

# U.S. Economic Outlook

November 11, 2021

## Growth set to accelerate after Delta downshift

Over the course of the last month, a treasure trove of economic data and policy announcements have resulted in quite a few changes to our outlook. Incoming data has largely exceeded our expectations, with 531,000 jobs added in October after an upward revision to September’s employment growth.<sup>1</sup> In addition, third quarter GDP growth held up better than we had forecast. On the policy front this month, the Federal Reserve announced that it will begin slowing its pace of asset purchases. The stronger job gains and higher inflation readings over the last month feed into our revised view that the Fed will begin increasing short-term interest rates beginning in Q4 of next year, one quarter earlier than we were forecasting last month.

We now expect the economy to expand at a 2.4 percent annualized pace in Q4 and accelerate further to 3.6 percent in Q1 of next year. After downshifting to just 1.6 percent in Q3, real consumer spending is expected to accelerate to 4.0 percent in Q4 as services spending continues to recover (Fig. 2). On an annual basis, robust consumer spending and business investment will support an increase in GDP growth to 5.3 percent year-over-year (YoY) this year. Next year, we expect the economy to expand at a 3.1 percent pace (YoY) with more modest consumer spending and business investment. As supply chain issues begin to subside, inventory rebuilding will likely help drive 2022 growth above the long-run average of the last expansion. Growth in calendar year 2023 is expected to return close to the long-run average rate at 2.7 percent.

### Highlights

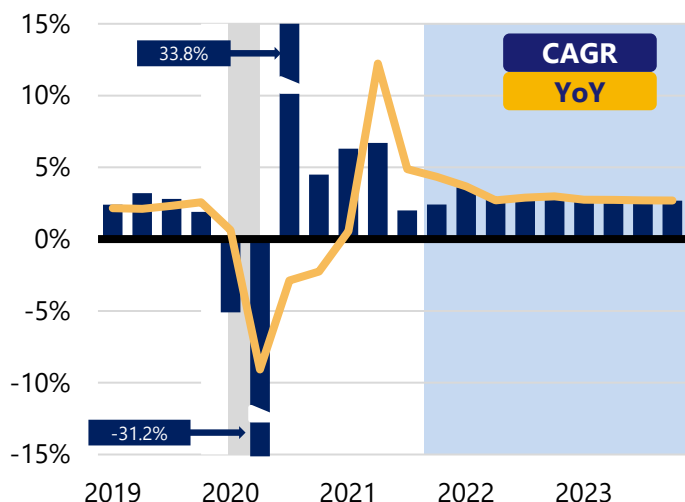
**Job gains accelerate in October**

**Inventory rebuilding to support growth**

**Searching for the first rate hike from the Fed**

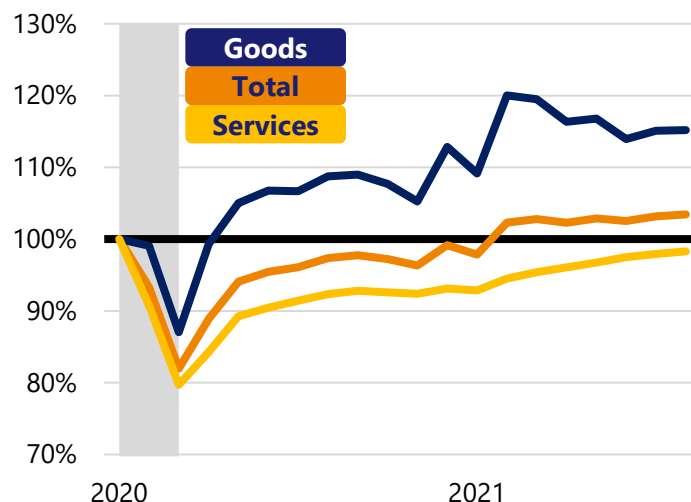
**Fig. 1 Real gross domestic product (GDP) (SA, CAGR and YoY\* percent change)**

Last forecast: November 11, 2021



**Fig. 2 Real consumer spending by category (SA, Index, Feb. 2020 spending=100)**

Last actual: September 2021



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

## Growth set to accelerate after Delta downshift (cont.)

### Services spending to support Q4 consumption

To date, the consumer spending recovery has been primarily led by robust goods spending while the services recovery has been sluggish (Fig. 2). Looking ahead, we expect inflation-adjusted services spending to return to its pre-pandemic peak in Q4. As consumers shift their demand to a wider range of goods and services, the pace of consumer spending should moderate in 2022. Real consumer spending is likely to rise 3.2 percent YoY next year. After stacking on 3.2 percent inflation, nominal consumer spending is expected to rise 6.5 percent YoY in 2022. Aside from the continued inflation pressures, more modest income gains along with the resumption of federal student loan payments in February may also erode some of the disposable income available for millions of consumers early next year.

### Inventory rebuilding to support growth

The economy expanded at a 2.0 percent (annualized) pace in Q3; however, most of that growth came from inventory rebuilding, which contributed 2.1 percentage points to topline growth.<sup>2</sup> Our expectation is that restocking will add another 1.2 percentage points to Q4 GDP growth and 1.3 percentage points to Q1-2022 GDP growth as manufacturers and transport agencies work to service the snap-back in demand. We still expect that by Q2 of next year, supply chain issues will subside.

### Tapering without the tantrum

The Fed began removing its accommodative monetary policy by tapering asset purchases this month, as expected. Unlike the 2013 taper tantrum, there was little bond market turmoil this time around. In the Fed's announcement, it left the door open to accelerate tapering should inflation metrics surge higher and the economy move closer to full employment. Bond markets continue to signal that two rate hikes are likely out of the Fed late next year. We think markets are currently putting too much emphasis on inflation rather than the full employment aspect of the Fed's dual mandate. We have, however, moved up our timeline for the first rate hike to Q4 of 2022 in light of stronger inflation and job gains.

### Risks to the outlook

A number of risks through the end of this year remain on our radar, including inflation pressures further eroding the purchasing power of consumers and denting confidence. The potential for a government shutdown on Dec. 3<sup>rd</sup>, ongoing supply chain issues resulting in goods shortages, and the potential for another wave of COVID cases are additional risks. Even with all the potential factors that could derail the Q4 rebound, we see the balance of risks to our outlook tilted towards the upside now that vaccines are available to school-aged children and remaining fiscal support is likely to carry consumer spending higher.

	Actual				Forecast				Actual			
	2021	2021	2021	2021	2022	2022	2022	2022	2020	2021	2022	2023
Gross Domestic Product (CAGR)	6.3	6.7	2.0	2.4	3.6	2.8	2.8	2.7	-3.4	5.3	3.1	2.7
Personal Consumption	11.4	12.0	1.6	4.0	2.3	2.5	2.4	2.4	-3.8	7.9	3.2	2.4
Business Fixed Investment	12.9	9.2	1.8	10.3	5.7	5.7	6.3	6.4	-5.3	7.9	6.4	6.2
Equipment	14.1	12.1	-3.2	6.0	4.3	4.3	4.8	4.7	-8.3	13.2	4.2	5.0
Intellectual Property Products	15.6	12.5	12.2	12.4	9.5	8.6	8.8	9.0	2.8	10.7	10.2	8.4
Structures	5.4	-3.0	-7.3	-3.0	0.3	1.9	3.7	4.1	-12.5	-8.1	-0.6	4.1
Residential Construction	13.3	-11.7	-7.7	-3.0	1.3	2.0	2.3	2.4	6.8	8.9	-1.2	2.2
Government Purchases	4.2	-2.0	0.8	1.8	1.8	1.8	1.9	1.9	2.5	0.7	1.4	2.0
Net Exports Contribution to Growth (%)	-1.6	-0.2	-1.1	-0.5	-0.6	-0.5	-0.5	-0.4	-0.3	-1.8	-0.6	-0.4
Inventory Change Contribution to Growth (%)	-2.6	-1.3	2.1	1.2	1.3	0.3	0.2	0.1	-0.5	-0.3	0.8	0.1
Nominal Personal Consumption (YoY % Chg.)	3.9	20.7	11.6	12.3	9.7	6.3	5.5	4.6	-2.6	11.9	6.5	4.0
Nominal Personal Income	16.1	1.1	4.3	5.2	-6.3	0.4	0.8	1.7	6.5	6.5	-0.9	4.0
Retail Sales Ex-Autos	11.6	28.5	15.8	17.4	9.1	4.0	3.5	2.9	0.3	18.1	4.8	3.4
Consumer Price Index	1.9	4.8	5.3	6.2	5.8	3.9	2.9	2.4	1.2	4.6	3.7	1.9
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.25	0.25	0.31	1.13
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50	3.54	3.25	3.31	4.13
10-Year Treasury Yield	1.74	1.45	1.52	1.60	1.68	1.78	1.98	2.18	0.89	1.58	1.91	2.46

Forecast as of: November 11, 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.

## Footnotes

<sup>1</sup> Bureau of Labor Statistics, U.S. Department of Labor

<sup>2</sup> Bureau of Economic Analysis, U.S. Department of Commerce

## Accessibility Notes

Fig. 1  
GDP CAGR ranges from 2.4% in Mar-2019, to a low of -31.2% in Jun-2020, a high of 33.8% in Sep-2020, and the latest reading of 2.0% in Sep-2021, with the GDP CAGR forecast to finish 2021 at 2.4%, 2022 at 2.8% and 2023 at 2.7%. YoY GDP growth ranges from 2.2% in Mar-2019 to a low of -9.1% in Jun-2020, a high of 12.2% in Jun-2021, and the latest reading of 4.9% in Sep-2021, with YoY GDP growth forecast to finish 2021 at 4.3%, 2022 at 3.0%, and 2023 at 2.7%.

Fig. 2  
A chart beginning in February 2020 showing three lines indexed to the level of real consumer spending by category in February 2020. Consumer spending on goods, which began at 100 in February 2020, fell to 87 in April 2020 (or 13 percent below the pre-pandemic level of spending) then quickly rose above 100 in June to reach 105.3 by the end of 2020 and peaked at 120 in March of this year before moderating to 115.2 by September 2021. Overall spending, which started at 100 in February 2020 then plunged to 82 in April 2020, slowly edged higher and stayed below 100 through February of this year before beginning to climb again and reaching 103.5 by September 2021. The services index began February 2020 at 100 then fell to a trough of 79.7 in April 2020 and has been very slowly improving to reach 92.4 by December 2020, 96.7 by June 2021 and 98.3 by September 2021.

### For more information

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