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.

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

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.

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.

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.
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.

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.

Source: CoStar, Inc. and Wells Fargo Securities
Employment growth is strongest in the South and West.
Single-family permits have been strongest in the South.

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%.

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

Population growth has slowed.

**Permits**

**Virginia Housing Permits**
Thousands of Permits, Seasonally Adjusted Annual Rate

- Single-Family: Feb @ 16,956
- Single-Family, 12-MMA: Feb @ 20,887
- Multifamily, 12-MMA: Feb @ 10,352


**Population Growth**
Year-over-Year Percent Change

Virginia: 2018 @ 0.6%
United States: 2018 @ 0.6%

Source: U.S. Department of Commerce and Wells Fargo Securities
Job growth has slowed a bit amid a tight labor market.

Washington, D.C. MSA Employment Growth

Employment by Industry

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

- Single-Family: Feb @ 11,508
- Single-Family, 12-MMA: Feb @ 13,286
- Multifamily, 12-MMA: Feb @ 12,418

*Single-Family Average (1998-2003): 27,944*

**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

Expanding
Phoenix
Las Vegas

Decelerating
New York
Los Angeles
Dallas-Fort Worth
Washington D.C.
Chicago
Atlanta
Phoenix
Orlando
San Francisco
Las Vegas

Source: CoStar, Inc. and Wells Fargo Securities
# U.S. Economic Forecast

## Wells Fargo U.S. Economic Forecast

**Forecast as of: April 10, 2019**

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<th>Actual 2017</th>
<th>Forecast 2019</th>
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<th>Forecast 2020</th>
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<td>1Q 2Q 3Q 4Q</td>
<td>1Q 2Q 3Q 4Q</td>
<td>1Q 2Q 3Q 4Q</td>
<td>1Q 2Q 3Q 4Q</td>
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<td><strong>Real Gross Domestic Product</strong></td>
<td>1.8 3.0 3.2 2.2</td>
<td>1.8 2.7 2.2 2.4</td>
<td>2.0 2.1 1.7 1.8</td>
<td>2.2 2.9 2.5 2.1</td>
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<td><strong>Personal Consumption</strong></td>
<td>1.8 2.9 2.2 3.9</td>
<td>0.8 2.6 2.4 2.5</td>
<td>1.8 2.0 1.9 1.9</td>
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<td><strong>Business Fixed Investment</strong></td>
<td>9.6 7.3 4.8</td>
<td>3.8 3.4 4.3 4.0</td>
<td>3.7 3.6 2.9 2.8</td>
<td>5.3 6.9 4.2 3.6</td>
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<td><strong>Equipment</strong></td>
<td>9.1 9.7 9.8 9.9</td>
<td>1.3 2.1 3.9 3.1</td>
<td>2.7 2.6 2.1 2.0</td>
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<td><strong>Intellectual Property Products</strong></td>
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<td>13.5 7.3 4.6 4.6</td>
<td>4.7 4.6 3.7 3.5</td>
<td>4.6 7.5 7.0 4.5</td>
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<td><strong>Structures</strong></td>
<td>12.8 3.8 -5.7 1.3</td>
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<td>4.5 4.0 3.5 3.5</td>
<td>4.6 5.0 1.8 4.2</td>
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<td><strong>Residential Construction</strong></td>
<td>11.1 -5.5 0.5 11.1</td>
<td>2.7 3.8 1.7 1.0</td>
<td>0.7 0.7 0.3 0.1</td>
<td>-0.1 1.5 2.1 1.0</td>
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<td><strong>Government Purchases</strong></td>
<td>-0.8 0.0 -1.0 2.4</td>
<td>0.0 -0.1 0.1 0.0</td>
<td>0.1 0.0 0.1 0.0</td>
<td>-0.4 -0.3 -0.3 0.0</td>
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<td><strong>Net Exports</strong></td>
<td>-0.8 0.2 1.0 -0.9</td>
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<td>0.0 0.0 0.0 0.0</td>
<td>0.0 0.1 -0.1 0.1</td>
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<td><strong>Inventories</strong></td>
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<td>180 170 160 180</td>
<td>150 140 100 90</td>
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<td><strong>Nonfarm Payroll Change</strong></td>
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<td>3.9 3.7 3.7 3.6</td>
<td>3.5 3.5 3.6 3.6</td>
<td>4.4 3.9 3.7 3.6</td>
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<td><strong>Consumer Price Index</strong></td>
<td>2.5 1.9 2.0 2.1</td>
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<td>2.5 2.3 2.2 2.2</td>
<td>2.1 2.4 1.9 2.3</td>
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### Sources
- Compound Annual Growth Rate Quarter-over-Quarter
- Percentage Point Contribution to GDP
- Average Monthly Change
- Year-over-Year Percentage Change
- Annual Numbers Represent Averages

Source: IHS Global Insight and Wells Fargo Securities
Appendix
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