

# U.S. Economic Outlook

**November 12, 2020**

## Post-election prognostication

With the presidential election in the rear view mirror after several days of counting votes, attention now turns to the near-term fiscal policy concerns. This month, our revised forecast reflects our belief that some form of stimulus will be passed during the lame duck session of Congress this year. Furthermore, we anticipate that Congress and the administration will avoid a government shutdown in early December when federal funding is set to run dry. Aside from the fiscal policy challenges, the third major wave of COVID-19 cases continues to spread throughout the U.S. While the epidemiological trend this fall was expected, the magnitude appears to be quite severe. In light of these two competing forces, higher GDP growth from a stimulus package and lower GDP growth from slower spending due to virus concerns, we have revised our outlook a bit higher for Q4 but lowered our expectations for growth entering 2021.

We now estimate fourth quarter GDP growth to be 4.5 percent (annualized) before downshifting to 2.6 percent in Q1 of next year. Full-year GDP growth for 2021 is expected to rise 3.9 percent before moderating to 2.9 percent in 2022. Control of the U.S. Senate remains a toss-up, but for now we are assuming President-elect Biden will be facing a divided Congress next year. We do not foresee any major fiscal policy changes in 2021 that would lead to upward revisions to our current baseline forecast. As has been the case for months now, we remain very concerned about the adverse impact of the coronavirus case surge eroding consumer confidence, and by extension consumer spending.

### Key Takeaways

**Near-term GDP growth expected to be stronger**

**Consumer spending likely to slow in Q1 if virus cases continue to rise**

**Risks to growth still tied to virus outlook**

**Major fiscal policy changes are not likely**

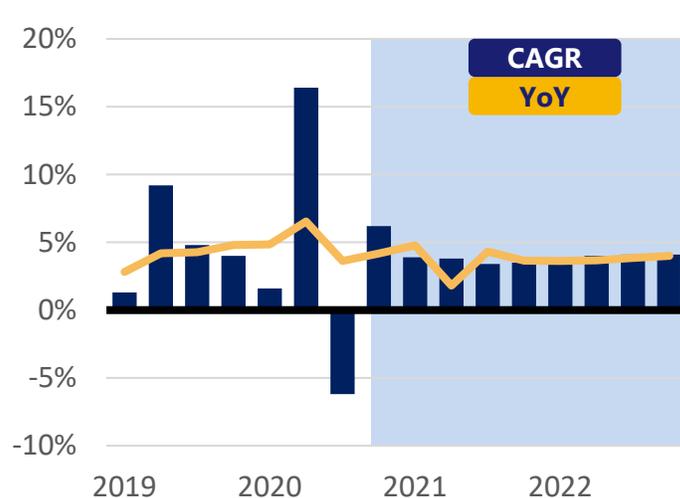
**Real gross domestic product (GDP) (SA, CAGR and YoY\* percent change)**

Last forecast: November, 12, 2020



**Real federal government spending and investment (SA, CAGR and YoY\* percent change)**

Last actual: November, 12, 2020



\*Seasonally adjusted (SA), compound annualized growth rate (CAGR), year-over-year (YoY). Sources: Visa Business and Economic Insights, and U.S. Department of Commerce.

## Post-election prognostication (cont.)

### All eyes on consumer confidence

With COVID cases once again surging through most of the U.S., consumer confidence is likely to take a hit in the coming months. Our team has forecast holiday sales to rise 7.8 percent on a YoY basis, up from 4 percent growth last year. While we have built in some slower spending this fall, the current surge in case counts certainly introduces further downside risk to the forecast for overall spending. We will be watching the November consumer confidence numbers closely for signs of consumers responding to the third wave of the outbreak.

### A first quarter pot hole?

Given the solid momentum behind consumer spending for the final months of the third quarter, fourth quarter consumer spending—and by extension GDP growth—will again be robust, with the economy expanding 4.5 percent (annualized). The fall surge in case counts led us to believe that consumer spending will lose some momentum in the final months of this year. By the first quarter of next year, we expect just 1 percent real consumer spending (1.8 percent YoY nominal spending). The slower consumer spending will in turn take Q1-2021 GDP growth down to 2.6 percent (annualized). Nominal spending is still expected to rise 6.2 percent YoY in 2021.

### What to expect with the president-elect

Federal fiscal policy is expected to be in the spotlight once again as Congress and the Trump administration work to hammer out deals on another round of stimulus and extend federal funding beyond December 11<sup>th</sup>. While we await the results of two special elections in January, which will determine the party control of the Senate, we have continued our pre-election baseline assumptions for a divided Congress. Under these assumptions, we expect no major changes to tax policy through the end of our current forecast horizon 2022. We are also skeptical that any major healthcare reforms will take place outside of the potential for policy changes around prescription drug prices. We expect only modestly higher federal spending (P.1 RH chart). Should the special election results tilt in favor of the Democrats, we would likely upwardly revise our government spending, and thus GDP forecast for 2021 and beyond. In the new administration, we expect some clarity around trade policy going forward, which would likely lead, in our view, to higher business investment. Should the U.S. begin to repair some of the current strained trade relationships, we could see a boost to export growth and the domestic manufacturing sector later in 2021 or early 2022.

## Visa's U.S. Economic Forecast

	Actual				Forecast				Actual				Forecast			
	2020				2021				2019	2020	2021	2022	2020	2021	2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4								
Gross Domestic Product (CAGR)	-5.0	-31.4	33.1	4.5	2.6	3.5	3.1	3.0	2.2	-3.5	3.9	2.9				
Personal Consumption	-6.9	-33.2	40.7	5.4	1.0	2.3	2.5	2.7	2.4	-3.7	3.9	2.4				
Business Fixed Investment	-6.7	-27.2	20.3	11.6	5.3	4.2	5.2	5.3	2.9	-4.4	5.5	5.8				
Equipment	-15.2	-35.9	70.1	18.5	9.3	5.7	6.4	5.8	2.1	-5.2	11.9	5.8				
Intellectual Property Products	2.4	-11.4	-1.0	9.8	6.1	5.9	6.5	6.8	6.4	0.5	4.7	8.2				
Structures	-3.7	-33.6	-14.6	-11.5	-6.8	-3.7	-1.4	0.3	-0.6	-11.0	-9.2	0.5				
Residential Construction	19.0	-35.6	59.3	12.8	11.3	12.6	12.2	10.8	-1.7	4.4	13.0	10.0				
Government Purchases	1.3	2.5	-4.5	-1.0	1.6	1.7	1.5	1.7	2.3	1.2	0.4	1.9				
Net Exports Contribution to Growth (%)	1.1	0.6	-3.1	-1.4	0.0	0.3	-0.1	-0.3	-0.2	0.0	-0.9	-0.3				
Inventory Change Contribution to Growth (%)	-1.3	-3.5	6.6	0.7	0.5	0.2	0.0	0.0	0.0	-0.7	0.8	0.1				
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-1.7	-0.5	1.8	14.4	5.3	4.4	3.9	-2.5	6.2	4.8				
Nominal Personal Income	3.2	10.4	6.8	5.6	5.3	-1.6	1.7	2.6	3.9	6.5	1.9	4.2				
Retail Sales Ex-Autos	2.5	-7.5	2.6	4.1	4.9	15.1	3.7	3.3	3.4	0.4	6.5	3.8				
Consumer Price Index	2.1	0.4	1.2	1.7	1.8	3.0	2.4	2.3	1.8	1.3	2.4	2.3				
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.19	0.25	0.25	0.25				
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.28	3.25	3.25	3.25				
10-Year Treasury Yield	0.70	0.66	0.69	0.78	0.82	0.85	0.90	0.95	2.14	0.71	0.88	1.05				

Forecast as of: November 12, 2020

Interest rates presented are end of quarter rates

Note: Annual numbers represent year-over-year percent changes and annual averages

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and Federal Reserve. \*We define holiday sales as nominal retail sales on all forms of payment less sales at automotive dealers, gas stations and restaurants for the months of November and December. See full report at: [www.visa.com/EconomicInsights](http://www.visa.com/EconomicInsights).

# Forward Looking Statements

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook,” “forecast,” “projected,” “could,” “expects,” “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise. Our forecast assumes the bulk of the negative effects of the COVID-19 outbreak will occur in the second quarter of this year with a gradual relaxing of social distancing guidelines over the second half of 2020.

## Disclaimer

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