U.S. Economy in a Snapshot
Research & Statistics Group
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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 4, 2018.

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• Real consumer spending increased in March following declines in the previous two months.
  – Both goods and services expenditures exhibited a rebound, led by durables.

• Business equipment spending rose moderately in 2018Q1 and has exhibited solid growth over the past four quarters.
  – However, recent monthly data on new orders and shipments of capital goods (excluding aircraft) suggest some lessening of near-term momentum.

• Housing indicators point to continued gradual improvement in this sector.
  – Tight housing supply and a strong labor market have the potential to provide continuing support to the housing sector.

• Payroll growth was solid in April after a rather moderate rise in March. The unemployment rate fell below 4%, while both the employment-to-population ratio and the labor force participation rate declined slightly in the month.
  – The latest readings of various measures of labor compensation continued to point to modest firming.

• Core PCE inflation rose to a level roughly consistent with the FOMC’s longer-run objective.
  – This firming may be due in part to one-off factors.

• U.S. equity indices increased over the past month, and volatility declined. The nominal 10-year Treasury yield rose moderately. The broad trade-weighted dollar index increased. Crude oil prices rose to multi-year highs.

**Output near its potential level**

• Real GDP in 2018Q1 was 0.15% below the Congressional Budget Office’s (CBO) measure of real potential GDP.
  – In its April economic outlook, the CBO revised up its estimate of real potential GDP for 2018Q1 by 0.8%. Estimates for 2019 – 2027 were revised upward by more than 1%.
  – The 3.9% unemployment rate in April was below many estimates of its natural rate, including that of the CBO (4.62%).
  – CBO estimates of the natural rate of unemployment were revised down about 0.1 percentage point for 2018 – 2027.

• The CBO output gap indicates little resource slack in the U.S. economy, while the unemployment gap signals tighter resource constraints.
  – However, capacity utilization rates remain below their historical averages, suggesting some remaining slack by that measure.
**Labor Market Indicators**

- **Unemployment rate falls**
  - The unemployment rate declined 0.2 percentage point in April to 3.9%.
    - This rate dipped below 4% for the first time since December 2000.
    - The unemployment rate had remained stable at 4.1% for six consecutive months.
  - Labor force participation fell slightly to 62.8%.
    - The participation rate dropped 0.1 percentage point, partially contributing to the decline in unemployment.
  - The employment to population ratio also dropped slightly in April to 60.3%.
    - The March level of this ratio was its highest since January 2009.

**PCE Deflator**

- **Inflation continues to trend higher**
  - The total PCE price index was unchanged in March, after rising 0.2% in February. The core PCE price index (which excludes food and energy prices) increased 0.2% in March, the same as in February.
    - Energy prices fell 2.8% in March, while food prices rose 0.2%.
  - The 12-month changes in the total PCE and core PCE price indices were +2.0% and +1.9%, respectively.
    - The March reading marked only the third month since April 2012 that total PCE inflation has been at or above 2%.
    - Total and core PCE inflation moved up appreciably from February due in large part to the March 2017 0.2% decline in the core PCE price index dropping out from the 12-month calculation.
**ECONOMIC ACTIVITY**

### GDP Growth

Growth loses some momentum to start 2018

- According to the advance release, real GDP expanded at a 2.3% annual rate in 2018Q1.
  - Growth in Q1 moderated compared to the roughly 3% pace of growth seen in each of the last three quarters of 2017.

- The slower growth in real GDP in 2018Q1 was principally due to a pronounced slowing in real consumer spending.
  - While growth of real personal consumption expenditures slowed from 4.0% (annual rate) in 2017Q4 to 1.1% in 2018Q1, consumer spending was strong in March, providing a good jumping off point for the second quarter.
  - Growth of business fixed investment was reasonably well maintained in 2018Q1 and increased at a 6.1% annual rate compared to 6.8% in 2017Q4.

### Manufacturing and ISM Manufacturing Index

Manufacturing expands at a slower rate

- Manufacturing production edged up 0.1% in March following a 1.5% increase in February.
  - For the first quarter as a whole, manufacturing increased 3.1% at an annual rate.

- The ISM Manufacturing Index indicated continued expansion in April, albeit at a slower pace than in March, dropping 2 percentage points to 57.3.
  - The Prices Index rose 1.2 percentage points to 79.3 in April, indicating a further acceleration in price pressures.

- While the Richmond Fed Business Surveys indicated a weakening of activity in the Fifth District, the other four regional Fed manufacturing surveys indicated continued expansion.
Disposable Income, Consumption, and Wealth

Consumer spending recovers at the end of the quarter

- Real personal consumption expenditures grew 0.4% in March, after declining 0.2% in February.
  - The March rebound lifted the real PCE change in the first quarter to a modest 0.26%.

- Real disposable income increased 0.2% in March, up from an increase of 0.1% in February.
  - The personal savings rate declined from 3.3% in February to 3.1% in March.

- Net worth as a percentage of disposable income continued to climb over the past year.

Services, Durables, and Nondurable Goods

Spending on goods lifts overall consumption in March

- Goods expenditures grew 0.6% in March, after declining in February and January.
  - Despite this increase, goods expenditure growth declined 0.3% over the first quarter.

- Spending on durable goods grew a solid 1.1% and that on nondurables increased 0.3%.
  - For the quarter, durable goods expenditure declined 0.27%, while nondurables spending was essentially flat.

- Expenditure on services increased 0.3%, after declining 0.1% in February.
  - The increase was largely driven by spending for household electricity and gas.
**Solid rise of equipment investment in past year**

- Even with a moderate rise in 2018Q1, real business equipment investment rose 8.9% over the past 4 quarters.
  - All major categories had solidly positive 4-quarter changes, with the largest rises in information and “other” equipment.
  - The equipment spending share of GDP still stayed below its average share in 2014 – 15.

- Equipment investment has continued to rise only moderately over the past three years, as the manufacturing capacity utilization rate remains fairly low.
  - This rate was 75.9% in March, almost 2.5 percentage points below its longer-term average.
  - Historically, a manufacturing capacity utilization rate near 75% has been associated with rather modest growth of equipment investment.

**Energy sector leads investment in nonres. structures**

- Over the four quarters ending in 2018Q1, business investment in nonresidential structures grew 4.4%, a little slower than, but close to the growth rate of the past six quarters.

- Investment in petroleum and natural gas wells, which represents around 20% of total investment in nonresidential structures as of 2018Q1, has played an outsized role in the volatility of the growth rate of the entire sector for much of the past decade.

- Excluding investment in petroleum and natural gas wells, business investment in nonresidential structures fell by 2.7% over the four quarters ending in 2018Q1, the third consecutive quarterly decline.
**Housing Starts**

- Total housing starts rose 1.9% in March following a 3.3% decline in February. The March level was slightly above 1.3 million units at a seasonally-adjusted annual rate (SAAR).
- Single-family starts fell by 3.7% in March but remain on a gradually increasing trend, although at levels below those seen in 2005 and 2006.
- Multi-family starts rose 14.4% in March. They have been increasing steadily since the summer of 2017 and are back to levels observed in 2015 and late 2016.
- The strong labor market continues to provide scope for further improvement in the housing sector.

**Aggregate Homeownership Rate**

- The homeownership rate now stands at 64.3%.
  - The homeownership rate rose 0.3% in 2018Q1.
  - Homeownership has not been above 64% since 2014.
- 2018Q1 data suggest a definite upward trend in homeownership.
  - This is the seventh consecutive quarter of increasing homeownership.
  - Homeownership is up 1.3 percentage points from the mid-2016 trough.
- The recent rebound follows the longest decline in series history.
  - Homeownership fell over 6 percentage points between 2004 and 2016.
**GOVERNMENT SECTOR**

### Real Government Consumption and Gross Investment

- **Growth of government spending is firming**
  - Following relatively sluggish growth in 2016 and 2017, growth of consumption and gross investment by the government sector has firmed over the past two quarters.
  - As of 2018Q1, growth of consumption and gross investment by the federal government rose to 2.0% (four-quarter percent change), the strongest since 2010Q4.
    - The pickup in growth was concentrated in the national defense category, which was up 3.6% over the four quarters ending in 2018Q1. Nondefense spending declined slightly over the same period.
  - At the state and local level, consumption and gross investment was up a more modest 0.6% over the four quarters ending in 2018Q1.

### Real State & Local Consumption & Gross Investment

- **State and local government spending remains weak**
  - Real state and local government consumption expenditures strengthened slightly in the first quarter.
    - Real consumption expenditure grew 0.9% in the four quarters ending in 2018Q1, up from 0.7% in 2017Q4.
    - The four-quarter change in consumption expenditures remained below those recorded over 2015 – 2016.
    - Consumption, comprised mainly of wages and salaries, is about 80% of state and local government spending.
  - Real state and local gross investment spending continued to decline.
    - Investment spending fell 0.8% in the four quarters ending in 2018Q1, below that of 2017Q4 (-0.5%).
    - Real state and local government investment spending has declined more than 18% over the past 10 years.
INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

- According to the advance release, net exports added 0.2 percentage point to GDP growth in Q1.
  - Real exports grew 4.8% (SAAR), and real imports increased 2.6% (SAAR).
  - Growth rates for both real exports and imports weakened, with a particularly large slowdown in import growth.

- The trade deficit fell in March to $49 billion from $57.7 billion in February.
  - Real goods exports grew 2.9% percent over the month in March, owing mostly to increases in exports of capital goods (excluding autos) and petroleum.
  - Real goods imports declined 1.6% between February and March, as import volumes of capital and consumer goods (both excluding autos) fell markedly and oil imports barely rose.

Net Financial Outflows from China

- A current account deficit measures a country's borrowing and requires financial inflows to be greater than outflows.
  - A current account deficit in China is a rare event and has not happened since 2001.

- Foreign investors bought more Chinese assets than private Chinese investors bought foreign assets.
  - Private net inflows were the norm until the 2014-17 period.

- China's central bank purchased a modest $27 billion in foreign assets.
  - There was little change in reserves as private net inflows were close to China's borrowing.
Payroll employment growth rebounds in April

- After relatively weak initial payroll numbers in March, nonfarm payrolls rose by 164,000 in April.
  - March numbers were revised upward by 32,000 and February numbers were revised downward only slightly by 2,000, resulting in a net gain of 30,000.
  - The April payroll increase was concentrated in the private sector, as Government payroll employment fell by 4,000.

- Aggregate hours increased 0.09% in April, following a 0.18% increase in March.
  - The 12-month change was 2.15%.
  - Average weekly hours remained at 34.5 for the third consecutive month.

Alternative unemployment also improves

- U6, an alternative measure of unemployment which includes marginally attached workers and workers who hold part-time jobs but prefer full-time jobs, fell from 8.0% in March to 7.8% in April.
  - This is the lowest U6 has been since July of 2001.

- The share of part-time workers fell to 17.7% from 17.9%.
  - The share of part-time workers who are part-time for economic reasons rose to 18.1% from 18.0%.

- The median duration of unemployment rose from 9.1 to 9.8 weeks.
  - The rise in median duration masks the drop in the share of short-term unemployed from 35.2% to 32.7%.
LABOR MARKET

Drop in April unemployment driven by females

- The 2 percentage point drop in aggregate unemployment from March to April was driven by females.
  - The female unemployment rate fell from 4.0% to 3.7% over the month, while male unemployment remained at 4.1%.

- The decline in unemployment over the last year shows a similar pattern by sex.
  - In the last 12 months, female unemployment fell from 4.4% to 3.7%, while male unemployment fell from 4.4% to 4.1%.

- The decline in female unemployment was broad-based across age groups.
  - For men, unemployment held at March values for prime age (25-54 year olds) and older workers (55+), but increased for young workers (ages 16-24) by 0.3 percentage point to 9.8%.

Compensation growth remains modest

- Average hourly earnings rose by 0.15%, from $26.80 in March to $26.84 in April.
  - Wage growth was stronger among goods-producing industries than among service providing industries, as had been the case in two of the prior three months.
  - Growth in goods-providing hourly earnings was fueled by the construction sector, where average hourly earnings growth was 0.65%.

- Average weekly earnings also increased 0.15% from $924.60 to $925.98.

- The employment cost index rose 2.7% for the 12 months ending in March 2018.
**Core CPI continues to rise at a steady pace**

- The 12-month change in the core index was 2.1% in March, 0.3 percentage point higher than the 1.8% increase recorded in the previous three months.

- Core services prices rose strongly.
  - Core services prices increased 0.3% in March at a monthly rate. The 12-month change in this index was 2.9%, up from 2.6% in February.

- Core goods prices fell in March by 0.1% relative to February after rising for the previous three months.
  - This could be due to some retracing of the large increases recorded in January and February for specific components.

**Shelter prices increase strongly in 2018**

- Shelter prices account for about one third of the CPI index. After some weakness in 2017, shelter prices have been rising solidly in 2018.
  - The 12-month change in the shelter index was 3.3% in March, lower than the 3.6% reached in 2016, but 0.2 percentage point higher than in February.

- The rebound in shelter prices mirrors that of owners’ equivalent rent (OER), its largest component.
  - The 12-month change in the OER index was 3.3% in March.

- Rent of primary residence is still rising very robustly, but its growth has moderated compared to a year ago.
  - On a 12-month basis the change in the index was 3.6%, down from the 3.9% reached last August.
FINANCIAL MARKETS

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

- U.S. equity markets rose from their recent lows, but remain below their all-time highs.
  - The S&P 500 index rose 2.7% between April 6 and May 7 and 3.6% from its recent low on April 2, but remains 6.9% below its January 26, 2018 all-time high.
  - As of May 7, the index is almost unchanged year-to-date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), has decreased moderately since early April.
  - The VIX Index closed at 15.06 on May 7, well below its 37.32 multi-year high on February 5, but above its 2017 year-end value of 11.04.

**U.S. Bank Equities Performance**

- As measured by the KBW Nasdaq bank index, bank equities rose 1.6% between April 6 and May 7 and 2.7% from their recent low on March 23.
  - As of May 7, the index has remained unchanged year-to-date.

- The XLF financial sector ETF rose by 0.6% between April 6 and May 7, and 1.9% from its recent low on March 23.
  - As of May 7, the index was down 2.0% year-to-date.
FINANCIAL MARKETS

**USD Exchange Rates**

The exchange value of the dollar against a basket of global currencies increased 2.8% between April 6 and May 7.
- Over the same period, the dollar appreciated by 3% against the euro, 2.1% against the Japanese yen, and 6.2% against the Mexican peso.
- Since the start of 2018, the dollar has appreciated 0.4% against a basket of global currencies.

**Expected Federal Funds Rate**

The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved up between April 6 and May 7.
- The market-implied path remains somewhat below the median path from the FOMC’s March 2018 Summary of Economic Projections and the March 2018 NY Fed Survey of Primary Dealers.
**FINANCIAL MARKETS**

### 10-Year Treasury and Term Premium

- **Longer-term Treasury yields rise**
  - Longer-term Treasury yields have risen since early February.
  - The 10-year yield increased about 20 basis points between April 6 and May 4 and remains close to its highest level in nearly four years.
  - Estimates from the Adrian-Crump-Moench term structure model attribute about 12 basis points of the increase in the 10-year yield since April 6 to a less negative term premium and about 8 basis points to a higher path for the expected short-term interest rate.
  - The estimated 10-year term premium remains negative.

### 5-10 Year Forward Decomposition

- **Breakeven inflation increases slightly**
  - Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) increased slightly in recent weeks.
  - The five-to-ten year breakeven inflation rate was 2.08% on May 4, up 8 basis points from April 6 and up 20 basis points year-to-date.
  - According to the Abrahams-Adrian-Crump-Moench model, most of the movements in forward inflation compensation continue to reflect movements of the inflation risk premium, with model-implied expected inflation anchored at slightly above target.
  - The estimated five-to-ten year inflation risk premium has increased 10 basis points year-to-date.
SPECIAL TOPIC: SCE HOUSING SURVEY

SCE: Housing as an Investment

Percent of Respondents who View Housing as:

- Very good investment
- Somewhat good investment
- Neither
- Somewhat bad investment
- Very bad investment

2014 2015 2016 2017 2018


Housing seen as a good investment

- Most households see housing as a good investment.
  - In the February 2018 Survey of Consumer Expectations (SCE) Housing Survey, almost two-thirds (65%) of respondents viewed housing in their ZIP code as either a "good" or "very good" investment.

- Respondents’ views of housing as an investment improved in 2017-2018.
  - In 2017, housing was viewed as a good investment by 60% of households.

- The share of respondents with a positive view of housing is up from 56% in 2014.

SCE: Housing as an Investment by Region

Percent of Respondents who View Housing as a Good Investment

2014 2015 2016 2017 2018


Strong spatial pattern in views about housing

- Perceptions of housing as a good investment are strongest in the West and South.
  - Around 70% of consumers see housing as “good” or “very good” in these areas.

- The Midwest and Northeast are below average.
  - In these regions, housing is seen as a good investment by 56-61% of respondents.

- There have been improvements in perceptions across all regions since the start of 2018.