

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

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**Date:** October 28, 2016  
**To:** Federal Open Market Committee  
**From:** Eric Engen and David Lebow  
**Subject:** Tealbook forecast update

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According to the BEA's advance estimate, real GDP rose at an annual rate of 2.9 percent in the third quarter, about ½ percentage point above our Tealbook estimate. Among the spending components (see the table on the next page), net exports came in significantly stronger than we had expected, and inventory investment was stronger as well; however, both consumer spending and business investment were somewhat softer than we had projected.<sup>1</sup> The combination of higher inventory investment and weaker growth in private domestic spending likely will lead us to reduce our projection of GDP growth in the fourth quarter, from 2.1 percent in the Tealbook perhaps to the 1¾-2 percent range. We will adjust this estimate on Monday, when we receive additional underlying detail on today's data as well as the monthly pattern of consumer spending through September.

Data on consumer prices for the third quarter came in a touch higher than we had expected. Total PCE inflation rose at an annual rate of 1.4 percent, in line with our Tealbook estimate, but core inflation was a tenth higher than we expected, at 1.7 percent. The small surprise in core occurred in both the market-based and non-market components. On Monday we will receive the monthly price data through September.

Today we also received two pieces of data pertaining to wages. The employment cost index for private industry workers rose at an annual rate of 1.9 percent last quarter,

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<sup>1</sup> The stronger net exports reflected the trade data for September that were released Wednesday morning after we had closed the Tealbook projection. The BEA's reported GDP figure of 2.9 percent is close to the 3 percent estimate we made after having seen the trade data.

close to our expectations, putting the 12-month change at 2.3 percent. Finally, based on the wage information in the NIPAs, we now estimate that hourly compensation in the business sector rose 2.1 percent over the four quarters ending in 2016:Q3, a bit lower than we had projected.

**GDP Comparison Table – 2016:Q3 Advance Release**  
(Percent change from previous quarter at annual rate)

	<b>Staff forecast</b>	<b>BEA advance release</b>	<b>Difference (BEA less staff)</b>
<b>GDP</b>	<b>2.5</b>	<b>2.9</b>	<b>.4</b>
<i>Contributions to growth from</i>			
Consumption	1.8	1.5	-0.3
Nonresidential private fixed investment	0.4	0.2	-0.2
Nonresidential structures	0.1	0.1	0.0
Equipment & Intangibles	0.2	0.0	-0.2
Residential investment	-0.2	-0.2	0.0
Government	0.1	0.1	0.0
Net exports	0.3	0.8	0.6
Change in private inventories	0.2	0.6	0.4
<b>Memo:</b>			
Private final domestic purchases	2.2	1.6	-.6

Note: Contributions may not sum to totals due to rounding.