



The Economic Outlook

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U.S. Outlook

- The spike in COVID cases from the Omicron variant came too late in the year to impact Q4-2021 GDP. Growth for all of last year looks like it will be between 5.5% and 6%. Economic growth has slowed at the start of 2022, as Omicron has worsened staffing shortages economy wide. While risks have increased, we look for strong economic growth to continue in 2022, with real GDP rising around 4%.
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Inflation Has Accelerated

- Inflation has proven to be stronger and more persistent than the Fed had expected. The primary culprit has been an incredibly expansive fiscal policy accommodated by an incredibly expansive monetary policy. Supply chain disruptions are playing a supporting role and price increases will ease a bit when bottlenecks finally diminish. Inflation expectations have risen at businesses, households and the Fed.
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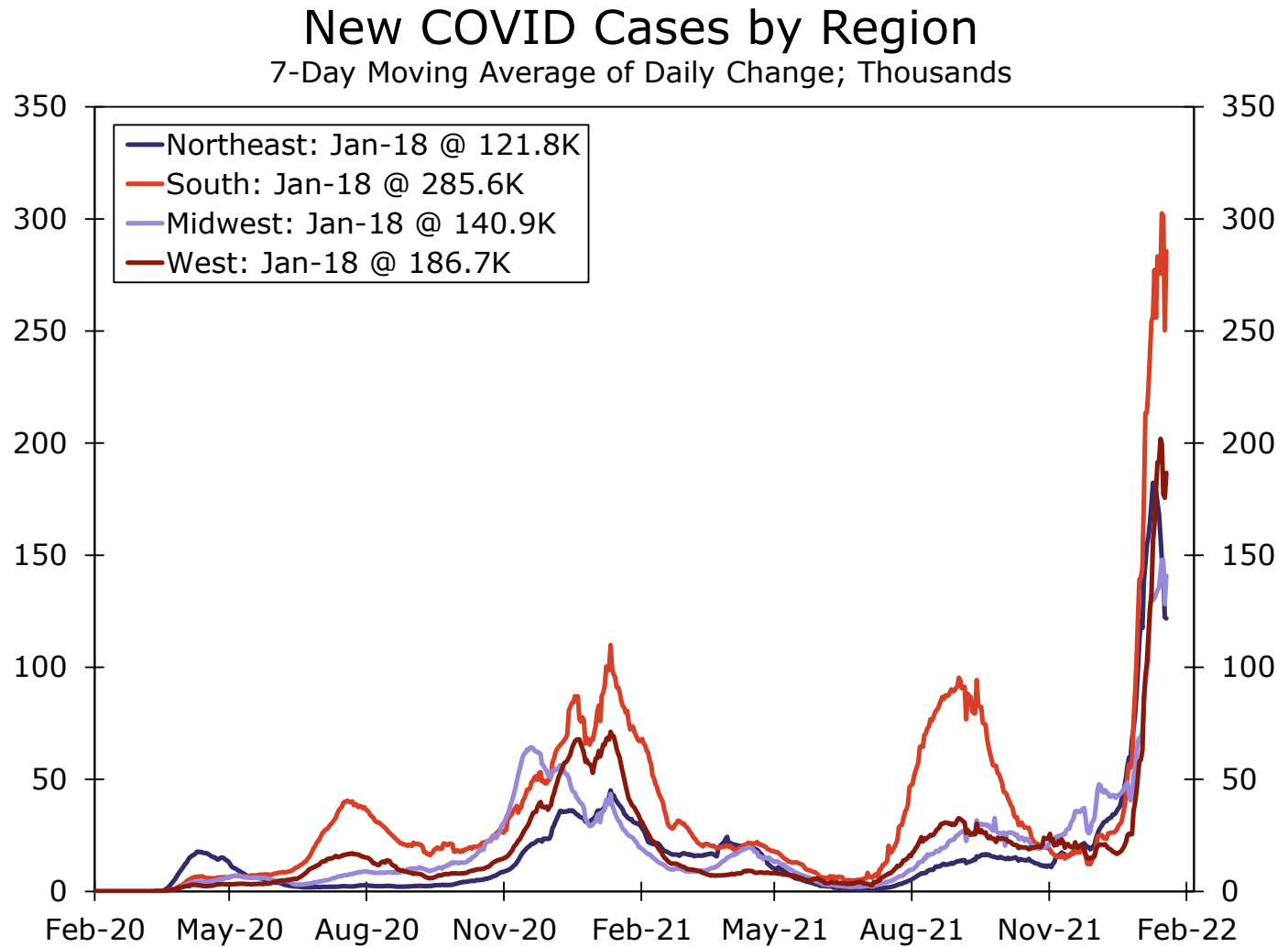
Affordability Migration

- The pandemic accelerated the migration from high-cost, densely-populated cities to secondary metro areas in the Mountain West and South. The move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas has fueled 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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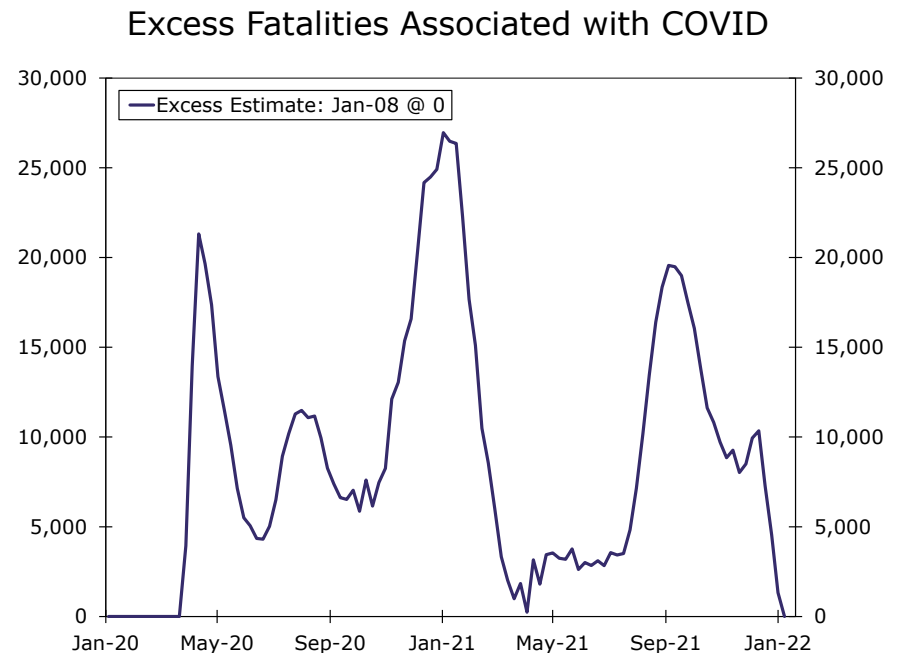
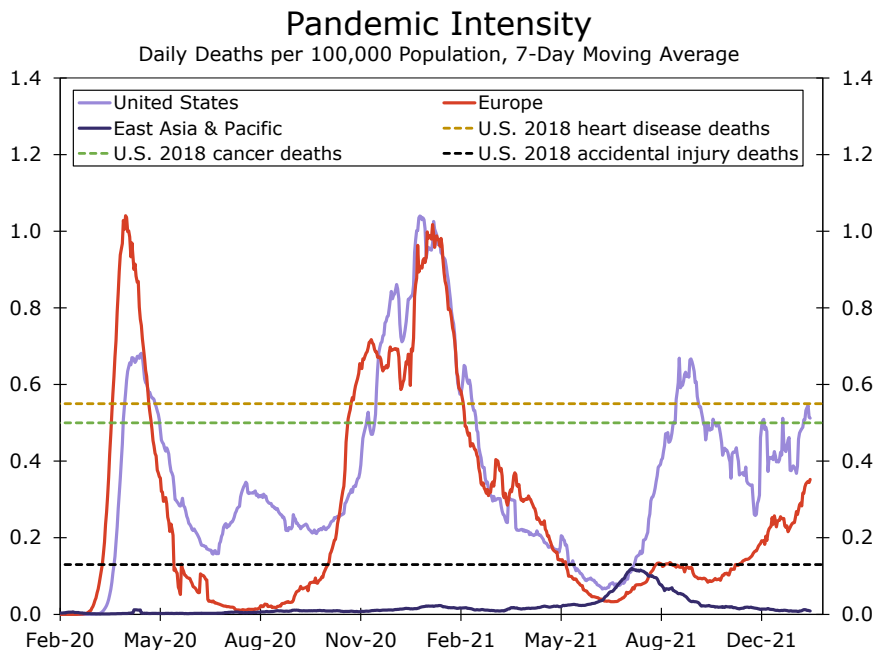
Monetary and Fiscal Stimulus Winding Down

- After initially misreading the inflation threat, the Fed has 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 additional massive fiscal programs. With less stimulus in the pipeline, real after-tax income will slow and restrain consumer spending.
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The newly-discovered Omicron variant is raising concerns that the reopening may slow this year.



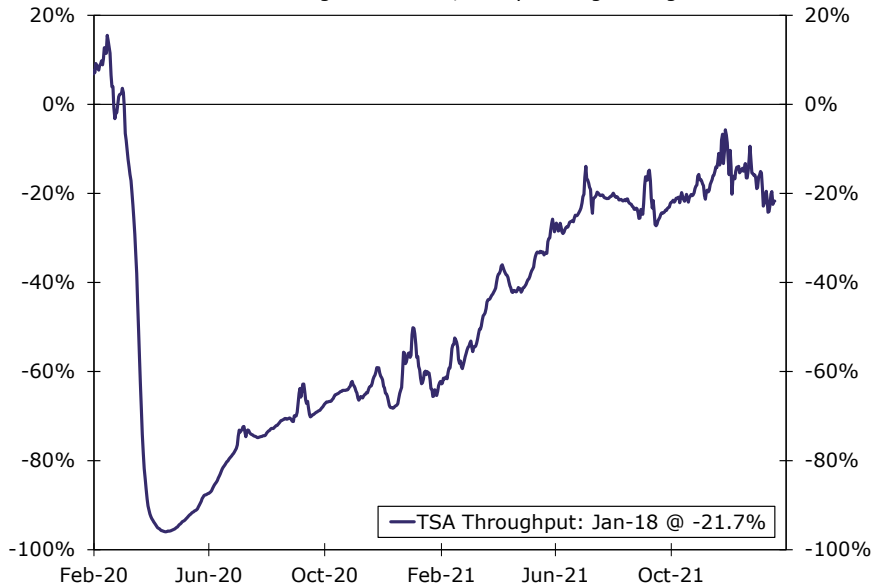
Daily fatalities per 100,000 population have risen in Europe and the United States. Some emerging markets remain vulnerable and will take longer to vaccinate.



High-frequency measures of economic engagement have improved relative to 2020, but activity has rolled over, reflecting the onset of colder weather, fears about COVID and continued uncertainty about the return to office and in-person schooling.

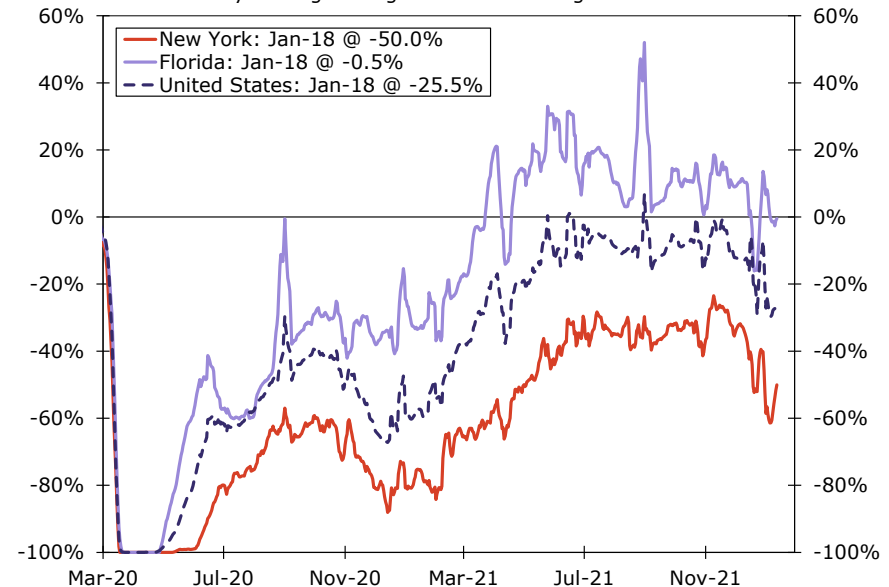
People Passing through U.S. Airport Security

Percent Change from 2019, 7-Day Moving Average

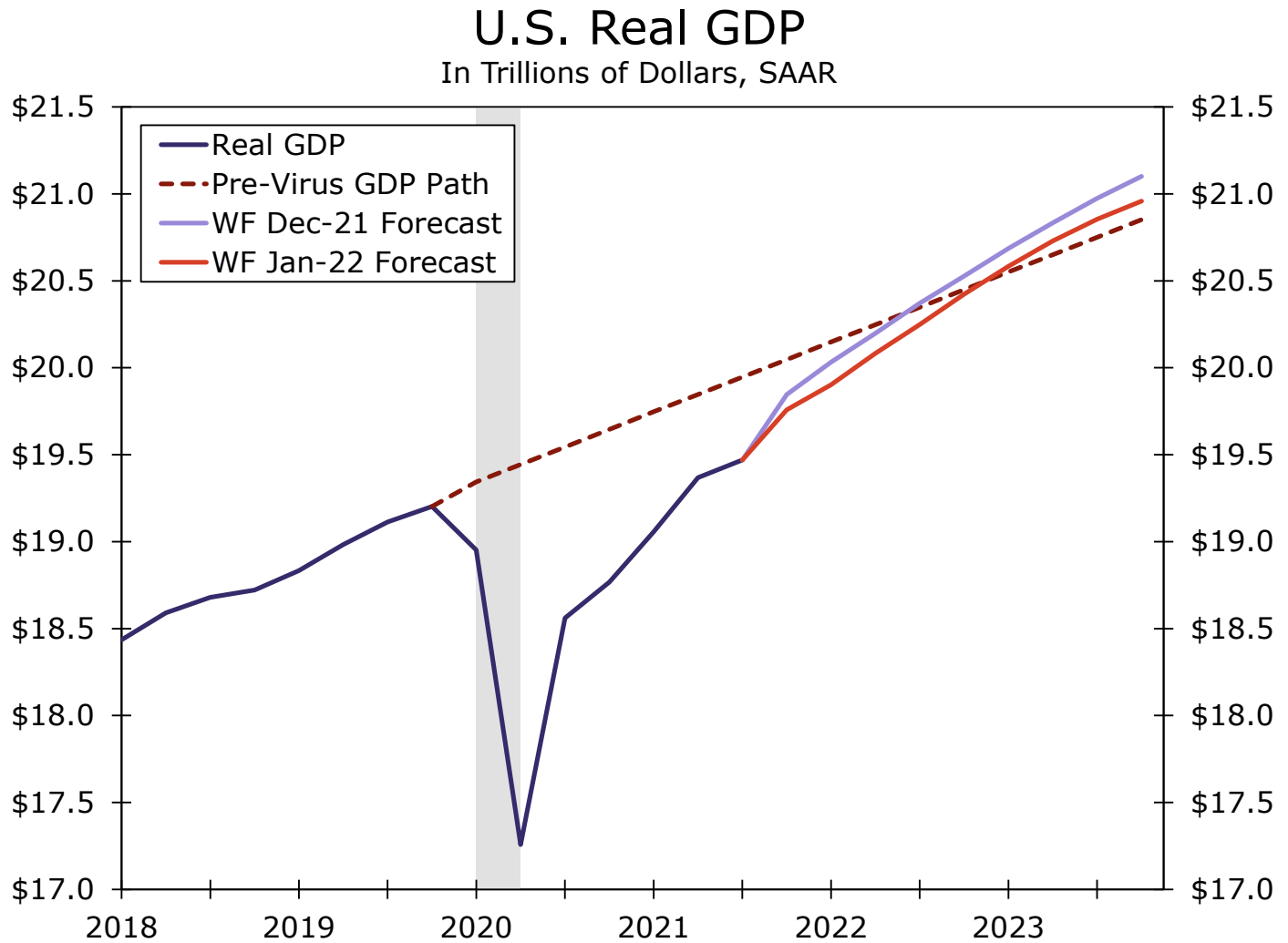


Seated Diners

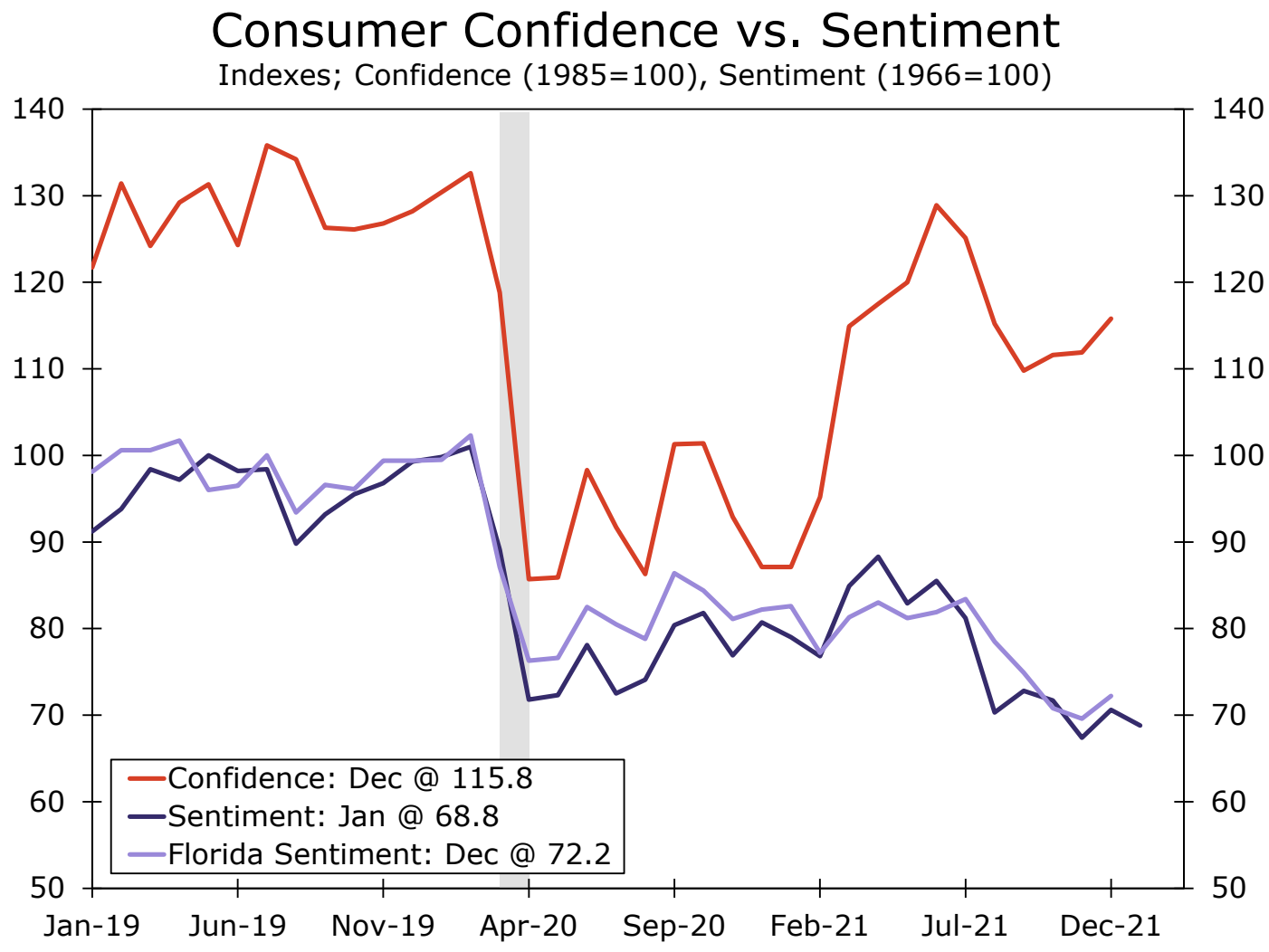
7-Day Moving Average of Percent Change from 2019



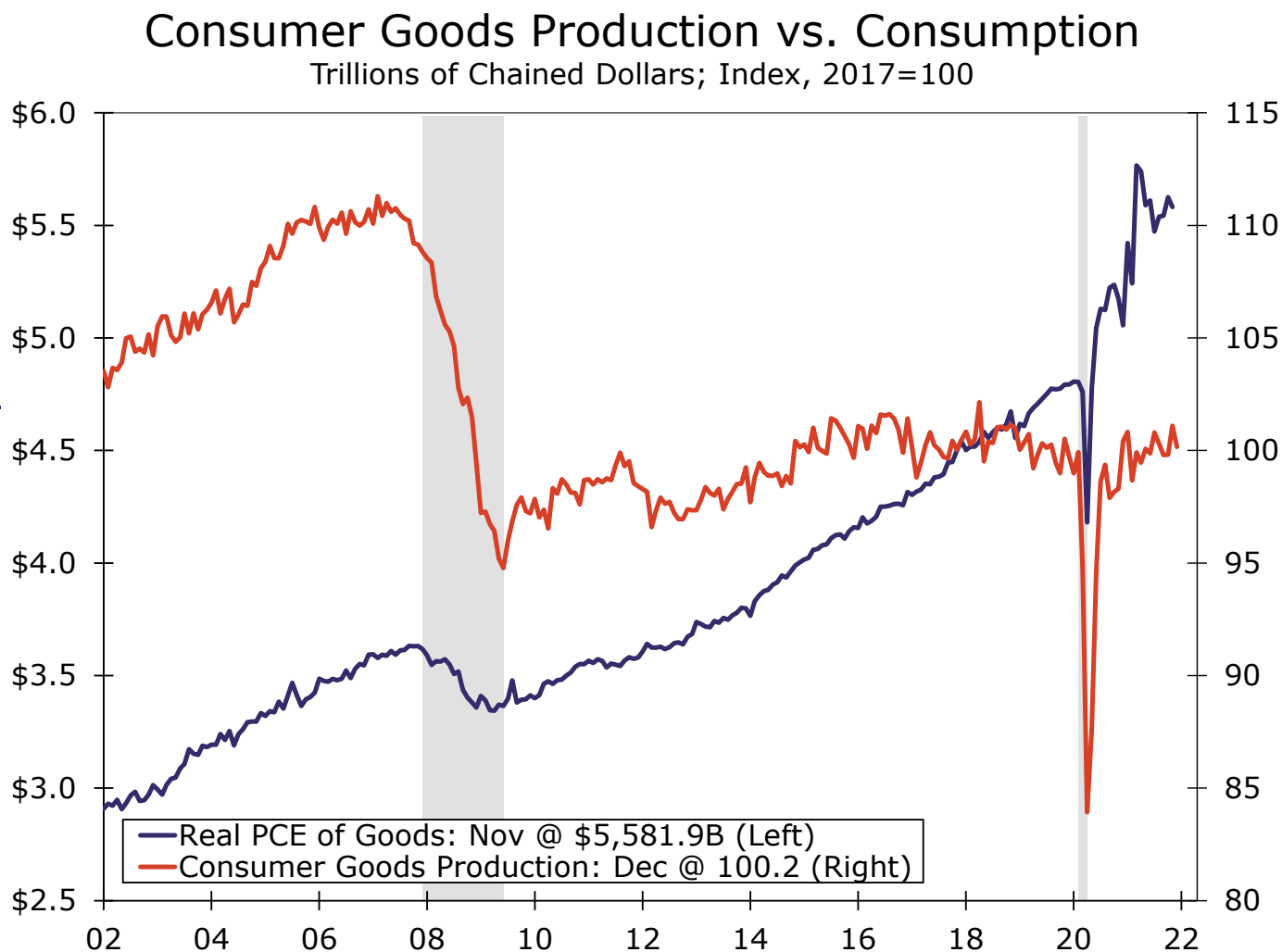
Real GDP growth will surpass potential GDP growth around the middle of 2022, making it difficult to reverse the recent acceleration in inflation.



There is a wide gap between the two most widely followed consumer confidence surveys, reflecting the divergence between job prospects and inflation concerns.

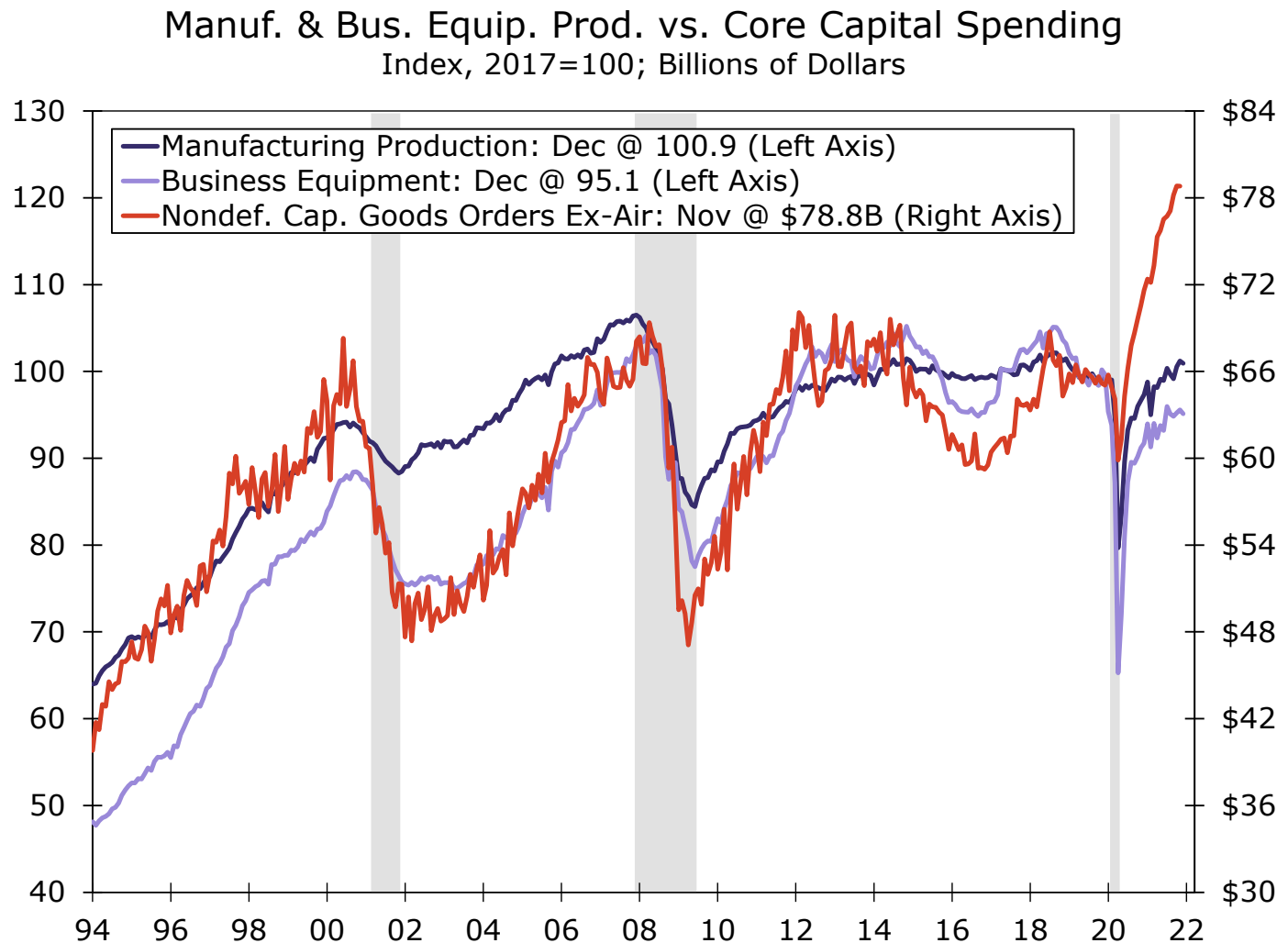


Demand for consumer goods surged well ahead of the output, which slashed inventories and pulled in a torrent of imports.



Core Capital Goods Orders

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



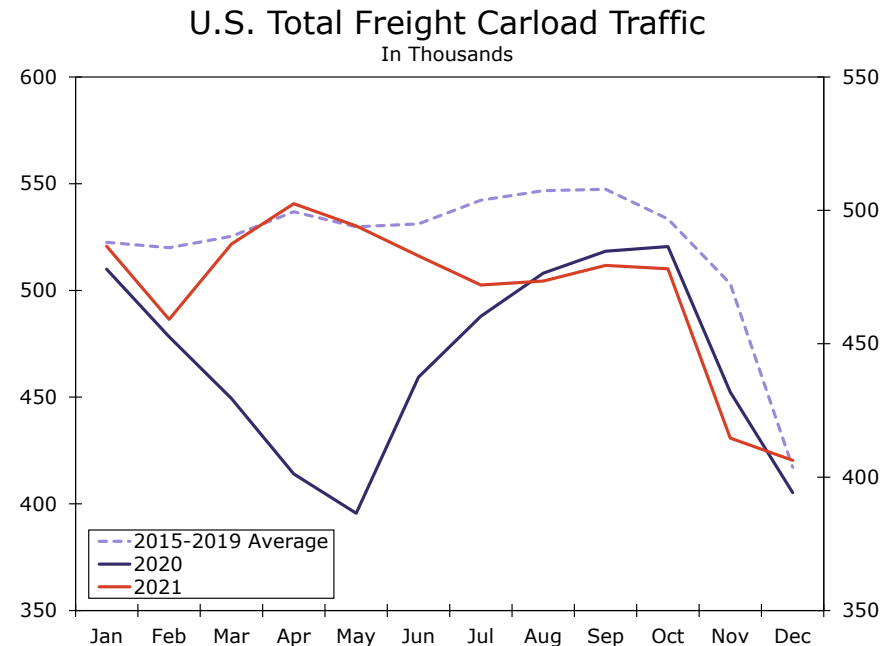
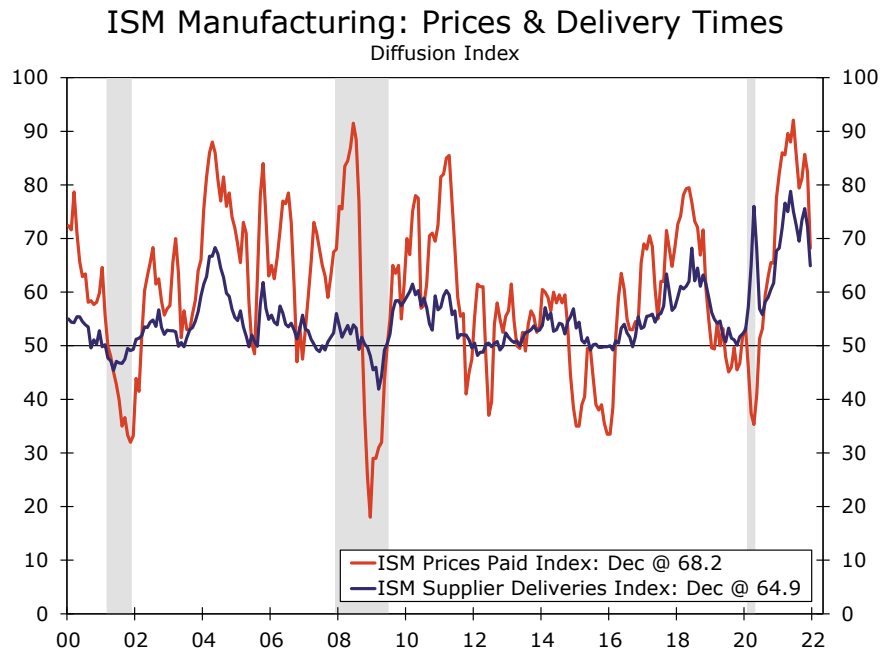
Pressure Gauge

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
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
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
Ships Awaiting Space LA & LB (a)	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
Volume																							
Taiwan Elect. Product Exports (b)	46.2%	18.1%	24.3%	13.2%	23.8%	15.3%	19.1%	26.1%	21.8%	19.0%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.9%	21.9%	26.8%	12.4%	26.6%	27.5%
Cass Freight Index (b)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	12.3%	0.6%	0.8%	4.5%	7.7%
Unfilled Orders (c)	7.6%	3.7%	0.9%	-2.2%	-0.3%	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%	7.8%	
Price																							
World Container Index (WCI) (d)	\$1.6k	\$1.5k	\$1.5k	\$1.5k	\$1.8k	\$2.0k	\$2.1k	\$2.5k	\$2.6k	\$2.8k	\$4.0k	\$5.3k	\$5.2k	\$5.0k	\$4.9k	\$5.9k	\$7.1k	\$8.9k	\$9.6k	\$10.2k	\$9.9k	\$9.2k	\$9.2k
WCI: Shanghai-Los Angeles (d)	\$1.5k	\$1.4k	\$1.6k	\$1.7k	\$2.3k	\$2.9k	\$3.3k	\$3.9k	\$4.1k	\$4.0k	\$4.1k	\$4.2k	\$4.3k	\$4.2k	\$4.3k	\$5.5k	\$6.8k	\$9.8k	\$10.7k	\$12.0k	\$11.0k	\$10.0k	\$10.1k
PPI Transp. & Ware. of Goods (c)	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%	16.3%	23.1%	19.1%
Dry Van Rate Per Mile (e)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%	21.8%	17.8%	16.5%	17.5%
Inventory																							
Bus. Inventory-to-Sales Ratio	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25	1.25	1.26	1.26	1.24	1.25	
ISM Manuf. Inventories Index	46.5	46.9	49.7	50.4	50.5	47.0	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2	55.6	57.0	56.8	54.7
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
Inventory Too Low (f)	-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%
Labor																							
Production & Manuf. Posts (g)	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%
Loading & Stocking Posts (g)	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%

Notes: (a) Monthly Average, (b) Year-over-Year Percent Change, (c) 3-Month Annualized Rate, (d) USD/40ft Box), (e) Year-over-Year of 4-Week Moving Average, (f) Net % of Firms, (g) versus February 2020
Source: Institute for Supply Management (ISM), Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Economics

Incremental Improvement in Supply Bottlenecks

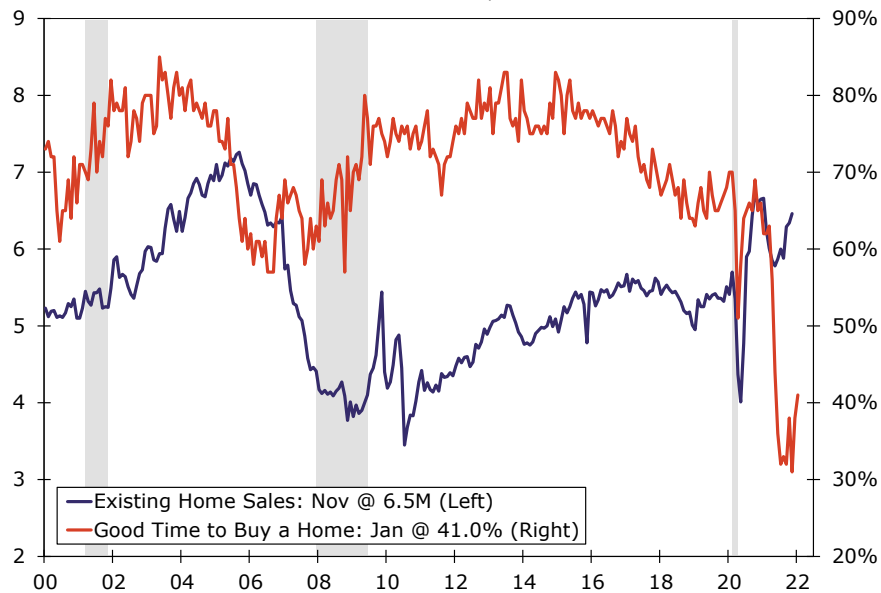
Manufacturers reported in December that input price appreciation was slowing and supplier delivery lead times were improving, a sign that supply problems are fading—if only incrementally. Freight movement also strengthened in December.



After moderating this past summer, the pace of both new and existing home sales have edged higher in recent months. Tight inventories and fast-rising home prices are primarily behind the recent slowdown, which are putting 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.

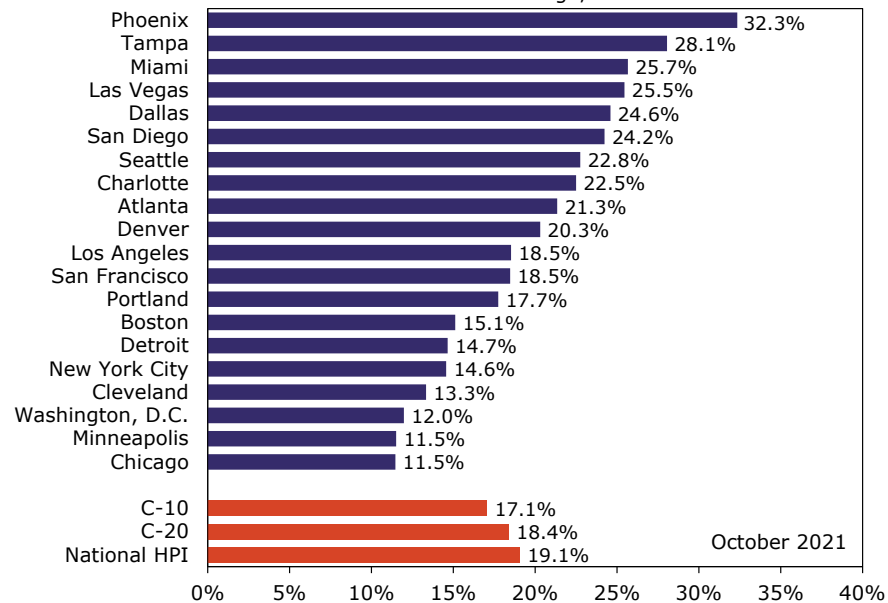
Homebuying Sentiment vs. Existing Home Sales

Sales in Millions, SAAR



S&P CoreLogic Case-Shiller Home Prices

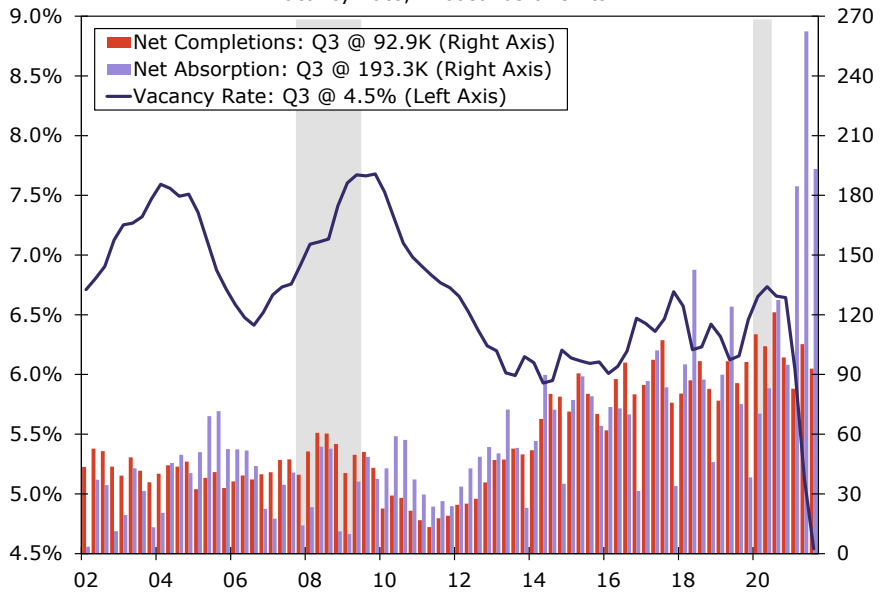
Year-over-Year Percent Change, NSA



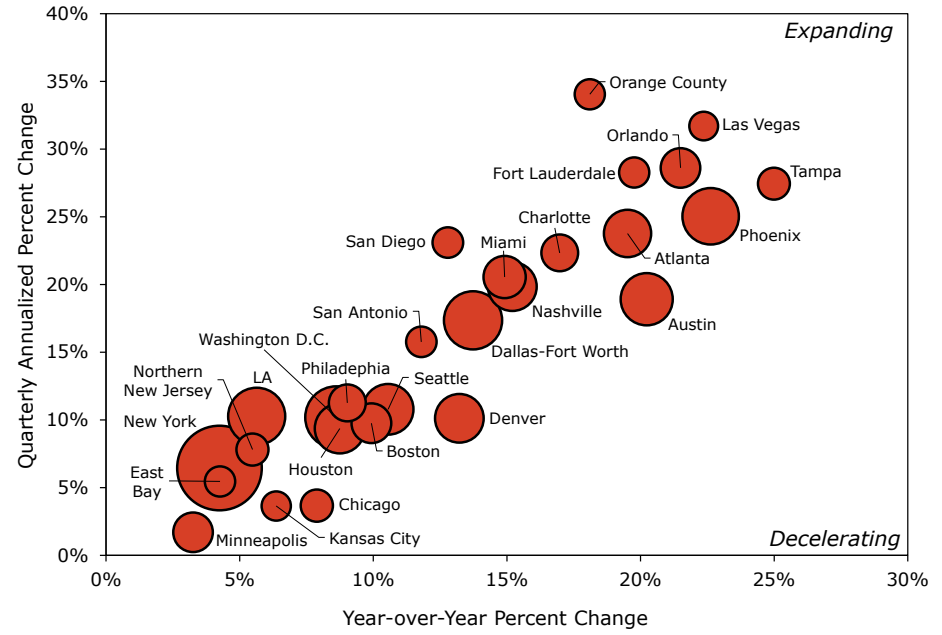
Demand for apartments surged over the past three quarters. Record absorption slashed the vacancy rate to an all-time low of 4.5%, but also resulted in a record surge in apartment rents.

Apartment Supply & Demand

Vacancy Rate; Thousands of Units



Apartment Effective Rent Growth: Q3-2021

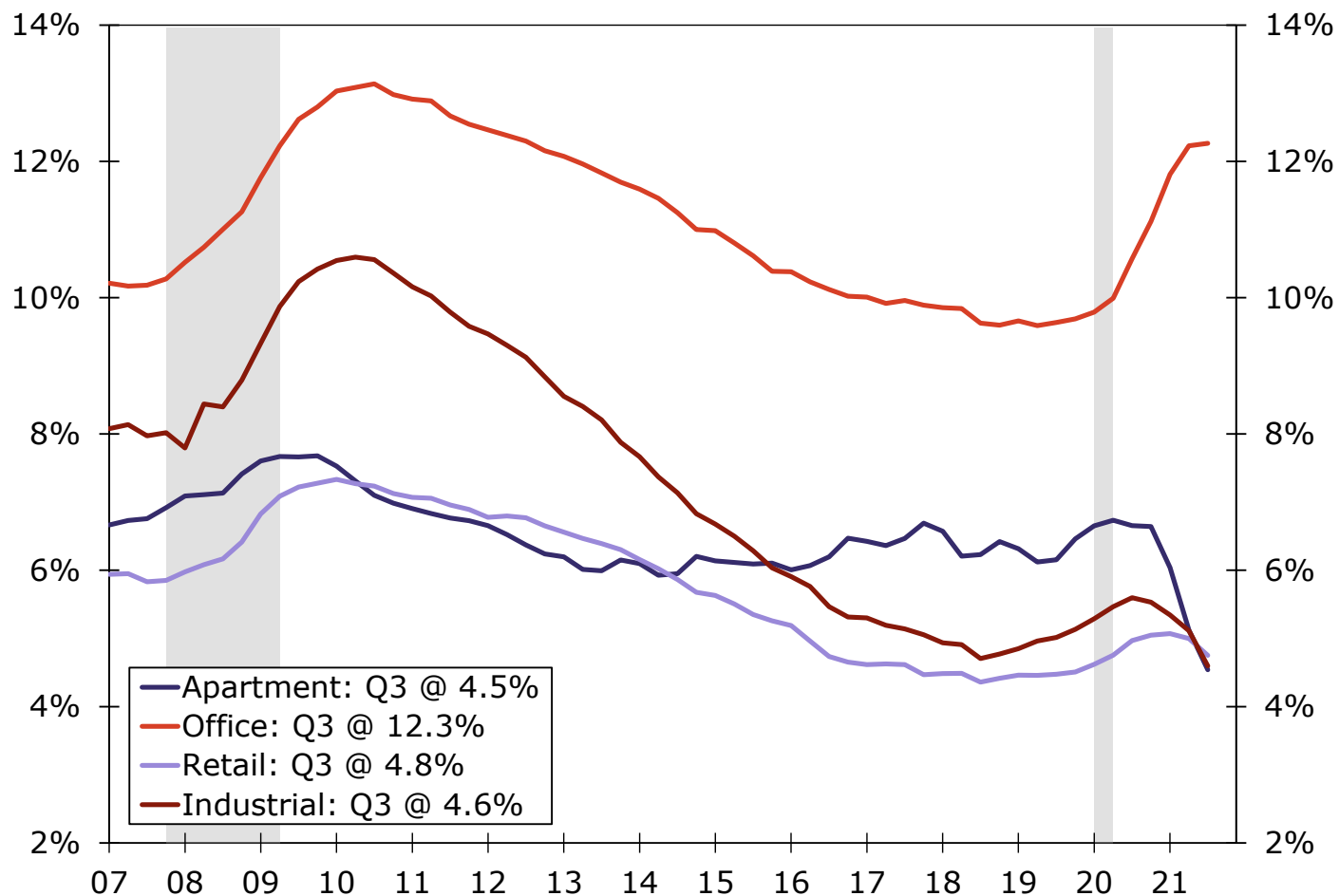


Commercial Real Estate Fundamentals

The resurgence in economic activity looks to be a harbinger for a turnaround in commercial real estate fundamentals.

The office market, however, continues to lag as the RTO gets pushed back.

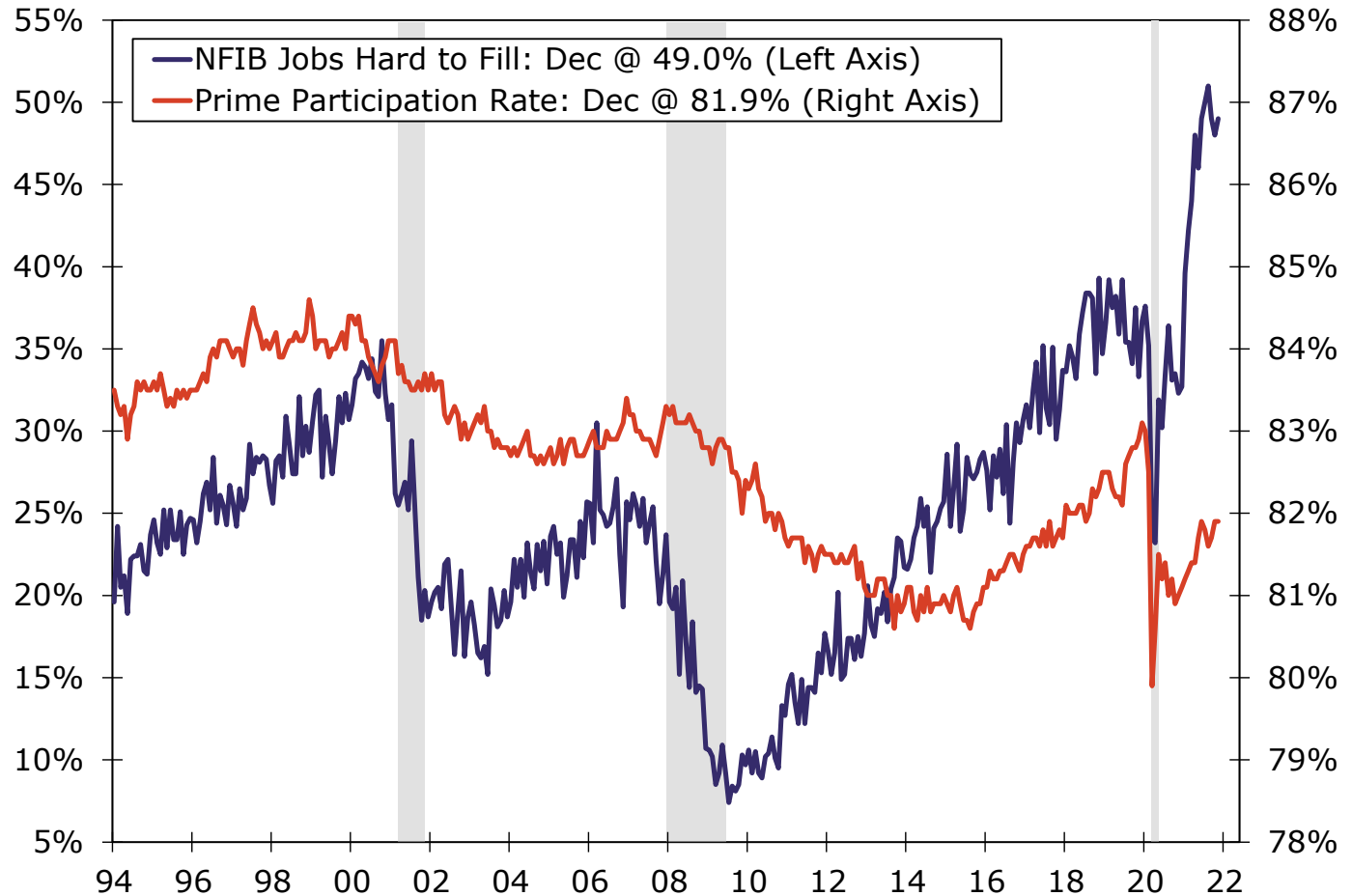
CRE Vacancy Rates



The availability of workers continues to hold back the jobs recovery.

Job Hard to Fill vs. Labor Force Participation

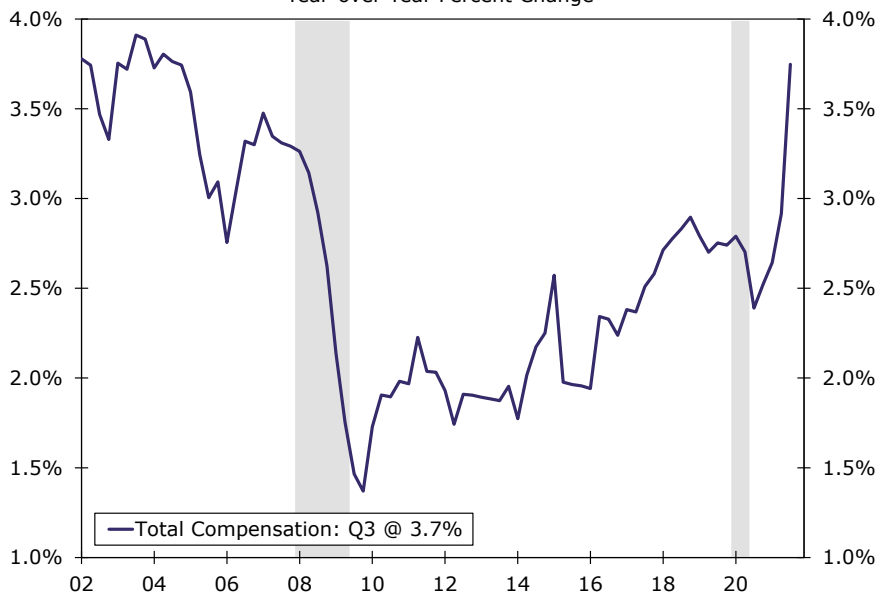
Firms with at least One Hard to Fill Job Opening; Percent Ages 25-54



Wage growth has picked up, particularly in lower-paying industries that are struggling most to get workers back to the jobsite.

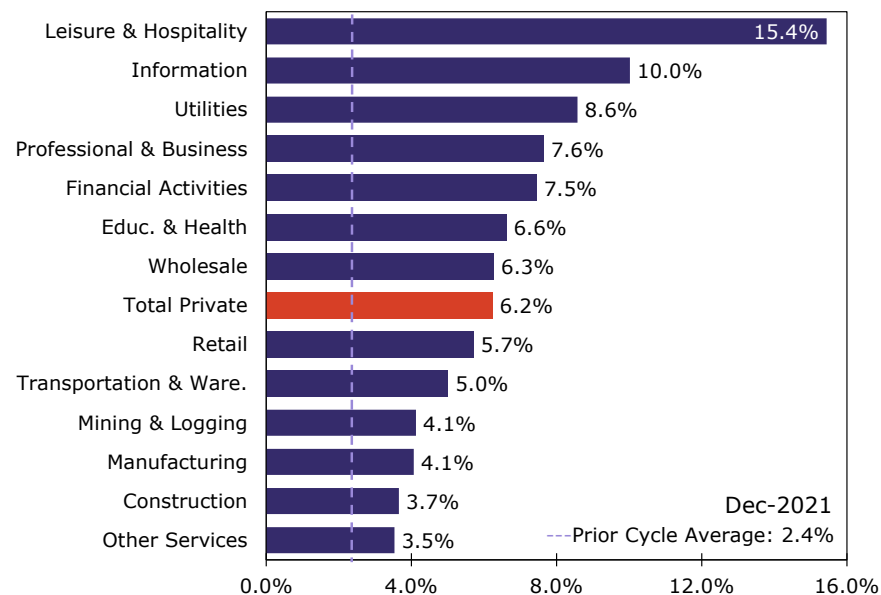
Employment Cost Index - All Workers

Year-over-Year Percent Change



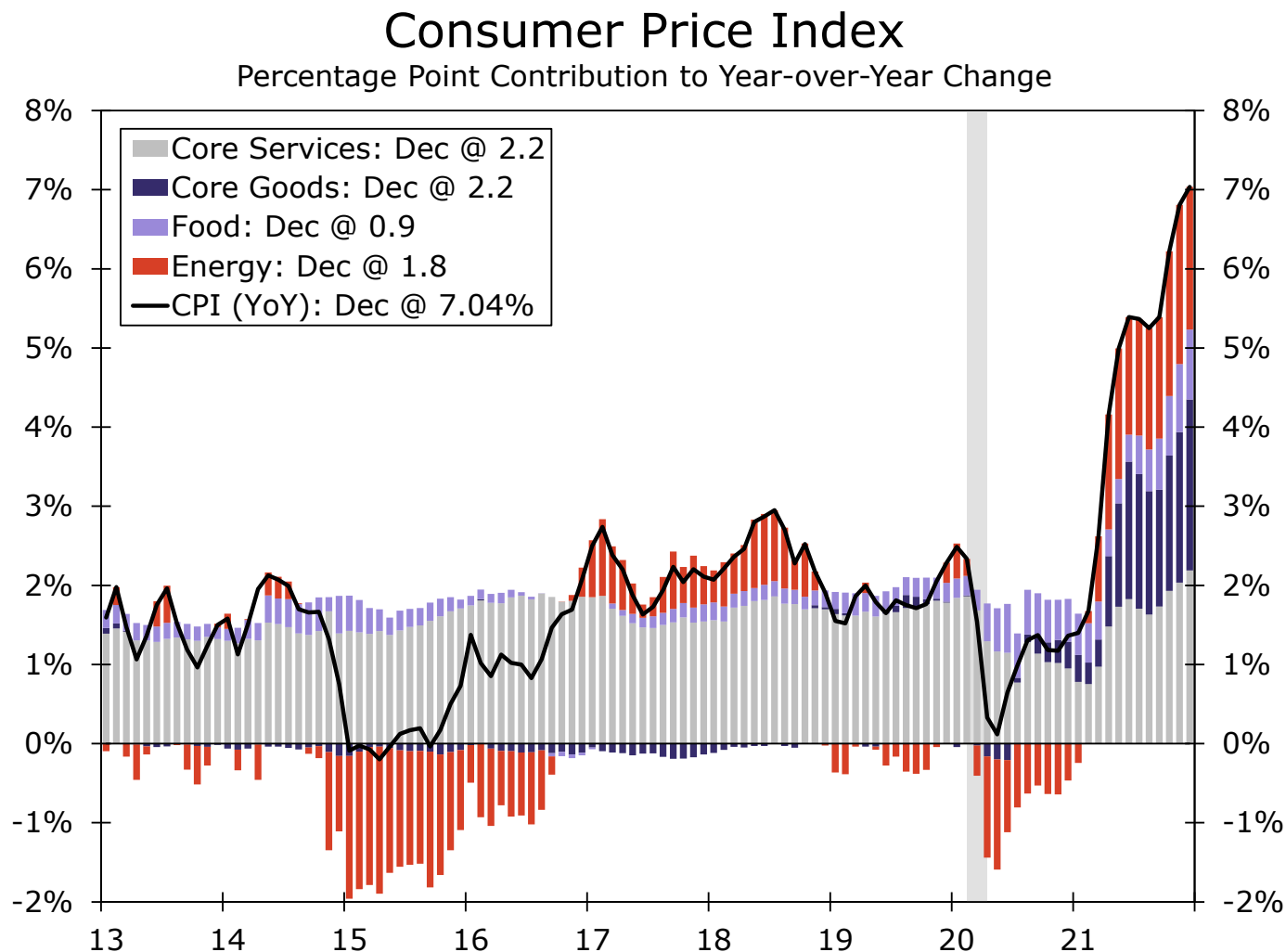
Average Hourly Earnings by Industry

Ranked by % change, Three-Month Annualized Rate



Consumer Price Inflation

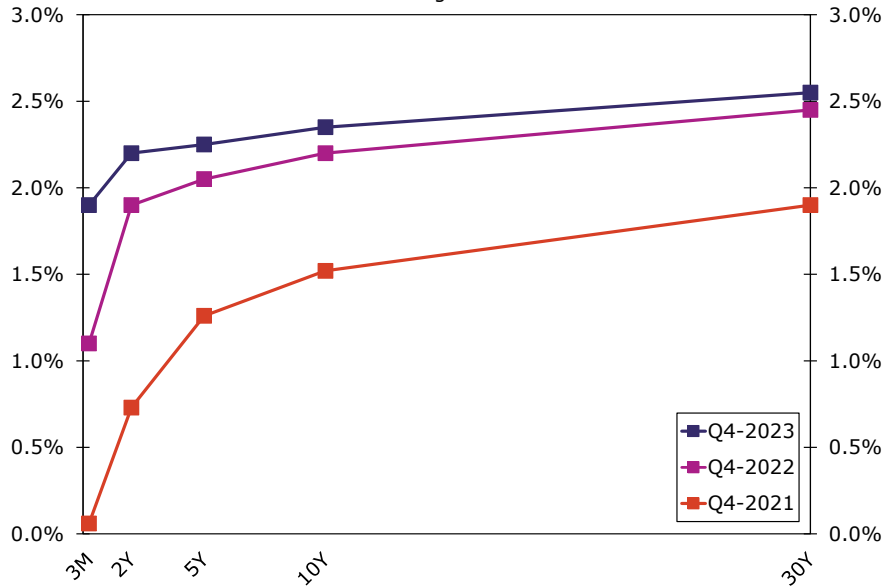
Goods have accounted for much of the rise in inflation, at least thus far.



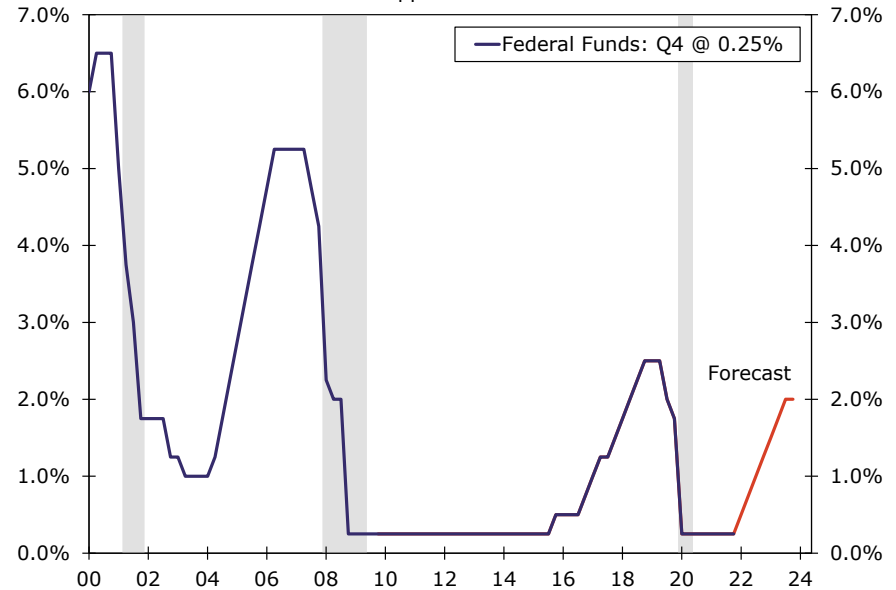
Interest Rate Outlook

The Fed is likely to begin raising the fed funds rate not long after asset purchases wrap up.

Wells Fargo Rates Forecast Through 2023



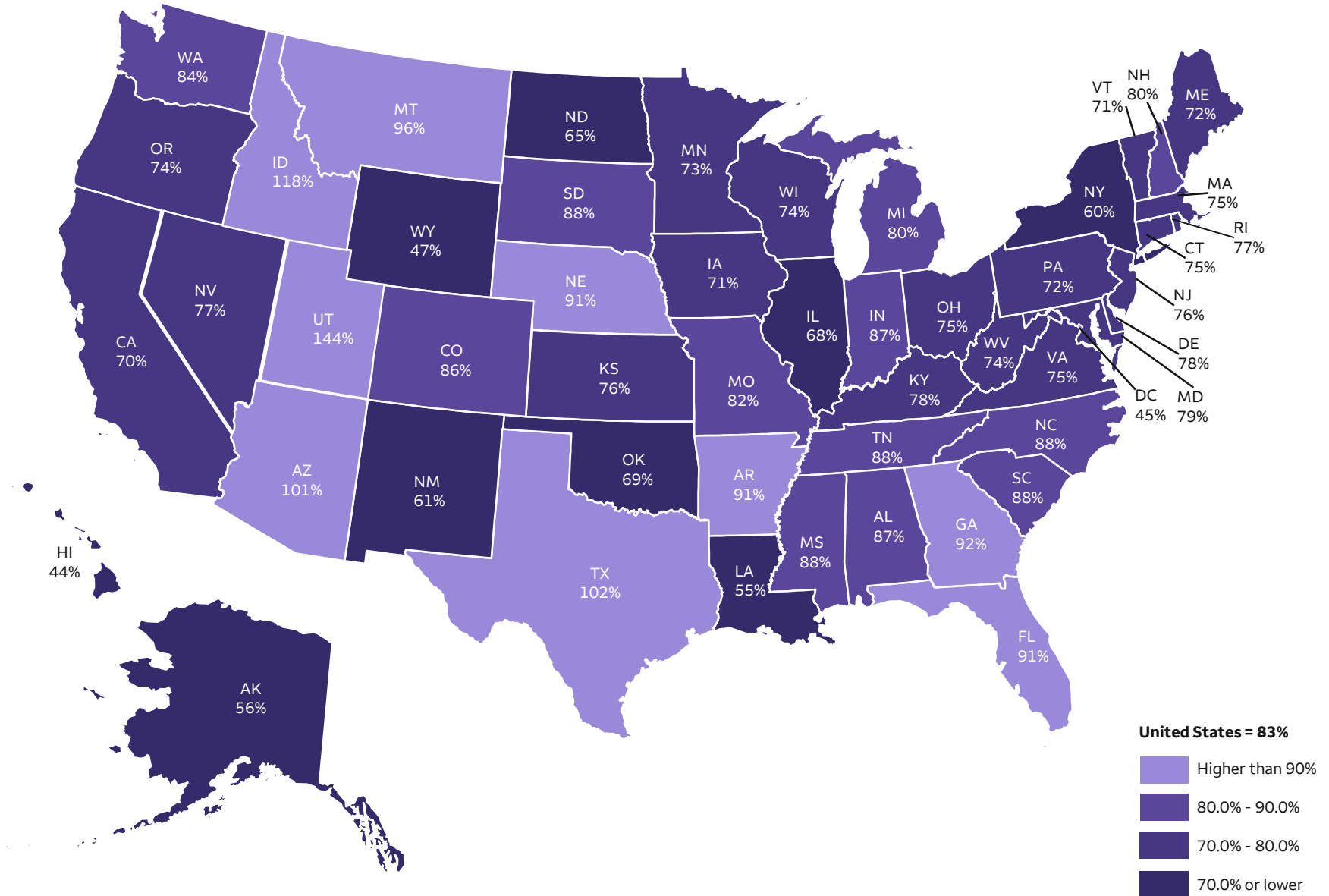
Federal Funds Target Rate Upper Bound





Regional Commentary

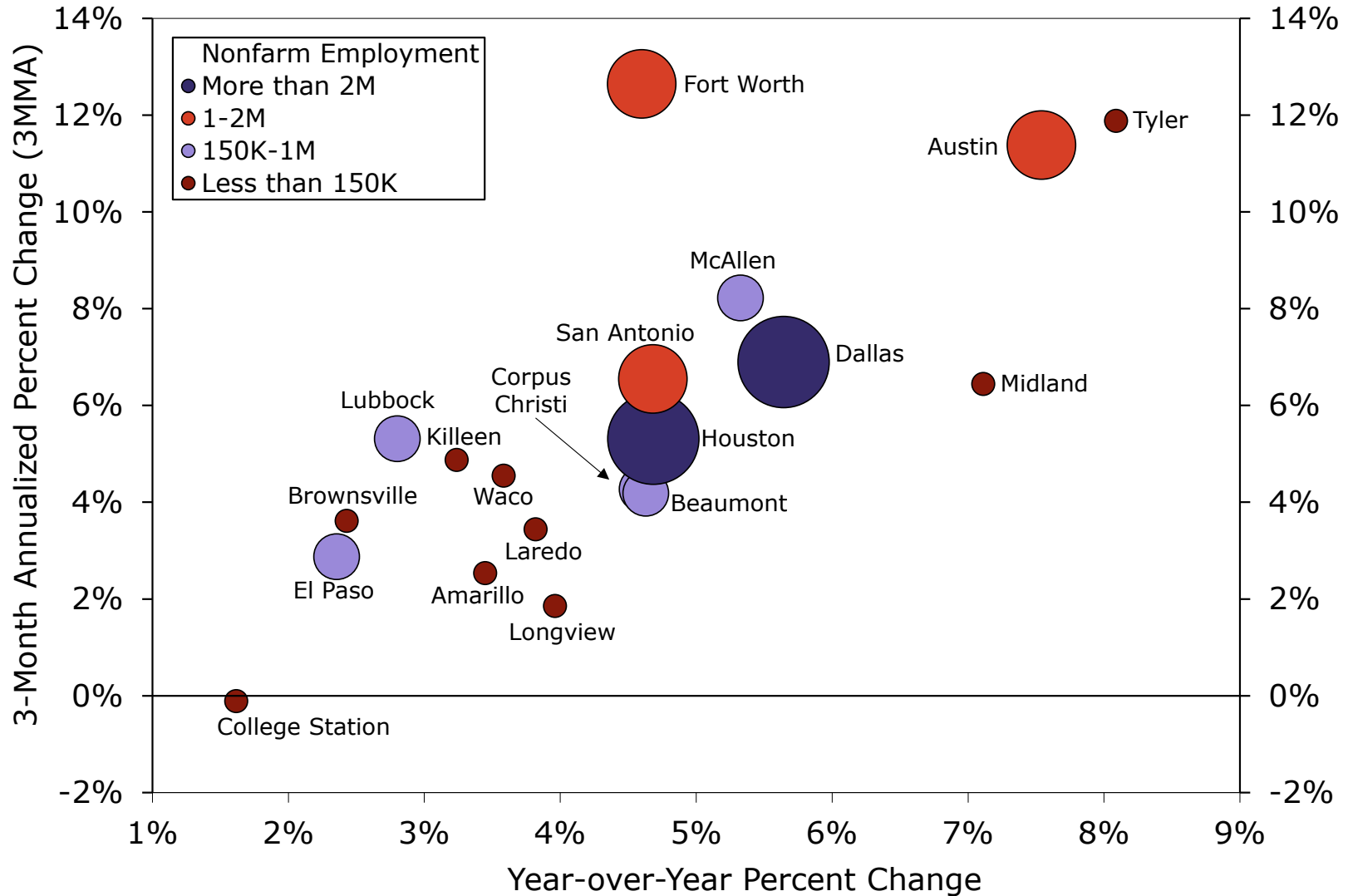
Percent of March and April Job Losses Recovered – November 2021



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

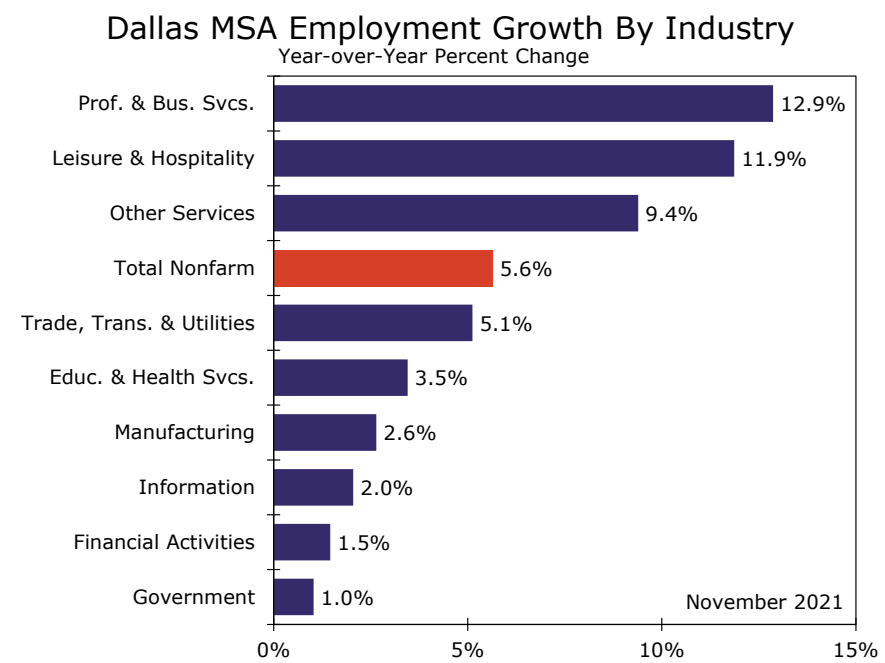
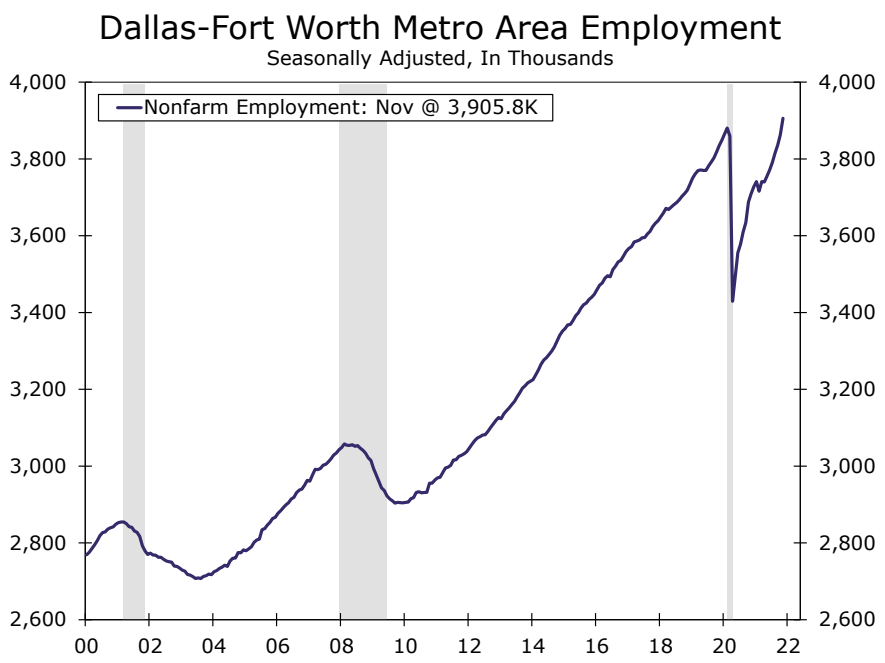
Texas Employment Growth by Metro

3-Month Moving Averages, November 2021

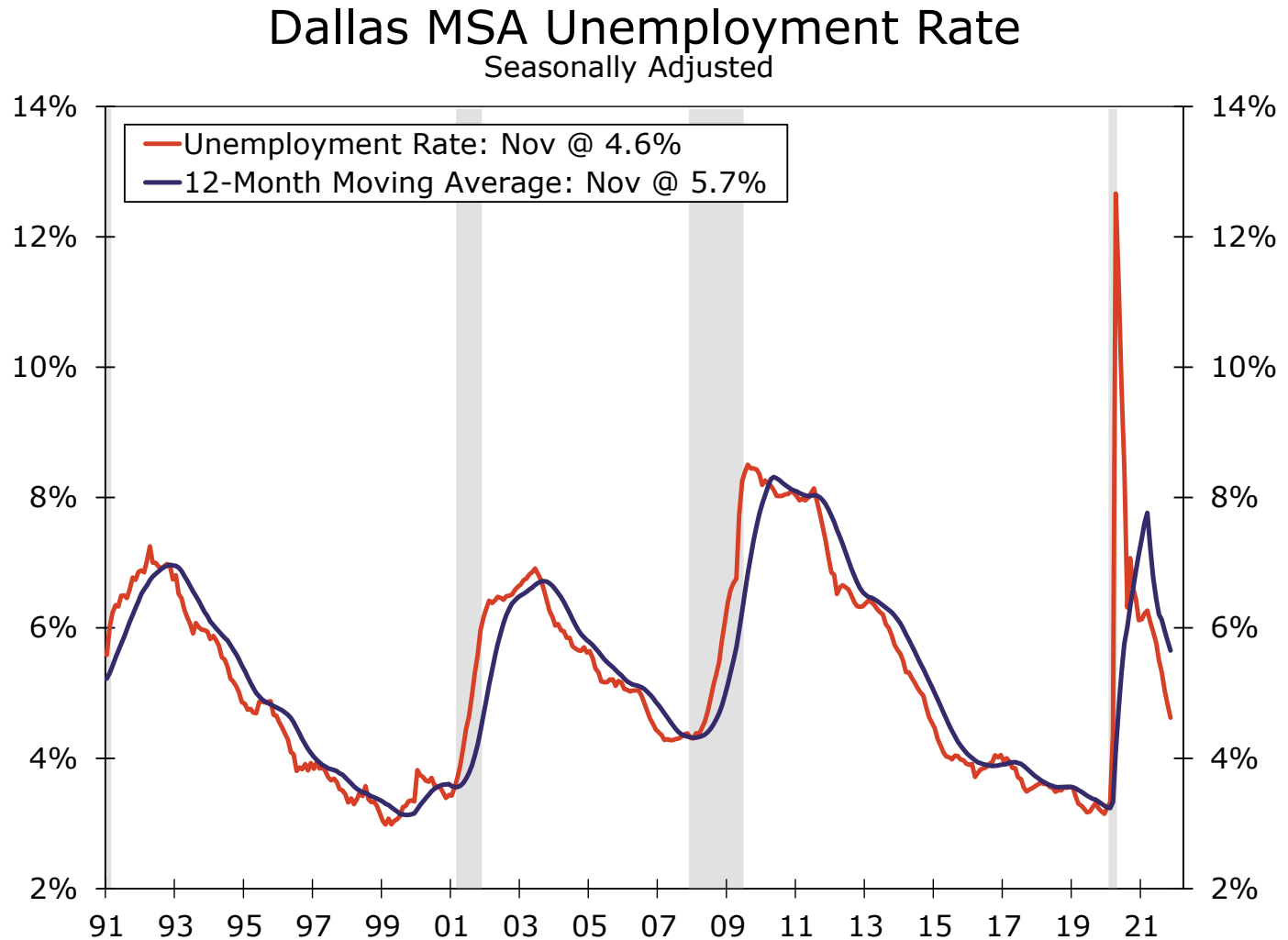


Dallas Metro Employment

Employers have recovered all of the jobs lost at the onset of the pandemic. Gains over the past year have been driven by professional & business services and harder hit industries such as leisure & hospitality and other services.



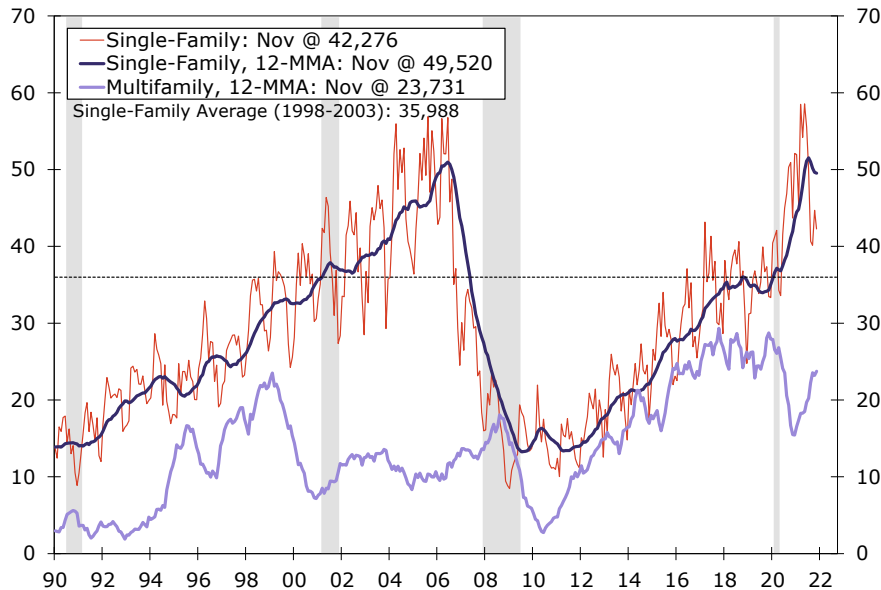
The labor market has tightened. The unemployment rate has fallen 8 percentage points since hitting a pandemic peak of 12.7%.



New home construction trended higher for much of the past year, but supply and labor constraints have restrained the pace of permits recently. Limited inventories amid strong population inflows has sent home prices sharply higher.

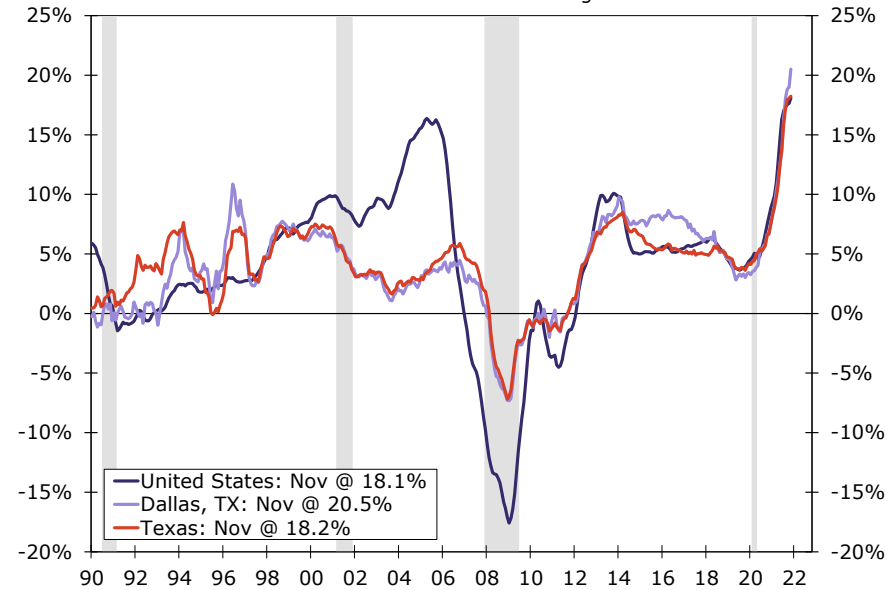
Dallas-Fort Worth Building Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



CoreLogic: Home Prices

Year-over-Year Percent Change

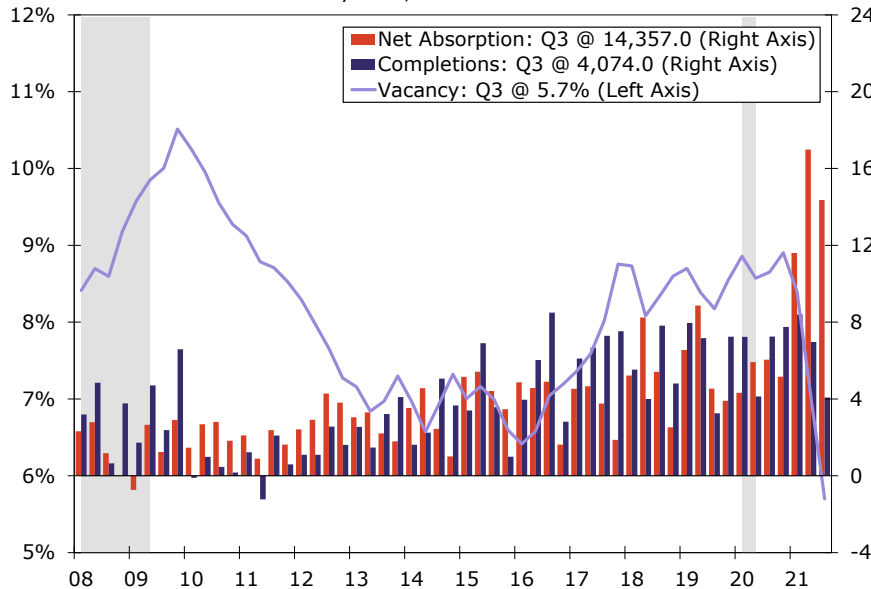


Dallas Metro Apartment Market

The apartment vacancy rate has fallen to a record low of 5.7%, fueled by strong net migration and limited for-sale inventories. Strong demand amid slowing completions has propelled asking rents higher this year.

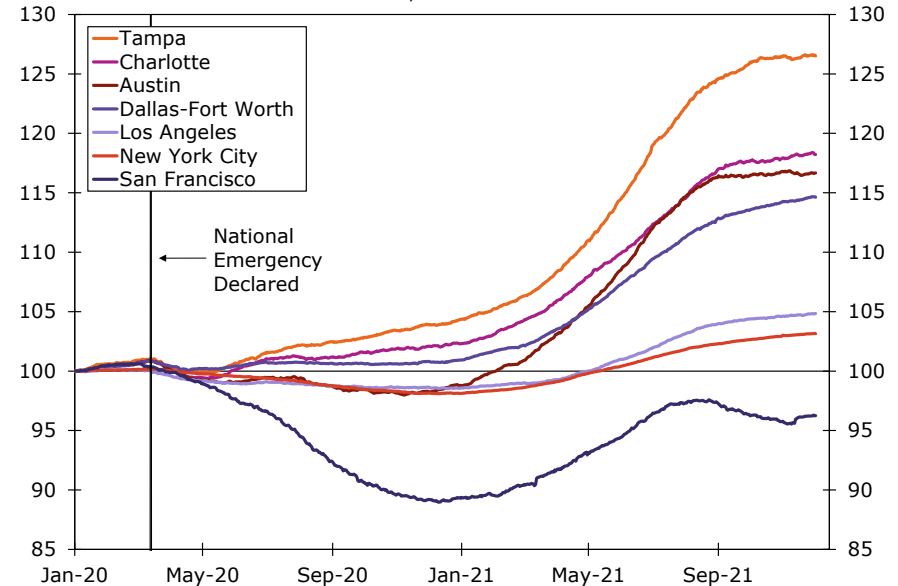
Dallas Apartment Supply & Demand

Vacancy Rate; Thousands of Units



Daily Asking Apartment Rents per SF

Indexed, Jan. 2020=100

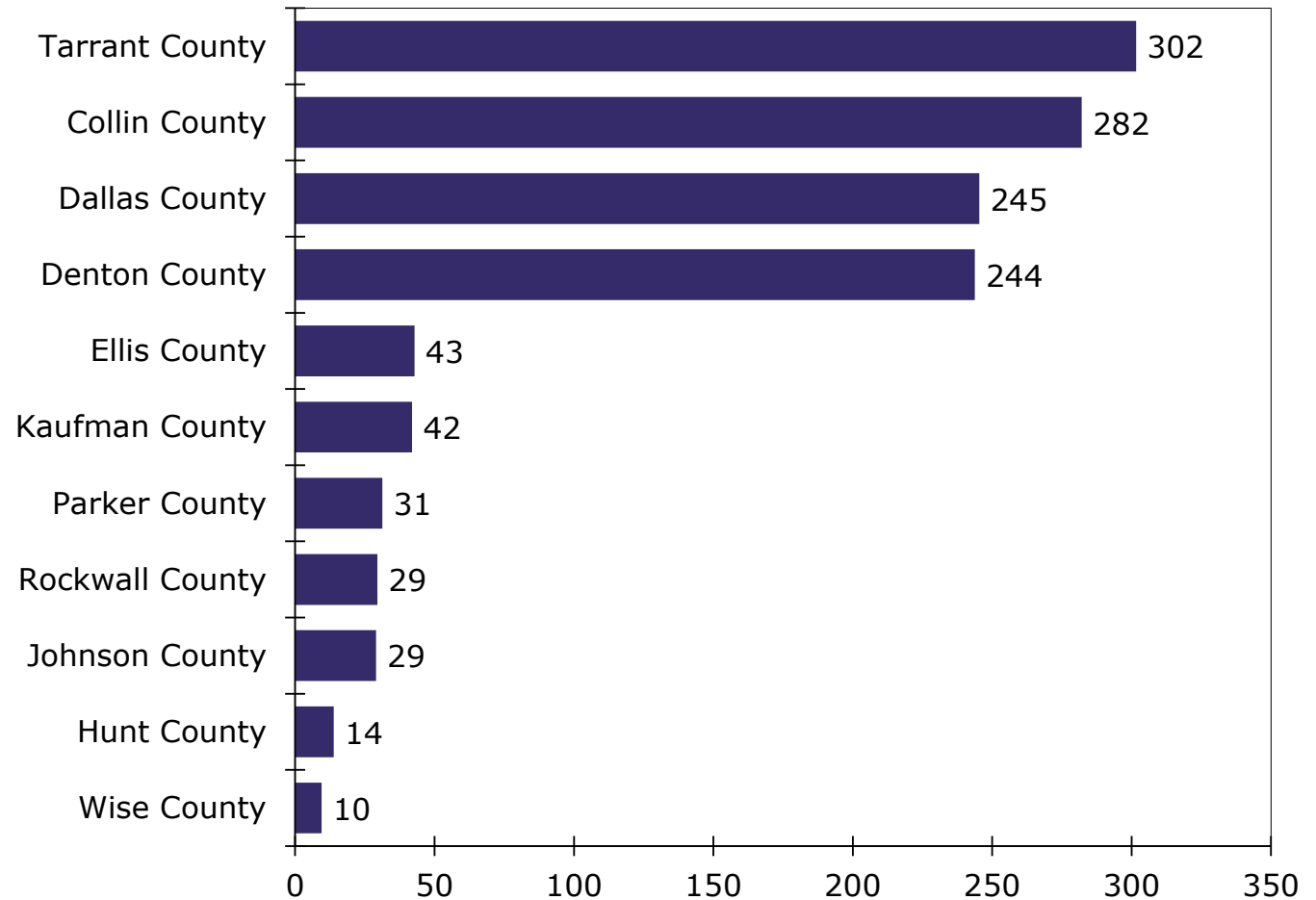


Dallas Metro Population Growth

North Dallas saw strong population growth over the past decade.

Dallas Metro Population Growth by County

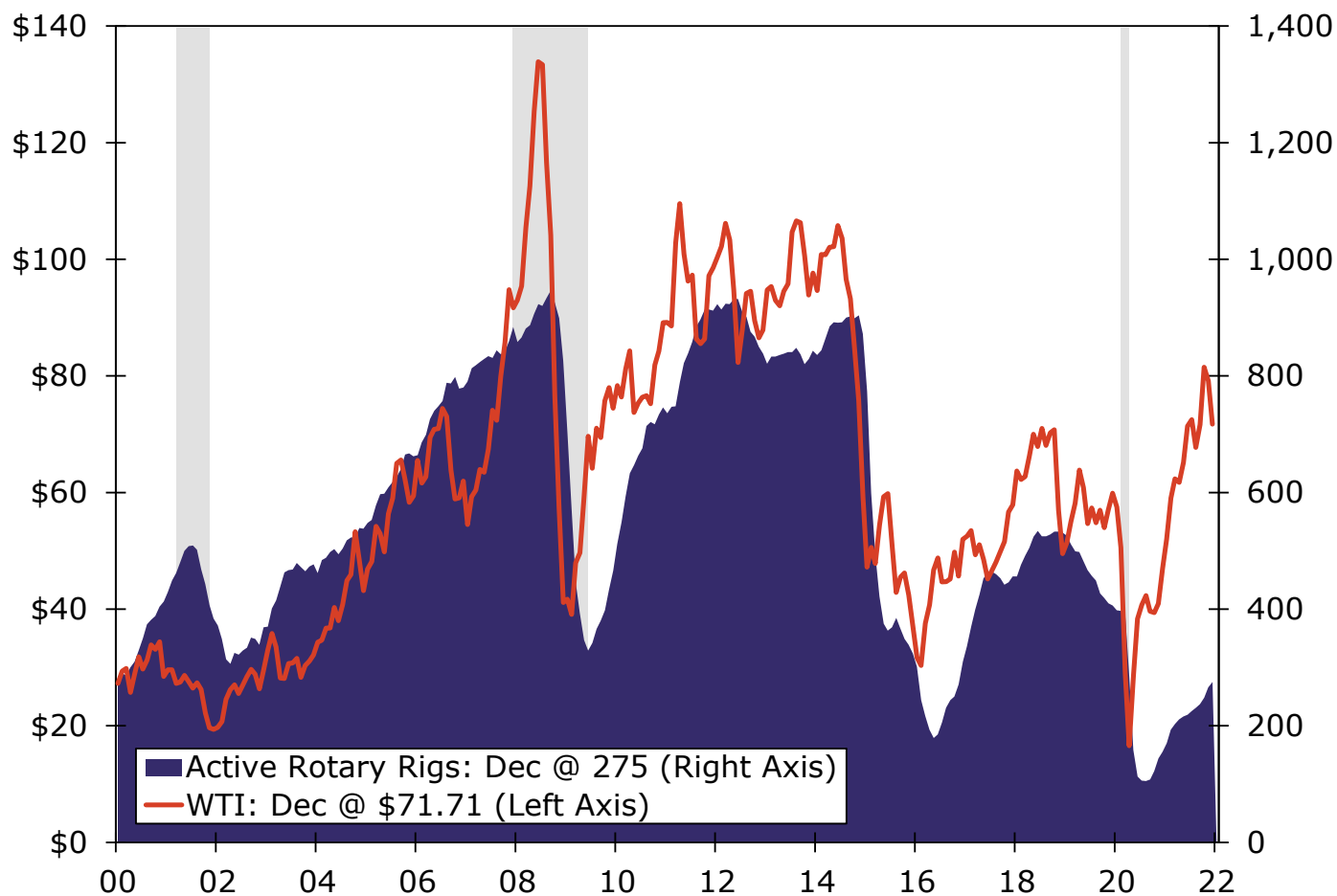
In Thousands, Absolute Change from 2010-2020



Oil prices trended lower in December, but have risen in recent weeks.

The rig count remains constrained.

Texas Oil Rig Count & WTI Price

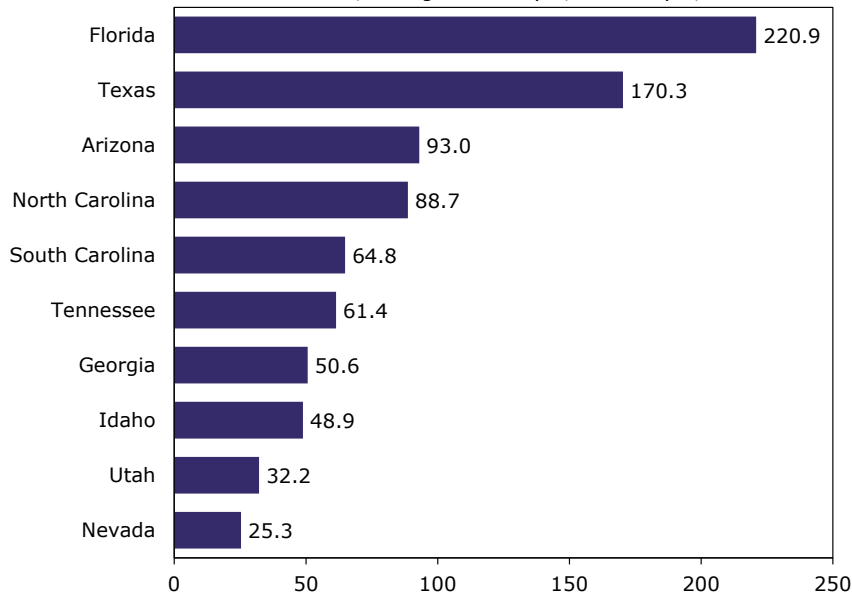


U.S. Population Growth

The pandemic has accelerated the migration away from states with a high cost of living toward states with a lower cost of living. The shift is most evident across the Southeast and parts of the Mountain West.

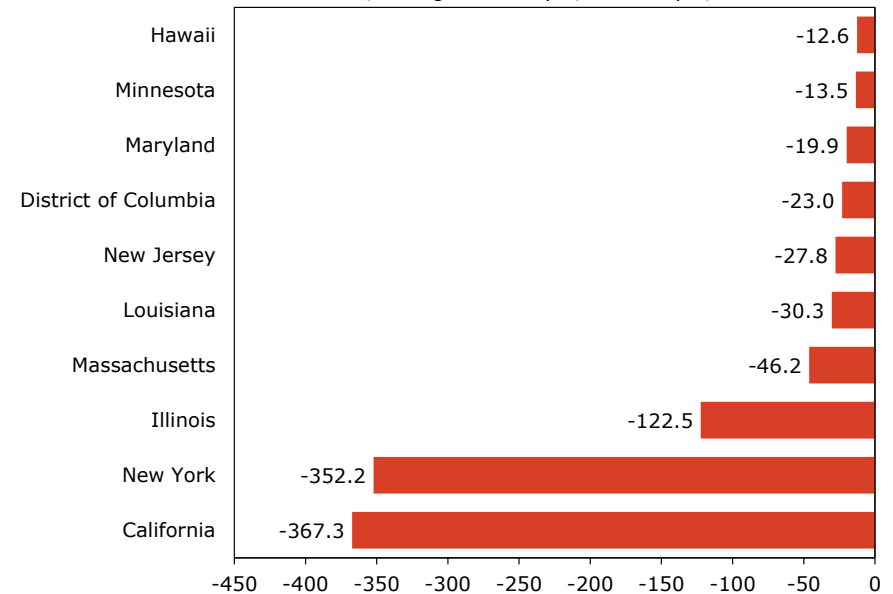
Top States by Net Domestic Migration

Thousands of Residents; Change from July 1, 2020-July 1, 2021



Bottom States by Net Domestic Migration

Thousands of Residents; Change from July 1, 2020-July 1, 2021



There is a growing body of evidence of migration to traditionally smaller, secondary markets across the Sun Belt and South. Florida is home to three of the top 10 fastest-growing metros, according to LinkedIn.

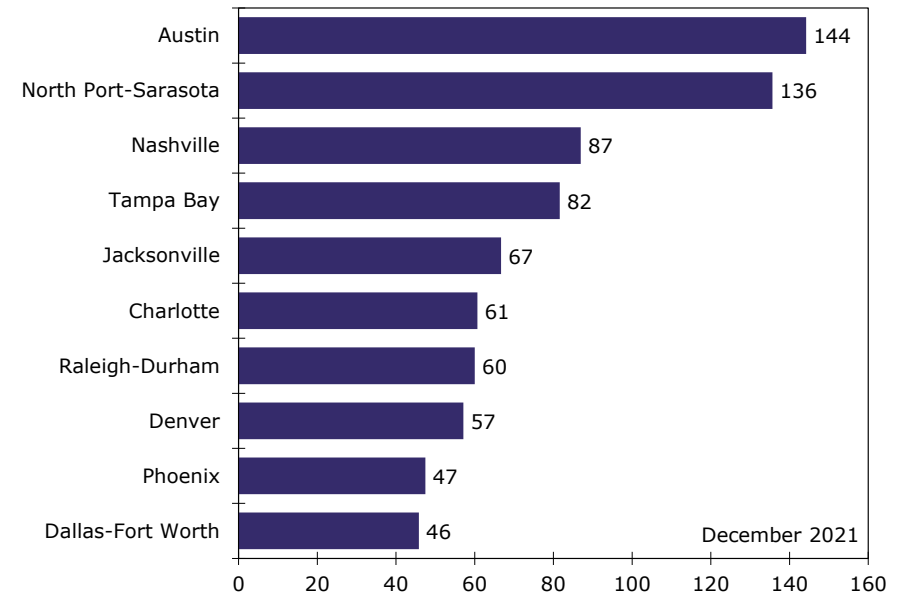
Best Places to Live in the U.S.

2021-22; Metro Area Population > 1M

1. Raleigh-Durham, NC
2. Austin, TX
3. Portland, OR
4. Denver, CO
5. San Francisco, CA
6. Seattle, WA
7. Charlotte, NC
8. Jacksonville, FL
9. Salt Lake City, UT
10. Minneapolis-St. Paul, MN

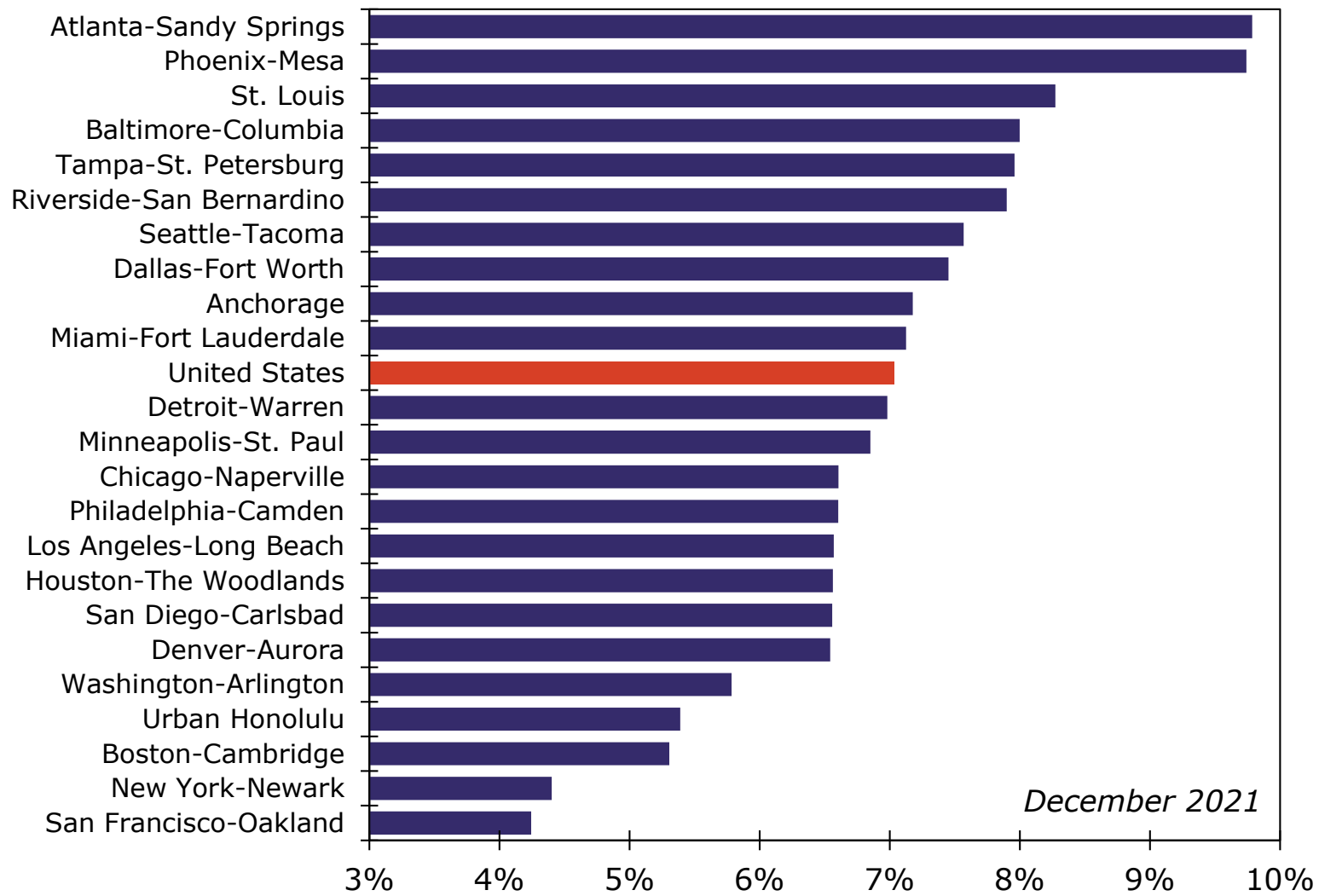
Cities that Gained the Most Workers

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



CPI Change by Metro Area

Year-over-Year Percent Change



December 2021

Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual			
	2021				2022				2023				2020	Forecast		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		2021	2022	2023
Real Gross Domestic Product ¹	6.3	6.7	2.3	5.9	2.9	3.7	3.4	3.5	3.2	2.9	2.4	2.0	-3.4	5.6	3.9	3.1
Personal Consumption	11.4	12.0	2.0	5.0	2.3	2.5	2.6	2.7	2.9	2.7	2.1	1.7	-3.8	8.0	3.4	2.6
Business Fixed Investment	12.9	9.2	1.7	1.9	4.5	4.7	5.5	5.0	5.0	4.1	3.7	3.3	-5.3	7.3	4.1	4.6
Equipment	14.1	12.1	-2.3	-2.3	5.1	4.9	6.8	5.5	5.3	3.6	2.8	2.0	-8.3	12.7	3.3	4.7
Intellectual Property Products	15.6	12.5	9.1	9.1	6.0	5.6	5.1	4.9	5.1	4.8	5.0	5.0	2.8	10.1	7.1	5.0
Structures	5.4	-3.0	-4.1	-3.5	-1.0	1.5	2.6	3.3	3.9	3.4	3.1	2.9	-12.5	-7.7	-0.8	3.2
Residential Investment	13.3	-11.7	-7.7	2.0	2.5	3.5	4.5	4.5	4.0	3.5	3.0	2.5	6.8	9.2	0.7	3.8
Government Purchases	4.2	-2.0	0.9	0.5	2.2	3.2	2.4	2.2	1.9	1.9	1.8	1.7	2.5	0.7	1.7	2.1
Net Exports ²	-1.6	-0.2	-1.3	-0.3	-0.7	-0.7	-0.6	-0.4	-0.1	-0.1	0.0	0.0	-0.2	-1.8	-0.7	-0.2
Inventories ²	-2.6	-1.3	2.2	2.1	0.8	1.2	0.7	0.7	0.0	0.0	0.0	0.0	-0.6	-0.2	1.1	0.3
Nonfarm Payroll Change ³	518	615	651	365	308	333	228	215	210	200	190	175	-785	537	271	194
Unemployment Rate	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.4	3.3	3.3	3.2	3.2	8.1	5.4	3.6	3.3
PCE Deflator ⁴	1.8	3.9	4.3	5.5	5.5	4.6	3.9	3.0	2.6	2.4	2.3	2.3	1.2	3.9	4.2	2.4
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	0.50	0.25	0.88	1.81
Secured Overnight Financing Rate	0.01	0.05	0.05	0.05	0.05	0.05	0.80	1.05	1.35	1.60	1.85	1.85	0.36	0.04	0.49	1.66
3 Month LIBOR	0.19	0.15	0.13	0.21	0.45	0.70	0.95	1.20	1.50	1.75	2.00	2.05	0.65	0.16	0.83	1.83
Prime Rate	3.25	3.25	3.25	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.00	3.50	3.25	3.88	4.81
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.35	3.60	3.70	3.75	3.80	3.85	3.85	3.90	3.12	2.95	3.60	3.85
3 Month Bill	0.03	0.05	0.04	0.06	0.35	0.60	0.85	1.10	1.35	1.60	1.85	1.90	0.36	0.04	0.73	1.68
6 Month Bill	0.05	0.06	0.05	0.19	0.50	0.75	1.00	1.25	1.50	1.75	1.90	2.00	0.37	0.06	0.88	1.79
1 Year Bill	0.07	0.07	0.09	0.39	0.75	1.00	1.25	1.50	1.70	1.90	2.00	2.10	0.37	0.10	1.13	1.93
2 Year Note	0.16	0.25	0.28	0.73	1.20	1.45	1.70	1.90	2.00	2.10	2.15	2.20	0.39	0.27	1.56	2.11
5 Year Note	0.92	0.87	0.98	1.26	1.70	1.85	1.95	2.05	2.15	2.20	2.20	2.25	0.53	0.86	1.89	2.20
10 Year Note	1.74	1.45	1.52	1.52	1.90	2.05	2.15	2.20	2.25	2.30	2.30	2.35	0.89	1.45	2.08	2.30
30 Year Bond	2.41	2.06	2.08	1.90	2.25	2.35	2.40	2.45	2.45	2.50	2.50	2.55	1.56	2.06	2.36	2.50

Forecast as of: January 13, 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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