



2020 Annual Economic Outlook

Uncertainty clouds our view

December 11, 2019

Jay Bryson, Acting Chief Economist • Nick Bennenbroek, Head of Currency Strategy •
Tim Quinlan, Senior Economist • Michael Pugliese, Economist

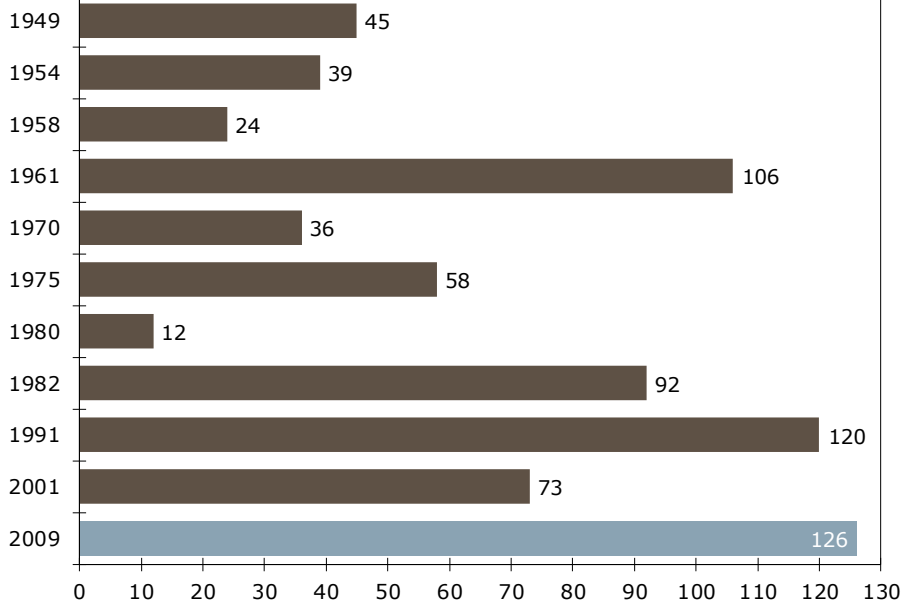
U.S. Economic Outlook

The current expansion is the longest on record, but has also been the weakest of the post-WWII era.

The Longest...

Length of U.S. Expansion

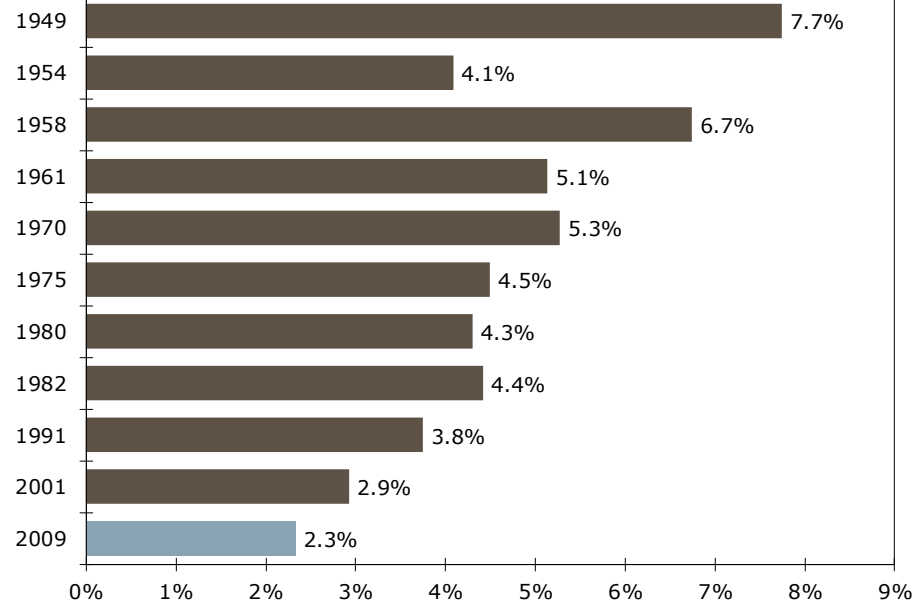
Y-axis=End of Recession, X-axis=Months as of December 2019



...but the Weakest

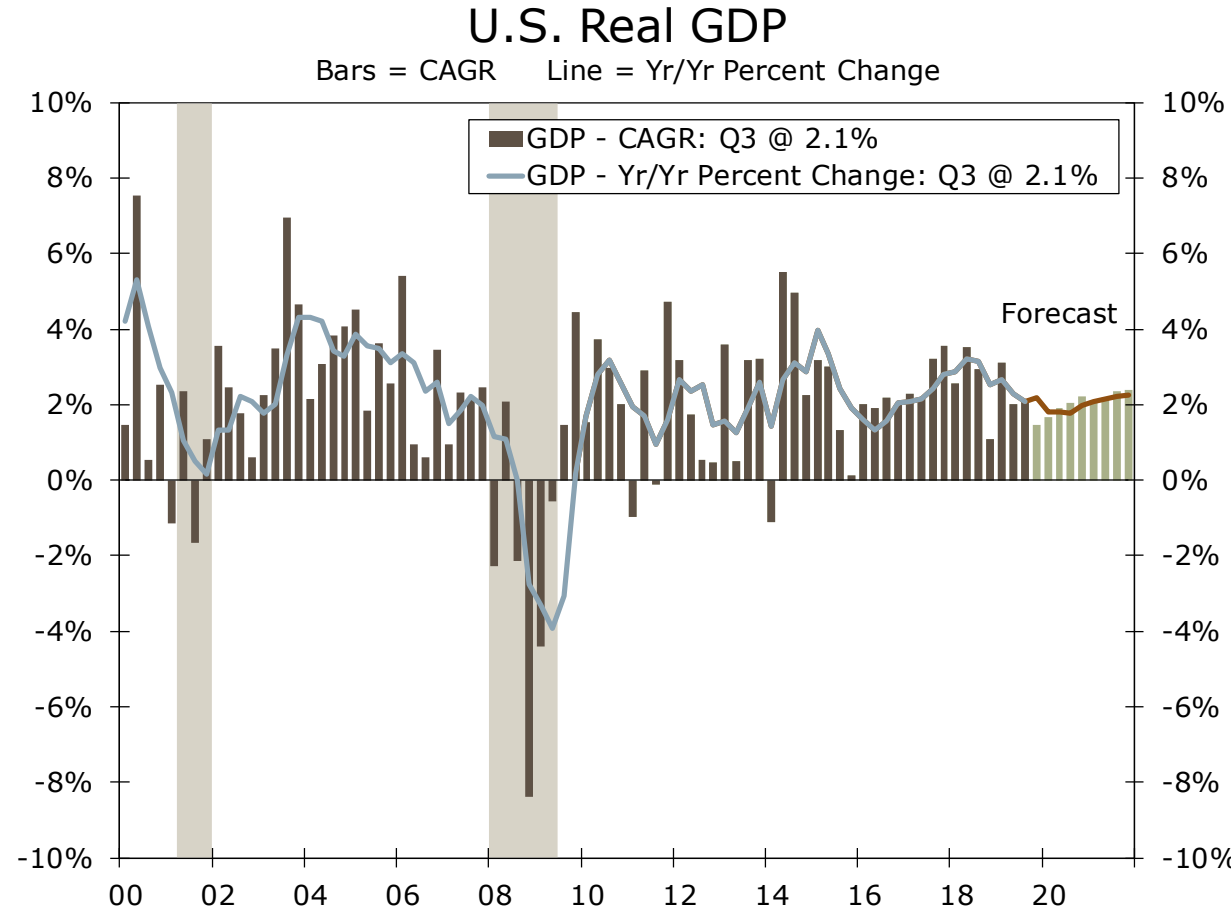
Strength of U.S. Expansion

Y-axis=Start of Expansion, X-axis=Avg. GDP Growth through Q3-2019



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

Despite being late in the cycle, we see a path for slow growth in 2020 & 2021.

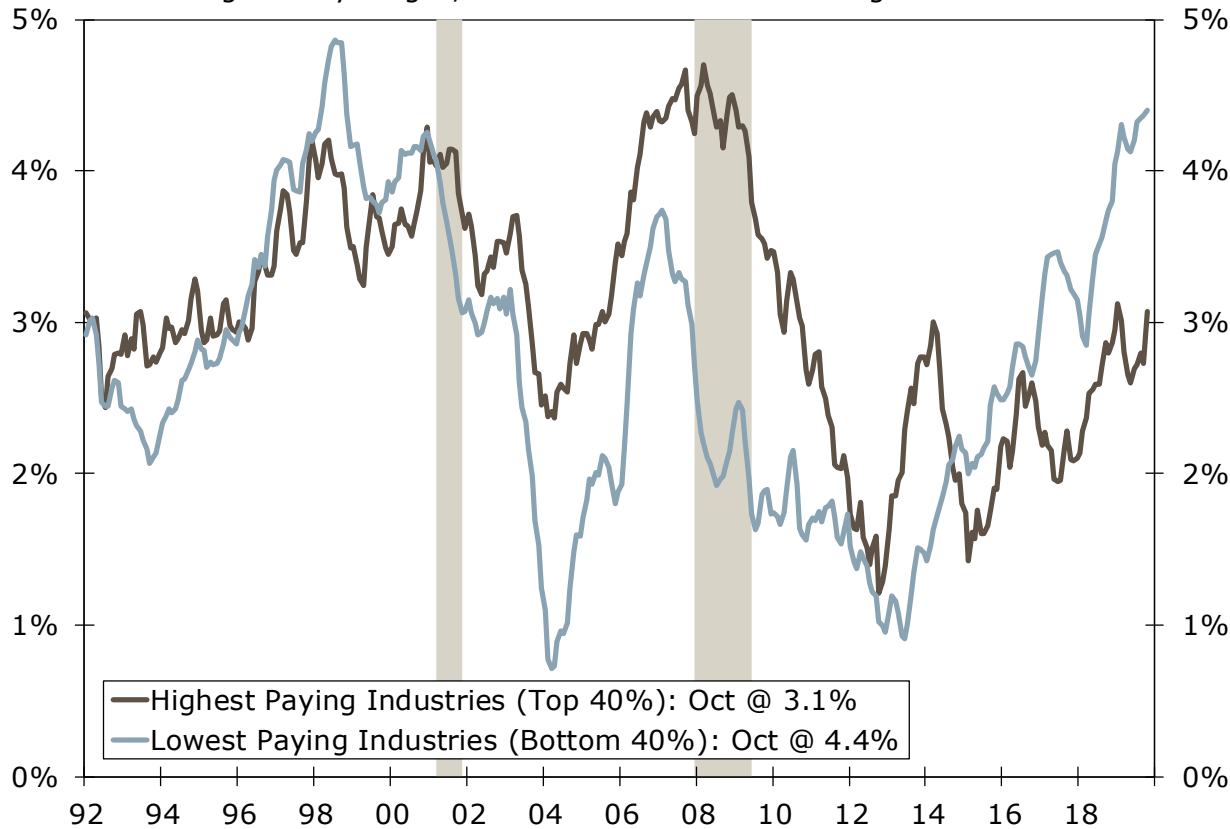


Source: U.S. Department of Commerce and Wells Fargo Securities

A strong labor market is supporting wages, particularly in low-paying industries where there is a higher propensity to consume.

Wage Growth in High & Low Pay Industries

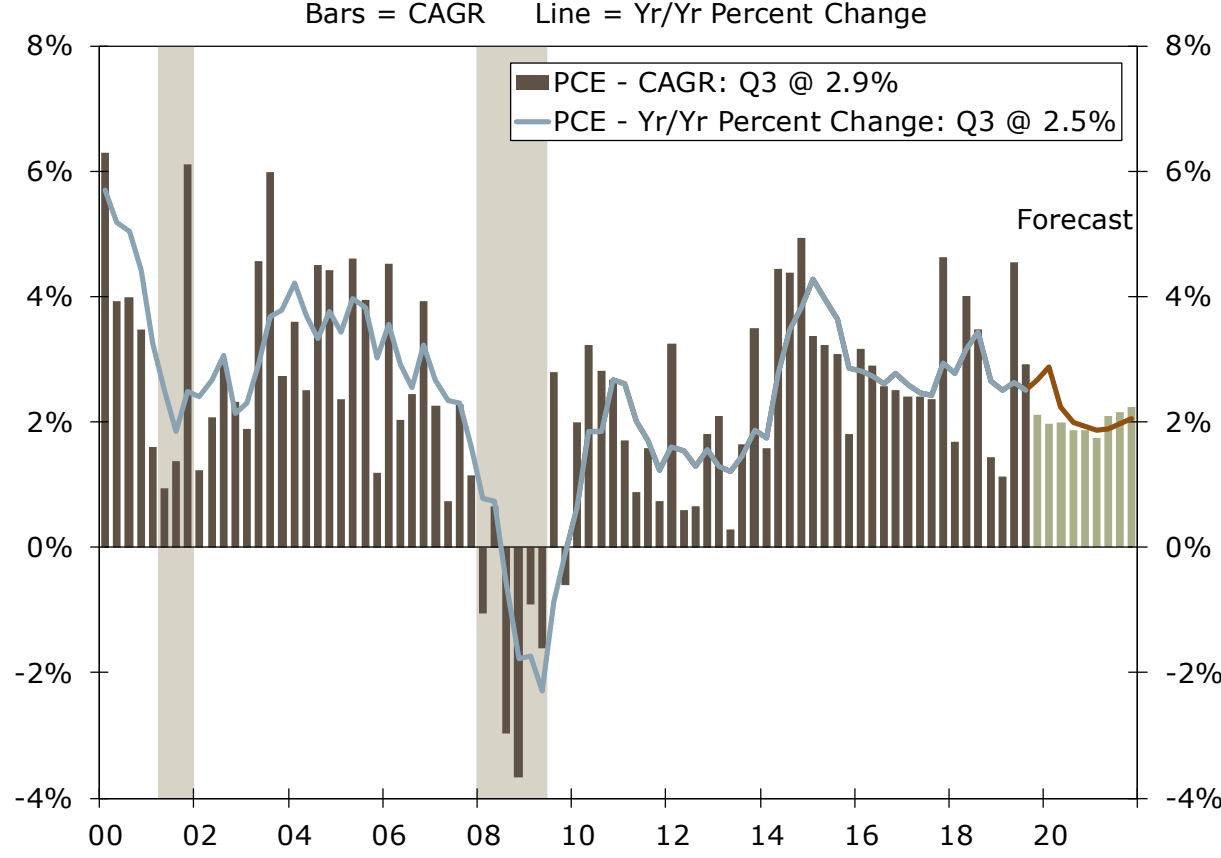
Avg. Hourly Wages, Year-over-Year Percent Change of 3-MMA



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

That ought to be supportive of consumer spending even as consumer confidence has weakened.

Real Personal Consumption Expenditures



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

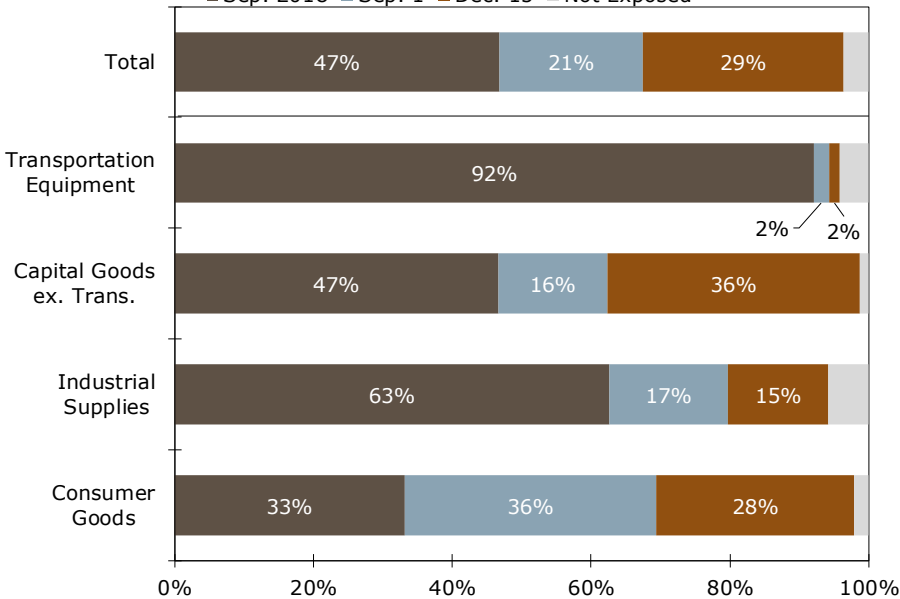
The tariff pass-through effect for consumers has been limited, but that was by design. Any further escalation risks more damage to confidence and goods inflation.

Initially Consumers Were Shielded

When & What: Imports Exposed to Tariffs

Share of U.S. imports from China exposed to tariffs by Category

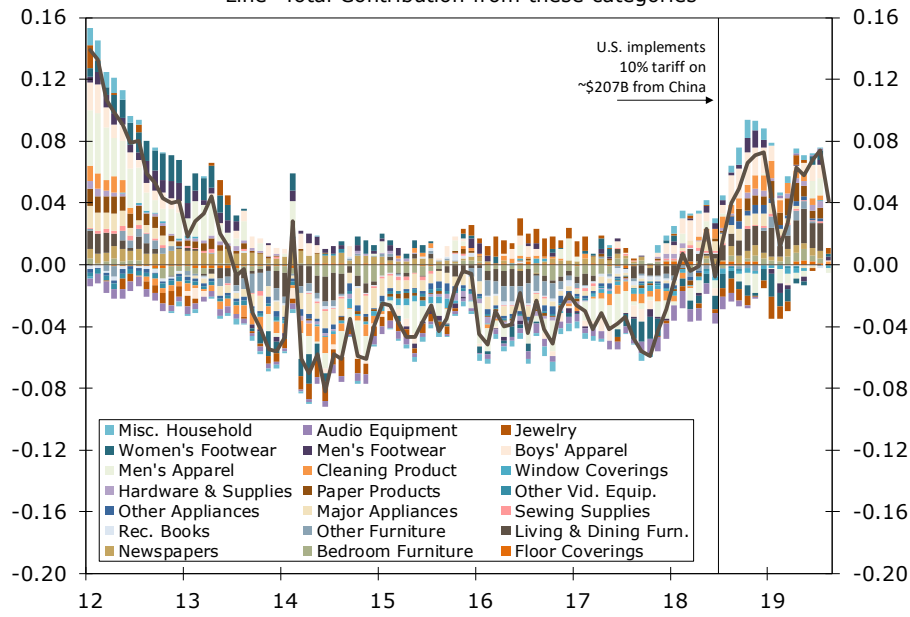
■ Sep. 2018 ■ Sep. 1 ■ Dec. 15 ■ Not Exposed



But Now We Are Seeing Price Effects

Selected CPI Goods Categories Exposed to Tariffs

Bars=% Point Contribution to 12-Month change in CPI, Line=Total Contribution from these categories

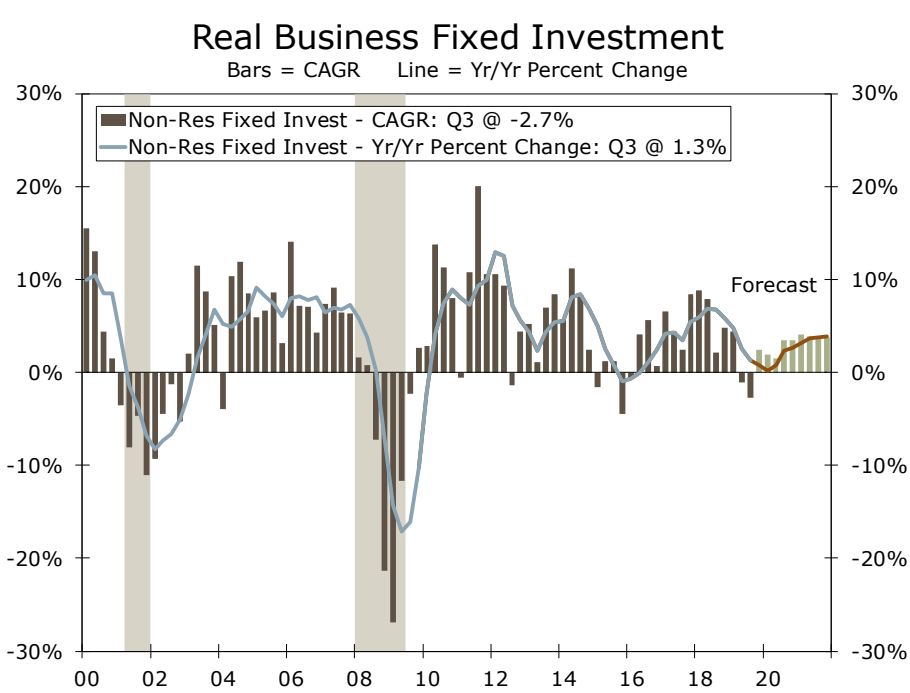
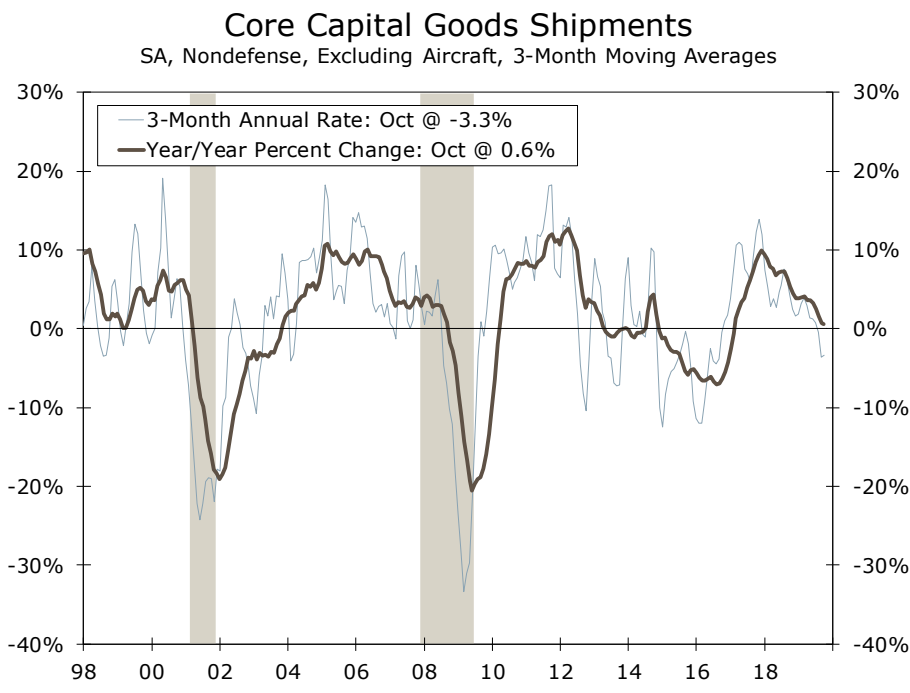


Source: Office of the U.S. Trade Representative, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

There are headwinds for the manufacturing sector, but aside from the ISM, the survey data suggest moderation in the pace of growth rather than sustained declines.

Slipping into Negative Territory for Capex

But We See Scope for Moderate Growth

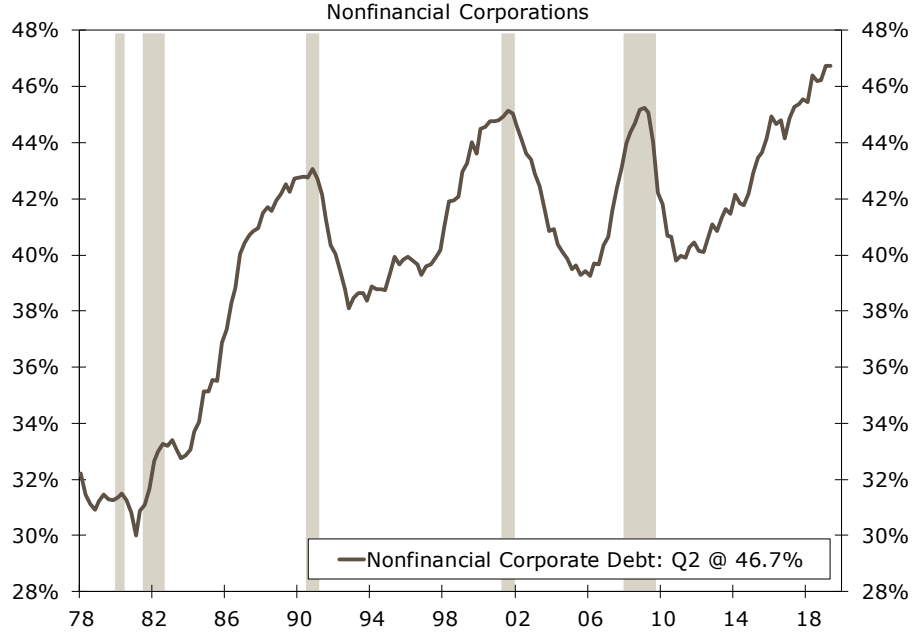


Source: U.S. Department of Commerce and Wells Fargo Securities

Do low interest rates mean we can safely ignore elevated corporate debt?
 The baseline is that the trade war does not escalate, but that's not guaranteed.

Corporate Debt is at Record High

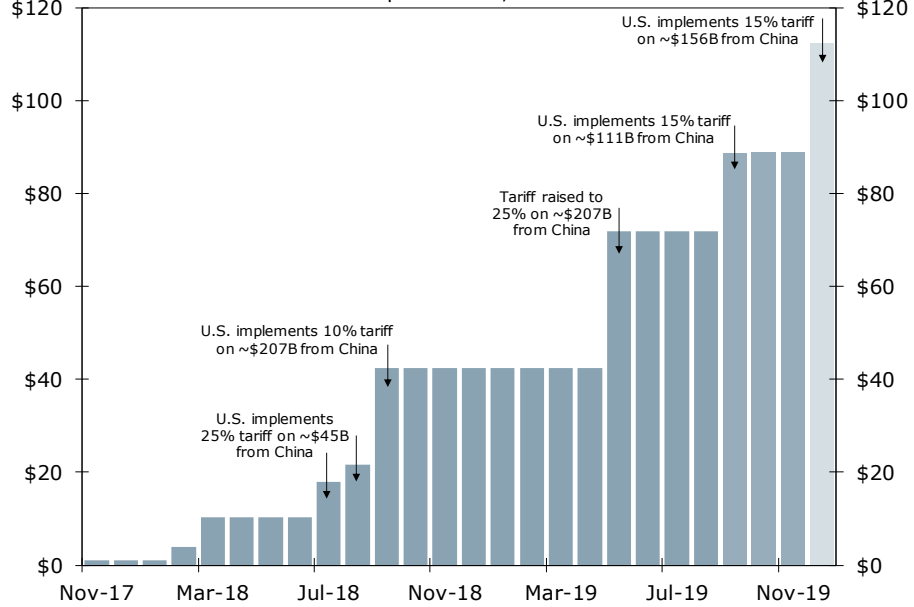
Corporate Debt as a Share of GDP



Does Trade War Stop Escalating?

The Rising Cost of the Trade War

Annualized Cost Based on Value of Goods x Tariff Rate
 2018 U.S. Import Levels, Billions of USD

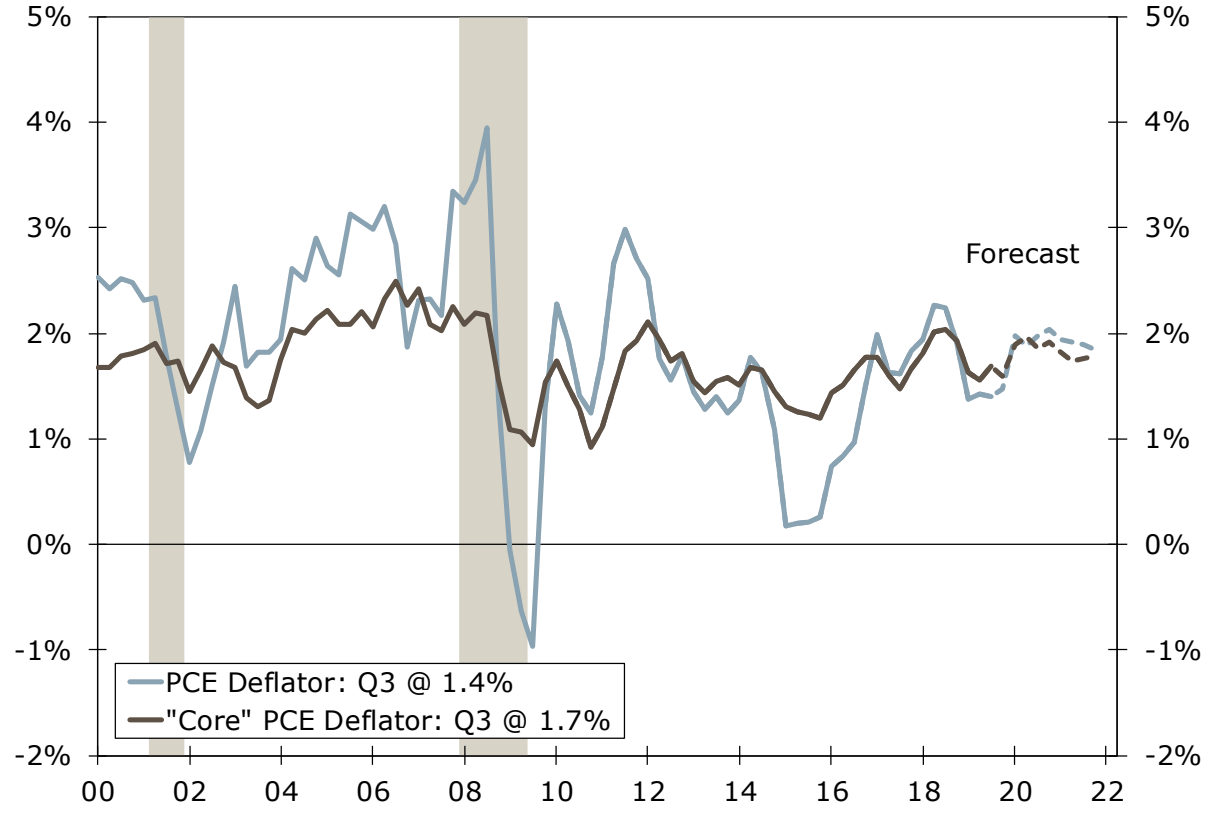


Source: Federal Reserve Board, Office of the U.S. Trade Representative, U.S. Department of Commerce and Wells Fargo Securities

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

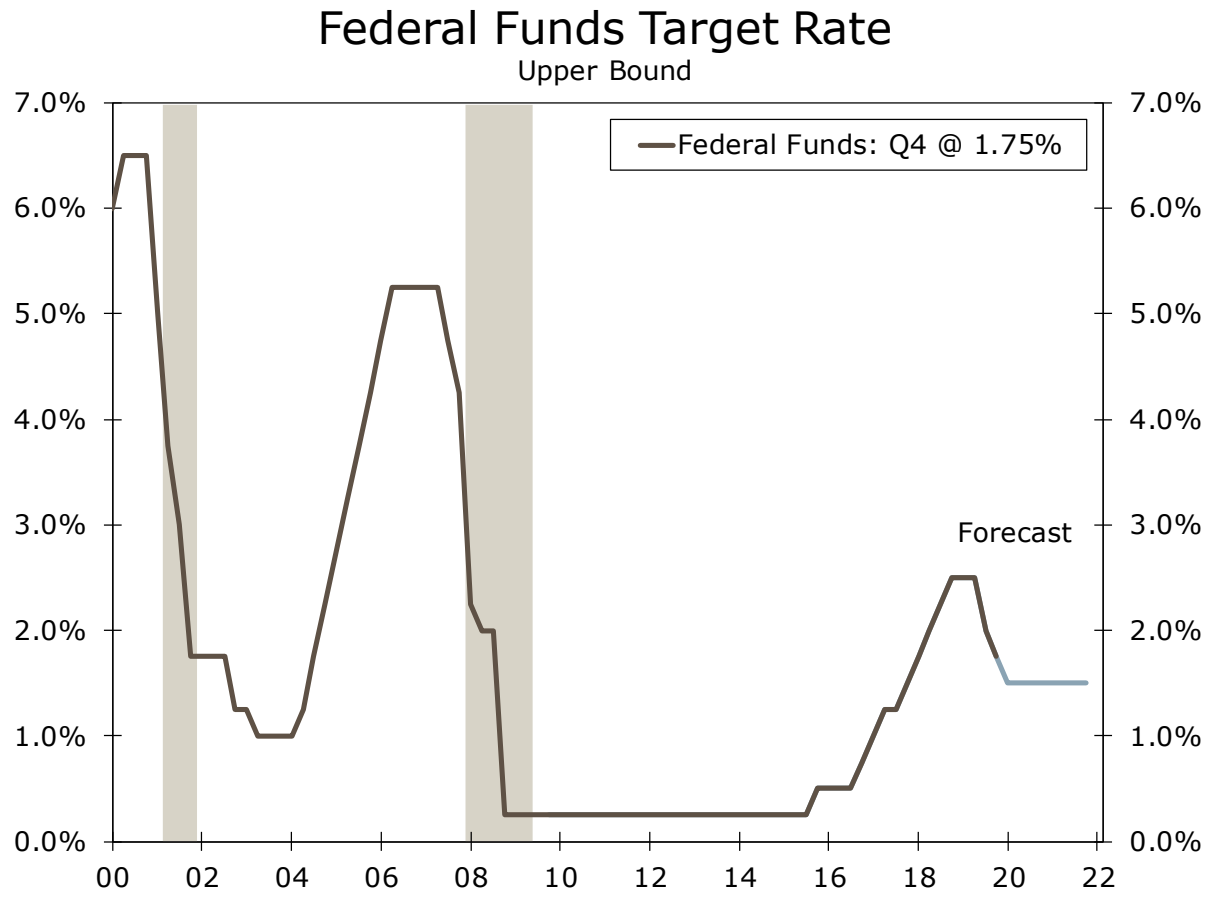
PCE Deflator & "Core" PCE Deflator

Year-over-Year Percent Change



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

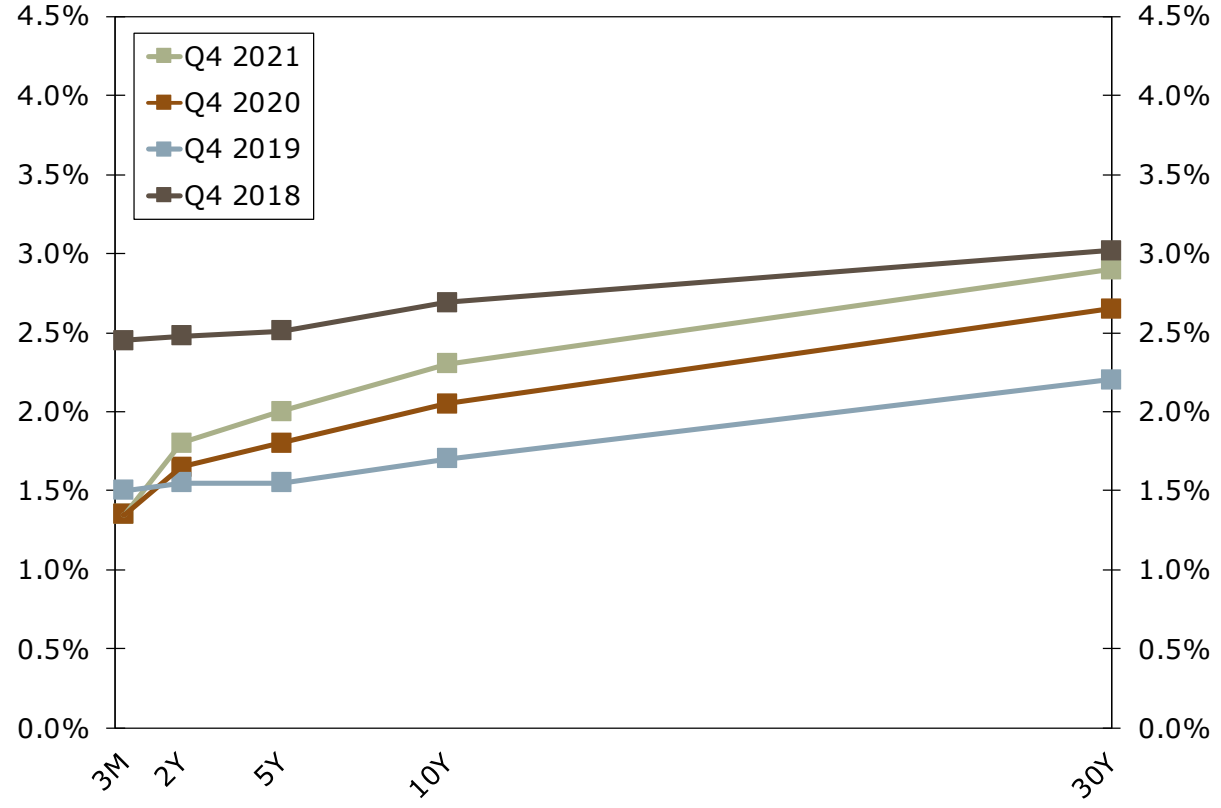
After three rate cuts in 2019, we are close to being done with this mid-cycle adjustment.



Source: Federal Reserve Board and Wells Fargo Securities

After this year's inversion, the yield curve should continue to steepen, if only incrementally.

Wells Fargo Rates Forecast Through 2021



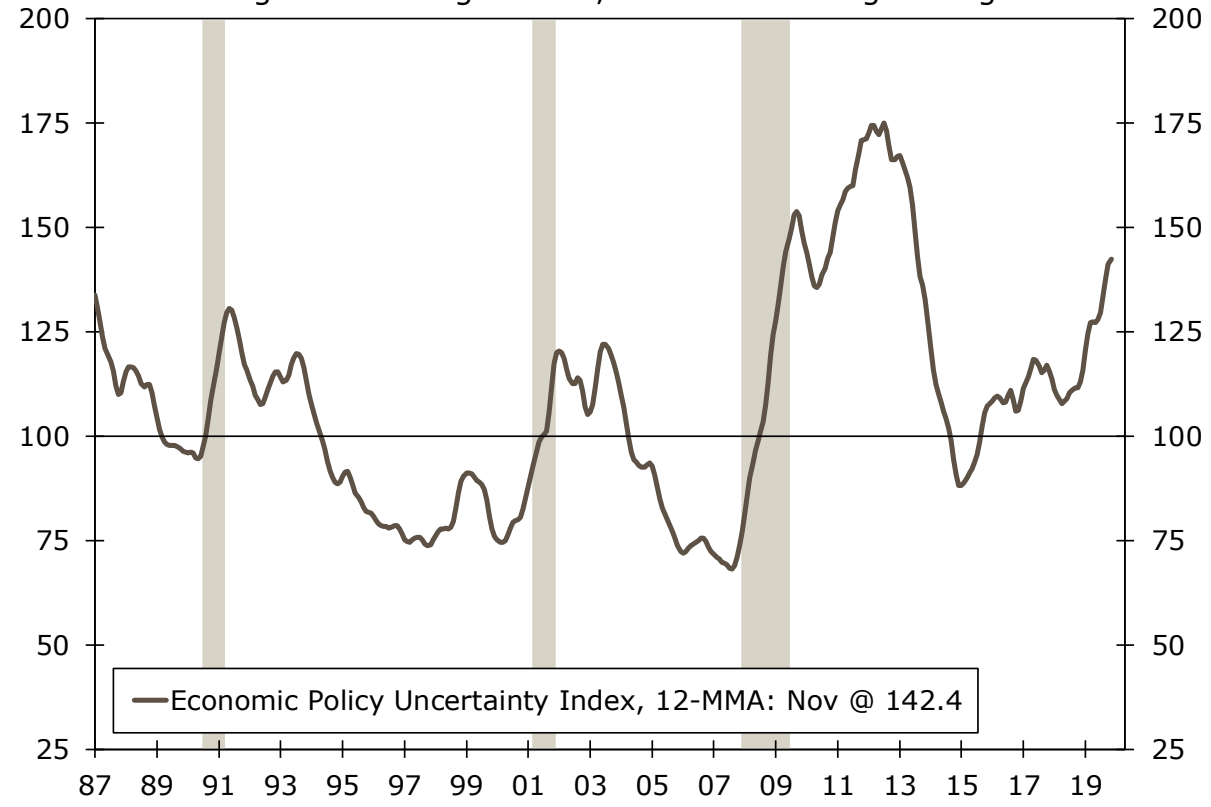
Source: Bloomberg LP and Wells Fargo Securities

U.S. Political Uncertainties

U.S. economic policy uncertainty has been rising since the summer of 2018.

U.S. Economic Policy Uncertainty Index

Long Term Average = 100, 12-Month Moving Average



Source: Baker, Bloom & Davis and Wells Fargo Securities

The top five polling candidates maintain a bit less than three-quarters of the support.

The 2020 Democratic Primary State of Play		
National Polling Average on Real Clear Politics as of December 9, 2019		
1	Joe Biden	28.0%
2	Bernie Sanders	15.7%
3	Elizabeth Warren	14.0%
4	Pete Buttigieg	10.8%
5	Michael Bloomberg	4.5%

Source: Real Clear Politics and Wells Fargo Securities

2020 Senate Races

116 th Congress	
Total Republicans	53
Total Democrats:	45
Independents (Caucus w/ Dems)	2

Note: 50 seats are needed for a majority (with Vice President casting a tie-breaking vote) or 51 seats without the VP

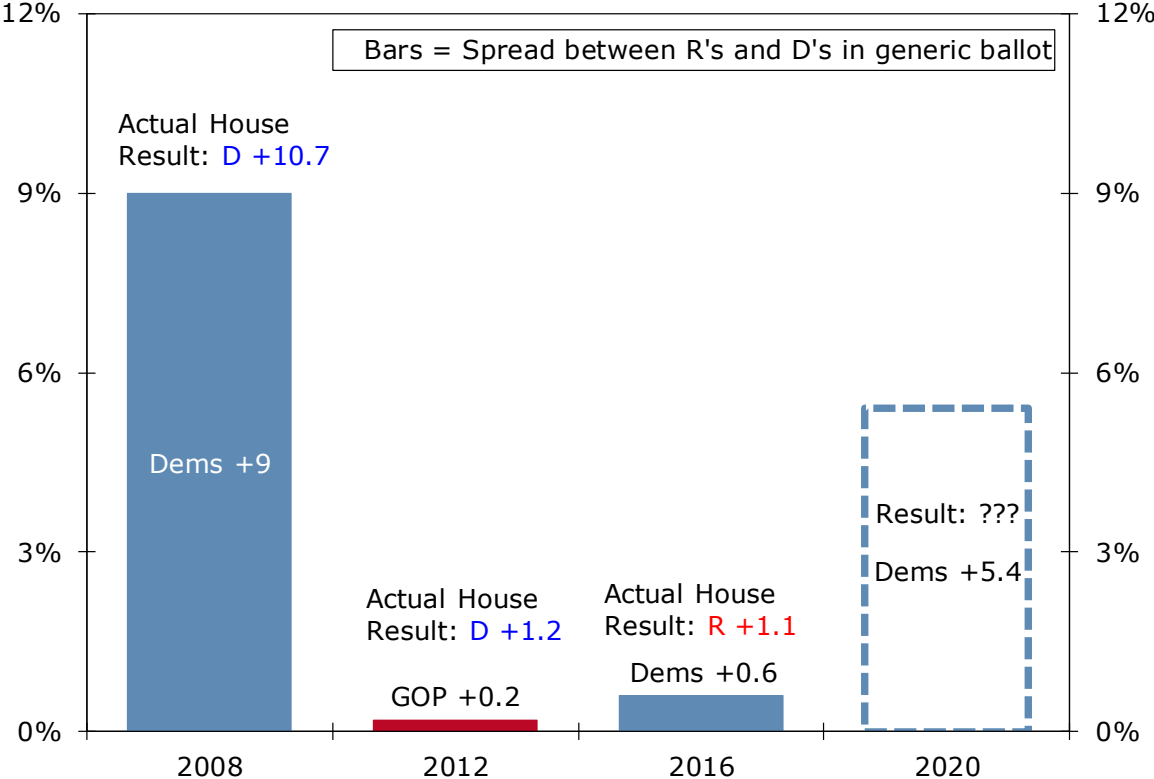
- There will be 35 Senate races in the 2020 election.
- There are 23 Republican seats up for re-election versus 12 Democratic seats.
- Of the 23 seats the Republicans are defending, 15 are in states that Donald Trump won by 14 percentage points or more in 2016.
- Of the remaining eight, Donald Trump won six of them by at least 3.5 percentage points.
- Alabama represents another potential wild card.

Source: United States Senate and Wells Fargo Securities

The average net change in House seats over the last six presidential elections is seven, and majority control of the House has not switched parties in a presidential election year since 1952.

U.S. Presidential Elections: The Generic Ballot

Real Clear Politics Average on Election Day, 2020 Data as of Dec. 9



Source: Real Clear Politics and Wells Fargo Securities

Joe Biden

- Does not support Medicare for All.
- Supports a public health insurance option and more generous subsidies to purchase health insurance.
- Supports expanding Social Security benefits, paid for by lifting the cap on the Social Security payroll tax.
- Supports two years of tuition-free community college, but not broad-based student loan debt forgiveness.
- Supports raising the corporate income tax rate to 28%, up from 21%.
- Supports higher tax rates on income and capital gains for high-earners.
- Possible support for a financial transaction tax (FTT).
- No plan for a wealth tax.
- No plan for mark-to-market taxation of capital gains.

Pete Buttigieg

- Does not support Medicare for All.
- Supports a public health insurance option and more generous subsidies to purchase health insurance.
- Supports expanding Social Security benefits, paid for by lifting the cap on the Social Security payroll tax.
- Supports tuition free public college for families with income below \$100,000, (reduced for families from \$100k-\$150k).
- Does not have a plan for broad-based student loan debt forgiveness.
- Supports raising the corporate income tax rate to 35%, up from 21%.
- Supports higher tax rates on income and capital gains for high-earners.
- Supports mark-to-market taxation of capital gains for high-earners.
- Possible support for a FTT.
- Possible support for a wealth tax.

Source: POLITICO, Candidates' Campaign Websites/Public Statements and Wells Fargo Securities

Elizabeth Warren

- Supports Medicare for All.
- Supports cancelling up to \$50,000 in student loan debt per borrower (with a sliding scale depending on household income).
- Supports free public college.
- Supports expanding Social Security benefits, paid for by lifting the cap on the Social Security payroll tax.
- Supports raising the corporate income tax rate to 35%, up from 21%.
- Supports higher tax rates on income and capital gains for high-earners.
- Supports a wealth tax.
- Supports a financial transactions tax
- Supports mark-to-market taxation of capital gains for high-earners.

Bernie Sanders

- Supports Medicare for All.
- Supports the cancellation of all student loan debt.
- Supports free public college.
- Supports expanding Social Security benefits, paid for by lifting the cap on the Social Security payroll tax.
- Supports raising the corporate income tax rate to 35%, up from 21%.
- Supports higher tax rates on income and capital gains for high-earners.
- Supports a wealth tax.
- Supports a financial transactions tax
- Supports mark-to-market taxation of capital gains for high-earners.

Source: POLITICO, Candidates' Campaign Websites/Public Statements and Wells Fargo Securities

Global Economic Outlook & Uncertainties

Slow economic growth is a global phenomenon, with the degree of U.S. economic outperformance lessening as 2019 has progressed.

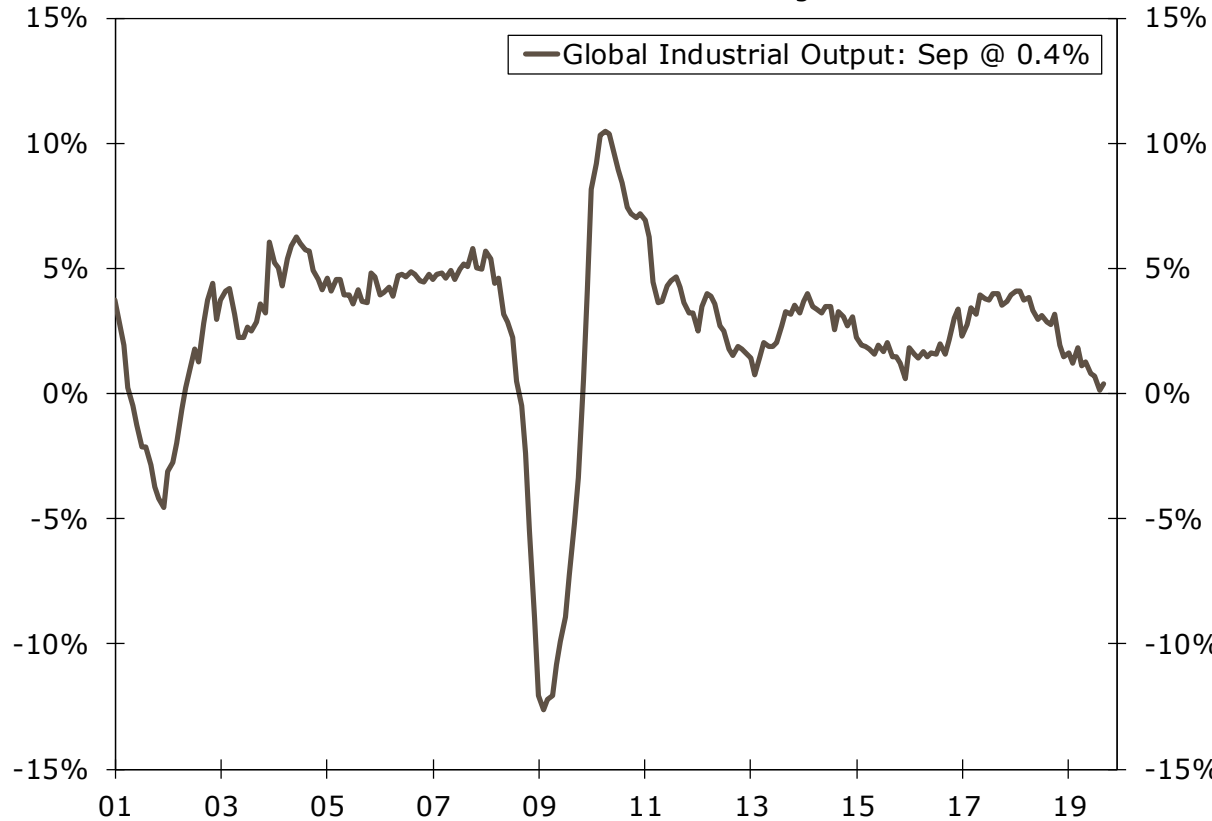


Source: Datastream, Federal Reserve and Wells Fargo Securities

The manufacturing downturn is widespread, with industrial activity contracting for most major economies.

Global Industrial Output

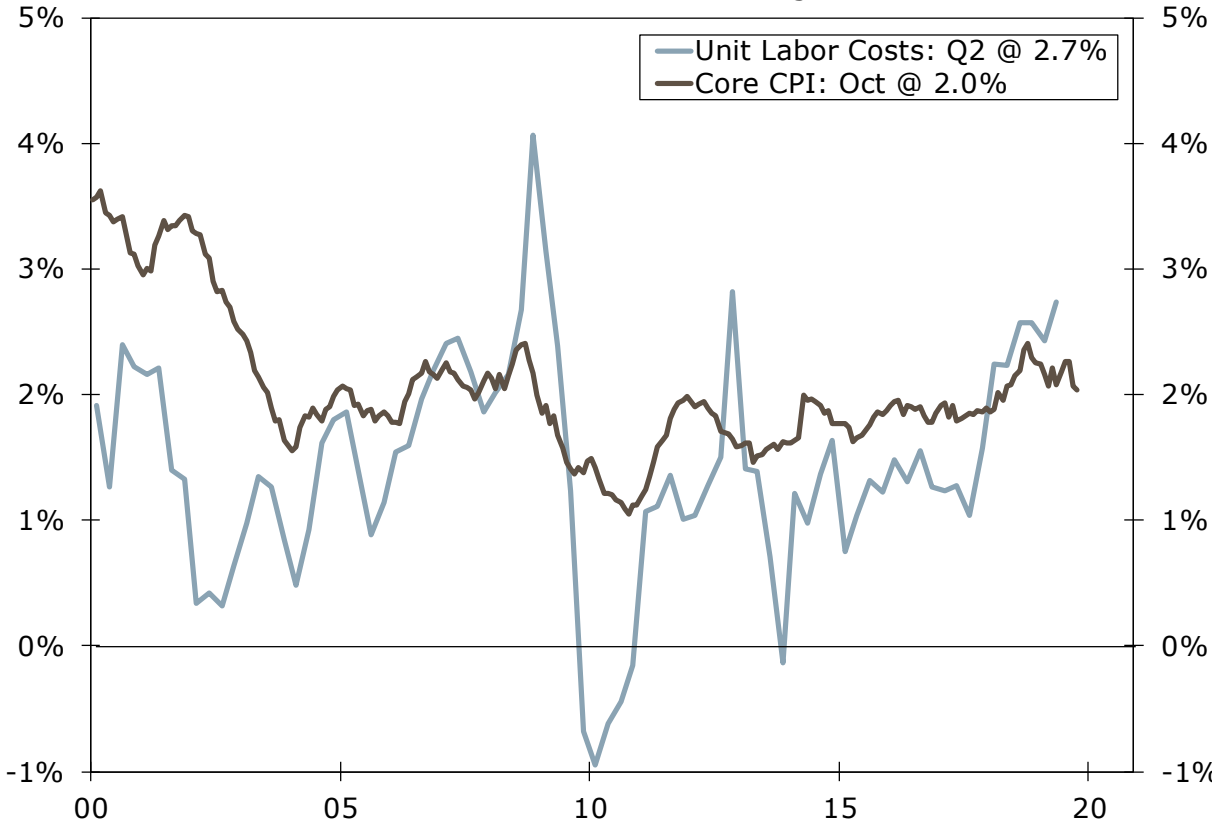
Year-over-Year Percent Change



Source: Datastream and Wells Fargo Securities

There are some indications that costs are beginning to rise more quickly than selling prices, while measures of corporate profitability have slowed or turned negative.

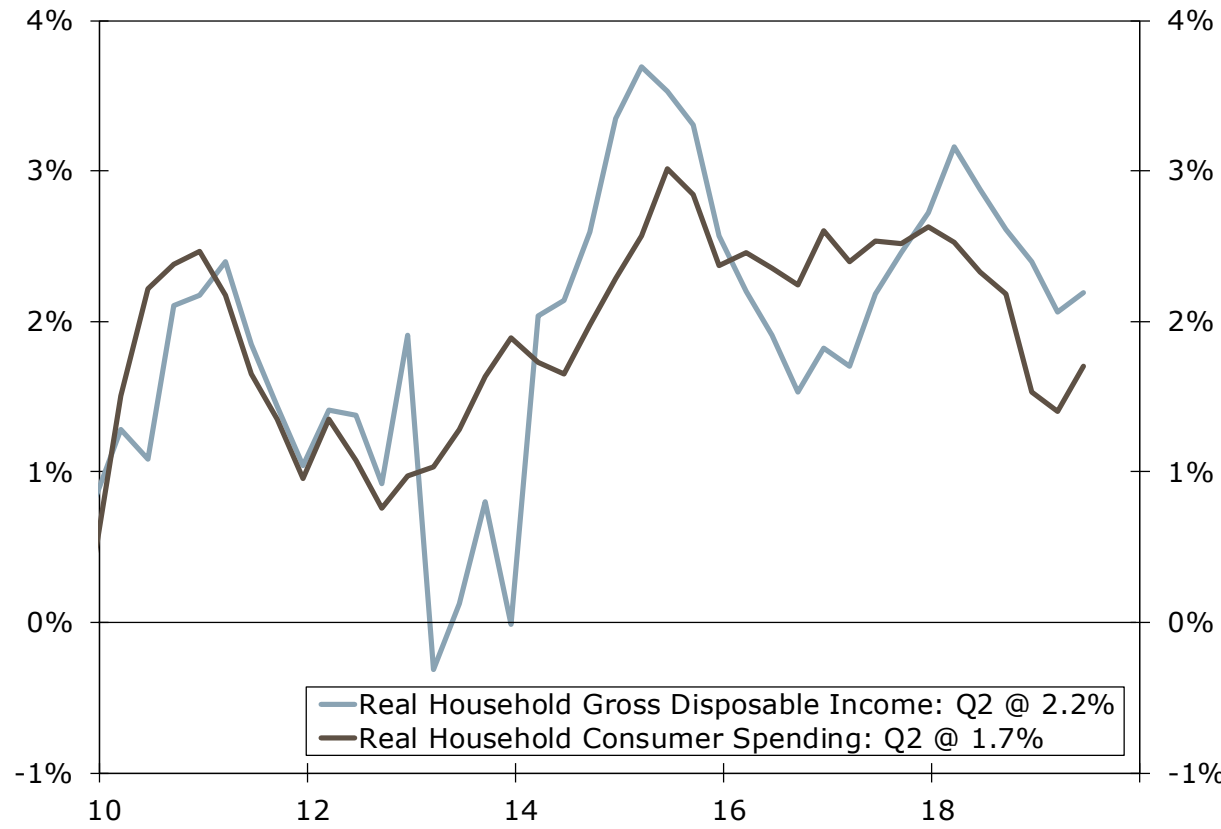
OECD Unit Labor Costs vs. Core CPI
Year-over-Year Percent Change



Source: Datastream, OECD and Wells Fargo Securities

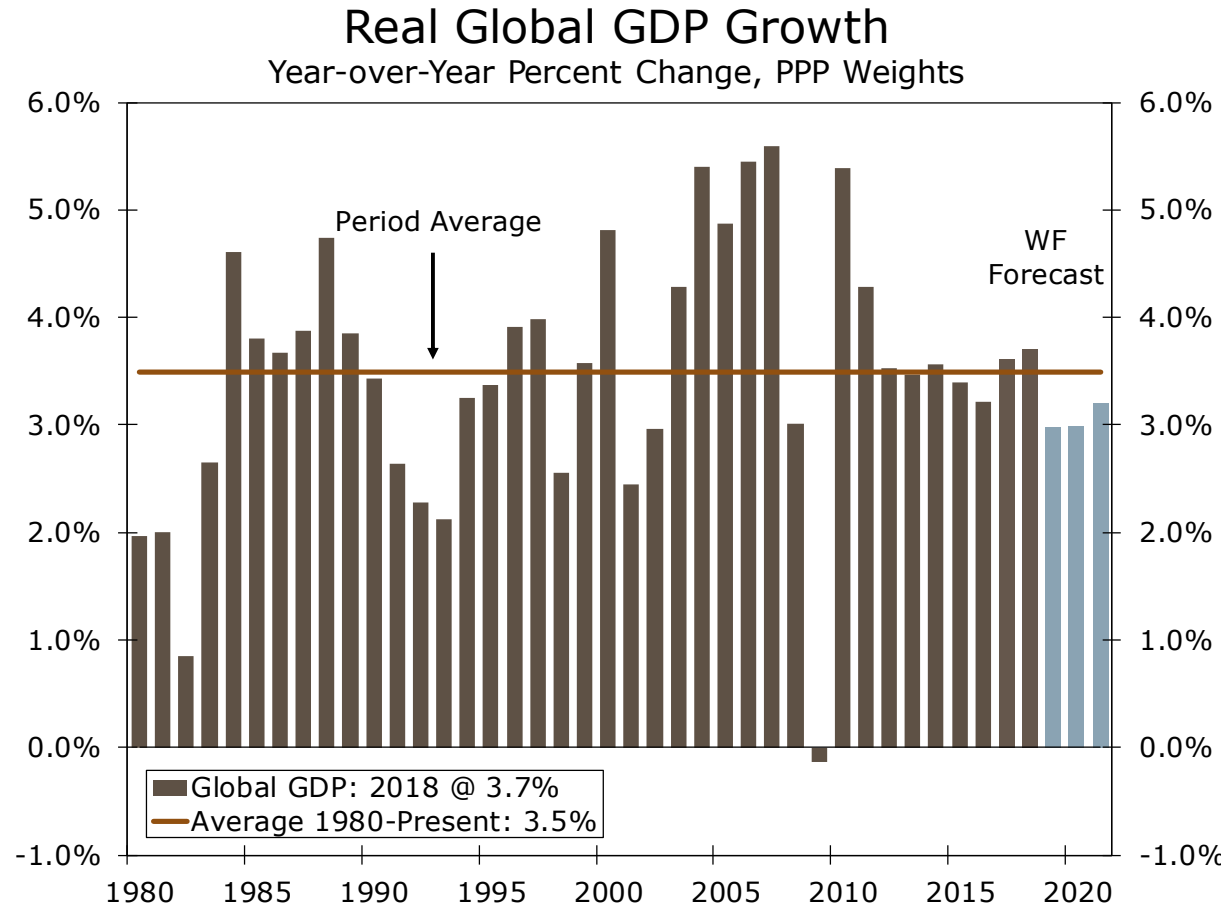
We expect activity in the consumer and services sectors to remain reasonably resilient.

OECD Household Income vs. Consumer Spending
Year-over-Year Percent Change



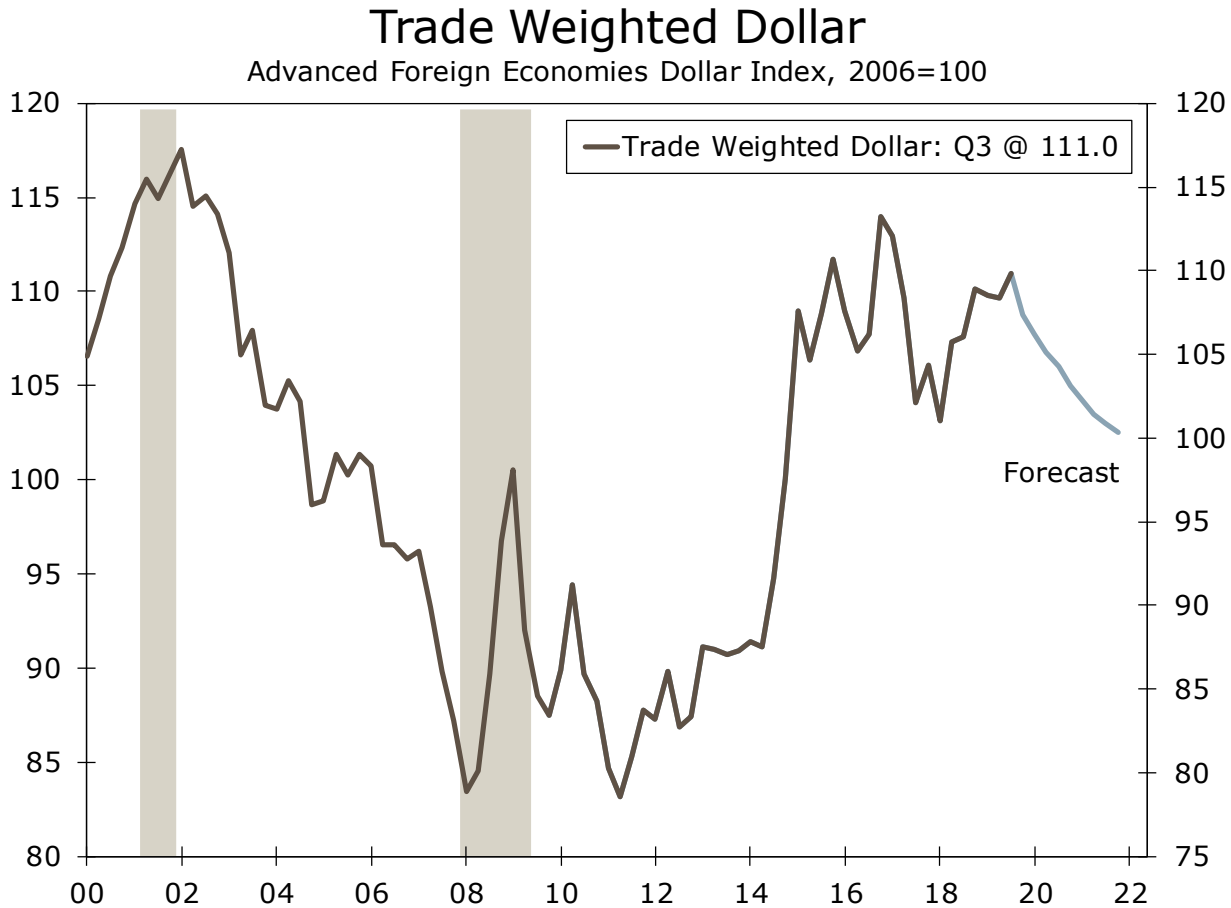
Source: Datastream, OECD and Wells Fargo Securities

Projected global GDP growth of 3.0% in 2019 and 2020 would be the weakest growth outcomes since 2009.



Source: International Monetary Fund and Wells Fargo Securities

Slower U.S. Economic Growth and possible Federal Reserve easing could lead to moderate U.S. dollar weakness over time.



Source: IHS Markit and Wells Fargo Securities

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP				CPI			
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Global (PPP Weights)	3.6%	3.0%	3.0%	3.2%	3.6%	3.4%	3.6%	3.4%
Advanced Economies ¹	2.3%	1.9%	1.6%	2.0%	2.0%	1.5%	1.9%	1.9%
United States	2.9%	2.3%	1.8%	2.2%	2.4%	1.8%	2.3%	2.2%
Eurozone	1.9%	1.1%	1.0%	1.4%	1.8%	1.2%	1.3%	1.5%
United Kingdom	1.4%	1.3%	1.1%	1.6%	2.5%	1.8%	1.8%	2.0%
Japan	0.8%	0.9%	0.4%	1.0%	1.0%	0.5%	1.2%	1.0%
Canada	2.0%	1.6%	1.6%	1.7%	2.3%	1.9%	1.9%	2.0%
Developing Economies ¹	4.5%	3.7%	4.0%	4.1%	4.8%	4.7%	4.9%	4.4%
China	6.6%	6.1%	5.8%	5.6%	2.1%	2.8%	3.1%	2.2%
India	7.4%	5.2%	6.3%	6.7%	3.9%	3.5%	4.1%	3.9%
Mexico	2.1%	0.1%	1.1%	1.8%	4.9%	3.6%	3.6%	3.5%

Forecast as of: December 11, 2019

¹Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Securities

Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast					
	2018		2019		2020				2021				2018	2019	2020	2021				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2018	2019	2020	2021
Real Gross Domestic Product (a)	2.6	3.5	2.9	1.1	3.1	2.0	2.1	1.5	1.7	1.9	2.0	2.2	2.1	2.2	2.4	2.4	2.9	2.3	1.8	2.2
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	2.9	2.1	2.0	2.0	1.9	1.9	1.8	2.1	2.2	2.2	3.0	2.6	2.3	1.9
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.7	2.5	1.9	1.6	3.5	3.5	4.0	3.9	3.9	3.8	6.4	2.3	1.5	3.7
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	1.1	0.9	-0.5	2.1	2.1	3.4	3.4	3.2	3.0	6.8	1.6	0.3	2.7
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	5.1	6.2	4.9	4.2	5.7	6.0	5.9	5.5	5.6	5.7	7.4	7.8	5.1	5.7
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-12.0	-6.5	-1.5	1.5	2.5	2.0	1.8	1.9	2.0	2.1	4.1	-4.5	-3.2	2.0
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	5.1	4.5	4.3	4.5	4.5	4.3	4.0	4.0	3.8	3.5	-1.5	-1.6	4.0	4.1
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.6	0.5	0.7	1.4	1.1	0.8	0.8	0.8	0.7	0.7	1.7	2.2	1.2	0.9
Net Exports (b)	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	0.1	0.0	0.0	-0.2	-0.1	-0.2	-0.1	0.0	0.0	-0.4	-0.3	-0.1	-0.1
Inventory Change (b)	0.1	-1.2	2.1	0.1	0.5	-0.9	0.2	-0.5	-0.2	-0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.1	0.2	-0.2	0.1
Nonfarm Payroll Change (c)	228	243	189	233	174	152	193	184	180	405	-105	10	115	110	110	110	223	176	123	111
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.6	3.6	3.5	3.6	3.6	3.7	3.7	3.7	3.7	3.9	3.7	3.6	3.7
Consumer Price Index (d)	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.0	2.4	2.2	2.3	2.2	2.2	2.2	2.2	2.1	2.4	1.8	2.3	2.2
Quarter-End Interest Rates (e)																				
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.96	2.19	1.50	1.50
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.28	3.80	3.61	3.55	3.50	3.55	3.65	3.75	3.80	3.90	3.95	4.00	4.54	3.81	3.61	3.91
2 Year Note	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.55	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.80	2.53	1.80	1.58	1.76
10 Year Note	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.70	1.75	1.85	1.95	2.05	2.10	2.20	2.25	2.30	2.91	1.95	1.90	2.21

Forecast as of: December 11, 2019

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

(b) Percentage Point Contribution to GDP

(c) Average Monthly Change

(d) Year-over-Year Percentage Change

(e) Annual Numbers Represent Averages

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

The Wells Fargo logo, consisting of the words "WELLS" and "FARGO" stacked vertically in a yellow, serif font on a dark red rectangular background.

WELLS
FARGO

The word "SECURITIES" in a white, sans-serif font on a light blue rectangular background.

SECURITIES

A silhouette of a person standing on a rocky cliff, looking out over a vast landscape of clouds. The sun is low on the horizon, creating a golden glow. The clouds are thick and layered, filling the valley and extending to the horizon. The person is in the center of the frame, with their right hand raised to their forehead as if shielding their eyes or looking in the distance.

2020 Annual Economic Outlook

Uncertainty clouds our view

Q&A

Economists & Macro Strategists

Jay H. Bryson, Acting Chief Economist	jay.bryson@wellsfargo.com
Mark Vitner, Senior Economist	mark.vitner@wellsfargo.com
Sam Bullard, Senior Economist	sam.bullard@wellsfargo.com
Nick Bennenbroek, Macro Strategist	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan, Senior Economist	tim.quinlan@wellsfargo.com
Azhar Iqbal, Econometrician	azhar.iqbal@wellsfargo.com
Sarah House, Senior Economist	sarah.house@wellsfargo.com
Charlie Dougherty, Economist	charles.dougherty@wellsfargo.com
Erik Nelson, Macro Strategist	erik.f.nelson@wellsfargo.com
Michael Pugliese, Economist	michael.d.pugliese@wellsfargo.com
Brendan McKenna, Macro Strategist	brendan.mckenna@wellsfargo.com

Economic Analysts

Shannon Seery, Economic Analyst	shannon.seery@wellsfargo.com
Matthew Honnold, Economic Analyst	matthew.honnold@wellsfargo.com
Jen Licis, Economic Analyst	jennifer.licis@wellsfargo.com
Hop Mathews, Economic Analyst	hop.mathews@wellsfargo.com

Administrative Assistants

Coren Burton, Administrative Assistant	coren.burton@wellsfargo.com
--	--

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE