

WELLS
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SECURITIES

Economic Outlook

Charlie Dougherty, Vice President & Economist
September 11, 2019

Together we'll go far

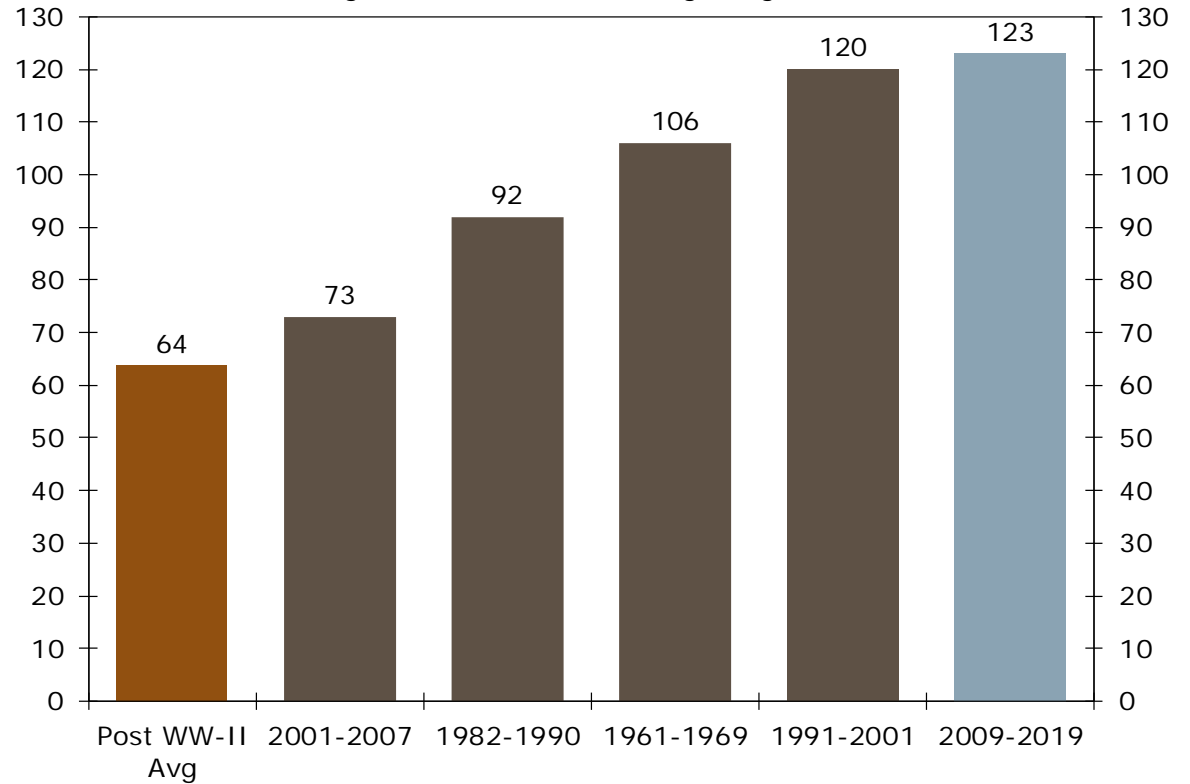


Economic Expansion Longest on Record

In July the economic expansion turned 10 years old and is now the longest on record dating back to 1854.

Duration of Economic Expansion

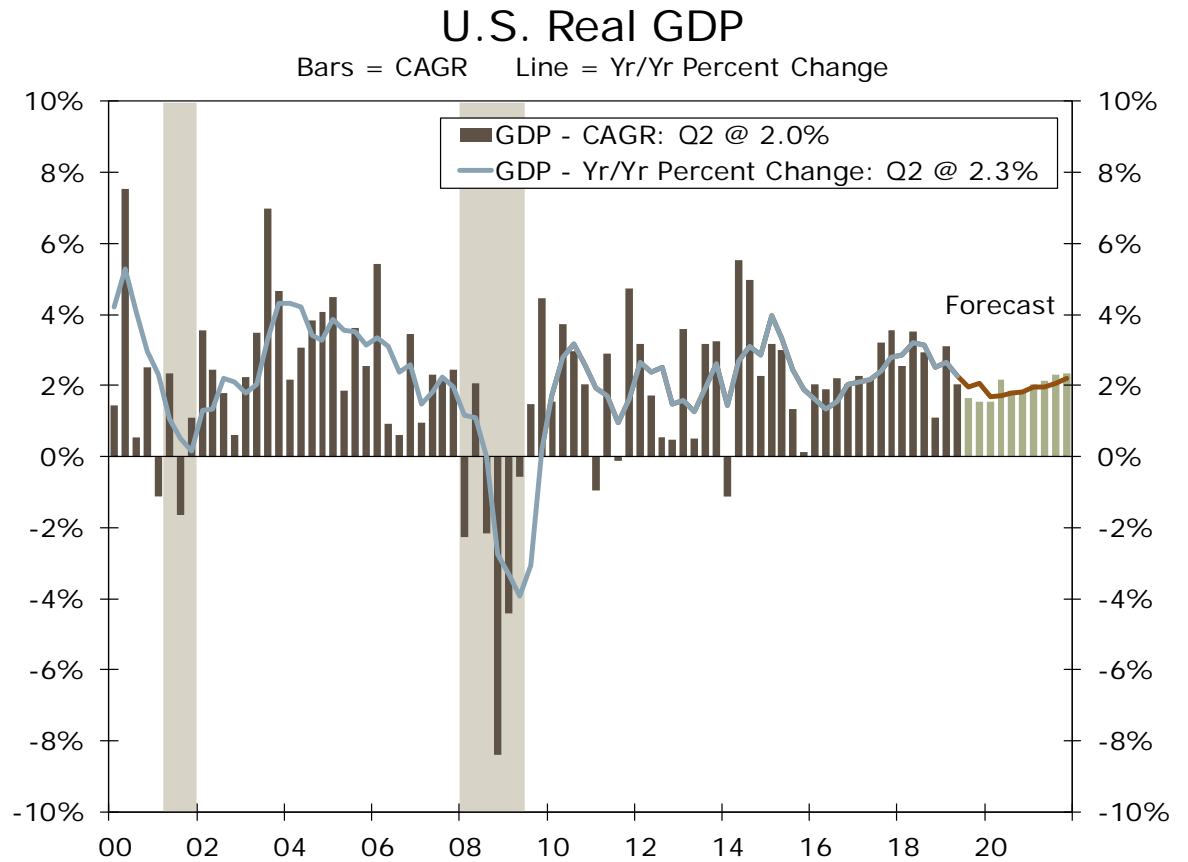
Trough-to-Peak, Months through August 2019



Source: NBER and Wells Fargo Securities

Economic Growth Will Remain Solid in 2019

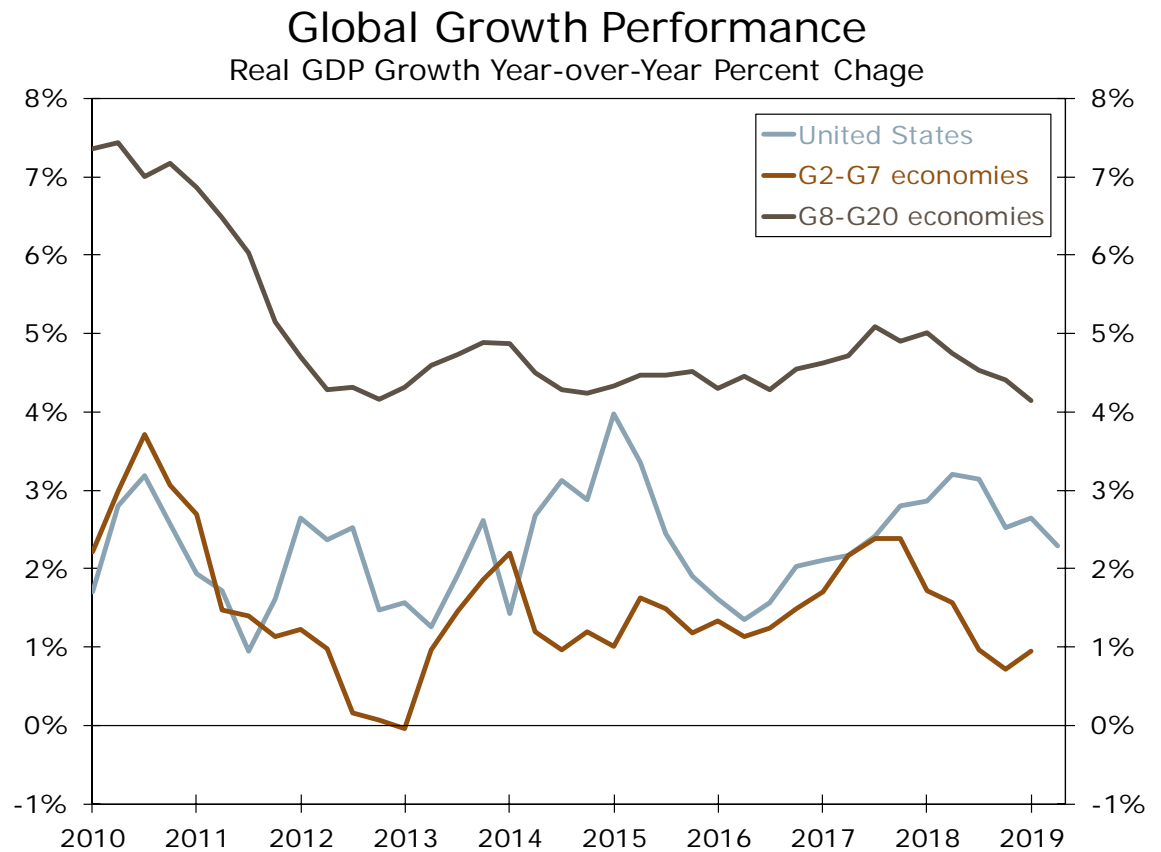
Real GDP growth will remain solid, yet likely moderate somewhat over the next few years.



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

Global Growth Peaking?

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

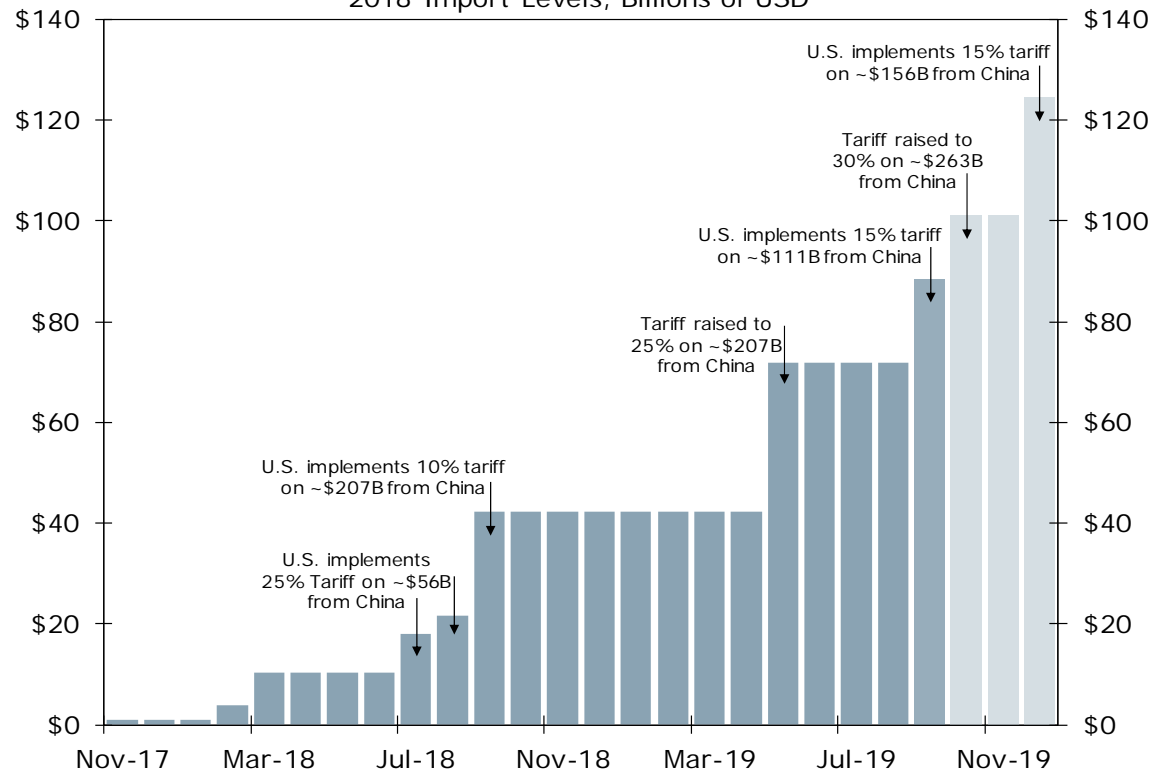


Source: OECD and Wells Fargo Securities

Roughly 60% of new goods subject to tariffs will be delayed until December. The delay reduces the risk that trade tensions will take a meaningful toll on consumer confidence and weaken household spending, at least in the near term.

The Rising Cost of the Trade War

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



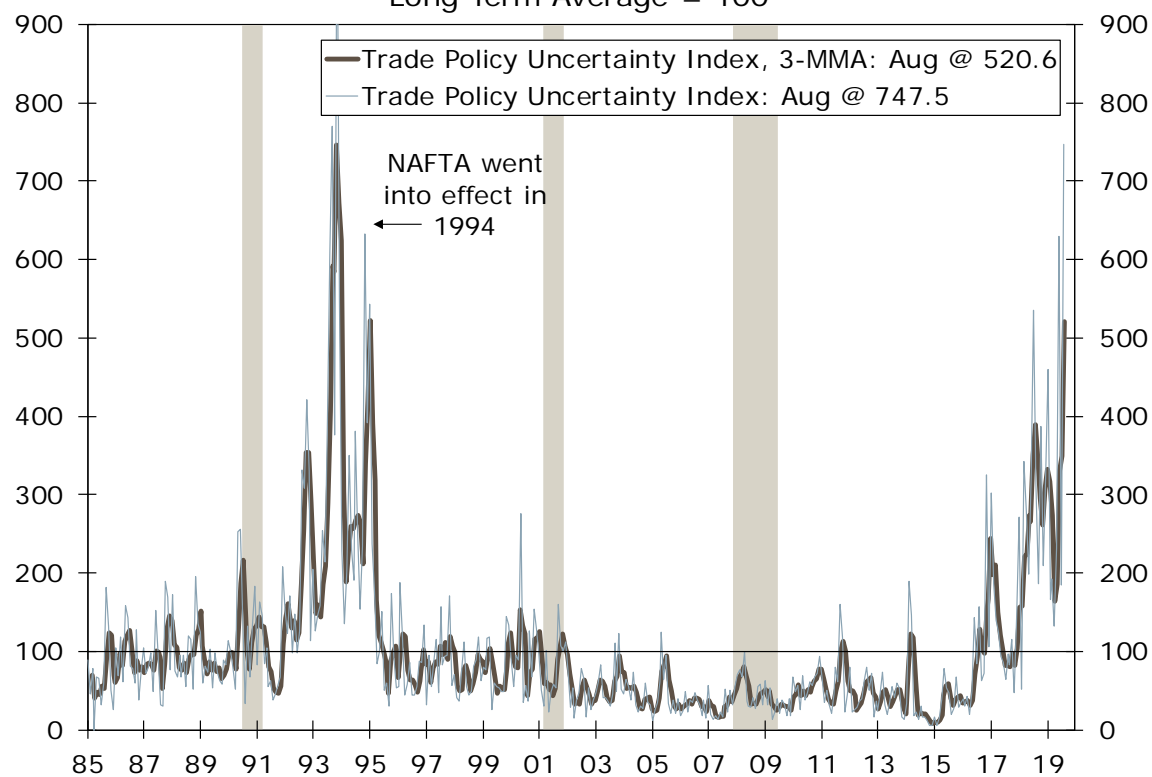
Source: OECD and Wells Fargo Securities

Trade Uncertainty Slowing Investment

Trade uncertainty is having a slowing impact on the economy, as businesses reassess supply chains, build contingency plans and delay capital investments. On a brighter note, the USMCA looks to be on its way to becoming law.

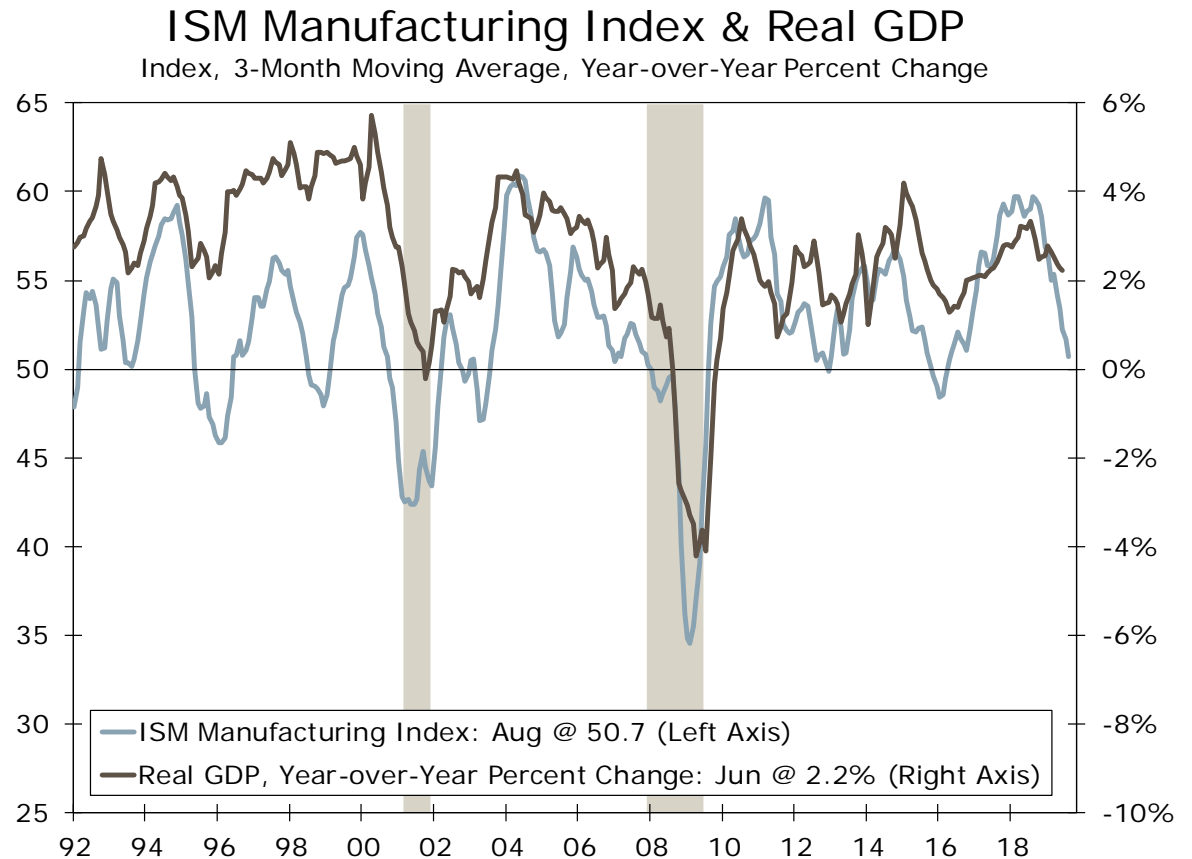
U.S. Trade Policy Uncertainty Index

Long Term Average = 100



Source: OECD and Wells Fargo Securities

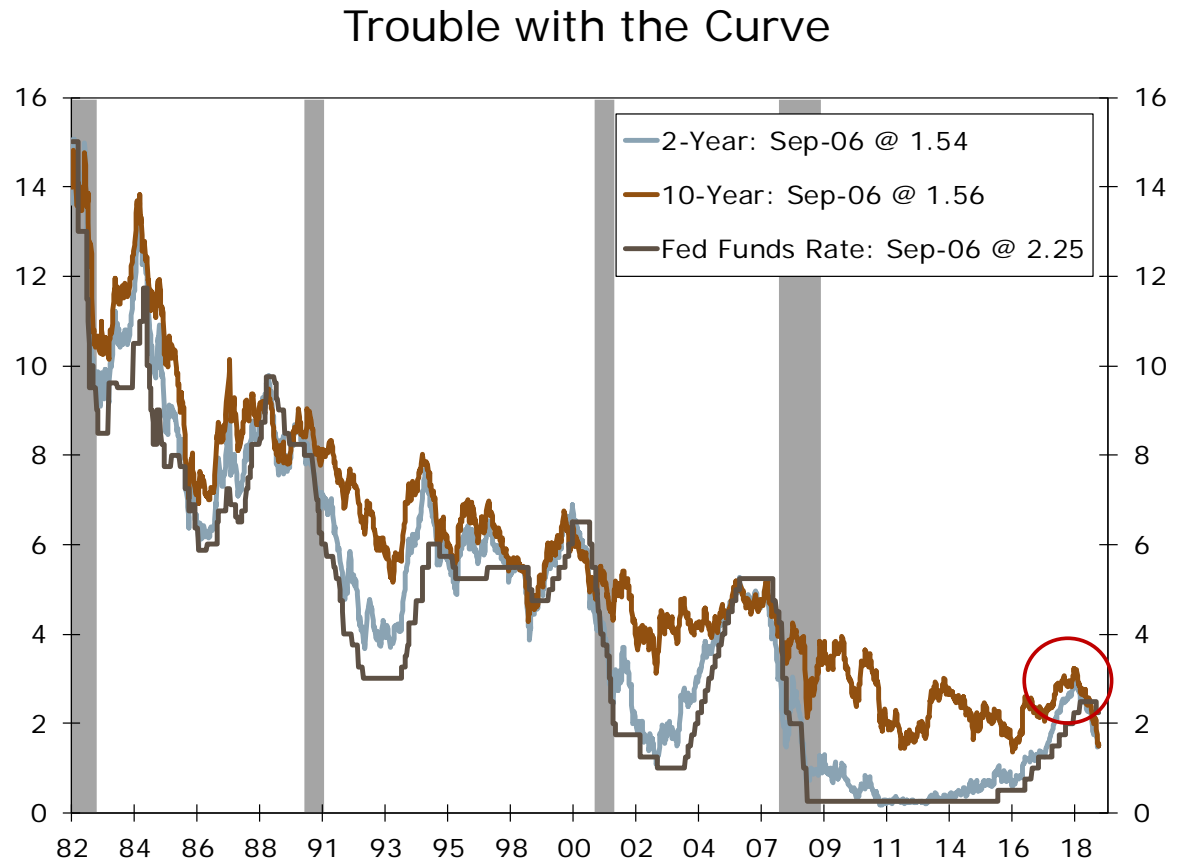
Languishing global growth, a strong dollar, and the ongoing trade war are clearly having an impact on the factory sector.



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

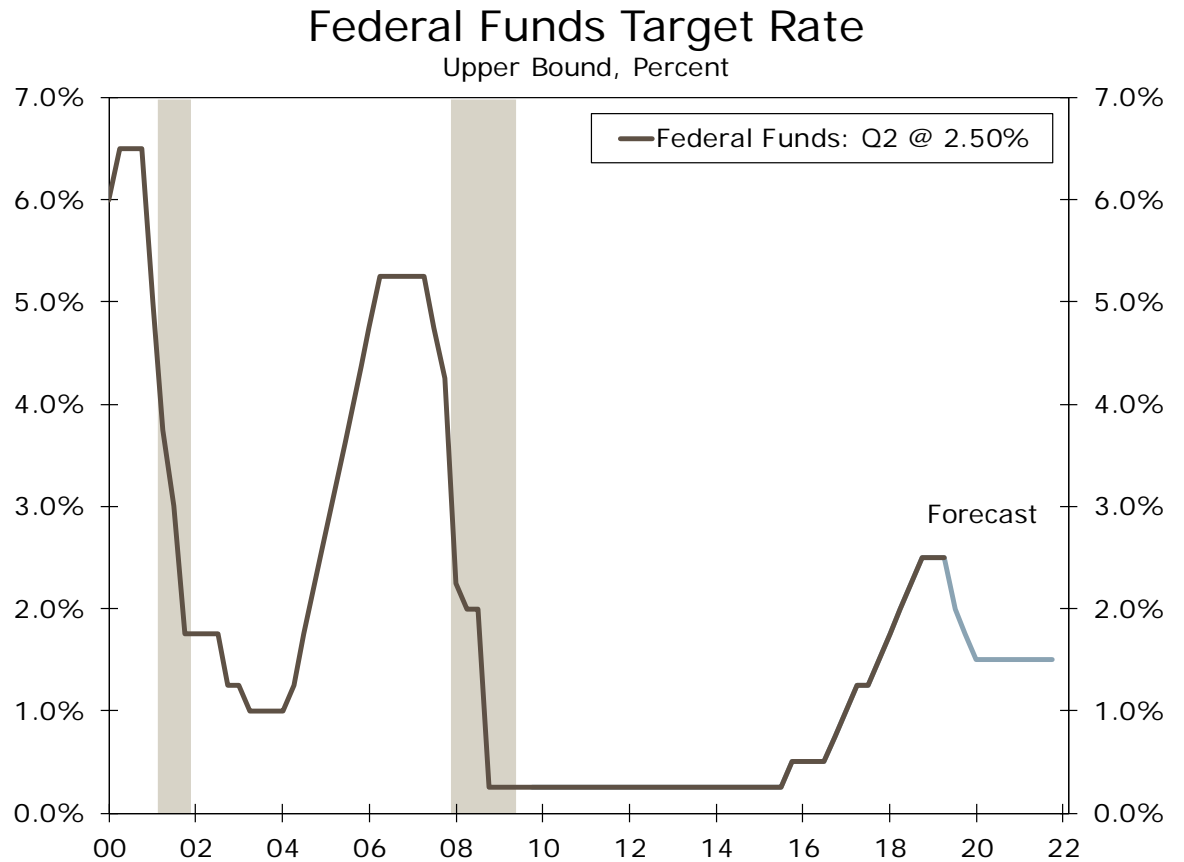
What Can the Yield Curve Tell Us?

The spread between 2 and 10 year yields inverted recently, sending financial markets into a tailspin. 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.



Source: S&P Indices and Wells Fargo Securities

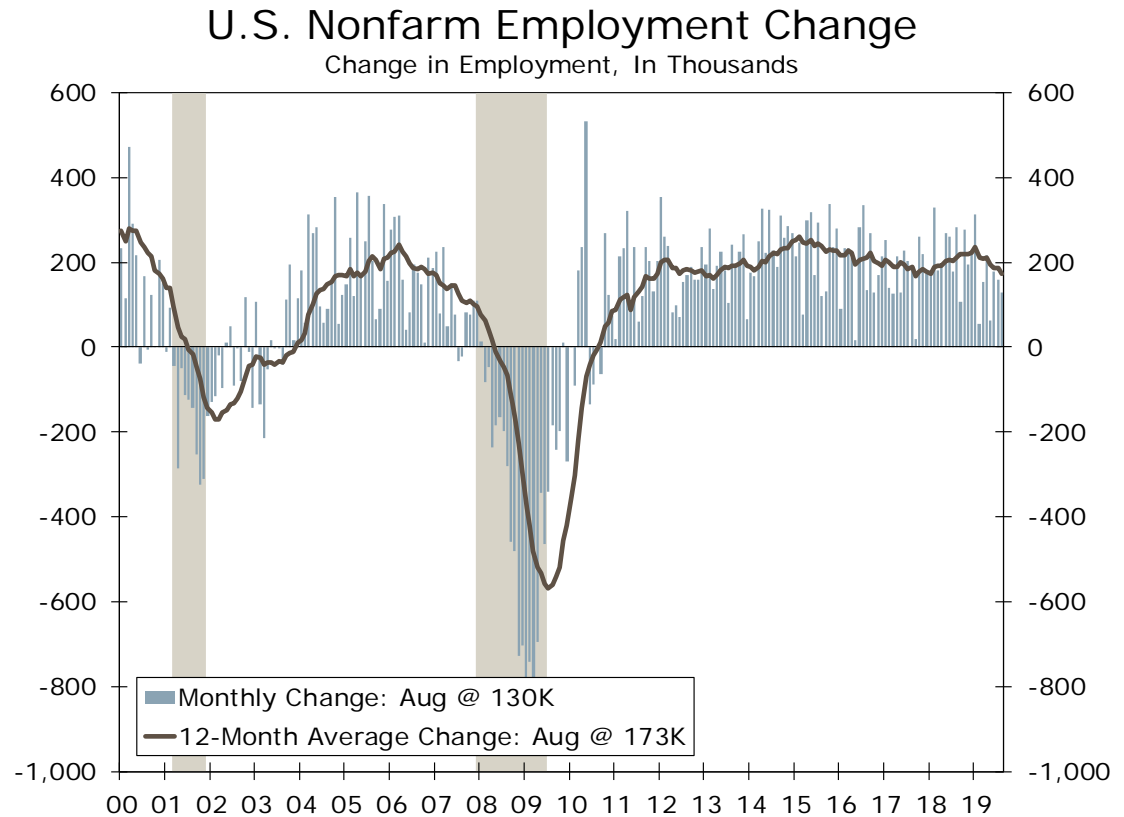
After trimming rates in July, we expect the Fed to lower the federal funds rate again in September in an effort to inoculate the economy from these headwinds.



Source: Federal Reserve Board and Wells Fargo Securities

Employment Situation: Employment Growth Resilient

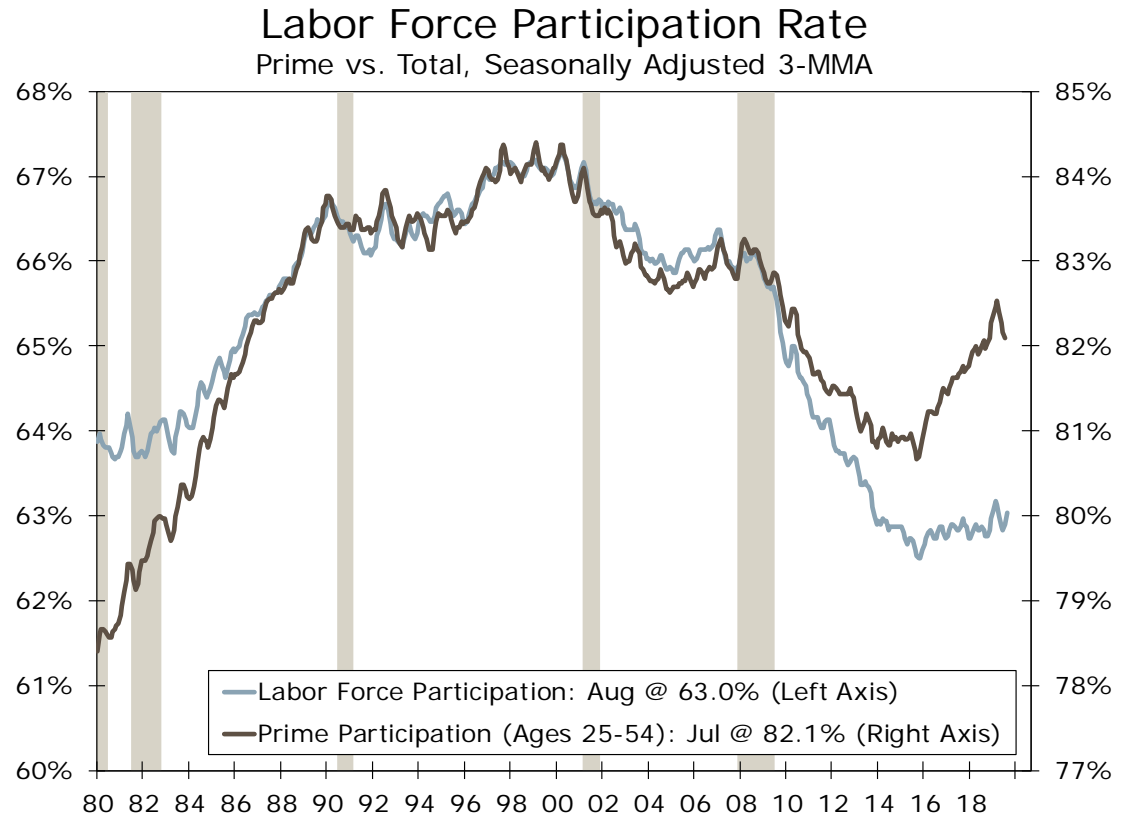
Hiring remains strong but is downshifting as employers struggle to find workers amid near record low unemployment. Employers have added to payrolls for over 100 consecutive months.



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

Employment Situation: Tightening Labor Market

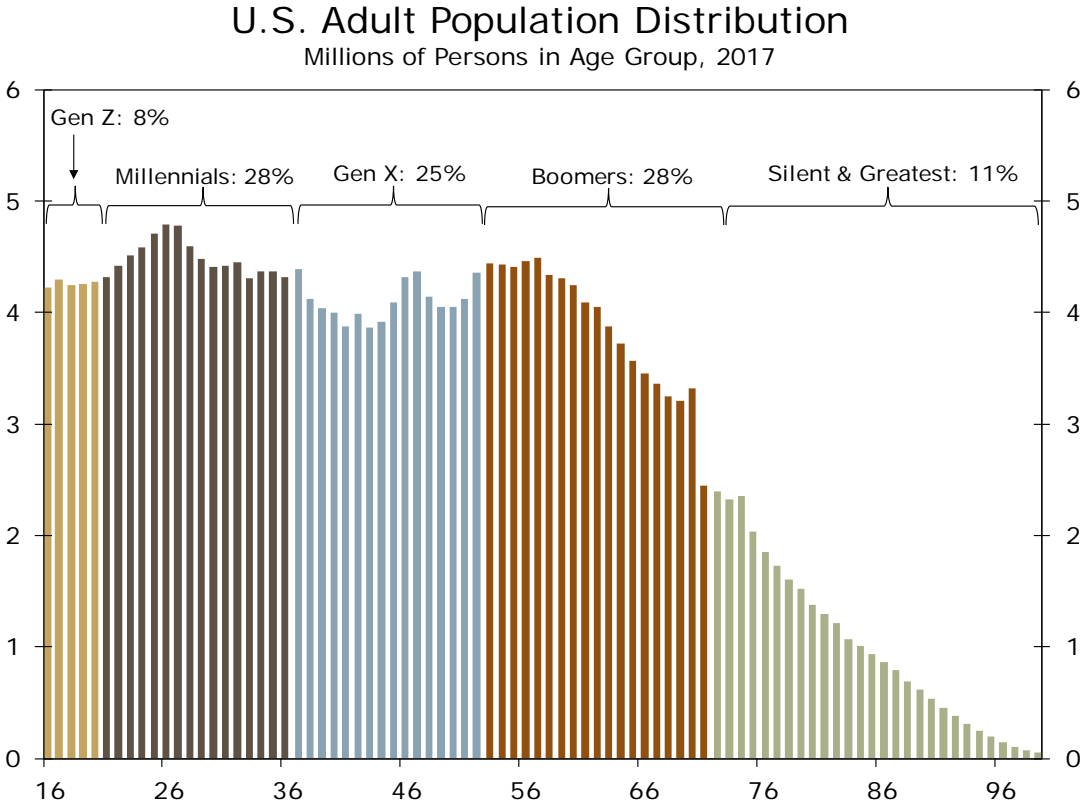
Strong employment growth has also helped counter the downward pressure on labor force participation from an aging population.



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

Demography is Destiny

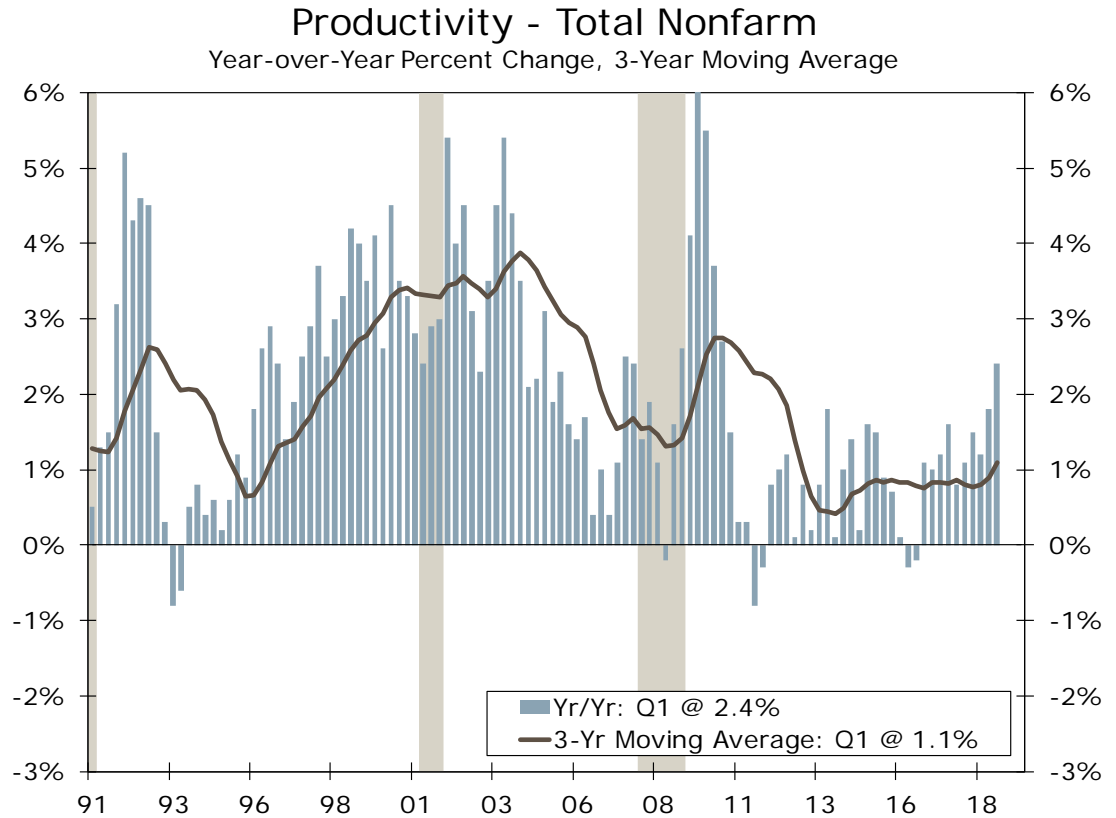
Demographic shifts will continue to have a profound impact on our economy.



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

Productivity Growth

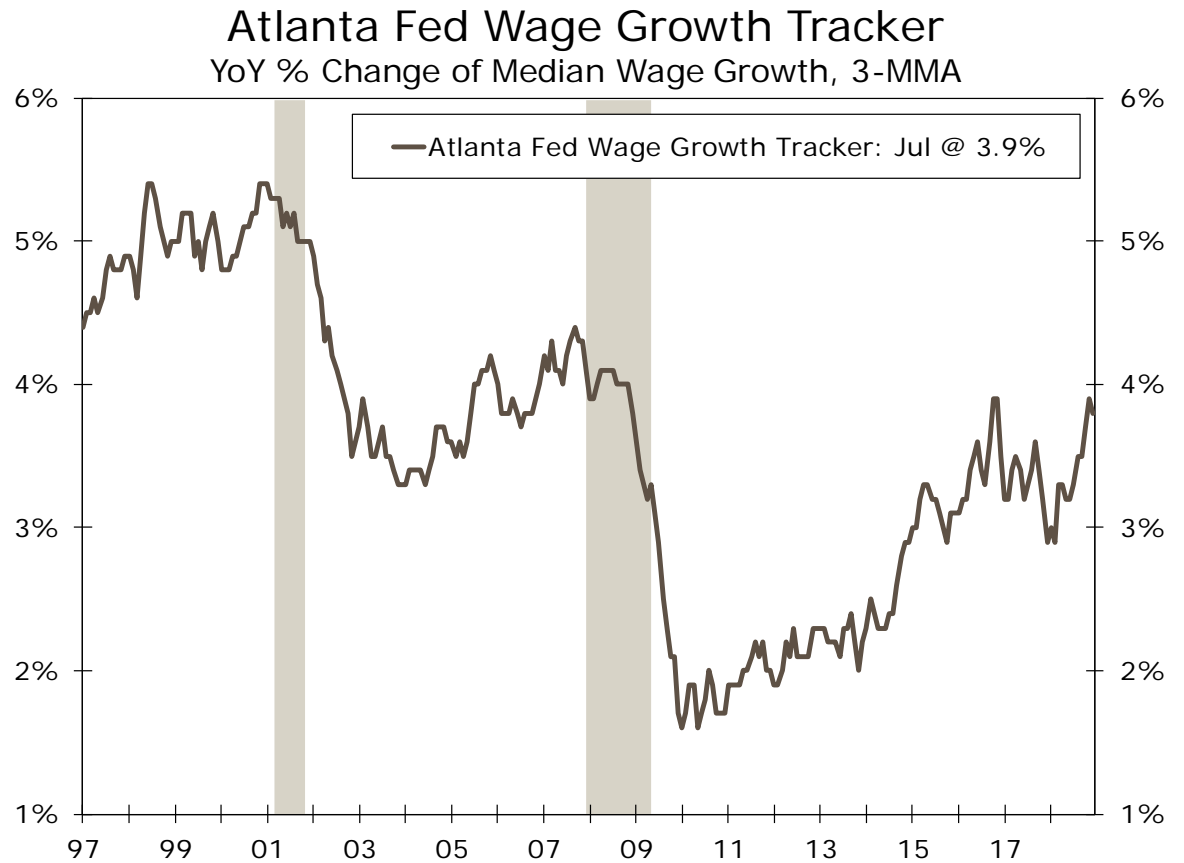
Productivity, which is an important building block for sustainably higher economic growth, has started to show signs of trending up.



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

Workers' Earnings Drift Upward

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



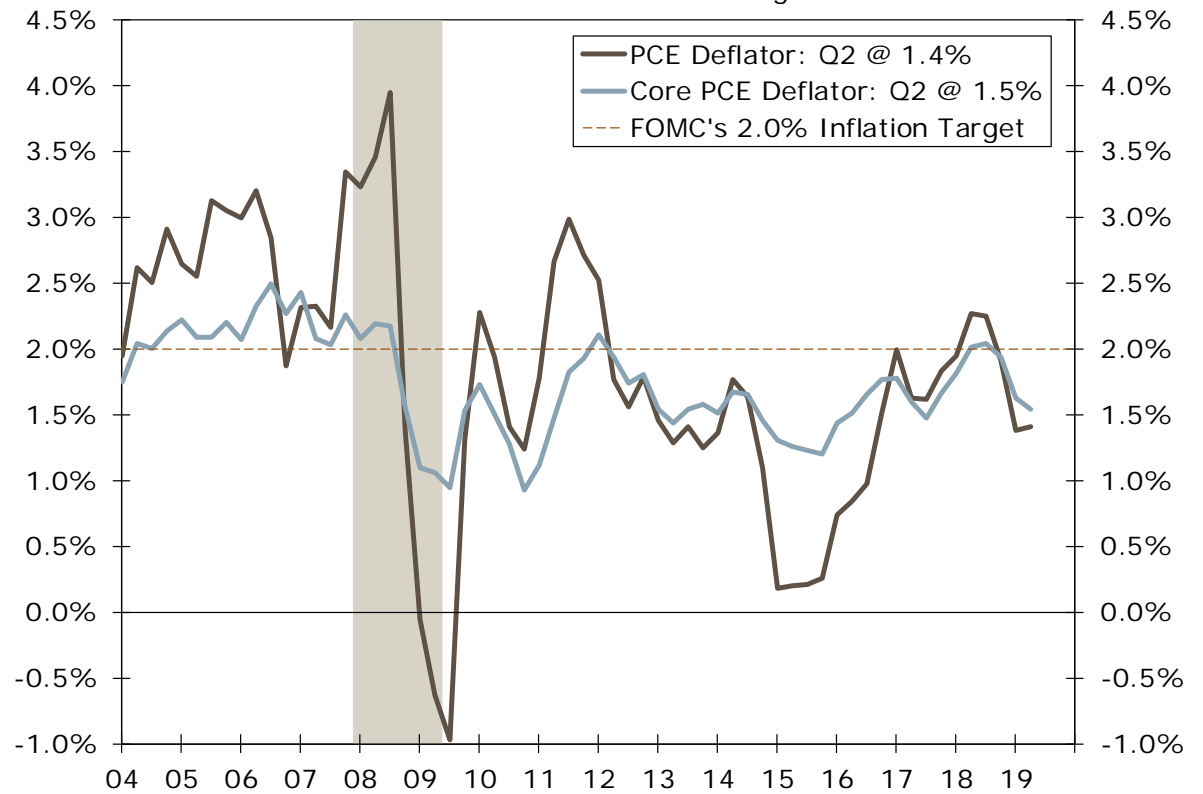
Source: U.S. Department of Labor, Federal Reserve Bank of Atlanta and Wells Fargo Securities

Consumer Price Inflation

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

Personal Consumption Price Deflator

Year-over-Year Percent Change

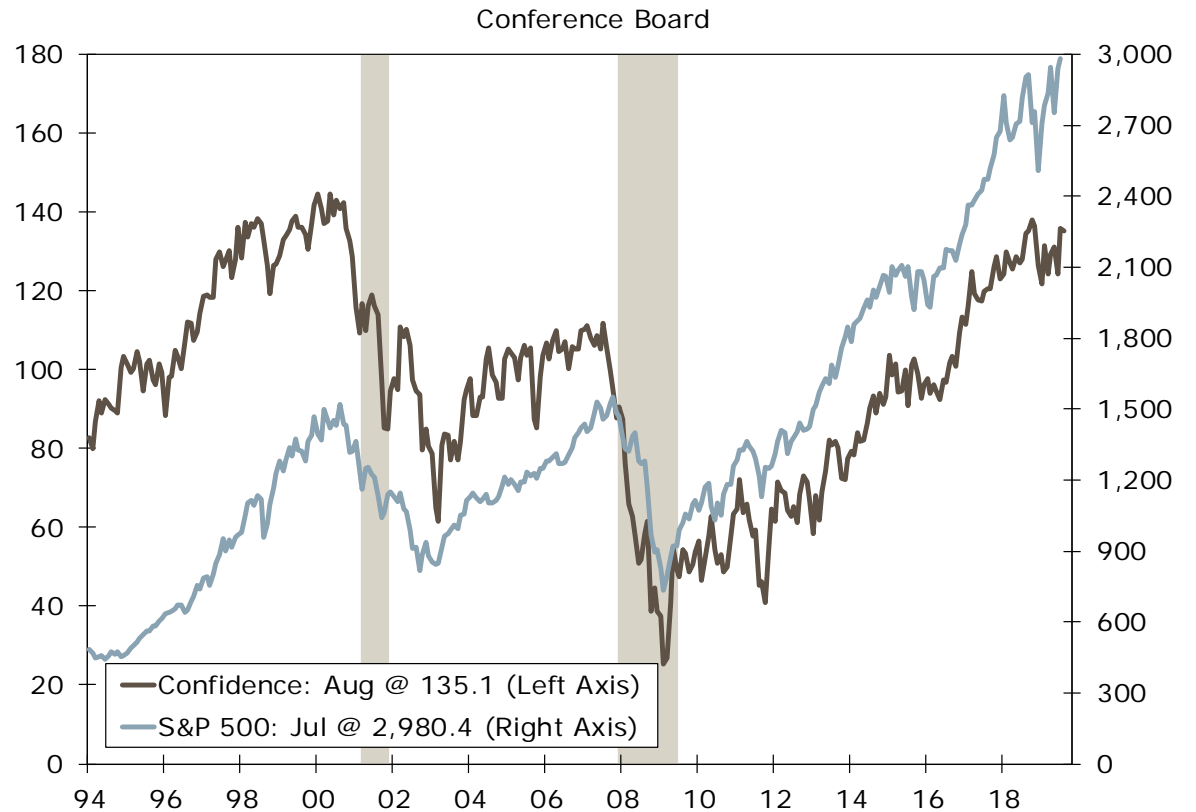


Source: U.S. Department of Commerce and Wells Fargo Securities

Consumer Confidence

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

Consumer Confidence Index and S&P 500



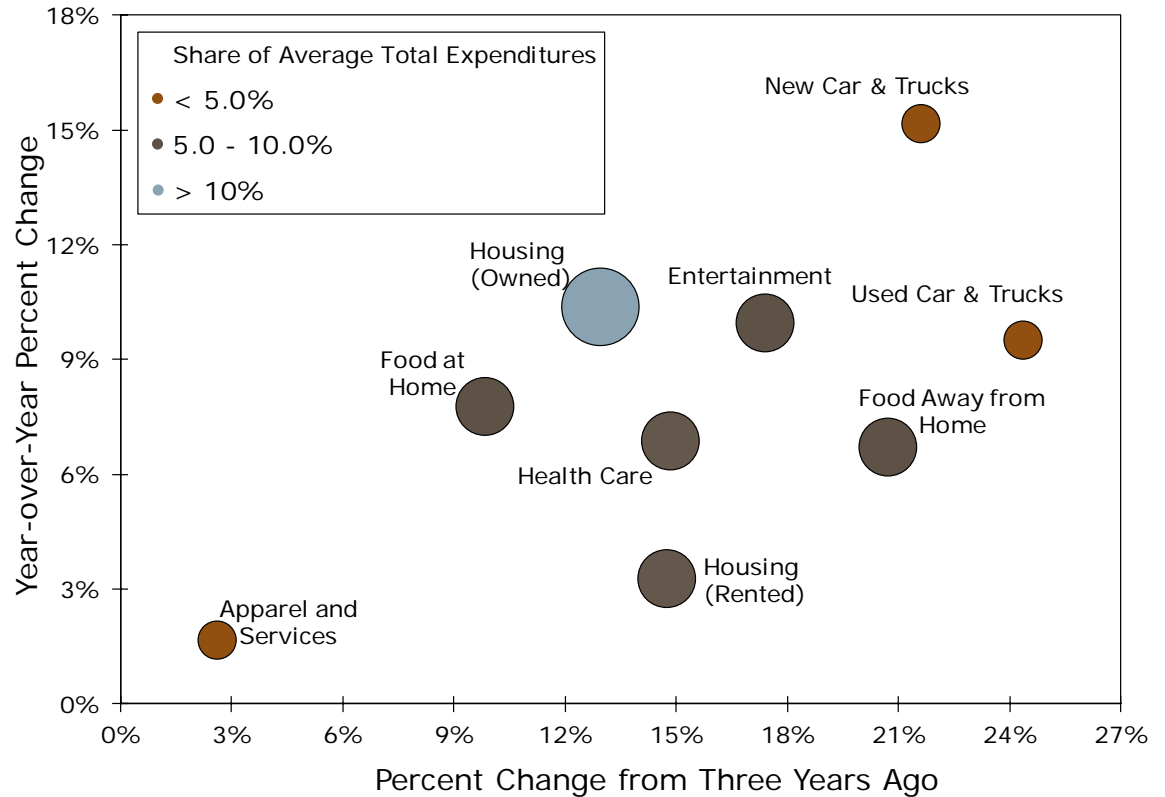
Source: Conference Board, S&P Indices and Wells Fargo Securities

The Consumer: Housing, Healthcare and Food Away from Home

The spending habits of consumers have undergone a considerable shift since the early 2000's. Housing, healthcare and food away from home now account for a majority of consumer spending.

Consumer Expenditure Growth

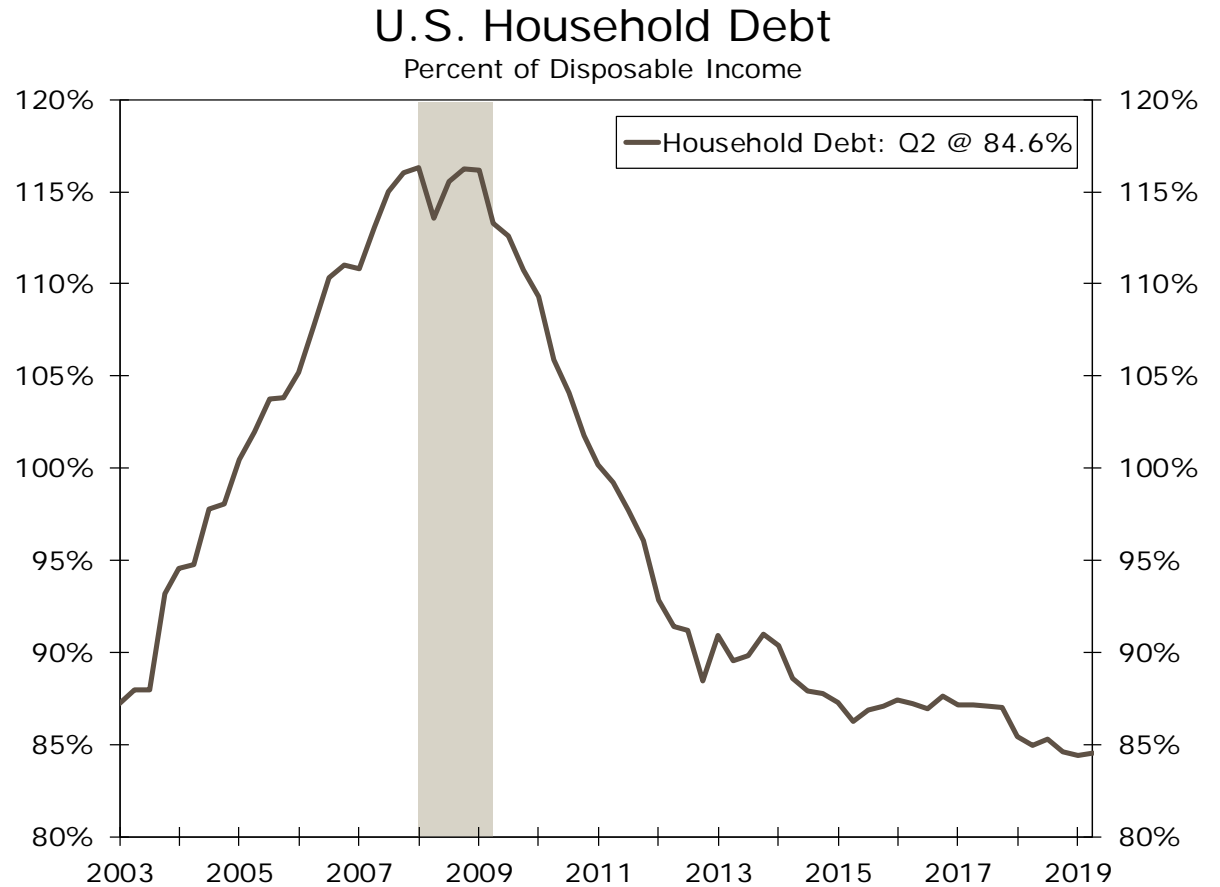
Year-over-Year Percent Change & Change from 2014 to 2017



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

Household Balance Sheet

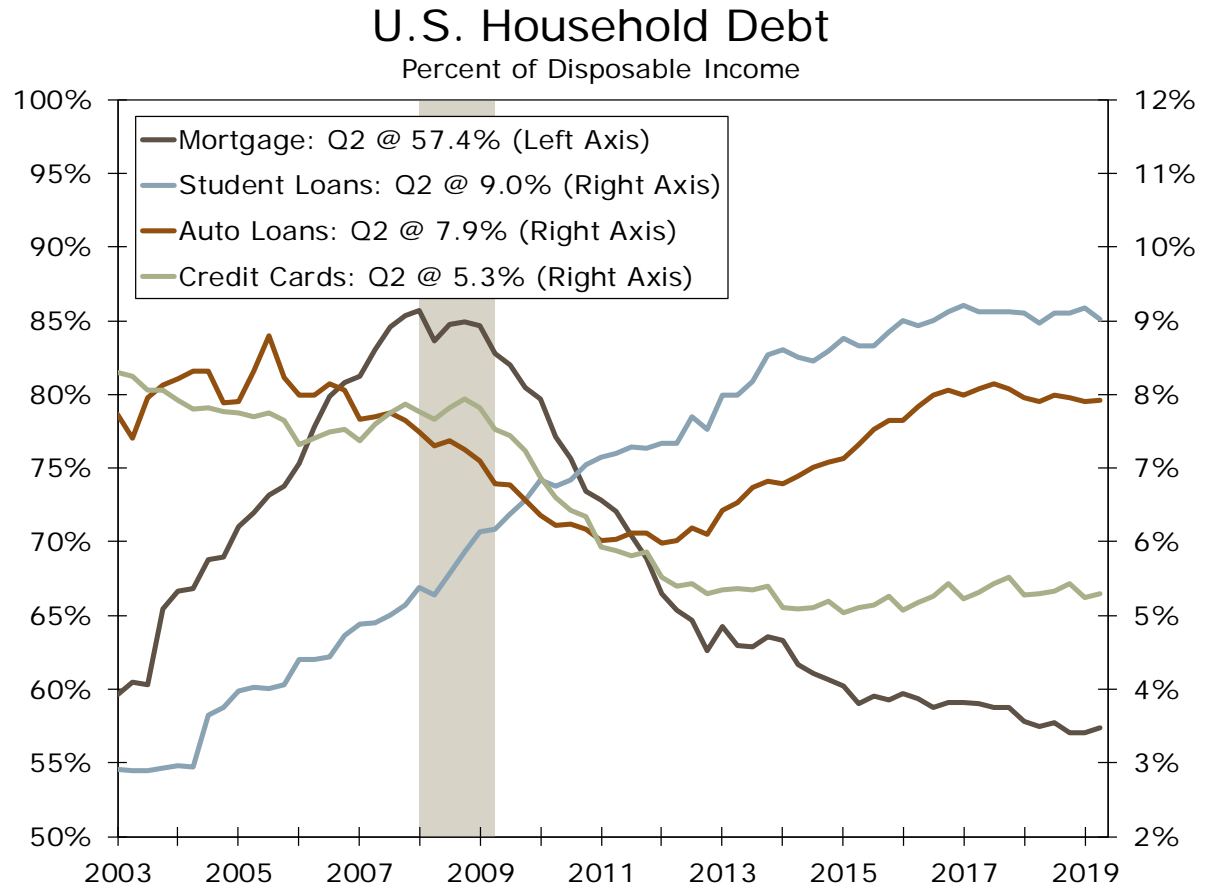
Relative to income gains, the household balance sheet appears to be in good health.



Source: FRBNY and Wells Fargo Securities

Student Loans: A Growing Share of Household Debt

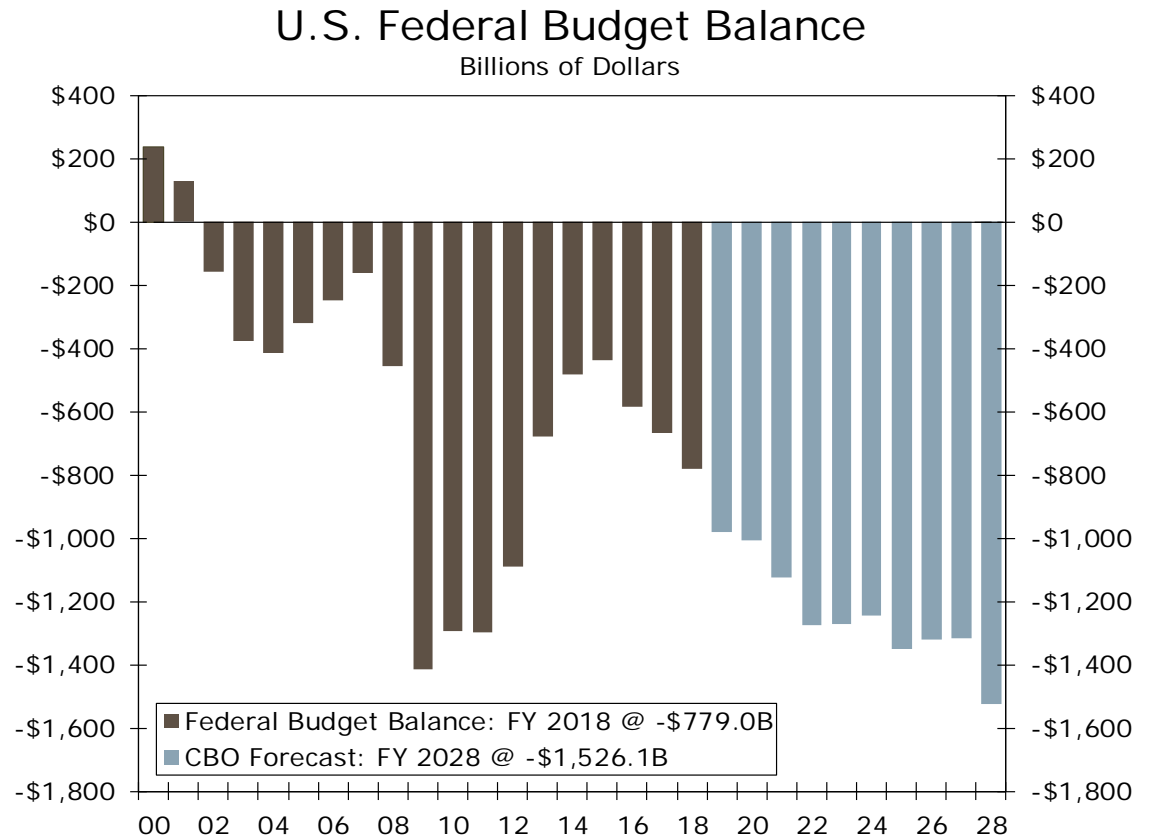
Student loans represent a relatively small share of household debt, but are growing and likely having an impact mortgage and auto lending.



Source: FRBNY and Wells Fargo Securities

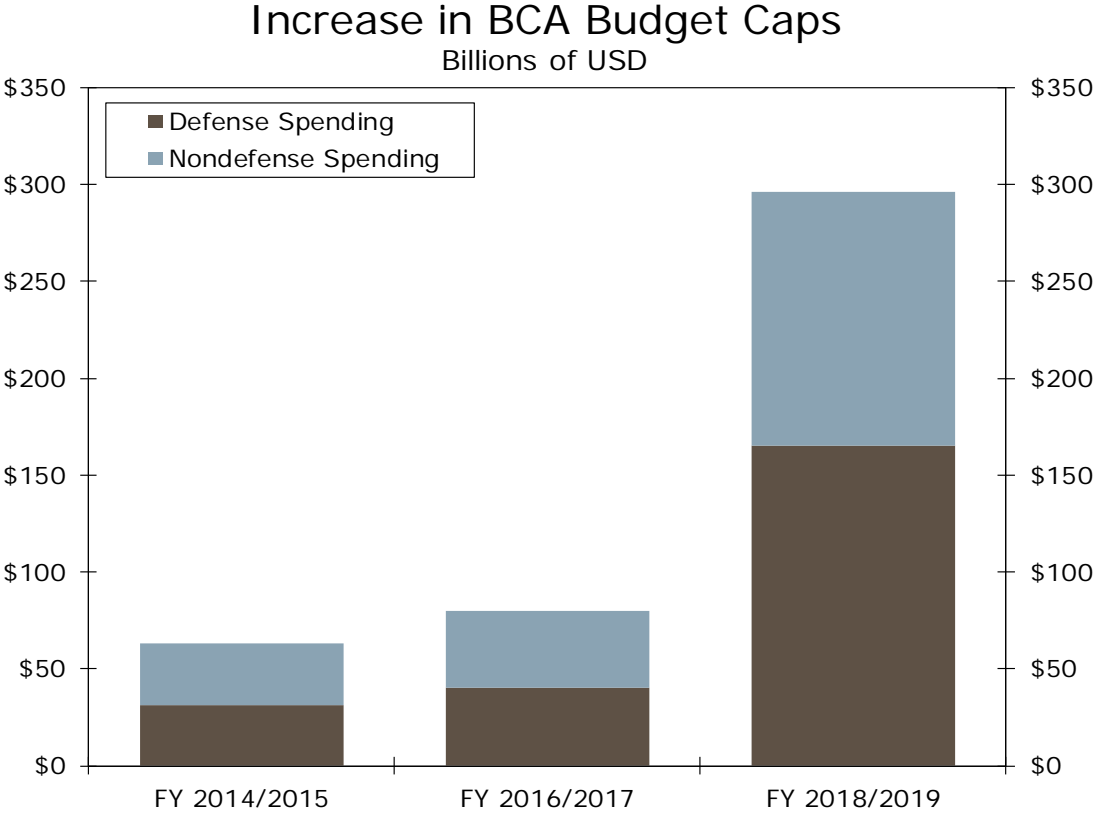
Federal Spending: Short Term Stimulus, but Adding to Debt

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



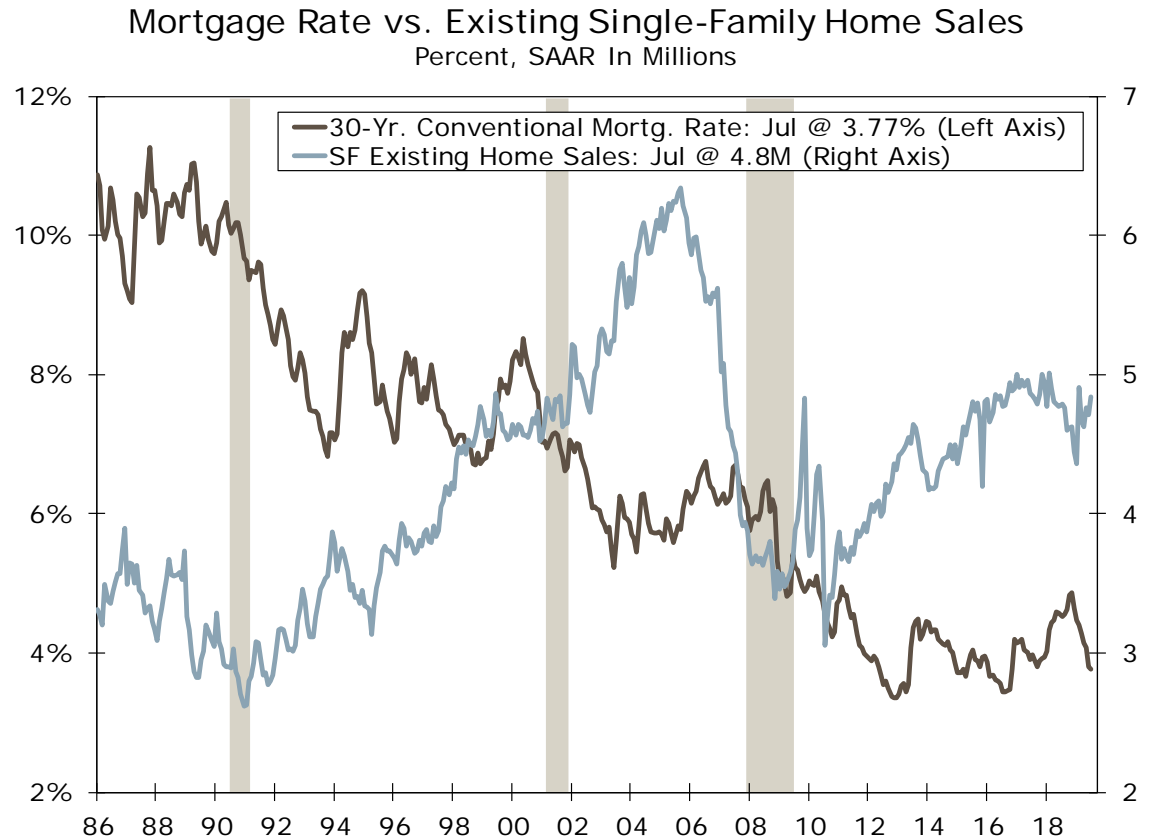
Source: National Association of Realtors, U.S. Department of Commerce and Wells Fargo Securities

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



Source: Congressional Budget Office and Wells Fargo Securities

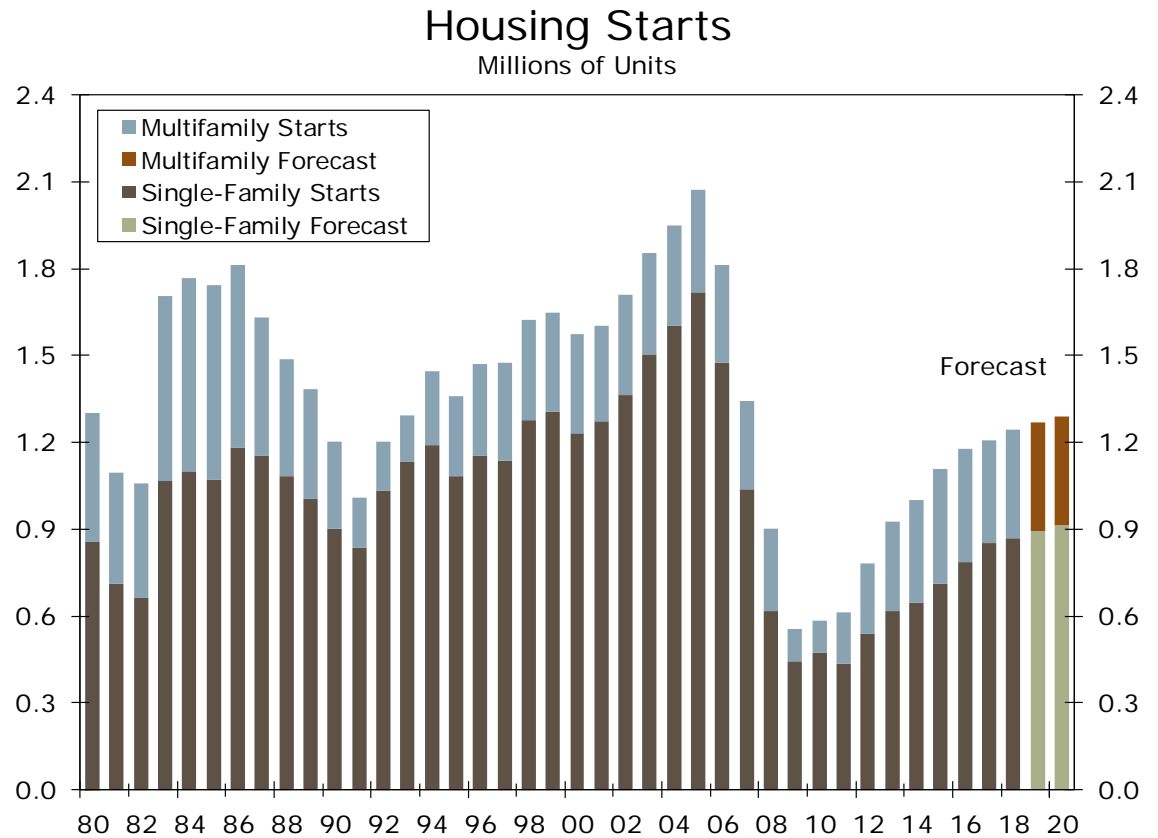
Lower mortgage rates will help home sales recover from last year's slide, but we don't expect a meaningful reacceleration.



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

Residential Construction

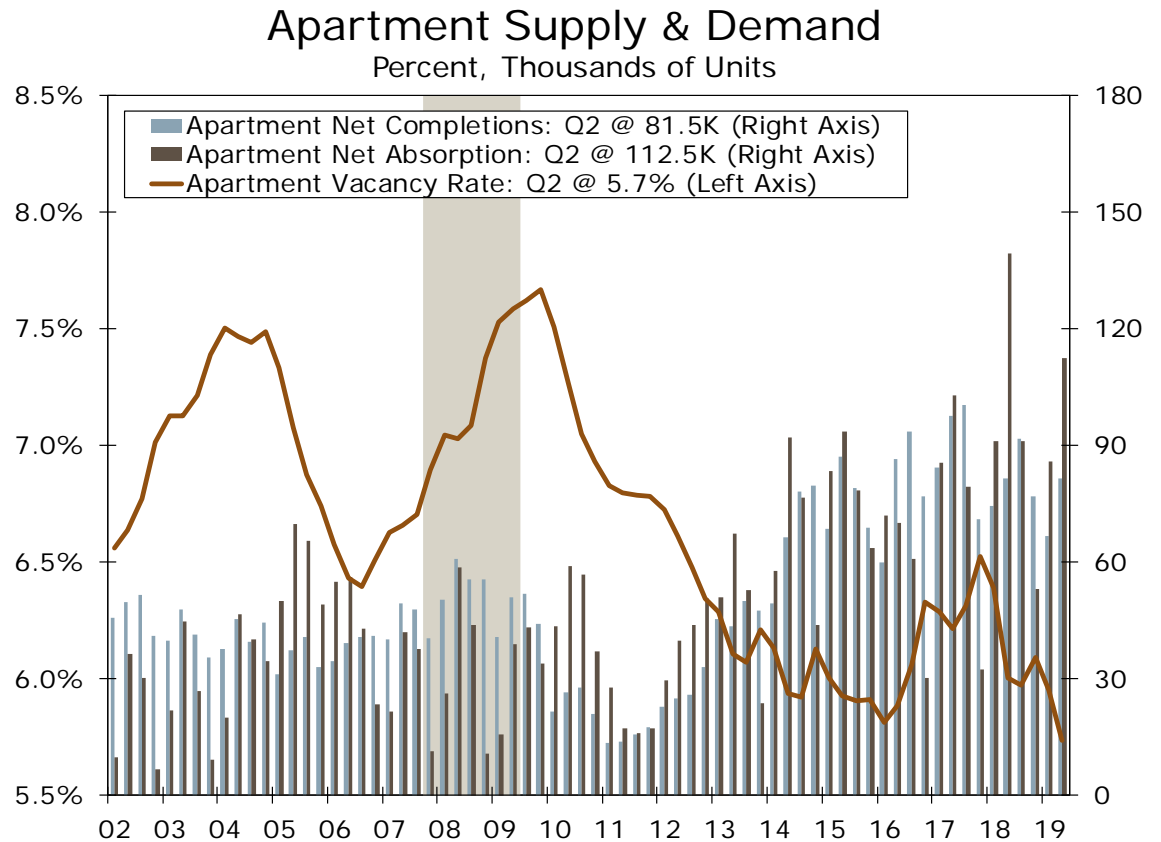
Residential construction remains subdued. New apartment construction will remain elevated and new single family starts will gradually trend higher.



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

Apartments

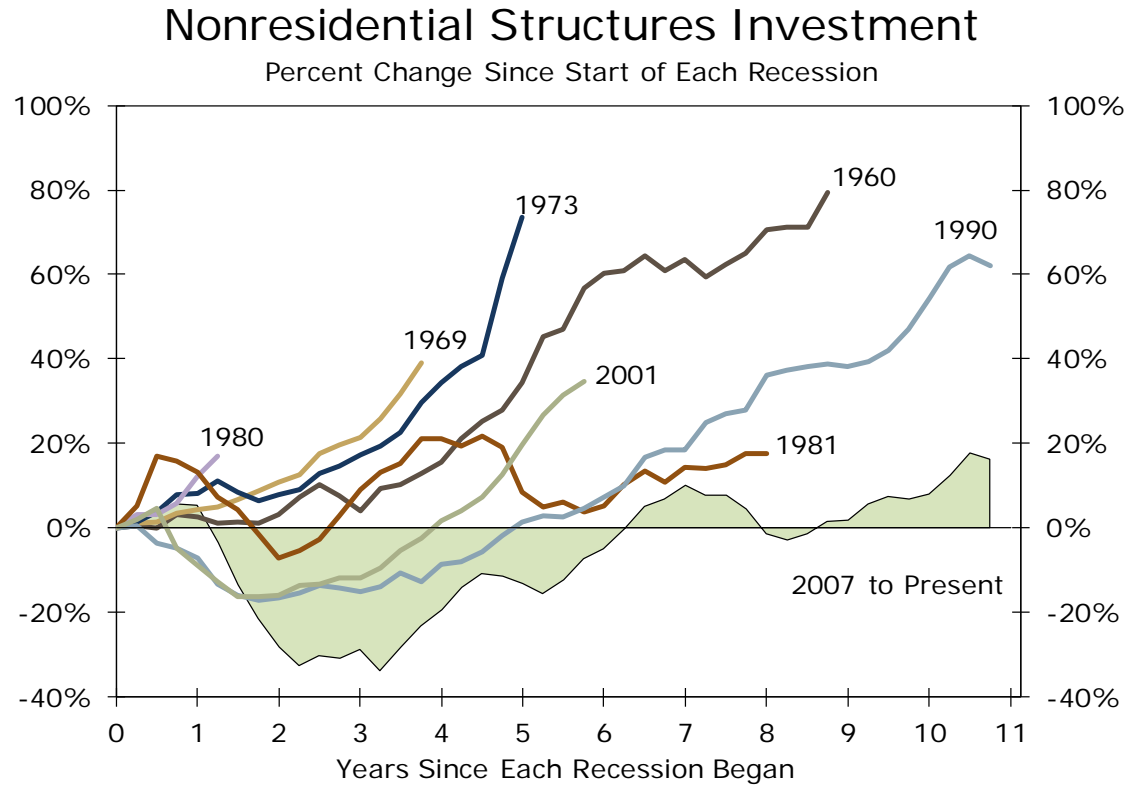
Robust new apartment construction so far in 2019 has been met with hefty demand. With lower mortgage rates, the second wind behind the apartment market may begin to dissipate.



Source: CoStar and Wells Fargo Securities

Nonresidential Construction

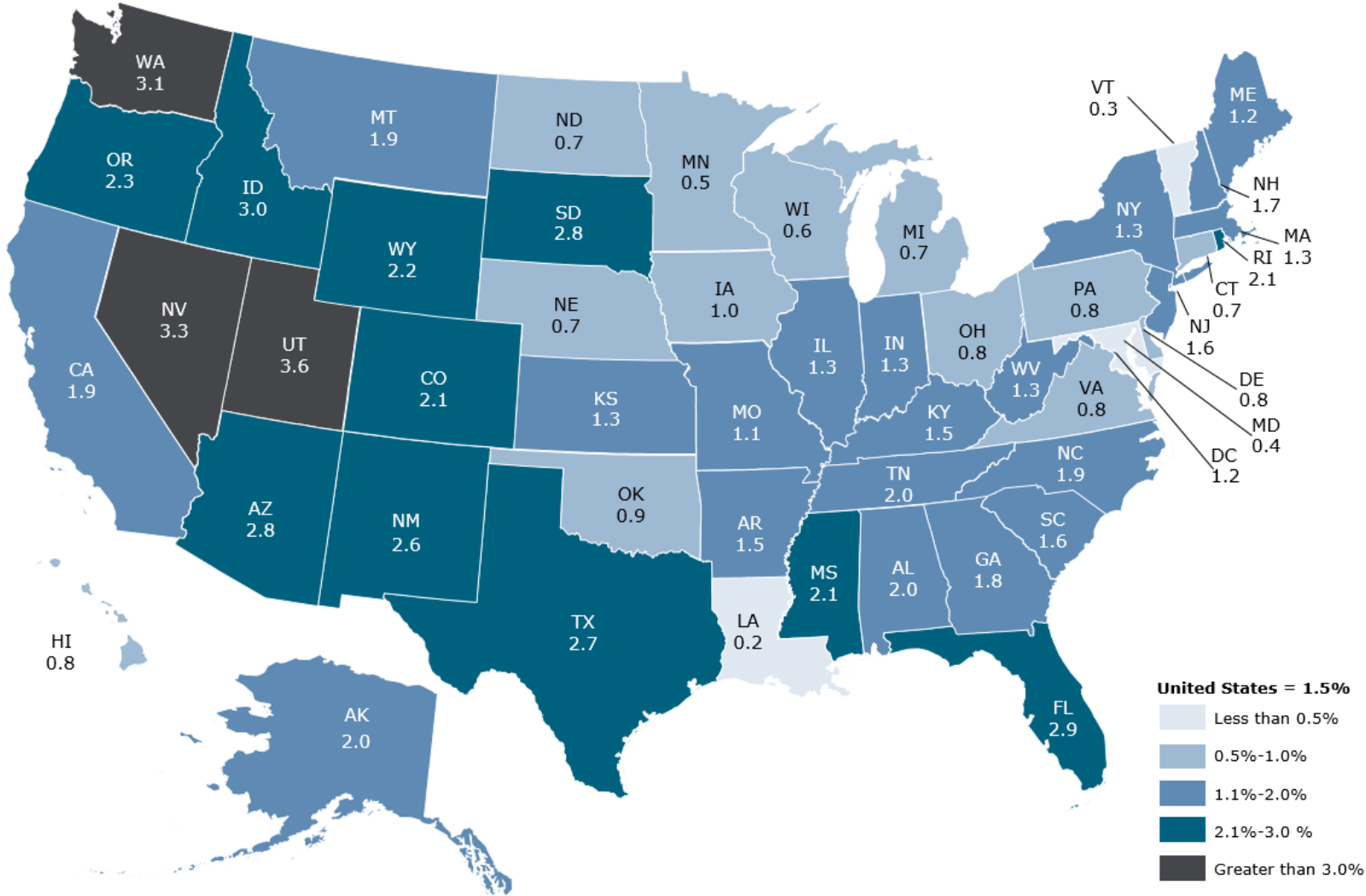
Builders and developers have been relatively restrained for much of the expansion.



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

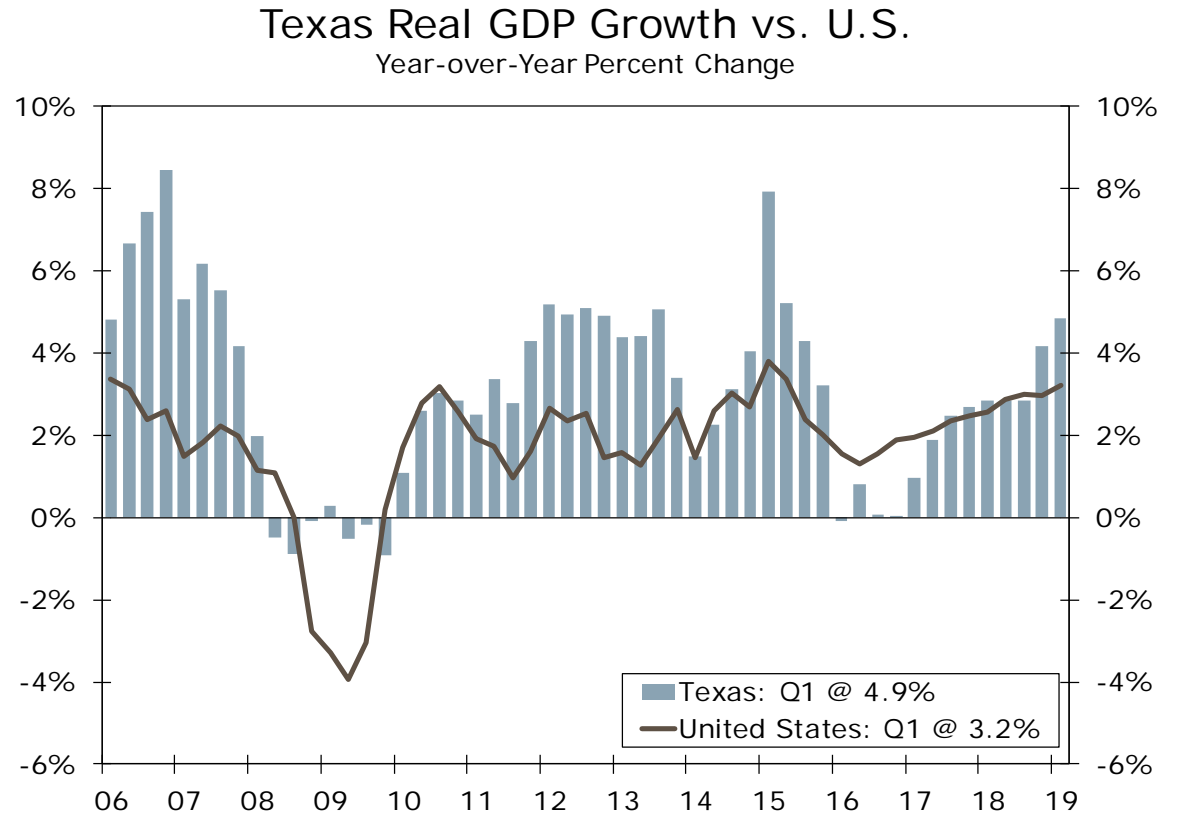
The West and Southeast Posting Strongest Payroll Growth

Year-to-Year Employment Growth: July 2019



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

The Texas economy has kicked it up a notch and is growing at a pace well ahead of the rest of the country.

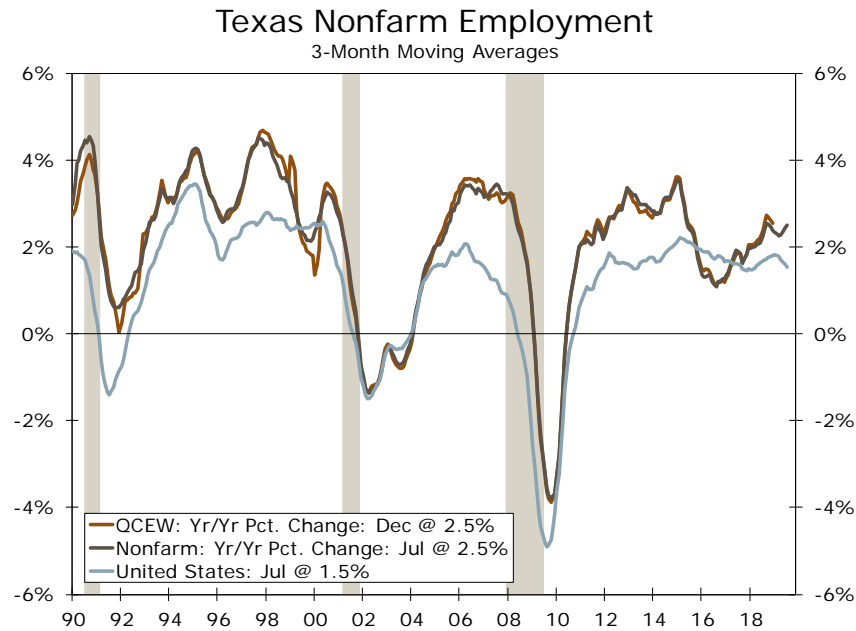


Source: U.S. Department of Commerce and Wells Fargo Securities

Texas Employment

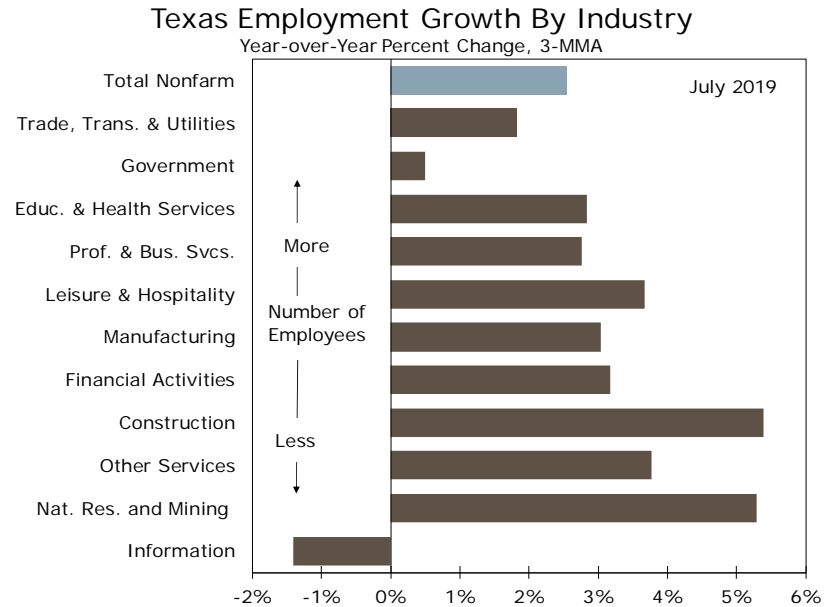
The Texas job boom continues with nearly 320,000 new jobs added over the past year. Gains have been incredibly broad based across nearly every industry.

Employment



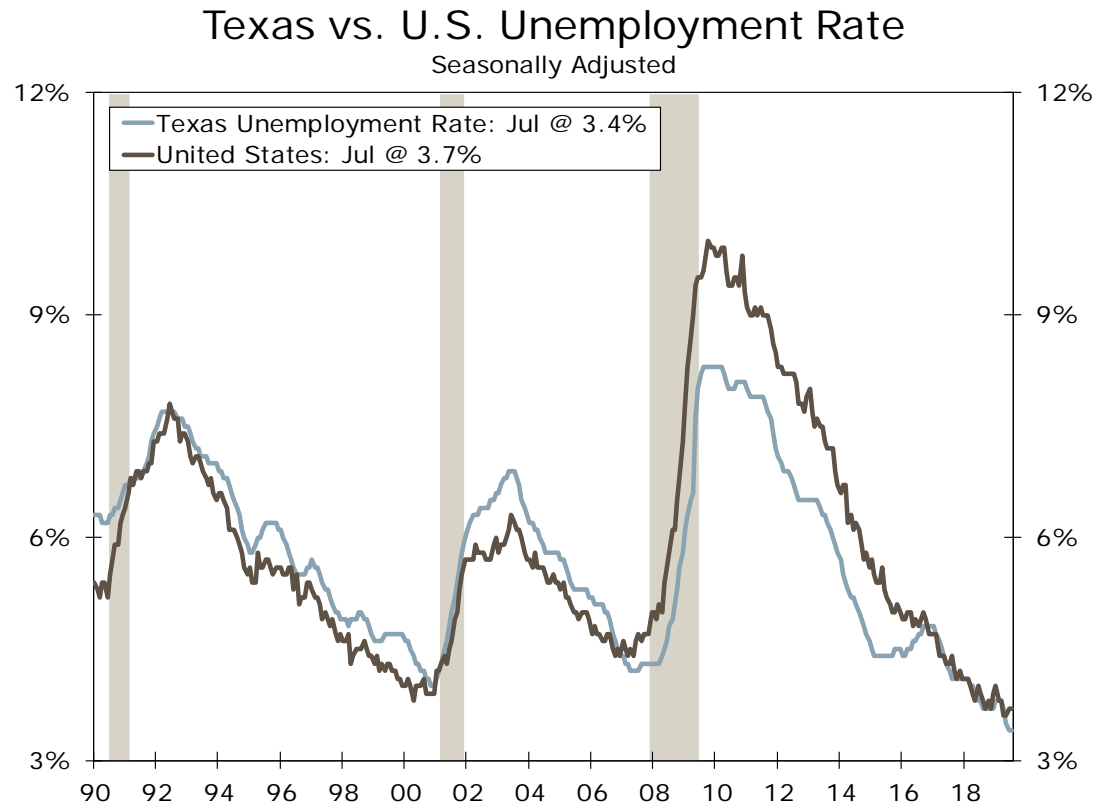
Source: U.S. Department of Labor and Wells Fargo Securities

Employment by Industry



Unemployment Rate

Labor market conditions appear to be somewhat tighter than the rest of the country. The Texas jobless rate now sits at a record low of 3.4%.

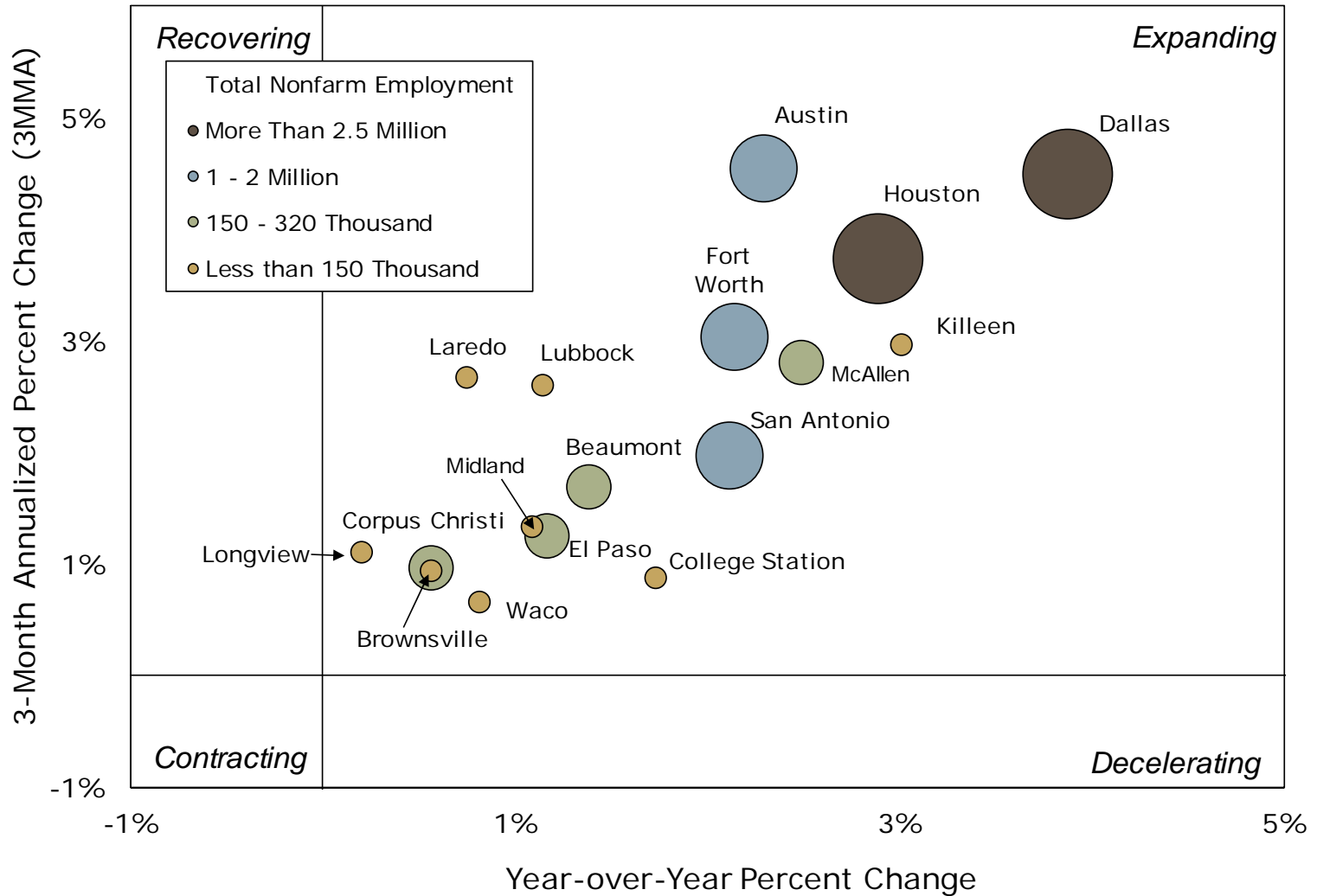


Source: Baker Hughes, Inc., Bloomberg LP and Wells Fargo Securities

Texas Employment by Metropolitan Area

Texas Employment Growth by Metro

3-Month Moving Averages, July 2019

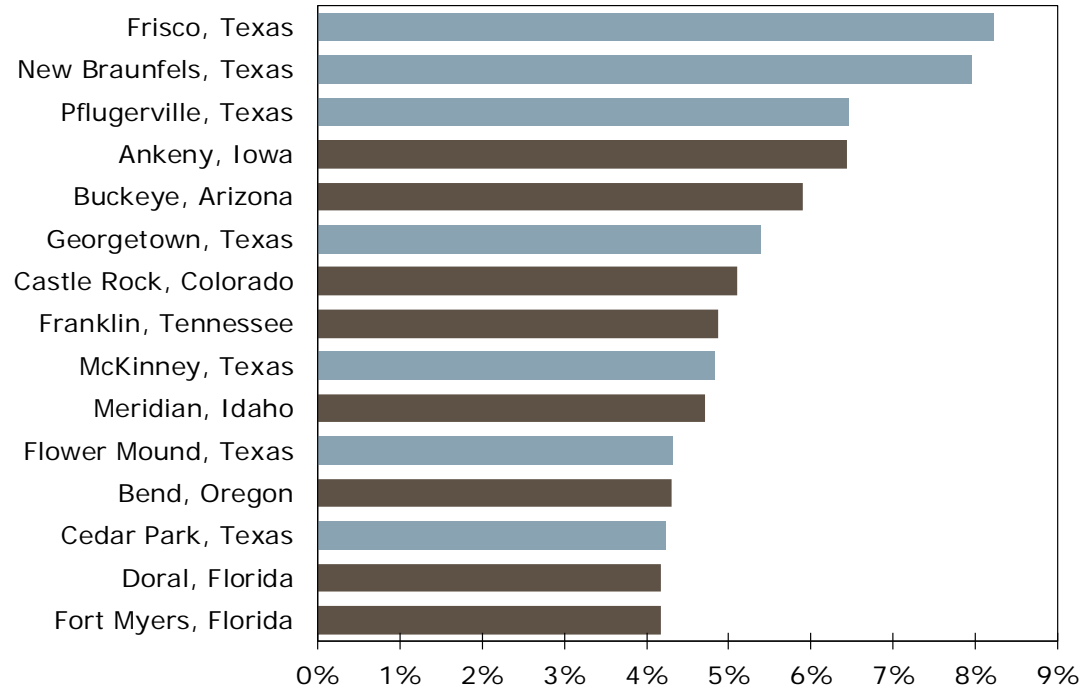


Source: U.S. Department of Labor, U.S. Dept. of Commerce and Wells Fargo Securities

Strong population growth is the undercurrent behind Texas' outperformance in recent years. The state gained nearly 380,000 new residents in 2018. It also not surprising to find many Texas is home to the nation's top three fastest growing cities.

15 Fastest Growing Cities in 2017

Year-over-Year Percent Change, Populations > 50,000

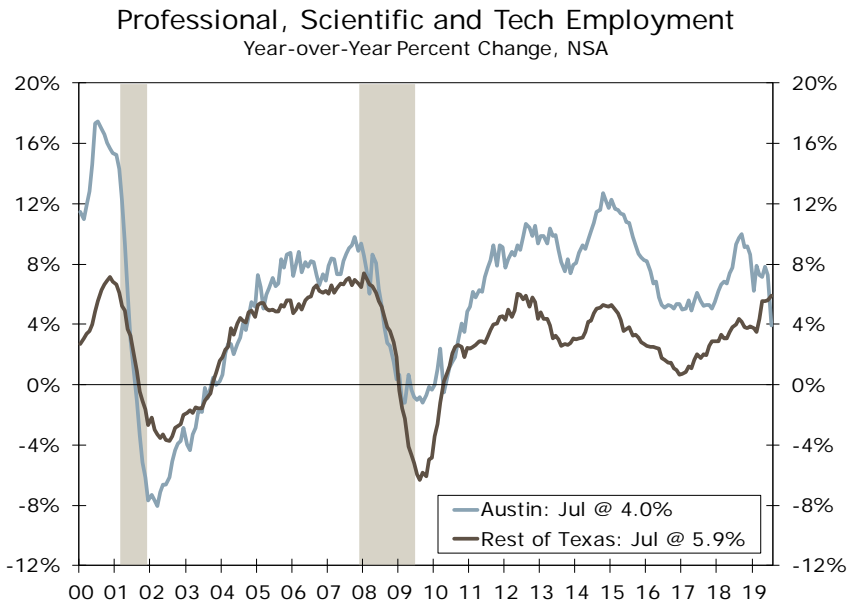


Source: Department of Commerce and Wells Fargo Securities

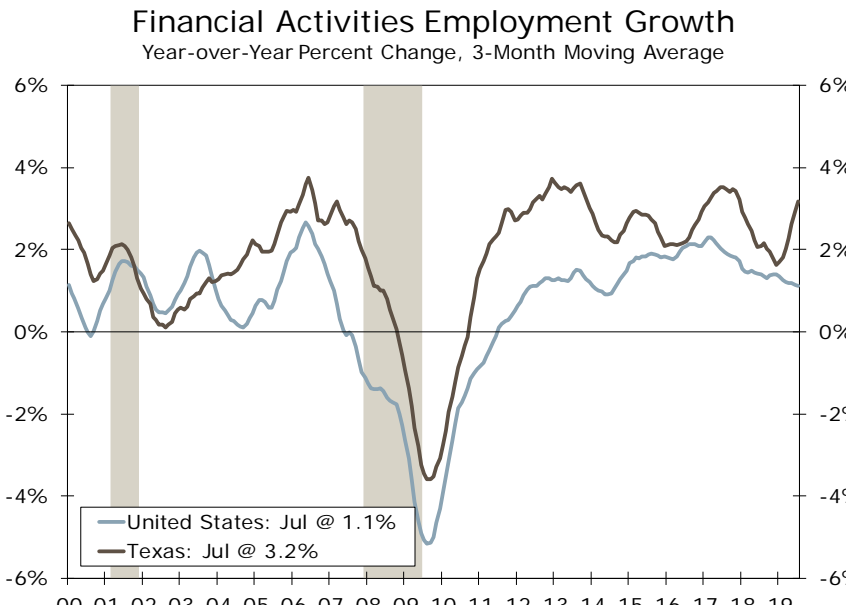
Tech and Financial Activities

Hiring in the up-and-coming tech sector is strong even outside of Austin. Financial firms continue to expand and relocate to the state, with Charles Schwab being the latest example in Fort Worth.

Tech Sector



Financial Activities

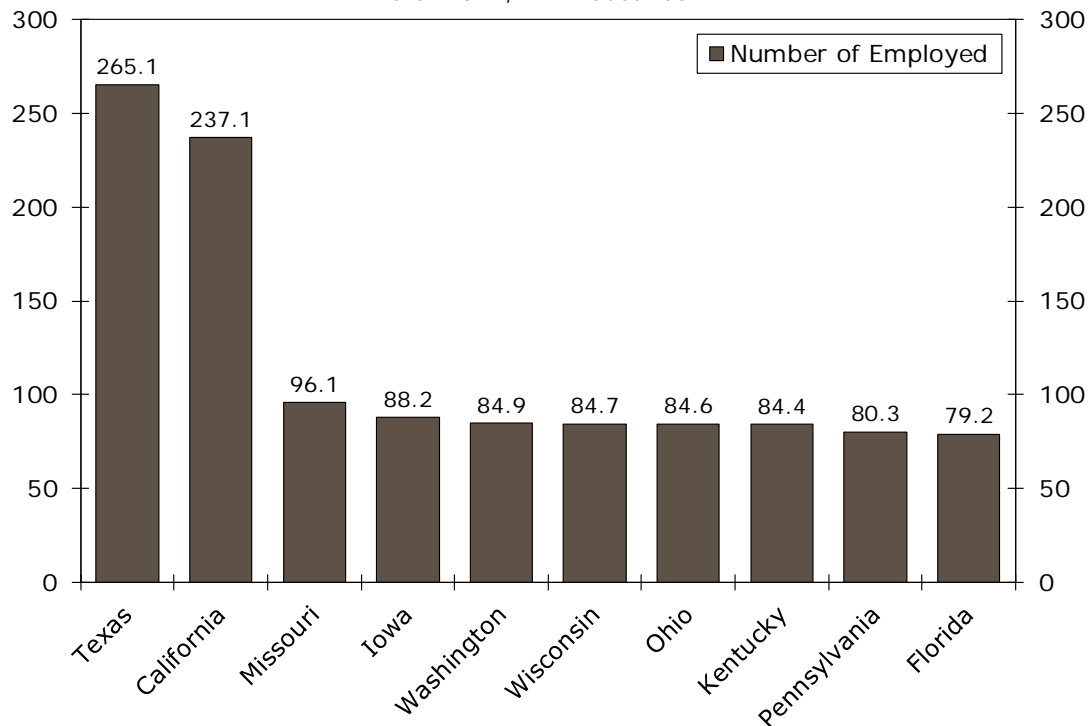


Source: U.S. Department of Labor and Wells Fargo Securities

Underlining the importance of agriculture to the state economy: Texas has more ag workers than any other. The state leads the nation in cotton, livestock and poultry products, which tend to be more labor intensive.

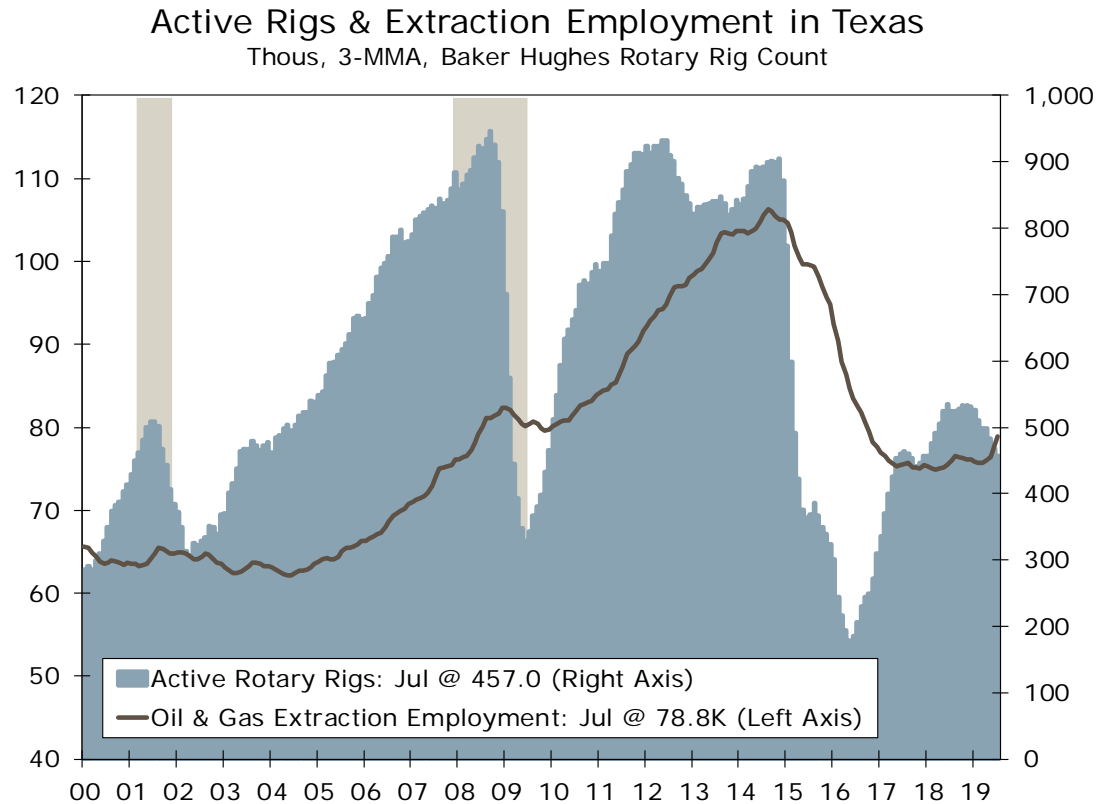
Agriculture Employment by State

As of 2017, In Thousands



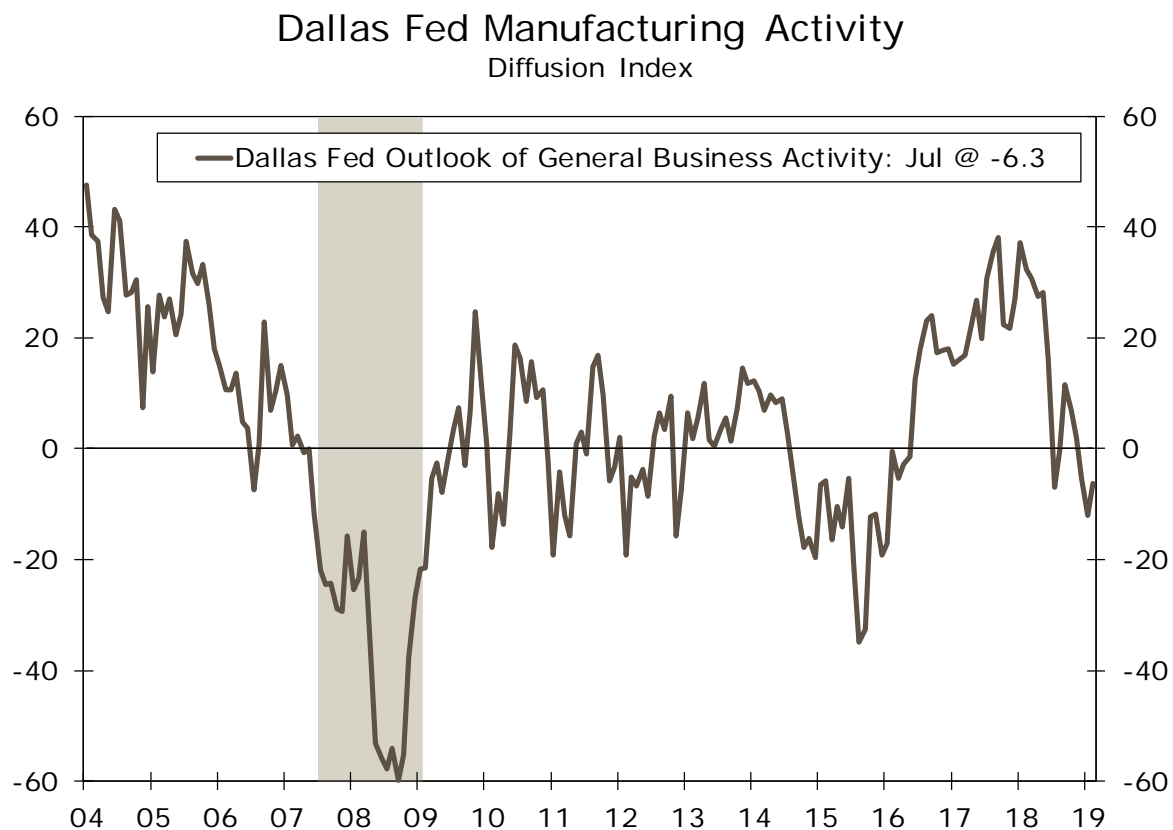
Source: Department of Commerce and Wells Fargo Securities

The oil and gas sector is likely beginning to feel the reverberations from pared back capital spending and a falling rig count. However, operators have been mostly restrained and extraction-related employment never returned to prior peak levels.



Source: Baker Hughes, Inc., Bloomberg LP and Wells Fargo Securities

Texas manufacturers are not immune to trade and global headwinds. Pullback in the energy sector is also likely having an impact.

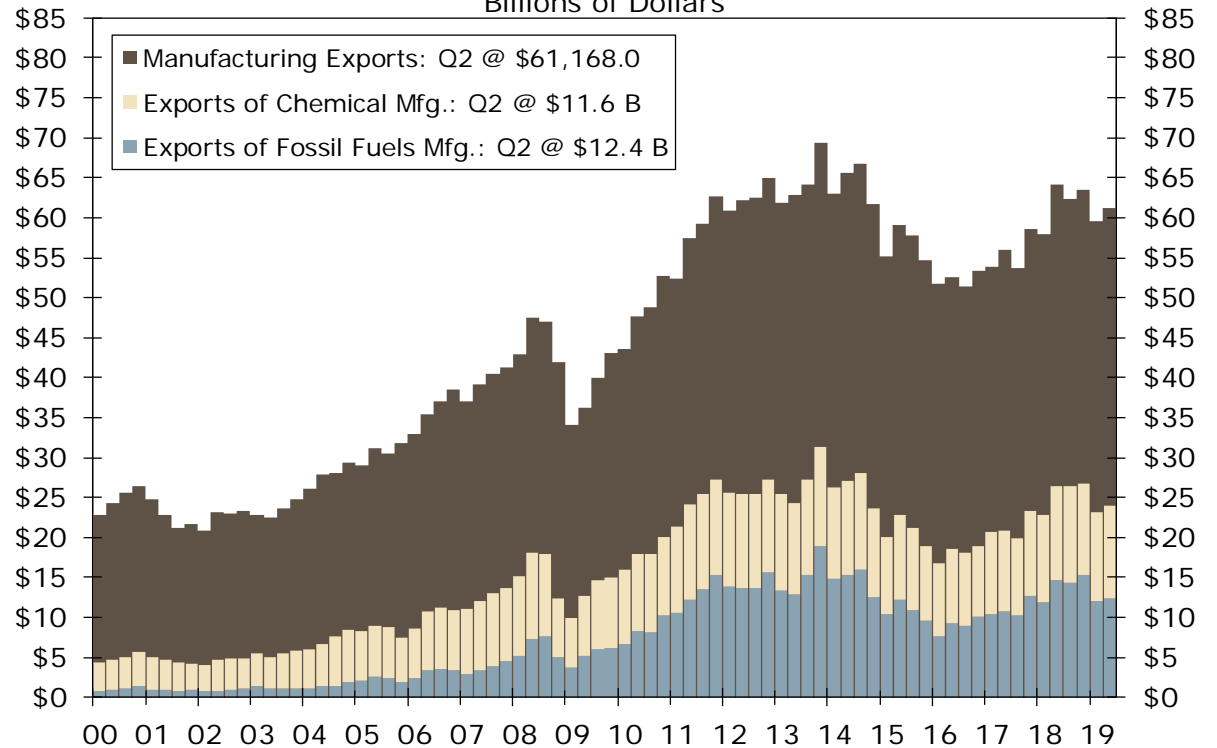


Source: U.S Department of Commerce and Wells Fargo Securities

Exports

Trade is vital to the Texas economy, with exports accounting for roughly 15 percent of total economic output. Exports have softened lately as growth abroad has downshifted.

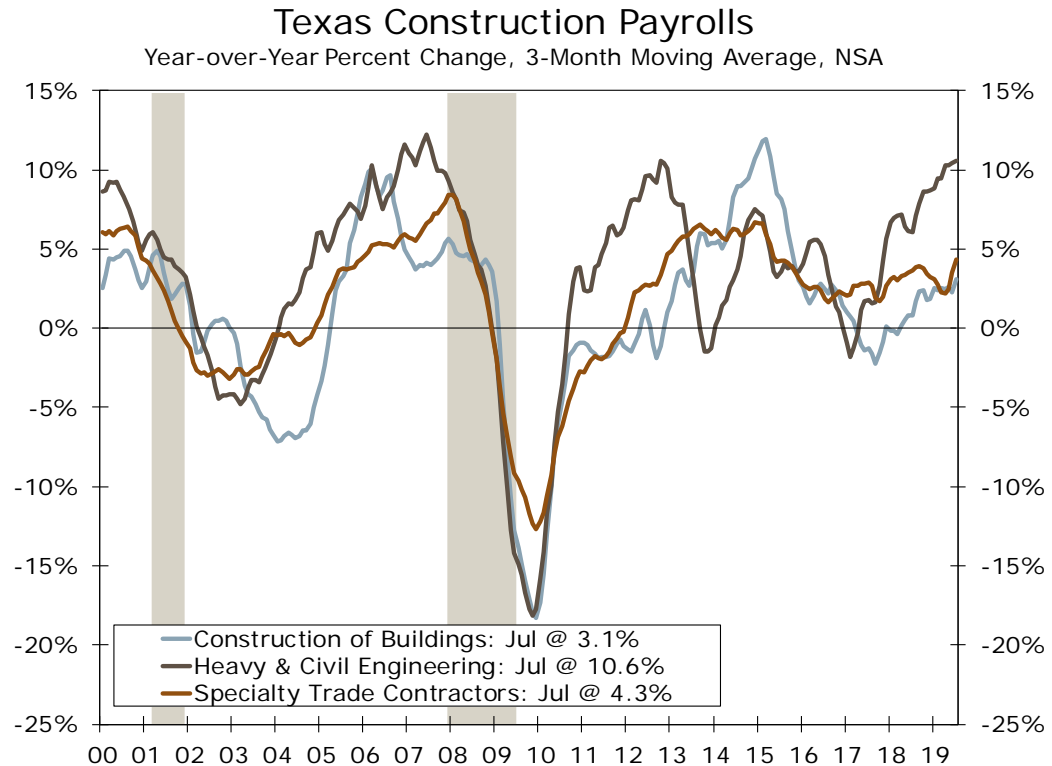
Manufacturing Exports
Chemical vs. Petroleum & Coal Manufacturing
Billions of Dollars



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

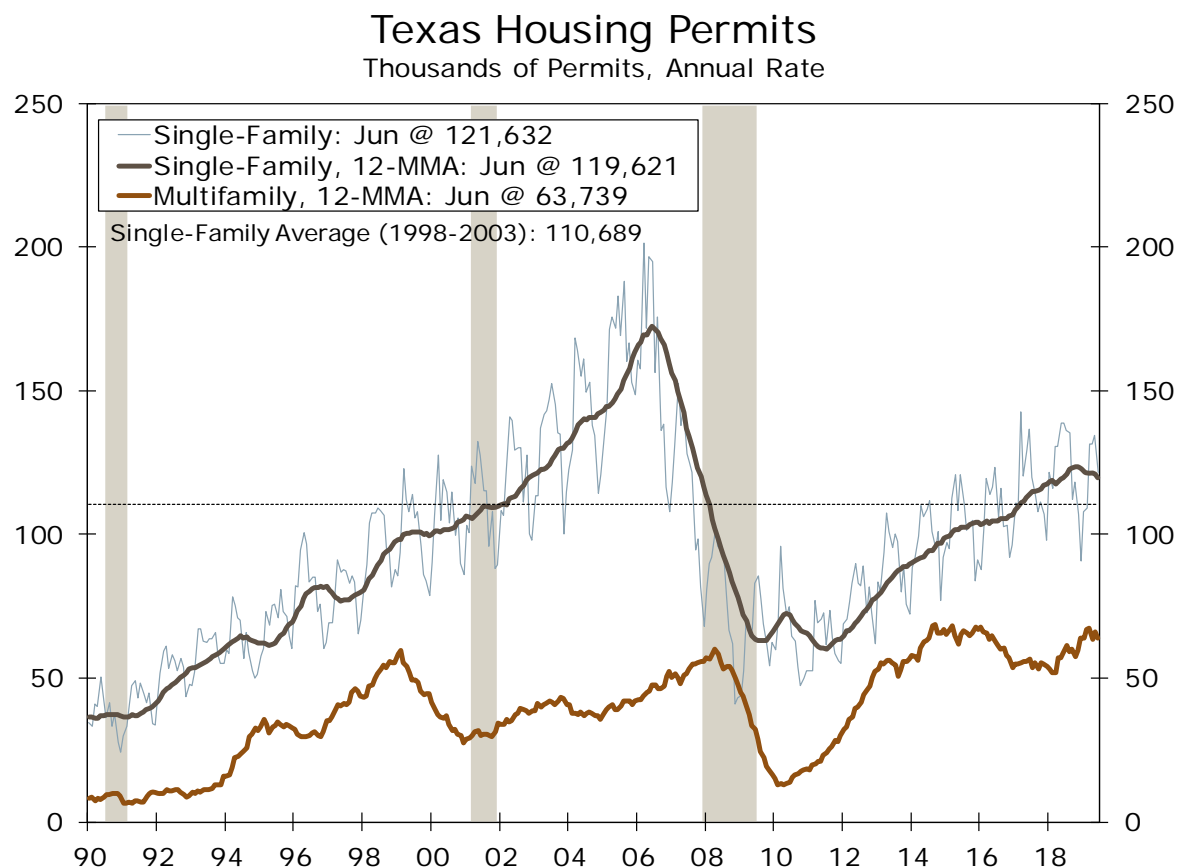
Construction Activity

Construction is booming in Texas. Aside from the waves of new residential and commercial development, numerous infrastructure projects are underway to keep pace with surging population and job growth.



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

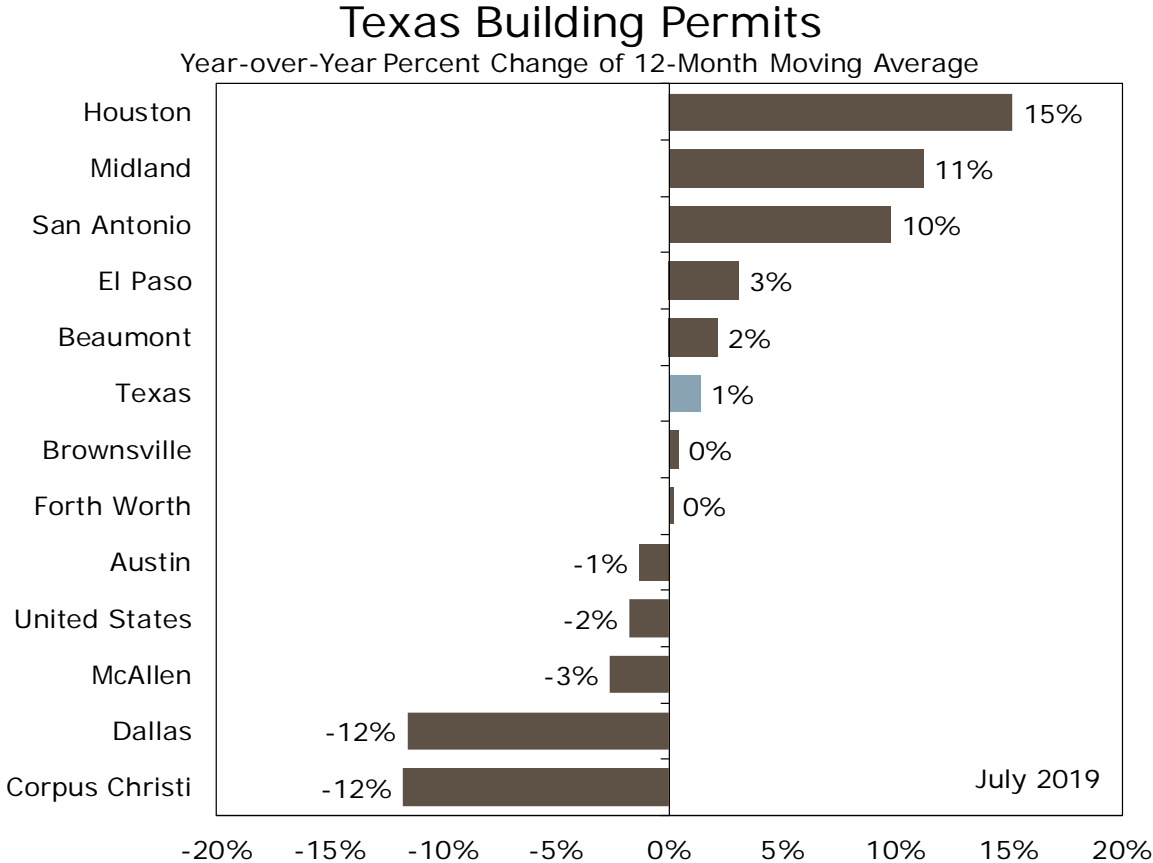
Homebuilding has softened a bit lately, however Texas remains by far the largest market for new residential construction.



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

Housing Activity by Metro

New homebuilding activity has moderated in Dallas but remains highly elevated. Houston, Midland and San Antonio lead the state in terms of residential construction.

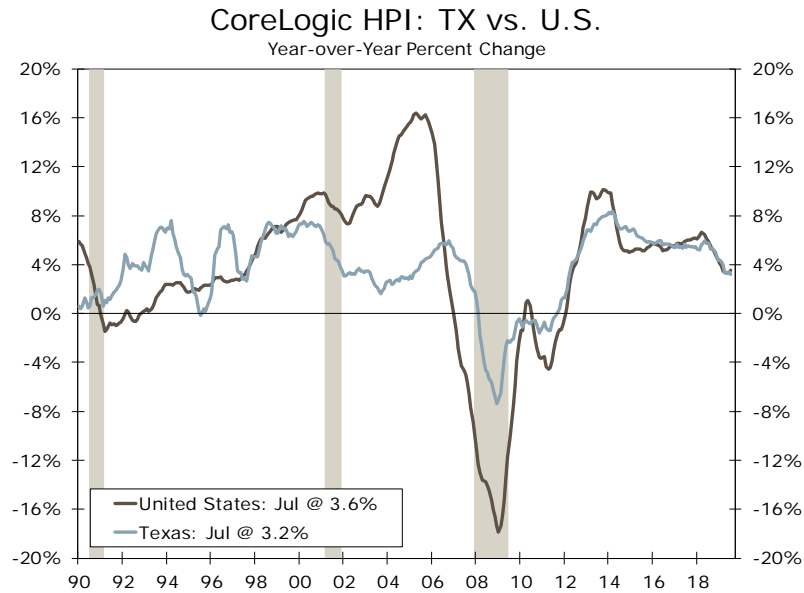


Source: U.S Department of Commerce and Wells Fargo Securities

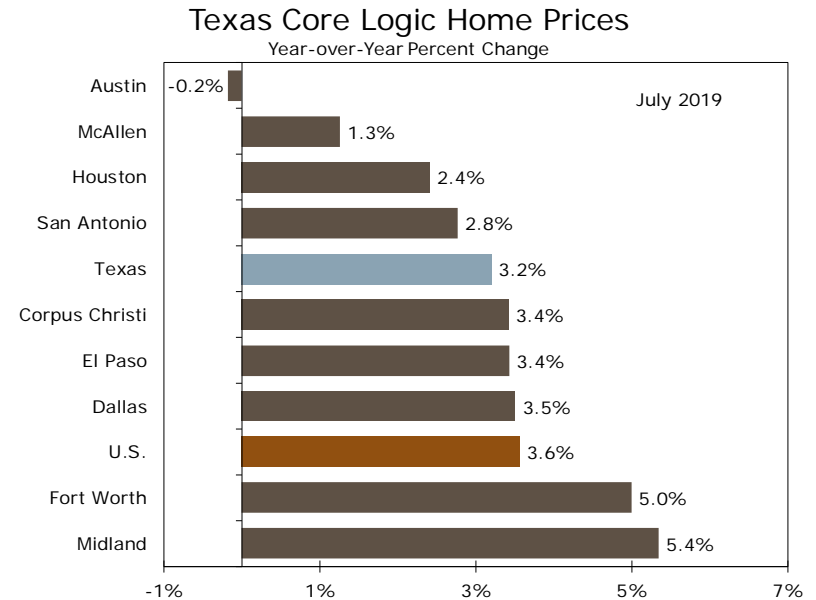
Texas Home Prices

Housing affordability is a major advantage for Texas. Relatively low land costs and an entitlement process that works closely with builders helps keep the housing market in balance.

Home Price Index

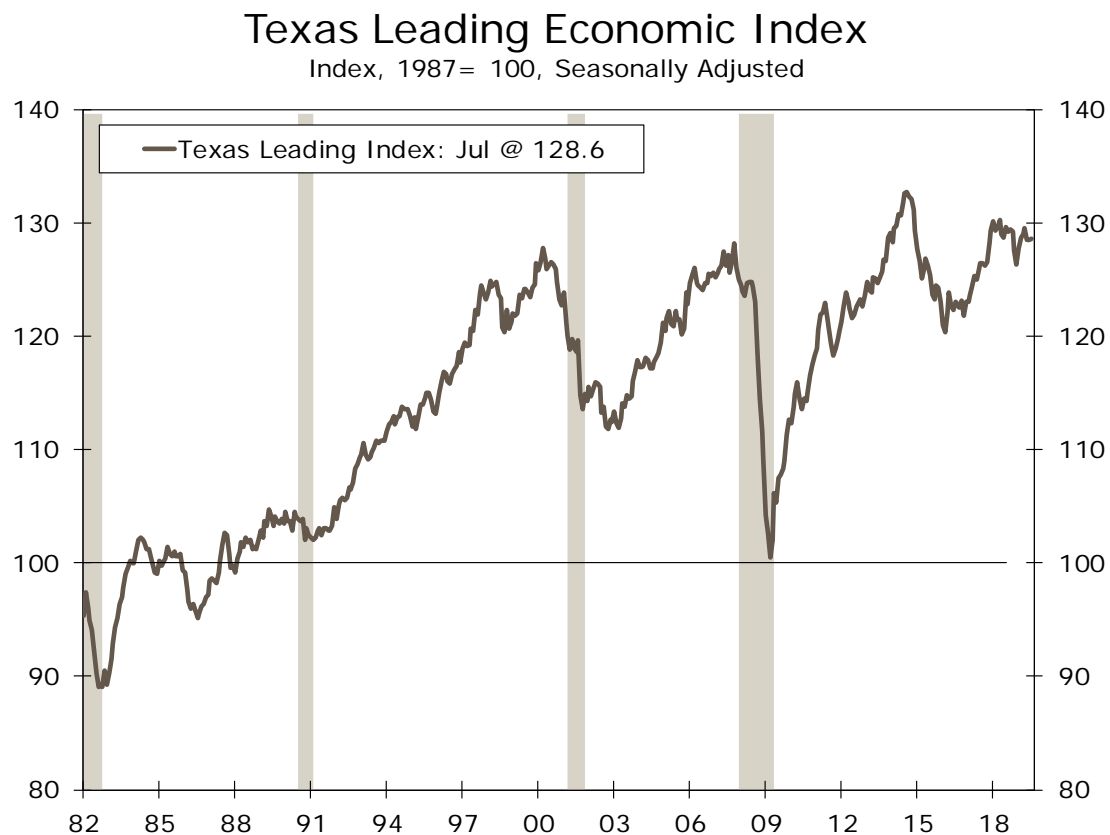


Home Price Growth by MSA



Source: CoreLogic and Wells Fargo Securities

Despite mounting headwinds, Texas's increasingly diverse and balanced economic landscape will help the state grow solidly over the next few years.



Source: The Federal Reserve Bank of Dallas and Wells Fargo Securities

Appendix

U.S. Economic Forecast

Wells Fargo U.S. Economic Forecast

	Actual				Forecast												Actual		Forecast	
	2018				2019				2020				2021				2018	2019	2020	
	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	1.6	1.5	1.6	2.2	1.9	1.8	2.0	2.1	2.3	2.3	2.9	2.2	1.8	
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.7	2.9	1.7	2.0	2.0	1.9	1.9	1.8	2.1	2.2	2.2	3.0	2.6	2.2	
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-0.6	0.4	0.6	3.9	1.2	3.3	3.7	4.2	4.1	4.0	4.0	6.4	2.7	2.0	
Equipment	6.6	3.4	2.9	7.4	-0.1	0.7	-3.5	-2.7	3.4	-2.2	1.2	2.0	3.4	3.4	3.2	3.0	6.8	1.4	-0.2	
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.7	5.6	5.0	5.4	4.7	6.2	6.5	6.4	6.2	6.1	6.2	7.4	7.8	5.3	
Structures	12.1	11.0	-2.1	-9.0	4.0	-9.4	-3.0	0.5	2.5	3.0	2.5	2.2	1.8	1.9	2.0	2.1	4.1	-2.6	0.7	
Residential Construction	-5.3	-3.7	-4.0	-4.7	-1.0	-2.9	1.5	2.0	2.0	1.5	1.5	1.5	1.0	1.0	1.0	1.0	-1.5	-2.1	1.4	
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.5	0.8	1.2	1.0	1.0	0.9	0.8	0.8	0.8	0.7	0.7	1.7	2.1	1.2	
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	-0.1	0.3	-0.2	-0.2	-0.4	-0.2	-0.1	0.0	0.0	-0.4	-0.3	-0.1	
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	-0.3	0.1	-0.9	0.5	0.1	0.1	0.2	0.0	0.0	0.0	0.1	0.1	-0.2	
Nominal GDP ¹	5.0	7.1	4.8	2.9	3.9	4.6	3.5	3.6	3.9	4.3	3.7	3.7	4.1	4.1	4.1	4.1	5.4	4.1	3.9	
Corporate Profits Before Taxes ³	2.9	2.4	4.2	4.2	-2.2	2.7	3.5	2.1	3.0	1.4	-1.2	1.5	2.1	2.0	3.0	1.5	3.4	1.5	1.1	

Forecast as of: September 11, 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

Texas Economic Forecast

Texas Economic Outlook

	Actual						Forecast		
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Gross Domestic Product by State, \$ Millions	1,411,379	1,472,104	1,512,351	1,589,956	1,593,149	1,624,949	1,676,679	1,738,725	1,789,150
Annual Rate	5.0%	4.3%	2.7%	5.1%	0.2%	2.0%	3.2%	3.7%	2.9%
Nominal Personal Income, \$ Millions	1,133,801	1,160,362	1,250,850	1,282,380	1,287,687	1,340,568	1,411,021	1,490,500	1,565,220
Nominal Personal Income, Percent Change	7.2%	2.3%	7.8%	2.5%	0.4%	4.1%	5.3%	5.6%	5.0%
Real Median Household Income, \$	55,542	54,183	55,839	58,432	59,396	59,295	61,580	62,825	63,950
Population, Thousands	26,090	26,489	26,977	27,487	27,937	28,323	28,702	29,130	29,600
Change in thousands	443	400	488	510	451	385	379	428	470
Percent Change	1.7%	1.5%	1.8%	1.9%	1.6%	1.4%	1.4%	1.5%	1.6%
Nonfarm Employment, Thousands	10,915	11,241	11,594	11,866	12,013	12,228	12,503	12,800	13,100
Change in thousands	309	326	353	272	147	214	276	297	300
Percent Change	2.9%	3.0%	3.1%	2.3%	1.2%	1.8%	2.3%	2.4%	2.3%
Unemployment Rate, Annual Average	6.7%	6.3%	5.1%	4.4%	4.6%	4.3%	3.9%	3.6%	3.5%
Total Housing Permits	133,297	146,372	166,054	173,990	162,323	169,885	188,161	180,000	180,000
Single-Family Permits	78,809	89,872	98,736	104,096	106,101	114,094	123,249	122,500	124,000
Multi-Family Permits	54,488	56,500	67,318	69,894	56,222	55,791	64,912	57,500	56,000
FHFA Home Price Index, Percent Change	1.5%	4.5%	7.2%	7.4%	7.6%	8.0%	7.1%	6.8%	6.2%

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
Forecast as of: September 09, 2019

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

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