U.S. Economic Outlook

Mark Vitner, Managing Director & Senior Economist
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Economic Outlook

Overall Outlook
- U.S. growth remains solid but unspectacular. Employment conditions have improved in recent years but gains have moderated more recently.

Monetary Policy
- The Fed has talked as if it is poised to raise interest rates but is understandably reluctant to move given the fragile state of the recovery and lack of inflationary pressures.

Inflation
- Slowing global economic growth and the stronger dollar are pulling commodity prices lower and will likely restrain headline inflation for quite some time.

Fiscal Policy
- The drag from government spending cuts is lessening, but continued battles over the budget process and debt ceiling remain a negative influence on the economy.

Global Economy
- Slower growth in China is weighing on other economies, pushing up the value of the dollar and presenting a threat to U.S. exports and corporate earnings.
Revisions to previously published data show that economic growth was stronger during the first half of the year. International trade and inventories account for much of the recent volatility in real GDP growth. Private final domestic demand is growing more solidly.

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Nonfarm employment growth has slowed significantly over the past two months. Manufacturing, mining, energy and agriculture are notable weak spots for the economy today. Unemployment remains low, however, helped along by declining labor force participation.

Nonfarm Employment

Unemployment Rate

Unemployment and Wage Rates

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
The global economic slowdown is weighing on U.S. manufacturing. Export orders, overall manufacturing orders and production have all weakened in recent months while inventories have increased.

Source: Institute for Supply Management, U.S. Department of Commerce and Wells Fargo Securities, LLC
Oil prices collapsed in late 2014 and early 2015. The number of active oil rigs has subsequently fallen sharply. While there are some tentative signs that the rig count has bottomed, another slide in energy prices and another downturn in the rig count cannot be ruled out.

The FOMC has reduced their expectation for interest rates for both the near- and long-term. Slower long-term growth raises doubts about potential real GDP growth.
We continue to look for a gradual recovery in homebuilding.

Apartment demand remains exceptionally strong but supply is catching up with demand.

Single-family housing starts are beginning to ramp back up, as suburban development is finally ramping back up. Gains will be more modest than in past building cycles.

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Percent Change in Real GDP by State 2013-2014

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Economic Outlook

Percent Change in Personal Income by State (Q2 2014 – Q2 2015)

WEST
- AK 4.0
- OR 5.5
- CA 5.5
- NV 5.2
- UT 5.2
- CO 5.1
- ID 3.1
- WA 5.1
- WY 2.4
- MT 4.1

MIDWEST
- IL 2.9
- IN 3.5
- IA (0.4)
- WI 2.9
- MI 3.7
- OH 3.0
- SD (1.3)
- ND (0.7)
- KS 2.0
- MO 2.5
- NE 0.4
- MI 4.5

NORTHEAST
- VT 2.8
- NH 3.3
- ME 2.5
- MA 4.7
- CT 3.8
- RI 3.9
- NJ 3.8
- PA 3.3
- NY 3.9
- MD 3.8
- DE 4.2
- DC 4.0

SOUTH
- TX 4.7
- LA 3.3
- AL 4.0
- MS 2.3
- AR 3.1
- OK 3.0
- KY 4.0
- WV 1.8
- VA 3.8
- NC 4.7
- SC 4.4
- FL 4.9
- GA 5.1
- WV 1.8
- DE 4.2
- DC 4.0

U.S. = 4.1%

- Less than 3.0%
- 3.0%–3.7%
- 3.8%–4.4%
- 4.5%–4.9%
- Greater than 5.0%

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Manufacturing accounted for a larger proportion of economic growth during the recovery. Output has slowed more recently, reflecting weaker global growth and a stronger dollar.

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
Manufacturing employment tends to follow industrial production in an overall sense. Gains in employment tend to be far more modest, however, reflecting capital deepening.

Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities, LLC
Production of transportation equipment saw the largest employment gains over the year and added 48,700 jobs over the year in March. Fabricated metal products also made notable gains, adding 30,670 jobs over the year. Recent gains are being driven by commercial construction.

Manufacturing Employment by Sector

Transportation Equipment

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
Southeast Region
The Southeast has led the nation in population growth, slightly edging out the West Coast and Southwest. Job growth ranks second in the nation. The technology boom has been hard for any region to top. California, Florida and Texas have been the top three states for job growth.

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC
Southeast Employment Growth by MSA

Southeast Employment Growth by Metro
3-Month Moving Averages, September 2015

Recovering
Expanding
Contracting
Decelerating

3-Month Annualized Percent Change
Year-over-Year Percent Change

Percent of Total Employees
- Less than 5%
- 5% to 10%
- More than 5%

Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities, LLC
North Carolina led the Southeast in manufacturing employment growth over the year, posting a 2.8 percent gain.

Alabama was the only Southeastern state to post a decline in manufacturing employment over the year.

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
## Economic Outlook

- The economy should weather the global economic slowdown. Exports will clearly decelerate. We expect real GDP to rise 2.4 percent in 2015 and 2.5 percent in 2016.

## Weaker Global Growth

- Europe’s stronger gains earlier this year likely were a short-term response to the plunging value of the euro. China’s economy will slow further and will continue to weigh on commodity prices.

## Interest Rates May Rise This Year

- The Fed would like to start raising interest rates this year, but may have to wait if the global economic slowdown chips away further at U.S. economic growth.

## The Housing Recovery

- Demand for single-family homes is reviving, with first-time homebuyers finally coming back into the market. Apartment construction is close to peaking.

## The Mix of Growth is Shifting

- The economy is better for consumers than producers. Areas of the country exposed to Agriculture, Energy, Mining and Manufacturing will likely see growth slow.
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<td>Industrial Production 1</td>
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<td>Corporate Profits Before Taxes 2</td>
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<td>Housing Starts 4</td>
<td>0.98</td>
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<td>Federal Funds Target Rate</td>
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<td>10 Year Note</td>
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Forecast as of: October 16, 2015

1 Compound Annual Growth Rate Quarter-over-Quarter
2 Year-over-Year Percentage Change
3 Federal Reserve Major Currency Index, 1973=100 - Quarter End
4 Millions of Units
5 Annual Numbers Represent Averages
Appendix
### A Sampling of Our Recent Special, Regional & Industry Commentary

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<td>China GDP Growth Flows Further in Q3</td>
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<td>Fiscal Policy Likely to Induce Greater Rate Volatility</td>
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