

Is the sun setting on the U.S. economy and small businesses?

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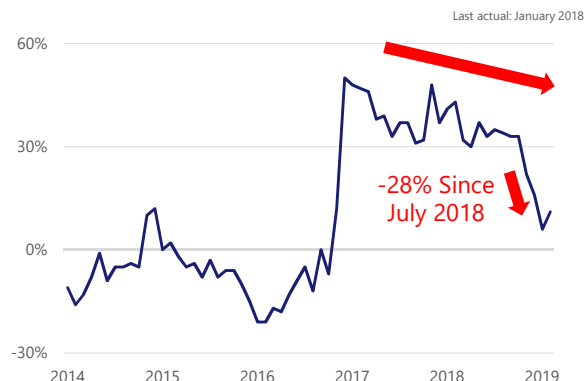
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Small business optimism declined dramatically in the second half of 2018

NFIB Small Business Optimism
(1986 = 100)



Percent of firms expecting the economy to improve



Why? It's the economy

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Source: National Federation of Independent Business (NFIB), Visa Business and Economic Insights

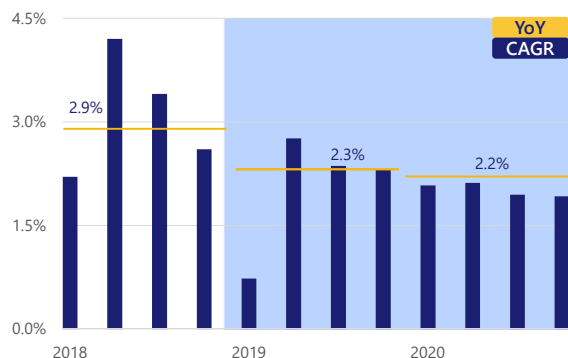
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U.S. fundamentals remain strong in 2019 and 2020

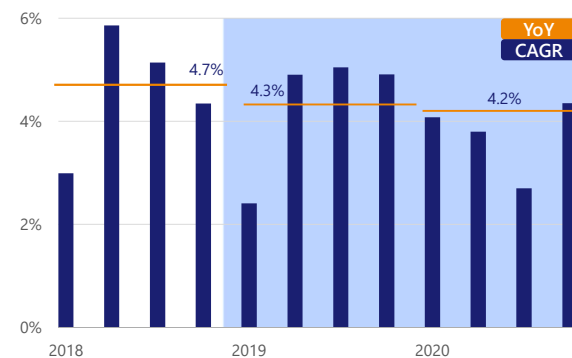
Real GDP and likely real GDP forecast

Year-over-year percent change, compound annualized growth rate
Last forecast: March 2019



Nominal consumer spending

Year-over-year percent change, compound annualized growth rate
Last forecast: March 2019



We forecast a gradual deceleration in growth through the end of 2020

5 Source: Visa Business and Economic Insights and U.S. Bureau of Economic Analysis

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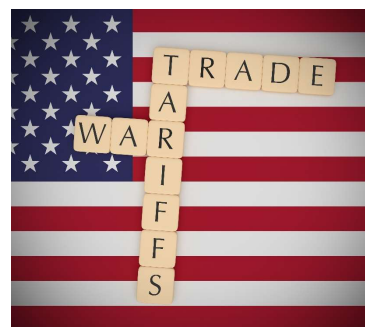
Where do we stand on trade issues?



The new NAFTA agreement (USMCA) still needs to be approved by each country's legislature—changes may still occur



The 10% tariff on \$200 billion in Chinese goods remains in place and the increase to 25% is on hold for now



The global steel and aluminum tariffs remain in place

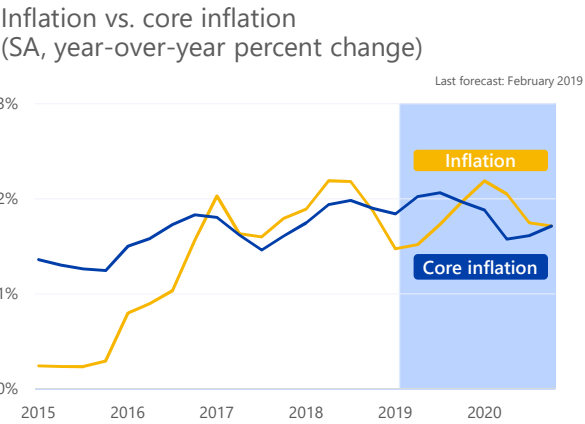
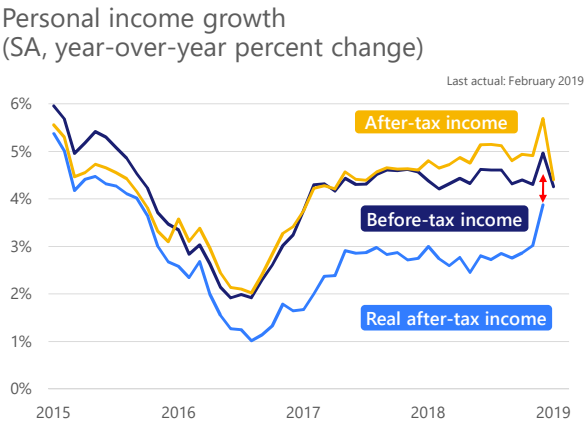
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The tax cuts helped to boost after-tax income



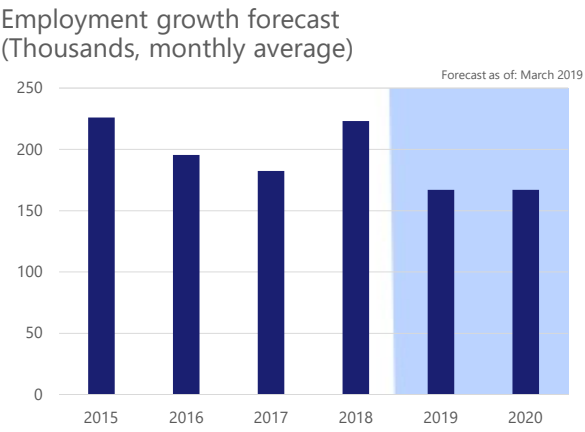
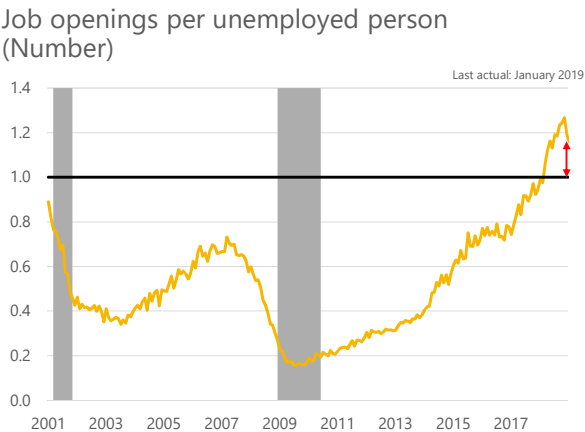
But there was little overall effect after accounting for inflation

7 Sources: Visa Business and Economic Insights, U.S. Bureau of Economic Analysis and U.S. Department of Commerce

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The labor market remains very tight



There are now more job openings than available workers

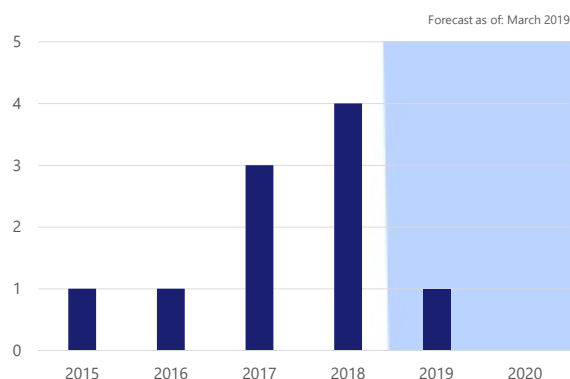
8 Sources: Visa Business and Economic Insights and U.S. Bureau of Labor Statistics

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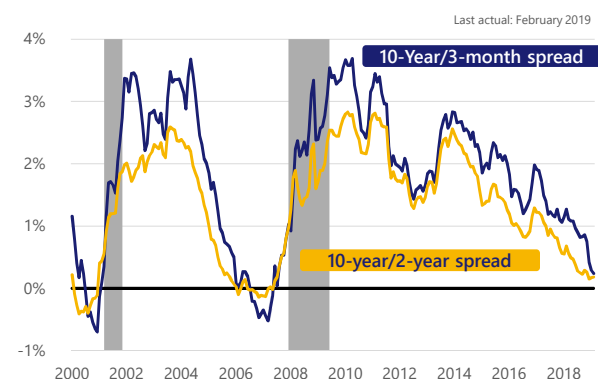


The current interest rate hiking cycle is nearing an end

Federal funds rate hikes (number per year)



10-year U.S. Treasury spreads (percent)



The Federal Reserve will likely be more cautious with rate hikes going forward

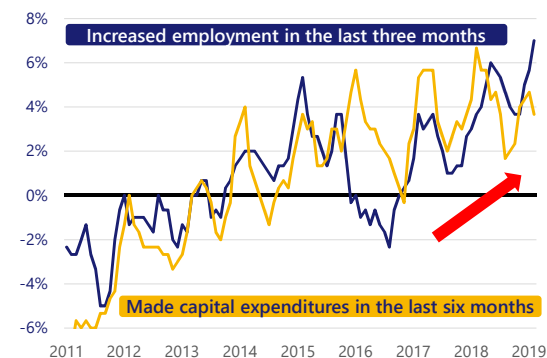
9 Sources: Visa Business and Economic Insights and Federal Reserve Board

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Despite drops in optimism, small businesses continue to expand

Percent of small businesses increasing employment and capital expenditures (Three-month moving average)



Percent of small businesses reporting some type of expansion

33%

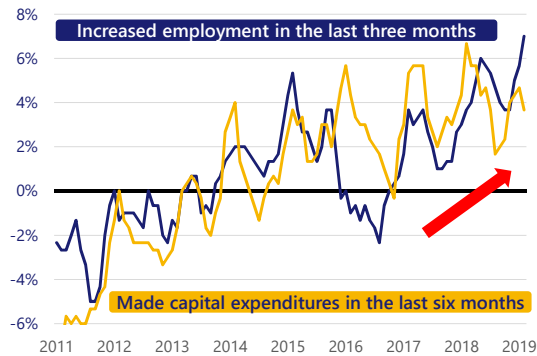
10 Sources: Visa Business and Economic Insights; Visa Small Business Outlook; NFIB

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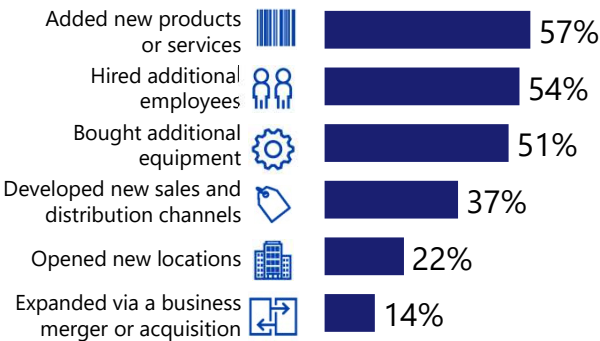
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Despite drops in optimism, small businesses continue to expand

Percent of small businesses increasing employment and capital expenditures (Three-month moving average)



Type of expansion among businesses reporting expansion



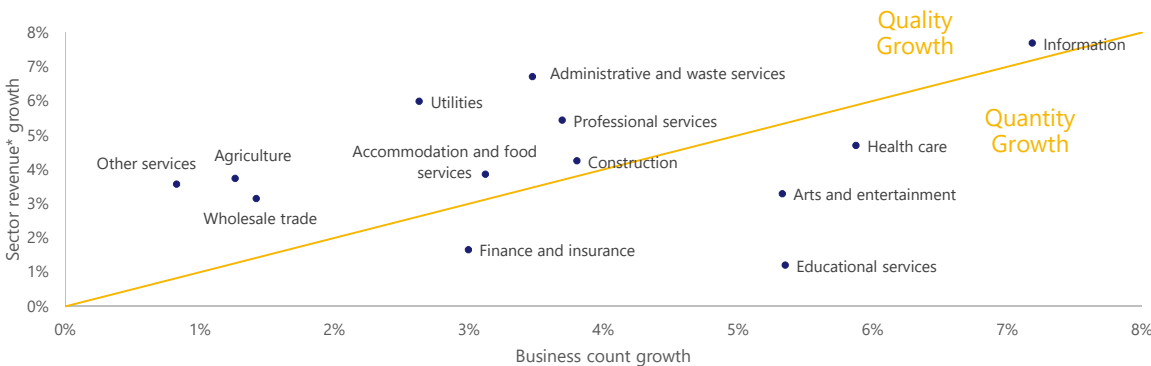
Small businesses are hiring and investing to create new products/capabilities

11 Sources: Visa Business and Economic Insights; Visa Small Business Outlook; NFIB

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Which industries are expanding?

Business count growth vs sector revenue growth (YoY, 2017)



Most industries are experiencing quality growth

12 *Revenues measured by GDP by sector Sources: Visa Business and Economic Insights; BLS, BEA

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Risks from the next recession

The death of economic growth is greatly exaggerated

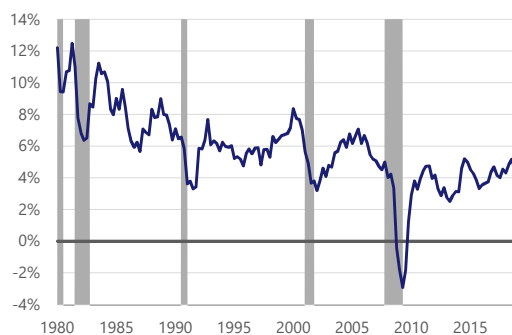
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The nature of the next downturn

Nominal personal spending
(Year-over-year percent change)

Last actual: 4Q2018



Look for a 2001-style, balance sheet recession

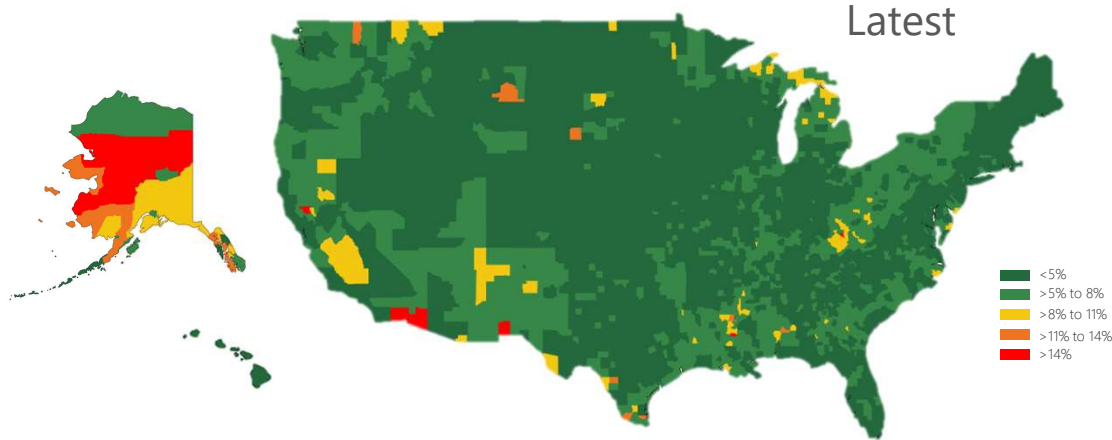
- Signs of stress likely begin with corporate debt markets
- Affects business investment disproportionately
- Equity markets sell-off, consumer confidence falls
- Consumer spending contracts but nothing like 2008
- Due to demographics, we may see less movement in labor market indicators (jobless claims, unemployment rate)
- Business credit suffers more than consumer credit markets but both are affected

14 Source: Visa Business and Economic Insights, U.S. Bureau of Economic Analysis

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The current situation

Unemployment rate by county

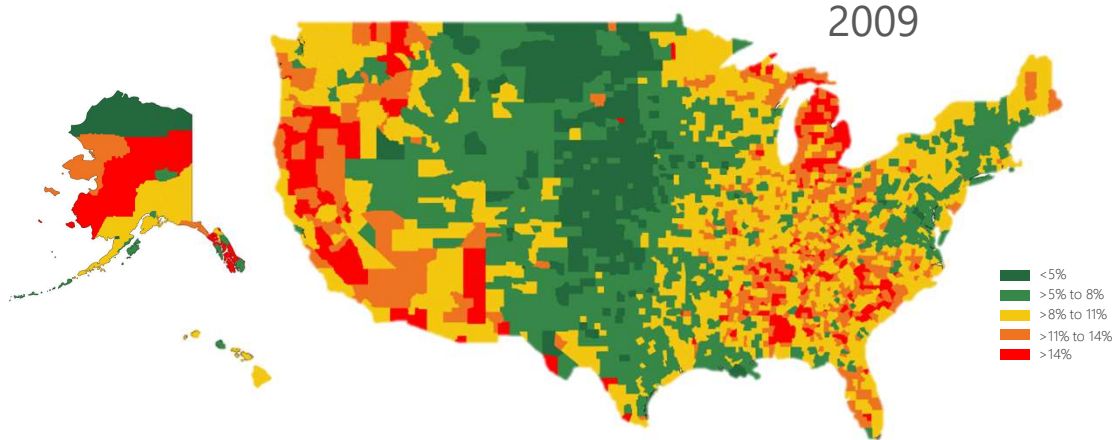


Let's take a step back

15 Sources: Visa Business and Economic Insights and U.S. Department of Labor (2017)

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Unemployment rate by county

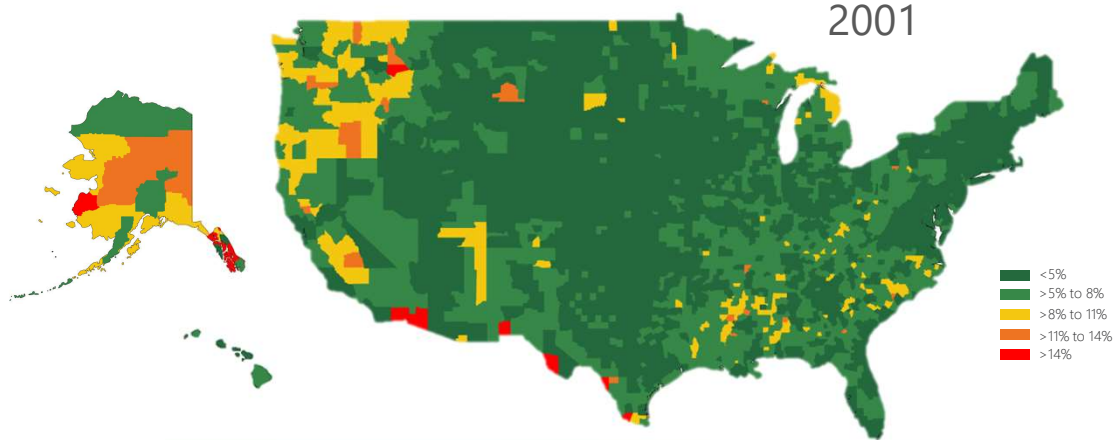


How did things look during the dot-com bust?

16 Sources: Visa Business and Economic Insights and U.S. Department of Labor

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Unemployment rate by county



The Great Recession’s recency biases our perspective

17 Sources: Visa Business and Economic Insights and U.S. Department of Labor

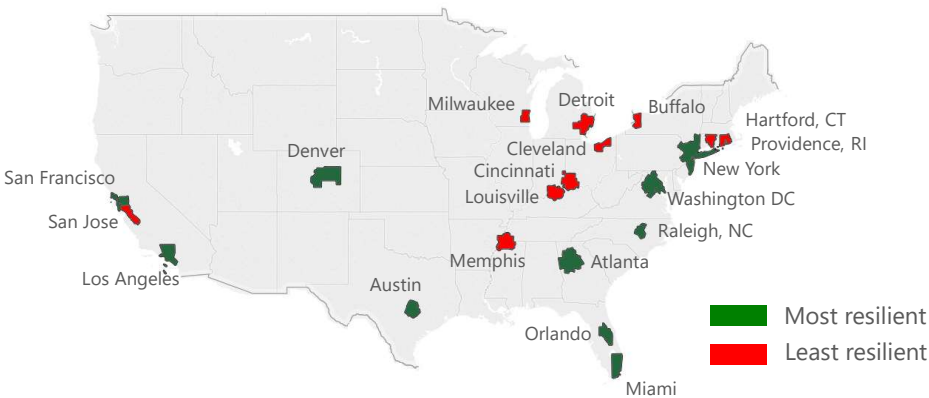
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Which areas are more likely to be impacted by a recession?

Ten most resilient and least-resilient metro areas

Factors:

- Total Population Size (+)
- Share of population with college degrees (+)
- Manufacturing Share (-)



The effects of the next downturn are more geographic, less demographic

18 Sources: Visa Business and Economic Insights and U.S. Department of Labor

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Indicators to watch for signs of a downturn



Initial jobless claims

SA, thousands, four-week moving average
Last actual: February 2019

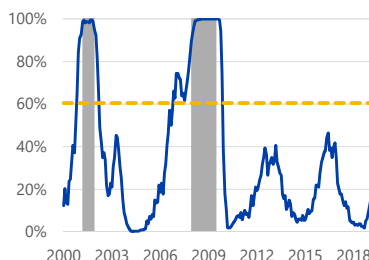


19 Sources: Visa Business and Economic Insights, Conference Board and U.S. Department of Labor



Leading indicators based
recession probability

Percent (>60% implies recession risk)
Last actual: February 2019



Leading Economic Index

SA, year-over-year percent change
Last actual: February 2019



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What does this mean for **you**?

Every business cycle is different

Economic data continue to support the case for growth

The current interest rate hiking cycle is nearing an end

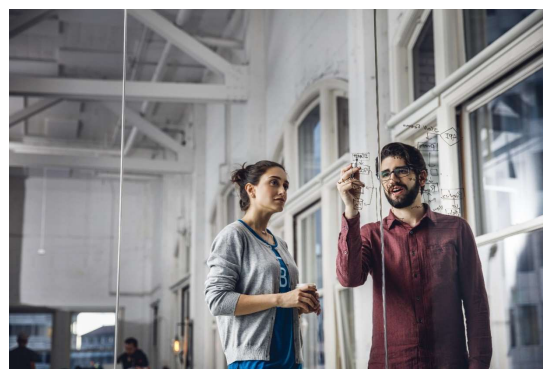
Likely only one hike from the Fed this year

A yield curve inversion is a key psychological factor

Keep an eye on jobless claims and key political events

The effects of the next recession will be more geographic and less demographic

Retail spending will likely remain robust with consumers less affected than businesses



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