



FEDERAL RESERVE BANK *of* NEW YORK

# U.S. Economy in a Snapshot

Research & Statistics Group

August 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 August 13, 2021.

# OVERVIEW

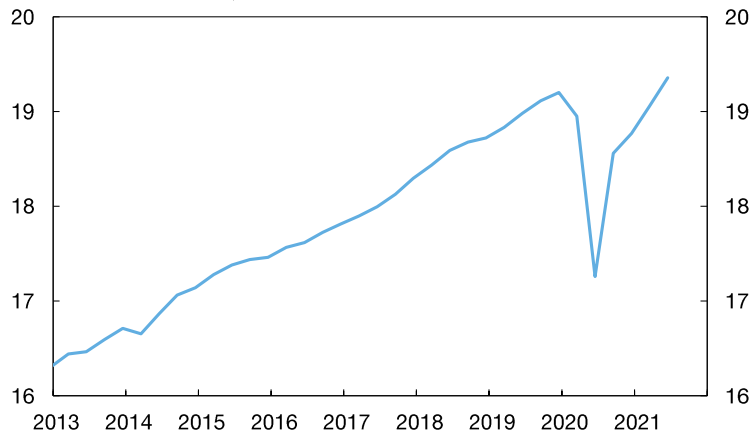
Data over the month suggest an ongoing recovery and some easing of inflation.

- Output in Q2 rose to above its pre-pandemic level.
  - **Growth was driven by consumption, with investment spending, government spending, and net exports all drags on growth.**
- Personal income rose slightly in June despite a decline in government transfer payments.
  - **Compensation and proprietors' income data were strong.**
  - **Higher consumer spending and essentially unchanged income caused saving as a percent of personal income to fall.**
  - **The saving rate remained above its pre-pandemic level.**

- Payroll employment growth remained high in July and the unemployment rate fell.
- Core PCE inflation over the year reached 3.5% in June. July CPI data suggest that core PCE inflation has peaked.
- The 10-year Treasury yield was around 1.3% at the beginning of August, down from 1.6% in May and 1.5% in June. The S&P 500 stock index was up 19% year-to-date. The market-implied federal funds rate path shifted down between July 2 and August 3.

## Real GDP

Trillions of 2012 dollars, annualized



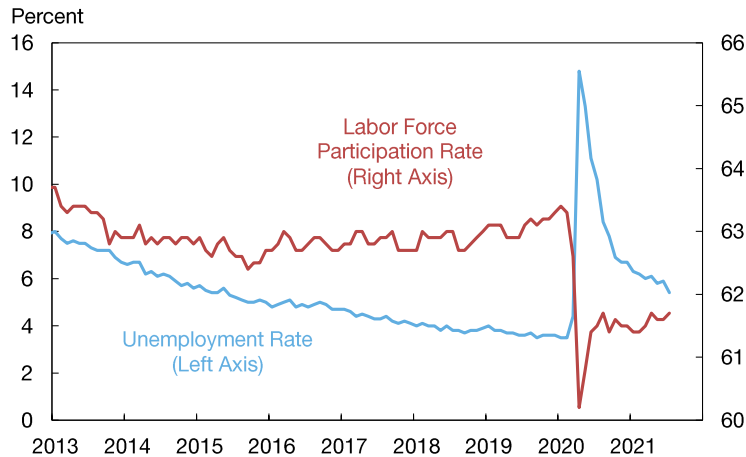
Source: Bureau of Economic Analysis via Haver Analytics

## Output in Q2 was above its pre-pandemic level

- After rapid growth in the past four quarters, Q2 GDP was 0.8% above its previous peak in Q4 2019.
  - **The median estimate for the longer-run GDP growth rate was 1.8% in the June Summary of Economic Projections (SEP).**
  - **The March Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.**
  - **The Q2 GDP level is more than 2% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.**
- Labor market data suggest there still is significant slack in the economy.
  - **The 5.4% unemployment rate in July 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

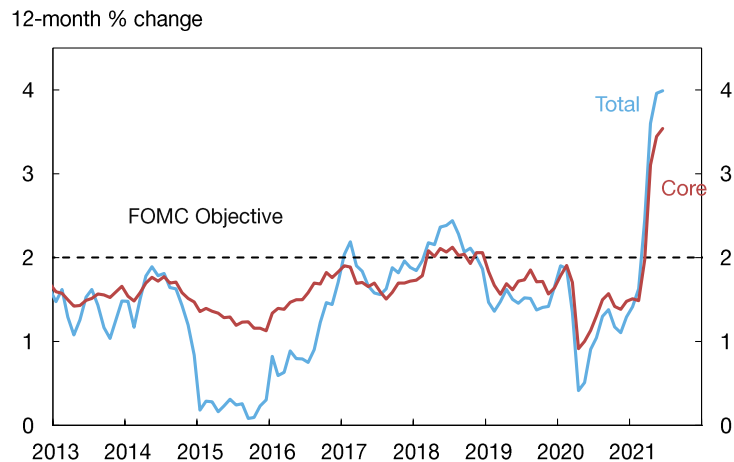


Source: Bureau of Labor Statistics via Haver Analytics

## The labor market recovery continued in July

- Nonfarm payroll employment increased by 943,000 in July.
  - Payrolls in private service-providing industries rose by 659,000, with notable gains in leisure and hospitality (380,000), education and health services (87,000), professional and business services (60,000), and other services (56,900).
  - Employment in goods-producing industries increased by 44,000, with the largest gains in manufacturing (27,000).
- The unemployment rate declined from 5.9% to 5.4%.
- The labor force participation rate was little changed at 61.7%, while the employment-to-population ratio increased by 0.4 percentage point to 58.4%.

## PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

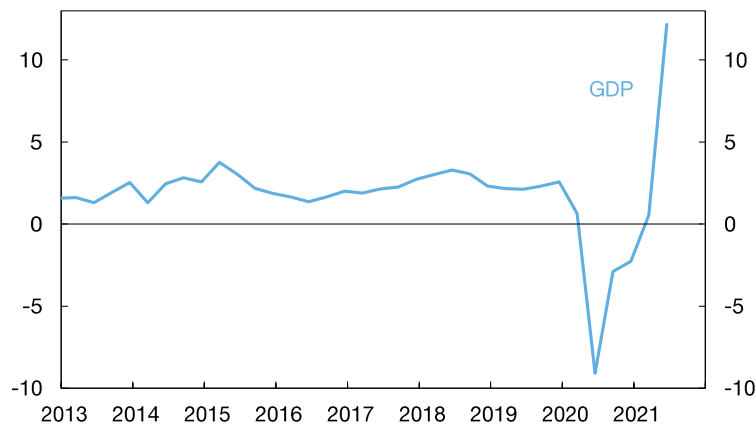
## Inflation remained elevated in June

- The PCE price index was up 4.0% over its year-ago level in June, the same as May's rate.
  - Durable goods inflation rose from 6.7% to 7.2%.
  - Non-durable goods inflation fell from 4.5% to 4.0%.
  - Services inflation increased from 3.2% to 3.5%.
  - Energy inflation eased from 27.3% to 24.2%.
- Core inflation ticked up from 3.4% to 3.5%.
  - A major driver of core inflation was the 39% increase in used motor vehicle prices.
- Year-over-year calculations are distorted by the pandemic.
  - Core inflation relative to February 2020 increased from 2.5% in May to 2.7% in June, annualized.

# ECONOMIC ACTIVITY

## GDP Growth

4-quarter % change



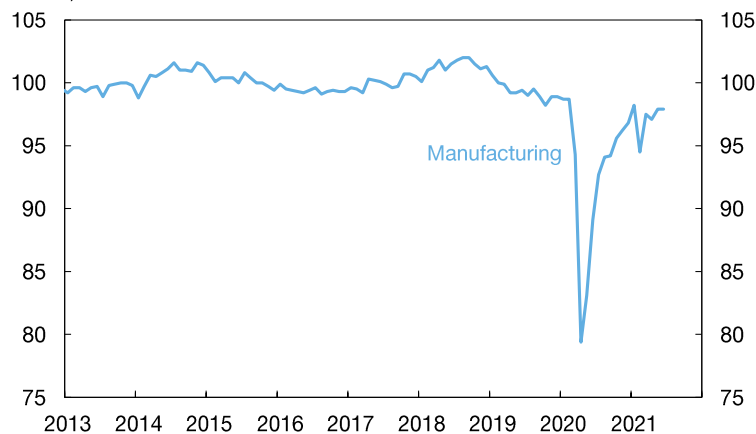
Source: Bureau of Economic Analysis via Haver Analytics

## GDP growth remained robust in Q2

- GDP rose at a 6.5% annual rate in Q2, after rising at a 6.3% rate in Q1.
  - Consumer spending added 7.8 percentage points to Q2 GDP growth.
  - Business spending on equipment and intellectual property products also contributed to growth.
- Business spending on structures, residential investment, government spending, inventory investment, and net exports were drags on growth.
- Personal income fell at a 22% annualized rate in Q2 because of a drop in government transfers.
  - The personal saving rate fell to a still high 10.9%.

## Manufacturing Index

Index, 2017=100



Source: Federal Reserve Board via Haver Analytics

## Manufacturing activity dipped slightly in June

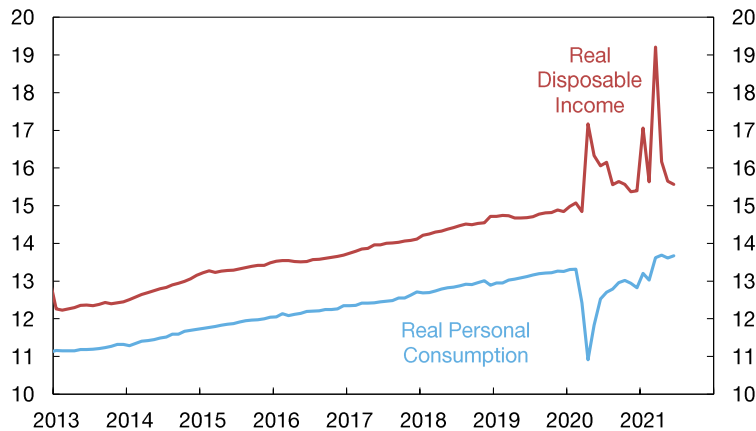
- The manufacturing index fell 0.1% in June.
  - The index remained 0.8% below its February 2020 level.
  - The Q2 average was up 0.9% relative to Q1.
- The major outlier across industries was the motor vehicles category which fell 6.6% in June, suggesting little easing of the semiconductor shortage.
  - The vehicle index was down 13.3% compared to February 2020.
  - Overall manufacturing excluding motor vehicles was back to its pre-pandemic level.
- The ISM index remained at a high level in July.



# HOUSEHOLDS

## Disposable Income and Consumption

Trillions of 2012 dollars, annualized



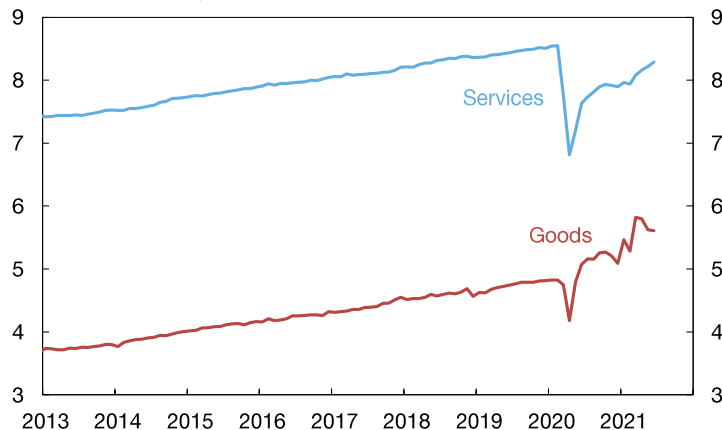
Source: Bureau of Economic Analysis via Haver Analytics

## Consumption rebounded and income rose slightly

- Nominal personal income increased 0.1% in June, after declining 2.2% in May.
  - Current transfer receipts declined 2.0% in June, but were still up 26.8% over the February 2020 level.
  - Employee compensation rose and was 4.0% above its pre-pandemic level despite lower employment.
  - Real disposable income was 3.3% above its pre-pandemic level.
- Personal Consumption Expenditures (PCE) increased 1.0% in June, with the level of spending 6.7% above its pre-pandemic level.
  - Real PCE was up 0.5%, putting it 2.7% above its pre-pandemic level.

## Consumer Spending

Trillions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

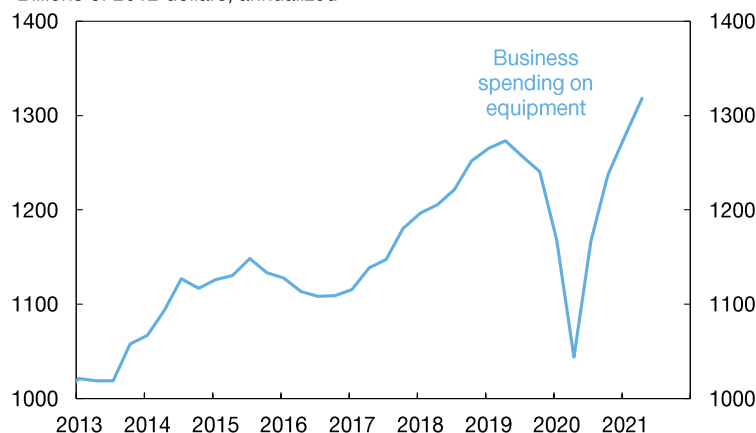
## Consumer expenditures continued to rebalance

- Expenditures continued to shift away from goods (especially durables) in June and towards services.
  - Some of this rebalancing reflects continued supply shortages of goods and the increase in goods prices relative to services prices.
- Real expenditures for goods fell 0.2% (-2.5% for durables, 1.2% nondurables) and rose 0.8% for services.
  - Despite the June increase, real services expenditures are still 3.1% below their level in February 2020.
  - By contrast, real goods expenditures are 15.9% above their pre-pandemic level, with spending on durables up 22.7% and nondurables up 12.4%.

# BUSINESS SECTOR

## Business Investment Spending on Equipment

Billions of 2012 dollars, annualized



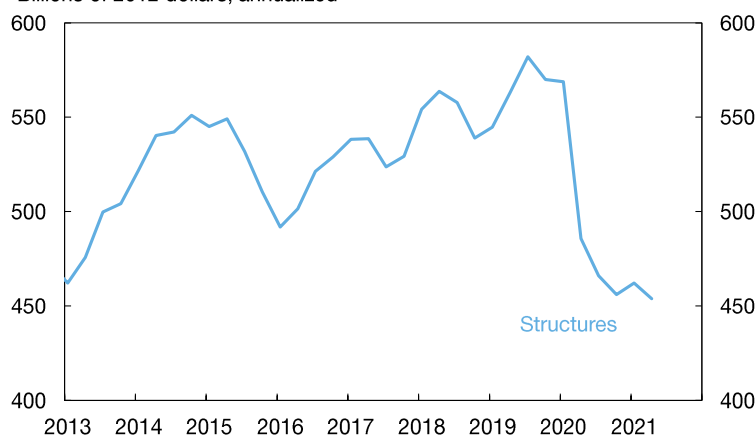
Source: Bureau of Economic Analysis via Haver Analytics

## Equipment spending rose strongly again in Q2

- Real business equipment spending rose at a 13.0% annual rate in Q2, its fourth straight double-digit increase.
  - Equipment added 0.7 percentage point to annualized GDP growth in the quarter.
  - There were strong increases in industrial and transportation equipment, but a fall in the information processing category.
  - Equipment spending in Q2 was 3.5% above its previous peak in Q2 2019.
- Data through June on orders of capital goods suggest solid momentum in equipment spending.

## Business Investment in Nonresidential Structures

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

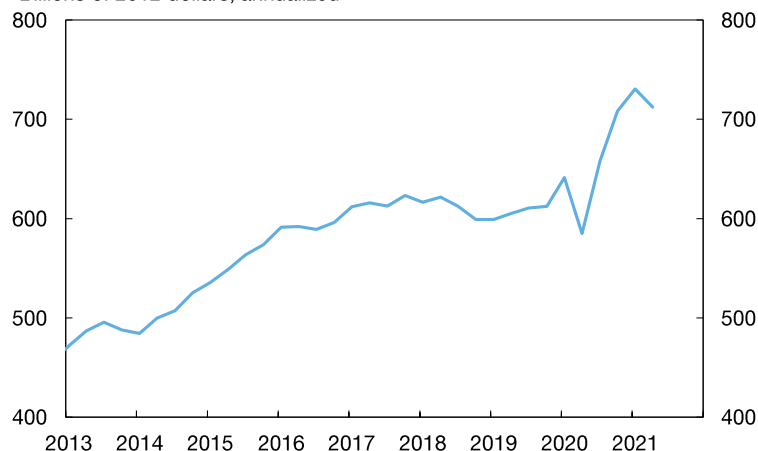
## Nonresidential structures spending fell in Q2

- Real nonresidential structures investment spending decreased at a 7.0% annual rate in Q2.
  - There were sizable declines in most major categories of structures.
  - Nonresidential structures spending in Q2 was 6.6% below its year-ago level and 20.4% below its Q4 2019 level.
- The level of spending in the energy sector again was an outlier as it increased for the third straight quarter.
  - Mining exploration, shafts, and wells spending was still down 23.7% from its Q4 2019 level.
- Monthly data on nonresidential construction through June do not yet point to a turnaround in the sector.

# HOUSING SECTOR

## Residential Investment

Billions of 2012 dollars, annualized



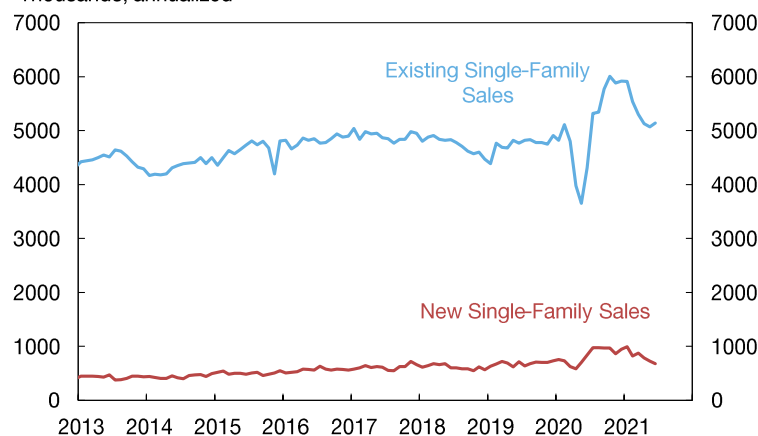
Source: Bureau of Economic Analysis via Haver Analytics

## Residential investment fell in Q2

- Residential investment fell modestly in Q2, taking 0.5 percentage point off annualized GDP growth.
  - Residential investment was still 16.3% above its Q4 2019 level.
- Investment has been strong in both single-family and multi-family structures during the pandemic.
  - Single-family construction was up 25.1% in Q2 relative to Q4 2019 and multifamily construction was up 24.4%.
- Housing starts data suggest that construction rebounded in May and June after falling in April.

## New and Existing Home Sales

Thousands, annualized



Source: Census and National Association of Realtors via Haver Analytics

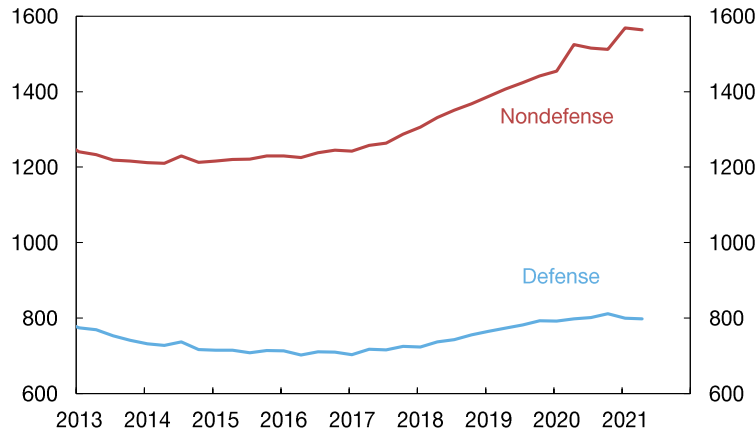
## Existing home sales increased

- Existing home sales increased 1.4% in June after four months of declines, to 5.14 million units (annualized).
  - Sales were down substantially from Q4 2020, but still 8% higher than they were in June 2019.
- New single-family home sales decreased 6.6% to 676,000 units.
  - Sales were down substantially from the Q4 2020 level.
- Supply constraints have seen a modest relaxation in recent months due to higher residential investment spending over the past year.

# GOVERNMENT SECTOR

## Federal Government Spending

Billions of 2012 dollars, annualized



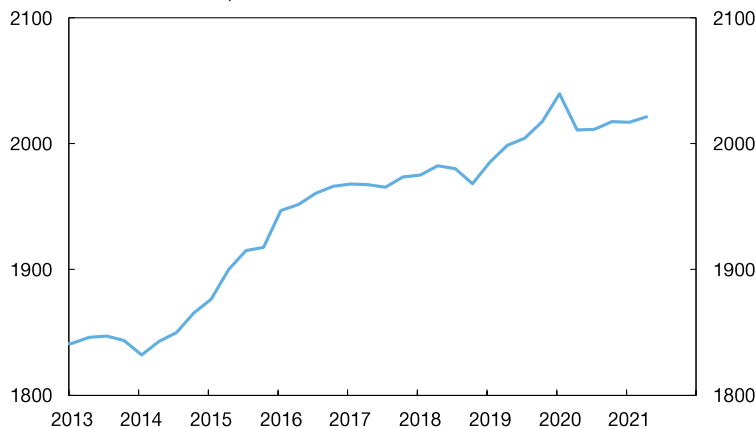
Source: Bureau of Economic Analysis via Haver Analytics

## Real federal spending slumped in Q2

- Real federal government spending subtracted 0.4 percentage point from annualized Q2 GDP growth.
  - Spending was down 0.8% over the year, but up 4.6% since Q4 2019.
- The decline was almost entirely in nondefense spending.
  - Real nondefense spending subtracted 0.3 percentage point from growth while real defense spending subtracted less than 0.1 percentage point.
- A drop in payments to banks for processing and administration of Paycheck Protection Program loan applications accounts for most of the fall in 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 Q2

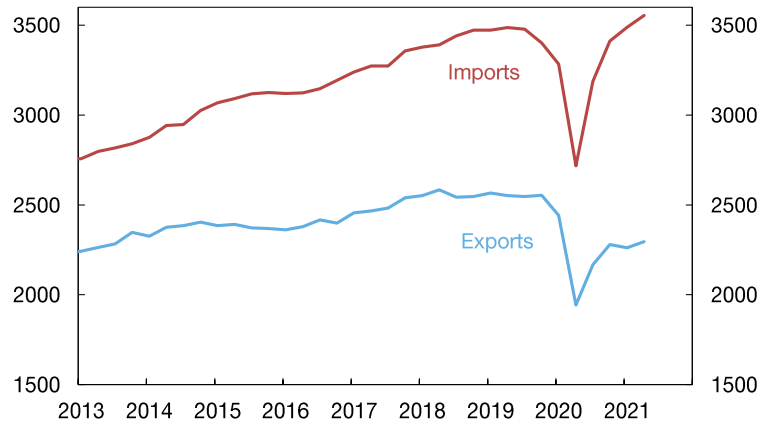
- State and local government spending added 0.1 percentage point to annualized Q2 GDP growth.
  - Spending was up 0.2% over the previous quarter, pushing it slightly above its Q4 2019 level.
- S&L consumption rose 0.9% over the quarter.
  - This spending was up 0.6% relative to Q4 2019.
- Investment spending fell 2.7%, pulled down by a 7.7% drop in construction.
  - This spending was down 1.7% relative to Q4 2019.
  - Purchases of equipment and intellectual property products were significantly above pre-pandemic levels.



# INTERNATIONAL DEVELOPMENTS

## Exports and Imports of Goods and Services

Billions of 2012 dollars, annualized



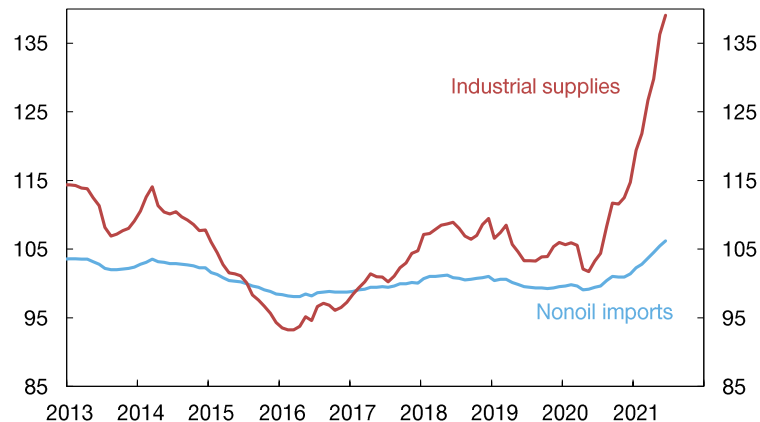
Source: Bureau of Economic Analysis via Haver Analytics

## Net exports were a drag on Q2 growth

- Imports rose faster than exports in Q2.
  - Net exports took 0.5 percentage point off annualized GDP growth, as exports added 0.6 percentage point to growth and higher imports subtracted 1.1 percentage points.
- Exports were still below pre-pandemic levels.
  - Sales of aircraft and oil were down sharply.
  - Services trade, particularly tourism, remained depressed.
- Imports moved past pre-pandemic levels.
  - Purchases of durable consumer goods and capital goods were particularly strong.
  - High goods imports more than offset low services imports.

## U.S. Import Prices

Index 2015=100



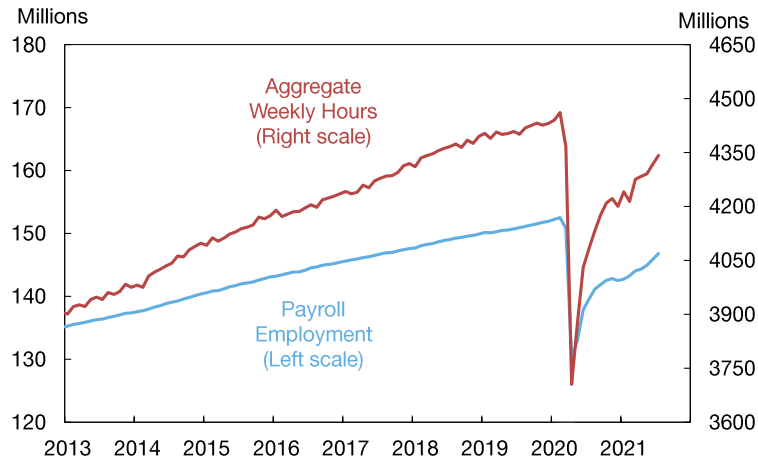
Source: Bureau of Labor Statistics via Haver Analytics

## Import prices moved higher

- The index for import prices (excluding oil) was up 6.4% in June over the 2019 average.
  - The index had been stable before the pandemic.
- Import prices were pushed up by commodity prices.
  - Prices for industrial supplies were up 32% over the 2019 average.
  - Lumber prices were up 250%, prices for unfinished metals were up 53%, and prices for finished metals were up 21%.
- Price indices for capital goods, consumer goods, and autos were all up 1% relative to their 2019 levels.

# LABOR MARKET

## Payroll Employment and Hours Worked

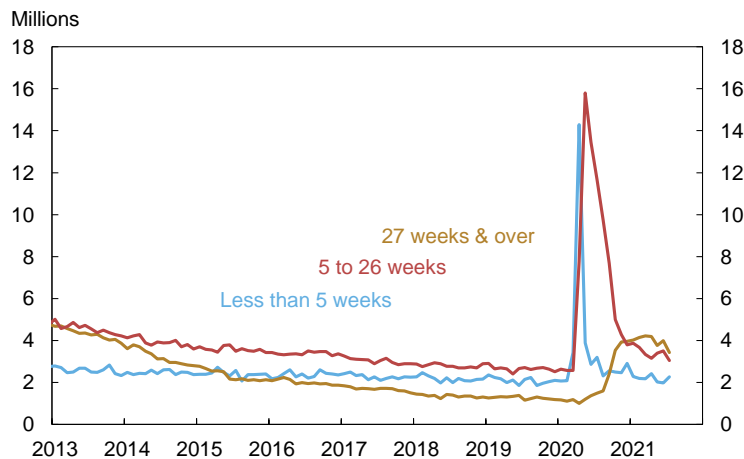


Source: Bureau of Labor Statistics

## Strong payroll growth continued in July

- Nonfarm payroll employment rose by 943,000 in July, following growth of 938,000 in June.
  - Employment gains were strongest in leisure and hospitality (380,000), with accommodation and food services (326,900) accounting for most of the sector's growth.
  - Employment gains were widespread across industries.
- Government payroll employment increased by 240,000 in July.
  - Federal and local government payrolls increased by 18,000 and 230,000 respectively, while state government payrolls declined by 8,000.

## Unemployed by Duration



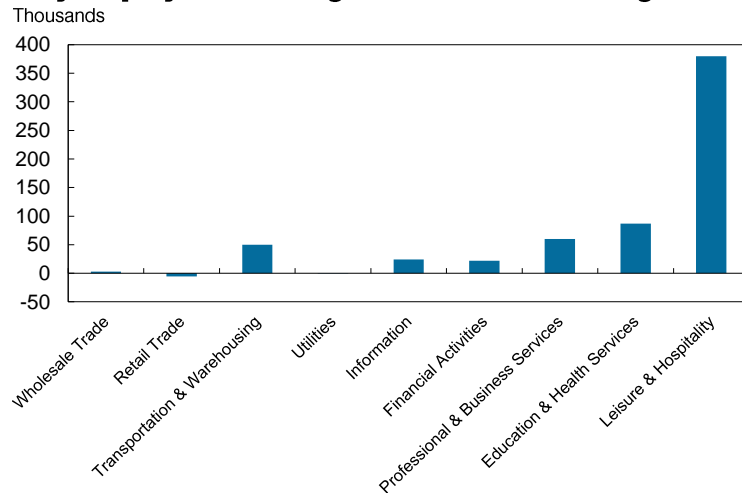
Source: Bureau of Labor Statistics

## Long-term unemployment declined

- The number of unemployed who were out of work for 5 to 26 weeks and 27 or more weeks declined 13.1% and 23.8% in July, respectively.
  - The number of unemployed who were out of work for less than 5 weeks increased by 13.9%.
- All unemployment by duration numbers have decreased significantly from pandemic highs.
  - The number of unemployed who were out of work for less than 5 weeks, 5 to 26 weeks, and 27 weeks or more have declined by 84.2%, 80.8%, and 18.9% from their pandemic highs, respectively.
  - Unemployment for those out of work for 27 or more weeks remained significantly elevated at 208% above its pre-pandemic level.

# LABOR MARKET

## July Employment Changes – Service-Providing

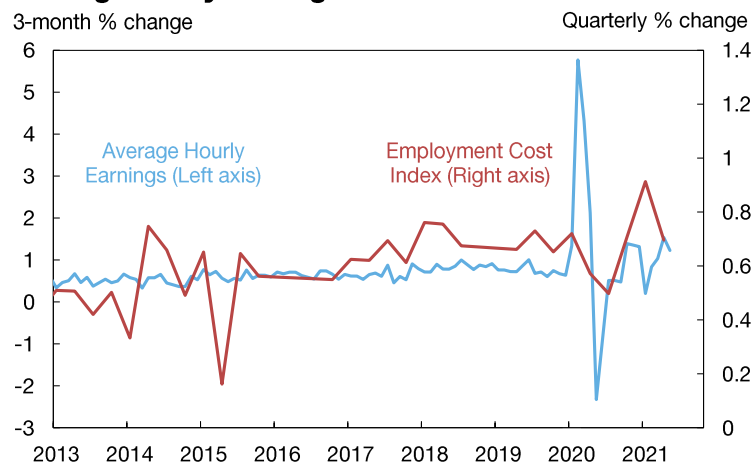


Source: Bureau of Labor Statistics

## Employment in leisure and hospitality increased

- Employment of private service-providing industries rose by 619,900 in July.
- Leisure and hospitality employment grew by 380,000 jobs.
  - Employment gains in this sector accounted for 40% of total nonfarm employment growth.
- Most of the remaining increases were in the education and health services, professional and business services, and transportation and warehousing sectors.
- The retail trade sector saw a slight decrease in employment following two months of strong gains.

## Average Hourly Earnings and the ECI



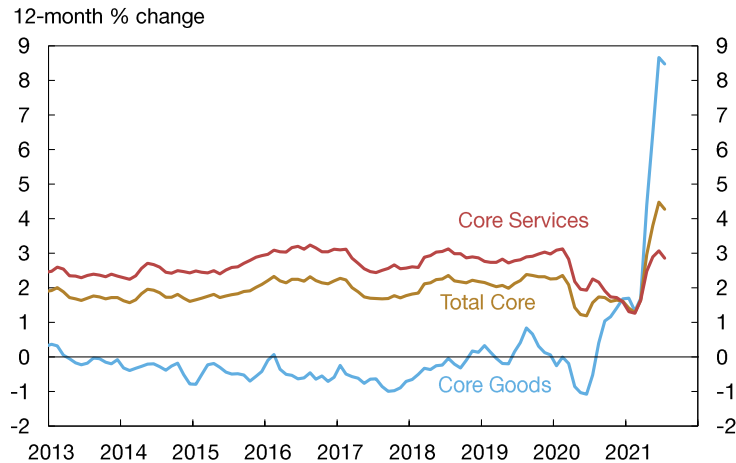
Source: Bureau of Labor Statistics via Haver Analytics

## Average hourly earnings growth was steady

- Average hourly earnings rose by 0.4% over the month, following increases in May (0.5%) and June (0.4%).
  - Average hourly earnings rose 4.0% on a 12-month basis.
  - Wages in leisure and hospitality registered a 0.9% increase, a slight decline from four consecutive months of growth of at least 1.0%.
  - The large employment swings during the pandemic complicate the analysis of average hourly earnings, which vary significantly across industries.
- The Employment Cost Index, which adjusts for compositional employment shifts between industries and occupations, rose 2.8% over the year in Q2, up from 2.7% in Q1 2021.

# INFLATION

## Core CPI Inflation

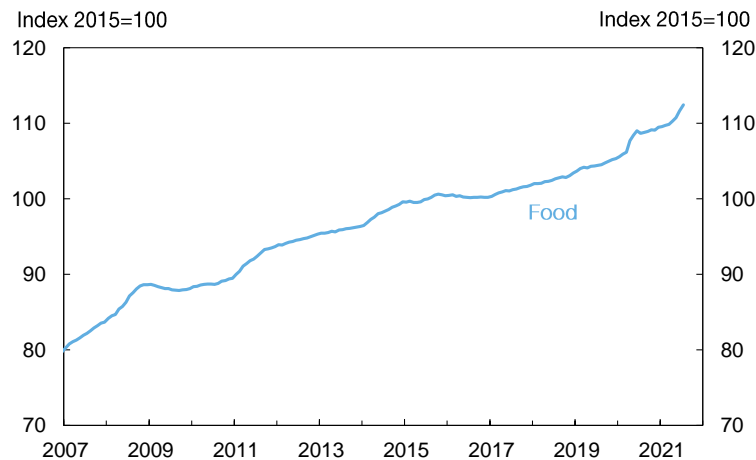


Source: Bureau of Labor Statistics via Haver Analytics

## Core CPI inflation eased in July

- The core CPI was up 0.3% in July, after rising 0.9% in June.
  - The inflation rate for core goods fell from 2.2% in June to 0.5% as the prices for used motor vehicles stopped rising.
  - The inflation rate for core services prices fell from 0.4% to 0.3%.
- Core inflation was 4.3% on a 12-month basis, a decrease from 4.5% in June.
  - Core goods inflation fell from 8.7% to 8.5%.
  - Core services inflation fell from 3.1% to 2.9%.
  - Shelter inflation rose from 2.6% to 2.8%.

## CPI Inflation: Food



Source: Bureau of Labor Statistics via Haver Analytics

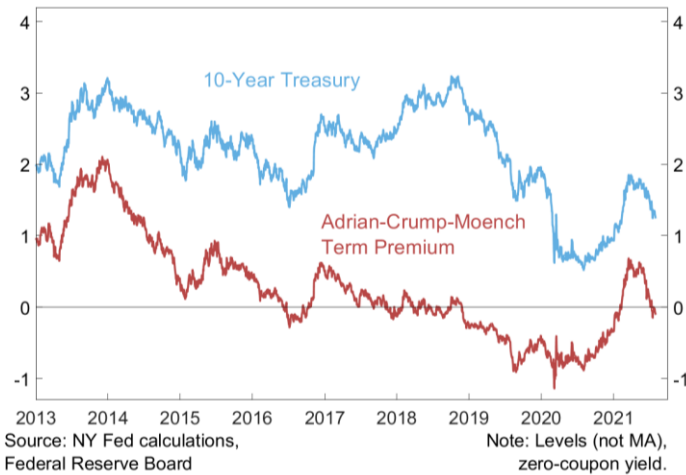
Note: Shading shows NBER recessions.

## The inflation rate for food remained high

- Prices for food consumed at home rose 0.6% over the month in July.
  - Inflation has ticked up after being minimal from June 2020 to March 2021.
  - The recent price increases have been broad based.
- Prices were up 2.5% over the year.
  - Prices jumped in the early stages of the pandemic (up 5.5% in June 2020) and then stabilized before moving higher again.
- The price index for food at restaurants was up 4.6% over the year.
  - Prices tended to rise at a 3% rate before the pandemic.

# FINANCIAL MARKETS

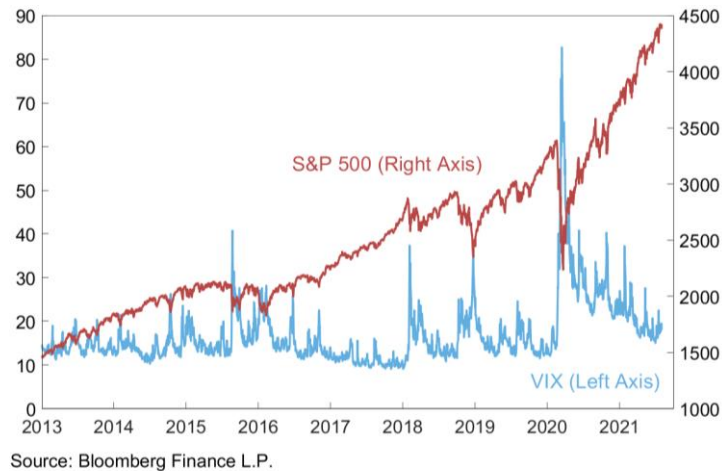
## 10-Year Treasury Yield and Term Premium



## Ten-year Treasury yields remained low

- On a five-day moving average basis, the 10-year Treasury yield was below 1.3% on August 3, continuing the downward trend observed since mid-May 2021.
  - The yield was still 80 basis points above the lows observed during the summer of 2020.
- Estimates from the Adrian-Crump-Moench term structure model attribute most of the decline in yields to a lower term premium.

## U.S. Equity Market Index and Volatility



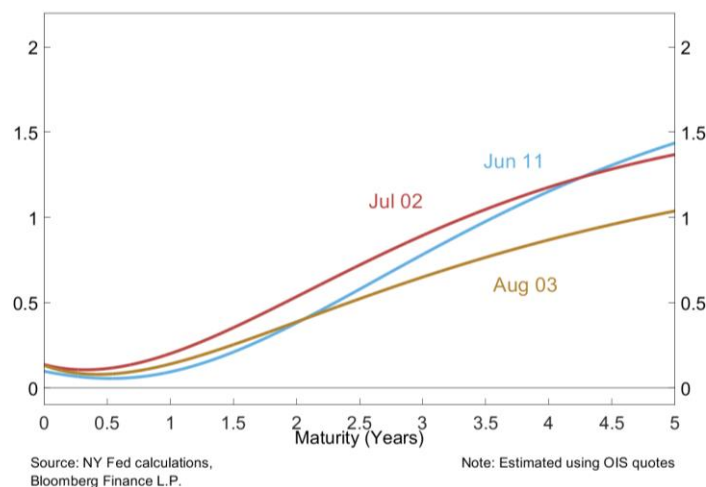
## U.S. equity markets rose

- U.S. equity prices increased over the month.
  - The S&P 500 index was up 19% year-to-date on August 3.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), fell.
  - The VIX Index closed at 18.04 on August 3, near its post-2000 median value of 17.75.
  - The VIX Index was higher than its pandemic-era low of 15.07.



# FINANCIAL MARKETS

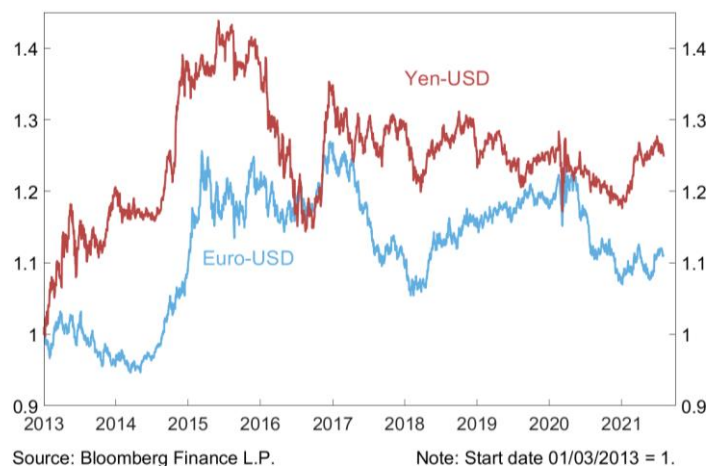
## Expected Federal Funds Rate



## Implied path for federal funds rate declines

- The expected path of the federal funds rate on August 3, implied by rates on overnight indexed swaps, was below the path observed on July 2.
- The market-implied federal funds rate at the end of 2023 was below the median value of the FOMC's Summary of Economic Projections (SEP) from June 2021.
- At the five-year horizon, the market-implied expectation of the federal funds rate was near 1.0%.
  - **This rate is about 150 basis points below the median SEP longer-run federal funds rate from June 2021.**

## Dollar Exchange Rates

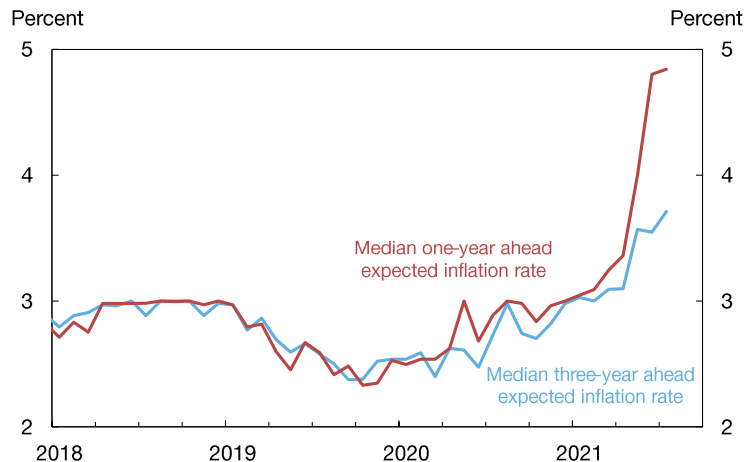


## U.S. dollar value remained largely stable

- The value of the dollar against a weighted average of currencies was essentially unchanged from July 2 to August 3.
  - During this period, the dollar was stable against the euro and depreciated 2% against the Japanese yen.
- The dollar has appreciated 2.5% against the basket of currencies since the beginning of the year.

# SPECIAL TOPICS: SURVEY OF CONSUMER EXPECTATIONS

## Short- and Medium-term Inflation Expectations

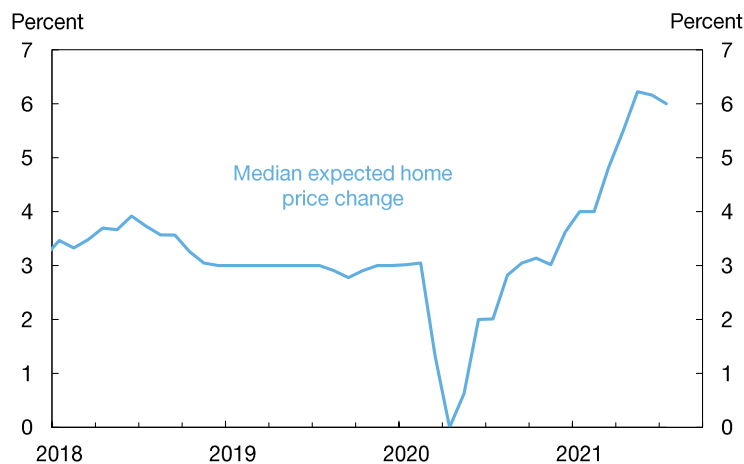


Source: New York Fed Survey of Consumer Expectations (SCE)

## Inflation expectations remain elevated

- Short-term inflation expectations were unchanged in July.
  - Median one-year ahead inflation expectations remained at 4.8%, its highest level since the start of the series in June 2013.
- Medium-term inflation expectations ticked up.
  - Median three-year ahead inflation expectations increased slightly from 3.6% in June to 3.7%, its highest reading since August 2013.
- Inflation uncertainty remains elevated
  - Median inflation uncertainty (the uncertainty expressed regarding future inflation outcomes) decreased slightly at both horizons.
  - Uncertainty remains well above pre-pandemic levels.

## Home Price Growth Expectations



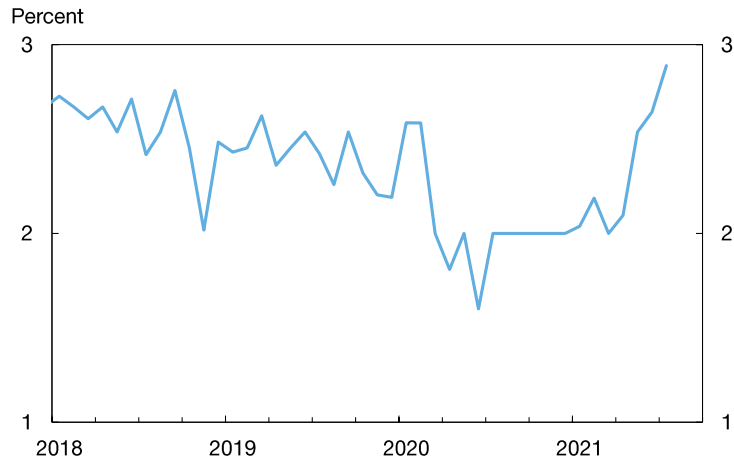
Source: New York Fed Survey of Consumer Expectations (SCE)

## Home price expectations stopped rising

- Following a steep drop at the start of the pandemic, home price growth expectations rose to unprecedented levels.
  - The median one-year ahead expected home price change increased in the Survey of Consumer Expectations from a low of 0% in April 2020 to a series high of 6.2% in May 2021.
- Since May 2021 home price growth expectations have shown a slight moderation.
  - Median year-ahead home price change expectations decreased from 6.2% in June to 6.0% in July.

# SPECIAL TOPICS: SURVEY OF CONSUMER EXPECTATIONS

## Earnings Growth Expectations

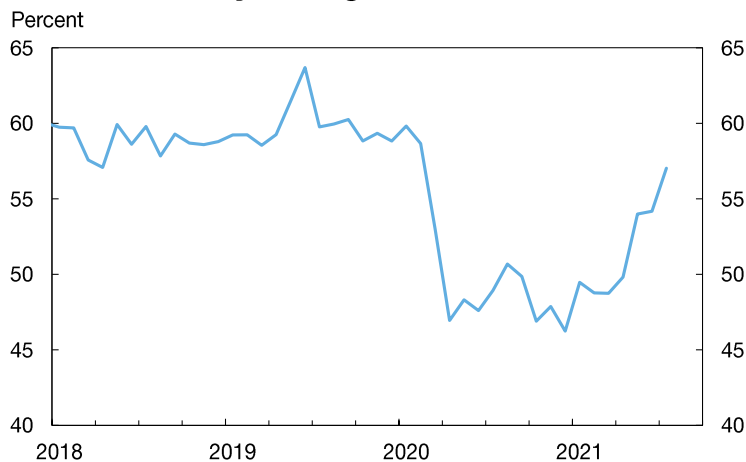


Source: New York Fed Survey of Consumer Expectations (SCE)

## Earnings growth expectations moved higher

- Earnings growth expectations experienced a steep decline at the start of the pandemic.
  - The median one-year ahead expected earnings growth in the Survey of Consumer Expectations dropped from 2.6% in February 2020 to 1.6% in June 2020.
- Earnings growth expectations have risen sharply since April 2021.
  - The median one-year ahead expected earnings growth increased from 2.1% in April 2021 to 2.9% in July, the highest reading in the survey (which started in June 2013).
  - While broad-based, the increase in expectations was largest for those with at most a high school degree.

## Mean Probability Finding Job in Next 3 Months



Source: New York Fed Survey of Consumer Expectations

## Consumers expect greater ease of finding jobs

- The mean perceived probability of finding a job in the next three months (if one's current job was lost) fell abruptly at the onset of the pandemic.
  - From an average of 58.7% in February 2020, the average reported probability fell to 47.0% in April 2020.
- The mean perceived probability of finding a job reached 57.0% in July--the fourth consecutive increase and the highest level since February 2020.
  - The July increase was broad-based across income groups and most pronounced among respondents with no more than a high school degree.