

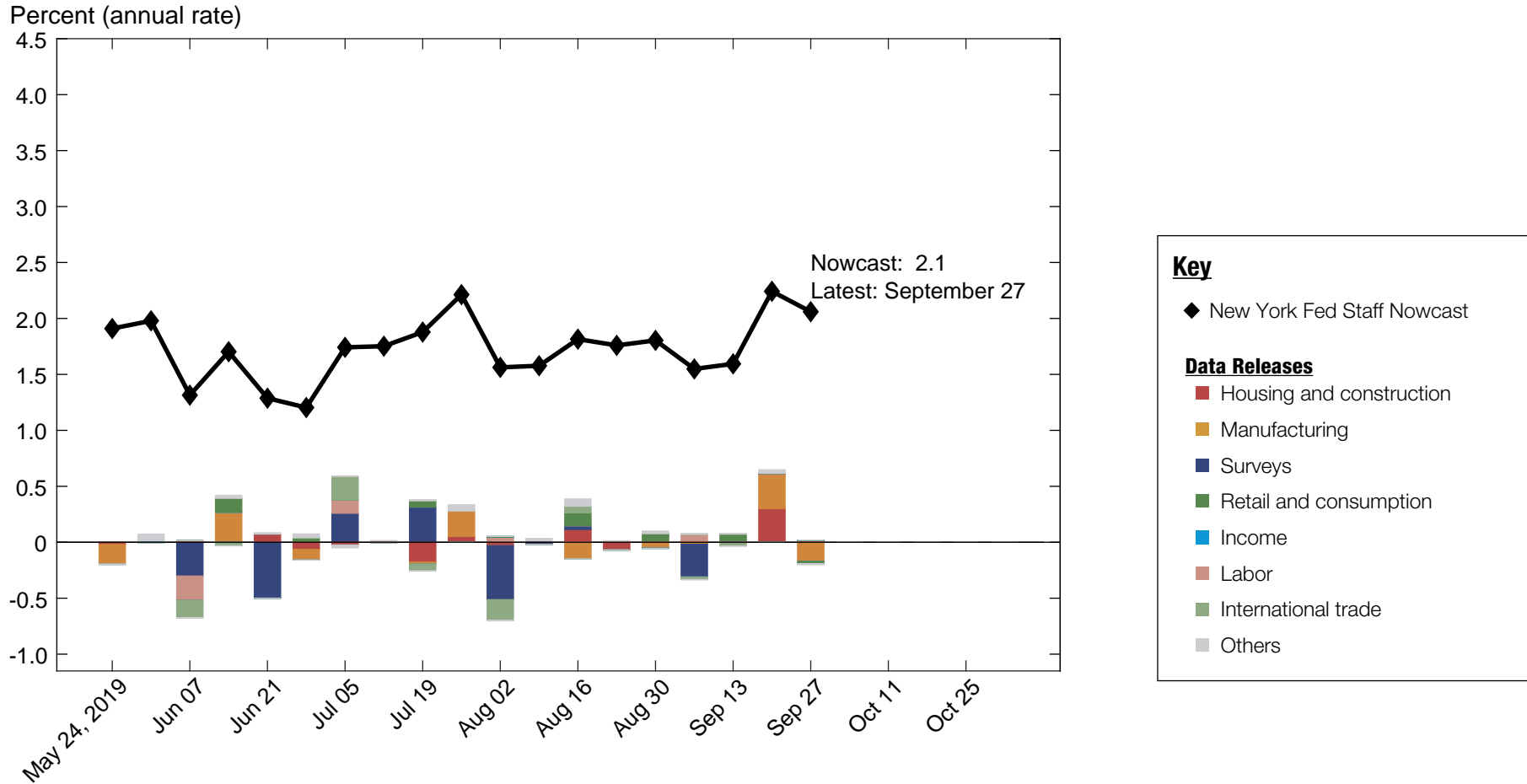
NOWCASTING REPORT

Updated: September 27, 2019

- The New York Fed Staff Nowcast stands at 2.1% for 2019:Q3 and 1.8% for 2019:Q4.
- News from this week's data releases decreased the nowcast for both 2019:Q3 and 2019:Q4 by 0.2 percentage point.
- Negative surprises from manufacturing data accounted for the decrease.

The New York Fed 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).

1 | 2019:Q3 GDP Growth



Source: Authors' calculations, based on data accessed through Haver Analytics.
Note: Colored bars reflect the impact of each data release on the nowcast.

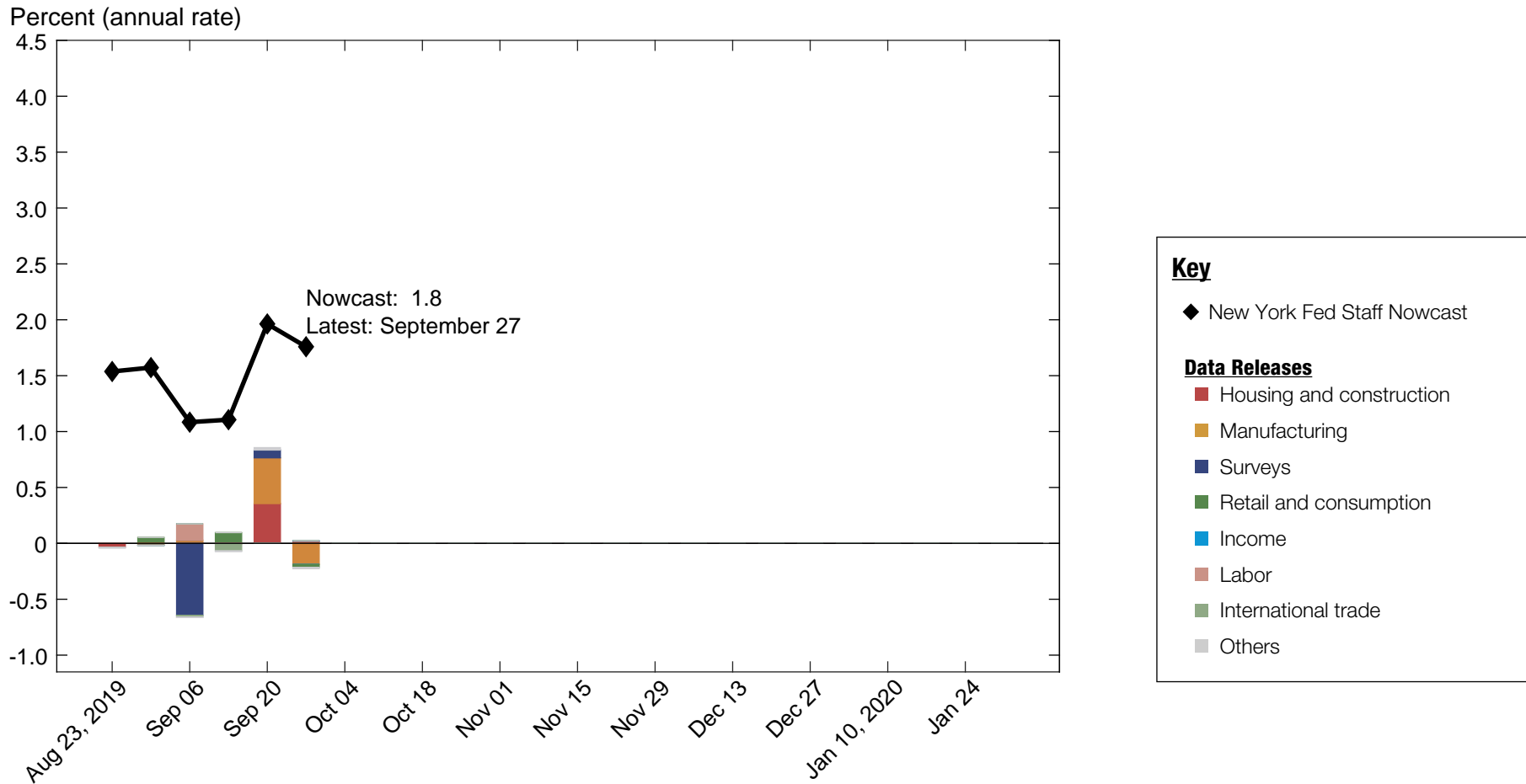
1.1 | Nowcast Detail

■ 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)]		
Aug 30									1.80	
	10:00 AM Sep 03	ISM mfg.: PMI composite index	Aug	Index	52.8	49.1	0.053	-0.195		
	10:00 AM Sep 03	ISM mfg.: Prices index	Aug	Index	47.5	46.0	0.008	-0.012		
	10:00 AM Sep 03	ISM mfg.: Employment index	Aug	Index	52.0	47.4	0.024	-0.112		
	10:30 AM Sep 03	Value of construction put in place	Jul	MoM % chg.	-0.218	0.056	0.024	0.007		
	8:30 AM Sep 04	Exports: Goods and services	Jul	MoM % chg.	0.420	0.560	0.061	0.009		
	8:30 AM Sep 04	Imports: Goods and services	Jul	MoM % chg.	0.486	-0.138	0.050	-0.031		
	8:05 AM Sep 05	ADP nonfarm private payroll employment	Aug	Level chg. (thousands)	79.6	195.0	*0.476	0.055		
	10:00 AM Sep 05	ISM nonmanufacturing: NMI composite index	Aug	Index	52.5	56.4	0.007	0.026		
	10:00 AM Sep 05	Inventories: Total business	Jul	MoM % chg.	0.132	0.372	-0.075	-0.018		
	8:30 AM Sep 06	All employees: Total nonfarm	Aug	Level chg. (thousands)	119.6	130.0	*0.327	0.003		
	8:30 AM Sep 06	Civilian unemployment rate	Aug	Ppt. chg.	0.025	0.000	-0.221	0.006		
		Data revisions						0.008		
Sep 06									1.55	
	10:00 AM Sep 10	JOLTS: Job openings: Total	Jul	Level chg. (thousands)	82.2	-31.0	*0.033	-0.004		
	8:30 AM Sep 11	PPI: Final demand	Aug	MoM % chg.	0.118	0.084	0.060	-0.002		
	8:30 AM Sep 12	CPI-U: All items	Aug	MoM % chg.	0.179	0.054	0.083	-0.010		
	8:30 AM Sep 12	CPI-U: All items less food and energy	Aug	MoM % chg.	0.197	0.256	0.102	0.006		
	8:30 AM Sep 13	Retail sales and food services	Aug	MoM % chg.	-0.037	0.361	0.184	0.073		
	8:30 AM Sep 13	Import price index	Aug	MoM % chg.	-0.133	-0.477	0.018	-0.006		
	8:30 AM Sep 13	Export price index	Aug	MoM % chg.	0.015	-0.633	0.037	-0.024		
		Data revisions						0.012		
Sep 13									1.59	
	8:30 AM Sep 16	Empire State Mfg. Survey: General business conditions	Sep	Index	3.80	2.00	0.003	-0.005		
	9:20 AM Sep 17	Industrial production index	Aug	MoM % chg.	-0.094	0.647	0.229	0.170		
	9:20 AM Sep 17	Capacity utilization	Aug	Ppt. chg.	-0.114	0.368	0.296	0.143		
	8:30 AM Sep 18	Housing starts	Aug	MoM % chg.	2.60	12.3	0.013	0.127		
	8:30 AM Sep 18	Building permits	Aug	Level chg. (thousands)	-15.8	102.0	0.001	0.173		
	8:30 AM Sep 19	Phila. Fed Mfg. business outlook: Current activity	Sep	Index	5.21	12.0	0.001	0.008		
		Data revisions						0.032		
Sep 20									2.24	
	10:00 AM Sep 25	New single family houses sold	Aug	MoM % chg.	4.51	7.06	0.007	0.017		
	8:30 AM Sep 26	Merchant wholesalers: Inventories: Total	Aug	MoM % chg.	-0.164	0.446	-0.110	-0.067		
	8:30 AM Sep 27	Manufacturers' new orders: Durable goods	Aug	MoM % chg.	0.081	0.181	0.014	0.001		
	8:30 AM Sep 27	Real disposable personal income	Aug	MoM % chg.	0.286	0.438	0.013	0.002		
	8:30 AM Sep 27	Manufacturers' shipments: Durable goods	Aug	MoM % chg.	0.990	0.137	0.084	-0.072		
	8:30 AM Sep 27	Real personal consumption expenditures	Aug	MoM % chg.	0.213	0.104	0.178	-0.019		
	8:30 AM Sep 27	Mfrs.' unfilled orders: All manufacturing industries	Aug	MoM % chg.	-0.027	0.062	-0.002	-0.000		
	8:30 AM Sep 27	Manufacturers' inventories: Durable goods	Aug	MoM % chg.	-0.103	0.299	-0.085	-0.034		
	8:30 AM Sep 27	PCE less food and energy: Chain price index	Aug	MoM % chg.	0.141	0.140	0.165	-0.000		
	8:30 AM Sep 27	PCE: Chain price index	Aug	MoM % chg.	0.152	0.033	0.087	-0.010		
		Data revisions						0.000		
Sep 27									2.06	

Source: Authors' calculations, based on data accessed through Haver Analytics.

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 | 2019:Q4 GDP Growth



Source: Authors' calculations, based on data accessed through Haver Analytics.

Note: Colored bars reflect the 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)]		
Aug 30									1.57	
	10:00 AM Sep 03	■ ISM mfg.: PMI composite index	Aug	Index	52.8	49.1	0.126	-0.466		
	10:00 AM Sep 03	■ ISM mfg.: Prices index	Aug	Index	47.5	46.0	0.021	-0.032		
	10:00 AM Sep 03	■ ISM mfg.: Employment index	Aug	Index	52.0	47.4	0.051	-0.235		
	10:30 AM Sep 03	■ Value of construction put in place	Jul	MoM % chg.	-0.218	0.056	0.022	0.006		
	8:30 AM Sep 04	■ Exports: Goods and services	Jul	MoM % chg.	0.420	0.560	0.044	0.006		
	8:30 AM Sep 04	■ Imports: Goods and services	Jul	MoM % chg.	0.486	-0.138	0.035	-0.022		
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	8:30 AM Sep 06	■ Civilian unemployment rate	Aug	Ppt. chg.	0.025	0.000	-0.333	0.008		
		■ Data revisions						-0.004		
Sep 06									1.08	
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		■ Data revisions						0.004		
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	9:20 AM Sep 17	■ Industrial production index	Aug	MoM % chg.	-0.094	0.647	0.300	0.222		
	9:20 AM Sep 17	■ Capacity utilization	Aug	Ppt. chg.	-0.114	0.368	0.389	0.187		
	8:30 AM Sep 18	■ Housing starts	Aug	MoM % chg.	2.60	12.3	0.015	0.146		
	8:30 AM Sep 18	■ Building permits	Aug	Level chg. (thousands)	-15.8	102.0	0.002	0.210		
	8:30 AM Sep 19	■ Phila. Fed Mfg. business outlook: Current activity	Sep	Index	5.21	12.0	0.016	0.107		
		■ Data revisions						0.021		
Sep 20									1.96	
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	8:30 AM Sep 27	■ PCE: Chain price index	Aug	MoM % chg.	0.152	0.033	0.180	-0.021		
		■ Data revisions						0.009		
Sep 27									1.76	

Source: Authors' calculations, based on data accessed through Haver Analytics.

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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.
- *Bok, B., D. Caratelli, D. Giannone, A. Sbordone, and A. Tambalotti.* 2017. “Macroeconomic Nowcasting and Forecasting with Big Data.” *Federal Reserve Bank of New York Staff Reports*, no. 830, November.
- *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. What is the schedule for reporting and updating the nowcast for each quarter?

We start reporting the nowcast of GDP growth for a reference quarter one week after the publication of the second official GDP estimate for two quarters prior. For example, we began reporting the nowcast for 2017:Q2 on Friday, March 10, 2017, following the government's second estimate of 2016:Q4 GDP on Tuesday, February 28, 2017. We continue to update the nowcast for a reference quarter until the release of the advance GDP estimate, roughly one month after the end of the quarter. For 2017:Q2, this occurred on July 28, 2017, at which point we stopped updating the nowcast for this quarter. We retain the reference quarter's progression plot and detail table in the Nowcasting Report until the publication of the second GDP estimate, roughly two months after the end of the quarter. Following the second estimate of 2017:Q2 GDP on August 30, 2017, we removed 2017:Q2 from the Nowcasting Report and began reporting the nowcast for 2017:Q4.

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

The New York Fed 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 New York Fed 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 New York Fed 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 real GDP, not the four-quarter (“y/y”) growth rate.

4. Can we obtain the data underlying this analysis?

To make it easier for nowcast followers to better understand and replicate our results, we share the MATLAB code for our model and a snapshot of data sets from the past year on Github at <https://github.com/FRBNY-TimeSeriesAnalysis/Nowcasting>. The newest releases for all data series are publicly available from source websites; real-time historical data for most series can be retrieved from the St. Louis Fed's ALFRED database. Unfortunately, we cannot provide the complete data set used in our model because the historical data for a handful of series (including the ISM manufacturing and nonmanufacturing indexes) are proprietary. As a consequence, the replication files do not exactly reproduce the published version of the New York Fed Staff Nowcast.

Authors

New York Fed Time-Series Analysis Team