

Monthly Forecast Report

Real Gross Domestic Product



February 28, 2021

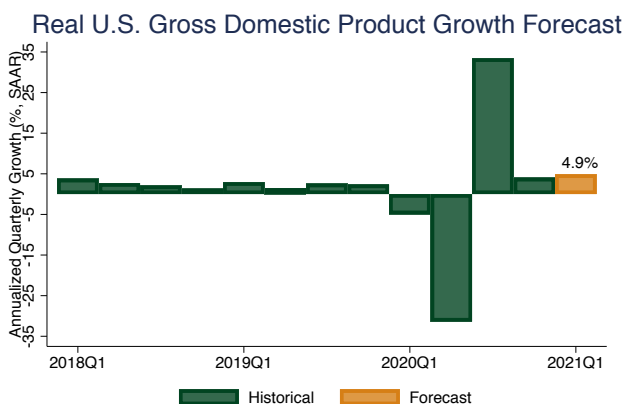
After a rough 2020, the first quarter of 2021 is expected to start off on a positive note for economic growth. U.S. GDP is expected to grow at a 4.9% annual rate, according to the latest estimates from PapayaCast, moving us closer to a full GDP recovery but still 1.3% below the previous peak in the fourth quarter of 2019.

Looking at the current data that has come in for January, we seem to be seeing a tale of two economies. On the one hand, retail sales surged 5.3% from December to January, one of the highest on record, which was attributed primarily to the distribution of stimulus checks from the COVID relief legislation passed at the end of last December. We see this in the income statistics as well. Total personal income surged 10% from December to January, the highest since the 12.4% spike back in April 2020 when the first round of stimulus went out.

All this happened while the labor market inched forward with nonfarm payrolls increasing just 0.03% from December to January. The same source for personal income statistics referenced above showed wages increased just 0.7%. So, we have spending moving forward again at above average rates, but employment growth coming in far below the historical average.

Looking ahead, we need to see job growth pick up so that wages can replace government stimulus as a source of income. The government has been fortunate that inflation is as low as it is right now, which is the only reason they are able to pursue a policy of currency creation to keep the economy moving forward through debt financing. If job growth does not pick up and get us back to where we were before the pandemic then we will certainly see inflation increase if government stimulus continues at the pace of the last year. Basic economic theory tells us that if you greatly increase the supply of something, in this case the dollar, the value of it goes down. Simply put, you can't keep printing money without consequences at some point.

If inflation remains low in February and March we could very well be increasing our GDP forecast for the first quarter of 2021. With congress on the cusp of passing another \$1.9 trillion in stimulus, spending will greatly increase, resulting in higher GDP even on an inflation adjusted basis. Make sure to check us out on YouTube to see more in-depth videos on inflation and many other economic topics. Visit us at <https://www.youtube.com/channel/UCiZ2BYdzMnXRFfnVebbk91A>



Source: PapayaCast, Bureau of Economic Analysis

Real U.S. Gross Domestic Product Forecast, Q1 2021

Component	Percent Change	Contribution to Change
Gross Domestic Product	4.9	
Personal Consumption Expenditures	6.2	4.3
Gross Private Domestic Investment	14.4	2.6
Net Exports	-	-2.2
Exports	23.8	2.7
Imports	29.3	-4.9
Government Expenditures and Investment	0.8	0.1

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 fourth quarter prediction came in fairly close to the mark last month (3.2% predicted vs. 4.0% actual) bringing our average forecast error down to 1.7 percentage points after the large swing in the second quarter of 2020. Each month we'll include our GDP forecast accuracy to let you know how we're doing over time.

Average Forecast Error
± 1.7 pp