Visa Business and Economic Insights

U.S. Economic Outlook

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A weak start, but growth to rebound in 2019

Looking in the rear view mirror at first quarter gross domestic product (GDP), the economy was on weaker footing than our estimate for 1.9 percent (annualized) growth suggests. For starters, real consumer spending likely rose just 0.5 percent for the quarter as spending on durable goods such as auto sales decelerated. Business investment likely remained modest in Q1 at around 4 percent, with continued spending on research and development and equipment purchases. The downshift in consumption and investment over the last two quarters resulted in a faster pace of inventory building and far fewer imports, both of which boosted GDP growth in the first quarter, even with the soft consumer spending.

Looking ahead to the second quarter, Visa's April U.S. economic forecast continues to show that growth will likely pick up to around 2.5 percent in Q2 as consumer spending rebounds. Much like the past several years, growth will likely be strongest in the second and third quarters of this year. GDP is expected to grow 2.5 percent in 2019 following last year's 2.9 percent pace, with nominal consumer spending rising 4.3 percent. After accounting for inflation, consumer spending will likely be lower this year—2.3 percent—than last year's 2.6 percent pace. Slightly softer auto sales account for at least some of the slower spending expected this year.

Key Takeaways

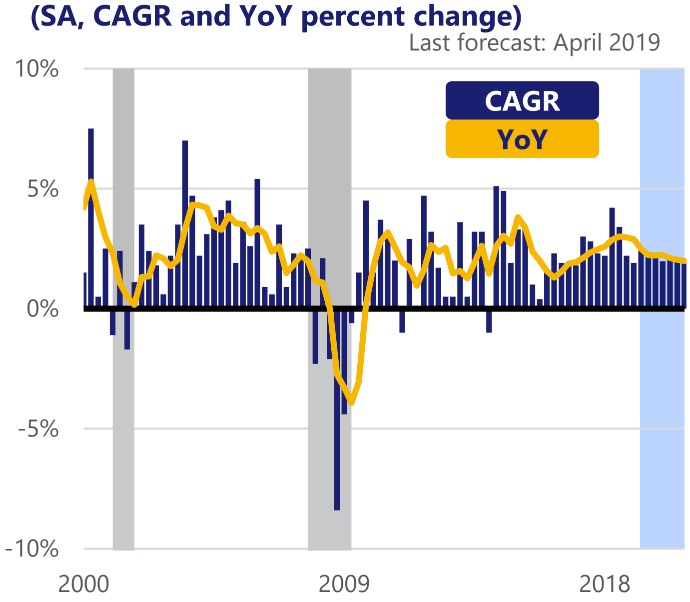
Softer first quarter growth should give way to stronger growth in Q2

Durable goods spending slowed in Q1

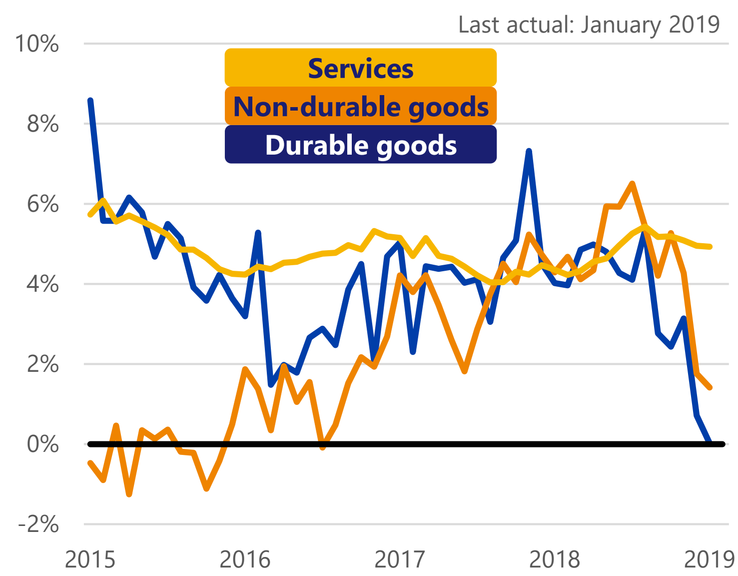
Lower interest rates should help spending

Higher gasoline prices pose a risk to growth

Real GDP growth forecast (SA, CAGR and YoY percent change)



Consumer spending (nominal, YoY)



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

A weak start, but growth to rebound in 2019

Growth bouncing back in Q2

While the final few economic data points on first quarter are still pending, focus is shifting to the second quarter. Will growth rebound? If the March employment report is an indication, the answer is yes. Employers added 196,000 jobs for the month and the unemployment rate held steady at 3.8 percent. More importantly, average hourly earnings, remained robust at 3.2 percent on a year-over-year (YoY) basis and the average work week continued to rise, suggesting that employers are asking their existing workers to do more. Beyond the longer hours and positive wage growth trends, inflation remains modest and lower interest rates are helping to provide support to the housing market during the busy spring home buying season. Outside the consumer sector, GDP growth is expected to get a boost in the middle of the year as delayed federal spending during the partial government shutdown takes place.

Will lower interest rates stick around?

Stock market volatility reemerged in March, sending longer-term interest rates lower. The good news is that the equity markets have bounced back and interest rates remain lower, at least for now. The key U.S. 10-year Treasury will likely hover around 2.5-3.0 percent through the end of this year. The lower 10-year rate will also help to keep mortgage rates lower.

Mortgage applications are already increasing as a result of the lower rates, and this will likely continue. Thus, the current interest rate environment is yet another catalyst for higher consumer spending in Q2 and beyond.

Key risks to the outlook

While near-term trends are positive, there are downside risks to the outlook. Gasoline prices typically rise this time of year, but supply disruptions have resulted in higher prices earlier in the year. If sustained, this could lead to higher inflation and slower real consumer spending growth later this year.

U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast
	2018				2019						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
Gross Domestic Product (CAGR)	2.2	4.2	3.4	2.2	1.9	2.5	2.3	2.1	2.2	2.9	2.5
Personal Consumption	0.5	3.8	3.5	2.5	0.5	3.0	2.6	2.4	2.5	2.6	2.3
Business Fixed Investment	11.5	8.7	2.5	5.4	4.0	3.8	4.1	3.9	5.3	6.9	4.3
Equipment	8.5	4.6	3.4	6.6	3.4	3.7	4.1	4.0	6.1	7.4	4.2
Intellectual Property Products	14.1	10.5	5.6	10.7	6.0	5.5	5.2	4.7	4.6	7.5	6.8
Structures	13.9	14.5	-3.4	-3.9	0.0	1.0	2.0	2.0	4.6	5.0	0.2
Residential Construction	-3.4	-1.3	-3.6	-4.7	1.0	3.8	3.0	2.8	3.3	-0.3	0.0
Government Purchases	1.5	2.5	2.6	-0.4	2.4	3.5	2.6	2.2	-0.1	1.5	2.1
Net Exports Contribution to Growth (%)	0.0	1.2	-2.0	-0.1	0.0	-0.5	-0.4	-0.4	-0.3	-0.2	-0.4
Inventory Change Contribution to Growth (%)	0.3	-1.2	2.3	0.1	0.3	-0.3	-0.2	-0.2	0.0	0.1	0.3
Nominal Personal Consumption (YoY % Chg.)	4.3	4.9	5.2	4.5	3.9	4.2	4.4	4.6	4.3	4.7	4.3
Nominal Personal Income	4.3	4.5	4.5	4.6	4.2	4.3	4.4	4.2	4.4	4.5	4.3
Retail Sales Ex-Autos	5.1	6.3	6.5	3.9	2.9	2.4	2.2	3.9	4.7	5.4	2.8
Consumer Price Index	2.2	2.7	2.6	2.2	1.6	1.9	2.2	2.5	2.1	2.4	2.1
Federal Funds Rate (Upper Bound)	1.75	2.00	2.25	2.50	2.50	2.50	2.75	2.75	1.25	2.13	2.63
Prime Rate	4.75	5.00	5.25	5.50	5.50	5.50	5.75	5.75	4.50	5.50	5.63
10-Year Treasury Yield	2.74	2.85	3.05	2.69	2.41	2.67	2.89	3.09	2.33	2.91	2.77

Forecast as of: April 10, 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

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Forward Looking Statements

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