



# 2019 Annual Economic Outlook

How long can this aging cycle last?

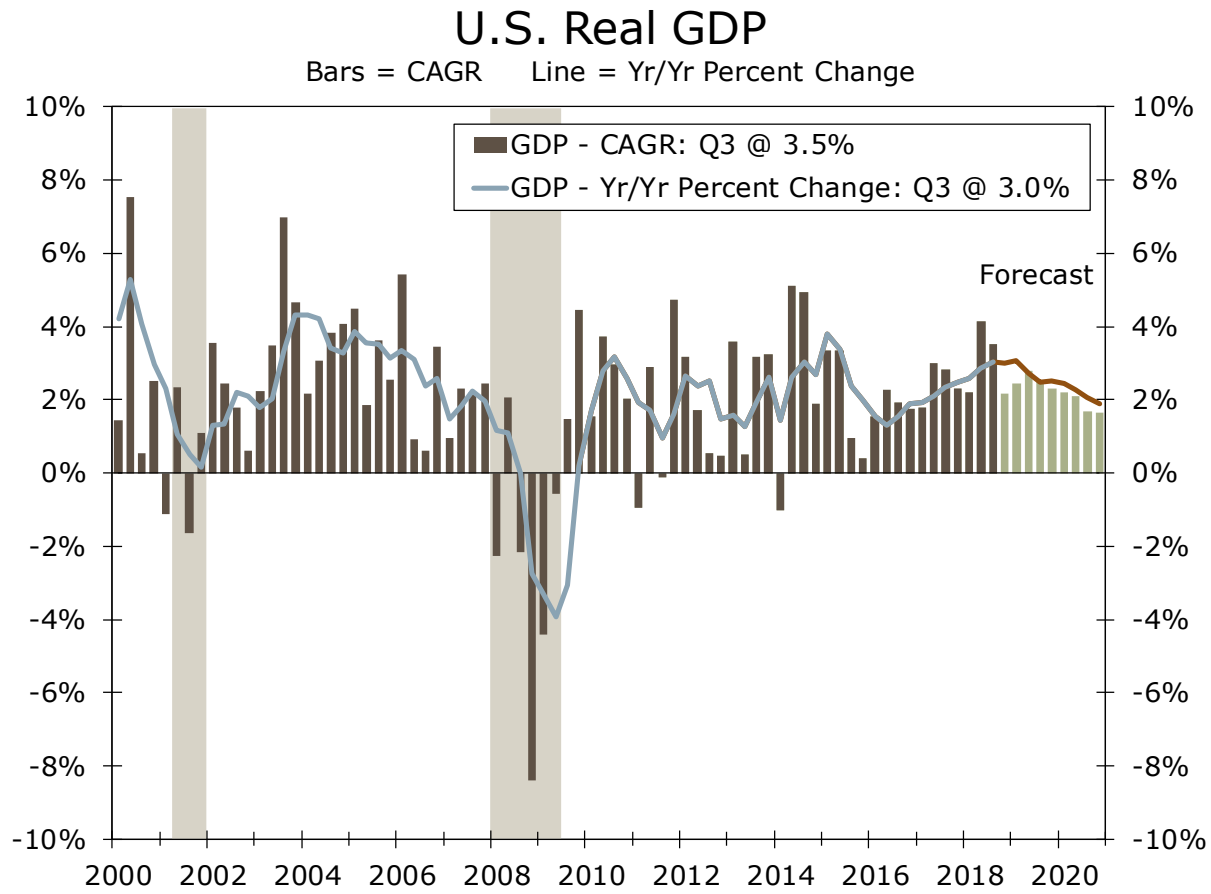
December 13, 2018

Jay H. Bryson, Global Economist • Mark Vitner, Senior Economist • Nick Bennenbroek, Head of Currency Strategy

# U.S. Outlook: Base Case

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We see economic growth continuing through 2020, albeit with some slowing.

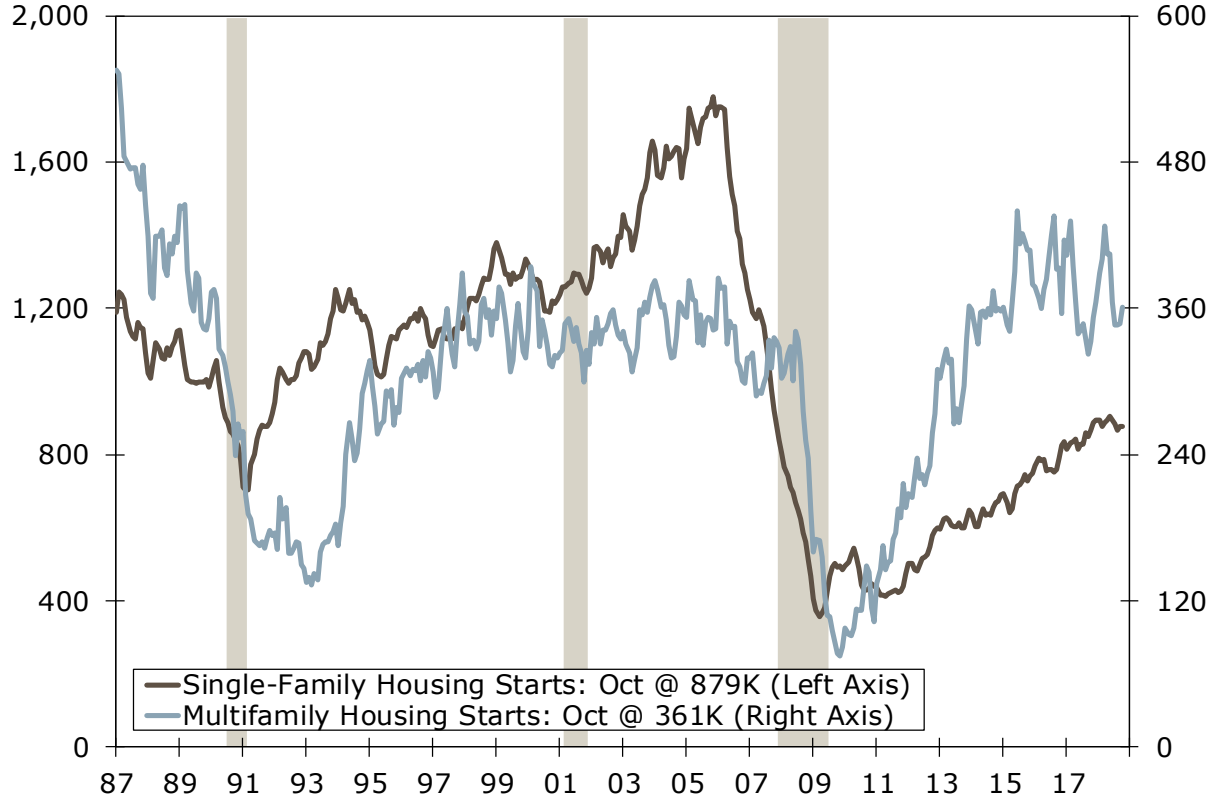


Source: U.S. Department of Commerce and Wells Fargo Securities

The housing market has stagnated.

## Single & Multifamily Housing Starts

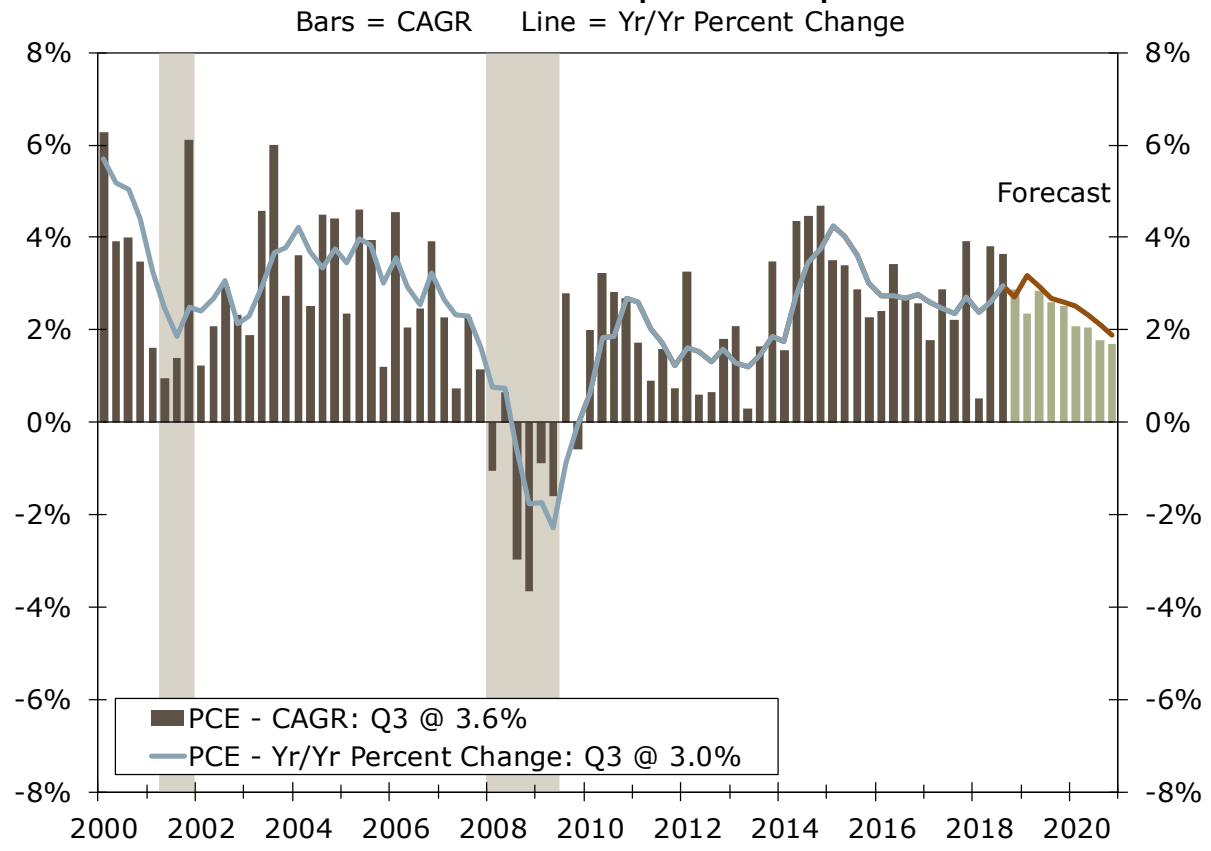
SAAR, In Thousands, 3-Month Moving Average



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

Consumer spending should decelerate a bit as the effects of the tax cuts fade.

## Real Personal Consumption Expenditures

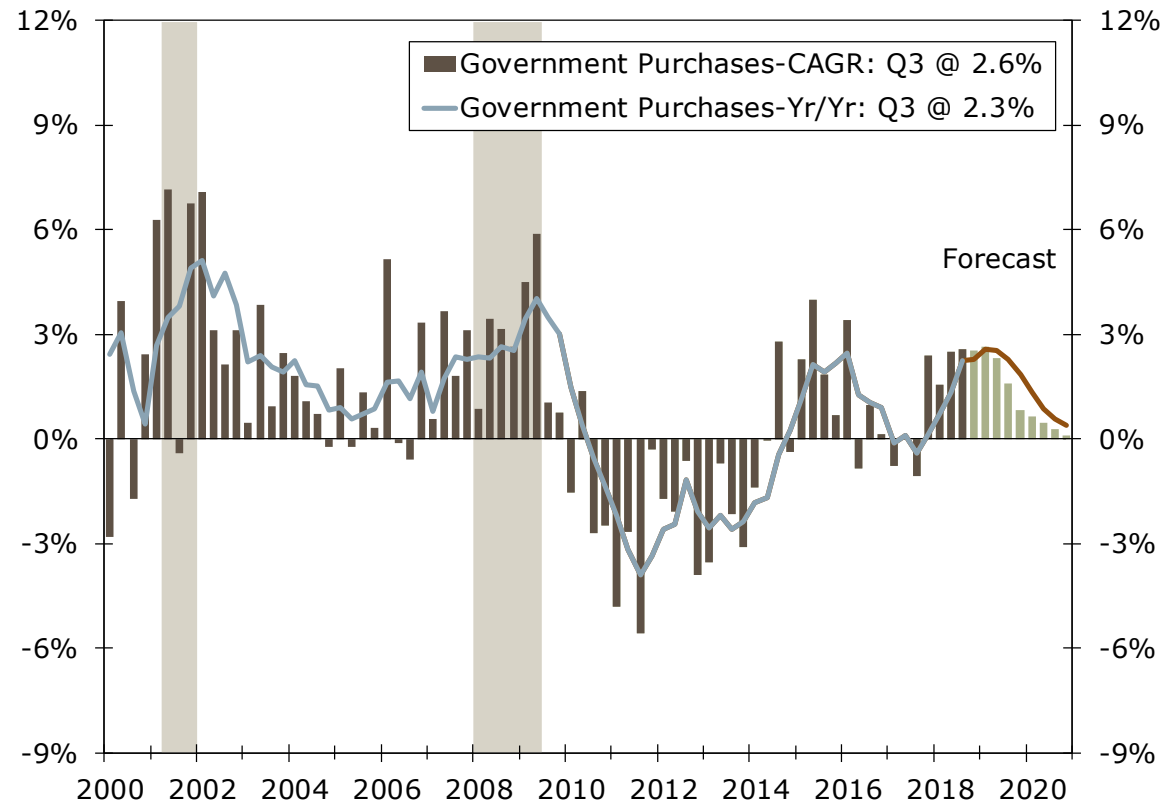


Source: U.S. Department of Commerce and Wells Fargo Securities

Last year's budget bill has led to strong growth in government spending.

## Real Government Purchases

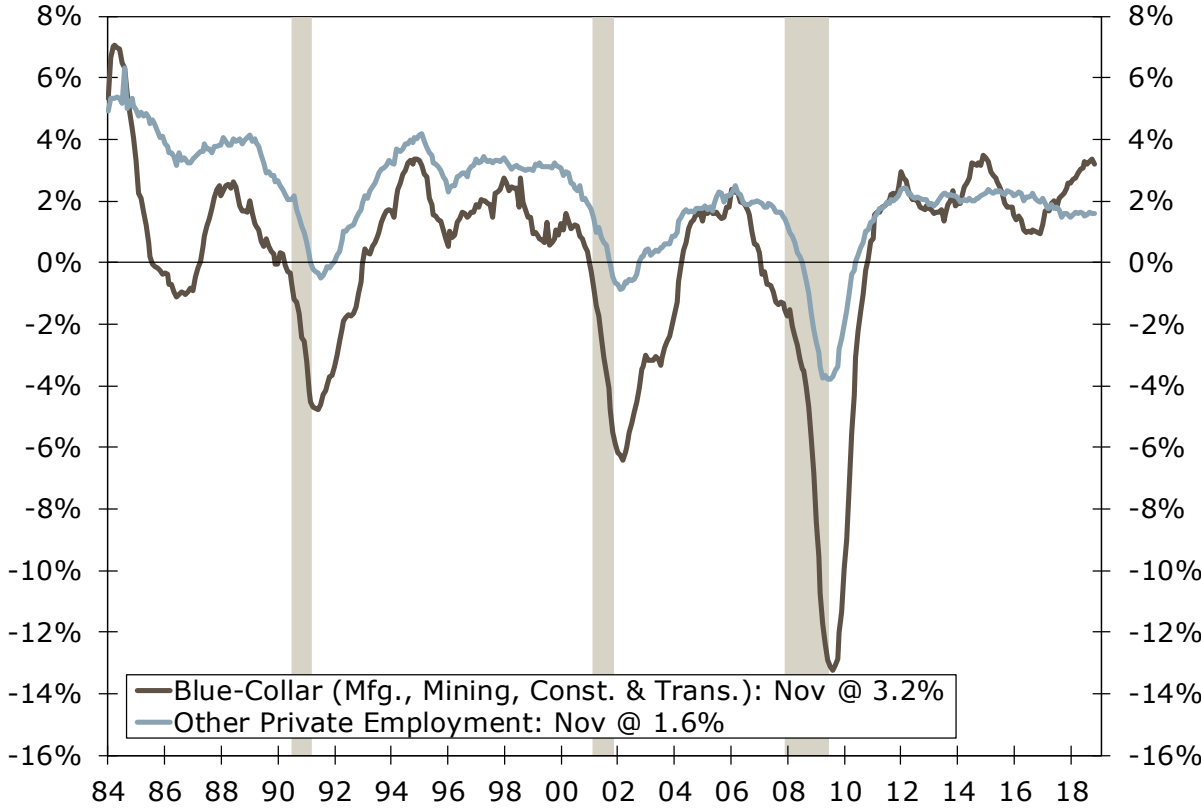
Bars = CAGR    Line = Yr/Yr Percent Change



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

Hiring has been particularly strong in low-wage industries.

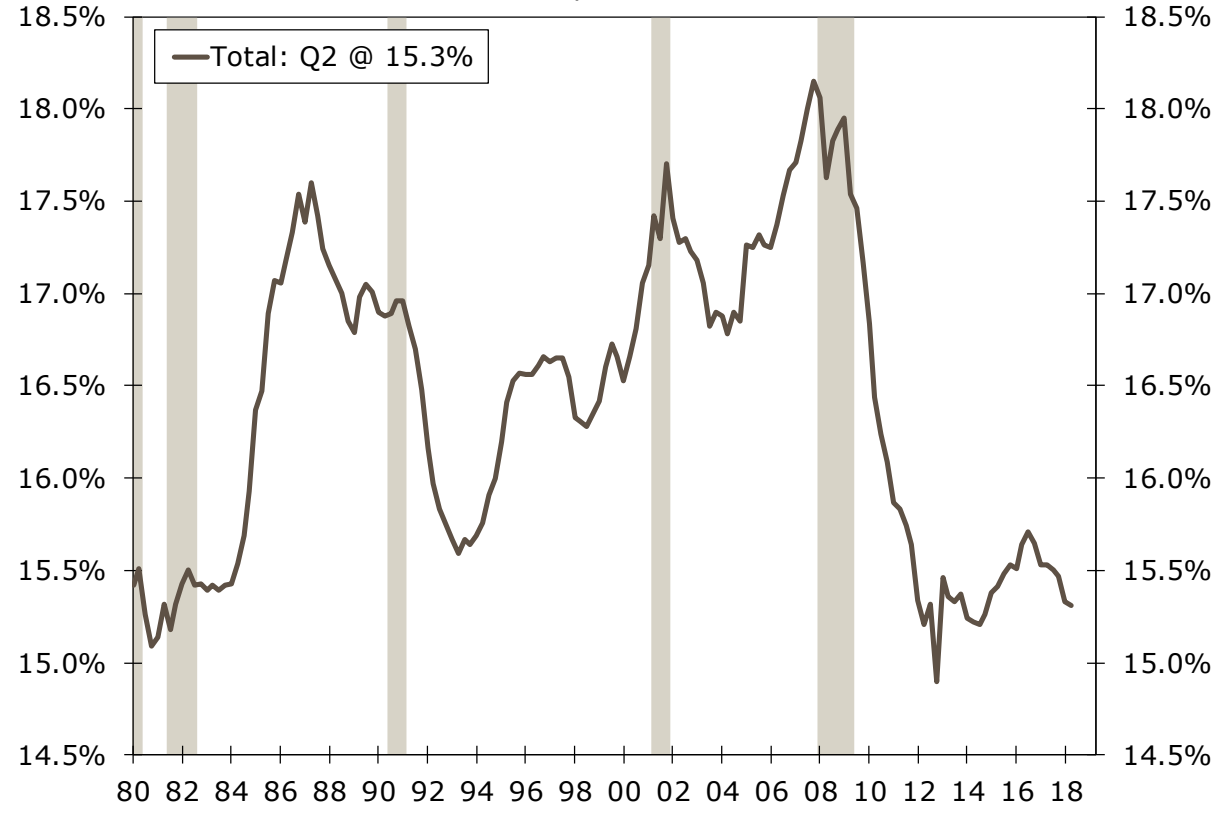
Private Sector Employment Growth  
Year-over-Year Percent Change



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

Financial obligations take up a small percentage of disposable income at present.

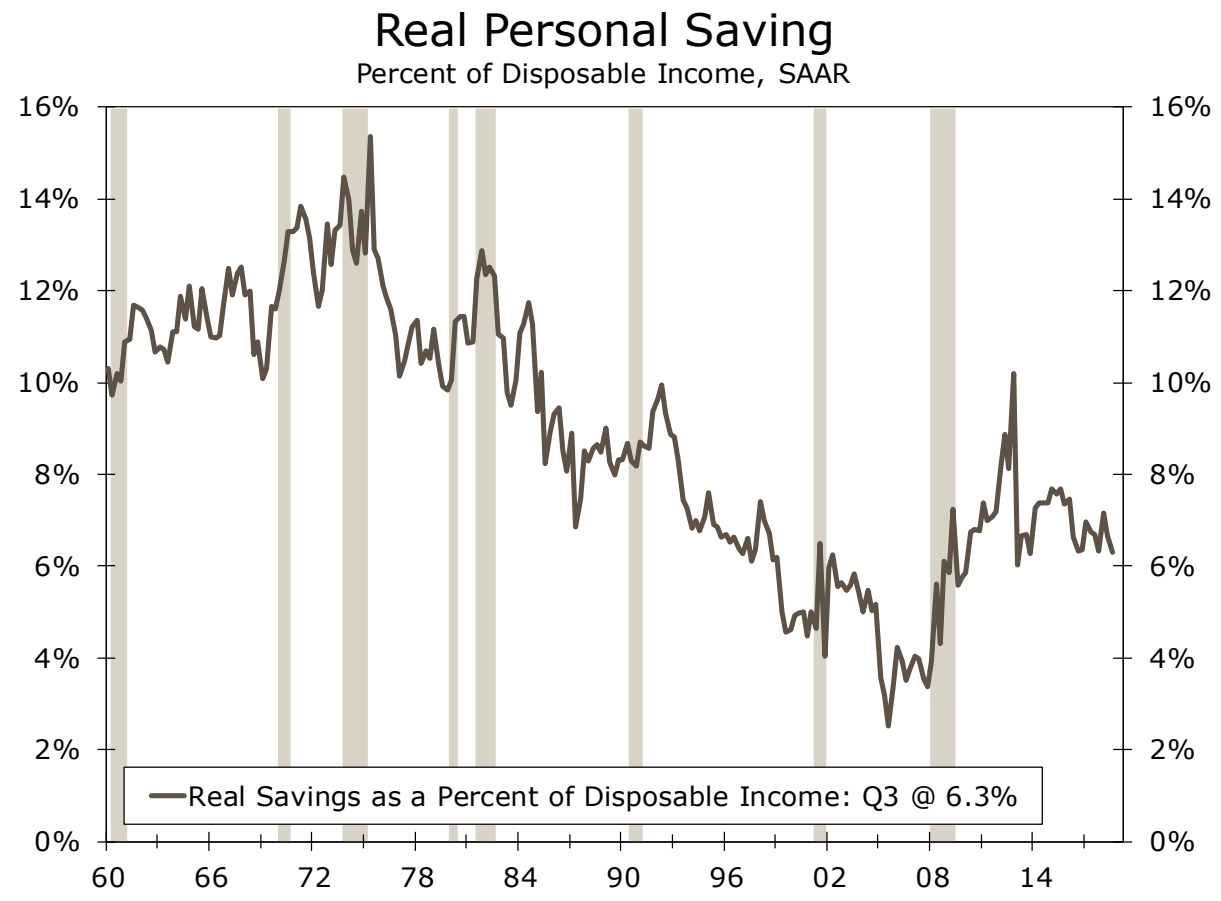
### Financial Obligations Ratio As a Percent of Disposable Personal Income



Source: Federal Reserve Board and Wells Fargo Securities

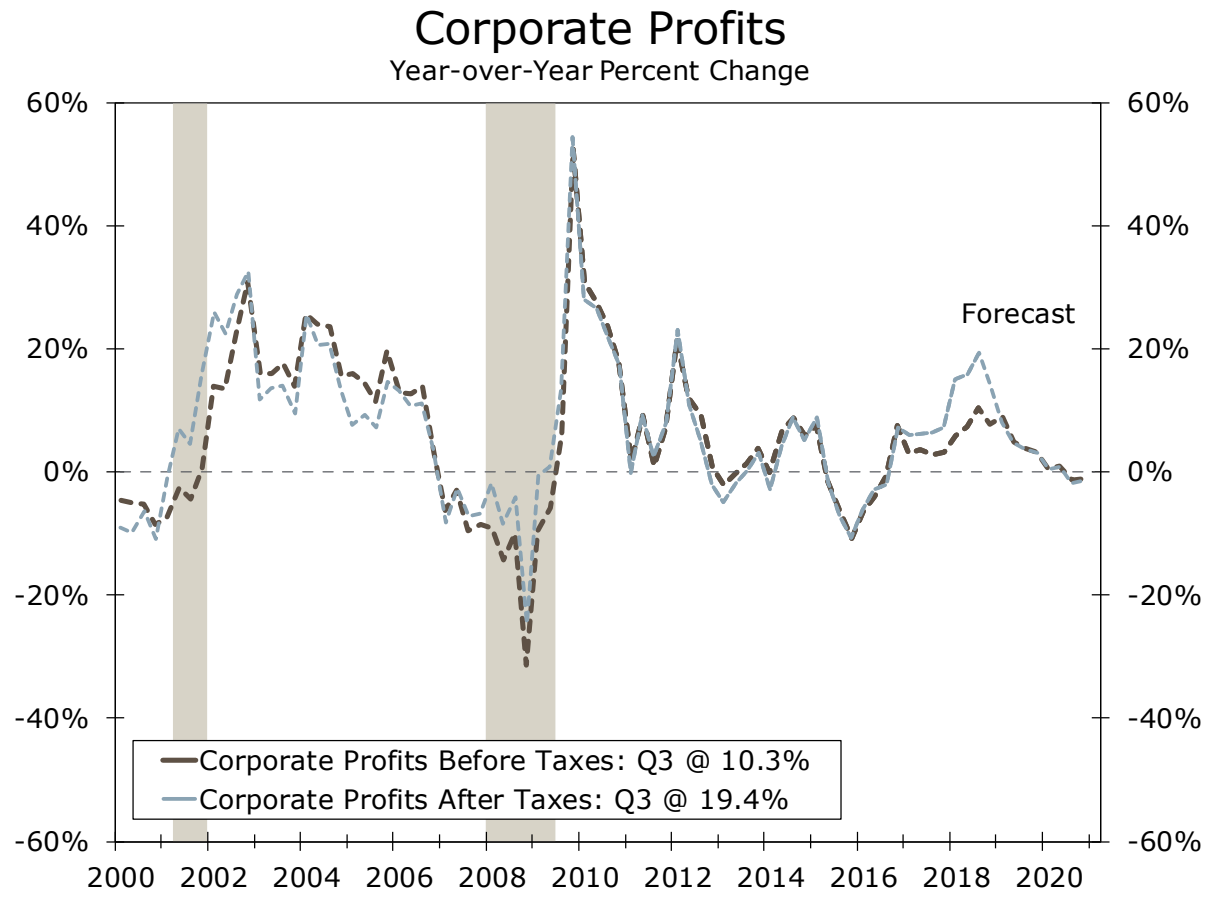


The relatively high saving rate gives households the ability to maintain spending growth.



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

We see corporate profit growth slowing.

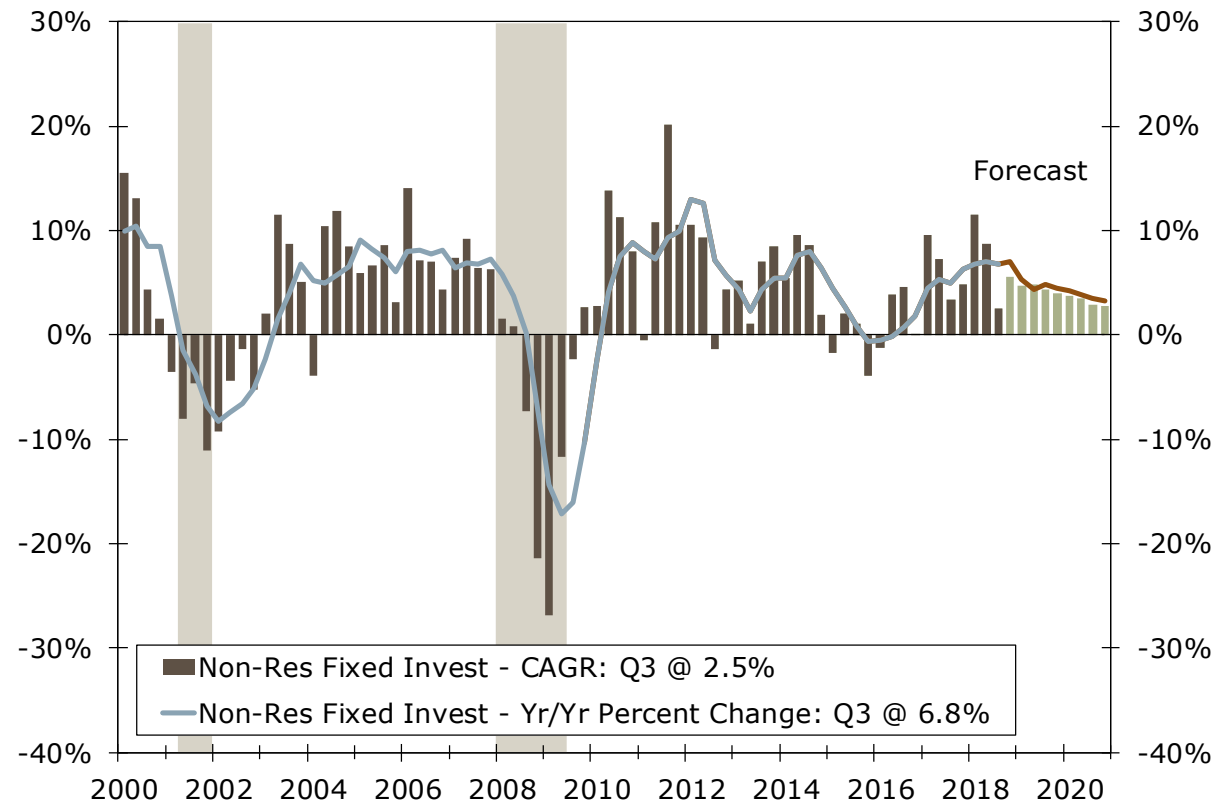


Source: U.S. Department of Commerce and Wells Fargo Securities

Deceleration in profits should lead to slower growth in capex.

### Real Business Fixed Investment

Bars = CAGR    Line = Yr/Yr Percent Change

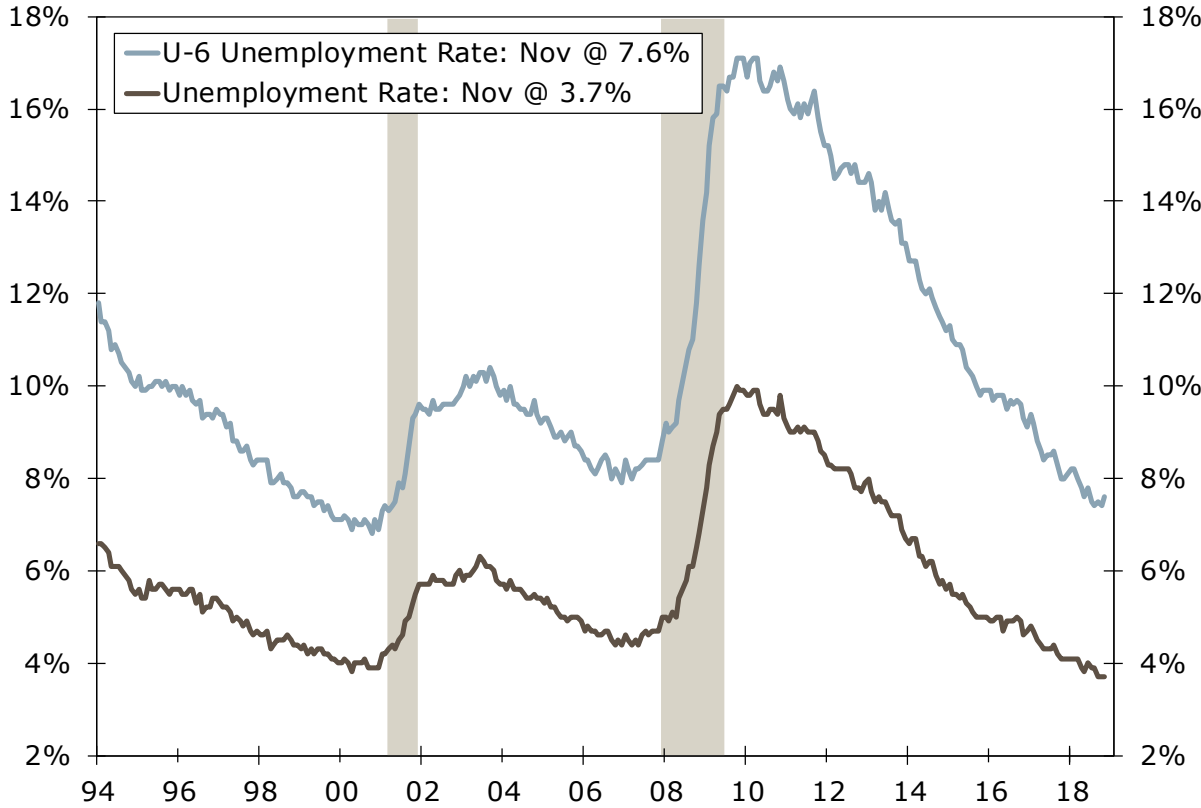


Source: U.S. Department of Commerce and Wells Fargo Securities

The unemployment rate is the lowest in almost 50 years.

## Unemployment Rates

Seasonally Adjusted

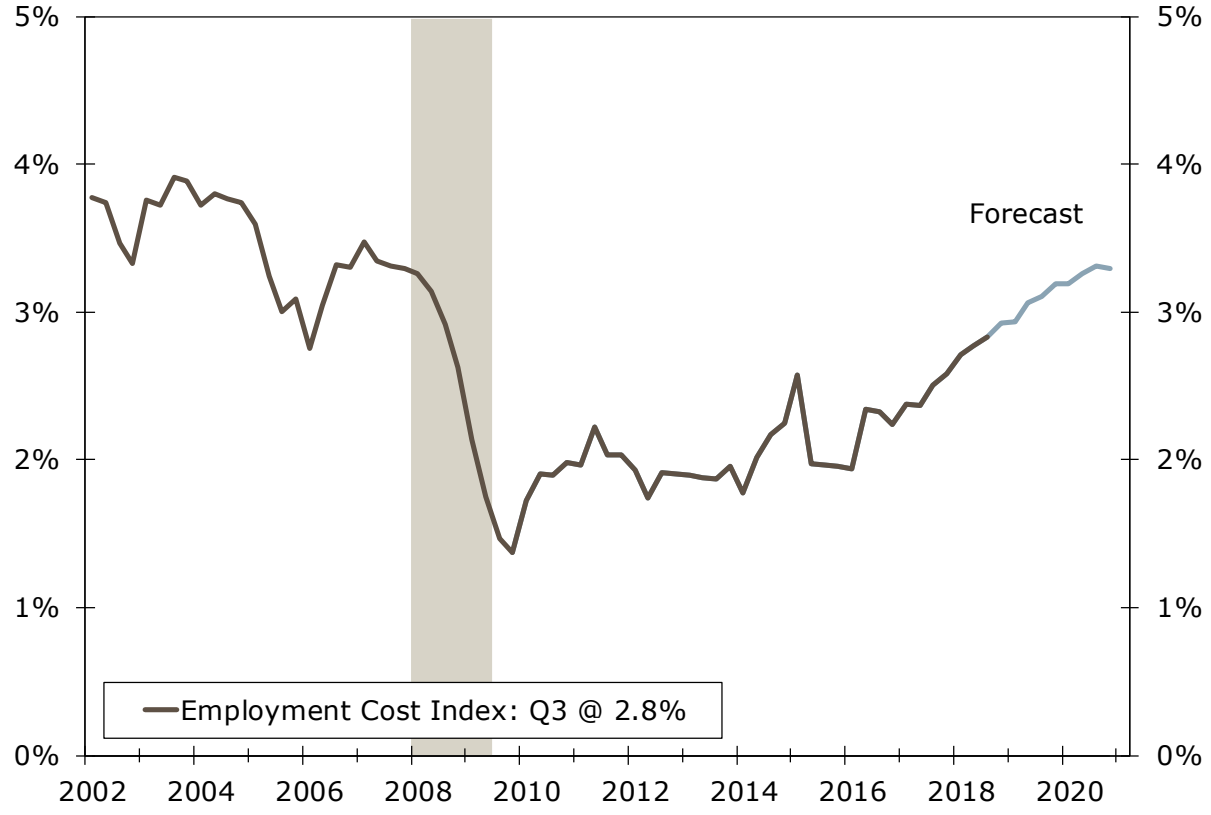


Source: U.S. Department of Labor and Wells Fargo Securities

Amidst an increasingly tight labor market, compensation costs are rising.

## Employment Cost Index

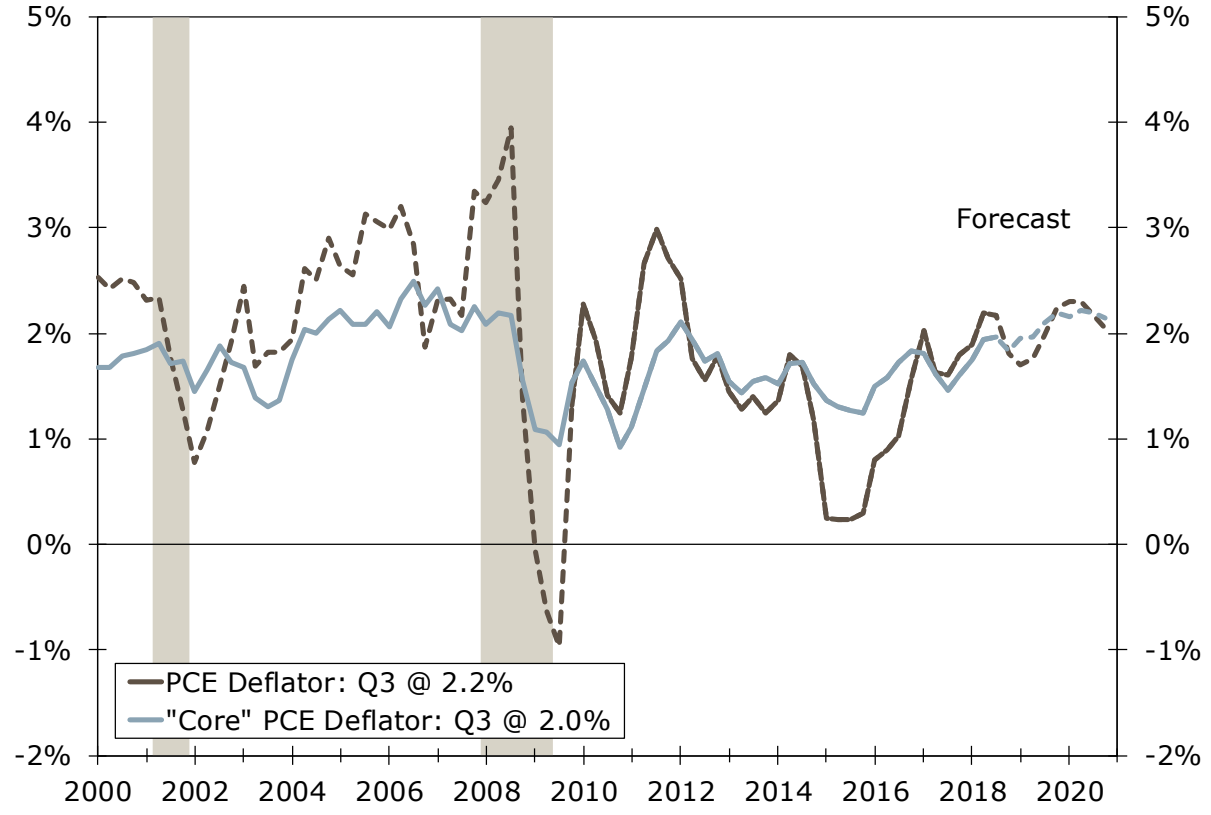
Year-over-Year Percent Change



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

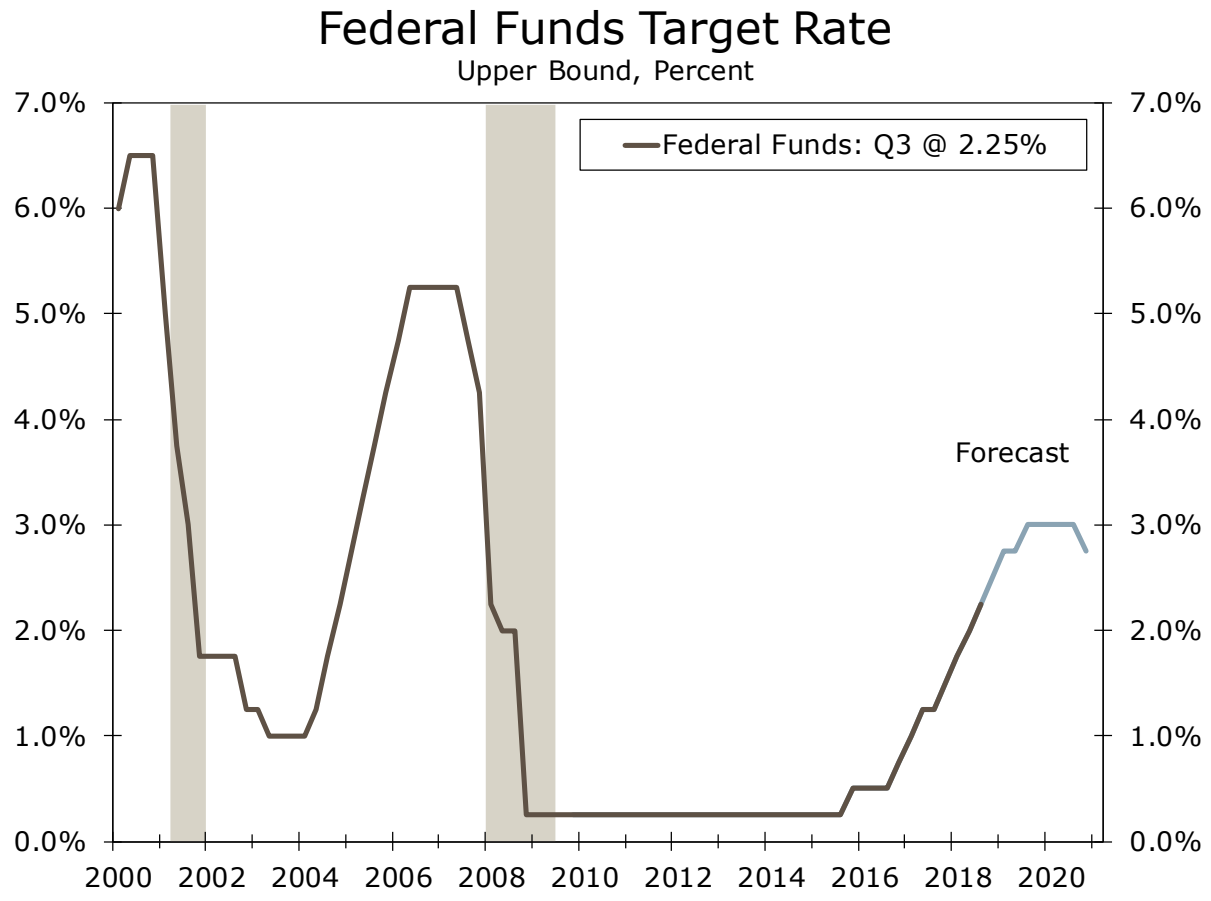
Inflation has been below the Fed's target for the majority of this expansion.

PCE Deflator & "Core" PCE Deflator  
Year-over-Year Percent Change



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

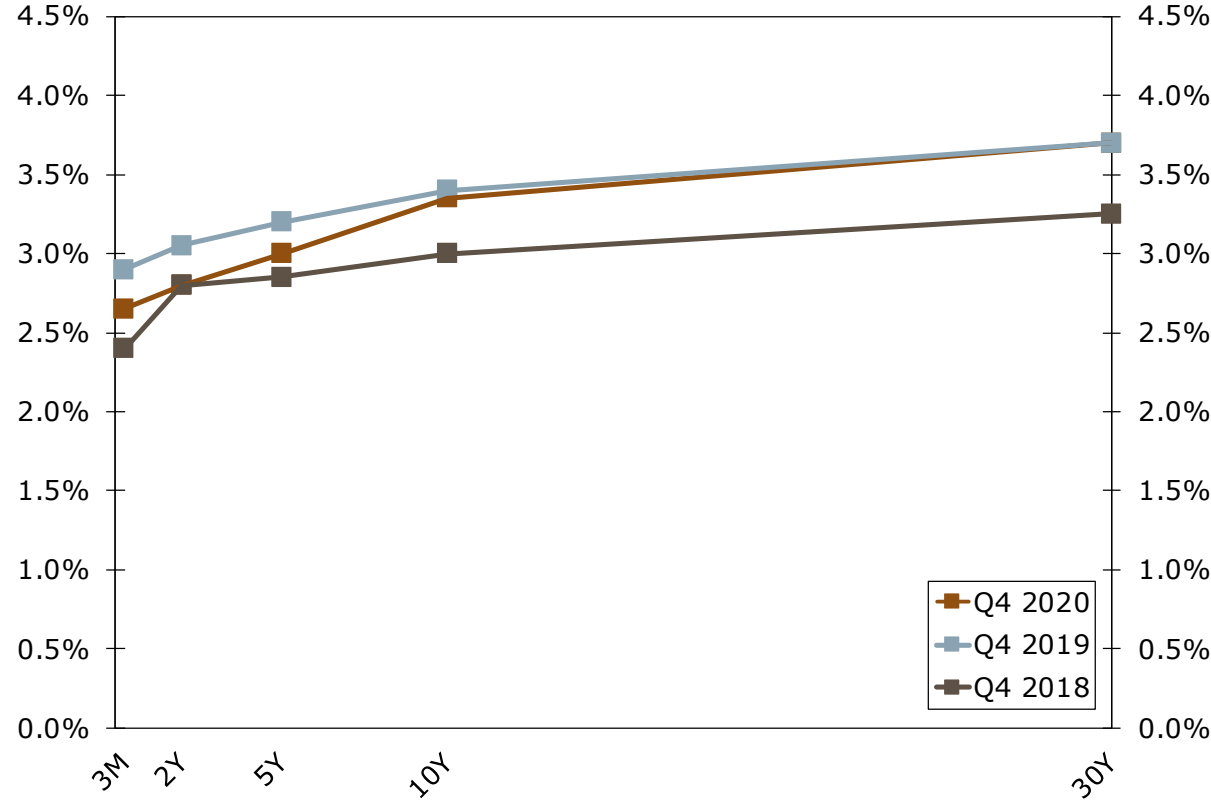
We expect the Fed to hike rates two times in 2019.



Source: Federal Reserve Board and Wells Fargo Securities

Despite fears of inversion, the yield curve should begin to steepen modestly.

Wells Fargo Rates Forecast  
Through 2020



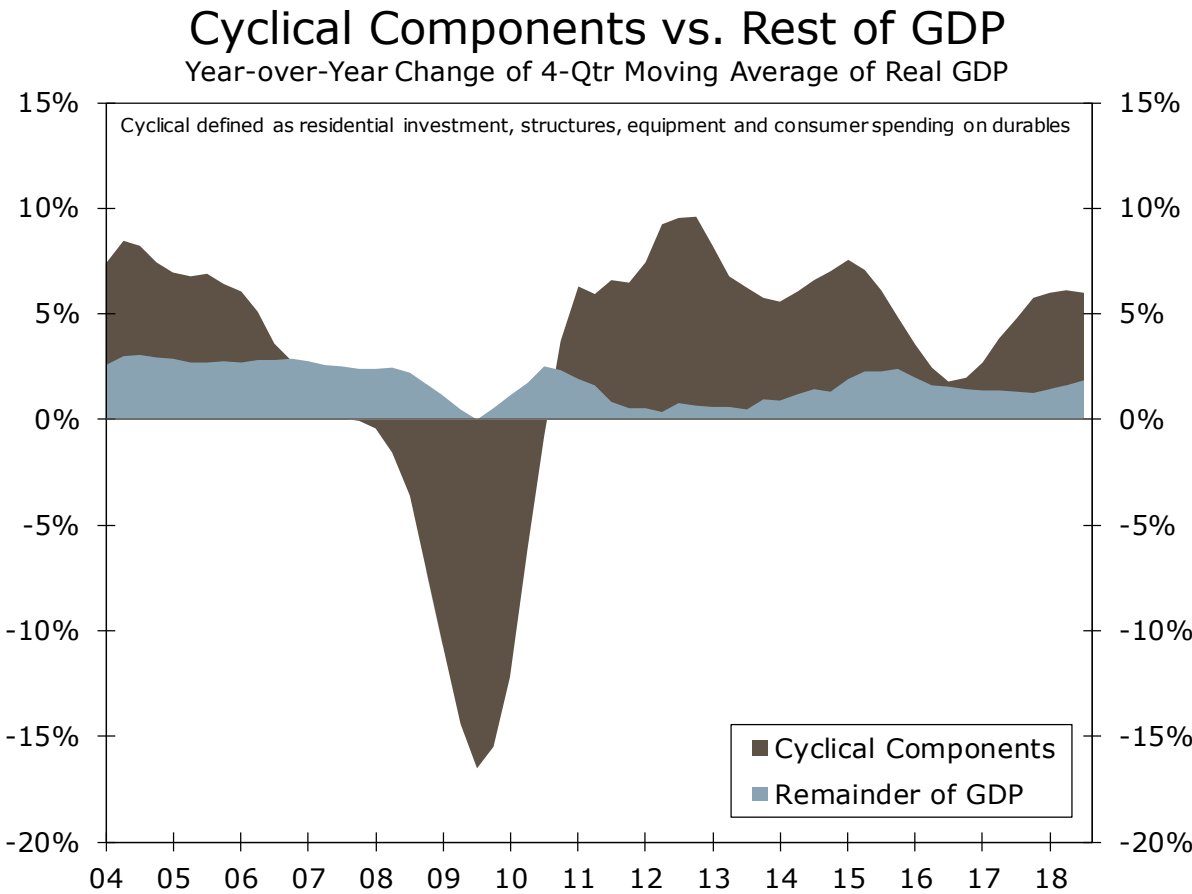
Source: Bloomberg LP and Wells Fargo Securities



# U.S. Outlook: Upside & Downside Risks

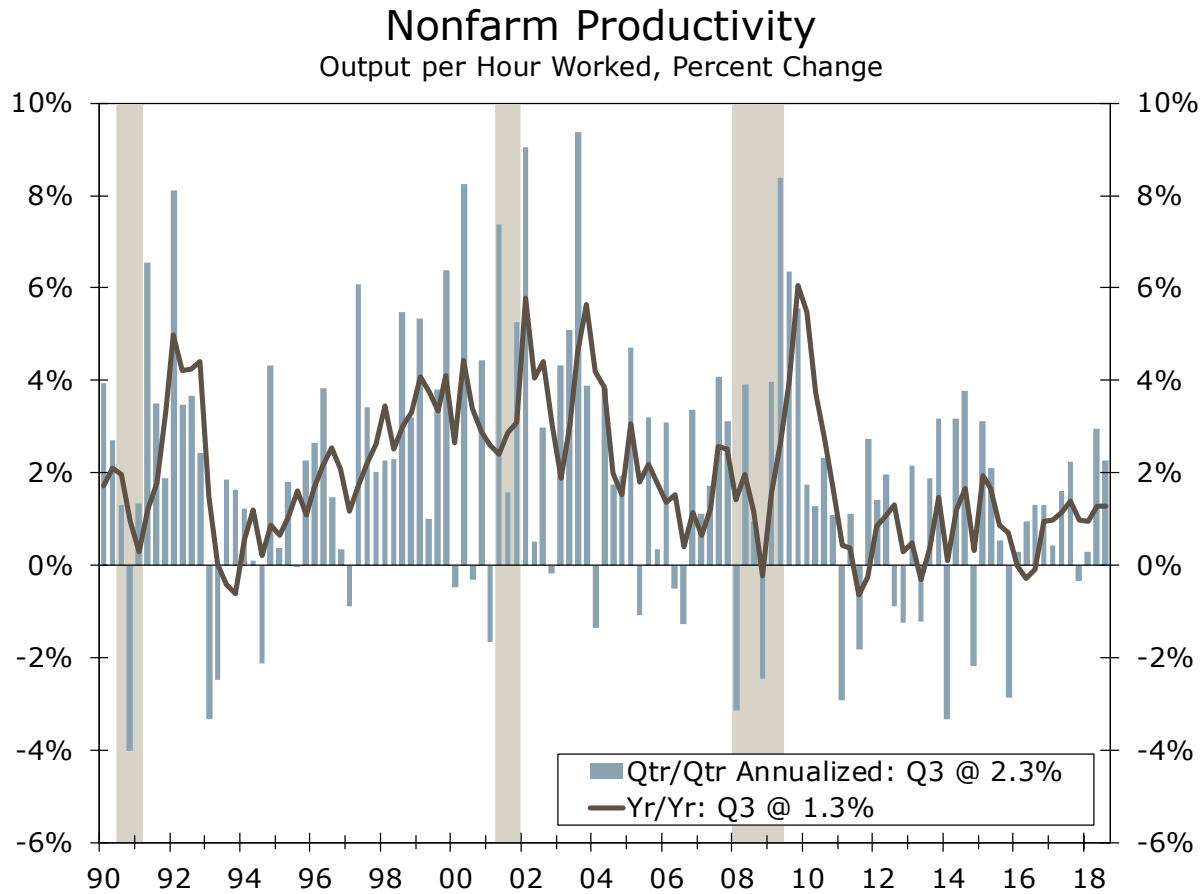
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We suspect the economy may have become less cyclical.



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

Productivity gains have remained weak throughout this expansion, but have increased in the two quarters since the new tax law was enacted.

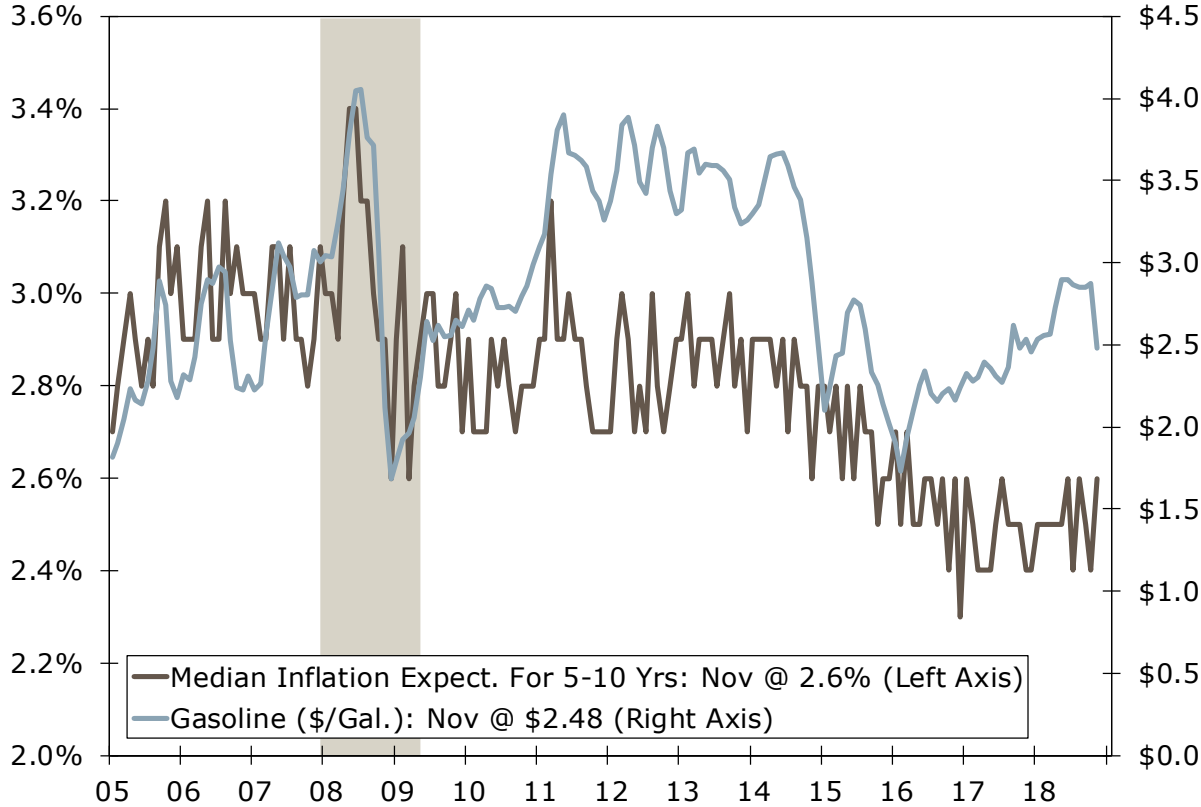


Source: U.S. Department of Labor and Wells Fargo Securities

Inflation expectations have remained contained throughout most of this expansion and remain well within their recent range.

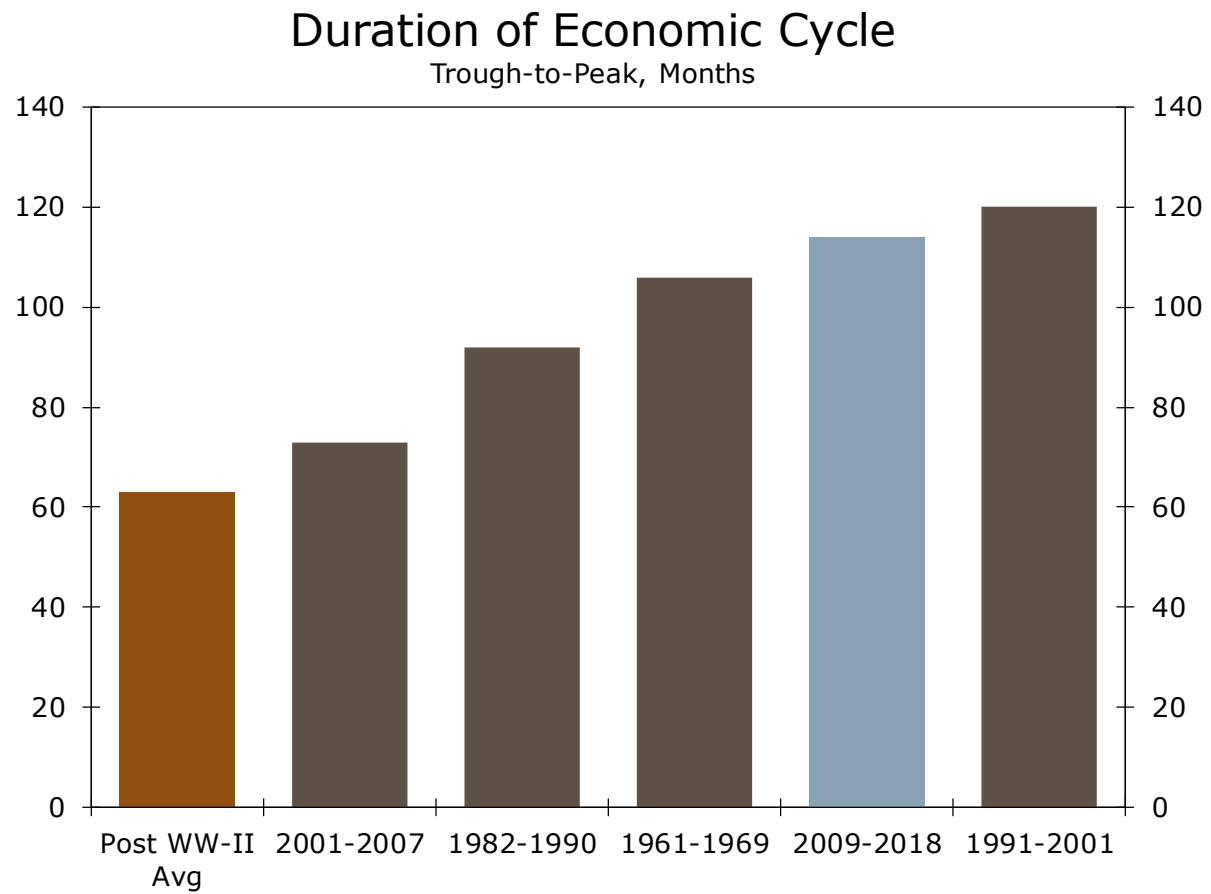
## Inflation Expectations and Gasoline Prices

Median 5-10 Year Inflation Expectations, Gasoline Monthly Avg.



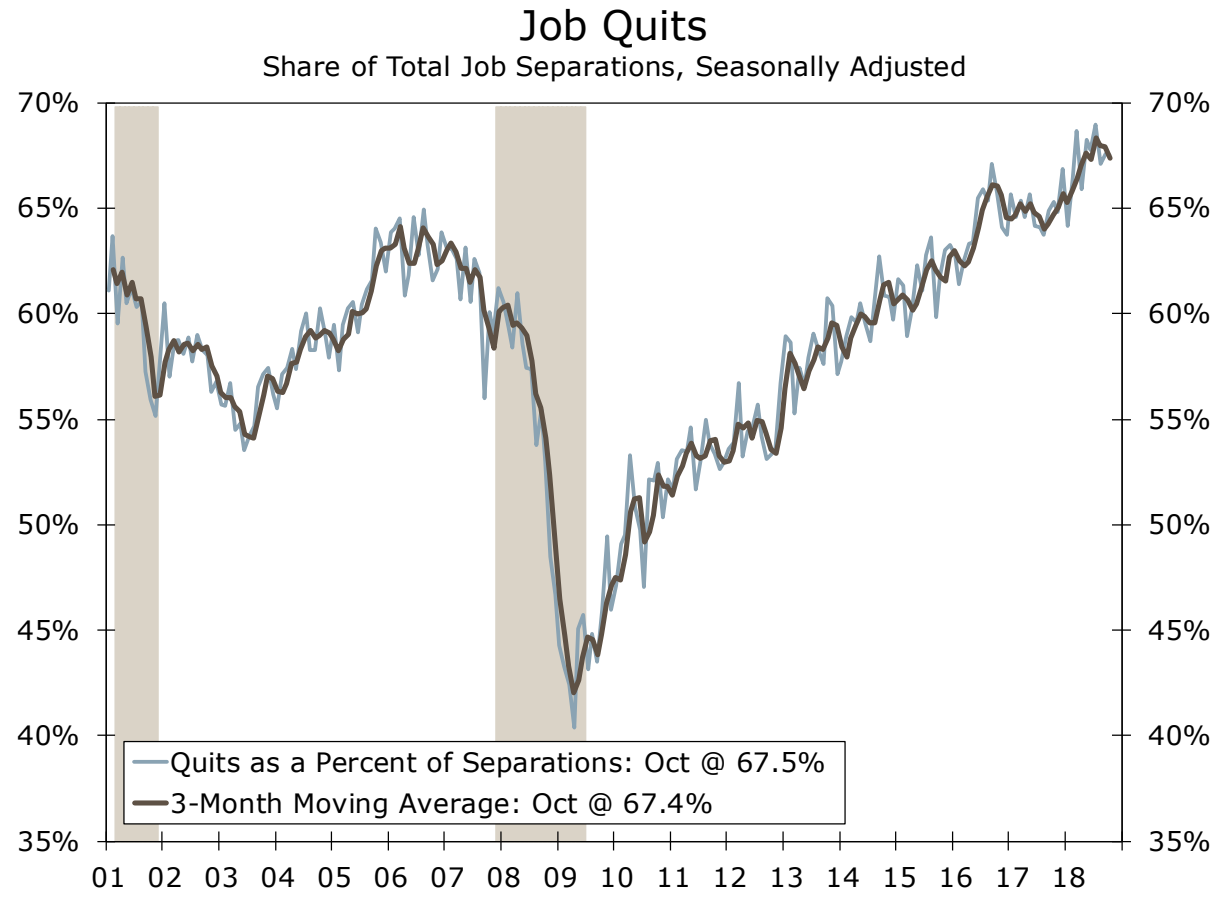
Source: Bloomberg LP, University of Michigan and Wells Fargo Securities

This expansion will become the longest on record in 2019.



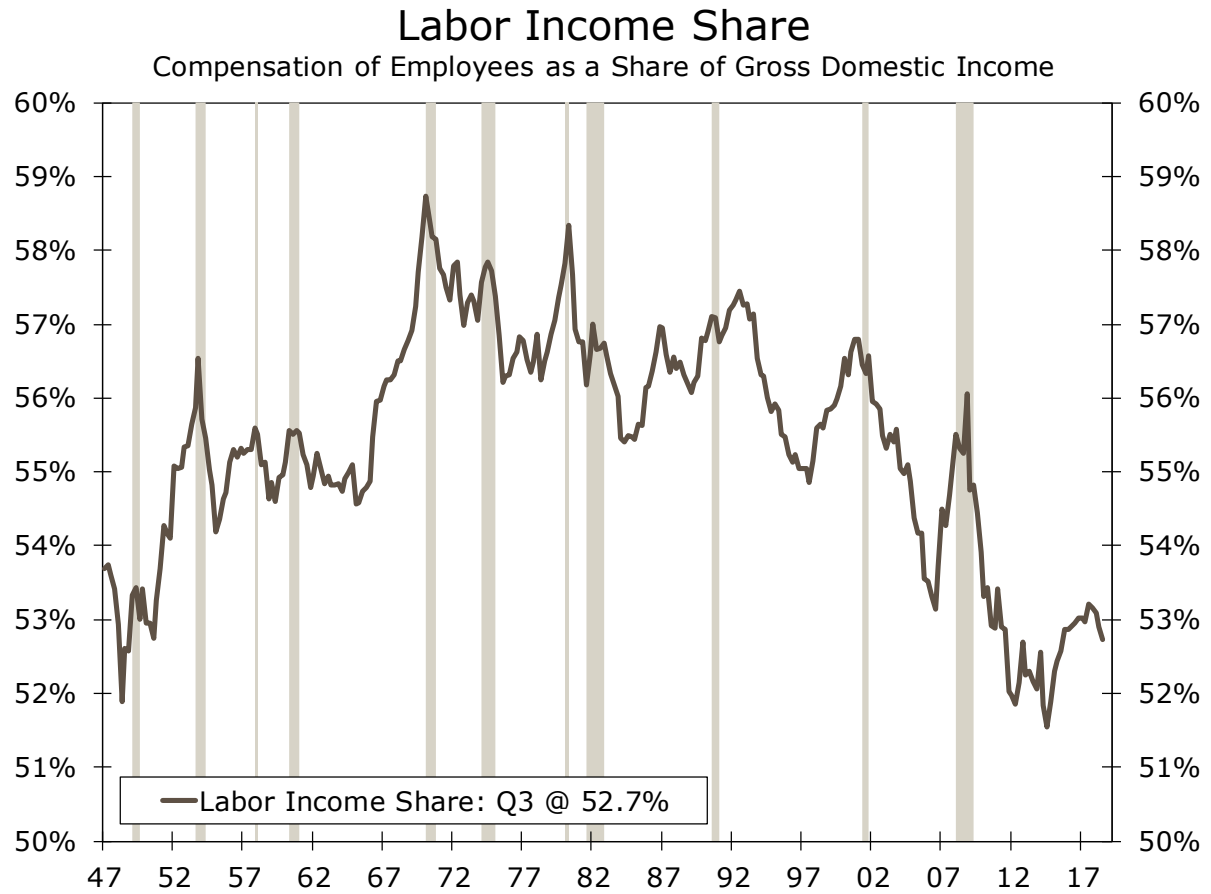
Source: National Bureau of Economic Research and Wells Fargo Securities

As a share of employment separations, voluntary quits recently rose to a record high.



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

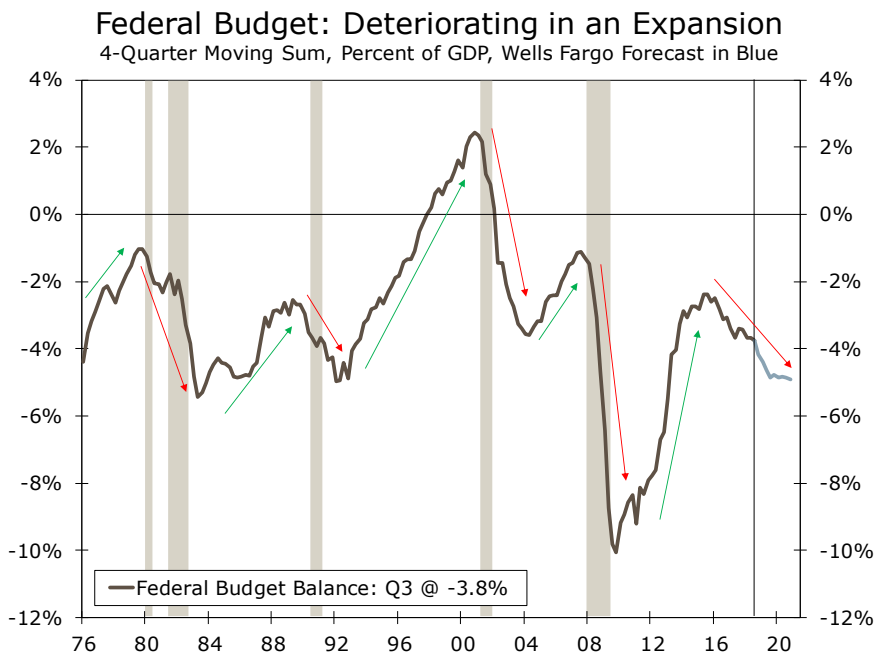
If the labor market is as hot as the numbers imply, we could see substantially higher wage-push inflation.



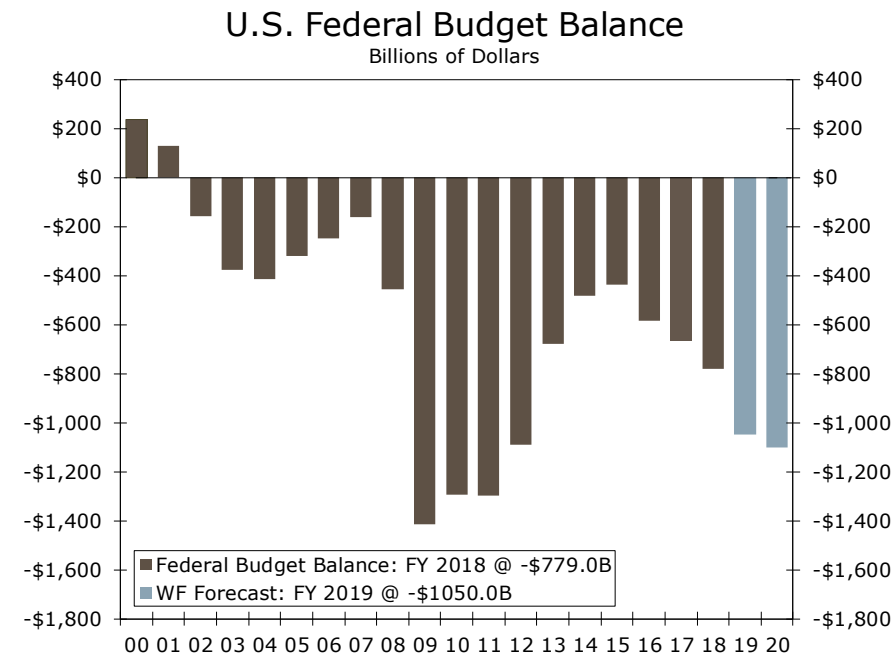
Source: U.S. Department of Commerce and Wells Fargo Securities

An expanding deficit during an expansion is historically atypical and may leave policymakers with limited tools during future downturns.

## As a Percent of GDP



## Billions of Dollars



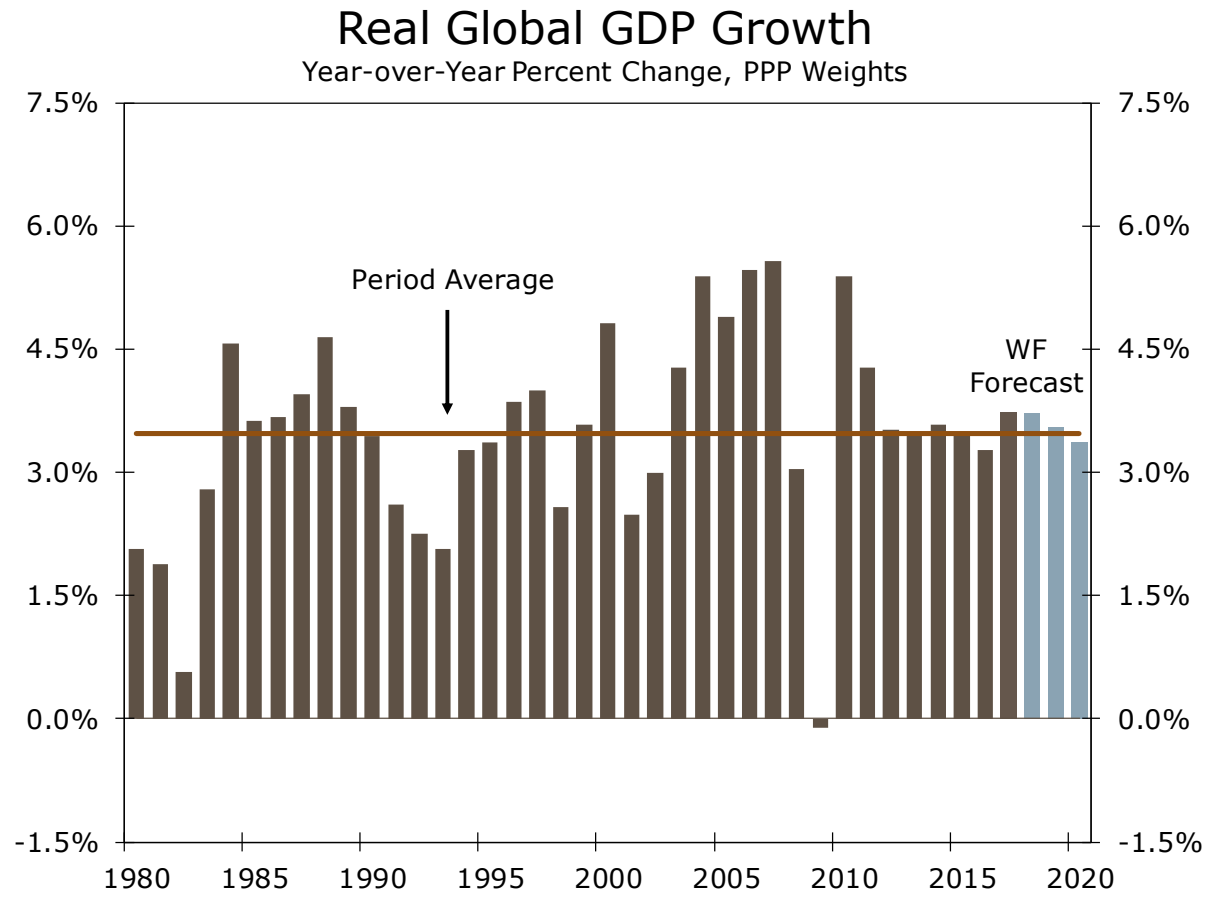
Source: U.S. Department of Commerce, U.S. Department of the Treasury and Wells Fargo Securities



# International Outlook

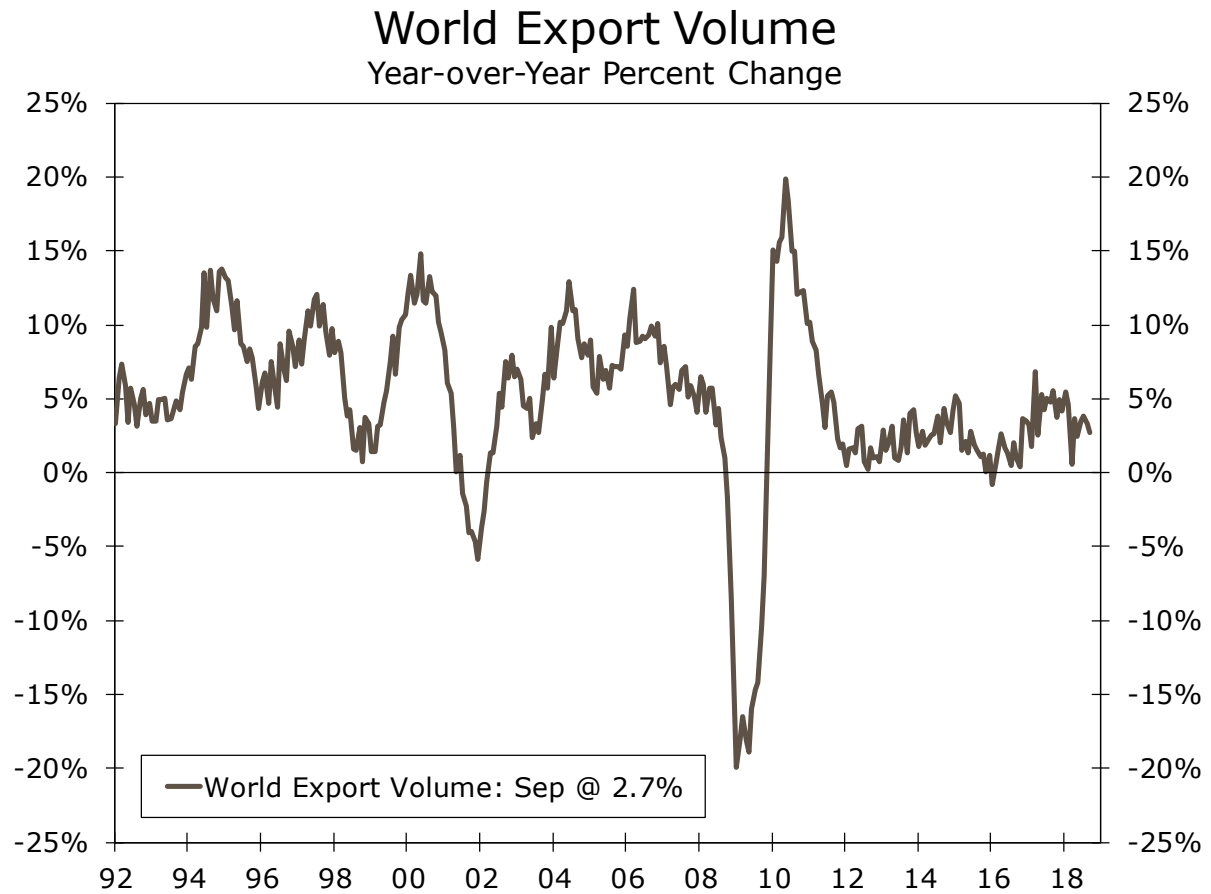
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Global growth has held in a range of 3.3% to 3.7% over the past six years, and should remain in that range in 2019 and 2020.



Source: International Monetary Fund and Wells Fargo Securities

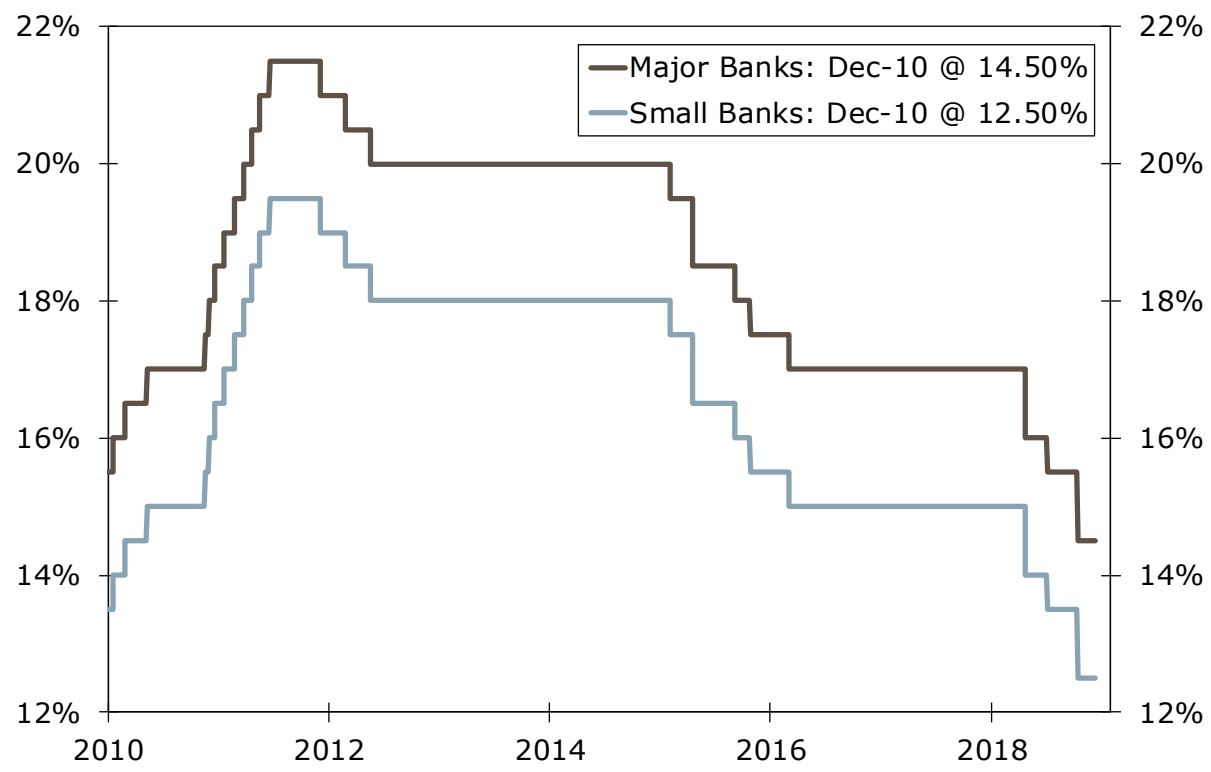
Global export volumes have slowed only modestly so far. Even with a temporary “trade truce,” further trade action could more meaningfully affect global trade activity next year.



Source: IHS Markit and Wells Fargo Securities

Expect a further easing in liquidity, while fiscal stimulus measures should also continue.

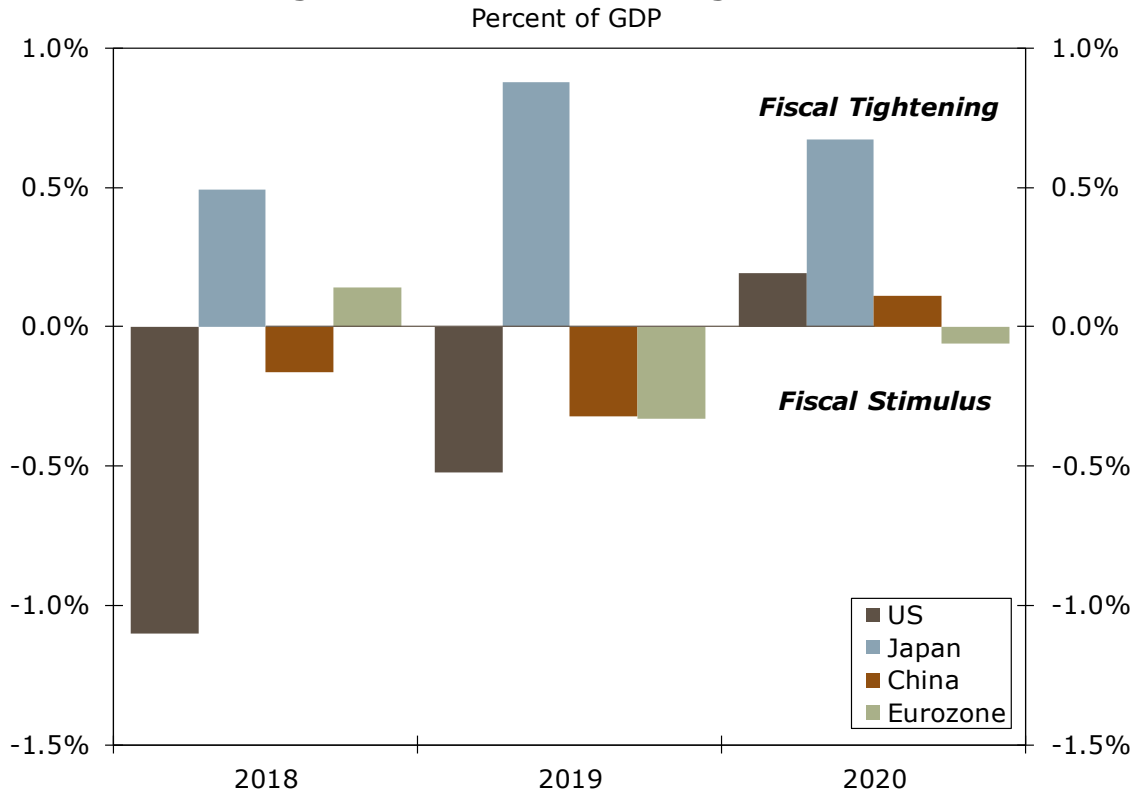
China Reserve Requirement Ratio



Source: Bloomberg LP and Wells Fargo Securities

Employment and wage growth could support consumer incomes and spending, helping to lean against any U.S. growth slowdown.

## Change in Structural Budget Balance

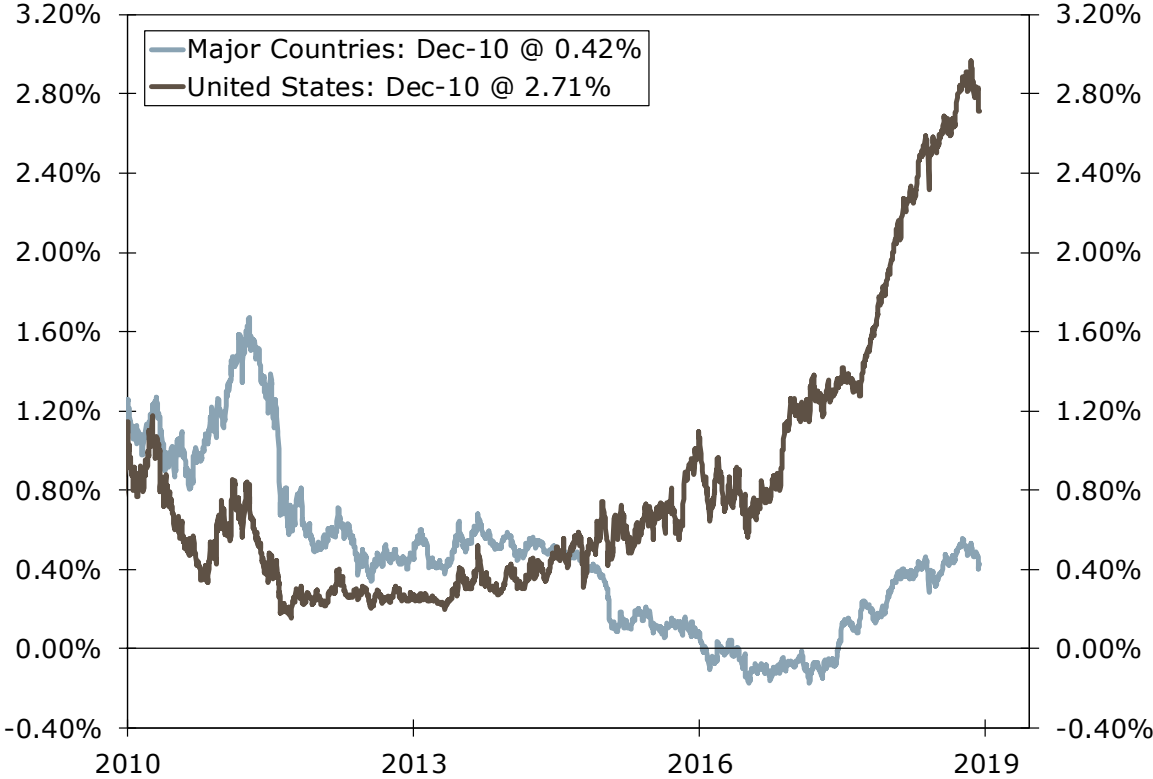


Source: Datastream and Wells Fargo Securities

As U.S rate hikes slow down, we expect international central bank to be more active in 2019, especially during the second half of the year.

### Two-Year Government Bond Yields

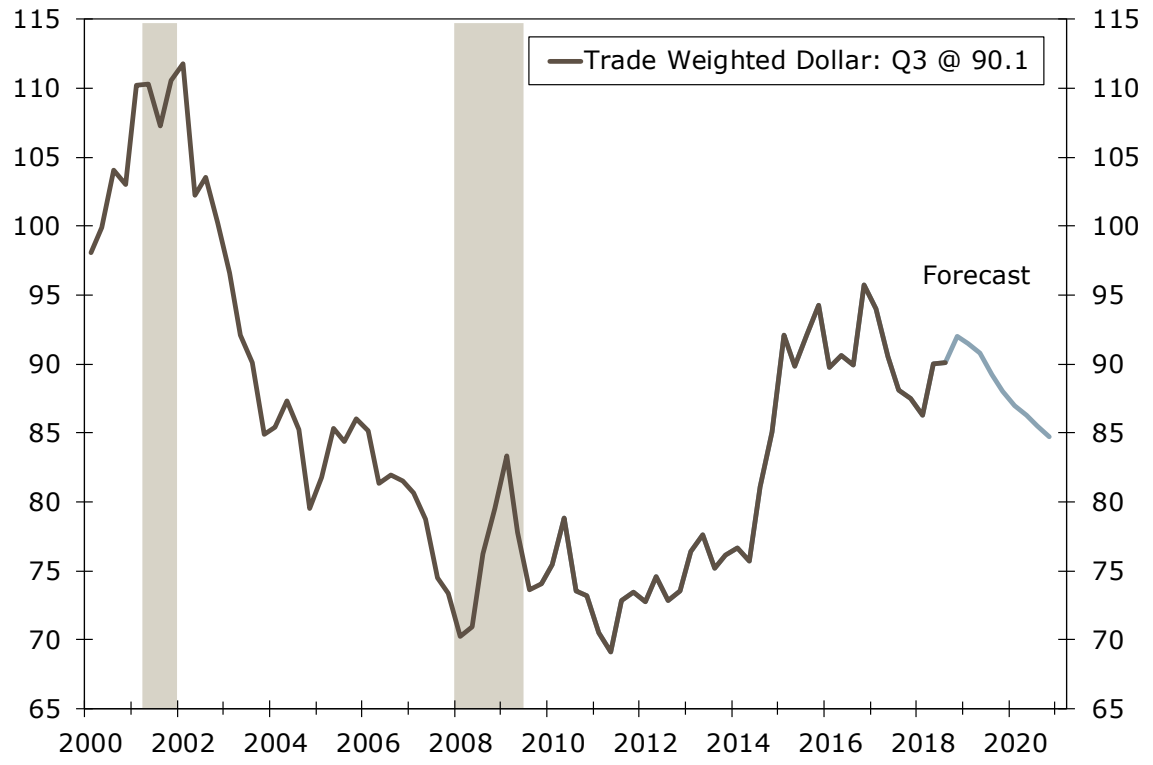
Major Countries, Trade Weighted



Source: Datastream and Wells Fargo Securities

After relative stability in the first half of next year, we expect the U.S. dollar to fall versus the major currencies as 2019 progresses. We expect a less weak and more mixed U.S. dollar performance versus the emerging currencies.

Trade Weighted Dollar  
Major Currency Index, 1973 = 100



Source: Federal Reserve Board and Wells Fargo Securities

## Wells Fargo International Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Global (PPP Weights)	3.7%	3.6%	3.4%	3.5%	3.6%	3.7%
Advanced Economies <sup>1</sup>	2.4%	2.3%	2.0%	2.2%	2.1%	2.3%
United States	2.9%	2.7%	2.2%	2.4%	2.3%	2.6%
Eurozone	1.9%	1.7%	1.6%	1.8%	1.7%	1.8%
United Kingdom	1.3%	1.5%	1.5%	2.4%	2.2%	2.0%
Japan	0.9%	0.9%	0.5%	1.0%	1.2%	1.9%
Canada	2.1%	2.0%	1.7%	2.3%	2.1%	2.0%
Developing Economies <sup>1</sup>	4.6%	4.5%	4.4%	4.5%	4.7%	4.7%
China	6.6%	6.2%	6.0%	2.2%	2.4%	2.3%
India	7.4%	7.3%	7.1%	4.5%	4.6%	4.8%
Mexico	2.1%	2.3%	1.9%	4.9%	4.0%	3.7%

Forecast as of: December 13, 2018

<sup>1</sup>Aggregated Using PPP Weights

Source: International Monetary Fund 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 <sup>1</sup>	1.8	3.0	2.8	2.3	2.2	4.2	3.5	2.2	2.4	2.8	2.5	2.3	2.2	2.1	1.7	1.7	2.2	2.9	2.7	2.2
Personal Consumption	1.8	2.9	2.2	3.9	0.5	3.8	3.6	2.9	2.4	2.9	2.6	2.5	2.1	2.1	1.8	1.7	2.5	2.7	2.8	2.2
Business Fixed Investment	9.6	7.3	3.4	4.8	11.5	8.7	2.5	5.6	4.7	4.9	4.4	4.0	3.7	3.6	2.9	2.8	5.3	6.9	4.8	3.7
Equipment	9.1	9.7	9.8	9.9	8.5	4.6	3.5	5.3	3.9	4.2	3.7	3.1	2.7	2.6	2.1	2.0	6.1	7.4	4.1	2.8
Intellectual Property Products	8.0	6.6	1.7	0.7	14.1	10.5	4.3	7.5	4.8	5.3	4.7	4.6	4.7	4.6	3.7	3.6	4.6	7.1	5.7	4.5
Structures	12.8	3.8	-5.7	1.3	13.9	14.5	-1.7	3.0	6.5	6.0	5.5	5.0	4.5	4.0	3.5	3.5	4.6	5.7	4.9	4.5
Residential Construction	11.1	-5.5	-0.5	11.1	-3.4	-1.3	-2.6	-3.0	-1.5	2.0	1.8	1.5	1.5	1.5	1.0	1.0	3.3	-0.1	-0.7	1.5
Government Purchases	-0.8	0.0	-1.0	2.4	1.5	2.5	2.6	2.5	2.7	2.3	1.6	0.8	0.7	0.5	0.3	0.1	-0.1	1.7	2.3	0.8
Net Exports <sup>2</sup>	-0.1	0.1	0.0	-0.9	0.0	1.2	-1.9	-0.6	-0.2	-0.3	-0.3	-0.2	0.1	0.0	-0.1	0.0	-0.4	-0.3	-0.5	-0.1
Inventories <sup>2</sup>	-0.8	0.2	1.0	-0.9	0.3	-1.2	2.3	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0
Nonfarm Payroll Change <sup>3</sup>	177	190	142	221	218	217	190	191	180	170	160	160	150	140	100	90	182	204	168	120
Unemployment Rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.7	3.6	3.5	3.5	3.4	3.3	3.3	3.3	4.4	3.9	3.6	3.3
Consumer Price Index <sup>4</sup>	2.6	1.9	2.0	2.1	2.3	2.6	2.6	2.3	2.0	2.2	2.5	2.6	2.7	2.7	2.5	2.4	2.1	2.4	2.3	2.6
Quarter-End Interest Rates <sup>5</sup>																				
Federal Funds Target Rate	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	2.75	3.00	3.00	3.00	3.00	3.00	2.75	1.13	2.13	2.88	2.94
Conventional Mortgage Rate	4.20	3.90	3.81	3.94	4.44	4.57	4.63	4.60	4.80	4.85	4.95	5.00	5.05	5.05	5.00	4.95	3.99	4.56	4.90	5.01
2 Year Note	1.27	1.38	1.47	1.89	2.27	2.52	2.81	2.80	2.90	2.95	3.05	3.05	3.05	3.00	2.95	2.80	1.40	2.60	2.99	2.95
10 Year Note	2.40	2.31	2.33	2.40	2.74	2.85	3.05	3.00	3.20	3.25	3.35	3.40	3.45	3.45	3.40	3.35	2.33	2.91	3.30	3.41

Forecast as of: December 13, 2018

Notes: (1) Compound Annual Growth Rate Quarter-over-Quarter

(4) Year-over-Year Percentage Change

(2) Percentage Point Contribution to GDP

(5) Annual Numbers Represent Averages

(3) Average Monthly Change

Source: Federal Reserve Board, IHS Markit, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

A photograph of a paved road curving through a forest with trees in autumn foliage. The road is grey asphalt with white lane markings. The trees are mostly yellow and orange, with some green bushes in the foreground. The sky is overcast.

# 2019 Annual Economic Outlook

How long can this aging cycle last?

# Q&A

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