

U.S. Economic Outlook

May 2019

Finding the signal through the noise

U.S. headline economic growth appeared surprisingly strong in the first quarter, but was inflated by higher inventories and a contraction in import activity. A decline in real final sales to domestic consumers and businesses, the preferred measure of core GDP growth, led to the slowdown in imports and inventory building. Core GDP growth slid to just 1.4 percent in Q1, the softest pace of growth since Q4 2015. Combined trade and inventories added 1.7 percentage points to GDP growth in the first quarter and will likely lead to both categories subtracting from growth in Q2.

Visa's May U.S. economic forecast points to a deceleration in the pace of GDP growth in the second quarter to 2.5 percent as a slower pace of inventory building and a bounce back in imports shave 0.8 percentage points from headline growth. That said, core GDP growth is expected to rebound in the second quarter as both business investment and consumer spending are likely to be stronger. Nominal consumer spending will likely grow 4.3 percent in 2019. After accounting for inflation, consumer spending will likely downshift slightly to 2.4 percent from last year's 2.6 percent pace. Business investment should remain modest through the end of the year with business fixed investment expanding 3.8 percent this year from 6.9 percent in 2018.

Key Takeaways

Core demand slowed in the first quarter

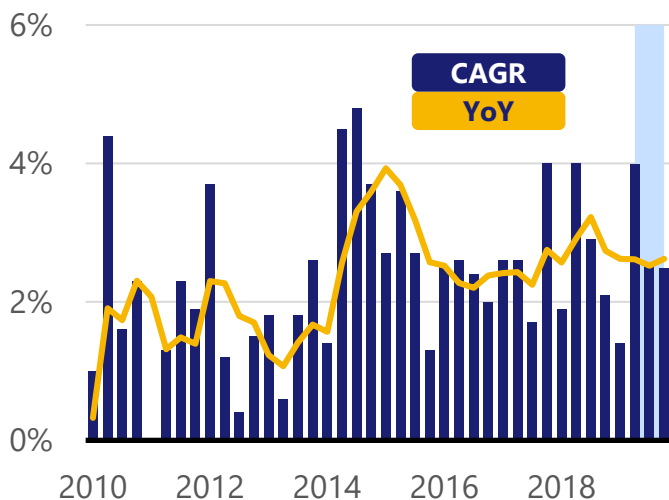
Business investment will likely moderate this year

No further rate hikes expected from the Fed

Trade tensions flare up once again

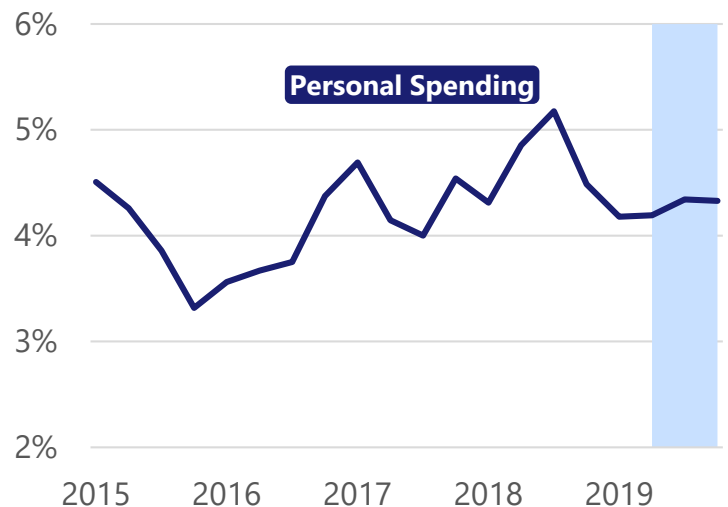
Real final sales to domestic purchasers (SA, CAGR and YoY percent change)

Last forecast: May 2019



Nominal consumer spending forecast (SA, YoY percent change)

Last forecast: May 2019



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

Finding the signal through the noise (cont.)

Economic data point to better consumer spending

Real consumer spending softened in the first quarter at 1.2 percent (annualized) from 2.5 percent in 4Q2018. An erosion in consumer confidence led to a pullback in spending, particularly for auto purchases. While it is very early in the second quarter, the initial data is pointing towards firmer consumer spending in Q2. Consumer confidence rebounded in April, with consumers feeling more confident about both current and future economic conditions. In addition, the April employment report showed that job growth remained solid and wage gains were becoming more broad based across income groups. As a result of the stronger consumer sector data, real consumer spending is likely to accelerate to 2.9 percent in second quarter before reverting back to its average around 2.5 percent. Given muted inflation and low interest rates, retail sales excluding autos will likely grow slightly slower this year at 3.2 percent, down from last year's tax cut- fueled 5.5 percent growth rate.

A patient Fed leads to stable rates

At its May meeting, the Federal Open Market Committee (FOMC) left rates unchanged and cited inflation "running below 2 percent," the Fed's target. While Fed Chair Jay Powell indicated at his press conference that the soft spot in core GDP growth in Q1 was likely transitory, he also indicated that the current environment suggested the federal

funds rate was at the appropriate level. Based on the outlook for GDP growth and inflation, it's now believed the current tightening cycle is over, with no further Fed rate hikes in the forecast.

Key risks to the outlook

Trade tensions have once again emerged in recent days. While the impact on inflation from expanded tariffs on Chinese goods will likely add just 0.3 percentage points to the PCE Deflator, the larger concern is the negative equity market impact. In December, a similar market sell-off led to a sharp decline in consumer confidence and spending.



U.S. Economic Forecast

	Actual				Forecast				Actual			Forecast
	2018				2019				2017	2018	2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	2.2	4.2	3.4	2.2	3.2	2.5	2.1	2.0	2.2	2.9	2.7	
Personal Consumption	0.5	3.8	3.5	2.5	1.2	2.9	2.4	2.3	2.5	2.6	2.4	
Business Fixed Investment	11.5	8.7	2.5	5.4	2.7	3.0	3.6	3.7	5.3	6.9	3.8	
Equipment	8.5	4.6	3.4	6.6	0.2	1.3	3.1	3.7	6.1	7.4	2.8	
Intellectual Property Products	14.1	10.5	5.6	10.7	8.6	5.5	5.2	4.7	4.6	7.5	7.5	
Structures	13.9	14.5	-3.4	-3.9	-0.8	1.0	2.0	2.0	4.6	5.0	0.0	
Residential Construction	-3.4	-1.3	-3.6	-4.7	-2.8	1.1	1.5	2.2	3.3	-0.3	-1.6	
Government Purchases	1.5	2.5	2.6	-0.4	2.4	2.0	2.6	2.3	-0.1	1.5	1.8	
Net Exports Contribution to Growth (%)	0.0	1.2	-2.0	-0.1	1.0	-0.1	-0.4	-0.4	-0.3	-0.2	0.0	
Inventory Change Contribution to Growth (%)	0.3	-1.2	2.3	0.1	0.7	-0.7	-0.1	-0.2	0.0	0.1	0.3	
Nominal Personal Consumption (YoY % Chg.)	4.3	4.9	5.2	4.5	4.2	4.2	4.3	4.3	4.3	4.7	4.3	
Nominal Personal Income	4.3	4.5	4.5	4.6	4.1	4.1	4.4	4.3	4.4	4.5	4.2	
Retail Sales Ex-Autos	5.2	6.3	6.5	3.9	3.1	2.8	2.8	4.0	4.7	5.5	3.2	
Consumer Price Index	2.2	2.7	2.6	2.2	1.6	2.1	2.2	2.3	2.1	2.4	2.0	
Federal Funds Rate (Upper Bound)	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	1.25	2.13	2.50	
Prime Rate	4.75	5.00	5.25	5.50	5.50	5.50	5.50	5.50	4.50	5.50	5.50	
10-Year Treasury Yield	2.74	2.85	3.05	2.69	2.41	2.67	2.79	2.99	2.33	2.91	2.72	

Forecast as of: May 8, 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, U.S. Department of Commerce, U.S. Department of Labor and Federal Reserve Board

Forward Looking Statements

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