

Economics Group

Special Commentary

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Florida Economic Outlook: June 2019

Bright Horizons for the Sunshine State

Florida’s economy continues to outpace the nation and is evolving in ways that enhance the state’s long-run competitiveness. Real GDP grew 3.5% in 2018, or about a half percentage point faster than the nation, and the state added 322,510 net new residents. Florida is home to three of the nation’s 10 fastest growing metro areas since 2010—The Villages, Cape Coral-Fort Myers and Orlando. Its strong performance is particularly noteworthy given the severity of the Great Recession in Florida and the considerable adversity the state has faced from devastating hurricanes, citrus greening, constant trade uncertainty and slower global economic growth. Florida’s unemployment rate has fallen from a post-Great Recession high of 11.3% to just 3.4%. We expect economic growth to moderate this year, as the national economy slows. Florida is poised to remain one of the nation’s fastest growing states, however, and growth remains remarkably broad-based across industries and geographies.

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Real GDP grew 2.9% nationwide in 2018. While we anticipate a similar 2.7% rise in 2019, the composition will be different. Trade bolstered growth late last year, as businesses strove to get ahead of tariffs and sped up production and shipments. Activity pulled back in the first half of 2019 as the rhetoric surrounding trade negotiations has amped up and the threat of a more substantive trade war has increased. The short-term stimulus from the tax cuts is also fading, which is weighing on consumer spending and tourism. Florida remains well poised to benefit from tax reform. Limits on the deductibility of state and local taxes and mortgage interest appear to have bolstered immigration from high-tax states. The budget agreement has also unshackled federal spending, which has propelled spending at military installations around the state and other federal contractors, providing a boost to defense contractors, construction firms and research institutions.

We expect Florida’s economy to continue to perform at a high level, even though some tailwinds will dissipate. After rising 3.5% throughout 2018, our forecast calls for real GDP to rise 3.8% this year. Nonfarm employment should rise 2.5% and the unemployment rate will likely fall slightly further. Homebuilding should remain strong, particularly in areas attractive to retirees, while commercial building has strong momentum.

Figure 1

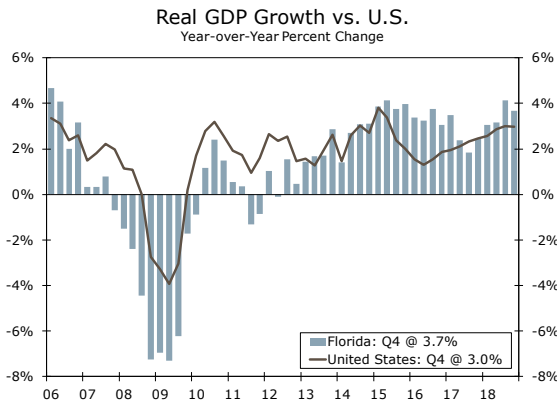
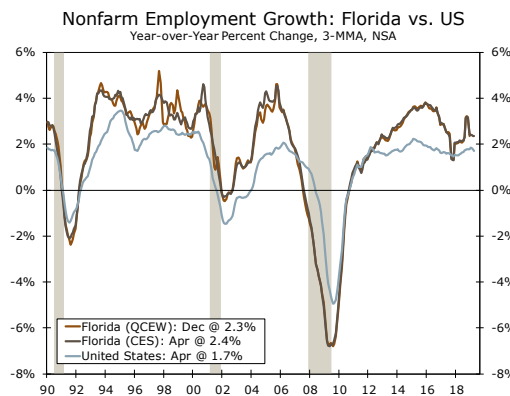


Figure 2



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

Together we’ll go far



Some of Florida’s moderation reflects the accounting for Hurricane Michael, which devastated Panama City. The GDP data tend to exaggerate the effects of hurricanes on economic growth, particularly in the short-term. Of course, the rebuilding adds to reported growth in following years. The recovery from storms, however, has been slower in recent years, reflecting political fights over recovery funds and efforts to make the state’s housing and infrastructure more resilient to future storms. In the meantime, Florida’s warm weather, abundance of natural amenities and low taxes continue to attract huge numbers of retirees, particularly with a growing number of Baby Boomers reaching retiree age each year. Tax reform also appears to have convinced more folks contemplating moving to Florida to do so, which has unleashed some pent-up demand.

Florida Keeps on Rolling with the Flow

Recently released data show state-level GDP grew 3.5% in 2018, making the fifth fastest increase of any state. Real GDP rose an even faster 3.7% year-over-year in the fourth quarter, which was well ahead of the comparable 3.0% gain nationwide. The data, however, were distorted by hurricanes both this year and last, which exaggerated year-over-year gains. Most major industries saw output rise solidly, particularly construction and manufacturing, which rose 6.3% and 5.0%, respectively. On a sequential basis, however, Florida’s Q4 real GDP growth slowed to just a 2.0% pace following a whopping 7.2% annualized gain the prior quarter.

Florida’s manufacturing sector has shown remarkable strength, led by gains in aerospace, electronics, fabricated metals and medical devices. Financial services has also gained momentum, thanks to 3.9% growth in real estate, rental & leasing—which reflects strong demand for residential and commercial properties. Florida’s tech sector improved as employers have had relatively sizable success finding software developers, scientists and engineers from both the growing number of in-state STEM graduates and the steady inflow of trained professionals from other states. In addition, several markets have welcomed transformative medical facilities over the past few decades, including the Mayo Clinic in Jacksonville, Sanford Burnham in Orlando and Scripps in Jupiter. The IT sector has also had a strong run, particularly in South Florida, Tampa and Jacksonville. Output in the information sector, which includes software development, data processing and data hosting, rose 5.4% in 2018, while output in professional, scientific & technical services rose 7.4%.

Hiring Solid throughout the Sunshine State

Florida continues to add jobs at a solid pace but hiring has moderated in recent months. Job growth slowed to just 1.9% on a three-month annual rate basis through April, down from a 4% clip in 2016. While this may raise some eyebrows, a moderation was to be expected given the ever-tightening labor market. Sitting at just 3.4%, Florida’s unemployment rate remains persistently low, which is likely making it more difficult for employers to find all the workers they need. The unemployment rate is even lower in major job hubs such as Tampa, Jacksonville and Orlando. The continued influx of job seekers from other states, however, is boosting labor force growth.

Most major industries saw output rise in Q4.

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Figure 3

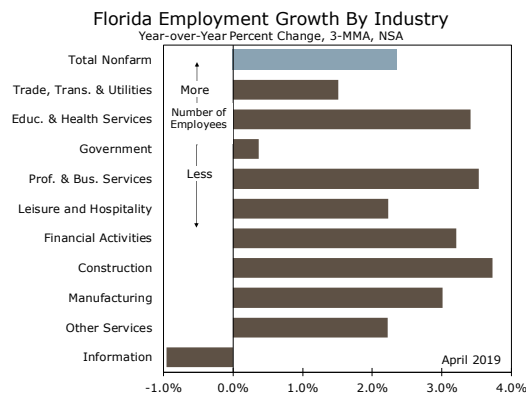
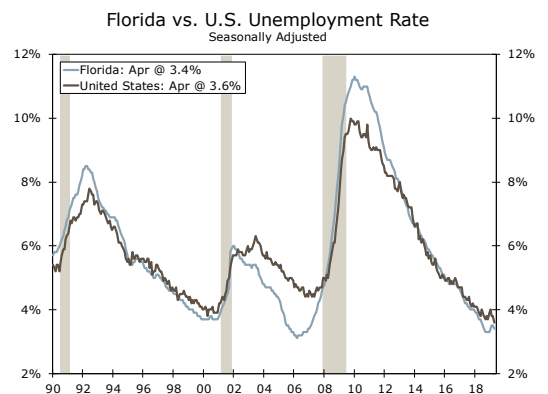


Figure 4



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

The tighter labor market is also encouraging employers to become more creative. Many firms are leaning more heavily on technological innovation, automation and process innovation, including greater use of data analytics in hiring. Employers are also bringing back retirees on a contract basis, increasing the use of interns and apprenticeships and enhancing productivity through better workforce training. The emphasis on hiring, training and retention has resulted in stronger productivity growth and higher pay. Average hourly earnings in Florida have risen 2.8% over the past year and the Employment Cost Index for South Florida, which includes benefits, has risen 2.5%, which is roughly in line with other large metro areas in the South.

Even at a more modest pace, we expect hiring to remain fairly robust. Job gains remain broad-based, with nearly every key industry adding jobs. Florida’s tourism sector hardly missed a beat during the string of hurricanes the past two years. The number of tourists visiting Florida rose 6.1% in 2018 to 126.1 million, according to Visit Florida. Domestic travel grew 7.1%, while the number of overseas visitors fell 1.0%. This year is off to a strong start, with overall visitors rising 5.8% year-over-year in the first quarter. Easter came unusually late this year, which extended spring break travel into the second quarter and will likely boost that quarter’s numbers considerably versus the prior year.

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The continued growth in visitors has helped fuel strong growth in the leisure & hospitality sector, as well as new development of hotels and amusement attractions. The bulk of travelers are destined for the Orlando area, where expansions are continuously occurring at the region’s amusement parks. One of the largest expansions currently underway is Star Wars Galaxy Edge, which is slated to open later this summer at Disney’s Hollywood Studios. The theme park is adding several other attractions, and a Star Wars Resort Hotel is being built. Universal Studios is adding a new roller coaster at its World of Harry Potter, and Sea World and Legoland are undertaking significant projects. Tampa’s Busch Gardens has also added a new roller coaster, which is the tallest in the state.

There is much more to Florida tourism than theme parks. The state’s beaches and warmer weather continue to attract visitors near and far. Miami Beach and Southwest Florida remain extremely popular with international tourists. Conventions are another big draw, while the gaming industry continues to expand. The Hard Rock Hotel and Casino continues to expand its facilities in Hollywood and Tampa. The \$1.5 billion expansion of the Hollywood property includes a 450-foot guitar-shaped hotel, where the elevators ride along the guitar strings, that is certain to become a South Florida icon when it opens this fall. The expansion will also add 4,000 jobs. Statewide, employment in the leisure & hospitality industry has risen 2.7% over the past year, resulting in a net gain of 33,200 jobs. About two thirds of the gain was at restaurants & bars. The fastest growth, however, is in amusement, gambling & recreation businesses, which saw employment jump 3.9% over the past year.

Tourism is off to a strong start this year.

Figure 5

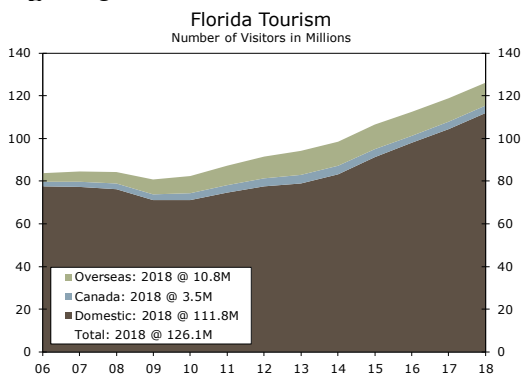
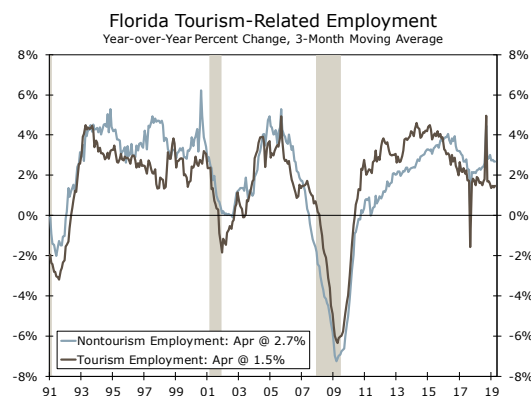


Figure 6



Source: Visit Florida and Wells Fargo Securities

The greatest concentration of projects continues to be in South Florida.

Construction has long been a major area of strength in Florida. Soaring population and employment growth have generated a seemingly endless line of tower cranes and lumbering bulldozers across Florida’s landscape. Construction firms have added 19,700 jobs over the past year, marking a 3.7% increase. The greatest concentration of projects continues to be in South Florida, with a bevy of residential, office and retail projects coalescing near key employment and transit centers in Miami and Fort Lauderdale. While many of these projects harken memories of real estate booms past, development has tended to be more cautious this cycle and is progressing much more in line with demand. There are also far more rental properties being built along with all the luxury condominiums springing up along the coast.

There is plenty of construction going on outside of South Florida. Major projects include the new 13-story USF Health Morsani College of Medicine and Heart Institute at the University of South Florida and the \$500 million Midtown Tampa mixed-use development going up between downtown Tampa and Westshore. In addition to all the theme park projects underway in Orlando’s tourism corridor, Orlando is seeing a great deal of office, apartment, entertainment and medical center construction in and around downtown Orlando and in Lake Nona. Moreover, the \$2.3 billion makeover of I-4 through downtown Orlando, dubbed the I-4 Ultimate Project, is nearing completion. The project, which began in 2015, reconstructs a 21-mile stretch of I-4, reconfiguring interchanges, adding or replacing over 100 bridges and adding four variable toll lanes. The project is scheduled to be completed in March 2021.

Major infrastructure projects are coming.

Another potential game-changing infrastructure project is the \$4 billion expansion of the Virgin Trains high-speed regional rail service connecting South Florida to Orlando. The 67-mile line connecting downtown West Palm Beach and downtown Miami opened a little over a year ago and has helped fuel growth in South Florida’s largest urban centers. The three-year expansion project will involve laying 170 miles of track from West Palm Beach to the Orlando International Airport. Plans are also in place for the train to link with Orlando’s Sun Rail and to extend the line to a site near or in Disney World. Ultimately, high-speed train service should extend all the way to Tampa, which will open a whole world of opportunities to visitors and residents of the Florida’s five largest metropolitan areas.

Other notable construction projects around the state include the \$1 billion Sunseeker Resort, being built along Charlotte Harbor in Port Charlotte. The project is being led by Allegiant Airlines, which flies into nearby Punta Gorda and many other destinations throughout the state. The resort marks a bit of a shift for Charlotte County, which has long housed a large and growing retiree population as well as workers commuting into Fort Myers for the lower housing costs. Panama City is also seeing increased construction activity, driven by efforts to rebuild businesses and critical infrastructure. Hurricane Michael ravaged the area late last year, including Tyndall Air Force Base. The federal government plans to spend \$3 billion to refurbish the base over the next several years, which will see an expanded mission with new advanced aircraft and drones being based there.

Figure 7

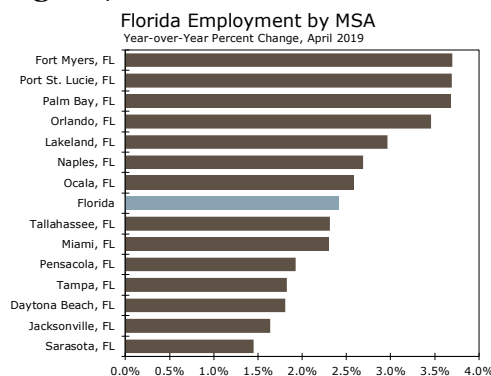
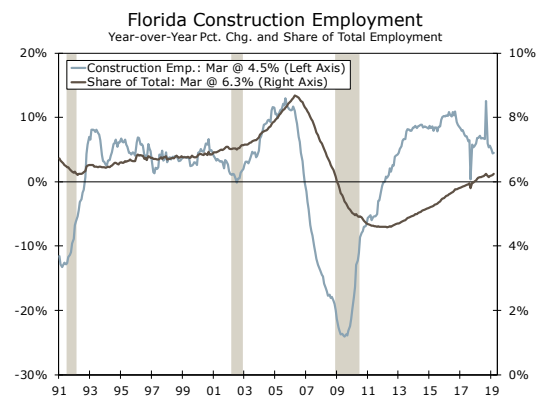


Figure 8



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

Reaching for the Stars Again

One of the most promising areas of the Florida economy is its reinvigorated space industry. While Florida has long been the center of manned space flight, activity slowed considerably following the retirement of the Space Shuttle program in 2011. While NASA is smaller today, the agency has become more nimble after partnering with the private sector to leverage its resources. The base of suppliers and more than 10,000 contractors provided Florida with an important edge in the war for talent in developing a private space program. Of course Florida already had a big lead over potential competitors, with numerous launch facilities and the requisite geography for space flight. A new privately funded space industry has now taken hold along the Space Coast that not only launches spacecraft but also designs and builds them.

Florida’s private space industry got up and running with the leasing of a launch pad at Kennedy Space Center to SpaceX for its Falcon program back in 2008. The first Falcon 9 rocket was launched from Cape Canaveral in 2010, and the firm has consistently enhanced the program while resupplying the International Space Station and launching satellites for the military, federal agencies and private sector. The success has encouraged an influx of private investment from other firms and one of the largest space industry ecosystems in the world.

The expanding space industry is promising.

Last year’s federal government budget deal also provided a boost. The Bipartisan Budget Act of 2018 increased federal spending caps originally imposed by the Budget Control Act of 2011 and has been a boon for the state’s defense contractors and military installations, which rely heavily on defense spending. SpaceX recently won a \$297 million contract from the Air Force for three payload launches. United Launch Alliance, a joint venture between Boeing and Lockheed, has also received new contracts. Lockheed Martin recently opened a \$50 million R&D facility near Orlando, creating 1,000 new engineering, program management and business operations jobs.

The Lockheed expansion is a good example of how the aerospace industry has evolved in recent years. Florida has long been home to a sizable aircraft servicing and flight training industry, but the state now also hosts several sites where aircraft, spacecraft, launch systems and satellites are designed and manufactured, particularly along the Space Coast. In addition to SpaceX, United Launch Systems, Boeing and Blue Origin all operate facilities in the area. OneWeb Satellites also recently raised \$1.25 billion from SoftBank to begin assembling small satellites at its new factory near Kennedy Space Center.

Exports rose in 2019 despite sluggish global growth.

Geography also plays a key role in another rapidly growing sector—international trade. Proximity to Latin America and the presence of a large multilingual workforce, have made Florida one of the nation’s key hubs for international trade. The value of Florida exports and imports amounts to roughly 13% of Florida’s GDP. Exports rose 4.2% in 2018 despite sluggish global economic growth and widespread uncertainty surrounding the status of many trade agreements.

Figure 9

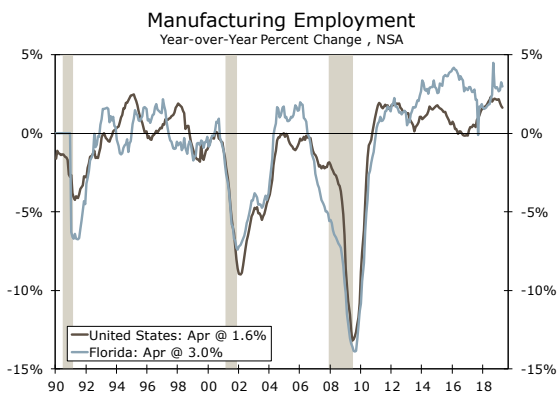
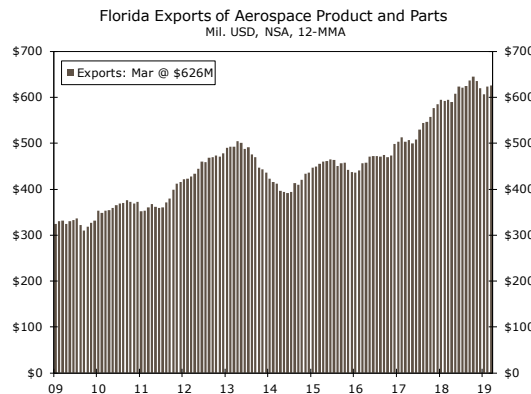


Figure 10



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

Given that Canada and Mexico represent the state's second and third largest trading partners by dollar volume, the signing of the United States Mexico Canada Agreement (USMCA) was welcome news. While the USMCA will serve to reduce some of the uncertainty surrounding the structure of a successor trade agreement to NAFTA, the path to ratification has become somewhat more ambiguous and mired in political uncertainty. That said, we still anticipate the USMCA to ultimately become law.

Florida and Latin America are closely linked.

Of course, Florida's global reach extends well beyond Mexico and Canada. Brazil was once again Florida's top trading partner in 2018, signifying the ongoing importance of trade between Florida and Latin America. Emblematic of that close relationship is the recent announcement of a planned merger between Boeing, which has a sizable presence in Florida, and Embraer, the third largest civilian aircraft producer in the world headquartered in São Paulo. Growth in exports to Brazil, as well as many other countries, have been propelled by commercial aircraft products, which are the state's largest export category and a key competitive advantage. A large percentage of these products tend to be manufactured locally and support thousands of high-value jobs and incomes up and down the supply chain.

Less certain is the outcome of the current trade tensions with China. While a relatively smaller trading partner, China has grown as an export destination over the past several years, a relationship which may be examined more closely as trade negotiations intensify. In addition to commercial aircraft, surging gold exports are also behind an upshift in exports to China. South Florida is one of the world's leading gold processing hubs, but the entire precious metals industry has come under increased scrutiny lately. Industry-wide upheaval has caused several local gold refiners to close shop, including Republic Metals in Miami, one of the nation's largest gold refiners.

A byproduct of growing international trade has been a heightened need for increasingly robust and efficient transportation networks. Demand for warehouses, distribution facilities, and logistics services in vicinity to the numerous ports of entry which serve as access points for freight flows into the U.S. from abroad has skyrocketed. A push to minimize costs is leading industrial operators to areas with less congestion and lower rents but still a high degree of regional connectivity. A clear example of this trend is the development of Airglades International Airport, which is to be a commercial hub for perishable cargo from Latin America in Hendry County. The airport sits just outside of the heavy traffic and sky-high industrial rents of Miami and Fort Lauderdale. Trade is also bolstering growth in Tampa and Jacksonville, which have seen rents rise amid historically low industrial vacancy rates. Growing seaport traffic alongside a global realignment of shipping routes and larger "post-Panamax" ships from the West Coast are driving growth across many Florida ports.

Trade has driven demand for industrial properties.

International Immigration Boosting Population Growth

Consistently robust population growth has been the steady undercurrent behind the state's economic success. While the most recent Census data reveal a slight deceleration in population growth in 2018, Florida continues to rank as one of the nation's fastest growing states. The state's population grew 1.5% from July 2017 to July 2018, the fifth fastest of any state. Domestic migration accounted for 41% of the overall gain in population, reflecting in-migration of 132,602 residents from other states. Retirees likely account for a significant portion of that increase. Four of the five fastest growing metro areas in 2018 were retiree-driven markets, with Lakeland-Winter Haven, sandwiched between Orlando and Tampa, topping the list with a 3.2% population gain. The Villages was the state's second fastest growing metro area, with its population rising 3.1%.

While Jacksonville, Orlando and Tampa receive their fair share of retirees, population growth in those areas is primarily driven by prime working-age residents, as all three continue to record strong population growth alongside robust employment gains. The Orlando metro area had the fifth largest absolute population gain in the country in 2018, with 60,045 new residents. The Tampa-St. Petersburg-Clearwater area had the ninth largest gain, adding 51,438 new residents. Furthermore, Florida is home to three of the 10 fastest growing counties in the United States. Walton County, home to Seaside in Northwest Florida, comes in at number five, while Osceola County, a rapidly growing part of the Orlando metro area, and St. Johns County, just below Jacksonville in Northeast Florida, came in at seven and eight.

Figure 11

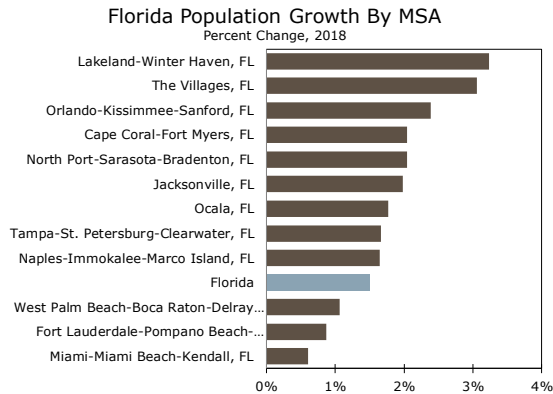
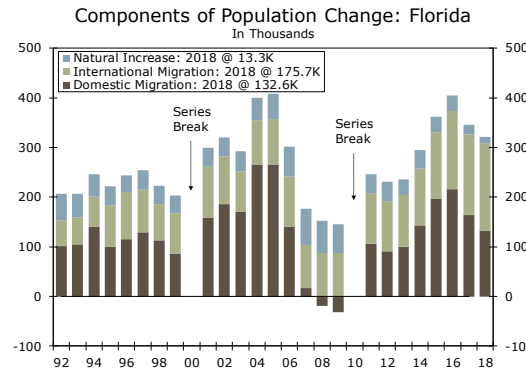


Figure 12



A large proportion of Florida's population growth has come from immigration.

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

A large proportion of Florida's population growth has come from immigration. The state added 175,670 residents from other nations, the largest such increase since data recording began in 1991. Some of the increase can likely be attributed to arrivals from Puerto Rico in the wake of Hurricane Maria. The Census Bureau reports immigration from Puerto Rico as international immigration rather than state-to-state migration.

Housing Market Returning to Form

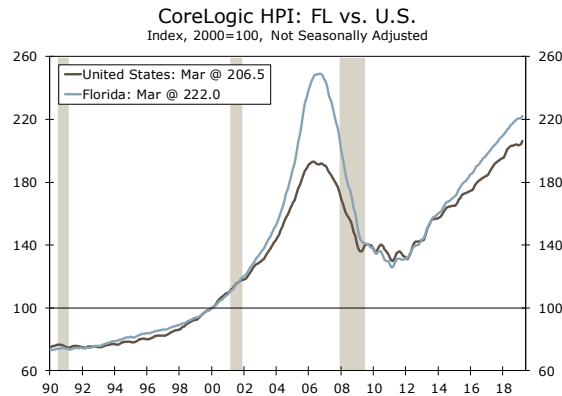
Stronger job and income growth and increased inflows of job seekers and retirees have driven home sales higher, pushing prices up across most of the state. The Great Recession pushed roughly half of all mortgages underwater by 2011, although a large number of homes in Florida are owned outright and do not have a mortgage. As of March, the share of negative equity mortgages was 6.0%, higher than the national average but the lowest since CoreLogic began compiling data in 2009.

While moving in the right direction, home sales weakened late last year when mortgage rates spiked. With sales moderating, homes are sitting on the market slightly longer, which is giving buyers a little more bargaining power. As a result, home prices have cooled, rising 4.6% year-over-year in March, which stands in contrast to the 6.2% rate hit this time last year. Price appreciation has moderated in both higher-priced markets, like Naples and Sarasota, and lower-priced areas, like The Villages, Ocala and Cape Coral.

Mortgage rates have plummeted in recent weeks, as concerns about slower global economic growth and rising trade tensions have pulled down long-term interest rates. So far, buyers have been slow to respond to the drop in rates. If lower mortgage rates spur a rebound in homebuying, Florida may see population growth ramp up. The Tax Cuts and Jobs Act capped deductions on state and local taxes and mortgage interest and essentially raised the cost of homeownership in high-tax areas such as California and the Northeast, states that generally send a lot of residents to Florida each year. With the first tax season since the act became law behind us, we expect the higher tax bills from these provisions will nudge folks that had been thinking of moving to Florida to finally do so. The impact would likely be greatest in retiree markets, many of which are already seeing the strongest population gains. Tampa, Orlando and Jacksonville, which all boast relatively modest housing prices, particularly relative to other rapidly growing parts of the country, are poised to pick up job seekers from high-cost states.

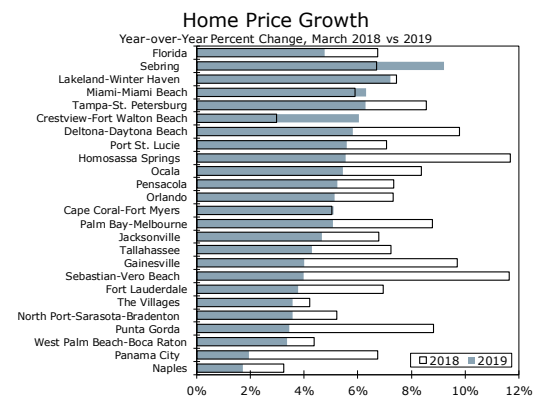
If lower mortgage rates spur a rebound in homebuying Florida may see population growth ramp up.

Figure 13



Source: CoreLogic, Inc. and Wells Fargo Securities

Figure 14

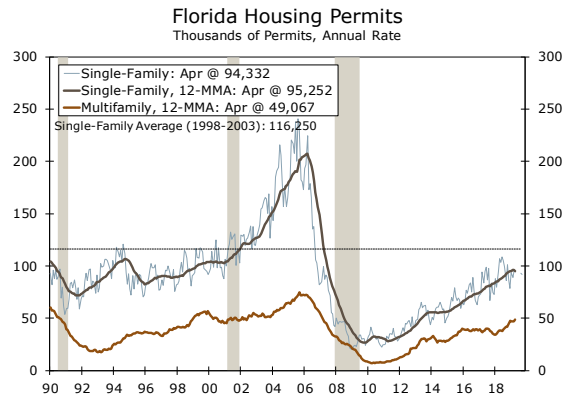


Despite waves of new construction, Florida's apartment market appears relatively in balance.

Despite waves of new construction, Florida's apartment market appears relatively in balance. Miami has seen more supply delivered in the last three years than in the prior 15 years combined. The prior 15 years, however, were dominated by condominium construction. The recent wave of apartment building is being driven by the movement of young professionals back into the city. Orlando has also seen apartment construction pick up, and both of these metros currently have more apartment and condo buildings under construction than any other large metro area in the country. Miami's high-end condo market has been put to the test by slower sales over the past few years, due to waning international buying amid a stronger dollar and slower global growth. South Florida's strengthening economy and lower mortgage rates have firmed up sales and mitigated rapid price declines. Condo sales have long been an important economic barometer of South Florida's economy, tending to closely follow international tourism and investment.

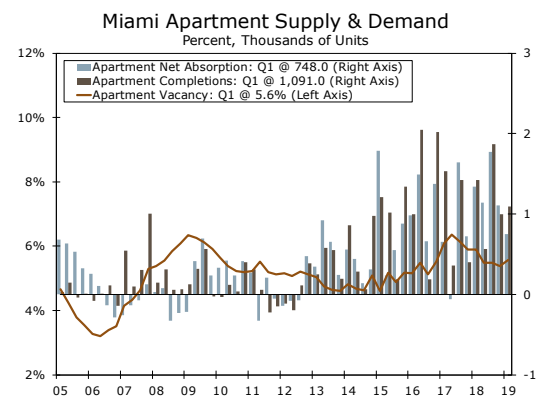
While apartment development has ramped up in Florida, single-family homebuilding continues to lag behind historical norms. As in most other parts of the country, the costs and time needed to develop raw land have made homebuilding more difficult and expensive. The total number of single-family permits issued remains roughly 17% below its long-term norm. Demand has also been slow to resurface following the Great Recession, with household formations growing slowly and a larger proportion of residents preferring to live close to urban centers. Through the first four months of the year, single-family building permits nationwide are 5.9% below the same period last year. By that same measure, Florida single-family permits are up 11.5%. Florida's edge is due to stronger in-migration, particularly by retirees, which are less influenced by concerns about slower global economic growth, the stronger dollar and heightened trade tensions.

Figure 15



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

Figure 16



Florida Economic Outlook

	Actual										Forecast	
	2012	2013	2014	2015	2016	2017	2018	2019	2020			
Real Gross Domestic Product by State, \$ Millions	769,309	784,090	804,322	835,928	864,029	885,906	916,975	951,820	984,185			
Annual Rate	0.7%	1.9%	2.6%	3.9%	3.4%	2.5%	3.5%	3.8%	3.4%			
Nominal Personal Income, \$ Millions	791,919	794,797	858,499	919,227	953,261	1,000,624	1,052,550	1,110,540	1,163,850			
Nominal Personal Income, Percent Change	3.4%	0.4%	8.0%	7.1%	3.7%	5.0%	5.2%	5.5%	4.8%			
Median Household Income, Year-End \$	46,071	48,532	46,140	48,825	51,176	53,681	56,258	58,735	61,100			
Percent Change	2.1%	5.3%	-4.9%	5.8%	4.8%	4.9%	4.8%	4.4%	4.0%			
Population, Thousands	19,326	19,563	19,860	20,224	20,630	20,977	21,299	21,661	22,040			
Change in thousands	233	237	297	364	406	347	323	362	378			
Percent Change	1.2%	1.2%	1.5%	1.8%	2.0%	1.7%	1.6%	1.7%	1.7%			
Nonfarm Employment, Thousands	7,400	7,586	7,828	8,111	8,388	8,572	8,782	9,000	9,160			
Change in thousands	145.0	185.7	242.4	282.9	277.5	184.2	209.5	218.1	160.0			
Percent Change	2.0%	2.5%	3.2%	3.6%	3.4%	2.2%	2.4%	2.5%	1.8%			
Unemployment Rate, Annual Average	8.5%	7.2%	6.3%	5.4%	4.8%	4.2%	3.6%	3.3%	3.2%			
Total Housing Permits	65,039	87,432	86,225	107,984	113,912	118,548	142,273	146,000	138,000			
Single-Family Permits	42,626	56,300	57,240	66,171	74,354	83,911	94,836	98,500	95,550			
Multi-Family Permits	22,413	31,132	28,985	41,813	39,558	34,637	47,437	47,500	42,450			
Core Logic Home Prices	6.2%	11.2%	8.4%	7.3%	7.4%	6.5%	6.0%	5.8%	4.8%			
Light Vehicle Registrations	1,005,696	1,100,815	1,223,264	1,333,962	1,352,036	1,318,484	1,340,207	1,330,000	1,320,000			

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics, RL Polk & Wells Fargo Securities
Forecast as of: June 04, 2019

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