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# U.S. Economic Outlook

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Together we'll go far



### Economic Outlook

- **Economic activity appears to have once again gotten off to a slow start. First quarter growth looks like it will be less than a 1.0 percent pace. We look for real GDP to grow 2.0 percent in 2017 and 2.5 percent in 2018.**

### Fiscal Policy

- **Financial markets are holding up well but valuations appear top heavy. Consumer confidence has continued to rise on improving economic fundamentals, while businesses are paying closer attention to policy moves.**

### Monetary Policy

- **The Fed is expected to hike rates two more times in 2017. Monetary policy is focusing on normalizing interest rates and offsetting typical late cyclical imbalances. The post-financial crisis period appears to be ending.**

### Regional

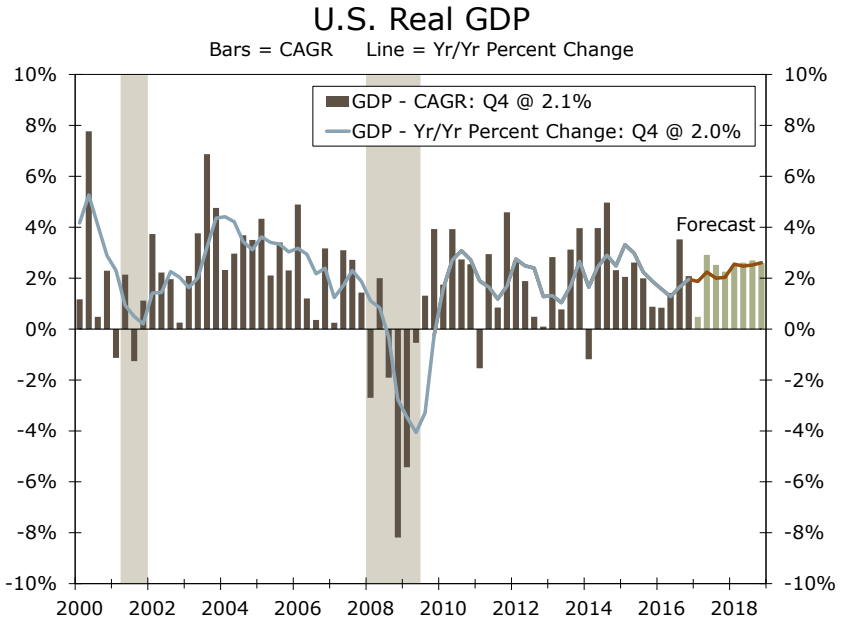
- **The strongest growth continues to be in the Northwest and Southeast. Energy-dependent and manufacturing driven areas are improving, while the ag sector faces a slightly less difficult year as commodity prices firm.**

### Housing

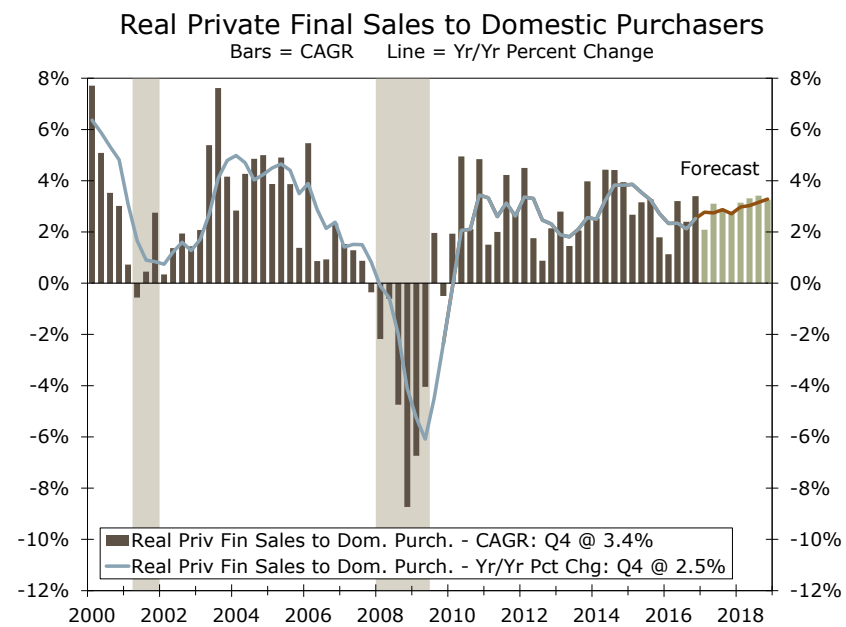
- **Stronger job growth and improving credit availability is boosting consumer confidence and buyer traffic. Milder winter weather appears to have pulled the spring home-buying season forward.**

The adoption of more growth-oriented fiscal policies will have little immediate impact. Real GDP growth appears to have once again gotten off to a slow start but should rise 2 percent this year. Private final demand is far less volatile and should rise more solidly.

## Real GDP Forecast



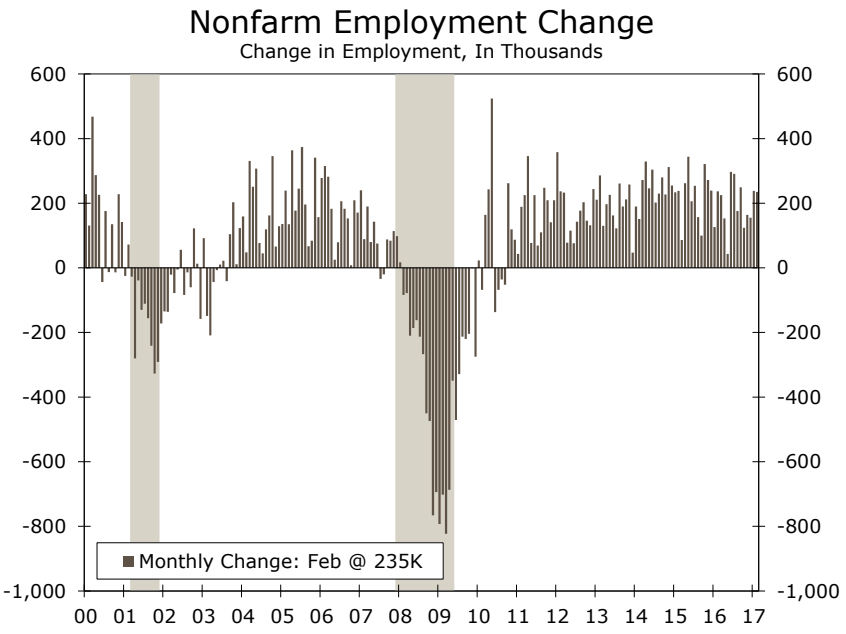
## Real Private Final Sales



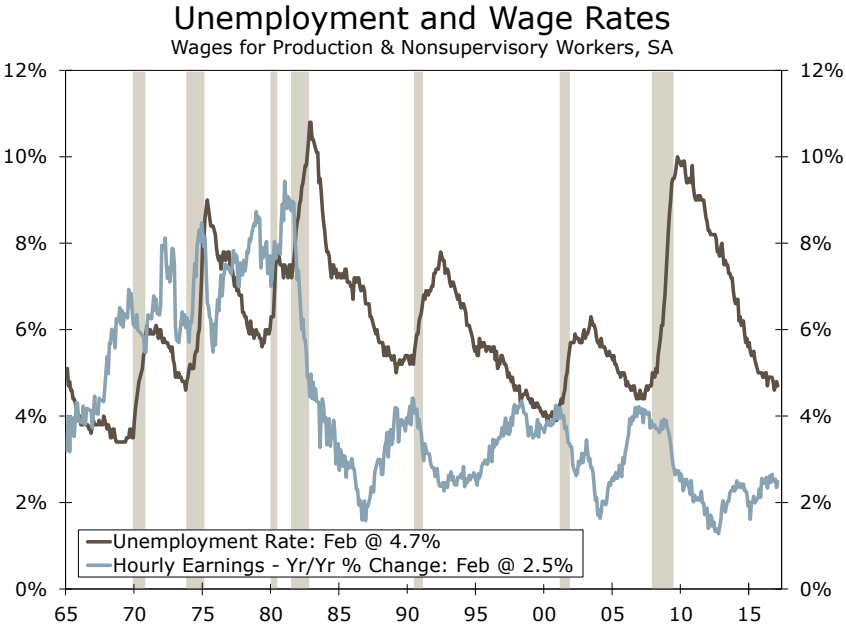
Source: U.S. Department of Commerce and Wells Fargo Securities

While the monthly data have been volatile, nonfarm employment looks stronger than GDP. Job growth is more closely aligned with private domestic demand, which remains fairly robust. The lower unemployment rate likely overstates the extent that labor markets have tightened.

## Nonfarm Employment



## Unemployment Rate



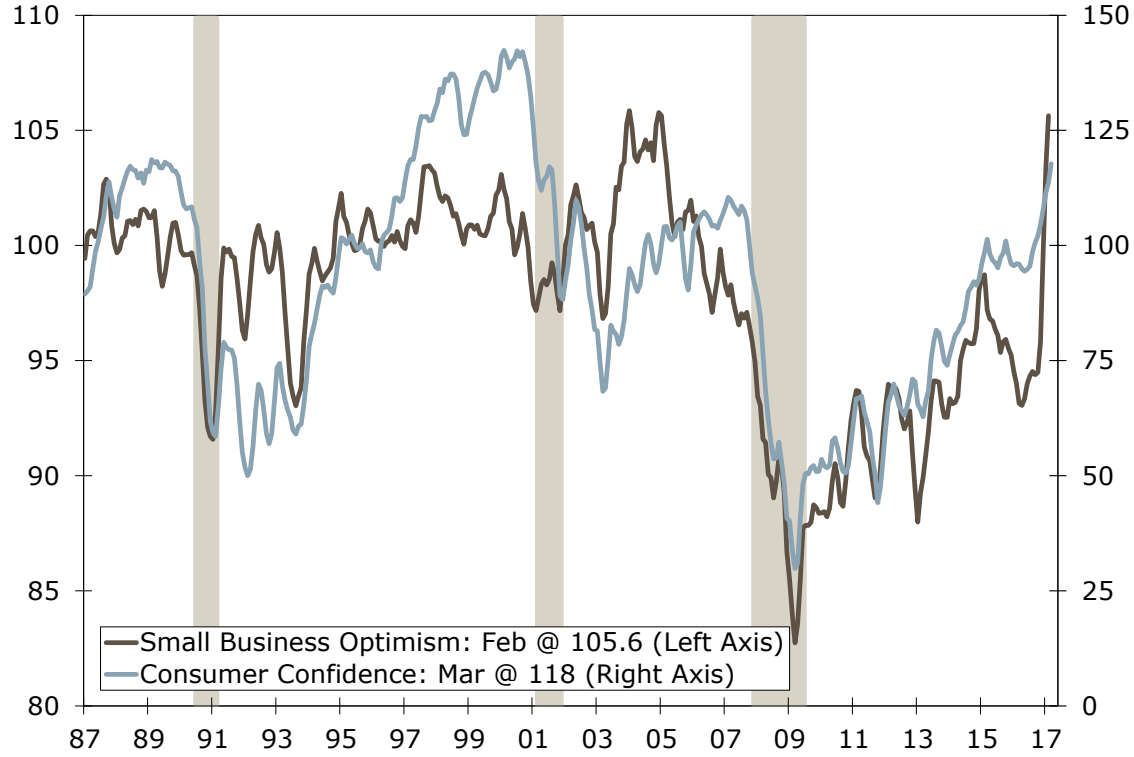
Source: U.S. Department of Labor and Wells Fargo Securities

Confidence has surged since the presidential election. Small business owners are optimistic that taxes will be cut and regulations will be reduced.

Consumers are generally more upbeat about job and income prospects and are also encouraged by the gains in the stock market.

### Small Business Optimism & Consumer Confidence

Small Business 1986=100, Consumer Confidence 1985=100, 3-MMA



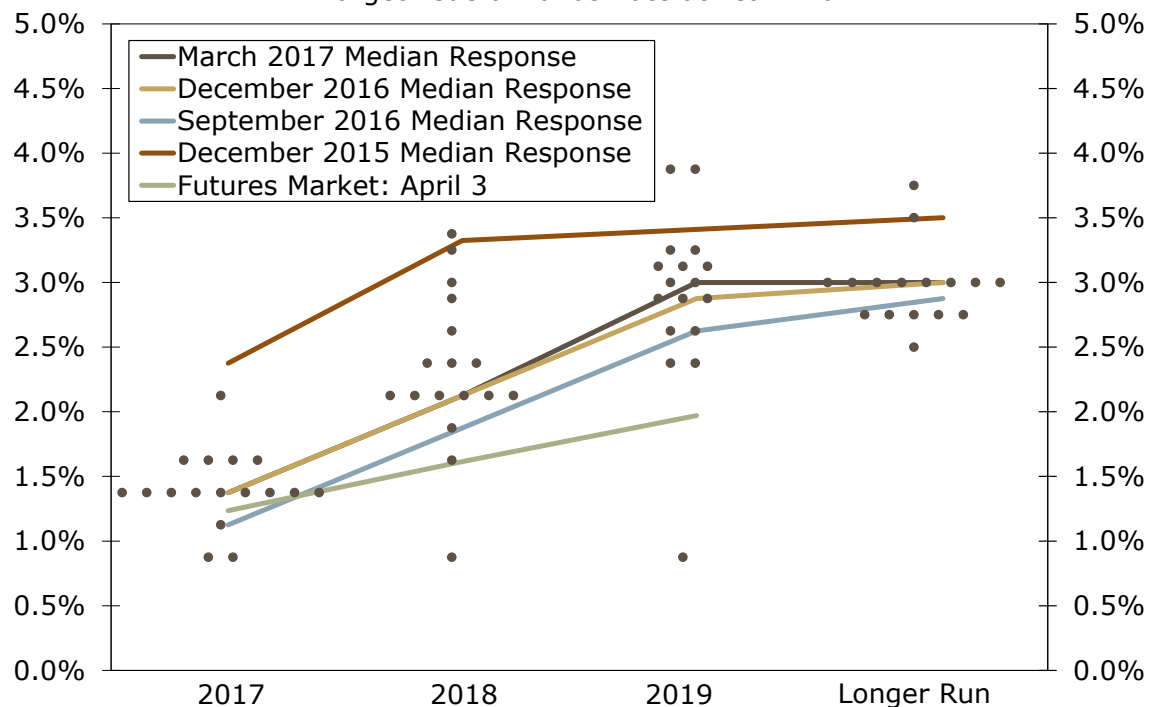
Source: NFIB, The Conference Board and Wells Fargo Securities

The era of ultra-low interest rates has ended.

The FOMC policy statement implies the Fed will take their time normalizing short-term rates, utilizing a mix of language and policy actions.

## Appropriate Pace of Policy Firming

Target Federal Funds Rate at Year-End

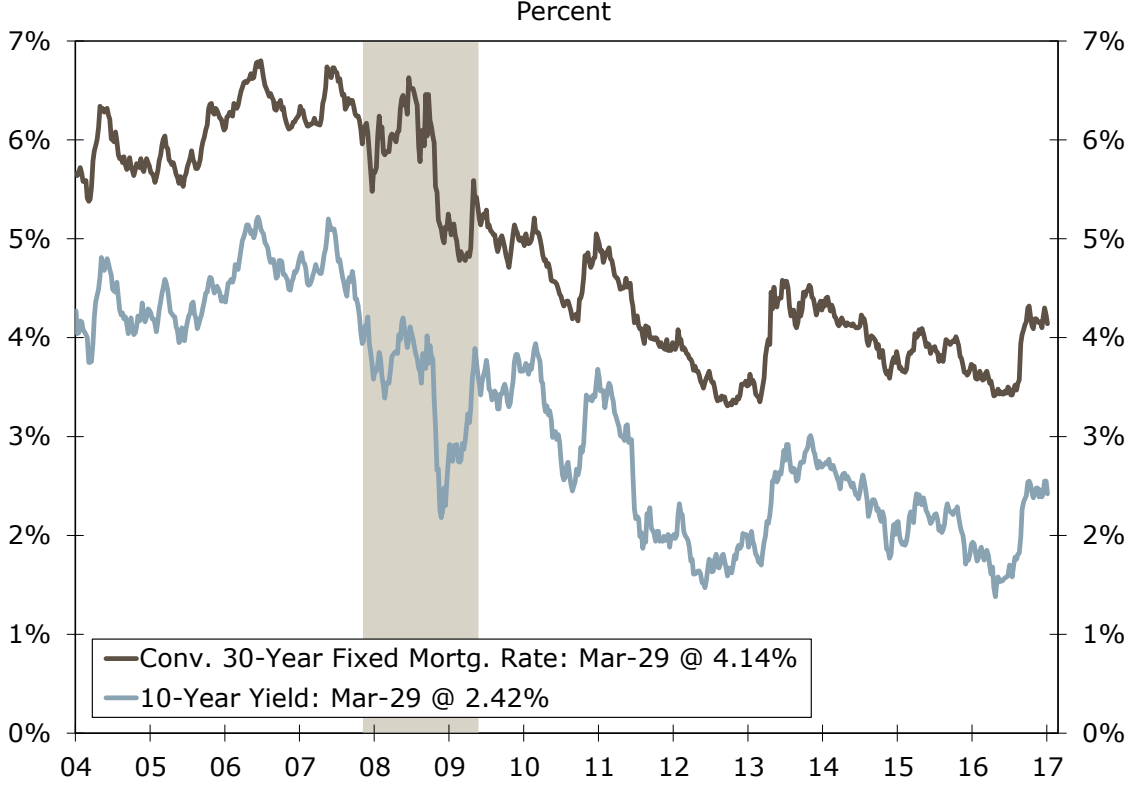


Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

Long-term yields spiked in the wake of the U.S. presidential election and then pulled back.

The financial markets are comfortable with the idea that the Fed will raise rates two more times during 2017 but are uncertain about how much of Trump's agenda will make it through congress.

### Mortgage Rate vs. 10-Year Treasury Yield

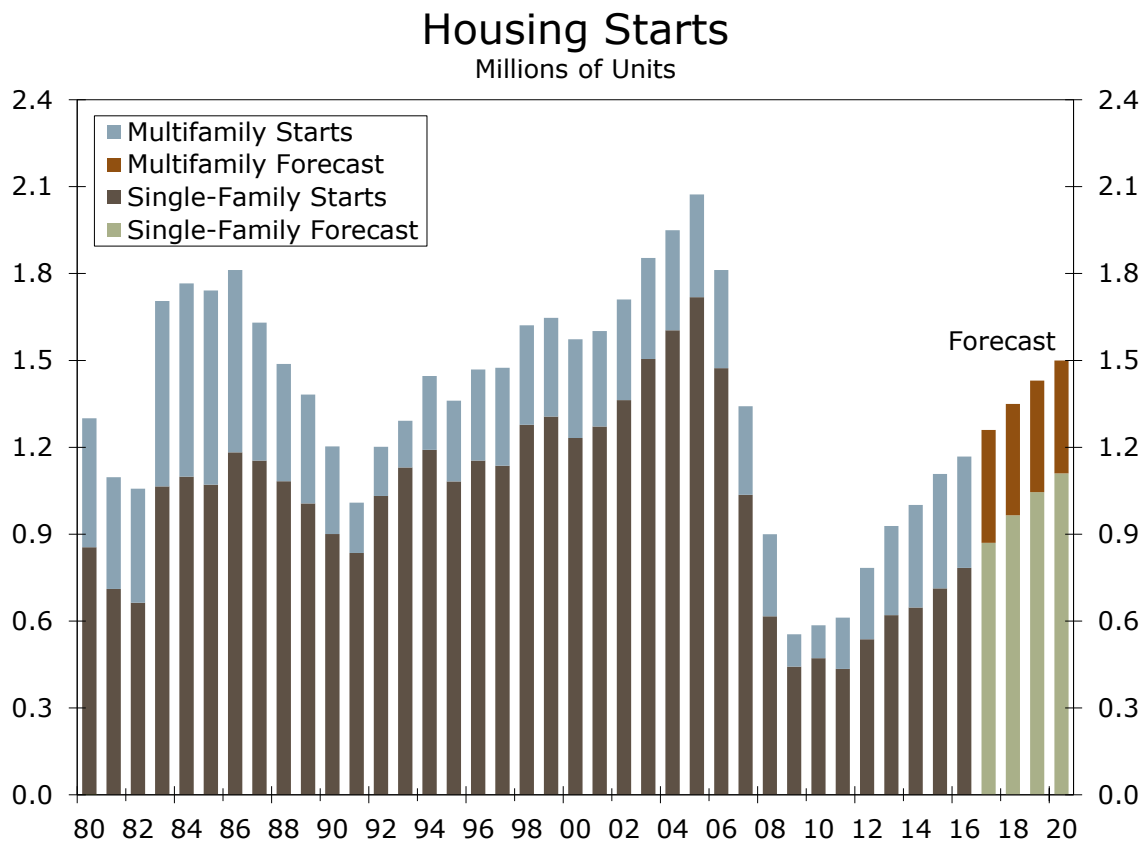


Source: Federal Reserve Board, FHLMC and Wells Fargo Securities

# Single-Family Starts Are Gaining Momentum, as Apartments Begin to Moderate

After a very slow start, we see single-family homebuilding steadily gaining momentum over the next few years

Apartment construction is showing signs of topping out but should remain near recent levels



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



# Regional Trends

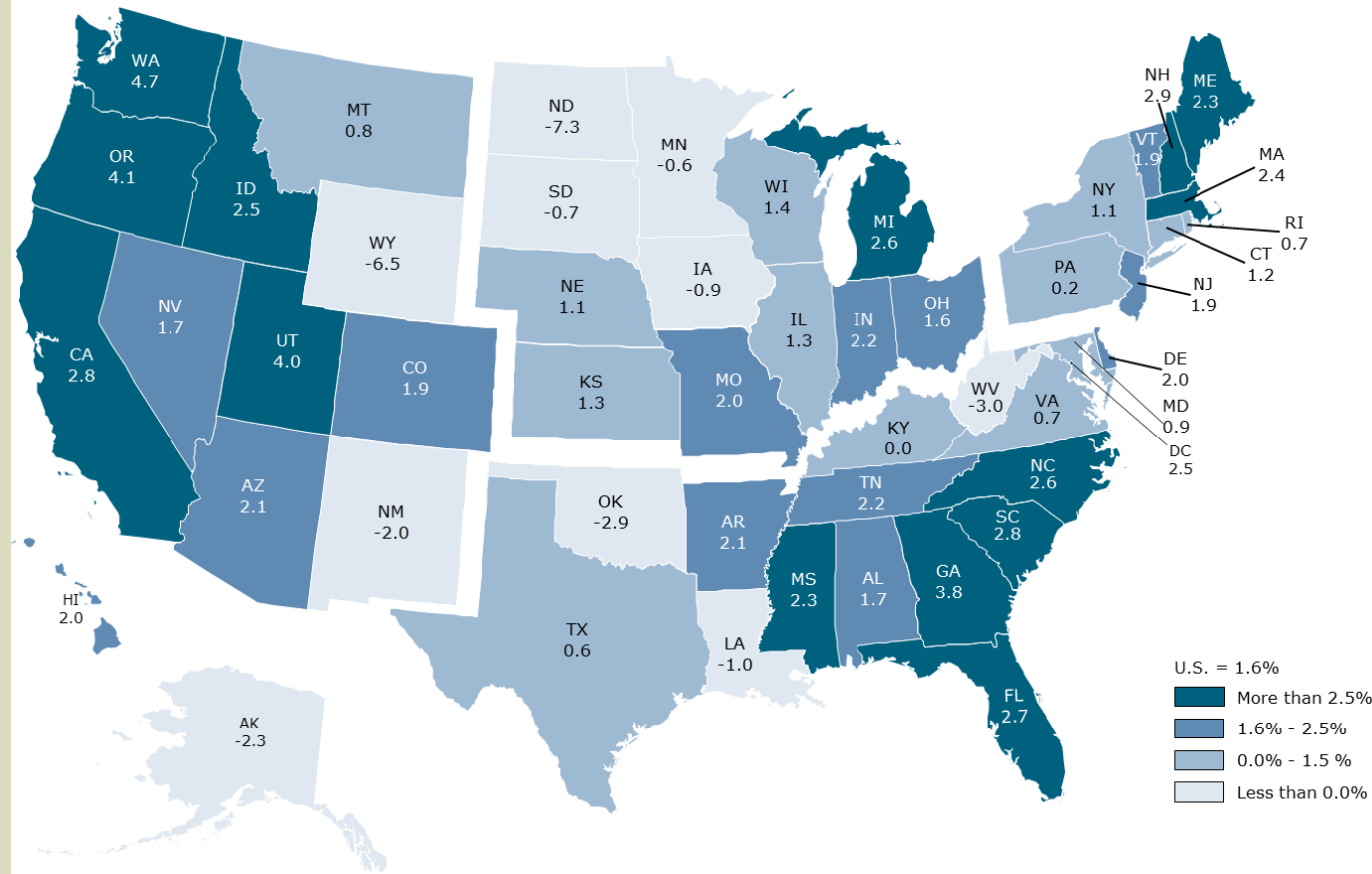
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# Year-over-Year Percent Change in Real GDP Growth by State (Q3 2016)

The West Coast continues to be buoyed by strong growth in the tech sector and a rebound in homebuilding.

The Southeast continues to benefit from an influx of new businesses and residents.

Florida is enjoying its strongest overall growth in more than a decade.



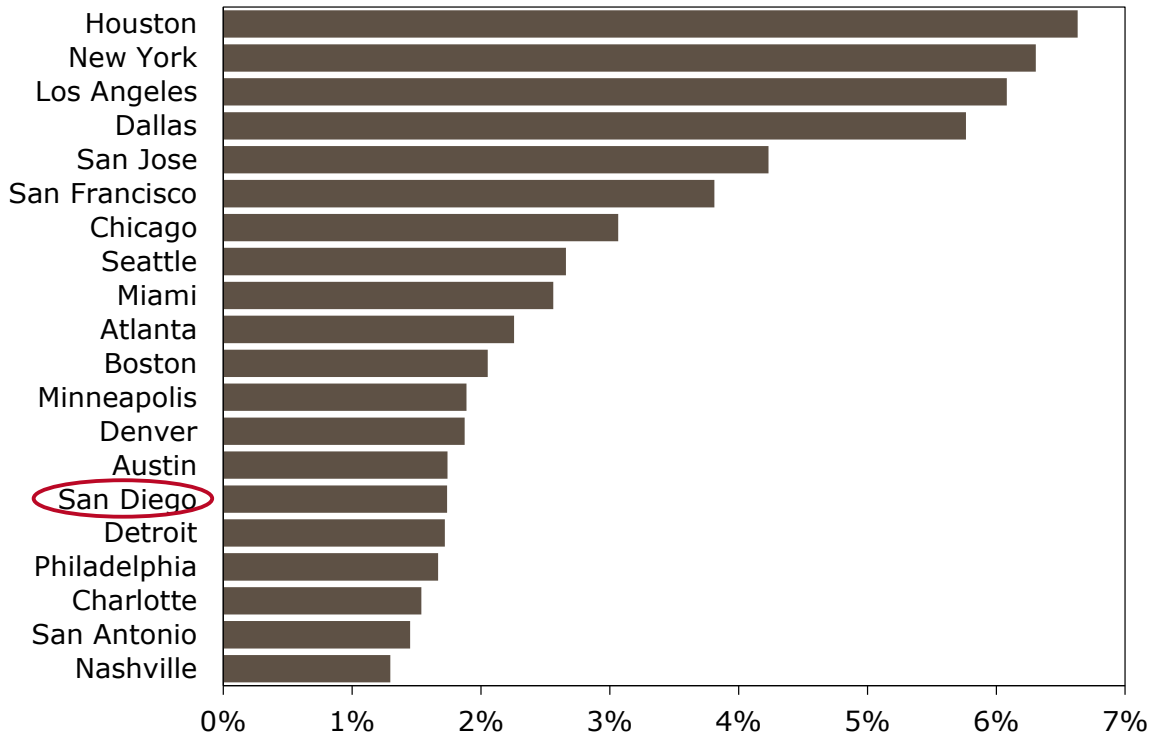
Source: U.S. Department of Commerce and Wells Fargo Securities

Economic growth has been concentrated in parts of the country with outsized exposure to energy and technology.

Global gateway metro areas and region's with a potent catalyst are also posting outsized gains.

### Contribution to U.S. Real GDP Growth by MSA

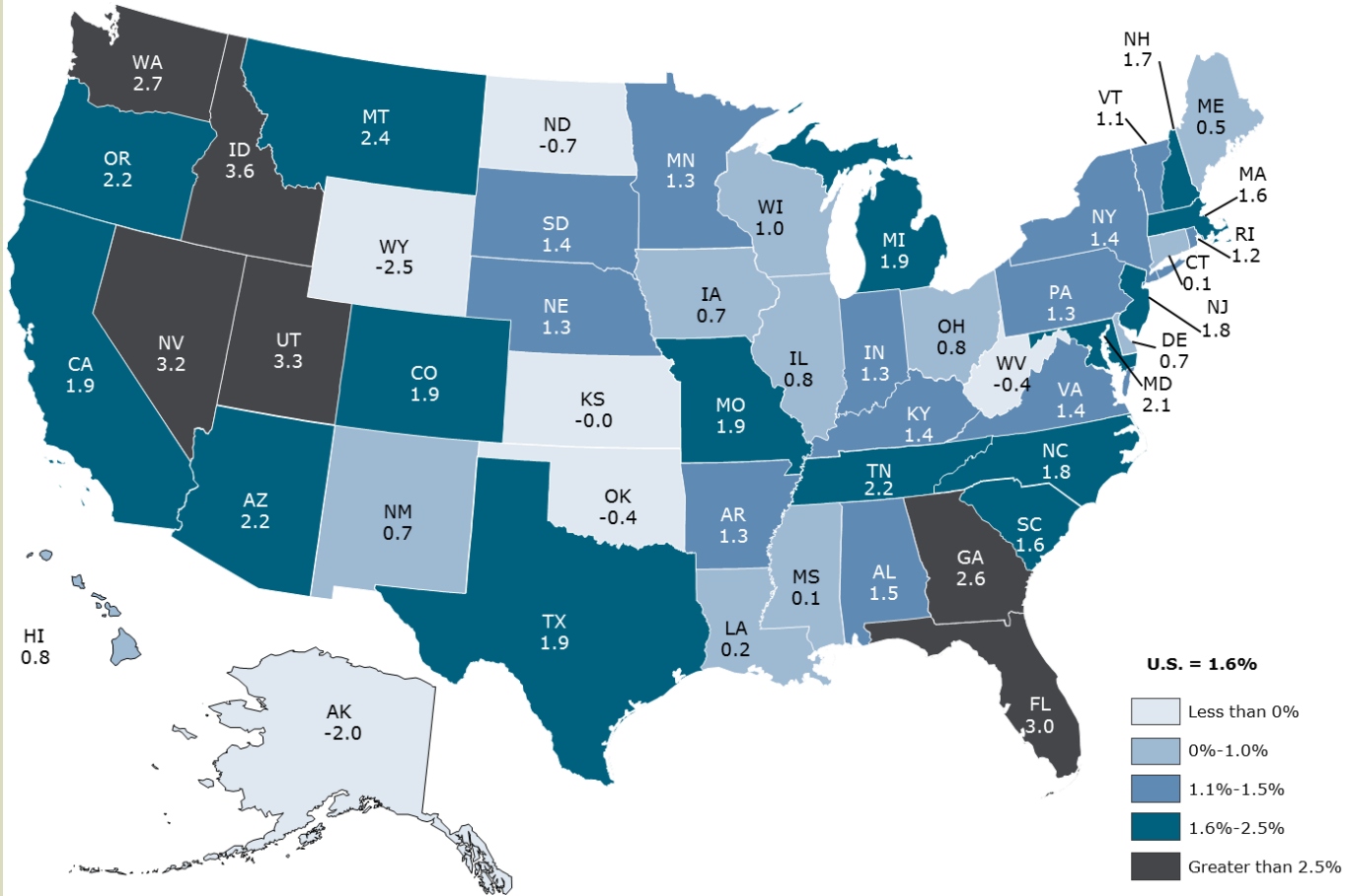
Top 20 Metro Areas, Contribution to Growth From 2010 to 2015



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

# Year-over-Year Employment Growth by State (February 2017)

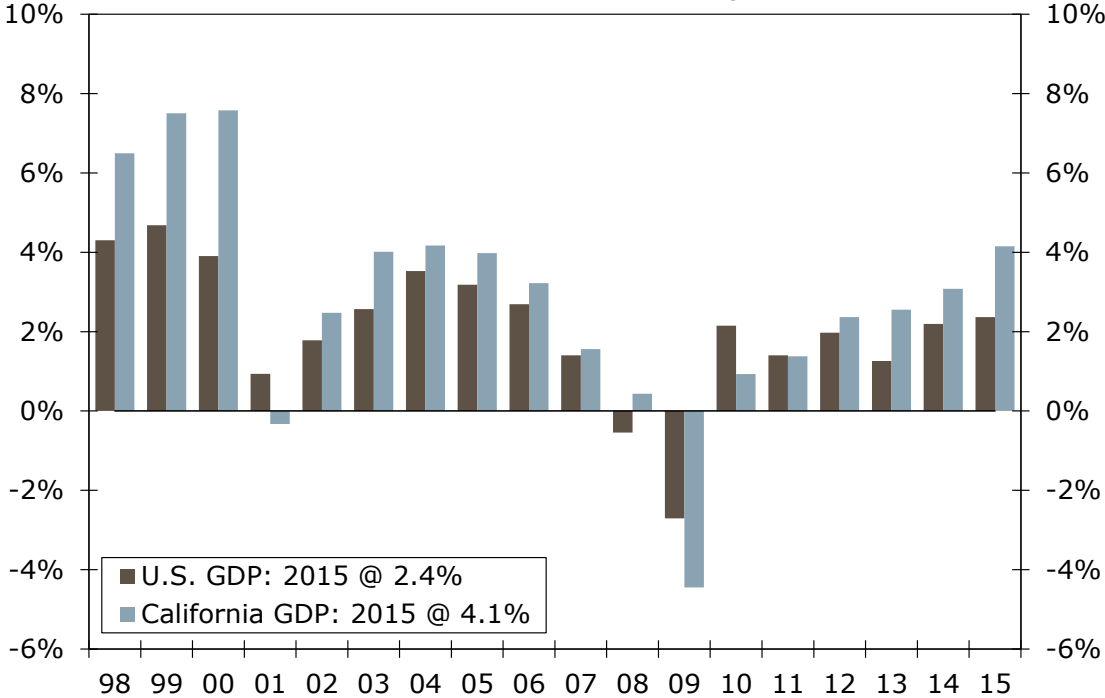
Job growth has been strongest in the Pacific Northwest and Southeast



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

California recorded a solid GDP growth in 2015, easily outpacing the national average

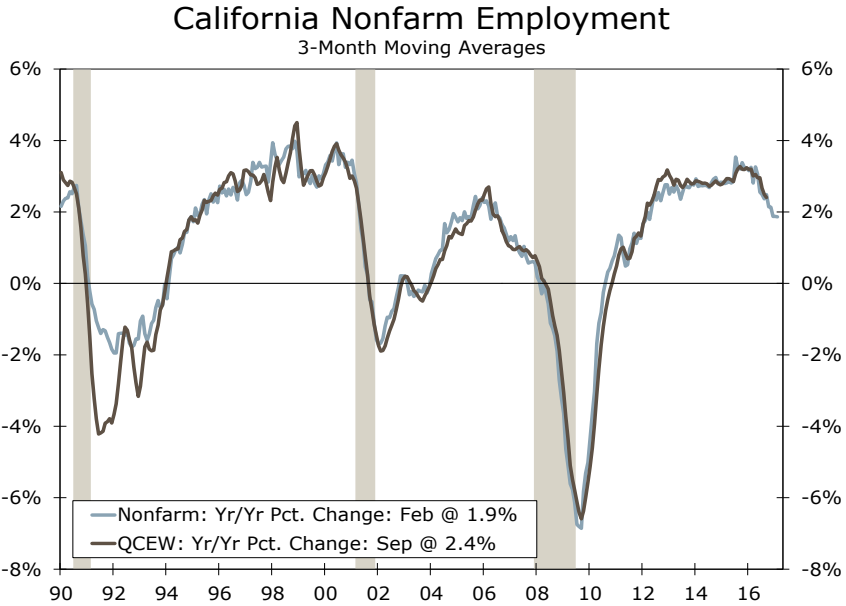
### California Gross State Product & U.S. GDP Year-over-Year Percent Change



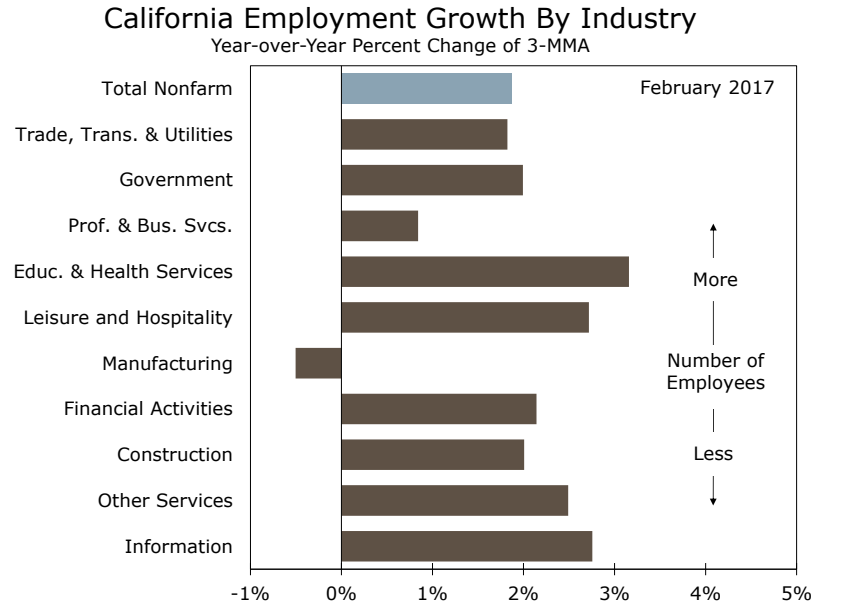
Source: U.S. Department of Commerce and Wells Fargo Securities

Year-over-year job growth has slowed in recent years. Gains have been broad based across key employment industries. Hiring in education & health services has been particularly strong. Manufacturing remains a weak spot, however.

## Employment

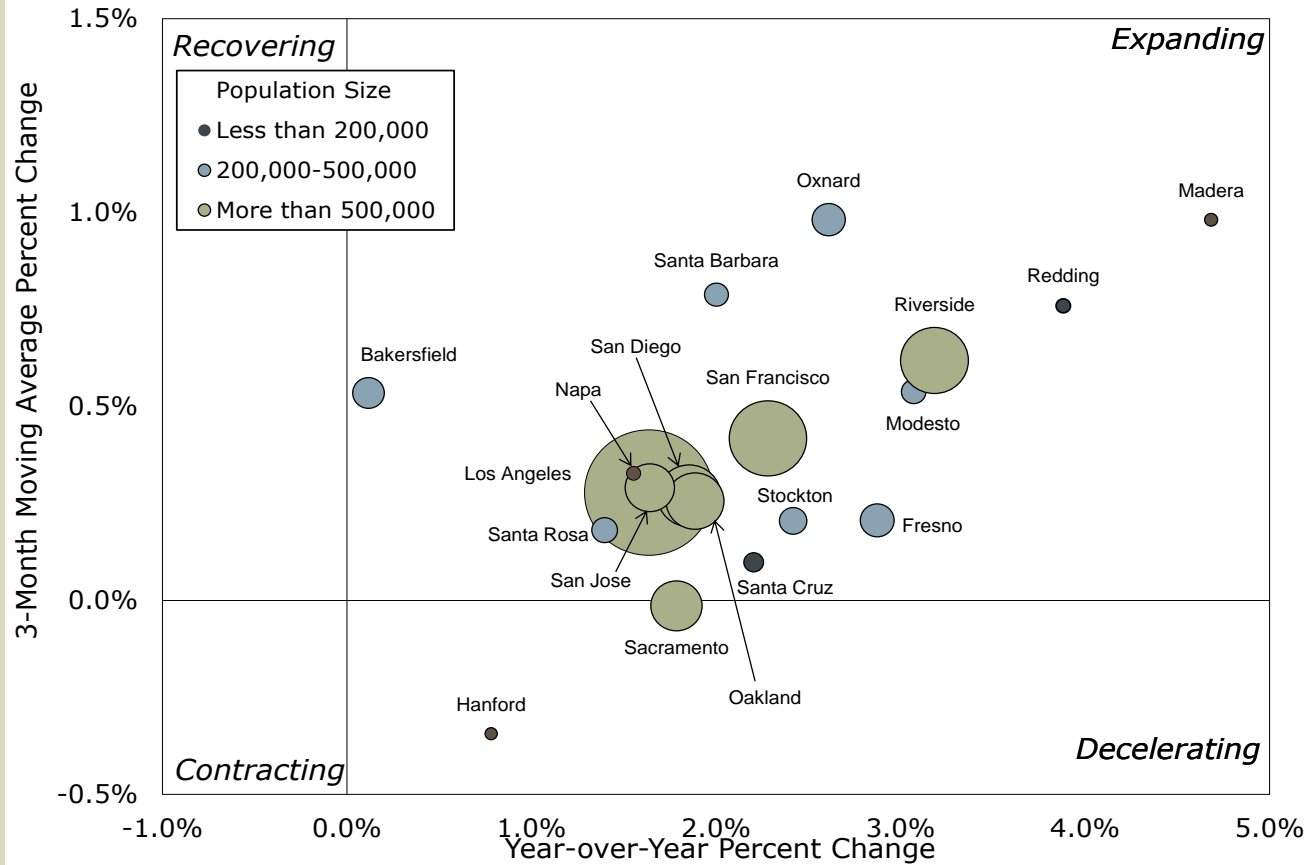


## Employment by Industry



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

### California Employment Growth: February 2017 Year-over-Year Percent Change, 3-Month Moving Average

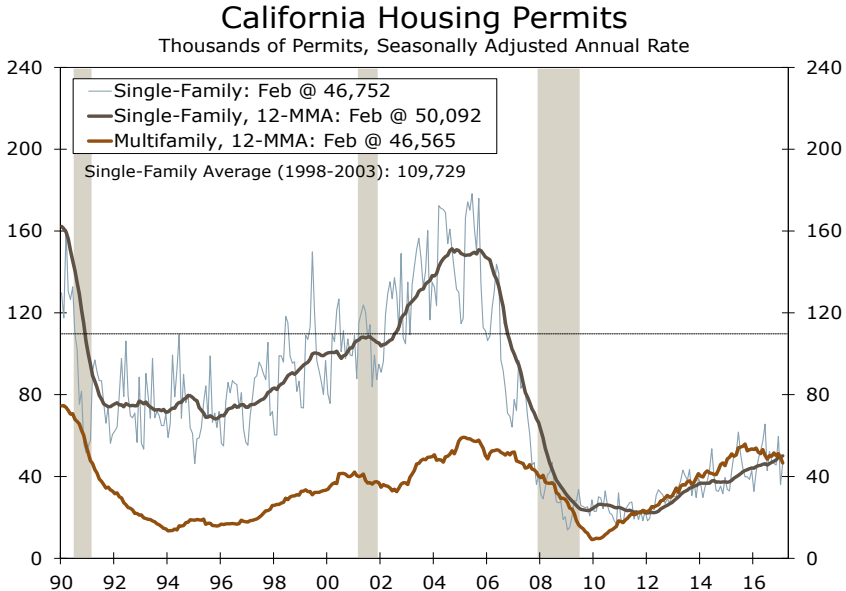


Employment growth in most of California's markets remains positive

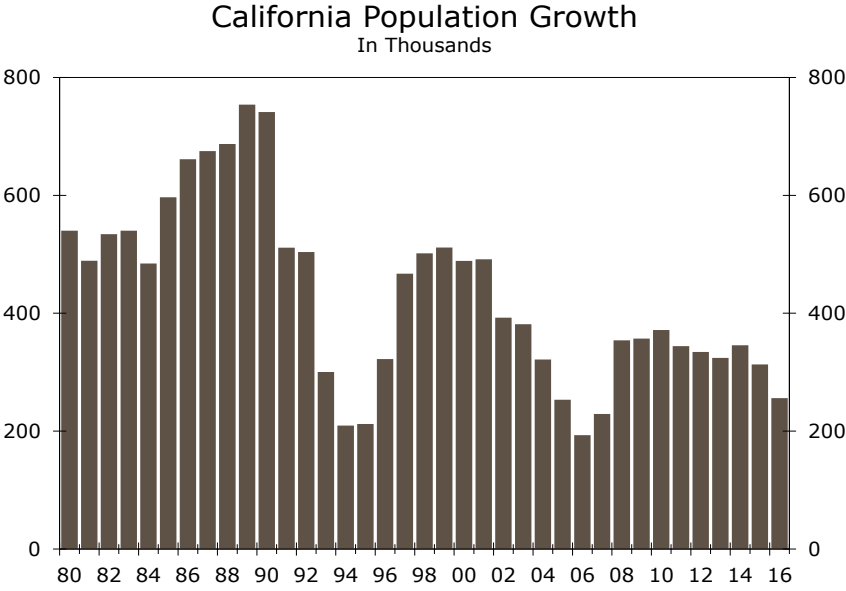
Source: U.S. Department of Labor and Wells Fargo Securities

Residential construction is slowly getting back on track, as single and multifamily permits continue to trend higher.

## Housing Permits



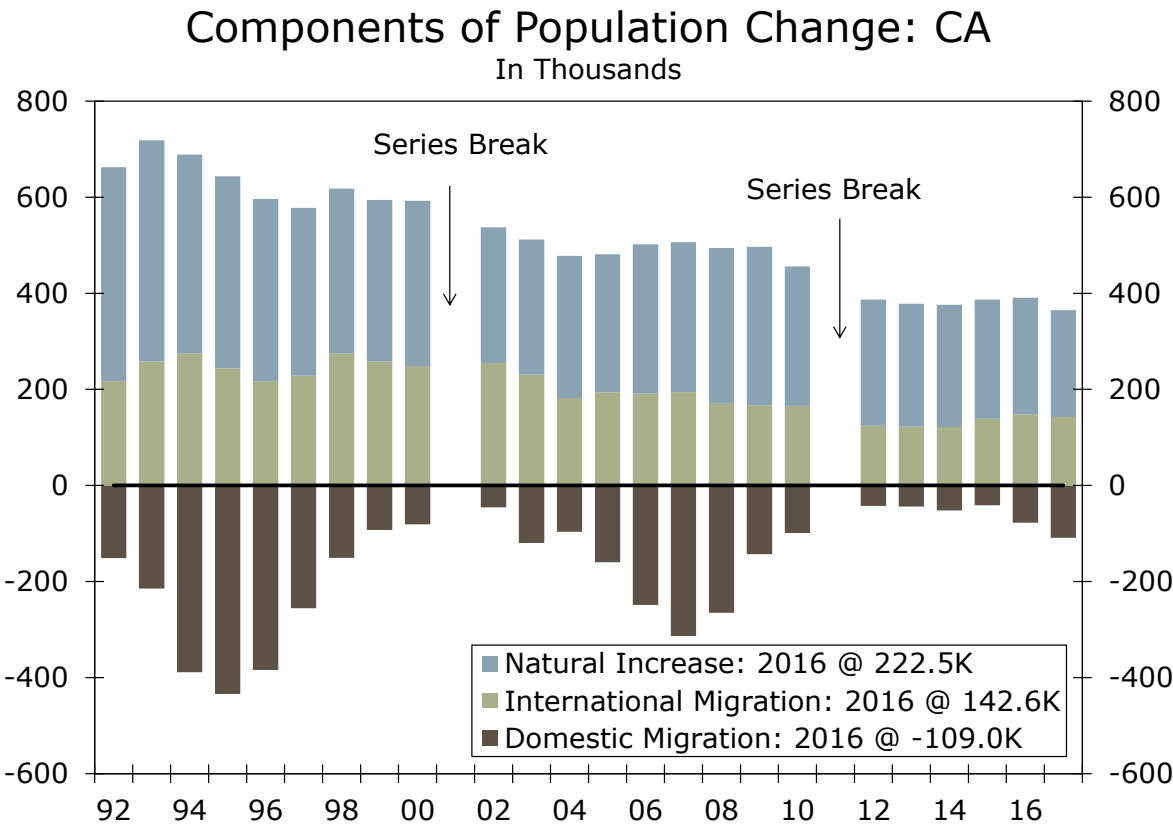
## Population Growth



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



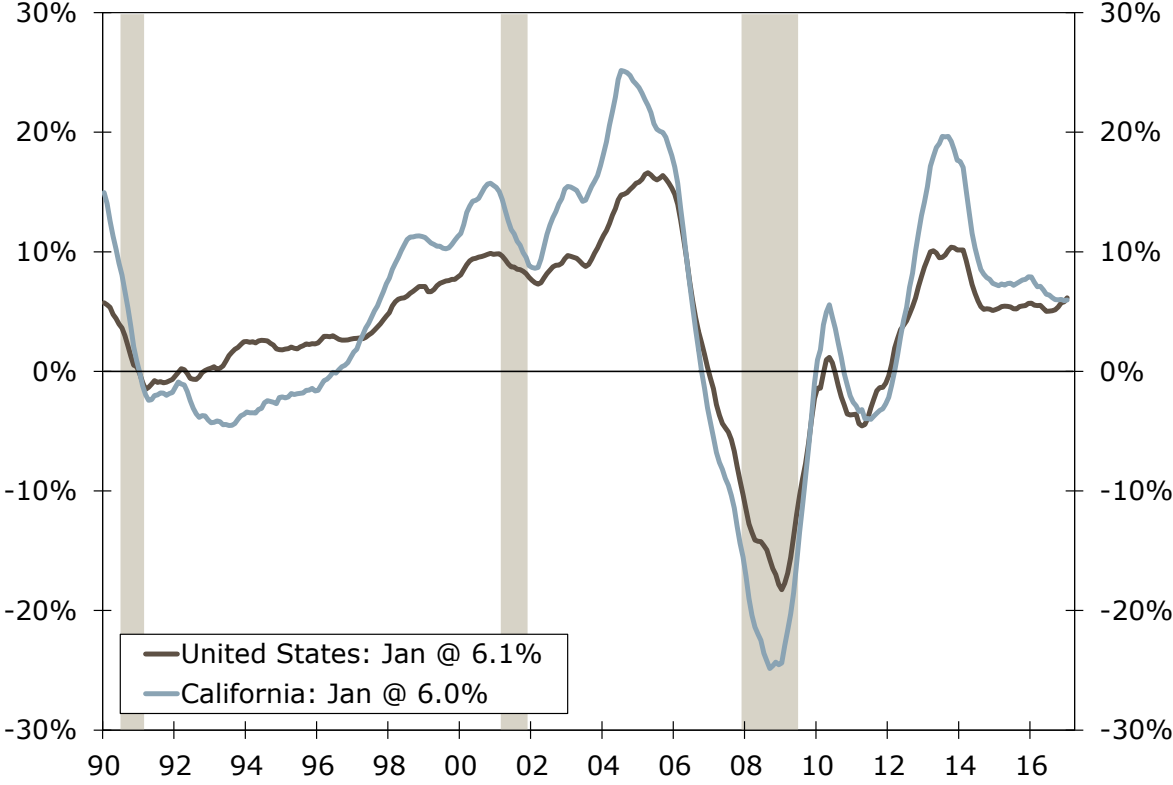
Natural gains and international inflows account for all of California's population growth, while domestic out-migration has been a drag.



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

Home prices in California have risen in line with the national average over the past year.

### Core Logic HPI: CA vs. U.S. Year-over-Year Percent Change

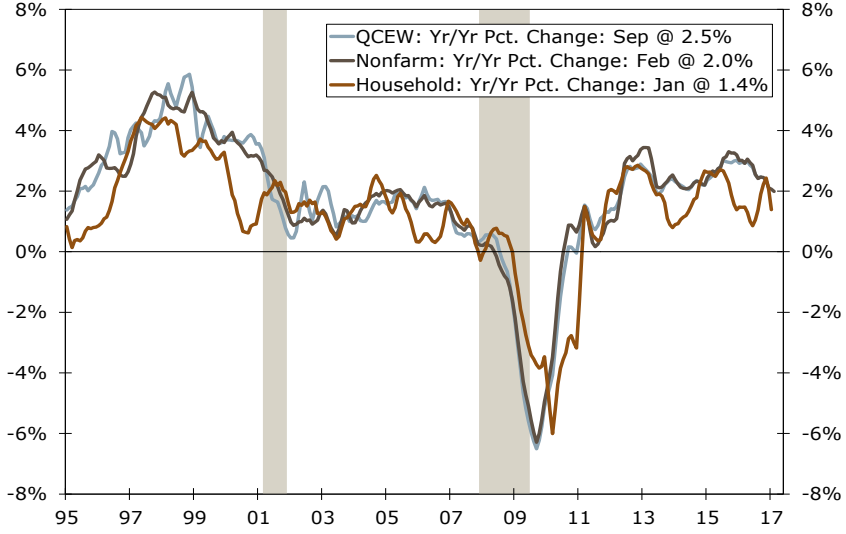


Source: CoreLogic, Inc. and Wells Fargo Securities

San Diego employers continue to add jobs at a steady clip. Hiring has been relatively broad based across industries. The government and education & health services sectors have added the greatest number of jobs over the past year.

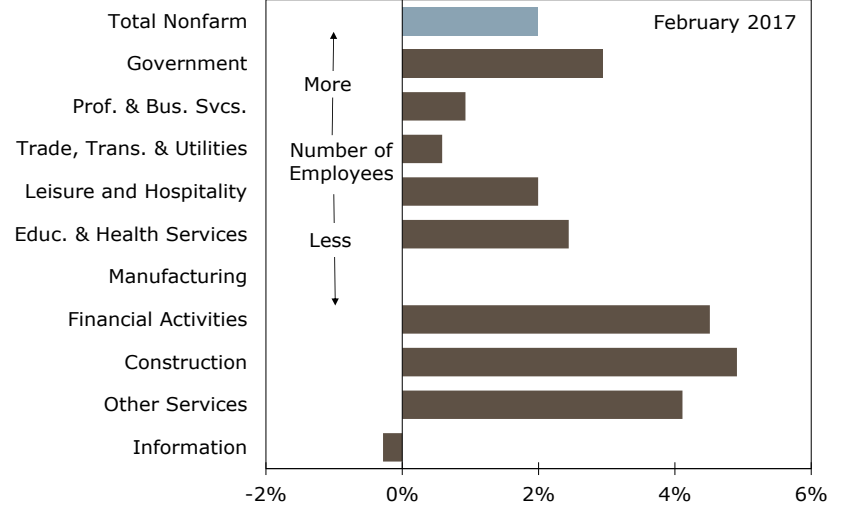
## Nonfarm Employment

San Diego MSA Nonfarm Employment  
3-Month Moving Averages



## Employment by Industry

San Diego MSA Employment Growth By Industry  
Year-over-Year Percent Change, 3-MMA

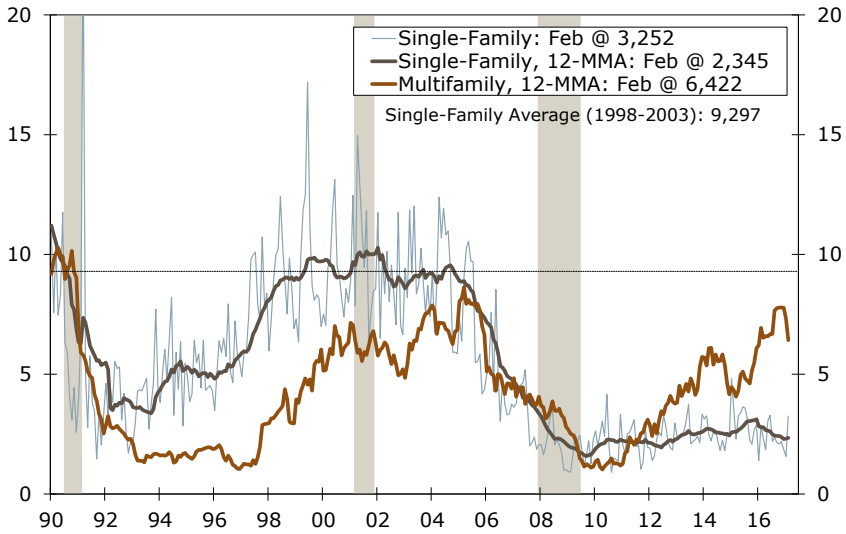


Source: U.S. Department of Labor and Wells Fargo Securities

Residential construction has been slow to recover. The pace of single-family construction has been relatively flat over the past year. Following a run-up in building activity, multifamily construction has reportedly slowed in more recent months.

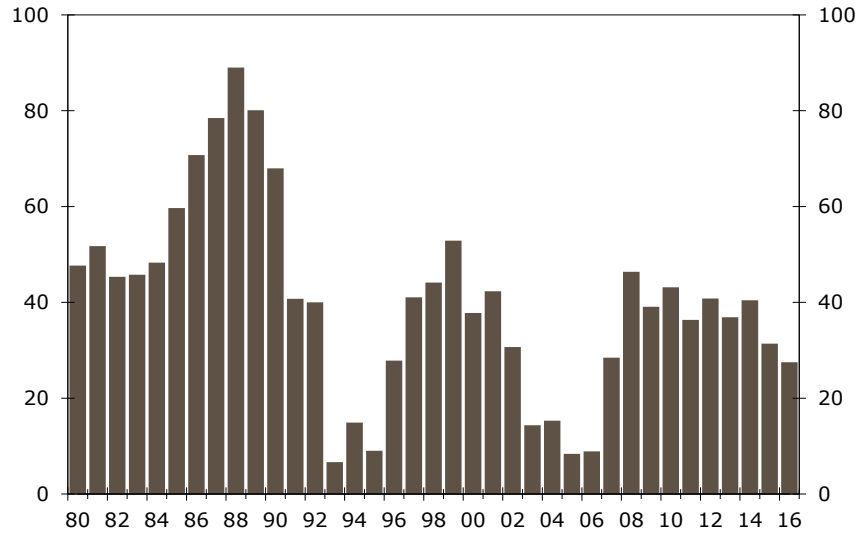
## Housing Permits

San Diego MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate



## Population Growth

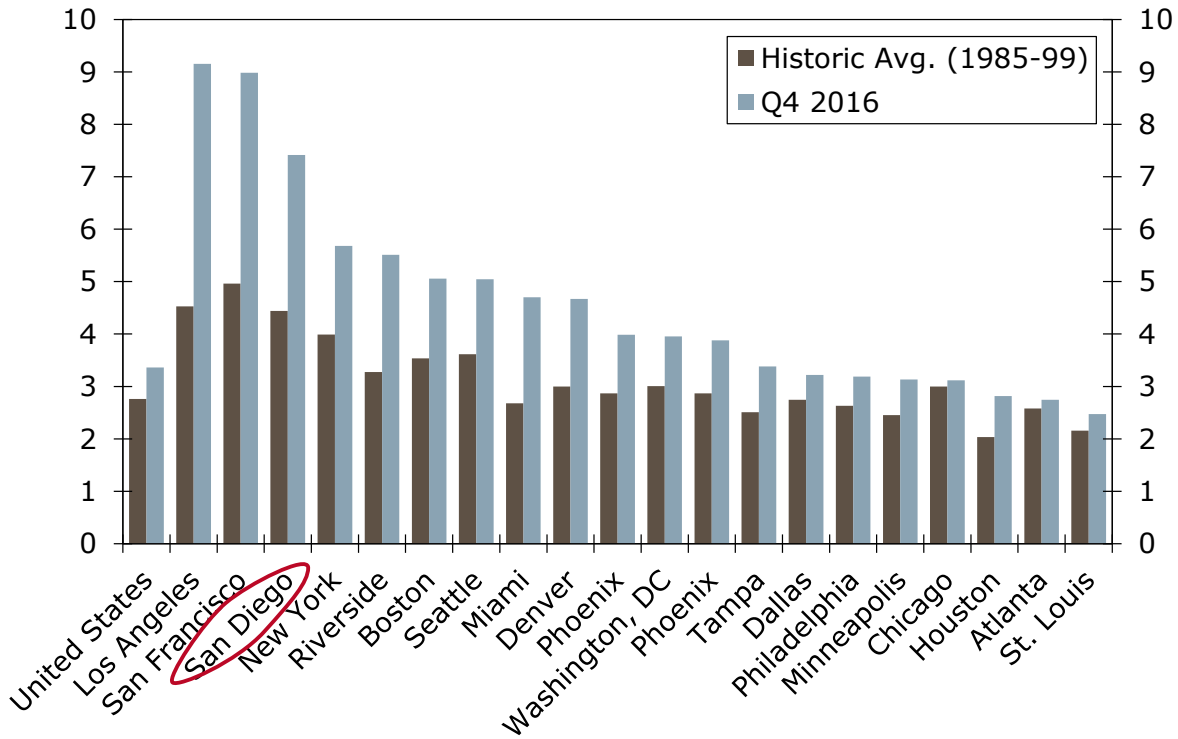
San Diego MSA Population Growth  
In Thousands



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

Home price as a share of annual income has grown significantly relative to its historical average in San Diego

House Price-to-Income Ratio in Large Metros  
Ratio of Median Home Price to Median Household Income



Source: Zillow and Wells Fargo Securities

## Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual			Forecast	
	2016				2017				2018				2014	2015	2016	2017	2018
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product <sup>1</sup>	0.8	1.4	3.5	2.1	0.5	2.9	2.5	2.3	2.5	2.6	2.7	2.6	2.4	2.6	1.6	2.0	2.5
Personal Consumption	1.6	4.3	3.0	3.5	1.3	2.7	2.4	2.2	2.7	2.9	3.0	2.9	2.9	3.2	2.7	2.6	2.7
Business Fixed Investment	-3.4	1.0	1.4	0.9	5.8	4.4	4.4	4.7	4.4	4.9	4.8	4.6	6.0	2.1	-0.5	3.5	4.6
Equipment	-9.5	-2.9	-4.5	1.9	7.8	4.2	3.9	4.3	3.8	4.3	4.2	3.7	5.4	3.5	-2.9	3.0	4.1
Intellectual Property Products	3.8	9.0	3.2	1.3	3.8	4.5	4.7	5.0	5.1	4.8	4.7	4.5	3.9	4.8	4.7	3.9	4.8
Structures	0.1	-2.1	12.0	-1.9	4.7	4.9	5.2	5.5	6.0	6.3	6.5	6.7	10.3	-4.4	-2.9	4.0	5.6
Residential Construction	7.8	-7.8	-4.1	9.6	10.5	6.7	6.5	6.3	5.8	5.6	5.4	5.4	3.5	11.7	4.9	5.7	5.9
Government Purchases	1.6	-1.7	0.8	0.2	-0.1	1.5	1.4	1.5	1.8	1.8	1.5	1.5	-0.9	1.8	0.8	0.5	1.6
Net Exports <sup>2</sup>	0.0	0.2	0.9	-1.8	-0.4	-0.4	-0.3	-0.4	-0.5	-0.6	-0.5	-0.5	-0.1	-0.7	-0.1	-0.5	-0.5
Inventories <sup>2</sup>	-0.4	-1.2	0.5	1.0	-0.5	0.4	0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.2	-0.4	0.1	0.0
Nonfarm Payroll Change <sup>3</sup>	196	164	239	148	213	160	155	150	150	145	145	140	250	226	187	169	145
Unemployment Rate	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	6.2	5.3	4.9	4.7	4.5
Consumer Price Index <sup>4</sup>	1.1	1.1	1.1	1.8	2.7	2.6	2.8	2.7	2.4	2.6	2.6	2.6	1.6	0.1	1.3	2.7	2.6
Quarter-End Interest Rates <sup>5</sup>																	
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	0.25	0.27	0.52	1.25	1.88
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	4.17	3.85	3.65	4.38	4.53
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	0.46	0.69	0.83	1.67	2.20
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	2.54	2.14	1.84	2.64	2.83

Forecast as of: March 31, 2017

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

<sup>4</sup> Year-over-Year Percentage Change

<sup>5</sup> Annual Numbers Represent Averages

# Appendix

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## A Sampling of Our Recent Special, Regional &amp; Industry Commentary

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Recent Special Commentary		
Date	Title	Authors
<b>U.S. Macro</b>		
March-09	Till Debt Do Us Part: How Leveraged Is the Typical Boomer?	Silvia, House & Pugliese
March-07	Boomer Balance Sheets: Nothing Great about That Recession	Silvia, House & Pugliese
March-06	FOMC Update: Decision in a Data/Policy Fog	Silvia
February-28	Boom or Bust? The Baby Boomers in Their Golden Years	Silvia, House & Pugliese
February-27	The Girl with the Draggin' W-2	Quinlan, Batcheller & House
<b>U.S. Regional</b>		
March-09	Georgia Labor Market Update: January 2017	Vitner, Feik & Batcheller
March-07	Quarterly Census of Employment and Wages: Q3 2016	Vitner & Feik
March-03	California's Unemployment Rate Declines to 5.1 Percent	Vitner
March-01	Regional Variance in Homeownership	Vitner & Batcheller
February-21	Arizona Economic Outlook: February 2017	Vitner & Feik
<b>Global Economy</b>		
March-08	Brazilian Economy Shrinks in 2016	Alemán
March-06	Where Does China Have Trade Leverage Over America?	Bryson
March-02	Weak Swiss GDP Growth Fails to Spur Inflation	Bryson & Pershing
March-02	Consumer Spending Lifted Canadian GDP Yet Again in Q4	Quinlan
March-01	Border Adjustment Tax: Which Countries Would Feel it Most	Bryson & Pershing
<b>Interest Rates/Credit Market</b>		
March-08	FDIC Quarterly Points to Healthy Turn in Credit Markets	Silvia & Pugliese
March-01	Household Borrowing Accelerate at Year-End	Silvia & Pugliese
February-22	Credit and Growth: A Partnership Not Opposition	Silvia
February-15	Late-Cycle Signal: Tighter Consumer Credit Standards	Silvia & Batcheller
February-08	Q1 2017 Net Treasury Issuance Forecast Update	Silvia & Brown
<b>Real Estate</b>		
March-01	Regional Variance in Homeownership	Vitner & Batcheller
February-22	CRE Credit: Fed Concerns, Tighter Standards & Less Demand	Silvia & Batcheller
February-14	Housing Continues to Move Toward a New Equilibrium	Vitner & Batcheller
February-08	Commercial Real Estate Chartbook: Q4	Khan & Causey
January-11	2017 Private Nonresidential Construction Outlook	Khan



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