



# The Economic Outlook

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## U.S. Outlook

- Economic growth moderated this summer, as COVID spiked in parts of the country and supply chain bottlenecks and rising inflation slowed production and cut into consumer confidence. Output appears to have bounced back in the fourth quarter, but the recent discovery of the Omicron variant has raised fears about a slowdown in early 2022. While risks have increased, we look for strong economic growth to continue.
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## Inflation Has Accelerated

- Inflation has proven to be stronger and more persistent than the Fed had expected. The primary culprit has been expansive fiscal and monetary policies. Supply chain disruptions are also playing a role and price increases will ease a bit when bottlenecks lessen late next year. Wage inflation is likely to remain a problem, however, and we expect inflation to continue to top both the Fed's and consensus expectations.
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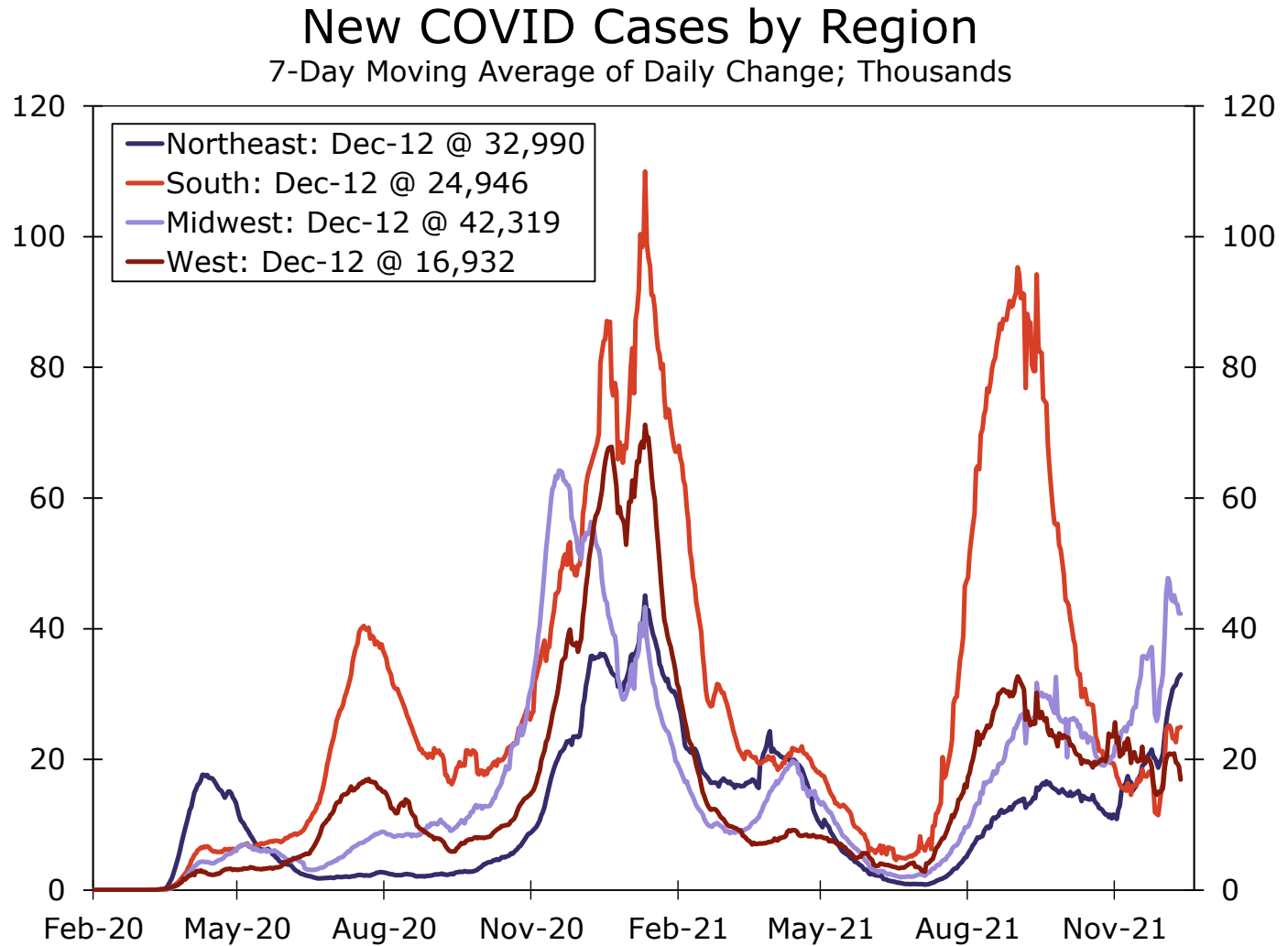
## Affordability Migration

- The pandemic accelerated the migration from high-cost, densely-populated cities to secondary metro areas in the inland parts of the West and South. The move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas has fueled sales of single-family homes and motor vehicles. Tight supplies along with supply chain disruptions are adding to inflationary pressures.
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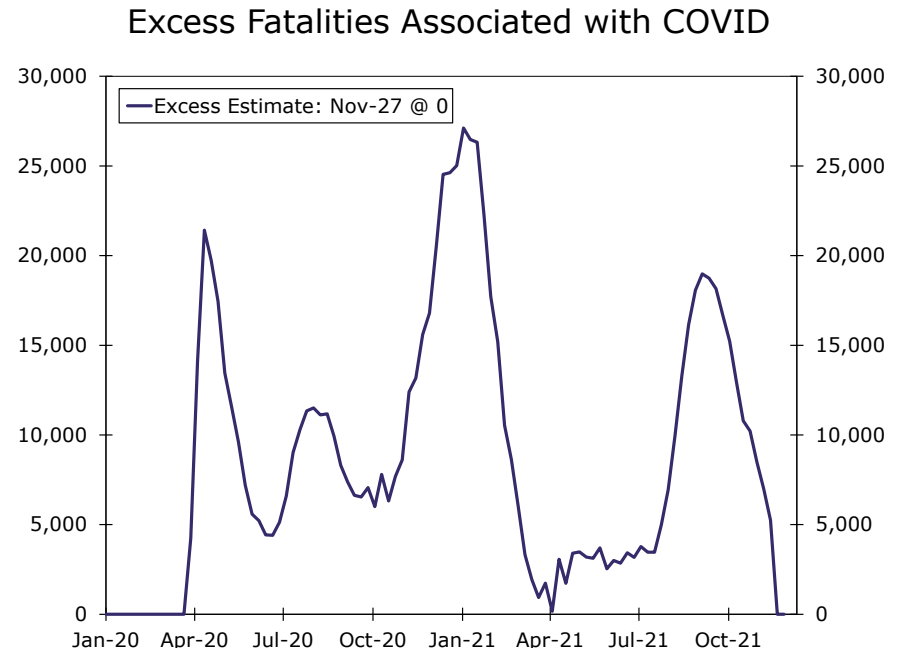
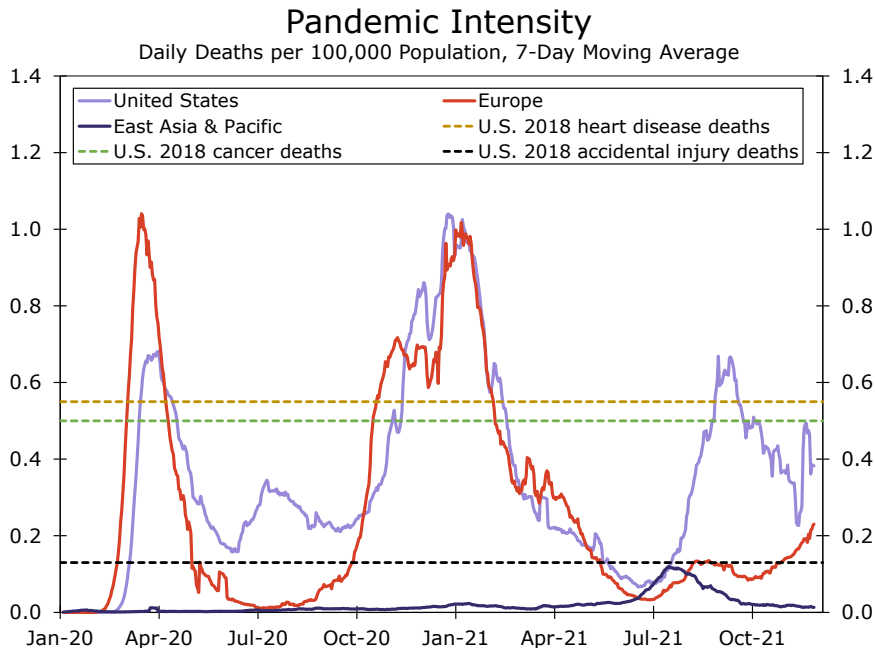
## Monetary and Fiscal Stimulus Winding Down

- The Fed has begun tapering its securities purchases by \$15 billion per month. With inflation higher and more persistent, the Fed has accelerated the timetable for winding down QE. Fiscal stimulus also looks like it will be scaled back, with further cuts likely to President Biden's Build Back Better plan. The bulk of monetary and fiscal policy changes impact the economy with a lag of 12 to 18 months.
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The newly-discovered Omicron variant is raising concerns that the reopening may slow early next year.



Daily fatalities per 100,000 population have risen in Europe and the United States. Some emerging markets remain vulnerable and will take longer to vaccinate.

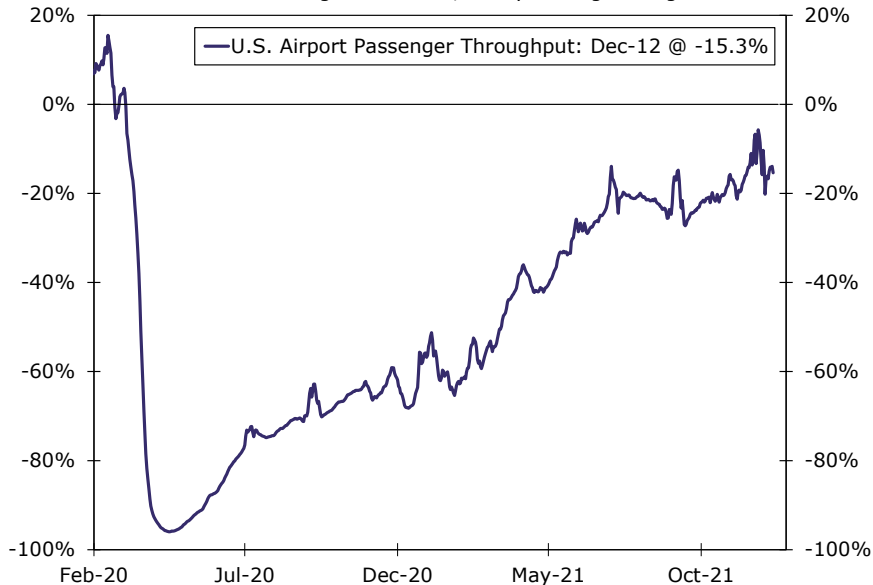


# Delta Variant Economic Impact

High-frequency measures of economic engagement are vastly improved relative to last year, but activity appears to be rolling over, reflecting the onset of colder weather, fears about COVID and continued uncertainty about the return to office and in-person schooling.

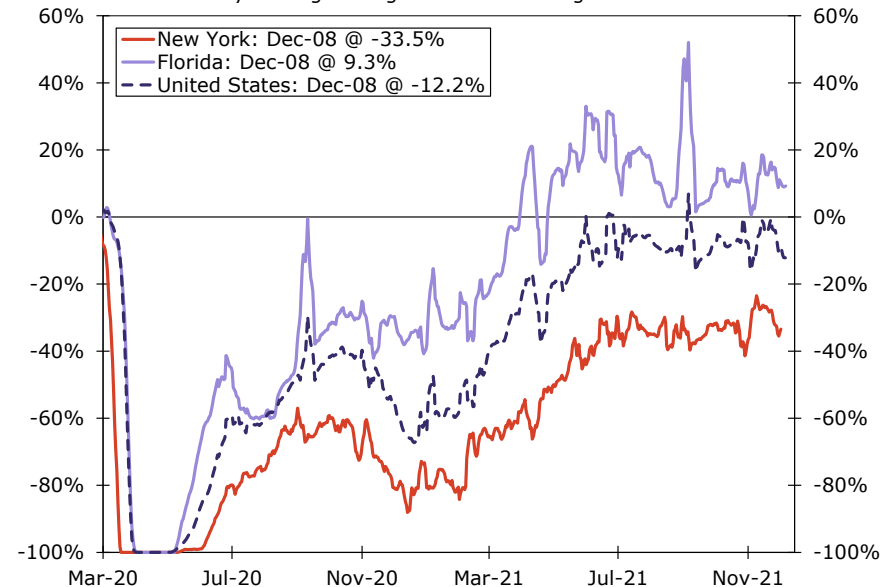
### People Passing through U.S. Airport Security

Percent Change from 2019, 7-Day Moving Average

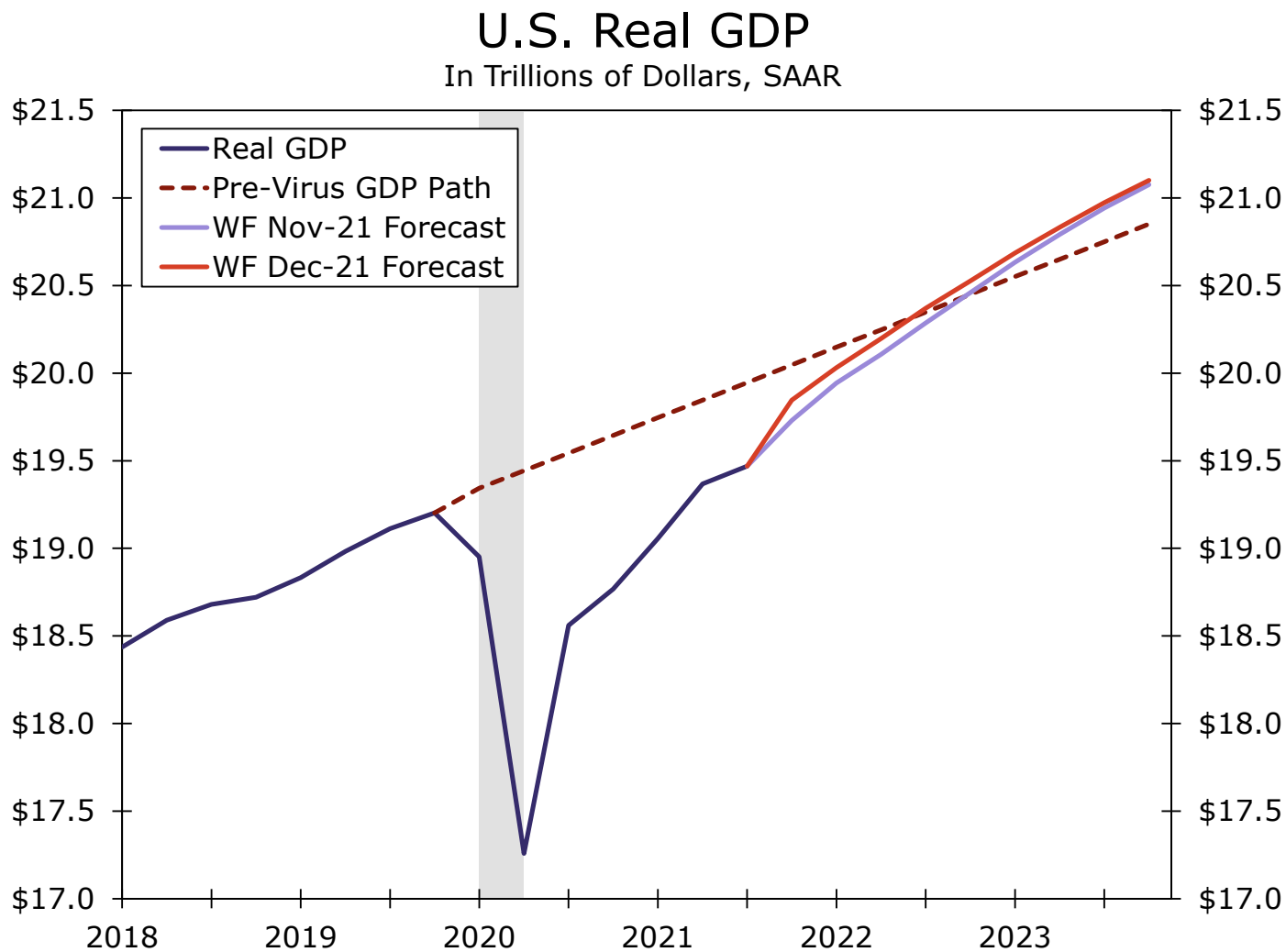


### Seated Diners

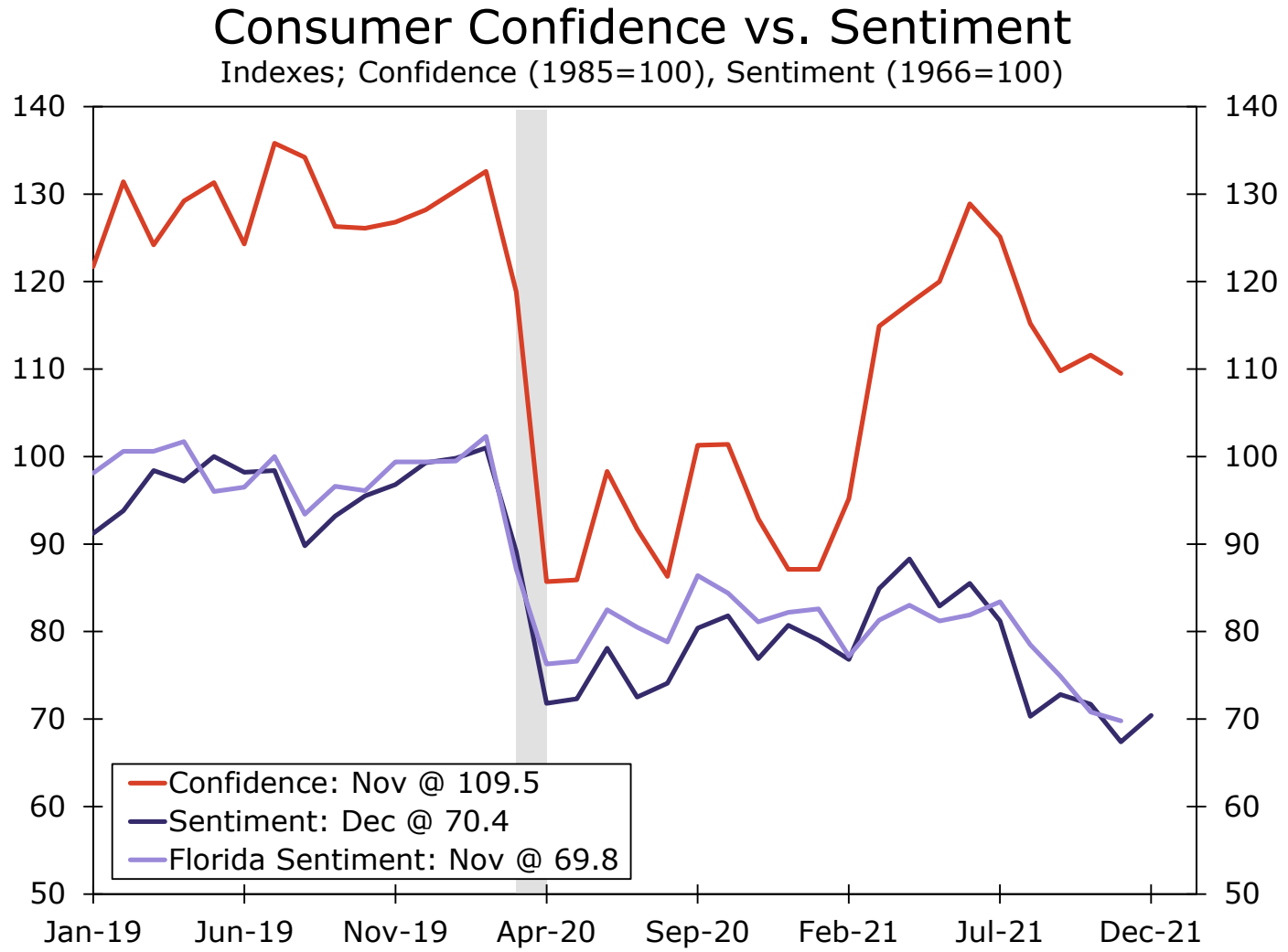
7-Day Moving Average of Percent Change from 2019



Real GDP growth will surpass potential GDP growth around the middle of 2022, making it difficult to reverse the recent acceleration in inflation.



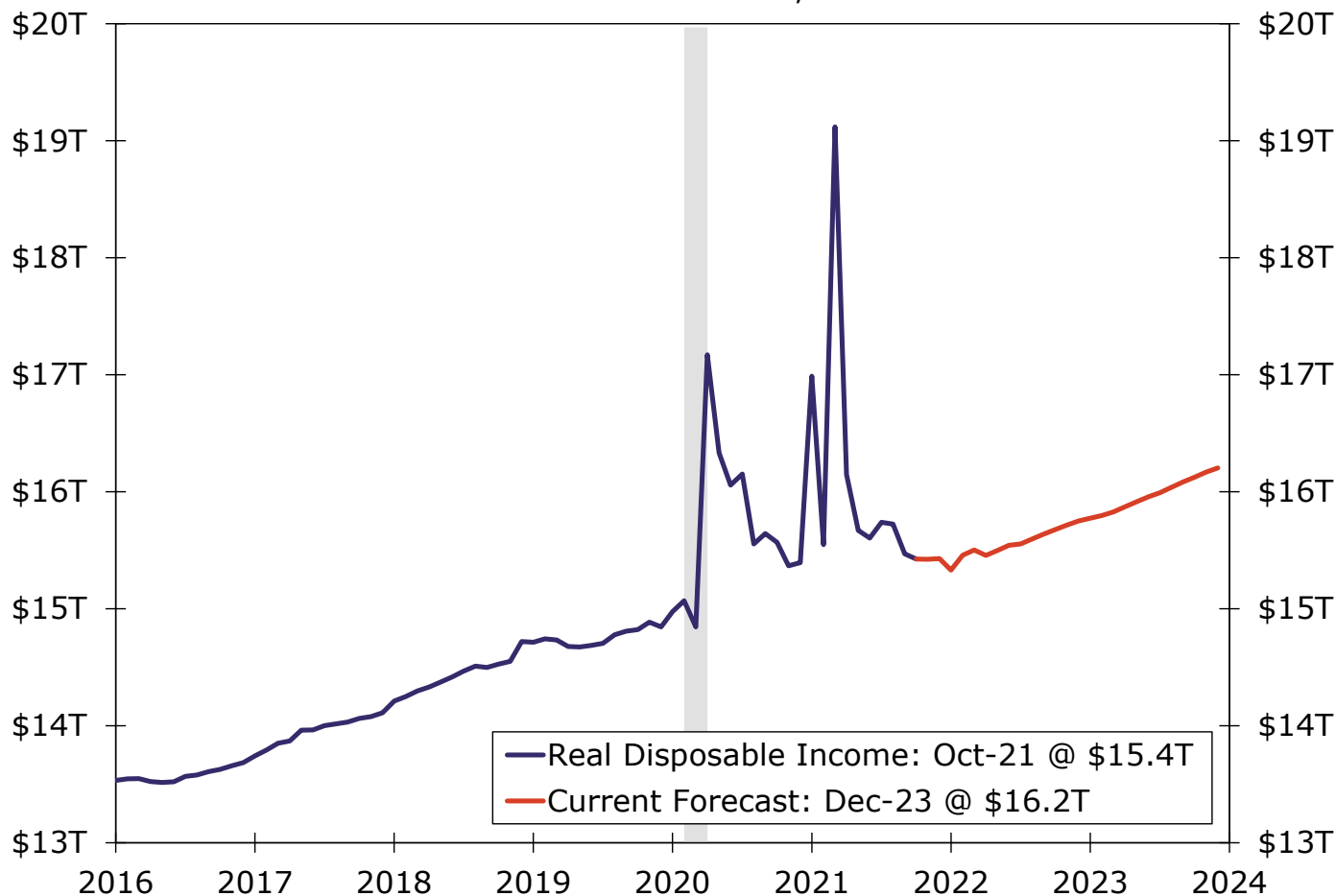
There is a wide gap between the two most widely followed consumer confidence surveys, reflecting the divergence between job prospects and inflation concerns.



Income growth has slowed as the extraordinary degree of support this cycle is further behind us.

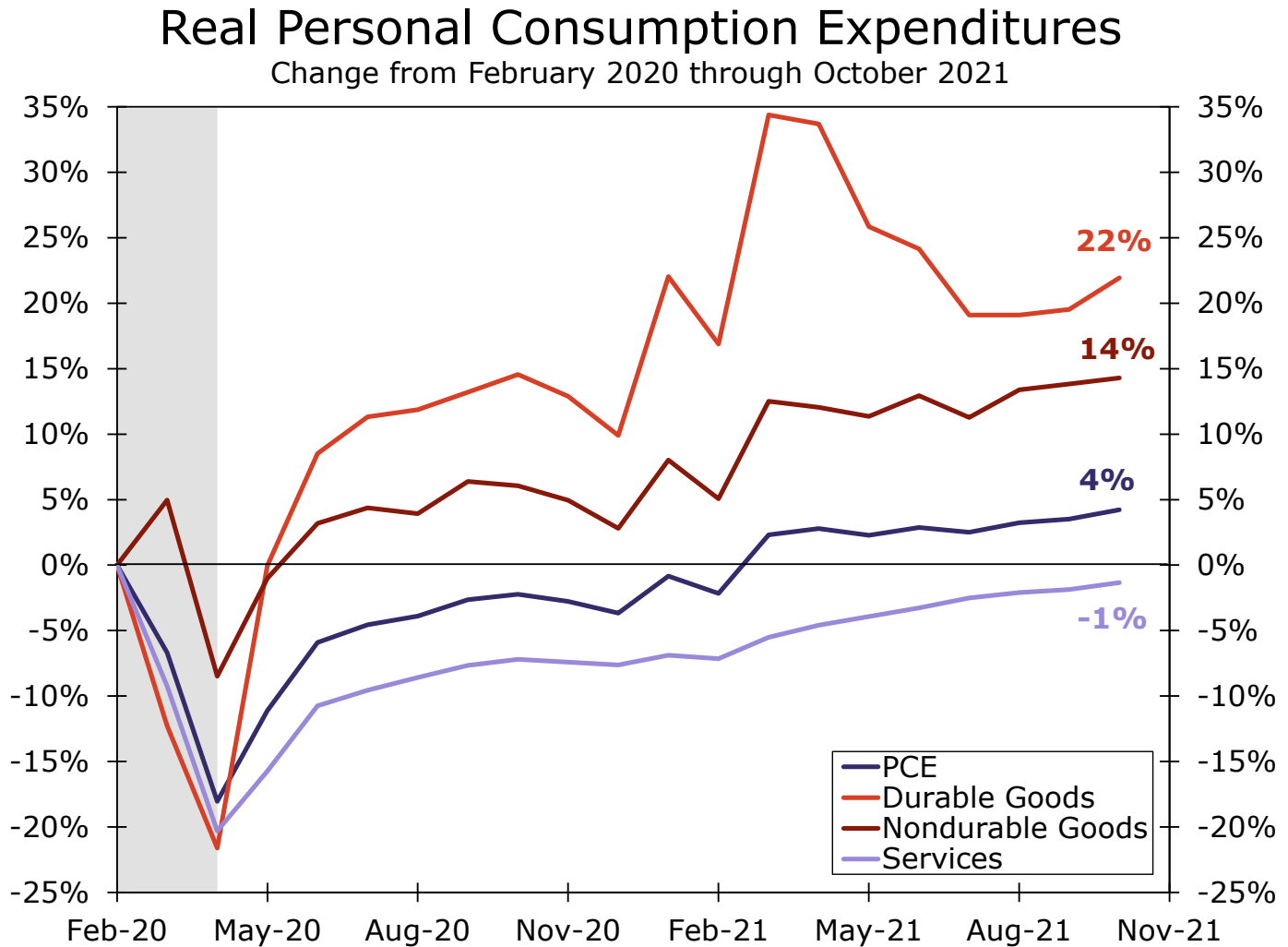
## Real Disposable Personal Income Forecast

Trillions of 2012 Dollars, SAAR



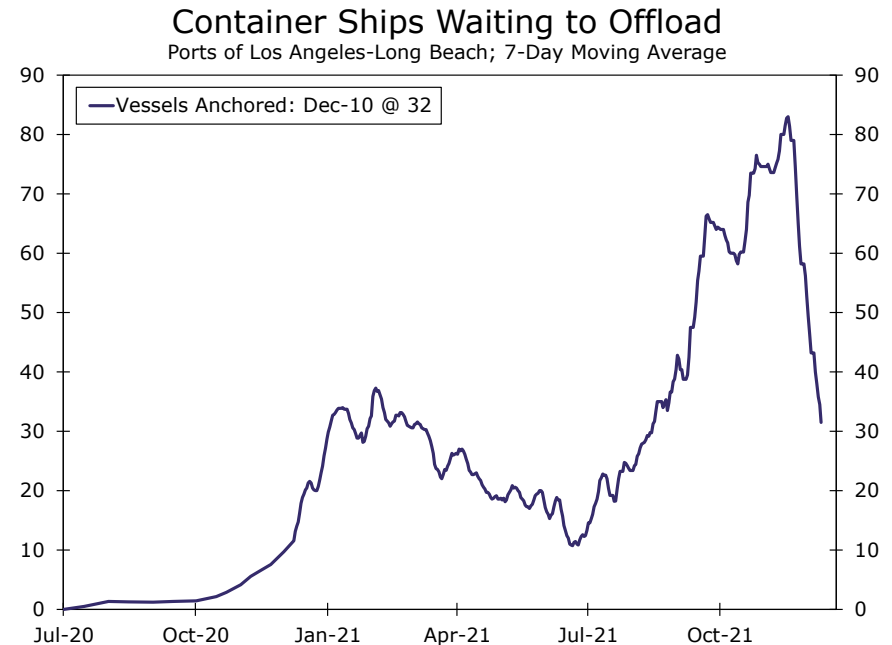
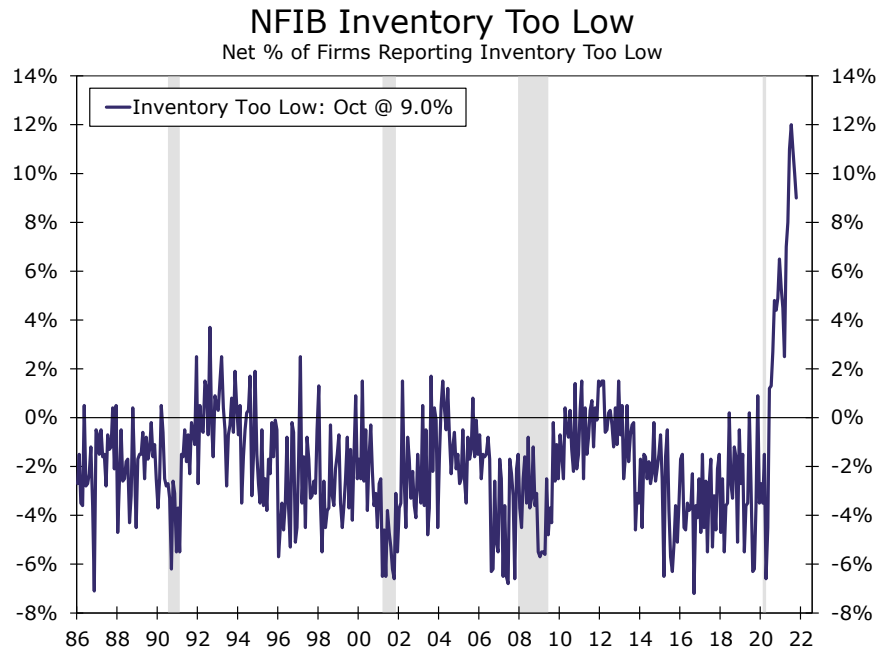


Total spending has recovered, but the drivers have been uneven.



# Supply Constraints: Goods Inventories

Growth would be even stronger were it not for supply constraints. “Normal” inventory levels and supply chains appear set to return after the calendar turns to 2022.



# Pressure Gauge

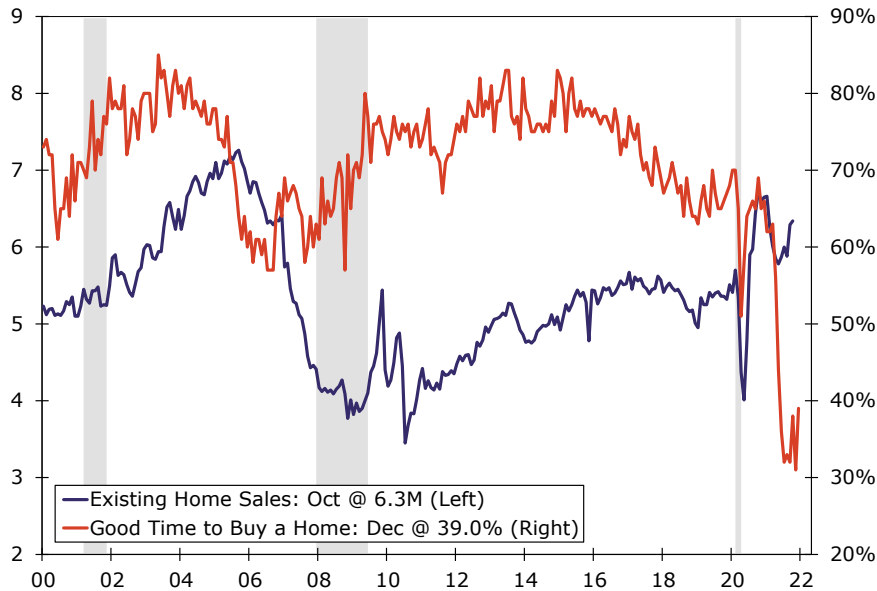
Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>Time</b>																						
ISM Manuf. Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	73.4	75.6	72.2
ISM Serv. Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6	68.8	75.7	75.7
Ships at Anchor-LA & LB (a)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	34.8	56.3	66.6	70.0
<b>Volume</b>																						
Taiwan Elect. Product Exports (b)	46.2%	18.1%	24.3%	13.2%	23.8%	15.3%	19.1%	26.1%	21.8%	19.0%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.9%	21.9%	26.8%	12.4%	26.6%
Cass Freight Index (b)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	12.3%	0.6%	0.8%	
Unfilled Orders (c)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.5%	12.2%	12.2%	9.3%	
<b>Price</b>																						
World Container Index (WCI) (d)	\$1.6k	\$1.5k	\$1.5k	\$1.5k	\$1.8k	\$2.0k	\$2.1k	\$2.5k	\$2.6k	\$2.8k	\$4.0k	\$5.3k	\$5.2k	\$5.0k	\$4.9k	\$5.9k	\$7.1k	\$8.9k	\$9.6k	\$10.2k	\$9.9k	\$9.2k
WCI: Shanghai-Los Angeles (d)	\$1.5k	\$1.4k	\$1.6k	\$1.7k	\$2.3k	\$2.9k	\$3.3k	\$3.9k	\$4.1k	\$4.0k	\$4.1k	\$4.2k	\$4.3k	\$4.2k	\$4.3k	\$5.5k	\$6.8k	\$9.8k	\$10.7k	\$12.0k	\$11.0k	\$10.0k
PPI Transp. & Ware. of Goods (c)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	16.9%	14.4%	12.6%	9.9%	10.4%	15.7%	
Dry Van Rate Per Mile (e)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%	21.8%	17.8%	16.5%
<b>Inventory</b>																						
Bus. Inventory-to-Sales Ratio	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25	1.25	1.26	1.26		
ISM Manuf. Inventories Index	46.5	46.9	49.7	50.4	50.5	47.0	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2	55.6	57.0	56.8
ISM Manuf. Cons. Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2	31.7	31.7	25.1
Inventory Too Low (f)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%	10.0%	9.0%	
<b>Labor</b>																						
Production & Manuf. Posts (g)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%	87.3%	92.4%	103.5%
Loading & Stocking Posts (g)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%	82.4%	92.4%	106.4%

Notes: (a) Monthly Average, (b) Year-over-Year Percent Change, (c) 3-Month Annualized Rate, (d) USD/40ft Box), (e) Year-over-Year of 4-Week Moving Average, (f) Net % of Firms, (g) versus February 2020  
Source: Institute for Supply Management (ISM), Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Securities

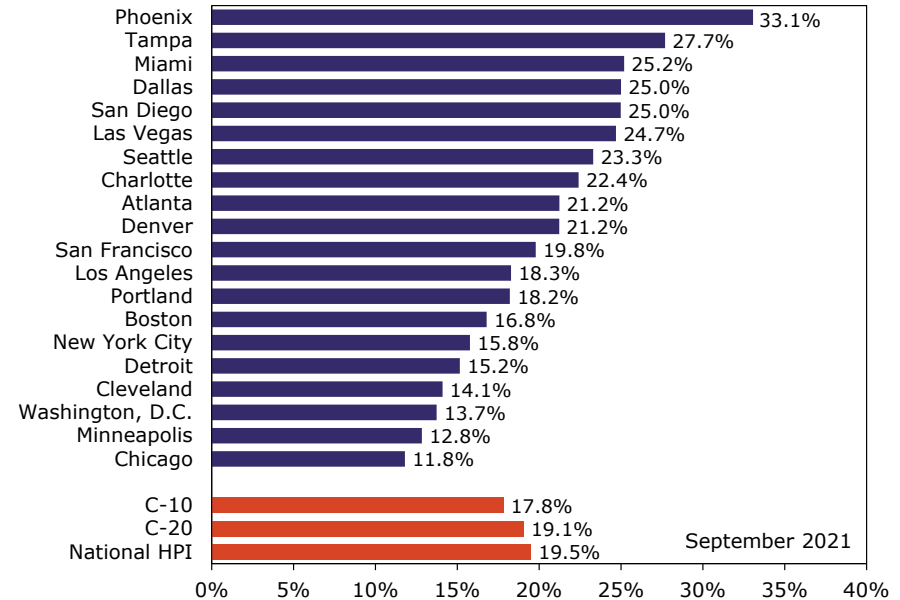
# Supply Constraints: Housing

After moderating this past summer, the pace of both new and existing home sales have edged higher in recent months. Tight inventories and fast-rising home prices are primarily behind this year's slowdown, which are putting homes out of reach for many prospective home buyers.

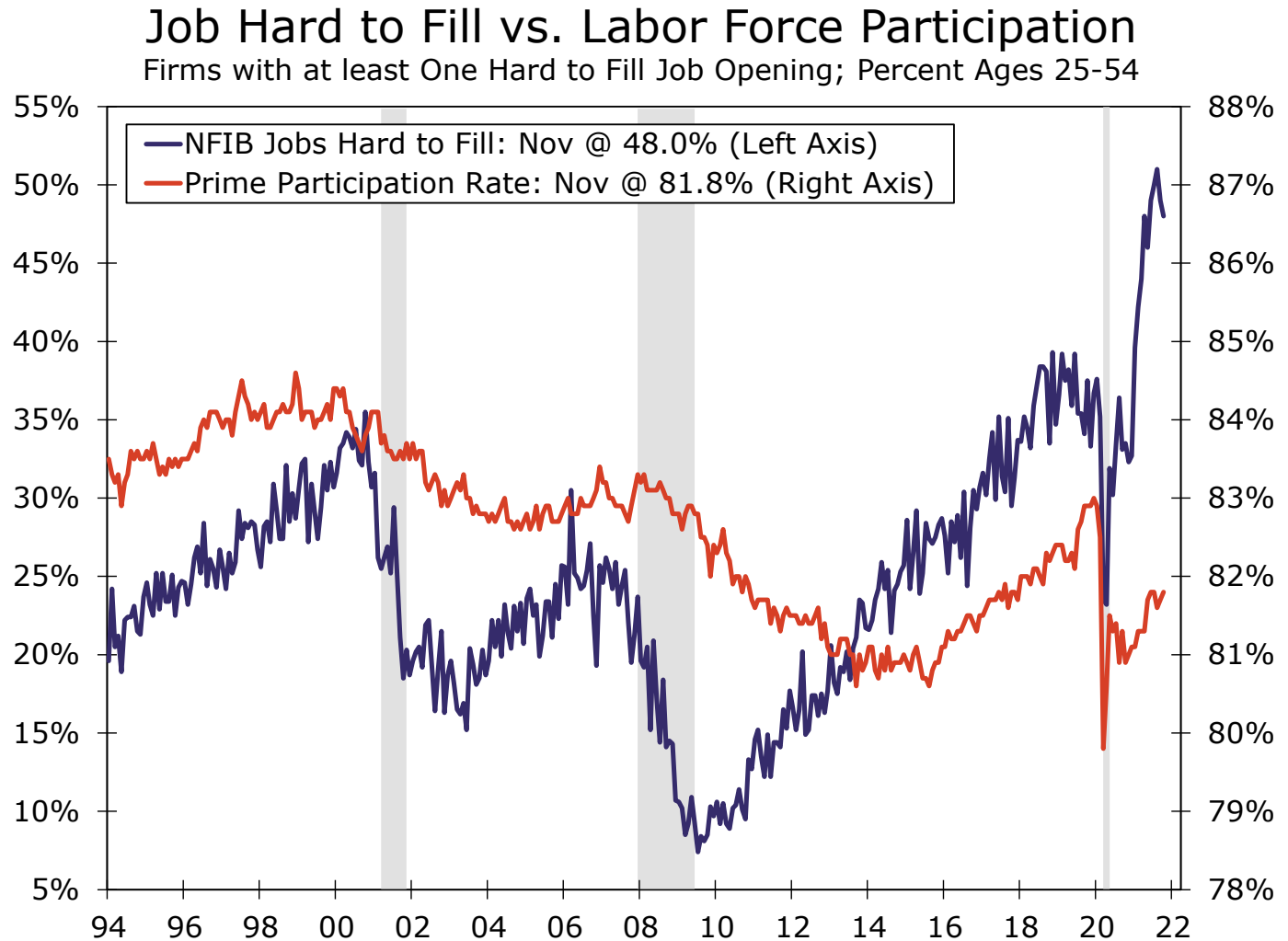
Homebuying Sentiment vs. Existing Home Sales  
Sales in Millions, SAAR



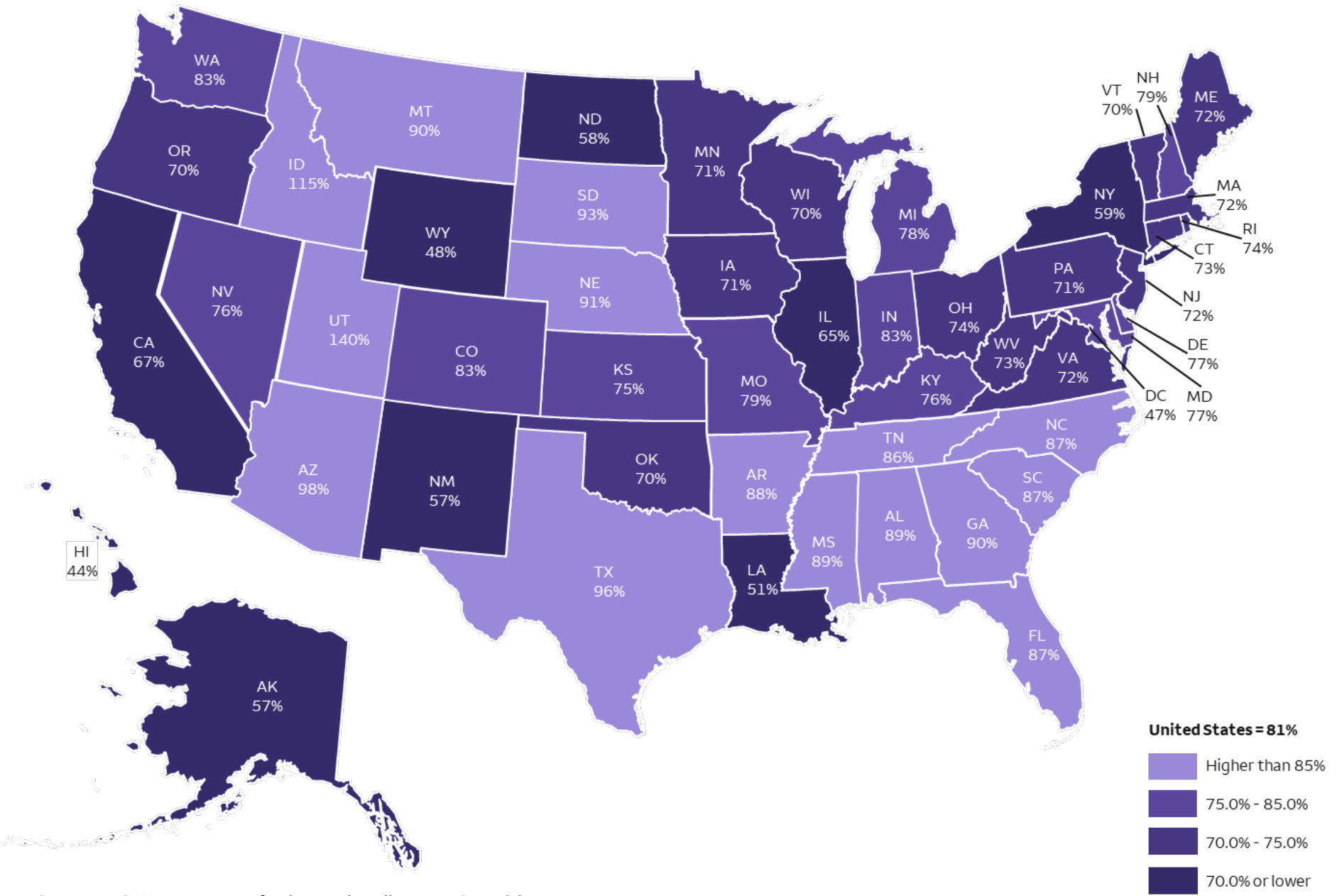
S&P CoreLogic Case-Shiller Home Prices  
Year-over-Year Percent Change, NSA



The availability of workers continues to hold back the jobs recovery.



# Percent of March & April Job Losses Recovered – October 2021

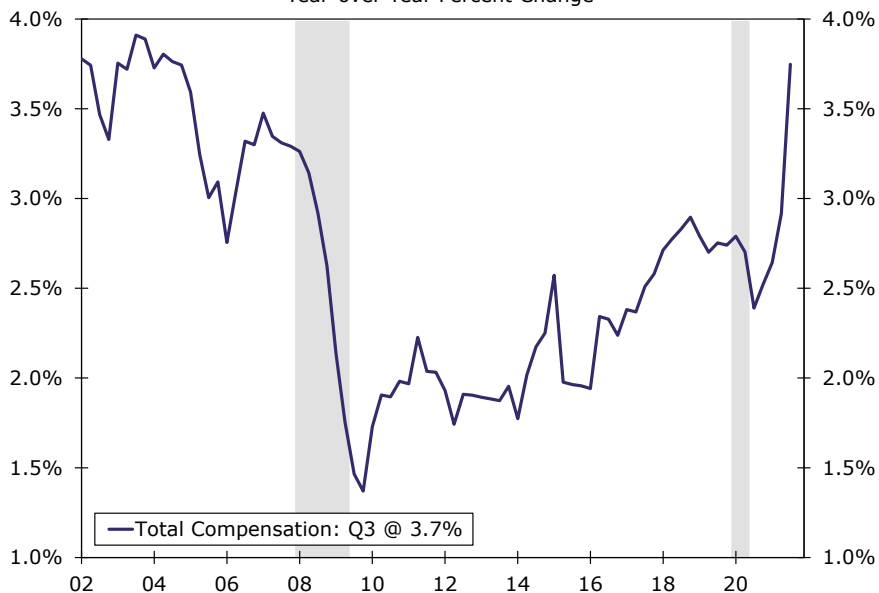


Source: U.S. Department of Labor and Wells Fargo Securities

Wage growth has picked up, particularly in lower-paying industries that are struggling most to get workers back to the jobsite.

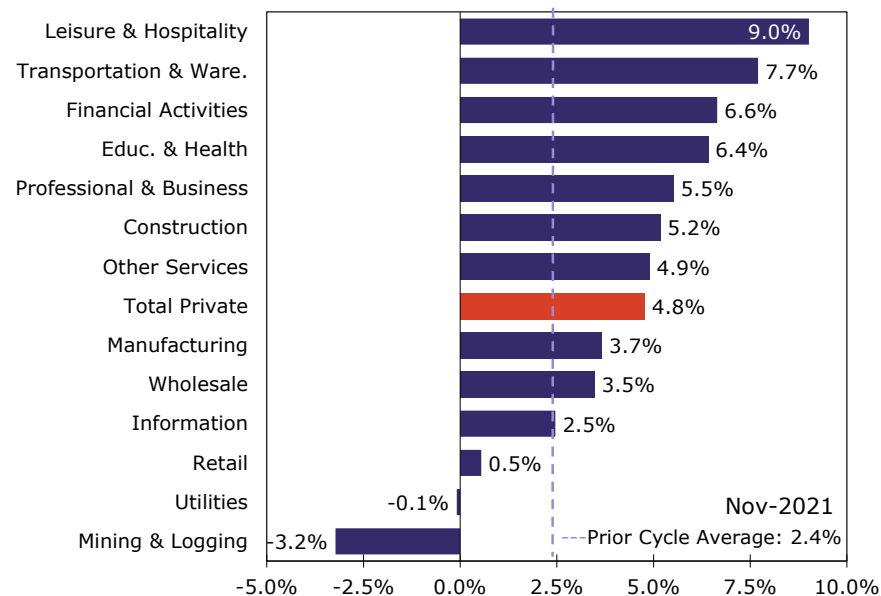
### Employment Cost Index - All Workers

Year-over-Year Percent Change

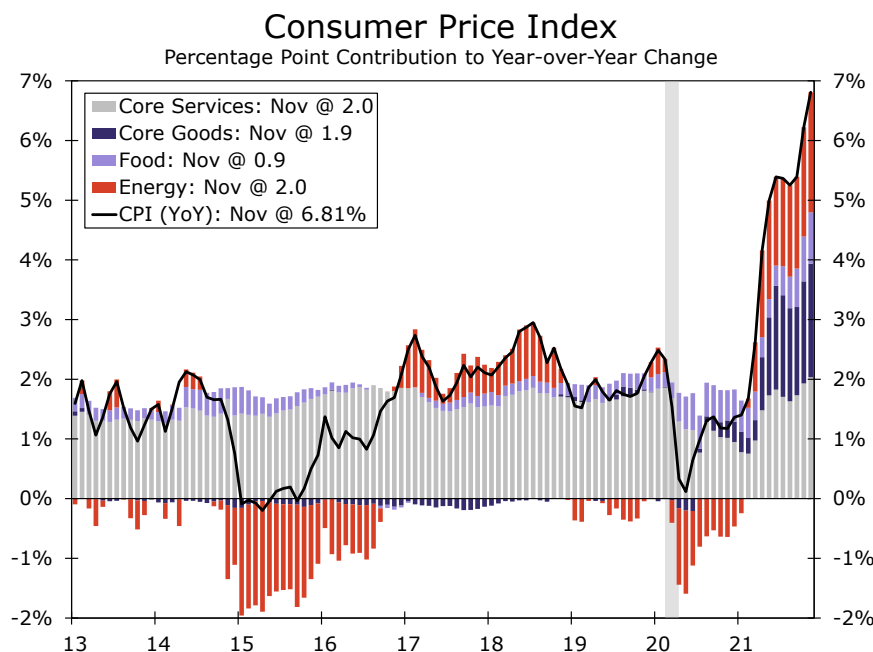
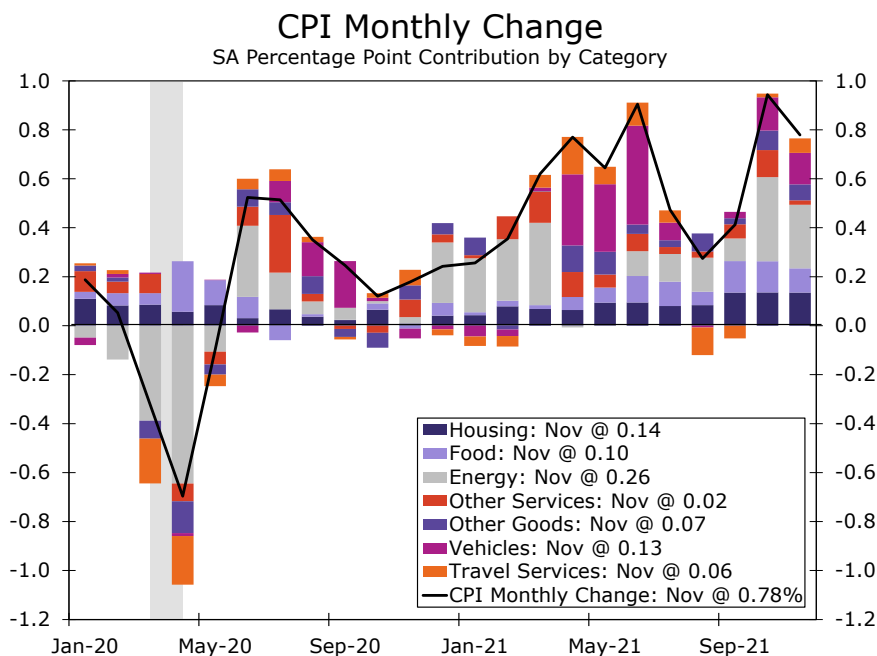


### Average Hourly Earnings by Industry

Ranked by % change, Three-Month Annualized Rate



Goods inflation drove this year's historically high inflation, while services inflation faces near-term pressures from shelter price increases and new demand after Delta-related weakness. We expect inflation to get worse before it gets better.

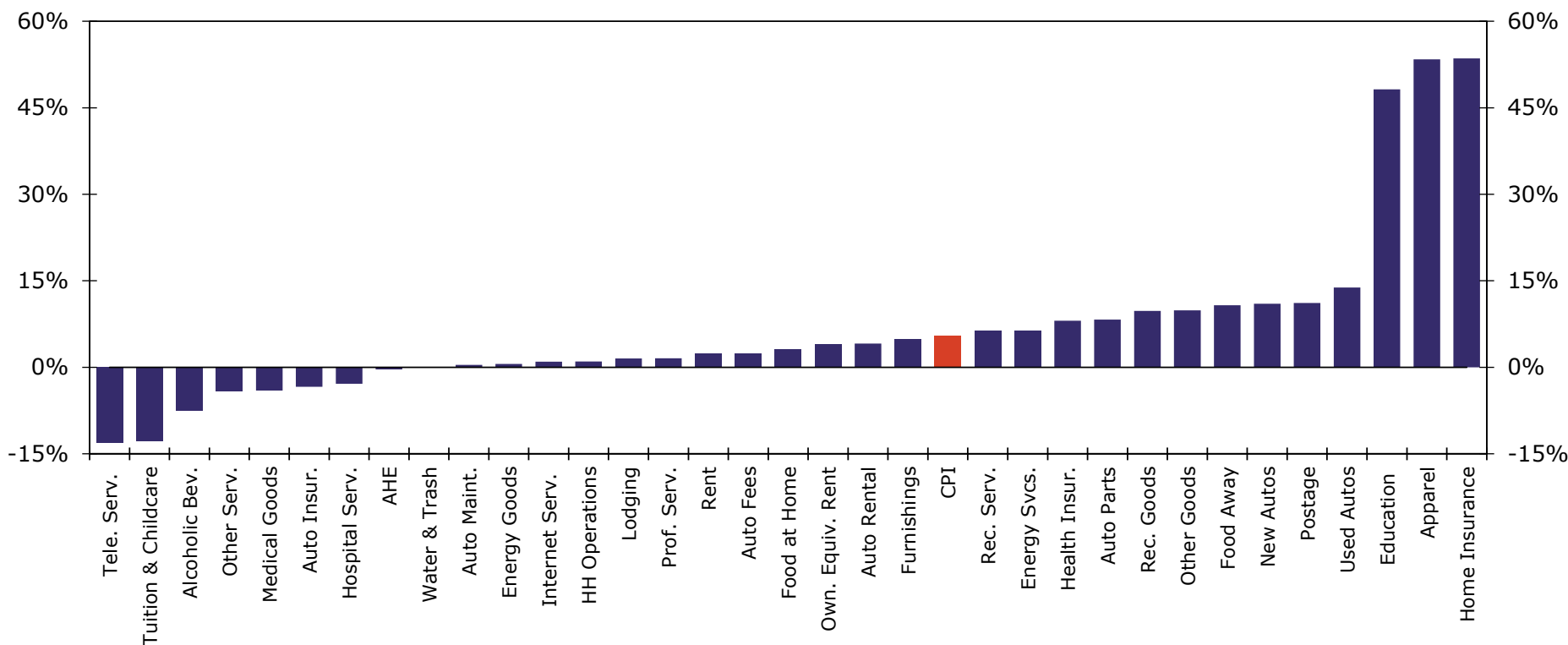




Prices across many services have further ground to recover and will help offset any giveback in categories that have seen more extreme price gains.

## CPI Deviation from Trend

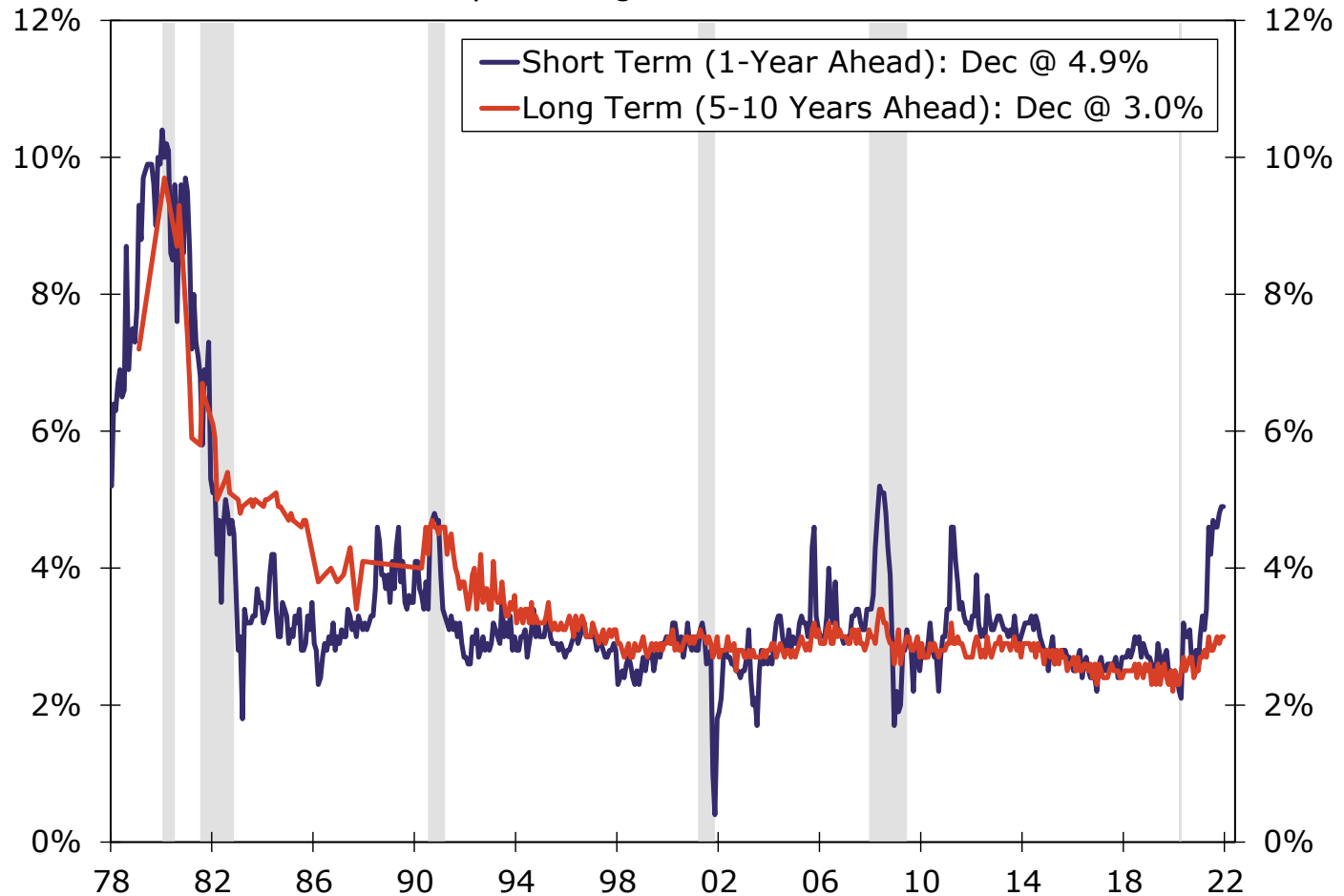
Current CPI vs. Level Implied by Pre-COVID 2010-2019 Trend, November 2021



Fed rate hikes will not restore clogged supply chains, but they can prevent long-run inflation expectations from becoming unmoored.

## Consumer Inflation Expectations

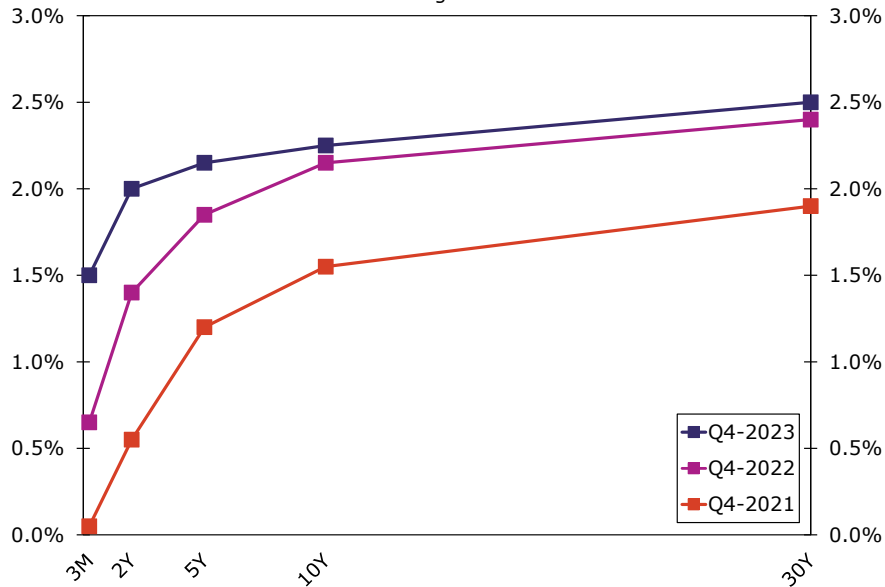
University of Michigan Consumer Sentiment



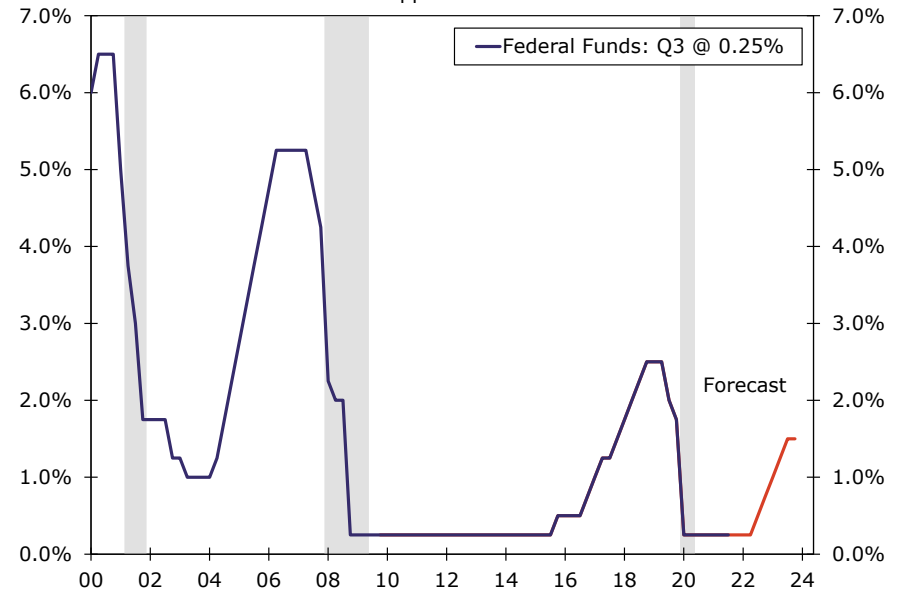
# Interest Rate Outlook

The Fed is likely to begin raising the fed funds rate not long after asset purchases wrap up.

### Wells Fargo Rates Forecast Through 2023



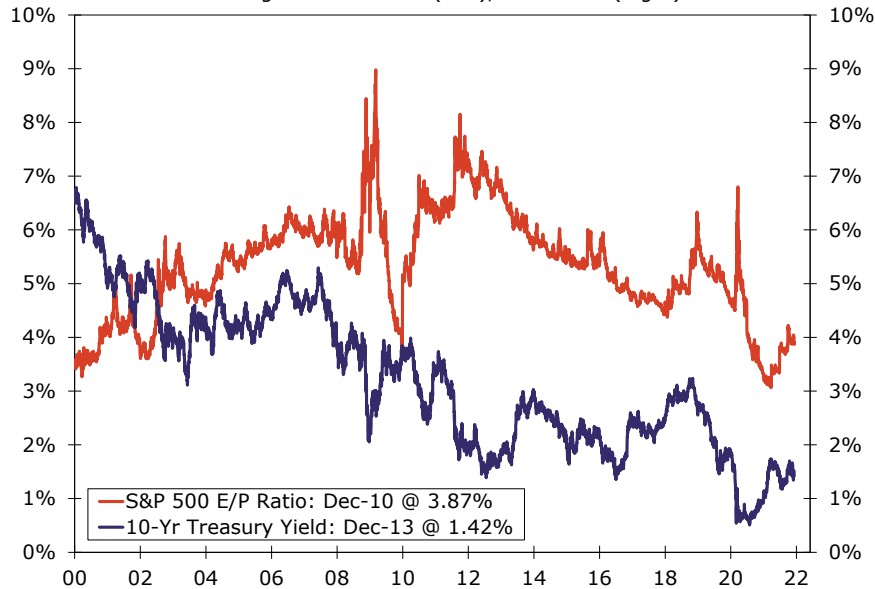
### Federal Funds Target Rate Upper Bound



The Omicron variant is injecting uncertainty into financial markets when investors were already trying to ascertain the potential effects of rising inflation. Institutional investors appear to be returning to Bitcoin, seeing it as a better inflation hedge than gold.

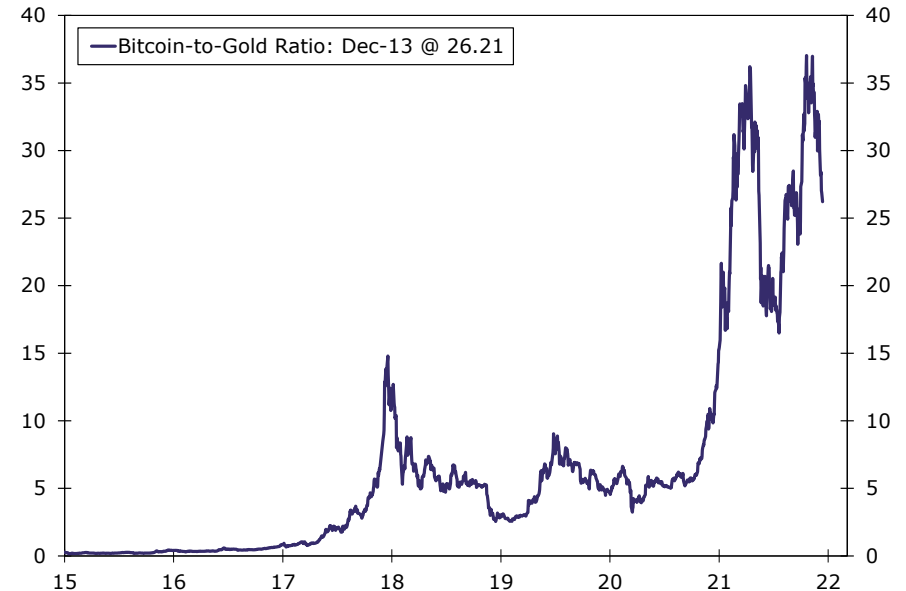
### S&P 500 vs. 10-Year Treasury

Earnings-to-Price Ratio (Left), Bond Yield (Right)



### Bitcoin-to-Gold Ratio

Value of Bitcoin to Gold Ounce



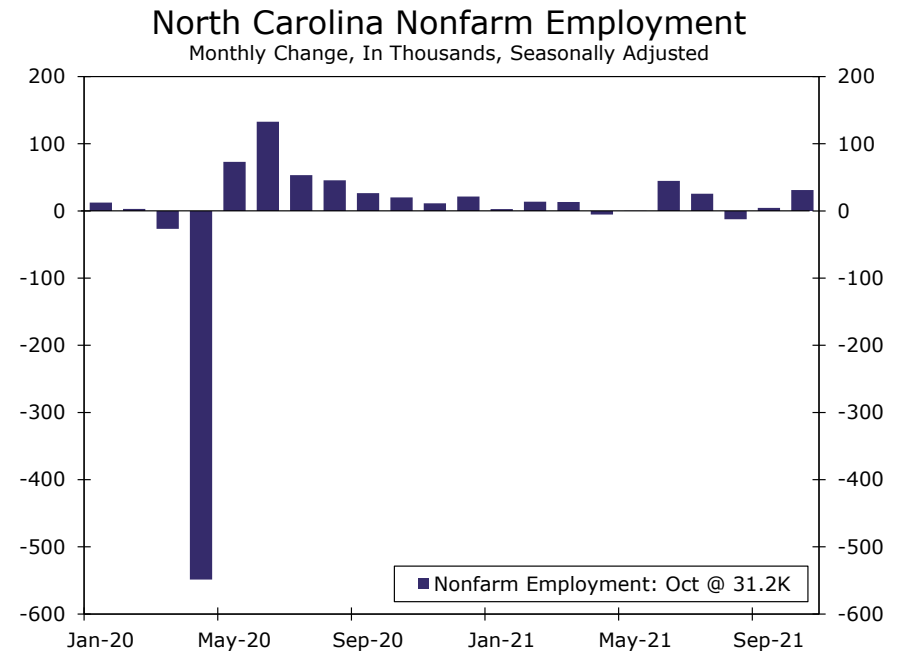
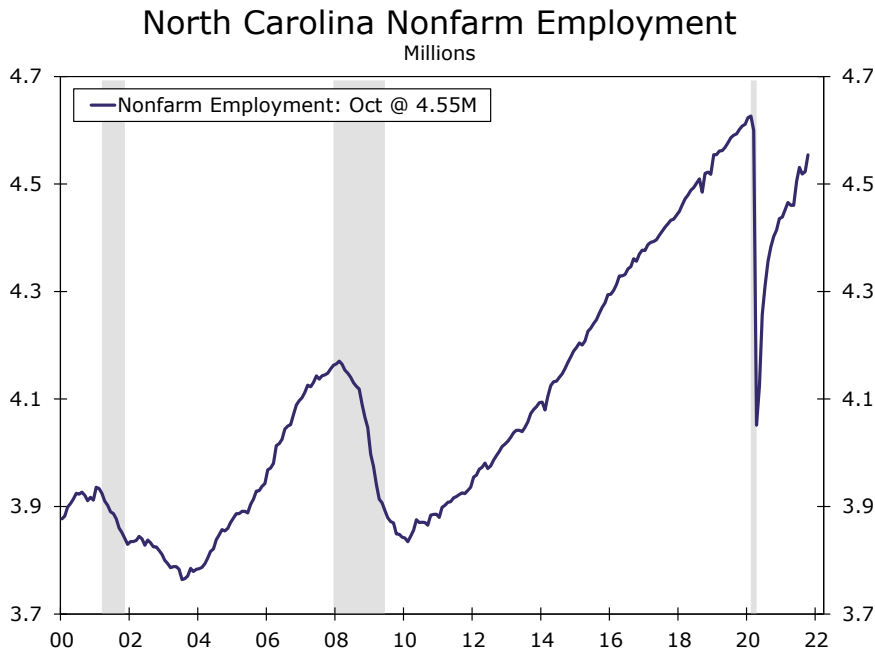


# Regional Commentary

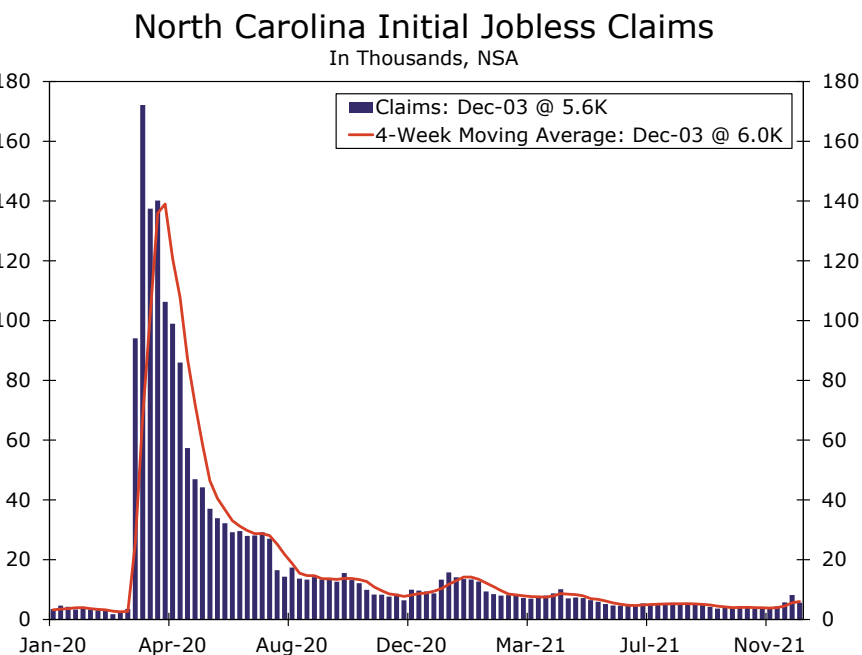
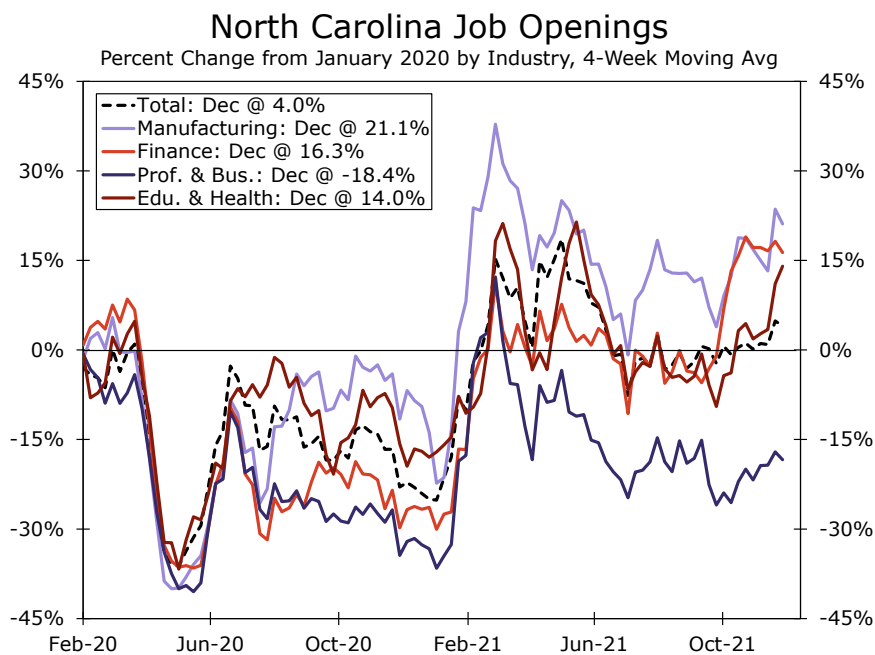
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# North Carolina Employment

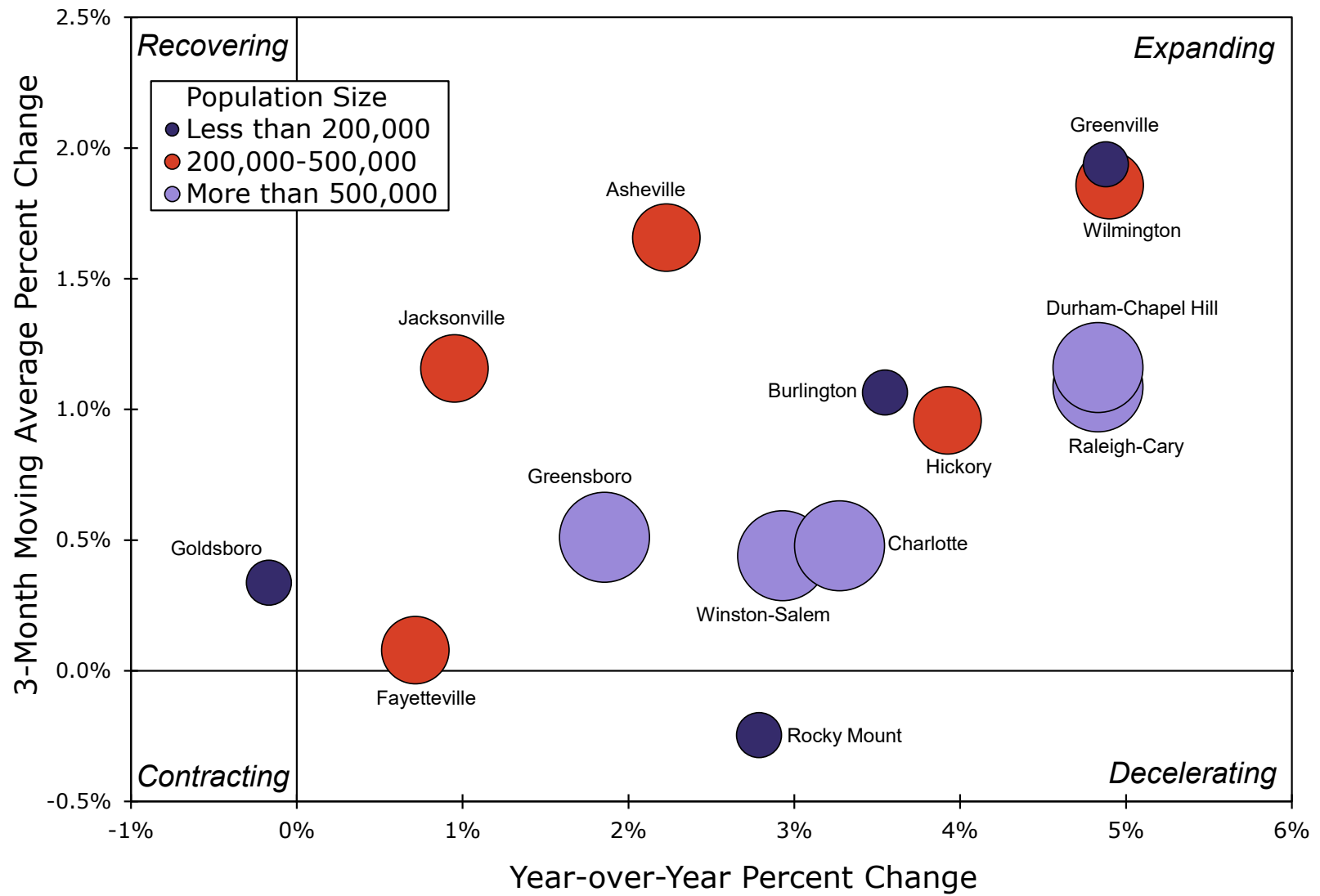
In line with the national trend, hiring picked up across North Carolina in October, with employers adding over 30,000 jobs. NC has regained 502,900 (or 87%) of the 575,200 jobs lost over the lockdown period early last year. The unemployment rate has fallen to 4.1%, down from its pandemic peak of 13.5%. Employment should regain its pre-pandemic level early next year.



Job openings have ascended in recent weeks, likely in preparation for the holidays. The ending of expanded unemployment benefits potentially contributed to the normalizing trend in job openings and initial jobless claims.



## North Carolina Employment Growth October 2021



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

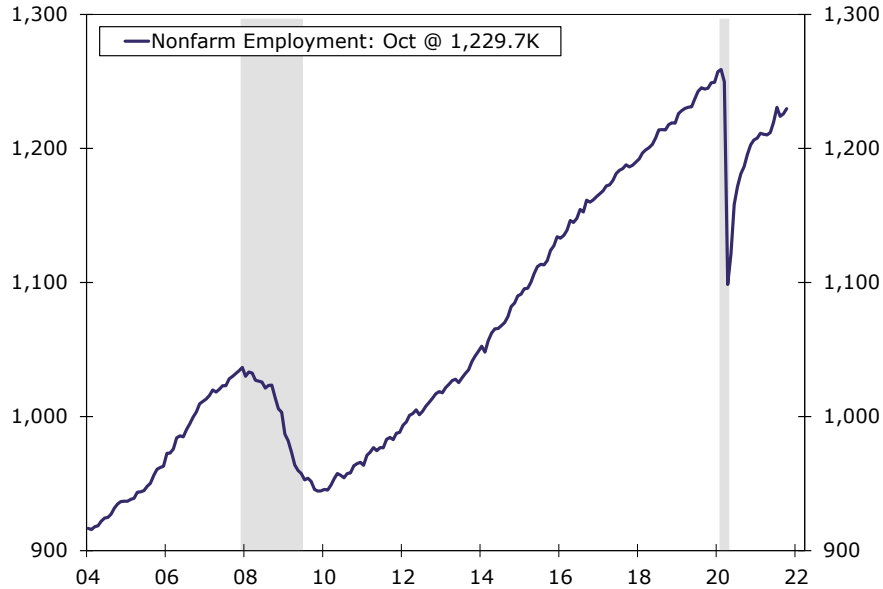


# Charlotte Employment

Charlotte employers have recouped 131,200 (or 82%) of the 160,400 jobs lost over February-April 2020. The unemployment rate has fallen to 4.1%, down from a recent peak of 13.7% in May 2020.

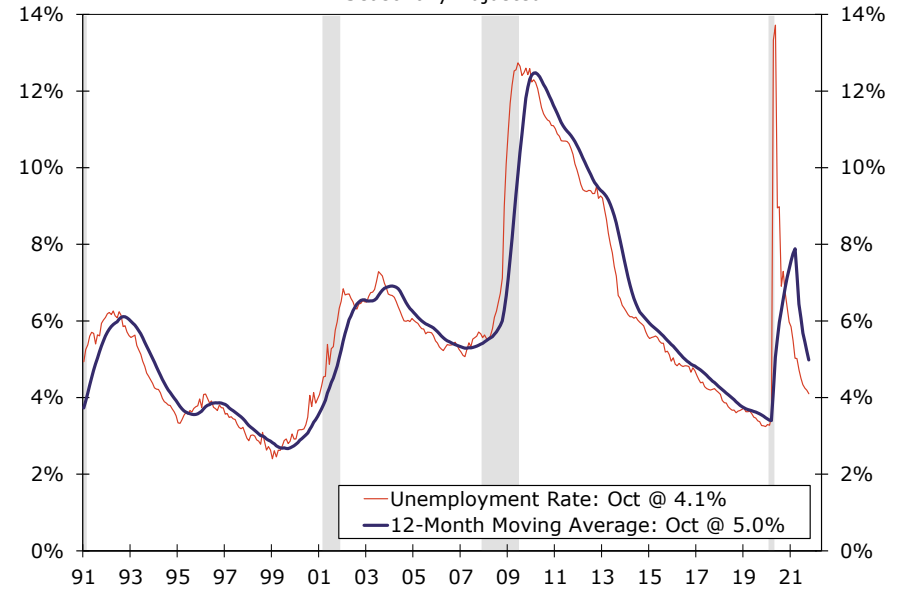
## Charlotte MSA Employment

Thousands



## Charlotte MSA Unemployment Rate

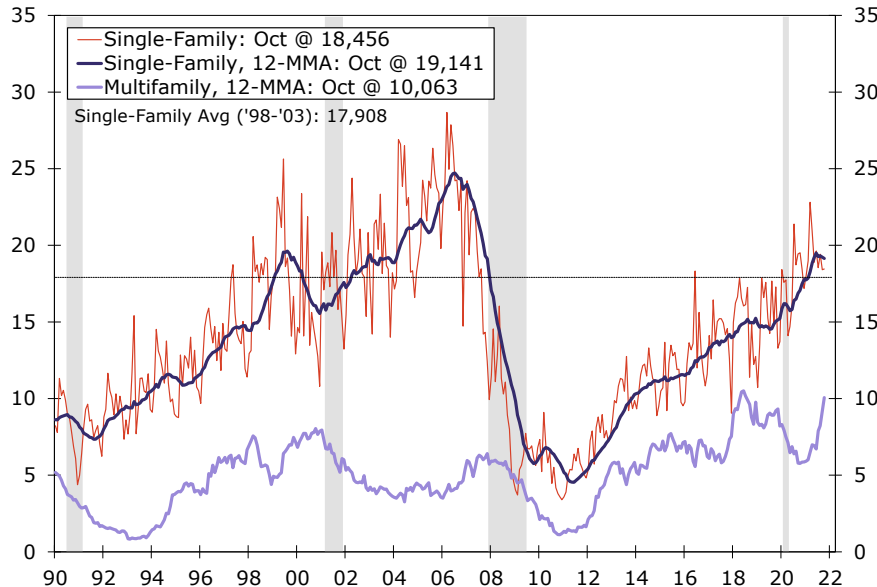
Seasonally Adjusted



Permitting for multifamily units has rebounded at a solid clip, while single-family construction continues at a steady pace. Like much of the country, limited inventories has pressured home prices across the metro sharply higher.

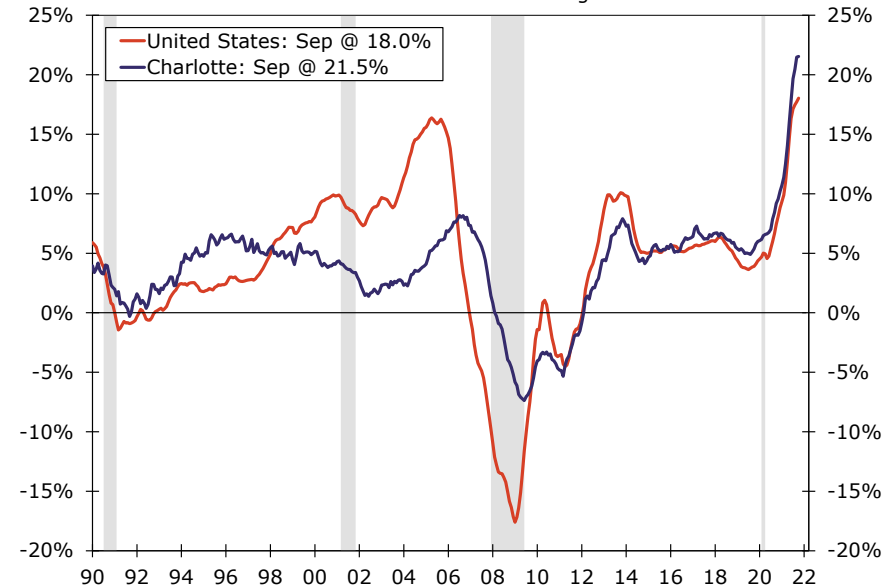
## Charlotte MSA Housing Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



## CoreLogic's Home Price Index

Year-over-Year Percent Change

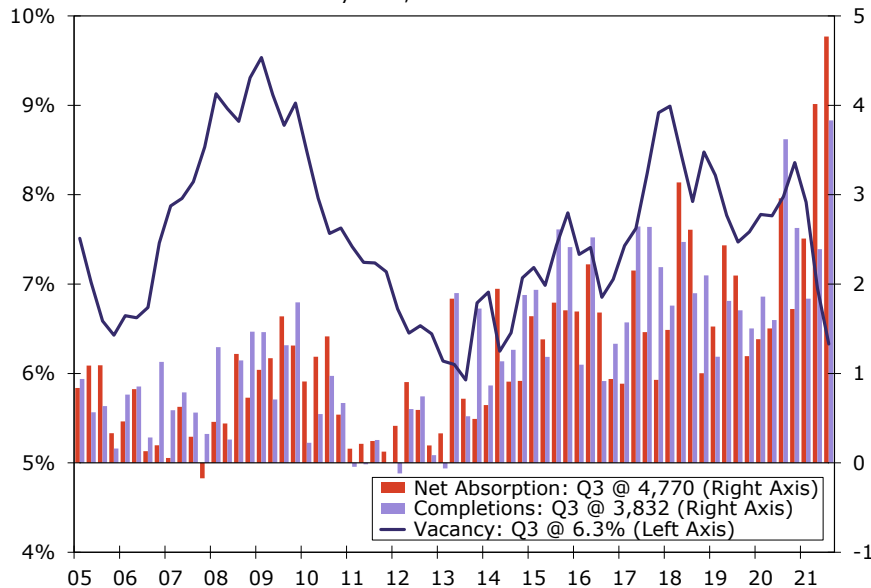


# Charlotte Apartment Market

Demand for apartments has surged. Record absorption slashed the vacancy rate, but also resulted in a surge in asking rents. While markets in the South and Mountain West have seen the strongest growth, many large gateway markets have seen a dramatic turnaround this year.

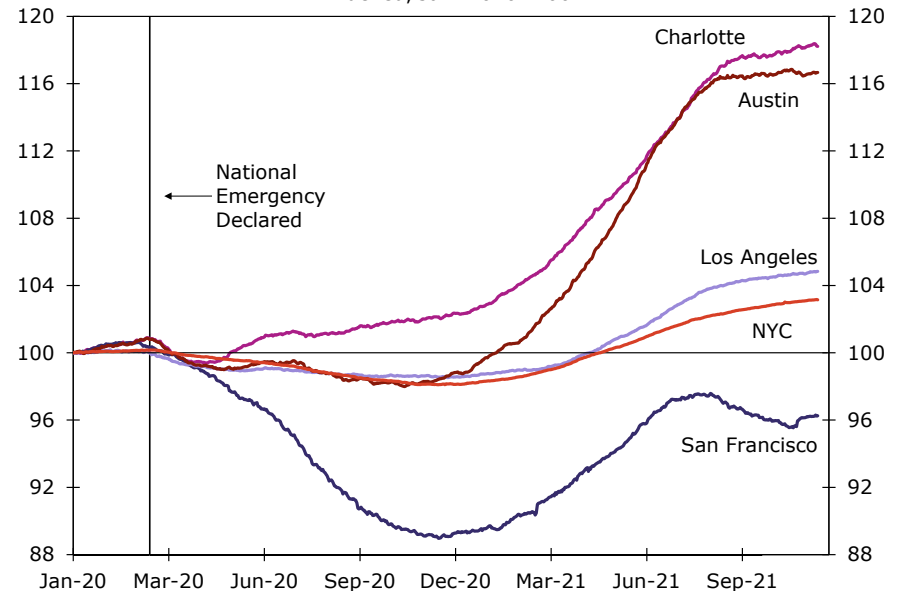
## Charlotte Apartment Supply & Demand

Vacancy Rate; Thousands of Units



## Daily Asking Apartment Rents per SF

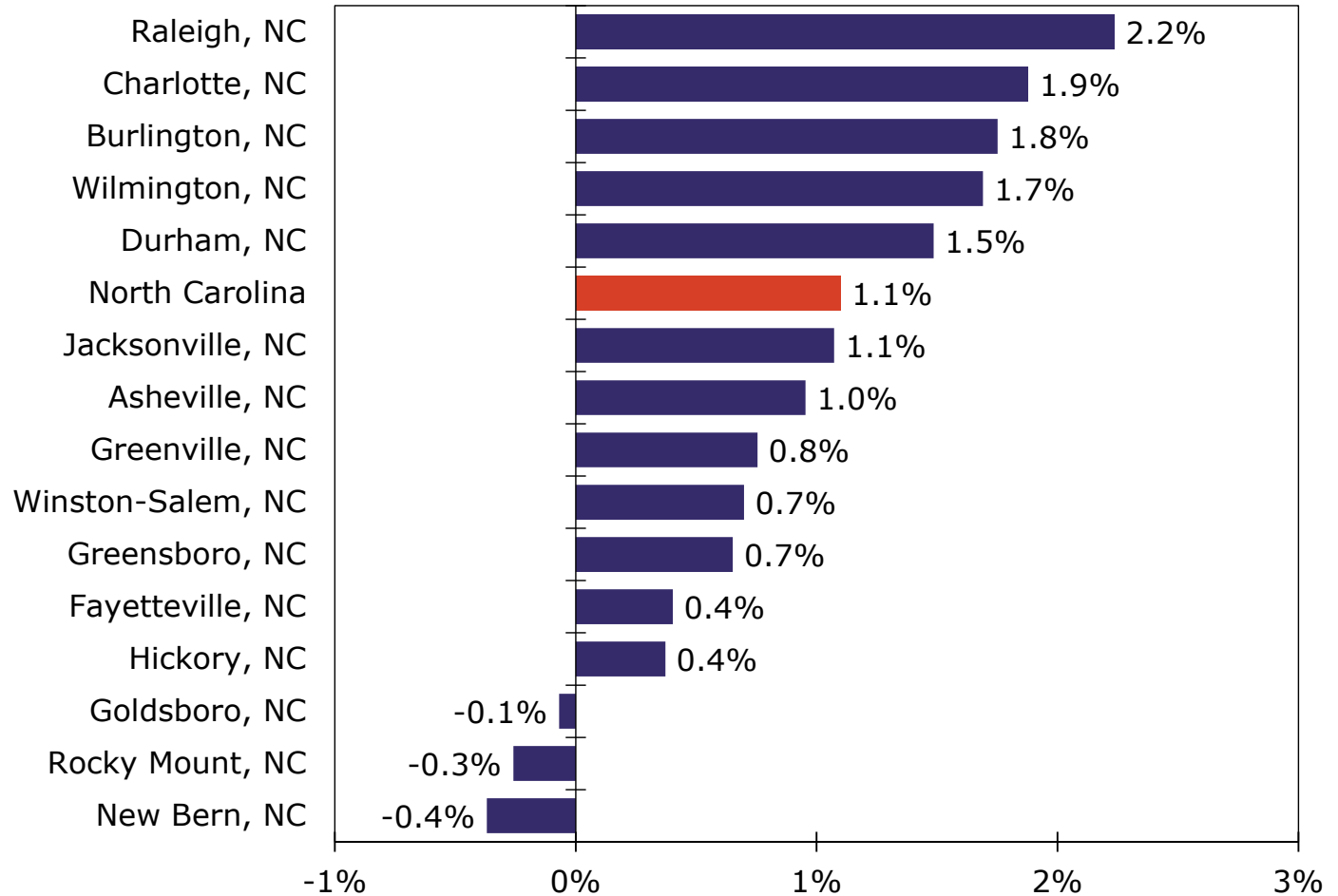
Indexed, Jan. 2020=100



North Carolina has seen strong population growth over the past 5 years.

## North Carolina Population Growth

Average Annual Percent Change, 2015-2020



There is a growing body of evidence of an affordability migration to traditionally smaller, secondary markets across the Sun Belt and South.

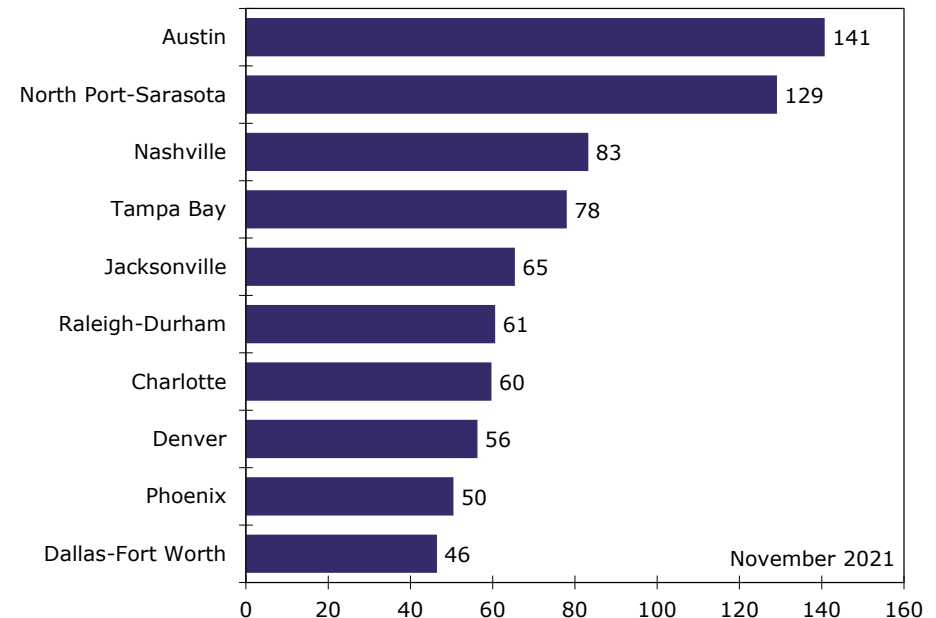
## Best Places to Live in the U.S.

2021-22; Metro Area Population > 1M

1. Raleigh-Durham, NC
2. Austin, TX
3. Portland, OR
4. Denver, CO
5. San Francisco, CA
6. Seattle, WA
7. Charlotte, NC
8. Jacksonville, FL
9. Salt Lake City, UT
10. Minneapolis-St. Paul, MN

## Cities that Gained the Most Workers

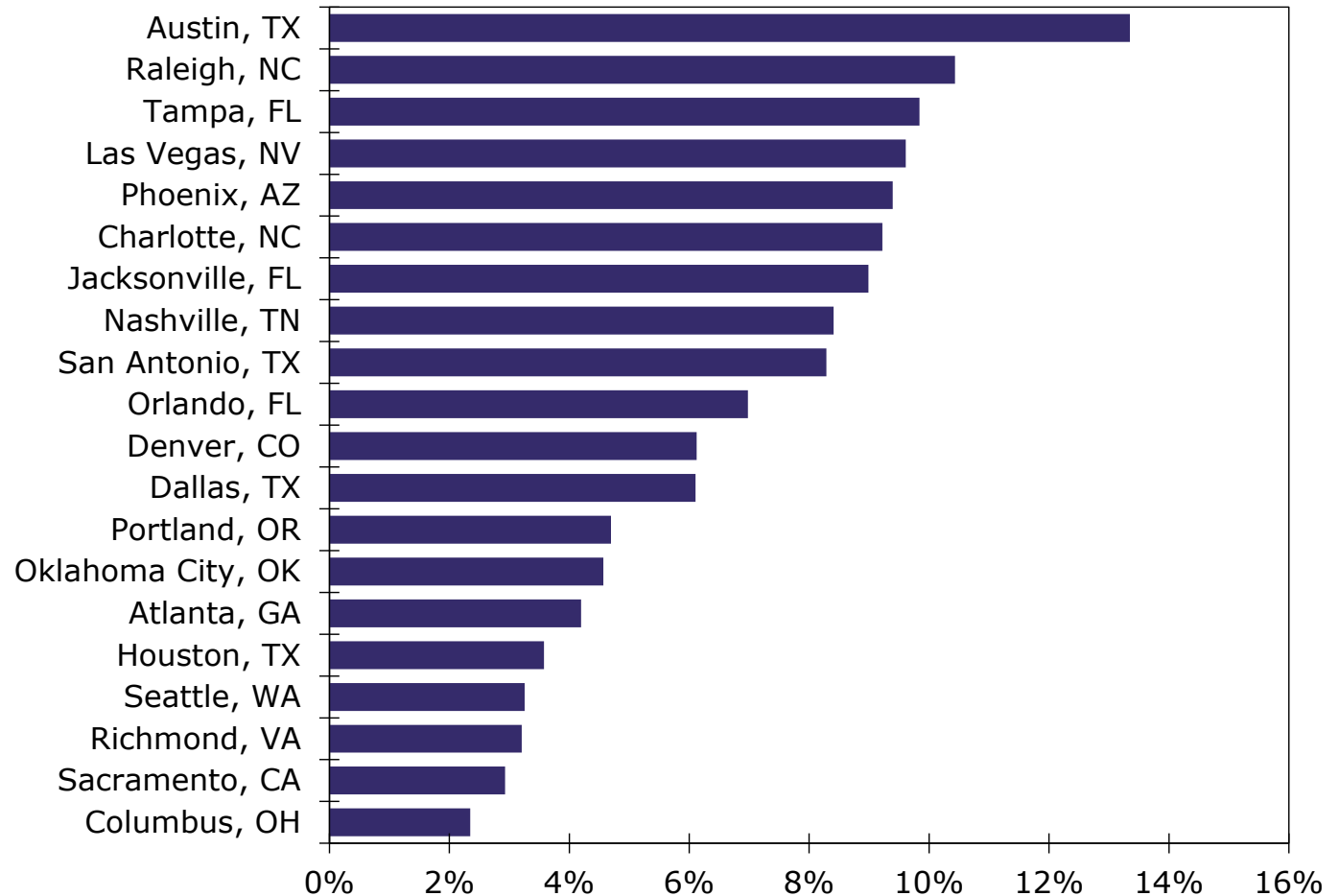
LinkedIn Population Gain per 10,000 Members, Over Past 12 Months



If these trends persist, markets across the South and Sun Belt are poised for above-average population growth over the next decade.

## Metro Area Net Domestic Migration: Top 20

Net Domestic Migration as Share of Total Population, 2012-2020



## Wells Fargo Securities U.S. Economic Forecast

	Actual				Forecast								Actual			
	2021				2022				2023				2020	Forecast		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		2021	2022	2023
Real Gross Domestic Product <sup>1</sup>	6.3	6.7	2.1	8.0	3.8	3.4	3.5	3.1	3.1	2.9	2.7	2.4	-3.4	5.7	4.4	3.0
Personal Consumption	11.4	12.0	1.7	5.5	3.2	2.5	2.6	2.7	2.9	2.7	2.4	2.1	-3.8	8.0	3.7	2.6
Business Fixed Investment	12.9	9.2	1.5	6.7	4.6	4.6	5.6	5.0	4.9	4.0	4.4	4.3	-5.3	7.6	5.0	4.7
Equipment	14.1	12.1	-2.4	6.1	4.4	4.4	6.8	5.5	5.3	3.6	4.4	4.3	-8.3	13.3	4.7	5.0
Intellectual Property Products	15.6	12.5	9.3	10.7	6.0	5.6	5.1	4.9	5.1	4.8	5.0	5.0	2.8	10.2	7.4	5.0
Structures	5.4	-3.0	-5.0	-1.5	1.2	2.4	3.5	3.9	3.3	2.9	2.5	2.4	-12.5	-7.7	0.3	3.1
Residential Investment	13.3	-11.7	-8.3	3.0	3.5	4.0	4.0	3.5	3.0	2.5	2.0	1.5	6.8	9.2	1.0	3.0
Government Purchases	4.2	-2.0	0.9	1.1	3.4	2.7	2.5	2.2	1.9	1.9	1.8	1.7	2.5	0.7	2.0	2.1
Net Exports <sup>2</sup>	-1.6	-0.2	-1.2	0.7	-0.6	0.0	0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.2	-1.8	-0.2	0.0
Inventories <sup>2</sup>	-2.6	-1.3	2.1	1.9	0.8	0.3	0.1	0.0	0.0	0.0	0.0	0.0	-0.6	-0.2	0.8	0.1
Nonfarm Payroll Change <sup>3</sup>	518	615	651	385	458	392	268	255	240	225	215	200	-785	542	343	220
Unemployment Rate	6.2	5.9	5.1	4.3	4.0	3.9	3.7	3.6	3.5	3.5	3.4	3.4	8.1	5.4	3.8	3.5
PCE Deflator <sup>4</sup>	1.8	3.9	4.3	5.4	5.3	4.4	3.7	2.8	2.4	2.1	2.0	1.9	1.2	3.8	4.1	2.1
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.50	0.50	0.25	0.44	1.31
Secured Overnight Financing Rate	0.01	0.05	0.05	0.05	0.05	0.05	0.30	0.55	0.85	1.10	1.35	1.35	0.36	0.04	0.24	1.16
3 Month LIBOR	0.19	0.15	0.13	0.15	0.15	0.25	0.50	0.75	1.00	1.25	1.50	1.60	0.65	0.16	0.41	1.34
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.50	3.75	4.00	4.25	4.50	4.50	3.50	3.25	3.44	4.31
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.35	3.55	3.65	3.70	3.75	3.75	3.80	3.80	3.12	3.01	3.56	3.78
3 Month Bill	0.03	0.05	0.04	0.05	0.05	0.15	0.40	0.65	0.90	1.15	1.40	1.50	0.36	0.04	0.31	1.24
6 Month Bill	0.05	0.06	0.05	0.10	0.15	0.35	0.60	0.85	1.10	1.35	1.55	1.65	0.37	0.07	0.49	1.41
1 Year Bill	0.07	0.07	0.09	0.20	0.35	0.55	0.80	1.05	1.30	1.55	1.75	1.85	0.37	0.11	0.69	1.61
2 Year Note	0.16	0.25	0.28	0.55	0.75	1.00	1.20	1.40	1.60	1.75	1.90	2.00	0.39	0.31	1.09	1.81
5 Year Note	0.92	0.87	0.98	1.20	1.40	1.55	1.70	1.85	1.95	2.05	2.10	2.15	0.53	0.99	1.63	2.06
10 Year Note	1.74	1.45	1.52	1.55	1.80	2.00	2.10	2.15	2.20	2.20	2.25	2.25	0.89	1.57	2.01	2.23
30 Year Bond	2.41	2.06	2.08	1.90	2.20	2.35	2.40	2.40	2.45	2.45	2.50	2.50	1.56	2.11	2.34	2.48

Forecast as of: December 09, 2021

<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

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