



Visa Business and Economic Insights

U.S. Economic Outlook

Key Points:

- Elevated gas prices push consumer inflation higher for longer
- Real incomes to pressure consumer spending
- Rate cuts now off the table for this year

Persistently elevated oil prices set to keep inflation higher for longer

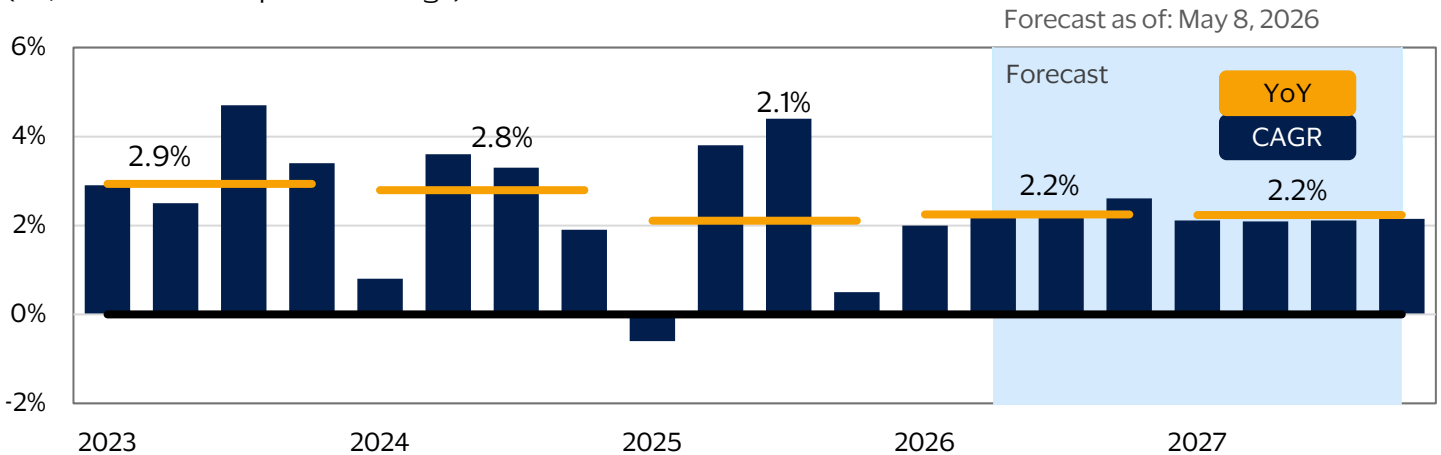
The ongoing conflict in the Middle East has now reached a sufficient duration, in our view, to have a more sustained impact on the inflation outlook. Over the last couple of months, we assumed the conflict would be short lived. This month we have once again revised this view and expect the conflict to last through early summer. While we think most of the upside to oil prices has subsided, it will likely take some time for traffic to begin moving through the Strait of Hormuz and for oil production to recover enough to rebuild global inventories. As a result, we now see oil and gasoline prices remaining elevated through at least Q3 of this year, resulting in higher inflation for longer.

This revised set of assumptions has a few material impacts on our outlook for this year and next. For starters, we now see inflation peaking around 3.9 percent on a year-over-year (YoY) basis this quarter as measured by the PCE deflator. The duration of elevated oil and gas prices has also led us to upwardly revise core

inflation, which excludes food and energy prices, suggesting that higher energy prices will be passed on through other consumer goods as well. The good news is that the labor market still appears to be on solid footing. With higher headline and core inflation and job growth continuing, we no longer expect any interest rate cuts from the Federal Reserve this year and expect only one 25-basis-point cut in late 2027.

Higher inflation also has the effect of taking a bite out of consumer spending as real (inflation-adjusted) income growth is expected to reach stall speed towards the middle of this year, weighing on real consumer spending. We now expect the economy to grow 2.2 percent YoY this year, down from our estimate of 2.5 percent last month. Inflation pressures should ease next year, which should help lift real income growth once again, but only modestly. We are not expecting much change in next year's growth outlook, with GDP likely expanding at the same 2.2 percent pace as this 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

Contributors: **Wayne Best**
Chief Economist
wbest@visa.com

Michael Brown
Principal U.S. Economist
michael.brown@visa.com

W. Travis Clark
U.S. Economist
wiclark@visa.com

Middle East conflict hits manufacturing

The recent conflict in the Middle East has been a significant driver of higher prices for manufacturing firms, with prices paid by purchasing managers at manufacturing firms hitting their highest level in 4 years (Fig. 2). High prices due to persistently high fuel costs and supply constraints from the lack of shipments through the Strait of Hormuz are likely to continue to increase pressure on manufacturing firms’ profitability in the coming months.

The recent conflict has gone beyond pushing up fuel prices. It has also pressured supply chains, leading to a decline in the supply of fertilizers, petrochemicals, plastics, industrial metals, and specialty industrial gases such as helium. Higher costs for these inputs are likely to weigh on capital investment for not just manufacturing firms, but also firms in the construction, freight, tech and agricultural sectors. As a result of these supply chain constraints, we have downwardly revised our outlook for business equipment and real estate investment, as well as business inventories through the rest of this year. Additionally, we expect high fuel costs and supply chain disruptions to put downward pressure on corporate profit growth through the rest of this year.

The oil price shock stemming from the ongoing conflict in the Middle East will also likely have an outsized impact on global trade. Foreign firms are facing the same kind of price pressures domestic ones are, and as a result we expect that U.S. demand for foreign goods and global demand for U.S. goods will be softer this year than we previously expected. We expect that U.S. capital goods exports will see the most significant impact of this waning demand, as foreign manufacturing firms are likely to struggle more to keep up with rising prices. We anticipate that the negative impact to U.S. capital goods exports will lead to a bigger negative impact on U.S. exports than U.S. imports. As a result, the current forecast reflects our expectation that net exports will subtract from overall GDP growth this year.

The “real” income squeeze set to impact spending

On the surface, consumer spending and the factors that support it seem solid. The economy added 115,000 jobs in April, marking the first time we have seen back-to-back job gains for two months in a row since last year. Slightly larger tax refunds helped lift after-tax (disposable) incomes, partly boosting consumer income growth. While the labor market and income growth trends point towards continued nominal consumer spending, concerns are rising over the impact to inflation-adjusted, or real, spending as gasoline prices remain elevated for a second month in a row.

In this month’s update, we have further raised our outlook for inflation and now expect elevated price growth to last through at least the first half of this summer. The byproduct, in our view, will be a marked downshift in real income growth (Fig. 3). Real after-tax income growth is expected to slow from 1.1 percent YoY in Q1 this year to just 0.4 percent in Q2 and Q3. As a result, we have revised our real consumer spending forecast lower, with consumption slowing from 2.4 percent in Q1 to just 1.8 percent by the fourth quarter of this year.

The interest rate outlook is about to get boring

Along with the material changes to our inflation and economic growth outlook this month, we have once again revised our expectations for interest rate cuts from the Federal Reserve. Our base case now calls for the next 25-basis-point rate cut from the Fed to occur in Q3 of next year. By that time, we project that inflation will once again begin to trend lower, justifying a rate cut. As we continue to reiterate in our monthly updates, the duration of the conflict continues to be the key determinant of the impact to the U.S. economy. Should supply disruptions continue beyond this summer, it is entirely possible that rate hikes might once again be on the table as a tool for helping to contain inflation.

Fig. 2: Manufacturing purchasing manager price index (NSA, Index base = 50)

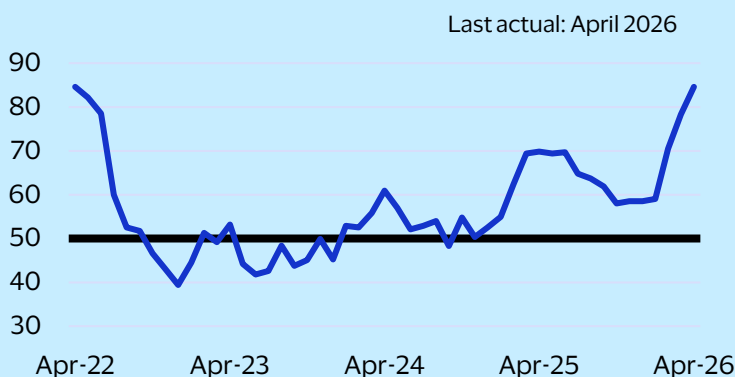
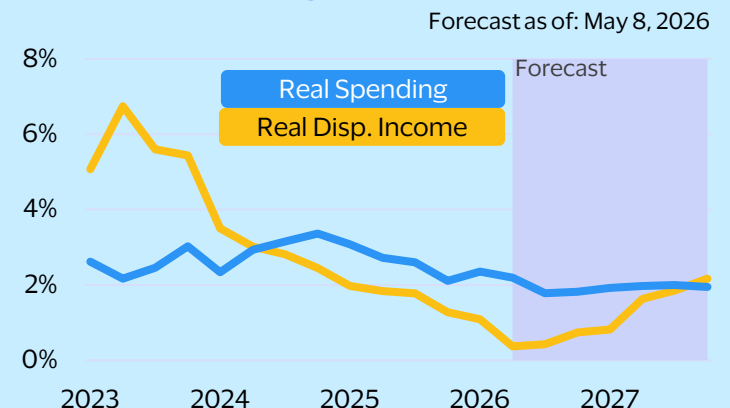


Fig. 3: Inflation-adjusted income and spending growth (SA, YoY percent change)



Sources: Visa Business and Economic Insights, Institute for Supply Management and U.S. Department of Commerce

	2024				2025				2026				2027				2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	0.8	3.6	3.3	1.9	-0.6	3.8	4.4	0.5	2.0	2.3	2.3	2.6	2.1	2.1	2.1	2.2	2.8	2.1	2.2	2.2
Personal Consumption	1.7	3.9	4.0	3.9	0.6	2.5	3.5	1.9	1.6	1.8	1.8	2.1	2.0	2.0	1.9	1.9	2.9	2.6	2.0	2.0
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.4	10.4	7.2	4.8	4.8	3.9	3.8	3.6	3.6	2.9	4.1	6.1	4.3
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.2	4.3	17.2	7.2	5.5	4.4	4.2	4.0	3.8	3.7	3.5	8.3	8.5	4.5
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.6	5.4	13.0	8.9	8.0	7.5	5.4	5.1	4.8	4.6	3.5	5.6	9.0	6.1
Structures	-5.0	-3.9	-2.2	-8.1	-3.1	-7.5	-5.0	-6.5	-6.7	-7.7	-5.3	-2.0	-1.3	-0.8	-0.2	0.3	1.1	-5.3	-6.2	-2.0
Residential Construction	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-7.1	-1.7	-8.0	-6.7	-4.8	-1.2	-0.8	-0.4	0.5	0.9	3.2	-2.2	-5.5	-1.4
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-5.6	4.4	1.5	1.0	1.1	1.1	1.2	1.2	1.3	3.8	1.1	0.7	1.2
Exports	4.6	0.7	8.9	-0.9	0.2	-1.8	9.6	-3.2	12.9	-9.2	1.1	4.2	3.0	3.3	3.2	3.4	3.6	1.6	2.1	2.3
Imports	6.9	8.4	10.1	-0.2	38.0	-29.3	-4.4	-1.0	21.4	-1.3	1.4	2.2	2.0	2.2	2.4	2.6	5.8	2.7	1.9	1.9
Net Exports	-96.4	-10.32	-10.64	-10.69	-1,380.7	-10,580	-955.5	-968.7	-1,067.5	-1,126.9	-1,119.8	-1,120.2	-1,188.7	-1,117.3	-1,118.5	-1,120.2	-1,032.6	-1,090.7	-1,108.8	-1,118.7
Contribution to Growth (%)	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	-0.2	-1.3	-0.9	-0.1	0.1	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.1	0.0
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-23.9	-15.6	-7.5	25.0	45.0	54.0	50.0	44.0	45.0	48.0	43.5	28.5	29.1	46.8
Contribution to Growth (%)	-0.8	1.2	-0.1	-0.9	2.6	-3.4	-0.1	0.1	0.4	0.5	0.3	0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.1
Nominal GDP (CAGR)	4.0	6.3	5.1	4.3	2.9	6.0	8.3	4.2	5.6	7.9	4.7	5.0	4.3	3.9	3.9	4.2	5.3	5.0	6.0	4.6
Real Final Sales to Domestic Purchasers (CAGR)	2.0	3.4	3.8	2.8	1.4	2.4	2.8	0.6	2.8	3.7	1.9	2.2	2.1	2.1	2.0	2.0	3.1	2.4	2.4	2.2
Nominal Personal Consumption (Yr/Yr % Chg.)	5.2	5.7	5.6	6.0	5.7	5.2	5.4	5.0	5.5	6.2	5.7	5.6	5.1	4.2	4.1	4.0	5.6	5.3	5.7	4.3
Real Personal Consumption (Yr/Yr % Chg.)	2.3	2.9	3.2	3.4	3.1	2.7	2.6	2.1	2.4	2.2	1.8	1.8	1.9	2.0	2.0	1.9	2.9	2.6	2.0	2.0
Retail Sales (Yr/Yr % Chg.)	1.8	2.5	2.3	3.9	4.5	4.3	4.4	3.0	3.7	5.3	4.8	5.4	5.0	3.5	3.3	3.2	2.6	4.0	4.8	3.8
Retail Sales Ex-Autos (Yr/Yr % Chg.)	2.0	3.2	2.6	3.3	4.2	3.9	4.2	3.7	4.5	5.8	5.2	5.3	4.7	3.1	3.1	3.0	2.8	4.0	5.2	3.5
Consumer Confidence	106.3	98.9	102.2	110.6	99.8	93.1	97.4	94.2	90.7	91.9	95.7	99.0	102.0	105.0	108.0	111.0	104.5	96.1	94.3	106.5
Light Vehicle Sales (Mil. Units, SAAR)	15.5	15.7	15.7	16.4	16.4	16.2	16.6	15.7	15.4	16.0	16.1	16.0	16.0	16.1	16.3	16.2	15.9	16.2	15.9	16.1
Inflation (Yr/Yr % Chg.)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	3.1	3.9	3.8	3.7	3.1	2.2	2.1	2.0	2.6	2.6	3.6	2.3
Core PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.9	3.1	3.5	3.4	3.3	2.8	2.1	2.0	2.1	2.9	2.8	3.3	2.2
Consumer Price Index	3.2	3.2	2.6	2.7	2.7	2.4	2.9	2.7	2.7	3.8	3.7	4.2	3.7	2.1	2.0	1.9	2.9	2.7	3.6	2.4
Core Consumer Price Index	3.8	3.4	3.2	3.3	3.1	2.8	3.1	2.7	2.5	2.8	2.8	3.2	2.8	2.2	1.9	1.9	3.4	2.9	2.9	2.2
Brent Crude Spot Price (\$)	81.76	85.03	78.71	74.01	74.98	66.71	68.17	63.08	78.38	101.00	92.00	80.00	77.00	76.00	75.00	73.00	79.86	68.19	87.84	75.25
Income Measures (Yr/Yr % Chg.)																				
Nominal Personal Income	5.9	5.7	5.4	5.4	5.1	4.8	5.0	4.6	4.0	4.0	3.8	3.9	3.9	3.9	4.0	4.1	5.6	4.9	3.9	4.0
Nominal Disposable Income	6.4	5.8	5.3	5.1	4.6	4.3	4.5	4.1	4.2	4.3	4.3	4.5	4.0	3.9	3.9	4.2	5.6	4.4	4.3	4.0
Real Disposable Income	3.5	3.0	2.8	2.4	2.0	1.8	1.8	1.3	1.1	0.4	0.4	0.7	0.8	1.6	1.8	2.2	2.9	1.7	0.7	1.6
Labor Market (Averages)																				
Nonfarm Payroll (1,000s)	203	76	72	135	20	34	23	-39	63	72	42	31	25	20	25	28	122	10	52	25
Unemployment Rate (%)	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.3	4.3	4.3	4.5	4.4	4.3	4.2	4.2	4.0	4.3	4.4	4.3
Housing Market (Mil. Units)																				
Housing Starts (Annualized)	1.42	1.34	1.34	1.39	1.40	1.35	1.35	1.32	1.42	1.33	1.33	1.34	1.34	1.34	1.35	1.35	1.37	1.36	1.36	1.35
Existing Home Sales (Annualized)	4.11	4.03	3.95	4.12	4.09	4.01	4.05	4.16	4.04	4.02	4.08	4.13	4.25	4.34	4.43	4.48	4.06	4.06	4.08	4.38
Corporate Profits Before Taxes (Yr/Yr % Chg.)	4.6	7.4	2.9	5.5	6.4	3.6	9.3	9.6	10.7	6.6	3.7	4.4	4.4	4.0	4.0	4.4	5.10	7.25	6.27	4.21
Corporate Profits After Taxes (Yr/Yr % Chg.)	3.8	6.1	1.4	4.4	7.5	4.8	10.8	10.2	11.7	7.6	4.7	3.4	3.4	3.0	3.0	3.4	3.90	8.36	6.74	3.20
Federal Budget Balance (Bil. of \$, Fiscal Years)	-555	-209	-544	-711	-596	-30	-438	-602	-566	-267	-641	-637	-663	-163	-653	-695	-1,817	1,775	-2,076	-2,115
Fed. Reserve Trade Weighted Dollar Index ⁽¹⁾	116.37	117.71	112.63	121.27	117.74	109.73	111.05	111.19	113.03	110.00	110.50	110.50	110.50	110.50	110.50	110.50	116.99	112.43	111.01	110.50
Interest Rates (Quarter End)																				
Federal Funds Rate (Upper Bound)	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.50	5.13	4.25	3.75	3.63
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.50	7.25	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	8.31	7.37	6.75	6.63
3-Month T-Bill Rate	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.70	3.65	3.61	3.57	3.52	3.46	3.32	3.29	5.18	4.21	3.63	3.40
2-Year Treasury Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.79	3.77	3.65	3.62	3.58	3.53	3.42	3.38	4.37	3.81	3.71	3.48
10-Year Treasury Yield	4.00	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.30	4.32	4.28	4.25	4.22	4.18	4.10	4.08	4.21	4.29	4.29	4.15
30-Year Fixed Mortgage Rate ⁽²⁾	6.82	6.92	6.18	6.72	6.65	6.82	6.35	6.20	6.18	6.26	6.21	6.17	6.11	6.04	5.92	5.88	6.72	6.60	6.20	5.99
3M/10Y Spread	-1.26	-1.12	-0.92	0.21	-0.09	-0.17	0.14	0.51	0.60	0.67	0.67	0.68	0.70	0.72	0.78	0.79	-0.97	0.09	0.66	0.75
2Y/10Y Spread	-0.39	-0.35	0.15	0.33	0.34	0.52	0.56	0.71	0.51	0.55	0.63	0.63	0.64	0.65	0.68	0.70	-0.16	0.48	0.58	0.67

Forecast as of: May 8, 2026

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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Visa Business and Economic Insights Team

Wayne Best, Chief Economist
wbest@visa.com

Simon Baptist, Principal
Asia Pacific Economist
sbaptist@visa.com

Mohamed Bardastani, Principal
CEMEA Economist
mbardast@visa.com

Michael Brown, Principal U.S.
Economist
michael.brown@visa.com

Adolfo Laurenti, Principal
European Economist
laurenta@visa.com

Richard Lung, Principal Global
Economist
rlung@visa.com

Dulguun Batbold, Senior Global
Economist
dbatbold@visa.com

Weiwen Ng, Senior Global
Economist
weiweng@visa.com

Joel Virgen Rojano, Senior LAC
Economist
jvirgenr@visa.com

Jennifer Doettling, Senior
Director, Content and Editorial
jdoettli@visa.com

Minakshi Barman,
Asia Pacific Economist
mbarman@visa.com

Barsali Bhattacharyya,
Asia Pacific Economist
barbhatt@visa.com

Travis Clark, U.S. Economist
wiclark@visa.com

Hannah Heeran, European
Economist
heeranh@visa.com

Sean Windle, U.S. Economist
swindle@visa.com

Ashton Sein
Associate U.S. Economist
asein@visa.com

Jen Petosky, Analyst,
Content and Editorial
jepetosk@visa.com

Juliana Tang, Project Coordinator
jultang@visa.com

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