



Economics Group

Interest Rate Weekly

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Michael Pugliese, Economic Analyst
michael.d.pugliese@wellsfargo.com • (704) 410-3156

Solid Asset Appreciation Boosts Household Net Worth in Q4

Household asset holdings rose 2 percent in Q4, led by financial asset and real estate gains. Real per capita household net worth is at an all-time high, providing a tailwind to the U.S. consumer for 2017.

How Do Household Asset Holdings Compare to Previous Peaks?

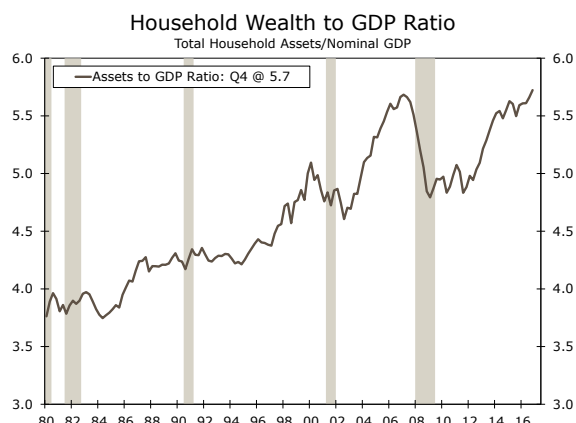
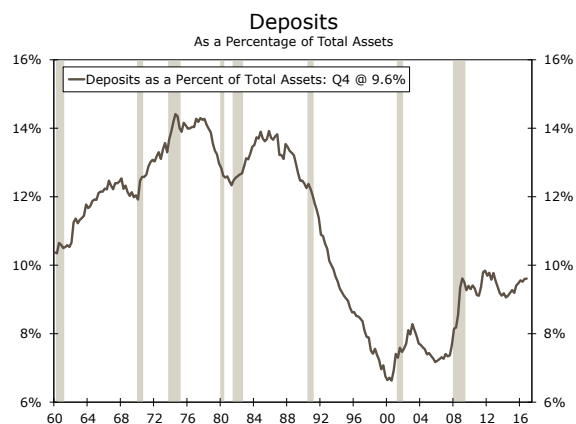
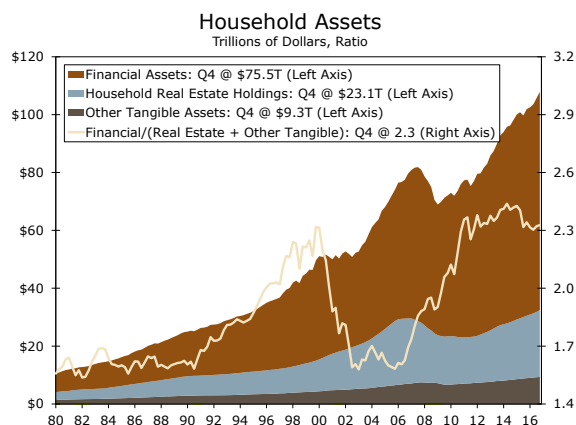
U.S. economic growth has been powered by personal consumption over the past few quarters. Some headwinds have emerged, however, such as faster inflation, higher interest rates and a gradual slowdown in employment growth. One counterweight to this has been robust asset appreciation. Household financial and tangible asset appreciation remained firm to end 2016, increasing 2.1 percent for the second consecutive quarter. Real per capita household net worth is now an all-time high \$254,006, well-above the pre-recession peak of \$234,050 reached in Q1 2007.

Typical household asset holdings in this cycle are more heavily tilted toward financial assets than tangible assets, such as real estate (top chart). This trend is more reminiscent of the late 1990s tech boom than the housing boom that occurred in the 2000s. One encouraging difference between today and the tech bubble period is much higher bank deposit holdings in the current period. Bank deposits as a share of total assets shot up during the Great Recession, reflecting more cautious behavior and asset depreciation at the time. However, despite robust asset appreciation in the eight years since the recession ended, deposits as a share of total assets have largely held steady (middle chart). Admittedly, deposit holdings still represent a much smaller share of household assets than they did 30 years ago, and it remains to be seen whether households will at some point shed their cautious approach. For the time being, however, consumers appear a bit better positioned late in the cycle relative to the previous two peaks.

Asset appreciation has continued to start the year. The S&P 500 is up about 6 percent thus far in 2017, and home price appreciation has remained steady amid still lean inventories. Thus it seems likely that household net worth will continue to trek higher in Q1, explaining at least part of the recent run up in consumer confidence. We look for real personal consumption to grow 2.7 percent in 2017, which would match 2016's pace.

Fed Keeping Asset Prices in Mind

Fed officials have at times made note of rising asset prices and have raised concerns about the effect keeping interest rates too low for too long might have on asset valuations. Prior to the Fed speak that significantly raised the probability of a March rate hike, there were questions about whether the "hard" economic data had improved enough to warrant back-to-back rate hikes. Perhaps the recent strength in asset prices played a role in the Fed's decision. As the bottom chart illustrates, household assets relative to the size of the economy is historically high, with the peak of the housing bubble the only recent comparable period. If this trend continues and the Fed is indeed weighing asset valuations in its interest rate decision making, further tightening would likely be on the horizon.



Wells Fargo U.S. Interest Rate Forecast

	Actual				Forecast							
	2016				2017				2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Quarter End Interest Rates												
Federal Funds Target Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25
3 Month LIBOR	0.63	0.65	0.85	1.00	1.30	1.50	1.50	1.75	1.75	2.00	2.25	2.50
Prime Rate	3.50	3.50	3.50	3.75	4.00	4.25	4.25	4.50	4.50	4.75	5.00	5.25
Conventional Mortgage Rate	3.69	3.57	3.46	4.20	4.30	4.36	4.41	4.44	4.46	4.48	4.55	4.62
3 Month Bill	0.21	0.26	0.29	0.51	0.76	1.02	1.10	1.30	1.40	1.50	1.76	2.02
6 Month Bill	0.39	0.36	0.45	0.62	0.88	1.12	1.20	1.40	1.51	1.61	1.87	2.13
1 Year Bill	0.59	0.45	0.59	0.85	1.02	1.38	1.46	1.66	1.75	1.84	2.05	2.26
2 Year Note	0.73	0.58	0.77	1.20	1.34	1.66	1.75	1.93	2.02	2.11	2.26	2.41
5 Year Note	1.21	1.01	1.14	1.93	2.08	2.21	2.29	2.40	2.46	2.52	2.66	2.80
10 Year Note	1.78	1.49	1.60	2.45	2.55	2.62	2.68	2.72	2.75	2.78	2.86	2.94
30 Year Bond	2.61	2.30	2.32	3.06	3.18	3.34	3.40	3.49	3.54	3.58	3.67	3.76

Forecast as of: March 15, 2017

Wells Fargo U.S. Economic Forecast and FOMC Central Tendency Projections

	<u>2017</u>	<u>2018</u>
Change in Real Gross Domestic Product		
Wells Fargo	2.1	2.6
FOMC	2.0 to 2.2	1.8 to 2.3
Unemployment Rate		
Wells Fargo	4.6	4.5
FOMC	4.5 to 4.6	4.3 to 4.6
PCE Inflation		
Wells Fargo	2.1	2.4
FOMC	1.8 to 2.0	1.9 to 2.0
"Core" PCE Deflator		
Wells Fargo	2.0	2.2
FOMC	1.8 to 1.9	1.9 to 2.0

Forecast as of: March 15, 2017

NOTE: Projections of change in real gross domestic product (GDP) and in inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

Fed Data as of: March 15, 2017

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

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@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 Advisors, LLC, Wells Fargo Securities International Limited, 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 © 2017 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. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. 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. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

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

WELLS
FARGO

SECURITIES