



U.S. Economic Outlook: Losing Altitude

January 3, 2024

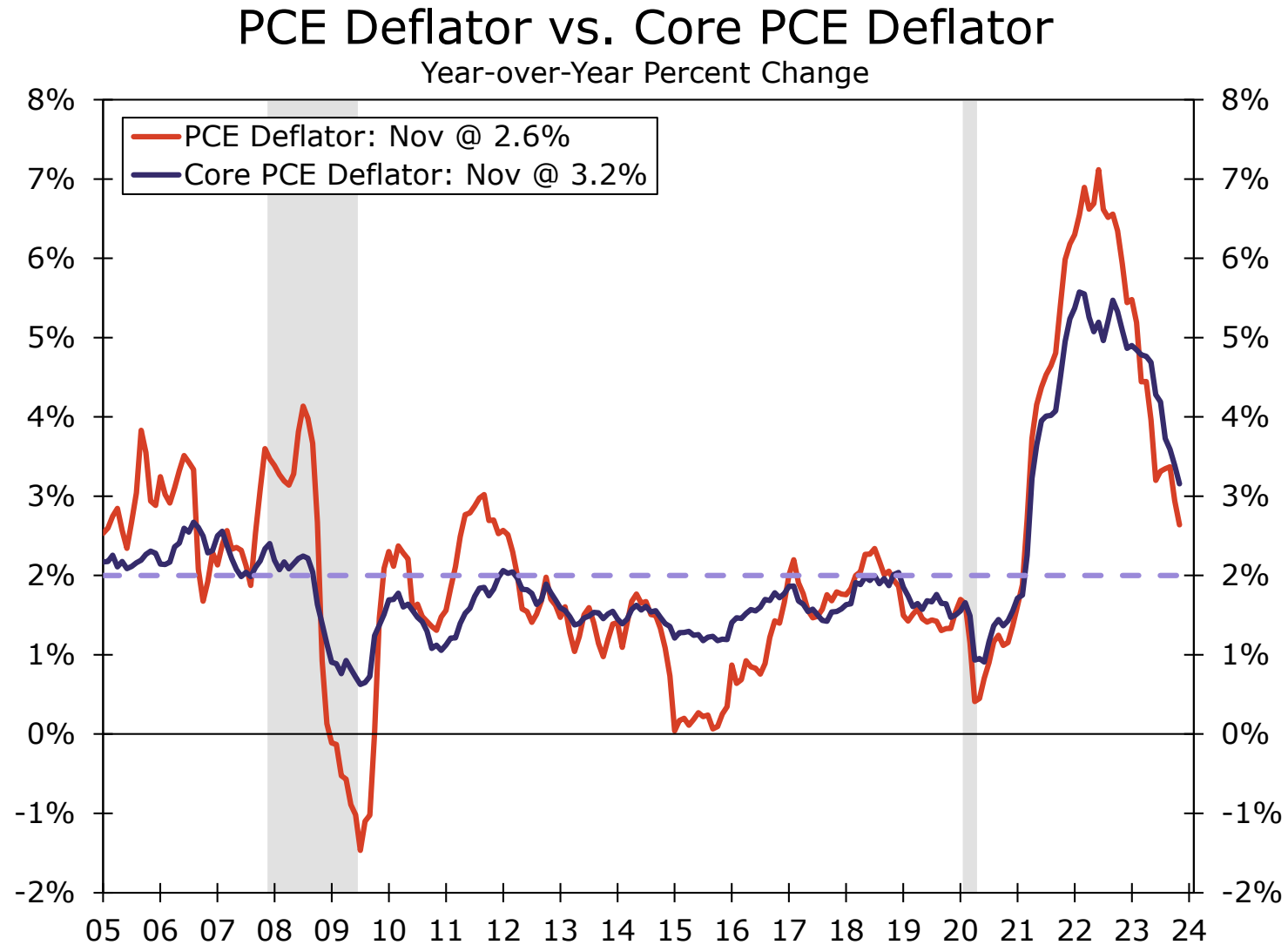
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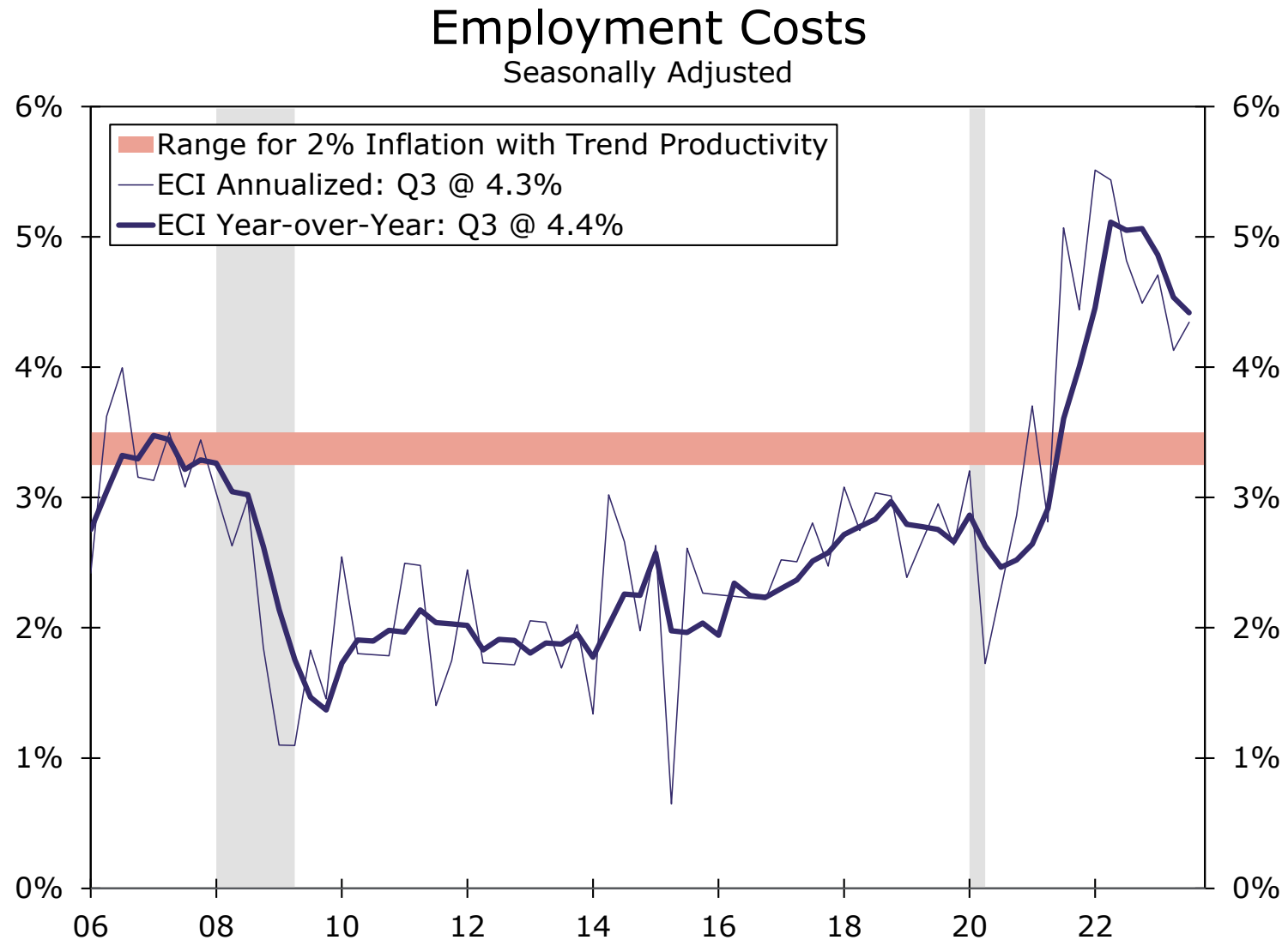
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Inflation remains too high, but is moving the right direction



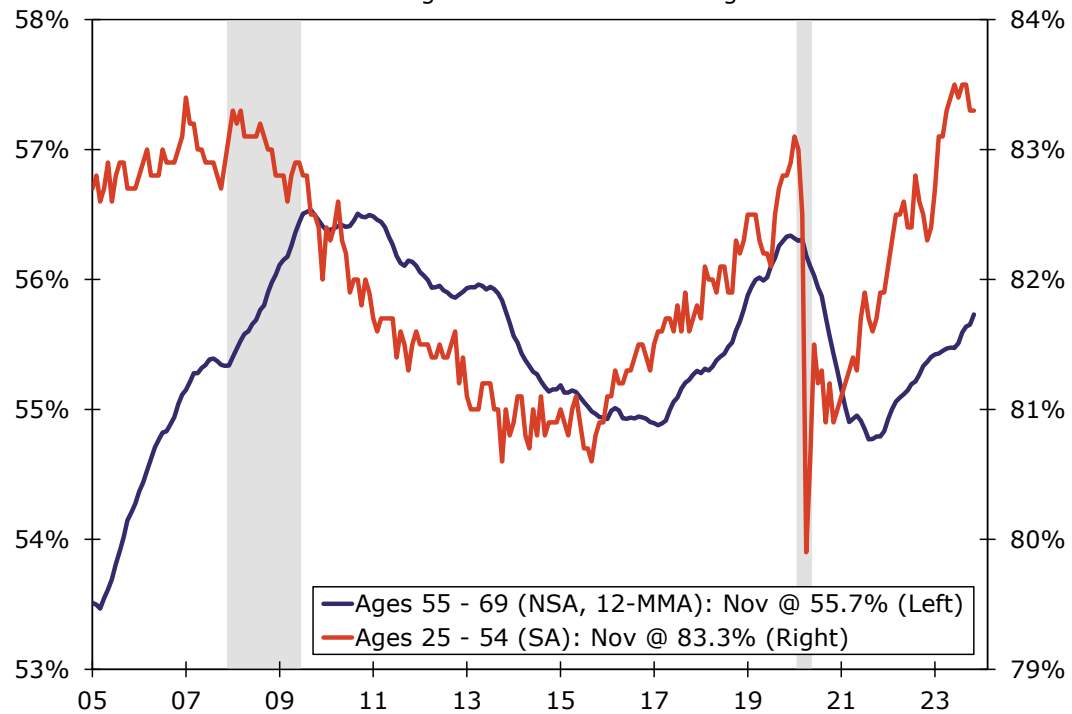
Labor cost growth remains too strong to be consistent with the Fed's inflation goal on a sustained basis, although it has begun to slow



Solid growth in the labor supply is helping to ease upward pressure on wages

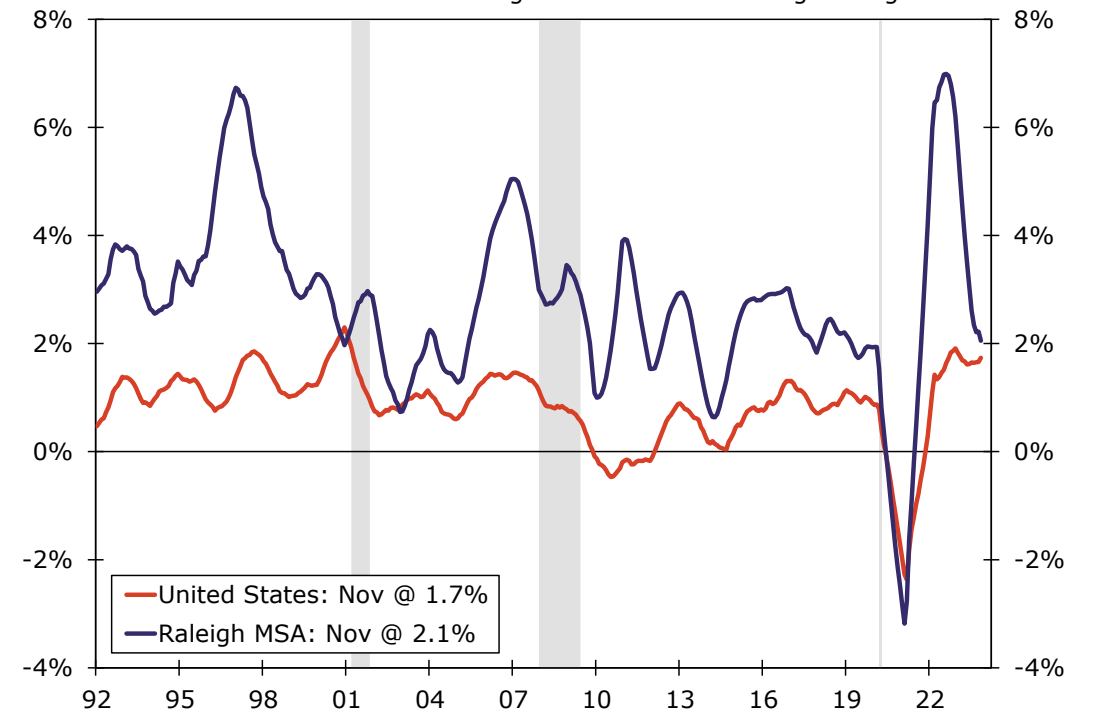
U.S. Labor Force Participation

Prime Age vs. Near Retirement Age



Labor Force Growth

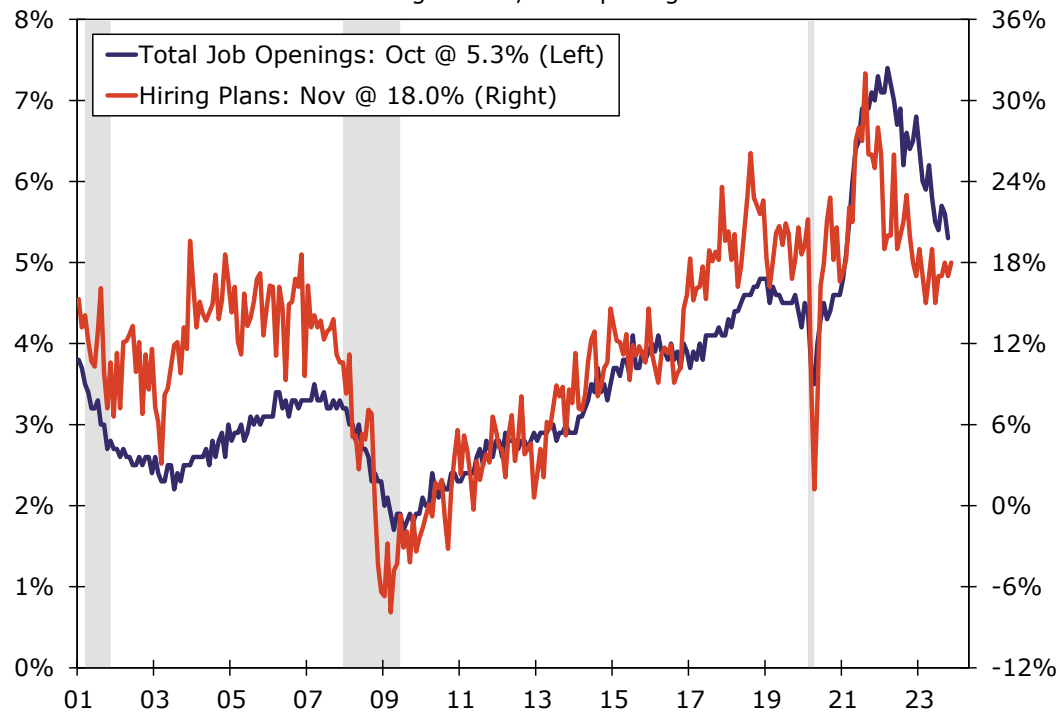
Year-over-Year Percent Change of a 12-Month Moving Average



Demand for workers has softened after the re-hiring frenzy, but not collapsed

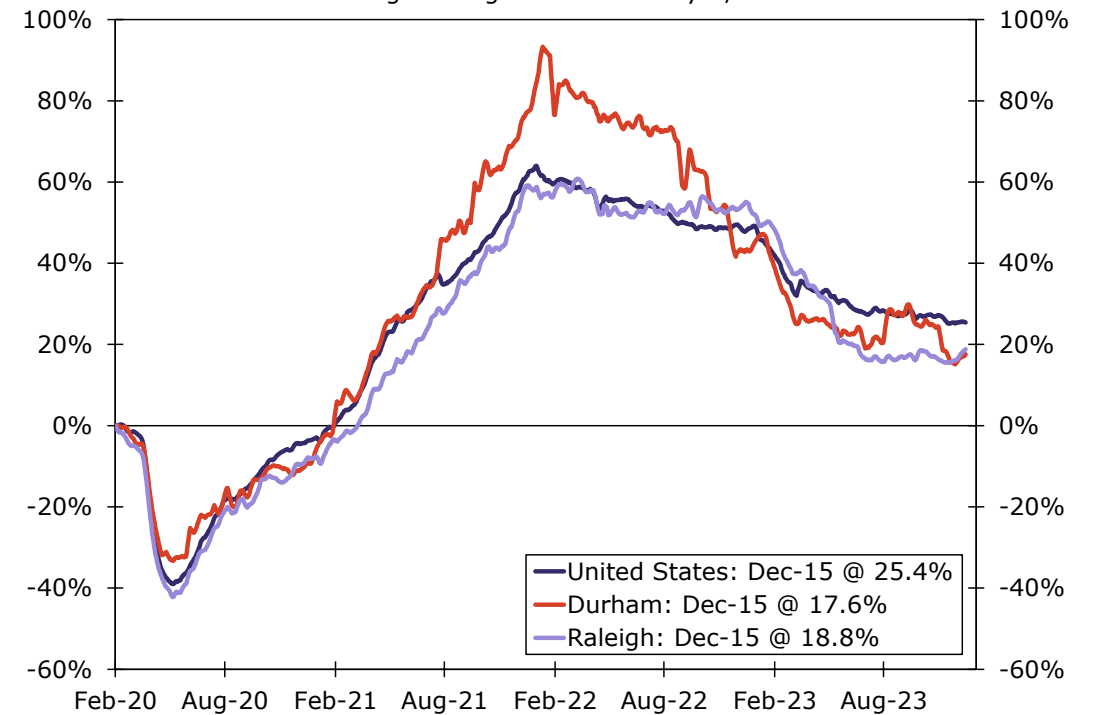
NFIB Hiring Plans vs. JOLTs Openings

Planning to Hire, Job Opening Rate

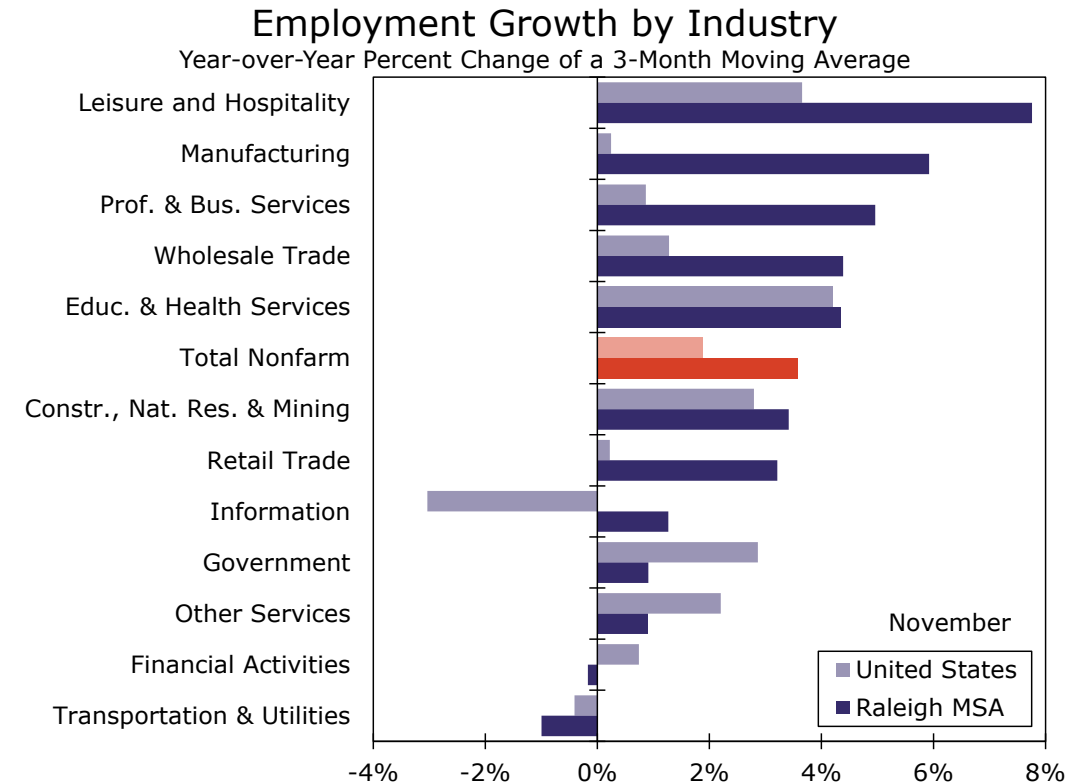
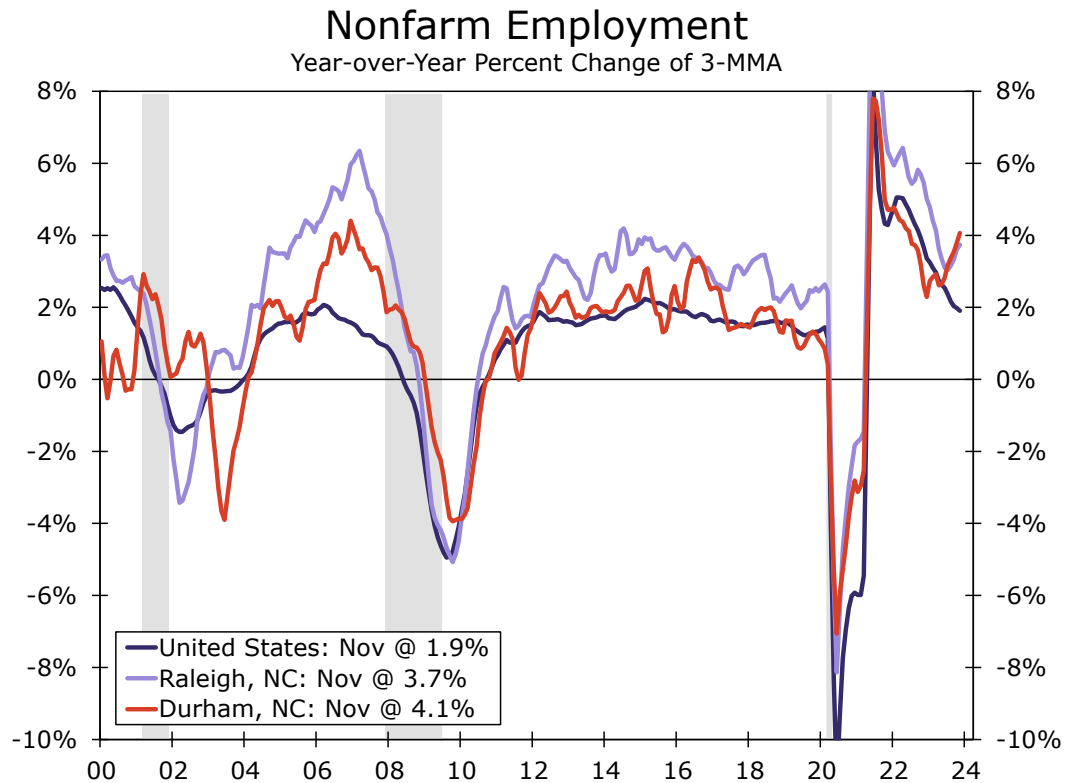


Indeed Job Postings

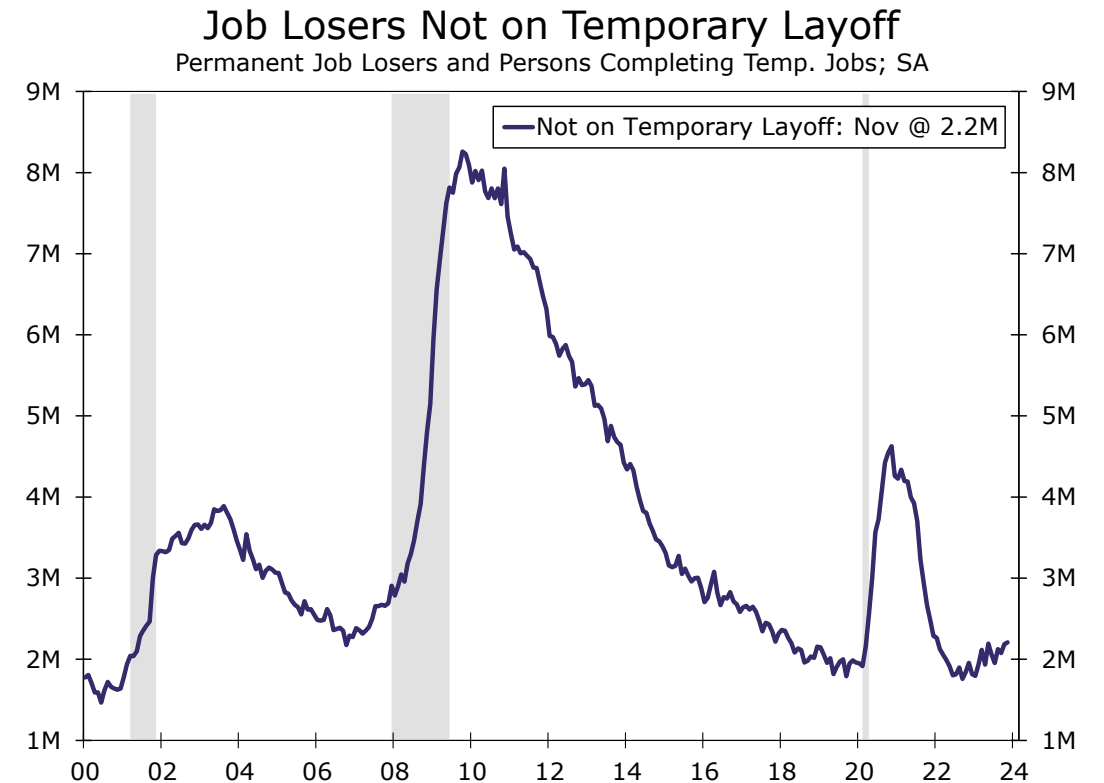
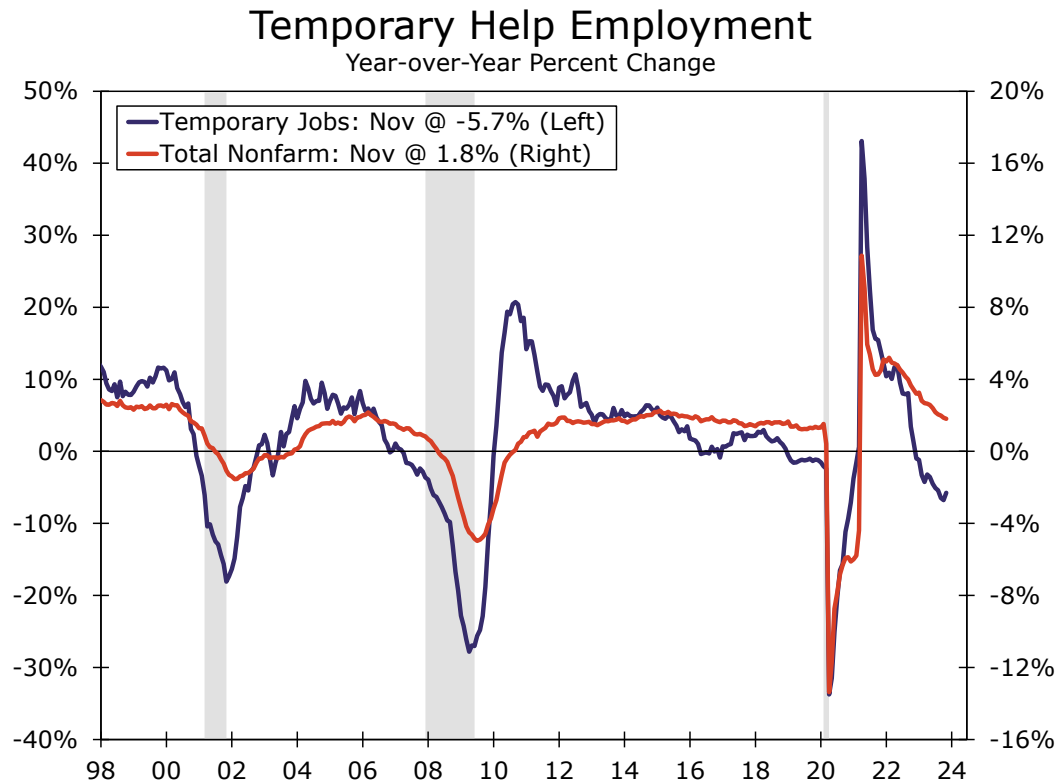
Percentage Change Since February 1, 2020



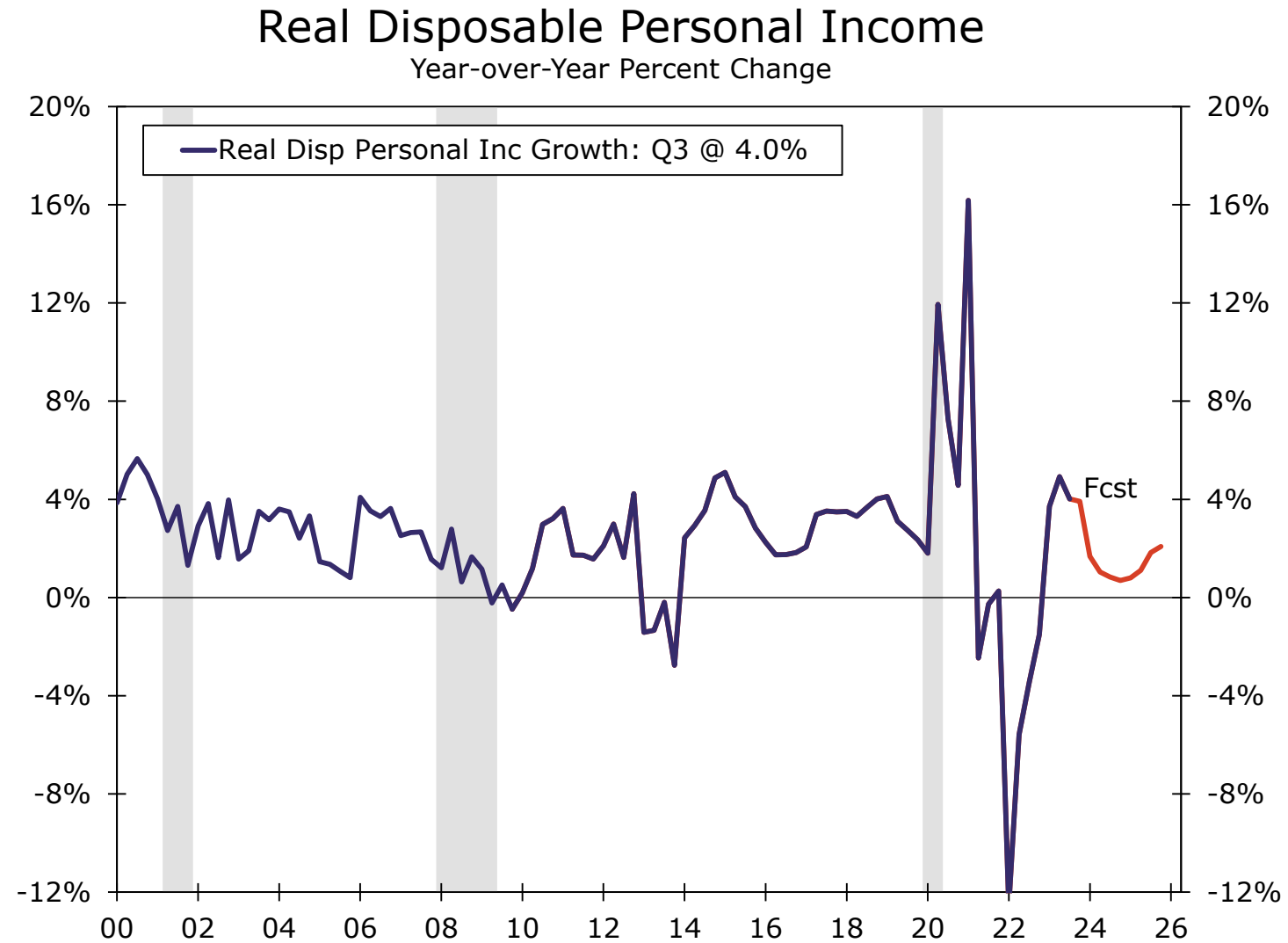
Hiring thus far has slowed in an orderly fashion.
On an industry-basis, job growth remains more balanced in the Raleigh metro area than it does nationally.



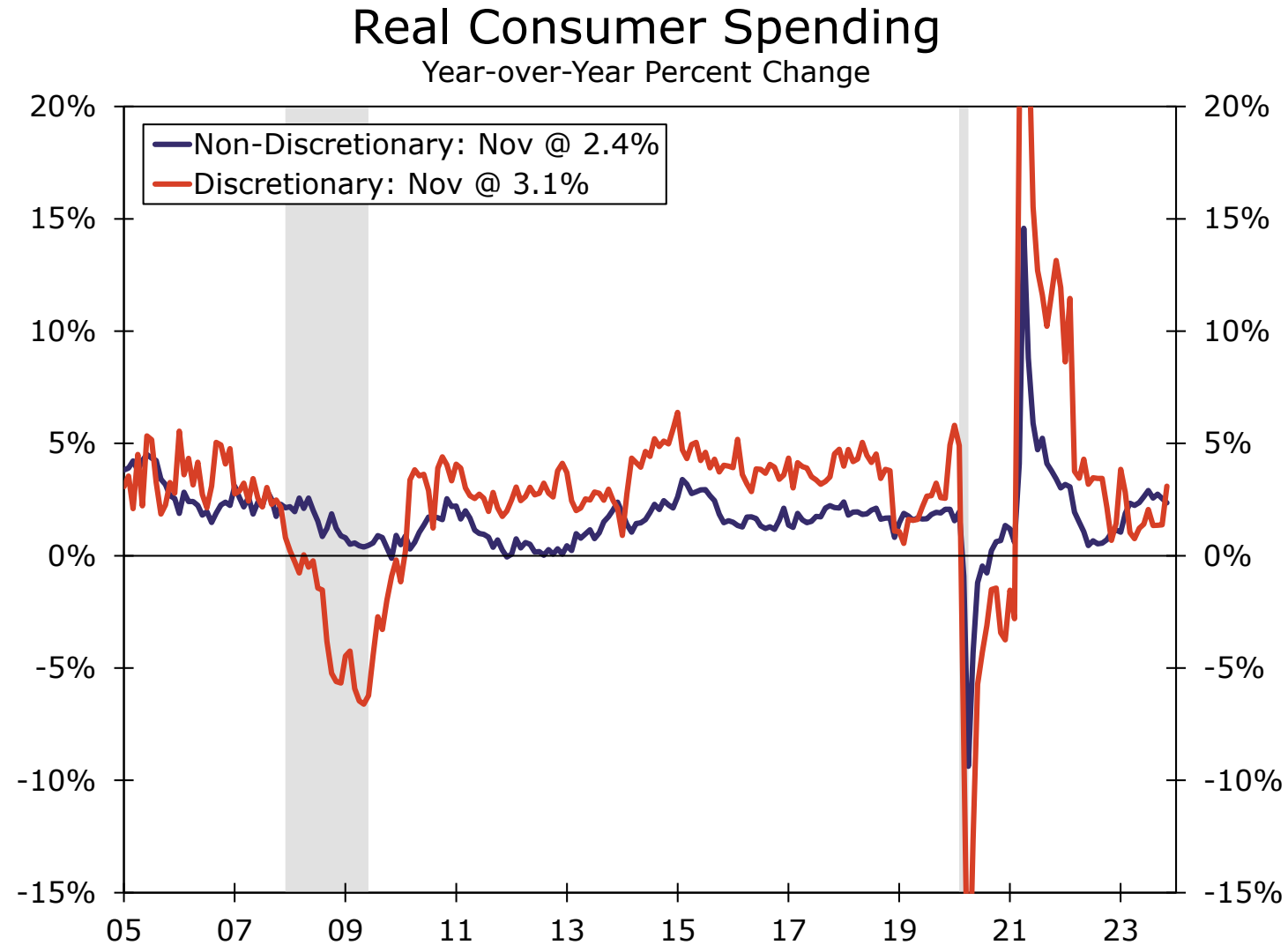
A further moderation in hiring appears in store with businesses reducing temporary workers. Layoffs remain low, although discharged workers are having more trouble finding new employment.



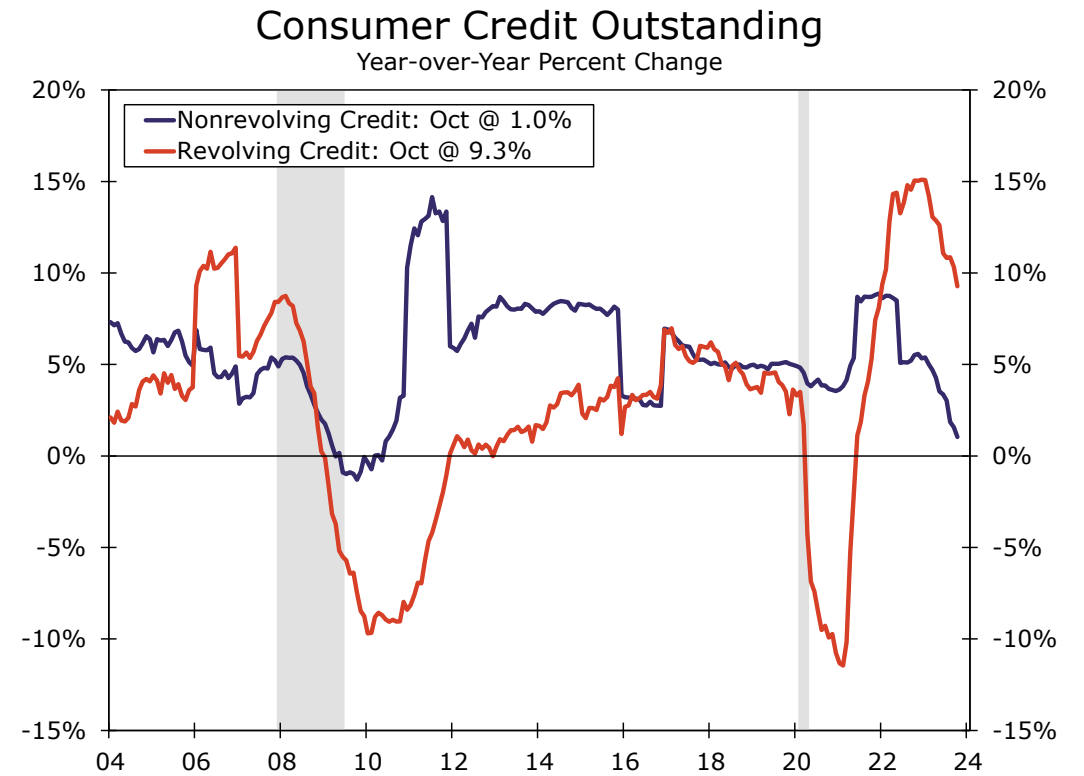
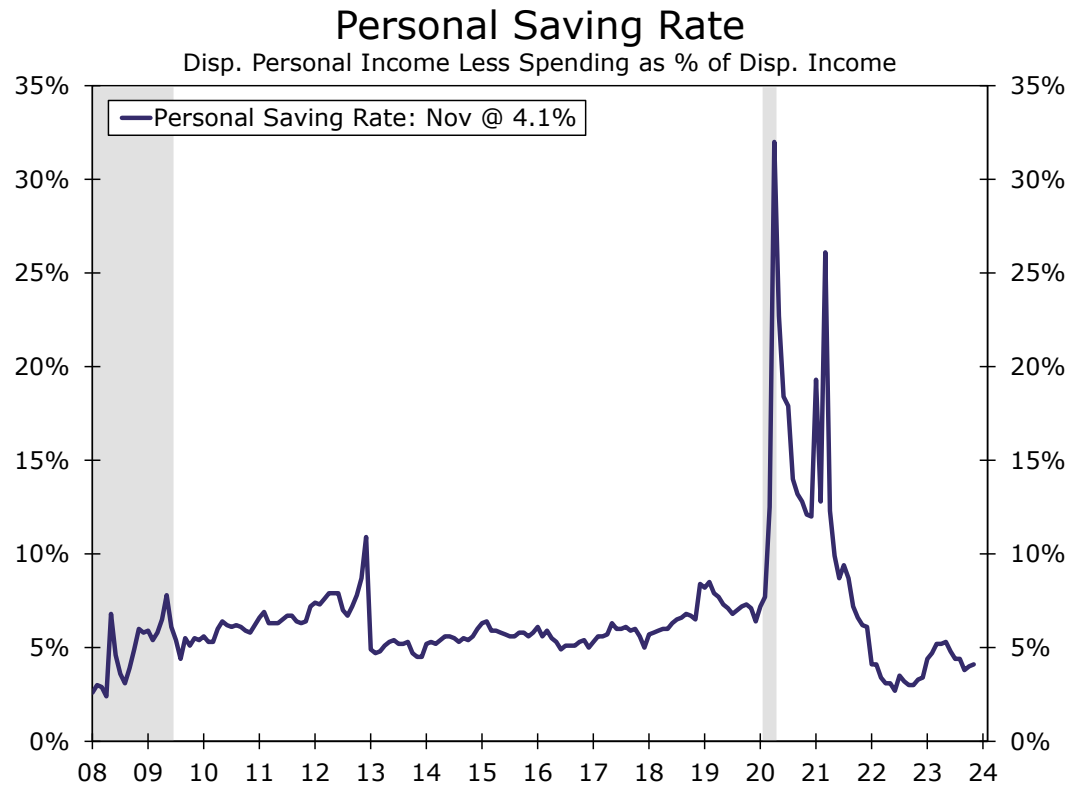
Slower improvement on the inflation front and a cooling jobs market is set to renew pressure on real income growth



Consumers are still spending, although the mix of growth has become more balanced between discretionary and non-discretionary purchases



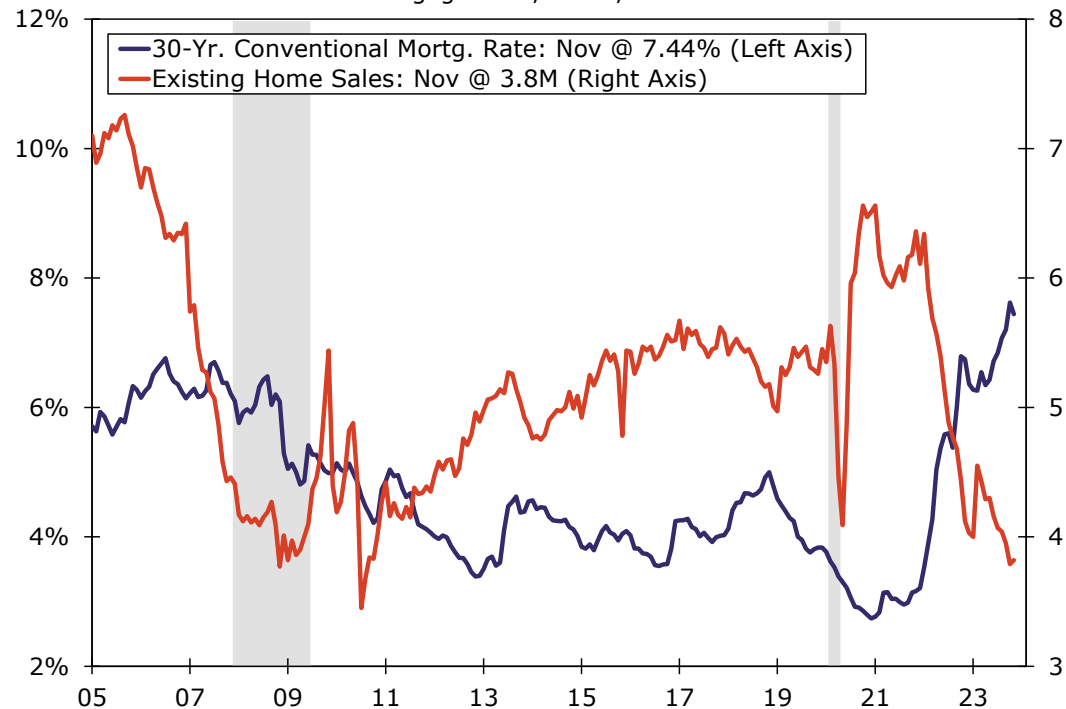
Households continue to save at lower rate relative to before the pandemic, while credit is less supportive to spending beyond income



Limited supply of existing homes for sale due to elevated mortgage rates have leant support to home prices, and home equity, over the past year. Affordability remains a stark challenge for new buyers.

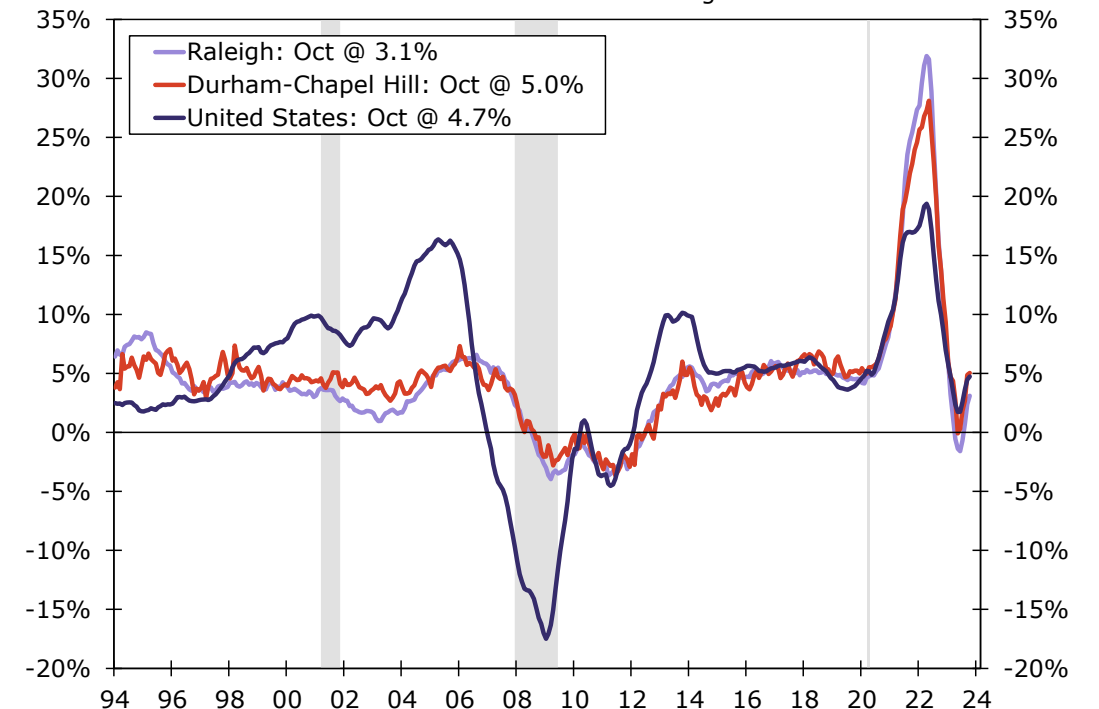
Mortgage Rate vs. Existing Home Sales

Mortgage Rate; SAAR, Millions

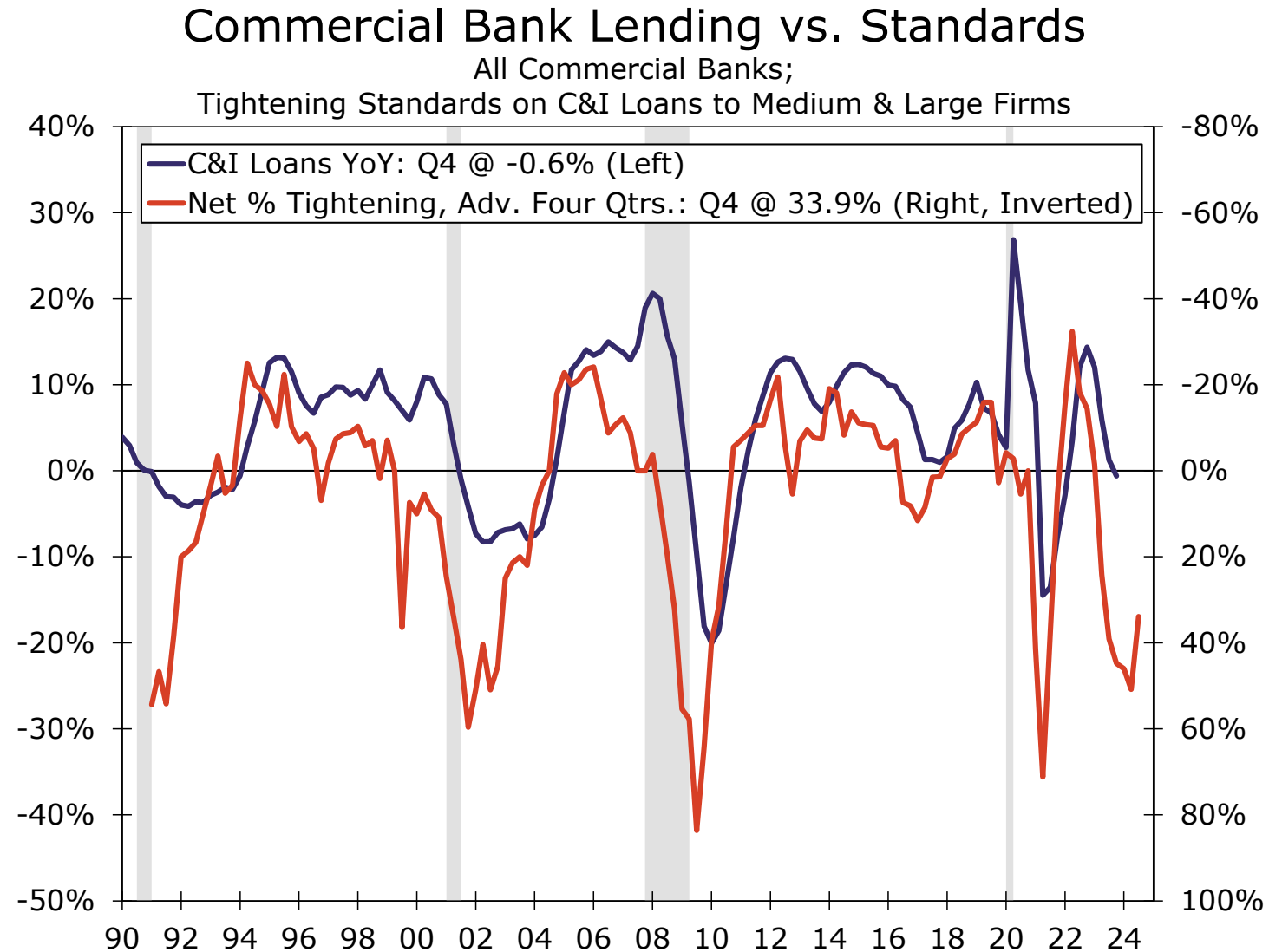


CoreLogic's Home Price Index

Year-over-Year Percent Change

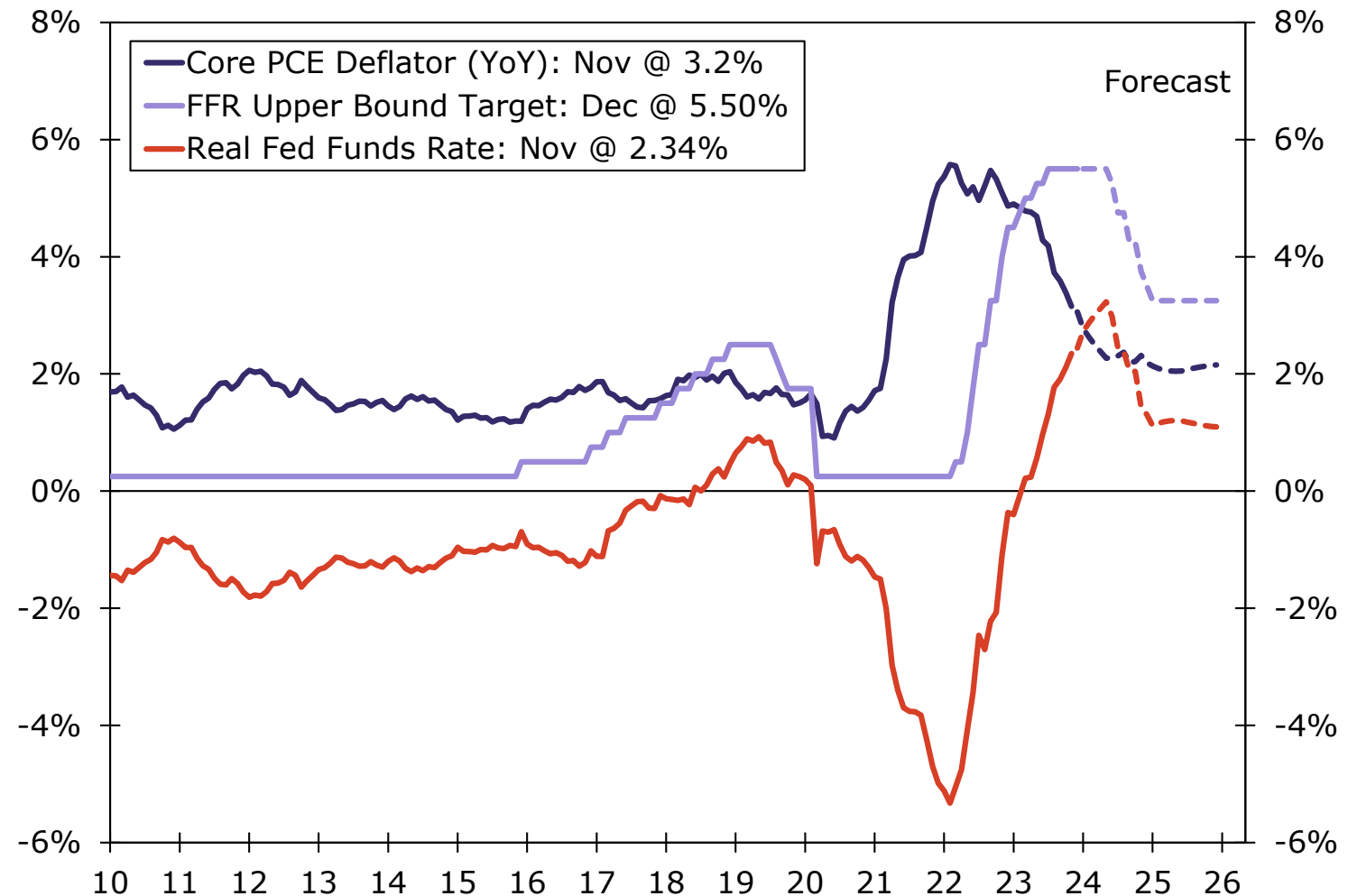


Higher credit costs and tighter standards are weighing on business investment



The FOMC has come to the end of its tightening cycle, but the real fed funds rate is expected to climb in the coming months as inflation eases further

Federal Funds Rates and Core PCE Deflator



Inflation

- While a timely and sustained return to 2% is far from assured, improving supply and weakening demand are helping to drive inflation lower.
-

Labor Market

- The tight labor market is contributing to elevated inflation. The jobs market has thus far cooled in an orderly manner but is not yet back in balance and is set to soften further.
-

Spending & Investment

- Consumer spending has offset a retrenchment in housing and capex. Yet consumer finances are deteriorating as savings decline and real income sputters.
-

Monetary Policy

- The FOMC tightening cycle has likely ended. Real interest rates are expected to climb further, however, as inflation continues to ease.
-

Recession Watch

- Tight and costly credit is expected to restrain spending and investment this year, keeping recession risk elevated while helping to further reduce inflation pressures.
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Appendix

Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual	Forecast			
	2023				2024				2025				2022	2023	2024	2025	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	2.2	2.1	5.2	0.8	1.0	-0.3	-1.5	0.4	2.0	3.2	2.9	2.6	1.9	2.4	0.9	1.5	
Personal Consumption	3.8	0.8	3.6	2.0	0.8	0.1	-1.5	-0.5	1.5	2.0	1.8	1.9	2.5	2.2	0.9	0.8	
Business Fixed Investment	5.7	7.4	1.3	0.2	-0.3	-3.5	-5.6	-1.1	5.3	5.5	8.6	7.1	5.2	4.2	-0.9	2.7	
Residential Investment	-5.3	-2.2	6.2	-2.5	-2.8	-3.5	1.5	2.6	4.1	5.3	6.1	6.4	-9.0	-11.0	-0.9	3.6	
Government Purchases	4.8	3.3	5.5	2.4	2.3	1.5	1.3	1.1	1.1	0.9	0.8	0.7	-0.9	3.9	2.4	1.0	
Net Exports ²	0.6	0.0	0.0	-0.2	0.2	0.7	1.0	0.3	-0.1	-0.4	-0.2	-0.2	-0.5	0.5	0.3	0.1	
Inventories ²	-2.2	0.0	1.4	-0.8	0.0	-0.7	-0.9	0.4	0.0	1.1	0.3	0.2	0.5	-0.4	-0.2	0.2	
Nonfarm Payroll Change ³	312	201	221	163	110	-17	-208	-50	67	117	135	143	399	224	-41	115	
Unemployment Rate	3.5	3.6	3.7	3.8	3.9	4.1	4.4	4.5	4.4	4.2	4.1	4.0	3.6	3.6	4.2	4.2	
Consumer Price Index ⁴	5.8	4.1	3.6	3.2	3.0	2.7	2.2	2.2	2.2	2.4	2.5	2.4	8.0	4.1	2.5	2.4	
PCE Deflator ⁴	5.0	3.9	3.4	2.8	2.4	2.1	1.8	1.9	2.0	2.1	2.2	2.2	6.5	3.8	2.1	2.1	
"Core" PCE Deflator ⁴	4.8	4.6	3.9	3.3	2.7	2.4	2.3	2.2	2.1	2.1	2.1	2.1	5.2	4.1	2.4	2.1	
Employment Cost Index ⁴	4.8	4.5	4.3	4.3	4.0	3.9	3.6	3.5	3.4	3.3	3.3	3.2	4.9	4.5	3.8	3.3	
Real Disposable Income ¹	10.8	3.3	0.1	1.8	1.6	0.7	-0.8	1.2	2.0	1.9	2.1	2.2	-6.0	4.1	1.1	1.5	
Quarter-End Interest Rates ⁵																	
Federal Funds Target Rate ⁶	5.00	5.25	5.50	5.50	5.50	5.25	4.25	3.50	3.25	3.25	3.25	3.25	2.02	5.31	4.63	3.25	
Conventional Mortgage Rate	6.54	6.71	7.20	7.15	6.85	6.60	6.30	6.00	5.85	5.80	5.75	5.75	5.38	6.90	6.44	5.79	
2 Year Note	4.06	4.87	5.03	4.75	4.30	3.65	3.35	3.15	3.10	3.25	3.25	3.25	2.99	4.68	3.61	3.21	
10 Year Note	3.48	3.81	4.59	4.25	4.00	3.80	3.60	3.50	3.45	3.50	3.50	3.50	2.95	4.03	3.73	3.49	

Forecast as of: December 14, 2023

¹ Compound Annual Growth Rate Quarter-over-Quarter

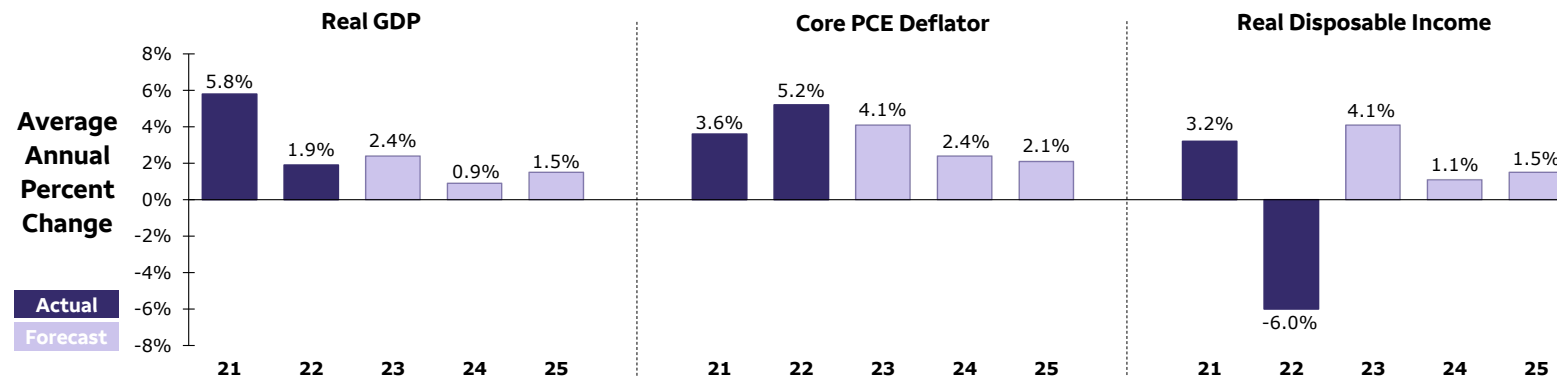
² Percentage Point Contribution to GDP

³ Average Monthly Change

⁴ Year-over-Year Percentage Change

⁵ Quarterly Data - Period End; Annual Data - Annual Averages

⁶ Upper Bound of the Federal Funds Target Range



Forecast as of: December 14, 2023

Wells Fargo International Economic Forecast

	GDP				CPI			
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Global (PPP Weights)	3.5%	2.9%	2.4%	2.6%	8.7%	4.5%	3.7%	3.5%
Advanced Economies ¹	2.6%	1.8%	1.0%	1.8%	7.3%	5.0%	2.6%	2.3%
United States	1.9%	2.4%	0.9%	1.5%	8.0%	4.1%	2.5%	2.4%
Eurozone	3.3%	0.5%	0.5%	1.7%	8.4%	5.4%	2.3%	2.1%
United Kingdom	4.1%	0.5%	0.1%	1.7%	9.1%	7.4%	2.8%	2.0%
Japan	1.0%	2.0%	1.0%	1.2%	2.5%	3.3%	2.6%	1.7%
Canada	3.4%	1.1%	0.7%	1.9%	6.8%	3.8%	2.5%	2.0%
Switzerland	2.7%	0.8%	1.3%	1.6%	2.8%	2.2%	1.6%	1.5%
Australia	3.7%	2.0%	1.5%	2.1%	6.6%	5.7%	3.5%	2.8%
New Zealand	2.7%	0.8%	1.4%	2.3%	7.2%	5.7%	3.1%	2.2%
Sweden	2.8%	-0.2%	0.6%	1.8%	8.1%	8.4%	3.0%	1.9%
Norway	3.3%	1.1%	0.9%	1.6%	5.8%	5.6%	3.2%	2.5%
Developing Economies ¹	4.1%	3.7%	3.4%	3.2%	9.8%	4.2%	4.4%	4.3%
China	3.0%	5.2%	4.5%	4.3%	2.0%	0.4%	1.5%	1.8%
India	7.2%	7.0%	7.0%	6.2%	6.7%	5.6%	4.8%	4.5%
Mexico	3.9%	3.3%	1.6%	2.5%	7.9%	5.5%	3.8%	3.8%
Brazil	2.9%	3.1%	1.3%	2.0%	9.3%	4.8%	4.1%	3.8%

Forecast as of: December 15, 2023

¹Aggregated Using PPP Weights

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