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 June 15, 2017.
• Real consumer spending rose in April and there was a notable upward revision to the pace of growth in March.
  - Auto sales, however, have slowed noticeably this year from the strong pace of 2016.

• Capital spending indicators point to some tapering in the near-term momentum for business equipment spending.

• Indicators suggest that the gradual recovery in housing is being maintained, while surveys generally signal continued expansion in the manufacturing and services sectors.

• Payroll growth slowed in May, but still points to improving labor market conditions. The unemployment rate, the employment-to-population ratio and the labor force participation rate all declined.
  - The unemployment rate is at its lowest level in 16 years.

• Recent monthly readings on PCE inflation have been soft, suggesting a pause in the progress toward the FOMC’s longer-run objective.

• U.S. equity indexes increased and nominal long-term Treasury yields declined. The trade-weighted index for the U.S. dollar declined. Global growth indicators generally remained solid.

### Output still modestly below its potential level

• The gap between real GDP and the Congressional Budget Office’s (CBO) measure of real potential GDP was about 1.0% in 2017Q1.
  - The CBO projects that the growth rate of real potential GDP will remain fairly subdued for the next few years.
  - The May unemployment rate of 4.3% is below many estimates of its natural rate, including that of the CBO (4.7%).

• The CBO output gap indicates modest resource slack remains in the U.S. economy.
  - Unemployment gap measures generally indicate no slack remains.
  - However, capacity utilization rates remain well below historical averages, suggesting more substantial resource slack than the other measures.
**Labor Market Indicators**

- Unemployment Rate (Left 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.

**Labor market conditions remain solid**

- The unemployment rate declined from 4.4% in April to 4.3% in May.
  - The share of long-term unemployed (27+ weeks) in the pool of unemployed workers increased for the first time since January, from 22.6% in April to 24.0% in May.
  - Since May 2016, this share has fallen 1.2 percentage points.

- The labor force participation rate fell slightly from 62.9% to 62.7% in May.

- The employment-to-population ratio fell 0.2 percentage point in May to 60.0%.

**PCE Deflator**

- Total PCE
- Core PCE

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

**Inflation running below the FOMC’s objective**

- The total PCE deflator rose 0.2% in April, following a 0.2% decline in March. The core PCE deflator (which excludes food and energy prices) also rose 0.2% in April, after falling 0.1% in the previous month.
  - Energy prices rose 1.0% after a 3.3% decline in March, but were up 10.2% from a year ago.
  - Food prices rose 0.2% in April, their third consecutive increase, which suggests that the price declines that occurred during most of 2016 have come to an end.

- The 12-month changes in the total PCE deflator and the core PCE deflator were 1.7% and 1.5%, respectively.
  - Since rising above 2% in February, the 12-month change in the total PCE deflator has moved down for two consecutive months.
Revisions indicate stronger growth in Q1

- According to the second estimate, real GDP rose at a 1.2% annual rate in Q1, an upward revision to the advance estimate of a 0.7% increase.

- There were upward revisions to real consumer spending, nonresidential structures investment, intellectual property products investment, and state and local government spending.
  - There were partial offsets from equipment investment and from inventory investment.

- Real gross domestic income (GDI), which provides an alternative measure of economic activity, increased at a 0.9% annual rate in 2017Q1.

Surveys maintain positive outlook for manufacturing

- Manufacturing production declined by 0.4% in May.
  - This decrease follows an increase of 1.1% in April, and manufacturing production is up 1.4% year-on year.

- The ISM Manufacturing index rose from 54.8 to 54.9 in May, indicating continued expansion in the manufacturing sector.
  - The increase was driven by the New Orders and Employment subcomponents.

- The latest Empire State, Philadelphia Fed and Dallas Fed manufacturing surveys indicate continued expansion in regional manufacturing sectors, while the Richmond Fed survey indicates a flattening.
**HOUSEHOLDS**

### Disposable Income and Consumption

- **Real Disposal Income**
- **Real Personal Consumption**

**12 Month % Change**

- **Source:** Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics
- **Note:** Shading shows NBER recessions.

**Consumer spending rebounds in April**

- Real personal consumption expenditures (PCE) increased 0.2% in April, and growth in March was revised up from +0.3% to +0.5%.
  - Real expenditures on goods grew 0.7% in April, while expenditures on services were flat.
  - Despite the increase in April, real PCE growth on a 12-month change basis fell from 3.1% to 2.6% in April.

- Real disposable income growth moderated from a 0.4% increase in March to a 0.2% gain in April.
  - This reading is in line with those of the previous two months which were revised downward.

### Consumer Confidence

- **Index**

**Source:** Conference Board, University of Michigan
- **Note:** Shading shows NBER recessions.

**Little change in consumer sentiment**

- The Michigan Index of Consumer Sentiment in May was 97.1, largely unchanged from the April reading of 97.0.
  - The Expectations component of the index rose slightly, but the Current Economic Conditions component declined.

- The Conference Board’s Consumer Confidence Index declined slightly from 119.4 in April to 117.9 in May.
  - The decline was driven by a drop in the Expectations Component that more than offset a rise in the Present Situation component.

- Both indices rose sharply following the 2016 Presidential election and have remained at elevated levels.
**Equipment Investment and Capacity Utilization**

- The four-quarter change in equipment investment was a modest +0.3% in 2017Q1—still an improvement from the negative four-quarter changes seen in 2016.
  - Four-quarter changes for investment in information processing equipment and in industrial equipment were solidly positive in 2017Q1.
  - In contrast, four-quarter changes for investment in transportation equipment and in “other” equipment remained negative, though less so than in recent quarters.

- A key factor behind sluggish equipment investment has been the low manufacturing capacity utilization rate.
  - This rate was 75.9% in April, below its longer-term average of 78.5%.
  - Utilization has fluctuated in a narrow range in recent years.

**Mildly positive signals for equipment spending**

- Monthly data on new orders and shipments of nondefense capital goods excluding aircraft are indicators of business investment.

  - The 3-month moving averages of shipments and of new orders of such goods have risen from their recent troughs.
    - Both series remain well below their peaks in late 2014 and are also below their 2012-15 average level.

  - New orders have been above shipments since mid-2016, but the gap has narrowed recently.
    - Based on historical patterns, this difference between orders and shipments is consistent with somewhat weaker near-term momentum in equipment spending.
**Housing Starts**

![Graph showing housing starts](image)

**Housing starts remain on gradual uptrend**

- Total housing starts fell 2.6% in April following a 6.6% decline in March.
  - These declines may reflect some payback for the elevated levels of starts from unusually mild weather in early 2017.

- Multi-family starts are volatile but appear to have peaked, as they have been little changed for roughly two years.
  - The overall rental vacancy rate has increased modestly in the three quarters through 2017Q1 and the rate of increase of rents appears to have flattened out in recent months.

- Single-family starts remain at a relatively low level but continue to trend higher.
  - Homebuilder confidence remains high, and mortgage applications to purchase homes continue to edge upward.

**Credit Score at Mortgage Origination**

![Graph showing credit scores](image)

**Mortgage underwriting standards slightly looser**

- Credit standards have loosened only modestly since 2012, after tightening sharply between 2007 and mid-2009.

- Lending standards also remain tight compared to levels in the early 2000s, which preceded the subprime boom.

- Nearly 67.5 million people in the population of adults with credit reports currently have scores below 650.
  - The share of originations to borrowers below this level has fallen from 25% to 10% since the Great Recession.
**Government spending contracting**

- Over the four quarters ending in 2017Q1, real spending by the federal government was down 0.3% and real state and local government spending was down 0.6%.

- The decline in spending at the federal level was concentrated in real defense outlays.
  - Defense outlays peaked in 2010Q3 and are down 20.6% as of 2017Q1, while growth of real nondefense spending has been stable at around 2.5% for the past year.

- The decline at the state and local government level is due primarily to a steep and broad-based decline in investment in new structures and infrastructure such as roads and water treatment facilities.

**State & local government spending weak in 2017Q1**

- Real state and local government investment spending fell 6.4% in the four quarters ending in 2017Q1.
  - While revised upward from the previous estimate, investment spending in 2017Q1 remains very weak.
  - Apart from a six-quarter period, state and local investment has been declining since the Great Recession.

- State and local consumption growth has been moderate.
  - Consumption spending, which is about 80% of total state and local government consumption and gross investment spending, is dominated by wage and salary payments.
  - Consumption spending grew 0.7% in the four quarters ending in 2017Q1.
INTERNATIONAL DEVELOPMENTS

Recent data show trade deficit increasing
- The nominal trade deficit increased to $47.6 billion in April from $45.3 billion in March, owing to faster import growth and a decline in exports.
  - In real terms, exports of goods fell 0.4 percent over the month from weaker data in the consumer and auto categories.
  - Real nonoil imports increased 1.9 percent, driven by increases in imports of consumer and capital goods.
- Annual revisions to trade data show a higher overall deficit.
  - The 2016 deficit in real goods was revised up by 1.6 percent, with the gap persisting into 2017.

Lower OPEC production has not pushed up oil prices
- Oil inventories are expected to fall in 2017 after three years of substantial increases.
  - Higher demand and flat supply are anticipated to tighten the oil market.
- Global oil demand growth will come largely from China and India.
  - Demand from the United States and other advanced economies is expected to be unchanged.
- OPEC production is down substantially, in line with an agreement made at the end of 2016.
  - U.S. production is moving higher, offsetting the OPEC decline.
LABOR MARKET

Payroll Employment and Aggregate Hours

Payroll employment growth below expectations

- Nonfarm payroll employment rose by 138,000 in May.
  - Median expectations from the Bloomberg survey called for an increase of 182,000.
  - Monthly payroll gains have averaged 162,000 in 2017, below the average monthly growth of 187,000 in 2016.

- The net revision to March and April payrolls lowered employment gains by 66,000.

- Average weekly hours remained at 34.4 hours.
  - Aggregate hours worked by all private employees rose 0.1% in May.
  - The 12-month change in aggregate hours was 1.7%.

Change in Employment/Population by Education

Employment gains for the less educated

- The decline in the employment-to-population ratio in May was concentrated among more educated workers.
  - For those with less than a high school degree, the employment-to-population ratio rose 0.5 percentage point.

- Over the last year, the employment-to-population ratio has risen for the less educated.
  - For those with less than a high school degree and high school graduates, the employment-to-population ratio rose by 0.9 percentage point and 0.5 percentage point, respectively.

- The employment-to-population ratio for the more highly educated has fallen since May 2016, with the ratio 0.4 percentage point lower for those with a college degree.

Source: Bureau of Labor Statistics via Haver Analytics
**LABOR MARKET**

### Alternative Unemployment Measures

- **U-3**
  - 1-month change: -0.1
  - 1-year change: -0.4

- **U-4**
  - 1-month change: 0.2
  - 1-year change: 0.5

- **U-5**
  - 1-month change: 0.1
  - 1-year change: 0.5

- **U-6**
  - 1-month change: -0.2
  - 1-year change: 1.3

Source: Bureau of Labor Statistics via Haver Analytics

### Unemployment declines across broader measures

- The decline in U-3 in May was accompanied by declines in alternative unemployment measures.
  - The broader U-6 measure declined from 8.6% in April to 8.4% in May.

- All measures of unemployment declined in the last year.
  - Since May 2016, broader measures of unemployment such as U-4, U-5, and U-6 fell by at least as much as U-3.

- U-6, which includes marginally attached workers and workers who hold part-time jobs, but prefer full-time work, fell by the largest amount in the last year.
  - Since May 2016, U-6 fell by 1.3 percentage points to 8.4%, a level last reached in November 2007.

### Growth of Average Hourly Earnings and ECI

- Average hourly earnings rose by 0.15% in May and 2.5% over the past 12 months.

- Average weekly earnings also increased 0.15% from $900.59 to $901.97.
  - Over the past 12 months, average weekly earnings growth has mirrored average hourly earnings growth at 2.5%.

- The employment cost index rose by 2.4% for the 12 months ending in March 2017.

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
**INFLATION**

### CPI Inflation: Core Goods and Core Services

#### Core CPI inflation loses momentum in 2017

- The core CPI, which had hovered slightly above 2% over the course of 2016, has lost some momentum in 2017.

- This slowing in core CPI inflation has been widespread across prices for both core services and core goods.
  - On a 12-month change basis, core services inflation slowed from 3.1% in January to 2.6% in May; core goods inflation has moved down from -0.3% to -0.8% over the same period.

- Compared to April, May saw some firming in core services CPI inflation as well as in most of the major components of core goods CPI inflation, suggesting that the recent slowdown might be temporary.

### Michigan Inflation Expectations 5 to 10 Years

#### Median long-term inflation expectations unchanged

- According to the May Michigan Survey of Households, median long-term (five to ten years ahead) inflation expectations were unchanged from April at 2.4%.
  - The mean rose from 2.7% in April to 2.8%, with the 25th and 75th percentiles of the cross-sectional distribution both moving up by 0.1 percentage point.

- Median near-term (one-year ahead) inflation expectations increased slightly from 2.5% in April to 2.6%.
  - Mean expectations rose from 2.9% in April to 3.0%.

- These measures remain near the lower end of the narrow ranges of readings that have prevailed over the last two years.
U.S. equity markets move higher

- U.S. equity markets increased.
  - Between May 5 and June 6, the S&P 500 index increased 1.3 percent.
  - The S&P 500 index achieved an all time high on June 2.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX), remains low.
  - The VIX closed at 10.5 percent on June 6, virtually unchanged from its level on May 5.
  - On May 17, the VIX increased almost 5 percentage points to 15 percent amid a reported increase in political uncertainty, but the increase was short-lived.

U.S. bank stocks continue to underperform

- As measured by the KBW Nasdaq bank index, bank equities declined 4.5 percent between May 5 and June 6, compared to an increase of 1.3 percent for the S&P 500 index.
  - The XLFB financial sector ETF declined by 2 percent over the same period.

- For 2017 year-to-date, U.S. bank equities are lower, while the broader stock market has increased 7.6 percent.
  - For 2017 year-to-date, the KBW index is down 4.6 percent and the XLFB ETF is down 0.7 percent.
**USD Exchange Rates**

- **Dollar depreciated against major currencies**
  - The exchange value of the dollar declined against a basket of global currencies between May 5 and June 6.
    - Over this period the dollar depreciated by about 2.9 percent against the Japanese yen, 3.7 percent against the Mexican peso, and 2.4 percent against the Euro.
  - May witnessed the largest monthly decline in the exchange value of the dollar for 2017.

**Expected Federal Funds Rate**

- **Implied path for federal funds rate flattened**
  - The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) flattened between May 5 and June 6.
  - The current market-implied path out to five years remains below 3%, which is the reported longer-run value of the median respondent of both the FOMC’s March 2017 Summary of Economic Projections and the March 2017 NY Fed Survey of Primary Dealers.
FINANCIAL MARKETS

10-Year Treasury and Term Premium

- 10-year Treasury yields remain low by historical standards.
  - The 10-year yield declined by 16 basis points between May 5 and June 6, and is down by about 43 basis points from the year-to-date high observed in March.

- Estimates from the Adrian-Crump-Moench term structure model attribute the decline in the 10-year yield over the last few months to both a reduction in the term premium and a modest downward revision to the expected average short-term interest rate over the next decade.
  - The estimated 10-year term premium remains at very low levels.

5-10 Year Forward Decomposition

- Breakeven inflation little changed
  - Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) declined in May.
    - The five-to-ten year breakeven inflation rate moved down 21 basis points between May 5 and June 6.

  - According to the Abrahams-Adrian-Crump-Moench term structure model, most of the movements in forward inflation compensation continue to reflect movements in the inflation risk premium.
SPECIAL TOPIC: A NEW VIEW OF DELINQUENCY ON HOUSEHOLD DEBT

Increases in transition rates to early delinquency
- The (annualized) share of balances transitioning into delinquency refers to the percentage of balances that were current in the previous quarter but are now at least 30 days past due.
- Delinquency transitions all peaked during the Great Recession.
  - With the exception of student loans, rates on all other products are similar to or lower than levels observed since 2000.
  - However, the auto loans transition rate has shown a gradual upward trend since 2013 and credit card delinquencies have shown a recent uptick.

Flows into serious delinquency are low
- The flow into serious delinquency is defined as balances that have newly become ninety or more days delinquent in the reference quarter divided by the balances that were either current or less than ninety days past due in the previous quarter.
- Flows into serious delinquency for all loan types except student loans peaked during the Great Recession and are currently low or very low on a historical basis.
- There are some tentative signs of modest deterioration.
  - Auto loan transitions have been trending upward since 2012 and credit card transitions have ticked up recently.
  - Student loans have deteriorated steadily between 2004 and 2014 and have remained stubbornly high since then.