

Monthly Forecast Report

Real Gross Domestic Product



November 30, 2020

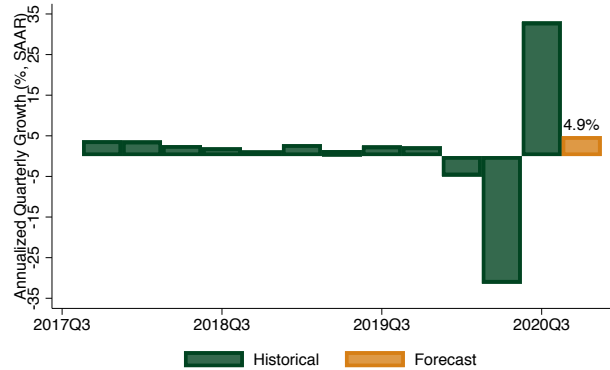
After suffering the worst quarter on record, the U.S. economy showed incredible resilience in the third quarter, with gross domestic product (GDP) roaring back 33.1% on an annualized basis. The latest indications are that the positive trend will continue in the final quarter of 2020, albeit at a more moderate pace. U.S. GDP is projected to grow by an annualized 4.9% in the fourth quarter, according to the latest estimate by PapayaCast. If realized, this would put the level of GDP 2.3% lower than the peak reached in the fourth quarter of 2019.

The nation's economy was able to maintain a positive trend, for the most part, in October as labor market and spending data showed continued improvement from the nightmarish plunge in activity in the second quarter. Nonfarm employment in October came in at 142.4 million, an increase of 638,000 jobs over the prior month. While an impressive number by historical standards, it is slightly less than the 672,000 gain in September, and noticeably lower than the 1.49 million gain in August.

Job growth is generally expected to cool further in the months to come, which will contribute to the fourth quarter's moderated GDP growth figure we are projecting. Many of the lost jobs that were "easy" to bring back have already returned, and until the COVID-19 pandemic is more under control it will be difficult to return to the full employment the nation saw in February of this year. Nonfarm employment is currently 6.6% below that record peak as of October.

Consumer spending, while positive, has also see more moderate growth in the latest data. After adjusting for inflation, personal consumption expenditures grew by 0.5% in October on an annualized basis, less than half the 1.1% growth rate seen in September and the weakest monthly growth figure since the recovery began in May. The third quarter was a great one for the overall economy, but a full recovery is not likely, especially in the labor market, until well into 2021.

Real U.S. Gross Domestic Product Growth Forecast



Source: PapayaCast, Bureau of Economic Analysis

Real U.S. Gross Domestic Product Forecast, Q4 2020

Component	Percent Change	Contribution to Change
Gross Domestic Product	4.9	
Personal Consumption Expenditures	6.1	4.2
Gross Private Domestic Investment	9.8	1.7
Net Exports	-	-0.6
Exports	20.7	2.3
Imports	17.9	-2.9
Government Expenditures and Investment	-2.2	-0.4

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! Our third quarter prediction was quite close to the mark last month (33.8% predicted vs. 33.1% actual) bringing our average forecast error down to 1.9 percentage points after the large swing in the second quarter. 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