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 September 13, 2018.
- Real consumer spending rose fairly solidly in July, although below the robust pace observed in the second quarter.
  - The increase in spending for July was led by services and nondurable goods expenditures.

- Business equipment spending rose moderately in the first half of 2018, a slower pace than in 2017.
  - New orders of capital goods (excluding aircraft) remained above shipments, continuing to suggest some momentum over the near term.

- Housing activity indicators remained soft in July.
  - However, tight housing supply and a strong labor market have the potential to provide support to the housing sector, even with higher mortgage interest rates.

- Payroll growth was robust in August, but was revised downward for both June and July. The unemployment rate was unchanged, and both the labor force participation rate and the employment-to-population ratio fell.
  - The latest readings of various measures of labor compensation point to increased firming of wage growth.

- Core PCE inflation continued to run at a level roughly consistent with the FOMC’s longer-run objective.

- U.S. equity indices rose further over the past month, and volatility remained fairly low. The nominal 10-year Treasury yield remained in a narrow range. The broad trade-weighted dollar index increased modestly. Emerging markets asset prices remained under pressure.

Output modestly above potential GDP estimate

- The level of real GDP in 2018Q2 was about 0.5% above the estimate of real potential GDP from the Congressional Budget Office (CBO).
  - In the August update to its 10-year economic outlook, the CBO revised downward its estimates of potential GDP for recent years.
  - Over this expansion, real GDP has grown at an annual rate of 2.3%, compared to the 1.5% growth rate of real potential GDP.
  - The 3.9% unemployment rate in August was below many estimates of its natural rate, including that of the CBO (4.62%).

- 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 less constraints by that measure.
**OVERVIEW**

**Labor Market Indicators**

- **Unemployment rate remains unchanged**
  - The labor force participation rate edged down by 0.2 percentage point in August to 62.7%.
    - The decline was largely concentrated among young workers (ages 16 – 24).
  - The unemployment rate remained unchanged at 3.9%.
    - The unemployment rate remained unchanged for prime-aged (ages 25-54) and older workers (ages 55+) at 3.1% and 3.2%, respectively, but fell 0.2 percentage point for young workers.
  - The employment-to-population ratio also fell by 0.2 percentage point in August to 60.3.

**PCE Deflator**

- **Inflation remains near FOMC’s longer-run objective**
  - The total PCE price index rose 0.1% in July, same as in June. The core PCE price index (which excludes food and energy prices) increased 0.2% in July, in line with changes over the last few months.
    - Energy prices declined 0.5% in July, but are still up 13% relative to one year ago. Food prices rose 0.1%.
  - The 12-month changes in the total PCE and core PCE price indices were +2.3% and +2.0%, respectively.
    - The July reading marked the fifth consecutive month that total PCE inflation has been at or above 2%, the first such occurrence since early 2012.
    - Headline and core PCE inflation appear to have stabilized at levels near the FOMC’s 2 percent longer run goal.
GDP Growth

% Change – Annual Rate

% Change – Annual Rate


ECONOMIC ACTIVITY

Growth picks up pace in 2018Q2

- According to the second release, real GDP expanded at a 4.2% annual rate in 2018Q2, after growth of 2.2% in Q1.
  - The four-quarter change in output was +2.9%, the strongest pace in three years, and above the four-quarter change of real gross domestic income (+2.1%).
  - Real GDP growth was revised up only slightly from the advance estimate (4.1%), with little change in the contributions from expenditures components.
    - Consumption and business fixed investment expanded briskly in Q2.
    - Net exports contributed 1.2 percentage points to Q2 real GDP growth.
    - An inventory drawdown subtracted 1.0 percentage points.

Manufacturing and ISM Manufacturing Index

12 Month % Change

Index

Source: Bureau of Economic Analysis via Haver Analytics

Manufacturing activity expands in August

- Manufacturing production increased 0.3% in July following a revised 0.9% increase in June.
  - Manufacturing production rose by 2.8% in July on a 12-month change basis.
  - The ISM PMI rose 3.2 percentage points to 61.3 in August.
    - The August PMI is the highest it has been in years, indicating very strong performance.
    - The Prices Paid Index fell 1.1 percentage points, but remains above its 2017 average, indicating continued price pressures in raw material prices.
  - All regional Fed manufacturing surveys indicated continued expansion in August.
Households

Disposable Income and Consumption

- Consumption and income growth remain solid
  - Consumption in July remained on the solid expansion path of the second quarter, close to a 3% annual growth rate.
    - Real personal consumption expenditures rose 0.2% in July, as did both goods and services consumption.
  - Real disposable personal income increased 0.2% in July, consistent with recent trends.
  - With income and consumption growing at similar rates, the personal saving rate in July ticked down 10 basis points, to 6.7%.

Consumer Confidence

- Consumer confidence highest since 2000
  - The Conference Board’s Consumer Confidence Index was 133.4 in August (1985=100).
    - This index has been rising throughout 2018 and now stands at its highest level since October 2000.
    - The Conference Board finds that the differential in the percentage of people expecting a rise vs. a decline in their income in the short term is the highest since the early 2000s.
  - The Michigan Consumer Sentiment Index was 96.2 in August (1966Q1=100).
    - This was slightly below its previous reading of 97.9, but the year average to date has been the highest since 2000.
  - Both indices convey considerable optimism among households about labor market conditions.
**Business Sector**

**Equipment Investment and Capacity Utilization**

4-Quarter % Change % of Capacity

- Manufacturing Capacity Utilization Rate (Right Axis)
- Real Business Investment in New Equipment (Left Axis)

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

Note: Shading shows NBER recessions.

**Growth of equipment spending moderates in 2018H1**

- After rising 9.6% in 2017, real business equipment investment grew at a more moderate 6.4% annual rate in the first half of this year.
  - The slowing in the first half was largely concentrated in industrial equipment and “other” equipment.
  - The equipment spending share of nominal GDP remained modestly below its average share in 2013 – 15.

- Equipment investment has risen only moderately over the past three years, as the manufacturing capacity utilization rate remains fairly low.
  - This rate was 75.9% in July, the same as in May 2015 and 2.4 percentage points below its longer-term average.
  - Historically, utilization rates near 75% have been associated with rather modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

Bil. $, 3 MMA

- New Orders
- Shipments

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

**New orders and shipments rise in July**

- Monthly data on new orders and shipments of nondefense capital goods excluding aircraft are high-frequency indicators of business investment in equipment.

- Shipments of these goods increased 0.9% in July for the second consecutive month.
  - On a 12-month basis, shipments increased 7.7%, slightly above the corresponding June increase of 7.4%.
  - However, this pace is still below the strong growth in this category in the first two months of the year.

- New orders for these goods increased 0.5% in July, and remained above shipments, suggesting some near-term momentum for equipment spending.
**Total housing starts remain soft in July**

- Total housing starts rose a modest 0.9% in July following a sharp 12.9% decline in June. The 12-month percent change was -1.4% as of July.

- Single-family housing starts have begun a gradual descent in recent months after several years of a slow uptrend. Multifamily starts—which are much more volatile—have declined sharply over the past four months.

- Mortgage interest rates have risen by around 75 basis points over the past year, and mortgages applications have declined recently. However, housing market fundamentals appear strong. Inventories of homes for sale and rent are relatively low, home prices are rising briskly, and employment continues to increase at a solid pace.

**Mortgage underwriting standards remain tight**

- Credit standards have loosened only modestly since 2012, after tightening sharply between 2007 and mid-2009.

- Lending standards also remain tight compared to levels in the early 2000s, which preceded the subprime boom.

- Nearly 67.5 million people in the population of adults with credit reports currently have scores below 650.
  - The share of originations to borrowers below this level has fallen from 25% to 10% since the Great Recession.
Growth of government spending is firming

- After being essentially unchanged from 2016Q1 to 2017Q3, growth of consumption and gross investment by the government sector has firm ed over the past three quarters.
  - As of 2018Q2, growth of consumption and gross investment by the federal government rose to 2.3% (four-quarter percent change), the strongest since 2010Q4.
    - Both defense and nondefense spending have risen by just over 2% over the past year as the increased budget authority approved earlier this year moves through the pipeline.
  - At the state and local level, consumption and gross investment grew a more modest 0.7% over the four quarters ending in 2018Q2, the strongest since 2016Q4.

State and local infrastructure spending grows

- Real state and local government gross investment grew 3.4% over the four quarters ending in 2018Q2.
  - Gross investment has now grown for three consecutive quarters for the first time since 2014.
  - Real state and local infrastructure spending remains 11% below its level of a decade ago.
- State and local consumption spending was flat in the second quarter, and has not grown over the last year.
  - After a strong recovery between 2014 and 2016, real state and local consumption spending has been stable for about two years.
  - Consumption, comprised mainly of wages and salaries, is about 80% of state and local government spending.
INTERNATIONAL DEVELOPMENTS

The trade deficit is on the rise again

- For the second consecutive month the trade deficit rose in July, to $50.1 billion from $45.7 billion in June. In real terms, exports fell and imports grew over the month.
  - Real goods exports fell 1% from June to July and this was mainly due to lower real exports of consumer goods (excluding autos), capital goods (excluding autos) as well as the (historically volatile) other goods category.
  - Real imports of nonoil goods were up 0.6% over the month in July, owing mostly to increased real imports of foods, feeds and beverages, capital goods (excluding autos), autos and other goods. Oil goods import volumes increased over the month.

- Net exports boosted GDP growth by 1.2 percentage points in the second estimate of 2018Q2 GDP, an upward revision from the net export growth contribution in the first estimate.

China’s economy continues to slow in July

- China’s main data releases in July pointed to a continued growth slowdown.
  - The 12-month growth rate of real fixed asset investment (FAI) fell to an estimated -2%, a record low. Real FAI growth began slowing noticeably beginning in early 2017, and fell into negative territory for the first time in Q3 of that year.
  - Real retail sales also continued to decelerate, with the 12-month growth rate slowing to an estimated 6.3% in July.
  - Real value-added of industry (VAI) has slowed modestly, with the quarterly growth rate slowing to 6% (on an annual basis).

- China’s slowdown has been driven by a tightening of domestic macroprudential policies, which are now being loosened and may be less of a headwind going forward. However, the outlook for exports faces significant risks.

---

**Real Exports and Nonoil Imports of Goods**

- 12 Month % Change
- Exports
- Nonoil Imports
- Source: Census Bureau via Haver Analytics
- Note: Shading shows NBER recessions.

**China: Investment, Retail Sales, and Production**

- 12-Month Percent Change
- 3-Month Percent Change (SAAR)
- Real FAI (Left Axis)
- Real Retail Sales (Left Axis)
- Real VAI (Right Axis)
- Source: NBS via CEIC, NYFRB Staff Calculations
### Payroll Employment and Aggregate Hours

- **12-Month Percent Change**
  - Payroll Employment
  - Aggregate Hours

**Source:** Bureau of Labor Statistics via Haver Analytics

**Note:** Shading shows NBER recessions.

### Sustained improvement in August payrolls

- Payroll employment rose by 201,000 in August.
  - Average monthly payroll gains over the prior 12 months were 196,000.
  - Employment in goods-producing industries increased by 26,000, driven by an increase in construction employment of 23,000. Employment in private service-producing industries increased by 178,000, and employment in government fell by 3,000.

- June and July payroll numbers were revised downward.
  - The downward revisions resulted in a net downward revision of 50,000.
  - Despite the revisions, average monthly payroll gains over the last three months remained strong at +185,000.

### Labor Force Participation Rate by Age

**Percent**

- Ages 25-54
- Ages 16-24
- Ages 55+

**Source:** Bureau of Labor Statistics via Haver Analytics

**Note:** Shading shows NBER recessions.

### Participation changes most evident among the young

- The August decline in labor force participation (from 62.9% in July to 62.7% in August) was mostly driven by the young (ages 16-24).
  - Their seasonally adjusted labor force participation rate fell from 55.5% to 53.8% over the month.
  - The participation rates of prime-age workers (25-54 year olds) and older workers (ages 55+) changed by -0.1 and +0.1 percentage point, respectively.

- The qualitative patterns by age in changes to the employment-to-population ratio mimicked the patterns in the labor force participation rate.
**Earnings growth picks up in August**

- Average hourly earnings increased by 0.37% from $27.06 in July to $27.16 in August.
  - The increase was above the average monthly increase of 0.22% over the prior 12 months and above Bloomberg expectations of 0.2% for the month of August.

- Over the last year, average hourly earnings for all private employees were up 2.92%.
  - This is the largest increase recorded since the end of the recession in 2009.

**Strong earnings growth across sectors**

- The year-over-year growth in average hourly earnings for all private employees was driven by both goods-producing and services-providing sectors.
  - The 12-month change in average hourly earnings growth for goods-producing workers was 2.43% in August, the highest since September 2017.
  - Average hourly earnings growth for service-providing workers posted a 12-month change of 3.03%, the highest since April 2009.

- The year-over-year growth in average hourly earnings in services has outpaced that of goods-producing sectors every month since August 2017.
CPI inflation weaker than expected in August

- The August CPI report was weaker than expected, mostly due to a decline in the prices of core goods and of medical care.

- The core CPI rose 0.082% in August, its weakest unrounded reading since December 2014, if we exclude the wireless-phone-services-driven decline of March 2017.

- Core services prices are rising steadily at about 3% per year, led by shelter inflation at about 3.5% per year.

- Core goods prices fell 0.3% in August, their weakest reading since March 2017, bringing their 12-month change back into negative territory.

Inflation forecast distributions shift modestly in Q3

- The U.S. Survey of Professional Forecasters requests density (histogram) forecasts that show the probability of inflation falling into 10 separate ranges.
  - The 2018Q3 survey was fielded from late July through early August, with results released on August 10.

- Compared to last quarter, the forecast distribution for core PCE inflation in 2018 (Q4/Q4) was more concentrated around 2%, as recent data have been largely consistent with the consensus outlook of private forecasters.
  - Forecasters reported a 66% chance of core PCE inflation being 2% or higher, about the same as in the Q2 survey.
  - In contrast, the forecast distribution for 2019 core PCE inflation (not shown) shifted higher: The probability of core inflation being 2% or above rose to nearly 68% from 62% in Q2.
**U.S. Equity Market Index and Volatility**

![Graph showing U.S. Equity Market Index and Volatility](image)

**U.S. equity markets continue to rise**

- U.S. equity markets continued their 2018 rebound after the decline earlier in the year, registering new all-time highs for the S&P 500 index in August.
  - The S&P 500 index rose 1% between August 3 and September 7 and is up 11% from its recent low on April 2.
  - As of September 7, the index was up 6.5% year-to-date.

- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remains low.
  - The VIX Index closed at 14.88 on September 7, which is well below its 37.32 multi-year high on February 5, and below its historical median of 17.55 since 2000.

**US Bank Equities Performance**

![Graph showing US Bank Equities Performance](image)

**Bank stocks little changed**

- As measured by the KBW Nasdaq Bank Index, bank equities increased by 0.8% between August 3 and September 7 and are 5.1% higher relative to April 2.
  - As of September 7, the KBW Index was up 1.5% year-to-date.

- The XLF financial sector ETF decreased by 0.5% between August 3 and September 7 but is also up 5.2% since April 2.
  - As of September 7, the XLF ETF was up 2.5% year-to-date.
FINANCIAL MARKETS

USD Exchange Rates

U.S. dollar appreciates modestly
- The exchange value of the dollar against a basket of global currencies increased 0.8% between August 3 and September 7.
  - Over the same period, the dollar appreciated 0.1% against the euro, depreciated 0.2% against the Japanese yen, and appreciated 4% against the Mexican peso.
- Since the start of 2018, the dollar has appreciated 2.5% against a basket of global currencies.

Implied path for federal funds rate increases slightly
- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved up for shorter maturities by around 9 basis points between July 31 and September 7.
  - The reaction for longer maturities was mixed relative to July 31 but higher relative to August 17 across the curve.
- The market-implied path remains somewhat below the median path of the FOMC’s June 2018 Summary of Economic Projections and the July/August 2018 NY Fed Survey of Primary Dealers at longer horizons.
**FINANCIAL MARKETS**

### 10-Year Treasury and Term Premium

- **Longer-term Treasury yields decrease modestly**
  - Longer-term Treasury yields have decreased slightly since early August.
    - The 10-year yield decreased by 8 basis points between August 3 and September 7, but remains high relative to levels in the past several years.

  - Estimates from the Adrian-Crump-Moench term structure model attribute the decrease primarily to a more negative term premium with little change in the expected path for short term interest rates.
    - The 10-year term premium decreased by 9 basis points between August 3 and September 7.

### 5-10 Year Forward Decomposition

- **Breakeven inflation decreases slightly**
  - Market-implied TIPS-based measures of long-term inflation expectations ("breakevens") decreased slightly in recent weeks.
    - The five-to-ten year breakeven inflation rate decreased by around 5 basis points from August 3 to September 7.

  - According to the Abrahams-Adrian-Crump-Moench model, most of the year-to-date movements in forward inflation compensation continue to reflect changes in the inflation risk premium.
SPECIAL TOPIC: CCP DEBT COLLECTIONS

Third Party Collections

Third-party collections reporting declines
- The reporting of collections accounts on consumer credit reports dropped dramatically in 2017Q4 and 2018Q1.
- The decline was likely due in part to the National Consumer Assistance Plan, which provided some changes to collections reporting including:
  - More frequent and detailed updates.
  - Removal of accounts that did not arise from an agreement to pay (e.g., traffic tickets or court fees), as well as medical collections less than 180 days old.
  - Requirement to have sufficient personal association (Social Security Number/Date of Birth) to link an account with an individual's credit file.

Credit Score After Collection Accounts Removal

Impact on collections reporting
- Between 2017Q2 and 2018Q2:
  - The number of individuals with a collections account on their credit report fell from 33 million to 25 million.
  - The number of collections accounts appearing on credit reports also dropped substantially, from more than 66 million collections accounts to about 47 million.
  - The aggregate balances reported on collections accounts also declined, by about $11 billion.
- As shown in the accompanying chart, the vast majority of those who were affected had lower credit scores.

Source: New York Fed Consumer Credit Panel / Equifax
Note: Credit Scores are Equifax Riskscore 3.0.
Varied effect on credit scores

- The effect on credit scores was generally muted.

- Among individuals who had at least a single account removed in 2018Q1, there was variation in their credit score change after the removal of accounts:
  - About 20% saw a decline in their credit score, reflecting other issues on their credit reports.
  - About two-thirds of borrowers saw an increase in their Equifax Risk Score.
  - A nontrivial 18% of affected individuals saw their credit scores increase by more than 30 points. Those who saw the largest boost to their scores were generally those with very low initial credit scores.