



The Economic Outlook

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U.S. Outlook

- Economic growth moderated late this summer, as COVID cases spiked in parts of the South. The resurgence in COVID cases, combined with rising prices, contributed to a pullback in consumer confidence and some slowing in high-contact services. Attendance at college football games has been as strong as ever, however, suggesting folks are willing to travel. More recently, COVID cases have rolled over across the South.
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Inflation Has Accelerated

- We believe there is a clear and convincing case to be made that inflation will remain higher for longer than the Fed has projected. The primary culprit has been expansive fiscal and monetary policies. Supply-chain disruptions and damage from Hurricane Ida are adding to price pressures, which should persist for some time. Businesses, consumers and policymakers are gradually waking up to the new inflation reality.
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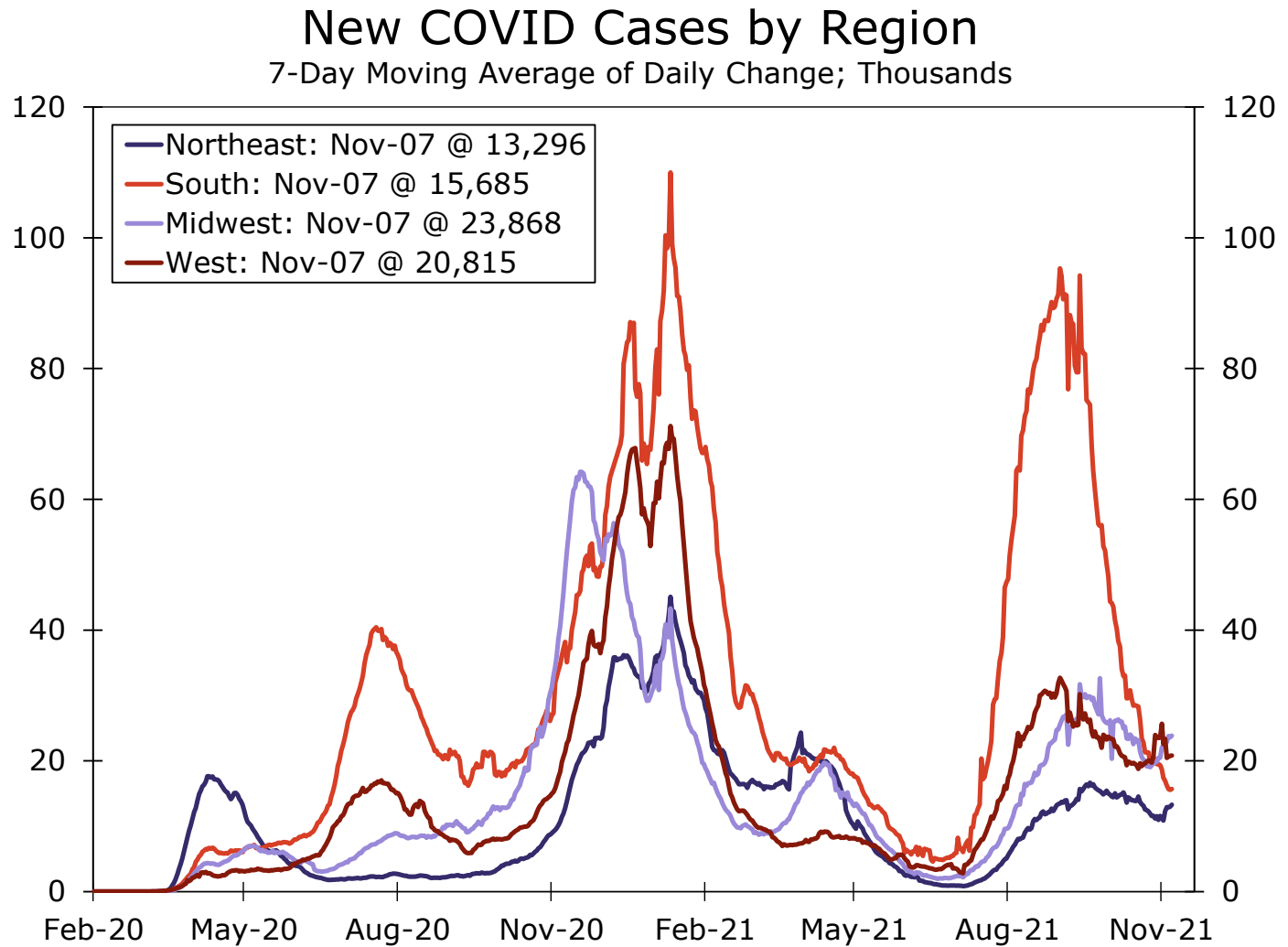
Affordability Migration

- 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 is fueling sales of single-family homes and motor vehicles. Tight supplies along with supply-chain disruptions are adding to inflationary pressures.
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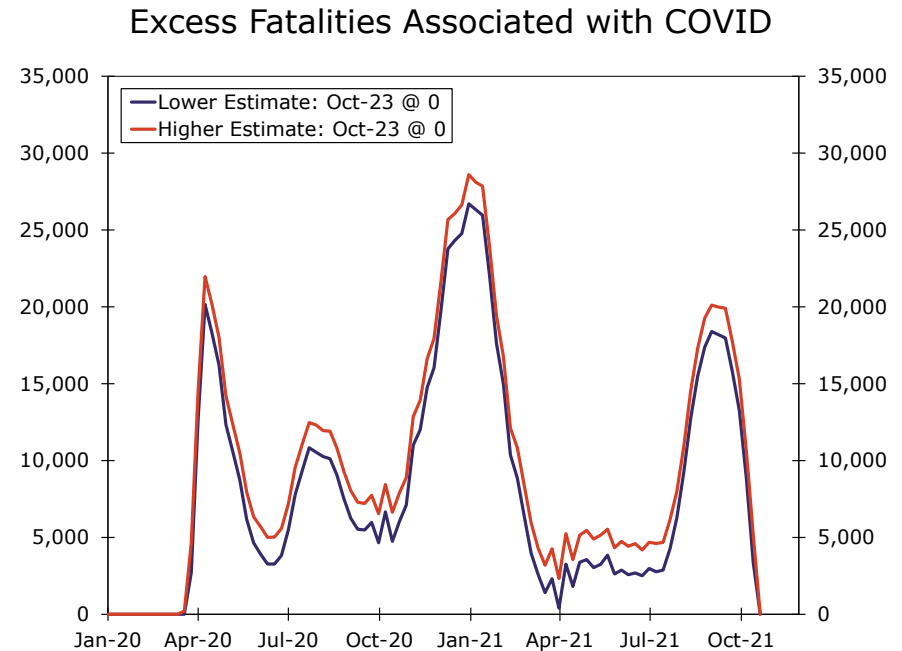
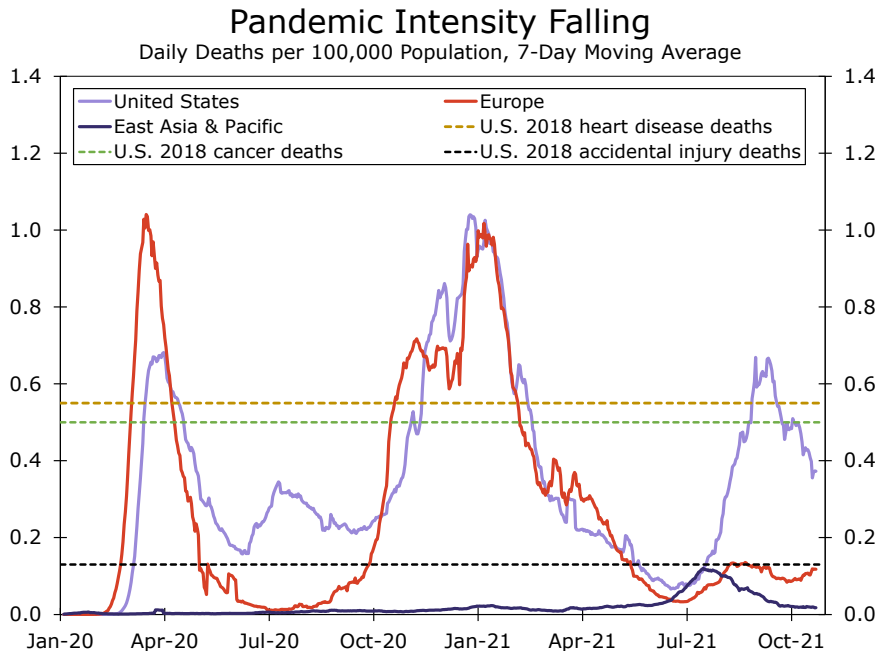
Stimulus Winding Down

- The Fed will begin 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. While rate hikes are still at least a year off, taxes are set to increase and the bite may be larger than expected. The bulk of monetary and fiscal policy changes impact the economy with a lag of 12 to 18 months.
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The recent surge of COVID cases has crested, but cases are now rising in parts of the Midwest and West.



Daily fatalities per 100,000 population have declined across the globe. Some emerging markets may remain vulnerable and will take longer to vaccinate. That said, regions where much of global output is produced appear poised to bring the pandemic under control.

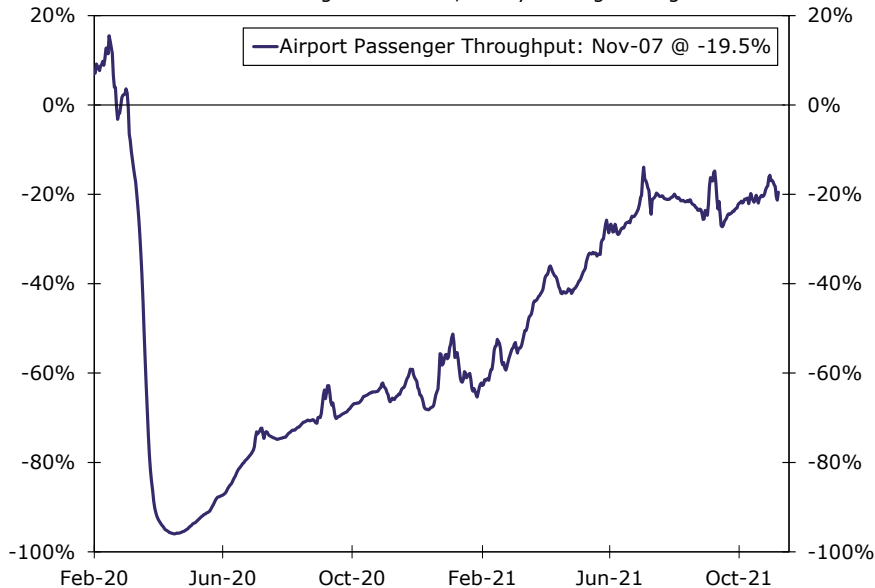


Delta Variant Economic Impact

High-frequency measures of economic engagement are vastly improved relative to last year, but activity appears to have leveled off this summer, reflecting residual fears about COVID, the reopening of in-person schooling and continued uncertainty about the return to the office.

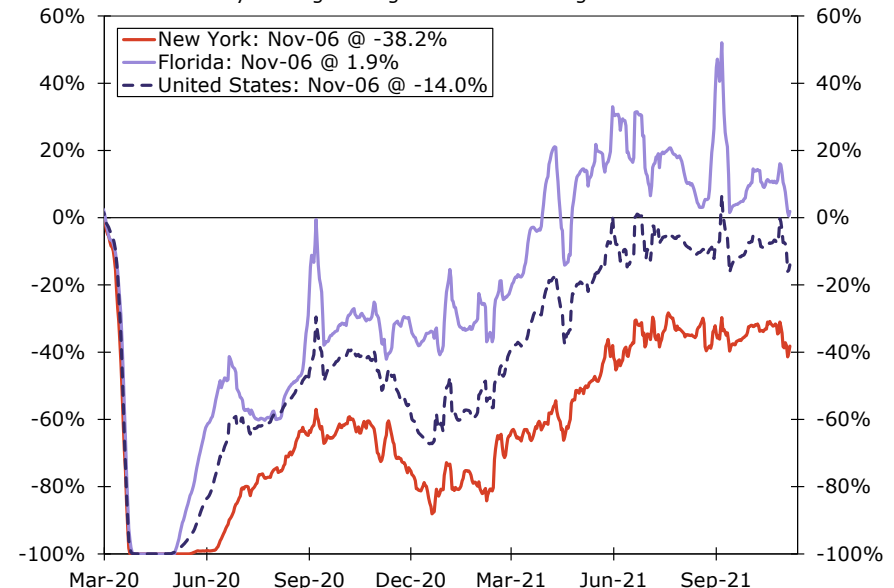
People Passing through U.S. Airport Security

Percent Change from 2019, 7-Day Moving Average

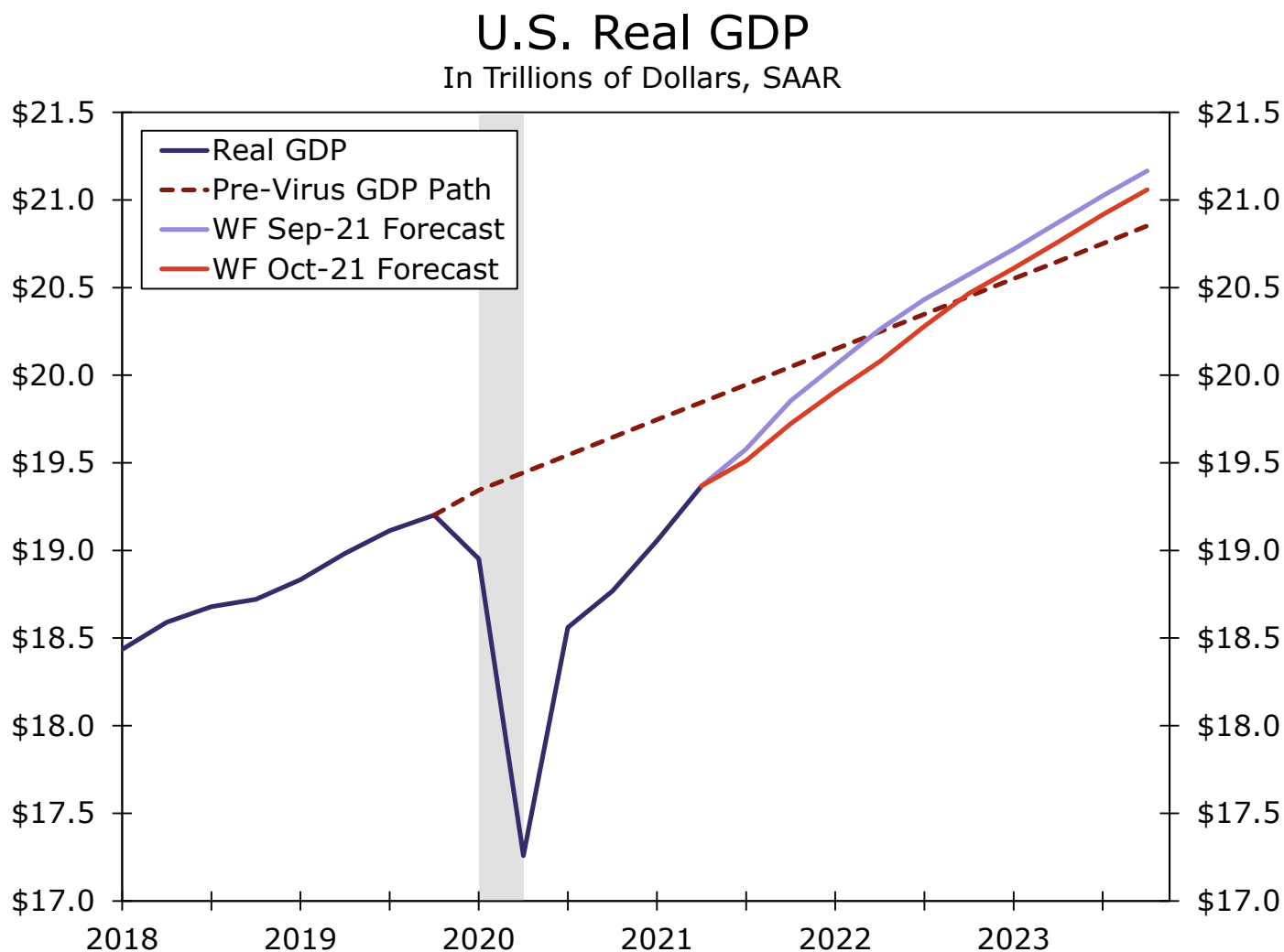


Seated Diners

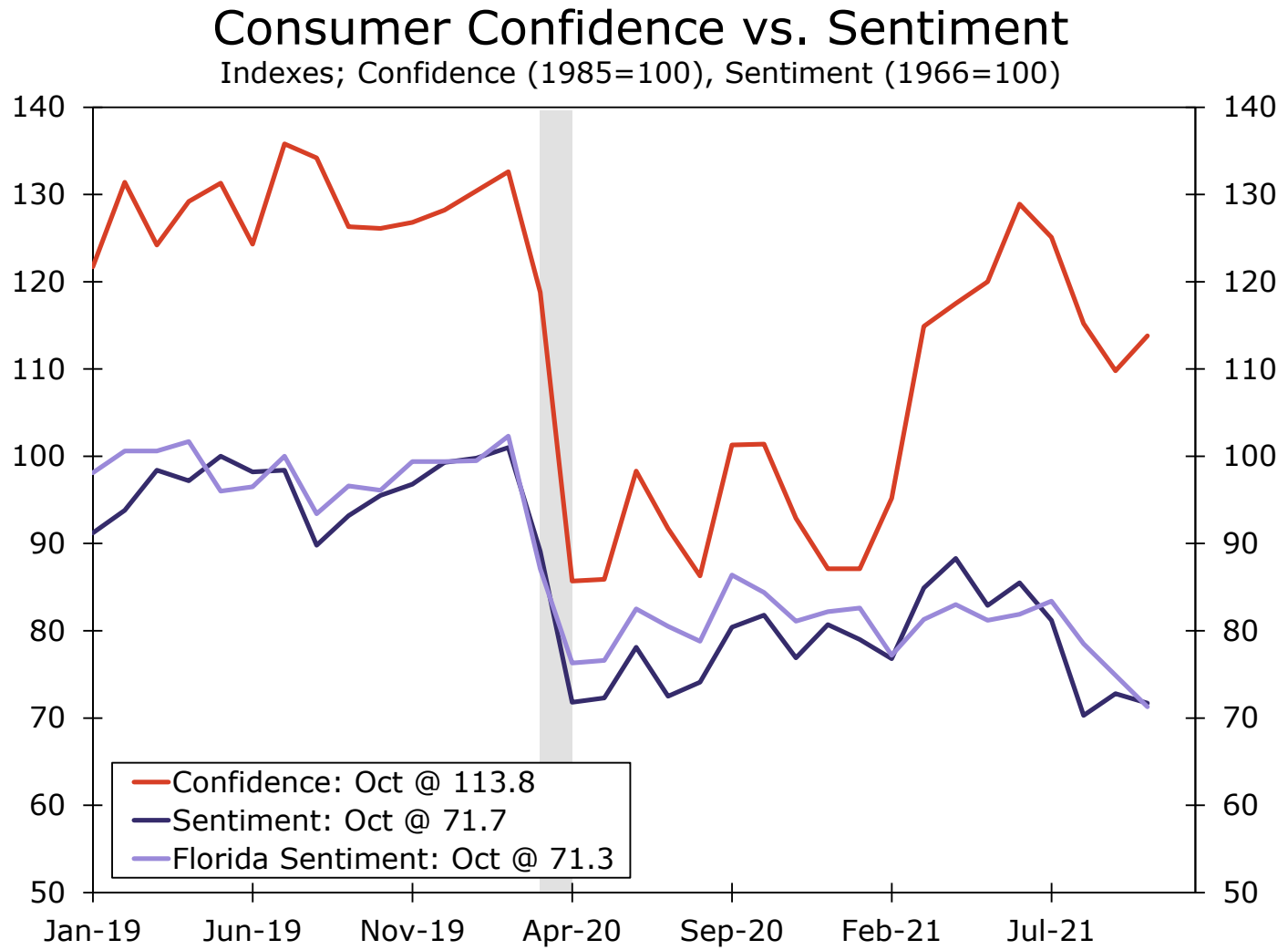
7-Day Moving Average of Percent Change from 2019



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



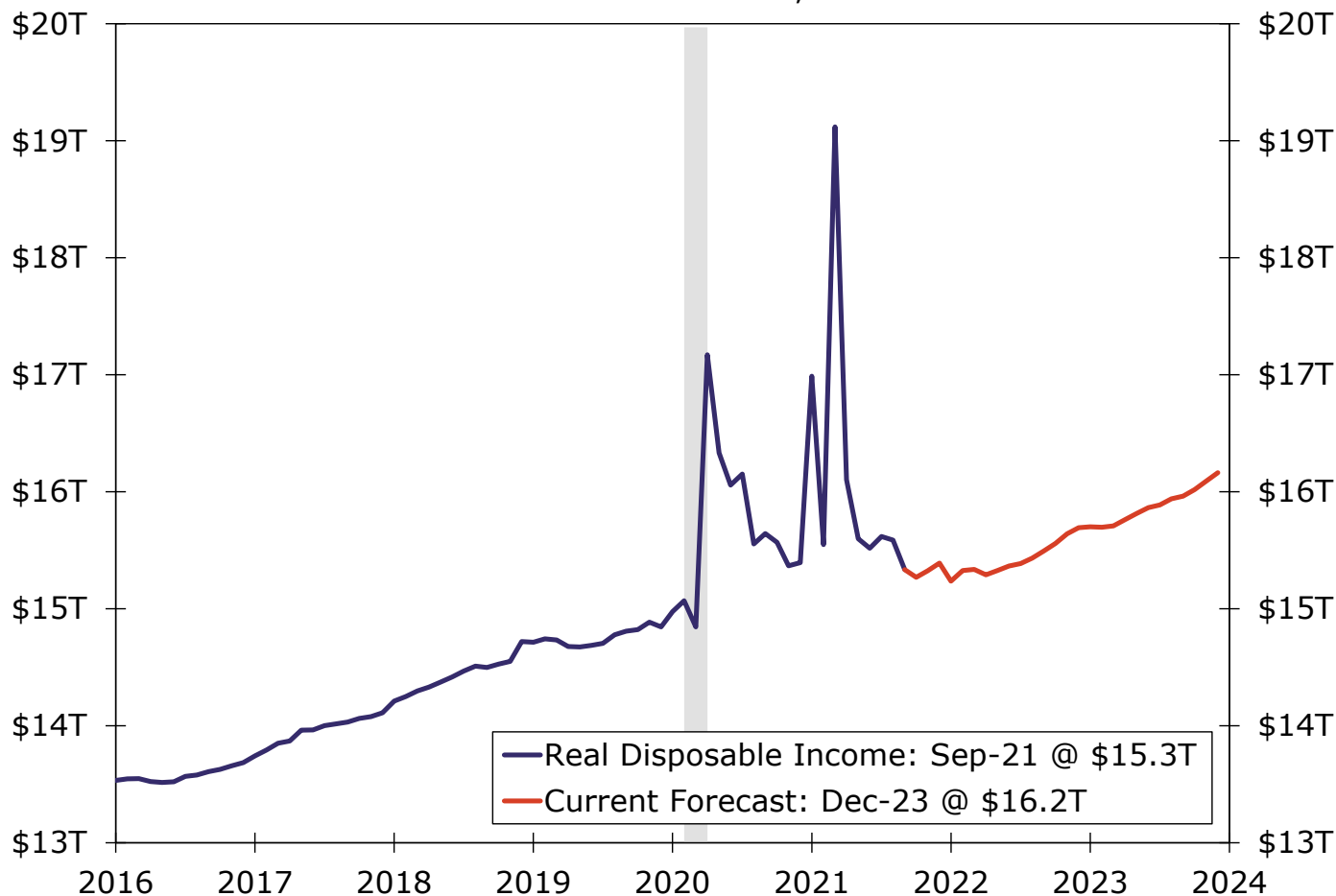
There is a wide gap between the two most widely followed consumer confidence surveys, reflecting the divergence between job prospects and inflation concerns.



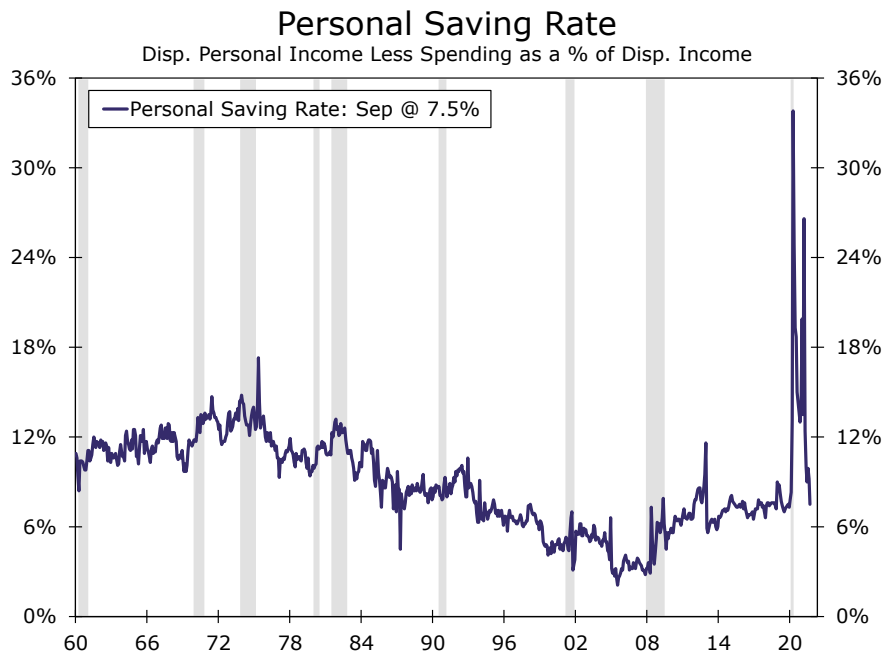
The extraordinary income support has faded and income is not growing in line with its previous trend.

Real Disposable Personal Income Forecast

Trillions of 2012 Dollars, SAAR



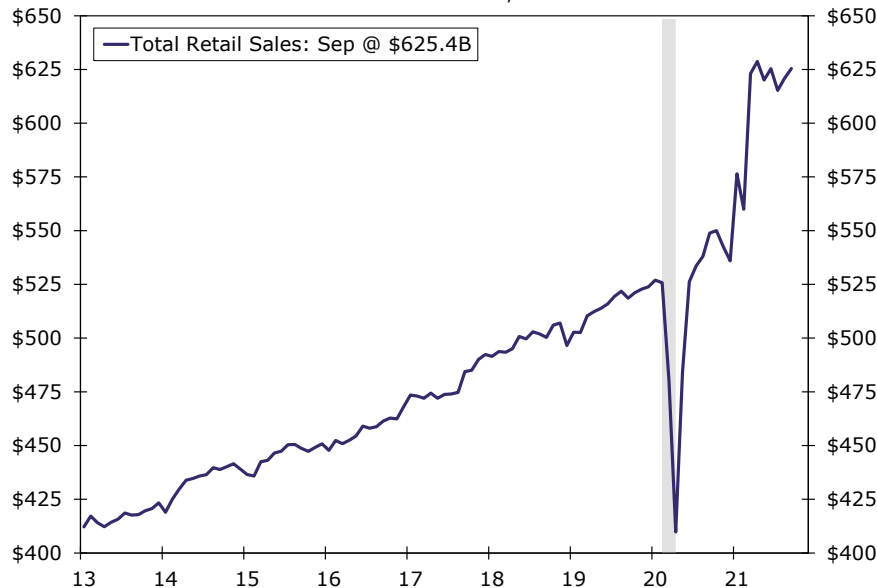
The combination of transfer payments and forced thrift has led to a record surge in saving. This “excess” saving will be a major driver of consumer spending over the next few years.



Consumer Spending

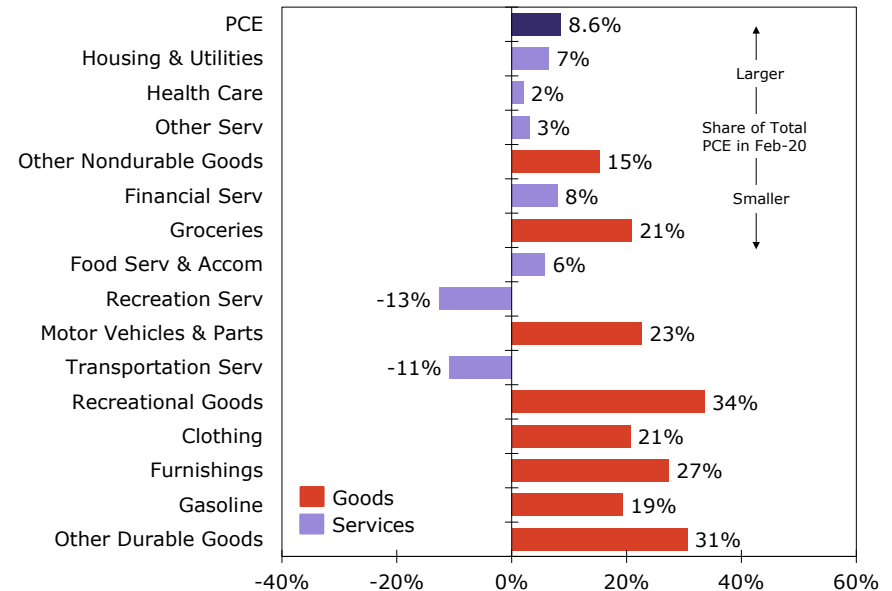
Retail sales remain highly elevated. Over the past 18 months, the strength in consumer spending has been mostly concentrated within the durable goods category.

Retail Sales
Billions of Dollars, SA



Personal Consumption by Category

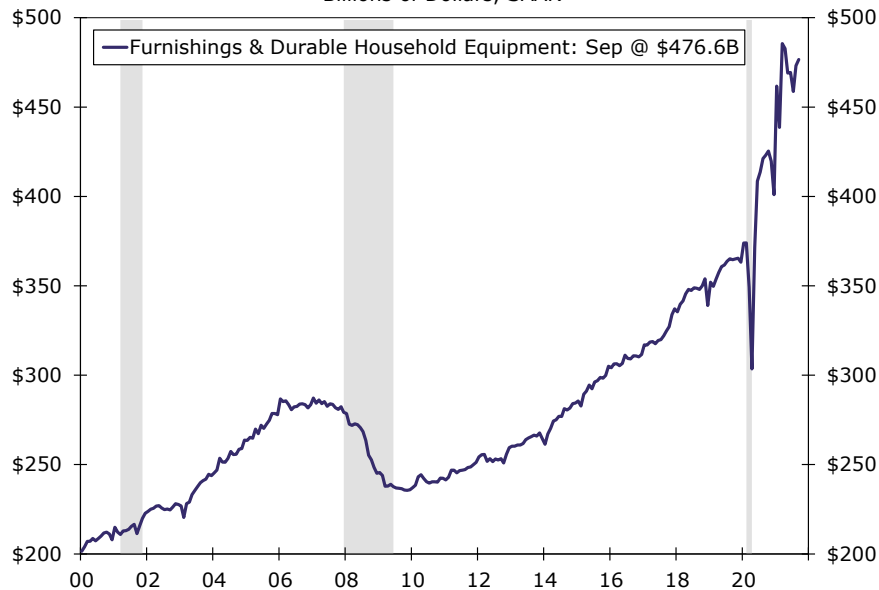
Change from Pre-Pandemic (Feb. 2020) to September 2021, Nominal



Consumer spending on furniture picked up significantly during the pandemic, fueled by more time spent at home. Sales have remained elevated in recent months and were 17% above their pre-pandemic level in September.

Personal Consumption: Furniture

Billions of Dollars, SAAR



Retail Sales: Furniture & Home Furnishing

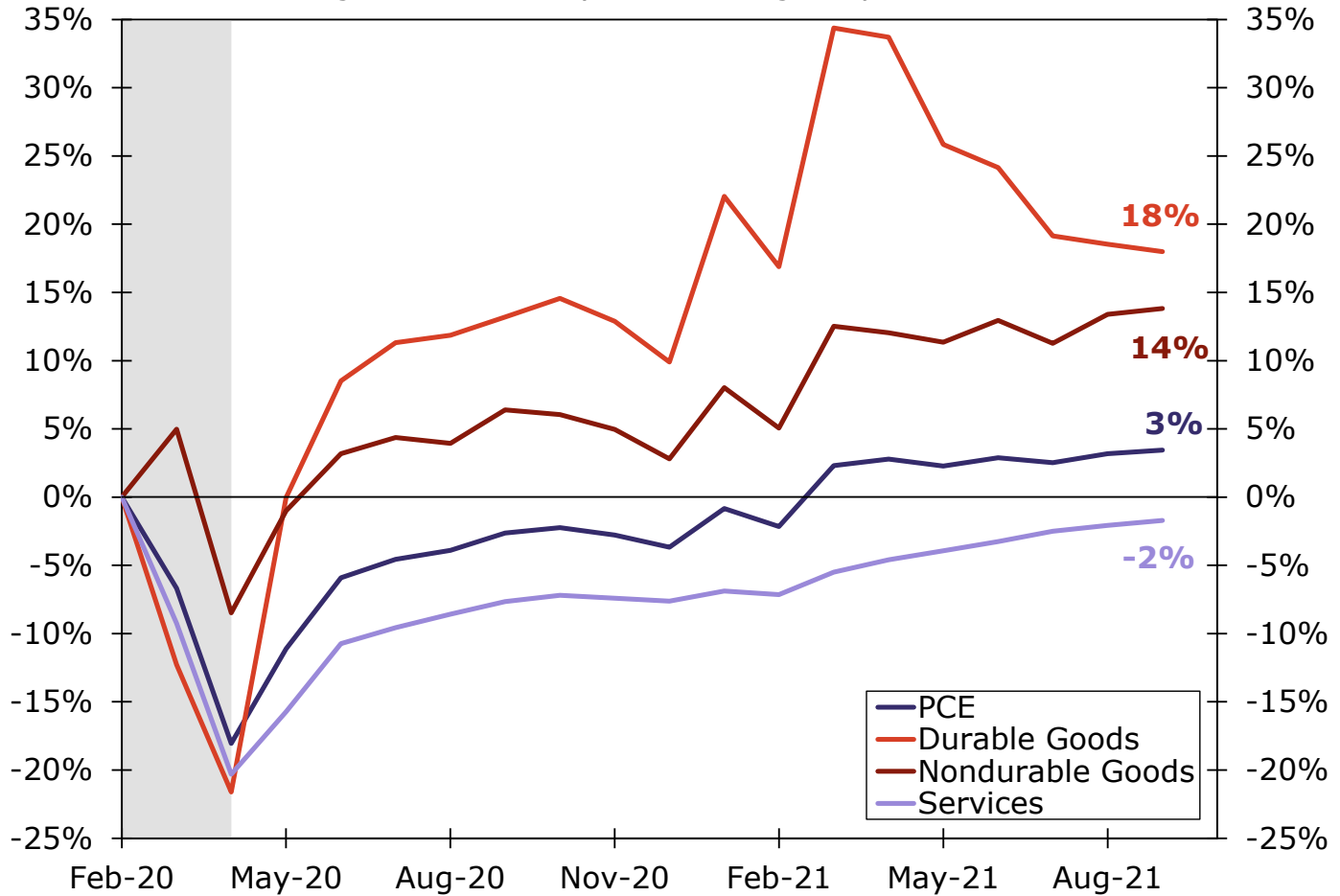
Percent Change from January 2020



Services spending offers the most scope for growth going forward.

Real Personal Consumption Expenditures

Change from February 2020 through September 2021

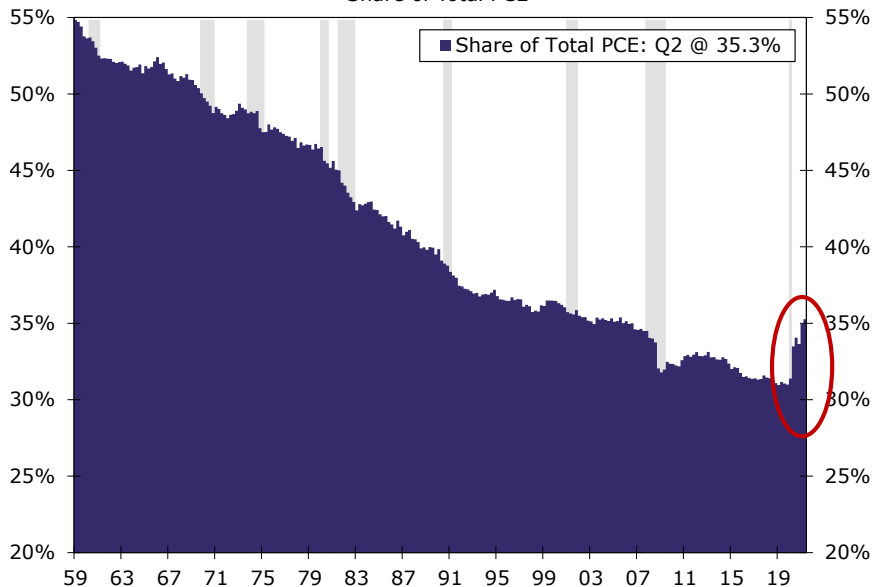


Supply Challenges: Overwhelming Demand

Cooler demand for goods will be a linchpin of resolving current supply chain bottlenecks. Even so, restocking efforts will likely extend well into next year.

Household Consumption of Goods

Share of Total PCE



Real Business Inventories

Real Inventory-to-Sales Ratio

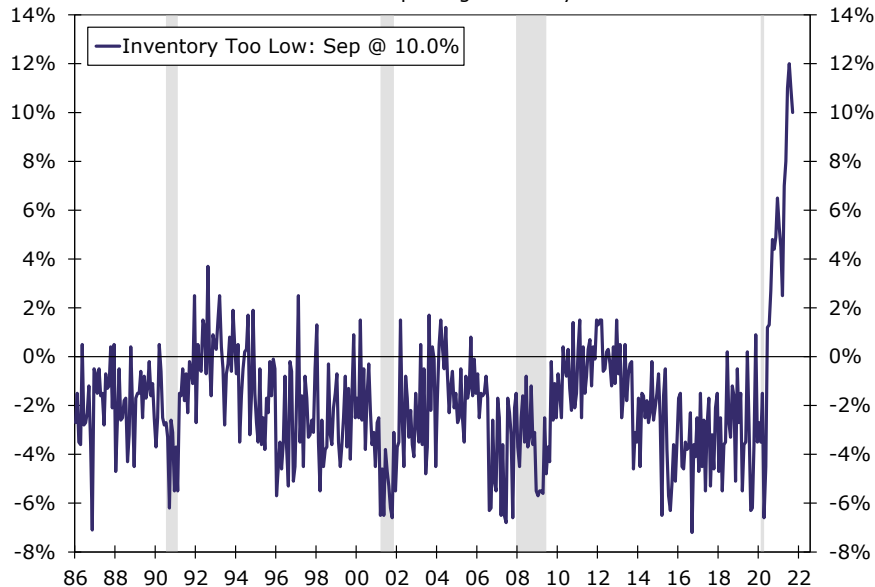


Supply Constraints: Goods Inventories

Growth would be even stronger were it not for supply constraints. “Normal” inventory levels and supply chains seem a ways off.

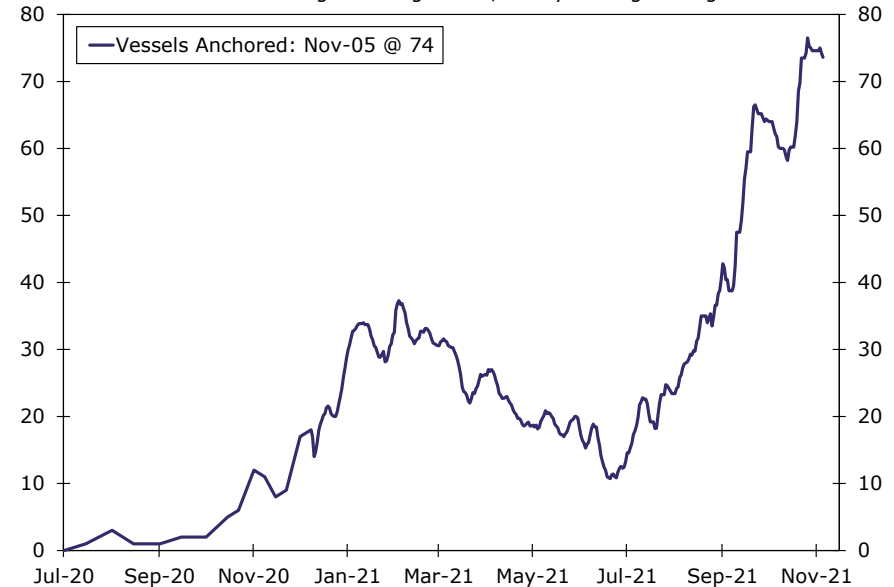
NFIB Inventory Too Low

Net % of Firms Reporting Inventory Too Low



Container Ships Waiting to Offload

Ports of Los Angeles-Long Beach; 7-Day Moving Average

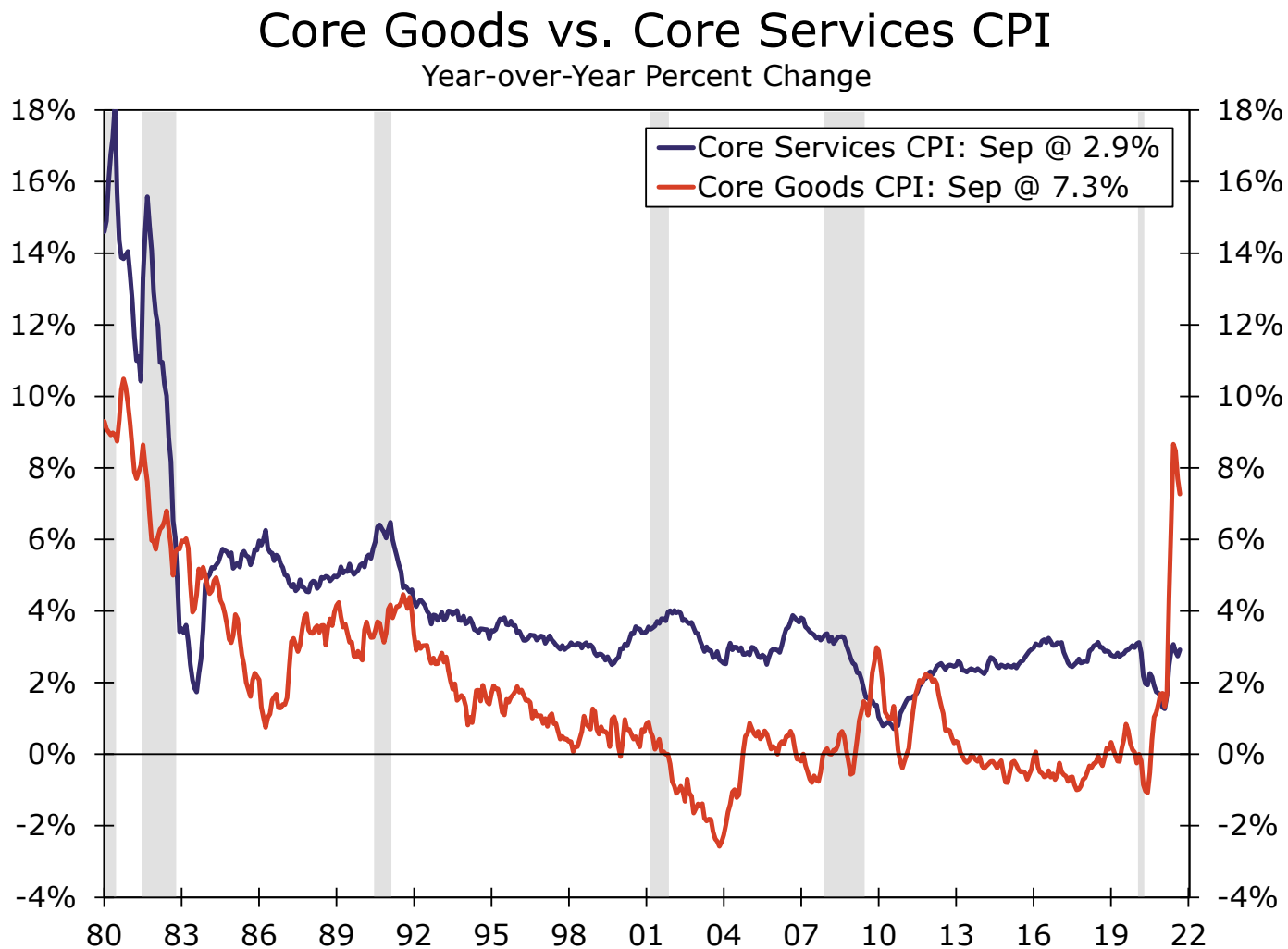


Pressure Gauge

Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Time																					
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
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
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
Volume																					
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%	
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%	
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%	12.1%	
Price																					
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
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
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%	16.0%	12.6%	9.9%	8.9%	
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%
Inventory																					
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		
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
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
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%	
Labor																					
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%
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%

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

Easing bottlenecks will be instrumental in relieving goods inflation.

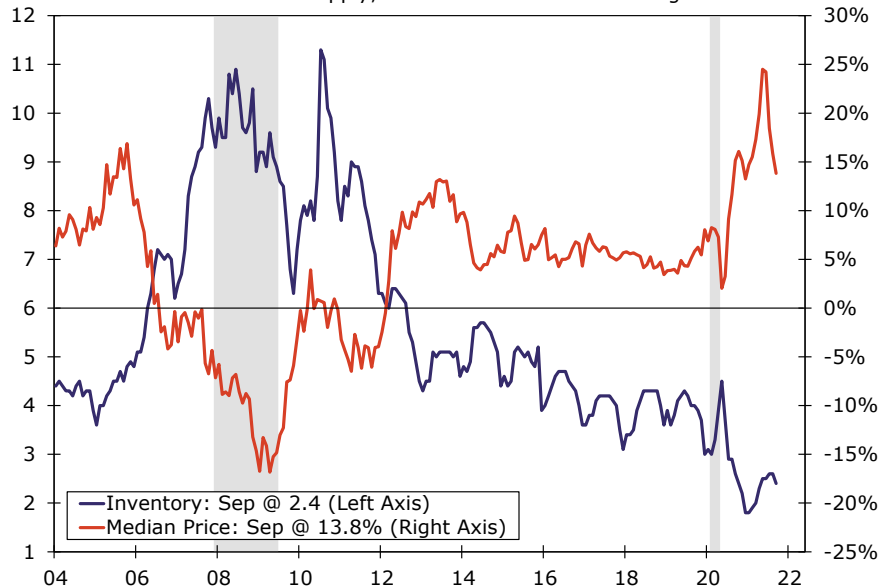


Supply Constraints: Housing

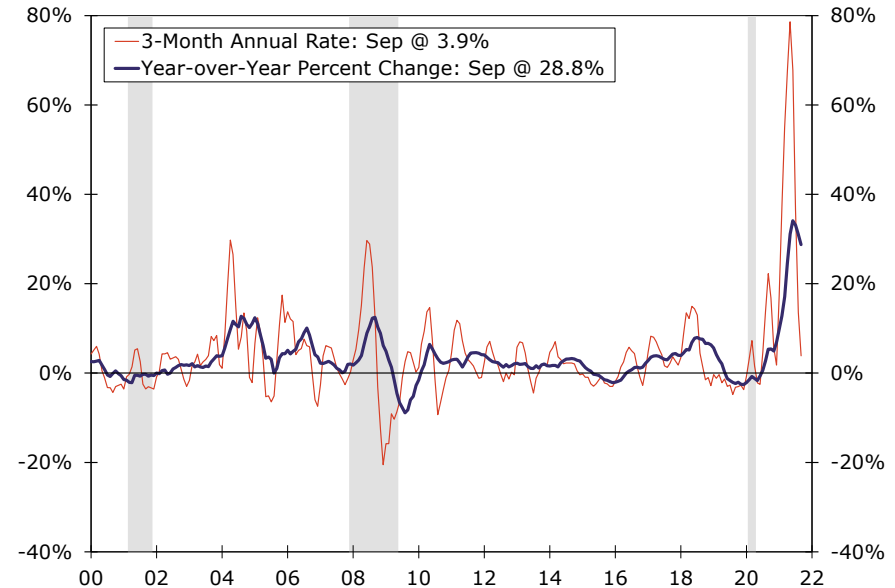
Supply constraints extend to the housing market, limiting sales and new construction.

Existing Single-Family Home Market

In Months Supply; Year-over-Year Percent Change

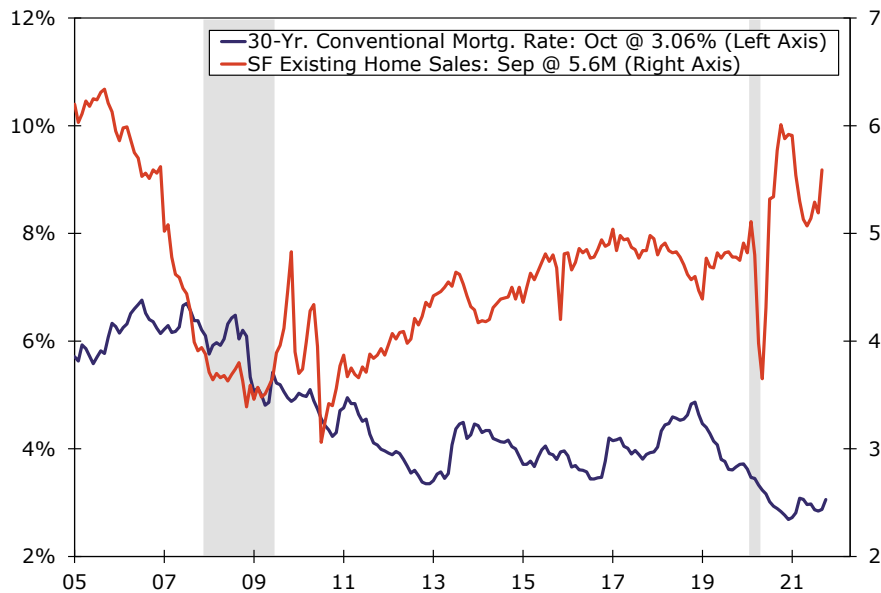


Construction Materials Producer Price Index

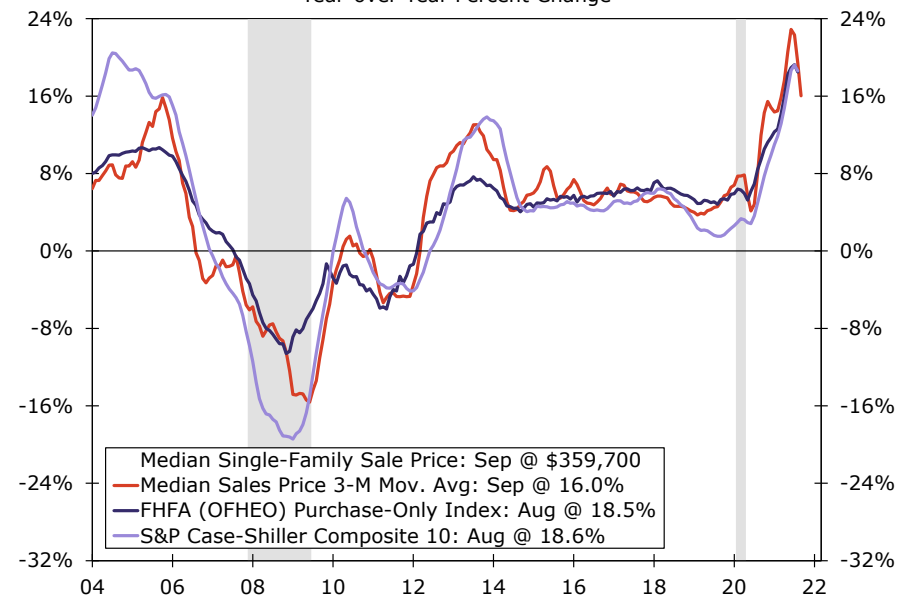


The recent strength in sales suggest the slowdown in home buying we saw earlier this year had more to do with limited inventory, especially at lower-price points, rather than weakening demand.

Mortgage Rate vs. Existing Single-Family Home Sales
Mortgage Rate; SAAR, Millions



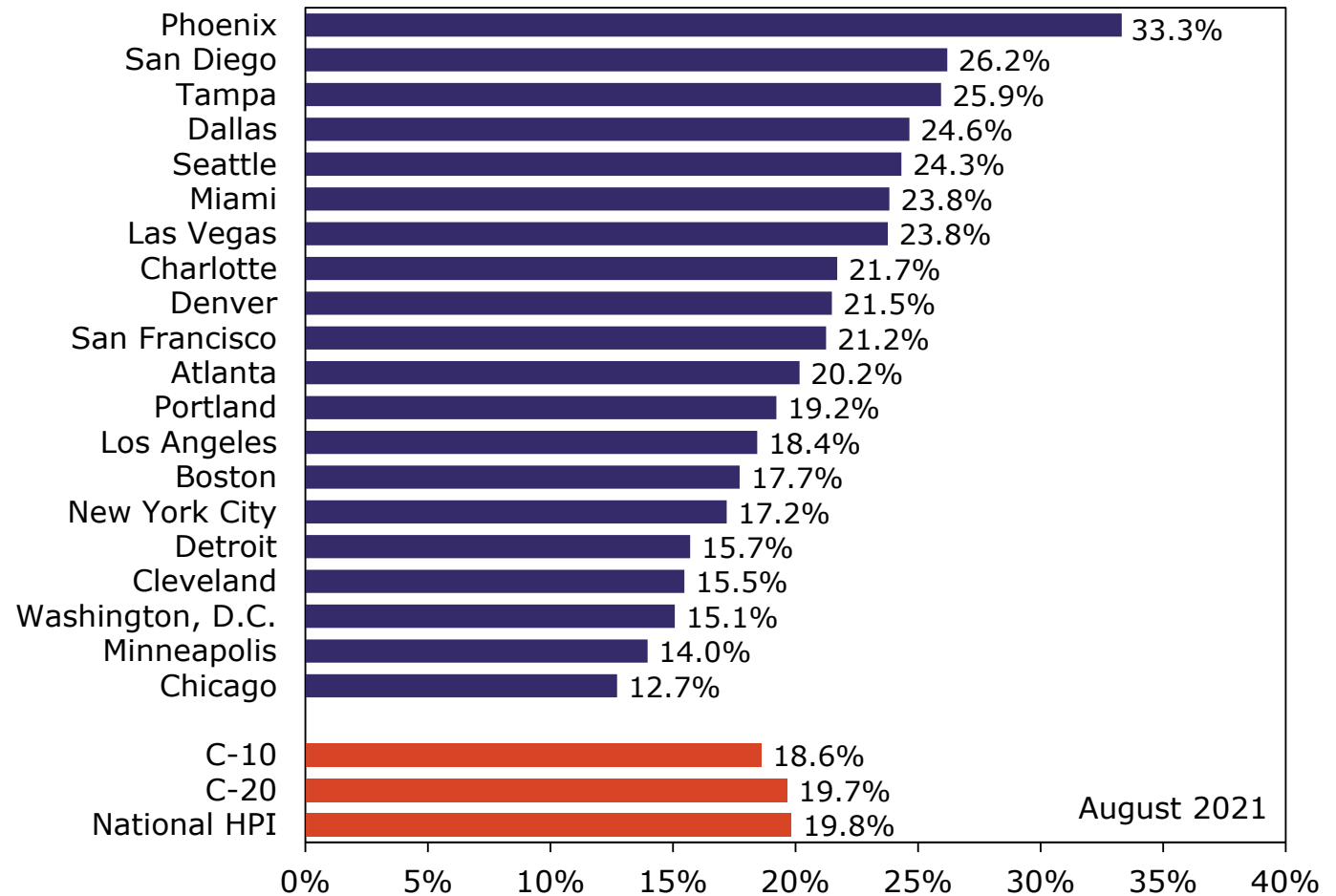
Home Prices
Year-over-Year Percent Change



The surge in home prices reflects a huge supply-demand imbalance that may take at least a couple of years to reconcile.

S&P CoreLogic Case-Shiller Home Prices

Year-over-Year Percent Change, NSA

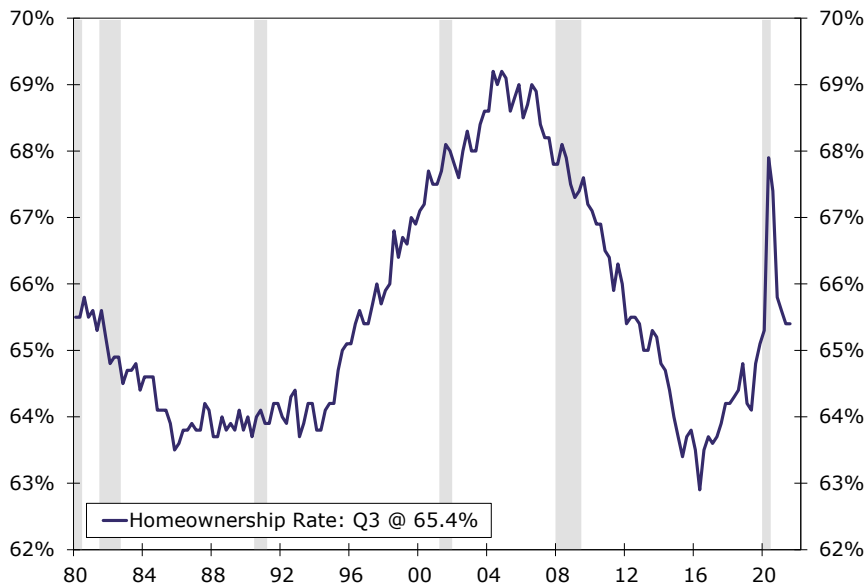


August 2021

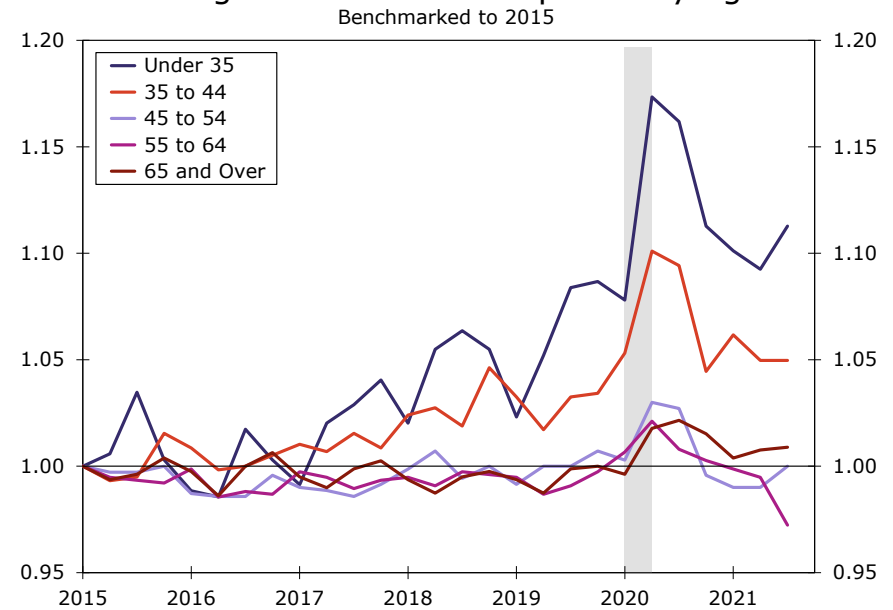
Homeownership Trends

The homeownership rate came in flat over the third quarter at 65.4%. Quickly rising home prices and limited inventories may be discouraging prospective buyers. That said, homeownership among individuals under 35 increased to 38.5%, up from 37.8% in Q2.

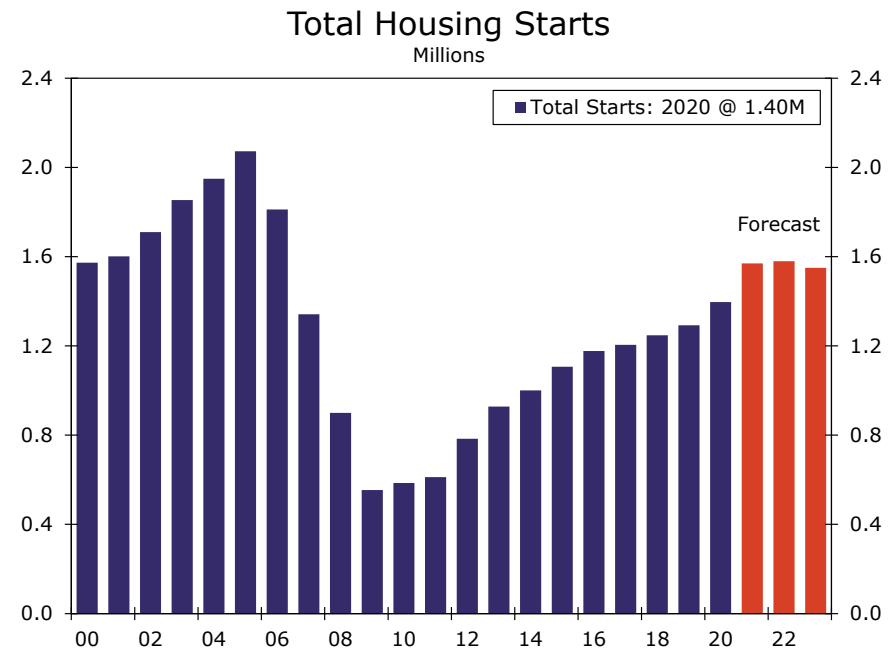
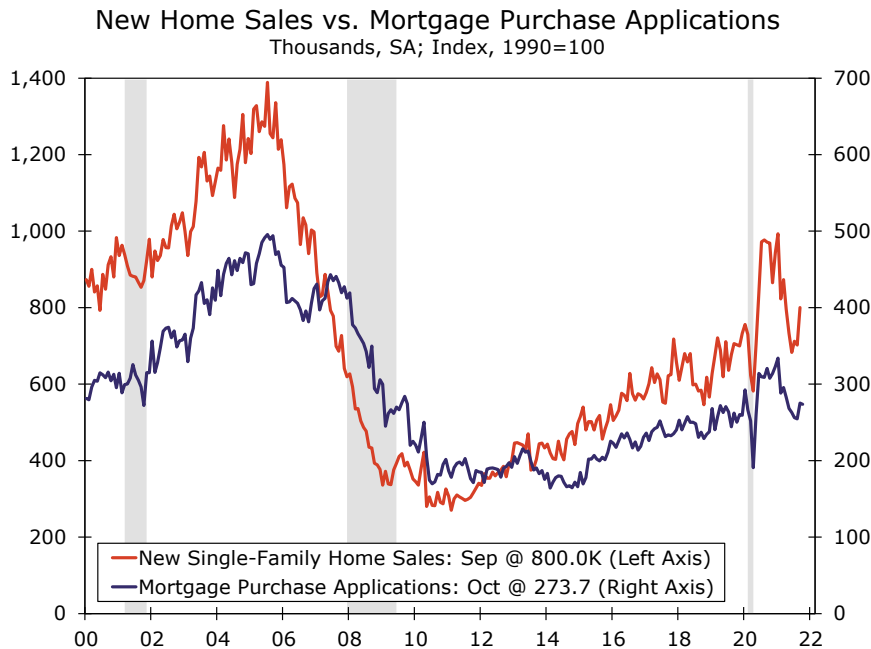
U.S. Homeownership Rate



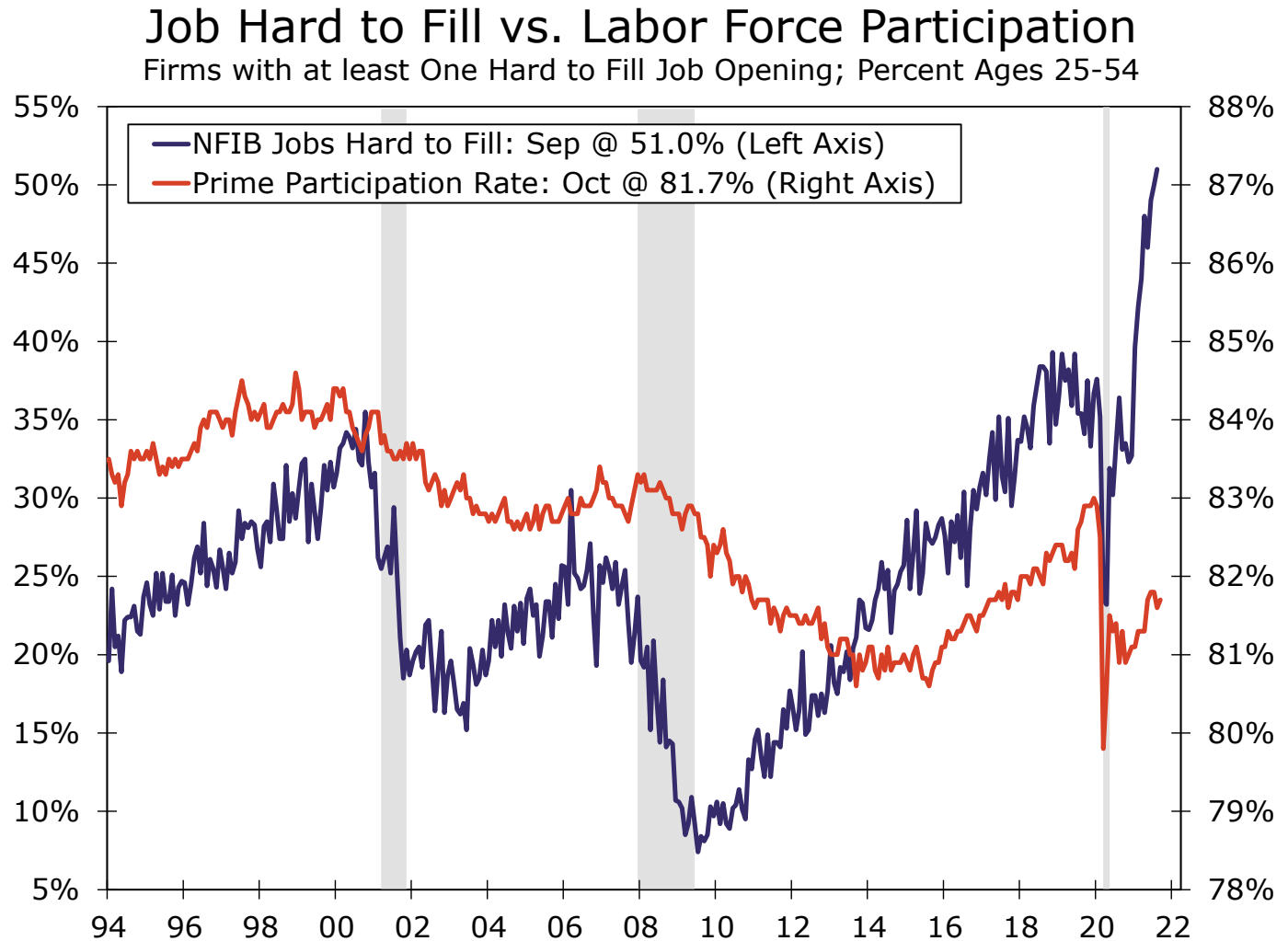
Change in Homeownership Rate by Age



Despite declining affordability, overall buying conditions remain relatively favorable. We expect the market to gradually move back into balance over the next year, as higher prices bring out more sellers and new home construction gradually ramps up.



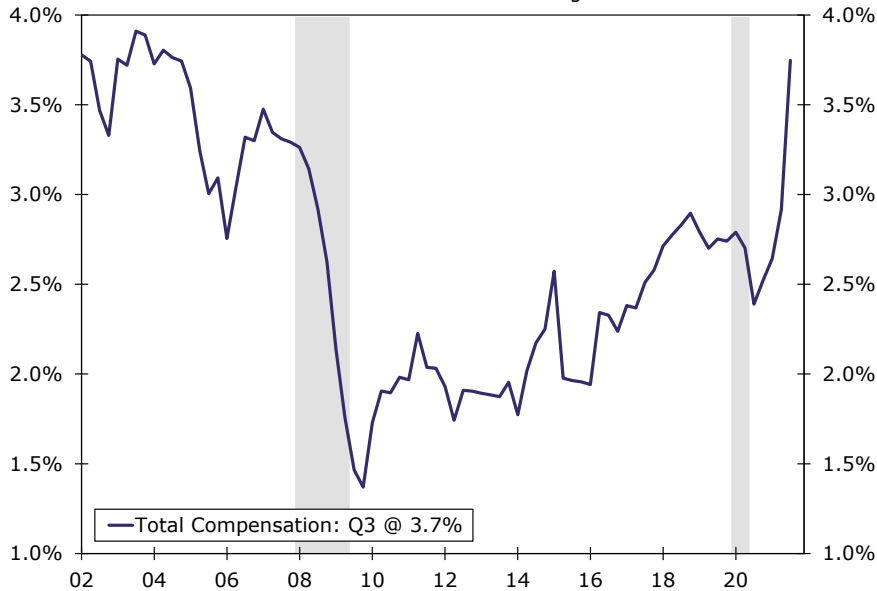
The availability of workers continues to hold back the jobs recovery.



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

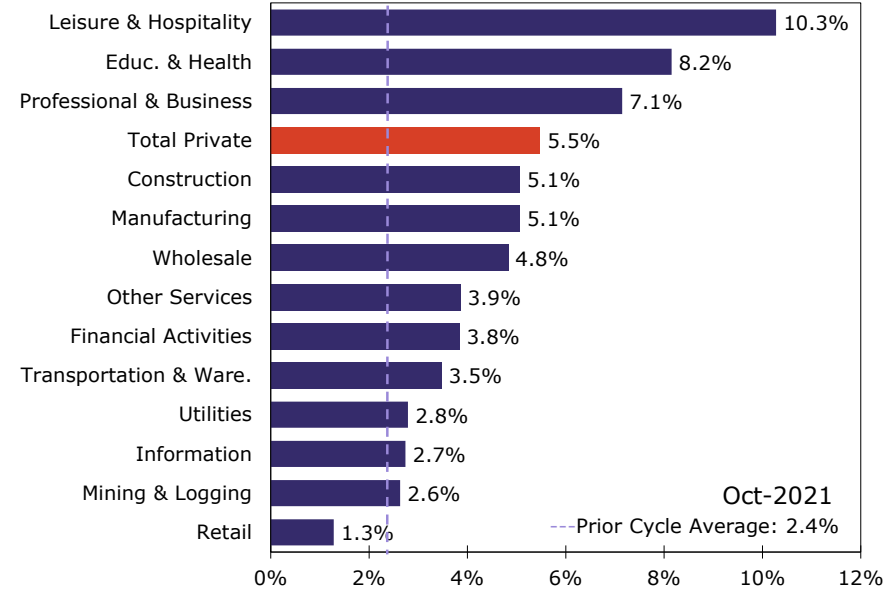
Employment Cost Index - All Workers

Year-over-Year Percent Change

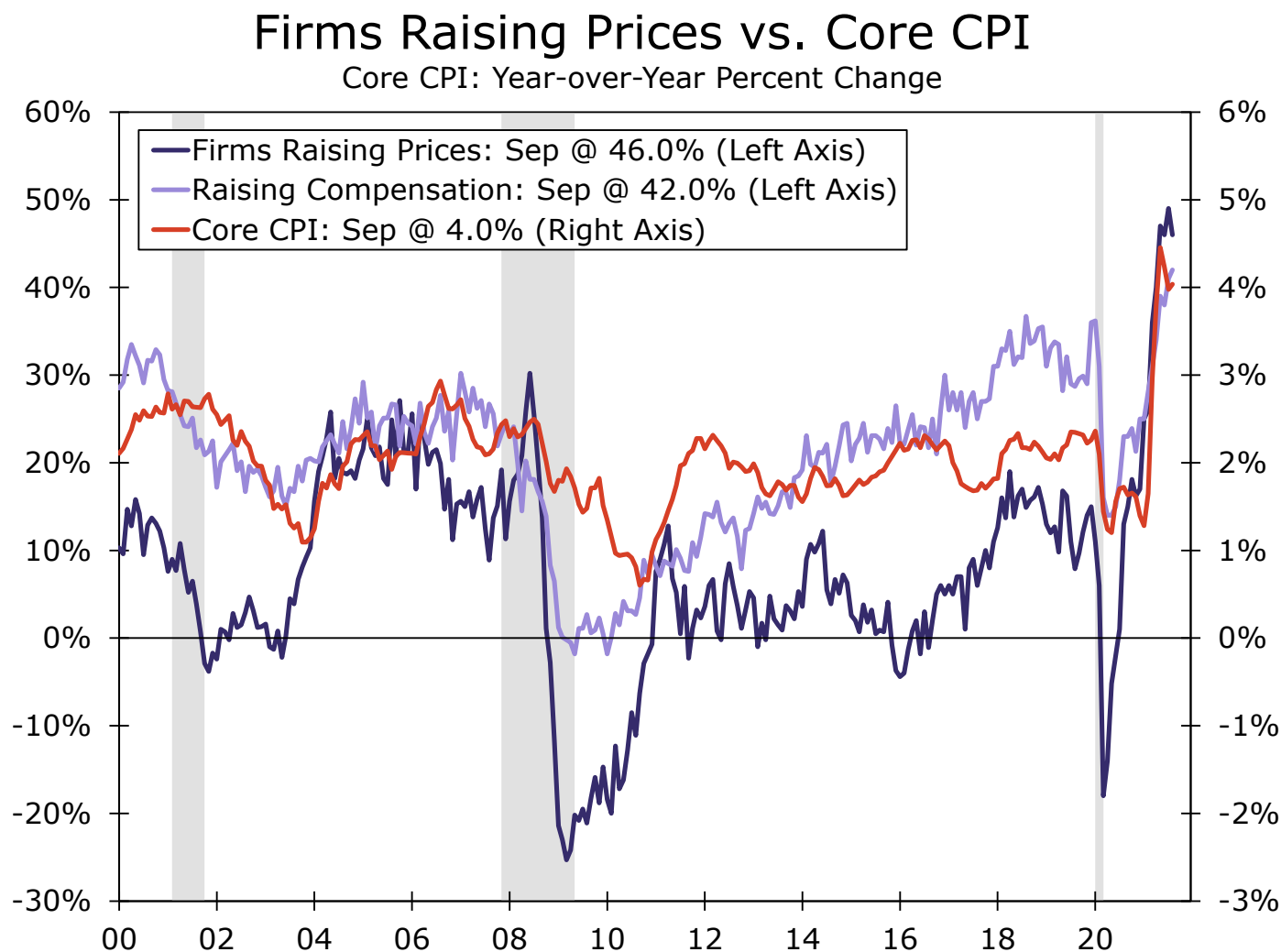


Average Hourly Earnings by Industry

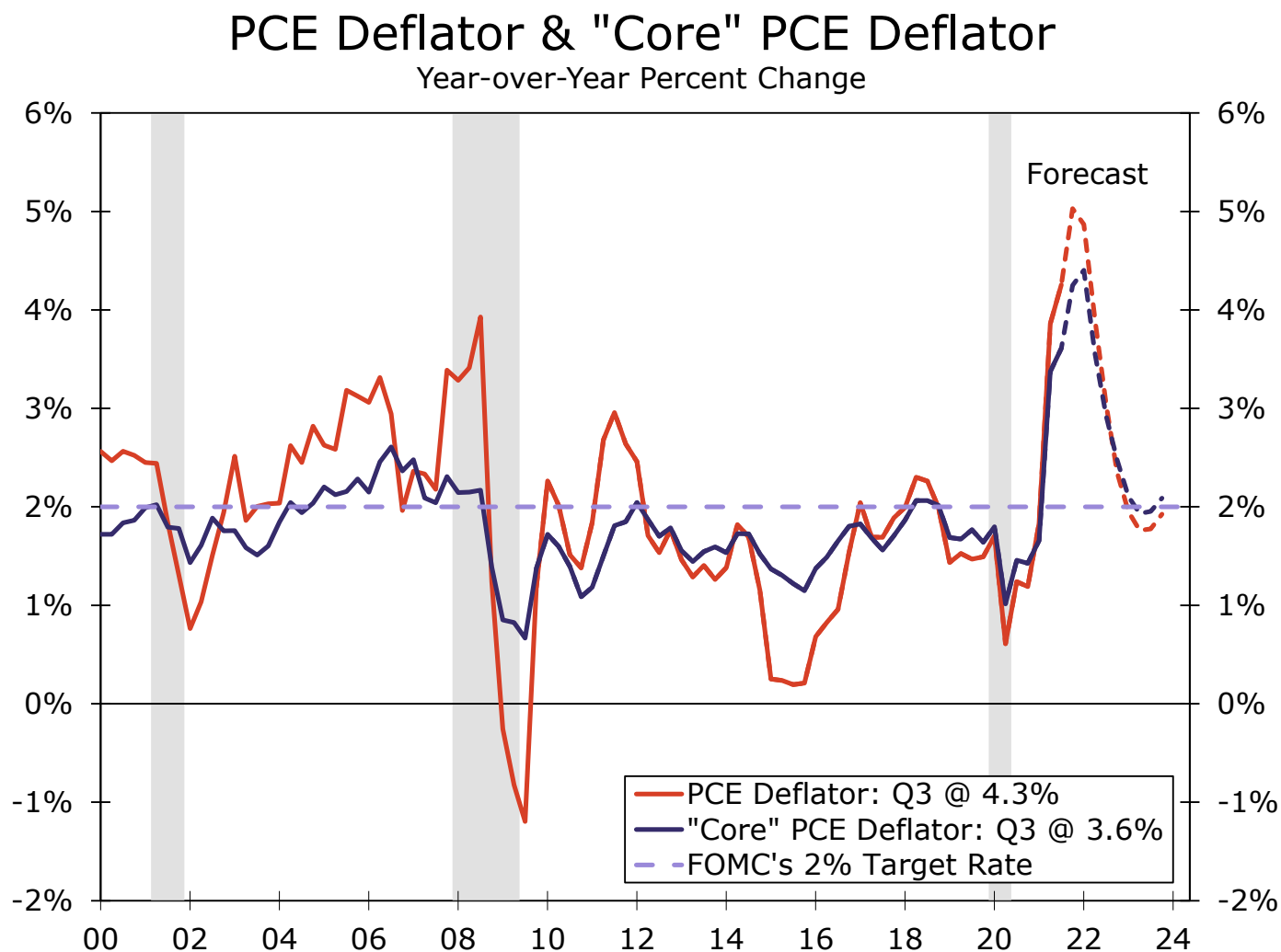
Ranked by % change, Three-Month Annualized Rate



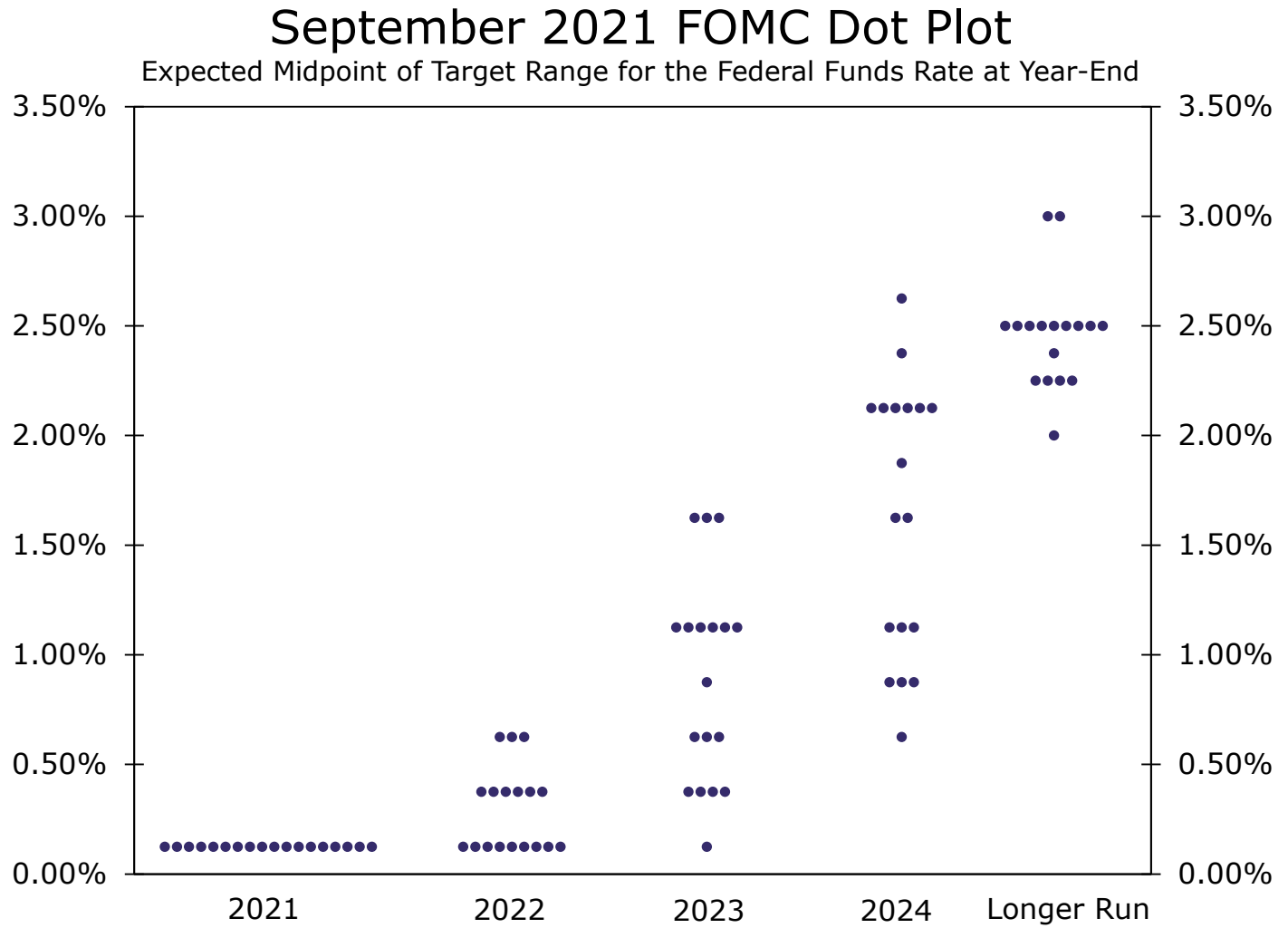
Firms are raising prices at a rapid clip as input costs rise, but higher wages need not be inflationary if productivity is also picking up.



There is a baffling sense of confidence that the Federal Reserve will be able to quickly contain inflation. Count me as one of the biggest skeptics.



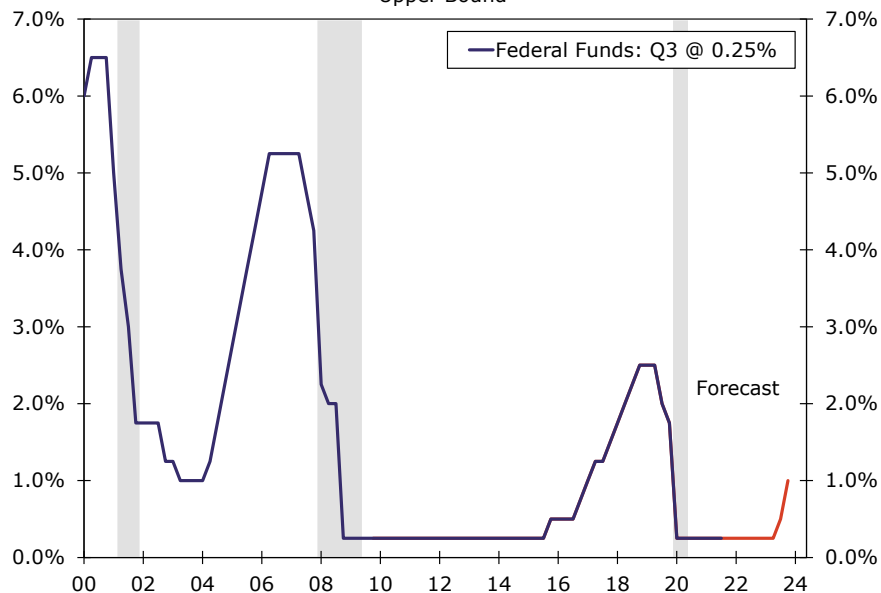
Relative to June, more FOMC members see rate hikes in 2022.



Despite rising inflation, the Fed is likely to keep interest rates at the zero bound until more progress has been made in labor markets. Longer-term interest rates should gradually rise as the economy continues to improve this year.

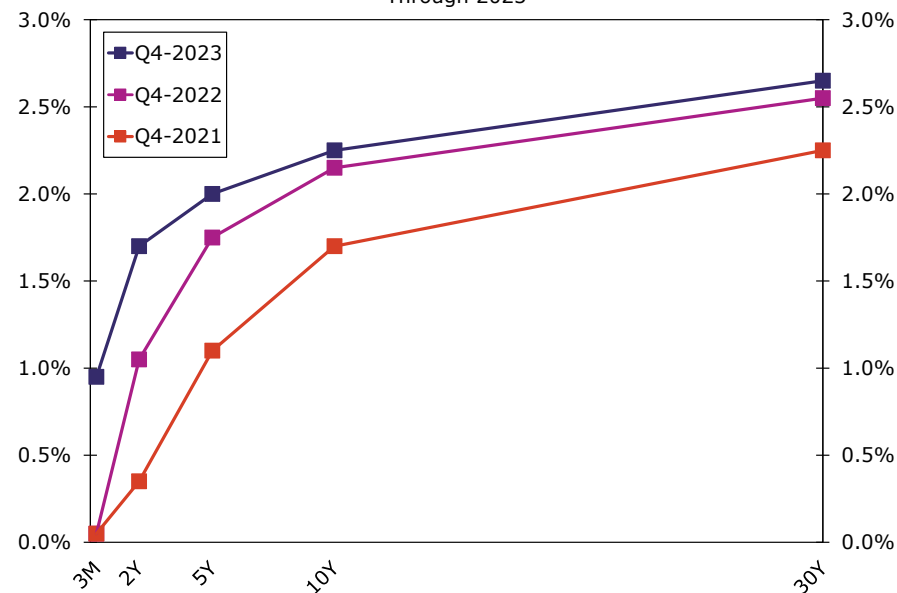
Federal Funds Target Rate

Upper Bound



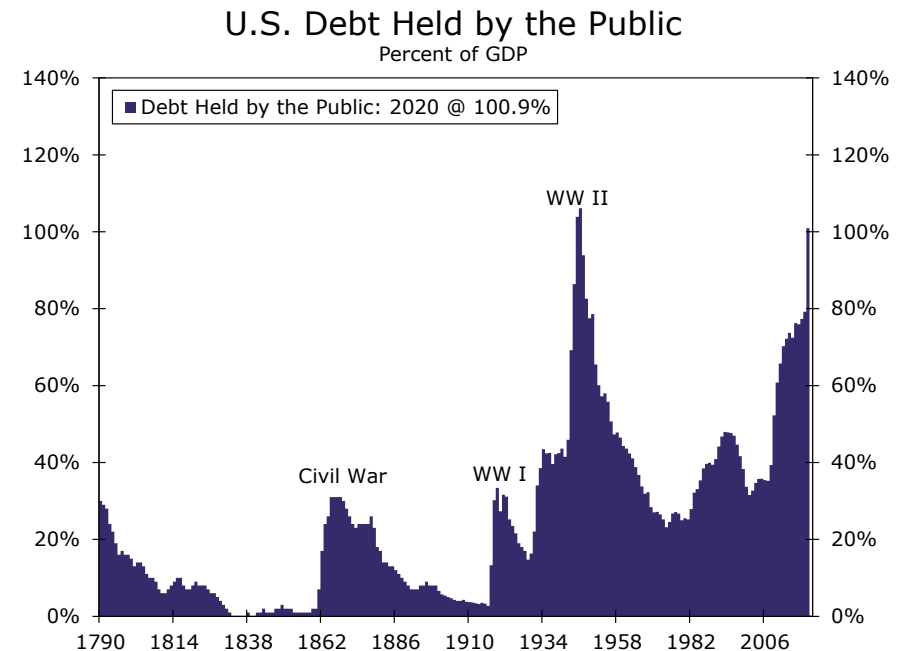
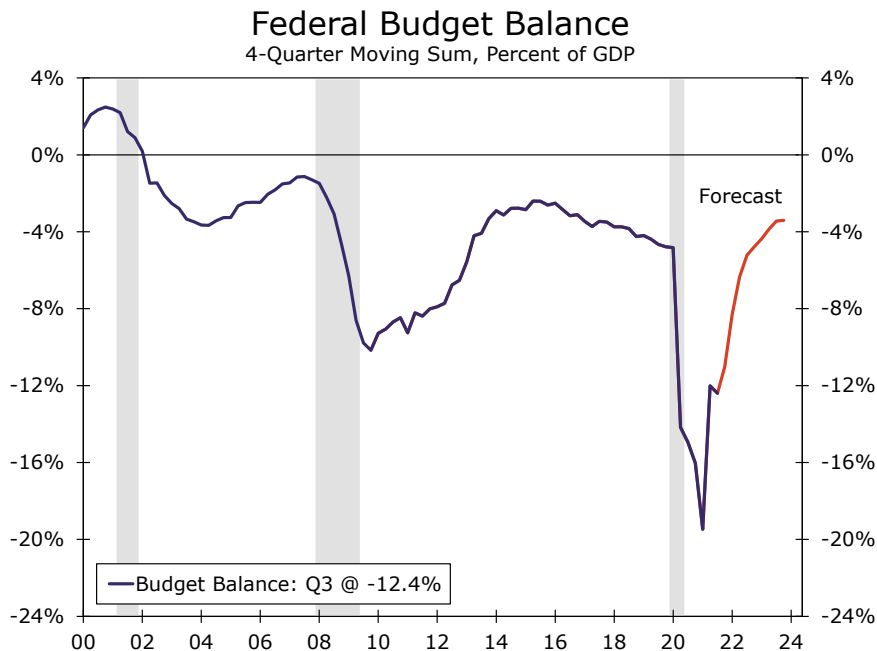
Wells Fargo Rates Forecast

Through 2023



Federal Budget Deficit & Debt

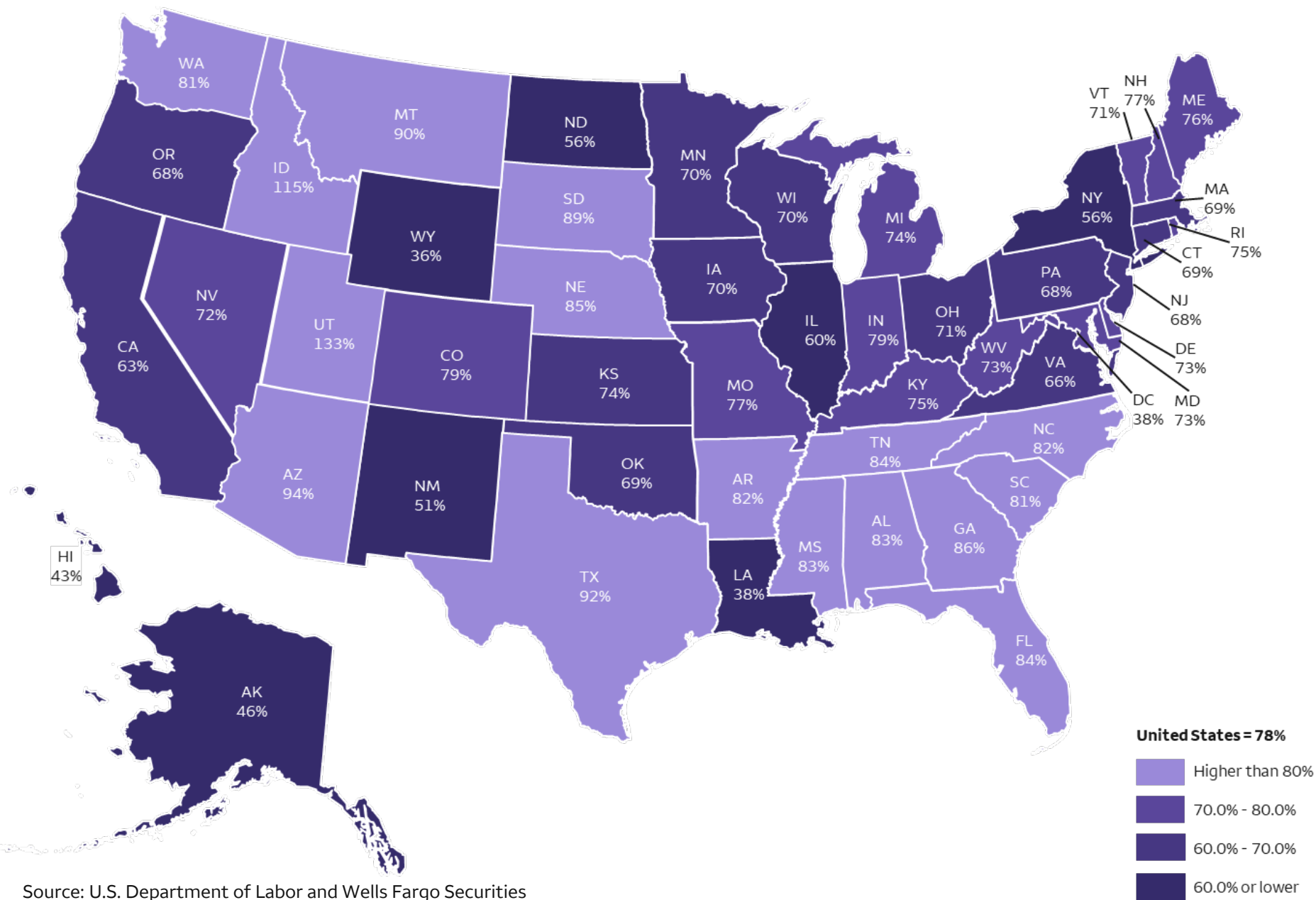
The United States is running its largest federal budget deficit and has its largest debt-to-GDP ratio since World War II. Do deficits matter? Of course they do, sustained economic growth should help make this debt burden more manageable but demographic challenges will increase.





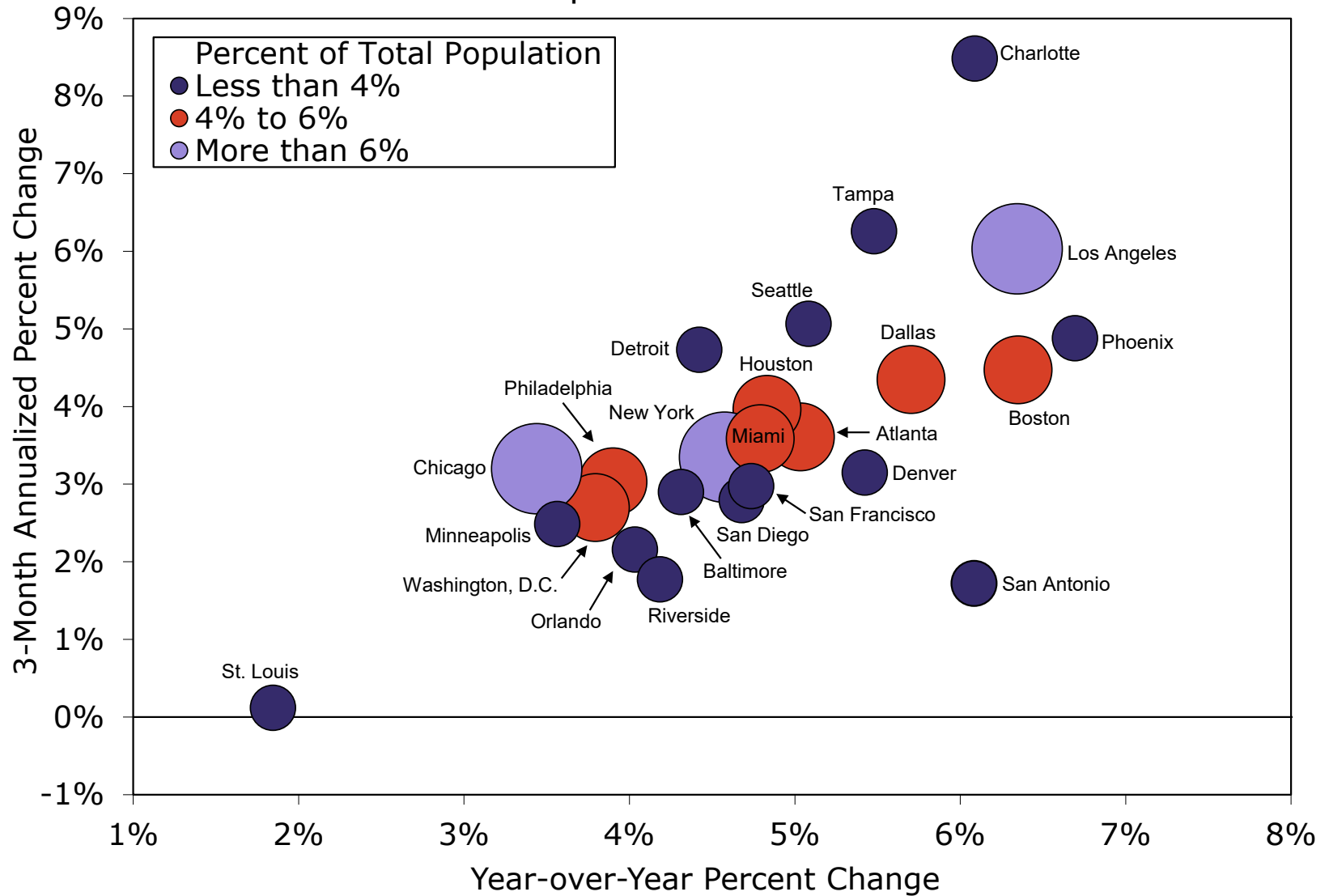
Regional Outlook

Percent of March & April Job Losses Recovered – September 2021



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

U.S. Employment Growth by MSA September 2021

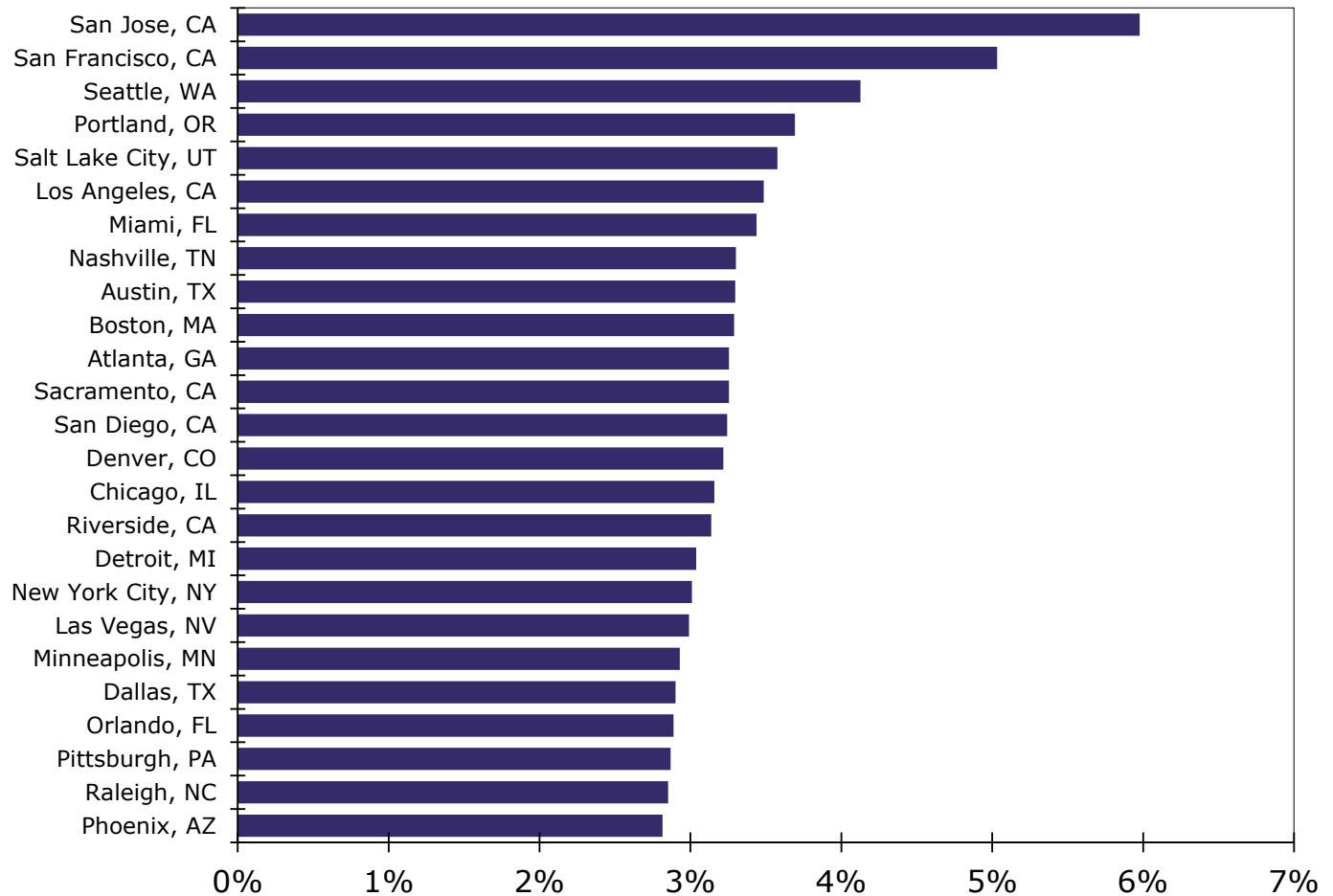


Incomes have traditionally grown fastest in markets with large technology sectors.

This same trend should follow tech investment to more affordable and spacious areas.

Per Capita Income Growth by Metro

CAGR Percent Change; 2015-2019



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

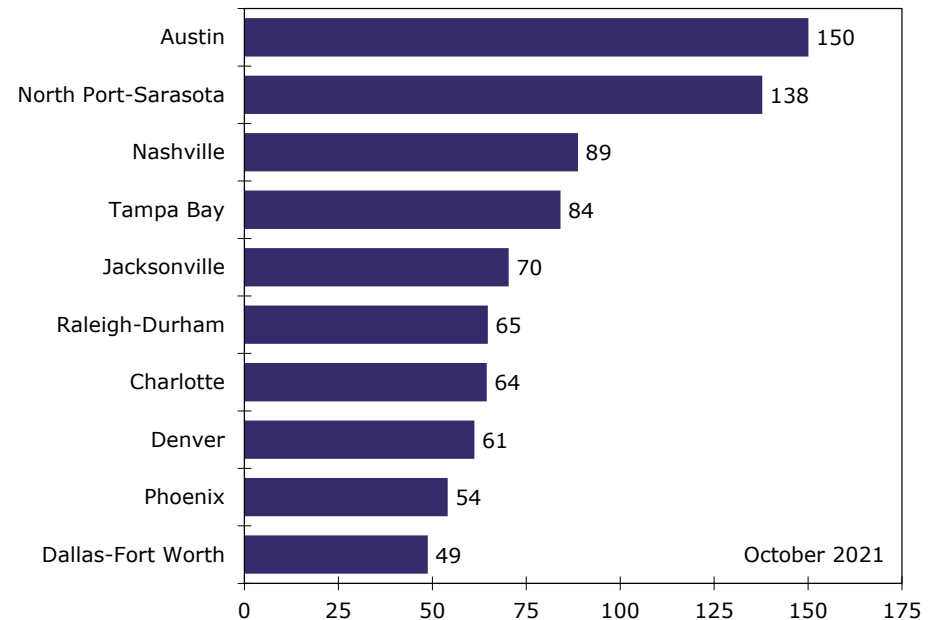
Best Places to Live in the U.S.

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

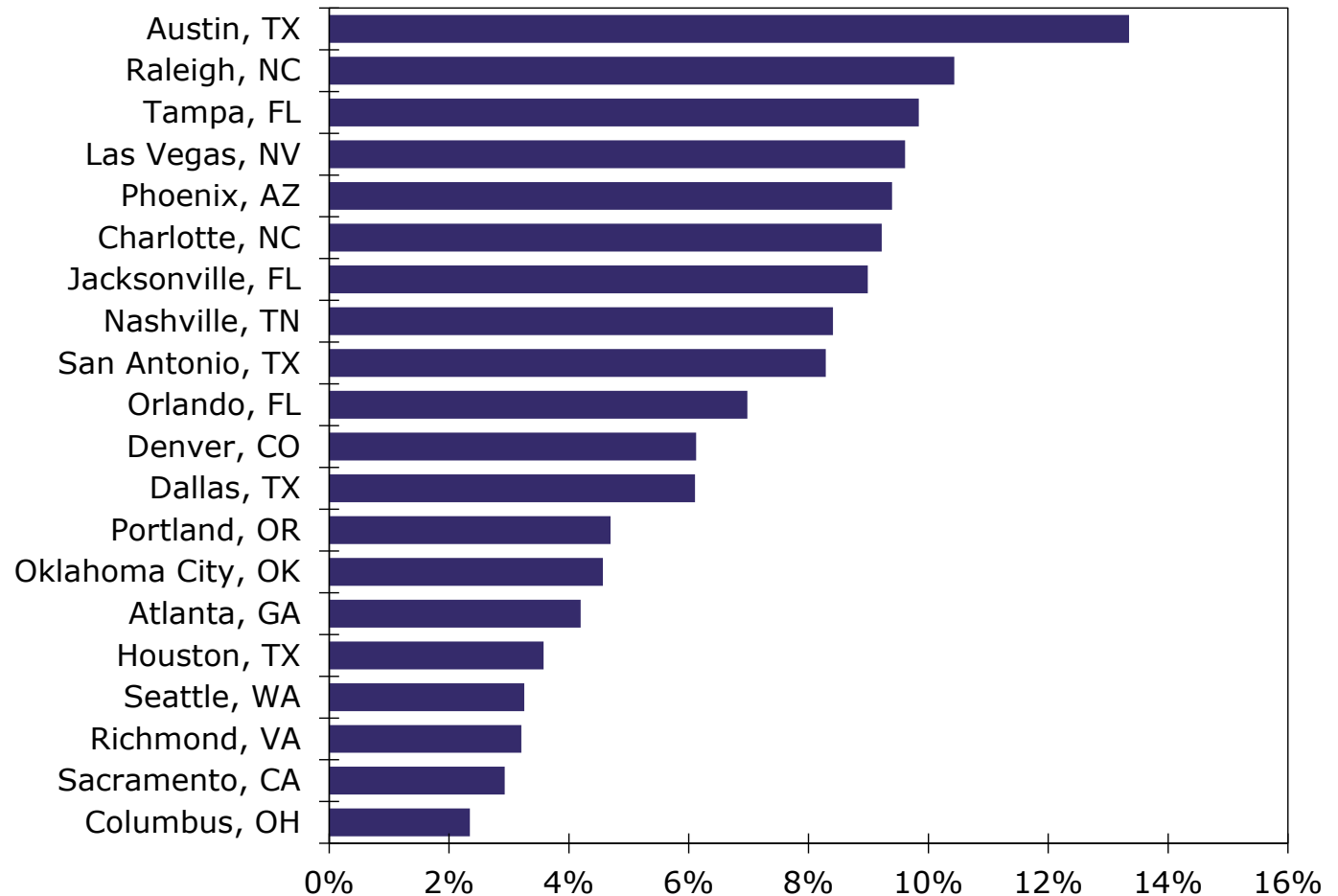
LinkedIn Population Gain per 10,000 Members, Over Past 12 Months



If these trends persist, markets across the South and Sunbelt 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	Forecast		
	2021				2022				2023				2020	2021	2022	2023
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	6.3	6.7	2.0	4.4	3.8	3.5	4.1	3.7	2.8	3.0	3.0	2.8	-3.4	5.6	4.0	3.2
Personal Consumption	11.4	12.0	1.6	2.4	2.1	2.9	3.6	3.5	2.2	2.4	2.5	2.3	-3.8	7.7	3.0	2.7
Business Fixed Investment	12.9	9.2	1.8	5.3	4.7	4.7	5.6	5.0	4.9	4.0	4.4	4.3	-5.3	7.5	4.8	4.7
Equipment	14.1	12.1	-3.2	5.1	4.5	4.4	6.8	5.5	5.3	3.6	4.4	4.3	-8.3	12.4	3.8	5.0
Intellectual Property Products	15.6	12.5	12.2	6.8	6.0	5.6	5.1	4.9	5.1	4.8	5.0	5.0	2.8	10.3	7.0	5.0
Structures	5.4	-3.0	-7.3	2.0	2.4	2.9	3.2	3.4	3.5	3.1	2.9	2.7	-12.5	-6.8	2.1	3.2
Residential Investment	13.3	-11.7	-7.7	3.5	4.0	4.5	4.5	4.0	3.5	3.5	3.0	3.0	6.8	9.8	2.0	3.7
Government Purchases	4.2	-2.0	0.8	3.1	2.5	2.3	2.1	2.2	2.0	2.0	1.7	1.5	2.5	0.9	2.1	2.0
Net Exports ²	-1.6	-0.2	-1.1	-0.3	0.3	0.0	0.1	0.0	0.1	0.1	0.2	0.1	-0.3	-1.7	0.0	0.1
Inventories ²	-2.6	-1.3	2.1	1.5	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.1	0.7	0.0
Nonfarm Payroll Change ³	518	615	550	375	450	375	268	255	240	225	215	200	-785	515	337	220
Unemployment Rate	6.2	5.9	5.1	4.7	4.5	4.3	4.2	4.1	4.0	3.8	3.7	3.6	8.1	5.5	4.3	3.8
PCE Deflator ⁴	1.8	3.9	4.3	5.0	4.9	3.9	3.0	2.3	2.0	1.8	1.8	1.9	1.2	3.8	3.5	1.9
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	0.50	0.25	0.25	0.50
Secured Overnight Financing Rate ⁶	0.04	0.02	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.10	0.35	0.85	0.36	0.04	0.05	0.35
3 Month LIBOR	0.19	0.15	0.13	0.10	0.10	0.10	0.10	0.10	0.15	0.25	0.50	1.00	0.65	0.14	0.10	0.48
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50	4.00	3.50	3.25	3.25	3.50
Conventional Mortgage Rate	3.08	2.98	2.87	3.20	3.40	3.55	3.65	3.70	3.75	3.75	3.80	3.80	3.12	3.03	3.58	3.78
3 Month Bill	0.03	0.05	0.04	0.05	0.05	0.05	0.05	0.05	0.10	0.20	0.45	0.95	0.36	0.04	0.05	0.43
6 Month Bill	0.05	0.06	0.05	0.05	0.05	0.05	0.10	0.15	0.25	0.35	0.65	1.10	0.37	0.05	0.09	0.59
1 Year Bill	0.07	0.07	0.09	0.10	0.10	0.15	0.25	0.40	0.60	0.80	1.05	1.30	0.37	0.08	0.23	0.94
2 Year Note	0.16	0.25	0.28	0.35	0.45	0.65	0.85	1.05	1.25	1.40	1.55	1.70	0.39	0.26	0.75	1.48
5 Year Note	0.92	0.87	0.98	1.10	1.25	1.45	1.60	1.75	1.85	1.90	1.95	2.00	0.53	0.97	1.51	1.93
10 Year Note	1.74	1.45	1.52	1.70	1.90	2.00	2.10	2.15	2.20	2.20	2.25	2.25	0.89	1.60	2.04	2.23
30 Year Bond	2.41	2.06	2.08	2.25	2.40	2.50	2.55	2.55	2.60	2.60	2.65	2.65	1.56	2.20	2.50	2.63

Forecast as of: October 14, 2021

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

⁶ Quarterly Average of Daily Close

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