

WELLS  
FARGO

SECURITIES

# Economic Outlook for 2016 and Beyond

---

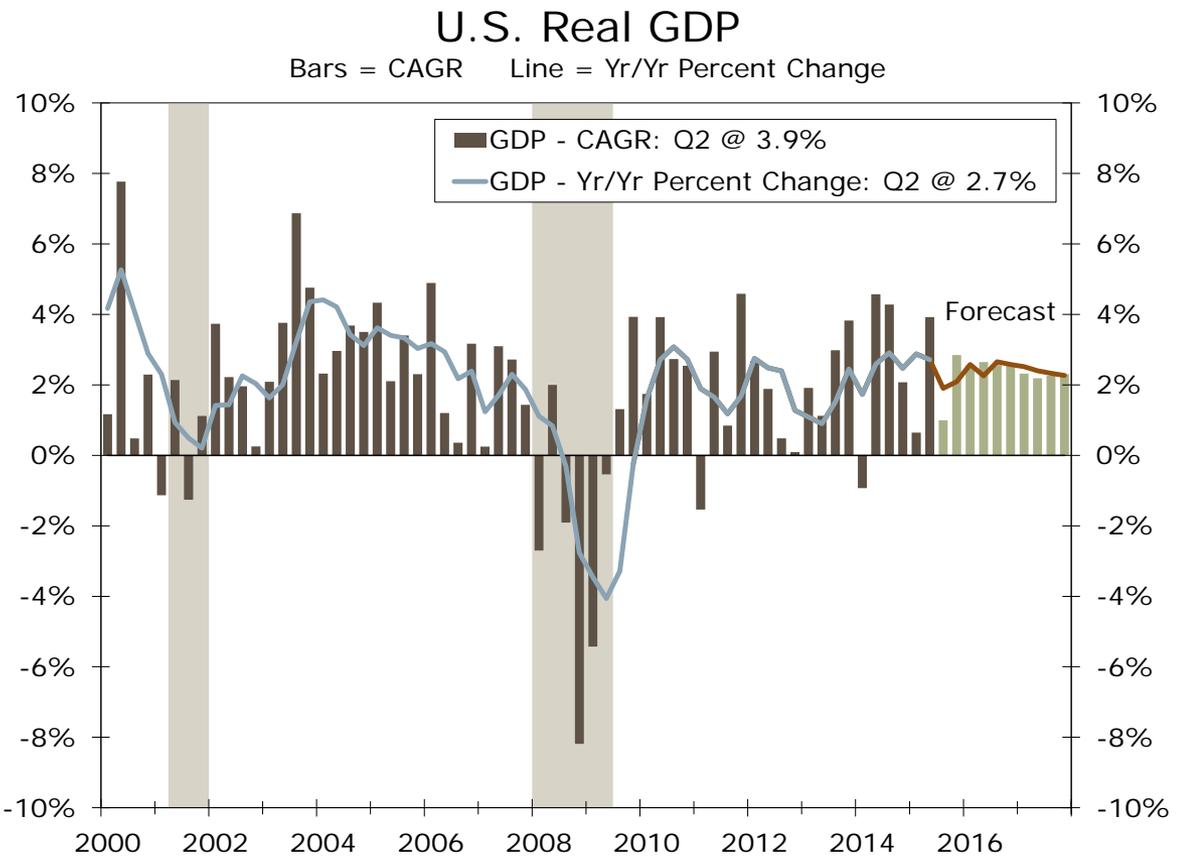
**Michael A. Brown, Economist**

October 22, 2015

Together we'll go far



Economic growth should continue at a modest pace over the coming quarters

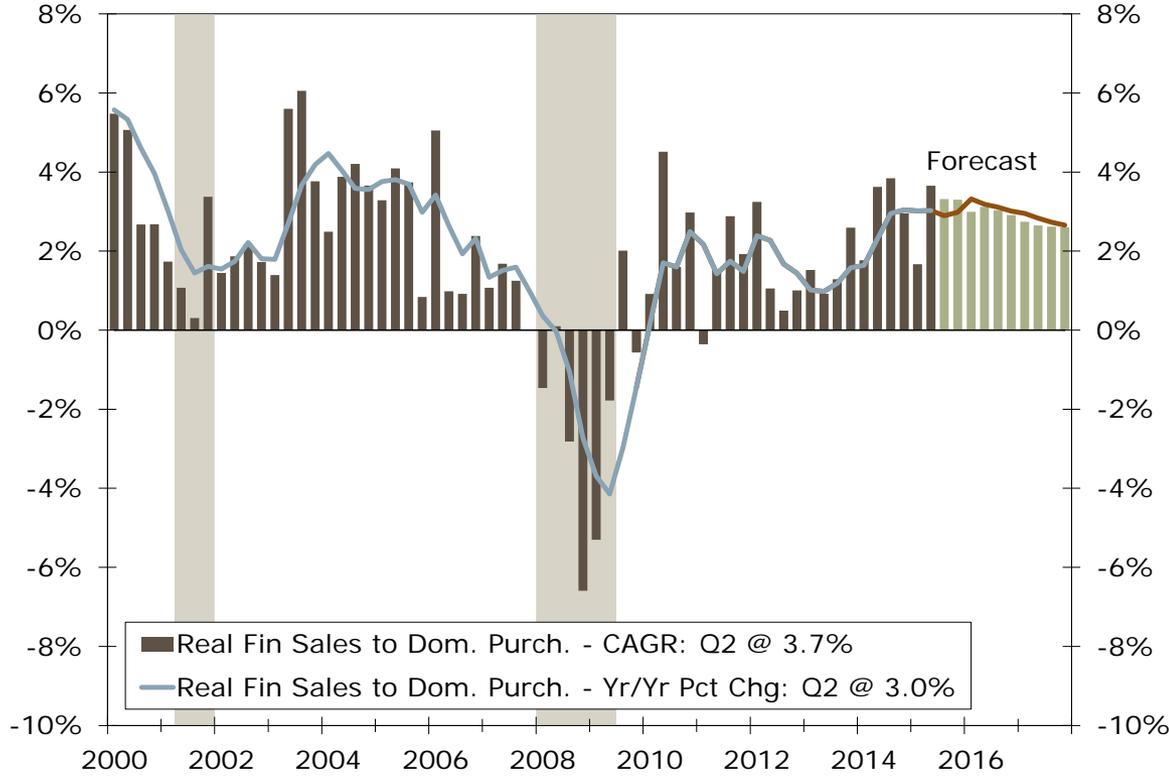


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Growth in domestic spending clearly has strengthened

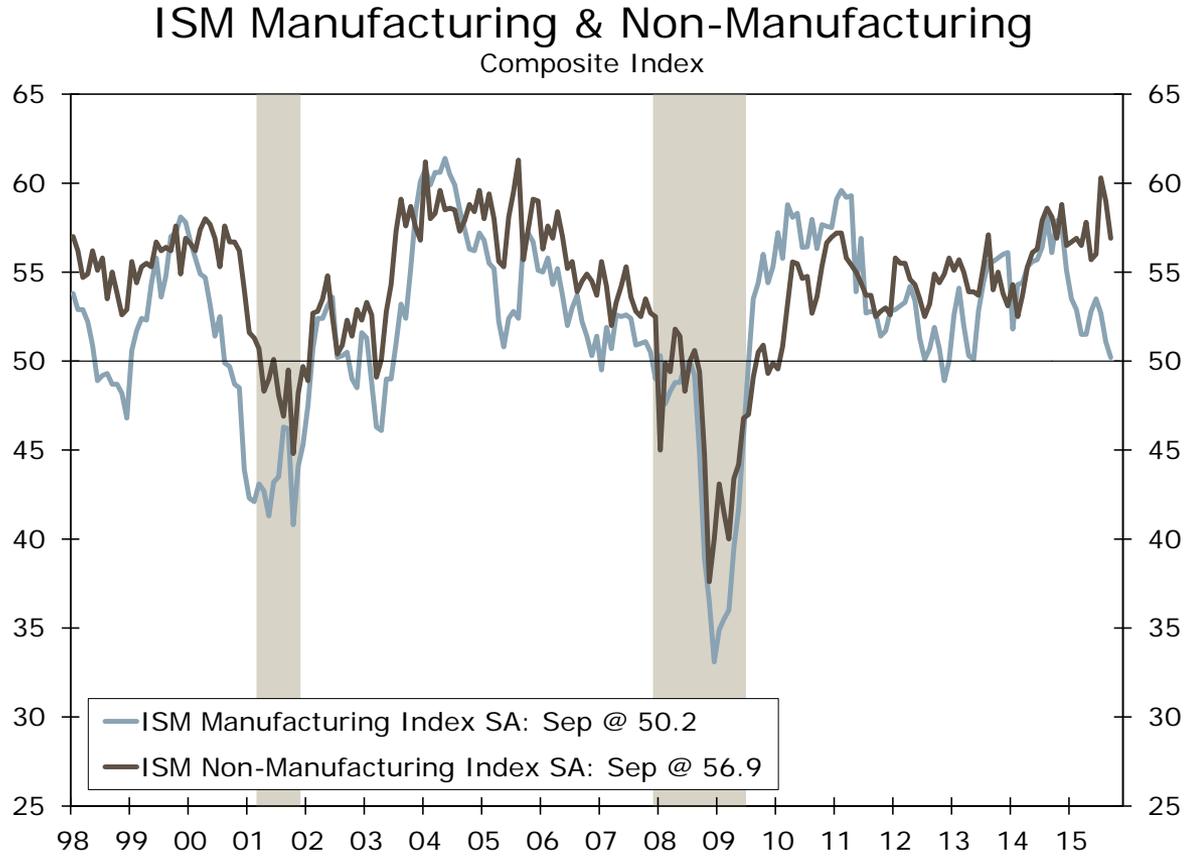
### Real Final Sales to Domestic Purchasers

Bars = CAGR    Line = Yr/Yr Percent Change



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

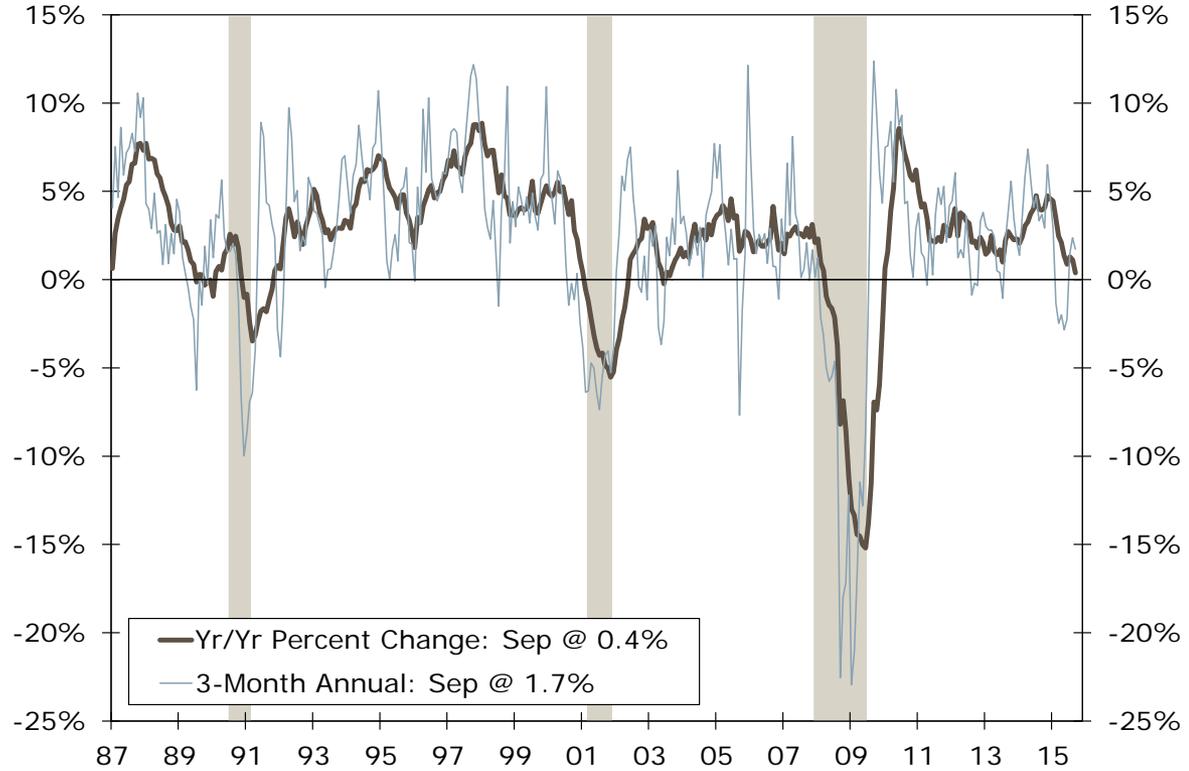
Indices on business activity suggest an improving near-term outlook for services while manufacturing has softened



Source: Institute for Supply Management and Wells Fargo Securities, LLC

Amid a soft global growth environment and a stronger dollar, the industrial sector has slowed

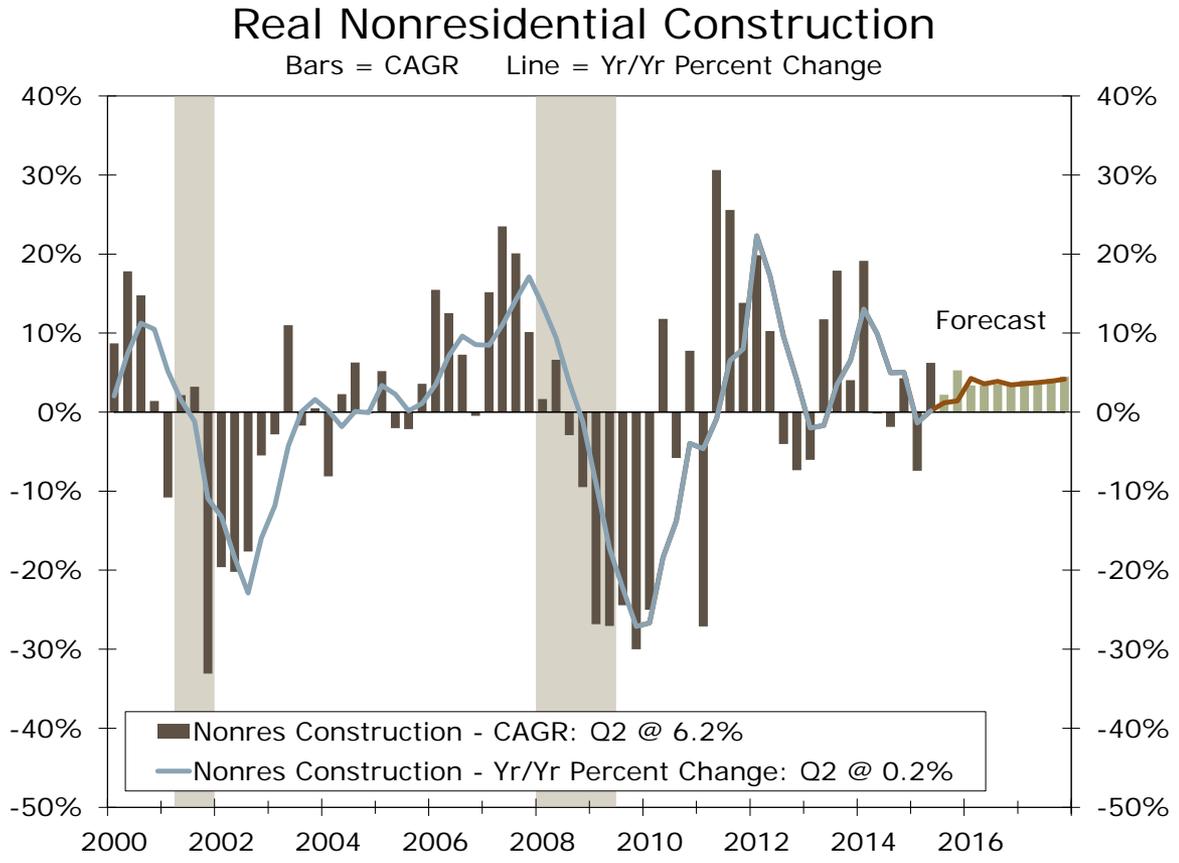
### Total Industrial Production Growth Output Growth by Volume



— Yr/Yr Percent Change: Sep @ 0.4%  
— 3-Month Annual: Sep @ 1.7%

Source: Federal Reserve Board and Wells Fargo Securities, LLC

Commercial construction spending will help to perpetuate business investment in the year ahead

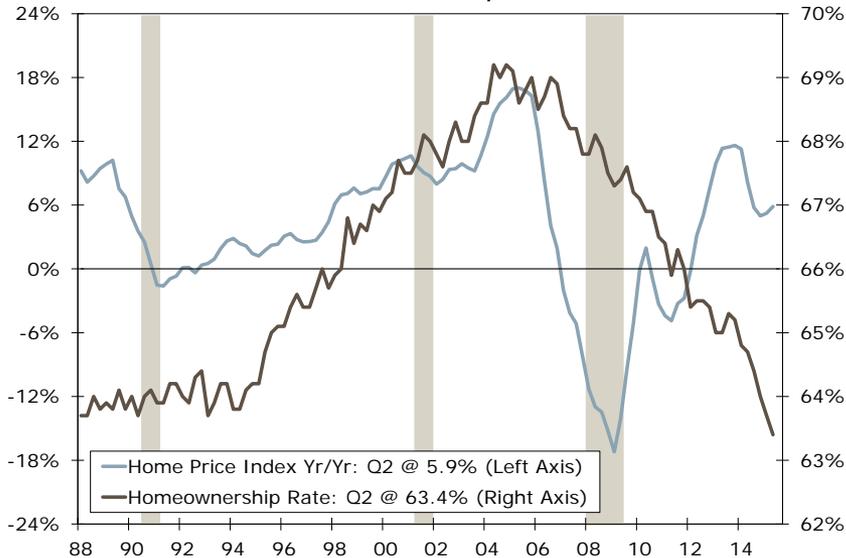


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Despite some recent setbacks, we continue to look for a gradual recovery in homebuilding. The homeownership rate continues to come down.

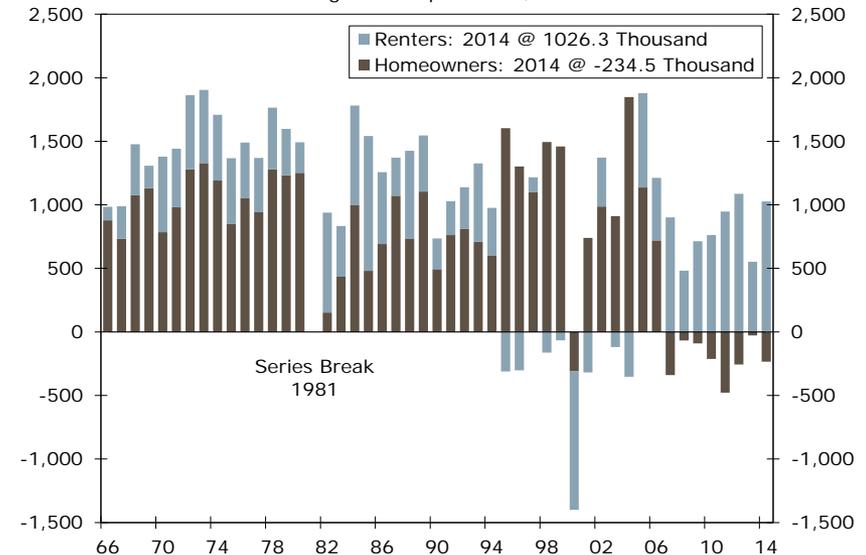
## Homeownership

CoreLogic National Home Price Index vs. Homeownership Rate



## Owners vs. Renters

U.S. Homeowners vs. Renters  
Annual Change in Occupied Units, In Thousands

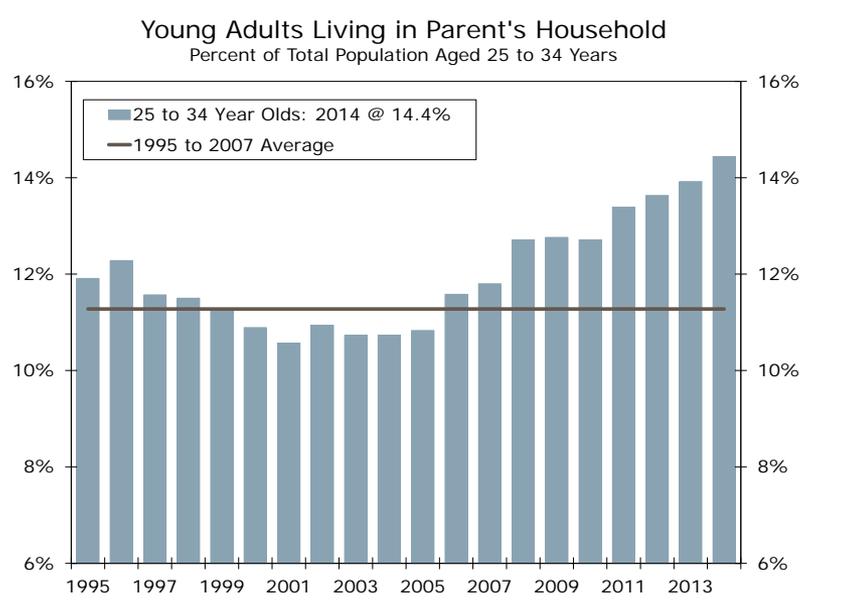
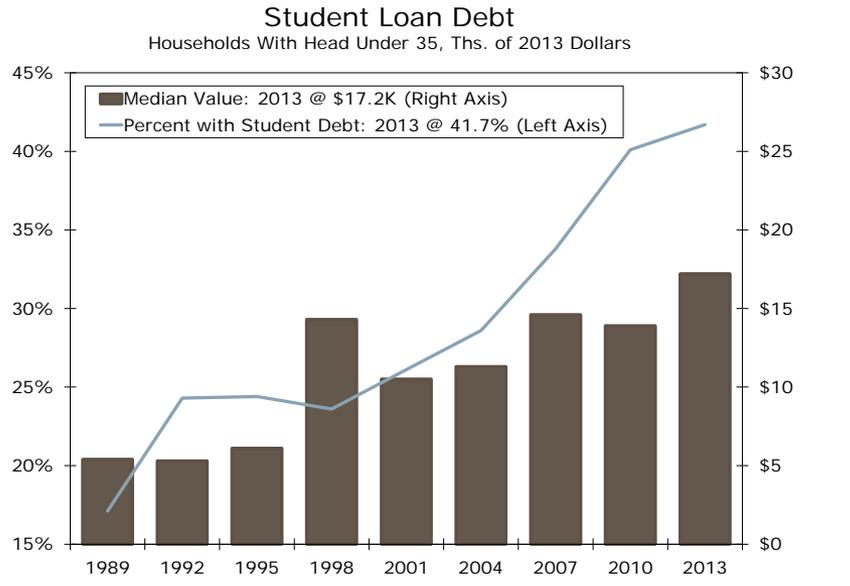


Source: NAR, CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

Higher student debt burdens are hindering young adults' ability to form new households

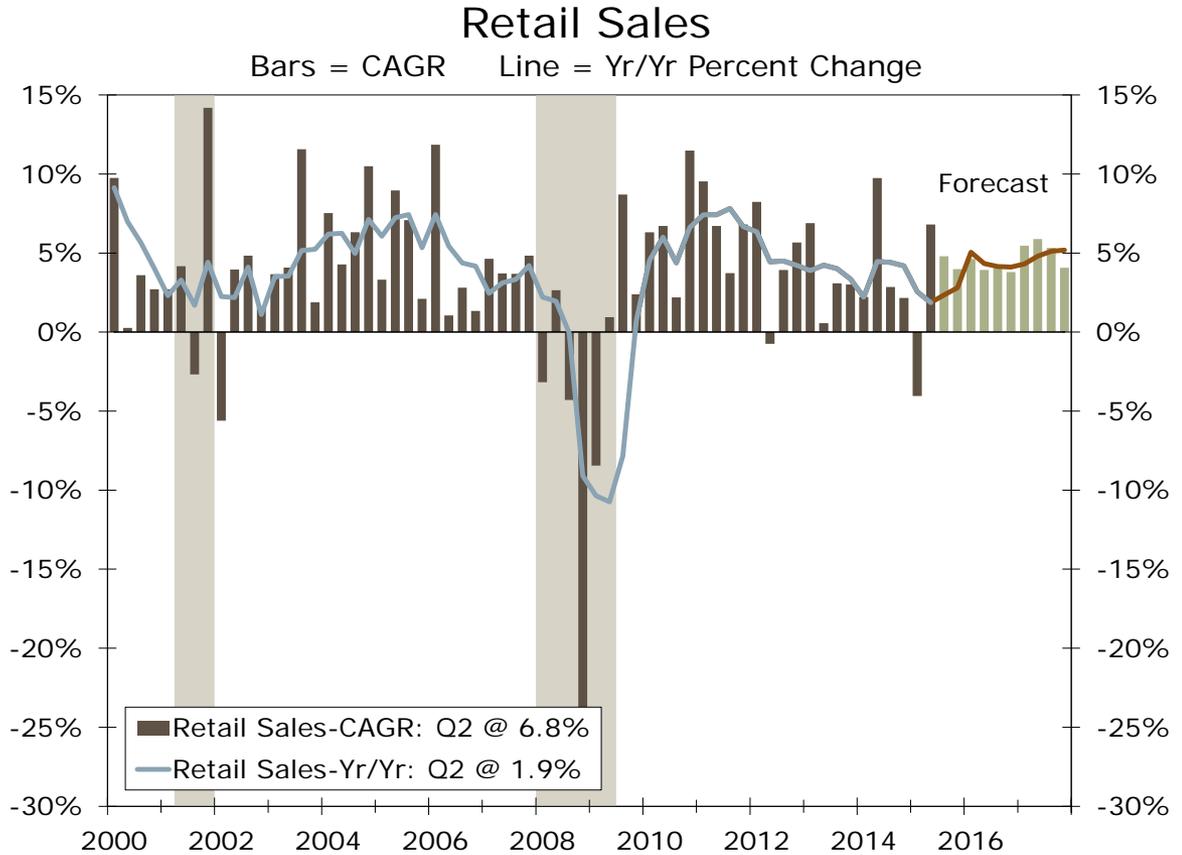
## Student Loans

## Household Formation



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

Nominal retail sales should improve with stronger consumer spending and higher inflation

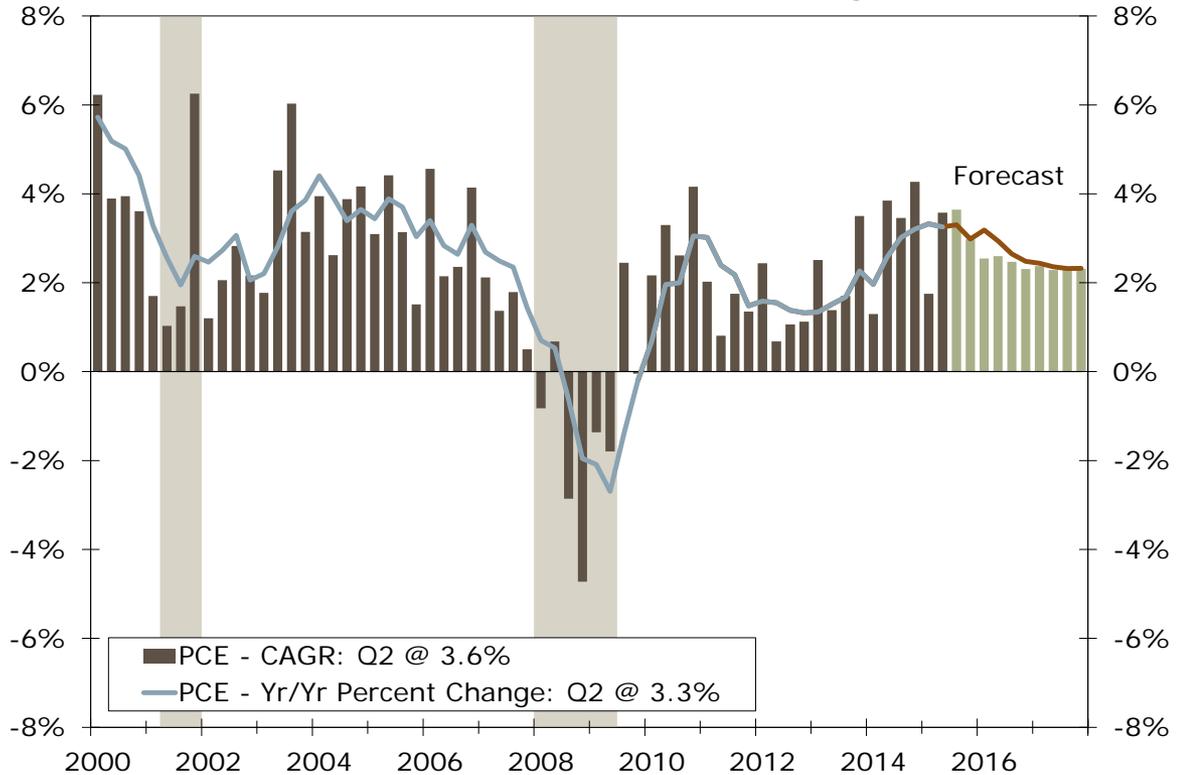


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Consumer spending growth will continue to average around 2.5 percent

### Real Personal Consumption Expenditures

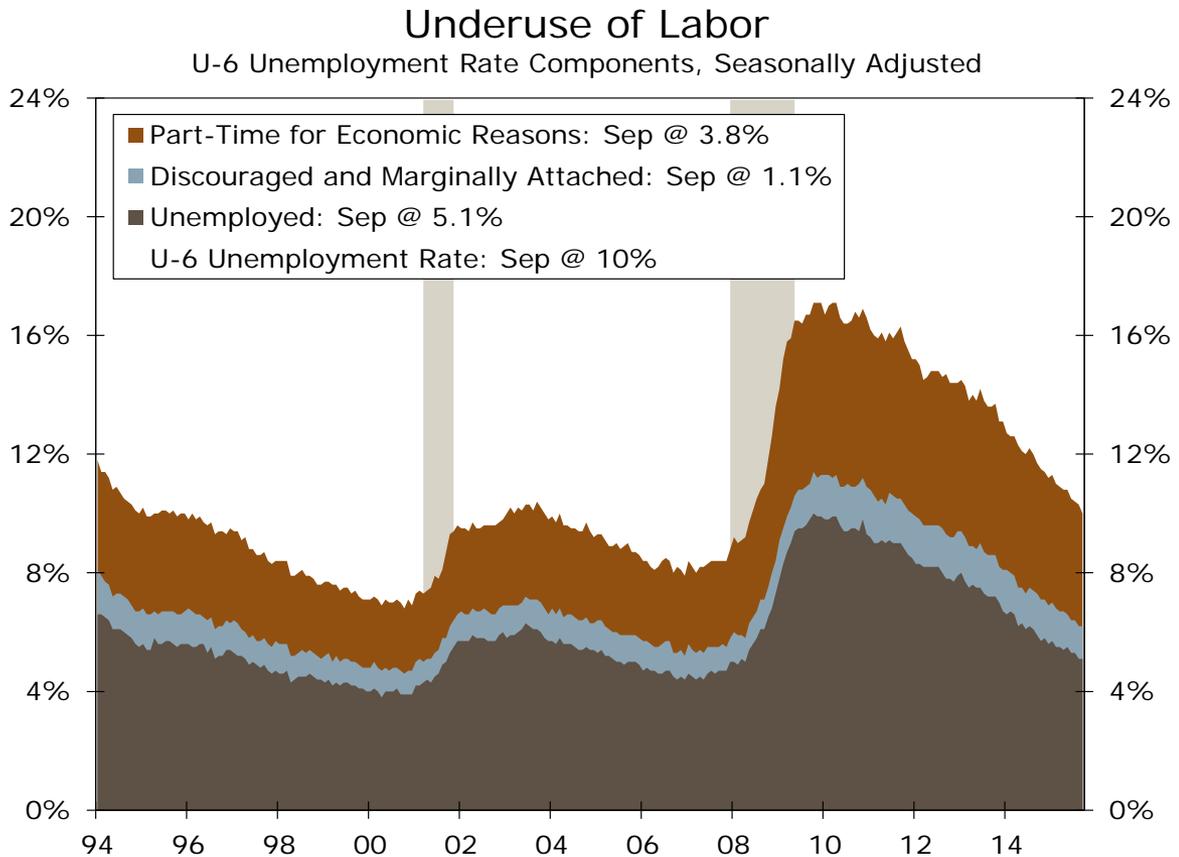
Bars = CAGR Line = Yr/Yr Percent Change



■ PCE - CAGR: Q2 @ 3.6%  
 — PCE - Yr/Yr Percent Change: Q2 @ 3.3%

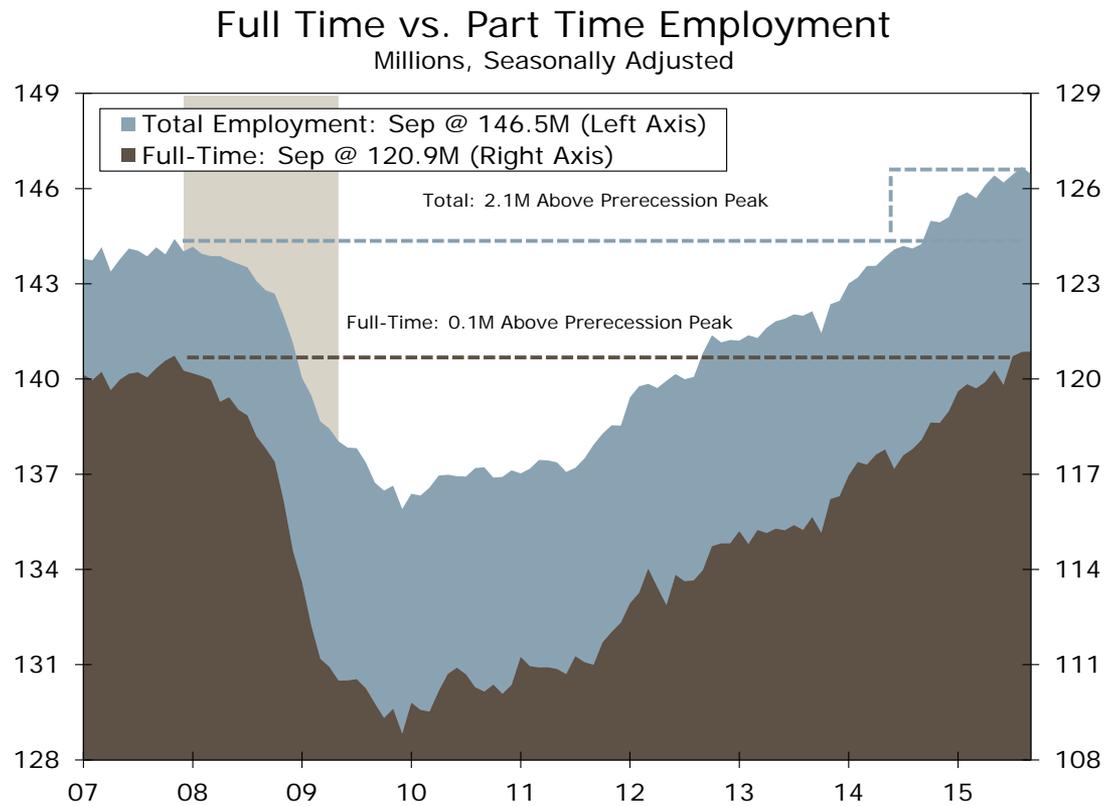
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Alternative measures of unemployment show an historically high level of underemployment



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

A large proportion of the jobs created over the past four years have been part-time, which has weighed on wage & salary growth

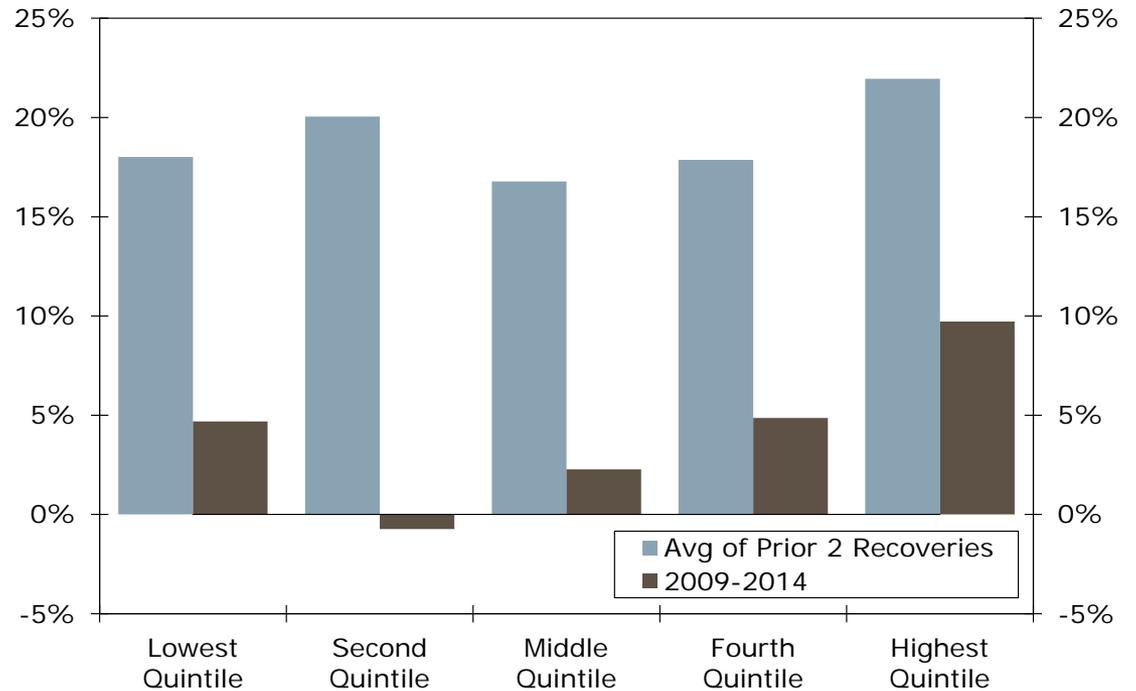


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Income growth has finally begun to turn around but still lags prior recoveries

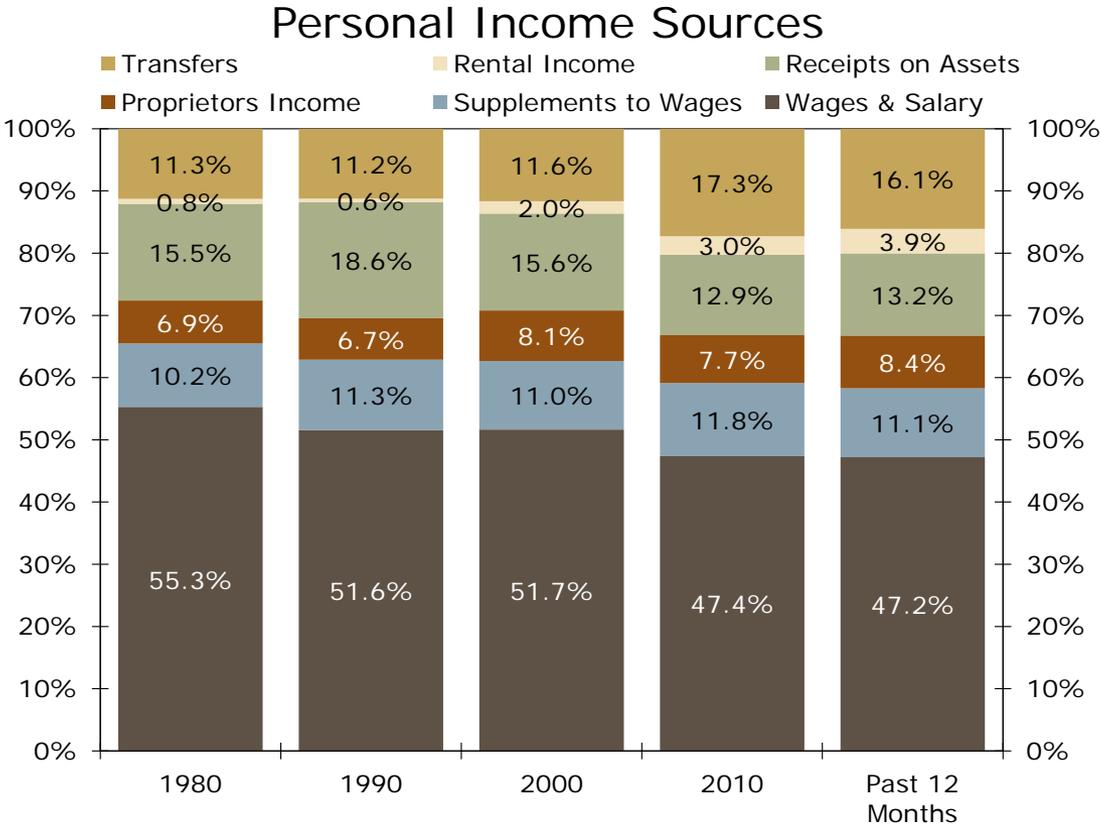
## Income Growth During Economic Recoveries

Percent Change 5 Years After Recession End, Before-Tax Income



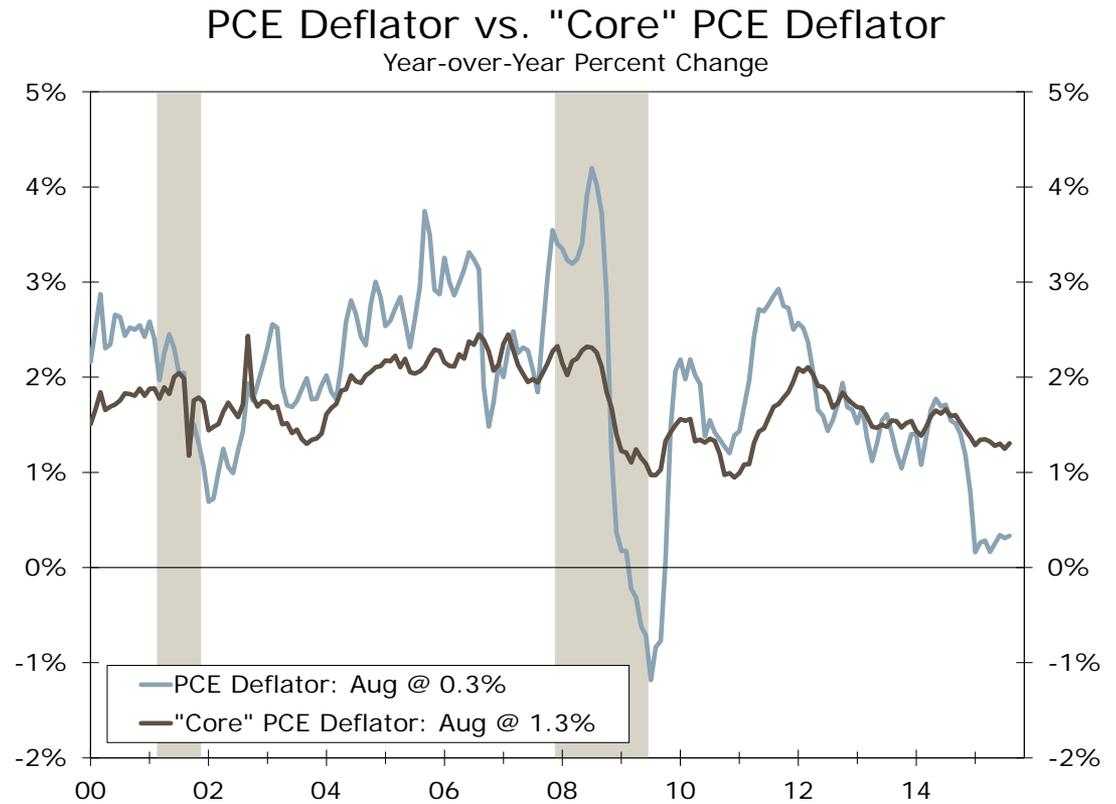
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Wages and salaries now make up less than half of personal income as transfer payments have made up a greater share of income over time



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

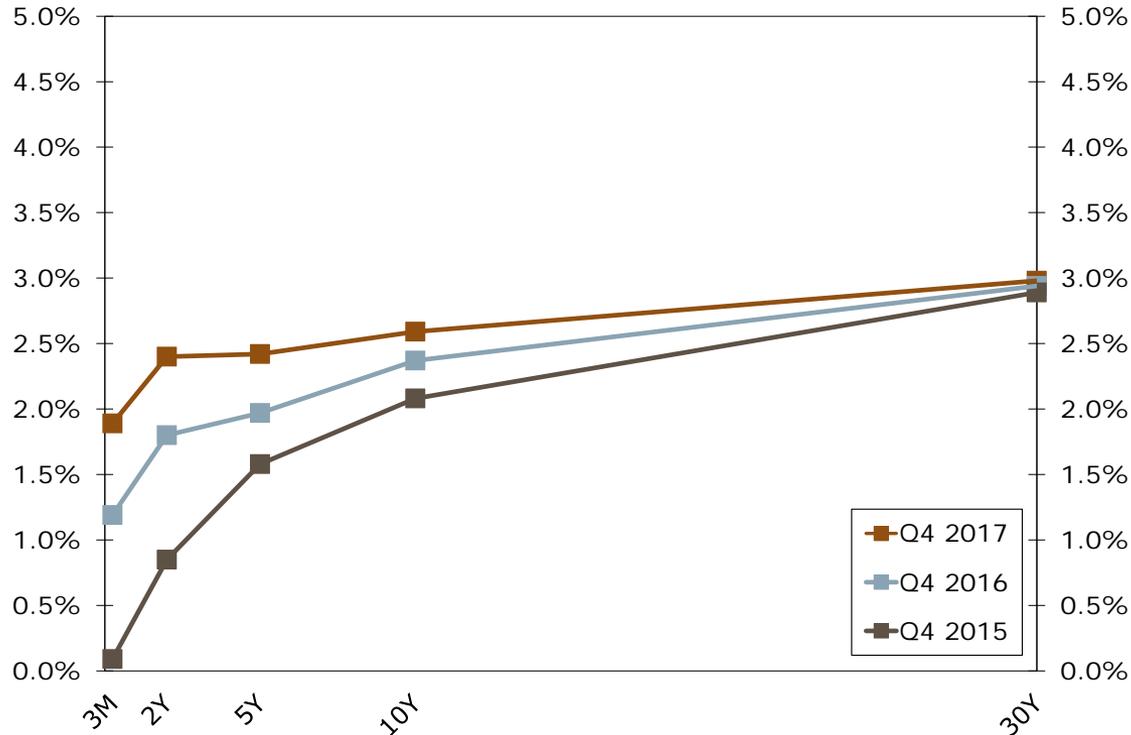
Inflation remains in check



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

The yield curve is expected to flatten further as the Fed begins to raise short-term interest rates in December of this year

### Wells Fargo Rates Forecast Through 2017



Source: Bloomberg LP and Wells Fargo Securities, LLC

## What to watch for in the 114<sup>th</sup> Congress

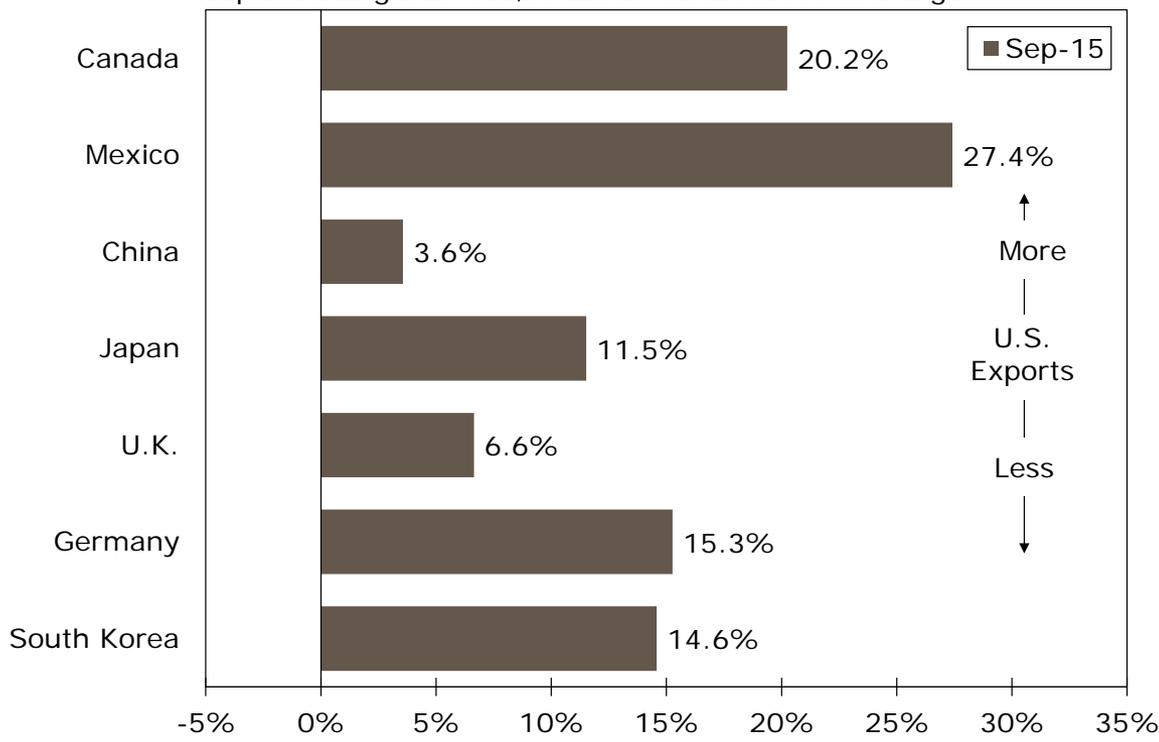
### Key Issues

- **Oct. 29<sup>th</sup> - Funding for Highway Trust Fund expires**
  - How will the gap be filled?
  
- **November 3<sup>rd</sup> - Re-establishment of debt ceiling**
  - How will Congress increase the borrowing limit?
  
- **December 11<sup>th</sup> - FY 2016 budget debate**
  - Current funding runs out
  
- **Corporate tax reform**
  - Both sides agree action is needed, but what will be done?
  
- **International trade agreements (TPP, TTIP)**
  - Don't expect immediate action, but progress is being made

The dollar has strengthened relative to the currencies of our major trading partners

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

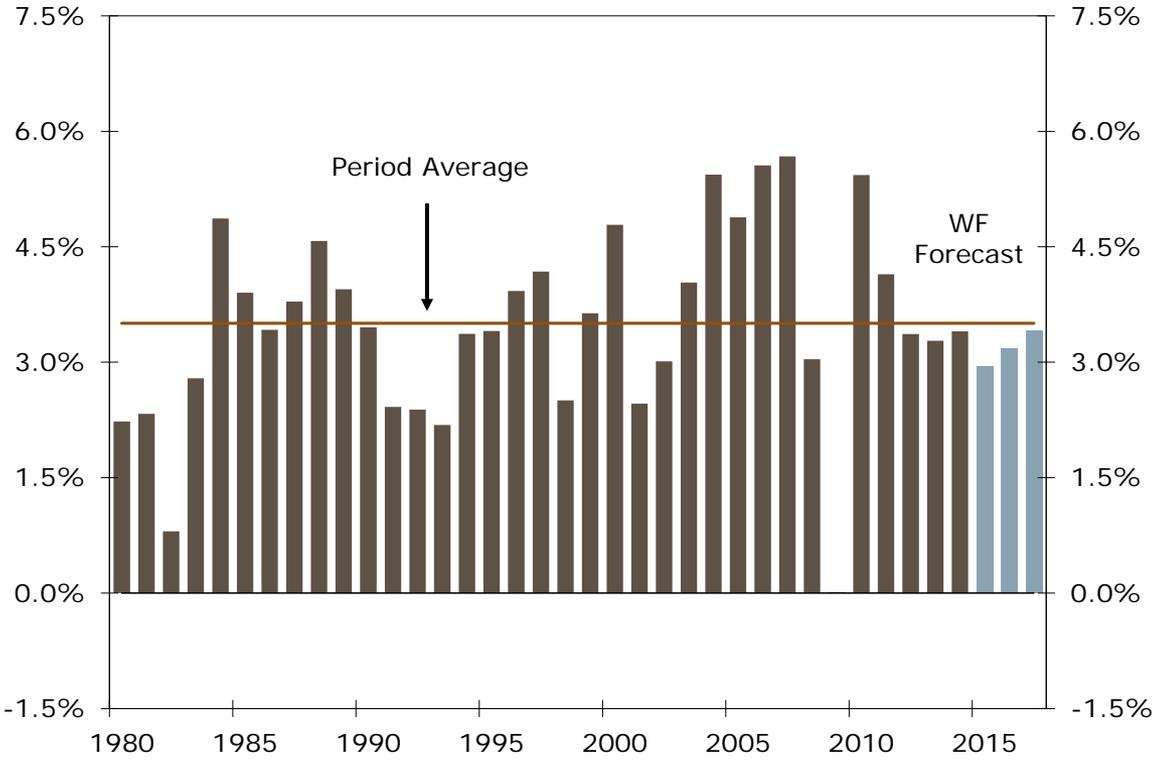
Top 7 Trading Partners, Year-over-Year Percent Change



Source: Bloomberg LP and Wells Fargo Securities, LLC

Growth in the global economy likely will pick up slightly next year

Real Global GDP Growth  
Year-over-Year Percent Change, PPP Weights

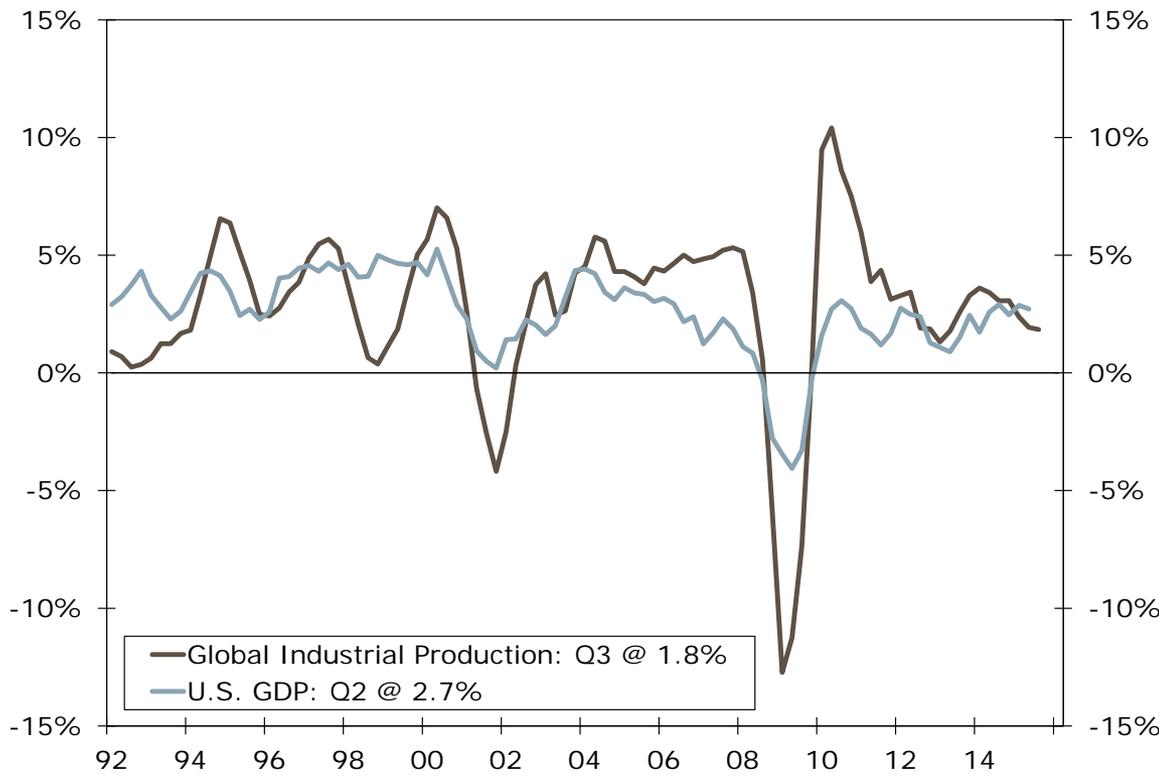


Source: International Monetary Fund and Wells Fargo Securities, LLC

It would take a sharp downturn in the rest of the world to have a meaningful effect on U.S. economic growth

### Global Economic Indicators

Year-over-Year Percent Change

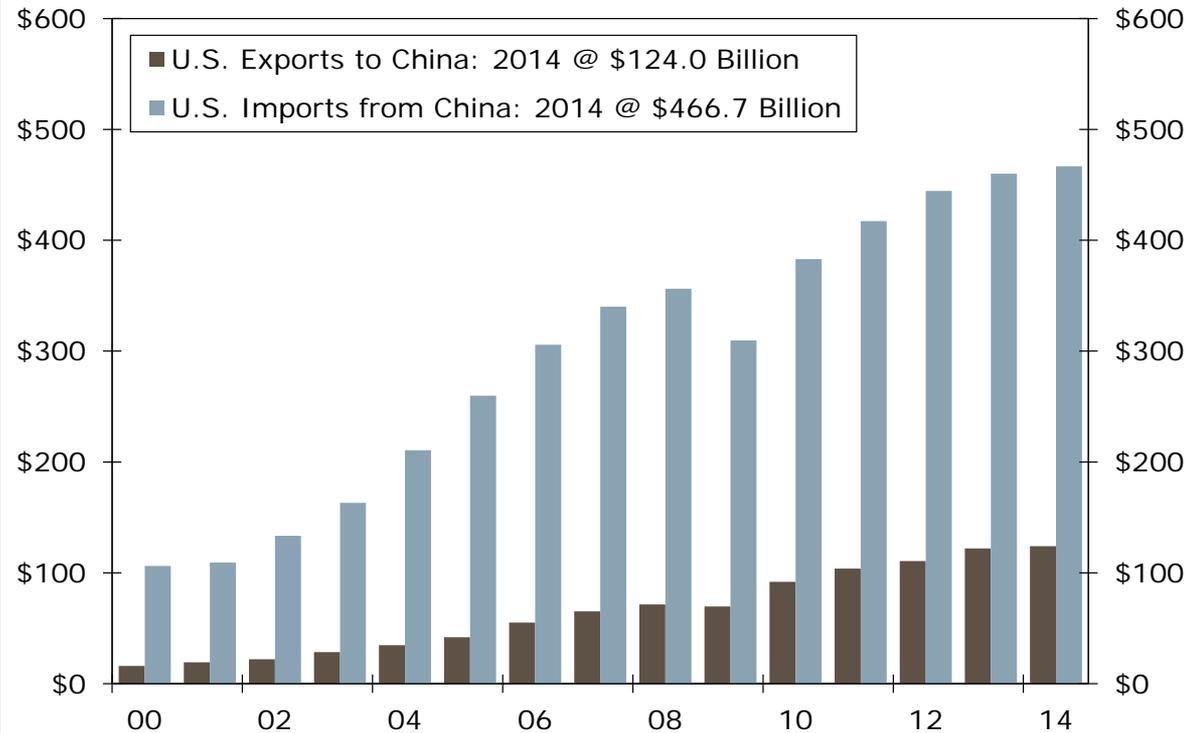


Source: IHS Global Insight and Wells Fargo Securities, LLC

China accounts for 7 percent of American exports and less than 1 percent of GDP

## U.S. Trade With China

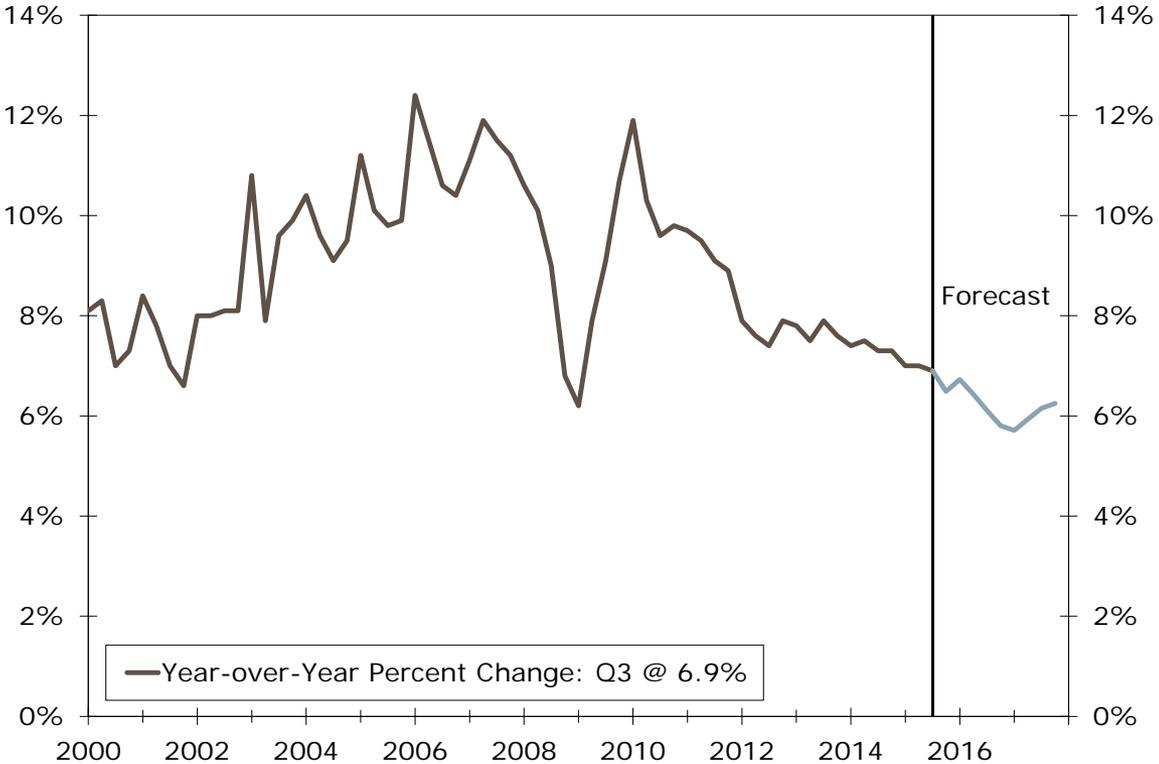
Billions of Dollars



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

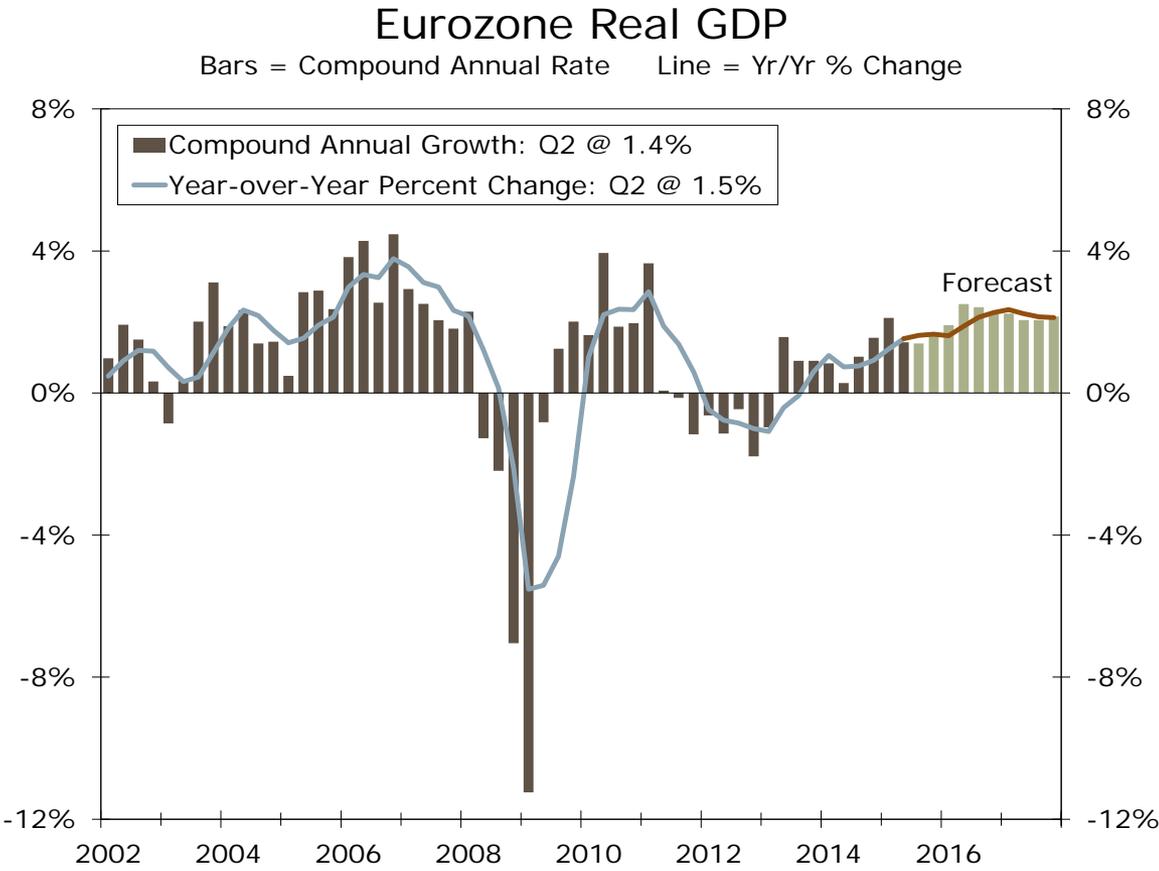
Growth in China will likely continue to downshift to a more sustainable pace

Chinese Real GDP Forecast  
Year-over-Year Percent Change



Source: Bloomberg LP and Wells Fargo Securities, LLC

The Eurozone will see some improvement in the year ahead

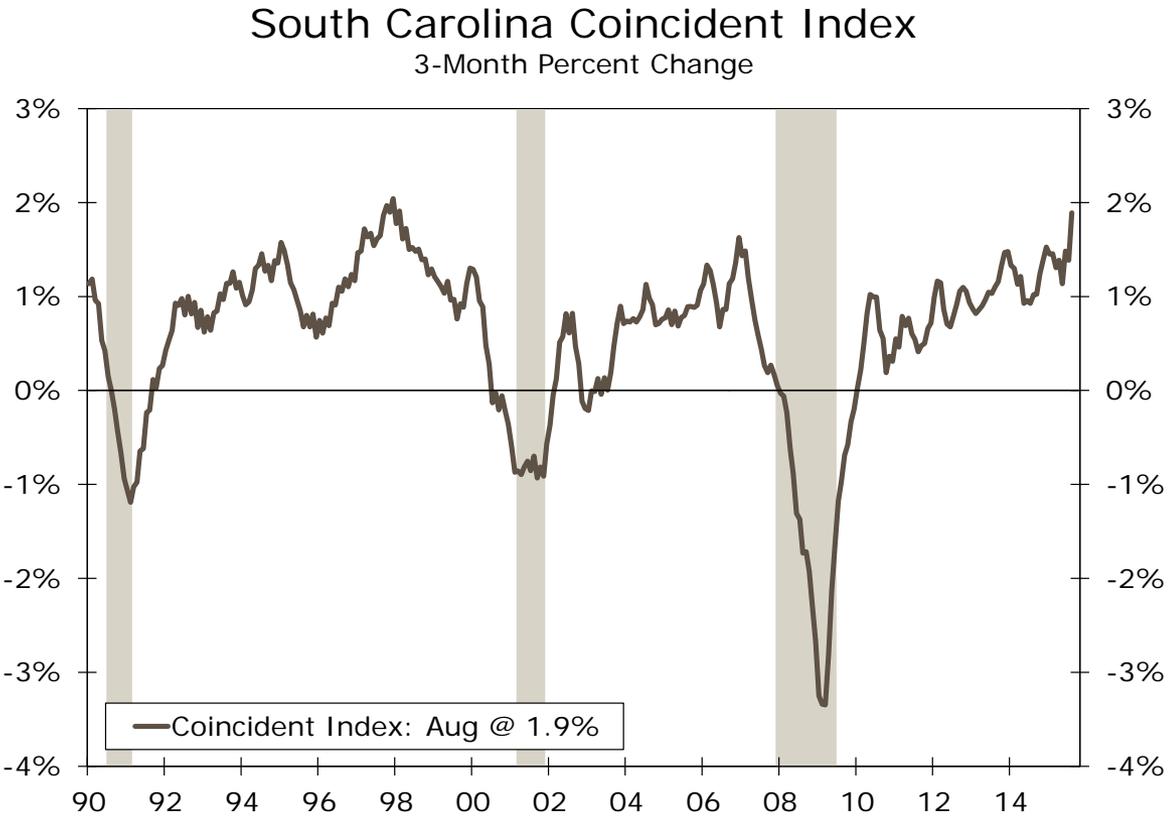


Source: IHS Global Insight and Wells Fargo Securities, LLC

# The South Carolina Economy

---

Economic activity in South Carolina appears to be accelerating

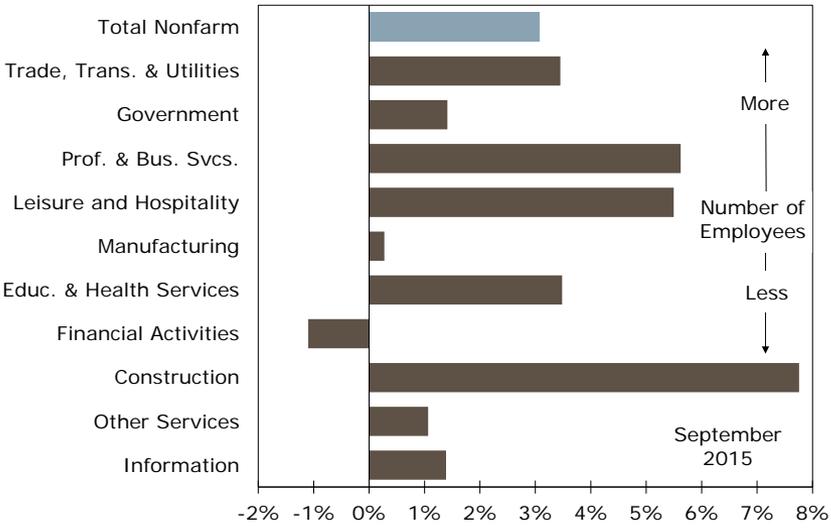


Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

Employment is growing nicely in most sectors, yet the unemployment rate remains above the national average

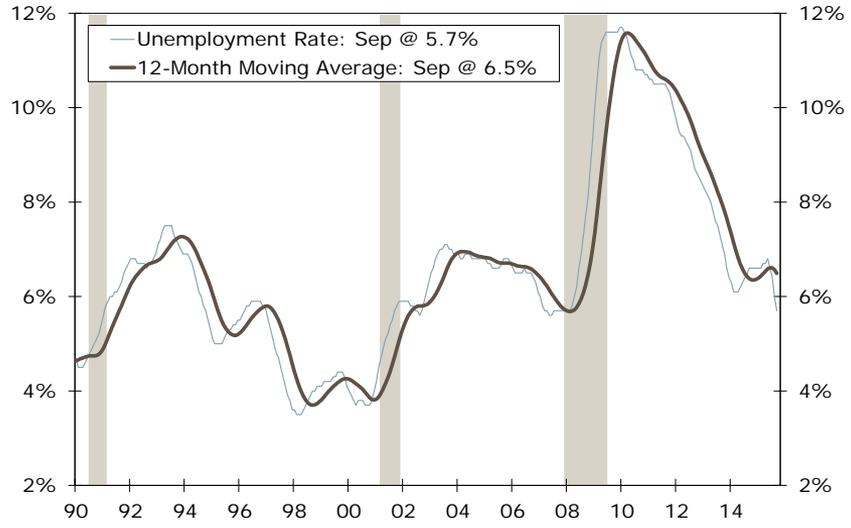
## Employment

South Carolina Employment Growth By Industry  
Year-over-Year Percent Change, 3-MMA



## Unemployment Rate

South Carolina Unemployment Rate  
Seasonally Adjusted

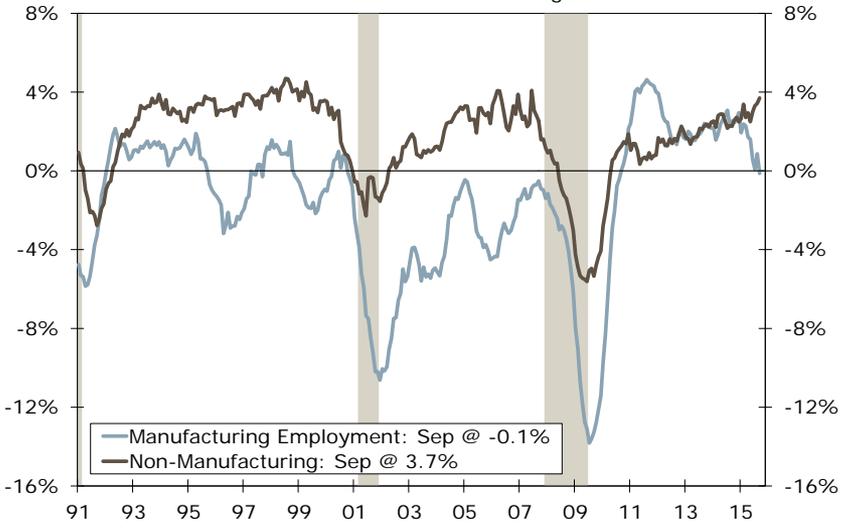


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Manufacturing is a key industry in South Carolina, and the state is vulnerable to a slowdown in this sector

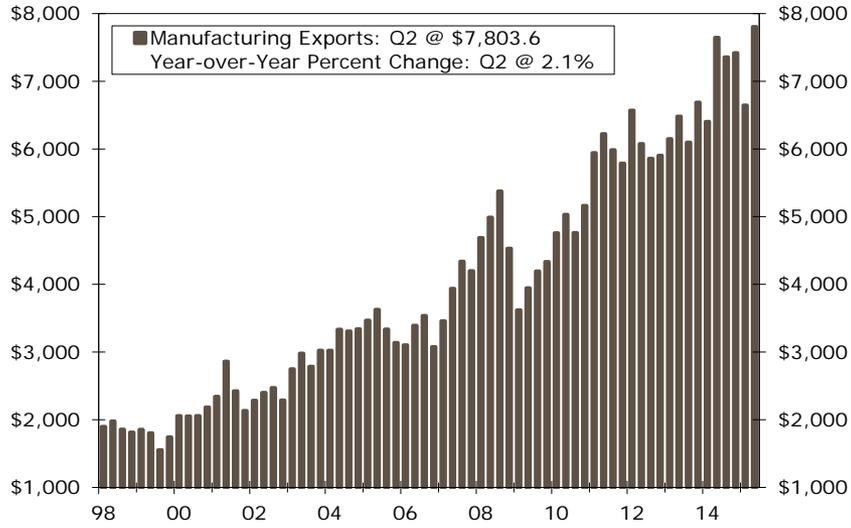
## Divergence in Employment Trends

South Carolina Nonfarm Employment  
Year-over-Year Percent Change



## Manufacturing Export Activity

South Carolina Manufacturing Exports  
Millions of Dollars

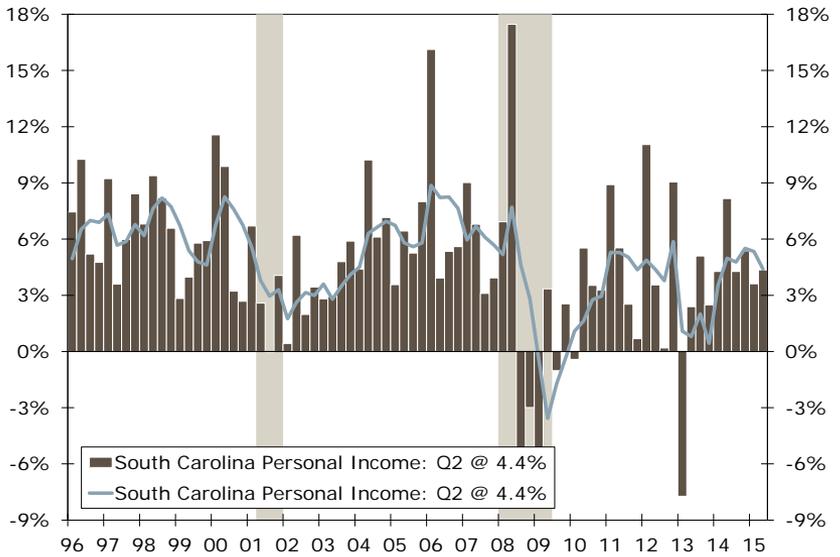


Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities, LLC

Income growth has returned, however, the bulk of the gains in personal income have come from transfer payments

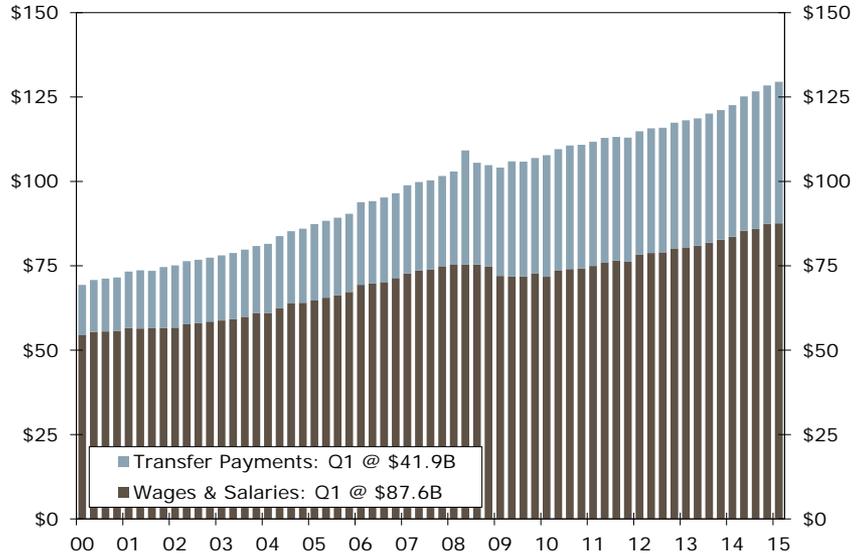
## Personal Income

South Carolina State Personal Income  
 Bars = Compound Annual Rate Line = Yr/Yr % Change



## Composition of Income Growth

South Carolina: Wages & Salaries vs. Transfers  
 In Billions, Seasonally Adjusted Annual Rate

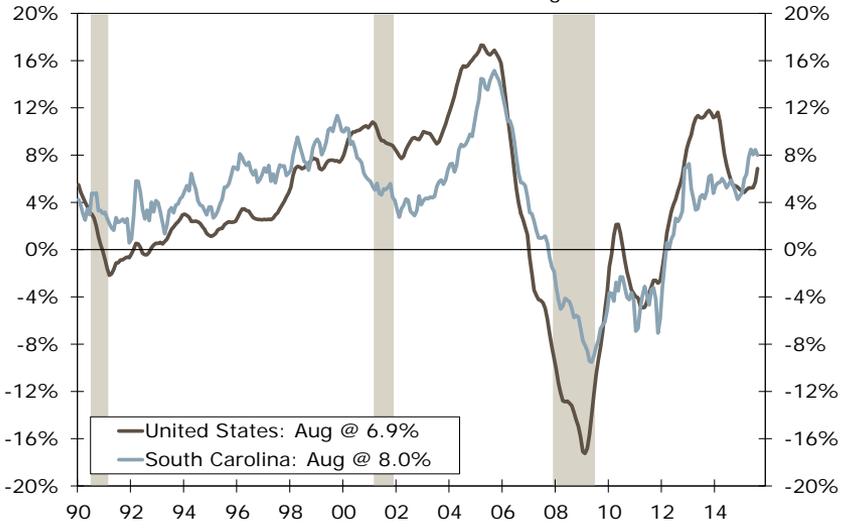


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Home price growth in the state remains strong as building activity has gained momentum

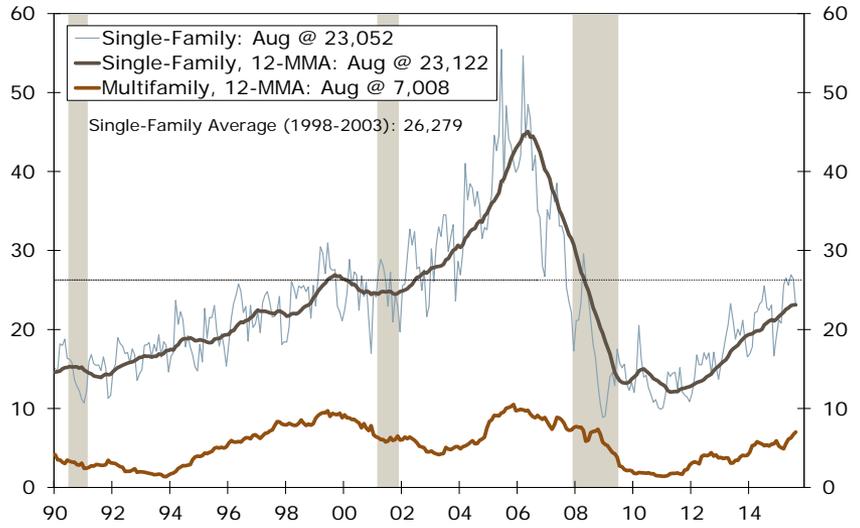
## Home Prices

Core Logic HPI: SC vs. U.S.  
Year-over-Year Percent Change



## Housing Permits

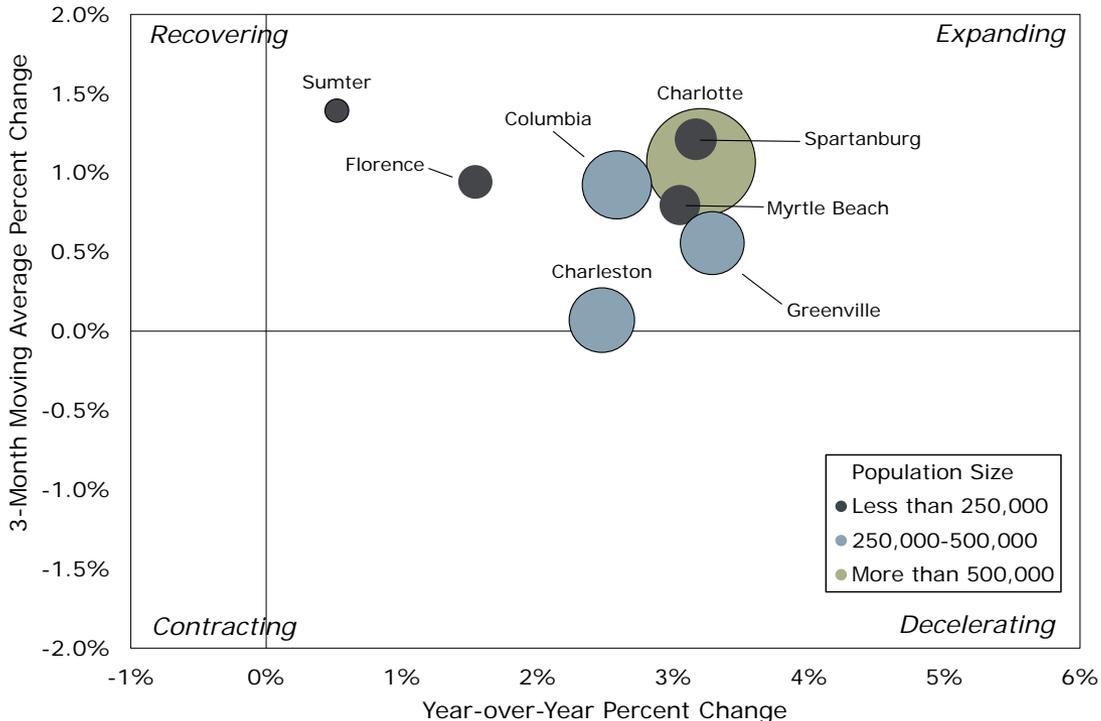
South Carolina Housing Permits  
Thousands of Permits, Annual Rate



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

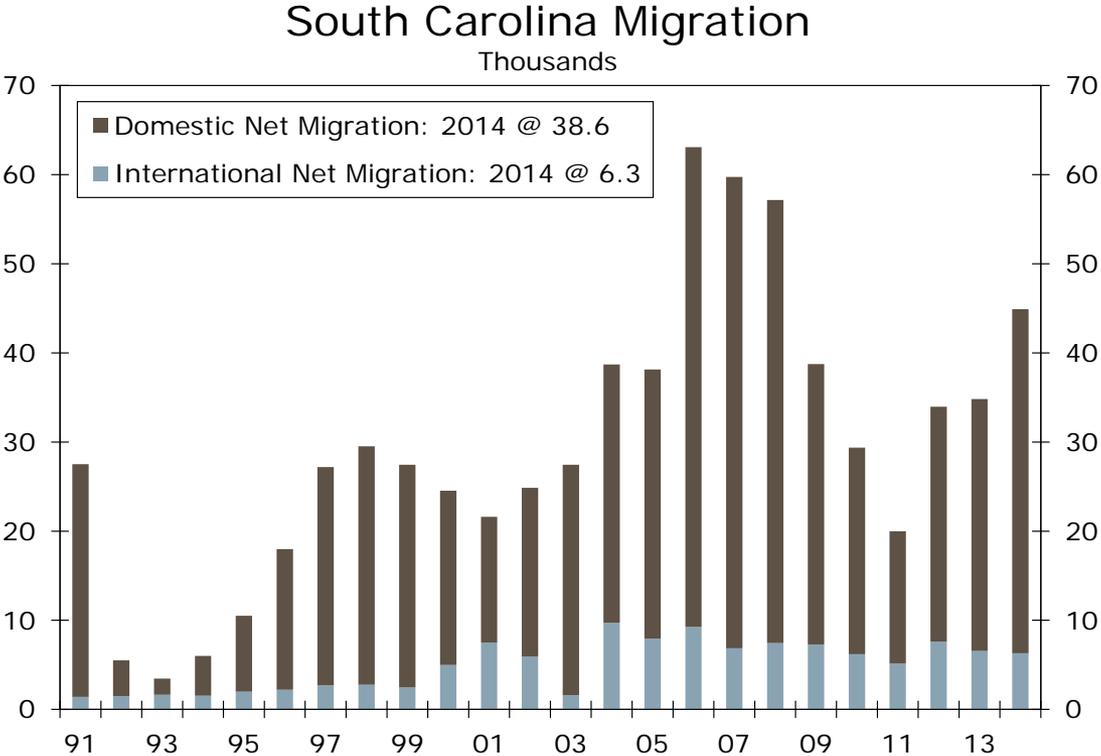
Employment growth has been broadly steady across most major metro areas

South Carolina Employment Growth: September 2015  
Year-over-Year Percent Change, 3-Month Moving Average



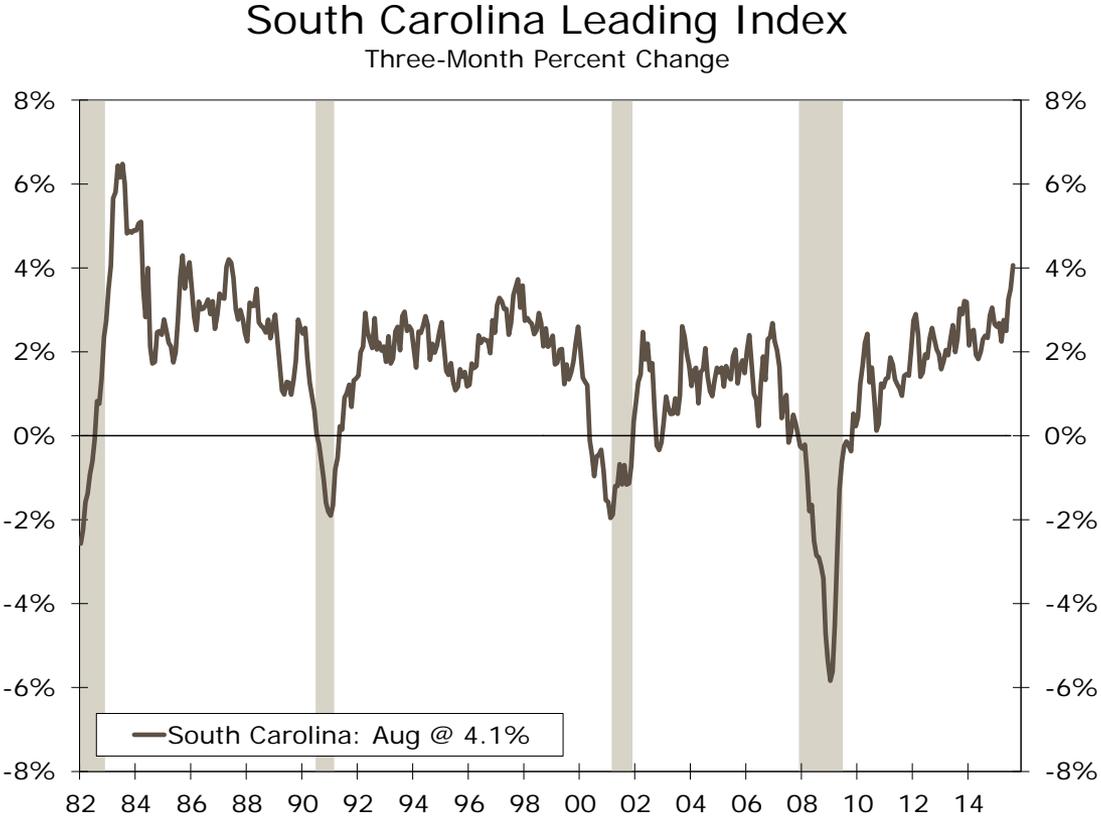
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Over the past few years, net migration has begun to pick back up in South Carolina



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

The leading economic index is currently pointing toward healthy economic growth ahead

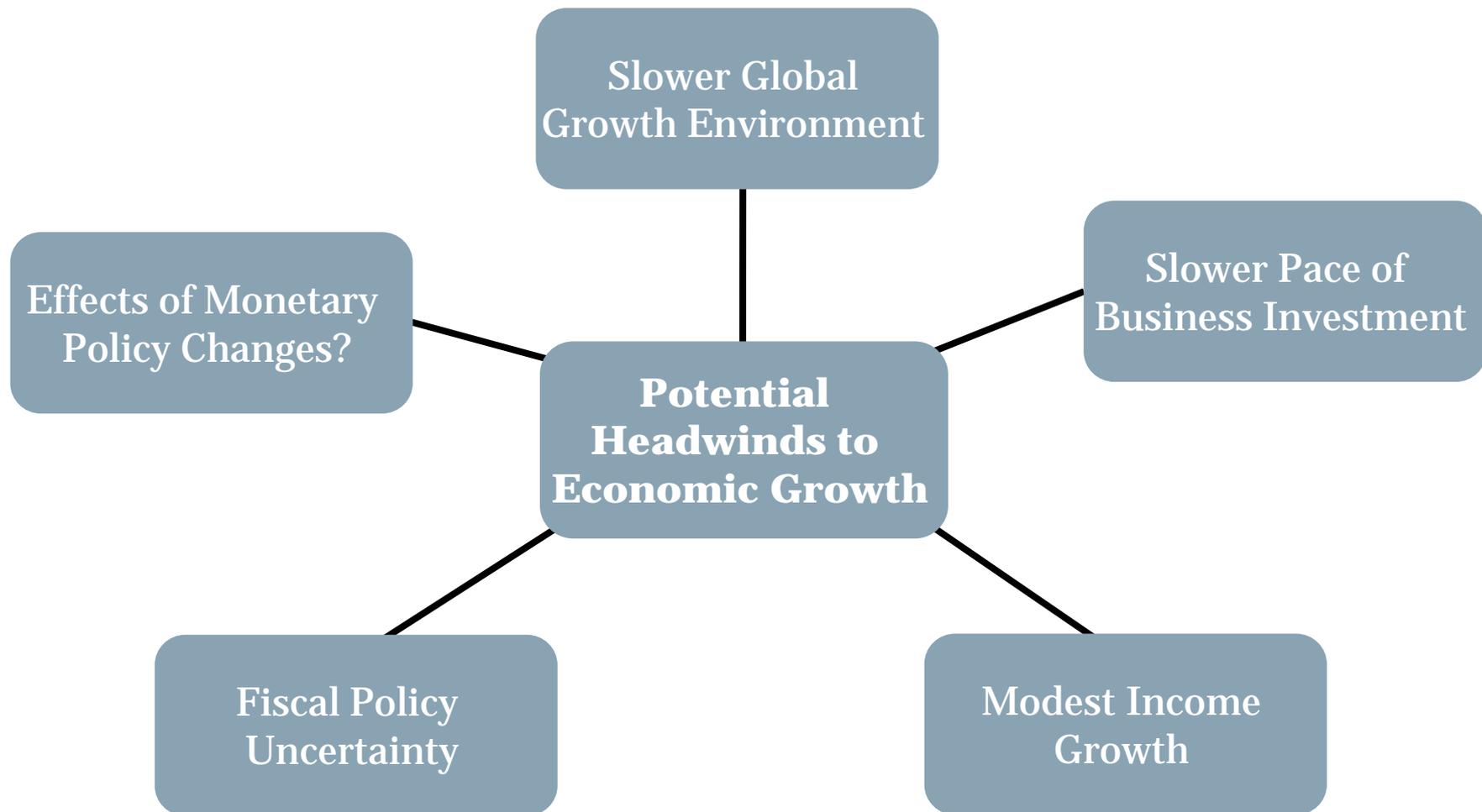


Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

**South Carolina Economic Indicator Projections**

	<b>Forecast FY2015-16</b>	<b>Forecast FY2016-17</b>
<b>SC Personal Income</b>	5.0%	5.2%
<b>SC Employment</b>	2.8%	3.0%
<b>Inflation Rate</b>	1.9%	2.2%
<b>Sales Tax</b>	5.3%	5.5%
<b>Individual Income Tax</b>	5.4%	5.6%

Source: Wells Fargo Securities, LLC



What should we look for in the U.S. economy in the next few quarters?

## Expectations for the Future

- **A more robust pace of economic growth**
  - Slightly stronger pace of GDP growth
  
- **Business spending will remain modest**
  - Investment in commercial real estate will support growth
  
- **Consumer spending growth will remain robust**
  - Disposable income growth should begin to accelerate
  
- **The housing market continues to improve**
  - Some regions will recover faster than others
  
- **Sustained job growth will continue**
  - Longer-term structural issues remain

## Wells Fargo U.S. Economic Forecast

	Actual		Forecast											Actual		Forecast		
	2015		2016				2017				2013	2014	2015	2016	2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product <sup>1</sup>	0.6	3.9	1.0	2.8	2.6	2.6	2.6	2.5	2.3	2.2	2.3	2.3	1.5	2.4	2.4	2.5	2.4	
Personal Consumption	1.8	3.6	3.6	3.0	2.5	2.6	2.5	2.3	2.4	2.3	2.3	2.3	1.7	2.7	3.2	2.8	2.4	
Business Fixed Investment	1.6	4.1	4.7	5.5	4.8	4.9	5.2	5.1	4.9	4.8	4.7	4.6	3.0	6.2	3.6	4.9	4.9	
Equipment	2.3	0.3	4.5	4.7	4.1	4.8	5.5	5.6	5.3	5.2	4.8	4.7	3.2	5.8	2.9	4.4	5.2	
Intellectual Property Products	7.4	8.3	6.8	6.9	6.7	6.0	5.8	5.3	4.9	4.7	4.8	4.7	3.8	5.2	7.1	6.5	5.1	
Structures	-7.4	6.2	2.2	5.3	3.4	3.4	3.5	3.5	4.0	4.0	4.2	4.5	1.6	8.1	0.3	3.8	3.9	
Residential Construction	10.1	9.4	10.0	10.0	12.0	12.0	12.0	12.5	9.0	9.0	8.0	8.0	9.5	1.8	9.1	11.3	10.0	
Government Purchases	-0.1	2.6	0.9	1.7	1.7	2.1	1.8	1.7	1.2	1.0	1.0	0.9	-2.9	-0.6	0.7	1.7	1.4	
Net Exports <sup>2</sup>	-1.9	0.2	-0.7	-0.5	-0.6	-0.7	-0.7	-0.5	-0.4	-0.4	-0.3	-0.3	0.2	-0.2	-0.7	-0.6	-0.5	
Inventories <sup>2</sup>	0.9	0.0	-1.4	0.0	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1	-0.1	-0.1	
Nonfarm Payroll Change <sup>3</sup>	195	231	167	200	195	190	185	180	175	170	165	160	199	260	198	188	168	
Unemployment Rate	5.6	5.4	5.2	5.0	4.9	4.8	4.7	4.6	4.5	4.5	4.4	4.4	7.4	6.2	5.3	4.7	4.5	
PCE Deflator <sup>4</sup>	0.2	0.3	0.3	0.8	1.6	1.6	1.7	1.9	2.0	2.0	1.9	1.9	1.4	1.4	0.4	1.7	2.0	
Quarter-End Interest Rates <sup>5</sup>																		
Federal Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	0.25	0.25	0.31	0.88	1.81	
Conventional Mortgage Rate	3.77	3.98	3.89	3.92	3.94	3.99	4.11	4.25	4.35	4.42	4.48	4.55	3.98	4.17	3.89	4.07	4.45	
3 Month Bill	0.03	0.01	0.00	0.09	0.21	0.60	0.86	1.19	1.27	1.60	1.85	1.89	0.06	0.03	0.03	0.72	1.65	
6 Month Bill	0.14	0.11	0.08	0.20	0.28	0.69	0.95	1.28	1.36	1.69	1.94	1.98	0.09	0.06	0.13	0.80	1.74	
1 Year Bill	0.26	0.28	0.33	0.53	0.62	0.98	1.16	1.43	1.51	1.84	2.07	2.10	0.13	0.12	0.35	1.05	1.88	
2 Year Note	0.56	0.64	0.64	0.85	1.01	1.28	1.55	1.80	2.01	2.28	2.35	2.40	0.31	0.46	0.67	1.41	2.26	
5 Year Note	1.37	1.63	1.37	1.58	1.72	1.81	1.94	1.97	2.20	2.32	2.38	2.42	1.17	1.64	1.49	1.86	2.33	
10 Year Note	1.94	2.35	2.06	2.08	2.10	2.15	2.25	2.37	2.45	2.50	2.54	2.59	2.35	2.54	2.11	2.22	2.52	
30 Year Bond	2.54	3.11	2.87	2.89	2.88	2.90	2.92	2.94	2.96	2.96	2.98	2.98	3.45	3.34	2.85	2.91	2.97	

Forecast as of: October 16, 2015

<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, LLC

# Appendix

---

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

### Recent Special Commentary

Date	Title	Authors
<b>U.S. Macro</b>		
October-19	Are Soaring Rent Costs Stifling Millennials?	House & Nelson
September-24	Capitol Hill Update: Down-to-the-Wire Votes Expected	Silvia & Brown
September-24	Job Openings vs. Turnover: Mixed Messages from JOLTS	House & Moehring
September-23	U.S. Manufacturing & USD: Setting the Record Straight	Quinlan, House & Nelson
September-14	Equipment Spending: It's Not About Rates Anyway	Quinlan, House & Nelson
<b>U.S. Regional</b>		
October-16	Florida Payroll Gains Slow in September	Vitner & Batcheller
October-16	Texas Adds 26,600 Jobs in September	Vitner & Batcheller
October-16	California Job Growth Cools in September	Vitner & Batcheller
October-15	Georgia's Unemployment Rate Remains Unchanged at 5.8 Percent	Vitner & Batcheller
October-15	Chicago Economic Update: Fall 2015	Vitner & Batcheller
<b>Global Economy</b>		
October-19	China GDP Growth Flows Further in Q3	Bryson & Nelson
October-14	Singapore Narrowly Avoids Technical Recession in Q3	Bryson & Nelson
October-07	TPP Agreement: More Than Initially Meets the Eye	Bryson & Nelson
October-07	Brazil: Been There, Done That	Alemán
October-05	Mexican Economy: The Boom That Never Was?	Alemán
<b>Interest Rates/Credit Market</b>		
October-14	Trading Places: On the U.S./U.K. 10-Year Rate Spread	Silvia, Vitner & Brown
October-07	Fiscal Policy Likely to Induce Greater Rate Volatility	Silvia, Vitner & Brown
September-30	Silos Fall in a Financial Windstorm: Realty TV for Investors	Silvia, Vitner & Brown
September-21	FOMC Decides: Markets Assess What's Next	Silvia, Vitner & Brown
September-16	Household Credit Healthy for Now	Silvia, Vitner & Brown
<b>Real Estate</b>		
September-30	Housing Chartbook: September 2015	Vitner, Khan & Batcheller
September-30	Nonresidential Construction Recap: September	Khan
September-01	Housing Data Wrap-Up: August 2015	Vitner & Khan
August-31	Nonresidential Construction Recap: August	Khan
August-07	Commercial Real Estate Chartbook: Q2	Khan

To view any of our past research  
please visit:  
[http://www.wellsfargo.com/  
economics](http://www.wellsfargo.com/economics)

To join any of our research  
distribution lists please visit:  
[https://wellsfargo.mworld.com/  
econ/alerts.asp](https://wellsfargo.mworld.com/econ/alerts.asp)

## Global Head of Research and Economics

Diane Schumaker-Krieg [diane.schumaker@wellsfargo.com](mailto:diane.schumaker@wellsfargo.com)  
*Global Head of Research & Economics*

## Chief Economist

John E. Silvia [john.silvia@wellsfargo.com](mailto:john.silvia@wellsfargo.com)

## Senior Economists

Mark Vitner, Senior Economist [mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com)

Jay H. Bryson, Global Economist [jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com)

Sam Bullard, Senior Economist [sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com)

Nick Bennenbroek, Currency Strategist [nicholas.bennenbroek@wellsfargo.com](mailto:nicholas.bennenbroek@wellsfargo.com)

Eugenio J. Alemán, Senior Economist [eugenio.j.aleman@wellsfargo.com](mailto:eugenio.j.aleman@wellsfargo.com)

Anika R. Khan, Senior Economist [anika.khan@wellsfargo.com](mailto:anika.khan@wellsfargo.com)

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2015 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

## Economists

Azhar Iqbal, Econometrician [azhar.iqbal@wellsfargo.com](mailto:azhar.iqbal@wellsfargo.com)

Tim Quinlan, Economist [tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com)

Eric J. Viloría, Currency Strategist [eric.viloria@wellsfargo.com](mailto:eric.viloria@wellsfargo.com)

Sarah House, Economist [sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com)

Michael A. Brown, Economist [michael.a.brown@wellsfargo.com](mailto:michael.a.brown@wellsfargo.com)

## Economic Analysts

Erik Nelson, Economic Analyst [erik.f.nelson@wellsfargo.com](mailto:erik.f.nelson@wellsfargo.com)

Alex Moehring, Economic Analyst [alex.v.moehring@wellsfargo.com](mailto:alex.v.moehring@wellsfargo.com)

Misa Batcheller, Economic Analyst [misa.n.batcheller@wellsfargo.com](mailto:misa.n.batcheller@wellsfargo.com)

Michael Pugliese, Economic Analyst [michael.d.pugliese@wellsfargo.com](mailto:michael.d.pugliese@wellsfargo.com)

## Administrative Assistants

Donna LaFleur, Executive Assistant [donna.lafleur@wellsfargo.com](mailto:donna.lafleur@wellsfargo.com)

Cyndi Burris, Senior Administrative Assistant [cyndi.burris@wellsfargo.com](mailto:cyndi.burris@wellsfargo.com)