



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economy in a Snapshot

Research & Statistics Group

February 2022

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 February 8, 2022.

OVERVIEW

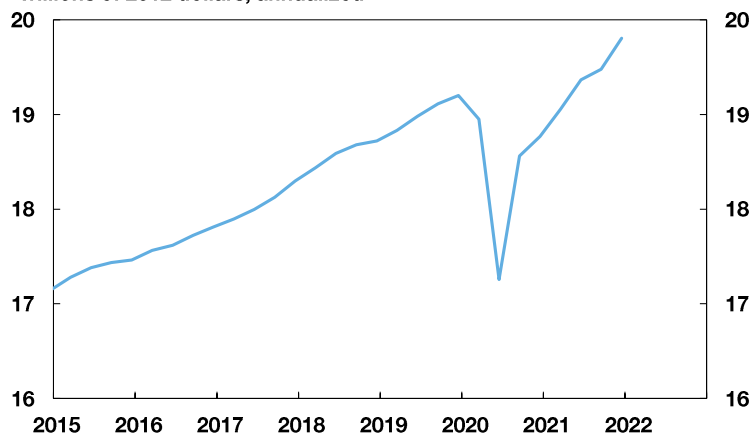
Real disposable income continued to trend down, consumer spending on goods fell sharply, and inflation moved higher.

- GDP growth picked up in Q4.
 - **Most of the growth was due to inventory accumulation.**
 - **Consumer purchases grew modestly, with almost all of the increase due to spending on services.**
 - **Fixed investment spending rose, the net exports component was unchanged, and government spending fell.**
- Real disposable income dipped again in December.
 - **The level was unchanged over the year, putting it below its trend growth path.**
 - **Real consumer spending declined, with a steep drop in purchases of durable goods.**
 - **Real spending was still up substantially over the year.**

- Payroll employment continued to grow at a solid pace in January, while the unemployment rate moved slightly higher.
- Core PCE inflation over the year increased in December, with prices for durable goods rising more than twice as fast as prices for services.
- The 10-year Treasury yield rose despite estimates that the term premium fell. The S&P 500 stock index retreated over the month, putting it down 6% since the start of the year. The market-implied federal funds rate path shifted up.

Real GDP

Trillions of 2012 dollars, annualized



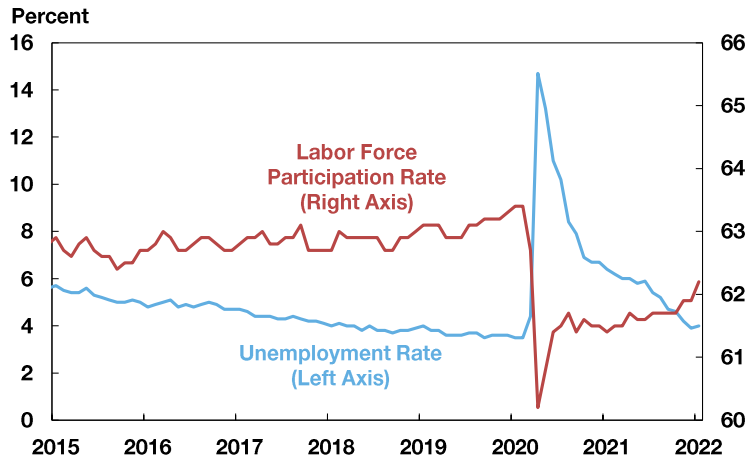
Source: Bureau of Economic Analysis via Haver Analytics

Q4 output was just below its pre-pandemic trend level

- GDP has grown at a 1.6% annual rate since Q4 2019.
 - **The median estimate for the longer-run GDP growth rate was 1.8% in the December Summary of Economic Projections (SEP).**
 - **The October Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.**
 - **Q4 GDP was less than 1% below what it would have been if, since Q4 2019, it grew at a rate close to longer-run forecasts.**
- The unemployment rate was near its longer-run normal level.
 - **The 4.0% unemployment rate in January was equal to the consensus long-run forecasts of 4.0% in the Blue Chip survey and the median SEP projection of 4.0% for the longer-run unemployment rate.**
 - **The labor force participation rate in January was a little more than one percentage point below pre-pandemic levels.**

OVERVIEW

Labor Market Indicators

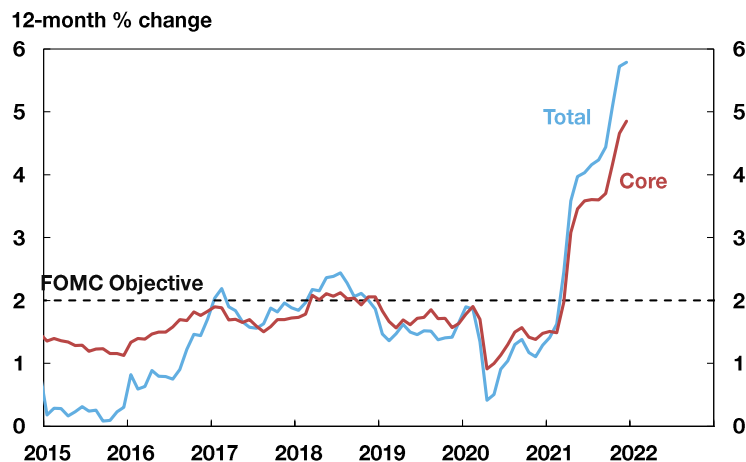


Source: Bureau of Labor Statistics via Haver Analytics

Employment growth was solid in January

- Nonfarm payroll employment increased by 467,000 in January.
 - Payrolls in private service-providing industries rose by 444,000, with the largest gains in leisure and hospitality (151,000) and professional and business services (86,000).**
 - Total government employment rose by 23,000.**
- The unemployment rate increased slightly from 3.9% to 4.0%.
- The labor force participation rate increased due to updated population estimates. Without the revision, the labor force participation rate would have been unchanged.

PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

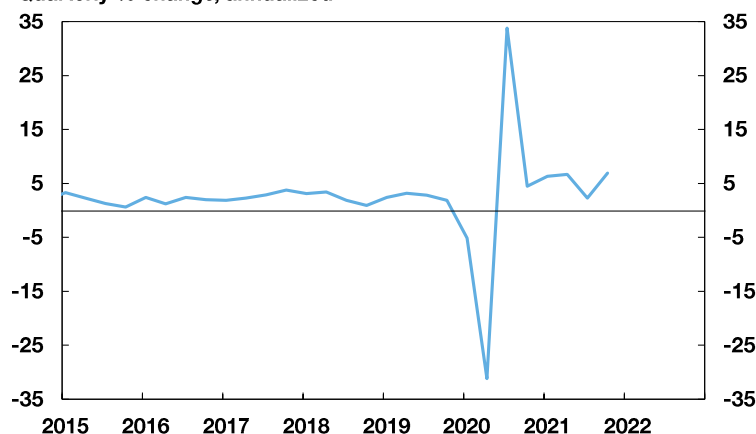
PCE inflation moved higher in December

- PCE inflation increased from 5.7% over the year in November to 5.9% in December.
 - Food prices were up 5.8% and energy prices were up 29.9%.**
- Core PCE inflation increased from 4.7% to 4.9%.
 - Consumer durable goods inflation rose from 9.6% to 10.5%.**
 - Prices for used vehicles were up 48%, prices for furniture were up 14%, and prices for new vehicles were up 12%.**
- The monthly change in core PCE averaged 0.5% in Q4.
 - The average monthly rate was 0.6% in Q2 and 0.3% in Q3.**

ECONOMIC ACTIVITY

GDP Growth

Quarterly % change, annualized



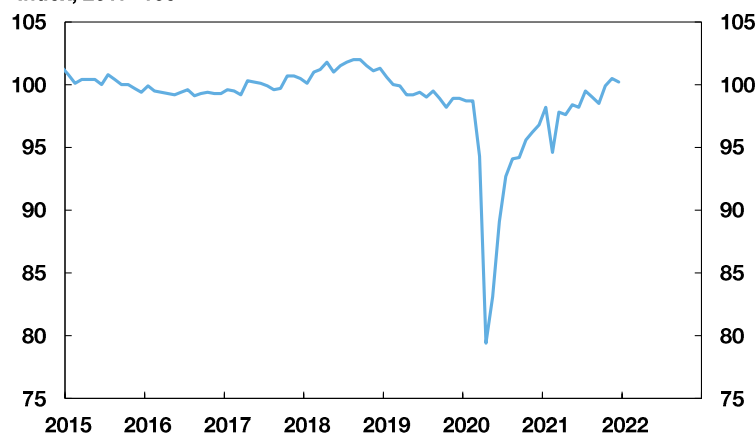
Source: Bureau of Economic Analysis via Haver Analytics.

GDP growth was robust in Q4, capping a strong year

- GDP rose at a 6.9% annual rate in Q4, a pickup from the 2.3% rate in Q3.
 - **Over 2021, GDP grew 5.5% (Q4/Q4), the highest annual growth rate since 1984.**
 - **Inventory investment was the major contributor to GDP growth, as businesses restocked depleted inventories.**
 - **Consumer spending grew moderately in Q4, which was an improvement from the modest growth in Q3.**
- Real disposable income fell in Q4 because of lower transfers and elevated inflation.
 - **The personal saving rate dropped to 7.4%, which was near pre-pandemic levels.**

Manufacturing Index

Index, 2017=100



Source: Federal Reserve Board via Haver Analytics

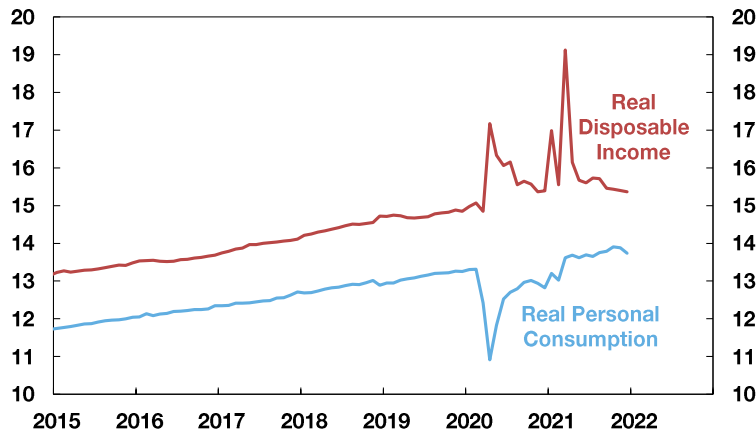
Manufacturing activity fell in December

- The manufacturing index dropped 0.3% in December, after rising 0.6% in October.
 - **The index in Q4 was up 1% over Q3 and up 4% over the year-ago level.**
 - **The index was 2% above its pre-pandemic level.**
- The motor vehicles index fell modestly in December.
 - **The Q4 value was 6% above the Q3 level, but was 5% below the year-ago level and 5% below the pre-pandemic level.**
- The ISM manufacturing index was at a high level in January.
 - **The Suppliers Delivery component declined but was still at a high level, consistent with continuing supply chain difficulties.**

HOUSEHOLDS

Disposable Income and Consumption

Trillions of 2012 dollars, annualized



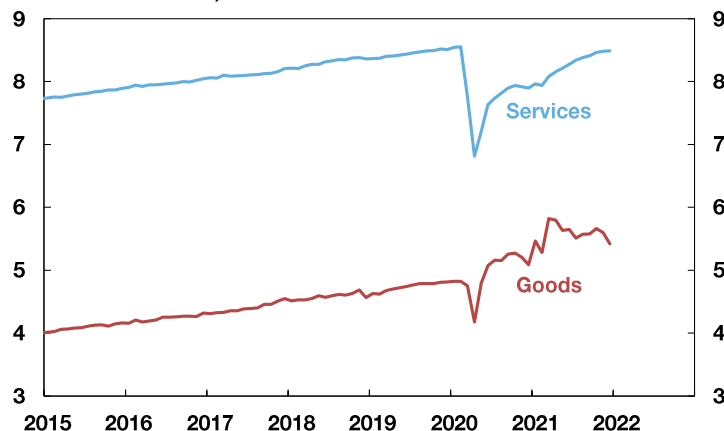
Source: Bureau of Economic Analysis via Haver Analytics

Consumer spending fell in December

- Real personal consumption expenditures fell 1.0% in December, following a 0.2% decline in November.
 - The drop moved consumer spending below its trend growth path.**
- Real disposal income decreased 0.2% in December, while nominal personal income rose 0.3%.
 - Nominal compensation was up 0.6% while proprietors' income fell 1.1% and personal transfer receipts were unchanged.**
 - Compensation was up 8% over the year, proprietors' income was up 13%, and transfers were up 6%.**
 - Real disposable income was down 0.2% over the year, putting the level below its trend growth path.**

Consumer Spending

Trillions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

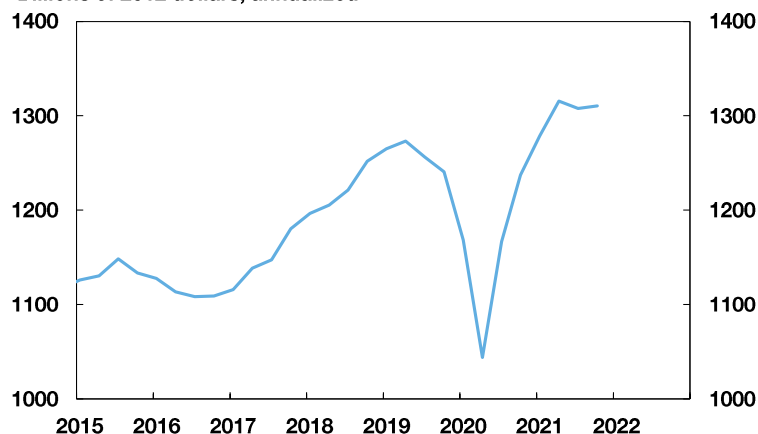
Spending on goods fell in December

- Real spending on goods decreased 3.1% in December, following a 1.1% decline in November.
 - Purchases of durable goods were down 5% over the month, with the biggest declines in home furnishings, appliances, and information/communications equipment.**
 - Spending on nondurables fell 2%, with clothing down 7%, games and toys down 5%, and food down 1%.**
 - Spending on goods was around 5% above its trend growth path.**
- Real spending on services was unchanged in December.
 - Spending was 5% below its trend growth path.**
 - Lagging sectors include health care, entertainment, air transportation, and lodging.**

BUSINESS SECTOR

Business Investment Spending on Equipment

Billions of 2012 dollars, annualized



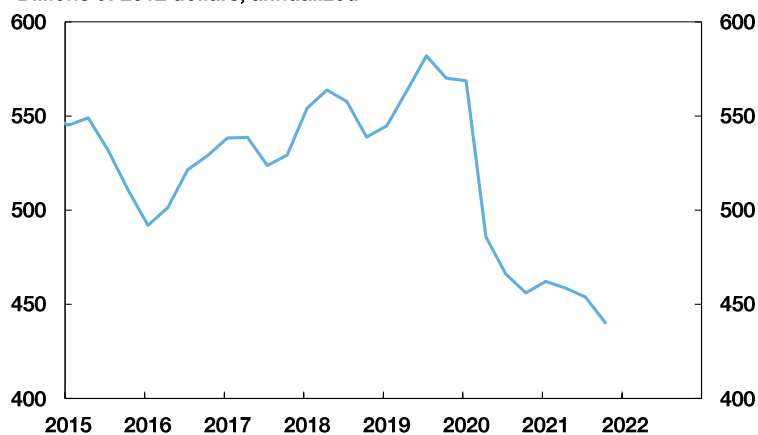
Source: Bureau of Economic Analysis via Haver Analytics

Equipment spending rose slightly in Q4

- After falling in the previous quarter, real business equipment spending moved slightly higher in Q4.
 - **Equipment spending added 0.05 percentage point to annualized GDP growth in the quarter.**
 - **Robust increases in the information and industrial equipment categories were offset by falls in the transportation and other equipment categories.**
 - **Despite a flat performance in the second half of the year, equipment spending rose 5.9% over the course of 2021.**
- Orders of capital goods remained high in December, but some of that measured strength reflects higher prices.

Business Investment in Nonresidential Structures

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

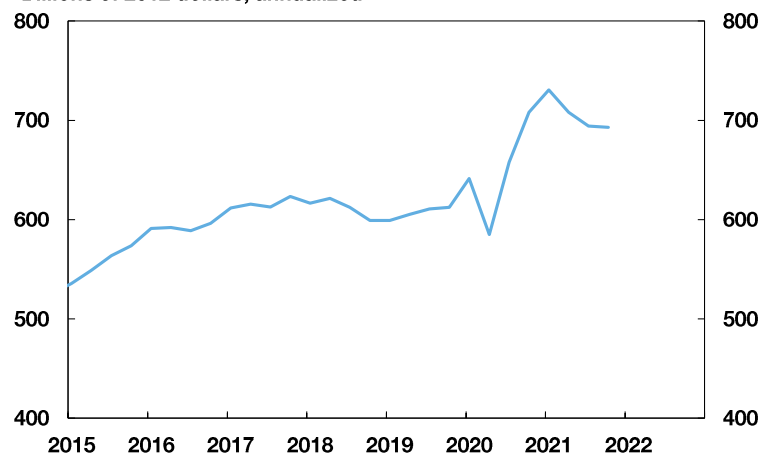
Spending on nonresidential structures fell in Q4

- Real nonresidential structures investment spending decreased at a 11% annual rate in Q4.
 - **The decline subtracted 0.3 percentage point from annualized GDP growth.**
 - **Nonresidential structures spending fell 3.5% over the course of 2021 and was down 23% since Q4 2019.**
- The level of spending in the energy sector was an outlier as it increased for the fifth straight quarter.
 - **Spending on mining exploration, shafts, and wells was still down 17% from its Q4 2019 level.**
- Monthly data on nonresidential construction through December do not yet point to a significant turnaround.

HOUSING SECTOR

Residential Investment

Billions of 2012 dollars, annualized



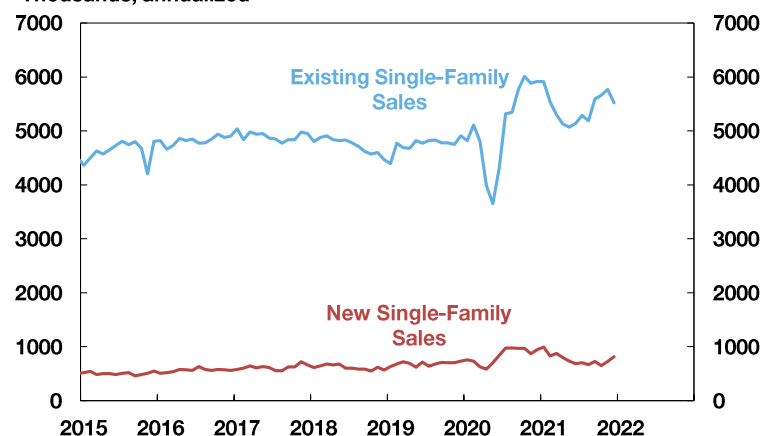
Source: Bureau of Economic Analysis via Haver Analytics

Residential investment spending was flat in Q4

- Residential investment was unchanged relative to Q3.
 - Residential investment was 13% above its Q4 2019 level.**
- Investment has been strong in both single-family and multi-family structures during the pandemic.
 - Single-family construction in Q4 was up 19% relative to Q4 2019 and multi-family construction was up 22%.**
 - Relatively small increases in home improvements held down the growth in overall residential investment spending.**
- Housing starts data for November and December showed some upward momentum in spending going into Q1 2022.

New and Existing Home Sales

Thousands, annualized



Source: Census and National Association of Realtors via Haver Analytics

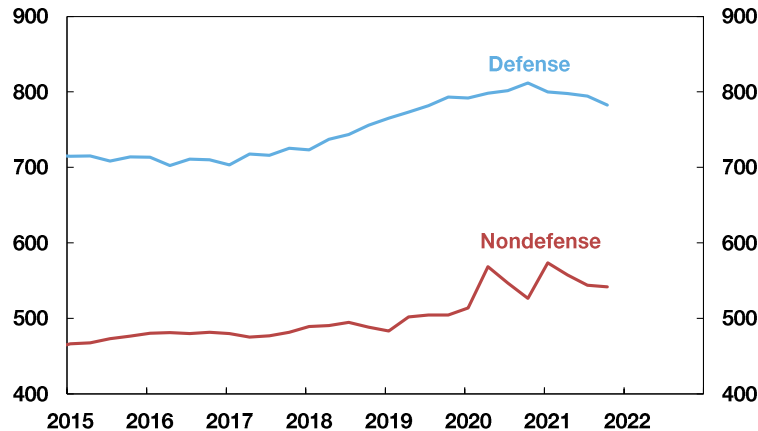
Existing home sales remained high

- Existing single-family home sales decreased 4% in December, to 5.52 million units (annualized).
 - Q4 sales were up 5% relative to Q3.**
 - Sales were 15% above pre-pandemic levels.**
- New single-family home sales increased 11% to 811,000 units in December.
 - Sales in Q4 were down from the elevated levels reached in the second half of 2020 and Q1 2021.**
 - Q4 sales were near Q4 2019 levels.**
- Home prices continued to move sharply higher.
 - The median sales price of existing homes was up 16% over the year in December.**

GOVERNMENT SECTOR

Federal Government Spending

Billions of 2012 dollars, annualized



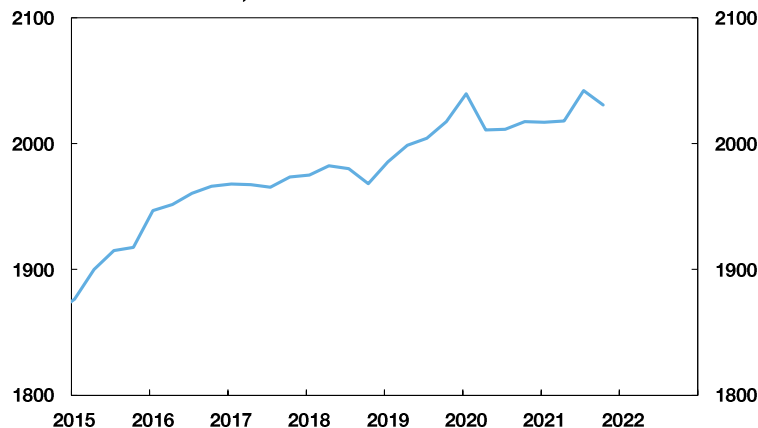
Source: Bureau of Economic Analysis via Haver Analytics

Federal spending slumped in Q4

- Federal government spending subtracted 0.3 percentage point from annualized GDP growth in Q4, following a drag of 0.4 percentage point in Q3.
 - **Spending was down 1.0% over the year, but up 2.1% since Q4 2019.**
- The drag on growth came largely from defense spending.
 - **Defense spending subtracted 0.2 percentage point from growth, while nondefense spending subtracted 0.1 percentage point.**
- The Paycheck Protection Program, which added volatility to quarterly data during the pandemic, has fallen out of the picture.

State and Local Government Spending

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

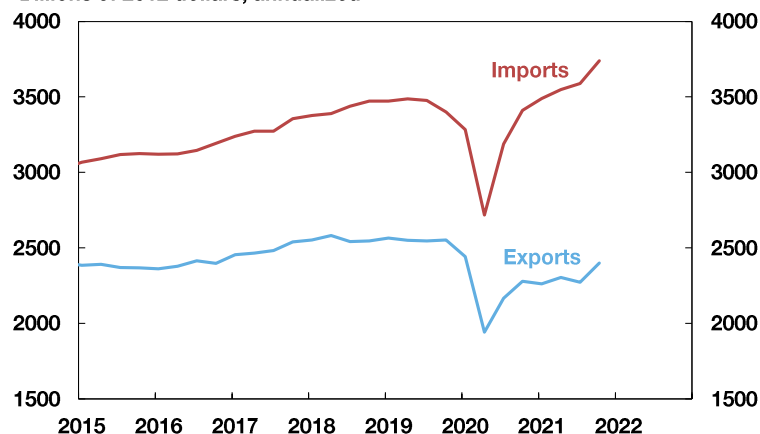
State and local government spending declined in Q4

- Real state and local government spending in Q4 fell 0.6% over the quarter, subtracting 0.2 percentage point from annualized GDP growth.
 - **Spending was near the Q4 2019 level.**
- S&L government consumption fell 0.3% over the quarter.
 - **Spending was up 2% over Q4 2019.**
- Investment spending fell 1.6%, with a 2.6% drop in construction and a 1.7% increase in equipment purchases.
 - **Total investment spending was down 5% relative to Q4 2019, with construction spending down 8%.**
 - **Purchases of intellectual property products moved higher and were 15% above the Q4 2019 level.**

INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services

Billions of 2012 dollars, annualized



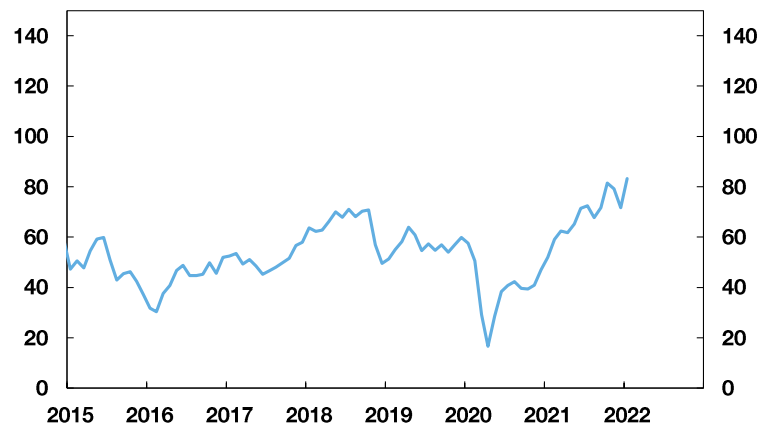
Source: Bureau of Economic Analysis via Haver Analytics

Net exports had no impact on Q4 growth

- Imports and exports rose by equal amounts in Q4.
 - Higher exports contributed 2.4 percentage points to annualized GDP growth and higher imports subtracted 2.4 percentage points.**
- Exports remained below pre-pandemic levels.
 - Higher sales were led by food, petroleum, motor vehicles, and nondurable consumer goods (vaccines).**
 - Services exports moved higher, with more tourism from abroad, but the level remained depressed.**
- Imports were well above pre-pandemic levels.
 - Half the increase in Q4 was in consumer goods, with autos and computers also up strongly.**
 - The increase in services slowed as travel abroad rose at a reduced pace.**

Crude Oil Prices

Dollars per barrel (WTI)



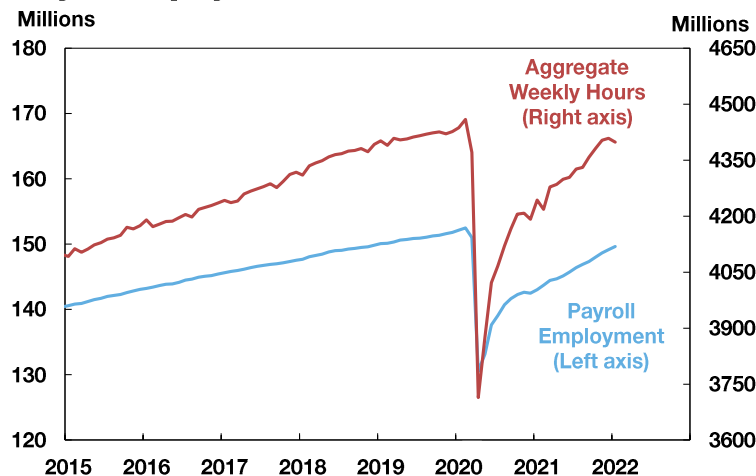
Source: Energy Information Administration via Haver Analytics

Oil prices moved higher

- Oil prices (WTI) increased from \$72/barrel in December to \$83/barrel in January and to around \$90/barrel in early February.
 - Conflict in the Ukraine is an upside risk to prices, while an agreement with Iran is a downside risk.**
- Demand for liquid fuels (crude and natural gas liquids) is projected to be flat in Q1 relative to Q4 2021 and then rise over the rest of the year.
- Global production is expected to increase 1% in Q1.
 - The Energy Department's January forecast had production equaling demand in Q1 2022 and then exceeding demand for the rest of the year.**

LABOR MARKET

Payroll Employment and Hours Worked



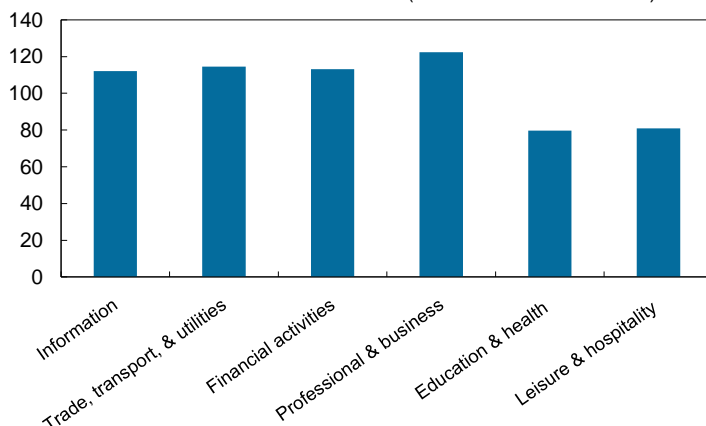
Source: Bureau of Labor Statistics

Employment growth was again solid

- Nonfarm payroll employment rose by 467,000 in January, following a 510,000 increase in December.
- The January report incorporated the annual benchmark revision.
 - These revisions resulted in significant changes to monthly employment growth data.**
 - However, these changes mostly offset each other, leaving the over-the-year change in employment 217,000 higher than previously reported.**
- Aggregate weekly hours worked by private employees fell by 0.3% in January.

Private Services Employment Recovery

Percent Recovered Feb. 2020 – Jan. 2022 (Total Gains / Total Losses)



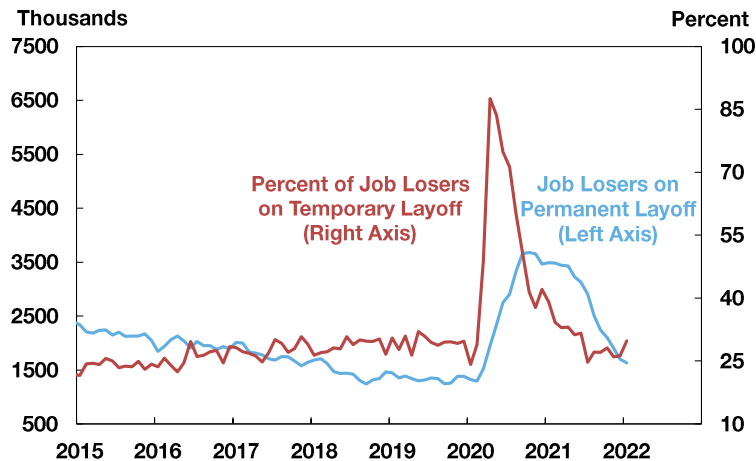
Source: Bureau of Labor Statistics via Haver Analytics

Services employment neared pre-pandemic levels

- Private-service industries have recovered 92% of their employment losses relative to February 2020.
 - All major industry categories have returned to their February 2020 employment levels or higher with the exceptions of education and health services and leisure and hospitality.**
- Employment in service industries rose in January.
 - Leisure and hospitality employment grew by 151,000 and trade, transportation, and utilities employment grew by 132,000.**

LABOR MARKET

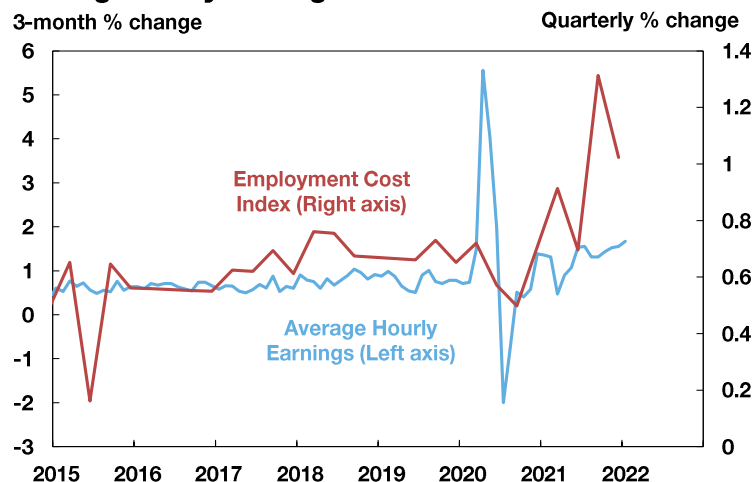
Permanent and Temporary Layoffs



Job losers on temporary layoff increased

- The number of permanent job losers continued its downward trajectory, declining by 73,000 to 1.6 million in August.
 - **This marks the lowest level of this series since April 2020.**
- The number of job losers on temporary layoff registered an increase of 147,000.
 - **After an average decline of 90,000 in the past three months, the number of job losers on temporary layoff increased for the first time since April 2021.**
 - **This increase likely reflects the effects of the surge of Omicron cases during the month.**
 - **The share of job losers on temporary layoff out of all job losers rose to 30%.**

Average Hourly Earnings and the ECI

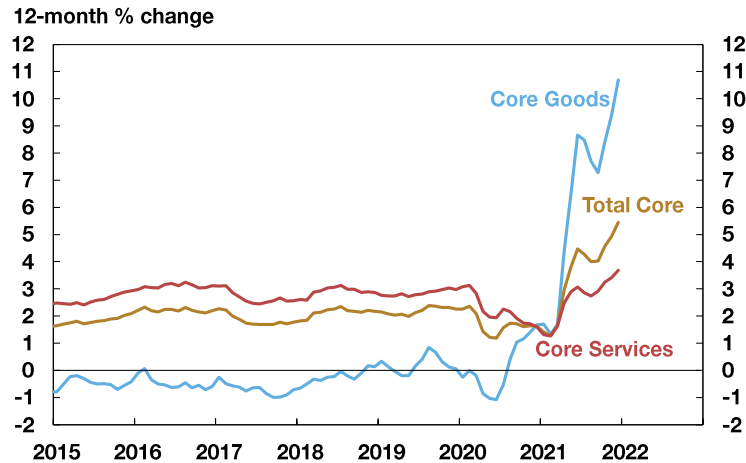


Average hourly earnings continued to grow

- Average hourly earnings rose by 0.7% in January, the highest growth rate since December 2020.
 - **Average hourly earnings were up 5.7% on a 12-month basis.**
 - **Average hourly earnings in leisure and hospitality were up 13.0% on a 12-month basis.**
- The employment cost index was up 1.0% in Q4 2021 over the previous quarter.
 - **The index was up 4.0% over the year.**

INFLATION

Core CPI Inflation

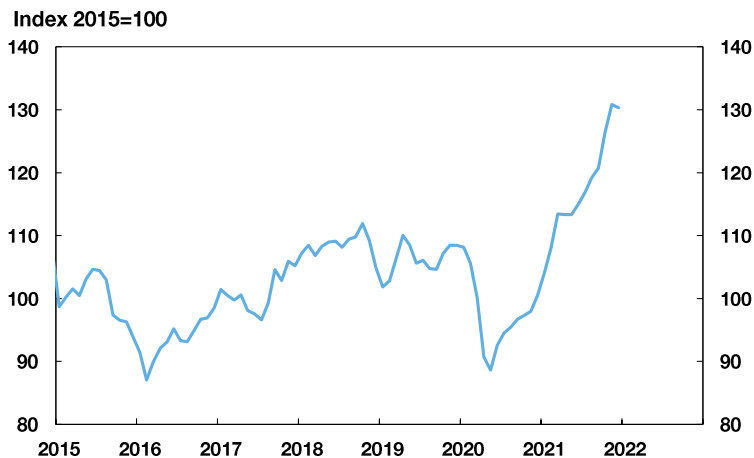


Source: Bureau of Labor Statistics via Haver Analytics

Core CPI inflation increased in December

- The core CPI was up 0.6% over the month in December (6.8%, annualized), after rising 0.5% in November.
 - **Monthly changes averaged 0.8% in Q2 and 0.2% in Q3, and 0.6% in Q4.**
 - **The monthly inflation rate for core goods rose from 0.7% to 1.1%, with high rates for used motor vehicles (3.5%), apparel (1.7%), home furnishings (1.3%) and new motor vehicles (1.0%).**
 - **The inflation rate for core services prices was unchanged at 0.4%, with a slight slowdown in shelter inflation.**
- Core inflation over the year rose from 4.9% to 5.5%.
 - **Core goods inflation increased from 9.4% to 10.7%.**
 - **Core services inflation rose from 3.4% to 3.7%.**

CPI Inflation: Energy Prices



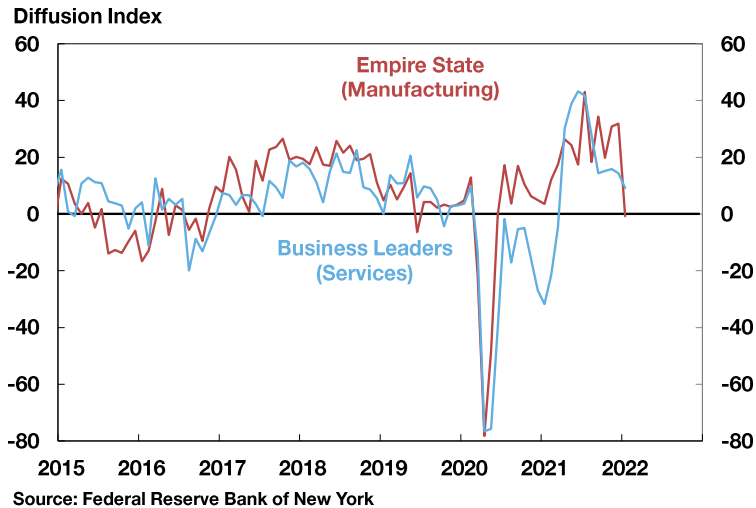
Source: Bureau of Labor Statistics via Haver Analytics

Energy prices were up sharply over the year

- The energy component of the CPI in December was 30% above its year-ago level.
 - **Gasoline was up 50% over the year, natural gas was up 24%, and electricity was up 6%.**
- The energy index was 22% above its 2019 average and up 7% relative to the most recent peak in mid-2014.
 - **The rebound in crude oil prices suggests the index will move higher in January.**
- Prices for electricity have been on an upward trend since August 2020.
 - **The index was largely unchanged from 2014 to 2019.**

REGIONAL DEVELOPMENTS

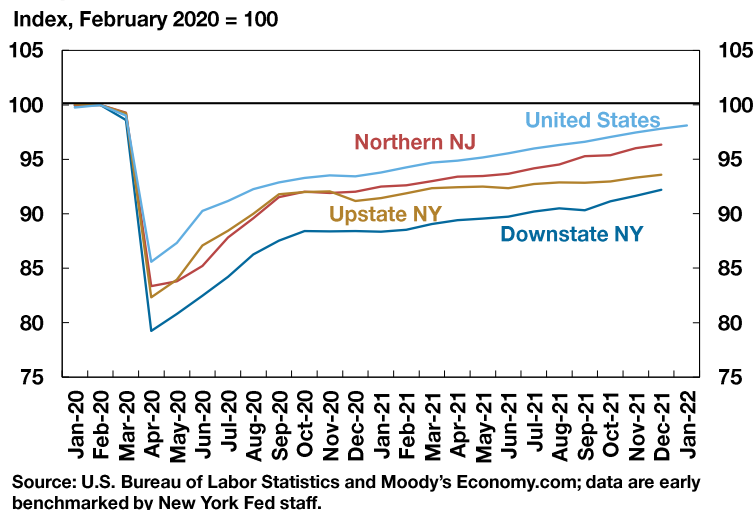
New York Fed Surveys: Current Conditions



District manufacturing firms saw growth stall

- Manufacturing growth in New York abruptly stalled, based on the January survey of firms, and growth in the service sector moderated.
 - The Empire Survey's headline index (manufacturing firms) plunged 33 points to -0.7, and the Business Leaders Survey's headline index (services firms) moved down five points to 9.2.**
 - Activity declined significantly in the leisure and hospitality and education and health sectors, but grew elsewhere in the service sector.**
 - Employment growth moderated in both sectors.**

Regional Employment Trends

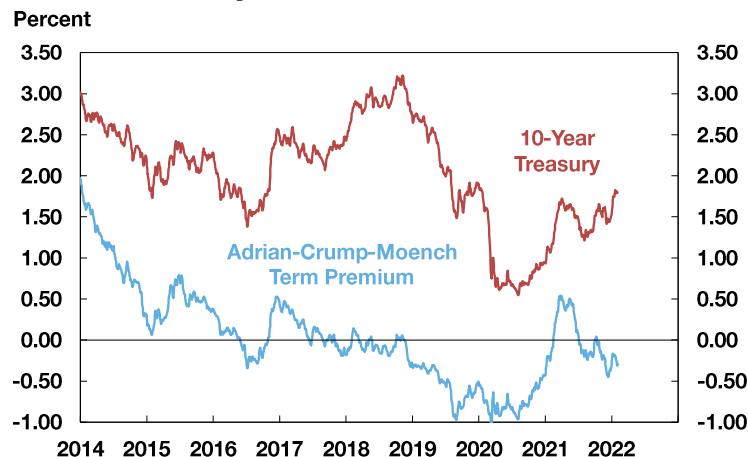


Regional employment gains lagged the nation

- Job shortfalls remained more significant in the region than nationally.
 - Downstate employment increased 2.0% during Q4 2021, 1.1% in Northern New Jersey, 0.9% in Fairfield CT, and 0.8% in upstate New York, compared with 1.2% nationally.**
 - Employment in December was 7.8% below pre-pandemic levels in downstate New York, 6.4% below in upstate New York, 3.7% below in Northern New Jersey, and 3.6% below in Fairfield, compared to a 2.2% job shortfall nationally.**
 - Employment in Puerto Rico was slightly above pre-pandemic levels.**

FINANCIAL MARKETS

10-Year Treasury and Term Premium



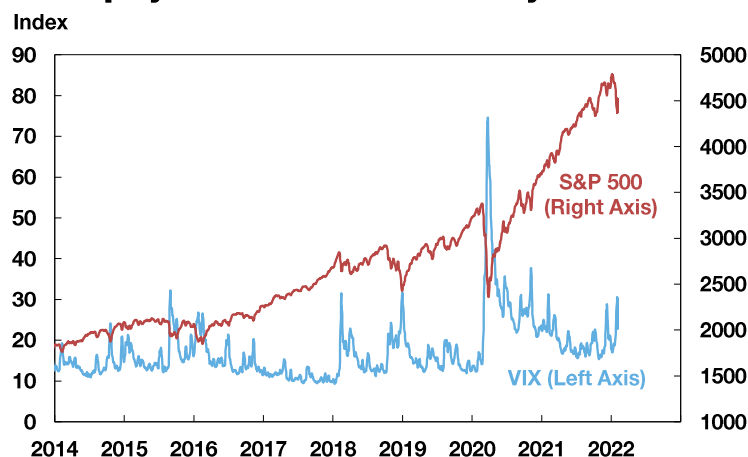
Sources: Federal Reserve Bank of New York and Federal Reserve Board via Haver Analytics

Note: Five-day rolling averages.

Ten-year Treasury yields moved higher

- The 10-year Treasury yield was at 1.92% on February 7, about 15 basis points higher than on January 10.
 - The yield was below the middle of the range observed in the period from the Global Financial Crisis until the beginning of the pandemic, but it remains about 1.40% higher relative to the lows observed in the summer of 2020.
 - Estimates from the Adrian-Crump-Moench term structure model decompose the rise in the 10-year Treasury yield during the past month as an increase in the expected interest rate path more than offsetting a decrease in the term premium.

U.S. Equity Market Index and Volatility



Source: Standard & Poor's and WSJ via Haver Analytics

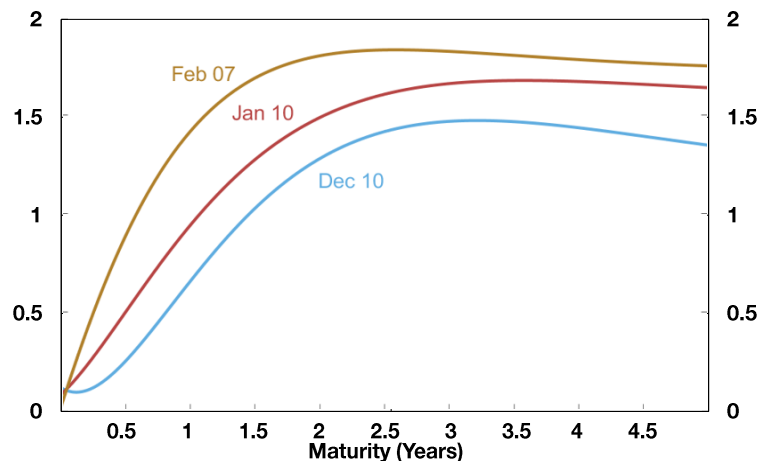
Note: Five-day rolling averages.

Equity prices declined

- U.S. equity prices, as measured by the S&P 500 index, fell 4% from January 10 to February 7.
 - The S&P 500 index was down 6% year-to-date on February 7 after being up 27% over the course of 2021.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), has been higher since early January.
 - The VIX Index was at 22.9 on February 7, above its median value of 17.8 over the period from 2000 to present.
 - The VIX Index reached levels in the low 30s in late January, above its average of around 25 since March 2020.

FINANCIAL MARKETS

Implied Fed Funds Rate



Source: NY Fed calculations, Bloomberg Finance L.P.

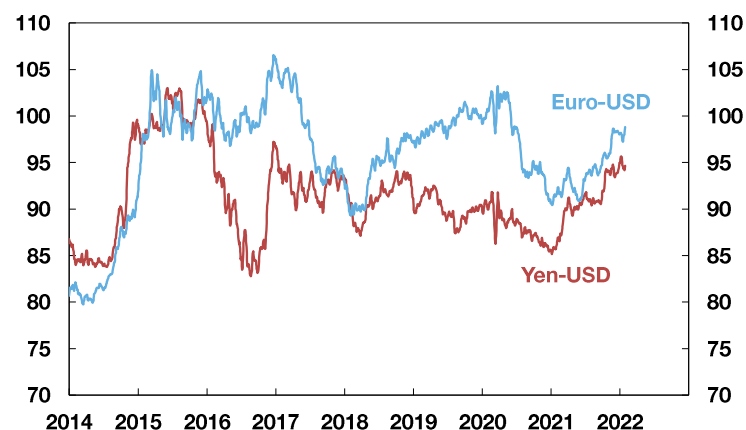
Note: Estimated using OIS quotes.

Implied path for the federal funds rate shifted up

- The expected path of the federal funds rate implied by overnight indexed swaps increased and steepened between January 10 and February 7.
 - **The implied path is around 30 to 40 basis points higher for maturities from six months to two years.**
- The market-implied federal funds rate at the end of 2023 was around 1.80%, which is slightly above the median value of the FOMC's Summary of Economic Projections (SEP) from December 2021.
- At the five-year horizon, the market-implied federal funds rate was around 1.75%, which was below the median SEP longer-run federal funds rate of 2.50%.

Dollar Exchange Rates

Index, 2015=100



Source: Federal Reserve Board via Haver Analytics.

Note: Five-day rolling averages.

The dollar has been stable

- The Federal Reserve's trade-weighted dollar index was unchanged on February 4 relative to January 10.
 - **The dollar depreciated 1% against the euro and was unchanged against the yen over this period.**
- The trade-weighted dollar index was near its level at the beginning of the year.