

# U.S. Economic Outlook

July 9, 2020

## Recovery risk rising?

Economic data for the month of June continued to signal a rebound in economic activity even as the number of new virus cases continued to rise to new highs. Employers added 4.8 million jobs in June, taking unemployment down to 11.1 percent. The impressive net job growth figures stand in stark contrast to jobless claims, which continue to send misleading signals about the health of the labor market. Elsewhere, data on the business sector is also improving, with the ISM non-manufacturing survey reaching a four-month high. As of June, both ISM measures were back above 50, signaling a return to expansion.

Our forecast is little changed since our June update but the downside risks to the outlook are clearly rising. We still see a continued recovery in the months ahead, albeit at a more gradual pace than June's data would suggest. Our biggest concern remains around the public policy response to the recent surge in COVID cases. Should more wide-spread stay-at-home orders return, there could be considerable downside risk to our forecast. GDP growth is still expected to contract around 30 percent (annualized) in Q2 before growing 10.3 percent in Q3. Overall economic growth for 2020 is now expected to contract by 5.5 percent and rise 1.6 percent in 2021.

### Key Takeaways

**Robust job gains continue**

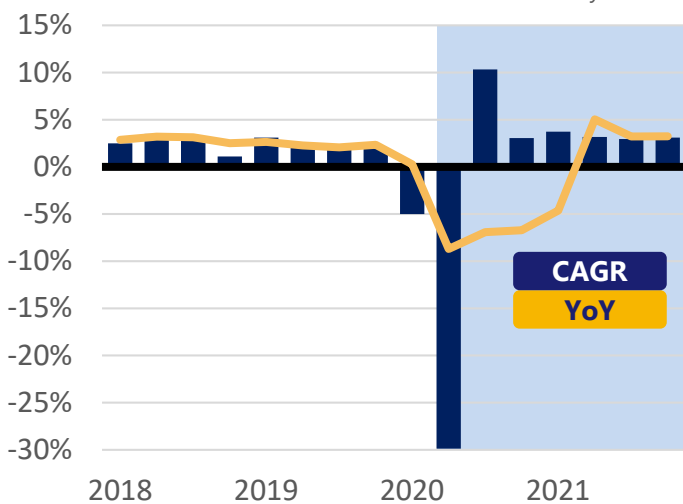
**Little change to the outlook this month**

**Consumers are feeling confident again**

**Concern is building over COVID surge**

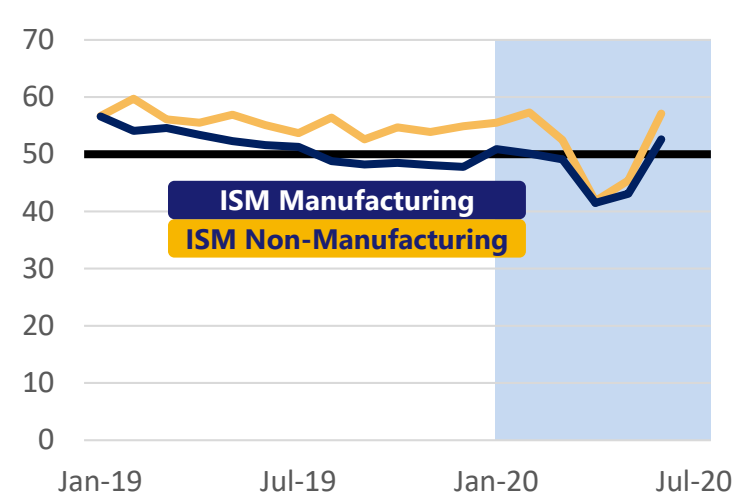
### Real gross domestic product (GDP) (SA, CAGR and YoY\* percent change)

Last forecast: July 9, 2020



### ISM manufacturing and non-manufacturing indices (SA, index, >50=expansion, <50=contraction)

Last actual: June 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 The Institute for Supply Management

## Recovery risk rising? (cont.)

### Consumer spending bouncing back with job gains

Nominal consumer spending activity surged 8.2 percent (MoM) in May, with leading economic data pointing towards another acceleration in June. On a YoY basis, nominal spending remains 9.3 percent below last year's spending level. Consumer confidence for June rebounded to 98.1, the highest reading since March. More importantly, consumers' expectations about future economic conditions posted a sharp rise, signaling consumer confidence in the economy is starting to take hold. The future expectations component is most closely tied with overall consumer spending activity.

We expect that nominal consumer spending will continue to post improvements in the coming months, but it will take some time to get back to the spending levels of 2019. Another key test will be how much aggregate income is lost once enhanced unemployment insurance (UI) benefits expire at the end of July. While recent job gains have been impressive, it is unlikely that the bounce back in wage and salary growth will be enough to offset the expiration of UI benefits. Nominal consumer spending is expected to contract 5.7 percent in 2020 before rising 4.6 percent in 2021.

### Interest rates to aid some sectors

The Federal Reserve is widely expected to keep interest rates low for the foreseeable future as they do their part to help aid the recovery. In addition to keeping short-term interest rates low, the Fed is supporting other markets and keeping longer-term interest rates, such as mortgage rates, low as well. These actions should serve as a tailwind to growth in the coming months as consumers reconsider where they would like to live in a post-COVID world. The low rates should help to fuel further home sales activity and support a rebound in auto sales activity.

### Downside risks to the outlook increasing

One of our biggest concerns has begun to materialize: a second wave of COVID infections. The question now is how will state and local government officials respond to surging cases around the country. As of now, it appears that mandatory mask wearing is becoming the de-facto response to fight new infections rather than another round of lock-downs. Should more lock-downs be implemented, there would be considerable downside risk to our outlook. Furthermore, the surge in cases threatens the initial bounce-back in the leisure and hospitality sector and could lead to further layoffs if consumers lose confidence again.

## 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	2.1	2.1	-5.0	-29.9	10.3	3.1	2.9	2.3	-5.5	1.6
Personal Consumption	1.1	4.6	3.2	1.8	-6.8	-37.1	20.5	4.4	3.0	2.6	-6.6	2.7
Business Fixed Investment	4.4	-1.0	-2.3	-2.4	-6.4	-26.6	-5.1	-0.5	6.4	2.1	-8.5	0.0
Equipment	-0.1	0.8	-3.8	-4.3	-16.6	-36.9	-5.2	0.8	6.8	1.3	-13.8	0.6
Intellectual Property Products	10.8	3.6	4.7	2.8	1.3	-10.5	0.2	2.5	7.4	7.5	-0.3	2.7
Structures	4.0	-11.1	-9.9	-7.2	2.6	-30.5	-15.1	-9.8	4.1	-4.3	-11.4	-7.4
Residential Construction	-1.0	-3.0	4.6	6.5	18.2	-20.5	-14.0	4.2	-1.5	-1.5	-0.1	2.3
Government Purchases	2.9	4.8	1.7	2.5	1.1	-1.0	0.7	0.4	1.7	2.3	1.2	0.5
Net Exports Contribution to Growth (%)	0.7	-0.7	-0.1	1.5	1.3	2.8	-4.1	-1.3	-0.3	-0.2	0.7	-1.1
Inventory Change Contribution to Growth (%)	0.5	-0.9	0.0	-1.0	-1.6	-1.3	2.3	1.2	0.1	0.1	-0.6	0.7
Nominal Personal Consumption (YoY % Chg.)	3.9	4.1	4.0	4.1	2.2	-10.9	-7.4	-6.5	5.2	4.0	-5.7	4.6
Nominal Personal Income	4.6	4.7	4.2	4.2	3.2	8.8	8.1	8.3	5.6	4.4	7.1	4.5
Retail Sales Ex-Autos	3.0	3.5	3.6	3.7	2.5	-9.6	-4.6	-3.5	5.2	3.5	-3.8	3.9
Consumer Price Index	1.6	1.8	1.8	2.0	2.1	0.3	0.7	1.3	2.4	1.8	1.1	2.2
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	0.74	0.84	2.91	2.14	0.74	0.94

Forecast as of: July 9, 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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