

WELLS
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SECURITIES

Economic Outlook

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Together we'll go far



Economic Outlook

- **The U.S. economy had strong momentum at the start of the year but has likely fallen into recession due to shutdowns related to the COVID-19 outbreak. Real GDP is expected to plunge in the second quarter.**

Quantifying the Contraction

- **There were few obvious imbalances prior to the COVID-19 outbreak, which should help insulate the U.S. economy from a severe downturn. There is some risk of financial contagion from the equity selloff and corporate debt.**

Notable Impacts

- **With the leisure & hospitality industry abruptly shut down, layoffs have soared. Job losses extend well beyond the hospitality sector, however, and unemployment is likely to spike over the next few months.**

What Kind of Recovery?

- **The abrupt shutdown of economic activity combined with the absence of imbalances in the most cyclical parts of the economy has given rise to hopes of a V-shaped recovery. It may now be that simple, however.**

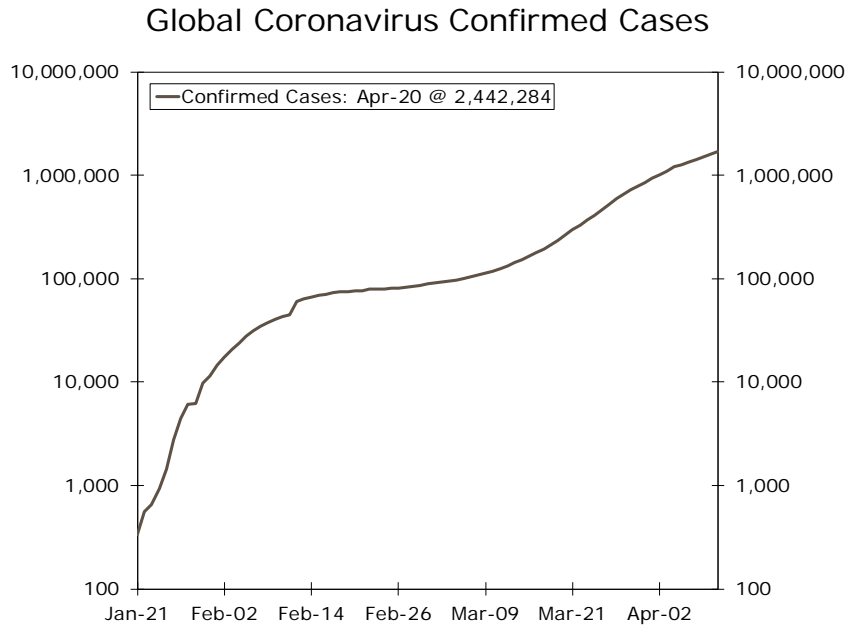
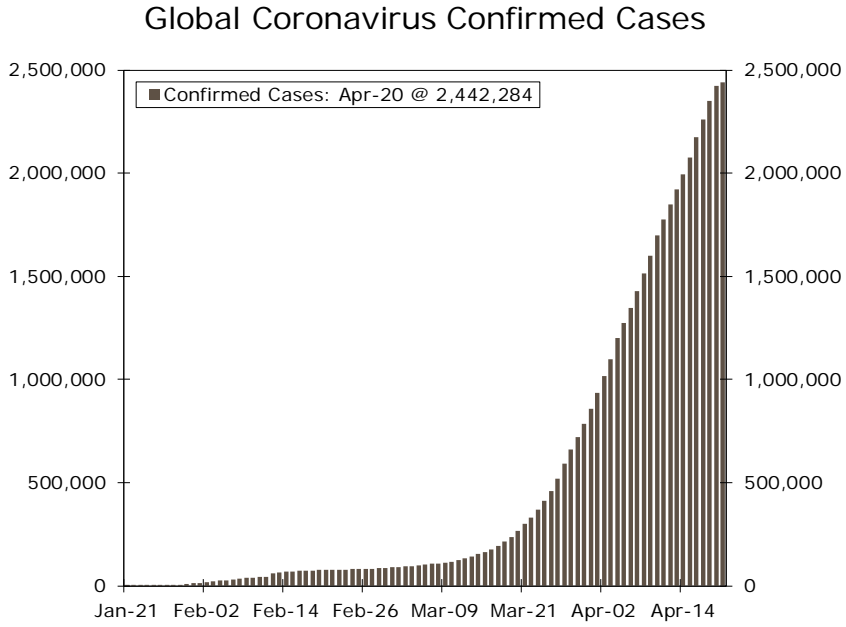
North Carolina

- **North Carolina is poised to lose 426,000 jobs in 2020, the bulk of which will be lost in the second quarter. A recovery should take hold this summer and the state should recoup 60% of its job losses by year-end 2021.**

The U.S. saw a spike in cases as testing ramped up, but new cases have now levelled off. Attention is beginning to shift to when the economy can 're-open'.

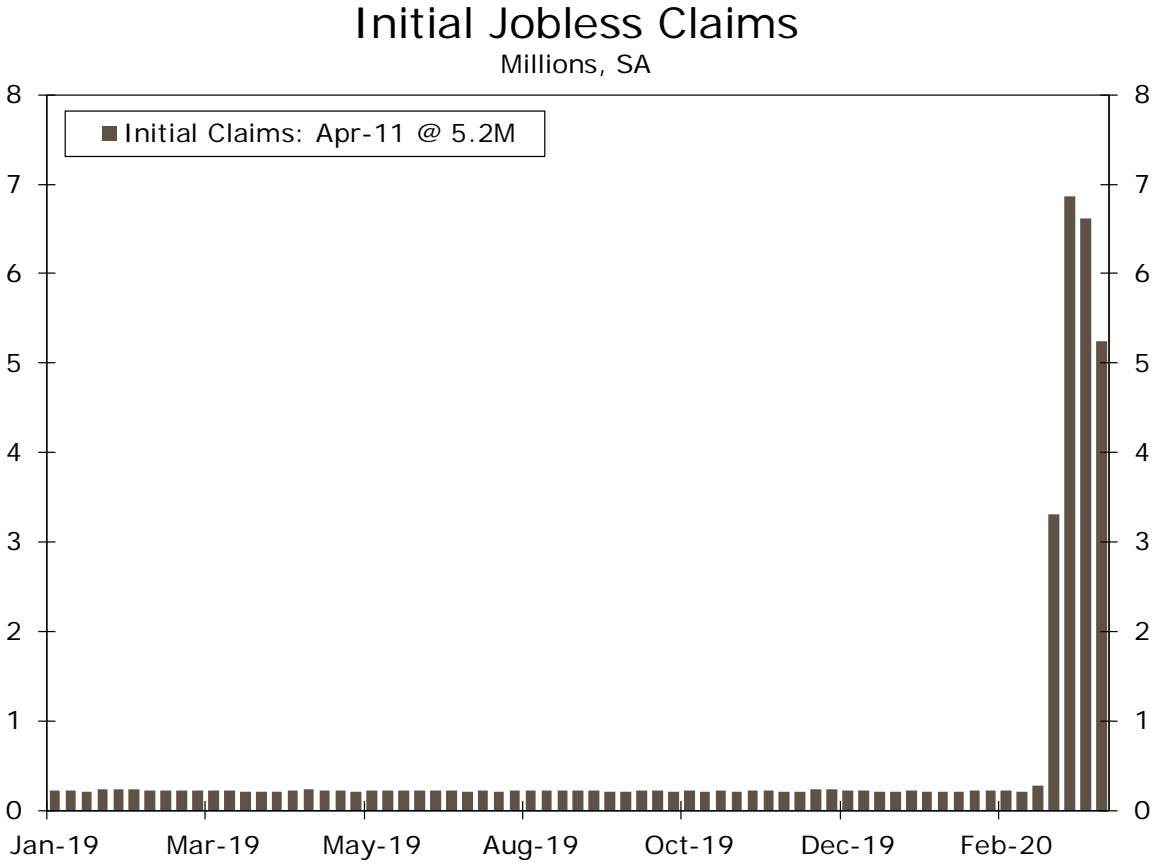
Linear Scale

Log Scale



Source: Bloomberg LP and Wells Fargo Securities

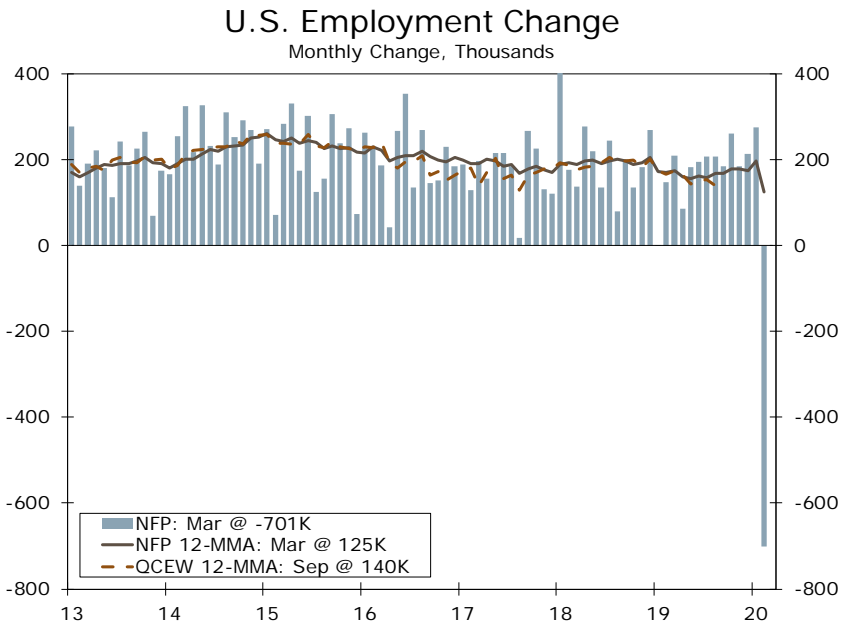
22 million people have already filed unemployment claims, over just the past four weeks.



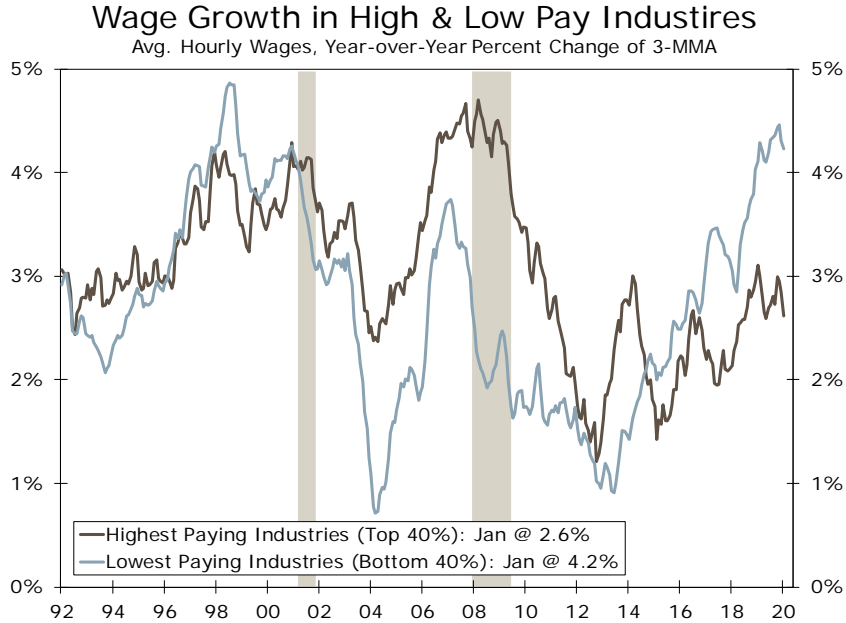
Source: U.S. Department of Labor and Wells Fargo Securities

The job market was strong before the outbreak, but the March employment report revealed that employers cut back on hiring earlier than most had expected. The claims data are the best indication of what to expect for nonfarm employment, and they are pointing to massive losses.

Nonfarm Employment

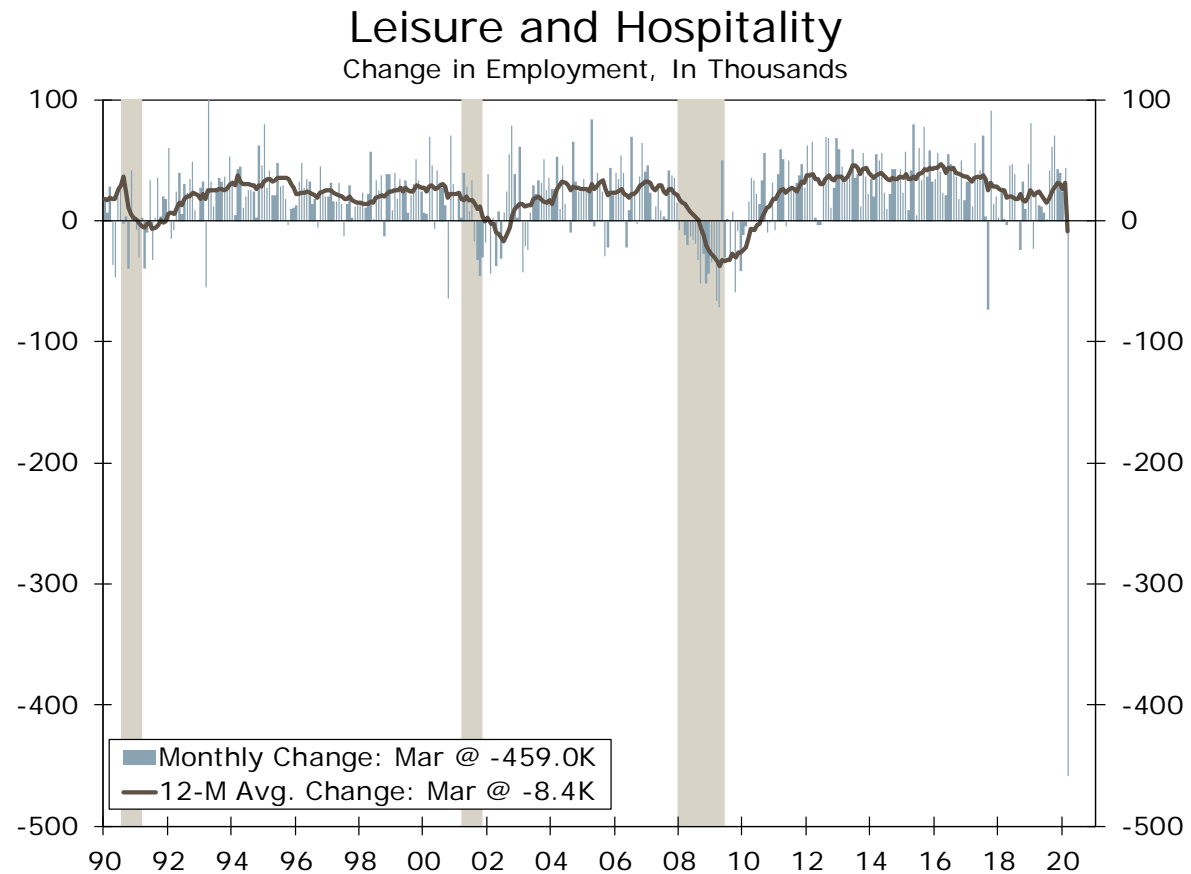


Wages



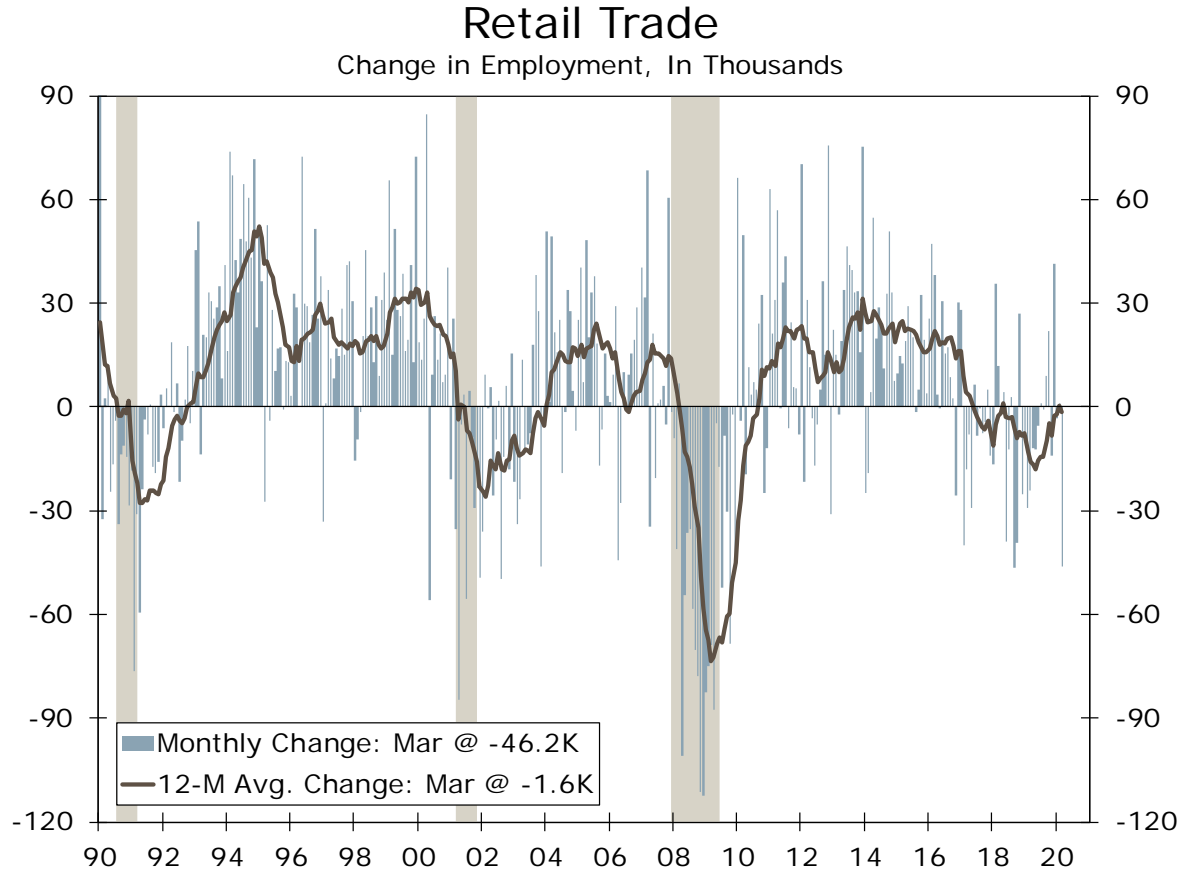
Source: U.S. Department of Labor and Wells Fargo Securities

The bulk of losses in March were in leisure & hospitality, but the losses in April will be widespread.



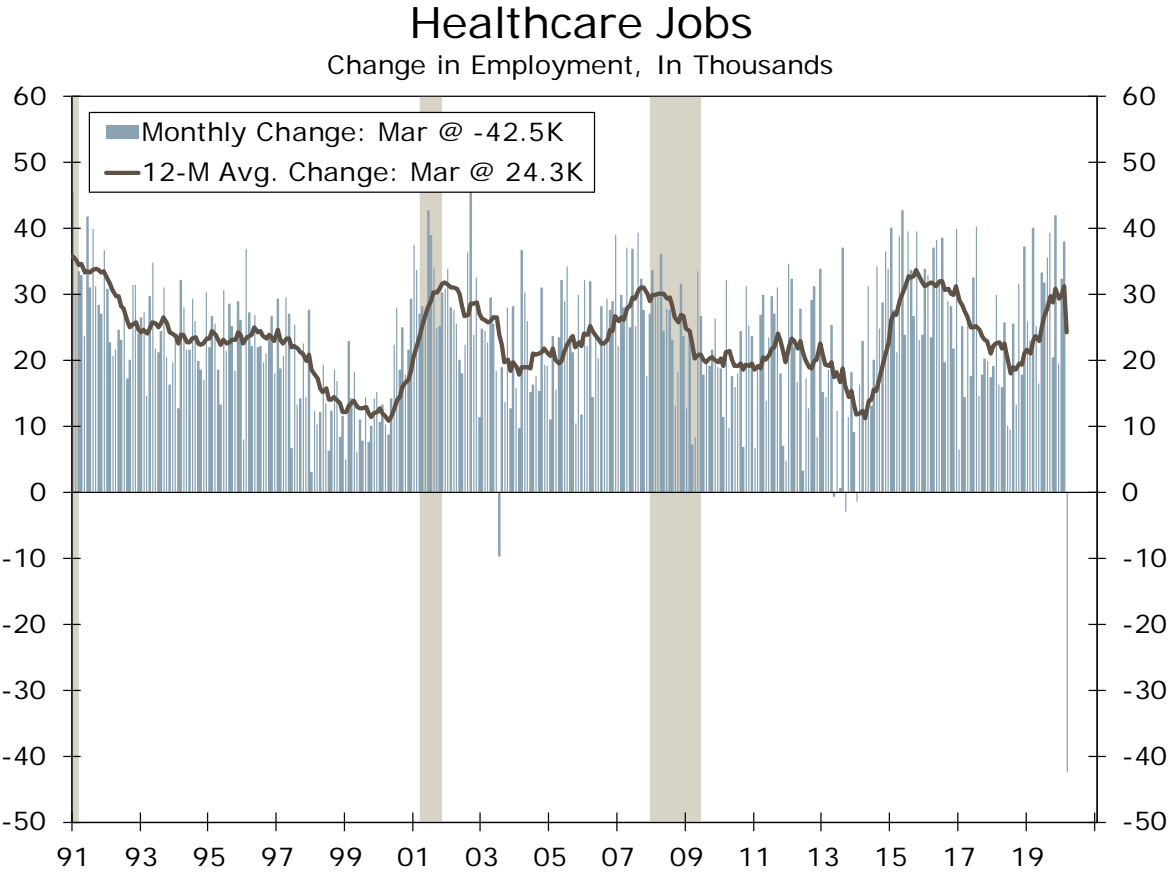
Source: U.S. Department of Labor and Wells Fargo Securities

Major retail chains have announced significant layoffs and furloughs.



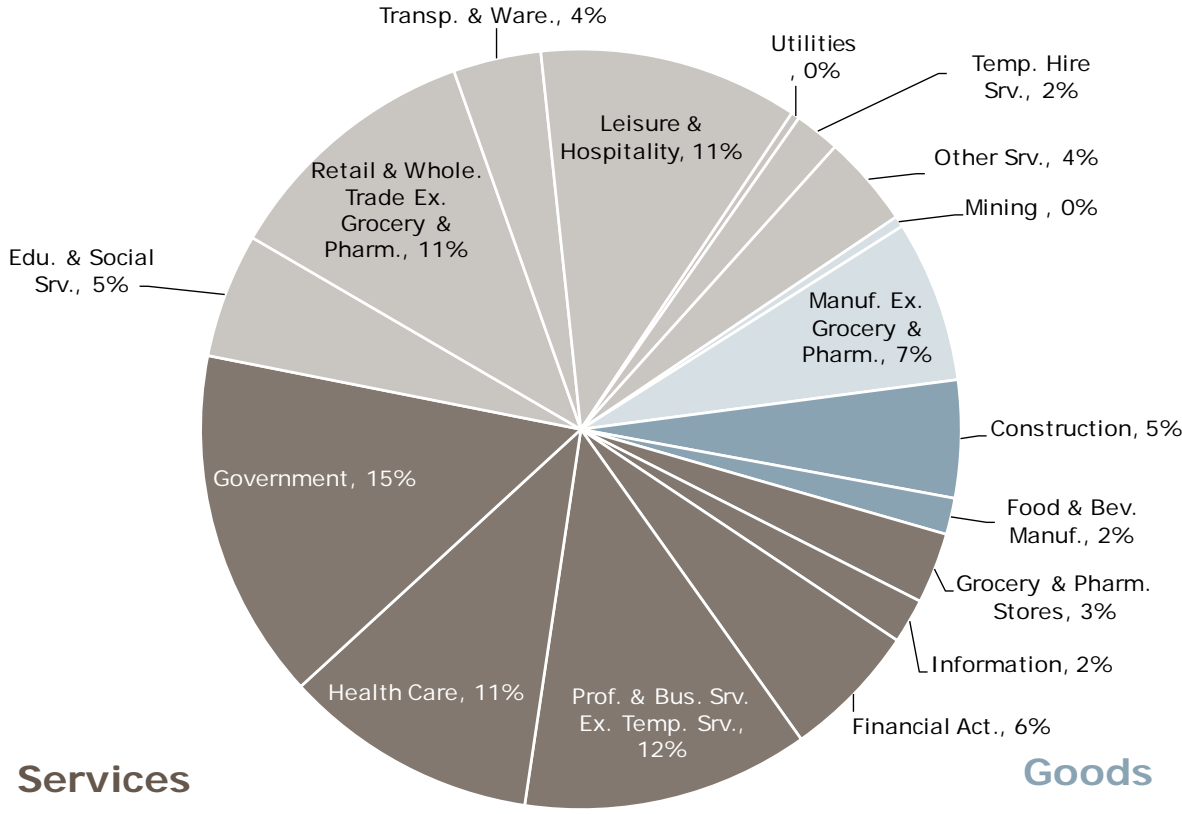
Source: U.S. Department of Labor and Wells Fargo Securities

Healthcare is hurting due to the postponement of elective operations.



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

A sizeable share of the workforce is in industries exposed to disruptions in activity due to the virus.



*Darker blue and gray shades represent less exposed categories of employment

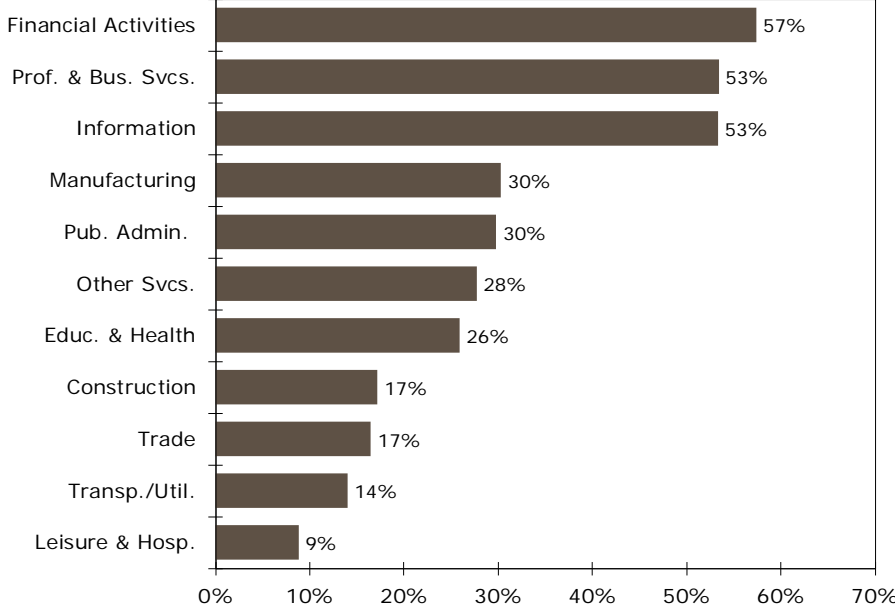
Source: U.S. Department of Labor and Wells Fargo Securities

Workers Most Vulnerable to Virus Shock

Many workers in some of the hardest hit industries are unable to work from home and/or do not have access to paid leave and medical benefits.

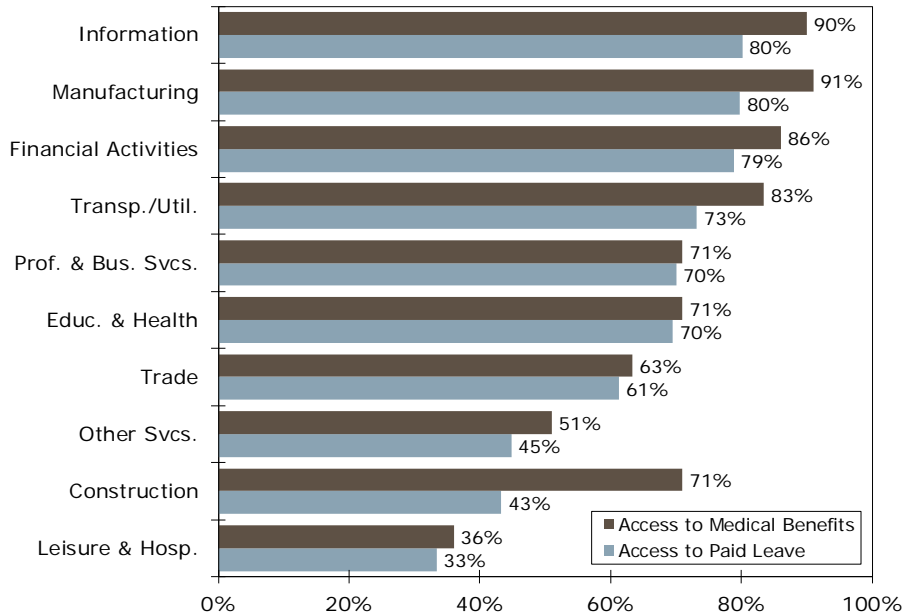
Job Flexibility

Capability to Work from Home
Percent of Total Workers, 2017



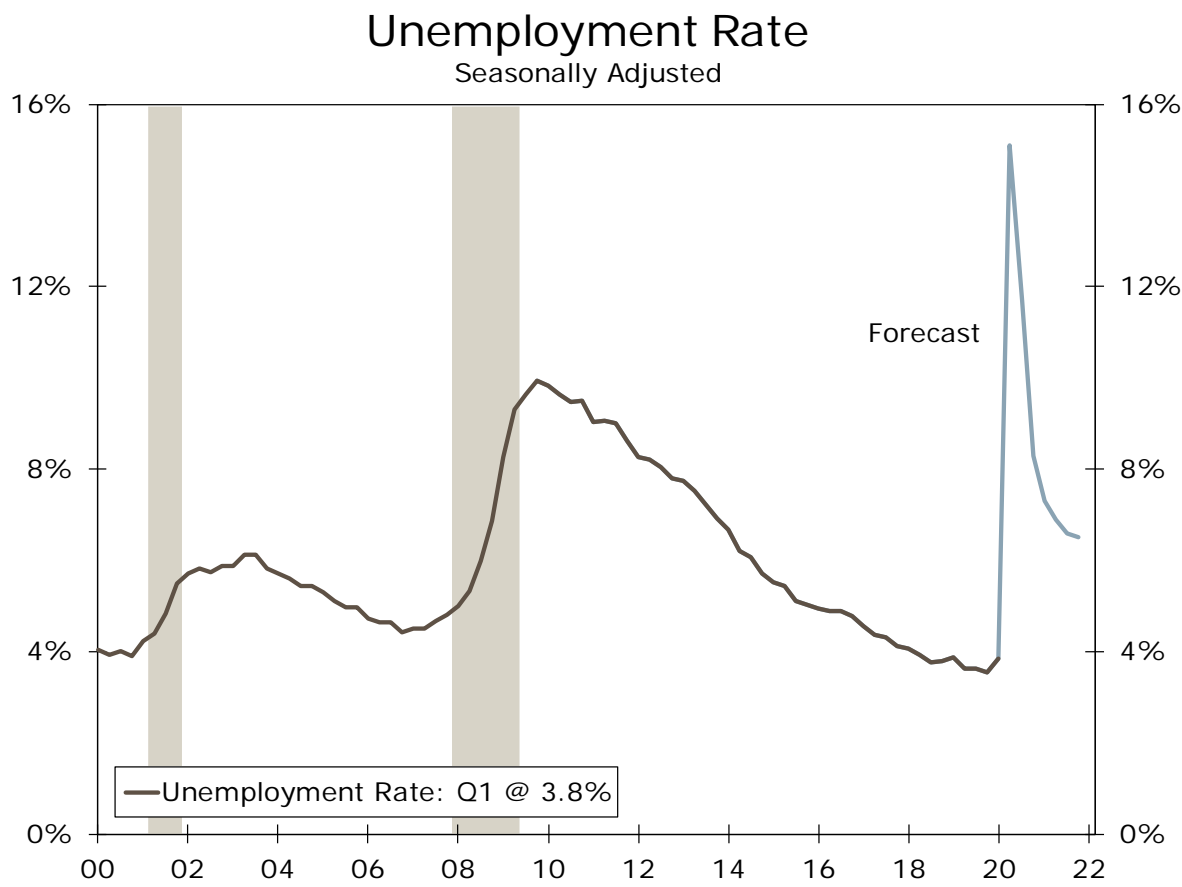
Job Benefits

Paid Leave Access & Employer-Sponsored Medical Benefits
Percent of Workers, Paid Leave=2017, Medical Benefits=March 2019



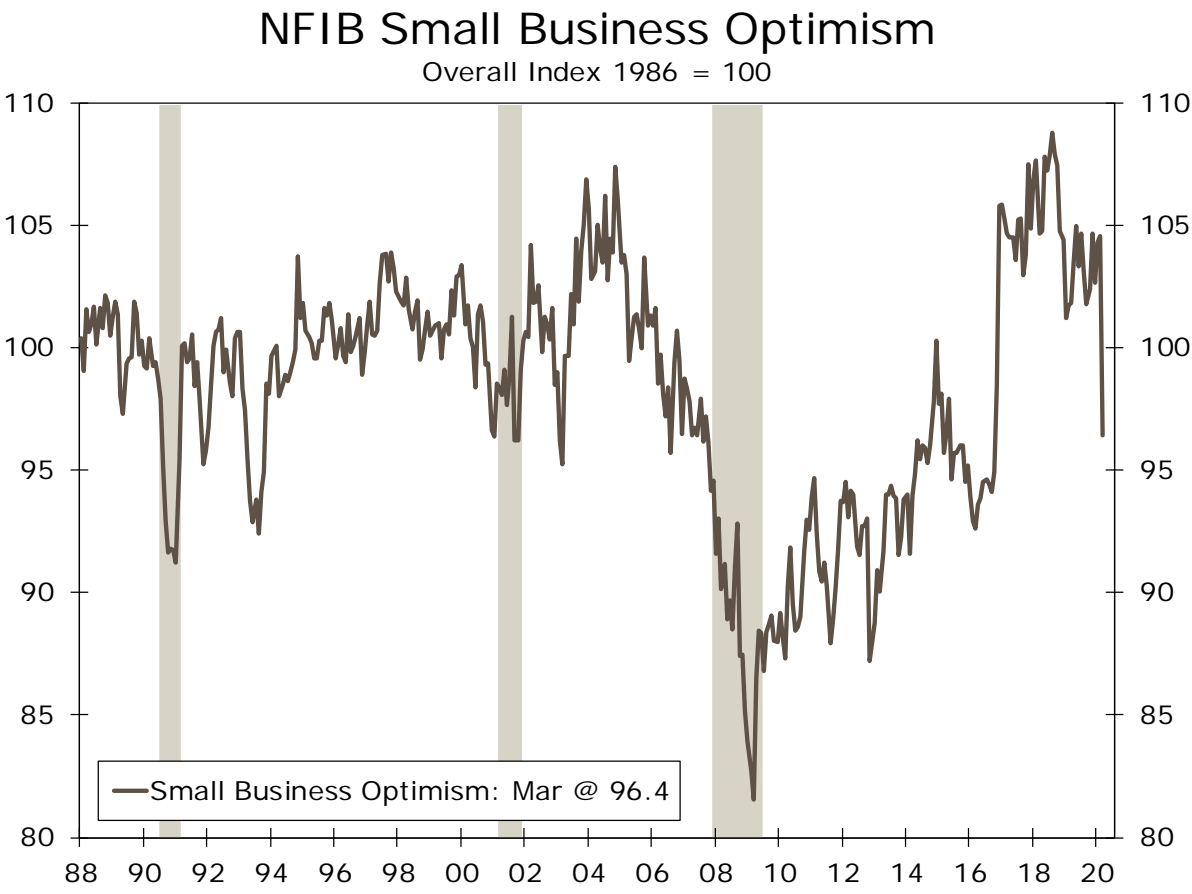
Source: U.S. Department of Labor and Wells Fargo Securities

The unemployment rate is likely already in the double digits.



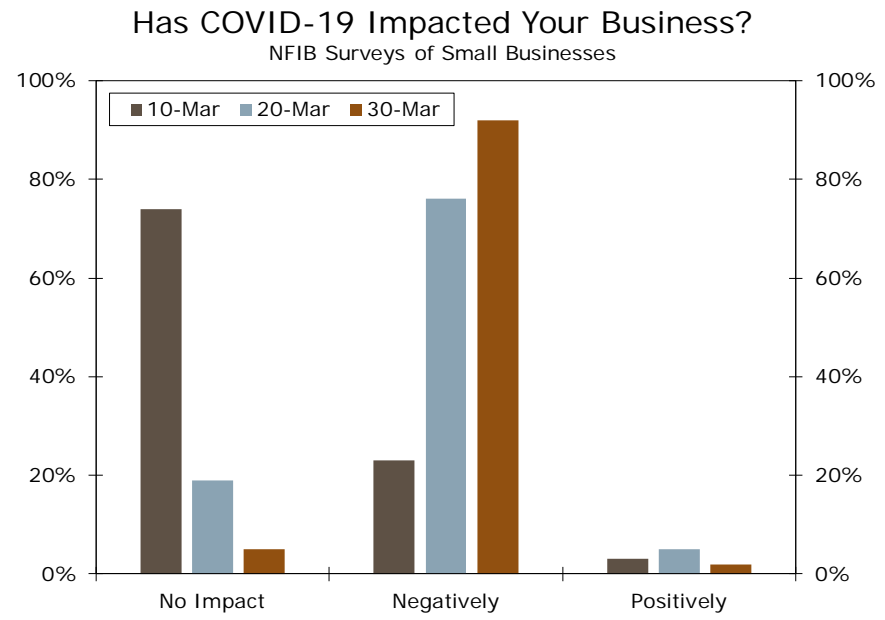
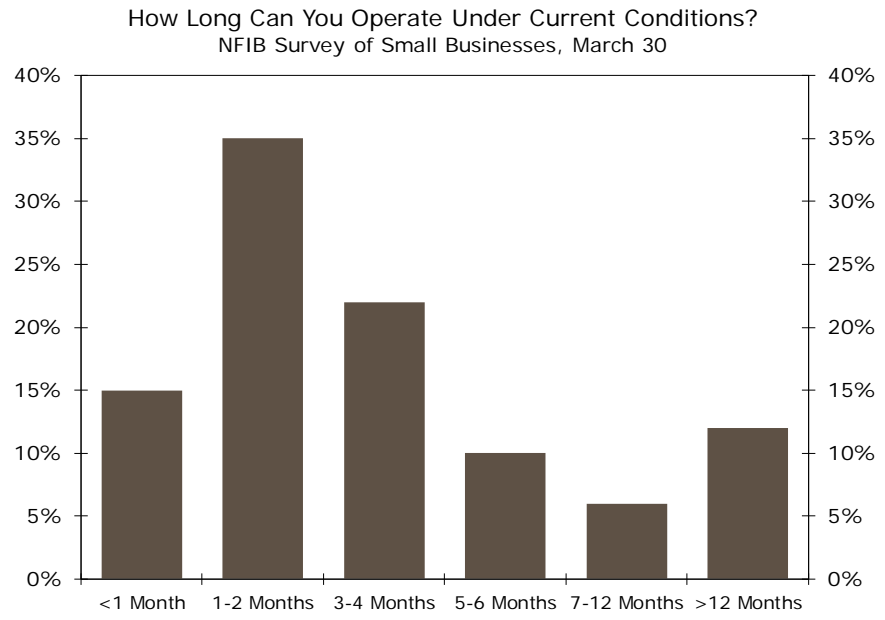
Source: U.S. Department of Labor and Wells Fargo Securities

The NFIB Small Business Optimism Index plunged in March.



Source: NFIB and Wells Fargo Securities

Most small businesses report only being able to last for a couple months under current conditions.

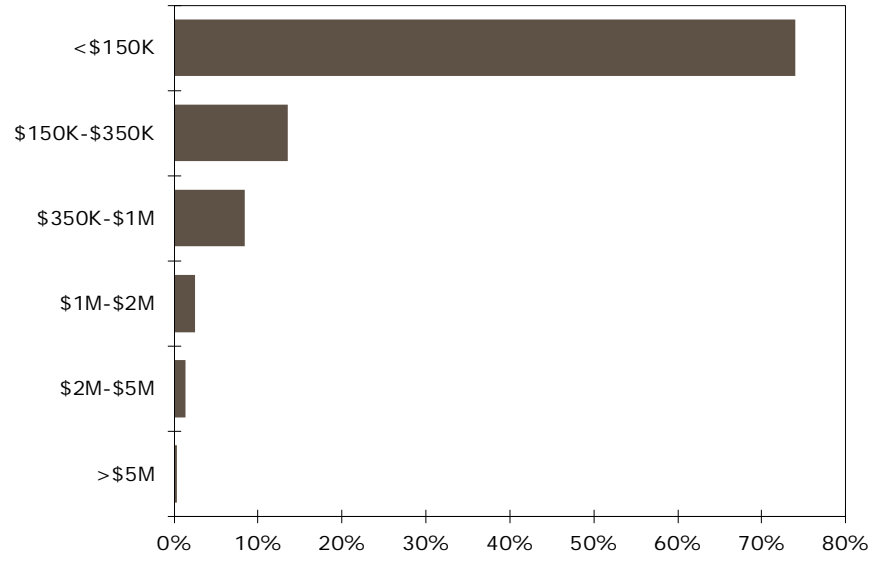


Source: NFIB and Wells Fargo Securities

The initial \$349 billion in PPP loans was exhausted by Thursday. North Carolina businesses received 39,520 loans totaling \$8.0 billion,

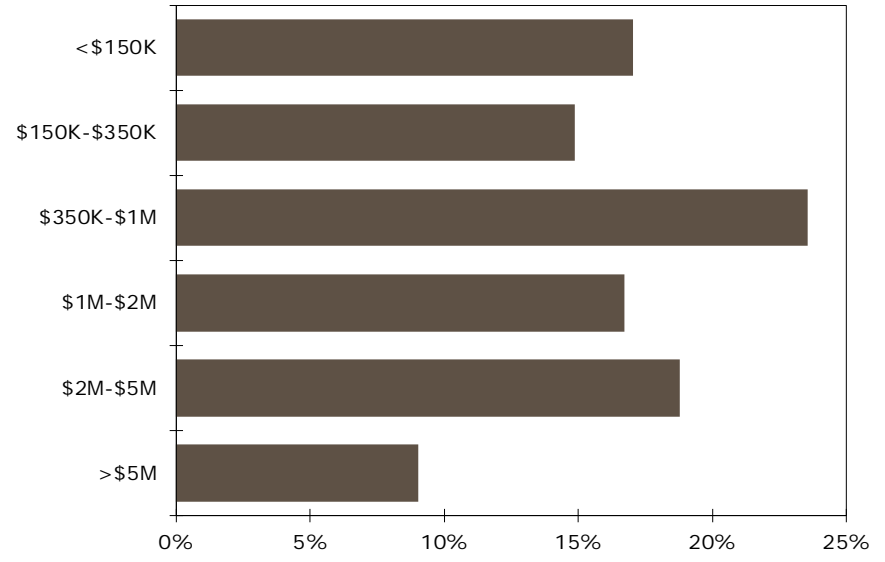
PPP Loans Approved by Loan Size

% of Number of Loans



PPP Loans Approved by Loan Size

% of Total Dollars Approved

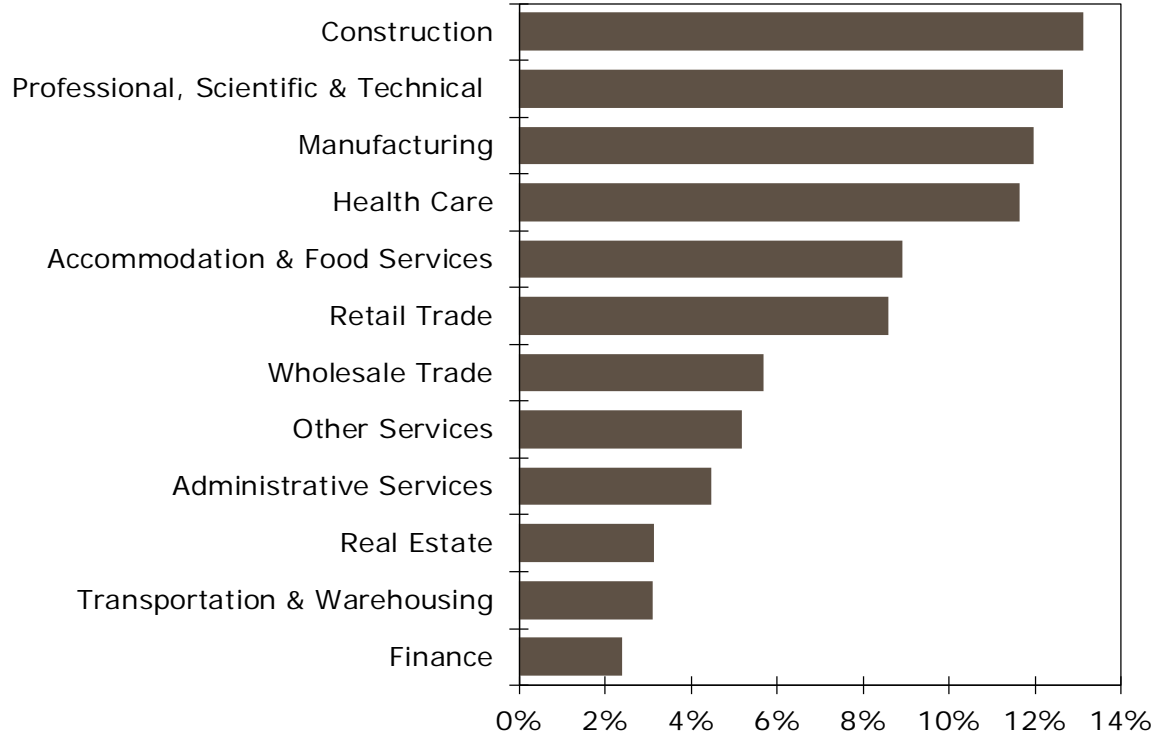


Source: Small Business Association and Wells Fargo Securities

Nationwide, construction received the most loans by dollar value.

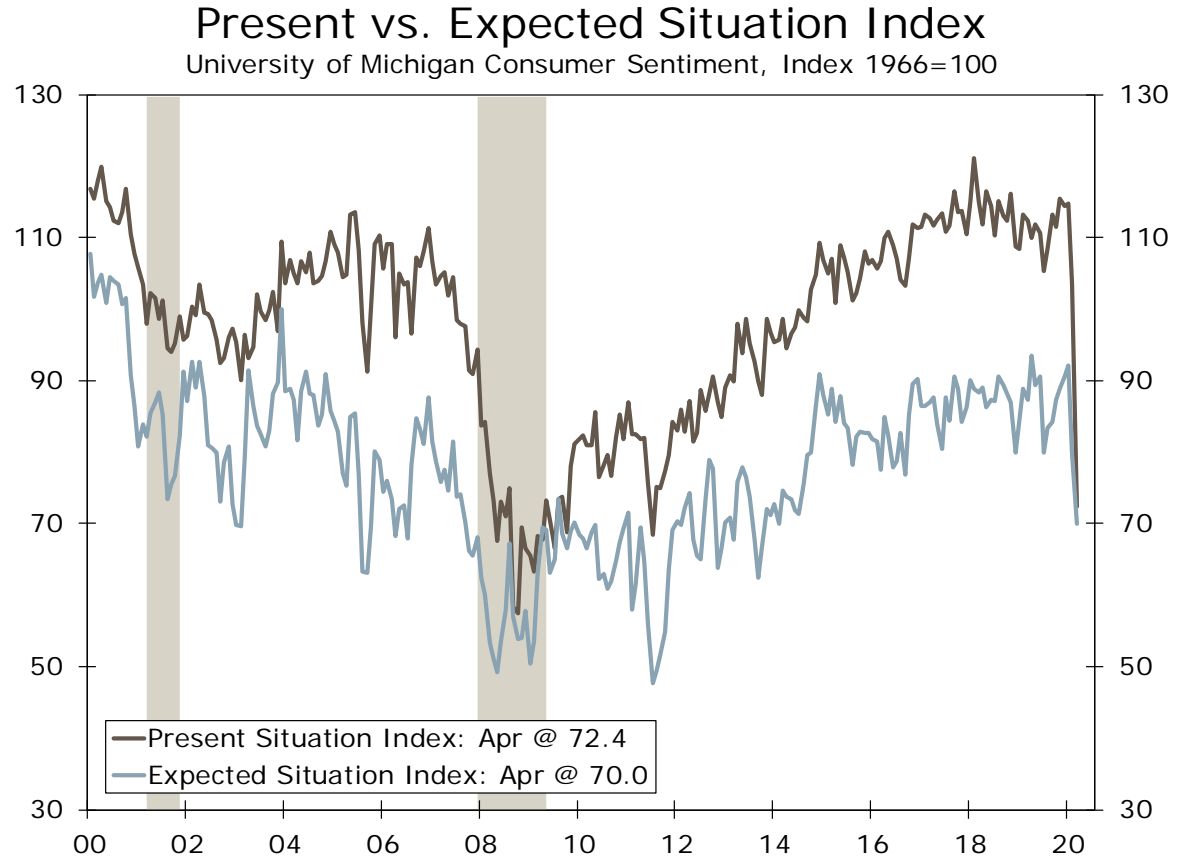
PPP Loans Approved by Industry

% of Total Dollars Approved



Source: Small Business Administration and Wells Fargo Securities

Consumer confidence also posted its largest one-month drop in history.

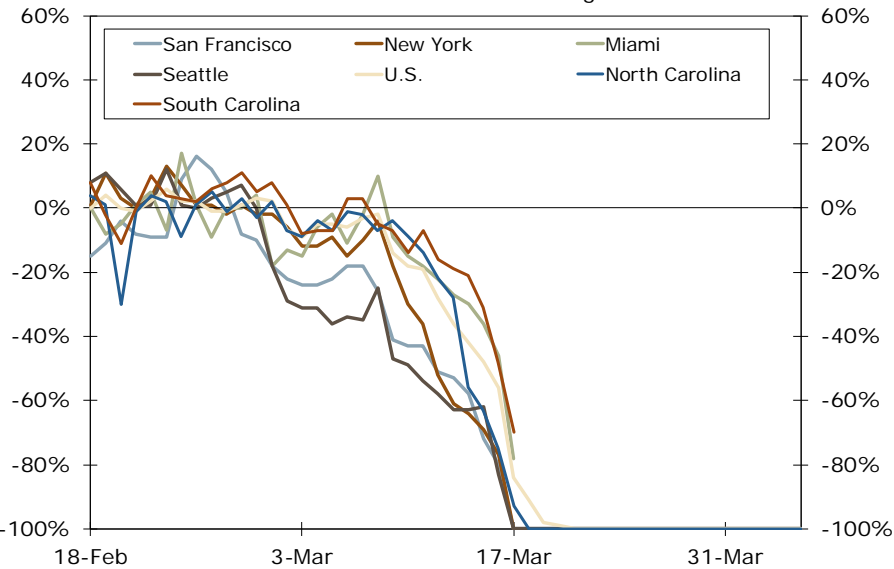


Source: University of Michigan and Wells Fargo Securities

Consumers pulled back on discretionary spending, even before restaurants were closed across much of the country. Take-out and delivery will offset a portion of this drop but we expect the drop in restaurant dining to be more than 80% in April.

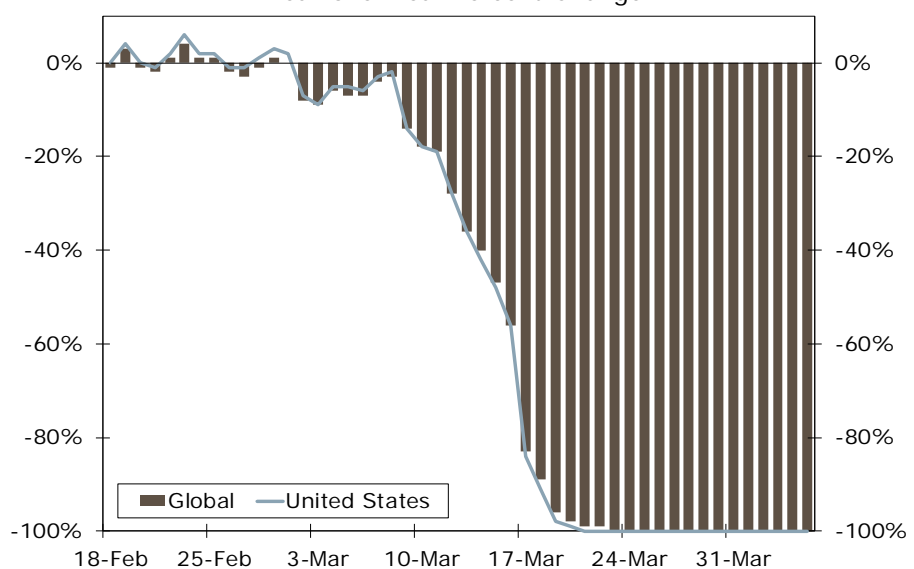
U.S.

OpenTable Dinner Reservations
Year-over-Year Percent Change



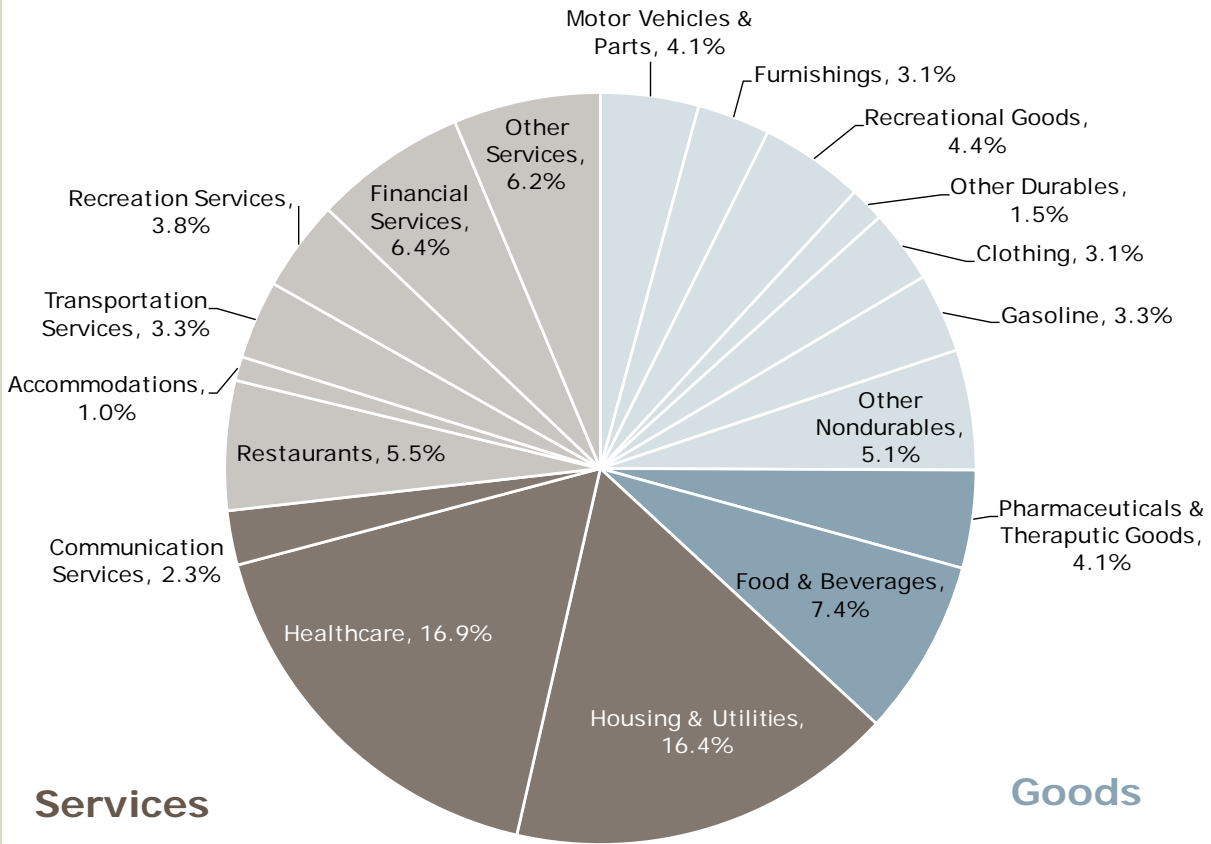
World

OpenTable Dinner Reservations
Year-over-Year Percent Change



Source: OpenTable and Wells Fargo Securities

Categories expected to see a pullback in spending due efforts to contain the novel coronavirus account for about half of consumer spending.



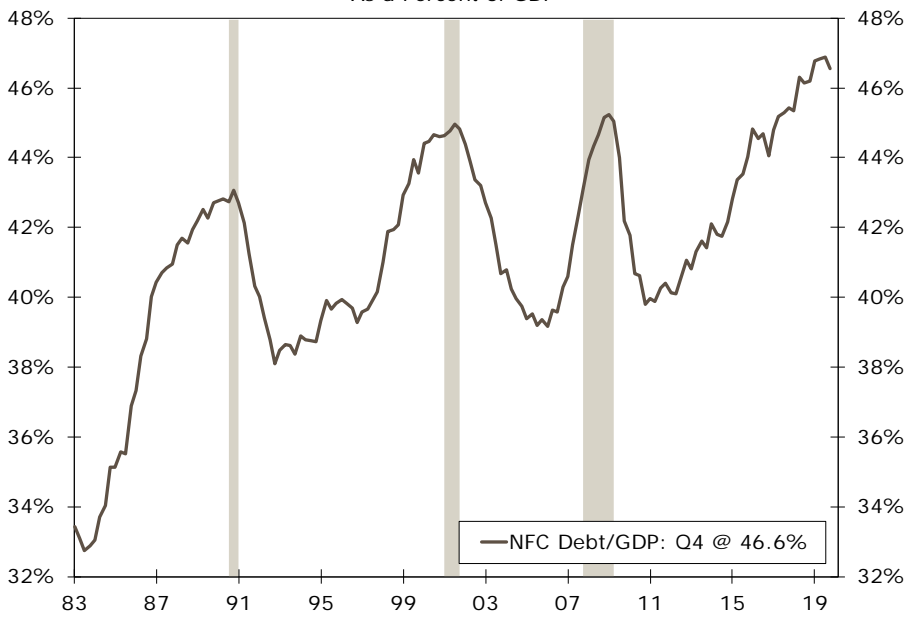
*Darker blue and gray shades represent less exposed categories of consumer spending

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

Corporate debt has been a worry for most of this expansion. While debt is historically high relative to GDP, interest expense remains relatively low relative to earnings.

Corporate Debt

Non-Financial Corporate Debt
As a Percent of GDP



Debt Coverage

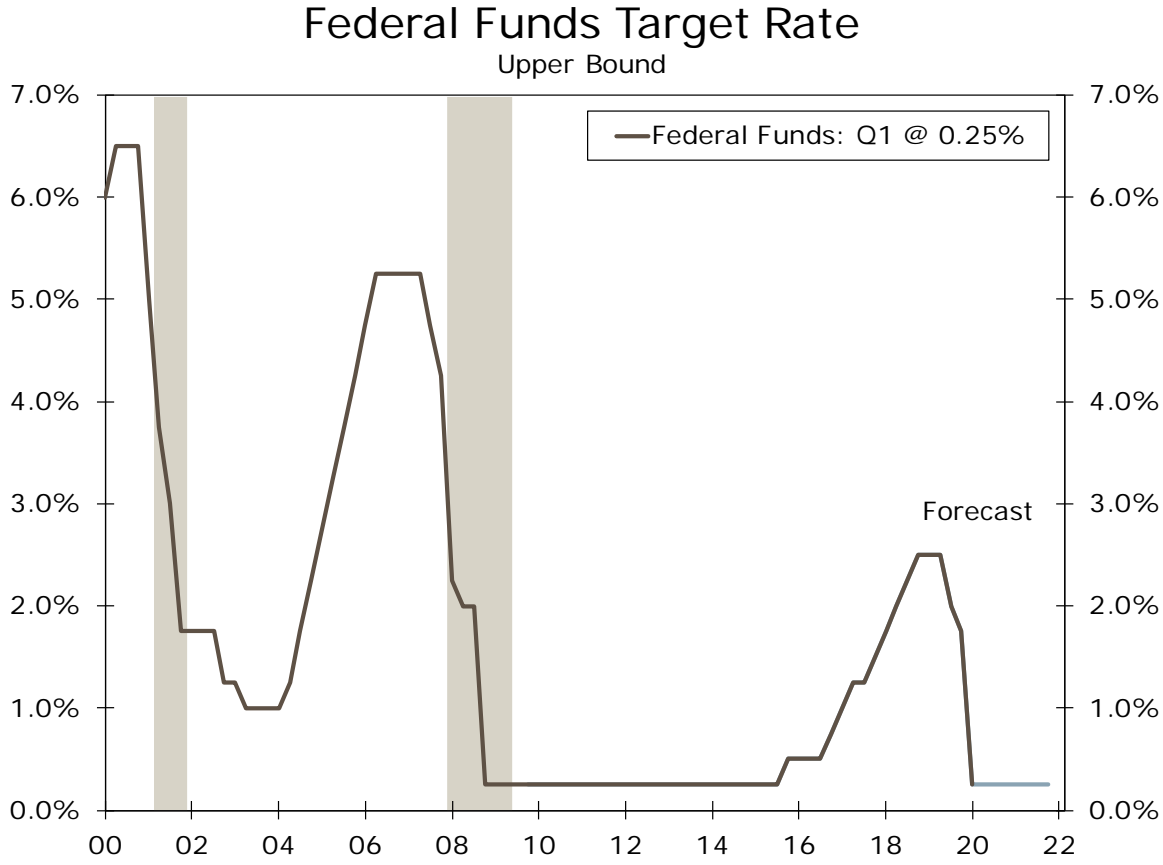
Interest Coverage Ratio

EBIT/Net Interest Expense, Nonfinancial Corporate Sector



Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Securities

The Fed has been aggressive and used a wide variety of tools to ease financial market stress.



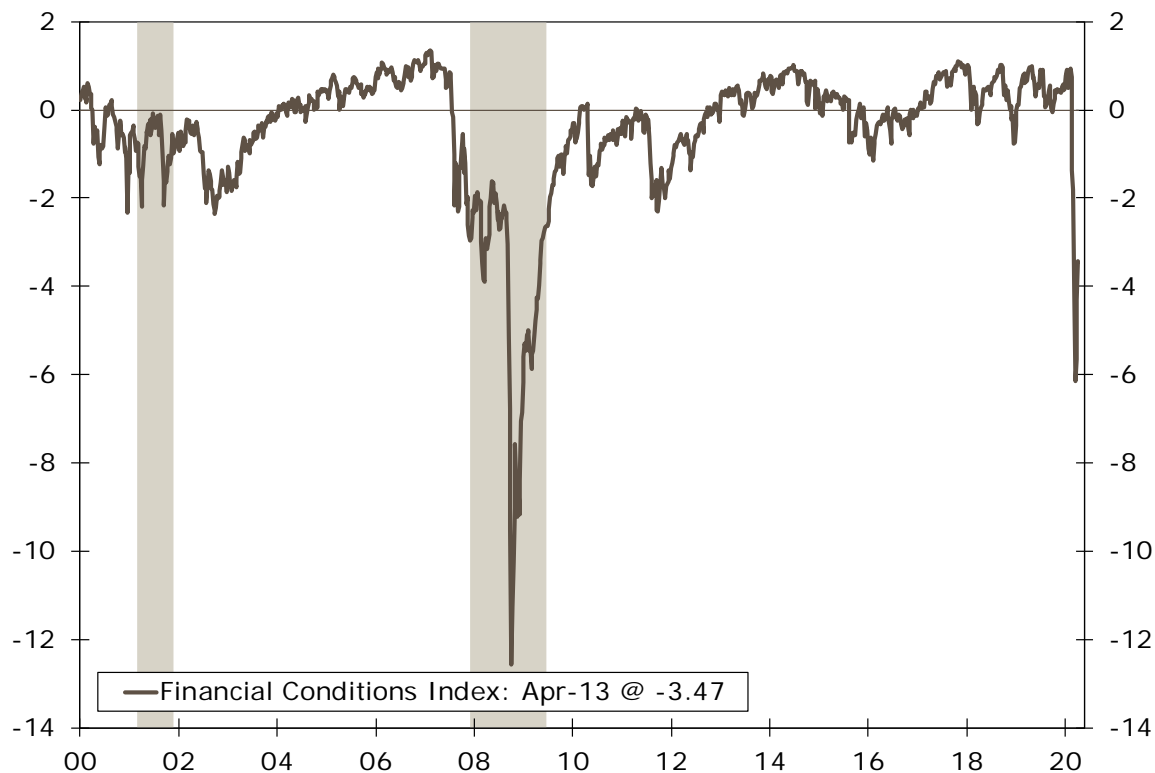
Source: Bloomberg LP and Wells Fargo Securities

That is partially why equity markets have retraced a good bit of their declines.

Investors are also trying to guess the shape of the recovery.

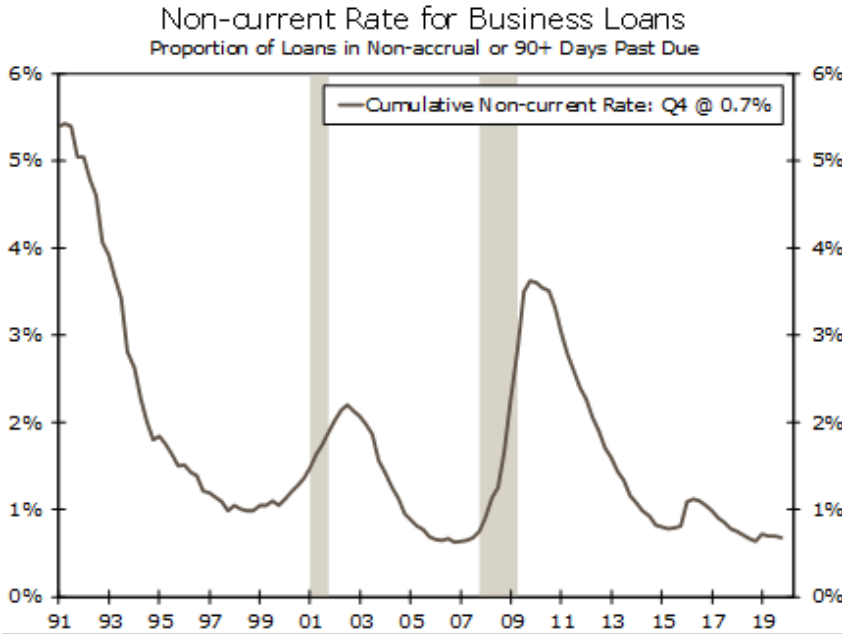
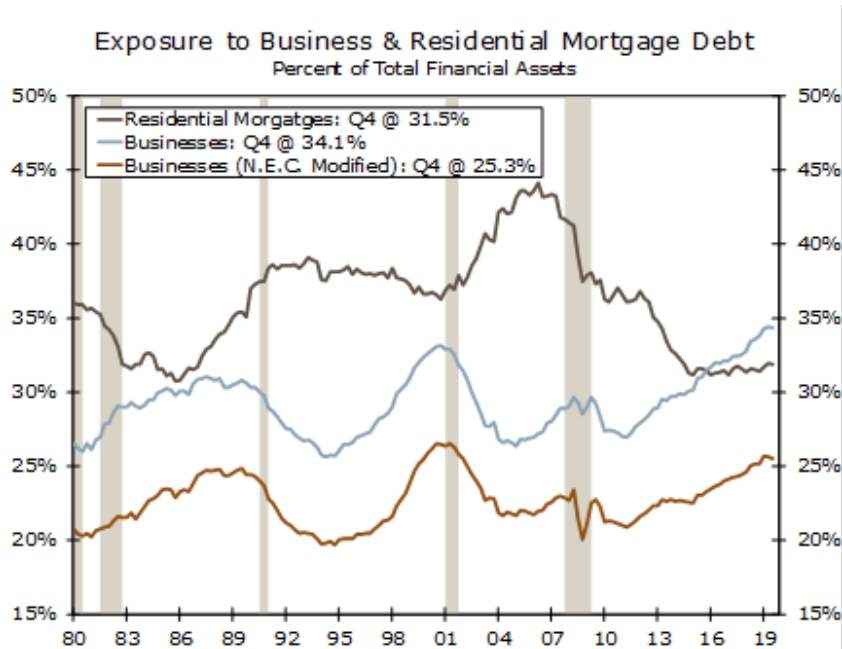
Bloomberg Financial Conditions Index

Positive Values = Accommodative Conditions Relative to Pre-Crisis Norms



Source: Bloomberg LP and Wells Fargo Securities

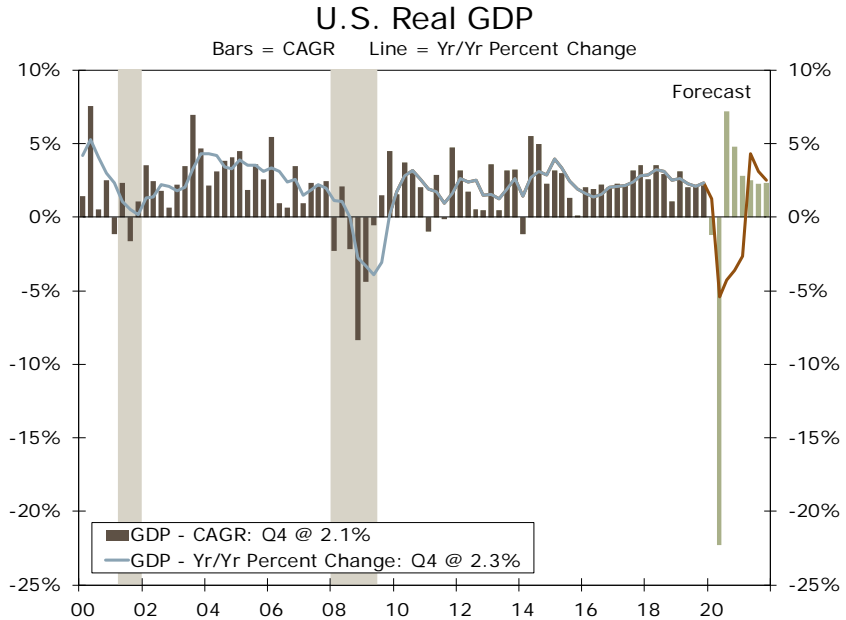
The banking sector was strong and well-capitalized heading into the crisis.



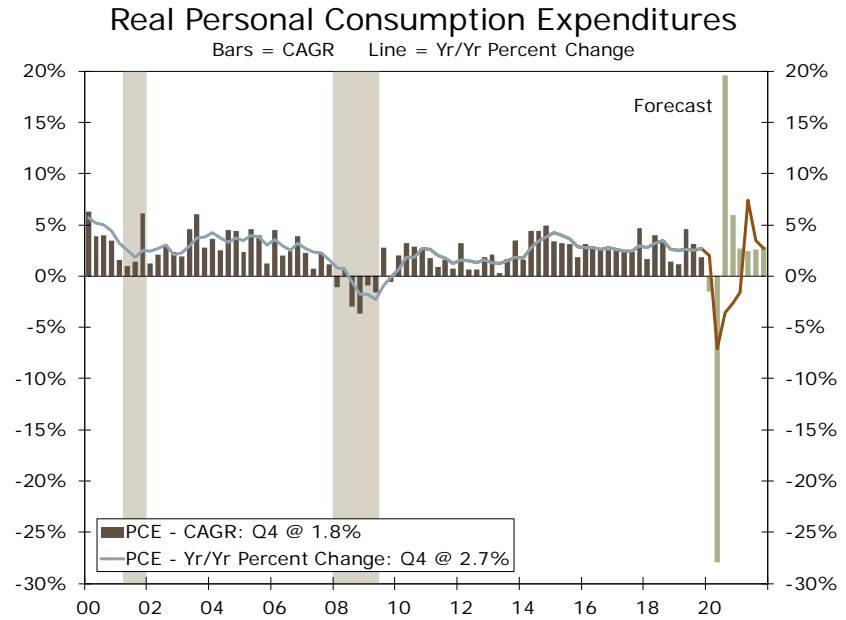
Source: Federal Reserve Board, Federal Deposit Insurance Corporation and Wells Fargo Securities

The sudden stop in economic activity is difficult to quantify. First-order effects include supply chain disruptions and demand destruction emanating from massive shutdowns throughout the economy. Second-order effects will emanate from the financial disorder and weakening of corporate, household and public sector credit. Restarting growth may prove problematic.

GDP



Personal Consumption



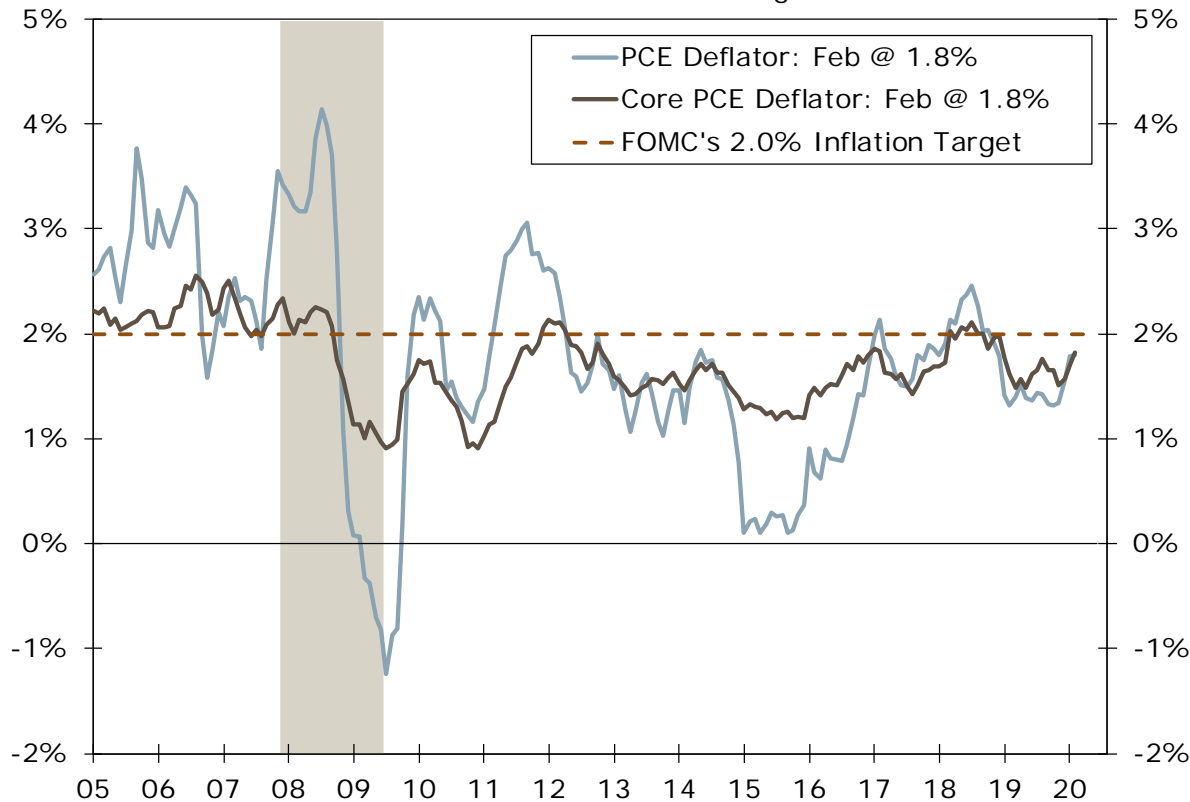
Source: U.S. Department of Commerce and Wells Fargo Securities

In the short term, the shock to aggregate demand is far greater than any pressures resulting from disruptions to supply chains. Longer-term, the hit to global supply chains is likely to produce at least modest inflationary pressures.

Jay Powell has said he is not concerned with inflation.

PCE Deflator vs. Core PCE Deflator

Year-over-Year Percent Change

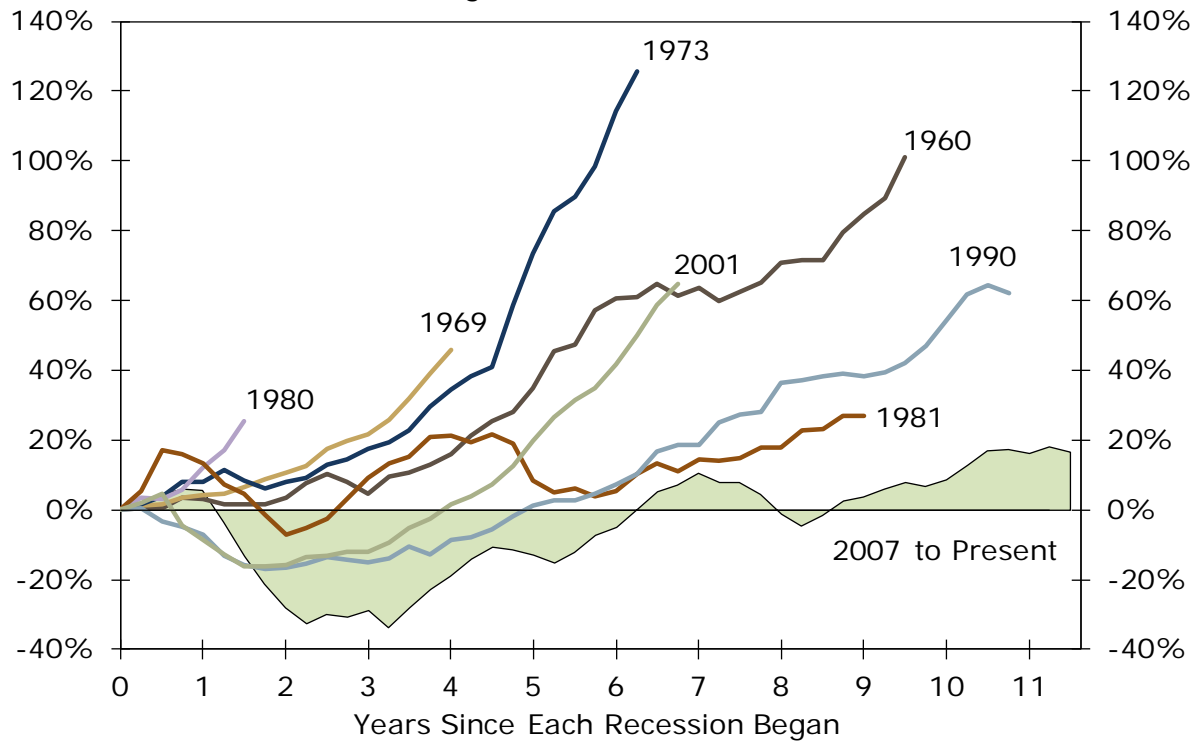


Source: U.S. Department of Commerce and Wells Fargo Securities

Overall building has remained relatively subdued this cycle.

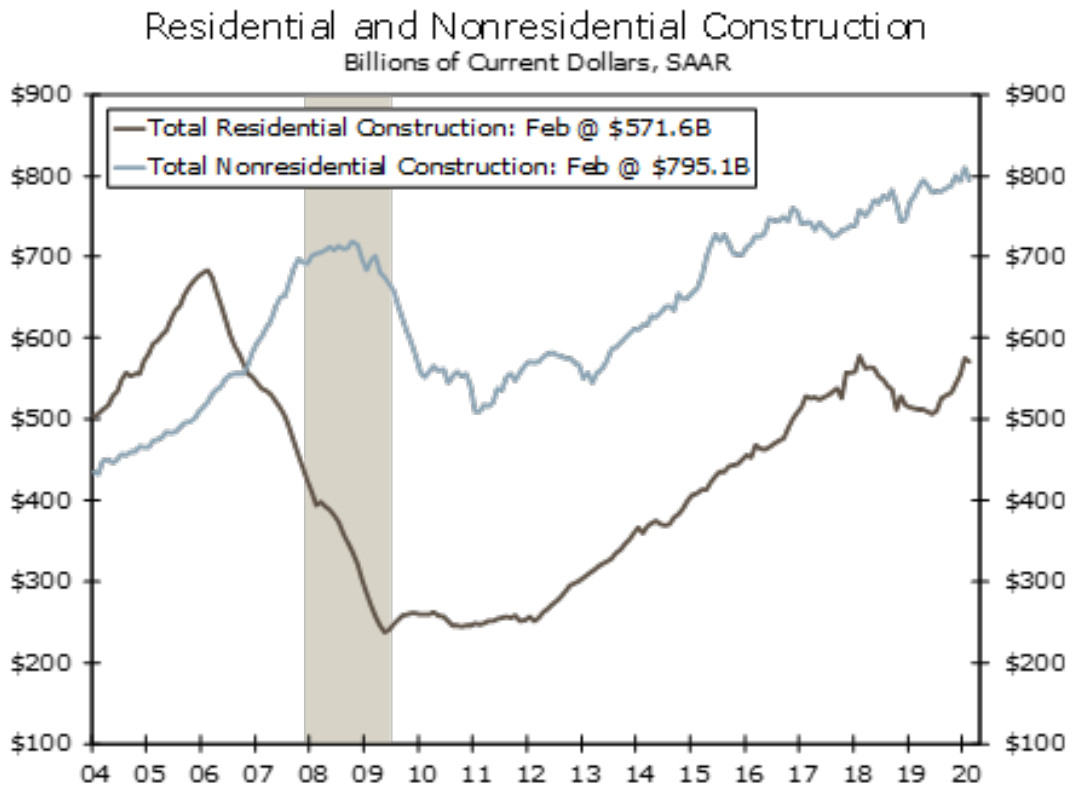
Nonresidential Structures Investment

Percent Change Since Start of Each Recession



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

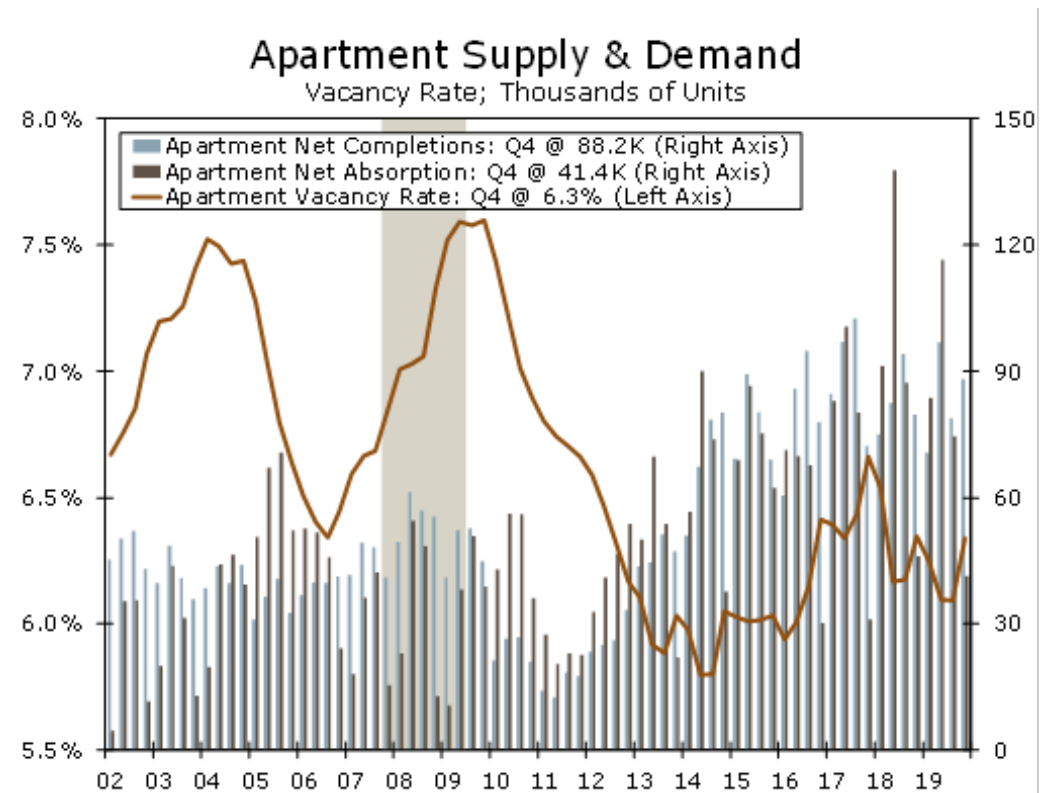
Residential construction had been primed to pick-up even further.



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

The number of multifamily units currently under construction will lead to an avalanche of new supply later this year and in early 2021.

We expect an abrupt slowing in multifamily starts later this year and in 2021.

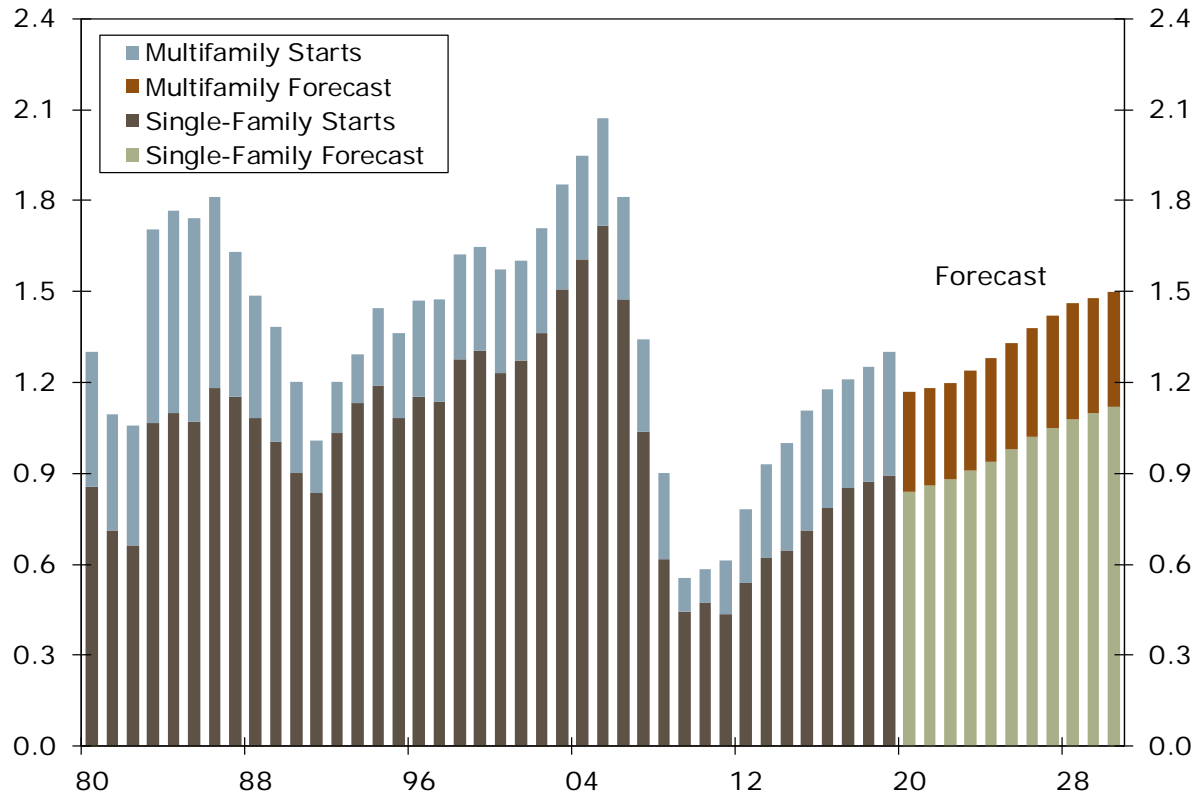


Source: CoStar, Inc. and Wells Fargo Securities

COVID-19 took the air out of the housing recovery.

Housing Starts

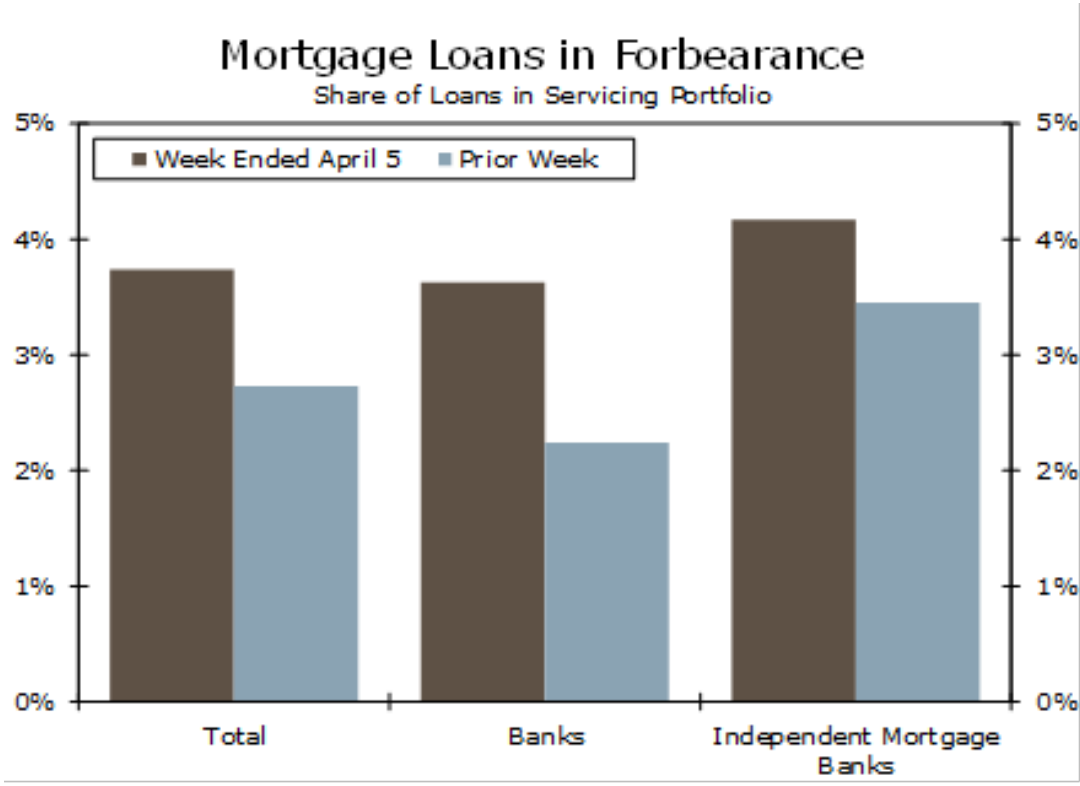
Millions



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

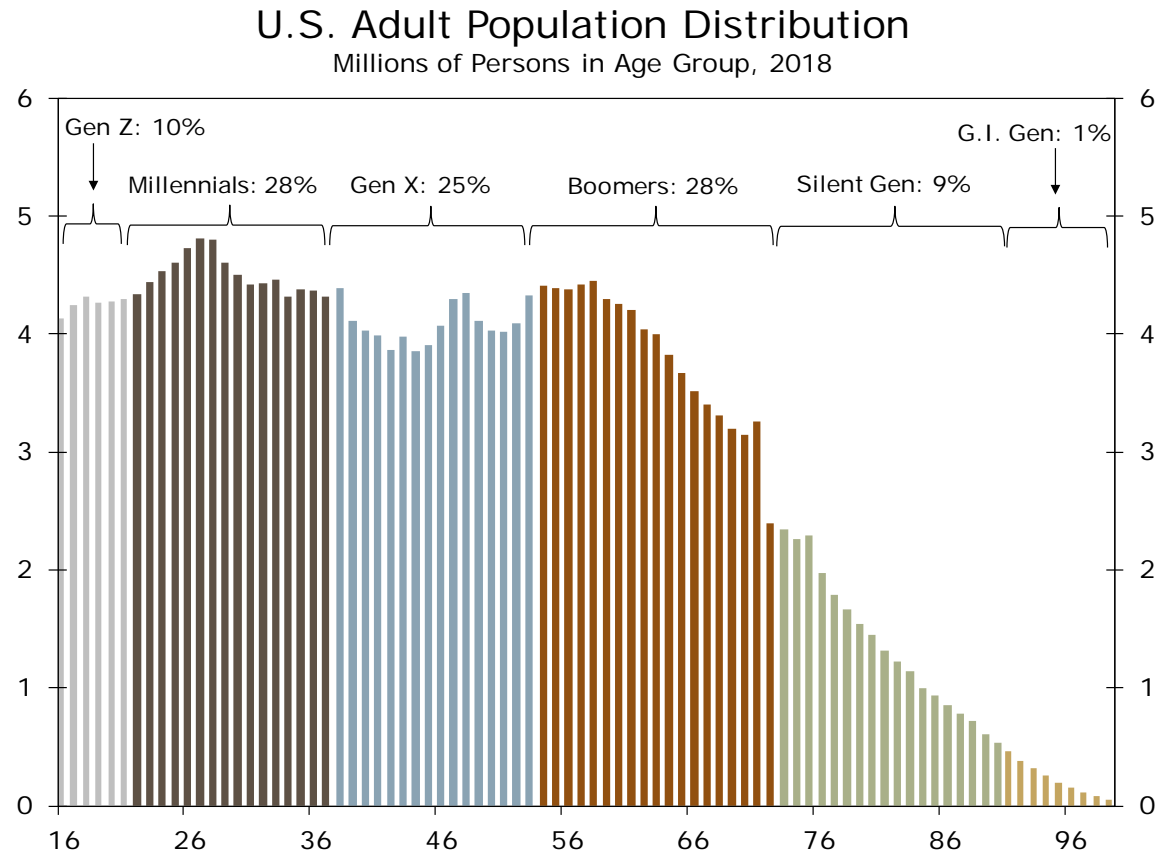
Forbearance is placing stress on mortgage servicers, who are calling for greater assistance from the government.

We expect some sort of relief—possibility a liquidity facility—fairly soon.



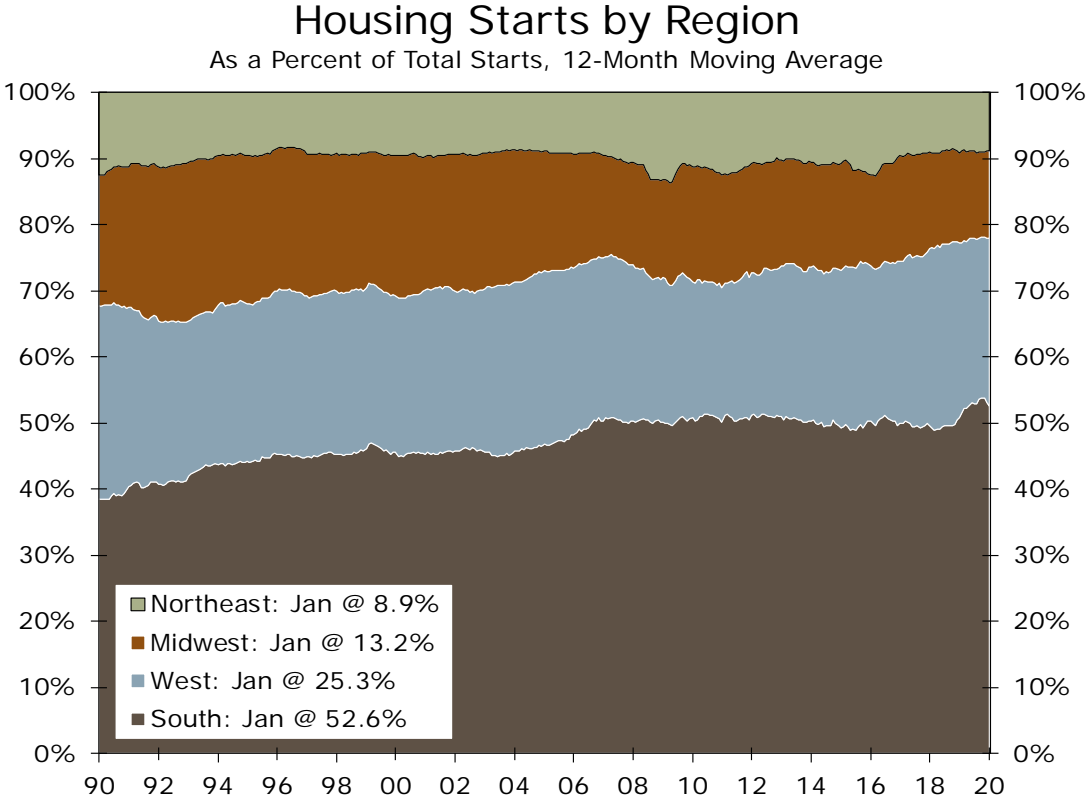
Source: Mortgage Bankers Association and Wells Fargo Securities

Demographics should be supportive of housing activity over the long-term, as Millennials form families and increasingly look to relocate to the suburbs.



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

A growing share of new homes are being built in the South.



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

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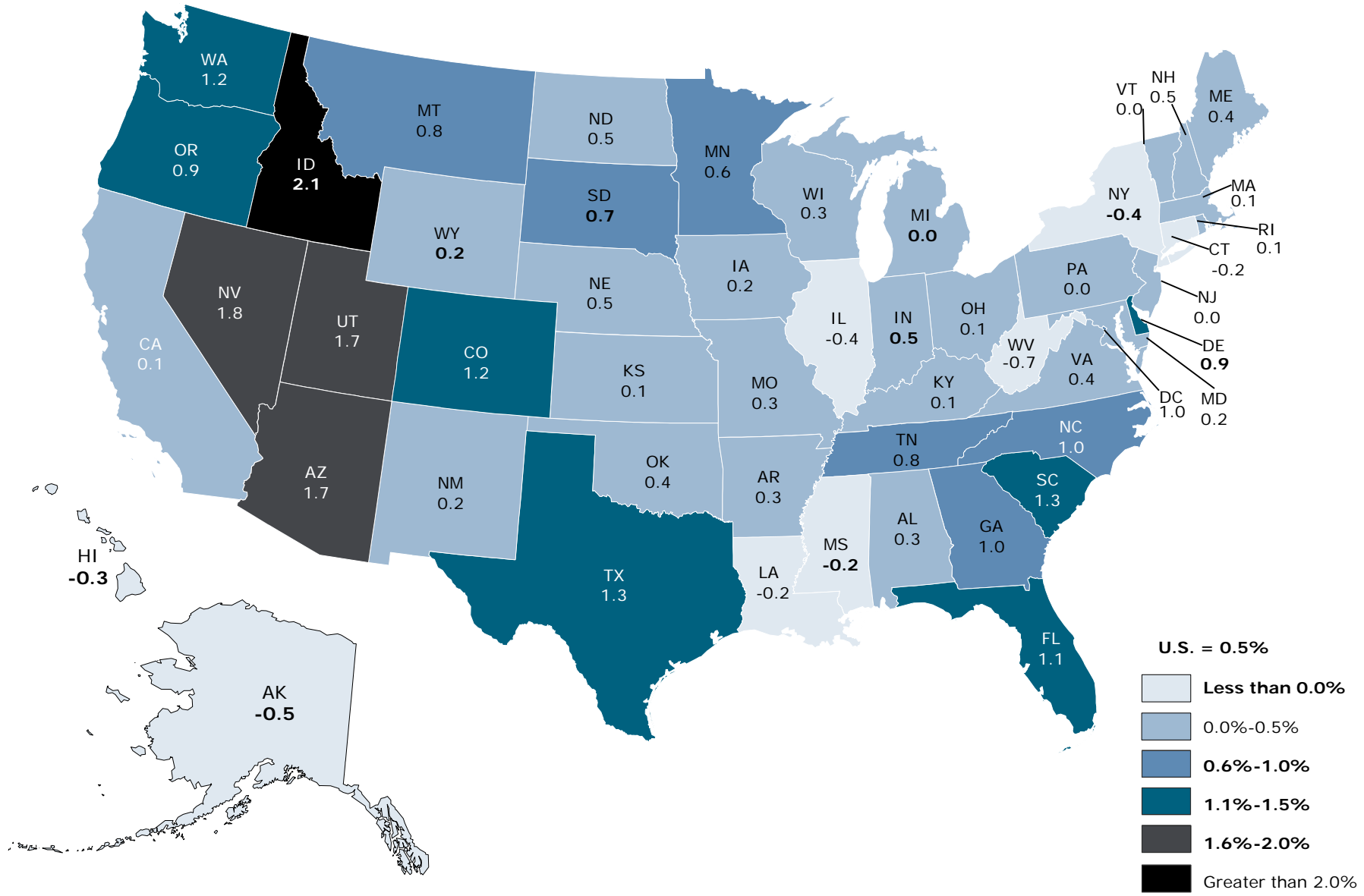
SECURITIES

Regional Commentary

Together we'll go far



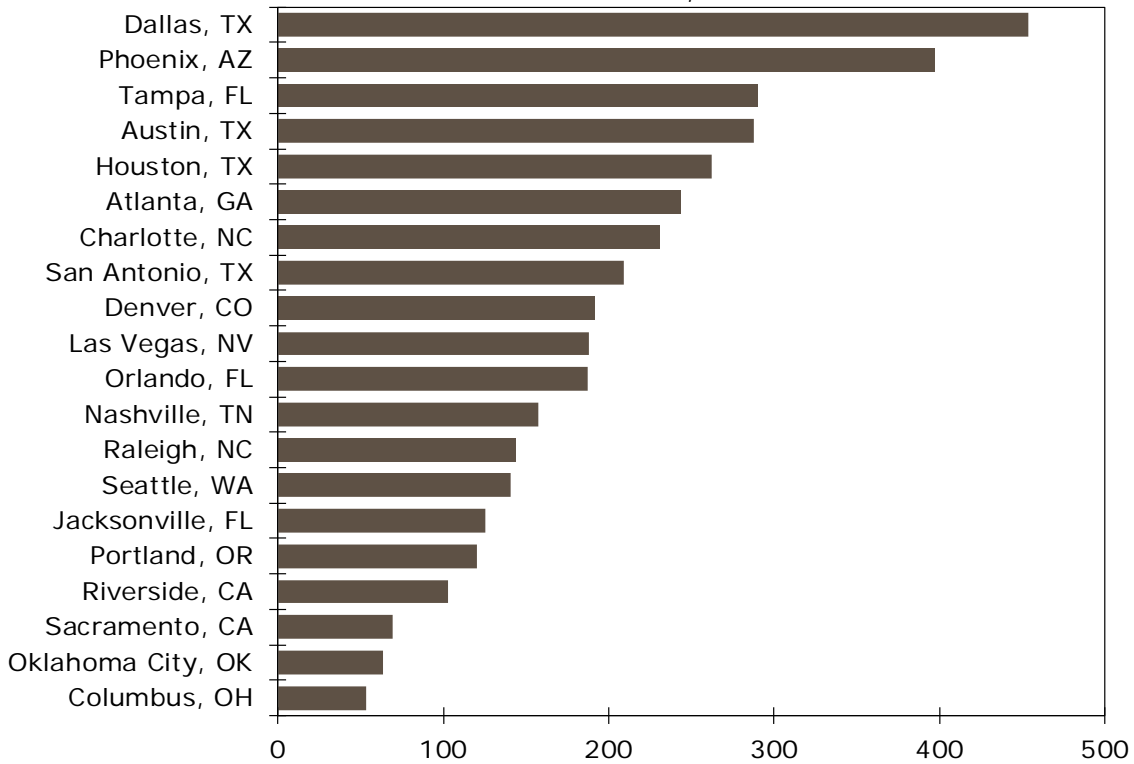
Population Growth by State – 2019



A handful of large urban areas accounted for a disproportionate share of economic growth this past decade, with creative jobs clustering in urban areas. The COVID-19 outbreak may challenge this growth model going forward but we suspect the trend toward urbanization will retain strong momentum in the coming decade.

Metro Area Net Domestic Migration: Top 20

Cumulative Total in Thousands, 2010-2019

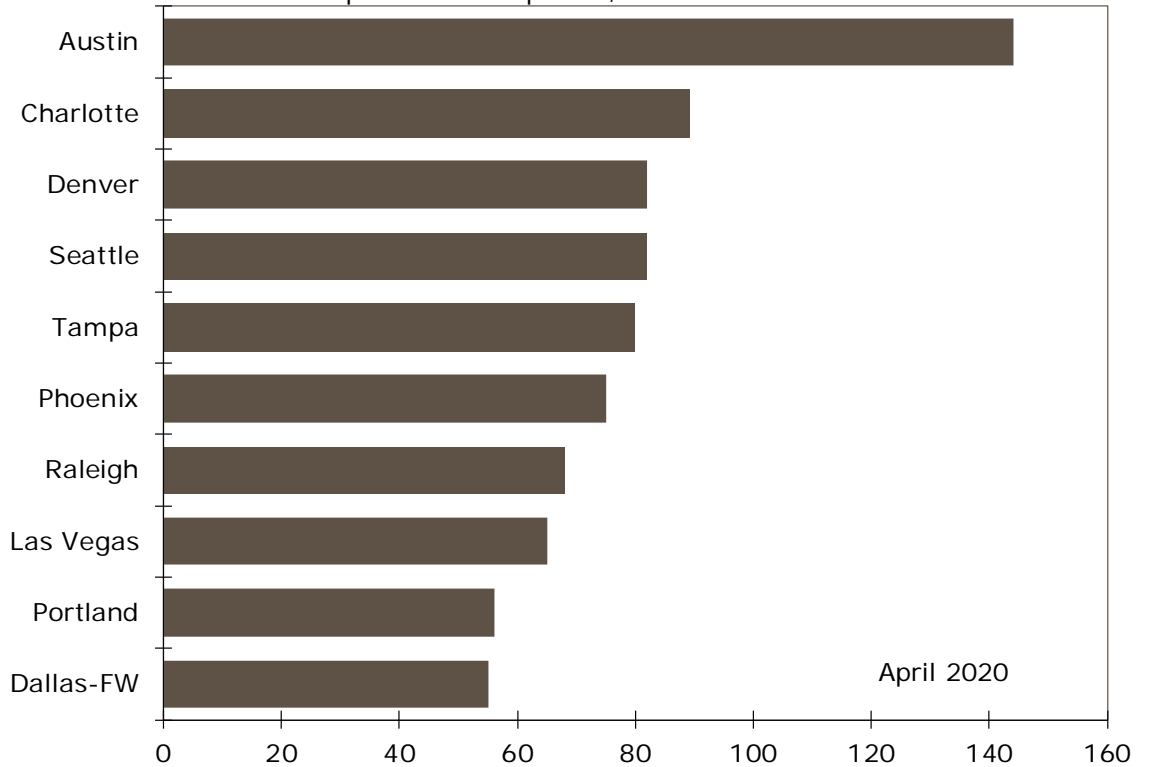


Source: U.S. Department of Commerce and Wells Fargo Securities

For every 10,000 LinkedIn members in Charlotte, around 90 arrived in the last 12 months.

Cities that Gained the Most Workers

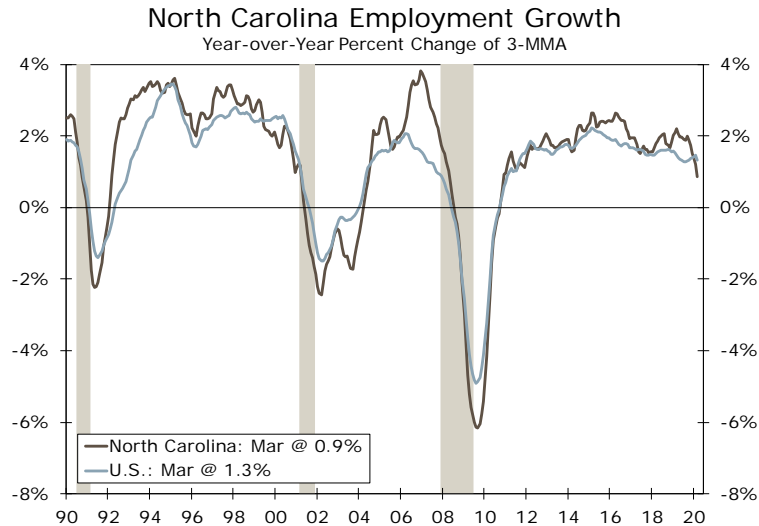
LinkedIn Population Gain per 10,000 LinkedIn Members



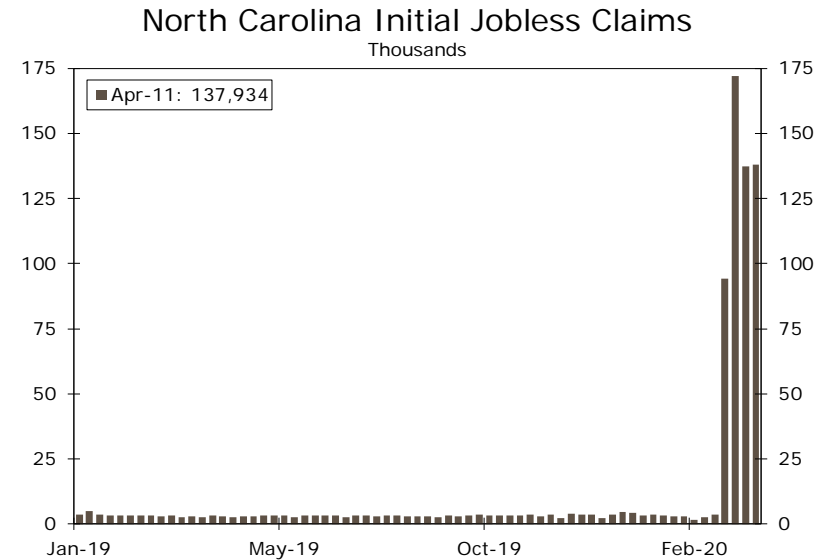
Source: LinkedIn Workforce Report and Wells Fargo Securities

North Carolina's economy was "strong" but losing momentum prior to COVID-19. More than 540,000 jobless claims have been filed in 4 weeks.

Employment Growth



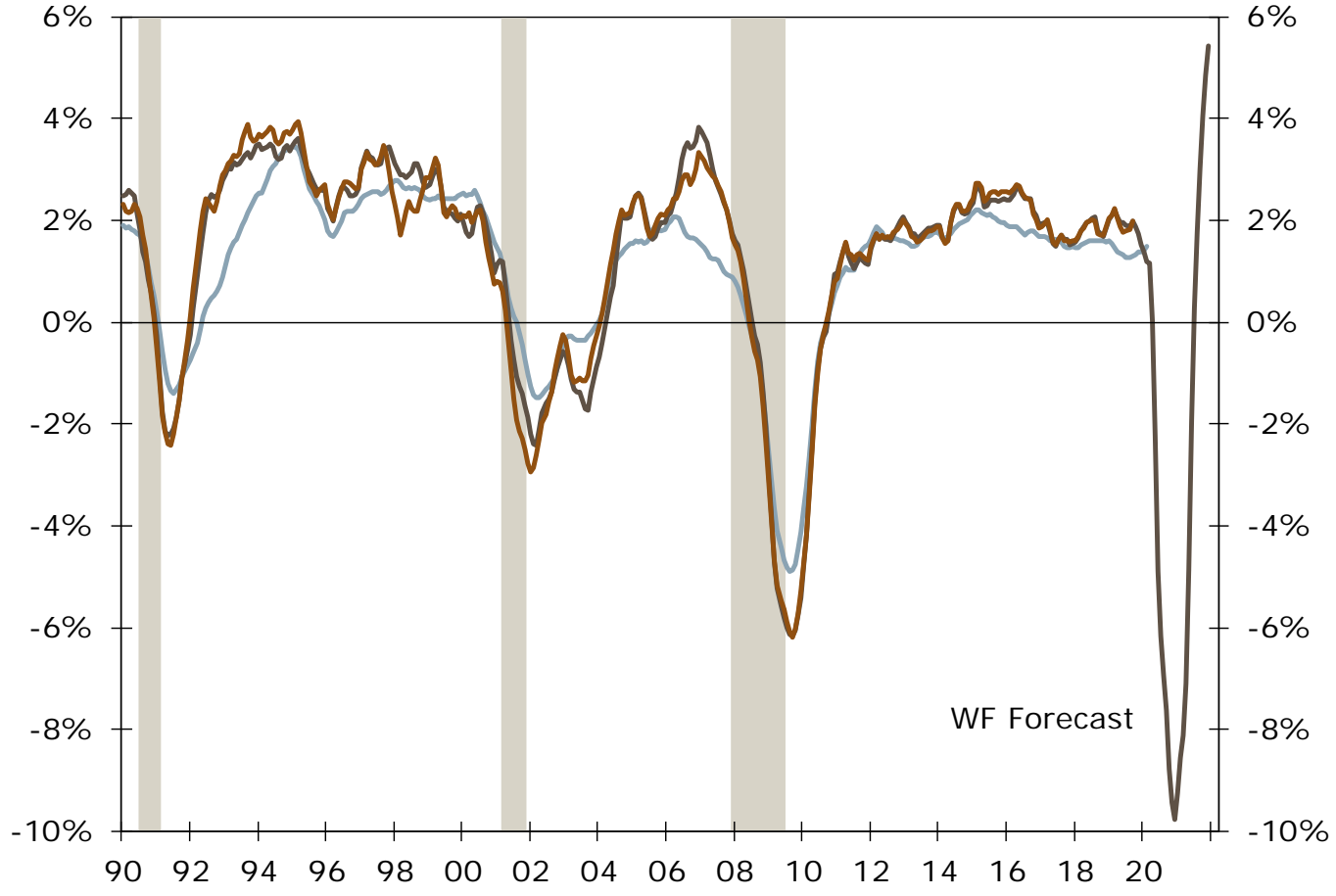
Claims



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

North Carolina Nonfarm Employment

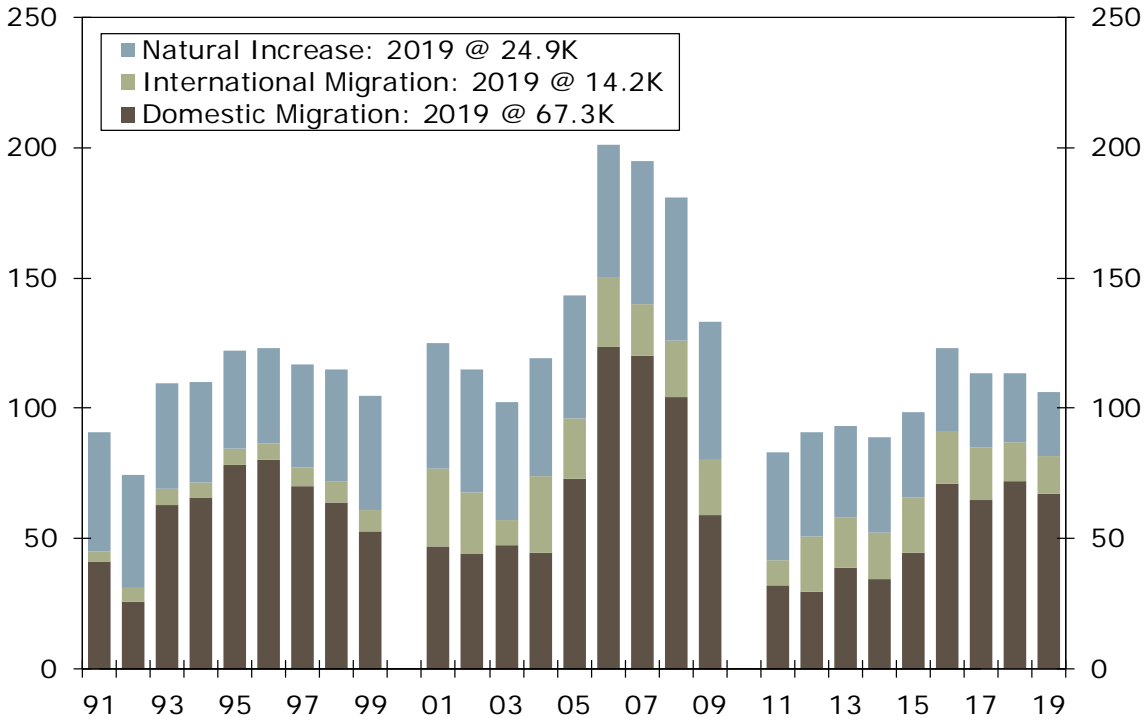
Year-over-Year Percent Change of 3-MMA



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

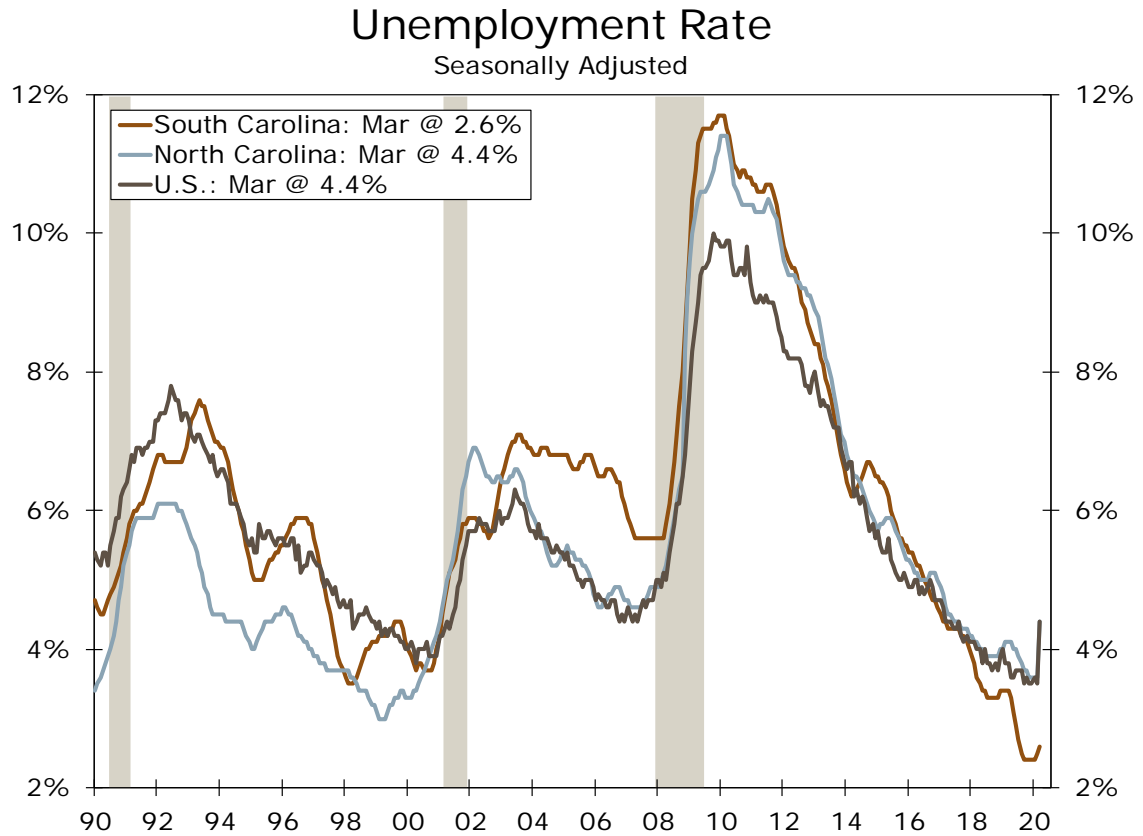
Population growth has been moderating a bit, but remains strong.

Components of Population Change: North Carolina
In Thousands



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

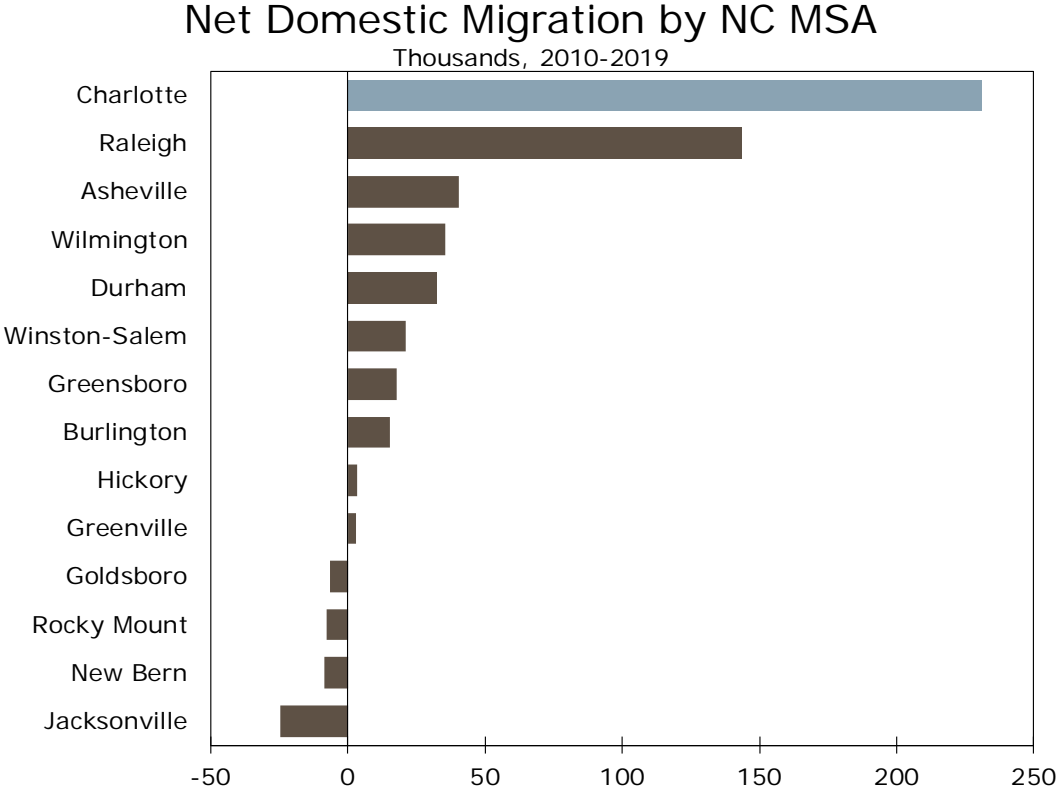
Both states' unemployment rates will surge in April.



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

Charlotte and Raleigh account for the vast majority of net migration to North Carolina.

Much of Eastern North Carolina continues to lose population.

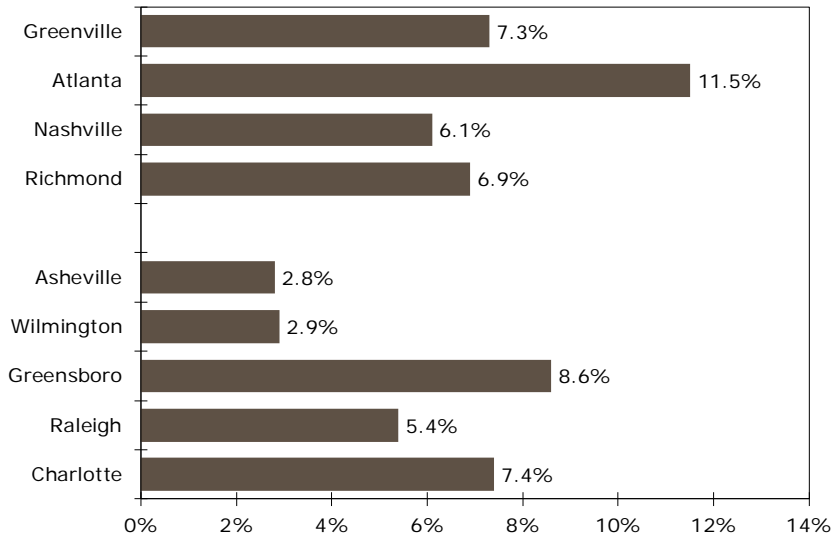


Source: U.S. Department of Commerce and Wells Fargo Securities

Charlotte had the fastest rising office rents in the nation prior to the outbreak.

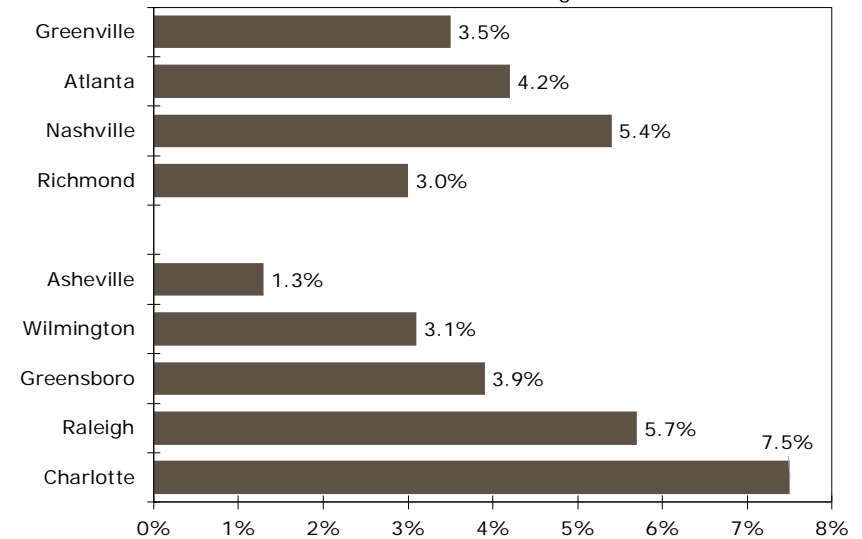
Vacancy

Office Vacancy Rate
Q4-2019



Rent Growth

Office Rent Growth
Year-over-Year Percent Change



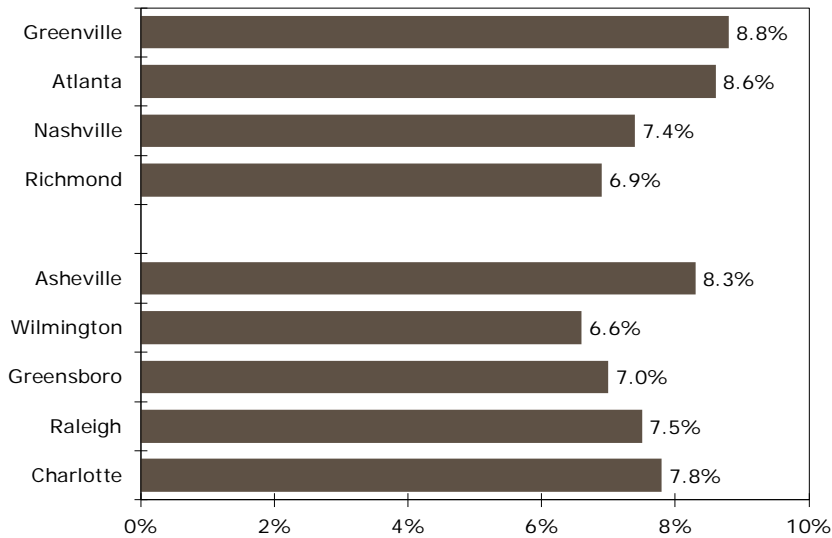
Source: CoStar, Inc. and Wells Fargo Securities

We expect apartment development to slow.

Vacancy

Apartment Vacancy Rate

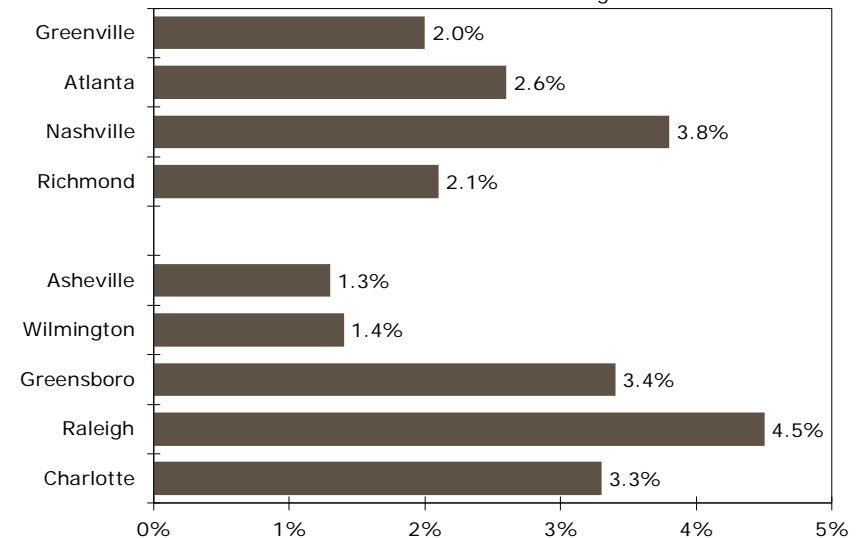
Q4-2019



Rent Growth

Apartment Rent Growth

Year-over-Year Percent Change

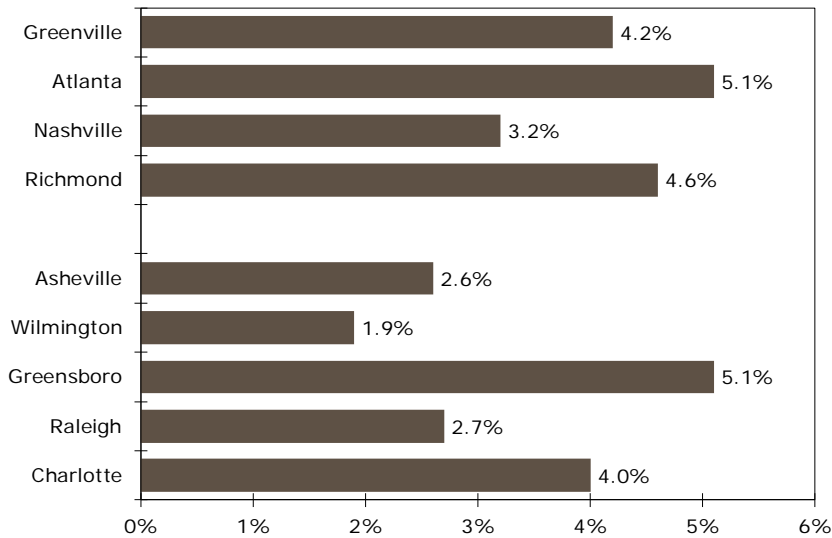


Source: CoStar, Inc. and Wells Fargo Securities

The shift to online retail will likely accelerate.

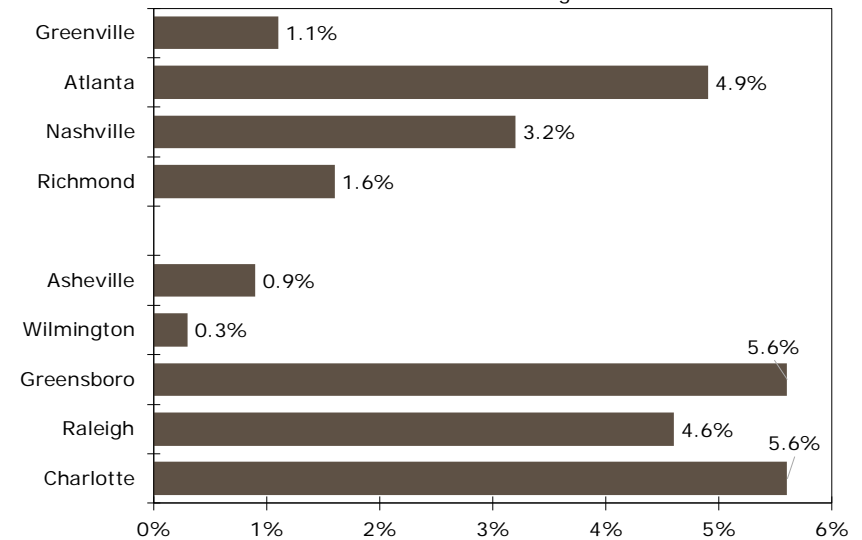
Vacancy

Retail Vacancy Rate
Q4-2019



Rent Growth

Retail Rent Growth
Year-over-Year Percent Change



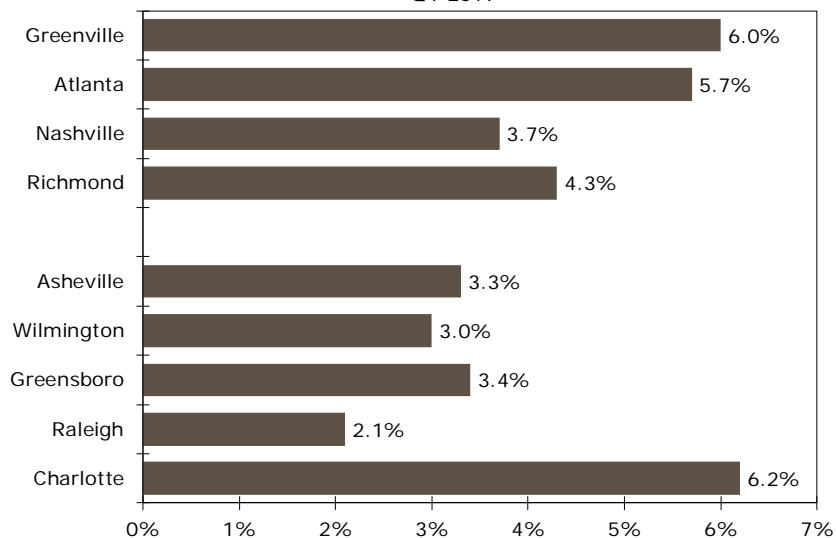
Source: CoStar, Inc. and Wells Fargo Securities

Warehousing and distribution should remain fairly strong.

Vacancy

Industrial Vacancy Rate

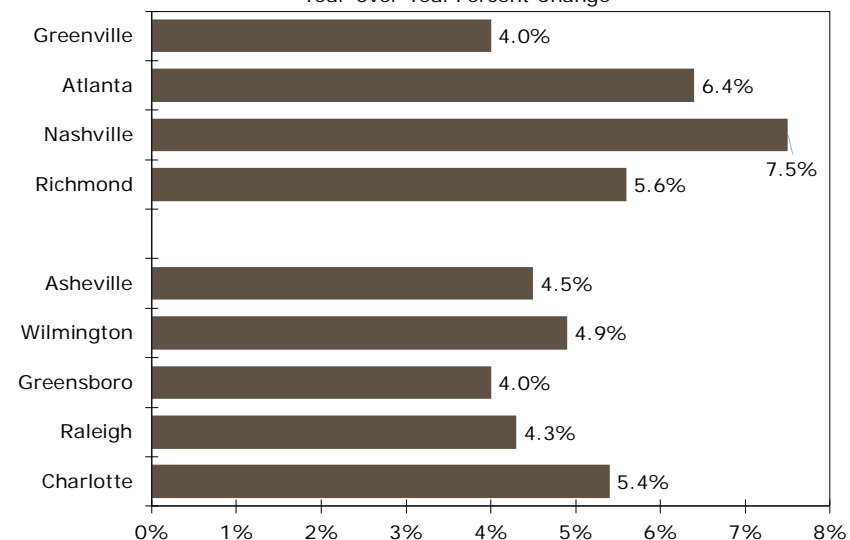
Q4-2019



Rent Growth

Industrial Rent Growth

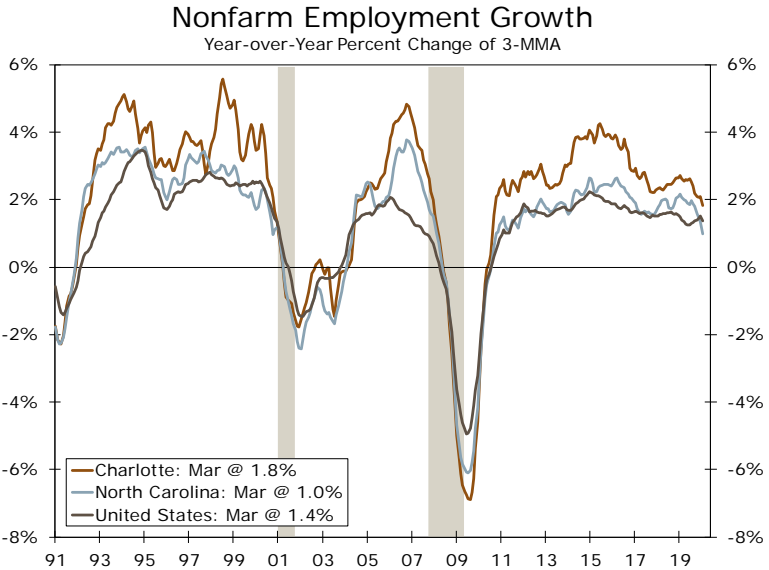
Year-over-Year Percent Change



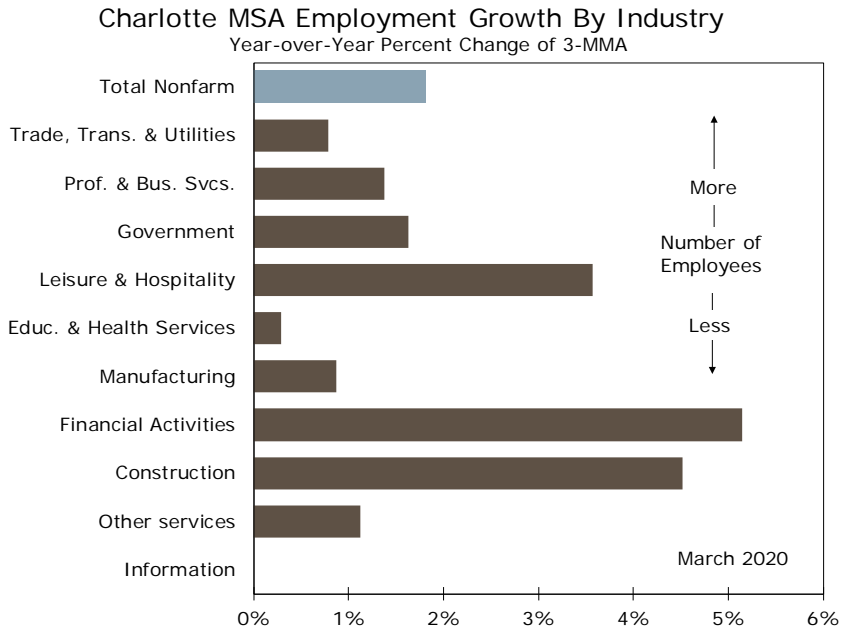
Source: CoStar, Inc. and Wells Fargo Securities

Charlotte job growth was leading the nation and the rest of the state. Nearly every industry in the metro area was growing.

Nonfarm Employment



Employment by Industry

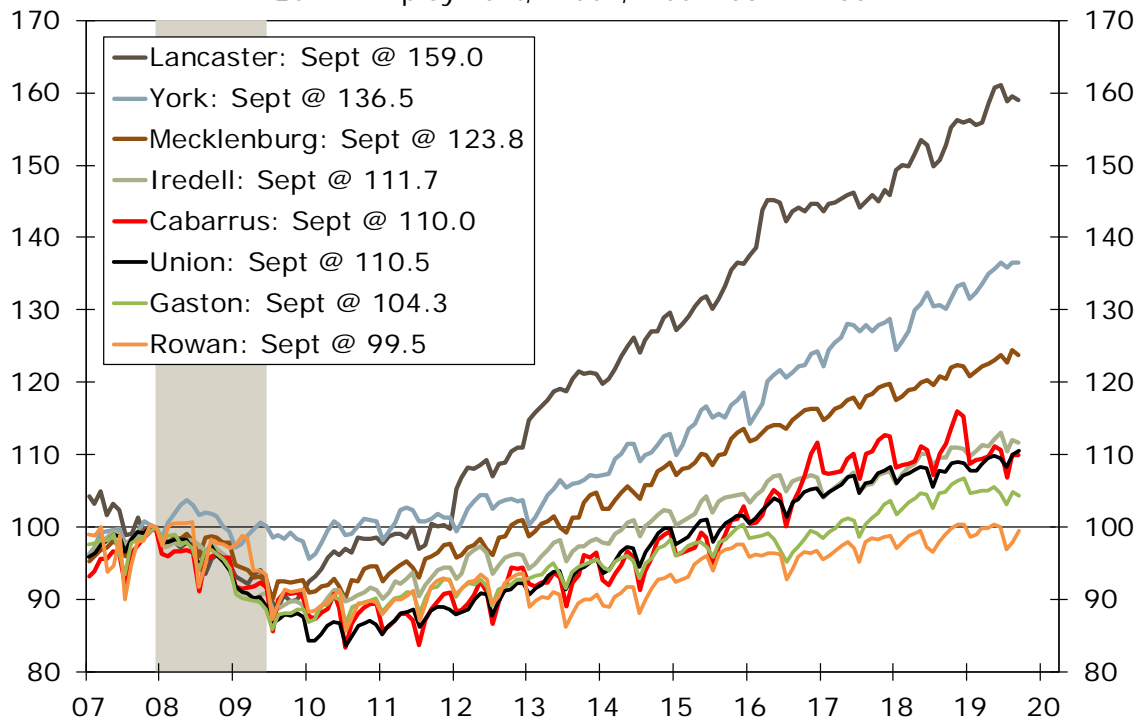


Source: U.S. Department of Labor and Wells Fargo Securities

The strongest growth has been in South Carolina.

Charlotte MSA Job Recovery

QCEW Employment, Index, Dec. 2007 = 100



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

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2018				2019				2020				2021				2018	2019	2020	2021
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.6	3.5	2.9	1.1	3.1	2.0	2.1	2.1	-1.2	-22.3	7.2	4.8	2.8	2.5	2.2	2.4	2.9	2.3	-3.0	1.7
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	3.1	1.8	-1.5	-27.9	19.6	6.0	2.7	2.5	2.6	2.8	3.0	2.6	-2.8	2.9
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	-2.4	-6.8	-22.5	-9.3	3.0	2.9	5.1	4.9	4.9	6.4	2.1	-8.0	0.2
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	-4.3	-16.8	-33.0	-10.8	15.0	4.6	4.6	4.0	4.0	6.8	1.3	-12.9	1.3
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	4.7	2.8	4.4	-6.5	-2.8	-4.4	3.7	7.4	6.9	6.7	7.4	7.5	0.5	1.9
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-9.9	-7.2	-7.0	-25.5	-19.0	-7.5	-3.0	1.5	2.5	3.0	4.1	-4.3	-12.9	-5.9
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	4.6	6.5	12.0	-30.0	-14.0	-5.0	3.0	5.0	6.0	6.5	-1.5	-1.5	-4.3	-2.4
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.7	2.5	2.2	1.8	1.5	1.2	1.0	0.2	-0.5	-0.9	1.7	2.3	2.1	0.7
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	1.5	2.1	2.2	-5.2	-2.0	-0.1	-0.1	-0.2	-0.1	-0.4	-0.2	0.5	-1.0
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	0.0	-1.0	-1.9	-0.4	1.3	2.2	0.3	0.0	-0.1	-0.2	0.1	0.1	-0.6	0.6
Nonfarm Payroll Change ³	234	211	153	172	139	159	203	210	-71	-7000	3900	800	500	300	230	130	193	178	-593	290
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.8	15.1	11.7	8.3	7.3	6.9	6.6	6.5	3.9	3.7	9.7	6.8
Consumer Price Index ⁴	2.2	2.7	2.7	2.2	1.6	1.8	1.8	2.0	2.1	1.0	0.8	0.7	0.9	1.9	2.1	2.0	2.4	1.8	1.2	1.7
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.96	2.25	0.25	0.25
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.28	3.80	3.61	3.72	3.45	2.90	2.90	2.95	3.00	3.05	3.15	3.20	4.54	3.94	3.05	3.10
2 Year Note	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.58	0.23	0.35	0.40	0.50	0.65	0.75	0.85	0.95	2.53	1.97	0.37	0.80
10 Year Note	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.92	0.70	1.00	1.15	1.25	1.30	1.35	1.45	1.50	2.91	2.14	1.03	1.40

Forecast as of: April 08, 2020

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 Annual Numbers Represent Averages

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
April-14	Will Mortgage Servicing Hurdles Impede a Housing Recovery?	Vitner, Dougherty & Honnold
April-08	Home Economics	Quinlan & Seery
March-31	COVID-19: A Black Swan or a Group of Black Swans?	Iqbal & Mathews
March-25	Social Distance Dating Advice	Quinlan, House & Seery
March-25	Forecast Update: A Much Deeper Contraction	Bryson
U.S. Regional		
April-17	COVID-19 Shut Down Seattle's Red-Hot Economy in March	Vitner, Dougherty & Honnold
April-17	California's Economy Succumbs to COVID-19 Cutback	Vitner & Dougherty
April-17	Texas Payrolls Sharply Decline Amid COVID-19 Crisis	Vitner & Dougherty
April-17	Florida's Economy Takes a Hit as Tourists Stay Home	Vitner & Dougherty
April-17	COVID-19 Shutdowns Led To Job Losses Across North Carolina	Vitner, Dougherty & Honnold
April-10	Arizona Economy Takes A Hit From COVID-19	Vitner, Dougherty & Honnold
March-27	How will the Texas Economy Handle the Coming Storm?	Vitner & Dougherty
March-27	Widespread Closures Bring End to Florida's Economic Boom	Vitner & Dougherty
March-27	California Had Solid Momentum Prior to COVID-19	Vitner, Dougherty & Honnold
March-27	The Minnesota Economy and COVID-19	Vitner, Dougherty & Honnold
March-23	COVID-19 Puts Las Vegas on Lockdown	Vitner, Dougherty & Honnold
Global Economy		
April-17	International Growth Outlook Continues to Darken	Bennenbroek, McKenna & Licit
April-06	Australia's Exceptional Expansion: All Good Things Must Come to an End	Licit & Bennenbroek
March-31	Mexico: More Trouble in Store	McKenna
March-27	Canada Fighting Economic War on Multiple Fronts	Licit & Bennenbroek
March-25	COVID-19 Creating a Risk for EM Corporates	McKenna, Nelson & Bennenbroek
Interest Rates/Credit Market		
April-09	The Fed Goes Nuclear: Part II	Bryson
April-09	What Might a "Phase 4" Fiscal Package Include?	Pugliese & Mathews
April-06	The Animal Spirits Index Drops into Negative Territory	Iqbal
April-06	Get Ready for SOFR: What's Up With LIBOR?	Bryson, Pugliese and Mathews
March-31	Where Will That \$2 Trillion Come from Anyway?	Bryson & Pugliese
Real Estate & Housing		
April-01	Commercial Real Estate Chartbook	Vitner & Dougherty
March-26	COVID-19 Undercuts The Housing Recovery	Vitner, Dougherty & Honnold
January-09	Housing Chartbook: January 2020 & Outlook	Vitner, Dougherty & Honnold
December-18	Commercial Real Estate Chartbook	Vitner, Dougherty & Honnold
December-05	Housing Maintains Solid Momentum Headed into 2020	Vitner, Dougherty & Honnold

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