

# Monthly Forecast Report

## Real Gross Domestic Product



PAPAYACAST

April 28, 2021

The U.S. economy is back, and stronger than it has been for a long time. PapayaCast's current forecast for GDP growth in the forecast quarter of 2021 is 8.6% on an annualized basis. Aside from the 33.4% growth in the third quarter of 2020, which was almost entirely a rebound from the 31.4% drop in the second quarter, this is the fastest growth the U.S. economy has seen since the second quarter of 1983. This would put U.S. output just 0.4% below the previous peak in the fourth quarter of 2019.

With GDP practically recovered, the question then arises if we are out of the woods yet? Financial indicators like the stock market, real estate price, and others would suggest we got there a long time ago. These indicators have been driven by the incredibly accommodative monetary and fiscal policies that have seen the U.S. dollar supply balloon by more than 20% in a year. However, nonfarm employment is still down 8.1 million payroll jobs, which is nearly the same as the 8.7 million payroll jobs lost in the entirety of the Great Recession in 2008 and 2009.

The Federal Reserve announced after their April policy meeting that their accommodative policies will remain in place, and they are not even talking about talking about reigning in their money printing until they see "substantial progress" in the economy and labor market. One of the biggest risks to the economy right now is from inflation. If the Federal Reserve keeps injecting liquidity into markets the economy runs the risk of overheating.

We are already seeing some signs of this in the latest Consumer Price Index report released in April, where price increases came in at 2.6% year-over-year. Even when we take out the "transitory" "base-effects" we keep hearing about from the Fed and the media, prices still rose by 2.3%, above the Fed's 2% inflation target. The inflation reports in the next few months will be critical for shaping inflation expectations moving forward, and whether or not the anticipated higher inflation will indeed be transitory or if it is part of a larger uptrend.

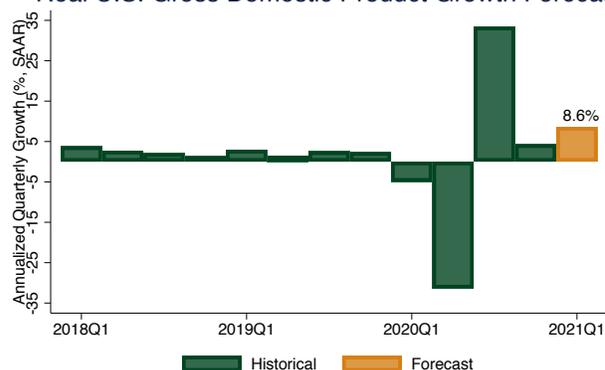
Make sure to check us out on YouTube to see more in-depth videos on inflation and many other economic topics to keep you updated on the latest developments each week. Visit us at <https://www.youtube.com/channel/UCiZ2BYdzMnXRfnVebbk91A>

## 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**

Real U.S. Gross Domestic Product Growth Forecast



Source: PapayaCast, Bureau of Economic Analysis

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

Component	Percent Change	Contribution to Change
Gross Domestic Product	8.6	
Personal Consumption Expenditures	11.3	7.8
Gross Private Domestic Investment	8.6	1.6
Net Exports	-	-1.2
Exports	-4.8	-0.6
Imports	3.3	-0.6
Government Expenditures and Investment	2.5	0.4

Source: PapayaCast