U.S. Economic Outlook

Even in balmy weather, hiring can freeze

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Meteorologists predict a mild La Niña winter in early 2023, but a chill might still permeate the economy.[1] According to Visa Business and Economic Insights, the odds of a recession are rising, and the first signs of stress have already materialized.

Recessions are felt most acutely in the labor market, with job losses inflicting tremendous hardship on American households. In a broad sense, the upcoming downturn—should it occur—will probably be no different, but the details could be unique. Economy-wide job losses are usually the result of two simultaneous trends: a sharp increase in layoffs and a meaningful downshift in hiring. In fact, an uptick in layoffs is often the first indication that a recession has begun. But in 2023, we expect layoffs to rise modestly, remaining well below average for a typical recession. Over the last two years, employee turnover has increased for many businesses, requiring firms to raise wages to retain talent.[2] Under these conditions, we expect companies to be reluctant to release their current employees. But we do anticipate widespread hiring freezes as firms look to manage costs in an increasingly uncertain environment. As such, the economy will probably lose jobs next year, but these losses could be smaller than during previous business cycles.

Any contraction in gross domestic product (GDP) should also be mild. We expect GDP to decline by 0.3 percent in Q1-2023 and 1.0 percent in Q2-2023. By contrast, it shrank by 8.5 percent at the trough of the Great Recession of 2008-2009 and plummeted by 30 percent during the Coronavirus Recession of 2020. Next year, construction is expected to be among the weakest sectors, with double-digit drawdowns in residential and non-residential activity. The consumer, by contrast, could be a bright spot. Due to minimal job losses and persistently high inflation, our forecast shows continued growth in consumer spending on a year-over-year basis.

Key Points:

- Recession risks are rising
- Job losses are expected to be lower than previous recessions
- Consumer spending is likely to remain a bright spot

Fig. 1: Real gross domestic product (GDP)
(SA, CAGR and YoY* percent change)

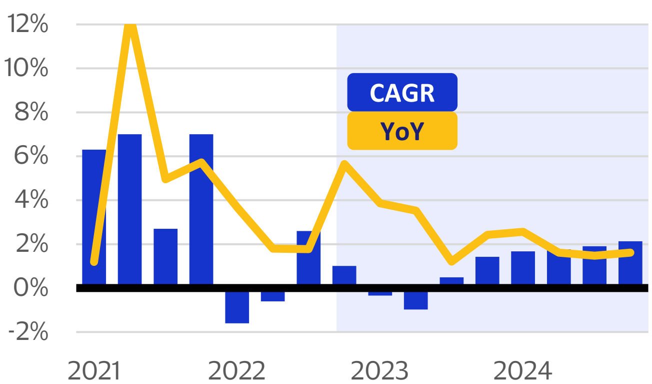
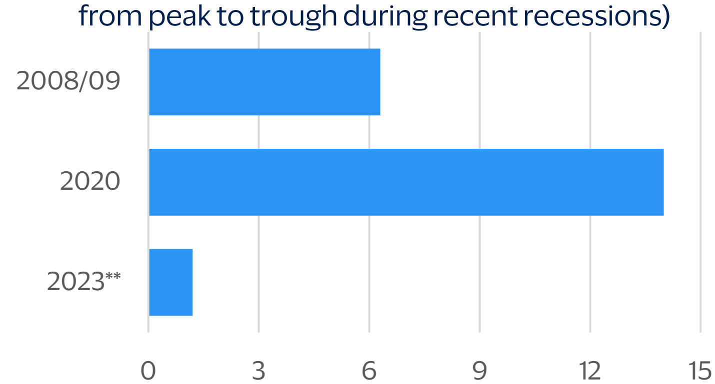


Fig. 2: Employment declines
(SA, percent change in total non-farm employment from peak to trough during recent recessions)



*Seasonally adjusted (SA), compound annualized growth rate (CAGR), year-over-year (YoY). **Expected
Sources: Visa Business and Economic Insights, U.S. Department of Commerce, U.S. Department of Labor.
[1] Visa Business and Economic Insights and U.S. Department of Commerce
[2] Visa Business and Economic Insights and U.S. Department of Labor

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Sector spotlight

If there is a recession in 2023, its impacts will be uneven across sectors. Construction is already in a major contraction, and this weakness is expected to persist into 2024. Residential construction activity is highly sensitive to interest rates. Virtually all construction projects are funded with loans, so when rates go up, a meaningful number of projects become unprofitable. In addition, when rates increase, homes become relatively more expensive, lowering demand for housing and introducing another headwind for construction. Interest rates are expected to remain elevated throughout our forecast horizon, and construction activity is likely to remain constrained.

The most high-profile impacts could be in the tech sector. Like construction projects, many technology companies rely on loans and investment capital, often for critical expenses like employee salaries. News reports—and stock prices—already indicate weakness in tech, and the odds of additional turmoil are elevated.

However, the impact on the consumer sector is likely to be mild. Inflation is rising faster than wages, leading some consumers to spend less on discretionary purchases and more on their core needs. But household debt obligations are historically low and excess savings are historically high, so even if the labor market weakens, year-over-year consumer spending will likely remain positive. By the end of 2023, our forecast expects nominal personal consumption expenditures (PCE) to increase by 3.7 percent from the previous year. Adjusted for inflation, growth will bottom out at 0.5 percent in the second quarter of next year, remaining positive throughout the forecast horizon.

Inflation and the Fed

Inflation isn't subsiding as fast as the Federal Reserve would like. As measured by the PCE Deflator, which is the Fed's preferred inflation gauge, prices are still rising by more than 6 percent on a year-over-year basis. The Fed's goal is 2 percent, and there is very little evidence that inflation is trending toward that goal in any meaningful manner. Early in the cycle, inflation was driven by a surge in the prices of goods. Now it is primarily a result of higher prices for services, with a side order of energy. In response, the Fed keeps raising interest rates at an exceptionally fast pace, including a fourth consecutive hike of 75 basis points at their November meeting. We expect an increase of 50 basis points in December, followed by another 50 in the first quarter of 2023. Beginning in the second half of next year, the Fed is likely to begin cutting rates, ultimately descending to 2.5 percent by the end of 2024.

Risks to the outlook

The risks are tilted to the downside. If inflation remains higher than we (and the Fed) expect, the federal funds rate could continue to increase, ultimately surpassing 6 percent. This would likely push mortgage rates above 8 percent and the prime rate above 9 percent, leading to a sharper slowdown in housing, construction, tech and other sectors that are sensitive to rates. Geopolitical risks have also re-entered the conversation. If the war in Ukraine escalates to include advanced weaponry, global commerce would likely be interrupted in a major way, and the U.S. economy could contract more sharply. The most prominent upside risk is a milder than expected labor market contraction. If there are fewer hiring freezes than anticipated, job losses could ultimately be very minimal.

	Actual			Forecast					Actual	Forecast		
	2022				2023				2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	-1.6	-0.6	2.6	1.0	-0.3	-1.0	0.5	1.4	5.9	1.9	0.4	1.4
Personal Consumption	1.3	2.0	1.4	1.2	-0.2	-0.5	1.6	2.7	8.3	2.6	0.7	2.2
Business Fixed Investment	7.9	0.1	3.7	1.5	-5.8	-7.4	-1.3	-0.2	6.4	3.4	-2.3	0.5
Equipment	11.4	-2.0	10.8	0.9	-7.5	-10.5	-0.7	1.1	10.3	4.6	-2.7	1.8
Intellectual Property Products	10.8	8.9	6.9	3.5	-2.0	-3.3	0.8	1.3	9.7	8.6	1.1	2.2
Structures	-4.3	-12.7	-15.3	-15.9	-12.1	-10.5	-9.5	-9.0	-6.4	-9.8	-12.5	-9.3
Residential Construction	-3.1	-17.8	-26.4	-25.0	-12.6	-9.9	-2.3	-1.1	10.7	-10.5	-15.1	-0.4
Government Purchases	-2.3	-1.6	2.4	1.3	1.3	1.8	1.5	1.2	0.6	-0.9	1.4	1.1
Net Exports Contribution to Growth (%)	-3.1	1.2	2.8	0.4	1.3	0.7	-1.4	-0.7	-1.3	-0.7	0.8	-0.5
Inventory Change Contribution to Growth (%)	0.2	-1.9	-0.7	-0.1	-0.4	-0.2	0.8	0.1	0.2	0.7	-0.3	0.1
Nominal Personal Consumption (YoY % Chg.)	11.5	9.2	8.4	7.8	6.4	4.8	4.1	3.7	12.7	9.2	4.7	4.3
Real Personal Consumption (YoY % Chg.)	4.8	2.4	2.0	1.5	1.1	0.5	0.5	0.9	8.3	2.6	0.7	2.2
Nominal Personal Income	-3.5	3.4	4.3	4.4	3.9	2.2	0.7	0.6	7.4	2.1	1.8	2.8
Retail Sales Ex-Autos	13.6	11.2	10.3	7.7	5.4	1.9	1.1	2.2	19.1	10.6	2.6	3.8
Consumer Price Index	8.0	8.6	8.3	8.2	7.0	5.1	4.7	3.6	4.7	8.3	5.1	2.5
Federal Funds Rate (Upper Bound)	0.50	1.75	3.25	4.50	5.00	5.00	4.75	4.25	0.25	2.50	4.75	2.88
Prime Rate	3.50	4.75	6.25	7.50	8.00	8.00	7.75	7.25	3.25	5.50	7.75	5.88
10-Year Treasury Yield	2.32	2.98	3.83	3.96	3.55	3.25	3.15	3.05	1.45	3.27	3.25	2.94

Forecast as of: November 10, 2022

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.

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Accessibility notes

Figure 1: Bar chart showing quarter-over-quarter compound annual growth rate of real gross domestic product (GDP). The chart begins in 2021-Q1 at 6.3 percent, falls to -1.6 percent in 2022-Q1, and rises to 2.6 percent in 2022-Q3. The chart shows a recession beginning with a decline of 0.3 percent in 2023-Q1 and another decline of 1.0 percent in 2023-Q2. GDP then rises throughout the remainder of 2023 and 2024, ending with 2.1 percent in 2024-Q4. The bar chart is overlaid with a line chart showing the year-over-year change in real GDP. The line starts in 2021-Q1 at 1.2 percent, rises to 12.0 percent in 2022-Q2, then descends to 1.8 percent by 2022-Q2. The line increases to 5.7 percent in 2022-Q4 before gradually descending to 1.6 percent by 2024-Q4.

Figure 2: Horizontal bar chart showing the year-over-year percent change in total non-farm employment during the 2008-2009 recession, 2020 recession, and expected 2023 recession. From peak to trough, employment declined by 6.3 percent in 2008-2009, 14.0 percent in 2020, and is expected to decline by 1.2 percent in 2023.