

# U.S. Economic Outlook

**September 9, 2021**

## The Delta downshift has emerged

As the COVID-19 case counts continue to rise in the U.S., the economic impact of the latest virus wave is coming into focus. The first sign of concern was a slide in consumer confidence in August, which tumbled 11.3 points to 113.8, erasing all of the gains in the confidence index since March.<sup>1</sup> August’s nonfarm payroll report showed 235,000 jobs were added for the month, the slowest pace since January.<sup>2</sup> Our forecast assumptions last month had a solid month-over-month (MoM) rise in real consumer spending (normally roughly 70 percent of GDP growth) for July but the actual data showed a slight contraction.<sup>3</sup> In light of the recent economic data, we now expect the economy to grow at a much more modest 2.0 percent (annualized) in Q3 before accelerating to 4.6 percent in Q4. The more modest pace of economic activity should be short lived, in our view, assuming virus case counts begin to fall. Even with the downshift in economic activity, the Fed is still on course to begin tapering their monthly asset purchases beginning in December of this year.

In addition to the above changes in our outlook, we have also rolled out our forecast for 2023 this month. After expanding 5.4 percent year-over-year (YoY) this year and 3.2 percent in 2022, we expect GDP growth to rise 2.4 percent in 2023. The growth rates we have penciled in for 2022 and 2023 reflect our view that economic activity will gradually return to its pre-pandemic average of 2.3 percent (YoY) in the latter two years of our forecast horizon. GDP growth in 2022 is likely to remain elevated above its long-run average due, in part, to inventory rebuilding efforts that have been hampered this year by the virus.

### Highlights

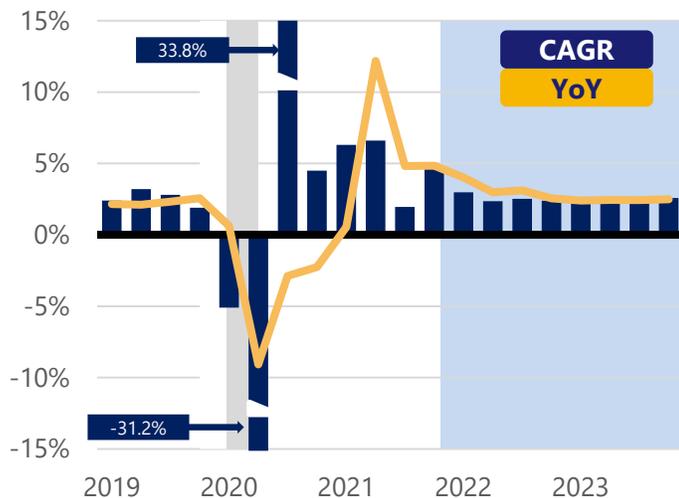
**The Delta deceleration is here**

**The first rate hike likely in 2023**

**All eyes are on the federal budget**

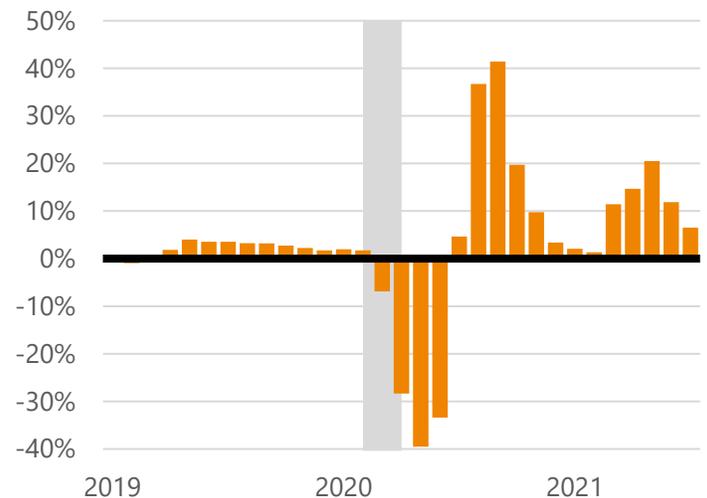
### Real gross domestic product (GDP) (SA, CAGR and YoY\* percent change)

Last forecast: September 9, 2021



### Real (inflation-adjusted) consumer spending (SA, three-month moving average CAGR)

Last actual: July 2021



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

## The Delta downshift has emerged (cont.)

### Auto supply issues dent spending growth

We identified the surge in virus cases last month as a potential downside risk to the outlook. The consumer sector data appears to have deteriorated over the last several weeks, with both softer retail sales and nominal consumer spending. After adjusting for inflation, the consumer spending data showed a sharp deceleration in spending for both June and July.<sup>3</sup> The pullback in July spending was the result of a sizable drop in goods spending, mostly related to softer auto sales amid supply shortages. While services spending continued to recover for the month, it was not enough to offset the pullback in goods spending.

While spending slowed, income growth edged higher in July with the release of the Child Tax Credit payments. Inflation adjusted income growth rose MoM for the first time since surging in March, following the latest round of stimulus checks.

With the emerging softness in consumer spending, we now see nominal consumer spending rising 11.3 percent YoY in Q3 and 11.4 percent in Q4. At this point, we simply expect consumer spending to expand at a more modest pace over the next two quarters as the combination of virus cases, higher consumer prices and the winding down of federal stimulus programs serve as headwinds to consumption growth through the end of the year.

### The first look at 2023

Our forecast for 2023 represents our team's view of the long-run growth rate of the economy. We see the return to prior expansion averages for both consumer spending and business investment. With the likely taper of asset purchases later this year, the Fed is likely to continue shrinking the size of its balance sheet throughout much of 2022. This should set up the first rate hike from the Fed sometime in Q1 of 2023. We expect a total of four rate hikes from the Fed throughout 2023, which will narrow the spread between long-term and short-term interest rates. Such an environment moderates the pace of lending, reinforcing our view of modest GDP growth. Finally, the expansion of fiscal policy in the form of greater government spending and investment is likely to continue through the end of 2023, as the effects of the fiscal packages currently before Congress flow through to the economy.

### Risks to the outlook

We remain concerned about the laundry list of items facing the Congress this fall, including the need to enact a funding bill to avoid a government shutdown at the end of this month. In addition, the potential for higher inflation to persist longer than expected and further downshifts in consumer spending related to virus concerns could result in material downgrades to our outlook in the coming months.

	Actual				Forecast				Actual				Forecast											
	2021				2022				2020				2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product (CAGR)	6.3	6.6	2.0	4.6	3.0	2.4	2.5	2.4	-3.4	5.4	3.2	2.4	-3.4	5.4	3.2	2.4	-3.4	5.4	3.2	2.4	-3.4	5.4	3.2	2.4
Personal Consumption	11.4	11.9	1.0	3.8	2.5	2.5	2.4	2.4	-3.8	7.8	3.1	2.4	-3.8	7.8	3.1	2.4	-3.8	7.8	3.1	2.4	-3.8	7.8	3.1	2.4
Business Fixed Investment	12.9	9.3	4.0	5.7	4.7	4.1	4.5	4.6	-5.3	7.9	4.9	5.0	-5.3	7.9	4.9	5.0	-5.3	7.9	4.9	5.0	-5.3	7.9	4.9	5.0
Equipment	14.1	11.6	-5.8	3.5	4.1	4.3	4.7	4.6	-8.3	12.5	3.3	4.9	-8.3	12.5	3.3	4.9	-8.3	12.5	3.3	4.9	-8.3	12.5	3.3	4.9
Intellectual Property Products	15.6	14.6	9.5	10.0	6.0	4.2	4.5	4.8	2.8	10.6	7.0	5.3	2.8	10.6	7.0	5.3	2.8	10.6	7.0	5.3	2.8	10.6	7.0	5.3
Structures	5.4	-5.4	0.8	1.6	2.9	3.4	4.0	4.2	-12.5	-7.3	2.2	4.3	-12.5	-7.3	2.2	4.3	-12.5	-7.3	2.2	4.3	-12.5	-7.3	2.2	4.3
Residential Construction	13.3	-11.5	-3.1	-4.0	1.5	2.0	2.1	2.4	6.8	9.5	-0.8	2.1	6.8	9.5	-0.8	2.1	6.8	9.5	-0.8	2.1	6.8	9.5	-0.8	2.1
Government Purchases	4.2	-1.9	2.8	3.1	1.5	2.0	1.8	1.5	2.5	1.1	1.9	1.8	2.5	1.1	1.9	1.8	2.5	1.1	1.9	1.8	2.5	1.1	1.9	1.8
Net Exports Contribution to Growth (%)	-1.6	-0.2	-0.2	-0.1	-0.6	-0.5	-0.4	-0.4	-0.3	-1.7	-0.4	-0.4	-0.3	-1.7	-0.4	-0.4	-0.3	-1.7	-0.4	-0.4	-0.3	-1.7	-0.4	-0.4
Inventory Change Contribution to Growth (%)	-2.6	-1.3	3.0	0.8	0.8	0.1	0.2	0.1	-0.5	-0.1	0.7	0.1	-0.5	-0.1	0.7	0.1	-0.5	-0.1	0.7	0.1	-0.5	-0.1	0.7	0.1
Nominal Personal Consumption (YoY % Chg.)	3.9	20.7	11.3	11.4	8.6	5.2	4.7	4.3	-2.6	11.6	5.7	4.0	-2.6	11.6	5.7	4.0	-2.6	11.6	5.7	4.0	-2.6	11.6	5.7	4.0
Nominal Personal Income	16.1	1.1	4.2	5.7	-5.8	0.9	1.3	1.7	6.5	6.6	-0.6	4.0	6.5	6.6	-0.6	4.0	6.5	6.6	-0.6	4.0	6.5	6.6	-0.6	4.0
Retail Sales Ex-Autos	11.6	28.5	14.3	14.8	6.7	1.8	2.4	2.9	0.3	17.0	3.4	3.4	0.3	17.0	3.4	3.4	0.3	17.0	3.4	3.4	0.3	17.0	3.4	3.4
Consumer Price Index	1.9	4.8	5.3	5.5	4.9	3.0	2.1	2.1	1.2	4.4	3.0	1.9	1.2	4.4	3.0	1.9	1.2	4.4	3.0	1.9	1.2	4.4	3.0	1.9
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.88	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.88	0.25	0.25	0.25	0.88
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.54	3.25	3.88	3.25	3.54	3.25	3.88	3.25	3.54	3.25	3.88	3.25	3.54	3.25	3.88	3.25
10-Year Treasury Yield	1.74	1.45	1.30	1.34	1.45	1.48	1.58	1.63	0.89	1.46	2.08	1.45	0.89	1.46	2.08	1.45	0.89	1.46	2.08	1.45	0.89	1.46	2.08	1.45

Forecast as of: September 9, 2021

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.

# Notes

<sup>1</sup> Conference Board

<sup>2</sup> Bureau of Labor Statistics, U.S. Department of Labor

<sup>3</sup> Bureau of Economic Analysis, U.S. Department of Commerce

## 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.

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