



2023 Economic Outlook: Losing Altitude

May 17, 2023

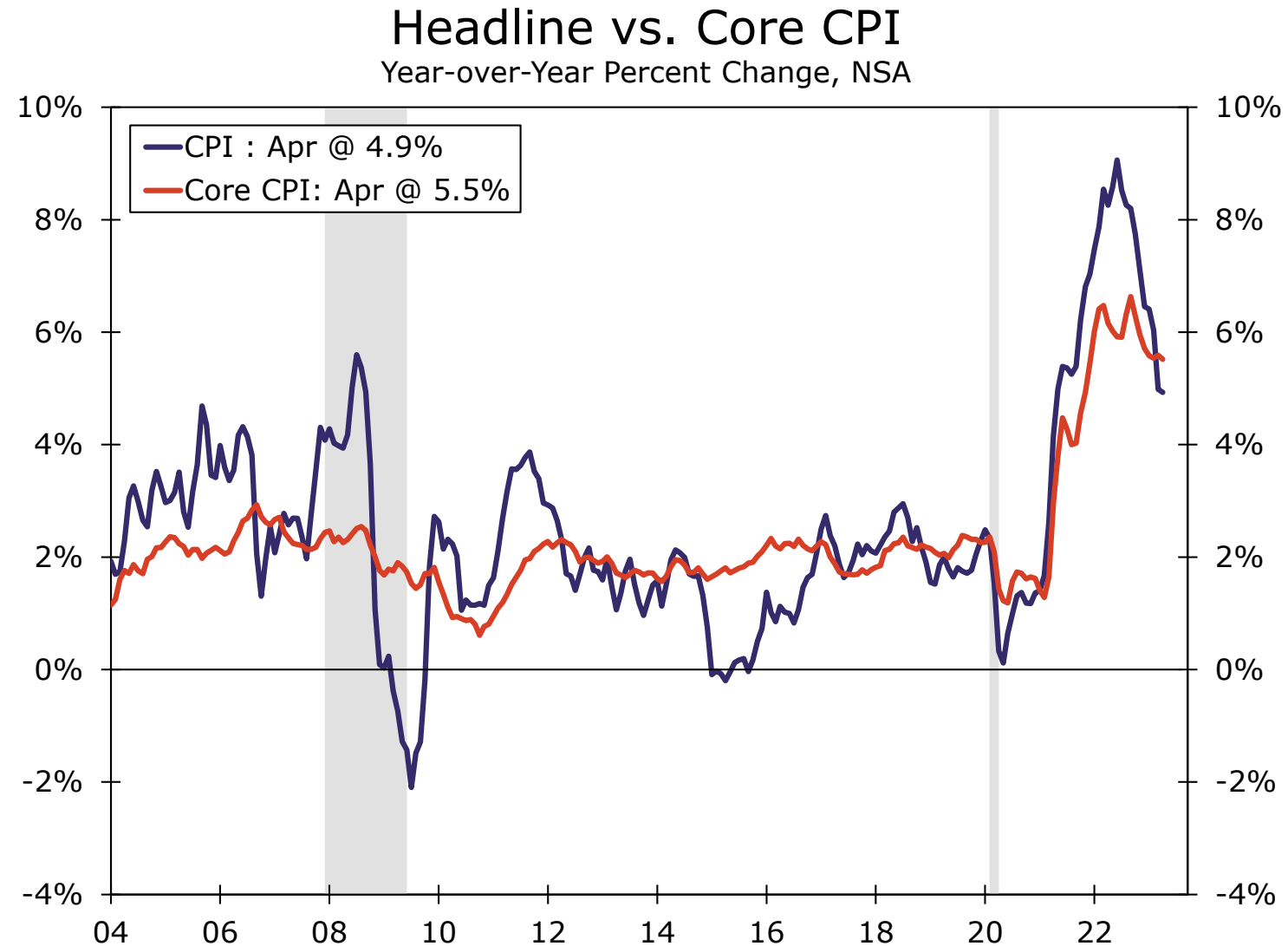
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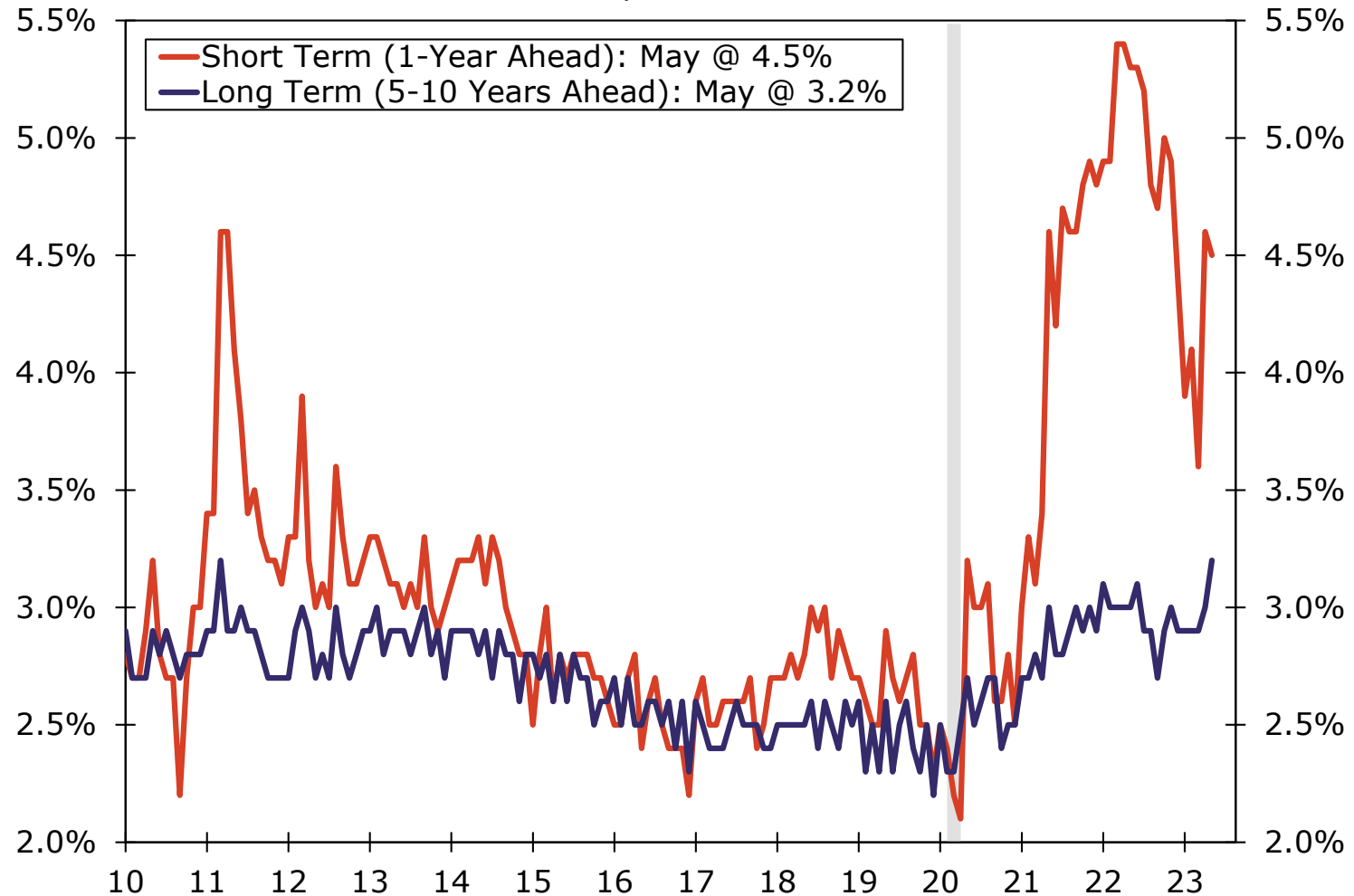
Inflation may have peaked, but remains far too high



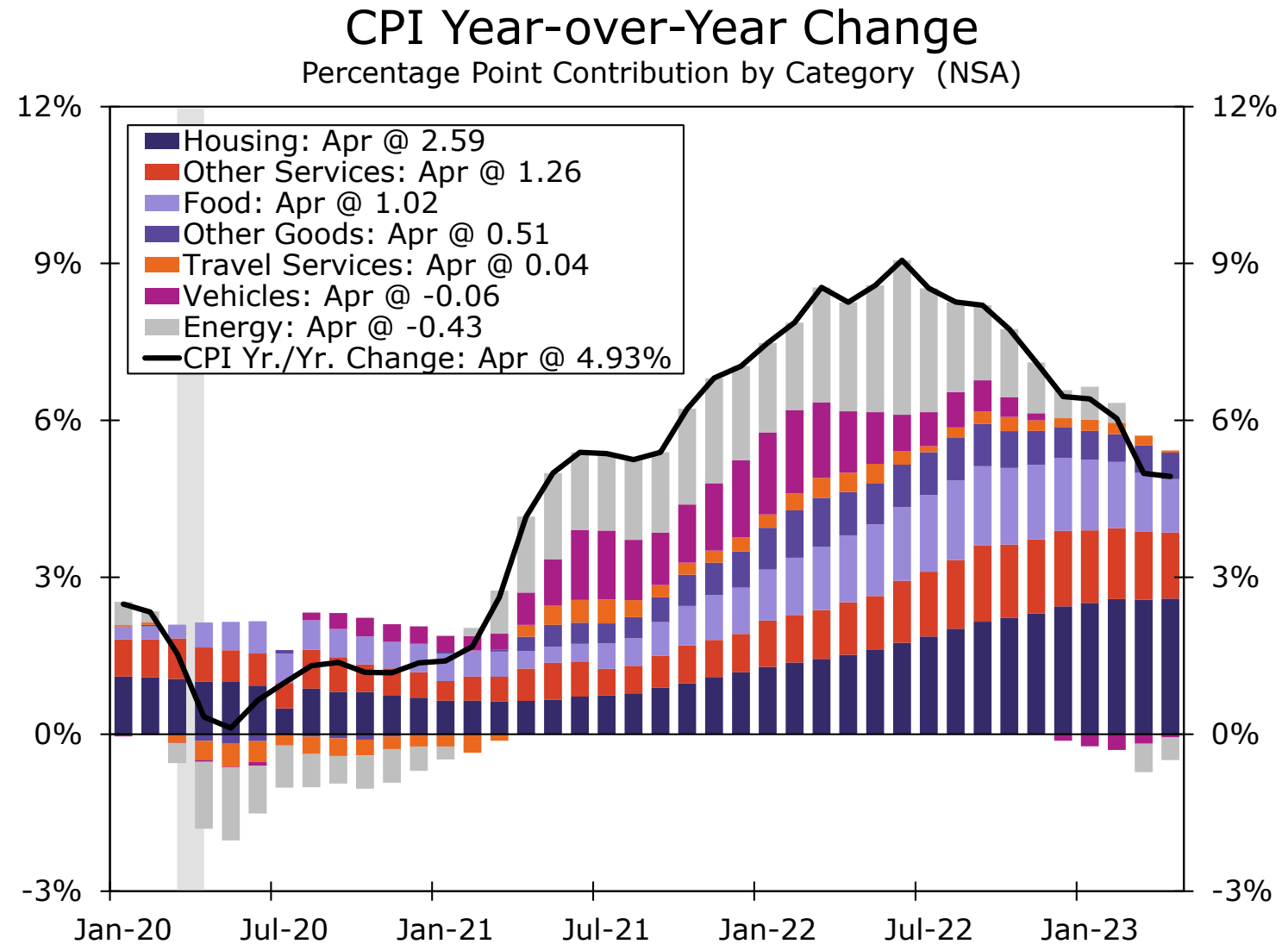
An extended period of elevated inflation risks entrenchment

Consumer Inflation Expectations

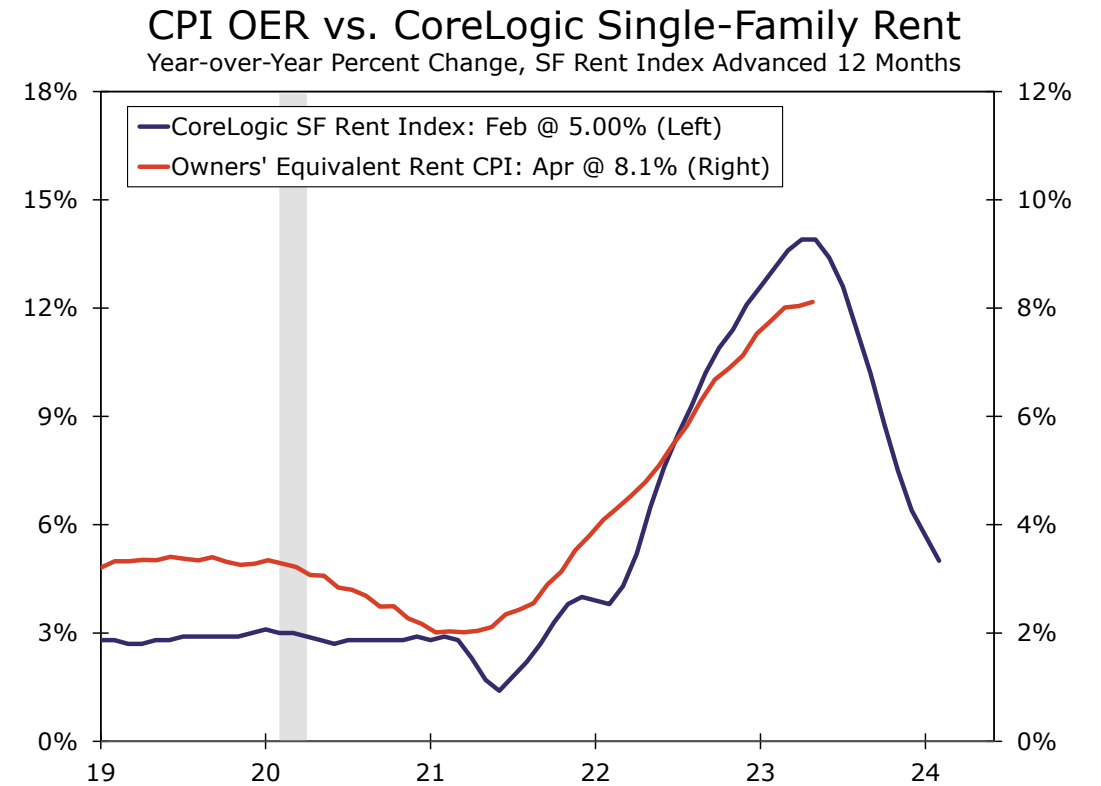
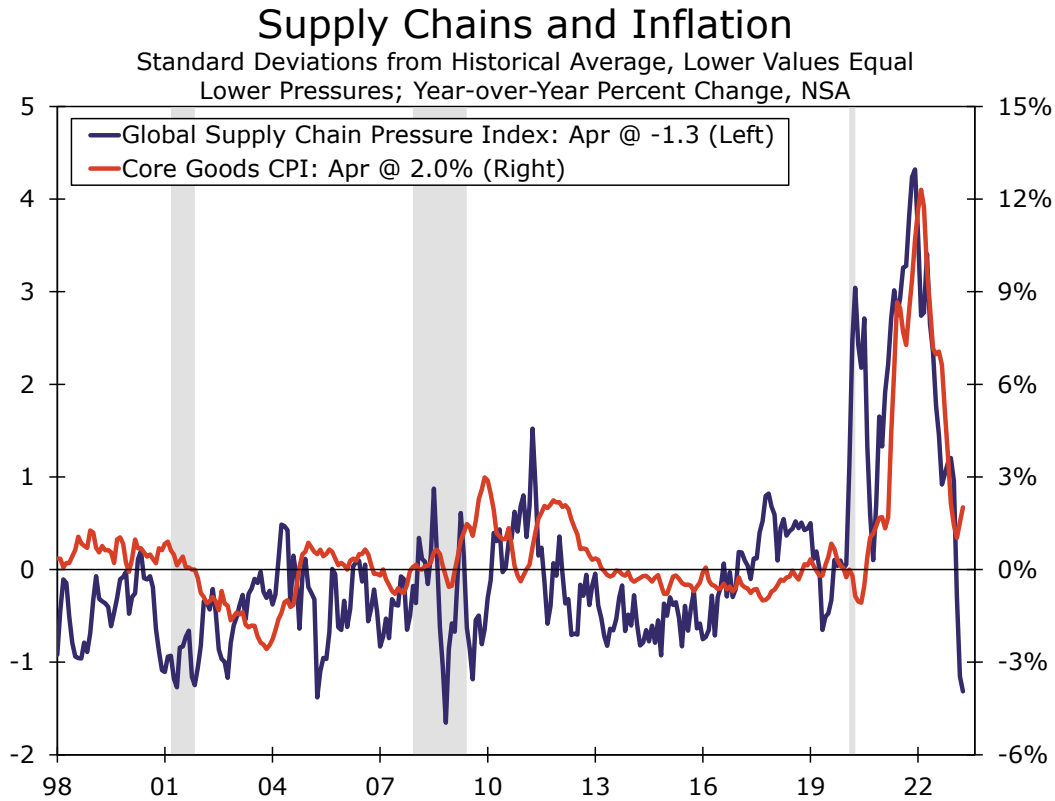
Median Inflation Expectations 1-Yr vs 5-10 Yrs



Energy and autos have led the slowdown in inflation since last summer, but disinflation is starting to slowly broaden



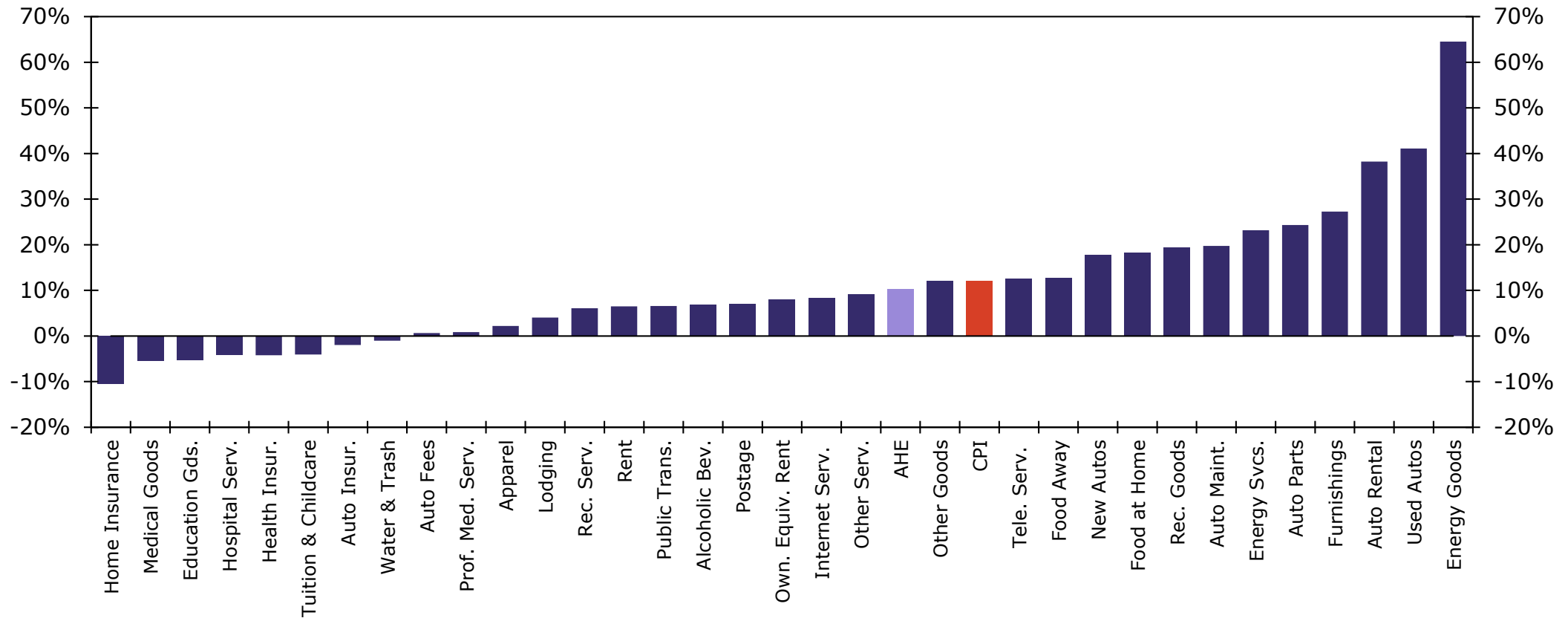
Core goods and housing are expected to see price growth cool further ahead



The overall price level is well-above its pre-COVID trend. Some components still have scope for catch-up.

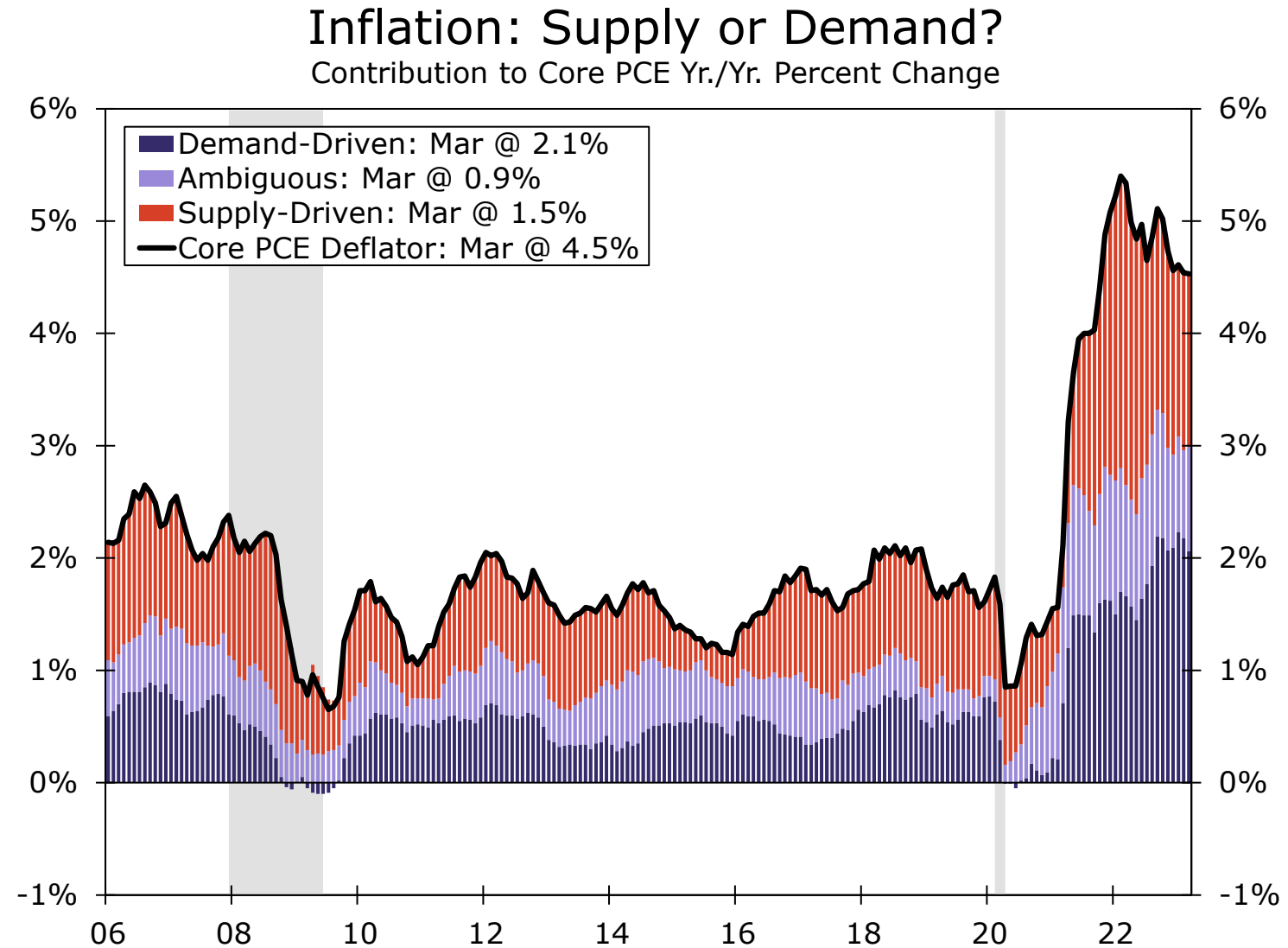
CPI Deviation from Trend

Current CPI vs. Level Implied by Pre-COVID 2010-2019 Trend, April 2023

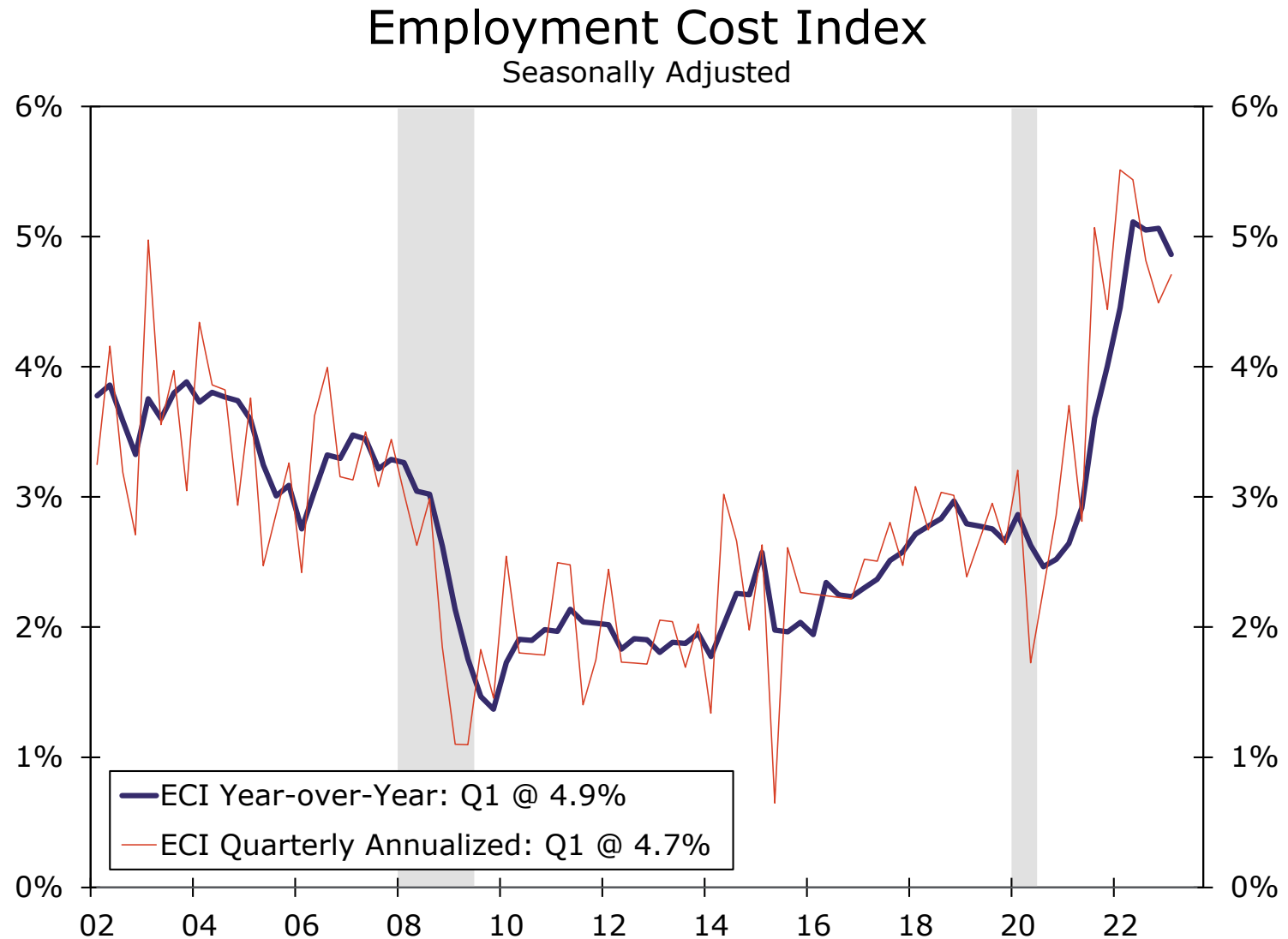


Source: U.S. Department of Labor and Wells Fargo Economics

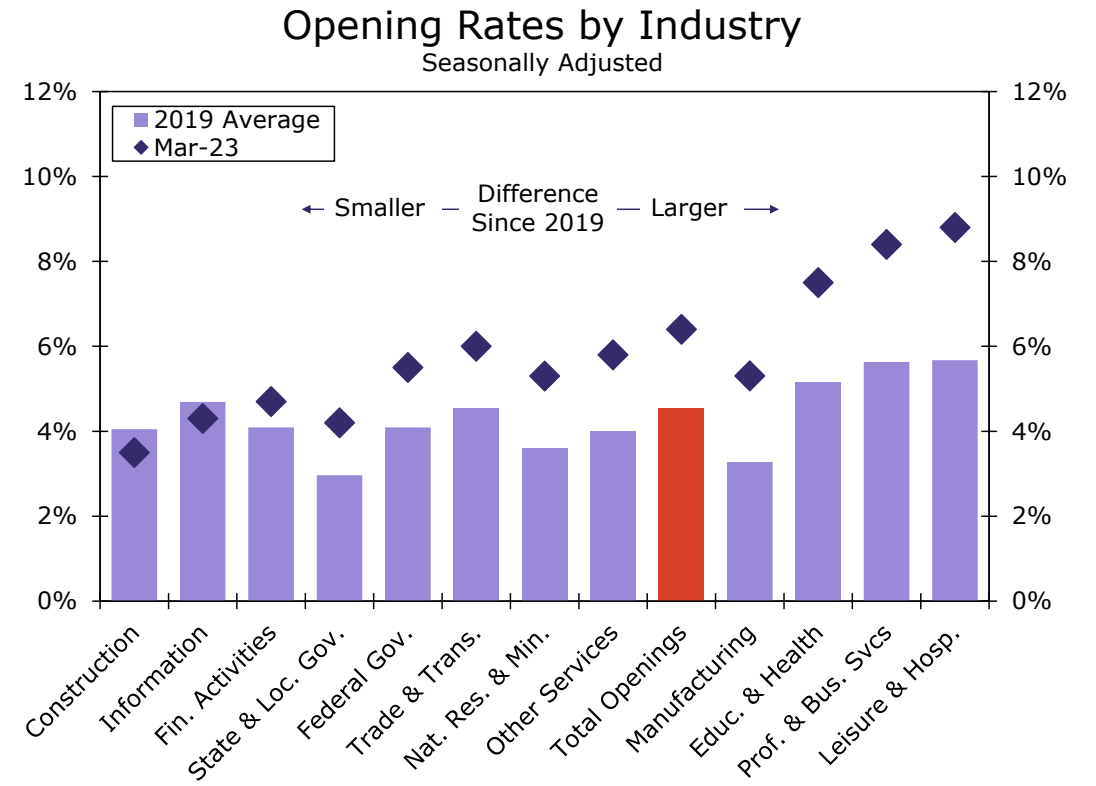
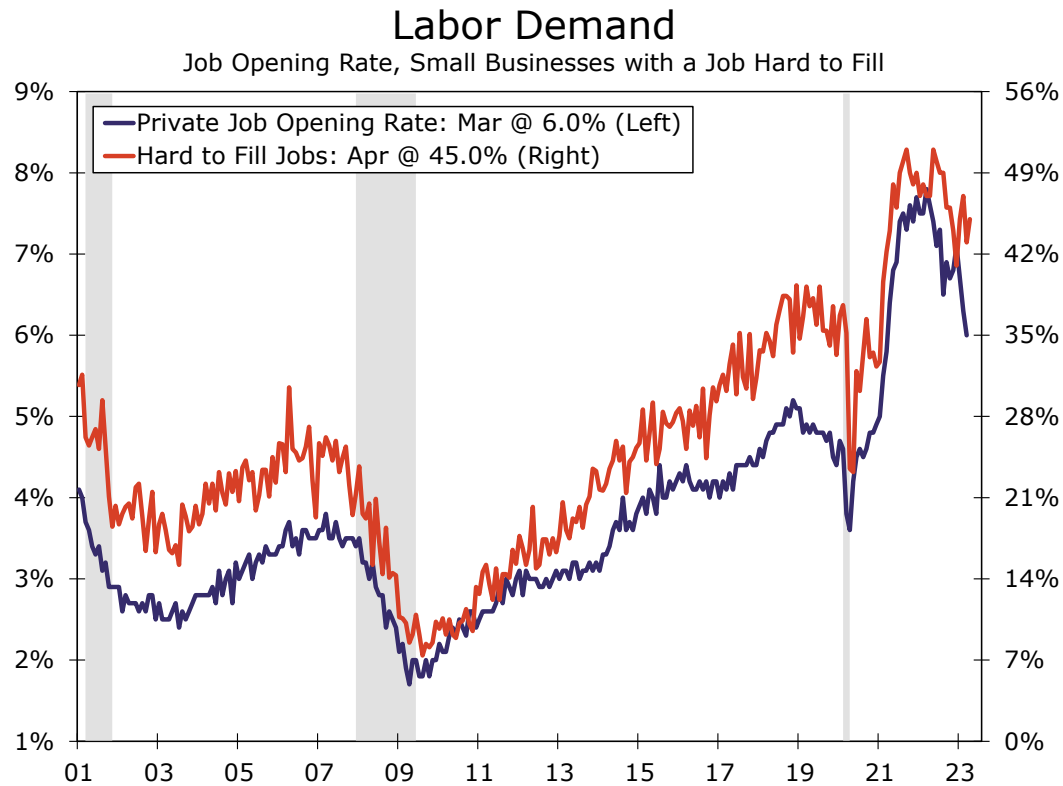
It will likely take more than improved supply dynamics to rein in inflation



Labor costs are running too hot to be consistent with the Fed's goal

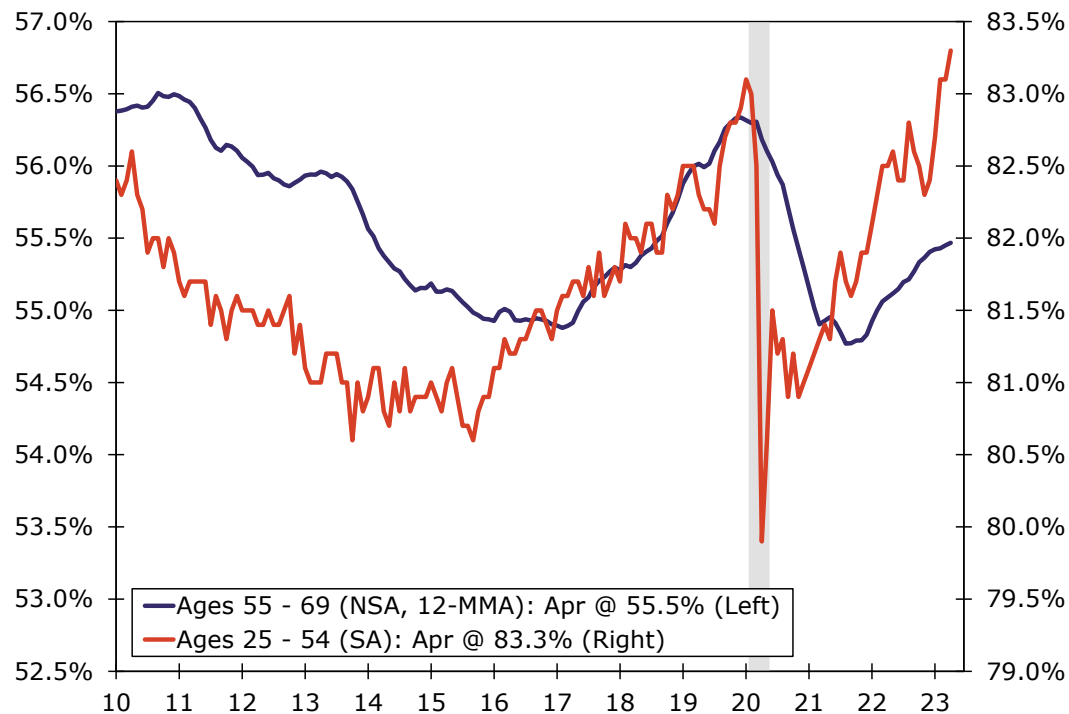


Demand for workers is cooling, but remains elevated across most industries

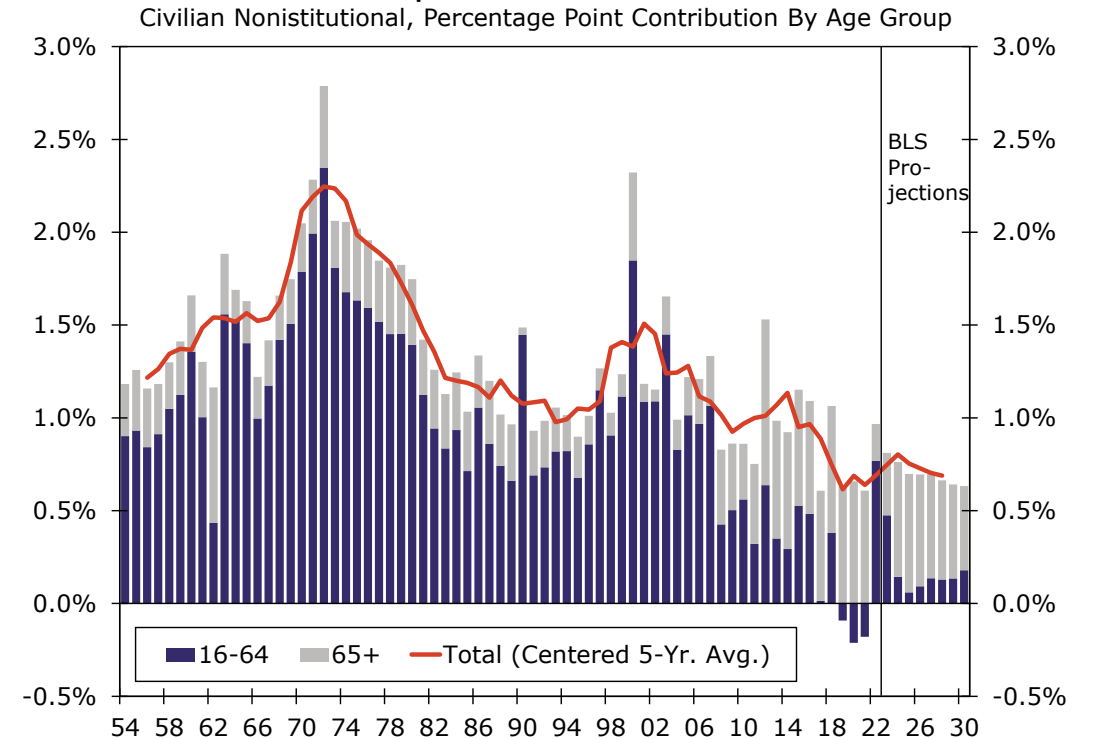


Labor force participation has perked up, but anemic growth in the working-age population suggests longer-term headwinds to labor supply

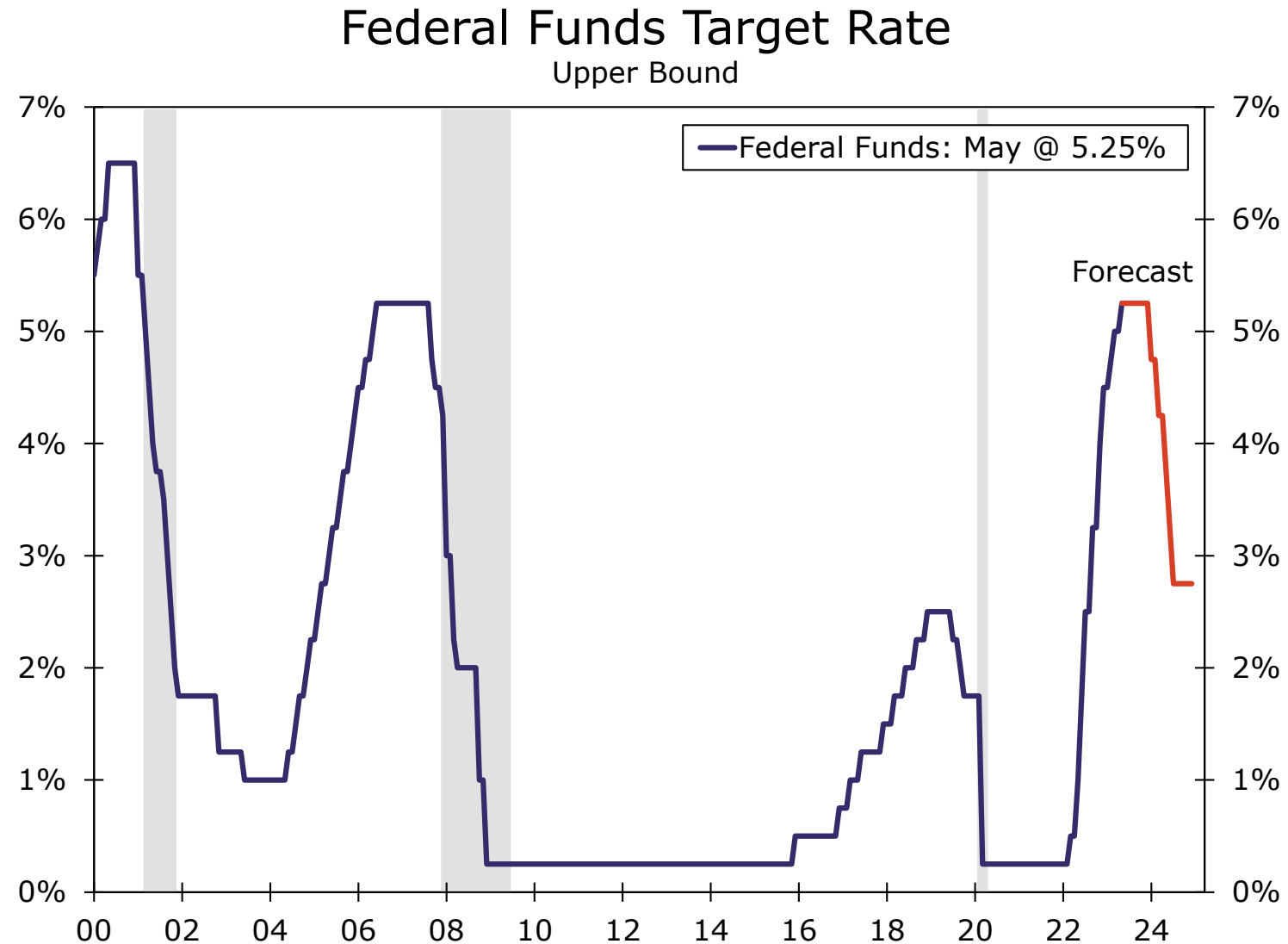
U.S. Labor Force Participation



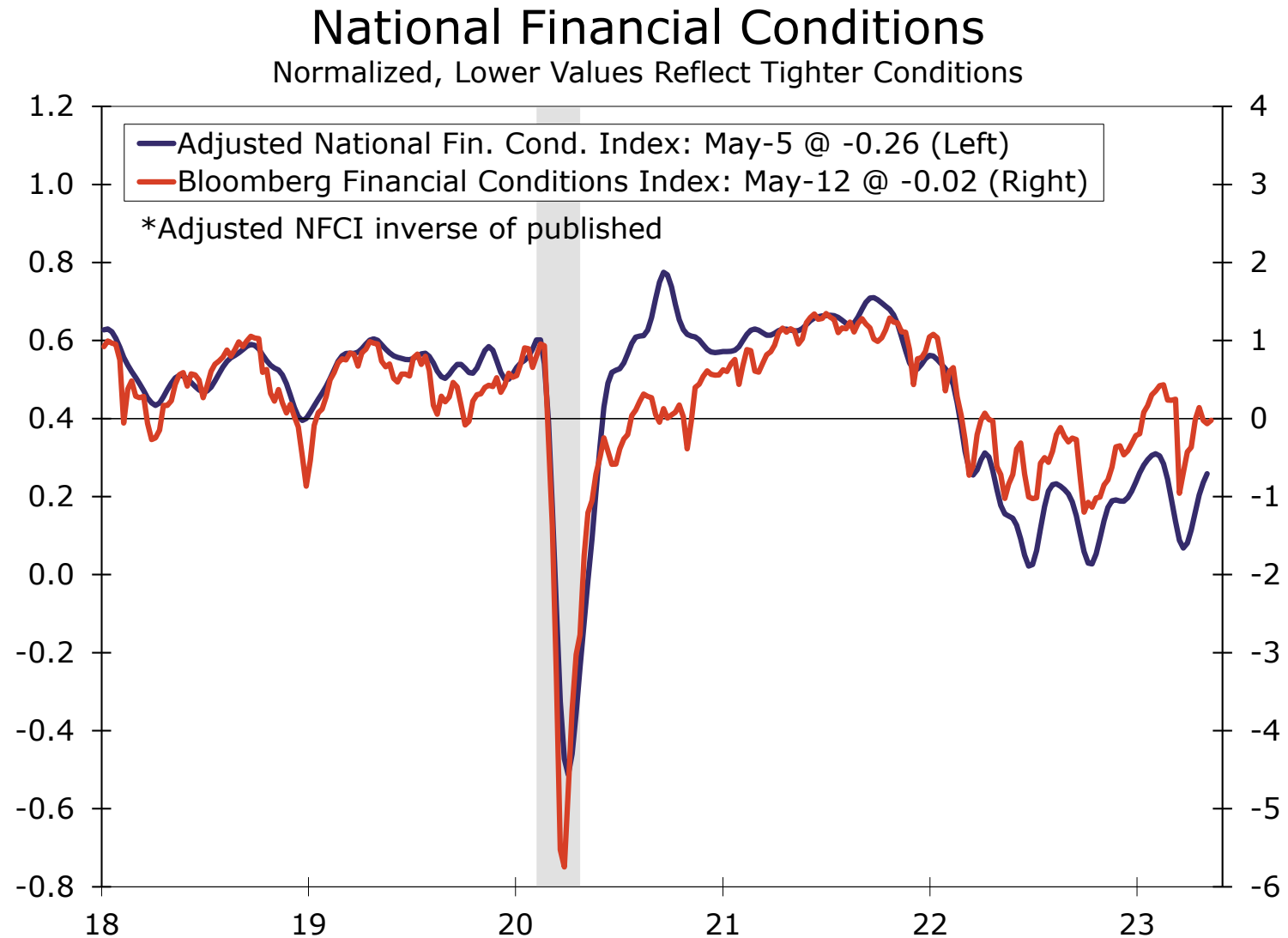
Population Growth



The FOMC has likely come to the end of its tightening cycle, but is unlikely to cut anytime soon

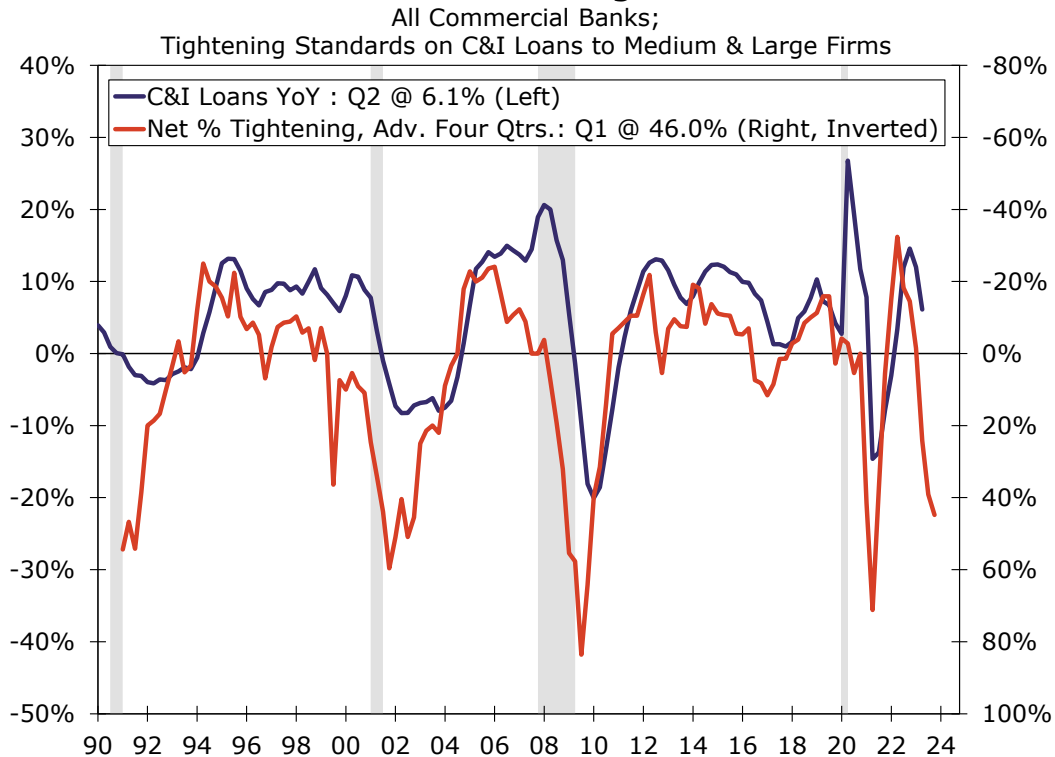


Credit conditions are only somewhat tighter since the start of the year

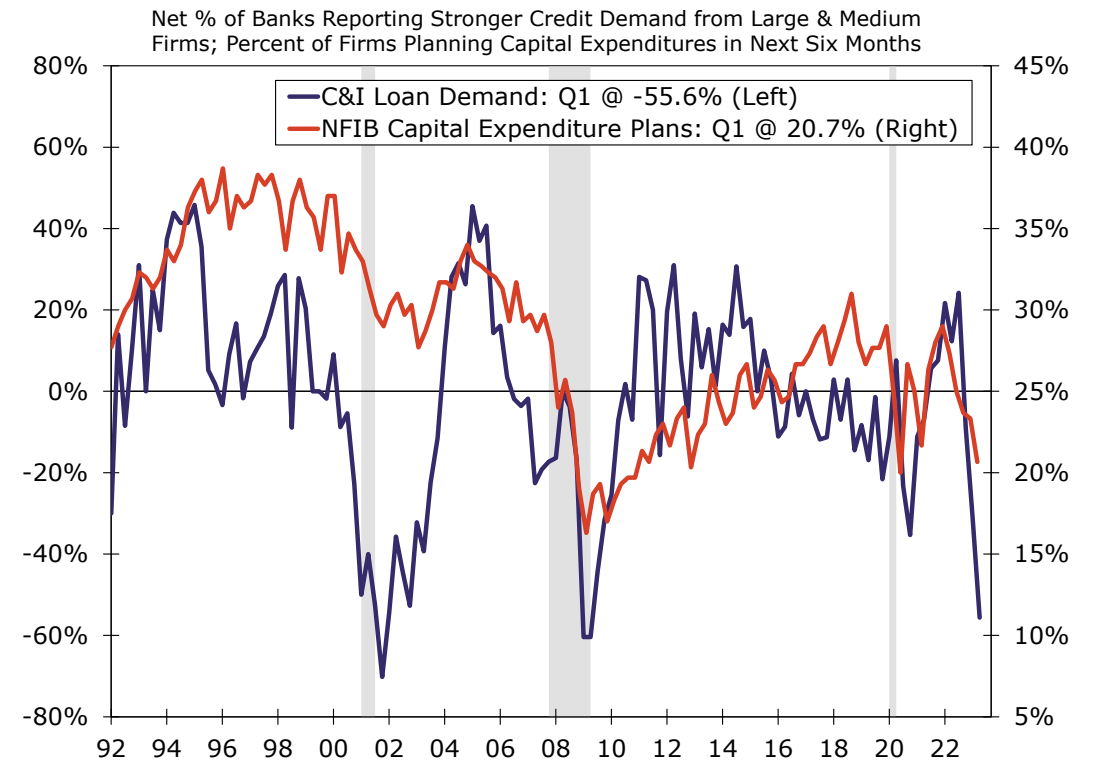


Bank credit has tightened significantly over the past year, while businesses are losing their appetite to invest

Commercial Bank Lending vs. Standards



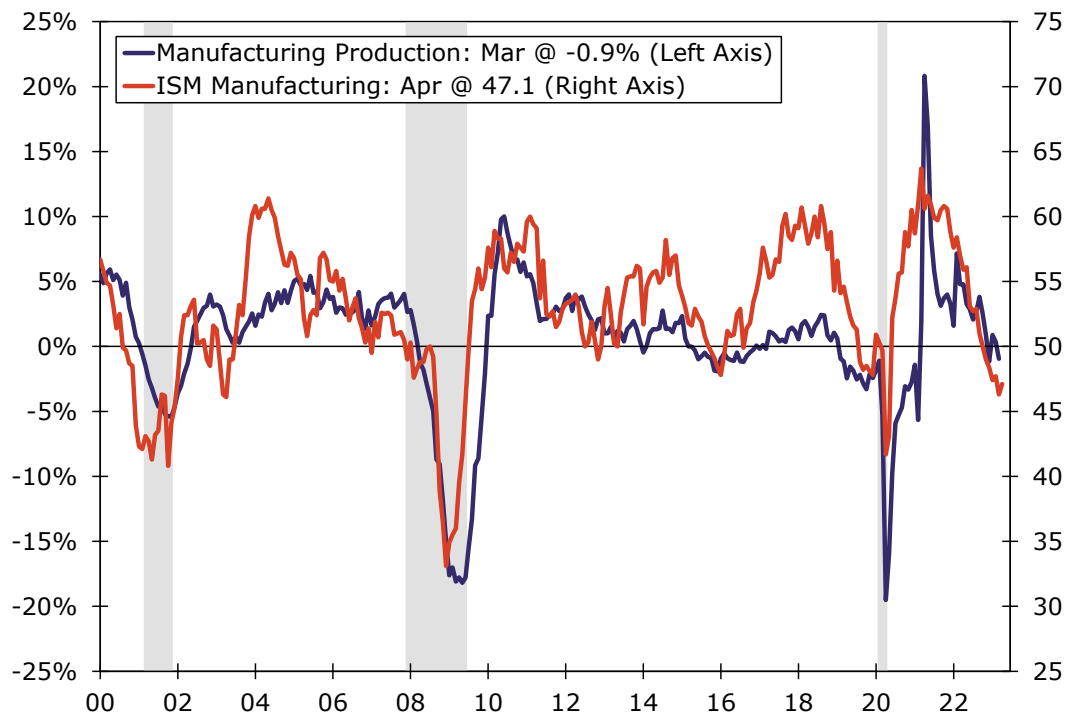
Loan and Investment Demand



More costly financing for capital investments and slowing consumer demand are taking a toll on manufacturing

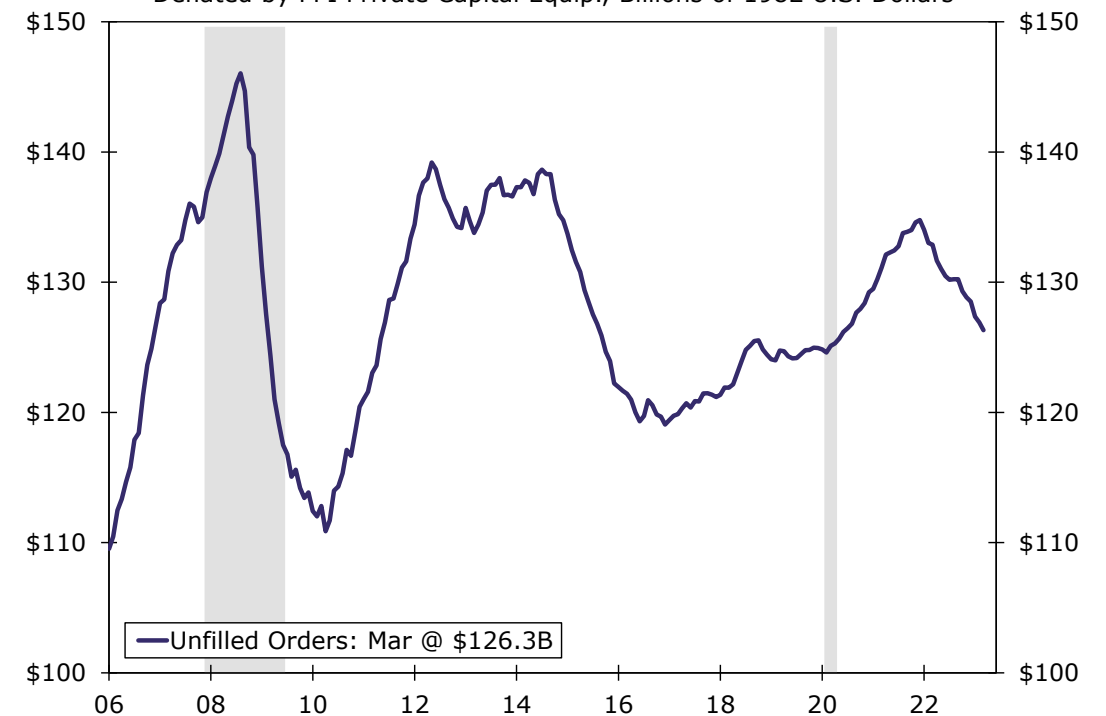
Manufacturing Production vs. ISM Manufacturing

Year-over-Year Percent Change, Index



Real Core Capital Goods Unfilled Orders

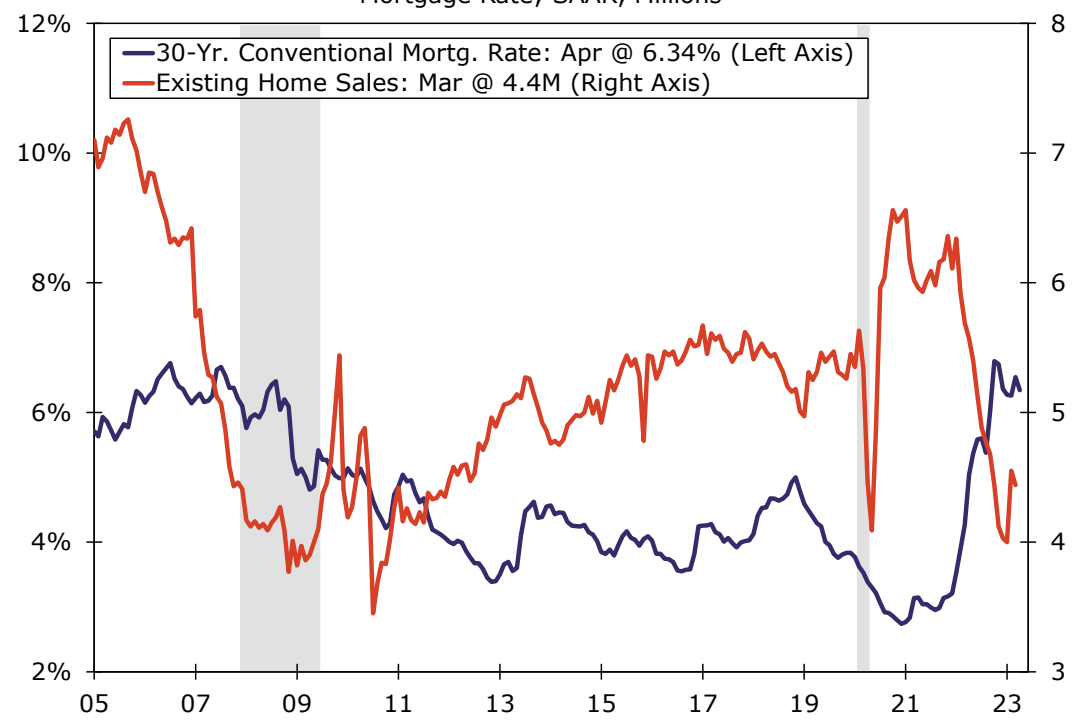
Deflated by PPI Private Capital Equip., Billions of 1982 U.S. Dollars



Housing activity plummeted following the jump in mortgage rates, but the worst of the pullback in activity may be over

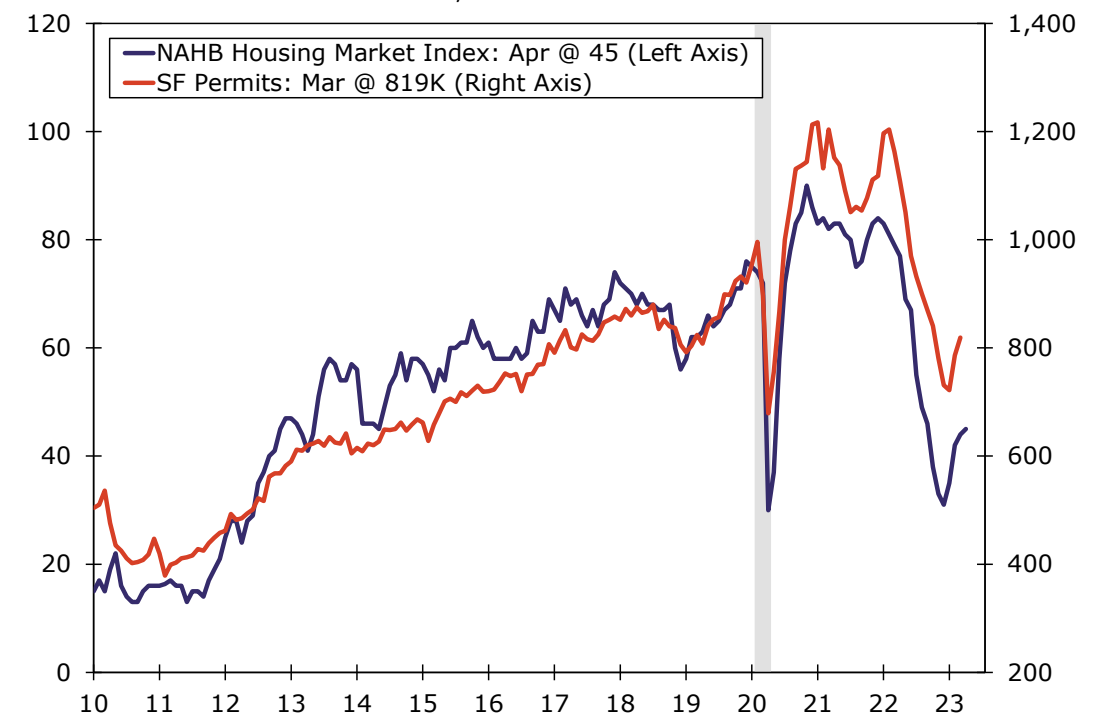
Mortgage Rate vs. Existing Home Sales

Mortgage Rate; SAAR, Millions



Builder Confidence & Single-Family Permits

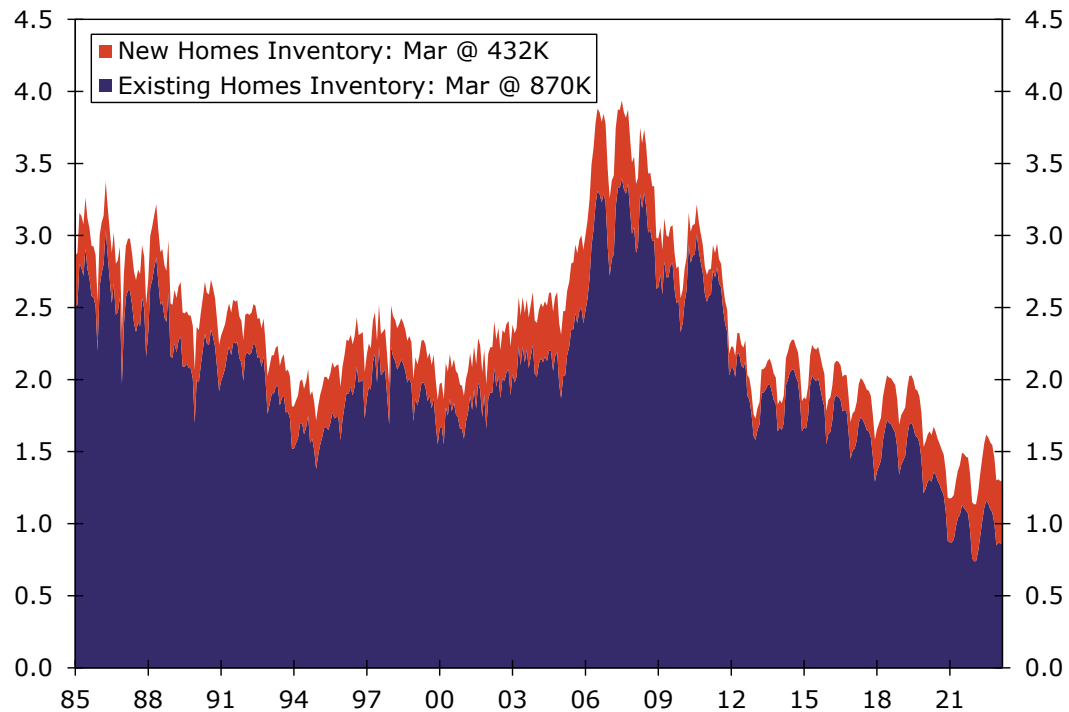
Diffusion Index; Permits = SAAR in Thousands



Low inventories of homes for sale is limiting the downward pressure on prices

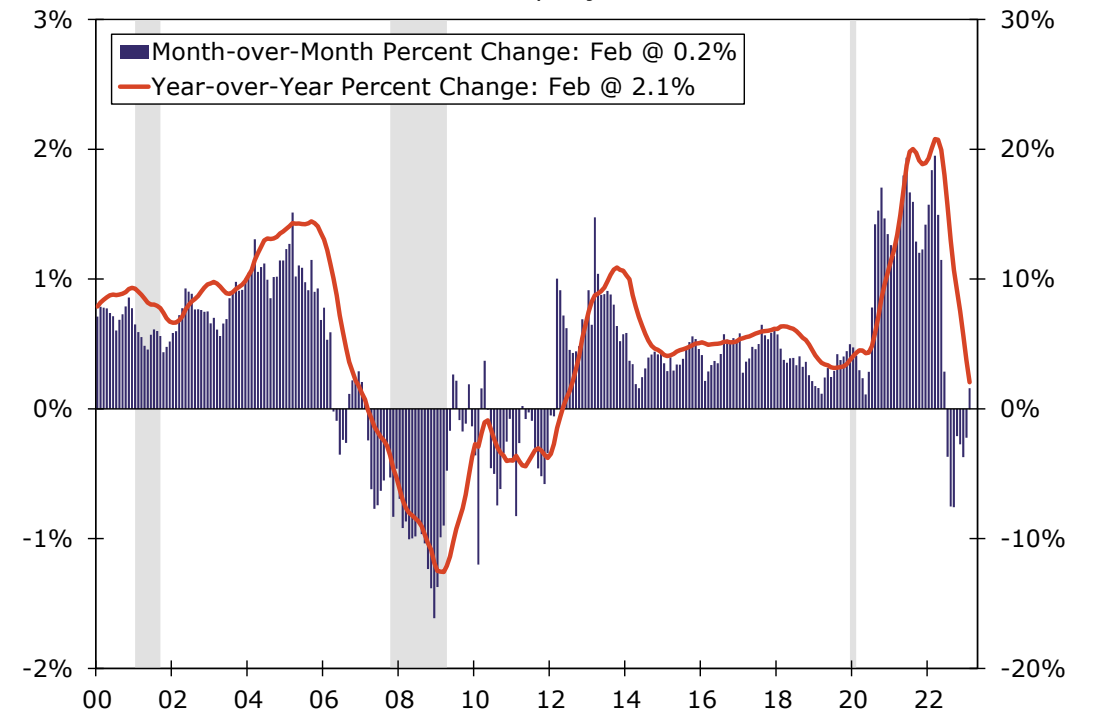
Single-Family Home Inventory

Millions of Units

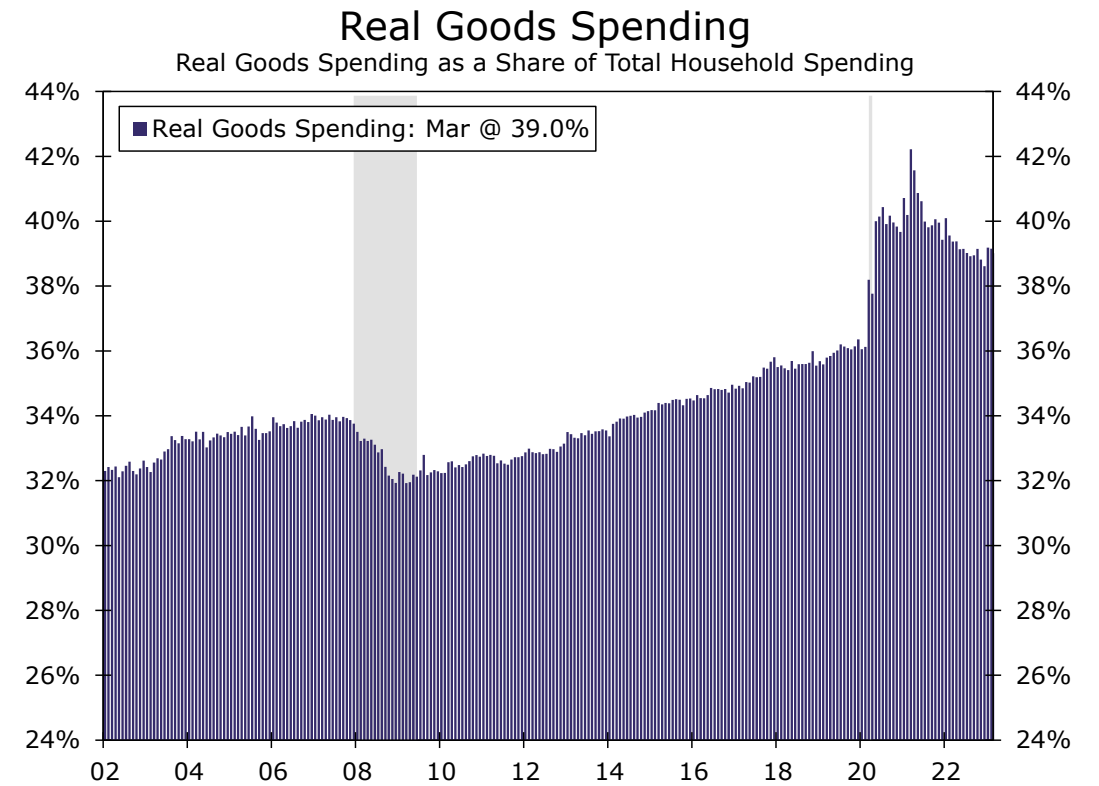
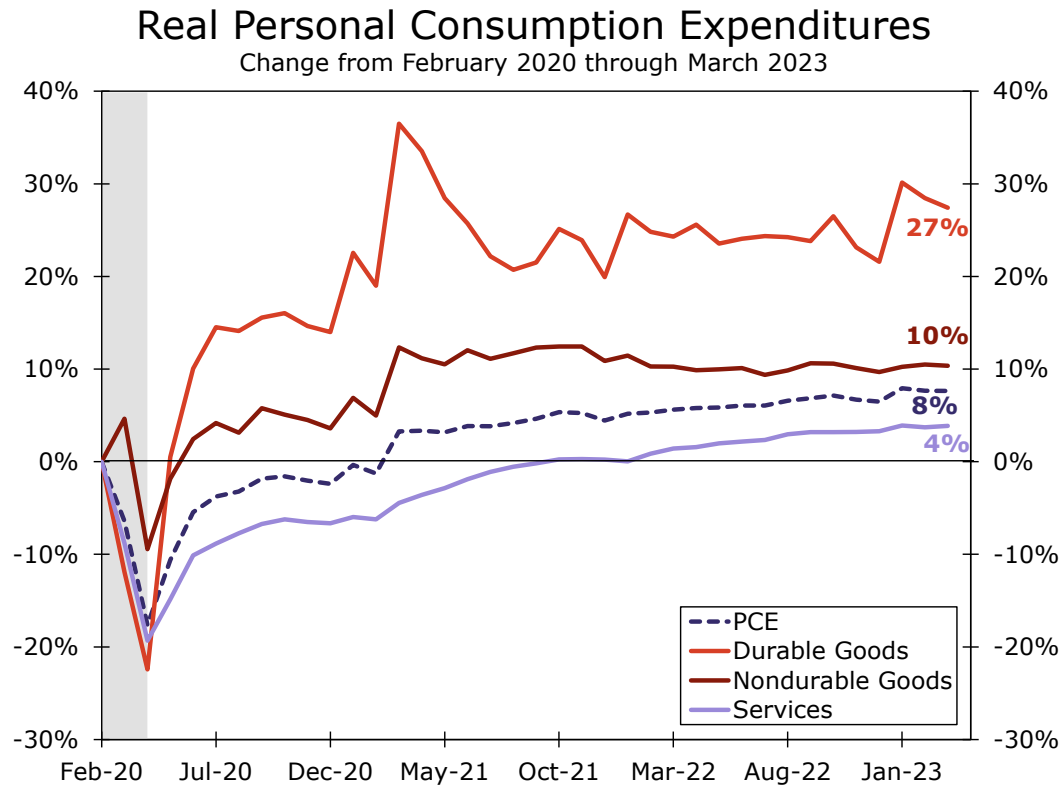


S&P/Case-Shiller National Home Price Index

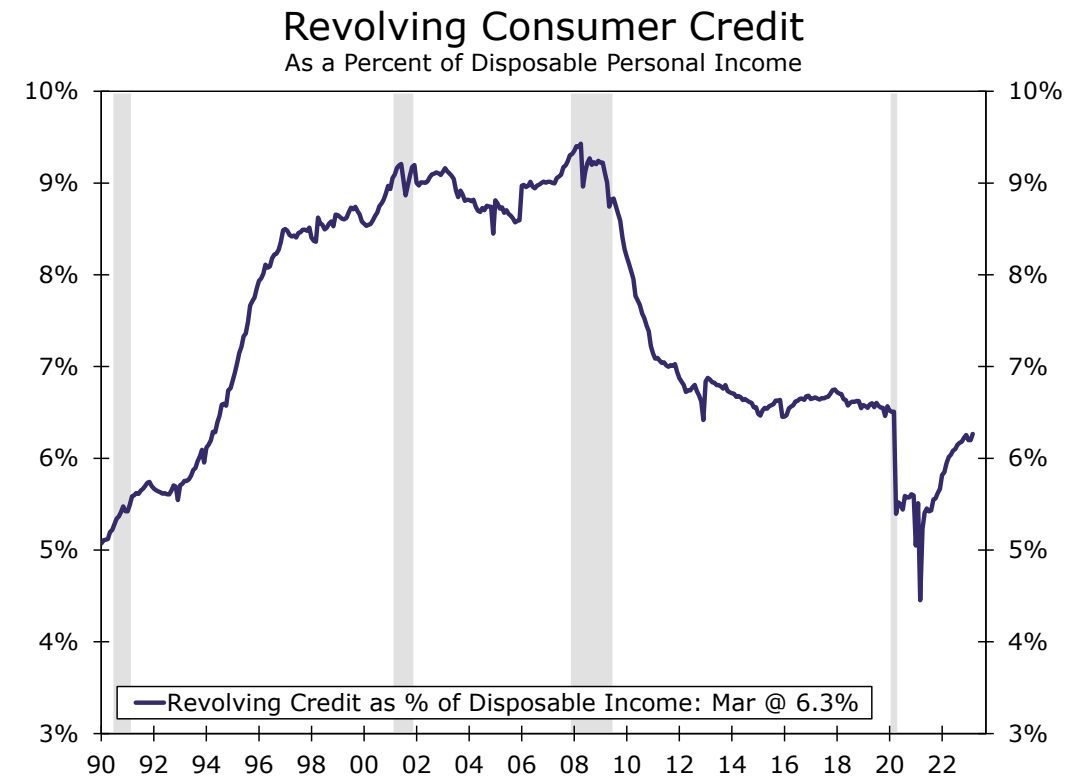
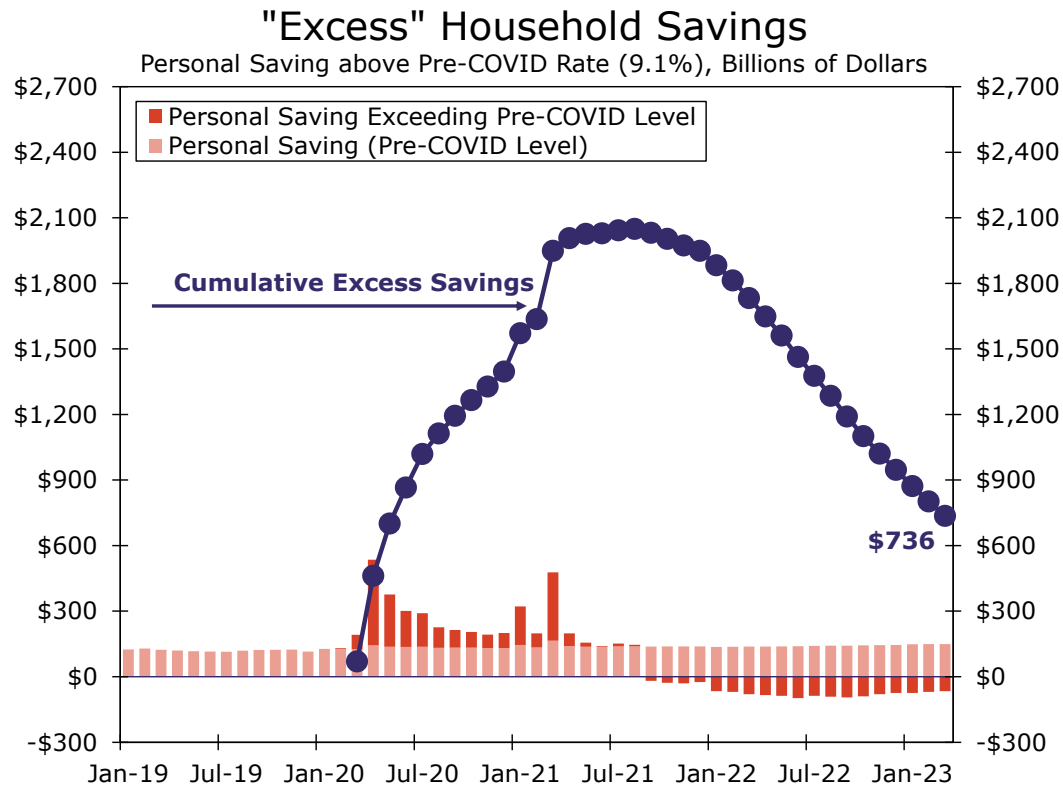
Seasonally Adjusted



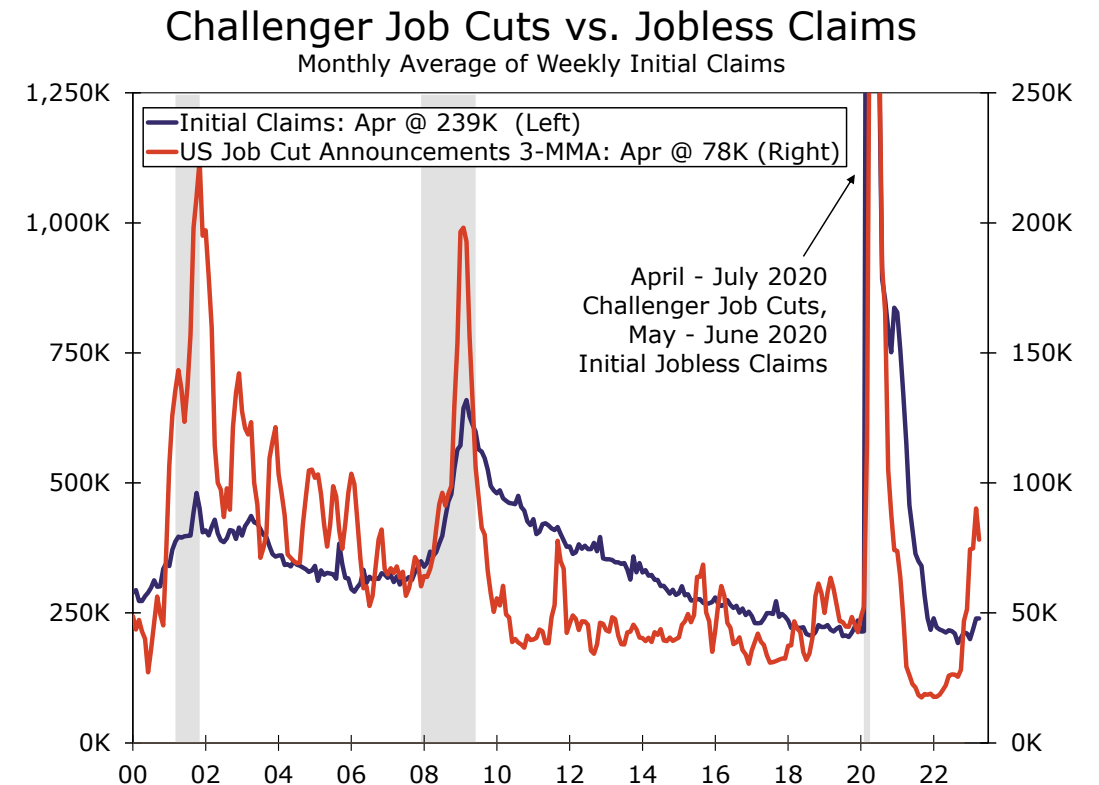
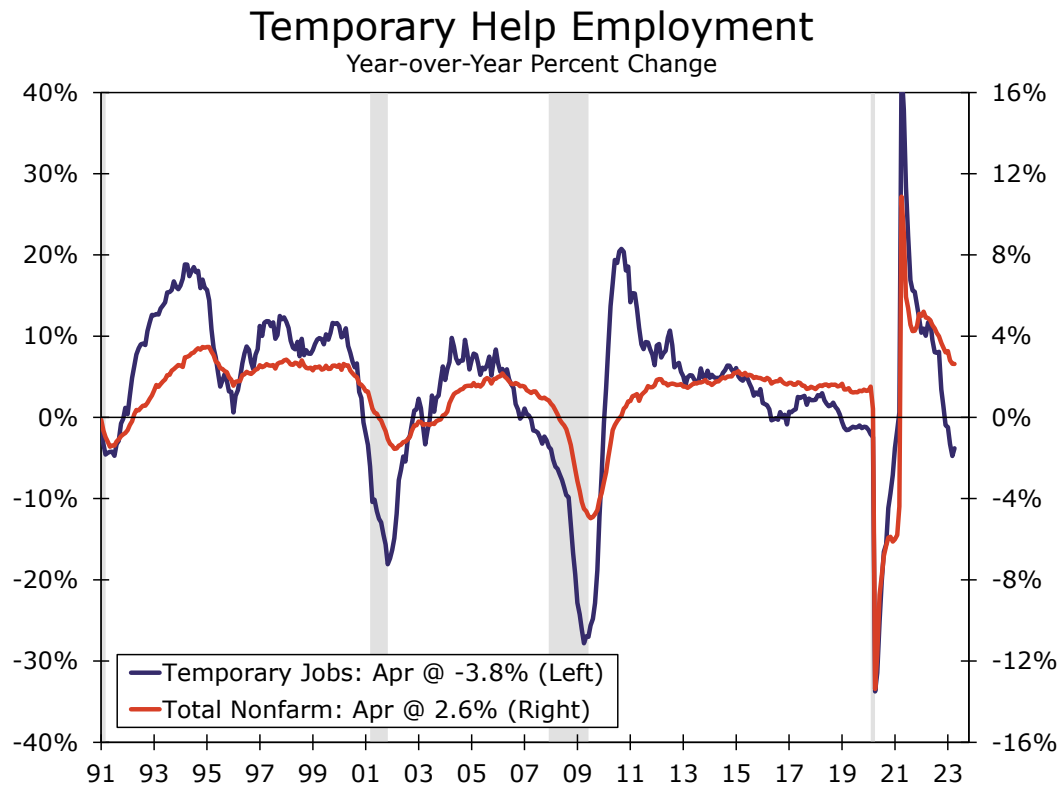
Consumers are still spending, but the mix is slowly shifting back toward services



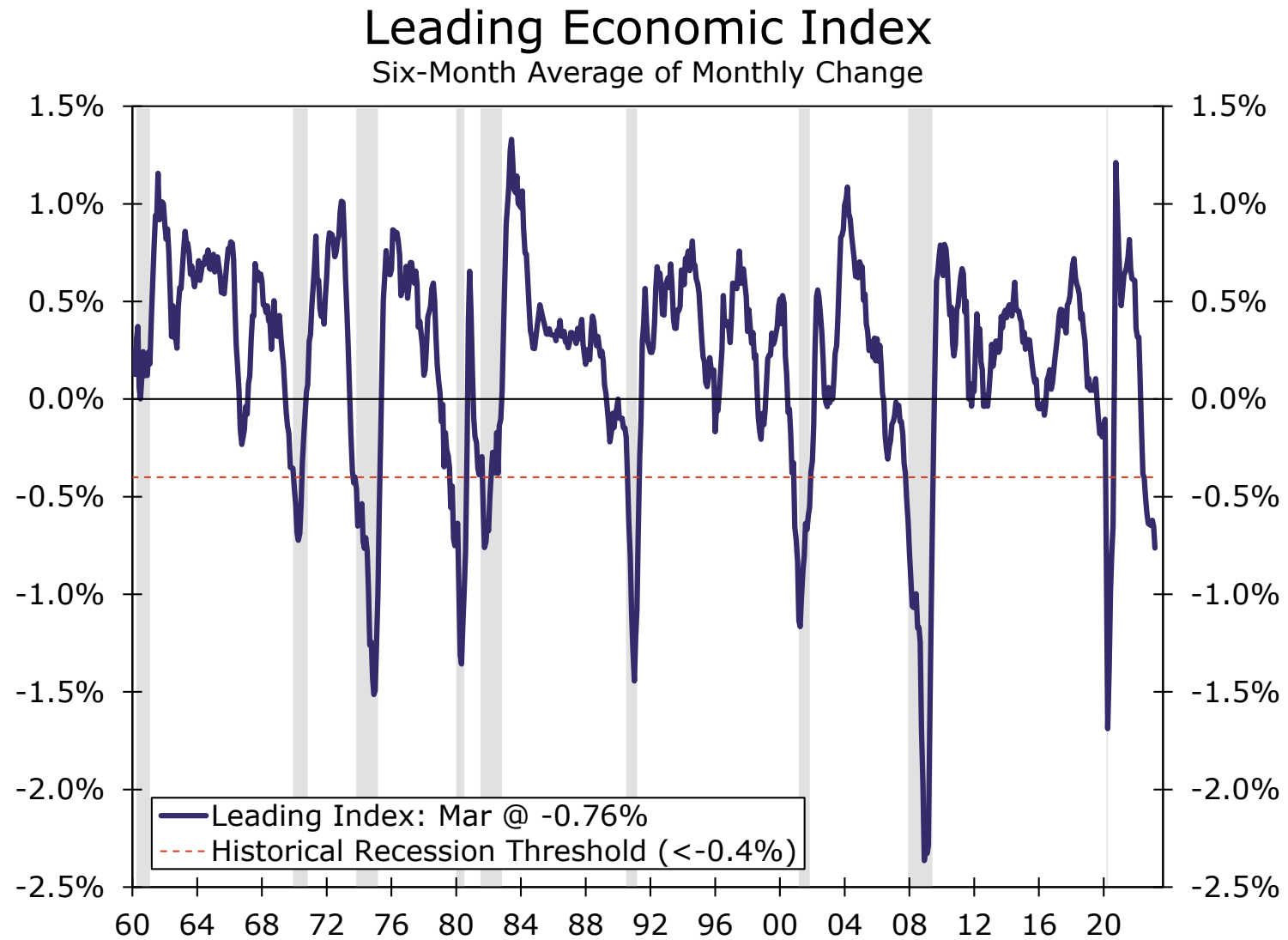
Households have been relying on pandemic-era savings and debt to fuel real spending. This dynamic can continue for a little while longer but not indefinitely.



While job growth remains strong, cracks are emerging in the labor market

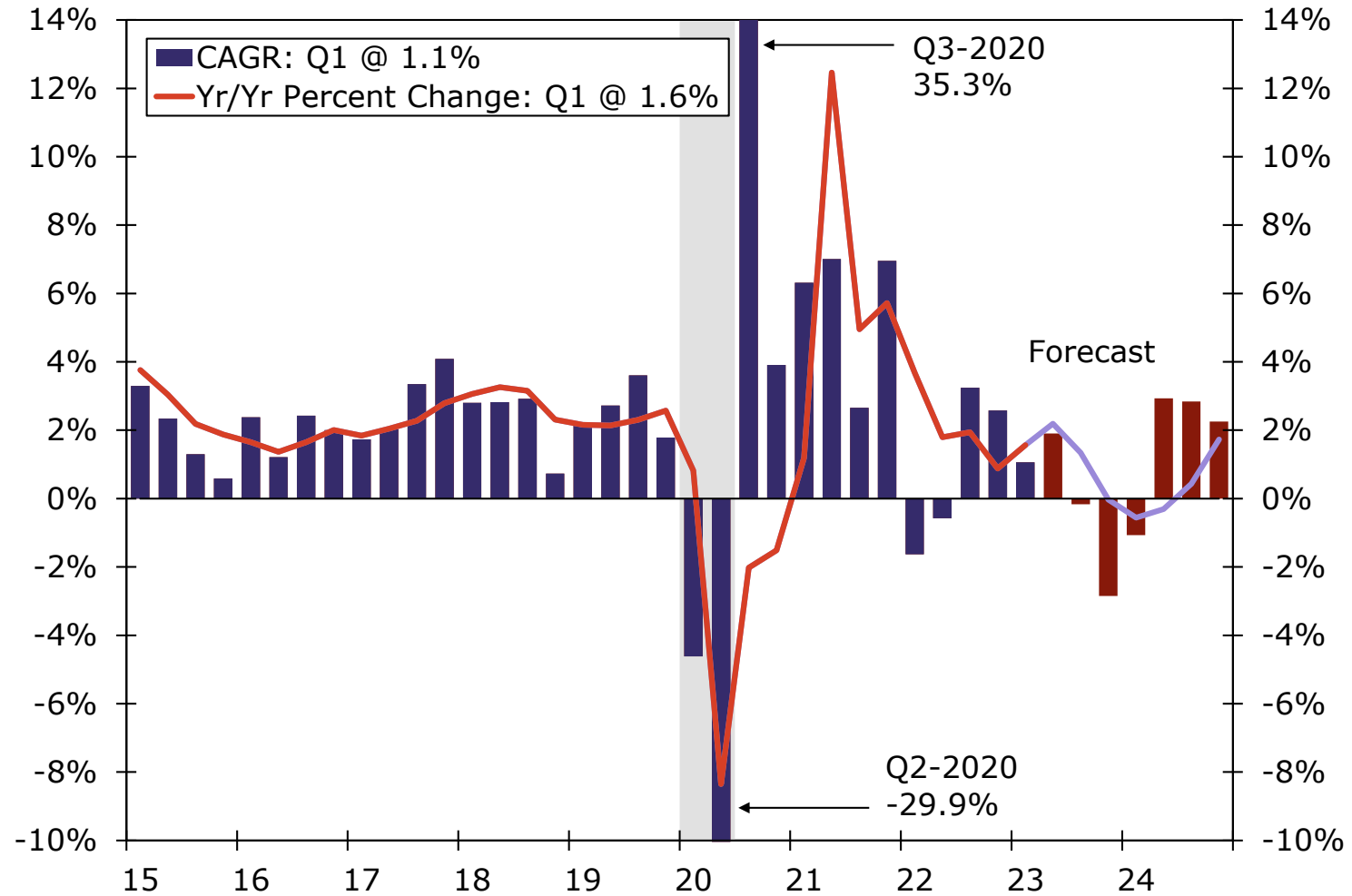


Leading indicators
bode poorly for
avoiding a
recession



We expect the U.S. economy to slip into a mild recession in the second half of the year

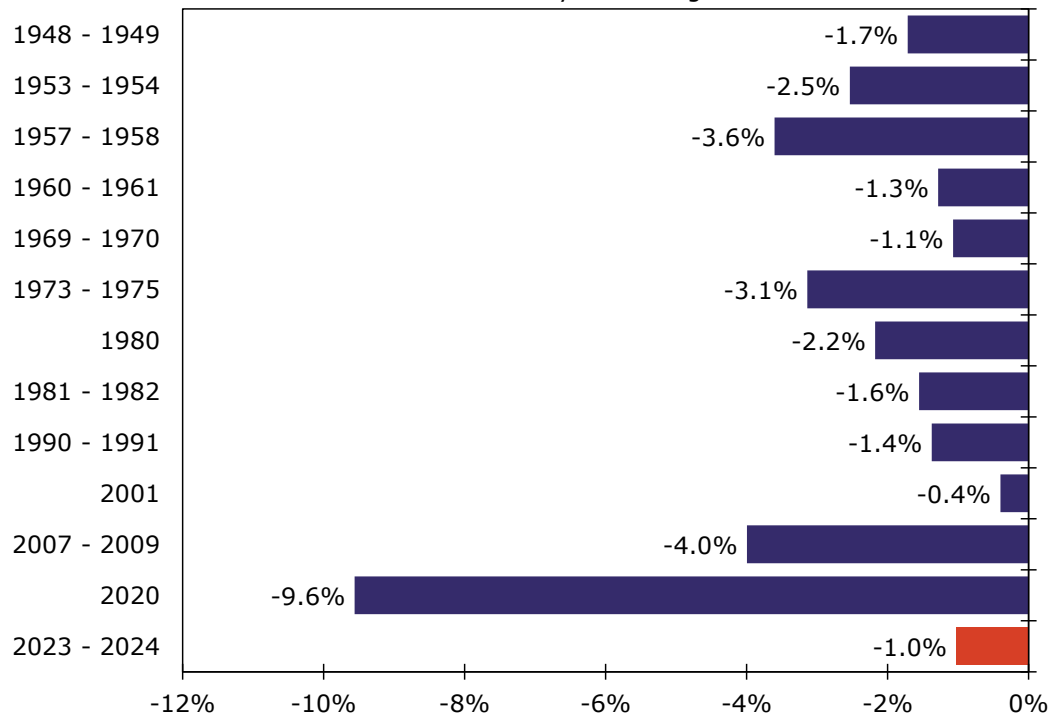
U.S. Real GDP Growth



We do not expect the downturn to be as severe as the recessions in most recent memory

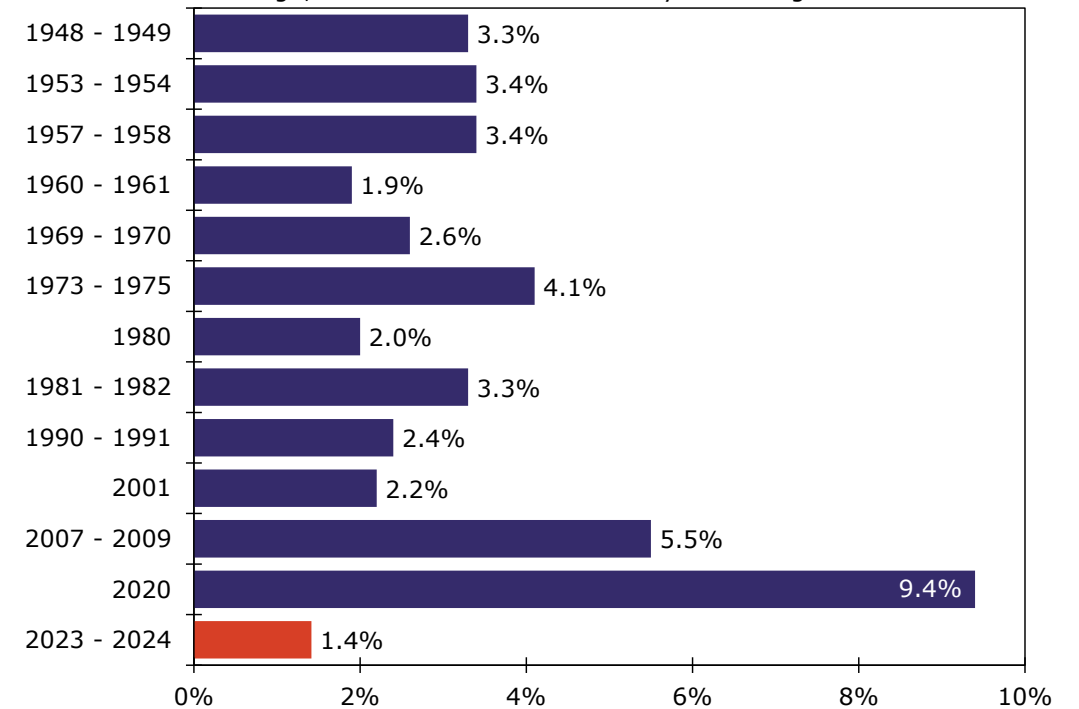
Recession GDP Peak to Trough

2023 Recession based on May Wells Fargo Forecast



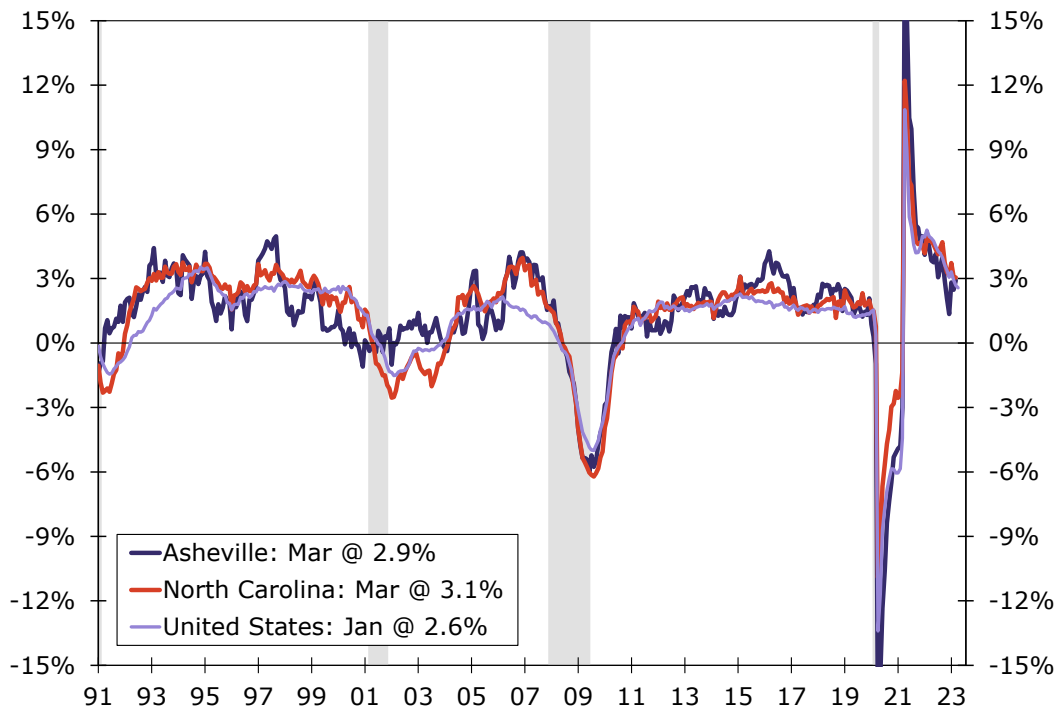
Recession Unemployment Rate Change

Peak to Trough, 2023 Recession based on May Wells Fargo Forecast

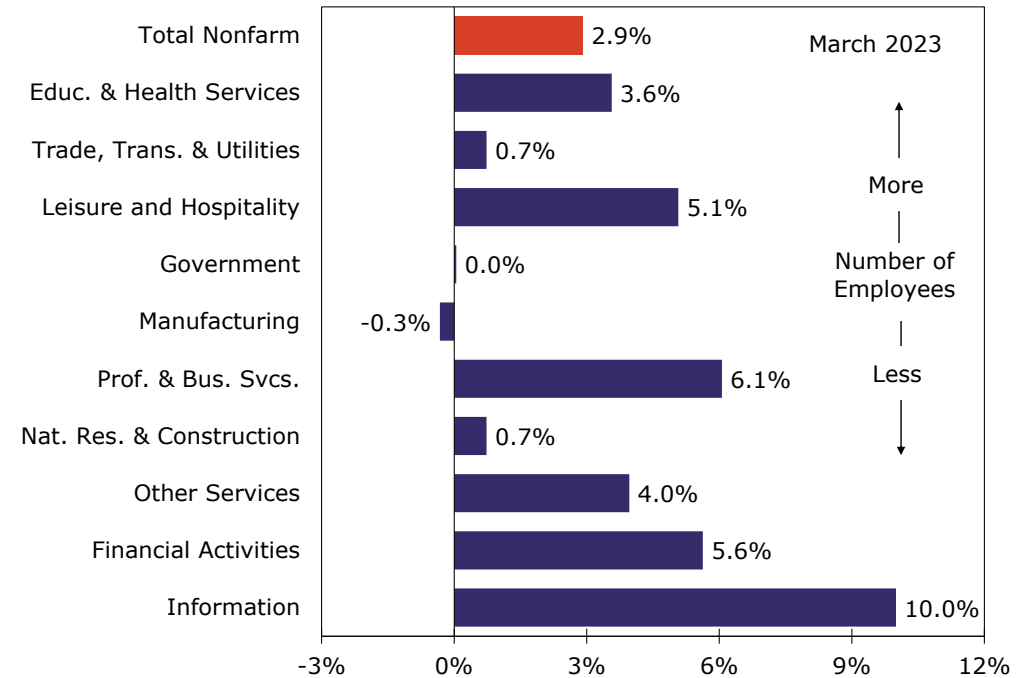


Hiring in Asheville remains robust

Asheville MSA Nonfarm Employment
Year-over-Year Percent Change



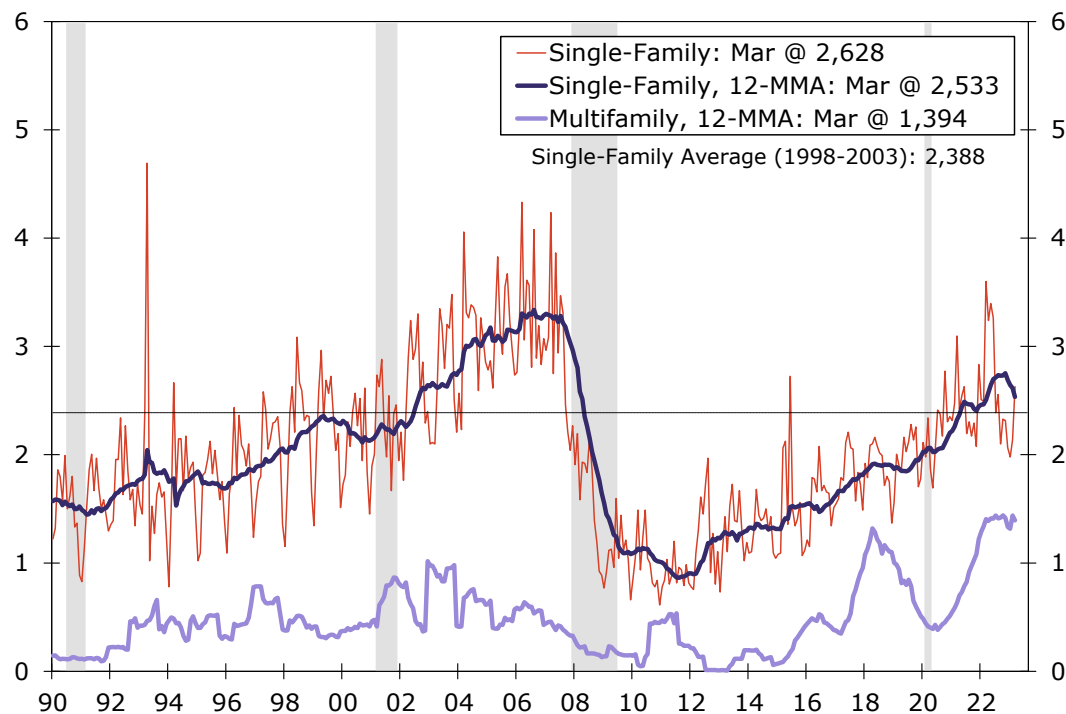
Asheville MSA Employment Growth By Industry
Year-over-Year Percent Change



Residential real estate activity has held up comparatively well in the face of higher mortgage rates

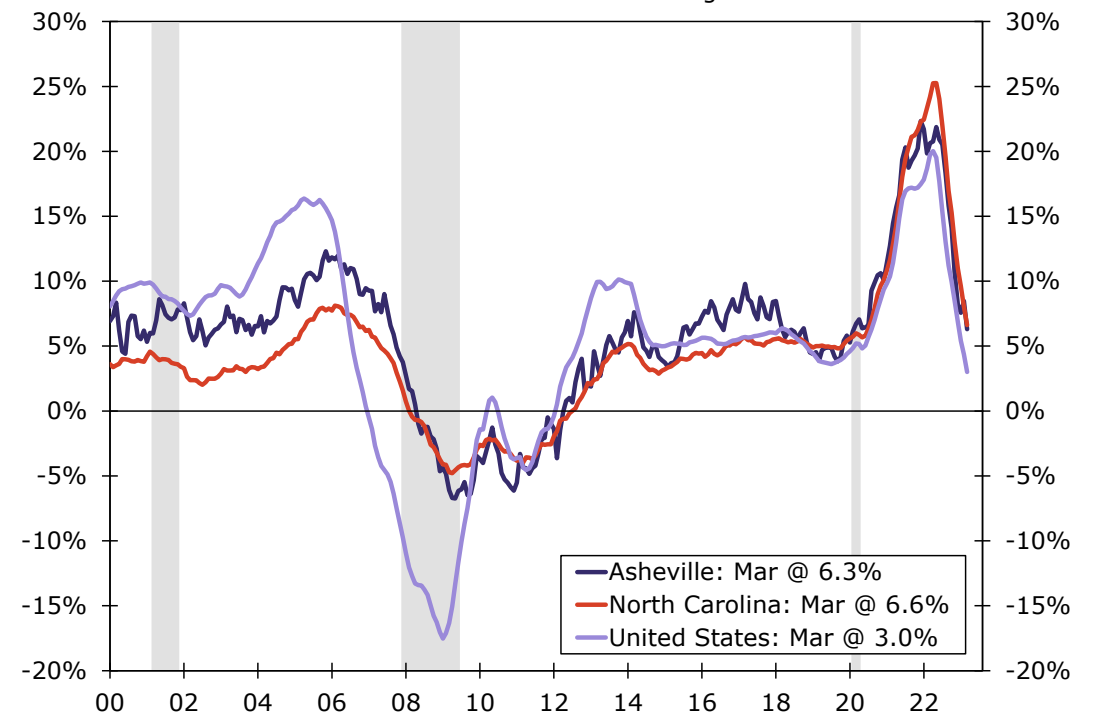
Asheville MSA Housing Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



Home Price Growth: U.S. vs. Asheville MSA

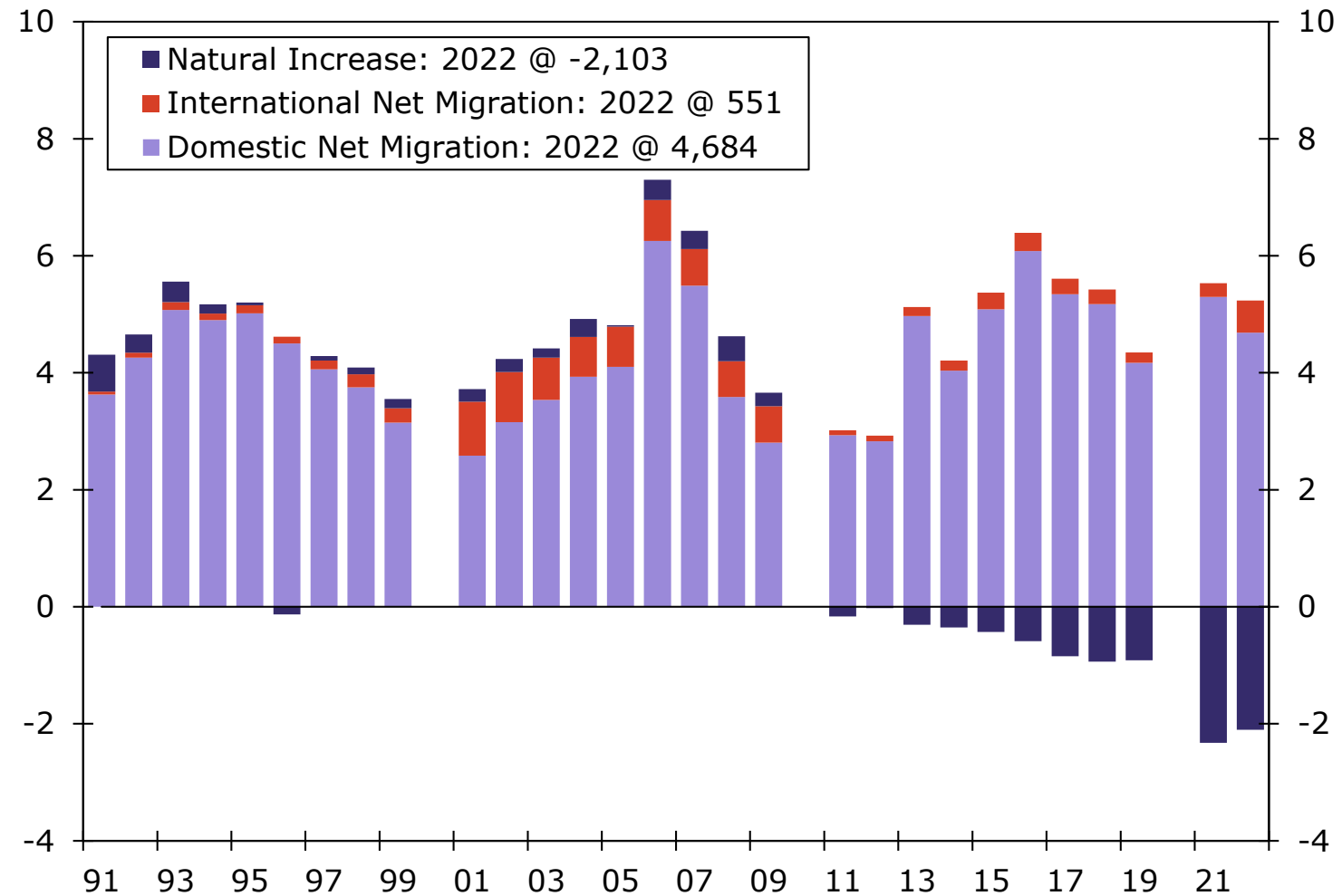
Year-over-Year Percent Change



Domestic migration continues to fuel population growth

Components of Population Change: Asheville

In Thousands, Breaks on Decennial Years



Inflation

- Inflation remains too high and widespread, risking it becomes entrenched. Curtailing inflation will require weaker demand and not just greater supply.
-

Labor Market

- The tight labor market is contributing to elevated inflation. While the jobs market has started to cool, there remains a ways to go before it comes into balance.
-

Monetary Policy

- The FOMC has likely ended its tightening cycle. The severity of inflation means cuts won't come, however, without a sharp decline in activity and materially higher unemployment.
-

Spending & Investment

- Resilient consumer spending has offset a retrenchment in housing and manufacturing. But consumers' finances are deteriorating as savings decline and real income sputters.
-

Recession Watch

- Recession is likely late this year as tighter/more expensive credit and weaker corporate profits leads to cutbacks in investment and hiring.
-

Appendix

Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2022				2023				2024				2021	2022	2023	2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	-1.6	-0.6	3.2	2.6	1.1	1.9	-0.2	-2.8	-1.1	2.9	2.8	2.3	5.9	2.1	1.3	0.3
Personal Consumption	1.3	2.0	2.3	1.0	3.7	1.0	-0.2	-1.5	-0.7	2.5	2.4	2.6	8.3	2.7	1.6	0.5
Business Fixed Investment	7.9	0.1	6.2	4.0	0.7	1.5	-1.9	-6.5	-5.3	-0.5	2.0	3.3	6.4	3.9	1.3	-2.4
Equipment	11.4	-2.0	10.6	-3.5	-7.3	-1.6	-4.1	-10.8	-8.0	0.4	3.5	4.1	10.3	4.3	-2.9	-4.0
Intellectual Property Products	10.8	8.9	6.8	6.2	3.8	4.1	0.7	-2.5	-2.0	1.5	3.7	5.5	9.7	8.8	4.2	0.4
Structures	-4.3	-12.7	-3.6	15.8	11.2	2.8	-3.1	-5.8	-7.5	-8.5	-6.8	-5.3	-6.4	-6.6	3.9	-6.0
Residential Investment	-3.1	-17.8	-27.1	-25.1	-4.2	-3.5	-3.2	-2.9	-2.6	1.9	3.1	4.8	10.7	-10.6	-12.4	-0.8
Government Purchases	-2.3	-1.6	3.7	3.8	4.7	1.5	1.4	1.3	1.0	1.0	0.9	0.8	0.6	-0.6	2.8	1.1
Net Exports ²	-3.1	1.2	2.9	0.4	0.1	0.2	0.2	0.6	0.7	0.2	-0.8	-0.4	-1.7	-0.6	0.7	0.2
Inventories ²	0.2	-1.9	-1.2	1.5	-2.3	0.6	-0.1	-1.6	-0.6	0.8	1.4	0.1	0.2	0.7	-0.6	-0.1
Nonfarm Payroll Change ³	561	329	423	284	295	191	67	-108	-250	-8	92	142	606	399	111	-6
Unemployment Rate	3.8	3.6	3.6	3.6	3.5	3.5	3.7	4.1	4.7	4.7	4.6	4.3	5.4	3.6	3.7	4.6
Consumer Price Index ⁴	8.0	8.6	8.3	7.1	5.8	4.0	3.2	2.7	2.4	2.3	2.6	2.8	4.7	8.0	3.9	2.5
Real Disposable Income ¹	-10.6	-2.3	3.2	5.0	8.0	1.5	1.0	0.0	0.7	2.2	2.0	2.9	1.9	-6.1	3.5	1.2
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate ⁶	0.50	1.75	3.25	4.50	5.00	5.25	5.25	5.25	4.25	3.25	2.75	2.75	0.25	2.02	5.19	3.25
Conventional Mortgage Rate	4.27	5.58	6.01	6.36	6.54	6.30	5.90	5.55	5.50	5.25	5.00	4.85	3.03	5.38	6.07	5.15
2 Year Note	2.28	2.92	4.22	4.41	4.06	4.05	3.70	3.15	2.90	2.80	2.75	2.75	0.27	2.99	3.74	2.80
10 Year Note	2.32	2.98	3.83	3.88	3.48	3.50	3.25	3.00	2.95	2.90	2.85	2.90	1.45	2.95	3.31	2.90

Forecast as of: May 11, 2023

¹ Compound Annual Growth Rate Quarter-over-Quarter

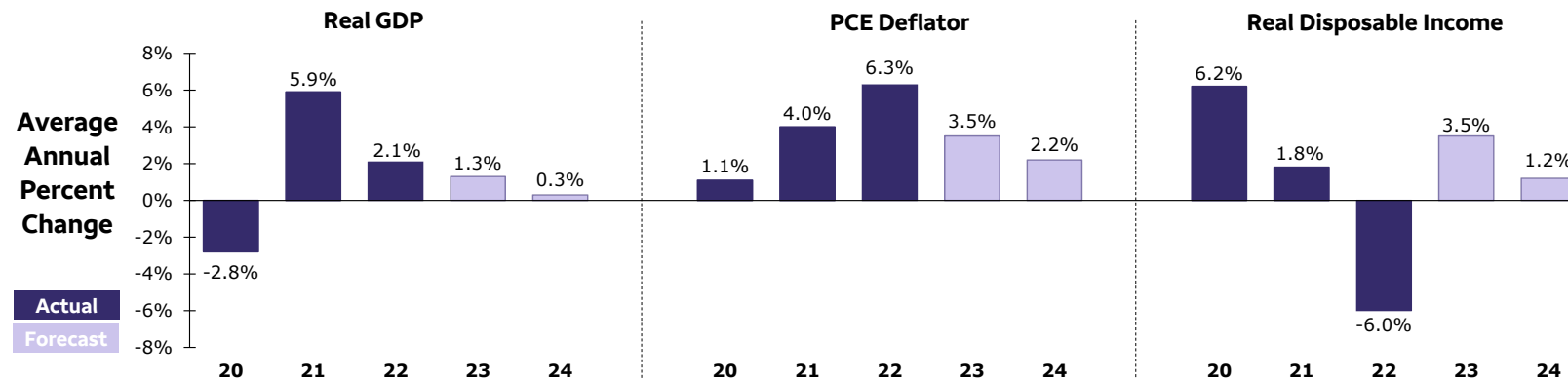
² Percentage Point Contribution to GDP

³ Average Monthly Change

⁴ Year-over-Year Percentage Change

⁵ Quarterly Data - Period End; Annual Data - Annual Averages

⁶ Upper Bound of the Federal Funds Target Rate



Forecast as of: May 11, 2023

Wells Fargo International Economic Forecast

	GDP				CPI			
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Global (PPP Weights)	6.3%	3.4%	2.5%	2.5%	4.7%	8.7%	5.0%	3.8%
Advanced Economies ¹	5.4%	2.7%	1.2%	1.3%	3.1%	7.3%	4.7%	2.5%
United States	5.9%	2.1%	1.3%	0.3%	4.7%	8.0%	3.9%	2.5%
Eurozone	5.4%	3.5%	0.7%	1.6%	2.6%	8.4%	5.6%	2.5%
United Kingdom	7.6%	4.1%	0.0%	1.3%	2.6%	9.1%	7.1%	2.5%
Japan	2.1%	1.0%	0.9%	1.5%	-0.2%	2.5%	2.1%	1.2%
Canada	5.0%	3.4%	1.0%	1.5%	3.4%	6.8%	3.5%	2.2%
Switzerland	4.2%	2.1%	0.3%	1.7%	0.6%	2.8%	2.4%	2.0%
Australia	5.2%	3.7%	1.5%	1.8%	2.8%	6.6%	5.6%	3.2%
New Zealand	6.1%	2.4%	1.5%	1.5%	3.9%	7.2%	5.5%	3.0%
Sweden	5.4%	2.7%	-0.4%	1.7%	2.7%	8.3%	7.5%	2.5%
Norway	3.9%	3.8%	1.1%	0.8%	3.5%	5.8%	4.6%	2.6%
Developing Economies ¹	6.9%	4.0%	3.5%	3.5%	5.9%	9.8%	5.2%	4.7%
China	8.5%	3.0%	6.0%	4.9%	0.9%	2.0%	2.0%	2.2%
India	9.1%	6.7%	5.7%	6.7%	5.5%	6.7%	5.3%	5.0%
Mexico	4.7%	3.1%	1.9%	1.5%	5.7%	7.9%	5.6%	3.9%
Brazil	5.0%	3.0%	0.6%	1.9%	8.3%	9.0%	5.5%	4.0%

Forecast as of: May 11, 2023

¹Aggregated Using PPP Weights

Wells Fargo Economics Group

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