

Monthly Forecast Report

Real Gross Domestic Product



PAPAYACAST

June 26, 2020

In the face of one of the worst economic downturns in our nation's history, there has been a spark of hope as loosening of commercial restrictions in many states resulted in increased economic activity in the month of May, although it has not come without cost. PapayaCast is currently forecasting an annualized 33.7% decrease in real gross domestic product (GDP) for the second quarter of 2020. This is a marked improvement over our forecast of a 45.4% decrease in our prior report. Nevertheless, this still represents the biggest decline in GDP growth since the Bureau of Economic Analysis began their quarterly estimates in 1947.

The significant upgrade to our forecast is due to the spectacular job growth numbers in the government's May jobs report. The Bureau of Labor Statistics (BLS) announced that nonfarm payroll employment increased by 2.5 million jobs, the largest monthly increase since the BLS began their survey in 1939. These strong gains in the labor market have been corroborated with other data points that have shown May to be a truly good month for the economy. Retail sales jumped nearly 17% from April to May, industrial production increased by 1.4%, and new housing starts increased by 4.3%. The reopening plan that many states put into effect did exactly what it intended to do, which was to revive economic activity.

The question remains, however, is this growth we saw in May sustainable? Can states that have pursued aggressive reopening manage the COVID-19 pandemic while still increasing economic activity? Current indications are the answer to that is no. Significant spikes in coronavirus spread have been seen in Texas, Florida, and Arizona, above and beyond what would be expected from just an increase in testing revealing more cases. Just today, the governor of Texas began to reverse some of their economic reopening as the spread of the virus is on the brink of being uncontrolled.

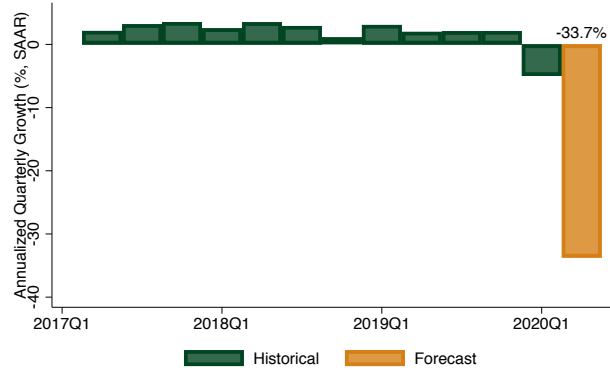
Where will the economy go from here? In our recently released special report on the COVID-19 economic impact, available now on our website, we do a deep dive into the depth and breadth of the recession we are now facing. In that report we estimate when the bottom for economic activity might be, and how long it will take to recover. What we do as a society in the next few months will be critical in determining our path forward over the next few quarters. PapayaCast will continue to monitor the situation and provide you with the information you need today to prepare for the economy tomorrow.

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

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	-33.7	
Personal Consumption Expenditures	-38.2	-27.2
Gross Private Domestic Investment	-48.4	-9.1
Net Exports	-	1.5
Exports	-47.0	-6.6
Imports	-44.0	8.1
Government Expenditures and Investment	7.2	1.1

Source: PapayaCast