



# Economic Outlook

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## Inflation

- Inflation may have slowed, but prices are still high, where are we on the road to 2% inflation?
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## Spending & Investment

- How long before consumer staying power gives out?
  - What about cap-ex and housing?
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## Labor Market

- The strength of the labor market has defied expectations, will economists ever be right?
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## Monetary Policy

- We reached the end of the tightening cycle.
  - When do rate cuts begin?
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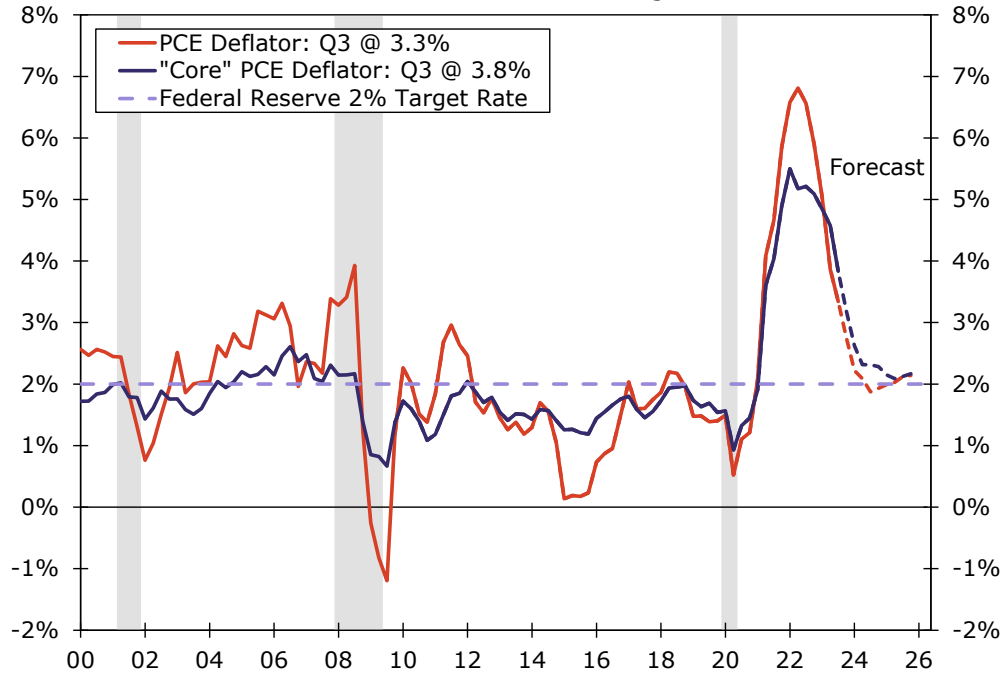
## Recession Watch

- Recession risk remains elevated, but no longer baseline call.
  - Soft landing/mild recession: a difference without distinction?
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Gradual weakening in demand and improvement on the supply side of the economy is helping to lower inflation.

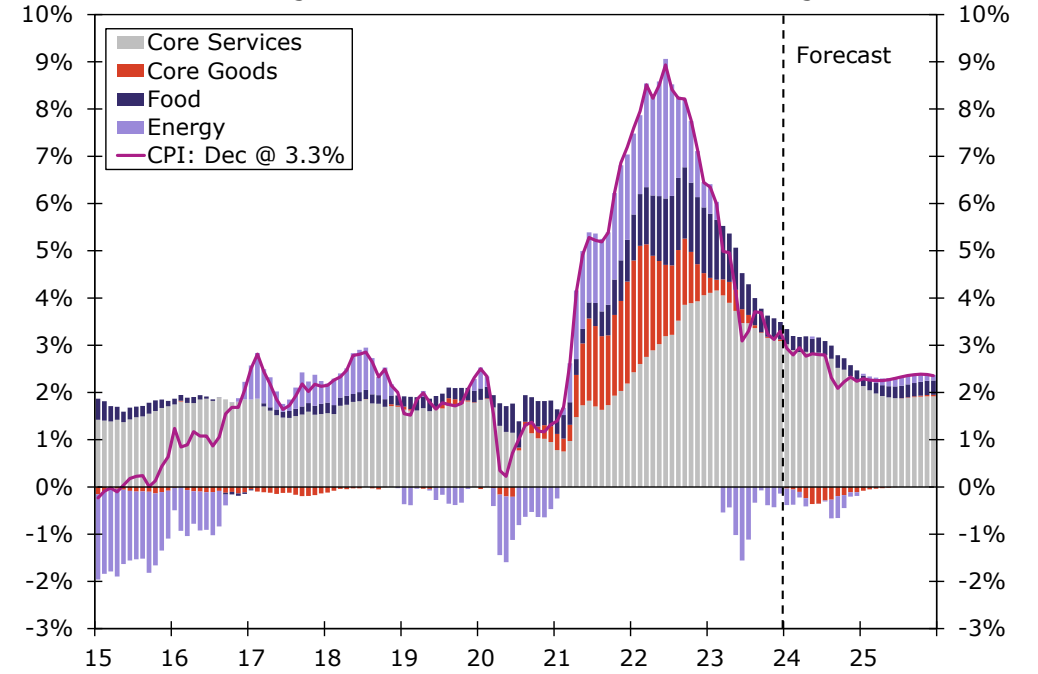
### PCE Deflator & "Core" PCE Deflator

Year-over-Year Percent Change



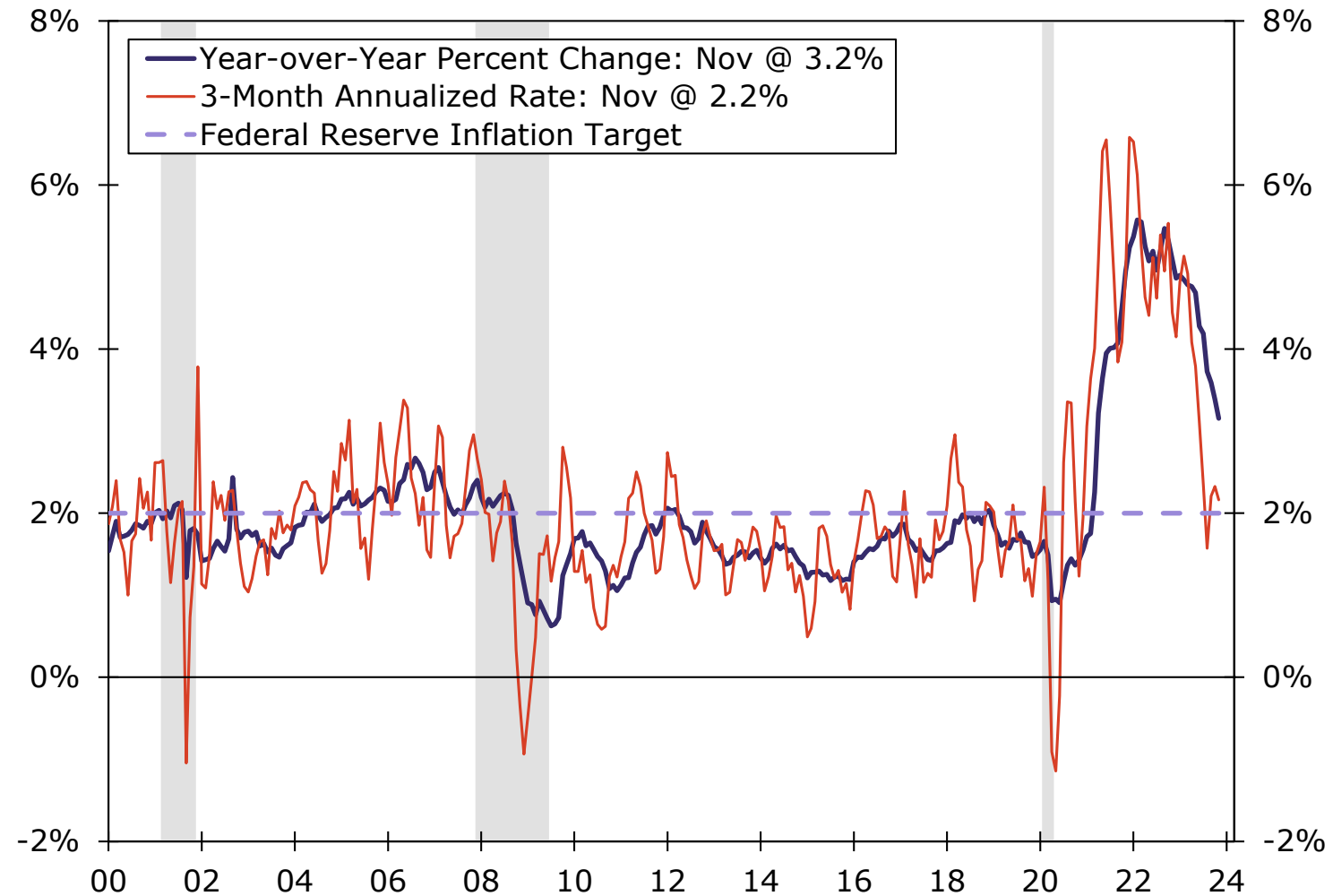
### Consumer Price Index

Percentage Point Contribution to Year-over-Year Change, SA



The job is not done,  
but the trend is in  
place.

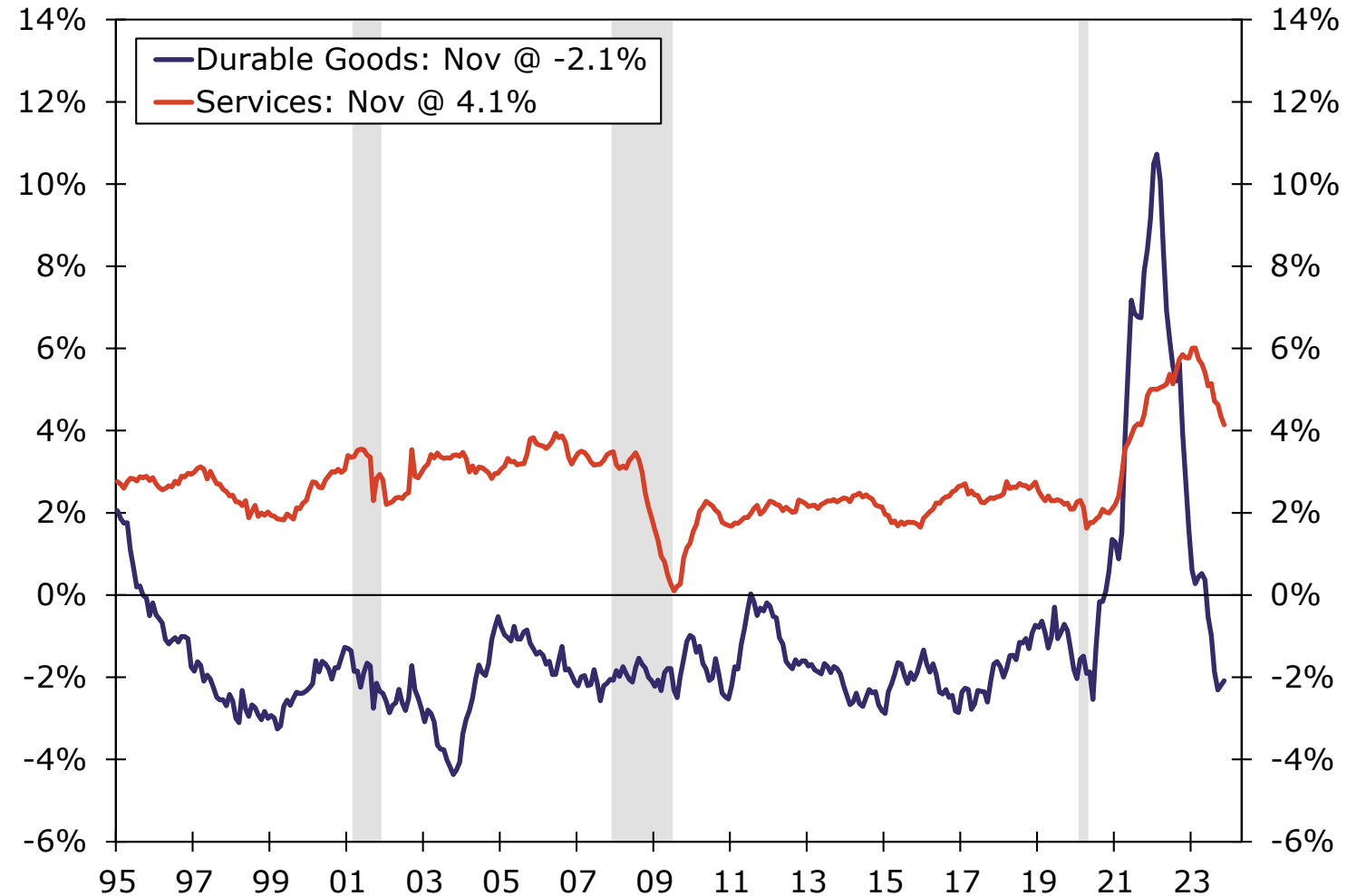
## Core PCE Deflator



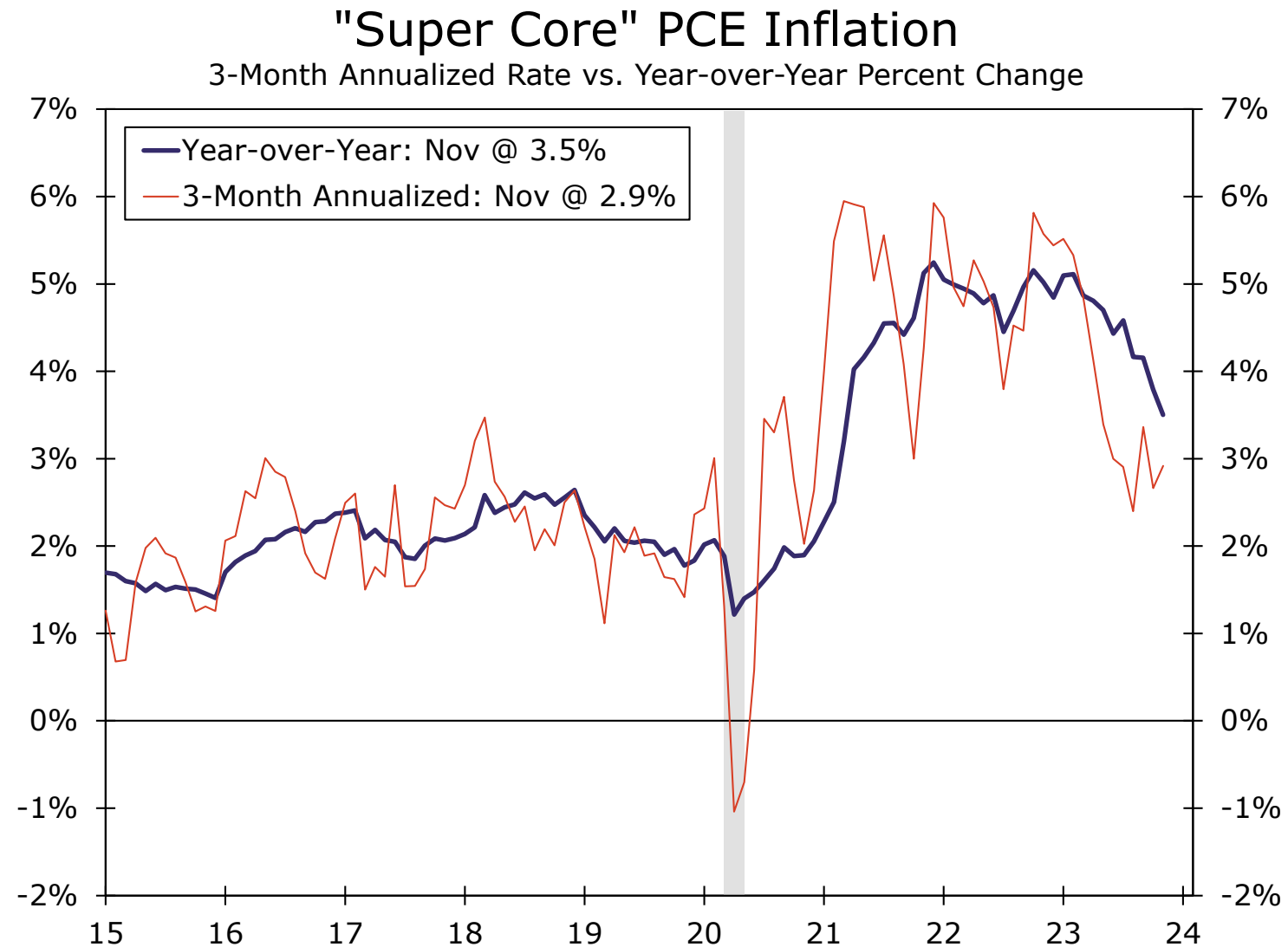
Goods inflation was the initial culprit.

## Durable Goods Inflation: Transitory?

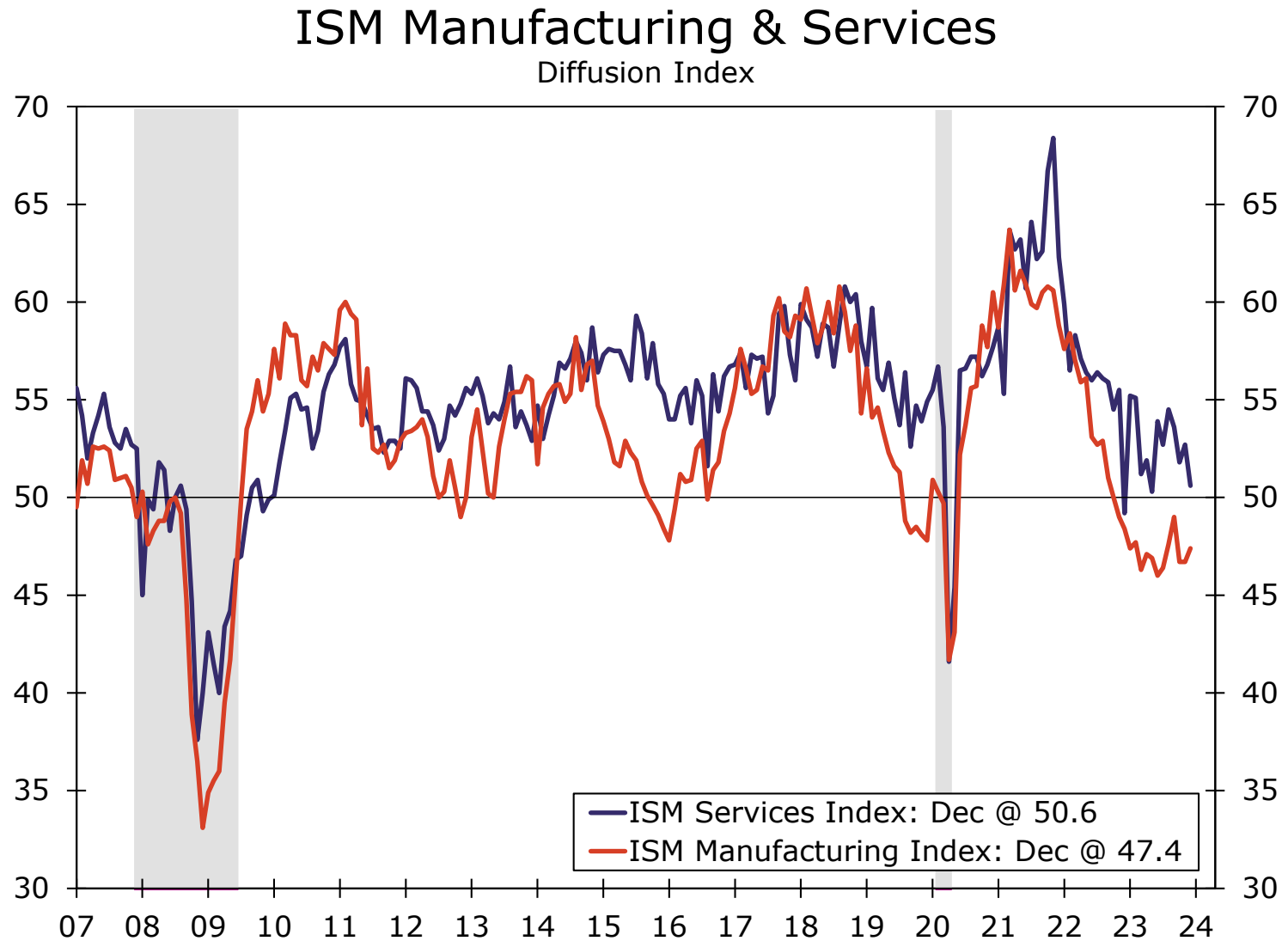
Seasonally Adjusted, Year-over-Year Percent Change



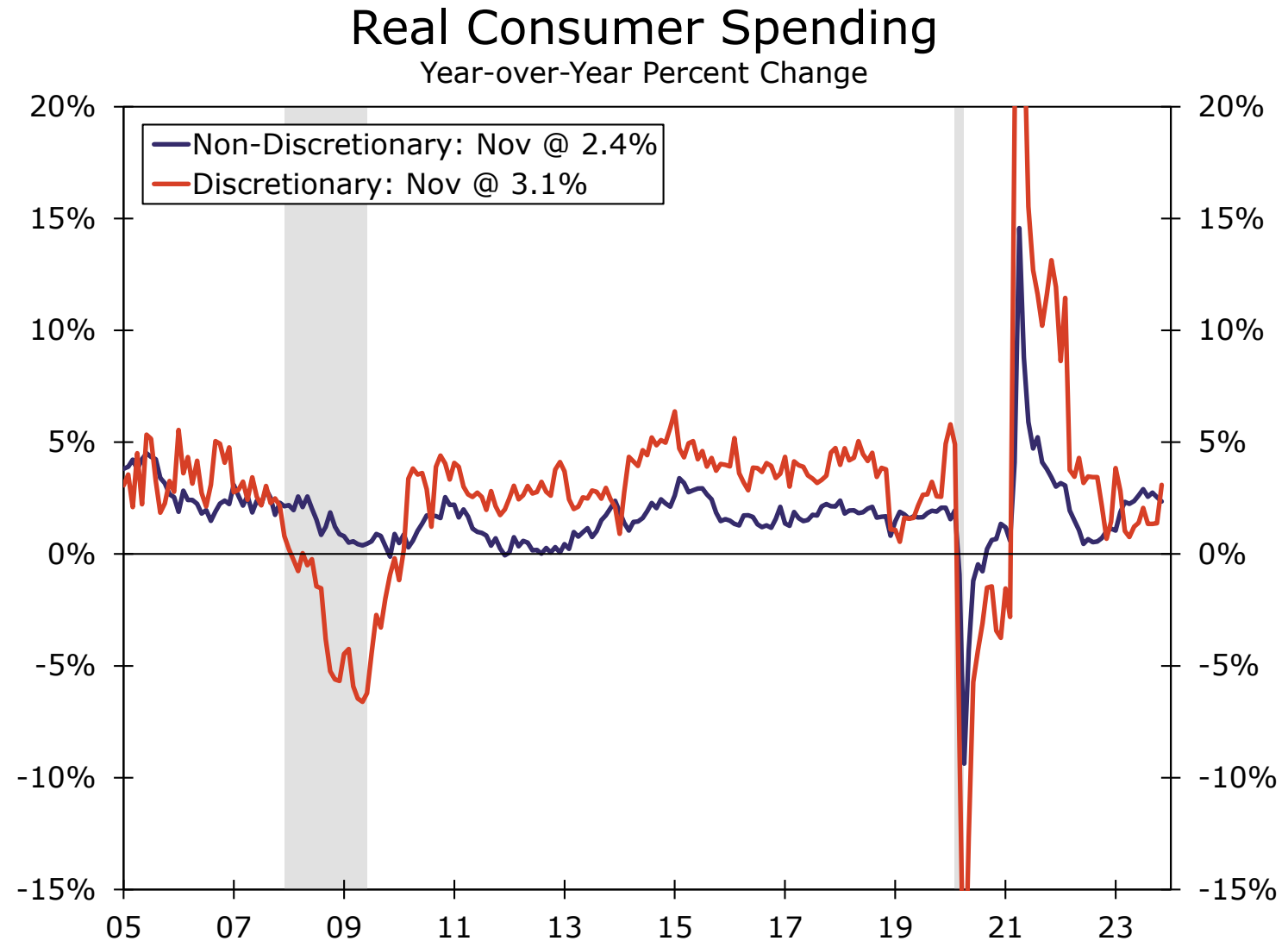
Core services ex-housing has yet to convincingly slow.



Perhaps that is because the fire is not out in terms of service sector activity.

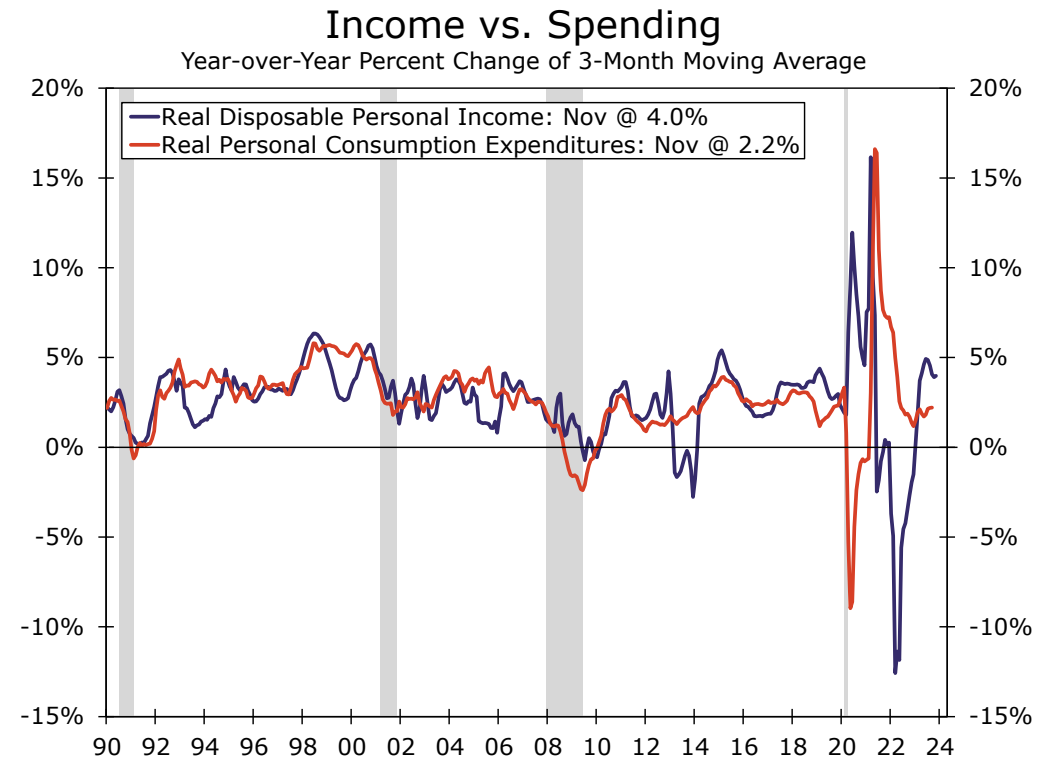
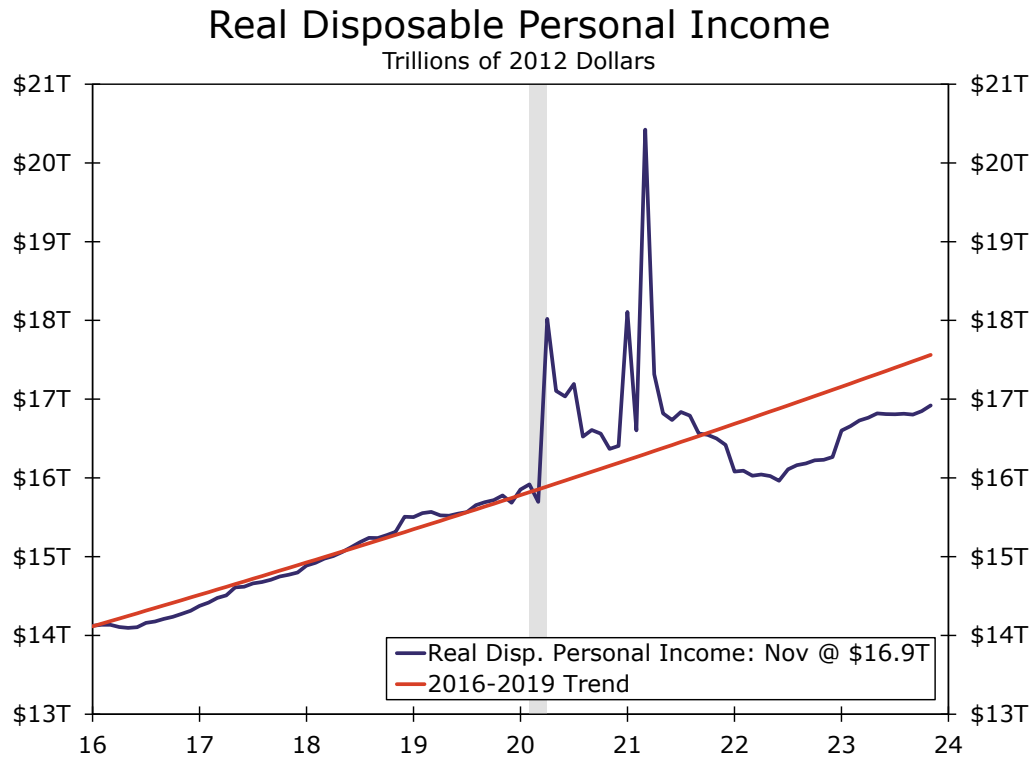


Consumers are still spending, yet outlays are increasingly being driven by non-discretionary purchases.

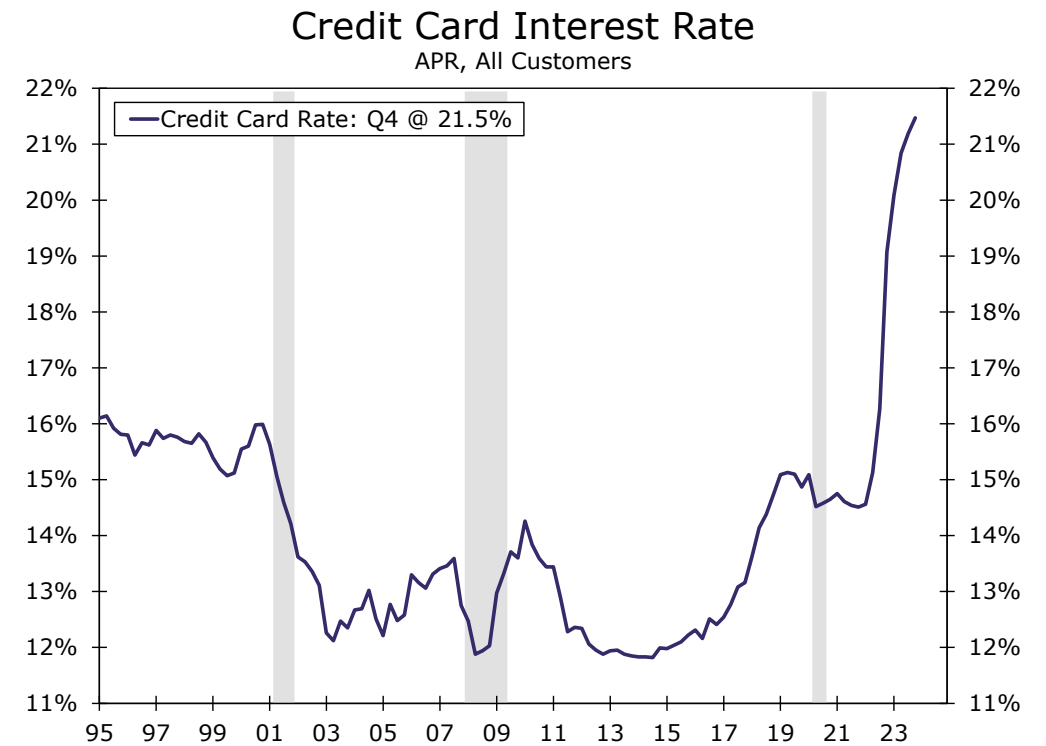
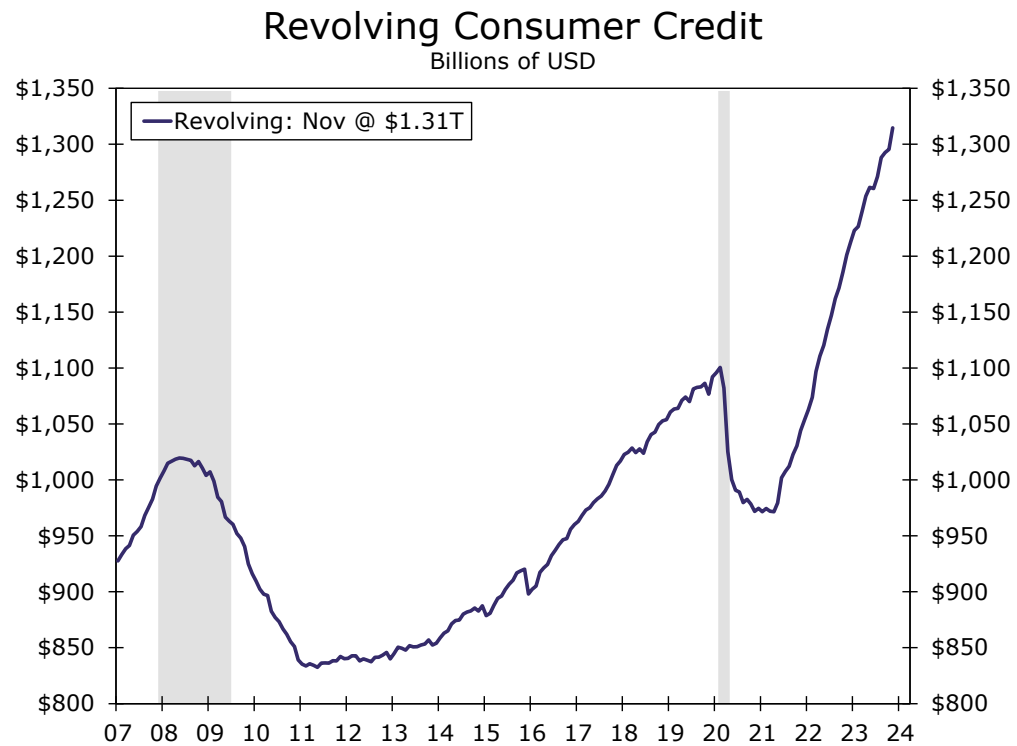




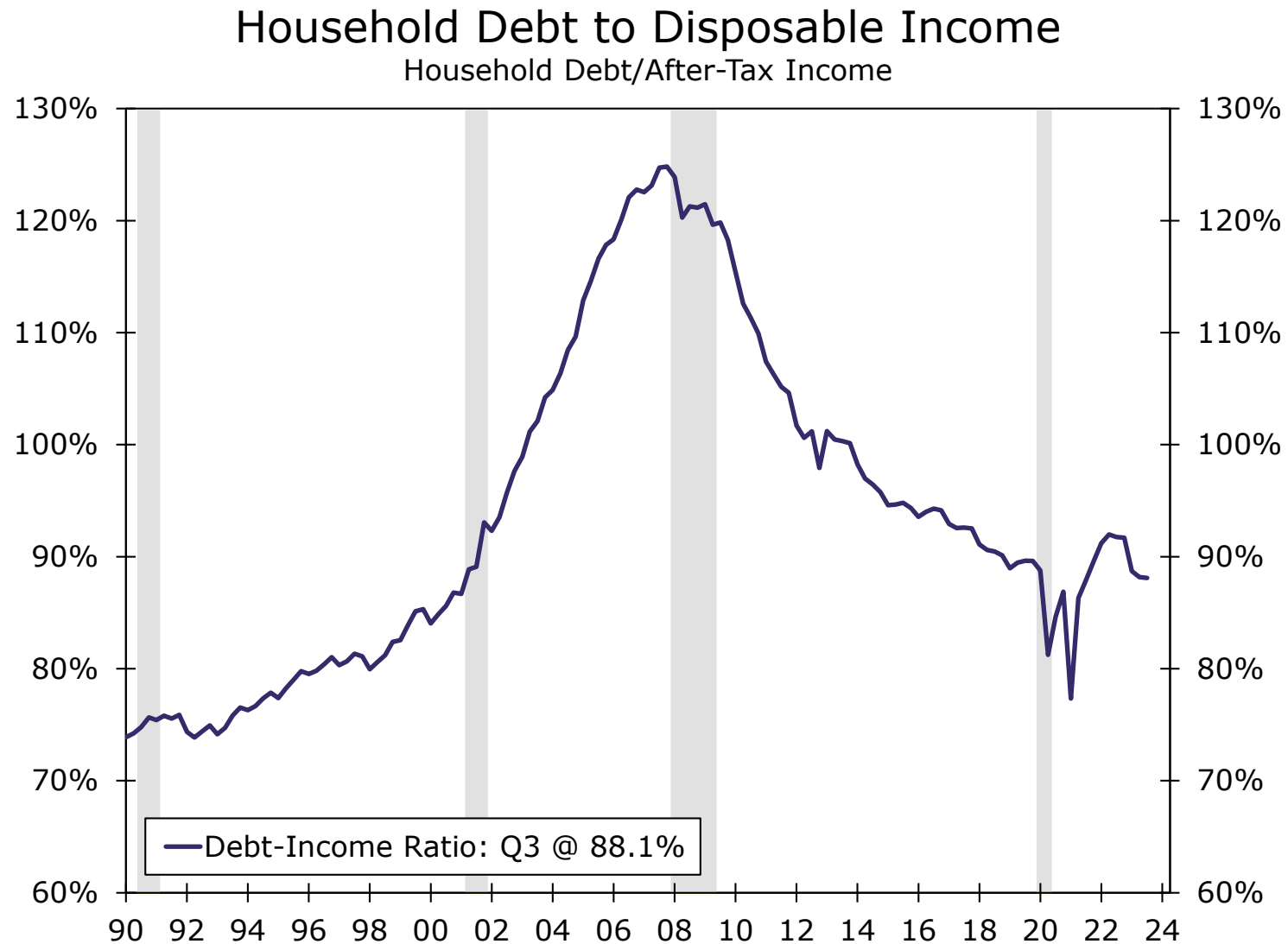
Real income is the last major driver for spending.



Five of the six biggest monthly increases in credit card borrowing in the last 20 years have occurred within the past two years. The average annual percentage rate (APR) on credit cards has shot higher and reached the highest rate (21%) in data going back to the mid-1990s in the fourth quarter.

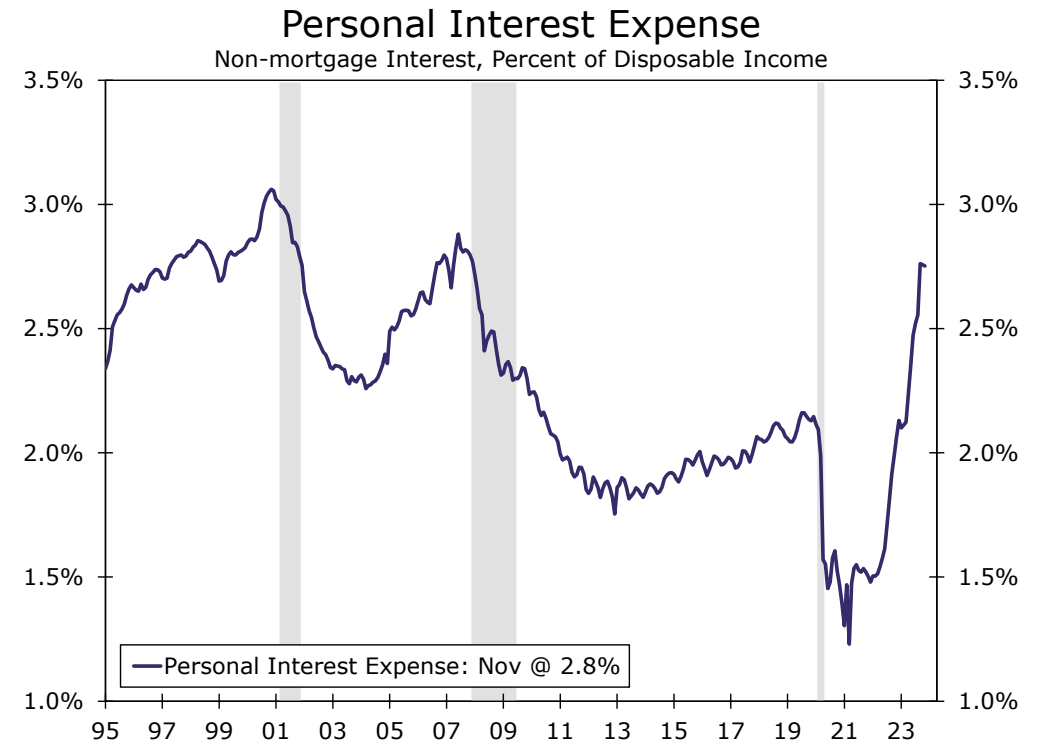
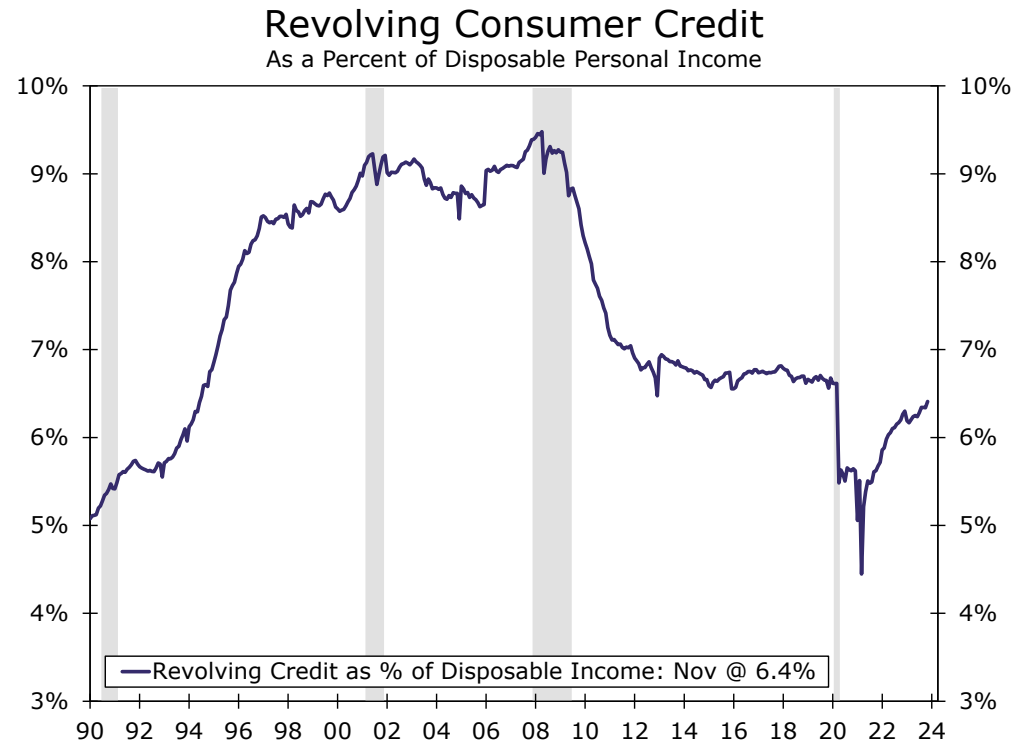


Aggregate debt-to-income ratio appears healthy, thanks to fixed-rate mortgages, the largest category.

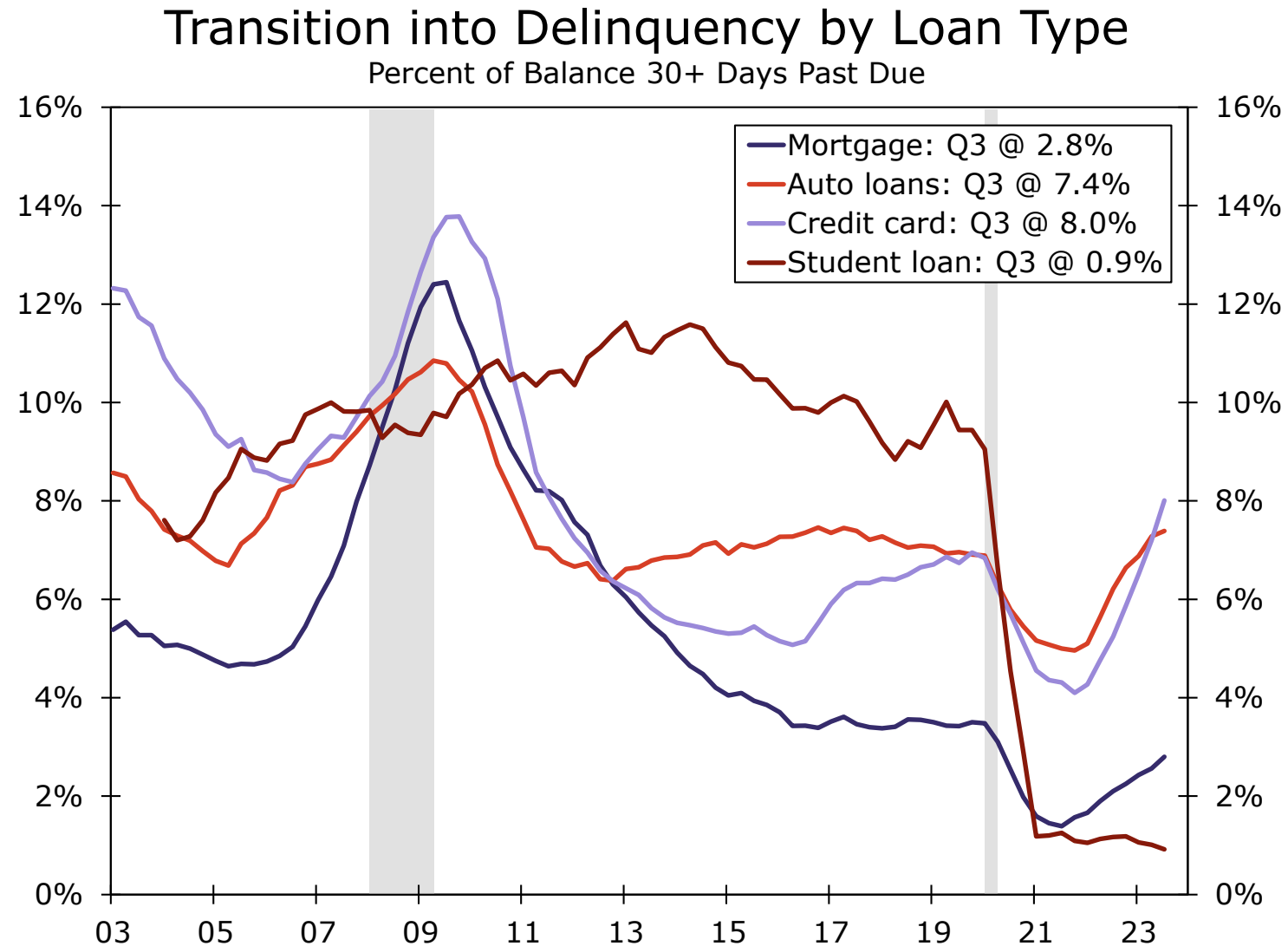


# Debt in Context of Rising Income

Even though credit card borrowing has been growing fast, so too has income.  
However, the cost of financing this debt is rising fast.

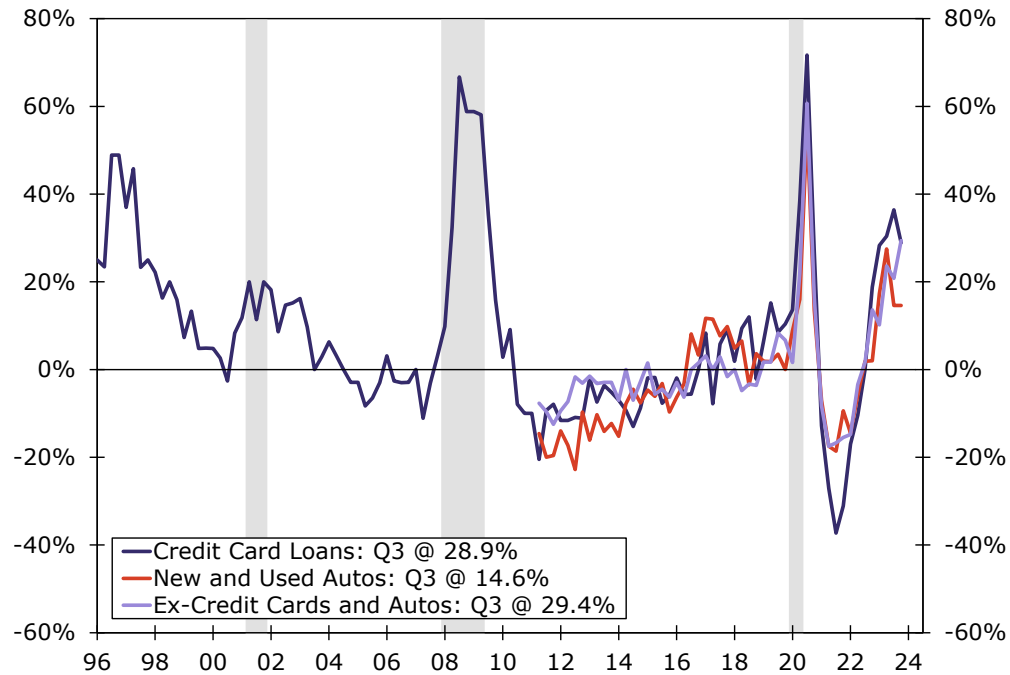


Most households are staying current on their mortgage but are struggling with their consumer loans.



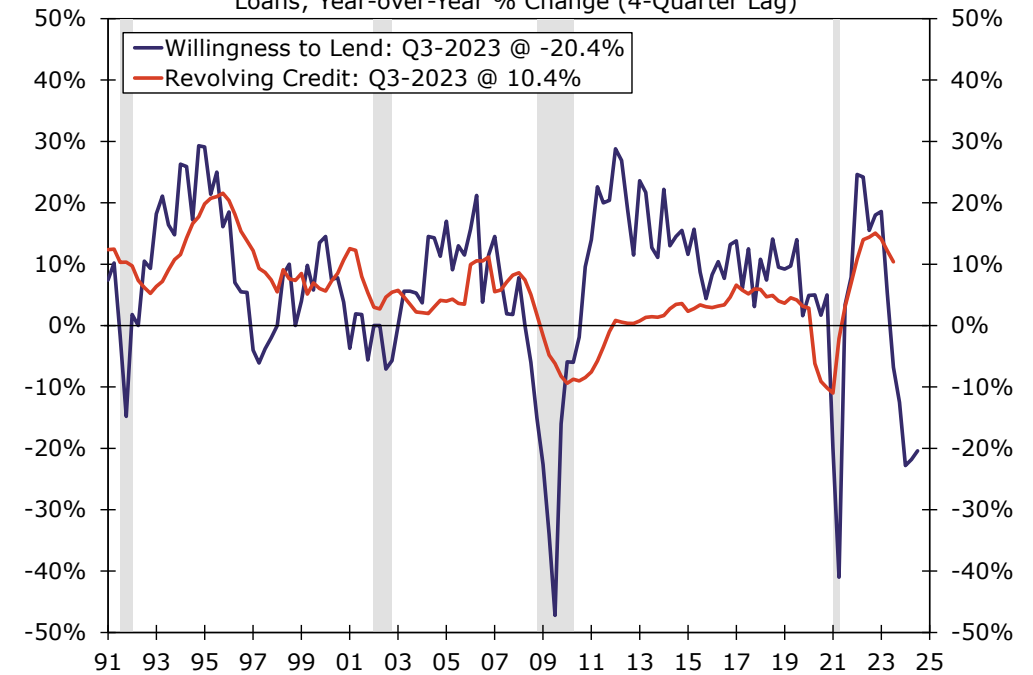
It's not only more expensive to borrow, but also more difficult to gain access to consumer credit.

### Net Percent of Banks Tightening Standards On Consumer Loans



### Banks Willingness to Lend vs. Revolving Credit

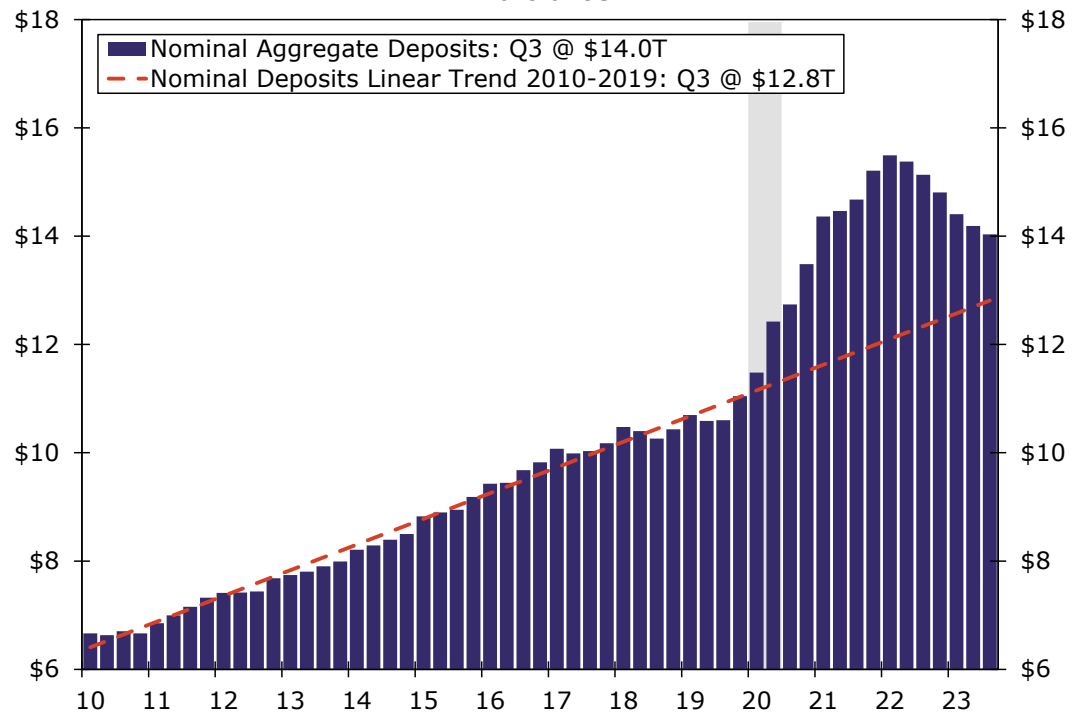
Net % of Banks Reporting Increased Willingness to Make Consumer Loans; Year-over-Year % Change (4-Quarter Lag)



Pandemic-era savings are dwindling. Remaining “excess savings” are skewed toward wealthier households.

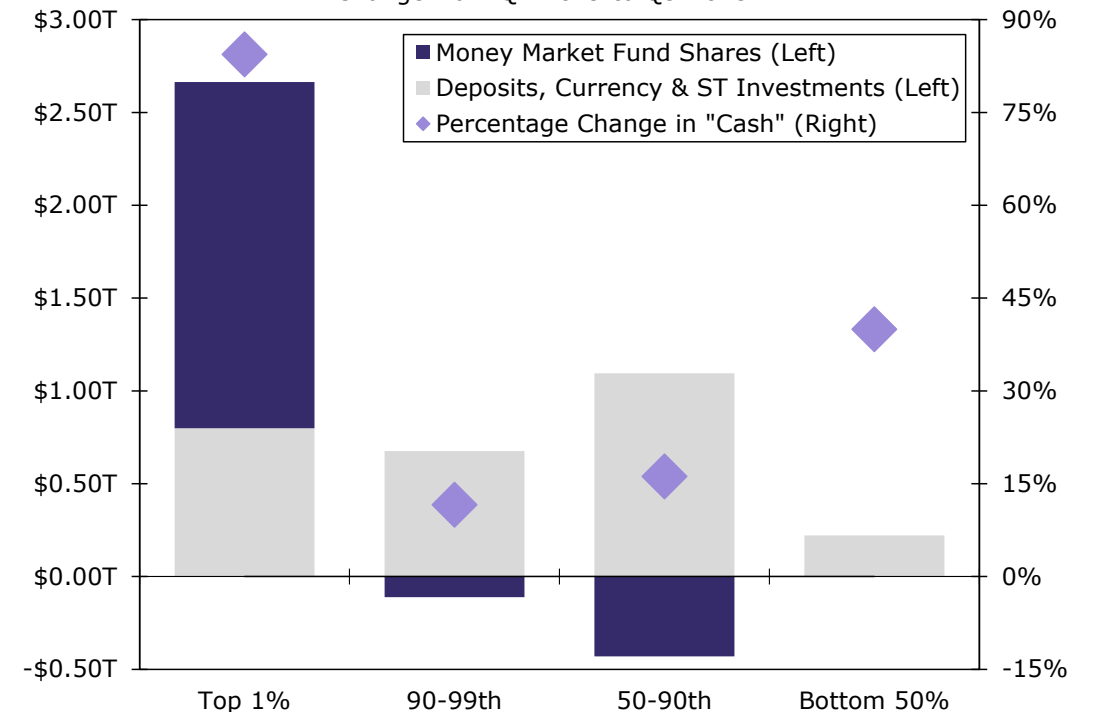
## Household Checking and Savings Deposits

Trillions of USD



## Gain in "Cash" Assets by Wealth Cohort

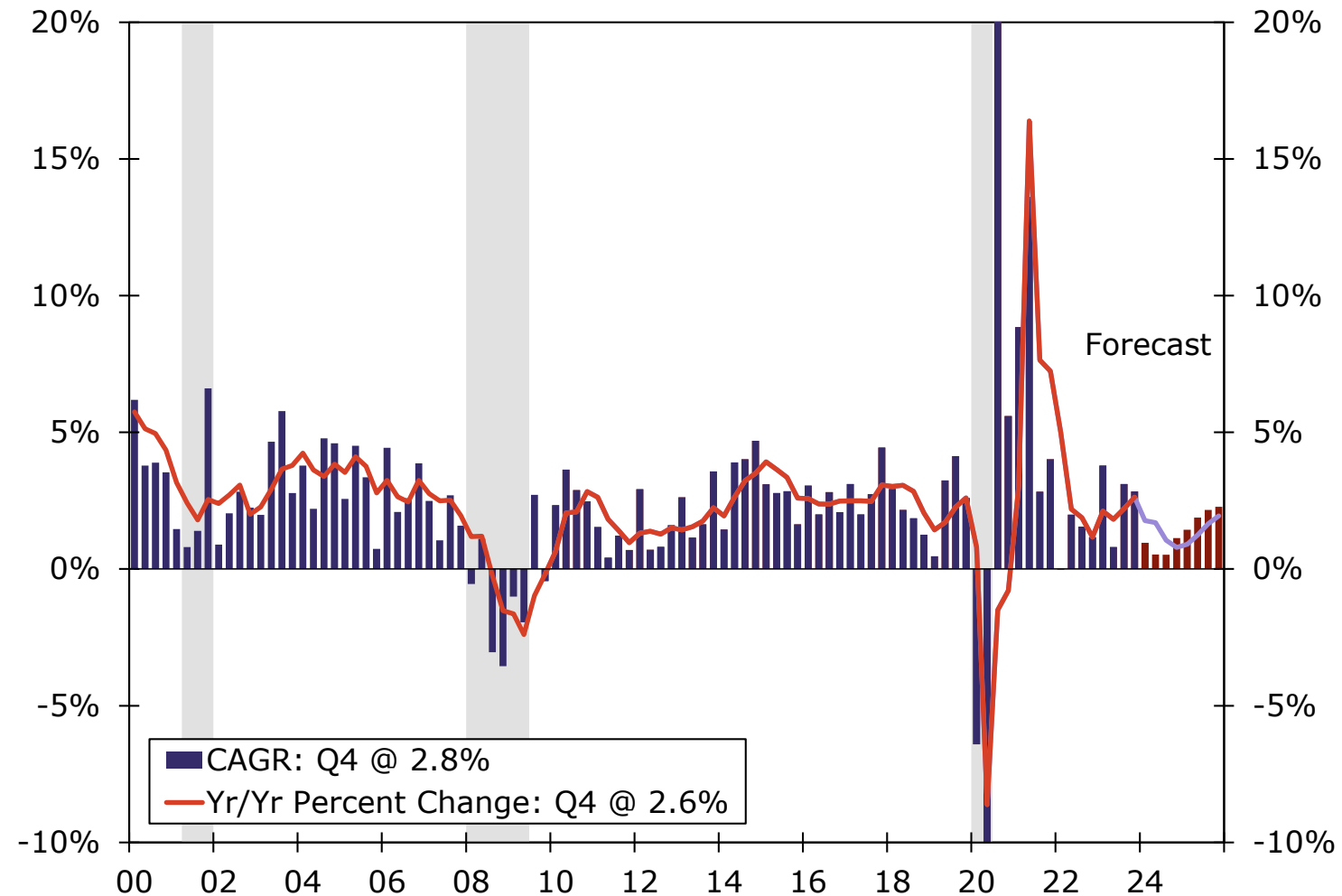
Change from Q4-2019 to Q3-2023



We remain cautious on the trajectory for spending.

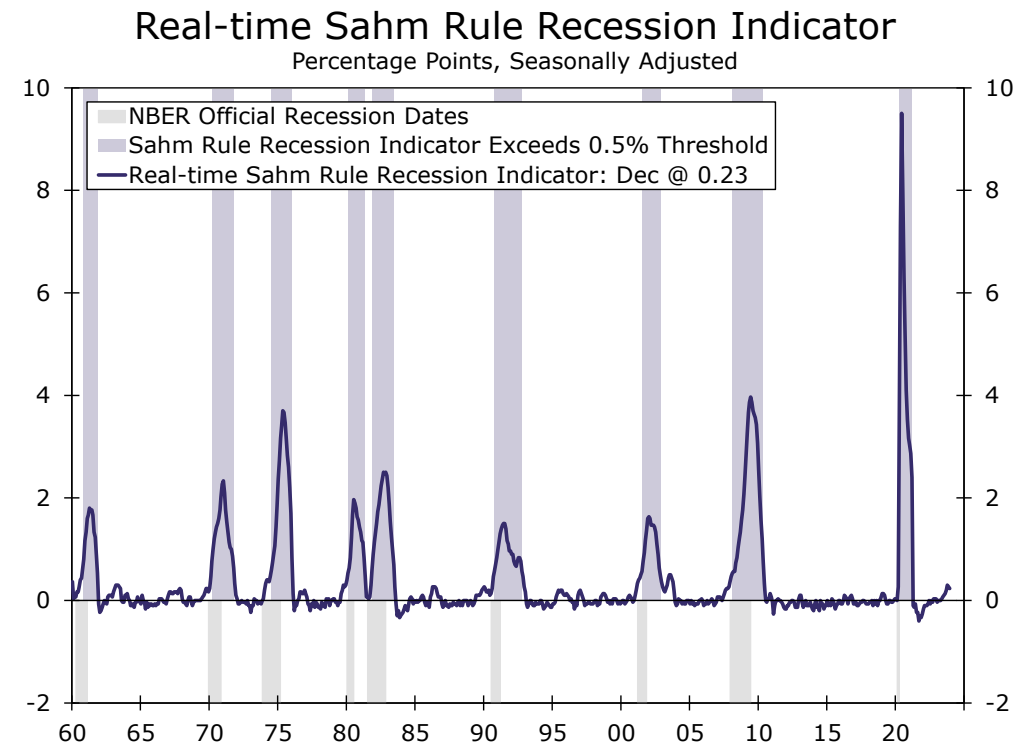
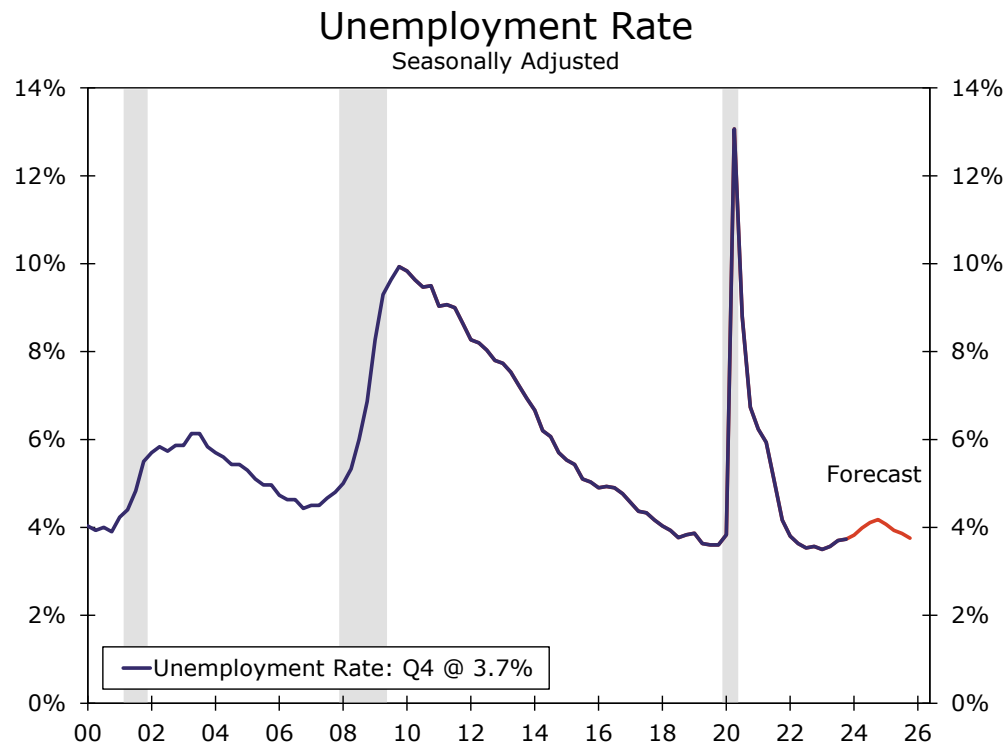
While consumers are not going into hiding, we may have seen the last of the all-go, no-quit, pay-any-price consumer.

## Real Personal Consumption Expenditures





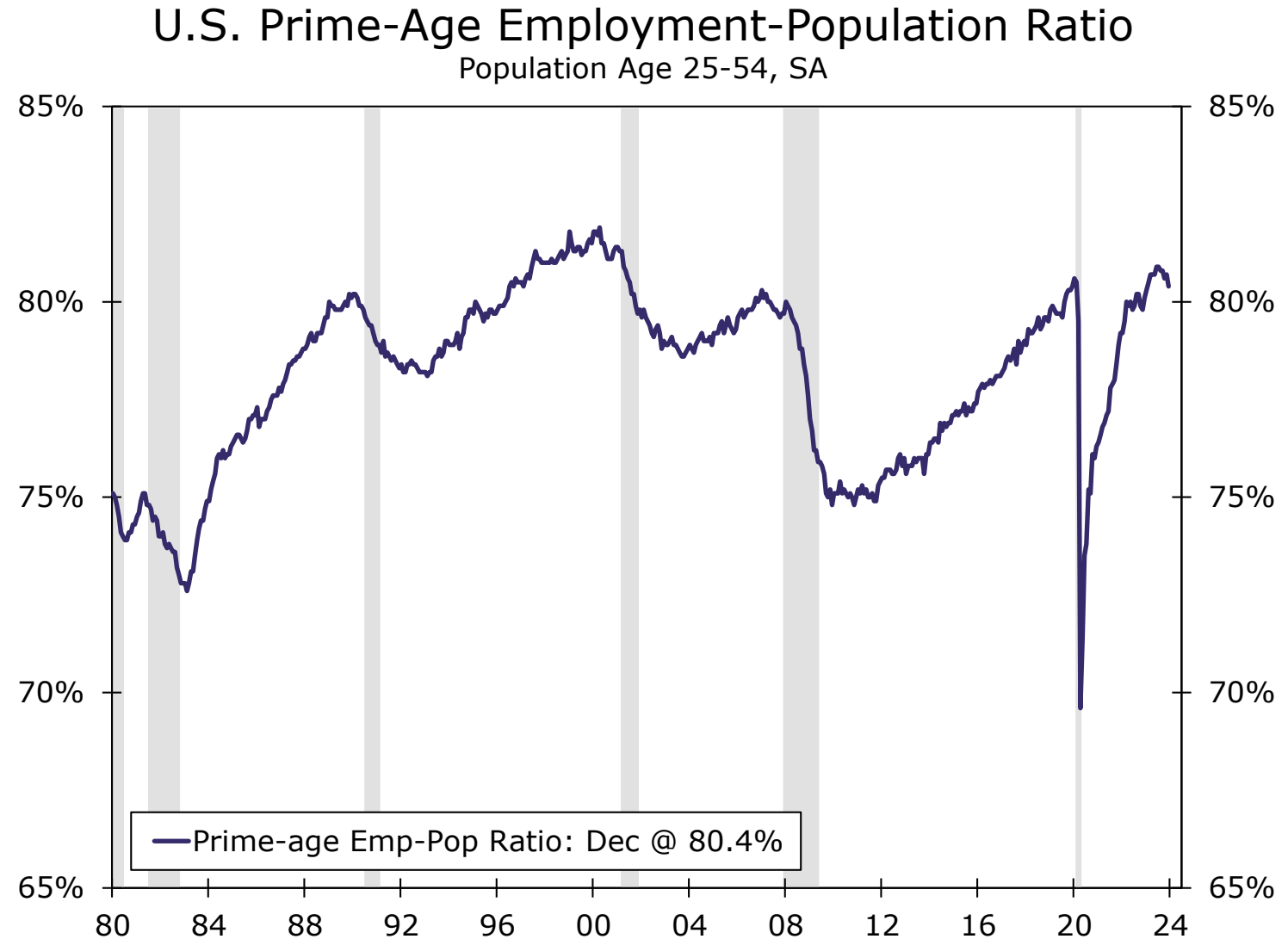
With income as the primary driver of consumer spending, a rising unemployment rate spells trouble  
...as it has in every cycle of the past 80+ years.



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The employment rate among 25–54 year-olds is near an all-time high.

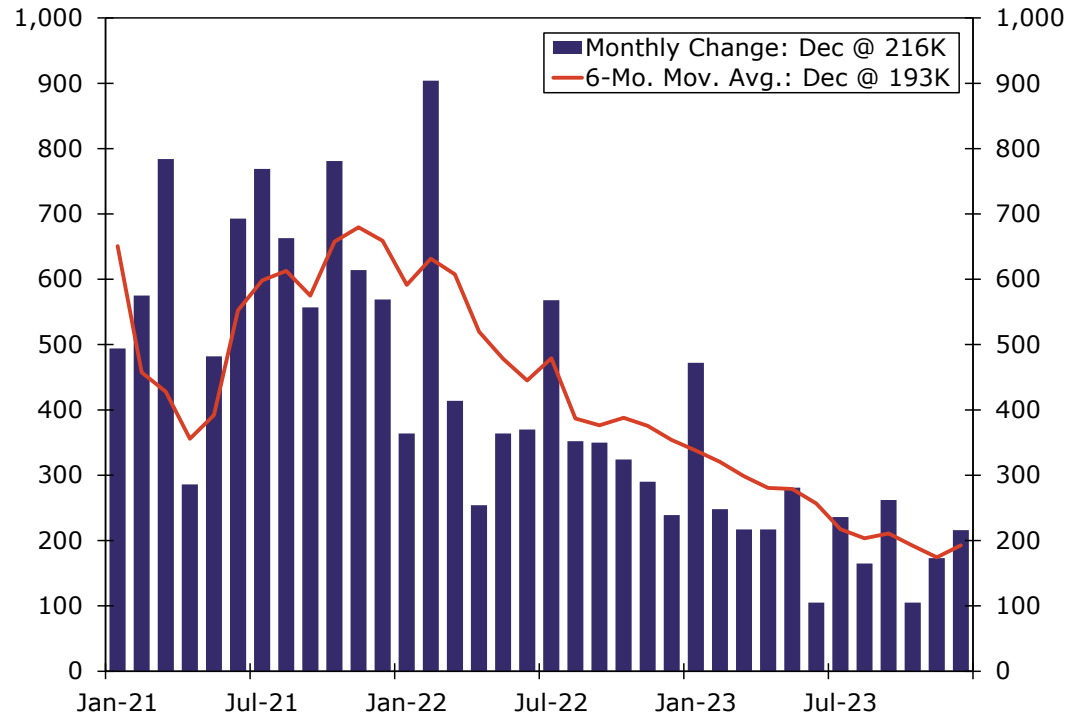
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Hiring has cooled in an orderly fashion thus far

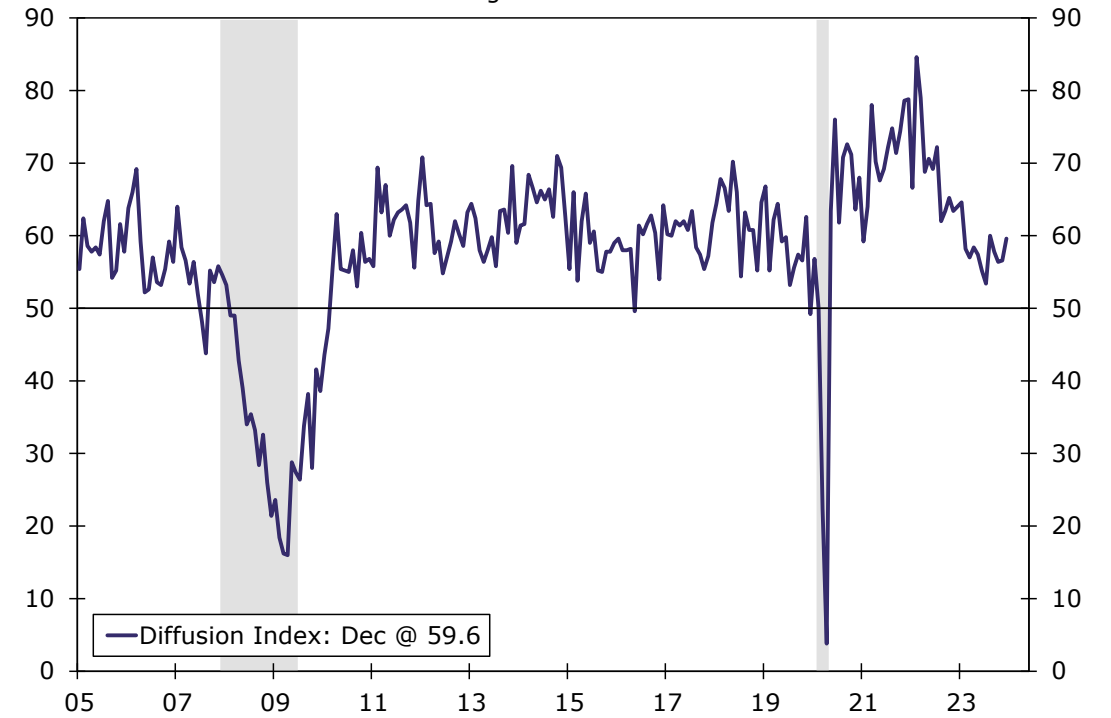
### U.S. Nonfarm Employment Change

Thousands

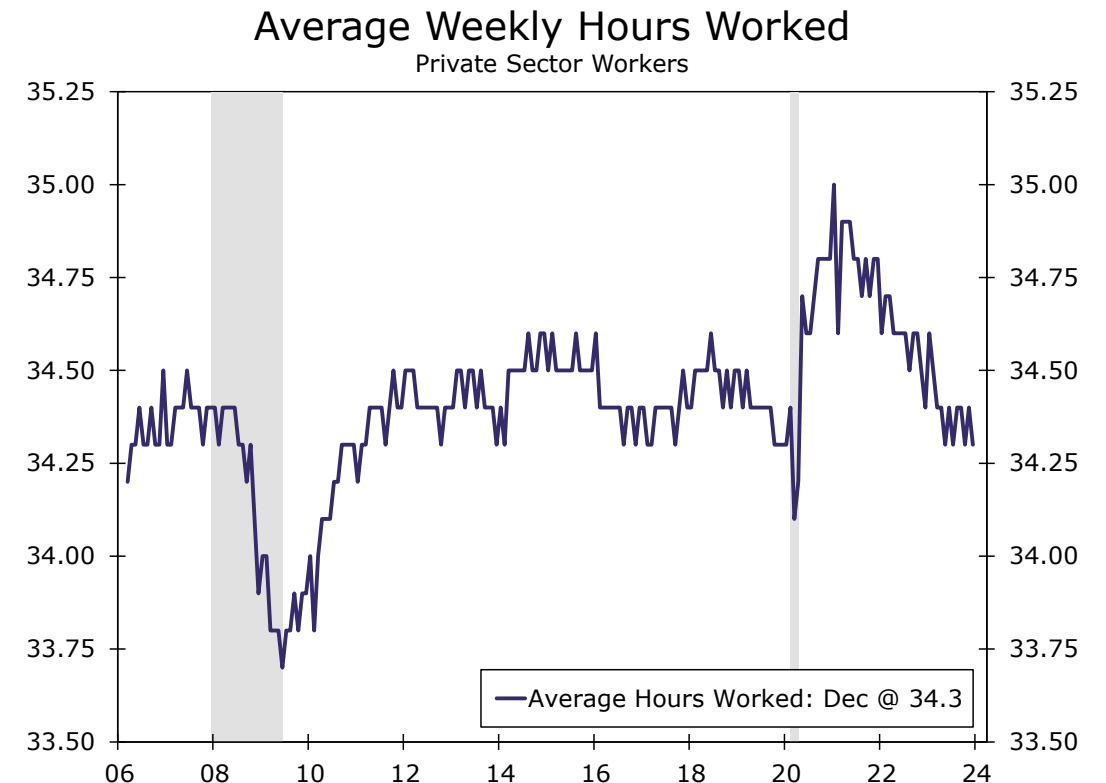
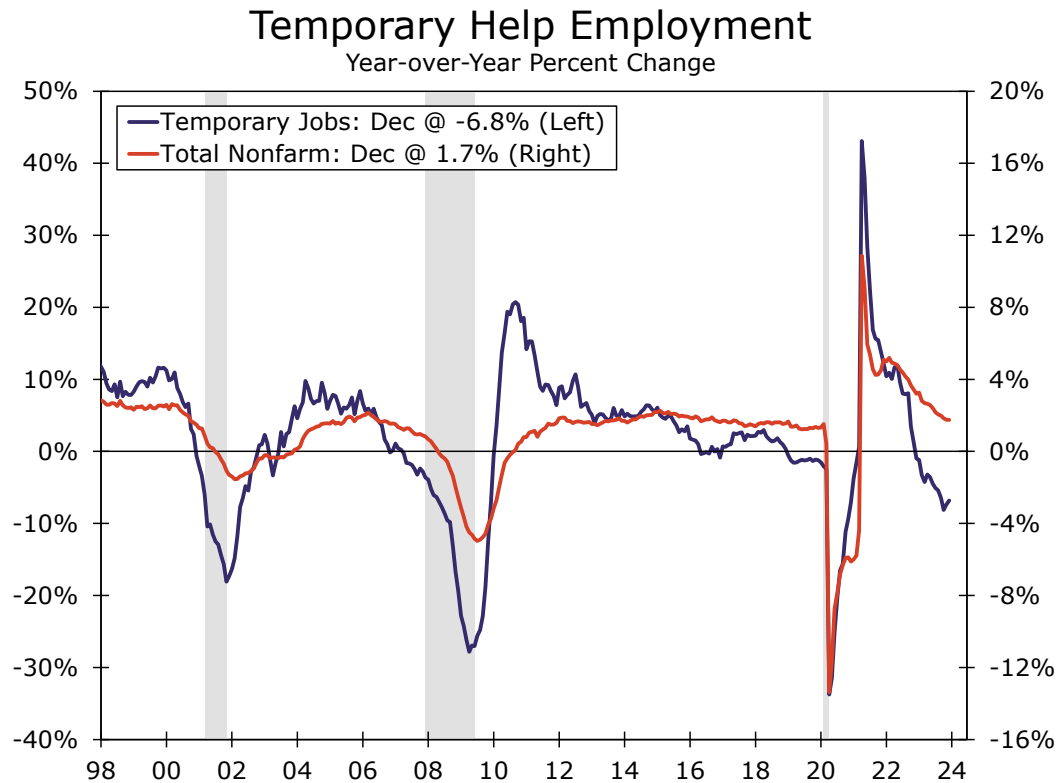


### Diffusion Index

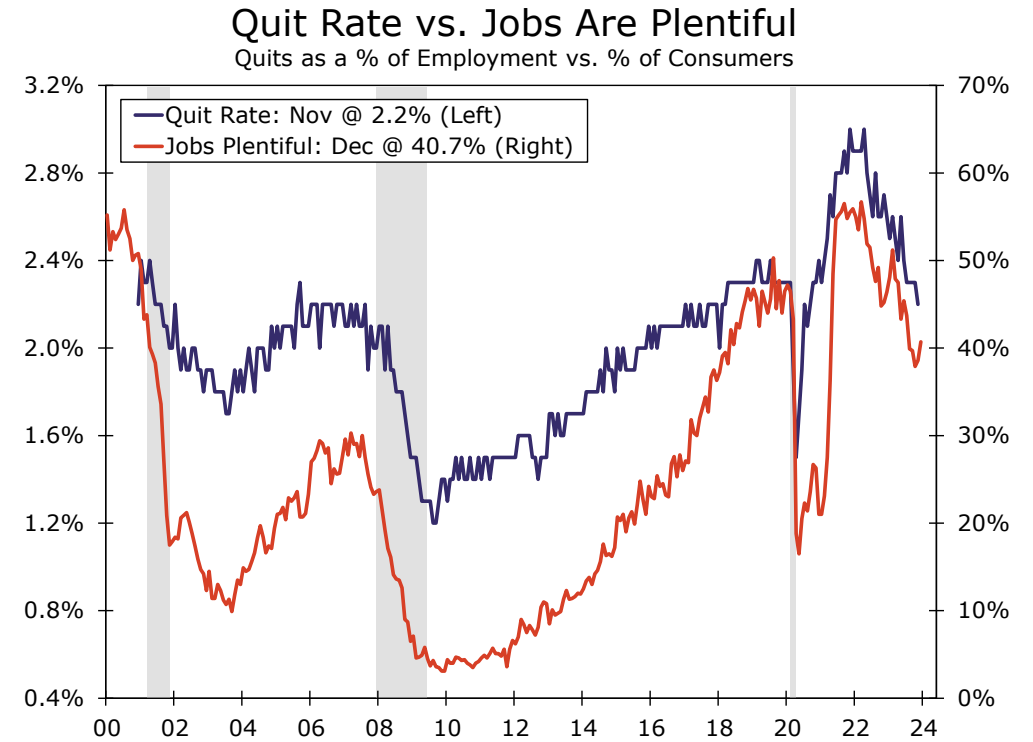
Industries Adding Jobs Over the Past Month



Just because jobs growth has slowed in an orderly fashion does not prevent a bigger downturn from taking hold.

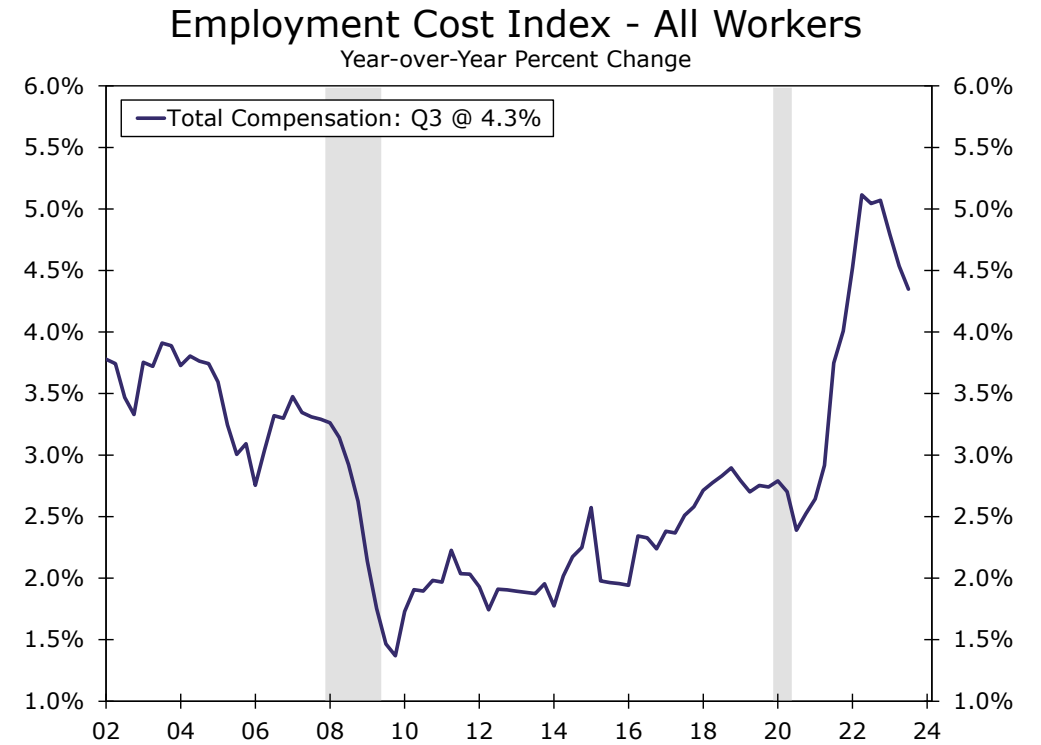
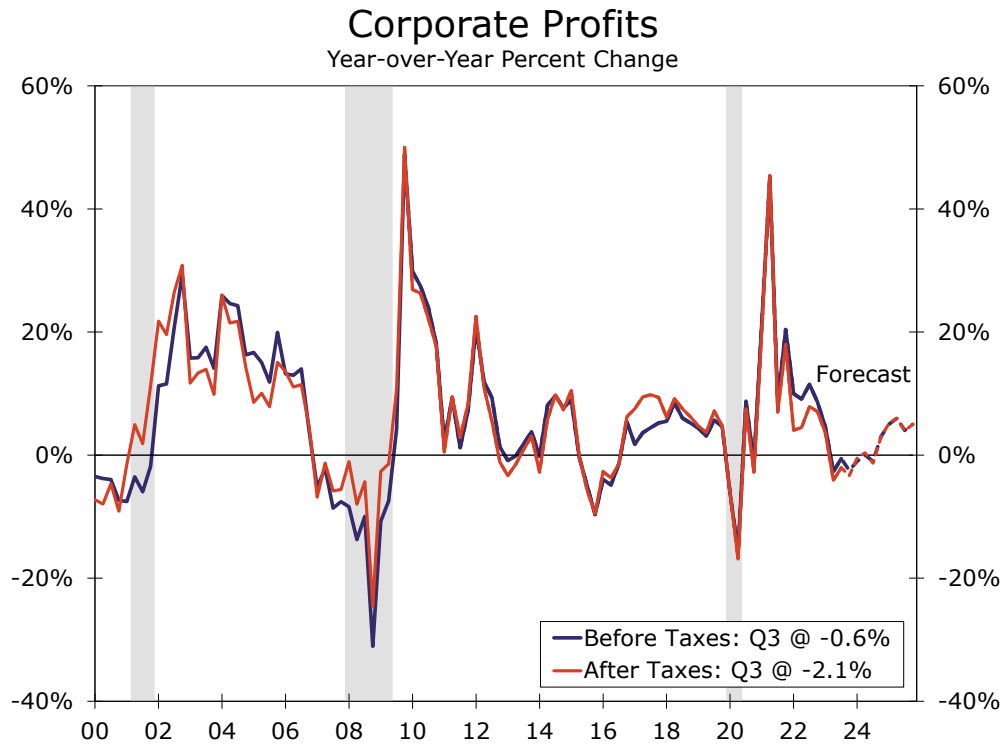


Multiple leading indicators of the labor market have rolled over.  
Quits are back to pre-pandemic rates.



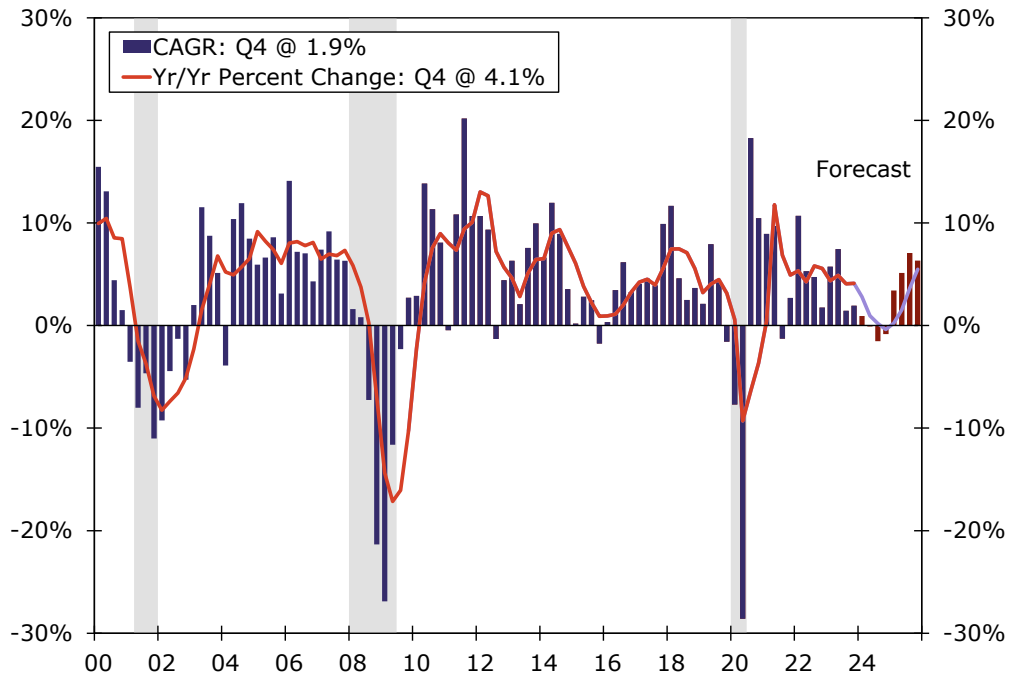
# Profits Margin Squeeze

Corporate profit margins are at risk of a squeeze with slowing demand particularly if wages remain sticky and high.

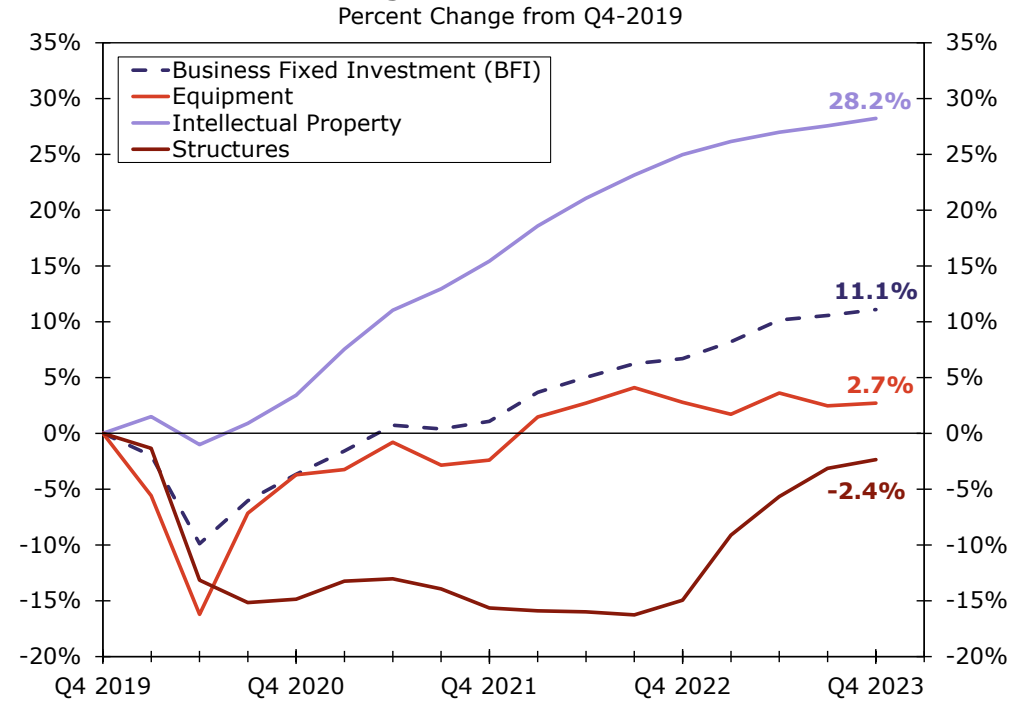


Declining corporate profits provide less scope for businesses to fund investments internally. We expect the ongoing squeeze on credit and profits to lead to a contraction in business fixed investment as the year progresses.

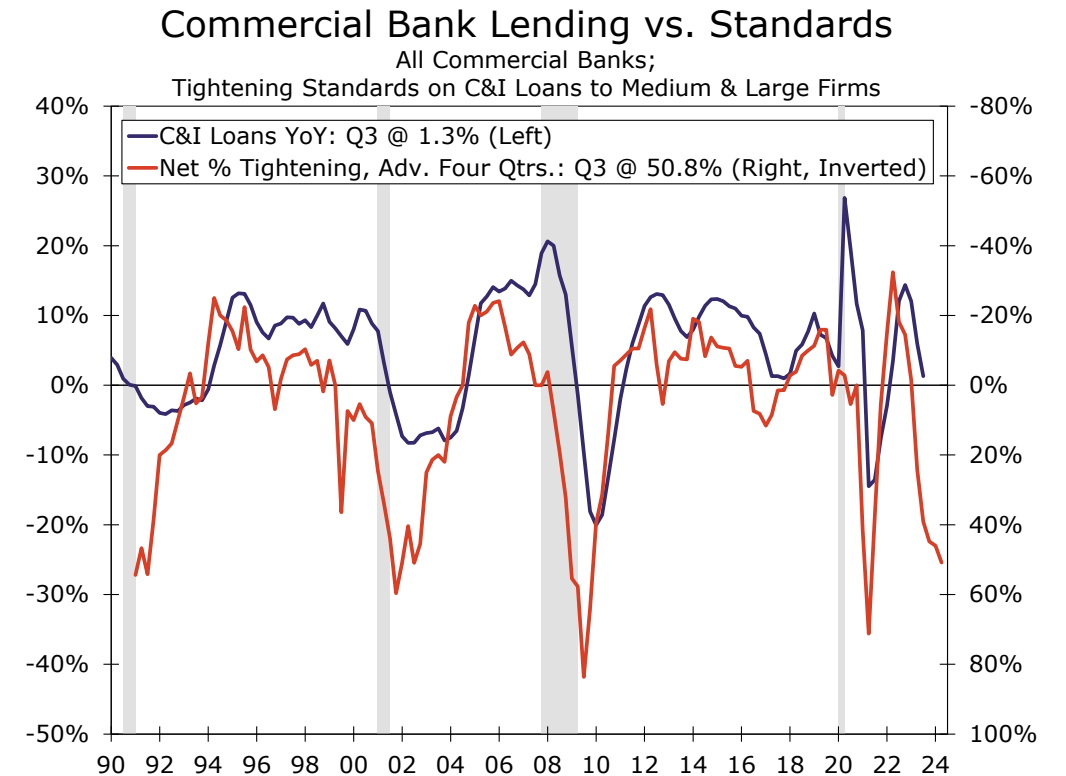
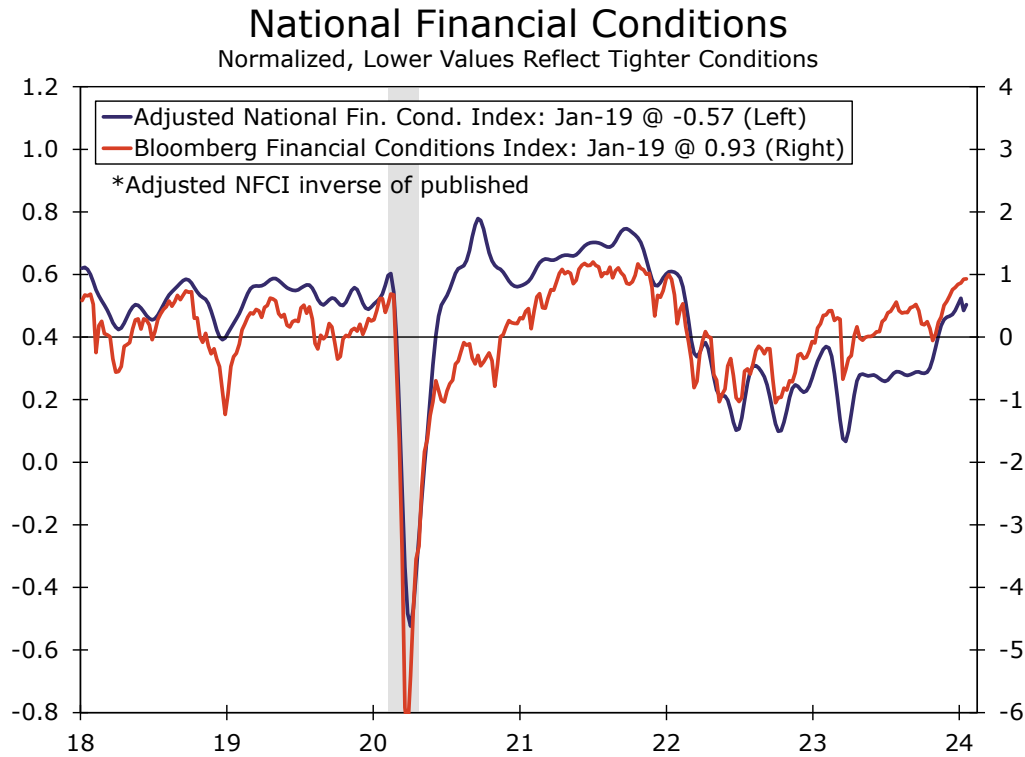
## Real Business Fixed Investment



## Real BFI Change from Pre-Pandemic Level



Financial conditions have tightened, and commercial lending is slowing.

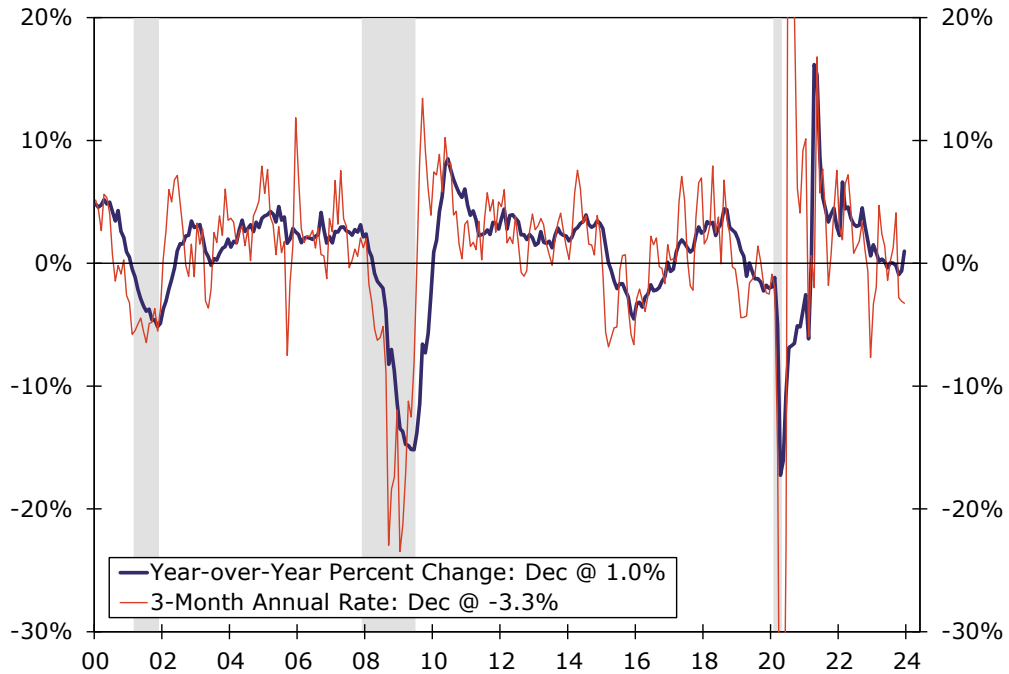




The U.S. industrial sector remains under pressure, and while the reprieve in manufacturing activity recently is good news to producers, we don't expect this is a start of renewed strength for the space.

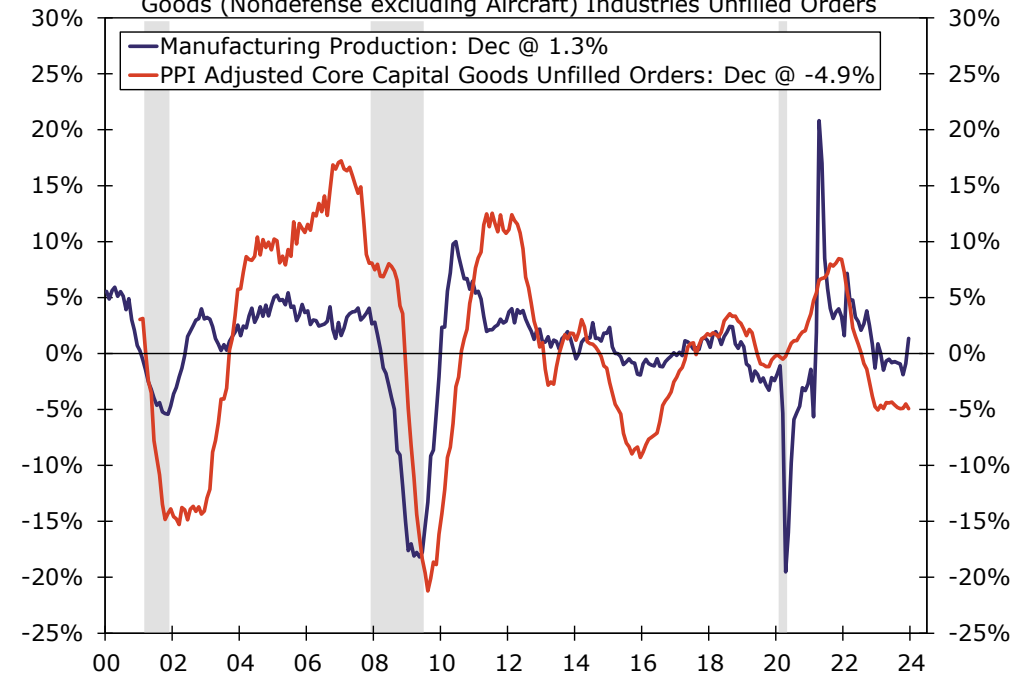
### Total Industrial Production Growth

Output Growth by Volume



### Manufacturers' Production vs. Backlog

YoY Percent Change; Manufacturing Production vs. Core Capital Goods (Nondefense excluding Aircraft) Industries Unfilled Orders

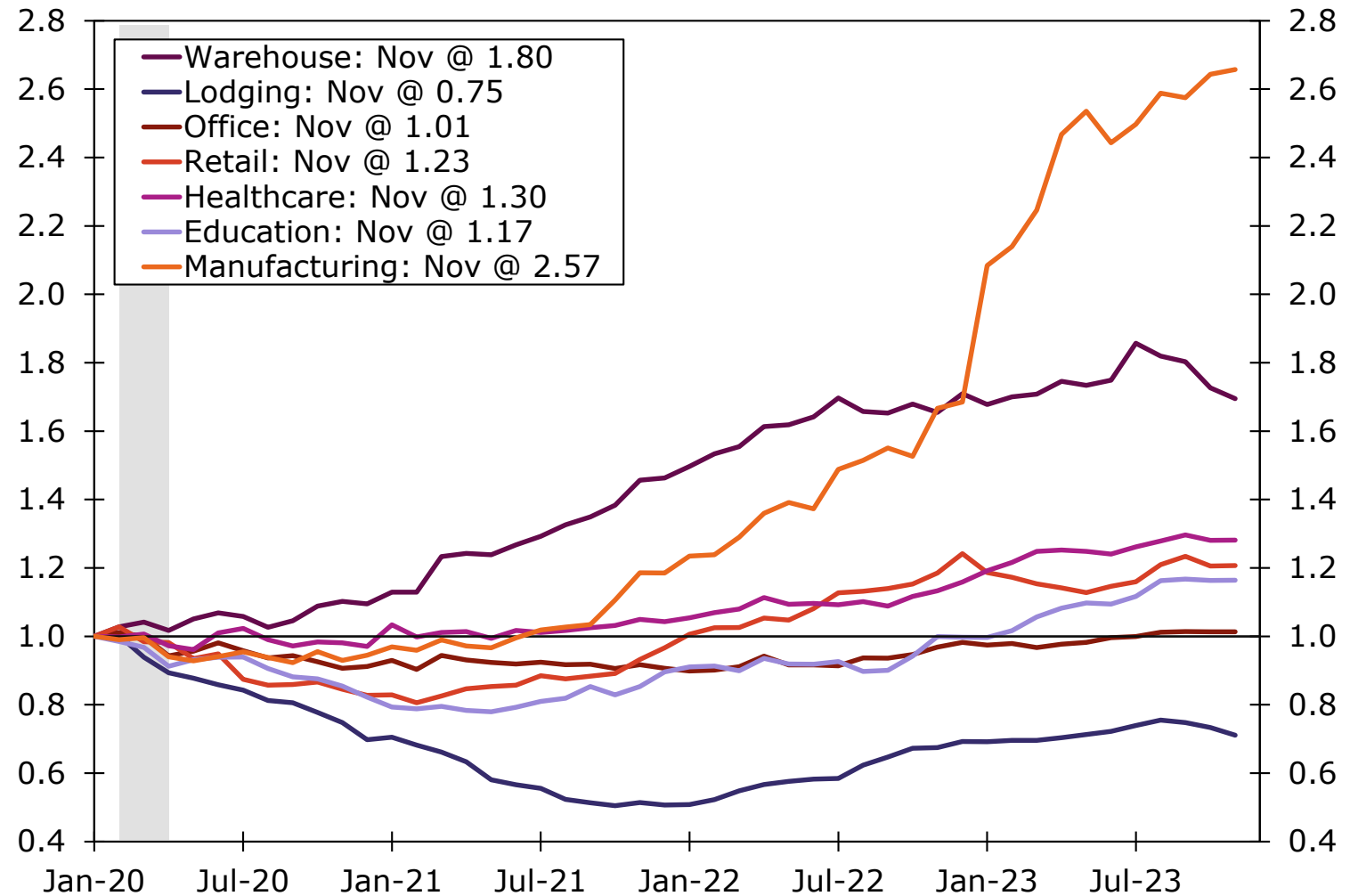


# Nonresidential Construction

Since the start of the pandemic, manufacturing and warehouse construction have seen the largest booms out of all categories.

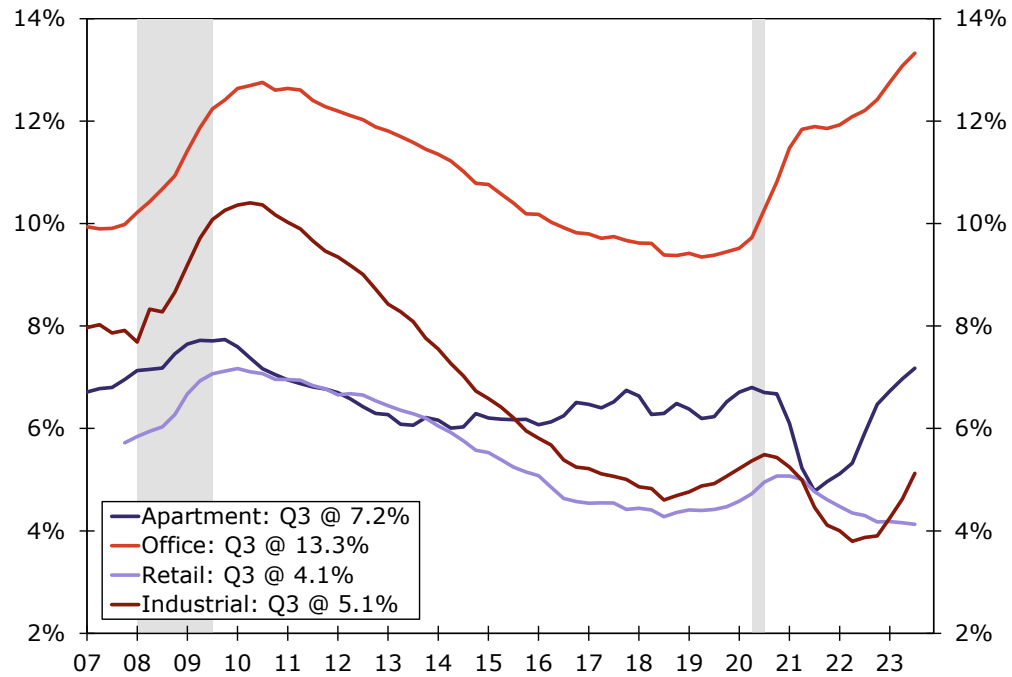
## Private Nonresidential Construction Spending

By Category; Index, January 2020 = 1



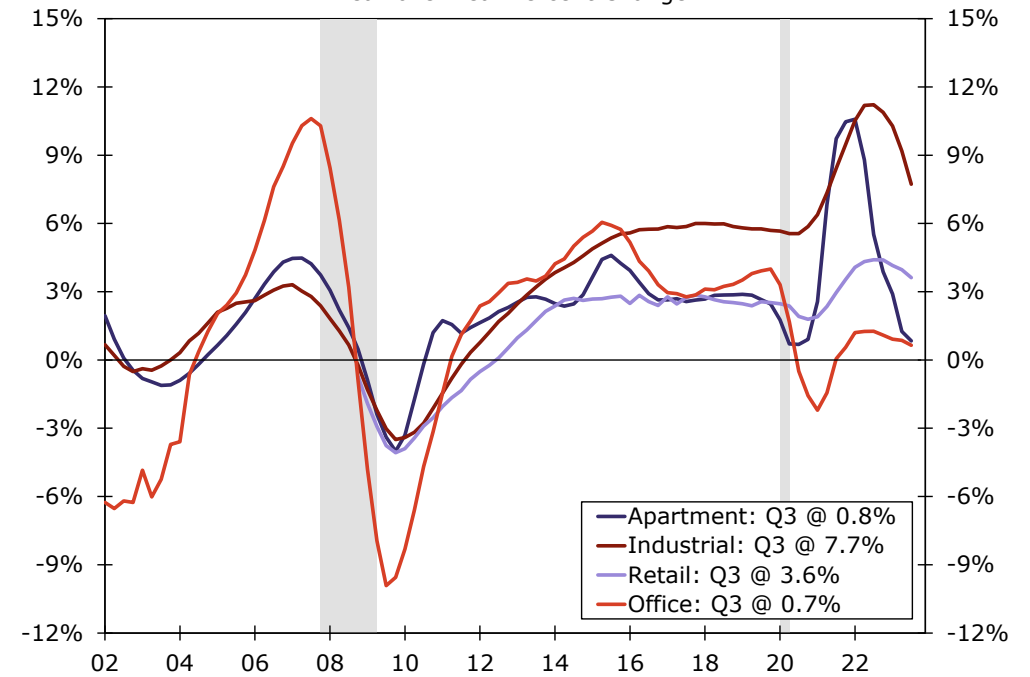
CRE fundamentals conditions continue to soften, with vacancy rates holding steady or rising and rent growth decelerating.

### CRE Vacancy Rates



### CRE Asking Rents

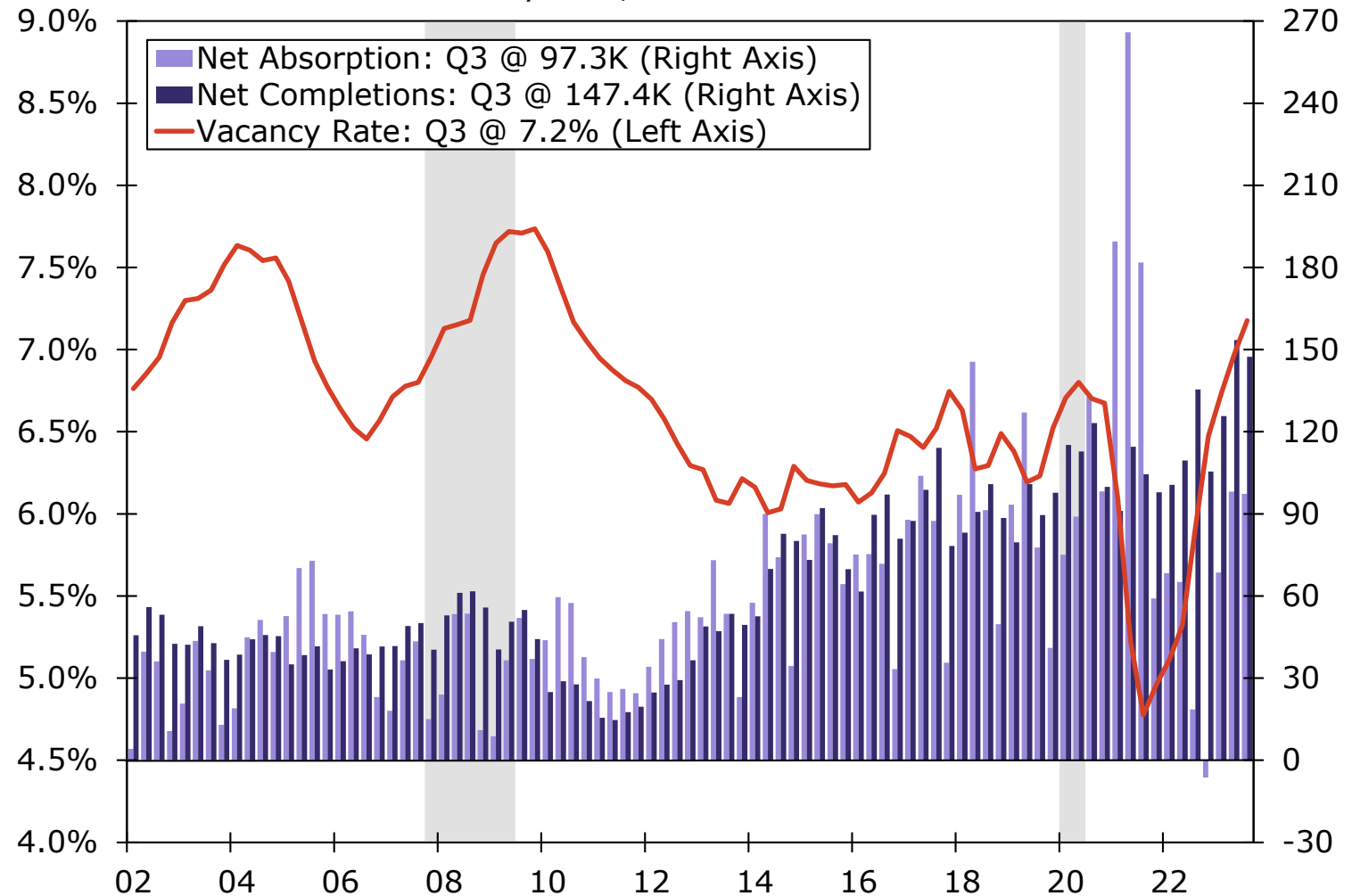
Year-over-Year Percent Change



Nearly one million apartment units were under construction in September, near a 54-year high. The robust construction pipeline is increasingly turning into newly delivered supply and putting upward pressure on vacancies.

## Apartment Supply & Demand

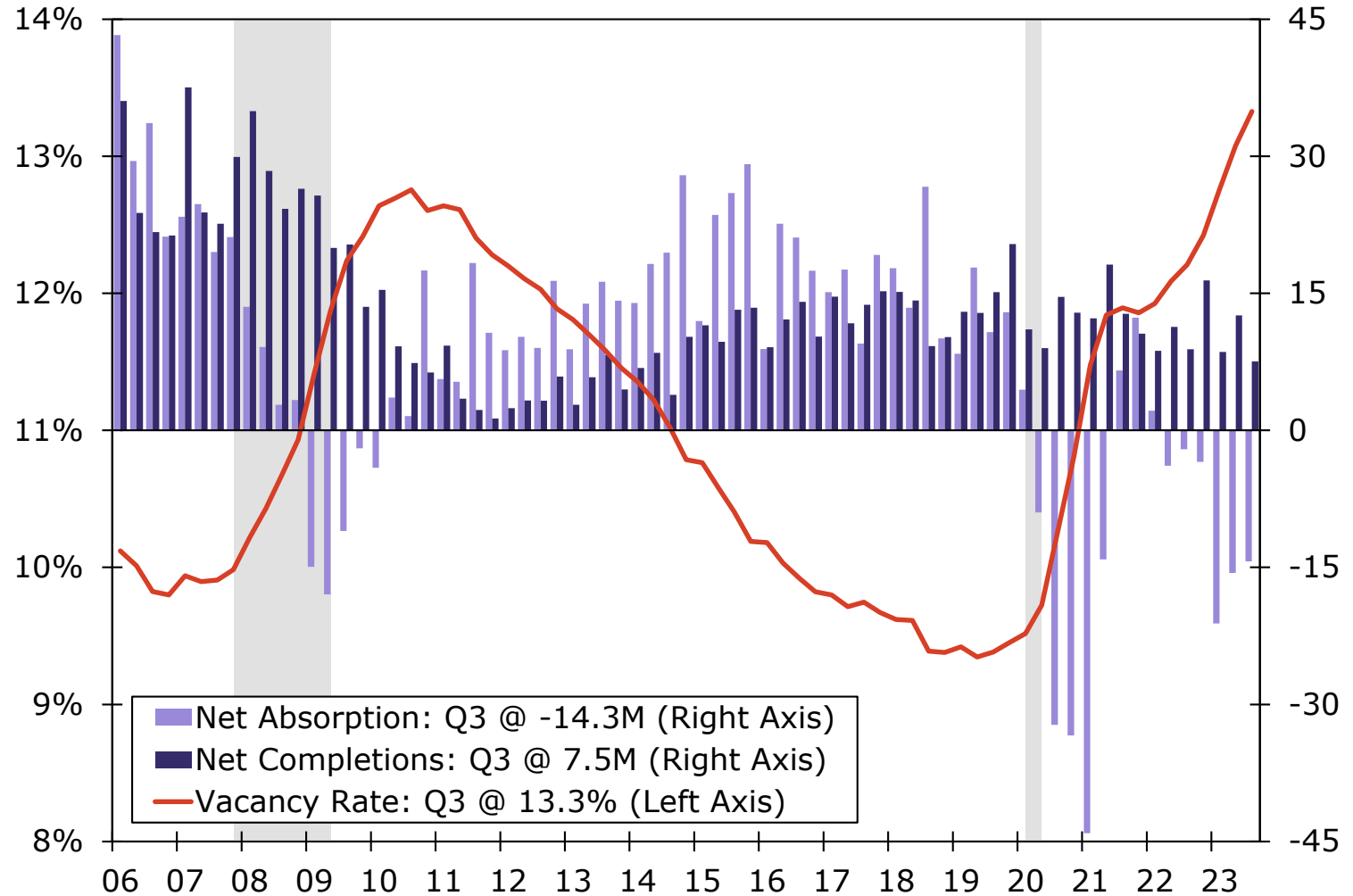
Vacancy Rate; Thousands of Units



Firms now appear to be recalibrating their need for office space, which is apt to keep pressure on the office market for some time.

## Office Supply & Demand

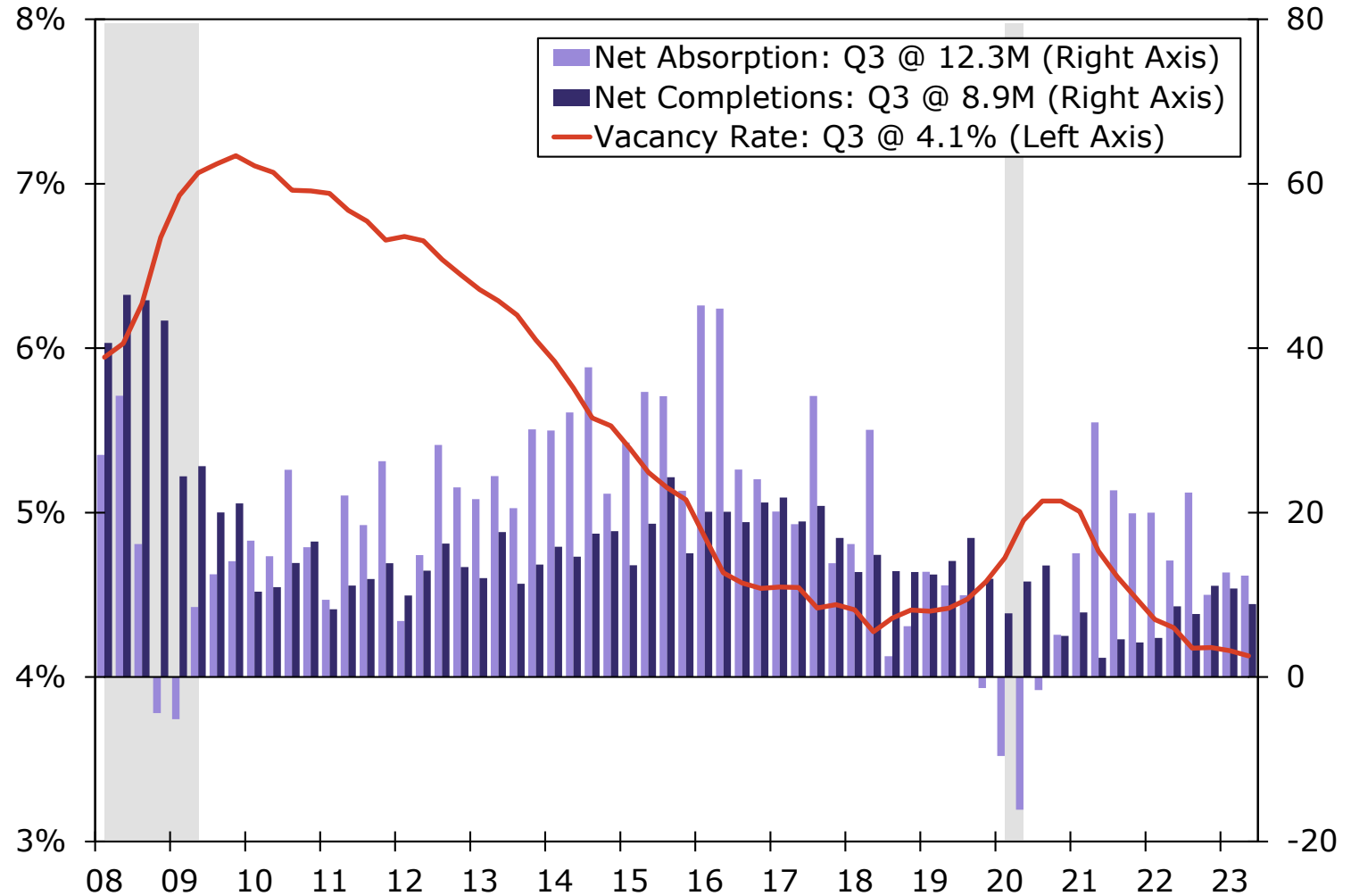
Vacancy Rate; Millions of Square Feet



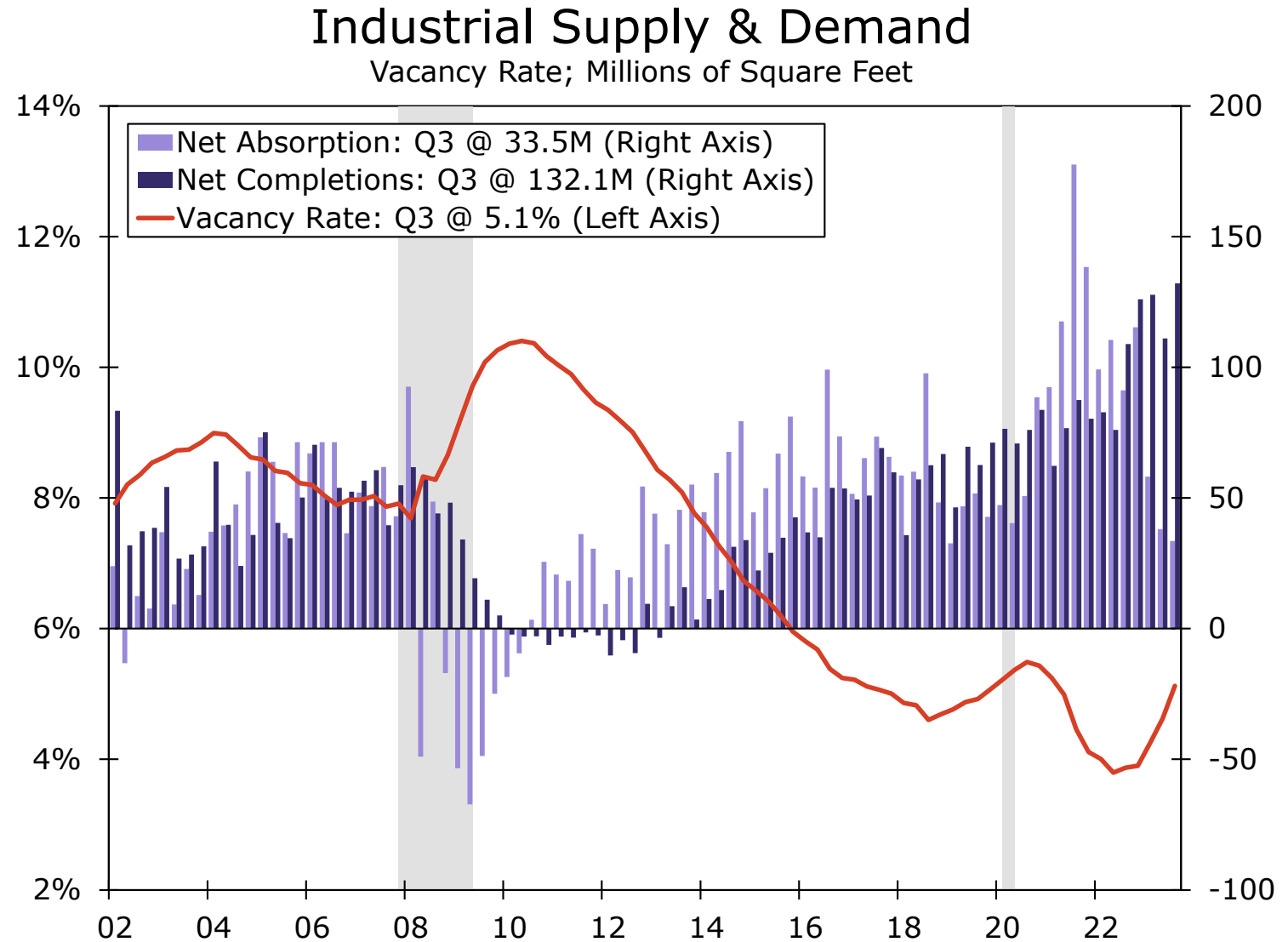
The retail market maintains solid fundamentals in the midst of a tough macroeconomic environment. Resilient consumer demand is a key tailwind.

## Retail Supply & Demand

Vacancy Rate; Millions of Square Feet



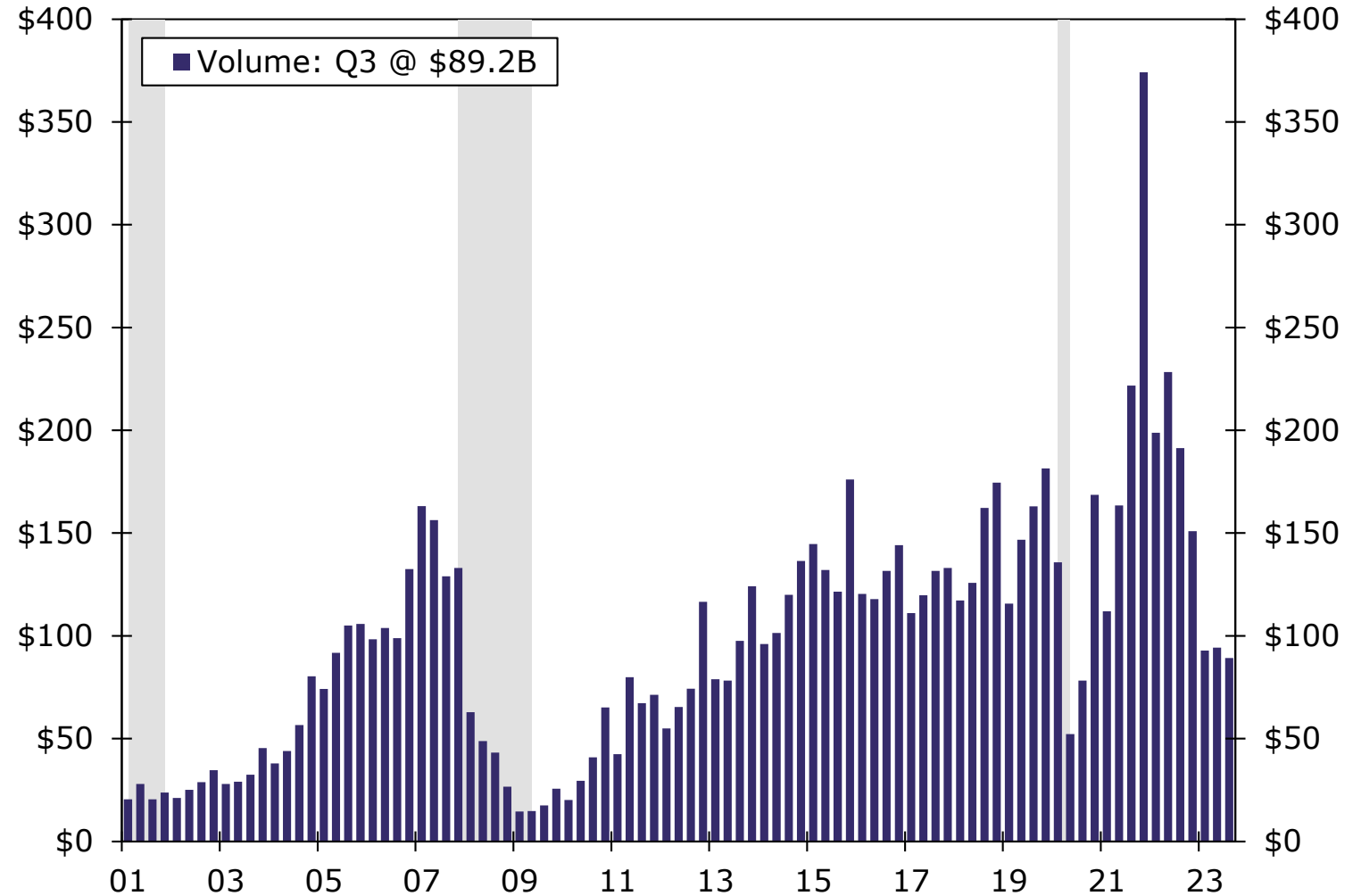
The industrial market appears to be normalizing after a strong post-pandemic run. Supply of new industrial space has outpaced demand for five consecutive quarters, pushing the national average vacancy rate to 5.1% in Q3-2023.



A sharp pullback in transactions has inhibited full price discovery, but the most recent data suggest that prices on average have moved down by roughly 10% from their peak in July 2022.

## CRE Transaction Volume

In Billions of USD

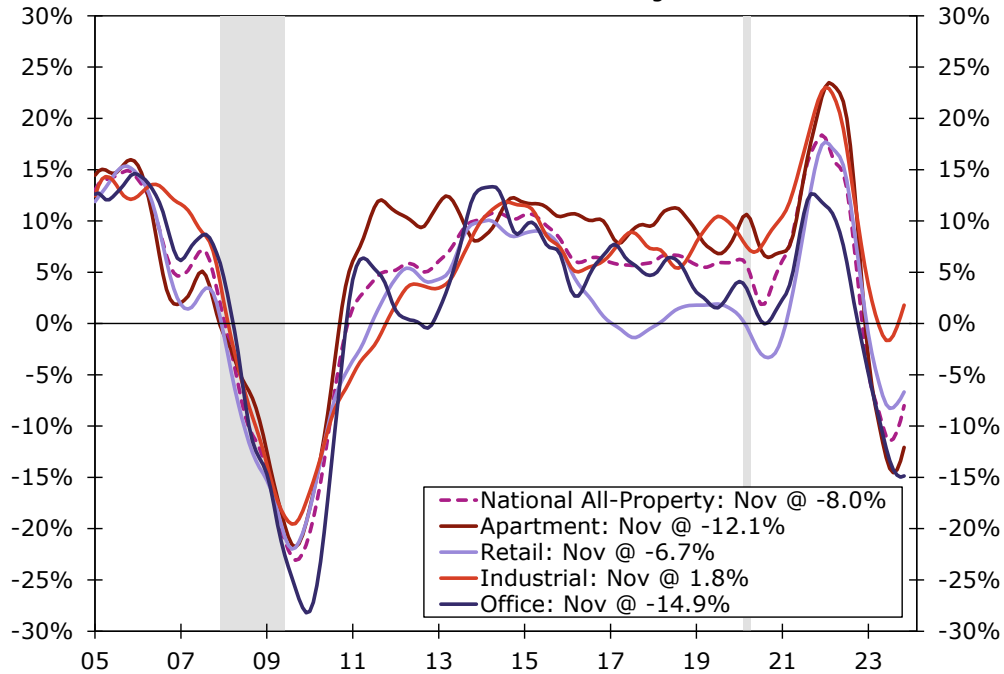




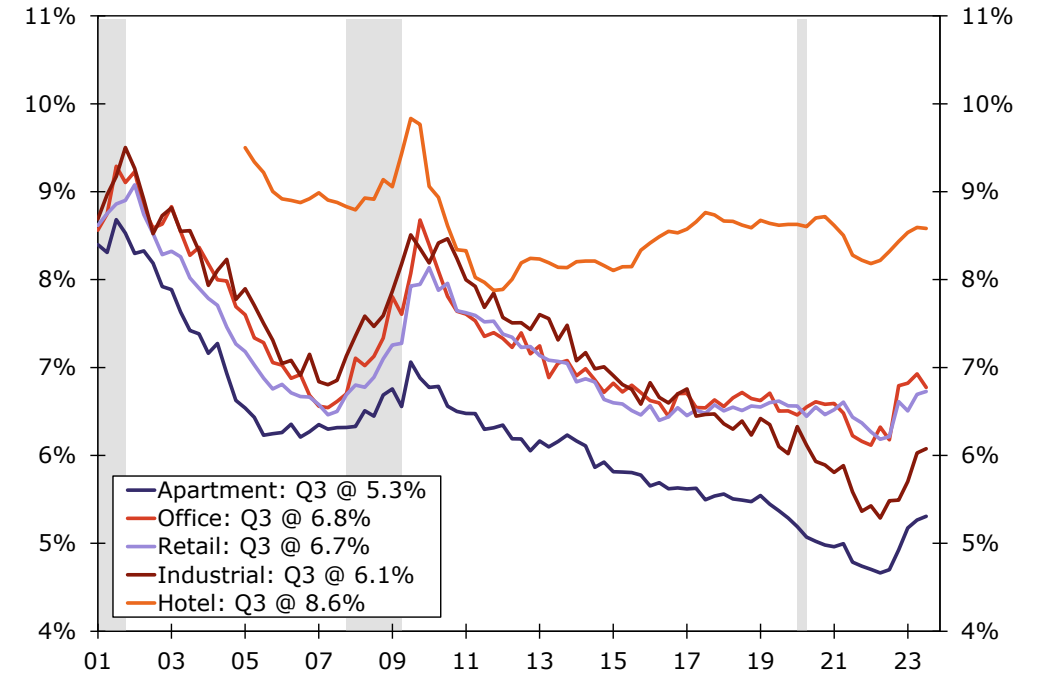
# Commercial Real Estate Fundamentals

Prices likely have further room to fall as cap rates trend higher. That said, prices remain well above their pre-pandemic levels for most CRE classes.

### Commercial Property Price Index Year-over-Year Percent Change



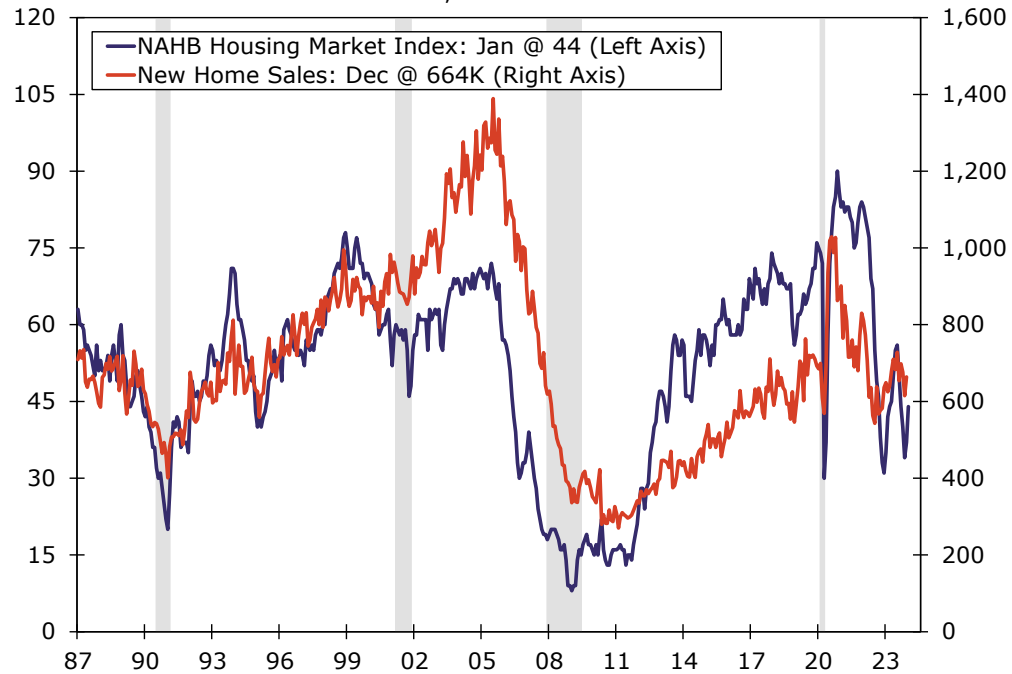
### CRE Cap Rates by Property Type



Builders continued to ramp up single-family construction as low resale supply drives more buyers to the new home market. A pullback in builder sentiment suggests builders may be starting to reassess plans to scale up production in light of the recent rise in 30-year mortgage rates.

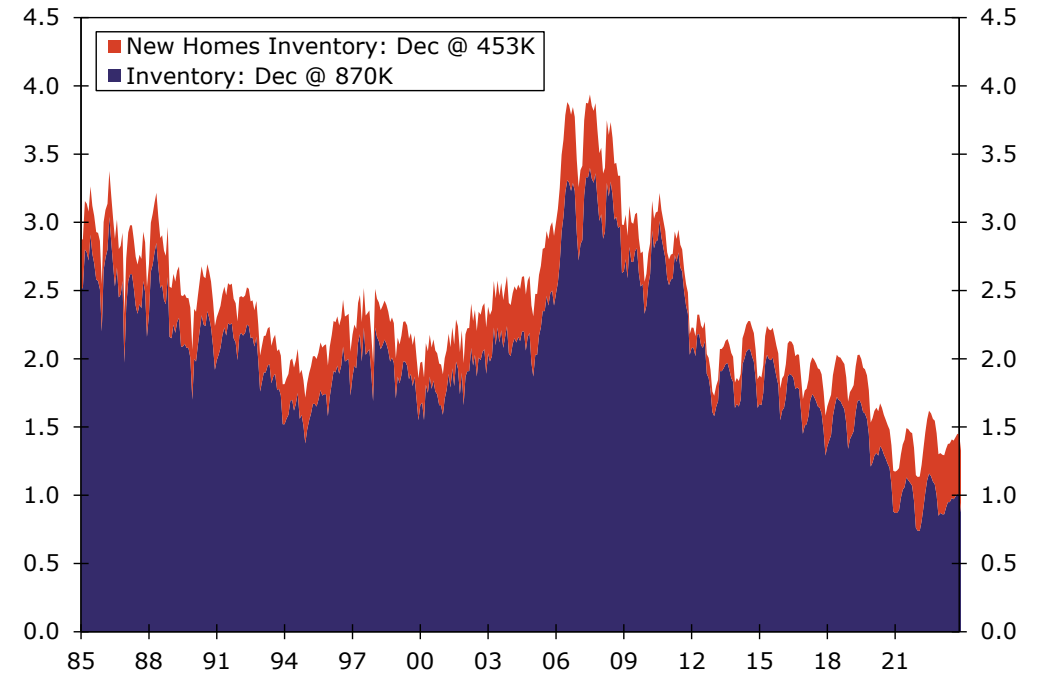
## Builder Confidence & New Home Sales

Diffusion Index; Sales SAAR in Thousands



## Single-Family Home Inventory

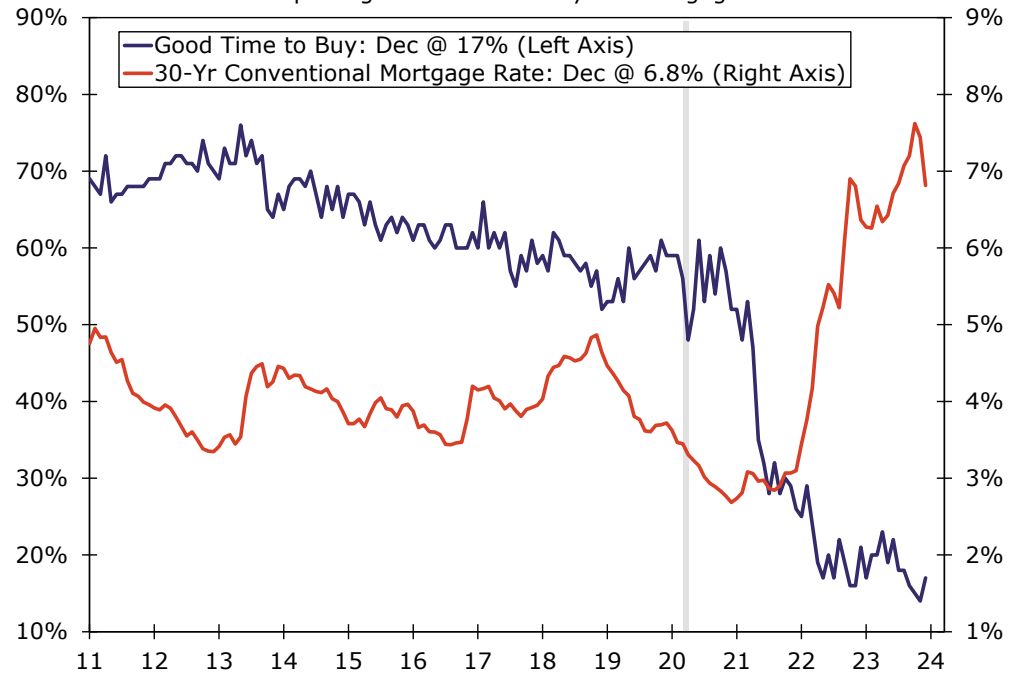
Millions of Units



Rising mortgage rates and buoyant home prices are formidable obstacles to affordability. Our base case is for elevated mortgage rates and a deteriorating macroeconomic backdrop to put a damper on the housing market this year.

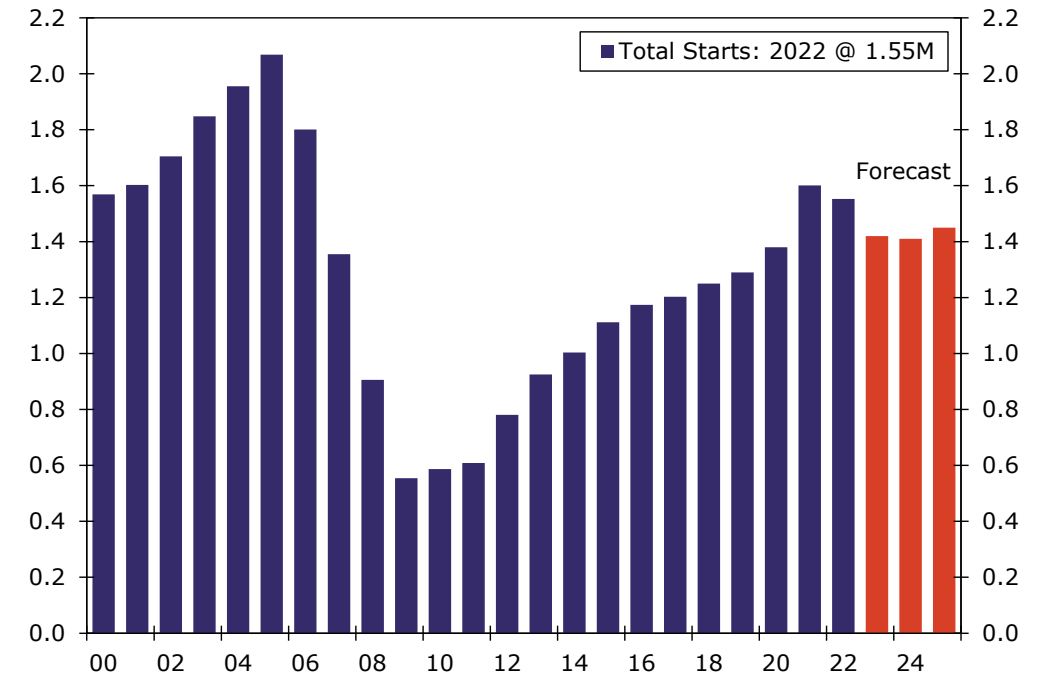
### Good Time to Buy vs. Mortgage Rate

Pct. Reporting Good Time to Buy vs. Mortgage Rate

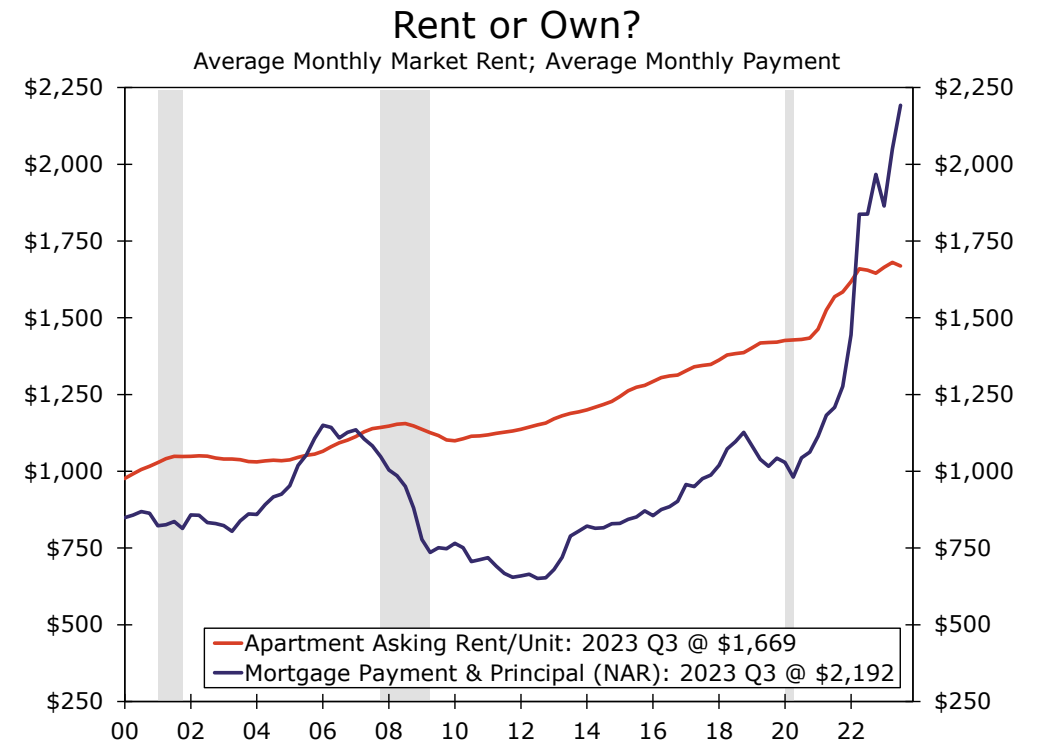
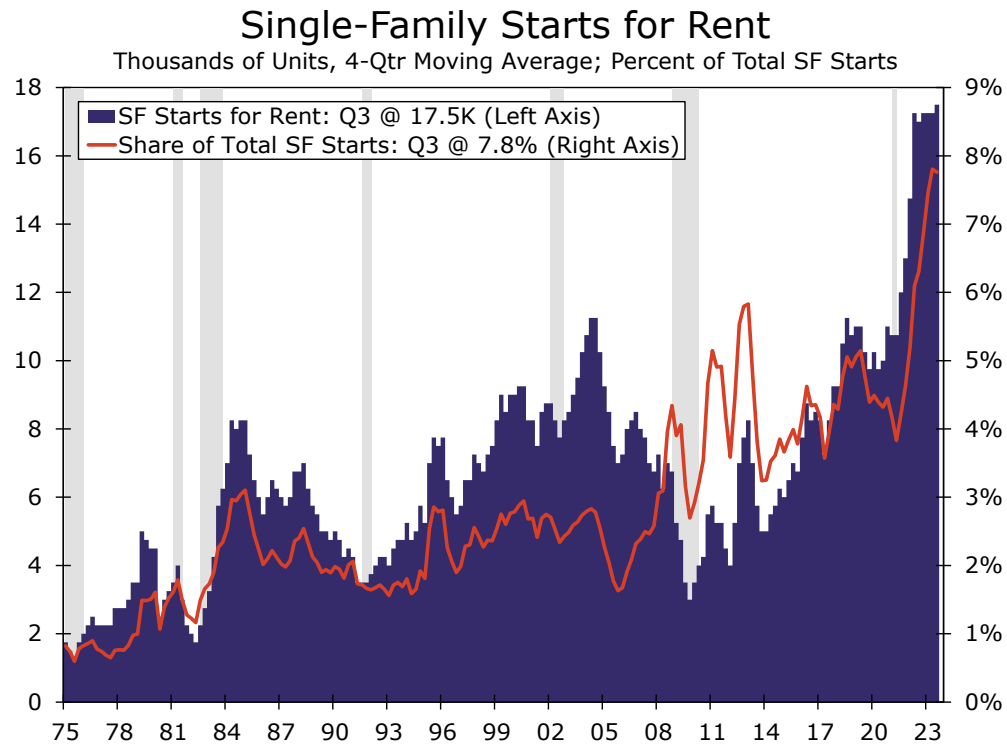


### Total Housing Starts

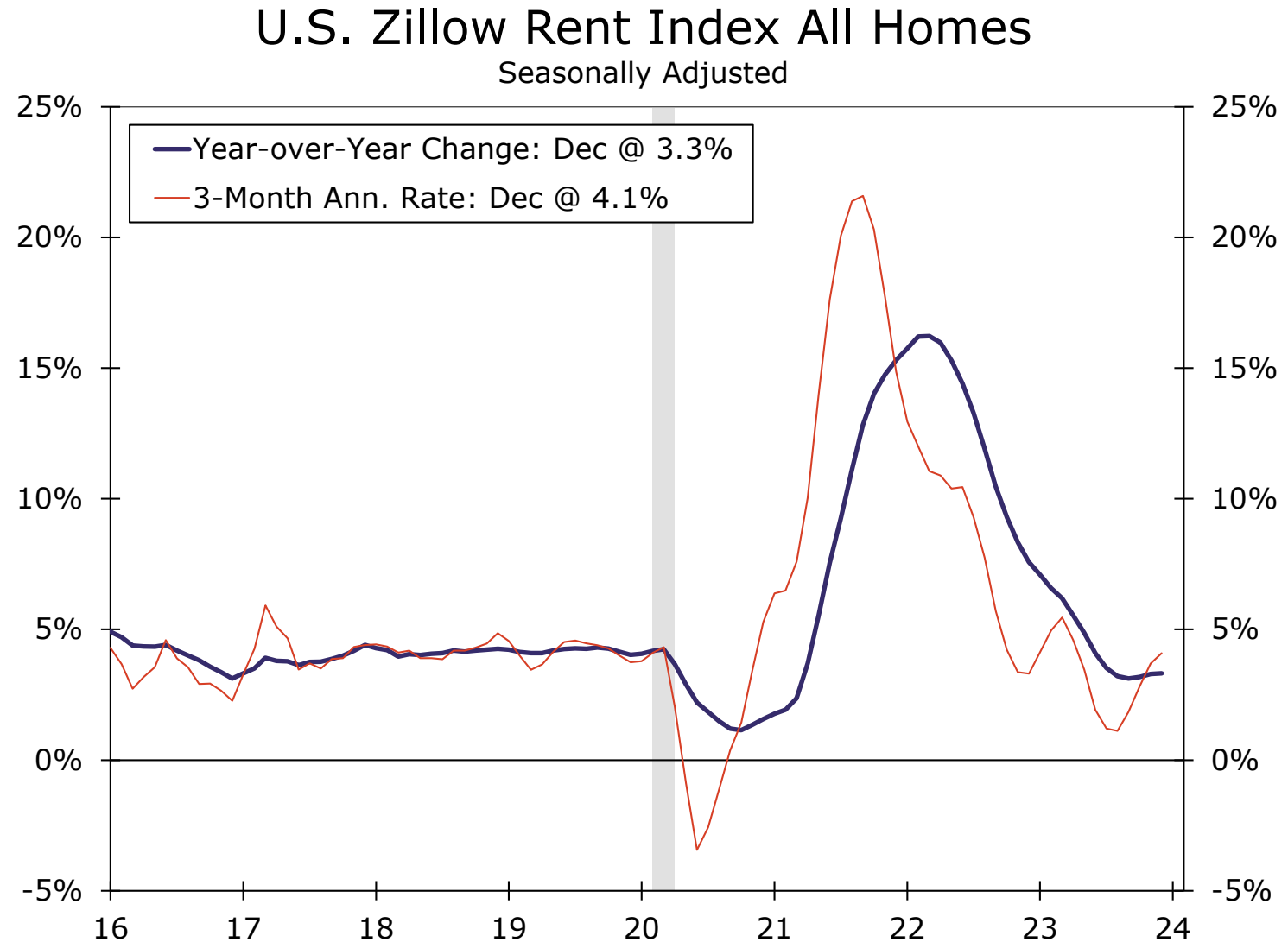
Millions



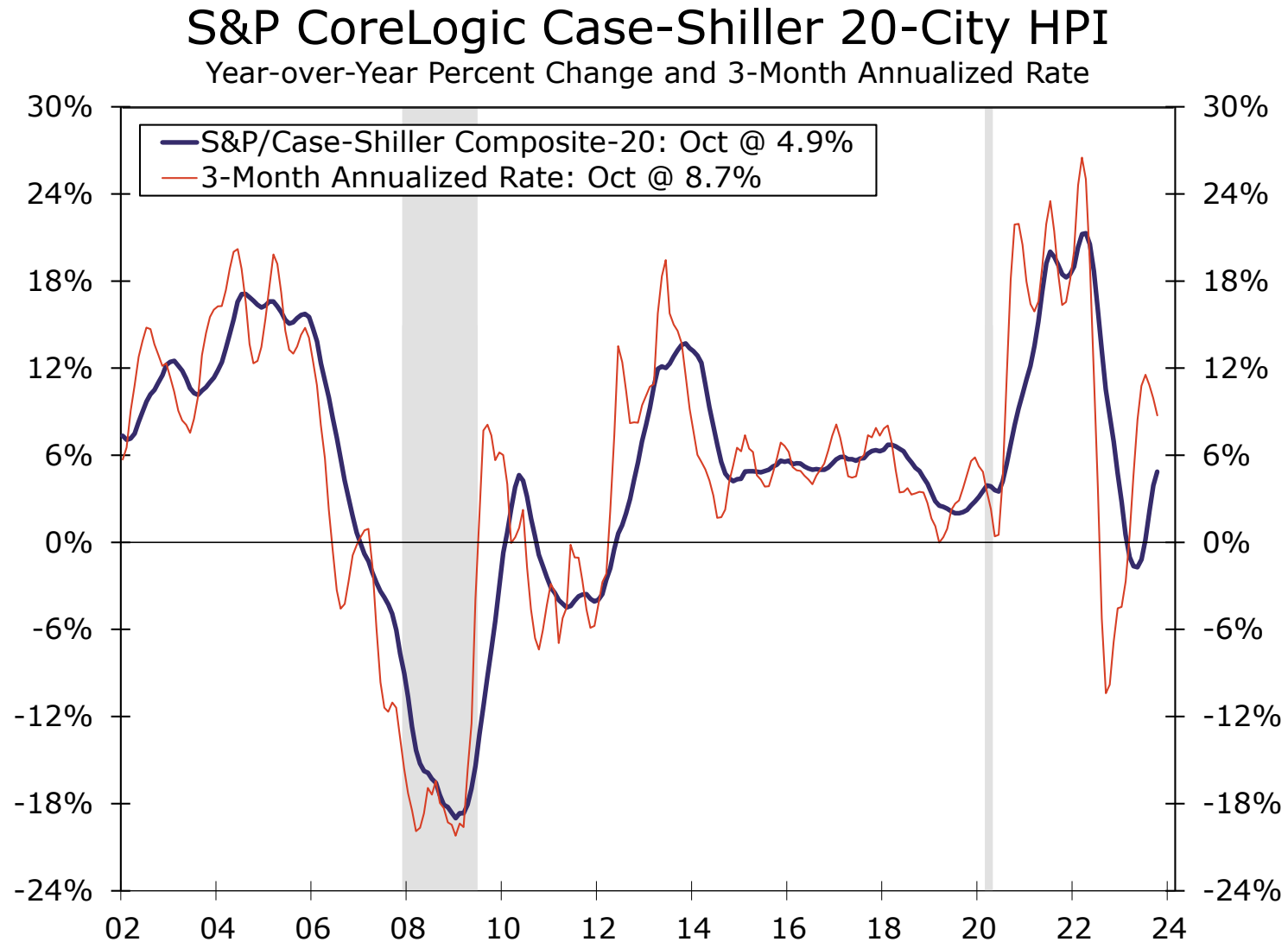
More single-family homes are being built with the intent to become rental properties.  
Renting is cheaper than buying for the first time in over a decade.



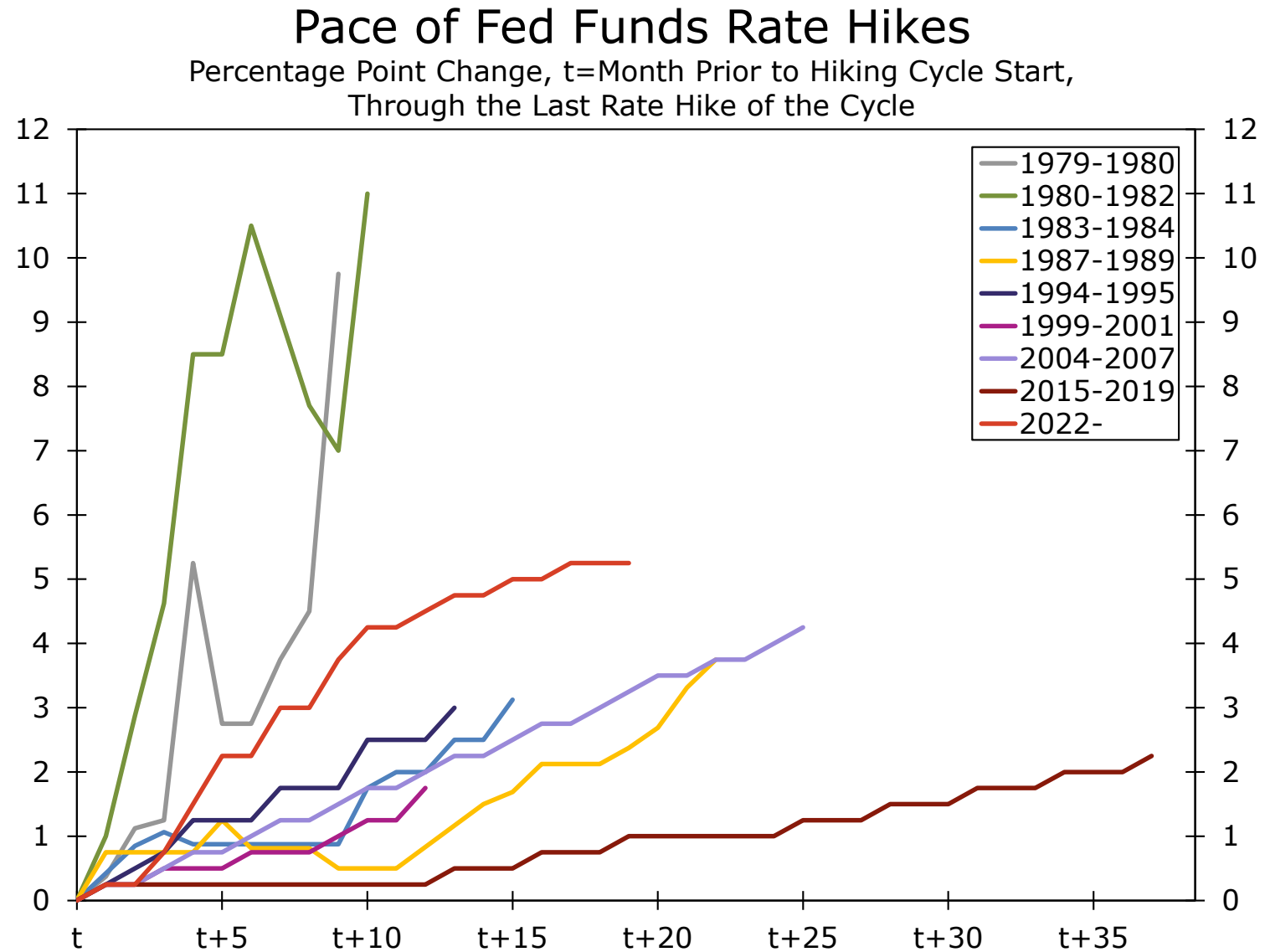
While rent is still high, rent growth has cooled.



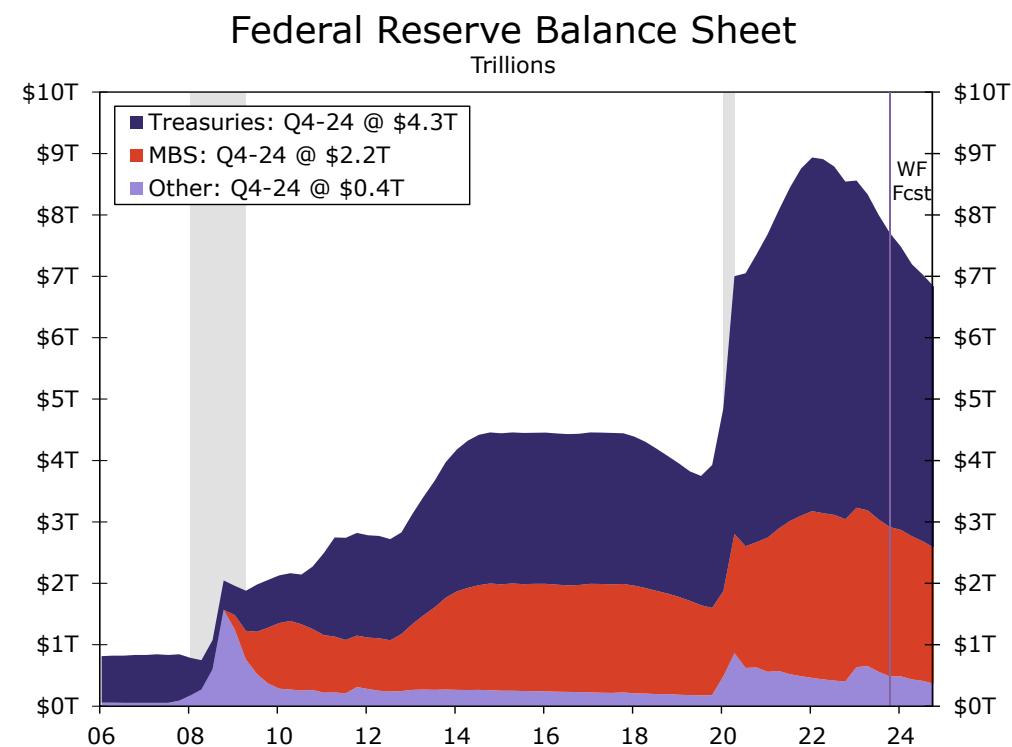
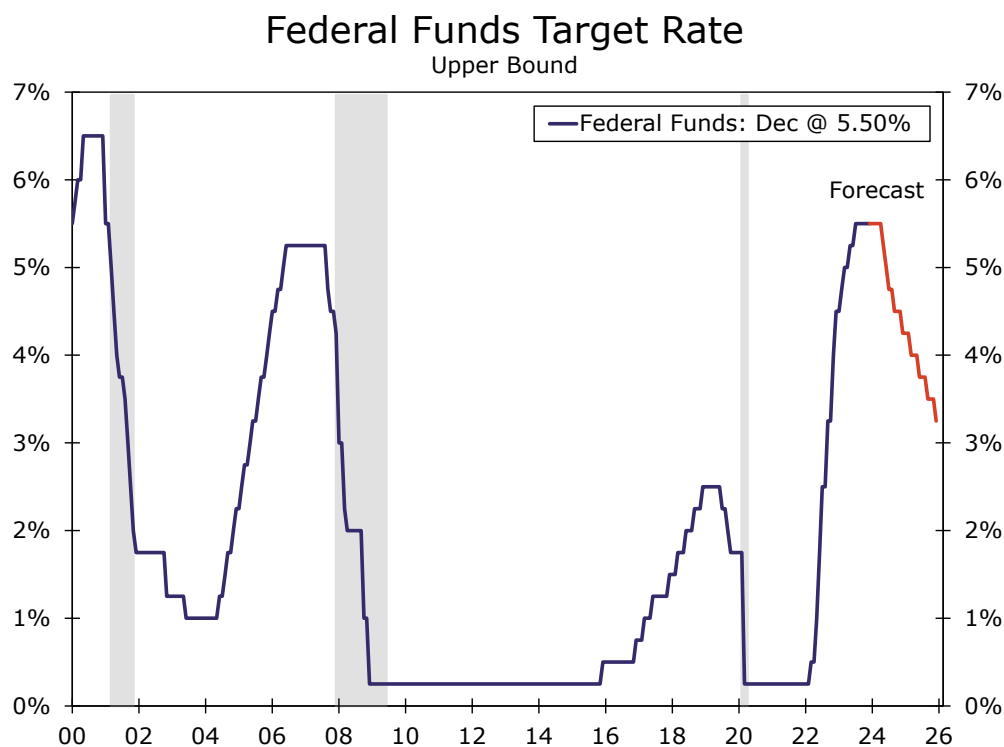
Home prices have proven resilient.



The Fed has tightened monetary policy at the fastest pace since the early 1980s over the last two years.

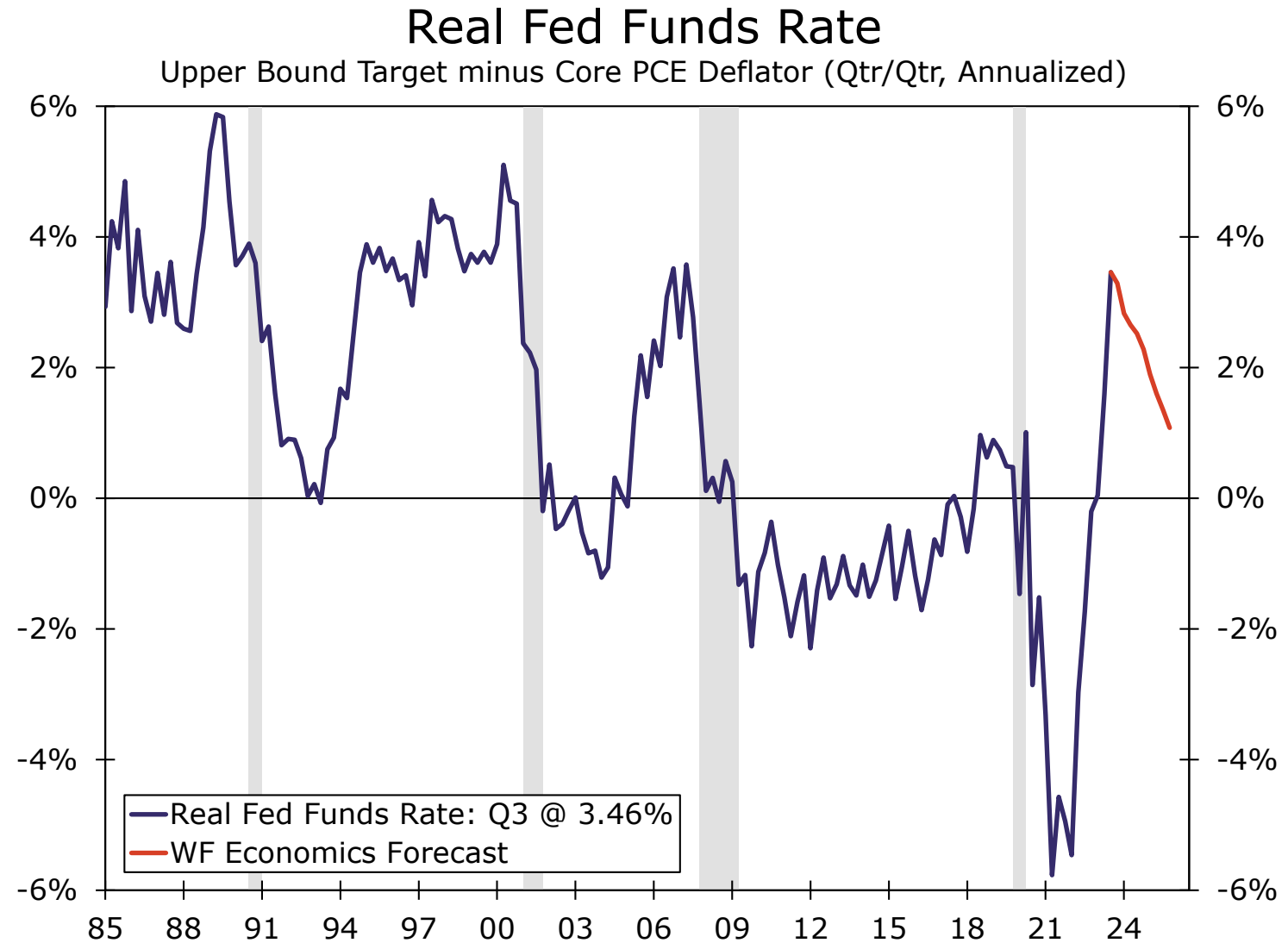


Our base case remains that the FOMC has reached the end of this tightening cycle, with the terminal rate in the range of 5.25% to 5.50%. We still suspect that FOMC members will want to hold rates in restrictive territory long enough to be convinced that inflation is receding.



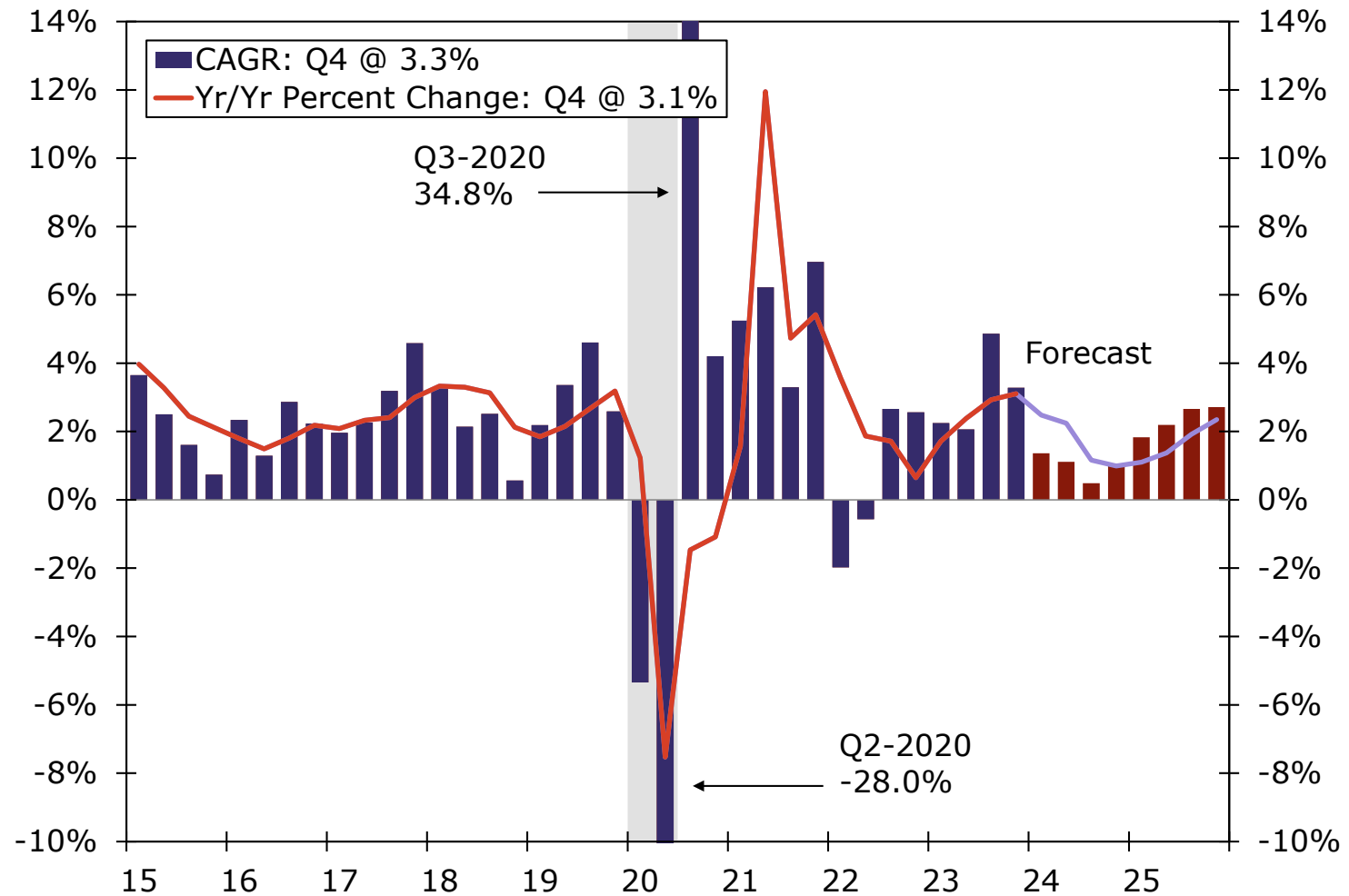


Even as inflation eases, real interest rates could be set to fall if the Fed starts easing.



We look for sub-trend growth rates throughout 2024.

## U.S. Real GDP Growth



## Inflation

- Improving supply and weakening demand are helping to drive inflation lower. However, price growth remains too high, with a timely and sustained return to target far from assured.
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## Spending & Investment

- Consumer spending has offset a retrenchment in housing and cap-ex. While housing is finding a footing, consumer finances are deteriorating as savings decline and real income sputters.
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## Labor Market

- The tight labor market is contributing to elevated inflation. The jobs market has started to cool, but there remains some distance to go before it comes into balance.
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## Monetary Policy

- The FOMC tightening cycle has likely ended. Inflation's severity means cuts won't come soon, however, without a decline in activity and higher unemployment.
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## Recession Watch

- The endurance of hiring and spending means a recession is not imminent, but a downturn is likely this year as tighter and costlier credit leads to a drop in spending and investment.
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# Regional Perspectives: Dallas, Texas

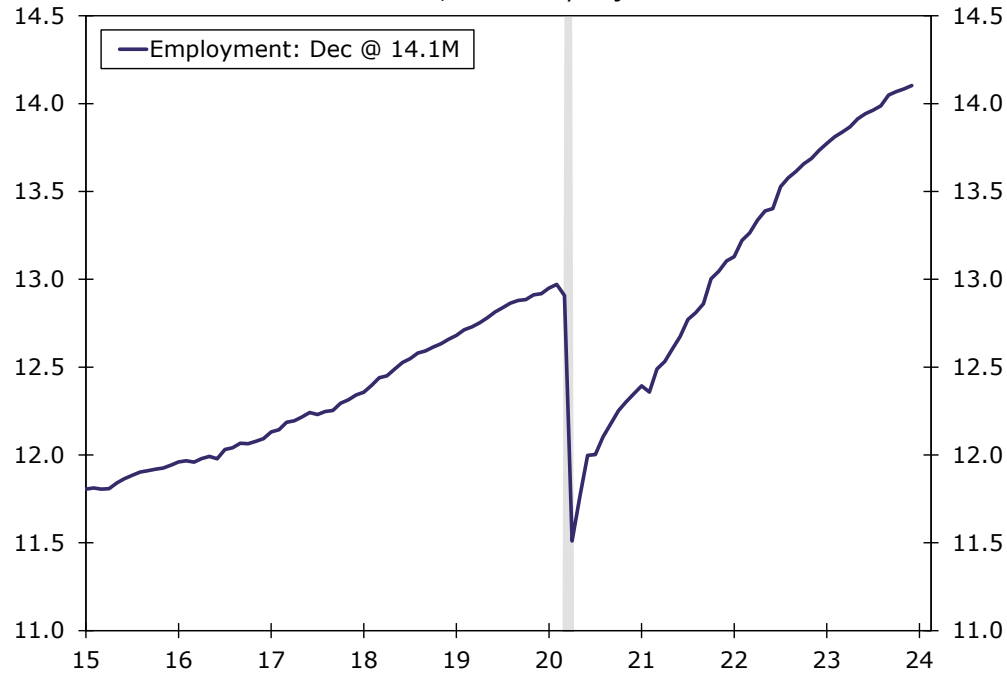
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# Employment: Texas

Texas has fared quite well in terms of its job recovery compared to national trends. The unemployment rate was roughly on par with the national rate pre-pandemic, though it has ticked higher as of recently.

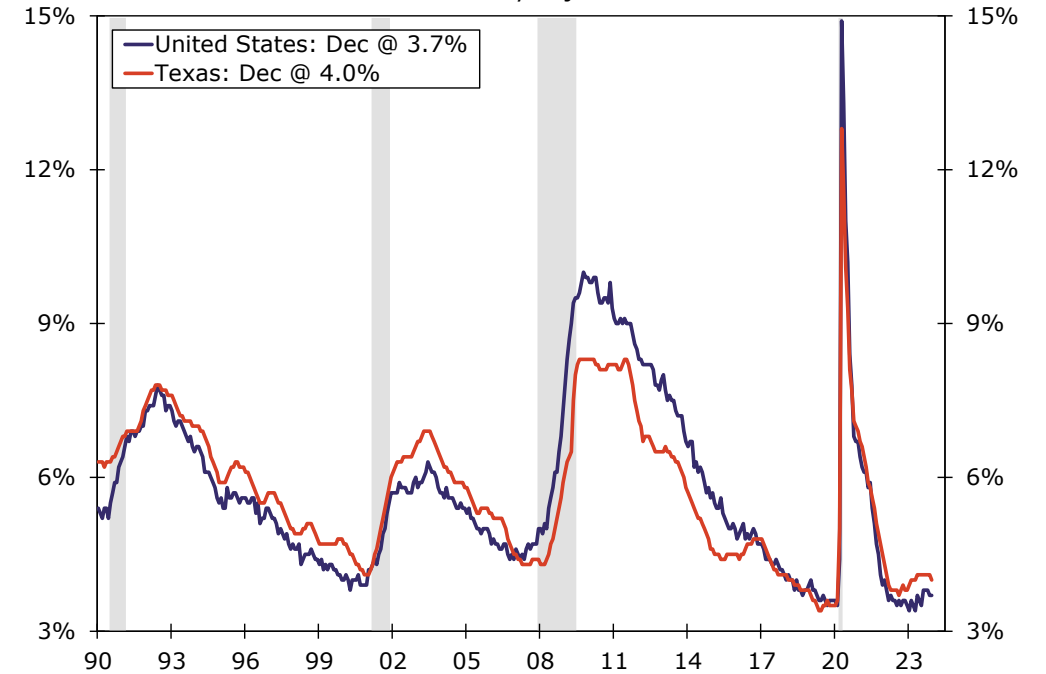
### Texas Nonfarm Employment

In Millions, Seasonally Adjusted



### Texas vs. U.S. Unemployment Rate

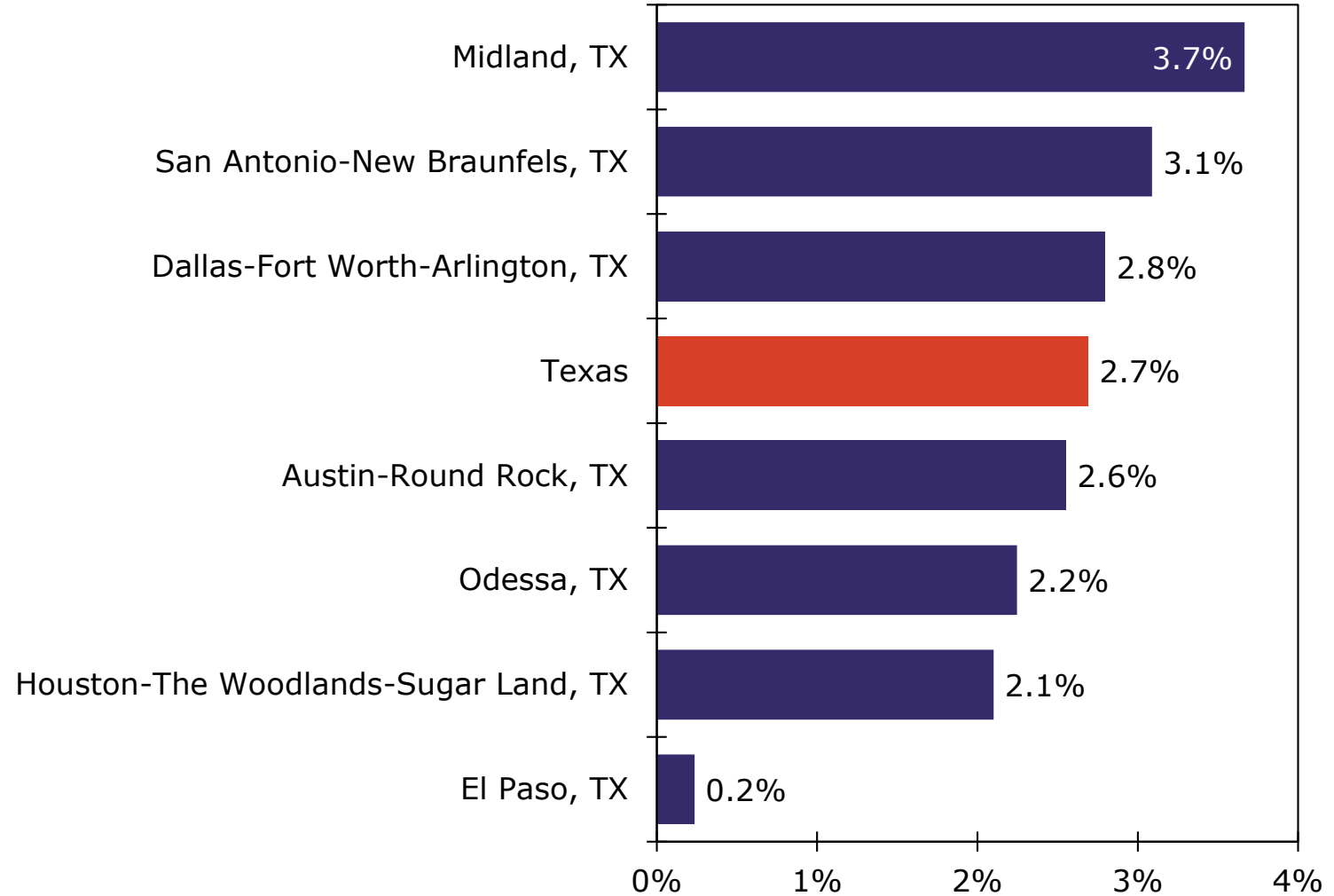
Seasonally Adjusted



Employment gains have been broad-based among the metro areas.

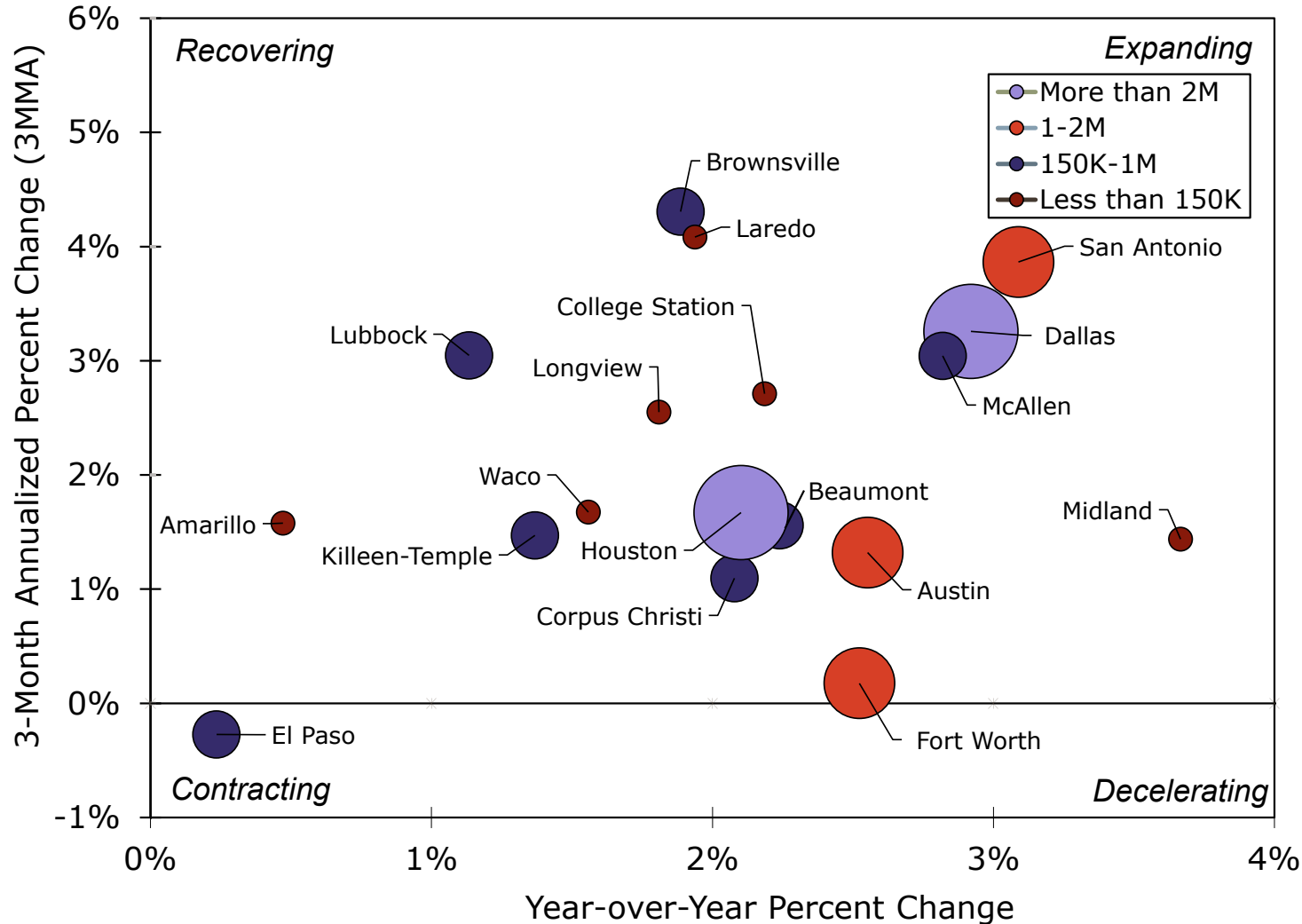
## Texas Employment Growth by Metro Area

Year-over-Year Percent Change, December 2023



## Texas Employment Growth by Metro

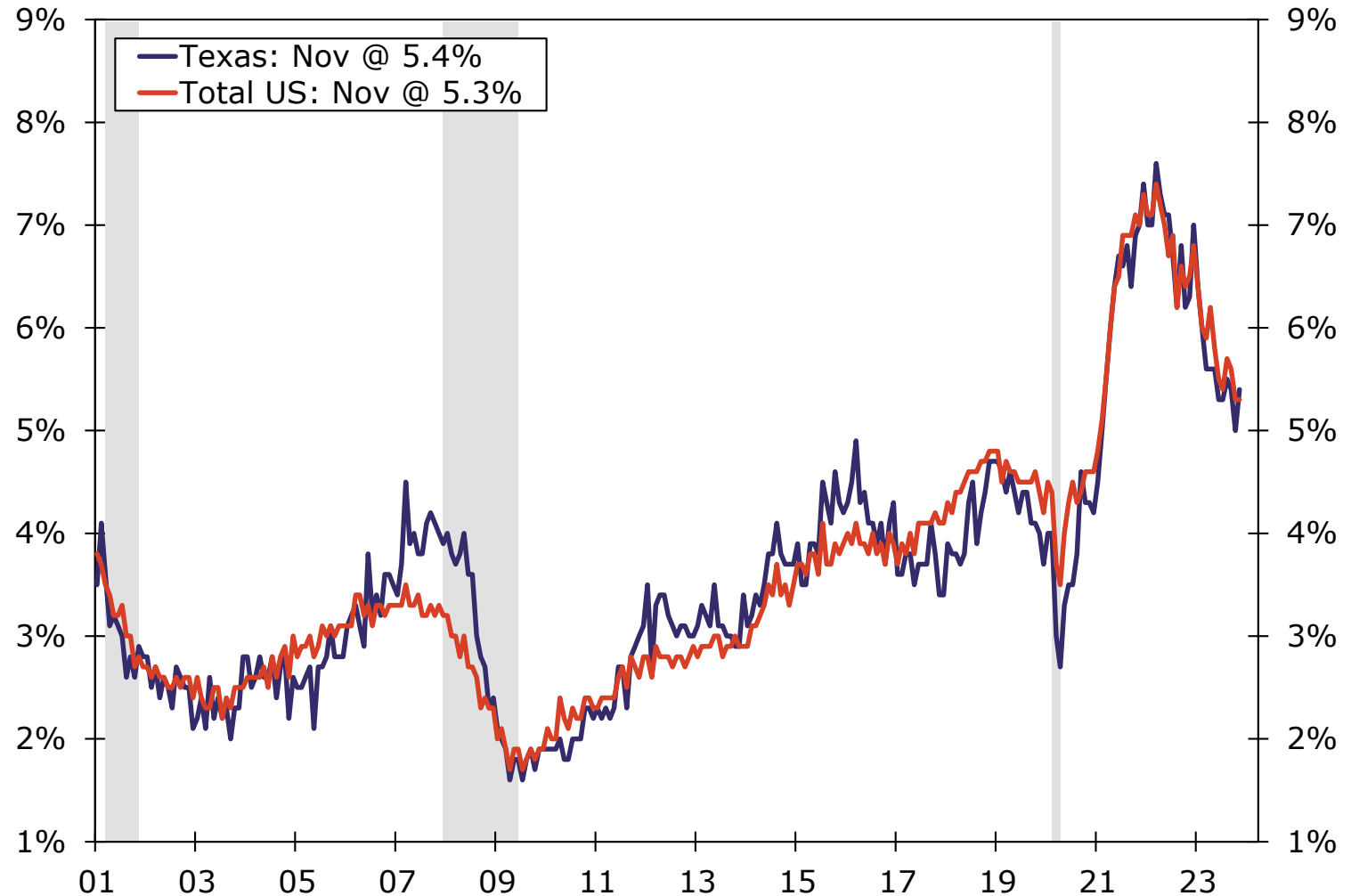
3-Month Moving Averages, December 2023



The labor market remains fairly tight despite the slowdown in national job openings.

## Texas vs. U.S. Job Openings Rate

Seasonally Adjusted

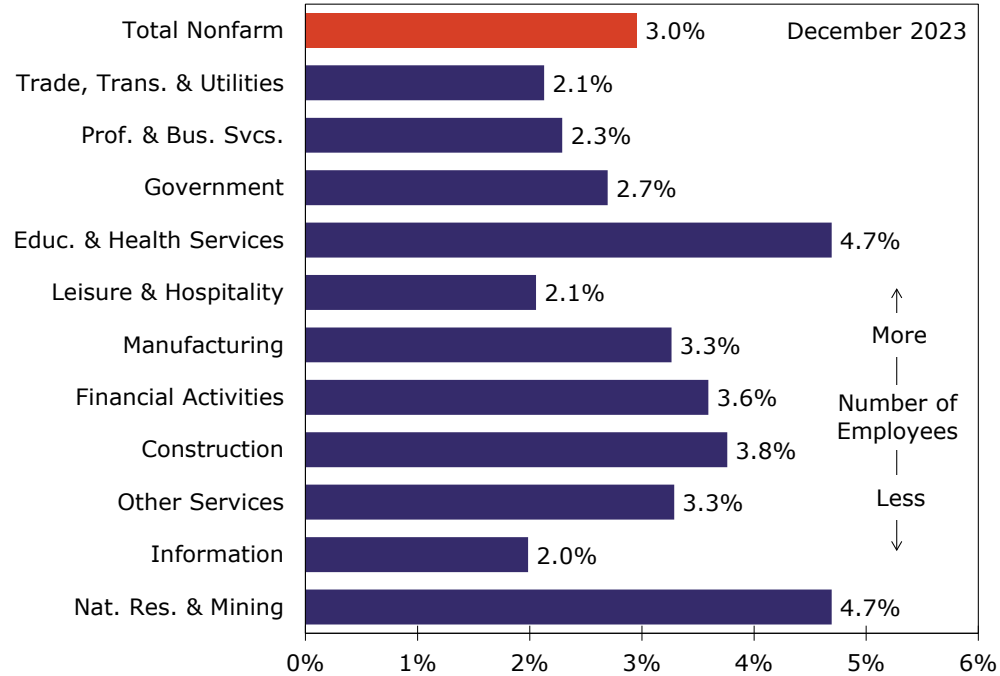




The education & health services sector has experienced particularly strong growth this year across the Lonestar State.

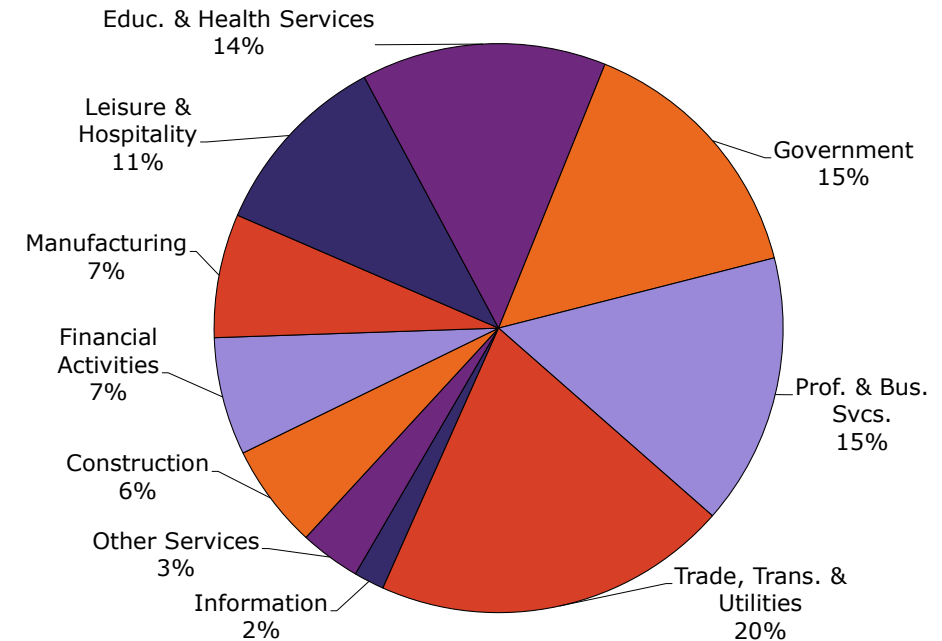
### Texas Employment Growth By Industry

Year-over-Year Percent Change of 3-MMA

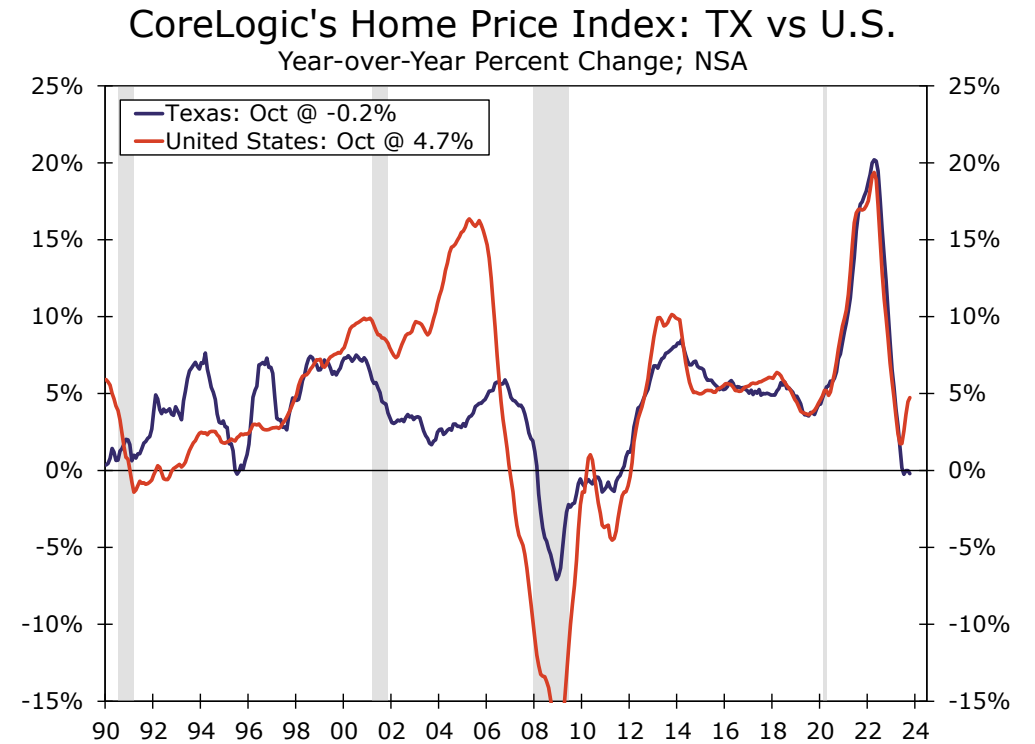
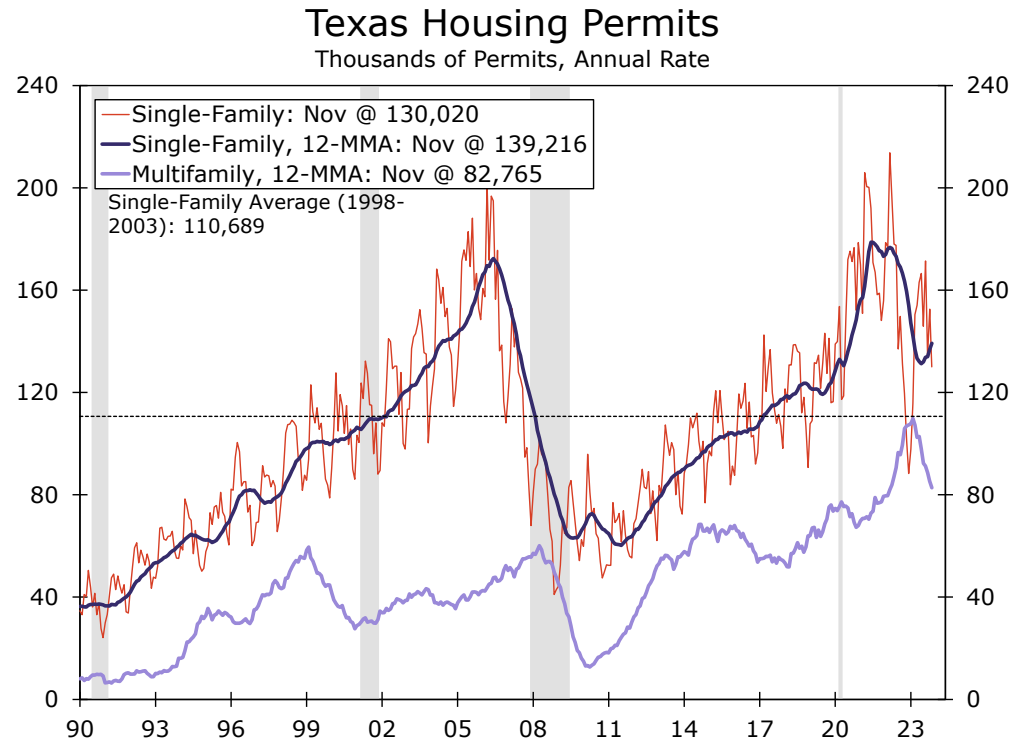


### Texas Employment Composition

December 2023

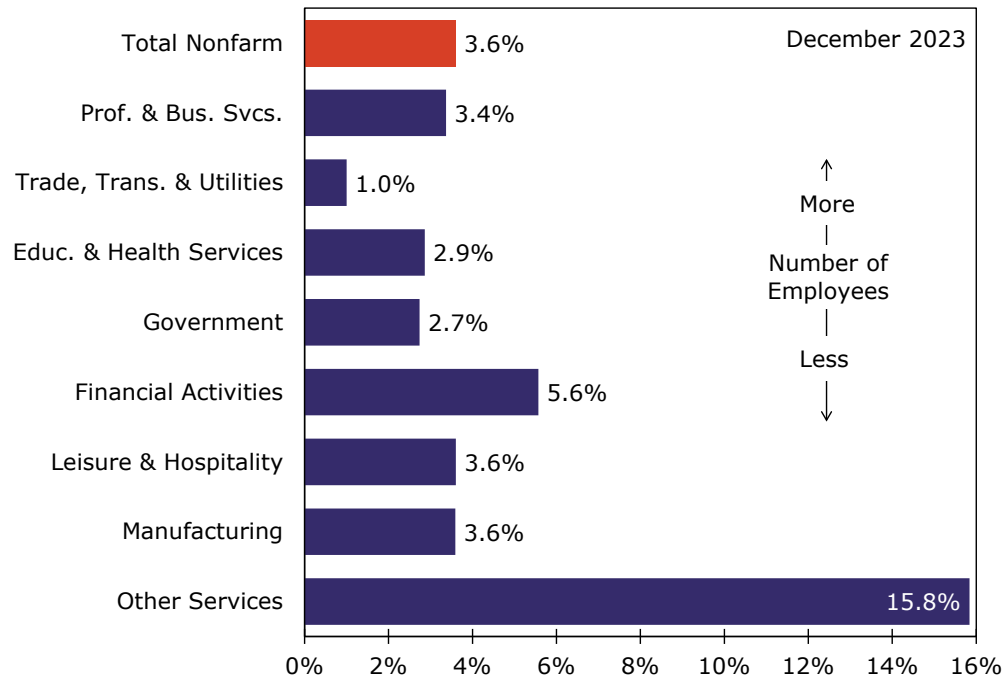


Home price growth in Texas has decelerated in recent months.

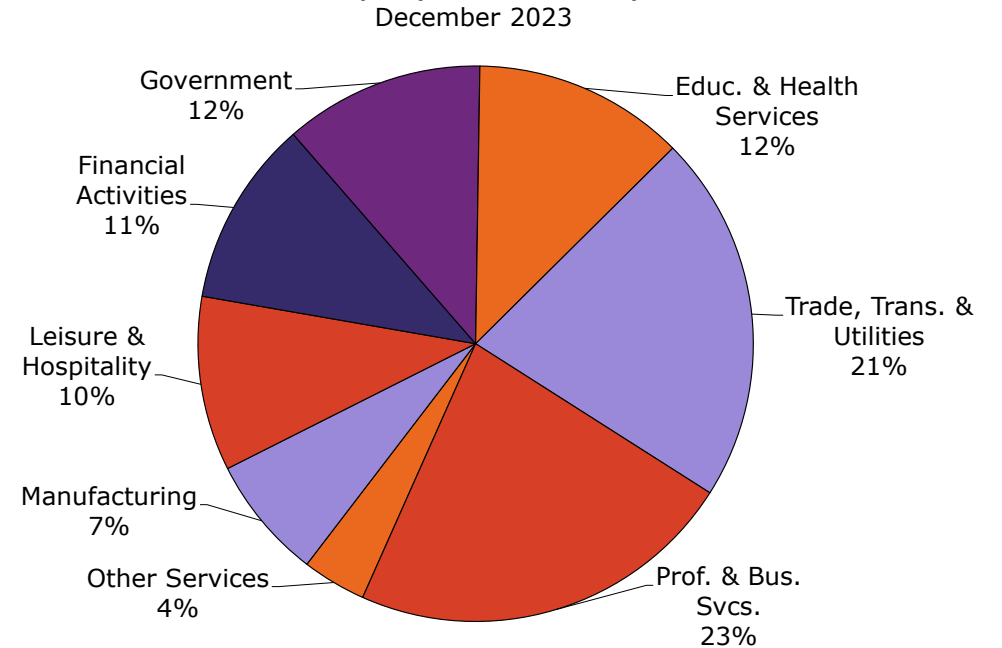


The financial activities and other services sectors in Dallas have experienced strong growth this year.

Dallas MSA Employment Growth By Industry  
Year-over-Year Percent Change of 3-MMA



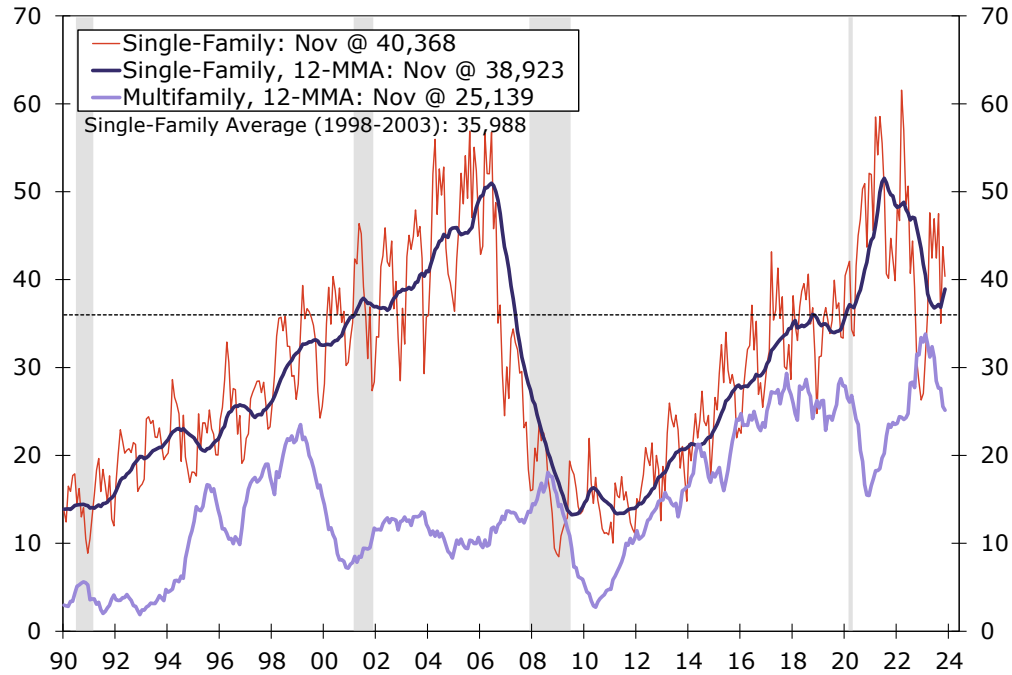
Dallas Employment Composition



Dallas home price growth is trending lower than national averages.

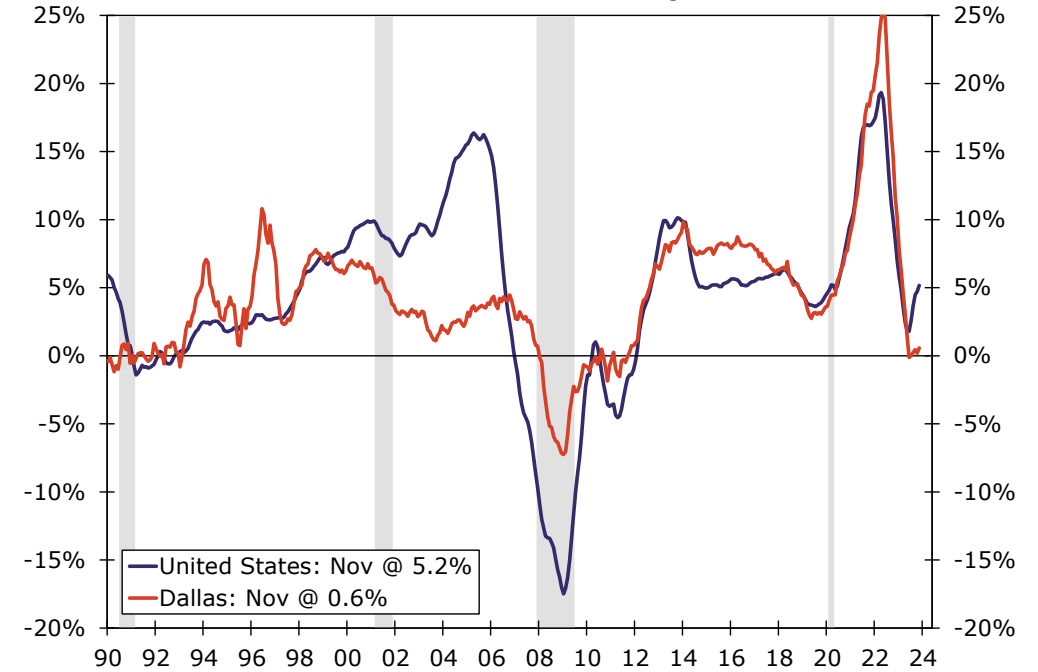
### Dallas–Fort Worth Building Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



### CoreLogic HPI: Dallas MSA vs. U.S.

Year-over-Year Percent Change



# Appendix

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## Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2023				2024				2025				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.2	2.1	4.9	3.3	1.4	1.1	0.5	1.0	1.8	2.2	2.7	2.7	1.9	2.4	1.7	1.7
Personal Consumption	3.8	0.8	3.1	2.8	1.0	0.5	0.5	1.1	1.4	1.9	2.2	2.3	2.5	2.2	1.3	1.4
Business Fixed Investment	5.7	7.4	1.4	1.9	0.9	-0.1	-1.5	-0.8	3.4	5.1	7.1	6.3	5.2	4.3	0.9	2.7
Equipment	-4.1	7.7	-4.4	1.0	0.6	0.5	0.6	0.4	5.5	5.8	8.9	5.7	5.2	-0.2	0.2	4.1
Intellectual Property Products	3.8	2.7	1.8	2.1	0.9	0.8	-2.3	-1.0	3.8	5.6	6.9	7.6	9.1	4.3	0.8	2.9
Structures	30.3	16.1	11.2	3.2	1.5	-3.2	-3.9	-2.8	-1.3	2.9	3.9	4.8	-2.1	12.7	2.0	-0.3
Residential Investment	-5.3	-2.2	6.7	1.1	1.1	1.5	2.1	2.4	4.1	4.9	5.5	5.9	-9.0	-10.7	1.7	3.8
Government Purchases	4.8	3.3	5.8	3.3	2.3	1.8	1.3	1.2	1.1	1.0	0.8	0.8	-0.9	3.9	2.5	1.1
Net Exports <sup>2</sup>	0.6	0.0	0.0	0.4	0.1	0.2	0.2	0.1	-0.1	-0.3	-0.2	-0.2	-0.5	0.6	0.2	0.0
Inventories <sup>2</sup>	-2.2	0.0	1.3	0.1	0.0	0.2	-0.2	-0.1	0.1	0.1	0.1	0.1	0.5	-0.4	0.0	0.0
Nonfarm Payroll Change <sup>3</sup>	312	201	221	165	127	67	50	62	89	105	120	128	399	225	76	111
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	4.0	4.1	4.2	4.1	3.9	3.9	3.8	3.6	3.6	4.0	3.9
Consumer Price Index <sup>4</sup>	5.8	4.1	3.6	3.2	2.9	2.8	2.4	2.3	2.3	2.3	2.4	2.4	8.0	4.1	2.6	2.3
Real Disposable Income <sup>1</sup>	10.8	3.3	0.3	2.2	2.3	1.3	1.3	2.2	2.4	2.0	2.2	2.2	-6.0	4.2	1.8	2.1
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate <sup>6</sup>	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.50	3.25	2.02	5.23	4.81	3.63
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.80	6.60	6.35	6.05	5.90	5.75	5.70	5.70	5.38	6.80	6.45	5.76
2 Year Note	4.06	4.87	5.03	4.23	4.30	3.90	3.65	3.50	3.40	3.30	3.25	3.25	2.99	4.58	3.84	3.30
10 Year Note	3.48	3.81	4.59	3.88	4.00	3.85	3.70	3.60	3.55	3.50	3.50	3.50	2.95	3.96	3.79	3.51

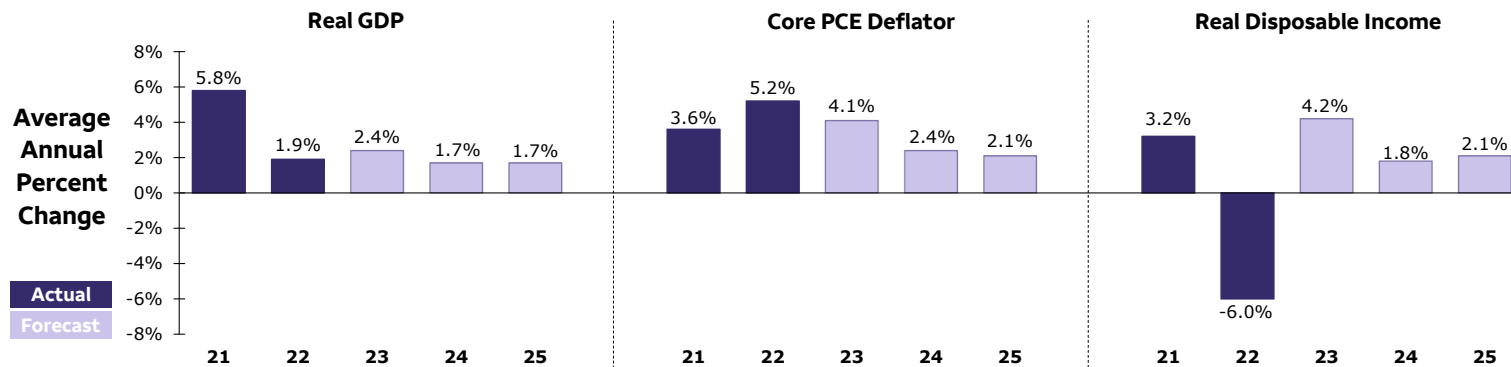
Forecast as of: January 12, 2024

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

<sup>3</sup> Average Monthly Change

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

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



Forecast as of: January 12, 2024

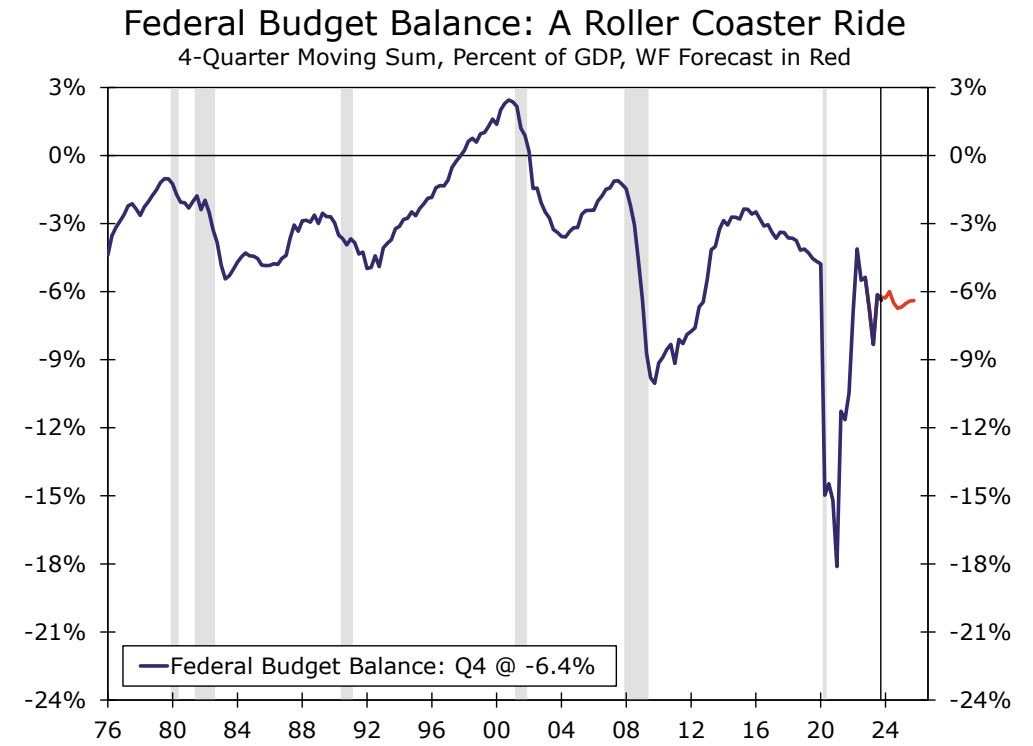
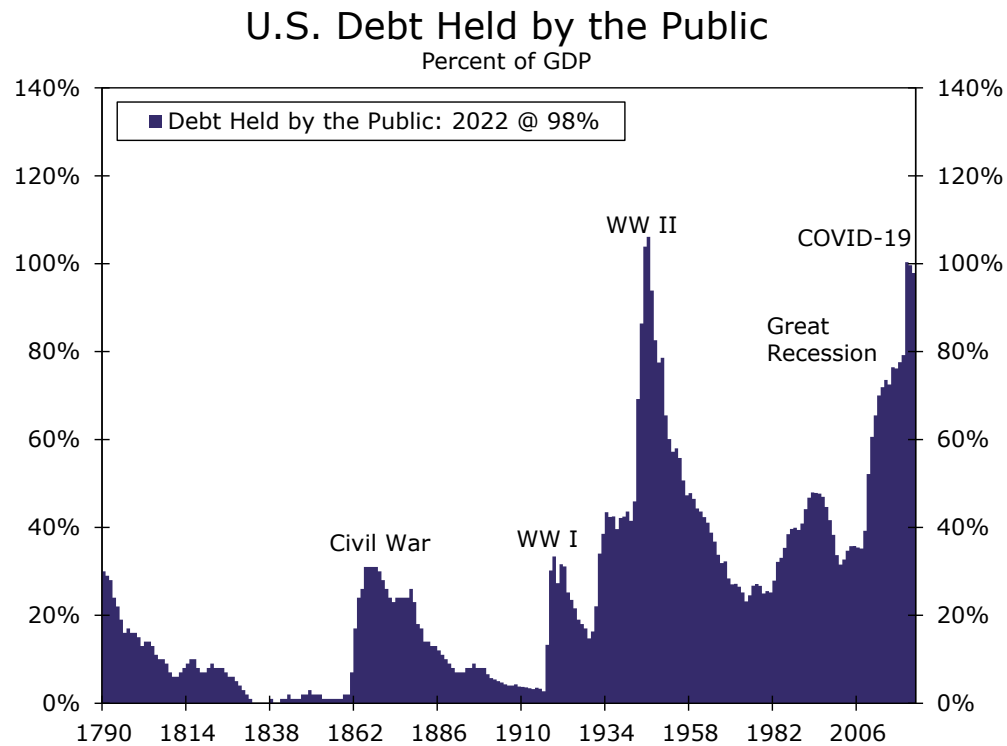
## Wells Fargo International Economic Forecast

	GDP				CPI			
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Global (PPP Weights)	3.5%	2.9%	2.6%	2.7%	8.7%	4.5%	3.7%	3.5%
Advanced Economies <sup>1</sup>	2.6%	1.8%	1.4%	1.9%	7.3%	5.0%	2.6%	2.3%
United States	1.9%	2.4%	1.7%	1.7%	8.0%	4.1%	2.6%	2.3%
Eurozone	3.3%	0.5%	0.6%	1.7%	8.4%	5.4%	2.3%	2.1%
United Kingdom	4.1%	0.3%	0.5%	1.8%	9.1%	7.3%	2.7%	2.2%
Japan	1.0%	2.0%	1.0%	1.2%	2.5%	3.3%	2.3%	1.7%
Canada	3.4%	1.1%	1.0%	2.0%	6.8%	3.9%	2.5%	2.0%
Switzerland	2.7%	0.8%	1.3%	1.6%	2.8%	2.2%	1.6%	1.5%
Australia	3.7%	2.0%	1.5%	2.1%	6.6%	5.7%	3.5%	2.8%
New Zealand	2.7%	0.8%	1.4%	2.3%	7.2%	5.7%	3.1%	2.2%
Sweden	2.8%	-0.2%	0.6%	1.8%	8.1%	8.4%	3.0%	1.9%
Norway	3.3%	1.1%	0.9%	1.6%	5.8%	5.6%	3.4%	2.6%
Developing Economies <sup>1</sup>	4.1%	3.7%	3.5%	3.2%	9.8%	4.2%	4.4%	4.3%
China	3.0%	5.2%	4.5%	4.3%	2.0%	0.4%	1.5%	1.8%
India	7.2%	7.0%	7.0%	6.2%	6.7%	5.6%	4.8%	4.5%
Mexico	3.9%	3.3%	2.0%	2.3%	7.9%	5.5%	4.0%	3.8%
Brazil	2.9%	3.1%	1.3%	2.0%	9.3%	4.8%	4.1%	3.8%

Forecast as of: January 12, 2024

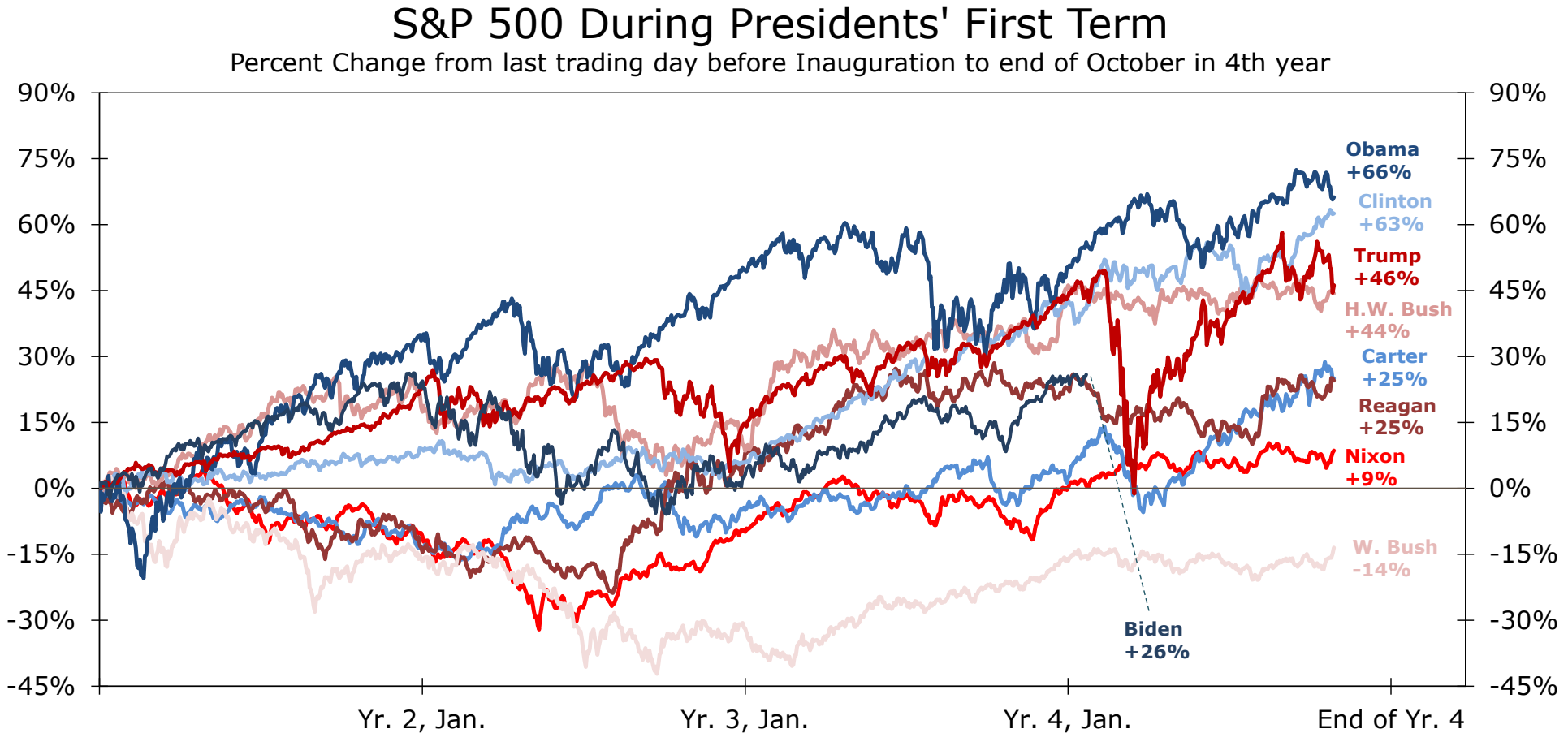
<sup>1</sup>Aggregated Using PPP Weights

The United States is running a large federal budget deficit and has the largest federal debt-to-GDP ratio since World War II.





There is no discernable trend in equity markets favoring either party.



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