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SECURITIES

Economic Outlook

Mark Vitner, Managing Director & Senior Economist

April 17, 2019

Together we'll go far



Economic Outlook

- **After a strong Q2 and Q3, economic growth moderated toward the tail end of Q4 and slowed further at the start of 2019. First quarter GDP may be surprisingly soft but the economy appears to be on pace to grow 2.5% in 2019.**

Fiscal Policy

- **The short-term boost from tax reform appears to be fading and smaller than expected refunds will weigh on spending this spring. Government spending has ramped up, however, and opportunity zones hold great promise.**

Monetary Policy

- **The Fed has once again become data driven as opposed to target driven. The Fed's more patient stance is well suited to the heightened risks from slower global economic growth and lack of visibility on U.S. growth.**

Trade Policy

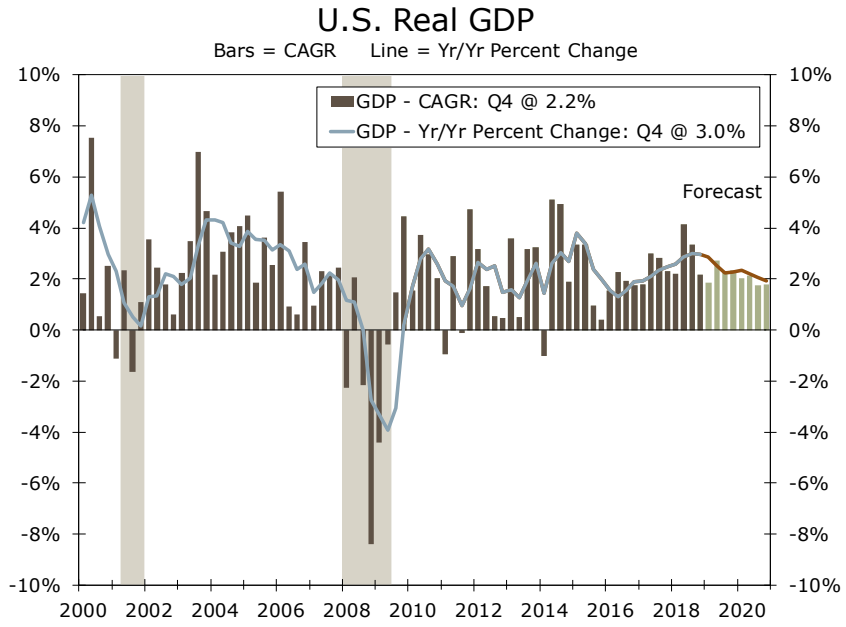
- **The Trump Administration's confrontational negotiating tactics have increased uncertainty but may also bring about needed changes from China. Trade relations are likely to remain contentious until a deal is reached.**

Northern Virginia

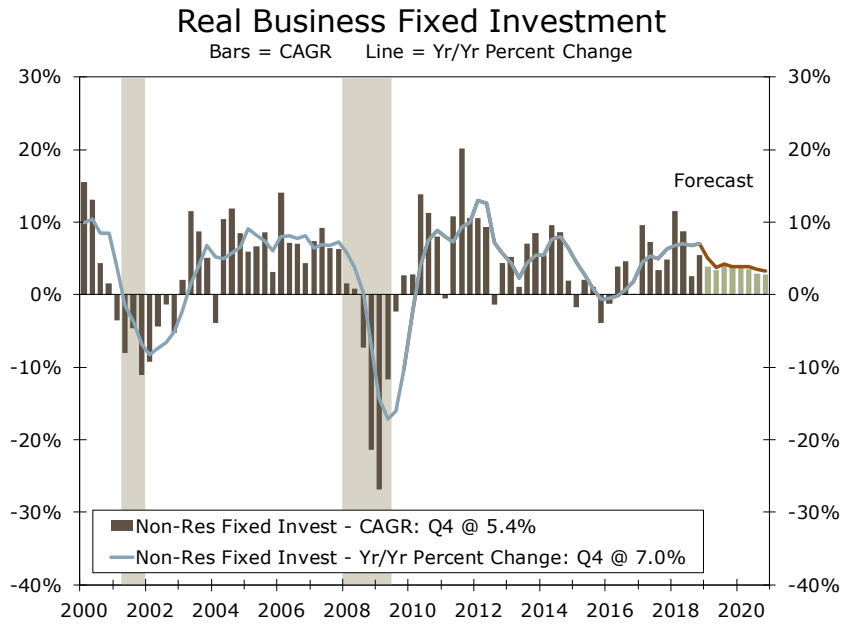
- **Northern Virginia has seen strong growth in high-paying jobs. Single-family construction has remained subdued but the D.C. area has seen significant apartment deliveries as interest in living closer to the city has risen.**

Real GDP growth moderated in Q4. Consumer spending was solid but ended the quarter on a soft note. Business fixed investment strengthened even though factory orders weakened, suggesting capex will slow further. Residential investment remains a drag on growth.

Real GDP



Business Fixed Investment

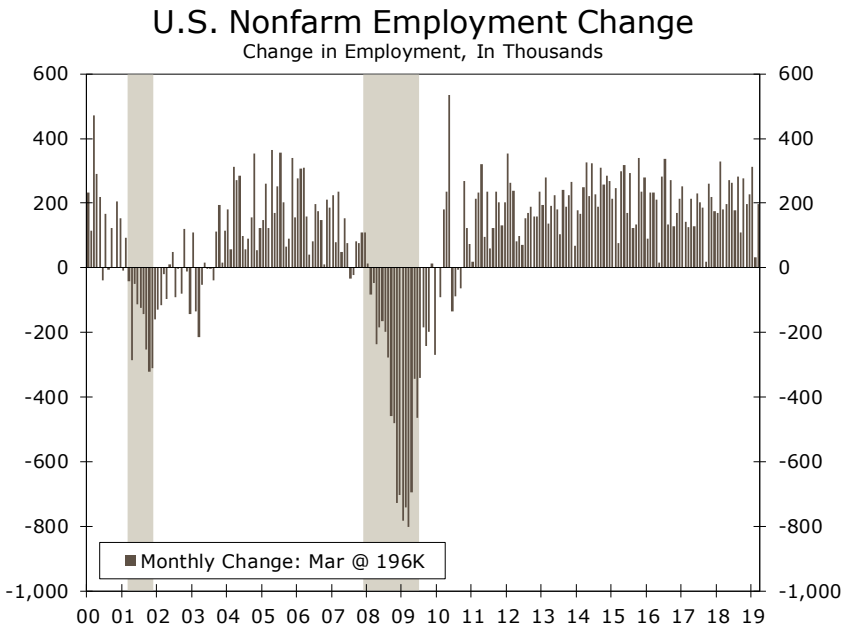


Source: U.S. Department of Commerce and Wells Fargo Securities

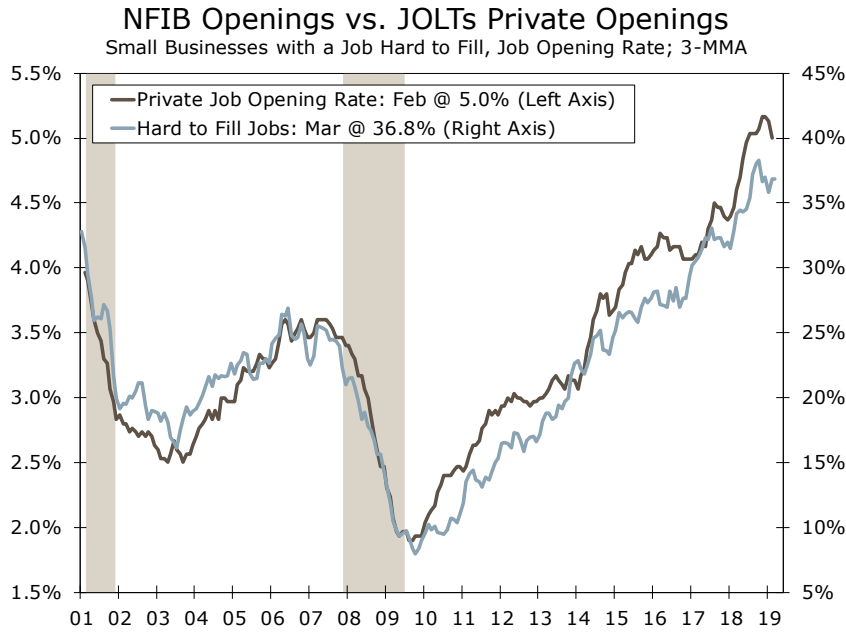
Employment Situation: Broadening Growth

February's small gain in nonfarm jobs likely reflects some payback from stronger gains in prior months. Hiring appears set to slow, however, as businesses are growing more cautious. Wage gains have rebounded but remain modest relative to prior periods when the labor market was this tight. Labor demand remains fairly strong and is a good leading indicator of job growth.

Nonfarm Employment



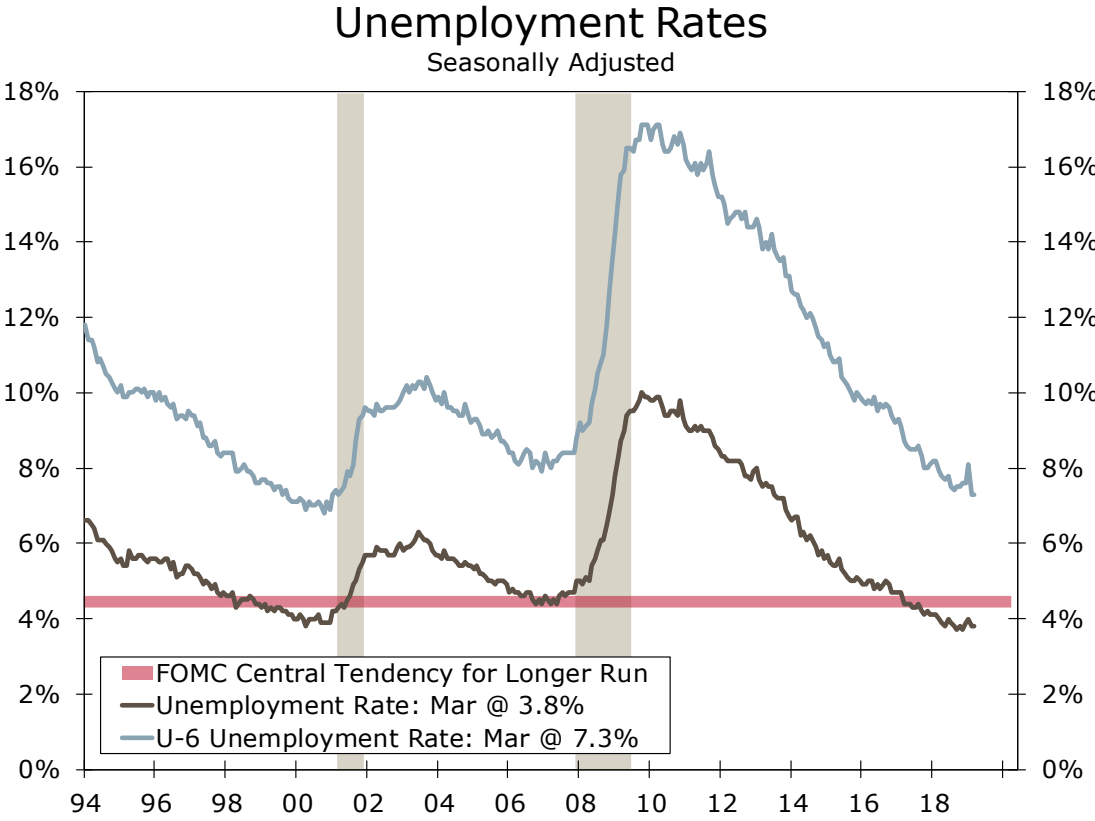
Job Openings



Source: U.S. Department of Labor, National Federation of Independent Business and Wells Fargo Securities

The labor market has tightened substantially, with the unemployment rate at 3.8%.

While the criteria for determining the unemployment rate have not changed, growth in the Gig economy, particularly LinkedIn and the proliferation of online job search platforms, have likely changed the way workers engage in the labor market. As result, the economy can maintain relatively low inflation even with historically low unemployment.

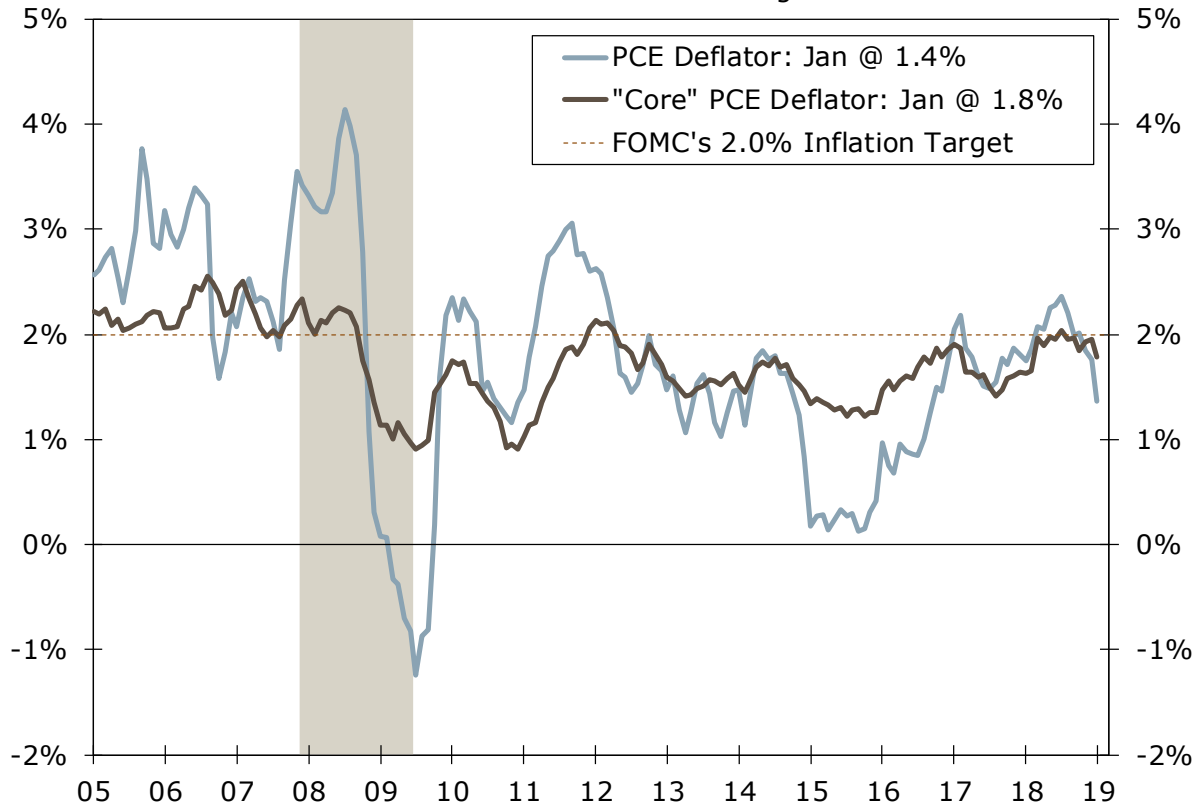


Source: U.S. Department of Labor and Wells Fargo Securities

The Fed's preferred measure of inflation—the core PCE deflator—finally reached its 2% target before dipping again. With growth cooling off, pipeline inflationary pressures appear to be lessening, and inflation expectations have fallen in recent weeks.

PCE Deflator vs. Core PCE Deflator

Year-over-Year Percent Change



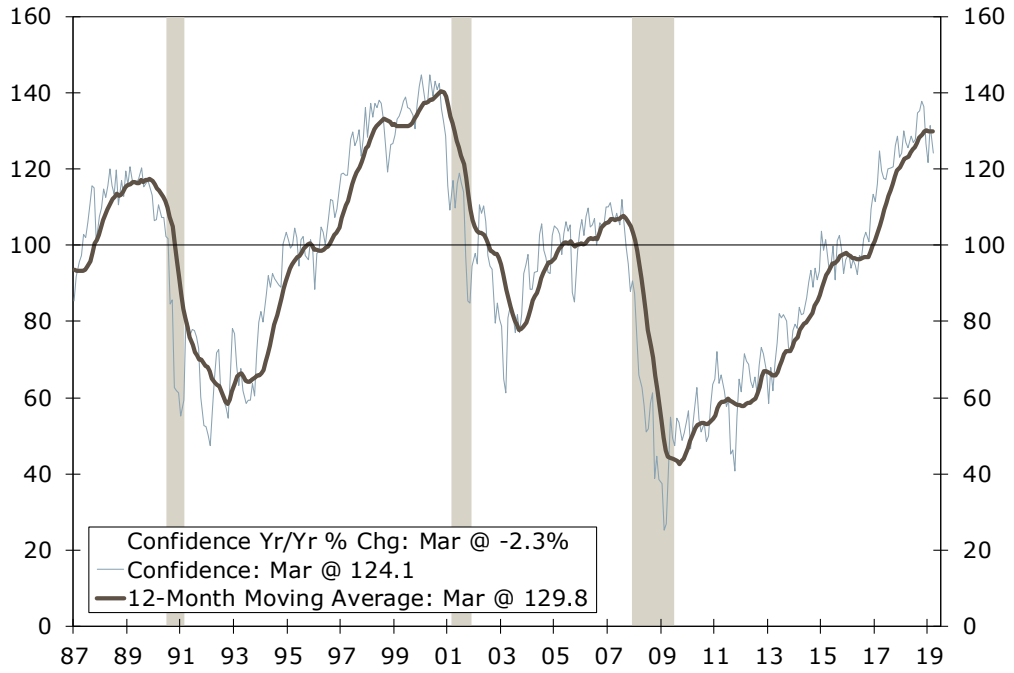
Source: U.S. Department of Commerce and Wells Fargo Securities

Despite a recent dip, consumer confidence is incredibly strong. Consumers are much more upbeat about current conditions than future conditions.

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

Consumer Confidence Index

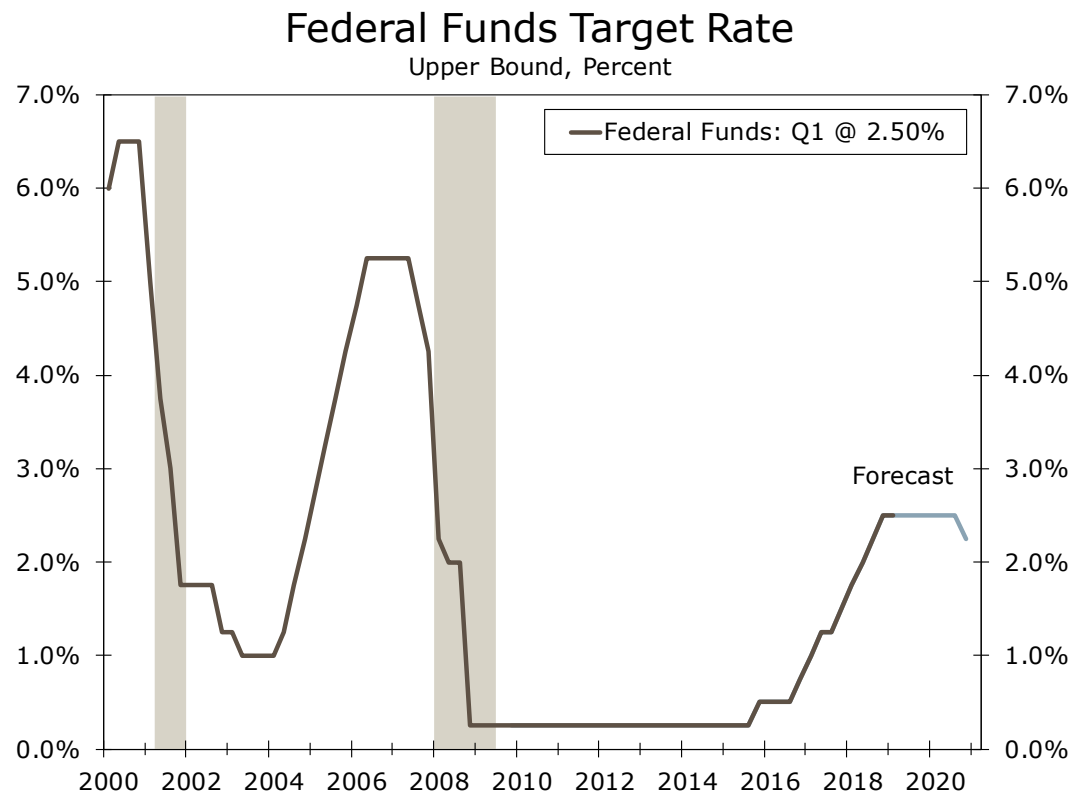
Conference Board



Source: Conference Board and Wells Fargo Securities

The minutes from the Fed's March FOMC meeting suggest that the Fed will hold interest rates steady until it sees evidence that domestic demand is reaccelerating, inflation is heating up and global economic conditions stabilize.

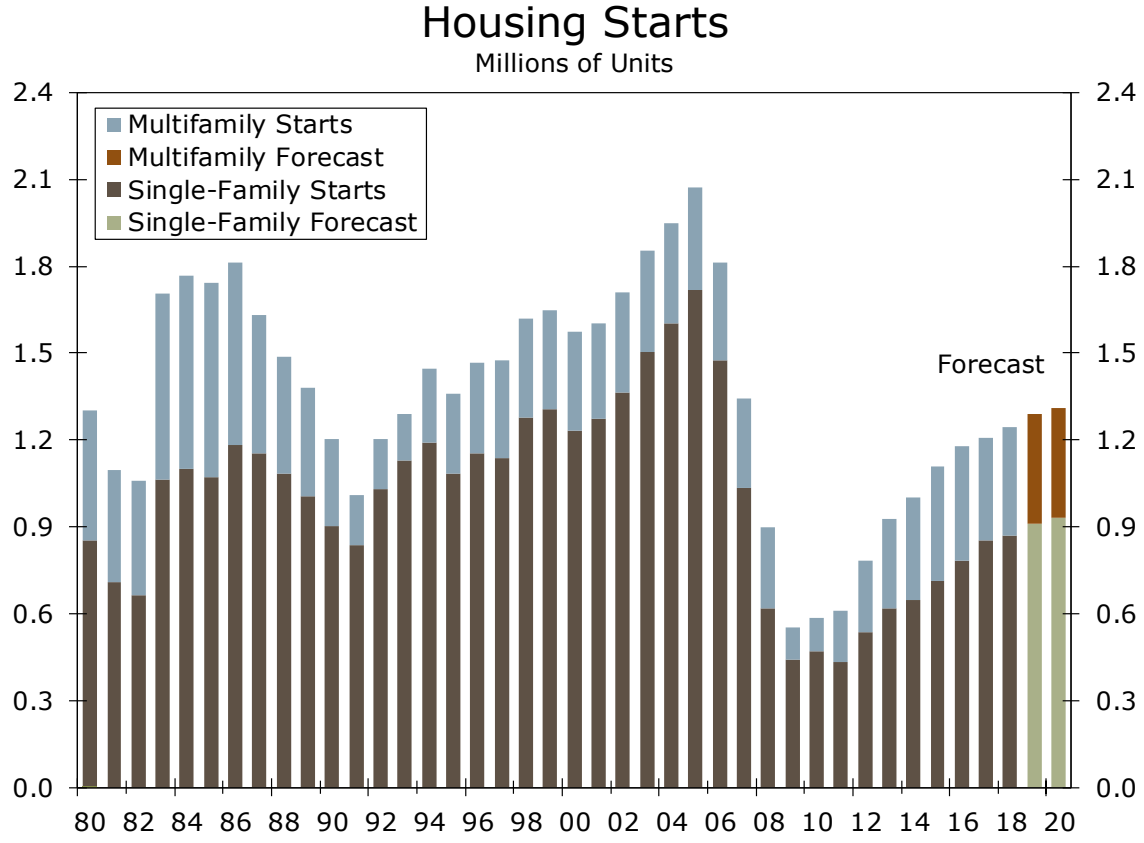
We now believe the Fed will hold rates steady through the remainder of this year and expect the next Fed move to be a rate cut, most likely after the 2020 presidential election.



Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

Affordability concerns will continue to keep a low ceiling on home sales and new home construction.

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.

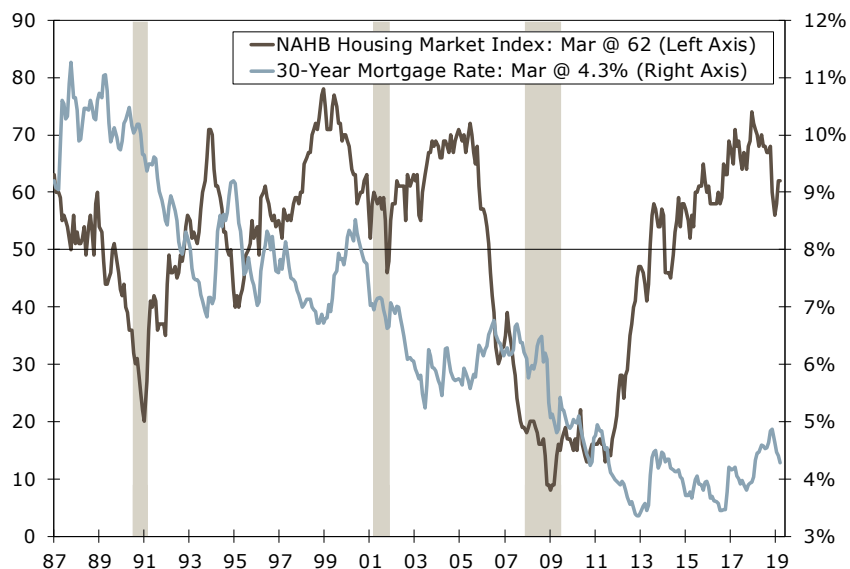


Source: U.S. Department of Commerce and Wells Fargo Securities

The NAHB index has stabilized, indicating a rebound in single-family starts heading into spring.

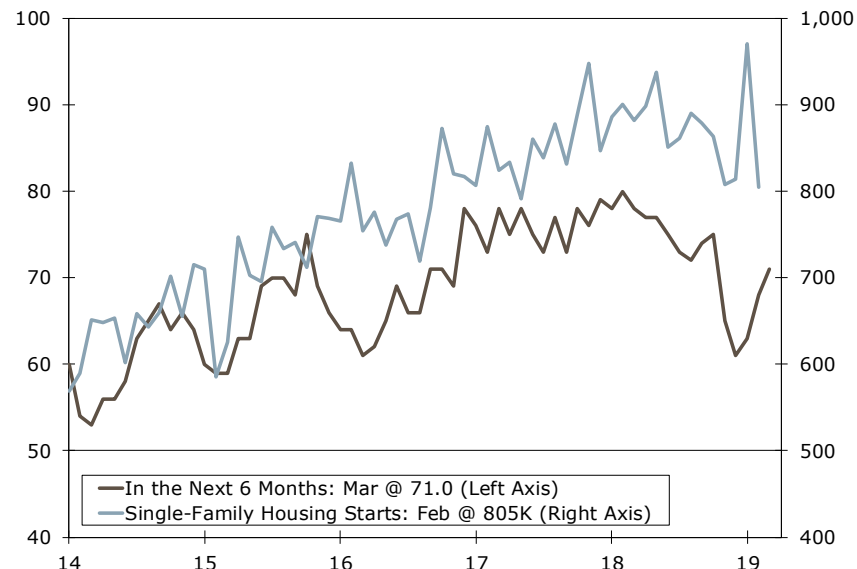
NAHB vs Rates

NAHB/Wells Fargo Housing Market Index vs. Mortgage Rate
Diffusion Index, Rate



Expected Sales

NAHB Expected Single-Family Home Sales vs. SF Starts
NAHB Housing Market Index

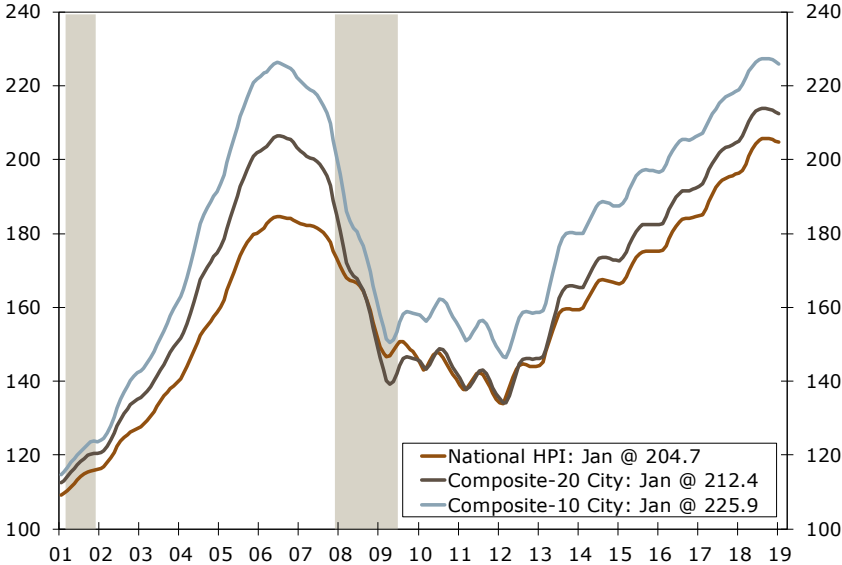


Source: Freddie Mac, NAHB and Wells Fargo Securities

The recovery in home prices varies considerably throughout the country. Prices have risen fastest in rapidly growing tech-driven markets, mostly in the West. Several large East Coast markets have slowed, reflecting less foreign buying and possibly the impact of tax reform.

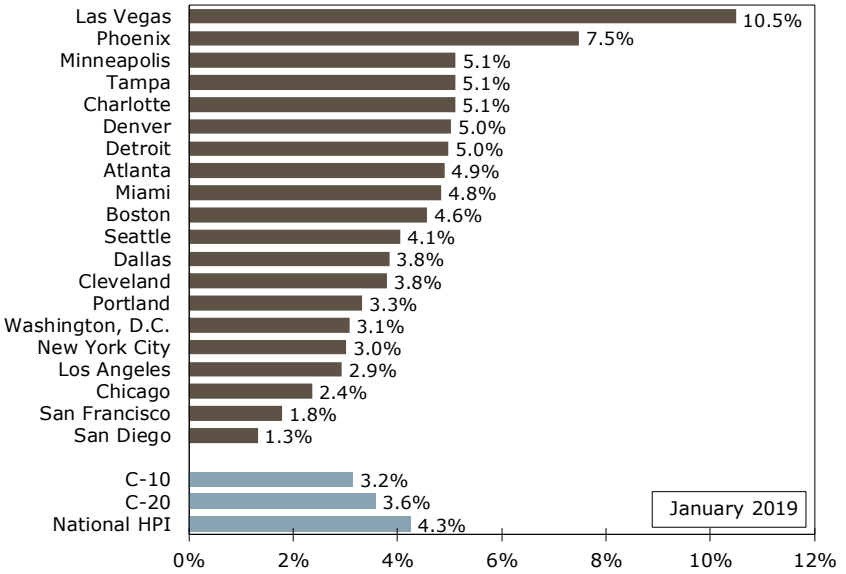
Home Prices

S&P CoreLogic CS Home Price Index
Index, January 2000=100



Regional

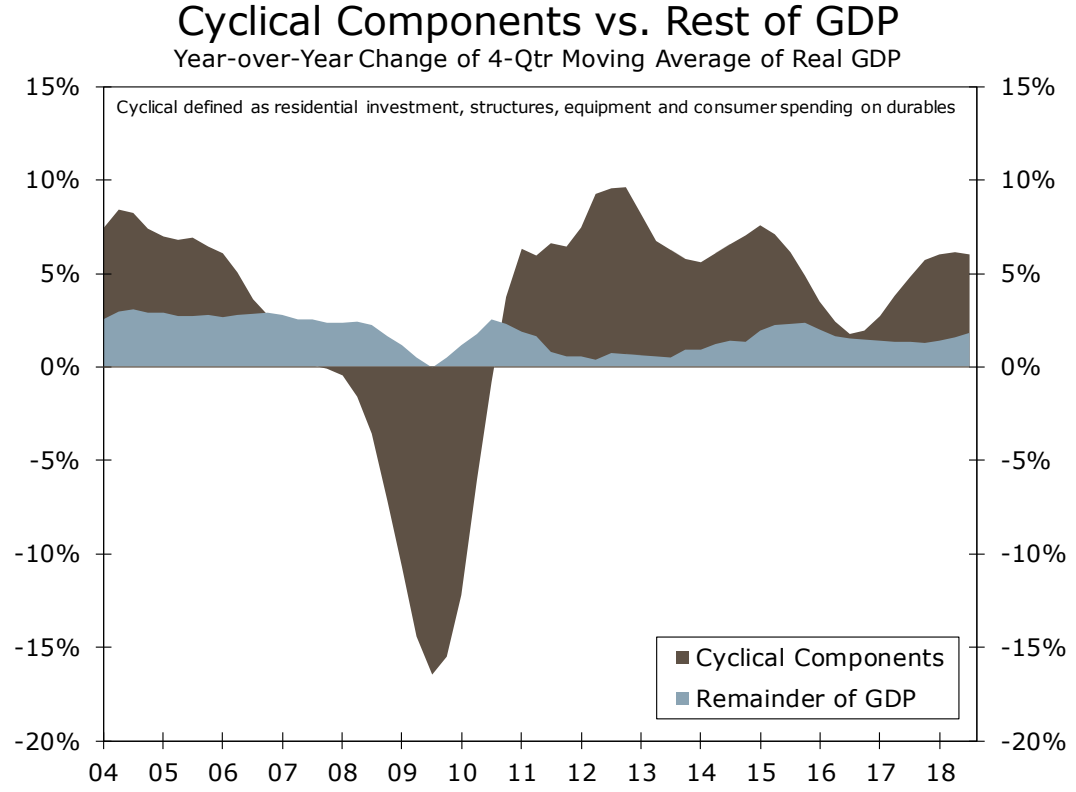
S&P CoreLogic Case-Shiller Home Prices
Year-over-Year Percent Change, NSA



Source: S&P Case-Shiller 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.

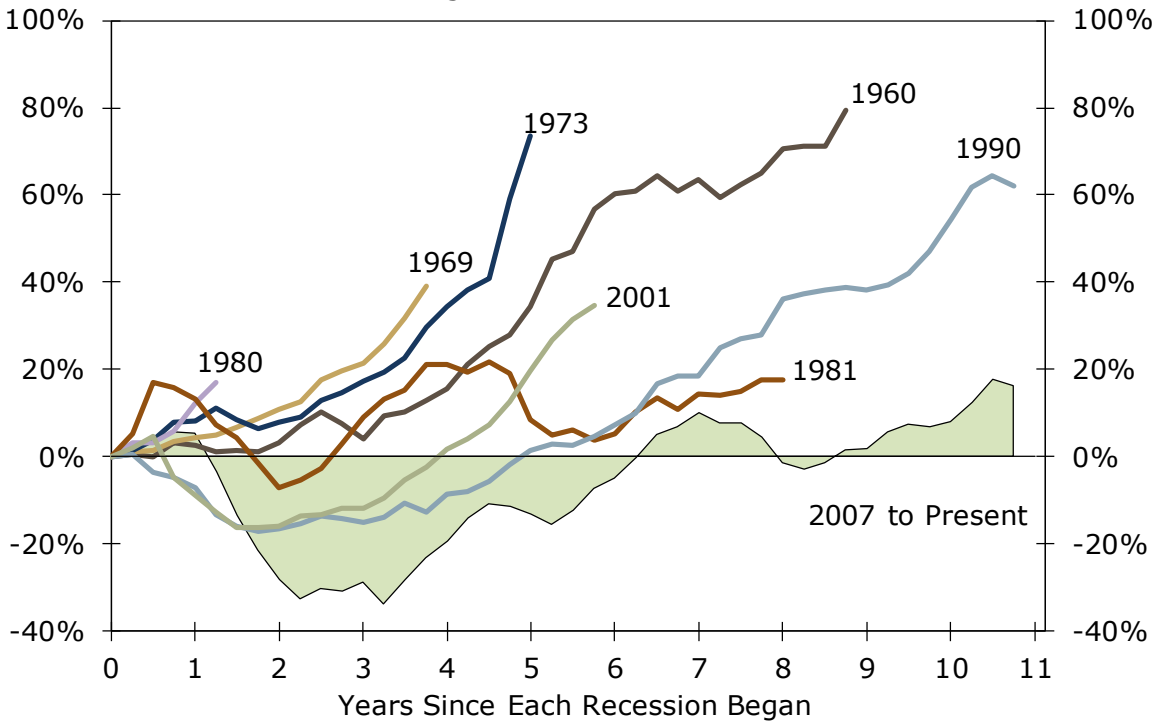


Source: U.S. Department of Commerce and Wells Fargo Securities

Overall building has remained relatively subdued this cycle. Much of the activity has been concentrated in several large markets.

Nonresidential Structures Investment

Percent Change Since Start of Each Recession



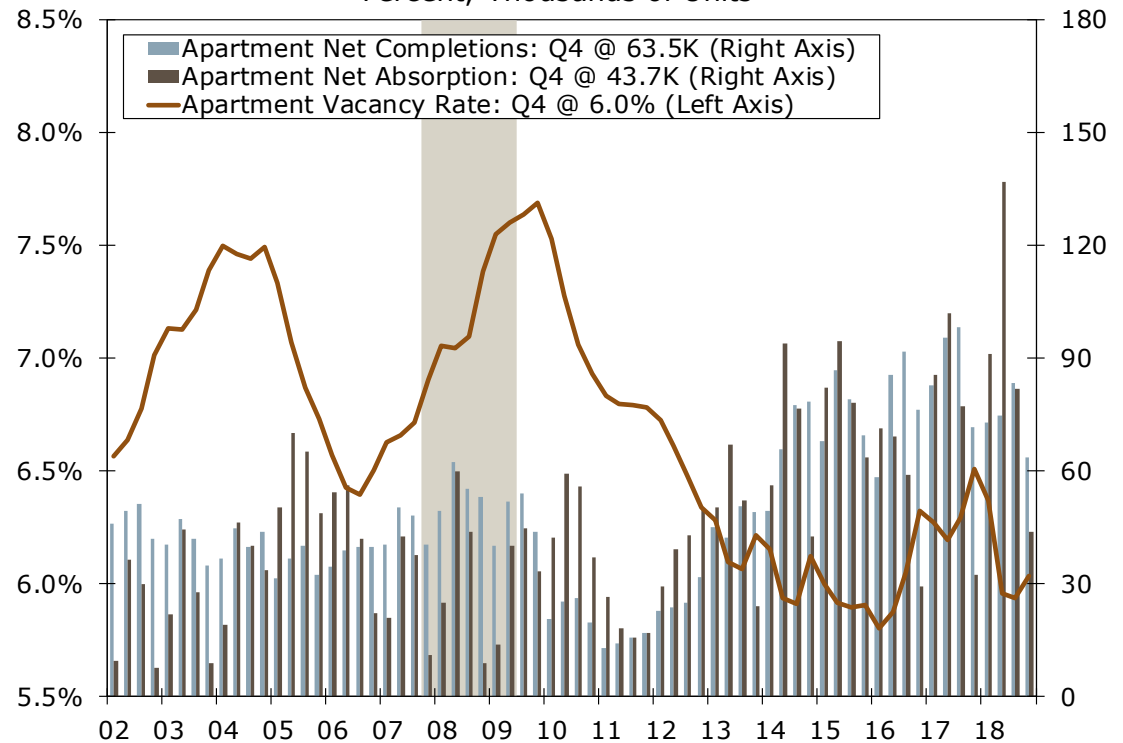
Source: U.S. Department of Commerce and Wells Fargo Securities

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

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

Apartment Supply & Demand

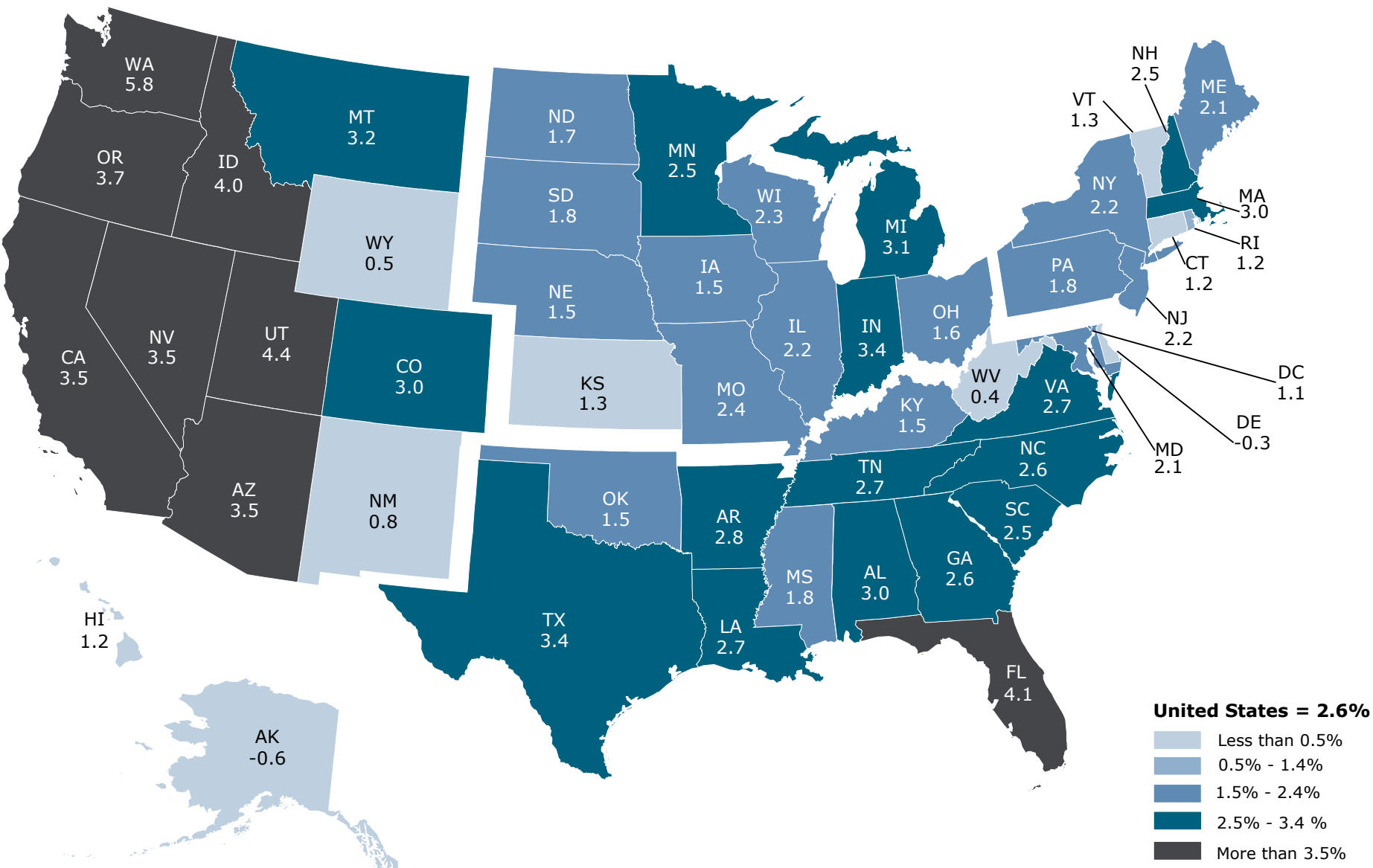
Percent, Thousands of Units



Source: CoStar, Inc. and Wells Fargo Securities

Regional Commentary

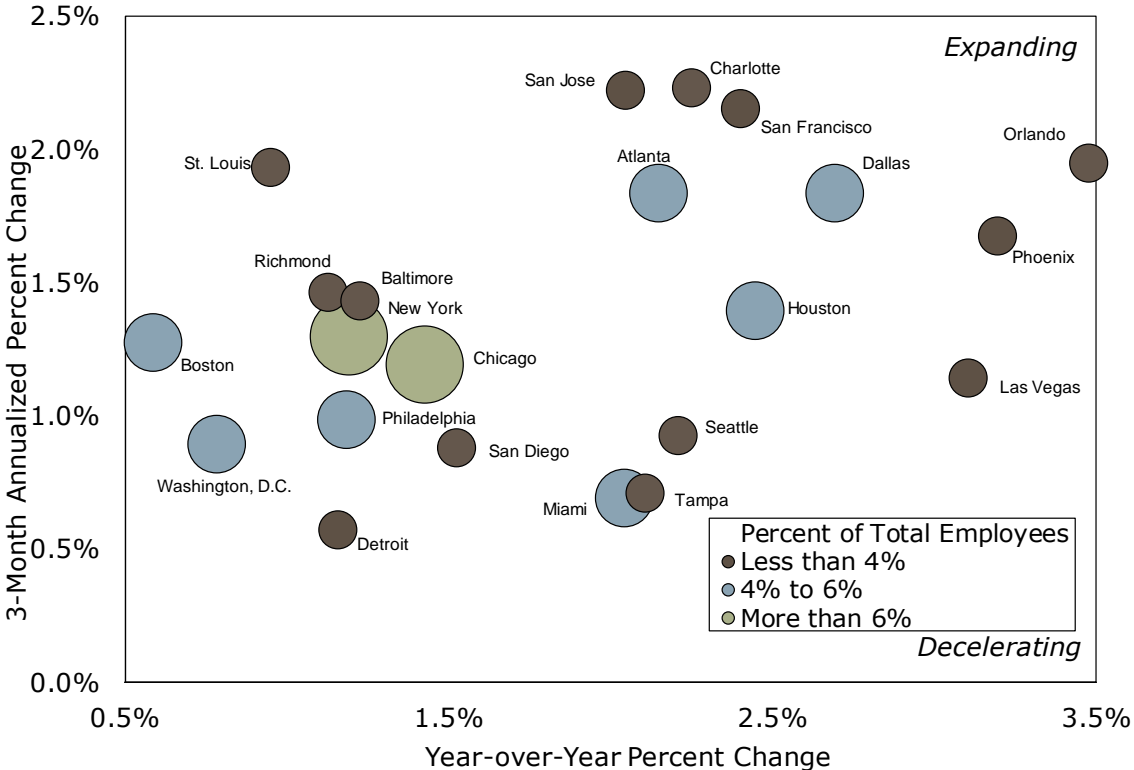
Year-over-Year Percent Change in Real GDP by State (Q3-2018)



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
3-Month Moving Averages, February 2019

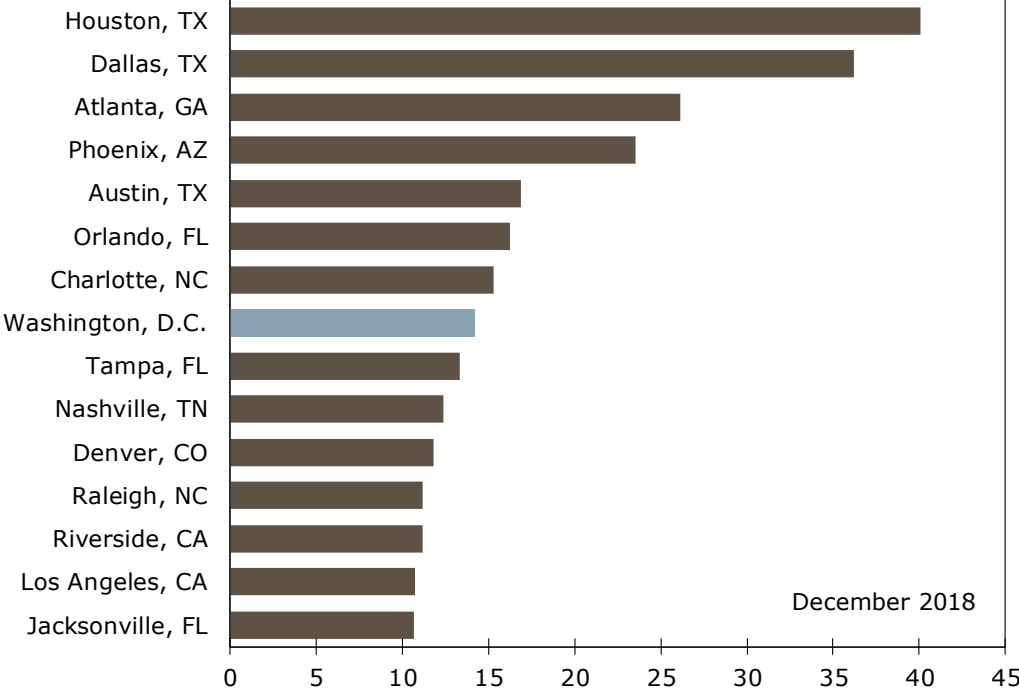


Source: U.S. Department of Labor and Wells Fargo Securities

Single-family permits have been strongest in the South.

Single-Family Housing Permits by MSA

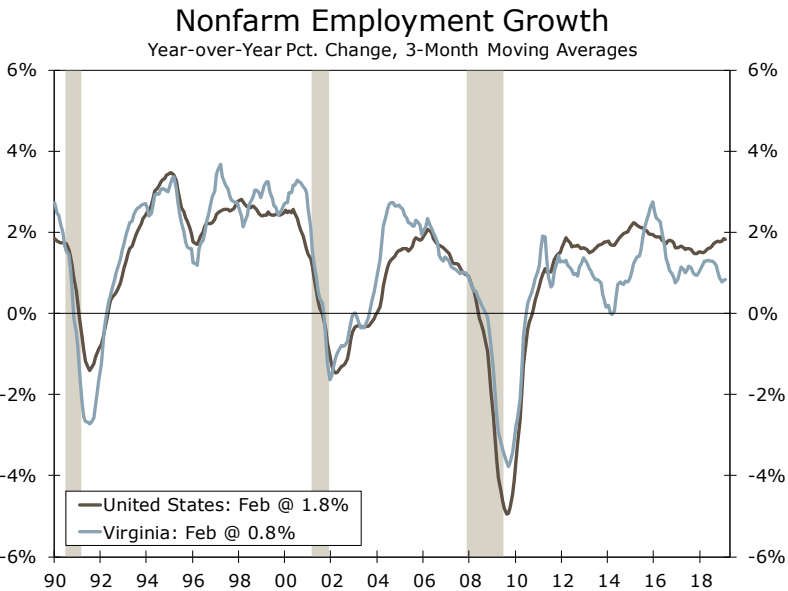
Year to Date, Total Number of Permits in Thousands



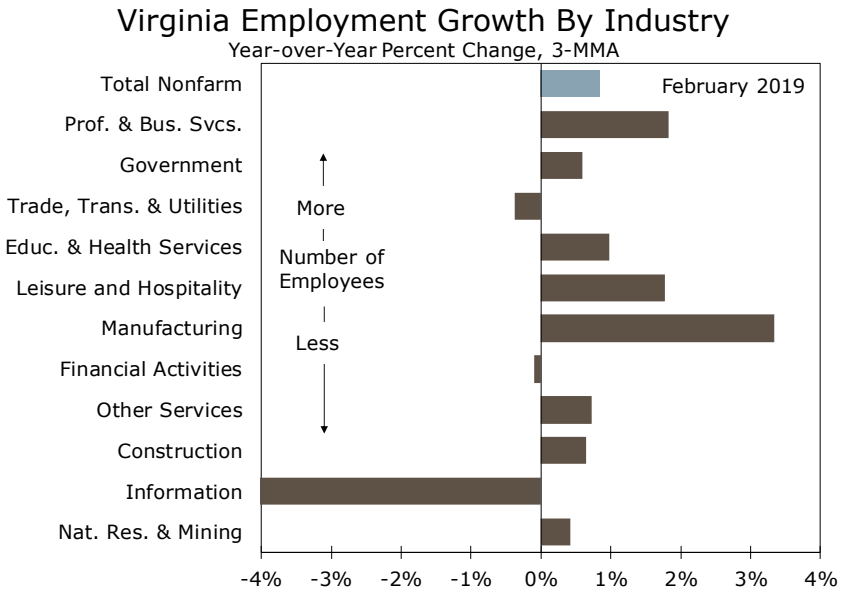
Source: U.S. Department of Commerce and Wells Fargo Securities

Employment growth has been weighted more towards relatively high-paying fields such as professional & business services. The unemployment rate has fallen to 2.9%.

Employment Growth



Employment by Industry



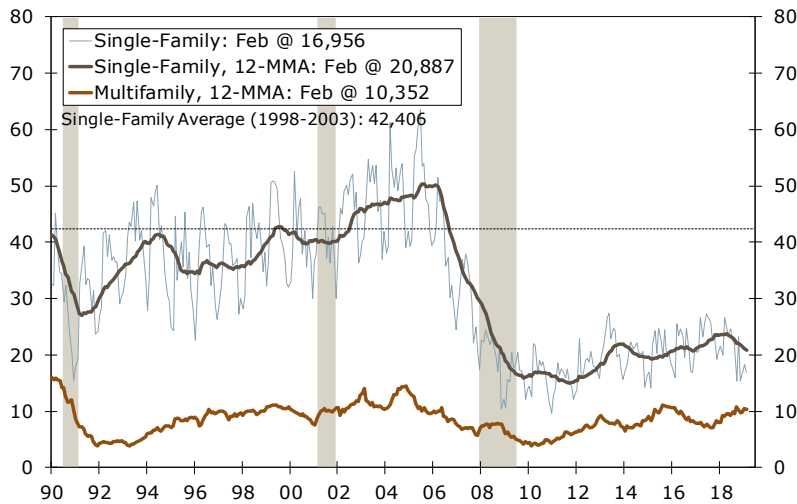
Source: U.S. Department of Labor and Wells Fargo Securities

Population growth has slowed.

Permits

Virginia Housing Permits

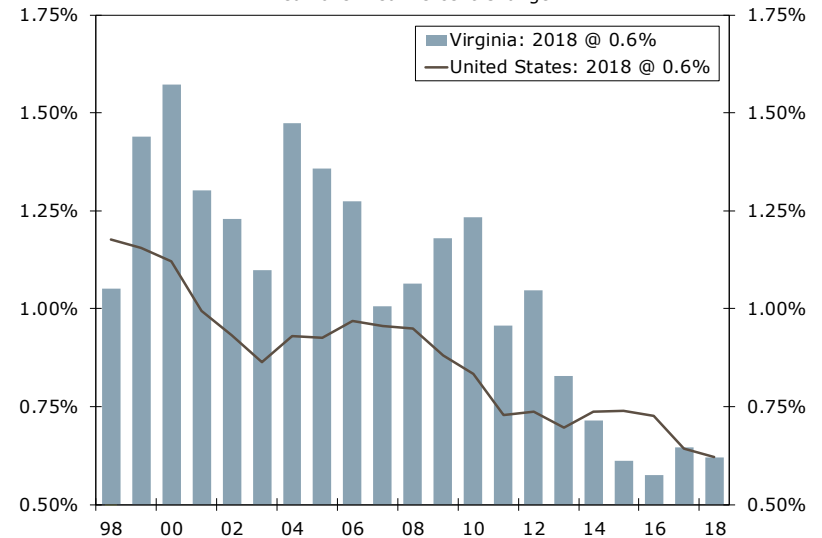
Thousands of Permits, Seasonally Adjusted Annual Rate



Population Growth

Population Growth

Year-over-Year Percent Change

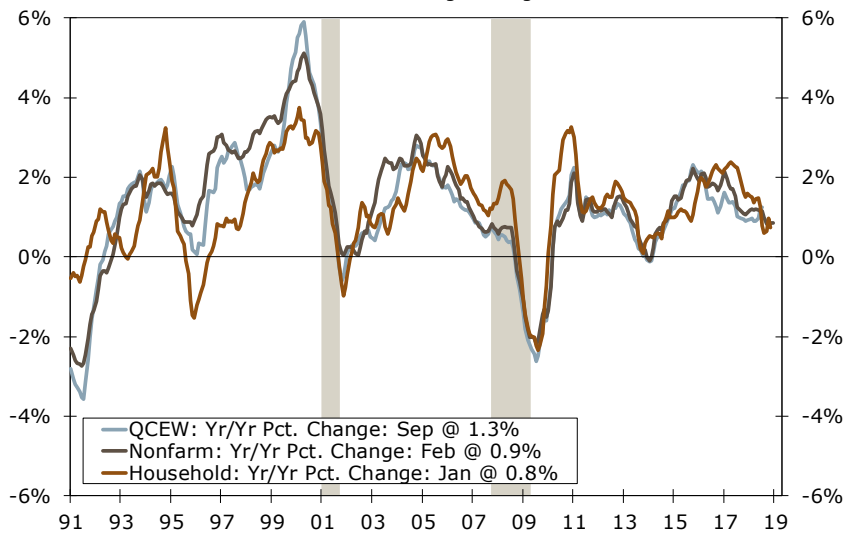


Source: U.S. Department of Commerce and Wells Fargo Securities

Job growth has slowed a bit amid a tight labor market.

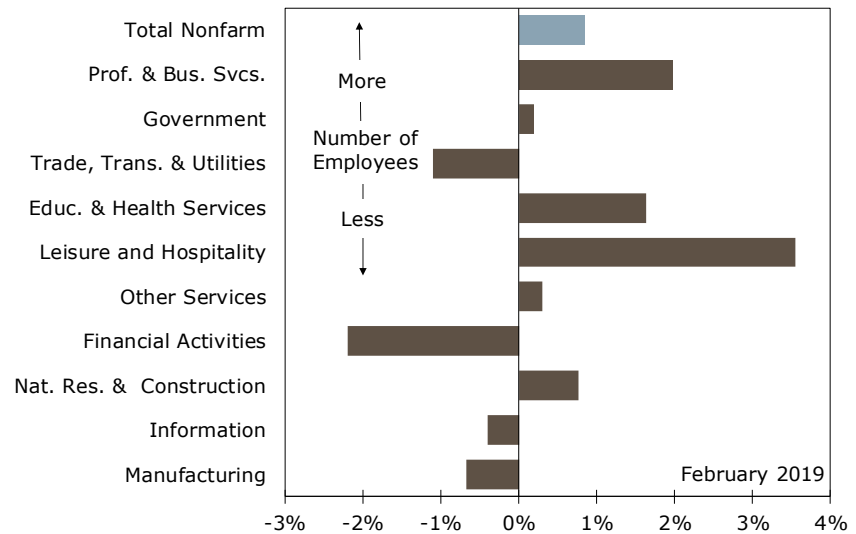
Employment Growth

Washington, D.C. MSA Nonfarm Employment
3-Month Moving Averages



Employment by Industry

Washington, D.C. MSA Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA

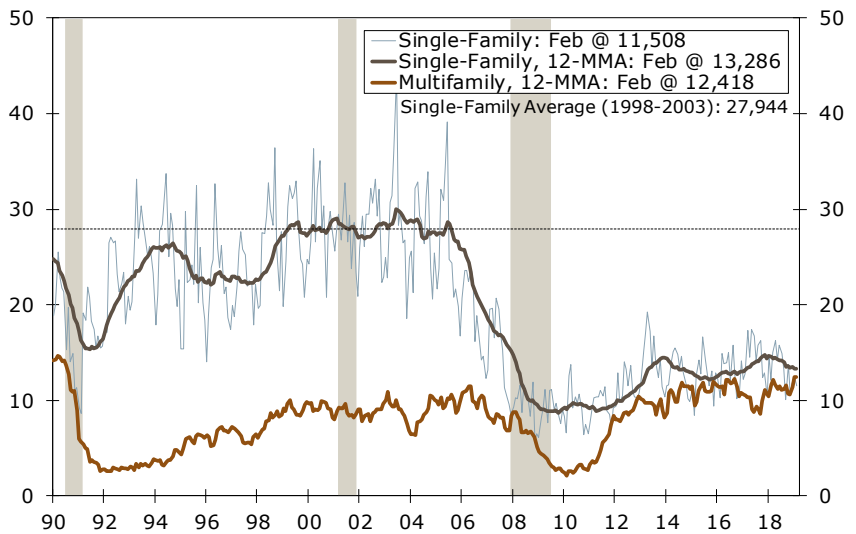


Source: U.S. Department of Labor and Wells Fargo Securities

Apartment construction has been strong. Population growth has moderated.

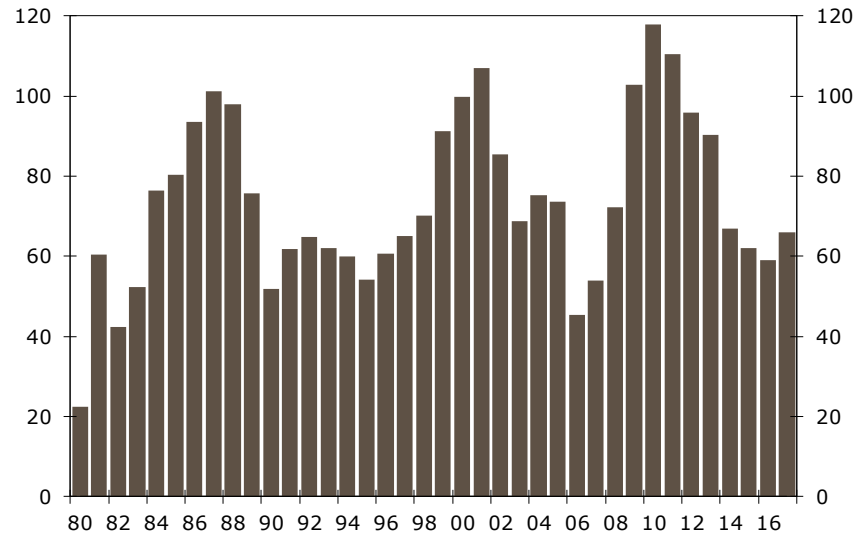
Permits

Washington, D.C. MSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



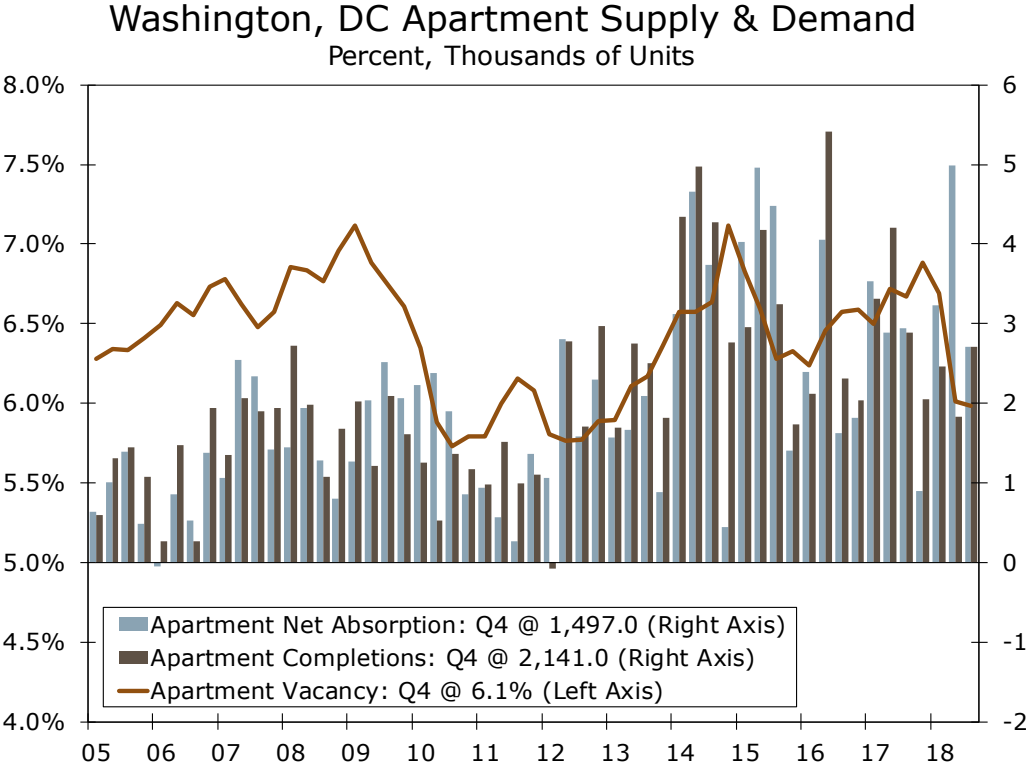
Population Growth

Washington, D.C. MSA Population Growth
In Thousands



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

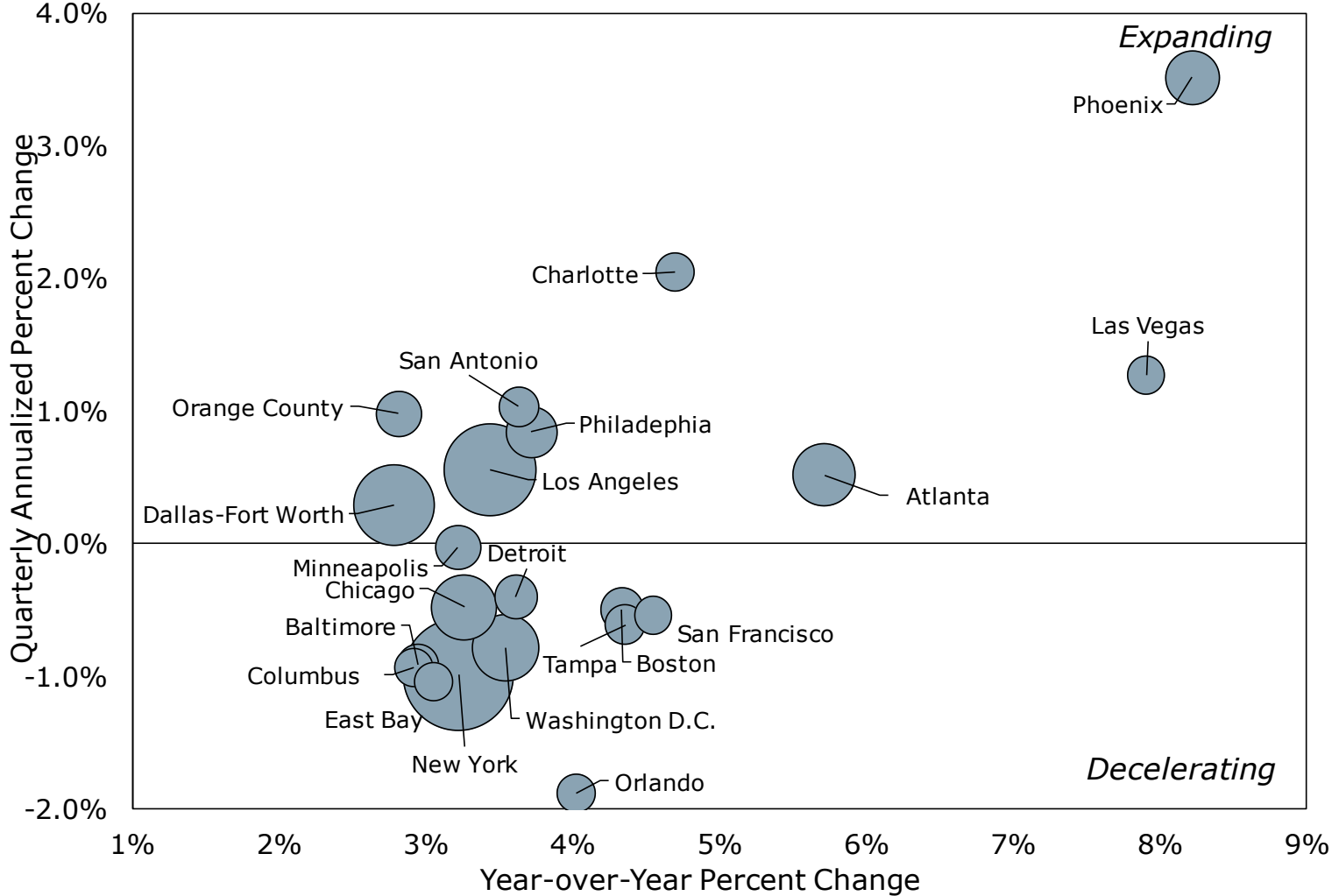
The D.C. area has seen significant apartment deliveries.



Source: CoStar, Inc. and Wells Fargo Securities

Apartment Effective Rent Growth: Q4 2018

Yr/Yr vs. Q/Q Annualized, Bubble Size Reflects Stock



Source: CoStar, Inc. and Wells Fargo Securities

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2017				2018				2019				2020				2017	2018	2019	2020
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	1.8	3.0	2.8	2.3	2.2	4.2	3.4	2.2	1.8	2.7	2.2	2.4	2.0	2.1	1.7	1.8	2.2	2.9	2.5	2.1
Personal Consumption	1.8	2.9	2.2	3.9	0.5	3.8	3.5	2.5	0.8	2.6	2.4	2.5	1.8	2.0	1.9	1.9	2.5	2.6	2.3	2.1
Business Fixed Investment	9.6	7.3	3.4	4.8	11.5	8.7	2.5	5.4	3.8	3.4	4.3	4.0	3.7	3.6	2.9	2.8	5.3	6.9	4.2	3.6
Equipment	9.1	9.7	9.8	9.9	8.5	4.6	3.4	6.6	1.3	2.1	3.9	3.1	2.7	2.6	2.1	2.0	6.1	7.4	3.3	2.7
Intellectual Property Products	8.0	6.6	1.7	0.7	14.1	10.5	5.6	10.7	7.3	5.3	4.7	4.6	4.7	4.6	3.7	3.5	4.6	7.5	7.0	4.5
Structures	12.8	3.8	-5.7	1.3	13.9	14.5	-3.4	-3.9	2.5	3.5	4.5	5.0	4.5	4.0	3.5	3.5	4.6	5.0	1.8	4.2
Residential Construction	11.1	-5.5	-0.5	11.1	-3.4	-1.3	-3.6	-4.7	1.8	2.0	2.0	1.5	1.5	1.5	1.0	1.0	3.3	-0.3	-0.3	1.5
Government Purchases	-0.8	0.0	-1.0	2.4	1.5	2.5	2.6	-0.4	2.7	3.8	1.7	1.0	0.7	0.7	0.3	0.1	-0.1	1.5	2.1	1.0
Net Exports ²	-0.1	0.1	0.0	-0.9	0.0	1.2	-2.0	-0.1	0.0	-0.1	-0.1	-0.1	0.1	0.0	-0.1	0.0	-0.4	-0.3	-0.3	0.0
Inventories ²	-0.8	0.2	1.0	-0.9	0.3	-1.2	2.3	0.1	0.3	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.3	-0.1
Nonfarm Payroll Change ³	173	190	136	218	228	243	189	233	180	170	160	160	150	140	100	90	179	223	168	120
Unemployment Rate	4.6	4.4	4.3	4.1	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.6	3.5	3.5	3.6	3.6	4.4	3.9	3.7	3.6
Consumer Price Index ⁴	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.6	1.8	1.9	2.1	2.5	2.3	2.2	2.2	2.1	2.4	1.9	2.3
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	1.13	1.96	2.50	2.44
Conventional Mortgage Rate	4.20	3.90	3.81	3.94	4.44	4.57	4.63	4.64	4.28	4.20	4.25	4.30	4.35	4.30	4.25	4.15	3.99	4.54	4.26	4.26
2 Year Note	1.27	1.38	1.47	1.89	2.27	2.52	2.81	2.48	2.27	2.45	2.45	2.40	2.40	2.30	2.20	2.05	1.40	2.53	2.39	2.24
10 Year Note	2.40	2.31	2.33	2.40	2.74	2.85	3.05	2.69	2.41	2.60	2.65	2.70	2.75	2.70	2.65	2.55	2.33	2.91	2.59	2.66

Forecast as of: April 10, 2019

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

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
April-05	Fallout from a Potential Border Closure	Bryson
April-03	Seasonal Distortions Linger in Q1 Nonfarm Payrolls Data	Iqbal & Seery
April-02	U.S. Recession? How Do We Count the Ways?	Bryson & House
April-01	Recession Update: Should We Worry?	Iqbal
March-28	Federal Spending to Boost GDP Growth Through the Summer	Bryson & Pugliese
March-19	Shifting Burdens of Household Debt	Quinlan & Seery
March-15	What 737-MAX Groundings Mean for Durable Goods	Quinlan, House & Seery
U.S. Regional		
March-22	Utah Continues to Grow for All the Right Reasons	Vitner & Dougherty
March-22	California Sees Modest Job Gains in February	Vitner & Dougherty
March-22	Texas Payrolls Rise in February	Vitner & Dougherty
March-22	North Carolina Sees Hiring Moderate in February	Bryson & Dougherty
March-22	Florida Payrolls Post Huge Gain in February	Vitner & Dougherty
Global Economy		
April-01	Be Careful of U.K. Data Boomerang	Nelson
March-27	Mexico Economic Review and Outlook	Pugliese & McKenna
March-25	Which Economies Can Catch a Cold When the Eurozone Sneezes?	Bryson
March-22	European Recession Revisited	Nelson
March-07	ECB: When Doves Fly	Nelson & Bennenbroek
Interest Rates/Credit Market		
March-26	The Animal Spirits Index Bounces Back to Start 2019	Iqbal
March-26	Inverted Yield Curve: Is It Different This Time?	Bryson
March-25	QE Redux: Have We Been Here Before?	Bryson, House & Nelson
March-20	FOMC Thinks It Will Be on Hold Throughout 2019	Bryson
March-13	Could the Fed Go Negative?	Bryson, House & Nelson
Real Estate & Housing		
March-20	Q4 CRE Chartbook: Construction Outlook	Vitner, Dougherty & Honnold
March-18	Housing Chartbook: March 2019	Vitner, Dougherty & Honnold
February-27	Manufactured Housing Outlook: 2019	Vitner, Dougherty & Honnold
January-16	What's Ahead for Housing in 2019?	Vitner, Dougherty & Honnold
December-07	Q3 CRE Chartbook: Outlook	Vitner, Dougherty & Honnold

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