

Monthly Forecast Report

Real Gross Domestic Product



March 27, 2021

U.S. GDP is expected to accelerate in the first quarter, boosted by significant federal stimulus passed in December and January. PapayaCast's current forecast for 2021 Q1 GDP stands at 7.3% on an annualized basis, a notable increase over the 4.3% growth in the previous quarter. If realized, this would put real GDP just 0.7% below the pre-pandemic peak in the fourth quarter of 2020, close to a full recovery.

The first quarter has seen a surge in income due to federal stimulus measures. The \$900 billion package passed by congress in December 2020 led to a 10.1% surge in personal income in January, which in turn pushed retail sales up 7.6%. There was a pullback in February, due in large part to severe winter weather that hit Texas and other states hard, but income and spending is expected to have surged again in March with the passage of the \$1.9 trillion additional stimulus that has already resulted in Americans receiving funds in their bank accounts.

This surge in income for many Americans is likely to result in strong GDP growth for the first quarter, even on an inflation adjusted basis. Because inflation is so low right now, the increase in income is resulting in higher quantities of goods and services purchased instead of an increase in prices that would mitigate the rise in income. The Biden administration is already planning a \$3 trillion economic stimulus package, which has the potential to send GDP soaring in the near term.

The U.S. money supply has increased over 20% the last year, yet has put very little pressure on overall prices.

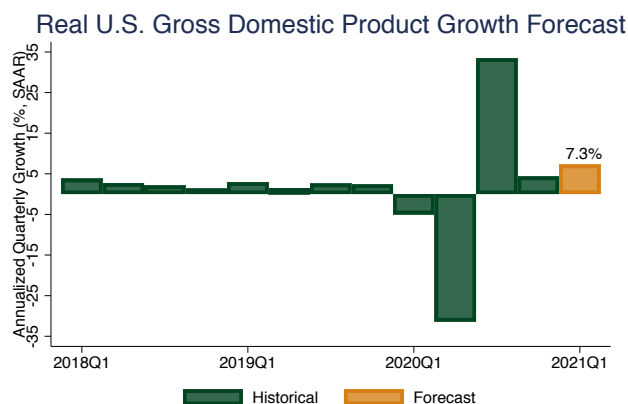
It is uncertain how long this could continue, but the fact is that there is not a good alternative to the U.S. dollar right now. Europe is seeing setbacks in their recovery as vaccine rollout has been slow and restrictions from rising COVID cases have been returning in some places.

Higher rates of inflation, coupled with a labor market still struggling to produce the millions of jobs needed for a full recovery, are some of the highest risk factors for the U.S. economy in the short term. Make sure to check us out on YouTube to see more in-depth videos on inflation and many other economic topics to keep you updated on the latest developments each week. Visit us at <https://www.youtube.com/channel/UCiZ2BYdzMnXRfnVebbk91A>

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



Source: PapayaCast, Bureau of Economic Analysis

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

Component	Percent Change	Contribution to Change
Gross Domestic Product	7.3	
Personal Consumption Expenditures	9.7	6.7
Gross Private Domestic Investment	9.7	1.8
Net Exports	-	-1.4
Exports	20.8	2.4
Imports	22.3	-3.8
Government Expenditures and Investment	1.1	0.2

Source: PapayaCast