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 May 5, 2017.
• Real consumer spending rose in March after falling in the previous two months, but the pace of growth in 2017Q1 slowed significantly from that in 2016Q4.
  – Some of the weakness in Q1 consumer spending appeared to be related to unseasonably warm weather and the delay in tax refund disbursements.

• Business equipment spending showed solid growth in Q1, but recent data point to a more modest pace over the near term.

• Housing indicators suggest the gradual recovery in this sector is being maintained, while surveys signal some slowing in the improvement in manufacturing conditions.

• Payroll growth was solid in April. The unemployment rate fell to its lowest reading since May 2007, the employment-population ratio rose, and the labor force participation rate fell slightly.

• Headline inflation is running slightly below the FOMC’s longer-run objective, while core inflation remains at a somewhat more subdued level.

• U.S. equity indexes increased, while nominal long-term Treasury yields were roughly unchanged after retracing declines in mid-April. Oil and commodity prices have declined since the middle of April and the broad dollar foreign exchange index held steady.

Output still is modestly below its potential level

• The gap between real GDP and the Congressional Budget Office’s (CBO) measure of real potential GDP was about 1.1% in 2017Q1.
  – The CBO projects that the growth rate of real potential GDP will remain fairly subdued for the next few years.
  – The April unemployment rate of 4.4% is below many estimates of its natural rate, including that of the CBO (4.7%).
  – The CBO output gap indicates some resource slack remains in the U.S. economy, in contrast to unemployment gap measures.
Labor Market Indicators

- Unemployment rate declined from 4.5% in March to 4.4% in April.
  - The broader U-6 measure of unemployment fell to 8.6% in April, its lowest level since November 2007.
  - The share of long-term unemployed (27+ weeks) in the pool of unemployed workers fell from 23.3% to 22.6%, the lowest share since January 2009.

- Labor force participation fell slightly from 63.0% to 62.9% in April.

- Employment-population ratio rose 0.1 percentage point in April to 60.2%.
  - The April level was the highest since February 2009.

PCE Deflator

- The total PCE deflator fell 0.2% in March, following a 0.1% increase in February. The core PCE deflator (which excludes food and energy prices) declined 0.1% in March, after increasing 0.2% in the previous month.
  - Energy prices fell 3.4% after a 1.2% decline in February, but were up 13.2% from a year ago.
  - Food prices rose 0.4%, their third consecutive monthly increase, which suggests that the price declines that occurred during most of 2016 have come to an end.

- The 12-month change in the total PCE deflator was 1.8%, below the 2.1% increase in February.
  - The 12-month change in the total PCE deflator in February was the first reading above 2% since April 2012.
Output growth slows sharply in Q1

- According to the advance release, real GDP expanded at a 0.7% annual rate in 2017Q1 which is the slowest pace of growth since 2014Q1.
  - Lower utilities expenditure due to an unseasonably warm winter and delays in tax refund receipts have been viewed as factors temporarily restraining consumer spending.
  - First-quarter GDP growth has tended to be unusually slow in recent years, suggesting the slowdown may also reflect seasonal-adjustment issues.
  - There has, however, been a marked step-down in auto sales in 2017 compared to recent years.

- In addition to sluggish consumer spending, the slowdown in Q1 growth reflected a significant drag from inventory investment.

Manufacturing activity slowing

- Manufacturing activity fell 0.4% in March, mostly due to a decline in the production of motor vehicles and parts.
  - This drop marks the first downturn in manufacturing production since August 2016.

- The ISM manufacturing index decreased from 57.2 to 54.8 in April, retracing almost all of the gains this year.
  - April’s decline was largely driven by the new orders and employment subcomponents, which both fell by 7 points.

- All regional Federal Reserve manufacturing surveys were also lower in April.
**Disposable Income and Consumption**

- Real personal consumption expenditures increased 0.3% in March, after declining in the previous two months.
  - Despite the recovery in March, real PCE rose at a weak annual rate of 0.3% in 2017Q1.

- Real disposable income increased 0.5% in March, following a 0.2% increase in February.
  - Employee compensation registered a modest 0.1% increase in March, well below the average increase of 0.4% for January and February.

- The personal saving rate rose to 5.9% in March from 5.7% in February.

**Services, Durables, and Nondurable Goods**

- Real service expenditures increased 0.4% in March, following declines in the prior two months.
  - The 12-month change picked up to 2.3%, moving back within the range observed since late 2015.

- Real expenditures on goods declined 0.1% in March and were essentially flat for the first quarter.
  - Durable goods spending declined 0.7%, reflecting a large drop in motor vehicles and parts sales.
  - Nondurable goods expenditures increased 0.3%.
  - On a 12-month change basis, both the durable and nondurable goods components of real PCE fell slightly from the corresponding changes in February.
**Equipment Investment and Capacity Utilization**

- Over the four quarters ending in 2017Q1, business investment in new equipment rose 0.8%, a sluggish growth rate but an improvement over the declines in the previous four quarters.
  - Growth of investment in information processing equipment and industrial equipment strengthened notably in 2017Q1.
  - Investment in transportation equipment, agricultural equipment, construction equipment, and mining and oil field equipment continued to decline, though the rate of decline has eased.

- The recent growth rate of business investment in new equipment is consistent with its historical relationship with the manufacturing capacity utilization rate, which remains relatively low at 75.4 as of 2017Q1.

**Investment in Nonresidential Structures**

- Over the four quarters ending in 2017Q1, real business investment in nonresidential structures was up 7%, the strongest four quarter change since the end of 2016.
  - Following two years of deep declines, investment in petroleum and natural gas structures was up a strong 22.5% over the four quarters ending in 2017Q1.

- Excluding petroleum and natural gas structures, the four quarter change in real investment in nonresidential structures was 4.8%, a bit of a slowing relative to the performance of 2016.
  - Growth of real investment in new office buildings remains robust, while real investment in new manufacturing-related structures is declining rapidly.
**Housing starts remain on gradual uptrend**

- Total housing starts fell 6.8% in March, probably reflecting transitory weather-related effects.
  - Overall, these data are still consistent with a gradual improvement in housing.

- Multi-family starts appear to have peaked, as they have been little changed for more than a year and a half.
  - The overall rental vacancy rate has increased modestly in the three quarters through 2017Q1 and the rate of increase of rents appears to have flattened in recent months.

- Single-family starts remain at a relatively low level but continue to trend higher.
  - The homebuilders’ Housing Market Index remains high, indicating builders still see good conditions in the market.

**Home sales are still on an upward trend**

- Single-family existing home sales rose 4.3% in March to 5.08 million units at a seasonally-adjusted annual rate (SAAR).
  - Single-family existing home sales were about 6% higher than a year ago and were near 2002 levels.

- Single-family new home sales increased 5.8% in March to 621,000 units (SAAR).
  - New home sales were more than 15% above year-ago levels, but were still below levels prevailing during expansions since the 1970s.

- Inventories-sales ratios for existing and new homes are below their historical averages, which has contributed to upward pressure on home prices.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- Over the four quarters ending in 2017Q1, real spending by the federal government was down 0.3% and real state and local government spending was down 0.8%.

- The decline in spending at the federal level was concentrated in real defense outlays.
  - Defense outlays peaked in 2010Q3 and are down 20% as of 2017Q1, while growth of real nondefense spending has been stable at 2 ½% for the past year.

- The decline at the state and local government level is due primarily to a steep decline in new structures investment.
  - This decline is broad-based across a wide variety of types of structures.

**State and local investment spending weak in Q1**

- Real state and local government gross investment fell more than 7.6% in the four quarters ending in 2017Q1.
  - Real state and local gross investment spending has experienced a weak recovery since the end of the Great Recession.
  - Year-over-year real investment spending has been falling since early 2016.

- State and local consumption spending is moderating.
  - Consumption spending grew 0.7% over the four quarters ending in 2017Q1.
  - Consumption spending is about 80% of total state and local consumption and gross investment.
INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

- Net exports added 0.1 percentage point to 2017Q1 GDP growth.
  - Real exports rose 5.8 percent (SAAR), more than offsetting a 4.1 percent increase in real imports.
  - Export growth was driven by exports of nondurable consumer and industrial goods, as well as by auto vehicles and parts.
  - Imports rose on higher capital goods and food imports.
  - The trade deficit declined to $43.7 billion in March from a revised $43.8 billion in February.
  - Real exports fell 1.5 percent from February, reflecting declines in industrial supplies, consumer goods and autos.
  - Nonoil real imports fell 0.6 percent from February to March, reflecting declines in most major categories.

Net Financial Outflows from China

- There was only $19 billion in net financial outflows from China in Q1.
  - In 2016, net outflows totaled almost $200 billion.
- There was $22 billion in net outflows from private investors.
  - In 2016, private net outflows equaled $640 billion.
  - The drop in Q1 is attributed, in part, to tighter capital controls.
- China’s central bank sold $3 billion of its foreign exchange reserves.
  - In 2016, the Bank sold $440 billion worth of its reserves.
  - Smaller private outflows reduces the pressure to sell reserves.
LABOR MARKET

Payroll Employment and Aggregate Hours

12 Month % Change

Payroll Employment
Aggregate Hours


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

Solid payroll employment growth in April

- April nonfarm payroll employment rose by 211,000, well above the revised gains of 79,000 in March.
  - Median expectations called for an increase of 190,000.
  - Monthly payroll gains have averaged 185,000 in 2017, in line with average monthly growth in 2016.

- Payroll gains were broad-based, with the one-month diffusion index at 60.2, which is above its 2016 average of 57.2.

- Average weekly hours edged up by 0.3% to 34.4 hours.
  - With the rise in payrolls, aggregate hours worked by all private employees rose 0.5% in April.
  - The 12-month change in aggregate hours was 1.7%.

Job Openings and Hires Rates

Percent

Hires Rate (Right Axis)
Openings Rate (Left Axis)


Source: Bureau of Labor Statistics via Haver Analytics
Note: Grey shading shows NBER recessions.

Flattening out of job openings and hires rates

- The job openings rate in March was unchanged at 3.8%.
  - After recovering from a low reading of 1.7% in 2009, the job openings rate leveled off around 3.7% in late 2015 and has been fluctuating within a narrow range around this level since then.

- The hires rate in March remained at 3.6%.
  - The hires rate reached this level in July 2014 and has been fluctuating very little since.
LABOR MARKET

**Prime-Age Employment by Gender**

The employment-to-population ratio of prime-age workers (ages 25-54) increased from 78.5% to 78.6% in April.
- Increases among men (from 85.2% to 85.4%) were somewhat offset by declines among women (from 72.0% to 71.9%).

Over the past 12 months, the prime-age employment-to-population ratio increased 0.9 percentage point to 78.6%.
- Prime-age male employment rose by 0.5 percentage point, while prime-age female employment rose by 1.1 percentage points.

Continued gains in prime-age employment suggest the recent declines in the unemployment rate indicate a stronger labor market.

**Growth of Average Hourly Earnings and ECI**

- Average hourly earnings rose 0.27% in April and 2.55% over the past 12 months.
  - Wage growth was stronger among goods-producing industries (0.48%) than among service-providing industries (0.19%).

- Average weekly earnings increased 0.56% from $895.92 to $900.94.
- The employment cost index rose 2.4% for the 12 months ending March 2017.

Source: Bureau of Labor Statistics via Haver Analytics
Note: Shading shows NBER recessions.
**CPI Inflation: Core Goods and Core Services**

- **Core CPI declines in March**
  - The core CPI fell 0.1% in March, the first monthly decrease in the price index since January 2010.
    - Some of the decline in the core CPI appeared to be related to idiosyncratic factors.
    - On a 12-month change basis, the core CPI moved down from 2.2% to 2.0% in March.
  - Core goods prices resumed their decline.
    - Core goods prices fell 0.3% in March and declined 0.6% on a 12-month change basis.
  - Core services prices also fell in March, declining by 0.1% after having increased at a steady 0.3% pace in the previous four months.

**CPI Inflation: Shelter and Its Main Components**

- **Slowdown in shelter inflation**
  - Monthly changes in the two principal subcomponents of shelter, owners’ equivalent rent and rent of primary residence, slowed in 2017Q1.
    - The monthly change of owners’ equivalent rent slowed from a 3.1% annual rate in December 2016 to 1.9% in March 2017.
    - Rent of primary residence slowed from 4.7% to 2.6% over the same time period.
  - After several years of gradual acceleration, the 12-month change of owners’ equivalent rent and the 12-month change of rent of primary residence has leveled off at around 3.9% and 3.5%, respectively.
FINANCIAL MARKETS

U.S. Equity Market Index and Volatility

- U.S. equity markets remained near record levels
  - U.S. equity markets increased in April and early May.
    - Between April 3 and May 8, the S&P 500 index increased 1.7%.
    - On the morning of May 8, the S&P 500 index achieved its all-time high.
  - Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX), remains low.
    - The VIX was at 9.77 on May 8, its lowest level since 1993.

U.S. Bank Equities Performance

- U.S. bank stocks continue to underperform
  - As measured by the KBW Nasdaq bank index, bank equities rose 1.2% between April 3 and May 8, compared to an increase of 1.7% for the S&P 500 Index.
    - The XLF financial sector ETF rose only 0.6% over the same period.
  - For 2017 year-to-date, U.S. bank equities are now little changed, while the broader stock market has increased 7%.
    - The KBW index is up 1.3%, while the XLF ETF is up 2.5% year-to-date.
**Mixed performance of dollar vs. individual currencies**

- The exchange value of the dollar against a basket of global currencies was little changed over the last month.
  - Over this period the dollar appreciated by about 2\% against the Japanese yen and the Mexican peso, while depreciating to a similar degree against the euro.

- Since the start of the year, the dollar has depreciated by about 3\% 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) was little changed over the past month.

- The current market-implied path out to five years remains below 3\%.
  - 3\% is the reported longer-run value of the median respondent of both the FOMC’s March 2017 Summary of Economic Projections and the March 2017 NY Fed Survey of Primary Dealers.
Longer-Term Treasury yields remain low

- 10-year Treasury yields remain low by historical standards.
  - The 10-year yield is roughly unchanged from its level in early April and is down by about 25 basis points from the year-to-date high observed in March.

- Estimates from the Adrian-Crump-Moench term structure model attributes the decline in the 10-year yield over the last few months to both a reduction in the term premium and a modest downward revision to the expected average short-term interest rate over the next decade.
  - The estimated 10-year term premium remains at very low levels.

Breakeven inflation little changed

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) were little changed over the past month.
  - The five-to-ten year breakeven inflation rate is up by over 50 basis points from the record lows observed last year.

- According to the Abrahams-Adrian-Crump-Moench term structure model, most of the movements in forward inflation compensation continue to reflect movements of the inflation risk premium.
SPECIAL TOPIC: OIL PRICE DECOMPOSITION

Cumulative Weekly Decomposition in 2016

Supply and demand raised oil prices by late 2016

- Using a statistical model and a large number of financial variables, weekly oil price changes can be decomposed into demand effects, supply effects, and an unexplained part (“residual”).

- Towards the end of 2016, oil prices were up about 13% relative to the beginning of July.
  - Oil prices rose during Q4 owing to contracting supply and strengthening, albeit volatile, global demand expectations.

Cumulative Weekly Decomposition Since January

Recent oil price declines reflect supply outlook

- Since the start of 2017, oil price developments have largely offset the price increases observed during Q4.

- In Q1, steadily loosening supply conditions triggered a decline in oil prices.

- A perceived loosening in supply continued to drive down oil prices in Q2, and this trend has accelerated over the past three weeks.