



# Economic Outlook

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May 2023

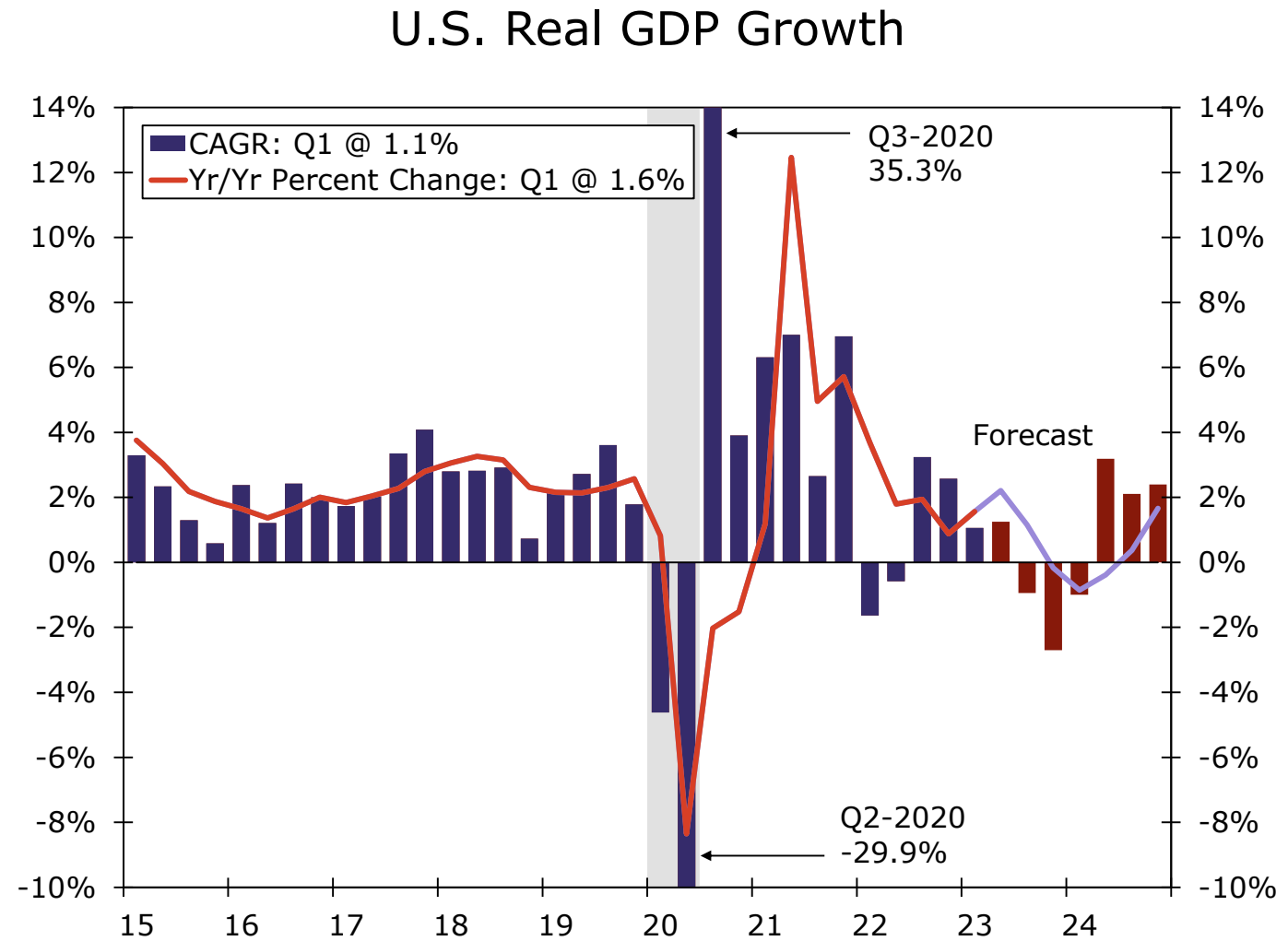
**Charlie Dougherty**

Director & Senior Economist | Wells Fargo Economics

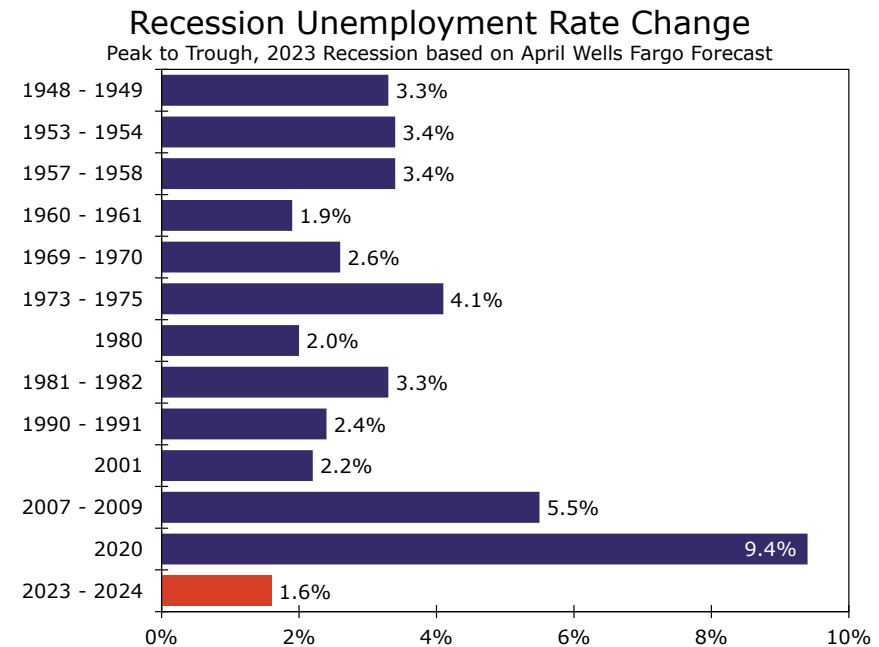
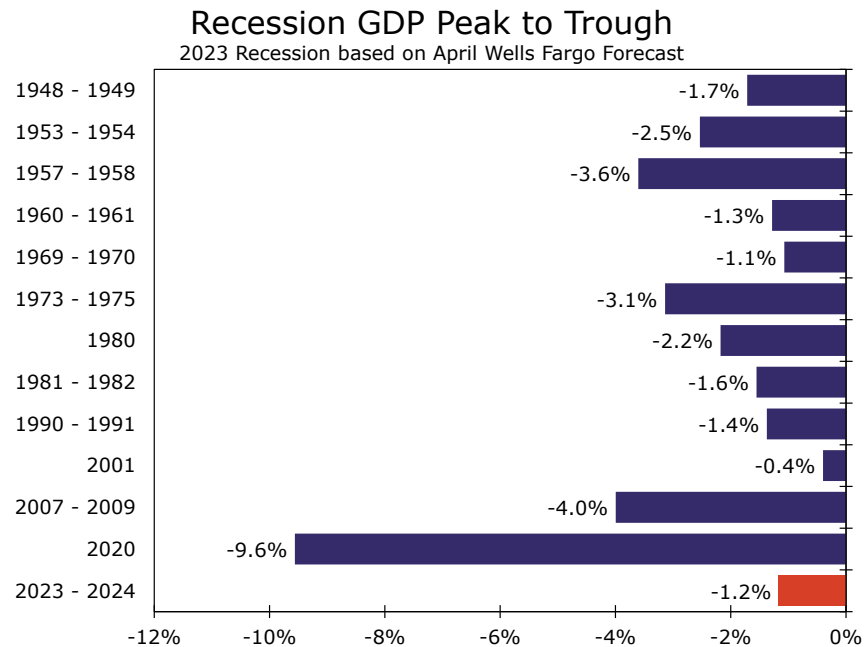
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# Is the U.S. Economy Headed for a Soft Landing?

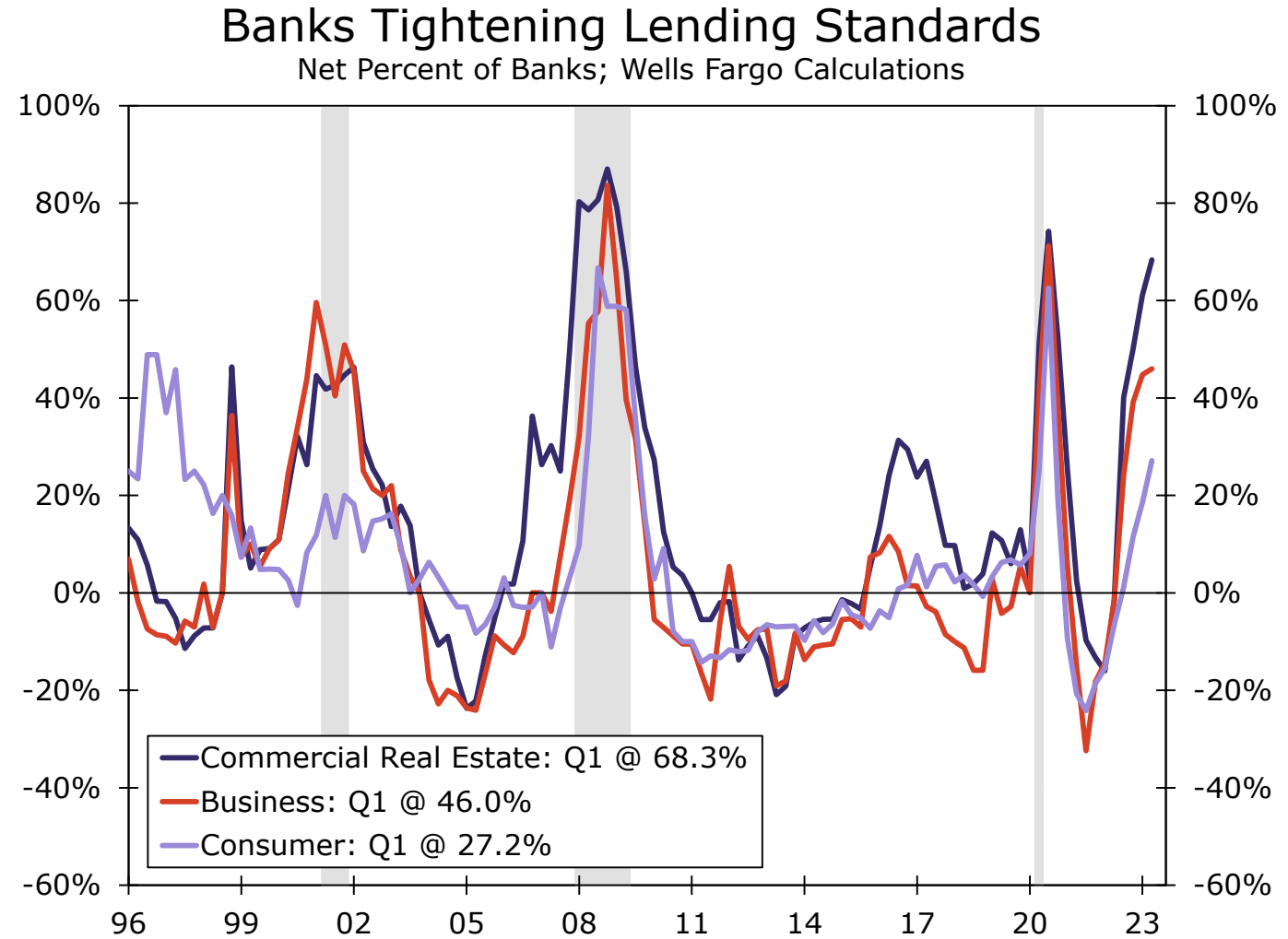
The likelihood the U.S. economy enters a recession has risen in recent months.



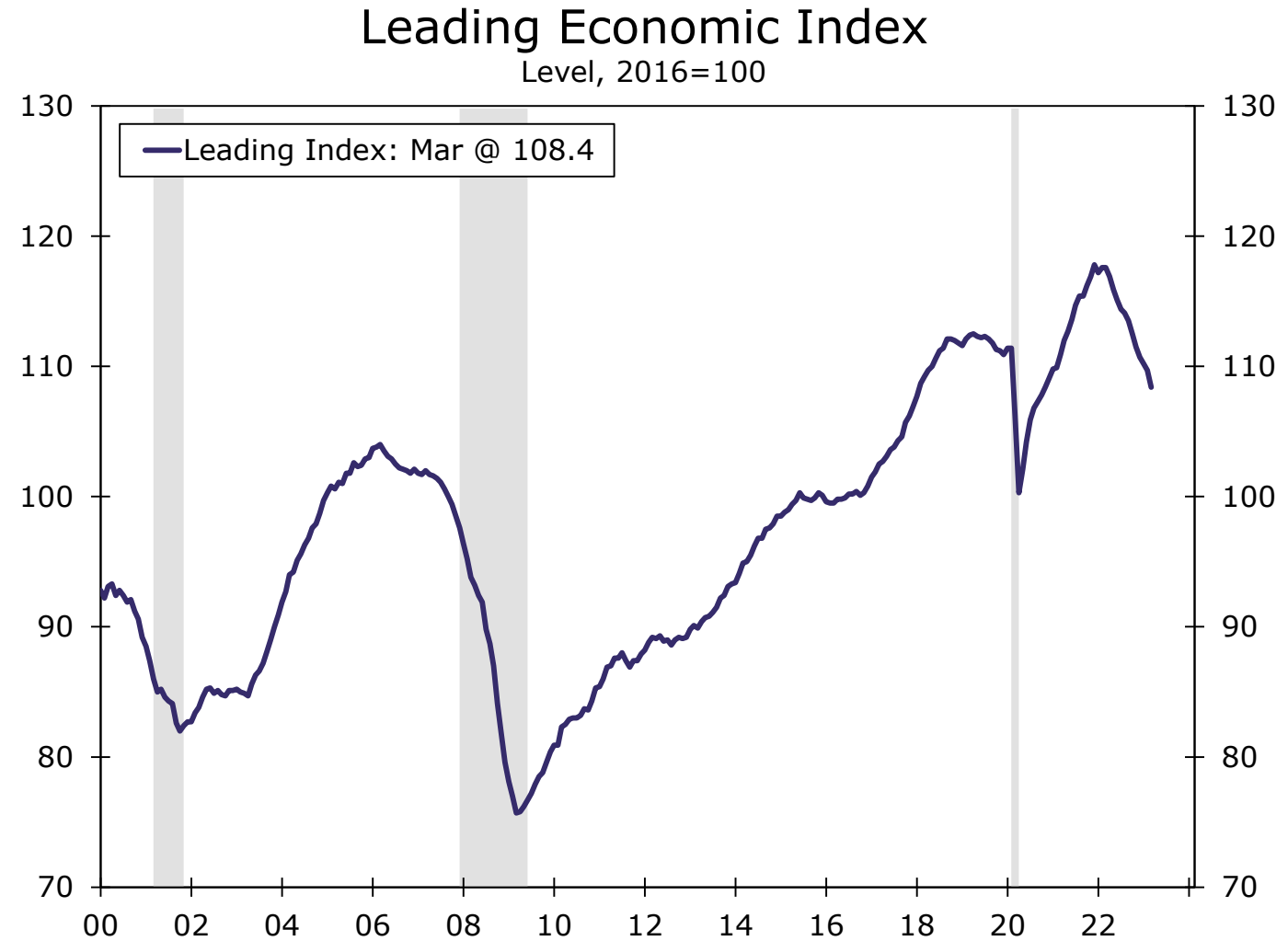
A severe recession is not our base case. We look for a moderate drop in real GDP compared to recent downturns.



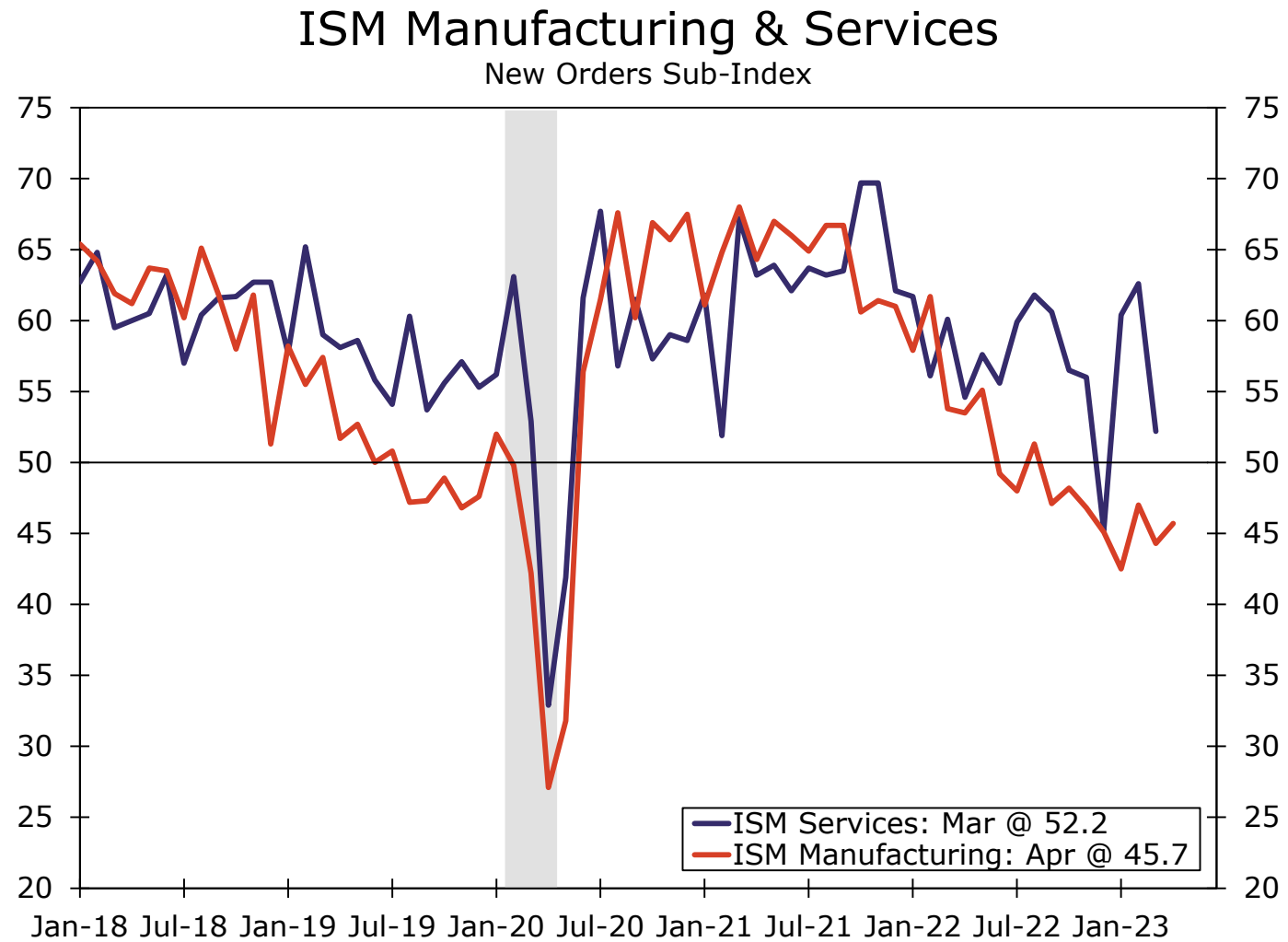
A rising share of banks are tightening lending standards.



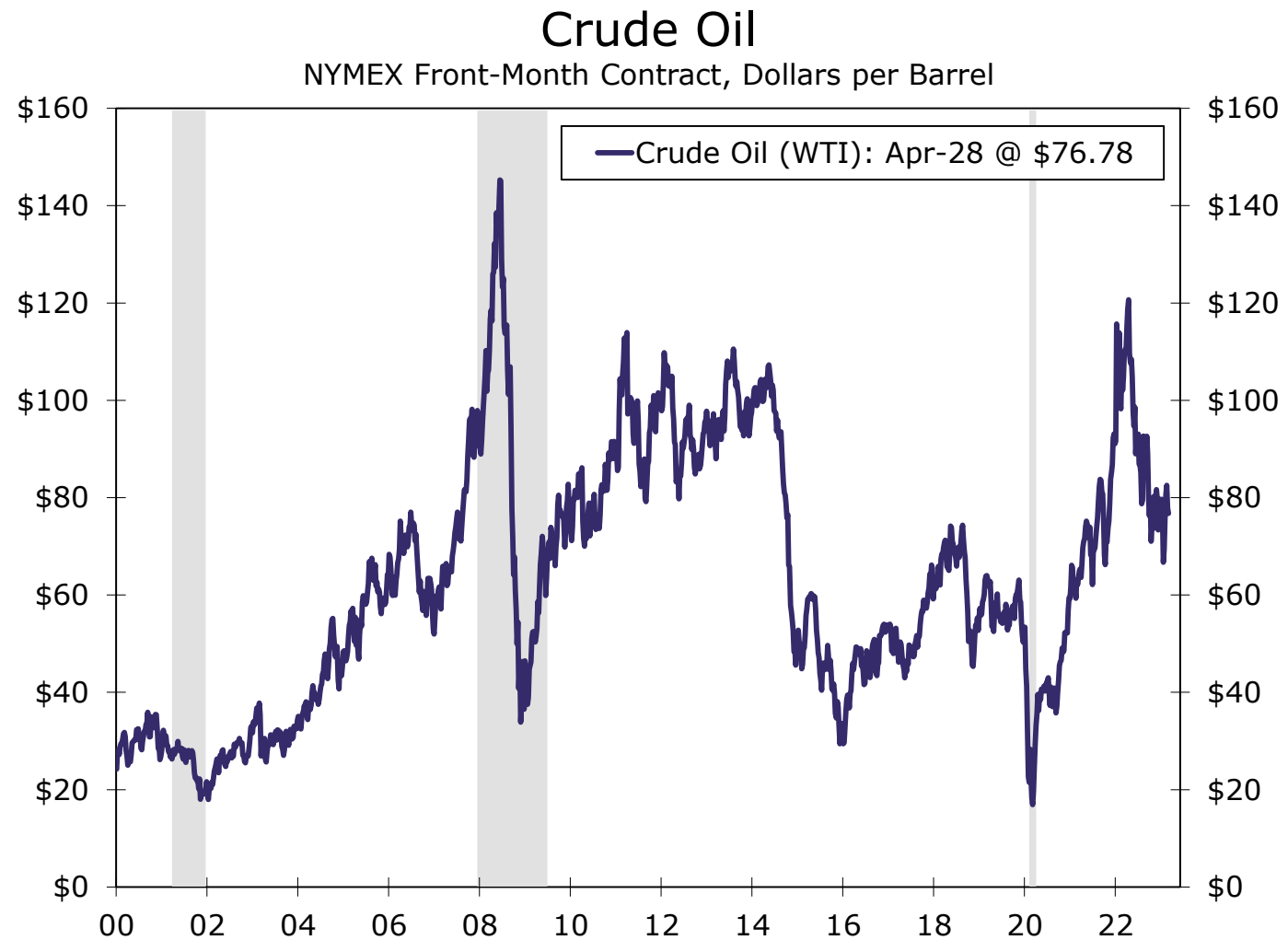
There has been a trend decline in the leading economic index, which usually indicates growth is nearing an inflection point.



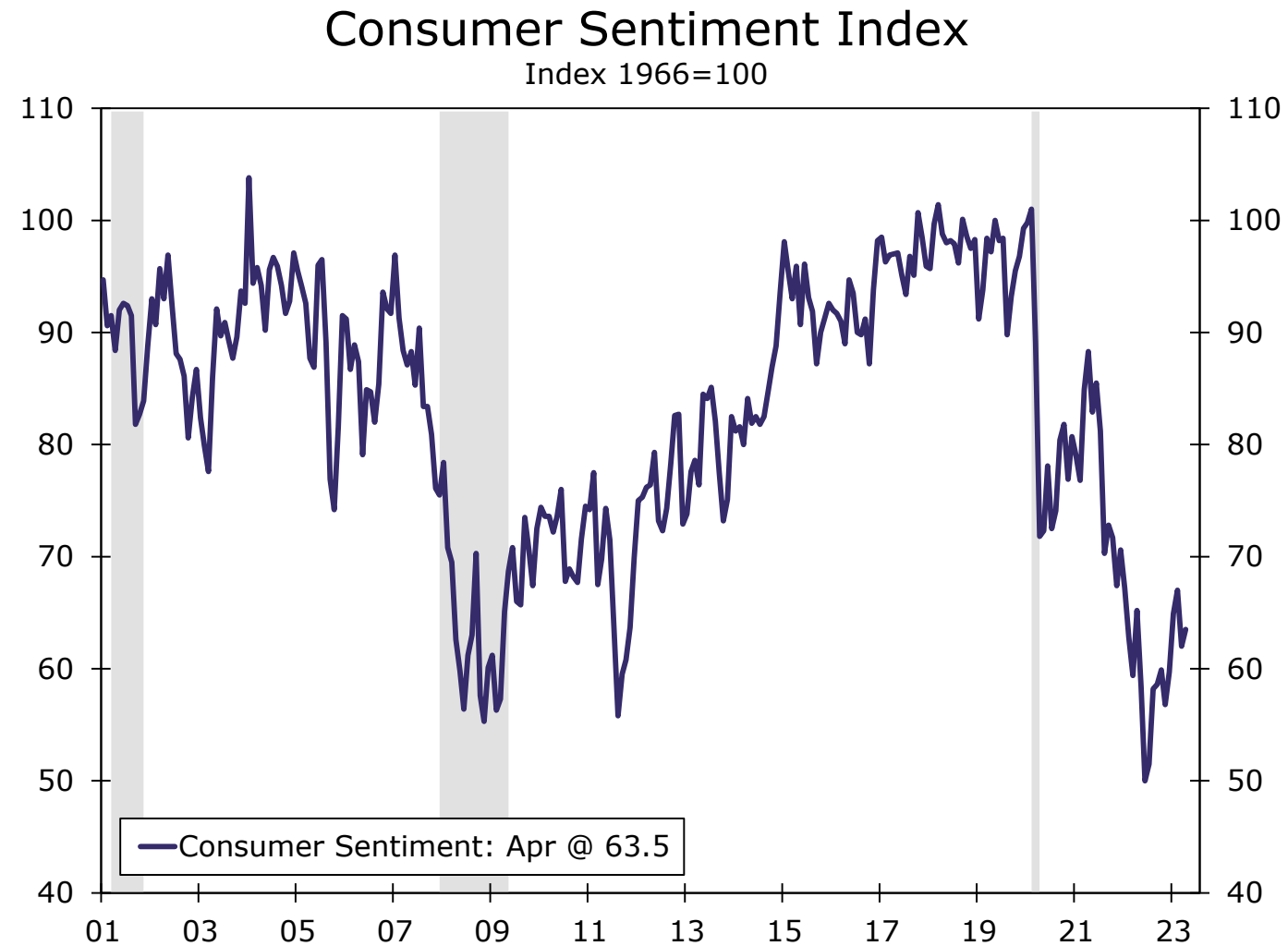
The service sector is holding up better compared to the manufacturing sector.



Oil prices have declined since spiking following Russia's invasion of Ukraine. Lower energy costs have helped boost consumer purchasing power.

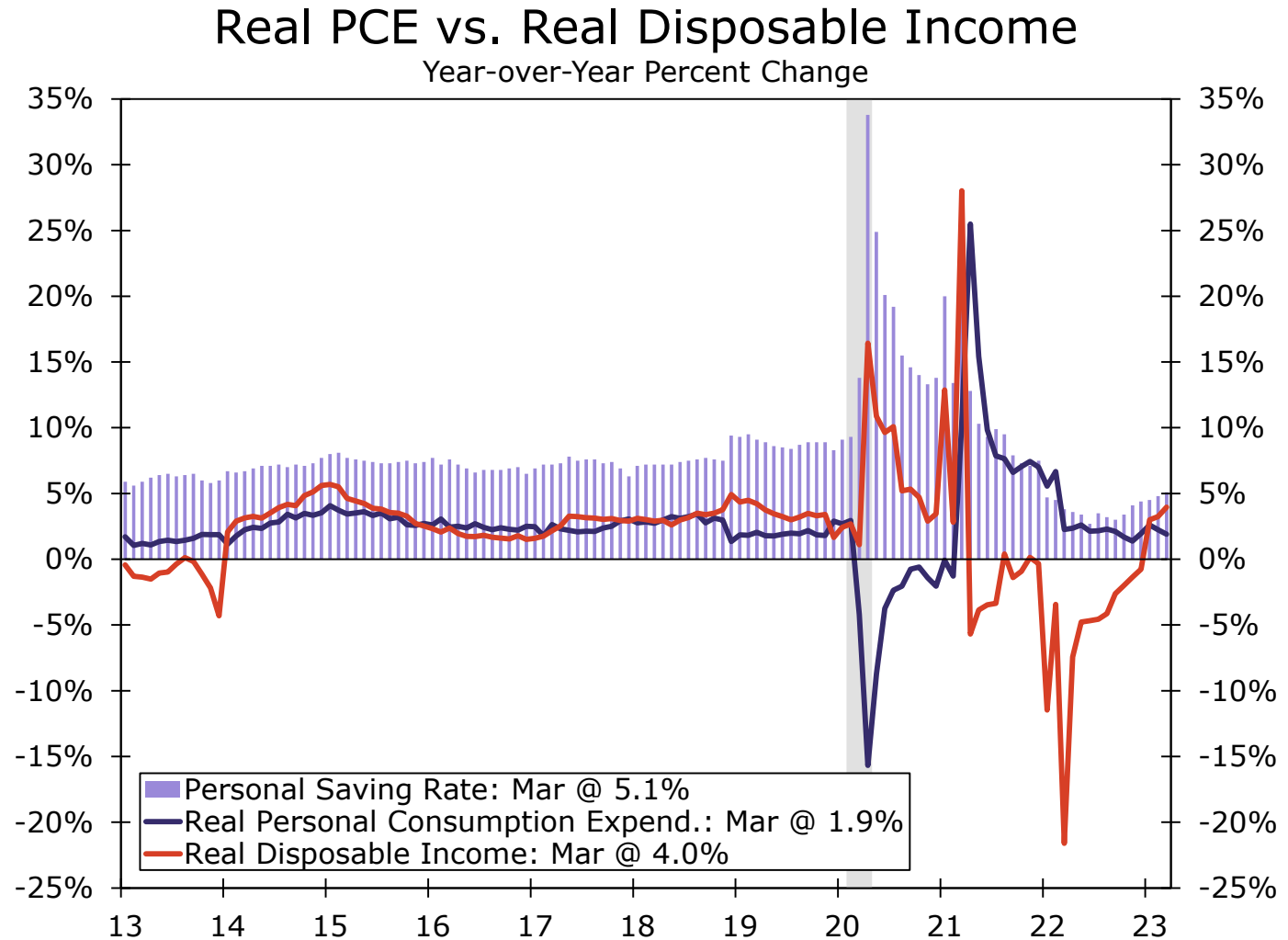


Consumer sentiment remains quite low but has perked up a bit alongside easing inflation.





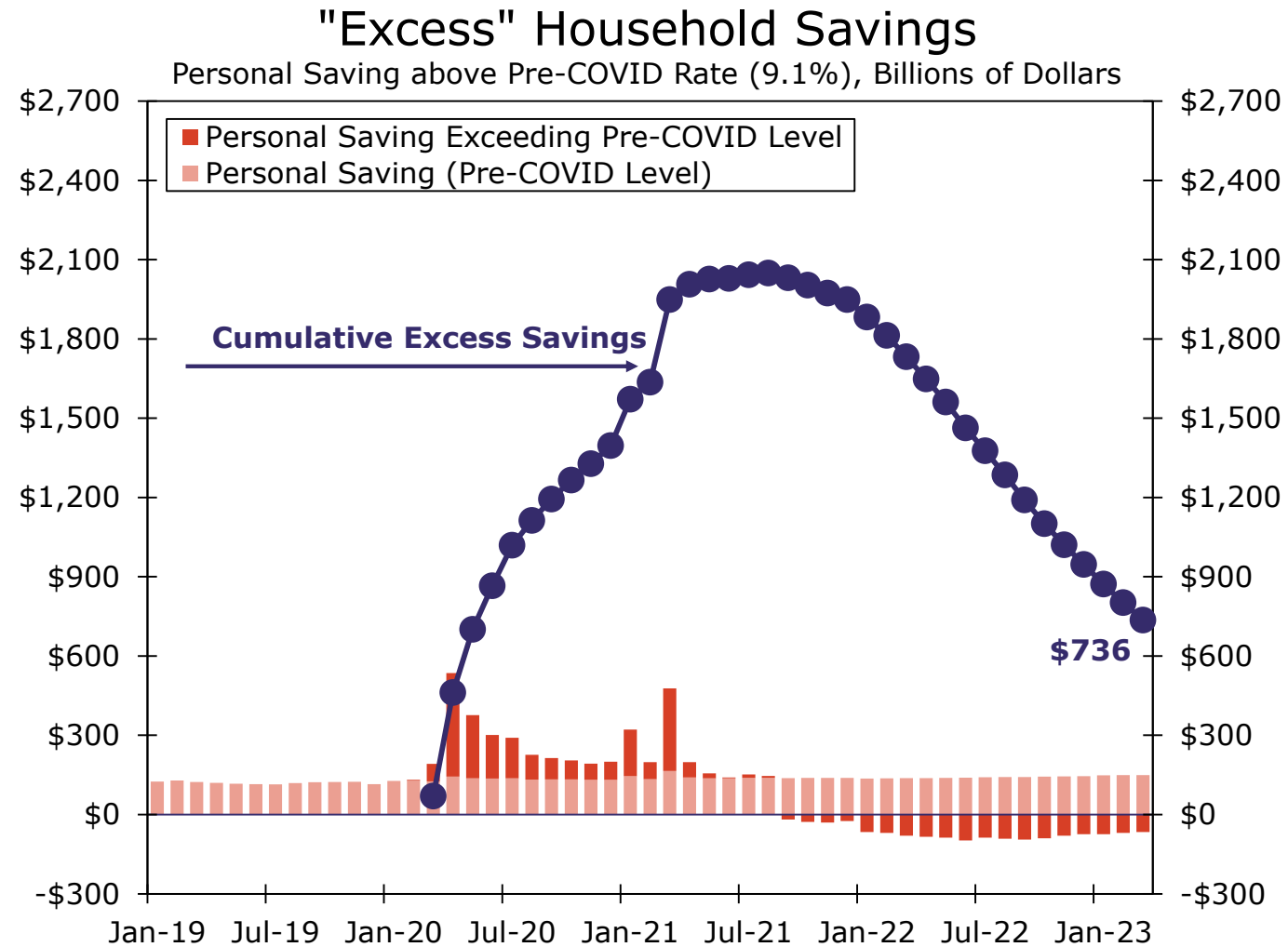
Inflation-adjusted income growth has turned positive, which could help bolster consumer spending growth.



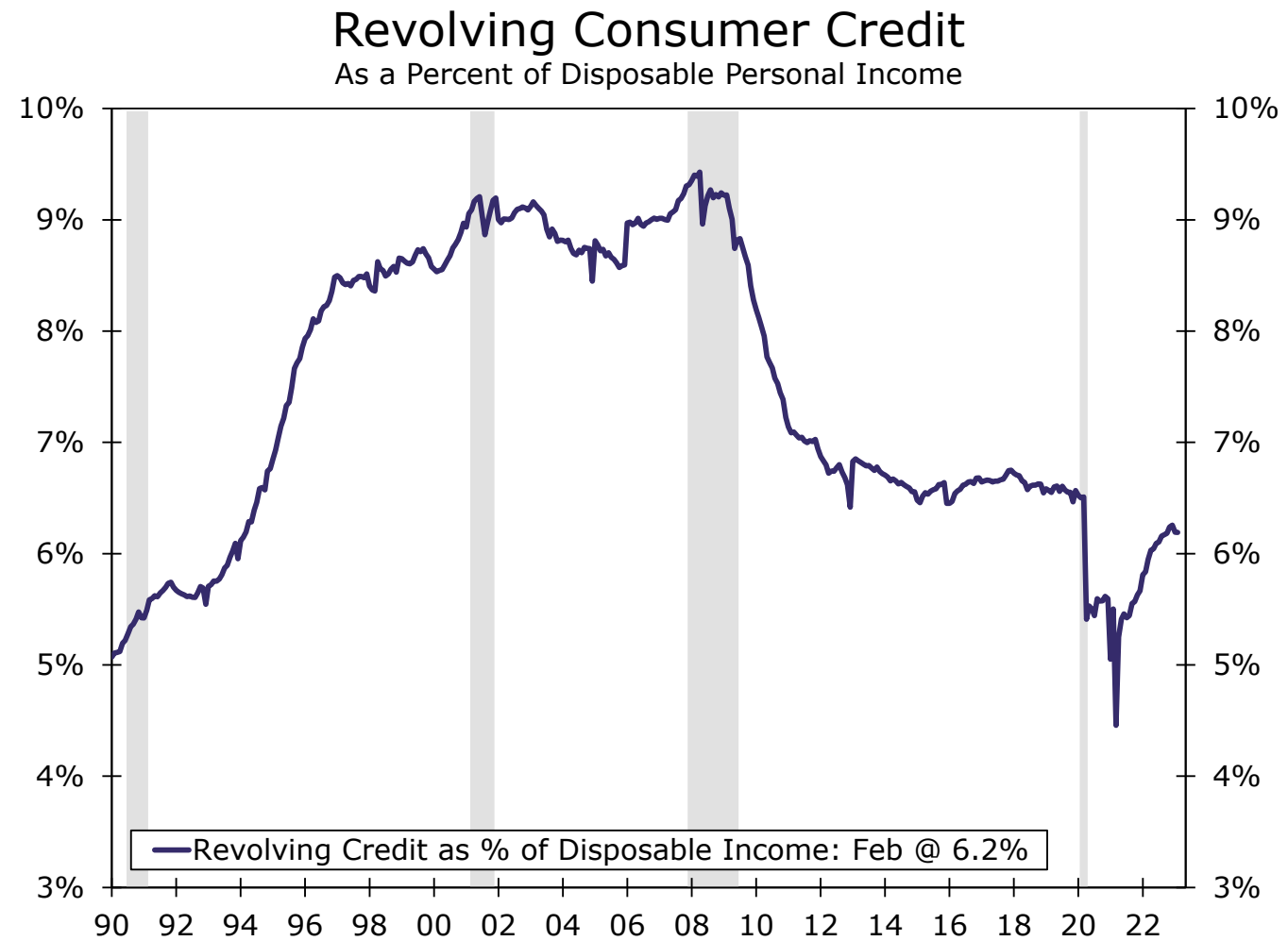
# Consumer Savings Will Provide A Cushion

The strength of household balance sheets have supported consumer spending.

Inflation, however, is quickly eating into the pile.



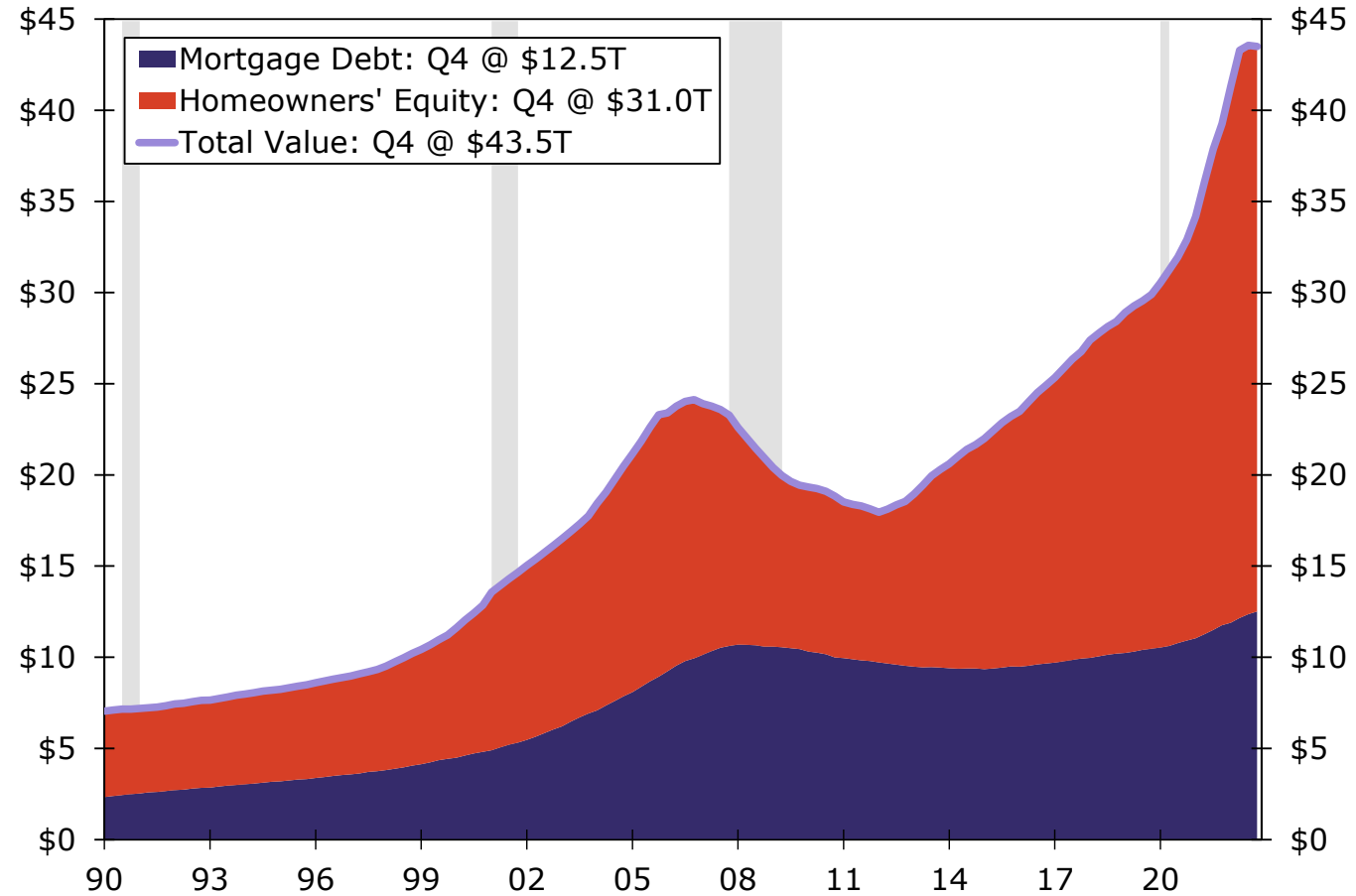
Consumers are leaning more on their balance sheets.



Homeowners have a significant equity cushion.

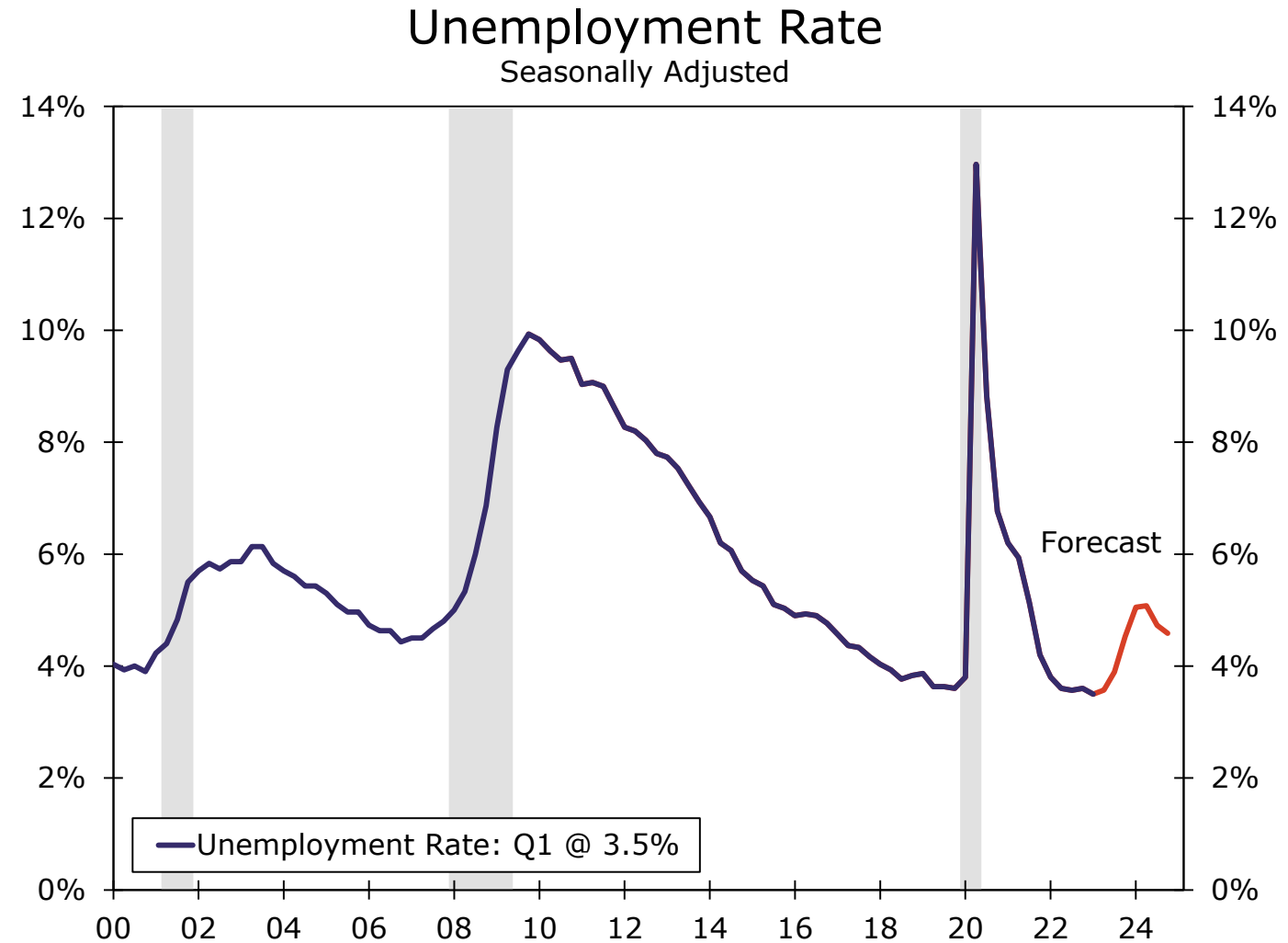
## Value of the U.S. Single-Family Housing Market

Trillions of Dollars

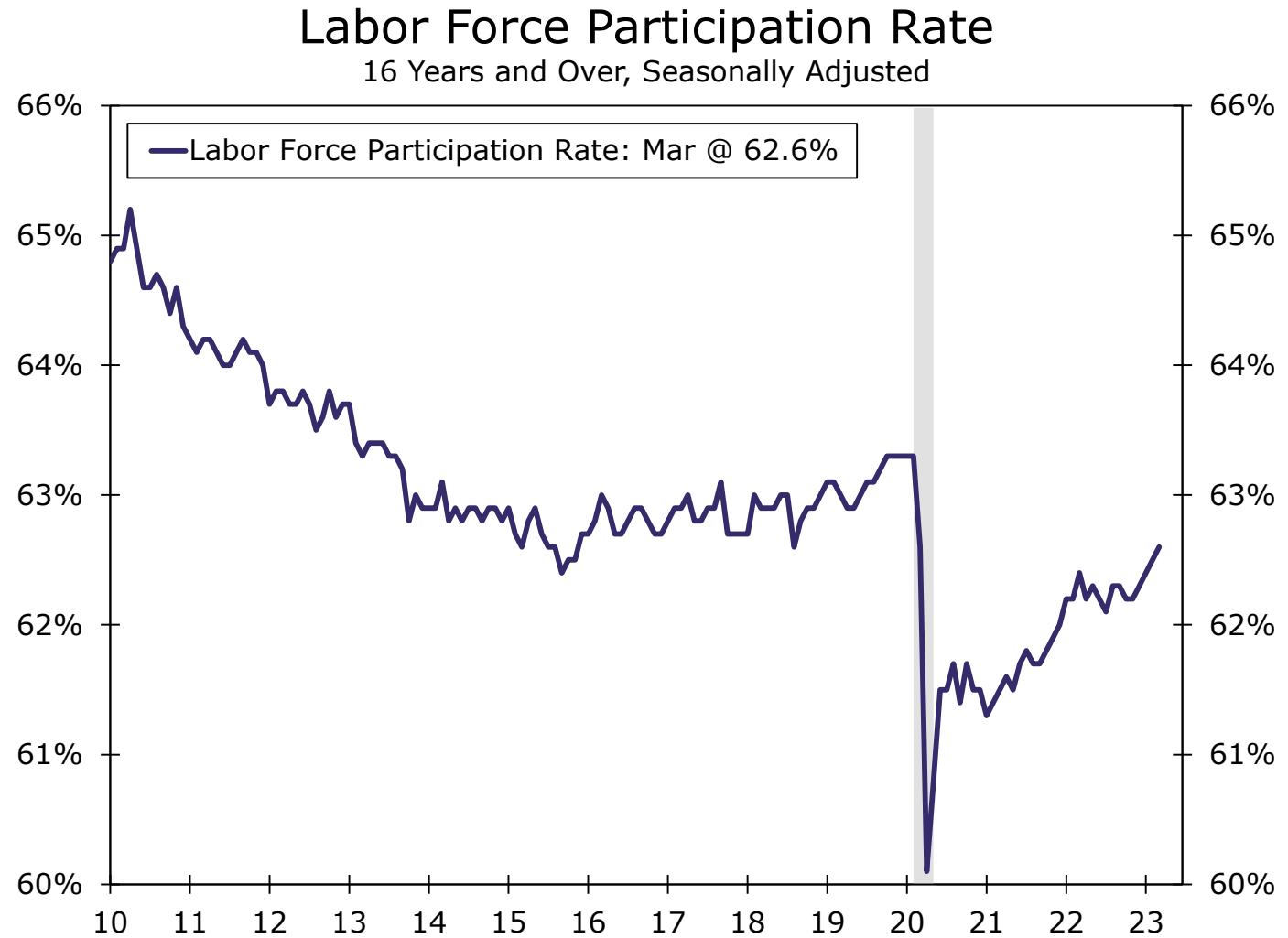


# Labor Market Still Strong but Some Weakening Ahead

We expect the unemployment rate to trend higher over the next year or so.

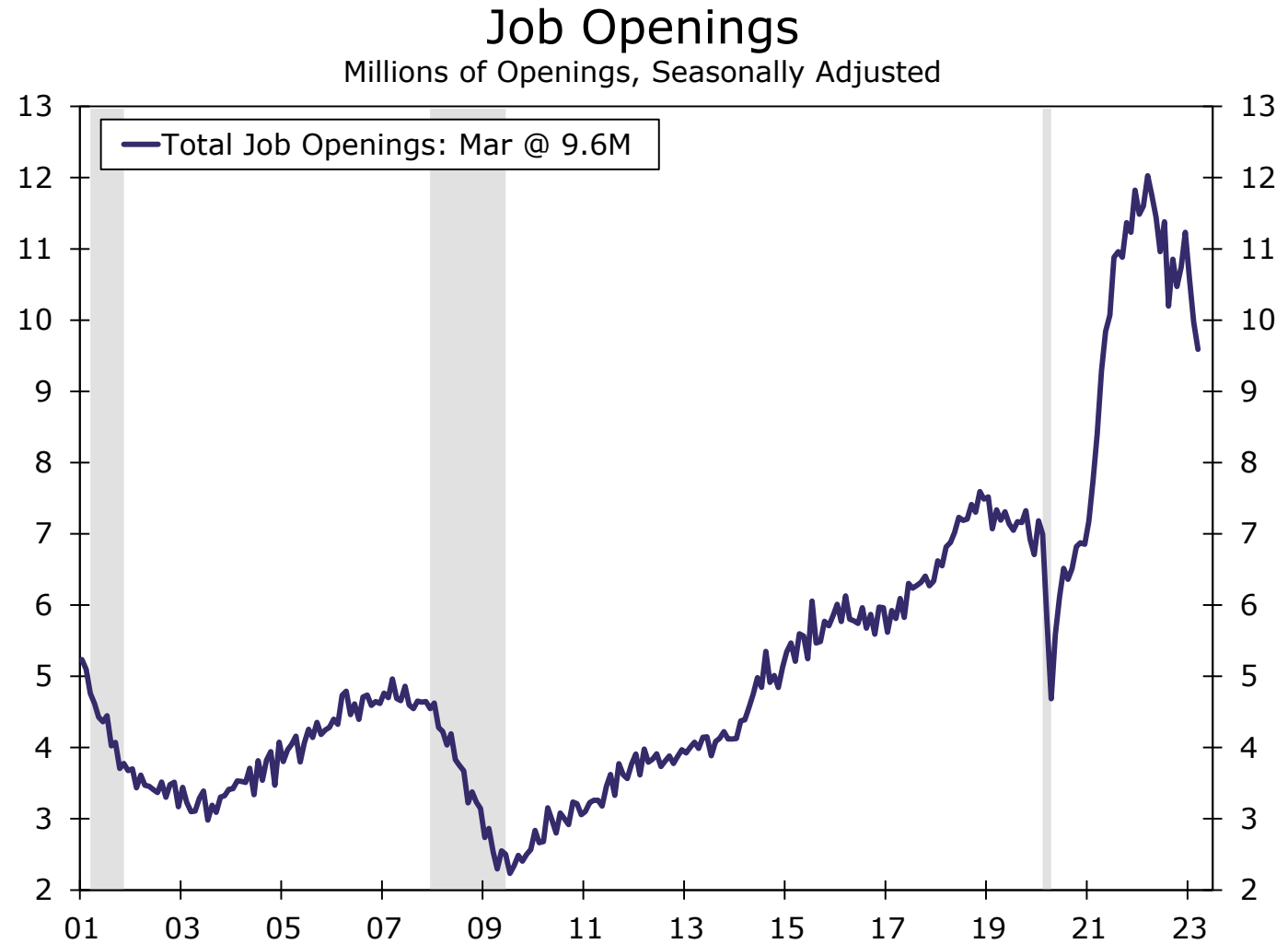


Labor force participation has improved in recent months.

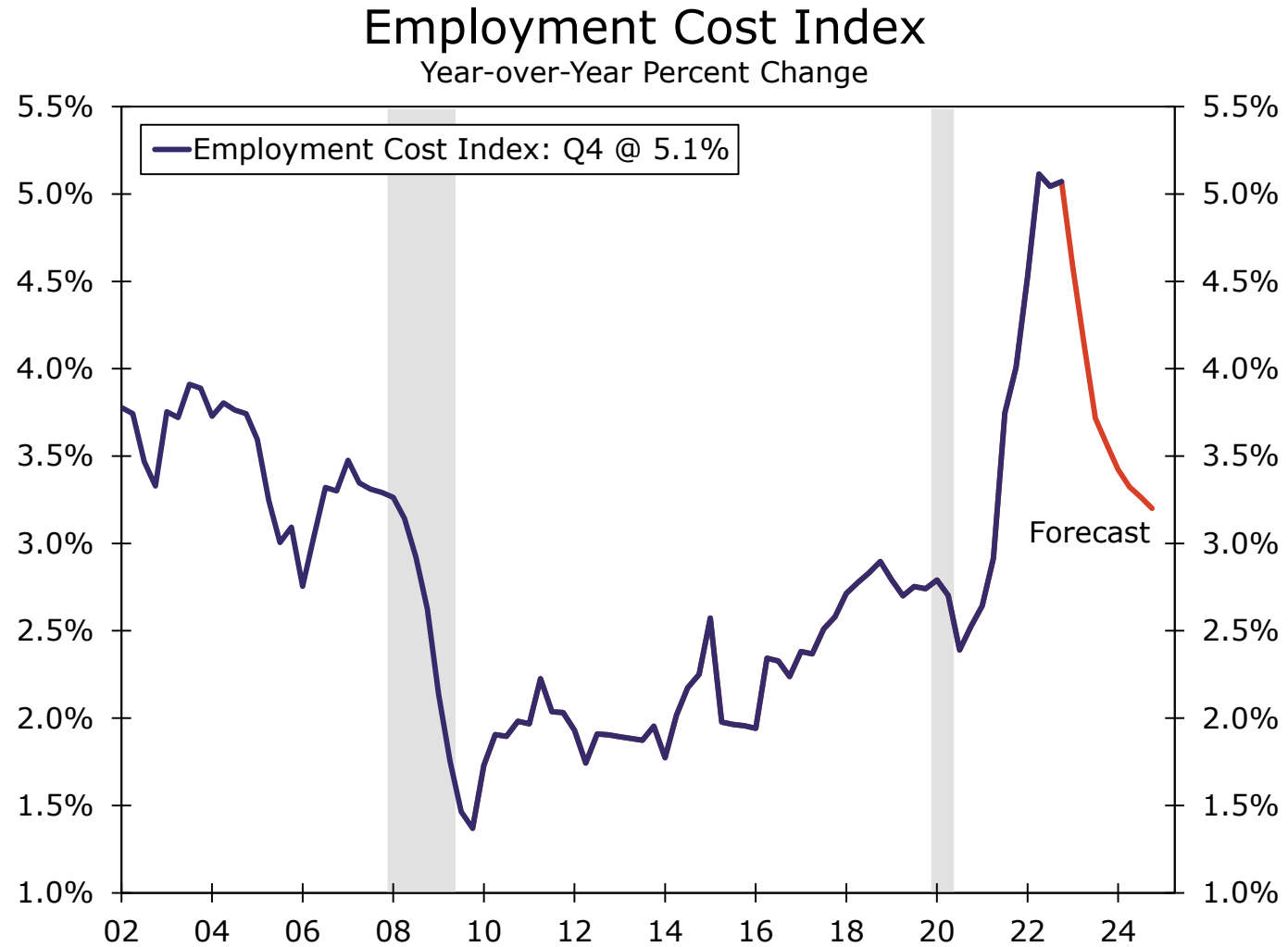


# Job Openings Elevated But Trending Lower

While labor demand has shown signs of topping out, it may take some time for the labor market to rebalance.

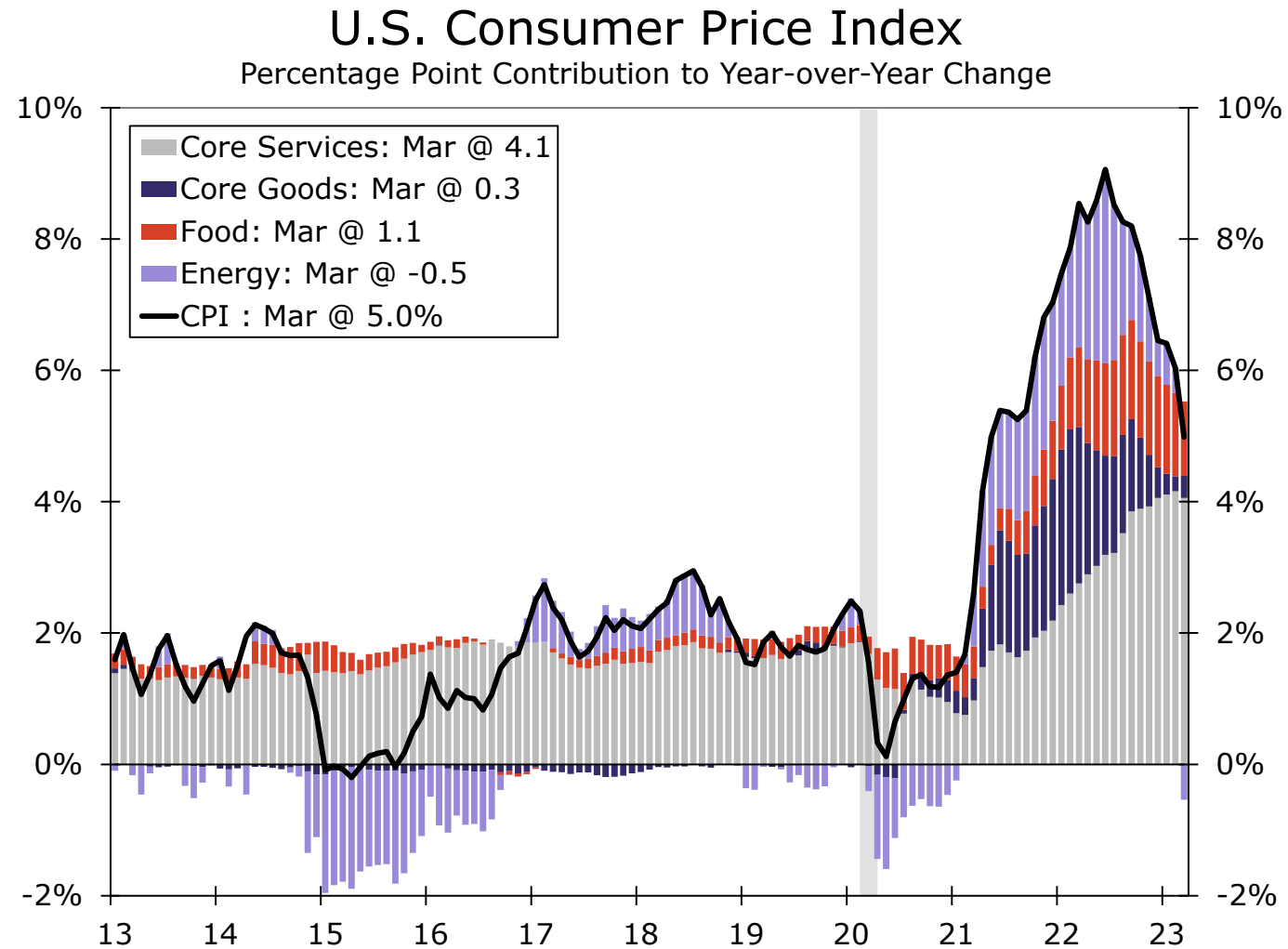


More balance in the labor market is likely to lead to wage growth moderation.



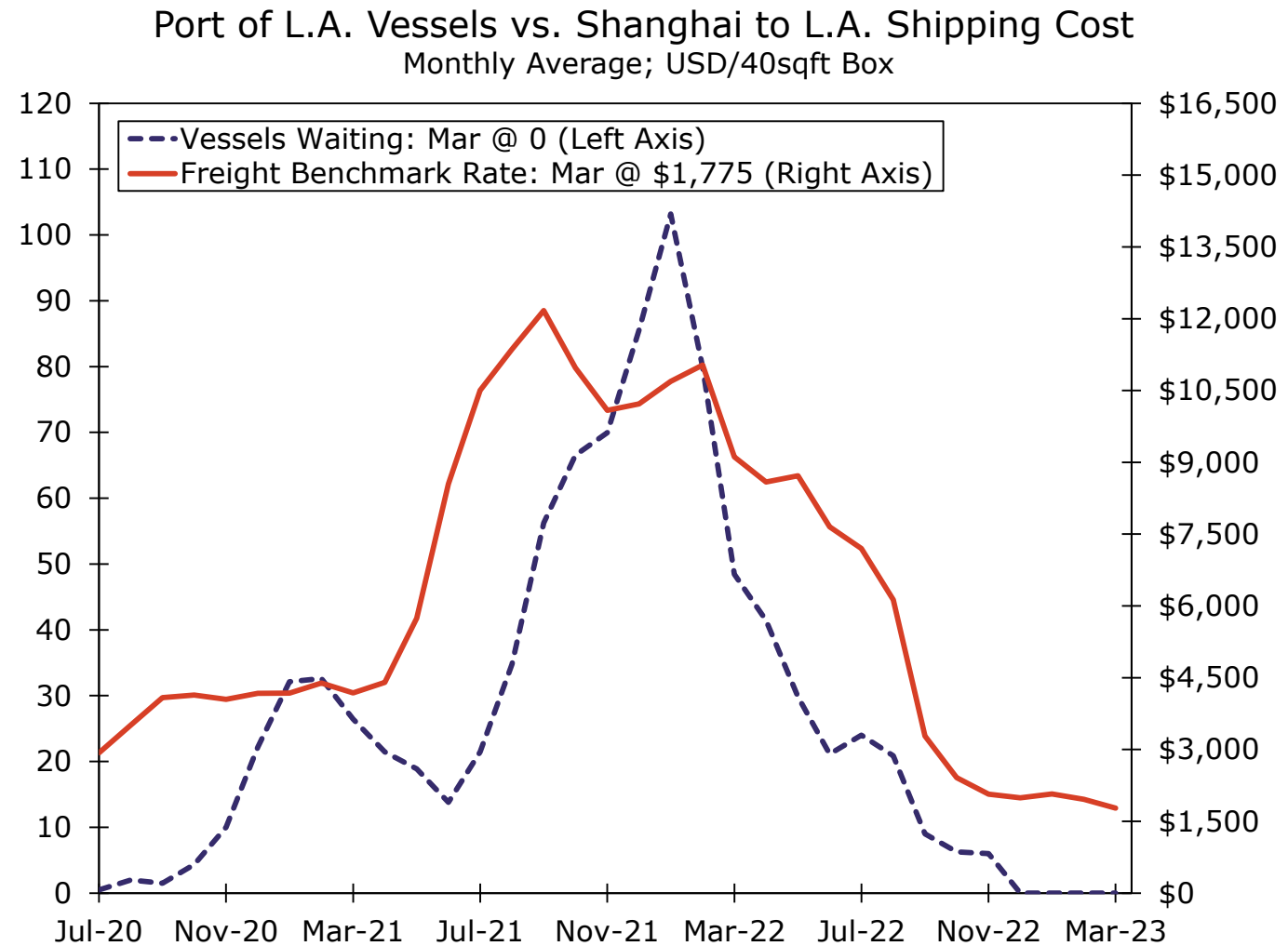


Inflation looks to be easing as energy and goods prices trend lower. Services inflation is still running hot, however.



# Supply Bottlenecks

Supply chain constraints have eased, which suggests less price pressures in the months ahead.

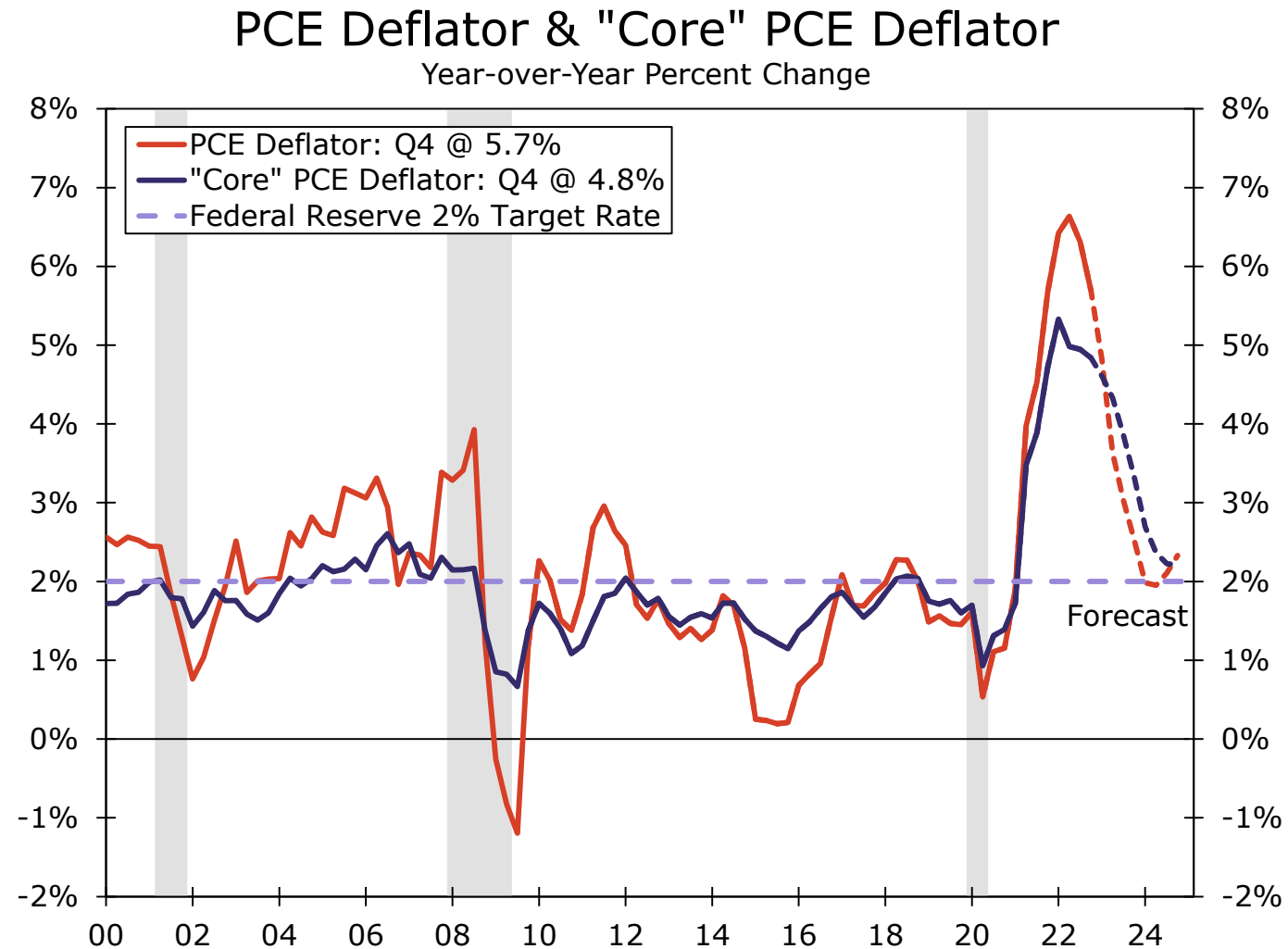


# Supply Chain Strains Easing

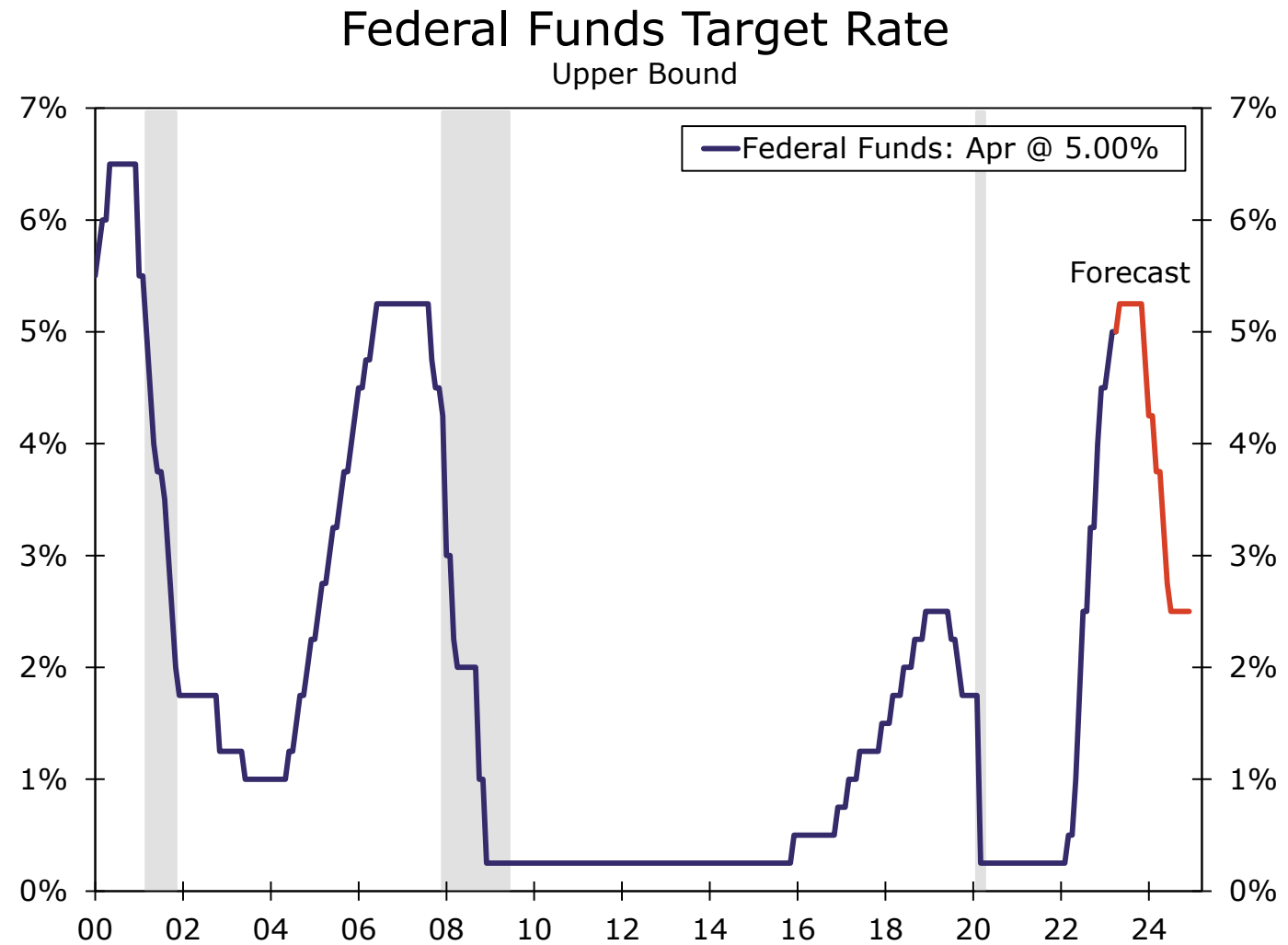
Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-21	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-22	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-23	Feb	Mar
<b>Volume</b>																																						
Unfilled Orders (a)	9.0%	6.2%	2.6%	0.6%	1.1%	4.6%	5.6%	7.4%	9.4%	10.7%	10.3%	11.2%	12.6%	15.3%	16.2%	15.6%	14.1%	12.4%	11.6%	9.1%	7.8%	6.0%	4.5%	4.4%	3.9%	4.3%	3.5%	2.2%	1.2%	1.5%	3.0%	3.2%	1.8%	1.3%	0.9%	1.1%	0.1%	
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%	-0.3%	-10.6%	-14.4%	4.1%	-8.8%	8.4%	-32.4%	-11.1%	-1.6%	39.7%	23.7%	0.0%	9.5%	14.7%	13.2%	8.6%	-22.0%	-23.4%	-28.9%	-10.9%	
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%	35.7%	39.3%	73.1%	70.5%	-2.4%	20.0%	-7.5%	41.6%	-4.8%	58.0%	37.0%	27.1%	-19.7%	-5.8%	8.4%	-6.2%	-1.3%	-37.6%	-20.4%	-68.0%	-46.8%	-11.5%
Real Goods Consumption (b)	0.0%	-1.1%	-13.9%	-1.0%	5.1%	7.7%	6.9%	9.2%	8.9%	8.0%	7.2%	12.3%	9.9%	20.7%	18.9%	16.7%	16.8%	14.9%	14.8%	15.5%	16.8%	16.4%	14.0%	16.7%	15.3%	15.1%	15.3%	14.7%	14.9%	14.6%	14.8%	15.2%	16.1%	14.6%	13.8%	17.3%	17.1%	
<b>Time</b>																																						
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	65.7	57.3	55.2	55.1	52.4	46.8	47.2	45.1	45.6	45.2	44.8
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	61.3	61.9	57.8	54.5	53.9	56.2	53.8	48.5	50.0	47.6	45.8
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	29.8	23.0	24.0	20.9	9.0	6.3	6.0	0.0	0.0	0.0	0.0
<b>Price</b>																																						
World Container Index (WCI)	\$1,633	\$1,520	\$1,900	\$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	\$7,667	\$7,412	\$6,908	\$6,317	\$4,894	\$3,425	\$2,705	\$2,168	\$2,098	\$1,971	\$1,786
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%	19.6%	21.0%	19.5%	35.1%	34.3%	36.5%	15.9%	8.5%	-6.7%	-5.9%	-9.7%	-0.5%	-4.8%	-6.0%	-11.2%	-14.9%
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%	-69.7%	-67.0%	-57.5%	-35.7%	-25.6%	-15.2%	-27.0%	-14.4%	14.1%	-9.3%	-48.1%
<b>Inventory</b>																																						
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	1.09	1.09	1.12	1.11	1.10	1.09	1.10	1.16	1.16	1.15	1.18	1.18	1.20	1.21	1.23	1.24	1.24	1.22	1.24	1.26	1.23		
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	32.7	35.2	39.5	38.9	41.6	41.6	48.7	48.2	47.4	46.9	48.9
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%	6.0%	8.0%	5.0%	2.0%	3.0%	1.0%	0.0%	-2.0%	1.0%	-1.0%	-4.0%	1.0%
<b>Labor</b>																																						
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%	97.1%	92.9%	91.1%	89.3%	91.1%	87.1%	90.4%	92.5%	82.3%	70.2%	70.9%
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%	84.9%	83.5%	89.3%	74.1%	79.3%	77.8%	79.5%	79.3%	58.6%	48.5%	49.2%
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%	51.0%	50.0%	49.0%	49.0%	46.0%	46.0%	44.0%	41.0%	45.0%	47.0%	43.0%	

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 LP, 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

We expect inflation to remain elevated, but look for more moderate price increases later in the year as supply and demand imbalances normalize.

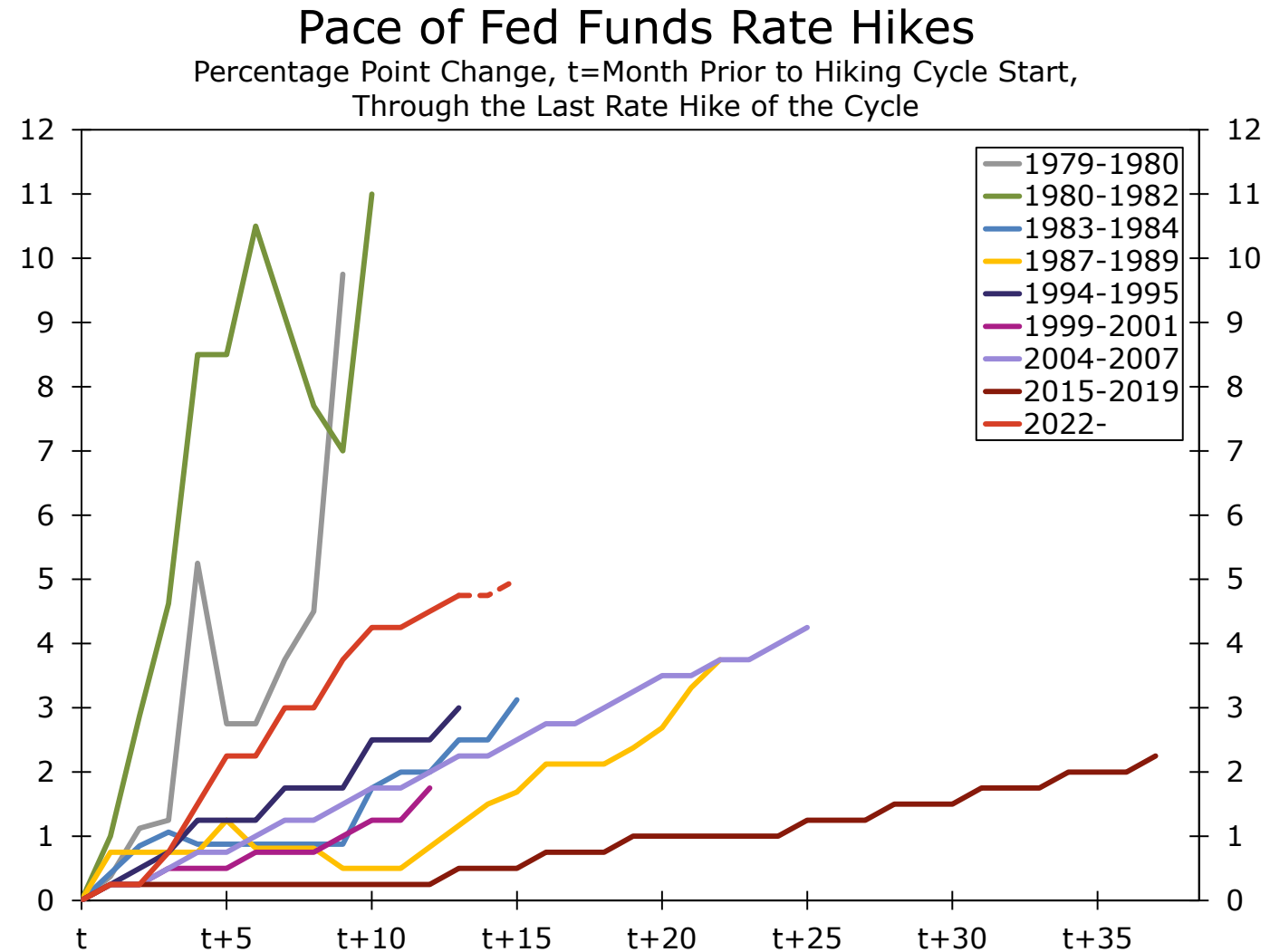


Financial system volatility has added a new dimension to the Fed's efforts to bring down inflation.

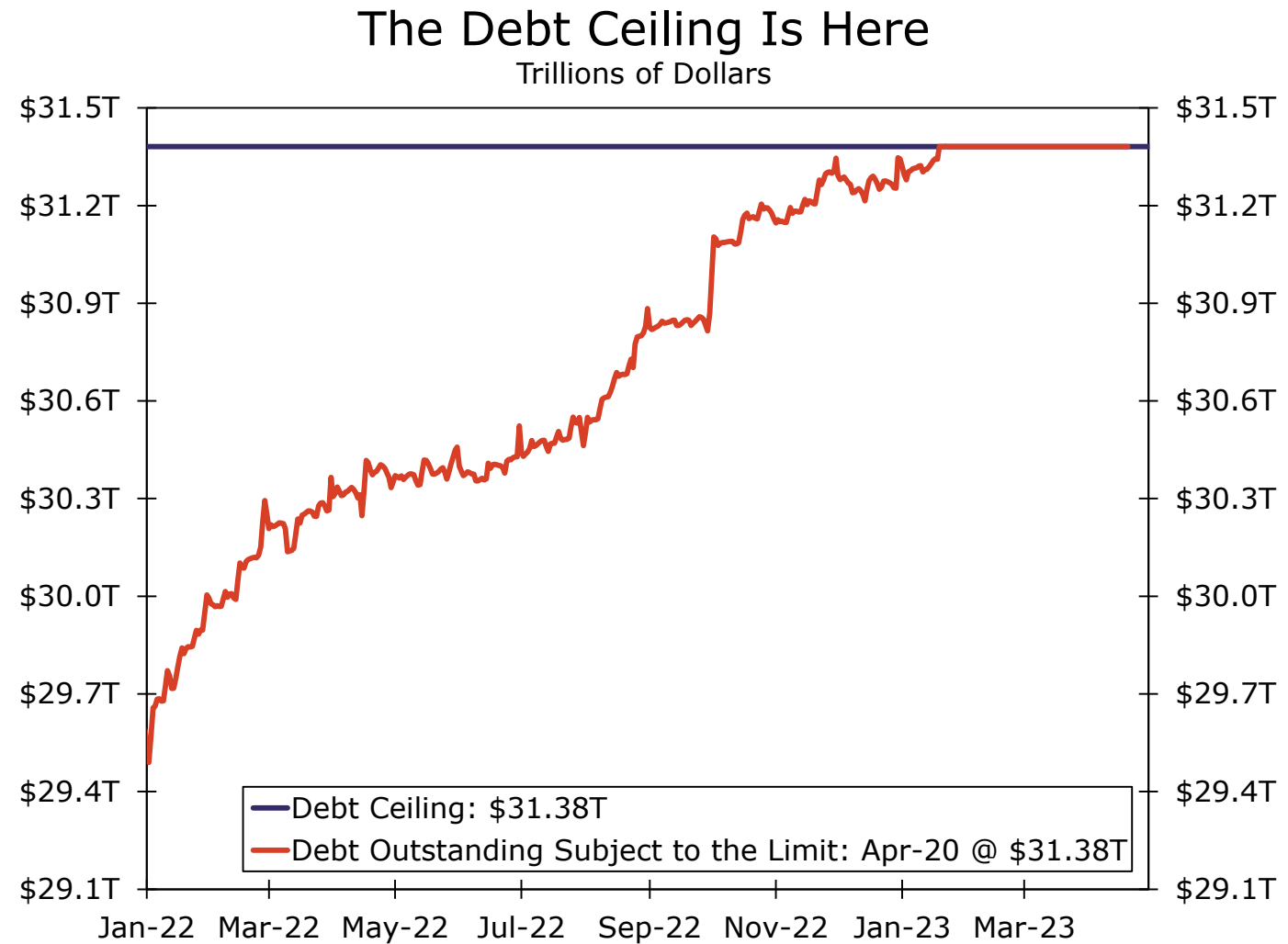


# Rapid Fed Tightening Cycle Underway

The FOMC has raised the effective federal funds rate at the fastest pace since the early 1980s.

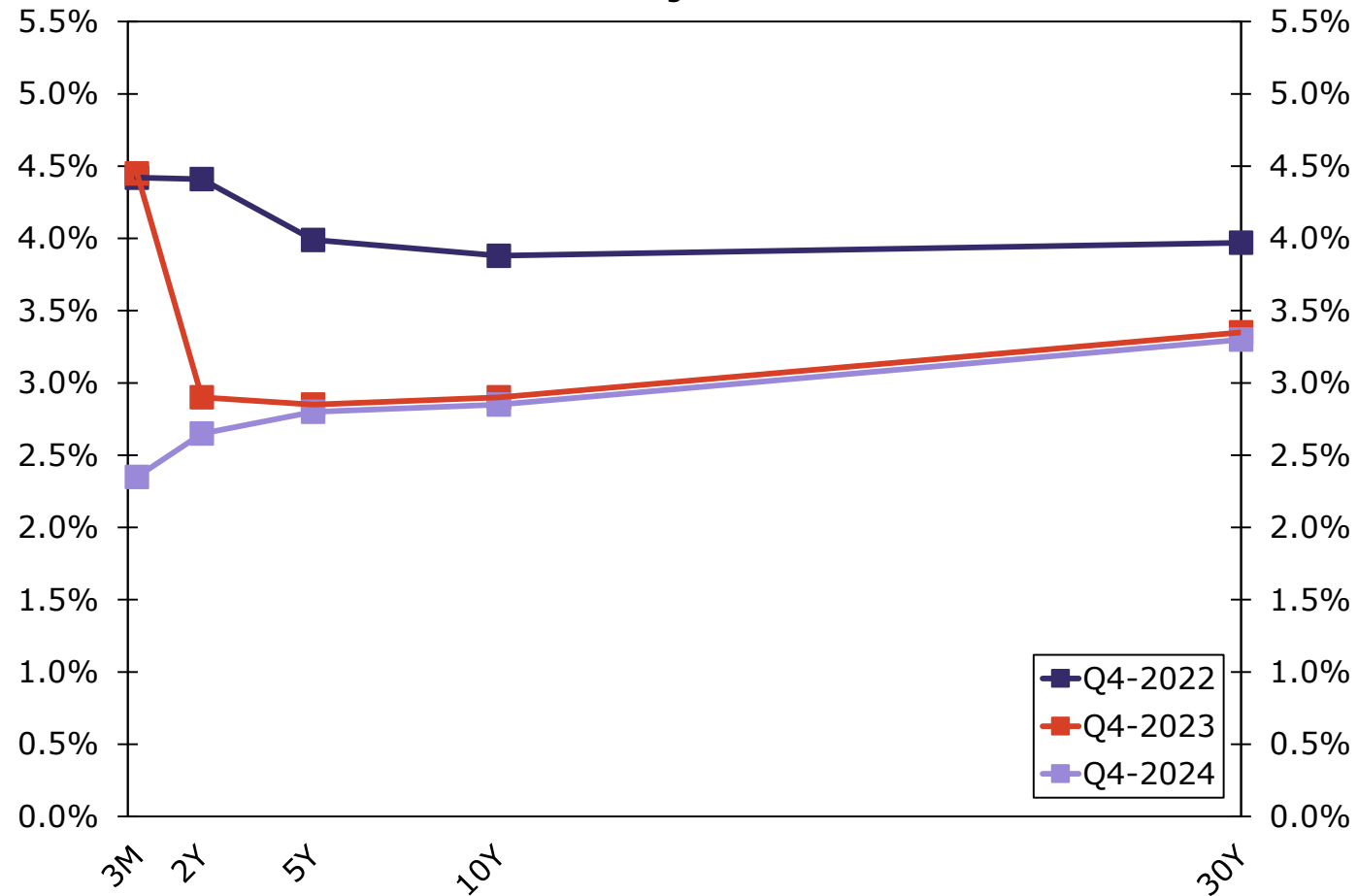


The debt ceiling is back in the spotlight.



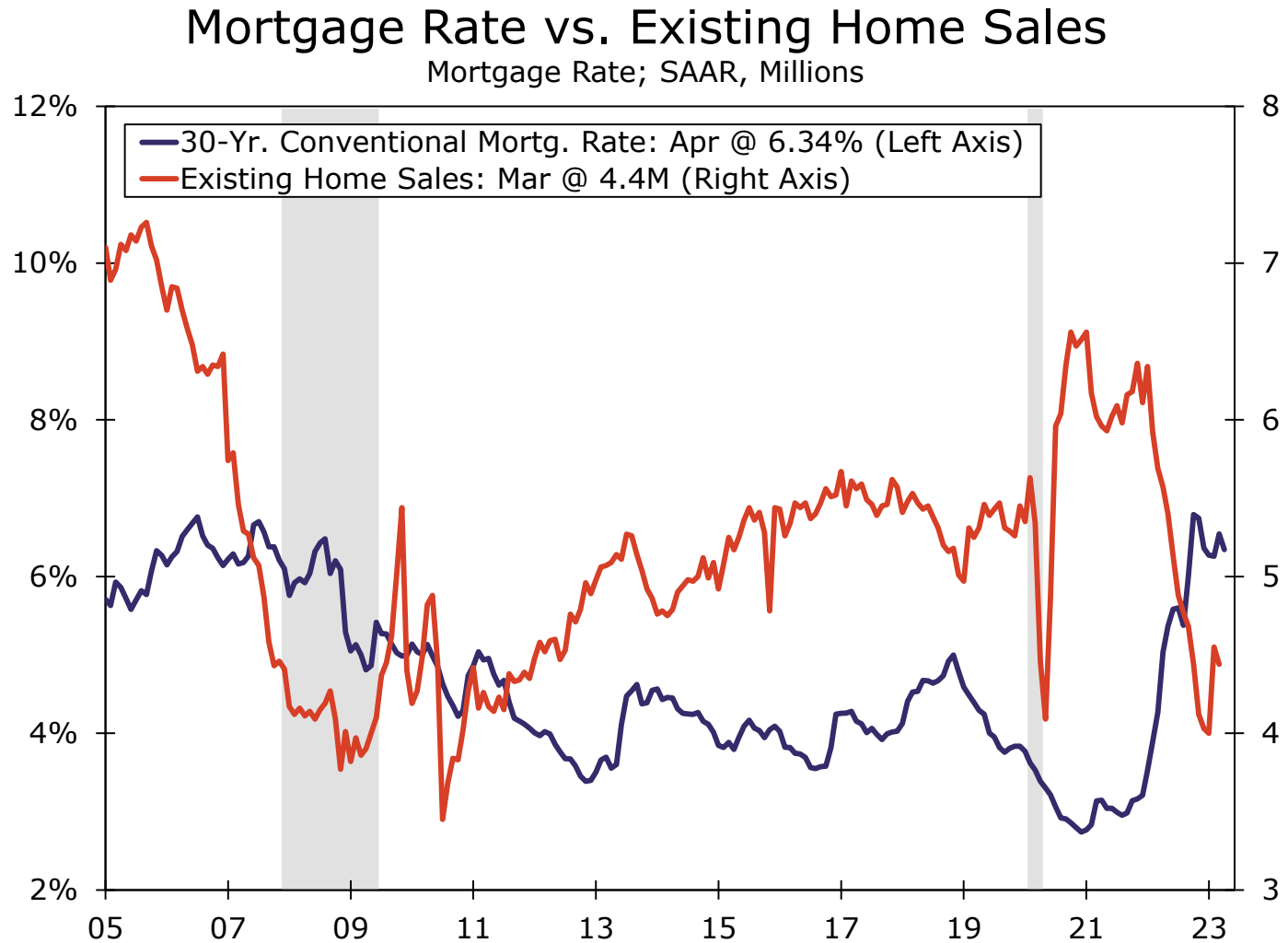
The expected path of inflation and monetary policy continues to impact the yield curve.

## Wells Fargo Rates Forecast Through 2024

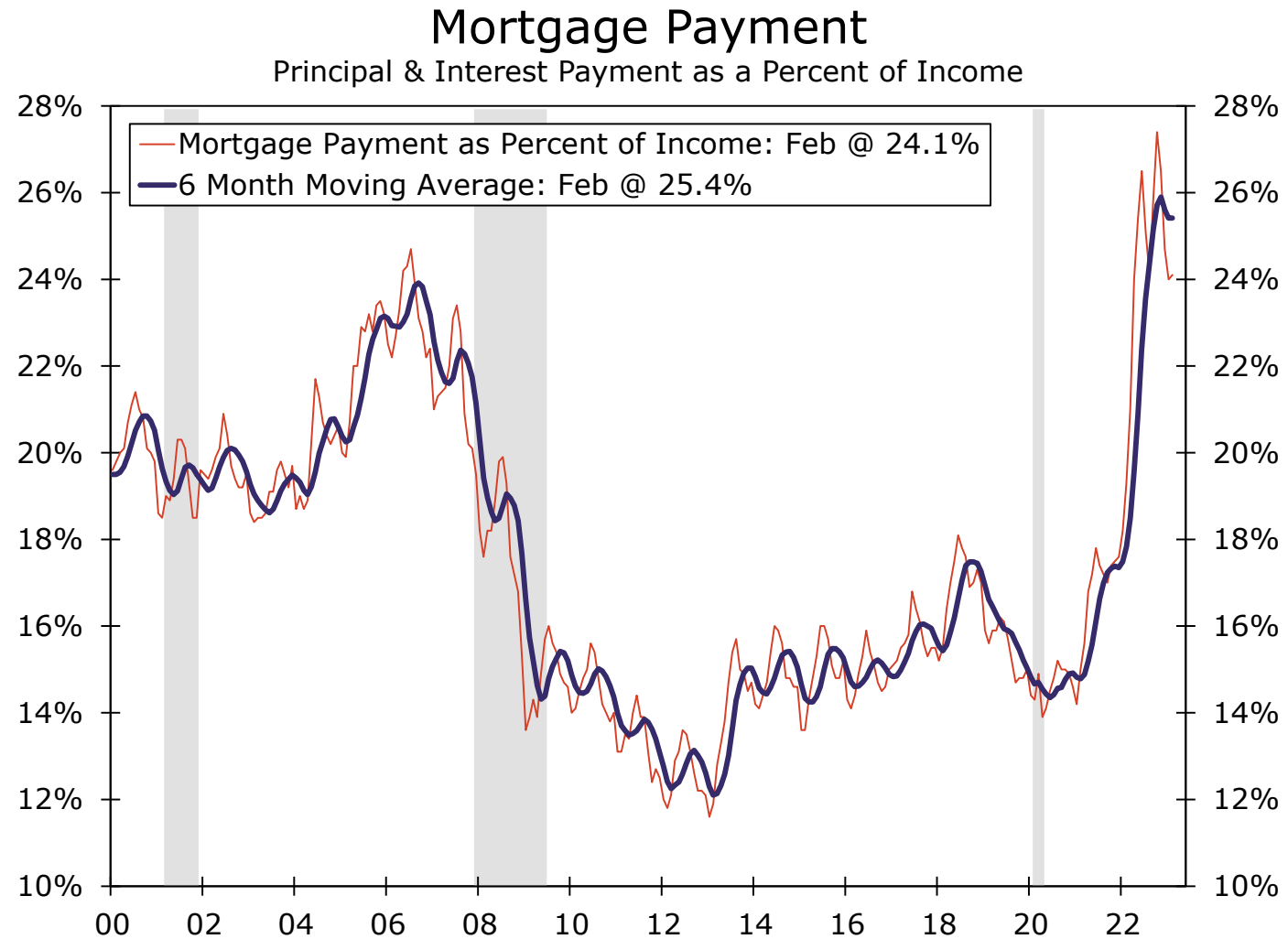




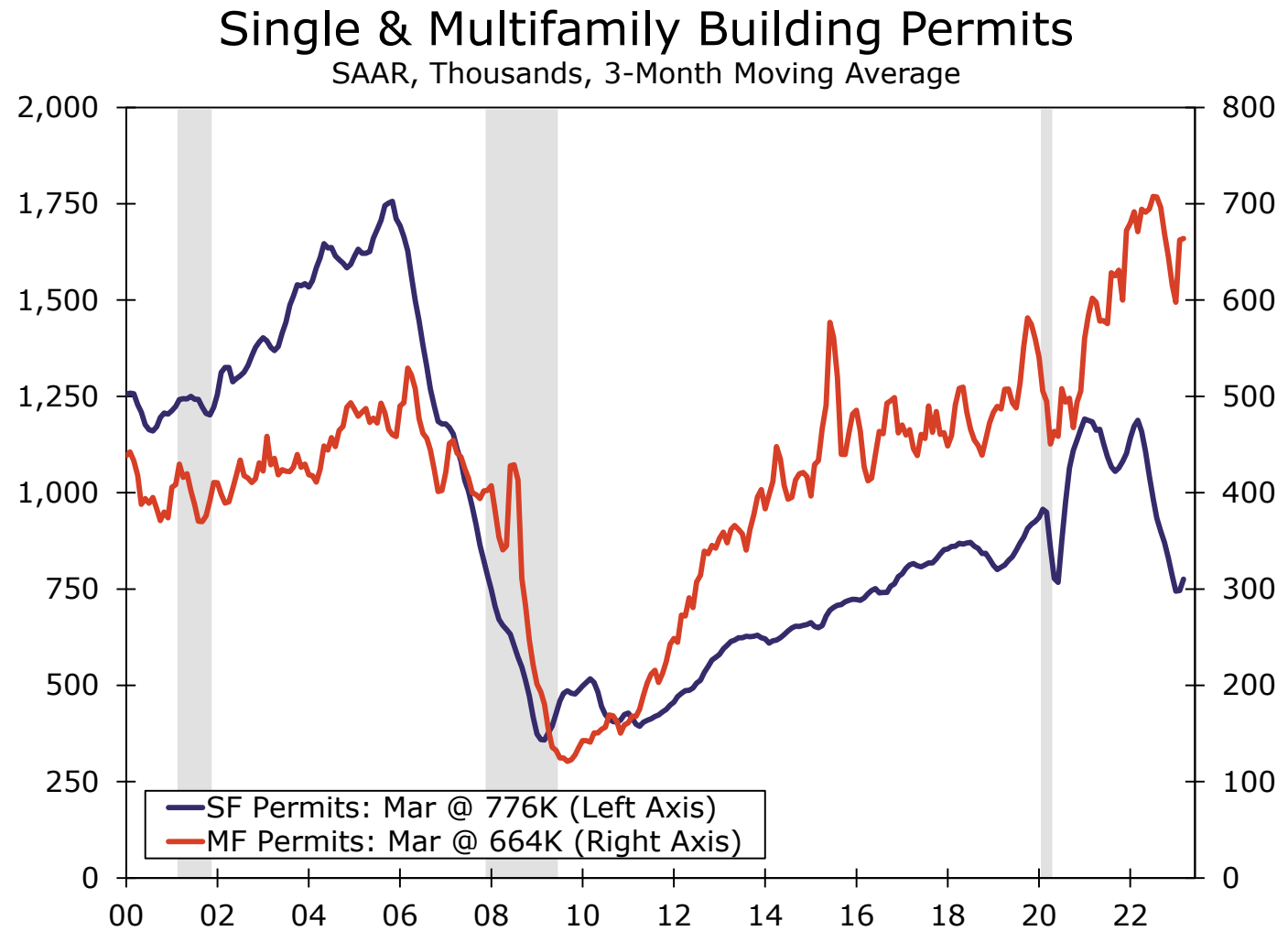
Lower mortgage rates appear to be stabilizing last year's slide in home sales.



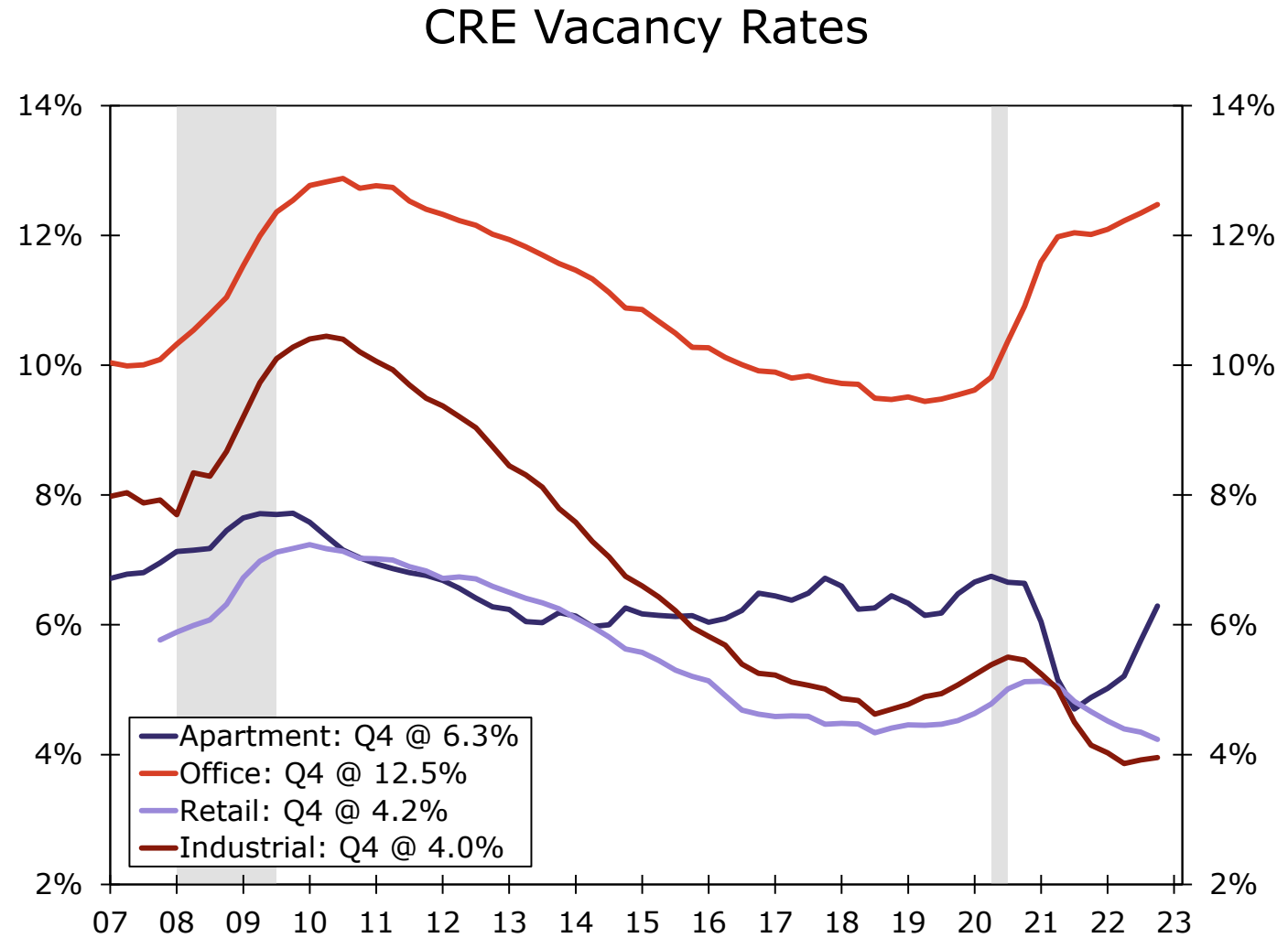
Rising incomes have provided some offset to higher borrowing costs. However, as a share of income, average mortgage payments are running the highest since the early 1980s.



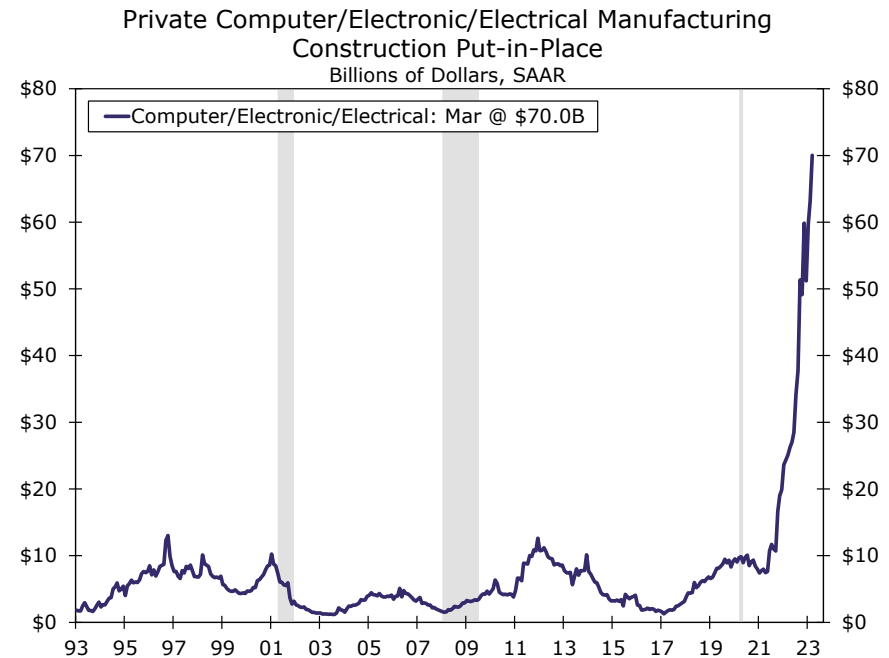
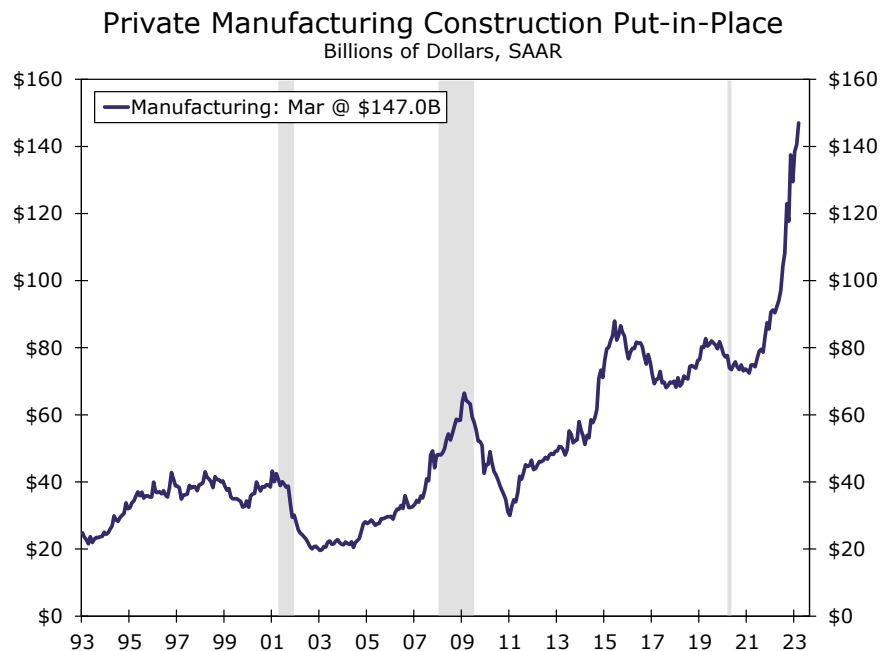
Single-family permits are on the decline as builders reassess the current demand environment.



Commercial real estate, in particular the office market, has been identified as potential area of strain.



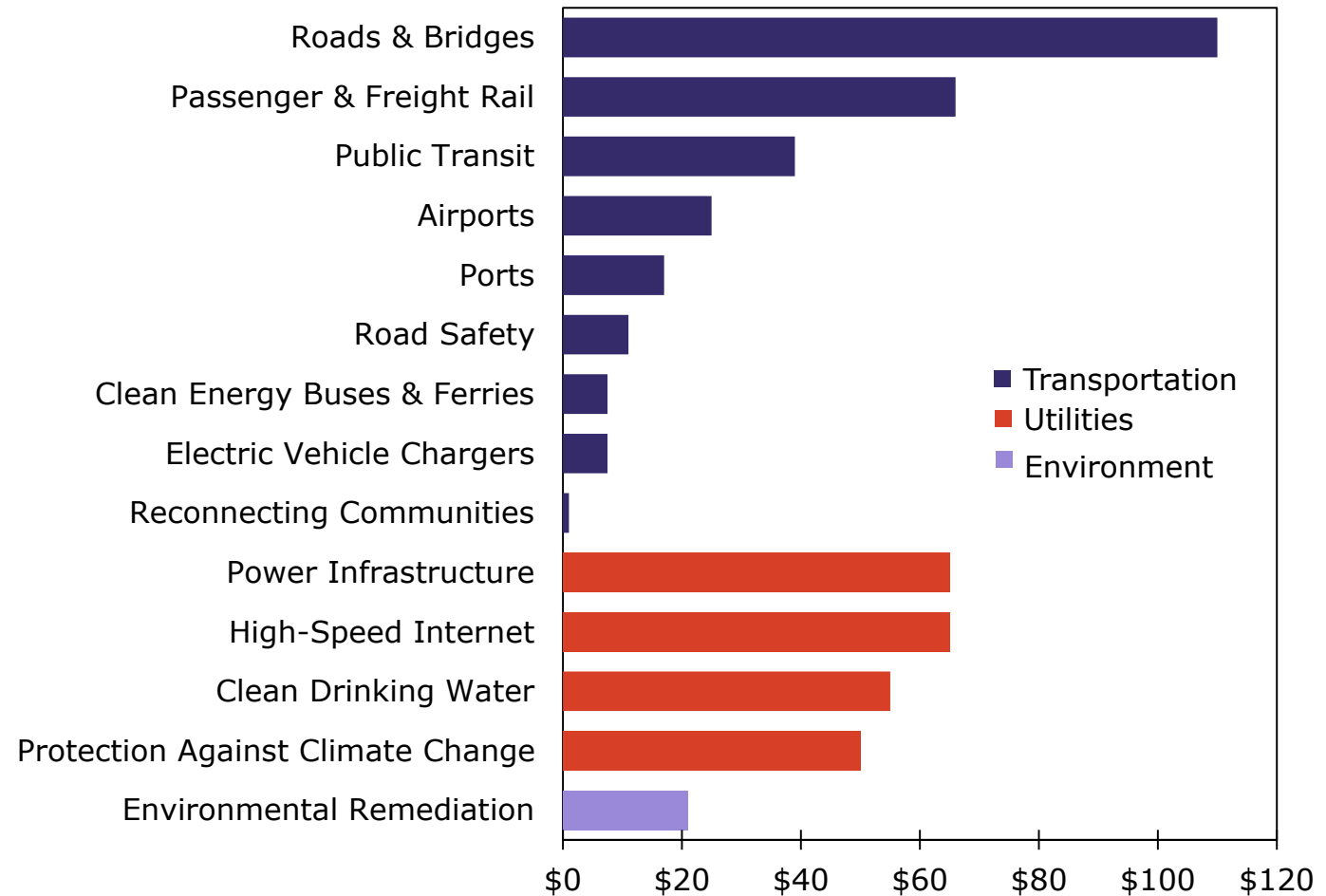
The global semiconductor shortage and shift to vehicle electrification has brought about a surge in domestic manufacturing projects.



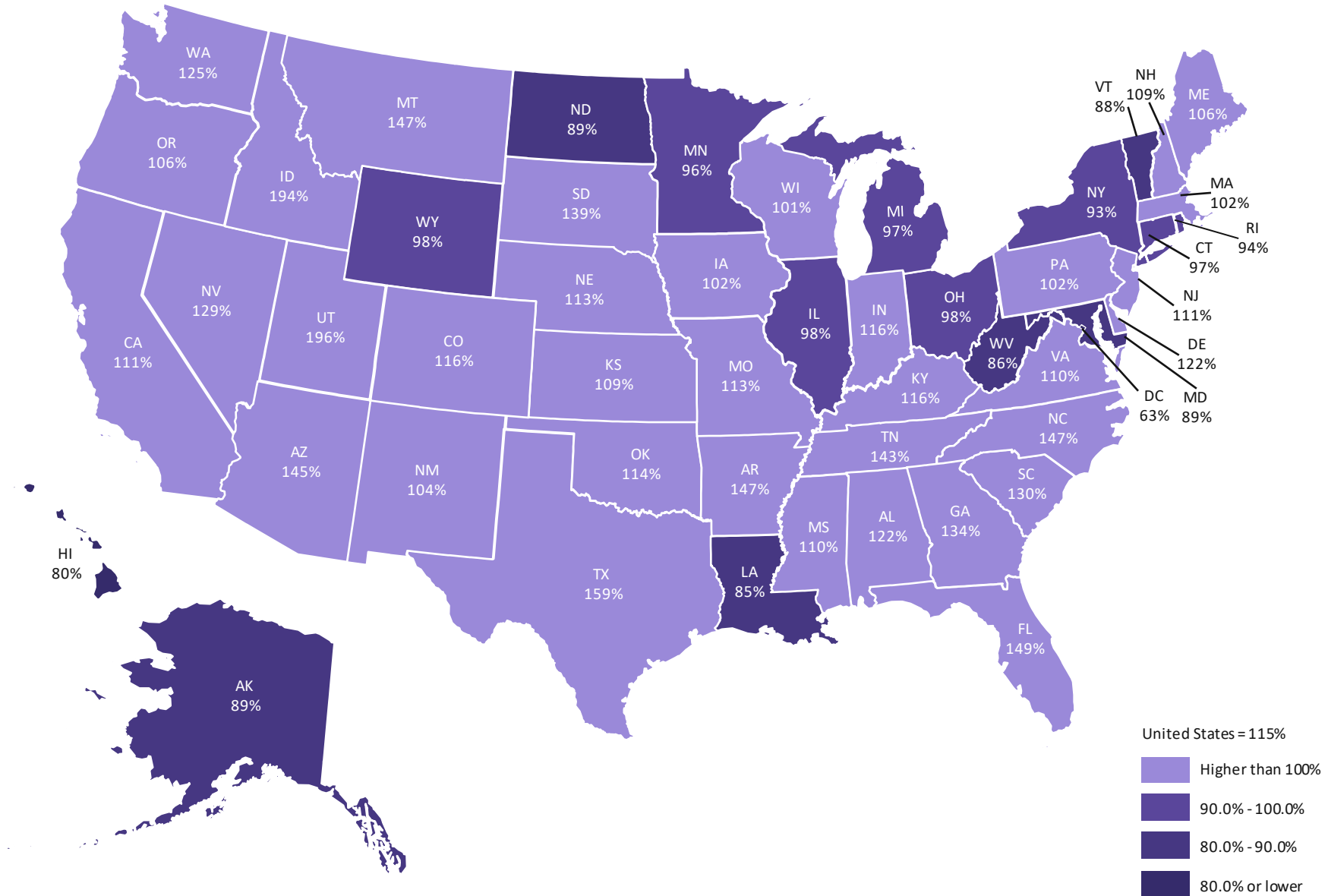
Infrastructure spending will help support construction as residential and nonresidential activity slows.

## New Investment in the Infrastructure Bill

Billions of Dollars

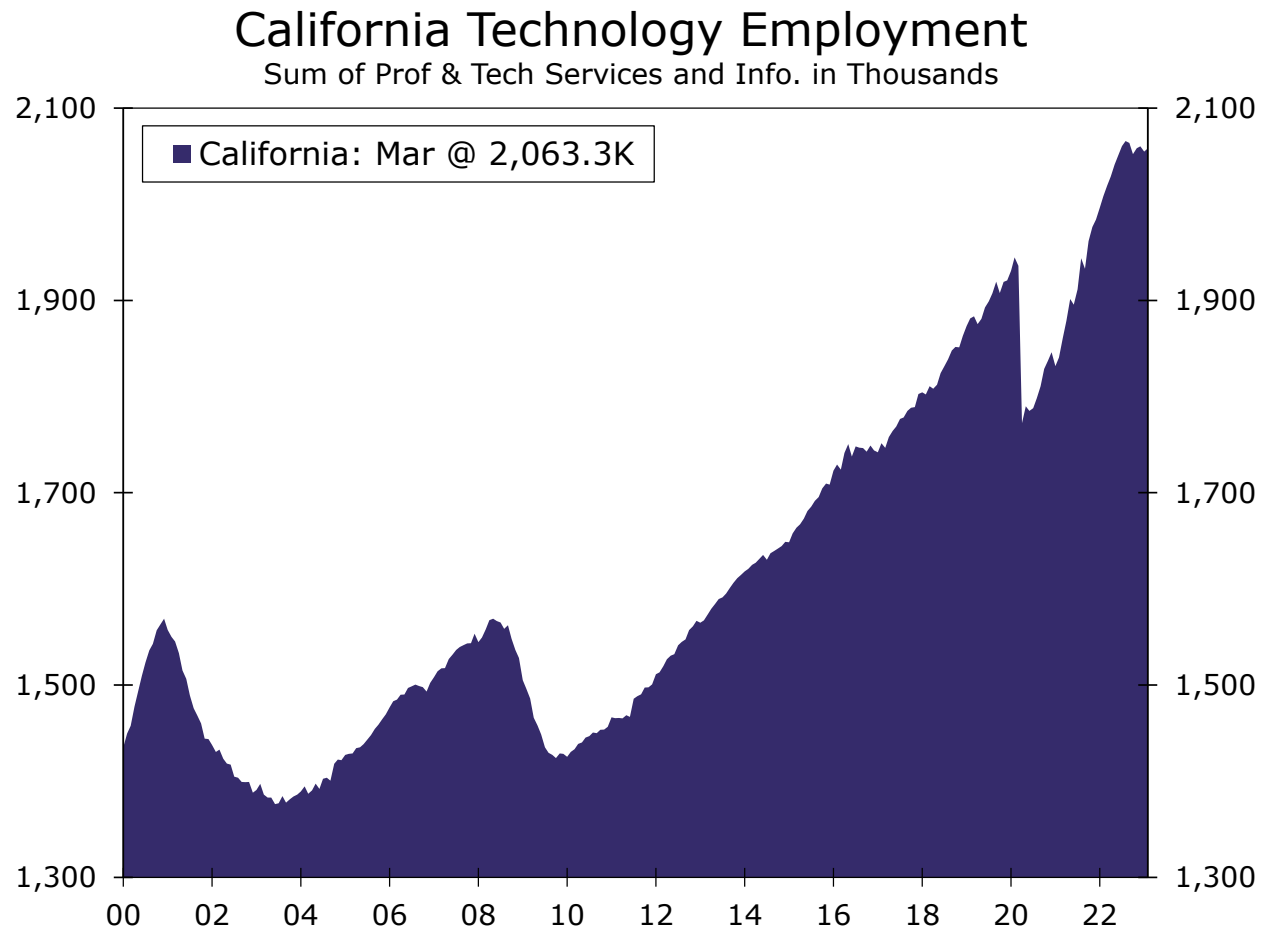


# Percent of March and April Job Losses Recovered – March 2023



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

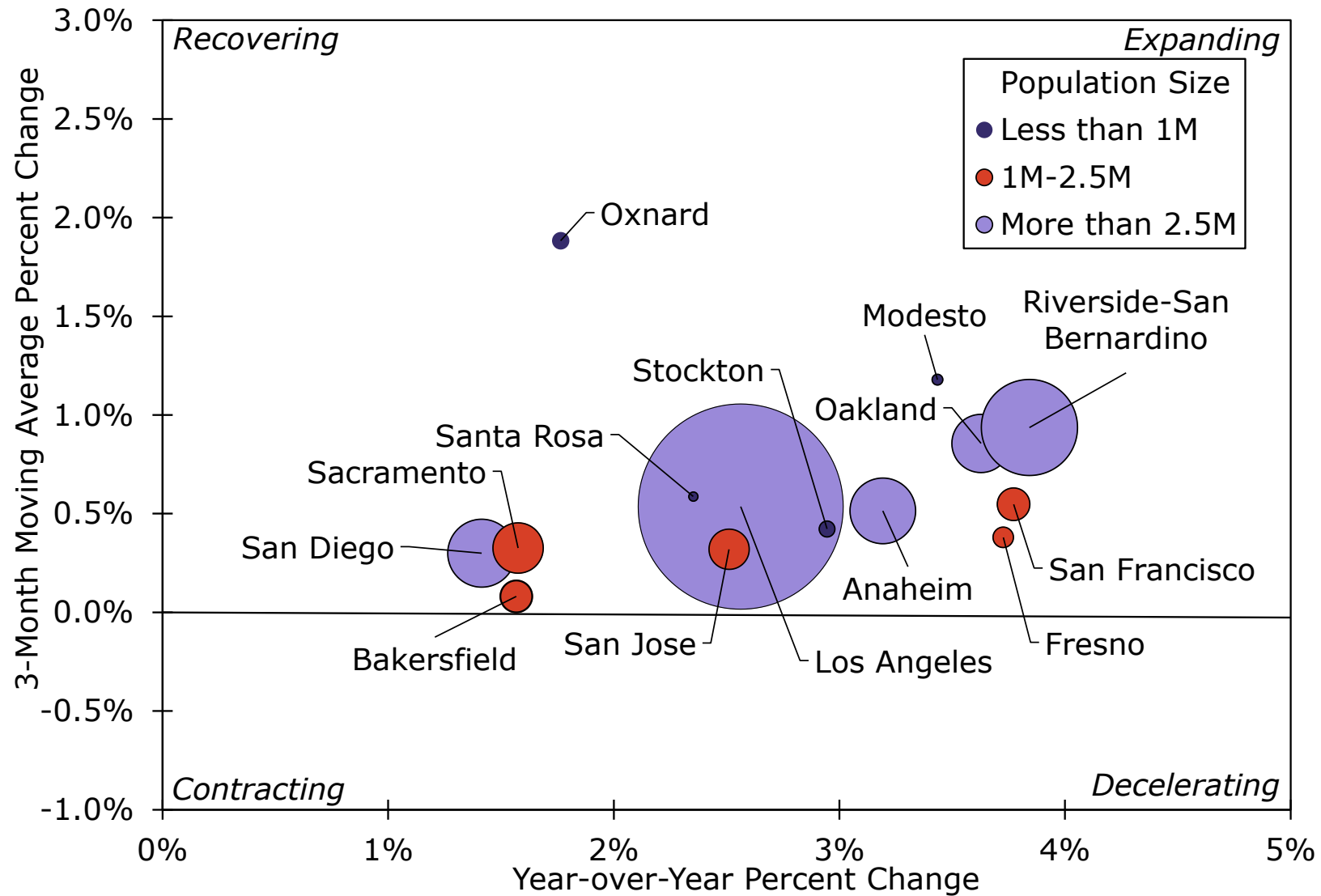
Tech payroll growth has leveled off alongside macro uncertainty and higher interest rates.



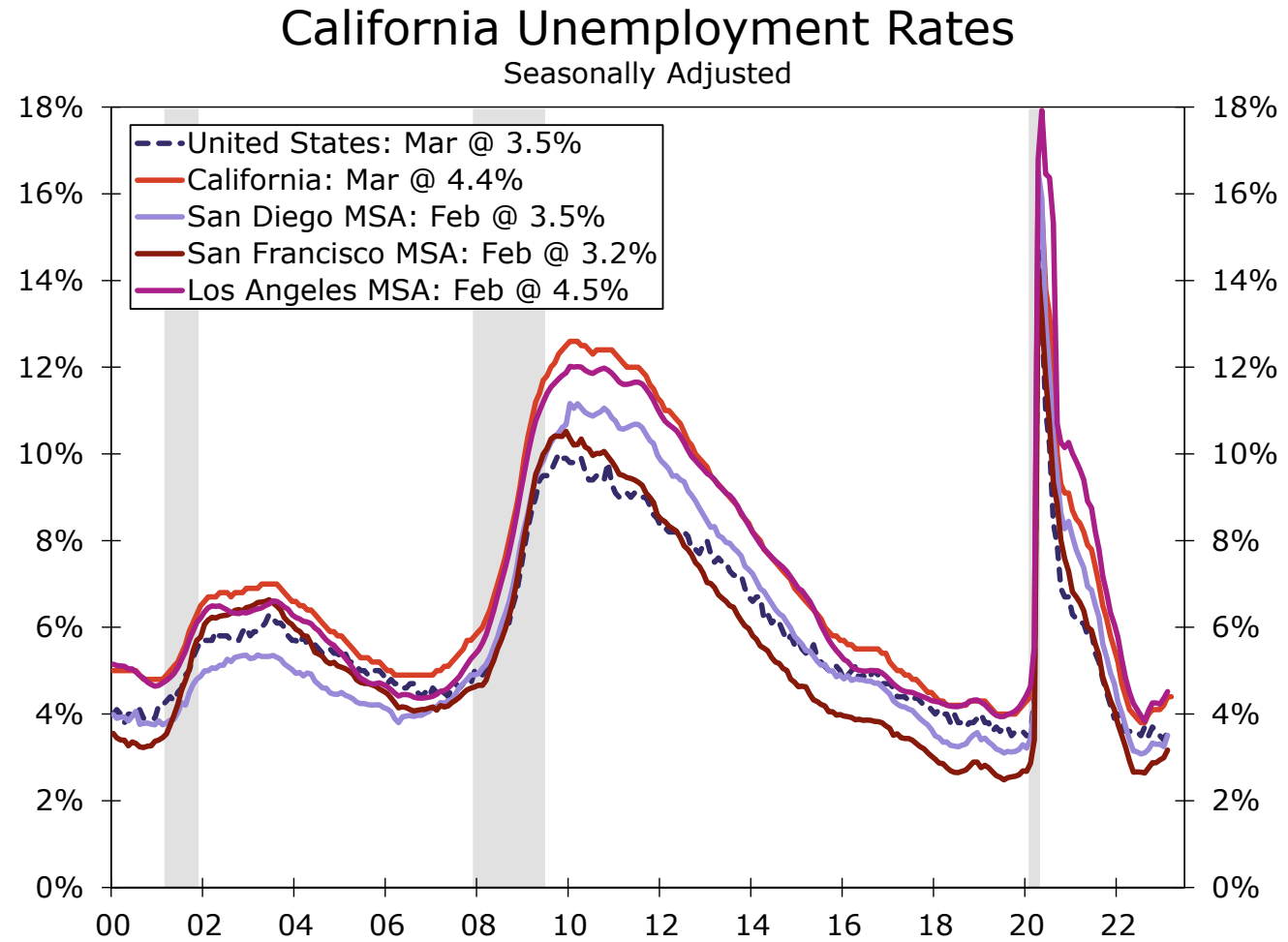


## California Employment Growth

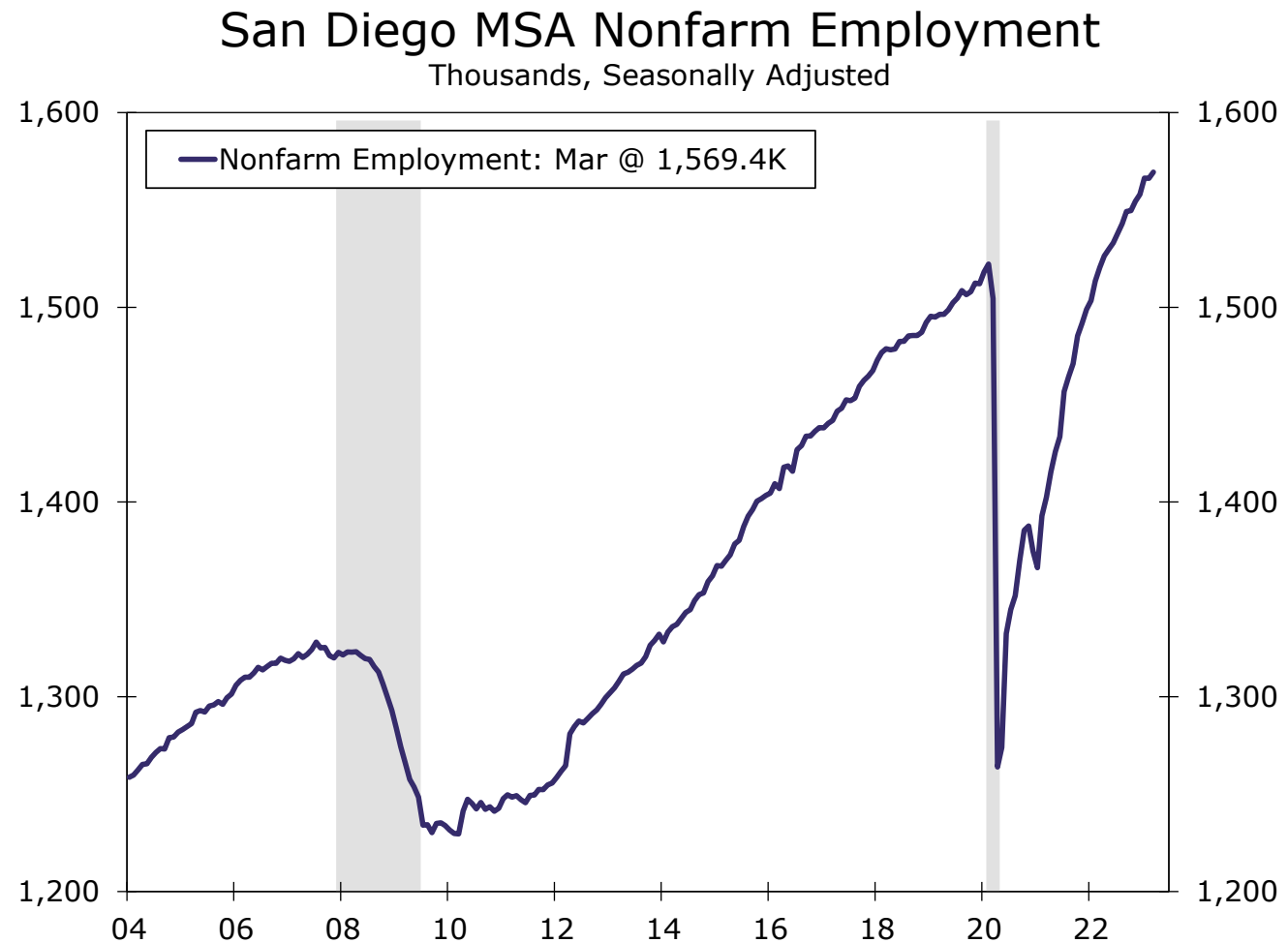
March 2023



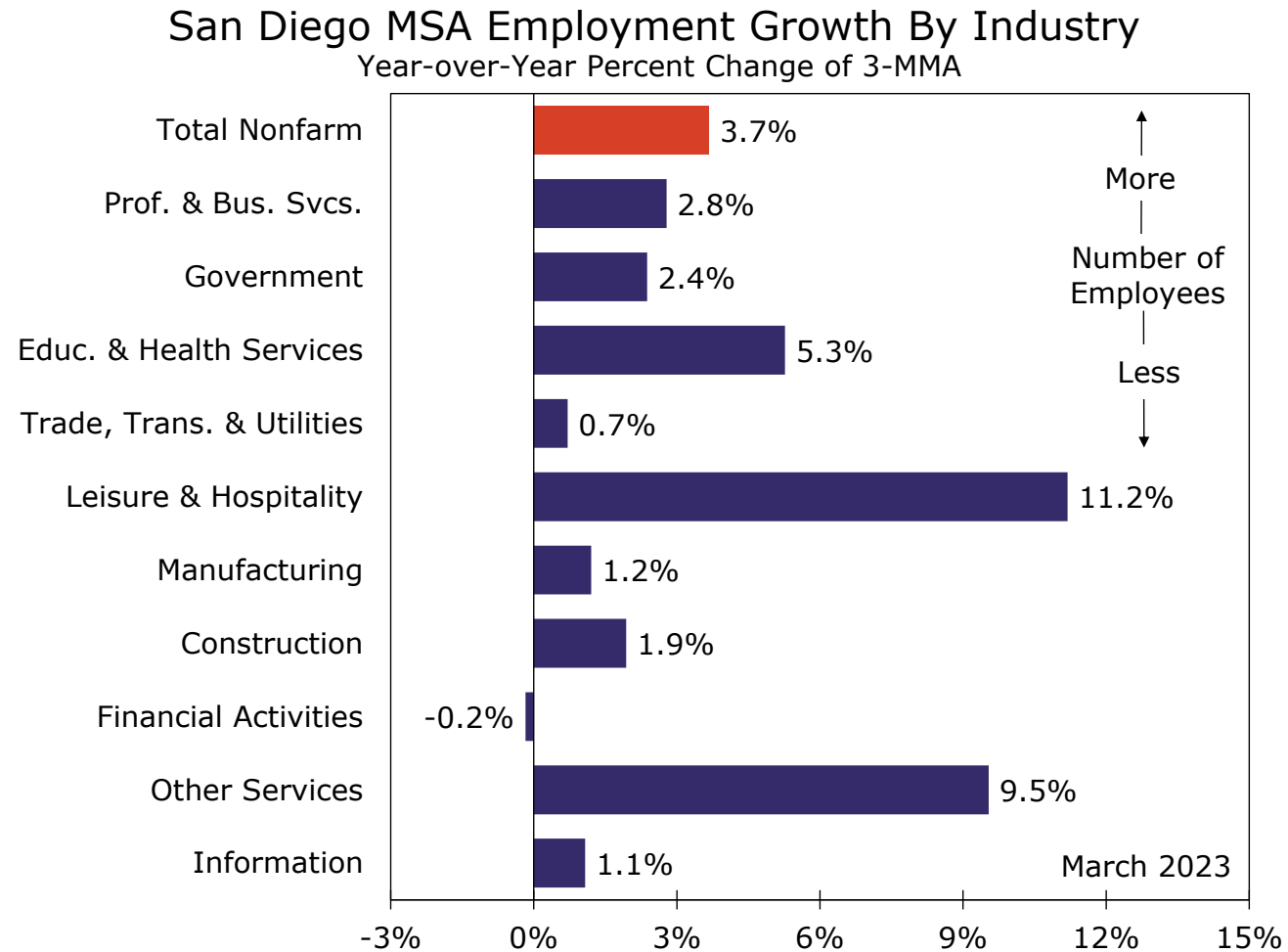
While still low, unemployment rates are starting to inch up across the state.



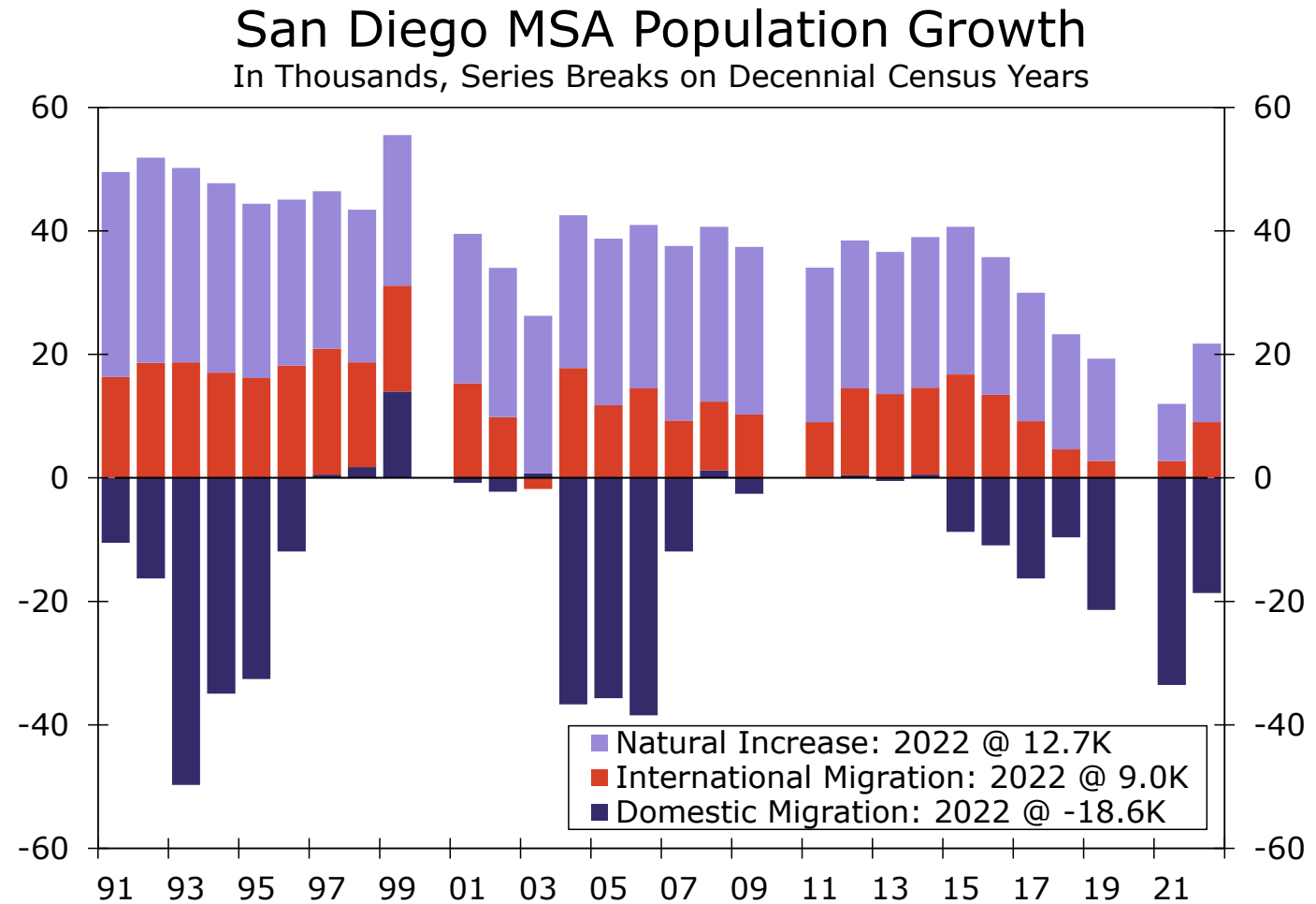
Employment in the San Diego metro has returned its pre-pandemic trend.



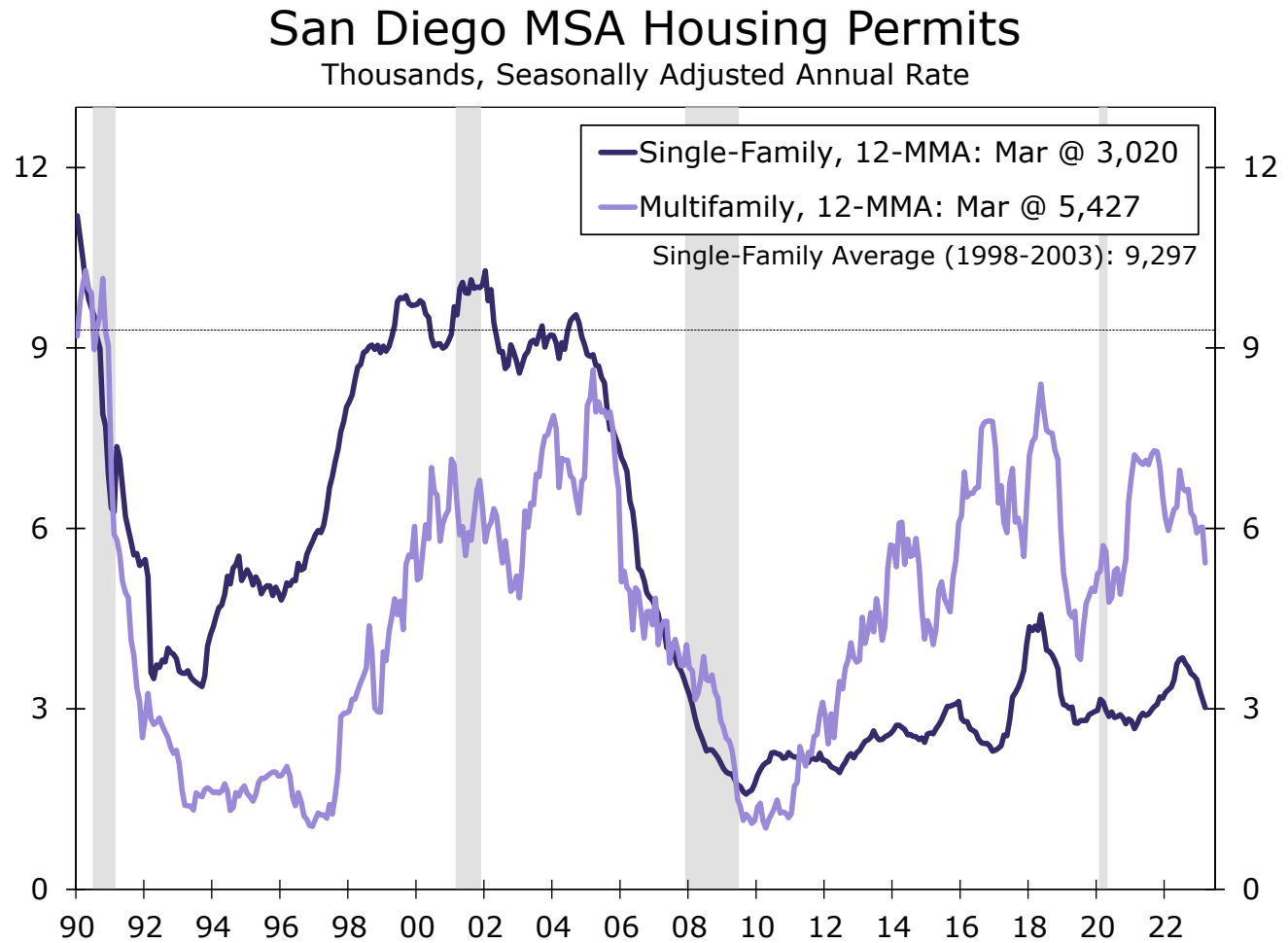
Job growth has been broad based in San Diego. Service industries most affected by the pandemic saw the strongest growth in 2022.



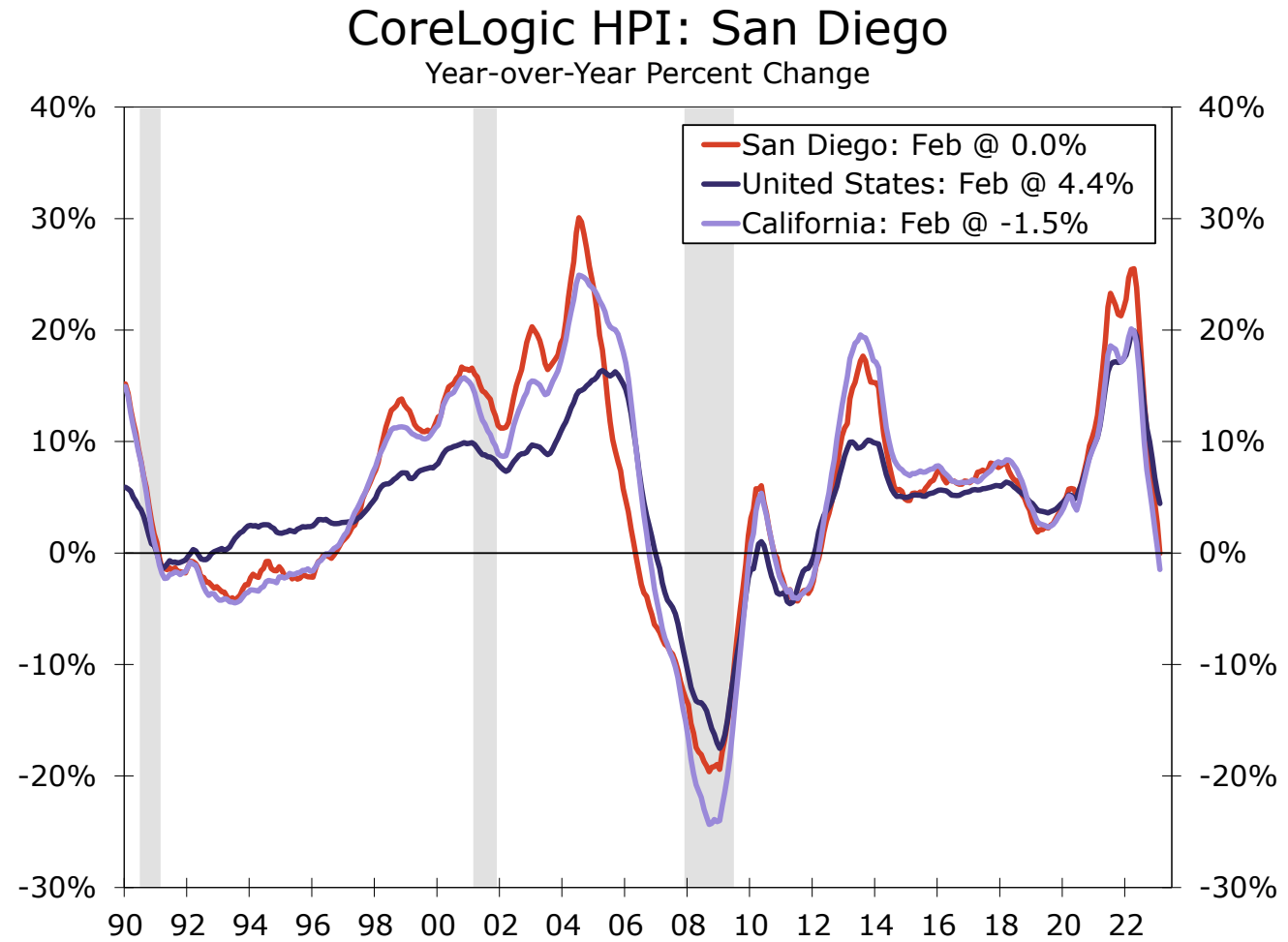
Similar to other large California metros, San Diego experienced net resident outflow over the past two years.



New residential construction continues to be sluggish relative to history.

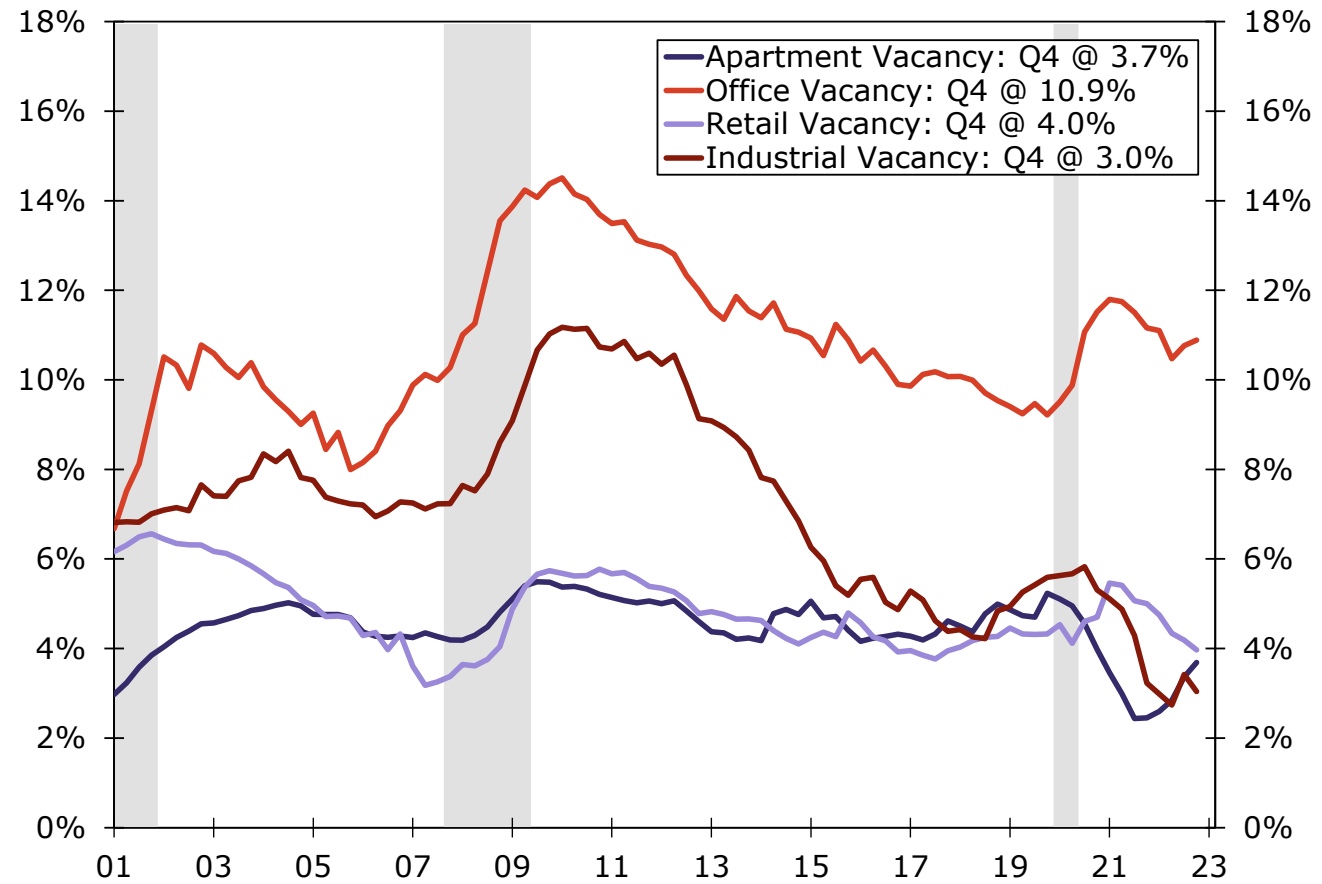


Home price appreciation has moderated following the rapid run-up seen recently.



San Diego's office market remains under pressure. The industrial and retail markets appear to be on stable footing, however.

## San Diego CRE Vacancy Rates

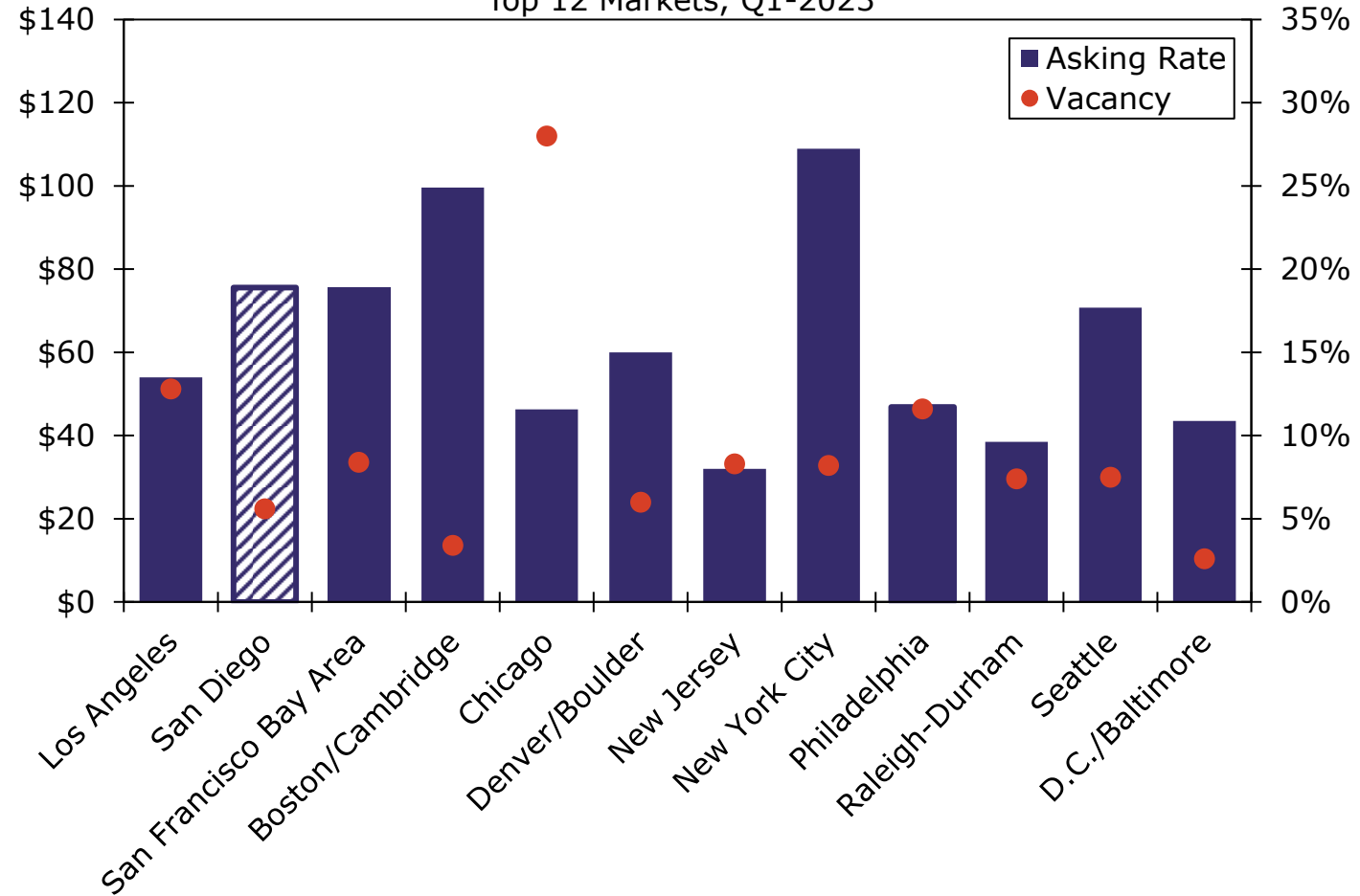




Bio tech and life sciences will remain a growth driver for the state.

## The Burgeoning Life Sciences Market

Lab Average Asking Rent per Square Foot & Vacancy Rate  
Top 12 Markets, Q1-2023



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 <sup>1</sup>	-1.6	-0.6	3.2	2.6	1.8	1.3	-0.9	-2.7	-1.0	3.2	2.1	2.4	5.9	2.1	1.2	0.2
Personal Consumption	1.3	2.0	2.3	1.0	4.4	0.3	-0.2	-3.3	-1.2	2.4	2.1	2.2	8.3	2.7	1.5	-0.1
Business Fixed Investment	7.9	0.1	6.2	4.0	1.8	1.7	-3.0	-5.2	-4.0	-0.2	2.1	3.4	6.4	3.9	1.5	-1.8
Equipment	11.4	-2.0	10.6	-3.5	-3.2	-0.2	-4.0	-8.4	-6.2	0.4	3.5	4.1	10.3	4.3	-1.4	-3.0
Intellectual Property Products	10.8	8.9	6.8	6.2	6.5	3.8	-1.8	-1.8	-0.6	2.2	3.8	5.5	9.7	8.8	4.5	0.7
Structures	-4.3	-12.7	-3.6	15.8	2.6	1.2	-3.5	-5.8	-7.5	-8.5	-6.8	-5.3	-6.4	-6.6	1.5	-6.1
Residential Investment	-3.1	-17.8	-27.1	-25.1	-7.5	-4.3	-3.5	-2.9	-2.6	1.9	3.1	4.8	10.7	-10.6	-13.3	-0.9
Government Purchases	-2.3	-1.6	3.7	3.8	3.0	1.5	1.4	1.3	1.0	1.0	0.9	0.8	0.6	-0.6	2.4	1.1
Net Exports <sup>2</sup>	-3.1	1.2	2.9	0.4	-0.2	0.1	0.3	0.8	0.7	0.1	0.0	0.0	-1.7	-0.6	0.7	0.4
Inventories <sup>2</sup>	0.2	-1.9	-1.2	1.5	-1.7	0.5	-0.8	-0.5	-0.4	1.1	0.1	0.1	0.2	0.7	-0.4	0.0
Nonfarm Payroll Change <sup>3</sup>	561	329	423	284	345	145	38	-142	-233	-67	92	150	606	399	97	-15
Unemployment Rate	3.8	3.6	3.6	3.6	3.5	3.6	3.9	4.5	5.1	5.1	4.7	4.6	5.4	3.6	3.9	4.9
PCE Deflator <sup>4</sup>	6.4	6.6	6.3	5.7	4.8	3.6	3.0	2.5	2.0	2.0	2.1	2.3	4.0	6.3	3.5	2.1
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate <sup>6</sup>	0.50	1.75	3.25	4.50	5.00	5.25	5.25	4.75	3.75	2.75	2.50	2.50	0.25	2.02	5.06	2.88
Secured Overnight Financing Rate	0.29	1.50	2.98	4.30	4.87	5.05	5.05	4.55	3.60	2.60	2.35	2.35	0.04	1.64	4.88	2.73
3 Month LIBOR*	0.96	2.29	3.75	4.77	5.19	5.30	-	-	-	-	-	-	0.16	2.41	5.25	-
Prime Rate	3.50	4.75	6.25	7.50	8.00	8.25	8.25	7.75	6.75	5.75	5.50	5.50	3.25	5.02	8.06	5.88
Conventional Mortgage Rate	4.27	5.58	6.01	6.36	6.54	6.25	5.75	5.40	5.35	5.10	4.90	4.75	3.03	5.38	5.99	5.03
3 Month Bill	0.52	1.72	3.33	4.42	4.85	5.05	4.95	4.45	3.45	2.45	2.35	2.35	0.04	2.09	4.83	2.65
6 Month Bill	1.06	2.51	3.92	4.76	4.94	5.05	4.75	3.85	2.95	2.45	2.40	2.40	0.06	2.51	4.65	2.55
1 Year Bill	1.63	2.80	4.05	4.73	4.64	4.70	4.10	3.10	2.65	2.50	2.45	2.50	0.10	2.80	4.14	2.53
2 Year Note	2.28	2.92	4.22	4.41	4.06	4.05	3.50	2.90	2.65	2.55	2.55	2.65	0.27	2.99	3.63	2.60
5 Year Note	2.42	3.01	4.06	3.99	3.60	3.60	3.15	2.85	2.75	2.70	2.70	2.80	0.86	3.00	3.30	2.74
10 Year Note	2.32	2.98	3.83	3.88	3.48	3.50	3.15	2.90	2.85	2.80	2.80	2.85	1.45	2.95	3.26	2.83
30 Year Bond	2.44	3.14	3.79	3.97	3.67	3.70	3.45	3.35	3.30	3.25	3.25	3.30	2.06	3.11	3.54	3.28

Forecast as of: April 13, 2023

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

\*3 Month LIBOR will no longer be published after June 30, 2023

<sup>4</sup> Year-over-Year Percentage Change

<sup>5</sup> Quarterly Data - Period End; Annual Data - Annual Averages

<sup>6</sup> Upper Bound of the Federal Funds Target Rate

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