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 14, 2020.
Growth of consumer spending slowed some in August.
- Real expenditures on services increased solidly, but real spending on durable goods was flat and that on nondurable goods fell modestly.
- Services expenditures stayed well below their February level.
- Consumer confidence measures rose in September.

Real business equipment spending plunged in 2020Q2, reflecting disruptions linked to the COVID-19 pandemic.
- Shipments of nondefense capital goods ex-aircraft continued to rebound in August, and new orders were modestly above shipments, suggesting some further near-term momentum.

Housing activity continued to expand in August.
- Single-family housing starts, new and existing home sales all continued to rise with signs of more momentum in the short term; uncertainty about the longer-term outlook remains high.

Payroll employment grew at a slower pace in September. The unemployment rate fell, mainly due to a further decline in temporary layoffs. The labor force participation rate decreased and the employment-to-population ratio increased slightly; both remained well below pre-pandemic levels.
- The number of long-term unemployed and the median duration of unemployment both rose.

Core PCE inflation remained below the FOMC's longer-run objective.

U.S. equity indices rose slightly over the last month, amid significant volatility. The nominal 10-year Treasury yield increased slightly but remained low. The market-implied expected policy rate path rose moderately at longer maturities. The broad dollar index was essentially flat.

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**GDP**

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<th>Time Period</th>
<th>Potential GDP Growth</th>
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<td>2000 - 2005</td>
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<td>2005 - 2010</td>
<td>1.9%</td>
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<td>2010 - 2015</td>
<td>1.5%</td>
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<td>2015 - 2020</td>
<td>1.7%</td>
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Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics

Note: Shading shows NBER recessions.

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**Output is well below potential in 2020Q2**

- The level of real GDP in 2020Q2 was about 9.9% below the estimate of real potential GDP from the Congressional Budget Office (CBO).
  - The 2020Q2 output gap was the largest negative output gap in the post-war era. The previous low was -7.3% in 1982Q4.
  - Even though it has fallen sharply since April, the 7.9% unemployment rate in September was still well above the CBO's estimate of its longer-run natural rate (4.38%).
  - The CBO projects that real potential GDP will grow at a relatively slow rate of about 1.4% over the next year.

- Other measures also indicated that there is considerable resource slack in the U.S. economy.
  - Despite rebounding since April, capacity utilization rates continued to be at low levels.
**OVERVIEW**

**Labor Market Indicators**

- **Labor market recovery slows in September**
  - The unemployment rate decreased from 8.4% in August to 7.9% in September.
  - Nonfarm payrolls rose by 661,000 in September, well below the 4-month average change of 2.17 million.
    - Employment in private service-providing industries increased by 784,000, with increases in retail trade (+142,000), leisure and hospitality (+318,000), and professional and business services (+89,000).
    - Employment in goods-producing industries saw an increase of 93,000, driven by increases in manufacturing (+66,000) and construction (+26,000).
  - The employment-to-population ratio increased slightly from 56.5% in August to 56.6% in September.

**PCE Deflator**

- **Inflation continues to run below 2 percent**
  - The total PCE price index rose 0.3% in August, after increasing 0.4% in July. The core PCE price index (which excludes food and energy prices) also rose 0.3% in August, after increasing 0.4% in July.
    - Energy prices rose 0.9% in August, and were down 9.4% relative to one year ago. Food prices decreased 0.1% and were up 4.3% compared to one year ago.
  - The 12-month change in the total PCE price index rose to +1.4% in August and the 12-month change in the core PCE price index increased to +1.6%.
    - Core PCE inflation remained below the FOMC’s 2 percent longer-run goal.
ECONOMIC ACTIVITY

GDP Growth

Plunge in 2020Q2 real GDP less severe in 3rd estimate

- In the BEA's third estimate of 2020Q2 GDP, real GDP plummeted at a 31.4% annual rate in the quarter, a bit less severe fall than the second estimate of -31.7%. The 4-quarter change was -9.0%.
- Real personal consumption expenditures (PCE) fell at a 33.2% annual rate in Q2, its largest decline. Even so, real PCE in 2020Q2 was revised upward, mostly in services.
- Residential investment was revised upward, but there were downward revisions to nonresidential fixed investment and net exports.
- In their second reading for 2020Q2, corporate profits fell 10.3% (quarterly rate), a modest upward revision.
- Real gross domestic income dropped at a 33.5% annual rate in 2020Q2. Its 4-quarter change was -9.4%.

Manufacturing and ISM Manufacturing Index

Manufacturing growth slows in September

- Growth in manufacturing production slowed to 1.0% in August.
  - This is down from a 3.9% increase in July and a 7.5% in June.
  - The 12-month change in manufacturing production was -6.9%.
- The ISM manufacturing index indicated expansion at a slightly slower pace in September compared to August.
  - The ISM index decreased 0.6 points to 55.4, led by a drop in New Orders (-7.4).
  - The Employment index increased by 3.2 points, but still remained just under the 50 level that indicates contraction.

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**HOUSEHOLDS**

**Disposable Income and Consumption**

- **PCE growth slows as $600 UI supplement expires**
  - Real Personal Consumption Expenditures (PCE) rose 0.7% in August, but they remain 3.9% below their February level.
  - Real disposable personal income declined 3.5% in August.
    - The fall in disposable income was more than accounted for by the expiration of the $600 weekly supplement to unemployment benefits provided by the Federal Pandemic Unemployment compensation program through July 31st.
  - The personal saving rate was 14.1% in August, down from a peak of 33.6% in April, but still elevated by historical standards.

**Consumer Confidence**

- **Consumer confidence rebounds in September**
  - The Conference Board’s Consumer Confidence Index increased to 101.8 in September, from 86.3 in August.
    - The increase in the headline index reflected increases in both the Present Situation and Expectations indices.
  - Consumers’ short-term outlook on business conditions and employment improved in September.
    - The percentage of respondents planning to purchase major appliances over the next six months and the spending plans for motor vehicles over the next six months also increased slightly.
  - Near-term (one-year) household inflation expectations remained essentially unchanged.
    - The series currently stands at 5.7 percent.
**Equipment Spending Plummets in 2020Q2**
- Real business equipment investment dropped 35.9% (annual rate) in 2020Q2. It has fallen for five straight quarters. The 4-quarter change was -14.9%, the lowest since 2009Q3.
  - Over the four quarters through 2020Q2, spending rose moderately for information processing equipment, but fell appreciably for all other major categories of equipment. The fall was particularly acute for transportation equipment.
- Weak equipment investment has occurred alongside low levels of the manufacturing capacity utilization rate.
  - This rate was 70.2% in August, above the trough in the last recession, but near or below troughs in previous recessions.
  - Historically, low utilization rates have been associated with weak equipment investment.

**Capital Goods Shipments Continue to Rebound in August**
- Shipments of nondefense capital goods excluding aircraft rose 1.5% in August, the fourth consecutive increase following a plunge in April. The July-August average of these shipments was 6.8% above the 2020Q2 average and has returned to the level of shipments in January.
  - This measure is a proxy for equipment spending that is available at a monthly frequency.
- New orders of nondefense capital goods excluding aircraft rose 1.9% in August, also the fourth consecutive increase following a plunge in April.
- New orders for these goods were slightly above shipments in August.
**HOUSING SECTOR**

**Housing Starts**

- Total housing starts fell 5.1% in August. Starts were up 2.8% in the 12 months ending in August.
  - The fall in starts in August was the first decline following three consecutive strong increases.
- Single-family starts rose 4.1% in August to a level of 1,021,000 units (annual rate), 15.6% above the August 2019 level.
  - The three-month average of single-family starts is rebounding strongly and is almost back to pre-pandemic levels.
- Multi-family starts, which are notoriously volatile from month to month, fell to 395,000 units (annual rate) in August, 22.7% below July, and 15.2% below the August 2019 level.

**New and Existing Home Sales**

- Single-family existing home sales increased 1.7% in August to 5.37 million units (seasonally adjusted annual rate).
  - Single-family existing home sales are now 11% above a year ago.
- Single-family new home sales increased 4.8% (SAAR) in August to 1.01 million units (seasonally adjusted annual rate).
  - Relative to one year ago, new home sales are up 43.2%.
- Home sales displayed significant strength in the housing market. This reflected historically low mortgage rates, continued recovery in jobs and increased demand due to widespread incidence of remote work. Nevertheless the ongoing pandemic casts some uncertainty on the future of the housing market.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- **Growth of real government spending slows down**
  - Real government consumption and gross investment grew 2.1% over the four quarters ending in 2020Q2, down from 2.7% in Q1.
  - There was a sharp divergence in developments at the federal vs. state and local levels.
    - The four-quarter change in real federal spending was +6.5%, just below the peak rate during the 2008-09 financial crisis.
    - The four-quarter change in real state and local spending was -0.6%, the weakest since 2013.
  - The pickup in real federal spending was driven by payments to banks for processing and administration of Paycheck Protection Program loan applications.

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

- **State and local sector declines sharply**
  - Over the four quarters ending in 2020Q2, growth of real consumption at the state and local level turned negative to -1.38%, a rate of decline not seen since 2012.
    - Consumption expenditures consisted largely of employee salaries and made up over 80% of the sector’s total spending.
  - State and local gross investment spending growth declined sharply to about 2.73% over the four quarters ending in Q2.
    - The categories of gross investment are, in order of importance, new equipment such as computers, intellectual property products such as software, and public works and infrastructure projects.
INTERNATIONAL DEVELOPMENTS

Real Exports and Nonoil Imports of Goods

12 Month % Change

Exports
Nonoil Imports


Source: Census Bureau via Haver Analytics
Note: Shading shows NBER recessions.

Trade deficit continues to widen

- The trade deficit was $67.1 billion in August, up $3.7 billion from a revised $63.4 billion in July.
  - While both real imports and exports increased over the month, domestic demand for foreign goods outpaced the demand for U.S. exports.

- The rebound in trade flows appears to be tapering off.
  - Imports continued to be driven by consumer goods, autos and demand for capital goods, but at a slower pace than the previous two months of rebound. This slowdown may continue as fiscal support tapers off.
  - Similarly, export growth also fell, reflecting a slowing in the recovery in some of the U.S.’s major export markets, such as the euro area and the UK.

Euro Area Manufacturing and Services PMIs

Diffusion Index

Services
Manufacturing

12 Month % Change

2012  2014  2016  2018  2020

Source: Markit Economics via Haver
Note: Shading shows NBER recessions.

Euro area surveys point to renewed services slump

- Purchasing managers’ indices for the euro area point to a stronger manufacturing recovery, but to a renewed slump in service sector activity.
  - The manufacturing PMI rose 2.0 points to 53.7 in September, the highest reading in more than two years.
  - The services PMI fell for a second consecutive month, dropping 2.5 points to 48.0.
  - Readings below 50 signal contraction.

- The renewed slump in services appears linked to the Covid-19 second wave hitting most euro area countries.
  - New targeted restrictions have been imposed in a number of countries amidst the pickup in cases.
  - Google mobility indicators have moved somewhat lower in recent weeks, consistent with a pullback from activities requiring face-to-face contact.

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**Payroll Employment and Aggregate Hours**

- Payroll employment growth slows in September
  - Nonfarm payroll employment rose by 661,000 in September.
    - This figure was below the median forecast in the Bloomberg survey of 859,000.
    - With the September reading, nonfarm payroll employment is about 10.7 million below (7.0%) its February level.
  - Private payroll employment rose by 877,000, primarily due to an increase of 784,000 in service-providing industries.
    - Government employment declined by 216,000, with losses concentrated in state and local government education.
  - Aggregate weekly hours worked by all private employees expanded by 1.1% in September.

**Cumulative Employment Gap Since February 2020**

- The percent difference in payroll employment levels between September and February declined when compared to the difference between April and February, a sign of continued recovery in the labor market.
  - The gap for total nonfarm employment was -7.3% in September, down from -15.7% in April.
  - Industries with the largest gap decreases include leisure & hospitality (-25.7% now compared to -65.5% in April) and retail trade (-3.1% compared to -8.3% in April).
    - The gap for the information industry barely budged. It was -10.4% in April and only -10.0% now.
**Cumulative Employment Gap Since February 2020**

The percent difference in payroll employment levels since February nearly halved in September compared to April.

- The gap due to COVID-19 in April exceeded the gap during the Great Recession for most occupations except for Natural Resources, Construction, and Maintenance.

- Service occupations saw the greatest recovery in payroll, decreasing from a gap of -38.6% in April to -15.0% in September.

- This remains the largest gap of all other major occupations, which have gaps at around -10% or lower.

**Occupation employment gaps recover since February**

**Growth of Average Hourly Earnings and ECI**

Average hourly earnings inched up from $29.45 in August to $29.47 in September, an increase of 0.07%.

- On a 12-month basis, average hourly earnings rose by 4.65%.
- Employment fluctuations in sectors with lower-paid workers have led to large swings in hourly earnings growth over the past several months.

Average weekly earnings rose by 0.35% over the month, from $1,018.97 in August to $1,022.61 in September.

- Average weekly earnings increased by 5.57% over a 12-month period.

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.
INFLATION

Core CPI inflation in line with expectations

- The September inflation report, while in line with expectations, arguably contained some unwelcome news in terms of the return of inflation to the FOMC long run goal.
  - The 12-month change in core CPI inflation was 1.7%, the same as in August.

- The report confirmed the weakness in core services, and specifically in the shelter component—a trend that has been fairly consistent since the beginning of the COVID-19 pandemic.
  - The 12-month change in shelter prices was 2.0%, its lowest level since February 2012.
  - This weakness was compensated by another strong report for core goods prices; however, this was driven by a single category (used cars and trucks) and hence may be transitory.

Home price growth expectations recover in September

- Median expected home price change increased from 2.8% in August to 3.1% in September.
  - The series has been on an upward trend after reaching a series' low of 0% in April 2020.
  - The current reading is just above the series' 2019 average of 3.0%.
  - The increase was broad-based across demographic groups and was strongest for respondents who live in the South Census region.

- Median inflation expectations in September remained unchanged at 3.0% at the one-year horizon and decreased 0.3 percentage point returning to its July level of 2.7% at the three-year horizon.
U.S. Equity Market Index and Volatility

- U.S. equity markets remained close to their all-time highs.
  - The S&P 500 index increased 0.6% between September 9 and October 7. It was up 52.8% from its recent low on March 23, but down 4.5% from its recent all-time high on September 2.
  - As of October 7, the index was up 5.8% year-to-date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remained elevated.
  - The VIX Index closed at 28.06 on October 7, well below its 82.69 record high on March 16, 2020, but still well above its 2019 year-end value of 13.78.

USD Exchange Rates

- The exchange value of the dollar against a basket of global currencies increased 0.3% between September 9 and October 7.
  - Over this same period the dollar appreciated by 0.3% against the euro, appreciated by 0.8% against the Mexican peso, and was unchanged against the Japanese yen.
- Since the start of 2020, the dollar has depreciated by 1.0% against a basket of global currencies.
**US Bank Equities Performance**

- As measured by the KBW Nasdaq bank index, bank equities increased 2.6% between September 9 and October 7, and the KBW index has increased 39.8% since its recent low on March 23.
  - As of October 7, the index was down 30.7% year to date.
- The XLF financial sector ETF was unchanged between September 9 and October 7. It remained up 40.7% from its low on March 23.
  - As of October 7, the index was down 19.2% year to date.

**Expected Federal Funds Rate**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) was unchanged for short maturities but moderately increased for longer maturities between September 9 and October 7.
- The market-implied path remained close to the median path of the FOMC’s Summary of Economic Projections from September 2020 and the NY Fed’s Survey of Primary Dealers from September 2020.
**FINANCIAL MARKETS**

**10-Year Treasury and Term Premium**

- Longer-term Treasury yields increase
  - Longer-term Treasury yields increased slightly over the past month.
    - The 10-year yield increased by about 6 basis points between September 9 and October 7.
    - The 10-year yield is 120 basis points lower than its level at the end of 2019.
  - Estimates from the Adrian-Crump-Moench term structure indicate that the term premium also increased.
    - The 10-year term premium increased by 8 basis points between September 9 and October 7 as a five-day moving average.

**5-10 Year Forward Decomposition**

- Breakeven inflation unchanged
  - Market-impied TIPS-based measures of long-term inflation expectations ("brekevens") was essentially unchanged.
    - The five-to-ten year breakeven inflation rate was 1.69% on October 7, increasing by about 1 basis point over the past month as a five-day moving average.
  - According to the Abrahams-Adrian-Crump-Moench model, the inflation risk premium was essentially unchanged as well.
    - The estimated five-to-ten year inflation risk premium increased by 1 basis point as a five-day moving average.
### Uses of Stimulus Checks by Households

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<thead>
<tr>
<th>Percent</th>
<th>Average % saved</th>
<th>Average % spent</th>
<th>Average % used to pay down debt</th>
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**Source:** New York Fed Survey of Consumer Expectations (SCE)

### How have households used their stimulus payments?

- In a special June module of the NY Fed's SCE, 89% of respondents reported that their household received an economic impact payment, with median payment size of $2,400.

- As of the end of June 2020, a relatively small share of stimulus payments was used for consumption (29%), with 36% saved and 35% used to pay down debt.
  - Respondents who are non-white, without a college degree, in lower-income households, and in households experiencing negative employment shocks or income drops since the start of the pandemic are more likely to use substantially larger shares of their payments to pay down debt.
  - Saving motives are dominant for respondents who are less likely to be cash-constrained.

### Intended Use of Potential Second-Round Payment

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<tr>
<th>Percent</th>
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**Source:** New York Fed Survey of Consumer Expectations (SCE)

### Use of second-round payments and UI checks

- Reported expected uses for a potential second stimulus payment suggest an even smaller marginal propensity to consume (MPC), with households expecting to use more of the funds to pay down their debts.

- The average share of funds used to pay down debt (48%) out of unemployment insurance (UI) checks was much higher compared to the reported share out of the stimulus checks.
  - This difference seems related to the fact that those who are on UI are more likely to be credit- and cash-constrained.
  - The MPC out of UI checks was 29%.

- Those who are on debt relief programs on average used a larger share of the first stimulus check to pay down debt, and (except for those receiving mortgage forbearances) used less of it for immediate consumption.