



# U.S. and North Carolina Economic Outlook

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Mark Vitner, Managing Director & Senior Economist  
January 5, 2017



### Economic Outlook

- **We look for real GDP growth to gradually strengthen from the 1.7 percent sustained over the past year as the drag from energy-related cutbacks and sluggish global economic growth diminishes.**
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### Weaker Global Growth

- **Shipping rates have risen, signaling stronger trade volumes. China and some emerging markets are seeing demand strengthen, bolstering commodity prices.**
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### Monetary Policy

- **The era of ultra-low interest rates is over. Monetary policy has taken a slightly more hawkish tone as labor markets have tightened and inflation has firmed.**
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### The Housing Recovery

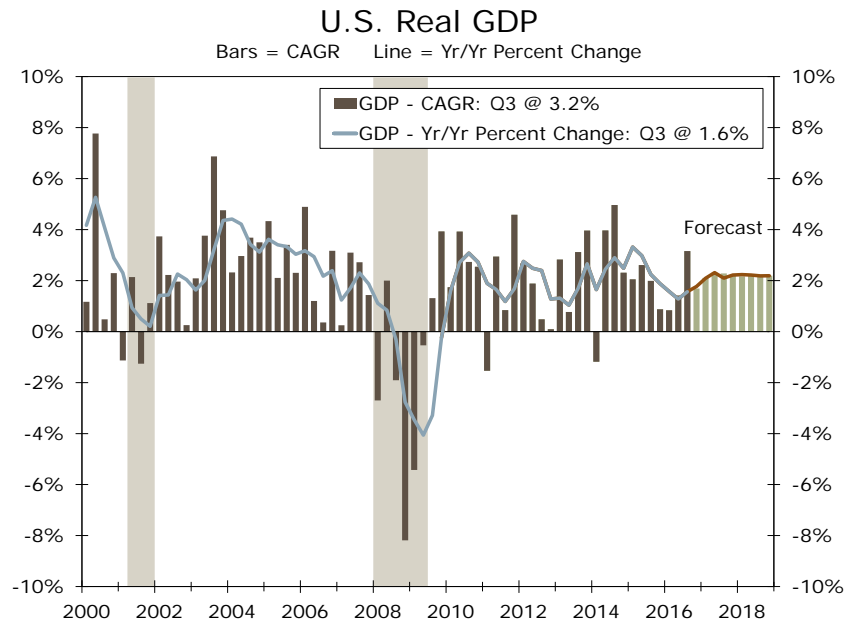
- **Single-family construction is gaining momentum but affordability hurdles have put a relatively low ceiling on growth. Apartment development is close to peaking.**
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### The Policy Mix is Shifting

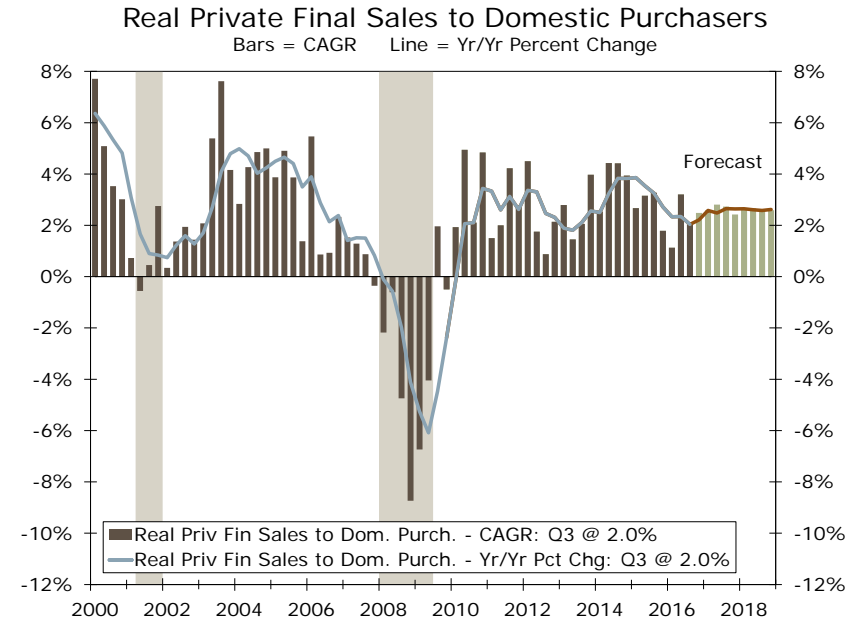
- **Economic policy is now much more growth oriented. Efforts to reduce taxes, regulations and promote investment should promote stronger economic gains.**

Real GDP growth has decelerated since mid-2014, as lower energy prices have cut energy exploration and production and slower global growth has led to a slowdown in exports.

## Real GDP Forecast



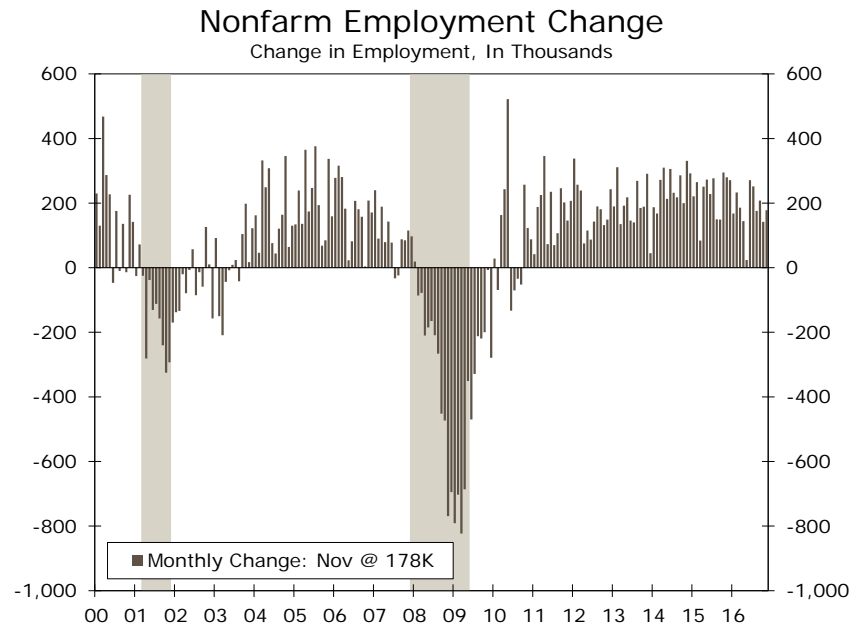
## Real Private Final Sales



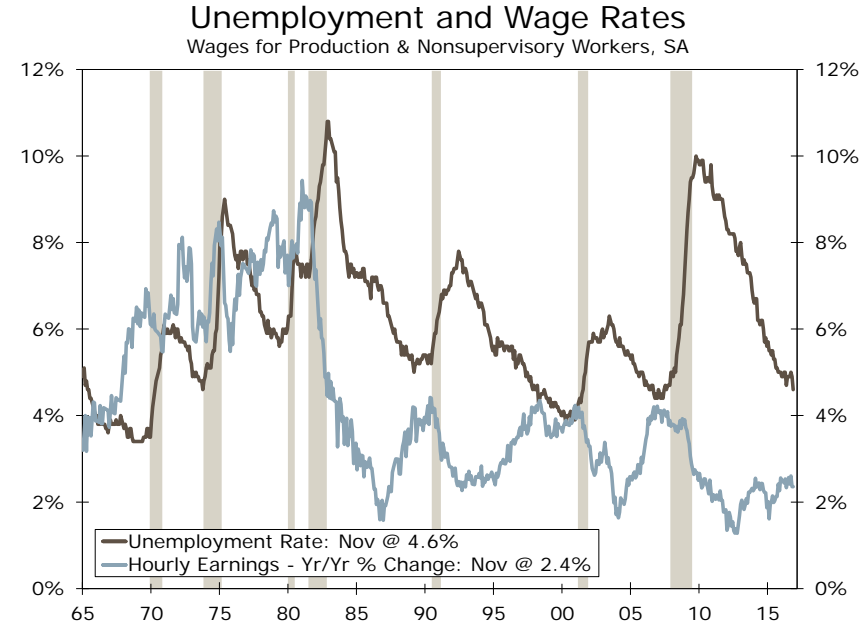
Source: U.S. Department of Commerce and Wells Fargo Securities

Nonfarm employment growth has moderated over the past couple of years, as reduced energy exploration has cut employment in mining and manufacturing. Tighter labor markets may also be restraining hiring. The unemployment rate has fallen below 5 percent and more firms report they are having trouble filling openings.

## Nonfarm Employment



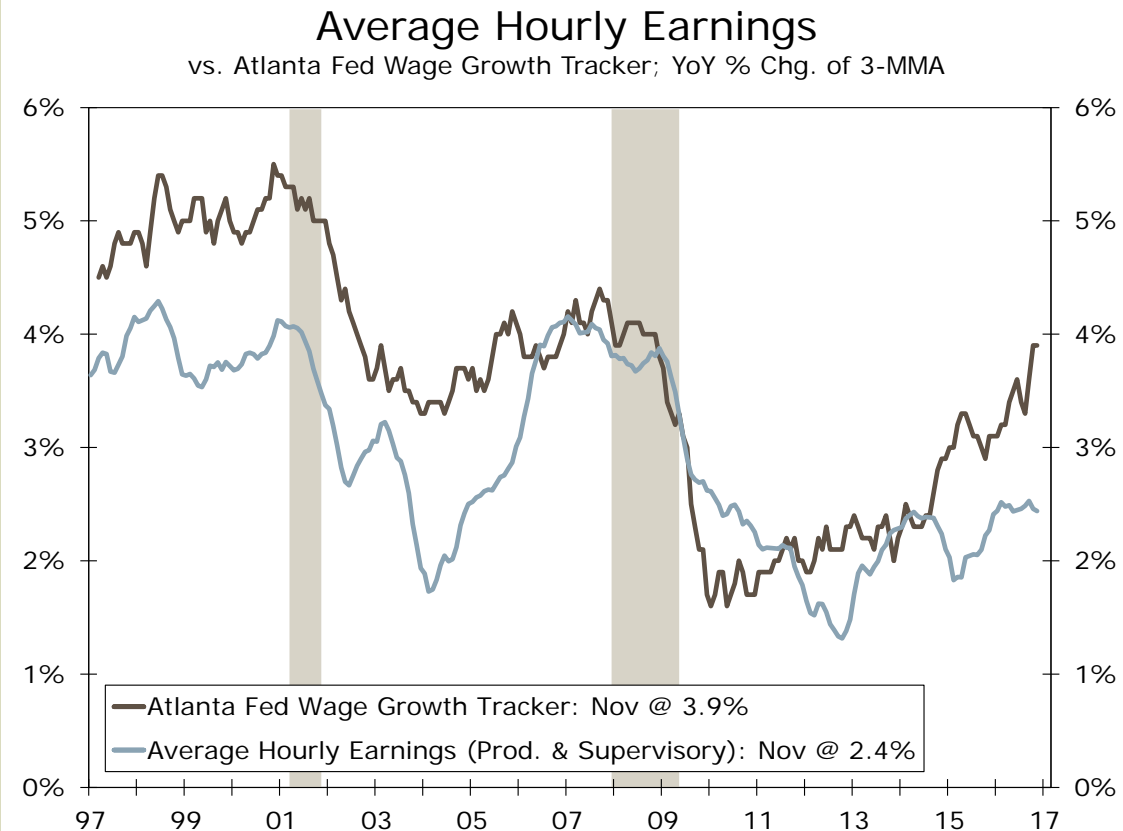
## Unemployment Rate



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

Average hourly earnings' growth has picked up modestly but remains limited by younger less skilled workers entering the workforce and older more skilled workers leaving it.

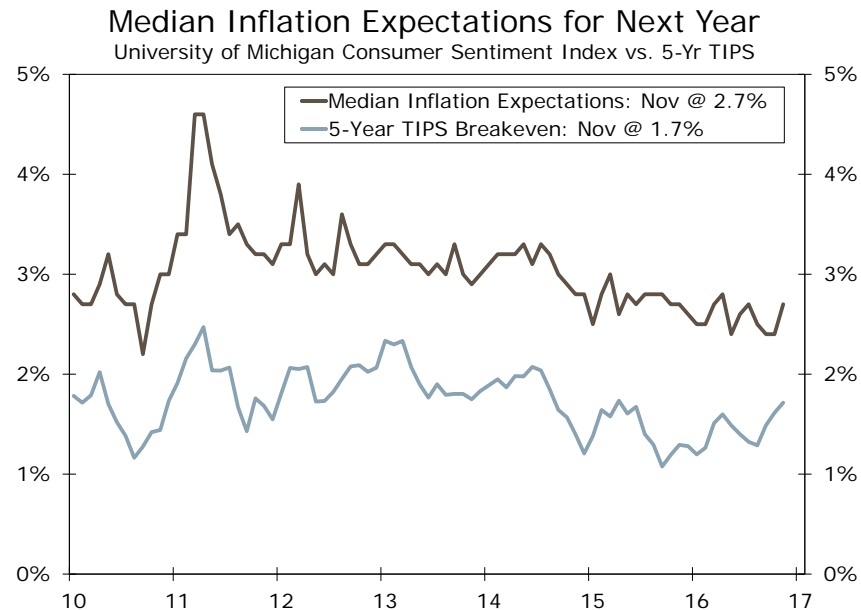
The Atlanta Fed Wage Tracker provides a better measure of wage growth and shows wage gains accelerating.



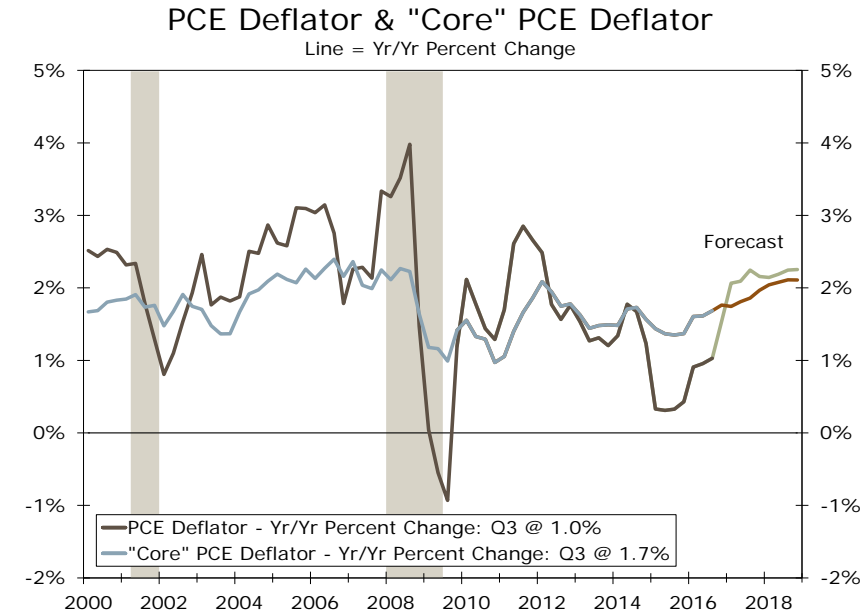
Source: Federal Reserve Bank of Atlanta, U.S. Department of Labor and Wells Fargo Securities

Inflation has remained below the Fed's target for so long that consumers and investors may have become complacent about the risks of higher inflation. Wage increases have been accelerating and the temporary benefit from lower energy prices has largely passed.

## Inflation Expectations

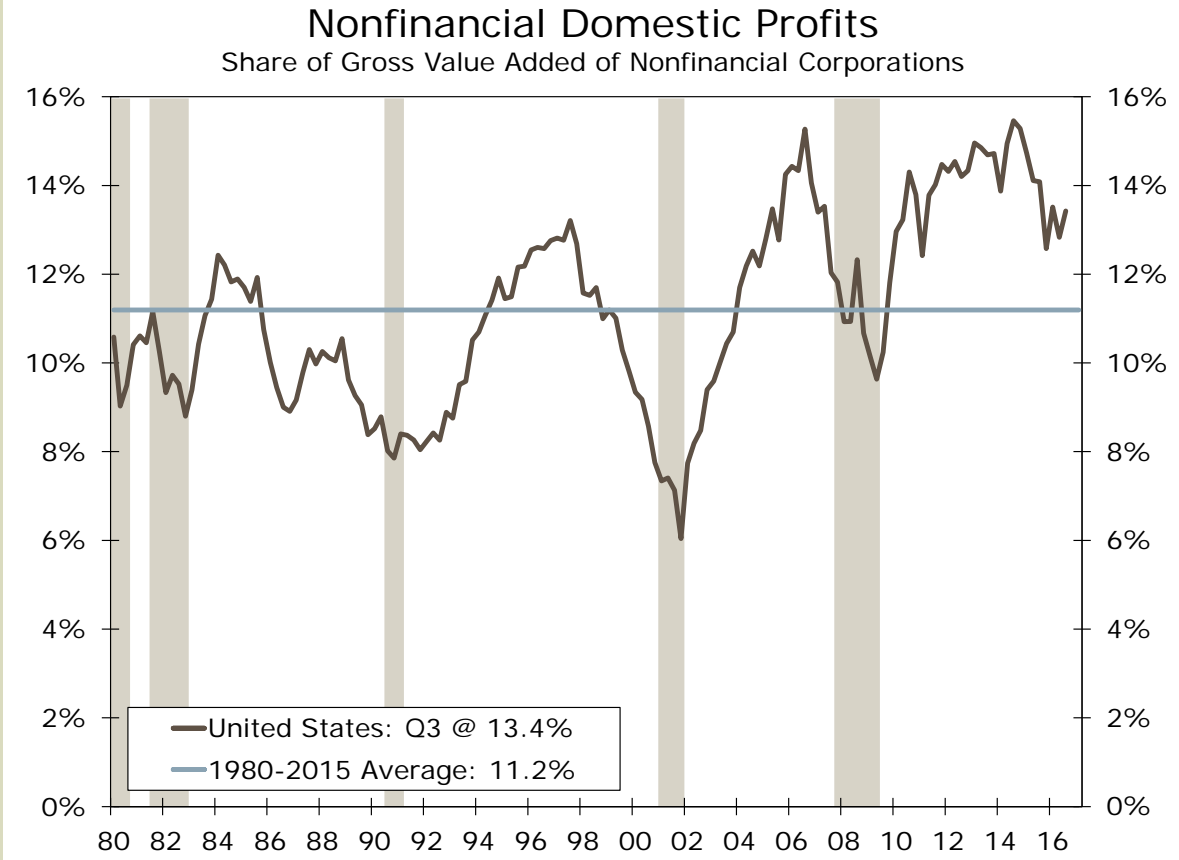


## PCE Deflator



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

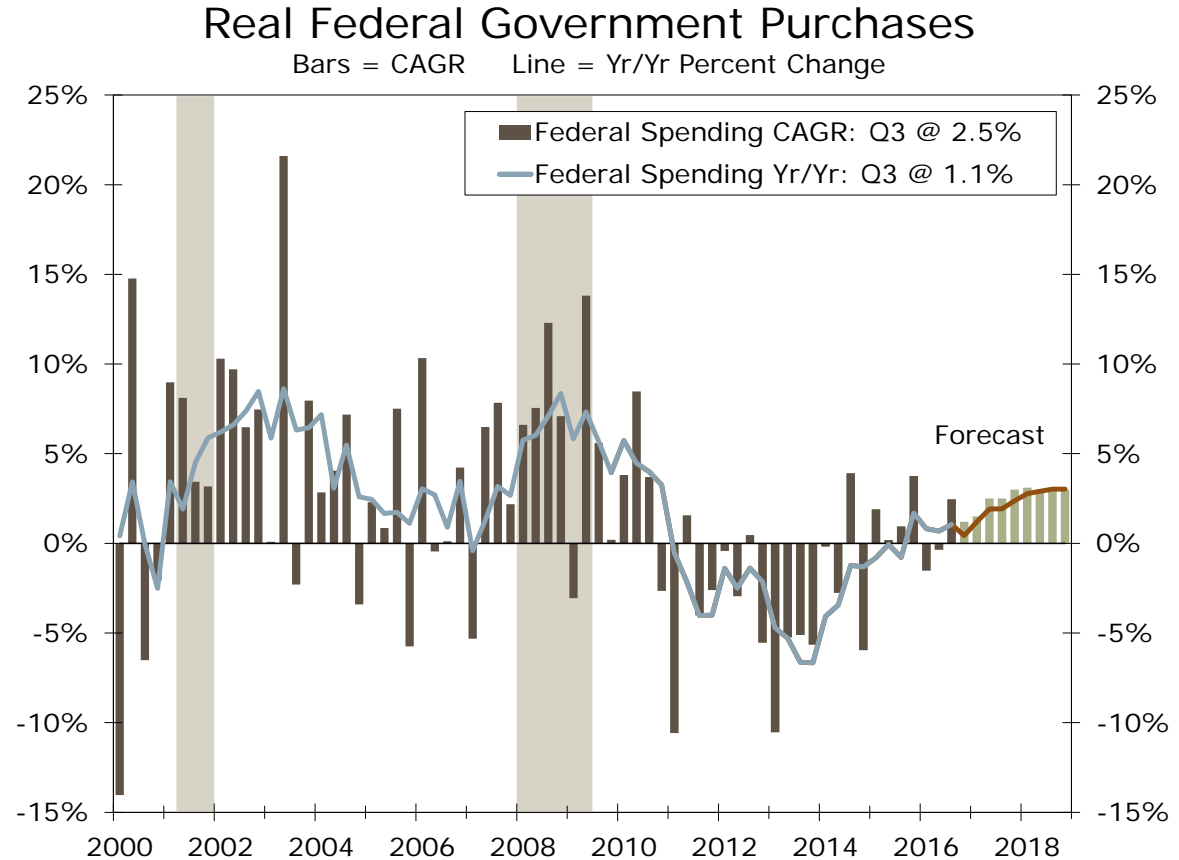
Corporate profits as a share of value added remain historically high but are now past their peak



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

Trump's campaign focused on increased spending on infrastructure and defense, which suggests federal government spending is set to rise over the next few years.

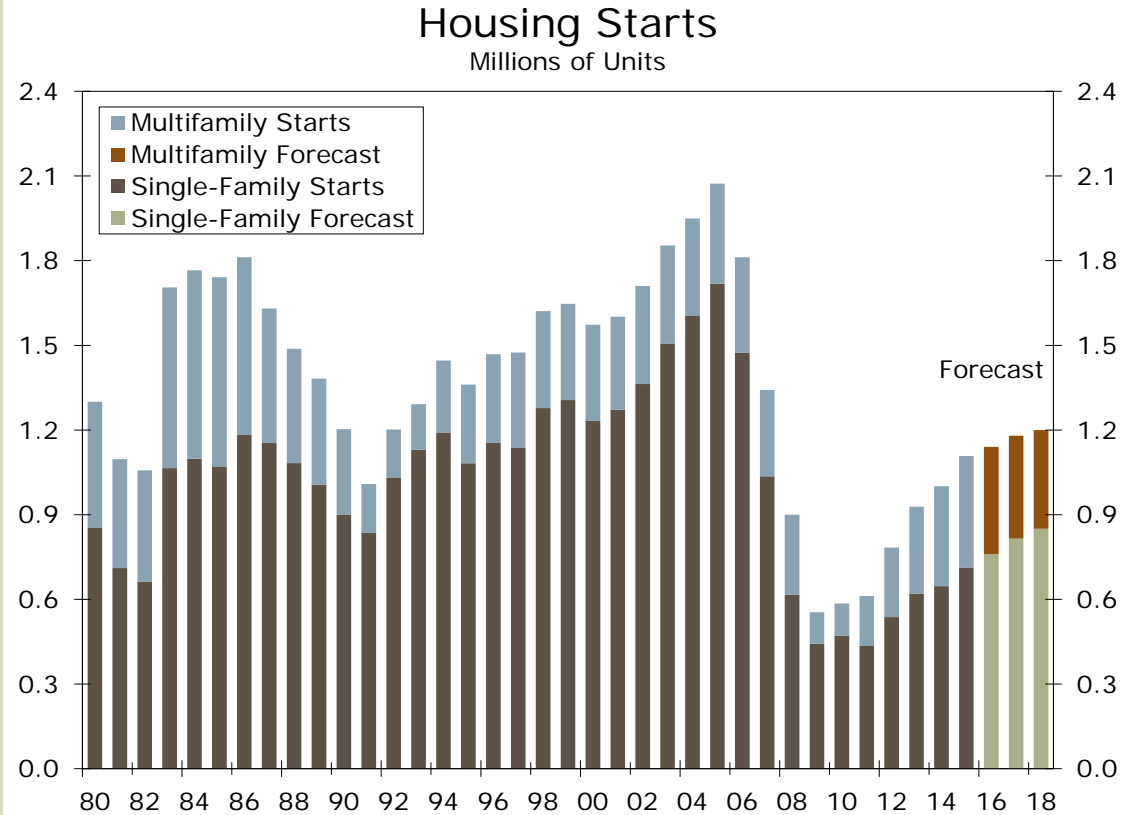
Concerns about the federal budget deficit are likely to restrain spending gains.



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



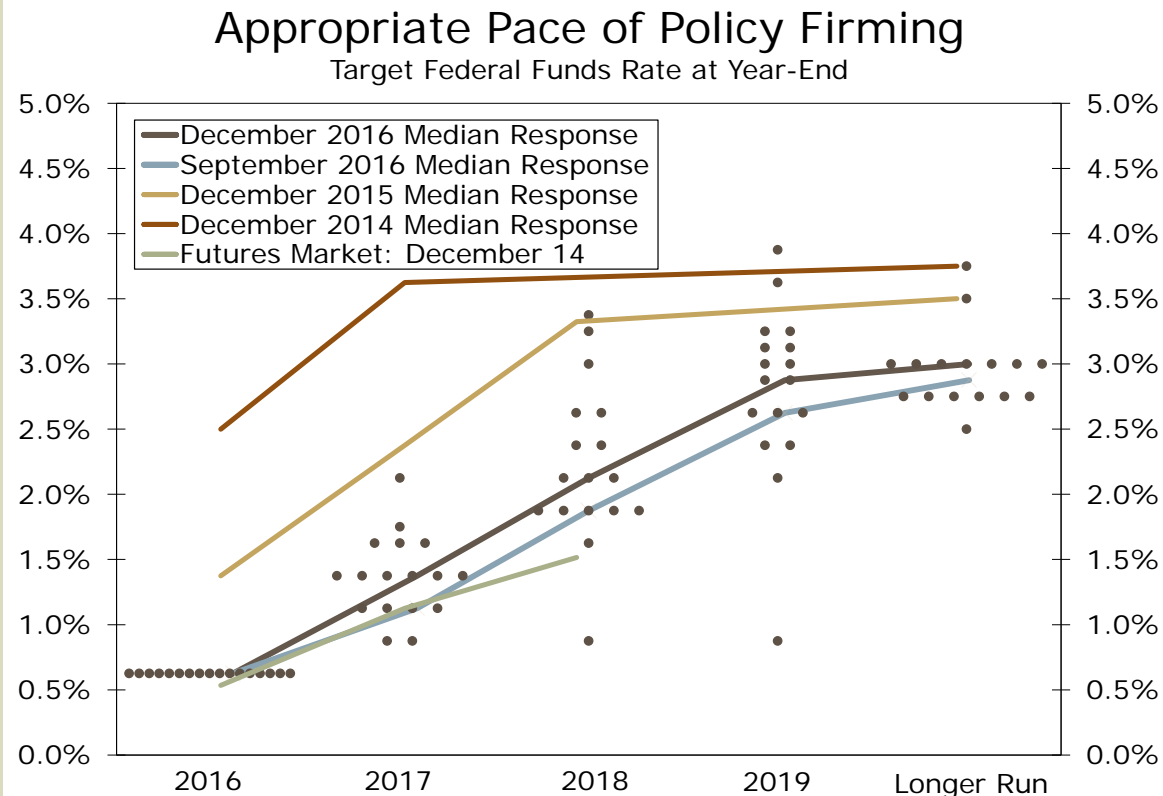
Single-family construction has been held back by the high costs of acquiring and developing lots and sluggish income growth, which has limited household formation. We expect only modest improvement in 2017, as rising mortgage rate further impeded affordability.



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

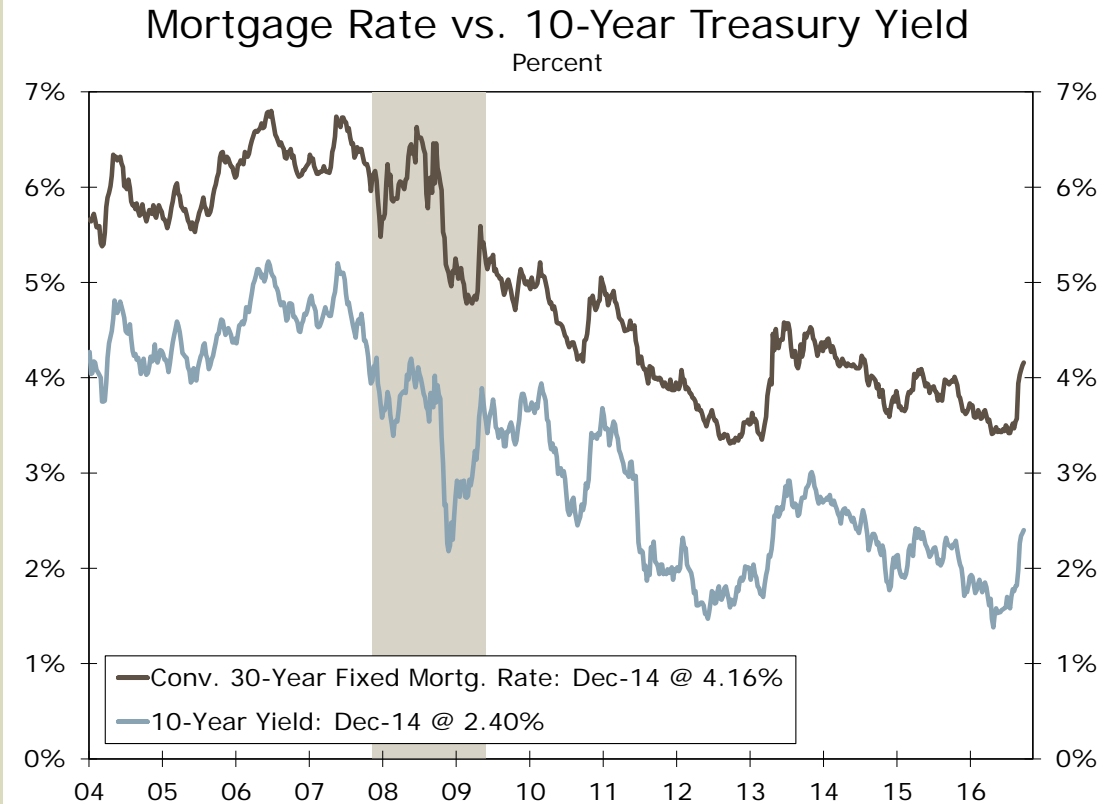
The era of ultra-low interest rates is ending.

With the economy closer to full employment and inflation firming, the FOMC has indicated they are more inclined to raise interest rates. The risk is now slightly to the upside.



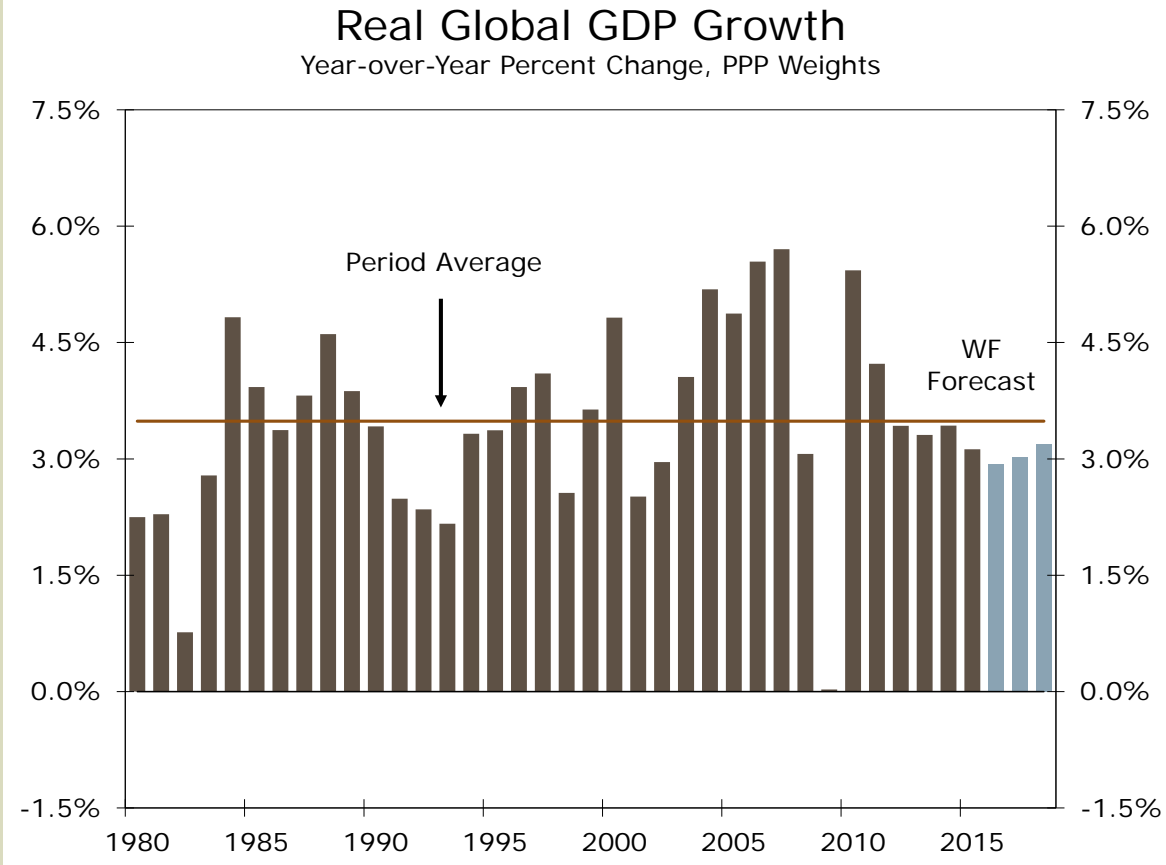
Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

Long-term yields have spiked since the presidential election, expectations for inflation, the federal budget deficit and economic growth have all increased.



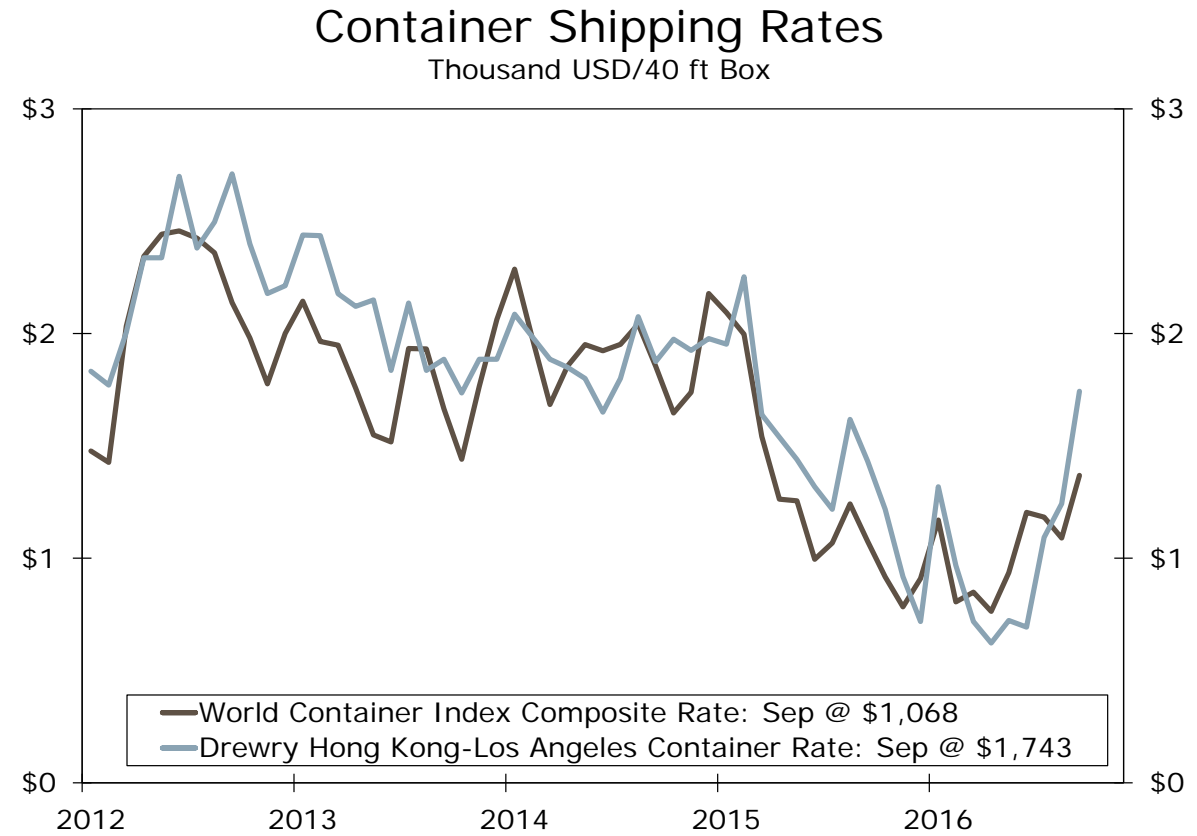
Source: Federal Reserve Board, FHLMC and Wells Fargo Securities

Global economic growth is expected to gain momentum in 2017 but remain sluggish by recent historical standards



Source: International Monetary Fund and Wells Fargo Securities

Container shipping rates have risen from their recent lows, signaling some strengthening in the global economy.

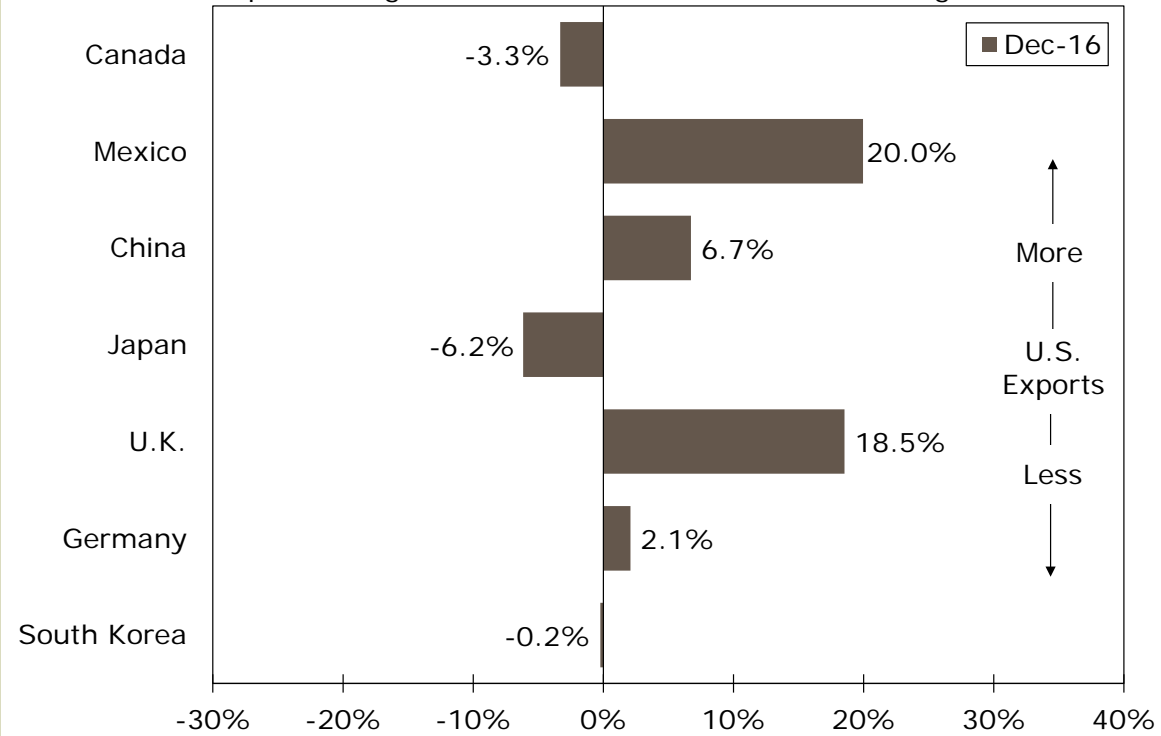


Source: Bloomberg LP and Wells Fargo Securities

The dollar has appreciated versus most major trading partners over the past year

### U.S. Dollar Appreciation vs. Top Export Destinations

Top 7 Trading Partners, Year-over-Year Percent Change



Source: Federal Reserve Board and Wells Fargo Securities

## Regional Trends

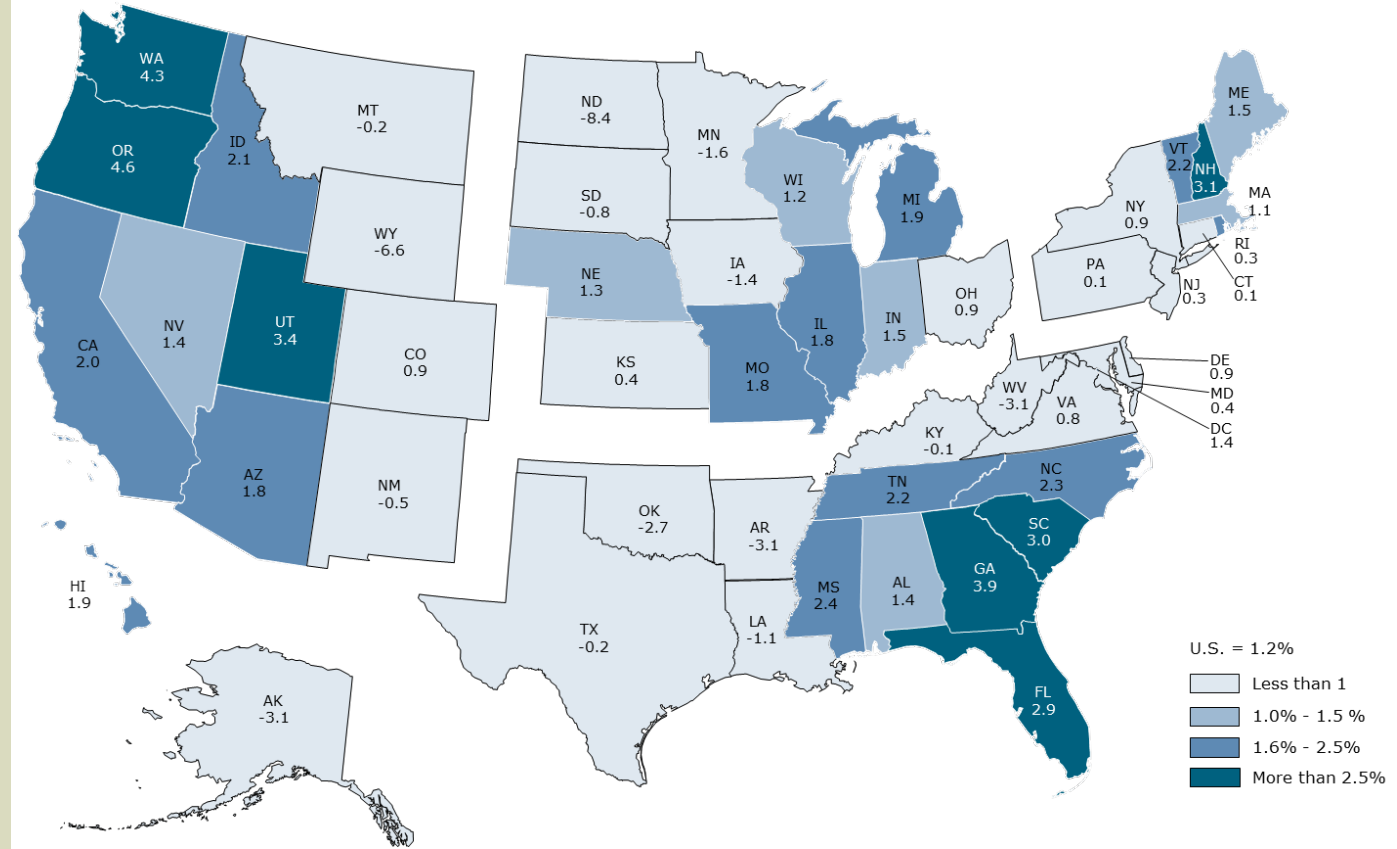
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# Year-over-Year Percent Change in Real GDP Growth by State (Q2 2016)

Economic growth varies considerably throughout the United States.

States with large technology sectors continue to post the strongest gains.

The Southeast is also benefitting from an influx of new businesses and retirees.



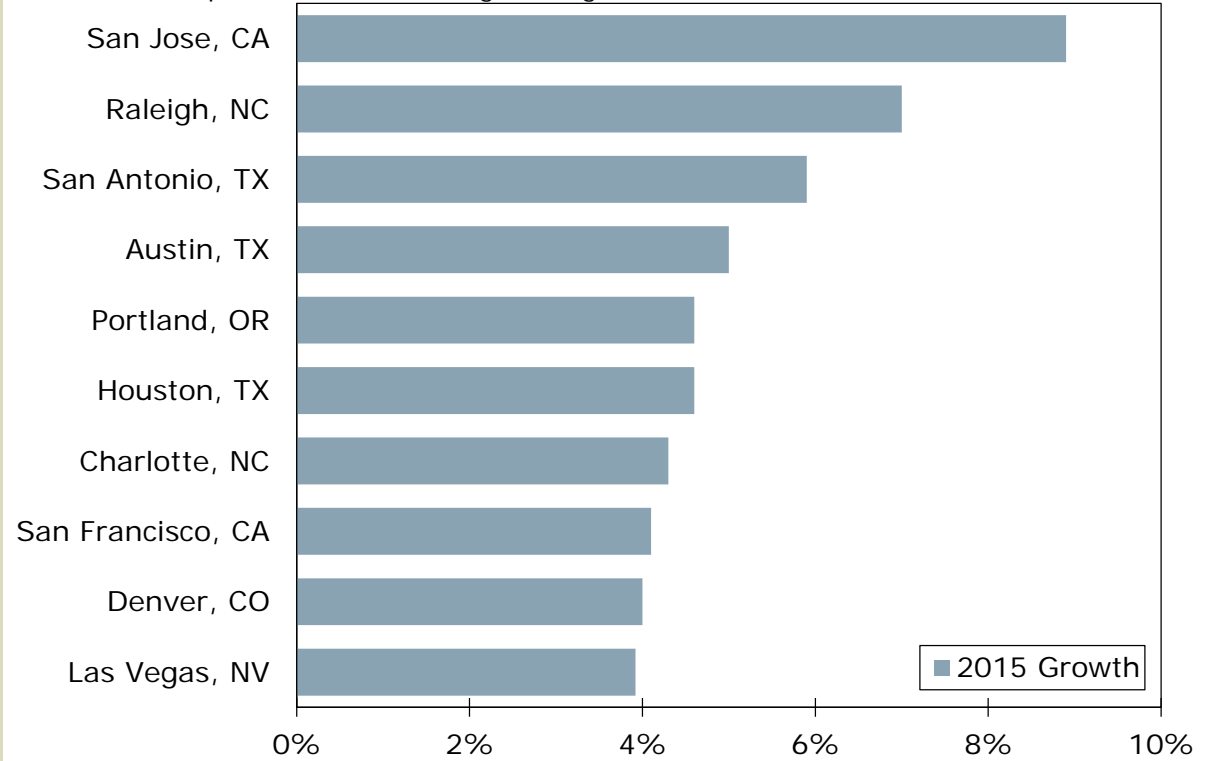
Source: U.S. Department of Commerce and Wells Fargo Securities



Technology -driven markets have seen some of the fastest real GDP growth in recent years.

## Fastest Growing Large Metro Economies

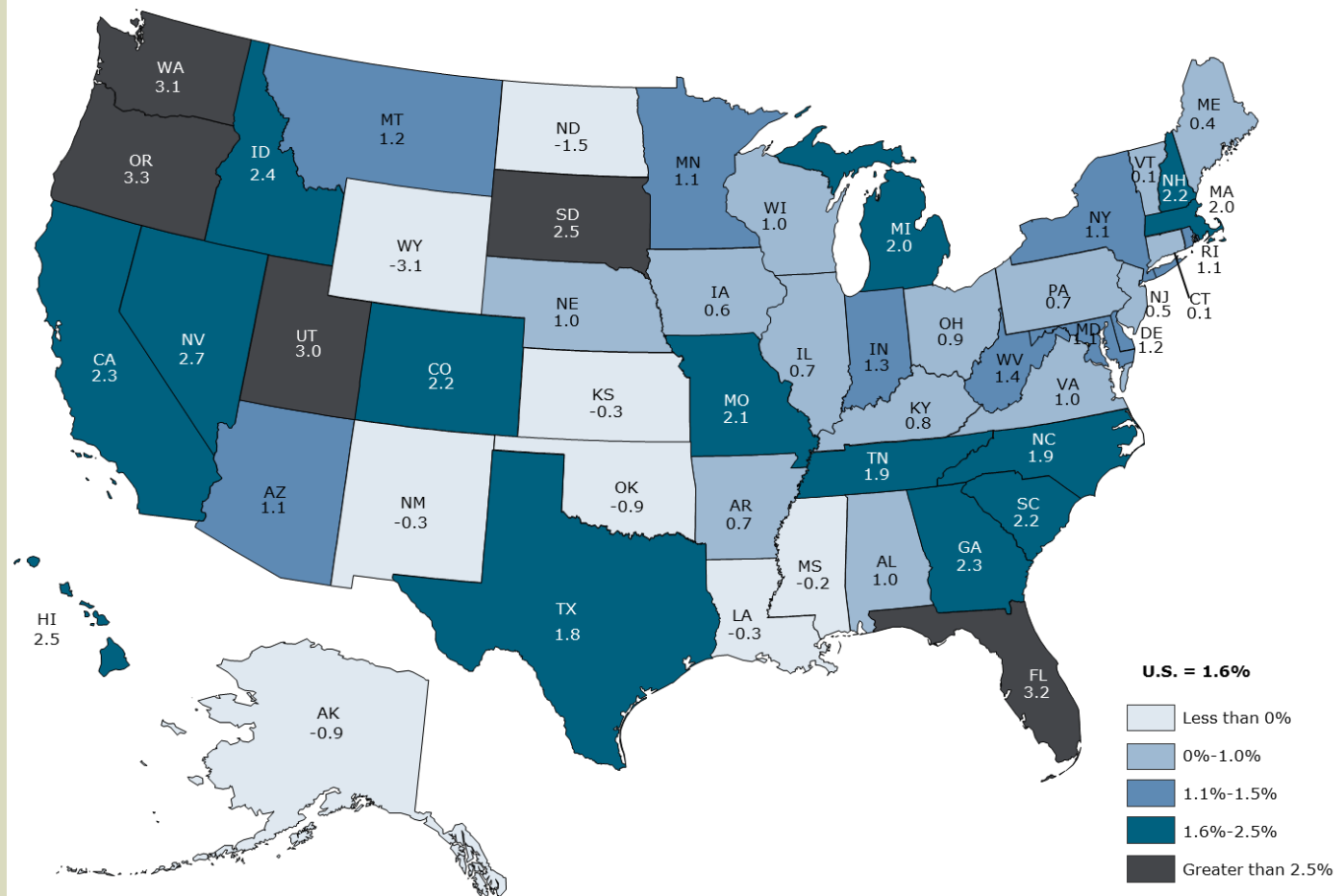
Top Growth Rates Among 50 Largest Metro Areas, Year-over-Year Growth



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

# Year-over-Year Employment Growth by State (November 2016)

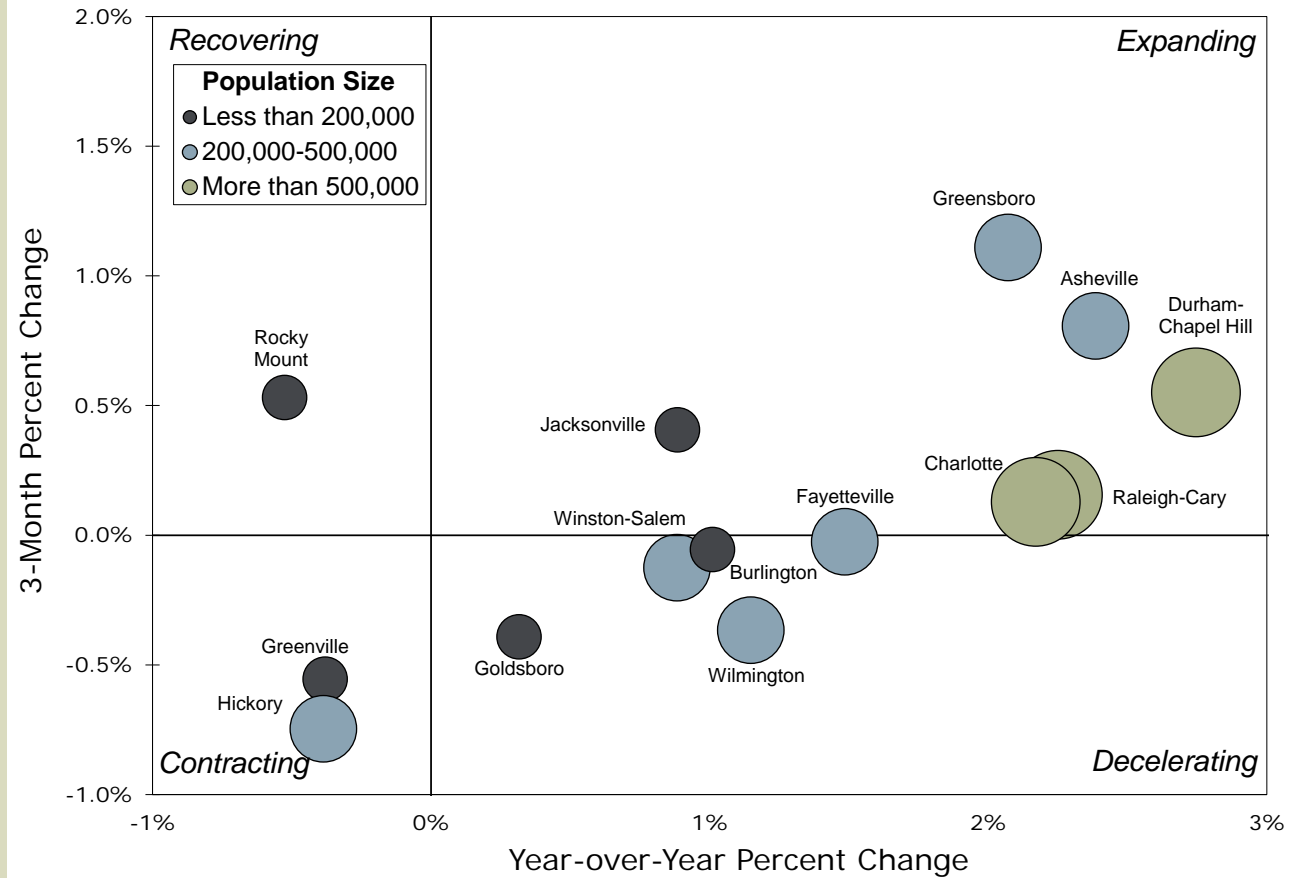
Job growth has been strongest in the Pacific Northwest and Southeast



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

North Carolina's largest cities continue to see the strongest job gains

North Carolina Job Growth: November 2016  
3-Month Moving Averages

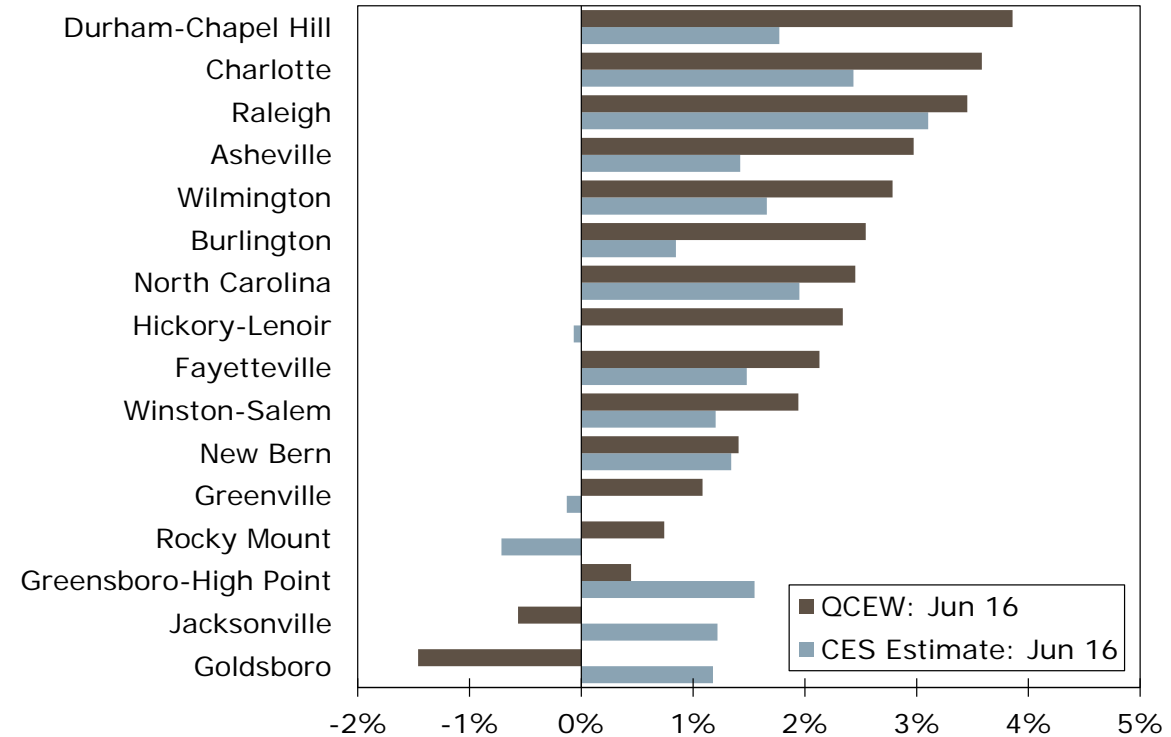


Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

The latest Quarterly Census of Employment and Wages shows that job growth this past year was stronger than initially reported in most of North Carolina's large metro areas.

## Total Job Growth by NC MSA: CES vs QCEW

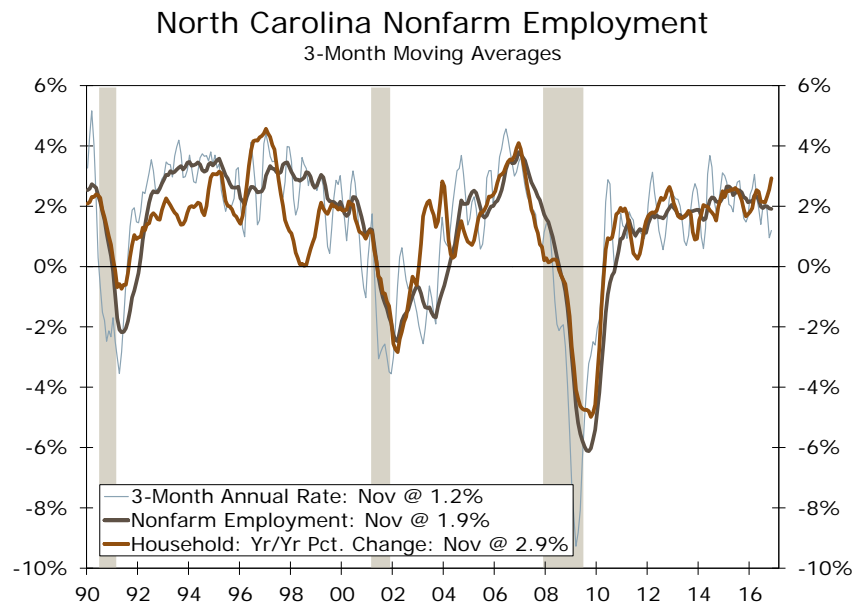
Year-over-Year Percent Change



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

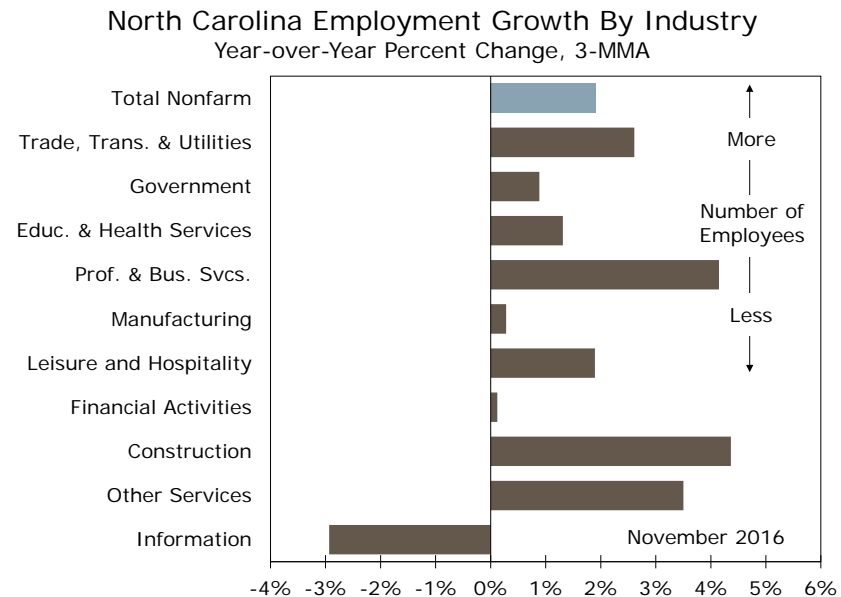
Job growth has steadily gained momentum. Professional services, construction, retail trade and the leisure & hospitality sector account for the bulk of job gains.

## Nonfarm Employment

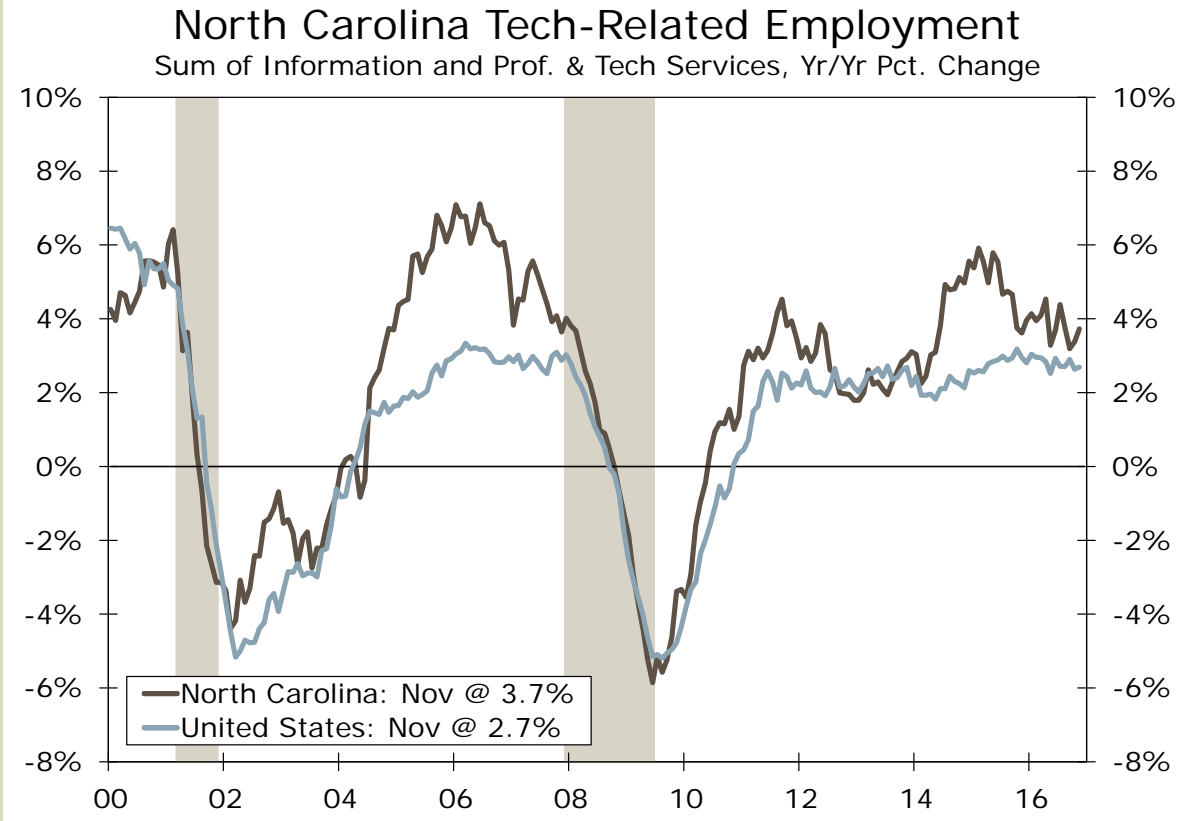


Source: U.S. Department of Labor and Wells Fargo Securities

## Employment by Industry



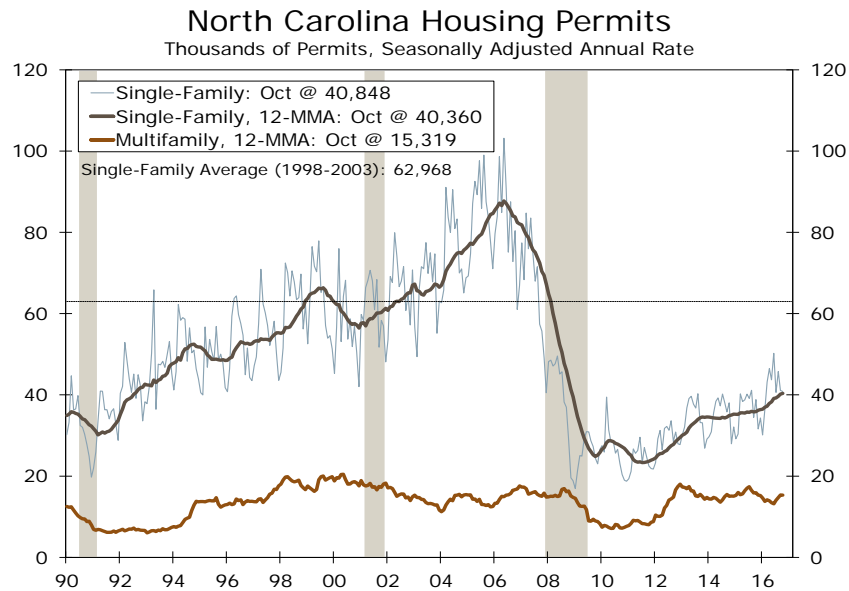
Tech-related employment has been a key driver for growth



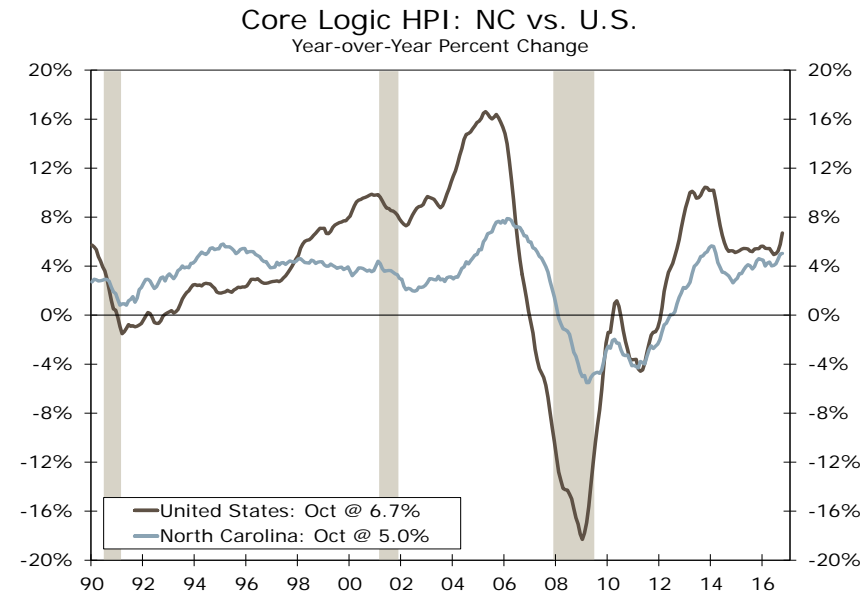
Source: U.S. Department of Labor and Wells Fargo Securities

Single-family homebuilding is gradually building momentum across North Carolina. Apartment construction likely has peaked for this cycle but several projects remain underway and many more remain in the development pipeline. Home prices are rising moderately.

## Housing Permits



## Home Prices



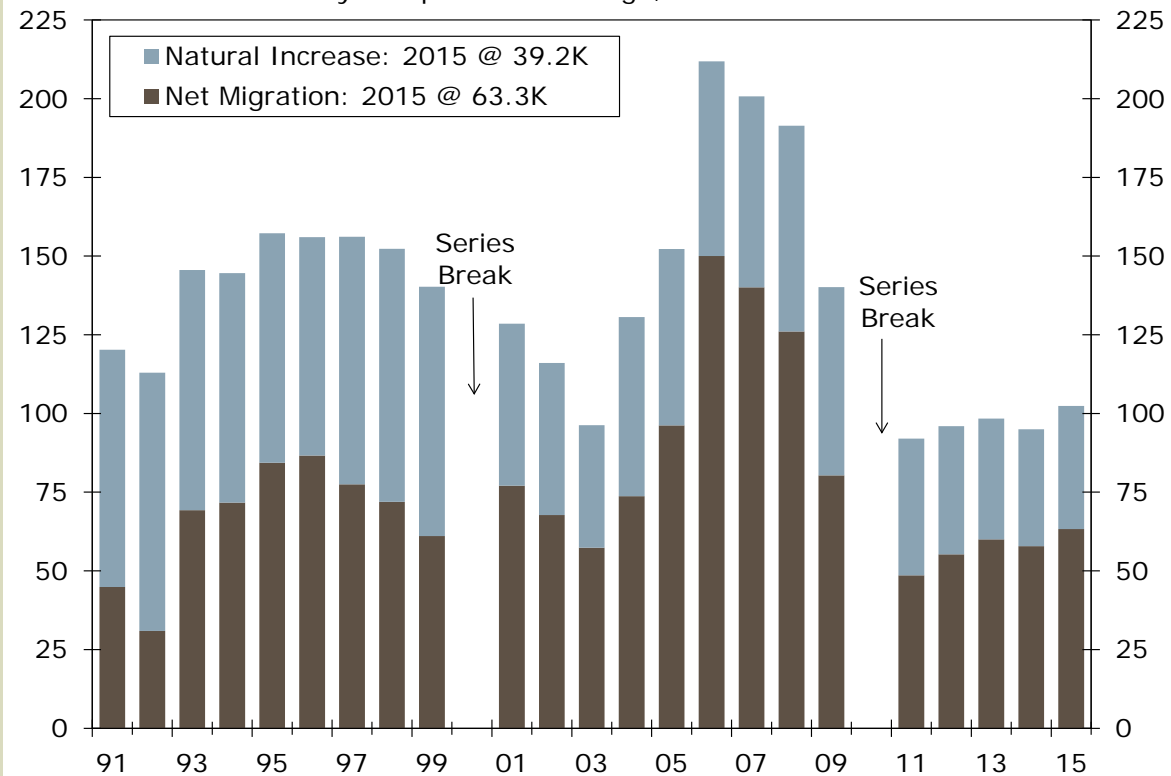
Source: U.S. Department of Commerce, CoreLogic and Wells Fargo Securities

North Carolina continues to see steady population gains.

We expect in-migration and population growth to ramp up further in 2017.

## North Carolina Population Growth

By Component of Change, In Thousands



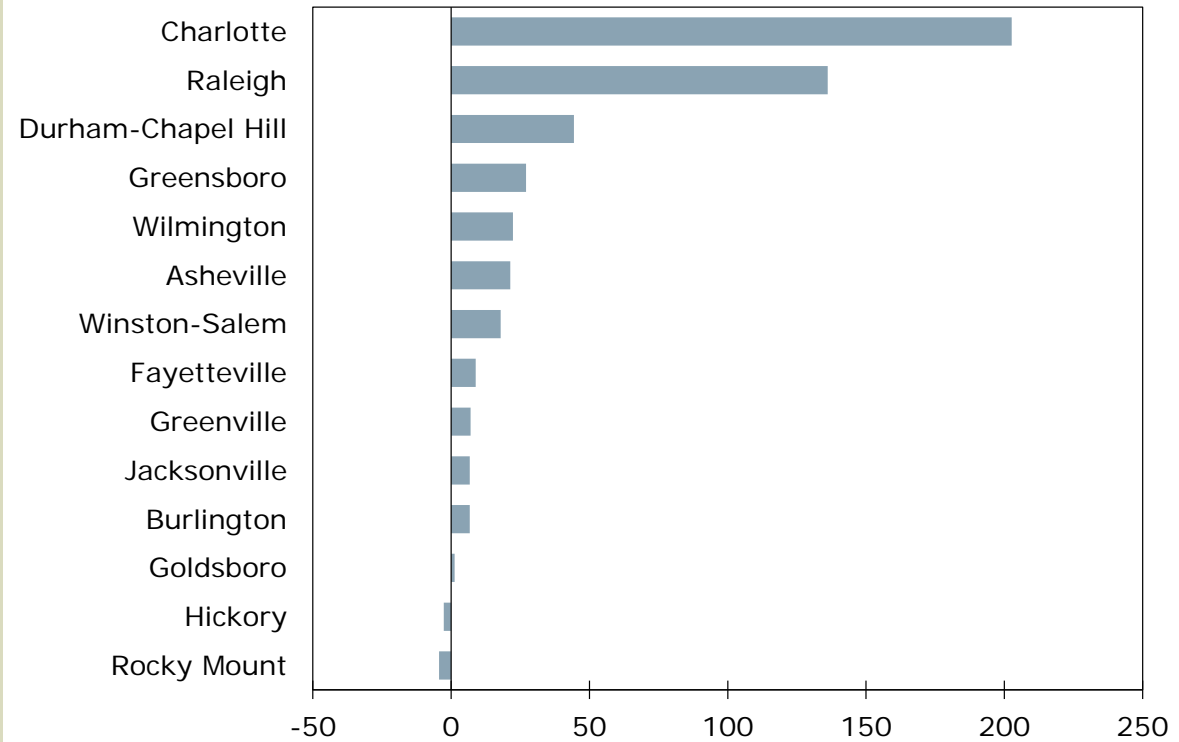
Source: U.S. Department of Commerce and Wells Fargo Securities



Charlotte and the Triangle have accounted for the bulk of North Carolina's population growth over the past five years.

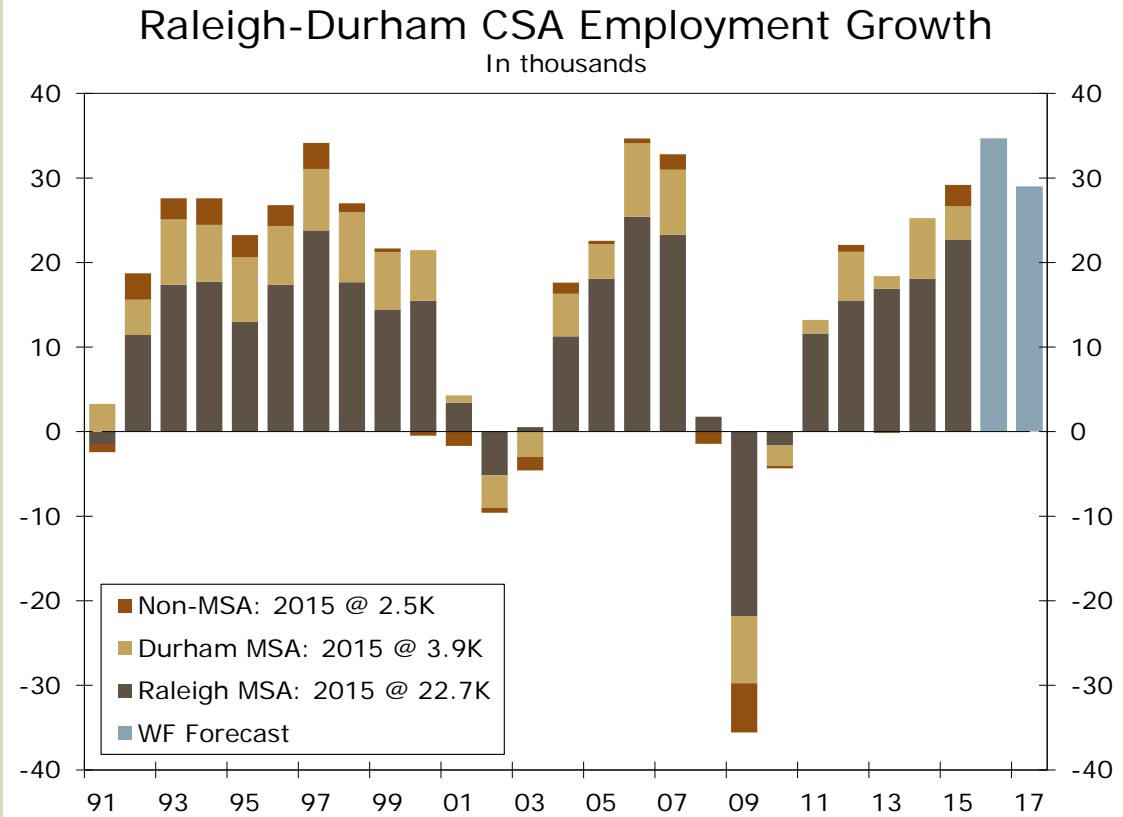
## North Carolina Population Growth by MSA

Total Population Gains From 2010 to 2015, In Thousands



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

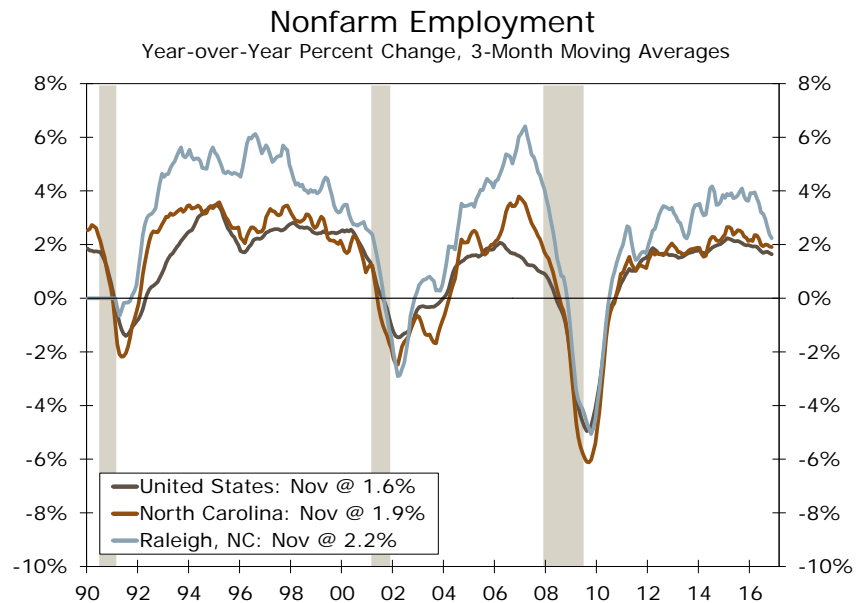
After adding close to 35,000 jobs in 2016, we look for employment growth to moderate in 2017



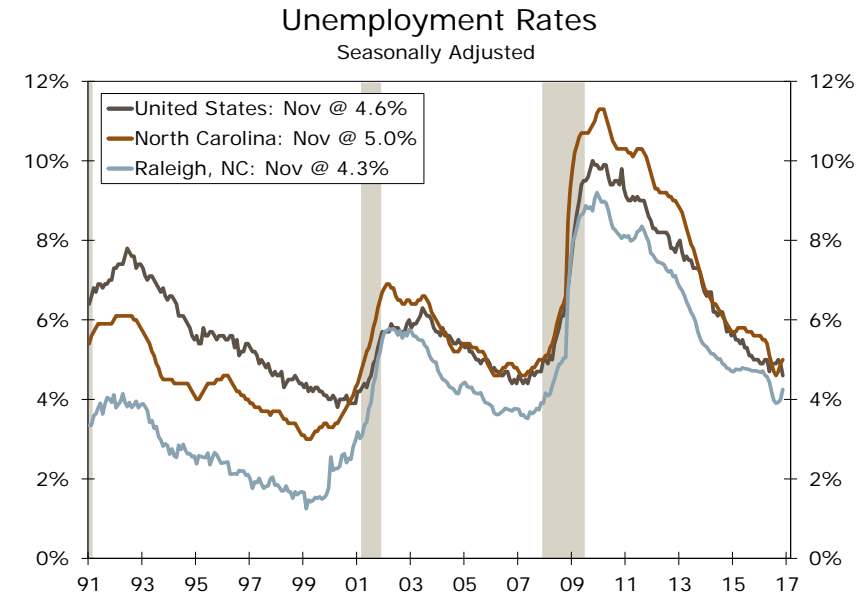
Source: U.S. Department of Labor and Wells Fargo Securities

Job growth in Raleigh continues to outpace both the state and the nation

**Nonfarm Employment**



**Unemployment Rates**

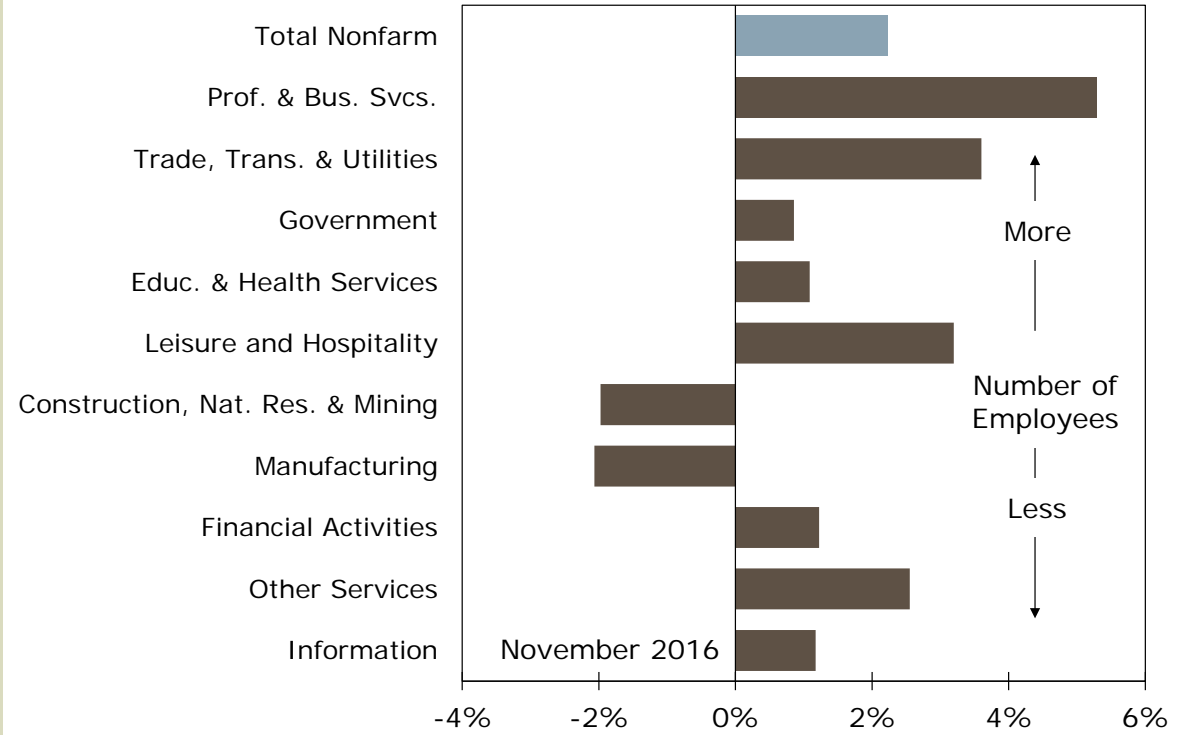


Source: U.S. Department of Labor and Wells Fargo Securities

Employment growth has been the strongest in Raleigh's professional and business services sector. In contrast, manufacturing employment has been a weak spot.

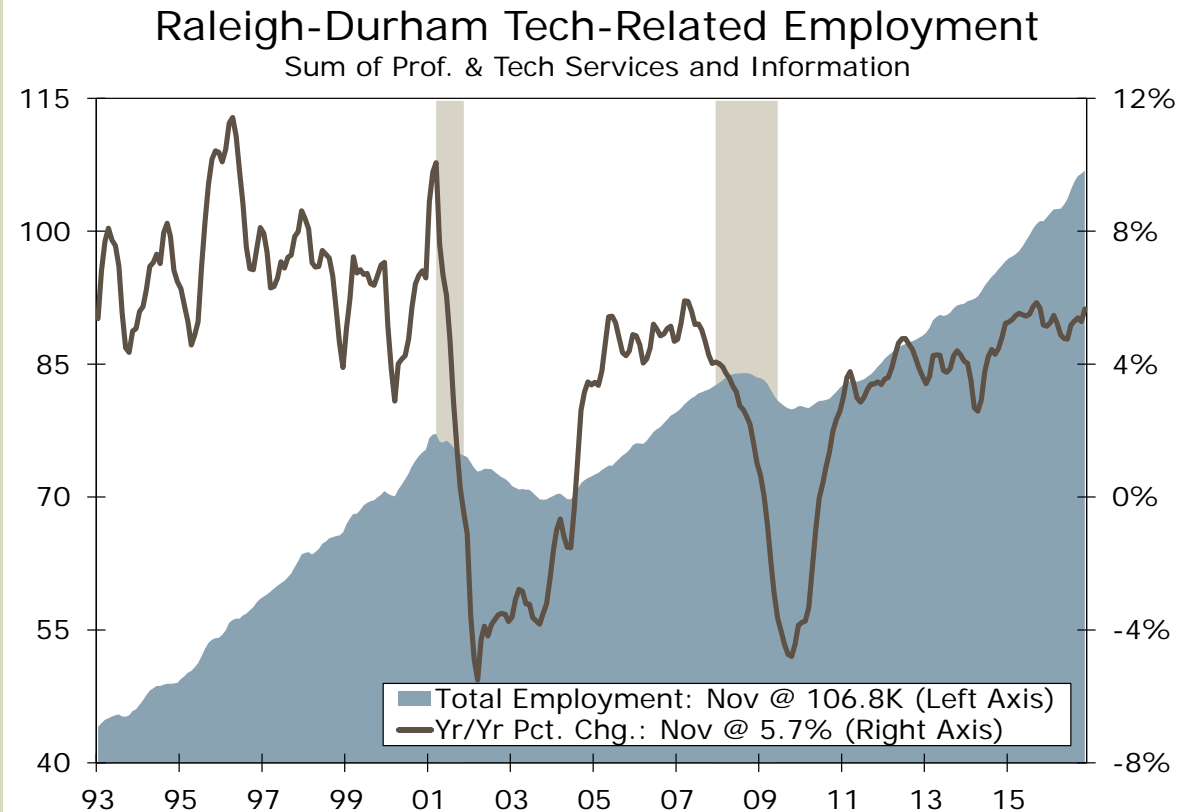
## Raleigh MSA Employment Growth By Industry

Year-over-Year Percent Change, 3-MMA



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

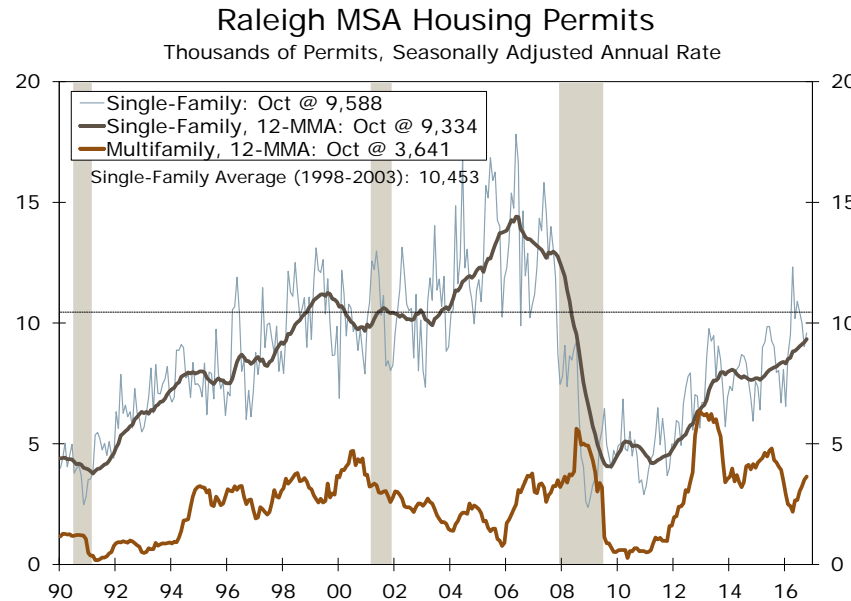
Hiring in Raleigh's tech sector continues to increase solidly, rising 5.7 percent year-to-year



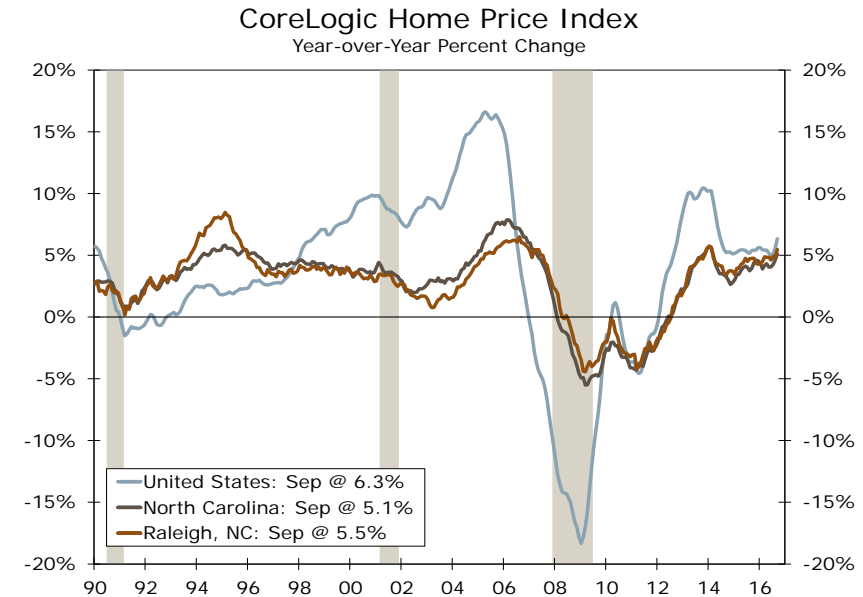
Source: U.S. Department of Labor and Wells Fargo Securities

Single-family homebuilding has gradually ramped up over the past few years and is now running roughly in line with its long-term norm. Apartment building has slowed from its earlier heights and may ebb further as new supply continues to inundate the market.

## Housing Permits



## Home Prices

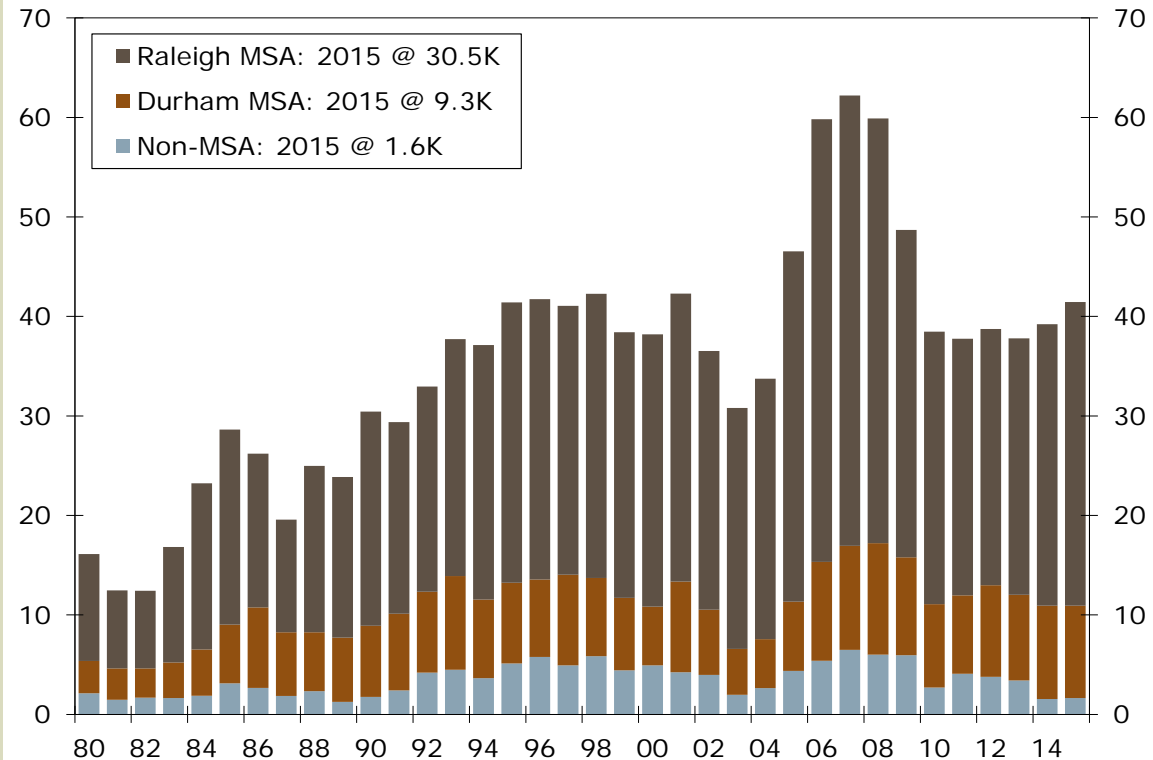


Source: U.S. Department of Commerce, CoreLogic and Wells Fargo Securities

Population growth has been more centered around urban areas of the Triangle. Outlying areas have been slower to get back on track, reflecting higher land costs and longer commutes.

## Raleigh-Durham CSA Population Growth

Thousands of Persons



Source: U.S. Department of Commerce 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	3.2	1.7	2.1	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.4	2.6	1.5	2.2	2.2
Personal Consumption	1.6	4.3	2.8	2.5	2.3	2.5	2.4	2.0	2.4	2.4	2.3	2.3	2.9	3.2	2.7	2.6	2.3
Business Fixed Investment	-3.4	1.0	0.1	2.6	3.2	3.7	3.7	3.9	3.0	3.6	3.8	3.7	6.0	2.1	-0.6	2.8	3.5
Equipment	-9.5	-2.9	-4.8	5.2	3.0	2.7	2.9	3.0	2.1	2.2	2.3	2.2	5.4	3.5	-2.7	2.0	2.4
Intellectual Property Products	3.8	9.0	1.0	2.7	3.7	4.3	4.0	4.2	4.2	4.1	4.2	4.0	3.9	4.8	4.5	3.7	4.2
Structures	0.1	-2.1	10.1	-2.8	3.0	5.0	5.3	5.5	6.0	6.3	6.5	6.7	10.3	-4.4	-3.1	3.2	5.2
Residential Construction	7.8	-7.8	-4.4	8.5	6.0	5.0	5.0	5.0	5.0	4.7	4.5	4.2	3.5	11.7	4.8	3.8	4.8
Government Purchases	1.6	-1.7	0.2	0.9	1.2	1.5	1.4	1.5	1.8	1.8	1.5	1.5	-0.9	1.8	0.8	0.9	1.6
Net Exports <sup>2</sup>	0.0	0.2	0.9	-0.7	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.1	-0.7	-0.1	-0.3	-0.4
Inventories <sup>2</sup>	-0.4	-1.2	0.5	0.4	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	-0.1	0.2	-0.4	0.1	0.1
Nonfarm Payroll Change <sup>3</sup>	196	146	212	163	165	160	155	150	150	145	145	140	251	229	179	158	145
Unemployment Rate	4.9	4.9	4.9	4.8	4.8	4.7	4.7	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	2.4	2.4	2.6	2.5	2.5	2.6	2.6	2.5	1.6	0.1	1.3	2.5	2.6
Quarter-End Interest Rates <sup>5</sup>																	
Federal Funds Target Rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	0.25	0.27	0.56	1.00	1.50
Conventional Mortgage Rate	3.69	3.57	3.46	4.12	4.13	4.15	4.17	4.19	4.22	4.26	4.30	4.35	4.17	3.85	3.71	4.16	4.28
2 Year Note	0.73	0.58	0.77	1.14	1.17	1.33	1.40	1.66	1.73	1.86	1.91	2.03	0.46	0.69	0.81	1.39	1.88
10 Year Note	1.78	1.49	1.60	2.42	2.45	2.48	2.51	2.54	2.58	2.63	2.68	2.74	2.54	2.14	1.82	2.50	2.66

Forecast as of: December 8, 2016

<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

Source: IHS Global Insight and Wells Fargo Securities



# Appendix

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

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Recent Special Commentary		
Date	Title	Authors
<b>U.S. Macro</b>		
December-14	FOMC Signals Possible Rate Hike Acceleration in 2017	Bullard
December-12	Capitol Hill Update: Federal Spending CR Extended to April	Silvia & Brown
December-07	Wells Fargo Small Business Survey: Q4 2016	Vitner & Batcheller
December-01	Full Employment: Focusing on the Destination	Silvia, House & Pugliese
November-30	Infrastructure Spending and the Fiscal Multiplier	Khan
<b>U.S. Regional</b>		
December-09	New Insights Into State GDP & Employment Growth	Vitner & Feik
November-18	California Reports Solid Job Gains in October	Vitner, Feik & Batcheller
November-18	Texas Employment Continues the Upward Climb	Vitner, Feik & Batcheller
November-18	Hiring in Florida Takes a Breather in October	Vitner, Feik & Batcheller
November-18	North Carolina's Unemployment Rate Ticks Up in October	Vitner
<b>Global Economy</b>		
December-14	U.S. Trade with Canada and Mexico: A Short Primer	Bryson & Pershing
December-12	Why is Mexico Different	Alemán
December-12	Turkish Q3 GDP Disappoints	Bryson & Pershing
December-09	Rare Decline in Australian GDP	Quinlan
December-09	ECB Maintains Accommodative Policy Stance	Bryson
<b>Interest Rates/Credit Market</b>		
December-14	Higher Mortgage Rates, Lower Housing Affordability	Silvia & Batcheller
November-30	What's Behind the Liftoff in Long-Term Bond Yields	Silvia & Brown
November-23	The Long Term Outlook Looks A Little Brighter	Silvia & Vitner
November-16	U.S. Election & Interest Rates: One Surprise After Another	Silvia
November-10	Trump Victory: Wide Policy Economics Options	Silvia
<b>Real Estate</b>		
November-08	Commercial Real Estate Chartbook: Q3	Khan & Causey
October-31	Rising Builder Costs Dampen Housing Affordability	Vitner & Batcheller
October-03	Housing Chartbook: October 2016	Vitner, Khan & Batcheller
September-30	Is CRE Retail Demand Sustainable?	Khan, Iqbal & Tysinger
September-22	Will the Potential EB-5 Expiration East CRE Valuations?	Khan

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