Visa Business and Economic Insights

U.S. Economic Outlook

Wayne Best
Chief Economist
wbest@visa.com

Michael Brown
Principal U.S. Economist
Michael.brown@visa.com

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A speedbump on the road to recovery

After solid job growth and robust consumer spending readings in May and June, the U.S. economy was cruising along at a decent speed of recovery. Incoming economic data for the month of July, however, showed that the economy decelerated with the speed bump of a surge in COVID-19 cases across wide swaths of the country. Job growth decelerated to a gain of 1.8 million jobs, down from the 4.8 million jobs added in June. A decline in consumer confidence was even more concerning, as more consumers became worried about future economic conditions. Real-time data provided by Opportunity Insights showed nearly flat spending growth throughout the month of July.

Following the sharp 32.9 percent (annualized) contraction in GDP growth in the second quarter, we expect GDP growth to accelerate to a 27.9 percent annualized pace in Q3 and an additional 8.8 percent in Q4. However, considerable uncertainty remains about growth in the second half of this year as expiring enhanced unemployment insurance benefits are set to run out at the same time that several other stimulus programs have run their course. This month's upward revisions to our economic outlook represent both a better understanding of the depth of the contraction in Q2 as well as our updated assessment for a slightly faster rebound in business investment. In addition, trade and inventory building are making solid contributions to GDP with the return of global demand. We expect GDP to contract 4 percent in 2020 before rising 4.9 percent in 2021.

Key Takeaways

Activity appears to have slowed in July

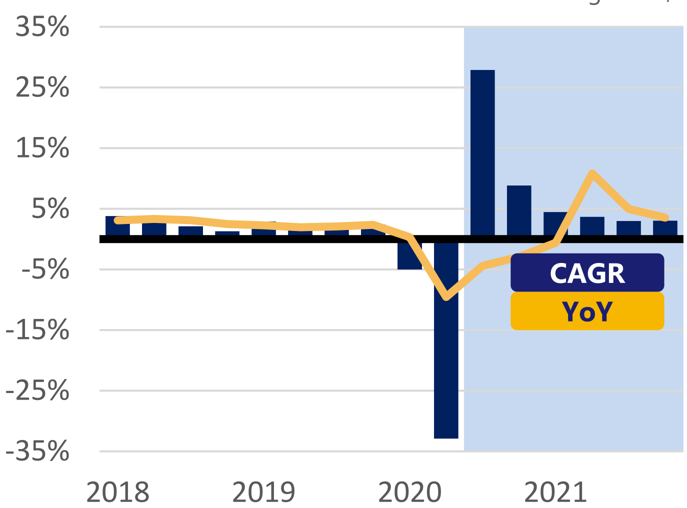
Stronger GDP growth expected in H2

Services spending lags this recovery

No further stimulus is assumed

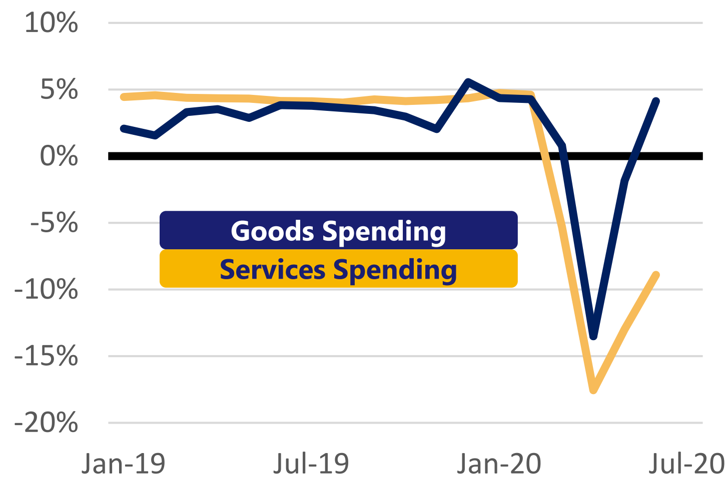
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: August 13, 2020



Nominal consumer spending on goods and services (SA, YoY percent change)

Last actual: June 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.

A speedbump on the road to recovery (cont.)

The great spending split

Nominal consumer spending activity continued to rebound in June, rising 5.6 percent month-over-month (MoM). More forward-looking indicators point towards flat nominal spending in July relative to June as COVID cases surged throughout several parts of the country. One unique trend in this recovery has been the pronounced difference in spending bouncing back for goods compared to services.

There has been a pronounced V-shaped recovery in YoY growth of goods (chart P.1, right) as consumers are more easily able to substitute e-commerce spending for face-to-face spending compared to services. In contrast, services spending continues to struggle and remains well below last year's levels. This bifurcation in the way consumers are spending, in part, explains why manufacturing activity has bounced back so quickly while other more services-focused industries are facing a slower recovery.

Given that services spending made up roughly 60 percent of total consumer spending as of June, it is clear that without a stronger rebound in services spending, overall consumer spending will take longer to recover. We do not anticipate positive YoY growth in nominal spending until the second quarter of 2021.

In this month's forecast update, we have become more pessimistic about the MoM gains in consumer spending in the coming months. The primary reason is the expiration of enhanced unemployment benefits of $600 per week at the end of July. While a newly issued executive order is set to restore $300 to $400 of this benefit depending on the state, the funding source for the benefit may only last a little over a month by our calculations. With so many individuals still unemployed, we anticipate that consumer spending will be softer in the months ahead. We now expect NPCE to contract 4 percent this year and bounce back by 5.8 percent in 2021.

Key assumptions and risks

As with any forecast, some assumptions have to be made in order to project beyond the current quarter. Our forecast assumes that no further stimulus packages are passed through the end of 2021 and future surges in COVID-19 cases will not result in a widespread shutdown of the economy. Of course if a stimulus package is passed, there would be some upside risk to our forecast depending on the provisions included, while widespread shutdowns, in our view, would dramatically increase the probability of a double dip recession.

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)	2.9	1.5	2.6	2.4	-5.0	-32.9	27.9	8.8	3.0	2.2	-4.1	4.5
Personal Consumption	1.8	3.7	2.7	1.6	-6.9	-34.6	30.9	4.8	2.7	2.4	-5.0	3.6
Business Fixed Investment	4.2	0.0	1.9	-0.3	-6.7	-27.0	6.4	4.3	6.9	2.9	-6.2	2.7
Equipment	2.0	-3.8	-1.7	-1.7	-15.2	-37.7	16.0	7.5	8.0	2.1	-10.7	4.3
Intellectual Property Products	4.5	4.1	5.3	4.6	2.4	-7.2	8.2	8.0	7.8	6.4	2.4	6.5
Structures	8.2	1.6	3.6	-5.3	-3.7	-34.9	-15.1	-10.2	3.7	-0.6	-11.3	-8.8
Residential Construction	-1.7	-2.1	4.6	5.8	19.0	-38.7	7.0	9.8	-0.6	-1.7	-1.8	4.1
Government Purchases	2.5	5.0	2.1	2.4	1.3	2.7	2.9	0.2	1.8	2.3	2.2	0.3
Net Exports Contribution to Growth (%)	0.6	-0.8	0.0	1.5	1.1	0.7	1.1	0.5	-0.3	-0.2	0.9	0.4
Inventory Change Contribution to Growth (%)	0.2	-1.0	-0.1	-0.8	-1.3	-4.0	3.5	3.9	0.2	0.0	-1.0	1.1
Nominal Personal Consumption (YoY % Chg.)	3.8	4.0	4.0	4.0	1.9	-10.2	-4.3	-3.1	4.9	3.9	-4.0	5.8
Nominal Personal Income	4.7	4.1	3.5	3.5	3.2	10.1	3.7	4.7	5.3	3.9	5.4	2.3
Retail Sales Ex-Autos	3.0	3.5	3.6	3.7	2.5	-8.0	0.5	1.6	5.2	3.5	-0.8	6.2
Consumer Price Index	1.6	1.8	1.8	2.0	2.1	0.4	1.1	1.7	2.4	1.8	1.3	2.4
Federal Funds Rate (Upper Bound)	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	2.13	2.19	0.25	0.25
Prime Rate	5.50	5.50	5.00	4.75	3.25	3.25	3.25	3.25	4.90	5.28	3.25	3.25
10-Year Treasury Yield	2.41	2.00	1.68	1.92	0.70	0.66	0.64	0.74	2.91	2.14	0.69	0.84

Forecast as of: August 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.

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.

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Visa Business and Economic Insights

Wayne Best, Chief Economist	wbest@visa.com
Bruce Cundiff, Vice President, Insights	bcundiff@visa.com
Michael Brown, Principal U.S. Economist	michael.brown@visa.com
Adolfo Laurenti, Principal European Economist	laurenta@visa.com
Richard Lung, Principal Global Economist	rlung@visa.com
Glenn Maguire, Principal Asia Pacific Economist	gmaguire@visa.com
Mohamed Bardastani, CEMEA Economist	mbardast@visa.com
Jennifer Doettling, Director, Content and Editorial	jdoettli@visa.com
Jeffrey Roach, Senior U.S. Economist	jeffrey.roach@visa.com
Dulguun Batbold, Global Economist	dbatbold@visa.com
Weiwen Ng, Asia Pacific Economist	weiwng@visa.com
Angelina Pascual, European Economist	anpascua@visa.com
Travis Clark, Associate U.S. Economist	wiclark@visa.com
Mariamawit Tadesse, Associate Global Economist	mtadesse@visa.com
Juliana Tang, Executive Assistant	jultang@visa.com

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