Visa Business and Economic Insights

U.S. Economic Outlook

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Solid momentum and a bit of uncertainty

Economic data for January pointed towards a solid start to 2020. Both consumer confidence readings and nonfarm employment gains helped to reinforce the strength of the consumer sector. Measures of business confidence also turned higher for both the service and manufacturing sectors. There is some uncertainty building, however, as ongoing fallout from the coronavirus continues to rattle equity markets and will likely delay a Q1 rebound in global economic growth.

This month we have upwardly revised our outlook for Q1 GDP growth to 2 percent, with consumer spending, residential investment and a bounce back in inventory building all helping to lift our estimate for Q1. Net exports are expected to weigh on growth in Q1 as an imports surge (following a sharp decline in Q4) and exports are weighed down by ongoing sluggish global economic growth. Business investment is expected to remain soft once again as uncertainly about the magnitude of the global economic disruption materializes from the coronavirus. Our full year estimate of GDP growth for 2020 now stands at 2.1 percent, with only a slight downshift in growth for 2021 to 2 percent.

Key Takeaways

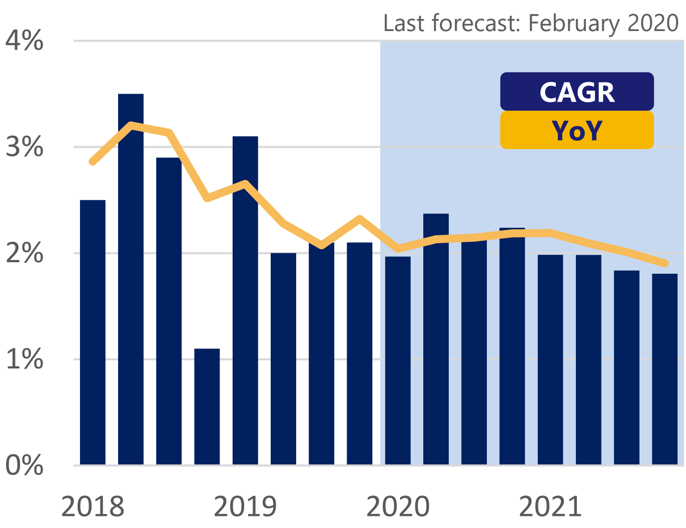
Q1 begins on a solid note

Net exports likely to subtract from Q1 GDP

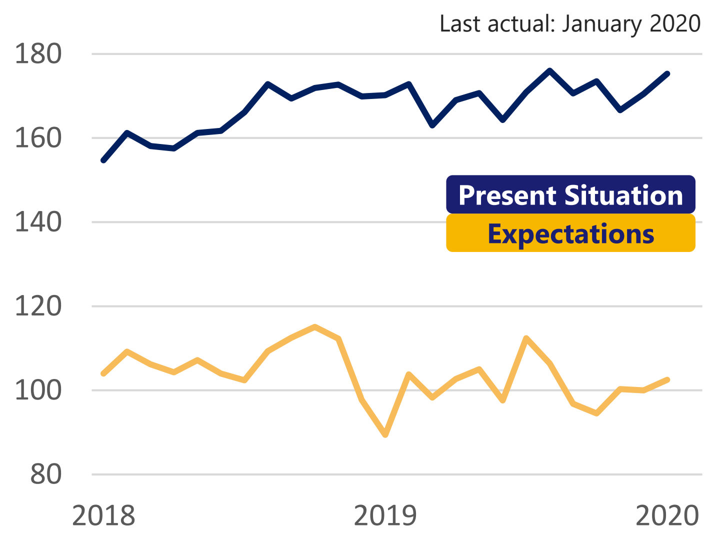
Consumer spending likely to remain strong

Coronavirus remains a key risk to the outlook

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



Consumer confidence (SA, Index)



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

Solid momentum and a bit of uncertainty (cont.)

Residential investment rebound for 2020

Among one of the key differences in our outlook for 2020 relative to growth in 2019 is that we expect residential investment to contribute to economic growth. Last year residential investment contracted for the second straight year, posting a decline of 1.5 percent. With low mortgage rates in the wake of the Fed's rate cuts last year, we expect residential investment to grow 5.2 percent this year. Additional home purchases and construction activity should also provide a positive spillover effect in consumer spending as well.

Upside risk to consumer spending

The rebound in housing activity along with continued solid job gains should help to keep real consumer spending on par with last year's 2.6 percent gain. Another factor that will serve as a tailwind to consumers this year is the continued modest inflation environment. We have downwardly revised our assessment for inflation this year and now expect the Fed's preferred inflation measure, the PCE Deflator, to rise just 1.7 percent this year. As a result, we have also downwardly revised a number of our nominally reported forecast values. We now expect nominal consumer spending will rise 4.3 percent this year, up just slightly from last year's 4 percent growth.

Key risks to the outlook

Before the coronavirus outbreak, our global economic team expected a rebound in global GDP growth. While global growth is still likely to be a bit stronger this year, there will likely be a delay in the recovery. China has already indicated that it will need more time to meet the terms of the Phase I trade deal with the U.S., suggesting that a rebound in U.S. manufacturing activity may take a bit longer. In addition, it suggests that exports are likely to remain sluggish over the next quarter or two.

Another coronavirus risk we see on the horizon is the potential effects on U.S. consumer confidence. Since the coronavirus outbreak, equity markets have remained volatile, which could have an adverse effect on consumer confidence should the trend continue. This, in turn, has the potential to slow consumer spending.

Not all of the risks are negative, however. One factor that could serve to provide some upside to our consumer spending forecast this year is the surge in hiring expected at the end of Q1 and beginning of Q2 for the ground operations related to the Census. Census is expected to hire roughly 500,000 part-time workers to assist with the 2020 Census. The extra part-time hiring could help to lift aggregate disposable income growth.

Visa's U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2019				2020							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2021
Gross Domestic Product (CAGR)	3.1	2.0	2.1	2.1	2.0	2.4	2.2	2.2	2.9	2.3	2.1	2.0
Personal Consumption	1.1	4.6	3.2	1.8	2.5	2.4	2.1	2.1	3.0	2.6	2.5	2.1
Business Fixed Investment	4.4	-1.0	-2.3	-1.5	1.3	1.8	2.4	3.0	6.4	2.1	0.5	2.8
Equipment	-0.1	0.8	-3.8	-2.9	0.2	1.5	1.8	2.0	6.8	1.4	-0.3	1.9
Intellectual Property Products	10.8	3.6	4.7	5.9	5.0	4.8	4.5	4.5	7.4	7.7	4.9	4.2
Structures	4.0	-11.1	-9.9	-10.1	-8.1	-3.2	-0.4	2.4	4.1	-4.4	-6.5	2.2
Residential Construction	-1.0	-3.0	4.6	5.8	6.5	6.0	5.5	5.2	-1.5	-1.5	5.2	4.5
Government Purchases	2.9	4.8	1.7	2.7	1.2	1.4	1.1	1.1	1.7	2.3	1.8	1.1
Net Exports Contribution to Growth (%)	0.7	-0.7	-0.1	1.5	-0.8	-0.2	-0.2	-0.2	-0.3	-0.2	0.0	-0.3
Inventory Change Contribution to Growth (%)	0.5	-0.9	0.0	-1.1	0.3	0.2	0.2	0.2	0.1	0.1	-0.2	0.1
Nominal Personal Consumption (YoY % Chg.)	3.9	4.1	4.0	4.1	4.8	4.1	4.0	4.1	5.2	4.0	4.3	4.0
Nominal Personal Income	4.6	4.7	4.4	4.3	3.7	3.3	3.4	3.9	5.6	4.5	3.6	3.7
Retail Sales Ex-Autos	3.0	3.4	3.6	3.8	4.5	3.5	3.3	4.2	5.5	3.4	3.9	3.7
Consumer Price Index	1.6	1.8	1.8	2.0	1.8	1.2	1.4	1.8	2.4	1.8	1.6	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	5.28	4.75	4.75
10-Year Treasury Yield	2.41	2.00	1.68	1.92	1.75	1.79	1.83	1.87	2.91	2.14	1.81	1.97

Forecast as of: February 13, 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 Board

Forward Looking Statements

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