

Monthly Forecast Report

Real Gross Domestic Product



PAPAYACAST

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After wild swings to the downside and then upside in U.S. GDP the last few quarters, economic growth is expected to moderate and be more in line with historical norms in the final quarter of 2020. PapayaCast's updated projection for GDP in Q4 is at 3.2% on an annualized basis. This would put GDP still 2.7% below the previous peak set in the fourth quarter of 2019 as the economic recovery continues.

Third quarter GDP growth rebounded strongly from the second quarter lows as the economy reopened from social distancing policies that had ground commerce to a halt throughout the country. The much weaker growth in the fourth quarter is due in large part to these policies being reimplemented in some areas of the country as COVID-19 cases surged and hospital capacity was greatly diminished. This was seen more intensely in large urban areas, especially in California.

Restaurants and other eating and drinking establishments in this sector took the biggest hit, which can be readily seen in the latest employment data that showed a nearly half million jobs lost in December for this sector. The loss in employment, as well as a lack of stimulus authorized by congress for most of the fourth quarter, led to a pullback in spending as retail sales dropped by -0.1%, -1.5%, and -0.7% month-over-month in October, November, and December respectively.

The pull back in employment and spending in some sectors is estimated to have been offset in the GDP figures by businesses restocking after several quarters of diminished inventories, as well as a weaker dollar that boosted exports. Looking ahead to the first quarter of 2021, we expect growth to pick up as the nearly \$1 trillion stimulus congress passed in the final days of December makes its way into consumer's hands, and as the new Biden administration pushes for another \$1.9 trillion relief package. In the longer term, it remains to be seen how the dollar fares after such enormous federal deficits and currency creation by the Federal Reserve over the last year. As usual, we will keep you updated each month on these important issues.

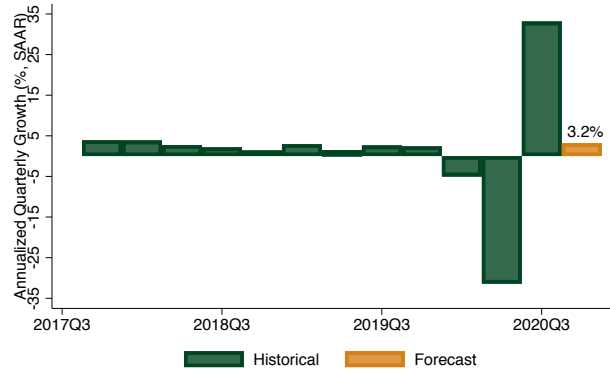
We are now on YouTube! If you would like to see more in-depth content on the economy and how it will impact your life, visit us at <https://www.youtube.com/channel/UCiZ2BYdzMnXRFfnVebbk91A>

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

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 | 3.2 | |
| Personal Consumption Expenditures | 3.4 | 2.4 |
| Gross Private Domestic Investment | 19.8 | 3.3 |
| Net Exports | - | -2.1 |
| Exports | 21.8 | 2.4 |
| Imports | 28.3 | -4.5 |
| Government Expenditures and Investment | -2.5 | -0.5 |

Source: PapayaCast