April 20, 2015

What the Weather Wrought

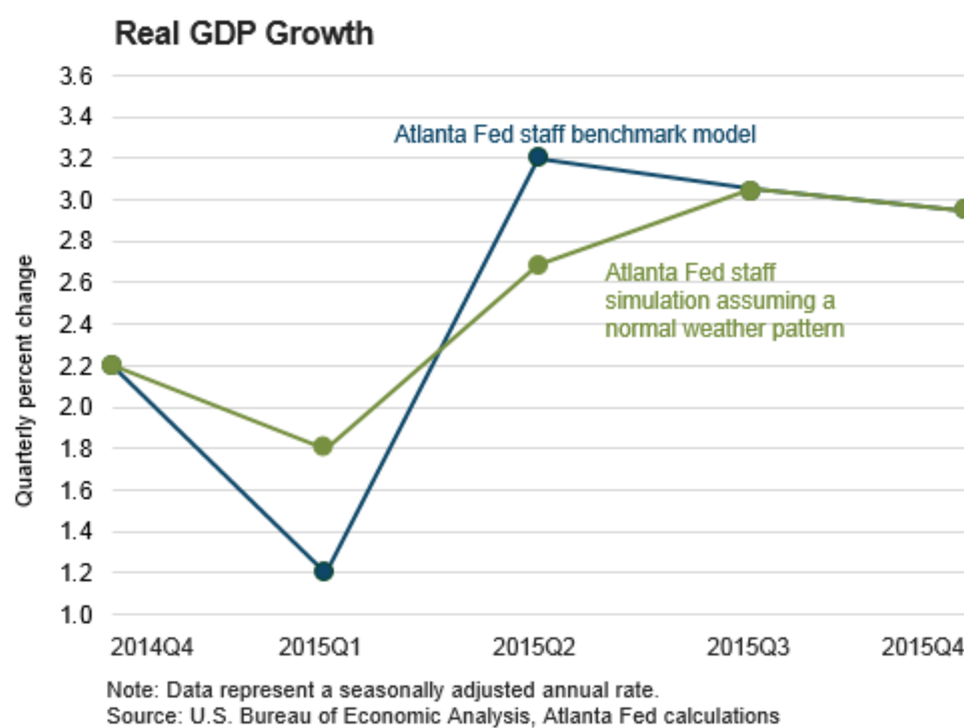
At *Seeking Alpha,* Joseph Calhoun responds to Friday's *macroblog* post, which noted that, over the course of the recovery, first-quarter gross domestic product (GDP) growth has on average been slower than the quarterly performance over the balance of the year:

> ... the "between-the-lines" meaning of the Atlanta post is to ignore all of this since this weakness is being portrayed as "just like last year" a statistical problem in the one measure that economists think most represents the economy.

Rest assured, we try pretty hard to not place any messages "between the lines," and the penultimate sentence of Friday's piece was meant to strike the appropriately tentative tone: "As for the rest of the year, we'll have to wait and see."

We do believe, like others, that weather was at play in the subpar performance of 2015's debut. Severe weather, in February in particular, can explain *some* of the first-quarter weakness, but "some" is the operative qualifier.

As the following chart illustrates, relative to a baseline forecast without weather effects—proxied with National Oceanic and Atmospheric Administration measures of heating and cooling days through March—we estimate that the severity of the winter subtracted about 0.6 percentage point from GDP growth:



Two points: First, to the extent that weather is a culprit in subpar first-quarter growth, we should see some payback in the current quarter (as, dare we say, we saw last year).

Second, we (the Atlanta Fed staff) did not begin the year projecting first-quarter growth at a mere 1.8 percent annualized (as the benchmark forecast in the experiment illustrated above implies). That rate of growth is a considerable step-down from our forecast at the beginning of the year, forced by the realities of the incoming data (as captured, for example, by GDPNow estimates). That gap leaves plenty of explaining left to do.

Observable developments *can* plausibly explain much of the forecast miss—mainly the initial, somewhat ambiguous, impact of energy price declines and the rapid, steep appreciation of the dollar, which has clearly been associated with a suppression of export activity. Our current view is that, as energy prices and the exchange rate stabilize, we will see a return to growth patterns that are closer to 3 percent than 1 percent.

We are not, however, selling the position that it is wise to be completely sanguine about the rest of the year. Here is the official word from Dennis Lockhart, president of the Atlanta Fed (subscription required for full citation):

> I lean to a later lift-off date [for the federal funds rate target]. To the extent you want to simplify that debate to June versus September, I lean to September. I don't think, given the progress we have made, the state of the economy, and my confidence that the first quarter was an aberration, that it would be horribly damaging to go a little earlier versus later. But my preference would be to wait for more confirming evidence that we are on the track we think we are on and we expect to carry us back to inflation toward target.

By Dave Altig, executive vice president and research director of the Atlanta Fed

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