

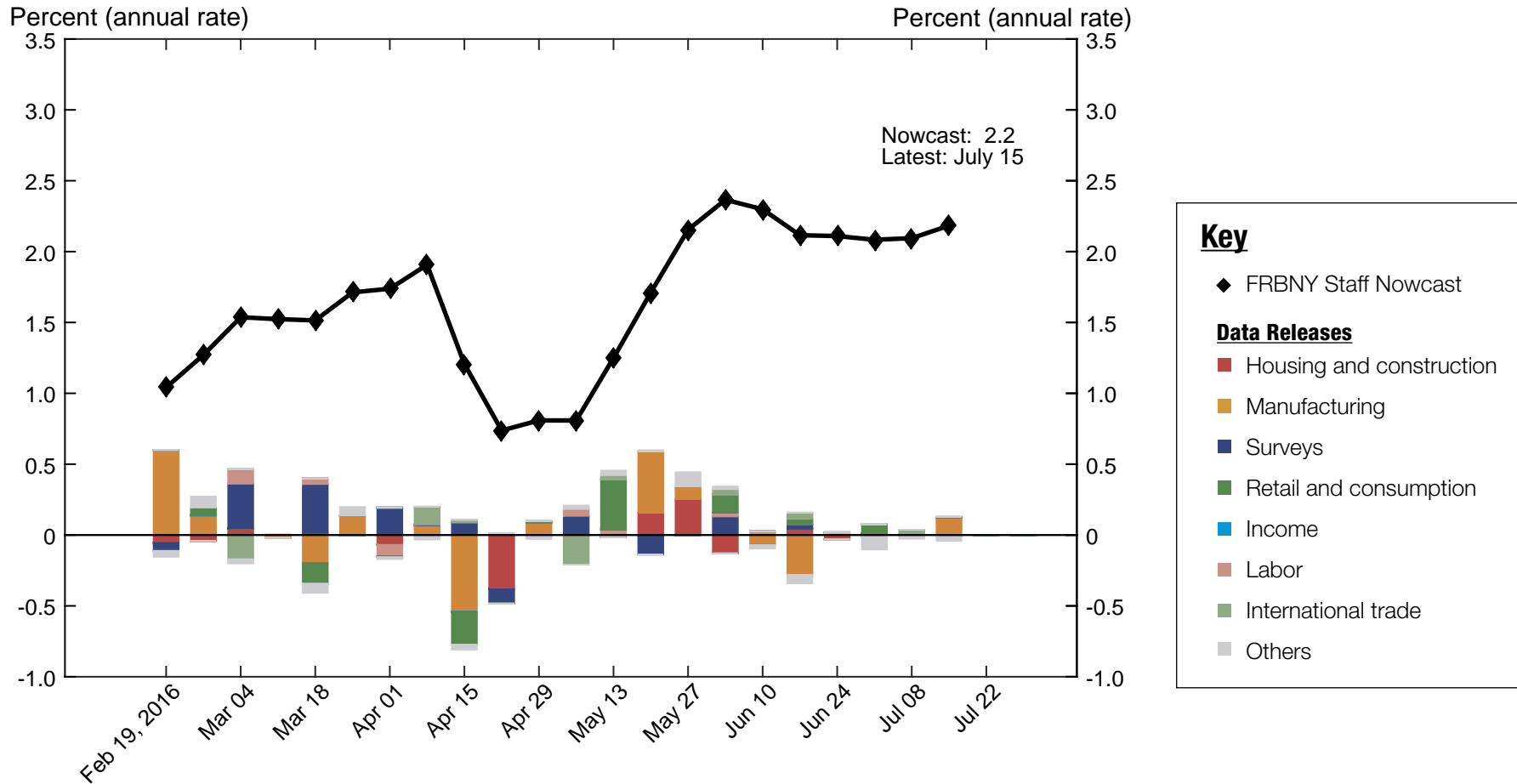
NOWCASTING REPORT

Updated: July 15, 2016

- The FRBNY Staff Nowcast stands at 2.2% and 2.6% for 2016:Q2 and 2016:Q3, respectively.
- This week's news had positive effect on the nowcast pushing up the Q2 measure by 0.1 percentage point and the Q3 measure by 0.3 percentage point.
- The largest contributions came from manufacturing data, in particular capacity utilization and industrial production.

The FRBNY Staff Nowcast is not an official forecast of the Federal Reserve Bank of New York, its president, the Federal Reserve System, or the Federal Open Market Committee (FOMC). While we are precluded from publishing our estimates during blackouts surrounding FOMC meetings, we continue to update our model internally and share the analysis in the next Nowcasting Report.

1 | 2016:Q2 GDP Growth



Source: Authors' calculations.
Notes: Colored bars reflect the relative impact of each data release on the nowcast.

1.1 | Nowcast Detail

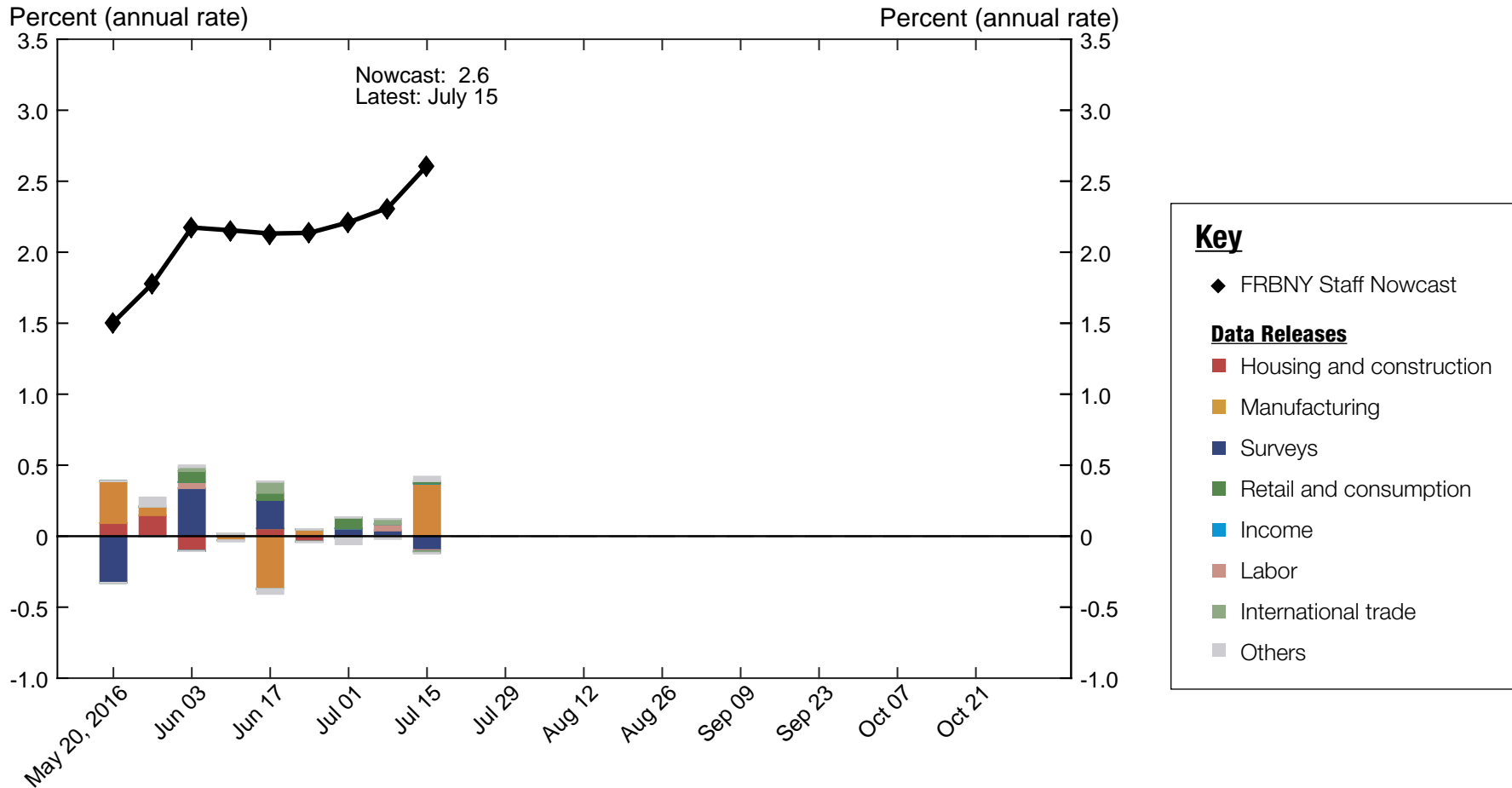
■ Housing and construction
 ■ Manufacturing
 ■ Surveys
 ■ Retail and consumption
 ■ Income
 ■ Labor
 ■ International trade
 ■ Others

Update	Release Date	Data Series	Reference Period	Units	Forecast	Actual	Weight	Impact	Nowcast GDP Growth	
					[a]	[b]	[c]	[c(b - a)]		
Jun 17	10:00 AM Jun 23	■ New single family houses sold	May	MoM % chg.	-3.11	-5.97	0.011	-0.031	2.12	
	8:30 AM Jun 24	■ Manufacturers' new orders: Durable goods	May	MoM % chg.	-0.612	-2.23	0.021	-0.033		
	8:30 AM Jun 24	■ Manufacturers' shipments: Durable goods	May	MoM % chg.	0.231	-0.211	0.091	-0.040		
	8:30 AM Jun 24	■ Mfrs.' unfilled orders: All manufacturing industries	May	MoM % chg.	0.502	0.175	-0.010	0.003		
	8:30 AM Jun 24	■ Manufacturers' inventories: Durable goods	May	MoM % chg.	0.059	-0.278	-0.254	0.086		
		■ Data revisions						0.009		
Jun 24	8:30 AM Jun 29	■ Real disposable personal income	May	MoM % chg.	0.226	0.077	0.023	-0.003	2.11	
	8:30 AM Jun 29	■ PCE less food and energy: Chain price index	May	MoM % chg.	0.138	0.162	0.078	0.002		
	8:30 AM Jun 29	■ PCE: Chain price index	May	MoM % chg.	0.205	0.167	0.062	-0.002		
	8:30 AM Jun 29	■ Real personal consumption expenditures	May	MoM % chg.	0.023	0.255	0.270	0.063		
	10:00 AM Jul 01	■ ISM mfg.: Pmi composite index	Jun	Index	52.2	53.2	0.020	0.021		
	10:00 AM Jul 01	■ ISM mfg.: Prices index	Jun	Index	63.6	60.5	0.003	-0.009		
	10:00 AM Jul 01	■ Value of construction put in place	May	MoM % chg.	-0.590	-0.790	0.025	-0.005		
	10:00 AM Jul 01	■ ISM mfg.: Employment index	Jun	Index	50.3	50.4	0.007	0.001		
			■ Data revisions							0.016
			■ Parameter revisions							-0.109
Jul 01	8:30 AM Jul 06	■ Exports: Goods and services	May	MoM % chg.	0.429	-0.172	0.056	-0.033	2.08	
	8:30 AM Jul 06	■ Imports: Goods and services	May	MoM % chg.	0.046	1.57	0.043	0.066		
	10:00 AM Jul 06	■ ISM nonmanufacturing: NMI composite index	Jun	Index	54.0	56.5	0.002	0.005		
	8:05 AM Jul 07	■ ADP nonfarm private payroll employment	Jun	Level chg. (thousands)	184.0	172.0	0.161*	-0.002		
	8:30 AM Jul 08	■ All employees: Total nonfarm	Jun	Level chg. (thousands)	78.1	287.0	0.093*	0.019		
	8:30 AM Jul 08	■ Civilian unemployment rate	Jun	Ppt. chg.	0.003	0.200	-0.108	-0.021		
		■ Data revisions						-0.022		
Jul 08	10:00 AM Jul 12	■ JOLTS: Job openings: Total	May	Level chg. (thousands)	-176.5	-345.0	0.037*	-0.006	2.09	
	10:00 AM Jul 12	■ Merchant wholesalers: Inventories: Total	May	MoM % chg.	0.227	0.131	-0.095	0.009		
	8:30 AM Jul 13	■ Import price index	Jun	MoM % chg.	1.01	0.250	0.007	-0.006		
	8:30 AM Jul 13	■ Export price index	Jun	MoM % chg.	0.563	0.750	0.017	0.003		
	8:30 AM Jul 14	■ PPI: Final demand	Jun	MoM % chg.	0.195	0.545	0.021	0.007		
	8:30 AM Jul 15	■ CPI-U: All items	Jun	MoM % chg.	0.216	0.216	0.019	-0.000		
	8:30 AM Jul 15	■ Retail sales and food services	Jun	MoM % chg.	0.515	0.576	0.081	0.005		
	8:30 AM Jul 15	■ CPI-U: All items less food and energy	Jun	MoM % chg.	0.173	0.170	0.008	-0.000		
	8:30 AM Jul 15	■ Empire State Mfg. Survey: General business conditions	Jul	Index	7.53	0.550	0.000	-0.003		
	9:10 AM Jul 15	■ Industrial production index	Jun	MoM % chg.	0.266	0.602	0.160	0.054		
	9:20 AM Jul 15	■ Capacity utilization	Jun	Ppt. chg.	0.121	0.439	0.197	0.063		
	10:00 AM Jul 15	■ Inventories: Total business	May	MoM % chg.	0.137	0.162	-0.092	-0.002		
			■ Data revisions							-0.035
			■ Parameter revisions							
	Jul 15									

Source: Authors' calculations.

Notes: MoM % chg. indicates month over month percentage change. QoQ % chg. indicates quarter over quarter percentage change. The weights with the asterisk are multiplied by 1,000 for legibility.

2 | 2016:Q3 GDP Growth



Source: Authors' calculations.

Note: Colored bars reflect the impact of each data release on the nowcast.

2.1 | Nowcast Detail

■ Housing and construction
 ■ Manufacturing
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	10:00 AM Jul 01	■ ISM mfg.: Employment index	Jun	Index	50.3	50.4	0.045	0.006		
			■ Data revisions					0.036		
			■ Parameter revisions					-0.077		
Jul 01	8:30 AM Jul 06	■ Exports: Goods and services	May	MoM % chg.	0.429	-0.172	0.073	-0.044	2.21	
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			■ Data revisions					0.013		
										2.61

Source: Authors' calculations.

Notes: MoM % chg. indicates month over month percentage change. QoQ % chg. indicates quarter over quarter percentage change. The weights with the asterisk are multiplied by 1,000 for legibility.

Nowcasting Report Q&A

1. What is the ultimate goal of the exercise?

Our model produces a “nowcast” of GDP growth, incorporating a wide range of macroeconomic data as it becomes available. With this approach, we aim to read the real-time flow of information and evaluate its effects on current economic conditions. The platform provides a model-based counterpart to the more routine analysis at the bank, which has traditionally been based on expert knowledge.

2. What is the modeling strategy?

The platform employs Kalman-filtering techniques and a dynamic factor model. The approach has a number of desirable features. It is based on:

- a reliable big data framework that captures in a parsimonious way the salient features of macroeconomic data dynamics;
- a design that digests the data as “news,” mimicking the way markets work.

3. What are the input data? What has been driving the data selection?

We include all the market-moving indicators—the same data that are also constantly monitored by market participants and commentators.

4. Why should we trust the model?

Extensive back-testing of the model, research, and practical experience have shown that the platform is able to approximate best practices in macroeconomic forecasts. The model produces forecasts that are as accurate as, and strongly correlated with, predictions based on best judgment.

The methodology has been tested for accuracy in many countries, including large developed economies (the Euro area, Italy, France,

Germany, Spain, the United Kingdom, Japan, and Canada), small open economies (Australia, Ireland, Belgium, New Zealand, the Czech Republic, and Scotland), fast-growing economies (Brazil, Russia, India, China, and South Africa), and developing economies (Mexico, Indonesia, and Argentina).

5. How should we read the output of the model?

- The model produces forecasts for all variables taking into account their dynamic interactions.
- Since it is a fully specified dynamic model, the platform provides an intuitive reading of the incoming data as “news.”
- The difference between two consecutive forecasts (that is, the forecast revision) is the weighted average of the news during the week.
- News is defined as the difference between released data and model predictions. The weights account for the information content as well as the timeliness of the data releases.
- The contribution of new data to the forecast revision is reported in the two charts with colored bars. To make the charts easier to read, we grouped variables in a few broad categories. Detailed information about the composition of the groupings is provided in the accompanying tables.

References

- *Banbura, M., D. Giannone, M. Modugno, and L. Reichlin.* 2013. “Nowcasting and the Real-Time Data Flow.” In G. Elliott and A. Timmermann, eds., *Handbook of Economic Forecasting*, Vol. 2. Amsterdam: Elsevier-North Holland.
- *Giannone, D., L. Reichlin, and D. Small.* 2008. “Nowcasting: The Real-Time Informational Content of Macroeconomic Data.” *Journal of Monetary Economics* 55, no.4 (May): 665-76.

Nowcasting Report FAQs

1. For how long do you report a quarter?

We start reporting the nowcast of GDP growth for a reference quarter about one month before the quarter begins; we stop updating it about one month after the quarter closes.

Precise dates are related to the Commerce Department's schedule for the release of official GDP estimates. For example, we began reporting 2016:Q1 on November 20, 2015, just after the government released the second GDP estimate for 2015:Q3. We stopped updating the nowcast for 2016:Q1 on April 28, 2016, with the release of the advance GDP estimate for the reference quarter. We continued reporting 2016:Q1 until the second GDP estimate for the quarter became available. At that point, we started computing the nowcasts for 2016:Q3.

2. What are the major conceptual differences between the FRBNY Staff Nowcast and the Atlanta Fed's Nowcast?

The FRBNY Staff Nowcast and the Atlanta Fed's GDPNow are both based on statistical filtering techniques applied to a dynamic factor model. These techniques are very common in big data analytics since they effectively

summarize the information contained in large data sets through a small number of common factors. The general framework for macroeconomic nowcasting has been developed in the academic literature over the past ten years, as discussed in the Q&A included in this report. The FRBNY Staff Nowcast is a straightforward application of the most advanced techniques developed in this academic literature. GDPNow adapts these techniques to mimic the methods used by the BEA to estimate real GDP growth, as well explained by GDPNow's own FAQs.

Because GDPNow and the FRBNY Staff Nowcast are different models, they can generate different forecasts of real GDP growth. Our policy is not to comment on or interpret any differences between the forecasts of these two models.

3. Is the "annual rate" the y/y growth rate?

No. We track the annualized quarterly ("q/q") growth rate of GDP, not the four quarters ("y/y") growth rate.

Authors

FRBNY Time-Series Analysis Team