.

- The labor force participation rate (LFP) has been essentially flat since the beginning of 2014, at or slightly below 63%, after falling considerably from 2008 to 2013.

- The employment-population ratio was 59.4% in May, around its mid-2009 level.

Inflation remains low

- Total PCE inflation and core PCE inflation (which excludes food and energy prices) slowed modestly in April after having stabilized in recent months.

- On a 12-month basis, both measures are significantly below the FOMC's longer-run objective of 2%.

- The strong dollar and a slowing of health care services inflation have been factors restraining the movement of inflation toward the FOMC's longer-run objective.
ECONOMIC ACTIVITY

GDP Growth

% Change – Annual Rate

Source: Bureau of Economic Analysis, via Haver Analytics

Output declined in Q1

- GDP contracted at a 0.7% annual rate during Q1 following an initial estimate of a 0.2% increase.
  - Transitory factors such as severe winter weather and a labor dispute at West Coast ports are partly behind the weakness.

- The downward revision reflected stronger imports as well as weaker inventory investment and consumer spending, that was partially offset by stronger residential fixed investment.

- The economy has now contracted in three separate quarters during the current recovery.

ISM Manufacturing Index and Manufacturing

Index

Source: Institute for Supply Management,
Federal Reserve Board, via Haver Analytics

Note: Shading shows NBER recessions.

Production remains weak

- Total industrial production fell 0.2% in May, the sixth consecutive month marked by either a decline or no change.
  - Revised data now indicate industrial production contracted at a 0.3% annual rate in Q1.

- Manufacturing production also declined 0.2% in May, after increasing 0.1% in April.

- The May ISM index provided the 29th consecutive monthly indication of expansion in manufacturing activity. Details in the May report were generally positive:
  - The New Orders and Employment indices showed robust gains.
  - The New Exports index, however, contracted again; this index has been on a declining trend that coincides with the stronger dollar over the past year.
**Households**

**Disposable Income, Consumption, and Wealth**

- Consumer spending remains tepid through April
  - Consumer spending stalled in April, after strong growth in March, due to a decline in goods spending and modest growth in services expenditures.
  - After declining in March, disposable personal income rebounded in April; the personal saving rate jumped to 5.6%.
  - Based on February-April data for 2015, year-over-year growth in consumption and disposable income (see diamonds in chart) has slowed relative to recent readings.

**Services, Durables, and Nondurable Goods**

- Goods consumption declined in April
  - Following an increase of 1.0% in March, goods consumption declined 0.4% in April.
  - Based on February-April data for 2015, both durable and non-durable consumption (see diamonds in chart) declined relative to the November-January period.
  - Growth in services consumption continues to slow since its recent peak in 2014Q4.
  - Recent data on May retail sales, however, were strong and may point to more robust consumer spending in Q2 and beyond.
**Business Sector**

**Equipment Investment and Capacity Utilization**

- **Business equipment spending remains weak**
  - Over the four-quarters ending in 2015Q1, real business investment in new equipment grew an unimpressive 6.3%.
  - Historically, the rate of growth of business spending on new equipment has been positively correlated with the manufacturing capacity utilization rate.
  - The manufacturing capacity utilization rate reached 77.8% in 2014Q4, approaching levels that prevailed prior to the Great Recession. However, since then it has edged lower, falling to 77.0% as of May, due to the slowing in growth of manufacturing output.

**Nondefense Capital Goods ex. Aircraft**

- **New orders and shipments trending lower**
  - The monthly data on new orders and shipments of nondefense capital goods are high frequency indicators used to estimate business investment in new equipment.
  - Both new orders and shipments have been trending lower since 2014Q3. Growth of real business investment in new equipment grew at a very sluggish 1.7% annual rate over the 2014Q4-2015Q1 period.
  - As of April, new orders are below shipments, traditionally a sign of very little forward momentum in the months ahead.
**Housing Sector**

**Housing Starts**

Thousands, 3 MMA

- After a weather-related downturn in Q1, the average pace of housing starts over April and May was the highest since the recession. The level was still modest on a longer historical basis. 
  - Housing starts averaged about 1.1 million units (annual rate) in April and May, compared to 2.1 million units in 2005.
- Multi-family starts were near pre-recession peak levels. Even with recent increases, single-family starts remained low on a longer historical basis despite low mortgage interest rates.
- Although they rose in April, the level of new home sales was still low, and were about 10% of total (new + existing) single-family sales, compared to more than 16% before the recession.
  - Low new home sales may be a factor behind the subdued level of single-family starts.

**Credit Score at Mortgage Origination**

Credit Score

- Credit standards for mortgage lending tightened sharply between 2007 and mid-2009, and have loosened somewhat since 2012 despite an uptick in 2015Q1.
- Lending standards remain tight compared to levels in the early 2000s.
- Nearly 72 million people in the population of adults with credit reports currently have scores below 650; the share of originations to borrowers in this range has fallen from 25% to 10% since the recession.
**Government Sector**

**Real Government Consumption and Gross Investment**

- The government sector is expanding modestly.
  - Total real government consumption and gross investment is now growing modestly on a year-over-year basis after a 3½ year period during which it was contracting.
  - Real consumption and gross investment at the federal level grew modestly 0.3% over the four quarters ending in 2015Q1, the largest increase since 2010Q4.
    - The deep cuts in defense spending now appear to be largely over.
  - Real consumption and gross investment at the state and local level grew 1.0% over the four quarters ending in 2015Q1, continuing the modest expansion in place since early 2013.
    - The state and local sector represents over 60% of total government consumption and gross investment.

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

- State and local spending continues to grow.
  - Consumption expenditures continue to grow at a steady, albeit modest, pace.
    - Consumption expenditures account for about 80% of state and local spending, and are comprised largely of employee compensation.
  - Gross investment continues a period of relative stability that began in mid-2013.
    - Investment accounts for the remaining 20% of spending, and is comprised largely of construction.
  - Compared to consumption, investment declined more steeply in the recession and is taking longer to recover.
    - Real investment remains 19% below its previous peak.
INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

- Net exports were a significant drag on growth
  - Net exports subtracted 1.9 percentage points from GDP growth in 2015Q1, following a -1.0 percentage point growth contribution in 2014Q4.
    - Much of this drag on growth over the last 2 quarters can be explained by dollar appreciation.
  - Exports in 2015Q1 dropped considerably following moderate growth the quarter before.
  - Imports grew at a healthy pace in 2015Q1 following particularly strong growth in 2014Q4.

Dollar Exchange Rate and Nonoil Import Prices

The strong dollar is pushing import prices down

- Import prices, excluding oil, were down 2.5% over the year in May.
  - Autos and capital goods were down 2%, consumer goods were down 1% and industrial supplies were down 8%.
  - Oil prices were down 40%.
- A stronger dollar, which was up 12% over the year against the major currencies in May, is making imported goods cheaper.
LABOR MARKET

Monthly Change in Employment

![Graph showing monthly change in employment from 2005 to 2015, with a shaded area indicating NBER recessions.]

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

Improvement in employment gains relative to Q1

- Nonfarm payroll employment increased by 280,000 in May.
  - Payroll employment increased on average by 250,000 in April and May, faster than the average monthly gain of 195,000 in 2015Q1.
  - While the pace of employment gains improved relative to the first quarter of the year, it is still slower than the pace in 2014Q4 (monthly average payroll growth of 324,000).

- Household employment increased by 272,000 in May following an increase of 192,000 in April.

Average and Aggregate Weekly Hours

![Graph showing 12 month % change in average and aggregate weekly hours from 2007 to 2015, with shaded areas indicating NBER recessions.]

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

Aggregate hours continue to improve

- Aggregate hours worked by all private employees rose 0.3% in May.
  - The 12-month change in aggregate hours was 2.6%.

- Average weekly hours were unchanged at 34.5 hours.
  - After dropping to 33.7 hours in June 2009, average weekly hours have been stable at around 34.5 hours since 2012.

- With average weekly hours stable since 2012, almost all of the subsequent improvement in total hours has been due to the increase in payroll employment.
**LABOR MARKET**

**Unemployment Duration and Job-Finding Rate**

- **Long-term unemployment has been declining**
  - Median duration of unemployment decreased from 11.7 weeks in April to 11.6 in May. May reading is the lowest since January 2009, but is still above its pre-recession levels.
  - Median duration of unemployment was around 8-9 weeks prior to the recession. It increased to 25.2 weeks in June 2010 and has been gradually declining.
  - The unemployment-to-employment transition rate was 23.3% in May.
  - The job-finding rate was around 28% prior to the recession. It decreased to 15.4% in October 2009 and has been improving slowly.

**Growth of Average Hourly Earnings**

- **Labor compensation growth remains subdued**
  - Average hourly earnings increased 0.3% in May and 2.3% over the past 12 months.
    - The 12-month change is at the top of its range since the end of the recession but well below pre-recession levels.
  - The employment cost index (ECI) rose 0.7% in the first quarter of 2015.
    - The 12-month change was 2.6%, the highest since 2008Q4 but still below pre-recession levels.
  - While there are differences in short-term movements of alternative labor compensation measures, they still indicate subdued growth compared to the pre-recession period.
Core goods prices return to a decline in May

- Core CPI inflation advanced 0.1% in May, its weakest monthly reading since December 2014; its 12-month change slowed to 1.7% from 1.8% in April.

- Core services prices rose 0.2% in May; their 12-month change has been extremely stable at around 2.5% for the last three years.

- After three consecutive monthly increases, core goods prices fell 0.1% in May.
  - Recent increases in core goods prices had interrupted a 24 month streak of declines or only slight advances.

Slightly higher forecasts of core inflation in 2015

- The US Survey of Professional Forecasters provides density (histogram) forecasts that show the probability that inflation will fall into each of 10 ranges.

- Compared to last quarter, survey respondents have nudged up their expectations of core CPI inflation from 2014Q4 to 2015Q4.
  - The Q2 survey was fielded from late April through mid-May, with results released on May 15.

- Forecasters now assign a higher chance than previously predicted that core CPI inflation will be between 1.5 and 2.4 percent.
**FINANCIAL MARKETS**

### European 10-Year Sovereign Yields

- **Ongoing Euro area sovereign bond market selloff**
  - The re-pricing of Euro area sovereign debt that started in late April continued into early June.
    - After rising from 0.08% on April 20 to 0.59% on May 6, the 10-year German bund rose sharply again in early June to 0.99% on June 10.
    - The yield declined over the subsequent week to close at 0.81% on June 17.
  - Much of the recent rise in yields occurred after the release of stronger-than-expected consumer price data for the Euro area on June 2 and the monetary policy meeting of the European Central Bank on June 3.

### 10-Year Treasury and Term Premia

- **Treasury yields continue to rise from recent lows**
  - Treasury yields also rose in early June, following sharp increases in late April and early May.
    - After reaching a recent low of 1.92% on April 3, the 10-year Treasury zero coupon yield rose to 2.34% on May 6, and 2.60% on June 10. The yield then declined over the following week to close at 2.42% on June 17.
    - The sharpest recent increases coincided with yield increases in the Euro area and with the stronger-than-expected May US employment report.
  - The recent change in 10-year yields is mostly explained by an increase in the nominal term premium (as implied by the Adrian-Crump-Moench model), rather than by an increase in the path of expected future short-term rates.
Inflation expectations remain well anchored

- Market-implied TIPS-based measures of long-term inflation expectations ("breakeven") rose slightly over the past six weeks.
  - After reaching a recent low of 1.75% on January 30, the breakeven inflation rate rose to 2.03% on May 6, and then to 2.10% on June 10 (and remained essentially unchanged a week later).
  - Despite the slight rise, the breakeven inflation rate remains at the low end of the range observed in recent years.

- Variation in the breakeven inflation rate seems to be largely driven by changes in the inflation risk premium, with implied expected inflation (from the Adrian-Crump-Moench model) remaining fairly stable over long time periods.

Little change in implied Federal Funds rate path

- The expected path for the Federal Funds rate implied by rates on overnight indexed swaps is little changed since early May.

- The path shifted up somewhat in early June with the rise in Treasury yields, but reversed course with the more recent decline in yields.

- The market-implied path remains below the FOMC’s Summary of Economic Projections and other surveys.
**US equity markets remain near record highs**

- U.S. stock markets were little changed over the past six weeks and remain near record highs.

- U.S. equity market volatility is also little changed over the past six weeks and remains at historically low levels.

**U.S. dollar little changed since early May**

- The value of the U.S. dollar is little changed over the past six weeks.

- The dollar hit a multi-year high in mid-March, before weakening over the subsequent two months.
  - The DXY Index is comprised of the Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swedish Krona, and Swiss Franc.
SPECIAL TOPIC - SURVEY OF CONSUMER EXPECTATIONS

Inflation Expectations

- Median three-year ahead expected inflation rate
- Median one-year ahead expected inflation rate

Source: Federal Reserve Bank of New York Survey of Consumer Expectations

Inflation expectations have remained stable

- The Federal Reserve Bank of New York Survey of Consumer Expectations provides monthly updates on household expectations.
  - Nationally representative.
  - Rotating panel of about 1,300 household heads.
  - Covers a broad range of topics.

- Inflation expectations have remained stable at around 3% at both the one-year and the three-year ahead horizons.

Home Price Change Expectations

- Median of density mean, one year ahead
- 75th Percentile
- 25th Percentile

Source: Federal Reserve Bank of New York Survey of Consumer Expectations

Declining home price change expectations

- Home price change expectations have been declining since the inception of the survey in June 2013.

- The median expected home price appreciation over the next 12 months has decreased from 4.7% in June 2013 to 3.3% in May 2015.

- The dispersion (among survey takers) of home price change expectations has also declined from about 6.6 percentage points in October 2013 to 4.7 percentage points in May 2015.
SPECIAL TOPIC - SURVEY OF CONSUMER EXPECTATIONS

One-year Ahead Earnings Growth Expectations

- Median earnings growth expectations increased gradually from around 2.0% in the second half of 2013 to a high of 2.7% in November 2014.
- Since then, median expected earnings growth has declined to 2.3% in May 2015.
- The recent decline has been driven mostly by younger and higher income workers.

Job Finding Expectations

- Survey tracks average perceived probability of finding a job within 3 months if worker were to lose current job today.
- Mean perceived job finding probability has increased from about 46% in summer 2013 to about 54% in the most recent months.
- The gap, however, has widened across age groups:
  - Mean perceived job finding probability has improved to 64.7% for workers under 40, but declined to 30.8% for workers 60 years and older.
SPECIAL TOPIC - SURVEY OF CONSUMER EXPECTATIONS

**Spending Out of 2015 Gas Savings**

<table>
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<th>Percent</th>
<th>Overall</th>
<th>Higher Income</th>
<th>Lower Income</th>
<th>Younger Older</th>
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Source: Federal Reserve Bank of New York Survey of Consumer Expectations

**Response of consumers to lower gas prices**

- May 2015 Survey of Consumer Expectations shows 88% of consumers report benefitting from lower gas prices.
  - Average gas savings since the start of 2015 are $186.
- Respondents, on average, report spending 49% of this gas savings.
- Lower income individuals and those financially worse off today relative to 12 months ago spent a higher proportion of their gas savings.

**Debt Pay Down Out of Unspent 2015 Gas Savings**

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Source: Federal Reserve Bank of New York Survey of Consumer Expectations

**Why are consumers not spending more?**

- Consumers expect the drop in gas prices to be temporary:
  - One-year ahead gas price change expectations have been elevated since a marked decline in fall 2014.
  - Only one in six respondents indicate that gas prices over the next twelve months are likely to stay below 2014 levels.
- Those worse off today or with lower income are more likely to use unspent gas savings to pay off debt.
- On average, households have not spent $26 of their monthly 2015 overall energy (gas and oil) savings.
  - The 0.5 percentage point increase in the personal saving rate from December 2014 to January 2015 corresponds to additional monthly savings of $56 per average household.