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 March 19, 2020.
OVERVIEW

- Consumer spending growth was modest in January.
  - Real spending on durable goods grew modestly, while real expenditures on nondurable goods fell and those on services grew modestly.

- Real business equipment spending declined again in 2019Q4, and fell over the course of 2019.
  - New orders of nondefense capital goods ex-aircraft were about equal to shipments in January, suggesting neutral near-term momentum for equipment spending.

- On balance, housing activity indicators remained positive in January.
  - Single-family housing starts and new home sales rose robustly. Existing home sales also indicated continued solid conditions. A strong labor market and low mortgage rates had provided support to the housing sector. The outlook since has worsened because of the coronavirus situation.

- Payroll growth again was robust in February. The unemployment rate edged down, the labor force participation rate was unchanged and the employment-to-population ratio declined slightly.
  - Labor compensation growth moderated slightly in February.

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

- U.S. equity indices fell sharply, reflecting the coronavirus situation. Implied volatility rose considerably. The nominal 10-year Treasury yield reached all-time lows. The market-implied expected policy rate path moved down to near zero over the next year. The broad trade-weighted dollar index was roughly unchanged through early March, but then rose substantially. Oil prices fell sharply.

**Output moderately above potential GDP estimate**

- The level of real GDP in 2019Q4 was about 0.6% above the estimate 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%.
  - Over this expansion, real GDP has grown at a 2.3% annual rate, compared to the 1.6% growth rate of real potential GDP.
  - The 3.5% unemployment rate in February was below most estimates of its natural rate, including the CBO’s (4.44%).

- The most recent readings of output and unemployment gaps signaled tight resource constraints in the U.S. economy as of February.
  - Capacity utilization rates remained below historical averages.
**Overview**

**Labor Market Indicators**

- The unemployment rate edged down to 3.5% in February from 3.6% in January.
- Private payroll employment rose by 228,000 in February.
  - These increases were driven by education and health services employment (+54,000), leisure and hospitality (+51,000), and construction employment (+42,000).
  - The timing of the reference week of the establishment survey for February does not reflect the impact of the ongoing COVID-19/coronavirus outbreak that has become more prominent in recent weeks.
- Average weekly hours worked by all private sector employees ticked up to 34.4 hours.

**Inflation continues to run below 2 percent**

- The total PCE price index rose 0.1% in January, after rising 0.3% in December. The core PCE price index (which excludes food and energy prices) rose 0.1% in January, below the December increase of 0.2%.
  - Energy prices fell 0.7% in January, and are up 5.6% relative to one year ago. Food prices rose 0.3% and are up 0.8% compared to one year ago.
- The 12-month changes in the total and the core PCE price indices rose slightly to +1.7% and +1.6%, respectively.
  - Core PCE inflation remains below the FOMC's 2 percent longer-run goal.
### Economic Activity

#### GDP Growth

- **2019Q4 real GDP growth little revised in 2nd estimate**
  - The second estimate of real GDP growth for 2019Q4 was 2.1% (annual rate), the same as the first estimate. Real GDP growth over 2019 (Q4/Q4) was 2.3%, compared to 2.5% in 2018.
  - Real personal consumption expenditures rose at a 1.7% annual rate in Q4, slightly below the first estimate.
  - Real nonresidential fixed investment fell 2.3% (annual rate) in Q4, even weaker than in the first estimate.
  - Real residential investment rose 6.2% (annual rate) in Q4, an upward revision as the housing market improved amid lower mortgage rates.
  - Largely due to a fall in imports, net exports were a positive contributor to GDP growth in Q4. Lower inventory investment offset part of the net export contribution.

#### Manufacturing and ISM Manufacturing Index

- **Manufacturing marginally growing in February**
  - ISM Manufacturing index fell in February from 50.9 to 50.1.
    - Supply chain disruptions from COVID-19 in China figured prominently in industry respondents’ reports.
  - Manufacturing production increased by 0.1% in February.
    - The year-on-year growth was a 0.4% decrease.
  - The March Empire State Manufacturing Survey index of general business conditions declined -21.5.
    - Lowest level since 2009.
    - Regional business surveys in late February indicated moderate to strong manufacturing activity, suggesting a swift decline in activity following the arrival of COVID-19 in US.
Disposable income rises strongly in January

- Nominal personal income rose a strong 0.6% in January. Disposable personal income also increased 0.6 percent in nominal terms, and 0.5% in real terms.
  - The increase in personal income surpassed expectations.
- Real PCE rose 0.1% in January, the same increase as in December, and 2.7% on a 12-month basis. The personal saving rate was 7.9%.
  - Real PCE growth was below expectations.
  - In real terms, durable goods consumption rose 0.5%, while nondurable consumption fell 0.2%; services consumption growth was 0.1%.
- On a 12-month basis, the growth rate in goods consumption remains relatively strong, while that in services consumption has picked up a bit relative to recent months but remains weaker than it was in 2018.

Consumer confidence Index ticks up in February

- The Conference Board's Consumer Confidence Index increased slightly to 130.7 in February, from a revised level of 130.4 in January.
  - The reading of the index falls below the median forecast of 132.2 in the Bloomberg survey.
  - The increase in the headline index was driven by an increase in the Expectations component of the index.
  - Perceptions of job availability were more negative in February than in January.
- Consumers’ short-term outlook on business conditions improved in February, while their short-term outlook on employment was more mixed.
Equipment spending falls again in 2019Q4

- Real business equipment investment declined 4.4% (annual rate) in 2019Q4. Equipment spending fell 1.9% in 2019 (Q4/Q4), compared to the 5.0% increase in 2018.
  - In 2019, spending declined for transportation equipment, industrial equipment, and other equipment. Spending rose moderately for information equipment.

- Weak equipment investment over 2019 occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
  - This rate was 75.1% in January, 3.1 percentage points below its long-run average.
  - Historically, utilization rates near the January level are associated with modest growth of equipment investment.

Capital goods orders rebound in January

- Shipments of nondefense capital goods excluding aircraft increased by 1.1% in January 2020.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.

- New orders of nondefense capital goods excluding aircraft increased by 1.1% in January 2020.

- New orders for these goods were roughly equal to shipments in January.
**HOUSING SECTOR**

**Housing starts fall in February**
- Total housing starts fell by 1.5% in February to 1.599 million units but the February level was well above the consensus expectation of 1.500 million.
- Single-family starts rose 6.7% month-on-month. The February level was the highest in this expansion. Multi-family starts decreased 14.9% and continued to display considerable monthly volatility.
  - Multi-family starts had been on a high uptrend in the past few months.
- Single-family permits increased by 1.7%, while multi-family permits decreased 18.3% in February.

**Home price continue to firm**
- The CoreLogic single-family home price index, a broad-based measure that captures a large share of the single-family market, was up 4.0% over the 12 months ended in January.
  - Recent readings of this measure have been stronger, following declining growth rates between Spring 2018 and summer 2019.
- As sales of both new and existing homes have picked up, inventories have remained at very low levels.
  - For sale inventories are now equal to 3.1 months of sales at their current pace, near the lowest level observed in this cycle.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- Over the four quarters ending in 2019Q4, real government consumption and gross investment grew 3.0%, the highest figure since the fourth quarter of 2009.
  - Increased real government spending contributed 0.52 percentage points to overall GDP growth in 2019, the most in a decade.

- Real Federal spending was up 4.4% over the four quarters ending in 2019Q4, the highest since mid-2010.
  - Real defense spending was up 4.6%, while non-defense spending was up 4.1%. Together, these items contributed 0.29 percentage points to GDP growth in 2019.

- Real spending by state and local governments was up 2.1%, contributing 0.23 percentage points to growth in 2019.

**State and local sector spending grows moderately**

- Growth of real consumption at the state and local level rose to about 1.2% 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 jumped to about 6.8% over the four quarters ending in 2019Q4, the highest rate since early 2016.
  - 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.

Source: Bureau of Economic Analysis via Haver Analytics
Note: Shading shows NBER recessions.
INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods

The trade deficit falls in January
- The trade deficit dropped significantly in January to $45.3 billion from $48.6 billion in December. Both real goods exports and imports fell over the month.
  - Real goods exports declined 1.8% between December and January, mainly due to falling export volumes for oil and capital (excluding autos) goods.
  - Real goods imports dropped 2.2% in January with real nonoil goods imports falling 1.5%. The decline was mostly driven by decreasing real oil goods imports and to a lesser extent by lower exports of autos and capital goods.
- Net exports added 1.53 percentage point to GDP growth according to the second estimate of GDP in 2019 Q4, 5 basis points higher than in the first estimate.

Global Manufacturing and Services PMIs

Global PMI surveys plummet on COVID-19 Impact
- Global purchasing managers’ surveys plummeted in February, signaling sharp slowdown in activity from the COVID-19 outbreak.
  - The global manufacturing PMI fell 3.2 points to 47.2, while the global services PMI fell 5.6 points to 47.1.
  - These readings are the lowest since the global financial crisis, and suggest that global growth is running below zero.
- About two-thirds of the decline in global PMI readings owes to the double-digit drops recorded in China.
  - Outside China, declines were generally sharpest in economies with strong economic ties to that country.
- The survey window closed about February 21, before the more acute turn in the COVID-19 outbreak outside China.
**LABOR MARKET**

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**Payroll Employment and Aggregate Hours**

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<th>Year</th>
<th>Payroll Employment</th>
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Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

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**Labor market remains robust in February**

- Nonfarm payrolls rose by 273,000 in February, above the Bloomberg median forecast of 175,000.
- Payroll employment was revised up for both December and January, resulting in a large upward revision of 85,000.
  - With the February readings and revisions, monthly payroll employment growth averaged 243,000 over the past three months, the highest since September 2016.
- Private payroll employment increased by 228,000 in February, while government employment grew by 45,000.
- Average weekly hours worked by all private sector employees ticked up to 34.4 hours.

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**Quits Rate and Ratio of Job Openings to Unemployed**

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<thead>
<tr>
<th>Year</th>
<th>Quits Rate</th>
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Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

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**The jobs market remains tight**

- According to the January JOLTS report, the quits rate remained at 2.3%.
  - The quits rate is an indication of workers’ willingness and ability to change jobs.
  - It has not changed since April 2019, and has hovered between 2.2% and 2.4% since April 2018.
- The ratio of job openings to the number of unemployed, a measure of market tightness, ticked upward from 1.14 in December to 1.18 in January.
**Weekly Unemployment Insurance Initial Claims**

Unemployment claims still low as of March 7th

- Initial claims for unemployment insurance fell by 4,000 to 211,000 for the week ending March 7.
  - The median expectation according to the Bloomberg survey had estimated a higher figure of 220,000.
  - The four-week moving average was 214,000, an increase of 1,250 from the previous week’s revised average. This has been within a narrow range around 220,000 since early 2018.

- The seasonally-adjusted insured unemployment rate remained at 1.2%, dating back to mid-2018.

**Growth of Average Hourly Earnings and ECI**

Average hourly earnings growth softens

- Average hourly earnings increased from $28.43 in January to $28.52 in February.
  - Average hourly earnings grew 0.3% in February and by 3.0% over the last 12 months, below the readings in early 2019.
  - The softening of average hourly earnings growth is driven by service-providing sectors.

- Average weekly earnings rose by 0.6% over the month, form $975.15 in January to $981.09 in February.
  - Average weekly earnings increased by 3.0% over the year, in line with the 2019 average yearly change of 3.0%.
### CPI Inflation: Core Goods and Core Services

- **Core inflation mixed in February**
  - The February inflation report was mixed. Core goods prices rose but core service inflation was not very strong. If the relative weakness in core services is temporary and the strength in goods inflation persists, core inflation may soon return to the FOMC’s longer-run goal.
    - Core CPI rose 0.2% in February, as it did in January. The 12-month increase in the core index was 2.4%, up from a 2.3 increase in the previous four months.
    - Core services prices rose 0.2% in February, after increasing 0.3% in January.
    - Core goods prices rose 0.2% in February and were flat over the past 12 months.
  - Of course, the effects of the spread of the coronavirus on inflation will add uncertainty, and possibly also some noise, especially in the short-run.

### 3-Year Ahead Inflation Expectations

- **3-year ahead inflation expectations up in February**
  - Median three-year ahead inflation expectations increased from 2.5% to 2.6%.
    - Median one-year ahead inflation expectations remained at 2.5%.
    - Median inflation uncertainty increased slightly at both horizons.
  - Consumer expectations were largely stable overall.
    - Year-ahead household income growth expectations declined slightly to 2.7%.
    - Spending growth and home price change expectations ticked up.
  - Importantly, the February findings mainly reflect views preceding the recent stock market decline and the spread of the coronavirus pandemic.
**U.S. Equity Market Index and Volatility**

- U.S. equity markets have sharply declined during the past month after reaching all-time highs in February.
  - The S&P 500 index declined 13.4% to 2882 between February 7 and March 10.
  - As of March 10, the index is down 10.8% since the start of 2020.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), has increased significantly.
  - The VIX Index increased from 15.5 on February 7 to 47.3 on March 10, far above its long-term median of around 17.

**USD Exchange Rates**

- The exchange value of the dollar against a basket of global currencies was roughly flat, decreasing by 0.2% between February 7 and March 10.
  - Over the same period the dollar depreciated 3% against the euro, depreciated 3.8% against the yen, and appreciated 11% against the Mexican peso.

- Since the start of 2020, the dollar has appreciated 1.9% against a basket of global currencies.
**US Bank Equities Performance**

![Graph showing SP500 Index, XLF ETF, and KBW Index from 2007 to 2019.](image)

- **SP500 Index**
- **XLF ETF**
- **KBW Index**

Source: Bloomberg Finance L.P.

Note: Start date 01/03/2007 = 1.

**Bank stocks decline more than the broad market**

- As measured by the KBW Nasdaq bank index, bank equities declined 28.7% between February 7 and March 10.
  - As of March 10, the KBW index is down 31.6% since the start of 2020.
- The XLF financial sector ETF declined by 21.9% between February 7 and March 10.
  - As of March 10, the XLF ETF is down 21.5% since the start of 2020.

**Expected Federal Funds Rate**

![Graph showing expected federal funds rate from 2007 to 2020.](image)

- **Jan 13**
- **Feb 07**
- **Mar 10**

Source: NY Fed calculations, Bloomberg Finance L.P.

Note: Estimated using OIS quotes.

**Implied path for fed funds rate declines significantly**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved lower by 100-150 basis points for 3-9 month maturities and by 75-100 basis points for longer maturities between February 7 and March 10.

- The market-implied path is 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**

- Long-term Treasury yields have decreased below 1% since early January, reaching all-time lows.
  - The 10-year yield decreased by 76 basis points between February 7 and March 10 as a 5-day moving average.

- Estimates from the Adrian-Crump-Moench term-structure model attribute the decrease to a lower path of expected short-rates and a more negative term premium.
  - The expected path of short-term interest rates over the next 10 years declined by 47 basis points while the 10-year term premium decreased by 29 basis points between February 7 and March 10 as a 5-day moving average.

**5-10 Year Forward Decomposition**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) have declined in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.41% on March 10, declining about 25 basis points since February 7 as a five-day moving average.

- According to the Abrahams-Adrian-Crump-Moench model, movements in forward inflation compensation continue to reflect changes in the inflation risk premium with expected inflation remaining stable.
  - The estimated five-to-ten year inflation risk premium declined by about 36 basis points between February 7 and March 10 as a five-day moving average.
SPECIAL TOPIC: CHINA

Monthly Economic Activity

Economic activity falls sharply in early-Q1

- China’s economy ended 2019 on a relatively strong note. Real GDP growth printed at 6% (Q4/Q4), and most monthly data strengthened.

- The outbreak of the coronavirus has led to severe declines in economic activity in January and February, however.
  - Manufacturing and non-manufacturing surveys plunged to 35.7 and 29.6 in February—record lows and well into contraction territory.
  - Industrial production fell by 25% in February.
  - Real retail sales fell by nearly 12% in February, reflecting a steep pullback in consumer spending.
  - Investment spending also fell sharply, with real fixed asset investment falling by 25% in the combined months of January and February.

Labor Market Indicators

Labor shortages contribute to economic decline

- The coronavirus crisis coincided with the start of China’s Lunar New Year (LNY) holiday. Businesses typically close during the LNY holidays as workers travel to their home provinces to visit families and relatives.
  - Nearly 300 million people in China are officially classified as migrant workers. This is equivalent to about two-thirds of the urban workforce.

- Migrant workers could not return to work locations because of shut down domestic transportation networks and mandatory quarantines on returning workers.

- The official surveyed unemployment rate jumped from 5.3 to 6.2%. Manufacturing and non-manufacturing employment indexes plunged.
**SPECIAL TOPIC: CHINA**

**China: Household and Corporate Lending**

- **Growth in broad credit has been mixed**
  - Aggregate credit growth through February was flat at 11.1% y/y, but this belies notably weaker credit in February following robust new lending in January.
  - Household lending in February was significantly weaker due to the impact of the virus on household demand.
    - New short-term, household lending contracted by RMB 450 billion, by far the sharpest on record.
    - New mortgage lending was the lowest in eight years.
  - In contrast, corporate bank lending growth picked up in February.
    - Shorter-term corporate credit surged even against a high base from last year, likely reflecting support from PBOC re-lending programs as SMEs face cash drawdowns.

**Source:** PBOC, CEIC

**China: Credit growth and credit impulse**

- **Focus on China's policy response**
  - Expectations are for broad credit growth to pick up in March as Chinese authorities increase policy support and economic activity gradually resumes.
    - How forceful the policy response will be is unclear given authorities' hard fought gains in addressing financial risks in recent years.
  - Additional measures are likely to focus on more targeted lending to SMEs, further guidance to banks to extend forbearance on loans, local government bond issuance and some loosening of shadow credit restrictions.
  - The credit impulse (i.e., the change in the flow of new credit as a percentage of GDP) picked up to 2.4% of GDP from 1.9% of GDP in January.
    - The credit impulse correlates well with alternative growth indicators for China.