

Monthly Forecast Report

Real Gross Domestic Product



May 26, 2020

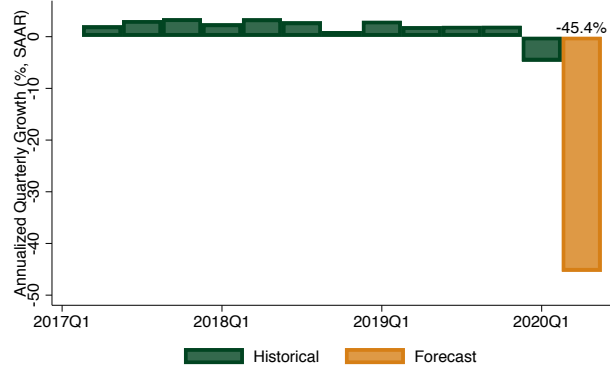
The U.S. economy is about to enter the worst economic downturn since the Great Depression as GDP growth is forecast to be negative for a second consecutive quarter. PapayaCast's forecast for Q2 GDP growth is currently calling for a 45.4% decrease on an annualized basis. If realized, this would be the largest drop in U.S. GDP since the Bureau of Economic Analysis began estimating quarterly growth in 1947. The largest previous annualized percent decline was -10% in the first quarter of 1958.

The job losses witnessed in the month of April highlight the magnitude of the economic downturn we are facing. Nonfarm employment plummeted by 20.5 million jobs in April, the largest one month drop in the available data going back to 1939. The second largest monthly decline in nonfarm employment was a 1.96 million loss in September of 1945. To put this into further perspective, during the Great Recession there were 8.7 million jobs lost from the peak of nonfarm employment in January of 2008 to the trough in February 2010. The losses we have seen just last month are more than twice what we saw during the entire Great Recession.

The most recent labor market data suggests that April will not be an isolated incident. Weekly unemployment insurance claims data show for the first three weeks of May another 8.3 million people filed for initial claims. While there have been some rehires taking place, the pace of initial claims applications to-date in May point towards another painful month for the labor market, with losses likely in the millions for a second consecutive month.

The magnitude of the economic downturn we are entering is unprecedented in recent history. Although you would not know it if you look at the stock market, which has rallied fiercely after the initial selloff and entry into a new bear market. Sadly, the stock market appears to be completely disconnected from economic fundamentals and is being driven by pure speculation and traders clinging to any positive news they can find about the current situation. In the first half of June PapayaCast will be releasing a special report on its analysis of the COVID-19 impact on the economy. It will cover when we could see a bottom to the job losses, how deep the recession might go, and how long it could take to recover. We are truly in unprecedented times, and PapayaCast is committed to delivering the best analysis on our current situation and future economic prospects to keep you informed.

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	-45.4	
Personal Consumption Expenditures	-51.3	-36.9
Gross Private Domestic Investment	-55.2	-10.3
Net Exports	-	0.2
Exports	-15.4	-1.7
Imports	-13.2	2.0
Government Expenditures and Investment	10.7	1.5

Source: PapayaCast

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 taking a beating from the unexpectedly large decline in first quarter GDP growth, our current average forecast error stands at +/- 1.9 percentage points. Each month we'll include our GDP forecast accuracy to let you know how we're doing over time.

Average Forecast Error
± 1.9 pp