

Monthly Forecast Report

Real Gross Domestic Product



PAPAYACAST

July 29, 2020

The U.S. economy is going to make history this week as the government releases its preliminary estimate for second quarter economic growth, but not in the way that we would like. Real gross domestic product (GDP) is expected to register the largest quarterly decline ever recorded since the Bureau of Economic Analysis began collecting the data in 1947. PapayaCast is currently projecting GDP to decline at a 37.8% annual rate in the second quarter, vastly outpacing the runner up of a 10% drop in the first quarter of 1958.

This large drop in GDP has been widely anticipated, and much of the larger conversation among economists is how fast we can recover. May and June were spectacular months from a jobs perspective. Nonfarm payrolls increased by 2.7 million and 4.8 million jobs in May and June respectively, a recovery of 36% of the 20.8 million jobs lost in April. Most other indicators trended favorably as well in those last two months of the second quarter, providing hope that a fast recovery was just over the horizon.

The reality, however, is that recovery will not come that easily as long as the COVID-19 virus is spreading virtually unchecked throughout large parts of the country. There are already some signs that the recovery is stalling out in July, and may be heading for reversal. Weekly unemployment insurance claims for the week ending July 18 came in at 1.4 million compared to 1.3 million the week prior, the first weekly increase in new claims after 15 weeks of trending lower. Other high frequency non-conventional indicators, such as mobility trends data from Apple Maps, also point to a marked slowdown in the last half of July.

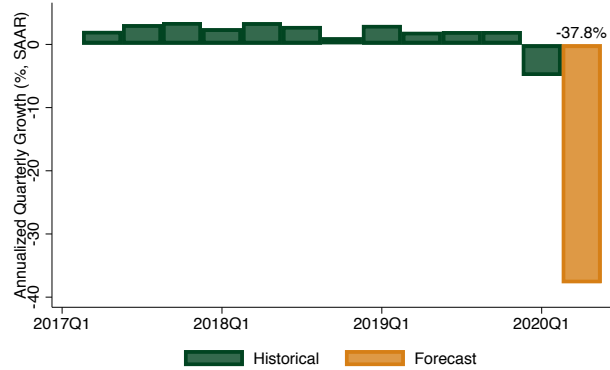
The country is still struggling to find a balance between an open economy and COVID-19 precautions that suppress business activity. Fully open doesn't work and fully closed doesn't work. As long as this is the case the likelihood of a "V" shaped recovery is extremely low. In our special report last month on the economic impact of COVID-19, available for free now on our website, we concluded that the economic recovery will take over three years before we get back to a level of full employment once again. Economic activity is also anticipated to decline further in the third quarter as job losses peak toward the end of August. Check out our special report for a more detailed account of our scenario for the business cycle moving forward.

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	-37.8	
Personal Consumption Expenditures	-36.7	-25.3
Gross Private Domestic Investment	-41.1	-7.2
Net Exports	-	-3.0
Exports	-61.9	-9.4
Imports	-37.5	6.5
Government Expenditures and Investment	-14.2	-2.2

Source: PapayaCast