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SECURITIES

Economic Outlook

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January 29, 2020

Together we'll go far



Economic Outlook

- **Real GDP growth has decelerated from a 3% pace last year to around 2%, due to weakening global growth and its impact on exports, capital spending and inventories. We now expect 2.1% growth in 2020 and 2.3% in 2021.**

Policy Environment

- **Tax reform continues to bolster take-home pay but trade uncertainty has upended capital spending. Capex should slowly grind higher. Fiscal policy remains expansionary. After cutting rates three times, the Fed is likely on pause.**

Trade Policy

- **An agreement in principle has been reached with China that should result in a lessening of trade tensions that have been weighing on the global economy. The USMCA is another near-term positive that reduces uncertainty.**

Households

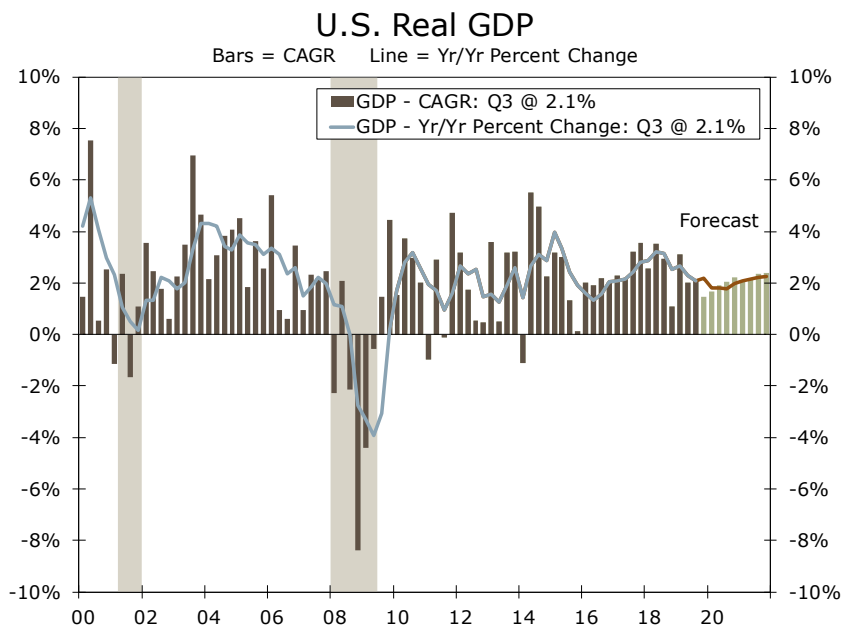
- **Consumers remain optimistic about the economy and their finances. Wages & salaries are rising fastest at the lower end of the pay spectrum, which has boosted spending at discount stores and restaurant chains.**

Recession Risk

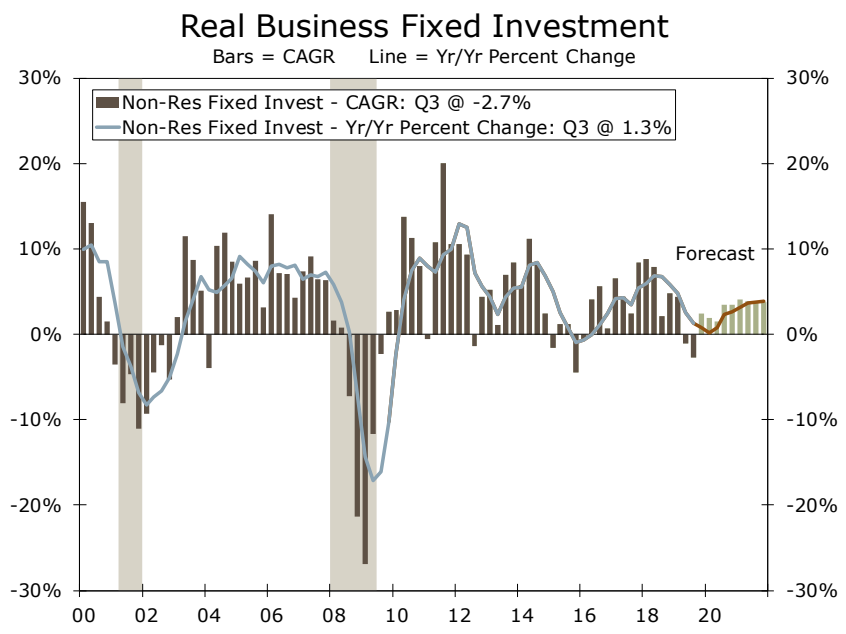
- **Recession concerns have abated significantly as the yield curve has normalized and equity markets have reached new all-time highs. There are few obvious imbalances present in the economy today and growth is broadening.**

Our forecast calls for real GDP growth to moderate to around a 2% pace in 2020. Inventory swings tied to Boeing's 737 MAX shipments will influence the quarterly data, but consumer spending and homebuilding continue to prove resilient and may surprise to the upside. Growth should pick up a few tenths by 2021.

Real GDP



Business Investment

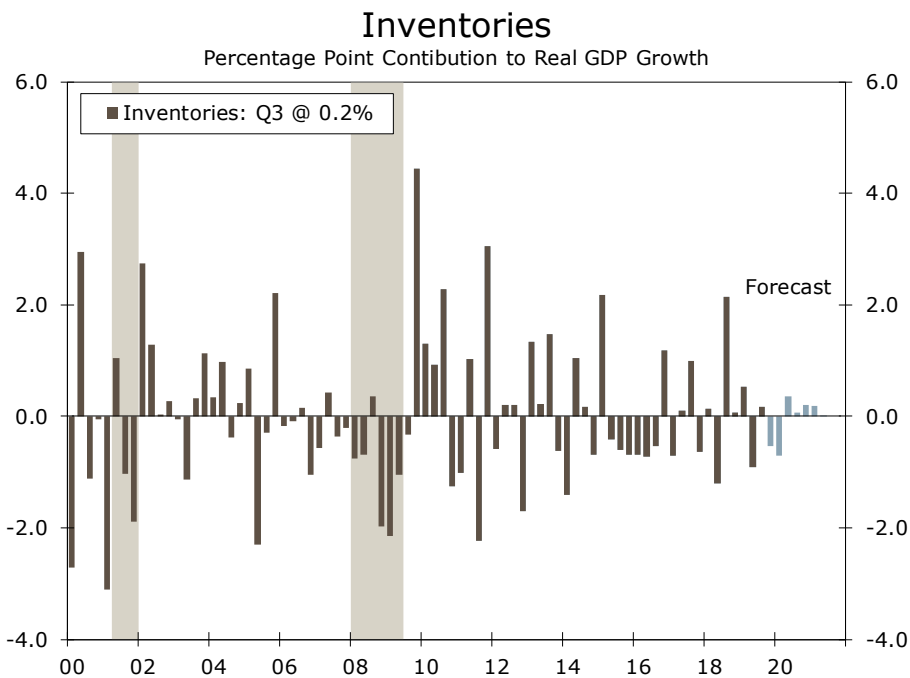
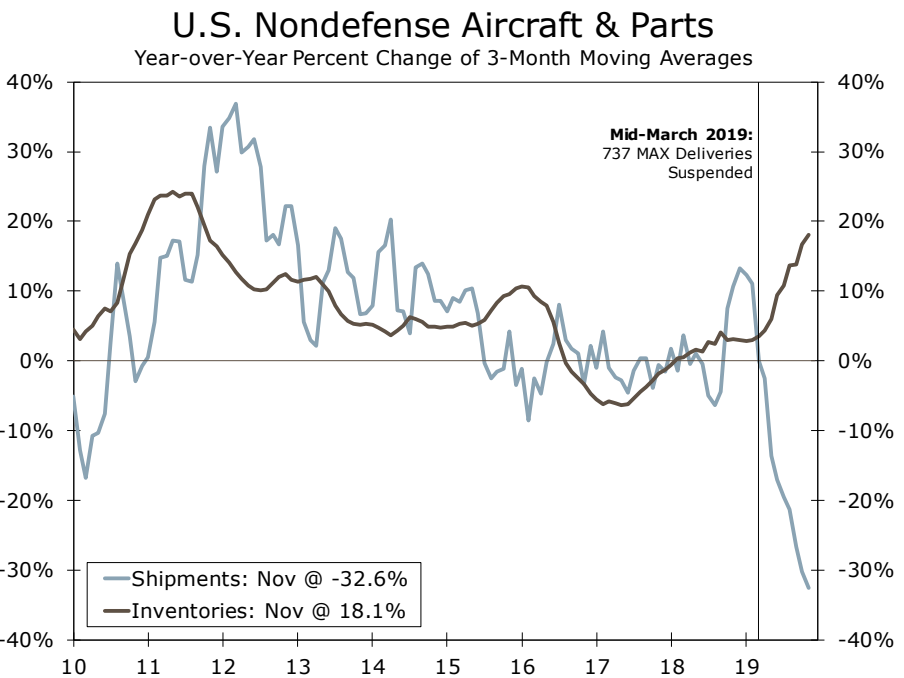


Source: U.S. Department of Commerce and Wells Fargo Securities

The stoppage of 737 MAX shipments has boosted inventories and weighed on equipment spending. With production now stopped, the MAX issues are set to subtract about 0.5 points from GDP growth.

Swapping Equipment Spending for Inventories...

...but Inventory Growth Is Now Set to Slow

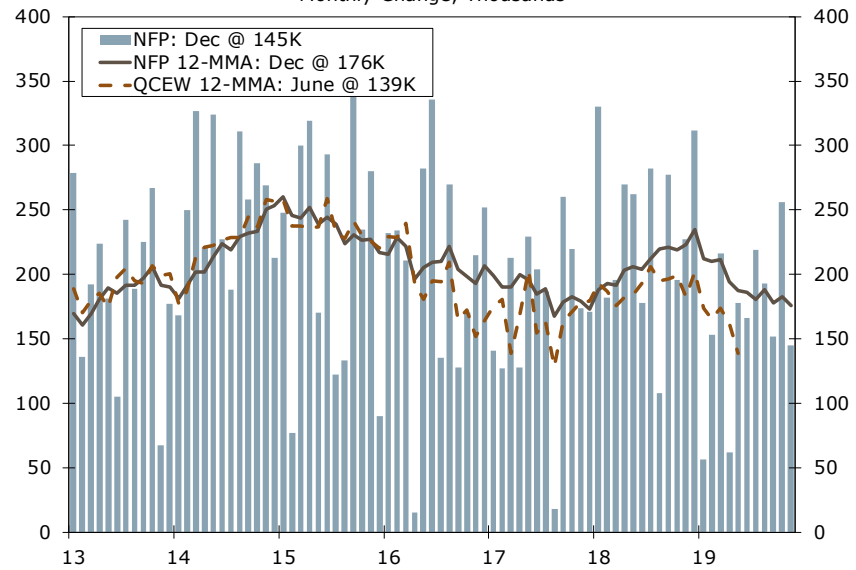


Source: U.S. Department of Commerce and Wells Fargo Securities

Hiring has reportedly picked up but will be revised lower in February. The quality of jobs being added is relatively good. Wage gains remain modest relative to prior periods when the labor market was this tight, but recent evidence suggests wage gains are accelerating for those at the lower end of the income spectrum and among younger workers, giving spending a boost.

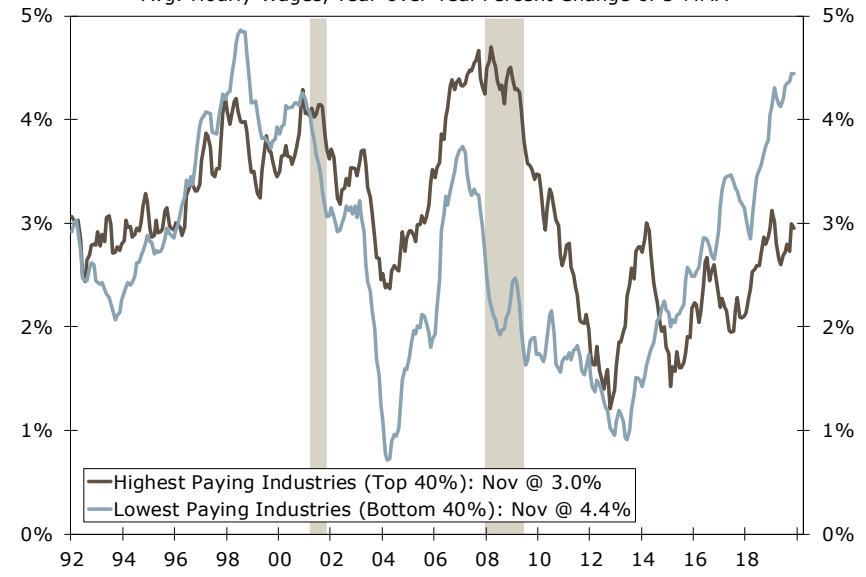
Nonfarm Employment

U.S. Employment Change
Monthly Change, Thousands



Wages

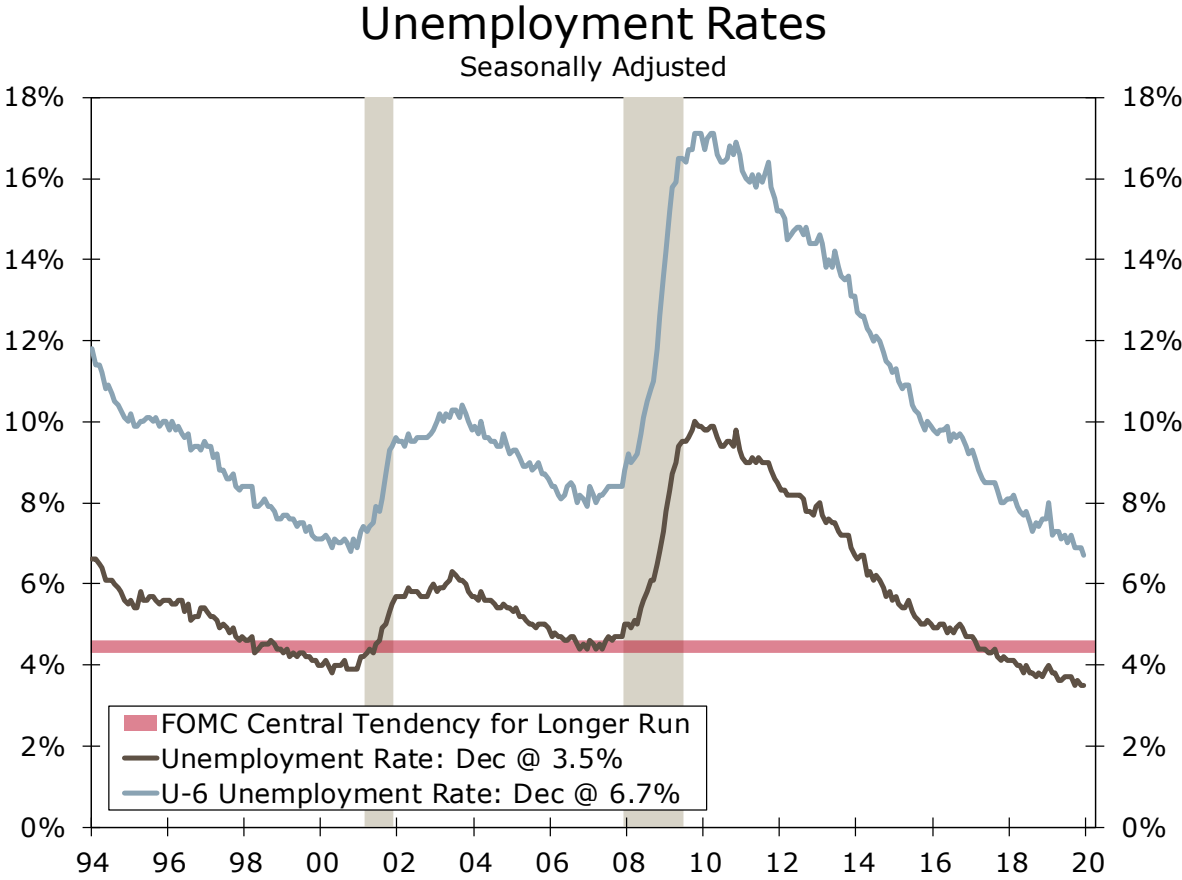
Wage Growth in High & Low Pay Industries
Avg. Hourly Wages, Year-over-Year Percent Change of 3-MMA



Source: U.S. Department of Labor and Wells Fargo Securities

The labor market has tightened substantially, with the unemployment rate at 3.5%.

Jay Powell continues to say that the lack of stronger wage growth indicates the Fed has not yet met its full employment mandate, which means it is in no hurry to raise short-term interest rates.



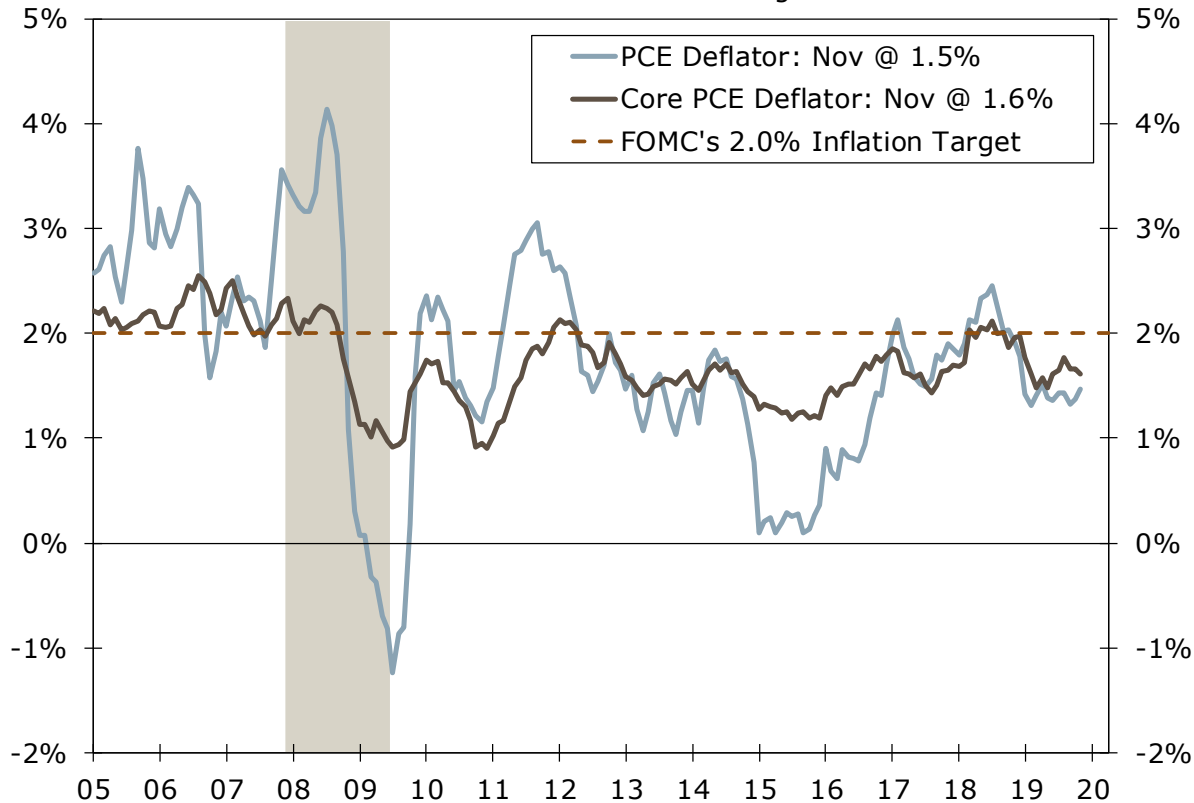
Source: U.S. Department of Labor and Wells Fargo Securities

After briefly rising above the Fed's 2% target, core inflation appears to have decelerated once again, amid weakening final demand. Inflation expectations have also fallen over the past few months.

We see the Fed as being opportunistic in this environment, hoping to spur a broader and more durable economic expansion.

PCE Deflator vs. Core PCE Deflator

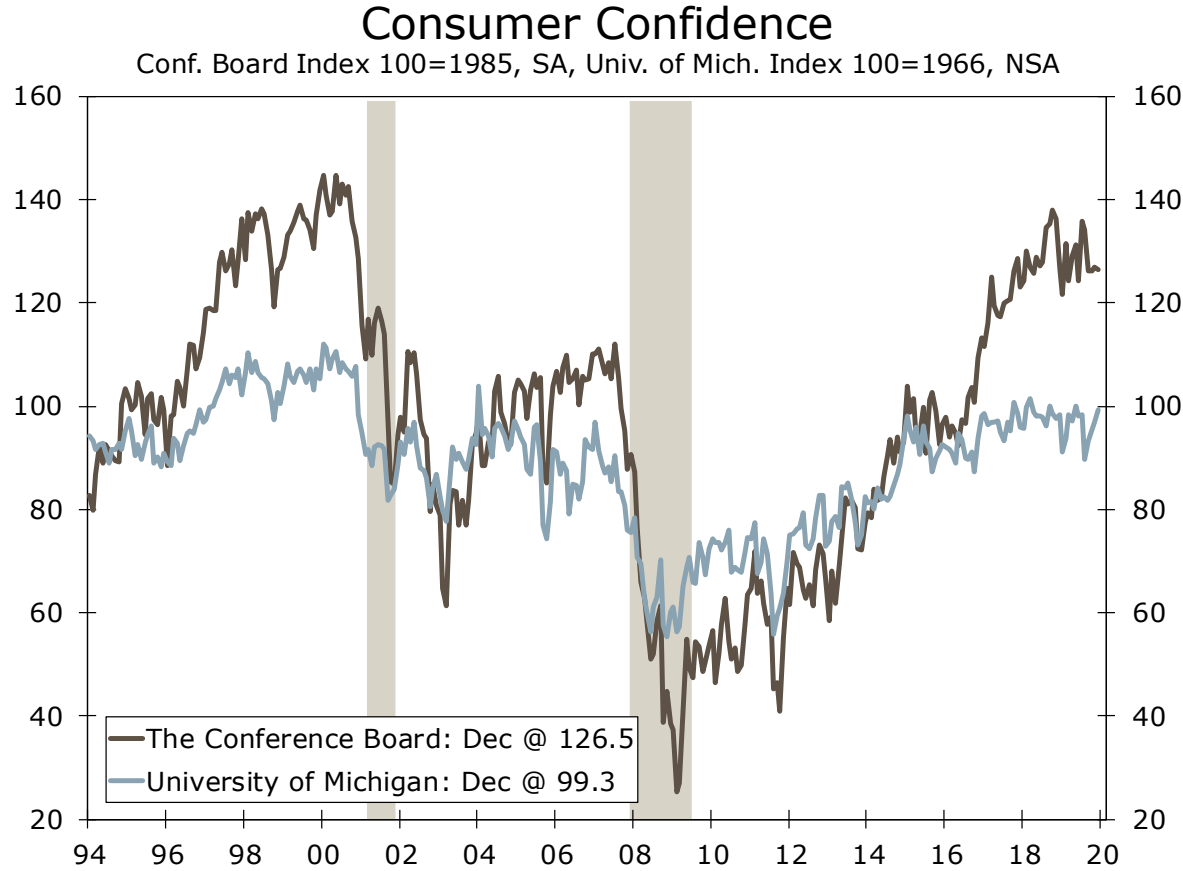
Year-over-Year Percent Change



Source: U.S. Department of Commerce and Wells Fargo Securities

The Conference Board's survey closely tracks labor market conditions, which are the strongest they have been in decades.

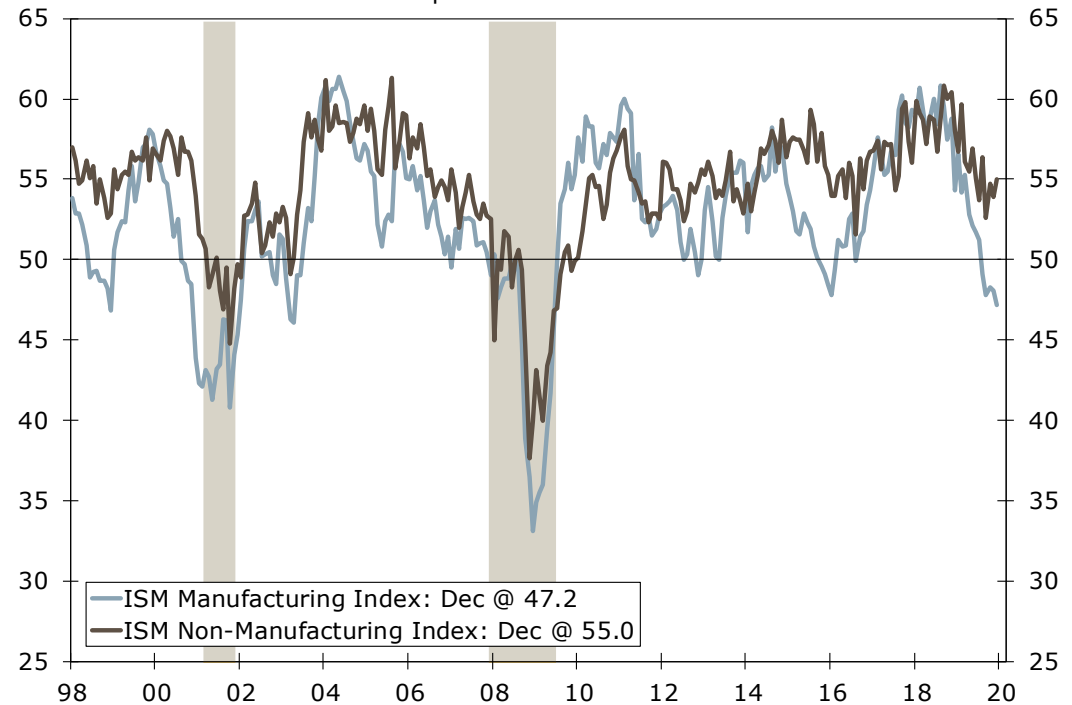
The Michigan survey is more closely tied to the stock market.



Source: The Conference Board, University of Michigan and Wells Fargo Securities

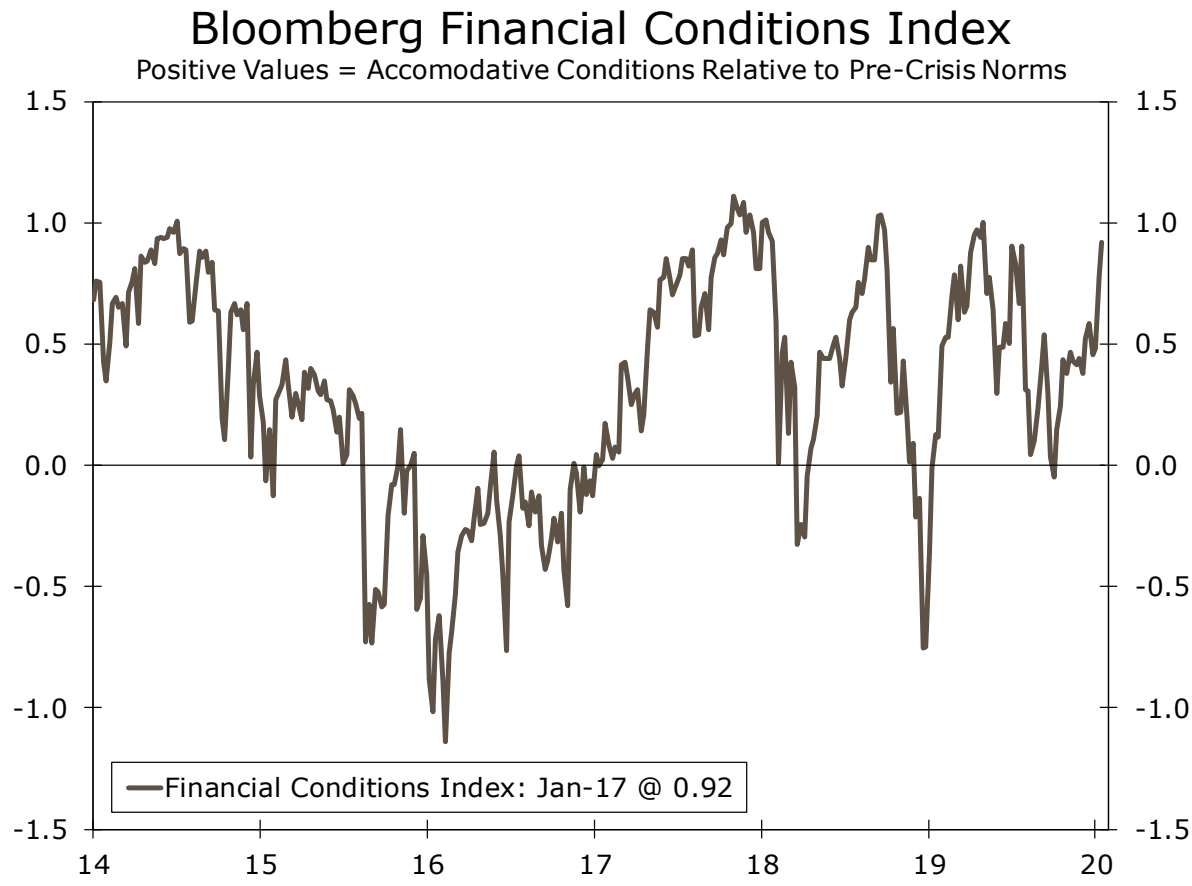
A rebound in the ISM is likely in store now that more firms believe they have too little inventory than believe they have too much. Orders are likely to surprise to the upside in coming months.

ISM Manufacturing & Non-Manufacturing Composite Diffusion Index



Source: Institute for Supply Management and Wells Fargo Securities

Financial conditions remain accommodative following Fed easing.

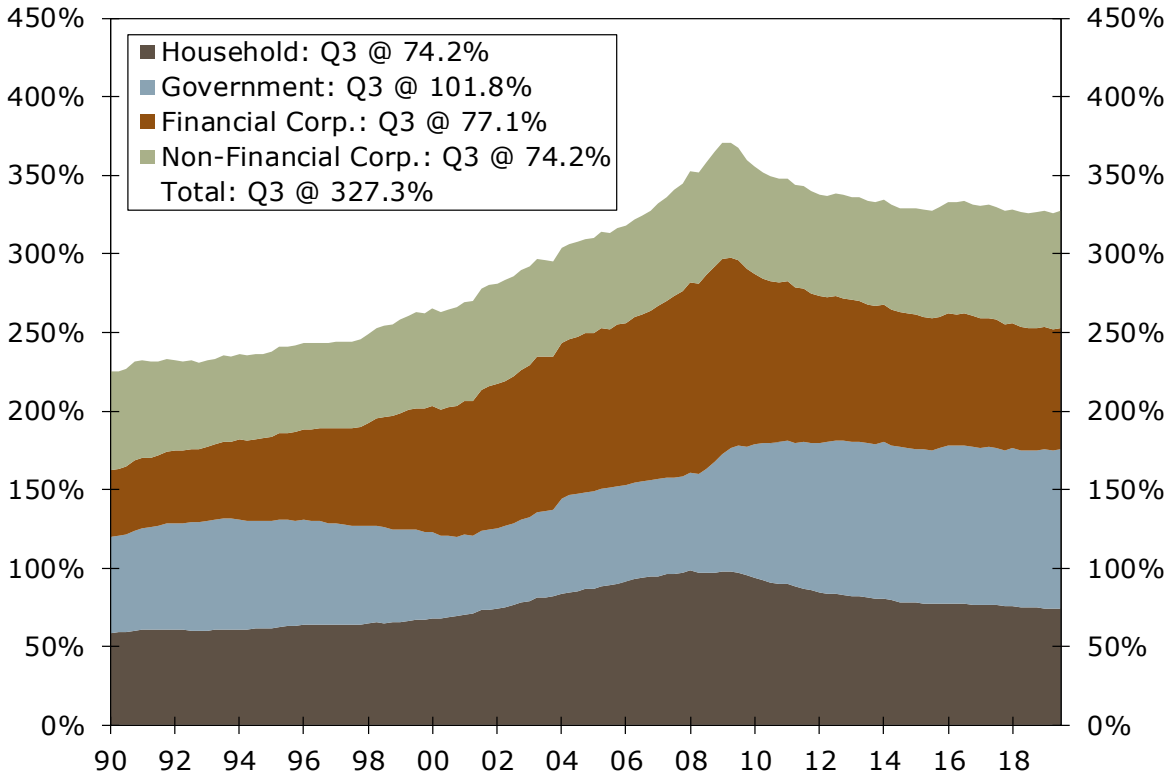


Source: Bloomberg LP and Wells Fargo Securities

The debt-to-GDP ratio of the U.S. economy has receded somewhat in recent years.

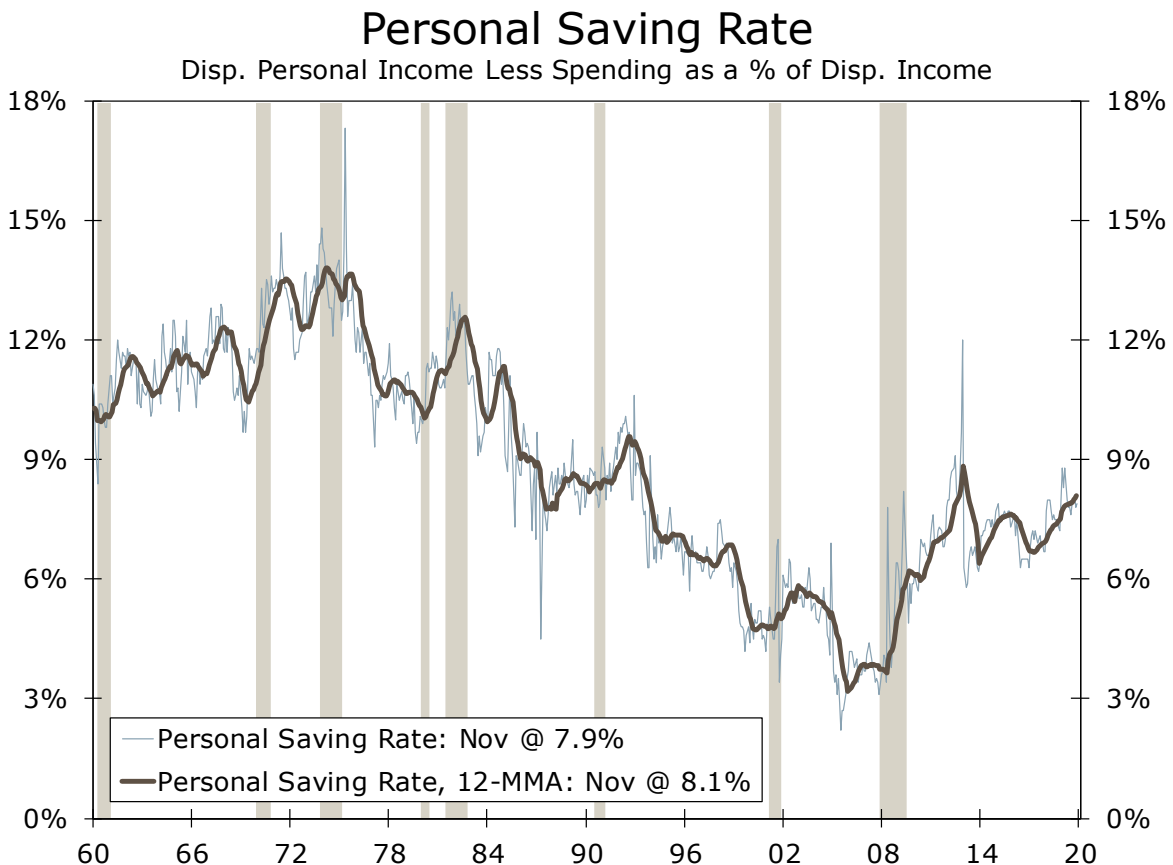
U.S. Debt by Sector

Percent of GDP



Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities

And the saving rate remains elevated, especially at this point in the cycle.



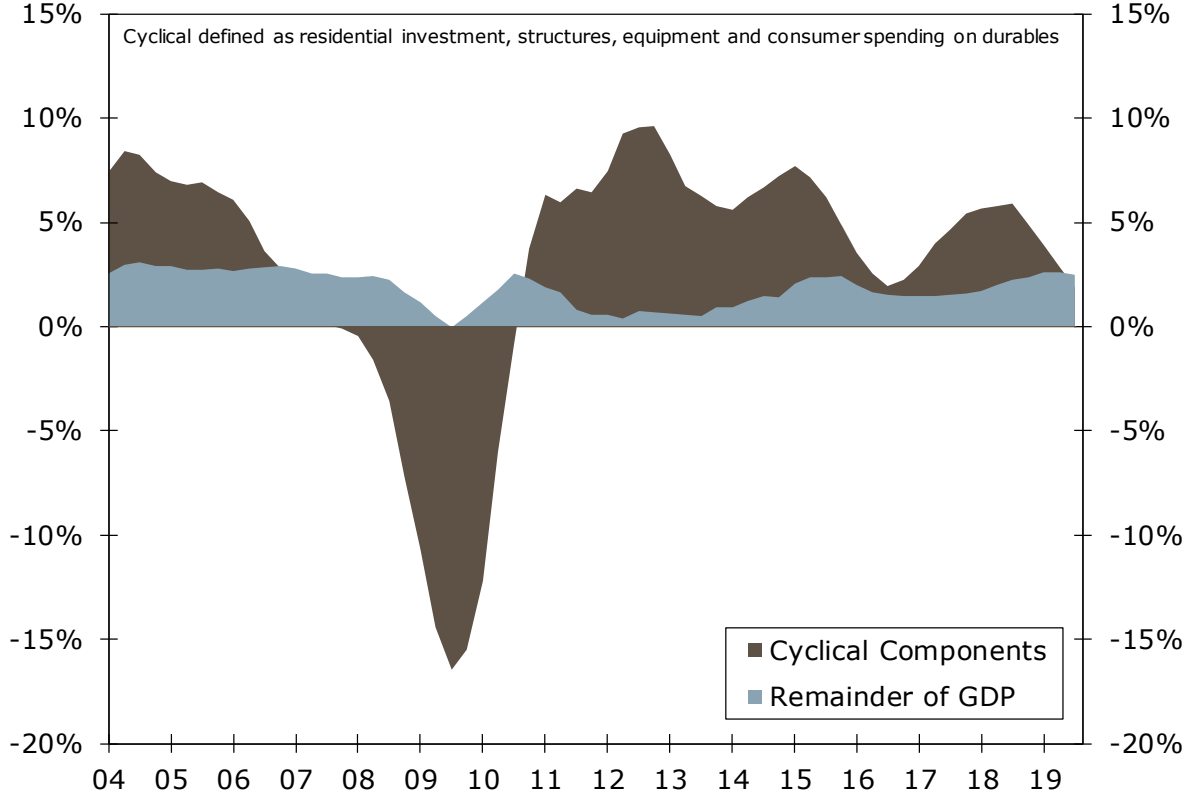
Source: U.S. Department of Commerce and Wells Fargo Securities

Consumer spending on durable goods, housing, capital spending and nonresidential structures collectively account for 20% of GDP but over 100% of the decline in GDP during recessions.

We have seen less of a boom in the most cyclical parts of the economy during this cycle, which may push a correction further out and ultimately make that correction less severe.

Cyclical Components vs. Rest of GDP

Year-over-Year Change of 4-Qtr Moving Average of Real GDP



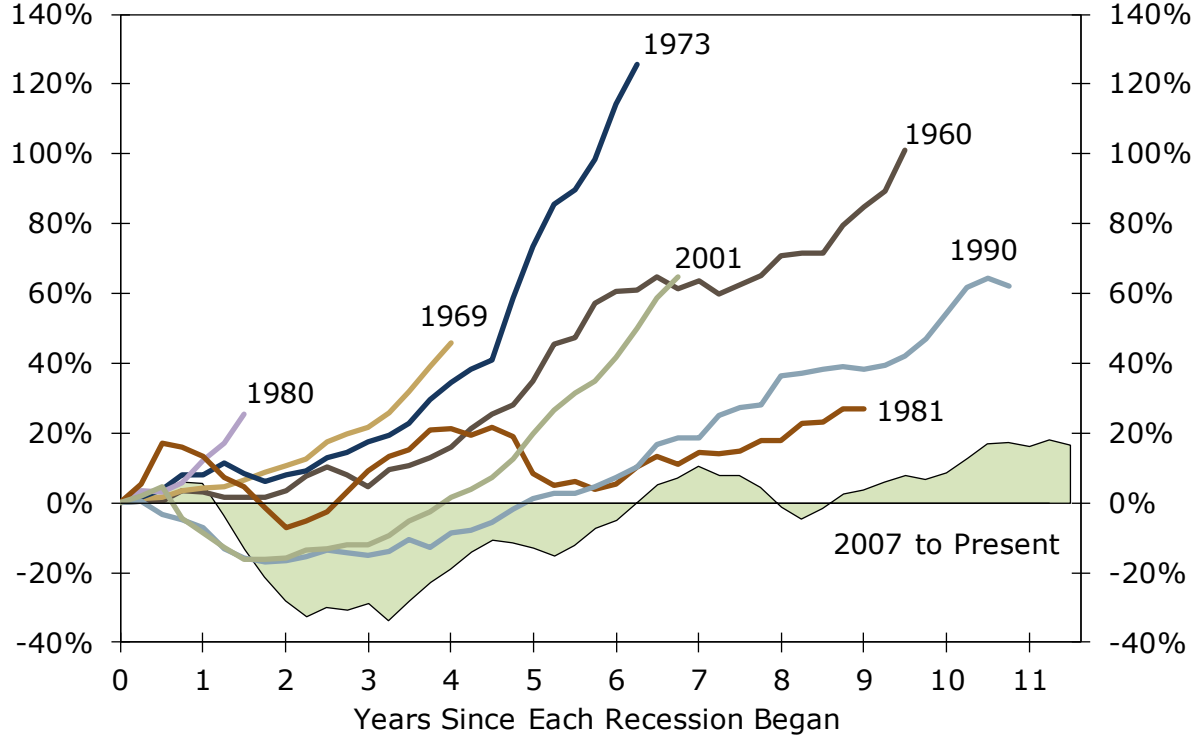
Source: U.S. Department of Commerce and Wells Fargo Securities

Overall building has remained relatively subdued this cycle.

Much of the activity has been concentrated in several large markets, which may present some risks of a sharp or prolonged pullback in the tech and energy sectors.

Nonresidential Structures Investment

Percent Change Since Start of Each Recession



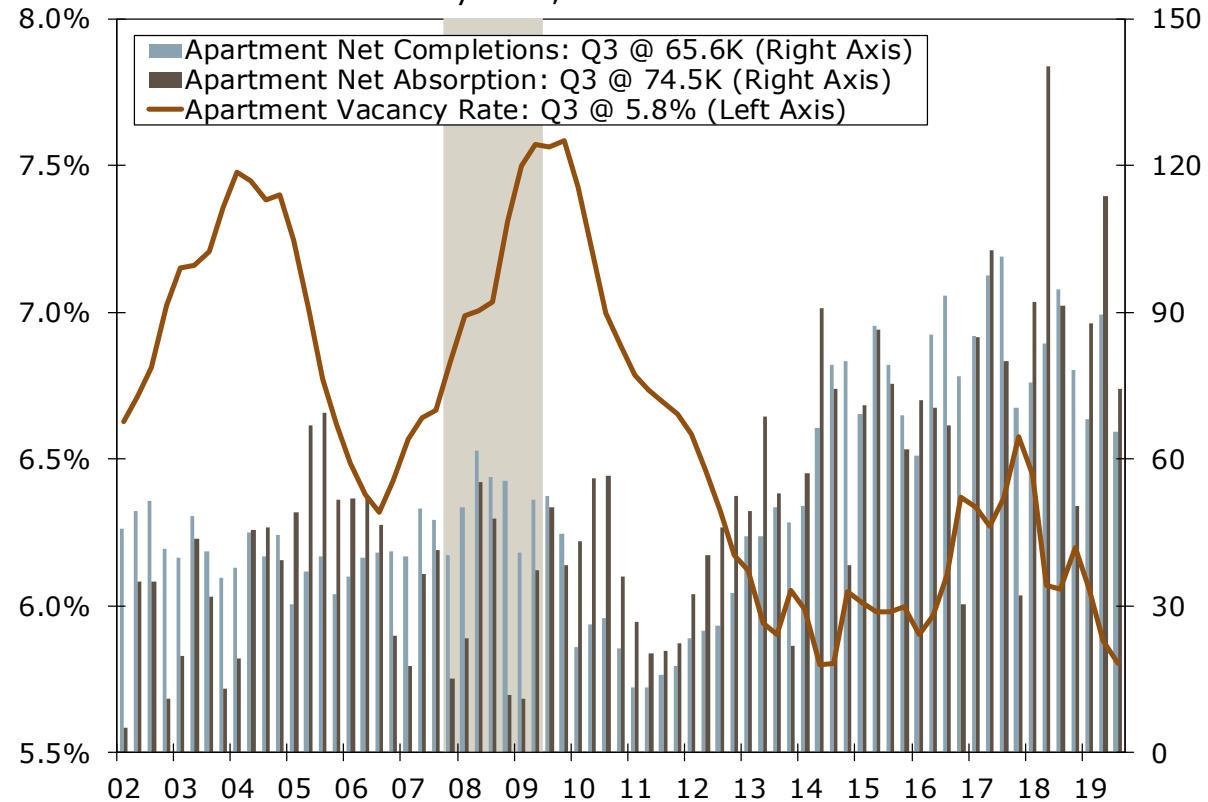
Source: U.S. Department of Commerce and Wells Fargo Securities

Apartment development has been fairly strong the past few years, with a disproportionate share of activity devoted to luxury and lifestyle units in a handful of rapidly growing metropolitan areas.

Development is now shifting to more affordable projects in suburban areas and in lower cost parts of the country.

Apartment Supply & Demand

Vacancy Rate, Thousands of Units

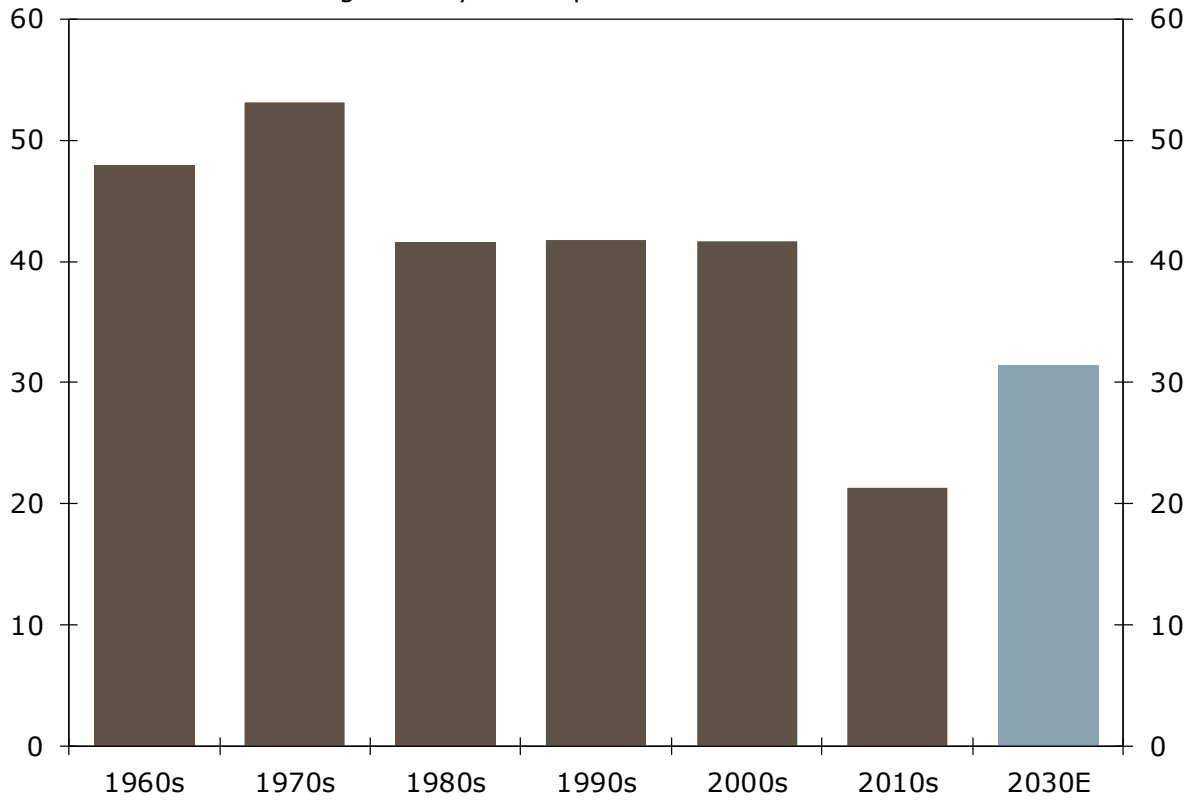


Source: CoStar, Inc. and Wells Fargo Securities

Housing construction should gradually approach prior levels relative to population and household growth.

Population-Adjusted Housing Starts

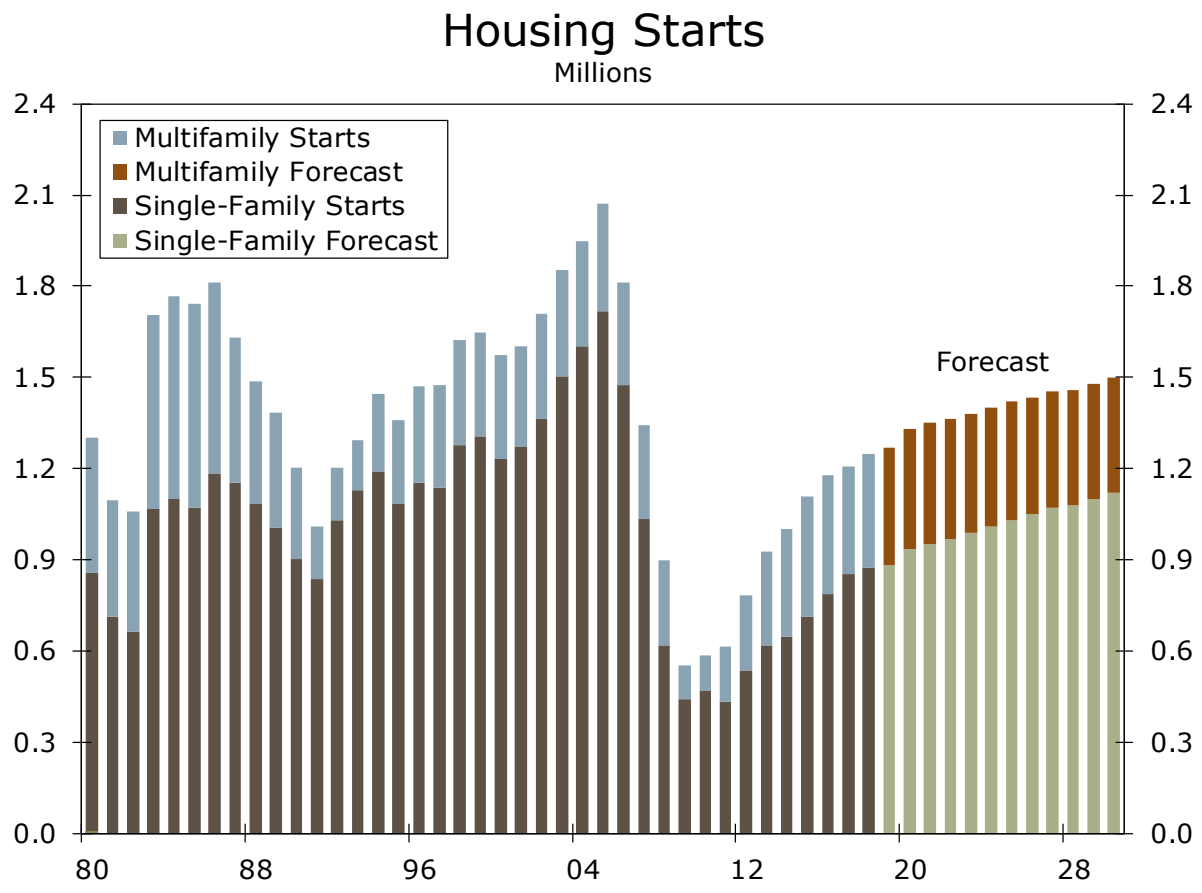
Single-family Starts per One Million Persons



Source: U.S. Department of Commerce and Wells Fargo Securities

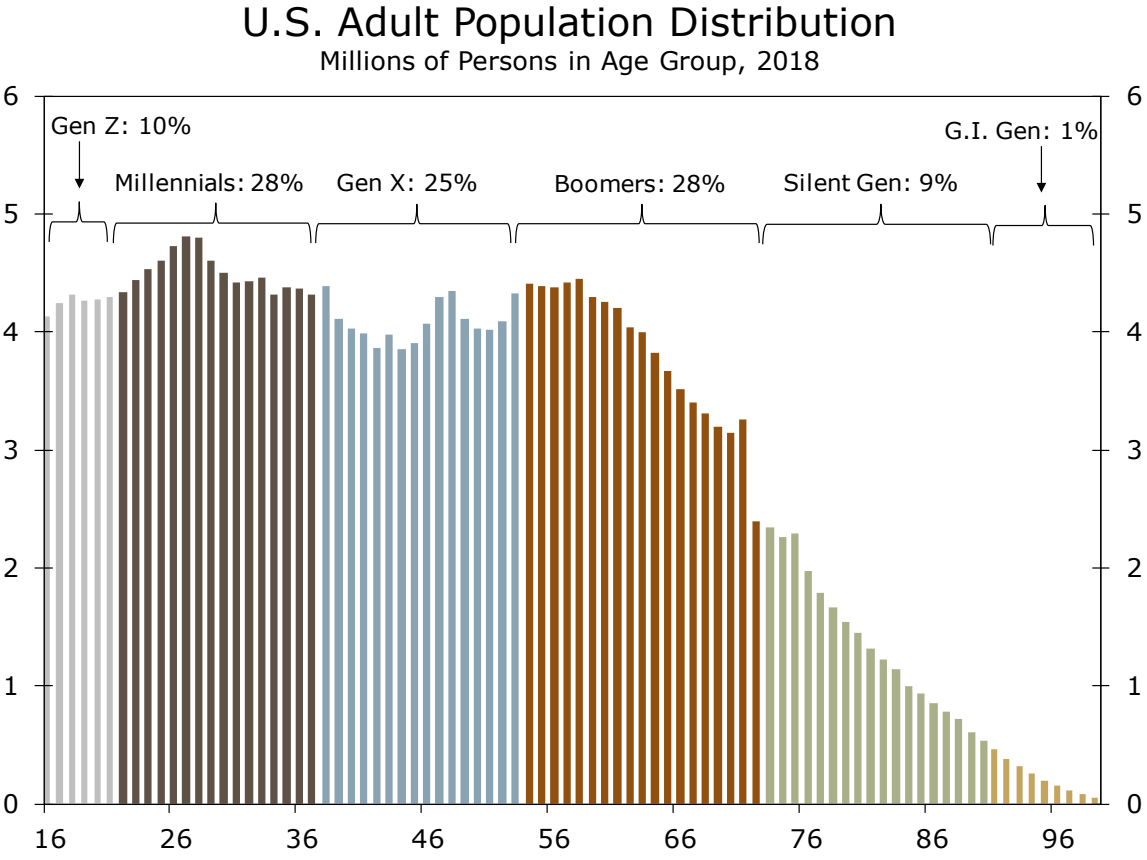
Single-family homebuilding has strengthened in recent months. Still, affordability concerns and development constraints will continue to limit new development.

Overall homebuilding is still lagging household formation and there are too few homes available in markets where population and employment are growing rapidly. Apartment construction is pivoting toward more affordable units.



Source: U.S. Department of Commerce and Wells Fargo Securities

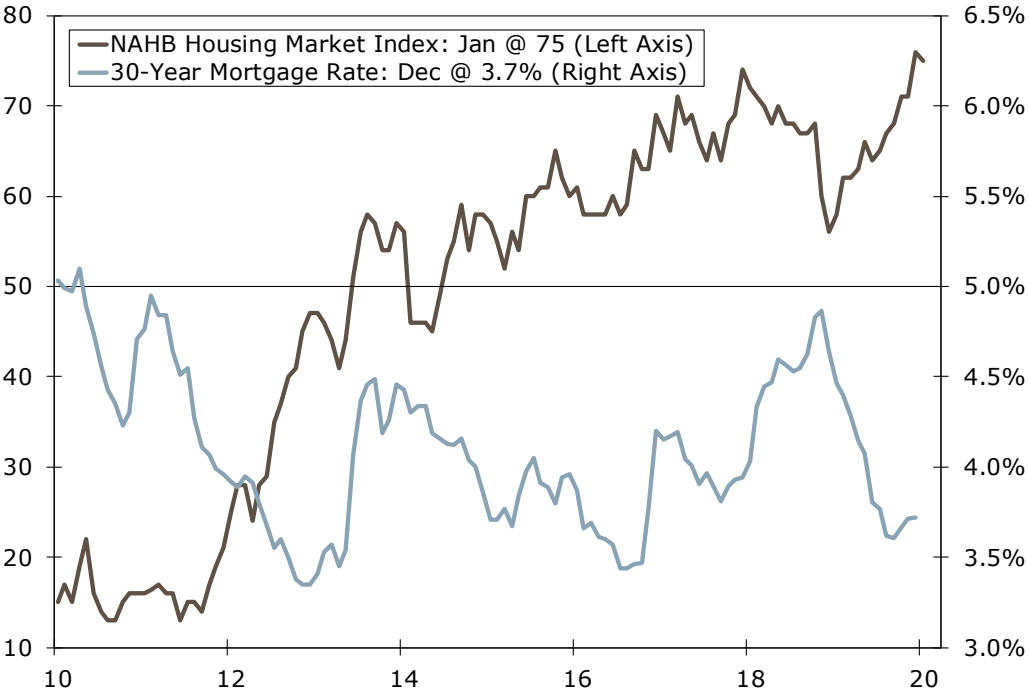
Demographics should be supportive of housing activity over the long-term, as Millennials form families and increasingly look to relocate to the suburbs.



Source: U.S. Department of Commerce and Wells Fargo Securities

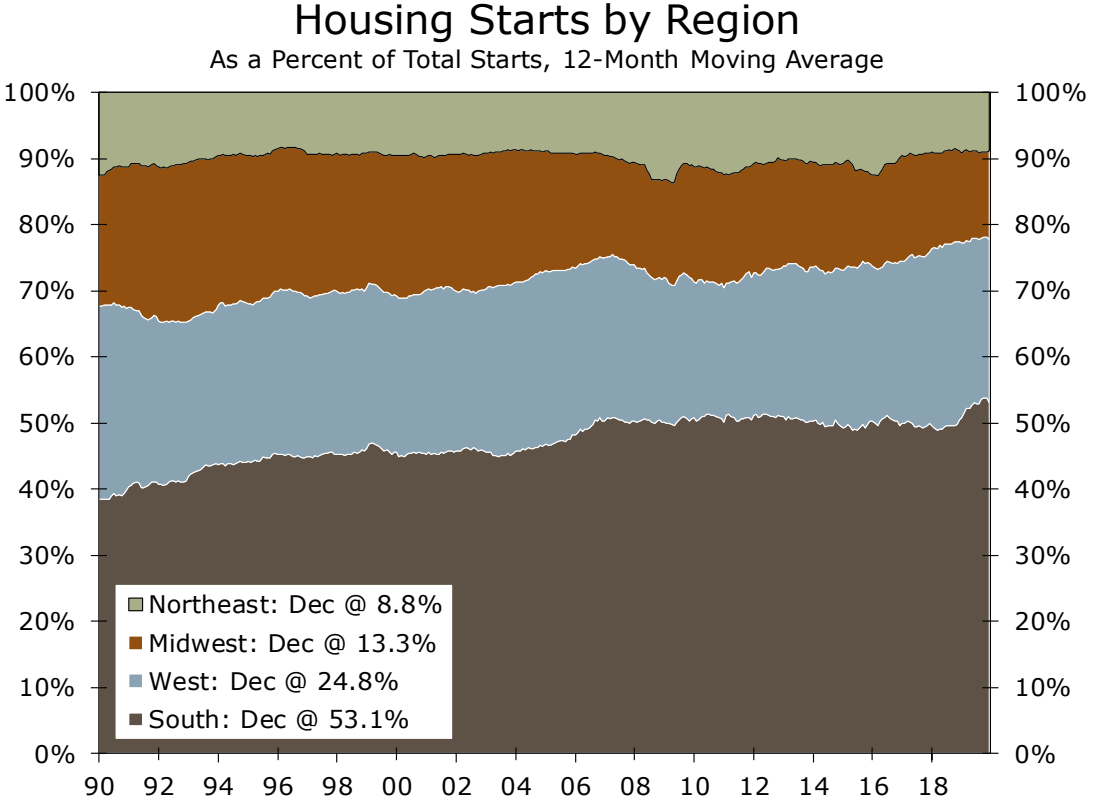
Builder optimism is surging.

NAHB/Wells Fargo Housing Market Index vs. Mortgage Rate



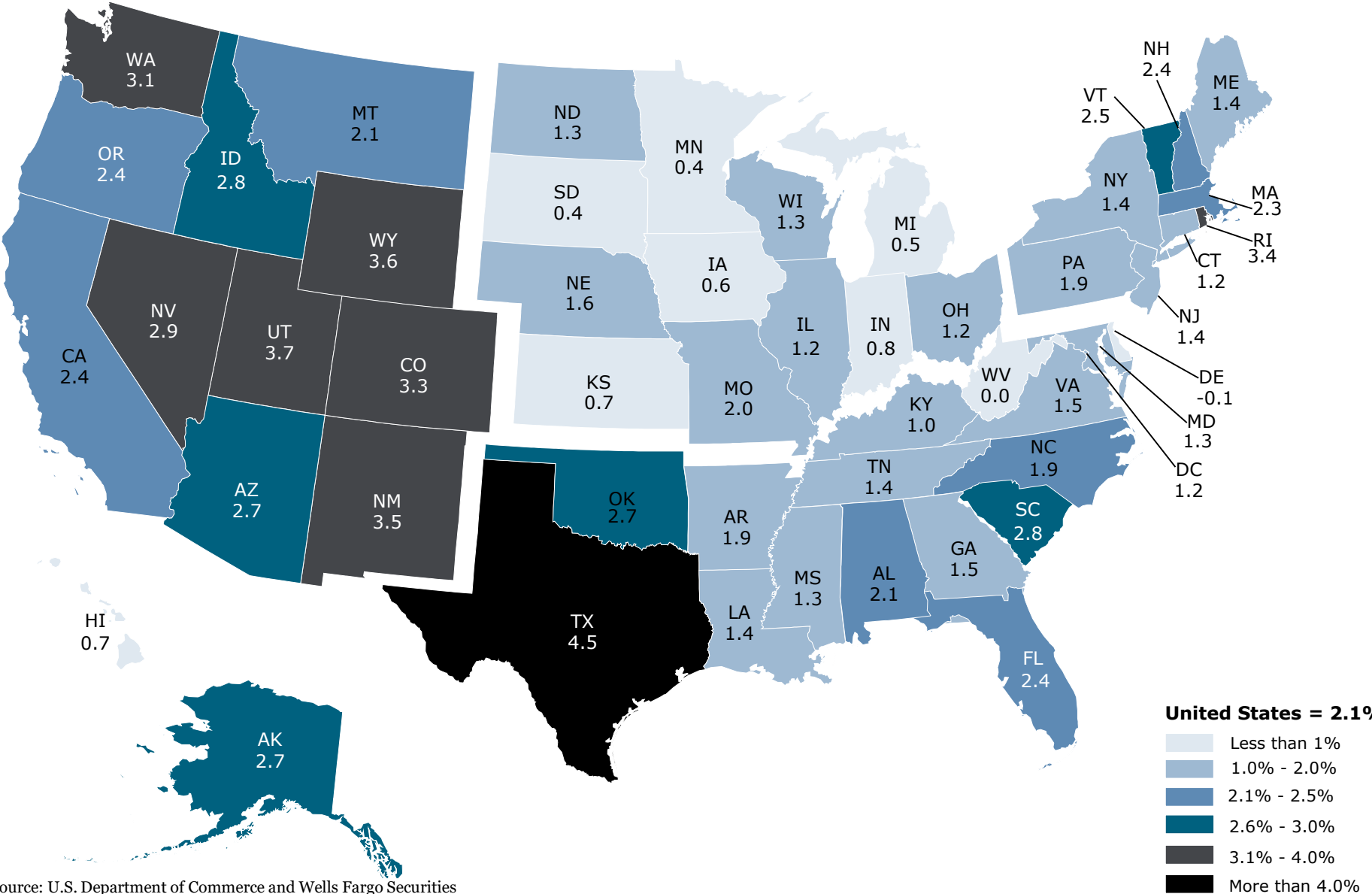
Source: NAHB, Freddie Mac and Wells Fargo Securities

A growing share of new homes are being built in the South.



Source: U.S. Department of Commerce and Wells Fargo Securities

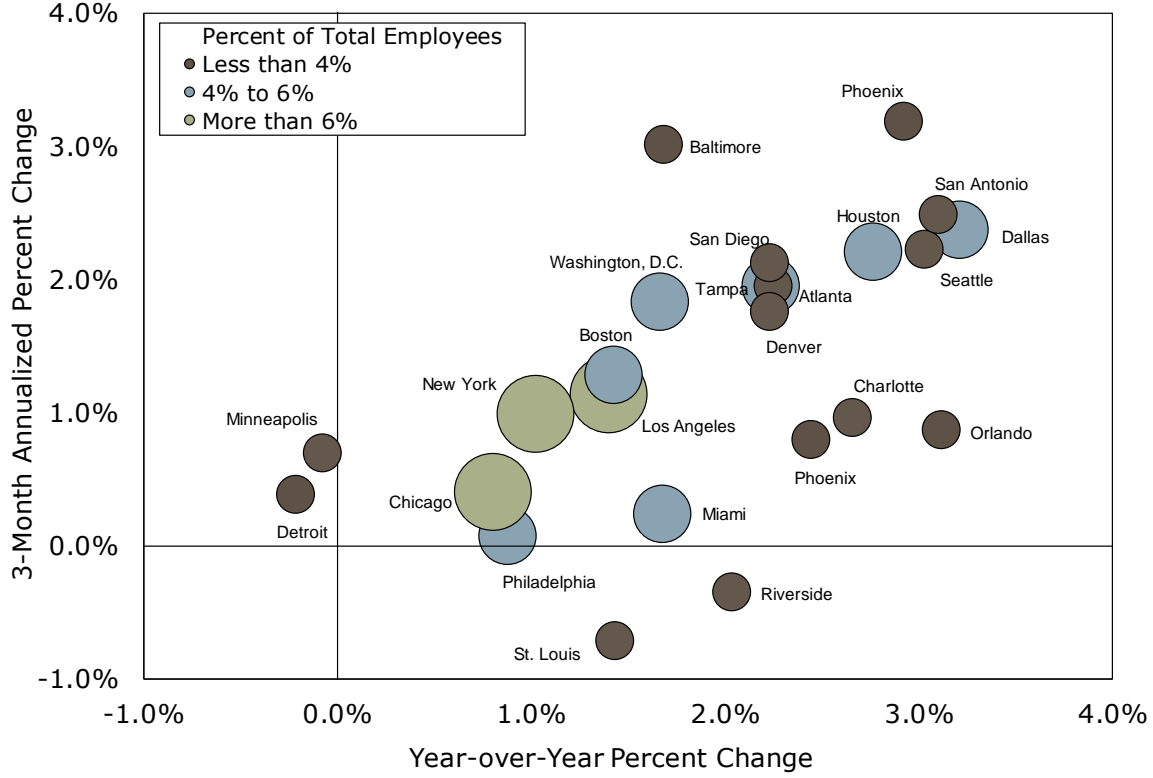
Year-over-Year Percent Change in Real GDP by State (Q3-2019)



Source: U.S. Department of Commerce and Wells Fargo Securities

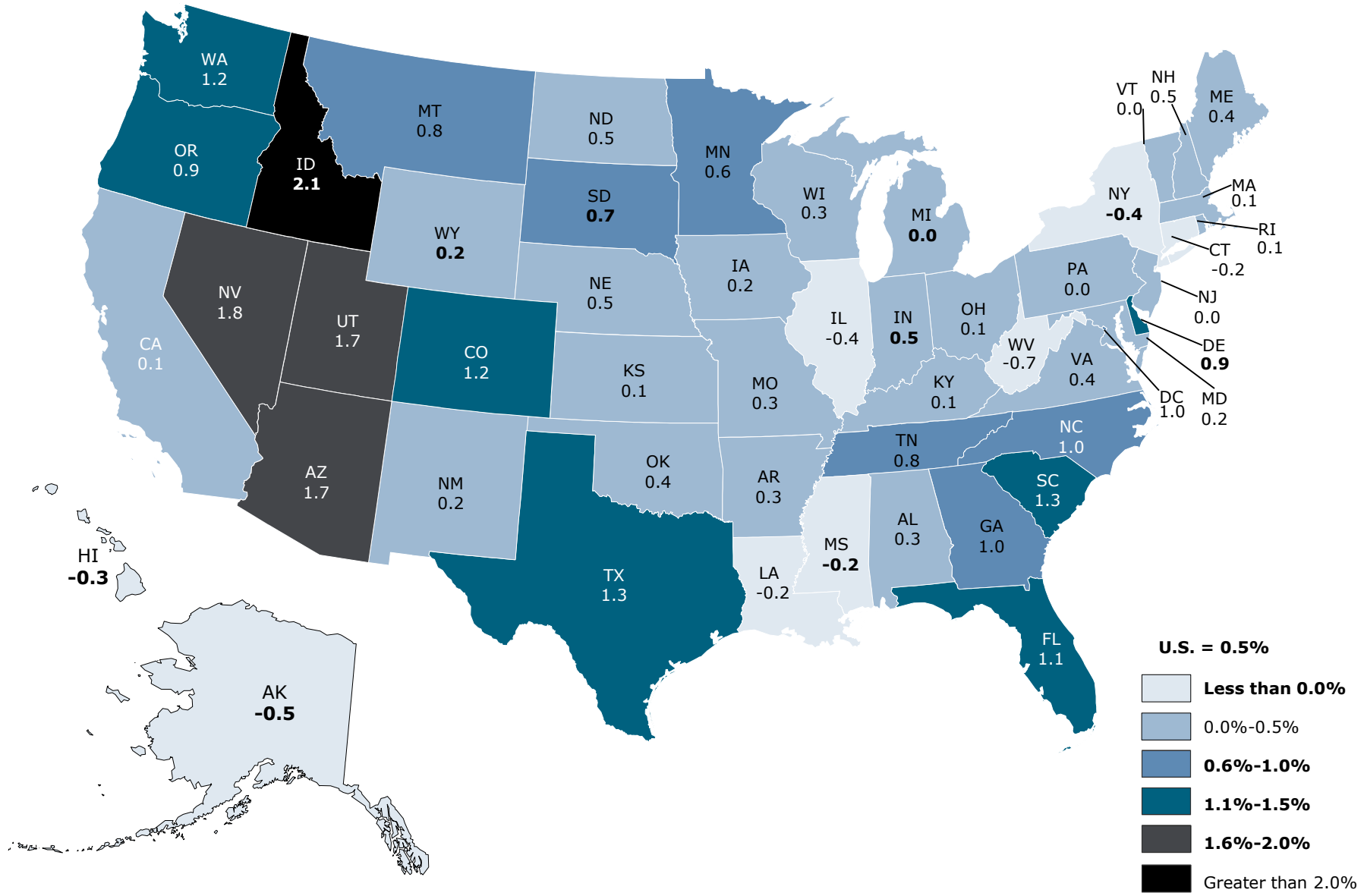
Employment growth is strongest in the South and West.

U.S. Employment Growth by MSA
December 2019



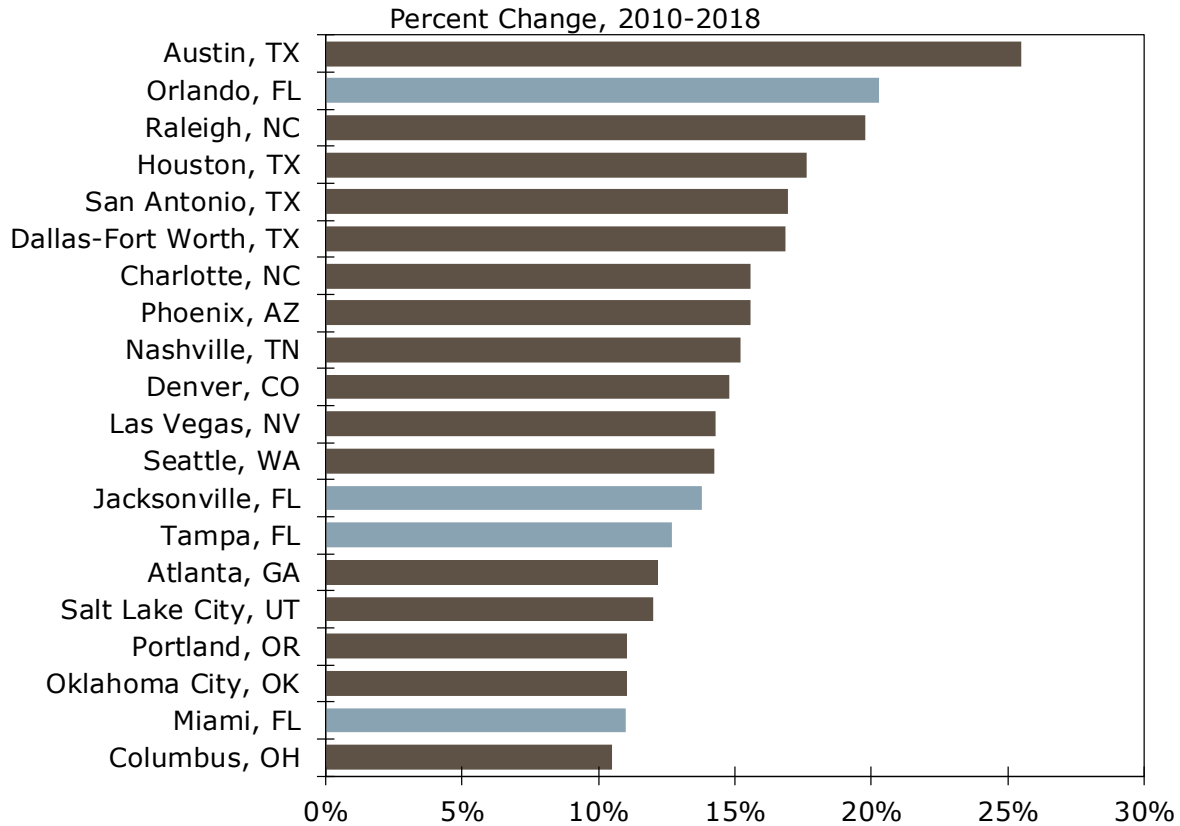
Source: U.S. Department of Labor and Wells Fargo Securities

Population Growth by State – 2019



Affordability has been a major driver of migration flows.

Metro Area Population Growth: Top 20

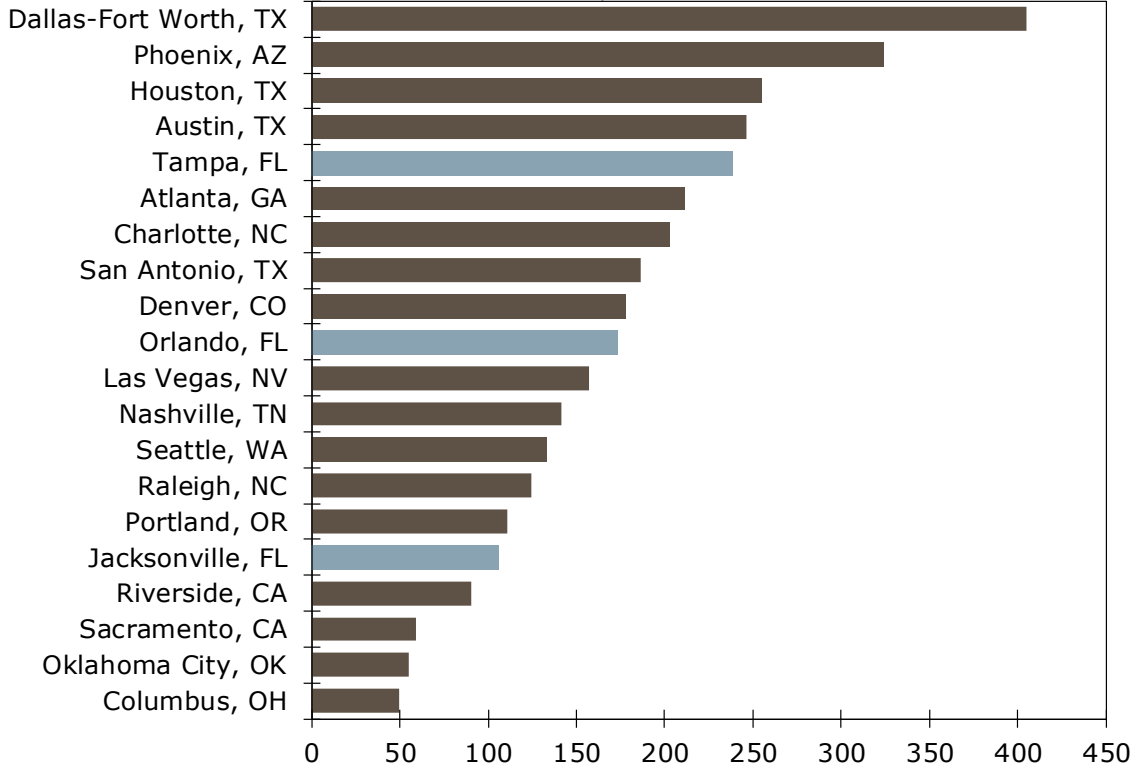


Source: U.S. Department of Commerce and Wells Fargo Securities

We view net domestic migration as a proxy for the relative attractiveness of a region to jobseekers.

Net Domestic Migration

Cumulative Total, 2010-2018

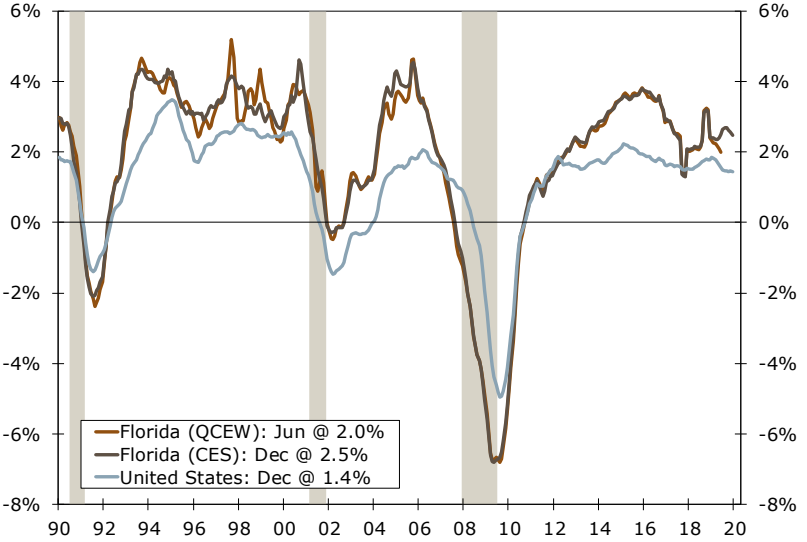


Source: U.S. Department of Commerce and Wells Fargo Securities

Florida's job growth slowed significantly in the wake of Hurricane Irma but has rebounded solidly this past year, with improvements broad-based across industries and regions. Unemployment is very low.

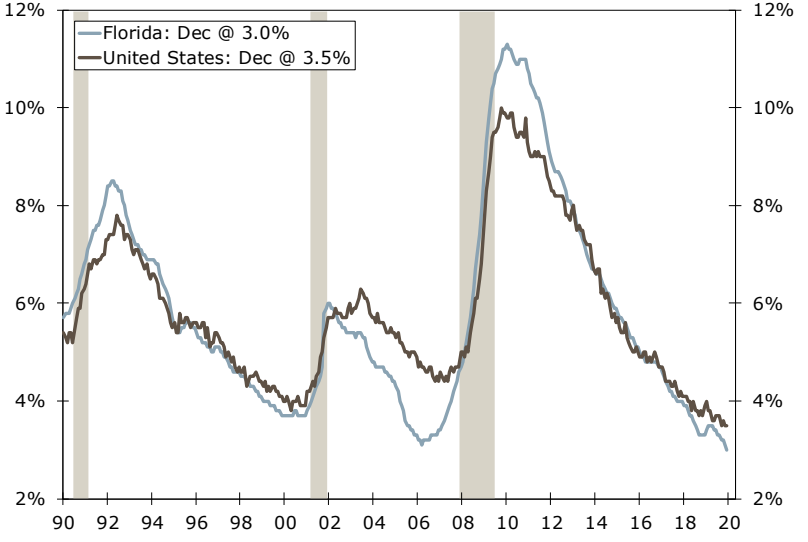
Nonfarm Employment

Florida Nonfarm Employment
Year-over-Year Percent Change of 3-MMA



Unemployment

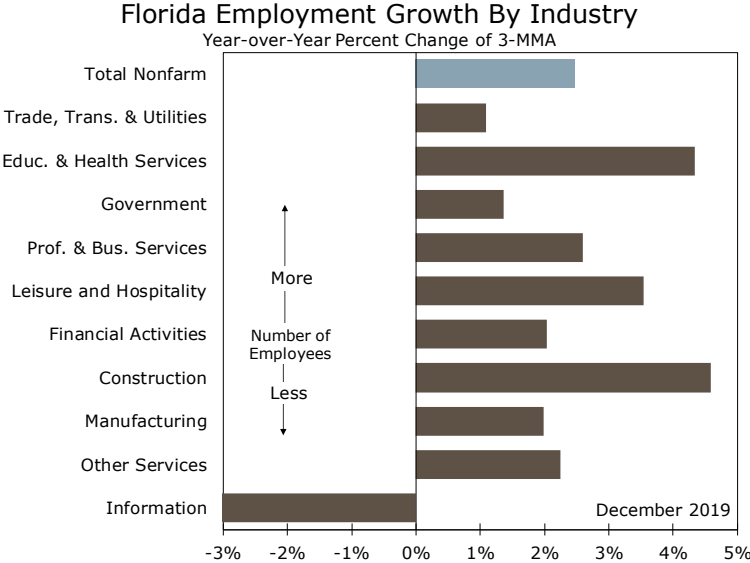
Florida vs. U.S. Unemployment Rate
Seasonally Adjusted



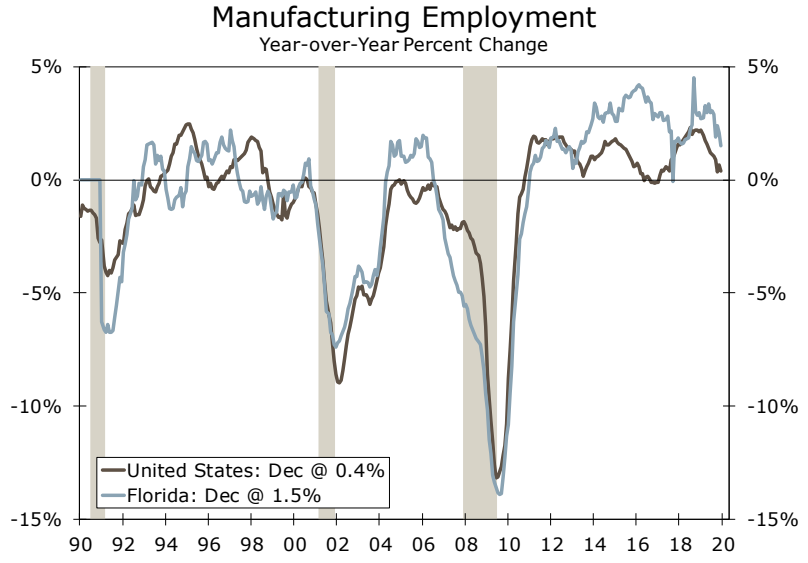
Source: U.S. Department of Labor and Wells Fargo Securities

Hiring has picked up across all major industries. Construction continues to post the strongest gains but the bulk of new jobs are being created in professional & business services and education & health. Manufacturing employment is solidly positive, reflecting growth in aerospace.

Industry Employment



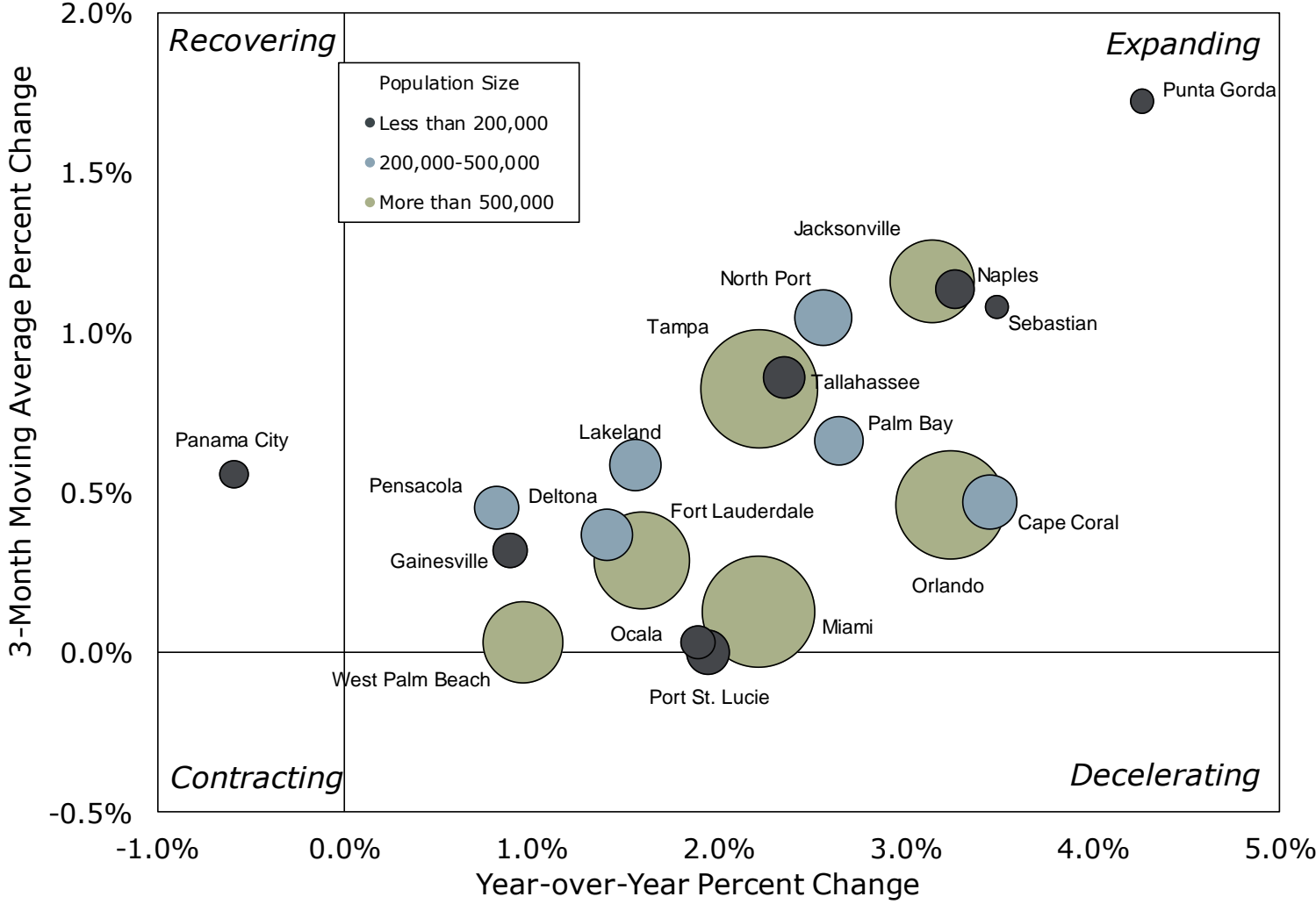
Manufacturing Employment



Source: U.S. Department of Labor and Wells Fargo Securities

Florida Employment Growth

December 2019

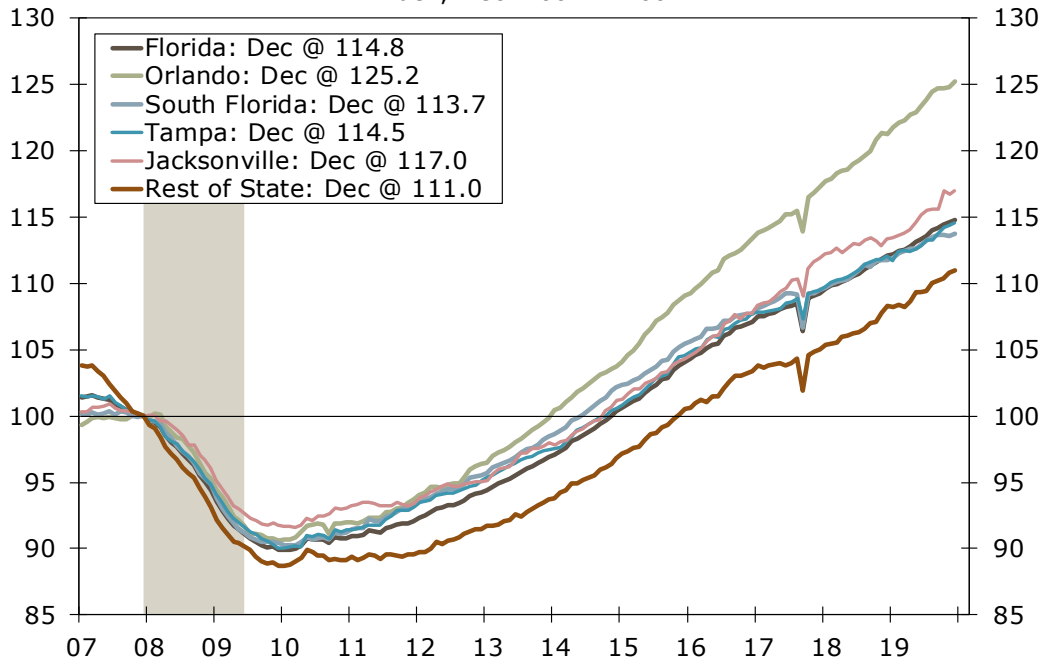


Source: U.S. Department of Labor and Wells Fargo Securities

Tampa has recovered in-line with South Florida, but has slightly lagged Orlando and Jacksonville.

Florida Regional Job Recovery

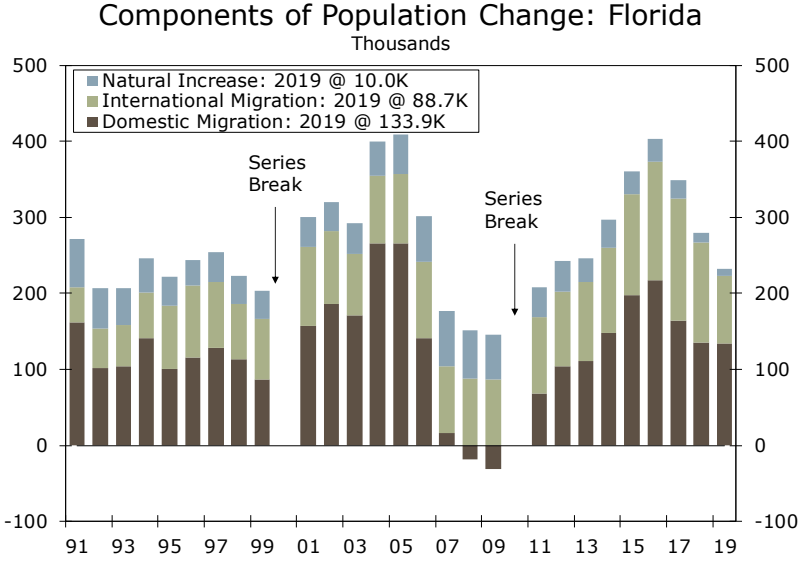
Index, Dec. 2007 = 100



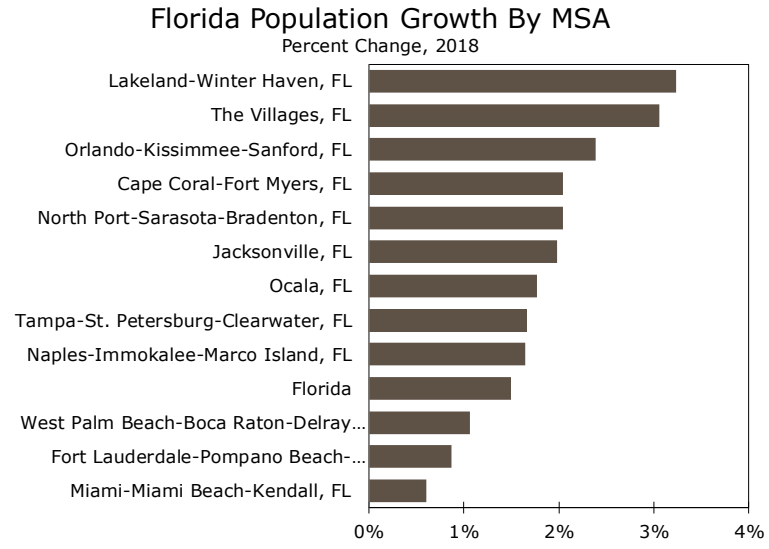
Source: U.S. Department of Labor and Wells Fargo Securities

Florida remains one of the fastest growing states in the country, despite continued moderation in 2019. Retirement areas, such as the Villages and Fort Myers, continue to be the fastest growing areas as Baby Boomers retire and migrate to the Sunshine State.

Components of Population Change



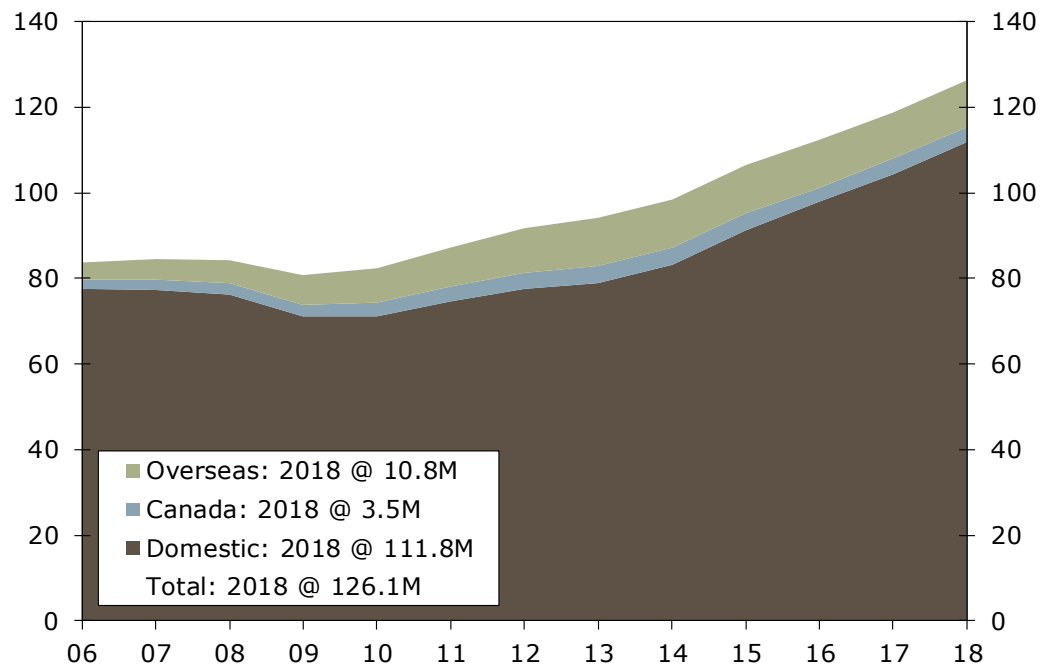
Population Growth by MSA



Source: U.S. Department of Commerce and Wells Fargo Securities

Weakening growth abroad may be a headwind, but strong consumer spending should be a boon for tourism in the state.

Florida Tourism Number of Visitors in Millions

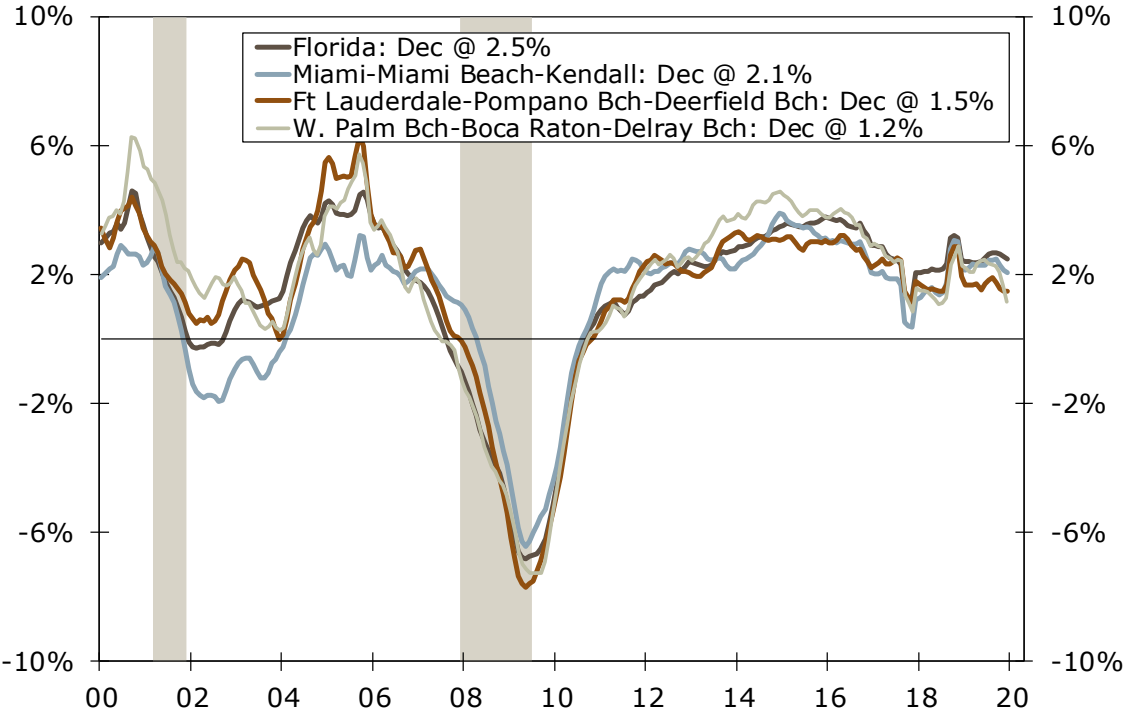


Source: Visit Florida Research and Wells Fargo Securities

Employment growth in South Florida has begun to slow and lags the statewide rate.

South Florida Metro Division Nonfarm Employment

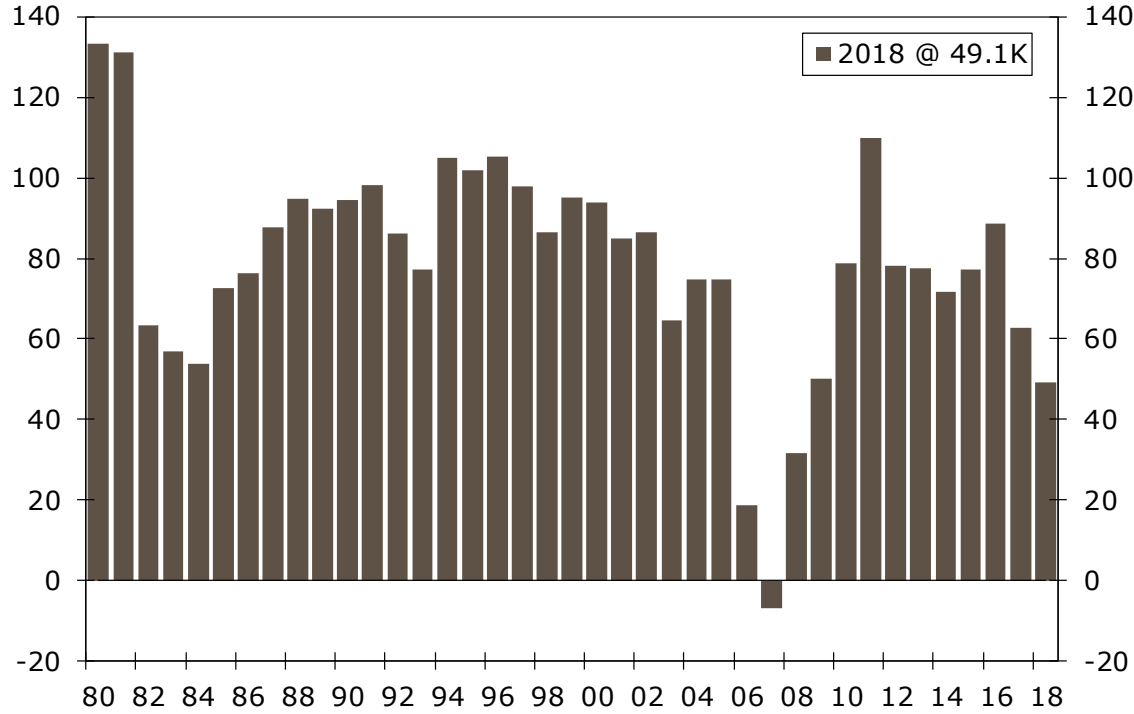
Year-over-Year Percent Change of 3-MMAA



Source: U.S. Department of Labor and Wells Fargo Securities

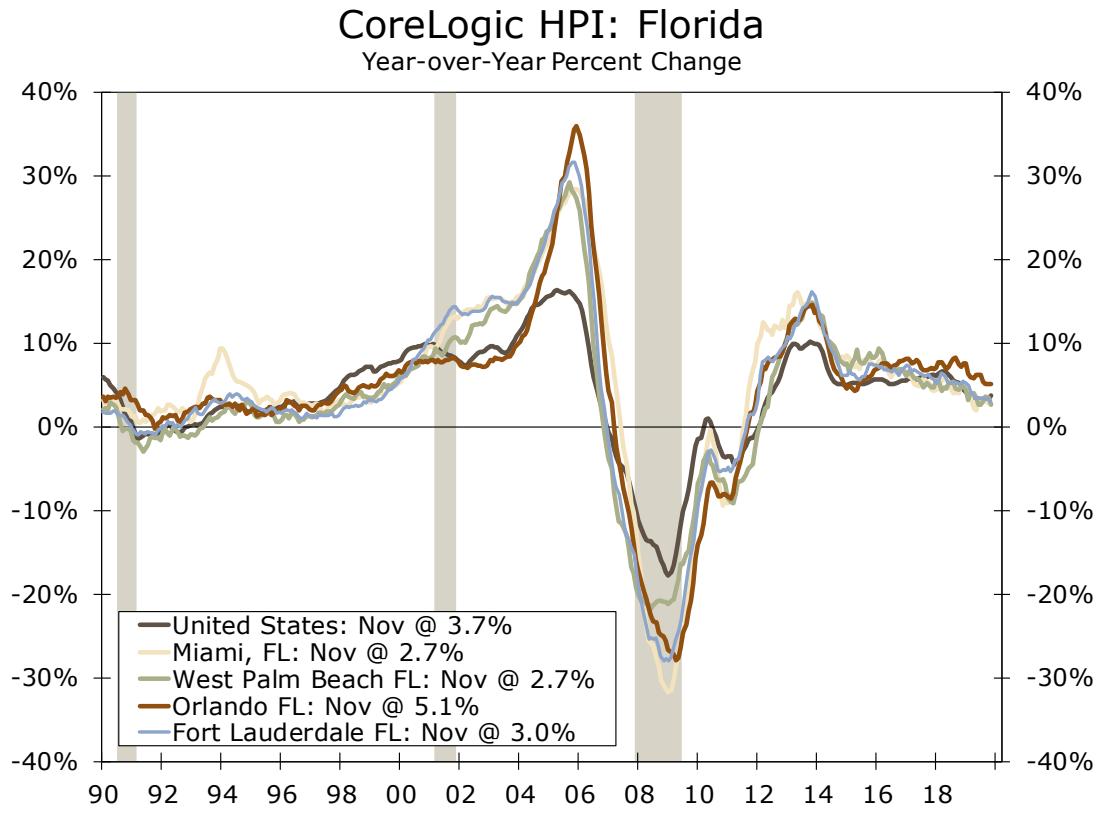
International migration boosts overall population growth and is central to economic growth in the area.

Miami MSA Population Growth In Thousands



Source: U.S. Department of Commerce and Wells Fargo Securities

Most areas of South Florida have started to see slowing home price appreciation. Values are still rising at a rate comparable to the rest of the country.

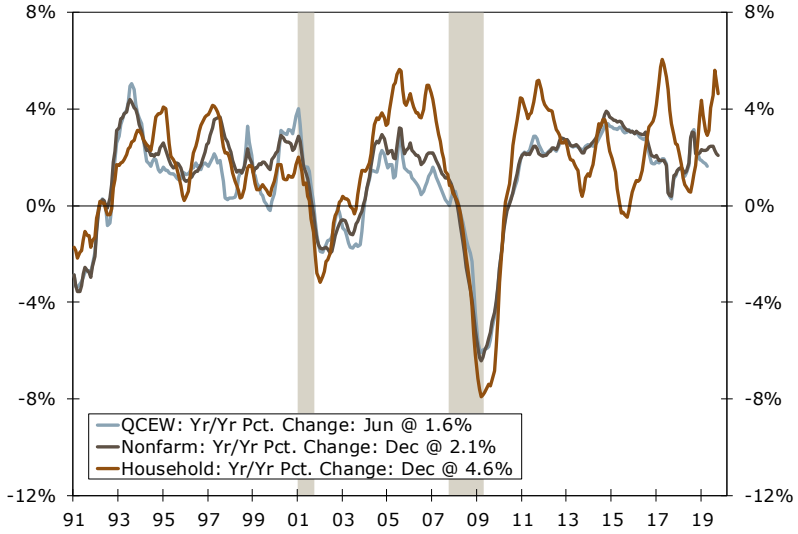


Source: CoreLogic, Inc. and Wells Fargo Securities

Payrolls are rising faster than the national rate.

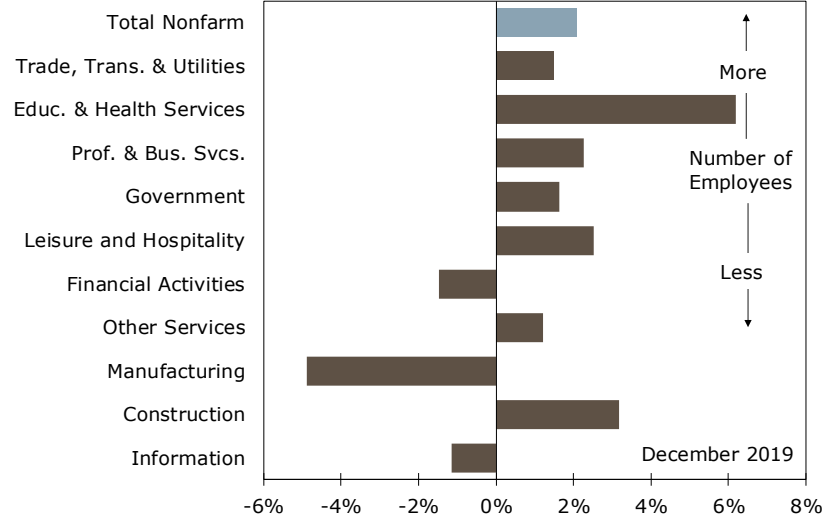
Nonfarm Employment

Miami DMSA Nonfarm Employment
Year-over-Year Percent Change of 3-MMA



Employment by Industry

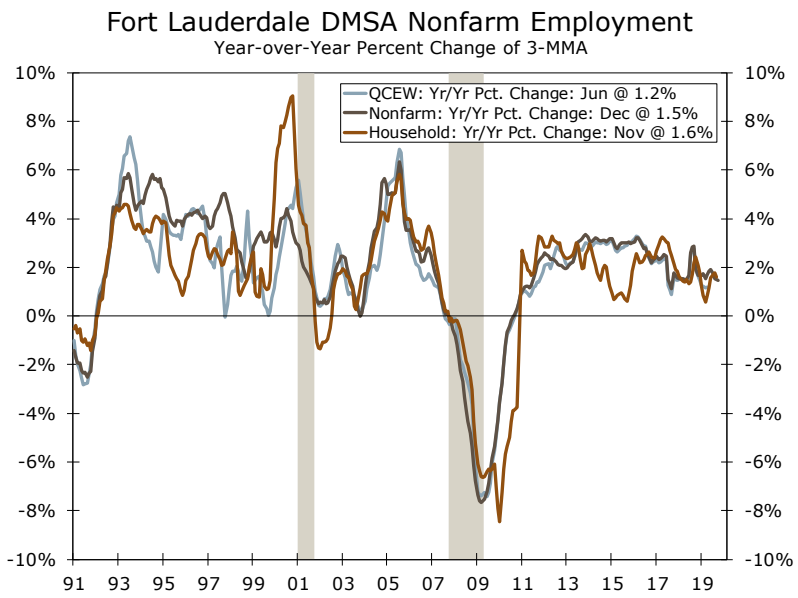
Miami DMSA Employment Growth By Industry
Year-over-Year Percent Change of 3-MMA



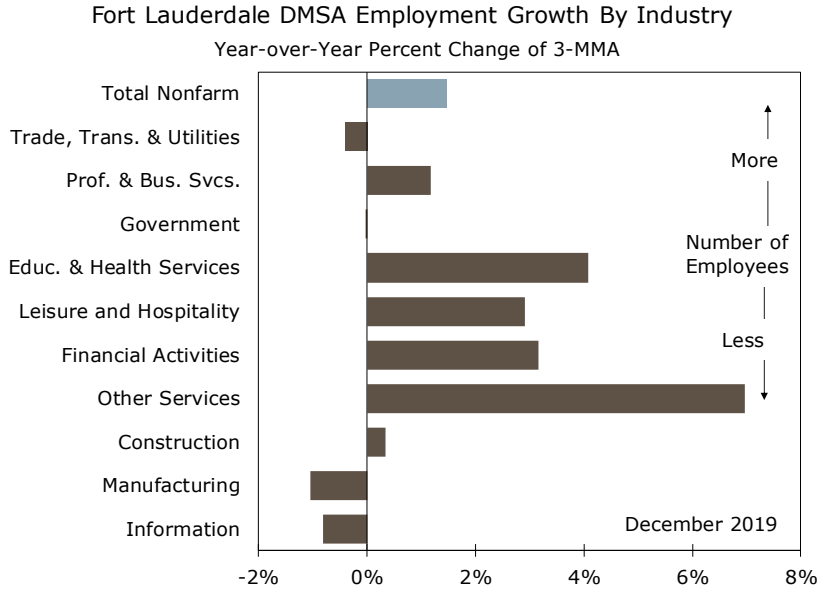
Source: U.S. Department of Labor and Wells Fargo Securities

Employment growth is roughly in-line with the national rate of 1.4% year-over-year.

Nonfarm Employment



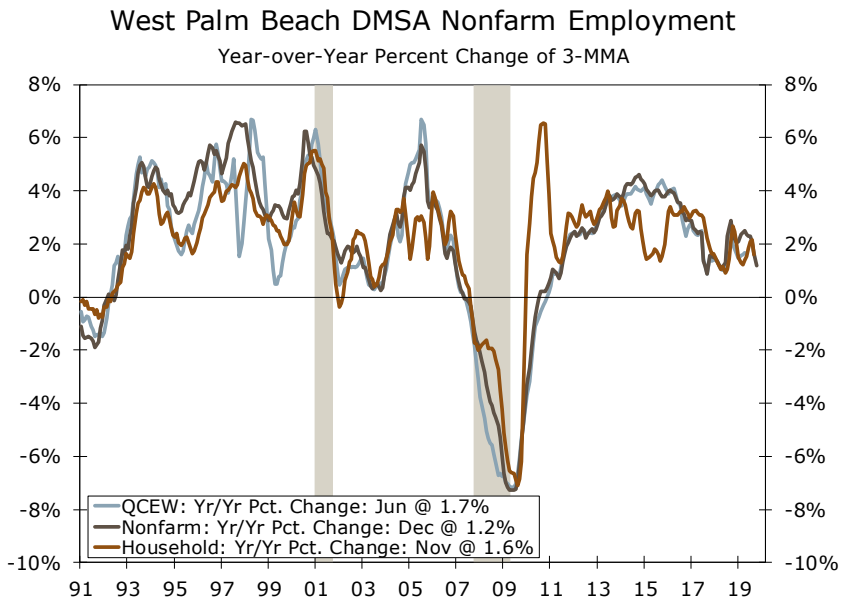
Employment by Industry



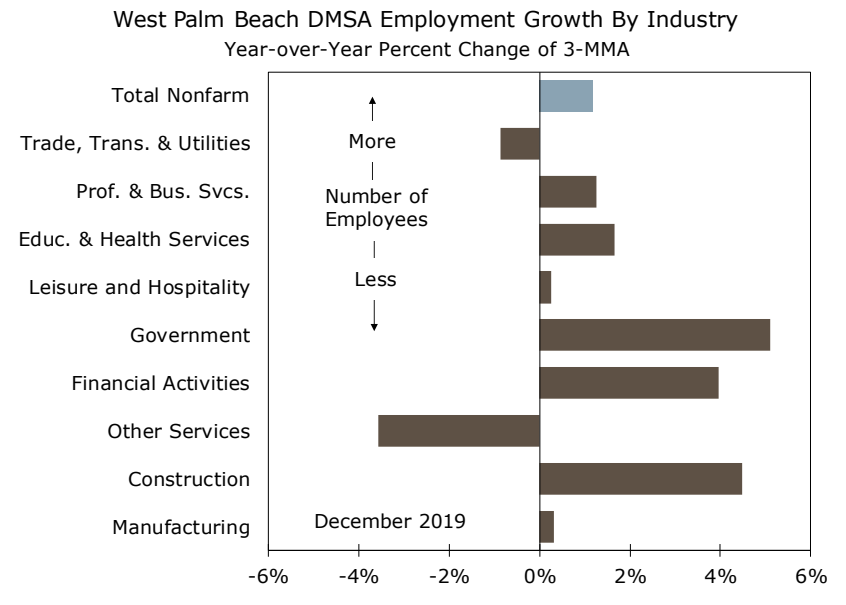
Source: U.S. Department of Labor and Wells Fargo Securities

Government and construction are seeing the strongest percentage growth.

Nonfarm Employment



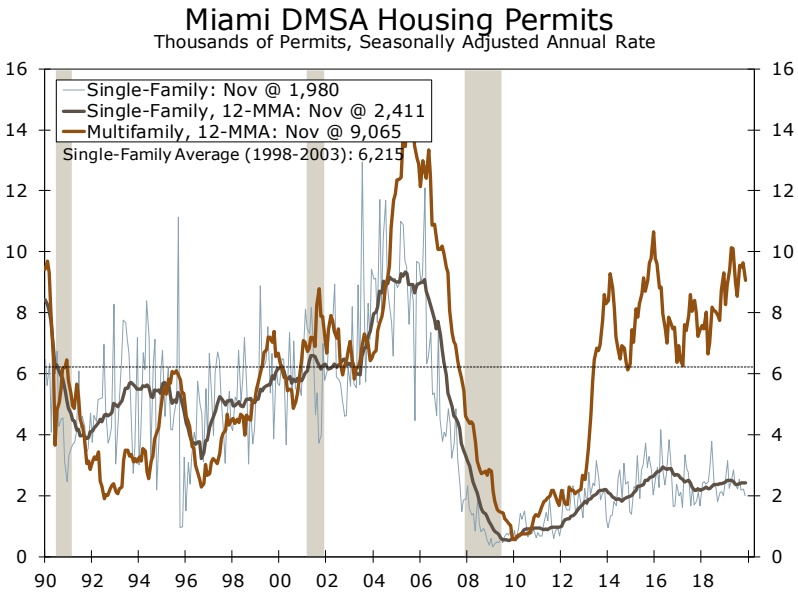
Employment by Industry



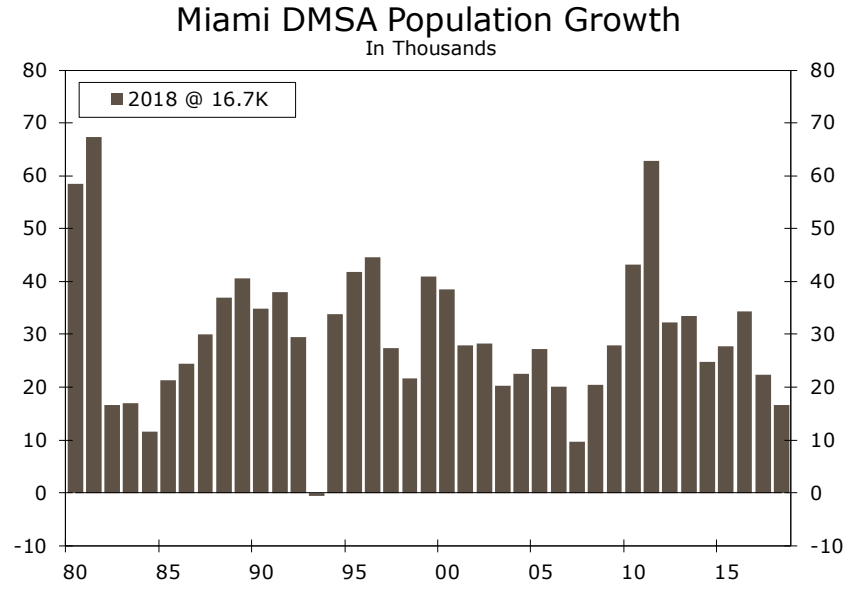
Source: U.S. Department of Labor and Wells Fargo Securities

Multifamily housing permits have remained very strong, but single-family improvement has been weak.

Housing Permits



Population

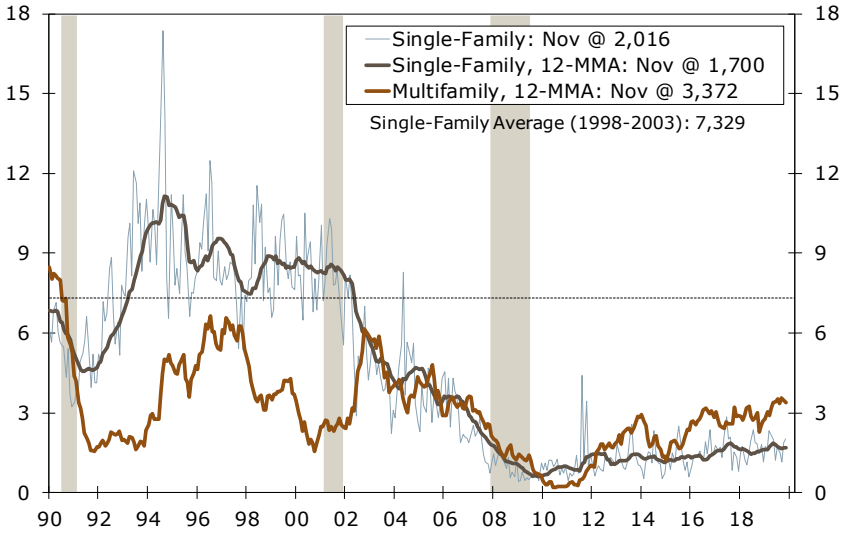


Source: U.S. Department of Commerce and Wells Fargo Securities

Residential construction has been moderate at best in Fort Lauderdale. Apartment construction has gradually increased, but nowhere near what we've seen in Miami.

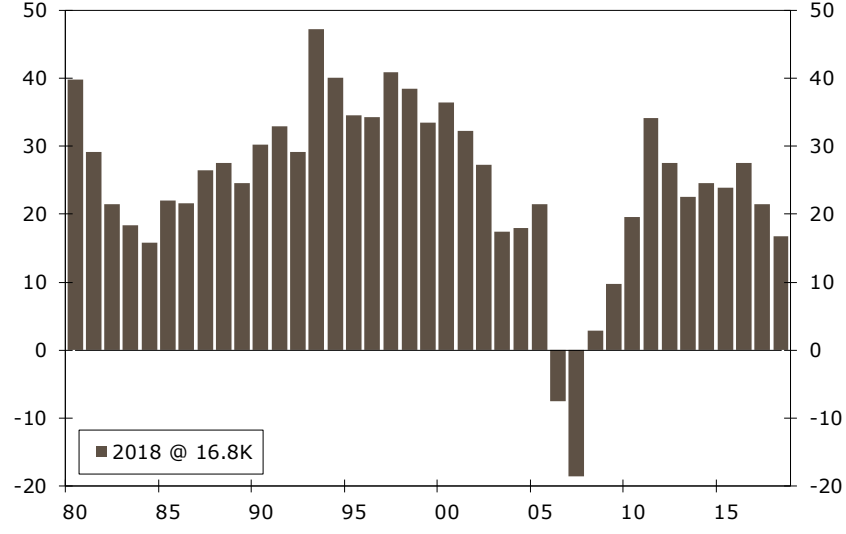
Housing Permits

Fort Lauderdale DMSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Population

Fort Lauderdale DMSA Population Growth
In Thousands

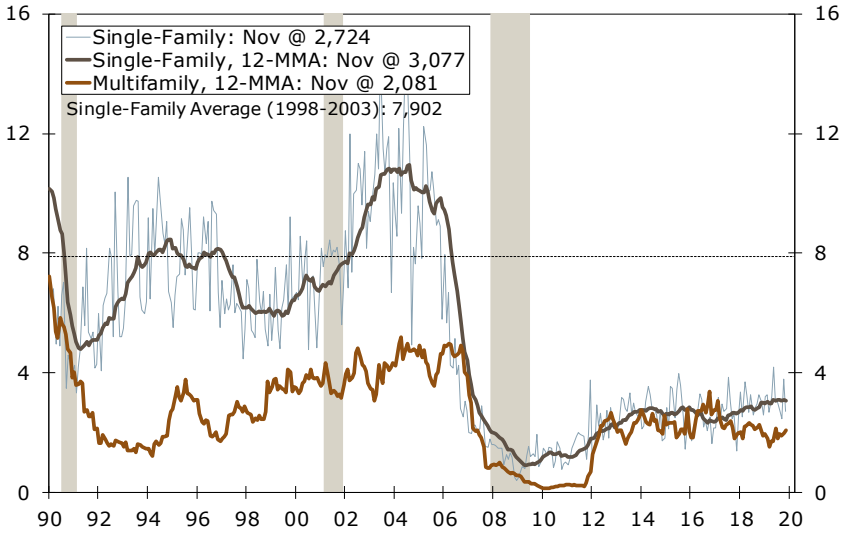


Source: U.S. Department of Commerce and Wells Fargo Securities

Residential construction activity has picked up modestly in West Palm Beach.

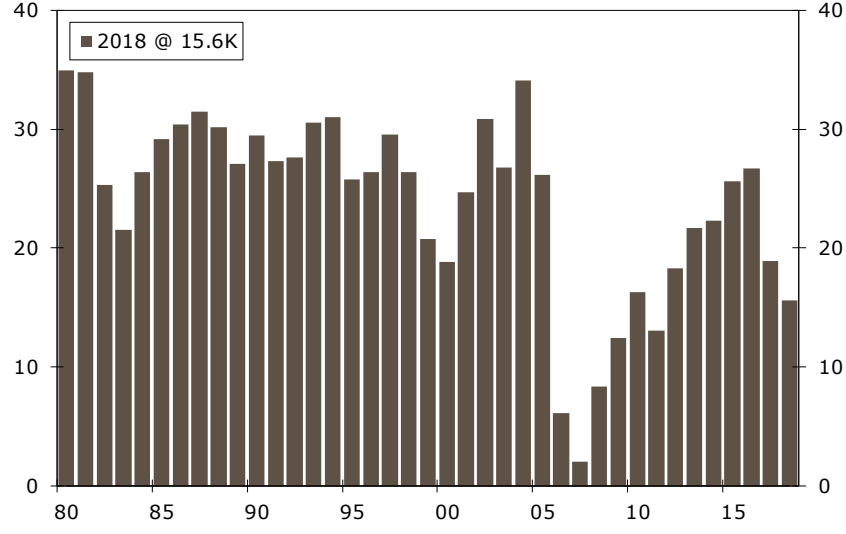
Housing Permits

West Palm Beach DMSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Population

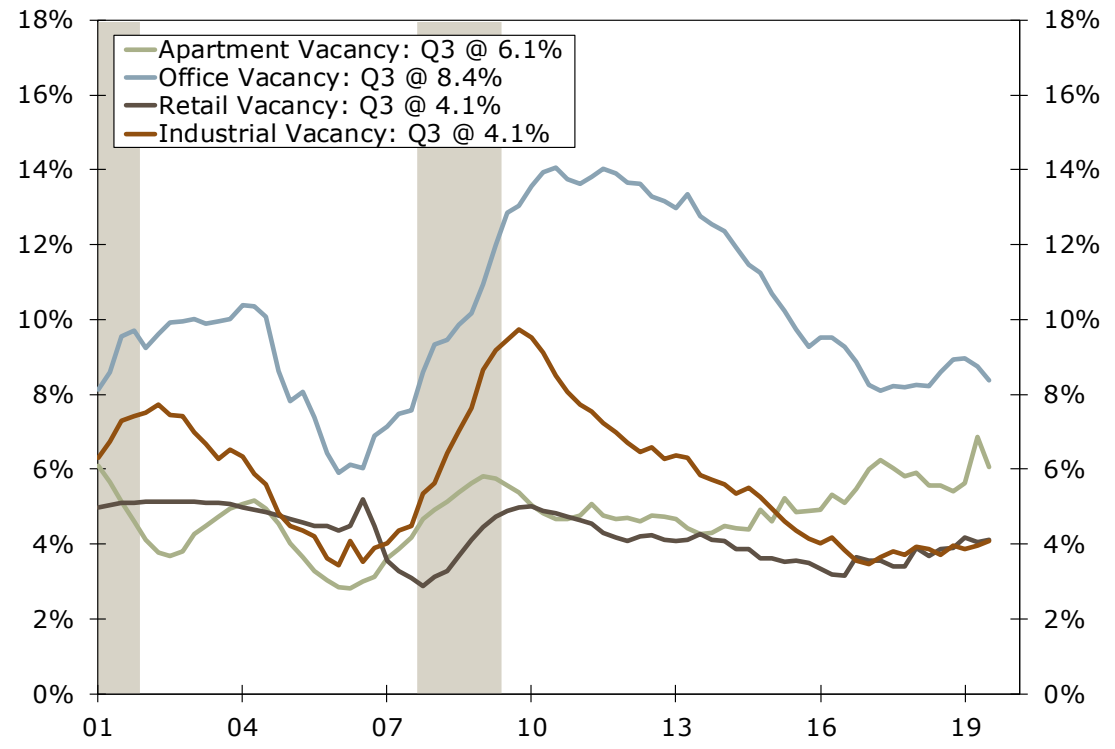
West Palm Beach DMSA Population Growth
In Thousands



Source: U.S. Department of Commerce and Wells Fargo Securities

Vacancy rates remain low.

Miami CRE Vacancy Rates

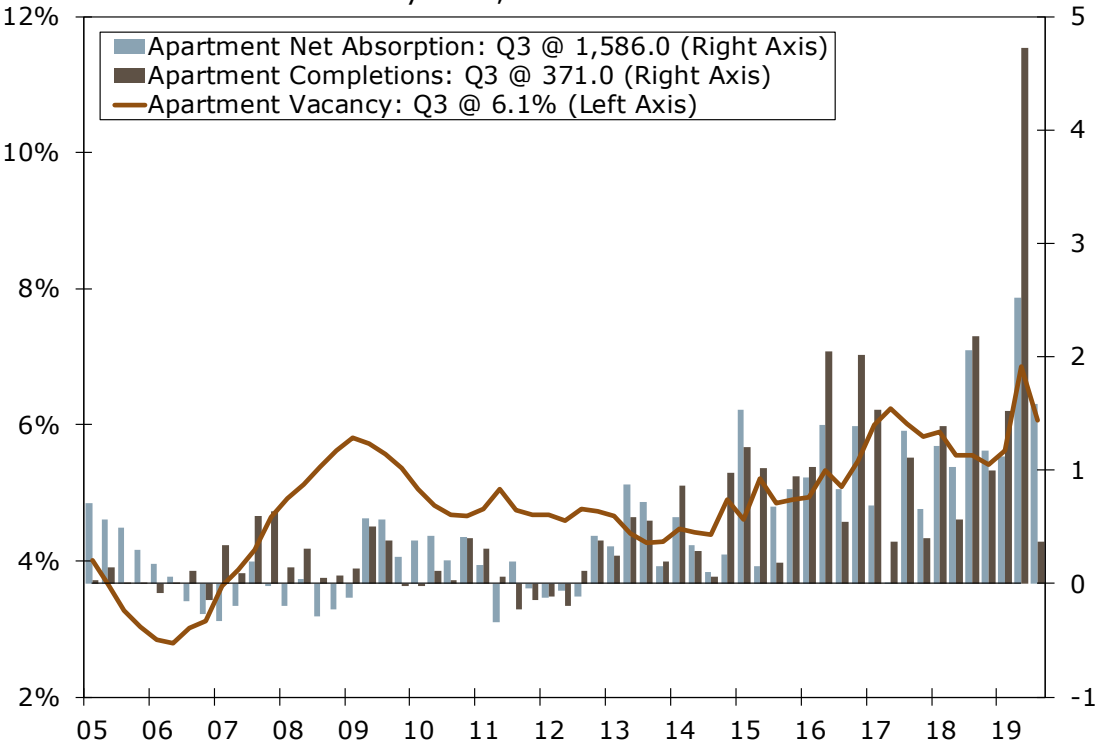


Source: CoStar, Inc. and Wells Fargo Securities

Apartment construction has been strong.

Miami Apartment Supply & Demand

Vacancy Rate; Thousands of Units



Source: CoStar, Inc. and Wells Fargo Securities

Wells Fargo U.S. Economic Forecast

	Actual																Forecast			
	2018				2019				2020				2021				2018	2019	2020	2021
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.6	3.5	2.9	1.1	3.1	2.0	2.1	2.3	1.2	2.9	2.2	2.3	2.1	2.2	2.4	2.4	2.9	2.3	2.1	2.3
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	3.1	2.2	2.1	2.0	1.9	1.9	1.8	2.1	2.2	2.2	3.0	2.6	2.3	2.0
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	1.1	2.2	2.6	3.7	3.9	4.0	3.9	3.9	3.8	6.4	2.3	1.6	3.8
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	0.0	1.4	1.5	2.6	2.9	3.4	3.4	3.2	3.0	6.8	1.6	0.7	3.0
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	4.7	6.3	5.1	4.4	5.7	6.0	5.9	5.5	5.6	5.7	7.4	7.7	5.2	5.7
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-9.9	-10.5	-1.5	1.5	2.5	2.0	1.8	1.9	2.0	2.1	4.1	-4.5	-3.8	2.0
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	4.6	4.5	4.3	4.5	4.5	4.3	4.0	4.0	3.8	3.5	-1.5	-1.6	4.0	4.1
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.7	0.8	1.1	1.1	1.0	0.8	0.8	0.8	0.8	0.7	1.7	2.2	1.3	0.9
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	1.4	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	0.1	0.0	-0.4	-0.2	0.1	-0.1
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	0.0	-0.9	-0.7	0.7	0.2	0.2	0.2	0.0	0.0	0.0	0.1	0.1	-0.2	0.2
Nonfarm Payroll Change ³	228	243	189	233	174	152	193	184	180	405	-105	10	115	110	110	110	223	176	123	111
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.6	3.5	3.6	3.6	3.7	3.7	3.7	3.7	3.9	3.7	3.6	3.7
Consumer Price Index ⁴	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.0	2.4	2.2	2.2	2.2	2.1	2.2	2.2	2.1	2.4	1.8	2.2	2.1
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.96	2.25	1.75	1.75
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.28	3.80	3.61	3.72	3.90	3.90	3.90	3.90	3.95	4.00	4.05	4.10	4.54	3.94	3.90	4.03
2 Year Note	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.58	1.75	1.80	1.80	1.85	1.90	1.90	1.95	2.00	2.53	1.97	1.80	1.94
10 Year Note	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.92	2.10	2.15	2.15	2.20	2.25	2.30	2.35	2.40	2.91	2.14	2.15	2.33

Forecast as of: January 15, 2020

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Percentage Point Contribution to GDP

³ Average Monthly Change

⁴ Year-over-Year Percentage Change

⁵ Annual Numbers Represent Averages

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
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January-22	A New Coronavirus, Same Impact?	Bryson & Mathews
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January-10	Consumers Are Resilient Even in Challenging Times	Quinlan, Iqbal & Seery
January-06	Potential Economic Implications of the Iranian Crisis	Bryson
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January-24	Texas Payrolls Gain in December	Vitner & Dougherty
January-24	North Carolina Employment Flat in December	Vitner, Dougherty & Honnold
January-24	Florida's Unemployment Rate Falls to New Low	Vitner & Dougherty
January-23	Georgia Saw Solid Job Gains in December	Vitner & Dougherty
Global Economy		
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January-08	Let's Get Digital: A Briefing on Central Bank Digital Currencies	Nelson & Licis
December-17	China-Dependent Economies Showing Signs of Stabilization	Pugliese & Bennenbroek
December-13	The Election is Over, but Brexit is Not	Nelson
December-11	2020 International Economic Outlook	Bennenbroek & Licis
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December-03	December Flashlight for the FOMC Blackout Period	Bryson, Quinlan & House
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December-05	Housing Maintains Solid Momentum Headed into 2020	Vitner, Dougherty & Honnold
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November-07	Housing Chartbook: November 2019	Vitner, Dougherty & Honnold

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