



Tools for the Armchair Economist: Taking the Pulse of GDP

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Countless economic decisions hinge on gross domestic product (GDP), including the Federal Reserve's monetary policy actions. Yet, like many statistics, GDP figures are released with a lag, making it difficult for policymakers to get a current read on economic conditions. So economists at the Atlanta Fed developed a tool—GDPNow—to provide real-time forecasts of this key metric.

Launched publicly in July 2014, GDPNow is designed to provide real-time forecasts of GDP without waiting for the official quarterly report from the Commerce Department.

The GDPNow model complements other survey-based forecasts of this key statistic, with some additional benefits. For one, it's updated five or six times per month as opposed to monthly or quarterly. And because the model incorporates the forecasts of 13 elements that influence GDP, it can also lend insight into why economic activity is likely to strengthen or weaken from its current trend.

Because GDP is calculated by adding consumption, investment, net exports, and government spending, "we can break down GDP growth into the individual contributions from each of these components," explained Patrick Higgins, the Atlanta Fed senior economist who developed the GDPNow model. Unlike most publicly available, real-time forecasts, GDPNow does this breakdown before the official release.

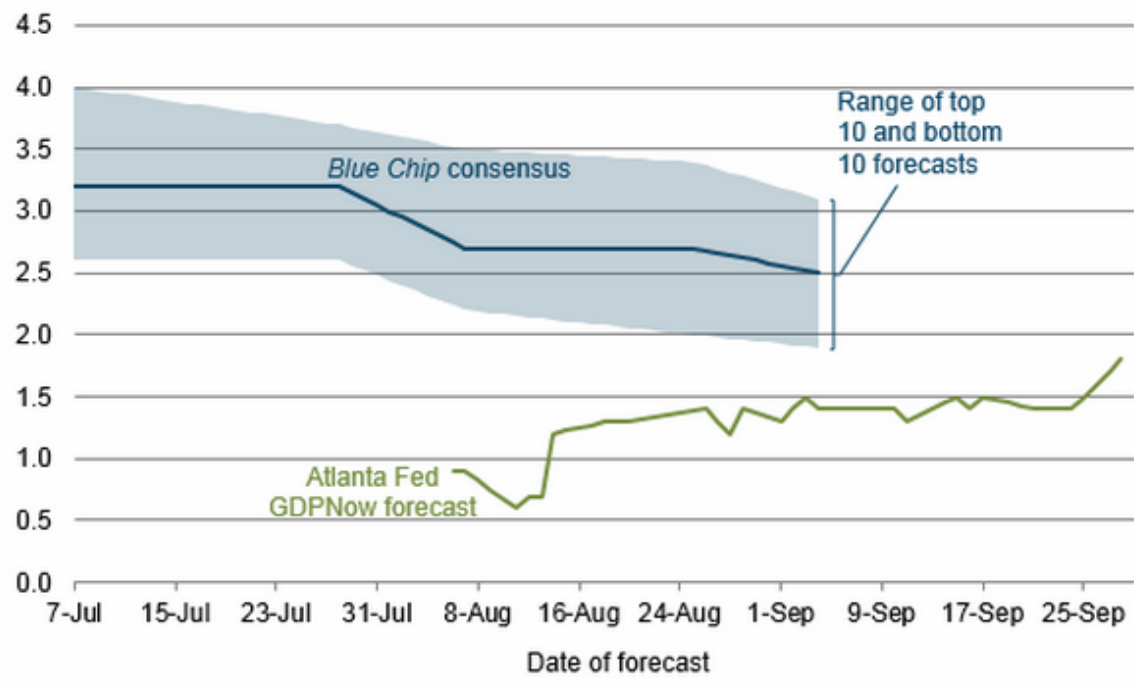
Each time new data—say, existing home sales or employment figures—are released, the model updates its forecast of GDP growth or contraction. As more economic statistics are released during the month, the GDPNow forecast generally becomes more accurate, although the forecasting error can still be substantial just before the federal government releases its "advance" GDP estimate.

"Over the past four years, GDPNow has been slightly less accurate in predicting real GDP growth than the consensus estimate of professional forecasters. But it's pretty close," said Higgins, who added that the GDPNow tool was used in-house for a few years at the Atlanta Fed before its public unveiling. This year, GDPNow forecasts for the first and second quarters "essentially nailed it," he added.

The most recent GDPNow forecast on September 28 predicted 1.8 percent growth in the third quarter of 2014, up from 1.4 percent four days earlier.

Evolution of Atlanta Fed GDPNow real
GDP forecast for 2015: Q3
Quarterly percent change (SAAR)





Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Want to keep track of the forecasts as they're updated? [Sign up](#) for e-mail updates each time new figures are released.

GDPNow is part of a suite of tools designed to help people relate economic concepts to their everyday lives. Many of these tools were initially designed for monetary policy deliberations and have since made their way to the Atlanta Fed's website, where they are available to anyone who wants to play "armchair economist."



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