

Monthly Forecast Report

Real Gross Domestic Product



PAPAYACAST

August 31, 2020

The U.S. economy has made an impressive comeback in the third quarter, despite the unprecedented headwinds it is facing on multiple fronts. PapayaCast is currently projecting a return to positive growth in the nation's Gross Domestic Product (GDP) for the third quarter, calling for a 22.9% increase on an annualized basis. Strong economic data since the initial plunge in April have allowed us to remain cautiously optimistic for third quarter growth, although the situation is highly dynamic and could change rapidly as we close out the quarter next month.

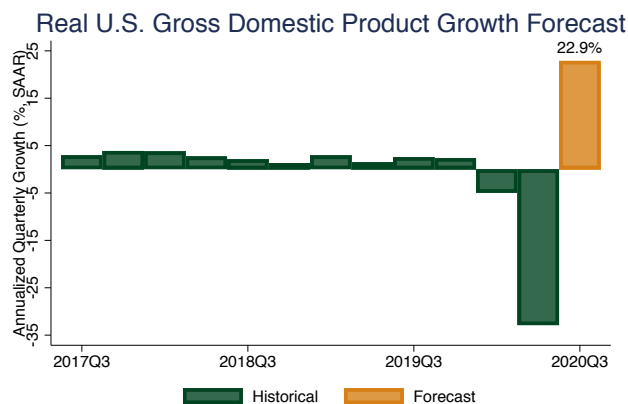
There are many in the finance and economic circles that are already declaring victory, that the "V" shaped recovery is real and happening. And if we just look at statistics like U.S. retail sales you would definitely see what they are talking about. As of July, U.S. retail sales hit an all-time high and were sitting 1.2% higher than the previous peak in January. By that metric alone, we have seen a "V" shaped recovery. However, retail sales do not paint the whole picture by any stretch of the imagination. The headline unemployment rate in July came in at 10.2%, still higher than the worst unemployment seen at the peak of the Great Recession, 10.0% in October, 2009. Furthermore, new claims for unemployment insurance have been over 1 million virtually every week since March.

It seems quite a stretch of the imagination to claim that we have recovered from the worst economic downturn since the Great Depression when unemployment is still the worst it has been in decades, and despite positive rehiring trends as economies reopen, there have been massive layoffs occurring on a weekly basis for months on end. Furthermore, there are serious headwinds that have the potential to derail the current recovery. Congress and the White House have made practically no progress on new stimulus that few dispute is needed, influenza season is coming and with it the potential to put further strain on our health care system as COVID-19 remains a real threat, and eviction moratoriums and mortgage forbearance policies are pushing some serious financial solvency issues down the road without any real solutions even being talked about by lawmakers.

As the quarter draws to a close we will be releasing a second edition of our COVID-19 Special Report, providing you with a comprehensive update on the pandemic's impact on our economy, as well as an outlook for the timing of the recovery 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 the massive swing to the downside in second quarter GDP growth our current average forecast error stands at +/- 2.2 percentage points. Each month we'll include our GDP forecast accuracy to let you know how we're doing over time.



Source: PapayaCast, Bureau of Economic Analysis

Real U.S. Gross Domestic Product Forecast, Q3 2020

Component	Percent Change	Contribution to Change
Gross Domestic Product	22.9	
Personal Consumption Expenditures	28.3	19.1
Gross Private Domestic Investment	62.8	9.2
Net Exports	-	-1.4
Exports	48.3	5.0
Imports	43.5	-6.4
Government Expenditures and Investment	-17.3	-3.9

Source: PapayaCast

Average Forecast Error
± 2.2 pp