



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economy in a Snapshot

Research & Statistics Group

May 2021

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 May 14, 2021.

OVERVIEW

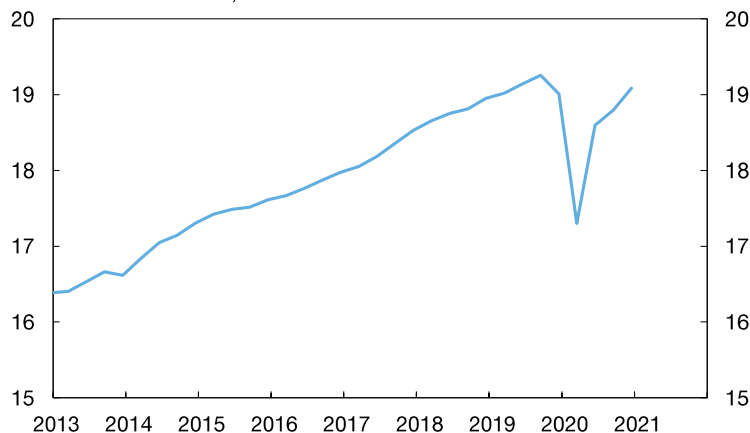
March data were quite strong, most notably for consumer spending. Job growth slowed considerably in April.

- Output in Q1 rose to near its year-ago level.
 - **Consumption was the biggest contributor to growth, while exports and investment spending on structures underperformed.**
- Personal income was up substantially in Q1 due to large government transfer payments.
 - **Saving as a percent of personal income reached 21%.**
- Housing activity remained robust, with housing starts and home sales well above pre-pandemic levels.

- Payroll employment growth slowed significantly in April and the unemployment rate ticked up.
- Core PCE inflation over the year rose to 1.8% in March.
- The 10-year Treasury yield declined from April 1 to May 7, leaving it up around 75 basis points since the beginning of the year. Stock indices reached all-time highs and the dollar depreciated against the euro and the yen. The market-implied federal funds rate path shifted down modestly.

Real GDP

Trillions of 2012 dollars, annualized



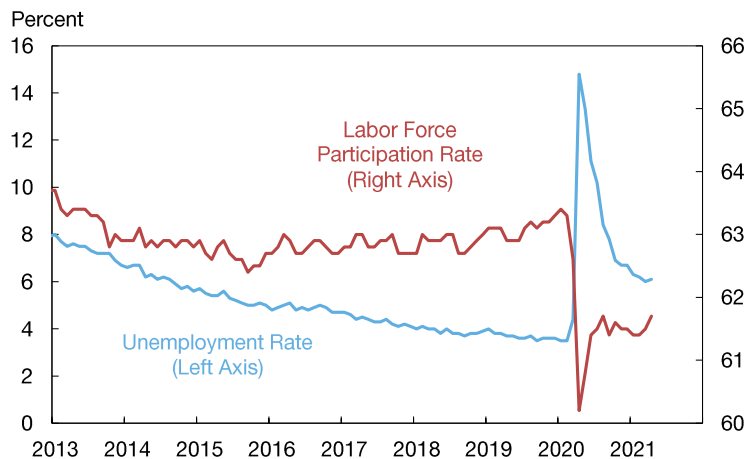
Source: Bureau of Economic Analysis via Haver Analytics

Output moved closer to its pre-pandemic level in Q1

- Even after strong growth in the past three quarters, Q1 GDP was 0.9% below its Q4 2019 peak.
 - In the March Summary of Economic Projections (SEP), the median for the longer-run GDP growth rate was 1.8%.
 - The March Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.
 - The Q1 GDP level is about 3% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.
- The labor market suggests there is considerable slack in the economy.
 - The 6.1% unemployment rate in April was above the long-run forecasts of near 4.0% in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.

OVERVIEW

Labor Market Indicators

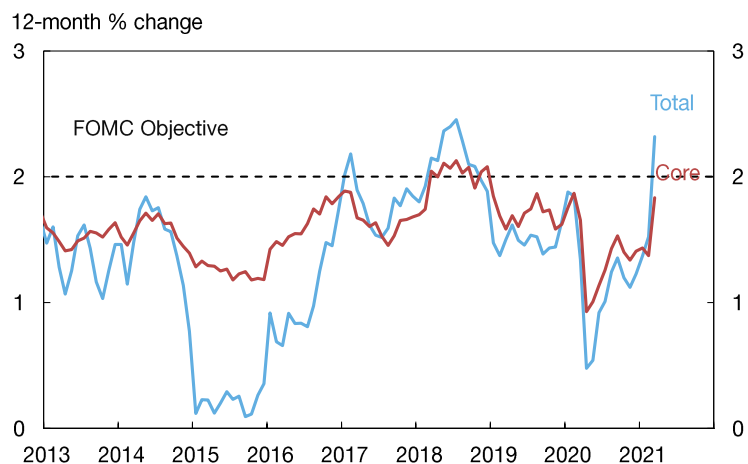


Source: Bureau of Labor Statistics via Haver Analytics

Improvement in the labor market slowed

- Nonfarm payroll employment increased by just 266,000 in April.
 - Payrolls in private service-providing industries rose by 234,000, with notable gains in leisure and hospitality (331,000) countering losses in professional and business services (-79,000), transportation and warehousing (-74,100), and retail trade (-15,300).
 - Employment in goods-producing industries fell by 16,000.
- The unemployment rate ticked up to 6.1%.
- The labor force participation rate was 61.7% in April, a level that is 1.6 percentage points lower than in February 2020.

PCE Deflator



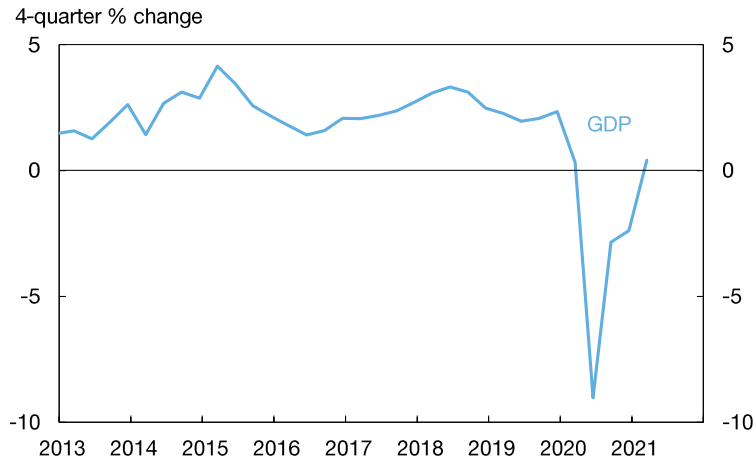
Source: Bureau of Economic Analysis via Haver Analytics

Inflation picked up in March

- The PCE price index was up 2.3% over the year in March, an increase from 1.5% in February.
 - Durable goods inflation rose to 2.0%.
 - Energy inflation accelerated from 1.3% to 13.1%.
 - Food inflation was stable at 2.9%.
- Core PCE inflation rose from 1.4% to 1.8%.
 - Inflation remains below the FOMC's 2% longer-run goal.

ECONOMIC ACTIVITY

GDP Growth

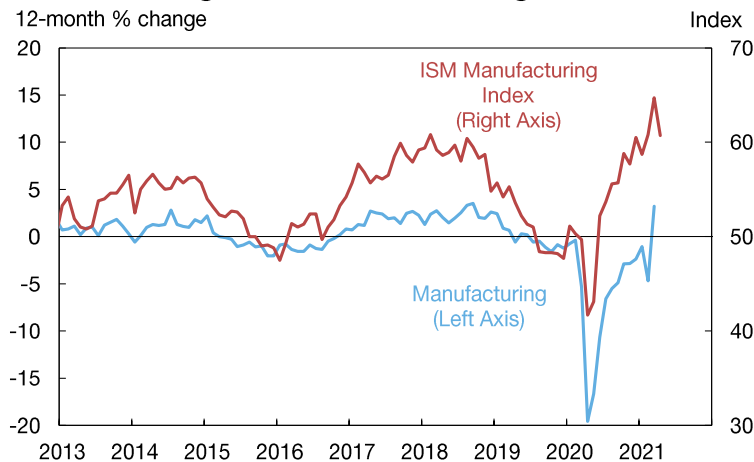


Source: Bureau of Economic Analysis via Haver Analytics

Strong GDP growth continued in Q1

- In the advance estimate, GDP rose at a 6.4% annual rate in Q1, after rising at a 4.3% rate in Q4. The 4-quarter change was 0.4%, the highest since 2020Q1.
- Consumption, investment spending on equipment, residential investment, and federal government spending contributed to GDP growth.
 - Business spending on structures, inventory investment, and net exports were drags on growth.
- Real disposable personal income shot up 61.3% (annual rate) in Q1, primarily reflecting government transfer payments. Its was up 15.5% over the year-ago level.

Manufacturing and ISM Manufacturing Index



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

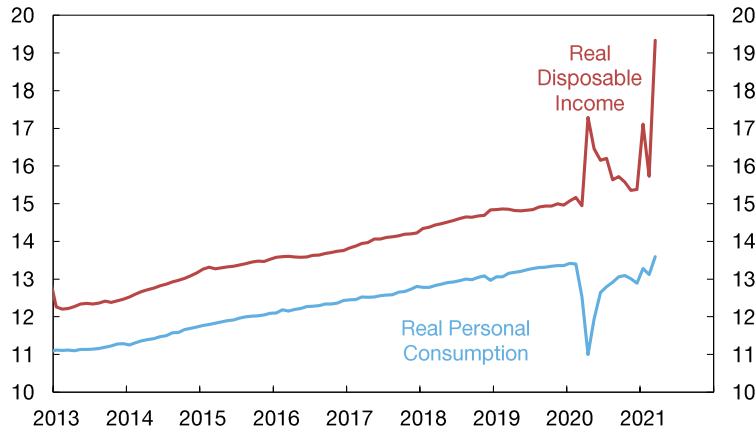
Manufacturing partially recovered in March

- Manufacturing production rebounded 2.7% in March after falling 3.7% in February.
 - Manufacturing output in Q1 was up 0.5% over the previous quarter.
 - Production of motor vehicles and parts was down 4% over the quarter.
- The ISM manufacturing index fell to 60.7 in April.
 - The index remains historically high.
 - The Prices component increased, indicating cost pressures in manufacturing.
- Regional surveys suggest continued solid growth in manufacturing.

HOUSEHOLDS

Disposable Income and Consumption

Trillions of 2012 dollars, annualized



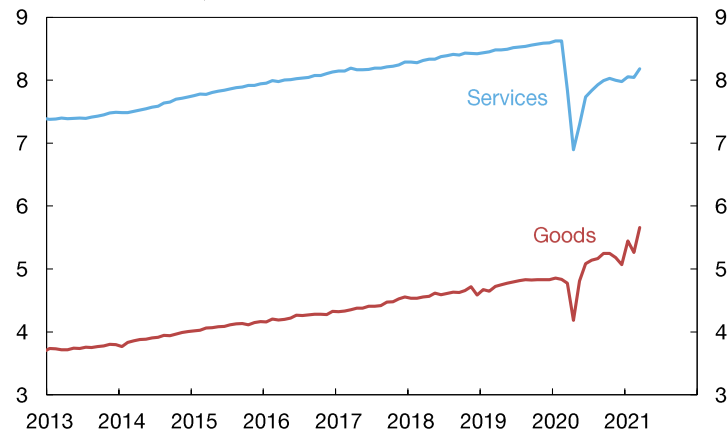
Source: Bureau of Economic Analysis via Haver Analytics

Transfers boosted income and consumption

- Nominal personal income rebounded 21% in March, after plunging 7% in February, itself a reversal of the 10% surge in January.
 - The American Rescue Plan Act gave a \$4.0 trillion (annualized) boost to personal transfer receipts in March.
 - By way of comparison, personal income rose 12% in April 2020, or \$2.3 trillion (annualized), following the enactment of the CARES Act.
- Real personal consumption expenditures (PCE) followed the lead of personal income, rising 3.6% in March after a 1.2% decline in February.
 - PCE was 1.4% above its February 2020 level.
 - In Q1, PCE added 7 percentage points to annualized GDP growth.

Consumer Spending

Trillions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

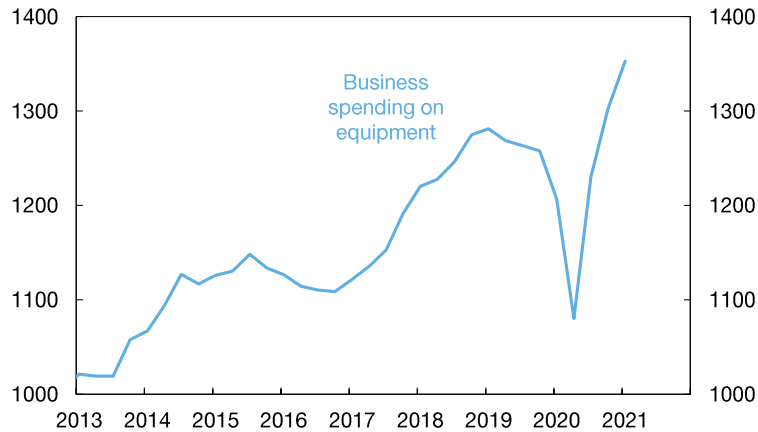
Goods spending rose relative to services

- Consumption of goods rose more than services, with durables more so than nondurables.
 - Real spending in March rose 10% for durables, 6% for nondurables, and 2% for services.
 - In Q1, consumption of goods added 5 percentage points to annualized GDP growth, while services added 2 percentage points.
- Increases in transportation (9%), recreation (6%), food services (12%), and accommodations (7%) were the fastest growing services categories in March.
 - These changes reflect the ongoing reopening of the economy.

BUSINESS SECTOR

Investment Spending on Equipment

Billions of 2012 dollars, annualized



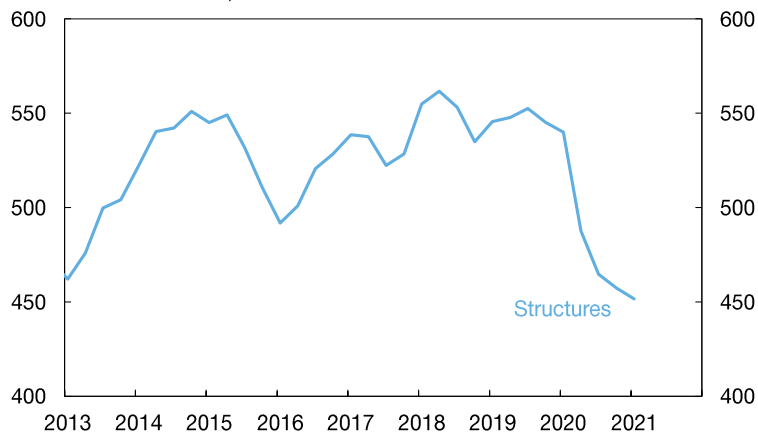
Source: Bureau of Economic Analysis via Haver Analytics

Equipment spending rose in Q1

- Real business equipment spending increased at a 17% annual rate in Q1, its third straight double-digit increase.
 - The rise in equipment spending was most pronounced in the information processing and transportation categories.
 - Spending added 0.9 percentage point to annualized GDP growth.
- Data through March on orders of capital goods suggest continued momentum in equipment spending.
- Even with higher equipment spending, the capacity utilization rate for manufacturing was 73.8% in March, below its pre-pandemic level of 75.2%.

Investment in Nonresidential Structures

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

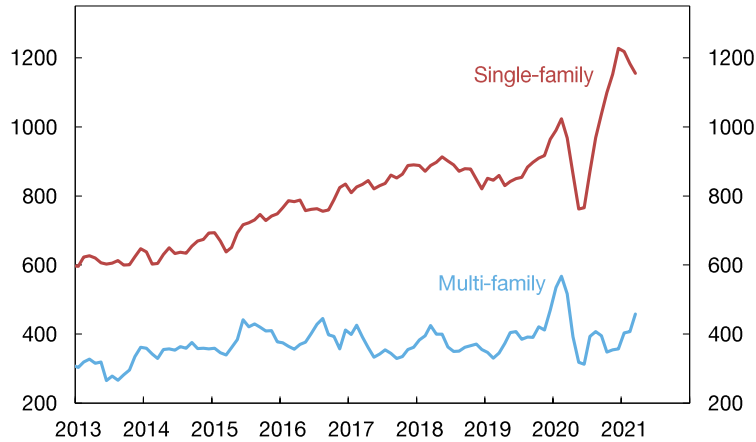
Nonresidential structures spending fell in Q1

- Real nonresidential structures investment decreased 5% (annual rate) in Q1, the sixth consecutive decline.
 - The biggest declines were in the commercial/healthcare and power/communication categories.
 - The drop in spending took 0.1 percentage point off annualized GDP growth.
- The level of spending in the energy sector was an outlier as it increased over the previous quarter.
 - Mining, exploration, shafts, and wells spending was still down 35% over the year.
- Monthly data on nonresidential construction through March do not yet point to a turnaround in the sector.

HOUSING MARKET

Housing Starts

Thousands, 3-month average, annualized



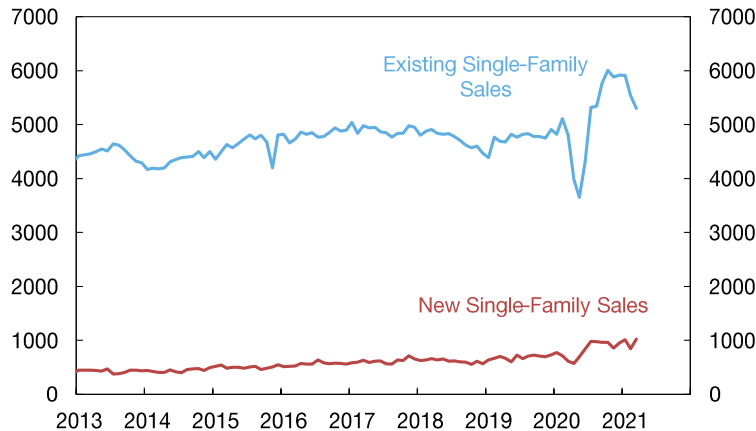
Source: Census Bureau via Haver Analytics

Housing starts jumped in March

- Total housing starts surged 19% in March, putting starts up 37% over the year.
 - In Q1, residential investment added 0.5 percentage point to annualized GDP growth.
- Single-family starts rose 15% in March to 1.23 million units (annual rate), a 41% increase over the year.
 - Single-family starts remained significantly above pre-pandemic highs and comparable to June 2007 levels.
- Multi-family starts, which are notoriously volatile, surged 31% in March, and were up 29% over the year.
 - The three-month average of multi-family starts remained well below its high in early 2020.

New and Existing Home Sales

Thousands, annualized



Source: Census and National Association of Realtors via Haver Analytics

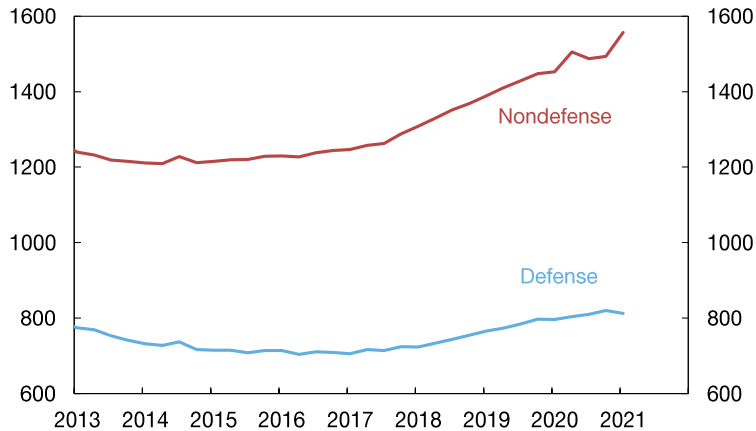
Q1 home sales were well above pre-pandemic levels

- Existing home sales retreated 4% in March to 5.3 million units (annualized) but remained quite high.
 - Sales in Q1 were down 20% over the previous quarter.
 - Sales were still up 18% over the 2019 level.
- New single-family home sales increased 21% in March to 1.0 million units.
 - Sales in Q1 were up 50% relative to 2019.
 - This level of sales was last reached in late 2006.
- Supply constraints and higher home prices are headwinds to sales.

GOVERNMENT

Federal Government Spending

Billions of 2012 dollars, annualized



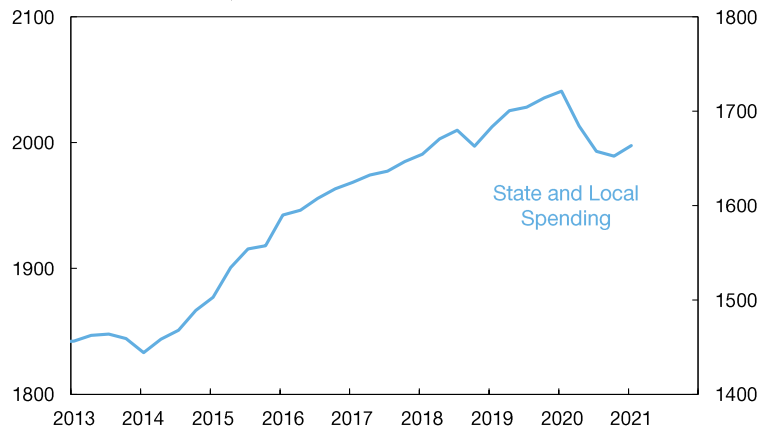
Source: Bureau of Economic Analysis via Haver Analytics

Real federal spending jumped in Q1

- Real federal government spending posted strong growth in the first quarter.
 - Federal government spending contributed 0.9 percentage point to Q1 GDP growth (annualized).
 - Spending was up 5.4% over the year.
- The increase was entirely in nondefense spending.
 - Real nondefense spending added 1.1 percentage points to GDP growth, while defense spending subtracted 0.1 percentage point.
 - A surge in payments to banks for processing Paycheck Protection Program loan applications accounts for most of the pickup in nondefense spending.

State and Local Government Spending

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

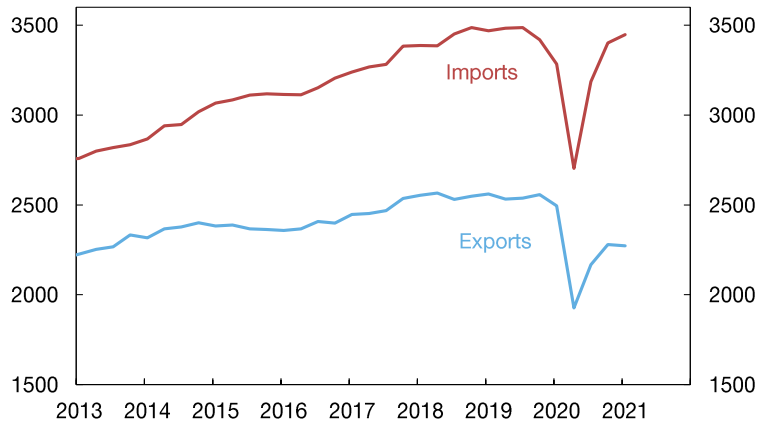
State and local government spending ticked up in Q1

- Real S&L government spending made a modest contribution to growth.
 - Spending added 0.2 percentage point to overall GDP growth (annualized).
 - Spending was down 2% over the year.
- Consumption rose for the first time since Q4 2019.
 - This spending tends to track employment, which declined sharply in 2020 and increased modestly in Q1 2021.
- Investment spending fell a bit in Q1 after holding up relatively well in 2020.

INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services

Billions of 2012 dollars, annualized



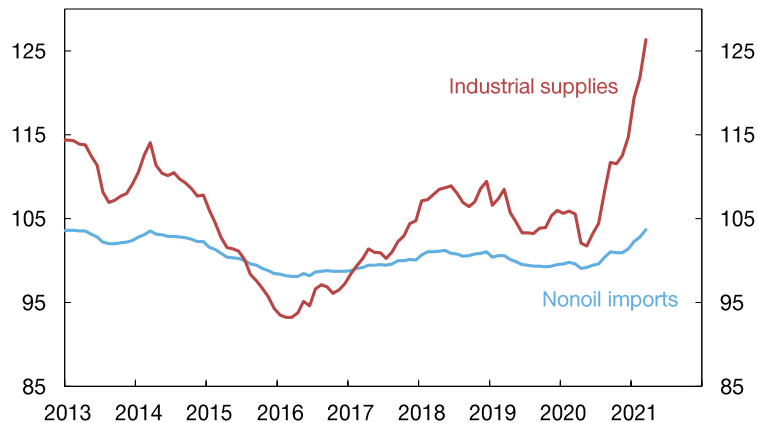
Source: Bureau of Economic Analysis via Haver Analytics

Imports continued to be strong while exports lag

- Exports and imports of goods and services headed in opposite directions in Q1.
 - Exports took 0.1 percentage point off annualized GDP growth and higher imports took 0.8 percentage point off.
- Exports remained below pre-pandemic levels.
 - Demand for U.S.-produced capital goods remained weak.
 - Services trade, particularly tourism, was depressed.
- Imports have recovered from the COVID-19 shock.
 - Purchases of durable consumer goods and capital goods have been particularly strong.
 - Imports of goods offset low imports of services.

U.S. Import Prices

Index 2015=100



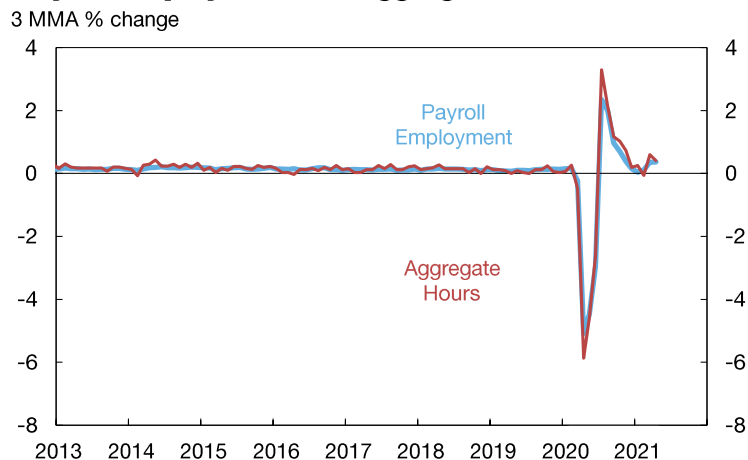
Source: Bureau of Labor Statistics via Haver Analytics

Import prices moved higher

- The index for import prices (excluding oil) was up 4% in March over the 2019 average.
 - The index had been stable before the pandemic.
- Import prices were pushed up by commodity prices.
 - Prices for industrial supplies excluding fuel were up 19% over the 2019 average.
 - Lumber prices were up 68% and unfinished metals, like steel and aluminum, were up 41%.
- Prices of capital goods, consumer goods, and autos have stayed near their 2019 levels.

LABOR MARKET

Payroll Employment and Aggregate Hours



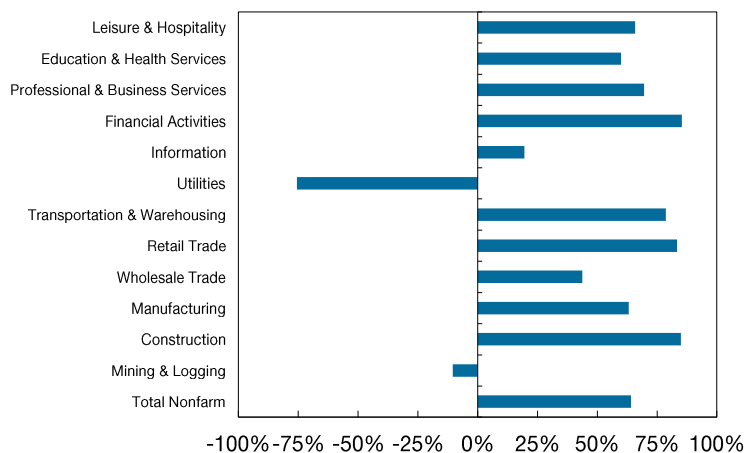
Source: Bureau of Labor Statistics via Haver Analytics

Job gains were smaller than expected in April

- Total nonfarm payroll employment rose by 266,000 in April.
 - Employment gains were concentrated in the leisure and hospitality sector (331,000), with more than half of this increase in food services and drinking places (187,000).
 - There were job losses in professional and business services (-79,000), transportation and warehousing (-74,100), and retail trade (-15,300).
- Government employment expanded by 48,000 in April, reflecting increases in federal (9,000), state (7,000) and local (32,000) employment.
- Aggregate weekly hours worked by private employees ticked up by 0.5%.

Cumulative Employment Recovery

Percent Recovered (Gains from May 2020-April 2021/Losses from Feb. 2020-April 2020)



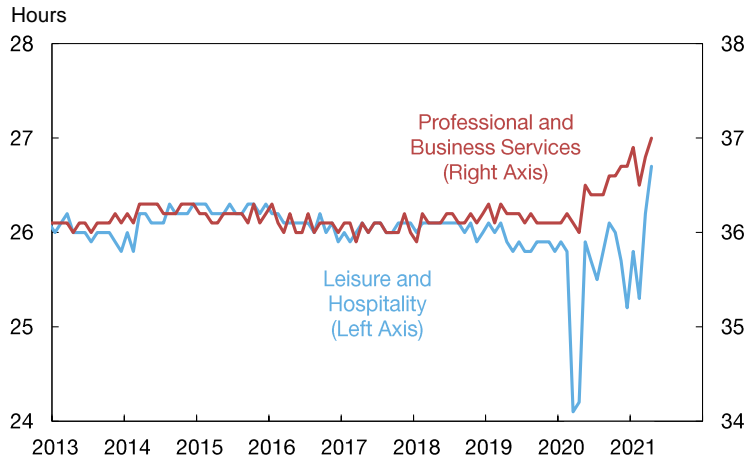
Source: Bureau of Labor Statistics

Pandemic job losses have declined significantly

- Many industries have recovered most of their employment losses.
 - Financial Activities and Construction have recovered 85% of their job losses, while Retail Trade has recovered 83%.
 - The Utilities and the Mining and Logging sectors continued to lose jobs, with more jobs lost from May 2020 to April 2021 than from February 2020 to April 2020.
- While Leisure and Hospitality is one of the sectors most impacted by the pandemic, it has recovered 66% of its job losses, higher than the total nonfarm recovery of 64%.

LABOR MARKET

Average Weekly Hours

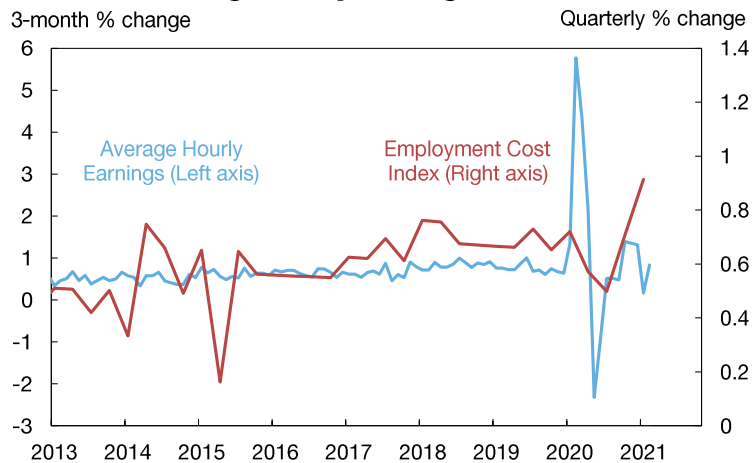


Source: Bureau of Labor Statistics

Hours worked grew in April

- Average hours worked showed strong growth for both the leisure and hospitality and the professional and business services sectors, despite their diverging changes in employment.
 - **The April report showed a significant narrowing of the employment recovery gap between the two categories.**
- Average hours worked for both leisure and hospitality and professional and business services have grown to surpass their pre-pandemic highs.

Growth of Average Hourly Earnings and ECI



Source: Bureau of Labor Statistics via Haver Analytics

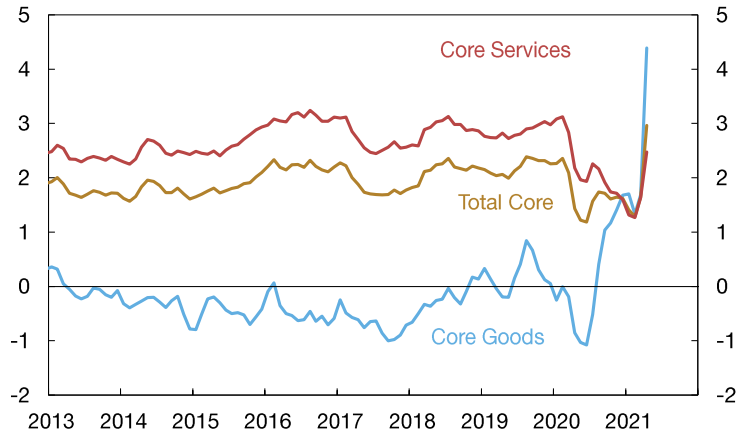
Average hourly earnings picked up in April

- Average hourly earnings rose sharply in April.
 - Average hourly earnings grew at a faster monthly pace in April than in the previous three months.
 - In contrast, on a 12-month basis, hourly earnings increased by just 0.3%, well below recent readings that have been consistently above 4%.
 - The large employment swings across industries since February 2020 distort trends in average hourly earnings.
- The Employment Cost Index, which controls for compositional shifts among occupations and industries, increased by 0.9% in Q1.
 - **The 4-quarter change in the ECI was 2.7%.**

INFLATION

Core CPI Inflation

12-month % change



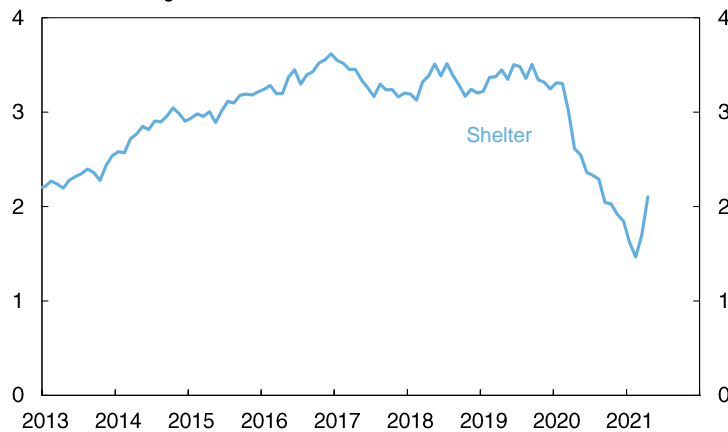
Source: Bureau of Labor Statistics via Haver Analytics

Core CPI Inflation accelerated in April

- Core CPI inflation over the year reached 3.0% in April.
 - The core inflation rate was 1.6% in March.
- Core services inflation increased from 1.6% in March to 2.5%.
 - Hotel rates and air fares moved higher.
 - Rent inflation was stable and medical care inflation eased.
- Core goods inflation rose from 1.7% to 4.2%.
 - Inflation for used vehicles jumped from 9.3% to 21.0%, while prices for new vehicles were up 2.0%.
 - Prices for core goods tended to fall before the pandemic.

CPI Inflation: Shelter

12-month % change



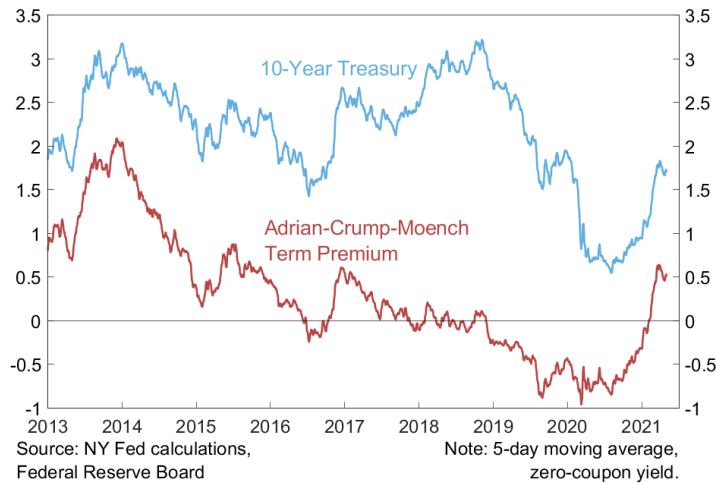
Source: Bureau of Labor Statistics via Haver Analytics

Shelter inflation has eased during pandemic

- The price index for shelter was up 2.0% over the year in April.
 - Inflation had been running a little above 3% before the pandemic.
 - The uptick relative to March was entirely due to a rebound in hotel rates.
- Rent inflation was unchanged at 1.8%, down from the pre-pandemic pace of 3.8%.
 - Increases were last this low in late 2009.
- Owners' equivalent rent inflation stayed at 1.9%, down from the pre-pandemic rate of 3.2%.

FINANCIAL MARKETS

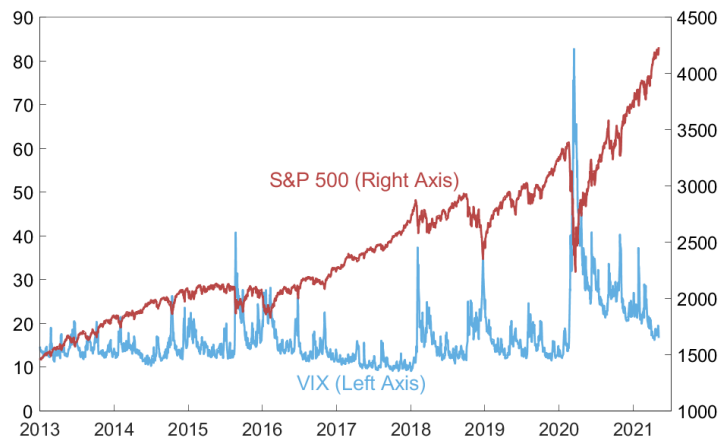
10-Year Treasury and Term Premium



Longer-term Treasury yields declined

- The ten-year Treasury yield declined from 1.83% on April 2 to 1.69% on May 7 on a five-day moving average basis.
 - The yield has increased 75 basis points since the beginning of the year.
- Estimates from the Adrian-Crump-Moench term structure model attribute the yield decrease to a lower term premium.
 - On a five-day moving average basis, the ten-year term premium decreased by 12 basis points between April 2 and May 7.

U.S. Equity Market Index and Volatility



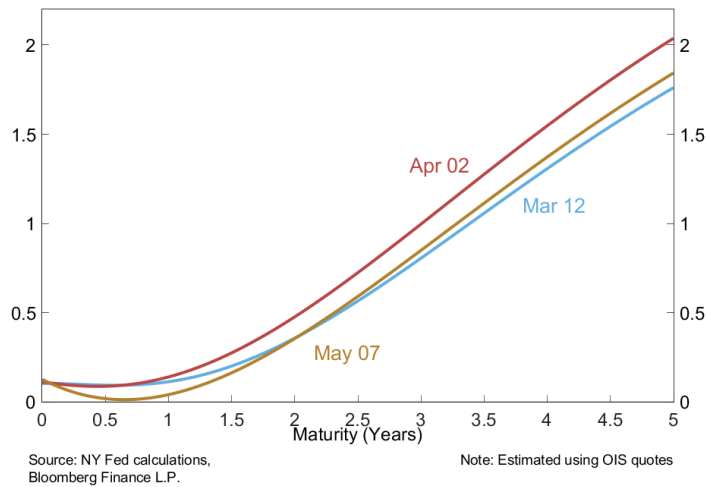
Source: Bloomberg Finance L.P.

U.S. equity markets moved higher

- U.S. equity markets recently reached all-time highs.
 - The S&P 500 index increased 5% between April 1 and May 7.
 - The index was up 13% year-to-date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), was little changed.
 - The VIX Index closed at 16.7 on May 7, slightly below its April 1 value of 17.3.
 - The VIX index is just below its long-term median (since 2000) of 17.8.

FINANCIAL MARKETS

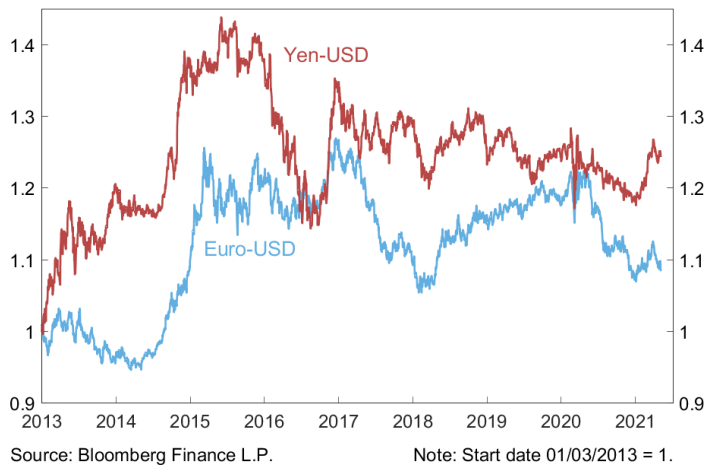
Expected Federal Funds Rate



Implied path for federal funds rate shifted down

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) fell modestly between April 2 and May 7.
- The market-implied federal funds rate at the end of 2023 is above the median value of the FOMC's Summary of Economic Projections and the NY Fed's Survey of Primary Dealers, both from March 2021.

USD Exchange Rates



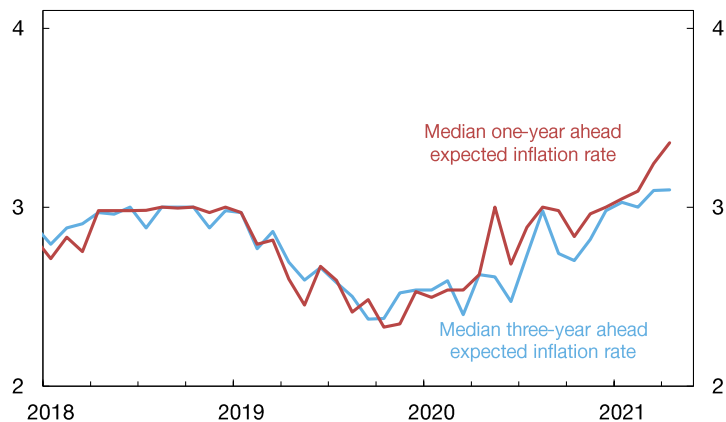
U.S. dollar depreciated against major currencies

- The exchange value of the dollar depreciated 3% against the euro between April 2 and May 7.
 - Over this same period the dollar depreciated by 2% against the Japanese yen.
- Since the start of 2021, the dollar has appreciated 0.4% against the euro and 5.2% against the yen.

SPECIAL TOPICS: SURVEY FOR CONSUMER EXPECTATIONS

Short- and Medium-Term Inflation Expectations

Percent



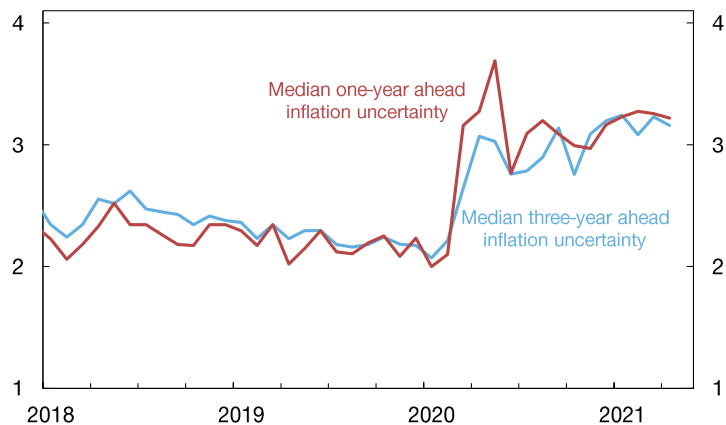
Source: New York Fed Survey of Consumer Expectations (SCE)

Short-term inflation expectations have moved up

- Short-term inflation expectations increased in April.
 - Median one-year ahead inflation expectations increased from 3.2% in March to 3.4% in April, its highest level since September 2013.
- Medium-term inflation expectations were stable.
 - Median three-year ahead expectations remained at 3.1% in April.
- Disagreement about the future path of inflation was high.
 - Our measure of disagreement (the difference between the 75th and 25th percentiles of the distribution of inflation expectations across survey respondents) remained elevated at both horizons.

Short- and Medium-Term Inflation Uncertainty

Percent



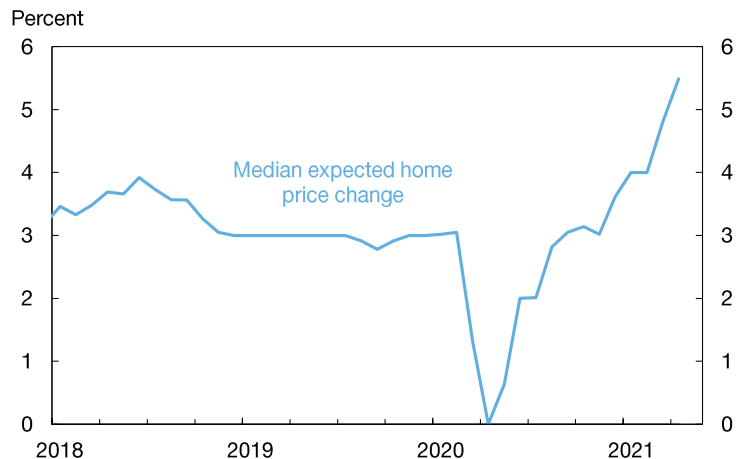
Source: New York Fed Survey of Consumer Expectations (SCE)

Inflation uncertainty remained elevated

- Inflation uncertainty declined in April.
 - Median inflation uncertainty — or the uncertainty expressed regarding future inflation outcomes — decreased slightly at both horizons.
- Inflation uncertainty remained well above pre-COVID-19 levels.

SPECIAL TOPICS: SURVEY FOR CONSUMER EXPECTATIONS

Home Price Growth Expectations

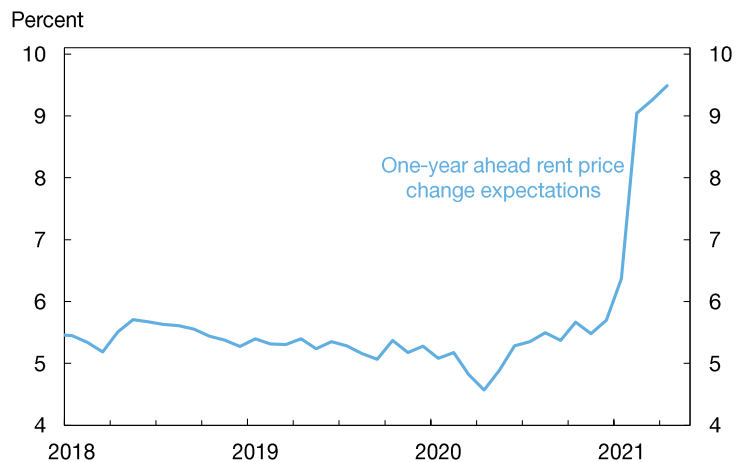


Source: New York Fed Survey of Consumer Expectations (SCE)

Home price growth expectations moved up

- Home price change expectations fell precipitously after the start of the pandemic.
 - In April 2020, one-year ahead home price change expectations elicited in the Survey of Consumer Expectations reached a series low of 0%.
- Home price change expectations have been trending up since then.
 - Median home price change expectations increased from 4.8% in March to 5.5% in April, a new series high.
 - The increase was broad-based across age, education and income groups, and was largest in the South and Northeast.

Rent Price Growth Expectations



Source: New York Fed Survey of Consumer Expectations (SCE)

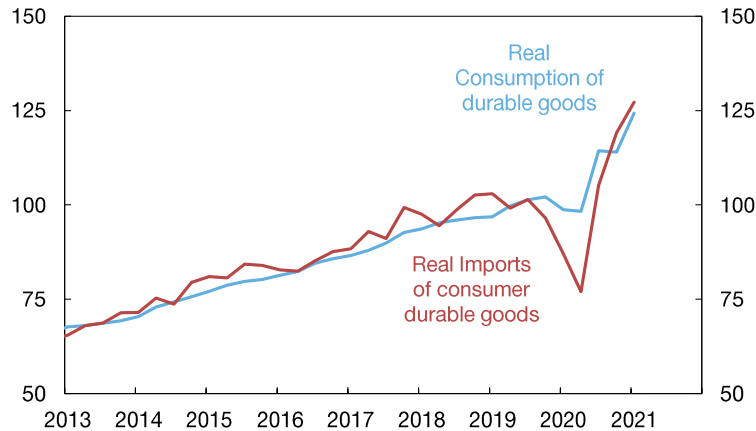
Rent price growth expectations rise to new high

- Rent price growth expectations have risen since November.
 - Median year-ahead expected growth in the cost of rent increased from 9.3% in March to 9.5% in April.
 - This was the fifth consecutive increase, with the current reading a new series' (8-year) high.
- Median year-ahead food price growth expectations rose from 5.7% in March to 5.8% in April, while median gas price growth expectations declined from 9.9% to 9.2%.

SPECIAL TOPICS: IMPORTS

Imports and Purchases of Consumer Durables

Index 2019=100



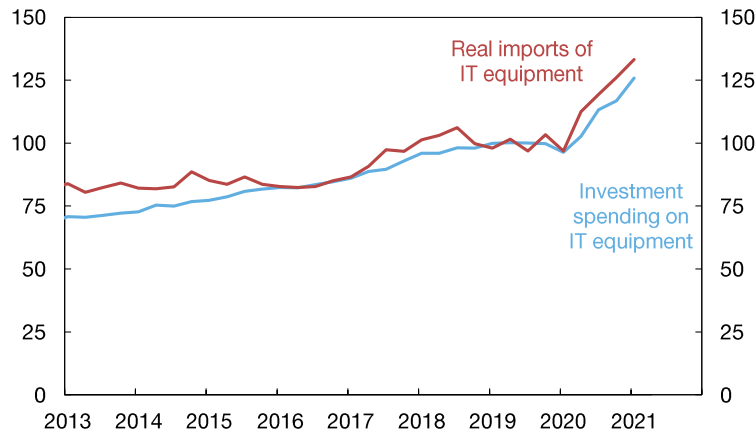
Source: Bureau of Economic Analysis via Haver Analytics

Imports of goods have grown faster than GDP

- Real goods imports in Q1 2021 were 5% higher than they were in 2019.
 - This is despite GDP only have just returned to its 2019 level.
- The growth of imports was largely due to a surge in consumer purchases of durable goods during the pandemic.
 - Purchases and imports were both up 25% relative to 2019.
- Consumer durables imports account for 70% of the increase in goods imports between Q4 2019 and Q1 2021.

Imports and Investment in IT Equipment

Index 2019=100



Source: Bureau of Economic Analysis via Haver Analytics

Imports of IT equipment rose with spending

- The need for firms to adapt to the pandemic caused a surge in investment spending on information technology equipment.
 - Both business spending and IT imports were up 25% relative to 2019.
- Weakness in imports of industrial supplies moderated the increase in overall goods imports.
 - Both durable and nondurable industrial supplies were down 5% relative to 2019 levels.
- The re-opening of the economy is expected to shift spending from goods to services.
 - Such a shift will rebalance the composition of imports.