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 12, 2020.
Consumer spending cratered in April.
  - Real spending on both goods and services plummeted, while nominal personal income rose sharply because of the payments authorized under the CARES Act of 2020.
  - Consumer confidence stabilized in May.

Real business equipment spending declined sharply in 2020Q1, its largest fall since 2009Q1.
  - New orders and shipments of nondefense capital goods ex-aircraft plummeted in April.

Housing activity continued to slow considerably in April.
  - Single-family housing starts as well as pending and existing home sales dropped sharply, reflecting the adverse effect on the housing market from the COVID-19 pandemic and measures to address it.

Payroll employment rose significantly in May. The unemployment rate fell, mainly due to a decline in temporary layoffs, while the labor force participation rate and the employment-to-population ratio both increased.
  - Aggregate weekly hours worked by all private employees rose in May.

Core PCE inflation declined and remained below the FOMC’s longer-run objective.

U.S. equity indices improved substantially over the last month. Implied volatility declined. The nominal 10-year Treasury yield remained near all-time lows. The market-implied expected policy rate path over the next year remained near zero. The broad trade-weighted dollar index fell. Oil prices recovered some.

Output falls below potential in 2020Q1
  - The level of real GDP in 2020Q1 was about 1.2% below the estimate (from January) of real potential GDP from the Congressional Budget Office (CBO).
    - For comparison, the historical (1949–2019) average of this measure of the output gap is -0.6%.
    - Real GDP likely will fall further below real potential GDP in the second quarter because of the impact of COVID-19.
    - The 13.3% unemployment rate in May was well above estimates of its longer-run natural rate, including the CBO’s estimate from January (4.43%), and is likely remain so over the near term.

Although estimates of potential are more uncertain amid the backdrop of COVID-19, there appears to be considerable resource slack currently in the U.S. economy.
  - Capacity utilization rates also have fallen to very low levels.
**Labor market conditions marginally improve in May**

- The unemployment rate decreased from 14.7% in April to 13.3% in May.
- Nonfarm payrolls increased by more than 2.5 million in May.
  - Employment in goods-producing industries saw an increase of 669,000, driven by increases in construction (+464,000) and manufacturing (225,000).
  - Employment in private service-providing industries increased by 2.4 million, with large increases in leisure and hospitality (+1.2 million), education and health services (+424,000), trade, transportation, and utilities (+368,000), and retail trade (+367,800).
- The employment-to-population ratio increased from 51.3% in April to 52.8% in May.

**Inflation continues to run below 2 percent**

- The total PCE price index fell 0.5% in April, after declining 0.2% in March. The core PCE price index (which excludes food and energy prices) fell 0.4% in April, after falling 0.1% in March.
  - Energy prices plunged 9.2% in April, and are down 17.6% relative to one year ago. Food prices rose 2.4% and are up 3.9% compared to one year ago.
- The 12-month changes in the total and the core PCE price indices both declined further to +0.5% and +1.0%, respectively.
  - Core PCE inflation remains below the FOMC's 2 percent longer-run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change – Annual Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6.0%</td>
</tr>
<tr>
<td>2002</td>
<td>1.0%</td>
</tr>
<tr>
<td>2004</td>
<td>2.0%</td>
</tr>
<tr>
<td>2006</td>
<td>1.0%</td>
</tr>
<tr>
<td>2008</td>
<td>-0.5%</td>
</tr>
<tr>
<td>2010</td>
<td>-6.0%</td>
</tr>
<tr>
<td>2012</td>
<td>1.0%</td>
</tr>
<tr>
<td>2014</td>
<td>2.0%</td>
</tr>
<tr>
<td>2016</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2018</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis via Haver Analytics

**Real GDP in 2020Q1 revised downward**

- The second estimate of real GDP growth for 2020Q1 was -5.0% (annual rate), downwardly revised from the first estimate of -4.8%. The 4-quarter change was +0.3%.
- A downward revision to inventory investment more than offset upward revisions to personal consumption expenditures and nonresidential structures investment.
- Real personal consumption expenditures fell at a 6.8% annual rate in Q1, a less severe fall than in the first estimate, but still the largest since 1980Q2.
- On the income side, corporate profits fell 13.9% (quarterly rate) in 2020Q1, the most severe fall since 2008Q4.
- Real gross domestic income fell 4.2% (annual rate) in 2020Q1. Its 4-quarter change was +0.2%.

**Manufacturing and ISM Manufacturing Index**

<table>
<thead>
<tr>
<th>Year</th>
<th>12 Month % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>15.0%</td>
</tr>
<tr>
<td>2002</td>
<td>10.0%</td>
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<tr>
<td>2004</td>
<td>5.0%</td>
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<tr>
<td>2006</td>
<td>0.0%</td>
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<tr>
<td>2008</td>
<td>-5.0%</td>
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<tr>
<td>2010</td>
<td>-10.0%</td>
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<tr>
<td>2012</td>
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<tr>
<td>2014</td>
<td>0.0%</td>
</tr>
<tr>
<td>2016</td>
<td>5.0%</td>
</tr>
<tr>
<td>2018</td>
<td>10.0%</td>
</tr>
<tr>
<td>2020</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

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

**Manufacturing activity plunges in May**

- Manufacturing production plummeted 13.7% in April, the largest monthly decrease in the history of the series.
  - The 12-month change in manufacturing production was -18.0%
- The ISM PMI rose 1.6 percentage points in May to 43.1.
  - New Orders, Production and Employment indices remained below 50.0, indicating continued contraction in manufacturing activity.
- All five regional Fed surveys showed further deterioration in the manufacturing sector, albeit at a slower rate compared to April.
**HOUSEHOLD SECTOR**

**Disposable Income and Consumption**

- **Consumption drops, but income surges in April**
  - Nominal personal consumption expenditures (PCE) plunged 13.6% in April, or $1.9 trillion at an annual rate.
  - Nominal personal income jumped 10.5%, or almost $2 trillion at an annual rate, thanks to a $3 trillion increase in government social benefits to persons.
    - Wages and salaries declined 8%, while proprietors’ income fell 12.2%.
  - Personal saving rose by $4 trillion, to $6.1 trillion (both at an annual rate), which represents 33% of disposable personal income.

**Consumer Confidence**

- **Consumer confidence stabilizes in May**
  - The Conference Board Index was at 86.6 in May, up slightly from 85.7 in April.
    - The Michigan Survey Index was at 72.3 in May (compared to 71.8 in April).
  - Consumer confidence remained way below February levels.
    - The Conference Board Index was at 132.6 and the Michigan Survey Index at 101.0 in February.
  - For the Conference Board measure, the Expectations component improved in May, while the Present Situation component deteriorated.
    - The Expectations Index rose moderately from 94.3 in April to 96.9 in May.
    - The Present Situation Index continued to fall in May, from 73.0 in April to 71.1.
**Equipment Investment and Capacity Utilization**

- **Equipment spending falls sharply in 2020Q1**
  - Real business equipment investment declined 16.7% (annual rate) in 2020Q1, its largest fall since 2009Q1. It has fallen for three straight quarters. The 4-quarter change was -6.2%.
    - In 2020Q1, spending declined significantly for all major categories of equipment. The most severe fall occurred for transportation equipment.
  - Weak equipment investment over recent quarters has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
    - This rate was 61.1% in April, its historical low (since 1948) and about 17 percentage points below its long-run average.
    - Historically, low utilization rates have been associated with weak equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- **Capital goods shipments plummet in April**
  - Shipments of nondefense capital goods excluding aircraft fell 5.7% in April, their largest decline since January 2009. The April level of these shipments was 6.7% below the average in 2020Q1.
    - This measure is a proxy for equipment spending that is available at a monthly frequency.
  - New orders of nondefense capital goods excluding aircraft fell 5.8% in April.
  - New orders for these goods were roughly equal to shipments in April.
**HOUSING SECTOR**

### Housing Starts

<table>
<thead>
<tr>
<th>Housing Starts</th>
<th>Thousands, 3 MMA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Multifamily (Left Axis)</td>
</tr>
<tr>
<td></td>
<td>Single Family (Right Axis)</td>
</tr>
</tbody>
</table>

Source: Census Bureau via Haver Analytics  
Note: Shading shows NBER recessions.

### Housing starts plunge further in April

- Total housing starts fell by 30.6% in April to 891,000 units (annual rate). This drop was the largest one-month decline in the history of the series (since 1959).
- Single-family starts dropped 25.4% in April. The 12-month change was -24.8%.
  - The April level of single-family starts was similar to those seen during 2014.
- Multi-family starts plummeted 40.5% in April. The 12-month change was -40.2%.
  - The April level of multi-family starts was similar to those seen during mid-2013.
- Single-family permits decreased 24.3% in April, while multi-family permits fell 14.2%.

### Credit Score at Mortgage Origination

<table>
<thead>
<tr>
<th>Score</th>
<th>10th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25th percentile</td>
</tr>
<tr>
<td></td>
<td>Median</td>
</tr>
</tbody>
</table>

Source: New York Fed Consumer Credit Panel/Equifax  
Note: Credit Score is Equifax Riskscore 3.0; Mortgages include first-liens only.

### Mortgage underwriting tight pre COVID-19

- The median credit score of newly originated mortgages has remained stable for nearly 7 years and is now at 765.
  - While this loosened very slightly since 2009-2012 when it peaked at over 780, underwriting standards leading to the current recession have been tighter than they had been in the years preceding the Great Recession.
  - The 10th percentile, which could be interpreted as the minimum required score to get a mortgage, is just above 650.
- Only a small share of newly originated mortgages are to non-prime borrowers, while the origination volume to those with scores over 760 has been high, though fluctuating with refinance booms.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- Growth of real government spending moderates
  - Real government consumption and grows investment grew 2.5% over the four quarters ending in 2020Q1, down from 3.0% in the prior quarter.
    - Increased real government spending contributed 0.42 percentage point to growth over the four quarters ending in 2020Q1, down a tenth from the prior quarter.
  - Real Federal spending was up 4.2% in 2020Q1, down slightly from the prior quarter.
    - Growth in real nondefense spending rose to a multi-year high of 6.4%, while growth in defense spending slowed to 2.7%.
  - Real spending by state and local governments slowed to 1.4% for the four quarters ending in 2020Q1.

**State and local sector spending growth moderates**

- Over the four quarters ending in 2020Q1, growth of real consumption at the state and local level slowed mildly to about 0.64% on a four-quarter change basis.
  - Consumption expenditures consist largely of employee salaries and make up over 80% of the sector’s total spending.
- State and local gross investment spending growth declined moderately to about 4.9% over the four quarters ending in Q1.
  - The categories of gross investment are, in order of importance, new equipment such as computers, intellectual property products such as software, and public works and infrastructure projects.
**International Developments**

### Real Exports and Nonoil Imports of Goods

![Chart showing real exports and nonoil imports of goods](chart.png)

- **The trade deficit continues to widen**
  - The trade deficit was $49.4 billion in April, up $7.1 billion from a revised $42.3 billion in March.
    - Real exports of goods fell a staggering 20.4% between March and April, driven primarily by falls in exports of capital goods (excluding autos) and automobiles.
    - Real imports of goods declined substantially in April (11.5%), driven by imports of durable goods, such as capital goods (excluding autos).
  - The data reported reflect the global impact of the COVID-19 pandemic on trade flows around the world.

### Crude Oil Prices

![Chart showing crude oil prices](chart.png)

- **Oil prices stage a partial recovery in May**
  - Oil prices (WTI) were near $40/barrel in the second week of June.
    - Prices were around $20/barrel at the beginning of May.
    - Prices averaged $57/barrel in 2019.
  - Global oil demand collapsed with the pandemic.
    - Demand may drop as much as 10% in 2020.
    - U.S. refinery demand for crude oil was down 20% over the year in April, May, and early June.
  - Oil prices are rising because of cuts in global supply.
    - U.S. crude production started falling in April and was down 10% over the year in early June.
    - A drop in imports, notably from Canada, has moderated the fall in U.S. production.
**Labor market shows tentative signs of improvement**

- Nonfarm payrolls increased by 2.5 million in May, ahead of the Bloomberg median forecast of a 7.5 million decline.

- Private payroll employment rose by 3.1 million, largely due to an increase of 2.4 million in service-providing industries.
  - Payrolls rose sharply in leisure and hospitality (+1.2 million), reflecting a limited resumption of activity in this sector.

- Government payroll employment fell by 585,000 in May.
  - Local government contracted sharply (-487,000), with school closures accounting for two thirds of the decline.

- Aggregate weekly hours worked by all private employees expanded by 4.4% in May.

**Number of unemployed persons falls significantly**

- The number of unemployed persons dropped by 2.1 million to 21 million.
  - This decline was largely due to a decrease in the number of workers on temporary layoff (-2.7 million to 15.3 million).
  - The number of permanent job losers continued to rise, increasing by 295,000 to 2.3 million in May.

- An alternative measure of unemployment, U6, which includes marginally attached workers and workers who hold part-time jobs, but prefer full-time jobs, fell to 21.2% in May from 22.8% in April.
Unemployment rates by race and ethnicity vary

- While the official May jobs report shows a 13.3% unemployment rate, workers of different races experienced the relative improvement in labor market conditions differently.
  - The unemployment rate for Whites dropped from 14.2% in April to 12.4% in May. The unemployment rate for those of Hispanic or Latino ethnicity also dropped, but from a historic high of 18.9% to 17.6%.
  - The unemployment rate for Black or African Americans was little changed at 16.7% in April and 16.8% in May. For Asians, their unemployment rate rose from 14.5% in April to 15.0% in May.

Average hourly earnings fall in May

- Average hourly earnings fell by 1% over the month from $30.04 in April to $29.75 in May.
  - This decrease reflects job gains in particular in leisure and hospitality and in retail trade—industries with on average lower pay.
  - On a 12-month basis, average hourly earnings have increased by 6.8%.

- Average weekly earnings rose by 0.5% over the month, from $1027.37 in April to $1032.33 in May.
  - Average weekly earnings have increased by 7.7% over a 12-month period.
## INFLATION

### CPI Inflation: Core Goods and Core Services

![Graph showing CPI Inflation: Core Goods and Core Services](image)

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

### May core inflation falls further away from FOMC goal

- Core CPI fell again on a monthly basis (-0.1%), but much less than in April (-0.4%).
- On a 12-month basis core CPI inflation fell further away from the FOMC’s longer-run goal, but its second derivative has turned positive suggesting that we may see less of a deterioration in future months if the economy recovers at a reasonable pace.
  - The 12-month change in the core index was 1.2%, half of what it was only three months ago and below the April 12-month change (1.4%).
- 12-month core services inflation was 2.0% in May.
  - Inflation for rent of primary residence and owners’ equivalent rent showed some resilience.
- Core goods prices were down 1.0% over the past 12 months.

### Mean Probabilities for Core PCE Inflation in 2020

![Bar chart showing Mean Probabilities for Core PCE Inflation in 2020](image)

- **Source:** US Survey of Professional Forecasters

### Inflation forecast distributions shift down in 2020Q2

- The U.S. Survey of Professional Forecasters requests density (histogram) forecasts that show the probability of inflation falling into 10 separate ranges.
  - The 2020Q2 survey was fielded from April 29 through May 12, with results released on May 15.
- Compared to last quarter, the forecast distribution for core PCE inflation in 2020 (Q4/Q4) shifted to the left, giving more probability to the 1.0 – 1.4% range and less probability to the 1.5 – 1.9% and 2.0 – 2.4% ranges.
  - Forecasters reported an 83% average chance of core PCE inflation below 2%, 27 percentage points more than in the 2020Q1 survey.
  - The forecast distribution for 2021 core PCE inflation (not shown) also shifted to the left: The mean probability of core inflation being below 2% was about 71%.
FINANCIAL MARKETS

U.S. equity markets improve

- U.S. equity markets have improved substantially during the past month, yet still remain below their all-time highs.
  - The S&P 500 index rose 12.1% between May 6 and June 5 and 42.7% from its recent low on March 23. It is now only 5.6% below its February 19, 2020 all-time high.
  - As of June 5, the index was down 1.1% year to date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), declined.
  - The VIX Index closed at 24.52 on June 5, well below its 82.69 record high on March 16, 2020, but still above its 2019 year-end value of 13.78.

U.S. dollar depreciates modestly

- The exchange value of the dollar against a basket of global currencies decreased 3.6% between May 6 and June 5.
  - Over this same period the dollar depreciated by 4.4% against the euro and by 11.5% against the Mexican peso. However, the dollar appreciated by 3.3% against the Yen.

- Since the start of 2020, the dollar has appreciated 2.1% against a basket of global currencies.
Large improvement in bank stocks performance

- As measured by the KBW Nasdaq bank index, bank equities increased 28.9% between May 6 and June 5, and are up 55.5% from their low on March 23.
  - As of June 5, the index was down 23.4% year to date.
- The XLF financial sector ETF increased 23% between May 6 and June 5, and is up 48.6% from its low on March 23.
  - As of June 5, the index was down 14.8% year to date.

Implied path for federal funds rate little changed

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) remains unchanged for short maturities and increased by 10 basis points for longer maturities between May 6 and June 5.
- The market-implied path remains well below the median path of the FOMC’s Summary of Economic Projections from December 2019 and the NY Fed’s Survey of Primary Dealers from January 2020.
**10-Year Treasury and Term Premium**

- Longer-term Treasury yields remain at all-time lows
  - Longer-term Treasury yields remain below 1%, near all-time lows.
  - The 10-year yield increased about 5 basis points between May 6 and June 5.
  - The 10-year yield is currently 120 basis points lower than its level at the end of 2019.
  - Estimates from the Adrian-Crump-Moench term structure model indicate that the term premium increased slightly alongside the increase in yields.
  - 10-year term premium increased by 9 basis points between May 6 and June 5 as a five-day moving average.

**Breakeven inflation increases slightly**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) have increased slightly.
  - The five-to-ten year breakeven inflation rate was 1.45% on June 5, increasing by 5 basis points since May 6 as a five-day moving average.
  - According to the Abrahams-Adrian-Crump-Moench model, the expected inflation risk premium has declined slightly.
  - The estimated five-to-ten year inflation risk premium has decreased by 5 basis points between May 6 and June 5 as a five-day moving average.
SPECIAL TOPIC: CHINA

**Industrial Production and Investment**

- China’s economic recovery remains uneven
  - China’s economic lockdown lasted from January through March. Phased re-openings began in the second half of March and are now largely complete.
  - Economic recovery has been uneven and generally weakest in activities involving travel and face-to-face social interaction.
    - Manufacturing has witnessed a strong V-shaped recovery, with industrial production fully regaining its pre-crisis level by April.
    - Infrastructure investment and construction have also staged solid recoveries, albeit more slowly than manufacturing.
    - Local government fiscal stimulus is expected to further boost infrastructure investment. However, property construction may be restrained by government efforts to discourage property speculation.

**Retail Sales and New Export Orders**

- The consumer sector remains cautious
  - The recovery in retail sales has been more fish-hooked than V-shaped. The estimated level of real retail sales fell by as much as 10.5% year-over-year (y/y) in February, and was still down by 9.1% y/y in April.
  - Consumer demand remains constrained by ongoing social distancing measures, income losses, and rising unemployment.
    - China’s surveyed unemployment rate currently stands at 6%—a 0.8 percentage point increase from December—but is substantially under-reported.
  - China’s employment outlook is further clouded by the collapse in demand in its export markets.
    - New export orders were 35.3 in April, signaling contraction.
SPECIAL TOPIC: CHINA

Credit growth accelerates notably in recent months

- Aggregate credit growth increased to 13.0% y/y in May from 11.3% y/y at end-2019.

- Corporate loans and corporate and local government bond issuance have driven the recent pick-up in credit growth.
  - Medium- to long-term corporate loans have accelerated to support new infrastructure lending.
  - New corporate bond issuance has been robust as offshore issuers have shifted onshore amid lower and more stable onshore financing conditions.

- Growth in short-term consumer credit and mortgage lending has remained stable.
  - The outlook for consumption and consumer finance remains a key watch point as the recovery continues.

Focus on China’s policy response

- Expectations are for policy – and credit growth – to remain broadly supportive as China continues its economic recovery.
  - However, Chinese authorities are trying to balance the need for continued credit support with long-standing financial stability concerns related to credit misallocation.

- Policy support measures have largely focused on targeted lending programs for SMEs, local and corporate bond issuance and some easing of shadow credit restrictions.

- The credit impulse (i.e., the change in the flow of new credit as a percentage of GDP) has surged to 6.1% of GDP from 1.9% in January.
  - The credit impulse correlates well with alternative growth indicators for China.