

Monthly Forecast Report

Real Gross Domestic Product



PAPAYACAST

March 2020

The U.S. economy is about to be tested in ways rarely seen in our nation's history as the spread of the coronavirus has led to virtual shutdowns of regional economies in the wake of states telling residents to stay home. PapayaCast's forecast for GDP growth for the first quarter of 2020 stands at 0.4% on an annualized basis, a significant downgrade from our 2.4% projection last month.

A lot has happened since our last report, and our current forecast of positive GDP growth in the first quarter should not be interpreted as an optimistic assessment of the U.S. economy in the short term. It is only in these final weeks of the first quarter of 2020 that the initial effects of the coronavirus pandemic are being felt here at home. January and February were quite strong for the nation's economy, and it wasn't until the reported surge in applications for unemployment claims last week that we received our first pieces of actual economic data in the wake of the virus' spread.

On Thursday March 19th the U.S. Department of Labor announced that initial claims for unemployment insurance reached 281,000 on a seasonally adjusted basis for the week ending March 14th, a 70,000 increase over the prior week, or 33% higher. This was the highest level for initial claims since September 2nd, 2017. Goldman Sachs predicts that initial claims for unemployment insurance will reach 2.25 million for the week ending March 21st, based on reports of widespread layoffs throughout the leisure and hospitality and retail industries.

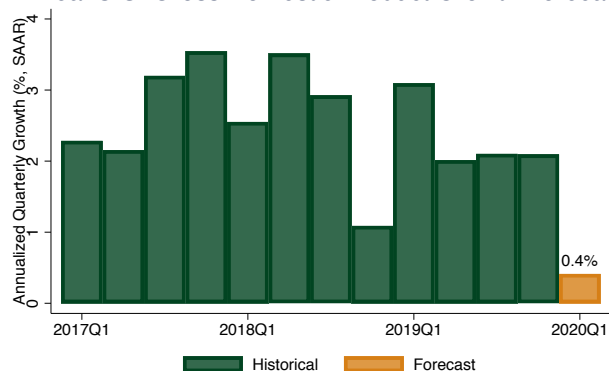
Next month we will begin to get a more concrete picture of the coronavirus impact on the U.S. economy as survey results for March economic data trickle in. There is little doubt that we are headed towards negative GDP growth in the second quarter, but whether or not we enter a full-blown recession will depend on the government's response, as well as everyday citizens doing their part to hinder the spread of the coronavirus through social distancing. Just because people stop spending now doesn't mean we will enter a recession. Money saved today is spent later, and the potential for a strong rebound is possible, but only if people have money to spend. This is where government support for those losing their jobs because of the virus becomes so important. The next few months could well determine the path for the next year if we don't get this right.

Forecast Accuracy

Here at PapayaCast we're proud of our forecasts, and we're not afraid to show you our track record. We invite other forecasters to do the same! After the government's initial release of their official fourth quarter GDP estimate, our average forecast error stands at +/- 0.2 percentage points. Each month we'll include our GDP forecast accuracy to let you know how we're doing over time.

Average Forecast Error
± 0.2 pp

Real U.S. Gross Domestic Product Growth Forecast



Source: PapayaCast, Bureau of Economic Analysis

Real U.S. Gross Domestic Product Forecast, Q4 2019

Component	Percent Change	Contribution to Change
Gross Domestic Product	0.4	
Personal Consumption Expenditures	0.6	0.4
Gross Private Domestic Investment	-4.6	-0.8
Net Exports	-	0.2
Exports	-1.0	-0.1
Imports	-1.7	0.3
Government Expenditures and Investment	3.8	0.6

Source: PapayaCast