

Monthly Forecast Report

Real Gross Domestic Product



December 31, 2020

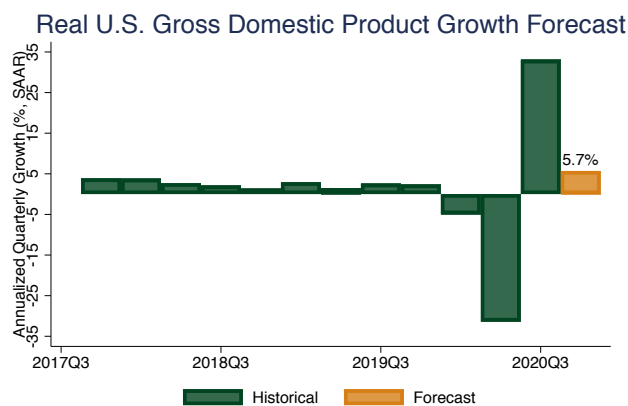
After a strong bounce back from the pandemic-induced economic lows in the second quarter, fourth quarter gross domestic product (GDP) growth is expected to be more moderate than the 33.4% surge in the third quarter. PapayaCast is currently projecting a 5.7% annualized rate of growth for GDP in the final quarter of the year, a robust figure by historical standards, but falls short of what is needed for the much anticipated “V” shaped recovery.

A slowing labor market and lack of action by congress on additional stimulus relief has been a drag on fourth quarter growth. In November the Bureau of Labor Statistics reported that nonfarm payroll job growth came in at 245,000, significantly lower than the 610,000 in October. Add to that the political stalemate between Democrats and Republicans that prevented further fiscal stimulus from being deployed, and we had a recipe for much slower growth in the fourth quarter compared to the prior quarter.

On the plus side, businesses appear to be continuing to restock many goods, which gives a boost for GDP growth. The change in private inventories was a negative contribution to growth for most of 2019 and the first half of 2020, but the reversal in that trend from the third quarter appears to be intact in the fourth quarter based on preliminary October data from the Census Bureau.

In just the last week of 2020 congress passed, and President Trump signed, a new economic stimulus bill, which should help push first quarter GDP growth in 2021 higher than the fourth quarter of 2020. If the COVID vaccine initiative by federal and state governments is effective, we could very well see a full recovery for GDP growth by the second or third quarter of 2021.

We are now on YouTube! If you would like to see a video presentation of this forecast, as well as more in-depth content on the economy and how it will impact your life, visit us at <https://www.youtube.com/channel/UCiZ2BYdzMnXRFfnVebbk91A>



Source: PapayaCast, Bureau of Economic Analysis

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

Component	Percent Change	Contribution to Change
Gross Domestic Product	5.7	
Personal Consumption Expenditures	5.8	4.0
Gross Private Domestic Investment	17.9	3.1
Net Exports	-	-0.7
Exports	24.5	2.7
Imports	21.0	-3.4
Government Expenditures and Investment	-3.5	-0.7

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% initial government estimate) 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