

U.S. Economic Outlook

January 14, 2021

Georgia on my mind...

As we start the new year, several key data points and events are influencing our forecast revisions this month. First, as a result of the Georgia Senate election run-off on January 5, Democrats will control both chambers of Congress and the White House; we had assumed Congress would be divided. For this reason, we have upwardly revised our estimate of GDP growth this year to reflect another round of fiscal stimulus (in addition to the package passed last month) and tax policy changes beginning in 2022. Outside of fiscal policy, the virus case surge and the adverse affects on growth and consumer spending have been far worse than we assumed. Consumer spending growth in Q4 of 2020 and Q1 of this year were revised downward as a result. Incoming economic data, including the December jobs report, reflected the quick loss of momentum in the economic recovery.

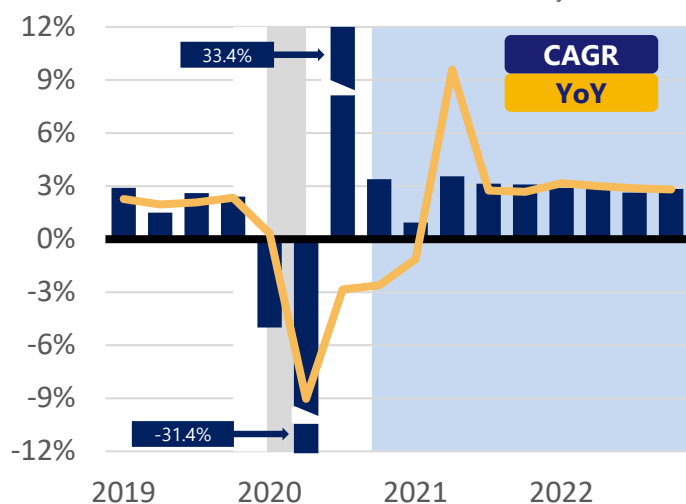
Now that the books are closed on 2020, we estimate fourth quarter GDP growth to be 3.4 percent (annualized). The loss of momentum in Q4 will translate into a softer 0.9 percent annualized rate of GDP growth for Q1, with real consumer spending contracting outright. Full-year GDP growth for this year is expected to rise 3.3 percent following an estimated 3.5 percent contraction in GDP growth in 2020. We continue to forecast stronger growth in the second half of this year as a vaccine becomes more widely available and consumer confidence begins to more meaningfully recover.

Key Takeaways

Economy losing momentum
Fiscal policy should support growth
Consumer spending now likely to contract in Q1
Long-term interest rates rising

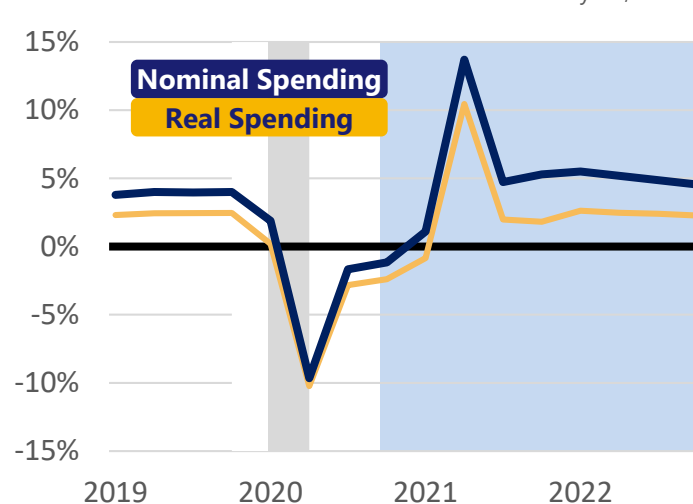
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: January 14, 2021



Nominal and real consumer spending (SA, YoY* percent change)

Last actual: January 14, 2021



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

Georgia on my mind...(cont.)

Georgia changes our fiscal policy outlook

Following the Georgia Senate run-off, we now know the new Congress will be controlled by Democrats with a very slim 51-vote majority in the Senate (with Vice President-elect Harris serving as the tie-breaking vote). The narrow majority will likely limit, but not prevent, major policy changes. As a result, we now expect another round of fiscal stimulus with as much as \$2,000 stimulus checks, further enhanced unemployment insurance benefits, and aid to state and local governments getting passed before the end of Q1. We have upwardly revised our forecast for government spending at the federal, state and local levels.

We have also increased our forecast for personal income growth as the stimulus effects of both December's stimulus package and the likely new package boost Q1 income from government transfer payments. Even with the stimulus effects, real consumer spending is still expected to contract in Q1. In the absence of stimulus, we would likely see an even greater contraction in spending for the quarter. Beyond the near-term stimulus effects, we have built in corporate tax increases beginning in 2022, which will weigh on business investment and after-tax corporate profits.

Consumer spending recovery to slow in Q1

Economic data on the consumer sector for the final month of the year was disappointing, to say the least. Consumer confidence slid as state and local governments imposed further restrictions to contain surging COVID cases, and the economy experienced the first month of job loss since last April. All signs are pointing towards a significant loss of consumer spending momentum. Another headwind that will likely unfold later this year is inflation. Prices are expected to rise for consumers, thus opening up a gap between nominal and real consumer spending. The slower pace of consumer spending to start 2021 suggests that a full recovery in nominal consumer spending is not likely to occur until the second quarter of this year.

Long-term interest rates moving higher

One byproduct of the change in party control following the Georgia elections was a sharply higher 10-year Treasury rate. The upward move reflects the increased likelihood of another stimulus package along with higher federal government outlays over the next few years. Such programs are expected to result in greater federal debt issuance (greater supply). This led investors to price in higher longer-term interest rates.

Visa's U.S. Economic Forecast

	Actual				Forecast				Actual	Forecast			
	2020				2021				2019	2020	2021	2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Gross Domestic Product (CAGR)	-5.0	-31.4	33.4	3.4	0.9	3.6	3.1	3.1	2.2	-3.5	3.3	3.0	
Personal Consumption	-6.9	-33.2	41.0	3.4	-0.8	2.9	2.5	2.7	2.4	-3.8	3.2	2.4	
Business Fixed Investment	-6.7	-27.2	22.9	13.4	4.7	3.9	4.5	4.7	2.9	-4.0	5.8	4.8	
Equipment	-15.2	-35.9	68.2	22.2	10.3	5.7	5.4	4.9	2.1	-5.1	12.4	5.5	
Intellectual Property Products	2.4	-11.4	8.4	9.8	3.1	4.9	5.8	6.3	6.4	1.7	4.9	5.9	
Structures	-3.7	-33.6	-17.4	-11.0	-6.8	-3.7	-1.4	0.3	-0.6	-11.3	-9.5	0.5	
Residential Construction	19.0	-35.6	63.0	30.9	18.3	15.6	14.2	11.8	-1.7	5.8	19.2	11.2	
Government Purchases	1.3	2.5	-4.8	-2.0	0.8	1.5	2.1	2.5	2.3	1.0	0.0	2.6	
Net Exports Contribution to Growth (%)	1.1	0.6	-3.2	-2.0	-0.2	-0.1	-0.2	-0.4	-0.2	0.0	-1.2	-0.4	
Inventory Change Contribution to Growth (%)	-1.3	-3.5	6.6	1.1	0.2	0.2	0.0	0.0	0.0	-0.7	0.8	0.1	
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-1.7	-1.2	1.1	13.7	4.7	5.3	3.9	-2.7	6.0	5.0	
Nominal Personal Income	3.2	10.7	7.1	4.4	4.4	-2.1	1.2	3.5	3.9	6.3	1.7	3.2	
Retail Sales Ex-Autos	2.5	-7.5	3.2	3.6	4.3	14.6	2.6	3.3	3.4	0.5	5.9	3.6	
Consumer Price Index	2.1	0.4	1.2	1.3	1.4	2.9	2.4	3.0	1.8	1.2	2.4	2.5	
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.19	0.25	0.25	0.25	
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.28	3.54	3.25	3.25	
10-Year Treasury Yield	0.70	0.66	0.69	0.93	1.10	1.13	1.18	1.23	2.14	0.89	1.16	1.33	

Forecast as of: January 14, 2021

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.

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. Our forecast assumes the bulk of the negative effects of the COVID-19 outbreak will occur in the second quarter of this year with a gradual relaxing of social distancing guidelines over the second half of 2020.

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