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Economic and Policy Webcast
Dave Altig, Executive Vice President
and Research Director

June 23, 2015

2:00 p.m. (ET)

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The views expressed here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.



“It remains the case that the Committee will determine the timing of the initial increase in the federal funds rate on a meeting-by-meeting basis, depending on its assessment of incoming information and its implication for the outlook.”

Source: Janet Yellen, press conference opening statement, June 17, 2015:

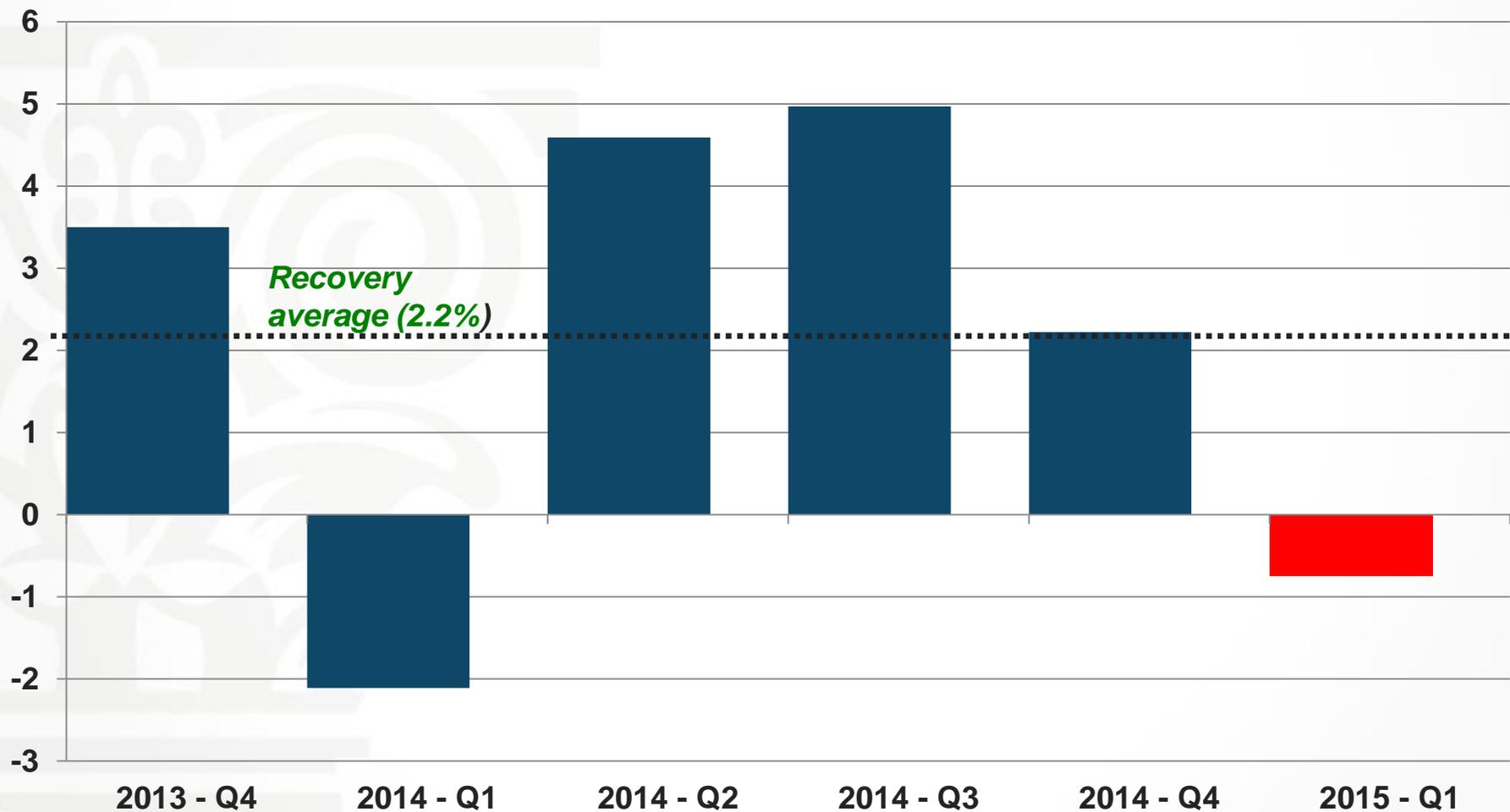
www.federalreserve.gov/mediacenter/files/FOMCpresconf20150617.pdf

The 2015 outlook is less rosy than the last time we talked.

	2015: q4/q4 ^a	2015: q3/q3
Dec 2014 Atlanta Fed staff forecast	3.1	2.8
Current Atlanta Fed staff forecast	2.1	1.9

The preliminary (real) GDP growth estimate for the first quarter indicated an annualized *decline* of 0.7%.

Quarterly Real GDP Growth (annualized, percent change)



Deconstructing the first quarter: Point 1

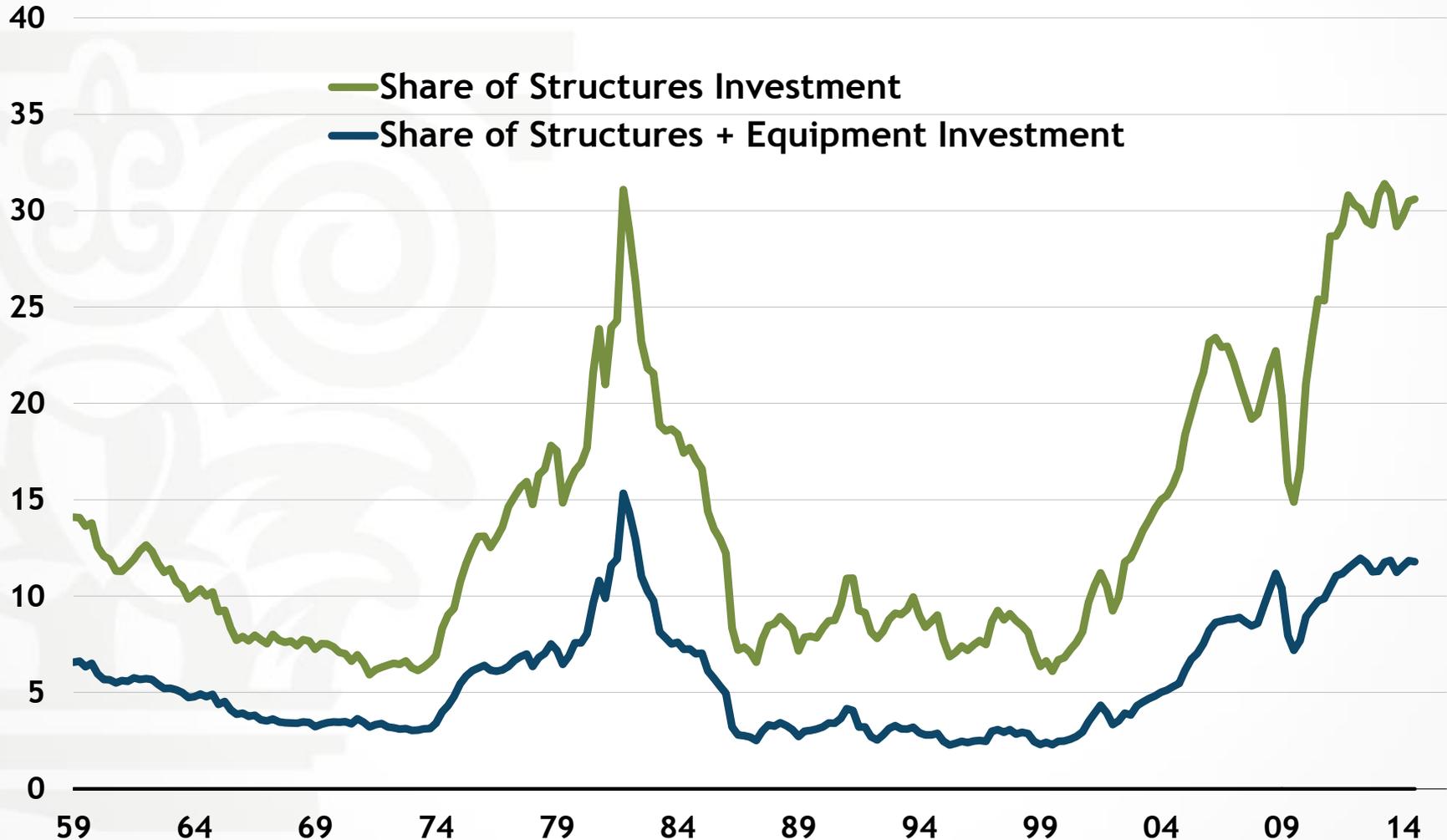
**Energy
independence is
a mixed
blessing in the
short run.**



https://upload.wikimedia.org/wikipedia/commons/c/ce/Oil_well.jpg

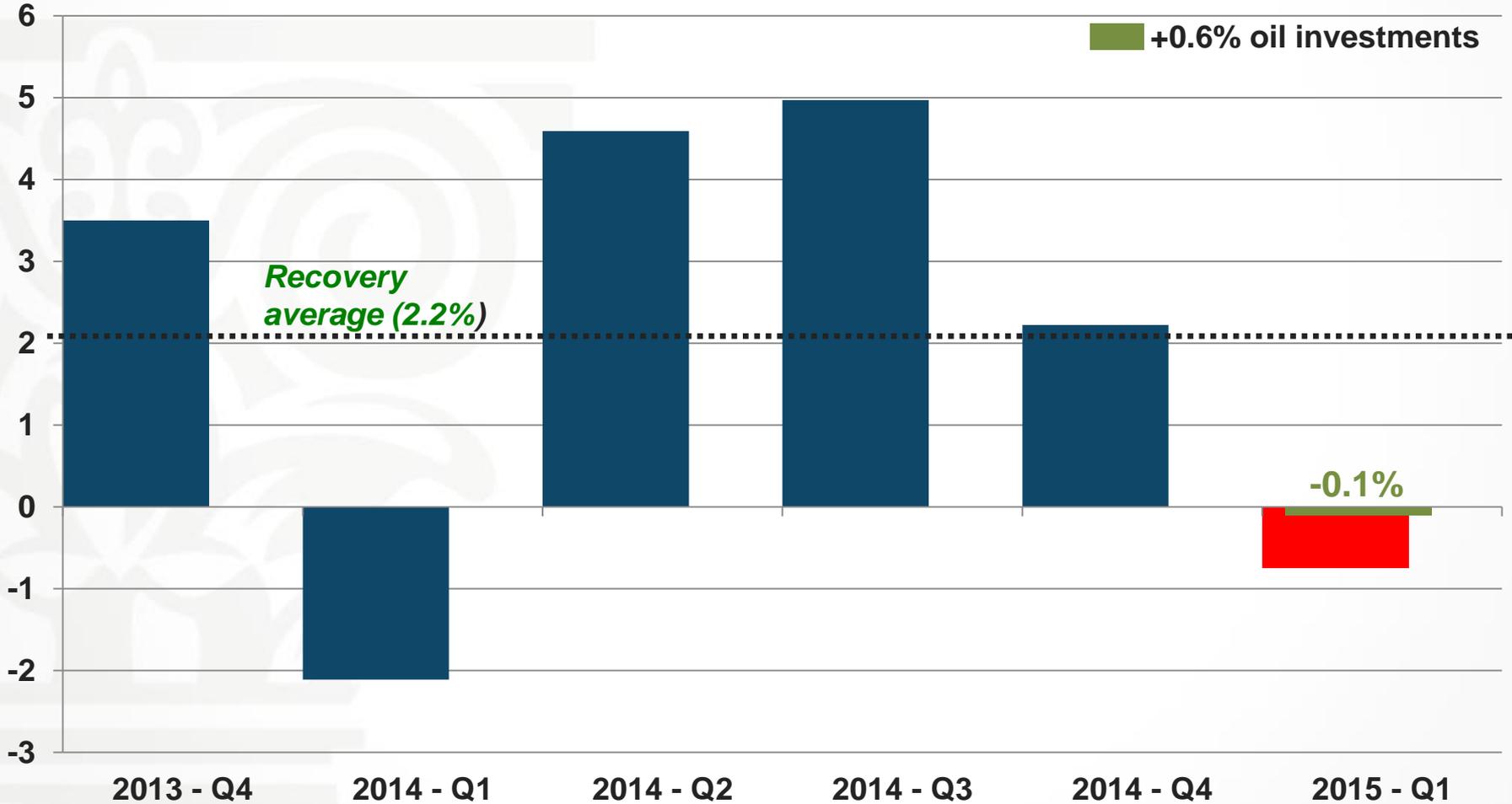
Mining and oil field investment, as a share of business spending, has risen dramatically.

Investment shares of mining + oil field investment



We estimate the impact of lower oil prices on energy-related investment took about six-tenths of a percent off Q1 growth.

Quarterly Real GDP Growth (annualized, percent change)



Deconstructing the first quarter: Point 2

“King dollar” is
a mixed
blessing in the
short run.



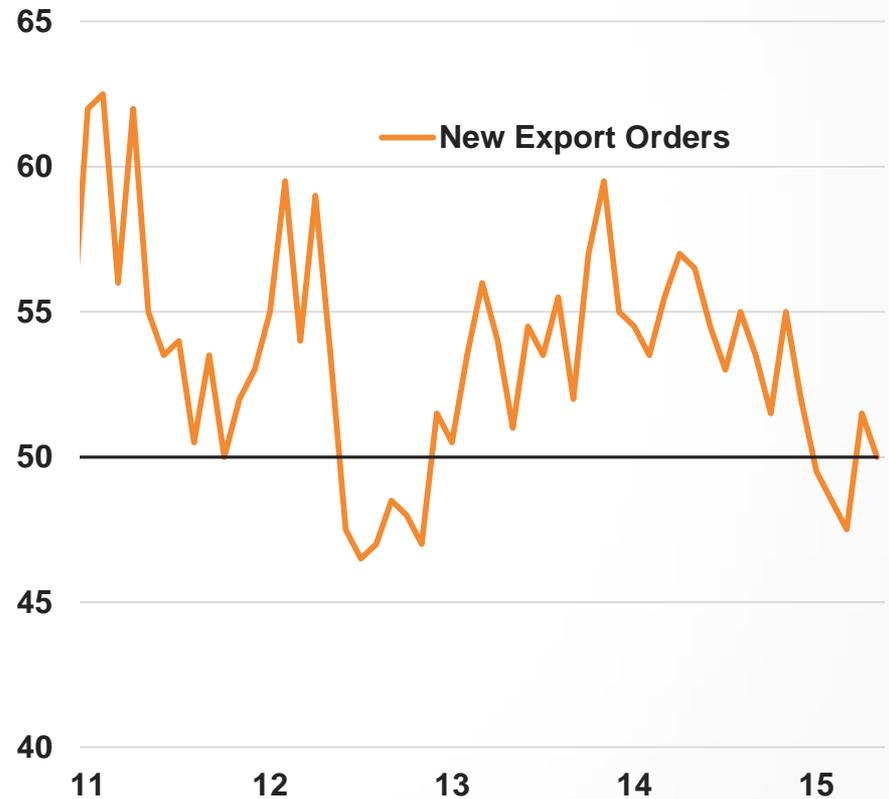
The sharp dollar appreciation slowed recent GDP growth, primarily through manufacturing via the export channel.

Nominal Broad Trade-Weighted
Exchange Value of the US\$
average, Jan-97=100



Source: Federal Reserve Board through May 22, 2015

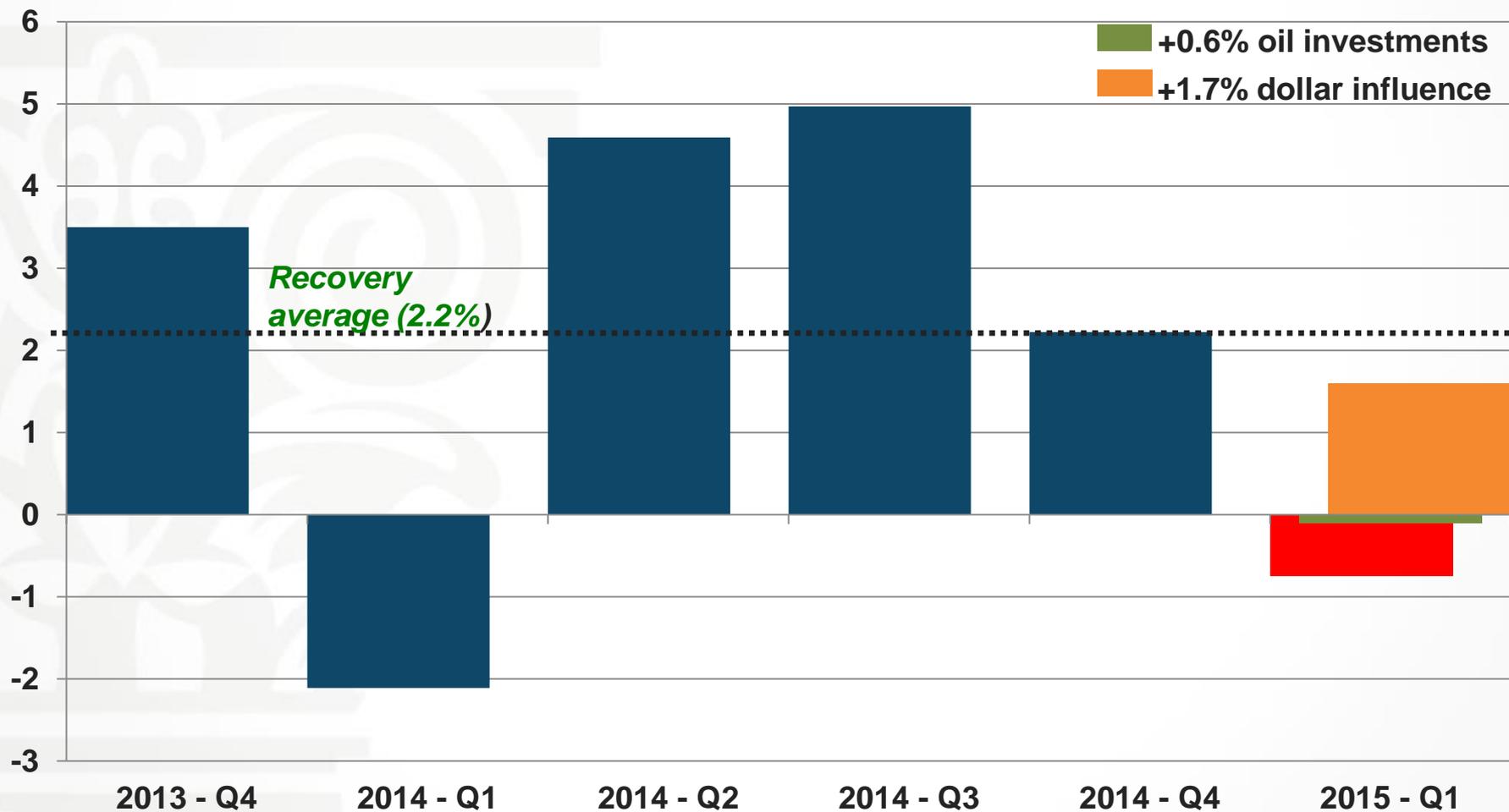
ISM Manufacturing Export Orders Index
SA, 50+ = Expansion



Source: Institute for Supply Management through May 2015

We estimate the exchange rate effect took about 1.7 percentage points off first-quarter growth.

Quarterly Real GDP Growth (annualized, percent change)



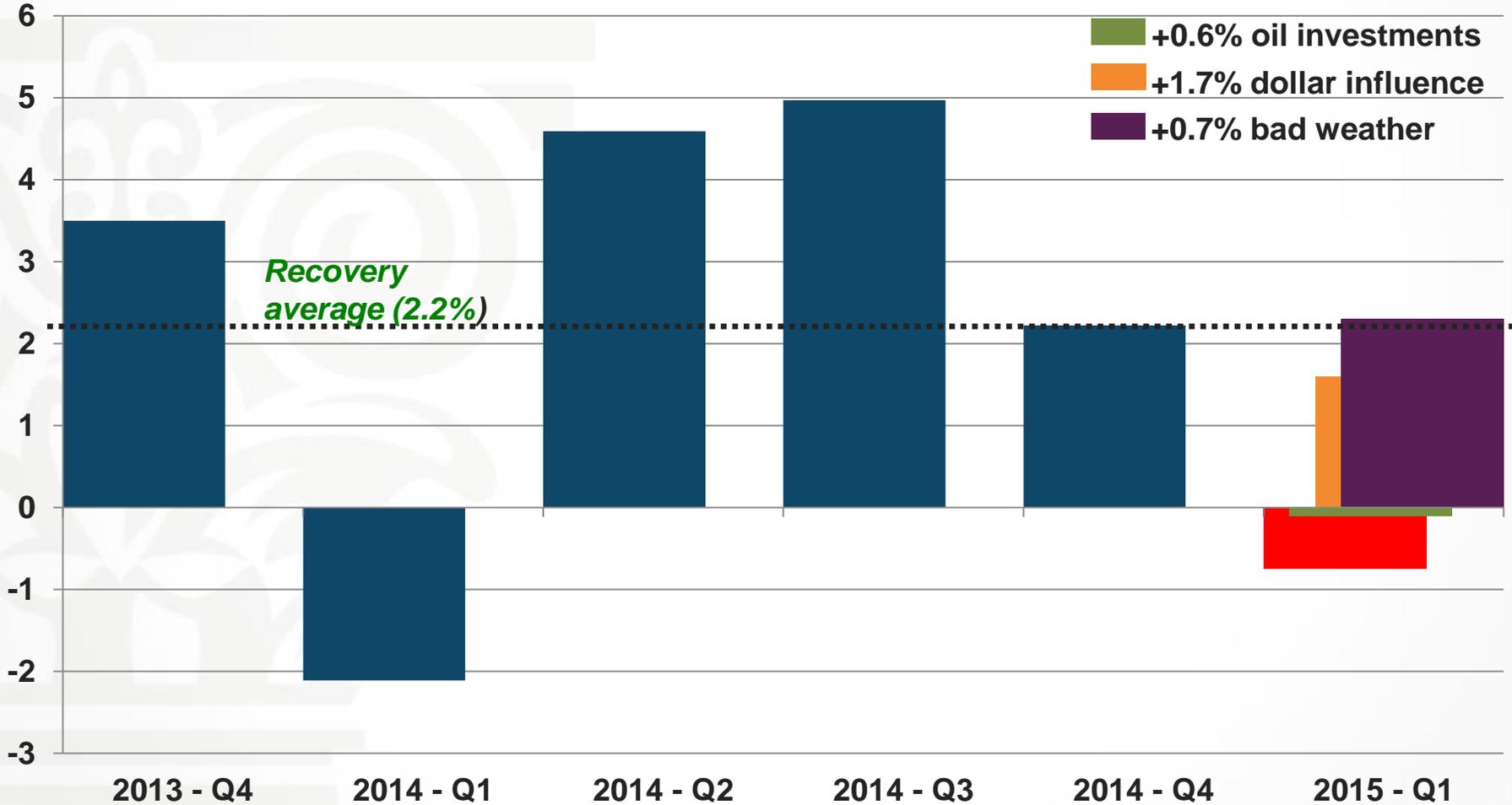
Deconstructing the first quarter: Point 3

It was a rough winter.



We estimate weather took about seven-tenths of a percentage point off first-quarter growth.

Quarterly Real GDP Growth (annualized, percent change)



Source: Bureau of Economic Analysis, FRBA calculations

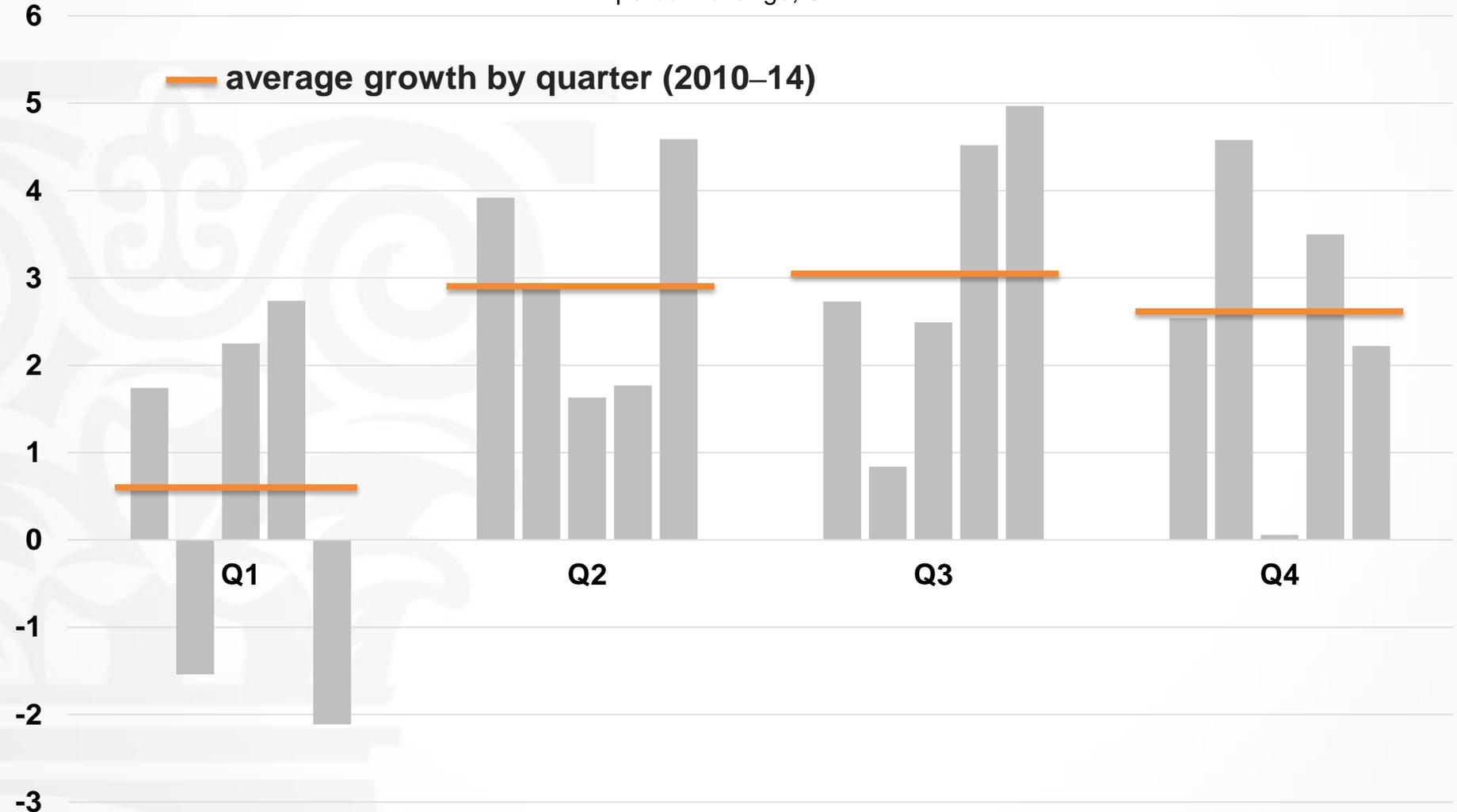
Deconstructing the first quarter: Point 4



**It's a big
(seasonal)
measurement
problem.**

Weak first-quarter growth has been a pattern during the recovery.

Real Gross Domestic Product (GDP) Growth by Quarter
percent change, SAAR



The Commerce Department is on the case.

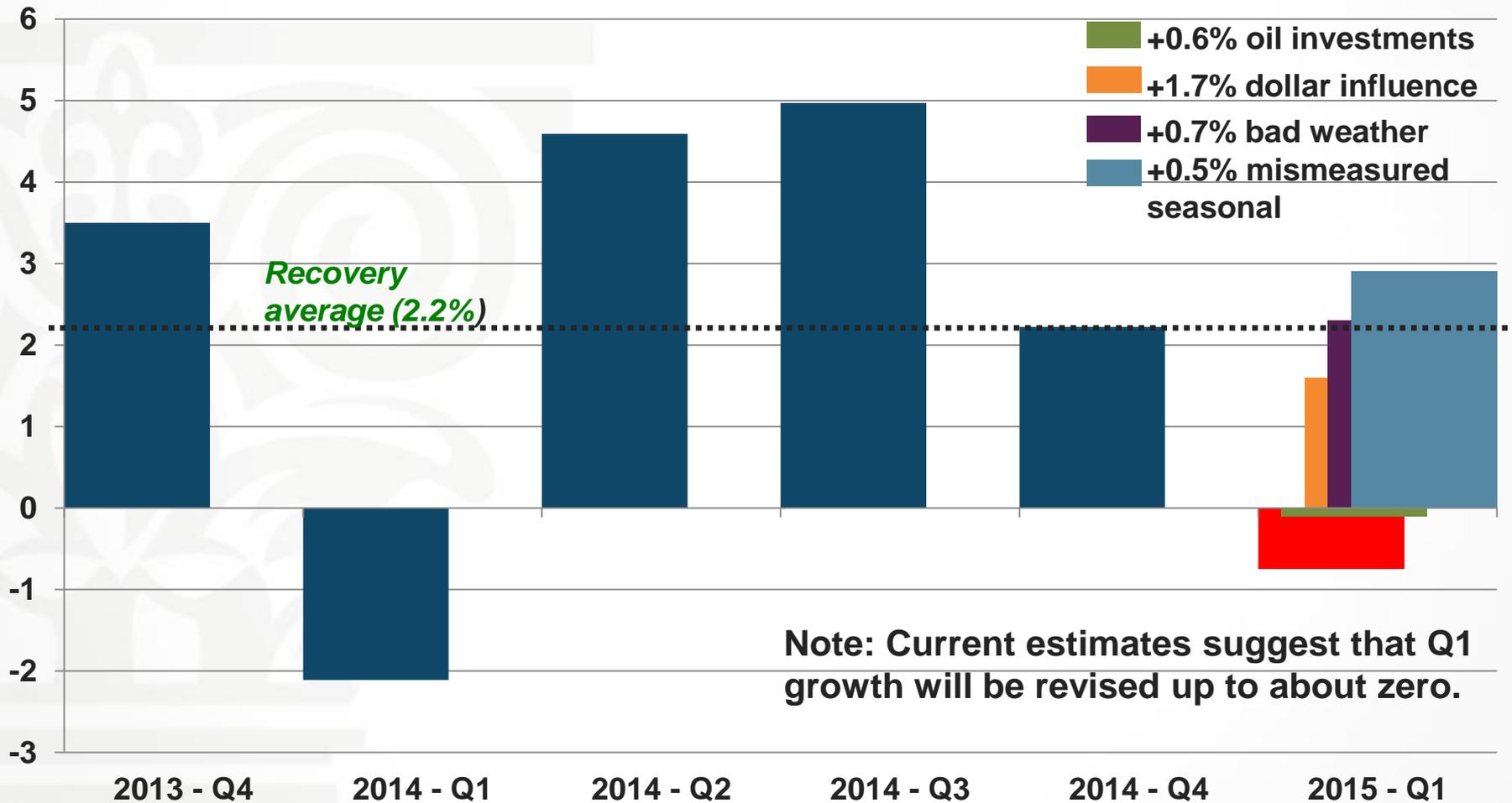
“Starting this summer...Commerce is looking to:

- **Adjust measures of government spending, which appear to have lower growth rates in the first and fourth quarters of the year.**
- **Start adjusting inventory investment numbers that don't now account for seasonal factors.**
- **Start adjusting some figures from the...quarterly services survey that until now haven't had sufficient time spans for seasonal adjustment.”**

Source: *The Wall Street Journal*: blogs.wsj.com/economics/2015/05/22/first-quarter-growth-may-look-better-after-upcoming-statistical-tweaks/

A conservative guess—we emphasize *guess*—could get you another ½ percentage point on Q1 growth.

Quarterly Real GDP Growth (annualized, percent change)



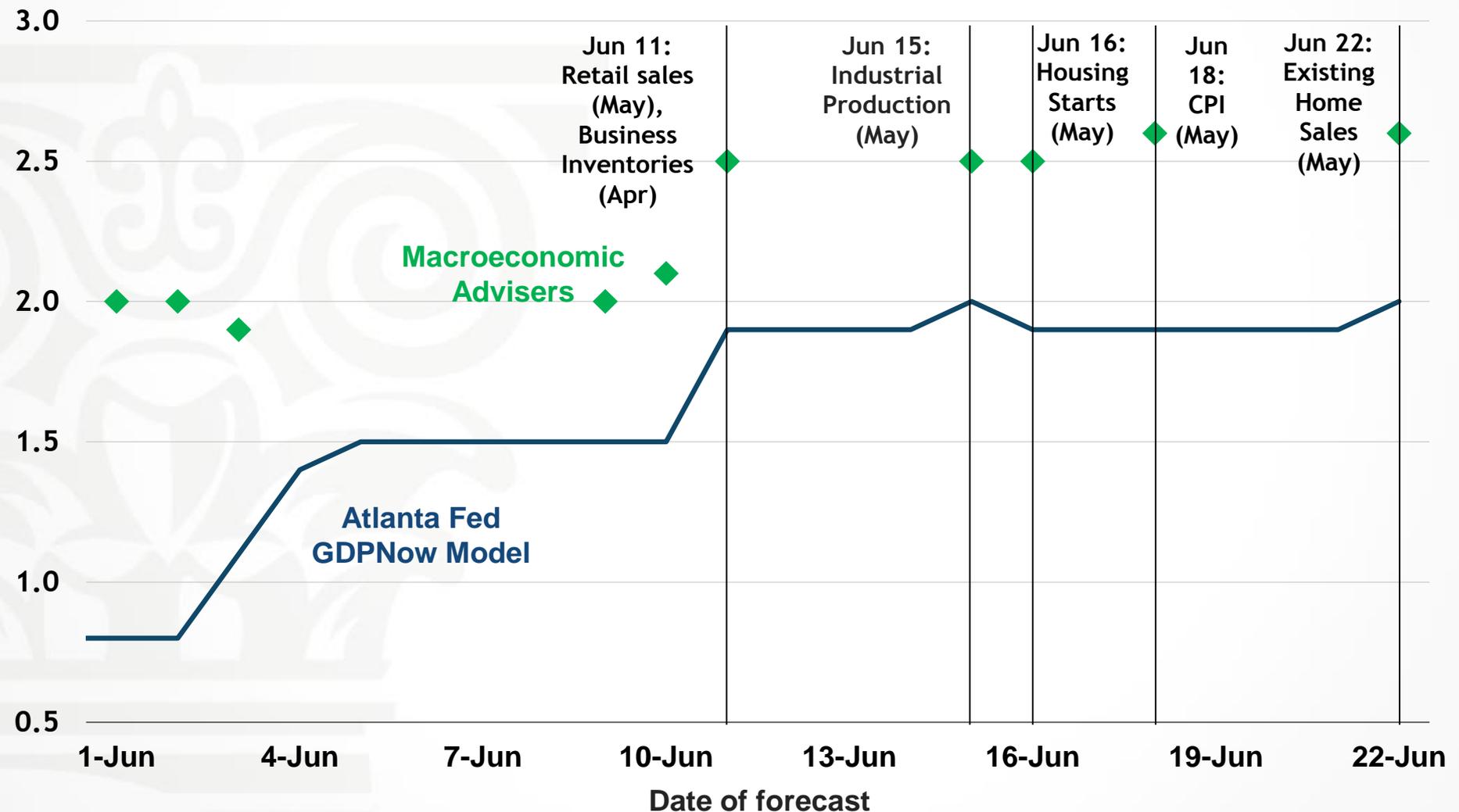
Summing it up, and looking ahead.

- **The weather effects are clearly transitory, and we should see some payback in the second (and maybe third) quarters.**
- **Seasonal adjustments problems only affect the timing of measured activity, and we should see the “lost output” reappear (probably in the third quarter).**
- **Now that the dollar and oil prices have stabilized, we should see the headwinds fade away—but some of the effects may persist for a bit.**

Tracking estimates are not quite up to a 3 percent pace, but the May data has been encouraging.

The Evolution of Q2 Real GDP Growth Tracking Estimates

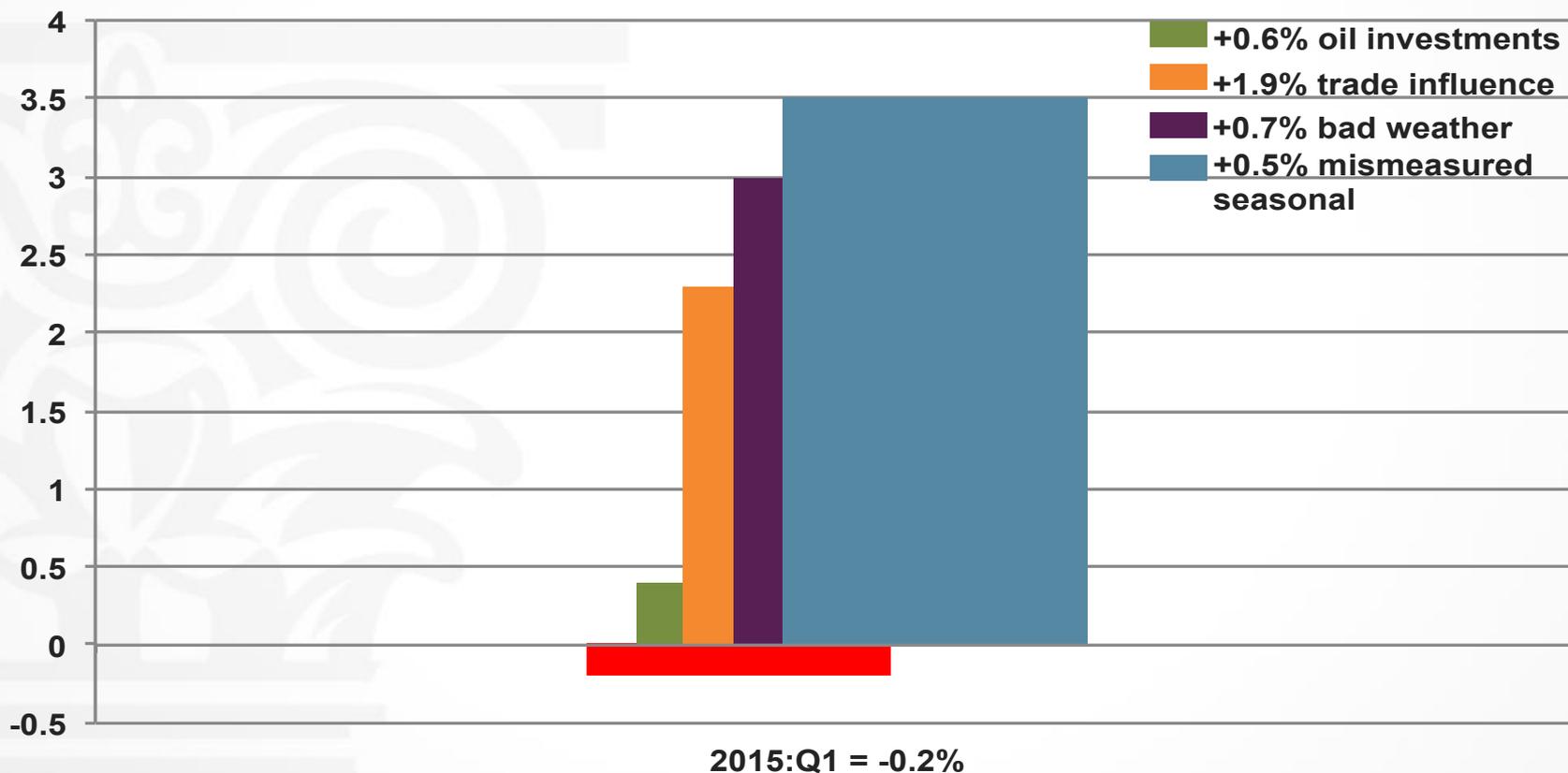
quarterly percent change, SAAR



REVISION: The U.S. Bureau of Economic Analysis revised its Q1 GDP calculations on June 24. Below is an updated version of the GDP chart.

Breaking down Q1 GDP: What were the sources of the disappointing growth?

Quarterly Real GDP Growth
(annualized, percent change)





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