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 December 14, 2018.
OVERVIEW

- Real consumer spending rose robustly in October, in line with the pace observed in recent quarters.
  - The October reading reflected solid increases in both durable and nondurable goods expenditures, as well as in services.

- Business equipment spending rose modestly in 2018Q3, a further slowdown from the second quarter and well below the pace 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 October.
  - While a strong labor market continues to have the potential to provide support to the housing sector, higher mortgage rates and tax code changes appear to be having some restraining effect on the market.

- Payroll growth moderated somewhat in November, relative to the strong reading in October. The unemployment rate, labor force participation rate and employment-to-population ratio were all unchanged.
  - The latest readings of various measures of labor compensation continue to indicate a gradual firming of wage growth.

- Core PCE inflation slowed slightly in October, but continues to run at a level roughly consistent with the FOMC’s longer-run objective.

- U.S. equity indices continued to decline over the past month amid higher volatility. The nominal 10-year Treasury yield decreased. The broad trade-weighted dollar index rose modestly. Oil prices continued to fall.

**Output moderately above potential GDP estimate**

- The level of real GDP in 2018Q3 was about 0.9% above the estimate of real potential GDP from the Congressional Budget Office (CBO).
  - Over this expansion, real GDP has grown at a 2.3% annual rate, compared to the 1.5% growth rate of real potential GDP.
  - Over the next four quarters, the CBO projects that real potential GDP will grow 2.1%.
  - The 3.7% unemployment rate in November was below most estimates of its natural rate, including that of the CBO (4.61%).

- 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 looser constraints by that measure.

Source: Bureau of Economic Analysis, Congressional Budget Office via Haver Analytics
Note: Shading shows NBER recessions.
**OVERVIEW**

**Labor Market Indicators**

- Labor market indicators are unchanged
  - The unemployment rate remained at 3.7%.
    - An decrease in the male unemployment rate from 3.8% to 3.6% was offset by an increase in the female unemployment rate from 3.7% to 3.8%.
  - The labor force participation rate remained at 62.9%.
    - An increase in male labor force participation from 68.9% to 69.0% was offset by a decrease in female labor force participation from 57.3% to 57.2%.
  - The employment-to-population ratio remained at 60.6%.

**PCE Deflator**

- Inflation remains near FOMC’s longer-run objective
  - The total PCE price index rose 0.2% in October, higher than in September. The core PCE price index (which excludes food and energy prices) increased 0.1% in October, a step down from September.
    - Energy prices rose 2.4% in October, and are up 9.4% relative to one year ago. Food prices fell 0.1%.
  - The 12-month changes in the total PCE and core PCE price indices were +2.0% and +1.8%, respectively.
    - Total PCE inflation has been at or above 2% since March of this year, the first such occurrence since early 2012.
    - Headline and core PCE inflation appear to remain at levels near the FOMC’s 2 percent longer run goal.
**ECONOMIC ACTIVITY**

**GDP Growth**

- According to the second estimate, real GDP grew at a 3.5% annual rate in 2018Q3.
- While the headline growth figure was unrevised from the advance estimate, there were notable revisions to expenditure categories.
  - Growth in real private consumption was revised down to 3.6% from 4.0% in the advance estimate, reflecting a large markdown in growth of durable goods consumption.
  - Growth in business fixed investment was revised up to 2.5% from the initial 2.8%, reflecting stronger growth in equipment investment and a smaller decline in structures investment.
  - An increased pace of inventory accumulation added 2.3 percentage points to GDP growth, vs. 2.1 percentage points in the advance release.

**Manufacturing and ISM Manufacturing Index**

- Manufacturing production increased 0.3% in October following a revised 0.3% increase in September.
  - Manufacturing production rose by 2.7% in October on a 12-month change basis.
- The ISM PMI rose 1.6 percentage pts. to 59.3 in November.
  - November’s reading indicates continued expansion in the manufacturing sector for the 27th consecutive month.
  - The Prices Paid index more than reversed its increase last month, declining 10.9 percentage points, but still indicates rising manufacturing input prices.
- All regional Fed manufacturing surveys indicated continued expansion in November.
**HOUSEHOLDS**

**Disposable Income and Consumption**

![Graph showing disposable income and consumption over time.](image)

- **Real Disposable Income**
- **Real Personal Consumption**

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

*Note: Shading shows NBER recessions.*

**Consumption maintains momentum into 2018Q4**

- Real Personal Consumption Expenditures rose 0.4% in October, the most since March.
  - On a 12-month basis, services and nondurable goods consumption has been strengthening over the past few months, but durable goods consumption growth has been declining from its high level at the end of 2017.
- Nominal personal income rose a strong 0.5% in October.
  - Compensation of employees increased a more moderate 0.3%, as did wages and salaries, but overall income growth got a boost from personal transfers (+0.6%) and proprietors’ income (+1.6%).
- The personal saving rate was 6.2% in October.

**Retail Sales: PCE Control Excluding Gasoline**

![Graph showing retail sales over time.](image)

Source: Census Bureau via Haver Analytics

*Note: Shading shows NBER recessions.*

**Retail sales increase in November**

- Total retail sales and retail sales excluding motor vehicles and parts increased 0.2% in November.
  - Already strong data for October for both categories were revised up to tick at +1.1% and 1.0%, respectively.
  - The 12-month changes in the two categories in November were +4.2% and +4.9%, respectively.
- Sales of the PCE control excluding gasoline, which includes the categories used to estimate consumption in the GDP accounts, increased 0.6% in November.
  - The 12-month change in the PCE control ex-gasoline was +4.6% in November.
  - This change is somewhat below the average of 12-month change in the previous 3 months.
**Business Sector**

**Equipment Investment and Capacity Utilization**

![Graph showing equipment investment and capacity utilization over time.](image)

- **Equipment spending growth modest in 2018Q3**
  - Real business equipment investment grew at a 3.5% annual rate in 2018Q3. So far this year, equipment spending has risen at a 5.5% annual rate after rising 9.6% in 2017.
  - Compared to 2017, growth has slowed this year in all major categories of equipment except transportation.
  - The equipment spending share of nominal GDP remained slightly below its average share in 2013–15.

  Recent softer equipment investment has occurred against a backdrop of continued relatively low levels of the manufacturing capacity utilization rate.
  - This rate was 76.2% in October, the same as in July 2015 and 2.1 percentage points below its longer-term average.
  - Historically, utilization rates near 75% are associated with modest growth of equipment investment.

**Nondefense Capital Goods Excluding Aircraft**

![Graph showing nondefense capital goods excluding aircraft.](image)

- **Momentum in capital goods in October 2018**
  - Shipments of nondefense capital goods excluding aircraft grew by 0.3% in October 2018.
    - This measure is a proxy for equipment spending that is available at a monthly frequency.

  New orders of nondefense capital goods excluding aircraft were flat in October 2018.

  However, new orders of nondefense capital goods excluding aircraft remain moderately above shipments, suggesting near-term momentum in equipment spending.
Total housing starts stabilize in October

- After declining in 2018Q2 and Q3, total housing starts rose a modest 1.5% in October. Despite this modest increase, the October level of total housing starts was 2.9% below the year-ago level.
- Single-family housing starts declined 1.8% in October following a 1% decline in September. On a three-month moving average basis, single-family starts are essentially stable after falling 4.3% from May through August. Increased mortgage interest rates and the scaling back of state and local tax deductions appear to be the cause of this slowing.
- Multi-family housing starts, which are quite volatile month-to-month, rose 10.3% in October following a 15.6% decline in September. On a three-month moving average basis, multi-family starts are up about 4% since this past August.

Housing price gains slow relative to earlier this year

- The CoreLogic single family national home price index rose 5.6% in October on a year over year basis.
  - While home price growth continues, it has slowed relative to earlier in the year, when increases were around 6%.
  - Still, this index is above its pre-recession numbers after July 2006.
- The inventory of single family homes was 1.63 million units in October, equivalent to a 4.2 months’ supply at the current sales pace.
  - Since late 2015, the inventory of single family homes for sales has remained below the normal range of 5-7 months.
  - While home price growth continues, it has slowed amid tight inventories and stagnant construction.
**GOVERNMENT SECTOR**

**Real Government Consumption and Gross Investment**

- **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 firmed over the past year, rising 2.3%.
  - As of 2018Q3, growth of consumption and gross investment by the federal government rose to 3.5% (four-quarter percent change), the strongest since 2010Q3.
    - Spending on national defense is up 4.2% over the past four quarters while nondefense discretionary spending has risen by 2.4%.
  - At the state and local level, consumption and gross investment grew 1.5% over the four quarters ending in 2018Q3 after having declined in 2017.

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

- **State and local sector strengthens further**
  - Real state and local government gross investment grew 6.5% over the four quarters ending in 2018Q3.
    - Gross investment has now grown for four consecutive quarters for the first time since 2014.
    - Real state and local infrastructure spending remains below its level of a decade ago, but has now surpassed its 2011 level.
  - State and local consumption spending grew slightly in Q3.
    - 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**

### Real Exports and Nonoil Imports of Goods

- The trade deficit continues to grow
  - The trade deficit grew to $55.5 billion in October from a $54.5 billion deficit in September. In real terms, both exports and imports fell over the month.
    - Real goods exports dropped 0.8% over the month in October. This decline was mainly due to lower export volumes of industrial supplies (excluding petroleum), food, feeds and beverages, and capital goods (excluding autos).
    - Real nonoil goods imports grew by 0.1% in October, owing to higher import volumes of consumer goods (excluding autos), other goods, autos and industrial supplies (excluding oil goods). Oil goods import volumes declined in October, at a higher pace than in the previous month.
  - Net exports pushed down GDP growth by about 1.9 percentage points in the second estimate of 2018Q3 GDP, roughly 10 basis points more than in the first estimate.

### Crude Oil Prices

- **Oil prices fall with higher oil output**
  - The WTI benchmark price fell to around $55/barrel in early December.
    - The average price in October was $71/barrel.
  - The United States is set to increase its oil production by 2 million barrels/day this year.
    - The increase is 1 million barrels/day more than expected in January 2018.
    - Waivers on sanctions for Iran’s oil exports eased downward pressure on global supply.
  - Global consumption is expected to rise by 1.3 million barrels/day in 2018.
    - The United States, China, and India account for almost all of the increase in oil demand.
LABOR MARKET

Payroll Employment and Aggregate Hours

Payroll growth continues at moderate pace

- Nonfarm payroll employment increased 155,000 in November, below the Bloomberg median forecast of 198,000.

- Payroll employment was revised down for October (from +250,000 to +237,000) and revised up for September (from +118,000 to +119,000), resulting in a net revision of -12,000.
  - The revisions put the average monthly gain over the past three months at +170,000 and the average monthly gain this year at +206,000 (last year: +182,000).

Labor Force Participation Rate by Race

Robust participation across demographic groups

- Overall labor force participation has remained relatively flat, moving within the band of 62.7% and 63.0% since January 2016.
  - The flattening of the labor force participation rate contrasts with the sharp decline in labor force participation that began to take place in the Great Recession.

- The flattening of the downward trend in labor force participation has been apparent across racial groups.

- The gap between the labor force participation rate among whites and that among blacks reached its post-recession minimum of 0.1 percentage point in February 2018.
  - The gap between white and African-American participation has remained within the band of 0.1 and 1.0 percentage point throughout 2018.
**LABOR MARKET**

**Vacancy and Job-finding Rates**

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

**More job vacancies than unemployed workers**

- The Job Openings and Labor Turnover Survey (JOLTS) reported 7.0 million job openings on the last business day of September, falling slightly from the series high of 7.3 million reached in August.
  - The ratio of job vacancies to unemployed, a measure of labor market tightness, reached its series high of 1.175 in September.

- The job-finding rate, representing the percentage of unemployed people who find work within a month, was 28.4 percent in November.

**Growth of Average Hourly Earnings and ECI**

Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

**Earnings growth remains strong**

- Average hourly earnings increased by 0.22% in November, and were up 3.05% on an annual basis.
  - Both the 12-month changes in average hourly earnings in November and in October (when the change was 3.10%) are above the 2.4-2.8% range in which the average hourly earnings changes had been fluctuating since 2016.

- Average weekly earnings increased by 2.75% over a 12-month period, below the average monthly growth rate during the previous three months of 3.25%.
  - The relatively weaker weekly earnings growth in comparison to hourly earnings growth can be attributed to the decline in average weekly hours, from 34.5 to 34.4.
INFLATION

**CPI Inflation: Core Goods and Core Services**

Core inflation in line with expectations in November

- Core CPI was up 0.2% in November, the same increase as in October. The 12-month change in the core index was 2.2% in November, up from 2.1% in October.

- Inflation in core services has slowed down slightly in recent months.
  - The 12-month change in core goods prices was 0.2%.

- However, core goods prices are finally rising on a sustained basis, recording their first positive 12-month increase in more than five years.
  - The 12-month change in this index was 2.9% in both October and November.

**Health services inflation slows sharply**

- Health care services have a much higher weight than in the CPI, since all health care services consumed are covered within the PCE deflator while the CPI covers only health care services that consumers pay for out of pocket.

- In October 2017, Medicare substantially increased its reimbursement rates for hospital services. Subsequently, reimbursement rates paid by the Medicaid program and by private health insurers also increased significantly.

- In October 2018 Medicare increased reimbursement rates to hospitals by a substantially smaller amount than they did a year ago, resulting in a sharp slowing of the 12-month change. This slower 12-month change is likely to fade away in the months ahead.
**U.S. Equity Market Index and Volatility**

- U.S. equity markets declined during the past month.
  - The S&P 500 index lost 4.2% between November 7 and December 6.
  - These losses brought the S&P 500 index very close to its beginning-of-year (January 2) level.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), increased.
  - The VIX Index closed at 21.2 on December 6, below its 37.3 multi-year high on February 5, but above its November 7 closing value of 16.4.

**USD Exchange Rates**

- The exchange value of the dollar against a basket of global currencies increased 0.7% between November 7 and December 6.
  - Over this same period, the dollar appreciated by 0.4% against the euro and 2.4% against the Mexican peso. It depreciated 0.7% against the Japanese yen.
- Since the start of 2018, the dollar has appreciated 4.5% against a basket of global currencies.
**Financial Markets**

**U.S. Bank Equities Performance**

![Chart showing stock index performance]  
- **SP500 Index**  
- **XLF ETF**  
- **KBW Index**  

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

**Bank stocks lose value**

- As measured by the KBW Nasdaq bank index, bank equities declined 6.2% between November 7 and December 6.
  - As of December 6, the index was down 11.1% year-to-date.
- The XLF financial sector ETF declined 6.2% between November 7 and December 6, but was up 1.4% from its recent low on October 24.
  - As of December 6, the index was down 8.3% year-to-date.

**Expected Federal Funds Rate**

![Chart showing federal funds rate]  
- **Oct 05**  
- **Nov 07**  
- **Dec 06**  

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

**Implied path for federal funds rate shifts down**

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) moved down and flattened between November 7 and December 6 for maturities of 6 months and longer.
- For maturities shorter than 6 months, it showed no change between November 7 and December 6.
- The market-implied path remains somewhat below the median path of the FOMC's September 2018 Summary of Economic Projections and the November 2018 NY Fed Survey of Primary Dealers at longer horizons.
FINANCIAL MARKETS

10-Year Treasury and Term Premium

![Graph showing 10-Year Treasury and Term Premium](image)

- **Longer-term Treasury yields decline**
  - Longer-term Treasury yields decreased since early November.
  - The 10-year yield declined by about 24 basis points between November 7 and December 6.
  - On November 8, the 10-year yield reached 3.2%, its highest value year-to-date.
  - Estimates from the Adrian-Crump-Moench term structure model attribute the decrease almost exclusively to a more negative term premium, while the path for the short term interest rate remained broadly unchanged.
  - The 10-year term premium decreased by 22 basis points between November 7 and December 6.

5-10 Year Forward Decomposition

![Graph showing 5-10 Year Forward Decomposition](image)

- **Breakeven inflation little changed**
  - Market-impied TIPS-based measures of long-term inflation expectations ("breakevens") declined.
  - The five-to-ten year breakeven inflation rate was 2.1% on November 7 and 1.8% on December 6.
  - Year-to-date, breakeven inflation has declined by almost 10 basis points.
  - According to the Abrahams-Adrian-Crump-Moench model, most of the year to date movements in forward inflation compensation continue to reflect movements in the inflation risk premium.
  - The estimated five-to-ten year inflation risk premium declined by 20 basis points between November 7 and December 6.
SPECIAL TOPIC: ACCESS TO CREDIT

Rejection Rates Are Climbing

- **Credit Card Rejection Rate by Age**
  - 2016: 10%, 2017: 12%, 2018: 14%
  - 2016: 15%, 2017: 17%, 2018: 20%

- **Credit Limit Extension Rejection Rate by Age**
  - 2016: 5%, 2017: 7%, 2018: 9%
  - 2016: 10%, 2017: 13%, 2018: 16%


Consumer credit tightens up

- The October 2018 SCE Credit Access Survey showed both a decline in application rates and an increase in rejection rates in 2018 compared to 2017.
  - Rejection rates were up for credit card applications and extension requests.
  - Rejection rates increased notably for mortgage refinance applications.
- Rejection rates increased for all age groups and credit scores, but particularly among those with the lowest credit scores.

Lender-initiated Account Closures Increase

- **Involuntary Account Closures by Age**
  - 2016: 3%, 2017: 4%, 2018: 5%
  - 2016: 6%, 2017: 8%, 2018: 10%

- **Involuntary Account Closures by Credit Score**
  - 2016: 10%, 2017: 12%, 2018: 14%
  - 2016: 15%, 2017: 17%, 2018: 20%


Lenders close existing accounts

- Credit report data showed an increase in account closures.
- There were broad increases in lender-initiated account closings since 2016 across all age and credit score groups.
- There were especially large increases for those under age 60 and for lower-credit-score (up to 680) account holders.
SPECIAL TOPIC: ACCESS TO CREDIT

Transition Into Serious Delinquency
By origination credit score

Uptick in card delinquency gives potential explanation

- The sharpest increases in delinquency rates were among those with low credit scores at origination, though there were also small increases in delinquencies for prime borrowers.
- The worsening among the lowest-score borrowers has moderated in 2018, although the flows into delinquency have increased during 2018 for other groups.
- Although the recent tightening may be a response of lenders to the delinquency uptick, the increase in the delinquency rate remains worrisome amidst a strong labor market.

Source: New York Fed Consumer Credit Panel / Equifax
Note: We report four-quarter moving sums.