June 12, 2019

# Economics Group

## Monthly Outlook

## U.S. Overview

### Outlook Depends on Trade War Assumptions

Our forecasts have been predicated on our assumption that the United States would not engage in full-blown trade wars with many of its major trading partners. Although the administration recently decided not to impose tariffs on Mexico, trade tensions between the United States and China linger and we assume that these tensions will fester for the foreseeable future. Anecdotal evidence suggests that uncertainty over trade policy has contributed to slower growth in business fixed investment spending. Therefore, our assumption of continued trade policy uncertainty has led us to marginally mark down our GDP growth forecast for 2019.

We have also changed our outlook for Federal Reserve monetary policy. Previously, we had thought that the Fed would be on hold through most of next year. We now look for the Fed to cut rates 25 bps at the July 31 FOMC meeting and another 25 bps in Q4 (probably at the October 30 meeting). Not only is this change to our Fed call consistent with the downward revision to our GDP forecast, but it also reflects our interpretation of how the FOMC thinks about policymaking at present.

The FOMC has largely undershot its 2% inflation objective for most of this expansion, and a rate cut could help it bring inflation expectations more in line with its target. In addition, with limited conventional "ammunition" (*i.e.,* only 225 bps of potential rate cuts) the FOMC may want to get ahead of any economic deceleration with "insurance" rate cuts rather than waiting until more economic trouble surfaces.

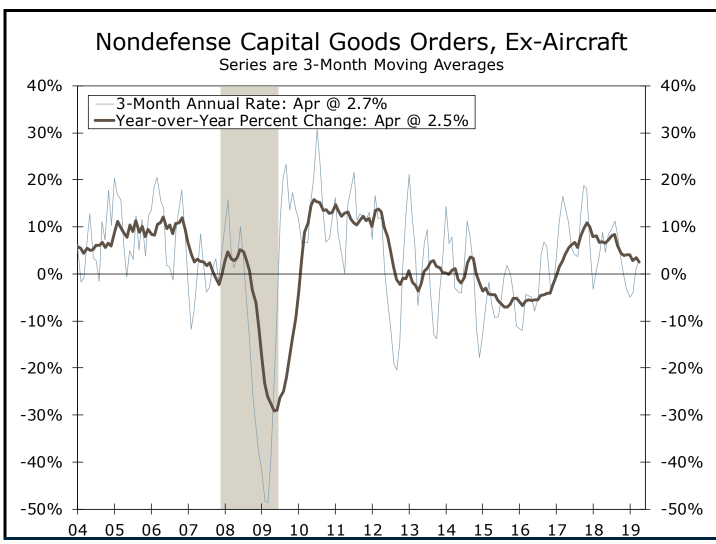
## International Overview

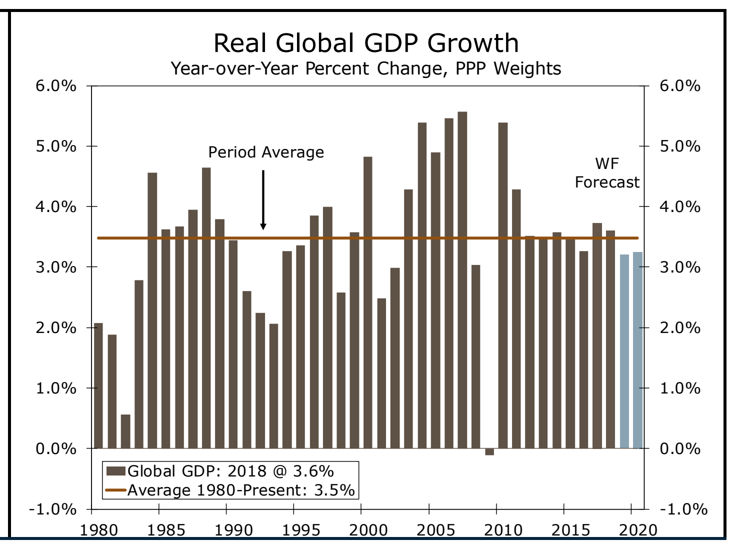
### Global Growth Enters the Summer in the Doldrums

The global growth backdrop has remained tepid heading into the summer. The Eurozone economy continues to teeter on the edge, with economic growth neither fast enough to reassure officials at the European Central Bank (ECB) nor slow enough to warrant more monetary stimulus. China faces headwinds from another escalation in the trade dispute, and we have accordingly trimmed our forecast for real GDP growth in the country. In North America, the outlook outside of the United States is not much better. Our most recent forecast looks for 2019 real GDP growth in Canada and Mexico to be just 1.2% and 1.5%, respectively.

Elsewhere, some central banks have already embarked on easing monetary policy (India, Australia) while financial markets are pricing in the start of easing cycles in several others (Mexico, Brazil). Our forecast for global real GDP growth in 2019 is 3.2%, which, if realized, would match 2016's pace for the slowest since the Great Recession.

President Trump has threatened additional tariffs on the remaining $300 billion in American imports from China, and the leaders of the two countries have tentative plans for what could be a crucial meeting at the G-20 summit from June 28-29. Possible tariffs on American imports of European and Japanese autos linger in the background, as do questions about the prospects for USMCA, the heir apparent to NAFTA. Another escalation in the ongoing trade spat, should it occur, could push the global economy to lows not seen in a decade.




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

**Outlook Depends on Trade War Assumptions**

All economic forecasts are based on a set of underlying assumptions, and our forecasts have been predicated on our assumption that the United States would not engage in full-blown trade wars with many of its major trading partners. The good news in that regard is that the United States and Mexico, which last year was America's third largest trading partner, recently reached agreement on migration issues that averted the imposition of escalating tariffs on Mexican imports.

The bad news, however, is that trade tensions between the United States and China continue to linger, and events over the past month have led us to believe that these tensions will continue to fester for the foreseeable future. Leaders from the G-20 countries will gather in Japan at the end of this month, and President Trump and Chinese President Xi likely will meet to talk about trade. We are assuming that the two leaders will not reach any breakthrough at this meeting, but will agree to continue negotiations. We further assume that the United States will delay raising tariffs on the remaining amount of Chinese imports—the Trump administration has already hiked tariffs on $250 billion of Chinese imports—but uncertainty about the future trading relationship between the two countries will continue to linger. In addition, potential tariffs on auto imports from the European Union and Japan are currently on the back burner, but they could resurface later this year. However, we assume that either an agreement will eventually be reached that will head off the imposition of auto tariffs or that the sides will agree to continue to negotiate further.

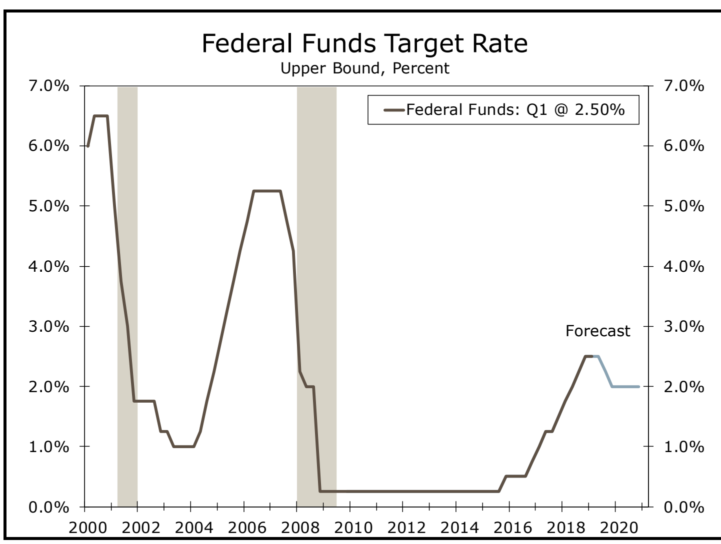
As we have written previously, the direct effects on the U.S. economy of a trade war with China are rather small. However, there are indirect effects that compound the slowing effect on the economy. First, the uncertainty can cause businesses, especially those with meaningful export exposure, to delay capital expenditures. As shown on the graph on the front page, growth in orders for non-defense capital goods has slowed in recent months, and anecdotal evidence suggests that uncertainty over trade policy has contributed to this deceleration. Accordingly, we have pared back our forecast for business fixed investment spending, which has helped to shave ¼ of a percentage point from our GDP forecast for 2019. In early May, we had projected that the economy would grow 2.8% in 2019. We now look for real GDP to grow 2.6% this year.

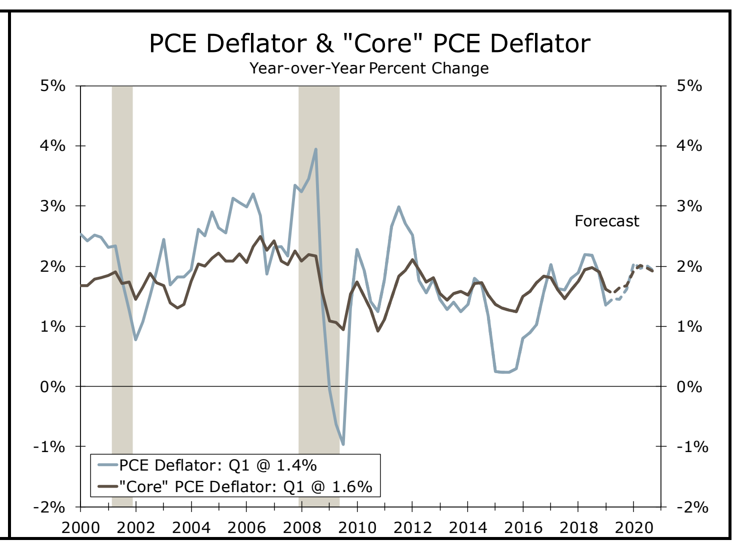
We have also made some changes to our outlook for monetary policy. We had been forecasting that the Fed would be on hold through most of next year. However, we now look for the Federal Open Market Committee (FOMC) to cut rates 25 bps at its July 31 meeting and another 25 bps in Q4, probably at the October 30 meeting (left chart). Not only is this change to our Fed call consistent with the downward revision to our GDP forecast, but it also reflects our interpretation of how the FOMC thinks about policymaking at present.

For starters, FOMC members seem to be acutely aware that they have largely undershot their 2% inflation objective for most of this expansion (bottom right chart). If, as we forecast, both the overall and the core rates of PCE inflation remain below 2% through the end of the year, then we believe the FOMC will feel compelled to cut rates in an attempt to bring inflation back toward target or at least lift inflation expectations.

Furthermore, a risk management approach to policymaking argues for more monetary accommodation at this time. That is, the FOMC has only 225 bps of conventional "ammunition" at present. Therefore, it may be prudent to cut rates sooner rather than later, especially because the economy faces few inflationary pressures. With limited "ammunition," the FOMC may want get ahead of any economic deceleration with "insurance" rate cuts rather than waiting until more economic trouble surfaces.

In sum, our outlook for the U.S. economy depends, at least in part, on political decisions (i.e., decisions regarding tariffs) that are difficult to forecast. We readily acknowledge that our assumptions regarding these political decisions may be flawed. Therefore, we discuss upside and downside risks to our outlook in a companion report.




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

## Wells Fargo U.S. Economic Forecast

| | Actual | | | | | | | | | Forecast | | | | | | | Actual | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2018 | | | | 2019 | | | | 2020 | | | | | | | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 2017 | 2018 | 2019 | 2020 |
| Real Gross Domestic Product (a) | 1.8 | 3.0 | 2.8 | 2.3 | 2.2 | 4.2 | 3.4 | 2.2 | 3.1 | 2.0 | 2.1 | 2.4 | 2.1 | 2.1 | 1.8 | 1.8 | 2.2 | 2.9 | 2.6 | 2.1 |
| Personal Consumption | 1.8 | 2.9 | 2.2 | 3.9 | 0.5 | 3.8 | 3.5 | 2.5 | 1.3 | 2.9 | 2.4 | 2.4 | 1.9 | 2.0 | 1.9 | 1.9 | 2.5 | 2.6 | 2.5 | 2.1 |
| Business Fixed Investment | 9.6 | 7.3 | 3.4 | 4.8 | 11.5 | 8.7 | 2.5 | 5.4 | 2.3 | 0.1 | 2.7 | 3.2 | 3.9 | 3.6 | 2.9 | 2.8 | 5.3 | 6.9 | 3.0 | 3.1 |
| Equipment | 9.1 | 9.7 | 9.8 | 9.9 | 8.5 | 4.6 | 3.4 | 6.6 | -1.1 | -2.8 | 1.0 | 1.7 | 3.1 | 2.6 | 2.1 | 2.0 | 6.1 | 7.4 | 1.3 | 1.9 |
| Intellectual Property Products | 8.0 | 6.6 | 1.7 | 0.7 | 14.1 | 10.5 | 5.6 | 10.7 | 7.2 | 5.1 | 4.7 | 4.6 | 4.7 | 4.6 | 3.7 | 3.5 | 4.6 | 7.5 | 6.9 | 4.5 |
| Structures | 12.8 | 3.8 | -5.7 | 1.3 | 13.9 | 14.5 | -3.4 | -3.9 | 1.7 | -2.5 | 3.0 | 4.5 | 4.5 | 4.0 | 3.5 | 3.5 | 4.6 | 5.0 | 0.2 | 3.6 |
| Residential Construction | 11.1 | -5.5 | -0.5 | 11.1 | -3.4 | -1.3 | -3.6 | -4.7 | -3.5 | -3.5 | 2.5 | 2.0 | 2.0 | 1.5 | 1.5 | 1.5 | 3.3 | -0.3 | -2.5 | 1.5 |
| Government Purchases | -0.8 | 0.0 | -1.0 | 2.4 | 1.5 | 2.5 | 2.6 | -0.4 | 2.5 | 5.0 | 1.4 | 0.8 | 0.7 | 0.5 | 0.4 | 0.3 | -0.1 | 1.5 | 2.2 | 1.0 |
| Net Exports | -845.5 | -844.1 | -845.9 | -899.2 | -902.4 | -841.0 | -949.7 | -955.7 | -903.6 | -922.4 | -902.0 | -915.2 | -907.5 | -905.8 | -908.6 | -907.6 | -858.7 | -912.2 | -910.8 | -907.4 |
| Pct. Point Contribution to GDP | -0.1 | 0.1 | 0.0 | -0.9 | 0.0 | 1.2 | -2.0 | -0.1 | 1.0 | -0.4 | 0.4 | -0.3 | 0.2 | 0.0 | -0.1 | 0.0 | -0.4 | -0.3 | 0.0 | 0.0 |
| Inventory Change | -2.4 | 11.9 | 64.4 | 16.1 | 30.3 | -36.8 | 89.8 | 96.8 | 125.5 | 104.0 | 71.3 | 87.3 | 80.0 | 80.0 | 80.0 | 80.0 | 22.5 | 45.0 | 97.0 | 80.0 |
| Pct. Point Contribution to GDP | -0.8 | 0.2 | 1.0 | -0.9 | 0.3 | -1.2 | 2.3 | 0.1 | 0.6 | -0.5 | -0.7 | 0.3 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.3 | -0.1 |
| Nominal GDP (a) | 3.9 | 4.2 | 4.8 | 5.1 | 4.3 | 7.6 | 4.9 | 4.1 | 3.6 | 4.5 | 3.7 | 4.6 | 4.3 | 4.2 | 3.5 | 3.6 | 4.2 | 5.2 | 4.3 | 4.1 |
| Real Final Sales | 2.6 | 2.8 | 1.8 | 3.2 | 1.9 | 5.4 | 1.0 | 2.1 | 2.5 | 2.7 | 2.8 | 2.1 | 2.3 | 2.1 | 1.8 | 1.8 | 2.2 | 2.7 | 2.5 | 2.2 |
| Retail Sales (b) | 4.9 | 4.1 | 4.3 | 5.7 | 4.8 | 5.8 | 5.7 | 3.4 | 2.9 | 2.6 | 2.6 | 3.6 | 4.4 | 4.4 | 4.4 | 3.8 | 4.7 | 4.9 | 2.9 | 4.2 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 2.0 | 1.6 | 1.6 | 1.8 | 1.9 | 2.2 | 2.2 | 1.9 | 1.4 | 1.5 | 1.5 | 1.6 | 2.1 | 2.0 | 2.0 | 1.9 | 1.8 | 2.0 | 1.5 | 2.0 |
| "Core" PCE Deflator | 1.8 | 1.6 | 1.5 | 1.6 | 1.7 | 1.9 | 2.0 | 1.9 | 1.6 | 1.5 | 1.6 | 1.7 | 1.9 | 2.0 | 2.0 | 1.9 | 1.6 | 1.9 | 1.6 | 1.9 |
| Consumer Price Index | 2.5 | 1.9 | 2.0 | 2.1 | 2.2 | 2.7 | 2.6 | 2.2 | 1.6 | 1.9 | 1.8 | 2.0 | 2.4 | 2.2 | 2.2 | 2.2 | 2.1 | 2.4 | 1.8 | 2.3 |
| "Core" Consumer Price Index | 2.1 | 1.8 | 1.7 | 1.8 | 1.9 | 2.2 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 | 2.1 | 1.8 | 2.1 | 2.1 | 2.1 |
| Producer Price Index (Final Demand) | 2.0 | 2.2 | 2.4 | 2.7 | 2.8 | 3.0 | 3.1 | 2.8 | 2.0 | 1.9 | 1.8 | 1.7 | 2.3 | 2.3 | 2.3 | 2.2 | 2.3 | 2.9 | 1.9 | 2.3 |
| Employment Cost Index | 2.4 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.8 | 2.9 | 2.8 | 3.0 | 3.0 | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 | 2.5 | 2.8 | 3.0 | 3.2 |
| Real Disposable Income (a) | 4.5 | 2.2 | 2.2 | 2.3 | 4.4 | 1.8 | 2.6 | 3.2 | 2.2 | 3.3 | 3.1 | 3.0 | 2.9 | 2.8 | 2.7 | 2.5 | 2.6 | 2.8 | 2.8 | 2.9 |
| Nominal Personal Income (b) | 4.1 | 4.3 | 4.5 | 4.6 | 4.3 | 4.5 | 4.5 | 4.3 | 3.8 | 4.0 | 4.1 | 4.1 | 4.3 | 4.2 | 3.9 | 3.6 | 4.4 | 4.4 | 4.0 | 4.0 |
| Industrial Production (a) | 2.4 | 5.6 | -0.8 | 7.5 | 2.3 | 4.6 | 5.2 | 3.9 | -1.9 | -1.8 | 1.6 | 1.9 | 0.2 | 0.7 | 0.7 | 0.1 | 2.3 | 3.9 | 1.1 | 0.7 |
| Capacity Utilization | 75.5 | 76.5 | 76.3 | 77.6 | 77.9 | 78.5 | 79.1 | 79.4 | 78.6 | 78.5 | 78.9 | 79.1 | 79.0 | 79.1 | 79.0 | 78.9 | 76.5 | 78.7 | 78.8 | 79.0 |
| Corporate Profits Before Taxes (b) | 3.0 | 3.6 | 2.8 | 3.3 | 5.9 | 7.3 | 10.4 | 7.4 | 3.1 | 2.7 | 3.5 | 2.1 | 1.4 | 0.5 | -2.5 | -3.0 | 3.2 | 7.8 | 2.8 | -0.9 |
| Corporate Profits After Taxes | 6.0 | 6.2 | 6.4 | 7.3 | 15.1 | 15.8 | 19.6 | 14.3 | 1.9 | 2.5 | 3.3 | 1.9 | 1.3 | 0.4 | -2.8 | -3.3 | 6.5 | 16.2 | 2.4 | -1.2 |
| Federal Budget Balance (c) | -317 | 4 | -143 | -225 | -375 | -7 | -172 | -319 | -372 | -71 | -188 | -300 | -447 | -69 | -234 | -314 | -666 | -779 | -950 | -1050 |
| Trade Weighted Dollar Index (d) | 112.9 | 109.7 | 104.1 | 106.1 | 103.1 | 107.3 | 107.6 | 110.1 | 109.8 | 107.3 | 107.0 | 106.5 | 105.5 | 104.0 | 102.8 | 102.0 | 108.9 | 106.4 | 107.6 | 103.6 |
| Nonfarm Payroll Change (e) | 173 | 190 | 136 | 218 | 228 | 243 | 189 | 233 | 174 | 153 | 155 | 150 | 190 | 420 | -100 | 15 | 179 | 223 | 158 | 131 |
| Unemployment Rate | 4.6 | 4.4 | 4.3 | 4.1 | 4.1 | 3.9 | 3.8 | 3.8 | 3.9 | 3.6 | 3.6 | 3.6 | 3.5 | 3.4 | 3.6 | 3.6 | 4.4 | 3.9 | 3.7 | 3.5 |
| Housing Starts (f) | 1.23 | 1.17 | 1.18 | 1.26 | 1.32 | 1.26 | 1.23 | 1.19 | 1.20 | 1.27 | 1.31 | 1.30 | 1.28 | 1.29 | 1.30 | 1.30 | 1.20 | 1.25 | 1.27 | 1.29 |
| Light Vehicle Sales (g) | 17.1 | 16.8 | 17.1 | 17.6 | 17.1 | 17.2 | 16.9 | 17.5 | 16.8 | 16.8 | 16.7 | 16.6 | 16.6 | 16.5 | 16.4 | 16.3 | 17.1 | 17.2 | 16.7 | 16.5 |
| Crude Oil - Brent - Front Contract (h) | 54.6 | 50.8 | 52.2 | 61.4 | 66.9 | 74.6 | 75.8 | 68.6 | 63.8 | 66.0 | 61.0 | 64.0 | 64.0 | 63.0 | 65.0 | 65.0 | 54.7 | 71.5 | 63.7 | 64.3 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 1.00 | 1.25 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 2.50 | 2.50 | 2.25 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.13 | 1.96 | 2.31 | 2.00 |
| 3 Month LIBOR | 1.15 | 1.30 | 1.33 | 1.69 | 2.31 | 2.34 | 2.40 | 2.81 | 2.60 | 2.45 | 2.25 | 2.15 | 2.20 | 2.15 | 2.15 | 2.15 | 1.26 | 2.31 | 2.36 | 2.16 |
| Prime Rate | 4.00 | 4.25 | 4.25 | 4.50 | 4.75 | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.25 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 4.13 | 4.96 | 5.31 | 5.00 |
| Conventional Mortgage Rate | 4.20 | 3.90 | 3.81 | 3.94 | 4.44 | 4.57 | 4.63 | 4.64 | 4.28 | 3.75 | 3.80 | 3.90 | 3.95 | 4.00 | 4.00 | 4.05 | 3.99 | 4.54 | 3.93 | 4.00 |
| 3 Month Bill | 0.76 | 1.03 | 1.06 | 1.39 | 1.73 | 1.93 | 2.19 | 2.45 | 2.40 | 2.25 | 2.00 | 1.85 | 1.90 | 1.85 | 1.85 | 1.85 | 0.95 | 1.97 | 2.13 | 1.86 |
| 6 Month Bill | 0.91 | 1.14 | 1.20 | 1.53 | 1.93 | 2.11 | 2.36 | 2.56 | 2.44 | 2.15 | 1.95 | 1.90 | 1.95 | 1.90 | 1.90 | 1.90 | 1.07 | 2.14 | 2.11 | 1.91 |
| 1 Year Bill | 1.03 | 1.24 | 1.31 | 1.76 | 2.09 | 2.33 | 2.59 | 2.63 | 2.40 | 1.95 | 1.90 | 1.90 | 1.95 | 1.90 | 1.95 | 1.95 | 1.20 | 2.33 | 2.04 | 1.94 |
| 2 Year Note | 1.27 | 1.38 | 1.47 | 1.89 | 2.27 | 2.52 | 2.81 | 2.48 | 2.27 | 1.85 | 1.85 | 1.90 | 1.95 | 1.95 | 2.00 | 2.00 | 1.40 | 2.53 | 1.97 | 1.98 |
| 5 Year Note | 1.93 | 1.89 | 1.92 | 2.20 | 2.56 | 2.73 | 2.94 | 2.51 | 2.23 | 1.90 | 1.95 | 2.00 | 2.05 | 2.10 | 2.15 | 2.15 | 1.91 | 2.75 | 2.02 | 2.11 |
| 10 Year Note | 2.40 | 2.31 | 2.33 | 2.40 | 2.74 | 2.85 | 3.05 | 2.69 | 2.41 | 2.15 | 2.20 | 2.30 | 2.35 | 2.40 | 2.40 | 2.45 | 2.33 | 2.91 | 2.27 | 2.40 |
| 30 Year Bond | 3.02 | 2.84 | 2.86 | 2.74 | 2.97 | 2.98 | 3.19 | 3.02 | 2.81 | 2.60 | 2.65 | 2.75 | 2.80 | 2.85 | 2.90 | 2.95 | 2.89 | 3.11 | 2.70 | 2.88 |

Forecast as of: June 12, 2019

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Yr.
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Millions of Units - Annual Data - Not Seasonally Adjusted
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Annual Numbers Represent Averages

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

**Global Growth Enters the Summer in the Doldrums**

The global growth backdrop has remained tepid heading into the summer. The Eurozone economy continues to teeter on the edge, with economic growth neither fast enough to reassure officials at the European Central Bank (ECB) nor slow enough to warrant more monetary stimulus. The weakness in Europe has been heavily concentrated in the manufacturing sector. The Eurozone PMI for manufacturing is firmly in contraction territory (left chart), as is factory order growth in Germany, a key cog in Europe's industrial engine.

Despite this weakness, the Eurozone's larger service sector has hung in reasonably well, boosted by a resilient labor market. The unemployment rate in the Eurozone has declined 0.3 percentage points year-to-date, and year-over-year job growth in Q1 was only about half a percentage point slower than in the United States. Core inflation remains well short of the ECB's target, however, and was just 0.8 percent on a year-ago basis in May. Accordingly, policymakers at the ECB refrained from easing monetary policy further in June but once again pushed back their forward interest rate guidance, pledging to keep rates at current levels through at least the first half of 2020.

In North America, the outlook outside of the United States is not much better. Our most recent forecast looks for 2019 real GDP growth in Canada and Mexico to be just 1.2% and 1.5%, respectively. Economic growth has been abysmal in Canada over the past two quarters, with quarterly annualized growth of just 0.3% in Q4-2018 and 0.4% in Q1-2019. More recent data have been a bit better, as job growth has been robust of late and the housing market has shown some signs of stabilization.

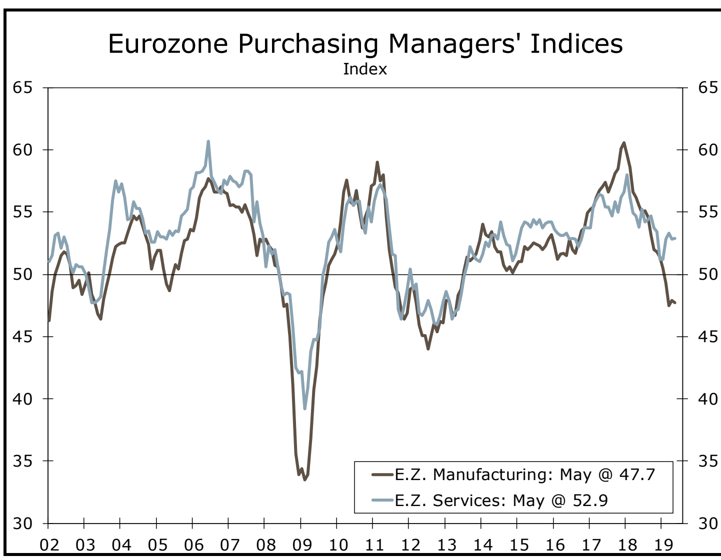
In light of this, the Bank of Canada (BoC) adopted a relatively upbeat tone at its May 29 meeting, noting in its statement that the slowdown in late 2018 and early 2019 appears temporary. Even still, given the depth of the slowdown domestically and globally, the BoC will likely remain cautious, and we expect no policy moves by the BoC for the rest of 2019.

In China, trade tensions continue to hang ominously over the economic outlook. The United States has increased tariffs to 25% from 10% on $200 billion of Chinese imports, effective June 1. China retaliated in-kind by raising tariffs on $60 billion of American imports. President Trump has threatened additional tariffs on the remaining $300 billion in American imports from China, and the leaders of the two countries have tentative plans for what could be a crucial meeting at the G-20 summit from June 28-29.

Despite the trade tumult over the past year, real GDP growth in China was 6.4% year-over-year in Q1, only 0.4 percentage points slower than the Q1-2018 reading. Fiscal and monetary policy stimulus have likely helped cushion the blow to growth from the trade dispute and generally weak global growth environment, but could a sharper slowdown be coming down the pipeline?

In a recent special report, we developed a new lens through which to view China's economy by calculating an unweighted average of economic growth in seven China-dependent economies. Encouragingly, average growth in these economies has not completely fallen off a cliff, as it did during the Great Recession or the Asian Financial Crisis. That said, average growth in the China-dependent economies has been halved since Q1-2018 and is below 2% for the first time since 2009 (right chart). Given the recent trade developments and warning signs flashed by other economies, we have trimmed our Chinese GDP forecast. We look for real GDP growth in China of 6.1% in 2019 and 6.0% in 2020, down from 6.6% in 2018.

Elsewhere, some central banks have already embarked on easing monetary policy (India, Australia) while financial markets are pricing in the start easing cycles in several others (Mexico, Brazil). Our forecast for global real GDP growth in 2019 is 3.2%, which, if realized, would match 2016's pace for the slowest since the Great Recession. Another escalation in the ongoing trade spat, should it occur, could push the global economy to lows not seen in a decade.





Source: Bloomberg LP, IHS Markit and Wells Fargo Securities

## Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

| | GDP | | | CPI | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Global (PPP Weights) | 3.6% | 3.2% | 3.3% | 3.6% | 3.3% | 3.5% |
| Advanced Economies[1] | 2.2% | 2.0% | 1.8% | 2.0% | 1.7% | 2.0% |
| United States | 2.9% | 2.6% | 2.1% | 2.4% | 1.8% | 2.3% |
| Eurozone | 1.9% | 1.1% | 1.4% | 1.8% | 1.4% | 1.5% |
| United Kingdom | 1.4% | 1.3% | 1.4% | 2.5% | 2.0% | 2.1% |
| Japan | 0.8% | 0.6% | 0.3% | 1.0% | 0.8% | 1.2% |
| Canada | 1.9% | 1.2% | 1.7% | 2.3% | 1.9% | 1.9% |
| Developing Economies[1] | 4.5% | 4.1% | 4.3% | 4.8% | 4.4% | 4.6% |
| China | 6.6% | 6.1% | 6.0% | 2.1% | 2.2% | 2.3% |
| India | 7.4% | 6.3% | 6.9% | 3.9% | 3.4% | 4.5% |
| Mexico | 2.0% | 1.5% | 1.5% | 4.9% | 4.1% | 3.8% |

Forecast as of: June 12, 2019

[1]Aggregated Using PPP Weights

## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

| | Central Bank Key Policy Rate | | | | | | 10-Year Bond | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | | 2019 | | | 2020 | | |
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| U.S. | 2.50% | 2.25% | 2.00% | 2.00% | 2.00% | 2.00% | 2.15% | 2.20% | 2.30% | 2.35% | 2.40% | 2.40% |
| Japan | -0.10% | -0.10% | -0.10% | -0.10% | -0.10% | -0.10% | -0.05% | 0.00% | 0.00% | 0.05% | 0.10% | 0.10% |
| Eurozone[1] | -0.40% | -0.40% | -0.40% | -0.40% | -0.40% | -0.20% | -0.10% | -0.05% | 0.00% | 0.10% | 0.20% | 0.35% |
| U.K. | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 0.90% | 1.00% | 1.10% | 1.30% | 1.50% | 1.65% |
| Canada | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 1.55% | 1.60% | 1.65% | 1.65% | 1.70% | 1.70% |

Forecast as of: June 12, 2019

[1] 10-year German Government Bond Yield

Source: International Monetary Fund and Wells Fargo Securities

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