

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF RESEARCH AND STATISTICS

Date: June 11, 2015
To: Federal Open Market Committee
From: Eric M. Engen and David E. Lebow
Subject: Tealbook forecast update

The data that we have received since the June Tealbook forecast was closed point to a little faster real GDP growth in the first and second quarters of this year than we projected in the Tealbook.

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 first quarter. In addition, the retail sales data released on Thursday indicate that household spending in May rose a little more than we had expected, and the sales data were revised up for the prior two months. Because movements in retail sales tend to be partially reversed in the following month, we have revised down our forecast for retail sales growth in June, which slightly lowers our projection for real PCE growth in the third quarter. As a result, our upward revision to spending for this year as a whole is somewhat less than the first-half revision would indicate.

All told, as shown in the table below, we now estimate that real GDP decreased at an annual rate of $\frac{1}{4}$ percent in the first quarter, $\frac{1}{4}$ percentage point less negative than our estimate in the June Tealbook. We also revised up our forecast for real GDP growth in the second quarter by a similar amount to $2\frac{3}{4}$ percent and lowered somewhat projected GDP growth in the third quarter. These revisions to real GDP growth, on net, have a small positive effect—about 0.1 percentage point—on our projection of the output gap at the end of this year. All else equal, this revision would lower our projected path for the unemployment rate by about 0.05 percentage point and increase the assumed federal funds rate by 8 basis points by the end of 2017.

Near-Term GDP Forecast
(percent change at an annual rate)

	2015Q1	2015Q2	2015Q3	2015H1	2015H2	2015 (Q4/Q4)
Current	-.2	2.8	1.7	1.3	2.0	1.7
June Tealbook	-.5	2.5	1.9	1.0	2.1	1.6
April Tealbook	.1	2.4	2.4	1.2	2.4	1.8
March Tealbook	1.7	2.6	2.3	2.2	2.3	2.2
Revision since June TB	.3	.3	-.2	.3	-.1	.1
Contributions from						
Q1 QSS	.2			.1		.05
May Retail Sales	.1	.3	-.2	.2	-.1	.05

Note: Components may not sum due to rounding.

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)

	2015Q1	2015Q2	2015Q3	2015Q4
Current	2.9	2.4	1.6	1.7
June Tealbook	2.8	2.3	1.5	1.6
March Tealbook	3.3	2.8	2.2	2.2