Weak First-Quarter Growth Due to Seasonal Issues After All, SF Fed Says

By Pedro Nicolaci da Costa

The storm over the weather's role in a cloudy U.S. economy is lingering.

Economists at the Federal Reserve Bank of San Francisco argue in a new paper that issues with seasonal adjustments in the official growth statistics are depressing winter figures.

The San Francisco findings contrast with those of Fed board economists in a research note last week. It found “no firm evidence” of inadequate seasonal adjustments that might be skewing the data.

The U.S. economy barely grew in the first quarter, according to Commerce Department data, and many analysts believe revisions will show the economy contracted during the period. A similar pattern of unexpected weakness was seen early last year as well.
"The official estimate of real [gross domestic product] growth for the first three months of 2015 was shockingly weak. However, such estimates in the past appear to have understated first-quarter growth fairly consistently, even though they are adjusted to try to account for seasonal patterns," write San Francisco Fed research director Glenn Rudebusch and two co-authors in the regional central bank’s weekly Economic Letter.

"Applying a second round of seasonal adjustment corrects this residual seasonality. After this correction, aggregate output grew much faster in the first quarter than reported," they say.

How fast? The new adjustment raises real GDP growth in the first quarter to a 1.8% annual rate from an initial reading of 0.2%, the report says.

Second-quarter figures have thus far failed to show the sort of solid rebound many Fed officials had been hoping for as they contemplate raising short-term interest rates from near zero this year.

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