



The Economic Outlook

October 2023

Jackie Benson

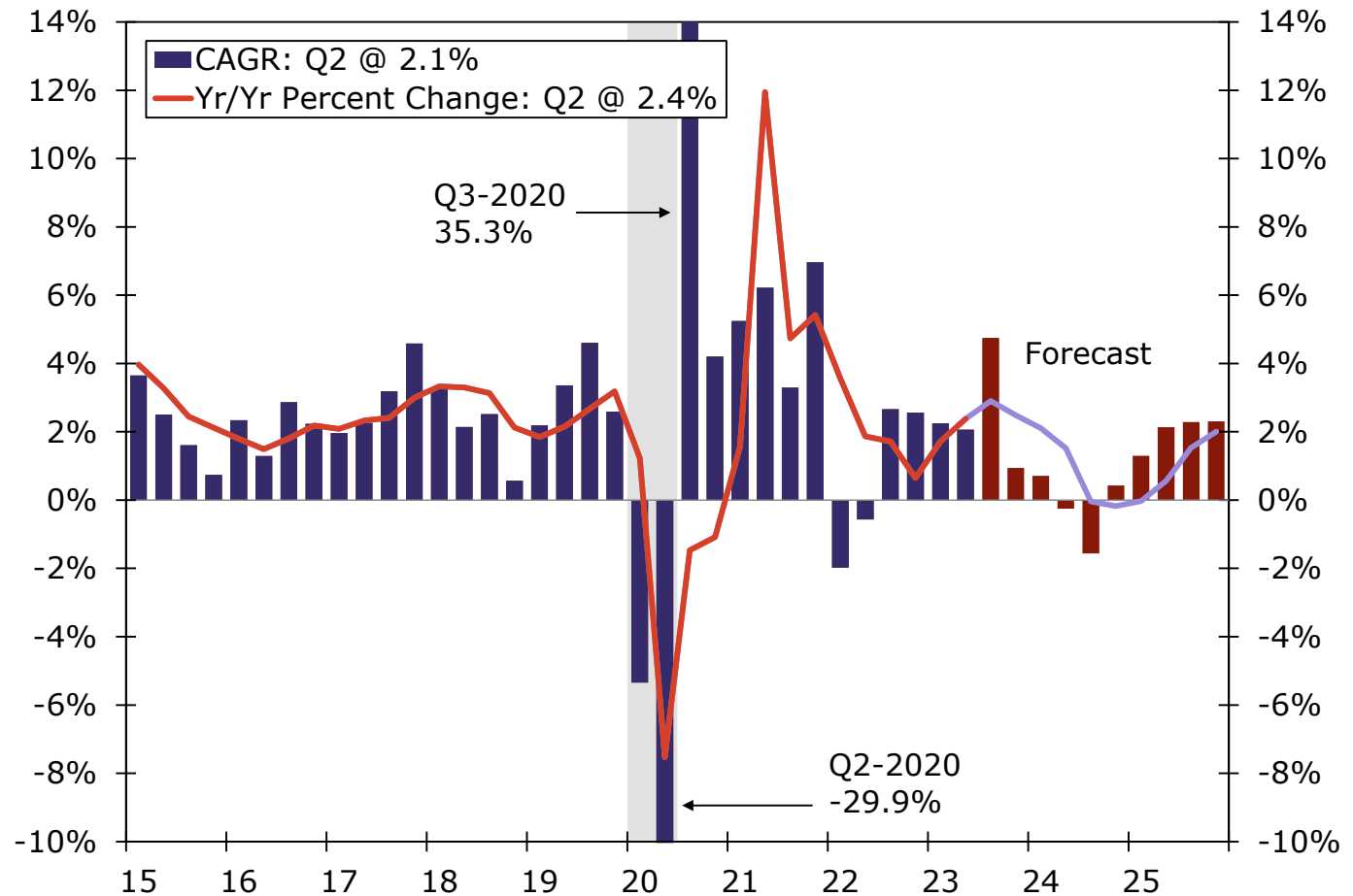
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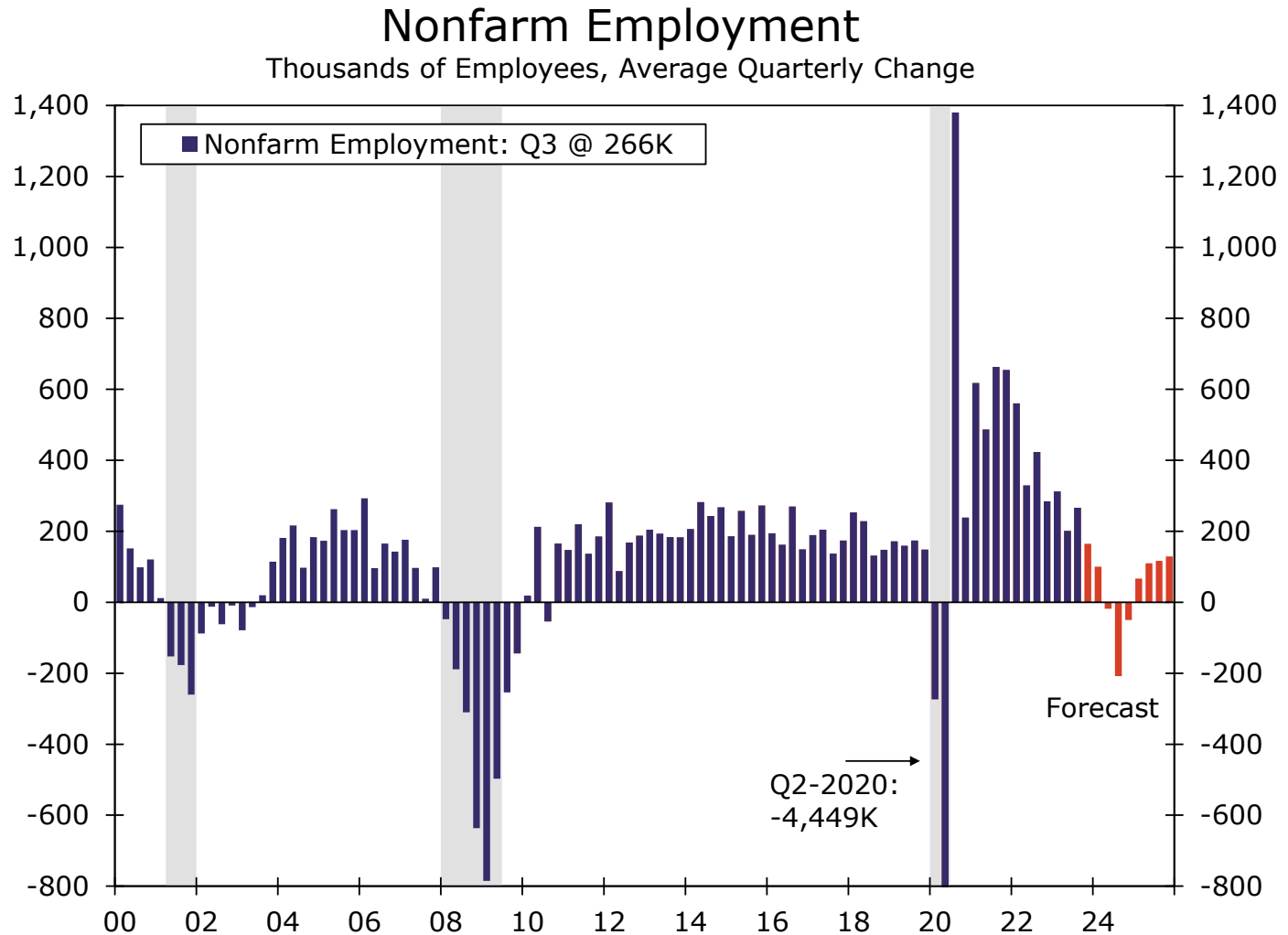
Where is the Economy Headed?

An impressive string of economic data seems to have reduced recession risks. However, we still believe the economy is headed for a slowdown.

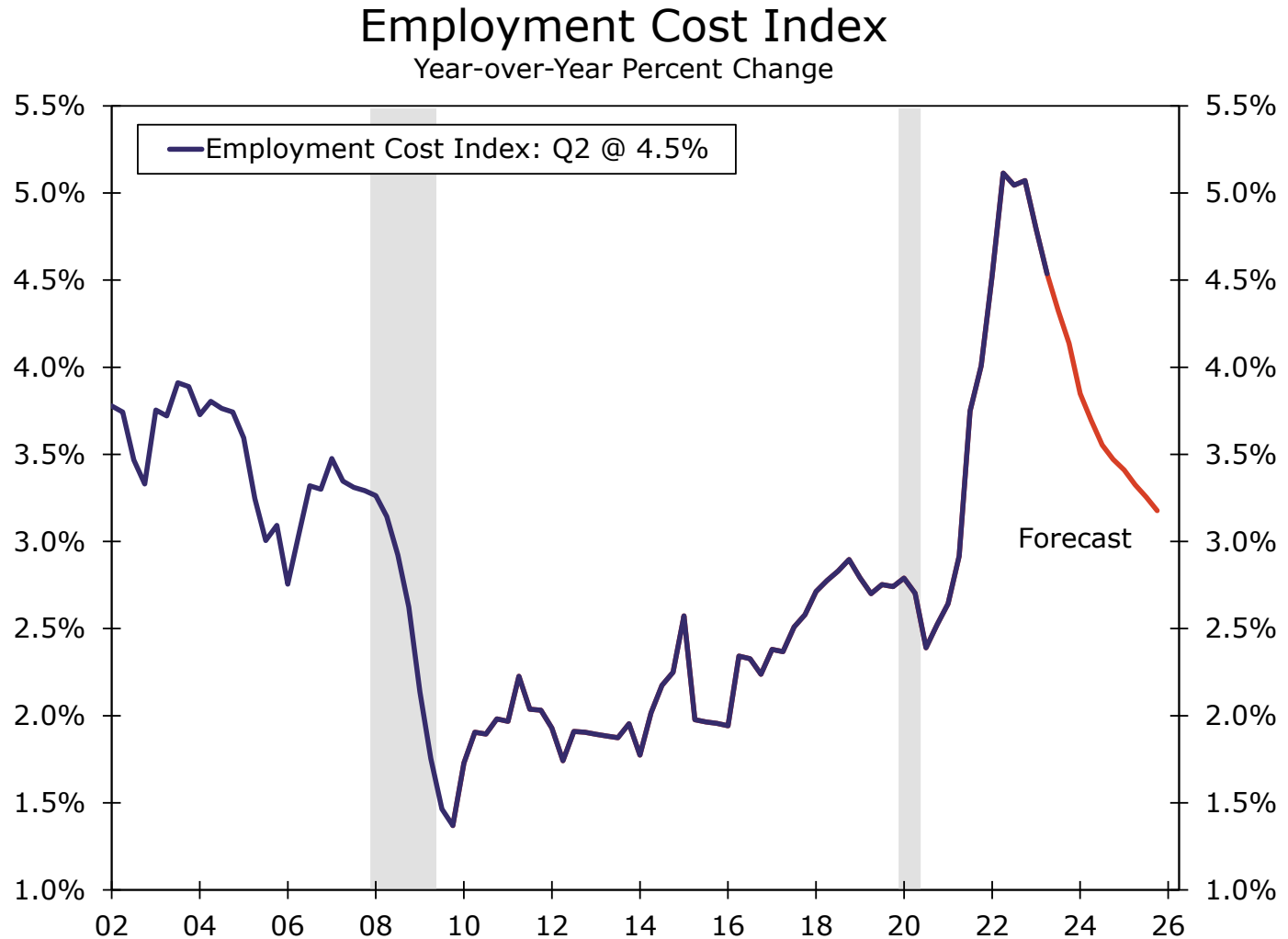
U.S. Real GDP Growth



We expect the pace of job growth to slow as the lagged effects of monetary tightening take hold.



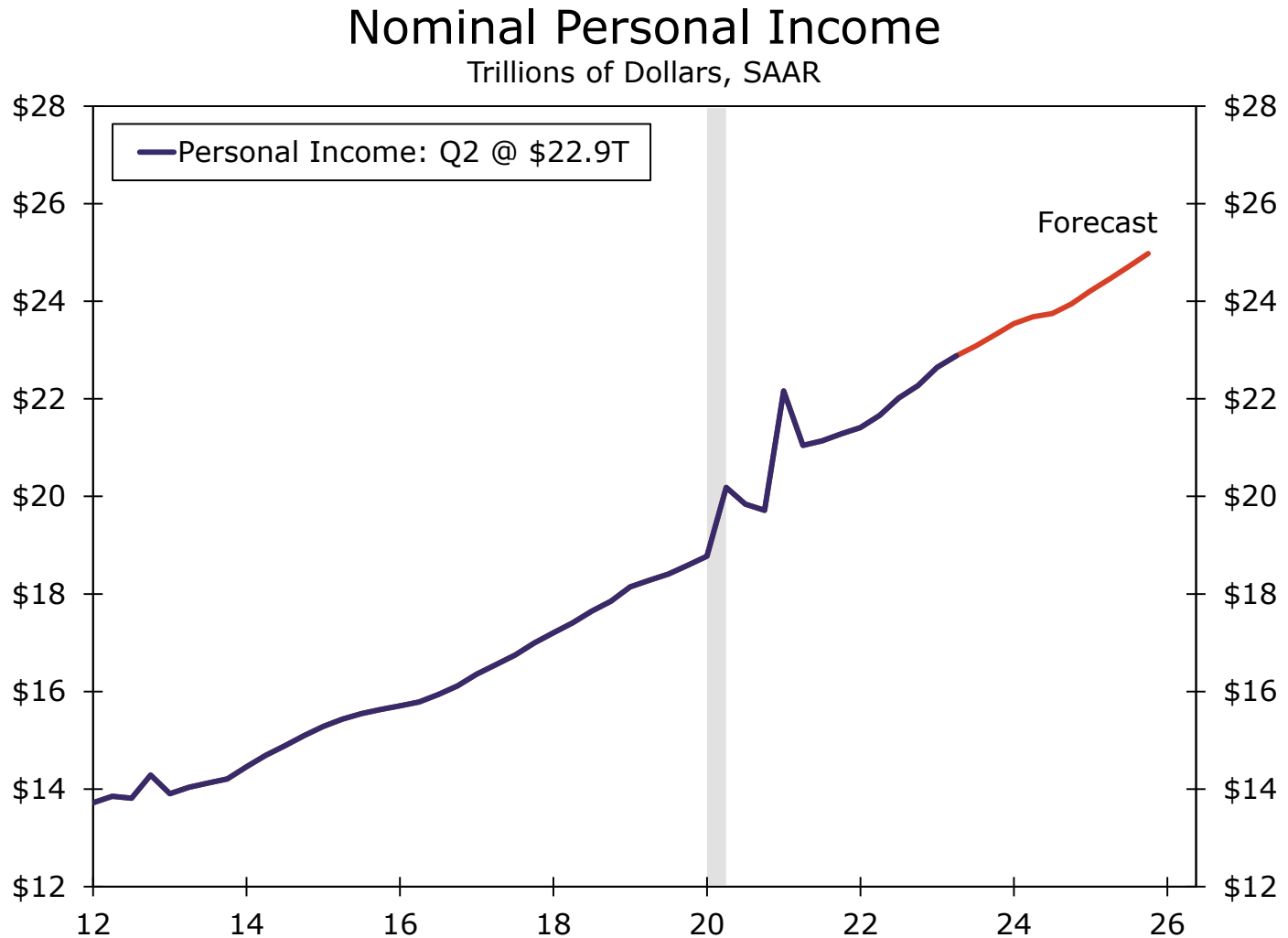
Labor cost growth appears to have turned a corner but is still running in excess of the Fed's 2% inflation goal.



Personal Income Outlook

We expect personal income to grow at a solid pace over the next year.

If the labor market weakens as we expect, we look for income growth to downshift in mid-2024.

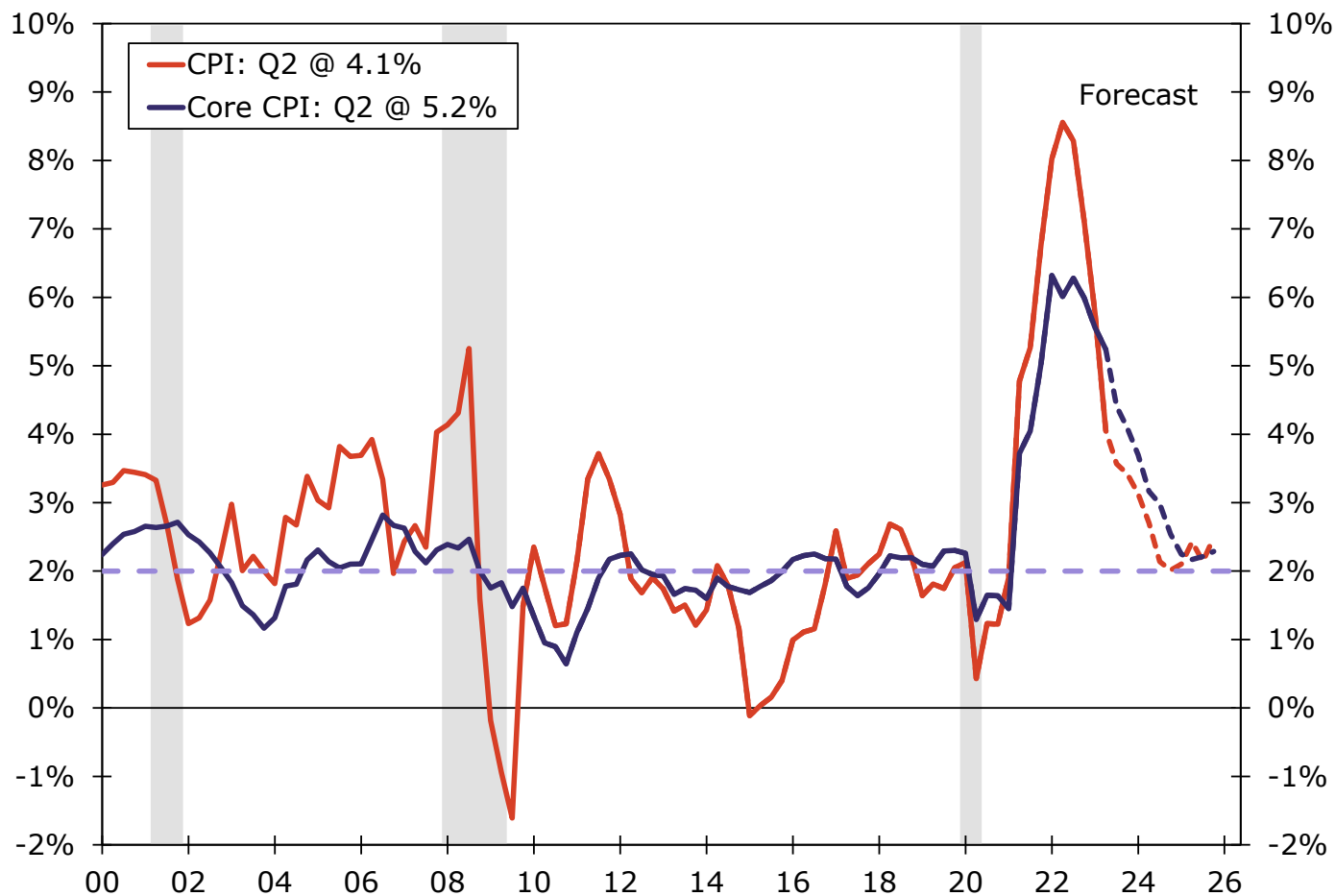


Slower labor cost growth, the ongoing disinflation from primary shelter and softening demand from more stretched consumers should help inflation to settle down.

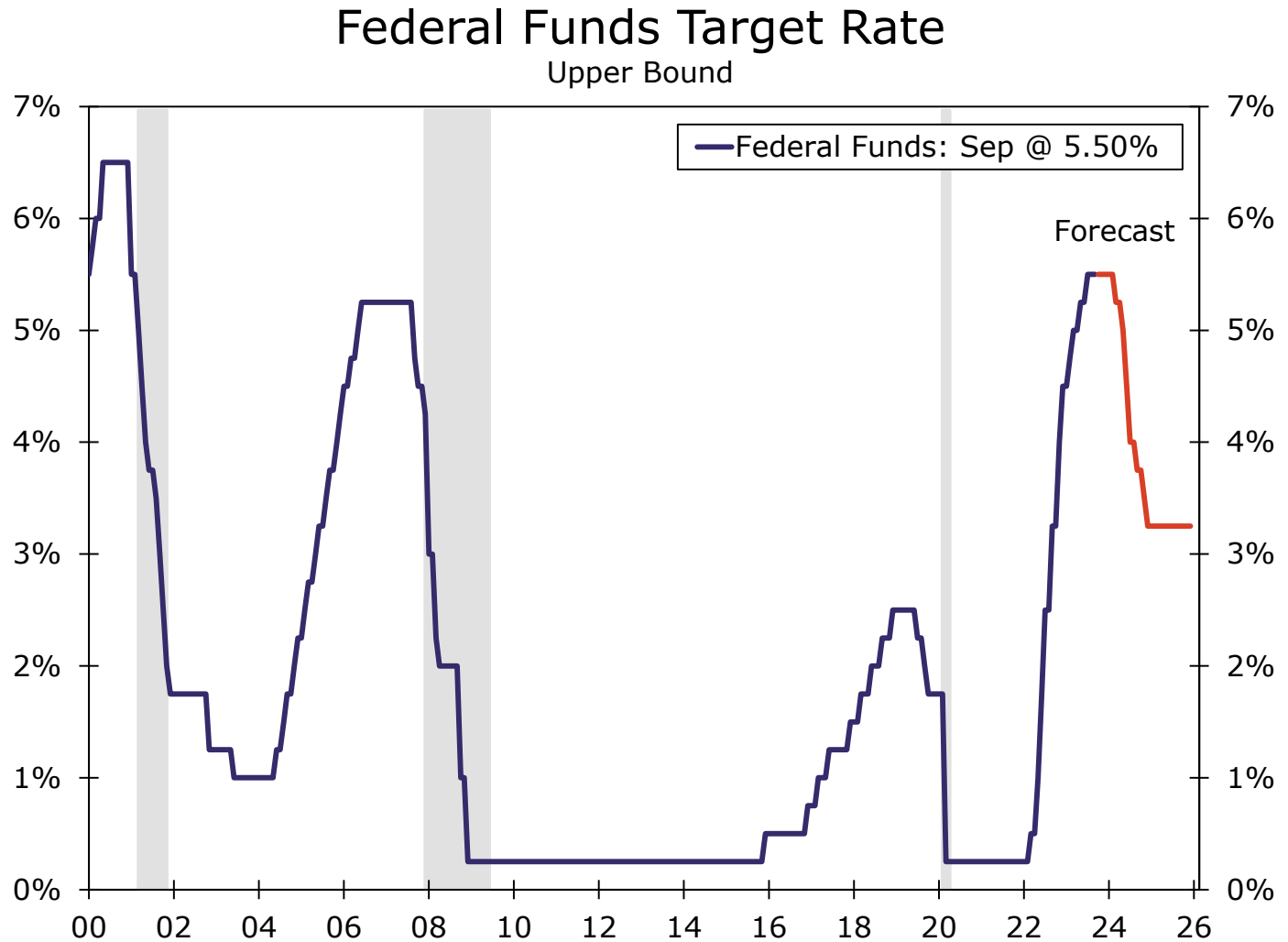
We estimate CPI will reach a 2.0% annual rate by year-end 2024.

Consumer Price Index

Year-over-Year Percent Change

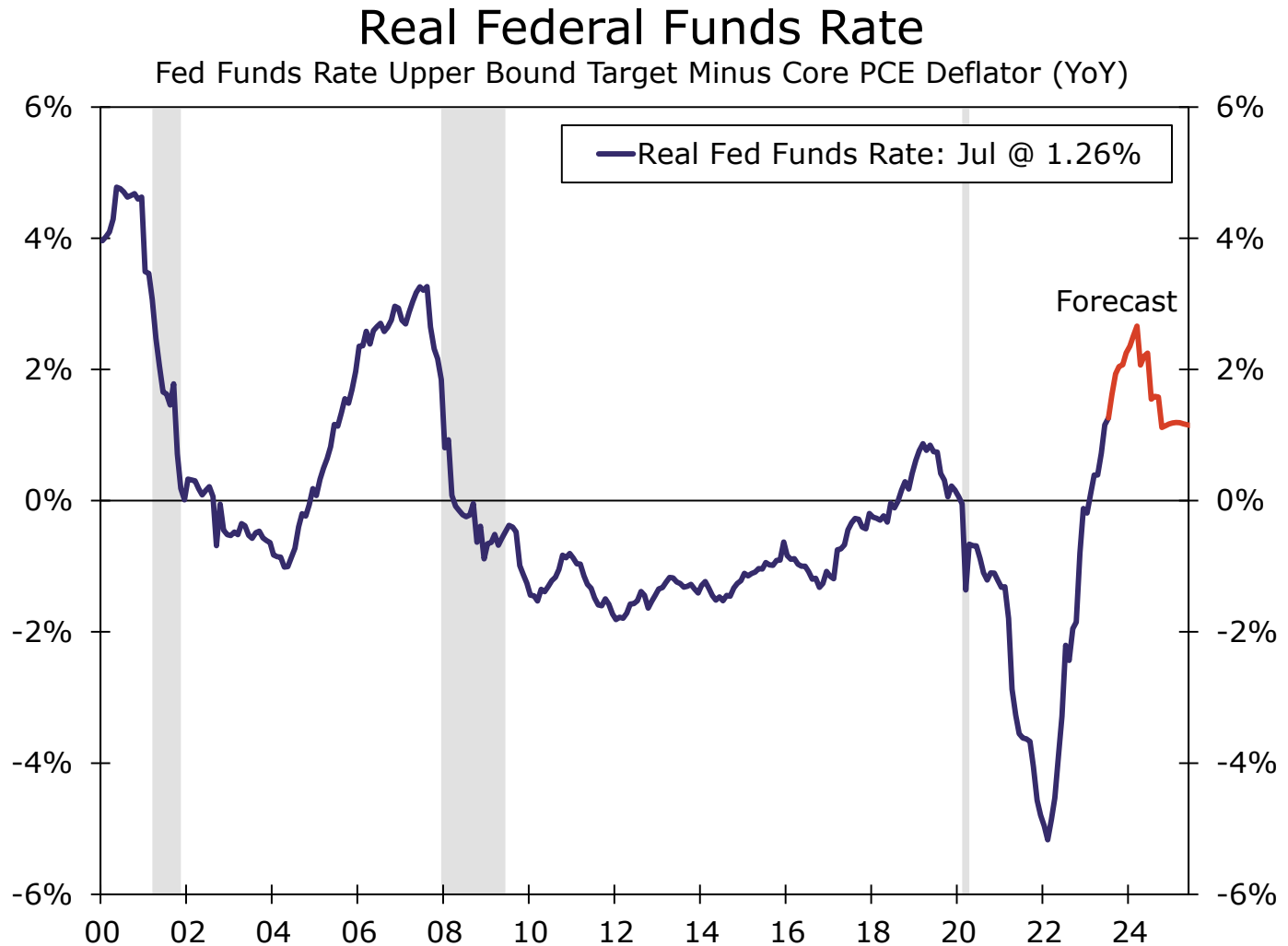


We expect that the Fed has neared the end of its tightening cycle but that it will keep the stance of monetary policy restrictive for some time.



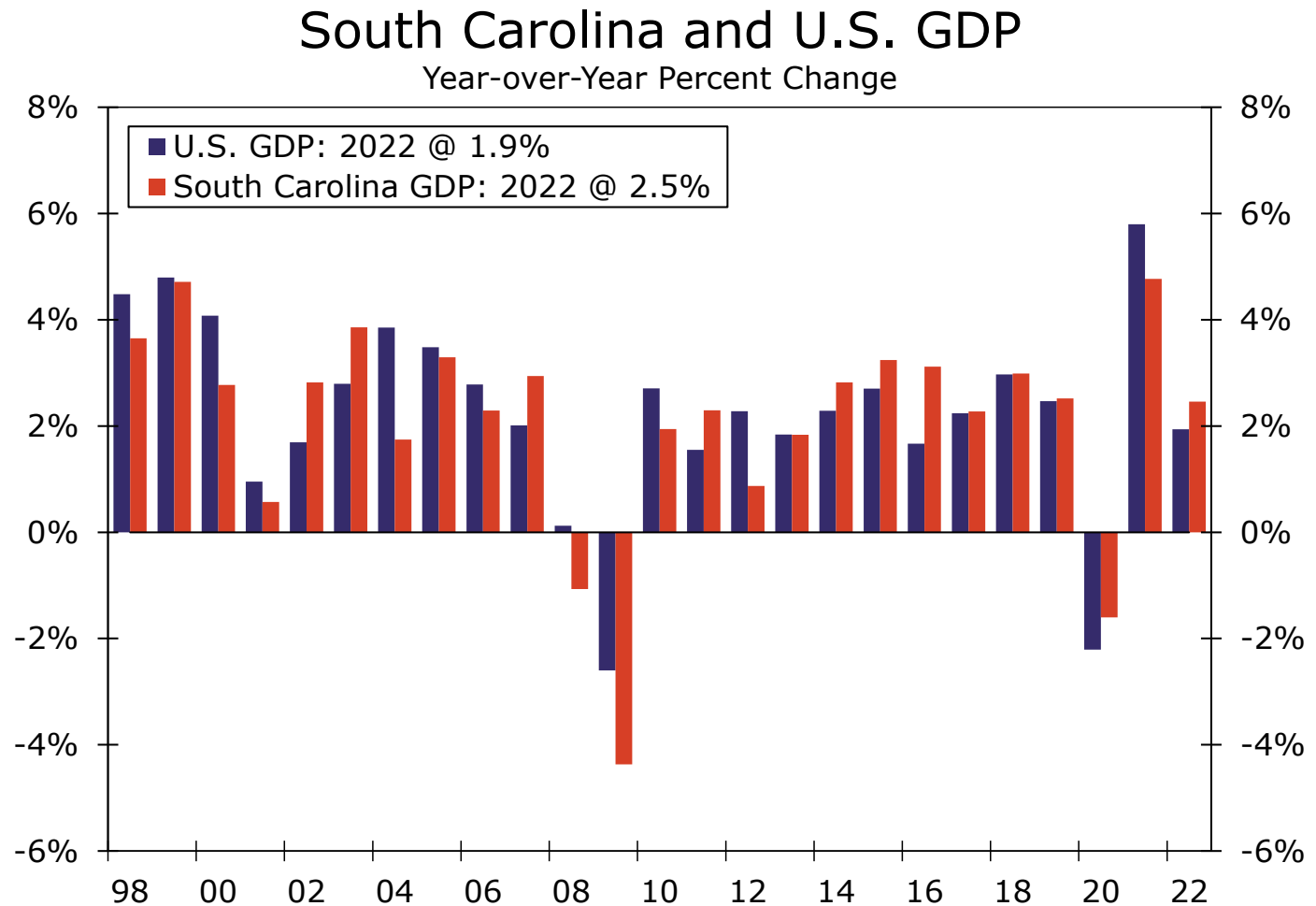
Passive Tightening Will Challenge the Economy

With the Fed on hold, receding inflation will act as an implicit form of monetary tightening.



The South Carolina Economy

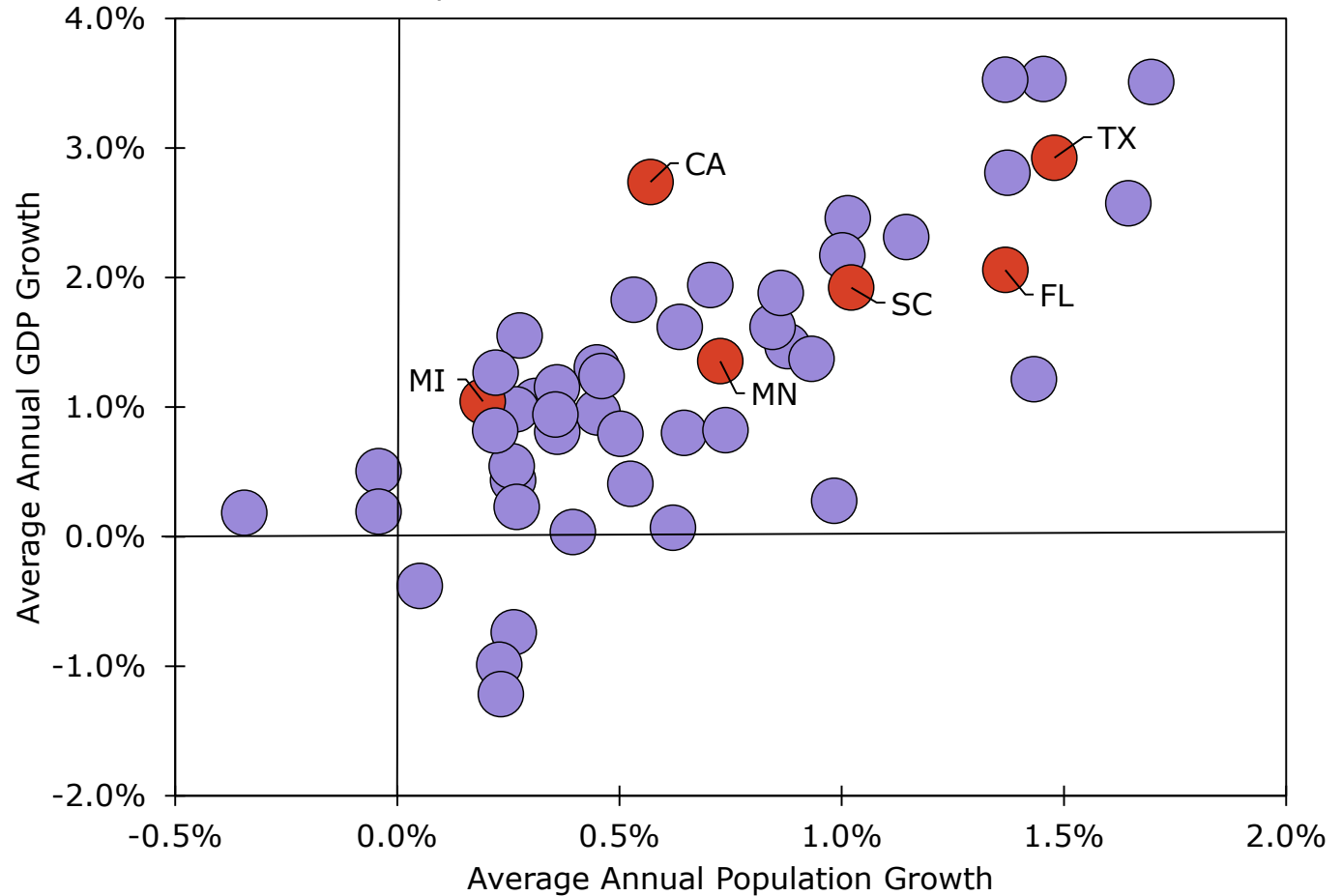
South Carolina's economy has enjoyed above-average growth over the past decade.



Like many other Southern economies, population growth has been a notable tailwind for South Carolina.

State Population Growth vs Real GDP Growth

Compound Annual Growth Rate, 2010-2020

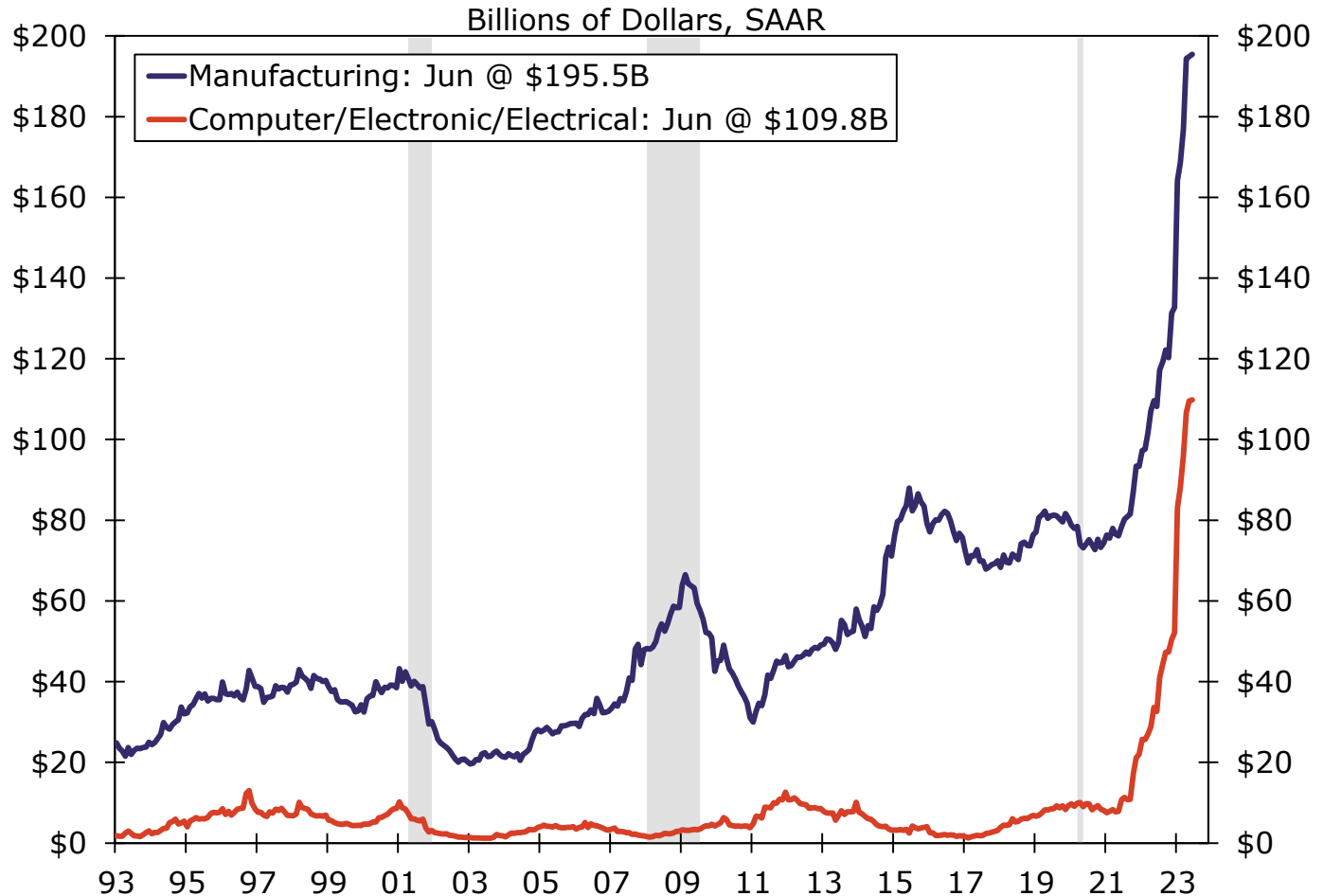


Manufacturing Investment

Manufacturing investment has also shot up as firms take advantage of government incentives.

New electric vehicle investment from Volvo, Michelin and BMW appears to be boosting South Carolina's GDP.

Private Manufacturing vs. Computer, Electronic & Electrical Construction Put-in-Place

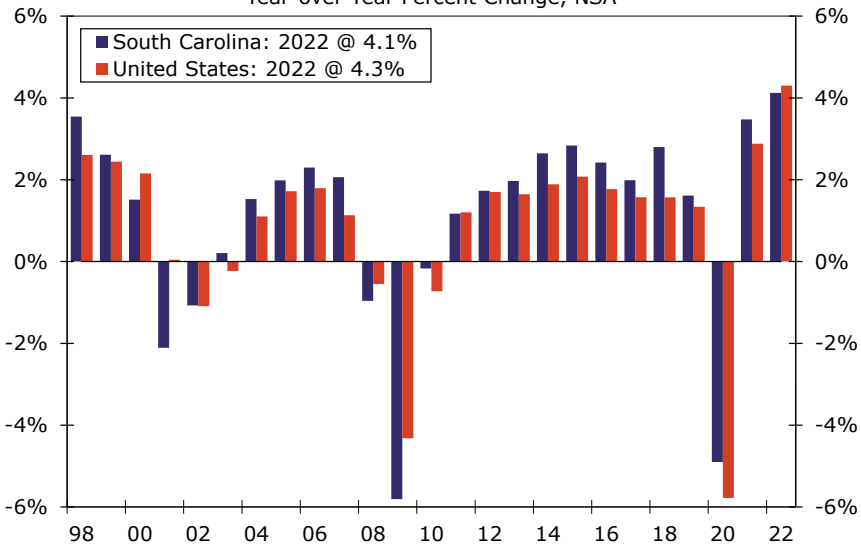


South Carolina Employment

If past is prologue, South Carolina's labor market will likely outperform the nation.

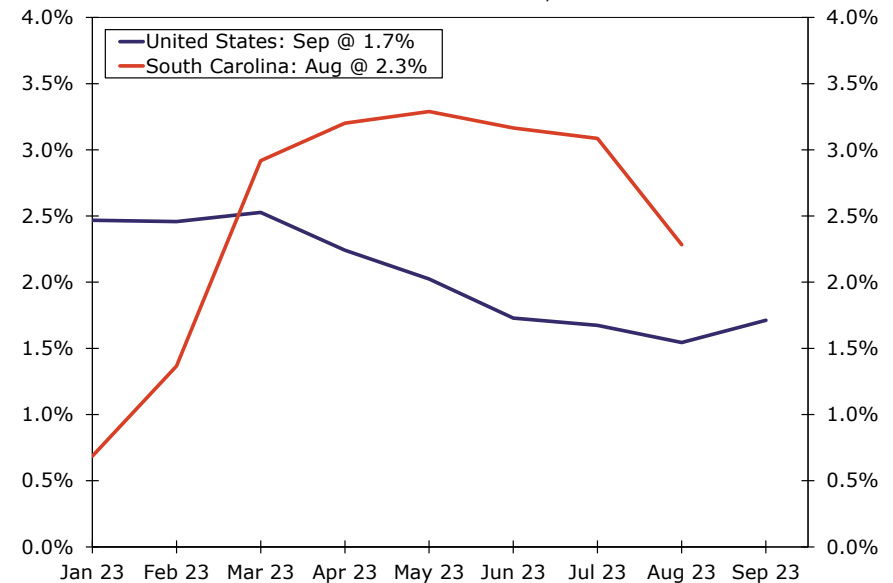
South Carolina vs. U.S. Employment

Year-over-Year Percent Change, NSA

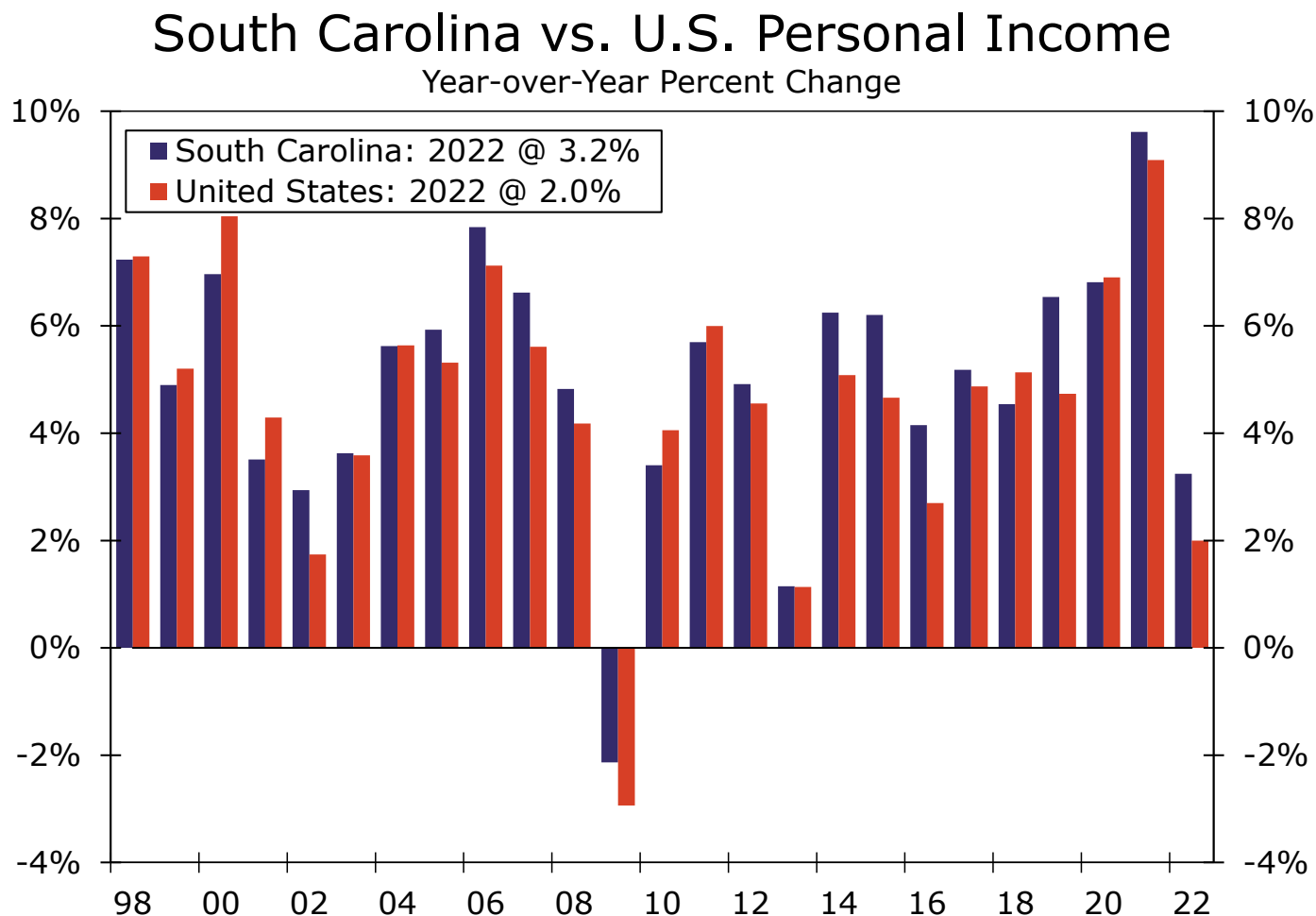


South Carolina vs. U.S. Nonfarm Employment

3-Month Annualized Rate, NSA



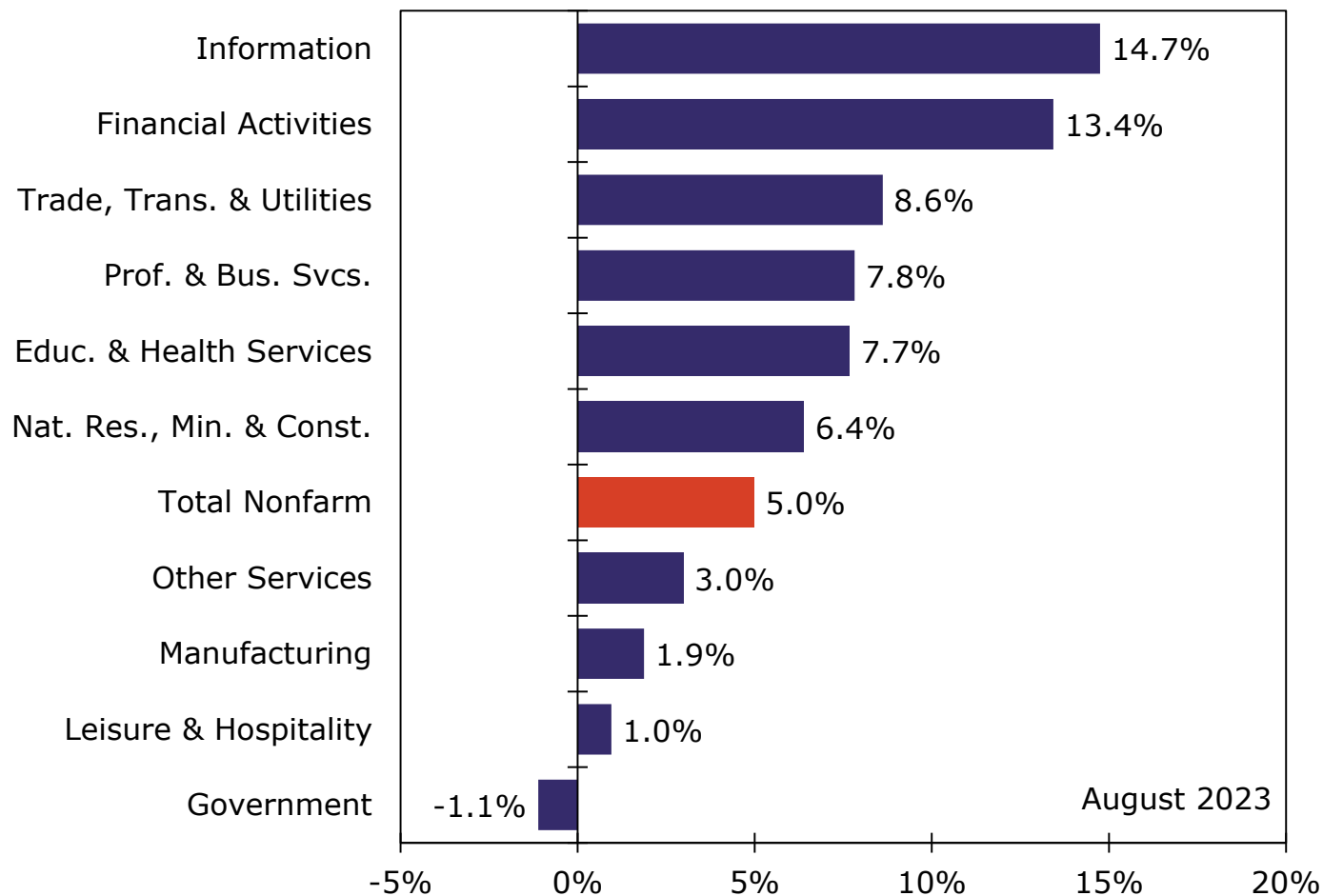
A strong labor market has propelled above-average income growth in recent years.



Robust employment growth in higher-paying industries is also likely to boost personal income in the state.

South Carolina COVID Jobs Recovery by Industry

Percent Change from Pre-Pandemic (Feb-2020) Level



Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2023				2024				2025				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.2	2.1	4.7	0.9	0.7	-0.3	-1.6	0.4	1.3	2.1	2.3	2.3	1.9	2.4	0.8	1.0
Personal Consumption	3.8	0.8	3.8	1.0	0.7	0.3	-1.5	-0.4	1.2	1.7	1.6	1.8	2.5	2.2	0.7	0.7
Business Fixed Investment	5.7	7.4	0.2	-2.5	-0.5	-3.7	-5.5	-0.8	3.1	4.7	4.4	4.5	5.2	3.9	-1.6	1.4
Equipment	-4.1	7.7	-2.6	-7.2	0.0	-7.2	-8.9	0.4	3.4	4.0	2.4	2.4	5.2	-0.4	-3.7	0.4
Intellectual Property Products	3.8	2.7	1.9	2.0	0.9	0.8	-2.3	-1.0	3.8	5.6	6.9	7.6	9.1	4.3	0.8	2.9
Structures	30.3	16.1	2.5	-2.5	-4.8	-6.9	-5.8	-2.5	1.2	4.0	2.9	1.5	-2.1	11.2	-2.7	-0.2
Residential Investment	-5.3	-2.2	4.5	1.5	-2.2	-2.8	1.2	2.4	3.1	2.8	3.1	3.5	-9.0	-10.9	-0.1	2.3
Government Purchases	4.8	3.3	2.8	1.5	1.2	0.8	0.7	0.4	0.3	0.4	0.5	0.7	-0.9	3.5	1.4	0.5
Net Exports ²	0.6	0.0	1.2	0.0	0.2	0.7	1.0	0.3	-0.1	-0.2	-0.1	-0.2	-0.5	0.7	0.5	0.1
Inventories ²	-2.2	0.0	0.2	0.3	0.0	-0.7	-0.9	0.4	0.0	0.4	0.5	0.4	0.5	-0.5	-0.2	0.1
Nonfarm Payroll Change ³	312	201	266	165	100	-18	-208	-50	67	110	117	129	399	236	-44	106
Unemployment Rate	3.5	3.6	3.7	3.8	3.8	4.0	4.4	4.4	4.3	4.1	4.0	4.0	3.6	3.6	4.2	4.1
Consumer Price Index ⁴	5.8	4.1	3.6	3.4	3.1	2.7	2.1	2.0	2.1	2.4	2.7	2.5	8.0	4.2	2.5	2.4
Real Disposable Income ¹	10.8	3.5	-0.7	1.5	1.7	1.1	-0.2	0.8	2.0	1.9	2.1	2.1	-6.0	4.1	1.1	1.4
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate ⁶	5.00	5.25	5.50	5.50	5.50	5.25	4.50	3.75	3.25	3.25	3.25	3.25	2.02	5.31	4.75	3.25
Conventional Mortgage Rate	6.54	6.71	7.20	7.30	7.00	6.50	6.20	5.85	5.70	5.75	5.70	5.65	5.38	6.94	6.39	5.70
2 Year Note	4.06	4.87	5.03	4.80	4.35	3.70	3.40	3.20	3.10	3.25	3.25	3.25	2.99	4.69	3.66	3.21
10 Year Note	3.48	3.81	4.59	4.45	4.20	3.75	3.55	3.40	3.30	3.40	3.40	3.40	2.95	4.08	3.73	3.38

Forecast as of: October 13, 2023

¹ Compound Annual Growth Rate Quarter-over-Quarter

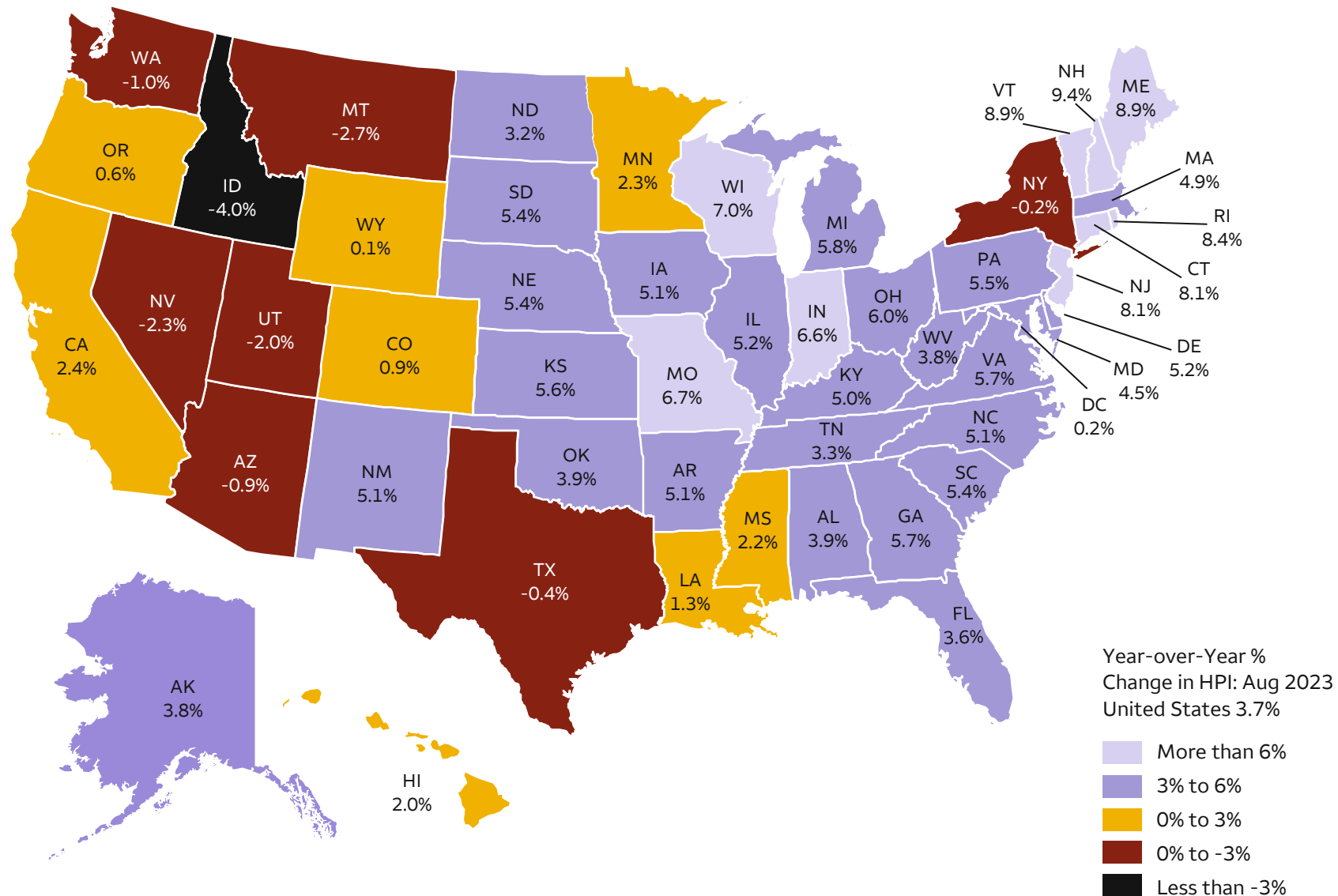
³ Average Monthly Change

⁴ Year-over-Year Percentage Change

⁶ Upper Bound of the Federal Funds Target Range

Appendix

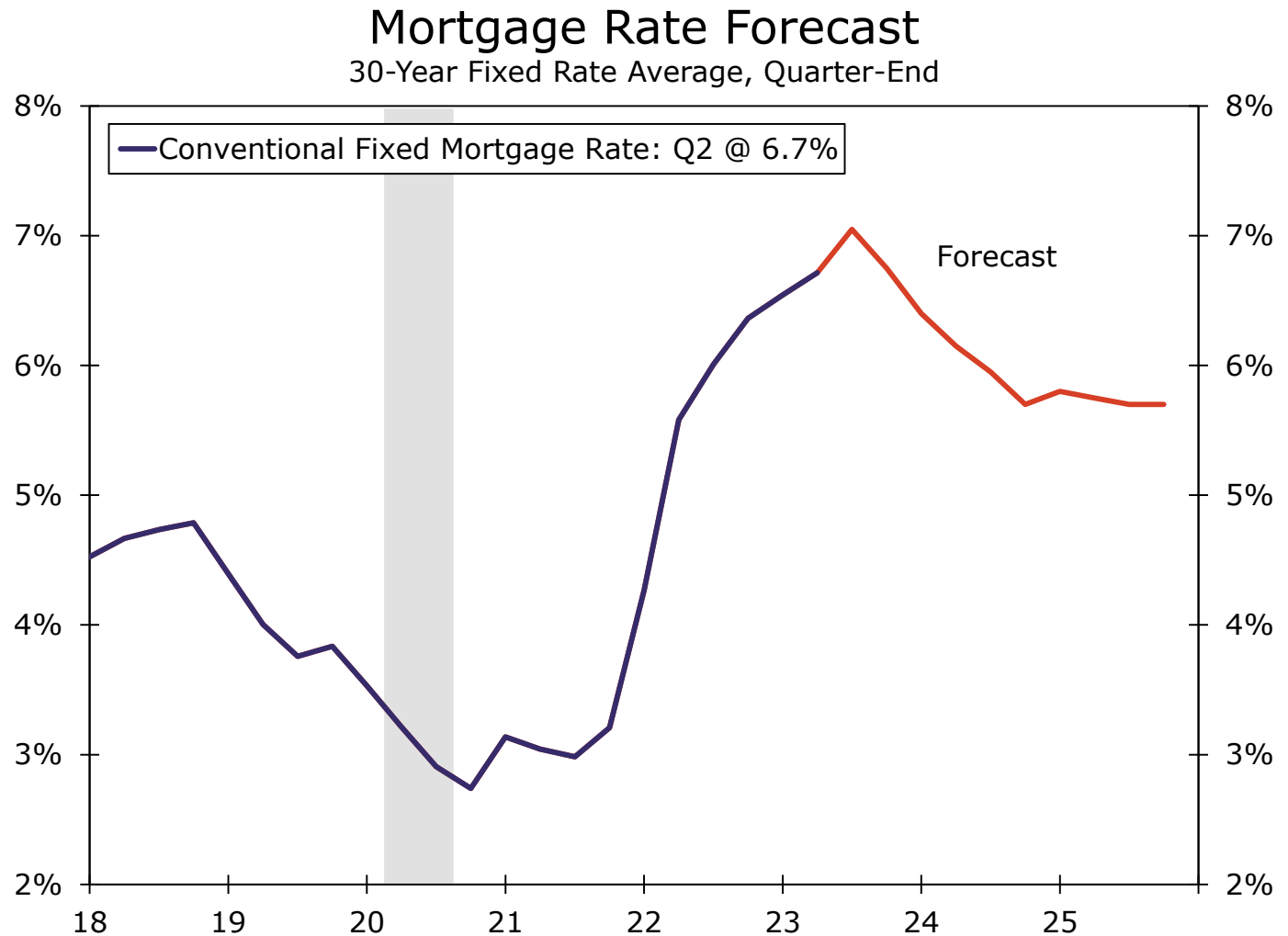
Home Prices Have Turned Up in Eastern Markets



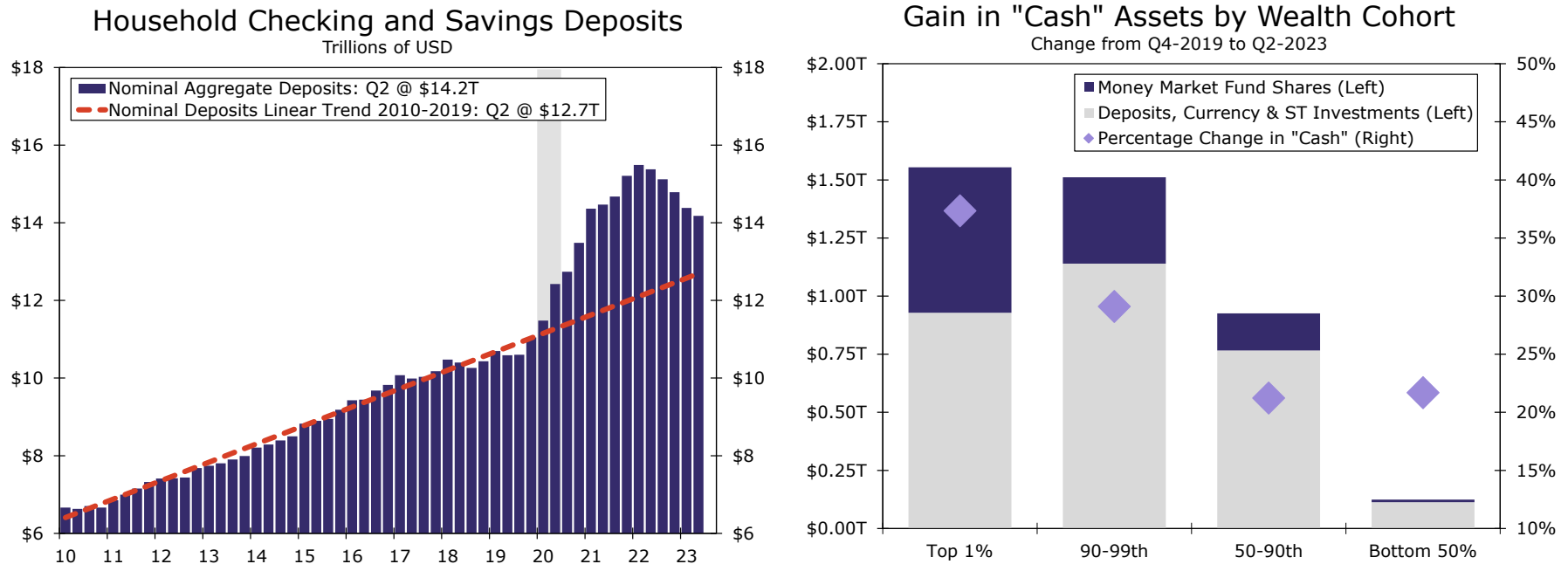
Source: S&P CoreLogic Inc and Wells Fargo Economics

Mortgage Rates Likely to Remain Elevated

We expect mortgage rates to trend lower over the next two years, however rates will likely remain elevated above pre-pandemic levels for some time.



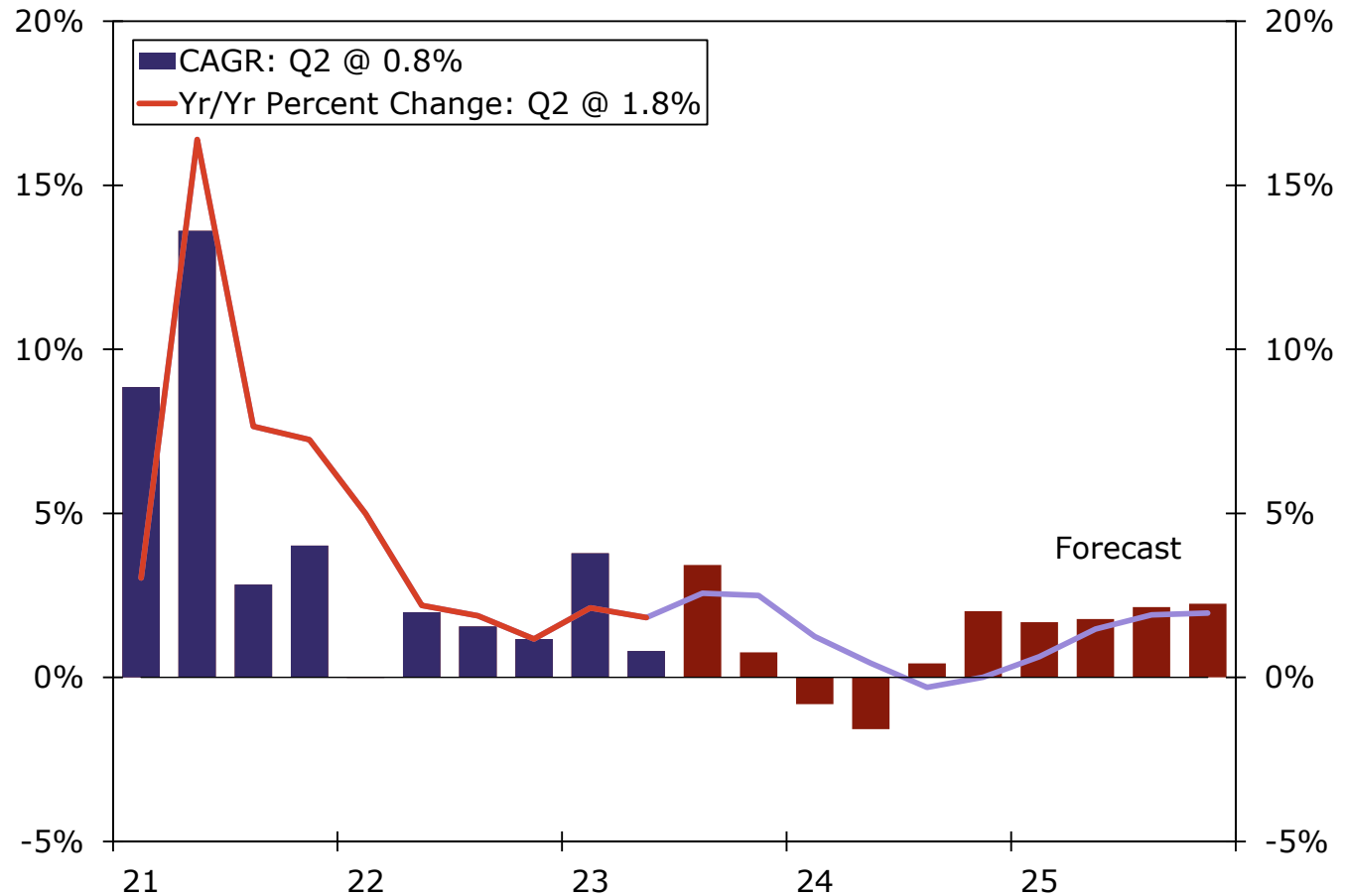
Pandemic-era savings are dwindling. Remaining “excess savings” are skewed toward wealthier households.



If the labor market weakens as we expect, we look for consumer spending to start contracting toward the beginning of 2024.

We expect most of the downshift will be concentrated in the goods sector.

Real Personal Consumption Expenditures



Wells Fargo Economics Group

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