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 10, 2019.
• Real consumer spending rose robustly in March.
  • The increase in spending for March was led by robust growth in durable goods expenditures.

• Growth in business equipment spending was weak in 2019Q1, slowing further from its overall pace in 2018.
  • New orders of capital goods (excluding aircraft) rebounded in March and were slightly above shipments, suggesting a bit of improvement in near-term momentum.

• Housing activity indicators suggest continuing softness.
  • Home sales rebounded further in March, likely fueled by a substantial decline in mortgage rates over recent months. However, single-family housing starts and permits have been lackluster. A strong labor market and lower mortgage rates potentially could provide support to the housing sector.

Payroll growth was robust in April. The unemployment rate and the labor force participation rate both declined, while the employment-to-population ratio was unchanged.
  • Various measures of labor compensation continue to indicate a gradual firming of wage growth.

Core PCE inflation was soft in March and currently lies somewhat below the FOMC’s longer-run objective.

U.S. equity indices were little changed over the past month, remaining near their historic highs. Implied volatility rose to near its historical average level. The nominal 10-year Treasury yield was roughly unchanged on balance. The broad trade-weighted dollar index rose modestly. Oil prices were little changed on net.

### Output moderately above potential GDP estimate

• The level of real GDP in 2019Q1 was about 0.8% 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 3.6% unemployment rate in April was below most estimates of its natural rate, including that of the CBO (4.60%).

• The current output and unemployment gaps signal tight resource constraints in the U.S. economy.
  • However, capacity utilization rates remain below their historical averages, suggesting looser constraints by that measure.
**OVERVIEW**

**Labor Market Indicators**

- Unemployment Rate (Right Axis)
- Labor Force Participation Rate (Left Axis)
- Employment-to-Population Ratio (Right Axis)

**Drop in unemployment and participation rates**

- **The unemployment rate declined from 3.8% in March to 3.6% in April, marking the lowest reading since December 1969.**
  - An alternative measure of unemployment, so-called U6, which includes marginally attached workers and workers who hold part-time jobs for economic reasons, was 7.3% in April, same as in March.
- **The drop in the unemployment rate coincided with a decline in the labor force participation rate, which registered a 0.2 percentage point decline for the second consecutive month, reaching 62.8% in April.**
- **The employment-to-population ratio was unchanged in April at 60.6%.**

**PCE Deflator**

**Inflation exhibits some softness**

- **The total PCE price index rose 0.2% in March after rising 0.1% in February. The core PCE price index (which excludes food and energy prices) increased 0.05% in March, slightly lower than in January and February.**
  - Energy prices increased 3.6% in March, and are up 0.3% relative to one year ago. Food prices rose 0.2% and are up 1.4% compared to one year ago.
- **The 12-month changes in the total PCE and core PCE price indices were +1.5% and +1.55%, respectively.**
  - Both total and core PCE inflation have softened over the last few months.
  - Headline and core PCE inflation currently lie somewhat below the FOMC’s 2 percent longer run goal.
**Real GDP growth surprises to the upside in 2019Q1**

- Based on the advance estimate, real GDP rose 3.2% (annual rate) in 2019Q1, above the consensus expectation. The four-quarter growth rate was 3.2%, the fastest since 2015Q2.

- Growth of final sales to domestic purchasers slowed to 1.4% in 2019Q1 from a recent peak of 4.0% in 2018Q2. Growth of real personal consumption expenditures was just 1.2% (annual rate), down from a 3% annual rate over the second half of 2018. Growth of private fixed investment was also relatively sluggish, while federal government spending was essentially unchanged due to the partial government shutdown.

- In contrast, inventory investment remained brisk in 2019Q1, contributing 0.7 percentage points to the overall growth rate. In addition, growth of real exports was robust while imports fell, resulting in a 1.0 percentage point growth contribution.

**Manufacturing production edges down in March**

- Manufacturing production edged down by 0.1% in March, following a decline of 0.3% in February.
  - On a 12-month change basis, manufacturing production rose by 1% in March—the lowest since January 2017.

- The ISM Manufacturing PMI declined by 2.5 points to 52.8 in April.
  - The index shows that manufacturing continues to expand, but at a slower rate (the slowest since October 2016).
  - Indices for imports and new export orders show contraction relative to the previous month, while prices paid by manufacturers for inputs are stable.

- Regional Fed surveys show manufacturing growing at a modest pace.
### Consumer spending rebounds in March

- Real PCE increased a robust 0.7% in March, following no growth in February.
  - Despite this increase, the growth of consumption spending in the first quarter was a modest 1.2%.

- Real disposable personal income declined 0.2% in March.
  - For the first quarter, real disposable income increased 2.4%.
  - The personal saving rate declined to 6.5% in March; however, it was up to 7% for 2019Q1 overall, up from 6.8% in 2018Q4.

- Household net worth took a hit in the fourth quarter.
  - Despite the 2018Q4 decline, the ratio of household net worth to GDP remains roughly at pre-crisis levels.

### Spending strong in both goods and services

- Real expenditures on good increased 1.4% in March, after declining in February.
  - Durable goods spending increased a robust 2.9%, following two months of declines.
  - Nondurable spending increased 0.8%, after see-sawing in the previous two months.

- Real services expenditures increased 0.3% in March, following an average growth of 0.22% in the previous two months.
  - Spending on health care was the largest contribution to spending on services.
**Business Sector**

**Equipment Investment and Capacity Utilization**

- **Growth of equipment spending weak in 2019Q1**
  - Real business equipment investment grew at a 0.2% annual rate in 2019Q1. Over the last 4 quarters, equipment spending rose 3.7%, the slowest in the last 2 years.
  - In 2019Q1, spending rose solidly for transportation equipment, rose modestly for information and industrial equipment, and fell for other equipment.
  - The equipment spending share of nominal GDP remained below its average share in 2013–15.
  - Recent soft equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
  - This rate was 76.4% in March, about 2 percentage points below its long-run average.
  - Historically, utilization rates near the March level are associated with modest growth of equipment investment.

**Investment in Nonresidential Structures**

- **Growth in real nonres. structures investment slows**
  - The four-quarter growth rate of real investment in nonresidential structures slowed to 1.3% in 2019Q1 from a recent high of 6.3% in 2018Q3.
  - This expenditure category covers a wide range of structures investment, including office building, hotels, retail space, power generation and transmission structures, and oil and gas drilling related structures.
  - The four-quarter growth rate of investment in the petroleum and natural gas sector has fallen sharply, to 15.5% in 2019Q1 from 66.7% in the fourth quarter of 2017.
  - Excluding the oil and gas sector, growth of investment in nonresidential structures has been slowing for several years and was -2.1% over the four quarters ending in 2019Q1.
Housing starts fall slightly in March

- Total housing starts fell 0.3% in March to 1.139 million units at a seasonally-adjusted annual rate (SAAR). The 12-month change was -14.2%.
  - Single-family starts decreased 0.4% to 785,000, and multifamily starts were unchanged at 354,000.

- Building permits decreased 1.7% in March, as single-family permits declined 1.1% and multi-family permits fell 2.7%.
  - Single-family permits have been on a downward trend since early 2018.

- The starts and permits data indicated that building activity in the housing market remained soft through March, even though there has been some improvement in sales amid lower mortgage rates.

Housing prices continue to grow, but at slower rate

- The CoreLogic single family national home price index rose 3.7% in March on a year-over-year (YoY) basis.
  - Twelve-month growth of this index is now at its lowest level since May 2012.
  - All states except Connecticut and North Dakota experienced YoY increases in the home price index in March. Idaho experienced the highest YoY increase followed by Maine.

- The inventory of single family homes was 1.48 million units in March, equivalent to a 3.8 months’ supply at the current sales pace and up from 3.5 months in February.
  - Since late 2015, the inventory of single family homes for sales has remained below the normal range of 5-7 months.
  - While sales remain low, months’ supply has risen over the past year and is now 8.3% above that in March 2018.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- **Partial gov’t shutdown slows federal spending growth**
  - After increasing at a progressively faster pace over the year ending in 2018Q3, the four-quarter percentage change of real federal spending slowed to 2.7% in 2018Q4 and to 2.0% in 2019Q1. All of the slowing occurred in the nondefense category as defense spending was not affected by the shutdown.
  - Federal spending is expected to rebound in 2019Q2 as postponed spending takes place.
  - After slowing in 2018Q4, growth of consumption and gross investment at the state and local level rebounded to 1.6% in 2019Q4, the fastest pace of growth since 2016Q2. The Q4 slowdown and Q1 rebound were concentrated in the structures investment category, which includes infrastructure spending such as roads and bridges, water treatment, etc.

**Real State & Local Consumption & Gross Investment**

- **State and local sector rebounds**
  - State and local government consumption and gross investment spending growth rebounded in 2019Q1, after slowing in 2018Q4.
  - The growth slowdown and rebound were both driven by gross investment.
    - The 4-quarter growth rate of gross investment rose from 1.9% in 2018Q4 to 5.5% in 2019Q1.
    - The 4-quarter growth rate of gross investment has now been positive for 5 consecutive quarters, which has not happened since 2015-16.
  - Consumption spending 4-quarter growth ticked up to 0.76%.
    - State and local consumption grew 0.63% in 2018Q4.
    - State and local consumption consists largely of employee salaries and makes up about 80% of the sector’s spending.
INTERNATIONAL DEVELOPMENTS

Net Exports: Contribution to GDP Growth

- According to the advance release, net exports added about one percentage point to GDP growth in 2019Q1.
  - Real exports went up by 3.7% (SAAR), whereas real imports fell 3.7% (SAAR).
  - Relative to the preceding quarter, Q1 exports grew at a higher rate and the Q1 imports growth rate turned negative.
  - The trade deficit increased slightly to $50 billion in March from $49.3 billion in February.
  - Real goods exports were up 0.7% over the month in March, mainly due to higher exports of food, feeds and beverages, oil goods and industrial supplies (excluding oil).
  - Real goods imports grew 0.7% between February and March. Nonoil goods import volumes rose 0.4%, owing largely to higher food, feeds and beverages imports. Oil goods import volumes also went up in March.

Crude Oil Prices

- Oil prices are back to near year-ago levels.
  - They are still much below levels seen in the 2010-2014 period.
  - Prices are being supported by lower oil production in Saudi Arabia, Iran, and Venezuela.
  - These declines are offsetting higher U.S. production.
  - Most of the increase in global oil demand is coming from China, India, and the United States.
  - No increase in demand is expected from Europe and Japan.
**LAbor Market**

**Payroll Employment and Aggregate Hours**

- Nonfarm payroll employment increased 263,000 in April, above the Bloomberg median forecast of +190,000.
  - Payroll employment was revised down for March (from +196,000 to +189,000) and up for February (from +33,000 to +56,000), resulting in a net upward revision of 16,000.

- The latest reading and revisions put the average nonfarm payroll gains in 2019 at 205,000, slightly below the average monthly gains in 2018 of 223,000.

- Employment in goods-producing industries rose by 34,000, while employment in private service-producing industries increased by 202,000.

**Strong payroll growth in 2019**

**Labor force participation rate by race**

- The gap between the labor force participation rate among whites and that of blacks has been less than one percentage point since November 2016.
  - The gap has steadily declined over the course of the post-recession recovery, peaking at 3.8 percentage points in August 2009. The gap now stands at 0.3 percentage point.

- The participation rate among whites declined from 63.0% in March to 62.8% in April.
  - The labor force participation rate among whites has moved within the band of 62.7% and 63.1% since November 2015.

- The participation rate among blacks increased from 62.1% in March to 62.5% in April.
  - The labor force participation rate among blacks has moved within the band of 61.9% and 62.9% since November 2016.

**Narrowing of race gap in labor force participation**
**Robust level of job openings**

- The ratio of job openings to unemployed workers, a measure of labor market tightness, rebounded in March to 1.21 from 1.15 in February.
  - The ratio of job openings to unemployed has remained above one since March 2018, implying that over the last year, there has been persistently more job openings than unemployed people to fill those jobs, excluding potential workers not in the labor force. Prior to March 2018, this ratio had been below one since the inception of the JOLTS in December 2000.
- The job-openings rate—representing the number of job openings relative to the sum of employment and job openings—rose by 0.2 percentage point to 4.7 percent in March, returning near its series high.

**Softer wage growth in April**

- Average hourly earnings rose 0.22% in April, in line with the average monthly change over 2019Q1 of 0.22%.
  - On an annual basis, average hourly earnings were up 3.23%, which is on the soft side of the readings over the past 6 months, but above the levels that prevailed before.
- Average weekly earnings increased by 2.94% over a 12-month period.
- The employment cost index (ECI) for civilian workers rose 0.7% in 2019:Q1, just as in 2018:Q4.
  - The 4-quarter change in the ECI was 2.87% in 2019:Q1, just below the prior quarter measurement of 2.89%, a post-recession high.
  - The ECI captures the wages and salaries as well as benefits paid by employers to their workers.
Core inflation is again below expectations in April

- Core CPI rose 0.1% in April, the same increase as in February and March, but 0.1 percentage point below the median private sector forecast in the Bloomberg survey.
  - The 12-month change in the core index was 2.1%, up from a 2.0% change in March.

- As in March, core services inflation was strong but core goods prices fell.
  - Core services prices rose 0.3% in April, the same increase as in March. The 12-month change in this index was 2.8%, up from 2.7% in March.
  - Core goods prices fell 0.3% in April after decreasing 0.2% in March. The 12-month change in core goods prices in April was -0.2%.

Inflation forecast distributions shift down in 2019Q2

- The U.S. Survey of Professional Forecasters requests density (histogram) forecasts that show the probability of inflation falling into 10 separate ranges.
  - The 2019Q2 survey was fielded from the end of March through early May, with results released on May 10.

- Compared to last quarter, the forecast distribution for core PCE inflation in 2019 (Q4/Q4) shifted to the left, giving more probability to the 1.0 – 1.9 percent range and less probability to the 2.5 – 2.9 range.
  - Forecasts reported a 45% chance of core PCE inflation being 2% or higher, 10 percentage points less than in the 2019Q1 survey.
  - The forecast distribution for 2020 core PCE inflation (not shown) is similar to the one for 2019: The probability of core inflation being 2% or higher is about 55%.
**U.S. Equity Market Index and Volatility**

- **S&P 500 (Right Axis)**
- **VIX (Left Axis)**

*Source: Bloomberg Finance L.P.*

**U.S. equity markets little changed**

- U.S. equity markets continued to inch higher during the last month.
  - The S&P 500 index gained 1.4% between April 5, 2019 and May 6, 2019, marking a new high on April 30 at 2945.83.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), increased.
  - The VIX Index closed at 15.44 on May 6, 2019, 2.62 points above its close on April 5, 2019.

**USD Exchange Rates**

*Source: Bloomberg Finance L.P.*

**U.S. dollar performance mixed**

- The exchange value of the dollar against a basket of global currencies increased 0.12% between April 5 and May 6.
  - Over this same period the dollar appreciated by 0.15% against the euro, but depreciated by 0.87% against the Japanese yen, and by 0.43% against the Mexican peso.

- Since the start of 2019, the dollar has appreciated 0.34% against a basket of global currencies.
**Bank stocks gain in value**

- As measured by the KBW Nasdaq bank index, bank equities increased 4.55% between April 5 and May 6, 2019.
  - The index increased by 3.2 percentage points more than the S&P 500.

- The XLF financial sector ETF increased 4.81% between April 5, 2019 and May 6, 2019.
  - Since the start of the year, the XLF ETF has gained 16.07% in value.

**Implied path for federal funds rate shifts down**

- The expected path of the federal funds rate implied by rates on overnight index swaps (OIS) moved down slightly for all maturities over the period from April 5, 2019 to May 6, 2019.
  - The shift for intermediate maturities was around 2 basis points.
  - For longer maturities, the expected path of the federal funds rate declined by more than 5 basis point.

- The market-implied path remains well below the median path of the FOMC’s March 2019 Summary of Economic Projections and the March 2019 NY Fed Survey of Primary Dealers at longer horizons.
FINANCIAL MARKETS

10-Year Treasury and Term Premium

- Longer-term Treasury yields remain steady
  - Longer-term Treasury yields increased slightly since the beginning of April.
    - The 10-year yield increased 2.6 basis points between April 5 and May 6, 2019.
  - Estimates from the Adrian-Crump-Moench term structure model attribute the decrease exclusively to a more negative term premium, while the path for the short term interest rate remained broadly unchanged.
    - After hitting its lowest value since 2016 on March 29, the 10-year term premium increased by about 5 basis points between April 5 and May 6, 2019.

Breakeven inflation little changed

- Market-implied TIPS-based measures of long-term inflation expectations ("breakevens") were little changed in recent weeks.
  - The five-to-ten year breakeven inflation rate decreased by 1.2 basis points between April 5, 2019 and May 6, 2019.

- According to the Abrahams-Adrian-Crump-Moench model, most of the year-to-date movements in forward inflation compensation continue to reflect movements in the inflation risk premium.
  - The estimated five-to-ten year inflation risk premium decreased by 4.5 basis points between April 5, 2019 and May 6, 2019.
SPECIAL TOPIC: CHINESE ECONOMIC ACTIVITY AND CREDIT GROWTH

Credit Growth and Credit Impulse

Policy stimulus in China increases notably in 2019Q1

- Policy stimulus was led by a strong pick-up in credit growth in 2019Q1 and this credit impulse should provide near-term support for economic growth.
  - Following roughly two years of macro-prudential tightening that slowed aggregate credit growth significantly, China returned to credit-driven stimulus in Q1, although April credit data moderated a bit.
  - Based on official data, new credit year-to-date is not far off levels of past turns in the credit cycle (roughly 11% of GDP), but is still lower when adjusting for additional sources of credit not reported in official data.

- China has also loosened fiscal policy through tax cuts and expenditure increases; the single largest one was a reduction in value-added taxes in April. Market participants estimate that fiscal stimulus in total amounts to roughly 2% of GDP.

Real GDP and Expenditure Growth Contributions

GDP growth stabilizes in 2019Q1

- Economic stimulus helped stabilize China’s GDP growth rate in 2019Q1. Real GDP was reported to have grown by 6.4% in Q1 over the same quarter last year. This was unchanged from 2018Q4 and slightly higher than market participants expected.
  - The expenditure breakdown showed that growth was supported by an increased contribution from net exports, which reached nearly 1.5 percentage points, the second consecutive positive contribution. By contrast, the growth contributions from both consumption and investment declined.
  - From a supply-side perspective, GDP was supported by faster growth in the industrial and construction sectors. Growth rates in the agriculture and service sectors both slowed.
### Monthly activity data also stabilize

- Industrial production was particularly strong in March, with the reported year-over-year headline figure printing at 8.5%.
  - The increase was smaller after adjusting for holiday base effects, but was still strong enough to boost the quarterly growth rate to about 6.5% (annual rate).
  - Manufacturing survey data was somewhat weaker, however. Overall, the manufacturing PMI index averaged 49.8 in the first four months of 2019, virtually unchanged from 2018Q4.

- Retail sales and other indicators of consumer demand picked up moderately in Q1, with nominal retail sales picking up to 8.7% in March from 8.2% at the end of 2018.

- Nominal and real fixed asset investment increased slightly in Q1, but overall showed no clear shift in trend from steady growth at moderate levels.

### Exports remain a key watch point

- China’s nominal exports grew at a 13% average growth rate during the first three quarters of 2018, but slumped beginning in 2018Q4.
  - After adjustments for seasonality and holiday effects, the 12-month growth rate of exports dropped to -0.2% in 2019Q1, while the reading for April slid to -3.5%.

- The slowdown in export growth coincided with the imposition of tariffs on an increasing share of China’s exports to the U.S., including about $200 billion of imports in late September.

- The new export orders sub-index of China’s manufacturing PMI suggested that exports began to recover in recent months. New export orders declined notably beginning in June 2018 and reached a low of 45.2 in February of this year, but rebounded in March and April.