Visa Business and Economic Insights

U.S. Economic Outlook

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"Unless acted upon by an outside force"

Newtonian physics teaches us that objects in motion will stay in motion unless acted upon by an outside force. In the case of the U.S. economy, a broad-based softening in economic data is signaling that the global economic slowdown—induced, in part, by ongoing trade tensions—has acted upon the momentum behind U.S. economic growth. Both the manufacturing and service purchasing managers indices for September were softer than expected, with manufacturing activity contracting for the second month in a row.

We have been discussing the broad-based slowdown in manufacturing activity for a while, but it is now beginning to permeate the services sector in a more pronounced way. The September employment report was soft in two of the three key measures we track more closely at the late stage of a business cycle: average weekly hours and average hourly earnings. While we do not weigh a single month of soft economic data, the marked downshift has elevated our concern. Our expectation is that fourth quarter GDP growth will end up at 1.5 percent, down from an estimated 1.8 percent in Q3, with most of the support for growth coming from consumer spending. The risk that U.S. economic growth can be undermined by outside forces is omnipresent.

Key Takeaways

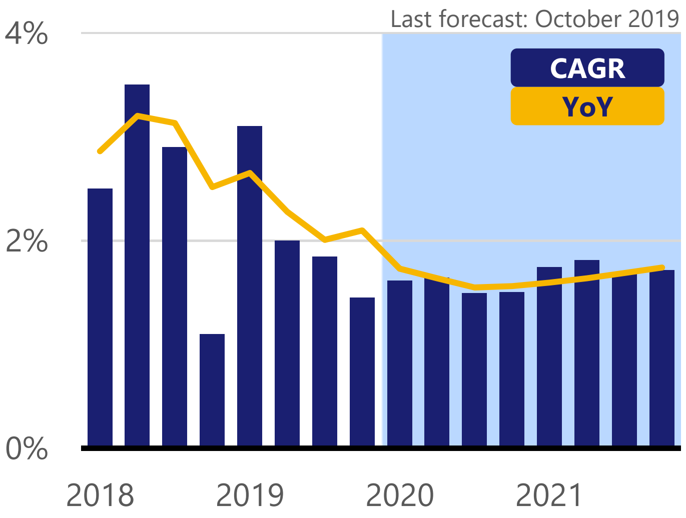
The slowdown is broadening to other sectors

Job growth continues to moderate

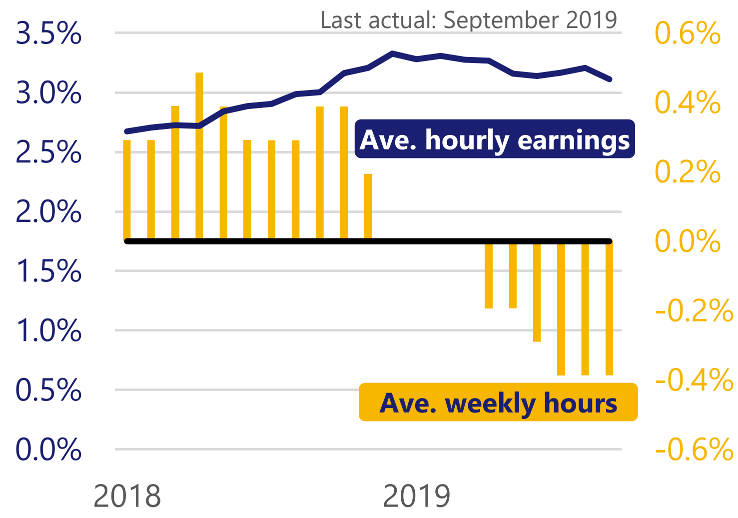
GDP growth to slowly downshift

Fiscal policy risk remains a key concern

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



Average hourly earnings vs. average weekly hours (Percent, YoY change)



* Seasonally adjusted (SA), compound annual growth rate (CAGR), year-over-year (YoY).
Source: Visa Business and Economic Insights, U.S. Department of Commerce and Federal Reserve Board

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Unless acted upon by an outside force (cont.)

2020 growth trending down

Looking ahead to 2020, GDP growth is expected to expand by 1.6 percent. Inflation is expected to pick up a bit next year, closer to the Fed's 2 percent target, which should keep the federal funds rate unchanged throughout the year. Business investment is expected to remain soft as global economic growth will likely remain subdued. While job growth will be boosted by temporary hiring for the 2020 Census, these part-time jobs will add less to the overall momentum behind wage growth. Nominal personal income will likely rise 4 percent next year, down from 4.8 percent this year. With slower income growth, consumer confidence should gradually downshift. In response, consumer spending is expected to gradually decelerate throughout 2020, but remain around 2 percent in real terms. Nominal consumer spending will rise in 2020 relative to 2019, mostly related to base effects from the slow start to 2019 and higher inflation in 2020.

Greater uncertainly about interest rates

After cutting rates in September, the Fed will likely remain on hold for the foreseeable future. Economic data has turned a bit sour in recent weeks, but the Fed will probably look past these soft data readings and allow some time for the two rate cuts to begin influencing growth. In the absence of Fed rate cuts we expect short-term rates to remain relatively unchanged. The yield curve remains inverted, but should slowly begin to steepen as the U.S. Treasury issues more debt after the start of the October 1st federal fiscal year. This should lift longer-term interest rates. That said, long-term interest rates will likely edge higher only gradually as global central banks keep interest rates abroad lower for longer, which will attract foreign investment into the U.S.

Key risks to the outlook

Fiscal policy risk has once again emerged. In the absence of a funding bill, the federal government is set to shut down on Nov. 22nd. Further tariffs against China and retaliatory tariffs against the U.S. are set to edge higher in October and again in December. Equity markets remain volatile as new economic data around the world disappoint. Growth should remain positive over the coming quarters, but the possibility of flat to a negative quarter of growth is beginning to rise. Our focus will be on the consumer confidence numbers later this month as we look for cracks in the consumer sector. Incoming data over the next few weeks will help to characterize the recent news as either a late cycle slowdown or the beginning of the end of this record expansion. Stay tuned.

Visa's U.S. Economic Forecast

	Actual		Forecast						Actual	Forecast		
	2019				2020							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2021
Gross Domestic Product (CAGR)	3.1	2.0	1.8	1.5	1.6	1.6	1.5	1.5	2.9	2.3	1.6	1.7
Personal Consumption	1.1	4.6	2.6	2.3	2.4	2.4	2.1	2.1	3.0	2.6	2.5	2.1
Business Fixed Investment	4.4	-1.0	-1.6	-1.3	-0.5	0.3	0.9	1.2	6.4	2.2	-0.4	1.4
Equipment	-0.1	0.8	-3.5	-2.5	-2.0	-1.0	0.0	0.5	6.8	1.4	-1.5	0.6
Intellectual Property Products	10.8	3.6	5.0	4.0	3.8	3.8	3.6	3.6	7.4	7.6	3.9	3.5
Structures	4.0	-11.1	-12.0	-8.0	-5.0	-3.5	-2.5	-2.0	4.1	-4.6	-6.1	-1.0
Residential Construction	-1.0	-3.0	4.5	1.8	1.5	1.8	2.0	2.0	-1.5	-1.8	1.8	1.8
Government Purchases	2.9	4.8	1.5	1.8	1.3	1.3	1.1	1.1	1.7	2.3	1.6	1.1
Net Exports Contribution to Growth (%)	0.7	-0.7	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Inventory Change Contribution to Growth (%)	0.5	-0.9	0.0	-0.1	0.0	-0.1	0.0	-0.1	0.1	0.2	-0.1	0.0
Nominal Personal Consumption (YoY % Chg.)	3.9	4.1	3.9	4.4	5.0	4.4	4.6	4.5	5.2	4.1	4.6	4.2
Nominal Personal Income	4.6	4.9	4.7	5.0	4.4	3.7	3.9	4.0	5.6	4.8	4.0	3.9
Retail Sales Ex-Autos	3.0	3.4	3.7	4.7	4.9	4.1	3.7	4.0	5.4	3.7	4.2	3.7
Consumer Price Index	1.6	1.8	1.8	2.3	2.3	1.8	2.1	2.3	2.4	1.9	2.1	2.3
Federal Funds Rate (Upper Bound)	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.13	2.25	2.00	2.00
Prime Rate	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	4.90	5.43	5.00	5.00
10-Year Treasury Yield	2.41	2.00	1.68	1.63	1.68	1.73	1.76	1.78	2.91	2.24	1.74	1.82

Forecast as of: October 10, 2019

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 Board

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