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# U.S. Economic Outlook

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Together we'll go far



### Economic Outlook

- **Weaker real GDP over the past three quarters exaggerates the extent of the slowdown in the U.S. economy. Growth is solid, albeit unspectacular.**
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### Weaker Global Growth

- **Brexit is weighing on global economic growth, pulling at industries closely tied to it. With demand growing more slowly, inflation will likely remain below 2 percent.**
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### Monetary Policy

- **The Fed's more hawkish recent tone is aimed at avoiding another taper tantrum. The economy is closer to full employment than widely thought and the Fed will need to raise interest rates modestly in coming quarters.**
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### The Housing Recovery

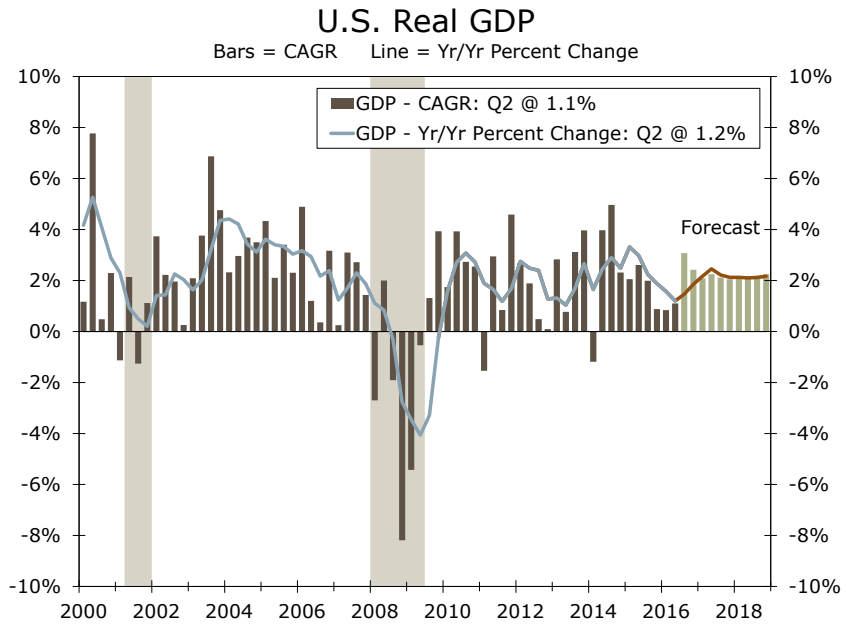
- **Easier monetary policy has paved the way for a more substantial housing recovery. Single-family construction is gaining steam, while low rates continue to pull money into private equity and keep the apartment boom going.**
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### The Mix of Growth is Shifting

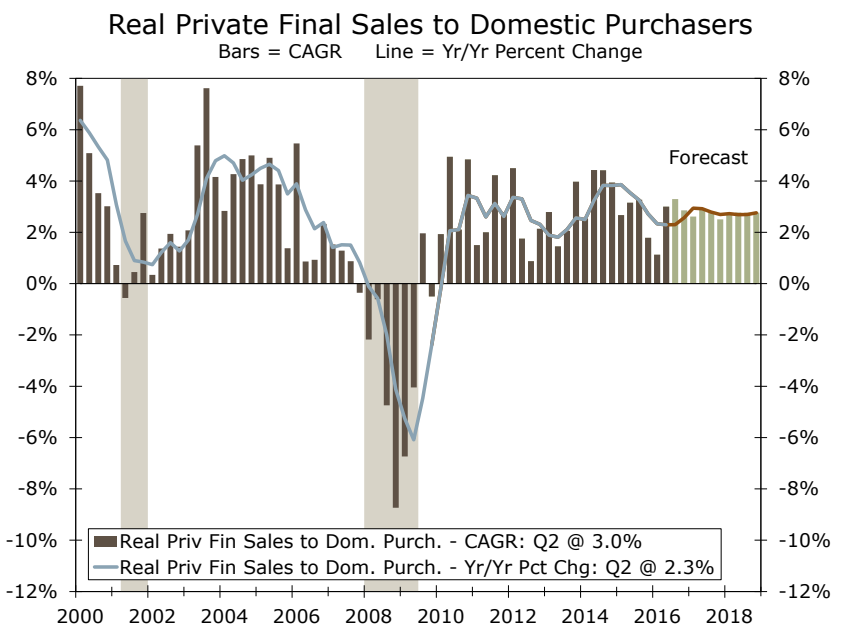
- **Energy prices have stabilized, allowing drilling to rise. Farm incomes continue to struggle with low commodity prices. Sluggish global growth and caution ahead of the election continue to weigh on many manufacturers.**

Real GDP growth has been solid but unspectacular. Most of the recent volatility in growth has been due to reductions in inventories, swings in international trade and the slowdown in energy production. Private final domestic demand has also moderated but is growing solidly.

## Real GDP Forecast



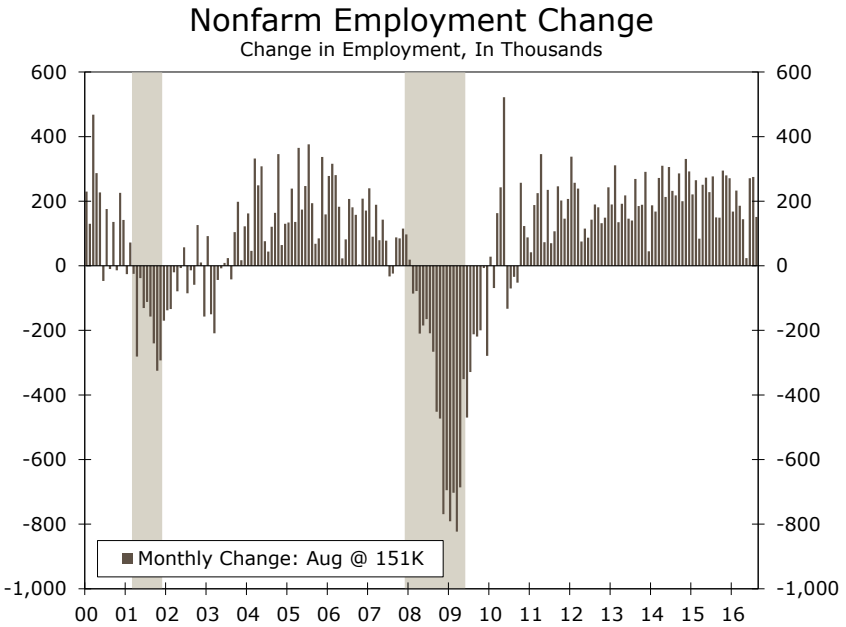
## Real Private Final Sales



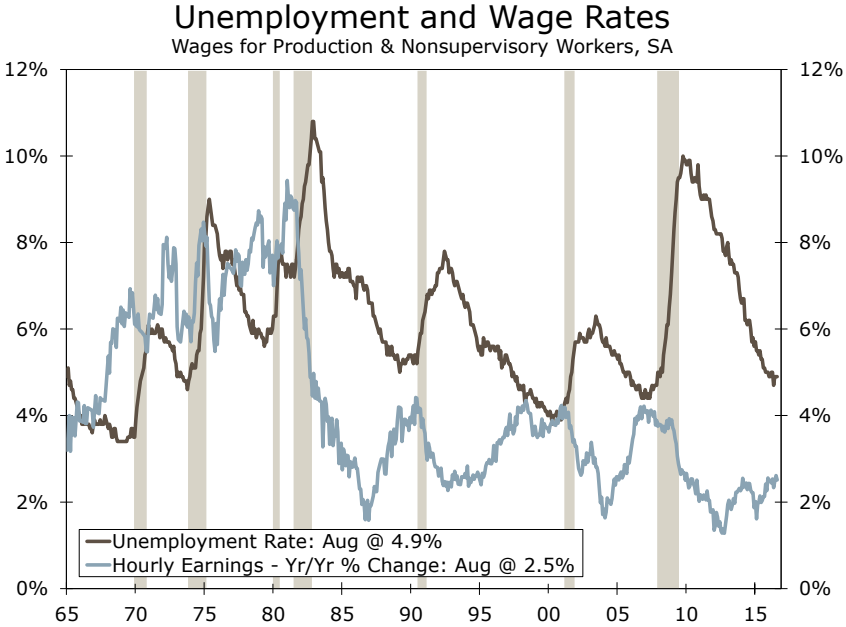
Source: U.S. Department of Commerce and Wells Fargo Securities

While the monthly data have been volatile, the employment data look much stronger than the GDP data, which has raised questions about the quality and sustainability of economic growth. The unemployment rate is now below 5 percent and local area labor markets are tightening.

## Nonfarm Employment



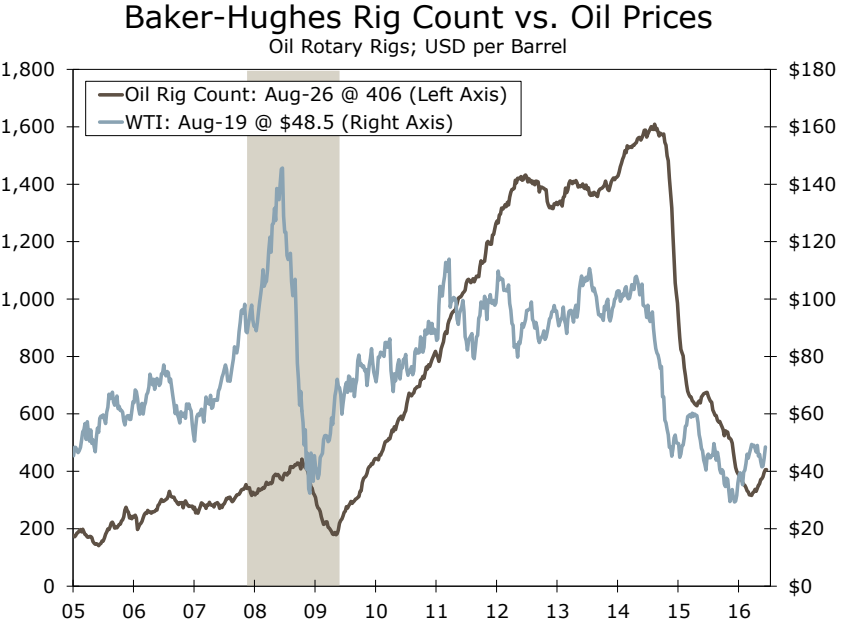
## Unemployment Rate



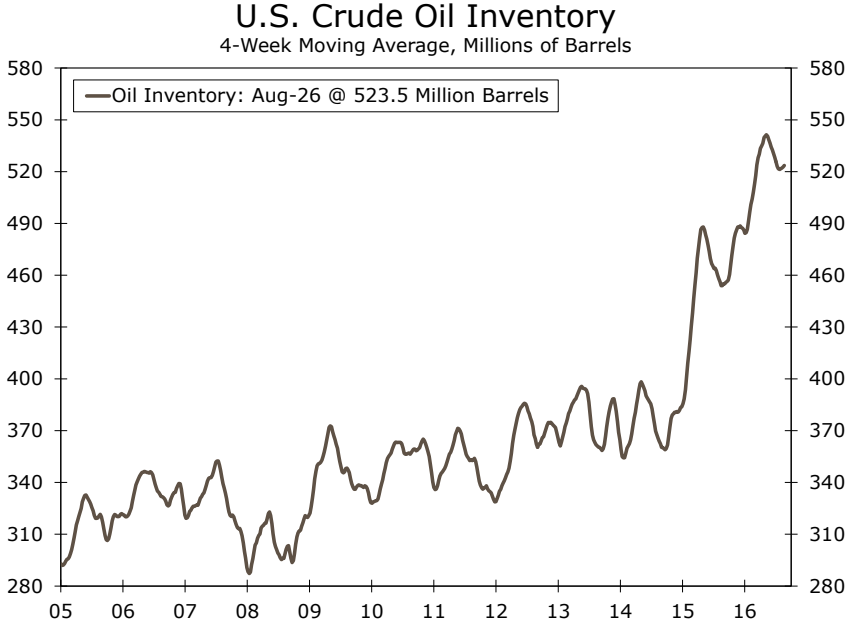
Source: U.S. Department of Labor and Wells Fargo Securities

Oil prices have bounced off their recent lows but it is still too early to say that prices have bottomed. There is still a great deal of oil in inventory around the world and production remains strong overseas. The breakeven price for oil production in the U.S. has also fallen.

## Oil Prices



## Oil Inventory



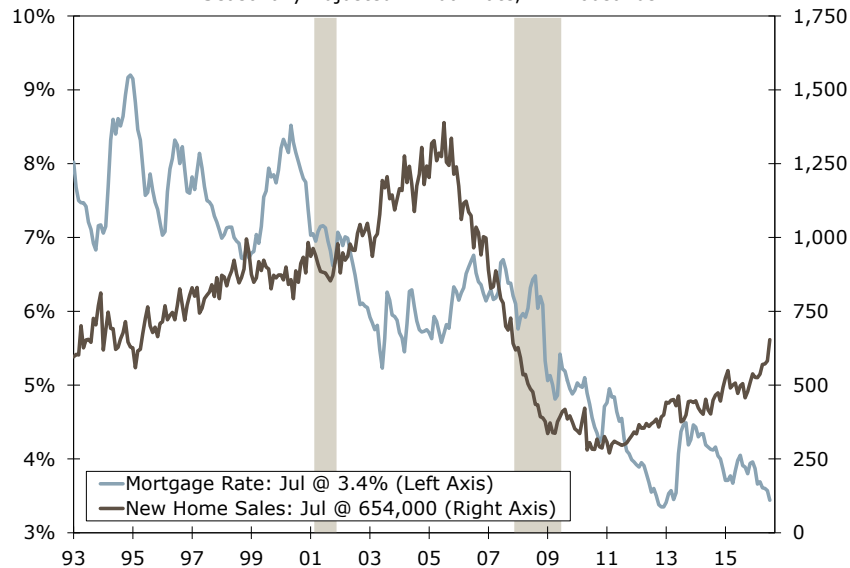
Source: Baker Hughes Inc., EIA and Wells Fargo Securities

The pace of new and existing home sales remain at healthy levels. Home sales continue to be supported by low mortgage rates

## New Home Sales

### New Home Sales vs. Mortgage Rates

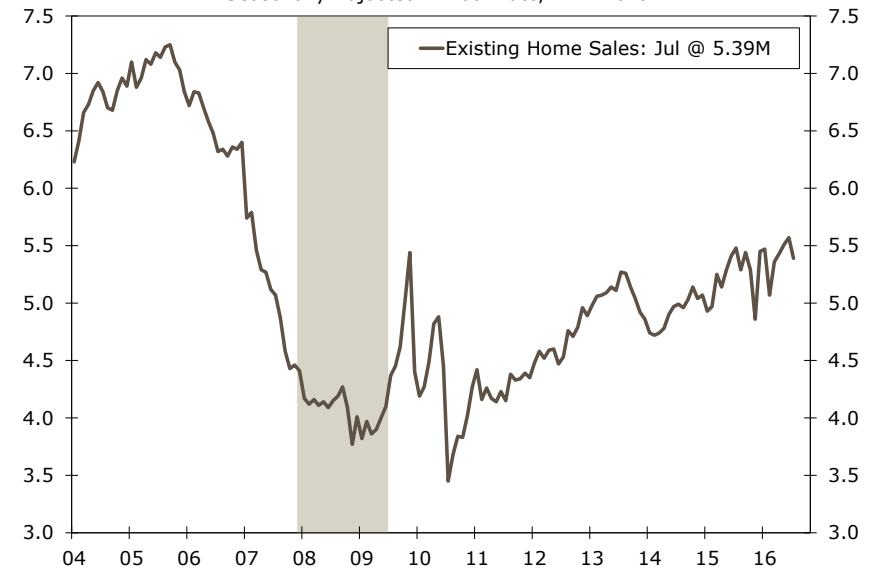
Seasonally Adjusted Annual Rate, In Thousands



## Existing Home Sales

### Existing Home Sales

Seasonally Adjusted Annual Rate, In Millions



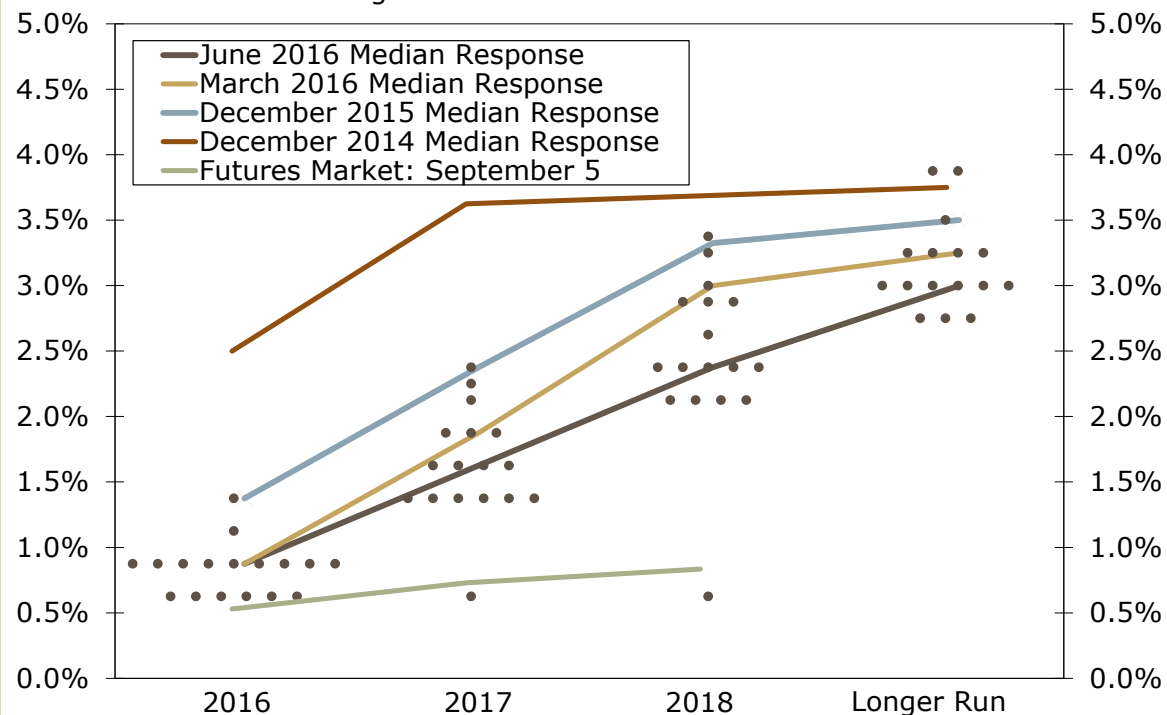
Source: U.S. Department of Commerce, National Association of Realtors, FHLMC and Wells Fargo Securities

The Fed has consistently delayed and scaled back their timeline and the ultimate magnitude for normalizing the federal funds rate.

We expect the Fed to move much more cautiously, raising the federal funds rate a quarter percentage point just once this year and two times in 2017 and 2018, provided the economy continues to grow steadily.

## Appropriate Pace of Policy Firming

Target Federal Funds Rate at Year-End

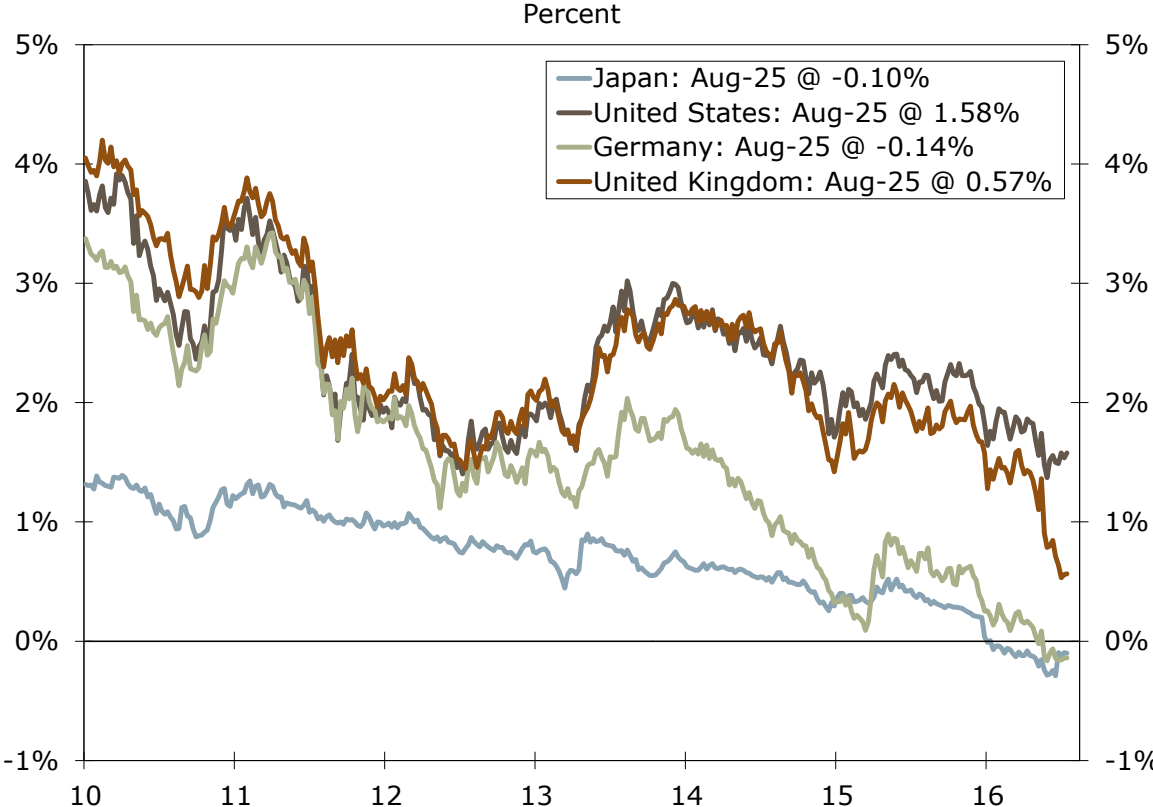


Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

Lower interest rates in other developed economies continue to hold down U.S. interest rates.

Negative interest rates do not appear to be sparking business investment or stronger growth in Germany or Japan.

### 10-Year Government Bond Yields



Source: Federal Reserve Board, IHS Global Insight and Wells Fargo Securities



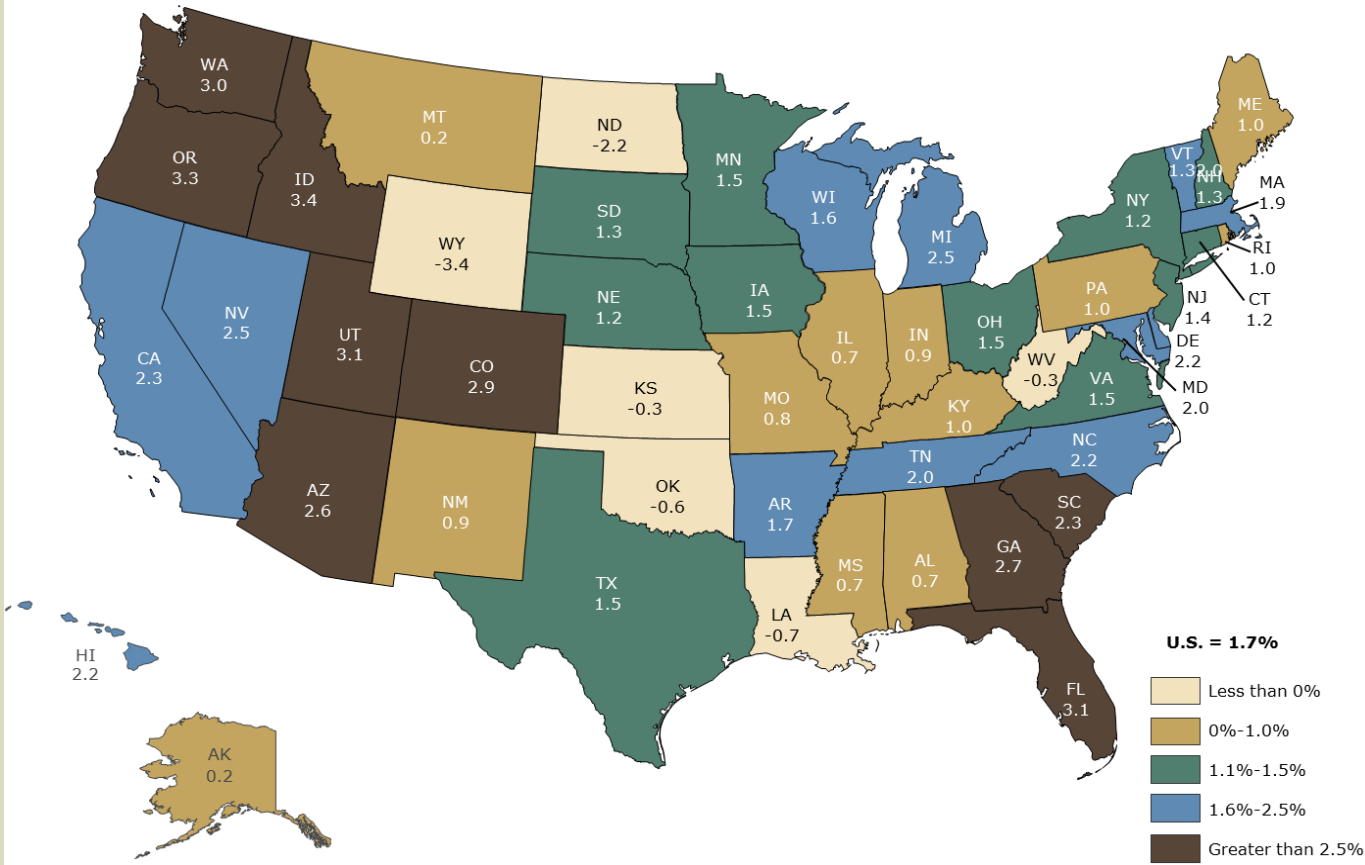
# Regional Trends

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# Year-over-Year Employment Growth by State (July 2016)

Job growth has been strongest in the Pacific Northwest and Southeast.

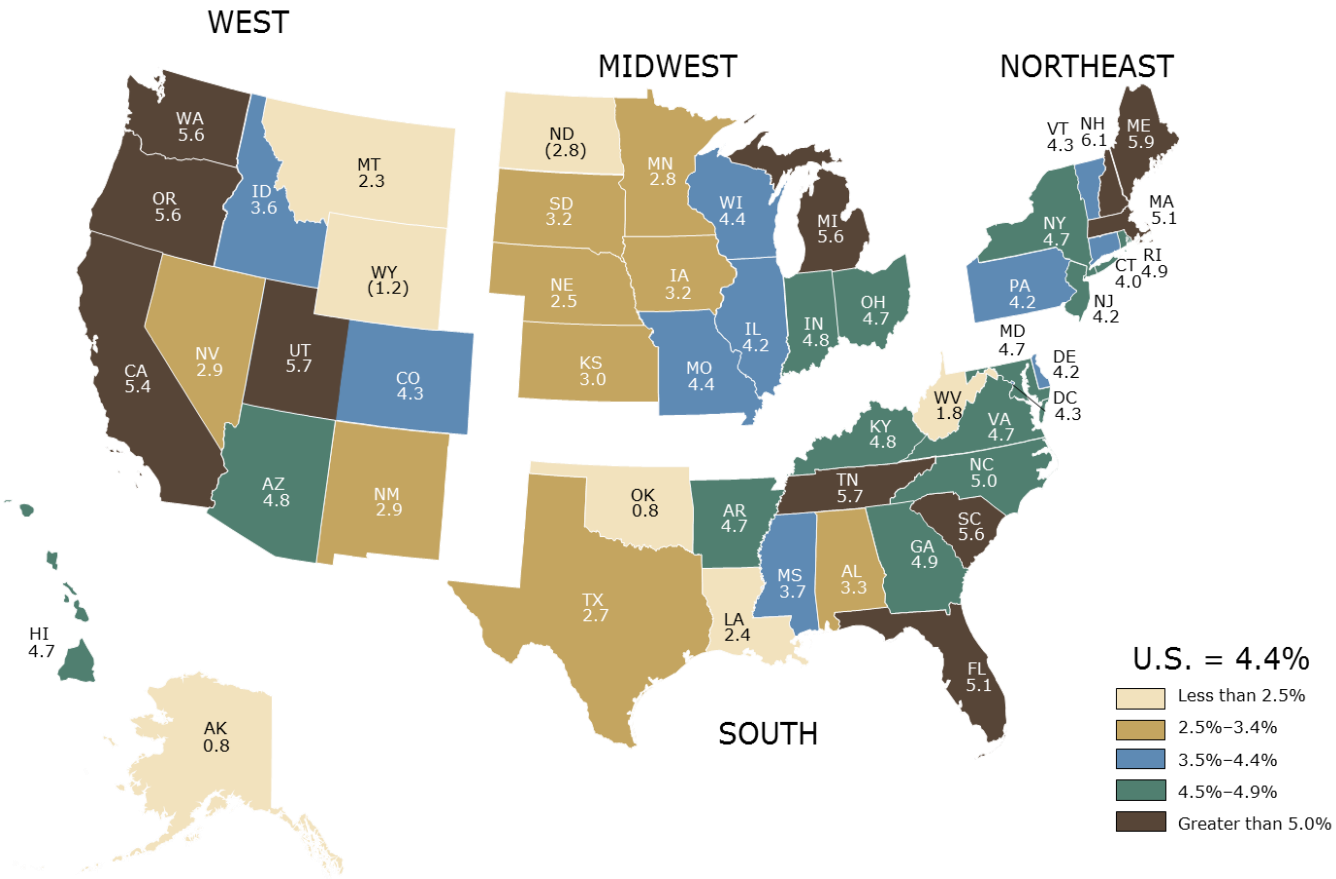
With its more diversified economy, Texas has been better able to withstand the slide in energy prices and cutback in oil and gas exploration.



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

# Personal Income Growth Year-over-Year Percent Change Q1 2016

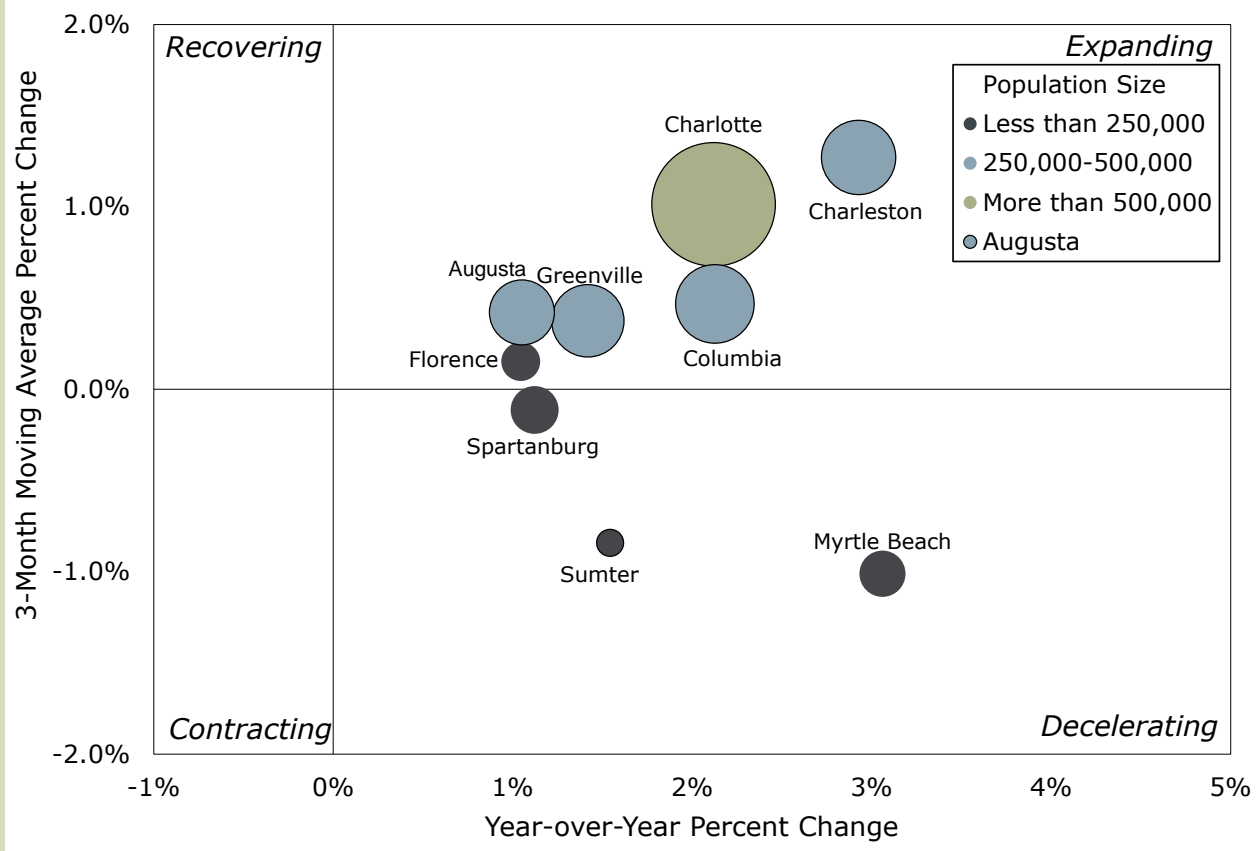
Incomes have risen the fastest along the coasts and have weakened the most in North Dakota, Wyoming and Oklahoma.



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

Charleston, Myrtle Beach and Charlotte have seen the strongest employment growth over the past year

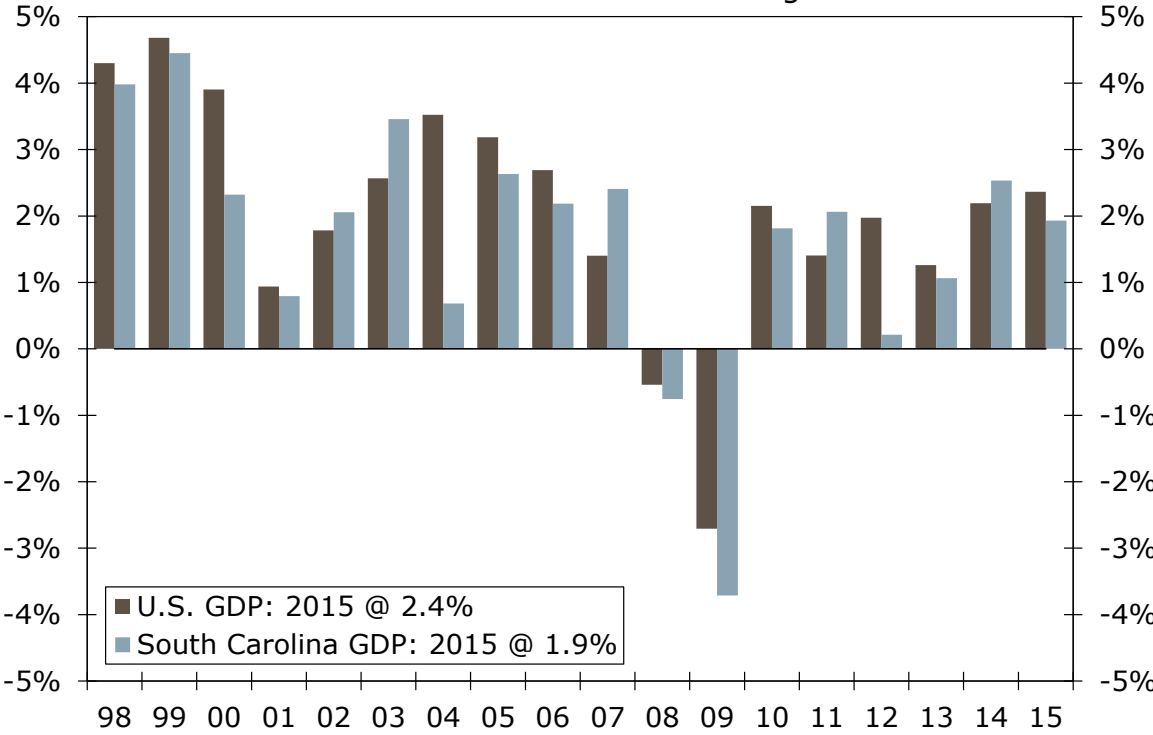
South Carolina Employment Growth: July 2016  
Year-over-Year Percent Change, 3-Month Moving Average



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

South Carolina's economy has grown relatively in line with the nation over the past three years.

South Carolina Gross State Product & U.S. GDP  
Year-over-Year Percent Change

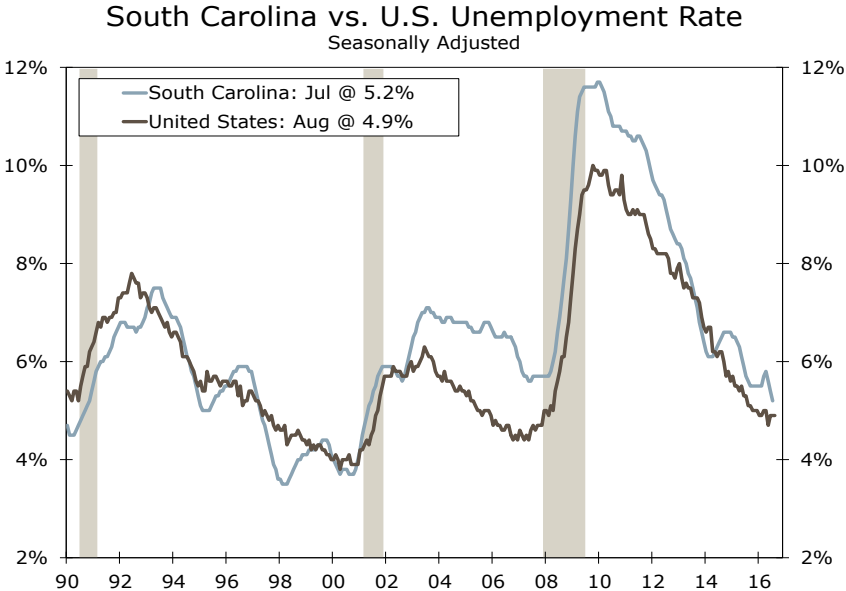
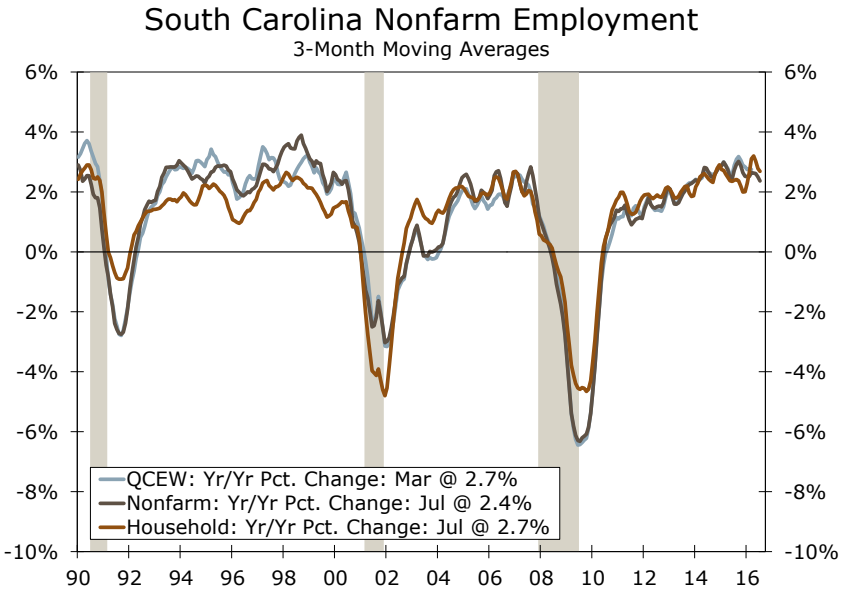


Source: U.S. Department of Commerce and Wells Fargo Securities

South Carolina employment rose a steady 2.4 percent over the year. The professional & business services sector saw the largest payroll gains. The unemployment rate continues to decline, but remains slightly higher than the national average.

## Nonfarm Employment

## Unemployment Rate



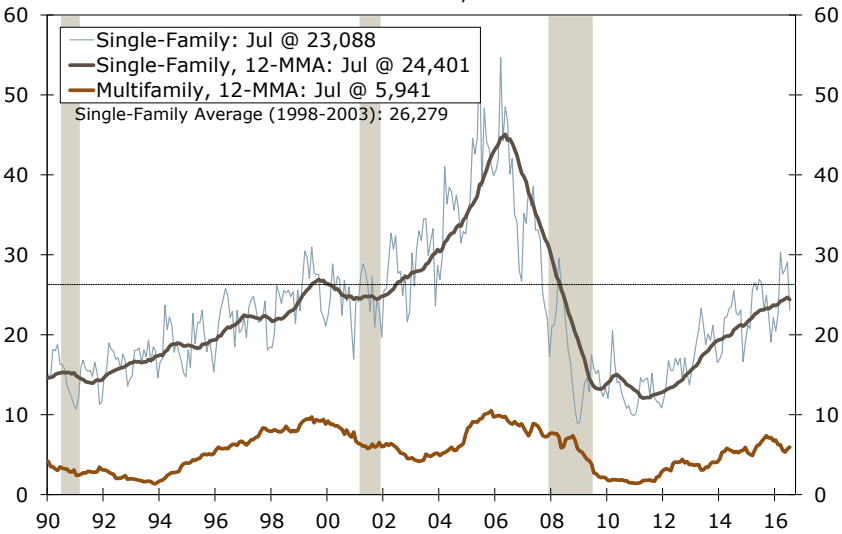
Source: U.S. Department of Labor and Wells Fargo Securities

The housing market in South Carolina has seen solid recovery in comparison to other states. Single-family permits continue to post gains and are at their highest post-recession level. South Carolina’s home prices have risen in line with the nation in recent years.

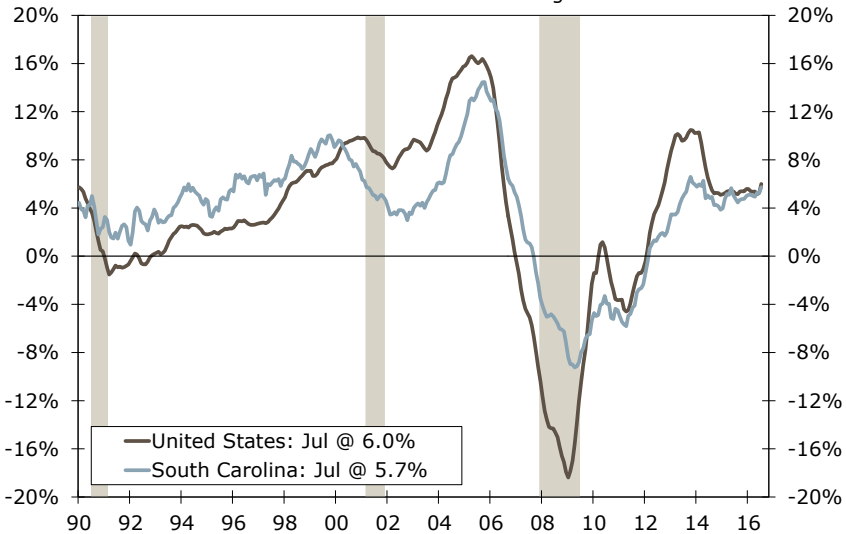
## Housing Permits

## Home Prices

**South Carolina Housing Permits**  
Thousands of Permits, Annual Rate



**Core Logic HPI: SC vs. U.S.**  
Year-over-Year Percent Change



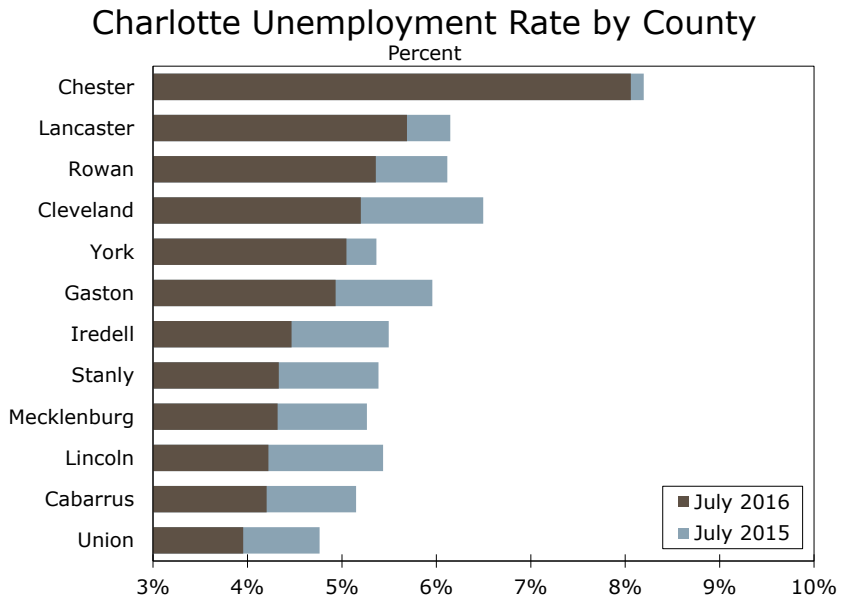
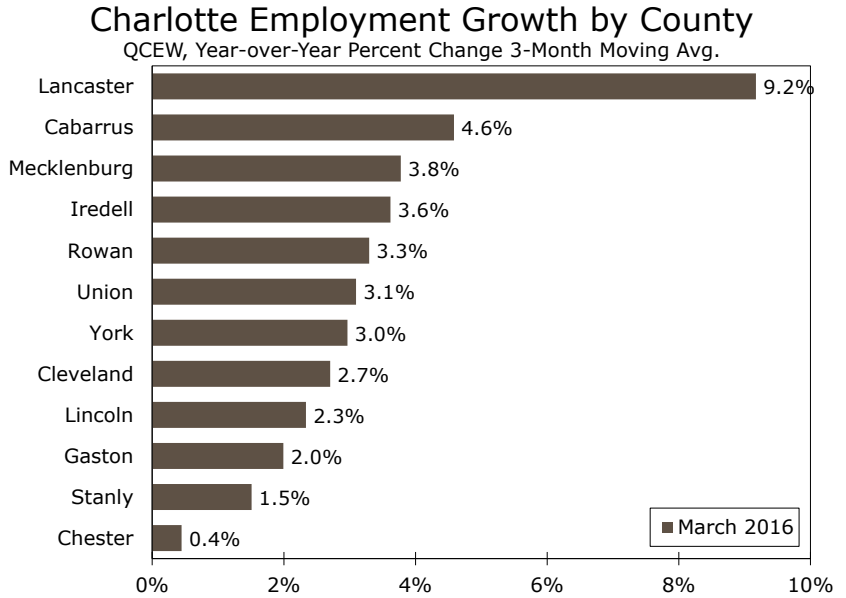
Source: U.S. Department of Commerce, CoreLogic and Wells Fargo Securities

# Employment Growth by County

Lancaster County has seen impressive job growth at 9.2 percent year over year. Cabarrus, Mecklenburg and Iredell counties have also recorded notable employment gains, each up more than 3.5 percent over the year. Unemployment has declined across counties.

## Nonfarm Employment

## Unemployment Rates



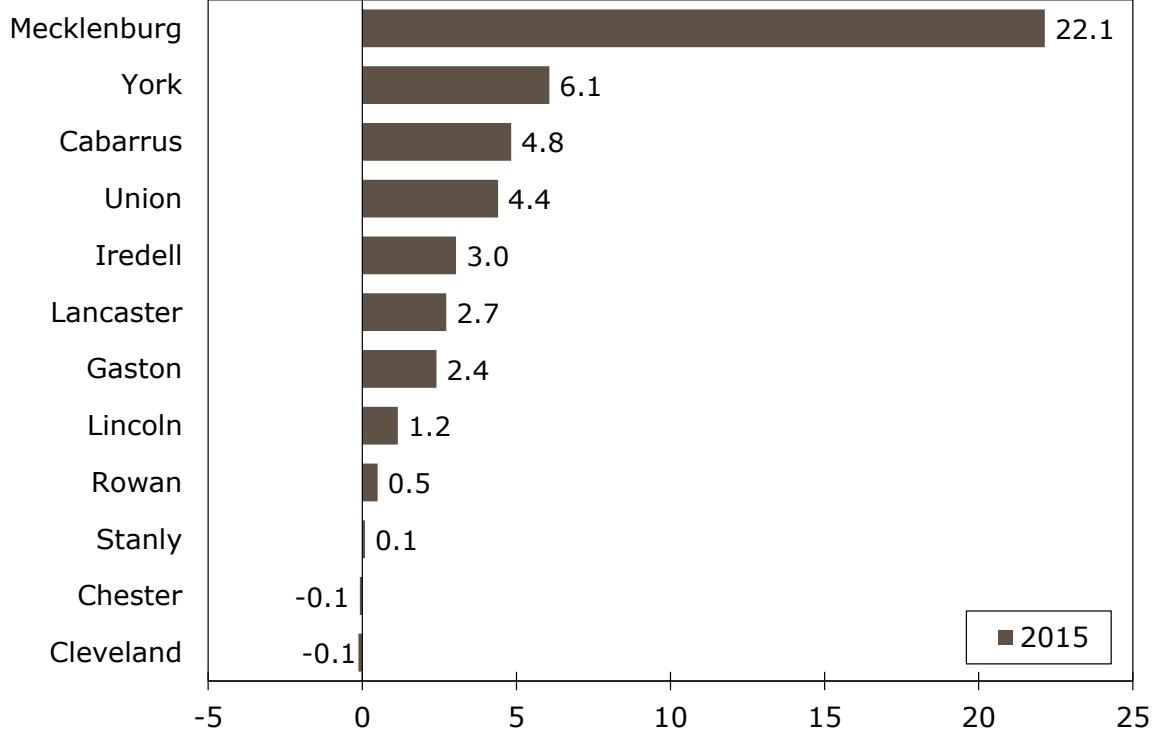
Source: U.S. Department of Labor and Wells Fargo Securities



Mecklenburg County continues to account for the bulk of the region's population gains

### Charlotte Population Growth by County

Year-over-Year Population Change in Thousands



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

## Wells Fargo U.S. Economic Forecast

	Actual		Forecast										Actual		Forecast		
	2016				2017				2018				2014	2015	2016	2017	2018
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product <sup>1</sup>	0.8	1.1	3.1	2.4	2.1	2.2	2.1	2.0	2.1	2.2	2.2	2.2	2.4	2.6	1.5	2.2	2.1
Personal Consumption	1.6	4.4	3.8	2.5	2.3	2.6	2.5	2.2	2.5	2.5	2.5	2.5	2.9	3.2	2.8	2.7	2.5
Business Fixed Investment	-3.4	-0.9	3.2	3.3	3.2	3.3	3.0	3.1	2.9	3.1	3.2	3.0	6.0	2.1	-0.5	2.9	3.0
Equipment	-9.5	-3.7	3.0	3.5	3.0	2.7	2.2	2.2	2.1	2.2	2.3	2.2	5.4	3.5	-2.0	2.4	2.2
Intellectual Property Products	3.8	8.6	4.3	3.5	3.7	4.3	4.0	4.2	4.2	4.1	4.2	4.0	3.9	4.8	4.9	4.2	4.1
Structures	0.1	-8.4	2.0	2.5	2.8	3.0	3.2	3.5	3.5	3.5	3.5	3.5	10.3	-4.4	-4.9	2.0	3.3
Residential Construction	7.8	-7.7	0.0	7.5	7.5	7.5	7.0	7.0	6.0	6.0	6.0	6.0	3.5	11.7	5.3	5.4	6.4
Government Purchases	1.6	-1.5	0.9	1.2	1.2	1.0	1.0	0.9	1.2	1.0	0.9	0.9	-0.9	1.8	0.9	0.9	1.0
Net Exports <sup>2</sup>	0.0	0.1	0.0	-0.6	-0.6	-0.5	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.1	-0.7	-0.2	-0.5	-0.5
Inventories <sup>2</sup>	-0.4	-1.3	0.3	0.4	0.2	0.1	0.1	0.2	0.0	0.0	0.0	0.0	-0.1	0.2	-0.4	0.1	0.1
Nonfarm Payroll Change <sup>3</sup>	196	146	200	170	165	160	155	150	150	145	145	140	251	229	178	158	145
Unemployment Rate	4.9	4.9	4.9	4.7	4.7	4.6	4.6	4.5	4.4	4.4	4.3	4.3	6.2	5.3	4.8	4.6	4.4
Consumer Price Index <sup>4</sup>	1.1	1.1	1.1	1.4	2.1	2.1	2.3	2.3	2.4	2.4	2.4	2.4	1.6	0.1	1.2	2.2	2.4
Quarter-End Interest Rates <sup>5</sup>																	
Federal Funds Target Rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	0.25	0.27	0.56	1.00	1.50
Conventional Mortgage Rate	3.69	3.57	3.58	3.59	3.61	3.62	3.66	3.69	3.73	3.82	3.85	4.02	4.17	3.85	3.61	3.65	3.86
2 Year Note	0.73	0.58	0.74	0.84	0.93	1.13	1.20	1.36	1.44	1.59	1.64	1.88	0.46	0.69	0.72	1.16	1.64
10 Year Note	1.78	1.49	1.53	1.56	1.59	1.62	1.68	1.73	1.78	1.88	1.92	2.10	2.54	2.14	1.59	1.66	1.92

Forecast as of: September 7, 2016

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

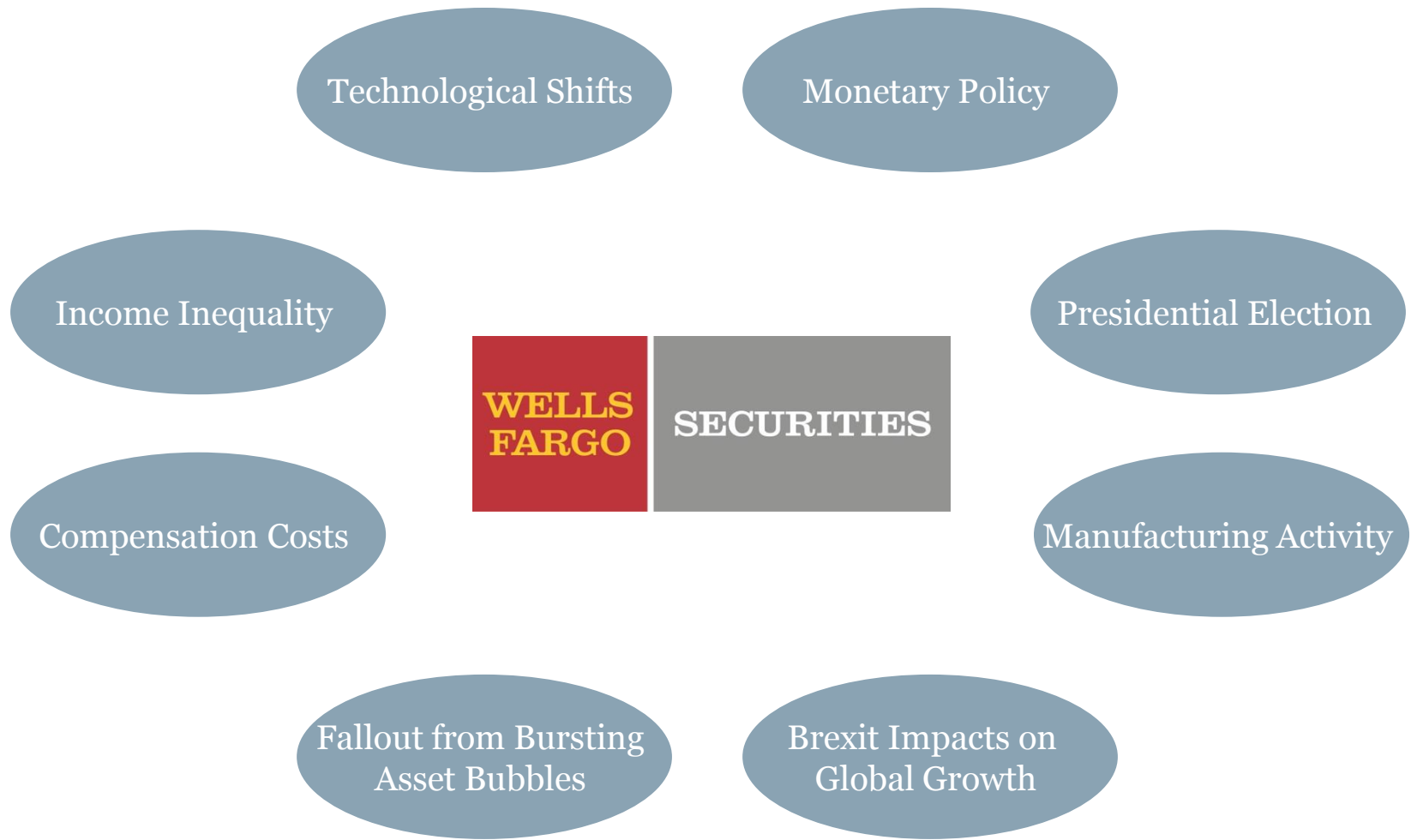
<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

<sup>4</sup> Year-over-Year Percentage Change

<sup>5</sup> Annual Numbers Represent Averages

Source: IHS Global Insight and Wells Fargo Securities



# Appendix

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## A Sampling of Our Recent Special, Regional & Industry Commentary

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Recent Special Commentary		
Date	Title	Authors
<b>U.S. Macro</b>		
August-30	What's a Good Print for Payrolls?	Silvia, Iqbal & House
August-29	Are Grocery Store Sales Making a Comeback?	Alemán
August-24	Global Influences on U.S. Growth and Employment	Bryson & House
August-18	Will U.S. Export Growth Strengthen Anew	Bryson & Pershing
August-17	Dragging Anchor	Quinlan & House
<b>U.S. Regional</b>		
August-30	New Jersey Economic Outlook: August 2016	Vitner, Feik
August-26	Washington, D.C. Looks to Leverage Its Global Ties	Vitner & Batcheller
August-24	Global Influences Help Fuel Orange County's Growth	Vitner & Batcheller
August-24	Global Economic Headwinds Slow Colorado's Exports	Vitner & Batcheller
August-23	Kansas City Strives to Expand Its Global Reach	Vitner & Batcheller
<b>Global Economy</b>		
September-09	Global Chartbook: September 2016	Byrson, House, Causey & Pershing
September-07	RBA on Hold as Aussie GDP Growth Slows Slightly	Quinlan & Causey
September-07	Chile's Economic Weakness Persists in July	Alemán
September-06	Brazilian Economic Prospects Improve a Bit	Alemán
September-06	Strong Swiss GDP Growth, Weak Fundamentals	Bryson & Pershing
<b>Interest Rates/Credit Market</b>		
September-07	Is the Fed Hogging All the Treasuries	Silvia & Pugliese
August-31	All Growth Can Be Divided into Three Parts	Silvia & Iqbal
August-24	If Not Normal, Where Are We in the Cycle? Late	Silvia
August-17	Normal as an Evolving Target	Silvia
August-10	Managing Expectations to Avoid Another Tantrum	Silvia & Vitner
<b>Real Estate</b>		
August-11	Commercial Real Estate Chartbook: Q2	Khan, Causey & Tysinger
July-06	International Home Buying: 2016	Vitner, Khan & Batcheller
June-28	Brexit Vote Could Pump More Dollars into U.S. CRE	Khan
June-01	Housing Chartbook: June 2016	Vitner, Khan & Batcheller
May-20	Commercial Real Estate Chartbook: Q1	Khan & Causey

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