Visa Business and Economic Insights

U.S. Economic Outlook

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Making the yield curve steep again

Following a string of disappointing economic data last month, there are signs that economic growth should stabilize in the fourth quarter after decelerating from the second to the third quarter of this year. The pace of job growth slowed to just 128,000 in October, but was weighed down due to a strike in the automobile sector. Forward-looking components of the employment report showed that wage growth and workers' hours were still holding up, suggesting firming consumer economic conditions to start the fourth quarter. In addition, the yield curve is beginning to steepen once again, which should translate into a bit more momentum in consumer lending.

We now know that third quarter gross domestic product (GDP) growth expanded at a 1.9 percent pace, consistent with our forecast of 1.8 percent. Consumer spending and a rebound in the housing sector offset the contraction in business investment. We expect solid consumer spending to drive fourth quarter GDP growth, rising 1.8 percent once again. The forecast is not without risks. As we enter the busy holiday shopping season, the chance of a government shutdown looms large, which could put some downside pressure on Q4 growth.

Key Takeaways

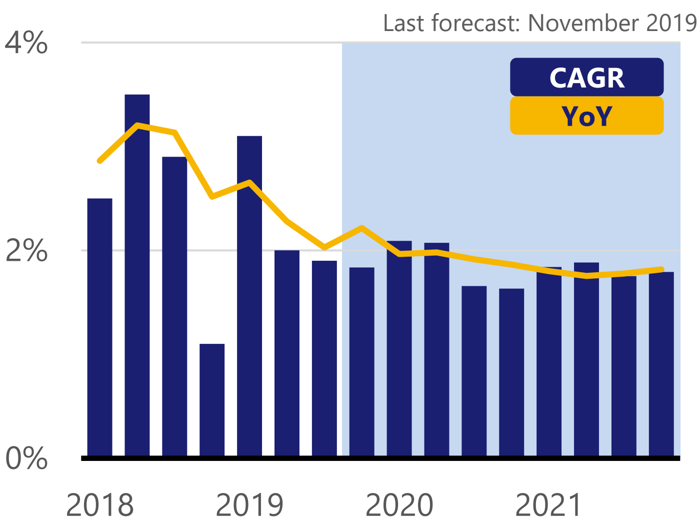
Expect economic growth to stabilize in Q4

Consumer fundamentals remain solid

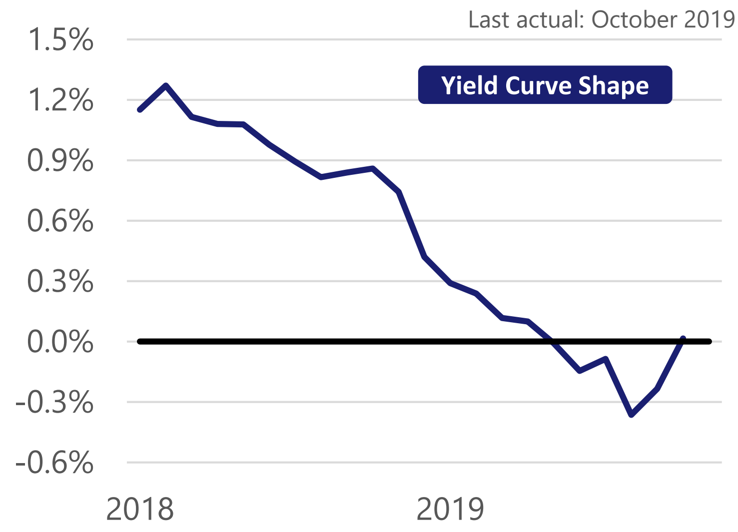
Lending could pick up as the yield curve improves

Risk of government shutdown is rising

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



U.S. 10-year Treasury less 3-month Treasury bill (Percent)



* Seasonally adjusted (SA), compound annual growth rate (CAGR), year-over-year (YoY).
Source: Visa Business and Economic Insights, U.S. Department of Commerce and Federal Reserve Board

Making the yield curve steep again (cont.)

Expect consumer spending to downshift in Q4

Consumer spending has played a key role in boosting U.S. economic growth and offsetting the pronounced slowdown in manufacturing activity and business investment. Key factors supporting consumer spending remain solid, with growth of 4.4 percent in nominal consumer spending expected this quarter. The latest employment report showed that average hourly earnings continued to grow at 3 percent YoY. The one headwind facing consumers this fall is themselves. Consumer confidence slid again in October, with consumers feeling more uncertain about future economic conditions. Confidence should begin to stabilize barring an unforeseen shock. Real consumer spending should remain solid over the next few quarters, averaging 2.4 percent.

Interest rates beginning to support credit market

The Federal Open Market Committee (FOMC) of the Federal Reserve once again cut the federal funds rate by 25 basis points at the end of October. In addition, the Fed continues to provide ongoing liquidity to the short-term lending market. The yield curve (as measured by the difference between the 10-year U.S. Treasury note and the 3-month T-bill rate) has grown steeper as a result. Over the past few months, data from the Fed indicated that banks were tightening lending standards, likely in part due to the ongoing inverted yield curve, which makes some loans unprofitable for lenders.

Now that the yield curve has begun to steepen once again, there could be a pick up in the extension of credit. This would help to support further economic growth, which could easily extend the current business cycle.

Key risks to the outlook

The key risk to our outlook for the fourth quarter remains the rising probability of a federal government shutdown on November 22nd, right in the middle of the busy holiday shopping season. Our forecast assumes that Congress will provide a short-term funding bill to avoid a shutdown. If a shutdown did occur, we suspect consumer confidence and consumer spending would be adversely affected, similar to what happened last December. Additionally, we will be watching for other factors, such as escalating trade tensions. This could result in an equity market sell-off, which could also reduce confidence and weigh on overall economic growth.

Beyond the consumer sector, we remain concerned about the sluggish pace of global economic growth and its adverse effects on the U.S. manufacturing sector. While we expect business investment to return to a positive growth rate in the fourth quarter, the risk remains that soft global growth could result in yet another pullback in business investment, slowing overall economic activity.

Visa's U.S. Economic Forecast

	Actual			Forecast					Actual	Forecast		
	2019				2020				2018	2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	3.1	2.0	1.9	1.8	2.1	2.1	1.7	1.6	2.9	2.3	1.9	1.8
Personal Consumption	1.1	4.6	2.9	2.3	2.4	2.4	2.1	2.1	3.0	2.6	2.5	2.1
Business Fixed Investment	4.4	-1.0	-3.0	2.0	1.7	2.0	1.9	2.0	6.4	2.3	1.1	2.0
Equipment	-0.1	0.8	-3.8	1.3	2.5	2.4	2.2	2.0	6.8	1.6	1.3	1.8
Intellectual Property Products	10.8	3.6	6.6	4.5	4.0	4.2	3.8	3.8	7.4	7.9	4.4	3.6
Structures	4.0	-11.1	-15.3	-6.0	-5.0	-3.5	-2.5	-2.0	4.1	-4.9	-6.2	-1.0
Residential Construction	-1.0	-3.0	5.1	3.5	2.0	2.2	2.2	2.5	-1.5	-1.6	2.4	2.5
Government Purchases	2.9	4.8	2.0	1.6	1.3	1.3	1.1	1.1	1.7	2.3	1.6	1.1
Net Exports Contribution to Growth (%)	0.7	-0.7	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Inventory Change Contribution to Growth (%)	0.5	-0.9	-0.1	-0.4	0.1	0.1	0.0	-0.1	0.1	0.2	-0.1	0.0
Nominal Personal Consumption (YoY % Chg.)	3.9	4.1	3.9	4.4	5.1	4.4	4.6	4.5	5.2	4.1	4.6	4.2
Nominal Personal Income	4.6	4.9	4.7	5.0	4.4	3.8	3.9	4.0	5.6	4.8	4.0	3.9
Retail Sales Ex-Autos	3.0	3.4	3.7	4.5	4.8	4.0	3.6	4.2	5.4	3.6	4.1	3.7
Consumer Price Index	1.6	1.8	1.8	2.2	2.3	1.8	2.1	2.3	2.4	1.9	2.1	2.3
Federal Funds Rate (Upper Bound)	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	2.13	2.19	1.75	1.75
Prime Rate	5.50	5.50	5.00	4.75	4.75	4.75	4.75	4.75	4.90	5.19	4.75	4.75
10-Year Treasury Yield	2.41	2.00	1.68	1.72	1.76	1.80	1.84	1.88	2.91	1.95	1.82	1.98

Forecast as of: November 7, 2019

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 Board

Forward Looking Statements

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