

WELLS
FARGO

SECURITIES

Economic Outlook

Charlie Dougherty, Vice President & Economist

October 25, 2019

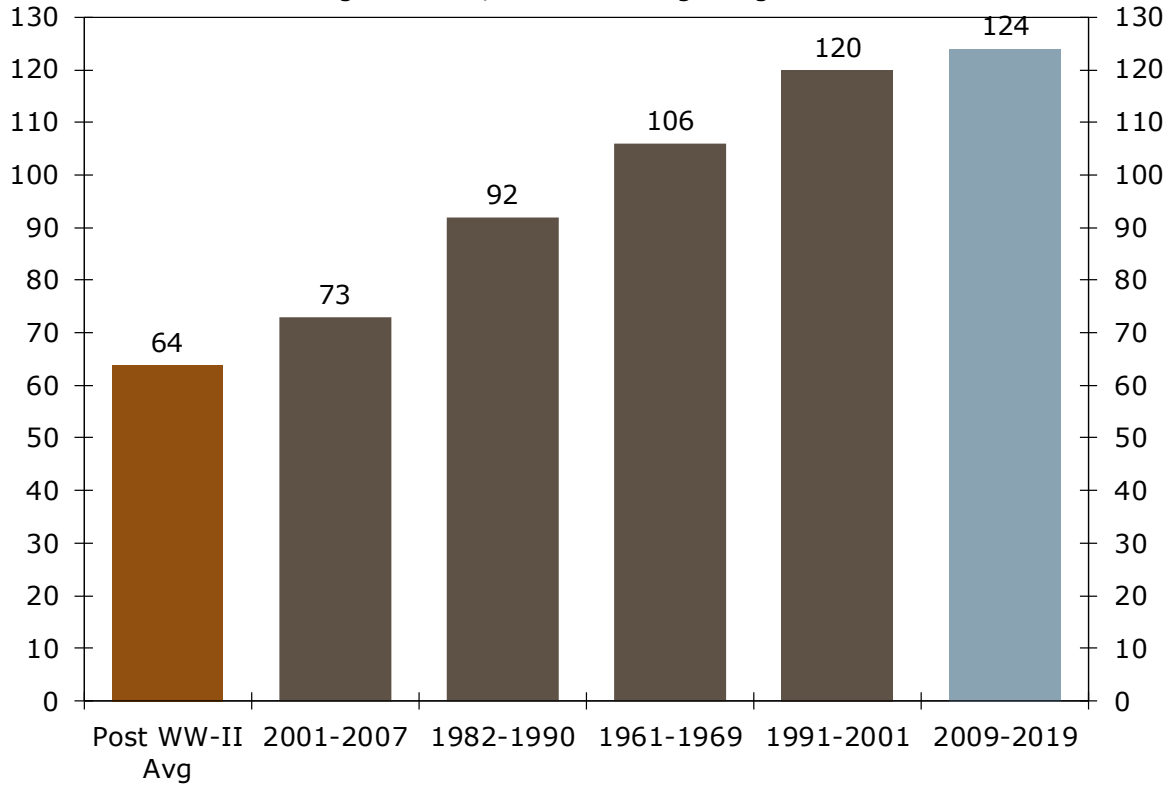
Together we'll go far



In July the economic expansion turned 10 years old and is now the longest on record.

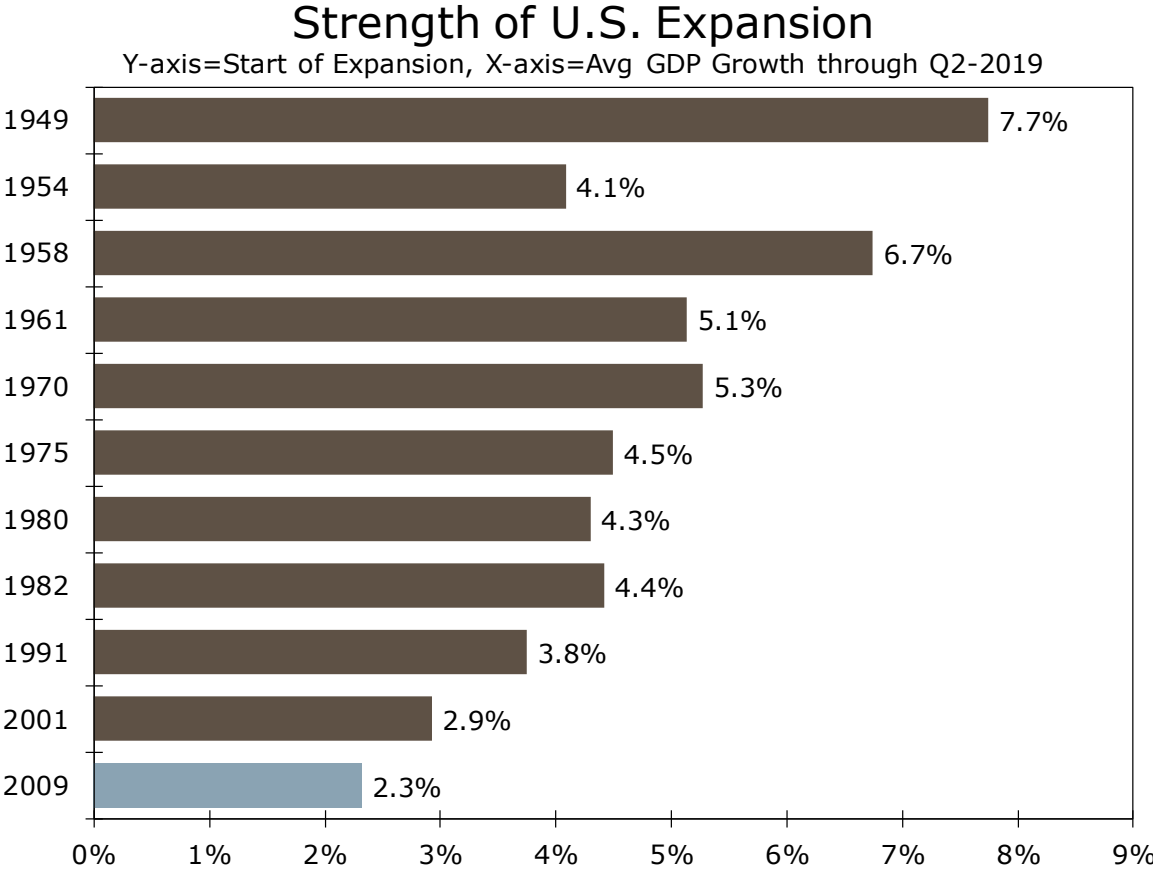
Duration of Economic Expansion

Trough-to-Peak, Months through August 2019



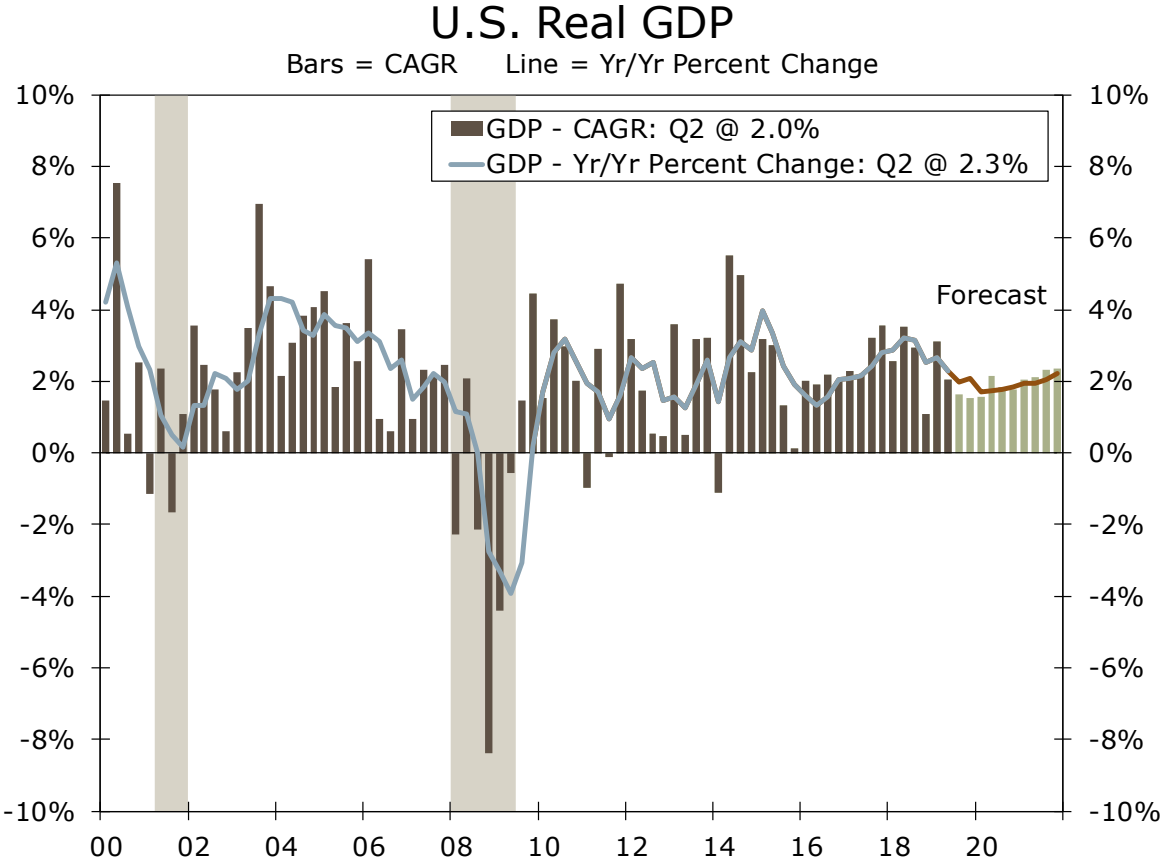
Source: NBER and Wells Fargo Securities

Over the past decade, the economy has grown at roughly half the pace of previous expansions.



Source: NBER and Wells Fargo Securities

Real GDP growth will remain solid, yet likely moderate somewhat over the next few years.

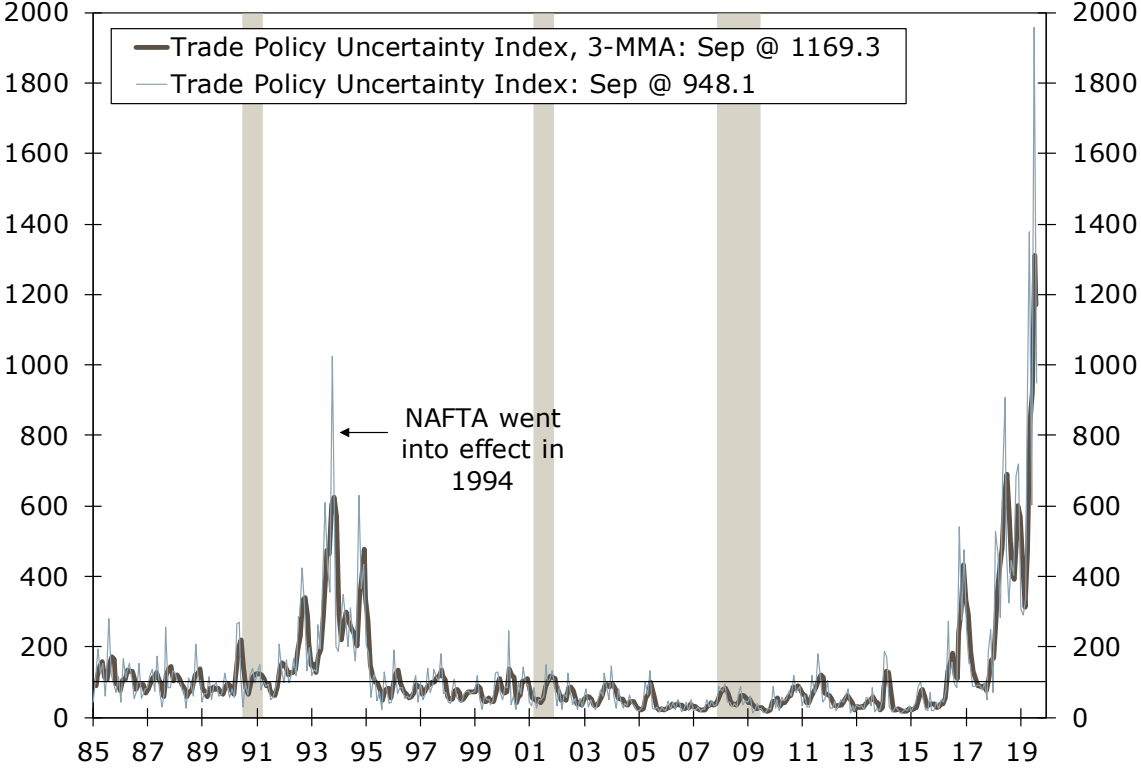


Source: U.S. Department of Commerce and Wells Fargo Securities

Trade uncertainty is having a slowing impact on the economy, as businesses reassess supply chains, build contingency plans and delay capital investments.

U.S. Trade Policy Uncertainty Index

Long Term Average = 100

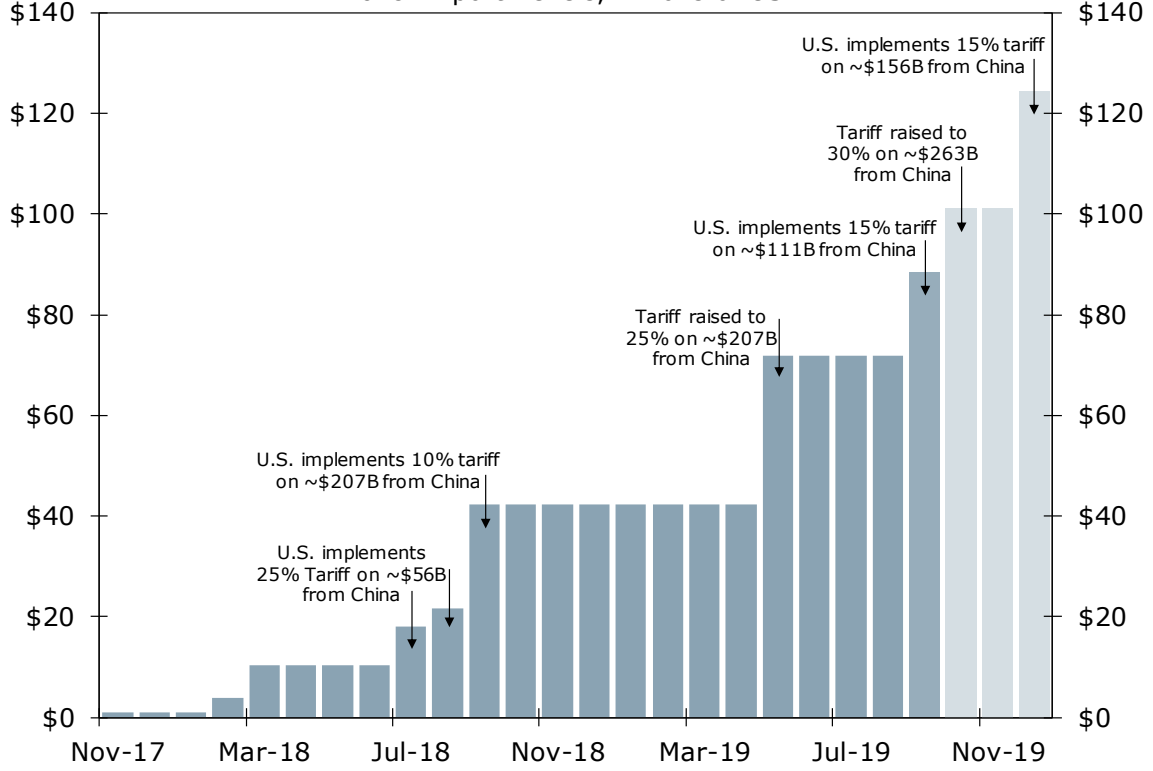


Source: OECD and Wells Fargo Securities

The tariffs which stand to more directly impact the consumer have been delayed until December. Up until this point, tariffs have mostly been aimed at producers and have been more easily absorbed.

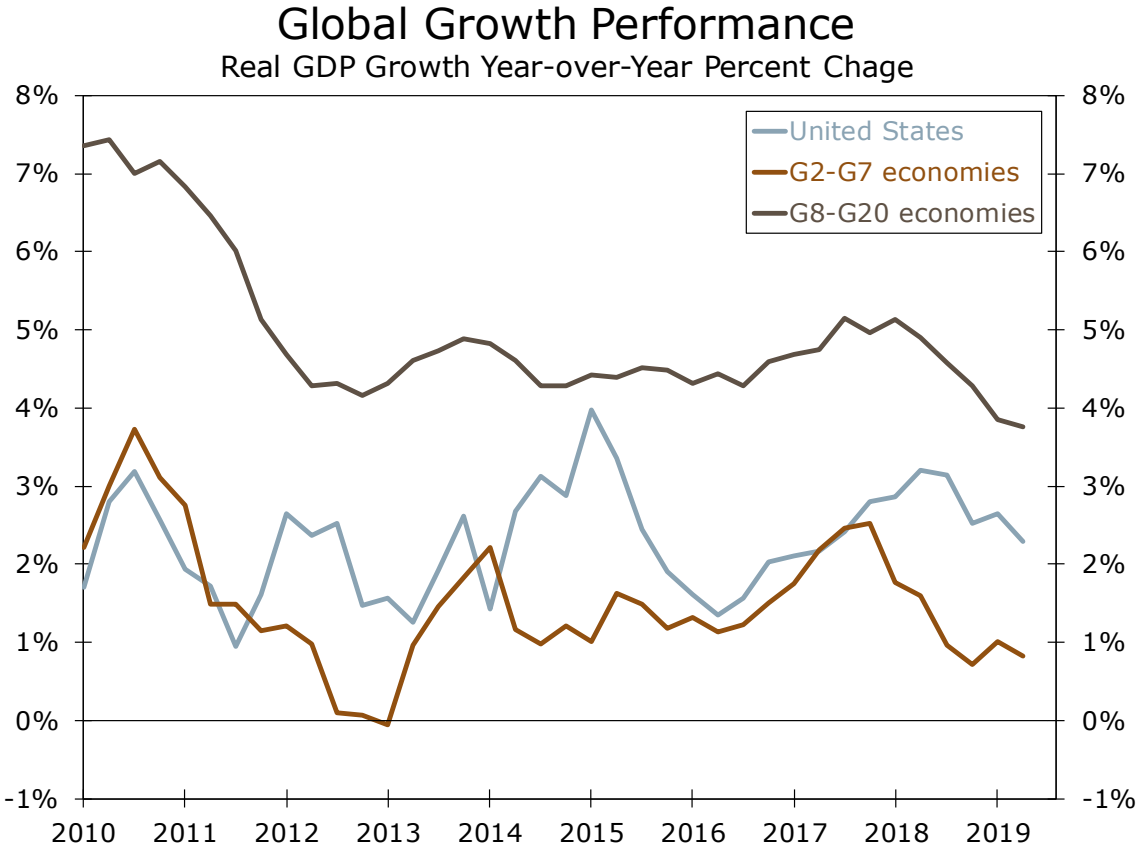
The Rising Cost of the Trade War

Annualized Cost Based on Value of Goods x Tariff Rate
2018 Import Levels, Billions of USD



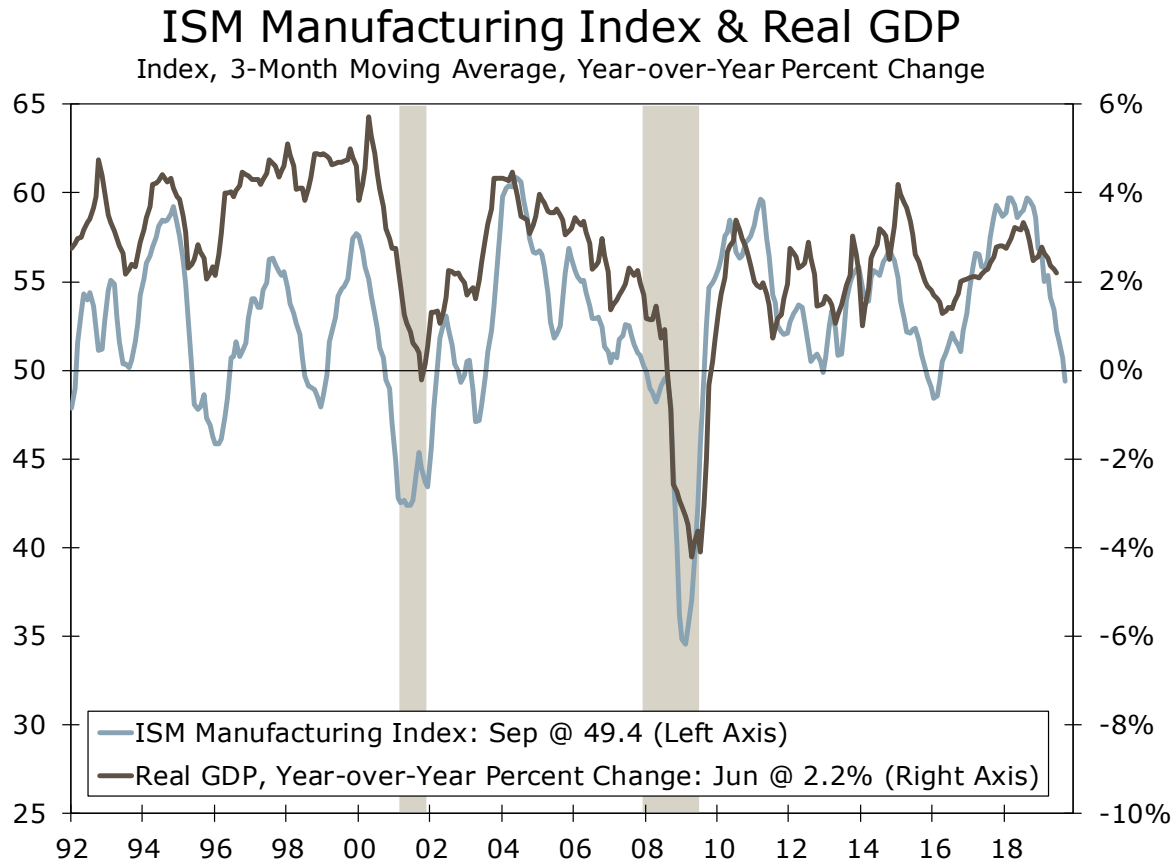
Source: OECD and Wells Fargo Securities

Global economic growth has been generally strong, but is slowing dramatically outside of the U.S., particularly in China and Germany.



Source: OECD and Wells Fargo Securities

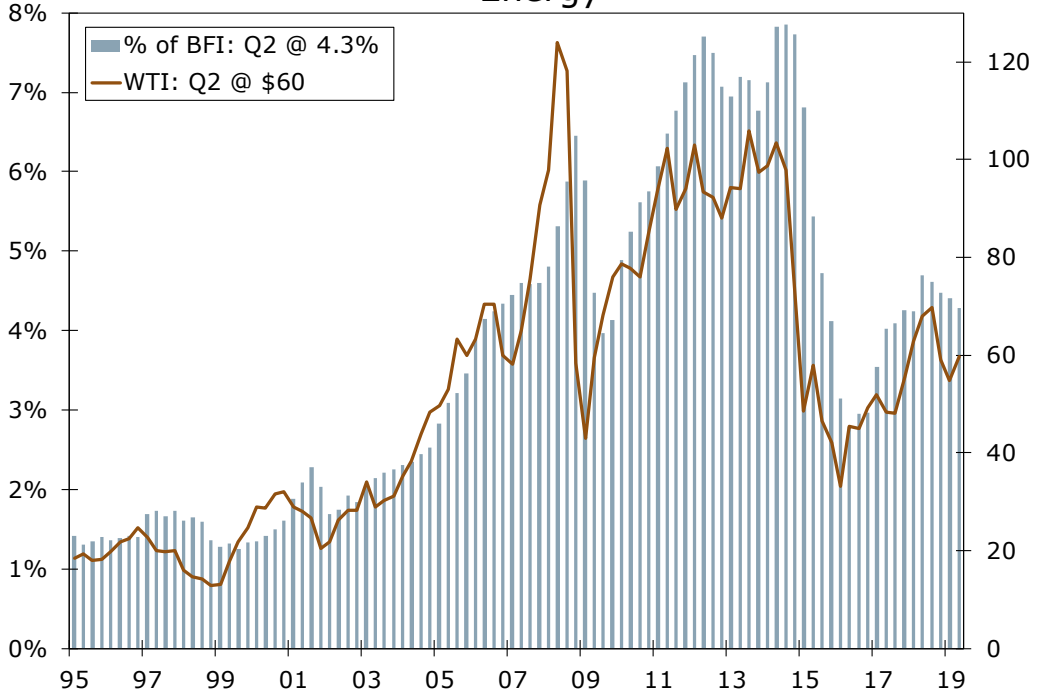
Languishing global growth, a strong dollar, and the ongoing trade war are clearly having an impact on the factory sector.



Source: Conference Board, S&P Indices and Wells Fargo Securities

The recent drop in oil prices may be good for consumers, but is concerning for new energy-related investment.

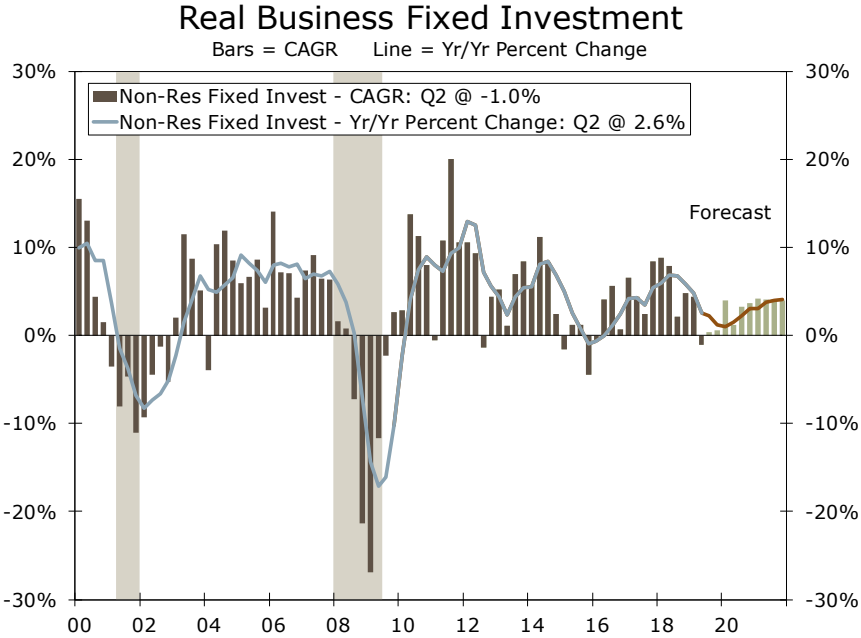
Oil Prices vs. Fixed Investment Spending on Energy



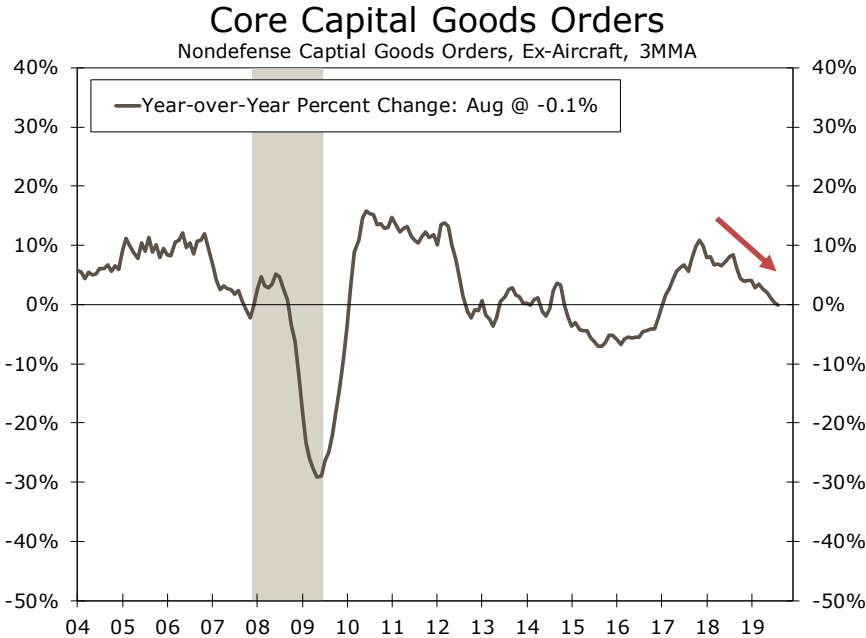
Source: U.S. Department of Commerce, Bloomberg L.P. and Wells Fargo Securities

Business investment will continue to moderate after a strong 2018. Slower global growth and trade tensions are likely leading businesses to pull back on capital spending.

Business Investment Slows on Uncertainty



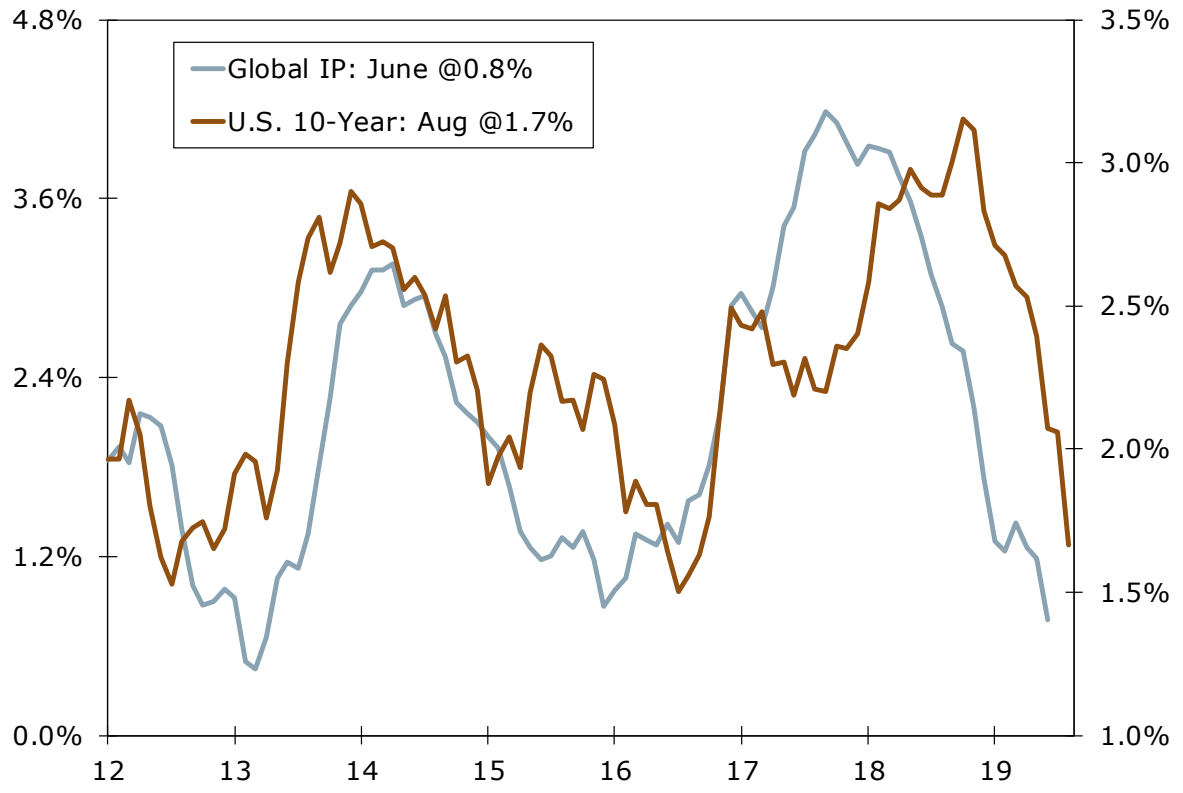
CapEx Pulling Back



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

The downshift in US manufacturing follows a similar trend across the globe. Trillions in negative yielding debt abroad has made the 10-year treasury even more attractive for investors worldwide.

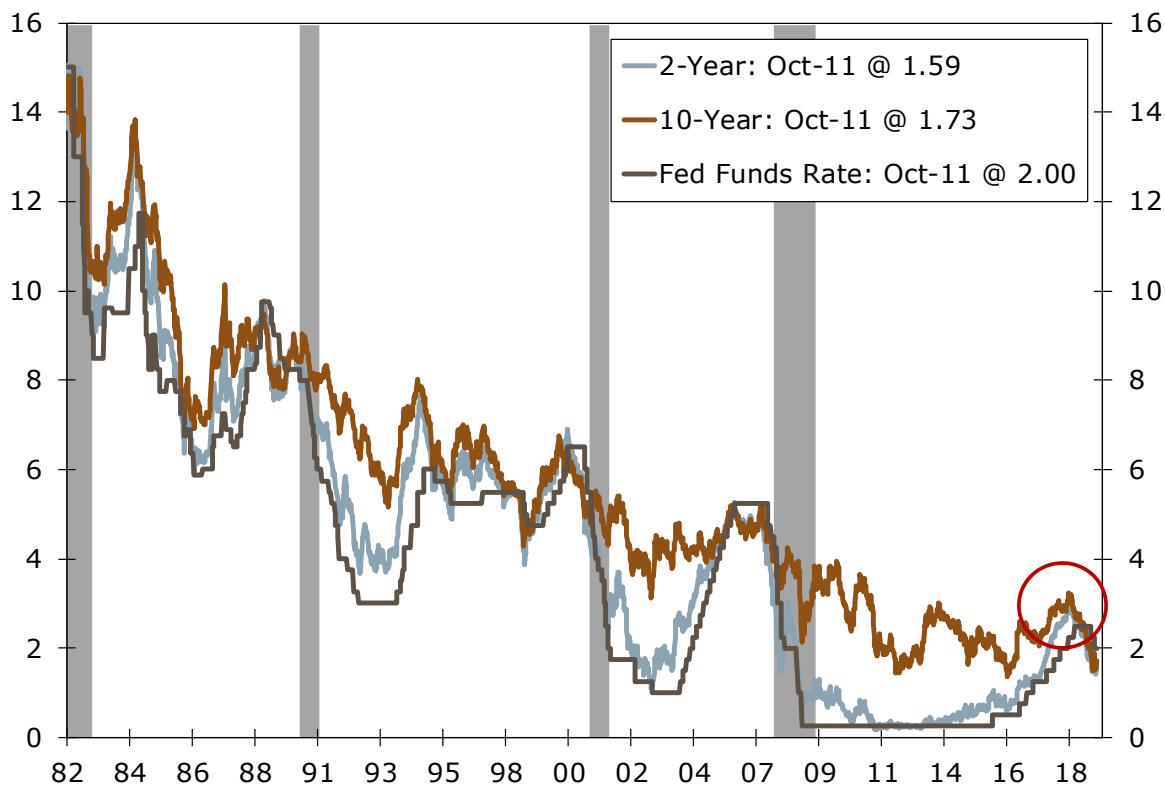
Global Industrial Production vs U.S. 10-Year 3MMA Y-Y%; Yield



Source: IHS Markit and Wells Fargo Securities

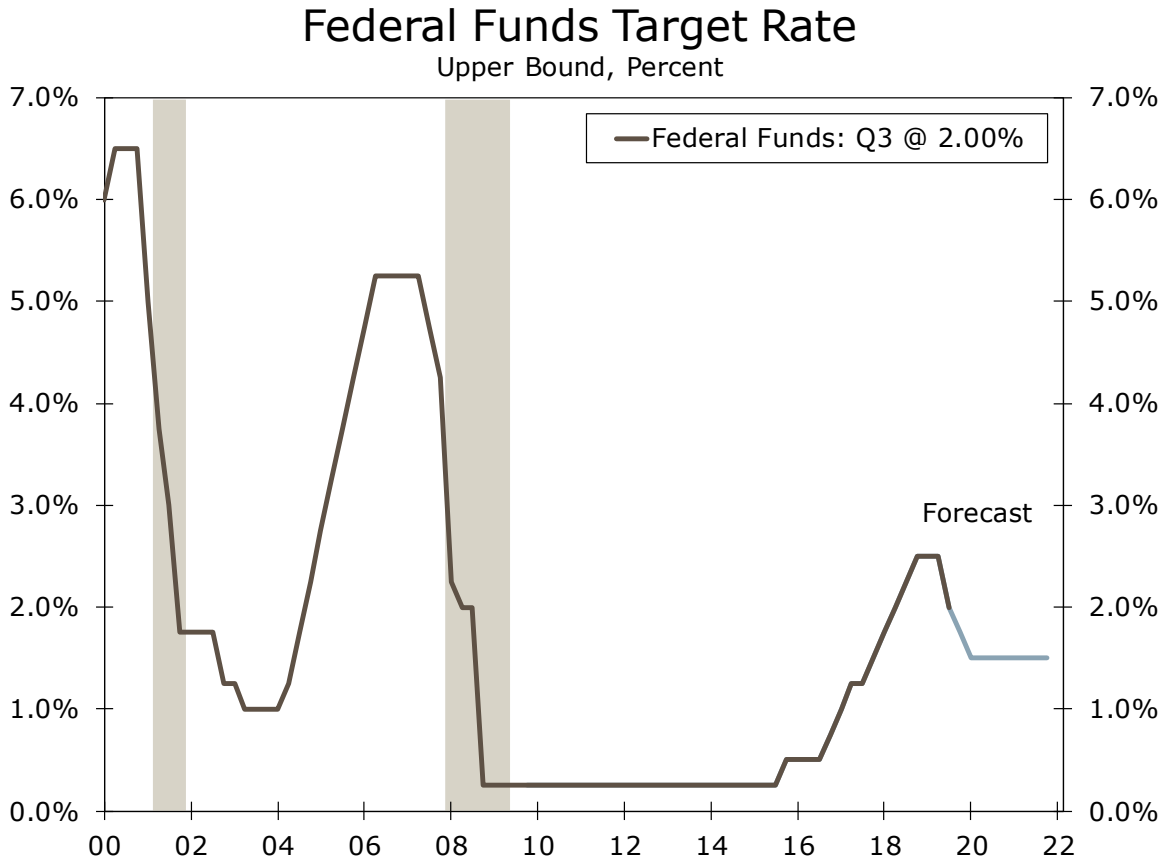
The spread between 2 and 10 year yields inverted recently. While an inverted yield curve has preceded each of downturns going back 50 years, the lingering impacts of monetary easing and negative yields abroad may be causing distortions.

Trouble with the Curve



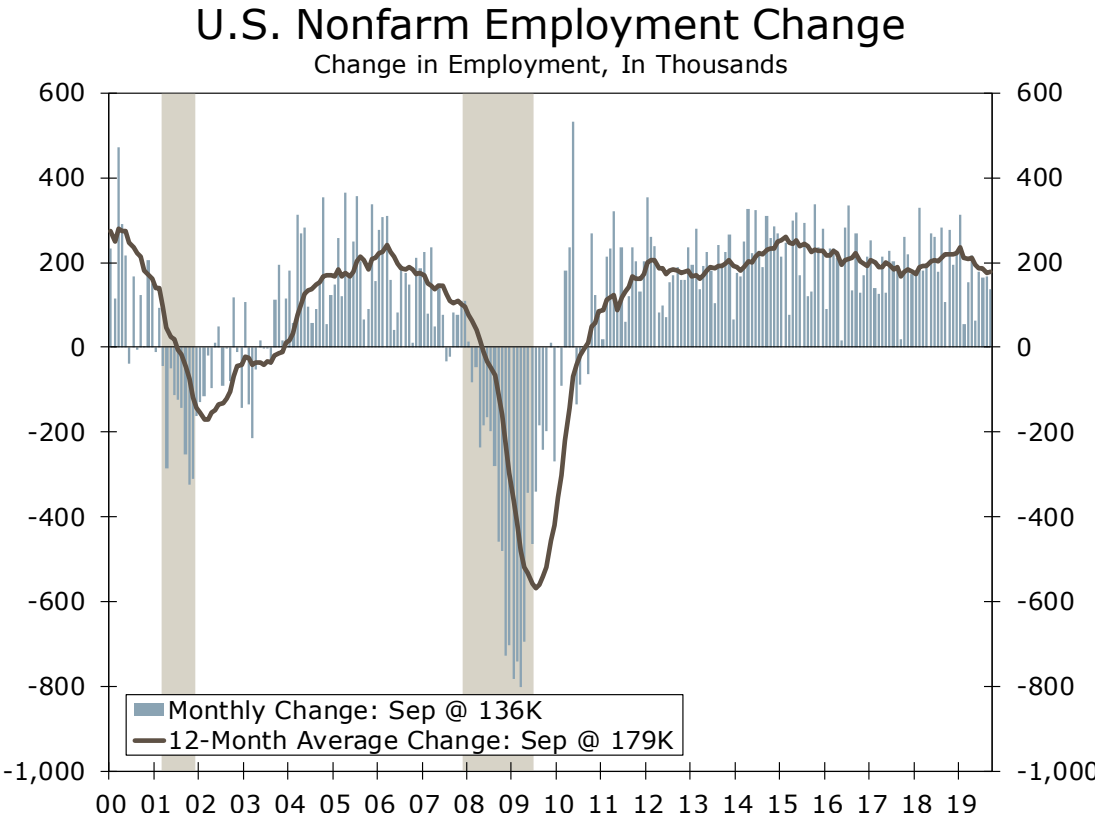
Source: S&P Indices and Wells Fargo Securities

We expect the Fed to follow up July and September's rate cuts with two additional 25 bps cuts in October and early 2020.



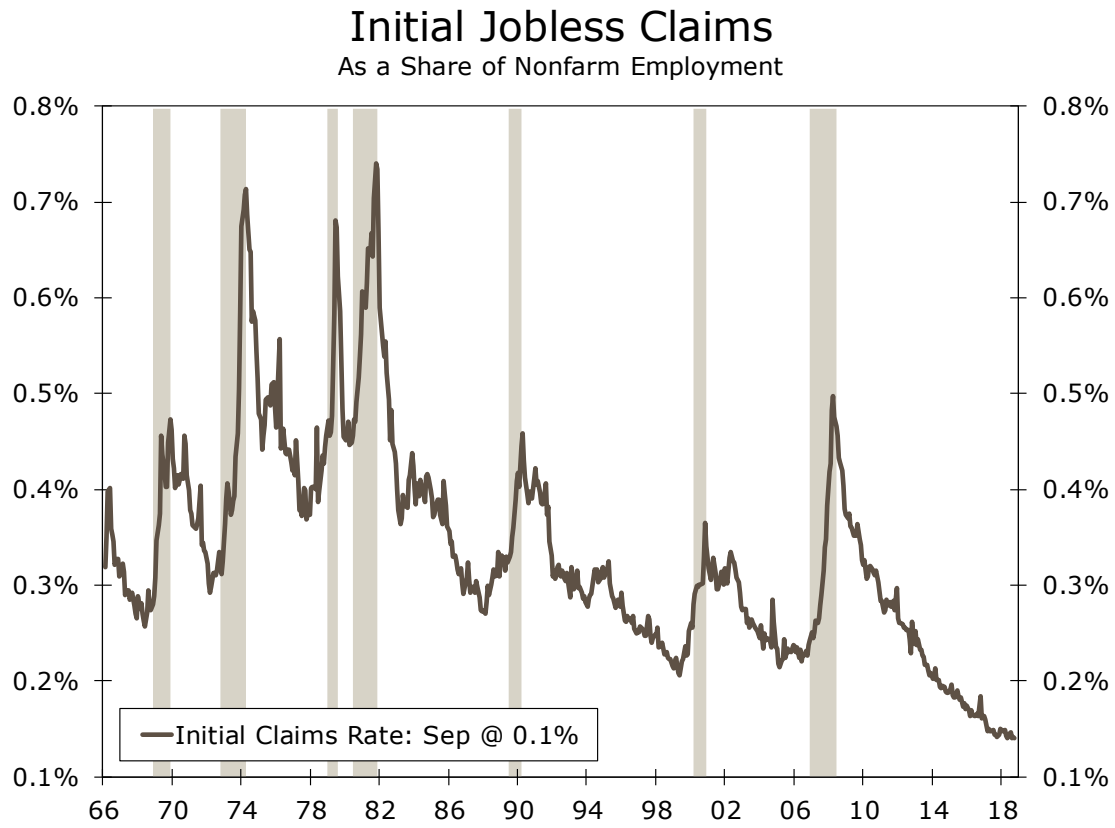
Source: Federal Reserve Board and Wells Fargo Securities

Hiring remains strong but is downshifting as employers struggle to find workers amid near record low unemployment. Employers have added to payrolls for over 100 consecutive months.



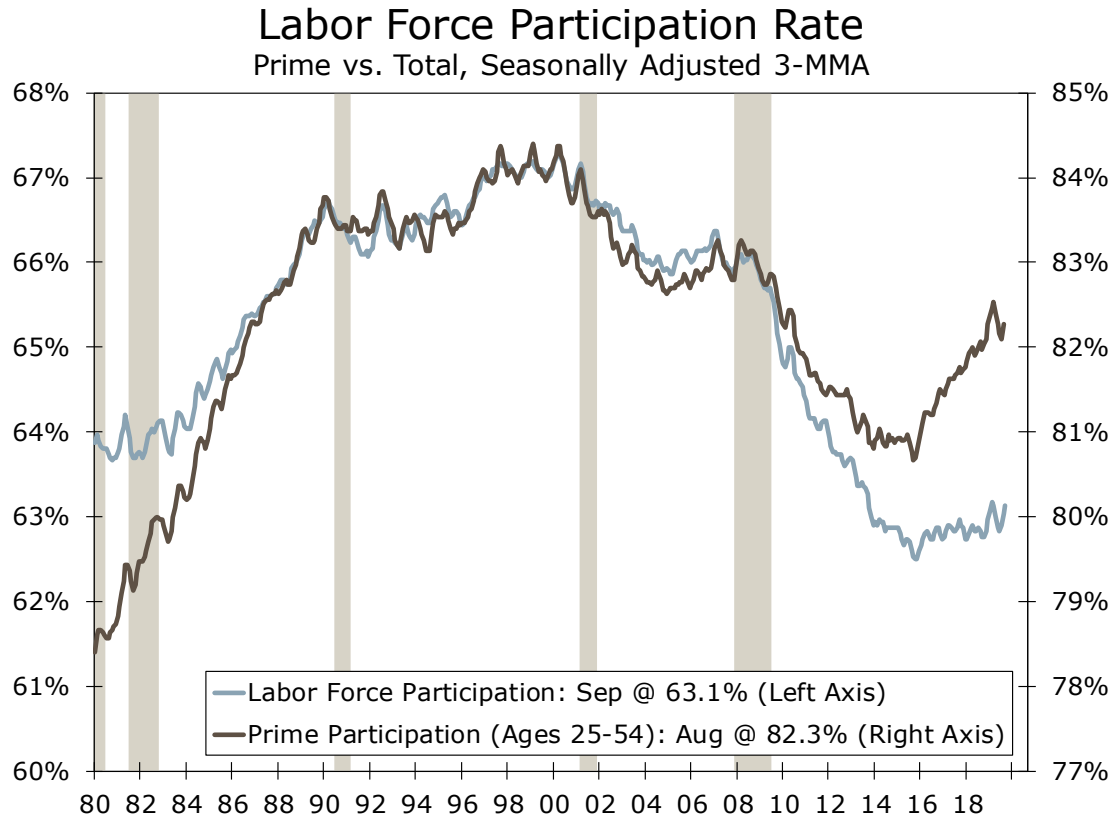
Source: U.S. Department of Labor and Wells Fargo Securities

Jobless claims remain near record lows, reflecting the underlying strength of the current labor market.



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

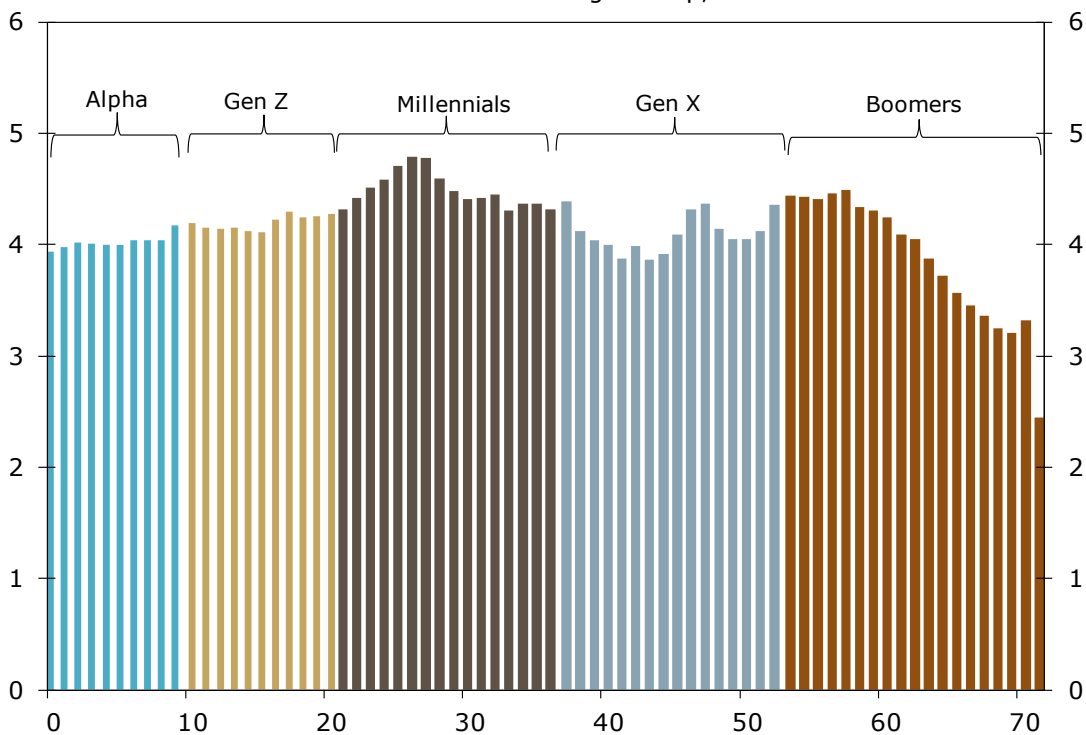
Strong employment growth has also helped counter the downward pressure on labor force participation from an aging population.



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

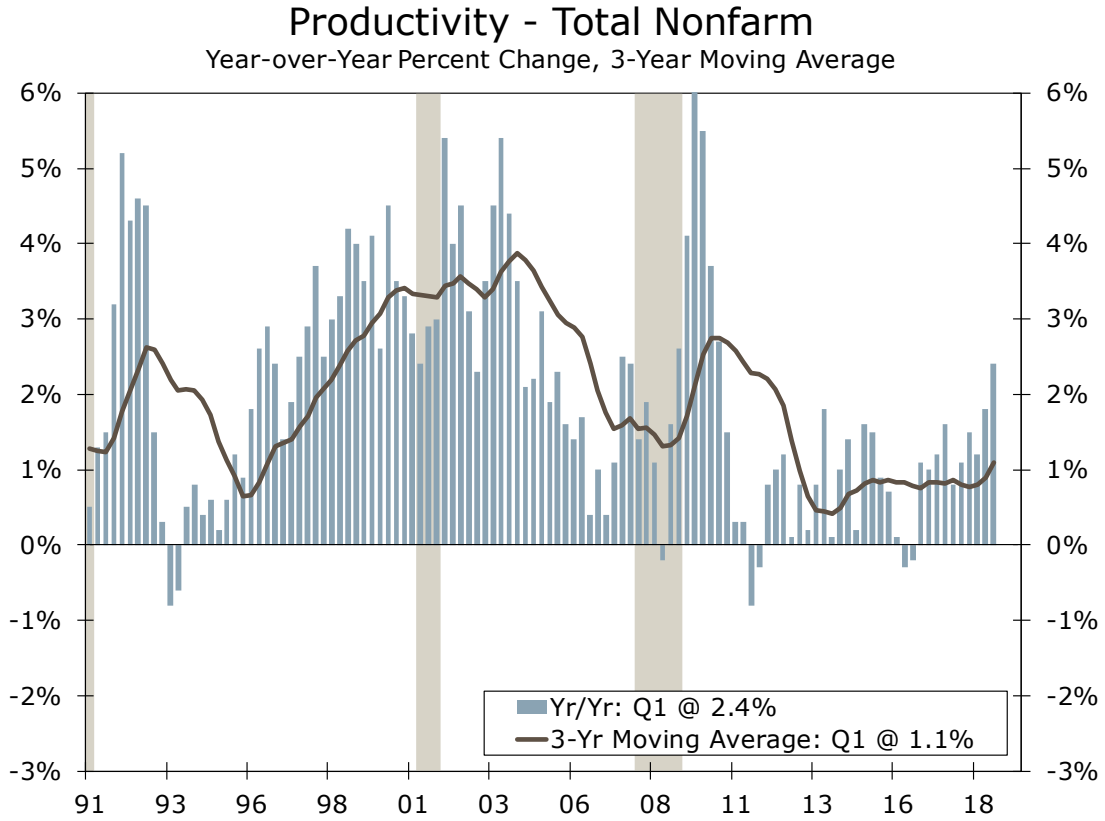
Demographic shifts will continue to have a profound impact on our economy.

U.S. Adult Population Distribution
Millions of Persons in Age Group, 2017



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

Productivity, which is an important building block for sustainably higher economic growth, has started to show signs of trending up.



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

Wage growth has picked up modestly but remains a missing piece to the recovery thus far due to slow productivity growth.

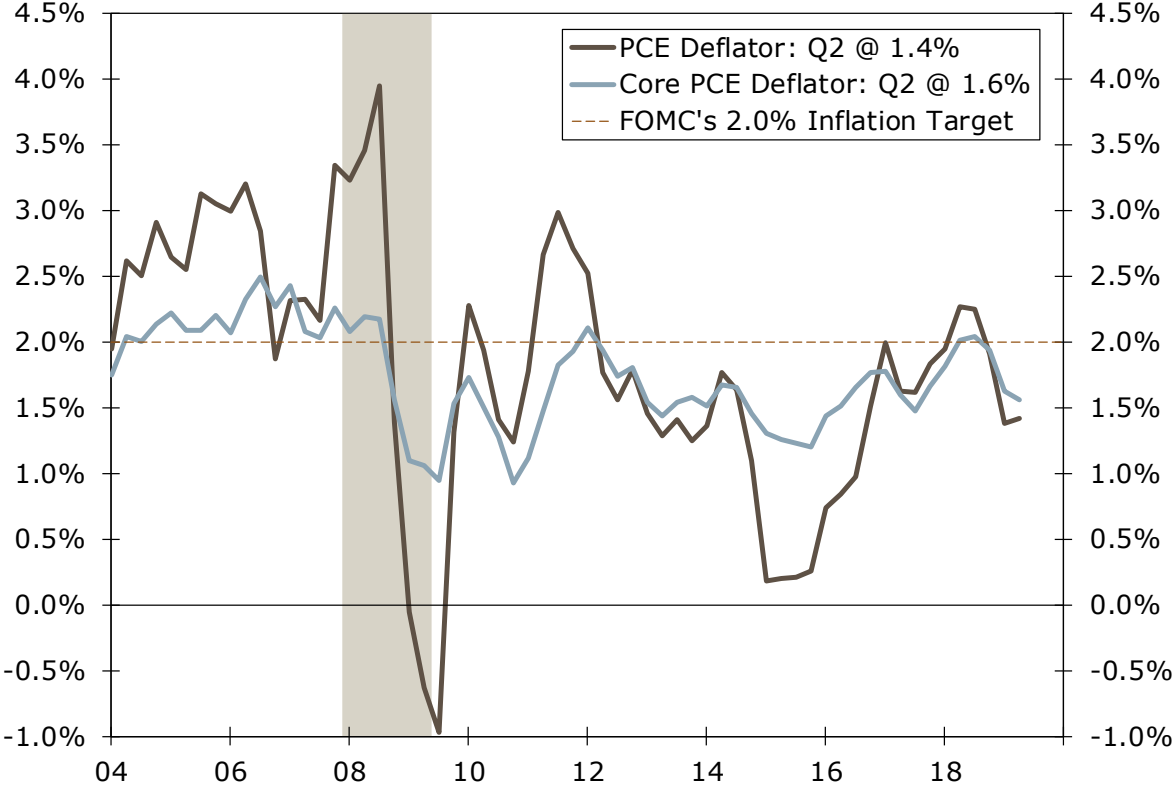


Source: U.S. Department of Labor, Federal Reserve Bank of Atlanta and Wells Fargo Securities

Despite rising rents and gasoline prices, inflationary pressures have lost steam recently.

Personal Consumption Price Deflator

Year-over-Year Percent Change



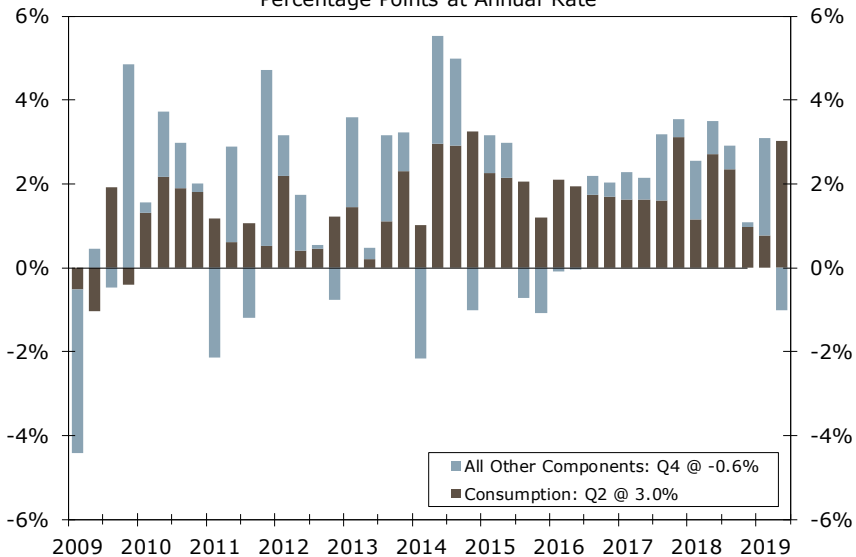
Source: U.S. Department of Commerce and Wells Fargo Securities

The consumer is keeping the economy afloat as business spending weakens. Rising wages and sturdy job growth should keep consumer spending in solid shape over the next few years.

Consumer Continues to Lift Overall Economy

Contributions to U.S. Real GDP

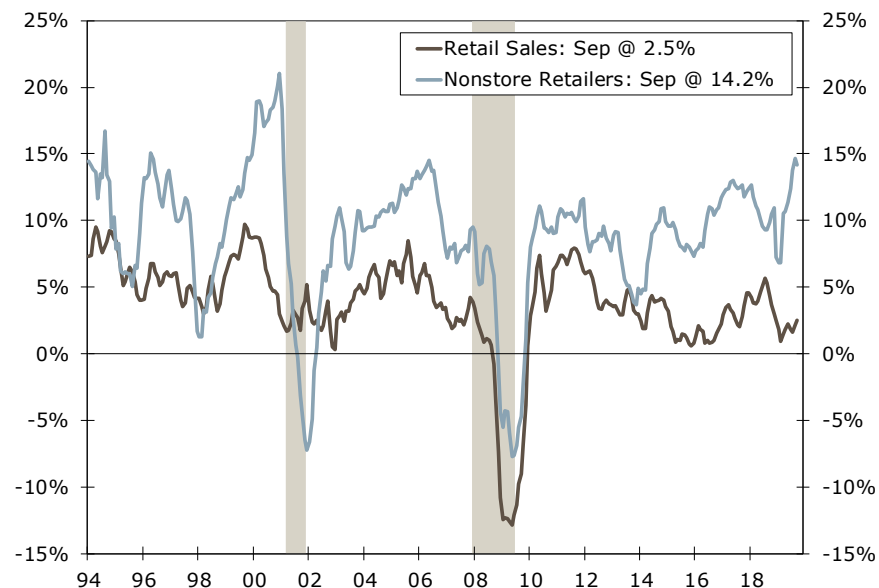
Percentage Points at Annual Rate



Retail Sales Remain Robust

Non-Store Retailers vs. Retail Sales

Year-over-Year Percent Change of 3-Month Moving Averages

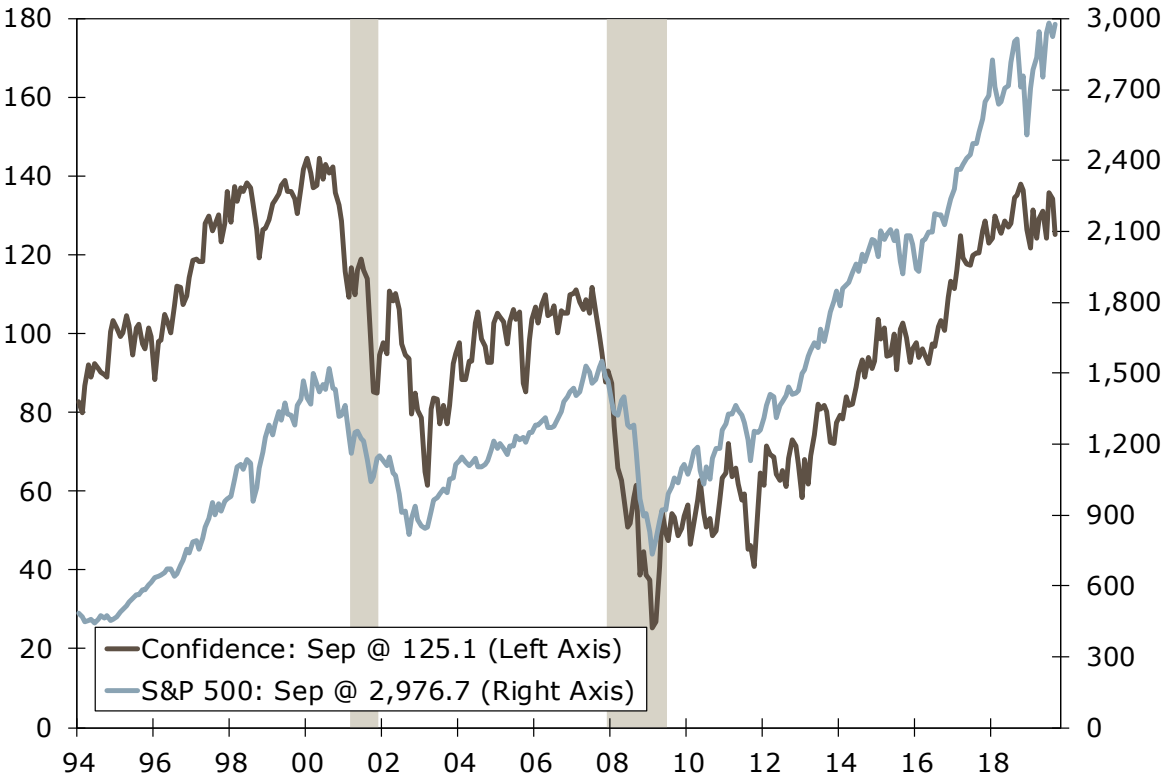


Source: Department of Commerce and Wells Fargo Securities

Stock market volatility may lead to waning consumer confidence due to the “wealth effect”.

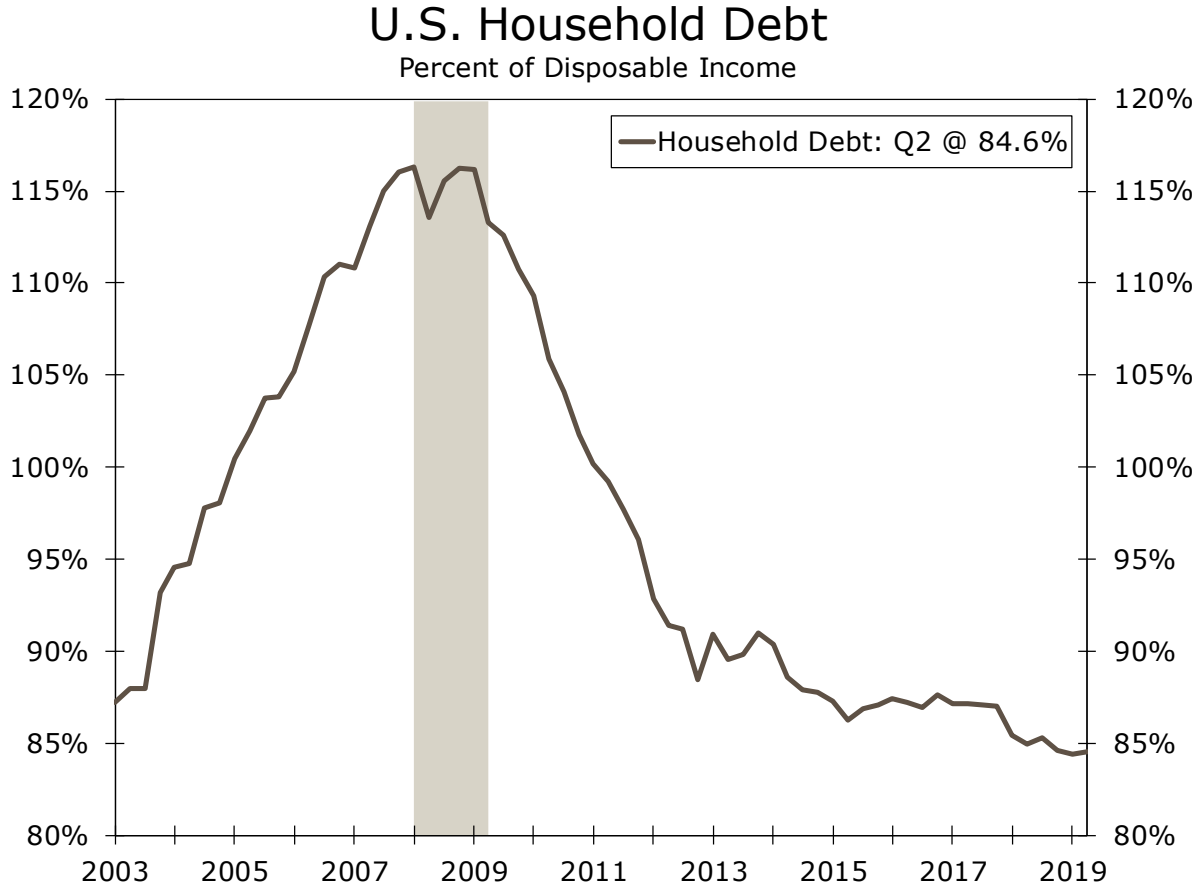
Consumer Confidence Index and S&P 500

Conference Board



Source: Conference Board, S&P Indices and Wells Fargo Securities

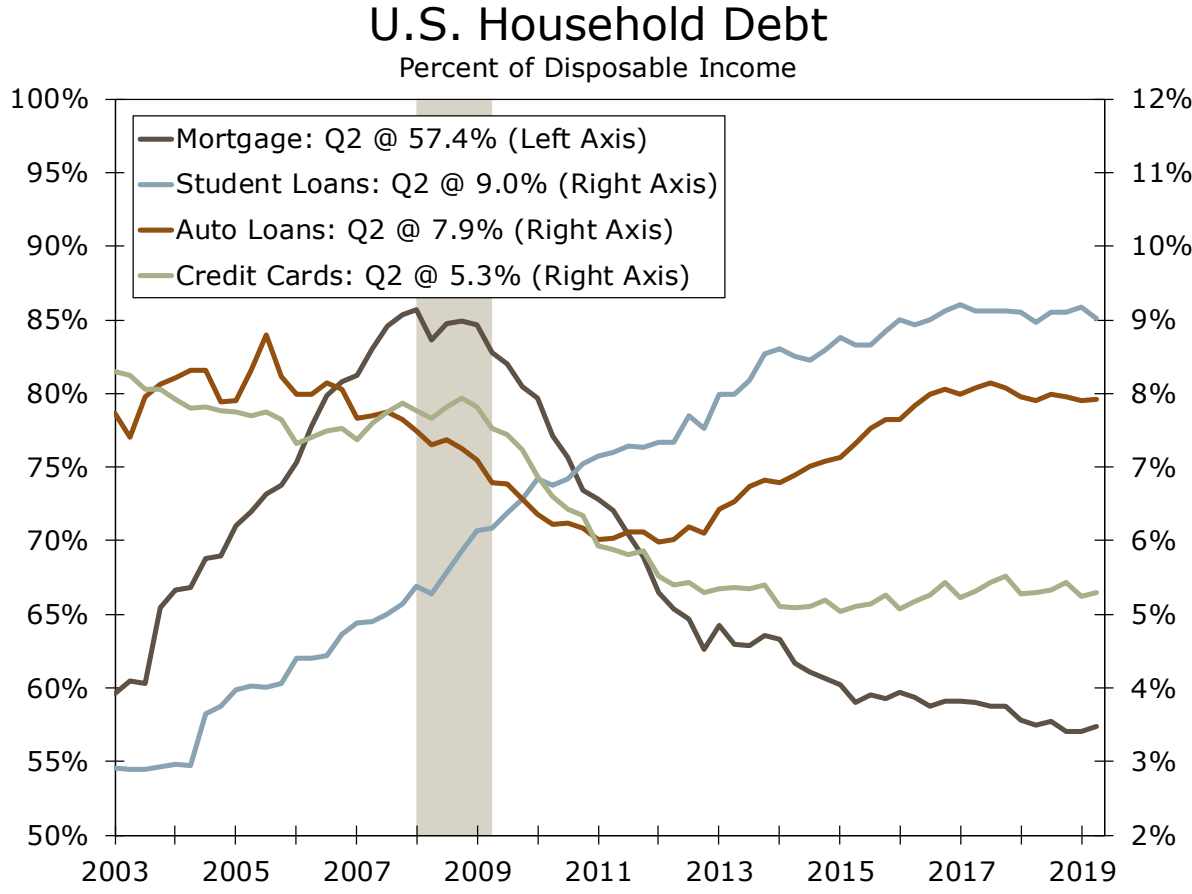
Relative to income gains, the household balance sheet appears to be in good health.



Source: FRBNY and Wells Fargo Securities

Student Loans: A Growing Share of Household Debt

Student loans represent a relatively small share of household debt, but are growing and likely having an impact mortgage and auto lending.

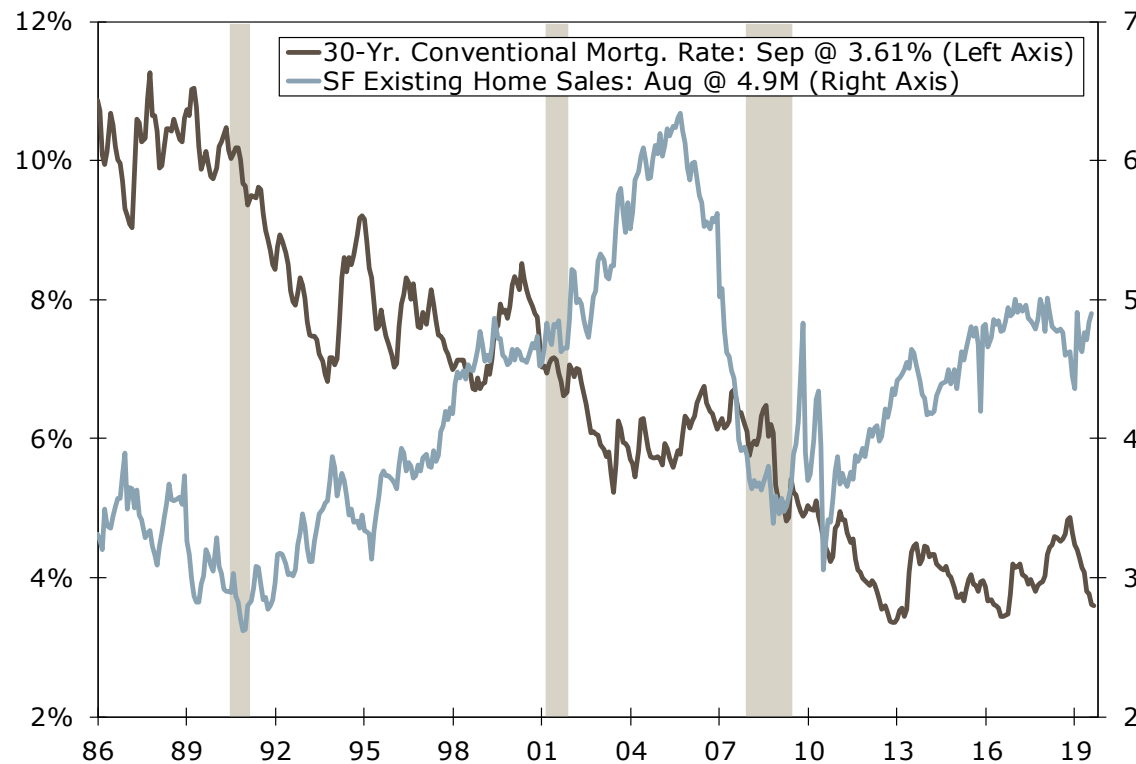


Source: FRBNY and Wells Fargo Securities

Lower mortgage rates will help home sales recover from last year's slide, but we don't expect a meaningful reacceleration.

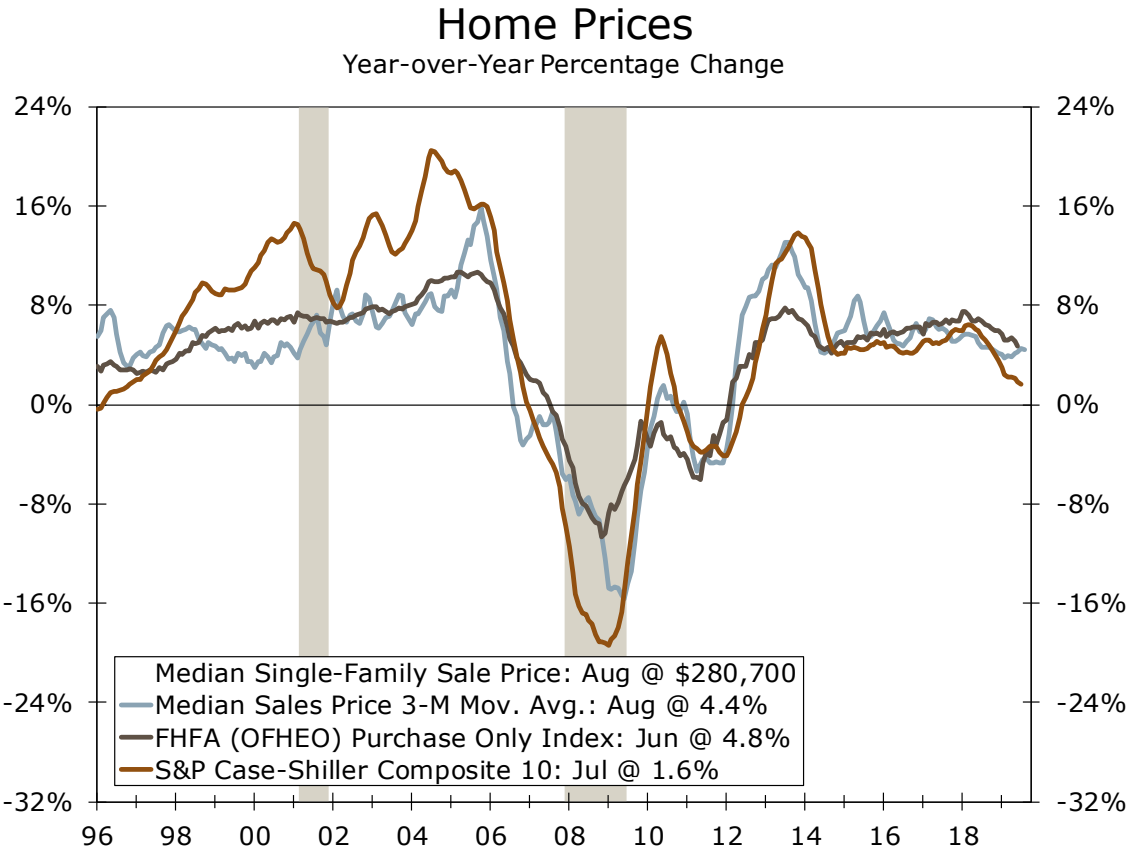
Mortgage Rate vs. Existing Single-Family Home Sales

Percent, SAAR In Millions



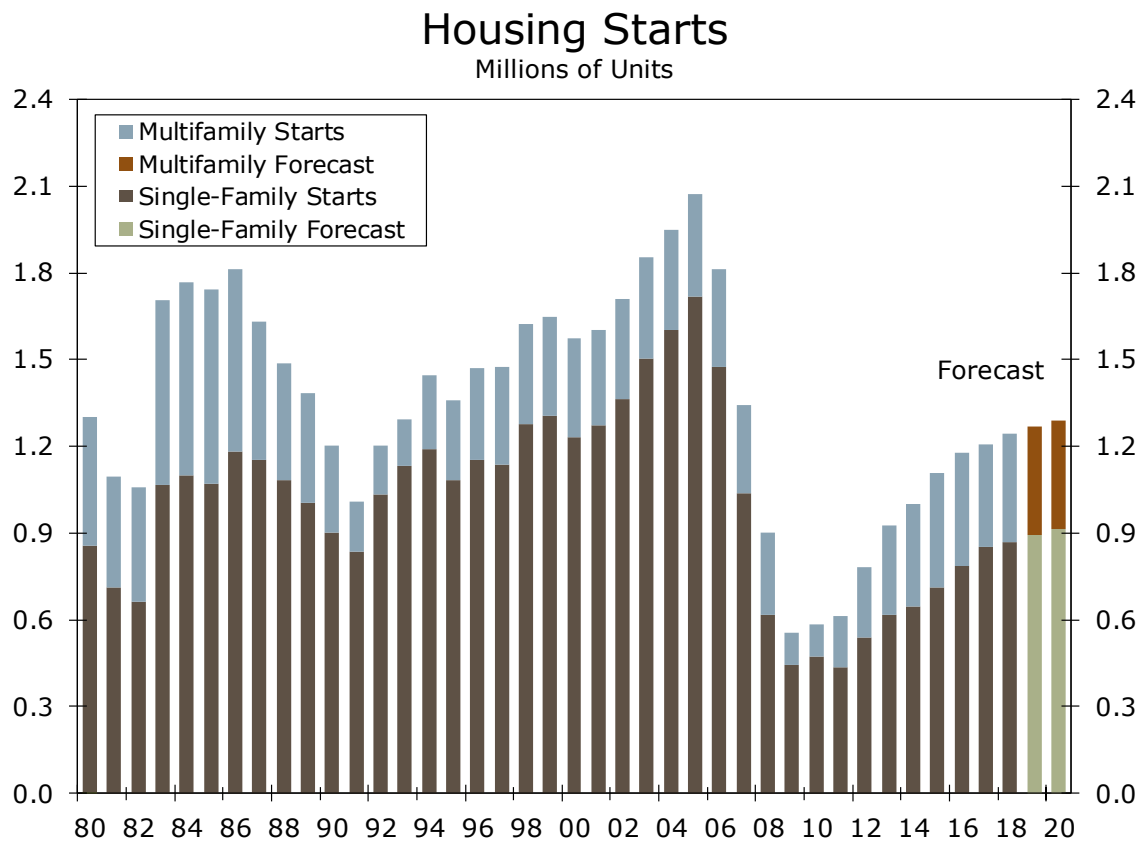
Source: National Association of Realtors, U.S. Department of Commerce and Wells Fargo Securities

Home prices are cooling alongside slower sales and shifting demand towards more affordable homes in lower cost areas of the country.



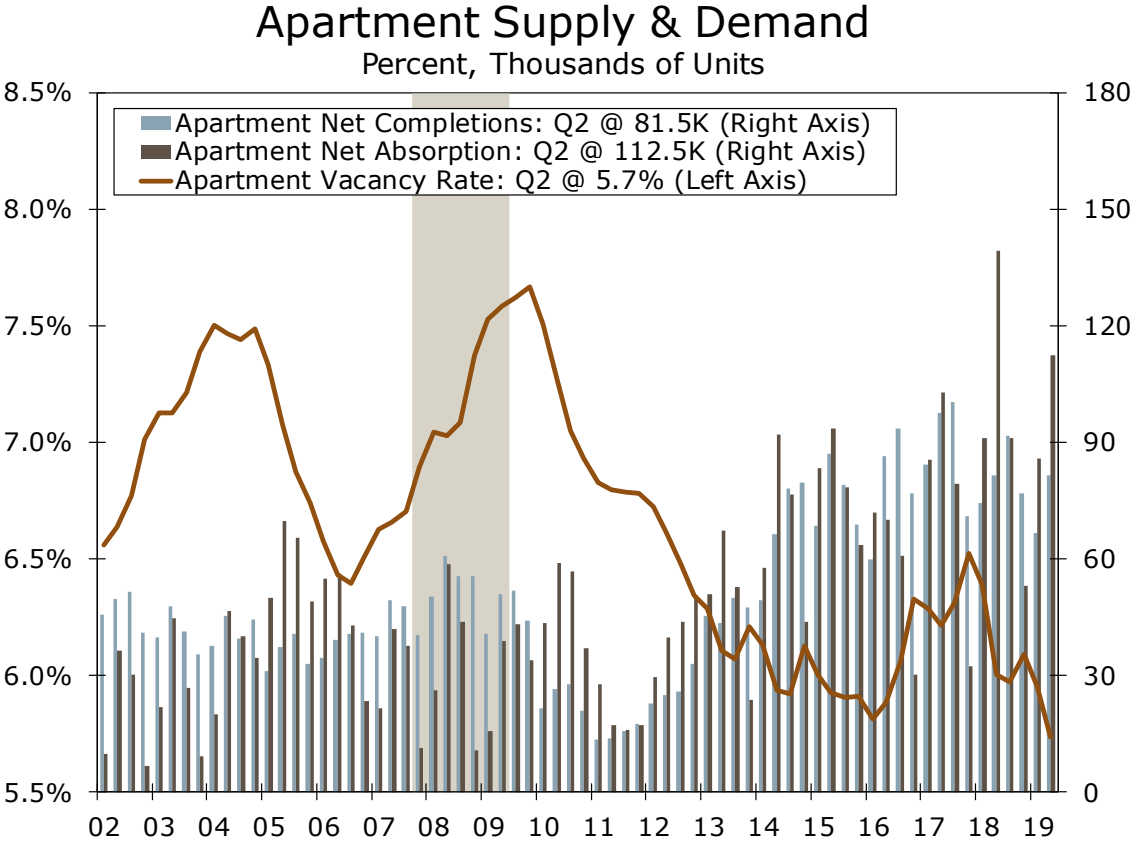
Source: U.S. Department of Commerce, S&P Dow Jones Indices and Wells Fargo Securities

Residential construction remains subdued. New apartment construction will remain elevated and new single family starts will gradually trend higher.



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

Robust new apartment construction has so far been met with hefty demand. With lower mortgage rates, the second wind behind the apartment market may begin to dissipate.

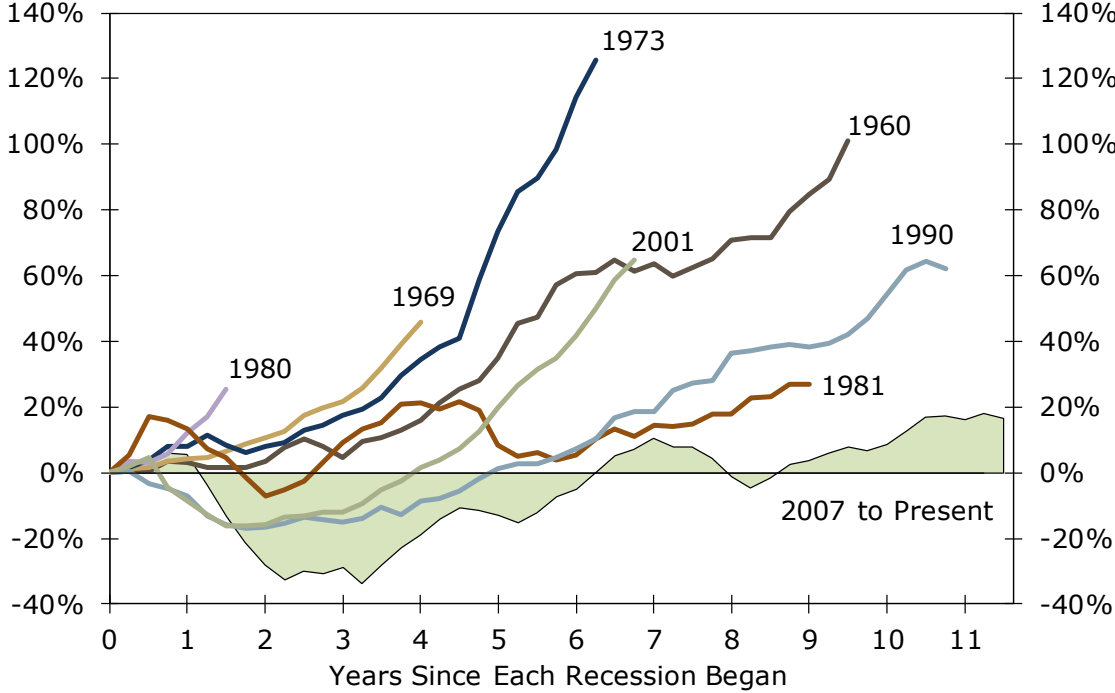


Source: CoStar and Wells Fargo Securities

Builders and developers have been relatively restrained for much of the expansion.

Nonresidential Structures Investment

Percent Change Since Start of Each Recession

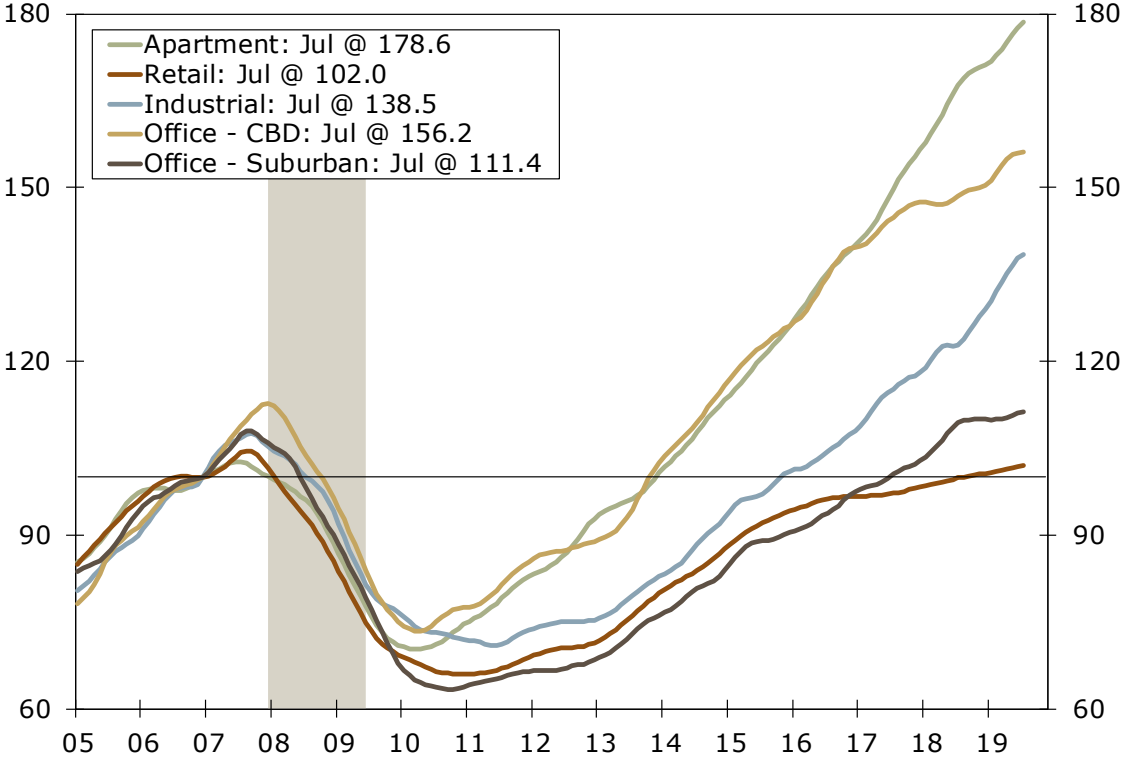


Source: U.S. Department of Commerce and Wells Fargo Securities

Still solid real GDP growth, formidable employment gains and rising wages will be the positive undercurrents that propel commercial real estate throughout the next few years. Industrial and CBD office properties continue to see property prices accelerate.

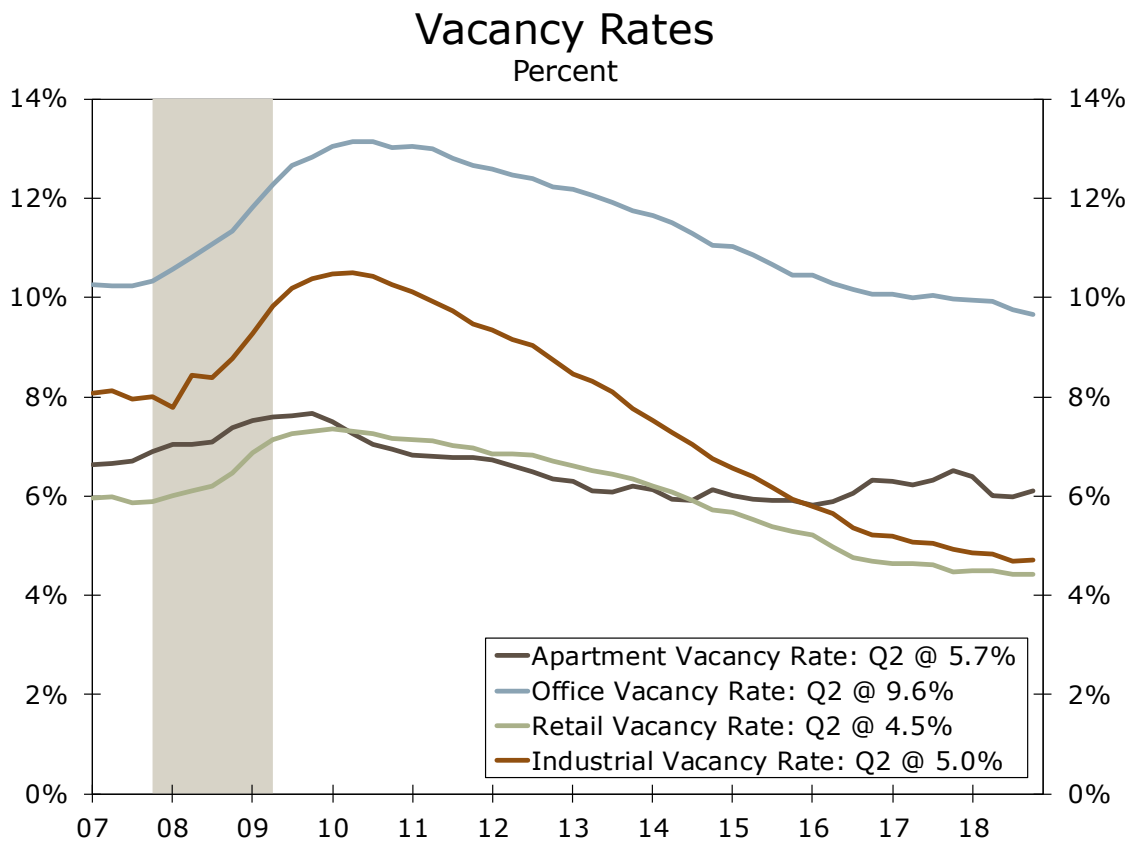
Commercial Property Price Index

Index, 100=2006



Source: CoStar and Wells Fargo Securities

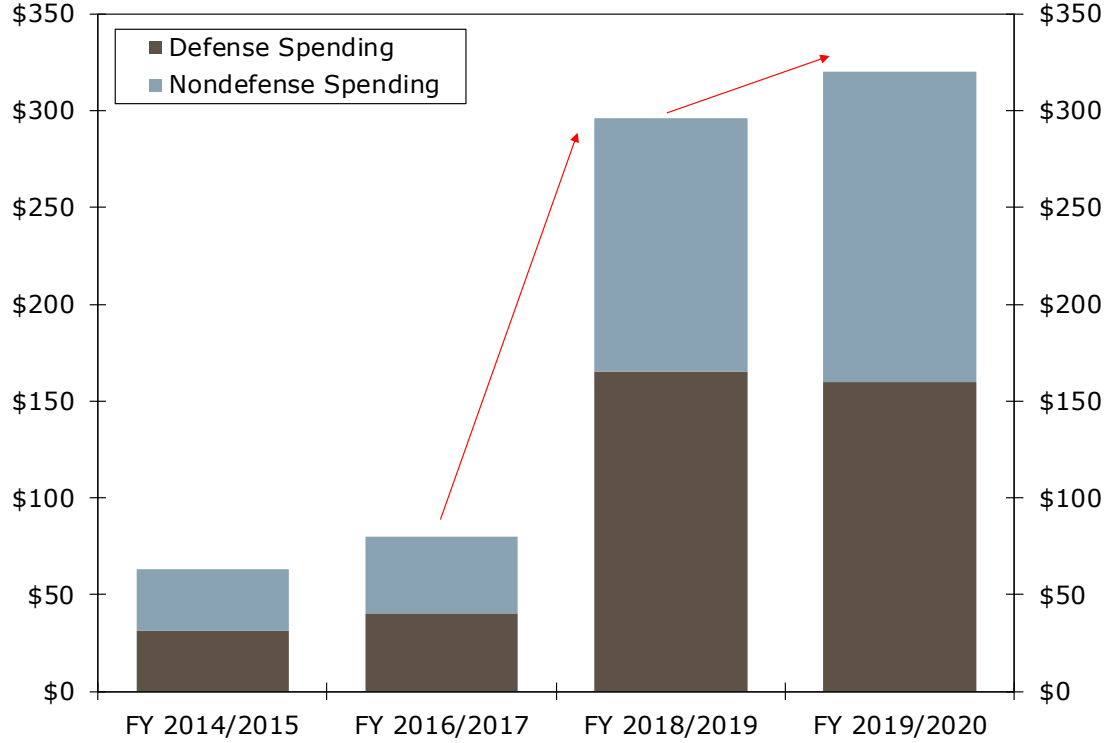
Rising valuations appear to be justified, as vacancy rates across most property types have trended lower alongside solid demand and a relatively subdued pace of new commercial development.



Source: CoStar and Wells Fargo Securities

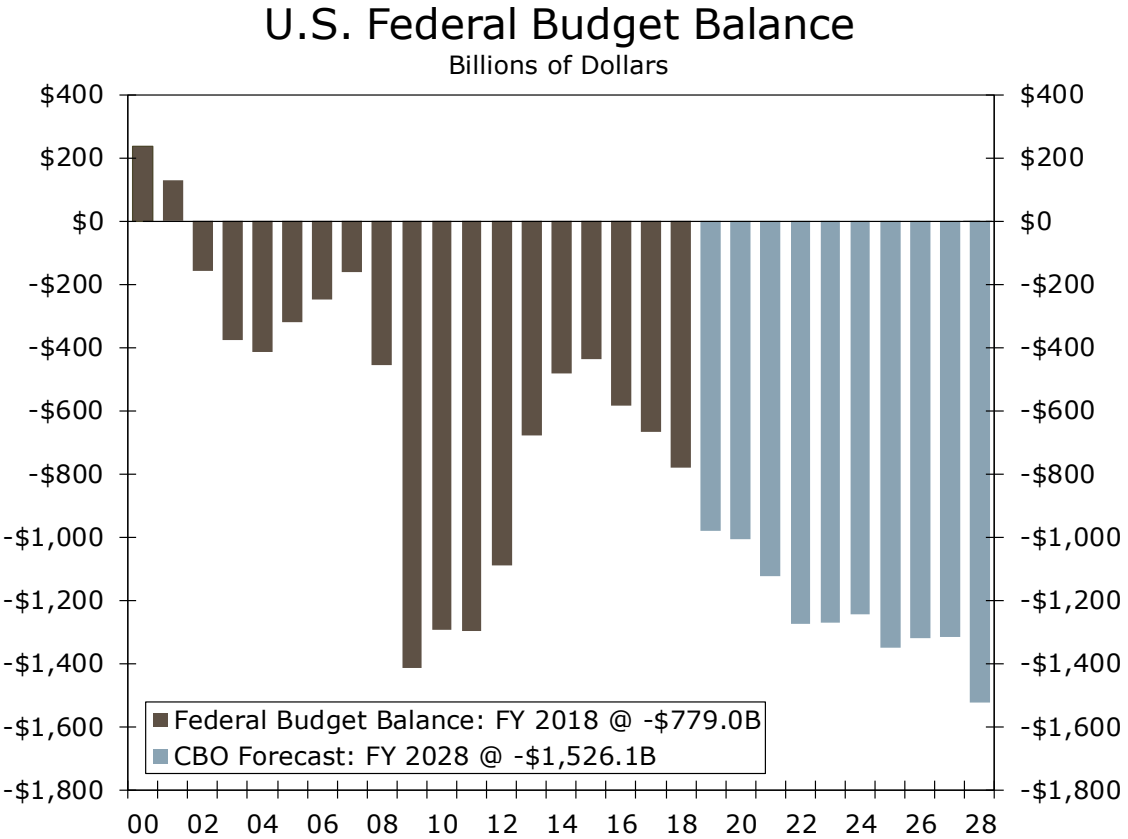
The budget deal reached last year provides additional fiscal stimulus to the U.S. economy

Increase in BCA Budget Caps
Billions of USD



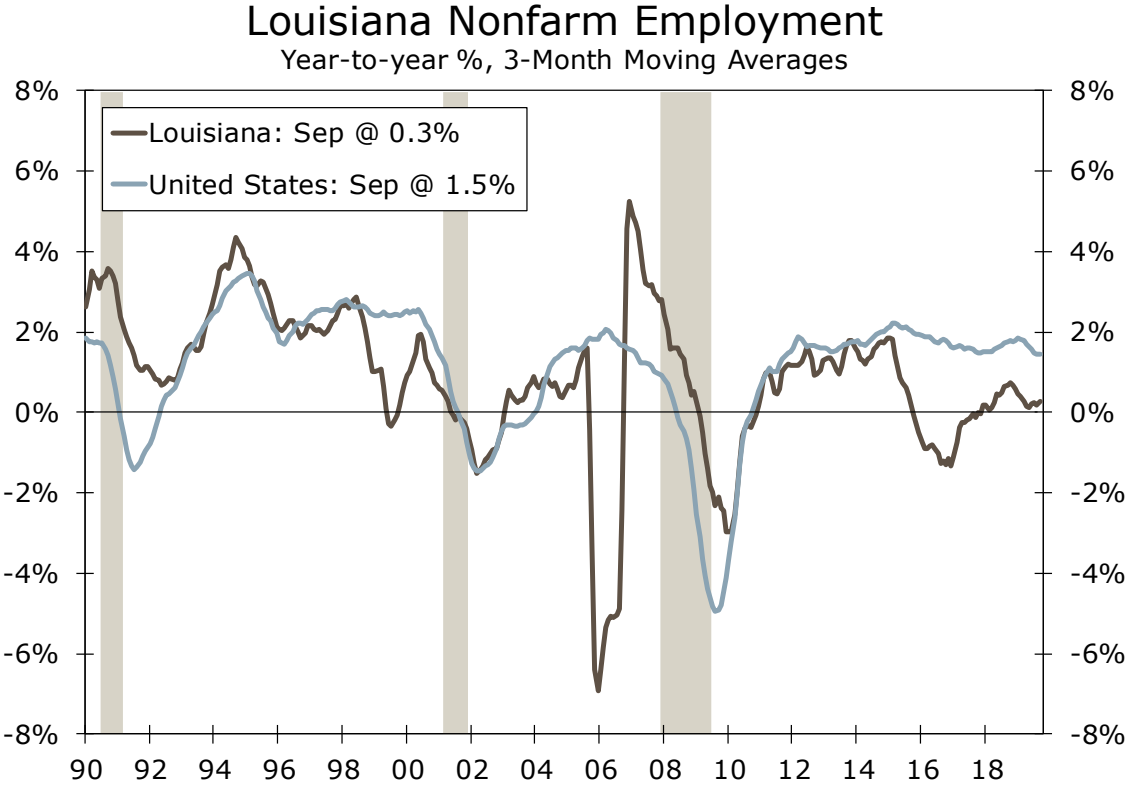
Source: Congressional Budget Office and Wells Fargo Securities

Over the long term, a growing deficit could potentially push up interest rates, crowd out private investment and slow overall economic growth .



Source: National Association of Realtors, U.S. Department of Commerce and Wells Fargo Securities

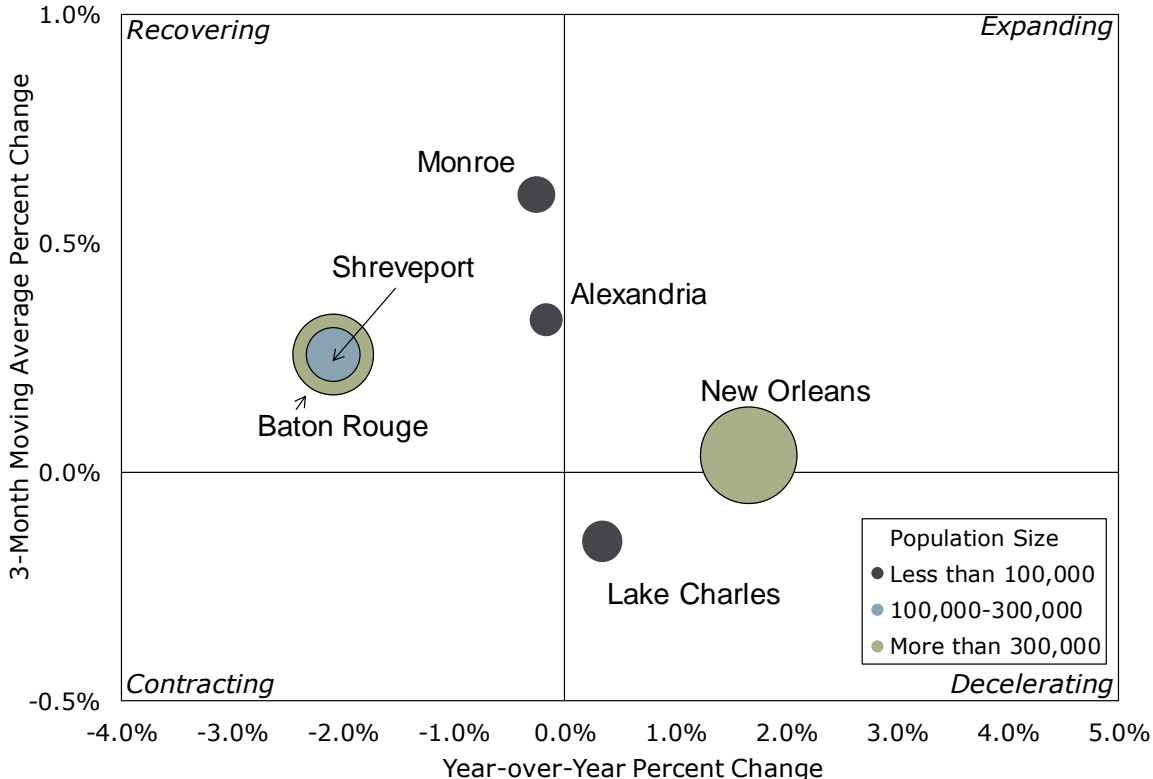
Employment growth in Louisiana continues to lag the rest of the country but remains in positive territory. Trade uncertainty and downshifting global growth are having a slowing effect on the state economy which is highly exposed to international trade.



Source: CoreLogic and Wells Fargo Securities

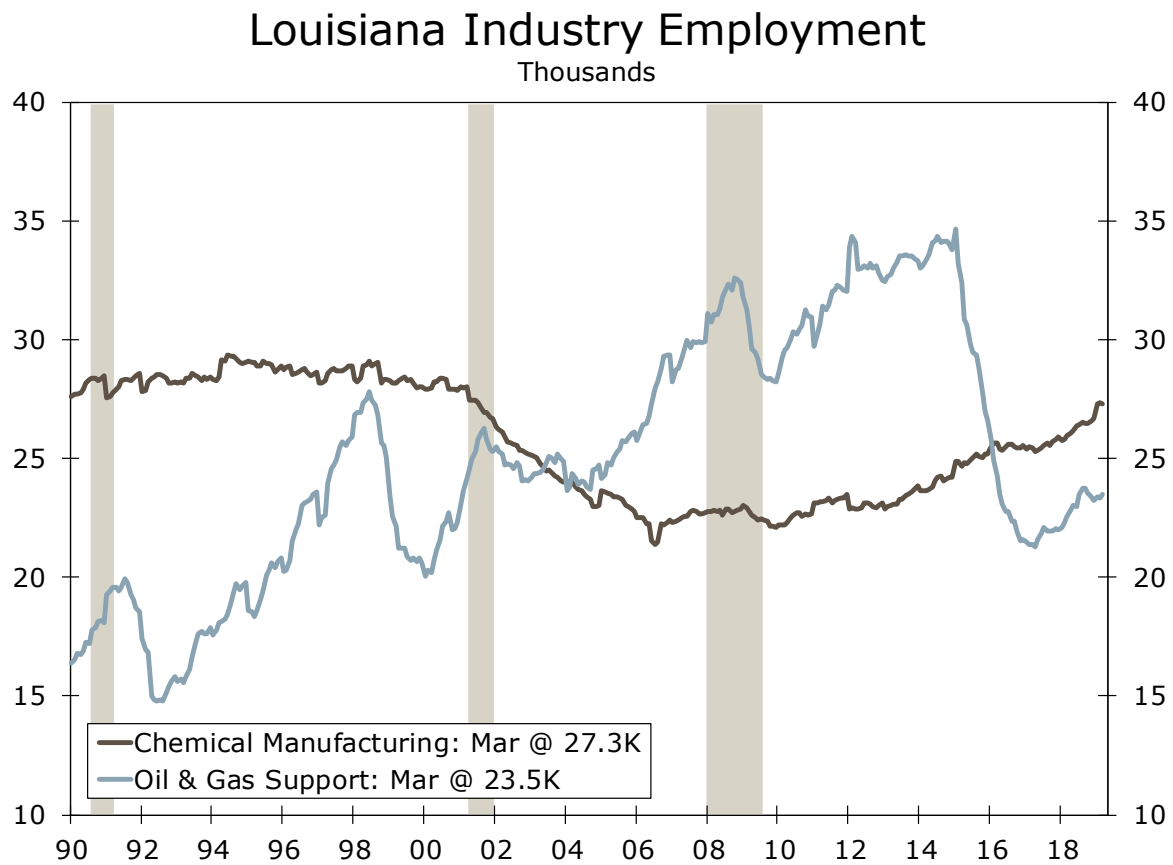
Hiring in New Orleans has outperformed recently, propelled by strong service-related job growth and tourism. Shreveport and Baton Rouge remain stuck in low gear, while Lake Charles has cooled off after a decade of robust growth.

Louisiana Employment Growth: September 2019
 Year-over-Year Percent Change, 3-Month Moving Average



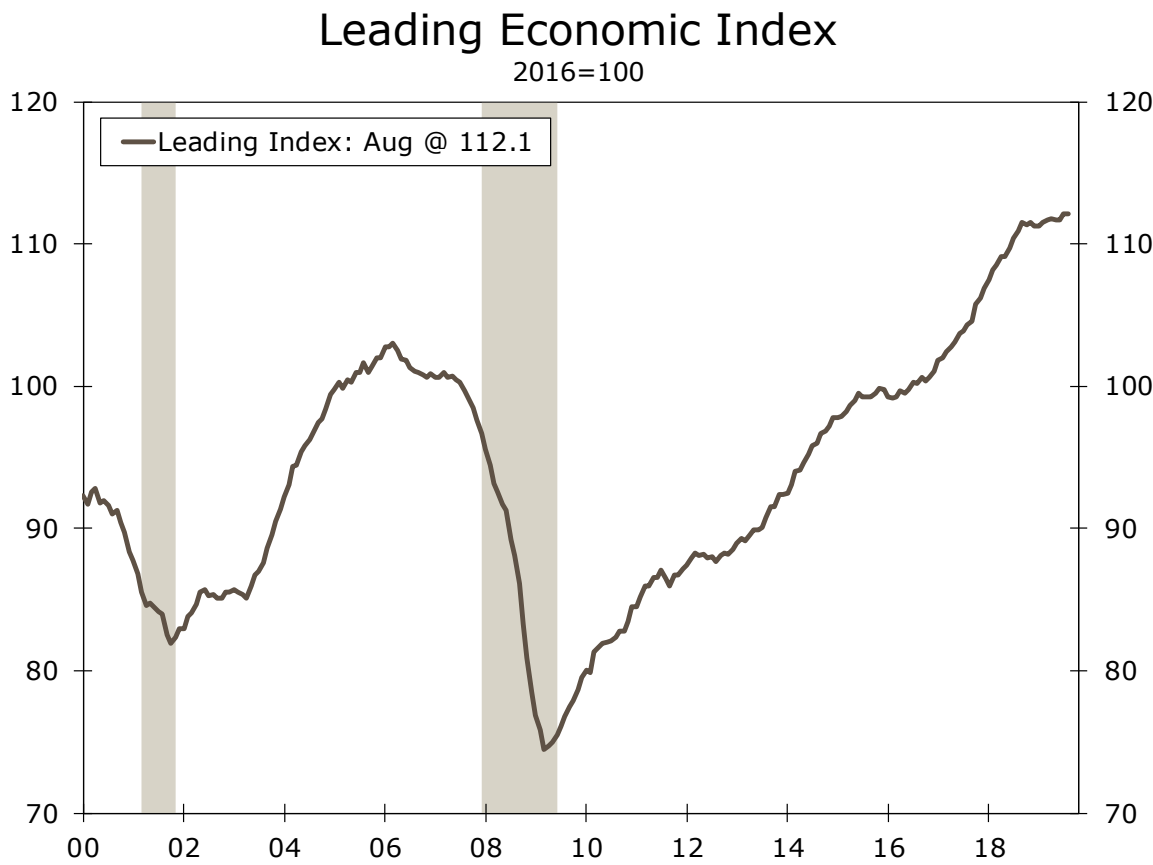
Source: Department of Labor and Wells Fargo Securities

The state's energy sector has struggled to regain traction following the 2015 oil rout. On the other hand, lower natural gas prices continue to boost the chemical manufacturing industry. While construction has hit a lull, there is a massive pipeline of industrial related projects slated to begin in coming years.



Source: Department of Labor and Wells Fargo Securities

Although economic growth has moderated somewhat, the leading economic index points to the now record-long expansion continuing for the next few years.



Source: Conference Board and Wells Fargo Securities

Appendix

U.S. Economic Forecast

Wells Fargo U.S. Economic Forecast

	Actual																Forecast			
	2018				2019				2020				2021				Actual	Forecast		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2018	2019	2020	2021
Real Gross Domestic Product ¹	2.6	3.5	2.9	1.1	3.1	2.0	1.4	1.4	1.7	1.8	2.2	1.8	2.0	2.1	2.3	2.3	2.9	2.2	1.7	2.1
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	2.4	1.9	2.0	2.0	1.9	1.9	1.8	2.1	2.2	2.2	3.0	2.5	2.2	1.9
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-0.4	0.6	3.1	2.0	3.3	3.7	4.2	4.1	4.1	4.0	6.4	2.5	1.8	3.8
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.9	-2.8	1.6	-0.5	1.3	2.0	3.4	3.4	3.2	3.0	6.8	1.4	-0.4	2.6
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	6.3	5.0	5.4	4.7	6.2	6.5	6.4	6.2	6.1	6.2	7.4	7.9	5.4	6.2
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-7.5	0.5	2.5	3.0	2.5	2.2	1.8	1.9	2.0	2.1	4.1	-3.5	0.0	2.1
Residential Construction	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	3.5	2.0	2.0	1.5	1.5	1.5	1.0	1.0	1.0	1.0	-1.5	-1.9	1.7	1.2
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.2	0.9	1.2	1.0	0.9	0.8	0.8	0.8	0.7	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	-0.3	-0.1	0.3	-0.2	-0.2	-0.4	-0.2	-0.1	0.0	0.0	-0.4	-0.3	-0.1	-0.2
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	-0.1	-0.1	-0.7	0.0	0.4	0.1	0.2	0.0	0.0	0.0	0.1	0.2	-0.2	0.1
Nominal GDP ¹	5.0	7.1	4.8	2.9	3.9	4.7	3.1	3.3	4.0	3.9	4.1	3.7	4.1	4.1	4.1	4.1	5.4	4.0	3.8	4.0
Corporate Profits Before Taxes ³	2.9	2.4	4.2	4.2	-2.2	1.3	3.5	2.1	3.0	1.4	-1.2	1.5	2.1	2.0	3.0	1.5	3.4	1.2	1.1	2.2

Forecast as of: October 09, 2019

¹ Compound Annual Growth Rate Quarter-over-Quarter ² Percentage Point Contribution to GDP ³ Year-over-Year Percentage Change

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

To view any of our past research
please visit:
[http://www.wellsfargo.com/
economics](http://www.wellsfargo.com/economics)

To join any of our research
distribution lists please visit:
[http://www.wellsfargo.com/
economicsemail](http://www.wellsfargo.com/economicsemail)

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
October-10	Estimating Elections' Effect on the Economy	Iqbal & Mathews
October-08	The Animal Spirits Index Remains Volatile in Q3	Iqbal
October-08	Gimme Shelter or Inflation Gonna Fade Away	House & Seery
September-27	Impeachment Drama Stirs the Pot in Washington, D.C.	Bryson & Pugliese
September-18	Fed Cuts Rates 25 bps. Is Further Easing on the Way?	Bryson
U.S. Regional		
October-11	Tuskegee vs. Morehouse in a Classic	Vitner, Dougherty & Honnold
October-10	Washington and Arizona Face Off	Vitner, Dougherty & Honnold
October-03	Iowa vs. Michigan	Vitner, Dougherty & Honnold
September-26	Prairie View A&M vs. Gambling State	Vitner, Dougherty & Honnold
September-26	Ohio State vs. Nebraska	Vitner, Dougherty & Honnold
Global Economy		
October-10	Is There Too Much Debt in the Eurozone?: Part V	Bryson, Pugliese & Mathews
October-02	Political Pressure, Trade Policy and Potential Market Effect	McKenna, Bennenbroek & Lics
October-01	RBA: A Gentle Turn to More Rate Cuts	McKenna
October-01	ECB Snaps, Crackles, then Watches Rates Pop	Bennenbroek & Nelson
September-19	Norges Bank, the Lone G10 Hawk?	Lics & Nelson
Interest Rates/Credit Market		
September-27	Repo Running Wild: A Deeper Dive	Bryson & Pugliese
September-17	Repo Running Wild	Pugliese
July-31	FOMC Cuts Rates 25 bps, but Two Members Dissent	Bryson
July-31	Treasury Refunding Highlights	Bryson & Pugliese
July-30	Was the Fed's Rate Hike in December a "Policy Mistake"?	Iqbal & Lics
Real Estate & Housing		
October-11	Assessing the Risk of Co-working Office Space	Vitner, Dougherty & Honnold
July-30	Housing Demographics Turn More Positive	Vitner, Dougherty & Honnold
July-09	Housing Chartbook: July 2019	Vitner, Dougherty & Honnold
June-18	Housing Chartbook: June 2019	Vitner, Dougherty & Honnold
March-20	Q4 CRE Chartbook: Construction Outlook	Vitner, Dougherty & Honnold
March-18	Housing Chartbook: March 2019	Vitner, Dougherty & Honnold

To view any past research please visit: www.wellsfargo.com/economics

Economists & Macro Strategists

Jay H. Bryson, Global Economist	jay.bryson@wellsfargo.com
Mark Vitner, Senior Economist	mark.vitner@wellsfargo.com
Sam Bullard, Senior Economist	sam.bullard@wellsfargo.com
Nick Bennenbroek, Macro Strategist	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan, Senior Economist	tim.quinlan@wellsfargo.com
Azhar Iqbal, Econometrician	azhar.iqbal@wellsfargo.com
Sarah House, Senior Economist	sarah.house@wellsfargo.com
Charlie Dougherty, Economist	charles.dougherty@wellsfargo.com
Erik Nelson, Macro Strategist	erik.f.nelson@wellsfargo.com
Michael Pugliese, Economist	michael.d.pugliese@wellsfargo.com
Brendan McKenna, Macro Strategist	brendan.mckenna@wellsfargo.com

Economic Analysts

Shannon Seery, Economic Analyst	shannon.seery@wellsfargo.com
Matthew Honnold, Economic Analyst	matthew.honnold@wellsfargo.com
Jen Licis, Economic Analyst	jennifer.licis@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE