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SECURITIES

Economic Outlook

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May 21, 2020

Together we'll go far



Economic Outlook

- **Shutdowns implemented to slow the spread of COVID-19 wiped out economic growth in Q1 and led to massive output and employment declines in Q2. Efforts to re-open the economy are progressing slowly.**

Quantifying the Contraction

- **There were few obvious imbalances prior to the COVID-19 outbreak, which should help prevent the healthcare and economic crisis from becoming a financial crisis. The massive loss of income and wealth will take a heavy toll.**

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 to 20% + over the next few months.**

What Kind of Recovery?

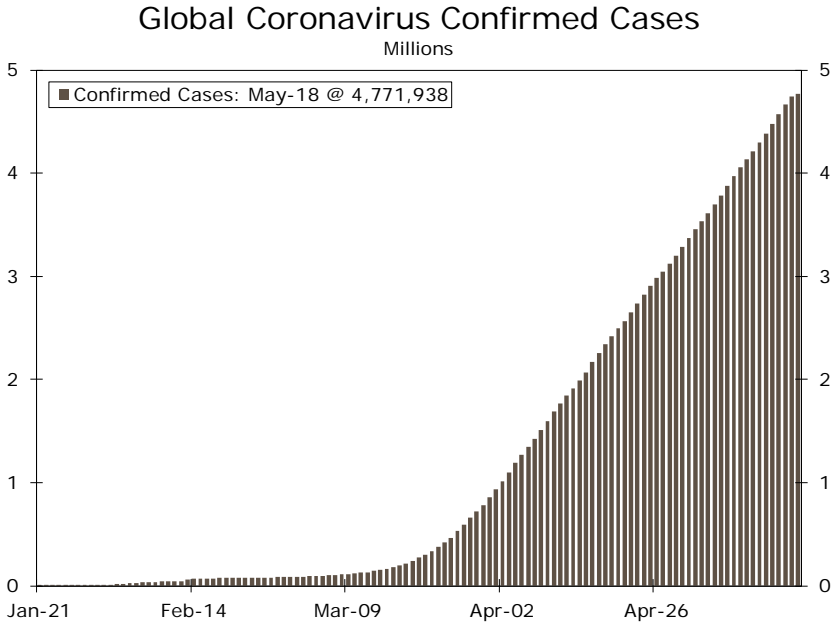
- **The abrupt shutdown of economic activity combined with the absence of imbalances in the most cyclical parts of the economy has given rise to hopes of a V-shaped recovery. We expect to see a “bouncing” swoosh.**

Real Estate

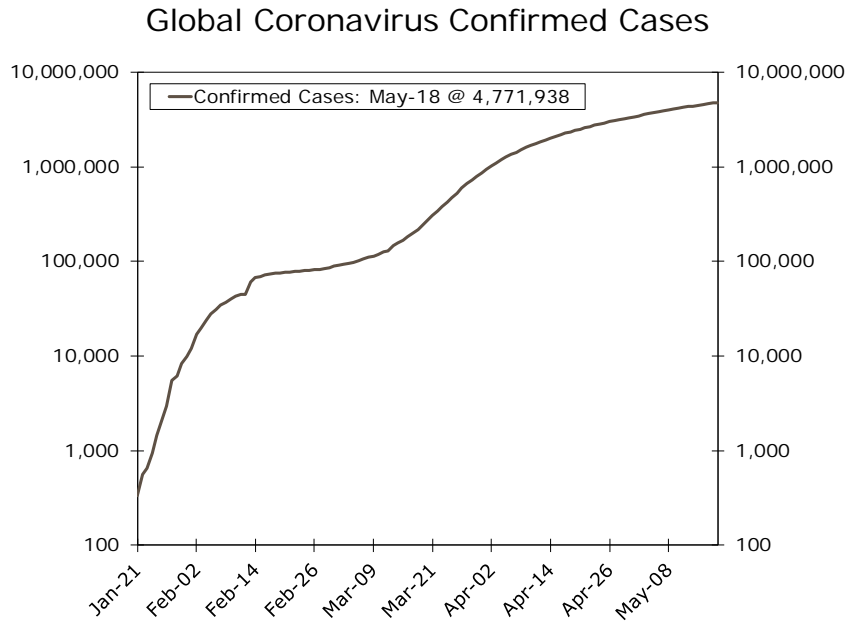
- **Commercial construction was fairly restrained this past decade. Most product groups were well balanced prior to the shutdown. Weaker household balance sheets and tenant creditworthiness will test apartments and retail.**

Much of the world is now 're-opening.'

Linear Scale



Log Scale

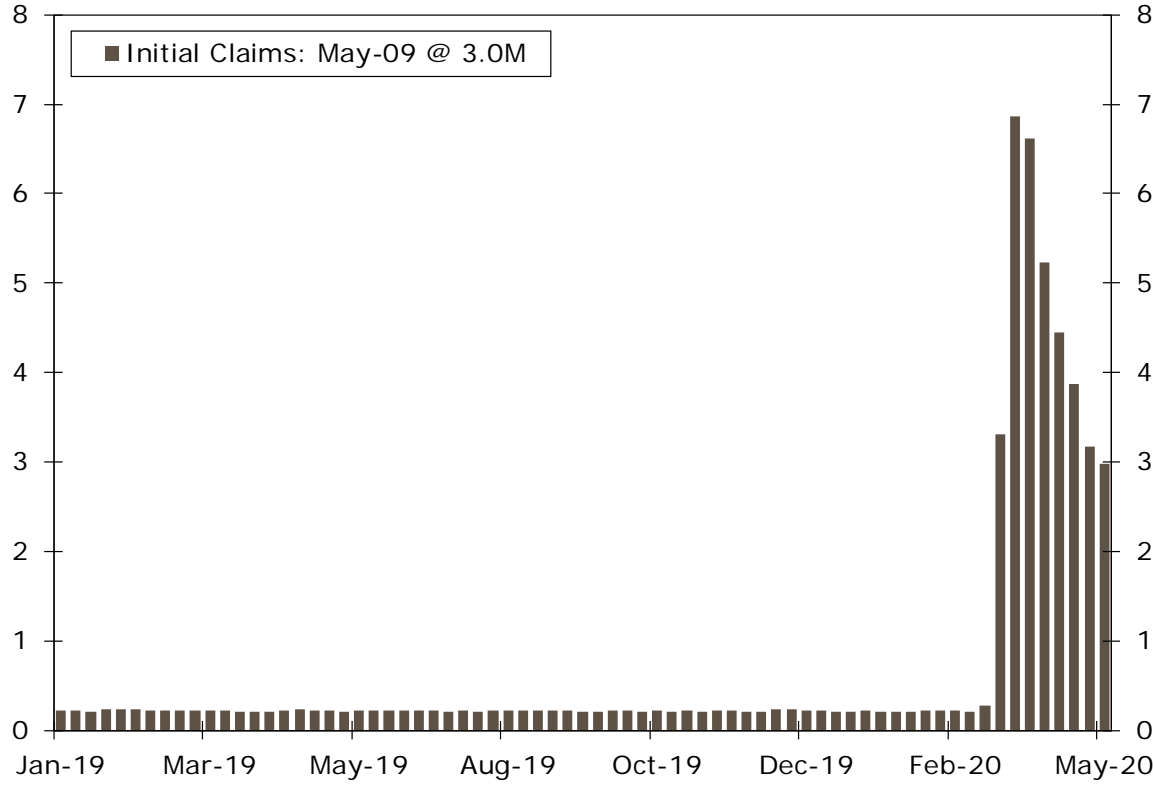


Source: Bloomberg LP and Wells Fargo Securities

33 million people have filed unemployment claims, over the past seven weeks, about 20% of the workforce.

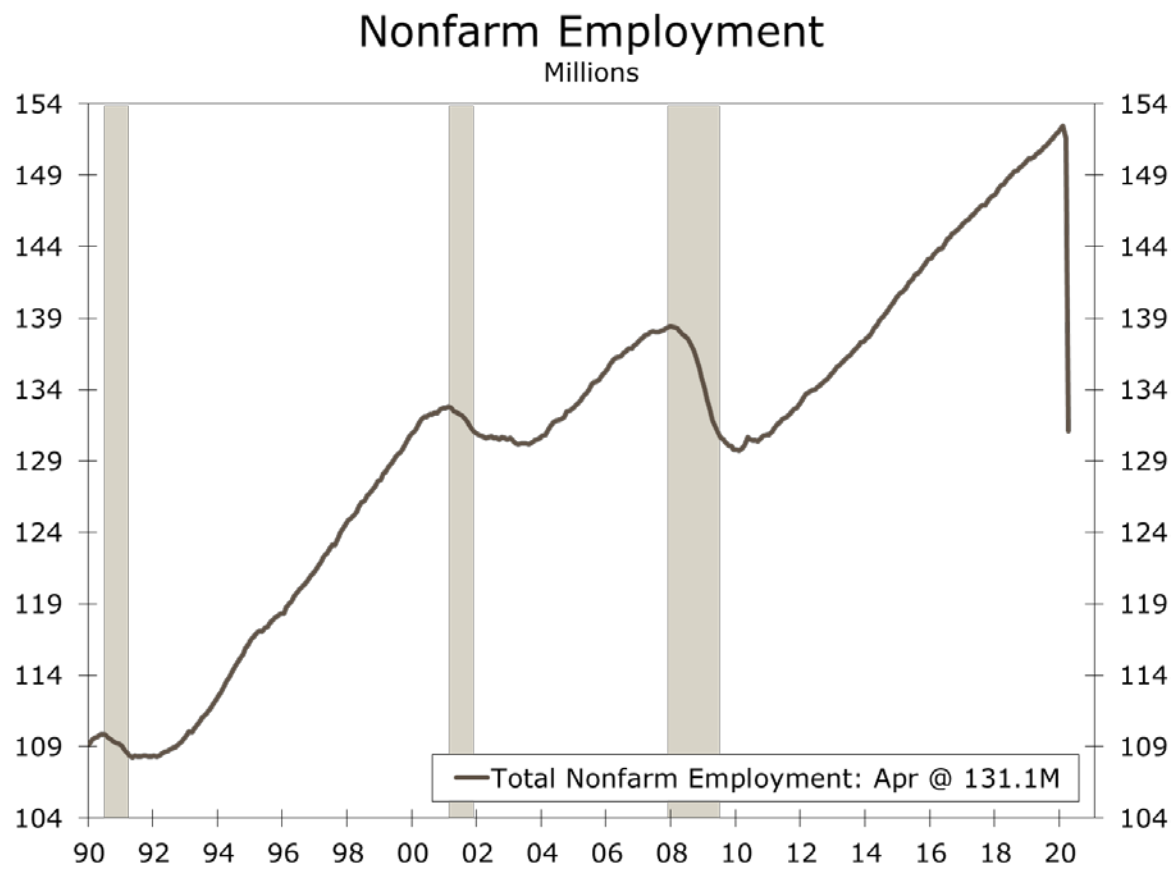
Initial Jobless Claims

Millions, Seasonally Adjusted



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

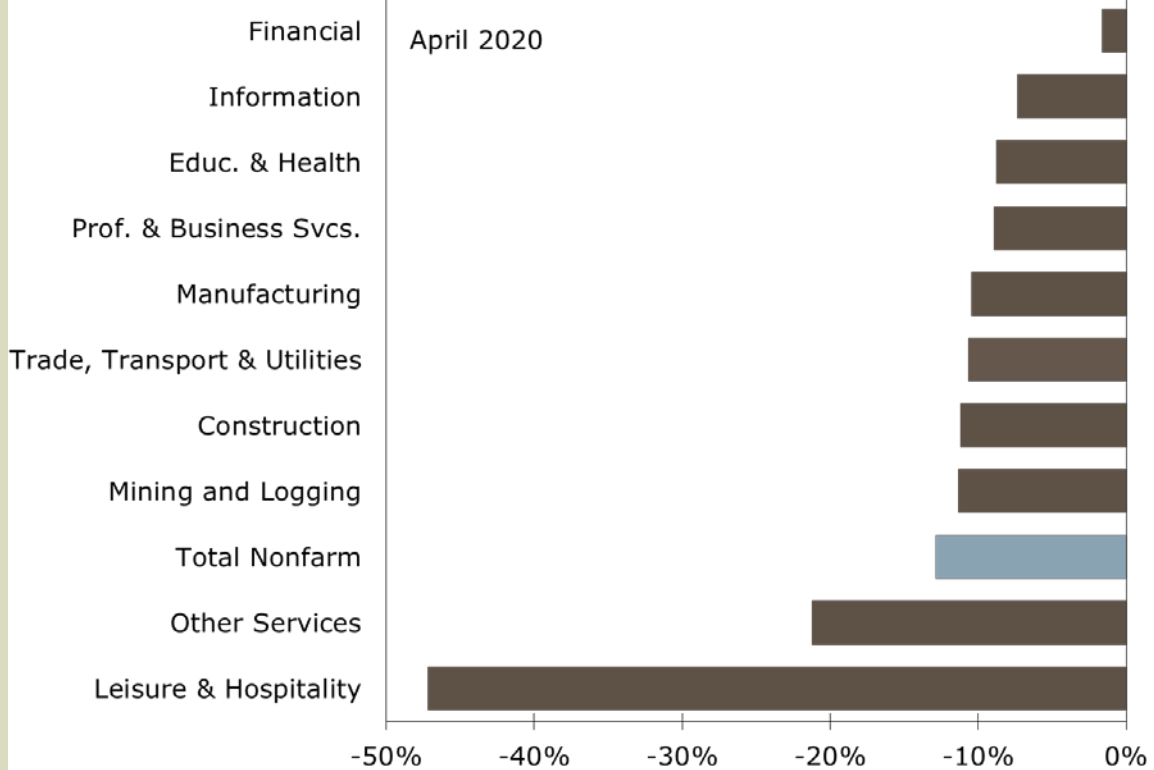
20.5 million jobs were lost in April.



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

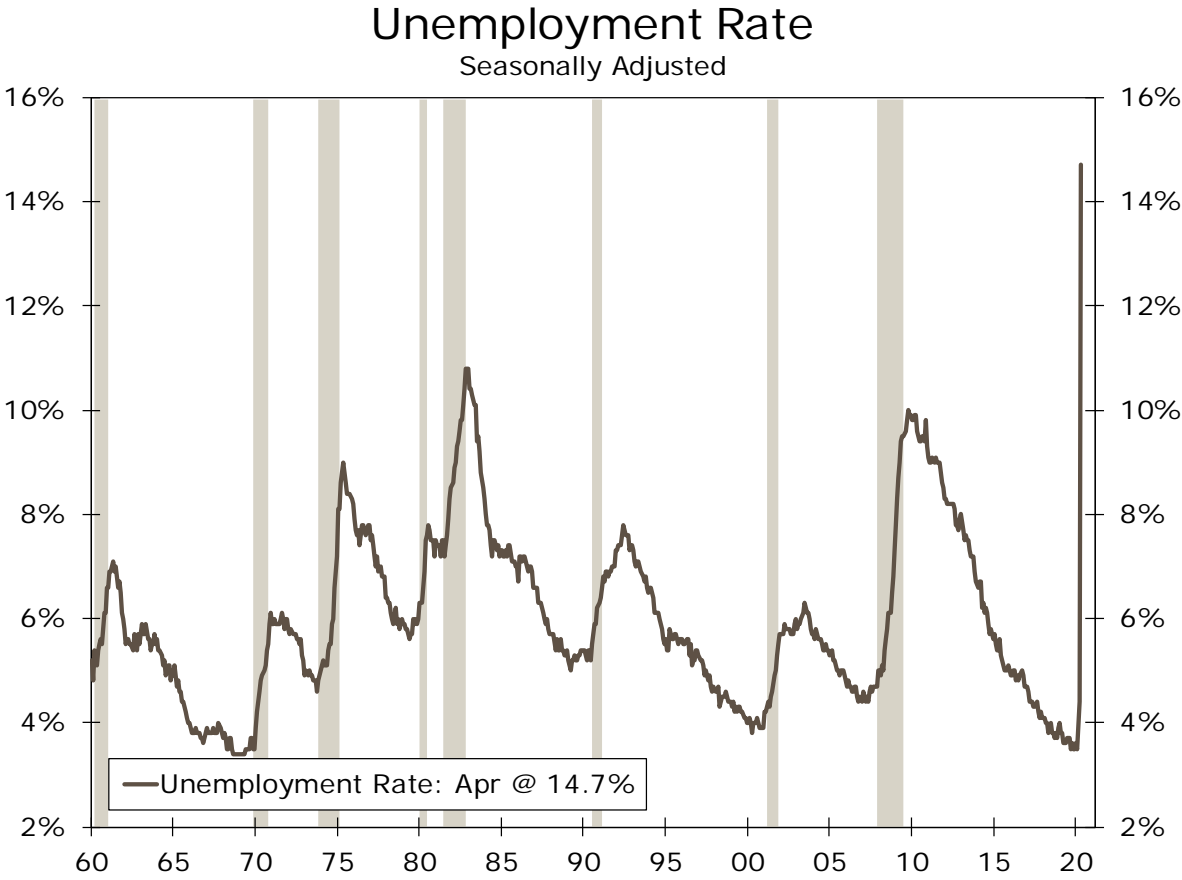
Every sector lost jobs, with leisure & hospitality hit the hardest.

U.S. Employment by Industry Year-over-Year Percent Change



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

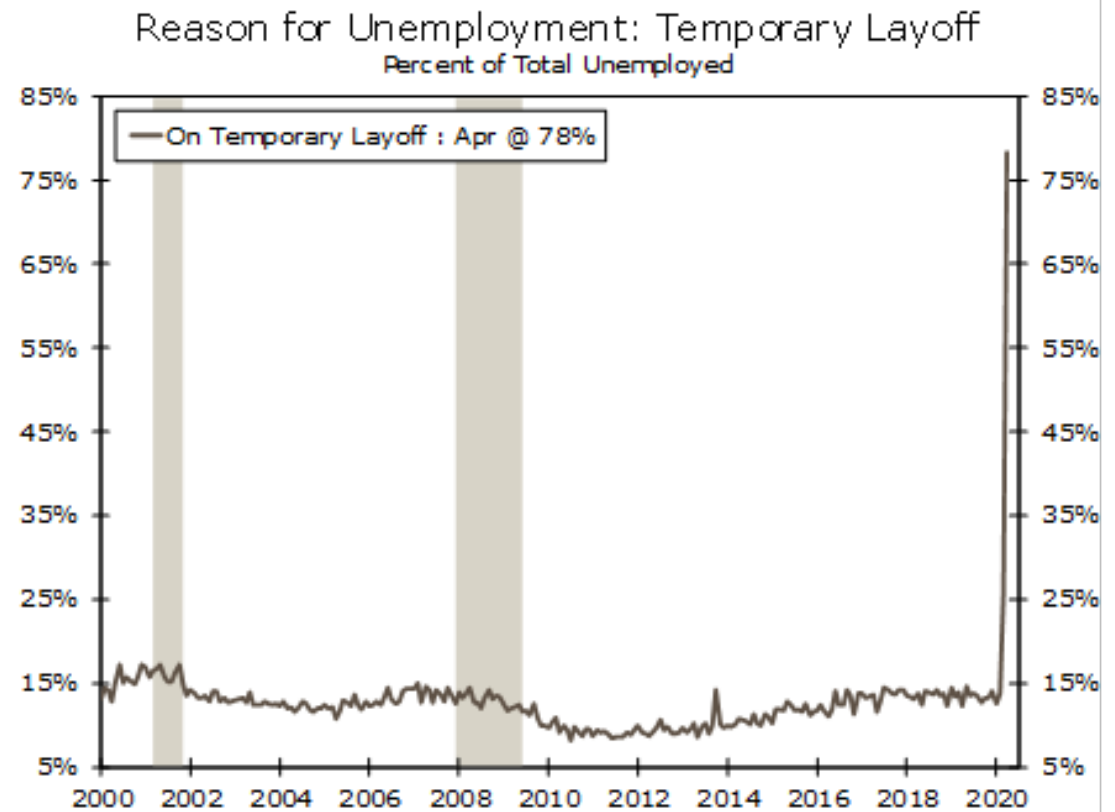
The BLS estimated the true unemployment rate is near 20%.



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

Of the 20M job losses, 18M were classified as 'temporary'.

This will likely prove too optimistic, however.

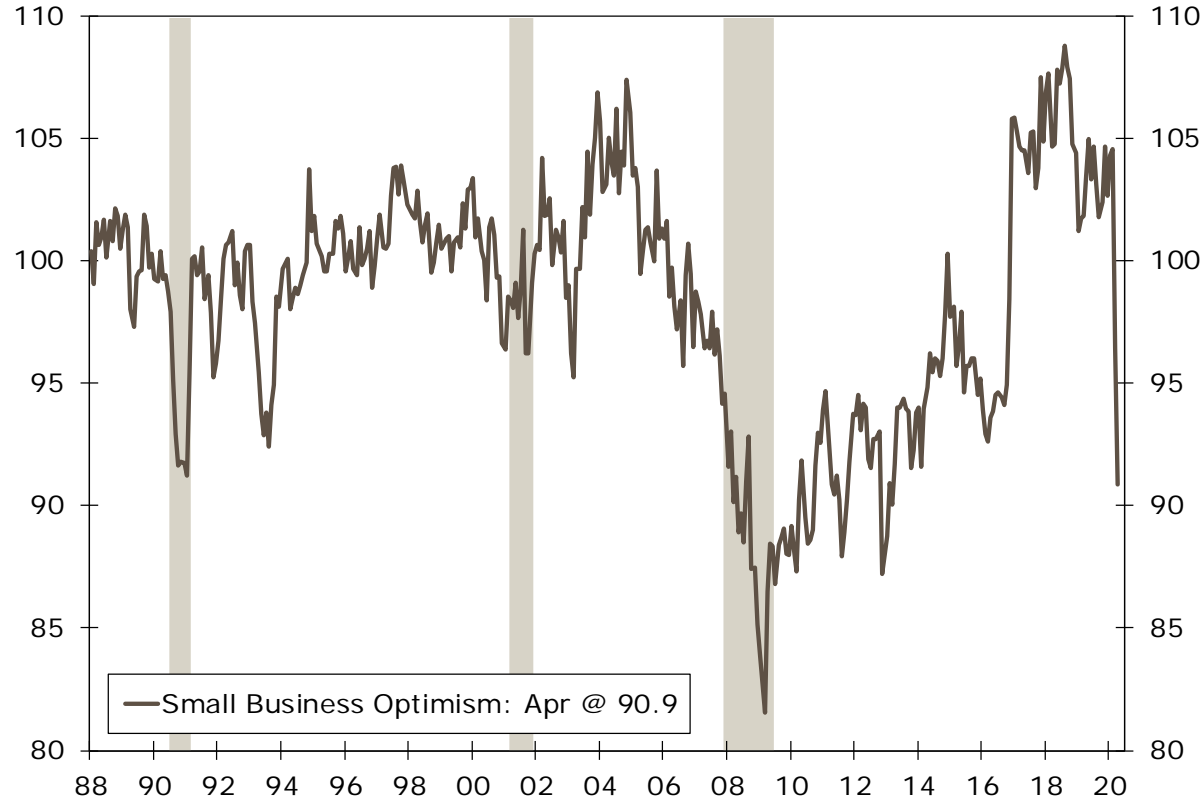


Source: U.S. Department of Labor and Wells Fargo Securities

NFIB Small Business Optimism

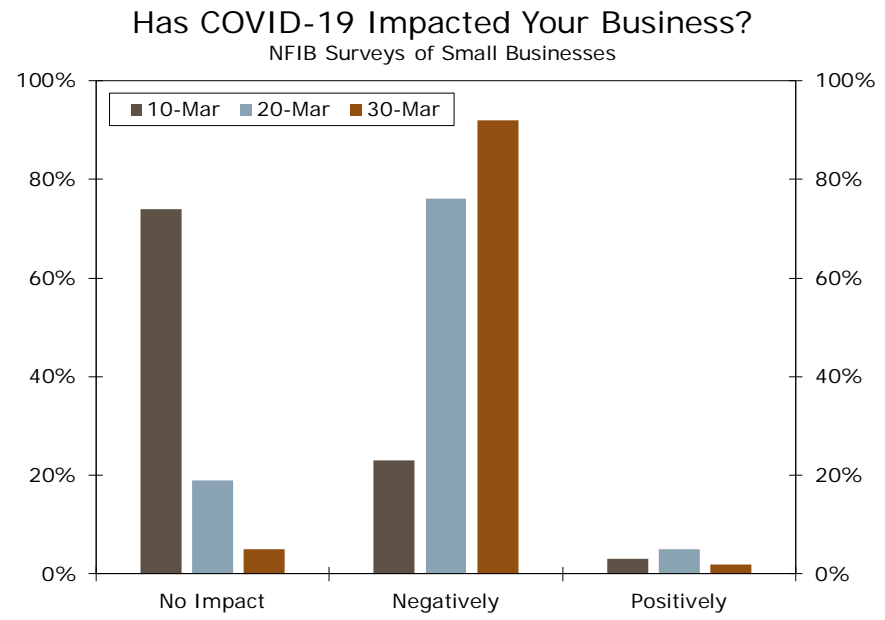
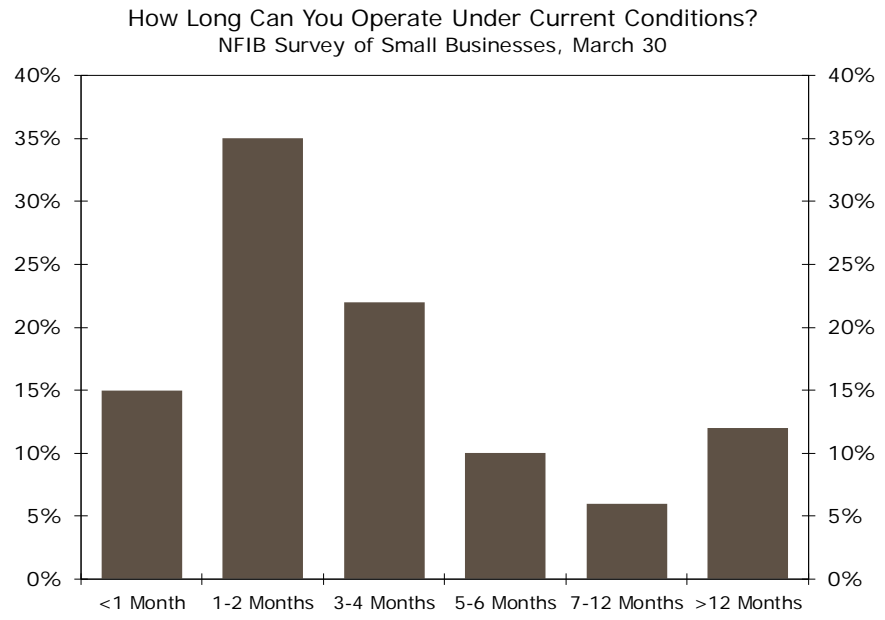
Overall Index 1986 = 100

The NFIB Small Business Optimism Index plunged in March and April.



Source: NFIB and Wells Fargo Securities

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

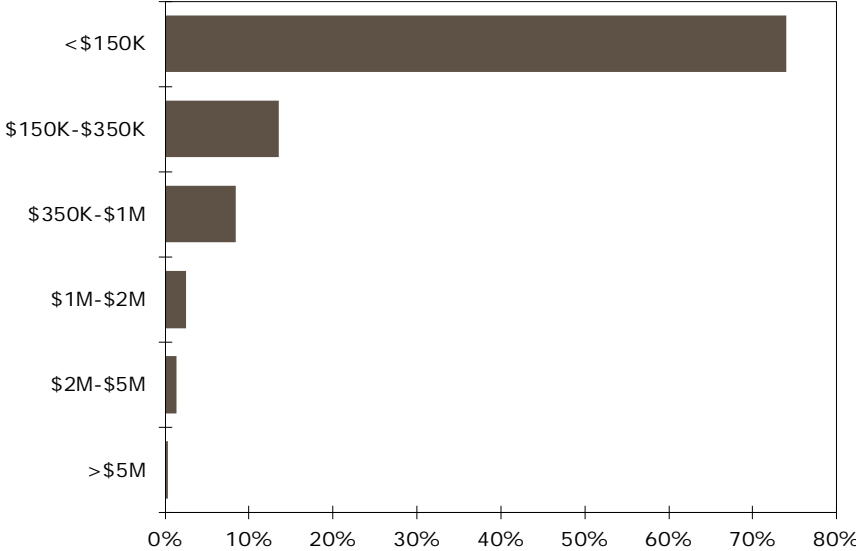


Source: NFIB and Wells Fargo Securities

The initial \$349 billion in PPP loans was exhausted quickly. Congress has added \$321 billion more.

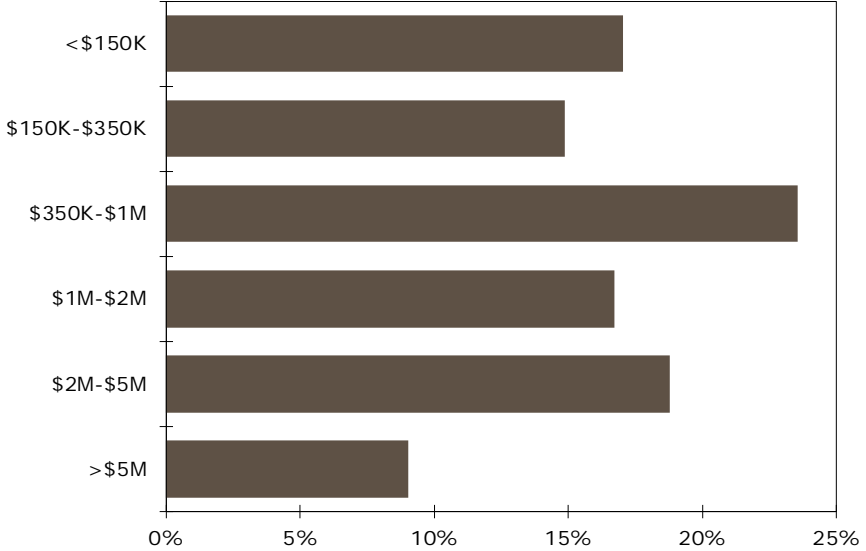
PPP Loans Approved by Loan Size

% of Number of Loans



PPP Loans Approved by Loan Size

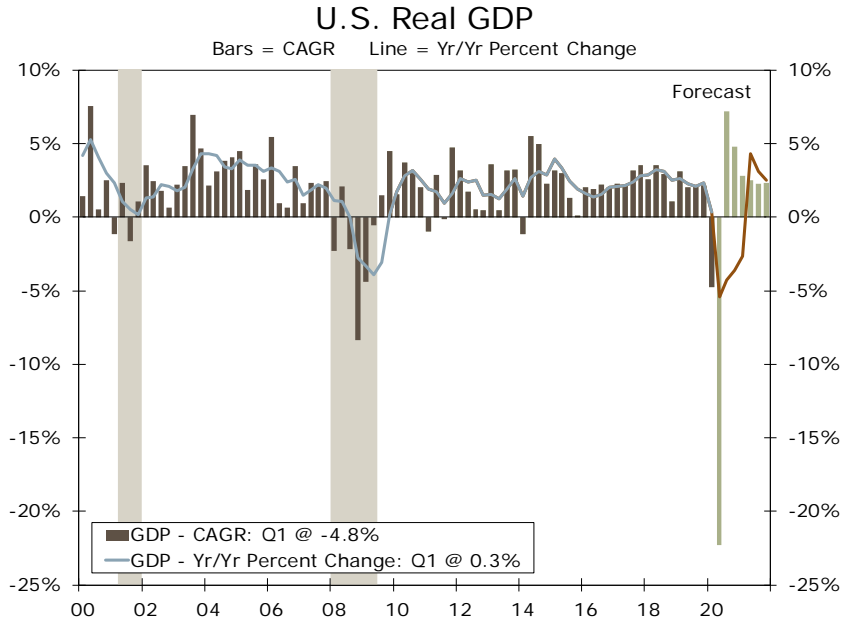
% of Total Dollars Approved



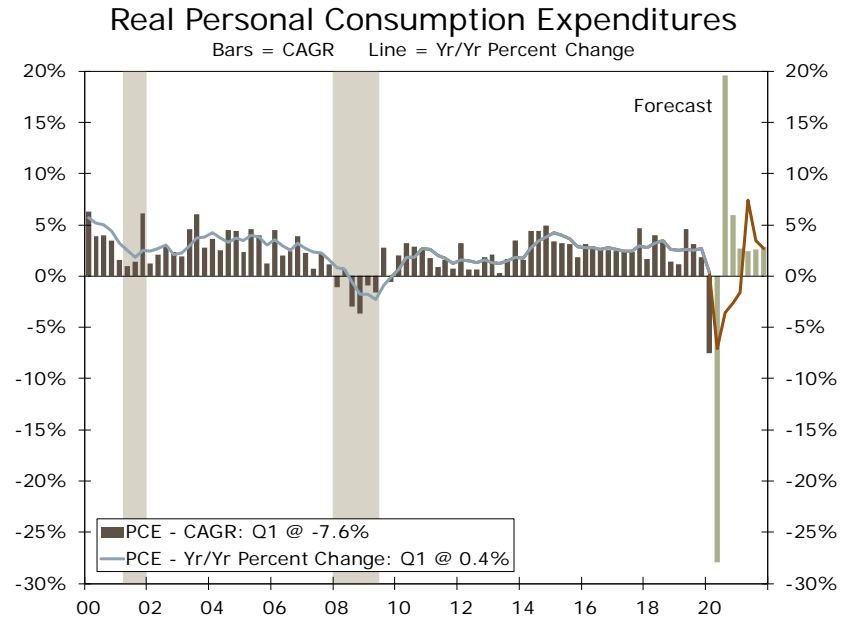
Source: Small Business Association and Wells Fargo Securities

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

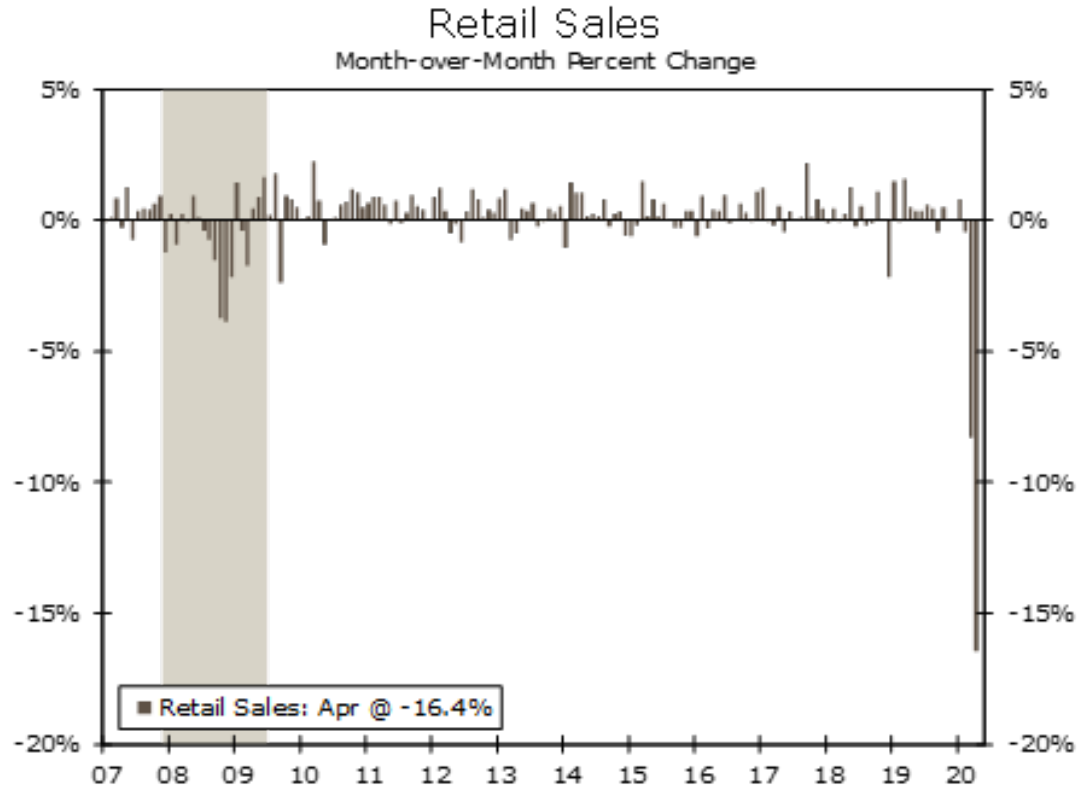


Personal Consumption



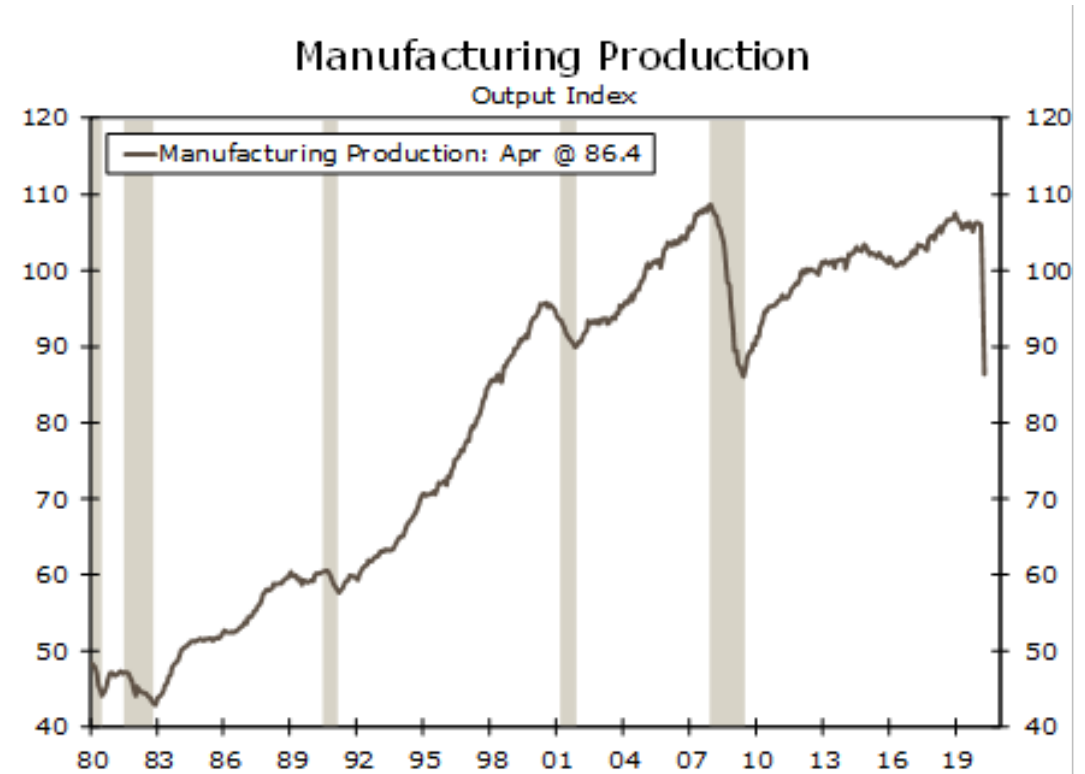
Source: U.S. Department of Commerce and Wells Fargo Securities

Retail sales fell the most on record.



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

As did manufacturing output.

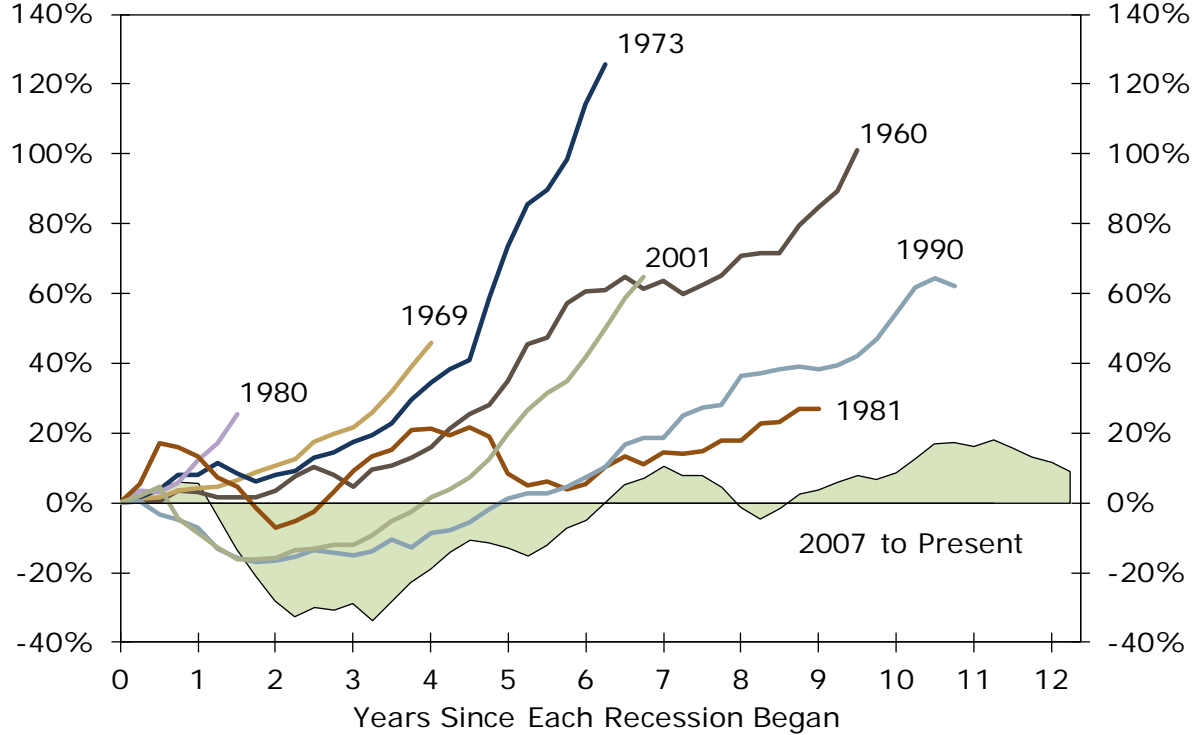


Source: Federal Reserve Board and Wells Fargo Securities

Overall building has remained relatively subdued this cycle.

Nonresidential Structures Investment

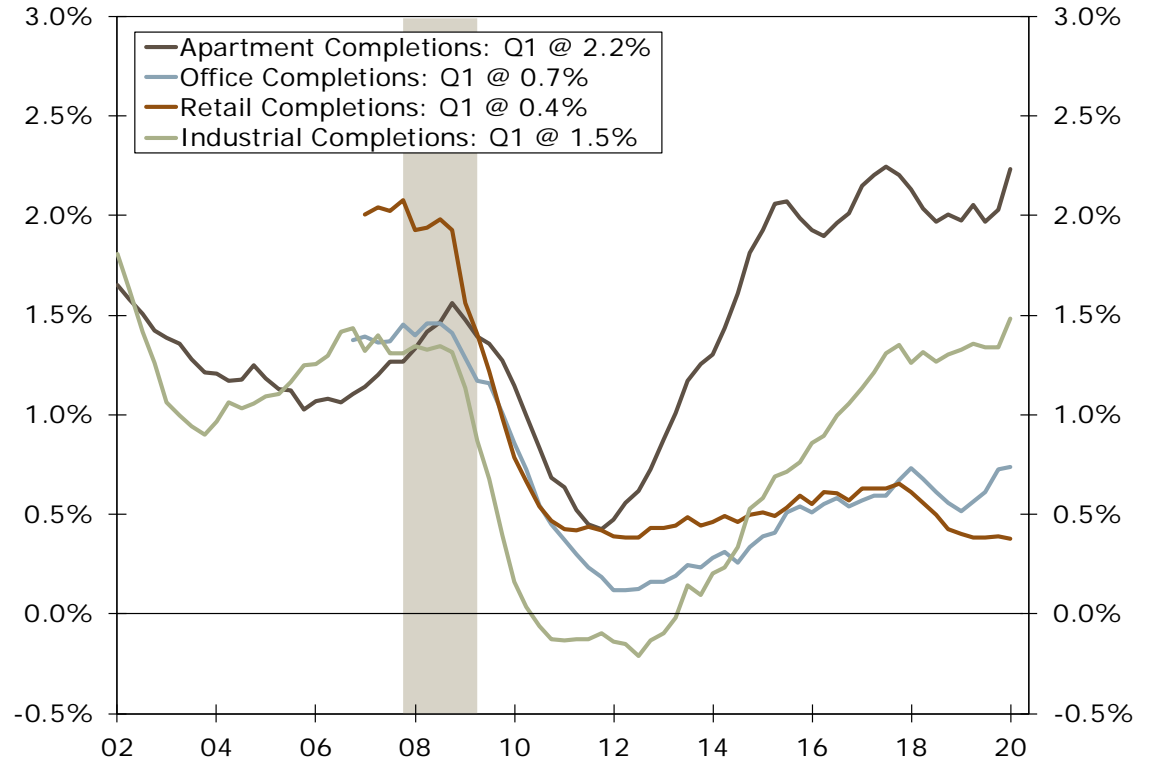
Percent Change Since Start of Each Recession



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

Apartment had been seeing the most new construction.

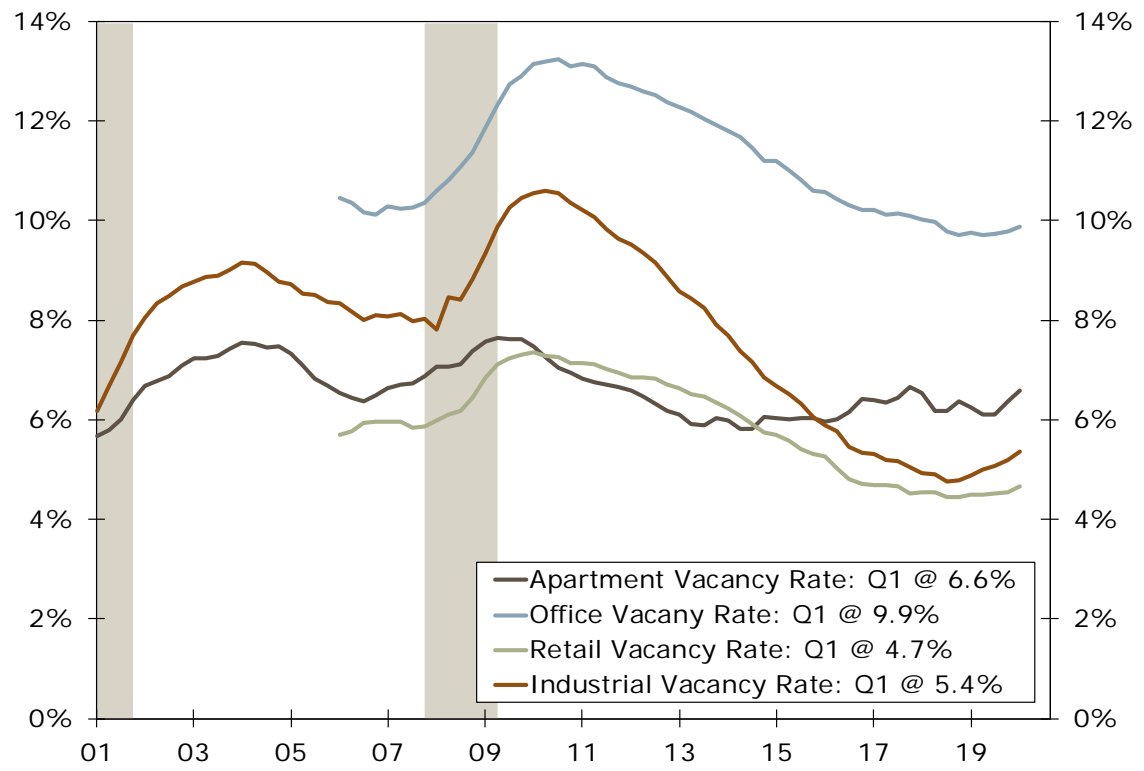
Completions as Percent of Inventory



Source: CoStar, Inc. and Wells Fargo Securities

Vacancy rates are likely to climb.

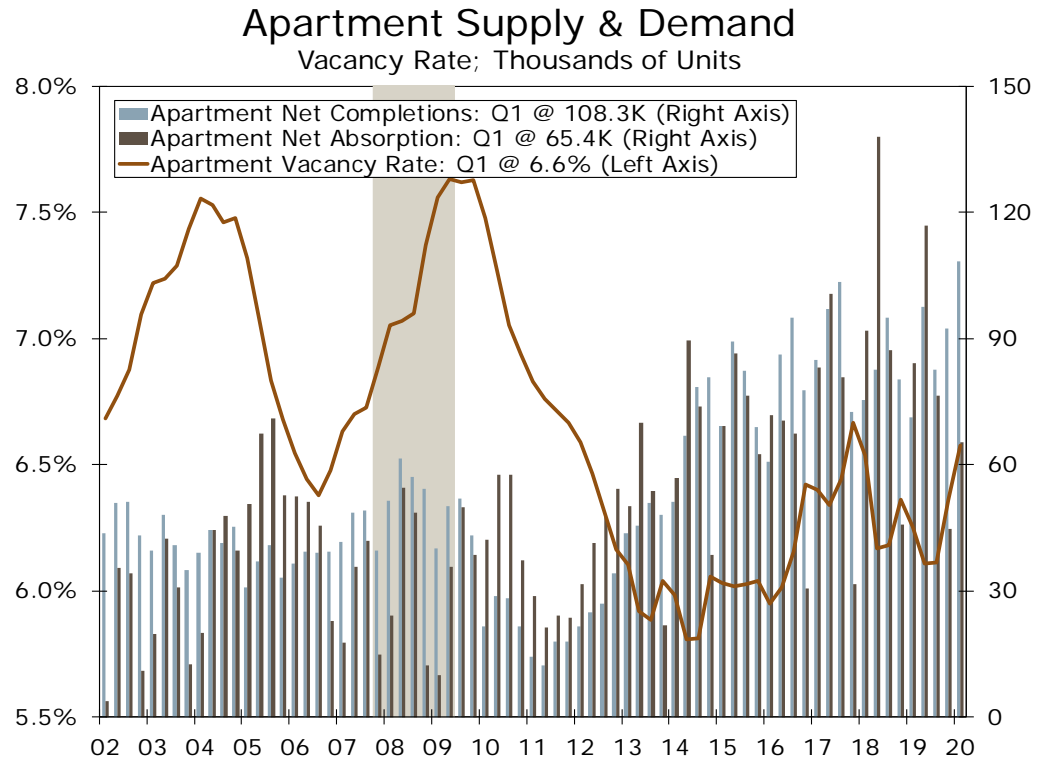
CRE Vacancy Rates



Source: CoStar, Inc. 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.

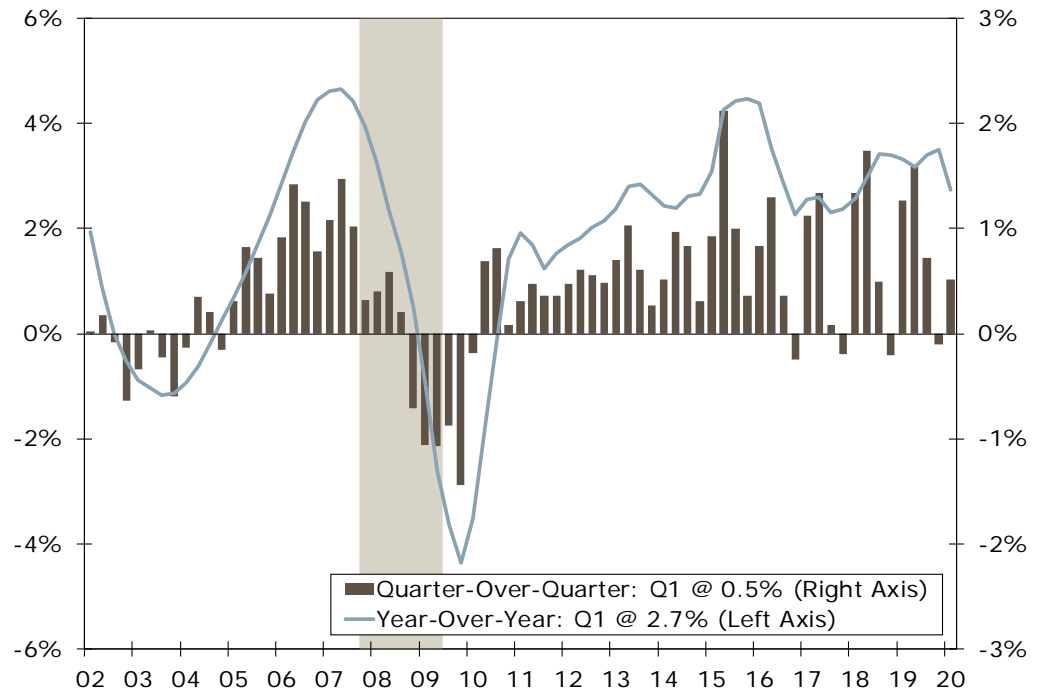
We expect an abrupt slowing in multifamily starts later this year and in 2021.



Source: CoStar, Inc. and Wells Fargo Securities

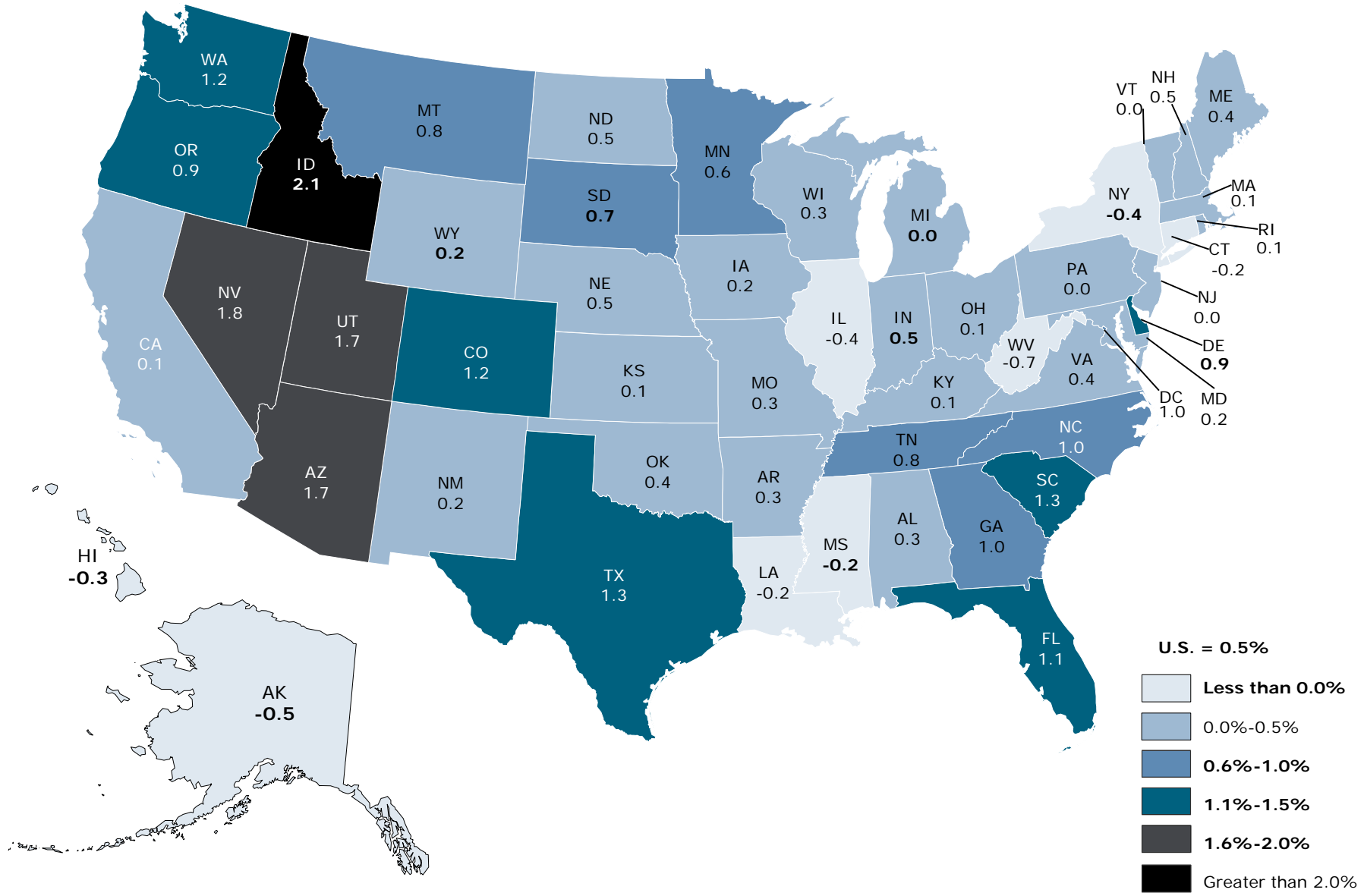
Rents have already begun to decline, particularly in markets that were previously the hottest.

Apartment Effective Rent Growth



Source: CoStar, Inc. and Wells Fargo Securities

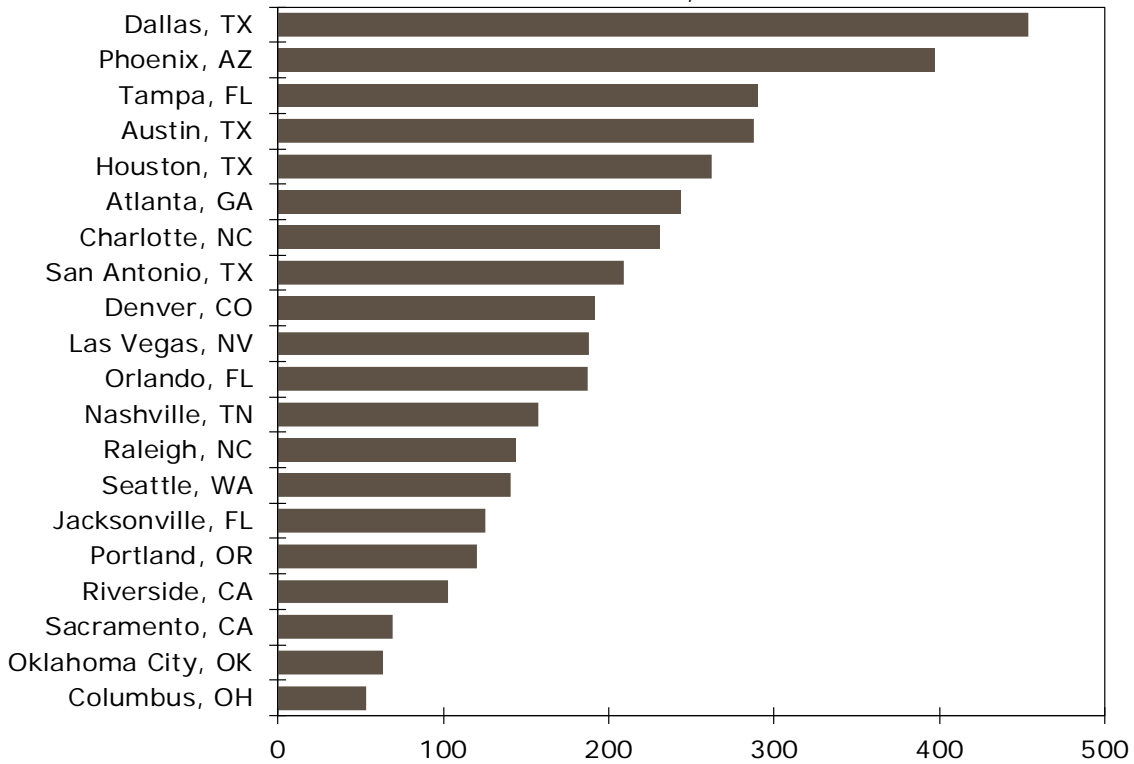
Population Growth by State – 2019



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

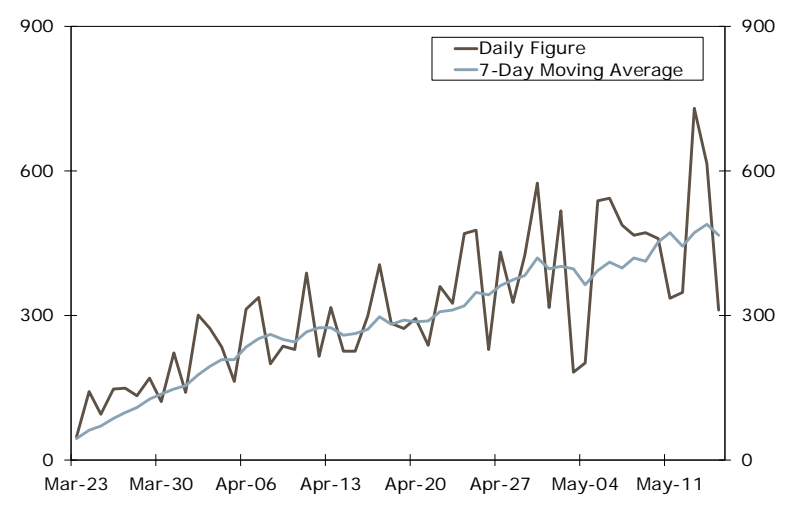
Cumulative Total in Thousands, 2010-2019



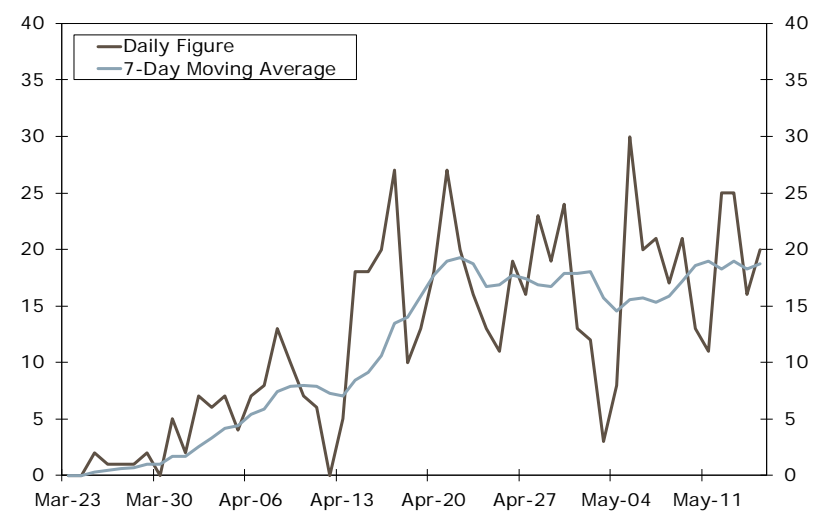
Source: U.S. Department of Commerce and Wells Fargo Securities

North Carolina largely avoided a major outbreak.

NC New COVID-19 Cases

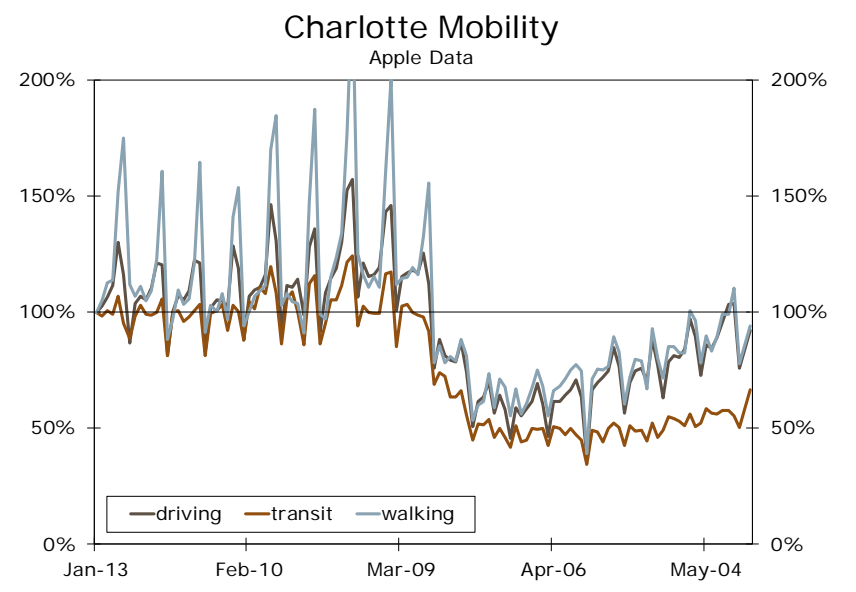
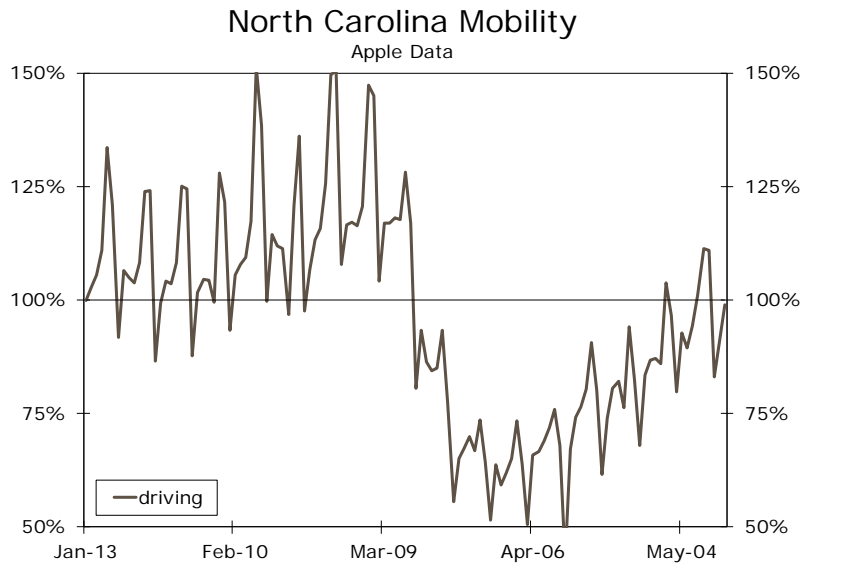


NC New COVID-19 Deaths



Source: Bloomberg LP and Wells Fargo Securities

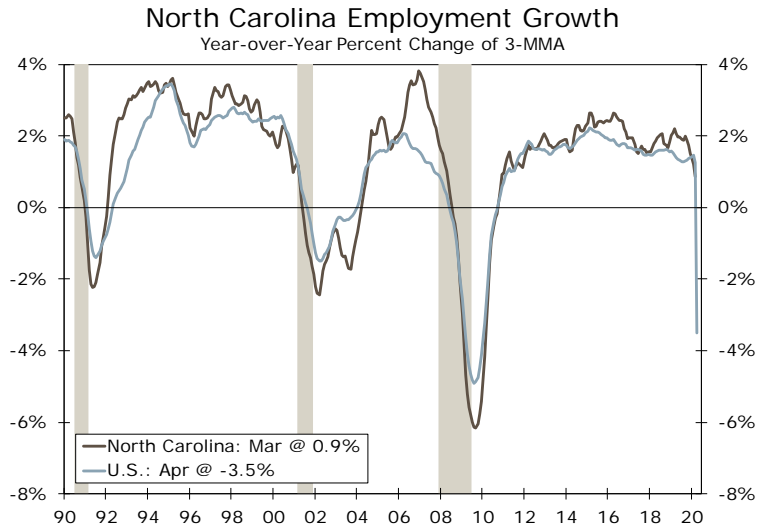
North Carolina driving appears to have recovered nearly all of its decline.



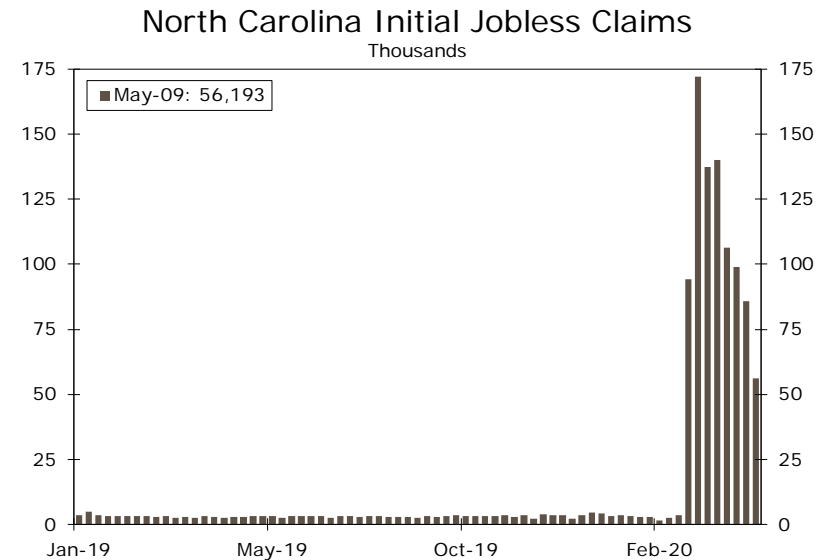
Source: Apple and Wells Fargo Securities

North Carolina's economy was "strong" but losing momentum prior to COVID-19. Almost 900,000 jobless claims have been filed in the past eight weeks.

Employment Growth



Claims



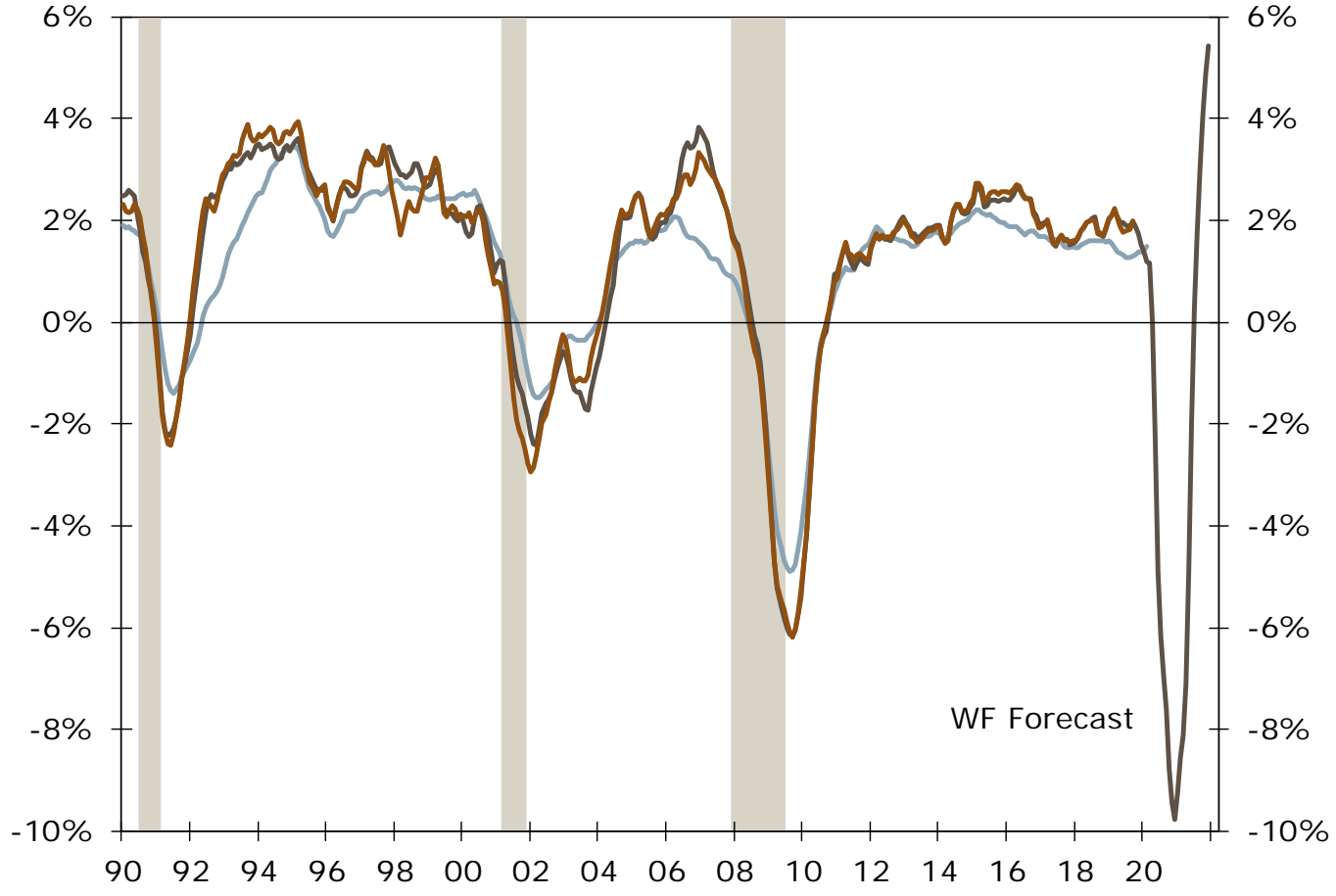
Source: U.S. Department of Labor and Wells Fargo Securities

- 890,000 small businesses in 2018
- 1.6 million small business employees, or 44% of total employment in 2015
 - Health care & social assistance: 252,000 employees (44% of total industry employment)
 - Accommodation & food services: 233,000 (59%)
 - Retail Trade: 154,000 (32%)
 - Manufacturing: 154,000 (36%)
 - Construction: 149,000 (84%)
- 9,400 small businesses exported goods in 2015, accounting for 26% of total exports

Source: Small Business Administration and Wells Fargo Securities

North Carolina Nonfarm Employment

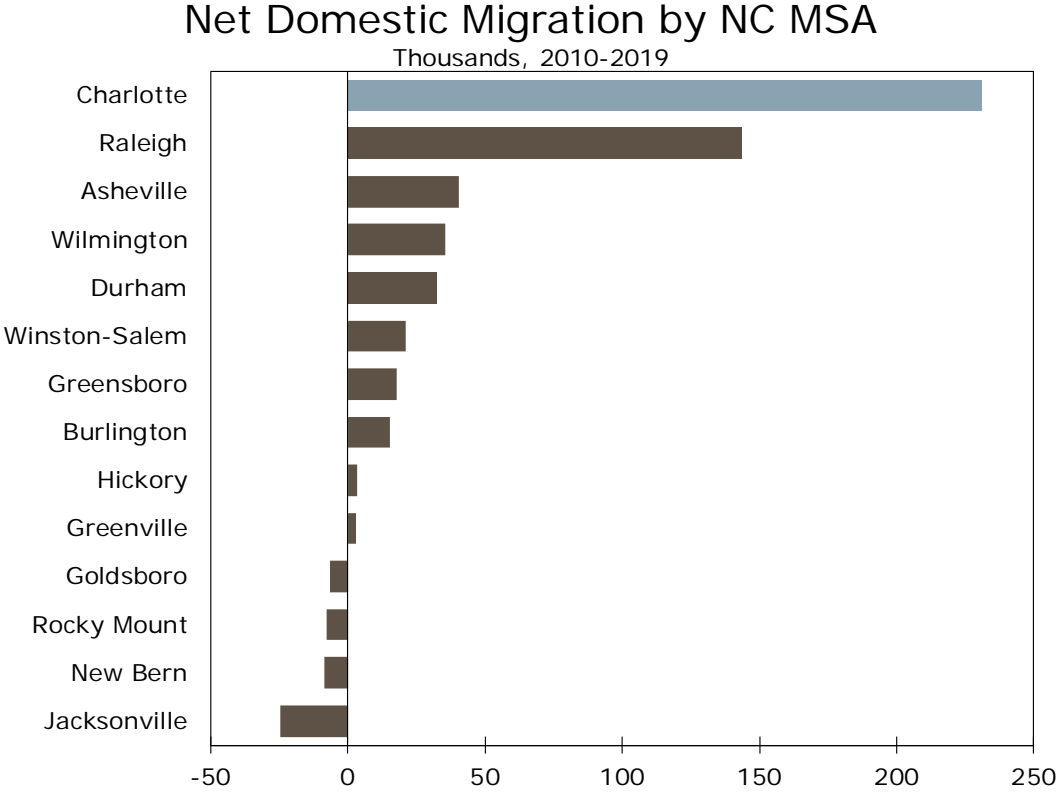
Year-over-Year Percent Change of 3-MMA



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

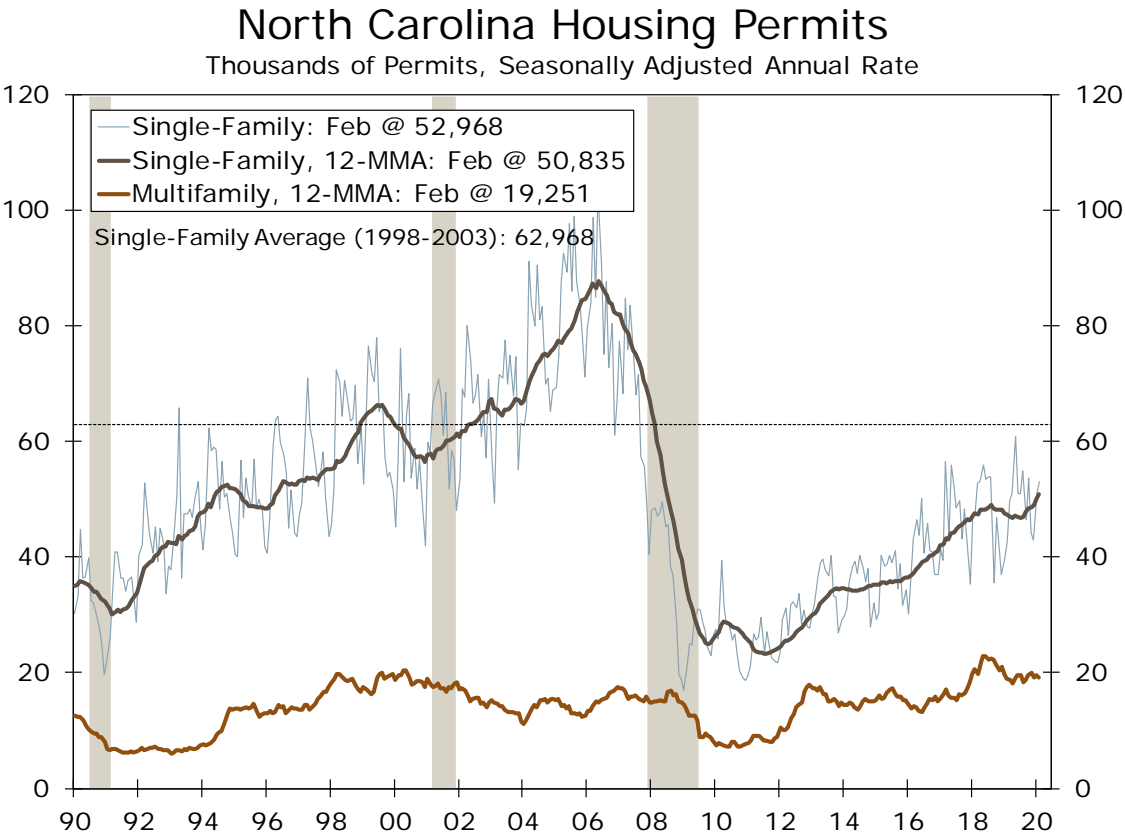
Charlotte and Raleigh account for the vast majority of net migration to North Carolina.

Much of Eastern North Carolina continues to lose population.



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

Single-family permits were rising solidly.

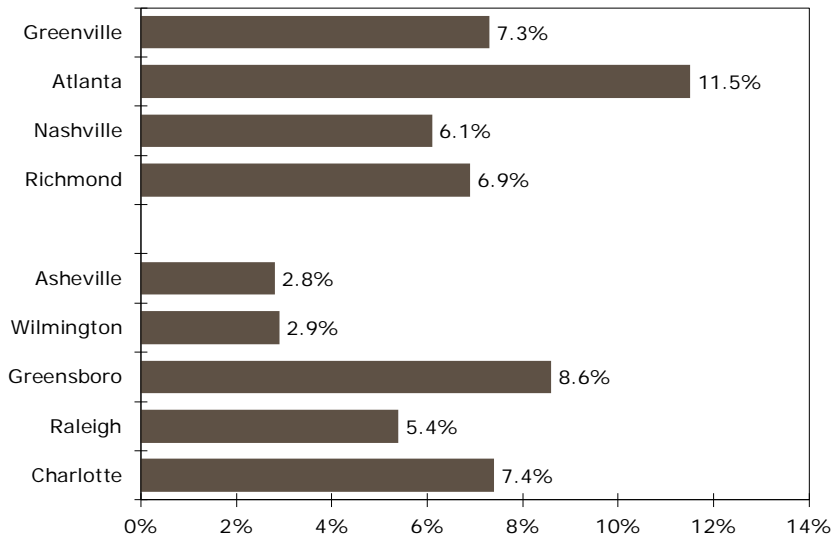


Source: U.S. Department of Commerce and Wells Fargo Securities

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

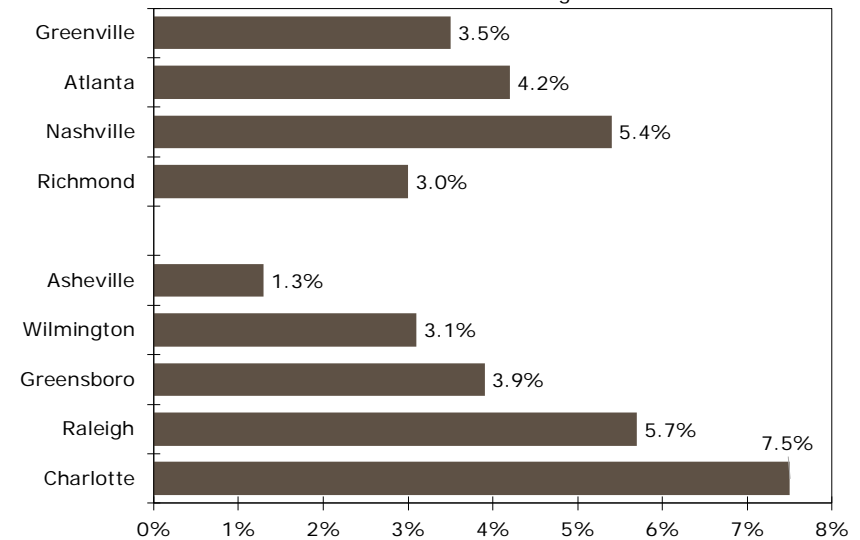
Vacancy

Office Vacancy Rate
Q4-2019



Rent Growth

Office Rent Growth
Year-over-Year Percent Change



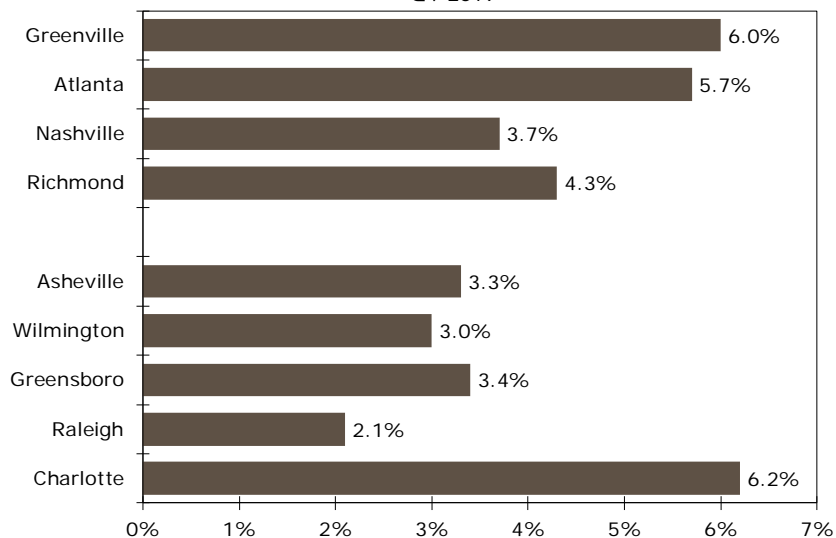
Source: CoStar, Inc. and Wells Fargo Securities

Warehousing and distribution should remain fairly strong.

Vacancy

Industrial Vacancy Rate

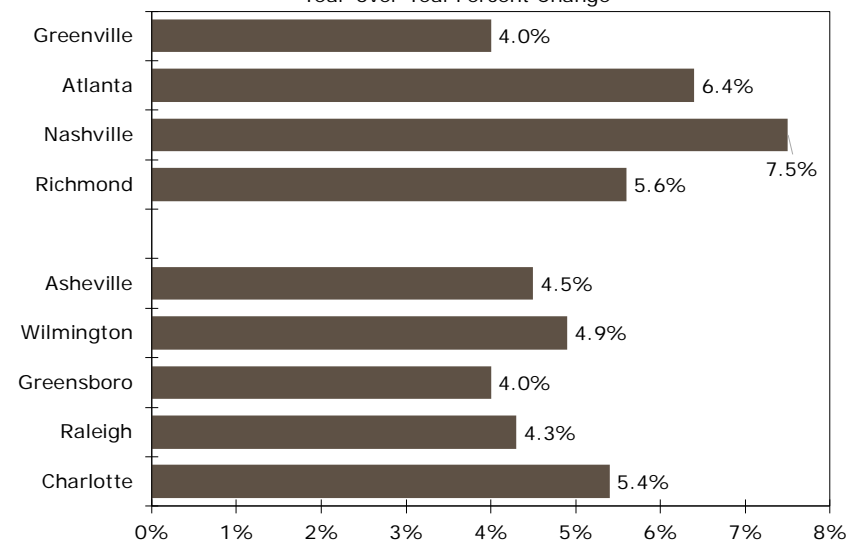
Q4-2019



Rent Growth

Industrial Rent Growth

Year-over-Year Percent Change



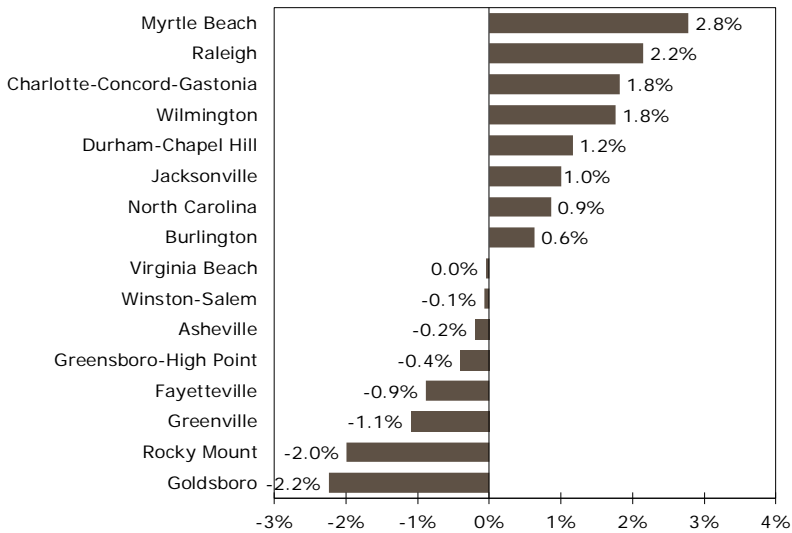
Source: CoStar, Inc. and Wells Fargo Securities

All regions of North Carolina will see economic data deteriorate significantly.

Employment

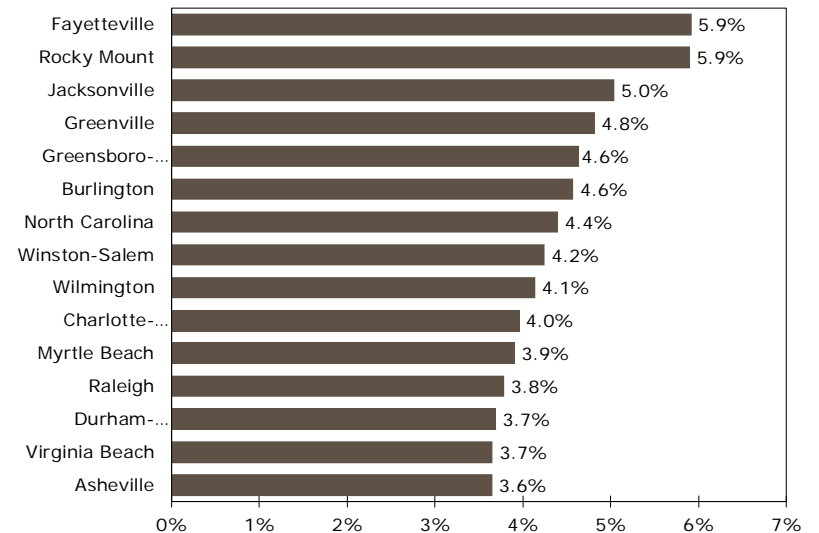
Nonfarm Employment by Metro

Year-over-Year Percent Change of 3-MMA



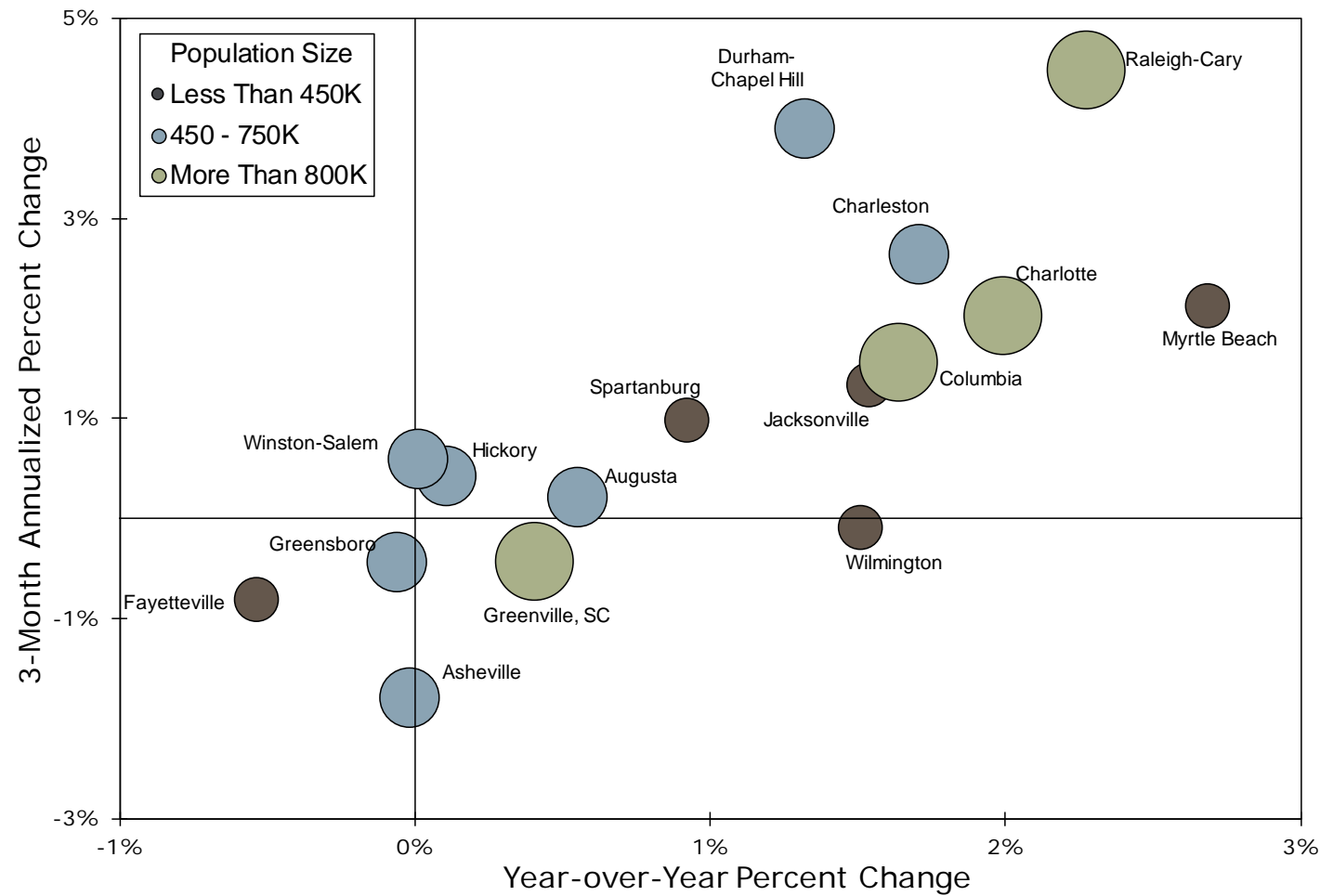
Unemployment

Unemployment Rate by Metro



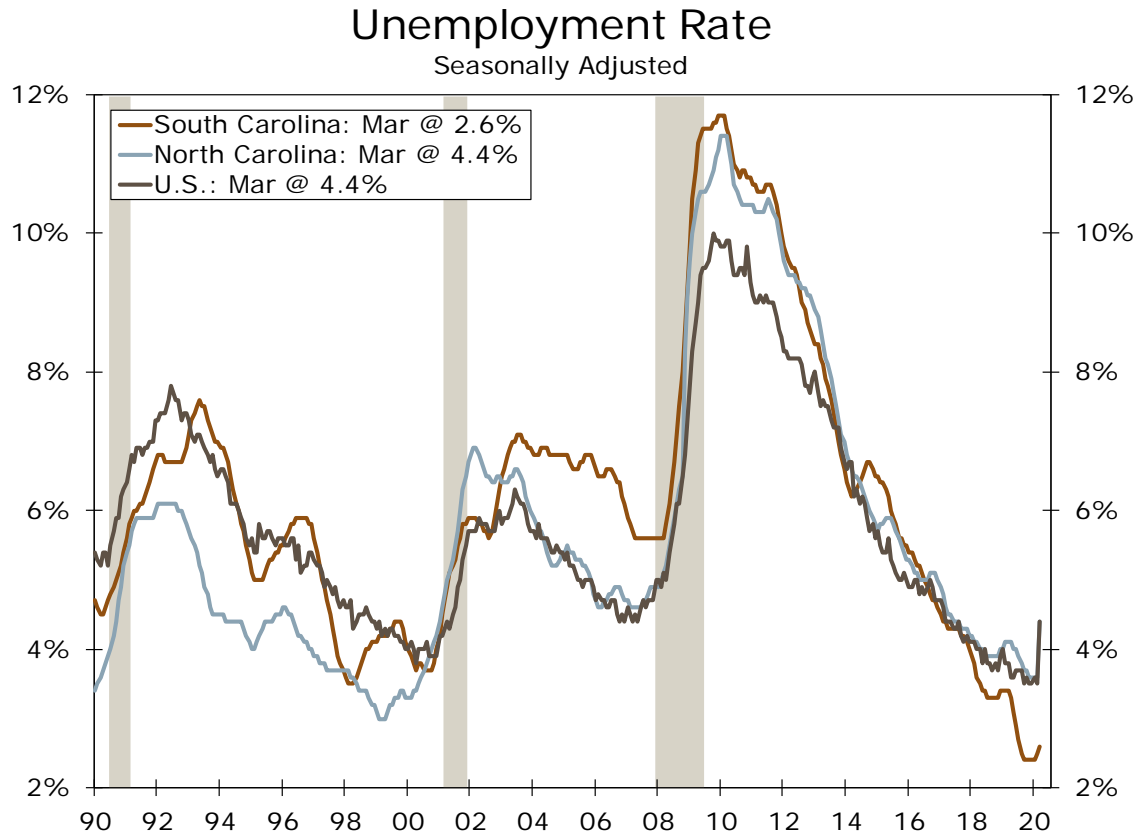
Source: U.S. Department of Labor and Wells Fargo Securities

The Carolinas Employment Growth: March 2020



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

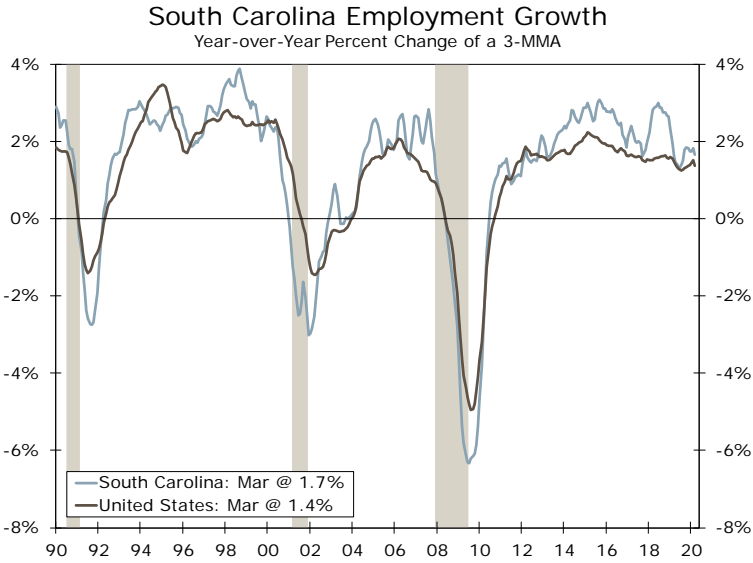
Both states' unemployment rates will surge in April.



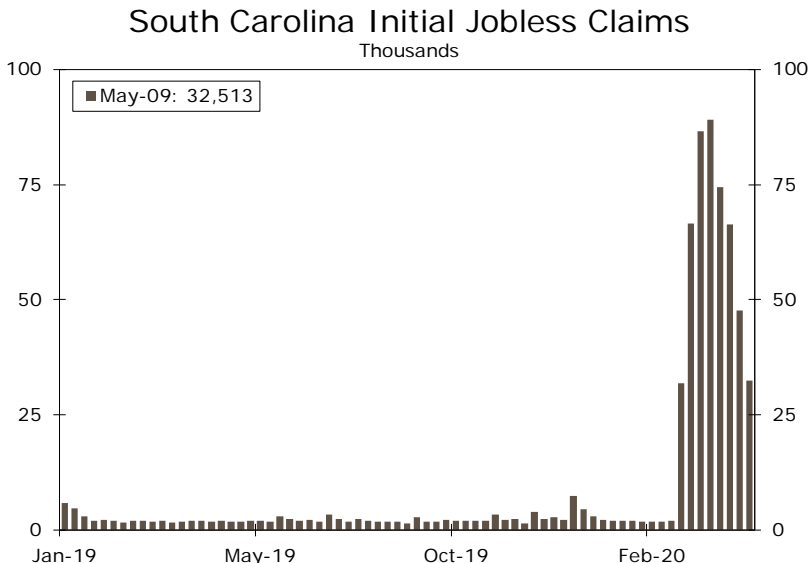
Source: U.S. Department of Labor and Wells Fargo Securities

South Carolina has received more than 410,000 jobless claims in the past six weeks.

Employment Growth



Claims



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

Wells Fargo Securities U.S. Economic Forecast

	Actual																Forecast							
	2018				2019				2020				2021				Actual		Forecast					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2018	2019	2020	2021				
Real Gross Domestic Product ¹	2.6	3.5	2.9	1.1	3.1	2.0	2.1	2.1	-4.8	-24.7	6.7	4.4	2.0	2.3	2.3	2.5	2.9	2.3	-4.6	1.2				
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	3.1	1.8	-7.6	-30.0	19.4	6.0	2.7	2.5	2.6	2.8	3.0	2.6	-4.9	2.7				
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	-2.4	-8.6	-21.0	-9.3	3.1	3.0	5.2	4.9	4.9	6.4	2.1	-8.1	0.4				
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	-4.3	-15.2	-31.3	-10.8	15.0	4.6	4.6	4.0	4.0	6.8	1.3	-12.1	1.5				
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	4.7	2.8	0.4	-2.4	-2.8	-4.4	3.7	7.4	6.9	6.7	7.4	7.5	0.3	2.2				
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-9.9	-7.2	-9.7	-32.0	-19.0	-7.5	-3.0	1.5	2.5	3.0	4.1	-4.3	-14.9	-6.5				
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	4.6	6.5	21.0	-36.0	-12.0	2.0	3.0	5.0	6.0	6.5	-1.5	-1.5	-3.3	-1.4				
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.7	2.5	0.7	1.4	-0.1	-2.1	-3.3	-1.0	-0.2	0.0	1.7	2.3	1.3	-1.4				
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	1.5	1.3	2.5	-5.3	-2.1	-0.1	-0.1	-0.2	-0.1	-0.4	-0.2	0.4	-1.0				
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	0.0	-1.0	-0.5	-1.8	1.4	2.2	0.3	0.0	-0.1	-0.2	0.1	0.1	-0.5	0.5				
Nonfarm Payroll Change ³	234	211	153	172	139	159	203	210	-142	-9500	4250	800	500	300	230	130	193	178	-1148	290				
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.8	17.6	12.1	8.1	7.1	6.6	6.4	6.3	3.9	3.7	10.4	6.6				
Consumer Price Index ⁴	2.2	2.7	2.7	2.2	1.6	1.8	1.8	2.0	2.1	0.3	0.2	0.2	0.5	1.8	1.9	1.7	2.4	1.8	0.7	1.5				
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: May 13, 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		
May-14	A Roadmap for the U.S. Labor Market	Bryson
May-13	Could the U.S. Economy Be Facing Deflation?	Bryson & Seery
May-05	The Animal Spirits Index Sinks Further into Negative Territory	Iqbal
May-05	The BFI Outlook in the Current Cycle	Bryson, Quinlan & Seery
April-28	Our Labor Market Index Hit Its Lowest Level Ever in March	Iqbal
U.S. Regional		
May-05	COVID-19 Crisis Hits New Jersey	Vitner & Dougherty
April-24	Texas Economic Update: Oil Rout 2020	Vitner & Dougherty
April-22	Colorado Economy Takes Some Hits	Vitner, Dougherty & Honnold
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
Global Economy		
May-15	Keep Cautious and Carry On	Bennenbroek & Licis
April-30	Economy Slumps, ECB Eases Modestly	Bennenbroek
April-29	Scandi Slump Pressures Policymakers	Licis & Bennenbroek
April-27	Crude Reality	McKenna & Licis
April-27	Monitoring the International Impact of COVID-19	Bennenbroek & Licis
Interest Rates/Credit Market		
May-06	Treasury Refunding Highlights	Pugliese & Mathews
April-30	Treasury Refunding Preview: Bills Barrage Continues	Pugliese & Mathews
April-29	FOMC Meeting: Committee Ready To Do More, If Needed	Bryson
April-28	Fed Expands Muni Purchase Eligibility	Vitner & Honnold
April-28	Fiscal Fallout from the COVID-19 Pandemic: Part III	Bryson, Pugliese and Mathews
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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