U.S. Economy in a Snapshot
Research & Statistics Group
September 2020

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 17, 2020.
OVERVIEW

- Consumer spending continued to recover in July.
  - Spending remained tilted toward goods and away from services compared to pre-pandemic levels.
  - Services expenditures were still significantly below their February level.
  - Consumer confidence remained low in August.

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

- Housing activity continued to rebound in July.
  - Single-family housing starts, new and existing home sales all rose strongly with signs of further momentum in the short term; uncertainty about the longer-term outlook remains high.

- Payroll employment continued to expand in August. The unemployment rate fell, mainly due to a further decline in temporary layoffs. The labor force participation rate and the employment-to-population ratio both increased moderately, but remained below pre-pandemic levels.
  - With the latest reading, about 48% of the drop in payroll employment between February and April has been reversed.

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

- U.S. equity indices increased over the last month, amid rising volatility. The nominal 10-year Treasury yield rose modestly but remained low. The market-implied expected policy rate path rose moderately. The broad trade-weighted dollar index declined slightly. Oil prices were little changed on balance.

**GDP**

- The level of real GDP in 2020Q2 was about 10.0% 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 8.4% unemployment rate in August 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 a rebound in June and July, capacity utilization rates continued to be at very low levels.
OVERVIEW

Labor market conditions further improve in August
- The unemployment rate decreased from 10.2% in July to 8.4% in August.
- Nonfarm payrolls rose by about 1.4 million in August.
  - Employment in private service-providing industries increased by 984,000, with large increases in retail trade (+249,000), leisure and hospitality (+174,000), and education and health services (+147,000).
  - Employment in goods-producing industries saw an increase of 43,000, driven by increases in manufacturing (+29,000) and construction (+16,000).
  - Hiring of temporary Census workers was a major factor in the rise of government payrolls for the month.
- The employment-to-population ratio increased from 55.1% in July to 56.5% in August.

Inflation continues to run below 2 percent
- The total PCE price index rose 0.3% in July, after increasing 0.5% in June. The core PCE price index (which excludes food and energy prices) also rose 0.3% in July, the same as in June.
  - Energy prices rose 2.5% in July, and were down 11.4% relative to one year ago. Food prices fell 0.9% and were up 4.3% compared to one year ago.
- The 12-month change in the total PCE price index rose to +1.0% and the 12-month change in the core PCE price index increased to +1.3%.
  - Core PCE inflation remained appreciably below the FOMC’s 2 percent longer-run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

- Plunge in 2020Q2 real GDP less severe in 2nd estimate
  - In the BEA's second estimate, real GDP plummeted at a 31.7% annual rate in 2020Q2, a less severe fall than the first estimate of -32.9%. The 4-quarter change was -9.1%.
  - Real personal consumption expenditures (PCE) fell at a 34.1% annual rate in Q2, its largest decline. Even so, real PCE was revised upward in the second estimate.
  - There were also upward revisions to most other categories of expenditures, with the most significant occurring in inventory investment and net exports.
  - In their first reading for 2020Q2, corporate profits fell 11.1% (quarterly rate), a decline similar to that in Q1.
  - Real gross domestic income dropped at a 33.1% annual rate in 2020Q2. Its 4-quarter change was -9.2%.

**Manufacturing and ISM Manufacturing Index**

- Manufacturing activity continues to recover
  - Manufacturing production increased 3.4% in July, after rising 7.4% in June.
    - Even so, the 12-month change in manufacturing production was -7.7%.
  - The ISM Manufacturing PMI rose 1.8 percentage points in August to 56.0.
    - The largest gain in the PMI sub-indices was in New Orders, which increased 6.1 percentage points to 61.5.
    - The Employment index increased to 44.3, indicating the 12th consecutive month of employment contraction.
  - All five regional Fed surveys indicated that manufacturing activity continued to expand in August.

Source: Bureau of Economic Analysis via Haver Analytics

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

Note: Shading shows NBER recessions.
**Discharge Income and Consumption**

12 Month % Change

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<tr>
<th>Year</th>
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<th>Real Personal Consumption</th>
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<tr>
<td>2020</td>
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<td>-21%</td>
</tr>
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</table>

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

Note: Shading shows NBER recessions.

**Consumption rises even as fiscal support wanes**

- Nominal disposable personal income rose 0.2% in July, but it fell 0.1% once adjusted for inflation.
  - Wages and salaries were up 1.4%, but transfers fell 1.7%, both in nominal terms.

- Nominal personal consumption expenditures (PCE) rose 1.9% in July.
  - At $14.2 trillion (SAAR), July nominal PCE was 4.6% below its level in February, but 17.5% higher than in April.

- Nominal expenditures on goods were 6.1% higher in July than in February, but expenditures on services were 9.3% lower.

**Consumer Confidence**

Index

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<th>Year</th>
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<th>Michigan Survey</th>
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<td>2020</td>
<td>60</td>
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</table>

Source: Conference Board, University of Michigan

Note: Shading shows NBER recessions.

**Consumer confidence remains low**

- Consumer confidence measures were mixed in August.
  - The Conference Board Index fell to 84.8 in August from 91.7 in July. The Michigan Index of Consumer Sentiment increased 1.6 points to 74.1.
  - The fall in the Conference Board’s measure reflected declines in both of its main components. For the Michigan Index, the slight increase was driven mostly by improving sentiments about future conditions.

- Employment expectations changed little in the Michigan survey.
  - The percentage of respondents who expect unemployment to decline in the year ahead decreased from 39% to 36%.
  - The percentage of respondents who expect more unemployment in the year ahead decreased from 33% to 32%.
**Equipment Investment and Capacity Utilization**

- 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.
  - In 2020Q2, spending rose robustly for information processing equipment, but fell sharply 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 69.2% in July, above the trough in the last recession but near or below troughs in prior recessions.
  - Historically, low utilization rates have been associated with weak equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

- Shipments of nondefense capital goods excluding aircraft rose 2.4% in July, the third consecutive increased following a plunge in April. The July level of these shipments was close to pre-pandemic levels and 5.5% above the average in 2020Q2.
  - 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 July, which was also its third consecutive increase following a drop in April.
  - New orders for these goods were slightly above shipments in July.
**HOUSING SECTOR**

**Housing Starts**

- Total housing starts rose 22.6% in July. Starts were up 23.4% in the 12 months ending in July.
  - The rise in starts in July was the third straight increase following the large declines in March and April.
- Single-family starts rose 8.2% in July to a level of 940,000 units (annual rate), 7.4% above the July 2019 figure.
  - The 3-month moving average of single-family starts rose to about 846,000, similar to that of a year ago.
- Multi-family starts rose to 556,000 in July (annual rate), 58.4% above June, and 65.0% above the July 2019 level.
  - The 3-month moving average of multi-family starts rose to about 406,000.

**New and Existing Home Sales**

**Housing market displays strong rebound**

- Single-family existing home sales increased 23.9% in July to 5.28 million units (seasonally adjusted annual rate).
  - Single-family existing home sales are now 9.8% above a year ago.
- Single-family new home sales increased 13.9% (SAAR) in July to 901,000.
  - Relative to one year ago, new home sales are up 36.3%.
- Home sales displayed significant strength in the housing market. This reflected historically low mortgage rates, reopenings and gradual resumption of economic activity. Nevertheless the ongoing pandemic and the associated high unemployment rates cast 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 +6.8%, just above the peak rate during the 2008-09 financial crisis.
    - The four-quarter change in real state and local spending was -0.7%, the weakest since 2012.
  - The pickup in real federal spending was driven by payments to banks for processing and administration of Paycheck Protection Program loan applications.

**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 consist largely of employee salaries and make up over 80% of the sector's total spending.
- State and local gross investment spending growth declined sharply to about 2.53% 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

- The trade deficit was $63.6 billion in July up from $53.5 billion in June.
  - Both exports and imports grew substantially, as they continued to rebound from the COVID shock.
  - The growth of imports was sharper, beating consensus forecasts.
- The increase in trade volumes was primarily driven by goods trade.
  - A substantial uptick in durable and consumer goods exports and imports drove the aggregate rebound in trade.
- Service trade remained depressed as tourism and business travel remained at low levels.

Euro Area Manufacturing and Services PMIs

- Euro area purchasing managers’ indices declined in August, signaling a slower pace of economic recovery.
  - The manufacturing PMI edged down a tenth to 51.7.
  - The services PMI dropped 4.2 points to 50.5, only half a point above the break-even line of 50.
- PMI readings for both sectors had surged in May through July, on a partial return to normal activities after COVID-19 shutdowns.
- Estimates based on Google mobility data suggest that euro area economic activity remained perhaps 5% below pre-pandemic levels.
  - Full recovery would take considerable time at the pace of growth suggested by the latest PMI readings.
**Payroll Employment and Aggregate Hours**

- Nonfarm payroll employment rose by 1.4 million in August.
  - This was primarily due to an increase in employment of 984,000 in private service-providing industries.
  - Government employment rose by 344,000, mainly reflecting the hiring of 238,000 temporary Census 2020 workers by the Federal government.

- With the August reading, monthly payroll employment was currently at the same level as in March 2015.
  - Overall, about 48% of the decline in payroll employment between February and April has been reversed, amounting to 10.6 million out of 22.1 million jobs lost.

**SA Initial Unemployment Insurance Claims**

- For the week ending September 5th, seasonally adjusted (SA) claims were 884,000, unchanged from the revised figure one week ago.
  - The Department of Labor changed its seasonal adjustment procedure last week, replacing multiplicative with additive adjustment factors. This change complicates comparisons to earlier data.

- In addition to initial claims under state programs, there were 839,000 initial claims (NSA) for Pandemic Unemployment Assistance for the week ending September 5th.
  - This represents an increase of 91,000 from one week earlier.
  - For the week ending August 22, the total number of people claiming benefits in all programs was 29,605,000.
**Employed Workers, Reasons for Absence**

- **Childcare Problems (Left Axis)**
- **Vacation (Right Axis)**

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

**Note:** Shading shows NBER recessions.

**COVID-19 further disrupts working patterns**

- The seasonally adjusted number of people who have a job but are not at work due to vacations ticked up to 1.9 million from 1.8 million in July, but remains at a historical low.
  - **The all-time series low was in May 2020, where 980,000 people were not at work due to vacation. This number is 66.6% below its level in May 2019.**

- The seasonally adjusted number of people who have a job but not at work due to childcare problems remained at a historically high level after ticking down from a series high of 107,000.
  - **The number of those not at work due to childcare problems in 2020:Q2 grew 125% compared to the same time last year.**

**Growth of Average Hourly Earnings and ECI**

- **Average Hourly Earnings**
- **Employment Cost Index**

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

**Note:** Shading shows NBER recessions.

**Average hourly earnings rise in August**

- Average hourly earnings increased by 0.4% in August compared to one month prior. The 12-month change was +4.7%.
  - **Hourly earnings growth has displayed large swings over the recent months due to the large employment fluctuations in sectors with lower-paid workers.**

- Benefits of civilian workers rose 0.8% in 2020:Q2 (higher than in 2020:Q1) and 2.2% year-over-year.
Core CPI inflation increases further in August

- Core CPI inflation remained very volatile, having fallen from 2.4% in February to 1.2% in June on a 12-month basis, and then rebounding to 1.7% in August.
- These large swings were primarily driven by gyrations in core goods prices, which rose in August at their strongest pace in decades.
  - Core goods prices were up 0.4% on a 12-month basis, compared with -0.5% in July and -1.1% in June.
- The continued weakness in inflation for important series such as owners’ equivalent rent (OER) and rent of primary residence remains a source of concern.
  - The 12-month changes in these two indices were 2.7% and 2.9%, respectively, in August, compared to 3.3% and 3.8% at the beginning of the year.

Inflation expectations increase slightly

- Median inflation expectations increased in August:
  - Median expected inflation rose from 2.9% to 3.0% at the one-year horizon;
  - It rose from 2.7% to 3.0% at the three-year horizon.
- Inflation uncertainty increased.
  - The uncertainty expressed about future inflation outcomes increased for the second consecutive month at both horizons and remained elevated relative to pre-pandemic readings.
- Inflation disagreement across respondents remained high.
  - The difference between the 75th and 25th percentile of the distribution of inflation expectations remained substantially above its pre-pandemic level at both horizon.
FINANCIAL MARKETS

U.S. Equity Market Index and Volatility

- U.S. equity markets as measured by the S&P 500 achieved all-time highs this month.
  - The S&P 500 index increased 1.4% between August 7 and Sept 9. As of September 9, it is up 51.9% from its recent low on March 23 and it reached an all-time high of 3580.84 on September 2.
  - As of September 9, the index was up 5.2% year to date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), remained elevated.
  - The VIX Index closed at 28.81 on September 9.
  - On August 17, the VIX Index reached its lowest level since February 21, when it closed at 21.35.
  - The VIX Index remained well below its 82.69 record high on March 16, 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 decreased by 0.87% between August 7 and September 9.
  - Over this same period the dollar was unchanged against the euro, appreciated by 0.24% against the Japanese yen, but depreciated 4.51% against the Mexican peso.
- Since the start of 2020, the dollar has depreciated 1.35% against a basket of global currencies.
**US Bank Equities Performance**

- **SP500 Index**
- **XLF ETF**
- **KBW Index**

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

**Bank stocks performance lags behind market**

- As measured by the KBW Nasdaq bank index, bank equities decreased 1.1% between August 7 and September 9, but still were 36.3% higher than their recent low on March 23.
  - As of September 9, the index was down 32.4% year to date.
- The XLF financial sector ETF increased 0.20% between August 7 and September 9, and was up 40.9% from its low on March 23.
  - As of September 9, the index was down 19.1% year to date.
- As measured by the S&P 500 Index, the broader market increased 1.4% over the same time period.

**Expected Federal Funds Rate**

Source: NY Fed calculations, Bloomberg Finance L.P.  
Note: Estimated using OIS quotes

**Implied path for federal funds increases**

- 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 August 7 and September 9.
- The market-implied path remained slightly below the median path of the FOMC’s Summary of Economic Projections from June 2020 and the NY Fed’s Survey of Primary Dealers from July 2020.
**FINANCIAL MARKETS**

**10-Year Treasury and Term Premium**

- Longer-term Treasury yields have increased since June.
  - The 10-year yield increased by about 13 basis points between August 7 and September 9.
  - The 10-year yield was 125 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 17 basis points between August 7 and September 9 as a five-day moving average.

**Breakeven inflation increases**

- Market-implied TIPS-based measures of long-term inflation expectations (“breakevens”) increased in recent weeks.
  - The five-to-ten year breakeven inflation rate was 1.69% on September 9, increasing by 17 basis points over the past month as a five-day moving average.

- According to the Abrahams-Adrian-Crump-Moench model, the inflation risk premium increased as well.
  - The estimated five-to-ten year inflation risk premium increased by 17 basis points as a five-day moving average.
**SPECIAL TOPIC: LABOR MARKET INDICATORS**

### Permanent and Temporary Layoffs

- **Job Losers on Permanent Layoff (Left Axis)**
- **Percent of Job Losers on Temporary Layoff (Right Axis)**

![Graph showing permanent and temporary layoffs over time](image)

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

**Note:** Shading shows NBER recessions.

### Share of permanent job losers continues to rise

- The share of job losers on permanent layoff continued to increase in August.
  - The number of job losers on permanent layoff rose to 3.4 million, accounting for 40% of all laid-off workers.
- The number of job losers on temporary layoff continued to decrease as businesses reopen.
  - Job losers on temporary layoff accounted for 60% of all laid-off workers.

### Labor Force Participation Rate by Race

- **Hispanic**
- **Asian**
- **Black**
- **White**

![Graph showing labor force participation rate by race over time](image)

**Source:** Bureau of Labor Statistics

**Note:** Shading shows NBER recessions.

### Labor force participation continues to recover

- Labor force participation continued to rise in August following its sharp decline in March and April.
  - Participation rose in August by 0.7 percentage points for Hispanic workers, by 0.4 for both Whites and Asians, and by 0.2 for Blacks.
- Participation of Asian workers has recovered 84% of its decline from February to April, and participation of Whites has recovered 50% of its decline.
  - In contrast, participation of Hispanic workers and Black workers has recovered only 42% and 40% of its decline, respectively.
SPECIAL TOPIC: LABOR MARKET INDICATORS

Workers Unable to Work due to Employer Closures

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<th>Percent</th>
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<td>June</td>
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<td>August</td>
<td>7.0</td>
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</table>

- **Service occupations**
- **Sales and office occupations**
- **Management, Professional, and Related**

Source: Bureau of Labor Statistics

Share of workers unable to work decreases

- The share of employed workers unable to work because of employer closures has declined across all occupations.
  - In aggregate, the share of employed workers unable to work has declined from 20% in May to 7% in August.

- More workers were unable to work in Service occupations than in Management and Professional occupations.
  - In Service occupations, 15% of employed workers were unable to work in August due to employer closures.
  - In contrast, 7% of workers in Management, Professional, and Related occupations were unable to work due to closures.

Persons Unable to Work due to Employer Closures

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<thead>
<tr>
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<tr>
<td>August</td>
<td>13.0</td>
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</table>

- **Hispanic**
- **Black**
- **Asian**

Source: Bureau of Labor Statistics

Share of persons unable to work falls for all groups

- The number of persons unable to work due to employer closures has fallen by 50% since May.
  - The share of White workers unable to work due to closures declined by 54% between May and August, compared to 49% for Hispanics and 41% for Blacks.

- The share of White persons unable to work in August was lower than the corresponding shares of Hispanic and Black workers.
  - 8.5% of White persons were unable to work due to employer closures, compared to 12.5% of Black workers and 13% of Hispanic workers.