

U.S. Economic Outlook

A rate cut, now what?

The outlook for the second half of 2019 has changed very little in Visa’s updated U.S. economic forecast. Thematically, uncertainty is king: about how many rate cuts to expect from the Federal Reserve (likely one more in September), the government’s policy on trade (not expected to be resolved anytime soon) and about global economic growth. These uncertainties will likely weigh on 2H2019 U.S. economic activity. Real gross domestic product (GDP) growth is expected to average 2 percent over the next two quarters on an annualized basis, with consumer spending the primary support to this growth. Business investment should bounce back later this year, but only slightly. Soft global growth will continue to keep a lid on business investment.

With the release of the Q2 GDP data, 2018 GDP growth was revised lower to 2.9 percent. The downward revisions to 2018 data also pulled down the full year 2019 forecast. Should the 2H2019 forecast pan out, headline GDP growth would rise 2.3 percent this year before downshifting to 2.0 percent in 2020. At this late stage of the business cycle, the only key support to growth is consumer spending, which could reverse course quickly if consumer confidence begins to erode. Modest consumer spending should continue in the months ahead, but the potential for downside risk to the consumption and GDP forecasts is growing.

Key Takeaways

Uncertainty continues to hold back growth

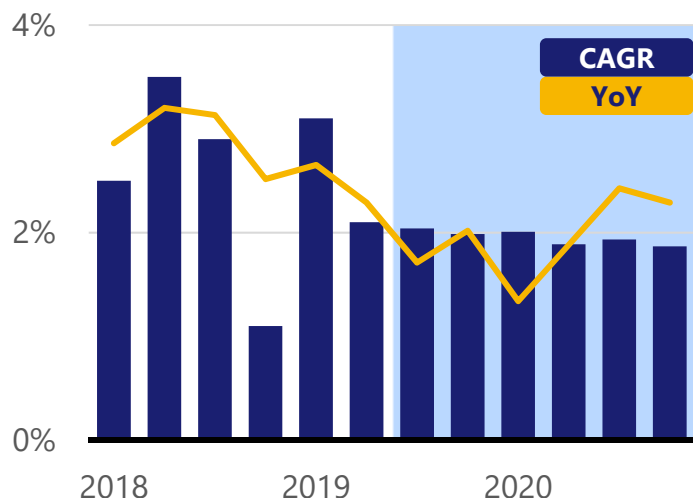
GDP growth is gradually downshifting

Wage growth appears to be accelerating

Trade tensions are back

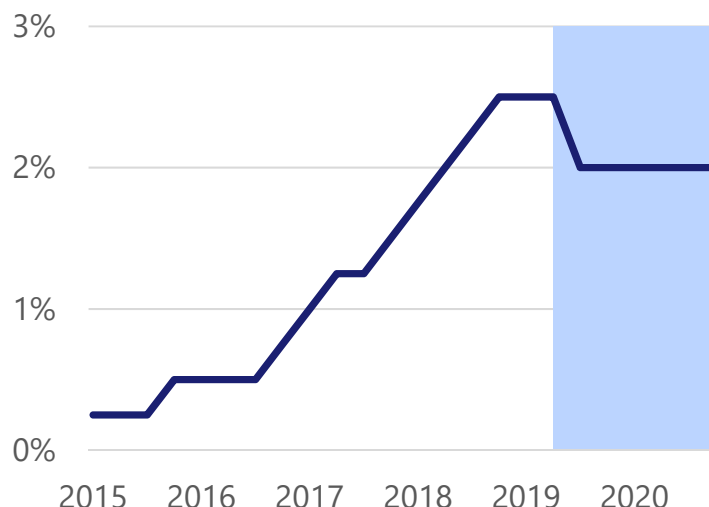
Real gross domestic product (SA, CAGR and YoY percent change)

Last forecast: August 2019



Federal fund rate forecast (Percent, upper bound)

Last forecast: August 2019



Source: Visa Business and Economic Insights, U.S. Department of Commerce and Federal Reserve Board

A rate cut, now what? (cont.)

Is 4.3 percent consumer spending sustainable?

The robust consumer spending in Q2 is in part a bounce back from the meager 1.1 percent pace in Q1. That said, the consumer should continue to drive economic growth. Wage growth data was heavily revised and now shows an impressive 5.3 percent year-over-year (YoY) growth rate as of June. However, there are signs of some softness. Consumers continue to feel less optimistic about future economic conditions and the overall trend for total personal income growth has downshifted this year now that the tax cut effects are beginning to wear off. While 4 percent plus consumer spending is not sustainable, modest growth in the 2.3 percent range is more realistic.

What's next after the Fed's rate cut?

As widely expected, the Fed cut rates at its July policy meeting, marketing the move as insurance against the slowing manufacturing sector and a way to help spur inflation domestically, which has been running below its 2 percent target. We do not expect much turnaround in global growth later this year to spark business investment. Given that inflation is also not expected to bounce back, the Fed will likely cut rates once more in September. Even with two rate cuts this year, it is highly unlikely that these moves by the Fed will do much to reverse current trends. Until there is some resolution to global trade tensions, global investment is likely to be stuck in low gear.

Key risks to the outlook

On August 1, President Trump announced another round of tariffs against China that will go into effect on September 1. This is expected to apply a 10 percent tariff to an additional \$300 billion in goods imported from China, on top of the existing 25 percent tariffs on \$250 billion of goods previously enacted. Combined, these tariffs essentially capture nearly all goods being imported from China. Inflation will likely creep slightly higher over the coming quarters. In addition, the news of more tariffs started another equity market sell-off, which in the past has coincided with a downturn in consumer confidence. Given how much U.S. growth depends on consumer spending, any prolonged drop in confidence could be enough to slow the economy dramatically.



Visa's U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2018				2019				2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	2.5	3.5	2.9	1.1	3.1	2.1	2.0	2.0	2.4	2.9	2.3	2.0
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.3	2.5	2.2	2.6	3.0	2.5	2.3
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-0.6	2.4	1.2	4.4	6.4	3.0	1.5
Equipment	6.6	3.4	2.9	7.4	-0.1	0.7	2.8	1.0	4.7	6.8	2.4	1.0
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	4.7	4.0	3.8	3.7	7.4	7.7	3.8
Structures	12.1	11.0	-2.1	-9.0	4.0	-10.6	-5.0	-3.0	4.7	4.1	-3.3	-2.2
Residential Construction	-5.3	-3.7	-4.0	-4.7	-1.0	-1.5	1.6	2.2	3.5	-1.5	-1.9	1.6
Government Purchases	1.9	2.6	2.1	-0.4	2.9	5.0	2.1	2.0	0.7	1.7	2.4	2.1
Net Exports Contribution to Growth (%)	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2
InVENTORY Change Contribution to Growth (%)	0.1	-1.2	2.1	0.1	0.5	-0.9	-0.3	0.0	0.0	0.1	0.2	-0.1
Nominal Personal Consumption (YoY % Chg.)	4.8	5.5	5.8	4.6	3.9	4.0	3.8	4.2	4.4	5.2	4.0	4.3
Nominal Personal Income	5.6	5.8	5.9	4.9	4.6	4.9	5.1	5.4	4.7	5.6	5.0	4.2
Retail Sales Ex-Autos	5.3	6.3	6.4	3.9	3.0	3.3	3.4	4.7	5.0	5.5	3.6	4.3
Consumer Price Index	2.2	2.7	2.6	2.2	1.6	1.8	1.9	2.4	2.1	2.4	2.0	2.0
Federal Funds Rate (Upper Bound)	1.75	2.00	2.25	2.50	2.50	2.50	2.00	2.00	1.25	2.13	2.25	2.00
Prime Rate	4.75	5.00	5.25	5.50	5.50	5.50	5.00	5.00	4.10	4.90	5.25	5.00
10-Year Treasury Yield	2.74	2.85	3.05	2.69	2.41	2.00	2.02	2.05	2.33	2.91	2.12	2.16

Forecast as of: August 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 analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and Federal Reserve Board

Forward Looking Statements

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