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Economic Outlook

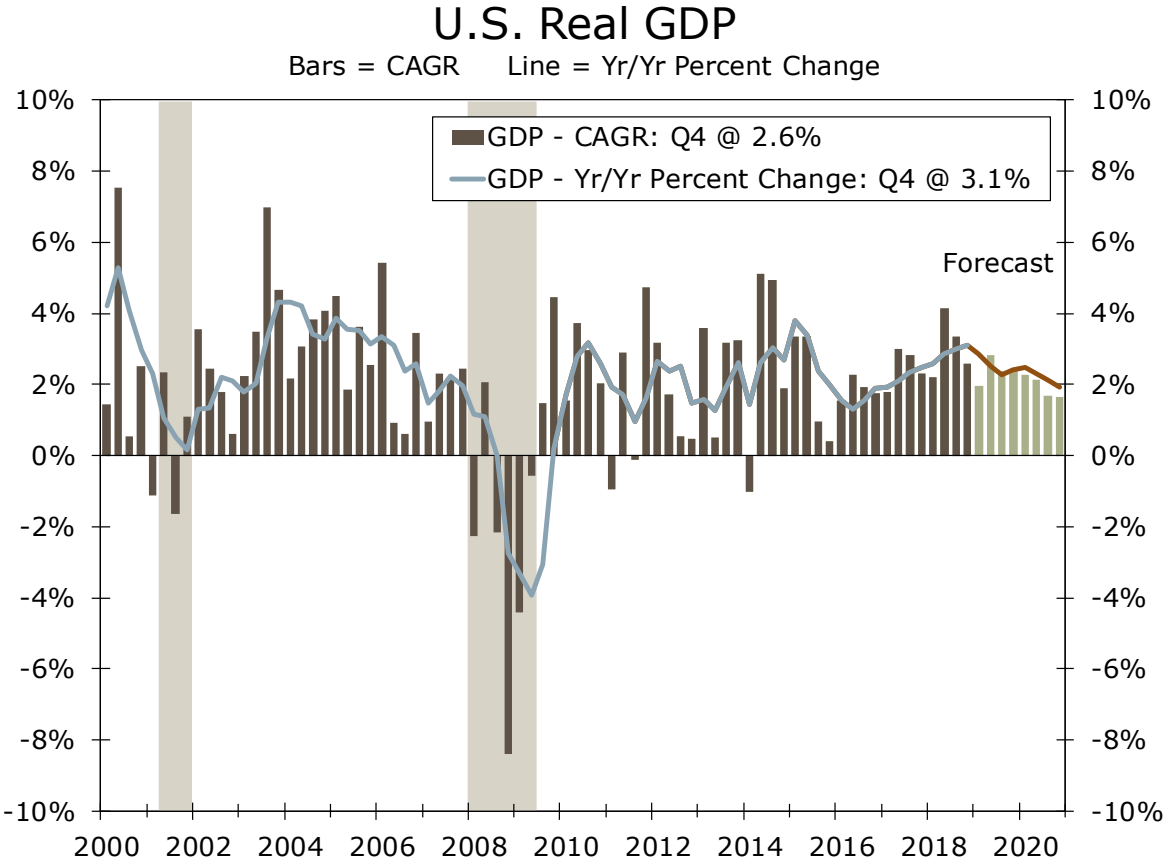
Charlie Dougherty, Vice President & Economist

March 13, 2019

Together we'll go far



Real GDP growth has upshifted recently and ended the year at nearly a 3.0% pace. Growth will likely moderate in 2019, yet remain solid.

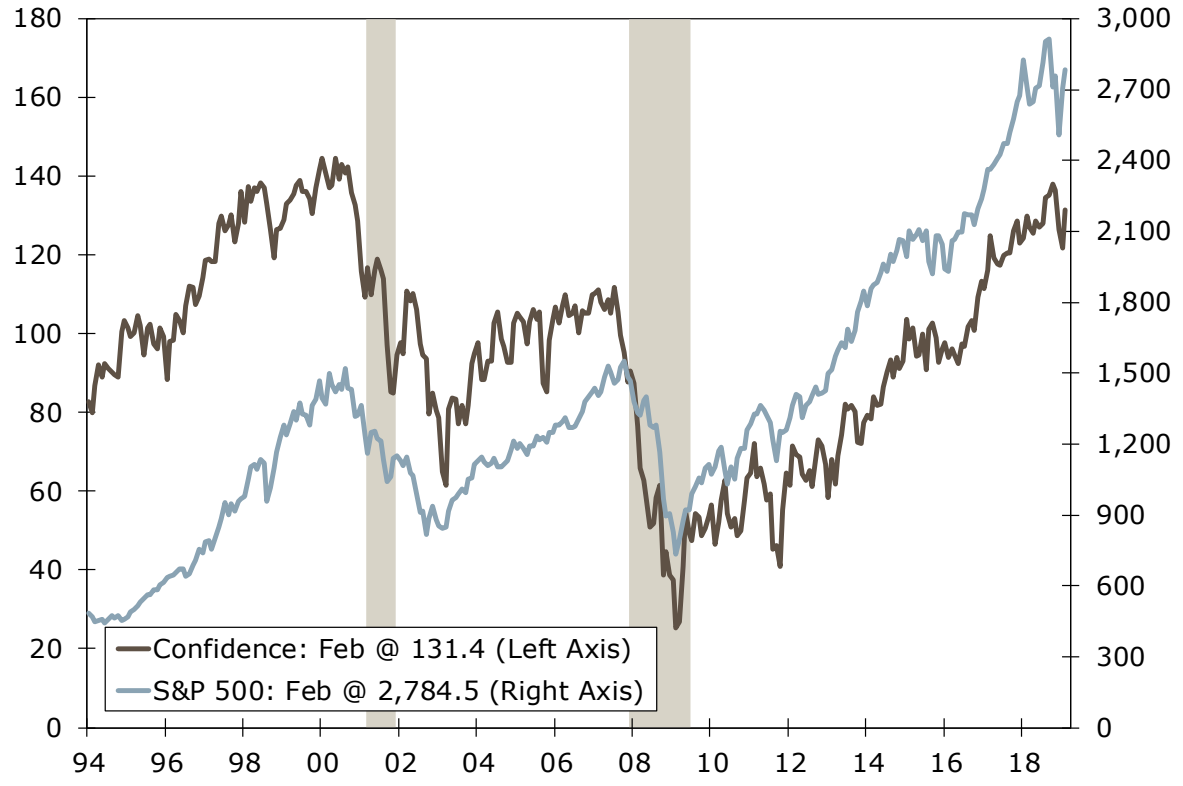


Source: U.S. Department of Commerce and Wells Fargo Securities

Stock market volatility has led to waning consumer confidence.

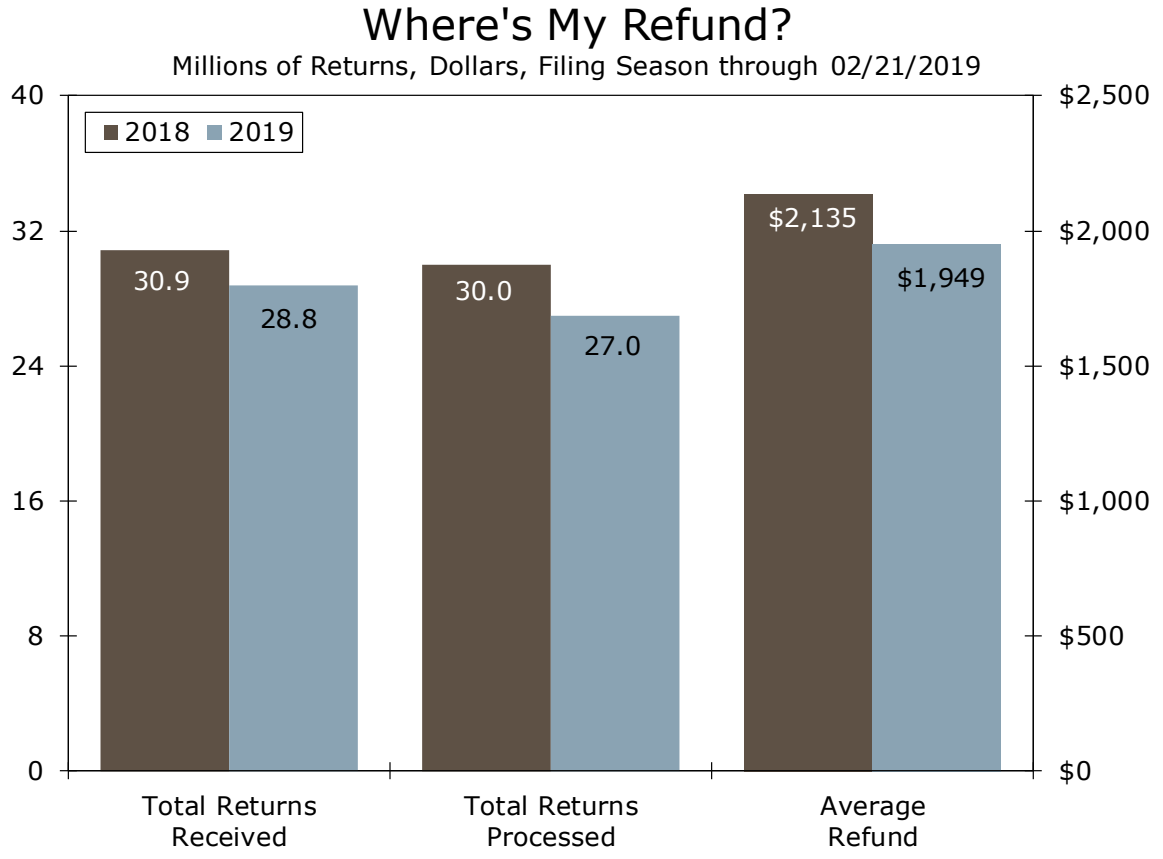
Consumer Confidence Index and S&P 500

Conference Board



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

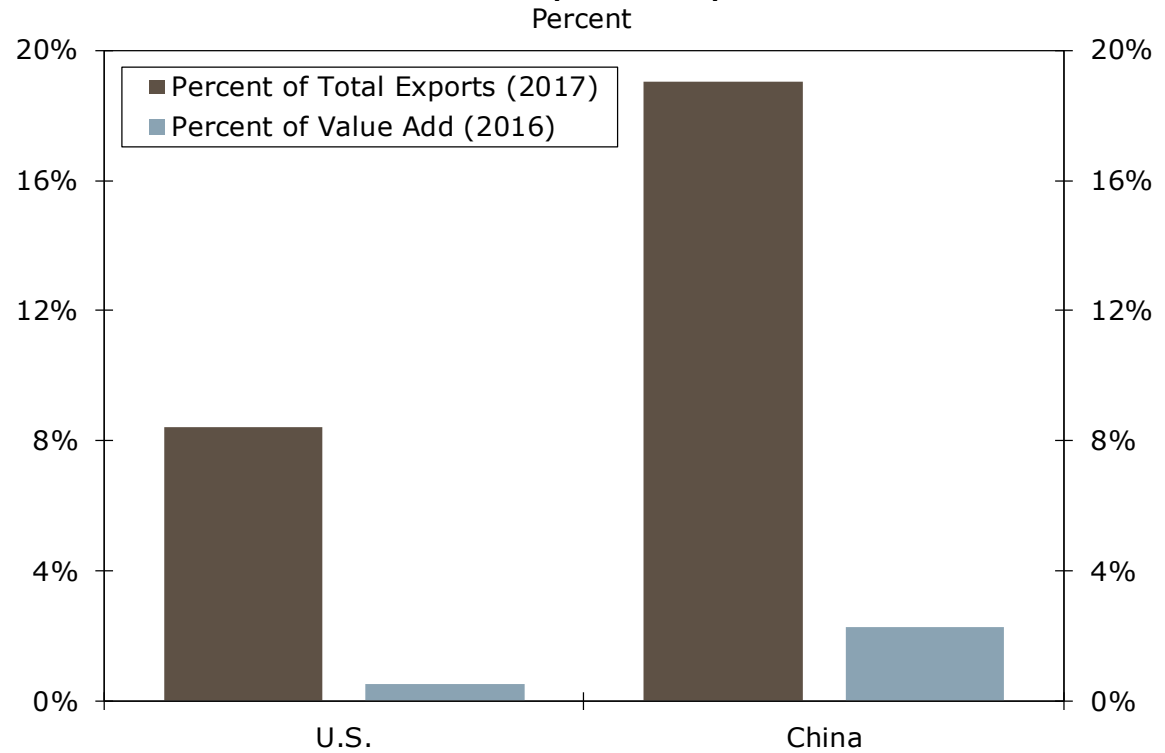
The government shutdown will not have a huge direct economic impact, however may delay tax refunds which could weigh on consumer spending.



Source: Congressional Budget Office and Wells Fargo Securities

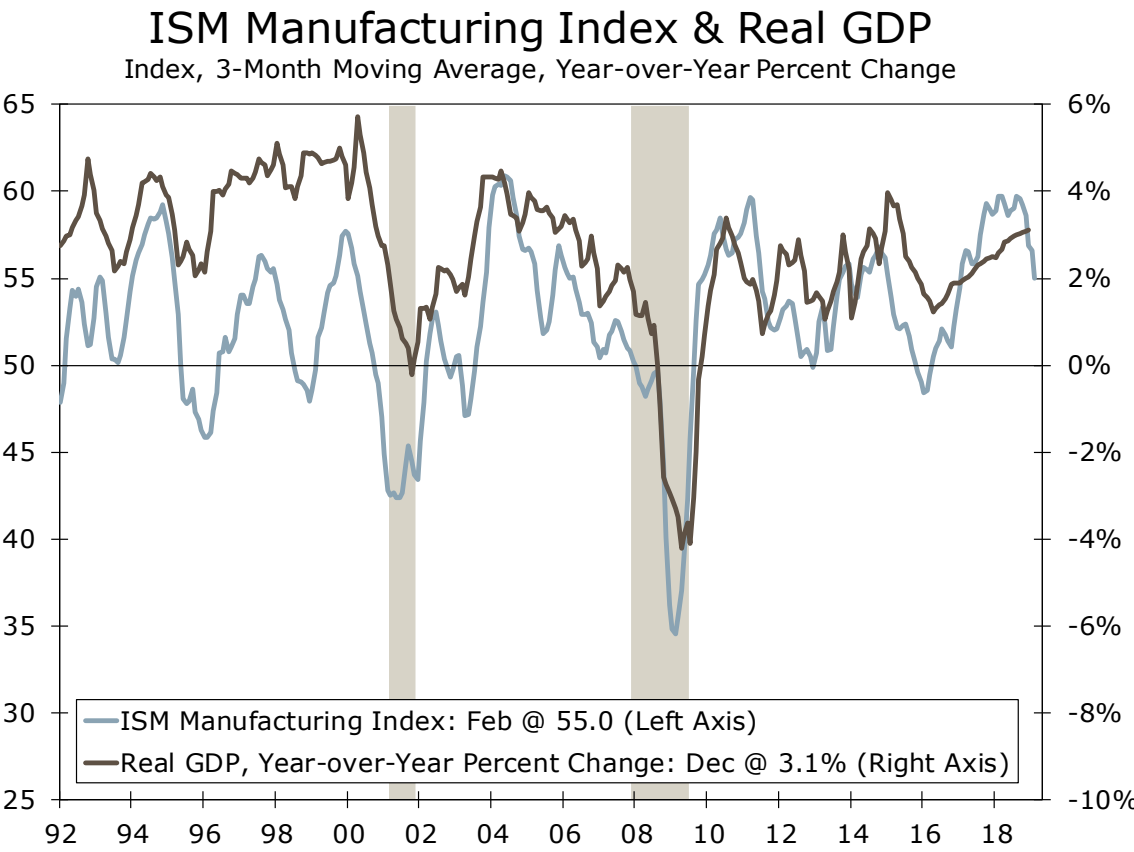
China appears to have more to lose if a full-blown trade war were to develop, but such an event would not be costless for the United States.

Bilateral Export Exposure



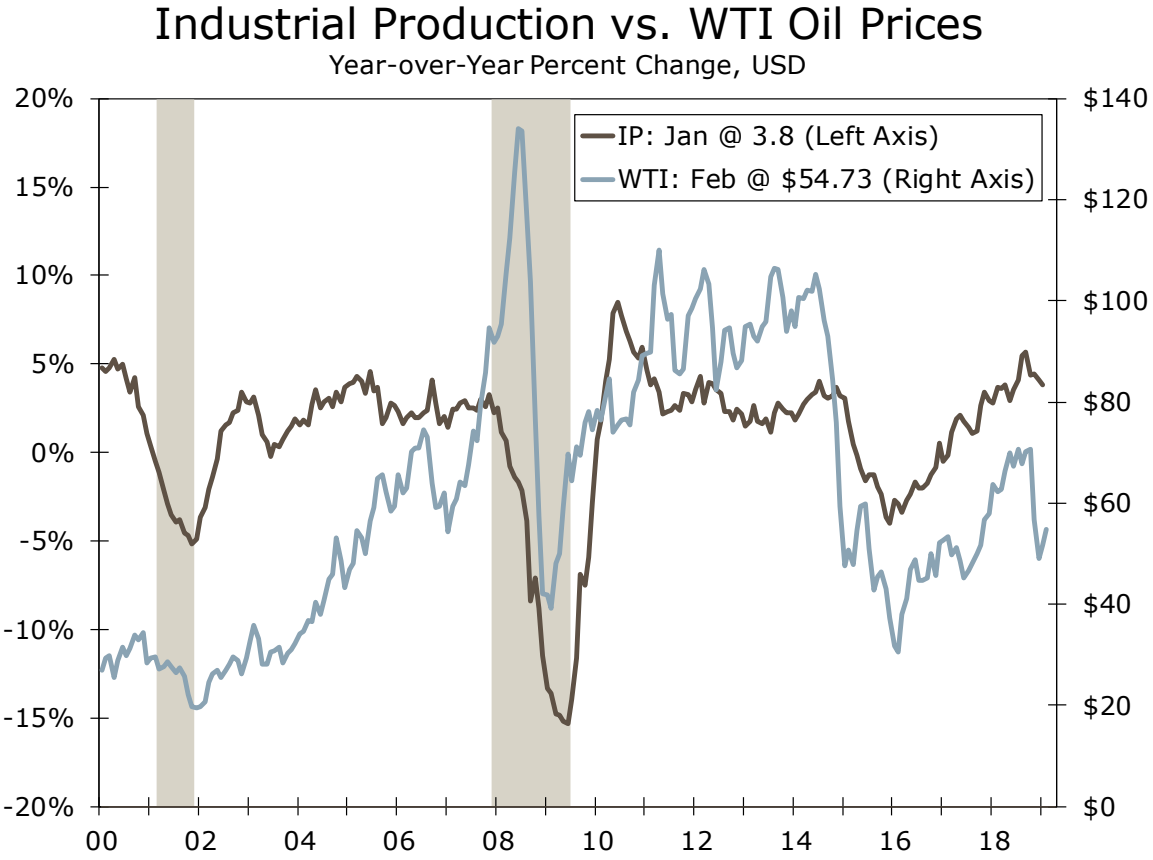
Source: International Monetary Fund, OECD, United Nations, U.S. Department of Commerce and Wells Fargo Securities

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



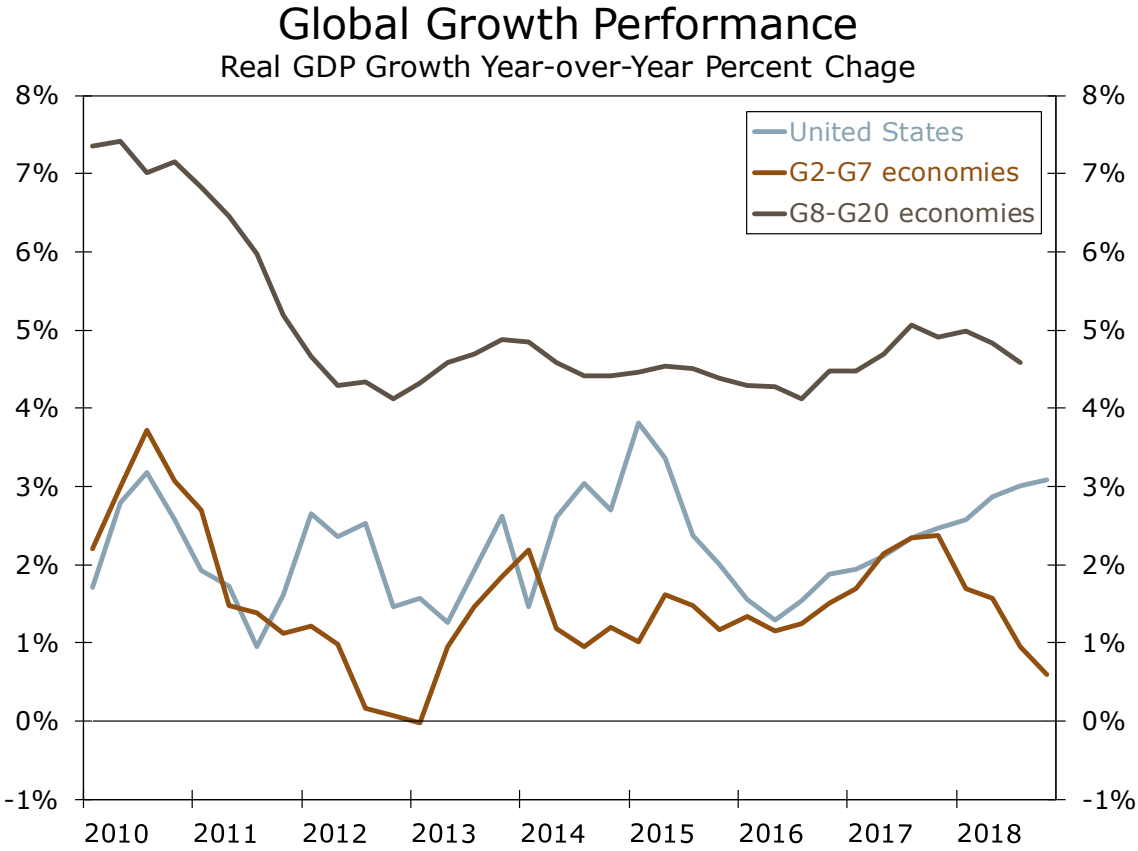
Source: Institute for Supply Management and Wells Fargo Securities

The recent drop in oil prices may be good for consumers, but is concerning for new energy-related investment.



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

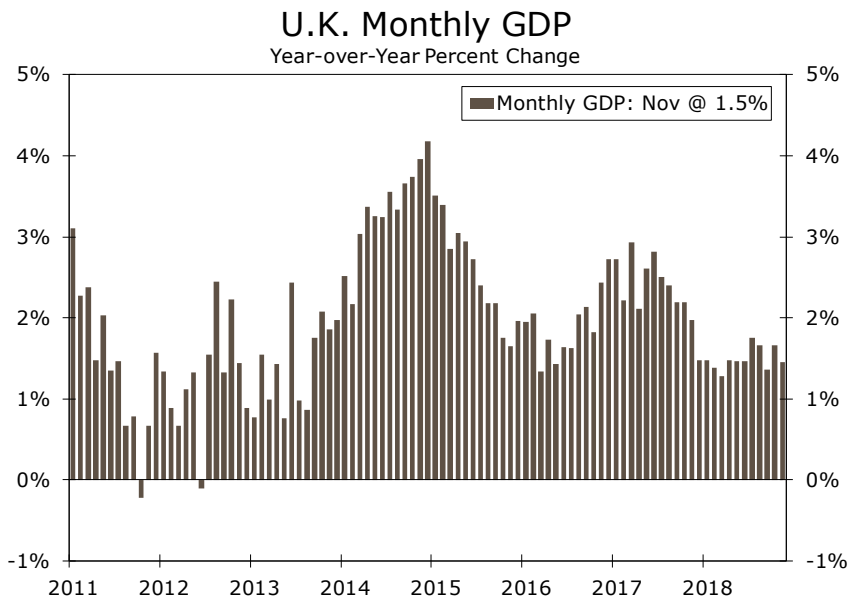
Global economic growth has been generally strong, but is slowing outside of the U.S., particularly in other developed economies



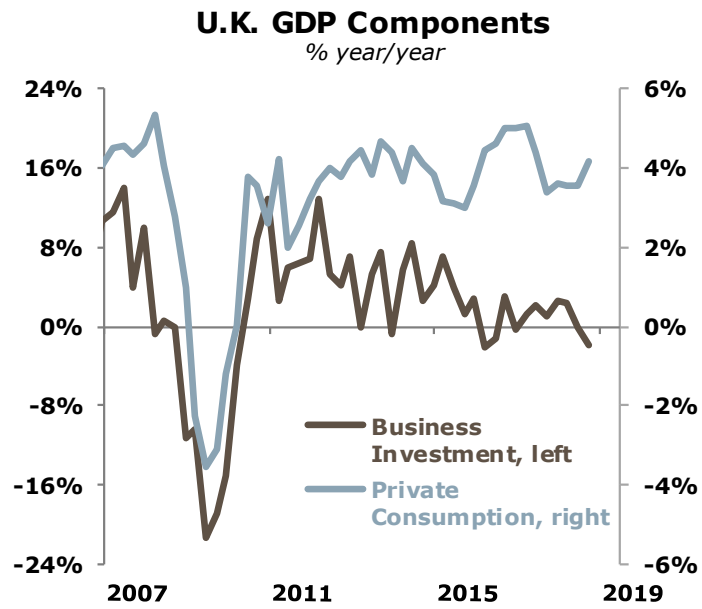
Source: OECD and Wells Fargo Securities

Brexit-uncertainty has caused a slowdown in investment and will limit overall economic growth. No clear path forward is apparent and a “no deal/crash-out” scenario looms large.

Economic Growth Restrained by Uncertainty



Business Investment Has Clearly Slowed

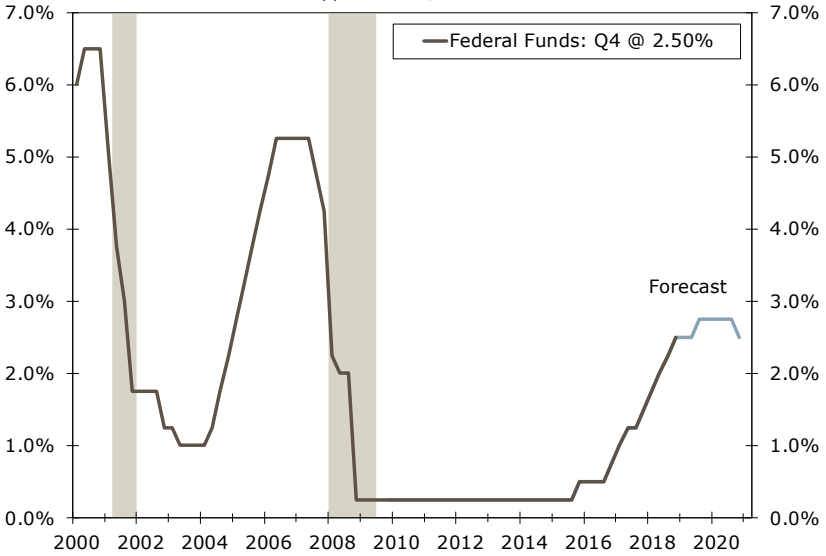


Source: IHS Markit and Wells Fargo Securities

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

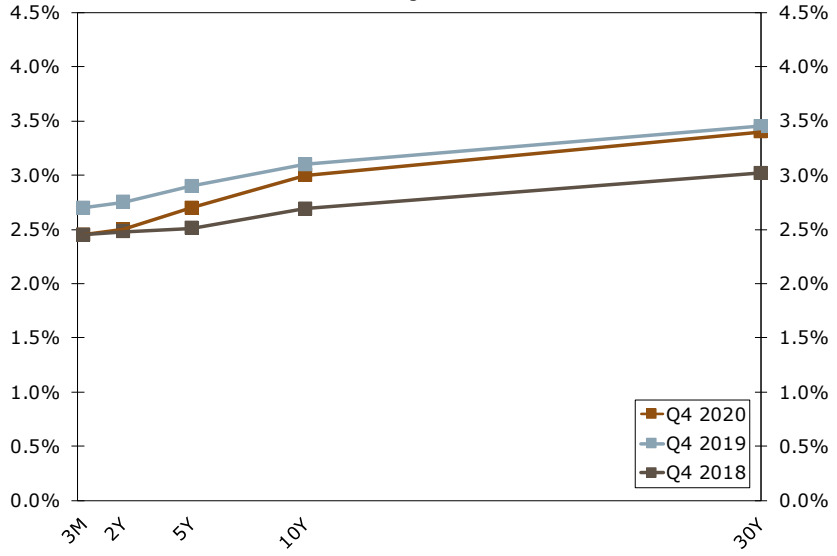
Monetary Policy

Federal Funds Target Rate
Upper Bound, Percent



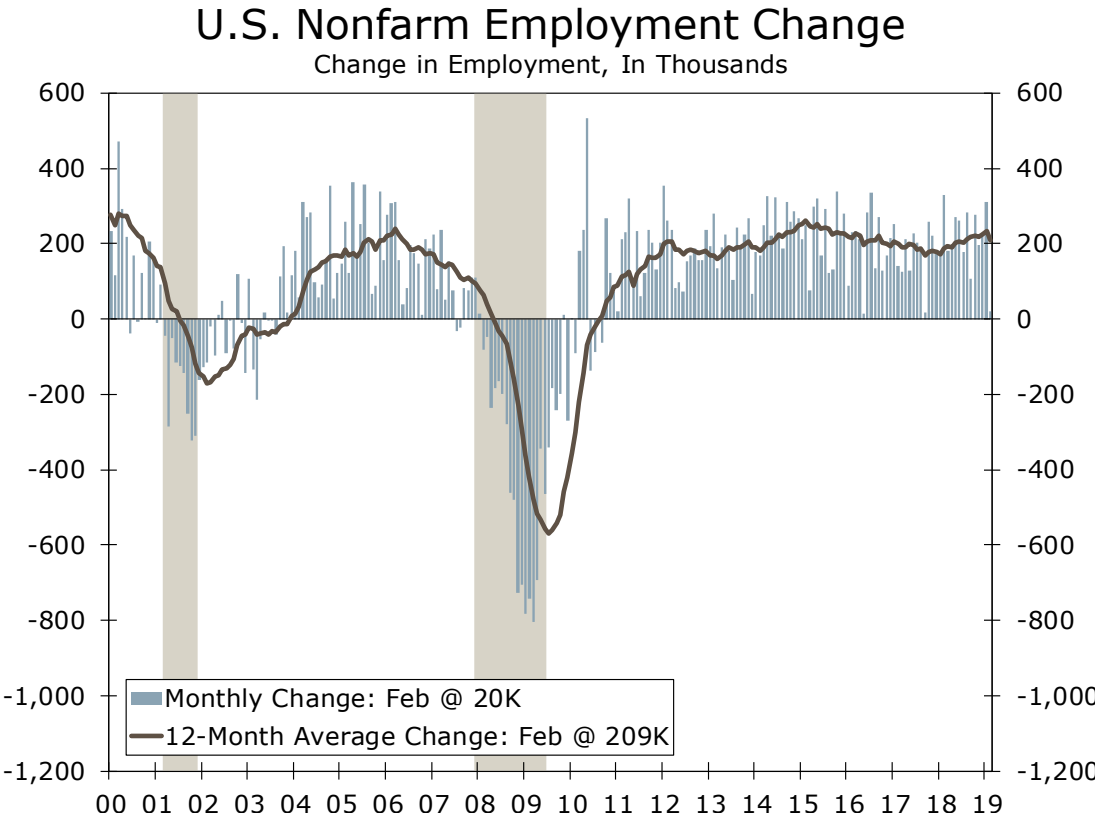
Interest Rates

Wells Fargo Rates Forecast
Through 2020



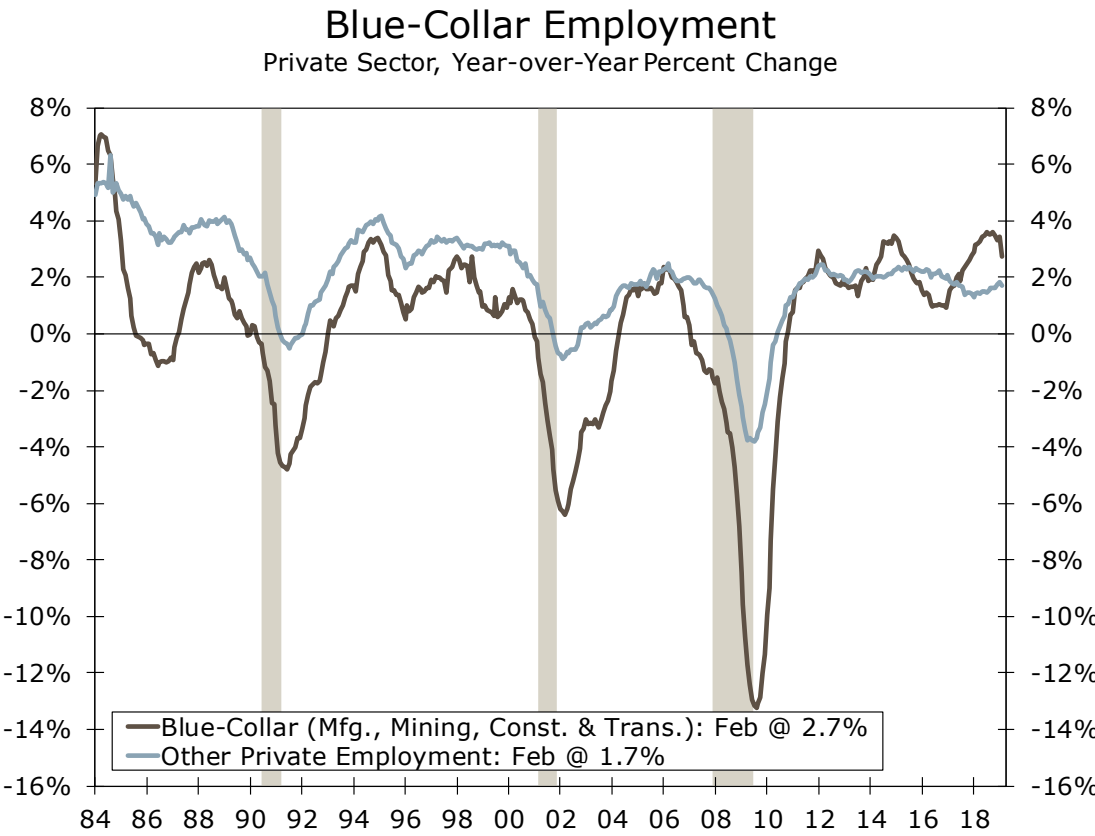
Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Securities

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



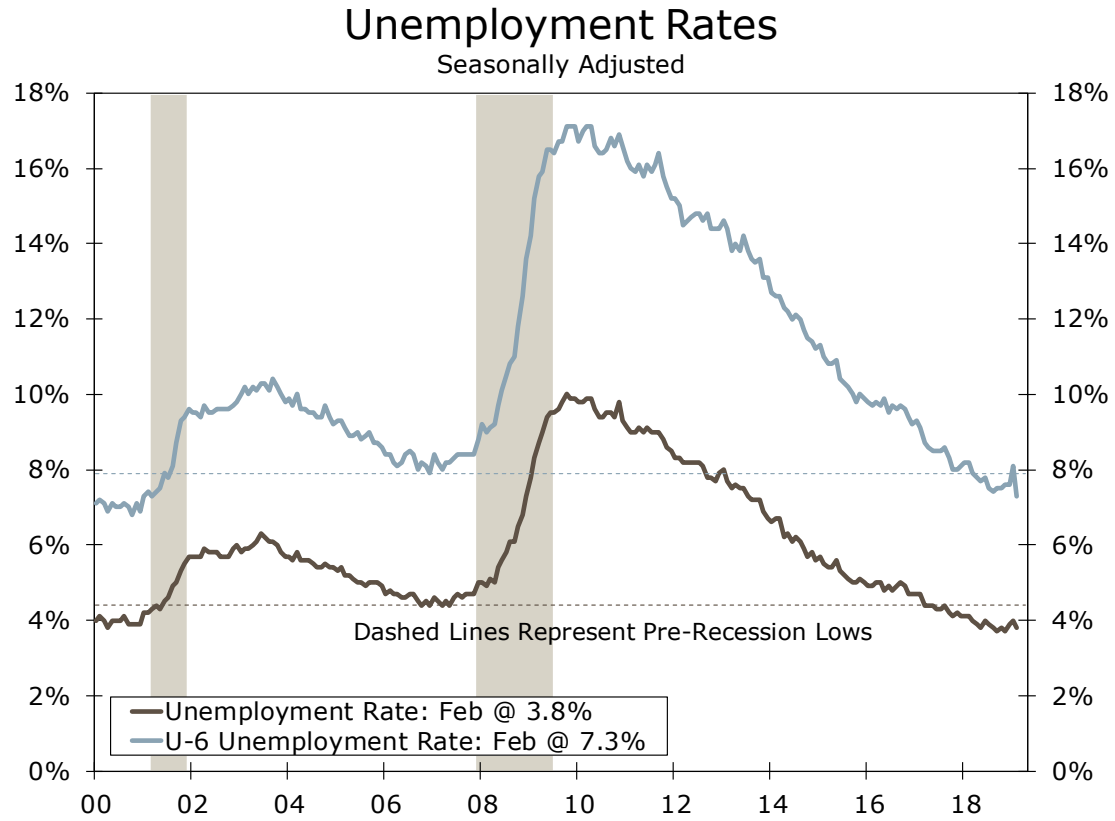
Source: U.S. Department of Labor and Wells Fargo Securities

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



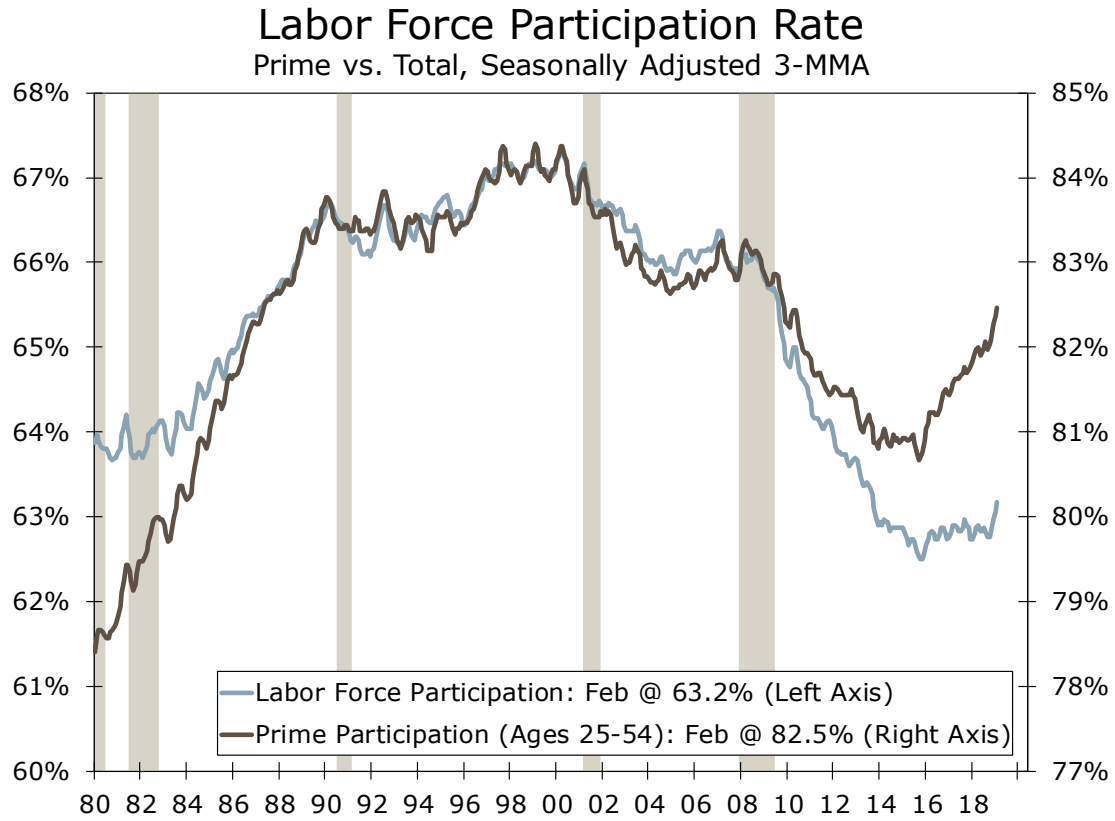
Source: U.S. Department of Labor and Wells Fargo Securities

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



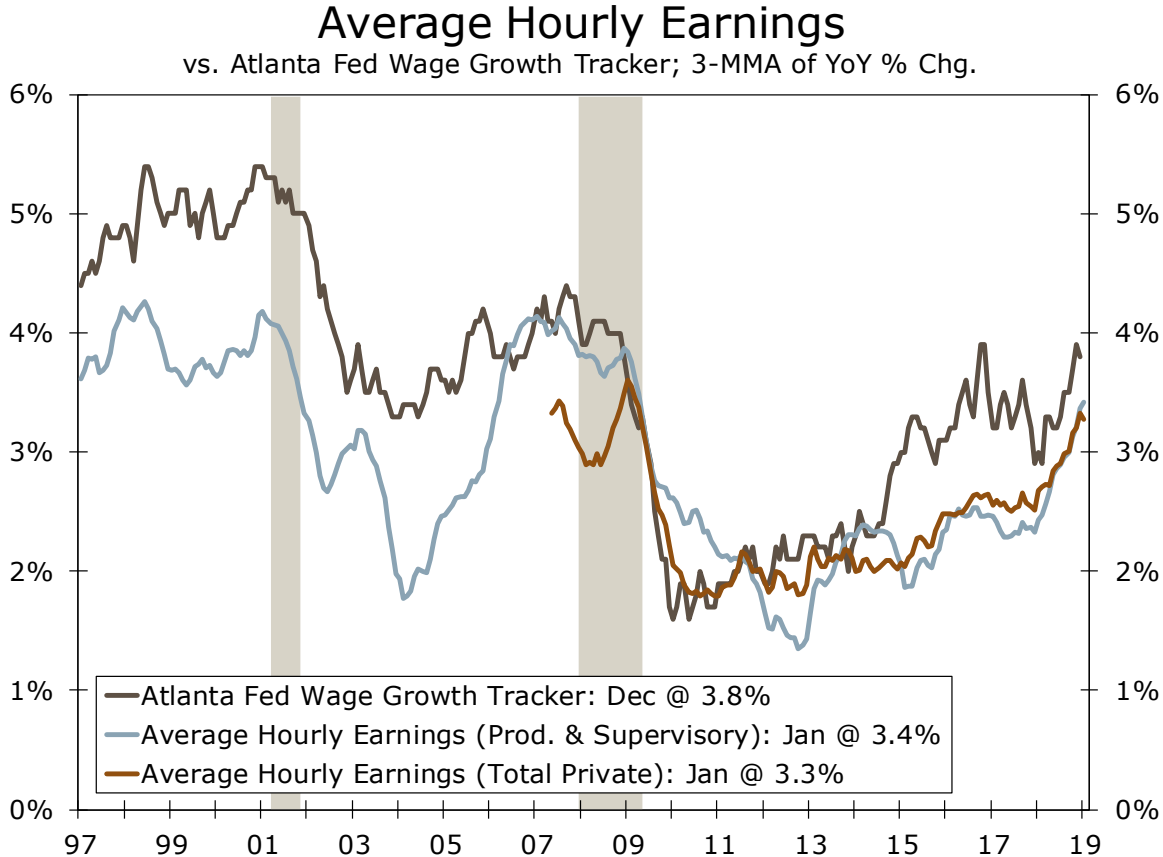
Source: U.S. Department of Labor and Wells Fargo Securities

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



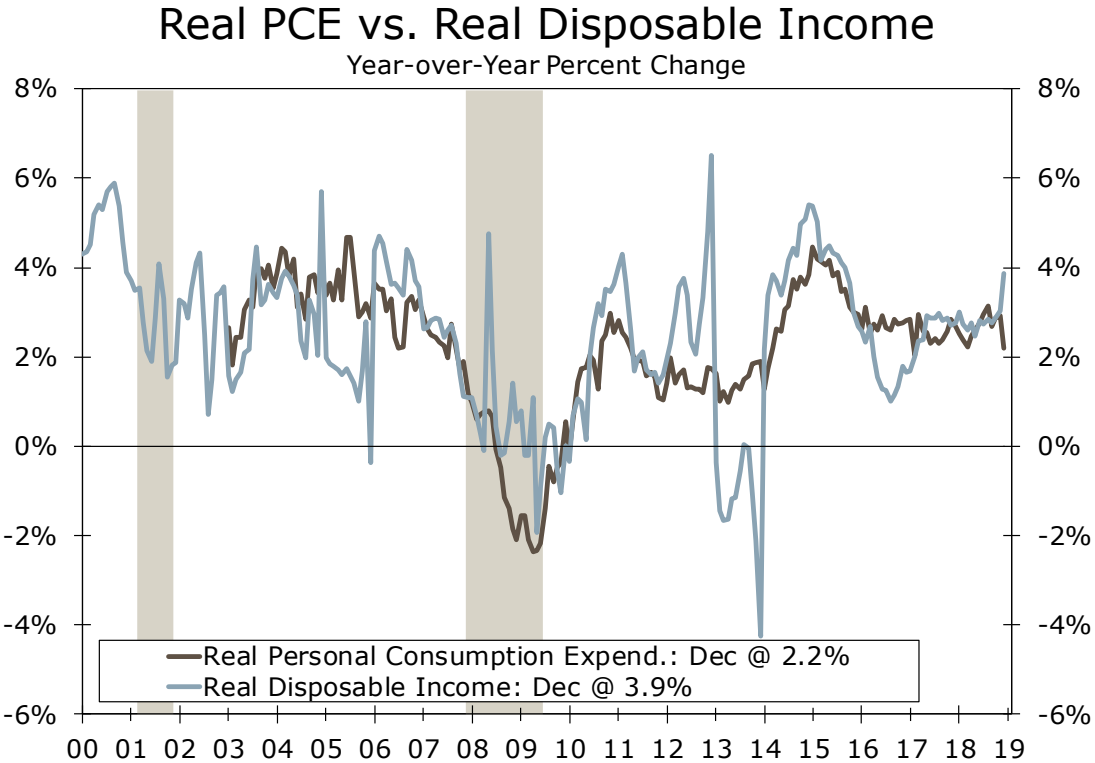
Source: U.S. Department of Labor and Wells Fargo Securities

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



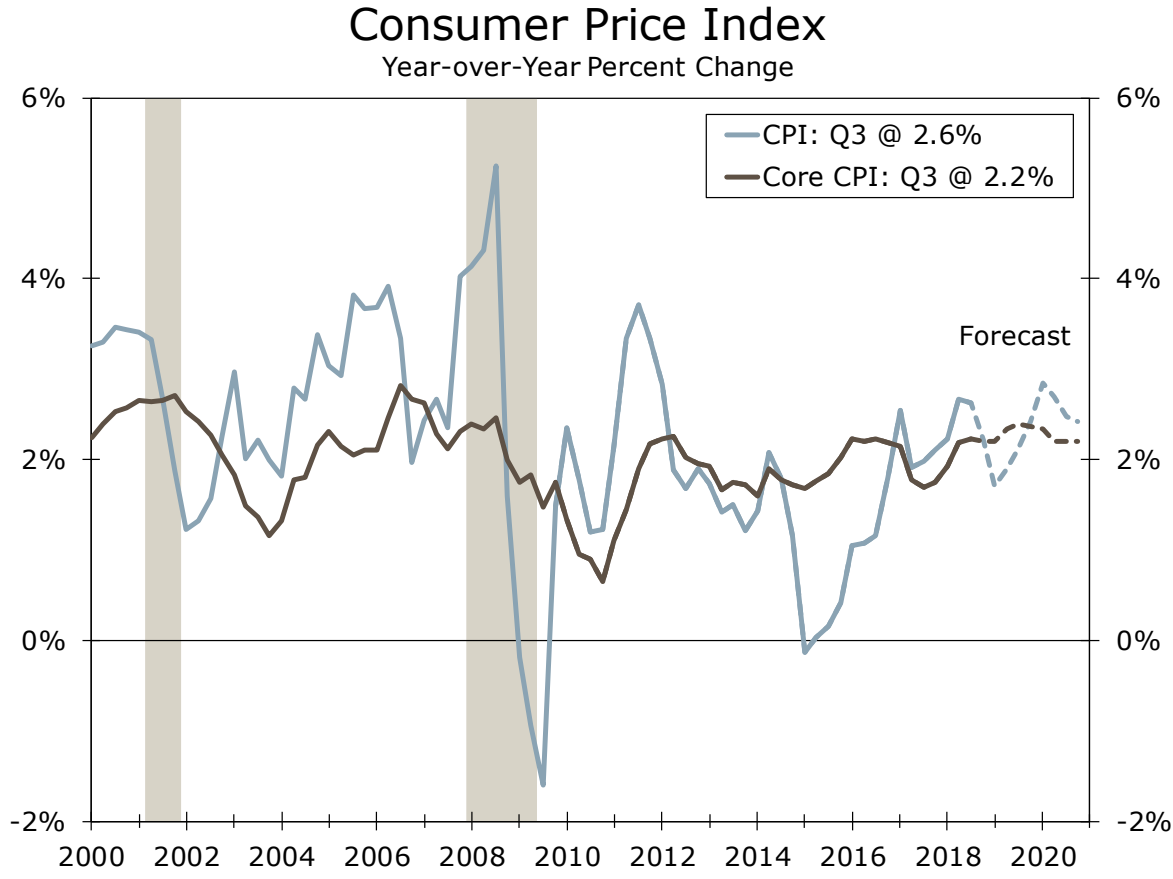
Source: U.S. Department of Labor, Federal Reserve Bank of Atlanta and Wells Fargo Securities

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

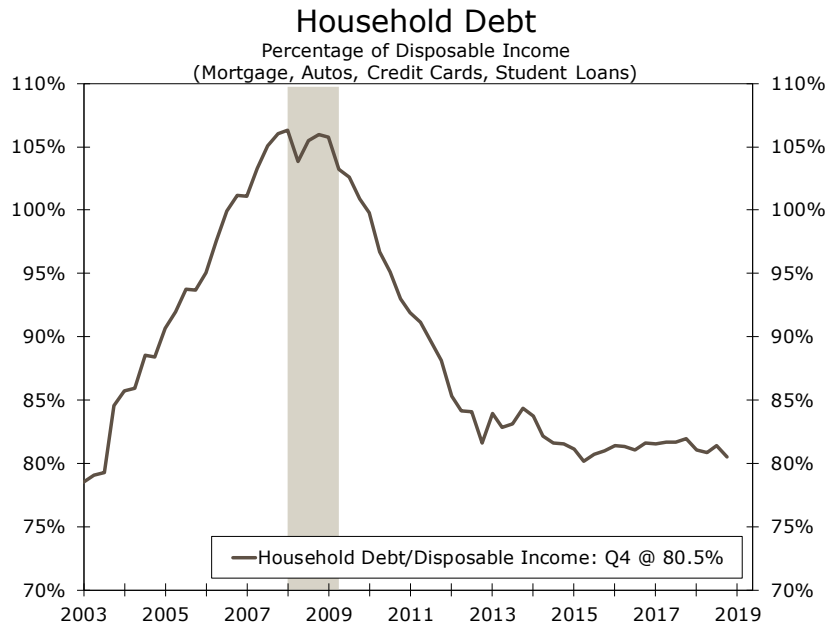
Inflationary pressures will likely ease on lower oil prices. Core measures, however, continue to firm around the Fed's target of 2.0%.



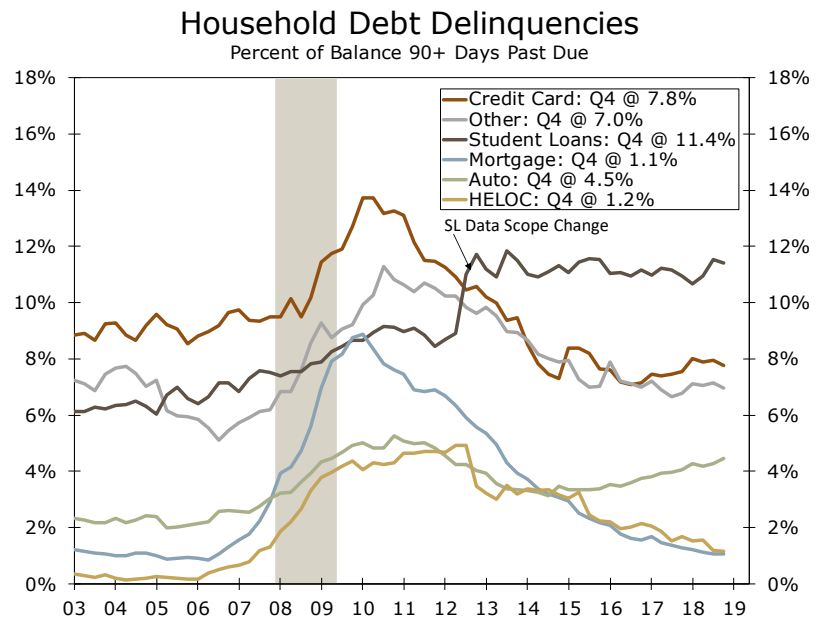
Source: U.S. Department of Commerce and Wells Fargo Securities

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

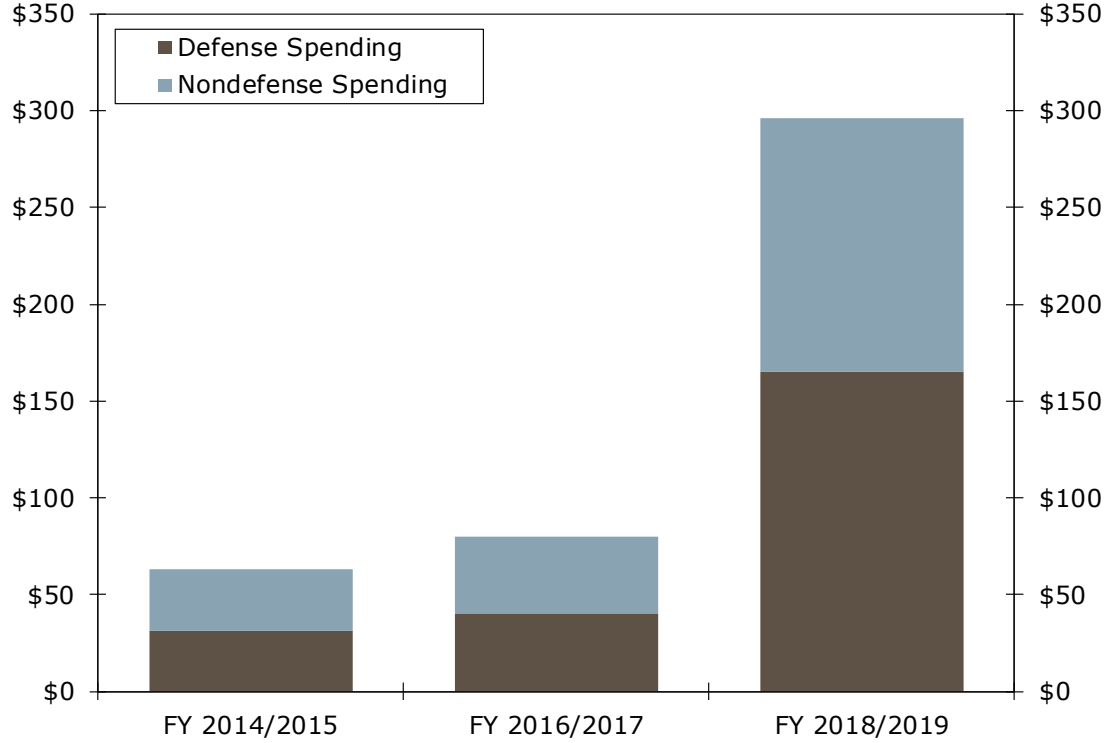


Source: Federal Reserve and Wells Fargo Securities

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

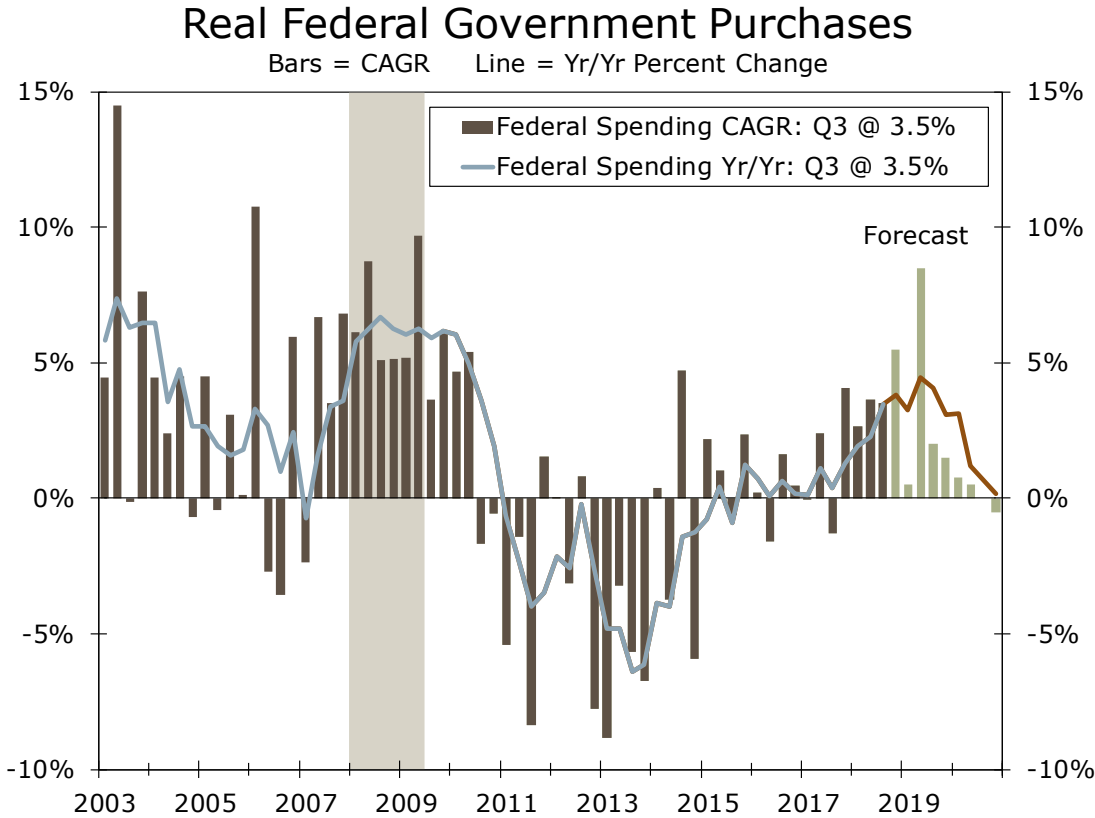
Increase in BCA Budget Caps

Billions of USD



Source: Congressional Budget Office and Wells Fargo Securities

Tax reform and the recent budget deal will provide a short-term boost economic growth.



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

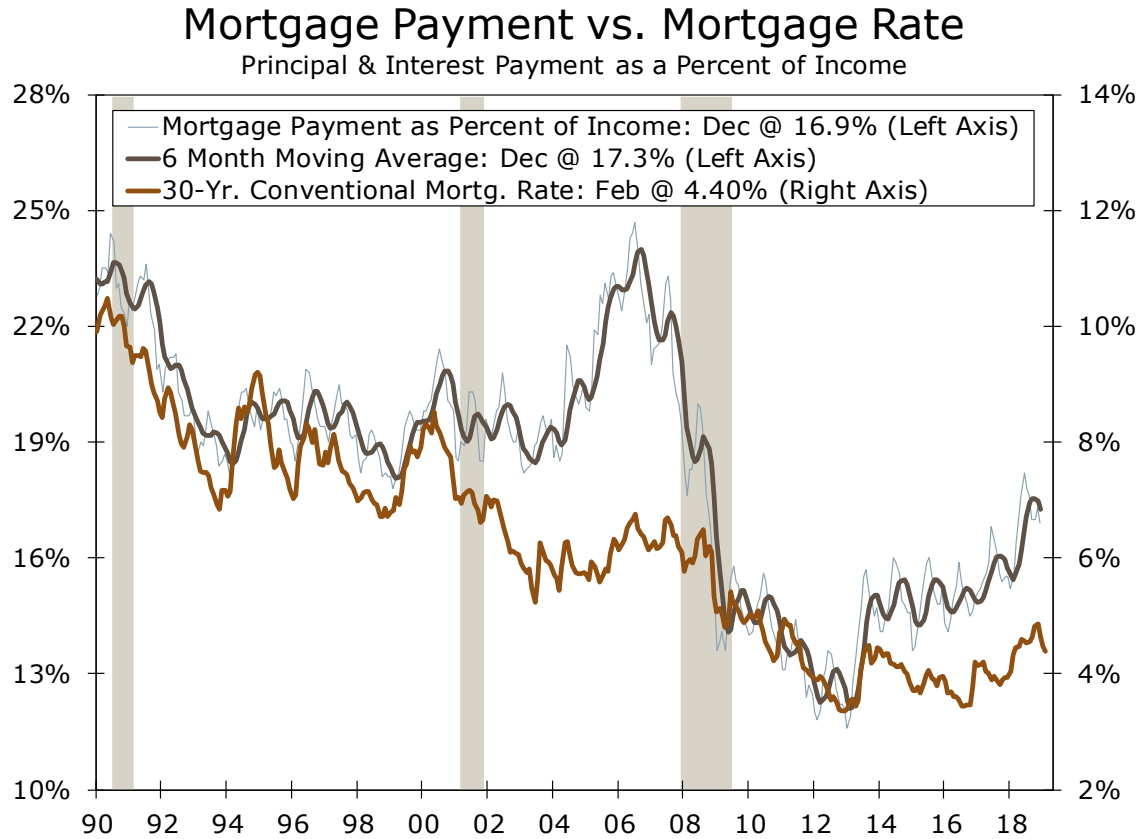
Existing & New Single-Family Home Sales

In Millions, Seasonally Adjusted Annual Rate



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

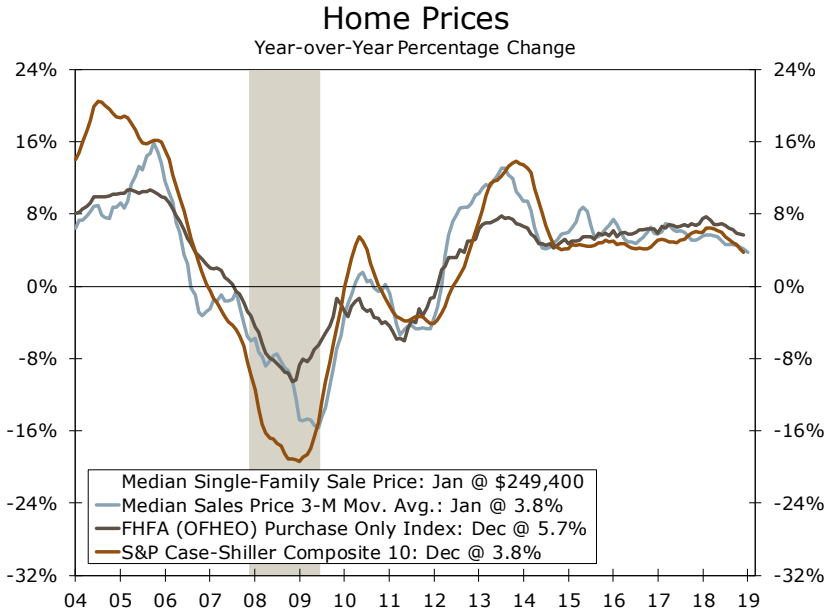
Higher mortgage rates combined with rising prices have put a dent in overall affordability.



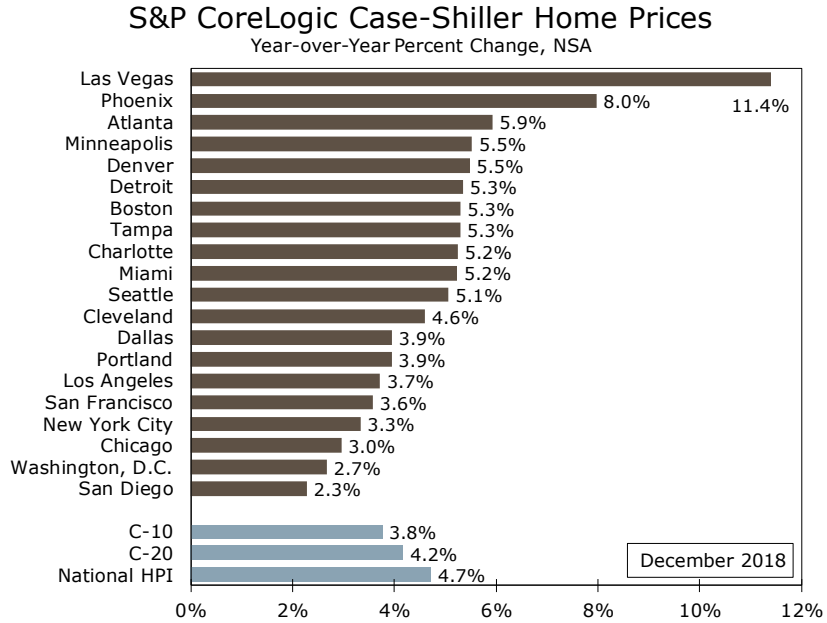
Source: Freddie Mac, U.S. Department of Commerce and Wells Fargo Securities

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

Median Home Value

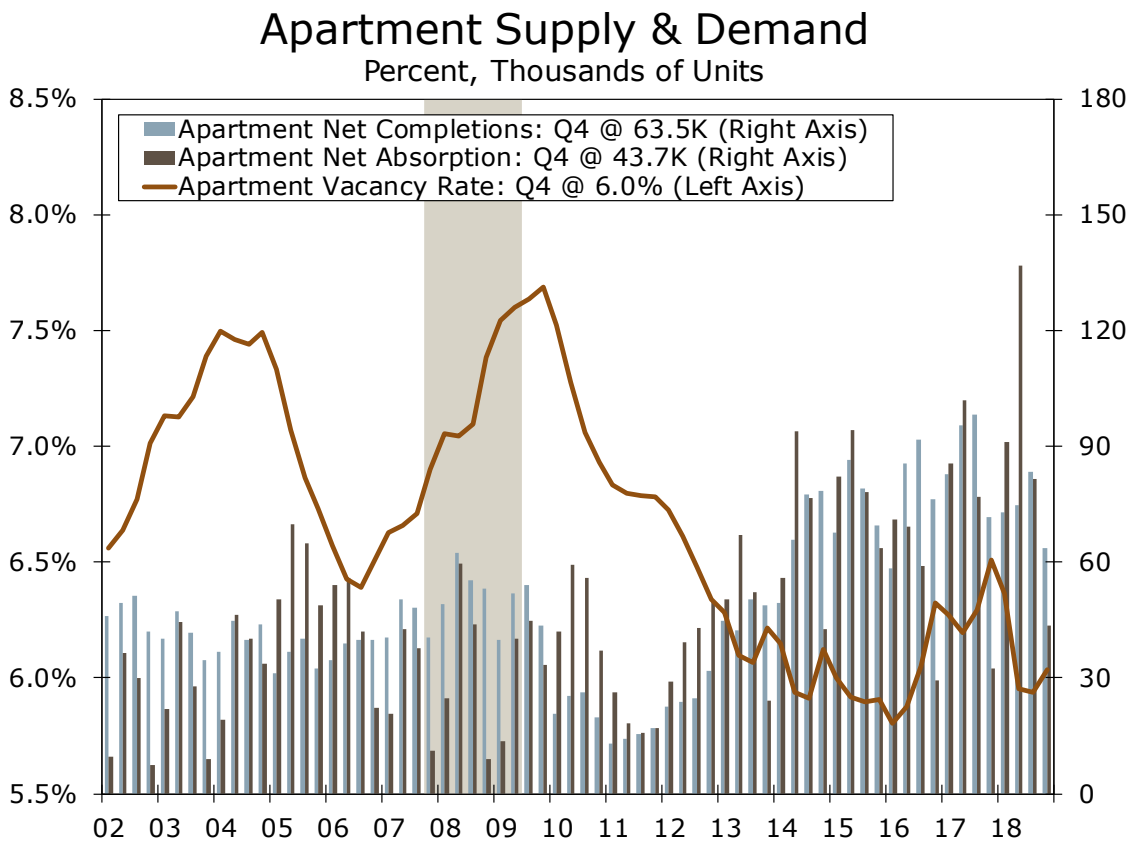


Regional Home Prices



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

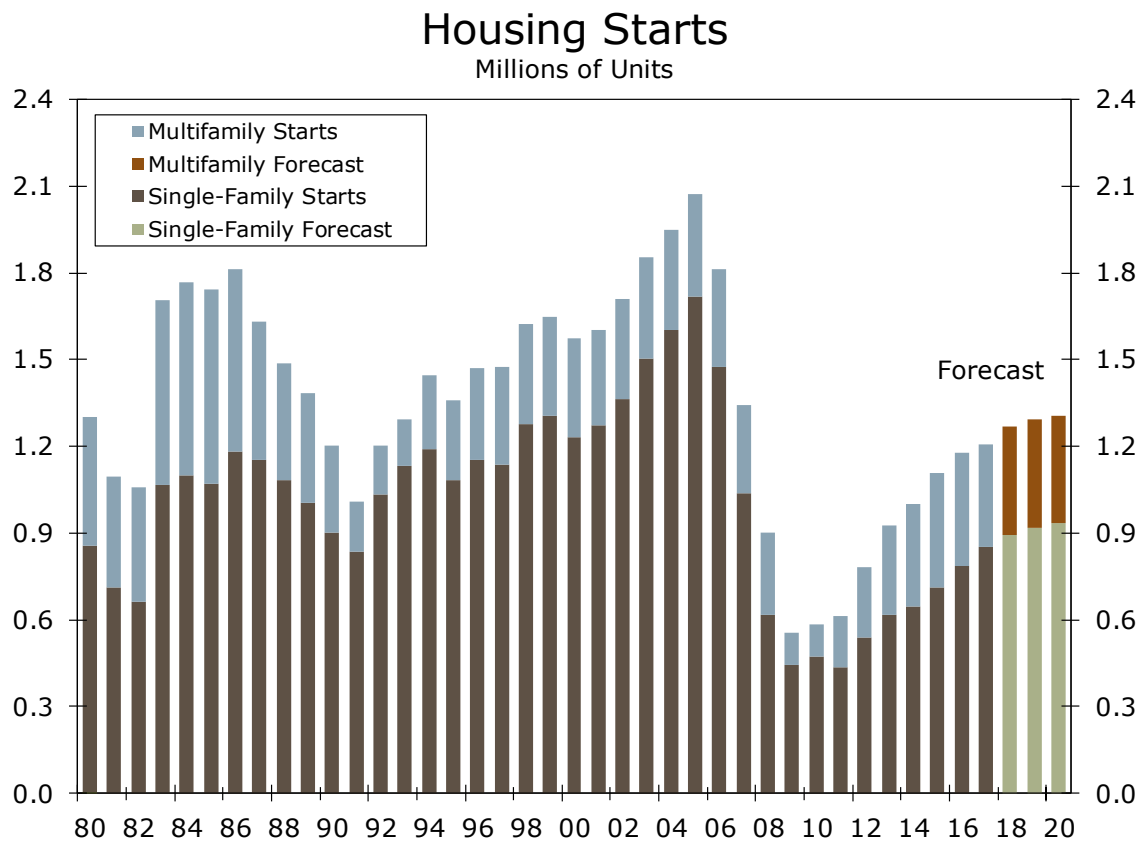
Weakening single family fundamentals have reignited demand for apartments.



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

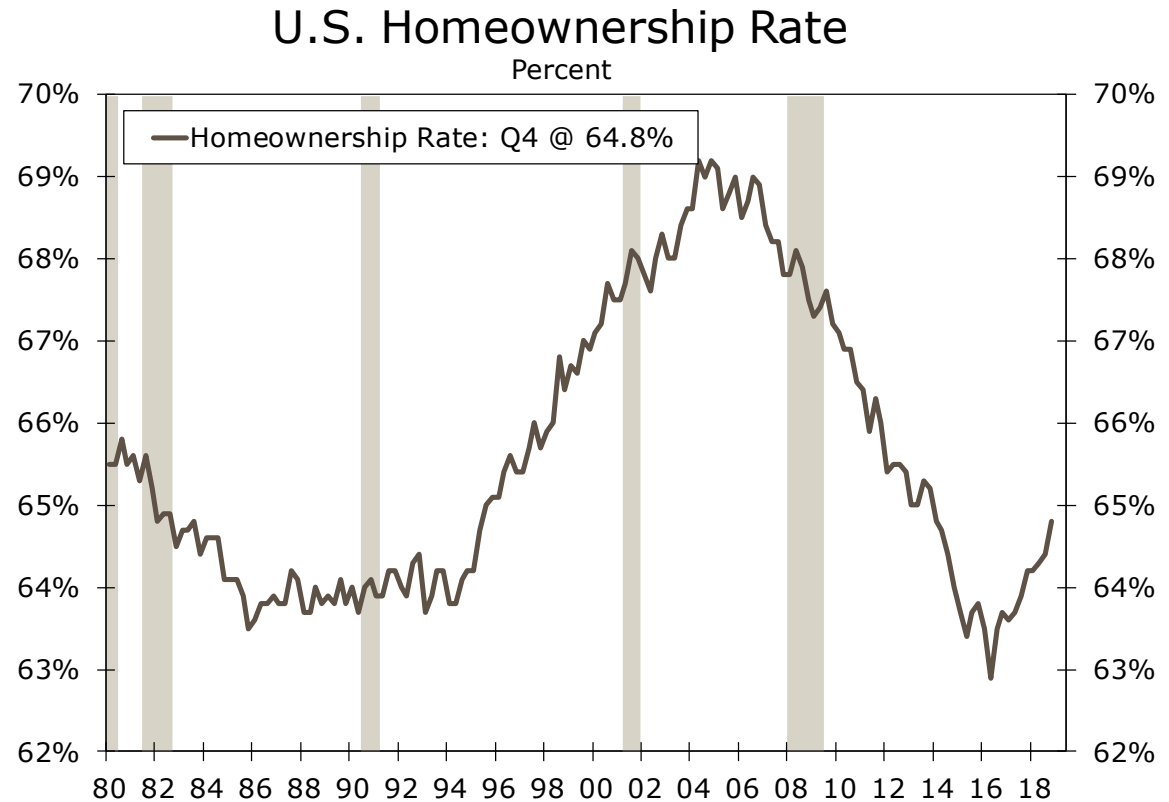
Although Steadily Rising, Single-Family Starts Have Lost Momentum

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



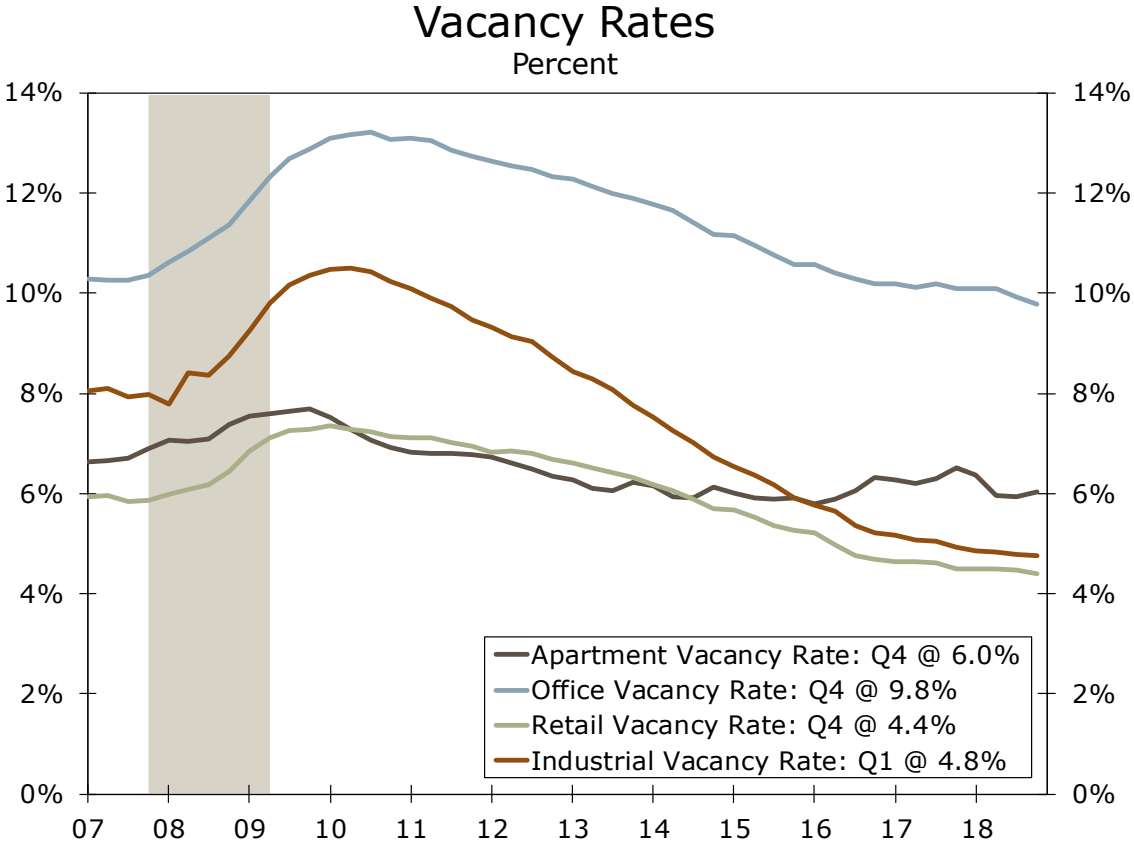
Source: U.S. Department of Commerce and Wells Fargo Securities

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



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

Strong real GDP growth, formidable employment gains and rising wages will be the positive undercurrents that propel commercial real estate throughout the next few years. Apartments and industrial properties will remain a growth area.



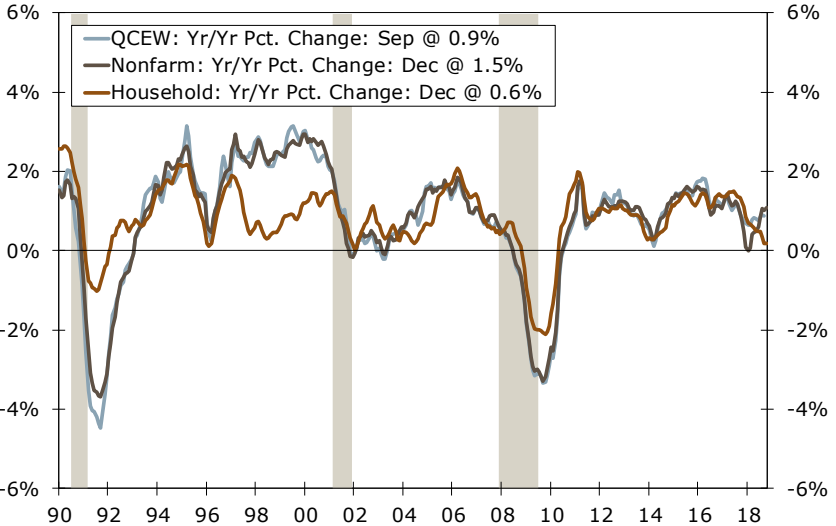
Source: U.S. Department of Commerce and Wells Fargo Securities

Regional Outlook

Maryland's job growth has moderated over the past year. The strongest gains have been in professional & business services, which reflects gains in the tech sector. Financial services continues to struggle.

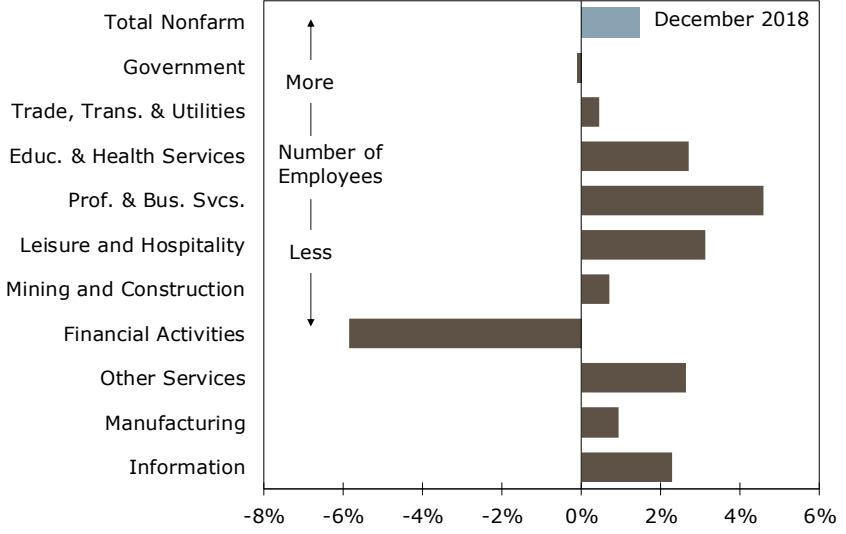
Employment

Maryland Nonfarm Employment
3-Month Moving Averages



Employment by Industry

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

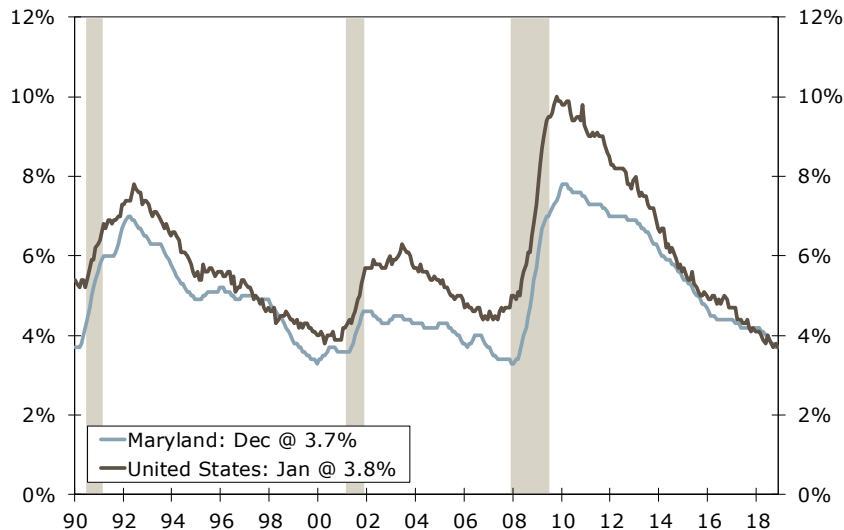


Source: U.S. Department of Labor and Wells Fargo Securities

The state's labor market has been tight for some time, with strong demand for highly skilled workers in the tech and life sciences sector. Construction firms and leisure and hospitality employers are also facing a tougher time finding and retaining workers.

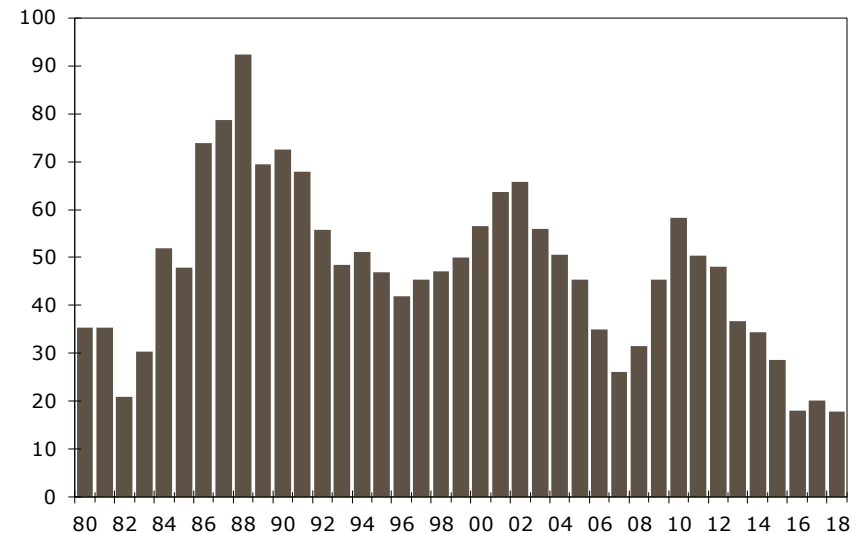
Unemployment Rate

Maryland vs. U.S. Unemployment Rate
Seasonally Adjusted



Population Growth

Maryland Population Growth
In Thousands

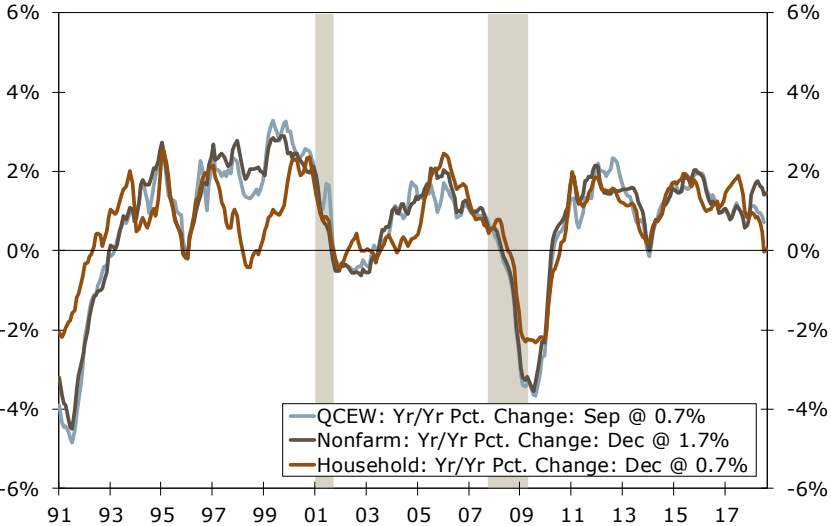


Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

Payroll growth has been moderate in most industries. The professional & business services and leisure & hospitality sectors have been stand outs, while hiring in financial services, manufacturing and government have lagged.

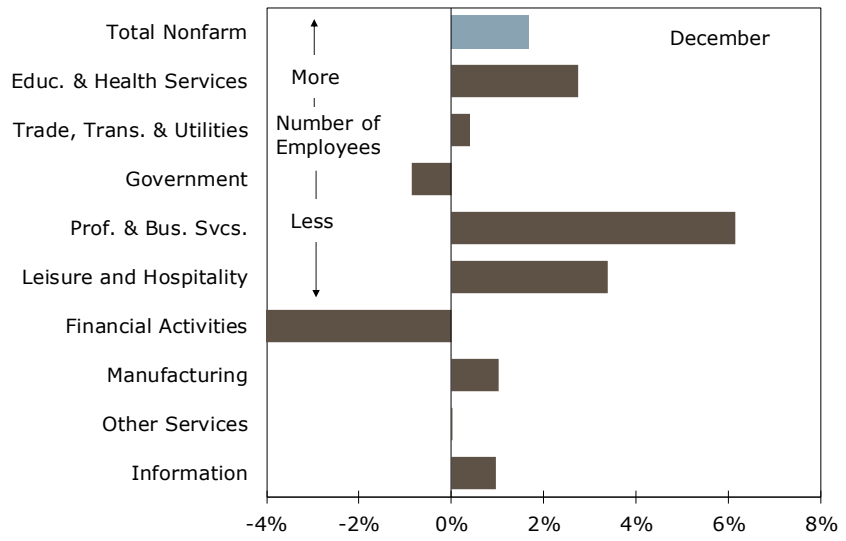
Employment

Baltimore MSA Nonfarm Employment
3-Month Moving Averages



Employment by Industry

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



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

Appendix

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	2.0	2.0	2.8	2.4	2.4	2.3	2.1	1.7	1.7	1.6	2.2	2.8	2.5
Personal Consumption	0.5	3.8	3.5	2.4	2.4	2.6	2.5	2.4	2.2	2.1	1.8	1.7	2.7	2.5	2.6	2.7
Business Fixed Investment	11.5	8.7	2.5	4.2	2.8	3.5	4.2	4.0	3.7	3.6	2.9	2.8	0.5	5.3	6.8	3.8
Equipment	8.5	4.6	3.4	4.8	0.6	2.3	3.7	3.1	2.7	2.6	2.1	2.0	-1.5	6.1	7.3	2.9
Intellectual Property Products	14.1	10.5	5.6	6.8	6.0	5.3	4.7	4.6	4.7	4.6	3.7	3.5	7.5	4.6	7.3	6.0
Structures	13.9	14.5	-3.4	-1.5	2.5	3.5	4.5	5.0	4.5	4.0	3.5	3.5	-5.0	4.6	5.1	2.3
Residential Construction	-3.4	-1.3	-3.6	-4.5	-3.6	2.6	2.0	1.5	1.5	1.5	1.0	1.0	6.5	3.3	-0.3	-1.5
Government Purchases	1.5	2.5	2.6	2.3	1.3	4.0	1.5	1.2	0.7	0.7	0.3	0.1	1.4	-0.1	1.6	2.2
Net Exports ²	0.0	1.2	-2.0	-0.3	-0.2	-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	0.0	0.0	-0.1	-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	3.2	2.8	5.6	4.9	4.8	4.6	4.4	3.6	3.6	2.7	4.2	5.1	4.4
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: February 15, 2019

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

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December-07	Q3 CRE Chartbook: Outlook	Vitner, Dougherty & Honnold
December-05	Housing Chartbook: December 2018	Vitner, Dougherty & Honnold
November-26	Does CRE Pose a Risk to the Financial System?	Bryson, Dougherty & Honnold
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