



FEDERAL RESERVE BANK *of* NEW YORK

# U.S. Economy in a Snapshot

Research & Statistics Group

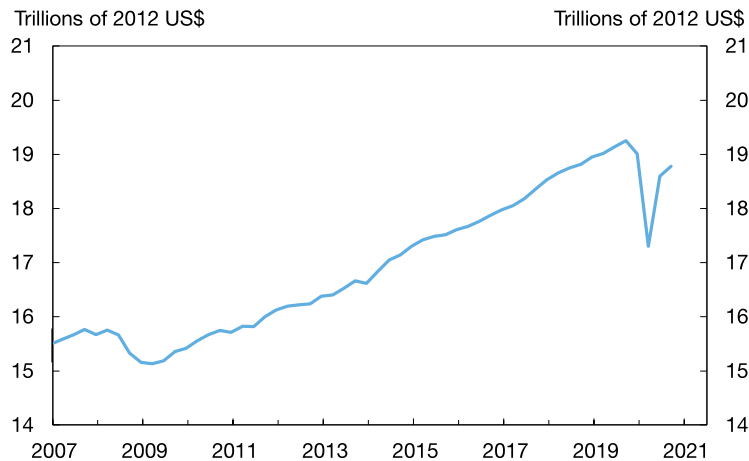
March 2021

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 March 19, 2021.

# OVERVIEW

- Consumer spending rose in January.
  - Real expenditures on goods increased 5% while spending on services was roughly unchanged.
  - Overall spending was down 2% over the year.
  - Income increased more than spending, pushing up the personal saving rate to a high level.
- Business equipment spending continued to rise in January.
  - Shipments of nondefense capital goods ex-aircraft were up 8% over the year-ago level.
- Housing activity cooled in February.
  - House starts fell 10%.
  - Severe winter weather was likely a factor.
- The labor market improved in February.
  - Payroll employment increased and the unemployment rate edged down.
  - The median duration of unemployment, however, rose.
- Core PCE inflation moved slightly higher in January.
  - The composition has changed during the pandemic, with higher inflation for durable goods and lower inflation for services.
- U.S. equity indices reached record levels and the 10-year Treasury yield increased. The market-implied expected policy rate path was unchanged for the next year, but increased for longer maturities. The dollar appreciated.

## Real GDP



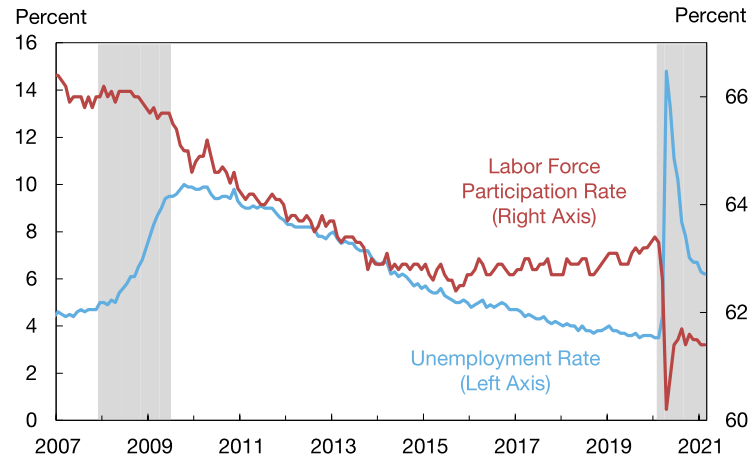
Source: Bureau of Economic Analysis  
via Haver Analytics

## Output fell considerably in 2020

- Q4 GDP was down 2.4% over the year despite a substantial rebound in the second half of the year.
  - In comparison, the average GDP growth rate during the 2009-19 expansion was 2.3%.
  - In the February Survey of Professional Forecasts, respondents anticipate GDP to rise at a 2.25% annual rate over the next 10 years.
  - The March Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.
- Various measures indicated that there is considerable slack.
  - The unemployment rate in February was well above the long-run forecasts of near 4% in the Blue Chip survey.
  - Capacity utilization rates continued to be at low levels.

# OVERVIEW

## Labor Market Indicators



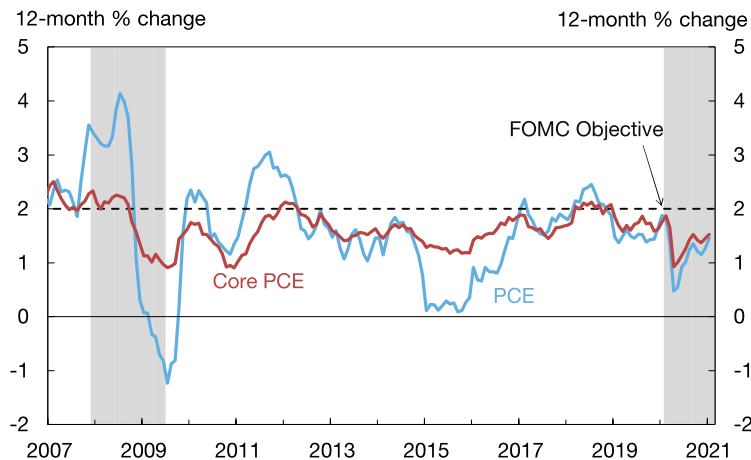
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

## Labor market recovery continued in February

- Nonfarm payroll employment rose by 379,000.
  - In the services sector, leisure and hospitality registered a notable gain of 355,000, recovering some of the payroll employment decline in the last two months (-523,000). Professional and business services (63,000) and healthcare and social assistance (45,600) also saw gains.
  - Payrolls fell in construction (-61,000) while manufacturing saw a slight increase (+21,000).
- The unemployment rate fell from 6.3% to 6.2%.
- Labor force participation (61.4%) and the employment-population ratio (57.6%) were little changed.

## PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

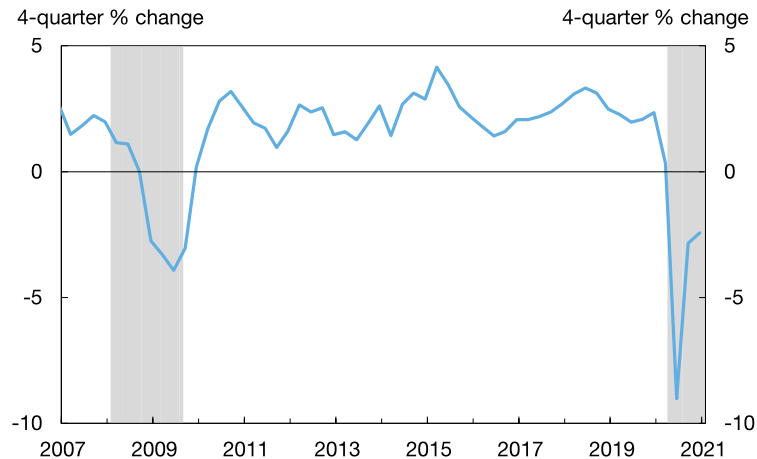
Note: Shading shows NBER recessions.

## Inflation picked up in January

- The PCE price index was up 1.5% over the year in January, a pickup from 1.3% in December.
  - Prices for services rose 2.0% while those for nondurable goods were unchanged.
  - Price for durable goods increased 1.4%, a swing from falling at a 2% rate in January 2020.
  - Energy prices were down 4.5%, while food prices were up 3.6%.
- Core PCE inflation ticked up slightly to 1.5%.
  - Core inflation has rebounded from being at 1.0% in the second quarter of last year.
  - Inflation remains below the FOMC's 2 percent longer-run goal.

# ECONOMIC ACTIVITY

## GDP Growth



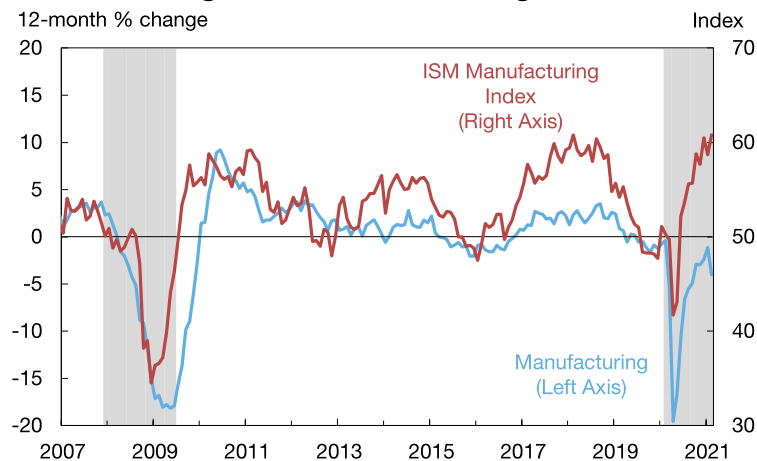
Source: Bureau of Economic Analysis  
via Haver Analytics

Note: Shading shows NBER recessions.

## Q4 growth was solid after the Q3 surge

- In the second estimate, GDP rose at a 4.1% annual rate in Q4, after surging at a 33.4% rate in Q3. The 4-quarter change was -2.4%.
  - Personal consumption expenditures rose at a 2.4% rate.
  - Revisions from the advance estimate were modest.
- Nonresidential, residential, and inventory investment contributed to GDP growth, while government spending and net exports were drags on growth.
- Real disposable personal income fell 10.0% (annual rate) in Q4, as transfer income declined. Its 4-quarter change was still +3.2%.
  - The personal saving rate was high at 13.0%.

## Manufacturing and ISM Manufacturing Index



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

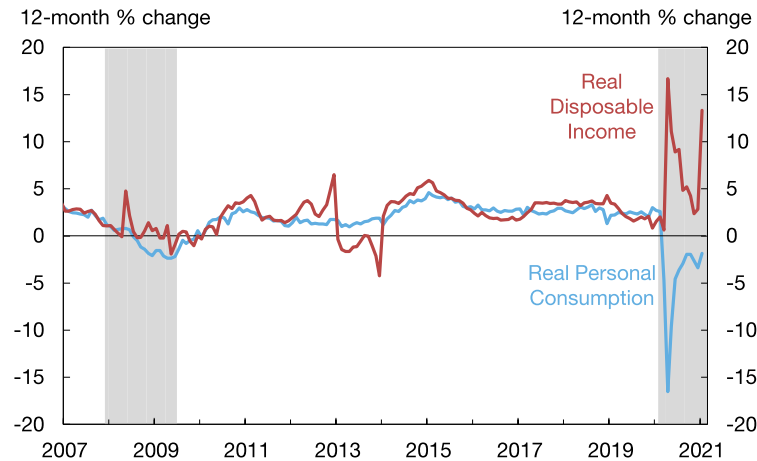
Note: Shading shows NBER recessions.

## Manufacturing faltered in February

- Manufacturing production fell 3.1% in February after rising 1.2% in January.
  - Activity was pulled down by severe winter weather.
  - Manufacturing production was down 4.1% over the year.
- The ISM Manufacturing index rose to 60.8 in February.
  - The reading was near post-1983 highs.
  - The Prices component indicates substantial upward pressure on prices paid by the manufacturing sector.
- Regional surveys indicated continued solid growth in manufacturing.

# HOUSEHOLDS

## Disposable Income and Consumption



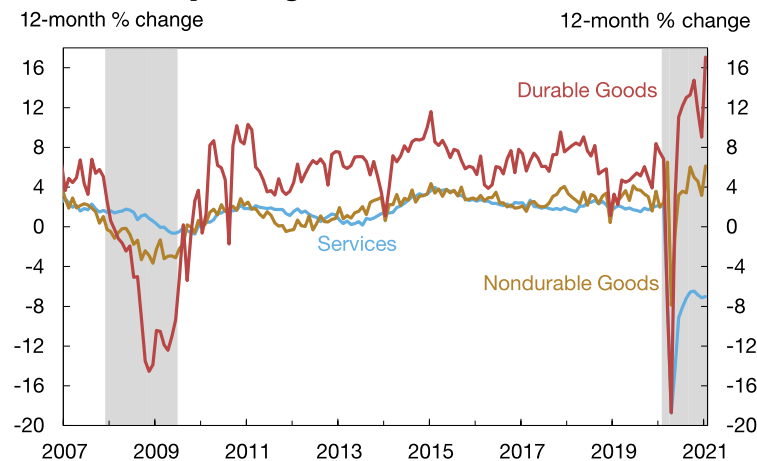
Source: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics

Note: Shading shows NBER recessions.

## Government support boosted income in January

- Real disposable income jumped 11% in January.
  - There was a \$2 trillion (annual rate) surge in government social benefits, mostly related to the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act approved in December.
- Real Personal Consumption Expenditures rose 2% in January, the largest increase since last June.
- The personal saving rate jumped to 20.5% in January from 13.4% in December.

## Consumer Spending



Source: Bureau of Economic Analysis via Haver Analytics

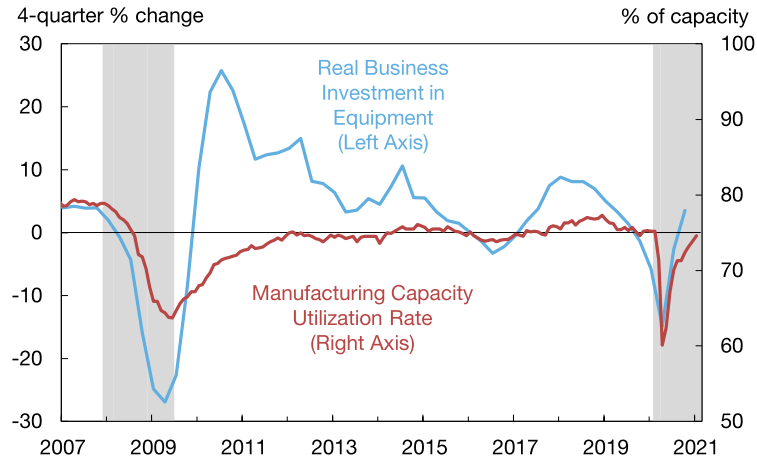
Note: Shading shows NBER recessions.

## Higher January spending was on goods

- In the typical pandemic pattern, the increase in real personal consumption expenditures in January was concentrated on goods.
  - Durables and nondurables were up 8.3% and 3.3%, respectively.
  - The jump in spending on durables was the largest since May 2020.
- Expenditures on services rose by a more modest 0.5% in January.
- Spending on goods was up 10% over the year-ago level, while spending on services was down 7%.

# BUSINESS SECTOR

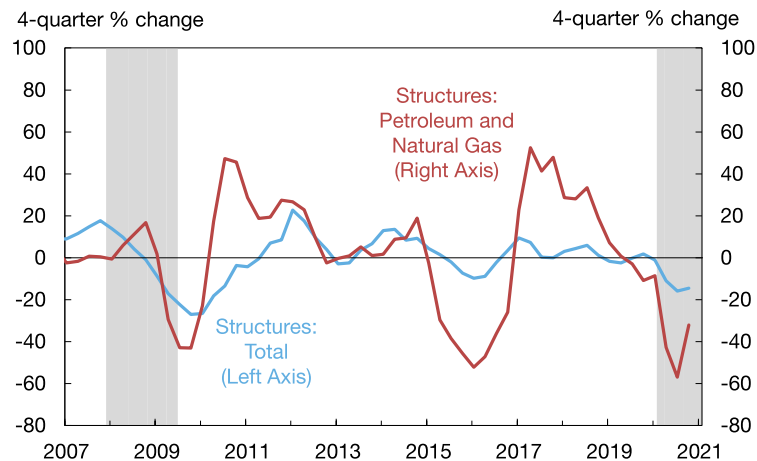
## Equipment Investment and Capacity Utilization



## Equipment spending rose strongly again in Q4

- Real business equipment spending increased at a 25.7% annual rate in Q4, after surging at a 68.2% rate in Q3.
  - The rise in equipment spending was broad based.
  - Spending was up 3.5% over the year.
- Data through January on orders of capital goods suggest continued momentum in equipment spending.
- The rebound in equipment spending pushed up the capacity utilization rate for manufacturing to 74.6% in January, near its pre-pandemic level of 75.2%.
  - Severe winter weather pulled the rate down to 72.3% in February, which is 5.8 percentage points below its long-run (1972–2020) average.

## Investment in Nonresidential Structures

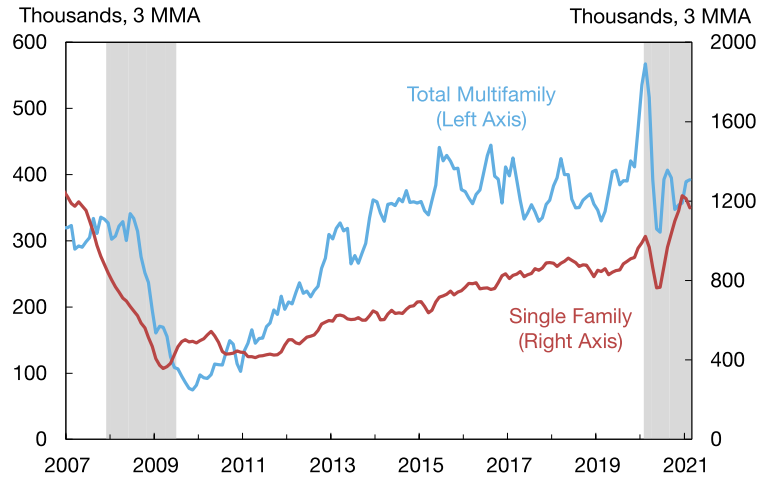


## Nonresidential structures spending rose in Q4

- Real nonresidential structures investment increased 1.1% (annual rate) in Q4, the first rise since Q3 2019. Spending was still down 14.5% over the year.
  - The rise was concentrated in the mining exploration, shafts, and wells category, which shot up from a very low level.
- Even with the Q4 rebound, the level of spending in the petroleum and natural gas sector remained very low.
  - Spending outside of energy has been sluggish or falling in recent quarters.
- Nonresidential construction spending rose modestly in January, but it remained at a low level.

# HOUSING SECTOR

## Housing Starts



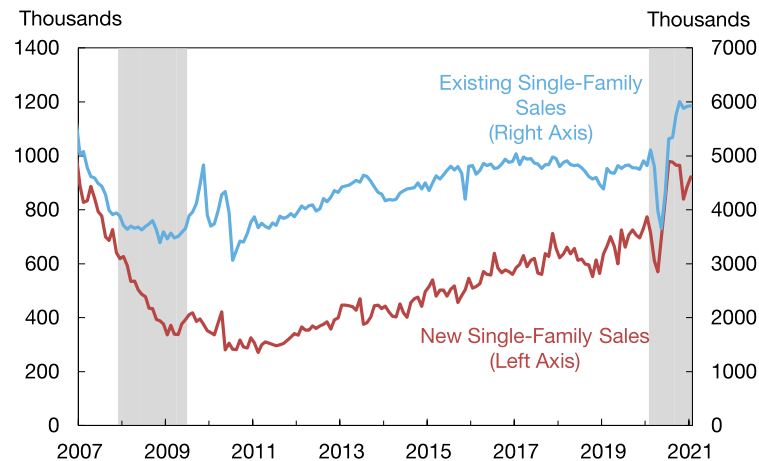
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

## Single-family housing starts hit a pause

- Total housing starts decreased 10% in February, close to last summer's level, but significantly below the December 2020 peak.
  - Severe winter weather was likely a contributing factor.
- Single-family starts fell 9% to 1.0 million units (annual rate).
  - The three-month average of single-family starts remained above its pre-pandemic level.
- Multi-family starts dropped 15% to 0.4 million units.
  - The three-month average of multi-family starts stayed near 2015-19 levels.

## New and Existing Home Sales



Source: Census and National Association of Realtors via Haver Analytics

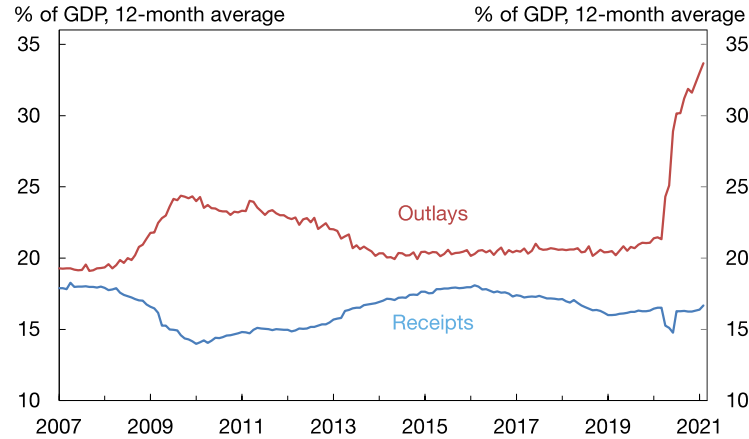
Note: Shading shows NBER recessions.

## Housing market conditions remain robust

- Existing home sales increased by 0.2% in January, to 5.93 million units (annual rate).
  - Sales were up 23% over the year.
- New single-family home sales increased 4.3% to 923,000 units.
  - Sales were up 19% over the year.
- Home sales are well above pre-pandemic levels.
  - Vaccinations and additional federal stimulus are poised to sustain the housing market's strength.

# GOVERNMENT SECTOR

## US Federal Budget Receipts and Outlays

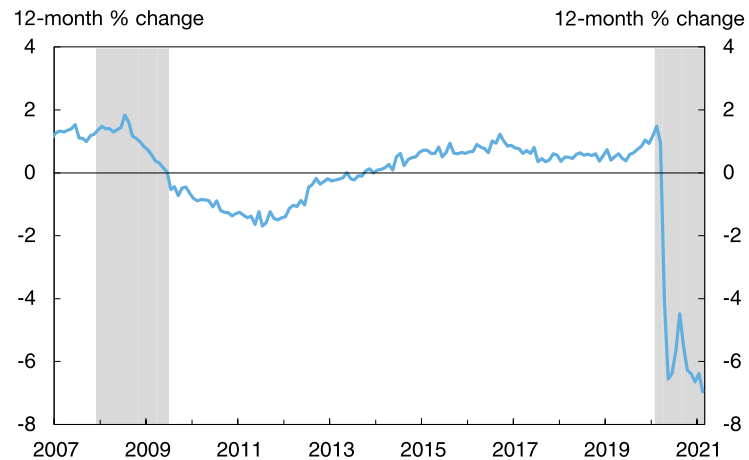


Source: U.S. Treasury Bulletin, Bureau of Economic Analysis.

## Federal deficit widened during the pandemic

- The Federal deficit soared amidst the pandemic, reaching 17% percent of GDP for the 12 months through February.
- The increase is due to higher outlays, which rose from 21% of GDP in 2019 to 34% for the latest 12 months.
  - Revenues held steady at just under 17% of GDP.
  - Income support payments to households and Paycheck Protection Program payments to businesses accounted for much of the increase in outlays.
- The deficit will remain high in coming months.
  - The CBO estimates that the American Recue Plan Act passed in March will add \$1.1 trillion (5% of annual GDP) to outlays through September.

## State and Local Government Employment



Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

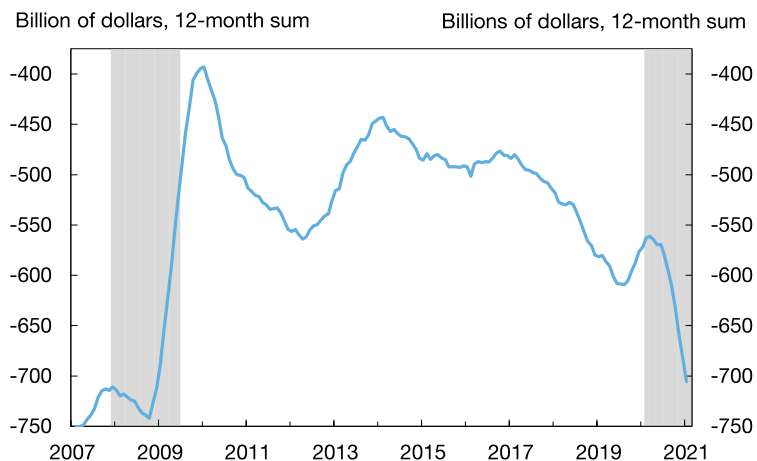
## State and local government cut employment in 2020

- State and local government employment was down 7% over the year in February.
  - The declines were similar between the two government sectors.
  - Job losses were concentrated in Q2 2020.
  - Employment levels have been steady in 2021.
- At the state level, education services account for most of the job losses.
  - Jobs outside of education were down only 1%.
- Job losses at the local level were more broadly shared.
  - Education jobs were down 8% while other jobs were down 5%.



# INTERNATIONAL DEVELOPMENTS

## Trade Balance of Goods and Services



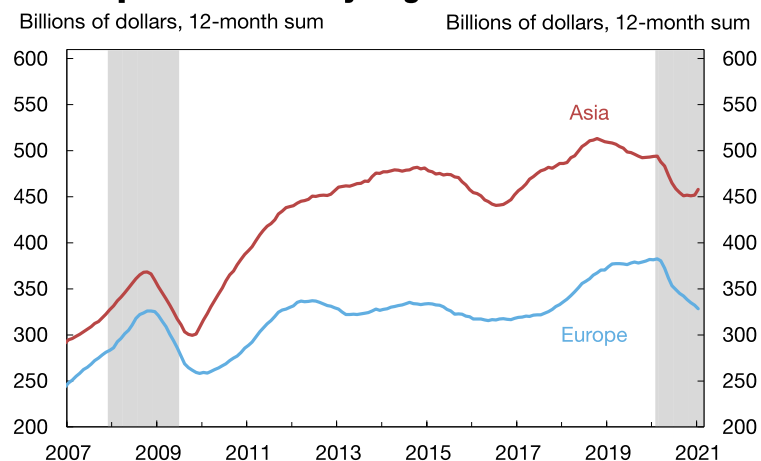
Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

## Trade deficit continued to widen

- The deficit in goods and services totaled \$700 billion in the 12 months ending in January (3.3 percent of GDP).
  - Exports were down by 7.6% over the year in January, while imports were up by 3.2%.
  - The deficit equaled \$575 billion in 2019 (2.7 percent).
- Service trade continues to drag down exports.
  - U.S. goods sales were down by 1% relative to the year-ago level and services exports collapsed by 20%.
  - The steep drop in travel pulled down services.
- A recovering U.S. continues to power spending on foreign goods.
  - Imports of goods were up 8.5% over the year, while imports of services were down by 19%.

## U.S. Exports of Goods by Region



Source: Census Bureau via Haver Analytics

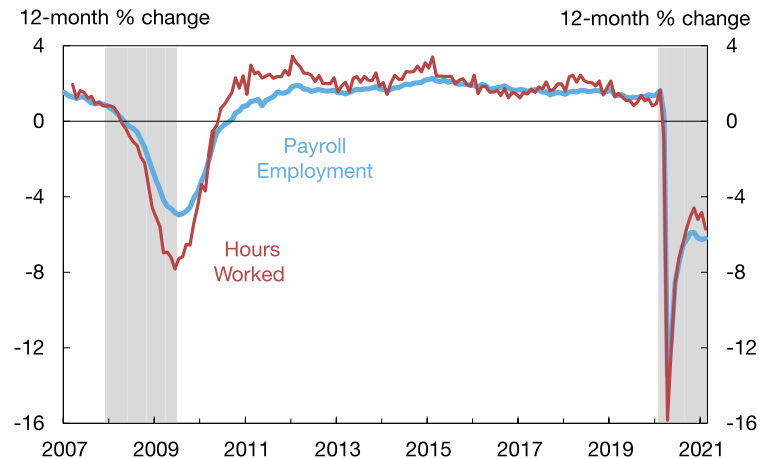
Note: Shading shows NBER recessions.

## U.S. goods exports to Asia have turned up modestly

- Exports to Asia have outperformed sales to Europe.
  - Exports to Asia were up 16% over the year in January.
  - Exports to Europe were down 12%.
- The pandemic has been a large drag on sales to Europe.
  - Euro area output was down 5.0% over the year in Q4, while the U.K.'s output was down 7.8%.
- Asia's relative strength supported U.S. exports.
  - China's output in Q4 was up 6.5% over its year-ago level.
  - Japan, South Korea, and Taiwan all fared much better than Europe.

# LABOR MARKET

## Payroll Employment and Aggregate Hours



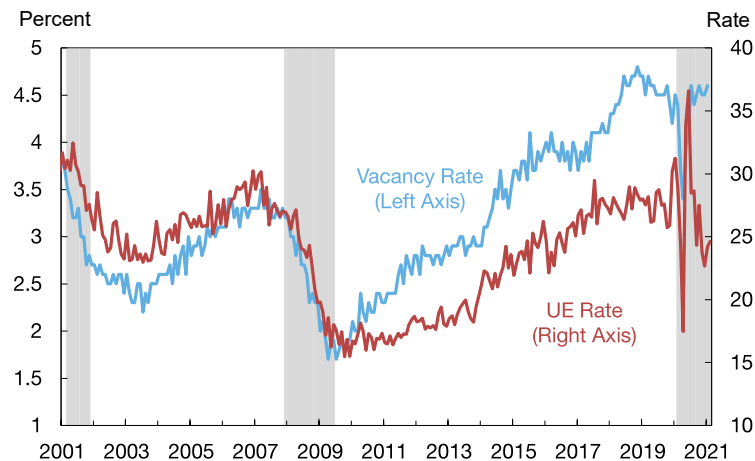
Source: Bureau of Labor Statistics via Haver Analytics

Note: Shading shows NBER recessions.

## Payroll employment increased

- Nonfarm payroll employment rose by 379,000 in February.
  - Payroll employment was 9.5 million (6.2%) below its February 2020 level.
- Private payroll employment expanded by 465,000, reflecting employment gains in private service-providing industries (513,000).
  - Gains in leisure and hospitality (355,000) accounted for most of this increase.
- Aggregate weekly hours worked by all private employees contracted by 0.5%.

## Vacancy and UE Rates



Source: Bureau of Labor Statistics

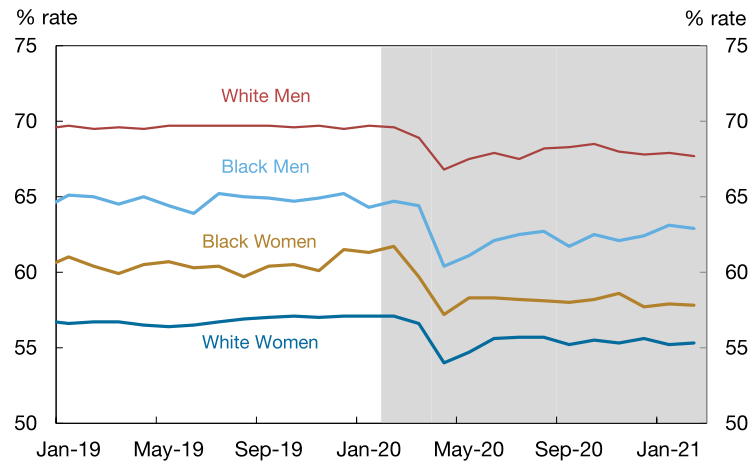
Note: Shading shows NBER recessions.

## Vacancy rate returns to pre-pandemic levels

- On the last business day in January, the vacancy rate was 4.6%, matching levels seen prior to the pandemic.
  - Professional and business services (6.2%) and healthcare and social assistance (5.9%) registered the highest vacancy rates, while wholesale trade (3.1%) and government (3.1%) recorded the lowest vacancy rates.
- The job finding rate (UE rate), defined as the share of unemployed workers that become employed in one month, increased slightly to 24.6%.
  - This number is still 15% below its pre-pandemic level.
- Although the vacancy rate has largely recovered from its decline in early 2020, the UE rate remains depressed.

# LABOR MARKET

## Labor Force Participation Rates by Race and Gender



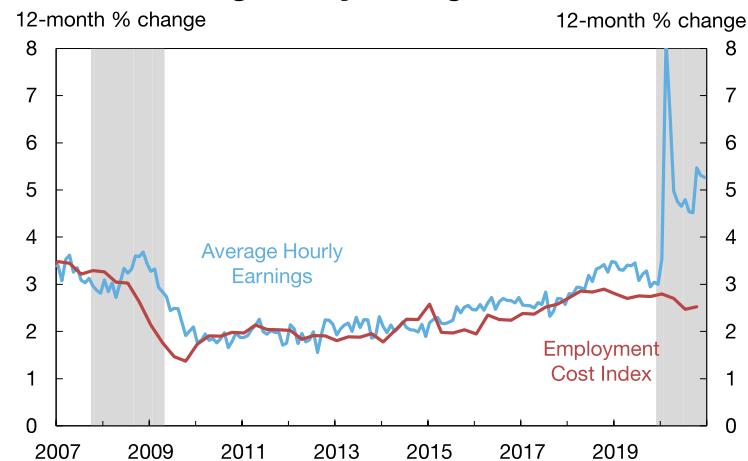
Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

## Labor force participation was unchanged

- The labor force participation rate remained at 61.4% in February, with little movement within demographic and racial groups.
  - Labor force participation rates for Black and white men and women remain below pre-pandemic levels.
- The participation rate for Black women has been slower to recover than other groups.
  - The rate for Black women is 3.9 percentage points below its February 2020 level.
  - This gap with February is larger than for Black men (1.8 percentage points), white men (1.9 percentage points), and white women (1.8 percentage points).

## Growth of Average Hourly Earnings and ECI



Source: Bureau of Labor Statistics via Haver Analytics

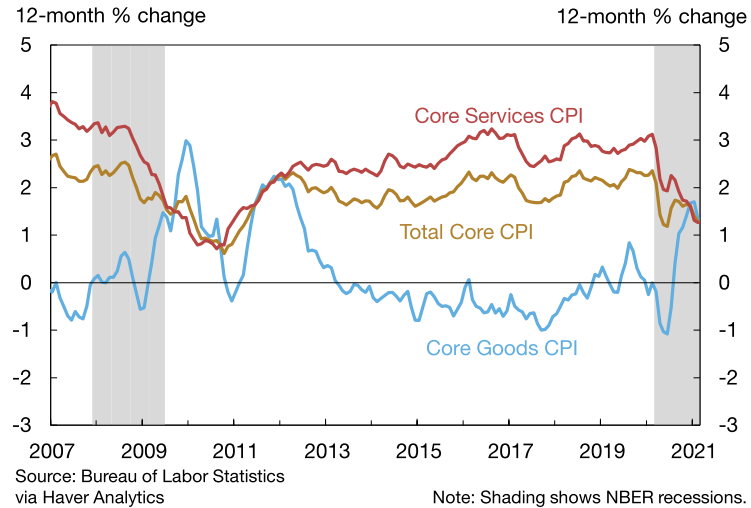
Note: Shading shows NBER recessions.

## Average hourly earnings ticked up

- Average hourly earnings increased by 0.2% over the month in February.
  - Average hourly earnings were up 5.3% over the year in February.
  - Much of this increase reflects the fact that industries with lower-wage workers were disproportionately affected by the pandemic.
  - The employment cost index, which adjusts for changes in composition, was up 2.5% over the year in Q4 2020.
- Average weekly earnings decreased 0.6%.
  - Average weekly earnings increased by 5.9% over a 12-month period.

# INFLATION

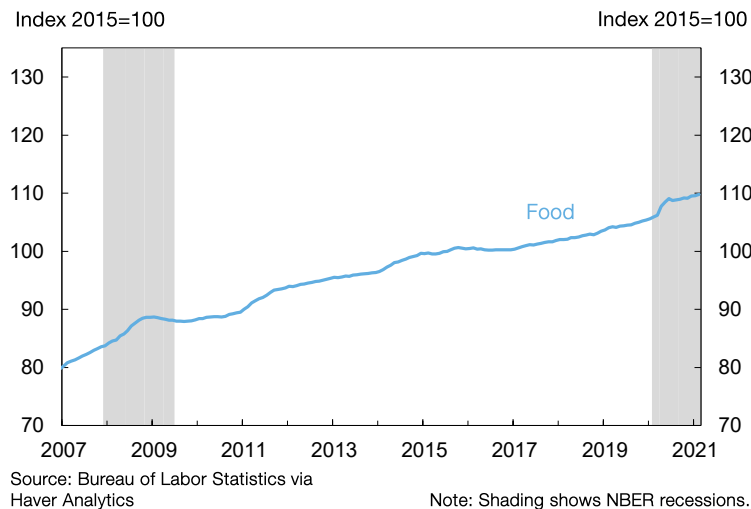
## CPI Inflation: Core Goods and Core Services



## Core CPI inflation was again subdued in February

- The core CPI was up 1.3% over the year in February, another slowdown from the 1.7% pace set last September.
  - Overall inflation rose to 1.7% due to higher energy prices.
- Core goods prices fell over the month for the first time since last May.
  - The index was up 1.3% over the year, compared with 1.7% in January and -1.1 percent last June.
- Core services prices rose modestly after being flat for two months.
  - The 12-month change in this index was 1.3%, the same increase as in January and almost 2% below the increase recorded a year ago.

## CPI Inflation: Food

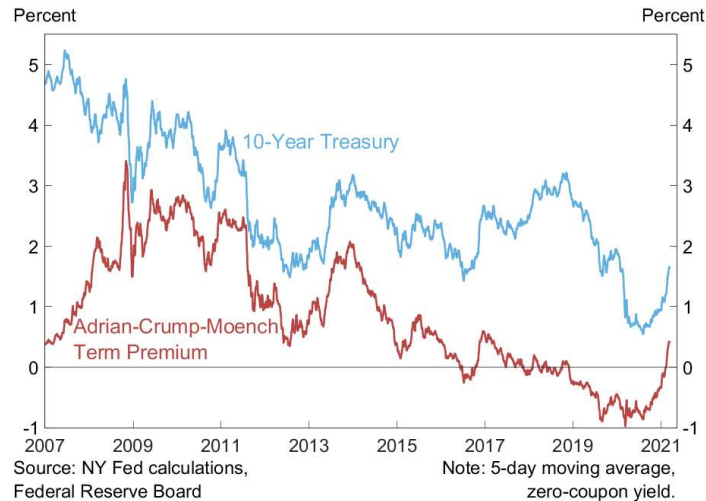


## Food inflation is easing after pandemic spike

- Prices for food consumed at home were up 4% over the year in February.
  - Inflation had been more modest before the pandemic.
  - Almost all of the increase happened in Q2 2020.
  - Price increases were broad based.
- Price increases were minimal in the second half of the year.
  - The price index, though, did not move back to the pre-pandemic trend.
- The price index for food at restaurants was up 3% over the year in February.
  - This inflation rate is similar to price increases in 2019.

# FINANCIAL MARKETS

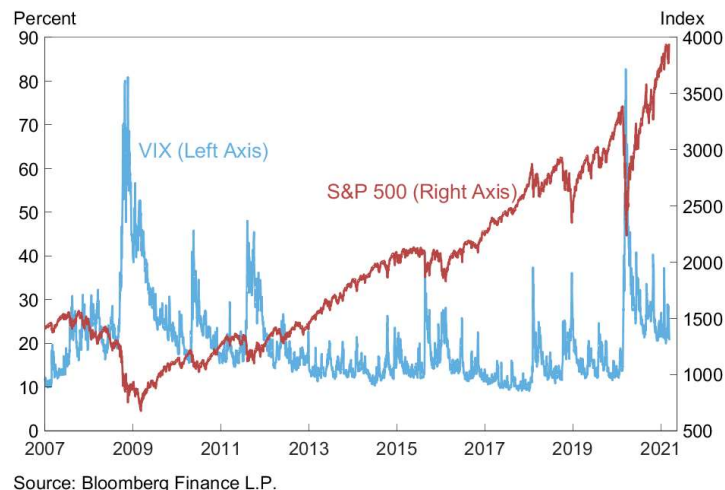
## 10-Year Treasury and Term Premium



## Longer-term Treasury yields continue to increase

- On a five-day moving average basis, longer-term Treasury yields increased from 1.16% on February 5 to 1.67% on March 12.
  - On a five-day moving average basis, the 10-year yield reached levels last seen in February 2020.
  - The yield is 155 basis points below its most recent peak in November 2018.
- Estimates from the Adrian-Crump-Moench term structure indicate that the term premium moved into positive territory for the first time since the end of 2018.
  - On a five-day moving average basis, the 10-year term premium increased by about 48 basis points between February 5 and March 12, reaching levels last seen in February 2017.

## U.S. Equity Market Index and Volatility

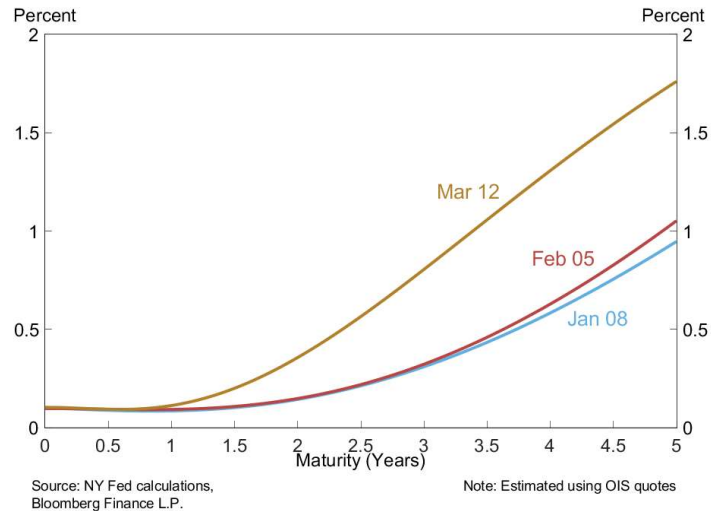


## U.S. equity markets continue to gain

- U.S. equity markets rose in the last month, recording another all-time high.
  - The S&P 500 index increased 1.5% between February 5 and March 12.
  - The index is up 6.6% year-to-date.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), was essentially unchanged.
  - Despite temporary increases at the end of February and the beginning of March, the VIX Index closed at 20.69 on March 12, comparable to its February 5 value of 20.87.
  - The VIX index is still above its historical median of 17.7.

# FINANCIAL MARKETS

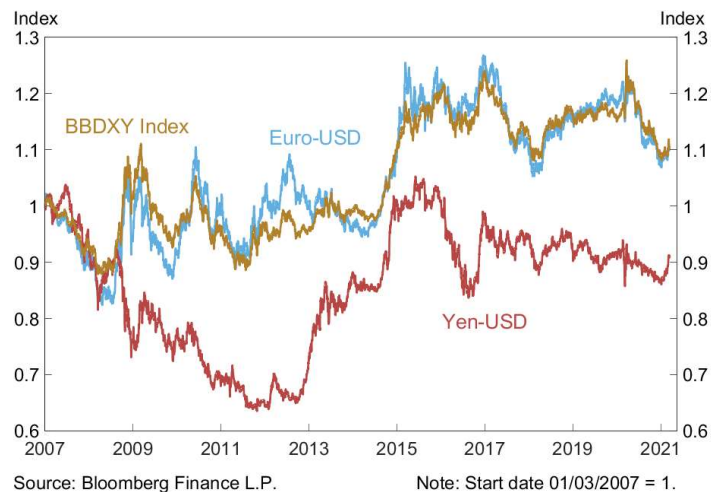
## Expected Federal Funds Rate



## Implied path for federal funds rate increases

- The expected path of the federal funds rate implied by rates on overnight indexed swaps (OIS) was unchanged for the next year, but increased for longer maturities.
- The market-implied federal funds rate at the end of 2023 is above the median value of the FOMC's Summary of Economic Projections from December 2020 and the NY Fed's Survey of Primary Dealers from January 2021.

## USD Exchange Rates



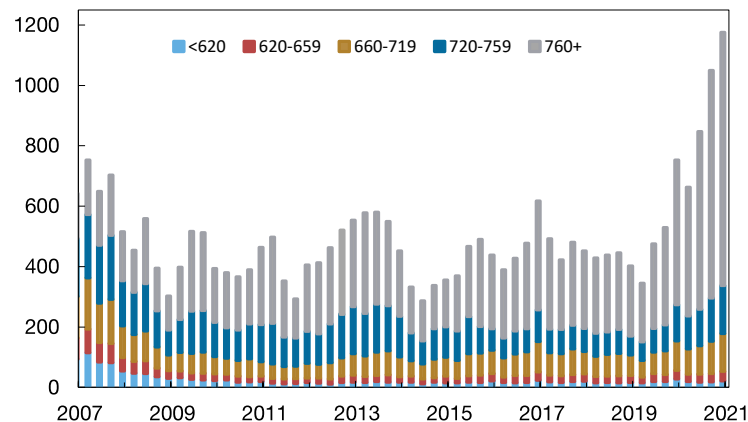
## U.S. dollar value continued to appreciate

- The exchange value of the dollar against a basket of global currencies increased 0.7% between February 5 and March 12.
  - Over this same period the dollar appreciated by 0.8% against the euro, and 3.5% against the Japanese yen.
- Since the start of 2021, the dollar has appreciated 1.7% against a basket of global currencies.

# SPECIAL TOPICS: MORTGAGES

## Mortgage Originations based on credit scores

Billions of dollars



Source: New York Fed Consumer Credit Panel/Equifax; Credit score is Equifax Risk Score 3.0

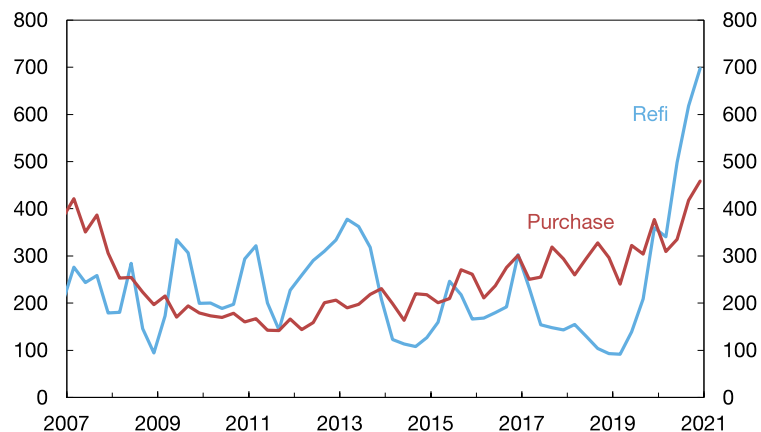
## 2020 originations dominated by prime borrowers

- Newly originated mortgages in Q4 2020 totaled \$1.2 trillion.
  - This surpasses the previous high in 2003 when a refinance boom boosted originations.
- Origination volumes increased for all credit score groups.
  - The most pronounced increase came from borrowers with credit scores over 760.
- New mortgages in 2020 were of higher quality than those originated in 2003, with a much larger share of borrowers having the highest credit scores (71% in Q4 compared to 31% in 2003).

## Mortgage Originations (refi and purchases)

Billions of dollars

Billions of dollars



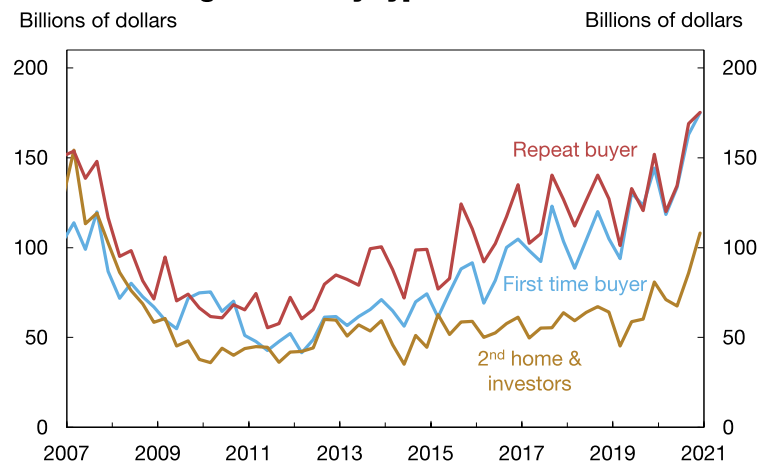
Source: New York Fed Consumer Credit Panel/Equifax

## Surge in both purchase and refinance mortgages

- Mortgage volumes for purchases were near the previous high in 2006.
  - The volume had been steadily rising since 2015, but jumped in 2020.
- Refinance mortgage originations matched the previous 2003 high.
  - Refinances were dominated by very high credit score borrowers, with the median score of refinancers near 800.

# SPECIAL TOPICS: MORTGAGES

## Purchase originations by type

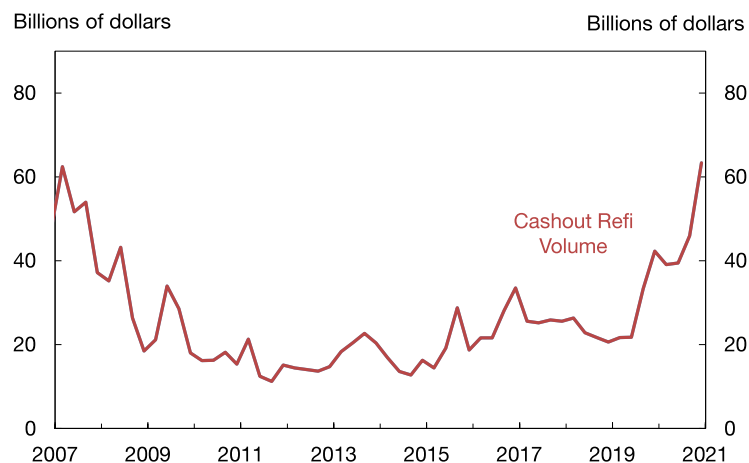


Source: New York Fed Consumer Credit Panel / Equifax

## First-time and repeat buyers had similar volumes

- An equal volume of mortgages went to first-time and repeat buyers.
- In contrast, during 2006-07, repeat buyers were the largest force, followed by investors and second home buyers.
- Investors and second home buyers saw an increase in 2020, though their share is lower than that seen during the housing boom preceding the Great Recession.

## Cashout Refinances



Source: New York Fed Consumer Credit Panel / Equifax

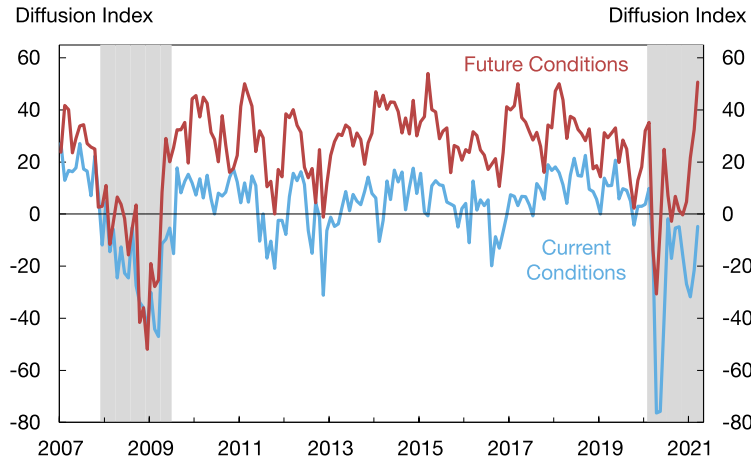
## Cashout refi volume picked up in 2020

- Homeowners withdrew \$188 billion in home equity in 2020.
- Although this increase is large overall, the average cashout amount was not.
  - The average cashout amount in 2020 was \$27,000, compared to \$49,000 in 2019.
  - The median cashout amount of \$6,700 indicates that many borrowers took out only enough cash to cover the closing costs.
- Cash extracted from home equity may be used to fund consumption or other investment opportunities, including home improvement.



# SPECIAL TOPICS: REGIONAL

## New York Fed Business Leaders Survey



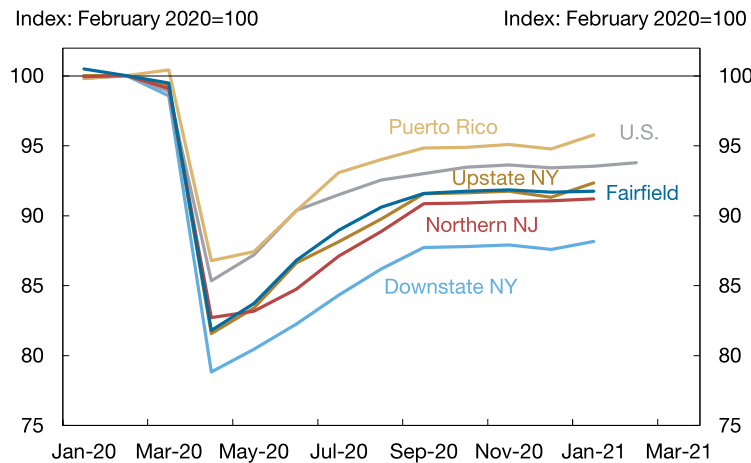
Source: New York Fed

Note: Shading shows NBER recessions.

## Decline in 2<sup>nd</sup> District service sector moderated

- The Business Leaders Survey's headline index rose 17 points in March, but was still below zero at -4.8.
- The months-long decline in the leisure and hospitality sector eased significantly.
  - **Weakness was still reported by the construction and transportation/warehousing industries.**
- Businesses expressed widespread optimism about the outlook for the next six months for the first time since the pandemic began.
  - **The survey's future headline index reached a near record high.**

## Regional Employment Trends



Source: U.S. Bureau of Labor Statistics and Moody's Economy.com

Note: Data are early benchmarked by New York Fed staff.

## Employment in the 2<sup>nd</sup> District was stable

- Employment has been generally flat across the Second District since September, with a small uptick in January in New York State and Puerto Rico.
- Employment remains below pre-pandemic levels across the region.
  - **Job shortfalls relative to February 2020 are 12% for downstate New York, 9% for Northern New Jersey, 8% for upstate New York and Fairfield CT, and 4% for Puerto Rico.**