

# Monthly Forecast Report

## Real Gross Domestic Product



PAPAYACAST

October 28, 2020

The U.S. economy is on the verge of recording the highest rate of growth since the government began estimating quarterly data in 1947 as consumers and businesses across the country have tried to push forward despite the COVID-19 pandemic. PapayaCast's current forecast for third quarter GDP growth is at 33.8% on an annualized basis, a powerful rebound from the 31.4% plummet in the second quarter.

Leading the way has been the U.S. consumer as personal consumption expenditures are on track to grow by more than 30% as company nonfarm payrolls, through September, have added back 11.4 million jobs of the 22.2 million lost in March and April. This rebound from the pandemic lows is truly historic, just as the plunge in economic activity was during the lockdowns throughout the country. Which begs the question from those looking for that "V" shaped recovery, are we there yet?

Unfortunately, this does not appear to be the case. Although the stock market and retail sales, among other indicators, appear to have fully recovered, we are still only about halfway back to recovering all the lost jobs. And with Congress and the White House in a stalemate on additional economic stimulus and COVID-19 cases once again on the rise, the breakneck speed of growth in the third quarter is unlikely to be sustained. We are definitely trending in the right direction, from an economic perspective, but we may not see a full recovery before the end of 2021.

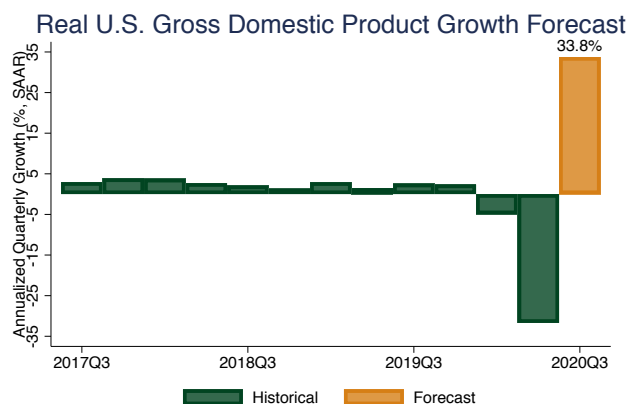
As for warning signs on the horizon, we continue to watch the housing market and the Federal Reserve's balance sheet. With eviction moratoriums and mortgage forbearance policies winding down next year, there is potential for another housing crisis if evictions and foreclosures were to spike. A surge in foreclosed inventory could put significant downward pressure on home prices in affected areas, absent government assistance.

The Federal Reserve's monetary policy has changed substantially this year as well, with Fed leadership now willing to let inflation run higher than the previous goal of 2% before adjusting interest rates. Should the next U.S. administration seek another round of large-scale stimulus, the Fed has already indicated there is no limit to how much currency they will print to buy U.S. treasuries. While inflation is not a worry at the moment, it could significantly erode the value of the dollar, and consumer purchasing power, in the future if not handled carefully.

## 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.

Average Forecast Error  
**± 2.2 pp**



Source: PapayaCast, Bureau of Economic Analysis

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

Component	Percent Change	Contribution to Change
Gross Domestic Product	33.8	
Personal Consumption Expenditures	38.9	26.2
Gross Private Domestic Investment	55.6	8.6
Net Exports	-	-0.4
Exports	17.5	2.1
Imports	14.6	-2.4
Government Expenditures and Investment	-3.3	-0.7

Source: PapayaCast