U.S. Economy in a Snapshot
Research & Statistics Group
June 2022

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 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, 2022.
Core inflation remained elevated, the unemployment rate was unchanged, and the saving rate fell.

- **Output declined in Q1.**
  - The drop was due to drags from inventory investment and net exports.
  - Consumer purchases grew at a solid pace, with higher spending on services and no change in spending on goods.
  - Business spending on equipment picked up.

- Real disposable income was unchanged in April.
  - The level was below its trend growth path.
  - Real consumer spending was near its trend path.
  - The personal saving rate fell to a low level.

- Payroll employment continued to grow at a solid pace in May, the unemployment rate was unchanged, and the employment-to-population ratio rose slightly.

- Core PCE inflation over the year fell in April, while food inflation continued to rise. Core CPI inflation eased slightly in May.

- The 10-year Treasury yield rose and the S&P 500 stock index declined over the month, putting it significantly down since the start of the year. The market-implied federal funds rate path shifted up.

### Q1 output below its pre-pandemic trend level

- GDP has grown at a 1.2% annual rate since Q4 2019.
  - The median estimate for the longer-run GDP growth rate was 1.8% in the March Summary of Economic Projections (SEP).
  - The March Blue Chip survey had expected average annual growth over the 2024-28 period at 2.0%.
  - GDP in Q1 was about 1.5% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.

- Unemployment was below its longer-run normal level.
  - The 3.6% unemployment rate in May was below both the consensus forecast in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.
  - The labor force participation rate in May was about one percentage point below pre-pandemic levels.
The unemployment rate was unchanged

- The unemployment rate stayed at 3.6% in May.
  - This marks the third straight month that the unemployment rate was at this level.

- The labor force participation rate increased by 0.1 percentage point to 62.3 percent.
  - This rise was driven by a pickup in female participation.

- The Household’s Survey’s measure of employment rose by 320,000, putting it up 4.5% over the year.

PCE inflation eased in April

- PCE inflation over the year fell from 6.9% in March to 6.6% in April.
  - Food prices were up 10% and energy prices were up 30%.

- Core PCE inflation dropped from 5.2% to 4.9%.
  - Durable goods inflation fell from 10.2% to 8.4%, with inflation for used motor vehicles going from 32% to 17%.

- Core PCE inflation over the month came in at a 4.2% annualized rate.
  - The average annualized monthly rate fell from 6.0% in Q4 to 4.3% in Q1.
**ECONOMIC ACTIVITY**

**GDP Growth**
Quarterly % change, annualized

Source: Bureau of Economic Analysis via Haver Analytics

**Output declined in Q1**
- GDP fell at a 1.5% annual rate in Q1, a large reversal from the 6.9% rate of increase in Q4.
  - Despite the fall, output was up 3.5% over the year.
  - The net exports component was the major contributor to the drop, as imports surged and exports fell.
  - Consumer spending grew at a solid pace and business equipment spending rose robustly.
- In contrast to GDP, real gross domestic income (GDI) rose at a 2.1% annual rate in Q1.
  - Continued strong growth in employee compensation helped offset a fall in corporate profits.
  - Over the past four quarters, real GDI has risen 4.7%, above the pace of GDP.

**Manufacturing Index**
Index, 2017=100

Source: Federal Reserve Board via Haver Analytics

**Manufacturing activity continued to strengthen**
- The manufacturing index rose 0.8% over the month in April, after increasing 0.9% in March and 1.3% in February.
  - The index was up 6% over the year and was 4% above its pre-pandemic level.
- The motor vehicles index increased by 4%, after rising 8% in March.
  - The index was up 17% over the year and was 1% above its pre-pandemic level.
  - The recovery suggests the industry has largely overcome its 2021 supply-side issues.
- The ISM manufacturing index in May was at a level consistent with moderate growth.
**Households**

**Disposable Income and Consumption**

Trillions of 2012 dollars, annualized

- Real disposable income was stable in April
  - Real disposable income was unchanged over the month in April, while nominal personal income rose 0.4%.
    - Nominal compensation was up 0.6%, proprietors’ income fell 0.5%, and personal transfer receipts were flat.
    - Over the year, nominal income was up 3%, with compensation up 11%, proprietors’ income up 3%, and transfers down 17%.
    - Real disposable income was down 6% over the year, pulled down by inflation and higher tax payments.
  - Real personal consumption expenditures rose 0.7% in April, putting purchases up 2.8% over the year.
    - Consumer spending was on its trend growth path.
    - The personal saving rate fell from 7.9% in Q4 2021 and 5.6% in Q1 to 4.4% in April.

**Consumer Spending**

Trillions of 2012 dollars, annualized

- Consumer spending rose in April
  - Real spending on goods jumped 1.0% over the month, but was still down 3% over the year.
    - There has been little change in spending since mid-2021.
    - Purchases of motor vehicles and recreational goods rose relative to Q1, while spending on furnishings and food fell.
    - Overall spending was roughly 7% above its trend growth path.
  - Real spending on services rose 0.6% over the month and was up 6% over the year.
    - Spending was up 1.0% over the Q1 average.
    - The steady rise in spending has closed the gap relative to its trend path to around 3%, with shortfalls in recreation, health care, and public transportation.
**Business Investment Spending on Equipment**

**Billions of 2012 dollars, annualized**

- After two soft quarters, real business equipment spending increased at a brisk rate in Q1.
  - Equipment spending added 0.7 percentage point to annualized GDP growth in the quarter.
  - Increases in the information, industrial, and other equipment categories more than offset a fall in the transportation category.
  - Equipment spending was up 6.2% over the year.

- Orders of capital goods rose moderately in April after a strong rise in March, remaining at a high level.
  - Orders data in recent months suggest some moderation in the growth of equipment spending, especially as recent increases partly reflect higher prices.

**Business Investment in Nonresidential Structures**

**Billions of 2012 dollars, annualized**

- Real nonresidential structures investment spending decreased at a 3.6% annual rate in Q1.
  - Structures investment exerted a 0.1 percentage point drag on annualized GDP growth.
  - Nonresidential structures spending fell 4.8% over the year and was down almost 23% since Q4 2019.

- In contrast, spending in the energy sector increased for the sixth straight quarter.
  - Spending on mining exploration, shafts, and wells was still down 14% from its Q4 2019 level.

- Monthly data on nonresidential construction through April point to a moderate pickup, at best.
HOUSING SECTOR

Residential investment remained elevated in Q1

- Residential investment spending was little changed in Q1.
  - Residential investment was 15% above its Q4 2019 level.

- Investment has been high in both single-family and multi-family structures since the end of 2020.
  - Single-family construction in Q1 was up 25% relative to Q4 2019 and multi-family construction was up 23%.
  - Relatively small increases in home improvements and equipment held down the growth in overall residential investment spending.

- Housing starts in April were near the Q1 average.

Home sales fell sharply in April

- Existing single-family home sales declined, with April sales down 10% from the Q4 2021 level.
  - April sales were 5% above the Q4 2019 level.

- New single-family home sales in April were down 25% from the Q4 2021 level.
  - April sales were 15% below the Q4 2019 level.

- Home prices were still rising sharply through March.
  - Prices were up 21% over the year.
Federal spending declined significantly in Q1

- Federal government spending subtracted 0.4 percentage point from annualized GDP growth in Q1, following a drag of 0.3 percentage point in the previous quarter.
  - Spending was down 5.2% over the year, the largest four-quarter drop since 2013.
  - The end of spending tied to the Paycheck Protection Program and a 4.4% drop in defense spending were the key factors behind the four-quarter decline.

- The drag on Q1 growth came mostly from defense spending.
  - Defense spending subtracted 0.3 percentage point from annualized growth, while nondefense spending subtracted 0.1 percentage point.

State and local government spending dipped in Q1

- Real state and local government spending subtracted a slight 0.1 percentage point from annualized GDP growth.
  - Spending was 0.5% above the Q4 2019 level.

- S&L government consumption rose 0.3% over the quarter.
  - Spending was up 2.4% over Q4 2019.

- Investment spending fell 2% over the quarter, with a 4% drop in construction more than offsetting a 5% increase in equipment purchases and a 3% increase in intellectual property products.
  - Total investment spending was down 7% relative to Q4 2019, with construction spending down 12%.
INFLATION

Core CPI Inflation

12-month % change

Core CPI inflation over the year was stable in May

- Core inflation over the year eased slightly from 6.1% in April to 6.0% in May.
  - Core goods inflation fell from 9.7% to 8.5%.
  - Core services inflation rose from 4.9% to 5.2%, with an increase in rent inflation to 5.5%.

- The core CPI rose 0.6% over the month (7.8%, annualized), higher than the pace set in April (7.0%, annualized).
  - Monthly changes averaged 0.5% in Q1 2022.
  - The monthly inflation rate for core goods rose over the April pace to 0.7%.
  - The monthly inflation rate for core services fell slightly to 0.6%.

CPI Inflation: Food

12-month % change

Food inflation reached a very high level in May

- Prices for food consumed at home rose 11.9% over the year in May, a pickup from 10.8% in April and 6.5% last December.
  - Prices rose 1.4% over the month (18.7%, annualized).
  - Food inflation had been minimal from 2015 to 2019.

- The increases in food prices were broad based.
  - Inflation over the year for baked goods hit 11%.
  - Meat prices were up 12%, dairy prices were up 12%, and fruit and vegetable prices were up 8%.
  - Prices for food away from home were up 9%.

Source: Bureau of Labor Statistics via Haver Analytics
**Labor Market**

**Payroll Employment**

Index, 2019=100

![Graph showing payroll employment index from 2015 to 2023](image)

Source: Bureau of Labor Statistics

**Employment Growth was Solid in May**

- Nonfarm payroll employment rose by 390,000 in May.
  - Nonfarm payroll employment was 822,000 (0.5%) below its pre-pandemic level.
  - The share of long-term unemployed (27+ weeks) was 23.2%, down from 25.2% in April.

- The Household Survey's employment-to-population ratio rose by 0.1 percentage point to 60.1%.
  - The ratio was up 2.1 percentage points over the year, but 1.1 percentage points below its pre-pandemic level.

**Average Hourly Earnings and the ECI**

Year-over-year % change

![Graph showing average hourly earnings and ECI index from 2015 to 2022](image)

Source: Bureau of Labor Statistics via Haver Analytics

**Hourly Wage Growth Moderated in May**

- Average hourly earnings increased 0.3% over the month in May.
  - This was below the average monthly rate of 0.5% in Q4 2021 and 0.4% in Q1.
  - Hourly earnings were up 5.2% over the year, a modest slowdown from the 5.5% pace set in April.

- Wages in the leisure and hospitality sector continue to be an outlier, with average hourly earnings up 0.5% over the month and up 9.8% over the year.
**REGIONAL DEVELOPMENTS**

**New York Fed Empire State Manufacturing Survey**

[Graph showing the Diffusion Index for Future and Current Conditions from 2015 to 2022.]

Source: Federal Reserve Bank of New York

**Manufacturing conditions remain weak in New York**

- Manufacturing activity was little changed in New York State, based on the June Empire State Manufacturing Survey.
  - The survey's headline index rose 10 points but remained near zero at -1.2.
  - Responses on employment growth, however, were solid.
  - Optimism about future conditions was subdued.
  - Price indexes held near record highs and supply disruptions remained widespread.

**Regional Employment Trends**

[Graph showing regional employment trends from 2015 to 2022 for Downstate NY, Northern NJ, Upstate NY, United States, and benchmarked data.]

Source: U.S. Bureau of Labor Statistics and Moody's Economy.com; data are early benchmarked by New York Fed staff.

**Strong employment growth in parts of the region**

- Job growth in downstate New York, Northern New Jersey, and Puerto Rico matched the nation in April, but continued to underperform in upstate New York.
  - Over the prior 12 months, employment increased by 4.7% in downstate New York, 4.7% in Northern New Jersey, 2.9% in Fairfield CT, and 2.6% in upstate New York, compared with 4.6% nationally.
  - Employment remained 5.6% below pre-pandemic levels in downstate New York, 4.8% below in upstate New York, 1.9% below in Northern New Jersey, and 3.0% in Fairfield, compared to a 0.8% job shortfall nationally.
  - Employment in Puerto Rico grew 4.6% on a year-over-year basis in April and was 2.3% above pre-pandemic levels.
INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services
Billions of 2012 dollars, annualized

- Imports rose and exports fell in Q1.
  - Lower exports subtracted 0.6 percentage point from annualized GDP growth and higher imports subtracted 2.6 percentage points.

- Exports remained below pre-pandemic levels.
  - Lower sales were led by food, fuels, and nondurable consumer goods.
  - Services exports moved only modestly higher, with tourism from abroad still depressed.

- Imports were well above pre-pandemic levels.
  - Durable consumer goods accounted for 70% of the increase in Q1 imports, with capital goods and autos also up strongly.

Net exports were a large drag on Q1 growth

Crude Oil Prices
Dollars per barrel (WTI)

- Oil prices (WTI) increased from $102/barrel in April to $109/barrel in May.
  - Prices rose to near $120/barrel by mid-June.

- The Department of Energy’s June forecast projects that oil production will slightly exceed demand from Q2 2023 through the end of 2023.
  - Global inventories are expected to remain tight, limiting downward pressure on prices and encouraging market volatility.
  - The forecast assumes a decline in Russian production is offset by a rise in U.S. and OPEC production.

Source: Bureau of Economic Analysis via Haver Analytics

Source: Energy Information Administration via Haver Analytics
**Implied Fed Funds Rate**

The expected path of the federal funds rate implied by overnight indexed swaps increased across all maturities between May 9 and June 14.

The market-implied federal funds rate at the end of 2023 was around 4.1%, which is above the median value of 2.8% in the FOMC’s Summary of Economic Projections (SEP) from March 2022.

At the five-year horizon, the market-implied federal funds rate was around 3.2%, which was above the median SEP long-run federal funds rate of 2.4%.

**10-Year Treasury and Term Premium**

The 10-year Treasury yield was at 3.47% on June 14, 43 basis points higher than the yield on May 9.

- The yield averaged 1.81% in January 2020.
- The yield averaged 0.92% in 2020, 1.51% in 2021, and 2.30% in the first five months of 2022.
- Estimates from the Adrian-Crump-Moench term structure model have the increase in the 10-year Treasury yield from May 9 to June 14 as due to a higher expected future interest rate path and an increase in the term premium.
FINANCIAL MARKETS

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

- U.S. equity prices, as measured by the S&P 500 index, were down 7.4% on June 14 relative to the May average.
  - The S&P 500 index was down 22% year-to-date on June 14 after being up 29% over the course of 2021.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), increased from 29.2 in May to 32.5 on June 14.
  - The median VIX Index value was 17.9 over the period from the beginning of 2000 through June 14.

**Dollar Exchange Rates**

- The Federal Reserve’s trade-weighted broad dollar index was 2.1% higher on June 14 relative to the May average.
  - The index was up 14% relative to the 2021 average.

- The dollar on June 14 was 1.5% stronger against the euro relative to the May average and 4.6% stronger against the yen.