

# U.S. Economic Outlook

**December 2019**

## Here we go again...

Economic data this month continues to reflect a bifurcated economy, with the business side of the economy still showing signs of softness while economic data related to the consumer side of the economy continues to point towards solid growth. As we noted in our Holiday Sales Outlook, the U.S. economy faces some key risks this month. In addition to a possible federal government shutdown, yet-to-be-resolved trade issues have the potential to cause shocks in both the equity markets and business and consumer confidence. Sound familiar? Last year, this exact combination of a government shutdown and trade tension-induced equity market sell-off led to a disappointing end to the 2018 holiday shopping season.

Our forecast (P.2) assumes a government shutdown is avoided but does not assume a complete resolution to ongoing trade issues between the U.S. and China. As such, our fourth quarter gross domestic product (GDP) growth estimate reflects growth of 1.5 percent. Real consumer spending should rise 2.2 percent on an annualized basis in Q4 before accelerating in the first half of 2020. Business investment will remain soft, rising just 0.3 percent for the quarter.

### Key Takeaways

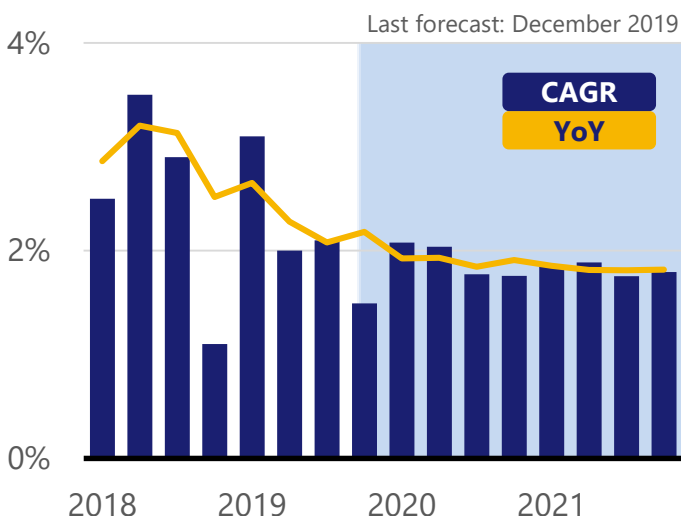
**Slower Q4 GDP growth**

**Consumer fundamentals remain solid**

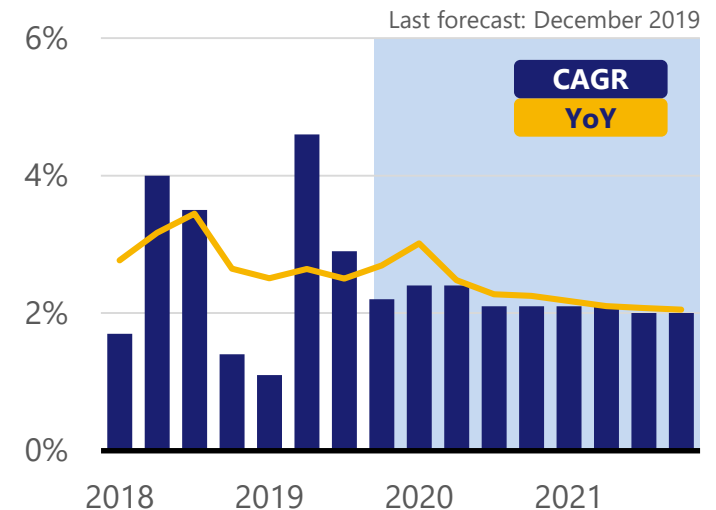
**The Fed is likely on hold for a while**

**Expect trade issues to weigh on the outlook**

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



**Real consumer spending (SA, CAGR and YoY\* percent 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

## Here we go again...(cont.)

### What is in store for consumer spending in 2020?

November's employment report showed an impressive gain of 266,000 jobs for the month and continued growth of 3.1 percent YoY in average hourly earnings. We suspect these job gains and wage growth should help to lift real consumer spending to a 2.4 percent annualized basis in the first and second quarters of 2020 before downshifting to 2.1 percent in the third and fourth quarters of the year. In nominal terms, we expect consumer spending to rise 4.6 percent in 2020, up from 4.1 percent in 2019. Higher inflation readings will be the key factor that helps to lift nominal spending higher for the year. The Fed's preferred measure of inflation, the personal consumption expenditure (PCE) deflator, is expected to rise 1.9 percent in 2020, up from just 1.4 percent this year.

### Expect the Fed to remain on hold

Following the strong November employment report the Federal Open Market Committee (FOMC) of the Federal Reserve left rates unchanged at its December policy meeting. As we turn the page into 2020, we expect the FOMC to remain on hold for the near future. With inflation edging back towards the Fed's 2 percent target and modest economic growth continuing, we see little impetus for the Fed to change the stance of monetary policy in 2020.

With few changes to short-term interest rates, we expect the yield curve to continue to steepen. The 10-year Treasury yield should end this year around 1.80 and end 2020 around 1.96. The spread between the 10-year Treasury yield and the 3-month T-bill rate should widen to 36 basis points by the end of 2020. The modestly higher longer term interest rates along with continued global economic uncertainty will both serve to keep business investment modest.

### Key risks to the outlook

It is still possible that the federal government will shut down this month. Congress kicked the can and funded the government through Dec. 20 in order to buy more time for a larger budget deal. Progress has been slow, but our forecast assumes that Congress will provide at least a short-term funding bill to avoid a shutdown. The second key risk is on the trade front. Starting Dec. 15, tariffs are set to rise on consumer goods imported from China. The U.S. and China have been working towards a phase I agreement, but nothing formal has been announced as of yet. If this next round of tariffs is allowed to go into effect, an equity market sell-off is likely. This would have an adverse effect on consumer confidence in the final weeks of the holiday shopping season.

## Visa's U.S. Economic Forecast

|   | Actual |       |       |       | Forecast |      |      |      | Actual |      |      |      | Forecast |      |      |      |
|---|--------|-------|-------|-------|----------|------|------|------|--------|------|------|------|----------|------|------|------|
|   | 2019   |       |       |       | 2020     |      |      |      | 2018   | 2019 | 2020 | 2021 | 2018     | 2019 | 2020 | 2021 |
|   | Q1     | Q2    | Q3    | Q4    | Q1       | Q2   | Q3   | Q4   |        |      |      |      |          |      |      |      |
| Gross Domestic Product (CAGR)               | 3.1    | 2.0   | 2.1   | 1.5   | 2.1      | 2.0  | 1.8  | 1.8  | 2.9    | 2.3  | 1.9  | 1.8  |          |      |      |      |
| Personal Consumption                        | 1.1    | 4.6   | 2.9   | 2.2   | 2.4      | 2.4  | 2.1  | 2.1  | 3.0    | 2.6  | 2.5  | 2.1  |          |      |      |      |
| Business Fixed Investment                   | 4.4    | -1.0  | -2.7  | 0.3   | 1.1      | 1.9  | 2.0  | 2.0  | 6.4    | 2.2  | 0.6  | 2.0  |          |      |      |      |
| Equipment                                   | -0.1   | 0.8   | -3.8  | 0.5   | 1.6      | 2.2  | 2.2  | 2.0  | 6.8    | 1.6  | 0.9  | 1.8  |          |      |      |      |
| Intellectual Property Products              | 10.8   | 3.6   | 5.1   | 4.5   | 4.0      | 4.2  | 3.8  | 3.8  | 7.4    | 7.7  | 4.2  | 3.6  |          |      |      |      |
| Structures                                  | 4.0    | -11.1 | -12.0 | -12.0 | -6.0     | -3.5 | -2.5 | -2.0 | 4.1    | -4.8 | -7.2 | -1.0 |          |      |      |      |
| Residential Construction                    | -1.0   | -3.0  | 5.1   | 3.5   | 2.0      | 2.2  | 2.2  | 2.5  | -1.5   | -1.6 | 2.4  | 2.5  |          |      |      |      |
| Government Purchases                        | 2.9    | 4.8   | 1.6   | 1.3   | 1.3      | 1.3  | 1.1  | 1.1  | 1.7    | 2.2  | 1.5  | 1.1  |          |      |      |      |
| Net Exports Contribution to Growth (%)      | 0.7    | -0.7  | -0.1  | 0.0   | -0.2     | -0.2 | -0.2 | -0.2 | -0.3   | -0.3 | -0.2 | -0.2 |          |      |      |      |
| Inventory Change Contribution to Growth (%) | 0.5    | -0.9  | 0.2   | -0.5  | 0.1      | 0.0  | 0.0  | -0.1 | 0.1    | 0.2  | -0.1 | 0.0  |          |      |      |      |
| Nominal Personal Consumption (YoY % Chg.)   | 3.9    | 4.1   | 3.9   | 4.3   | 5.0      | 4.3  | 4.5  | 4.5  | 5.2    | 4.1  | 4.6  | 4.2  |          |      |      |      |
| Nominal Personal Income                     | 4.6    | 4.7   | 4.4   | 4.3   | 3.7      | 3.4  | 3.5  | 4.1  | 5.6    | 4.5  | 3.7  | 3.9  |          |      |      |      |
| Retail Sales Ex-Autos                       | 3.0    | 3.4   | 3.7   | 4.3   | 4.7      | 3.8  | 3.4  | 4.2  | 5.4    | 3.6  | 4.0  | 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  | 1.75  | 1.75     | 1.75 | 1.75 | 1.75 | 2.13   | 2.19 | 1.75 | 1.75 |          |      |      |      |
| Prime Rate                                  | 5.50   | 5.50  | 5.00  | 4.75  | 4.75     | 4.75 | 4.75 | 4.75 | 4.90   | 5.19 | 4.75 | 4.75 |          |      |      |      |
| 10-Year Treasury Yield                      | 2.41   | 2.00  | 1.68  | 1.80  | 1.84     | 1.88 | 1.92 | 1.96 | 2.91   | 1.97 | 1.90 | 2.06 |          |      |      |      |

Forecast as of: December 12, 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

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook,” “forecast,” “projected,” “could,” “expects,” “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise.

## Disclaimer

Studies, survey results, research, recommendations, opportunity assessments, claims, etc. (the ‘Statements’) should be considered directional only. The Statements should not be relied upon for marketing, legal, regulatory or other advice. The Statements should be independently evaluated in light of your specific business needs and any applicable laws and regulations. Visa is not responsible for your use of the Statements, including errors of any kind, or any assumptions or conclusions you might draw from their use.

For more information, please visit us at  
[Visa.com/Economicinsights](https://www.visa.com/Economicinsights) or [Visa.com/Travelinsights](https://www.visa.com/Travelinsights).