

U.S. Economic Outlook

October 8, 2020

An economy losing *some* momentum

As we begin the fourth quarter of what has been a wild year for the economy, a clear trend is beginning to emerge in the data: the U.S. economic recovery is losing some momentum. Monthly job growth downshifted in September for the third month in a row. Personal income growth turned sharply negative again in August, following the expiration of the enhanced unemployment insurance benefits, leading to a downshift in the pace of overall consumer spending. The evidence seems clear that in the absence of further stimulus, the U.S. economy is at risk of settling back into a very modest pace of economic growth. The persistent negative headlines around the virus outbreak are likely to continue weighing on consumer psychology and thus throttle back the pace of the recovery.

In response to the slower pace of improvement in the economic data, we have downwardly revised our estimate for fourth quarter GDP growth to 3.9 percent (annualized). Looking ahead to 2021, GDP growth is expected to rise 4.4 percent before settling into a more modest 2.9 percent pace of growth in 2022. There remain considerable downside risks to the outlook for Q4-2020 and Q1-2021 as the consensus among healthcare experts indicates another wave of virus cases is imminent. Should such a wave materialize and shelter-in-place orders be reintroduced, the result would be a significantly increased probability of a double-dip recession later this year and into the first quarter of 2021.

Key Takeaways

Q4 GDP growth expected to be softer

Consumer spending recovery now at risk

Risks to growth still tied to virus outlook

Federal stimulus could boost growth

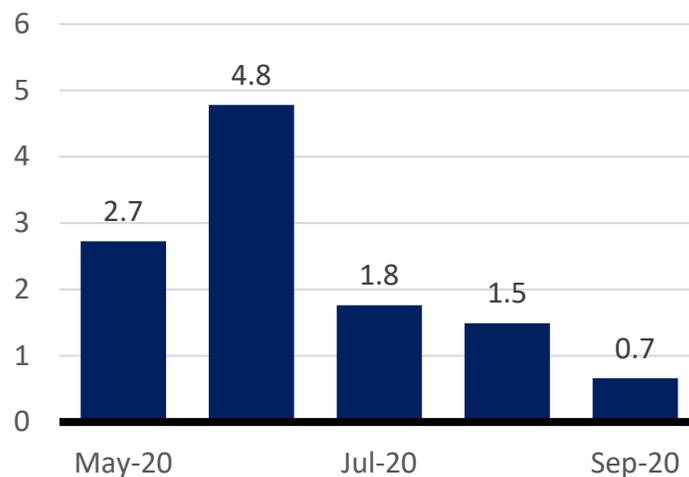
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: October 8, 2020



Monthly job gains since May (SA, millions)

Last actual: September 2020



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

An economy losing some momentum (cont.)

Headwinds to the recovery

One of the primary drivers behind our downward revision to Q4 GDP growth was a more pessimistic outlook for the consumer sector. The downshift in job gains last month is particularly concerning given an economy that has 10 million fewer jobs today than it did back in February. To add to the headwinds, the end of the airline stimulus programs, which expired at the end of September, are also expected to result in another round of layoffs. Media reports of further layoffs in the leisure and hospitality sector are also becoming more prevalent. The slow labor market recovery has so far not weighed on consumer confidence, with the latest readings showing consumers are more optimistic about future economic conditions. We question how sustainable the pop in consumer confidence will be in Q4 given numerous headwinds to the labor market recovery.

In light of the employment and income fundamentals described above, we have downwardly revised our outlook for real consumer spending through the end of 2021. Nominal consumer spending is now expected to be 1.1 percent below last year's level of spending in Q4, resulting in a decline of 2.7 percent for 2020. Nominal spending is expected to rise 6.2 percent in 2021 and 4.7 percent in 2022.

A fork in the road

Later this month, we expect the Commerce Department to report an impressive 34.8 percent annualized pace of GDP growth for Q3. After the third quarter bounce, the U.S. economy could really go one of two ways. We could see sustained consumer confidence, which leads to a more robust recovery path and only localized flare ups of virus cases. Conversely, if, as many epidemiologists are suggesting, we see a widespread surge in COVID cases and no further stimulus measures from the federal government, we would expect the pace of the recovery to slow considerably. As has been the case for months now, the economic outlook remains inextricably linked to the epidemiological outlook.

Is there a bright side?

We continue to assume that no further federal stimulus packages will be passed through the end of 2021 and future surges of COVID-19 cases will not result in a widespread shutdown of the economy. Should another round of stimulus clear Congress, there would be upside risk to our outlook. Furthermore, communities are now introducing more targeted virus containment measures. Such actions may limit the economic impact and thus also create some upside risk beyond what we have assumed.

Visa's U.S. Economic Forecast

	Actual				Forecast				Actual				Forecast			
	2020		2021		2021		2022		2019		2020		2021		2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021	2022	2019	2020	2021	2022
Gross Domestic Product (CAGR)	-5.0	-31.4	34.8	3.9	4.0	3.5	3.4	3.2	2.2	-3.4	4.4	2.9	2.2	-3.4	4.4	2.9
Personal Consumption	-6.9	-33.2	38.1	3.2	2.2	2.3	2.5	2.7	2.4	-4.1	3.5	2.4	2.4	-4.1	3.5	2.4
Business Fixed Investment	-6.7	-27.2	21.9	-0.4	5.2	4.4	5.5	5.0	2.9	-4.9	3.5	5.0	2.9	-4.9	3.5	5.0
Equipment	-15.2	-35.9	63.4	2.1	9.3	5.7	7.4	5.8	2.1	-6.6	8.5	5.9	2.1	-6.6	8.5	5.9
Intellectual Property Products	2.4	-11.4	4.5	1.8	6.1	5.9	6.2	6.1	6.4	0.7	3.9	5.9	6.4	0.7	3.9	5.9
Structures	-3.7	-33.6	-17.3	-11.2	-7.2	-2.7	-1.4	0.3	-0.6	-11.3	-9.5	0.5	-0.6	-11.3	-9.5	0.5
Residential Construction	19.0	-35.6	48.5	7.8	7.3	12.6	12.2	10.8	-1.7	3.2	10.1	10.0	-1.7	3.2	10.1	10.0
Government Purchases	1.3	2.5	5.0	-0.7	1.0	-0.2	0.7	0.9	2.3	2.4	1.0	1.2	2.3	2.4	1.0	1.2
Net Exports Contribution to Growth (%)	1.1	0.6	-0.8	-0.1	0.1	0.1	-0.1	-0.1	-0.2	0.6	-0.1	-0.2	-0.2	0.6	-0.1	-0.2
Inventory Change Contribution to Growth (%)	-1.3	-3.5	3.4	1.7	1.1	0.9	0.5	0.2	0.0	-1.0	1.0	0.2	0.0	-1.0	1.0	0.2
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-2.0	-1.1	1.3	14.0	5.3	4.8	3.9	-2.7	6.2	4.7	3.9	-2.7	6.2	4.7
Nominal Personal Income	3.2	10.4	5.9	4.2	3.9	-2.8	1.2	2.6	3.9	5.9	1.2	4.2	3.9	5.9	1.2	4.2
Retail Sales Ex-Autos	2.5	-7.5	2.0	2.9	4.2	14.8	4.0	4.2	3.5	0.0	6.6	3.9	3.5	0.0	6.6	3.9
Consumer Price Index	2.1	0.4	1.2	1.7	1.9	3.1	2.5	2.3	1.8	1.4	2.4	2.3	1.8	1.4	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	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	5.28	3.25	3.25	3.25
10-Year Treasury Yield	0.70	0.66	0.69	0.69	0.73	0.76	0.81	0.86	2.14	0.69	0.79	0.96	2.14	0.69	0.79	0.96

Forecast as of: October 8, 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.

Forward Looking Statements

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Visa Business and Economic Insights

Wayne Best, Chief Economist

Bruce Cundiff, Vice President, Insights

Michael Brown, Principal U.S. Economist

Adolfo Laurenti, Principal European Economist

Richard Lung, Principal Global Economist

Glenn Maguire, Principal Asia Pacific Economist

Mohamed Bardastani, CEMEA Economist

Jennifer Doettling, Director, Content and Editorial

Jeffrey Roach, Senior U.S. Economist

Dulguun Batbold, Global Economist

Weiwen Ng, Asia Pacific Economist

Angelina Pascual, European Economist

Travis Clark, Associate U.S. Economist

Mariamawit Tadesse, Associate Global Economist

Juliana Tang, Executive Assistant

For more information

Please visit us at

www.visa.com/EconomicInsights

or

Contact us at

VisaEconomicInsights@visa.com