



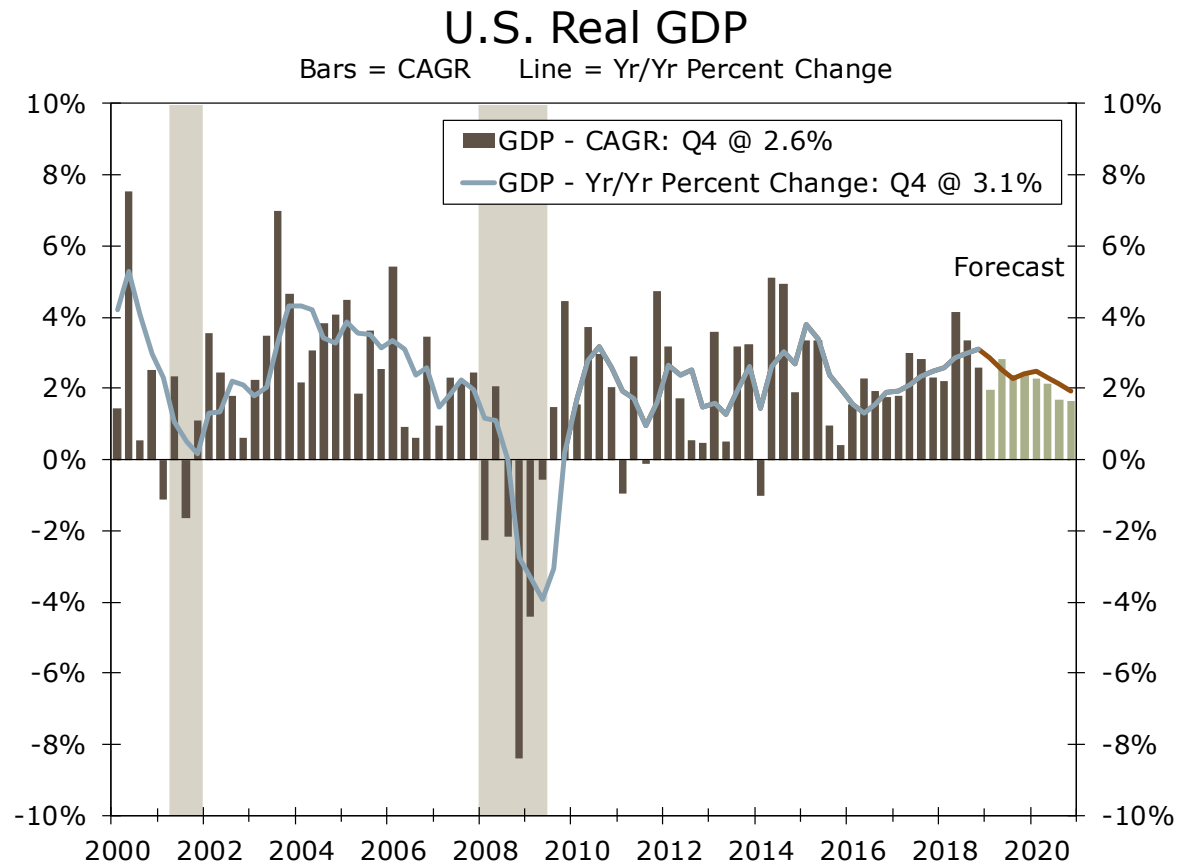
Economic Outlook

Charlie Dougherty, Vice President & Economist
March 19, 2019



Economic Growth Will Remain Solid in 2019

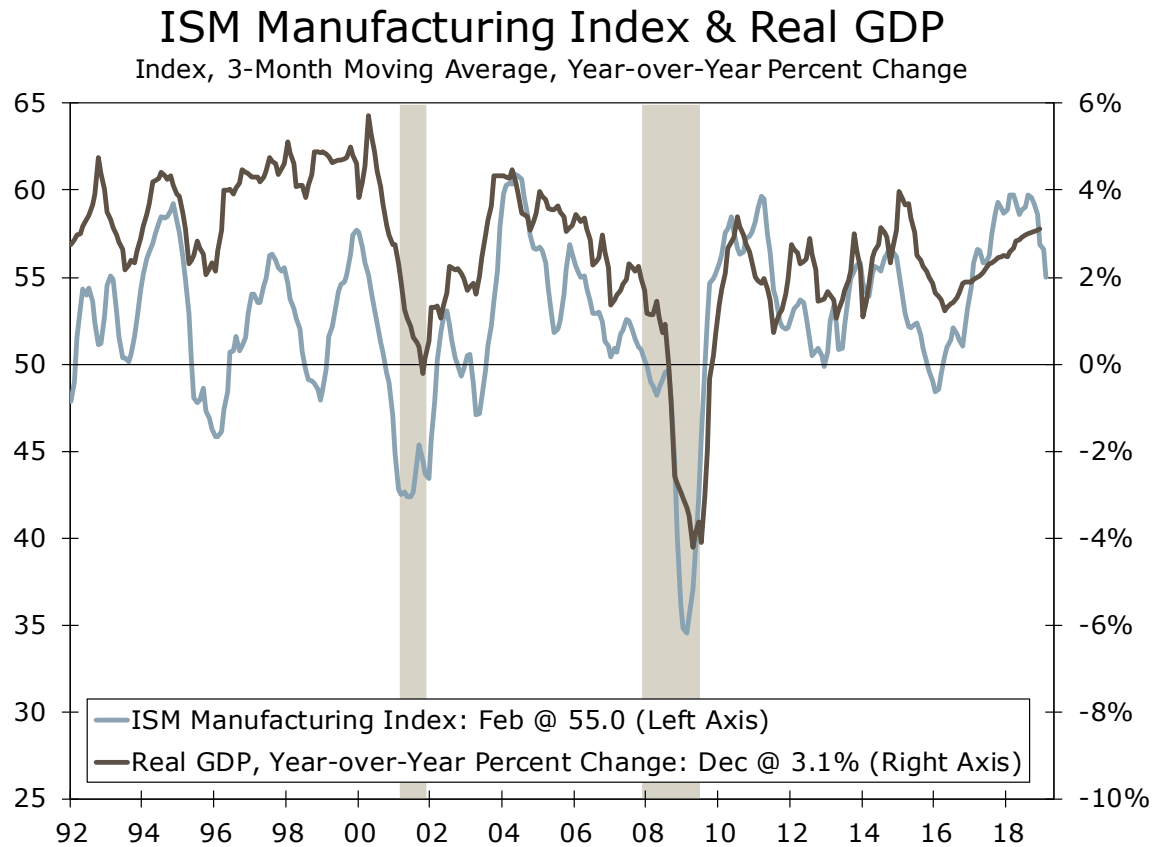
Real GDP growth has upshifted recently and ended the year at nearly a 3.0% pace. We expect a soft moderation in 2019, however growth will remain solid and expand at a 2.5% pace.



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

Manufacturing Activity Has Weakened

Sentiment in the manufacturing sector has weakened, however has come off a near-euphoric level and is still consistent with above-trend growth.

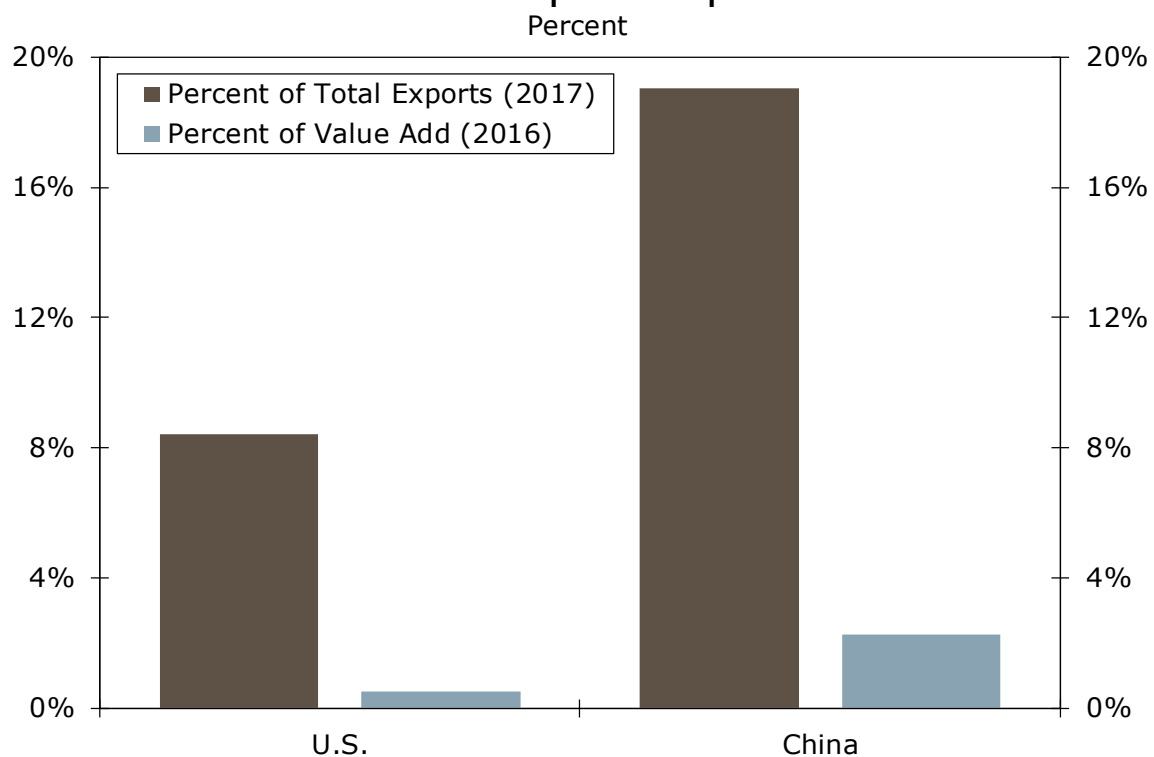


Source: Institute for Supply Management and Wells Fargo Securities

China appears to have more to lose if a full-blown trade war were to develop, but such an event would not be costless for the United States.

The USMCA will also unleash investment in areas with transportation linkages with Mexico and Canada.

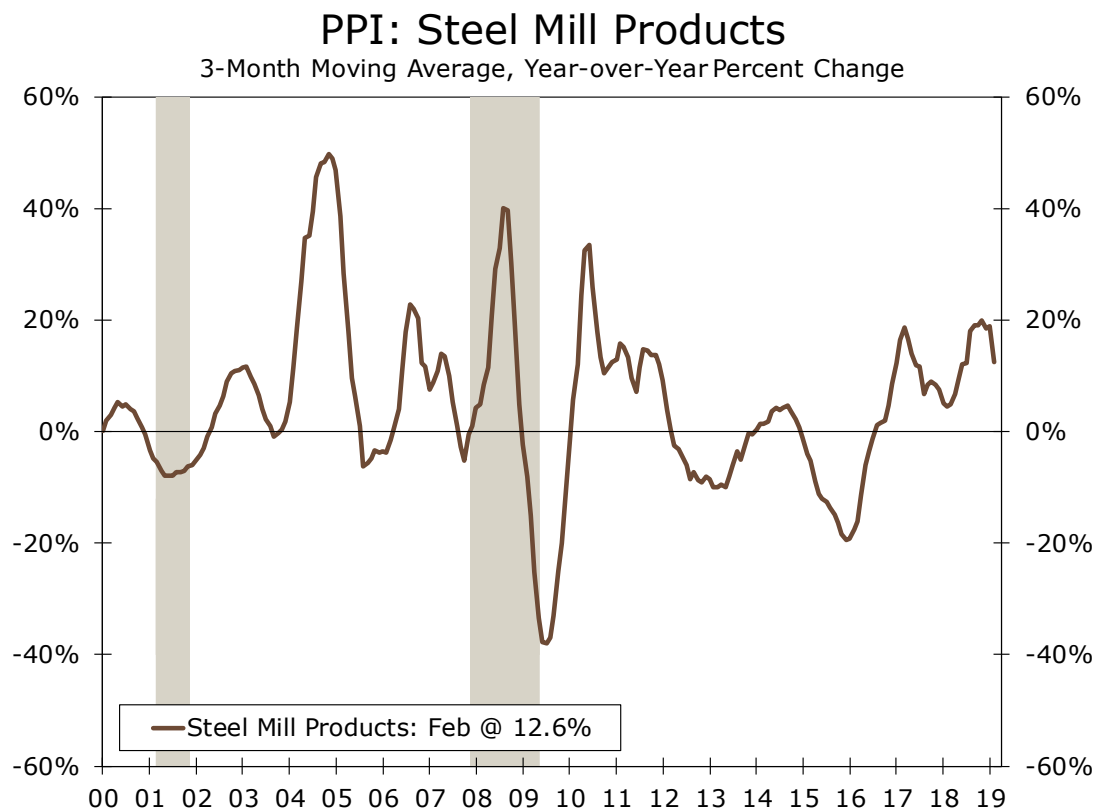
Bilateral Export Exposure



Source: International Monetary Fund, OECD, United Nations, U.S. Department of Commerce and Wells Fargo Securities

Tariffs

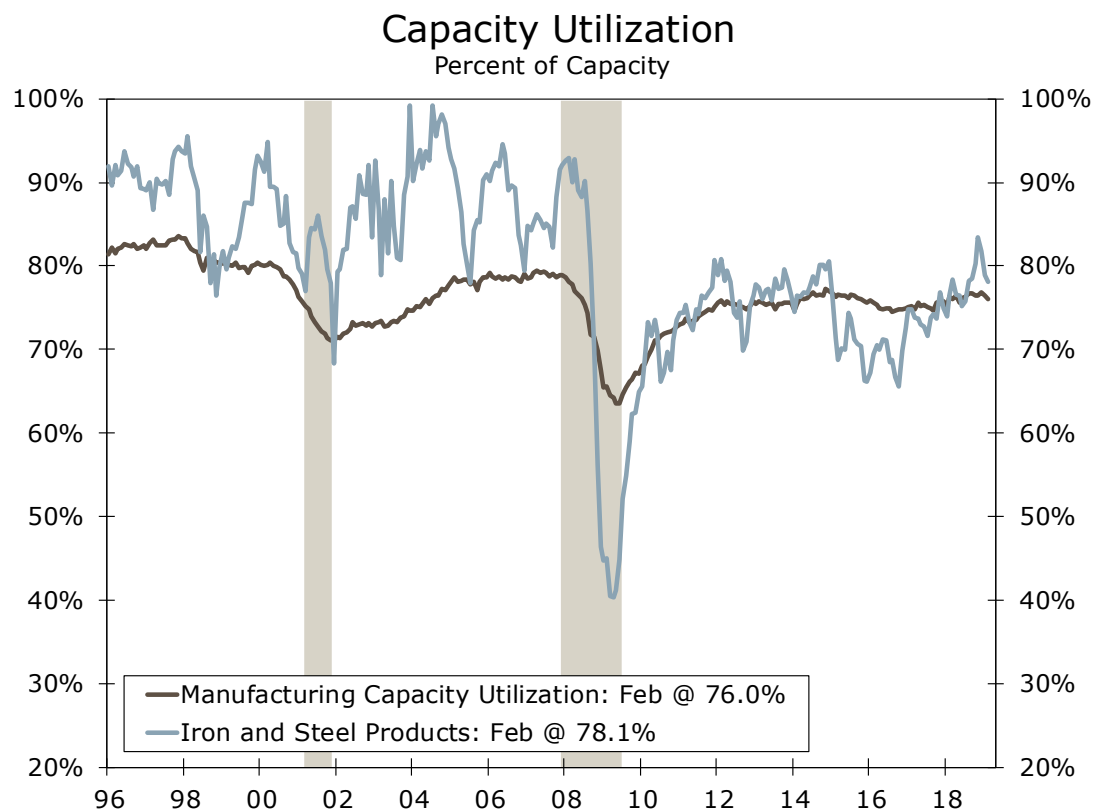
Newly imposed tariffs have pushed up prices for steel which is used by a wide array of industries as an input.



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

Trade: What's the End Game?

Higher steel prices will benefit domestic producers. One purpose of the tariffs was to boost manufacturing capacity utilization, which has been slowly trending higher.



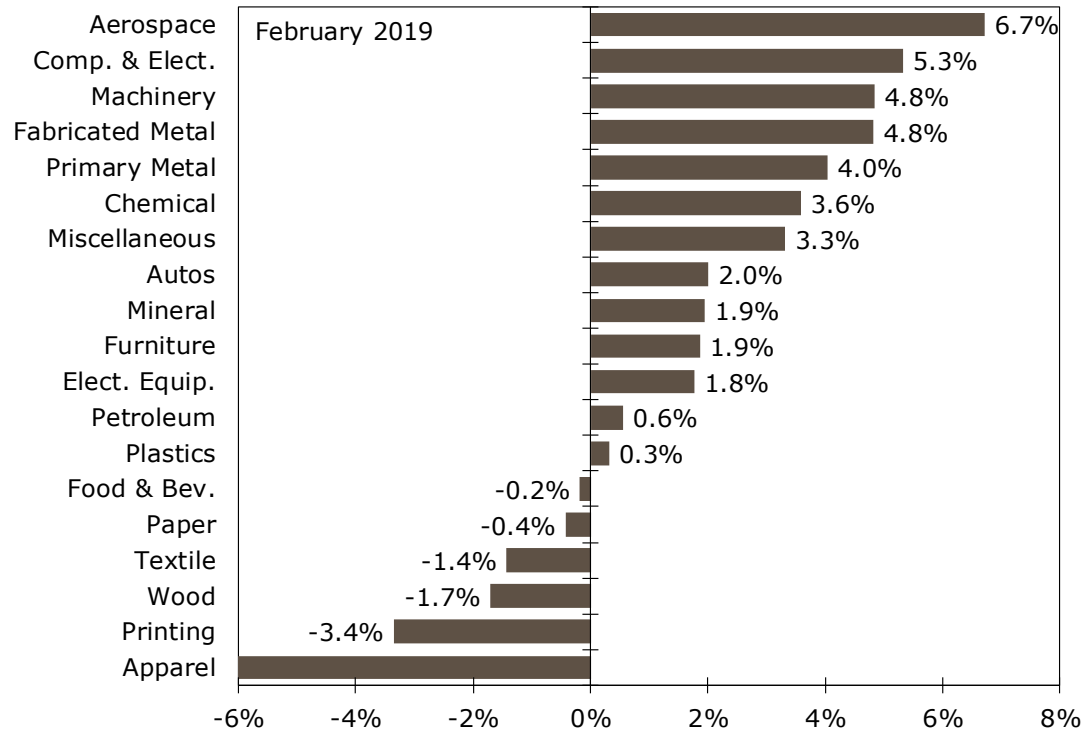
Source: U.S. Department of Commerce and Wells Fargo Securities

Manufacturing

Production growth has been mixed across market segments. Aerospace, computer & electronics and machinery & metal manufacturing are leading.

Manufacturing Production by Market Segment

Year-over-Year Percent Change of 3-Month Moving Average



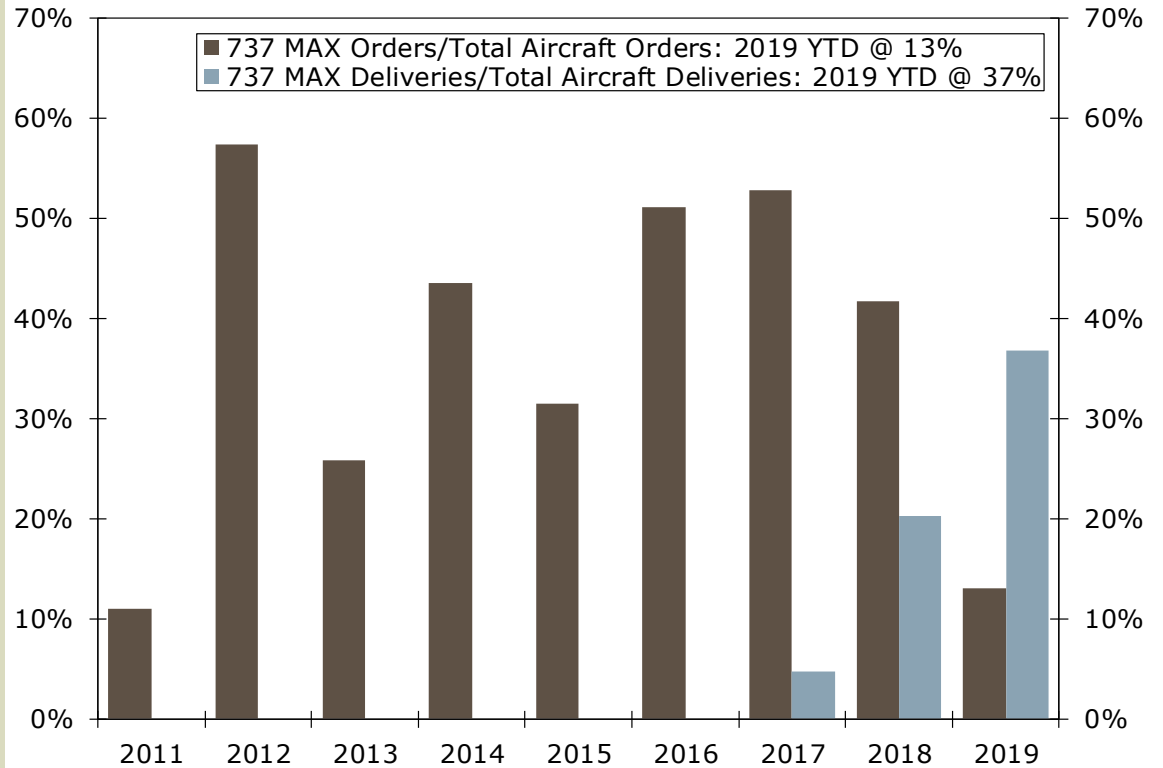
Source: U.S. Department of Commerce and Wells Fargo Securities

Could the Grounding of 737-MAX Hurt Manufacturing?

If airlines hold-off on new orders of this aircraft, the total negative impact to durable goods orders could be substantial. However, supply chain disruptions are unlikely, as Boeing reportedly intends on continuing production.

Boeing 737 MAX Orders & Deliveries

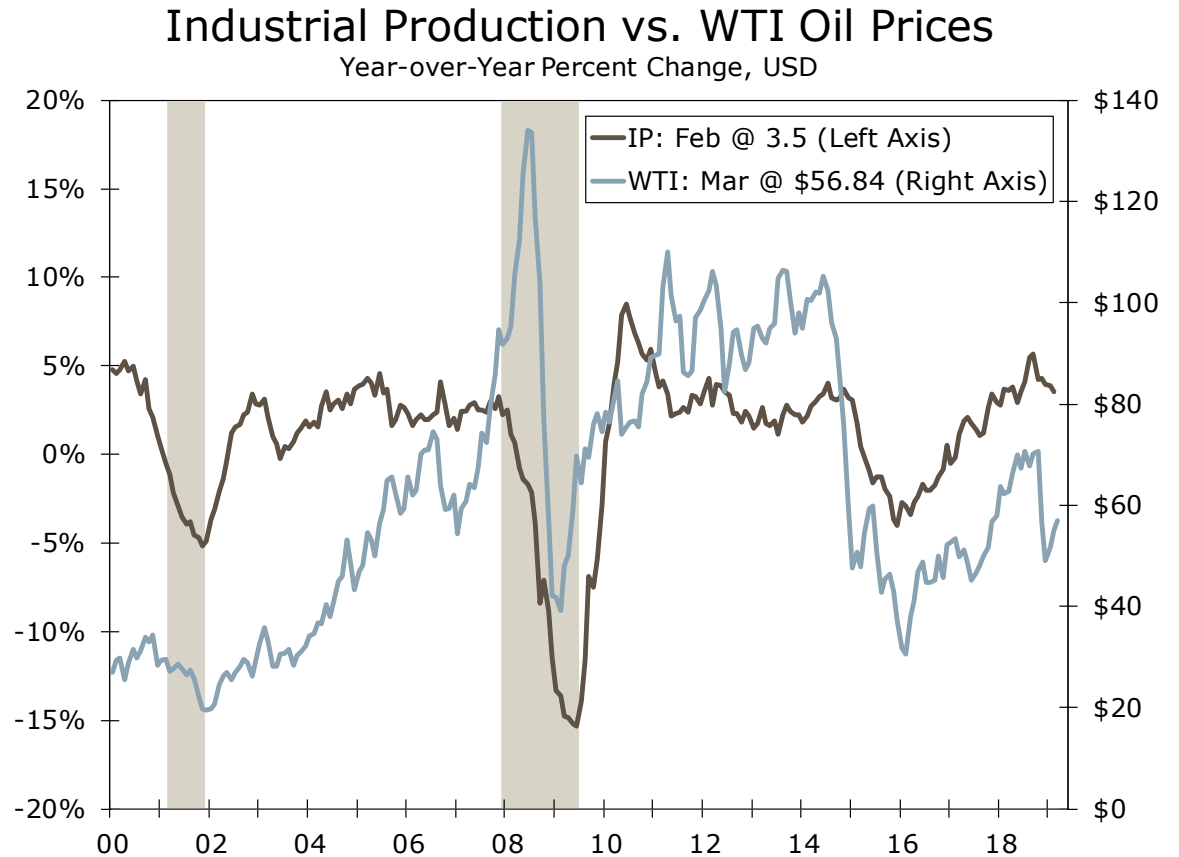
Value of 737 MAX as Percent of Total Value



Source: Boeing and Wells Fargo Securities

Oil Prices Have Also Dropped

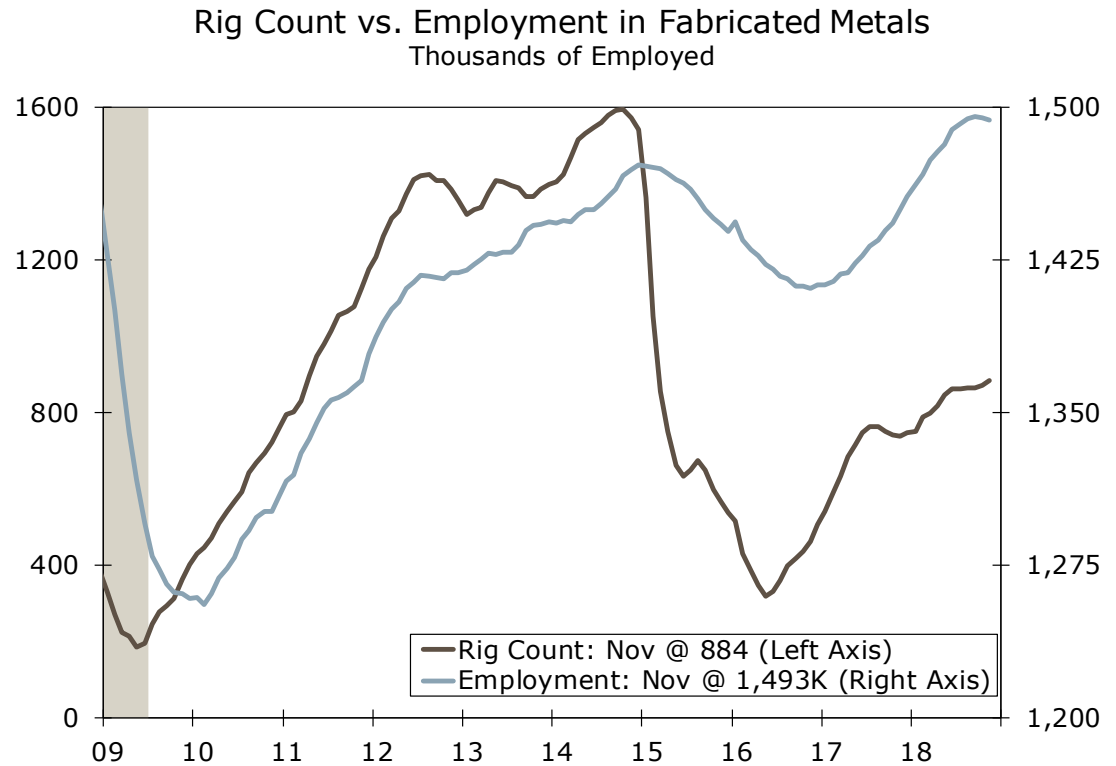
The recent drop in oil prices may be good for consumers, but is concerning for new energy-related investment, the impact of which is felt up and down the supply chain outside of the major energy producing regions.



Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

Manufacturing Sector's Resurgence

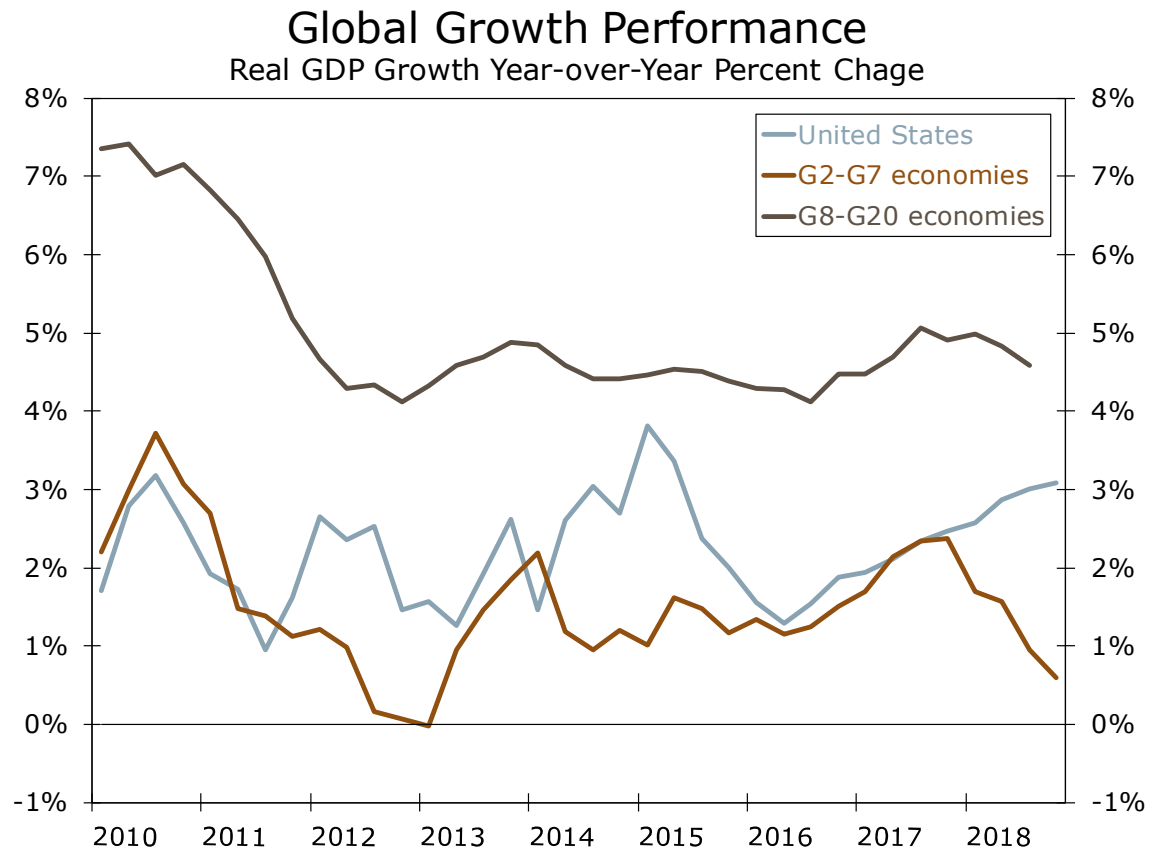
The shale boom created enormous demand for fabricated metals, which are used in drilling platforms, pressure vessels and a wide variety of equipment used in the drilling and extraction process.



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

Global Growth Peaking?

Global economic growth has been generally strong, but is slowing outside of the U.S., particularly in other developed economies

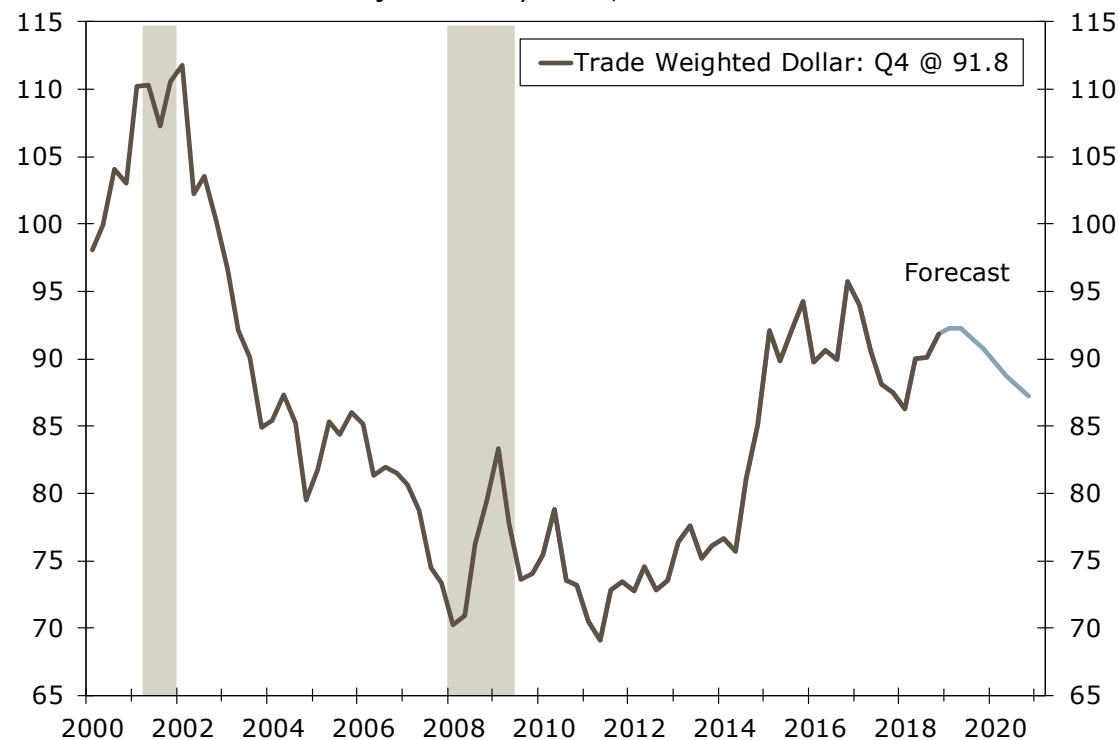


Source: OECD and Wells Fargo Securities

As global growth accelerates over the next few years the dollar should reverse its recent course of strengthening.

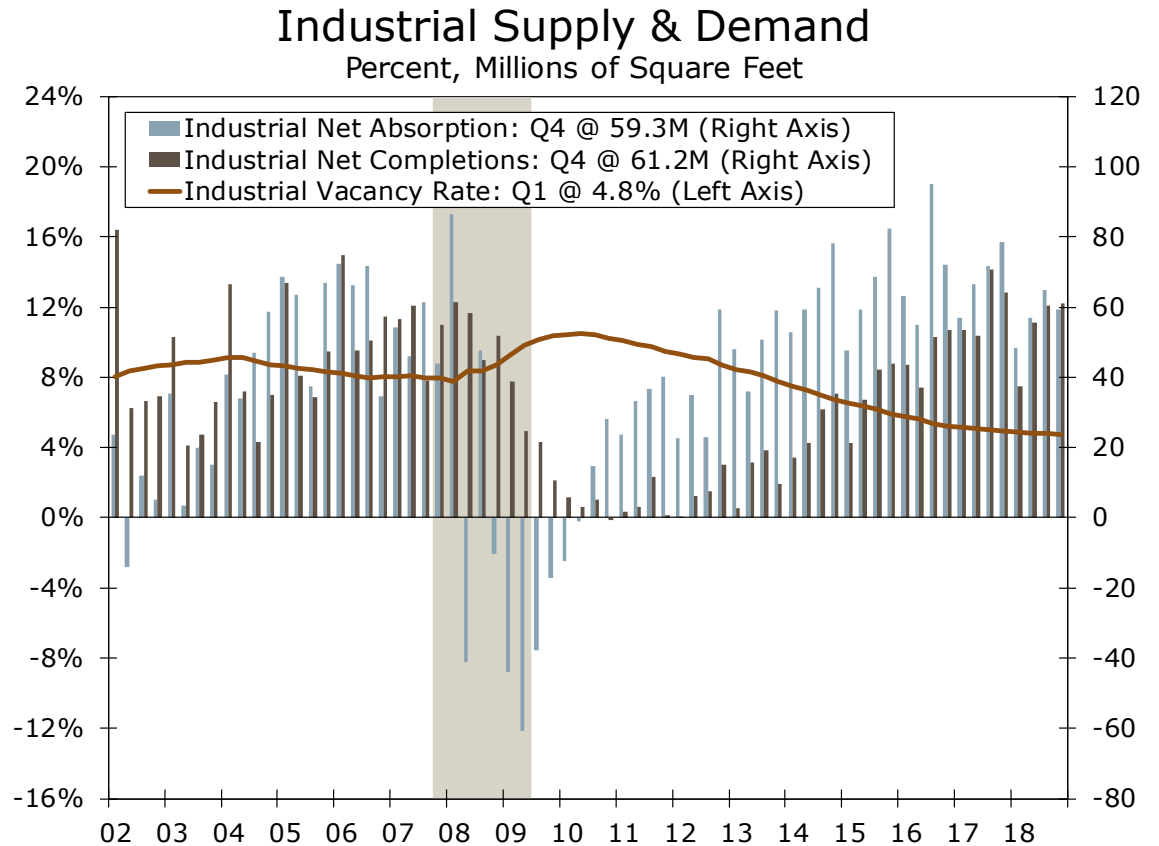
Trade Weighted Dollar

Major Currency Index, 1973 = 100



Source: International Monetary Fund, Federal Reserve Board and Wells Fargo Securities

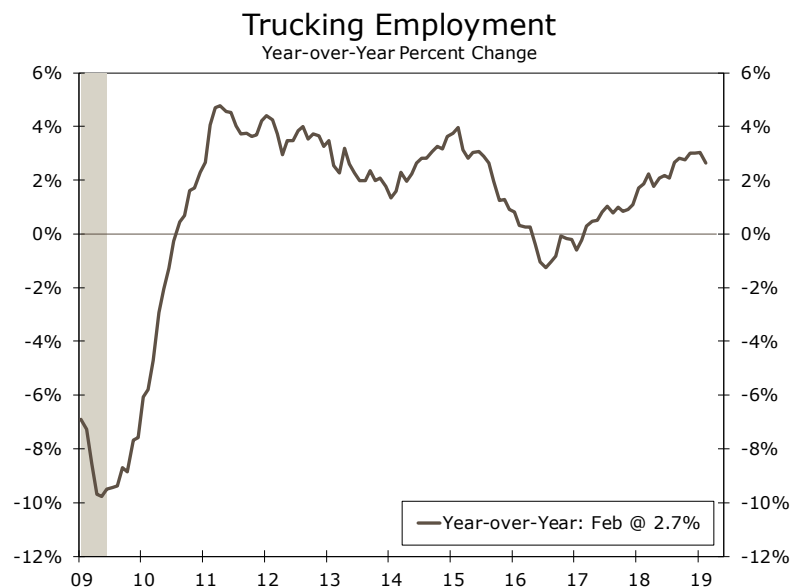
Growing international trade and the “Amazon Effect” have boosted the need for warehouses, distribution facilities and logistics services.



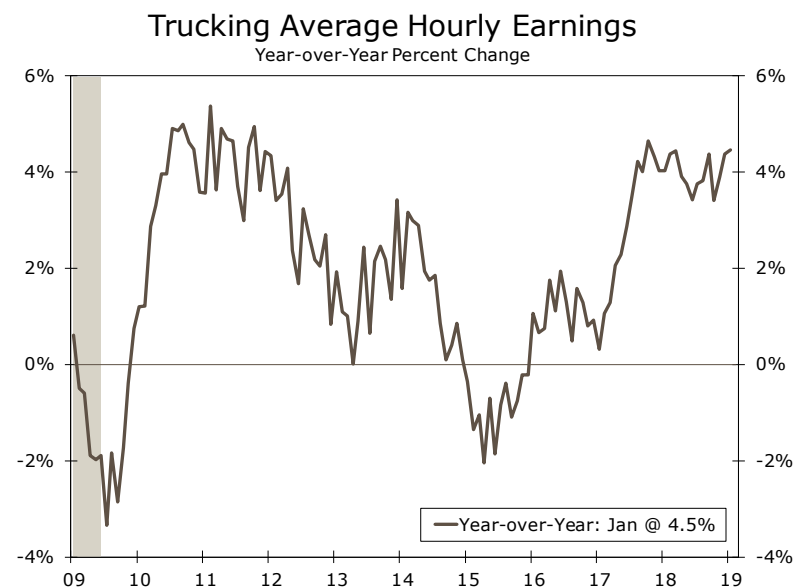
Source: U.S. Department of Commerce and Wells Fargo Securities

Employment is growing modestly, but the trucking sector continues to report a pronounced labor shortage. As a result, the sector is seeing outsized earnings growth.

Employment



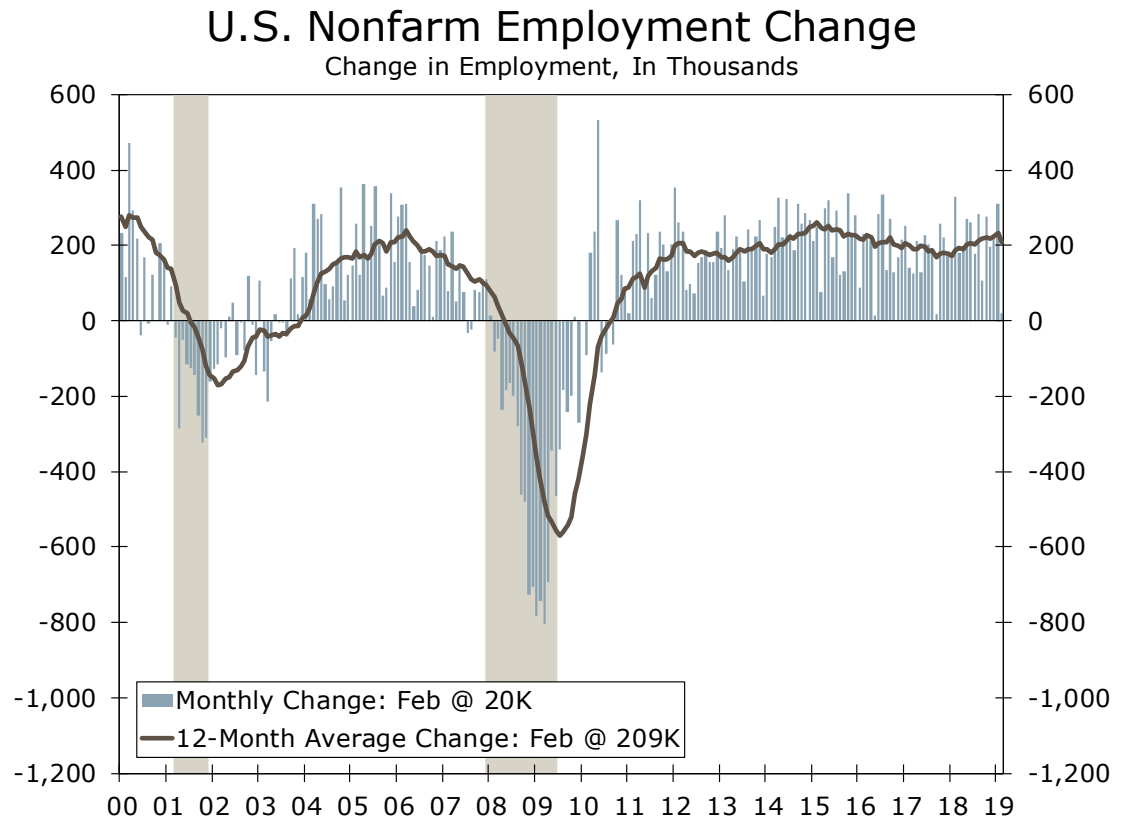
Average Hourly Earnings



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

Employment Situation: Employment Growth Resilient

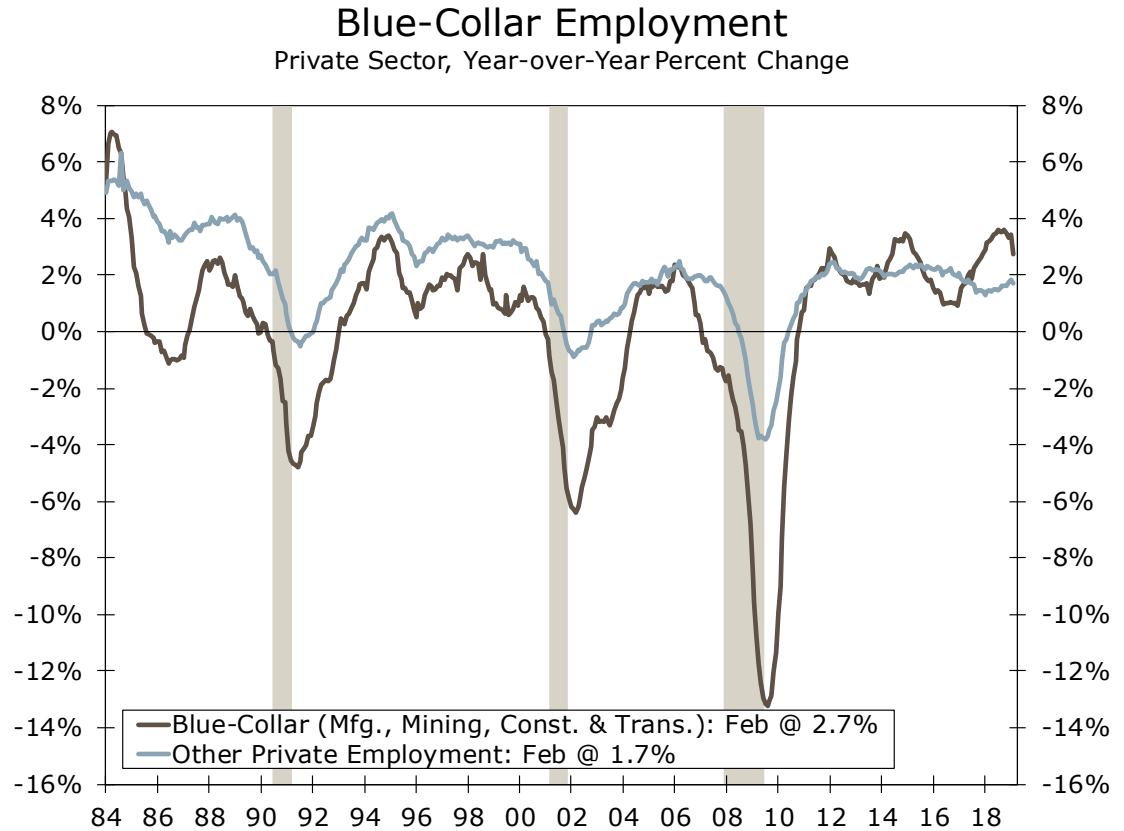
Hiring has not shown any signs of weakening, continuing the streak of 100 straight months of positive gains.



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

Employment Situation: Employment Growth Broadening

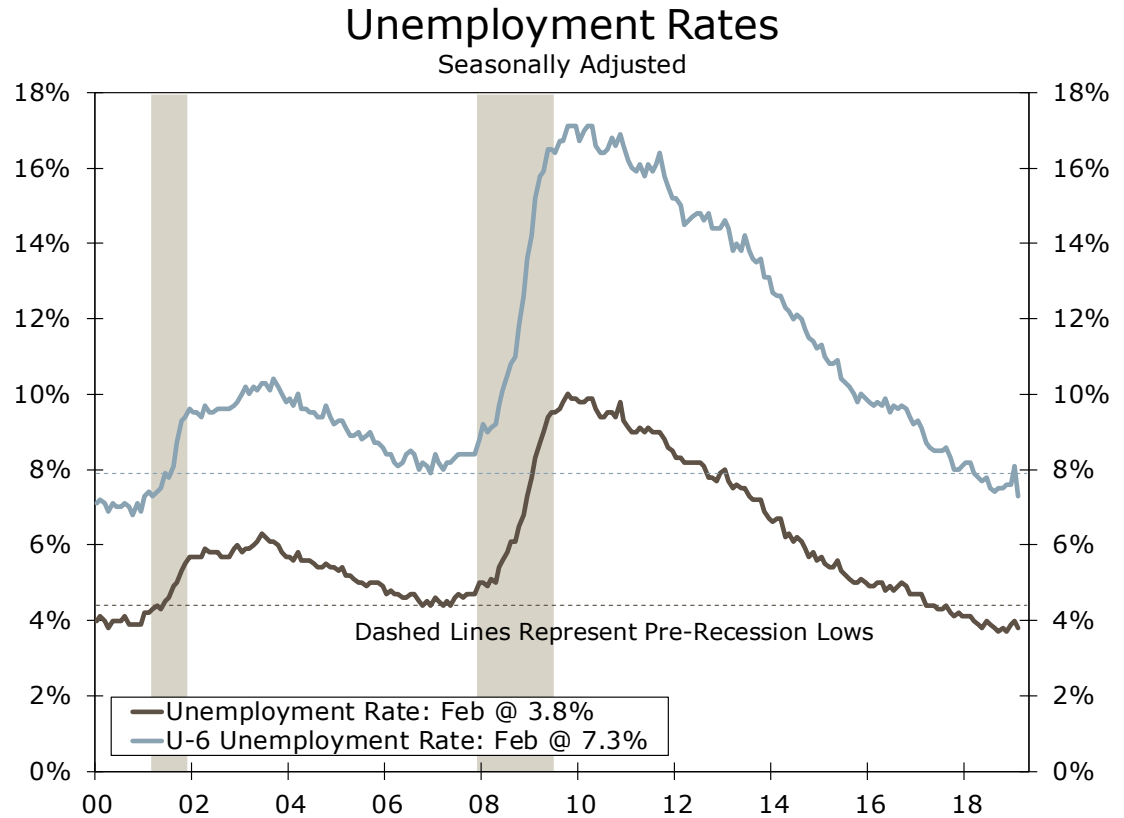
Employment growth is picking up in the construction and manufacturing sectors after lagging for much of the expansion



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

Employment Situation: Tightening Labor Market

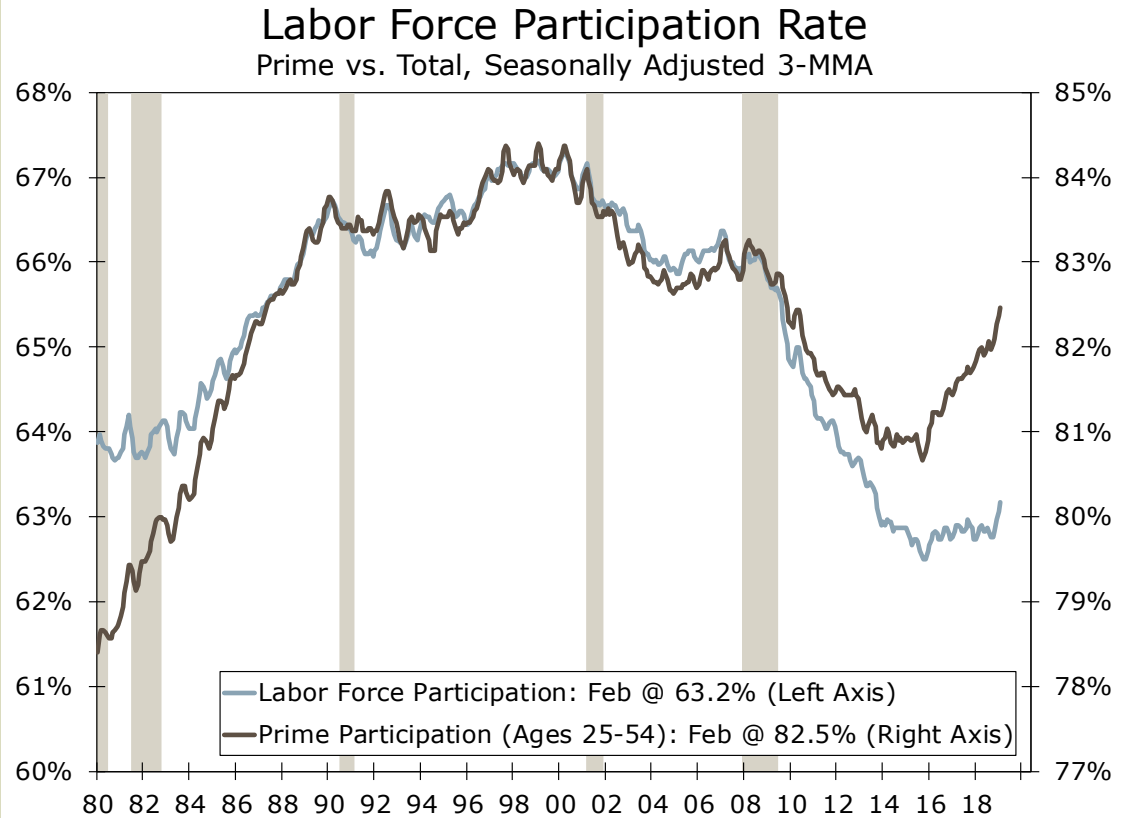
The unemployment rate has fallen considerably over the course of the recovery.



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

Employment Situation: Tightening Labor Market

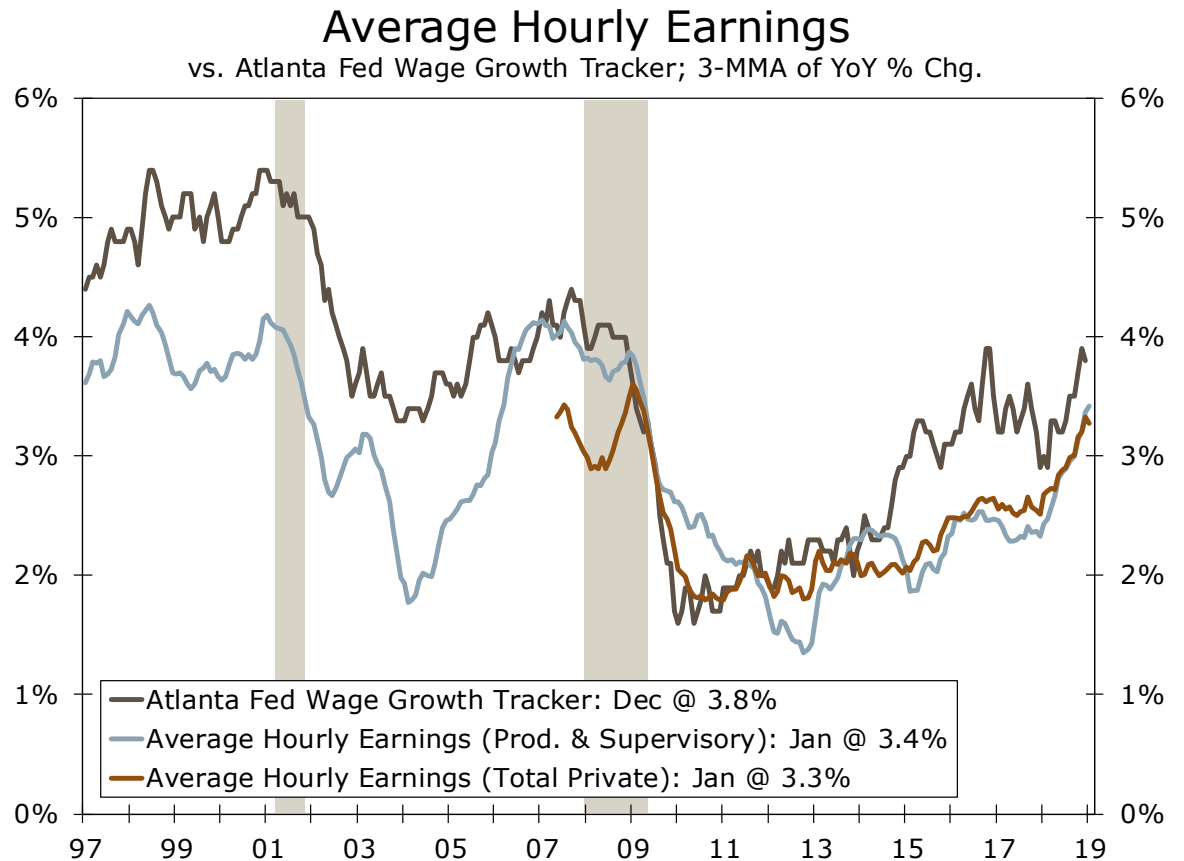
Strong employment growth has also helped counter the downward pressure on labor force participation from an aging population.



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

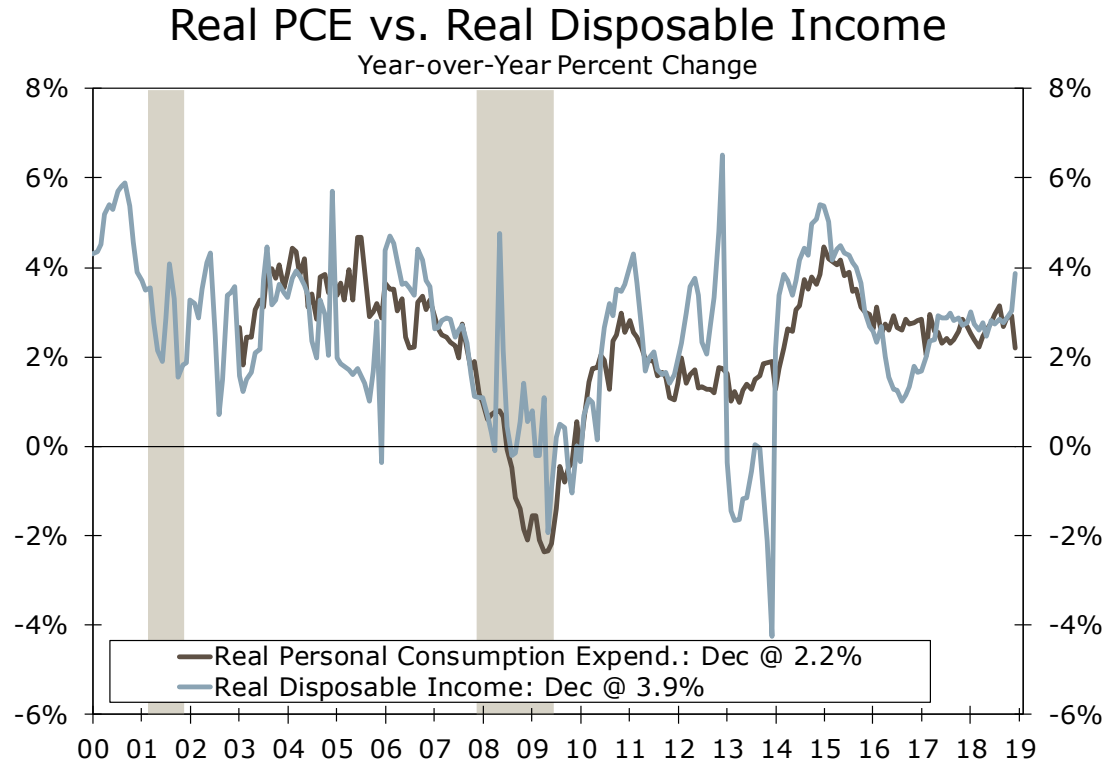
Workers' Earnings Drift Upward

Wage growth has picked up modestly but remains a missing piece to the recovery thus far due to slow productivity growth.



Source: U.S. Department of Labor, Federal Reserve Bank of Atlanta and Wells Fargo Securities

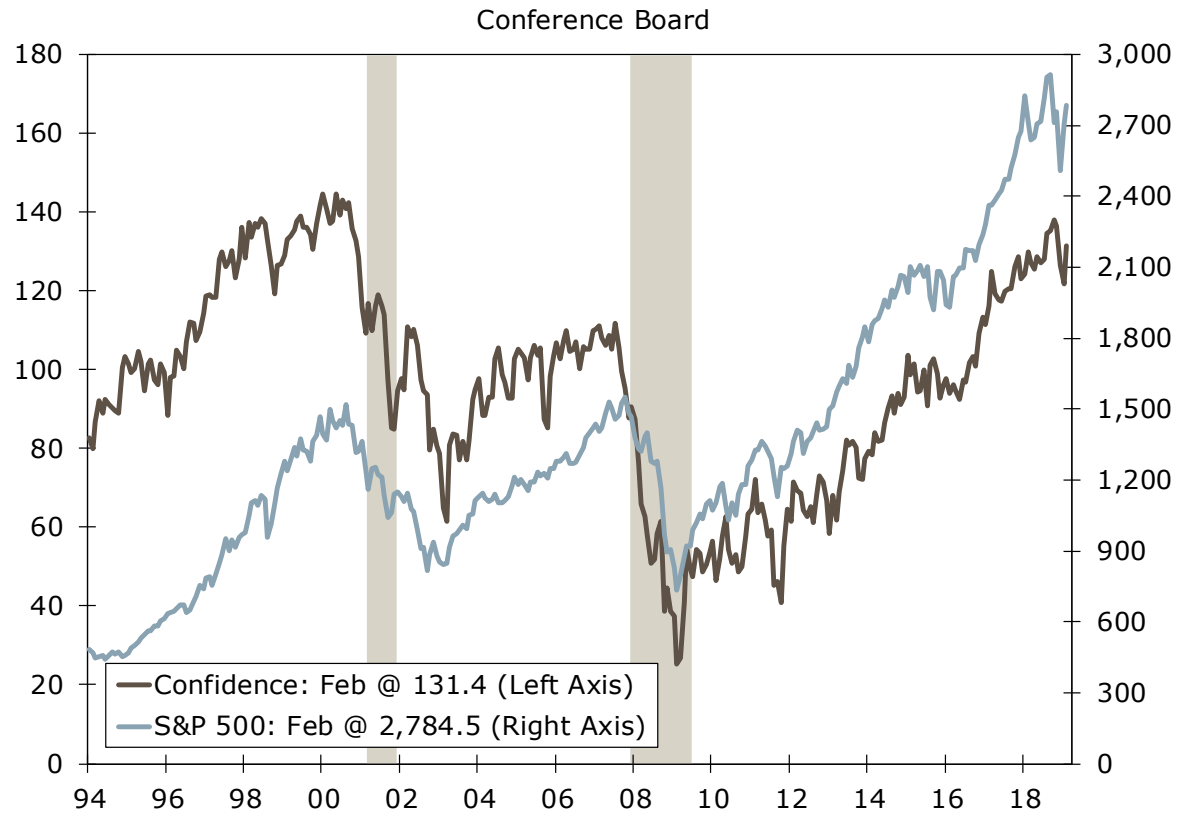
Spending has mostly kept pace with income gains, which is a positive sign for continued growth.



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

Stock market volatility has led to waning consumer confidence.

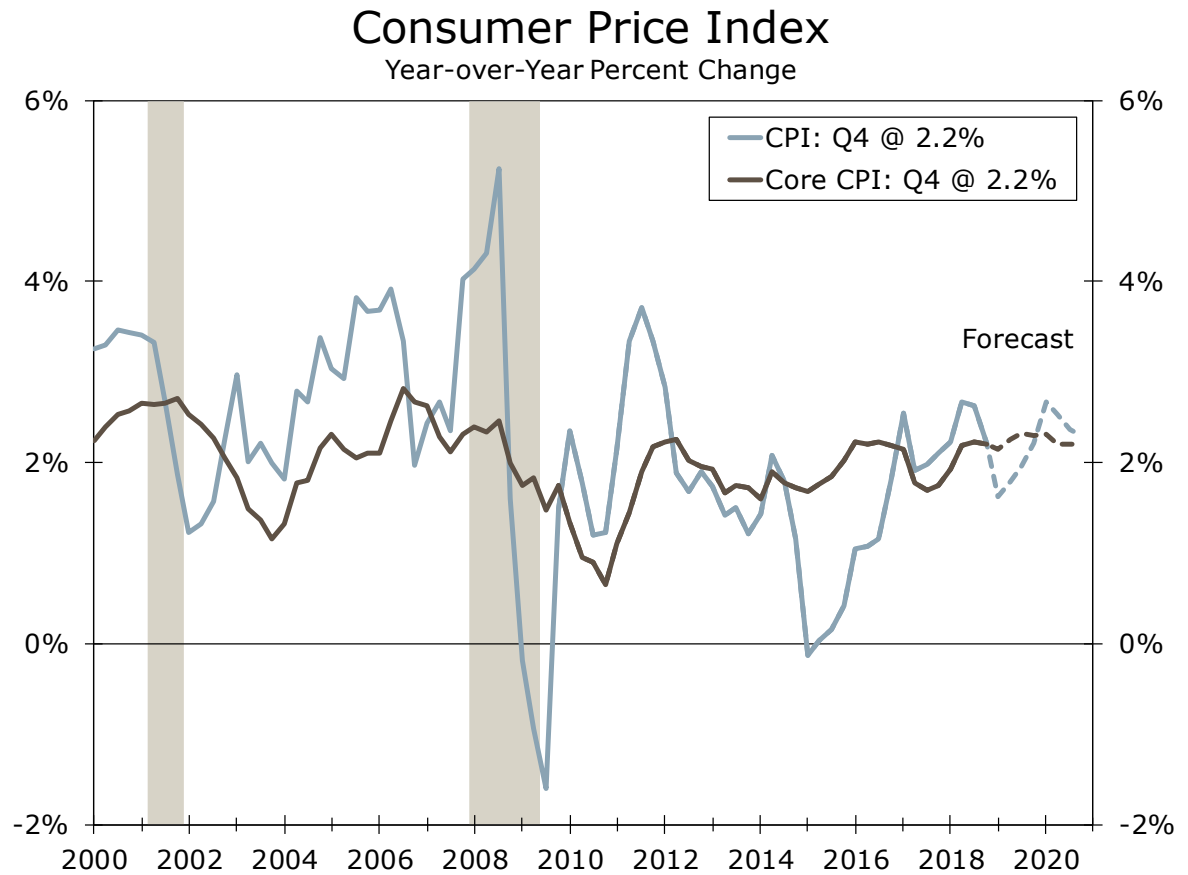
Consumer Confidence Index and S&P 500



Source: Conference Board, S&P Indices and Wells Fargo Securities

Consumer Price Inflation

Inflationary pressures will likely ease on lower oil prices. Core measures, however, continue to firm around the Fed's target of 2.0%.

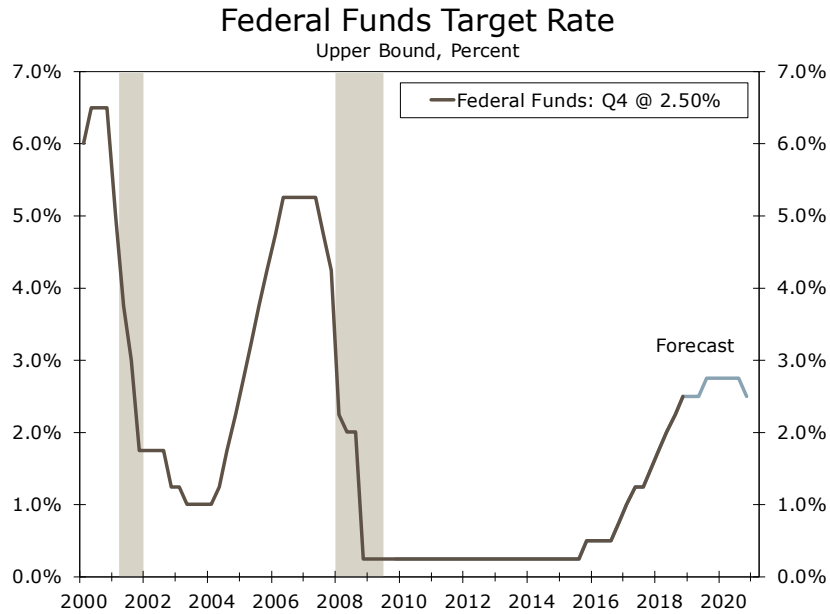


Source: U.S. Department of Commerce and Wells Fargo Securities

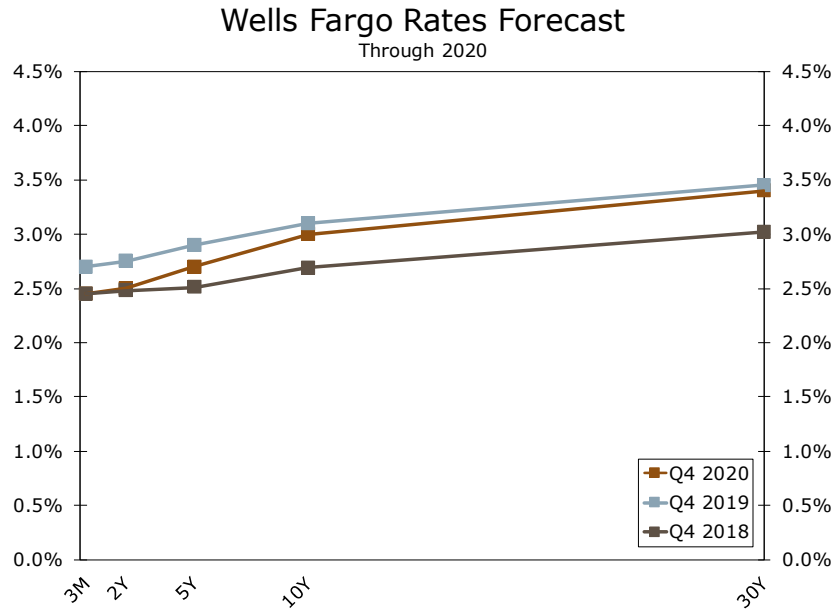
Interest Rates

The Fed will likely hit the “pause” button on interest rate hikes, but resume again later in the year as volatility dissipates.

Monetary Policy



Interest Rates

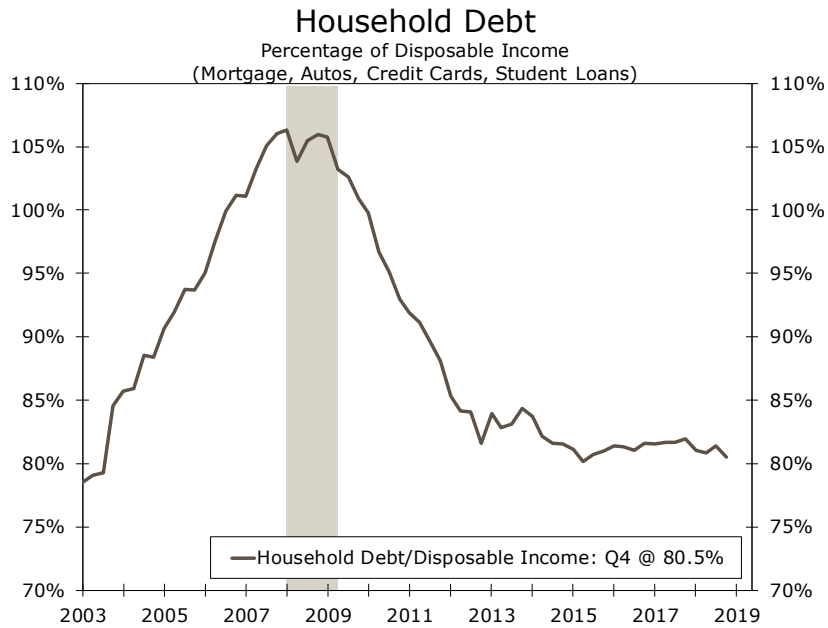


Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Securities

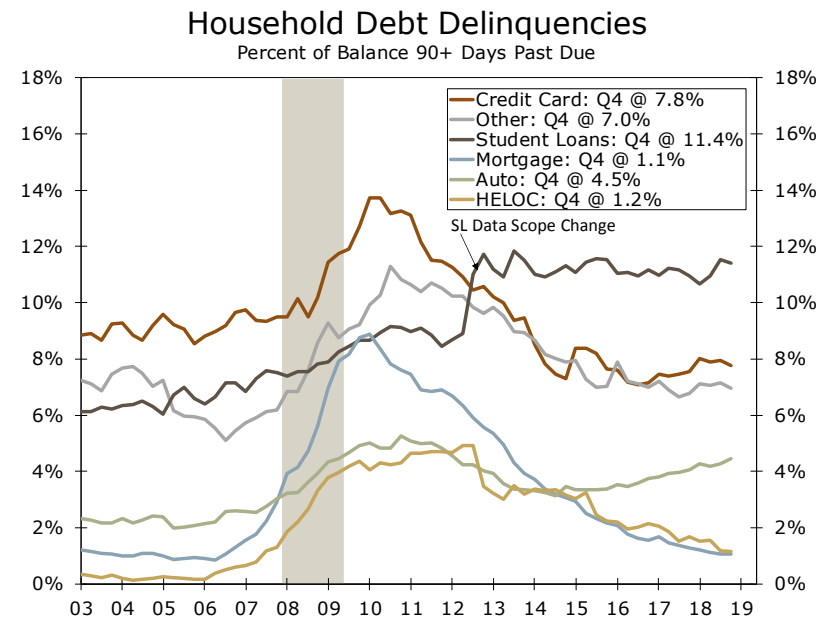
Household Balance Sheets Remain Solid

Households have improved their credit positions over the past few years—with the exception of student debt. Auto loan delinquencies very gradually rising.

Indebtedness Not Out of Line

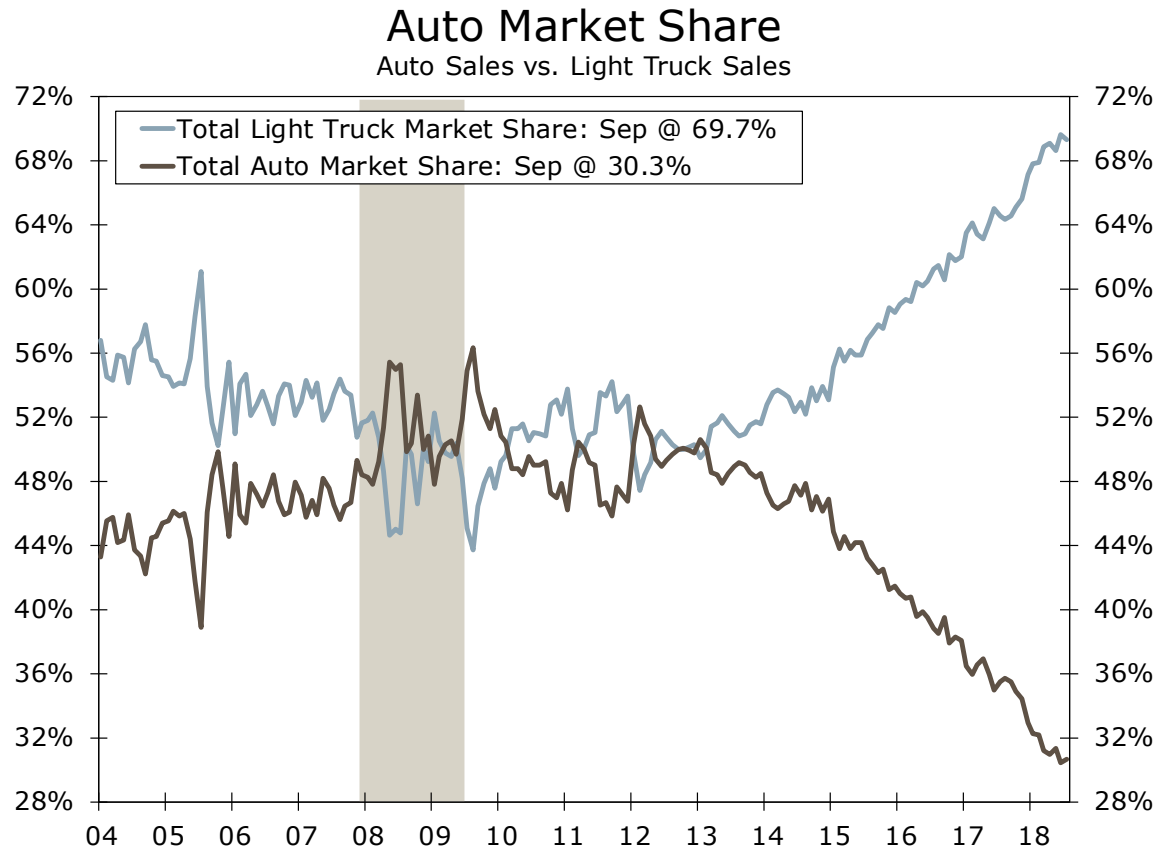


Delinquency Rates



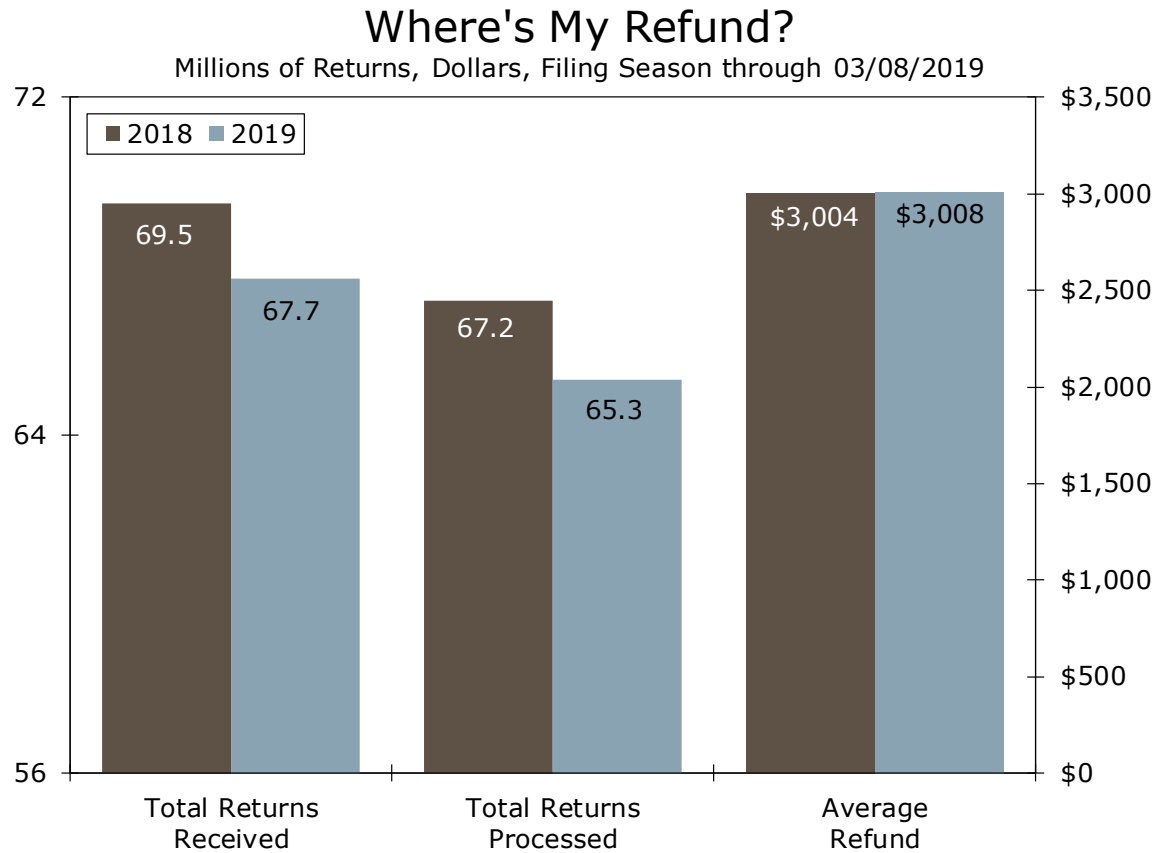
Source: Federal Reserve and Wells Fargo Securities

Auto sales have been weaker than expected. The industry has seen a significant shift towards light trucks and crossovers.



Source: OECD and Wells Fargo Securities

The government shutdown will not have a huge direct economic impact, however may delay tax refunds which could weigh on consumer spending.

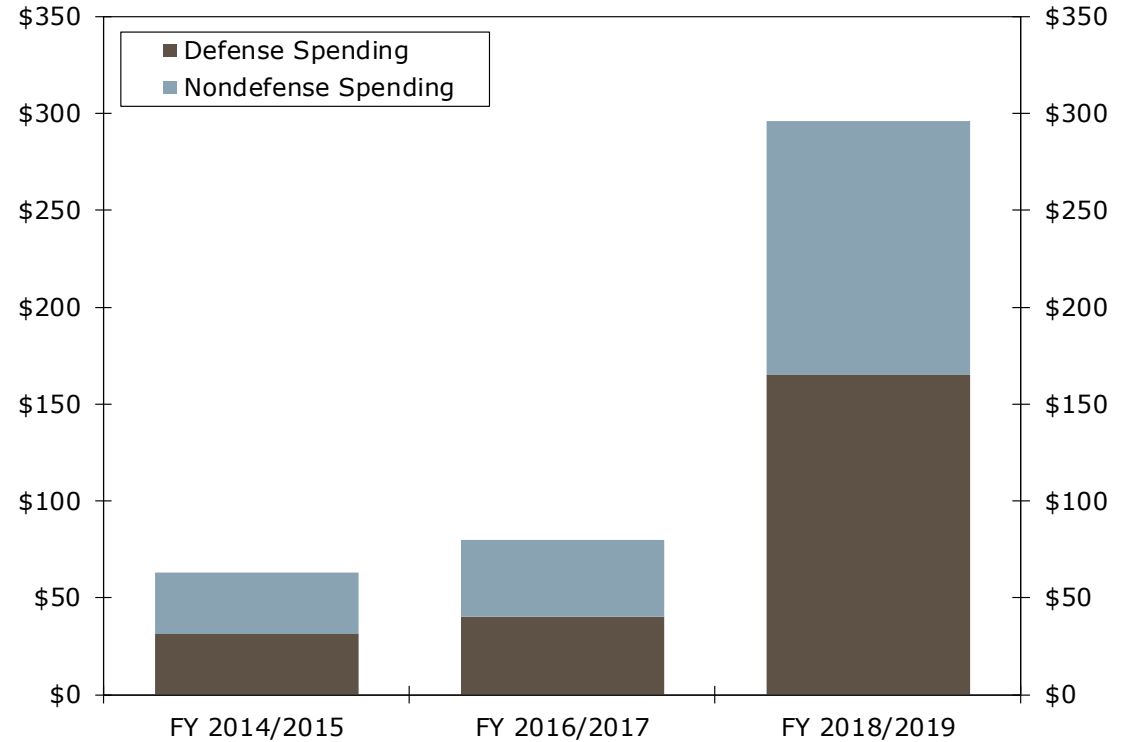


Source: Congressional Budget Office and Wells Fargo Securities

The budget deal reached last February provides additional fiscal stimulus to the U.S. economy

Increase in BCA Budget Caps

Billions of USD



Source: Congressional Budget Office and Wells Fargo Securities

Key Tax Law Changes

Individual Tax Code Changes

- Bill slashes marginal tax rates across the board
- Limits state & local income and property tax deductions to \$10,000
- Pass-throughs would be allowed to deduct up to 20 percent of income
- Doubles the standard deduction and the child tax credit
- Caps mortgage interest deduction at \$750K
- Doubles the estate tax exemption
- Keeps the Alternative Minimum Tax (AMT) but lifts the threshold to \$500K
- Maintains several deductions including medical expenses, student loans and private activity bonds (PABs)
- Repeals Obamacare individual mandate
- Individual cuts expire on December 31, 2025

Business Tax Code Changes

- Permanently reduces the corporate tax rate to 21% from the current 35% federal rate starting in 2018
- Corporate AMT repealed
- Business interest expense deductions are capped at 30 percent of EBITDA for 4 years and 30 percent of EBIT thereafter
- The bill allows for full and immediate expensing of business capital investments. This provision expires in five years.
- Ends the current worldwide corporate tax system by switching to a territorial system. Existing profits held abroad are taxed at 15.5 percent for cash and cash equivalents and 8 percent for reinvested foreign earnings.

Home sales slowed in 2018. New home sales held up better, but existing homes have been impacted by rising low inventories, rising prices and higher mortgage rates

Existing & New Single-Family Home Sales

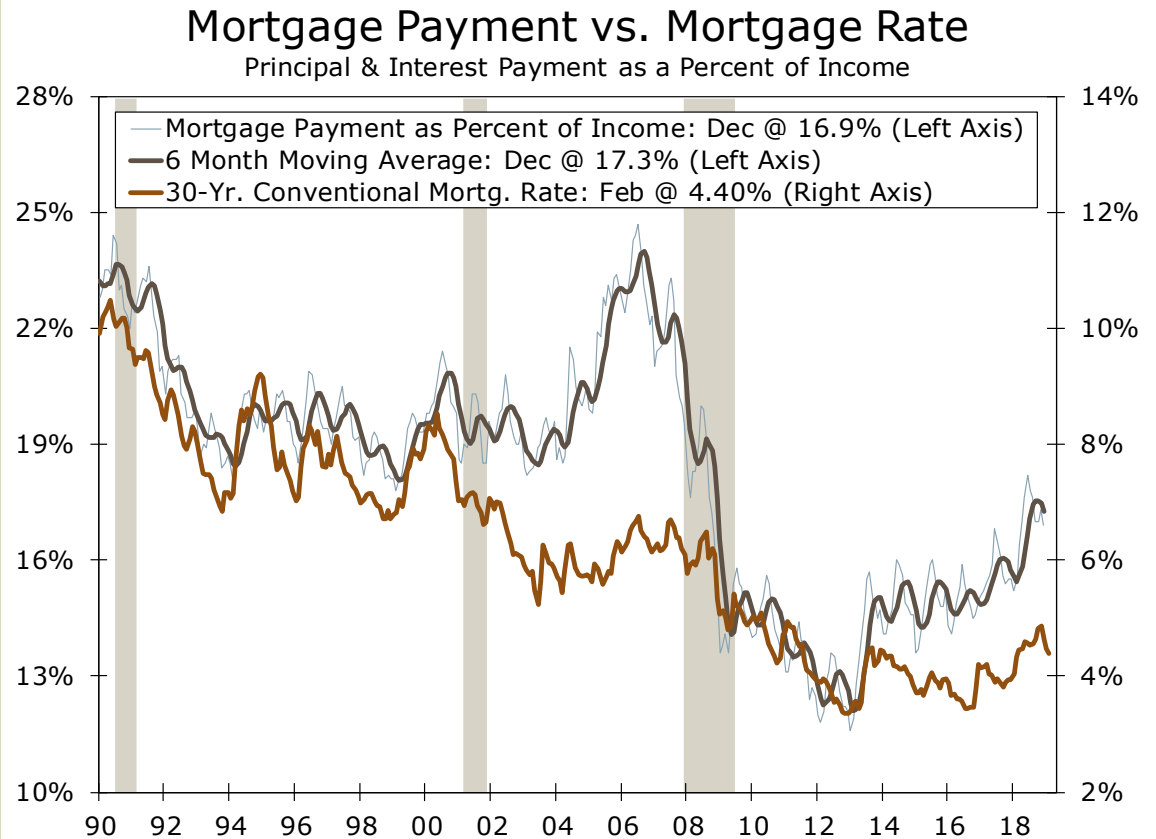
In Millions, Seasonally Adjusted Annual Rate



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

Mortgage Rates

Higher mortgage rates combined with rising prices have put a dent in overall affordability.

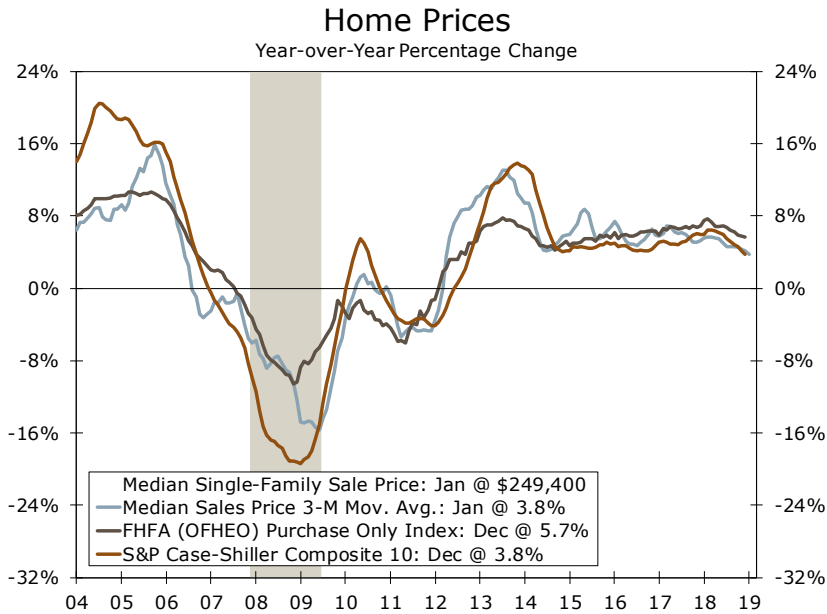


Source: Freddie Mac, U.S. Department of Commerce and Wells Fargo Securities

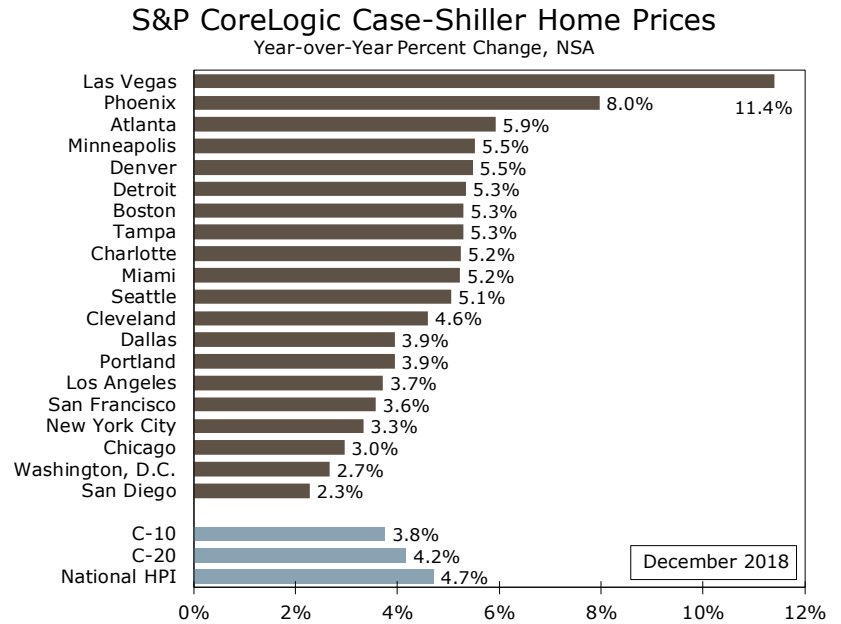
Home Prices

Prices have risen fastest in rapidly growing tech-driven markets, mostly in the West where shortages are most acute.

Median Home Value



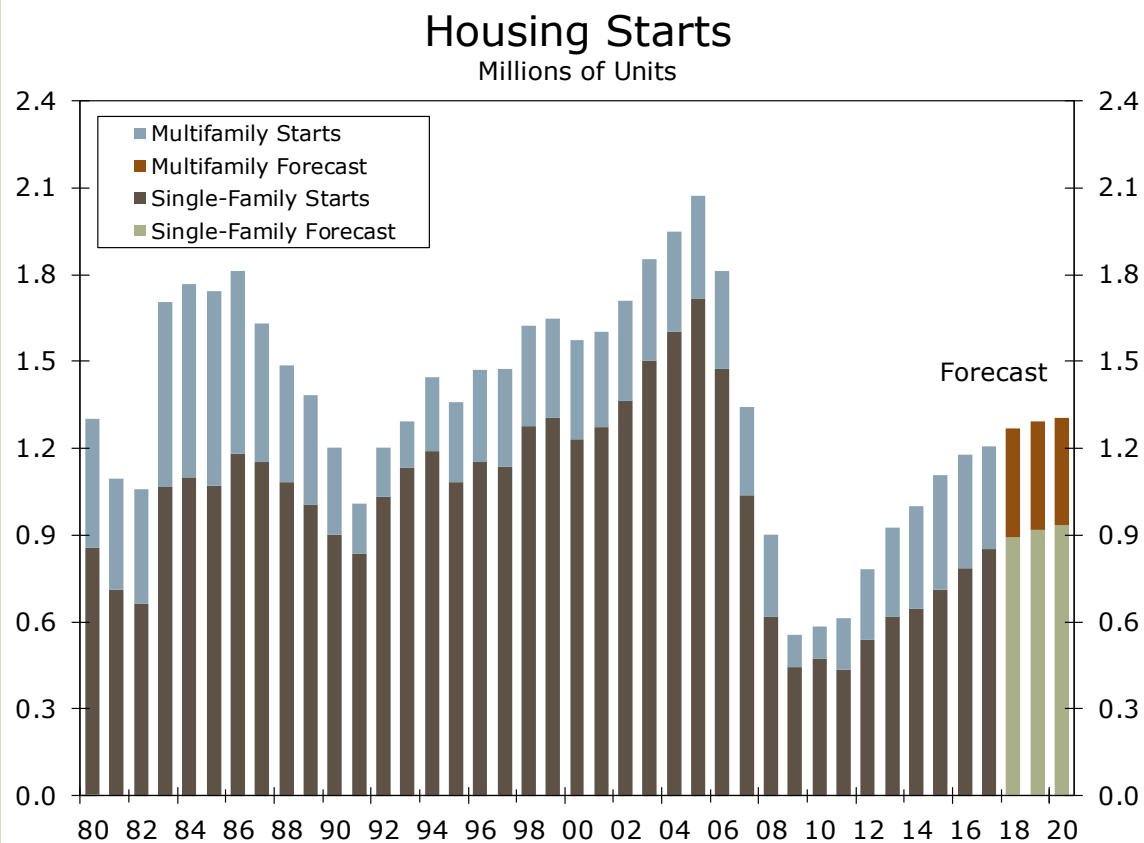
Regional Home Prices



Source: U.S. Department of Commerce, S&P Dow Jones Indices and Wells Fargo Securities

Although Steadily Rising, Single-Family Starts Have Lost Momentum

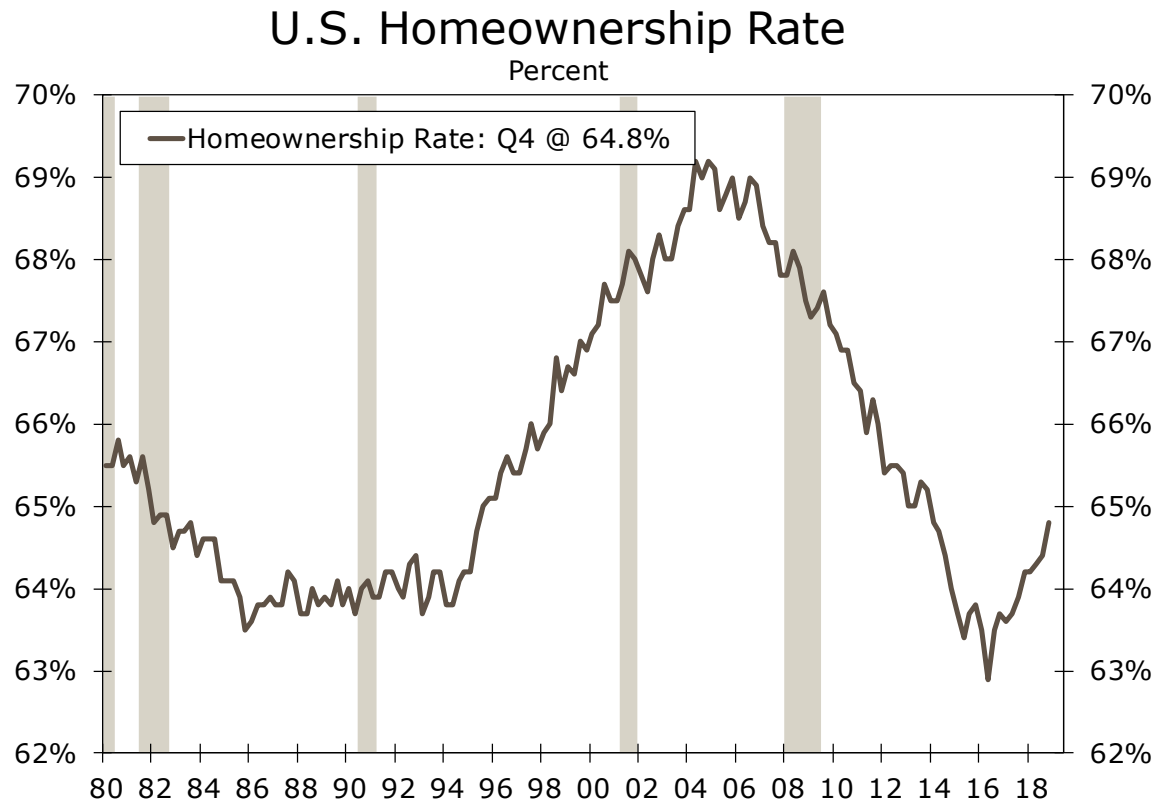
New apartment construction will remain elevated and the new single family starts will gradually trend higher.



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

Homeownership

Household formation has improved over the past few years but generally remains below prior decades. Still, the homeownership rate is reversing course.

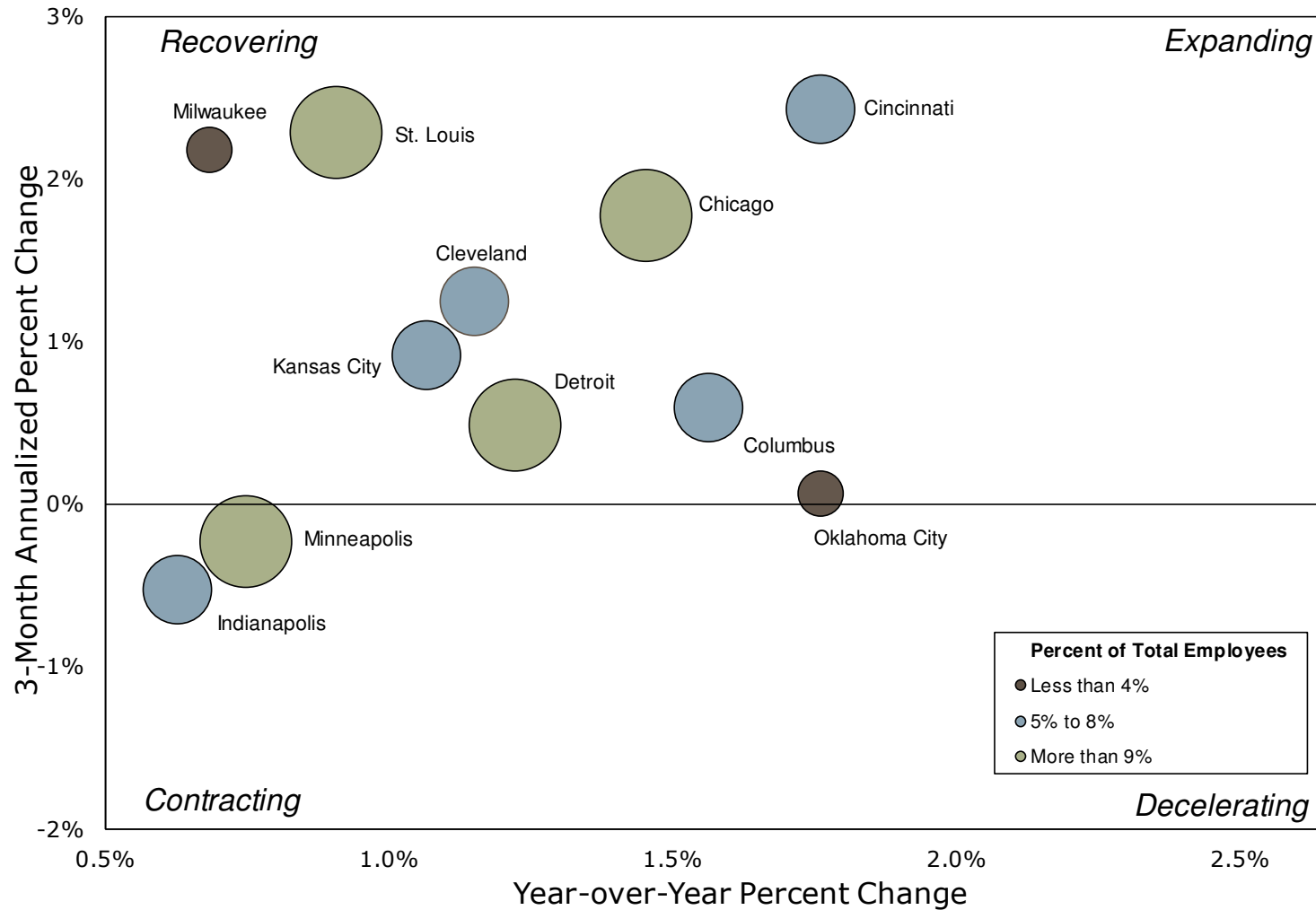


Source: U.S. Department of Commerce and Wells Fargo Securities

Regional Outlook

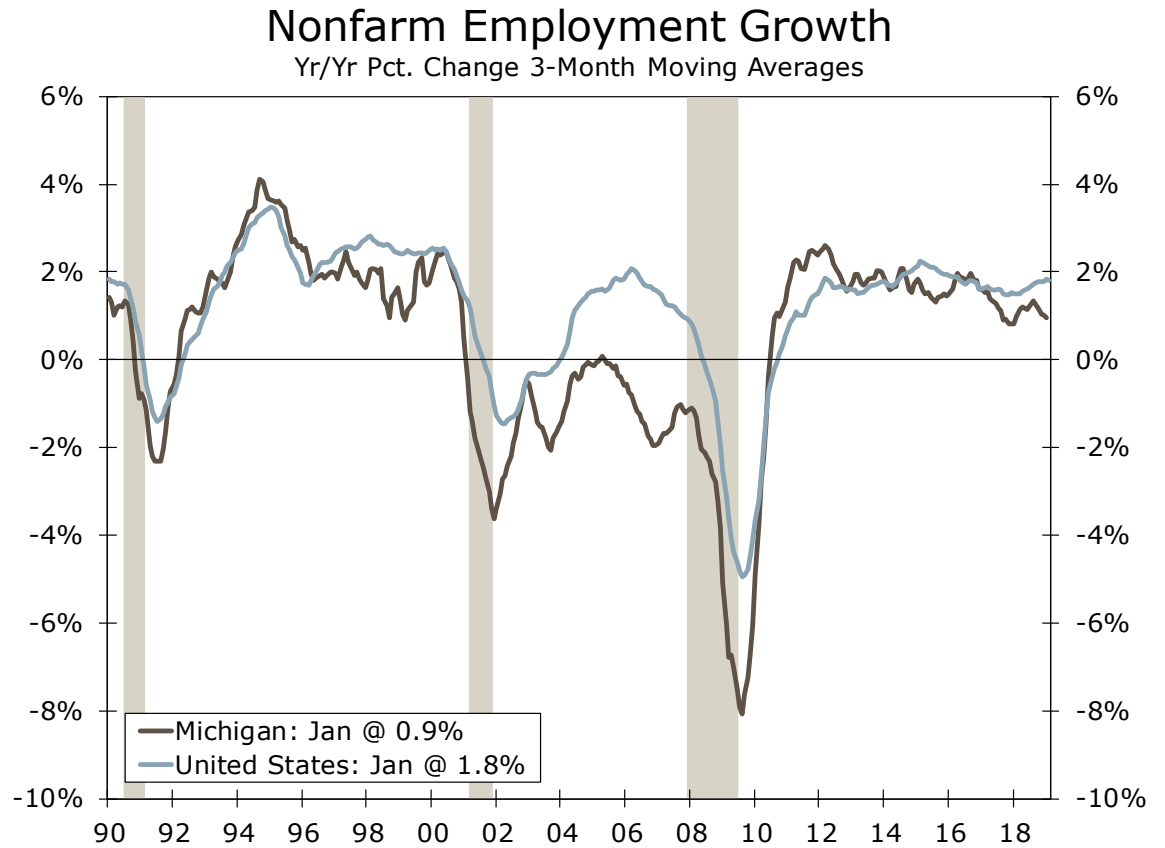
Midwest Employment by MSA

Midwest Employment Growth by Metro 3-Month Moving Averages, January 2019



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

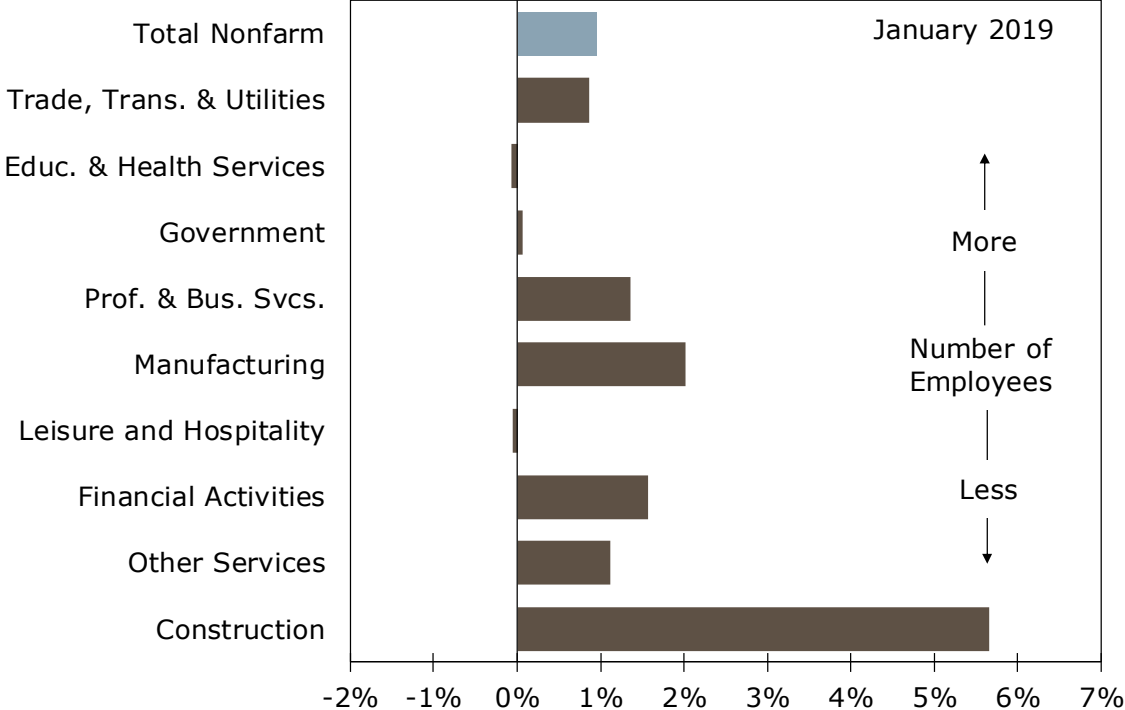
Statewide employment growth has moderated recently and is currently running slightly below the rest of the country.



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

Most industries are hiring, especially in the manufacturing and construction sectors.

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

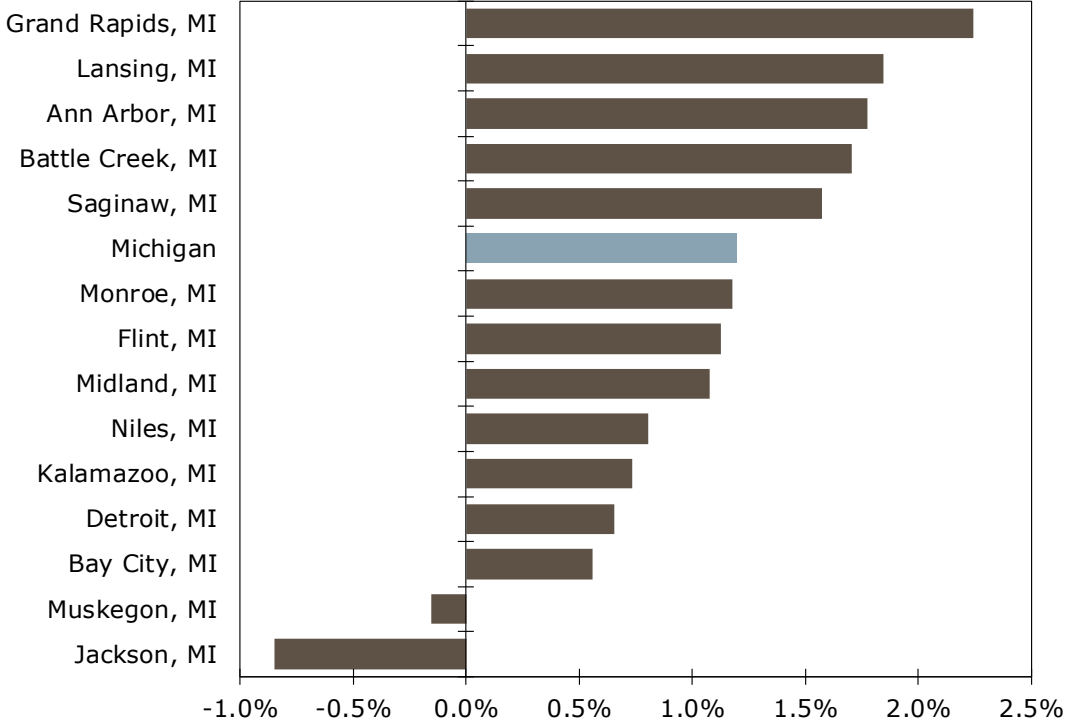


Source: U.S. Department of Commerce and Wells Fargo Securities

Grand Rapids grew faster than every other metro in Michigan in 2018.

Michigan Employment by MSA

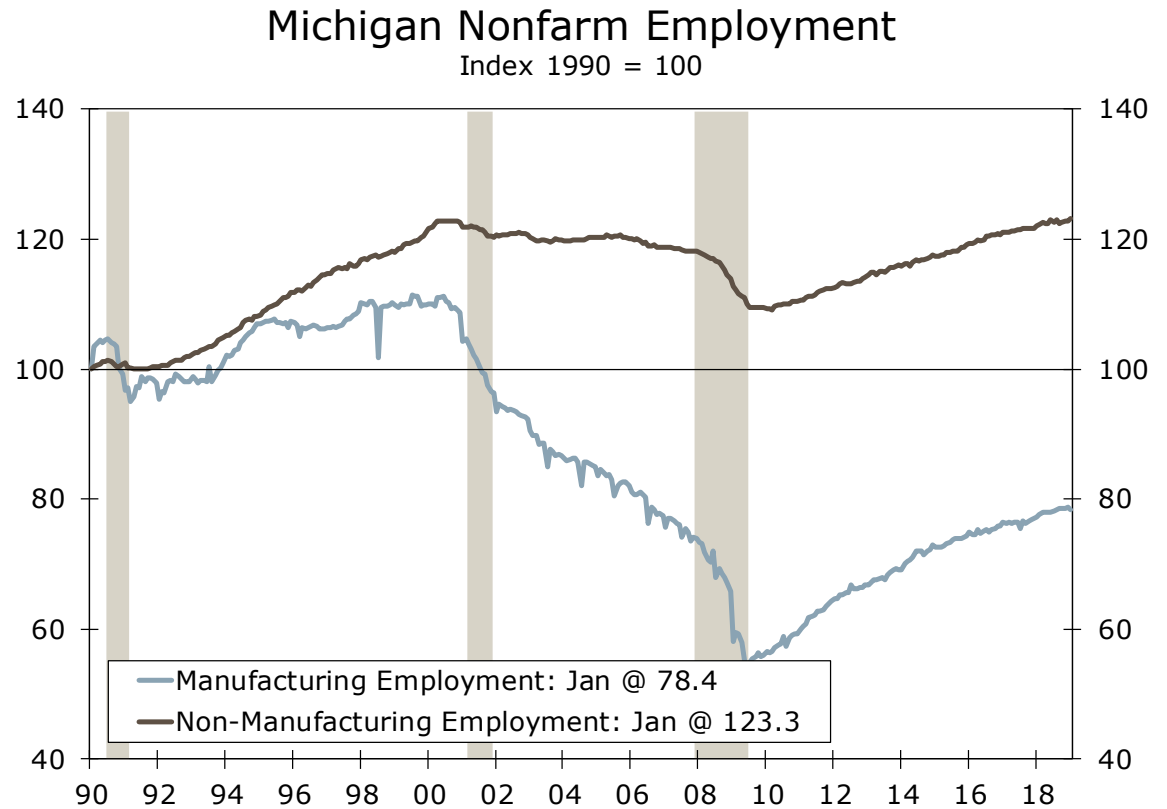
Year-over-Year Percent Change, December 2018



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

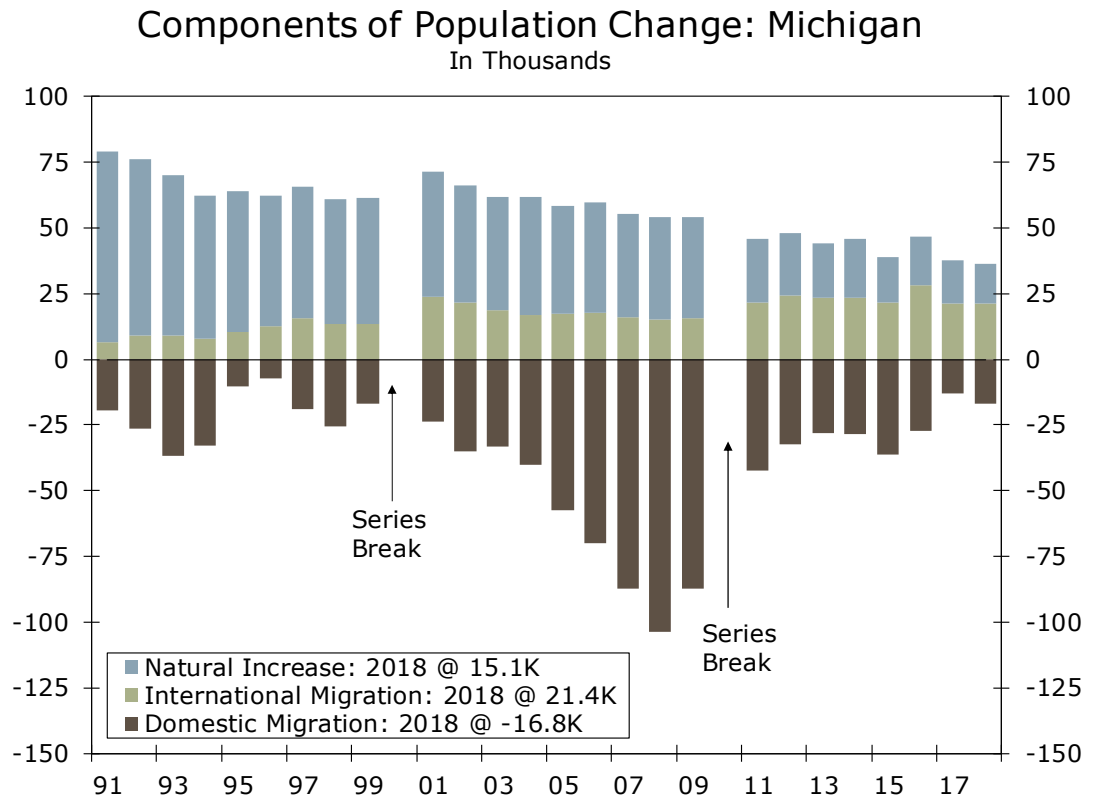
Michigan Economy-Manufacturing

Manufacturing employment continues to trend higher. Michigan still ranks as one of the nation's top manufacturing employers.



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

Population growth continues to slow, however fewer residents are leaving the state.



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

Appendix

U.S. Economic Forecast

Wells Fargo U.S. Economic Forecast																
	Actual				Forecast								Actual			Forecast
	2018				2019				2020				2016	2017	2018	2019
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.2	4.2	3.4	2.6	1.3	2.7	2.3	2.5	2.3	2.1	1.8	1.9	1.6	2.2	2.9	2.4
Personal Consumption	0.5	3.8	3.5	2.8	1.7	2.6	2.4	2.5	2.2	2.0	2.0	2.0	2.7	2.5	2.6	2.6
Business Fixed Investment	11.5	8.7	2.5	6.2	3.9	3.6	4.2	4.0	3.7	3.6	2.9	2.8	0.5	5.3	7.0	4.4
Equipment	8.5	4.6	3.4	6.7	1.4	2.3	3.7	3.1	2.7	2.6	2.1	2.0	-1.5	6.1	7.5	3.4
Intellectual Property Products	14.1	10.5	5.6	13.1	7.4	5.3	4.7	4.6	4.7	4.6	3.7	3.6	7.5	4.6	7.7	7.5
Structures	13.9	14.5	-3.4	-4.2	2.5	3.5	4.5	5.0	4.5	4.0	3.5	3.5	-5.0	4.6	5.0	1.7
Residential Construction	-3.4	-1.3	-3.6	-3.5	-3.6	2.6	2.0	1.5	1.5	1.5	1.0	1.0	6.5	3.3	-0.2	-1.3
Government Purchases	1.5	2.5	2.6	0.4	1.4	4.2	1.5	1.2	0.8	0.7	0.3	0.1	1.4	-0.1	1.5	2.0
Net Exports ²	0.0	1.2	-2.0	-0.2	-0.5	-0.1	-0.1	-0.1	0.1	0.0	-0.1	0.0	-0.4	-0.4	-0.3	-0.4
Inventories ²	0.3	-1.2	2.3	0.1	0.1	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	-0.6	0.0	0.1	0.2
Nominal GDP ¹	4.3	7.6	4.9	4.6	2.1	5.3	4.7	4.7	4.6	4.4	3.7	3.8	2.7	4.2	5.2	4.3
Corporate Profits Before Taxes ³	5.9	7.3	10.4	6.7	3.9	6.6	6.7	5.1	3.5	1.0	-2.6	-1.0	-1.1	3.2	7.6	5.6

Forecast as of: March 13, 2019

¹ Compound Annual Growth Rate Quarter-over-Quarter ² Percentage Point Contribution to GDP ³ Year-over-Year Percentage Change

Source: IHS Global Insight and Wells Fargo Securities

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