

**WELLS
FARGO**

SECURITIES

Economic Outlook for 2018 and Beyond

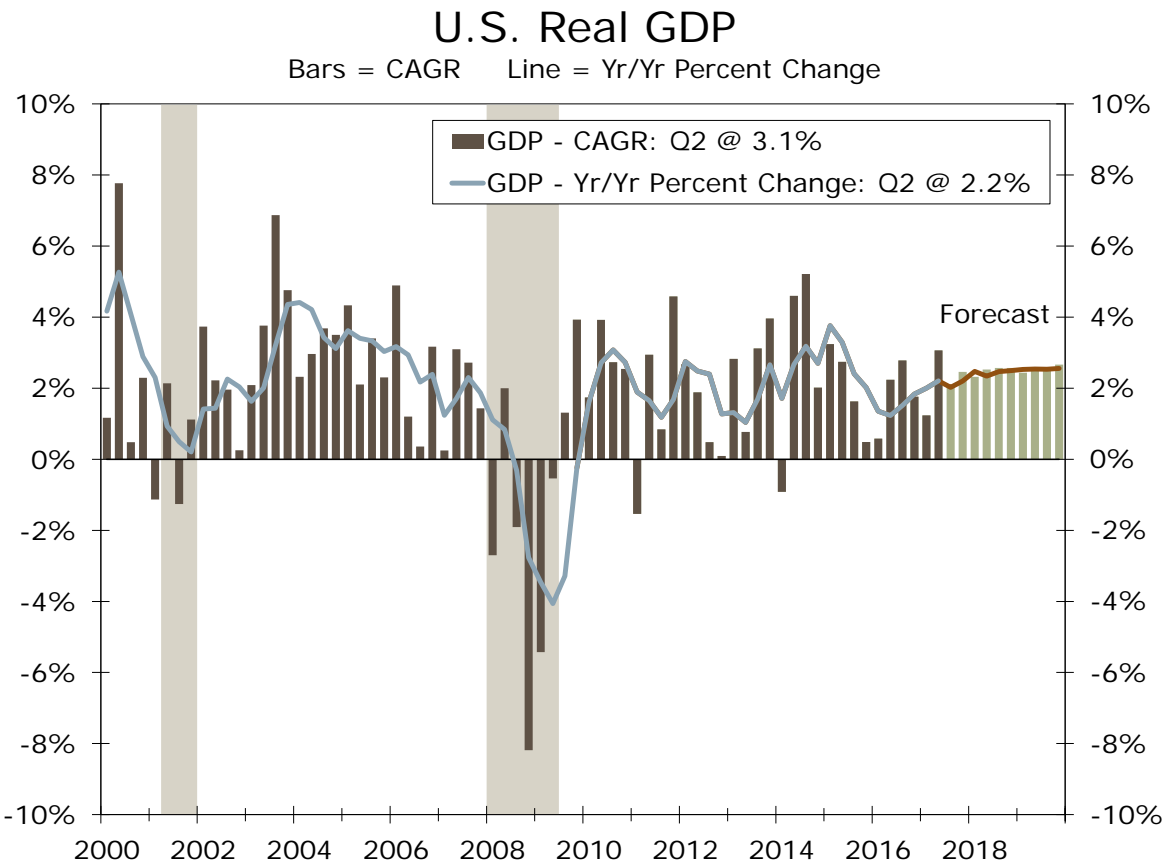
Michael A. Brown, Economist

October 2017

Together we'll go far

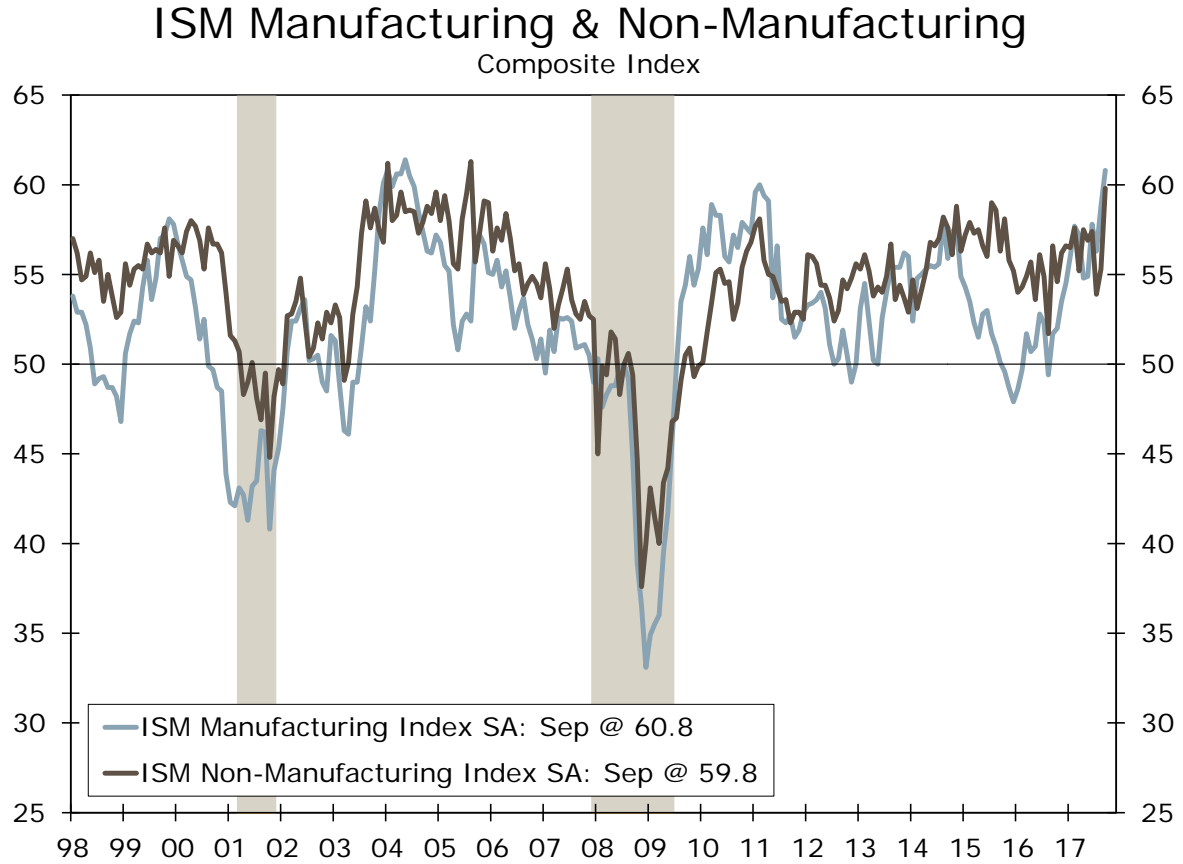


Economic growth should continue at a modest pace over the coming quarters even with a fiscal bump



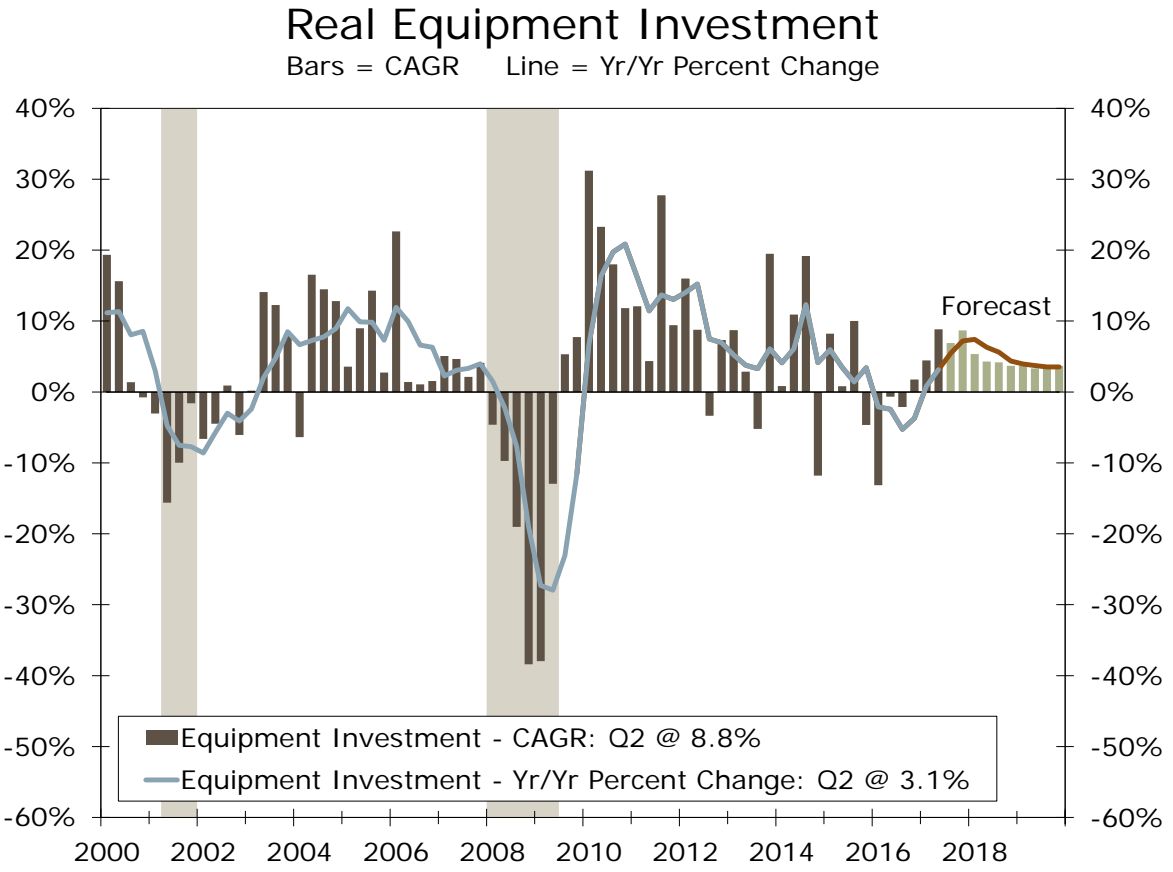
Source: U.S. Department of Commerce and Wells Fargo Securities

Indices on business activity suggest an improving outlook for both services and manufacturing



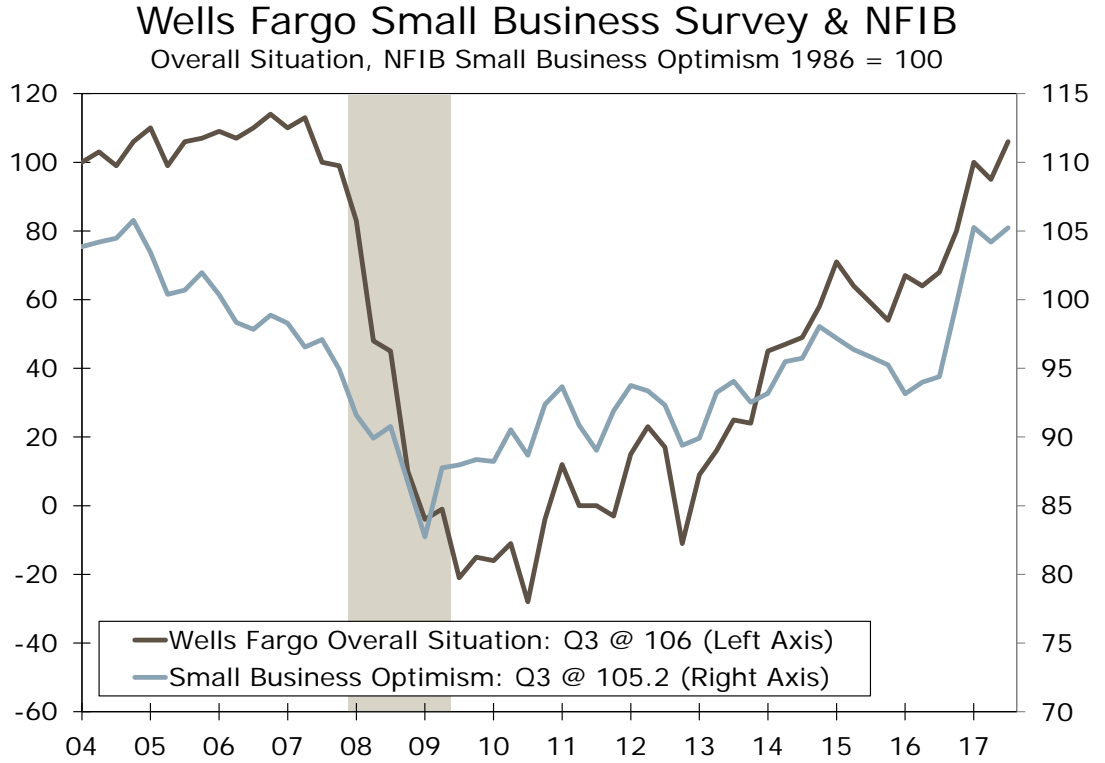
Source: Institute for Supply Management and Wells Fargo Securities

Growth in equipment spending has turned around



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

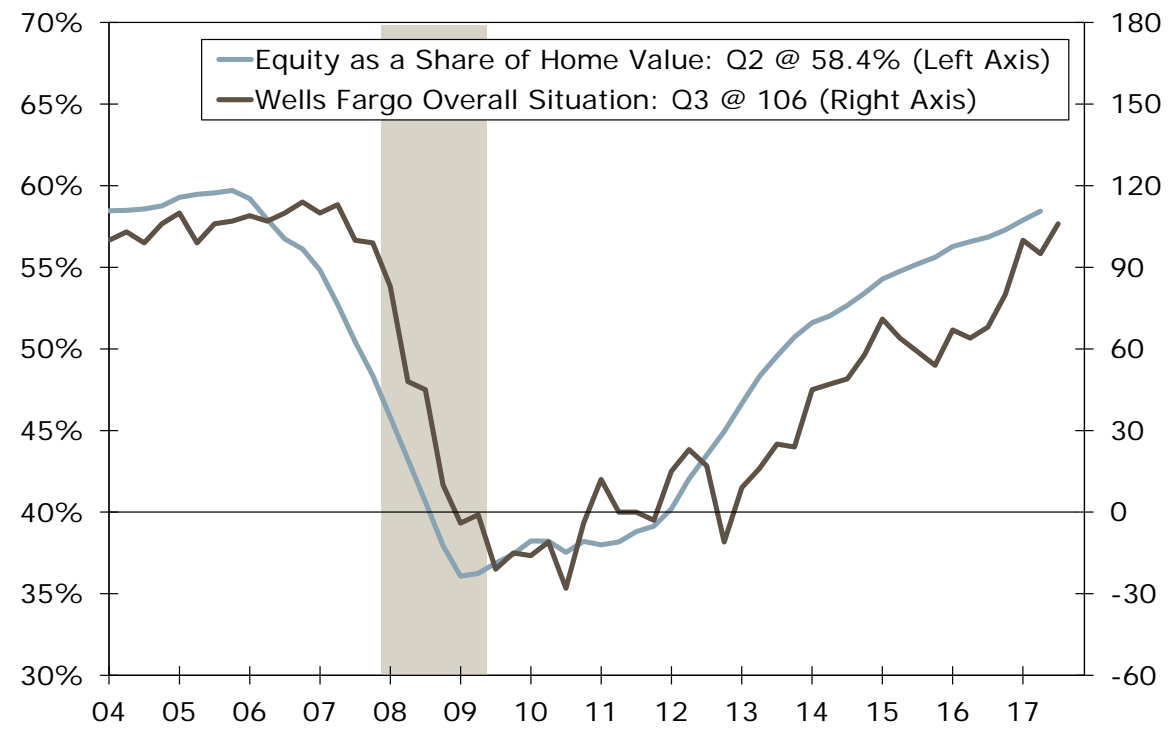
Small business optimism has finally turned around



Source: National Federation of Independent Businesses, Gallup, Wells Fargo Bank and Wells Fargo Securities

Recovery in home equity values has supported small business activity

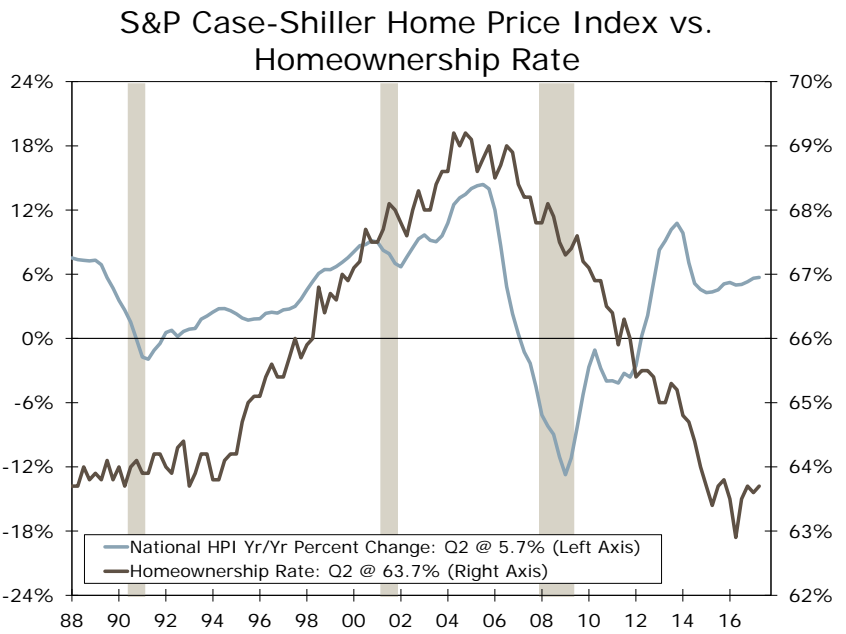
Homeowners' Equity vs. WF Small Business Survey
Percent Share of Home Values, Index



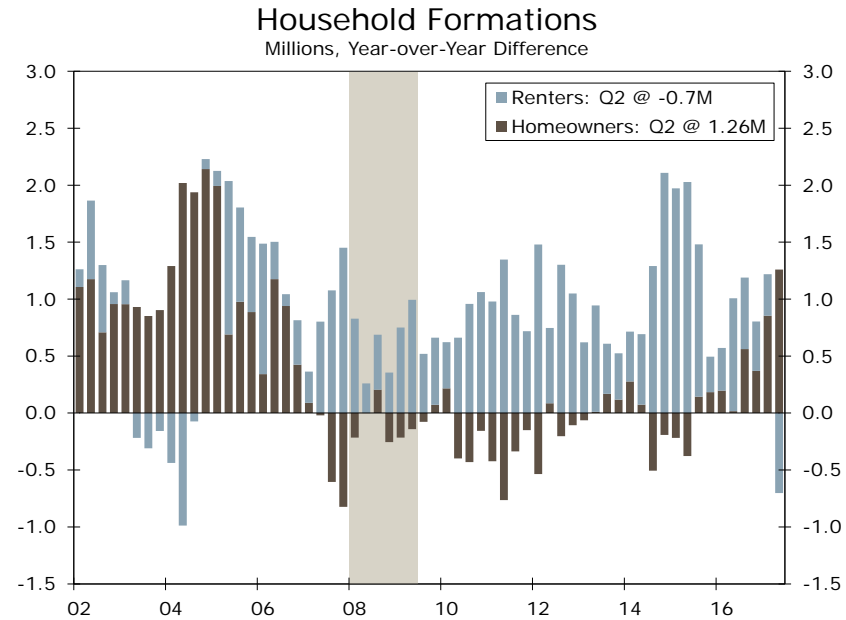
Source: Federal Reserve Board, Wells Fargo Bank, Gallup and Wells Fargo Securities

Despite some recent setbacks, we continue to look for a gradual recovery in homebuilding. The homeownership rate appears to have leveled off at its pre-housing bubble levels.

Homeownership



Owners vs. Renters

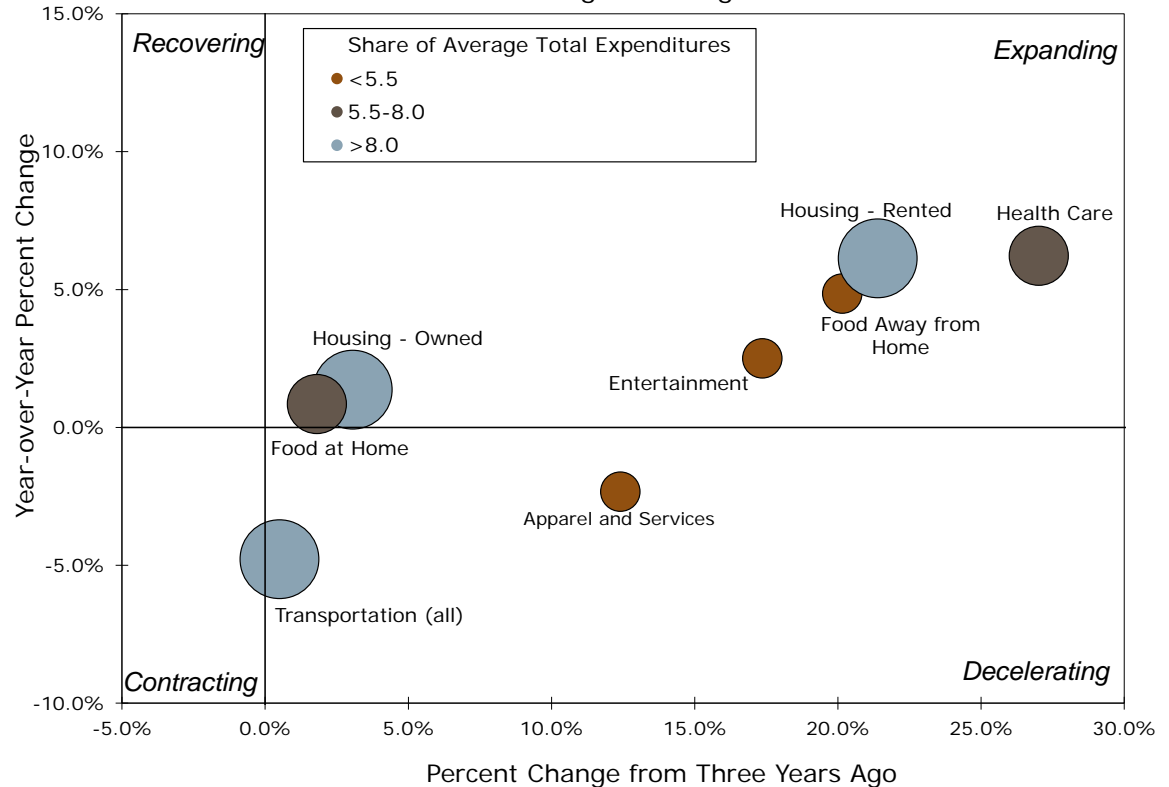


Source: National Association of Realtors, CoreLogic, U.S. Department of Commerce and Wells Fargo Securities

Food away from home, rental housing, and health care spending have improved over the past year as the economy has picked up

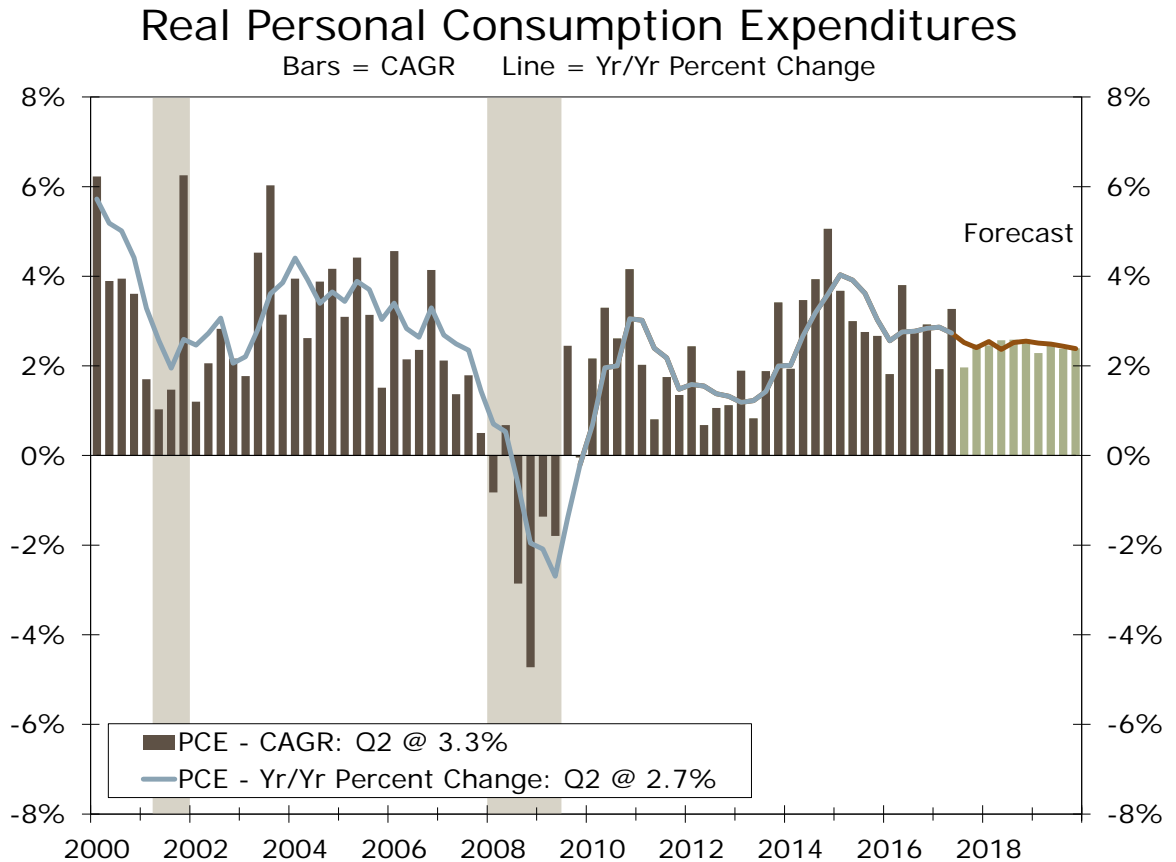
Consumer Expenditure Growth

Year-over-Year Percent Change & Change from 2013 to 2016



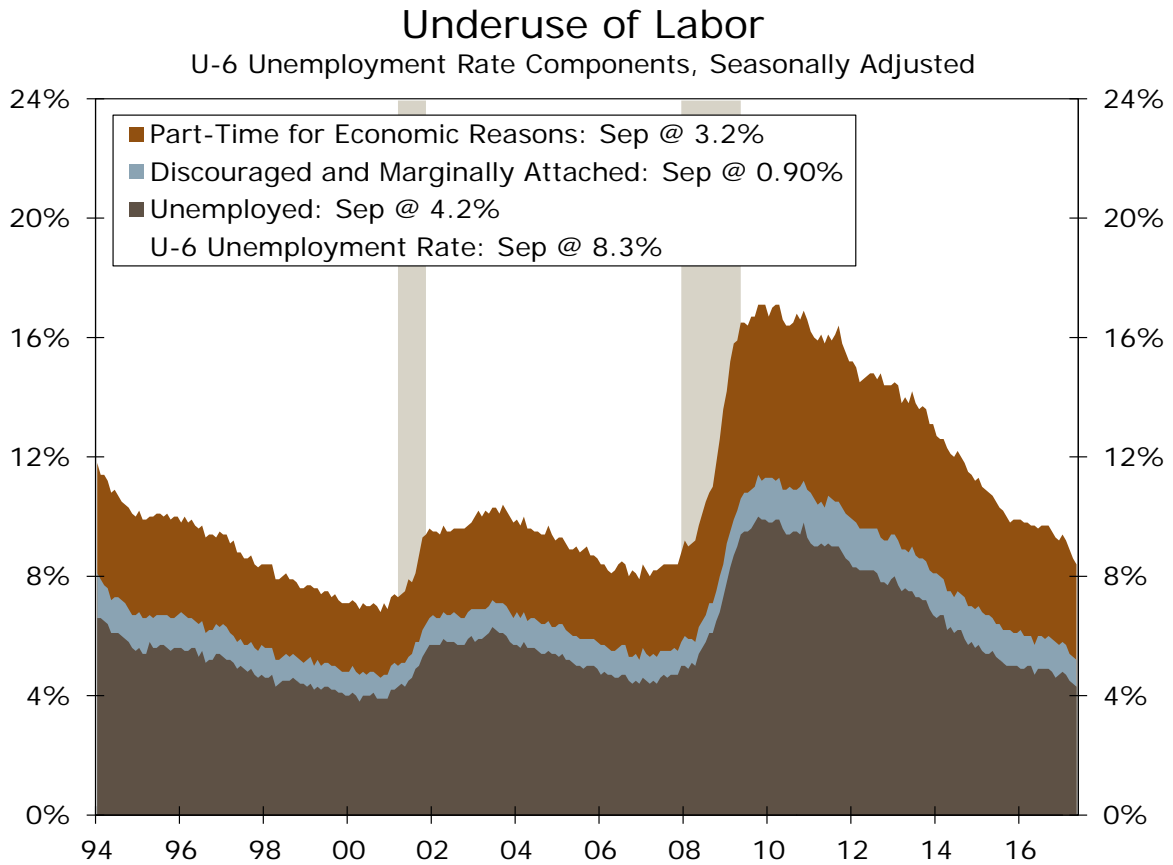
Source: U.S. Department of Labor and Wells Fargo Securities

Consumer spending growth will continue to average around 2.5 percent



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

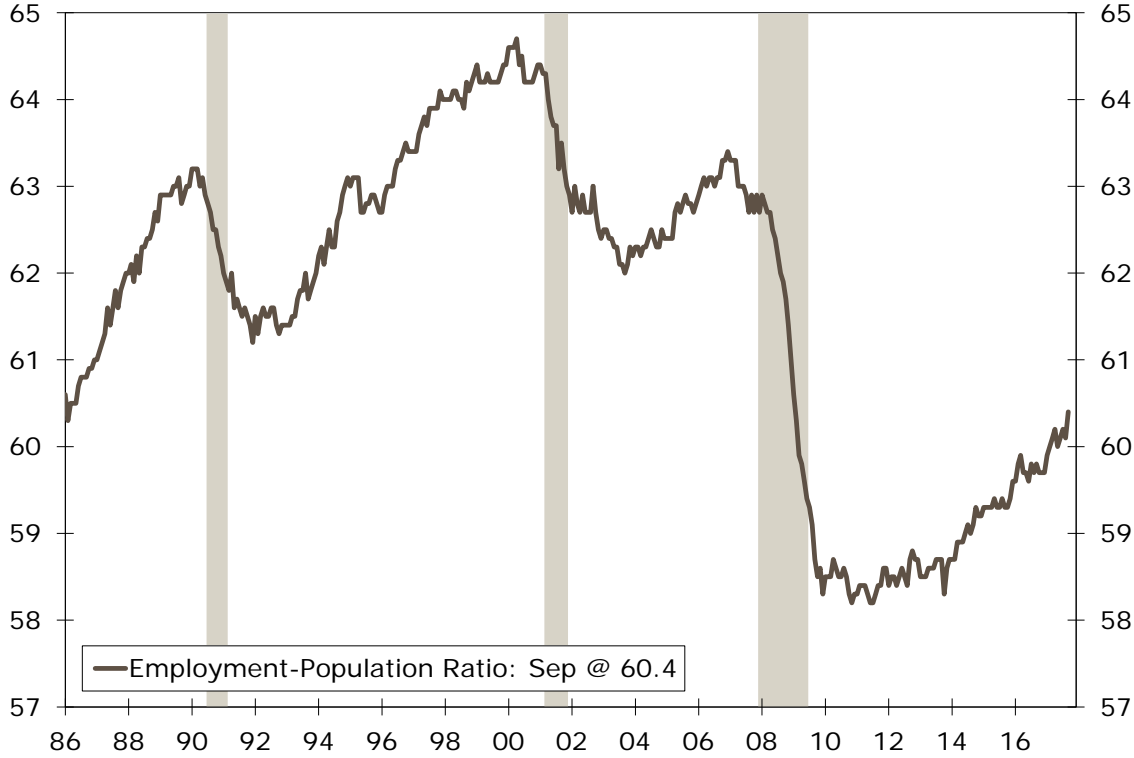
Alternative measures of unemployment show a historically high level of underemployment



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

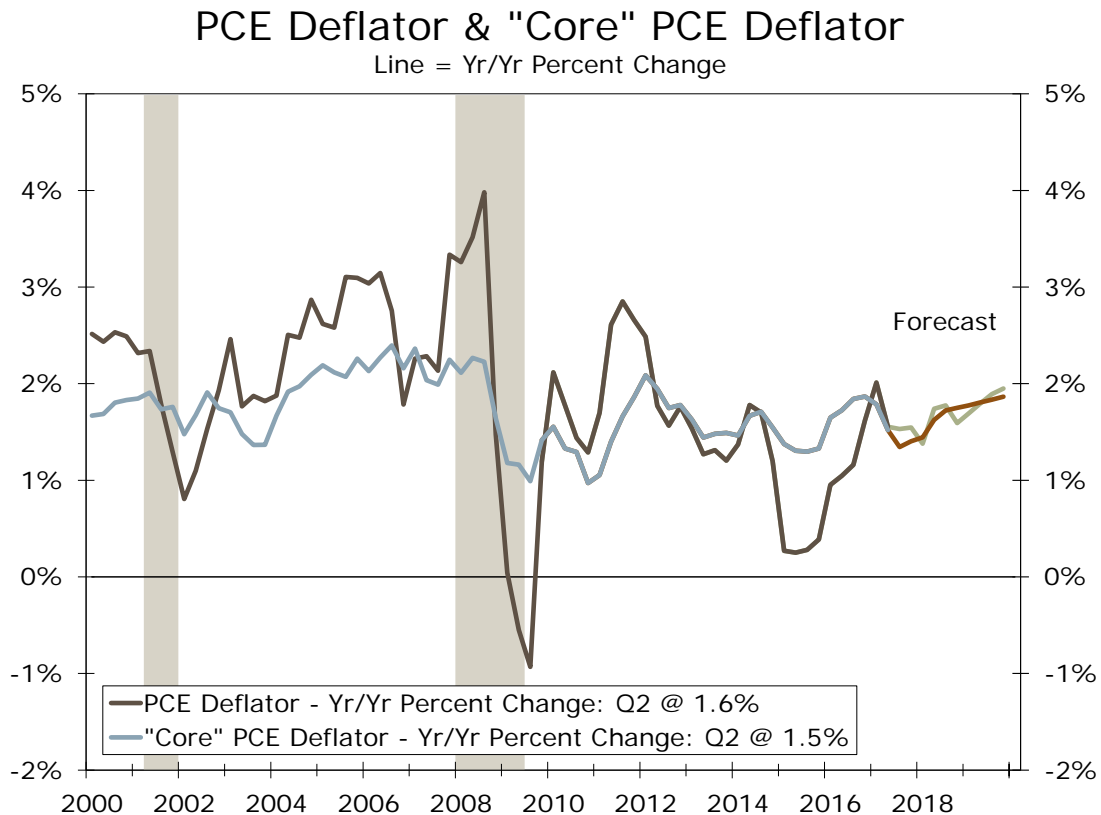
Slower growth in the workforce combined with lower labor force participation will limit potential GDP growth

Employment-Population Ratio 16 Years and Over, Seasonally Adjusted



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

Inflation has begun to pick up and we expect it to gradually accelerate



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

Federal Fiscal Policy Outlook

The fiscal policy checklist

Key Issues to Watch in the 115th Congress

Budget Debates

- Currently the government is funded through Dec. 8th
- Debt ceiling will need to be increased likely in Q1 2018
- Budget Reconciliation will be used to make policy changes

Repeal & Replace the Affordable Care Act

- Efforts have stalled in the Senate at this time. Congress may revisit the issue after they attempt tax cuts/reforms

Corporate Tax Cuts (Jan. 2018)

- We are assuming the top statutory corporate tax rate is cut to 25% from the current 35% rate
- The tax cut will be at least partially paid for by reducing the tax rate for repatriated corporate profits

Individual Tax Cuts (Jan. 2018)

- Cuts are likely but reforms are not likely to occur
- We expect a doubling of the standard deduction and a doubling of the child tax credit

Timeline

<u>Key Dates</u>	<u>Policy Action Expected</u>
Oct./Nov.	Fiscal Year 2018 Budget Resolution (Vehicle for Tax Cuts) Individual/Corporate Tax Cut Bill Expected
Dec. 8 th	Debt Ceiling Re-established Federal Funding (CR) Expires National Flood Insurance Program Expires
Dec. 31 st	Section 702 of the Foreign Intelligence Surveillance Act Expires
Q1 2018	Expected Passage of Tax Cut Package Extraordinary Measures Run Out (Debt Ceiling Deadline)
March 2018	Deferred Action for Childhood Arrivals (DACA) Deadline Primary Elections Begin

We are entering a period of “less divergent” monetary policy.
We are still a long ways from monetary policy convergence.

Wells Fargo Central Bank Policy Forecasts

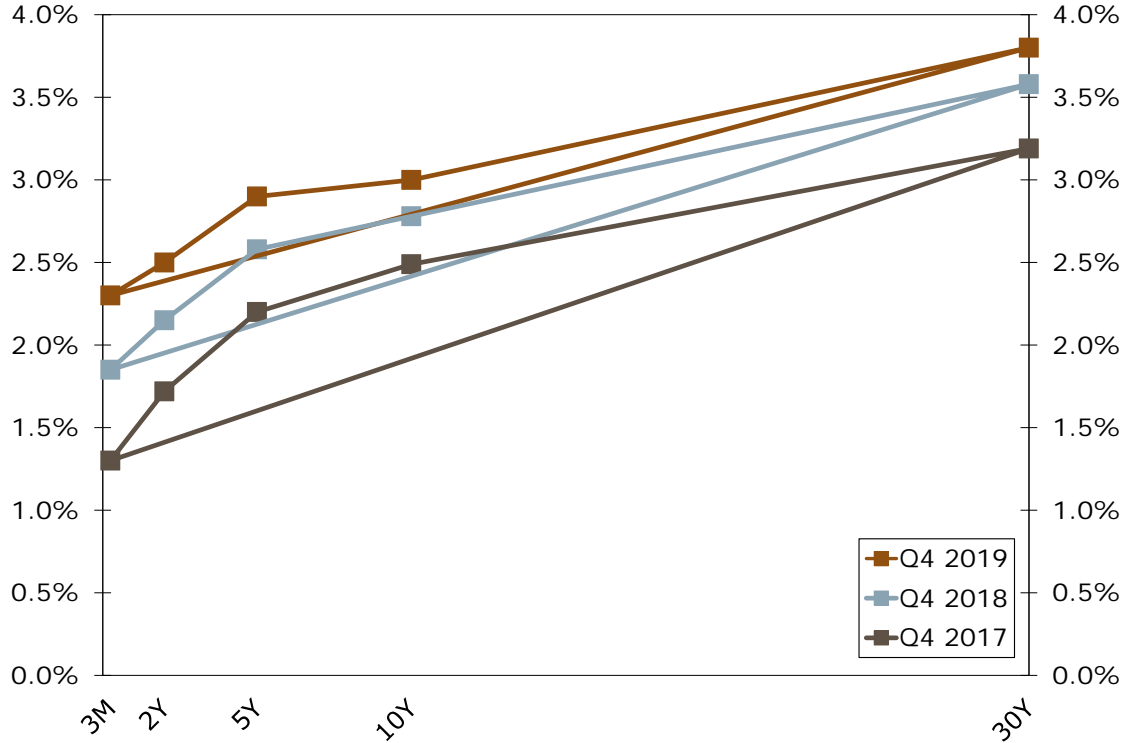
Central Bank	Current Target Rate	Last Major Policy Change	WF Next Forecasted Policy Change
United States (FOMC)	1.25	September 2017 <i>Announced balance sheet normalization to begin in October</i>	Next Rate Hike-Q4 2017
Eurozone (ECB)	0.00	July 2017 <i>Tapered asset purchases to €60 billion/month</i>	Continue to Taper-Oct. 2017 Next Rate Hike-Q4 2018
United Kingdom (BOE)	0.25	September 2016 <i>Increased size of balance sheet to £445bn</i>	Maintain size of balance sheet through Q4 2018 Next Rate Hike-Q1 2018
Japan (BOJ)	-0.10	September 2016 <i>Introduced monetary easing program (QQE) with yield curve control</i>	Maintain annual asset purchases of ¥80 trillion Maintain current target rate
Canada (BOC)	1.00	September 2017 <i>25 bps hike</i>	Next Rate Hike-Q1 2018

Forecast as of: October 11, 2017

Source: Bloomberg LP and Wells Fargo Securities

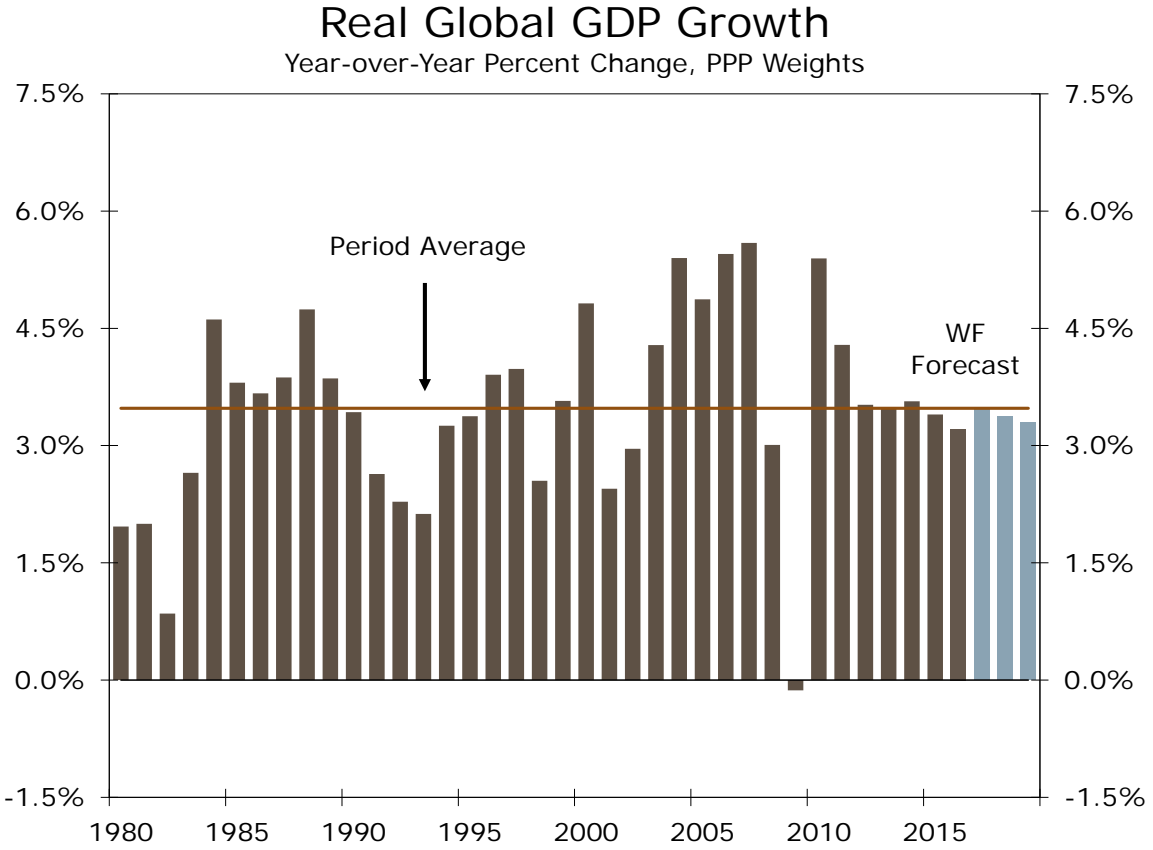
The yield curve is expected to flatten further as the Fed raises short-term interest rates

Wells Fargo Rates Forecast Through 2019



Source: IHS Global Insight and Wells Fargo Securities

Growth in the global economy remains below its long-term trend

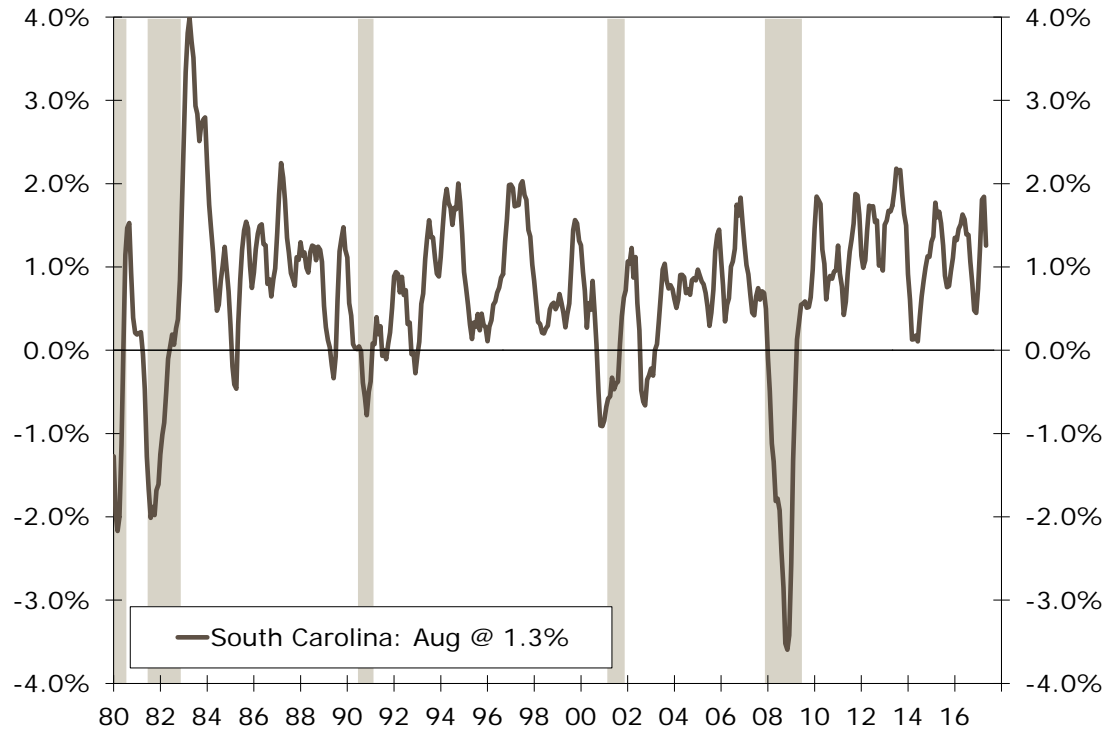


Source: International Monetary Fund and Wells Fargo Securities

The South Carolina Economy

Economic activity in South Carolina remains modest

South Carolina Coincident Index Three-Month Percent Change

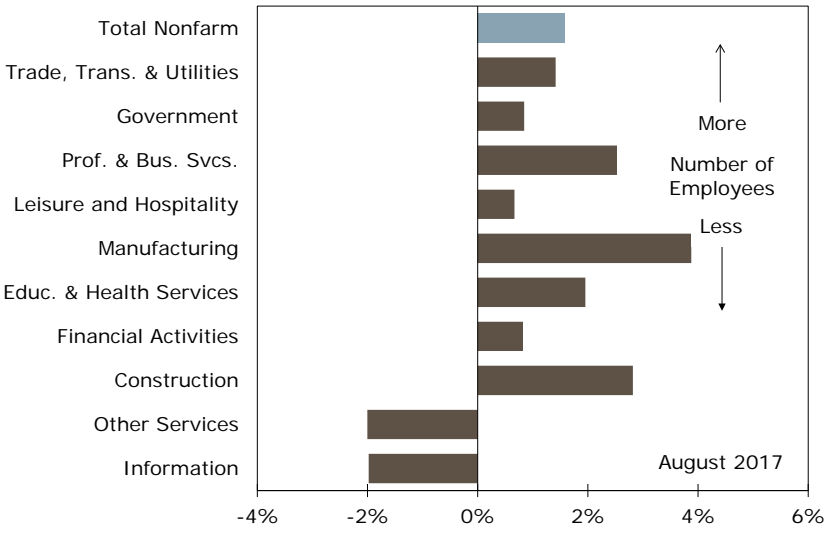


Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities

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

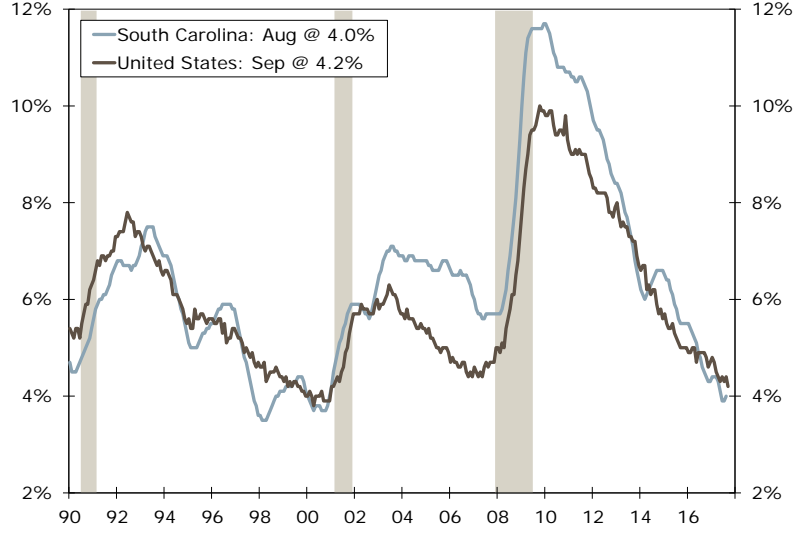
Employment

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



Unemployment Rate

South Carolina vs. U.S. Unemployment Rate
Seasonally Adjusted

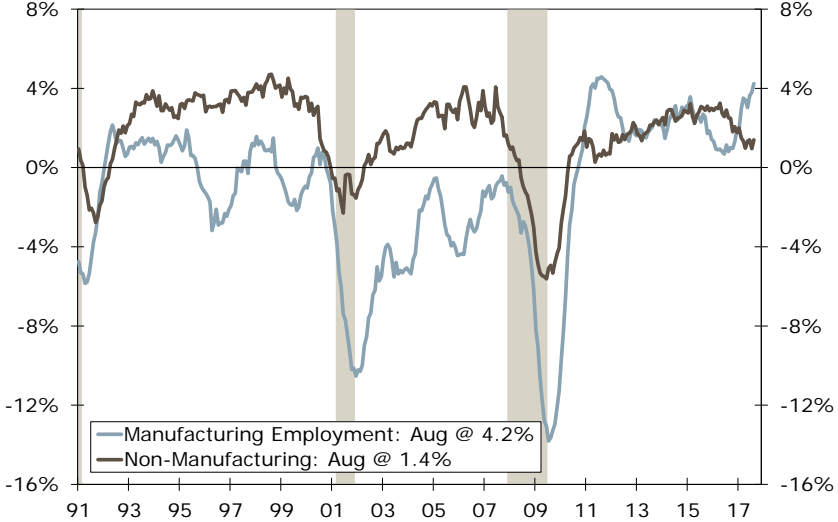


Source: U.S. Department of Labor and Wells Fargo Securities

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

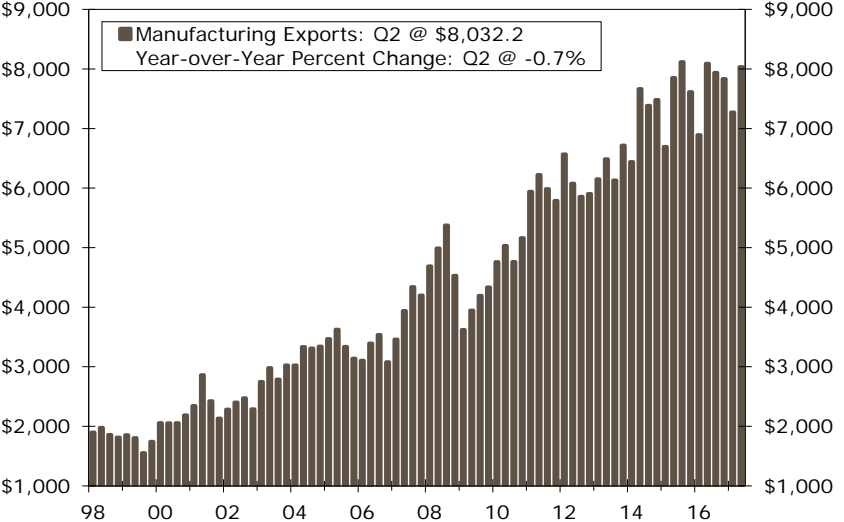
Divergence in Employment Trends

South Carolina Nonfarm Employment
Year-over-Year Percent Change



Manufacturing Export Activity

South Carolina Manufacturing Exports
Millions of Dollars



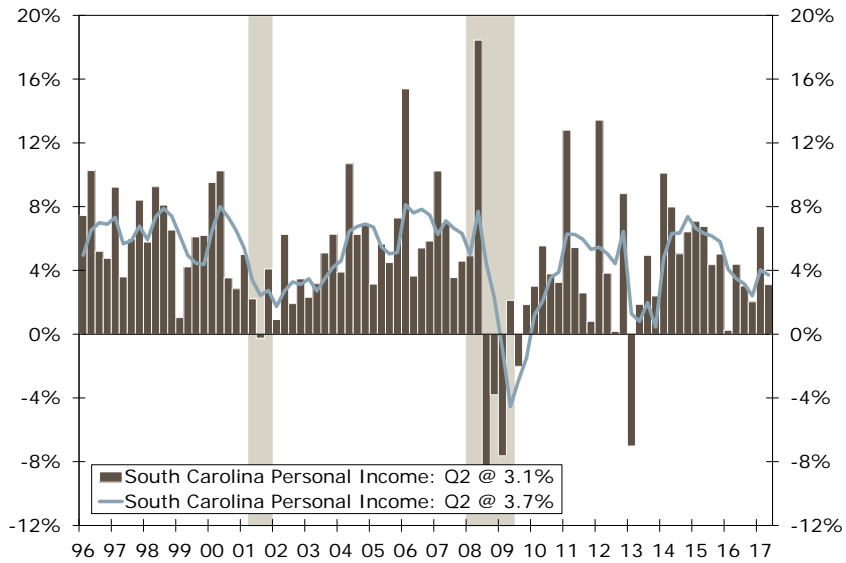
Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

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

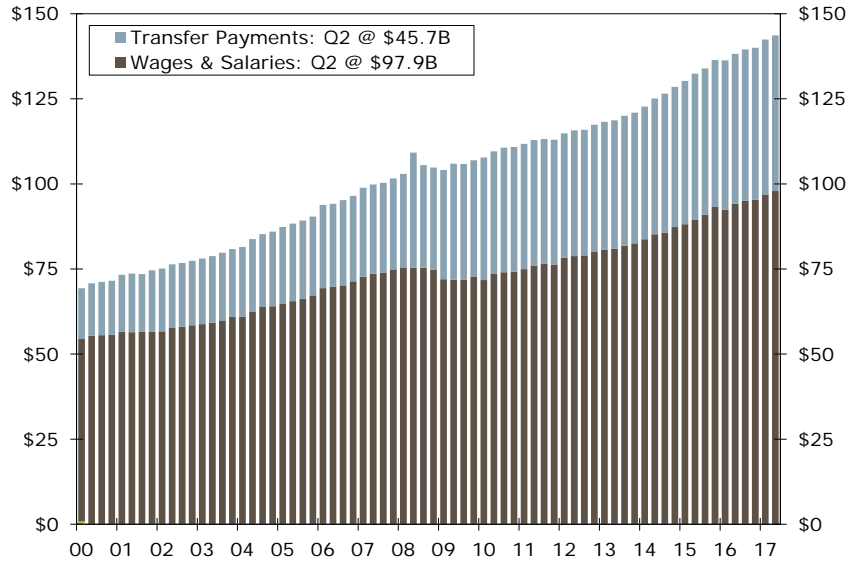
Bars = Compound Annual Rate Line = Yr/Yr % Change



Composition of Income Growth

South Carolina: Wages & Salaries vs. Transfers

In Billions, Seasonally Adjusted Annual Rate

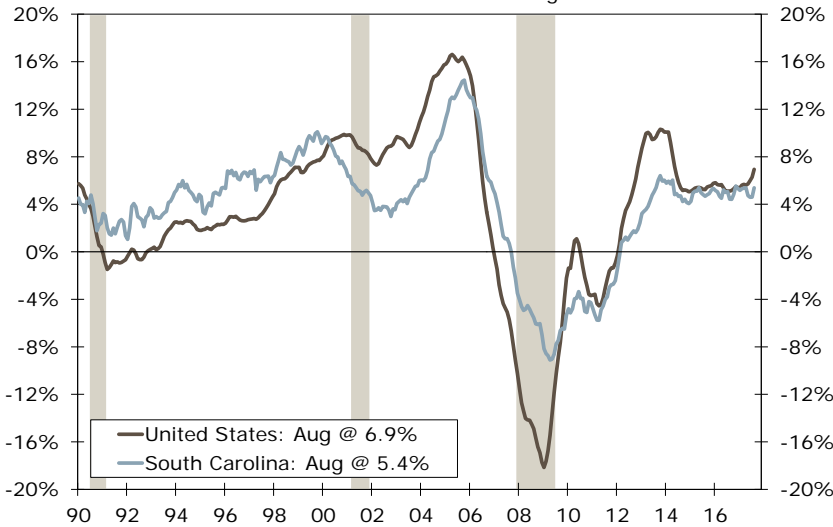


Source: U.S. Department of Commerce and Wells Fargo Securities

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

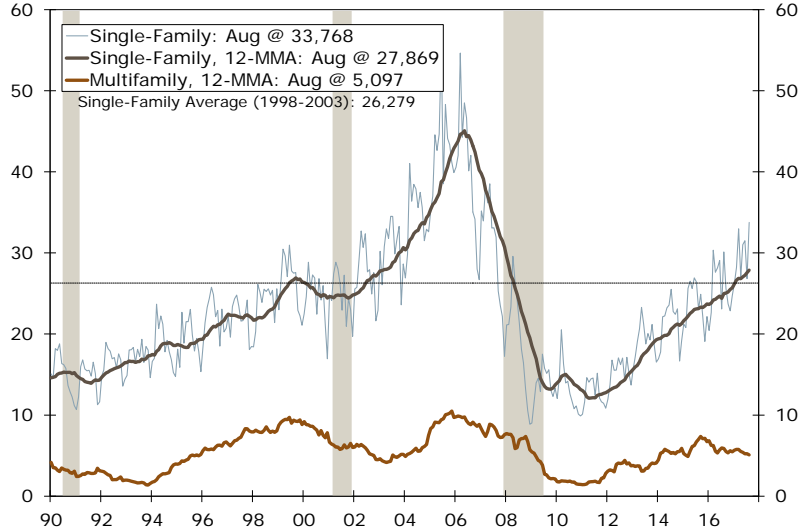
Home Prices

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



Housing Permits

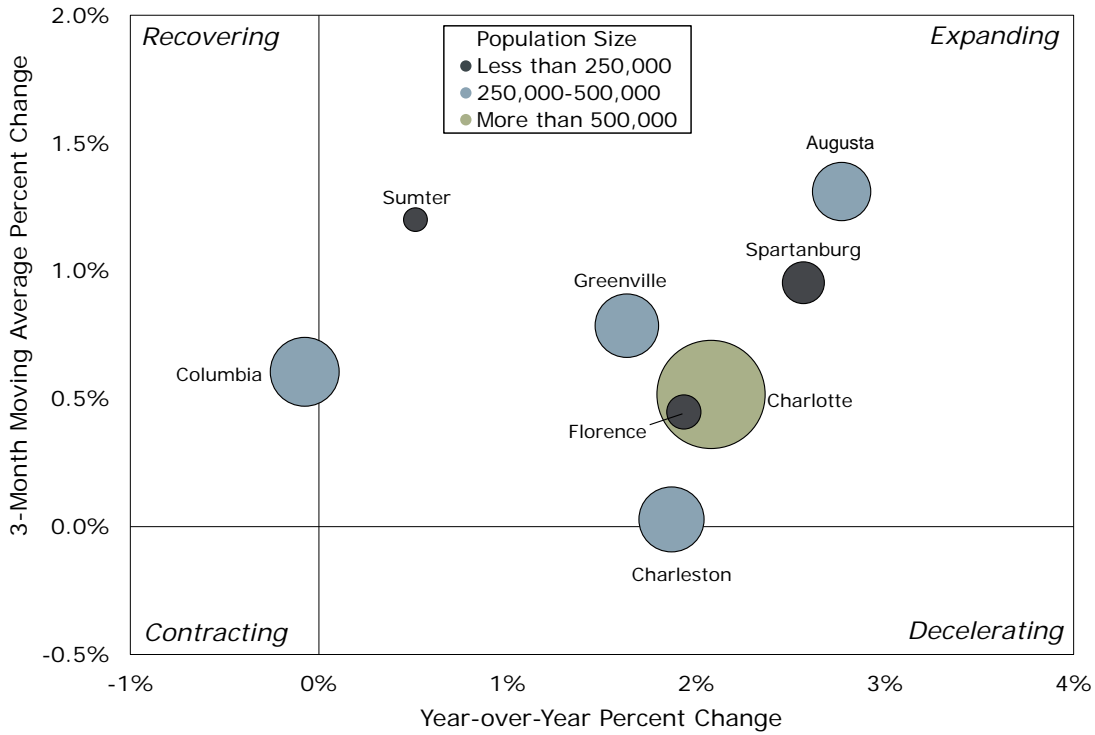
South Carolina Housing Permits
Thousands of Permits, Annual Rate



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

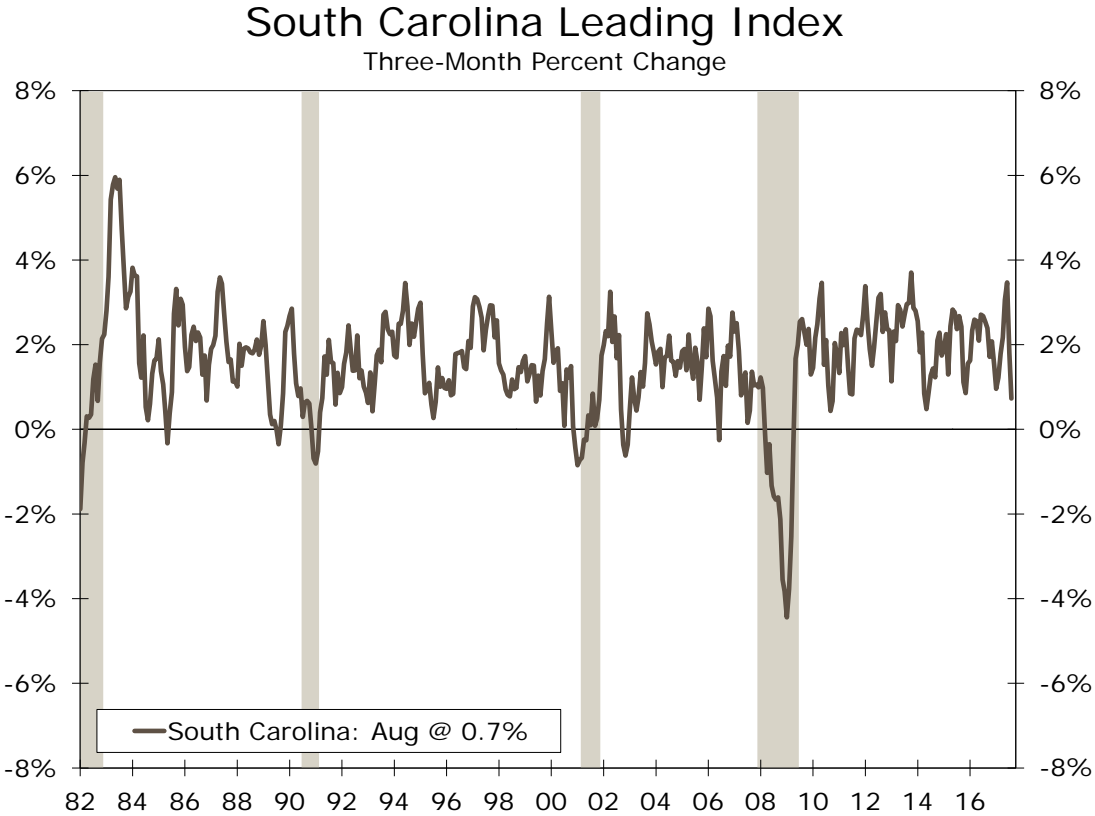
Employment growth has been broadly steady across most major metro areas

South Carolina Employment Growth: August 2017
Year-over-Year Percent Change, 3-Month Moving Average



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

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



Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities

South Carolina Economic Indicator Projections

	Forecast FY2017-18	Forecast FY2018-19
SC Personal Income	4.7%	5.7%
SC Employment	2.3%	2.7%
Inflation Rate	1.9%	2.2%
Sales Tax	3.7%	4.1%
Individual Income Tax	3.9%	4.5%

Source: Wells Fargo Securities

Economic Outlook

Headwinds from overseas will weigh on growth, but the U.S. economy should weather the storm. Look for real GDP to rise 2.1 percent in 2017.

Consumer Spending should remain modest

We expect consumer spending will continue to be a key driver of economic activity. The composition of consumer spending continues to shift towards experiences rather than physical goods.

The Housing Recovery Will Gain Momentum

Demand for single-family homes has begun to bounce back slightly. Apartment construction is close to peaking.

Interest Rates and the Federal Reserve

The Fed has begun the process of raising short-term rates from record lows and the process of balance sheet normalization should begin this fall.

Global Growth Will Be Below Average In 2017

Global economic data has been surprising to the upside including data in China and the Eurozone. We are now entering a “less divergent” global monetary policy environment.

Wells Fargo U.S. Economic Forecast

	Actual		Forecast											Actual		Forecast		
	2017				2018				2019				2015	2016	2017	2018	2019	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product ¹	1.2	3.1	2.1	2.5	2.3	2.5	2.6	2.6	2.4	2.6	2.5	2.7	2.9	1.5	2.1	2.4	2.5	
Personal Consumption	1.9	3.3	2.0	2.5	2.5	2.6	2.6	2.6	2.3	2.5	2.4	2.4	3.6	2.7	2.6	2.5	2.5	
Business Fixed Investment	7.1	6.7	5.2	6.2	4.8	4.1	4.0	3.7	3.6	3.5	3.5	3.6	2.3	-0.6	4.7	4.9	3.7	
Equipment	4.4	8.8	6.9	8.7	5.4	4.3	4.2	3.7	3.7	3.3	3.5	3.7	3.5	-3.4	4.1	5.9	3.7	
Intellectual Property Products	5.8	3.7	4.5	5.0	5.2	4.8	4.7	4.5	4.6	4.6	4.6	4.6	3.8	6.3	4.1	4.8	4.6	
Structures	14.8	7.0	3.0	2.5	3.0	2.4	2.4	2.2	2.0	1.9	1.9	1.9	-1.8	-4.1	6.7	2.9	2.1	
Residential Construction	11.1	-7.3	-6.0	-2.0	5.0	8.0	7.5	7.0	5.0	4.5	4.5	4.0	10.2	5.5	0.7	2.4	5.6	
Government Purchases	-0.6	-0.2	-0.8	0.4	0.2	0.8	0.8	0.8	0.7	0.7	0.7	0.7	1.4	0.8	-0.2	0.3	0.7	
Net Exports ²	0.2	0.2	0.1	-0.3	-0.2	-0.2	-0.1	0.0	0.1	0.1	0.2	0.2	-0.7	-0.2	-0.2	-0.2	0.0	
Inventories ²	-1.5	0.1	0.8	0.2	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.2	-0.4	-0.1	0.1	0.0	
Nonfarm Payroll Change ³	166	187	91	175	170	160	160	155	150	150	145	145	226	187	155	161	148	
Unemployment Rate	4.7	4.4	4.3	4.3	4.2	4.1	4.0	4.0	3.9	3.8	3.9	3.8	5.3	4.9	4.4	4.1	3.9	
PCE Deflator ⁴	2.0	1.6	1.5	1.5	1.4	1.7	1.8	1.6	1.7	1.8	1.9	2.0	0.3	1.2	1.7	1.6	1.8	
Quarter-End Interest Rates ⁵																		
Federal Funds Target Rate	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.50	0.27	0.52	1.25	1.75	2.25	
3 Month LIBOR	1.15	1.30	1.33	1.65	1.65	1.90	1.90	2.15	2.15	2.40	2.40	2.65	0.32	0.74	1.36	1.90	2.40	
Prime Rate	4.00	4.25	4.25	4.50	4.50	4.75	4.75	5.00	5.00	5.25	5.25	5.50	3.27	3.52	4.25	4.75	5.25	
Conventional Mortgage Rate	4.20	3.90	3.81	3.89	3.95	4.02	4.05	4.10	4.12	4.16	4.17	4.24	3.85	3.65	3.95	4.03	4.17	
3 Month Bill	0.76	1.03	1.06	1.30	1.45	1.60	1.67	1.85	1.95	2.10	2.15	2.30	0.05	0.32	1.04	1.64	2.13	
6 Month Bill	0.91	1.14	1.20	1.40	1.55	1.70	1.77	1.95	2.05	2.20	2.25	2.40	0.17	0.46	1.16	1.74	2.23	
1 Year Bill	1.03	1.24	1.31	1.55	1.68	1.80	1.87	2.05	2.15	2.25	2.30	2.45	0.32	0.61	1.28	1.85	2.29	
2 Year Note	1.27	1.38	1.47	1.72	1.83	1.93	2.00	2.15	2.23	2.33	2.38	2.50	0.69	0.83	1.46	1.98	2.36	
5 Year Note	1.93	1.89	1.92	2.20	2.29	2.39	2.45	2.58	2.65	2.75	2.80	2.90	1.53	1.33	1.99	2.43	2.78	
10 Year Note	2.40	2.31	2.33	2.49	2.57	2.66	2.71	2.78	2.82	2.88	2.91	3.00	2.14	1.84	2.38	2.68	2.90	
30 Year Bond	3.02	2.84	2.86	3.19	3.29	3.41	3.49	3.58	3.62	3.68	3.71	3.80	2.84	2.59	2.98	3.44	3.70	

Forecast as of: October 11, 2017

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

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Global (PPP Weights)	3.5%	3.4%	3.3%	3.1%	3.4%	3.4%
Global (Market Exchange Rates)	3.2%	3.2%	3.1%	3.1%	3.4%	3.4%
Advanced Economies ¹	2.3%	2.3%	2.2%	1.8%	1.8%	1.9%
United States	2.1%	2.4%	2.5%	2.1%	2.0%	2.1%
Eurozone	2.2%	2.1%	1.7%	1.5%	1.7%	1.9%
United Kingdom	1.6%	1.8%	1.6%	2.6%	2.2%	2.0%
Japan	1.9%	1.1%	0.7%	0.4%	0.8%	0.3%
Korea	2.8%	2.8%	2.7%	2.1%	2.0%	2.4%
Canada	3.0%	2.0%	1.9%	1.6%	1.9%	2.0%
Developing Economies ¹	4.6%	4.4%	4.4%	4.4%	5.0%	5.0%
China	6.7%	6.3%	5.9%	1.6%	2.4%	2.2%
India ²	7.1%	6.6%	7.2%	3.2%	4.2%	4.3%
Mexico	2.1%	2.3%	2.4%	6.0%	5.0%	5.1%
Brazil	0.6%	2.0%	2.2%	3.5%	3.4%	3.7%
Russia	1.9%	2.0%	2.2%	4.0%	4.2%	4.5%

Forecast as of: October 11, 2017

¹Aggregated Using PPP Weights

²Forecast Refers to Fiscal Year

Source: International Monetary Fund and Wells Fargo Securities

Wells Fargo Bank Currency Strategy Group Forecast

(End of Quarter Rates)

	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Major Currencies						
Euro (\$/€)	1.21	1.22	1.24	1.26	1.27	1.27
U.K. (\$/£)	1.33	1.34	1.35	1.35	1.35	1.36
U.K. (£/€)	0.91	0.91	0.92	0.93	0.94	0.94
Japan (¥/\$)	111	110	109	108	108	107
Canada (C\$/US\$)	1.20	1.19	1.17	1.15	1.14	1.14
Australia (US\$/A\$)	0.81	0.82	0.83	0.84	0.84	0.85
Switzerland (CHF/\$)	0.95	0.95	0.94	0.92	0.92	0.92
Other Currencies						
China (CNY/\$)	6.52	6.49	6.46	6.43	6.42	6.41
South Korea (KRW/\$)	1130	1130	1120	1110	1107	1103
Singapore (SGD/\$)	1.33	1.31	1.29	1.28	1.28	1.27
Taiwan (TWD/\$)	30.00	30.00	29.75	29.50	29.42	29.33
India (INR/\$)	63.75	63.50	63.00	62.50	62.33	62.17
Mexico (MXN/\$)	17.80	17.80	17.50	17.20	17.10	17.00
Brazil (BRL/\$)	3.10	3.08	3.06	3.02	3.01	2.99
Colombia (COP/\$)	2925	2900	2875	2850	2842	2833

Forecast as of: September 12, 2017

Source: Wells Fargo Securities

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary

Date	Title	Authors
U.S. Macro		
October-11	Q4 Treasury Issuance Outlook	Brown & Pugliese
October-03	Labor Force Participation for Men and Women Diverge Again	House & Vaisey
October-02	September Payroll Preview: Buckle Up	Silvia, Iqbal, House & Vaisey
October-02	Capitol Hill Update: Tax Details Finally Begin to Emerge	Brown & Pugliese
September-20	FOMC: Gauging Normality for Investors: Real Rates Positive	Silvia
U.S. Regional		
October-12	Florida Economic Outlook: October 2017	Vitner & Feik
September-21	Oil Rout Hits MSA Output in 2016, Tech Remains in High Gear	Vitner & Feik
September-20	Georgia Economic Outlook: September 2017	Vitner & Feik
September-15	California Employment Conditions: August 2017	Vitner, Feik & Carmichael
September-15	North Carolina Continues Solid Job Gains	Vitner, Feik & Carmichael
Global Economy		
October-13	Singapore GDP Accelerates in Q3	Bryson & Pugliese
September-28	Will Euro Appreciation Derail the Eurozone Economy?	Bryson & Kinnaman
September-27	Strong Rebound in PCE Drives Argentina's Q2 GDP Growth	Alemán
September-14	Should We Worry About Chinese SOEs?	Bryson
September-11	Construction and Mining Drive Mexican Production Lower	Alemán
Interest Rates/Credit Market		
October-11	Interest Rates, Treasury Finance and the Dollar Crossroads	Silvia & Pugliese
October-04	Capital Flows, Interest Rates and Asset Prices	Silvia & Pugliese
October-03	Is There an "Invisible Hand" Behind the 2 Percent Inflation Target Rate?	Silvia, Iqbal & Pershing
September-20	Profits: Overlooked Contribution to Growth and Lower Rates	Silvia
September-13	Evolution of the Cost of Capital Over the Business Cycle	Silvia & Iqbal
Real Estate		
October-10	Housing Chartbook: October 2017	Vitner & Carmichael
September-12	A Primer on the NAHB Index	Vitner & Carmichael
August-31	Growing the Gridiron: The Stadium Boom	Khan, Carmichael & Vaisey
August-28	Hotel Revenues: How Much Room to Run?	Khan & Vaisey
August-14	CRE Deal Volume Shows Late-Cycle Behavior: Q2 Chartbook	Khan, Carmichael & Vaisey

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