U.S. Economy in a Snapshot
Research & Statistics Group
October 2017

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 October 11, 2017.
• Real personal consumption expenditures fell slightly in August, suggesting slower consumer spending growth in the third quarter compared to Q2.
  - However, motor vehicle sales surged in September, partly reflecting deep discounts from dealers.

• Monthly indicators suggest solid growth in equipment spending for Q3, with modest near-term momentum.

• Housing indicators still point to continued gradual improvement in this sector.
  - Multi-family starts remained appreciably below their recent peaks, but tight market conditions continued to promote a gradual rise in single-family starts.

• Payroll employment fell in September, likely affected by Hurricanes Harvey and Irma. The unemployment rate fell, while the labor force participation rate and the employment-to-population ratio both increased.
  - Growth of some labor compensation measures firmed.

• Monthly readings on PCE inflation indicated that core inflation continues to run at a level somewhat below the FOMC's longer-run objective.

• In the past month, U.S. equity indexes rose, and are at or near record highs. The nominal 10-year Treasury yield increased modestly. The U.S. dollar appreciated against a basket of currencies. Volatility remained low.

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**Output close to its potential level**

• The gap between real GDP and the Congressional Budget Office's (CBO) measure of real potential GDP was about 0.2% in 2017Q2.
  - CBO estimates of the output gap in recent quarters have narrowed.
  - The September unemployment rate of 4.2% is below many estimates of its natural rate, including that of the CBO (4.74%).

• The CBO output gap indicates very little resource slack remains in the U.S. economy, while the unemployment gap indicates no slack remains.
  - However, capacity utilization rates are still below their historical averages, suggesting more substantial resource slack than other activity gap measures.
**OVERVIEW**

**Labor Market Indicators**

- **Labor market conditions remain strong**
  - The unemployment rate fell from 4.4% in August to 4.2% in September.
    - The unemployment rate has not been at or below 4.2% since February 2001.
  - The labor force participation rate rose 0.2 percentage point from 62.9% to 63.1%.
  - The employment-to-population ratio rose from 60.1% to 60.4% in September.
    - This is the highest level for the series since January 2009.

**PCE Deflator**

- **PCE inflation readings remain soft**
  - The total PCE price index rose 0.2% in August, following a 0.1% increase in July. The core PCE price index (which excludes food and energy prices) increased 0.1% in August, the same as in July.
    - Energy prices rose 3.1% in August and are up 6.7% from a year ago.
    - Food prices were unchanged in August and are 0.3% higher from a year ago.
  - The 12-month changes in the total PCE and core PCE price indexes were +1.4% and +1.3%, respectively, in August.
    - After peaking at 2.2% in February, the 12-month change in the total PCE price index has been below the FOMC’s objective since that month.
**GDP Growth**

- **Growth in Q2 is nudged up**
  - According to the third estimate, real GDP rose at a 3.1% annual rate in Q2, a slight upward revision from the second estimate of a 3.0% increase.
  - The upward revision to GDP growth reflected stronger government spending at the state and local level as well as greater inventory investment.
  - Real gross domestic income (GDI), which provides an alternative measure of economic activity, increased at a 2.9% annual rate in Q2.
    - The four-quarter change in real GDI was +2.0%, slightly below the 2.2% increase for real GDP.

**Manufacturing and ISM Manufacturing Index**

- **Manufacturing activity grows in September**
  - The ISM Manufacturing Index rose 2.0 points to 60.8 in September.
    - This is the highest reading of this index in over 13 years (since May 2004).
  - Manufacturing production decreased 0.3% in August relative to July.
    - Decline likely explained by the recent hurricanes.
    - On a 12-month change basis, manufacturing activity has increased by 1.5 percent.
  - The latest readings of the regional Fed manufacturing surveys all indicate continued expansion in the sector.
**Households**

**Disposable Income, Consumption, and Wealth**

- Real personal consumption expenditures (PCE) declined 0.1% in August after increasing 0.2% in July.
  - On a 4-quarter basis, real PCE tipped down in August after a modest uptrend in the past few months.
- Real personal income also declined 0.1% in August.
  - The personal saving rate held steady at 3.6% in August.
- Households’ net worth as a percentage of disposable income continued to rise in the second quarter, and it is now well above its pre-recession peak.

**Services, Durables, and Nondurable Goods**

- Real expenditures on goods fell 0.5% in August, driven by a decline in expenditures on new motor vehicles.
  - Durable goods spending declined 1.0%, after increasing a strong 1.3% in July.
  - Nondurable goods fell 0.2%, after being flat in July.
- Real expenditures on services increased 0.1% in August.
  - The increase was in line with that of the previous two months.
- Overall spending on goods and services has been on a mild downward trend since March.
**Equipment Investment and Capacity Utilization**

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<thead>
<tr>
<th>Quarter % Change</th>
<th>% of Capacity</th>
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- **Manufacturing Capacity Utilization Rate (Right Axis)**
- **Real Business Investment in New Equipment (Left Axis)**

Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

**Equipment investment improves moderately**

- With a solid rise in the quarter, real business equipment investment increased 3.1% over the four quarters ending in 2017Q2.
  - Four-quarter changes were positive for all of the major categories except for transportation equipment.
  - The level of real business equipment investment in 2017Q2 was still below the levels in the second half of 2015.

- A key factor behind sluggish equipment investment has been the low manufacturing capacity utilization rate.
  - This rate was 75.3% in August, 3 percentage points below its longer-term average, and it has fluctuated within a narrow range over the past five years.
  - Historically, robust growth of equipment investment has not occurred until the capacity utilization rate surpassed 80%.

**Investment in Nonresidential Structures**

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<th>% Change – Annual Rate</th>
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- **Structures: Petroleum and Natural Gas (Right Axis)**
- **Structures: Total (Left Axis)**

Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

**Real investment in nonresidential structures rises**

- Over the four quarters ending in 2017Q2, real business investment in nonresidential structures was up 8.3%, the strongest four-quarter change since the end of 2014.
  - After declining sharply during 2015 and 2016, investment in petroleum and natural gas structures was up a strong 71% over the four quarters ending in 2017Q2.

- Excluding petroleum and natural gas structures, the four-quarter change in real investment in nonresidential structures was essentially zero over the four quarters ending in 2017Q2.
  - Real investment in new office buildings, new healthcare-related structures, and manufacturing-related structures declined during the second quarter.
**HOUSING SECTOR**

**Housing Starts**

The three-month moving average of total housing starts was 1.196 million units (annual rate) in August.
- The August three-month moving average was slightly above that of a year earlier.

The three-month moving average of single-family starts was about 849,000 units (annual rate) in August, as these starts continue to rise moderately.
- Single-family market conditions appear to be tight, with home prices rising steadily and low inventories.

The three-month moving average of multi-family starts was 347,000 units (annual rate) in August, similar to recent months but about 20% below that of a year earlier.

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**Single Family Housing Market**

The CoreLogic single family national home price index rose 6.9% in August from a year ago, surpassing the previous April 2006 peak.
- Washington and Utah experienced the highest increases, while West Virginia experienced a year-over-year decline.

The inventory of single family homes was 1.88 million units in August, equivalent to a 4.2 months’ supply at the current sales pace, same as in July.
- Since late 2015, the inventory of single family homes for sale has remained below the normal range of 5-7 months.
- The limited supply of homes for sale along with a healthy job market and historically low mortgage rates have created upward pressures on home prices.
**Real government spending unchanged over past year**

- Over the four quarters ending in 2017Q2, real consumption and gross investment spending by the total government sector was little changed.

- Both federal defense and nondefense spending were little changed over the year ending in 2017Q2.
  - Investment spending for defense and nondefense has risen over the last four quarters, but consumption spending in both sectors has declined over that period.

- State and local government spending has been weighed down by substantial declines in infrastructure investment.
  - Real state and local government investment spending has fallen 8.1% since 2016Q1.

**State and local government sector still weak**

- Real state and local government consumption and gross investment fell over the four quarters ending in 2017Q2.
  - The four-quarter change of -0.15% in Q2 was the first decline since early 2014.

- The four-quarter change in real consumption expenditures continues to weaken.
  - The four-quarter change in real consumption expenditures has been less than 1% for the last two quarters; real S&L consumption is still 1.6% below 2009Q4 peak.

- State and local gross investment continues to decline.
  - Infrastructure investment declined for the fifth straight quarter.
INTERNATIONAL DEVELOPMENTS

**Real Exports and Nonoil Imports of Goods**

- **Recent data show decline in the trade deficit**
  - The nominal trade deficit fell to $42.4 billion in August from $43.6 billion in July, owing to declines in both exports and imports.
    - Real exports of goods fell 0.8% over the month, on weaker data from the petroleum and, to a lesser degree, the food, feeds and beverages categories.
    - Real nonoil imports fell 0.8%, driven by declines in imports of industrial supplies and capital goods.
  - Net exports added 0.2 percentage point to GDP in the Q2 Third Estimate.

**Euro Area GDP Growth and Composite PMI**

- **Euro area recovery picks up steam**
  - Growth in the euro area has turned stronger after an initially bumpy recovery in 2013-14.
    - Growth has averaged 2% since 2015, and picked up to almost 2.5% during the first half of this year.
    - Growth has been well balanced. Since 2015, private consumption has grown at roughly 2%, capital spending at 3.5%, and exports at 4.5%.
  - Business surveys point to a well maintained recovery in Q3, with purchasing managers indexes across the euro area remaining close to recent multi-year highs.
  - Market expectations are for growth to moderate in coming quarters, averaging somewhat above 1.5% next year.

*Sources: Eurostat; IHSMarkit via Haver Analytics  
Note: Shading shows NBER recessions.*
**LABOR MARKET**

**Payroll Employment and Aggregate Hours**

![Graph showing 12 Month % Change in Payroll Employment and Aggregate Hours from 2000 to 2016.]

**Payroll employment falls in September**

- Nonfarm payroll employment fell by 33,000 in September.
  - Median expectations called for an increase of 80,000.
  - Hurricanes Harvey and Irma likely affected the payroll estimates, as they made landfall in Texas and Florida before or during the data collection period.
  - Payroll estimates do not include Puerto Rico or the U.S. Virgin Islands.

- Average weekly hours remained at 34.4 hours in September.
  - Aggregate hours declined by 0.1%.
  - The 12-month percent change in aggregate hours was +1.4%.

**Change in Employment by Industry**

![Bar chart showing change in employment by industry.]

**Payroll employment changes mainly in services**

- Declines in private payroll employment were primarily in service-providing industries.
  - Employment in leisure and hospitality and other services – industries likely affected by the hurricanes – fell by 111,000 and 5,000 respectively.
  - Employment changes in leisure and hospitality averaged +30,000 in 2017, prior to September; the decline in September was nearly four times the usual monthly gains this year.

- The one-month diffusion index for all private nonfarm industries declined from 60.2 in August to 55.7 in September.
  - The decline is consistent with the concentrated declines in employment in leisure and hospitality and other services.
**LABOR MARKET**

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**Not at Work due to Bad Weather**

- **Recent Spike**

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

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**Bad weather affects work attendance**

- Household employment rose by 906,000 in September.
  - The household survey considers individuals with a job, but not at work, as employed.
  - Household survey estimates are therefore less likely to be affected by the hurricanes.

- The hurricanes’ effects can be seen in the number of individuals absent from work due to inclement weather.
  - The number of individuals in this category spiked in September, reaching 1,489,000.

- The household survey does not include Puerto Rico or the U.S. Virgin Islands.

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**Growth of Average Hourly Earnings and ECI**

- **Average Hourly Earnings**

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

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**Compensation growth remains modest**

- Average hourly earnings increased 0.45%, from $26.43 in August to $26.55 in September.

- Average weekly earnings also increased 0.45%, from $909.19 to $913.32.

- The 12-month percent change in average hourly earnings and average weekly earnings were both 2.9%.

- The employment cost index rose 2.4% for the four-quarter period ending in June 2017.
Core CPI inflation shows some strength in August

- Core CPI increased 0.2% in August after rising 0.1% for the previous four months.
  - The 12-month change in the core index was 1.7%.

- Core service prices rose very strongly, led by higher shelter prices, after rising modestly in previous months. Core goods prices continued to fall.
  - Core services prices rose 0.4% in August, the largest monthly jump in a decade.
  - Core goods prices fell again in August, and their 12-month change was -0.9%.

Medium term inflation expectations rebound

- After a steady upward trend at the end of 2016, medium-term consumer expectations have declined, while becoming more volatile.

- The latest reading in September 2017 suggests an uptick in medium-term median consumer expectations.

- Most of the variations in inflation expectations are driven by the consumers with the highest expectations.
  - The lower quartile of the expectations distribution has been flat for the past two years, while the upper quartile has been declining for most of 2017.
**U.S. Equity Market Index and Volatility**

![Chart showing S&P 500 and VIX indices from 2007 to 2017]

Source: Bloomberg Finance L.P.

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**U.S. equity markets remain near record levels**

- U.S. equity markets increased in September and early October.
  - Between September 5 and October 6, the S&P 500 index increased 3.7%.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX), remains low.
  - The VIX was at 9.19 on October 5, its lowest level since 1993.

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**U.S. Bank Equities Performance**

![Chart showing SP500, XLF ETF, and KBW index from 2007 to 2017]

Source: Bloomberg Finance L.P.  
Note: Start date 01/03/2007 = 1.

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**U.S. bank stocks regain some of their YTD losses**

- As measured by the KBW Nasdaq bank index, bank equities rose 10.2% between September 5 and October 6, compared to an increase of 3.7% for the S&P 500 Index.
  - The XLF financial sector ETF rose 8.7% over the same period.

- For 2017 year-to-date, U.S. bank equities have increased more slowly than the broader stock market.
  - The KBW index is up 8.7% and the XLF ETF is up 12.1%, while the S&P 500 has increased 12.9% year-to-date.
**Dollar appreciates slightly against global currencies**

- During the period from September 5 through October 6, the exchange value of the dollar against a basket of global currencies increased by around 2%.
  - On net, the dollar appreciated by about 3.5% against the Japanese yen, appreciated by about 3.5% against the Mexican peso, and appreciated by about 1.6% against the Euro.

- Since the start of the year, the dollar has depreciated by about 7.6% against a basket of global currencies.

**Higher implied path for federal funds rate**

- Between September 5 and October 6, the expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) shifted up at all maturities and steepened.
  - The expected federal funds rate increased by about 20 basis points at the one-year horizon and by 50 basis points at the five-year horizon.

- The current market-implied path out to five years remains below the reported longer-run value of the median respondent of both the FOMC’s September 2017 Summary of Economic Projections and the July 2017 New York Fed Survey of Primary Dealers.
LONGER-TERM TREASURY YIELDS REMAIN LOW

- The 10-year nominal yield increased by 20 basis points between September 5 and October 6, but Treasury yields remain low by historical standards.
  - The 10-year yield is down by about 30 basis points from its year-to-date high observed in March.

- Estimates from the Adrian-Crump-Moench term structure model attribute 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 45 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.
Increase in subprime new card issuance

- Card issuance declined significantly in 2009, as credit issuance became more conservative.
  - The decline in issuance was due to the Great Recession and the 2009 passage of the Card Act.

- Net card issuance to subprime borrowers (credit scores <620) declined most notably, as many accounts were closed and fewer new accounts were added.

- There has been a small but steady increase in subprime card issuance in the last three years as lenders have increasingly opened accounts to subprime borrowers.

Prime borrowers dominate limit increases

- Another way to look at credit card originations is the net increase in credit limits. The increase can be associated with either:
  - A newly issued card.
  - A limit increase on an existing account.

- The increases in credit limits since 2014 have been primarily associated with borrowers with credit scores over 720.

- Individuals with credit scores under 620 have had an insignificant share of the increase in credit limits, despite comprising nearly 20% of the cards newly issued.
  - This is because the limits on new subprime cards typically are very low, ranging between $500-1000.
SPECIAL TOPIC: CCP CREDIT CARDS

Credit Card Balances: Flow into Serious Delinquency
By origination score

Uptick in delinquency transitions for cards
- The flow into 90+ day delinquency for credit cards rates have increased for three consecutive quarters after several years of stability.
- The increase is primarily notable in borrowers with credit scores under 660; prime borrowers have been mostly unaffected.
- This increase is unusual given the low unemployment rate and generally strong economy. The recent loosening in underwriting may account for some of the difference as the composition of borrowers has somewhat shifted.

Source: New York Fed Consumer Credit Panel/Equifax  Note: This is a 4-quarter moving sum.