Economic Insight

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Assessing the economic recovery one year later

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Sixteen months ago, when news of a virus outbreak in China was first reported, our U.S. economic forecast was still penciled in at 2-2.5 percent annualized GDP growth for the next few quarters of 2020, continuing a pattern of modest growth in the latter half of 2019.

Then, on February 3rd, the Trump administration declared a public health emergency in the United States. In the days, weeks and months that followed, the news went from bad to worse to catastrophic in terms of both the epidemiological crisis and the economic shock. The gravity of what was unfolding became apparent as financial markets grew more and more volatile and U.S. financial conditions began to tighten significantly.

After all was said and done, the economy had contracted by 31.4 percent on an annualized basis in Q2—the largest single quarter of contraction on record— and 22.3 million individuals had lost their jobs.[1] The economic data coming in was record-shattering, with record high unemployment rates and record declines in retail sales, nominal consumer spending, manufacturing output, and so on. The shock to the U.S. economy and the series of public policy responses that followed dramatically altered the economic landscape and put the U.S. economy on course for what is likely to be one of the strongest years in recent history this year.

Where things stand today and the outlook for the future

The outlook for the economy has brightened in recent months. The U.S. is now vaccinating more than 2 million individuals per day and states are beginning to remove many of the restrictions that were important to combating the virus, but also slowed economic activity in many cases.[2] Increased mobility across the U.S. is helping to support both stronger job growth and, by extension, more robust economic activity.

Key Points:

- Job losses were very uneven across industries, income, and demographic groups.
- When will we see a full recovery?
- Timeline of key events.

1. U.S. Department of Commerce and U.S. Department of Labor
2. U.S. Centers for Disease Control and Prevention. https://covid.cdc.gov/covid-data-tracker/#vaccinations

Forecast for real GDP growth

Our forecast for real GDP growth this year is 5.6 percent year-over-year (YoY) following a 3.5 percent contraction in economic growth last year. Nominal consumer spending is expected to rise 10.3 percent this year both due to higher inflation pressures and stronger real spending.

The multiple rounds of stimulus are expected to help lift government spending this year as well. In total, we now see a full recovery in aggregate macroeconomic health measures such as total consumer spending and GDP growth occurring this year.

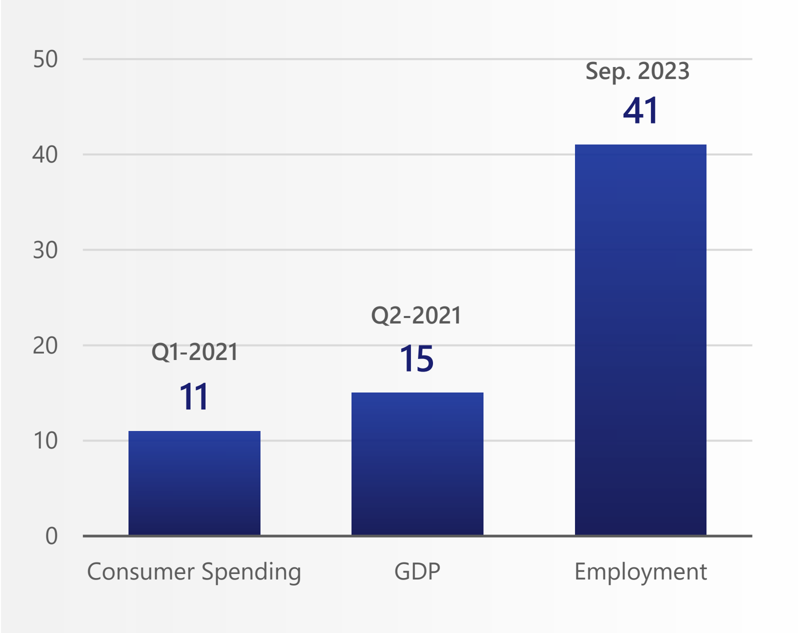
One aspect of the U.S. economy that is expected to take longer to recover is the labor market. As of the April employment report, the U.S. economy had 8.2 million fewer jobs than before the recession began last March.[3] More importantly, the job losses were very uneven across industries, income, and demographic groups.

While every major industry category lost jobs during the recession, the hardest hit industry by far was the leisure and hospitality sector. As of April, the industry still had 2.8 million fewer jobs than it did in January 2020. Given the disproportional impact on leisure and hospitality, which has an average hourly wage 42 percent below the U.S. average, there is also clear evidence that those impacted by layoffs were lower-income individuals.

Among the demographic groups most impacted by the pandemic were those with only a high school diploma, women, and Black/African Americans.[4] When comparing labor market health across demographic groups, one approach economists use is to look at the employment-to-population ratio. This calculation captures each demographic's employment as a share of the total working age population for each group. By this measure, all three of the demographic groups have employment-to-population ratios below that of the U.S. as a whole.

Job losses were very uneven across industries, income, and demographic groups.

When will we see a full recovery?
(Number of months to return to pre-recession peak)

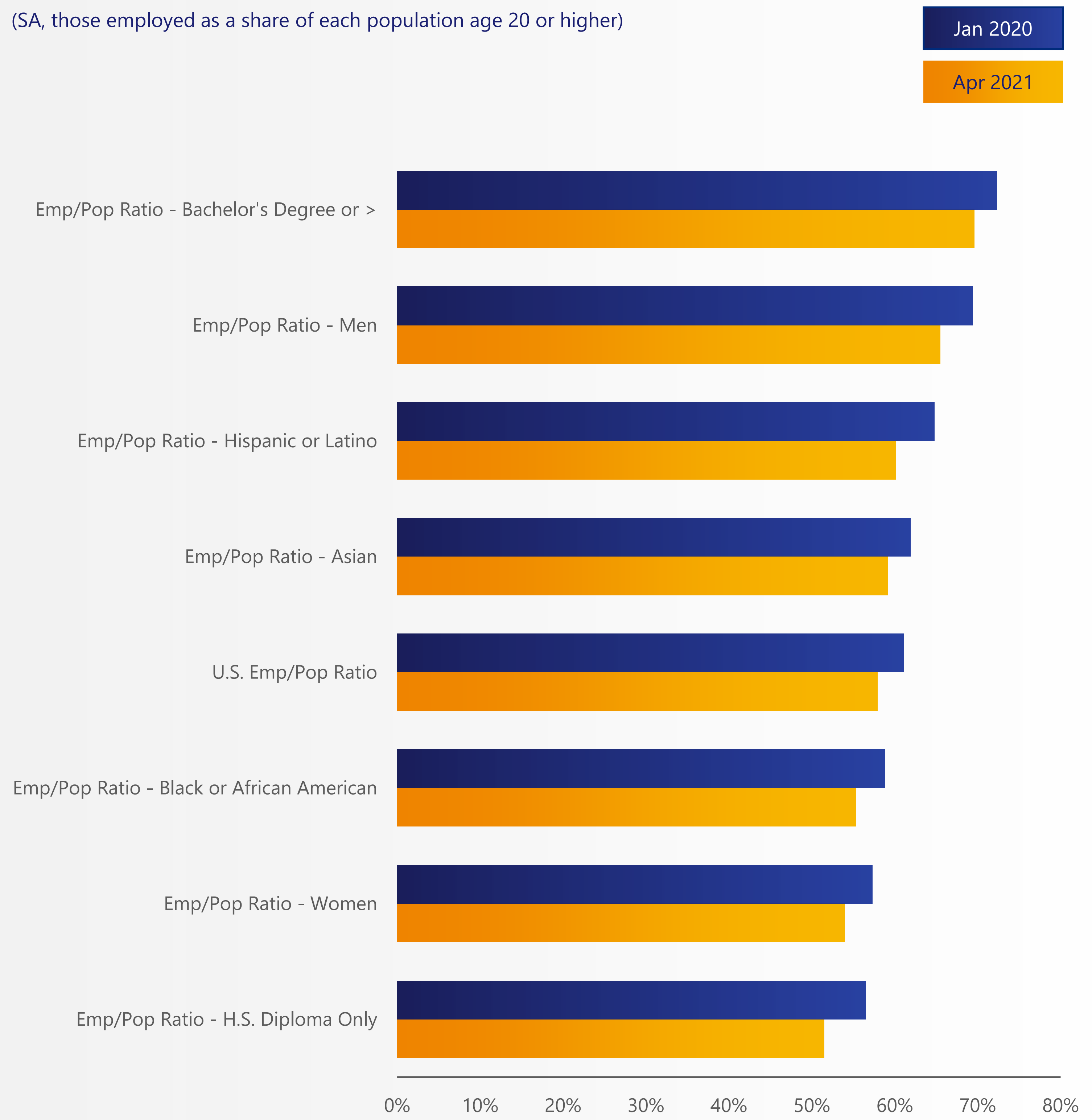


Source: Visa Business and Economic Insights

3. U.S. Department of Labor
4. Visa Business and Economic Insights analysis and U.S. Department of Labor

Selected Employment-to-population ratios pre- and post-pandemic

(SA, those employed as a share of each population age 20 or higher)



Source: Visa Business and Economic Insights and U.S. Department of Labor

While the U.S. economy overall will recover this year, the unevenness of the labor market recovery will leave scars on the groups hardest hit for several more quarters.

We expect monetary and fiscal policy to remain accommodative well into the expansion phase of this economic cycle. Even with such continued support, risks remain to the outlook. The most significant risk is the uncertainty around the effectiveness of the vaccine against new variants of COVID-19. Should case counts rise to a point that further restrictions are needed, there could be a material negative impact to the outlook for economic growth. The eventual removal of some of the fiscal support could also pose a risk to the recovery. As the mortgage forbearance programs end and student loan payments resume before some of the hard-hit demographics are back to work, there could be a pickup in credit defaults later this year. The risks however are not all skewed to the downside. Should hiring activity and consumer spending rebound faster than we expect, growth could easily exceed our current forecast for this year and lead to a much more even rebound in job growth.

Timeline of Key Events

From the time our team of economists in Foster City, California first received the news of a virus outbreak in China, to the economic devastation that followed over the next year, this timeline highlights the series of events prompting an unprecedented level of monetary and fiscal policy response. Taken together, the unconventional monetary policy interventions by the Federal Reserve, the multiple rounds of fiscal stimulus and the executive branch actions have all helped to offset the dramatic negative economic shock of the pandemic.

Early March 2020

The global equity market sell-off in February 2020 spills over to fixed income markets, which begin to raise alarm bells as liquidity dries up in key lending markets right when companies impacted by the pandemic need it the most. The Federal Reserve's Federal Open Market Committee (FOMC) takes action in a series of interest rate cuts—the first by 50 basis points and then another 100 basis points less than two weeks later on March 15. The Fed also begins buying U.S. Treasuries and mortgage-backed securities, a program known as quantitative easing (QE), which was last used during the financial crisis.

Week of March 20, 2020

In a single week, the number of people filing initial jobless claims for unemployment insurance benefits spikes to 3.3 million, setting a record for the series dating back to 1967. Payment volume through Visa's system begins to slide rapidly as more states impose restrictions to combat the pandemic.

3.3 million

Jobless claims

Second quarter 2020

Congress responds to the crisis with a series of three stimulus packages totaling $1.9 trillion. The largest of the three packages known as the CARES Act, totaling $1.7 trillion, includes direct cash payments of $1,200 per person, plus $500 per child for most Americans, expanded unemployment insurance to those furloughed including gig workers and freelancers, and an additional $600 per week unemployment boost payment for the unemployed.

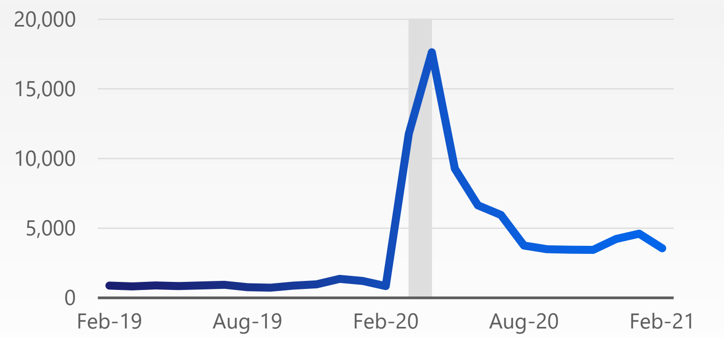
In late April, another $483 billion stimulus package is signed into law providing funds to replenish the Paycheck Protection Program for small businesses and additional funding for hospitals and COVID testing.[5] Nominal consumer spending slides in both March and April 2020, with April spending declining 16.4 percent on a YoY basis.

$1.9 trillion

Total of three stimulus packages

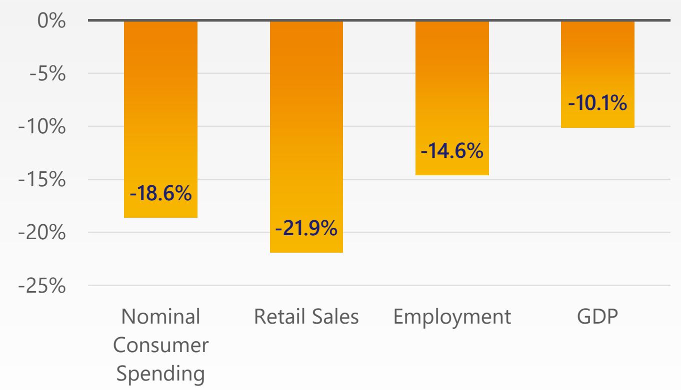
April spending declining 16.4 percent on a YoY basis

Initial unemployment insurance claims (SA, thousands)



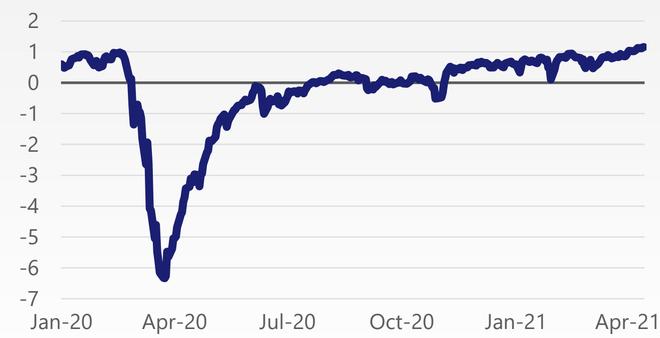
Source: Visa Business and Economic Insights and U.S. Department of Labor

Peak-to-trough decline in key economic indicators
(Percent from pre-recession peak)



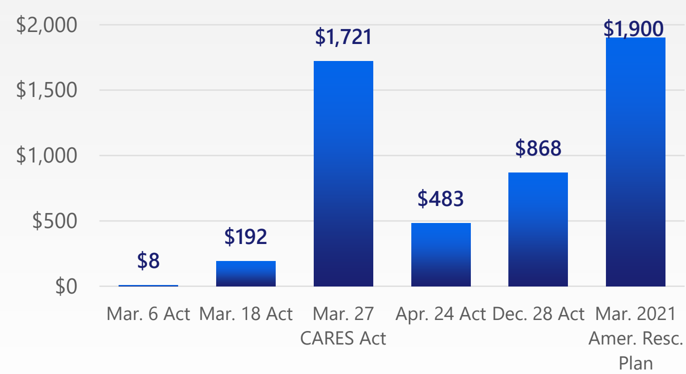
Source: Visa Business and Economic Insights and U.S. Department of Commerce

Bloomberg U.S. Financial Conditions Index
(Index, positive=accommodative, negative=tighter conditions)



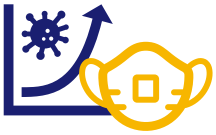
Source: Visa Business and Economic Insights and Bloomberg, LP

Federal spending response to COVID-19 ($, billions)



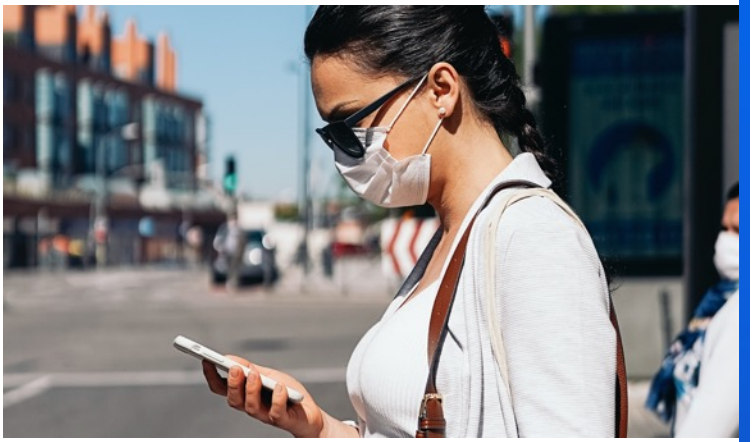
Source: Visa Business and Economic Insights and Congressional Budget Office

5. Congressional Budget Office. https://www.cbo.gov/system/files/2020-06/56403-CBO-covid-legislation.pdf



Fall 2020

COVID cases surge again and many states reintroduce restrictions to contain the outbreak. The recovery loses steam. Congress passes another $900 billion stimulus package in late December, which includes direct cash payments of $600 per person for those making up to $75,000 per year, an extension of unemployment insurance benefits and a $300 per week boost payment for those unemployed.



$900 billion

Stimulus package

First Half 2021

The start of a new Congress and new administration brings a new set of policy priorities. Yet another round of stimulus, the American Rescue Plan (ARP), is enacted totaling $1.9 trillion. Once again, the stimulus program contains more direct payments to individuals, expanded unemployment insurance benefits and funding for state and local governments along with several other provisions. Combined, through April of this year, the U.S. has enacted a total of $5.3 trillion, or 25.3 percent of nominal GDP worth of fiscal stimulus.[6]

Beyond the stimulus packages, executive actions by the former and current administrations—including deferred student loan payments and a freeze on mortgage foreclosures and rental evictions—help delay and perhaps even lessen the credit impact of the downturn.

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6. Peter G. Peterson Foundation. https://www.pgpf.org/blog/2021/03/heres-everything-congress-has-done-to-respond-to-the-coronavirus-so-far

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.

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