



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economy in a Snapshot

Research & Statistics Group

October 2019

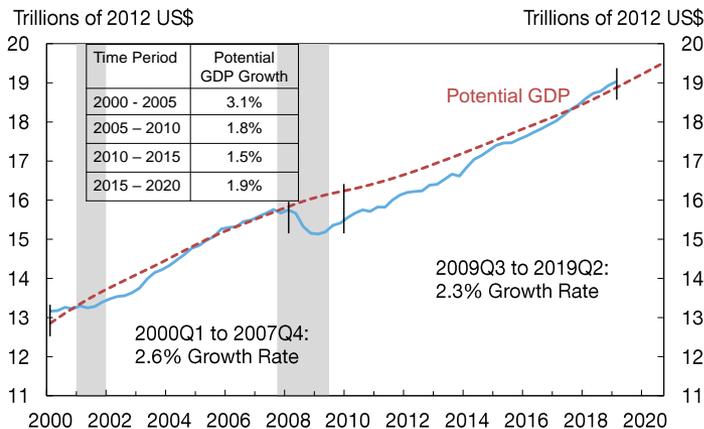
The *U.S. Economy in a Snapshot* compiles observations of staff members of the Federal Reserve Bank of New York's Research and Statistics Group. The views, model results, and analysis presented are solely those of the individual contributors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System. The analysis presented herein is based on data released through October 11, 2019.

OVERVIEW

- Real consumer spending growth softened in August.
 - Real expenditures on services were essentially flat and nondurable goods spending grew only slightly, while real durables expenditures rose solidly.
- Real business equipment spending remained sluggish in 2019Q2, and its growth over the first half of 2019 was well below its pace in 2018.
 - New orders of nondefense capital goods excluding aircraft fell modestly and were below shipments in August, indicating continued weak near-term momentum.
- Housing activity indicators displayed further gradual improvement in August.
 - Single-family housing starts and permits have rebounded over the past three months. New and existing home sales rose in August. A still-strong labor market and low mortgage rates could continue to provide support to housing.

- Payroll growth was moderate in September, and a touch softer than that in August. The unemployment rate fell to its lowest level since 1969, the labor force participation rate was unchanged, and the employment-to-population ratio ticked up again.
 - Labor compensation growth appears to have softened.
- Core PCE inflation firmed but remained below the FOMC's longer-run objective.
- U.S. equity indices declined over the past month, while implied volatility rose. The nominal 10-year Treasury yield was roughly unchanged on balance, rising earlier in the month but declining subsequently. The market-implied expected policy rate path was below that from around the September FOMC meeting. The broad trade-weighted dollar index rose slightly.

GDP



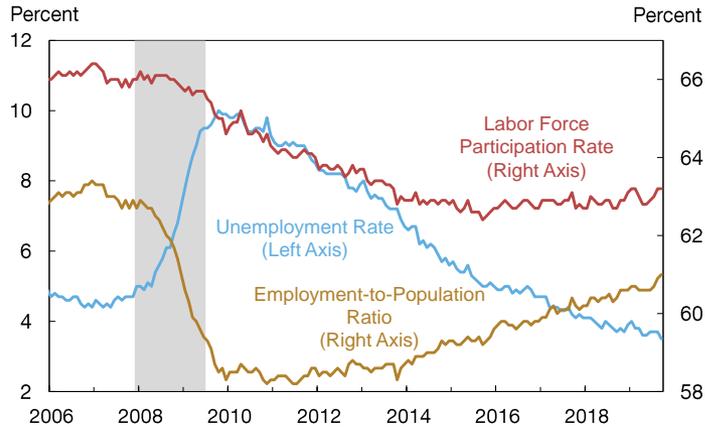
Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics. Note: Shading shows NBER recessions.

Output moderately above potential GDP estimate

- The level of real GDP in 2019Q2 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 3.5% unemployment rate in September was below most estimates of its natural rate, including that of the CBO (4.57%).
- 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



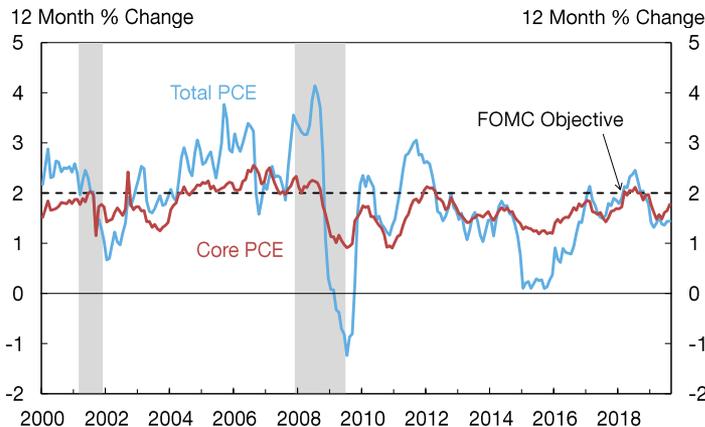
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Unemployment rate ticks down to fifty-year low

- The unemployment rate declined to 3.5% in September, the lowest since 1969.
- The employment-to-population ratio increased to 61.0% in September, reaching a new expansion high.
 - The prime-age employment ratio ticked up to 80.1%.
- The labor force participation rate remained at 63.2% in September.
 - Almost all of the increase in labor force participation over the last two years has been concentrated among women, as male labor force participation has been hovering around 69%.

PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

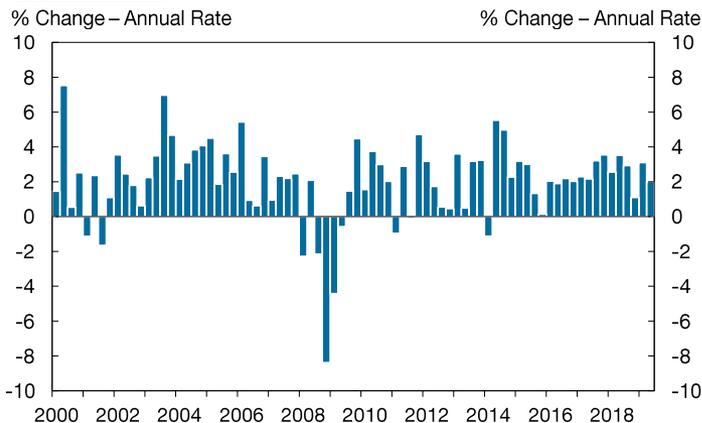
Note: Shading shows NBER recessions.

Inflation continues to run below 2 percent

- The total PCE price index was flat in August, after rising 0.2% in July. The core PCE price index (which excludes food and energy prices) increased 0.1% in August, slightly lower than in July.
 - Energy prices fell 2.0% in August, and are down 4.4% relative to one year ago. Food prices fell 0.2% and are up 0.8% compared to one year ago.
- The 12-month change in the total PCE index remained unchanged at +1.4%, while the 12-month change in the core PCE price index edged up to +1.8%.
 - Both total and core PCE inflation remained softer than they were over most of 2018.
 - Core PCE inflation appears to be firming but remains below the FOMC's 2 percent longer-run goal.

ECONOMIC ACTIVITY

GDP Growth

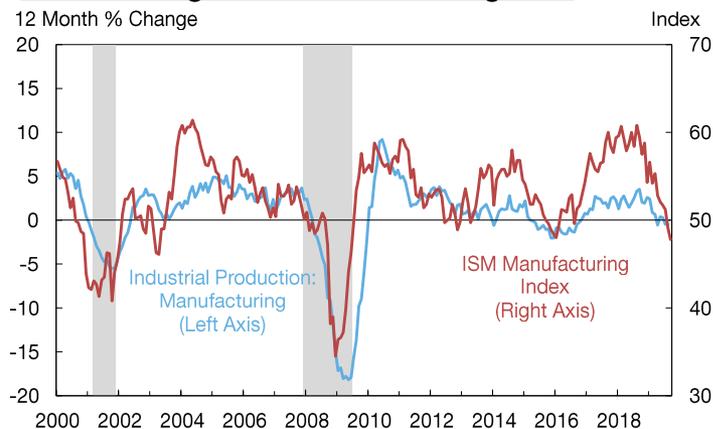


Source: Bureau of Economic Analysis via Haver Analytics

2019Q2 real GDP growth little revised in 3rd estimate

- Based on the third estimate, real GDP growth was 2.0% (annual rate) in 2019Q2, essentially unchanged from the second estimate. Real GDP growth was 3.1% in 2019Q1 and 2.5% (Q4/Q4) for all of 2018.
- Real personal consumption expenditure rose at a 4.6% annual rate in Q2, a small revision from the second estimate of 4.7%. Real PCE growth for the first half of 2019 was 2.8% (annual rate), modestly above the 2.6% growth of 2018.
- Real government consumption and gross investment grew robustly at both the federal and the state and local levels.
- Both real business fixed investment and real residential investment were weak in the second quarter. The pace of real inventory investment slowed. Real exports declined considerably in the quarter.

Manufacturing and ISM Manufacturing Index



Source: Institute for Supply Management, Federal Reserve Board via Haver Analytics

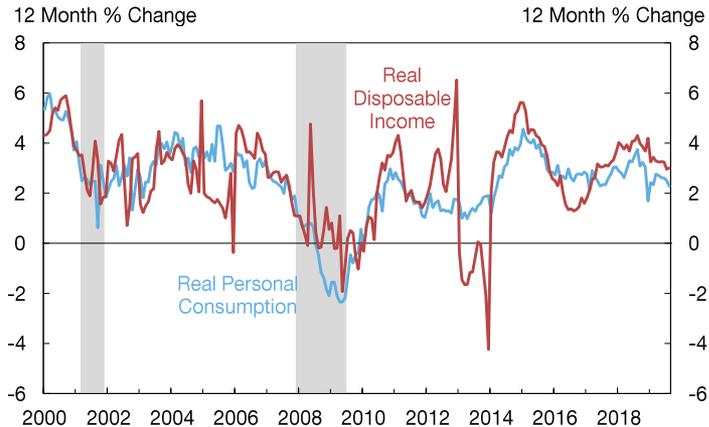
Note: Shading shows NBER recessions.

Manufacturing at historic lows

- The ISM Manufacturing composite index fell to 47.8 in September, relative to 49.1 in August.
 - This reading indicates contraction in the manufacturing sector for the second consecutive month and follows a sustained decline in manufacturing growth for the past year.
- Manufacturing production in August contracted by 0.4% relative to 12 months ago, similar to the previous month's reading.
 - The 12-month percentage change in manufacturing production is the lowest since Fall 2016.
- The regional Fed surveys point to decline or deceleration in the manufacturing sector.

HOUSEHOLDS

Disposable Income and Consumption



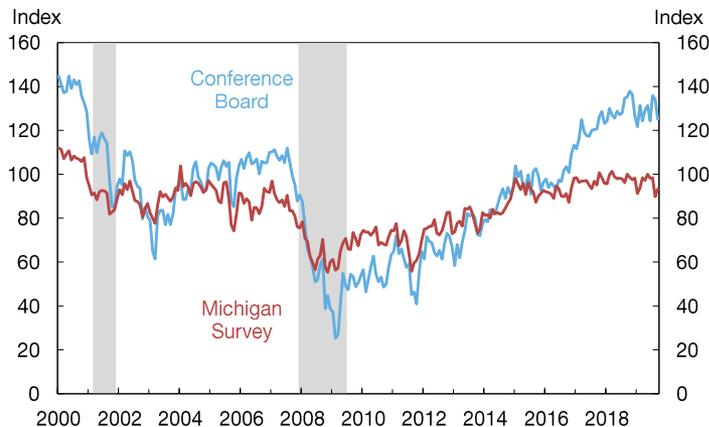
Source: Bureau of Economic Analysis,
Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

PCE slows in August, but income growth is still solid

- Consumption growth declined from its recent above-trend pace in August, but income growth remained healthy.
- Real disposable personal income was up 0.4% in August, while real personal consumption expenditures rose 0.1%, their weakest monthly reading since a 0.2% fall in February.
 - **With income growing faster than consumption, the personal saving rate rose from 7.8 to 8.1%.**
- On a 12-month basis, the growth rates in both real disposable income and consumption have been declining from close to 4% in the middle of last year to a more trend-like 2-to-3% more recently.
 - **If this performance can be sustained, consumption will continue to safely power the U.S. economy forward.**

Consumer Confidence



Source: Conference Board,
University of Michigan

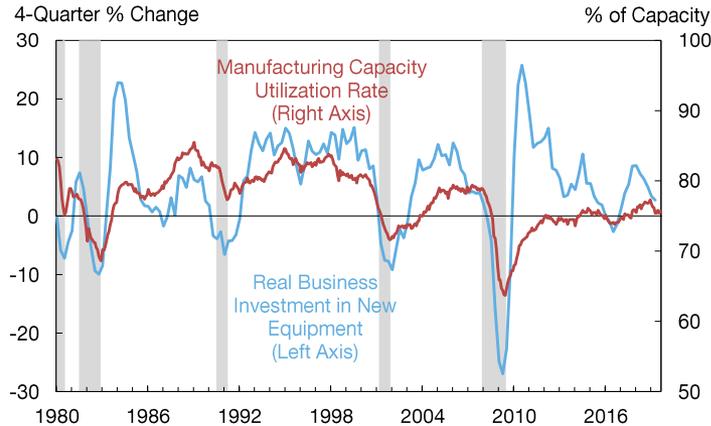
Note: Shading shows NBER recessions.

Consumer confidence falls in September

- The Conference Board's Consumer Confidence Index declined to 125.1 in September from 134.2 in August.
 - **The Consumer Confidence Index has been oscillating in approximately this range since the start of the year, with sharp increases or drops every few months.**
 - **There is some evidence of increasing uncertainty in consumers' perceptions of the economy.**
- The Michigan Survey's Index of Consumer Sentiment was 93.2 in September, up from 89.8 in August.
 - **The August reading was the lowest since October 2016.**
 - **The Index has oscillated between roughly its August value and its historic highs (around 100) for the past year.**
 - **Imperfect alignment of the Michigan and Conference Board indicators suggests part of the volatility may come from different survey procedures.**

BUSINESS SECTOR

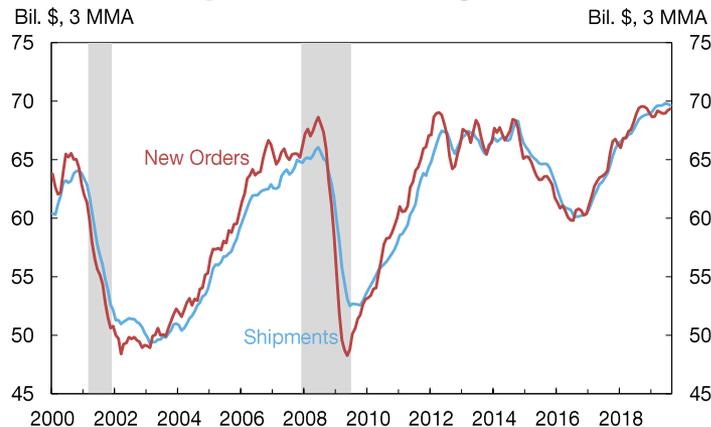
Equipment Investment and Capacity Utilization



Equipment spending remain sluggish in 2019Q2

- Real business equipment investment rose 0.8% (annual rate) in 2019Q2, after falling slightly in Q1. Over the last 4 quarters, equipment spending rose 2.7%, the slowest since 2017Q1.
 - In 2019Q2, spending rose solidly for information equipment, increased moderately for industrial and other equipment, and declined for transportation equipment.
 - The equipment spending share of nominal GDP remained below its average share in 2013–15.
- Recent sluggish equipment investment has occurred against a backdrop of continued low levels of the manufacturing capacity utilization rate.
 - This rate was 75.7% in August, 2.6 percentage points below its long-run average.
 - Historically, utilization rates near the August level are associated with modest growth of equipment investment.

Nondefense Capital Goods Excluding Aircraft

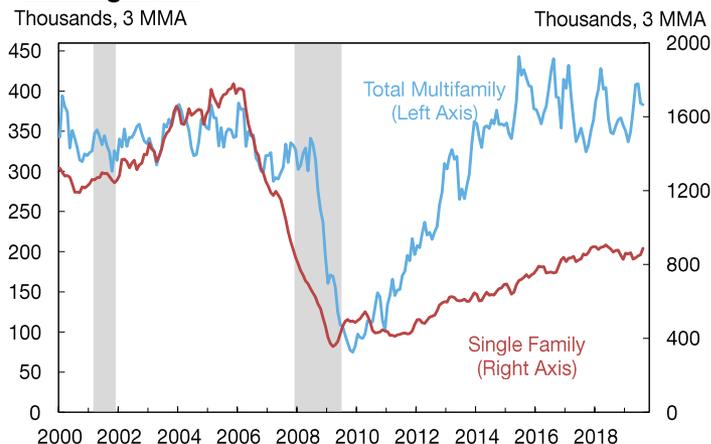


Capital goods shipments and orders remain soft

- Shipments of nondefense capital goods excluding aircraft rose 0.3% in August. Still, the average level over July and August was below the average monthly level in 2019Q2.
 - This measure is a proxy for investment spending that is available at the monthly frequency.
- Orders of nondefense capital goods excluding aircraft declined 0.4% in August, as these orders have shown little growth since mid-2018.
- New orders for nondefense capital goods excluding aircraft continued to run below shipments of these goods on a 3-month average basis, which is typically consistent with weak near-term momentum for equipment spending.

HOUSING SECTOR

Housing Starts



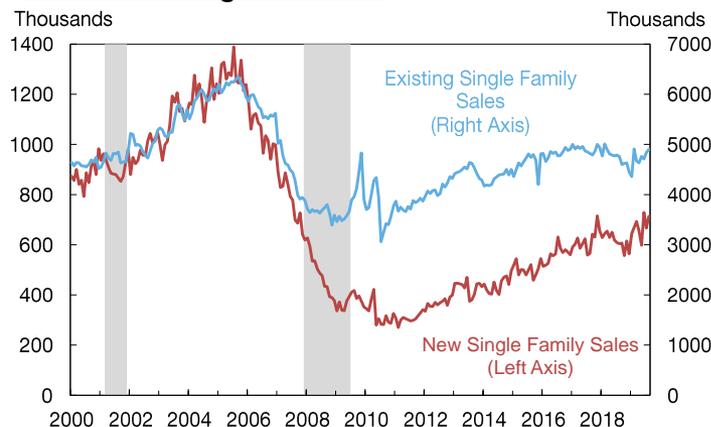
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

Single-family starts beginning to improve

- Total housing starts rose a sharp 12.3% in August to 1.364 million units (seasonally-adjusted annual rate), the highest level since June of 2007.
- It appears that single-family starts are finally beginning to respond to the steep decline of mortgage interest rates that has occurred over the past year. Single-family housing starts rose 4.4% in August, the third consecutive monthly increase, and are now up 3.4% on a year-over-year basis.
- Multi-family housing starts, which are notoriously volatile from month to month, rose 32.8% in August to 445,000 units. Moreover, multi-family permits increased a cumulative 34.5% over July and August to 550,000 units. This suggests that further increases in multi-family starts are in the pipeline.

New and Existing Home Sales



Source: Census and National Association of Realtors via Haver Analytics

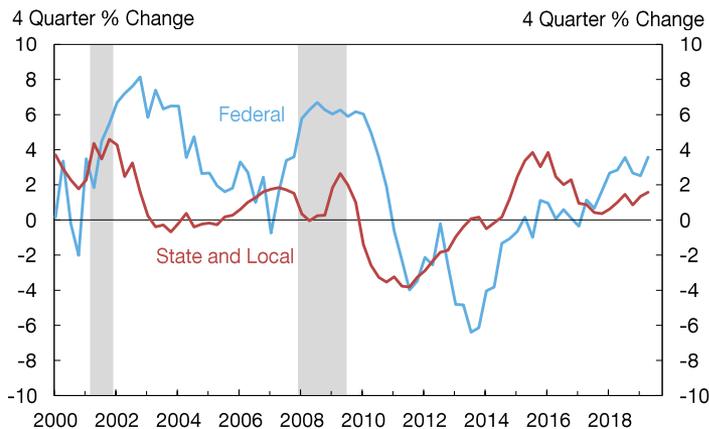
Note: Shading shows NBER recessions.

Favorable mortgage rates spur the housing market

- Single-family existing home sales increased 1.2% in August to 4.9 million units (seasonally adjusted annual rate).
 - **Single-family existing home sales are 2.9% above a year ago.**
- Single-family new home sales increased 7.1% (SAAR) in August to 713,000 units.
 - **Relative to one year ago, sales are up 18%, the highest such change this year.**
 - **The pace of new home sales picked up during the summer, after a slow spring.**
- Favorable labor market conditions and a substantial decline in mortgage interest rates continue to act as positive forces. Inadequate inventories in affordable price ranges continue to be a drag on sales and to fuel home price increases.

GOVERNMENT SECTOR

Real Government Consumption and Gross Investment



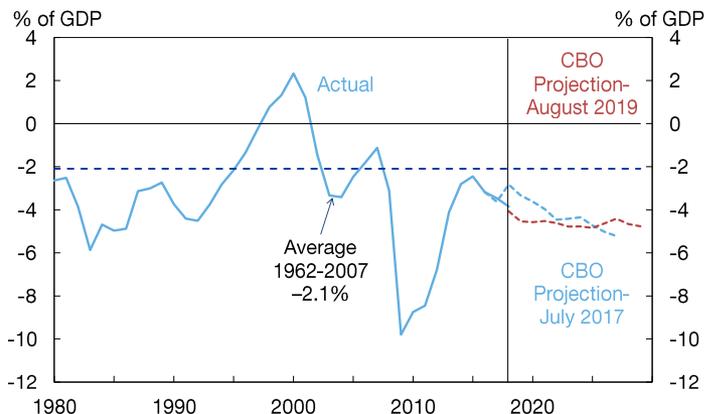
Source: Bureau of Economic Analysis via Haver Analytics

Note: Shading shows NBER recessions.

Growth of real government spending strong in 2019Q2

- Over the four quarters ending in 2019Q2, real federal consumption and gross investment was up 3.6% while spending at the state and local level was up 1.6%.
- Federal spending rebounded in Q2 following the slowing in Q1 resulting from the partial government shut-down. Spending for national defense was up 4.8% over the four quarters ending in 2019Q2, while nondefense spending was up 1.9%. Growth of federal spending is expected to slow but remain positive over the next several quarters.
- Real spending by state and local governments has been strengthening since the end of 2017. This rebound has been led primarily by investment spending. Employment growth in the state and local government sector has slowed from a recent peak of around 1% in mid-2016.

Federal Deficit



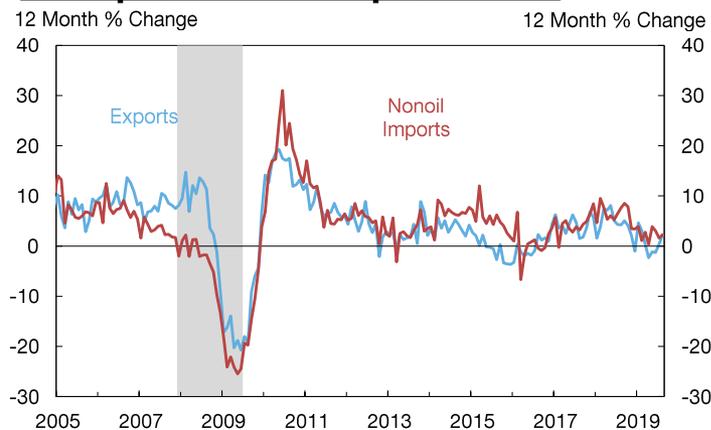
Source: Congressional Budget Office

The federal deficit rises to around \$1 trillion in FY2019

- In August of this year, the Congressional Budget Office (CBO) updated its projections of federal receipts and outlays for the period from Fiscal Year (FY) 2019 through FY 2029. The August 2019 projections are compared to those of July 2017, which were made before the passage of the recent tax bill.
- For FY2019, CBO projects a deficit of \$960 billion or 4.5% of GDP, well above the long-run average deficit of 2.1% of GDP.
- Over the next decade, deficits are projected to continue to increase in dollar terms but to stay fairly stable as a percent of GDP. This is partly because under current law most of the individual tax cuts enacted in late 2017 are scheduled to expire. While deficits are projected to be relatively stable as a share of GDP, total federal debt outstanding will continue to rise as a share of GDP.

INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods



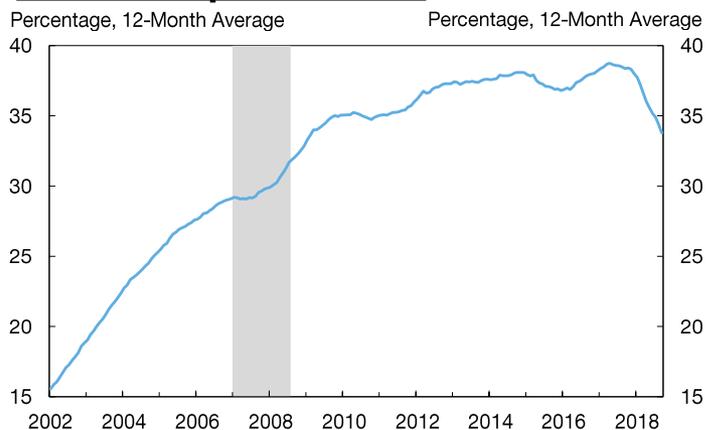
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

The trade deficit increases in August

- The trade deficit increased to \$54.9 billion in August from a \$54 billion deficit in July. In real terms, both exports and imports increased over the month.
 - Real goods exports grew 1.1% between July and August, mostly owing to higher export volumes of agricultural and oil goods. Real exports of capital and consumer goods (excluding autos) fell markedly.
 - Real nonoil goods imports went up 1.2% over the month in August, which was mostly driven by higher real imports of capital and consumer goods (excluding autos). Oil goods import volumes declined in August.
- Net exports subtracted 0.68 percentage point off GDP growth according to the third estimate of GDP in 2019Q2, 4 basis points less than in the second estimate.

Share of US Imports from China



Source: Bureau of Economic Analysis via Haver Analytics

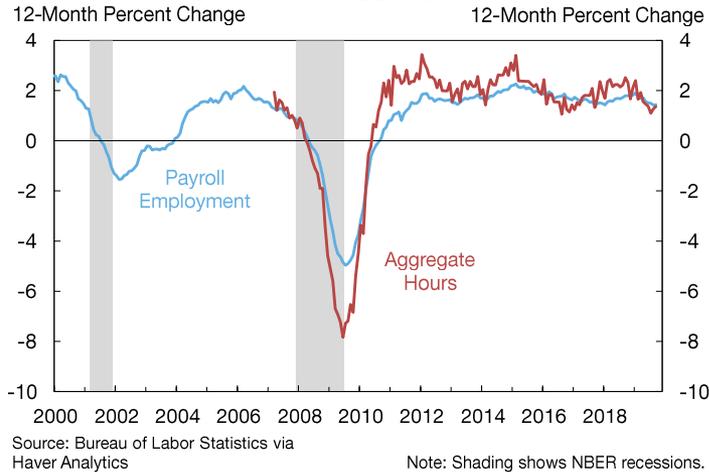
Note: Shading shows NBER recessions.
Imports of machinery, equipment, and electronics.

Imports from China are falling

- Higher tariffs appear to be reducing imports of machinery, equipment, and electronics from China.
 - China's share of U.S. imports of these goods is down sharply in the past year.
- The increase in tariffs have hurt the price competitiveness of Chinese goods.
 - Chinese exporters are not lowering their prices, so the tariffs are being paid by U.S. importers.
- The countries gaining market share vary by type of good.
 - Computers/Electronics: Vietnam, Taiwan, Mexico.
 - Electrical equipment: Vietnam, South Korea, Taiwan.
 - General Machinery: Mexico, Canada.

LABOR MARKET

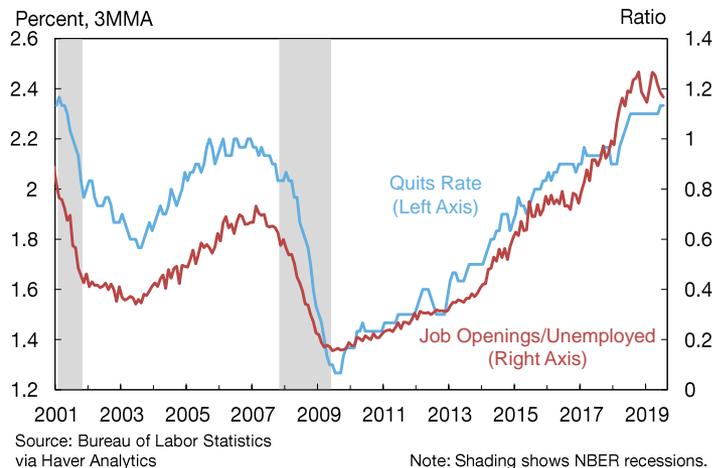
Payroll Employment and Aggregate Hours



Second consecutive month of soft payroll growth

- Nonfarm payrolls increased by 136,000 in September.
 - Payroll growth was short of the median forecast in the Bloomberg survey of 148,000.
- Private payrolls grew by 114,000 and government payrolls increased by 22,000 over the month.
- Average weekly hours worked by all private employees remained at 34.4 for the second consecutive month, in line with its year-to-date average.
 - Aggregate weekly hours were up 0.09% in September and up 1.36% over the past 12 months.
 - This annual growth rate falls well below the 2018 average of 2.18%.

Quits Rate and Ratio of Job Openings to Unemployed

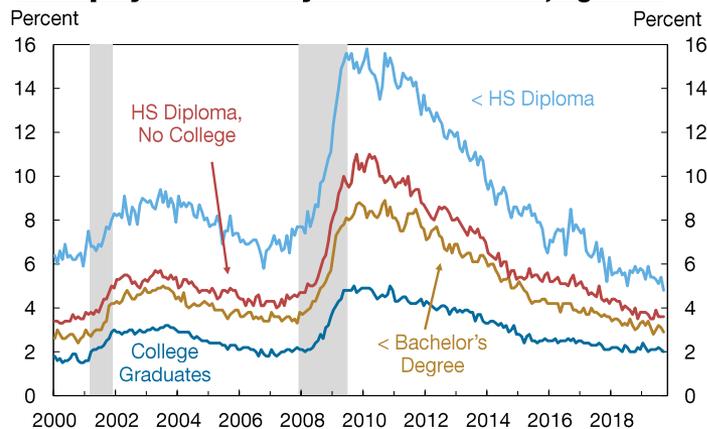


High quits and vacancy levels remain stable

- Following an increase up to September 2018, the quits rate has been fluctuating within a narrow range around 2.3%. This behavior is consistent with the flattening of the ratio of job openings to unemployed workers.
- The ratio of job openings to unemployed workers, a measure of labor market tightness, was 1.17 in August.
 - This level is slightly below its average of the previous twelve months of 1.20.
 - This ratio has exceeded one since March 2018, implying there are more job openings than unemployed people to fill those jobs, excluding those not in the labor force.

LABOR MARKET

Unemployment Rate by Education Status, Age 25+



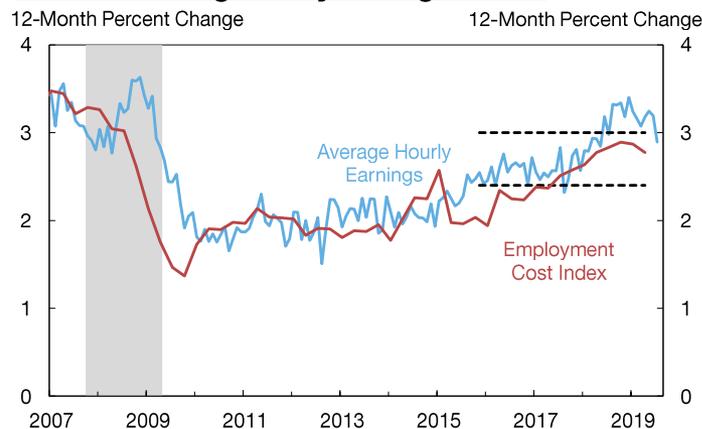
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

Unemployment falling for all educational groups

- Rates of joblessness are lower for workers with higher levels of education.
 - In September, the unemployment rate for workers without a high school degree was more than twice the level of those with a bachelor's degree or more.
- The unemployment rates of workers with only a high school diploma and those with some college experience or an associate's degree have converged in the expansion.
 - Unemployment for the two groups stood at 3.6% and 2.9%, respectively, in September.
- Those with a bachelor's degree are the only educational attainment group whose 2019 unemployment rate has not fallen lower than its level before the Great Recession.

Growth of Average Hourly Earnings and ECI



Source: Bureau of Labor Statistics via Haver Analytics

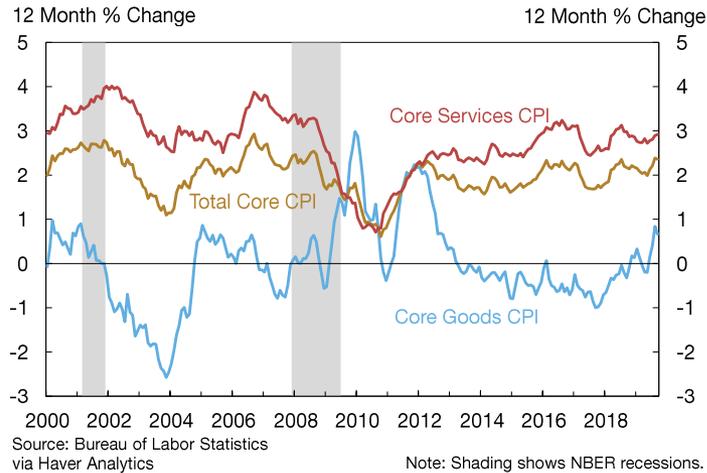
Note: Shading shows NBER recessions.

Earnings growth slows considerably in September

- Average hourly earnings were essentially unchanged, dropping from \$28.10 in August to \$28.09 in September.
 - Average hourly earnings rose by 2.89% over a 12 month period, well below the 3.21% average annual growth rate in the first eight months of 2019.
- Average weekly earnings fell by 0.04% over the month, from \$966.64 in August to \$966.30 in September.
 - Average weekly earnings increased by 2.6% over the year, below the 2018 average yearly change of 3.3%.

INFLATION

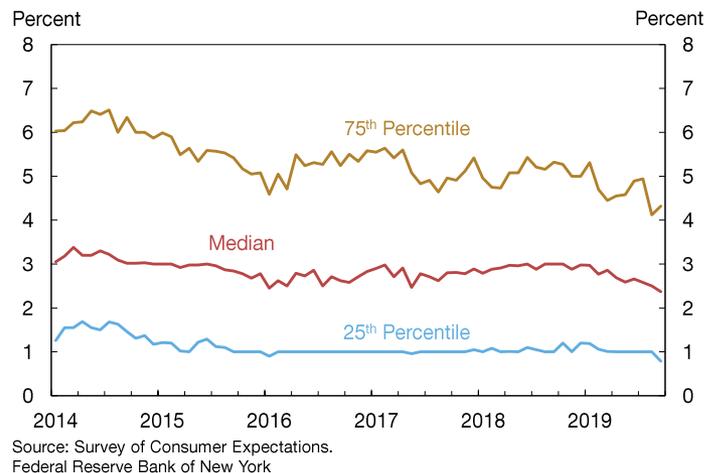
CPI Inflation: Core Goods and Core Services



Core inflation weakens in September

- The weakness may not be too concerning as it was driven by the volatile core goods component.
 - Core CPI rose 0.1% in September after increasing 0.3% in the previous three months. The 12-month increase in the core index was 2.4%, unchanged from August.
- Core services (services ex-energy) prices rose 0.3% in September, as they did in the previous three months.
 - The 12-month increase in this index was 2.9%.
- Core goods (commodities ex-food and energy) prices fell 0.3% in September after rising for the previous three months.
 - The decline in core goods prices in September was widespread.

3-Year Ahead Inflation Expectations

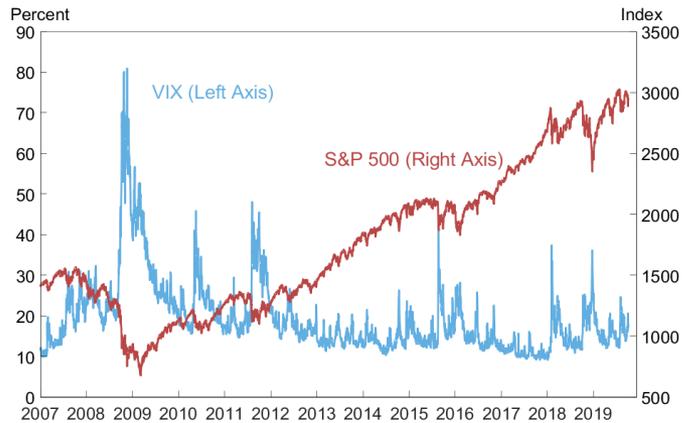


Consumer inflation expectations decline in September

- Median inflation expectations at the three-year horizon declined further.
 - Median inflation expectations declined by 0.1 percentage point at the three-year horizon to 2.4%, reaching a new series low. Median one-year ahead inflation expectations ticked up but remain close to their series low.
- Home price change expectations continued to decline.
 - Median home price change expectations declined by 0.1 percentage point in September to a new series low of 2.8%.
- Consumer expectations about the labor market improved slightly.
 - Expectations about growth in earnings and job finding rose slightly, and layoff expectations declined.

FINANCIAL MARKETS

U.S. Equity Market Index and Volatility

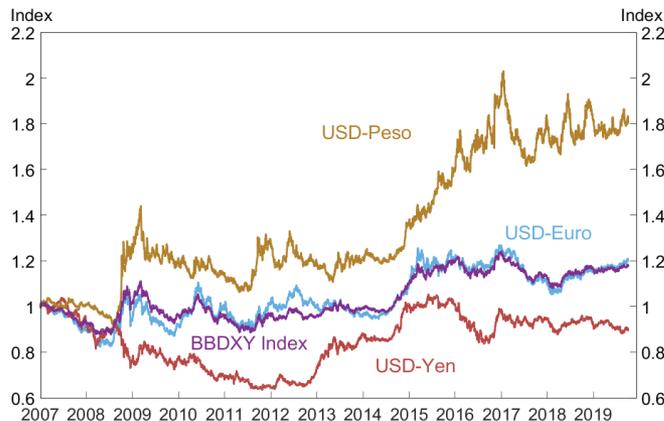


Source: Bloomberg Finance L.P.

U.S. equity markets decline

- U.S. equity markets declined modestly over the past month.
 - The S&P 500 index declined 1.3% between September 9 and October 7, and is down 2.9% from its July 26 record high.
 - The index remains higher by 17.2% year to date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), rose over the past month.
 - The VIX Index closed at 17.9 on October 7, up from 15.3 on September 9, but well below its year-to-date high of 24.6.

USD Exchange Rates



Source: Bloomberg Finance L.P.

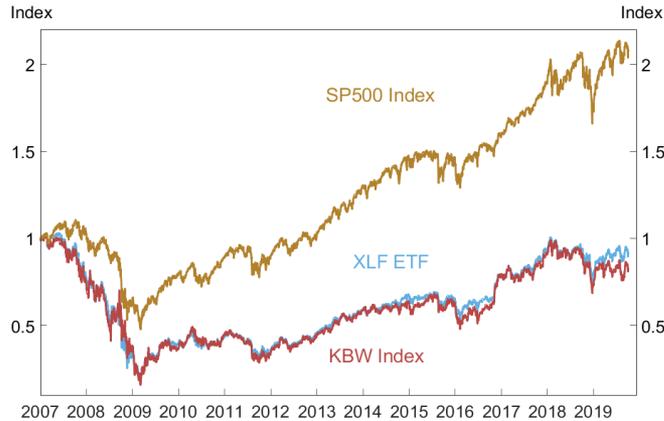
Note: Start date 01/03/2007 = 1.

U.S. dollar appreciates modestly

- The exchange value of the dollar against a basket of global currencies increased 0.5% between September 9 and October 7.
 - Over this same period the dollar appreciated by 0.7% against the euro, but was essentially unchanged against the Japanese yen and the Mexican peso.
- Since the start of 2019, the dollar has appreciated 1.5% against a basket of global currencies.

FINANCIAL MARKETS

U.S. Bank Equities Performance



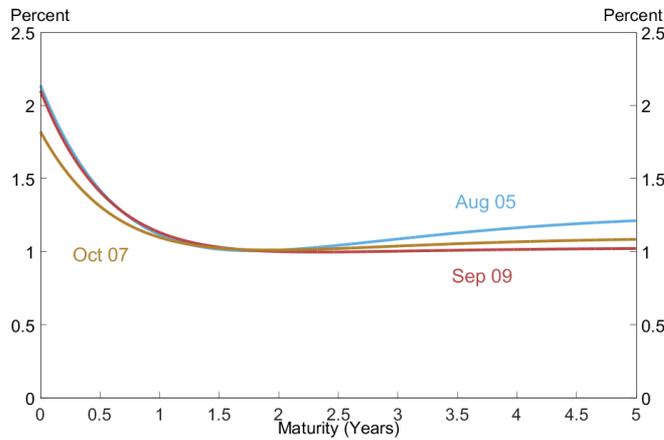
Source: Bloomberg Finance L.P.

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

Bank stocks perform in line with broader market

- As measured by the KBW Nasdaq bank index, bank equities declined 1.1% between September 9 and October 7.
 - As of October 7, the index was up 13.0% year to date.
- The XLF financial sector ETF declined 1.9% between September 9 and October 7.
 - As of October 7, the index was up 14.7% year to date.

Expected Federal Funds Rate



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

Note: Estimated using OIS quotes

Implied path for federal funds rate drifts down

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) decreased for shorter maturities and was little changed for longer maturities between September 9 and October 7.
 - The implied rate at the end of 2019, for example, declined 17 basis points over the past month.
- The market-implied path is below the median path of the FOMC's September 2019 Summary of Economic Projections and the July 2019 NY Fed Survey of Primary Dealers.

FINANCIAL MARKETS

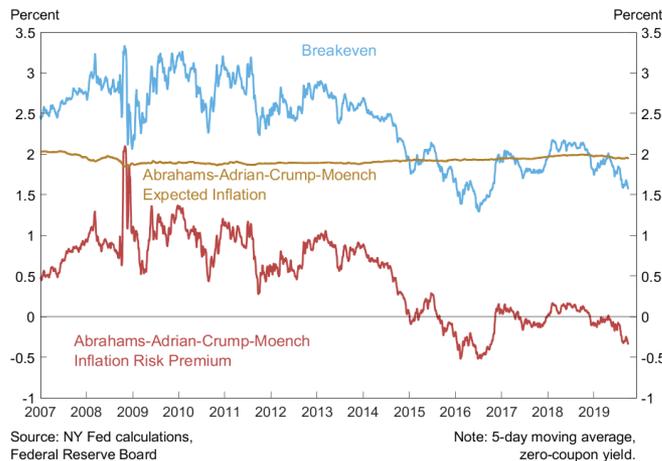
10-Year Treasury and Term Premium



Longer-term Treasury yields increase slightly

- The 10-year Treasury yield increased about 3 basis points between September 9 and October 7, but is still down 115 basis points year to date.
- Estimates from the Adrian-Crump-Moench term structure model attribute the increase to a less negative term premium.
 - The 10-year term premium increased by about 8 basis points between September 9 and October 7, but remains lower by roughly 60 basis points year to date.

5-10 Year Forward Decomposition

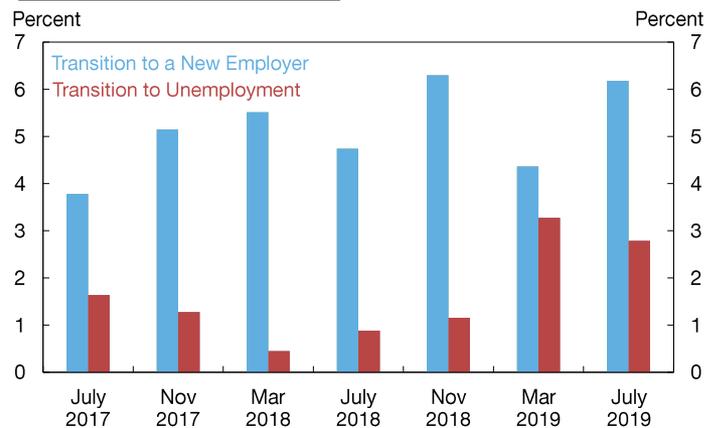


Breakeven inflation declines slightly

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) declined slightly over the past month.
 - The five-to-ten year breakeven inflation rate was 1.59% on October 7, down 2 basis points since September 9 and down 22 basis points year to date.
- 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 has decreased 27 basis points year to date.

SPECIAL TOPIC - LABOR MARKET TRANSITIONS

Labor Market Transitions

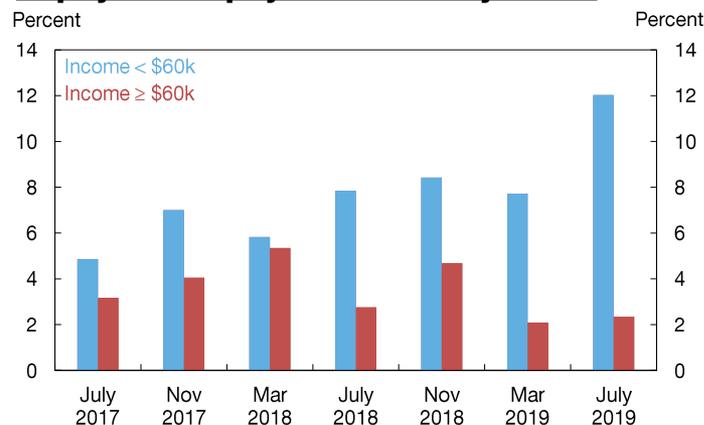


Source: New York Fed Survey of Consumer Expectations

Slight increase in transitions into unemployment

- The July 2019 SCE Labor Market Survey shows a rise in employer-to-employer transitions compared to a year ago.
- The results also display an uptick in transitions into unemployment, among those who were employed four months ago.
 - **The uptick was most notable for respondents without a college degree and those with household incomes less than \$60,000.**
- The proportion of respondents who reported searching for a job in the past four weeks also ticked up compared to a year ago.
 - **This series has been on the rise since July 2018.**

Employer-to-Employer Transitions by Income



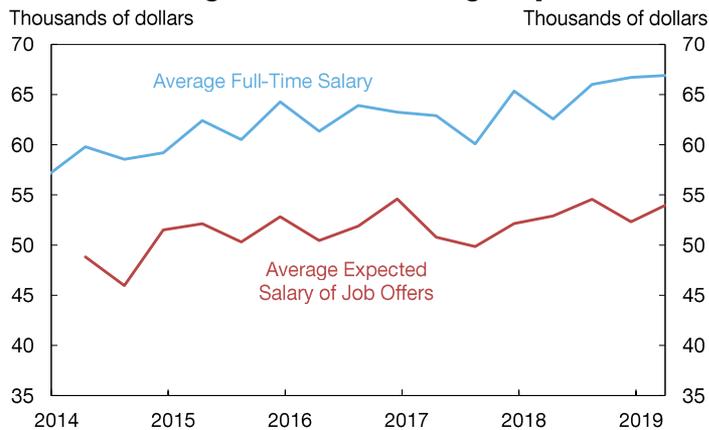
Source: New York Fed Survey of Consumer Expectations

Low-income households moving to new jobs

- The rate of transitioning to a new employer for respondents with household income of less than \$60,000 reached a series high.
- For respondents with higher household incomes, this rate has been on a downward trend since March 2018.
- Employer-to-employer transitions have also been rising among respondents younger than age 45.
 - **The series is on a downward trend for older respondents.**
- We observe similar trends in the average expected likelihood of employer-to-employer transitions by income and age groups.

SPECIAL TOPIC - LABOR MARKET TRANSITIONS

Current Earnings and Job Offer Wage Expectations



Source: New York Fed Survey of Consumer Expectations

Younger workers expect more generous job offers

- The current average salary of full-time workers reached \$66,937, a series high, in July 2019.
 - **The series has been displaying an upward trend, which has been broad-based across age, education, and income groups.**
- There is a similar, yet less pronounced, upward trend in the average expected salary for job offers received in the next four months.
 - **This average is calculated conditional on expecting an offer.**
- The rise in offer wage expectations is most notable for younger (under age 45) workers.