

PALOS

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Weekly Commentary

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Macro View

By Hubert Marleau

The NY Fed's November Snapshots of the U.S. Economy

Submitted November 14, 2021

A Snapshot of the Market for the Week Ended November 12, 2021:

The U.S. stock market finished the week on a high note. Despite Friday's solid gains, they weren't enough to erase the losses incurred at the beginning of the week, when the BLS reported devastating inflation numbers. The CPI was 6.2% higher than a year ago. Even without volatile items like food and energy, the index rose 4.6%. The last time we had numbers this high was in the early 1990s. The underlying inflation gauge dubbed UGI, which was created by the NY Fed, has been soaring since February and now stands at a record high of 4.3%. The UGI is an under-the-radar metric. It measures what is going on under the hood because it is defined as the persistent part of the common component of inflation.

As it turned out the market nevertheless held its high ground because the speculators bought the dip. The S&P 500 was down just 14 points or 0.3% and ended at 4683-only 0.4% off the all-time high of 4702.

Please find The NY Fed's November Snapshots of the U.S. Economy from page 2.

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U.S. Economy in a Snapshot

Research & Statistics Group

November 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 November 10, 2021.

OVERVIEW

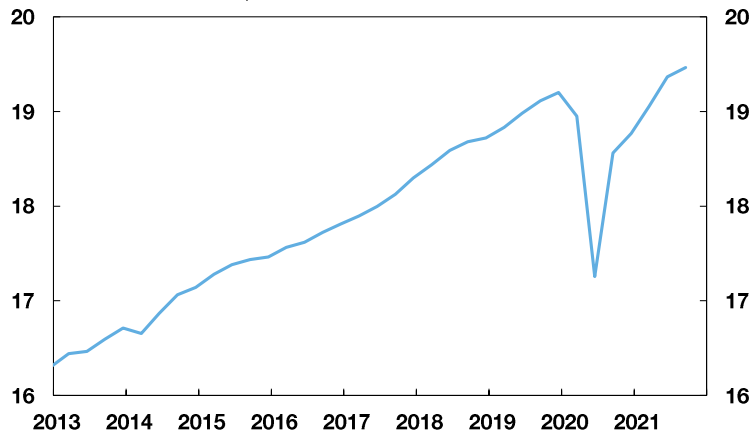
Consumer spending on durable goods continued to fall, while labor market data were strong.

- GDP growth slowed in Q3.
 - **Consumer spending increased at a much slower pace, with a drop in purchases of goods offsetting higher spending on services.**
 - **Investment spending on equipment, residential investment, exports, and federal government spending all declined.**
- Real disposable income fell in September.
 - **The drop was largely due to a steep decline in unemployment insurance payments.**
 - **Compensation and proprietors' income rose.**
 - **Saving as a percent of personal income retreated to pre-pandemic levels.**

- Payroll employment growth picked up in October and the unemployment rate fell again.
- Core PCE inflation over the year stayed at 3.6% in September, while October core CPI inflation accelerated to above June's peak rate.
- The 10-year Treasury yield has stayed near 1.55% since mid-October. The S&P 500 stock index moved higher, putting the index up 25% year-to-date on November 5. The market-implied federal funds rate path shifted up slightly for intermediate maturities.

Real GDP

Trillions of 2012 dollars, annualized



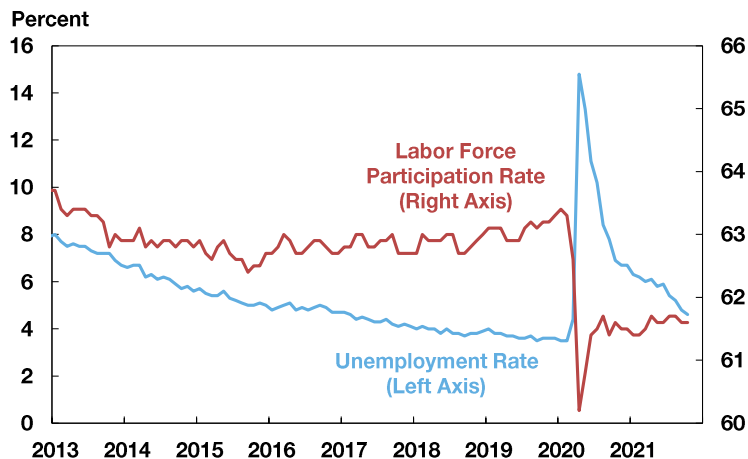
Source: Bureau of Economic Analysis via Haver Analytics

Output in Q3 was below its pre-pandemic trend level

- Q3 GDP was 1.4% above its previous peak in Q4 2019.
 - **The median estimate for the longer-run GDP growth rate was 1.8% in the September Summary of Economic Projections (SEP).**
 - **The October Blue Chip survey had expected average annual growth over the 2023-27 period at 2.1%.**
 - **The Q3 GDP level was about 2.0% below what it would have been if, since Q4 2019, the economy had grown at a rate close to longer-run forecasts.**
- Labor market data suggest there still is some slack.
 - **The 4.6% unemployment rate in October was above 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.**

OVERVIEW

Labor Market Indicators

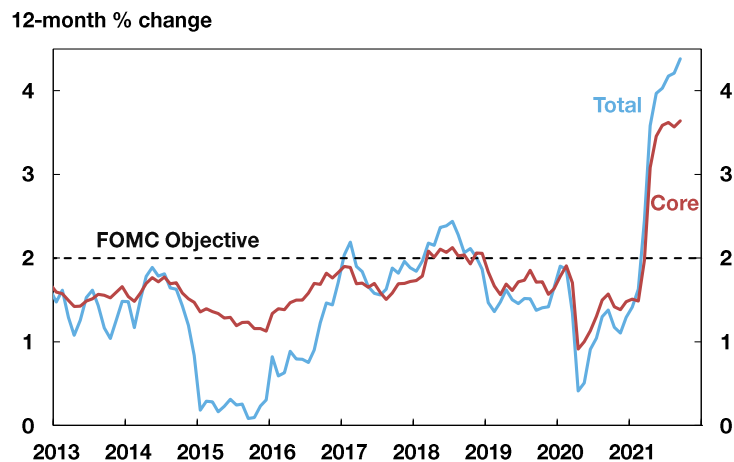


Source: Bureau of Labor Statistics via Haver Analytics

Employment growth accelerated in October

- Nonfarm payroll employment increased by 531,000 in October.
 - **Payrolls in private service-providing industries rose by 604,000, with notable gains in hospitality and leisure (164,000), professional and business services (100,000), and education and health services (64,000).**
 - **Government employment fell by 73,000, continuing a downward trend.**
- The unemployment rate declined from 4.8% to 4.6%.
- The labor force participation rate remained unchanged at 61.6%, while the employment-to-population ratio rose by 0.1 percentage point to 58.8%.

PCE Deflator



Source: Bureau of Economic Analysis via Haver Analytics

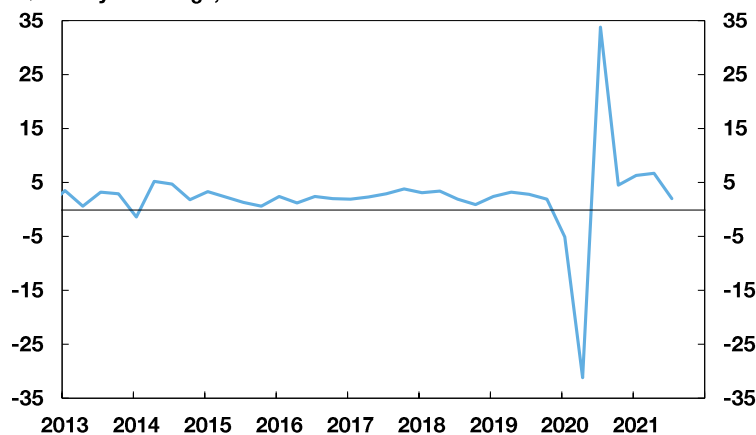
Inflation remained elevated in September

- PCE inflation ticked up from 4.2% over the year in August to 4.4% in September.
 - **Food prices were up 4.0% and energy prices were up 24.9%.**
 - **The annualized rate for the overall index over a two-year period increased from 2.7% to 2.9%.**
- Core inflation stayed at 3.6%.
 - **A major driver of core inflation was the 27% increase in used motor vehicle prices over the year.**
- The monthly change in core PCE was 0.3% in July and August and 0.2% in September.
 - **The average rate was 0.6% in Q2.**

ECONOMIC ACTIVITY

GDP Growth

Quarterly % change, annualized



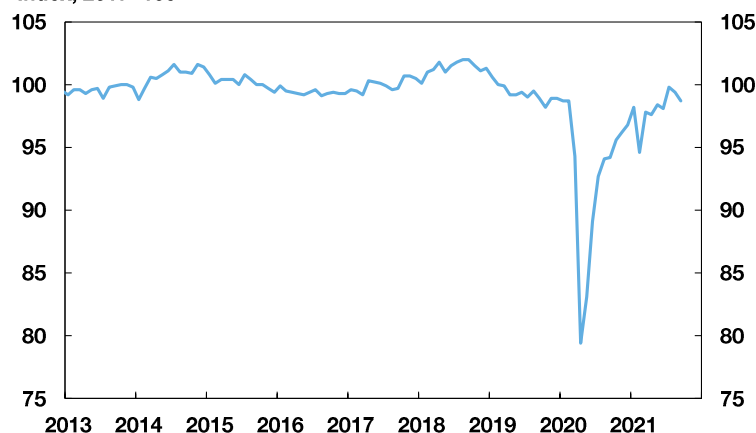
Source: Bureau of Economic Analysis via Haver Analytics.

GDP growth slowed considerably in Q3

- GDP rose at a 2.0% annual rate in Q3, after rising at a 6.5% rate in H1.
 - **The slowdown reflected various supply constraints and the summer's rise in COVID-19 inflections.**
 - **A subdued increase in consumer spending, with a large drop in purchases of motor vehicles, contributed significantly to the Q3 slowdown.**
- Intellectual property products and inventory investment boosted growth, while other fixed investment categories, federal government spending, and net exports were drags.
- Personal disposable income fell due to a drop in transfer income.
 - **The personal saving rate was the lowest since Q4**

Manufacturing Index

Index, 2017=100



Source: Federal Reserve Board via Haver Analytics

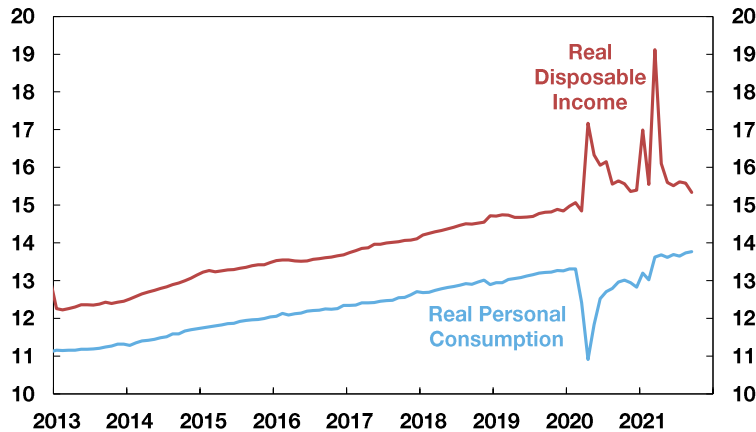
Manufacturing activity weakened in September

- The manufacturing index fell 0.3% in August and 0.8% in September after jumping 1.7% in July.
 - **The index was back to its February 2020 level.**
- A major source of volatility across industries was the motor vehicles category, which was down 7.2%, after falling 3.2% in August and increasing 8.7% in July.
 - **The industry is facing ongoing semiconductor shortages.**
 - **The index was down 15.9% compared to February 2020.**
 - **Overall manufacturing excluding motor vehicles and parts was 1.2% above the pre-pandemic level.**
- The ISM manufacturing index remained at a high level in October.

HOUSEHOLDS

Disposable Income and Consumption

Trillions of 2012 dollars, annualized



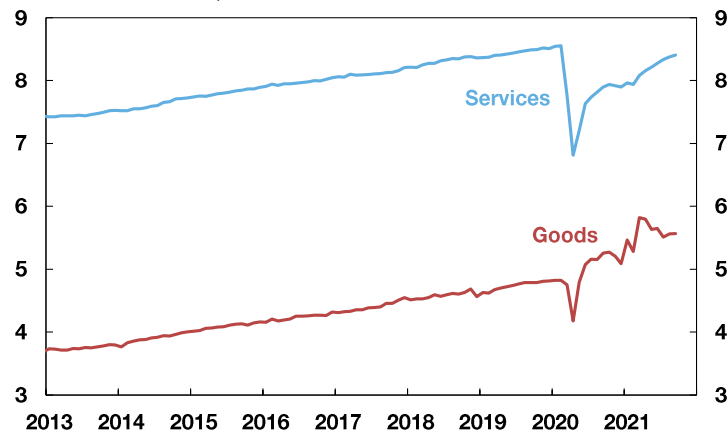
Source: Bureau of Economic Analysis via Haver Analytics

Real disposable income fell in September

- Real disposable income fell 1.6% in September, with nominal personal income down 1.0%.
 - Compensation rose 0.7%, a pickup from 0.3% in August.**
 - Proprietors' income increased 0.3% despite another decrease in income from PPP loans.**
 - Personal transfer receipts fell 7.0%, pulled down by a 72% decline in unemployment insurance benefits.**
 - Real disposable income was below its trend growth path.**
- Real personal consumption expenditures (PCE) increased 0.3% in September and were 3.4% above the February 2020 level.
 - PCE was near its trend growth path.**

Consumer Spending

Trillions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

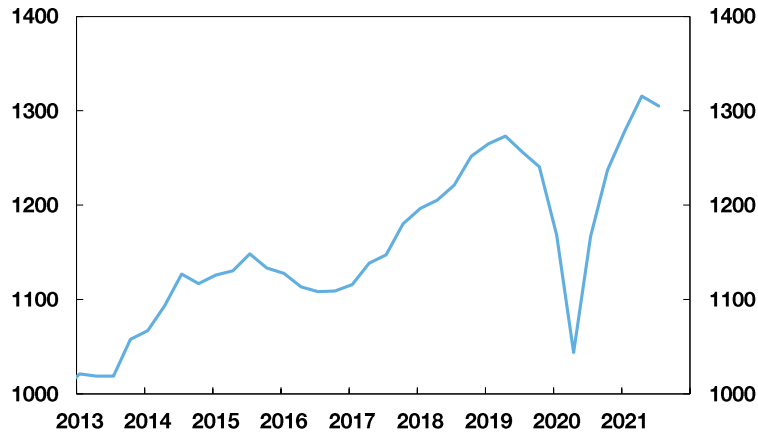
Spending on durables fell again

- Real expenditures continued to shift away from durable goods in September.
 - Durable goods spending was pulled down by a steep drop in purchases of new motor vehicles and a more modest decline in purchases of used vehicles.**
 - Higher prices and supply shortages restrained spending on motor vehicles.**
- Real spending on goods was up 0.1% (-0.5% for durables and +0.4% for nondurables) and up 0.4% for services.
 - Spending on services was 1.7% below its February 2020 level.**
 - In contrast, spending on goods was 15.2% above its pre-pandemic level, with spending on durables up 18.0% and nondurables up 13.8%.**

BUSINESS SECTOR

Business Investment Spending on Equipment

Billions of 2012 dollars, annualized



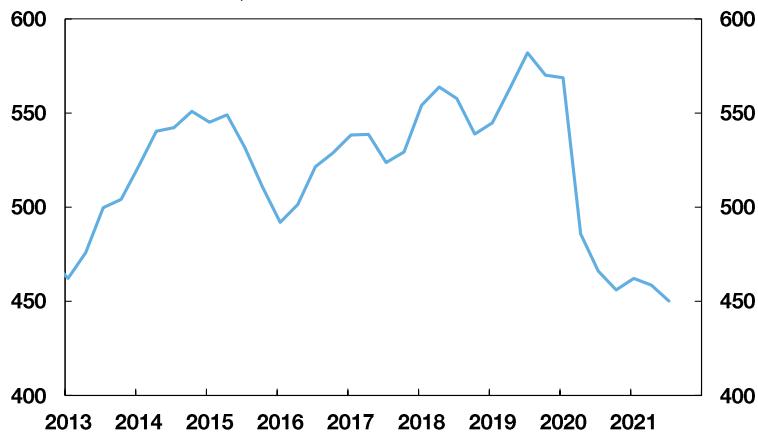
Source: Bureau of Economic Analysis via Haver Analytics

Equipment spending retreated modestly

- After rising at double-digit rates in the previous four quarters, real business equipment spending fell at a 3.2% annual rate in Q3.
 - **Equipment subtracted 0.2 percentage point from annualized GDP growth in the quarter.**
 - **There were declines in information processing and transportation equipment, but a rise in industrial equipment.**
 - **Even with the Q3 fall, equipment spending in the quarter was 2.5% above its previous peak in Q2 2019.**
- Orders of capital goods increased again in September, indicating ongoing momentum in equipment spending despite the Q3 fall.

Business Investment in Nonresidential Structures

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

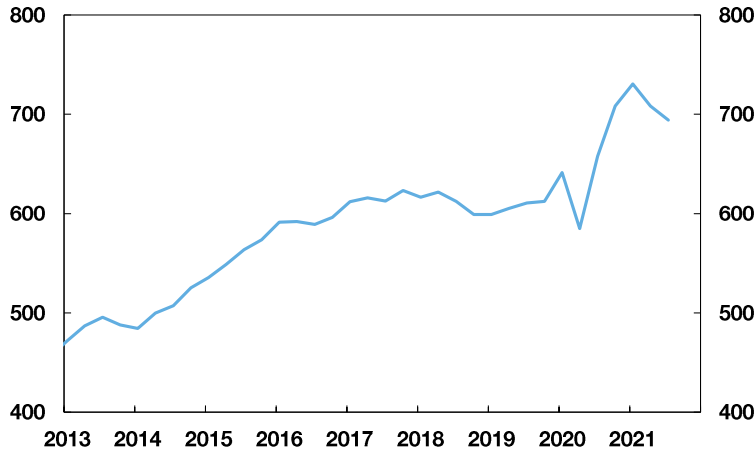
Spending on structures remained low

- Real nonresidential structures investment spending decreased at a 7.3% annual rate in Q3.
 - **The decline in spending subtracted 0.2 percentage point from annualized GDP growth.**
 - **Nonresidential structures spending was 3.4% below its year-ago level and 21.0% below its Q4 2019 level.**
- The level of spending in the energy sector again was an outlier as it increased for the fourth straight quarter.
 - **Spending on mining exploration, shafts, and wells was still down 20.4% from its Q4 2019 level.**
- Monthly data on nonresidential construction through September do not yet point to a turnaround in the sector.

HOUSING SECTOR

Residential Investment

Billions of 2012 dollars, annualized



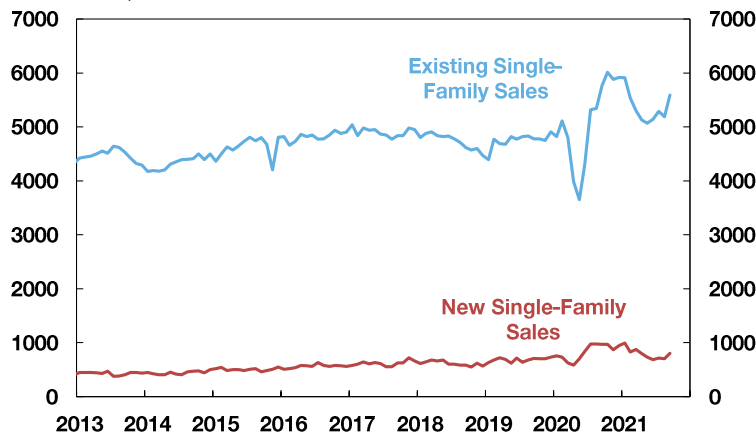
Source: Bureau of Economic Analysis via Haver Analytics

Residential investment moved lower

- Residential investment declined again in Q3, taking 0.4 percentage point off annualized GDP growth.
 - Residential investment was still 13.4% 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 21.7% in Q3 relative to Q4 2019 and multi-family construction was up 22.5%.**
 - Relatively small increases in home improvements and manufactured homes held down overall investment.**
- Housing starts data for September showed little upward momentum heading into Q4.

New and Existing Home Sales

Thousands, annualized



Source: Census and National Association of Realtors via Haver Analytics

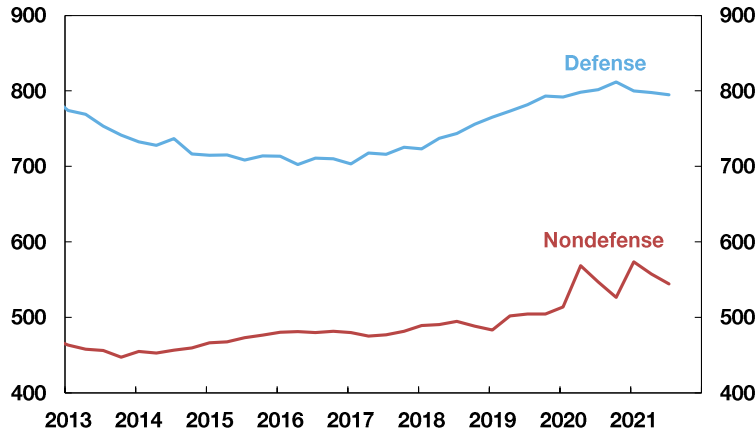
Home sales rebounded in September

- Existing single-family home sales increased 8% in September, to 5.59 million units (annualized).
 - Sales were down from the high pace set in the second half of 2020, but were still well above pre-pandemic levels.**
- New single-family home sales jumped 14% to 800,000 units in September.
 - Sales moved back to where they were in April.**
- Demand remained strong even though home prices were up roughly 20% over the year in September.

GOVERNMENT SECTOR

Federal Government Spending

Billions of 2012 dollars, annualized



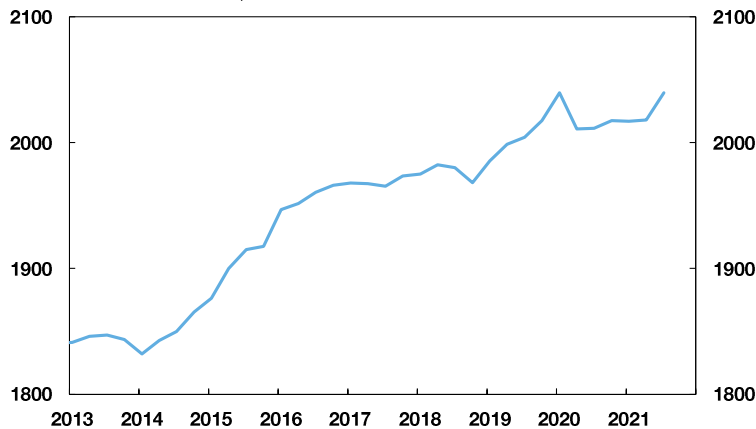
Source: Bureau of Economic Analysis via Haver Analytics

Real federal spending slumped in Q3

- Real federal government spending subtracted 0.3 percentage point from annualized GDP growth in Q3, following on a 0.4 percentage point drag in Q2.
 - Spending was down 0.7% over the year, but up 3.3% since Q4 2019.**
- The drag on growth came almost entirely from nondefense spending.
 - Nondefense spending subtracted 0.3 percentage point from growth, while defense spending was essentially unchanged.**
- Lower payments to banks related to the Paycheck Protection Program accounted for most of the fall.

State and Local Government Spending

Billions of 2012 dollars, annualized



Source: Bureau of Economic Analysis via Haver Analytics

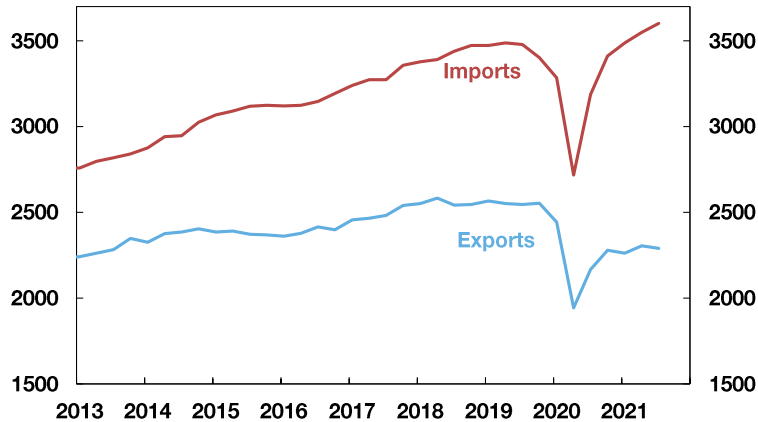
State and local government spending rose

- Real state and local government spending added 0.5 percentage point to annualized GDP growth in Q3.
 - Spending was unchanged in the first half of the year.**
- S&L government consumption rose 1.7% over the quarter.
 - Spending was up 1.3% relative to Q4 2019.**
- Investment spending fell 1.7%, pulled down by a 2.0% drop in construction and a 3.5% decline in equipment purchases.
 - Total investment spending was down 3.9% relative to Q4 2019, with spending on construction down 18.6%.**
 - Purchases of intellectual property products were 13.8% above the pre-pandemic level.**

INTERNATIONAL DEVELOPMENTS

Exports and Imports of Goods and Services

Billions of 2012 dollars, annualized



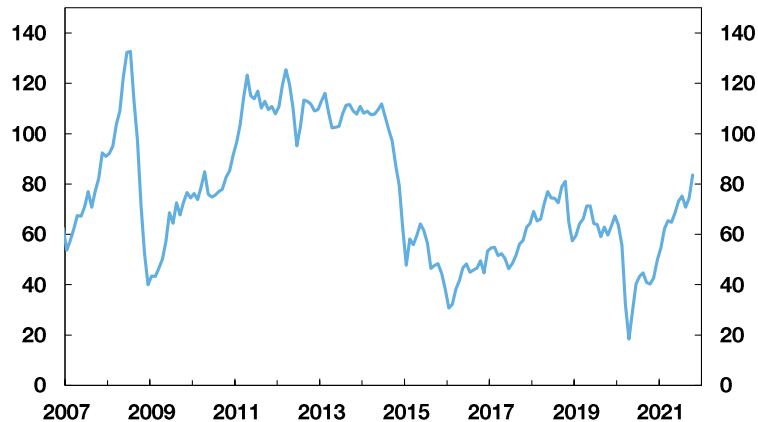
Source: Bureau of Economic Analysis via Haver Analytics

Net exports were a drag on Q3 growth

- Imports rose faster than exports in Q3.
 - Net exports took 1.2 percentage points off annualized GDP growth, as falling exports subtracted 0.3 percentage point to growth and higher imports subtracted 0.9 percentage point.**
- Exports remained below pre-pandemic levels.
 - Sales of capital goods, oil, and autos declined.**
 - Services exports rose modestly from a depressed level.**
- Imports continued to surpass pre-pandemic levels.
 - Imports of goods were flat, held down by declines in autos and consumer goods.**
 - A jump in travel abroad pushed up service imports.**

Crude Oil Prices

Dollars per barrel (WTI)



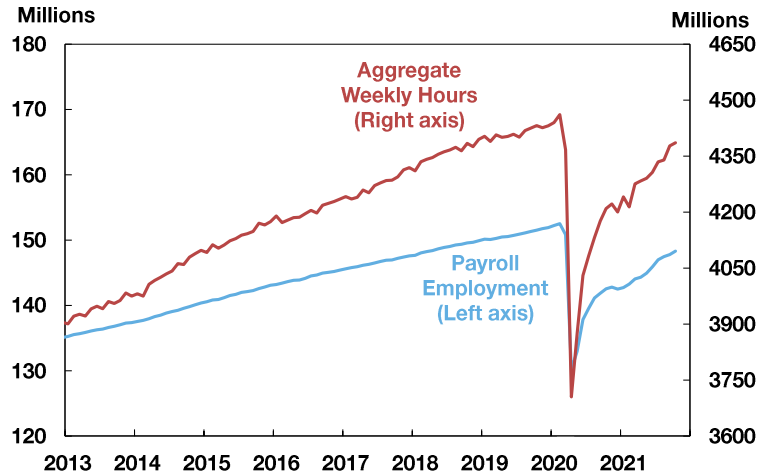
Source: Energy Information Administration via Haver Analytics

Oil prices moved higher in October

- Oil prices (WTI) rose from \$72/barrel in September to \$81/barrel in October and in early November.
 - Prices averaged \$66/barrel in Q2 and \$71/barrel in Q3.**
 - Global production is estimated to have remained below consumption in Q3 2021.**
- Demand for liquid fuels (crude and natural gas liquids) is projected to have increased from 96.7 million barrels per day (mb/d) in Q2 to 98.5 mb/d in Q3.
 - China's demand fell 0.5 mb/d, while U.S. demand rose 0.1 mb/d and Europe's demand jumped 1.1 mb/d.**
- Liquid fuel production rose from 94.8 mb/d to 96.6 mb/d.
 - A 0.5 mb/d drop in Q3 U.S. production was more than offset by a 1.5 mb/d increase in OPEC production.**

LABOR MARKET

Payroll Employment and Hours Worked

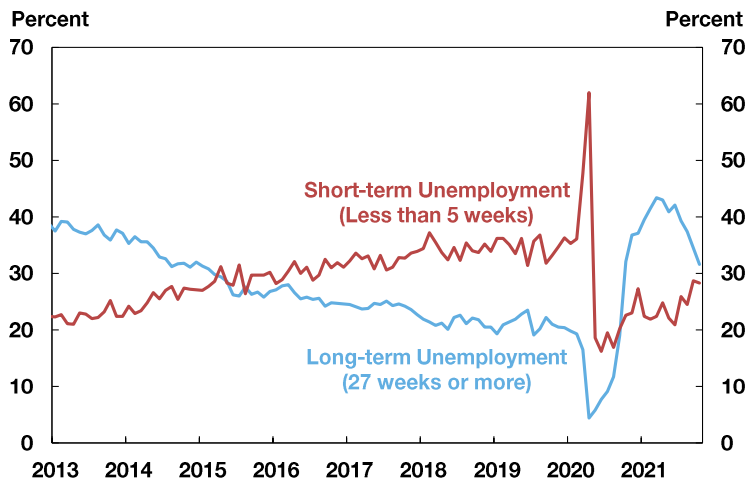


Source: Bureau of Labor Statistics

Employment growth accelerated in October

- Nonfarm payroll employment rose by 531,000 in October, well above the increase of 312,000 in September.
 - **Monthly employment growth averaged 629,000 in Q2 and 615,000 in Q1.**
- Gains were primarily concentrated in private service-providing industries, which registered a 496,000 increase in employment.
 - **Leisure and hospitality (164,000) and professional business services (100,000) showed the largest gains.**
- State and local government employment continued to fall, with a 65,000 decrease in education services.

Share of Unemployment by Duration



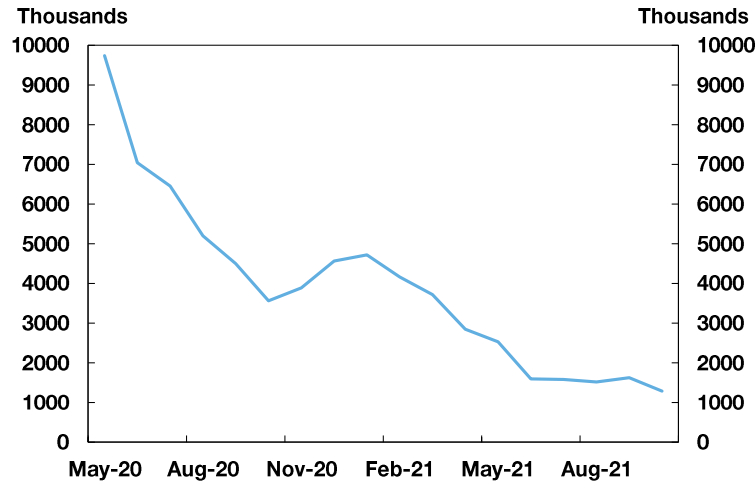
Source: Bureau of Labor Statistics via Haver

Long-term unemployment continued to fall

- The overall unemployment rate fell 0.2 percentage point in October, reaching 4.6 percent.
 - **The share of long-term unemployed—those unemployed for at least 27 weeks—fell to 31.4%, down 2.9 percentage points from September.**
 - **The median length of unemployment decreased by 1.3 weeks to 12.0 weeks.**
- The share of short-term unemployed (less than 5 weeks) dipped slightly to 28.3 percent.

LABOR MARKET

Workers Unable to Look for Work Due to COVID-19

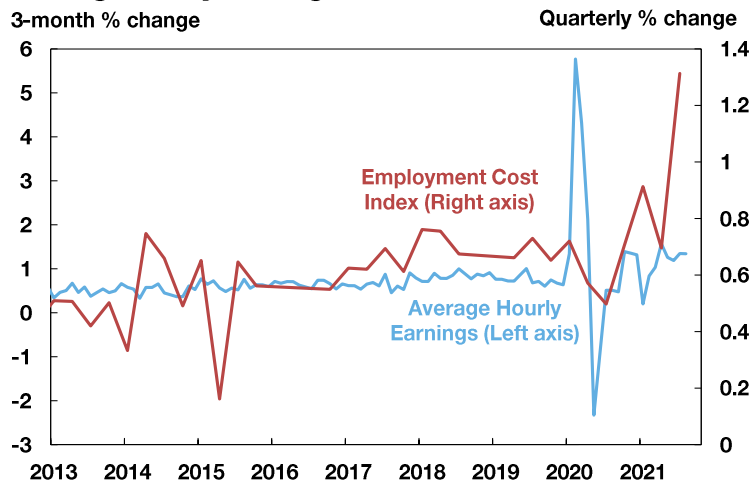


Source: Bureau of Labor Statistics via Haver Analytics

Pandemic fears appear to have receded

- The number of workers unable to work due to the pandemic fell from 1.6 to 1.3 million.
 - **The fall in October follows several months of steady or rising readings.**
- The number of workers unable to work because their employer closed fell from 5.0 million to 3.8 million in October.
- As employees continued their return to the office, 11.6% of workers teleworked in October, down from 13.2% in September.

Average Hourly Earnings and the ECI



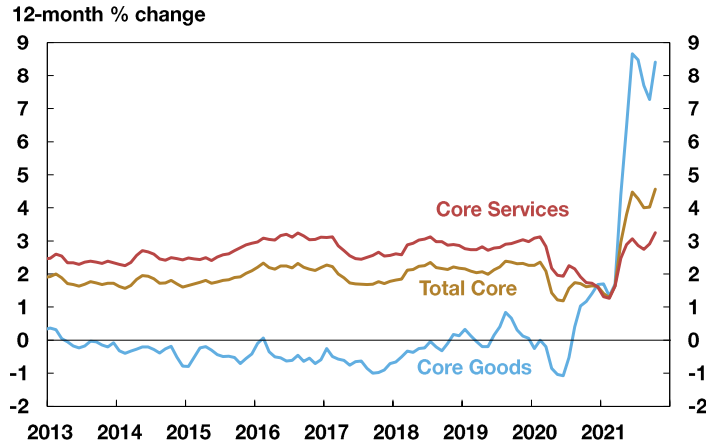
Source: Bureau of Labor Statistics via Haver Analytics

Average hourly earnings growth remained high

- Average hourly earnings rose by 0.4% in October, representing another month of robust wage growth.
 - **Average hourly earnings were up 4.9% on a 12-month basis.**
 - **Average hourly earnings growth was especially pronounced in leisure and hospitality (1.0%).**
 - **The large employment swings during the pandemic complicate the analysis of average hourly earnings, which vary significantly across industries.**

INFLATION

Core CPI Inflation

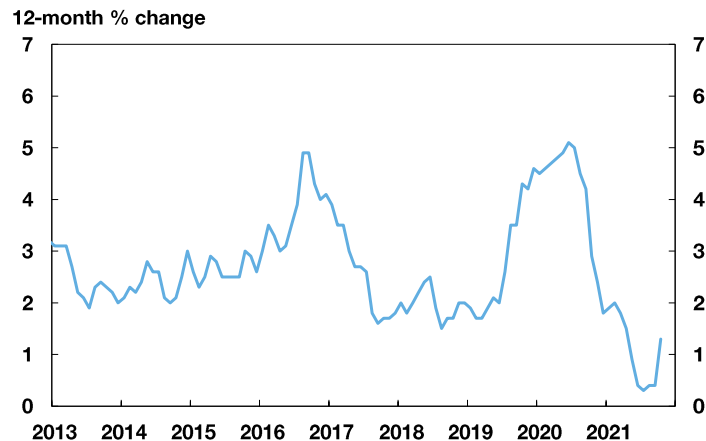


Source: Bureau of Labor Statistics via Haver Analytics

Core CPI inflation accelerated in October

- The core CPI was up 0.6% over the month in October, after rising 0.2% in September.
 - **Monthly changes averaged 0.8% in Q2 and 0.2% in Q3.**
 - **The inflation rate for core goods increased from 0.2% to 1.0%, with prices for used motor vehicles up 2.5%.**
 - **The inflation rate for core services prices increased from 0.2% to 0.4%, pushed up by prices for medical care, auto rentals, hotels, and recreational services.**
- On a 12-month basis, core inflation rose from 4.0% to 4.6%.
 - **Core goods inflation increased from 7.3% to 8.5%.**
 - **Core services inflation rose from 2.9% to 3.3%.**

CPI Inflation: Medical Care



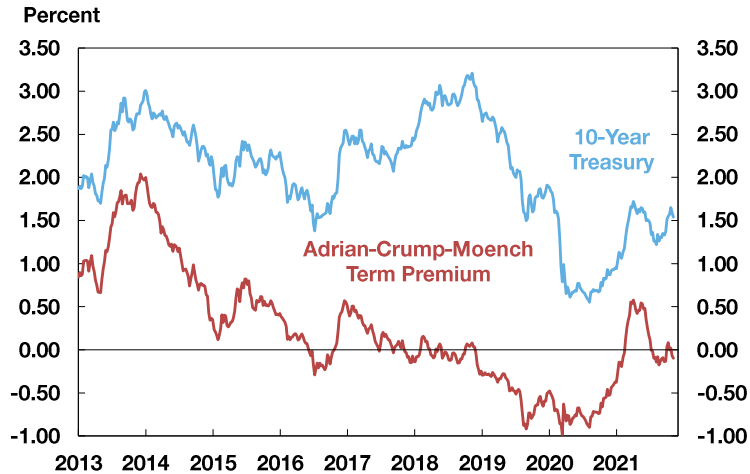
Source: Bureau of Labor Statistics via Haver Analytics

Medical care inflation picked up

- The medical care sub-index of the CPI rose by 0.5% over the month in October and by 1.3% over the year.
 - **Monthly changes averaged -0.1% in Q2 and 0.1% in Q3.**
 - **Price for medical care services were up 1.7% over the year, while drug prices were down 0.4% and health insurance was down 6.4%.**
- The index for medical care services ticked up, but has been largely unchanged since June 2020.
 - **The index for drugs also moved higher, but has been largely unchanged since mid-2017.**
- The index for medical insurance increased, ending its steady decline since mid-2020.

FINANCIAL MARKETS

10-Year Treasury and Term Premium

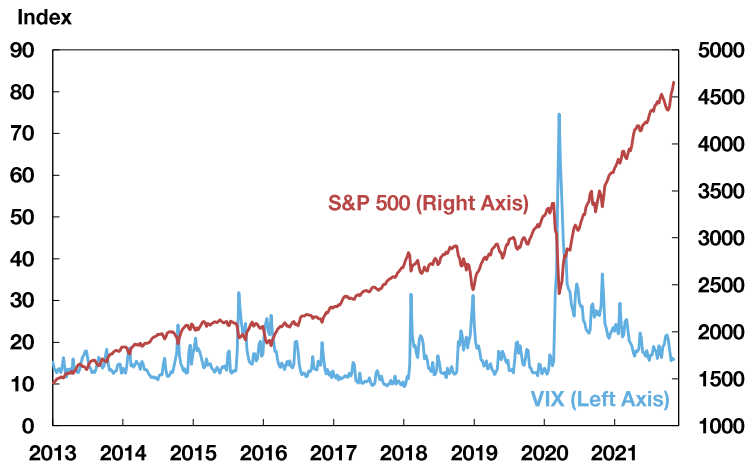


Sources: Federal Reserve Bank of New York and Federal Reserve Board via Haver

Ten-year Treasury yields are flat since October

- On a five-day moving average basis, the 10-year Treasury yield was at 1.54% on November 5, staying largely unchanged since mid-October.
 - The yield was near the lower end of the range observed in the period from the Global Financial Crisis to the beginning of the pandemic, but it remains about 1.0% higher relative to the lows observed in the summer of 2020.
 - Estimates from the Adrian-Crump-Moench term structure model attribute much of the rise in the 10-year Treasury yield over the past three months to a higher expected interest rate path.

U.S. Equity Market Index and Volatility



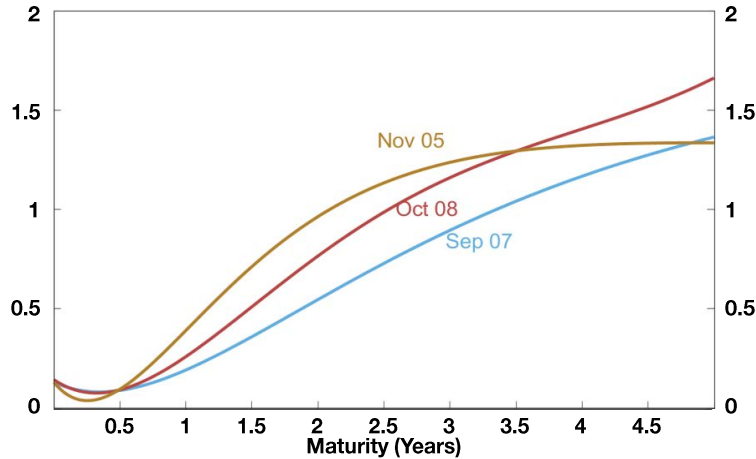
Source: Standard & Poor's and Wall Street Journal via Haver Analytics

Equity prices rose and the VIX index fell in October

- U.S. equity prices moved higher from the first week of October through early November.
 - The S&P 500 index was up about 25% year-to-date on November 5.
- Option-implied stock market volatility, as measured by the CBOE Volatility Index (VIX Index), has fallen since early October.
 - The VIX Index averaged 15.9 during the week ending on November 5, slightly below its median value of 17.7 over the period from 2000 to present.
 - The VIX Index was near its pandemic-era low of around 15 and well below its average since March 2020.

FINANCIAL MARKETS

Implied Federal Funds Rate



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

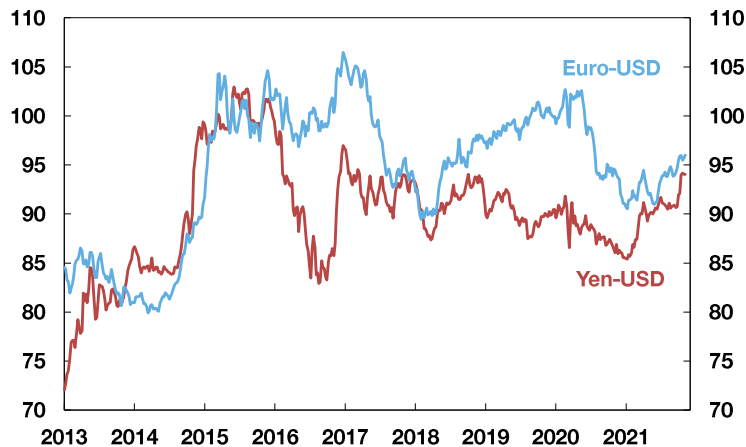
Note: Estimated using OIS quotes.

Implied path for federal funds rate shifted up

- The expected path of the federal funds rate on November 5 implied by rates on overnight indexed swaps was higher than the path observed on October 8 for intermediate maturities.
- The market-implied federal funds rate at the end of 2023 is close to the median value of the FOMC's Summary of Economic Projections (SEP) from September 2021, which was 1.0%.
- At the five-year horizon, the market-implied expectation of the federal funds rate was around 1.4%, which is below the median SEP longer-run federal funds rate of 2.5%.

Dollar Exchange Rates

Index, 2015=100



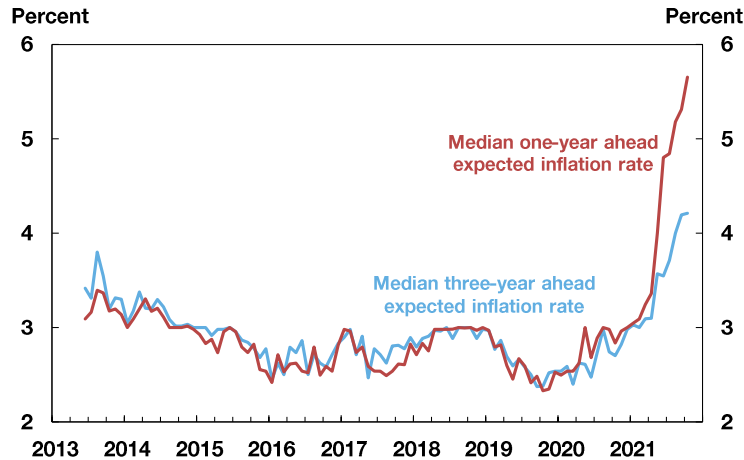
Source: Federal Reserve Board via Haver Analytics.

The dollar has been stable

- The Federal Reserve's trade-weighted dollar index for advanced economies was unchanged between the weeks of October 8 and November 5.
 - **The dollar was stable against the euro and appreciated 2% against the Japanese yen.**
- The trade-weighted dollar index has increased 3% since the beginning of the year.

SPECIAL TOPICS: SURVEY OF CONSUMER EXPECTATIONS

Short- and Medium-term Inflation Expectations

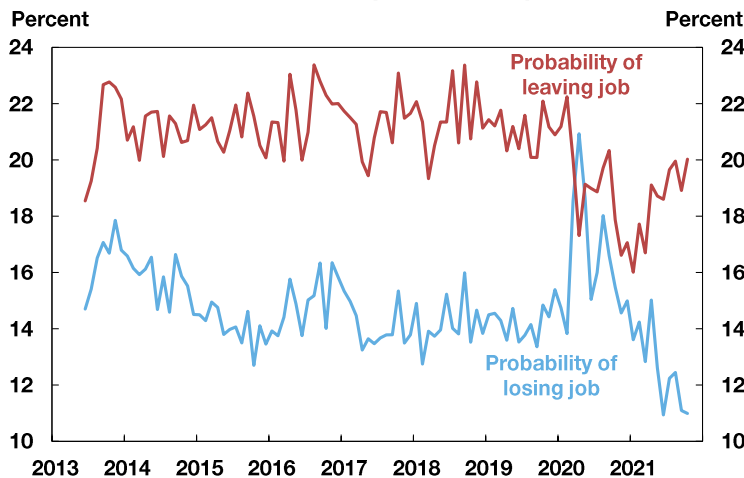


Source: New York Fed Survey of Consumer Expectations (SCE)

Medium-term inflation expectations stayed high

- Inflation expectations at the three-year horizon were unchanged in October.
 - **Median inflation expectations remained at 4.2%, after increasing for three consecutive months.**
- Short-term inflation expectations increased.
 - **Median inflation expectations increased by 0.4 percentage point to 5.7% at the one-year horizon, reaching a new series high since the survey's inception in June 2013.**
 - **The increase was most pronounced for respondents who have at least a college degree and those between ages 40 and 60.**
- Inflation uncertainty (the uncertainty expressed regarding future inflation outcomes) increased to series' highs at both horizons.

Mean Probability of Losing or Leaving Job



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

Labor market expectations improve

- Earnings growth expectations ticked up.
 - **The median one-year ahead expected earnings growth increased by 0.1 percentage point to 3.0% in October, reaching a new series' high.**
- Perceived job loss risks decreased.
 - **The mean perceived probability of losing one's job in the next 12 months fell 0.1 percentage point to 11.0%.**
 - **The mean likelihood of leaving one's job voluntarily in the next 12 months increased from 18.9% to 20.0%.**
- Job finding expectations increased.
 - **The mean perceived probability of finding a job in the next three months rose 1.4 percentage points to 56.6%.**

Weekly Commentary

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