



Economic Outlook

April 2021

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U.S. Outlook

- With vaccinations ramping up and COVID declining, economic activity is expected to accelerate considerably this spring and summer. The stimulus passed late last year provided downside insurance, while the just completed \$1.9 trillion package will enter the economy as growth was already strengthening, creating a mini-boom.
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Consumers Are in the Driver's Seat

- The confluence of two massive stimulus programs will lead to a surge in consumer spending. Stimulus checks, expanded unemployment benefits and reviving job growth will bolster goods purchases, while receding virus fears and the re-opening of the economy will unleash a massive wave of services outlays, fueled by savings and income growth.
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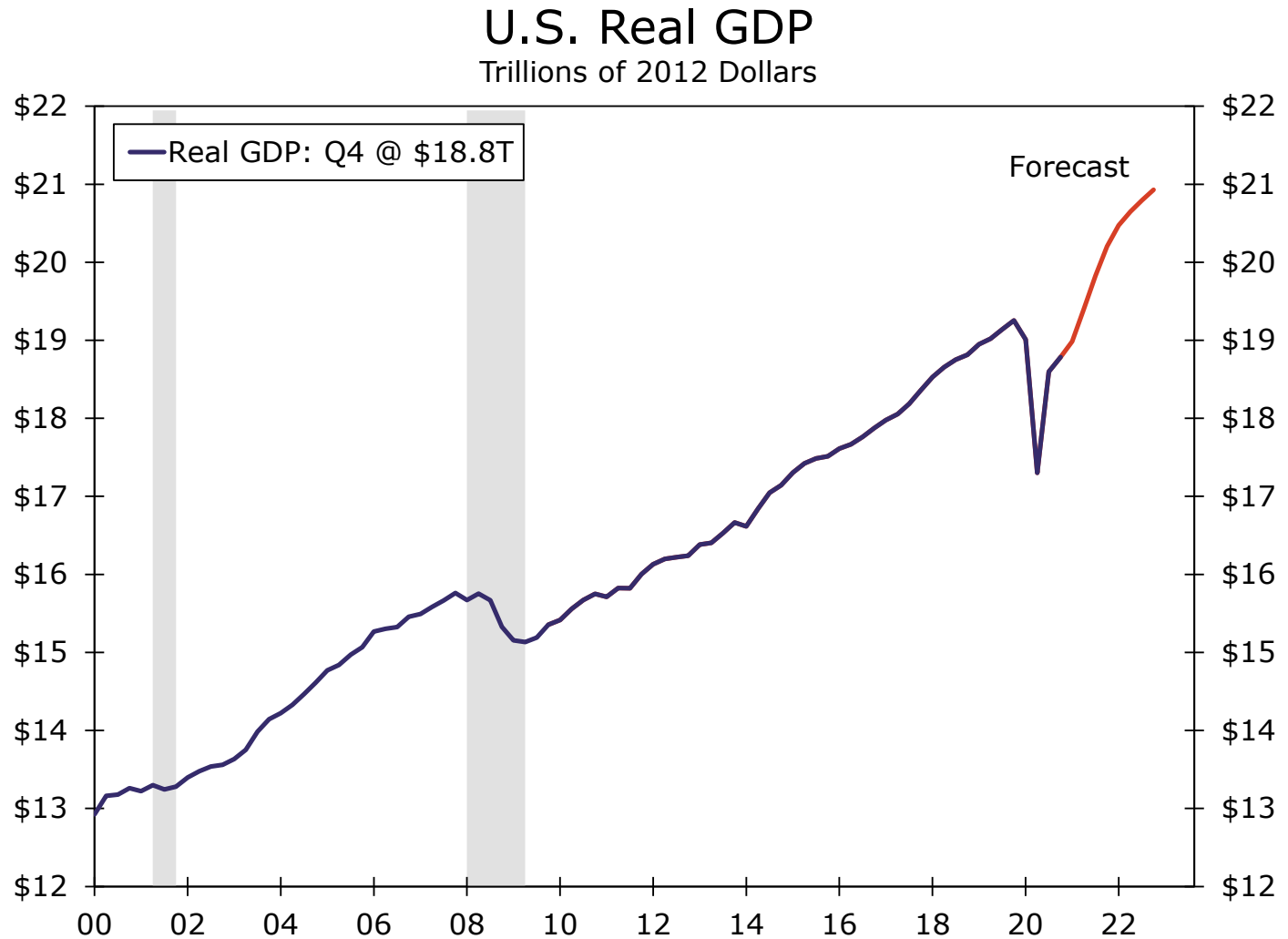
Affordability Migration

- The pandemic accelerated the migration from high-cost, densely-populated cities to secondary metro areas in the inland parts of the West and South. We expect the affordability migration to continue well into this decade. New York, San Francisco, Los Angeles and Chicago are facing a reset and will lag the overall recovery.
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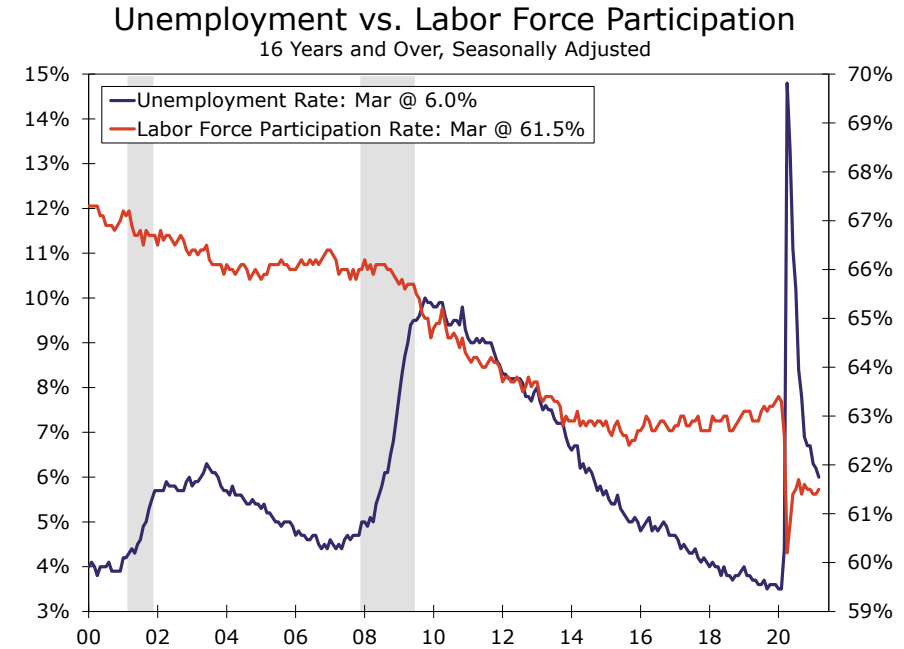
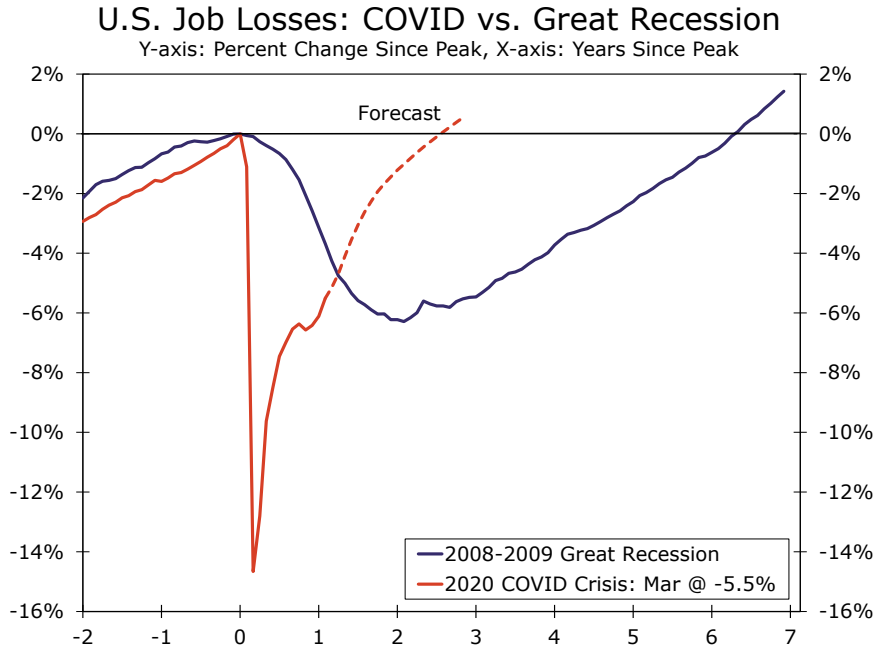
Higher Rates Will Likely Cool the Red-Hot Housing Market

- Rising mortgages rates will likely extend the cooling in home sales and new home construction we were expecting during late winter and early spring. Pending home sales and mortgage applications began to retreat before interest rates spiked. Demographics remain solidly positive and the migration to the suburbs and secondary markets is an enduring trend that will extend well into the decade.
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We see real GDP surpassing its pre-pandemic peak by the end of this summer. Real GDP is expected to rise more than any other year since 1984.



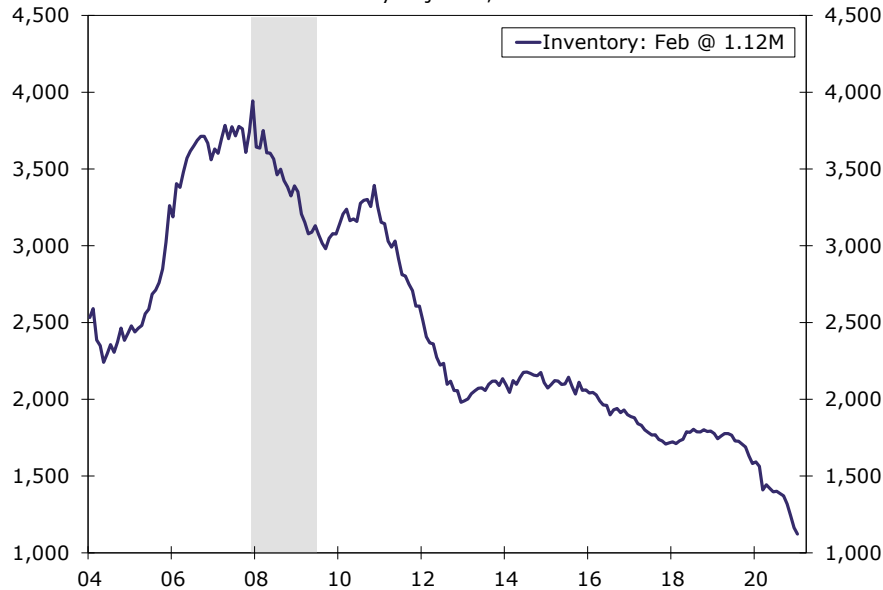
Employers added 916,000 jobs in March, and job gains over the past two months were revised higher as well. Labor force participation should continue to increase with the broadening demand for workers, helped by vaccination efforts and the return to in-person learning.



While more people want to buy homes, fewer want to sell. Inventory levels continue to test new lows, which is a big reason why prices surged during this past year. Home sales have cooled off, as affordability concerns and higher mortgage rates have pressured demand. These will likely compound the problem and also reinforce the affordability migration.

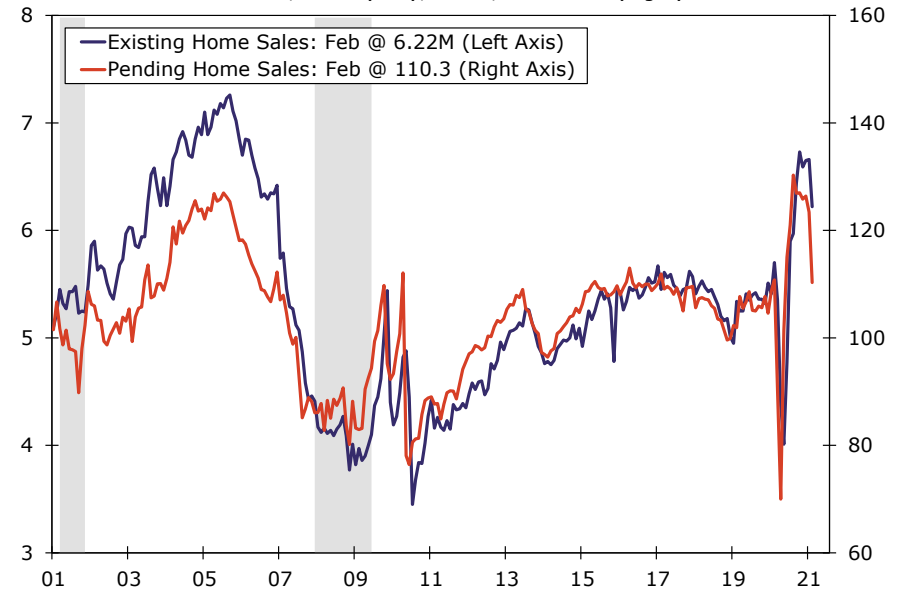
Existing Home Inventory

Seasonally Adjusted, Thousands



Existing Home Sales vs. Pending Home Sales

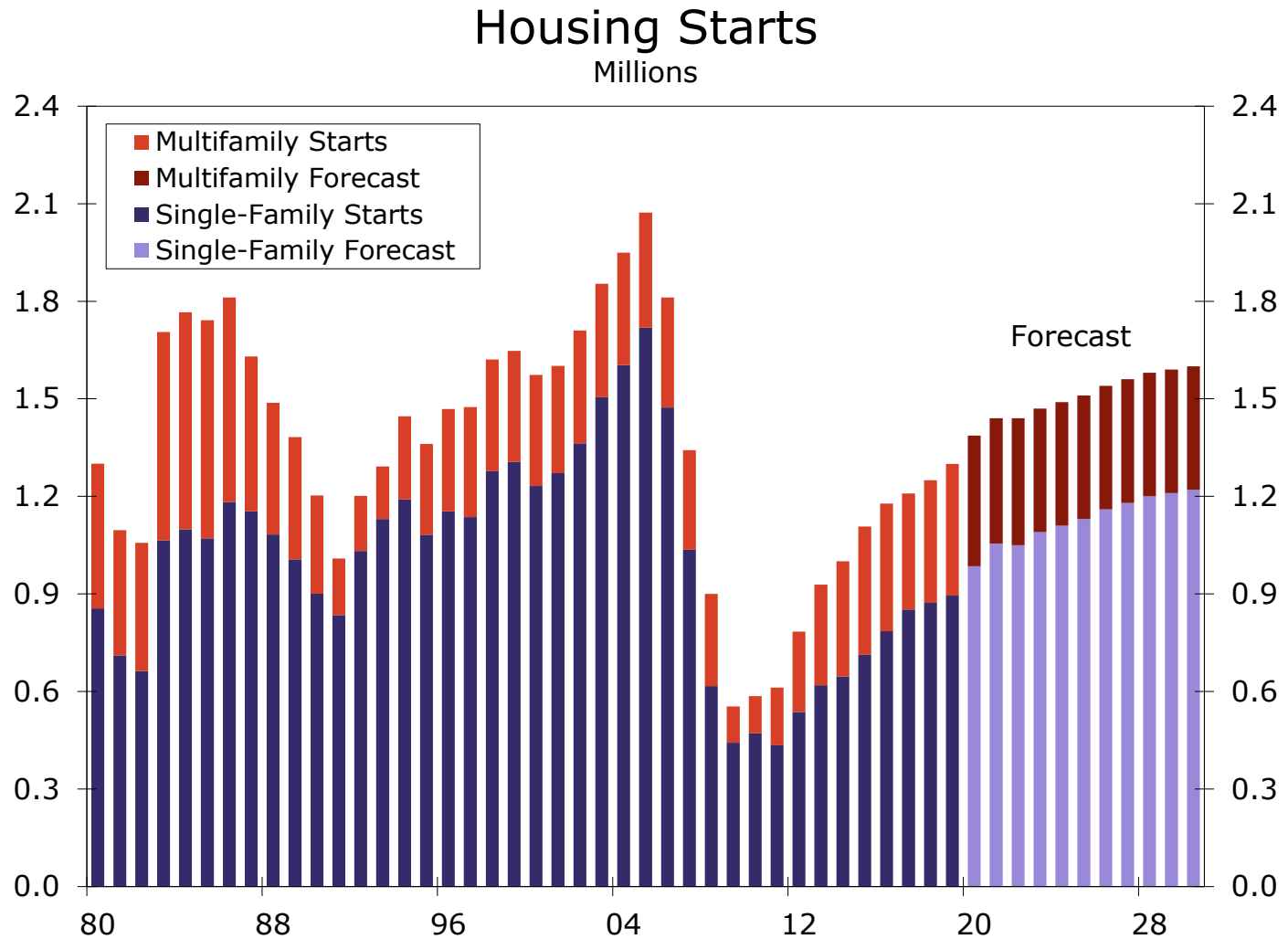
Millions, SAAR (Left); Index, 2001=100 (Right)



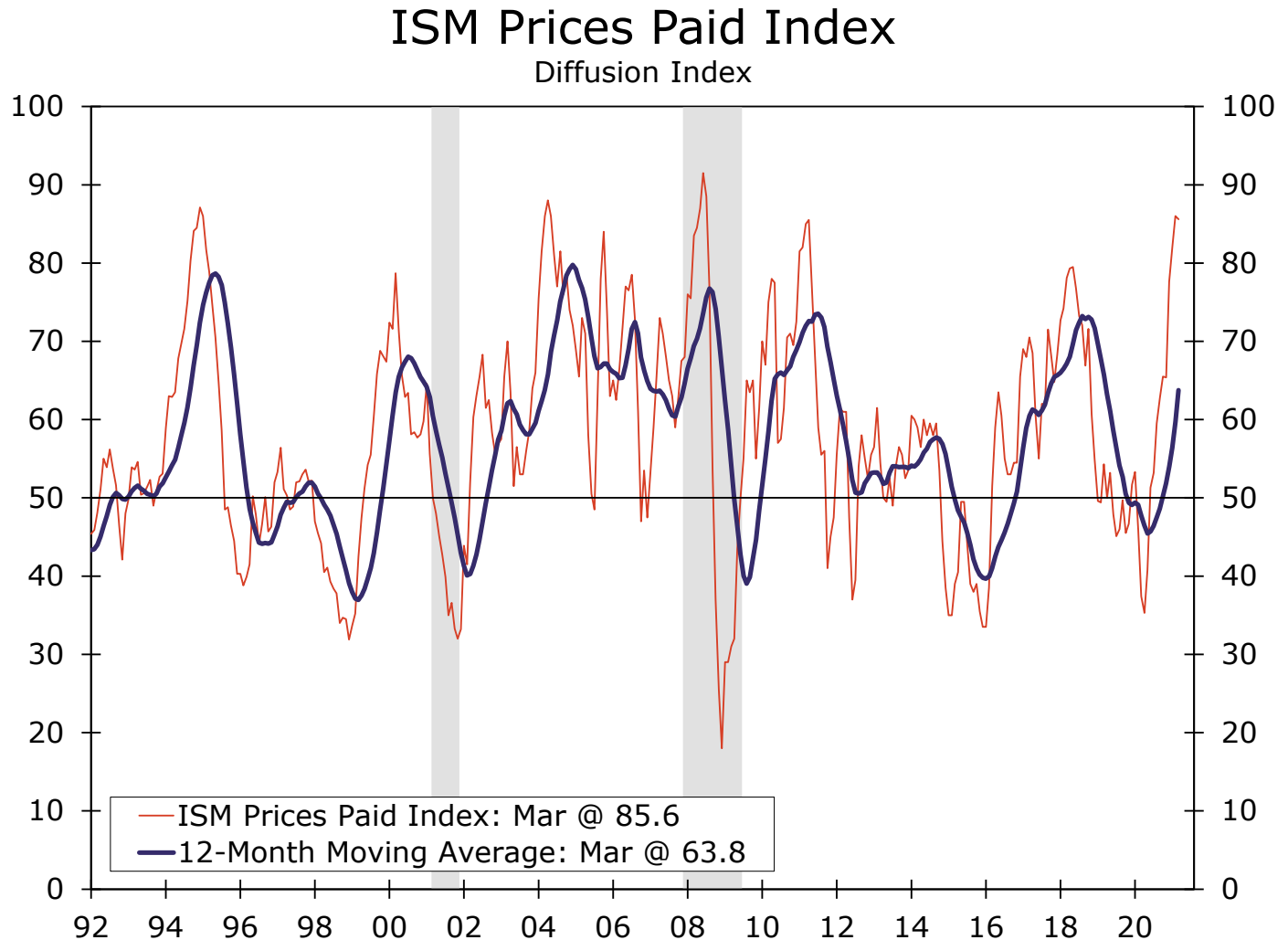
Housing Starts Forecast

Single-family construction should build on this past year's strong momentum.

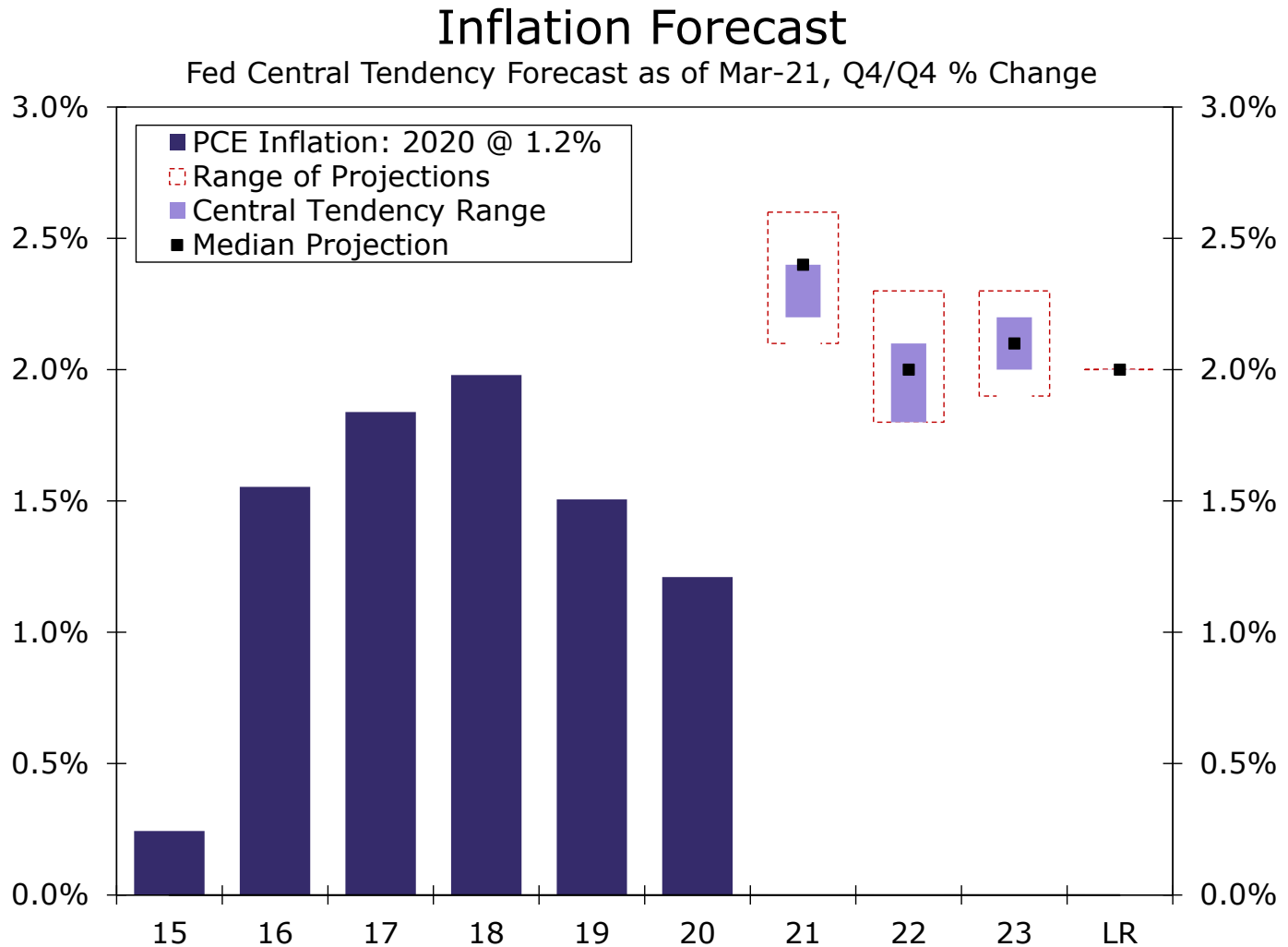
After rising 12% in 2020, we look for single-family starts to rise 10.6% in 2021.



The ISM prices paid index remains near the highest level since 2008, but unlike that year, consumer and business demand is surging. We expect the upward pressure on prices to be sharp but temporary.



The Federal Reserve remains remarkably sanguine about the prospects for higher inflation. For the most part, financial participants seem to be taking the Fed at their word. The risks are clearly to the upside.



We've seen evidence of an affordability migration to traditionally smaller, secondary markets across the Sun Belt. The pandemic, exodus from downtown areas and persistent fears of violent crime have fueled a continuing outmigration from many formerly popular urban areas.

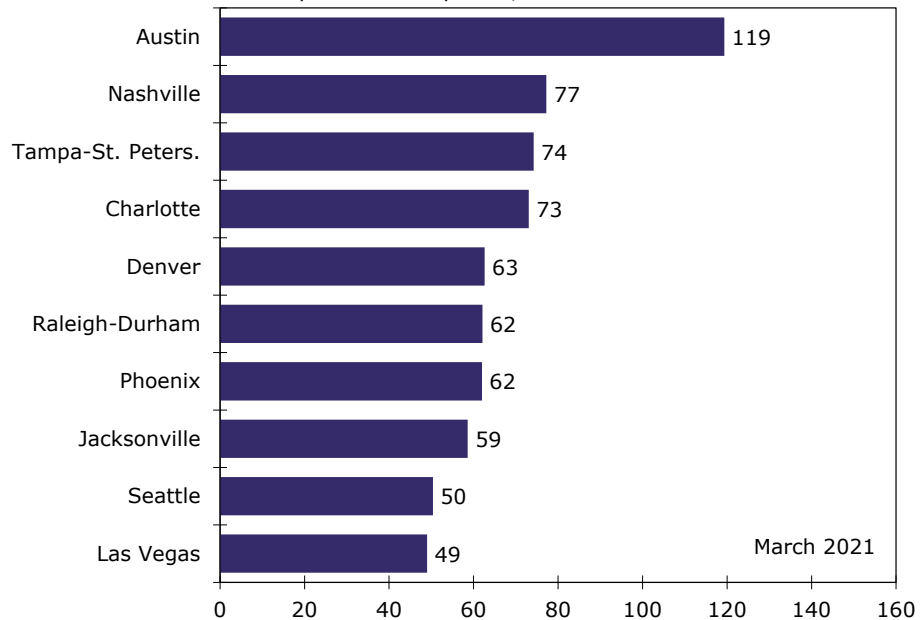
Best Places to Live in the U.S.

2020-21; Metro Area Population > 1M

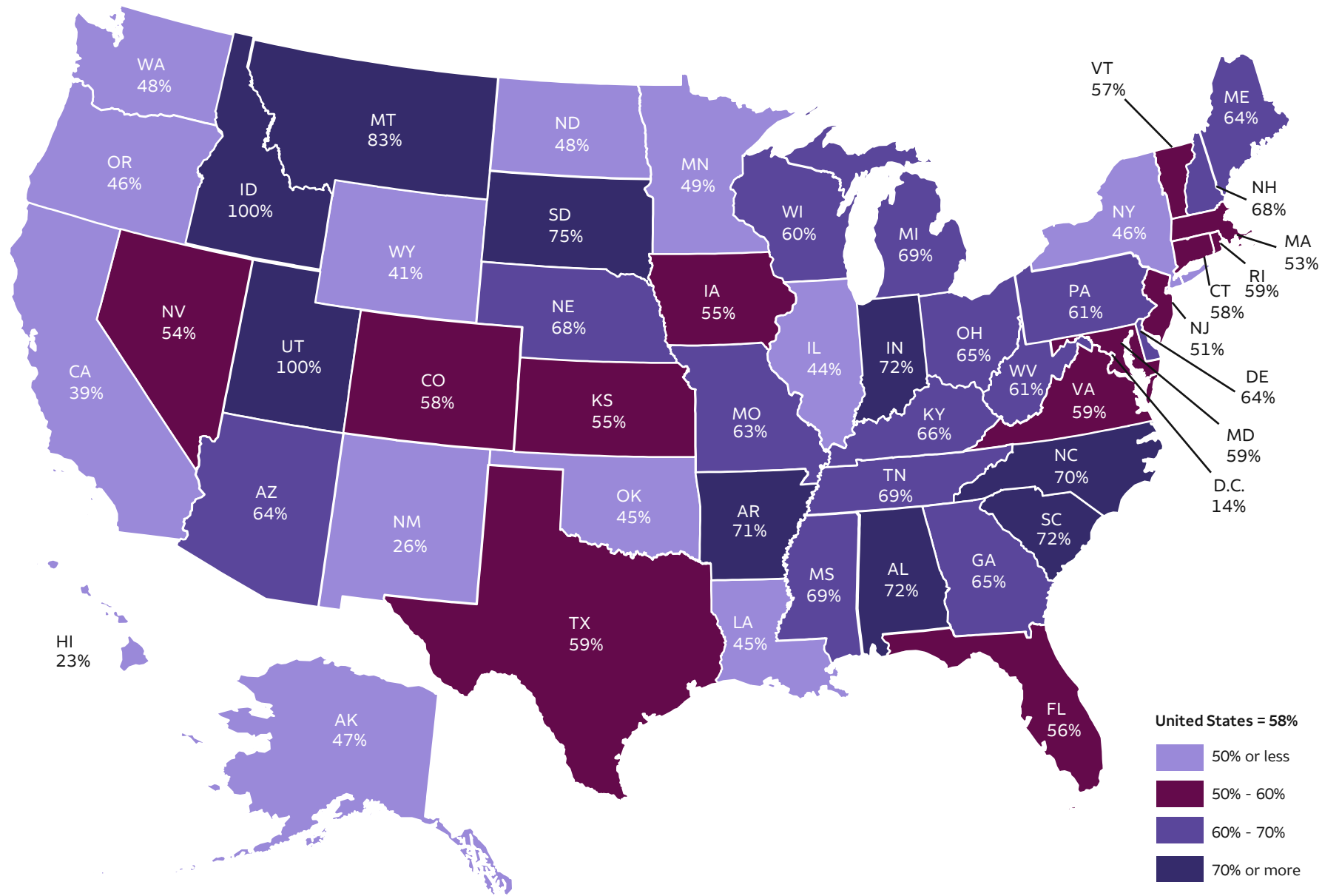
1. Denver, CO
2. Austin, TX
3. Charlotte, NC
4. Portland, OR
5. San Francisco, CA
6. Raleigh-Durham, NC
7. Seattle, WA
8. Nashville, TN
9. Boston, MA
10. Minneapolis-St. Paul, MN

Cities that Gained the Most Workers

LinkedIn Population Gain per 10,000 LinkedIn Members



Percent of March & April Job Losses Recovered – February 2021

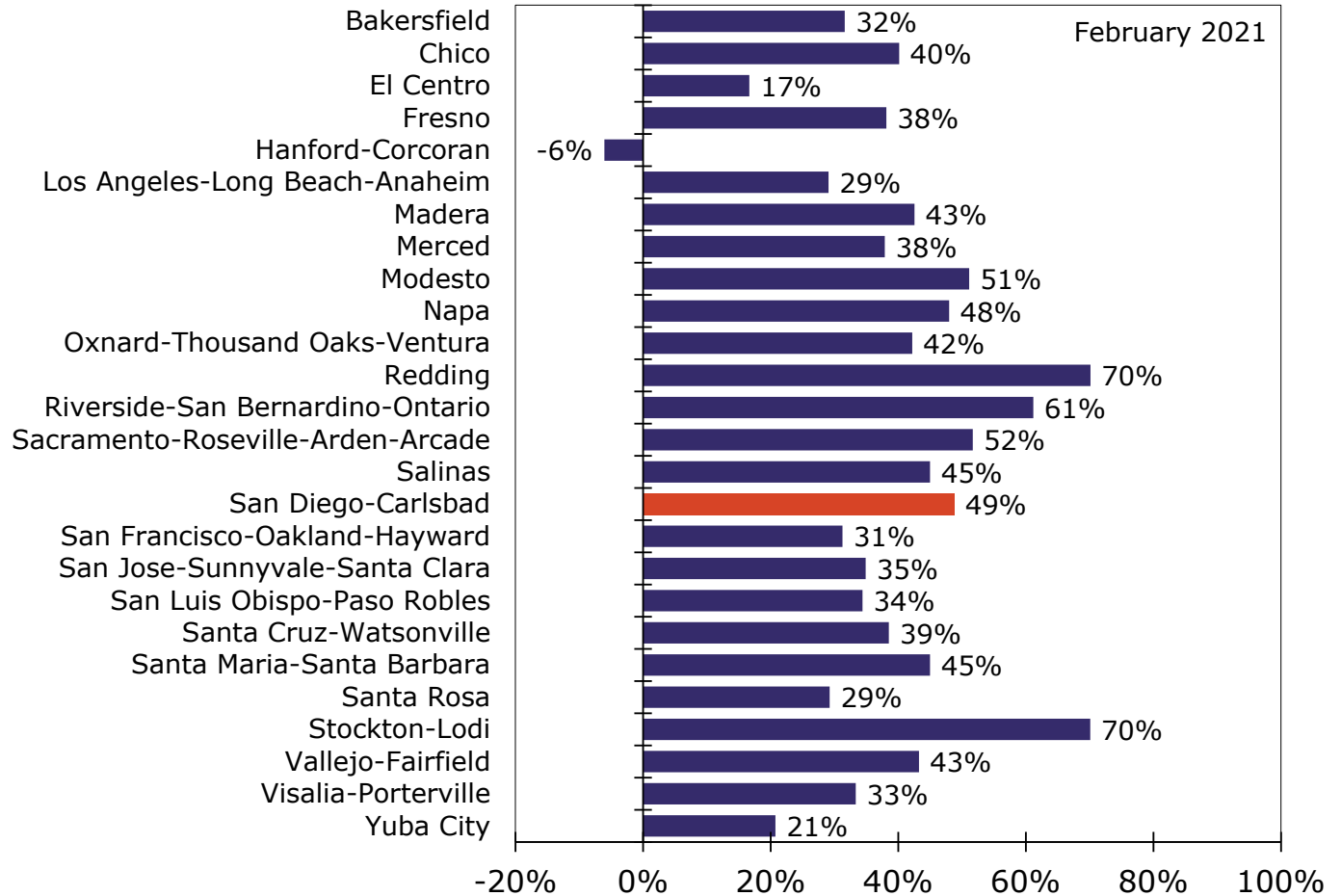


Source: U.S. Department of Labor and Wells Fargo Securities

Local areas heavily tied to tourism and high-contact service jobs have lagged in the employment recovery.

California Metro Area Employment Recovery

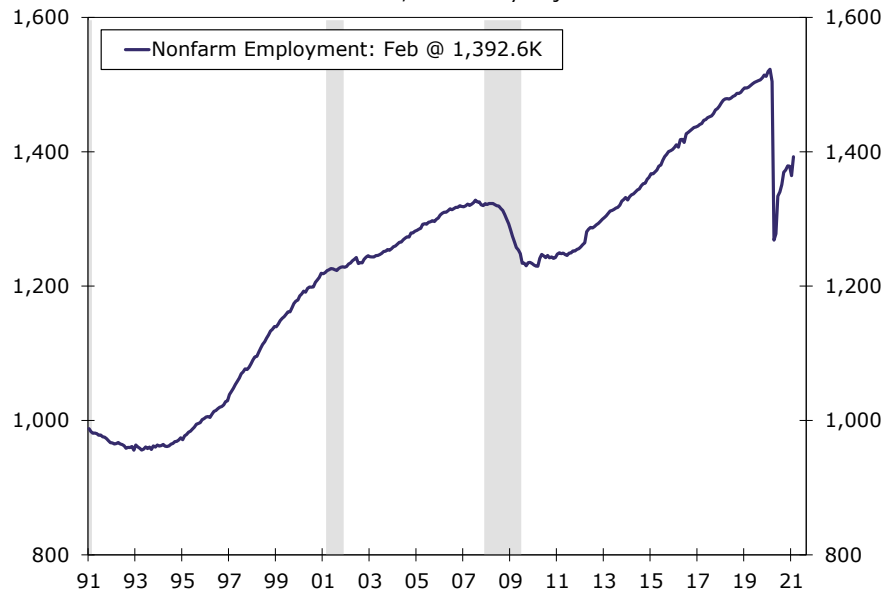
Percent of March-April 2020 Job Losses Recovered



Local employers have recouped 124,000 (or 49%) of the 254,200 jobs lost in last year's lockdowns. High-contact services has lagged in the employment recovery, but activity has picked up in recent weeks as restrictions have relaxed.

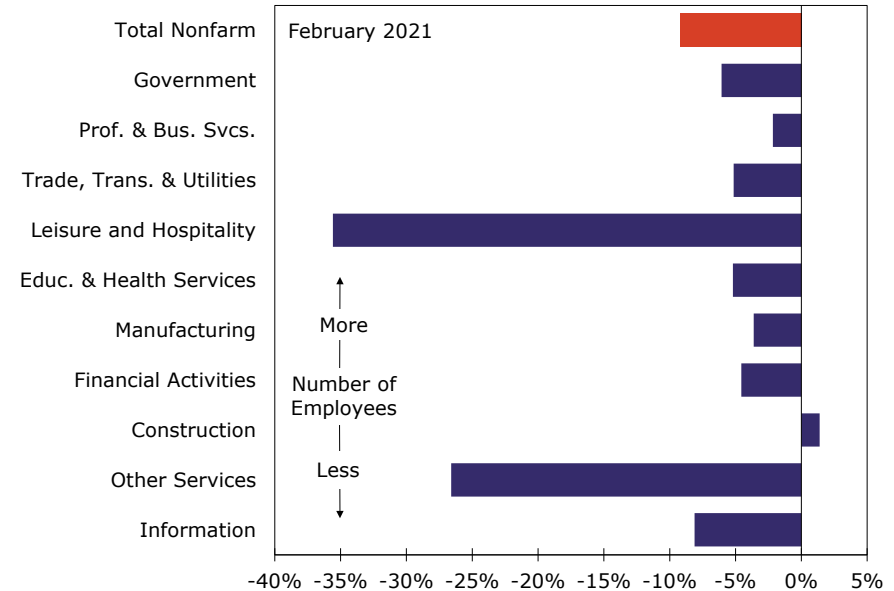
San Diego MSA Nonfarm Employment

Thousands, Seasonally Adjusted



San Diego MSA Employment Growth By Industry

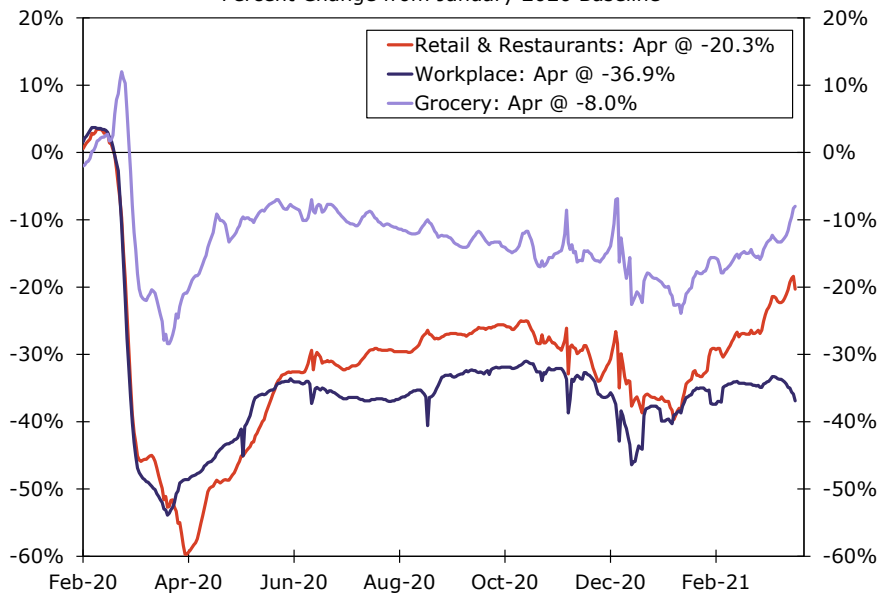
Year-over-Year Percent Change of 3-MMA



Mobility has clearly picked up across Southern California. Visits to restaurants in San Diego are ahead of the national average. We expect mobility to improve further in the coming months.

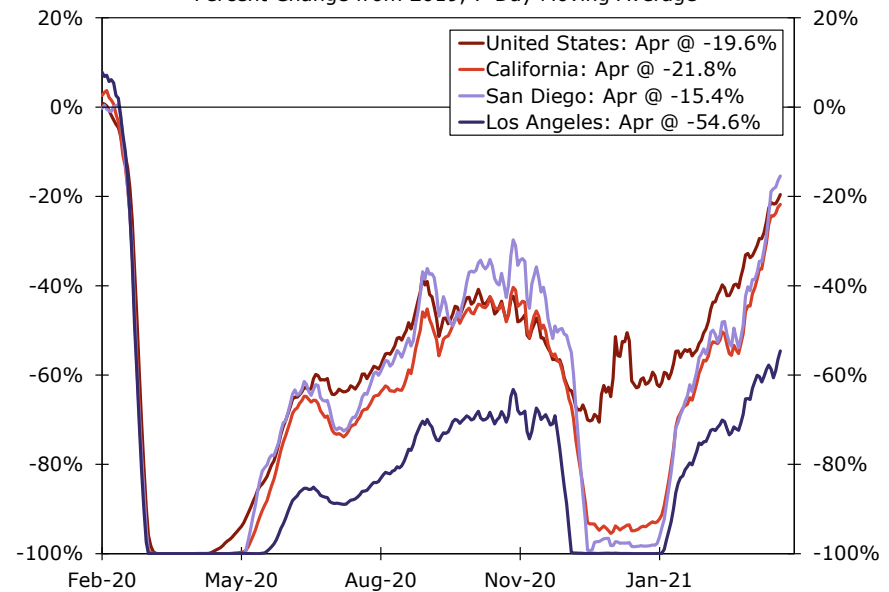
San Diego: Time Spent Away from Home

Percent Change from January 2020 Baseline



Seated Diners

Percent Change from 2019, 7-Day Moving Average

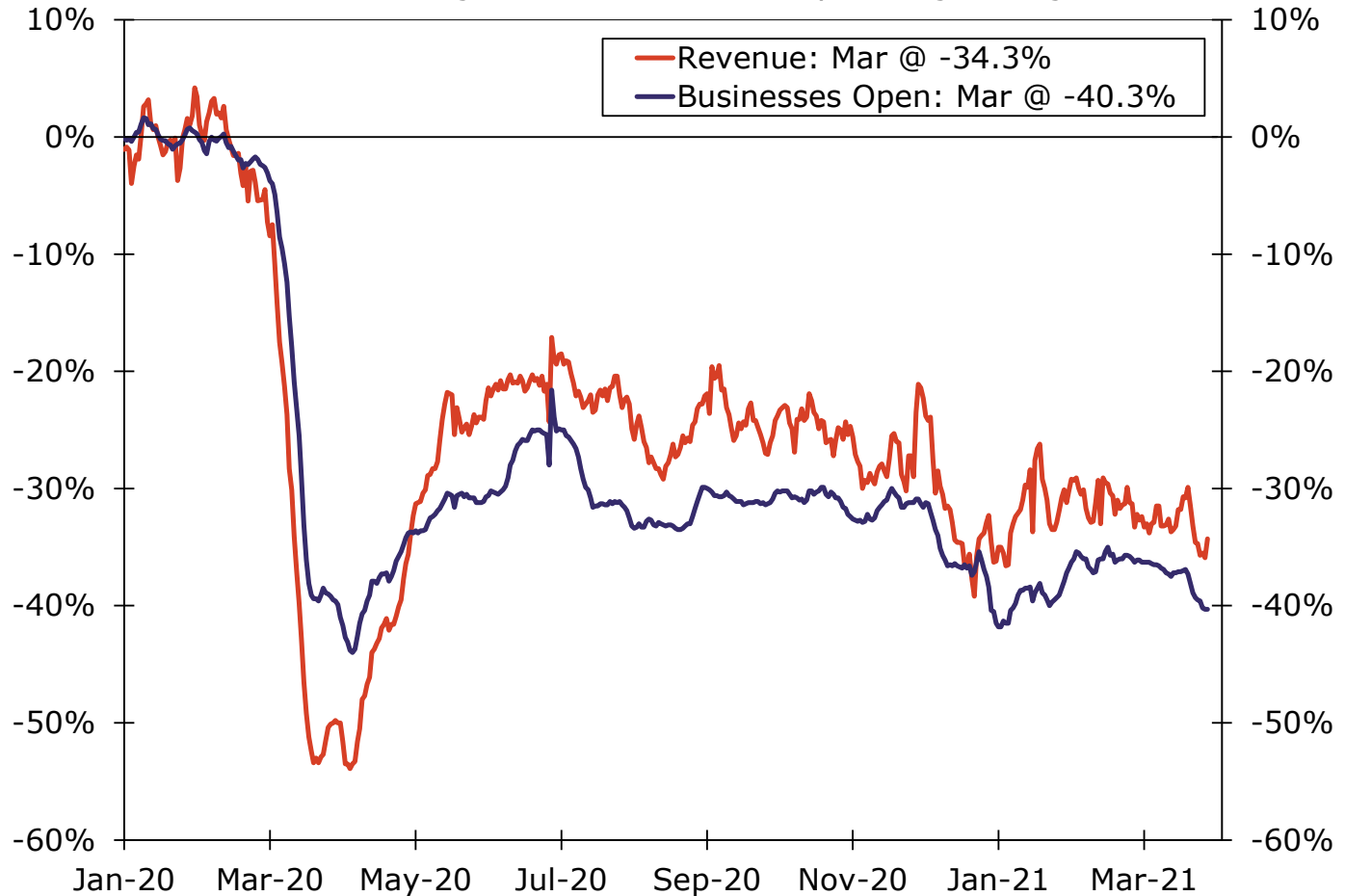


Small businesses endured some of the most significant losses during the pandemic.

High-contact service providers should see business rebound now that the pandemic appears to be winding down.

San Diego Small Business Conditions

Percent Change from Jan 2020, 7-Day Moving Average

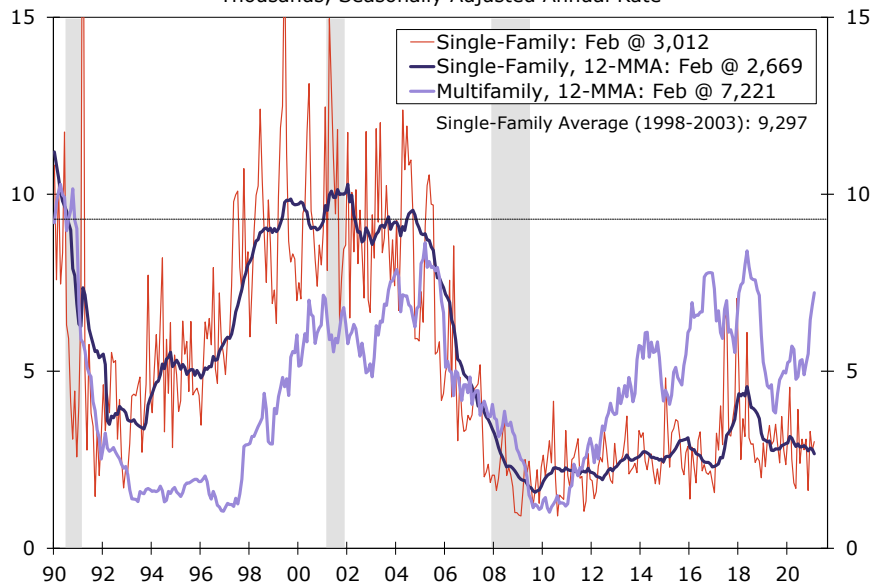


San Diego Housing Market

Multifamily permitting has gained in metro area. We expect the sharp home price appreciation seen over the past year to moderate as fears about COVID subside and more homeowners put their homes on the market.

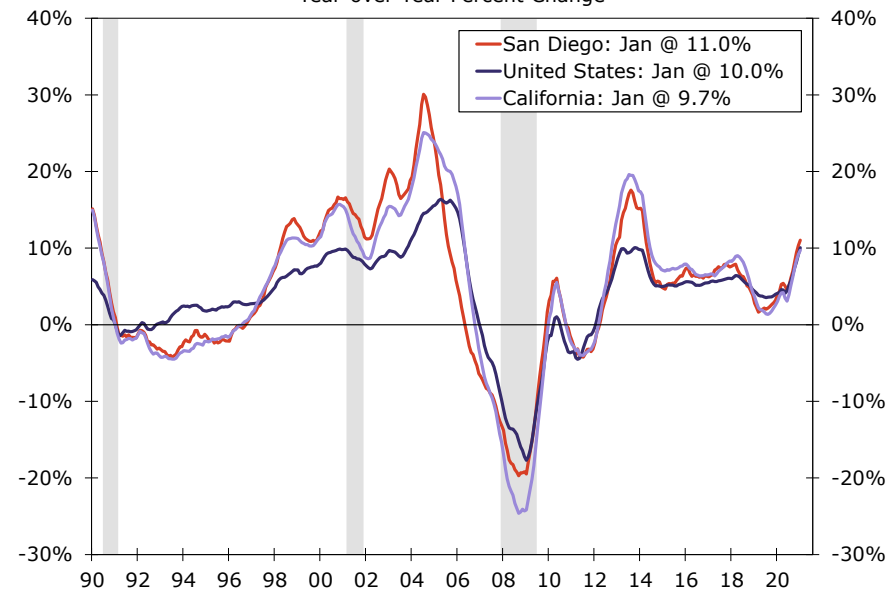
San Diego MSA Housing Permits

Thousands, Seasonally Adjusted Annual Rate



Home Prices: CoreLogic HPI

Year-over-Year Percent Change



Wells Fargo Securities U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2019				2020				2021				2022				2019	2020	2021	2022
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.9	1.5	2.6	2.4	-5.0	-31.4	33.4	4.3	4.8	8.5	9.2	7.2	5.5	3.5	2.9	2.6	2.2	-3.5	6.4	5.5
Personal Consumption	1.8	3.7	2.7	1.6	-6.9	-33.2	41.0	2.3	7.2	11.7	10.4	7.6	5.2	2.8	2.5	2.3	2.4	-3.9	8.0	5.7
Business Fixed Investment	4.2	0.0	1.9	-0.3	-6.7	-27.2	22.9	13.1	12.5	7.1	6.9	6.6	6.1	5.4	5.2	4.9	2.9	-4.0	8.7	6.0
Equipment	2.0	-3.8	-1.7	-1.7	-15.2	-35.9	68.2	25.4	12.6	8.9	7.8	8.0	7.3	6.1	5.8	5.2	2.1	-5.0	14.8	7.0
Intellectual Property Products	4.5	4.1	5.3	4.6	2.4	-11.4	8.4	10.5	8.0	6.4	7.2	6.6	6.1	5.6	5.1	4.9	6.4	1.7	6.7	6.0
Structures	8.2	1.6	3.6	-5.3	-3.7	-33.6	-17.4	-6.2	4.5	3.1	3.3	2.8	2.5	2.8	3.5	3.7	-0.6	-11.0	-4.0	2.9
Residential Investment	-1.7	-2.1	4.6	5.8	19.0	-35.5	63.0	36.6	12.0	9.5	9.0	8.5	8.0	7.0	6.5	6.5	-1.7	6.1	16.3	7.8
Government Purchases	2.5	5.0	2.1	2.4	1.3	2.5	-4.8	-0.8	4.7	0.3	3.0	2.2	2.2	1.8	1.4	1.1	2.3	1.1	1.1	1.9
Net Exports ²	0.6	-0.8	0.0	1.5	1.1	0.6	-3.2	-1.5	-0.9	-1.4	-0.3	-0.3	0.2	0.2	-0.1	-0.1	-0.2	0.0	-1.6	-0.1
Inventories ²	0.2	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	1.4	-0.8	0.5	0.4	0.4	0.0	0.0	0.0	-0.1	0.0	-0.7	0.7	0.1
Nonfarm Payroll Change ³	118	152	203	197	-360	-4333	1342	213	539	933	600	417	292	268	257	243	168	-785	622	265
Unemployment Rate	3.9	3.7	3.6	3.6	3.8	13.1	8.8	6.8	6.2	5.6	5.0	4.6	4.4	4.3	4.2	4.1	3.7	8.1	5.4	4.3
Consumer Price Index ⁴	1.6	1.8	1.8	2.0	2.1	0.4	1.3	1.2	1.8	3.5	3.0	3.0	2.8	2.4	2.4	2.3	1.8	1.2	2.8	2.5
Real Disposable Income ⁴	3.2	2.1	1.8	1.6	1.4	12.2	6.4	3.1	13.3	-3.9	-0.6	1.1	-7.6	-0.6	0.6	2.3	2.2	5.8	2.3	-1.4
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.25	0.50	0.25	0.25
Conventional Mortgage Rate	4.28	3.80	3.61	3.72	3.45	3.16	2.89	2.69	3.08	3.55	3.65	3.75	3.85	3.90	3.95	4.00	3.94	3.12	3.51	3.93
2 Year Note	2.27	1.75	1.63	1.58	0.23	0.16	0.13	0.13	0.16	0.15	0.20	0.25	0.30	0.40	0.50	0.65	1.97	0.39	0.19	0.46
10 Year Note	2.41	2.00	1.68	1.92	0.70	0.66	0.69	0.93	1.74	1.85	1.95	2.05	2.15	2.20	2.25	2.30	2.14	0.89	1.90	2.23

Forecast as of: April 07, 2021

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

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