Visa Business and Economic Insights

U.S. Economic Outlook

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Continued trade uncertainty weighs on economic growth

Economic data continues to indicate a downshift in the pace of economic growth in the second quarter. Our forecast for business investment now points towards a contraction in the second quarter as ongoing trade-related uncertainty continues to keep a lid on business spending. The key support to growth in Q2 will be consumer spending as a slower pace of inventory building subtracts from growth. Given the tightness of the labor market, employment growth is also set to downshift as the year progresses. May's employment report affirmed this downshift in job growth. Upside risk remains for inflation if additional tariffs are enacted on Chinese imports. We believe the Fed will likely remain on hold and look past the temporary boost to trade related inflation.

This month's update includes assumptions about two key factors driving heighted uncertainty around our forecast view. First, we assume that no further tariffs are enacted on China and that tariffs on Mexico are not enacted. Second, we expect Congress to pass a budget that carries over existing funding levels into next fiscal year before September 30th, avoiding another partial government shutdown. In addition to these key risks, we remain concerned about the continued inversion of the yield curve.

Key Takeaways

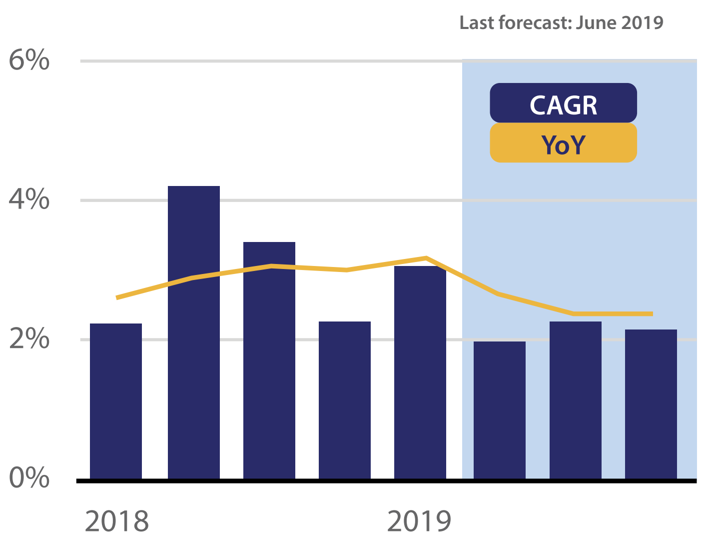
Softer economic data suggests a slower Q2

Trade tensions remain a key risk to the outlook

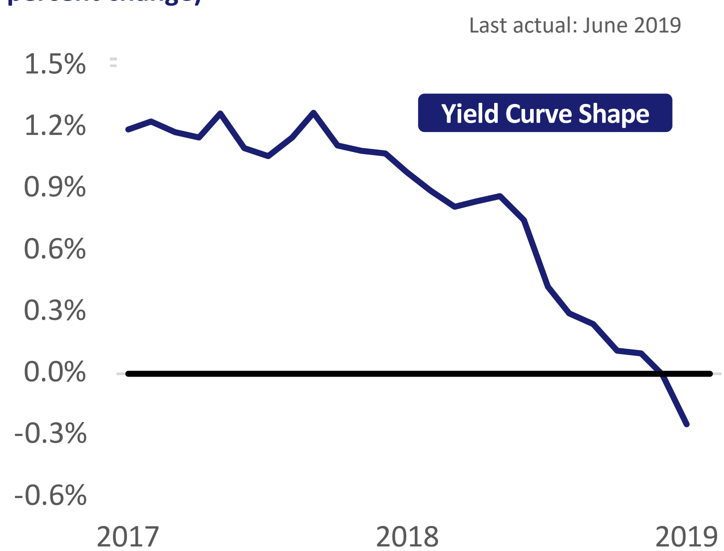
Credit availability concerns are building

Inflation creates a challenge for the Fed

Real gross domestic product (SA, CAGRand YoY percent change)



U.S. 10-year Treasury less 3-month Treasury bill (SA, YoY percent change)



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

Continued trade uncertainty weighs on economic growth (cont.)

Consumer spending to support 2019 growth

While a number of risks remain, one bright spot to the outlook is the consumer sector. Real consumer spending is expected to rise 2.7 percent in the second quarter before moderating in the third and fourth quarters of 2019. On a nominal basis, consumer spending is expected to rise 4.2 percent this year. With a downshift in auto sales expected as the year progresses, the primary drivers of consumer spending growth should be services and retail goods. If continued equity market sell-offs persist, consumers may begin to pull back on spending. Additionally, higher prices passed on to consumers from additional tariffs may begin to erode the purchasing power of consumers going into the critical fall holiday season.

Implications of the inverted yield curve

In response to recent equity market sell-offs, global investors have been piling into safe U.S. assets such as 10-year U.S. Treasury Notes. This is resulting in an inverted yield curve—short term interest rates are higher than long-term rates. When such behavior persists, banks become less willing to lend, drying up credit. We remain cautious in our outlook for both business and consumer spending given that the inverted yield curve environment is likely to stick around for a bit longer. It does not signal the end of growth but does add yet another headwind to the economy.

Key risks to the outlook

For the second month in a row we highlight trade tensions as the number one downside risk to our growth outlook. While tariffs on Mexico have been avoided, there remains a risk of further tariffs on imports from China. This would create a challenge for the Fed in trying to balance job growth and keep inflation in check. We suspect the Fed will look past the near-term effects of the tariffs and keep rates unchanged. Manufacturing would likely continue to bear the brunt of any new tariffs and slow the growth of consumer spending on such goods. In the near-term, we would expect higher inflation readings likely beginning in the third quarter of this year. On balance we now see more downside risks to growth than upside over the next two years.

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	3.1	1.9	2.3	2.2	2.2	2.9	2.6
Personal Consumption	0.5	3.8	3.5	2.5	1.3	2.7	2.4	2.3	2.5	2.6	2.4
Business Fixed Investment	11.5	8.7	2.5	5.4	2.3	0.9	3.5	3.5	5.3	6.9	3.2
Equipment	8.5	4.6	3.4	6.6	-1.0	-0.8	2.9	3.0	6.1	7.4	2.0
Intellectual Property Products	14.1	10.5	5.6	10.7	7.2	5.5	5.2	5.0	4.6	7.5	7.1
Structures	13.9	14.5	-3.4	-3.9	1.7	-4.1	1.8	2.0	4.6	5.0	-0.4
Residential Construction	-3.4	-1.3	-3.6	-4.7	-3.5	-1.0	1.5	2.2	3.3	-0.3	-2.2
Government Purchases	1.5	2.5	2.6	-0.4	2.5	3.7	2.6	2.3	-0.1	1.5	2.2
Net Exports Contribution to Growth (%)	0.0	1.2	-2.0	-0.1	1.0	-0.1	-0.3	-0.3	-0.3	-0.2	0.0
Inventory Change Contribution to Growth (%)	0.3	-1.2	2.3	0.1	0.6	-1.0	-0.1	-0.1	0.0	0.1	0.2
Nominal Personal Consumption (YoY % Chg.)	4.3	4.9	5.2	4.5	4.2	4.2	4.2	4.3	4.3	4.7	4.2
Nominal Personal Income	4.3	4.5	4.5	4.3	3.8	4.1	4.3	4.6	4.4	4.4	4.2
Retail Sales Ex-Autos	5.2	6.3	6.5	3.9	3.1	2.7	2.7	3.9	4.7	5.5	3.1
Consumer Price Index	2.2	2.7	2.6	2.2	1.6	2.0	2.1	2.2	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	2.17	2.20	2.23	2.33	2.91	2.25

Forecast as of: June 12, 2019
Interst 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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