

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: March 13, 2015
To: Federal Open Market Committee
From: Eric Engen and David Lebow
Subject: Update to March Tealbook GDP Forecast

The data that we have received since the March Tealbook forecast was closed point to somewhat faster real GDP growth in the fourth quarter of last year, and slower growth in the first quarter of this year, than we projected in the Tealbook; taken together, the revisions to the near-term projection are close to offsetting for the level of GDP.

The Quarterly Services Survey (QSS), which was released on Wednesday, implies an upward revision to the BEA's estimate of households' consumption of health-care services in the fourth quarter.¹ By contrast, the retail sales data for February, released on Thursday, were again disappointing, and sales in January were revised lower. These data now show three consecutive months of sales (in the categories used by the BEA to construct their estimates of real PCE) that are about flat in real terms. Although this string of weak readings gives us some pause, for now we are leaving our projection for PCE growth unchanged beyond the first quarter. The strong growth in consumer spending in the fourth quarter and the favorable fundamentals for spending (which include strong job gains and low gasoline prices that contribute to solid increases in real disposable incomes, and relatively upbeat consumer sentiment) suggest to us that PCE growth will pick up again in the coming months. Finally, we incorporated small revisions to inventory investment in the near term to reflect the January data on retail inventories.

¹ As you will recall, health-care spending in the QSS for the first quarter of 2014 was estimated to have been exceptionally low, contributing to the anomalous-seeming decline in GDP that quarter. However, the subsequent QSS releases have shown a rebound in health-care spending such that the level of spending in 2014:Q4 is close to what we would have originally anticipated.

All told, as shown in the table below, we now estimate that real GDP expanded at an annual rate of 2.4 percent in the fourth quarter, $\frac{1}{4}$ percentage point faster than our estimate in the March Tealbook. We revised down our forecast for real GDP growth in the first quarter by a little more, to an annual rate of 1.2 percent. As these revisions to GDP are small on net, they have little effect on our estimate of the output gap and no implications for our projection of the unemployment rate or the federal funds rate. Tealbook GDP projections for 2016, 2017, and the longer run are unchanged.

Near-Term GDP Forecast						
(percent change at an annual rate)						
	2014Q4	2015Q1	2015Q2	2014H2	2015H1	2015 (Q4/Q4)
Current	2.4	1.2	2.7	3.7	2.0	2.1
March Tealbook	2.1	1.7	2.6	3.5	2.2	2.2
January Tealbook	2.6	2.8	2.7	3.8	2.8	2.8
December Tealbook	2.2	2.4	2.4	3.1	2.4	2.5
Revision since March TB	.3	-.5	.1	.2	-.2	-.1
Contributions from						
Q4 QSS	.3			.2		
February Retail Sales		-.4			-.2	-.1
January Retail Inventories		-.1	.1			

Finally, the table below shows how these revisions translate into four-quarter changes in GDP through 2015.

Four-Quarter Change in Real GDP					
(percent change over preceding 4 quarters)					
	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4
Current	2.4	3.3	2.8	2.1	2.1
March Tealbook	2.4	3.3	2.8	2.2	2.2
December Tealbook	2.2	3.3	2.8	2.4	2.5