

# U.S. Economic Outlook

September 10, 2020

## Economic growth: Bouncing back...and a return to boring?

Solid economic data in August point toward a historic bounce in third quarter GDP growth as the reopening process continues. Labor market conditions continued to improve, with the economy adding another 1.4 million jobs in the month of August. Even though COVID-19 spikes continue to occur, consumers have started spending again on most items from autos to homes. New single family home sales surged to the highest monthly level since December of 2006 in July. Record low mortgage rates, pent-up demand, and redesigned working arrangements have all led to a strong rebound in new home sales. The pick-up in home sales is expected to help lift consumer spending in the months ahead as consumers begin furnishing their new homes. Outside of the consumer sector, stronger domestic and foreign demand are helping to drive inventory rebuilding and greater business investment, which is expected to rebound as well in the third quarter.

In this month's update, we are now calling for 3.3 percent annualized growth in the third quarter of this year, followed by a gradual downshift in the pace of GDP growth in the coming quarters. We expect GDP growth will contract by 3.5 percent this year before growing 4.9 percent in 2021. This month also marks the rollout of our 2022 forecast, with a return to the boring quarterly GDP growth rates of 2.5-3.0 percent seen in the prior expansion.

### Key Takeaways

**Upward revision to Q3 GDP growth**

**Consumer spending recovery on track**

**2022 growth to return to pre-recession rate**

**Trade could be an upside to growth**

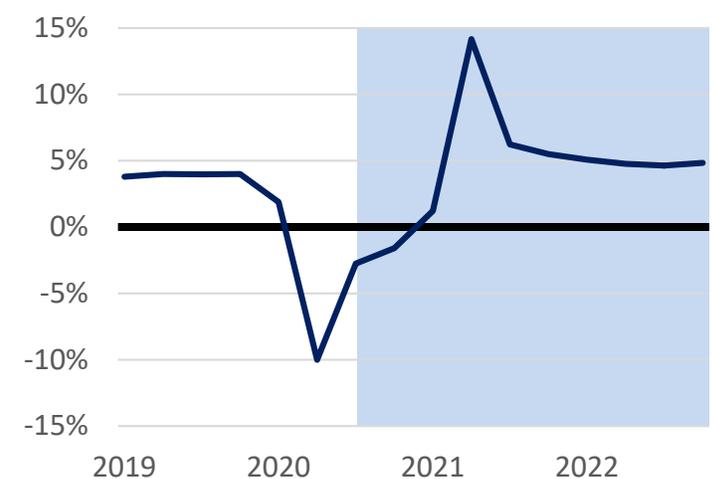
### Real gross domestic product (GDP) (SA, CAGR and YoY\* percent change)

Last forecast: September 10, 2020



### Nominal consumer spending (SA, YoY percent change)

Last forecast: September 10, 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.

# Economic growth: Bouncing back...and a return to boring? (cont.)

## A delicate balancing act

With the housing market roaring back, goods spending among consumers continues to rise. However, consumer spending is a bit more precarious than it may seem. Nominal consumer spending slowed to 1.9 percent month-over-month (MoM) in July, a marked slowdown from the 6.2 percent MoM increase in June. Consumers' confidence in future economic conditions eroded further in August, falling by 3.7 points as consumers' fatigue with pandemic restrictions began to show. Combined, these trends point to a more modest pace of consumer spending. We still expect nominal consumer spending to be 2.8 percent below last year's level in Q3, before returning to its pre-recession level in Q1-2021. That said, with confidence eroding, we see more downside risks to the outlook should consumers become even more cautious.

## Back to boring GDP growth?

This month's forecast rolls out our view of longer-run GDP growth with our 2022 forecast. We see the economy settling down into pre-pandemic levels of growth with 2.9 percent YoY growth for 2022. Business investment will pick up a bit to 5.4 percent (annualized) growth, while nominal consumer spending should rise around 4.8 percent YoY.

## Low interest rates supporting the recovery

The Federal Reserve recently released new guidance around its long-run objectives. In a nutshell, the result is likely lower interest rates for longer. The low-rate environment is providing needed support to the recovery, as the surge in home and auto sales reflects. Our view is that the Fed will remain on hold through the end of 2022, keeping the fed funds rate unchanged, which suggests a very accommodative monetary policy stance. In addition, the Fed will likely continue its program of quantitative easing, thus keeping longer-term interest rates low as well.

## Key risks to the outlook

As was the case last month, our forecast assumes that no further federal 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. We expect a federal government shutdown will be avoided at the end of this month with the same funding levels carried over into FY21, which begins in October. Upside risks this month include a continued weakening of the U.S. dollar, which could help to support greater export growth in the second half of this year, and the potential for stronger than expected job gains. On net, we see the upside and downside risks as balanced this month.

## Visa's U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2020	2020	2020	2020	2021	2021	2021	2021	2019	2020	2021	2022
Gross Domestic Product (CAGR)	-5.0	-31.7	33.0	6.5	4.7	4.0	3.3	2.8	2.2	-3.5	4.9	2.9
Personal Consumption	-6.9	-34.1	37.5	4.1	3.8	3.2	2.8	2.9	2.4	-4.3	4.2	2.5
Business Fixed Investment	-6.7	-26.0	15.8	0.6	5.7	4.8	5.8	5.4	2.9	-5.2	3.4	5.4
Equipment	-15.2	-35.9	40.0	4.1	9.3	5.7	7.4	5.8	2.1	-8.3	6.8	5.9
Intellectual Property Products	2.4	-7.7	8.7	1.8	7.1	6.9	6.8	6.6	6.4	2.0	5.2	6.5
Structures	-3.7	-33.4	-15.1	-10.2	-6.1	-1.9	-0.8	1.3	-0.6	-10.9	-8.4	1.3
Residential Construction	19.0	-37.9	44.0	6.8	7.1	12.6	12.2	10.8	-1.7	2.0	9.2	10.0
Government Purchases	1.3	2.8	5.4	-0.6	1.0	-0.2	0.7	0.9	2.3	2.5	1.1	1.2
Net Exports Contribution to Growth (%)	1.1	0.9	-0.7	-0.1	0.1	0.1	-0.1	-0.1	-0.2	0.7	0.0	-0.2
Inventory Change Contribution to Growth (%)	-1.3	-3.5	3.1	3.5	0.7	0.7	0.1	-0.3	0.0	-0.9	1.0	0.0
Nominal Personal Consumption (YoY % Chg.)	1.9	-10.0	-2.8	-1.6	1.2	14.2	6.2	5.5	3.9	-3.1	6.6	4.8
Nominal Personal Income	3.2	10.4	8.8	9.9	9.7	2.5	4.0	2.7	3.9	8.1	4.7	4.2
Retail Sales Ex-Autos	2.5	-7.5	2.5	3.7	5.0	15.7	4.3	4.2	3.5	0.3	7.1	4.6
Consumer Price Index	2.1	0.4	1.2	1.8	2.0	3.1	2.6	2.3	1.8	1.4	2.5	2.3
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.19	0.25	0.25	0.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.28	3.25	3.25	3.25
10-Year Treasury Yield	0.70	0.66	0.64	0.72	0.76	0.79	0.84	0.89	2.14	0.68	0.82	0.99

Forecast as of: September 10, 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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