



The Economic Outlook

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U.S. Outlook

- We have reduced our forecast for 2022 economic growth by 7/10ths of a percentage point in the wake of Russia's invasion of Ukraine. The invasion has worsened supply chain disruptions and sent commodity prices soaring. We now see real GDP rising 2.8% in 2022 on an annual average basis, but by closer to 2% on a Q4/Q4 basis. The flatter yield curve implies about a 30% chance of recession during the next year.
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Inflation Has Accelerated

- Inflation has proven to be stronger and more persistent than the Fed had expected. The primary culprit is the incredibly expansive fiscal policy over the past couple of years, which has been accommodated by an equally incredible expansive monetary policy. Supply chain disruptions are playing a supporting role and price increases will ease a bit as bottlenecks diminish. Inflation expectations have also risen.
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Affordability Migration

- The pandemic accelerated the migration from high-cost, densely-populated cities to secondary metro areas in the South and Mountain West. The move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas helped fuel sales of single-family homes and motor vehicles. The shift has also bolstered suburban retailing and increased demand for suburban offices and apartments.
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Monetary and Fiscal Stimulus Winding Down

- After initially misreading the inflation threat, the Fed accelerated the wind down of quantitative easing and accelerated the timetable for normalizing interest rates. Fiscal policy has also run into a brick wall, as the prospect of higher inflation now outweighs the benefits of another massive fiscal stimulus. With less stimulus in the pipeline, real after-tax income will slow and restrain consumer spending.
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Russia's invasion of Ukraine and the subsequent shock to energy and grain markets has elevated geopolitical risk measures to their highest level since the onset of the Iraq War.

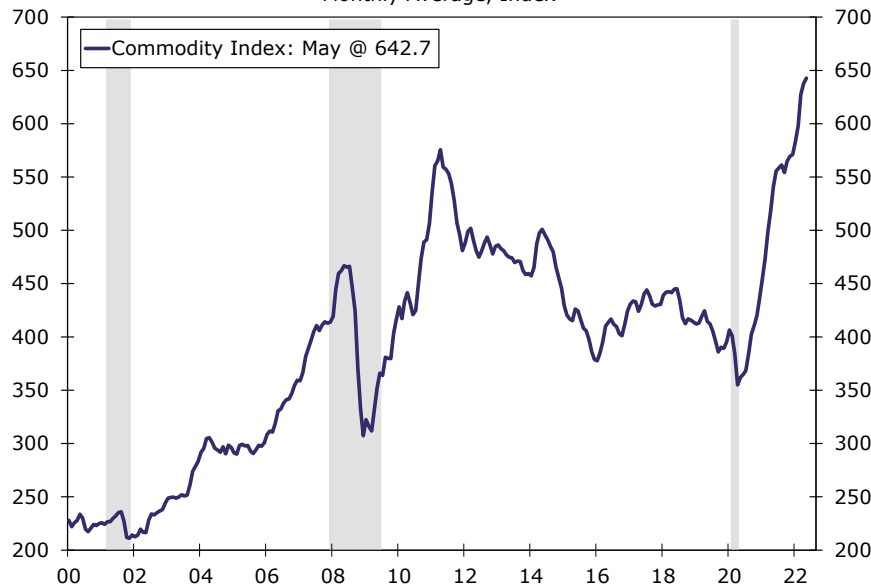


Commodity Prices

The Russia-Ukraine conflict has sparked a sharp rise in commodity prices. Notably, the region produces and exports large amounts of wheat, corn and soybeans as well as oil and natural gas. Many Ag prices were high before the conflict, reflecting droughts in key growing regions.

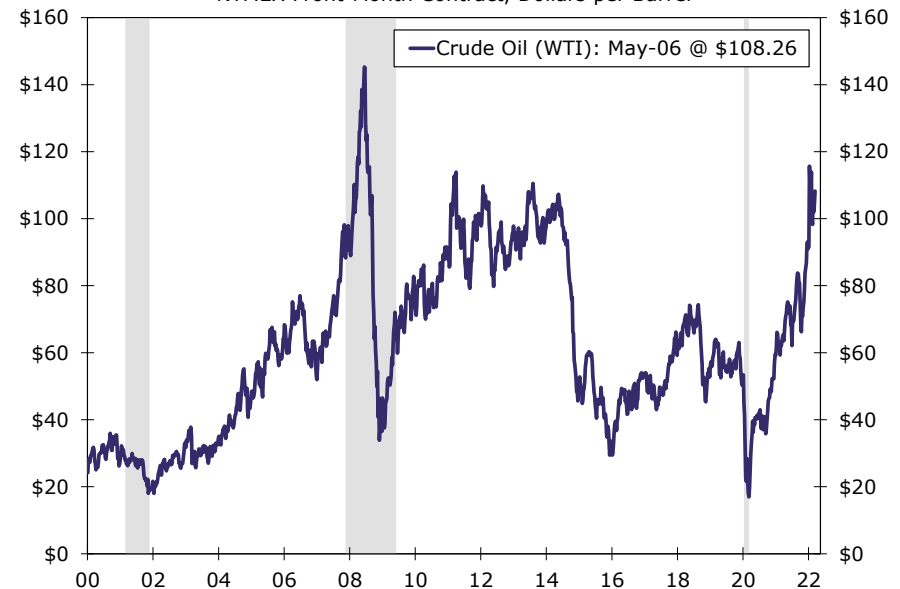
Commodity Prices

Monthly Average, Index



Crude Oil

NYMEX Front-Month Contract, Dollars per Barrel

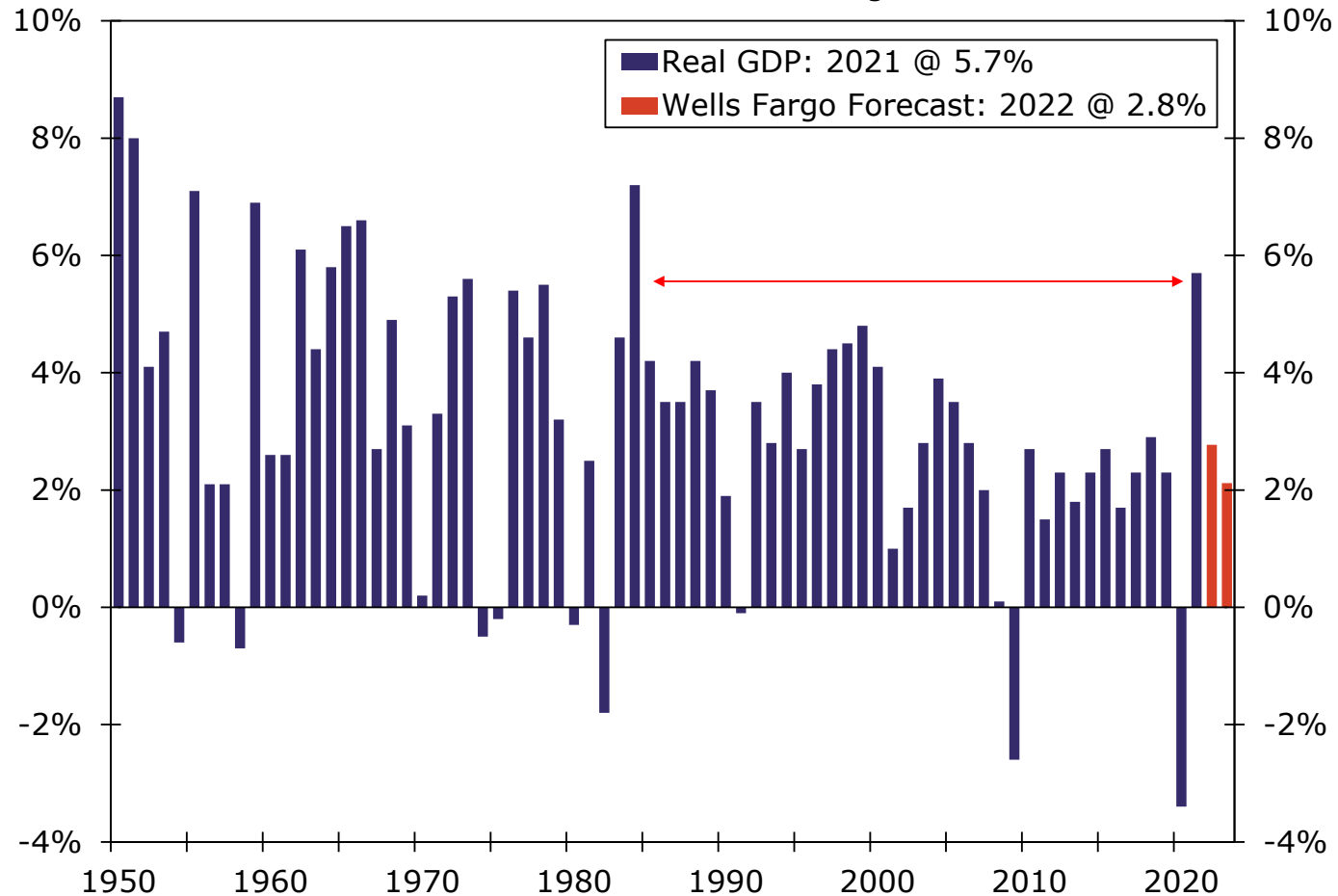


Full year GDP growth for 2021 came in at 5.7%, which marks the fastest GDP growth since 1984.

With less fiscal and monetary stimulus, and the rising cost of necessities, economic growth is set to slow in the coming year. We project 2.8% real GDP growth this year and 2.1% in 2023.

U.S. Real GDP Growth

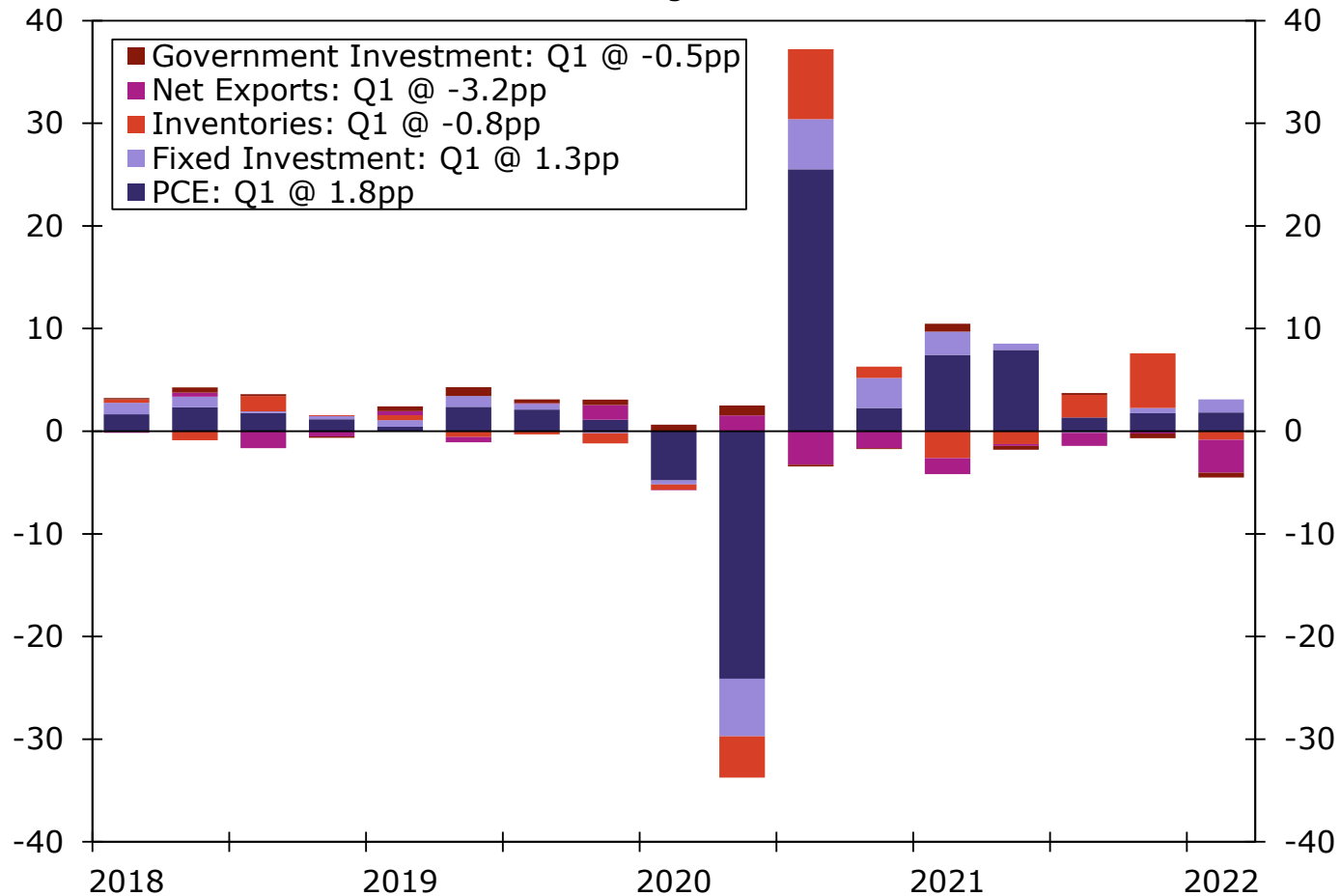
Year-over-Year Percent Change



GDP in Q1-2022 declined 1.4%, much of this driven by a larger-than-expected increase in the trade deficit as consumer demand for imports remains robust.

Contributions to Real GDP Growth

Percentage Points



There is a growing body of evidence of an affordability migration to traditionally smaller, secondary markets across the Sun Belt and South.

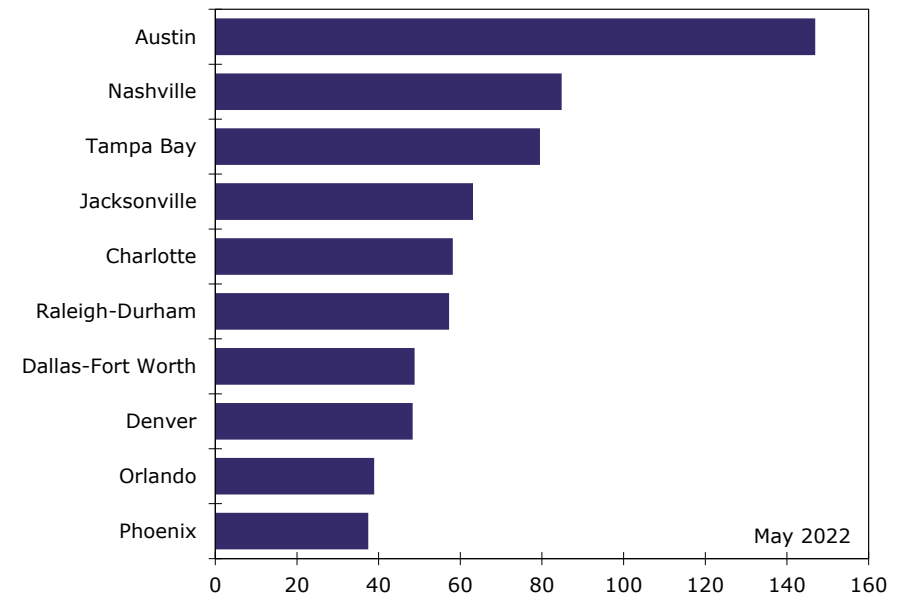
Top 10 Metro Areas by Numeric Growth

July 2020 - July 2021

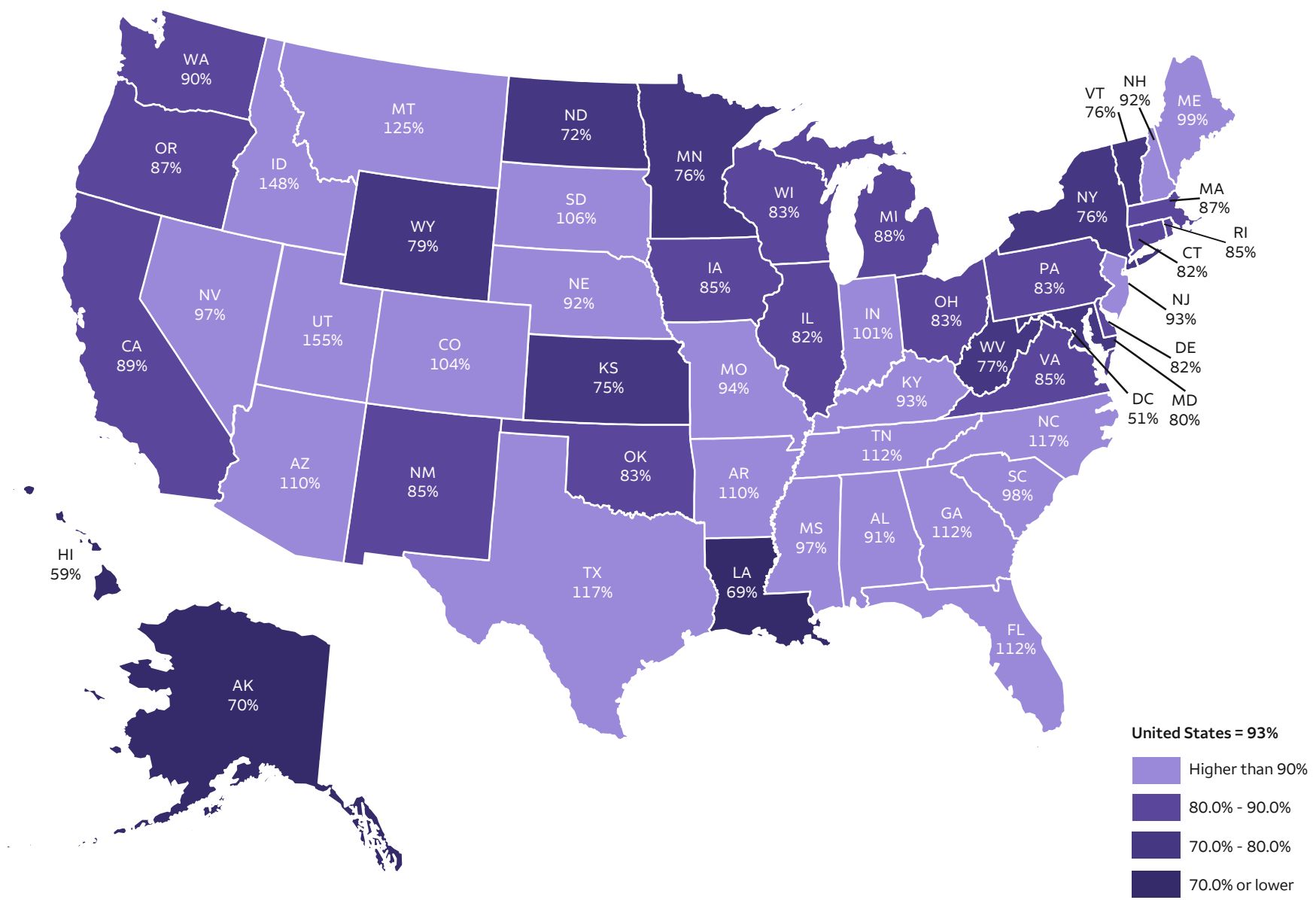
Rank	Metro Area	Growth
1.	Dallas-Fort Worth-Arlington, TX	97,290
2.	Phoenix-Mesa-Chandler, AZ	78,220
3.	Houston-The Woodlands-Sugar Land, TX	69,094
4.	Austin-Round Rock-Georgetown, TX	53,301
5.	Riverside-San Bernardino-Ontario, CA	47,601
6.	Atlanta-Sandy Springs-Alpharetta, GA	42,904
7.	Tampa-St. Petersburg-Clearwater, FL	36,129
8.	San Antonio-New Braunfels, TX	35,105
9.	Charlotte-Concord-Gastonia, NC-SC	31,381
10.	Raleigh-Cary, NC	28,186

Cities that Gained the Most Workers

LinkedIn Population Gain per 10,000 Members, Over Past 12 Months



Percent of March and April Job Losses Recovered – March 2022



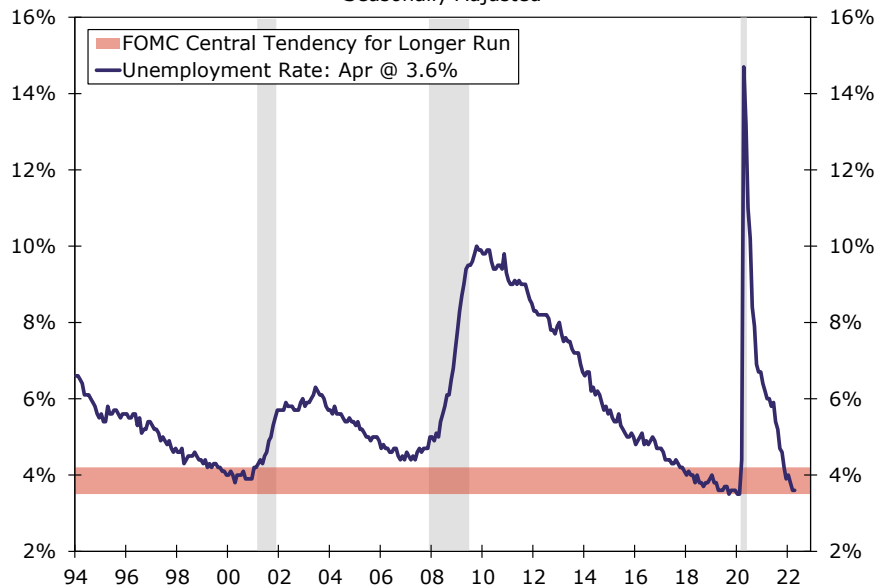
Source: U.S. Department of Labor and Wells Fargo Economics

Employment

The unemployment rate has nearly reached its pre-pandemic level of 3.5%. The labor force participation rate for prime-working age individuals, however, is a full percentage point below its pre-pandemic peak. There are nearly two job openings for every unemployed person.

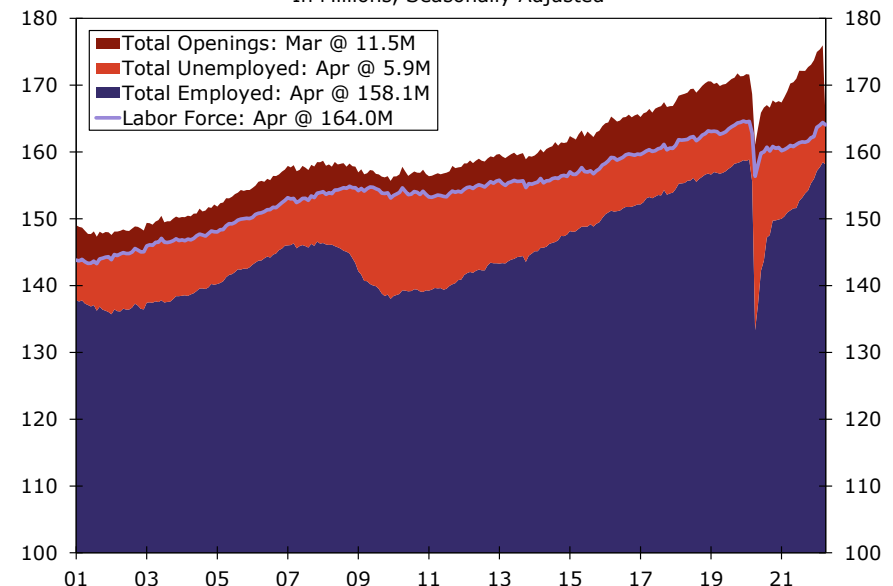
U.S. Unemployment Rate

Seasonally Adjusted

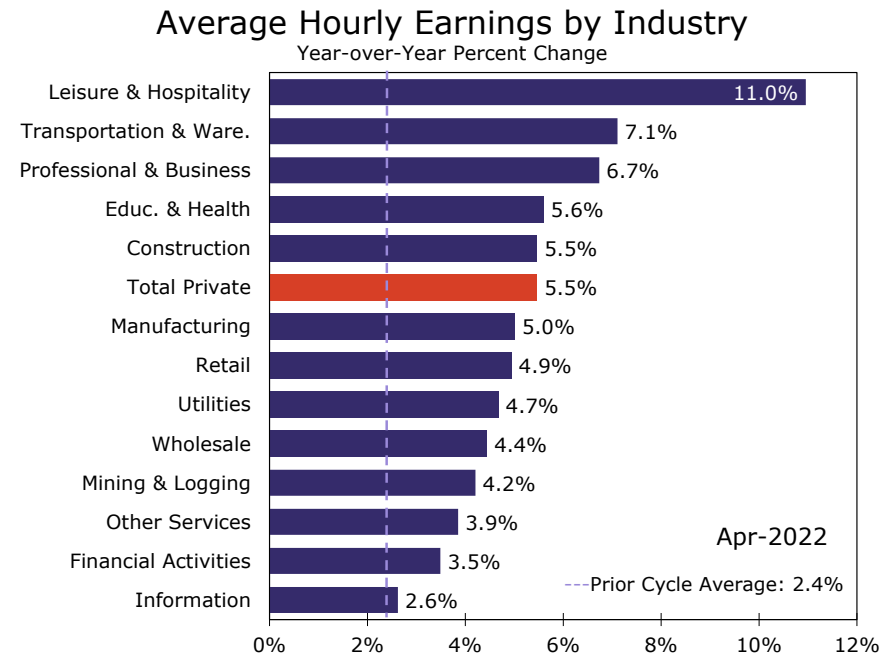
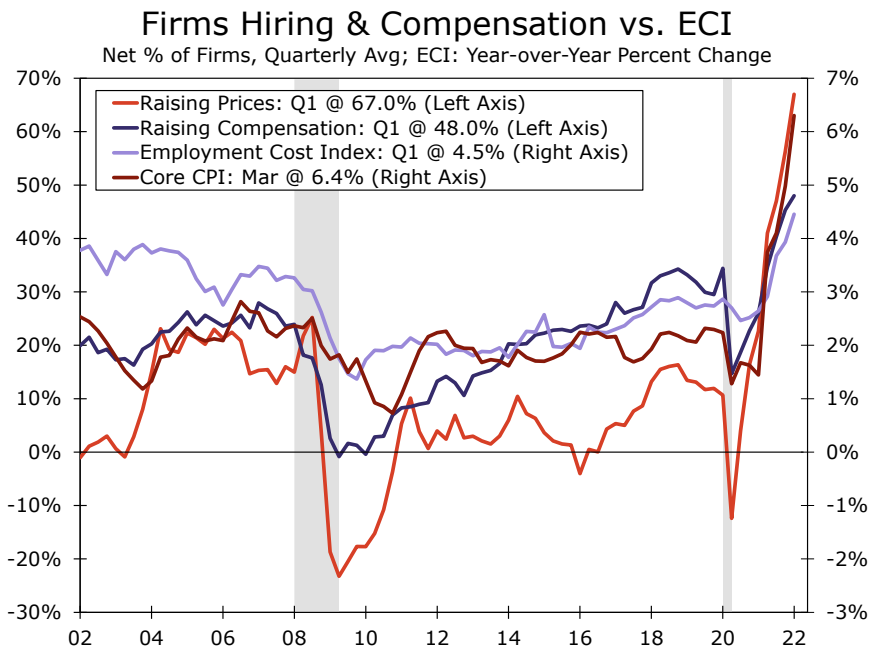


U.S. Labor Force Dynamics

In Millions, Seasonally Adjusted



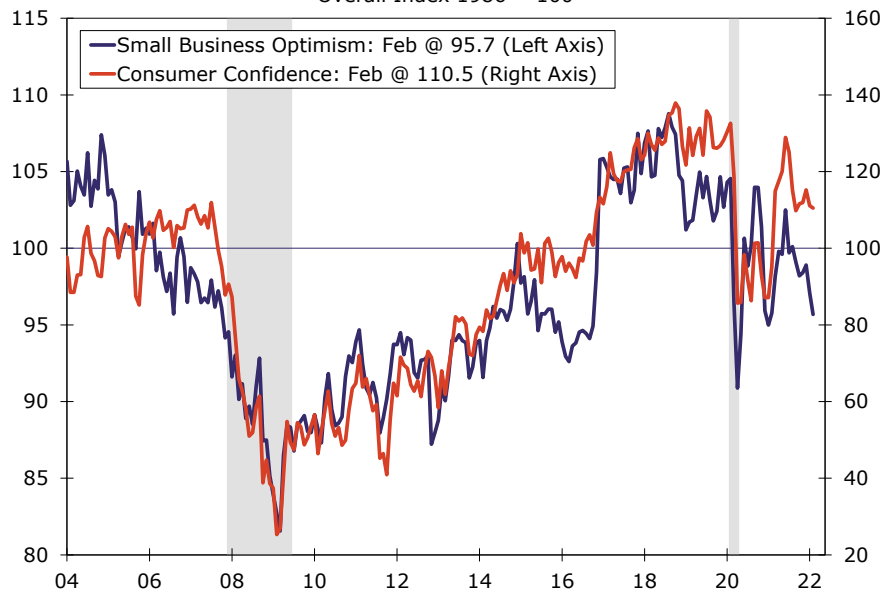
Wage growth has picked up, particularly in lower-paying industries that are struggling the most to get workers back to the job site. At the same time, firms are raising prices in tandem with rising wages, which raises the prospect of a self-reinforcing wage-price spiral.



Optimism about the economic outlook has been shaky as inflation has begun to take its toll on business sentiment and spending outlook. Roughly 26% of small business owners cite inflation as their greatest concern in February, significantly higher than it was a year ago.

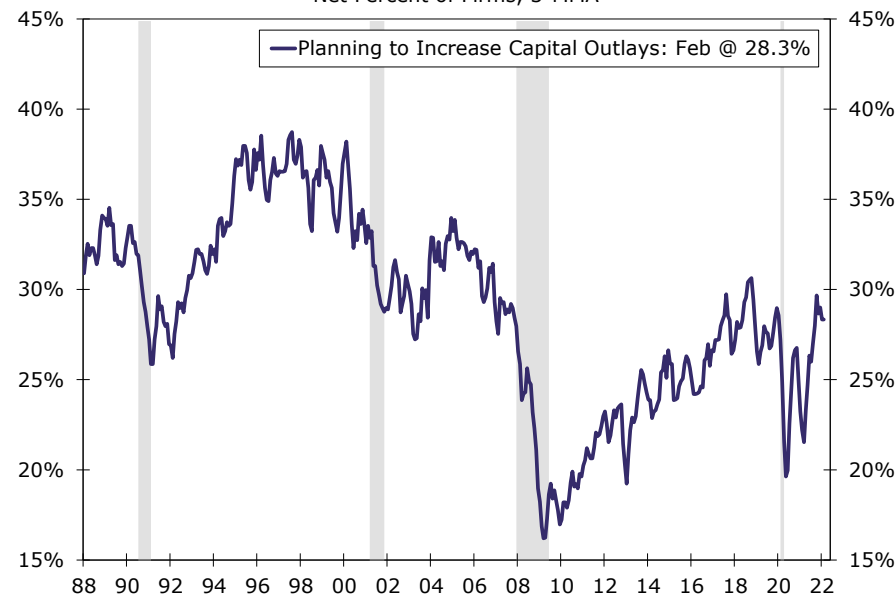
NFIB Small Business Optimism

Overall Index 1986 = 100



Small Business Capital Spending Outlook

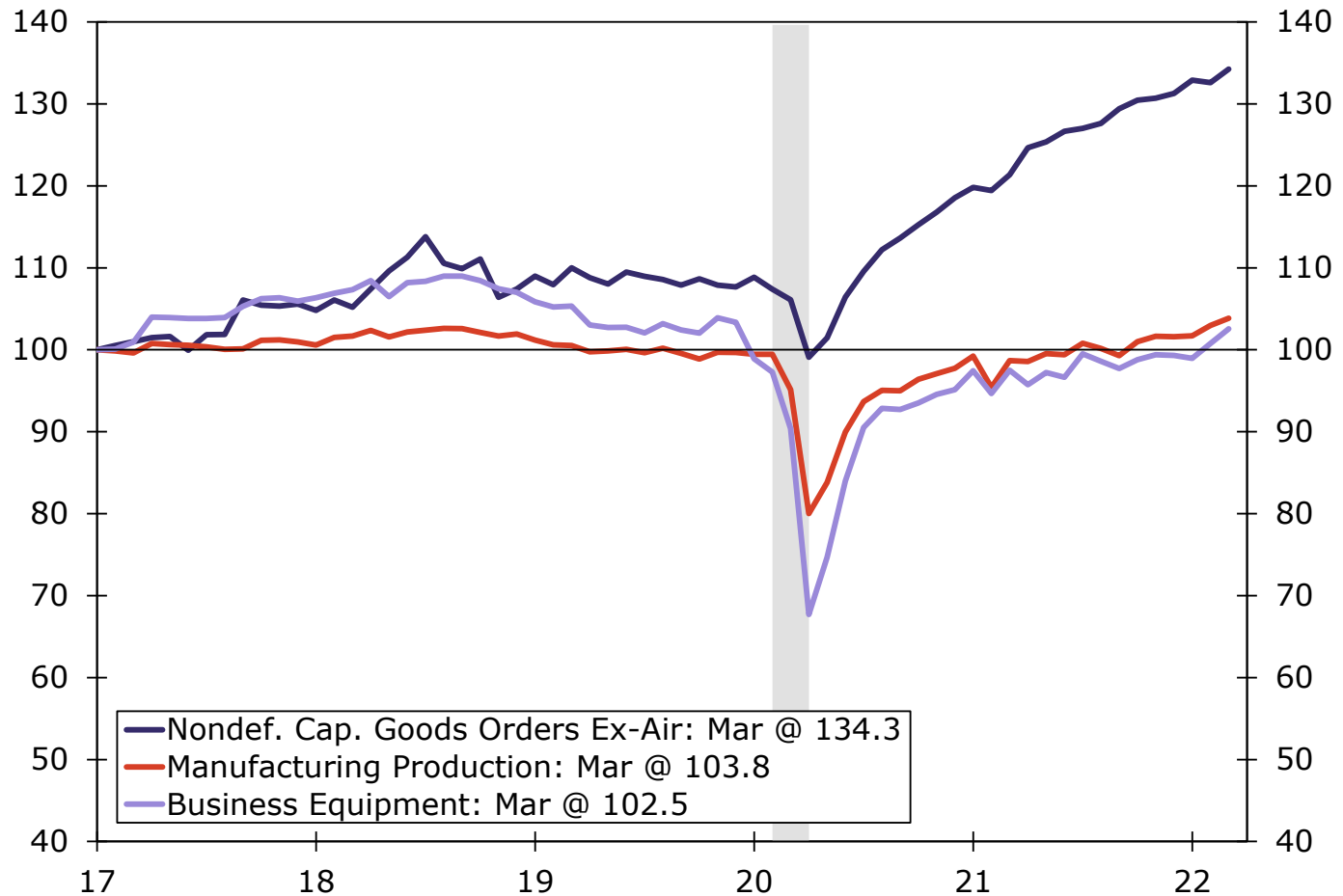
Net Percent of Firms, 3-MMA



Core Capital Goods Orders

Producers of capital equipment have had a hard time keeping up with the surge in demand.

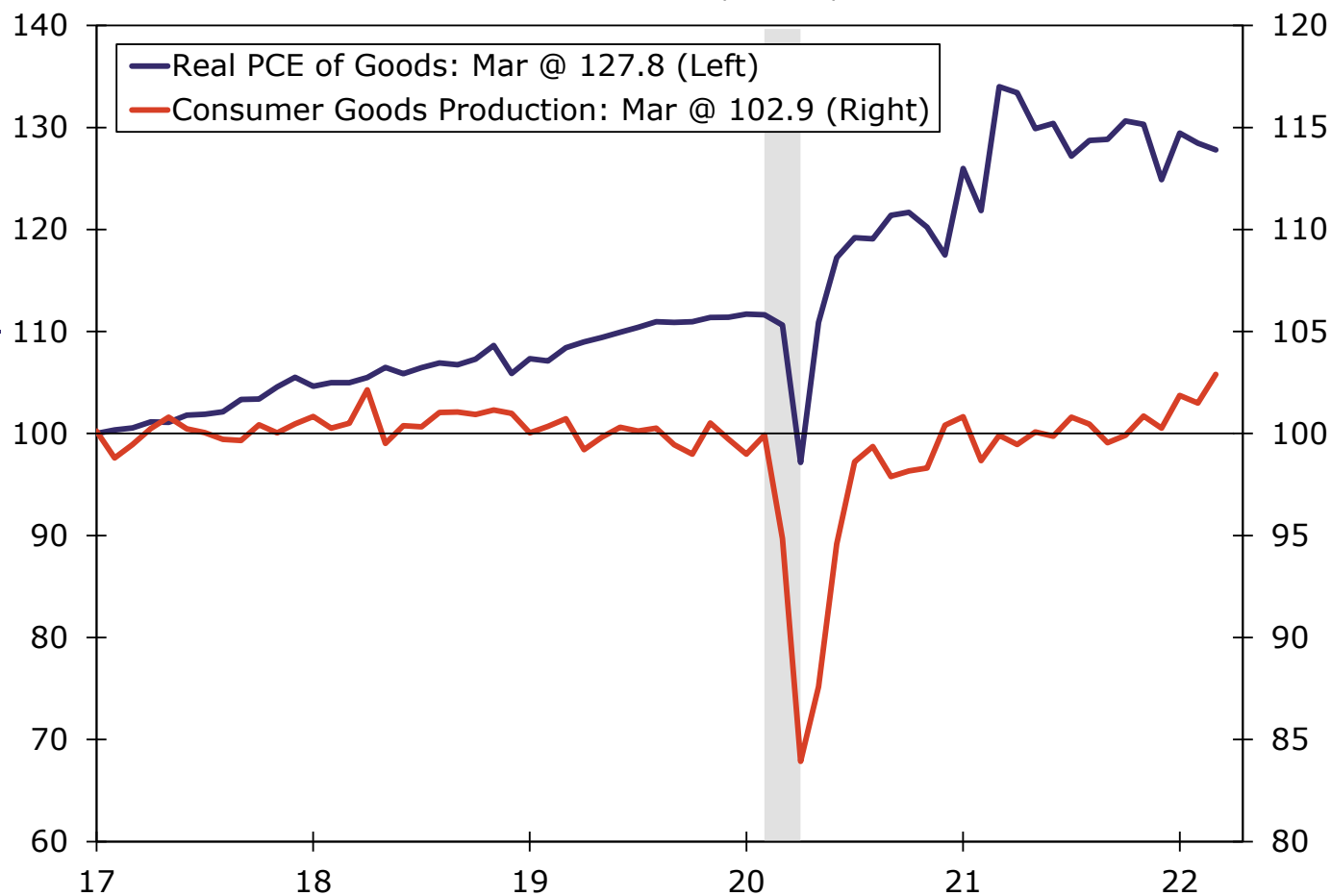
Manuf. & Bus. Equip. Prod. vs. Core Capital Spending
Index, 2017=100; Billions of Dollars



Demand for consumer goods surged well ahead of the output, which slashed inventories and pulled in a torrent of imports.

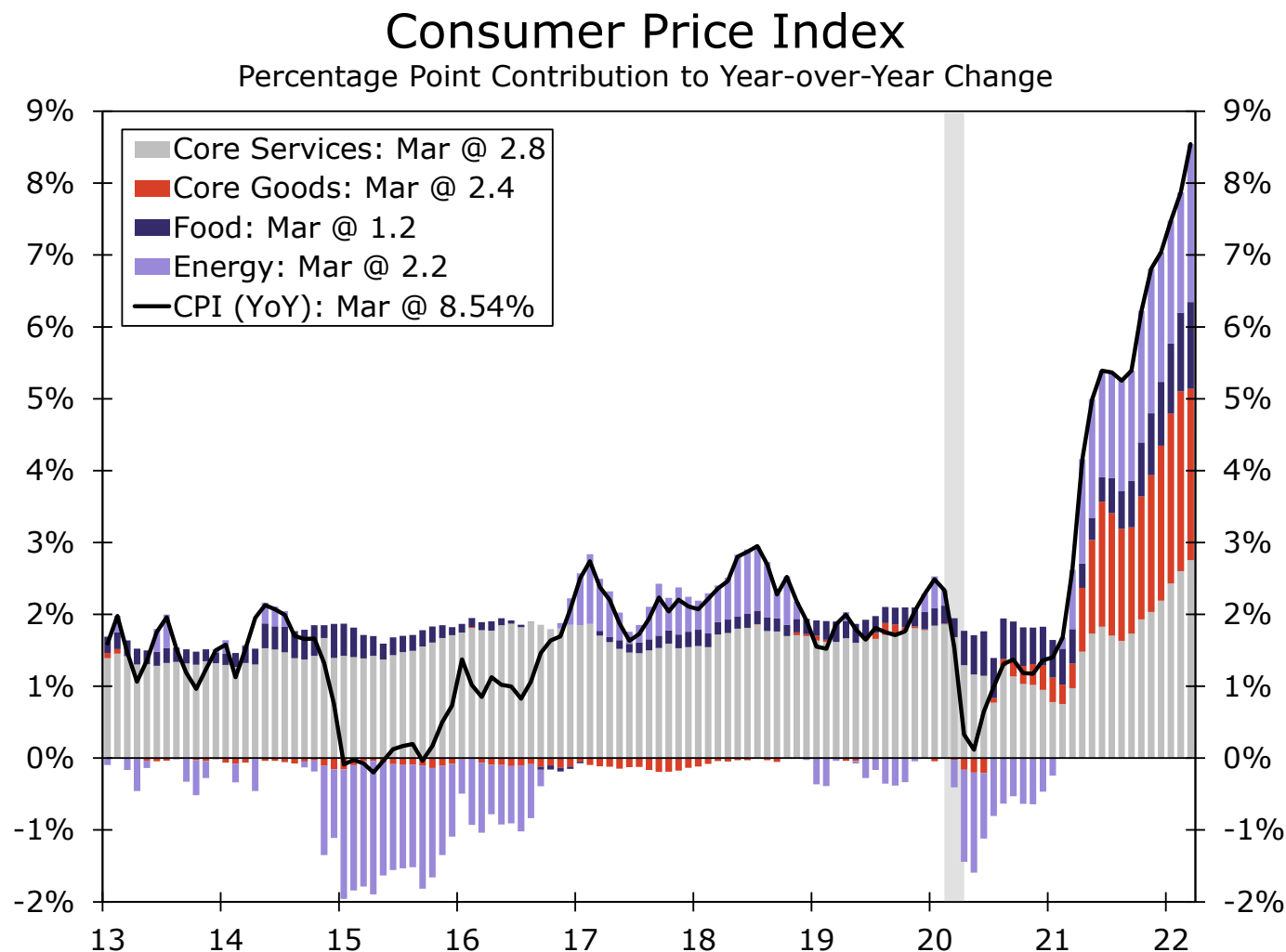
Consumer Goods Production vs. Consumption

Trillions of Chained Dollars; Index, 2017=100

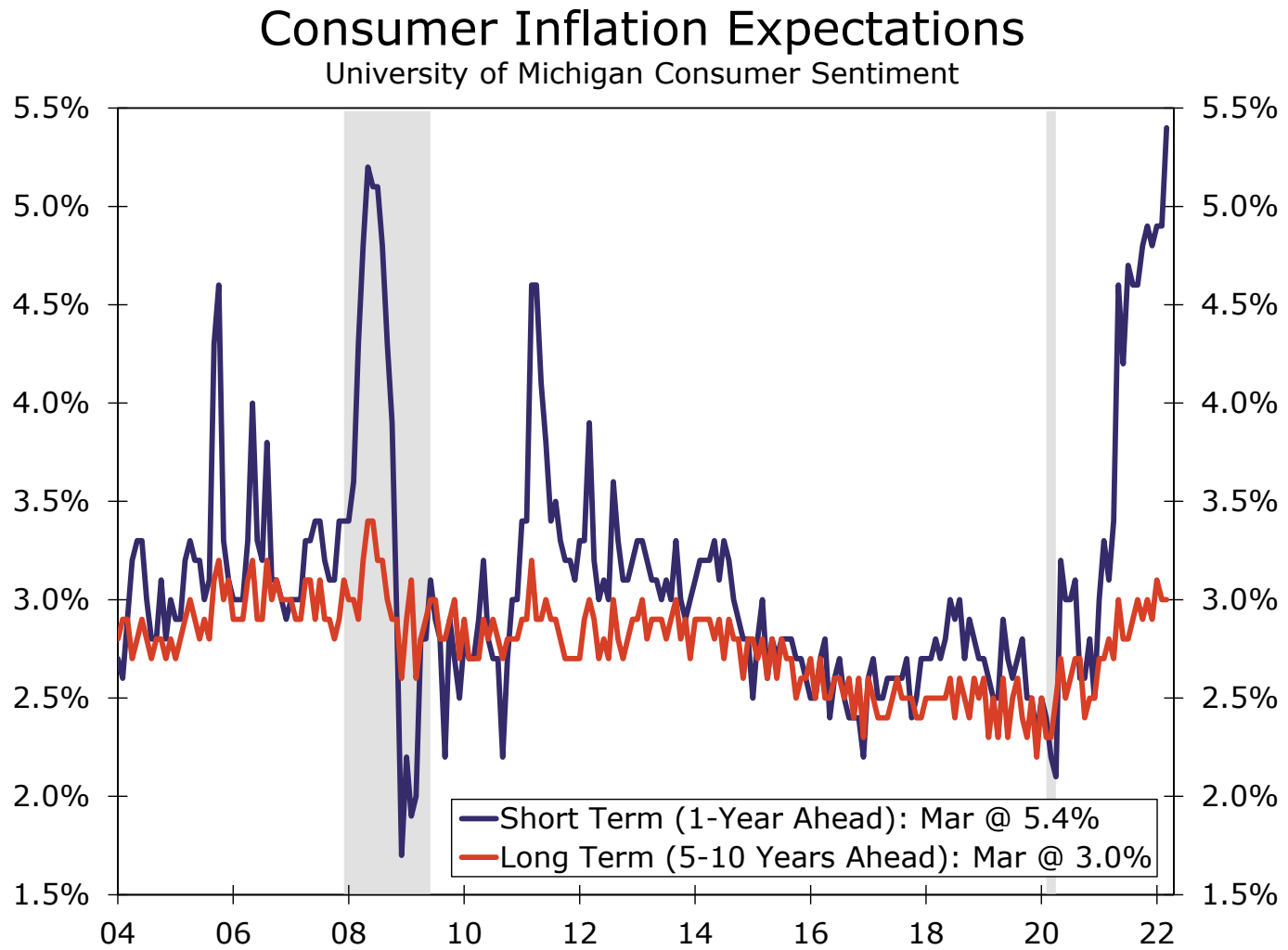


Consumer Price Inflation

The pandemic likely marks a significant shift in inflation that will prove long lasting.



Surveys of consumers also show inflation expectations are becoming “unanchored”.



Supply Chain Pressure Gauge

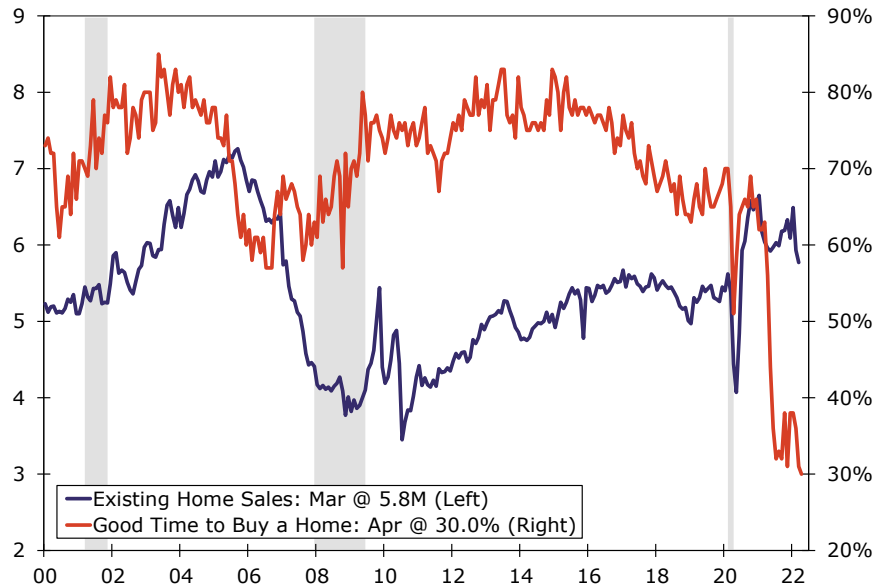
Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-22	Mar	Apr		
Volume																													
Unfilled Orders (a)	7.6%	3.7%	.9%	-2.2%	-3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.5%	12.2%	12.2%	9.2%	8.0%	5.2%	4.9%	2.7%	3.2%			
Cass Freight Index (a)	-13.2%	14.0%	-33.5%	-44.1%	-36.3%	48.0%	88.4%	115.9%	80.5%	21.6%	-17.4%	-21.7%	-8.1%	29.1%	26.8%	59.0%	12.2%	-3%	-10.6%	-14.4%	4.1%	-8.8%	8.4%	-32.4%	-11.1%	-1.6%			
Taiwan Elect. Product Exports (a)	-38.1%	14.7%	56.6%	41.7%	14.7%	39.7%	120.9%	87.0%	96.2%	3.3%	-9.4%	10.2%	-47.1%	23.5%	6.6%	133.2%	35.6%	39.3%	73.1%	70.5%	-2.4%	20.0%	-7.5%	41.6%	-4.8%	58.1%			
Real Goods Consumption (b)	0.0%	-0.9%	-13.0%	-0.7%	5.0%	6.8%	6.7%	8.7%	9.0%	7.7%	5.2%	12.8%	9.1%	20.0%	19.5%	16.3%	16.8%	13.9%	15.3%	15.4%	17.0%	16.7%	11.9%	15.9%	15.1%	14.5%			
Time																													
ISM Manuf. Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	73.4	75.6	72.2	64.9	64.6	66.1	65.4	67.2		
ISM Serv. Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6	68.8	75.7	75.7	63.9	65.7	66.2	63.4	65.1		
Ships Awaiting Space LA & LB (c)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	34.8	56.3	66.6	70.0	85.6	103.2	79.9	48.4	41.5		
Price																													
World Container Index (WCI)	\$1,633	\$1,520	\$1,500	\$1,549	\$1,788	\$2,009	\$2,144	\$2,541	\$2,592	\$2,806	\$3,955	\$5,263	\$5,227	\$4,991	\$4,919	\$5,898	\$7,052	\$8,879	\$9,556	\$10,237	\$9,891	\$9,180	\$9,227	\$9,518	\$9,398	\$8,783	\$7,907		
PPI Transp. & Ware. of Goods (a)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	16.9%	14.4%	12.5%	9.6%	11.9%	16.4%	22.5%	19.5%	19.6%	15.6%	36.9%			
Dry Van Rate Per Mile (a)	7.6%	-16.0%	-28.6%	-49.7%	-16.5%	52.6%	352.8%	315.4%	191.1%	112.6%	48.8%	12.2%	-25.4%	10.5%	12.6%	52.0%	-8.4%	-8.6%	-0.2%	41.8%	64.5%	57.1%	54.4%	91.6%	70.1%	-7.2%	-56.2%		
Inventory																													
Retail Inventory-to-Sales Ratio	1.42	1.53	1.69	1.35	1.23	1.22	1.23	1.23	1.25	1.27	1.27	1.22	1.24	1.10	1.09	1.10	1.10	1.12	1.12	1.10	1.09	1.10	1.17	1.15	1.15				
ISM Manuf. Cons. Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2	31.7	31.7	25.1	31.7	33.0	31.8	34.1	37.1		
Inventory Too Low (d)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%	10.0%	9.0%	15.0%	9.0%	7.0%	7.0%	9.0%			
Labor																													
Production & Manuf. Posts (b)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%	87.3%	92.4%	103.0%	115.3%	102.9%	108.9%	108.3%	96.3%		
Loading & Stocking Posts (b)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%	82.4%	92.4%	106.5%	114.9%	92.9%	97.5%	93.9%	80.7%		
Jobs Hard to Fill (d)	37.6%	35.2%	23.5%	23.2%	31.9%	30.2%	33.4%	36.4%	33.1%	33.5%	32.3%	32.7%	39.6%	42.2%	44.0%	48.0%	46.0%	49.0%	50.0%	51.0%	49.0%	48.0%	49.0%	47.0%	48.0%	47.0%			

Notes: (a) 3-Month Annualized Rate, (b) versus February 2020, (c) Monthly Average, (d) Net % of Firms, Current Month Reflects Monthly Average of Available Data for All Series

Source: U.S. Department of Commerce, Bloomberg Finance L.P., Taiwan Ministry of Finance, Institute for Supply Management (ISM), Drewry, U.S. Department of Labor, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Economics

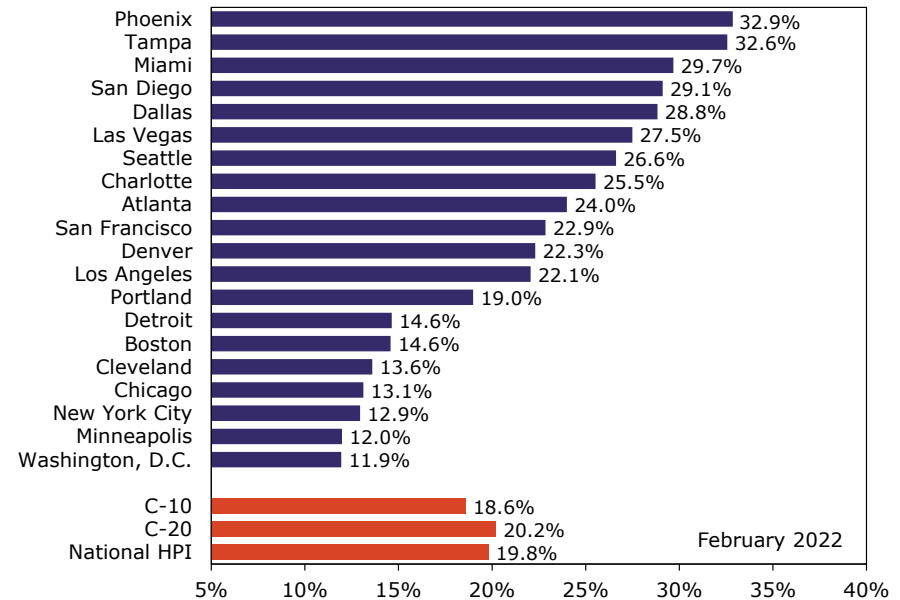
Intense competition from investor buyers, tight inventories and fast-rising home prices have put homes out of reach for many prospective home buyers. The share of consumers that feel now is a good time to buy a home is probing all-time lows.

Homebuying Sentiment vs. Existing Home Sales
Sales in Millions, SAAR



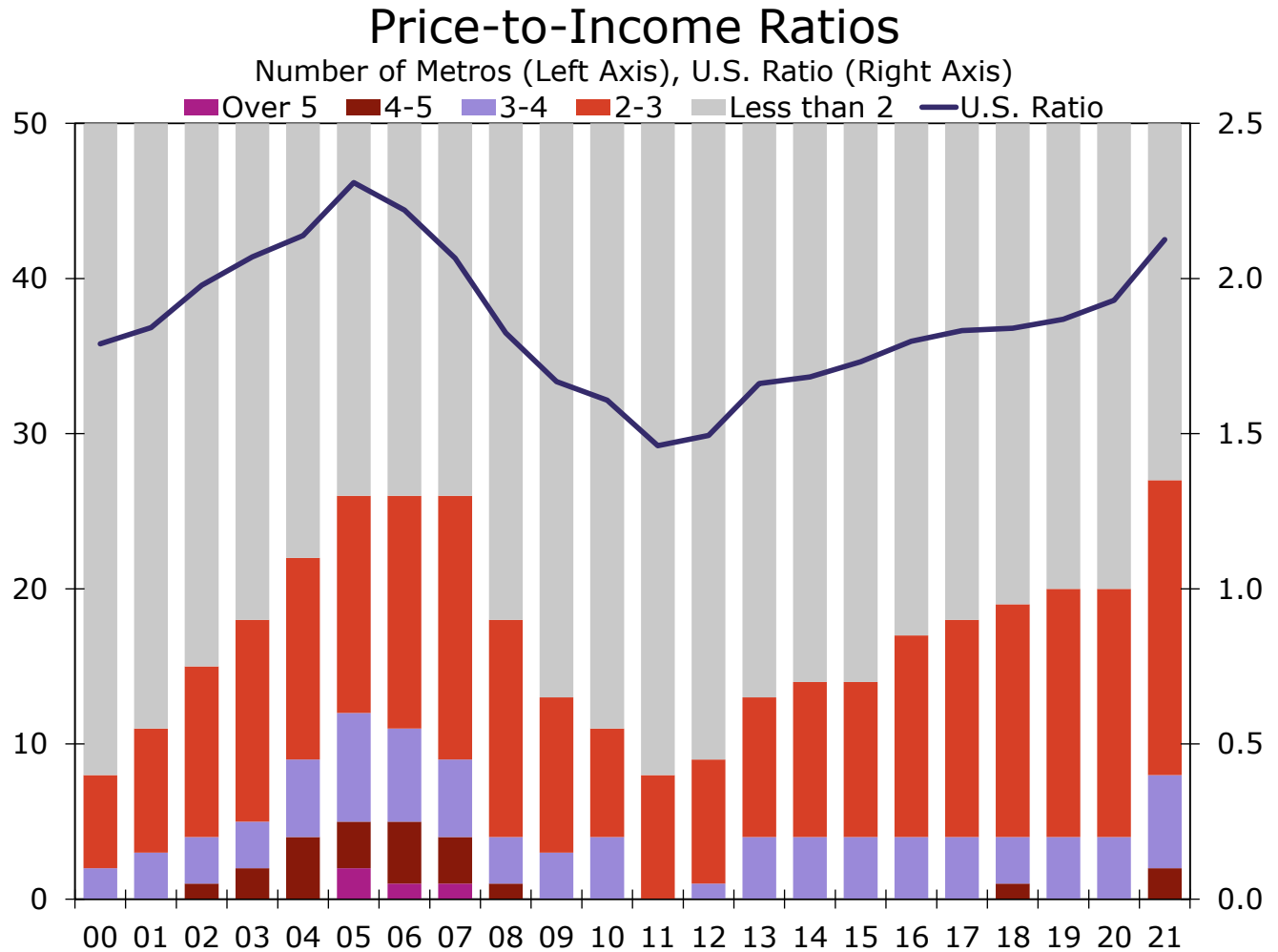
S&P CoreLogic Case-Shiller Home Prices

Year-over-Year Percent Change, Not Seasonally Adjusted



Home Prices Relative to Income

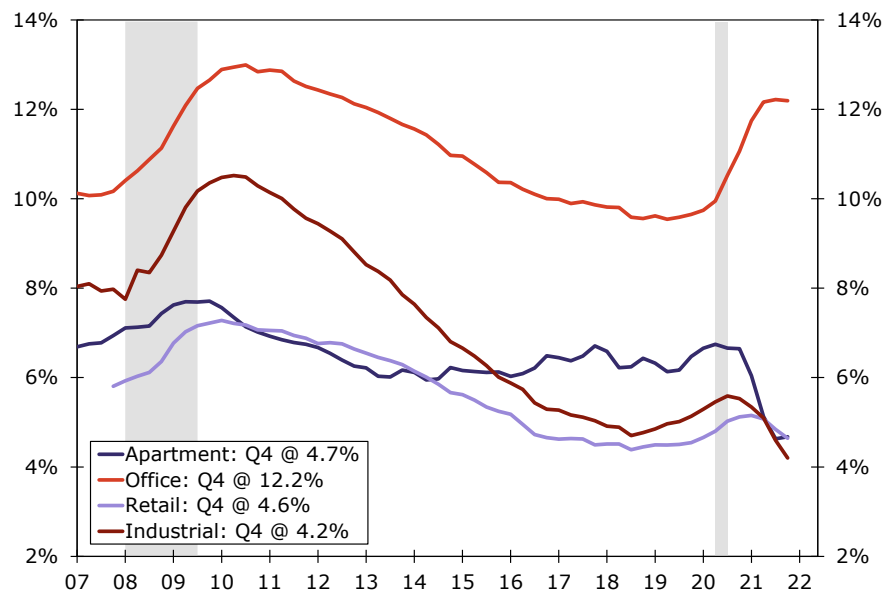
Home price-to-income ratios are trending towards mid-2000 levels.



Commercial Real Estate Fundamentals

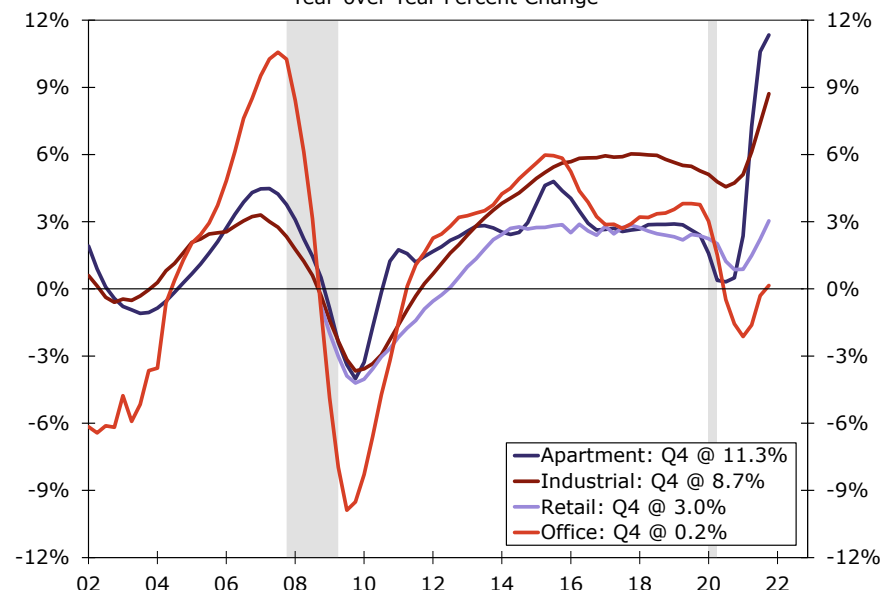
The office market continues to lag as Return to Office plans remain in flux. Stronger economic demand has translated to rising occupancy and rents for most property classes.

CRE Vacancy Rates



CRE Asking Rents

Year-over-Year Percent Change

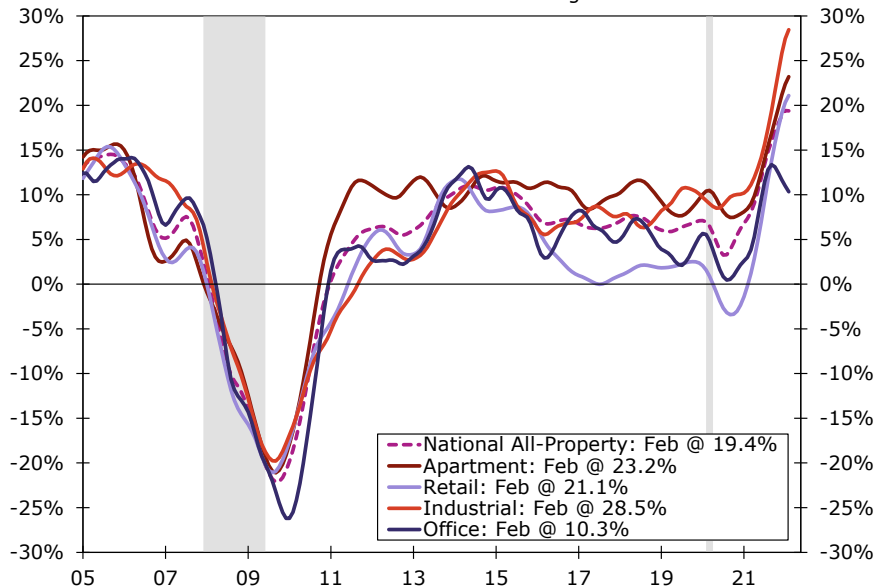


Commercial Real Estate Fundamentals

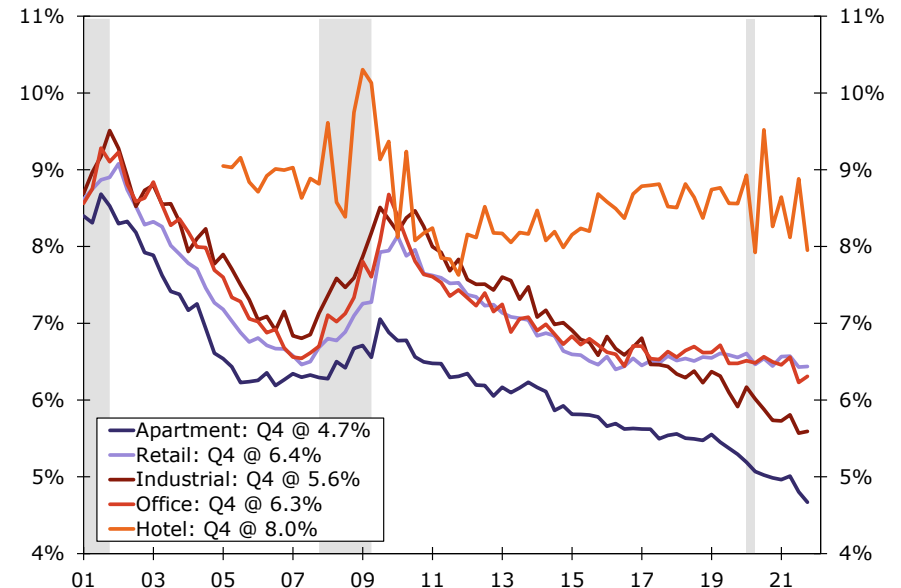
Property prices are climbing at a rapid pace, led by sturdy gains in retail, apartment and industrial properties. While the hard-hit office and hotel markets face a longer road to recovery, their path of recovery is coming into better focus.

Commercial Property Price Index

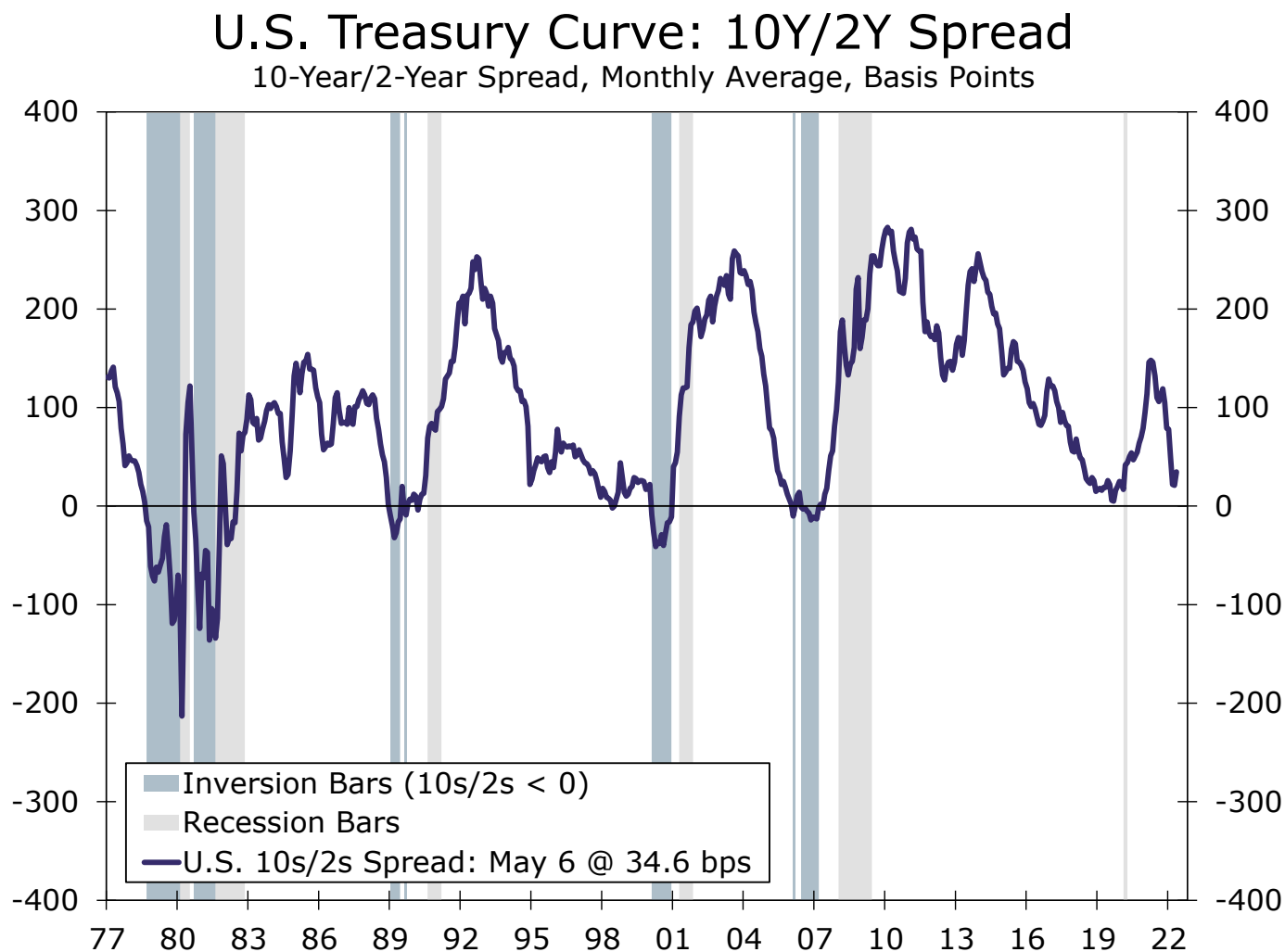
Year-over-Year Percent Change



CRE Cap Rates by Property Type



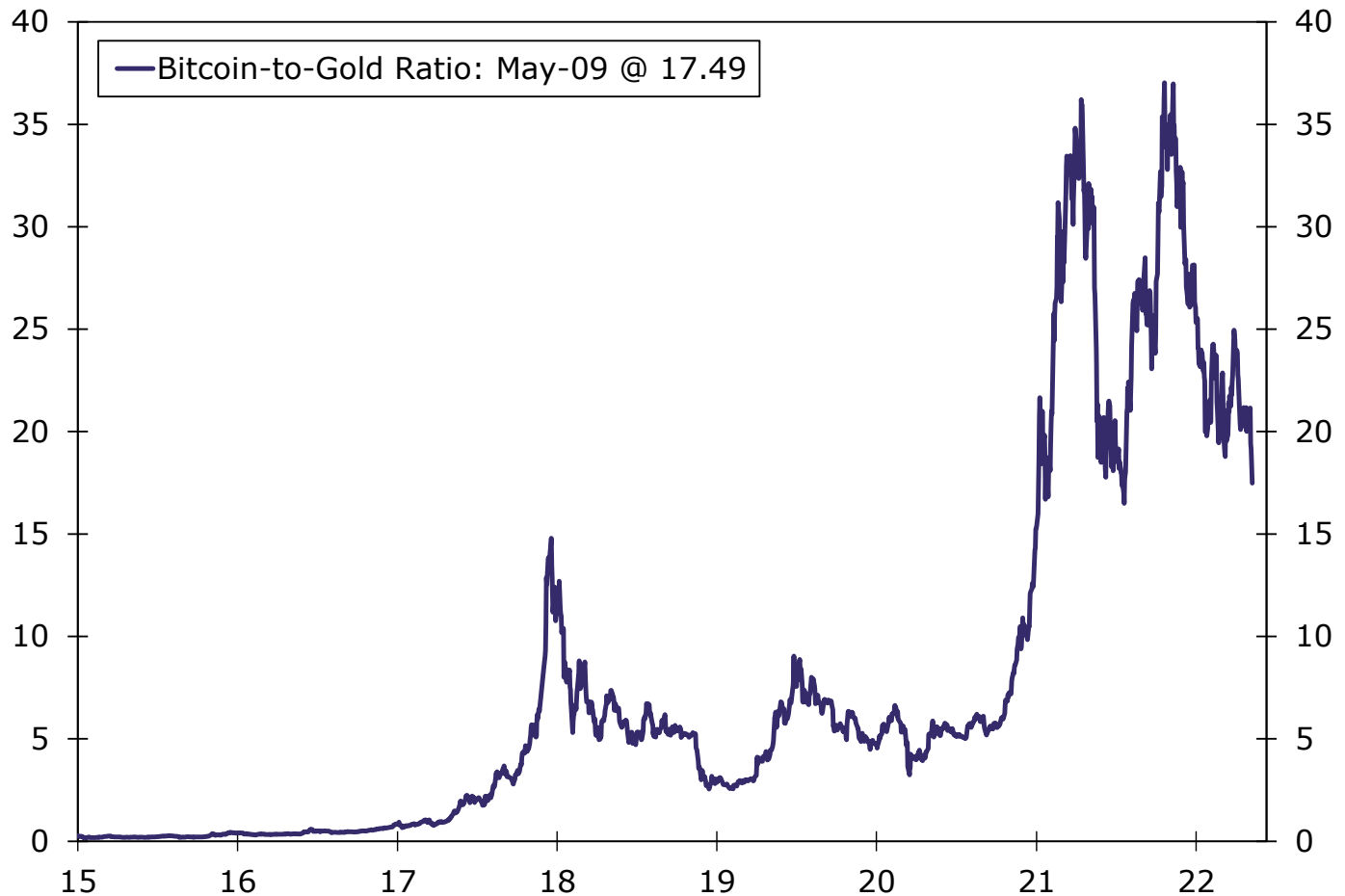
The spread between the long- and short-end of the curve has rapidly narrowed, driven primarily by a sharp rise in short-term yields as markets adjust to the prospect of aggressive tightening by the Fed.



Cryptocurrencies appear to be more of a speculative vehicle than an inflation hedge.

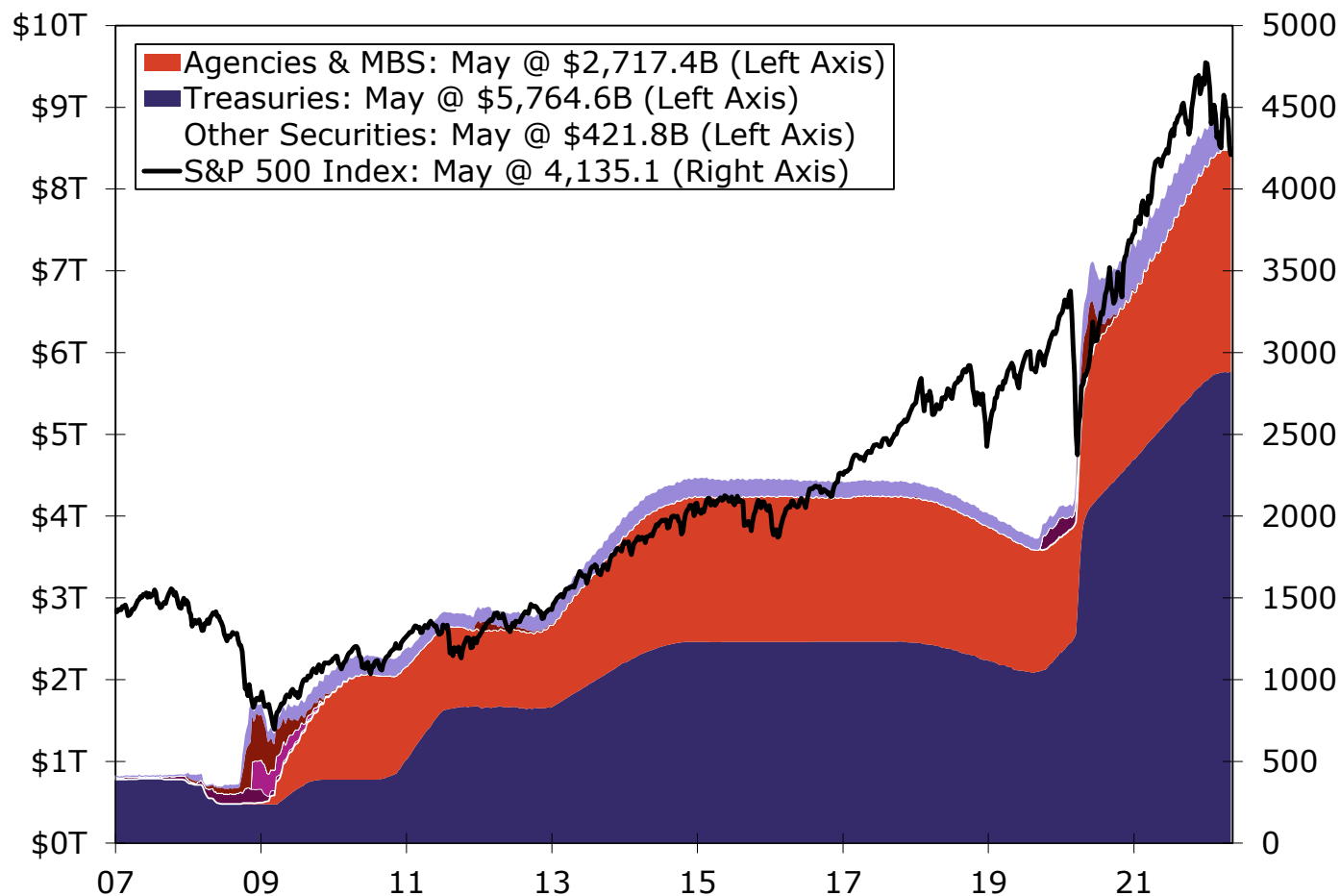
Bitcoin-to-Gold Ratio

Value of Bitcoin to Gold Ounce



The massive expansion of the Fed's balance sheet propelled asset prices during the pandemic.

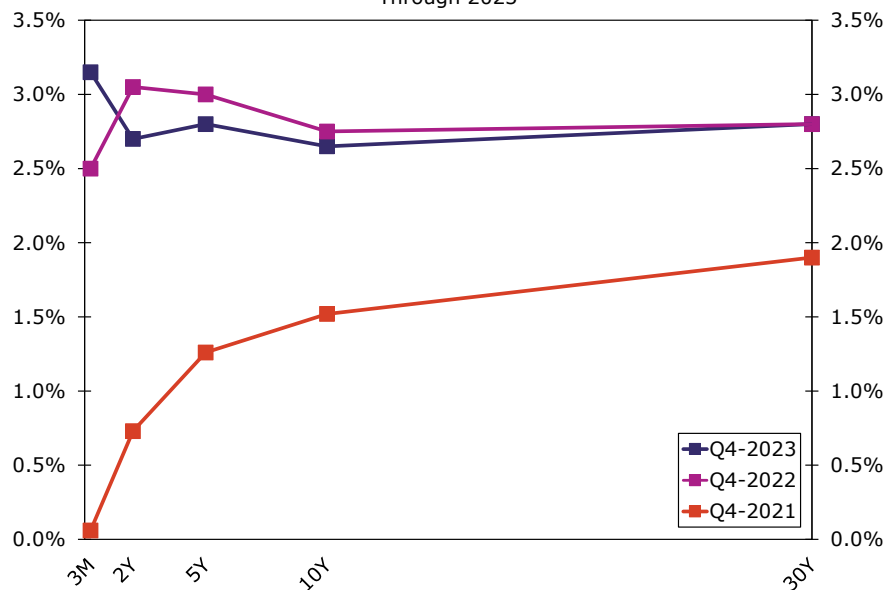
Federal Reserve Balance Sheet vs. S&P 500 Index



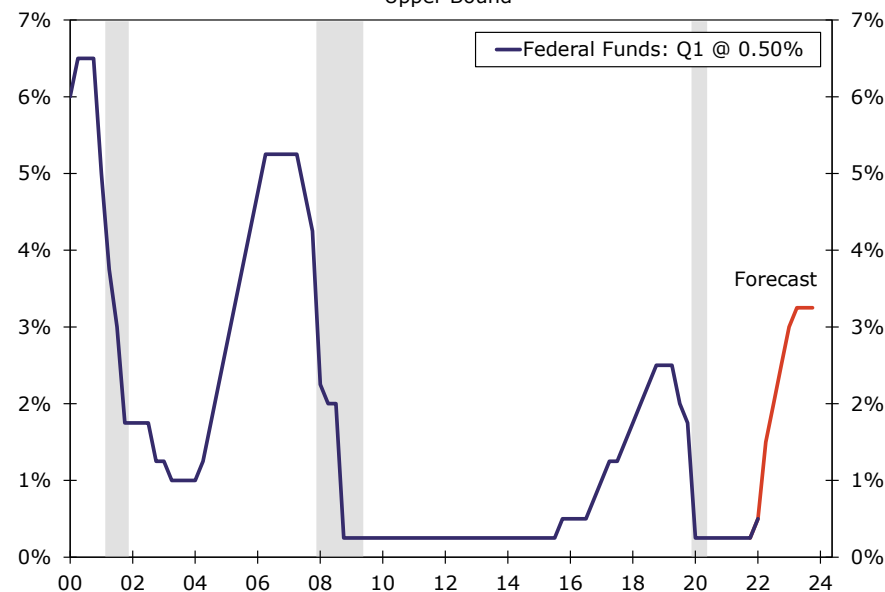
Interest Rate Outlook

We expect Fed rate hikes at all 6 remaining meetings this year and 3 times next year, raising the fed funds rate to 3.25%. The Fed's goal is a soft landing, where growth moderates just enough to cool inflation, without pushing the unemployment rate higher. While the Fed has succeeded in the past, the markets are pricing in a 30% to 40% chance of recession.

Wells Fargo Rates Forecast Through 2023



Federal Funds Target Rate Upper Bound



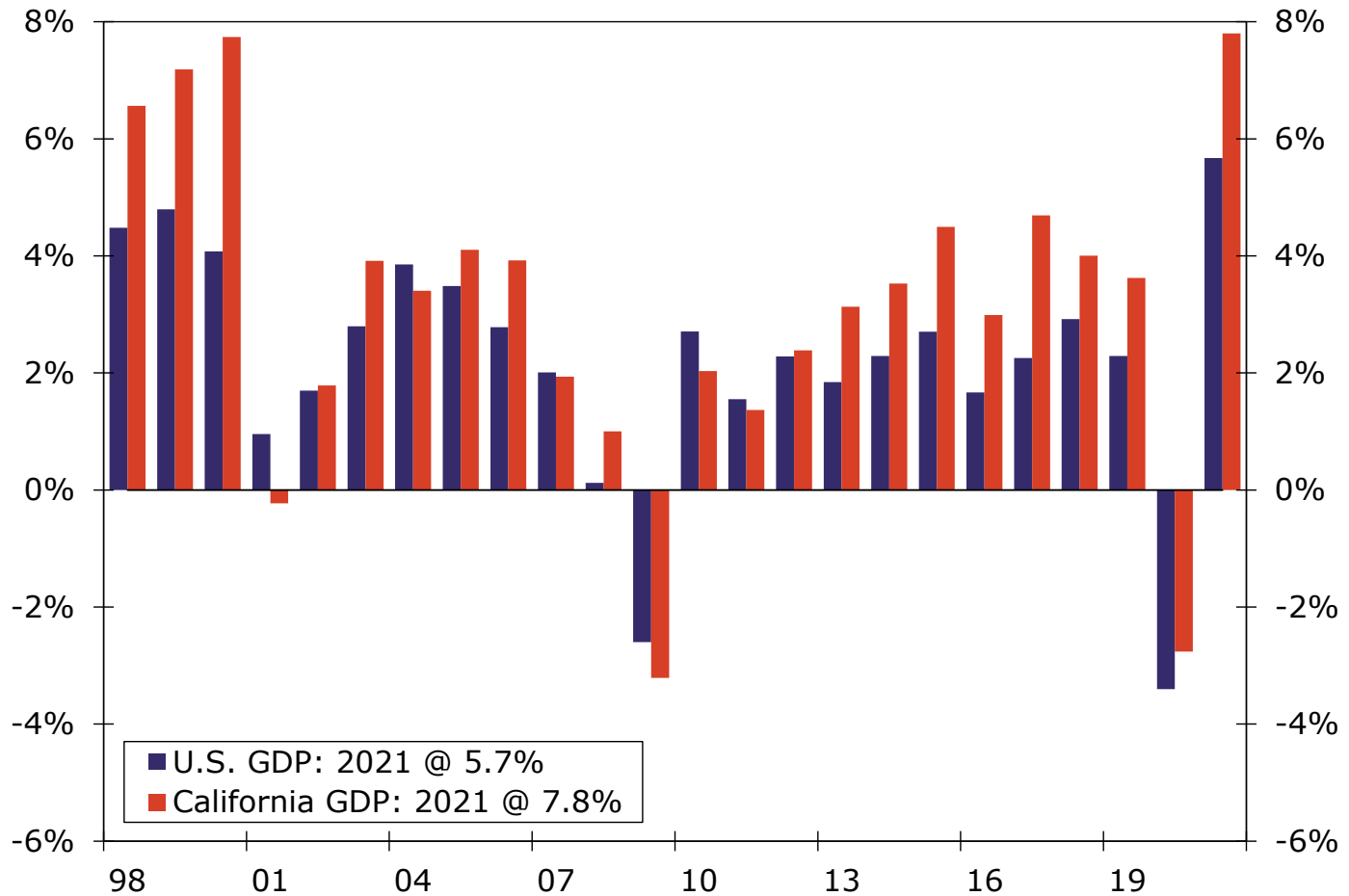


Regional Commentary

Economic activity has comfortably surpassed pre-pandemic levels.

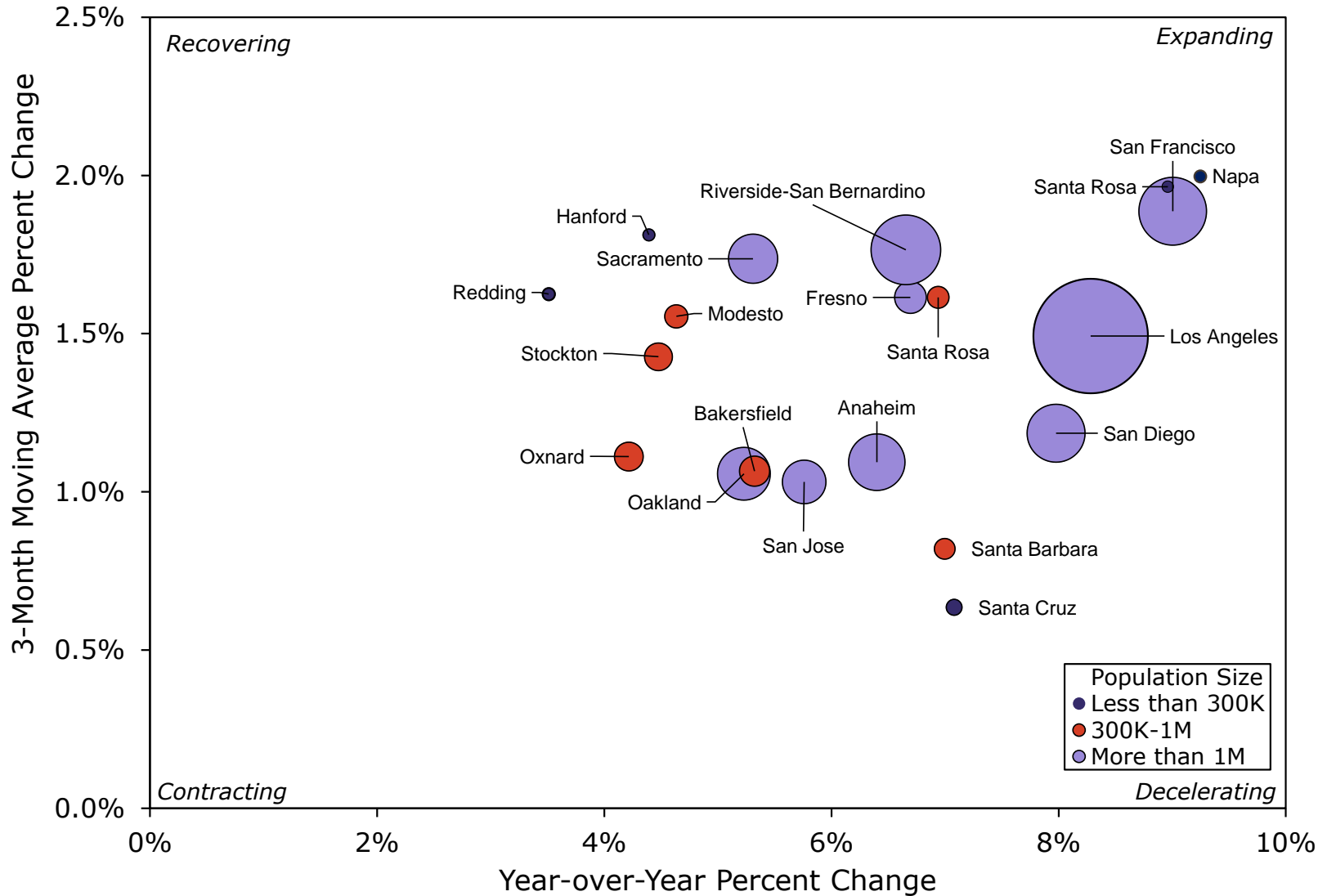
California Gross State Product & U.S. GDP

Year-over-Year Percent Change



California Employment Growth by MSA

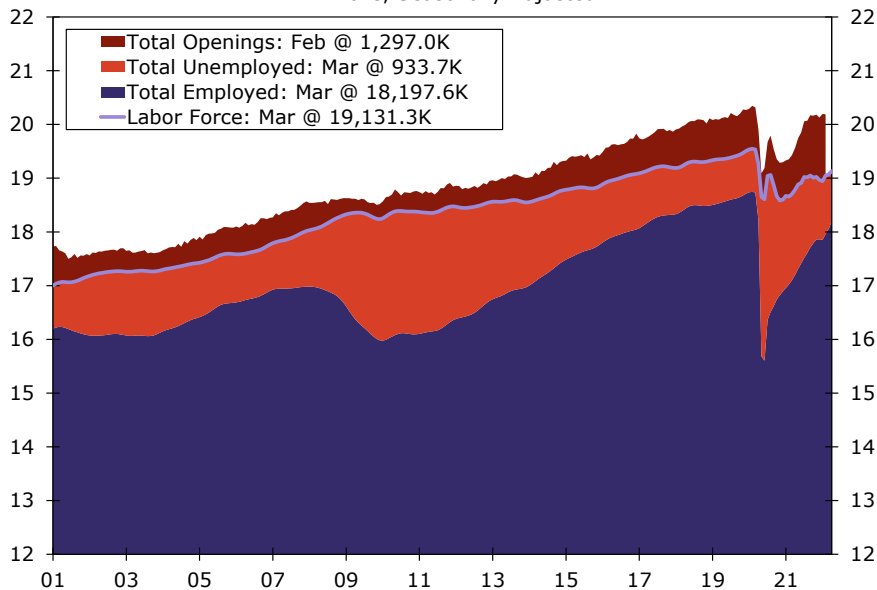
March 2022



California's labor market continues to steadily recover as revised payroll numbers for 2021 showed a stronger recovery than previously thought. On the other hand, the state continues to experience large population outflows, as residents seek more affordable areas of the country.

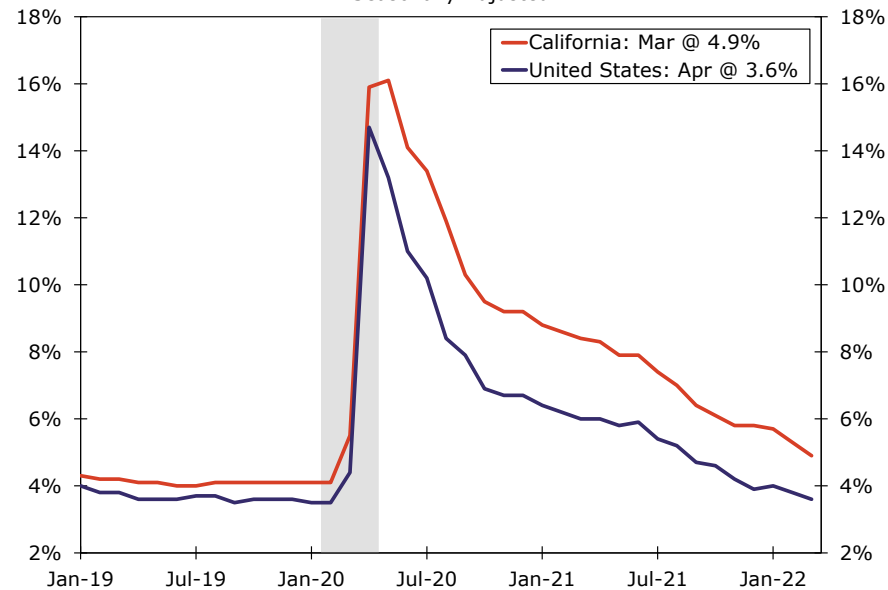
California Labor Force Dynamics

In Millions, Seasonally Adjusted

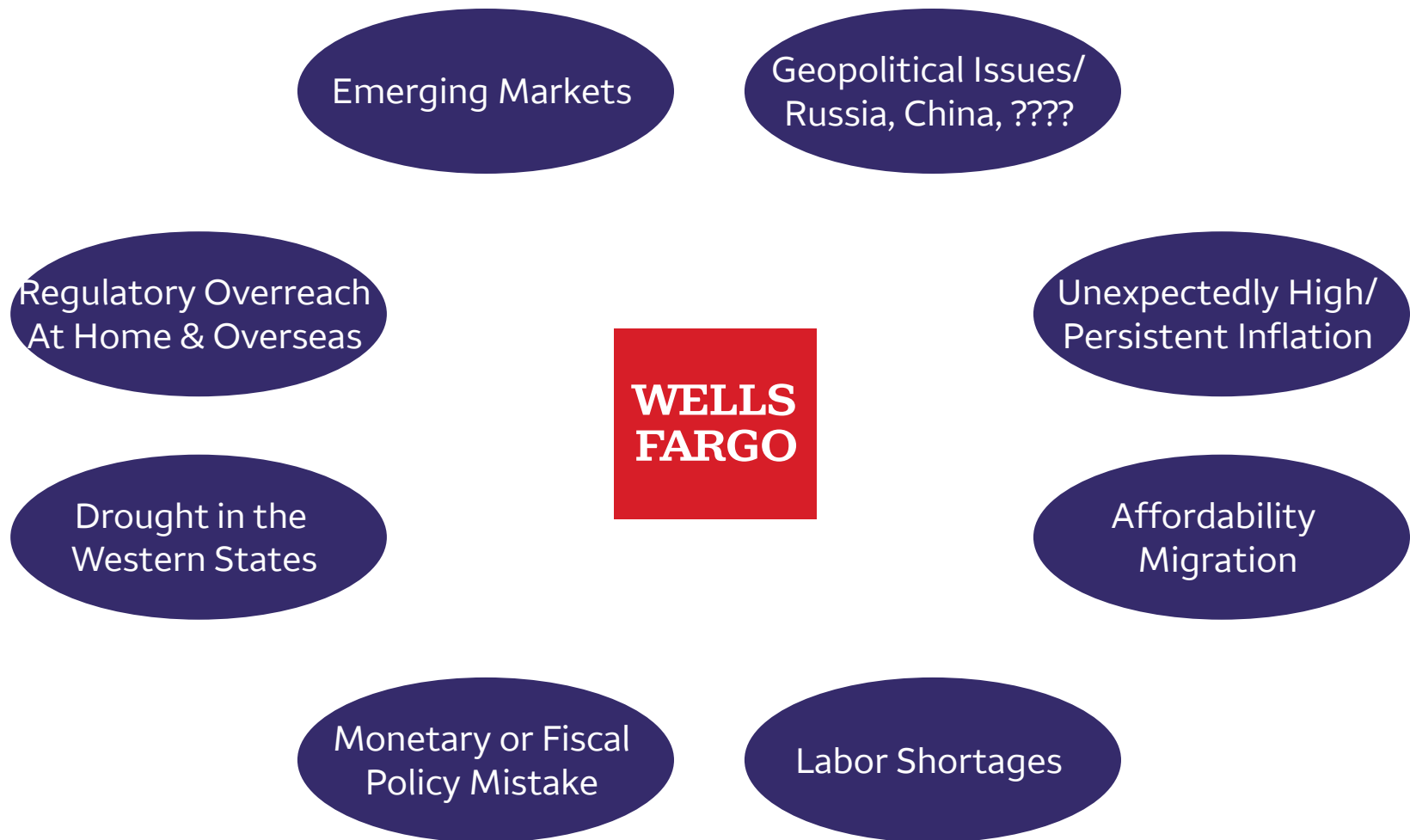


California vs. U.S. Unemployment Rate

Seasonally Adjusted



Issues to Watch



Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2021				2022				2023				2020	2021	2022	2023
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	6.3	6.7	2.3	6.9	0.6	1.2	2.3	2.2	2.4	2.3	1.8	1.5	-3.4	5.7	2.8	2.1
Personal Consumption	11.4	12.0	2.0	2.5	3.0	0.1	1.9	1.7	1.8	1.8	1.7	1.5	-3.8	7.9	2.5	1.6
Business Fixed Investment	12.9	9.2	1.7	2.9	7.8	5.0	4.7	4.5	4.4	3.9	3.5	3.2	-5.3	7.4	5.1	4.2
Equipment	14.1	12.1	-2.3	2.8	6.0	4.5	4.0	4.0	4.0	3.1	2.2	1.7	-8.3	13.1	4.0	3.5
Intellectual Property Products	15.6	12.5	9.1	8.9	12.0	5.6	5.0	4.9	4.9	4.8	4.8	4.8	2.8	10.0	8.5	4.9
Structures	5.4	-3.0	-4.1	-8.3	2.5	4.8	5.9	5.1	4.6	4.1	3.8	3.4	-12.5	-8.0	0.2	4.6
Residential Investment	13.3	-11.7	-7.7	2.2	2.0	4.0	4.5	4.5	3.0	2.8	2.3	2.0	6.8	9.2	0.7	3.3
Government Purchases	4.2	-2.0	0.9	-2.6	0.0	2.6	2.4	2.1	2.0	1.7	1.6	1.3	2.5	0.5	0.4	2.0
Net Exports ²	-1.6	-0.2	-1.3	-0.2	-2.0	0.0	-0.3	-0.5	-0.2	-0.1	0.0	0.0	-0.2	-1.9	-0.9	-0.2
Inventories ²	-2.6	-1.3	2.2	5.3	-0.6	-0.2	0.0	0.3	0.2	0.1	-0.2	-0.3	-0.6	0.1	1.0	0.1
Nonfarm Payroll Change ³	645	422	543	637	562	385	308	235	200	175	140	120	-774	562	373	159
Unemployment Rate	6.2	5.9	5.1	4.2	3.8	3.6	3.4	3.3	3.3	3.2	3.3	3.4	8.1	5.4	3.5	3.3
PCE Deflator ⁴	1.8	3.9	4.3	5.5	6.3	6.4	6.0	5.3	4.2	2.9	2.5	2.3	1.2	3.9	6.0	3.0
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.50	2.00	2.50	3.00	3.25	3.25	3.25	0.50	0.25	1.63	3.19
Secured Overnight Financing Rate	0.01	0.05	0.05	0.05	0.29	1.30	1.80	2.30	2.85	3.10	3.15	3.15	0.36	0.04	1.42	3.06
3 Month LIBOR	0.19	0.15	0.13	0.21	0.96	1.80	2.25	2.70	3.20	3.40	3.40	3.35	0.65	0.16	1.93	3.34
Prime Rate	3.25	3.25	3.25	3.25	3.50	4.50	5.00	5.50	6.00	6.25	6.25	6.25	3.50	3.25	4.63	6.19
Conventional Mortgage Rate	3.17	3.02	2.88	3.11	4.42	4.65	4.70	4.70	4.65	4.55	4.50	4.45	3.12	2.95	4.62	4.54
3 Month Bill	0.03	0.05	0.04	0.06	0.52	1.50	2.00	2.50	3.00	3.20	3.20	3.15	0.36	0.04	1.63	3.14
6 Month Bill	0.05	0.06	0.05	0.19	1.06	1.90	2.35	2.80	3.15	3.20	3.15	3.05	0.37	0.06	2.03	3.14
1 Year Bill	0.07	0.07	0.09	0.39	1.63	2.20	2.55	2.90	3.15	3.10	3.00	2.85	0.37	0.10	2.32	3.03
2 Year Note	0.16	0.25	0.28	0.73	2.28	2.70	2.90	3.05	3.10	3.00	2.90	2.70	0.39	0.27	2.73	2.93
5 Year Note	0.92	0.87	0.98	1.26	2.42	2.75	2.90	3.00	3.00	2.95	2.90	2.80	0.53	0.86	2.77	2.91
10 Year Note	1.74	1.45	1.52	1.52	2.32	2.60	2.70	2.75	2.75	2.70	2.70	2.65	0.89	1.45	2.59	2.70
30 Year Bond	2.41	2.06	2.08	1.90	2.44	2.65	2.75	2.80	2.80	2.80	2.80	2.80	1.56	2.06	2.66	2.80

Forecast as of: April 07, 2022

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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