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 13, 2018.
- Real consumer spending in April increased robustly for the second consecutive month.
  - Both goods and services expenditures grew at a solid pace.

- Business equipment spending rose moderately in 2018Q1 and has exhibited solid growth over the past four quarters.
  - However, new orders of capital goods (excluding aircraft) have been slightly below shipments, historically an indication of little momentum over the near term.

- Housing indicators point to continued gradual improvement in this sector.
  - Tight housing supply and a strong labor market have the potential to provide continuing support to the housing sector.

- Payroll growth was robust in May after more moderate rises in March and April. The unemployment rate declined, the employment-to-population ratio rose slightly and the labor force participation rate ticked down in the month.
  - The latest readings of various measures of labor compensation continued to point to modest firming of wage growth.

- Core PCE inflation continued to run at a level roughly consistent with the FOMC’s longer-run objective.
  - The recent firming may be due in part to one-off factors.

- U.S. equity indices increased over the past month. The nominal 10-year Treasury yield was little changed. The broad trade-weighted dollar index rose. There were pressures on Italian yields and some EME currencies.

**Output near its potential level**
- Real GDP in 2018Q1 was 0.2% below the Congressional Budget Office’s (CBO) measure of real potential GDP.
  - Over the four quarters through 2018Q1, the real output gap declined about one percentage point, as real GDP increased 2.8% and real potential GDP rose 1.8%.
  - The 3.8% unemployment rate in May was below many estimates of its natural rate, including that of the CBO (4.62%).

- The CBO output gap indicates little resource slack in the U.S. economy, while the unemployment gap signals tighter resource constraints.
  - However, capacity utilization rates remain below their historical averages, suggesting some remaining slack by that measure.
**OVERVIEW**

**Labor Market Indicators**

- **Unemployment rate continues to fall**
  - The unemployment rate declined 0.1 percentage point in May to 3.8%.
  - The labor force participation rate ticked down to 62.7%. The participation rate has been fluctuating within a narrow range over the past two years.
  - The employment-to-population ratio rose slightly to 60.4%.

**Inflation maintains its higher pace**

- The total PCE price index rose 0.2% in April, after being flat in March. The core PCE price index (which excludes food and energy prices) increased 0.16% in April, essentially the same as in March.
  - Energy prices rose 1.5% in April, while food prices rose 0.3%.

- The 12-month changes in the total PCE and core PCE price indices were +2.0% and +1.8%, respectively.
  - The April reading marked the second consecutive month that total PCE inflation has been at or above 2%, the first occurrence since January and February of last year.
  - From its recent low of 1.3% in August 2017, core PCE inflation has risen by 0.5 percentage point over the past eight months.
**ECONOMIC ACTIVITY**

**GDP Growth**

Source: Bureau of Economic Analysis via Haver Analytics

**Little change to 2018Q1 GDP growth estimate**

- According to the second estimate, real GDP rose at a 2.2% annual rate in 2018Q1, a slight downward revision from the first estimate of 2.3%.

- While the revision to real GDP growth was small, there were noteworthy changes in the composition of demand.
  - The downward revision primarily reflected weaker inventory investment, lower residential investment, and a greater drag from net exports that was largely offset by stronger nonresidential fixed investment.

- Real gross domestic income, which provides an alternative measure of economic activity, increased at a 2.8% annual rate in 2018Q1.

**Strong signals from surveys as manufacturing expands**

- Manufacturing production increased 0.5% in April after remaining flat in March.

- The ISM Manufacturing Index indicated continued expansion in May at a faster pace than April, rising 1.4 percentage points to 58.7.
  - The Prices Index edged up 0.2 percentage point to 79.5 in May, continuing its acceleration since January.

- All regional Fed manufacturing surveys indicated continuing expansion.
  - The Empire State, Philadelphia, Kansas City, and Dallas surveys signaled accelerating manufacturing growth in May.

**Manufacturing and ISM Manufacturing Index**

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

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

**Disposable Income and Consumption**

![Disposable Income and Consumption Graph](source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics. Note: Shading shows NBER recessions.)

**Consumer Confidence**

![Consumer Confidence Graph](source: Conference Board, University of Michigan. Note: Shading shows NBER recessions.)

**Consumer spending continues to grow**

- Real personal consumption expenditures (PCE) increased 0.4% in April, in line with the 0.5% increase in March.
  - Both goods and services expenditure increased by 0.4% in April.

- Real disposable personal income increased 0.2% in April, the same as in March.

- The saving rate declined to 2.8% in April from 3.0% in March.

**Consumer confidence improves in May**

- The Conference Board’s Consumer Confidence Index rose to 128.0 in May, from a revised level of 125.6 in April.
  - The increase in the headline index was driven by increases in both the Expectations Index and the Present Situation Index.

- Consumers’ short-term outlook on business conditions remained essentially flat in May. Consumers’ short-term outlook on employment, on the other hand, slightly improved.

- Near-term (one-year) household inflation expectations rose to 5.0% from 4.7% in April.
  - This is the highest level in the series since September 2016.
Business Sector

Equipment Investment and Capacity Utilization

- 4-Quarter % Change
- % of Capacity
- Manufacturing Capacity Utilization Rate (Right Axis)
- Real Business Investment in New Equipment (Left Axis)
- Note: Shading shows NBER recessions.

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

Solid rise of equipment investment in past year
- Real business equipment investment rose at a 5.5% annual rate in 2018Q1 and 9.1% over the past 4 quarters.
  - All major categories had solidly positive 4-quarter changes, with the largest rises in information and “other” equipment.
  - The equipment spending share of GDP remained below its average share in 2014 – 15.
- Equipment investment has risen only moderately over the past three years, as the manufacturing capacity utilization rate remains fairly low.
  - This rate was 75.8% in April, only 0.6 percentage point above the April 2012 level and 2.5 percentage points below its longer-term average.
  - Historically, utilization rates near 75% have been associated with rather modest growth of equipment investment.

Nondefense Capital Goods Excluding Aircraft

- Bil. $, 3 MMA
- New Orders
- Shipments
- Note: Shading shows NBER recessions.

Source: Census Bureau via Haver Analytics

New orders and shipments rebound in April
- Monthly data on new orders and shipments of nondefense capital goods excluding aircraft are high frequency indicators of business investment in equipment.
  - Shipments of these goods increased 0.8% in April after declining 0.7% in March.
    - On a 12-month basis, shipments increased 7.7%, above the corresponding March increase of 6.8%.
    - However, this pace is still below the strong growth of this category in the first two months of the year.
  - New orders for this category increased 1.0% in April, after decreasing 0.8% in March.
Housing starts remain on a gradual uptrend

- Total housing starts fell 3.7% in April following a 3.6% increase in March. Despite the decline, the April level was 10.5% above the level of a year earlier.

- Single-family starts were essentially unchanged in April but remain on a gradual uptrend. The April level, at 894,000 units, was 7.2% above the year-ago level.

- Multi-family starts, which tend to be quite volatile, fell 11.3% in April following a 13.6% rise in March. They have been increasing steadily since the summer of 2017.

- The strong labor market continues to provide scope for further improvement in the housing sector.

Mortgage underwriting standards remain tight

- 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 SECTOR

Real Government Consumption and Gross Investment

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

Growth of government spending is firming

- Following relatively sluggish growth in 2016 and 2017, growth of consumption and gross investment by the government sector has firmed over the past two quarters.
  - As of 2018Q1, growth of consumption and gross investment by the federal government rose to 2.0% (four-quarter percent change), the strongest since 2010Q4.
    - The pickup in growth was concentrated in the national defense category, which was up 3.6% over the four quarters ending in 2018Q1. Nondefense spending declined slightly over the same period.
  - At the state and local level, consumption and gross investment was up a more modest 0.6% over the four quarters ending in 2018Q1.

State and local government spending remains weak

- Real state and local government consumption expenditures strengthened slightly in the first quarter.
  - Real consumption expenditure grew 0.9% in the four quarters ending in 2018Q1, up from 0.7% in 2017Q4.
  - The four-quarter change in consumption expenditures remained well below those recorded over 2015–2016.
  - Consumption, comprised mainly of wages and salaries, is about 80% of state and local government spending.
- Real state and local gross investment spending continued to decline.
  - Investment spending fell 0.7% in the four quarters ending in 2018Q1.
  - Real state and local government investment spending has declined almost 18% over the past 10 years.
**INTERNATIONAL DEVELOPMENTS**

**Real Exports and Nonoil Imports of Goods**

- Exports and nonoil imports declined over the month.
- Real goods exports decreased 0.2% over the month in April, which was largely due to a declining volume of capital goods exports (excluding autos).
- Real goods imports fell 0.4% between March and April, owing to a large decline in import volumes of consumer goods (excluding autos) and to a lesser extent auto import volumes. Oil import volumes were up over the month.

**Euro Area GDP Growth and Composite PMI**

- Euro area GDP growth slowed in the first quarter, printing at an annualized 1.5% after averaging 2.8% over the previous five quarters.
- Consumer and capital spending grew at roughly a 2% pace in 2018Q1, but exports declined at a 1.6% pace.

- Survey data suggest that the growth slowdown has continued into 2018Q2, with the composite Purchasing Managers Index seeing a sizable decline in recent months.
- At its current level, the composite PMI would ordinarily be consistent with growth of about 2%.

- Growth in line with recent survey readings would remain above most estimates of the euro area’s potential pace, implying continued labor-market tightening.
LABOR MARKET

Payroll Employment and Aggregate Hours

Payroll employment growth strong in May

- Nonfarm payrolls rose by 223,000 in May.
  - March numbers were revised upward by 20,000 and April numbers were revised downward by 5,000, resulting in a net gain of 15,000.
  - Private payrolls rose by 218,000 and government payrolls rose by 5,000.

- Aggregate hours increased 0.18% in May.
  - The 12-month change was 2.15%.
  - Average weekly hours remained at 34.5 for the fourth consecutive month.

Job openings rate reaches series high

- In April, there was more than one job opening per unemployed person (1.06) for the second consecutive month (1.01 in March).
  - The latest reading represents the highest since the series began in December 2000.
  - Over the past 12 months, the number of openings per unemployed increased by 0.19 percentage point from 0.87.

- The share of quits in total separations, an indicator of workers ability to switch employers, declined to 62.0% from 63.6% in March.
  - This share remains above levels that prevailed prior to the recession.
LABOR MARKET

**Racial Unemployment Gaps**

- **Black-White**: Approximately 8% difference in 2009 and about 1% in the current year.
- **Latino-White**: About 4% difference in 2009 and around 1% in the current year.
- **Asian-White**: Minimal difference, close to 0%.

Source: Bureau of Labor Statistics via Haver Analytics

**Big declines in racial unemployment gaps**

- The racial unemployment rate gap—defined relative to white workers—has declined substantially.
- The Black-White gap was above 8 percentage points during the Great Recession. It is currently 3 percentage points.
- The Latino-White gap has come down from 4 to 1.4 percentage points.
- The Asian-White gap is negligible and negative.

**Growth of Average Hourly Earnings and ECI**

- **Annual % change** for Average Hourly Earnings and Employment Cost Index.
- Note: Shading shows NBER recessions.

**Compensation growth remains modest**

- Average hourly earnings rose by 0.30%, from $26.84 in April to $26.92 in May.
  - The 12-month change was 2.71%.
  - Wage growth has picked up from the pace of the previous three months, but it still has not moved decisively above its recent prevailing range.
- Average weekly earnings also increased 0.30% from $925.96 to $928.74.
- The employment cost index rose 2.7% for the 12 months ending in March 2018.
**INFLATION**

**CPI Inflation: Core Goods and Core Services**

- The 12-month change in the core index was 2.2% in May, up from 2.1% in April and March, and 1.8% in February.
  - Core inflation seems to be finally in line with the FOMC long run goal (expressed in CPI terms).

- Core services prices continued to rise strongly.
  - The 12-month change in this index was 3.0% in May, compared to the 2.9% increase as in April and March.

- Core goods prices continued to fall, but at a lesser pace than a year ago.
  - The 12-month change in core goods prices was -0.3% in May and -0.4% in April, less negative than the 1.0% decline recorded last October.

**PCE Inflation: Health Care**

- In the PCE deflator, which is the FOMC’s preferred measure of inflation, health care services have a much higher weight (around 17%) than in the CPI (6.7%).
  - The PCE deflator covers all health care consumed, regardless of who pays for it, while the CPI covers only health care that consumers pay for out of pocket.

- As seen in the chart, the rate of increase of PCE deflator health care prices increased sharply over the six months ending in March, putting upward pressure on overall inflation.

- This surge in health care services inflation was due to one time increases in reimbursements to hospitals beginning in October of 2017. We expect this inflation rate to slow to its previous trend in the coming months.
FINANCIAL MARKETS

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

- The S&P 500 index rose 3.7% between May 7 and June 7 and 7.3% from its recent low on April 2, but remains 3.6% below its January 26, 2018 all-time high.
- As of June 7, the index was up 3.6% year-to-date.

**U.S. Bank Equities Performance**

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains well below its recent high.
- The VIX Index closed at 12.13 on June 7, well below its 37.32 multi-year high on February 5, but slightly above its 2017 year-end value of 11.04.

**Bank stocks perform in line with broader market**

- As measured by the KBW Nasdaq bank index, bank equities rose 2.5% between May 7 and June 7, and 5.6% from their recent low on March 23.
  - As of June 7, the index was up 2.9% year-to-date.
- The XLF financial sector ETF also rose 2.1% between May 7 and June 7, and 4.5% from its recent low on March 23.
  - As of June 7, the index was up 0.5% year-to-date.
FINANCIAL MARKETS

U.S. dollar appreciates modestly

- The exchange value of the dollar against a basket of global currencies increased 0.9% between May 7 and June 7.
  - Over this same period the dollar appreciated by 1% against the euro, 0.56% against the Japanese yen, and 5.2% against the Mexican peso.

- Since the start of 2018, the dollar has appreciated 0.9% against a basket of global currencies.

Implied path for federal funds rate little changed

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved up slightly for short maturities and remained largely unchanged for longer maturities between May 7 and June 7.

- The market-implied path remains somewhat below the median path of the FOMC’s March 2018 Summary of Economic Projections and the May 2018 NY Fed Survey of Primary Dealers at longer horizons.
FINANCIAL MARKETS

10-Year Treasury and Term Premium

Source: NY Fed calculations, Federal Reserve Board
Note: 5-day moving average, zero-coupon yield.

 Longer-term Treasury yields decline modestly

- Longer-term Treasury yields have slightly decreased since early May.
  - The 10-year yield decreased about 4 basis points between May 7 and June 7, but remains close to its highest level in the past four years.

- Estimates from the Adrian-Crump-Moench term structure model attribute the modest decrease in the 10-year yield to a more negative term premium, which was only partially compensated by a higher path for the short term interest rate:
  - The 10-year term premium decreased by 11 basis points between May 7 and June 7.
  - The estimated path for the short term interest rate increased by 7 basis points in the same period.

Breakeven inflation declines slightly

- 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 2.14% on June 7, little changed over the last month but up by about 20 basis points year-to-date.

- According to the Abrahams-Adrian-Crump-Moench model, most of the movements in forward inflation compensation continue to reflect movements of the inflation risk premium.
  - The estimated five-to-ten year inflation risk premium has increased 13 basis points year-to-date.
SPECIAL TOPIC: HOMEOWNERSHIP AND HOUSING WEALTH

Aggregate housing wealth has recovered

- Aggregate housing wealth, as measured by owners’ equity, has recovered and surpassed the previous nominal peak.
  - Equity is the difference between house value and any debt secured by the property.
  - Equity grew rapidly from 1995-2005, exceeding $13 trillion, then fell by more than 50% to $6.5 trillion.
  - Since 2012, steady increases in house prices and slow mortgage debt growth have bolstered owners’ equity.
- Measured as a percentage of the home value, owners’ equity held steady during the housing boom, as owners borrowed against their increasing equity.
  - Equity as a share of home value has now recovered to its pre-crisis range.

Home equity shifts to older, more credit worthy

- Tappable equity is measured as home equity in excess of 20% of the home value; this measure has reached an all-time high.
- Between 2006 and 2017, home equity has shifted toward older, more creditworthy borrowers.
  - Borrowers over age 60 went from holding 24% of aggregate home equity to 41%.
  - Borrowers under 45 held 24% of aggregate home equity in 2006 as compared to only 14% in 2017.
  - Individuals with credit scores over 780 now hold more than half of aggregate home equity, up from 2006.
**SPECIAL TOPIC: HOMEOWNERSHIP AND HOUSING WEALTH**

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**Aggregate equity extraction remains low**

- Without selling the home, equity can be extracted through either cash-out refinances or through home equity lines of credit (HELOCs).

- Aggregate home equity extraction was an important source of collateralized credit for households until 2008, accounting for $300-400 billion annually, but has totaled only about $60 billion annually since 2014 with little sign of reversal.
  - Cash-out refinances have begun to increase, as borrowers took advantage of historically low interest rates.
  - Second mortgage draws have continued to decline as tight underwriting and shifts in equity have limited originations to older and higher score borrowers.

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**Home Equity Extraction through Refis and HELOCs**

- **Annual Change (Billions of Dollars)**
- **Width of the chart:** 720.0x540.0

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Source: New York Fed Consumer Credit Panel / Equifax

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