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

Running up the score in the first half

With the conclusion of the big game (proudly sponsored by Visa), attention of this team of economists now turns to reading the incoming economic data for signs of how Q1 is shaping up. While it would be easier to just punt and cite the ongoing uncertainty, we have crunched the numbers and now think that Q1 GDP growth will be much stronger than expected. Two key factors led to our sharp upward revision for both the first and second quarters of this year. First, it now appears that the most recent stimulus package, passed in December, had a greater influence on consumer spending than first thought. Real-time consumer spending data indicates that spending surged in January. Second, another $1.9 trillion stimulus package will likely be passed sometime before the end of Q1. Given the size of the package, we now expect GDP growth to hit 5.5 percent in Q2 as the stimulus checks and other programs lift growth. While we expect the stimulus program to lift consumer spending, we think it will also likely slow the pace of the labor market recovery.

With the changes to the outlook this month, we now expect GDP growth to rise 4.5 percent in 2021 compared to the 3.5 percent contraction in 2020. Looking ahead to 2022, we expect GDP growth at 3.1 percent as the gradual labor market recovery begins to take hold. Thematically, the first half of this year will represent solid economic growth before downshifting slightly in the latter half of the year (bottom left chart). A stimulus-fueled pick-up in consumer spending, a solid housing market, and improving business investment should all support growth.

Key Takeaways

Strong start to 2021

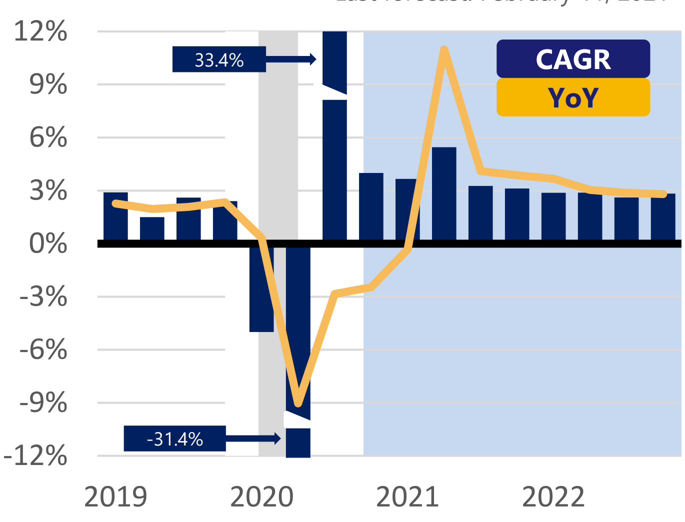
Fiscal policy having a positive effect on growth

The labor market recovery will be slow

Upside risks to the outlook are rising

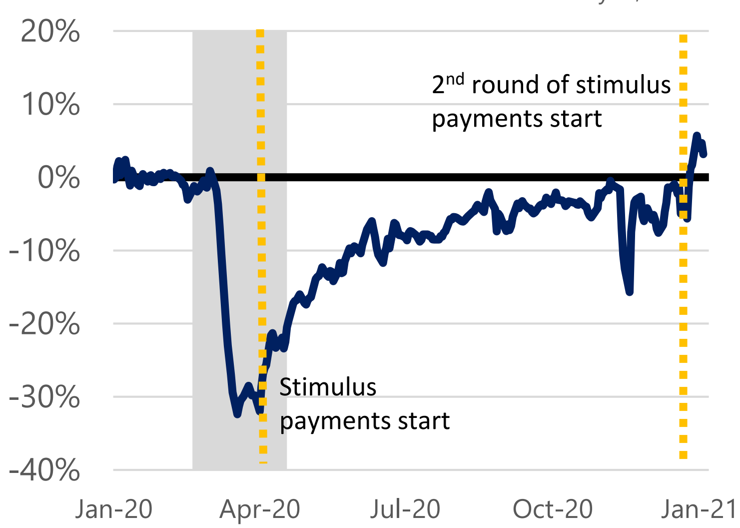
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: February 11, 2021



Opportunity Insights credit and debit card spending (SA, percent from January 2020 baseline)

Last actual: January15, 2021



*Seasonally adjusted (SA), compound annualized growth rate (CAGR), year-over-year (YoY). Sources: Visa Business and Economic Insights, and Opportunity Insights.

Running up the score in the first half (cont.)

Consumers coming off the sideline this quarter

One of the most significant upward revisions in our outlook this month is regarding both real and nominal consumer spending. Real-time measures of consumer spending activity, including credit and debit spending from Opportunity Insights, showed a surge in consumer spending activity in January. The good news is that the stronger spending appears to be in discretionary spending, which had been lagging so far in the recovery. Early evidence suggests that the December stimulus program had a higher multiplier effect on growth than the CARES act passed last April, with more spent. Real consumption is now expected to rise 4.2 percent (annualized) in Q1 and 5.7 percent in Q2. Stimulus effects will drive consumption in these two quarters, as we assume an additional $1.9 trillion package will pass.

There are two factors that should help lift nominal consumer spending throughout 2021. The real spending growth, in part fueled by stimulus and higher inflation readings. For 2021 as a whole, we see nominal consumer spending rising 7.6 percent (YoY). Real spending should rise 4.8 percent, with inflation edging higher to 2.7 percent. We expect nominal spending to rise a more modest 5.2 percent in 2022 as higher inflation and waning stimulus effects eventually begin to moderate the pace of spending.

Thoughts on the labor market recovery

We are a bit more pessimistic on the labor market recovery than some other forecasters. Consistent with the nonpartisan Congressional Budget Office, we see the enhanced unemployment insurance (UI) benefits proposed in the $1.9 trillion stimulus program as boosting output but slowing the labor market recovery. The enhanced UI benefits in many states would exceed the normal salaries in those states and thus reduce the incentive to work. While the increase in economic growth would offset some of the negative effects on employment, the net result of a $400 boost payment to UI benefits would be to slow the labor market recovery.

Risks to the outlook

For the first time in a while, we now see more upside risk to GDP growth this year than downside. The virus remains a key downside risk, especially in light of business reopenings and new variants of the virus, which could lead to further lockdowns. While we are assuming the $1.9 trillion stimulus program will get passed, further stimulus or an infrastructure plan would all serve as upside risk to growth this year. There could also be upside risk if the pass-through effects of the current stimulus program end up being larger than anticipated.

Visa's U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2020				2021							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021	2022
Gross Domestic Product (CAGR)	-5.0	-31.4	33.4	4.0	3.7	5.5	3.3	3.1	2.2	-3.5	4.5	3.1
Personal Consumption	-6.9	-33.2	41.0	2.5	4.2	5.7	2.5	2.6	2.4	-3.9	4.8	2.6
Business Fixed Investment	-6.7	-27.2	22.9	13.8	13.8	6.2	5.4	5.4	2.9	-4.0	8.7	5.2
Equipment	-15.2	-35.9	68.2	24.9	18.3	9.7	7.5	6.4	2.1	-5.0	16.1	6.2
Intellectual Property Products	2.4	-11.4	8.4	7.5	7.6	4.9	5.8	6.3	6.4	1.5	5.6	5.9
Structures	-3.7	-33.6	-17.4	3.0	0.8	-0.7	-1.4	0.3	-0.6	-10.5	-4.6	0.7
Residential Construction	19.0	-35.6	63.0	33.5	18.3	15.6	14.2	11.8	-1.7	5.9	19.6	11.2
Government Purchases	1.3	2.5	-4.8	-1.2	0.4	1.6	2.1	2.4	2.3	1.1	0.1	2.6
Net Exports Contribution to Growth (%)	1.1	0.6	-3.2	-1.5	-1.1	-0.5	-0.2	-0.4	-0.2	-0.1	-1.5	-0.4
Inventory Change Contribution to Growth (%)	-1.3	-3.5	6.6	1.0	0.2	0.2	0.0	0.0	0.0	-0.6	0.8	0.1
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-1.7	-1.4	1.8	15.7	6.8	7.1	3.9	-2.7	7.6	5.2
Nominal Personal Income	3.2	10.7	7.1	4.3	5.8	6.1	9.4	12.0	3.9	6.3	8.3	4.9
Retail Sales Ex-Autos	2.5	-7.5	3.2	2.8	3.4	14.1	2.3	3.7	3.4	0.3	5.7	3.7
Consumer Price Index	2.1	0.4	1.2	1.2	1.3	2.8	2.4	3.0	1.8	1.2	2.4	2.6
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	3.54	3.25	3.25
10-Year Treasury Yield	0.70	0.66	0.69	0.93	1.14	1.17	1.22	1.27	2.14	0.89	1.20	1.37

Forecast as of: February 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.

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.

Disclaimer

Studies, survey results, research, recommendations, opportunity assessments, claims, etc. (the 'Statements') should be considered directional only. The Statements should not be relied upon for marketing, legal, regulatory or other advice. The Statements should be independently evaluated in light of your specific business needs and any applicable laws and regulations. Visa is not responsible for your use of the Statements, including errors of any kind, or any assumptions or conclusions you might draw from their use.

Visa Business and Economic Insights

Wayne Best, Chief Economist

Bruce Cundiff, Vice President, Insights
Michael Brown, Principal U.S. Economist
Adolfo Laurenti, Principal European Economist
Richard Lung, Principal Global Economist
Glenn Maguire, Principal Asia Pacific Economist
Mohamed Bardastani, CEMEA Economist
Jennifer Doettling, Director, Content and Editorial
Michael Nevski, Director, Consumer Insights
Jeffrey Roach, Senior U.S. Economist
Dulguun Batbold, Global Economist
Weiwen Ng, Asia Pacific Economist
Angelina Pascual, European Economist
Travis Clark, U.S. Economist
Mariamawit Tadesse, Associate Global Economist

Juliana Tang, Executive Assistant

For more information

Please visit us at **www.visa.com/EconomicInsights**

or

Contact us at **VisaEconomicInsights@visa.com**