

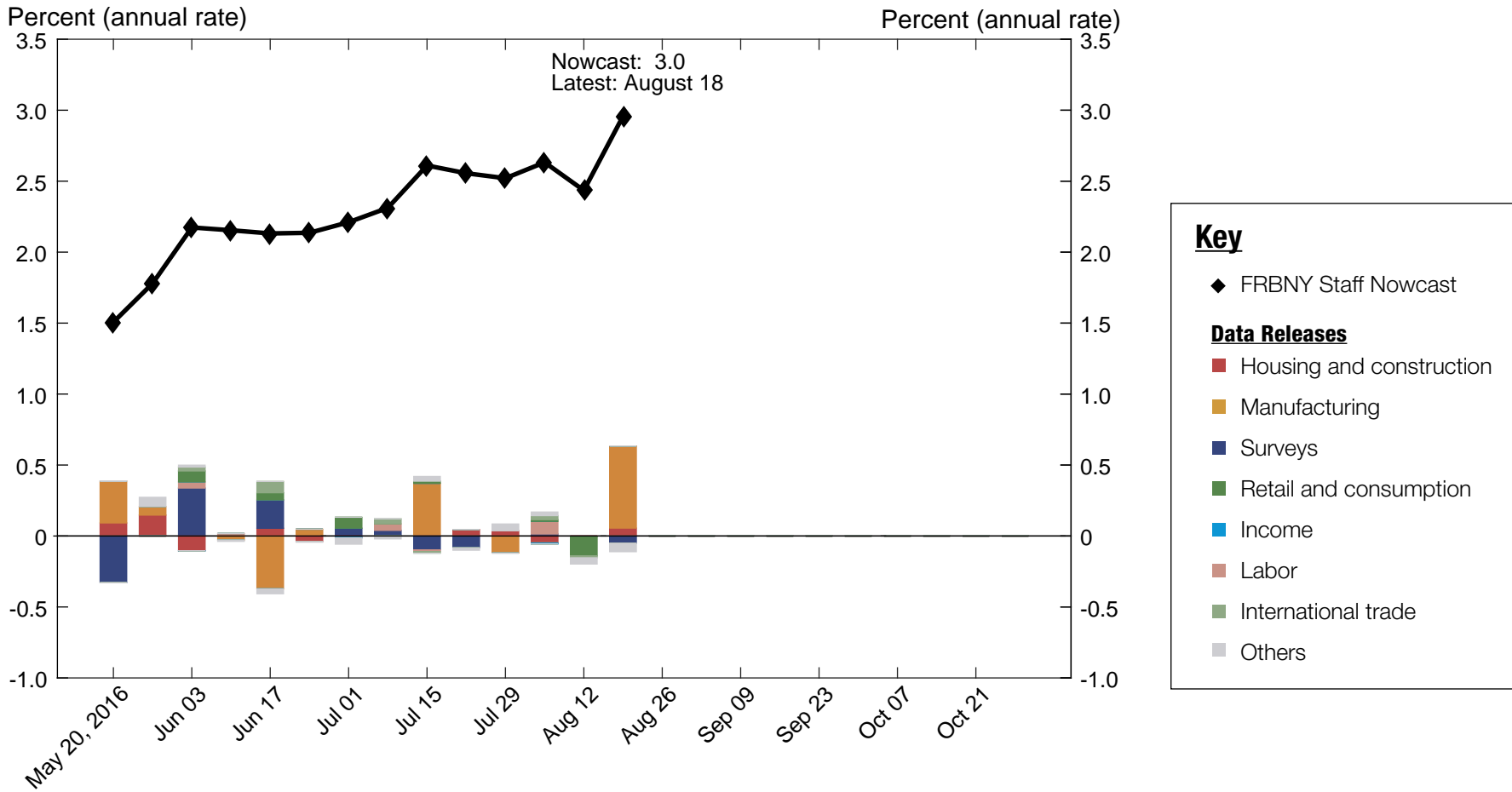
NOWCASTING REPORT

Updated: August 19, 2016

- The FRBNY Staff Nowcast stands at 3.0% for 2016:Q3.
- Positive news from this week's data releases pushed the Nowcast up 0.6 percentage point from last week's number of 2.4%.
- The largest contributions came from capacity utilization and industrial production data.

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:Q3 GDP Growth



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

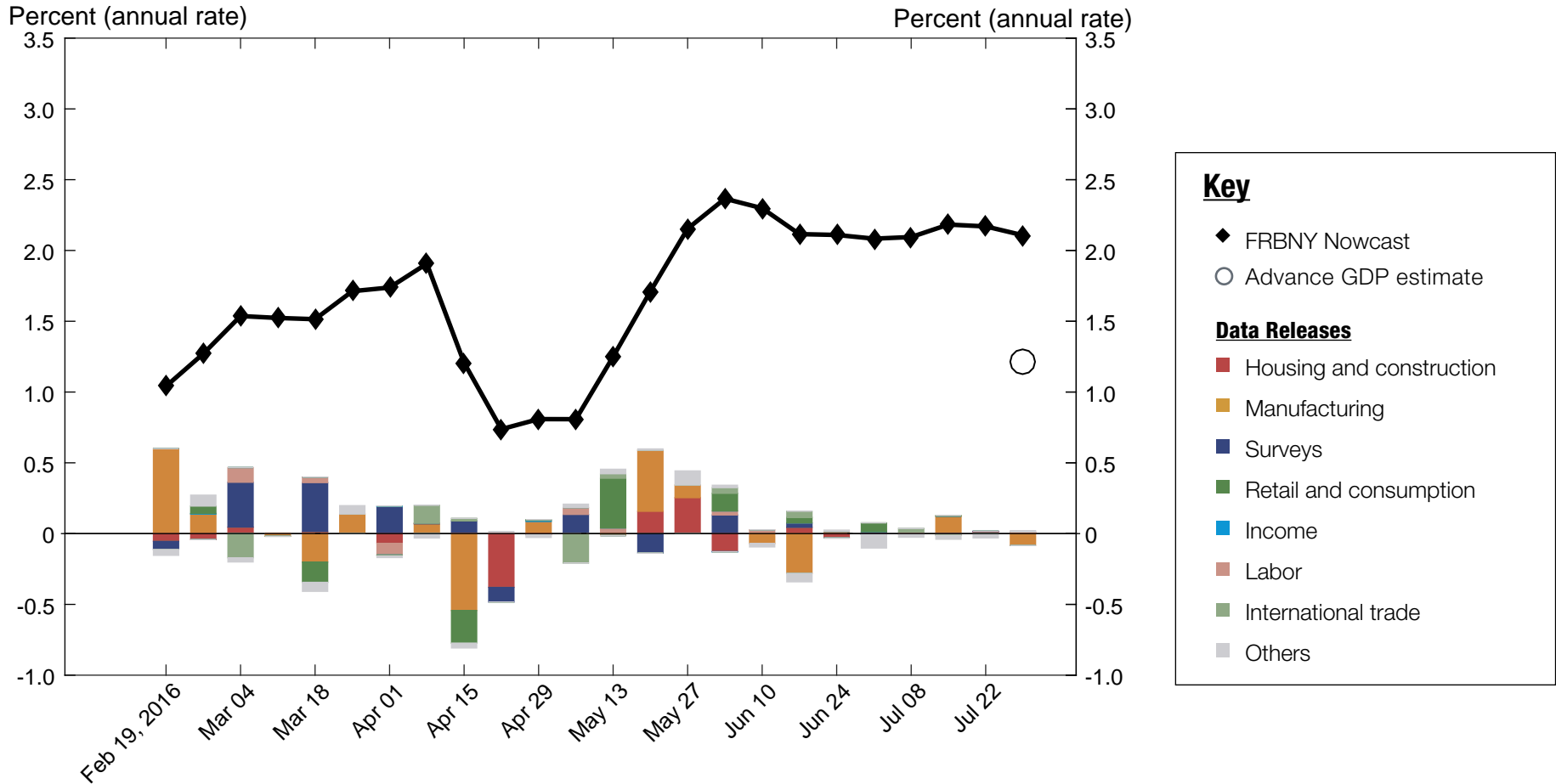
1.1 | Nowcast Detail

■ 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)]		
Jul 21	10:00 AM Jul 26	■ New single family houses sold	Jun	MoM % chg.	1.33	3.50	0.017	0.037	2.56	
	8:30 AM Jul 27	■ Manufacturers' new orders: Durable goods	Jun	MoM % chg.	2.78	-4.04	0.029	-0.198		
	8:30 AM Jul 27	■ Manufacturers' shipments: Durable goods	Jun	MoM % chg.	0.964	0.378	0.125	-0.073		
	8:30 AM Jul 27	■ Mfrs.' unfilled orders: All manufacturing industries	Jun	MoM % chg.	0.319	-0.851	-0.026	0.031		
	8:30 AM Jul 27	■ Manufacturers' inventories: Durable goods	Jun	MoM % chg.	-0.031	-0.188	-0.497	0.078		
	8:40 AM Jul 28	■ Merchant wholesalers: Inventories: Total	Jun	MoM % chg.	0.248	0.027	-0.194	0.043		
	8:30 AM Jul 29	■ Real gross domestic product	Q2	QoQ % chg. AR	2.01	1.21	-0.013	0.010		
			■ Data revisions					0.037		
Jul 29	10:00 AM Aug 01	■ ISM mfg.: Pmi composite index	Jul	Index	51.7	52.6	0.089	0.080	2.52	
	10:00 AM Aug 01	■ ISM mfg.: Prices index	Jul	Index	59.7	55.0	0.016	-0.077		
	10:00 AM Aug 01	■ Value of construction put in place	Jun	MoM % chg.	0.231	-0.645	0.055	-0.048		
	10:00 AM Aug 01	■ ISM mfg.: Employment index	Jul	Index	49.1	49.4	0.035	0.010		
	8:30 AM Aug 02	■ PCE less food and energy: Chain price index	Jun	MoM % chg.	0.140	0.068	0.109	-0.008		
	8:30 AM Aug 02	■ PCE: Chain price index	Jun	MoM % chg.	0.170	0.101	0.106	-0.007		
	8:40 AM Aug 02	■ Real disposable personal income	Jun	MoM % chg.	0.297	0.075	0.035	-0.008		
	8:40 AM Aug 02	■ Real personal consumption expenditures	Jun	MoM % chg.	0.284	0.316	0.368	0.012		
	8:05 AM Aug 03	■ ADP nonfarm private payroll employment	Jul	Level chg. (thousands)	134.1	179.0	0.966*	0.043		
	10:00 AM Aug 03	■ ISM nonmanufacturing: NMI composite index	Jul	Index	55.3	55.5	0.010	0.002		
	10:00 AM Aug 04	■ Inventories: Total business	Jun	MoM % chg.	0.144	0.149	-0.228	-0.001		
	8:30 AM Aug 05	■ All employees: Total nonfarm	Jul	Level chg. (thousands)	156.5	255.0	0.447*	0.044		
	8:30 AM Aug 05	■ Civilian unemployment rate	Jul	Ppt. chg.	0.006	0.000	-0.251	0.002		
	8:30 AM Aug 05	■ Exports: Goods and services	Jun	MoM % chg.	0.979	0.335	0.083	-0.053		
	8:30 AM Aug 05	■ Imports: Goods and services	Jun	MoM % chg.	0.518	1.86	0.061	0.082		
			■ Data revisions					0.041		
Aug 05	8:30 AM Aug 09	■ Nonfarm business sector: Unit labor cost	Q2	QoQ % chg. AR	1.82	2.00	0.001	0.000	2.63	
	10:00 AM Aug 10	■ JOLTS: Job openings: Total	Jun	Level chg. (thousands)	197.0	110.0	0.064*	-0.006		
	8:30 AM Aug 11	■ Import price index	Jul	MoM % chg.	0.339	0.083	0.023	-0.006		
	8:30 AM Aug 11	■ Export price index	Jul	MoM % chg.	0.329	0.165	0.045	-0.007		
	8:30 AM Aug 12	■ Retail sales and food services	Jul	MoM % chg.	0.381	-0.038	0.322	-0.135		
	8:30 AM Aug 12	■ PPI: Final demand	Jul	MoM % chg.	0.228	-0.361	0.046	-0.027		
			■ Data revisions					-0.017		
Aug 12	8:30 AM Aug 15	■ Empire State Mfg. Survey: General business conditions	Aug	Index	3.59	-4.21	0.008	-0.062	2.43	
	8:30 AM Aug 16	■ Housing starts	Jul	MoM % chg.	-0.188	2.11	0.028	0.063		
	8:30 AM Aug 16	■ Building permits	Jul	Level chg. (thousands)	1.77	-1.00	0.003	-0.008		
	8:40 AM Aug 16	■ CPI-U: All items	Jul	MoM % chg.	0.180	-0.041	0.044	-0.010		
	8:40 AM Aug 16	■ CPI-U: All items less food and energy	Jul	MoM % chg.	0.164	0.088	0.016	-0.001		
	9:10 AM Aug 16	■ Industrial production index	Jul	MoM % chg.	0.050	0.742	0.414	0.286		
	9:10 AM Aug 16	■ Capacity utilization	Jul	Ppt. chg.	-0.026	0.539	0.517	0.292		
	8:30 AM Aug 18	■ Philly Fed Mfg. business outlook: Current activity	Aug	Index	0.218	2.00	0.006	0.011		
			■ Data revisions					-0.048		
Aug 18								2.96		

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:Q2 GDP Growth



Source: Authors' calculations.

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

2.1 | 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)]	
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	
	Jul 15	8:30 AM Jul 19	Housing starts	Jun	MoM % chg.	3.63	4.76	0.009	
8:30 AM Jul 19		Building permits	Jun	Level chg. (thousands)	12.0	17.0	0.001	0.004	
8:30 AM Jul 21		Philly Fed Mfg. business outlook: Current activity	Jul	Index	3.93	-2.90	-0.000	0.003	
		Data revisions						-0.031	
Jul 21	10:00 AM Jul 26	New single family houses sold	Jun	MoM % chg.	1.33	3.50	0.005	0.011	2.17
	8:30 AM Jul 27	Manufacturers' new orders: Durable goods	Jun	MoM % chg.	2.78	-4.04	0.011	-0.074	
	8:30 AM Jul 27	Manufacturers' shipments: Durable goods	Jun	MoM % chg.	0.964	0.378	0.048	-0.028	
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	8:40 AM Jul 28	Merchant wholesalers: Inventories: Total	Jun	MoM % chg.	0.248	0.027	-0.033	0.007	
	Data revisions						0.010		
Jul 29	8:30 AM Jul 29	Real gross domestic product (advance)	Q2	QoQ % chg. AR	2.11	1.21	We have concluded our updates of the Q2 nowcast		2.11

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

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