



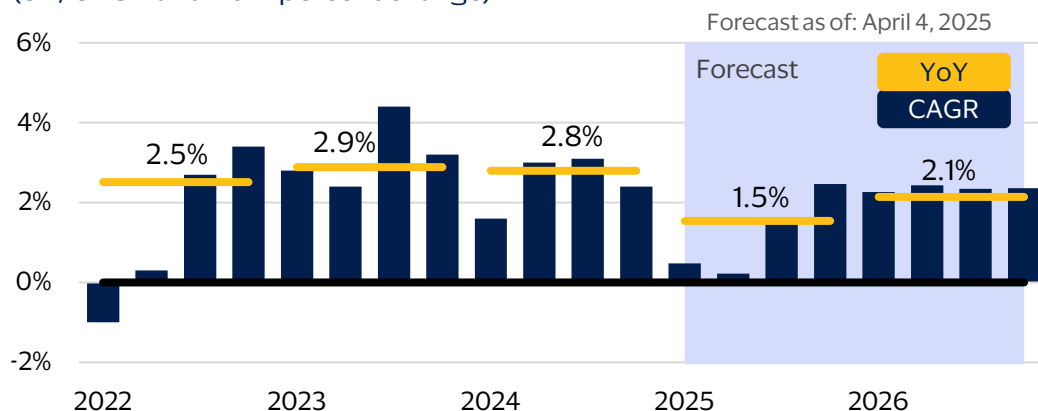
# U.S. Economic Outlook

## Tariff turbulence or economic tailspin?

Leading up to the administration's announcement of broad-based tariffs this month, the economic data was already showing signs of softness due, in part, to ongoing economic policy uncertainty. Following the announcements, which apply minimum tariffs of 10 percent on all U.S. imports and higher reciprocal tariff rates on 60 countries after a 90 day pause, we expect policy uncertainty to remain historically elevated, adversely impacting economic growth. To find the most likely path for economic growth going forward, **our latest forecast assumes the announced tariffs are temporary in nature and will gradually ease after three months** as bilateral negotiations unfold. This approach allows us to balance both the upside (tariffs are in place for less than three months) and downside (tariffs are in place for longer) to our forecast.

Given our tariff assumptions, we now see economic growth stalling out in the first half of this year. First-quarter GDP growth appears to have been soft due to weak consumer spending and a surge in imports, which subtract from growth. In the second half of the year, we suspect at least some of the tariffs will be pared back, which, along with rate cuts from the Federal Reserve, will support stronger economic growth. In our view, the Fed will trim rates twice this year in September and December, in both instances by 25 basis points. The short-term tariff hikes, however, have reduced our outlook for GDP growth for this year by 0.4 percentage points. We have boosted our inflation forecast this year, as measured by the PCE deflator, by 0.2 percentage points since our March update. GDP growth will likely expand 1.5 percent year-over-year (YoY) in 2025 and 2.1 percent in 2026. Importantly, core demand (which excludes the effects of trade and inventories) is expected to hold up this year, growing 2.0 percent YoY, down from 3.0 percent last year.

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



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

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### Key Points:

Economic growth to stall in H1 on new tariffs

The Fed expected to look past tariff noise

Business investment and trade to weigh on economic activity



## Tariffs to lead to trade trouble

As expected, the ramping up of tariffs has continued, with a 25 percent tariff on all imported autos as of April 3 that will expand to include imported auto parts starting May 3. In the short-term, this announcement contributed to stronger than expected light vehicle sales in March, as consumers pulled vehicle purchases forward. On April 2, the most expansive set of tariffs were announced, with 10 percent broad-based tariffs on goods from all countries except Canada and Mexico plus an additional set of reciprocal tariffs on 60 countries and the EU that will go into effect in 90 days. Additionally, imports from Canada and Mexico that are not compliant with the U.S.-Mexico-Canada-Agreement (USMCA) will carry a 25 percent tariff; two exceptions are energy and potash, which will carry a 10 percent tariff. While the reciprocal tariffs have specific carve-outs for certain goods such as pharmaceuticals, energy, lumber, semiconductors and copper, most imported goods are set to become significantly more expensive.

Calculating tariffs as a share of all imports, we estimate an effective tariff rate of roughly 23 percent based on the announcements to date (Fig. 2). The higher effective tariff rate is expected to dramatically slow imports, while the retaliatory response from other nations is likely to adversely impact exports and U.S. manufacturing activity. After subtracting from growth in the first quarter, net exports are likely to add to growth in Q2. The increase in economic and policy uncertainty is expected to weigh on business investment, which we see swinging from 7 percent (annualized) growth in Q1 of this year to a contraction of 2.8 percent in Q2. With tariff relief and rate cuts in the second half of the year, we suspect business investment will turn positive.

## Projected impacts on consumer spending

Tariffs can directly impact consumer spending through increasing the price of imported goods, which has the potential to lift overall inflation rates. Imported goods

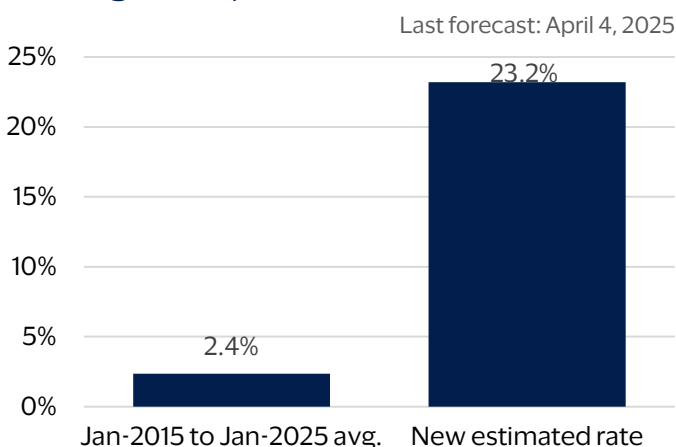
account for just 11 percent of the typical U.S. consumer shopping basket, according to research from the Federal Reserve of San Francisco. Using this finding as input to our analysis and assuming a three-month tariff window, we see most acute inflation pressures in Q2 and Q3 of this year. We expect the PCE deflator to top out at 3.1 percent on a YoY basis in Q3. Core prices, which exclude food and energy, are expected to rise to 3.4 percent in Q3, up from an estimated 2.7 percent in Q1.

We also expect some secondary effects from the tariffs and the retaliatory response from other nations to begin weighing on hours worked and the overall rate of job growth in the middle of the year, particularly in the manufacturing sector. These labor market factors, when combined with higher inflation, are likely to reduce the real (inflation-adjusted) spending power of consumers. Real disposable income growth is expected to slow to just 0.2 percent on a YoY basis by the fourth quarter. Nominal consumer spending will likely hold up, rising 4.6 percent YoY this year as the effects of higher inflation offset the slowdown in real spending (Fig. 3). With the slowdown in real income growth, real consumption growth will likely slow to 1.7 percent this year from 2.8 percent in 2024. With some marginal increase in tax cuts next year and lower interest rates, nominal consumer spending should rise 4.3 percent with real growth accounting for 2 percent of the growth.

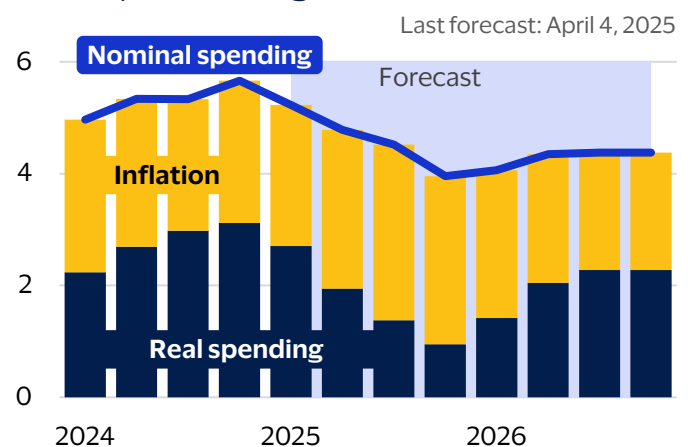
## Risks to the outlook are wide-ranging

Our baseline assumption of tariffs remaining in effect for a three-month period in our view balances both the upside and downside risks to the outlook. Should the tariffs remain in effect longer than we assume, then we would expect higher inflation and lower real consumer spending and GDP growth. Conversely, should the administration lift the tariffs sooner, we would expect softer inflation readings and stronger economic growth than we currently project. We will continue to refine our tariff assumptions as policymakers make their decisions.

**Fig. 2: Weighted average effective tariff rate**  
(Share of goods imports)



**Fig. 3: Consumer spending and inflation forecast**  
(SA, YoY percent change)





	2023				2024				2025				2026				2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2025	2026
Gross Domestic Product (CAGR)	2.8	2.4	4.4	3.2	1.6	3.0	3.1	2.4	0.5	0.2	1.6	2.5	2.3	2.4	2.3	2.4	2.8	2.1
Personal Consumption	4.9	1.0	2.5	3.5	1.9	2.8	3.7	4.0	0.3	-0.2	1.4	2.3	2.2	2.3	2.3	2.3	2.8	2.0
Business Fixed Investment	5.3	9.9	1.1	3.8	4.5	3.9	4.0	-3.0	7.0	-2.8	0.0	1.5	2.2	2.6	2.9	3.0	3.6	1.7
Equipment	0.9	12.5	-1.1	0.7	0.3	9.8	10.8	-8.7	14.5	-6.5	-1.0	0.8	1.3	1.7	2.0	2.2	3.4	0.6
Intellectual Property Products	4.5	3.9	2.8	5.2	7.5	0.7	3.1	-0.5	4.4	2.0	2.8	3.3	3.6	4.0	4.3	4.1	3.9	3.5
Structures	14.9	16.4	1.7	6.5	6.3	0.2	-5.0	2.9	0.2	-6.0	-4.1	-1.1	1.0	1.1	1.4	2.0	3.5	-0.4
Residential Construction	-4.3	4.5	7.7	2.5	13.7	-2.8	-4.3	5.5	1.5	-1.5	0.7	1.1	2.0	2.2	2.6	3.0	4.2	1.6
Government Purchases	5.1	2.9	5.7	3.6	1.8	3.1	5.1	3.1	1.6	2.3	2.0	1.7	1.6	1.6	1.5	1.4	3.4	1.7
Exports	2.0	-4.8	4.9	6.2	1.9	1.0	9.6	-0.2	10.0	-2.0	-8.0	-1.0	1.0	1.4	1.6	2.0	3.3	-1.2
Imports	-0.8	-3.1	4.7	4.2	6.1	7.6	10.7	-1.9	25.0	-16.0	-7.0	-2.0	0.8	1.0	1.3	1.6	5.3	-1.7
Net Exports	-926.0	-929.6	-938.9	-936.7	-977.0	-1035.7	-1069.2	-1052.7	#####	-1,119.3	-1,061.1	-1,094.1	#####	#####	#####	#####	-1,033.6	#####
Contribution to Growth (%)	0.3	-0.1	-0.1	0.1	-0.6	-0.9	-0.4	0.3	-2.5	1.4	0.2	0.2	0.0	0.0	0.0	0.0	-0.4	0.1
Inventory Change	20.6	-0.2	67.2	44.6	17.7	71.7	57.9	8.9	85.0	30.0	34.0	40.0	45.0	52.0	53.0	54.0	39.0	51.0
Contribution to Growth (%)	-2.2	-0.1	1.3	-0.5	-0.5	1.1	-0.2	-0.8	1.3	-0.9	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0
Nominal GDP (CAGR)	6.6	4.3	7.7	4.8	4.7	5.6	5.0	4.8	3.8	4.1	4.5	4.3	4.1	4.9	4.4	4.2	6.6	4.4
Real Final Sales to Domestic Purchasers (CAGR)	4.6	2.6	3.1	3.5	2.7	2.8	3.7	3.0	2.4	-0.2	1.3	2.1	2.1	2.2	2.3	2.3	3.0	1.9
Nominal Personal Consumption (Yr/Yr % Chg.)	7.8	6.1	5.9	5.9	5.0	5.3	5.3	5.7	5.2	4.8	4.5	4.0	4.1	4.3	4.4	4.4	6.4	4.3
Real Personal Consumption (Yr/Yr % Chg.)	2.6	2.2	2.4	3.0	2.2	2.7	3.0	3.1	2.7	1.9	1.4	1.0	1.4	2.0	2.3	2.3	2.5	2.0
Retail Sales (Yr/Yr % Chg.)	5.1	1.9	3.4	3.7	1.9	2.4	2.3	3.8	3.4	2.7	1.9	1.0	2.1	3.0	3.4	3.4	3.5	3.0
Retail Sales Ex-Autos (Yr/Yr % Chg.)	6.0	1.5	2.8	3.3	2.1	3.1	2.6	3.1	3.3	2.4	1.7	1.3	1.9	2.7	3.1	3.4	3.4	2.8
Consumer Confidence	104.5	105.4	109.0	102.7	106.3	98.9	102.2	110.6	99.4	81.7	88.0	93.3	102.0	108.0	113.7	117.0	104.5	110.2
Light Vehicle Sales (Mil. Units, SAAR)	15.1	15.7	15.6	15.6	15.5	15.6	15.6	16.5	16.4	15.4	15.3	15.5	15.8	16.1	16.4	16.7	15.5	16.3
Inflation (Yr/Yr % Chg.)																		
PCE Deflator	5.0	3.9	3.4	2.8	2.7	2.6	2.3	2.5	2.4	2.8	3.1	3.0	2.6	2.3	2.1	2.1	3.8	2.2
Core PCE Deflator	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.8	2.7	3.2	3.4	3.3	3.0	2.5	2.2	2.1	4.1	2.4
Consumer Price Index	5.8	4.0	3.5	3.2	3.2	3.2	2.6	2.7	2.7	2.6	3.0	3.2	2.6	2.2	2.1	2.0	4.1	2.2
Core Consumer Price Index	5.6	5.2	4.4	4.0	3.8	3.4	3.2	3.3	3.1	3.3	3.6	3.6	3.2	2.5	2.2	2.1	4.8	2.5
Brent Crude Spot Price (\$)	82.16	77.73	85.92	82.85	81.76	85.03	78.71	74.01	74.98	68.00	69.00	70.00	71.00	69.00	67.00	66.00	82.18	68.25
Income Measures (Yr/Yr % Chg.)																		
Nominal Personal Income	6.6	6.6	5.5	5.1	5.9	5.5	5.0	5.0	4.4	4.2	4.0	3.5	3.5	3.7	4.0	4.2	5.9	3.8
Nominal Disposable Income	10.1	10.3	8.3	7.6	6.1	5.4	4.8	4.7	4.1	3.8	3.6	3.2	3.1	3.5	4.1	4.2	9.0	3.7
Real Disposable Income	4.8	6.1	4.8	4.6	3.4	2.8	2.5	2.2	1.6	1.0	0.5	0.2	0.5	1.2	2.0	2.1	5.1	1.4
Labor Market (Averages)																		
Nonfarm Payroll (1,000s)	278	233	154	199	196	133	133	209	152	128	132	149	151	149	150	150	216	150
Unemployment Rate (%)	3.5	3.5	3.7	3.8	3.8	4.0	4.2	4.1	4.1	4.3	4.3	4.2	4.2	4.2	4.1	4.1	3.6	4.2
Housing Market (Mil. Units)																		
Housing Starts (Annualized)	137	146	138	148	141	134	133	139	140	134	135	135	137	139	141	143	142	140
Existing Home Sales (Annualized)	4.27	4.17	4.06	3.91	4.14	4.02	3.94	4.16	4.13	4.09	4.16	4.23	4.30	4.35	4.41	4.46	4.09	4.38
Corporate Profits Before Taxes (Yr/Yr % Chg.)	8.7	3.8	4.8	10.5	8.2	10.8	6.0	6.9	3.2	2.1	2.8	3.0	4.4	5.5	6.3	6.5	6.93	5.70
Corporate Profits After Taxes (Yr/Yr % Chg.)	9.0	3.9	3.8	10.4	8.6	10.8	5.9	6.8	3.0	1.9	2.7	2.9	4.3	5.4	6.2	6.4	6.73	5.60
Federal Budget Balance (Bil. of \$, Fiscal Year)	-680	-292	-302	-510	-555	-209	-559	-711	-436	-170	-672	-587	-695	-185	-731	-610	-1,695	-2,198
Fed. Reserve Trade Weighted Dollar Index <sup>(1)</sup>	114.64	114.44	117.83	112.81	116.49	117.88	112.81	121.45	117.54	117.00	116.50	116.00	115.50	115.00	114.50	114.00	114.93	114.75
Interest Rates (Quarter End)																		
Federal Funds Rate (Upper Bound)	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.00	4.00	3.75	3.75	3.50	5.31	3.75
Prime Rate	8.00	8.25	8.50	8.50	8.50	8.50	8.00	7.50	7.50	7.50	7.25	7.00	7.00	6.75	6.75	6.50	8.20	6.75
3-Month T-Bill Rate	4.85	5.43	5.55	5.40	5.46	5.48	4.73	4.37	4.32	4.20	3.92	3.75	3.70	3.58	3.49	3.27	5.28	3.51
2-Year Treasury Note	4.06	4.87	5.03	4.23	4.59	4.71	3.66	4.25	3.89	3.59	3.30	3.09	3.03	2.88	2.82	2.63	4.58	2.84
10-Year Treasury Yield	3.48	3.81	4.59	3.88	4.20	4.36	3.81	4.58	4.23	3.96	3.93	3.90	3.86	3.81	3.76	3.71	3.96	3.79
30-Year Fixed Mortgage Rate <sup>(2)</sup>	6.54	6.71	7.20	6.82	6.82	6.92	6.18	6.72	6.65	6.28	6.20	6.13	6.01	5.94	5.85	5.78	6.80	5.90
3M/10Y Spread	-1.37	-1.62	-0.96	-1.52	-1.26	-1.12	-0.92	0.21	-0.09	-0.24	0.01	0.15	0.16	0.23	0.27	0.44	-1.32	0.28
2Y/10Y Spread	-0.58	-1.06	-0.44	-0.35	-0.39	-0.35	0.15	0.33	0.34	0.37	0.63	0.81	0.83	0.93	0.94	1.08	-0.62	0.95

Forecast as of: April 4, 2025

Note: Annual numbers represent year-over-year percent changes and annual averages

(1) For Advanced Foreign Economies

(2) Freddie Mac Primary Mortgage Market Survey

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



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