Visa Business and Economic Insights

U.S. Economic Outlook

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Taking away the punchbowl

Incoming economic data over the past month continues to reflect an economy that would be growing faster were it not for supply constraints. Labor market conditions are still improving. First time filings for jobless benefits continued to fall rapidly as employment in May rose by 559,000. Wages are also increasing as available labor remains tight in some industries. Purchasing managers survey data still points toward tight inventories and a backlog of orders, which is leading to higher prices passed on to consumers and businesses. Even in light of higher prices, consumer and business spending remains robust. We estimate that real consumer spending will rise 11 percent (annualized) and real business fixed investment will climb 8 percent (annualized) this quarter. One area that is cooling off is the housing market. Real residential investment will likely expand at a more modest 3 percent (annualized) pace this quarter, down from the 12.7 percent pace in Q1. With robust economic growth, a firming labor market and inflation pressures building, attention is now turning to when the Fed may remove the punchbowl of accommodation that has helped to fuel the strong recovery.

This month we upgraded our outlook through next year. We now expect GDP growth to expand 6 percent in 2021 and 3.4 percent in 2022. Robust consumer spending will support further business investment, while existing stimulus programs will lift federal, state and local spending through the second half of this year and into 2022. Domestic inventory rebuilding efforts will also support growth in 2H as firms recover from the surge in demand.

Highlights

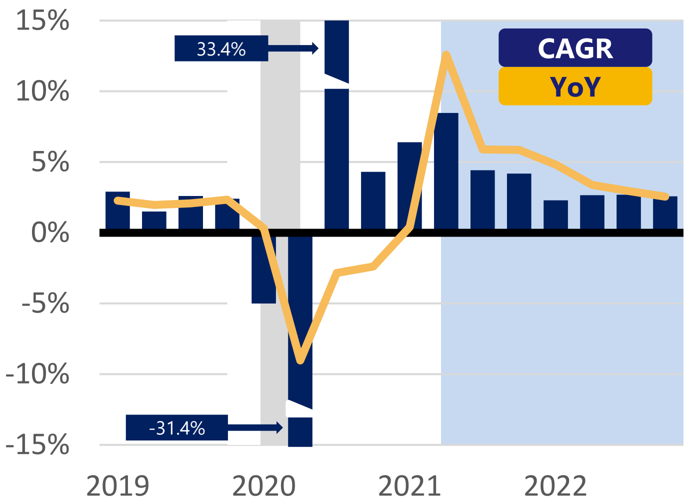
Tight supply and strong demand persist

Fiscal stimulus expected to wane soon

A more defined Fed timeline

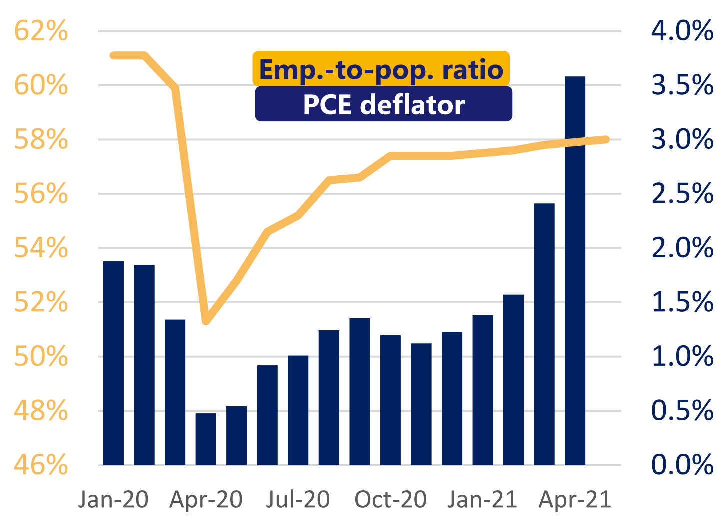
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: June 10, 2021



The Fed's key indicators: employment-to-population ratio and the PCE deflator (SA, percent)

Last actual: May 2021



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

Taking away the punchbowl (cont.)

Smooth sailing coming to an end?

To date, increased vaccinations, loosening restrictions and significant amounts of fiscal stimulus payments have driven the robust consumer spending recovery. In the second half of this year and the beginning of 2022, as consumer spending patterns return to the new normal, fiscal support is set to subside. For starters, 25 states have decided to end enhanced unemployment insurance benefits over the next several weeks, while in all other states they are set to expire in September. Some of the negative effect of this will be offset by Child Tax Credit payments that are set to go out in mid-July to roughly 39 million households, according to the U.S. Internal Revenue Service. However, under current law, these payments will end in January. The expiration of these programs will impact both income and, by extension, consumer spending growth in the coming quarters. For this reason, we expect more modest rates of income and spending growth in 2022.

In the coming quarters of this year, income growth will remain robust as higher wages combined with the stimulus payments lift growth. However, inflation pressures will also be much higher this year, which will keep real disposable income at 6.6 percent in 2021 before contracting outright by 2.9 percent in 2022. Nominal consumer spending will likely rise 11.2 percent this year but downshift to 5.8 percent next year, reflecting the slower pace of income growth.

Fed focused on employment before tapering

As the labor market continues to gradually recover and inflation heats up, focus is turning to the Fed and when it could take away accommodation. The Fed has made it clear for some time the order of its next moves, beginning with tapering its purchases of $80 billion per month of U.S. Treasuries and $40 billion per month in mortgage-backed securities. We expect this “tapering” to be announced sometime late this year. Only after the tapering is well underway are rate hikes expected from the Fed, but likely not before 2023. The implication is that at least through the end of 2022, long-term interest rates should slowly edge higher while short-term rates remain low.

Risks to the outlook

One of the emerging risks to the outlook is a slower labor market recovery. Job gains have missed economists’ expectations two months in a row now and are raising questions about the tightness of the labor market. Aside from the labor market, persistent higher inflation beyond Q4 of this year would put downside risk to our 2022 outlook. There are also a number of fiscal policy deadlines in the second half of this year, including the need to pass a federal budget by Sept. 30th and lift the debt ceiling sometime after August 1st. While we have upgraded our outlook this month, there is no shortage of risk events remaining that could reverse these changes in the months ahead.

Visa’s U.S. Economic Forecast

	Actual					Forecast			Actual		Forecast	
	2020				2021				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	-5.0	-31.4	33.4	4.3	6.4	8.5	4.4	4.2	2.2	-3.5	6.0	3.4
Personal Consumption	-6.9	-33.2	41.0	2.3	11.3	11.0	3.8	3.5	2.4	-3.9	7.7	3.3
Business Fixed Investment	-6.7	-27.2	22.9	13.1	10.8	8.0	4.8	4.8	2.9	-4.0	8.0	4.8
Equipment	-15.2	-35.9	68.2	25.4	13.4	6.1	6.3	5.8	2.1	-5.0	14.0	5.3
Intellectual Property Products	2.4	-11.4	8.4	10.5	16.9	5.9	4.8	5.0	6.4	1.7	8.3	4.6
Structures	-3.7	-33.6	-17.4	-6.2	-5.8	-0.6	0.3	1.1	-0.6	-11.0	-7.6	2.4
Residential Construction	19.0	-35.6	63.0	36.6	12.7	3.0	2.6	2.0	-1.7	6.1	13.8	2.2
Government Purchases	1.3	2.5	-4.8	-0.8	5.8	5.7	4.0	4.1	2.3	1.1	2.6	3.7
Net Exports Contribution to Growth (%)	1.1	0.6	-3.2	-1.5	-1.2	-0.3	-0.8	-0.7	-0.2	-0.1	-1.7	-0.7
Inventory Change Contribution to Growth (%)	-1.3	-3.5	6.6	1.4	-2.8	0.5	1.0	0.9	0.0	-0.6	0.2	0.5
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-1.7	-1.5	3.6	19.9	11.0	11.2	3.9	-2.7	11.2	5.8
Nominal Personal Income	3.2	10.7	6.8	4.7	16.6	4.0	9.2	10.9	3.9	6.3	10.0	0.2
Retail Sales Ex-Autos	2.6	-7.5	3.3	2.8	11.3	26.2	11.0	10.3	3.4	0.3	14.4	1.1
Consumer Price Index	2.1	0.4	1.2	1.2	1.9	4.4	4.0	4.0	1.8	1.2	3.6	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	3.54	3.25	3.25
10-Year Treasury Yield	0.70	0.66	0.69	0.93	1.74	1.63	1.73	1.77	2.14	0.89	1.72	1.84

Forecast as of: June 10, 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

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