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.

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.

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
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
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.

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

- Millennials: 28%
- Gen X: 25%
- Boomers: 28%
- Silent & Greatest: 11%
- Gen Z: 8%

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
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
Despite rising rents and gasoline prices, inflationary pressures have lost steam recently.
Stock market volatility may lead to waning consumer confidence due to the “wealth effect”.

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

Source: U.S. Department of Commerce 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
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
Federal Fiscal Policy Outlook

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

Increase in BCA Budget Caps

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 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 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.
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
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.

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

- Recovering
  - Total Nonfarm Employment
    - More Than 2.5 Million
    - 1 - 2 Million
    - 150 - 320 Thousand
    - Less than 150 Thousand

- Expanding
- Contracting
- Decelerating

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.

Source: Department of Commerce and Wells Fargo Securities
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.

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.

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
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.

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

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
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.

Source: CoreLogic and Wells Fargo Securities
Texas Outlook

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
## U.S. Economic Forecast

### Wells Fargo U.S. Economic Forecast

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<td>Residential Construction</td>
<td>-5.3</td>
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<td>Government Purchases</td>
<td>1.9</td>
<td>2.6</td>
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<td>Net Exports</td>
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<td>0.7</td>
<td>-2.1</td>
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<td>Inventories</td>
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<td>-1.2</td>
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<td>0.1</td>
<td>0.5</td>
<td>-0.9</td>
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<td>Nominal GDP</td>
<td>5.0</td>
<td>7.1</td>
<td>4.8</td>
<td>2.9</td>
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<td>4.6</td>
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<td>Corporate Profits Before Taxes</td>
<td>2.9</td>
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<td>2.7</td>
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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 Outlook

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

Forecast as of: September 09, 2019

Source: IHS Global Insight and Wells Fargo Securities
### A Sampling of Our Recent Special, Regional & Industry Commentary

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Macro</strong></td>
<td><strong>August-29</strong> Counting Throes: August &amp; Everything After</td>
<td>Quinlan, House &amp; Seery</td>
</tr>
<tr>
<td></td>
<td><strong>August-23</strong> Don't Rush Your Swing: Inventory Outlook &amp; GDP</td>
<td>Quinlan &amp; House</td>
</tr>
<tr>
<td></td>
<td><strong>August-22</strong> Recession Update: Is the Yield Curve Still Effective?</td>
<td>Iqbal</td>
</tr>
<tr>
<td></td>
<td><strong>August-22</strong> The Economics of College Football: Season II</td>
<td>Vitner, Dougherty &amp; Honnold</td>
</tr>
<tr>
<td></td>
<td><strong>August-14</strong> Down, Not Out: Late Cycle Business Spending</td>
<td>Quinlan &amp; House</td>
</tr>
<tr>
<td><strong>U.S. Regional</strong></td>
<td><strong>August-28</strong> Oregon and Auburn Collide in Texas</td>
<td>Vitner, Dougherty &amp; Honnold</td>
</tr>
<tr>
<td></td>
<td><strong>August-28</strong> North Carolina vs. South Carolina</td>
<td>Vitner</td>
</tr>
<tr>
<td></td>
<td><strong>August-22</strong> Florida vs Miami: Kickoff Comes Early this Year</td>
<td>Vitner</td>
</tr>
<tr>
<td></td>
<td><strong>August-20</strong> Pennsylvania 2019 Midyear Outlook</td>
<td>Vitner &amp; Dougherty</td>
</tr>
<tr>
<td></td>
<td><strong>August-16</strong> California Sees Modest Job Gains in July</td>
<td>Vitner &amp; Dougherty</td>
</tr>
<tr>
<td><strong>Global Economy</strong></td>
<td><strong>August-30</strong> India: In-dire Shape</td>
<td>McKenna &amp; Bennenbroek</td>
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<tr>
<td></td>
<td><strong>August-28</strong> Brexit: The Show That Never Ends</td>
<td>Nelson</td>
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<tr>
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<td><strong>August-27</strong> Zoning in on Germany</td>
<td>Nelson</td>
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<td><strong>August-15</strong> Is There Too Much Debt in the Eurozone?: Part II</td>
<td>Bryson, Pugliese &amp; Mathews</td>
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<td><strong>August-14</strong> Italy Back in Poll Position</td>
<td>Nelson &amp; Pugliese</td>
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<td><strong>Interest Rates/Credit Market</strong></td>
<td><strong>July-31</strong> FOMC Cuts Rates 25 bps, but Two Members Dissent</td>
<td>Bryson</td>
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<td><strong>July-31</strong> Treasury Refunding Highlights</td>
<td>Bryson</td>
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<td><strong>July-30</strong> Was the Fed's Rate Hike in December a &quot;Policy Mistake&quot;?</td>
<td>Iqbal &amp; Licis</td>
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<td><strong>July-29</strong> Rate Cuts &amp; Consumers: Will the Medicine Take?</td>
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<td><strong>July-25</strong> Treasury Refunding Preview: T-Bill Barrage</td>
<td>Bryson &amp; Pugliese</td>
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<tr>
<td><strong>Real Estate &amp; Housing</strong></td>
<td><strong>July-30</strong> Housing Demographics Turn More Positive</td>
<td>Vitner, Dougherty &amp; Honnold</td>
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<td><strong>July-09</strong> Housing Chartbook: July 2019</td>
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