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 18, 2021.
Activity data point to an ongoing recovery and the inflation rate accelerated.

- Output in Q1 rose to near its year-ago level.
  - Consumption was the biggest contributor to growth, while exports and investment spending on structures underperformed.

- Personal income fell in April because of a steep decline in government transfer payments.
  - Saving as a percent of personal income fell from 21% in Q1 to 15% in April.

- Housing starts were down in May relative to the March peak, but in line with pre-pandemic levels.

- Payroll employment growth increased in May and the unemployment rate fell.

- Core PCE inflation over the year rose to 3.1% in April, with the annualized change since February 2020 at 2.2%.

- The 10-year Treasury yield declined from May 7 to June 11, although it is still up around 65 basis points since the beginning of the year. Stock indices were little changed, remaining near all-time highs, and the dollar appreciated against the euro and the yen. The marked-implied federal funds rate path shifted down for maturities greater than two years.

### Real GDP

Trillions of 2012 dollars, annualized

![Graph showing Real GDP from 2013 to 2021](image)

Source: Bureau of Economic Analysis via Haver Analytics

### Output moved closer to its pre-pandemic level in Q1

- Even after rapid growth in the past three quarters, Q1 GDP was 0.9% below its Q4 2019 peak.
  - In the March Summary of Economic Projections (SEP), the median for the longer-run GDP growth rate was 1.8%.
  - The March Blue Chip survey put expected average annual growth over the 2023-27 period at 2.1%.
  - The Q1 GDP level is about 3% below what it would have been if, since Q4 2019, output grew at a rate close to longer-run forecasts.

- The labor market suggests there is still considerable slack in the economy.
  - The 5.8% unemployment rate in May was above the long-run forecasts of near 4.0% in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.
The labor market recovery continued in May

- Nonfarm payroll employment increased by 599,000 in May.
  - Payrolls in private service-providing industries rose by 492,000, with notable gains in leisure and hospitality (292,000), education and health services (87,000), professional and business services (35,000), information (29,000), transportation and warehousing (22,900), and wholesale trade (19,900).
  - Employment in goods-producing industries changed little.

- The unemployment rate fell from 6.1% to 5.8%.

- Labor force participation edged down to 61.6%, driven by lower male participation, and the employment-to-population ratio ticked up to from 57.9% to 58.0%.

Inflation picked up in April

- The PCE price index was up 3.6% over the year in April, an increase from 2.4% in March.
  - Durable goods inflation rose from 2.4% to 5.2%.
  - Energy inflation accelerated from 13.0% to 24.8%.
  - Food inflation dropped from 2.9% to 0.9%.

- Core inflation rose from 1.9% to 3.1%.
  - The indices for used cars, car rentals, and airfares were up sharply.

- Year-over-year calculations are distorted by the pandemic.
  - Overall inflation relative to February 2020 increased from 2.0% to 2.4%, annualized.
  - Core inflation rose from 1.7% to 2.2%.
Robust GDP growth continued in Q1

- GDP rose at a 6.4% annual rate in Q1, after rising at a 4.3% rate in Q4. The four-quarter change was 0.4%, the highest since Q1 2020.
  - Real consumer spending rose at a 11.3% rate.

- Consumption, business spending on equipment and intellectual property products, residential investment, and federal government spending contributed to GDP growth.
  - Business spending on structures, inventory investment, and net exports were drags on growth.

- Real gross domestic income rose 6.8%, putting it above its pre-pandemic peak.
  - The four-quarter change was 1.6%.

Manufacturing activity increased in May

- The manufacturing index rose 0.9% in May.
  - The index was up 1.6% relative to Q1 and up 2.1% over Q4 2020.

- The major outlier across industries was the motor vehicles sector, which jumped 6.7%, suggesting an easing of the semiconductor shortage.
  - The index was still down 5.7% compared to Q4 2020.
  - Manufacturing excluding motor vehicles was up 2.8% relative to Q4.

- The ISM index for manufacturing rose slightly in May.
  - The index was at an unusually high level, suggesting strength in the sector going forward.
**Transfers continued to dictate swings in income**

- Nominal personal income fell 13.1% in April, driven by a substantial drop in personal transfer receipts.
  - Personal transfer receipts decreased $3.4 trillion (annualized) in April, a retreat from the increase of almost $4 trillion in March.
  - Compensation of employees rose 0.9%.
- Real personal consumption expenditures (PCE) fell 0.1% in April, following a revised increase of 4.1% in March.
  - Real PCE was about 1.8% above its February 2020 level.
- The personal saving rate fell to 14.9% after a jump to 27.7% in March.
  - The saving rate averaged 7.5% in 2019.

**Spending shifted slightly from goods to services**

- Goods consumption declined 1.3% after increasing by 8.9% in March.
  - Spending on durables fell 0.9% while that of nondurables contracted 1.6%.
  - Consumption of goods was 16.5% above its February 2020 level, with durables up 30.8%.
  - Retail sales data suggest spending on goods remained high in May.
- Spending on services rose a modest 0.6% in April after rising by 1.6% in March.
  - The largest increases were in recreation services (6.1%), food services (2.2%), and accommodations (1.8%), reflecting the re-opening of businesses.
**BUSINESS SECTOR**

### Equipment spending increased in Q1
- Real business equipment spending rose at a 13.4% annual rate in Q1, its third straight double-digit increase.
  - Equipment added 0.8 percentage point to annualized GDP growth.
  - The rise in equipment spending was most pronounced in the information processing category.
  - Equipment spending in Q1 was 5% above its previous peak in Q1 2019.
- Data through April on orders of capital goods suggest continued momentum in equipment spending.
- The capacity utilization rate for manufacturing was 75% in April, below its recent peak of 78% in 2018.

### Nonresidential structures spending fell in Q1
- Real nonresidential structures investment spending decreased 5.7% (annual rate) in Q1.
  - There were declines in the commercial/healthcare, power/communication, and “other” categories.
  - The drop in spending took 0.2 percentage point off annualized GDP growth.
- The level of spending in the energy sector was an outlier as it increased over the previous quarter.
  - Mining, exploration, shafts, and wells spending was still down 35% over the year.
- Monthly data on nonresidential construction through April do not yet point to a turnaround in the sector.
**HOUSING MARKET**

**Housing Starts**

 Thousands, 3-month average, annualized

- **Single-family**
- **Multi-family**

- Total housing starts increased 3.6% in May to 1.572 million units (annual rate). Starts were lower than the recent March peak, but in line with pre-pandemic levels.
  - Building permits declined modestly.

- Single-family starts rose 4.2% to 1.1 million units.
  - The three-month average of single-family starts remained significantly above pre-pandemic levels.

- Multi-family starts increased 2.4% to 474,000 units.
  - The three-month average moved above 2015-19 levels.

**New and Existing Home Sales**

 Thousands, annualized

- **Existing Single-Family Sales**
- **New Single-Family Sales**

- Existing home sales marked the third straight month of decline, falling by 2.7% in April to 5.85 million units.
  - Sales were still up 33.9% over the April 2019 level.

- New single-family home sales decreased 5.9% in April to 863,000 units.
  - Sales were still up 48.3% over the April 2019 level.

- Supply constraints and higher home prices continue to be headwinds to sales.
**Federal Government Spending**

Real federal spending jumped in Q1
- Real federal government spending contributed 0.9 percentage point to annualized Q1 growth.
  - Spending was up 5.4% over the year.
- The increase was entirely in nondefense spending.
  - Real nondefense spending added 1.1 percentage points to growth, while defense spending subtracted 0.1 percentage point.
- A surge in payments to banks for processing Paycheck Protection Program loan applications accounts for most of the pickup in nondefense spending.

**State and Local Government Spending**

State and local government spending rose in Q1
- State and local government spending added 0.1 percentage point to annualized Q1 GDP growth.
  - Spending was down 2.3% over the year.
- S&L consumption rose for the first time since Q4 2019.
  - Spending tracks employment which increased in Q1.
  - Employment continued to move higher in April and May.
- Investment spending was dragged down by a small drop in spending on structures.
  - S&L spending has been stable during the pandemic.
**Imports continued to be strong while exports lagged**

- Exports and imports of goods and services headed in opposite directions in Q1.
  - Lower exports took 0.1 percentage point off annualized GDP growth and higher imports took 0.8 percentage point off.

- Exports remained below pre-pandemic values.
  - Demand for U.S.-produced capital goods remained weak.
  - Service trade, particularly tourism, was depressed.

- Imports have recovered from the COVID-19 shock.
  - Purchases of durable consumer goods and capital goods have been particularly strong.
  - Imports of goods offset low imports of services.

**Exports of goods to Asia and Europe moved higher**

- Exports of goods to Asia and Europe have fully rebounded after collapsing in Q2 2020.
  - Sales to both regions rose sharply in Q3 2020 from very low levels in Q2.
  - Exports picked up in March and April.

- Exports to Europe returned to pre-pandemic levels in April.
  - Sales to Germany were particularly strong, while sales to France and the U.K. were less impressive.

- Exports to Asia exceeded pre-pandemic levels.
  - A retreat in sales to China from a high level was offset by increased exports to Japan, Korea, and the ASEAN countries.
**Payroll Employment and Hours Worked**

- Total nonfarm payroll employment rose by 559,000 in May.
  - Employment gains were concentrated in the leisure and hospitality sector (292,000), with nearly two-thirds of this increase in food services and drinking places (186,000).
  - With the May reading, nonfarm payroll employment is 7.6 million (5.0%) below its level in February 2020.
- Government payroll employment expanded by 67,000, with increases in state (45,000) and local (33,000) government payrolls countering a decline in federal government employment (-11,000).
- Aggregate weekly hours rose 0.4% over the month.

**Vacancy and Quits Rates**

- At the end of April, the job opening level and the rate (job openings divided by total employment plus job openings) reached series highs of 9.3 million and 6.0%, respectively.
  - Notable increases in job openings occurred in accommodation and food services (349,000), other services (115,000), and durable goods manufacturing (78,000).
- Total separations increased to 5.8 million in April.
  - The quits level and the quits rate, defined as the number of voluntary separations (excluding retirements and transfers) divided by total employment, attained series highs of 4.0 million and 2.7%, respectively.
  - Quits spiked in retail trade (106,000), professional and business services (94,000), and transportation, warehousing, and utilities (49,000).

*Source: Bureau of Labor Statistics*
**LABOR MARKET**

**Labor Force Flows**  
Millions, not seasonally adjusted

- **February-March Average**
- **April-May Average**

![Bar Chart](image)

**Flows out of the labor force picked up**
- Employment growth in the April-May period was meaningfully below the February-March average.
  - Flows to employment accelerated by 40,000 between these two periods, as flows from not in the labor force to employment (NE) increased by 110,000 while flows from unemployment to employment (UE) slowed by 70,000.
  - Faltering UE flows obscured robust hiring, which remained strong from February to May.
- The key drag on employment growth was the increase in those leaving their jobs, most notably from those dropping out of the labor force.

**Average Hourly Earnings and the ECI**

- **Average Hourly Earnings (Left axis)**
- **Employment Cost Index (Right axis)**

![Line Chart](image)

**Average hourly and weekly earnings rose in May**
- Average hourly earnings were up 0.5% over the month, reflecting robust wage growth in several industries.
  - Wages in leisure and hospitality registered a 1.3% increase in May after growing 1.5% in April.
  - Average hourly earnings rose 2.0% on a 12-month basis.
  - The large employment swings since February 2020 complicate the analysis of hourly earnings.
- The employment cost index, which adjusts for changes in composition, rose 2.7% over the year in Q1, up from 2.5% in Q4 2020.
### Core CPI Inflation

- **12-month % change**

  - **Core Services**
  - **Total Core**
  - **Core Goods**

![Graph showing Core CPI Inflation from 2013 to 2021](source: Bureau of Labor Statistics via Haver Analytics)

### Core CPI inflation accelerated in May

- The core CPI was up 0.7% over the month in May, after rising 0.9% in April.
  - The core index rose 3.8% over the year, an increase from 3.0% last month and 1.6% two months ago.
    - Some of the acceleration was due to soft prices last May.
    - There were unusually large price increases for used vehicles, car rentals, and air transportation.
    - There was also a broad firming of prices, such as for shelter.
    - Core services prices were up 2.9%, versus 2.5% in April.
    - Core goods prices were up 6.5%, versus 4.4%.

### CPI Inflation: Medical Care

- **12-month % change**

![Graph showing CPI Inflation for Medical Care from 2013 to 2021](source: Bureau of Labor Statistics via Haver Analytics)

### Medical care inflation has eased

- The consumer price index for medical care was up 0.9% over the year in May.
  - Medical care inflation was 4.6% in February 2020.
  - Inflation was pulled down by the prescription drug and the medical insurance components.
    - Prescription drug inflation shifted from 2.4% in February 2020 to -2.1%.
    - Medical insurance inflation shifted from 20.6% to -5.0%.
    - Insurance prices rose at a very fast pace from late-2018 to mid-2020.
  - Inflation for doctors’ services accelerated during the pandemic while inflation for hospital services was stable.
**FINANCIAL MARKETS**

**10-Year Treasury and Term Premium**

- The ten-year Treasury yield declined from 1.69% on May 7 to 1.59% on June 11 on a five-day moving average basis.
  - The yield has increased 65 basis points since the beginning of the year.
- Estimates from the Adrian-Crump-Moench term structure model attribute the recent yield decrease to a lower term premium.
  - The ten-year term premium fell by 11 basis points between May 7 and June 11 on a five-day moving average basis.

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

- U.S. equity markets remained close to recent highs.
  - The S&P 500 index increased 0.4% between May 7 and June 11.
  - The index is up 13% year-to-date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), was little changed.
  - The VIX Index closed at 15.7 on June 11, slightly below its May 7 value of 16.7.
  - The VIX index is modestly below its long-term median (since 2000) of 17.8.
### Implied path for federal funds rate shifted down

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) decreased for maturities greater than two years between May 7 and June 11.

- The market-implied federal funds rate at the end of 2023 remains somewhat above the median value from the FOMC’s Summary of Economic Projections from March 2021 and the NY Fed’s Survey of Primary Dealers from April 2021.

### U.S. dollar appreciated against the euro and yen

- The value of the dollar appreciated 0.5% against the euro between May 7 and June 11.
  - Over this same period the dollar appreciated by 1.0% against the Japanese yen.

- Since the start of 2021, the dollar has appreciated 0.9% against the euro and 6.2% against the yen.
**SPECIAL TOPICS: FORBEARANCE**

**Forbearances for Mortgagors**

- Percent
- enter
- exit
- % of loans in forbearance

Source: New York Fed Consumer Credit Panel/Equifax; Credit score is Equifax Risk Score 3.0

**Forbearances peaked in May 2020**

- Under CARES, up to 18 months of forbearance became available to many mortgagors.
- Uptake of the program was swift and steep, with 7.4% of loans in forbearance by May 2020.
- In March of 2021, 2.2 million mortgages were still in forbearance.
- 1.2 million of those had been in forbearance since June 2020 or earlier.

**Mortgage Forbearance Rate by Loan Type**

- Percent

Source: New York Fed Consumer Credit Panel / Equifax

**FHA borrowers have highest forbearance rates**

- FHA borrowers were most likely to participate in forbearance, with 14.4% of borrowers in forbearance by June 2020.
- In contrast, GSE mortgages, which comprise the largest share of the market, had 6% at the highest point and only 3% remain in forbearance as of March 2021.
**SPECIAL TOPICS: FORBEARANCE**

### Mortgage Forbearance and Delinquency

![Graph showing mortgage forbearance and delinquency](image)

- **With Forbearance**
- **No Forbearance**

Source: New York Fed Consumer Credit Panel/Equifax

### Delinquencies dropped with forbearance as an option

- Mortgage delinquency rates on credit reports plummeted between March and May 2020 when forbearance became an option.
  - Uptake was higher among borrowers who were already struggling with repayment.
  - Some loans that were previously delinquent are now listed as current without making a payment.
  - For borrowers with new struggles, entering forbearance instead of delinquency was an option.

- About 60-70% of forbore borrowers skipped payments, with the rest continuing to make payments.

### Forbearance Duration Distribution as of March

![Graph showing forbearance duration distribution](image)

- **% of mortgages in forbearance**

Source: New York Fed Consumer Credit Panel / Equifax;

### Nearly two-thirds of participants have exited

- 13% of borrowers spent at least one month of the pandemic in forbearance, but only 35% of those participants remain in forbearance as of March 2021.
- A third of participants were in forbearance for only 1-2 months.
- 12% have taken advantage of the maximum possible forbearance.
- Many borrowers exited forbearance by prepaying their loan, likely either by moving or refinancing.
Business conditions continue to improve

- The Business Leaders Survey index of services firms rose four points to 43.2 in June, a record high, while the Empire State Manufacturing Survey index fell seven points to 17.4.
- Both input and selling price increases remained very significant. The Business Leaders Survey’s prices paid index climbed nine points to 71.2, and the prices received index increased seven points to 25.8. Price indexes in the Empire Survey were down just slightly from last month’s record highs.
- Businesses expressed widespread optimism about the six-month outlook.

Employment increasing at a slow and steady pace

- Employment levels through April have increased by about a percentage point since January in most places, though it increased at only half this pace in Northern New Jersey and Puerto Rico.
- Employment remains below pre-pandemic levels across the region, and to a greater extent than nationally, except in Puerto Rico.
- Job shortfalls relative to February 2020 were 10 percent for downstate New York, 8 percent for Northern New Jersey, 7 percent for upstate New York and Fairfield CT, and 3 percent for Puerto Rico, compared to about 5 percent nationally.