

Economic Outlook

Mark Vitner, Managing Director & Senior Economist

August 9, 2019

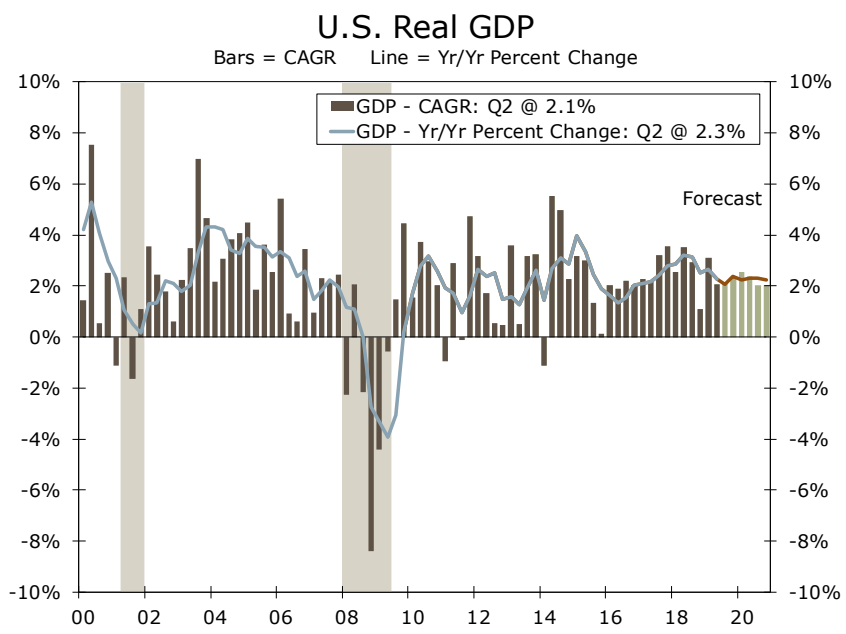
Together we'll go far



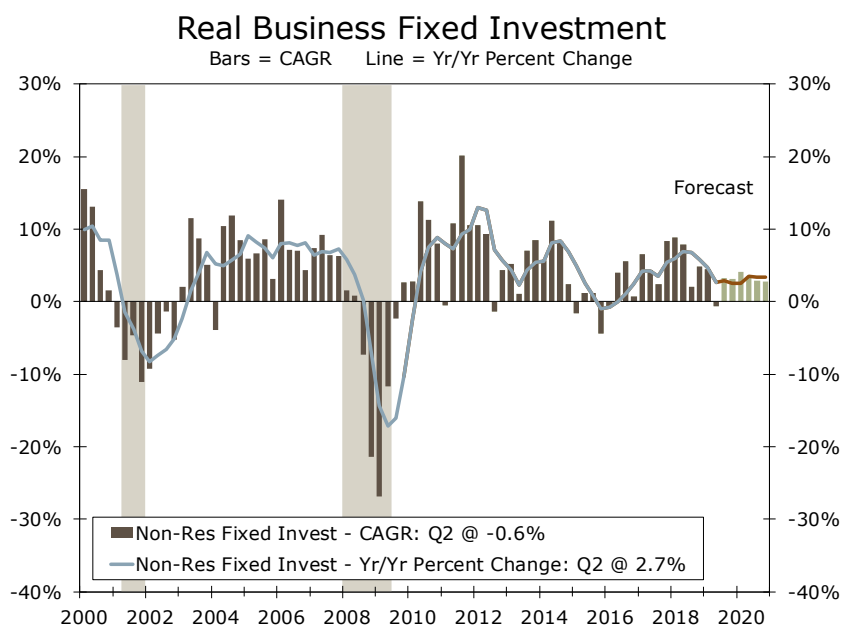
Economic Outlook	<ul style="list-style-type: none">▪ Economic growth eased to a 2.1% pace in Q2. Strong personal consumption growth was offset by weakness in business investment and international trade. Growth is slowing on a year-to-year basis.
Fiscal Policy	<ul style="list-style-type: none">▪ The short-term boost from tax reform continues to fade but consumer spending is holding up solidly amid strong job and income growth. Government spending has ramped up post-shutdown.
Monetary Policy	<ul style="list-style-type: none">▪ The Fed indicated that its first cut in a decade was a “mid-cycle” adjustment rather than the start of a prolonged rate-cut cycle. Persistently low inflation has raised fears domestic demand may be weakening.
Trade Policy	<ul style="list-style-type: none">▪ The Trump Administration’s confrontational negotiating tactics have increased uncertainty but may still bring about needed changes from China. Trade relations are likely to remain contentious until a deal is reached.
NC TECH	<ul style="list-style-type: none">▪ Despite a setback from last fall’s two devastating hurricanes and the lingering uncertainty surrounding international trade and investment, North Carolina’s economy continues to keep pace with the nation.

Q2 real GDP came in slightly above expectations at 2.1%, compared to a 3.1% pace in Q1. Personal consumption growth was a strong 4.3% pace, but global uncertainty lowered business investment and net exports. An average of the two quarters provides a good idea of the economy's underlying momentum. Growth is decelerating slightly and will continue to do so.

Real GDP



Business Fixed Investment



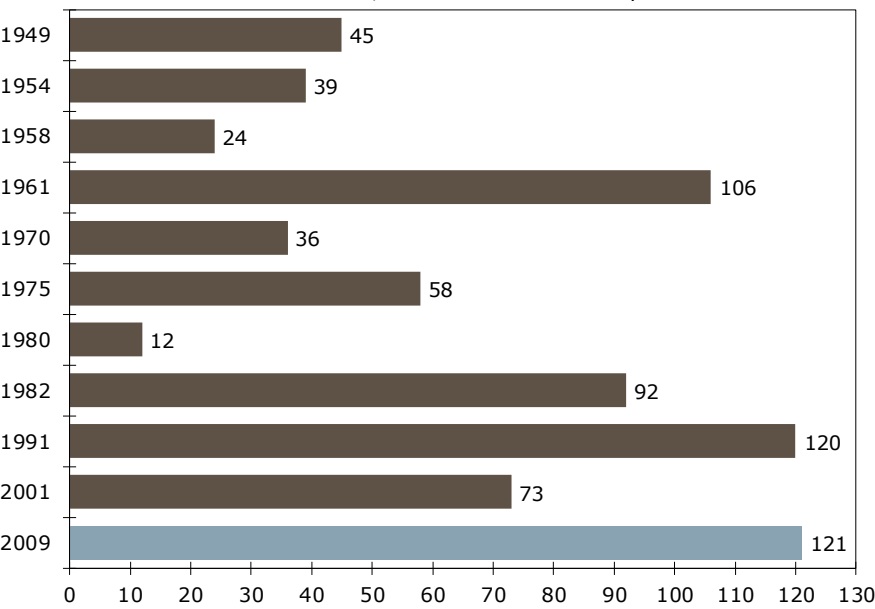
Source: U.S. Department of Commerce and Wells Fargo Securities

The current expansion is the longest on record, but has also been the weakest of the post-WWII era. Growth has also been unusually uneven, with a handful of metro areas accounting for the bulk of growth early on. Base effects account for much of the deceleration in GDP trend growth.

The Longest Expansion

Length of U.S. Expansion

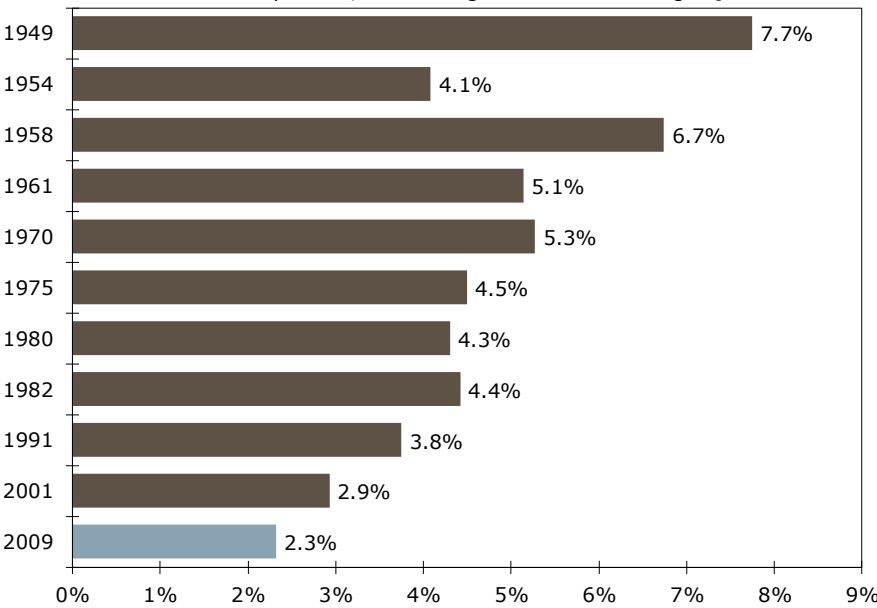
Y-axis=End of Recession, X-axis=Months as of July 2019



...but the Weakest

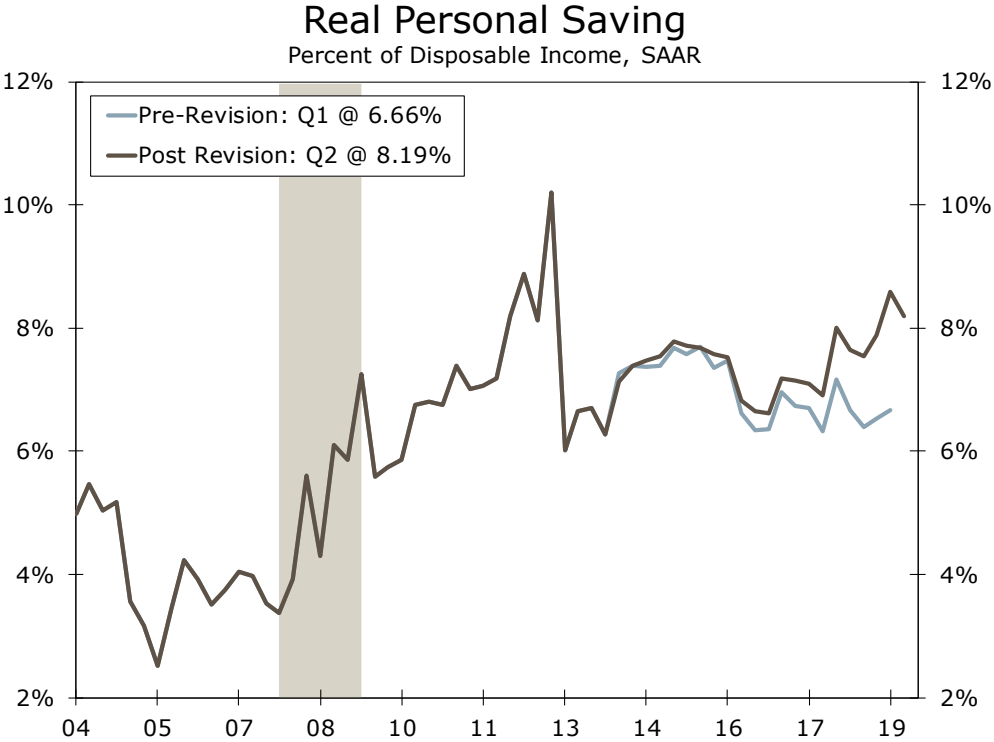
Strength of U.S. Expansion

Y-axis=Start of Expansion, X-axis=Avg GDP Growth through Q1-2019



Source: U.S. Department of Commerce, National Bureau of Economic Research and Wells Fargo Securities

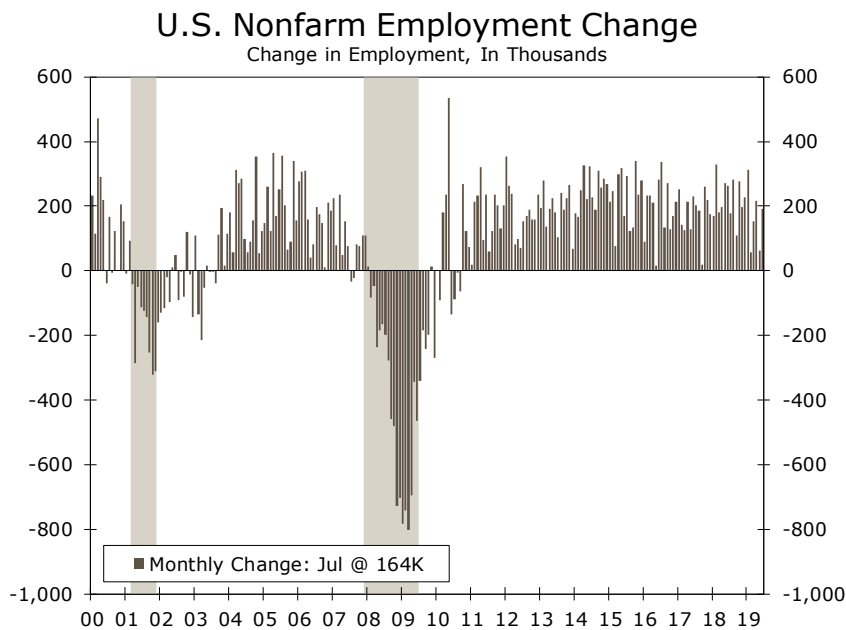
The GDP revisions show wage and salary growth has been stronger than first reported, resulting in a higher saving rate that may add a little more life to the expansion.



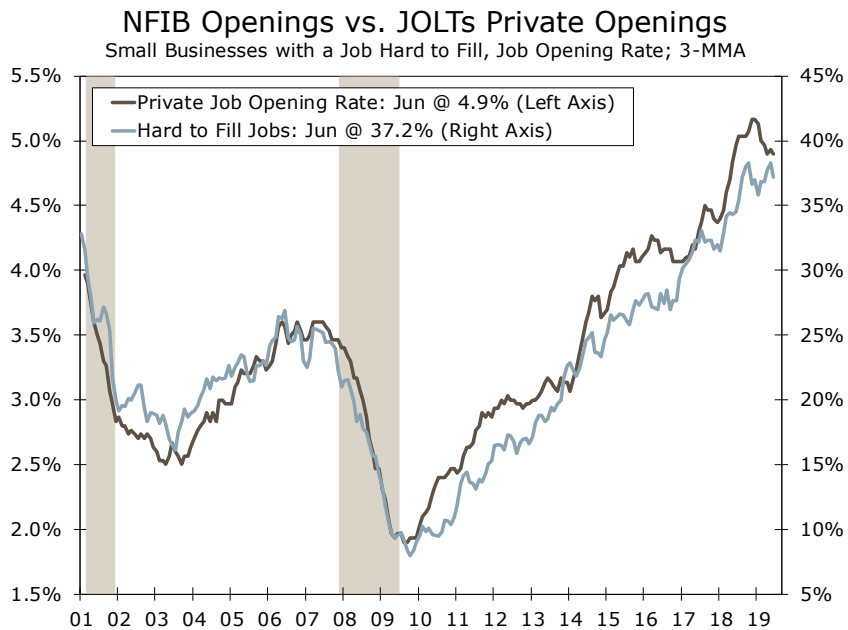
Source: U.S. Department of Commerce and Wells Fargo Securities

Hiring has moderated over the past few months but is still broad based. Wage gains have rebounded but remain modest relative to prior periods when the labor market was this tight.

Nonfarm Employment



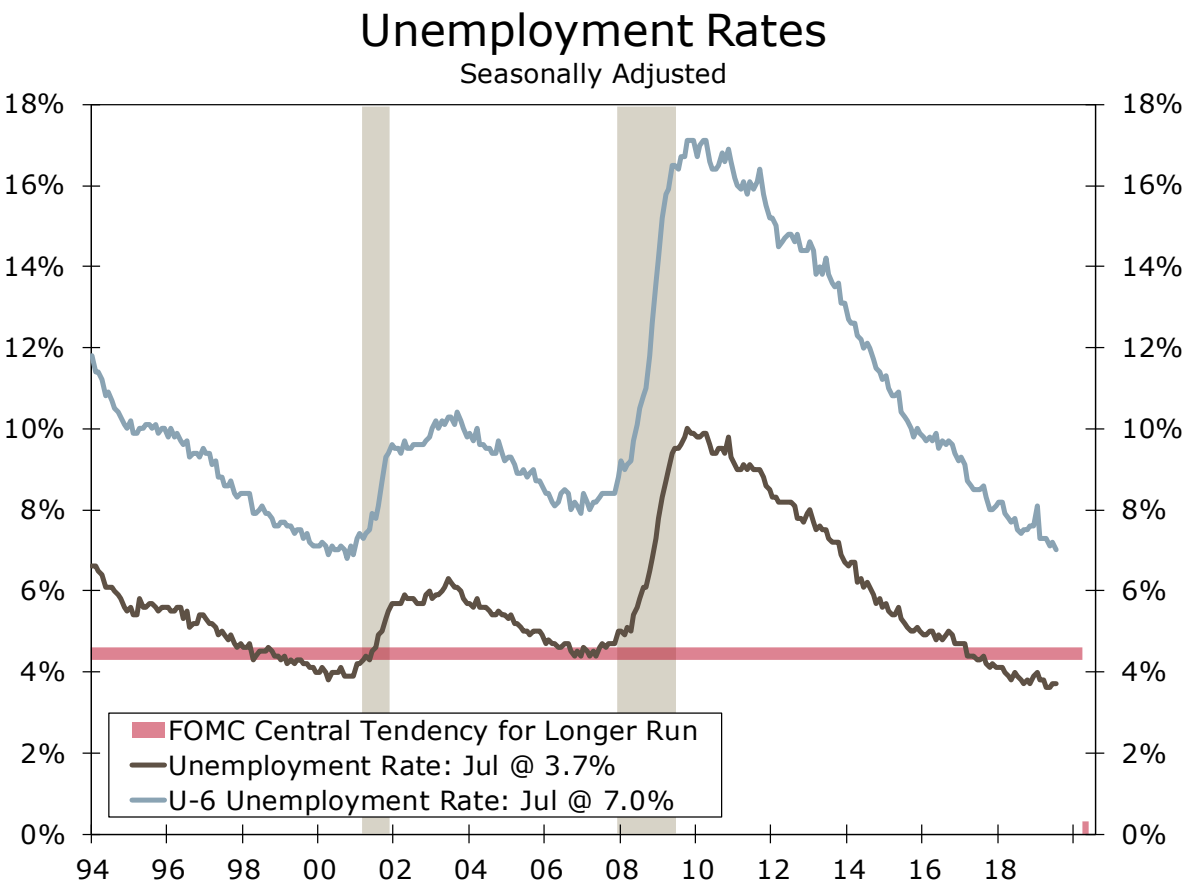
Job Openings



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 3.7%.

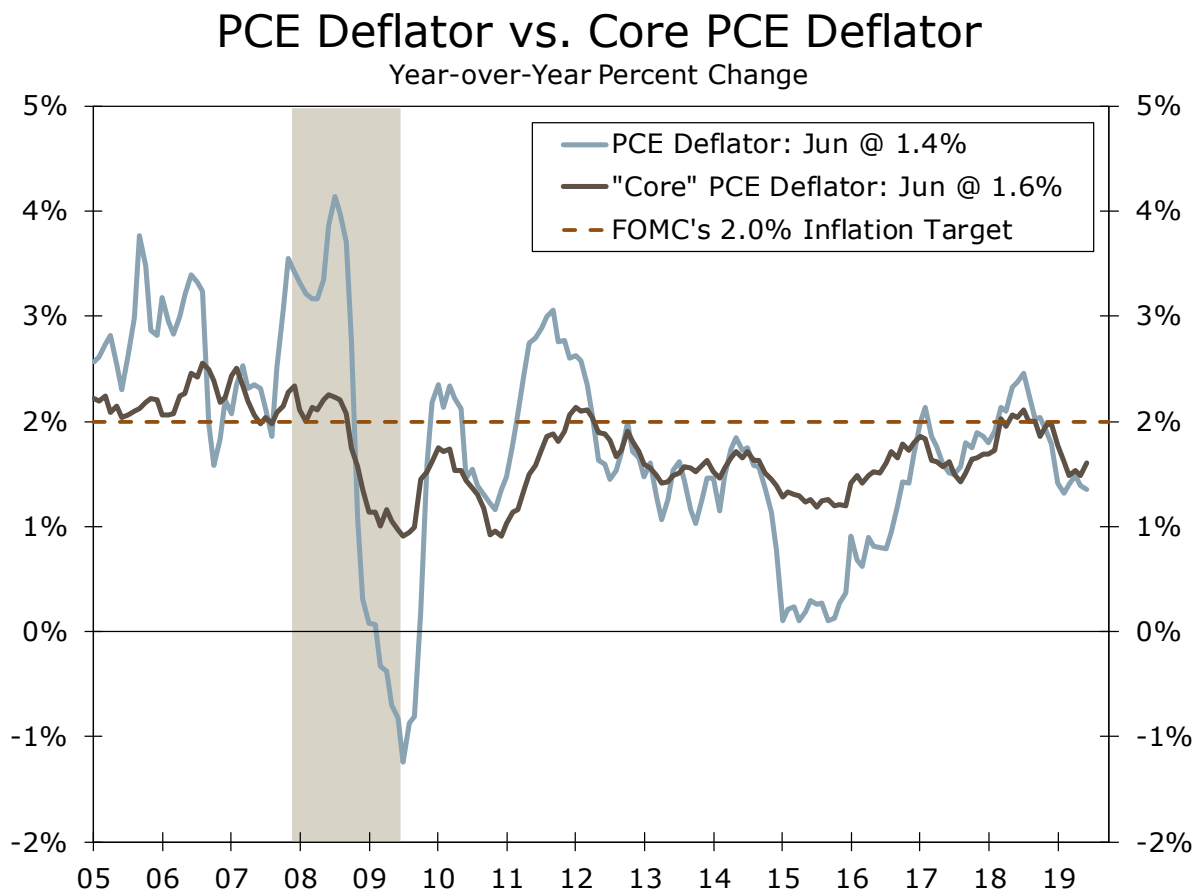
While the criteria for determining the unemployment rate have not changed, growth in the Gig economy, particularly ride sharing and the proliferation of online job search platforms, like Indeed and LinkedIn, have likely changed the way workers engage in the labor market. As a result, the economy can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



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

After briefly rising above the Fed's 2% target, core inflation appears to have decelerated once again, amid weakening final demand. Inflation expectations have also fallen over the past few months.

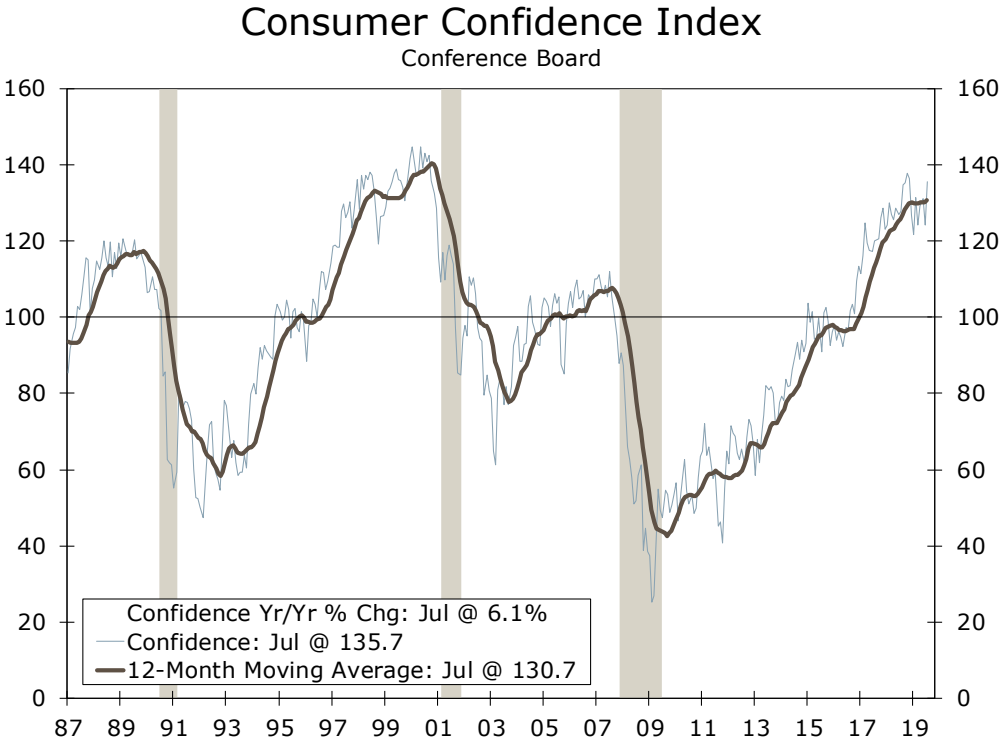
The deceleration in inflation and inflation expectations was cited by the Fed as one of the primary reasons they cut rates for the first time in a decade.



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

Despite the recent dip, consumer confidence remains incredibly strong. Consumers are much more upbeat about current conditions than future conditions, however.

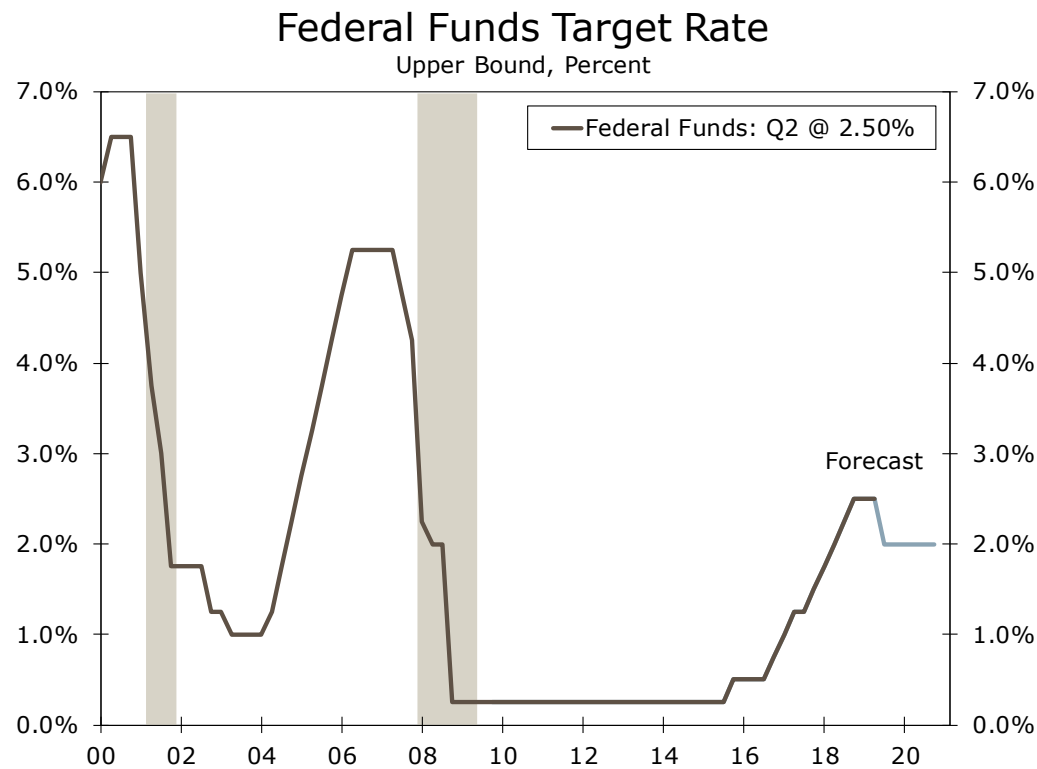
The Conference Board's survey closely tracks labor market conditions, which are the strongest they have been in decades. Buoyant equity markets are also likely keeping confidence elevated.



Source: Conference Board and Wells Fargo Securities

The Fed cut interest rates last week “in light of the implications of global developments for the economic outlook as well as muted inflation pressures”.

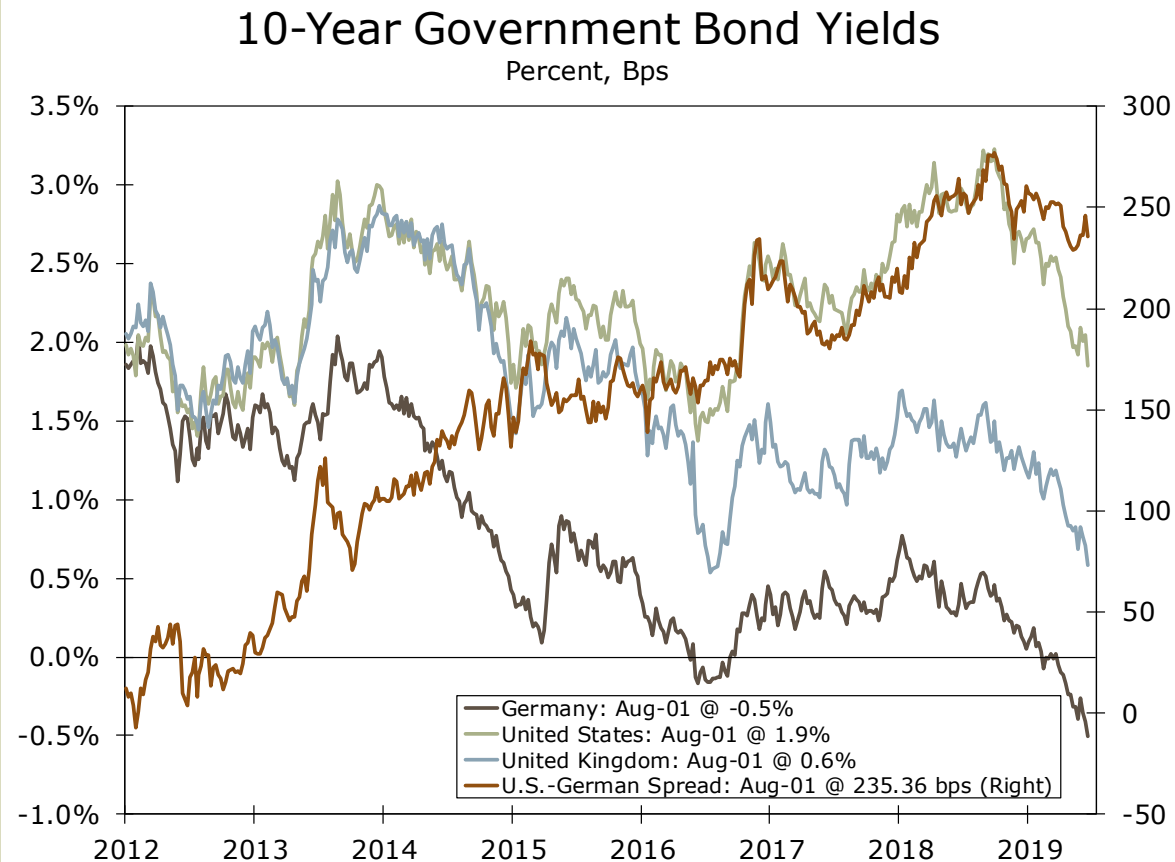
We still expect one more cut this year.



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

Global interest rates continue to fall, with the German 10-year bund yielding only -0.5%.

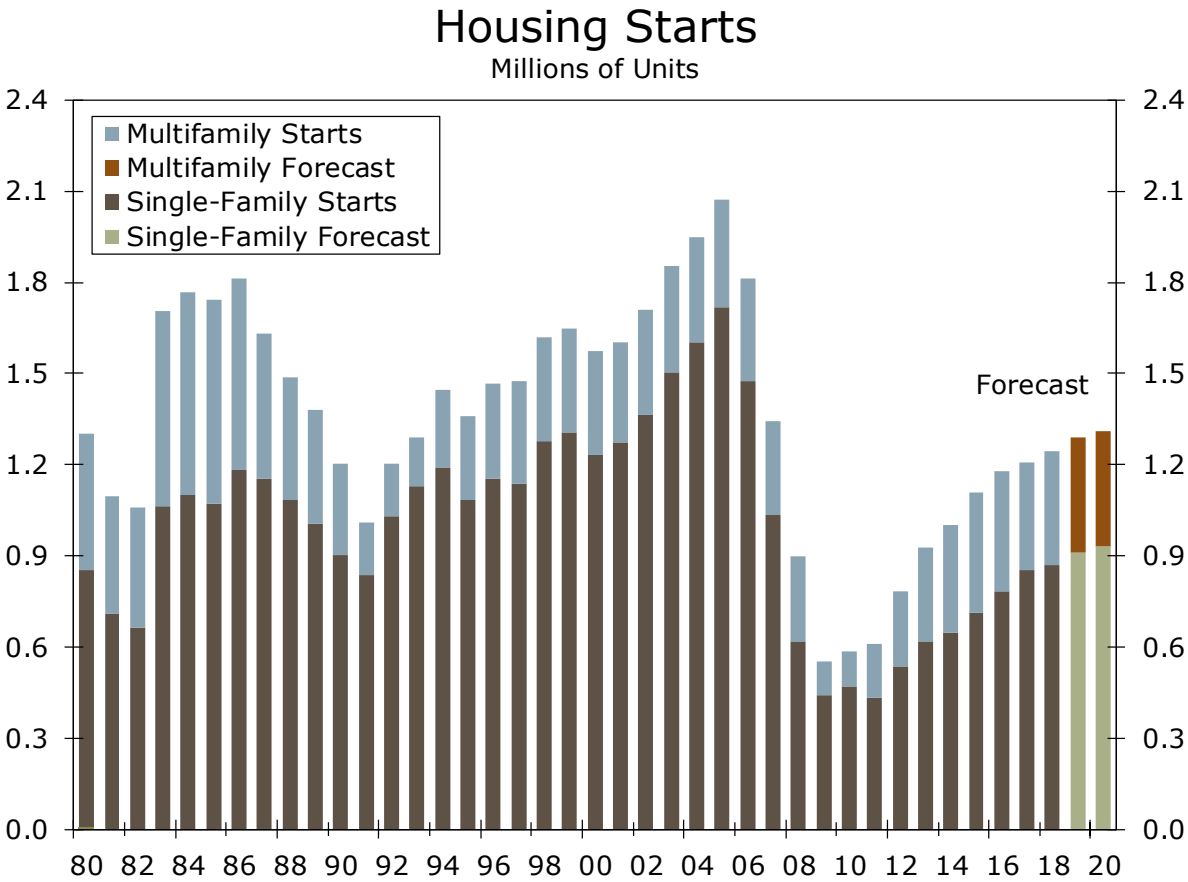
The entire German yield curve is now negative.



Source: Bloomberg LP and Wells Fargo Securities

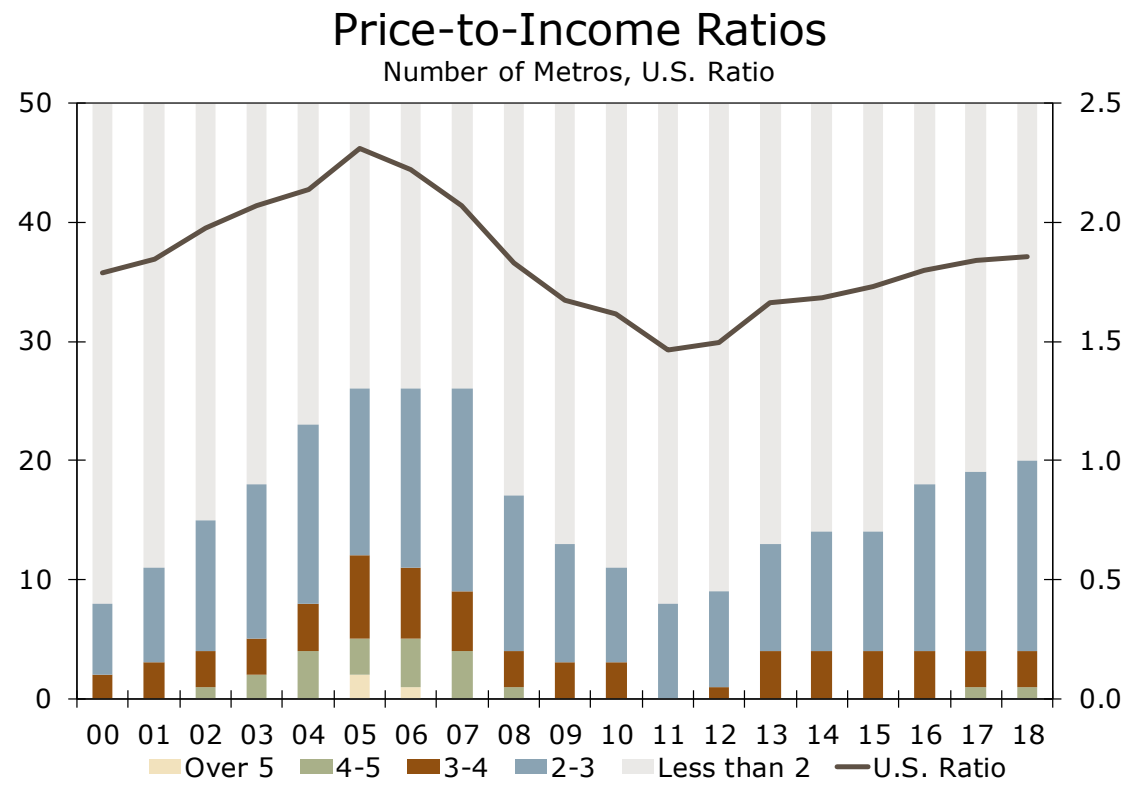
Affordability constraints will continue to keep a low ceiling on home sales and new home construction.

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.



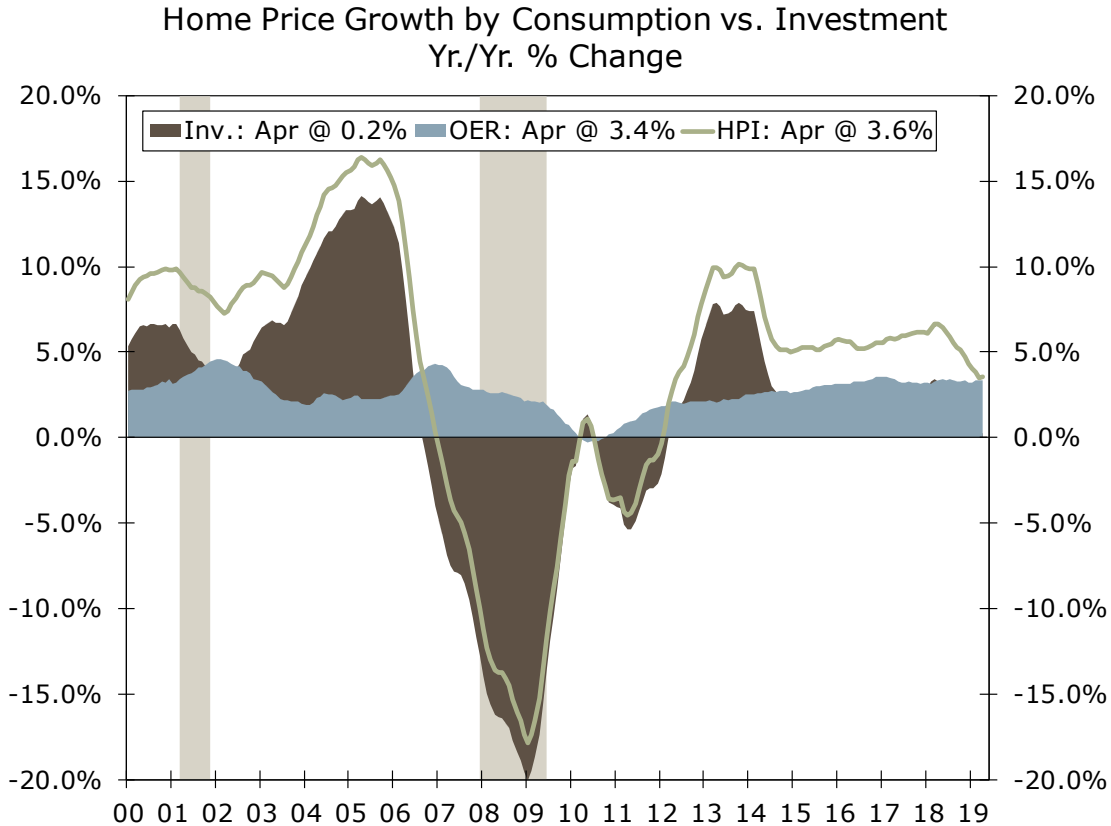
Source: U.S. Department of Commerce and Wells Fargo Securities

Home price-to-income ratios, particularly in large metros, are rising towards mid-2000 levels.



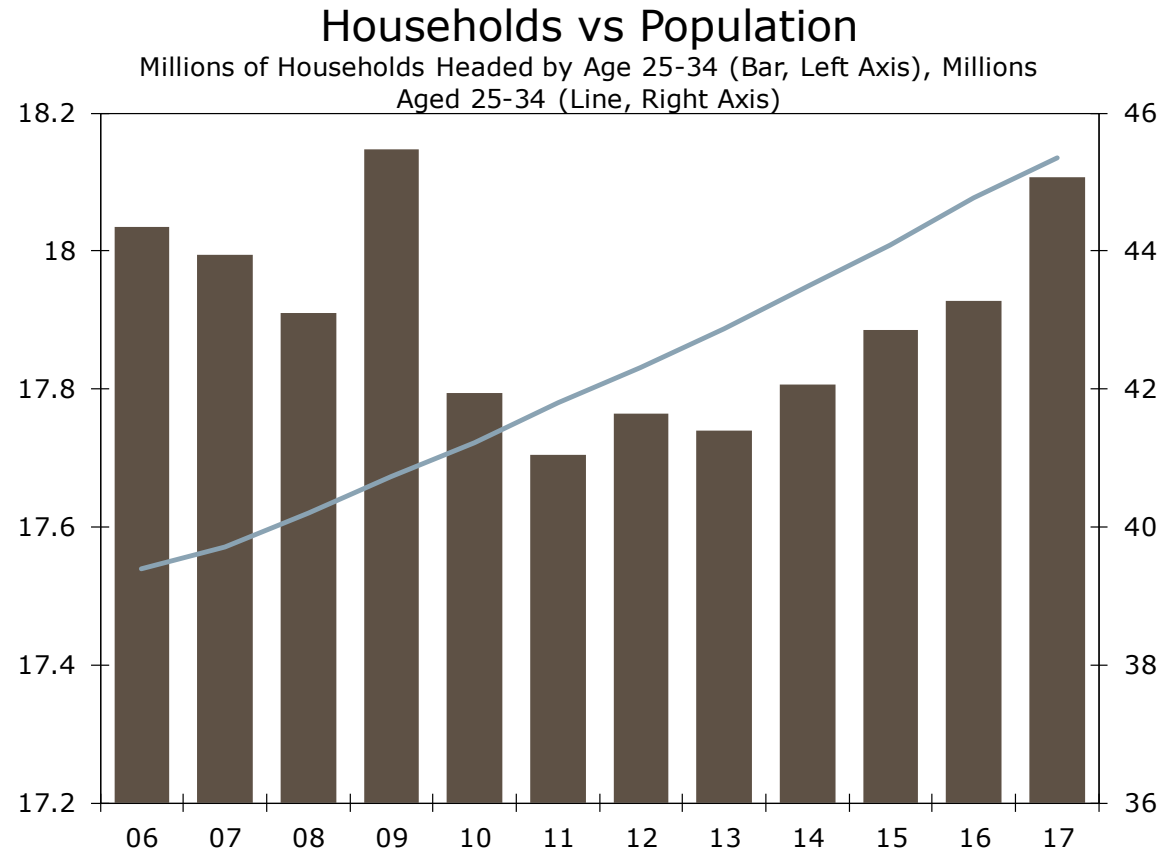
Source: NAR, U.S. Department of Commerce and Wells Fargo Securities

By breaking down home price growth into its ‘consumption’ and ‘investment’ components, we can see that a reduction in investment returns is behind most of the recent moderation in home prices. Investment returns have slowed as investors have reduced purchases.



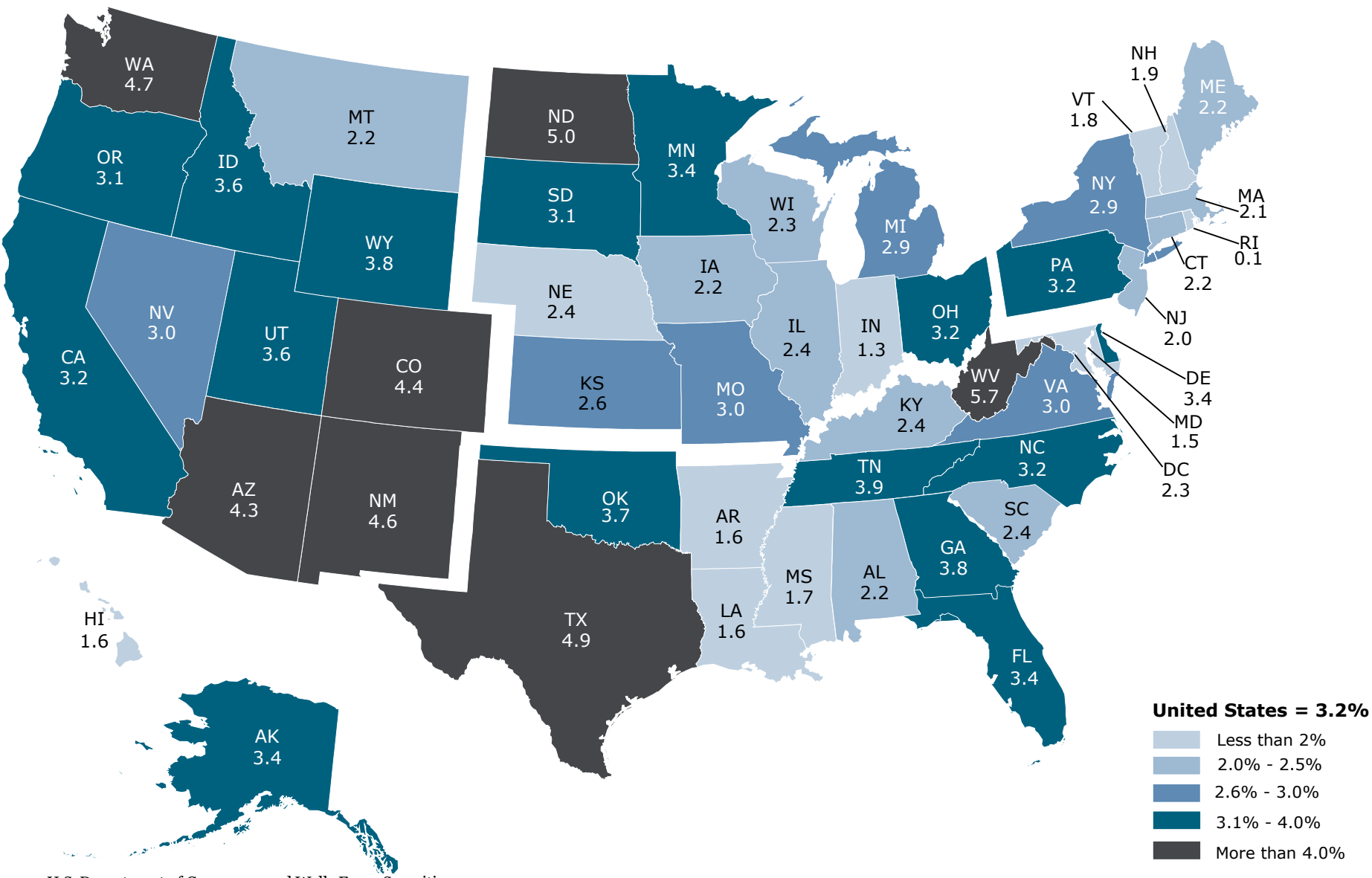
Source: U.S. Department of Labor, CoreLogic, Inc. and Wells Fargo Securities

The number of young households is finally beginning to rise more in-line with population. The improvement reflects more people moving out on their own.



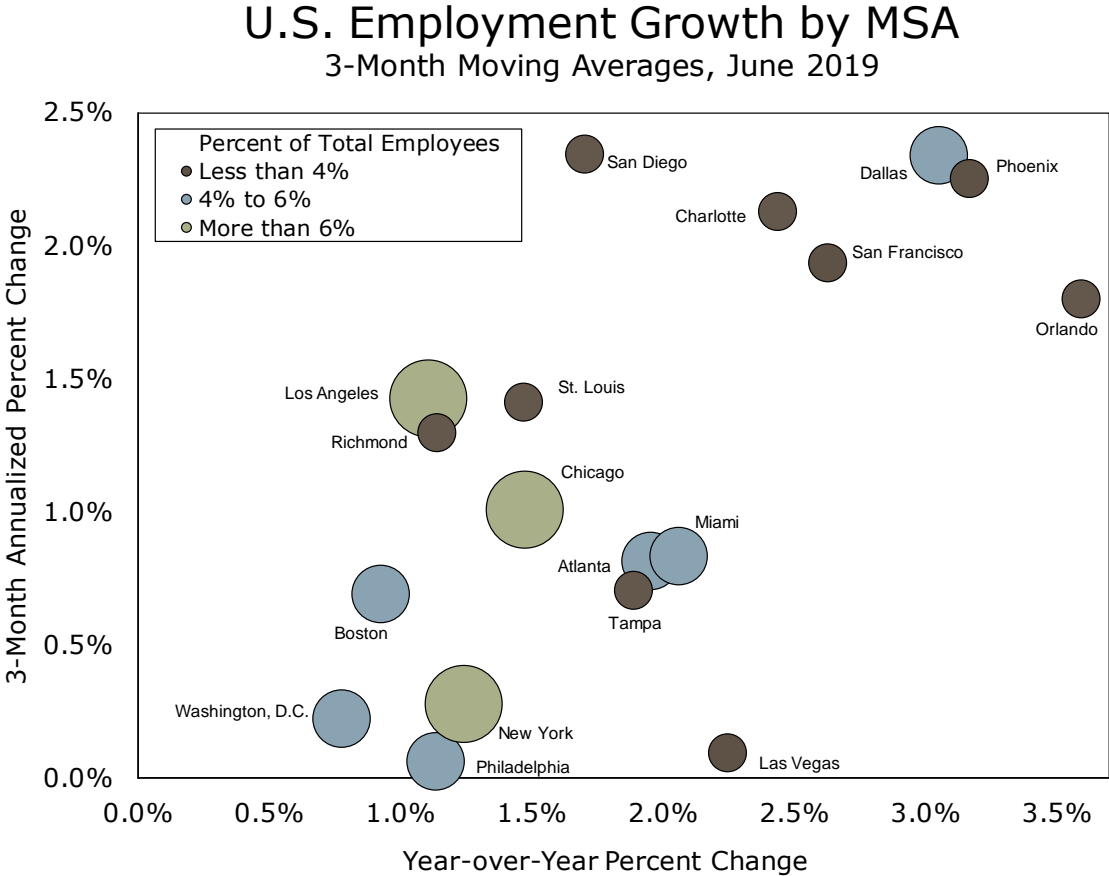
Source: U.S. Department of Commerce and Wells Fargo Securities

Year-over-Year Percent Change in Real GDP by State (Q1-2019)



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

Employment growth is strongest
in the South and West.



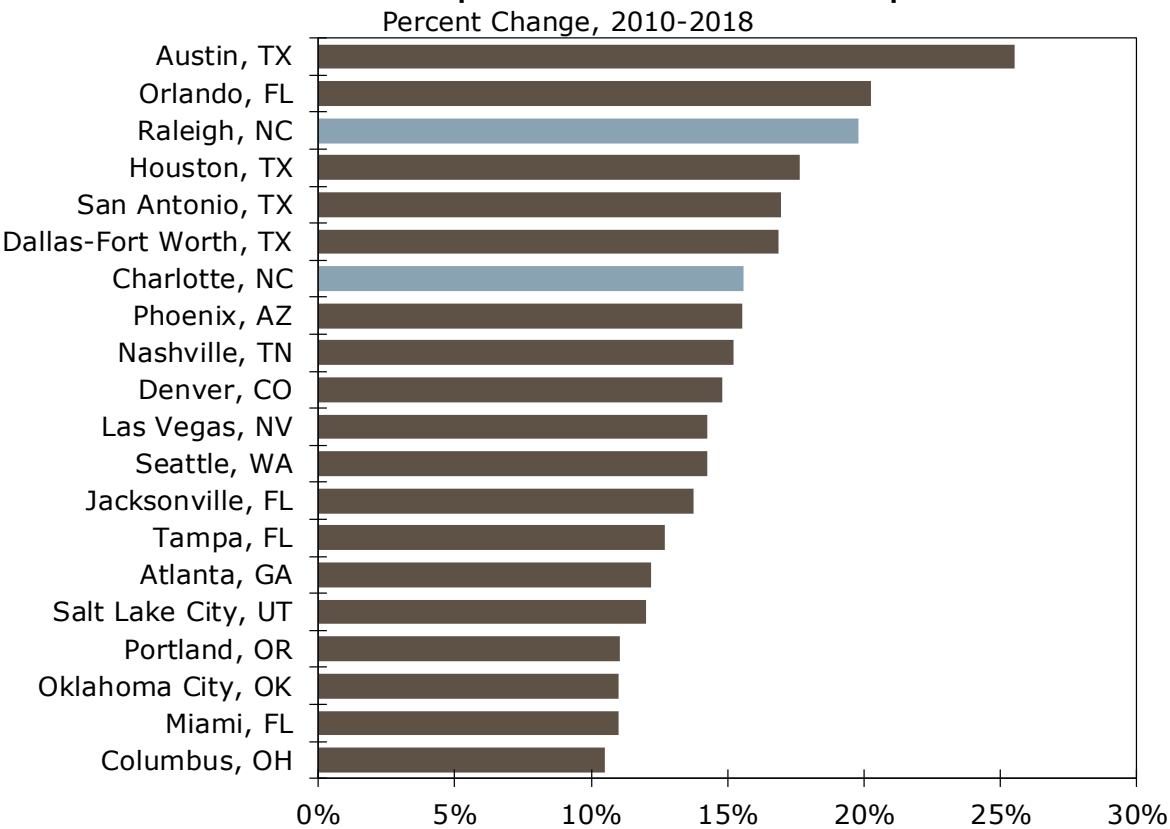
Source: U.S. Department of Labor and Wells Fargo Securities

Raleigh and Charlotte both rank among the top 10 fastest growing large metropolitan areas since 2010.

North Carolina is the only state other than Texas and Florida to have more than one large metro area rank in the top 20.

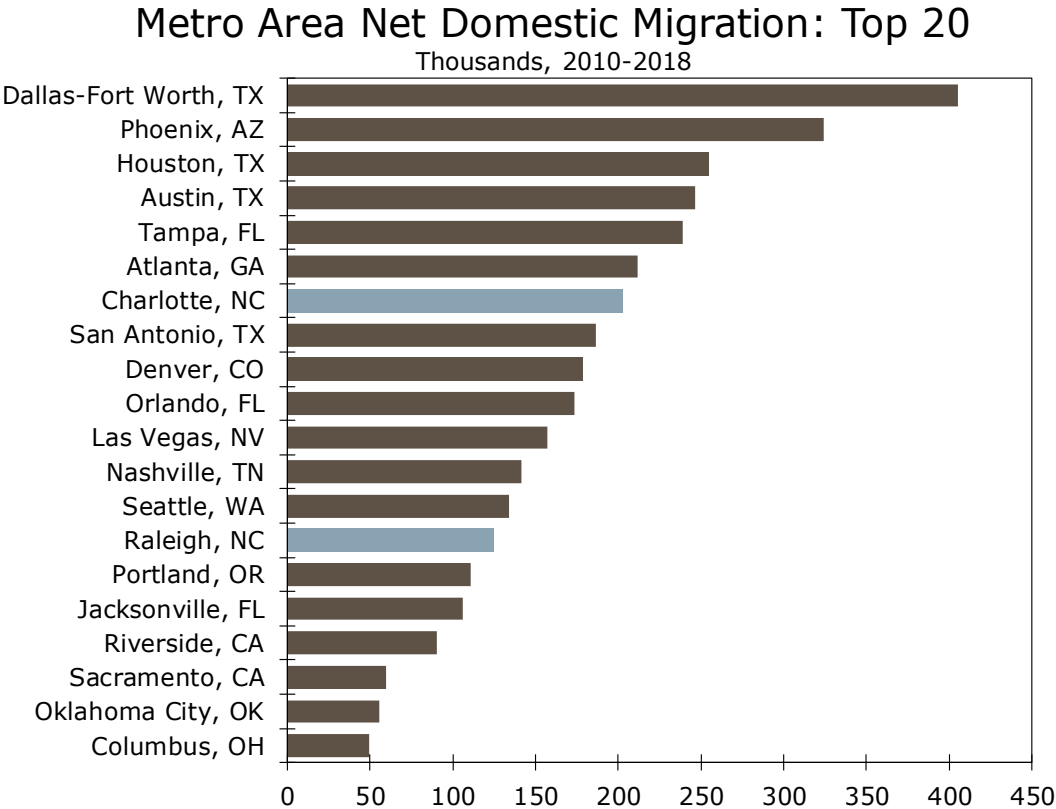
Charleston, SC would have clearly made the cut if the criteria was reduced to areas between 500,000 to 999,000.

Metro Area Population Growth: Top 10



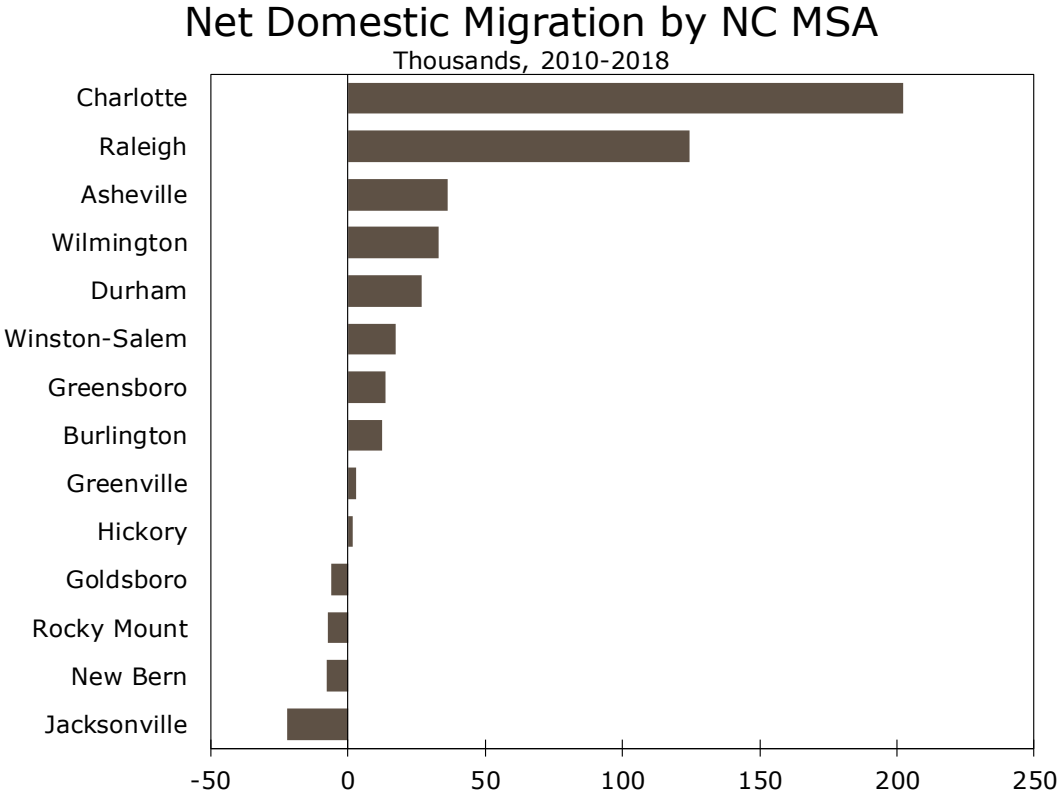
Source: U.S. Department of Commerce and Wells Fargo Securities

We view net domestic migration as a good proxy for the relative attractiveness of an area to job seekers.



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

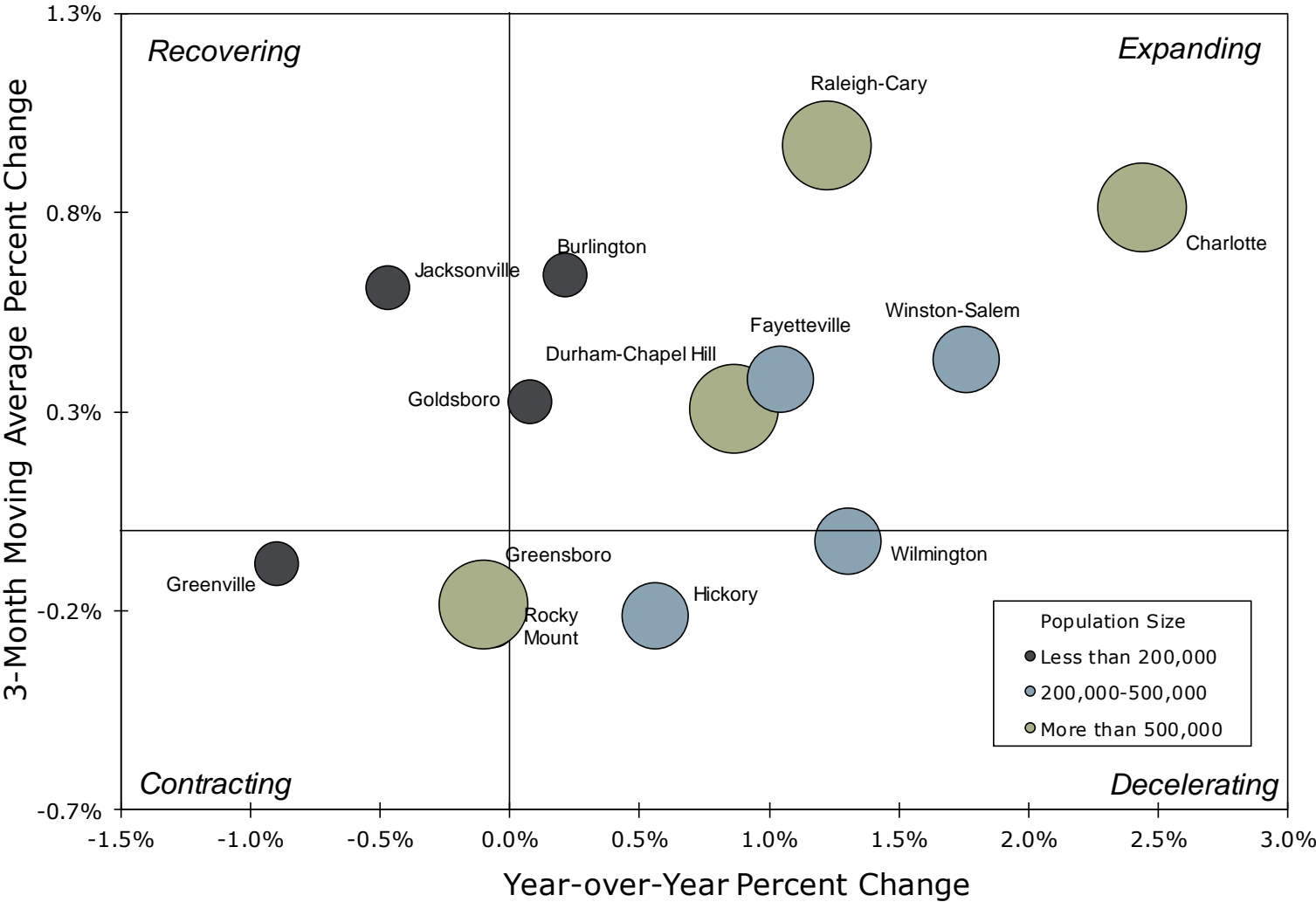
Charlotte has attracted more than 200,000 net domestic migrants since 2010.



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

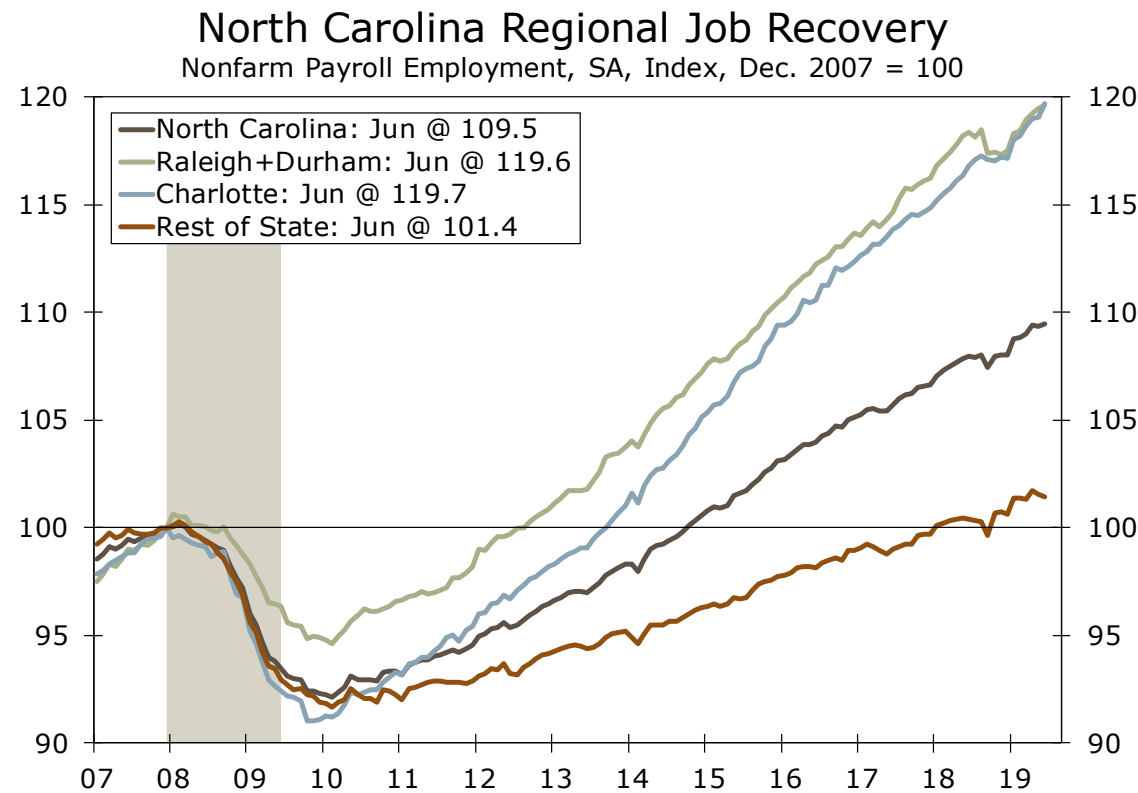
North Carolina Job Growth by Metro

Year-over-Year Percent Change, 3-Month Moving Average, June 2019



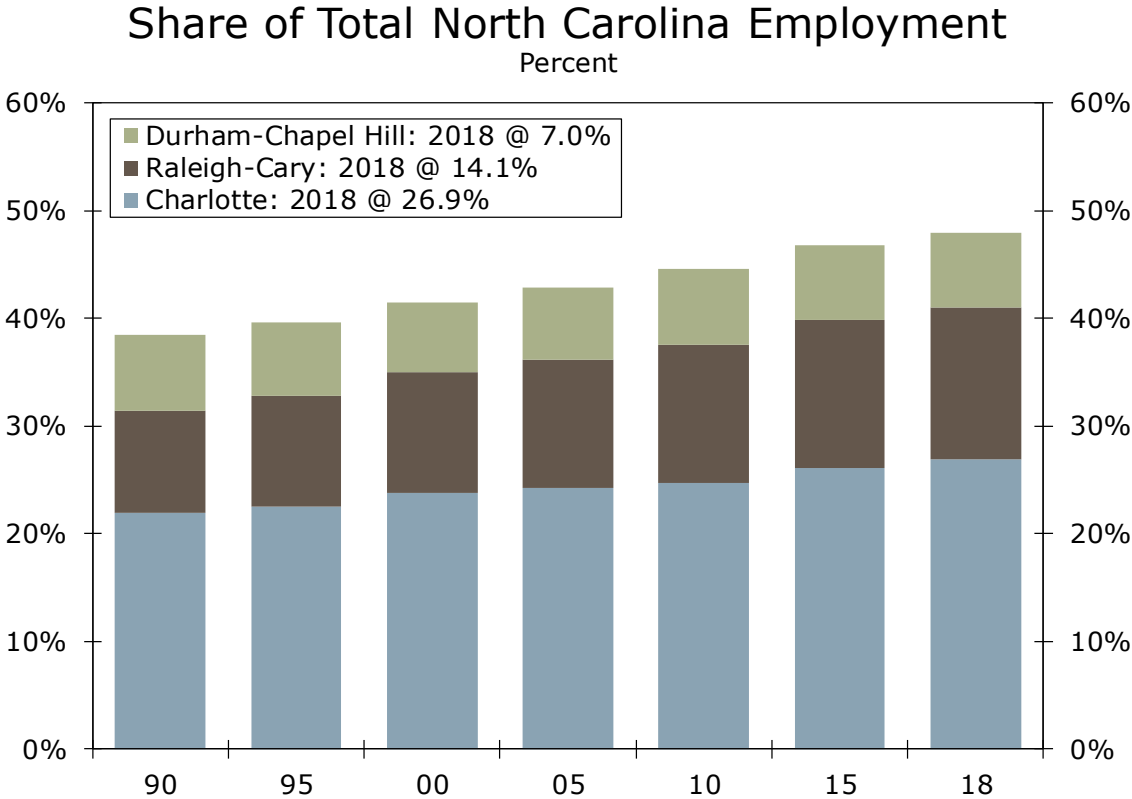
Source: U.S. Department of Labor and Wells Fargo Securities

North Carolina's recovery is moving beyond its two largest metros.



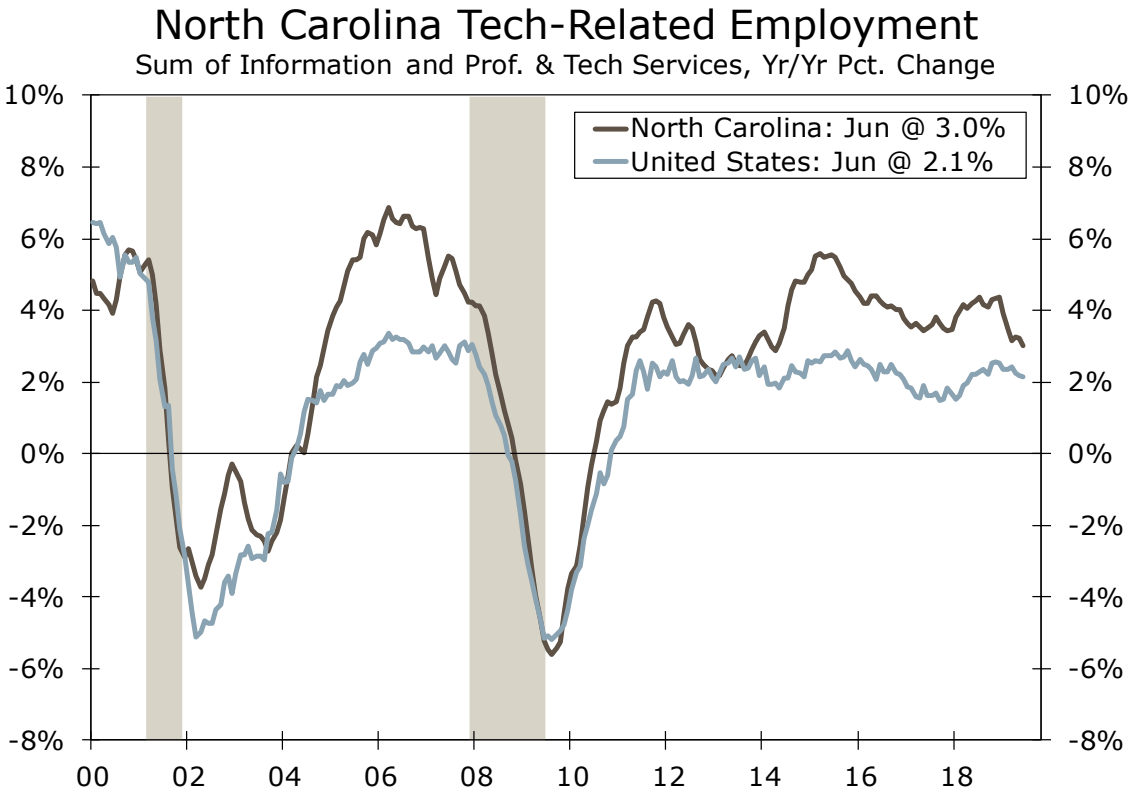
Source: U.S. Department of Labor and Wells Fargo Securities

Still, The Charlotte and Raleigh regions have driven much of the state's growth.



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

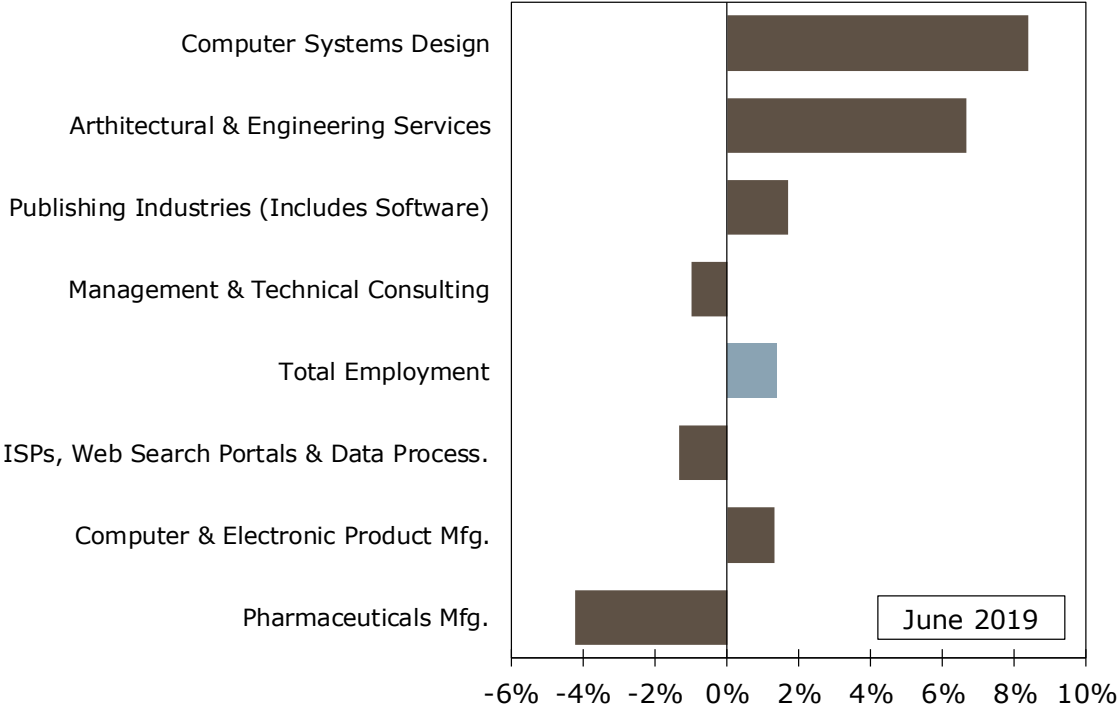
Tech job growth has moderated across the state but remains well above the national average.



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

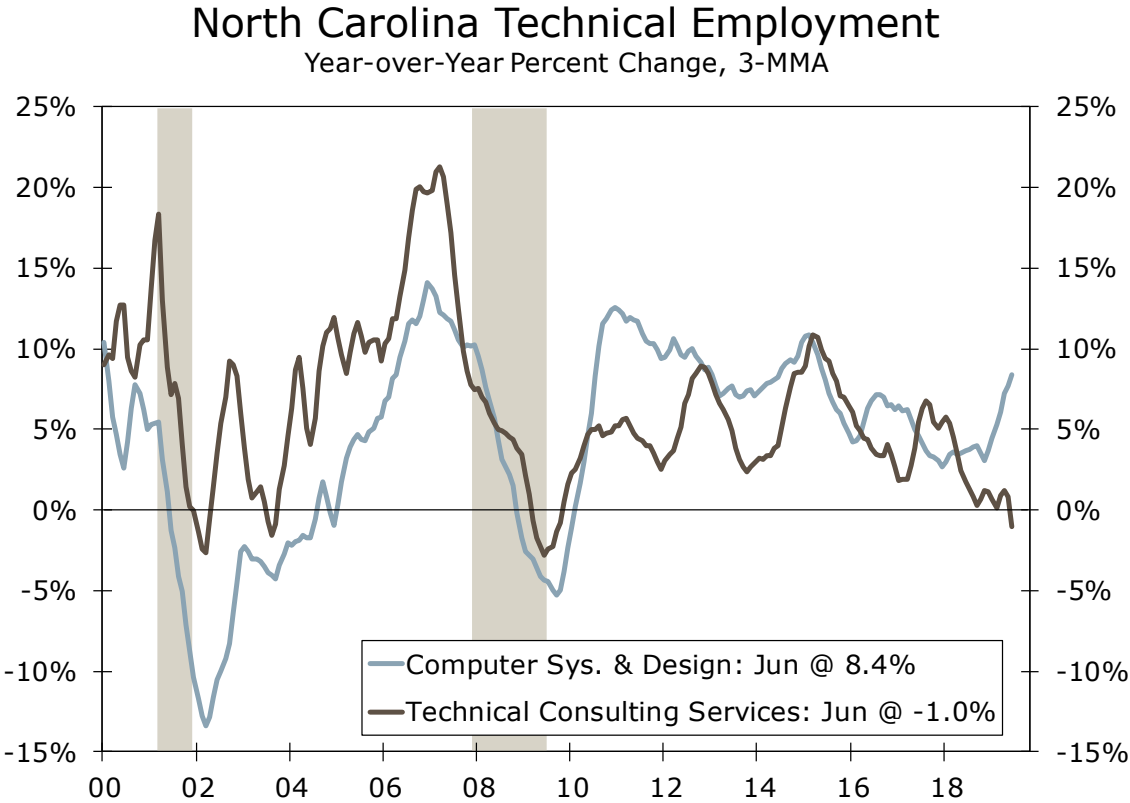
Computer systems design is leading tech job growth.

North Carolina Tech Job Growth By Industry
Year-over-Year Percent Change, 3-MMA



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

Technical consulting job growth has slowed, however.



Source: U.S. Department of Labor 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	2.3	2.2	3.2	3.5	2.6	3.5	2.9	1.1	3.1	2.1	2.1	2.3	2.5	2.4	2.0	2.0	2.4	2.9	2.3	2.3
Personal Consumption	2.4	2.4	2.4	4.6	1.7	4.0	3.5	1.4	1.1	4.3	2.5	2.0	2.0	2.0	1.9	1.9	2.6	3.0	2.5	2.2
Business Fixed Investment	6.6	4.4	2.4	8.4	8.8	7.9	2.1	4.8	4.4	-0.6	3.3	3.2	4.1	3.6	2.9	2.8	4.4	6.4	3.2	3.2
Equipment	6.3	8.9	6.2	12.9	6.6	3.4	2.9	7.4	-0.1	0.7	1.1	2.0	3.6	2.6	2.1	2.0	4.7	6.8	2.3	2.3
Intellectual Property Products	6.3	0.3	4.9	4.7	9.7	11.9	4.1	11.7	10.8	4.7	7.0	4.6	4.7	4.6	3.7	3.5	3.7	7.4	8.1	4.7
Structures	7.3	2.0	-7.7	5.2	12.1	11.0	-2.1	-9.0	4.0	-10.6	-2.0	3.5	4.5	4.0	3.5	3.5	4.7	4.1	-2.5	2.2
Residential Construction	11.9	-2.2	-2.0	9.9	-5.3	-3.7	-4.0	-4.7	-1.0	-1.5	2.5	2.0	2.0	1.5	1.5	1.5	3.5	-1.5	-1.8	1.7
Government Purchases	-0.3	1.4	-0.1	2.4	1.9	2.6	2.1	-0.4	2.9	5.0	0.9	1.2	1.1	1.0	0.9	0.8	0.7	1.7	2.2	1.3
Net Exports ²	0.1	-0.3	0.4	-0.8	0.0	0.7	-2.1	-0.4	0.7	-0.7	0.1	0.0	0.5	0.0	-0.1	0.0	-0.4	-0.4	-0.3	0.1
Inventories ²	-0.7	0.1	1.0	-0.6	0.1	-1.2	2.1	0.1	0.5	-0.9	-0.2	0.2	-0.2	0.2	0.1	0.1	0.0	0.1	0.2	0.0
Nonfarm Payroll Change ³	173	190	136	218	228	243	189	233	174	157	158	150	190	420	-100	15	179	223	160	131
Unemployment Rate	4.6	4.4	4.3	4.1	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.6	3.5	3.4	3.6	3.6	4.4	3.9	3.7	3.5
Consumer Price Index ⁴	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.0	2.4	2.3	2.3	2.3	2.1	2.4	1.8	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	2.00	2.00	2.00	2.00	2.00	2.00	1.13	1.96	2.25	2.00
Conventional Mortgage Rate	4.20	3.90	3.81	3.94	4.44	4.57	4.63	4.64	4.28	3.80	3.55	3.70	3.80	3.85	3.95	4.05	3.99	4.54	3.83	3.91
2 Year Note	1.27	1.38	1.47	1.89	2.27	2.52	2.81	2.48	2.27	1.75	1.70	1.80	1.85	1.90	2.00	2.05	1.40	2.53	1.88	1.95
10 Year Note	2.40	2.31	2.33	2.40	2.74	2.85	3.05	2.69	2.41	2.00	1.90	2.05	2.15	2.20	2.30	2.40	2.33	2.91	2.09	2.26

Forecast as of: August 6, 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

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Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
July-25	Rising Energy Output Drove State GDP Growth in Q1-2019	Vitner & Dougherty
July-23	Parade Forecast: Rain	Quinlan & House
July-23	The Race to Recess: A Budget Deal in Reach?	Bryson & Pugliese
July-12	The Federal Debt Ceiling Outlook: An Update	Bryson & Pugliese
June-11	Trade War Profit Pressure: Which Industries Are Most at Risk?	Bryson, House & Seery
U.S. Regional		
August-02	Midwestern States: 2019 Midyear Outlook	Vitner, Dougherty & Honnold
July-19	California Job Growth Appears to Be Back on Track	Vitner & Dougherty
July-19	Florida Posts Solid Payroll Gain in June	Vitner & Dougherty
July-19	North Carolina Adds 5,000 Jobs in June	Vitner, Dougherty & Honnold
July-19	South Carolina Continues to See Modest Job Growth	Vitner, Dougherty & Honnold
Global Economy		
August-02	Is There Too Much Debt in the Eurozone?: Part I	Bryson & Pugliese
July-26	Brexit Update: The Sword of Damocles	Nelson
July-25	ECB: Right Back Where We Started From	Nelson & Bennenbroek
July-19	Slow Growth, Low Inflation: What's the ECB to Do?	Licis & Nelson
July-01	Countries that Profit from the Trade War with China	Quinlan & Seery
Interest Rates/Credit Market		
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 & Licis
July-29	Rate Cuts & Consumers: Will the Medicine Take?	Quinlan & Seery
July-25	Treasury Refunding Preview: T-Bill Barrage	Bryson & Pugliese
Real Estate & Housing		
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

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