



# U.S. Economic Outlook: May You Live in Interesting Times

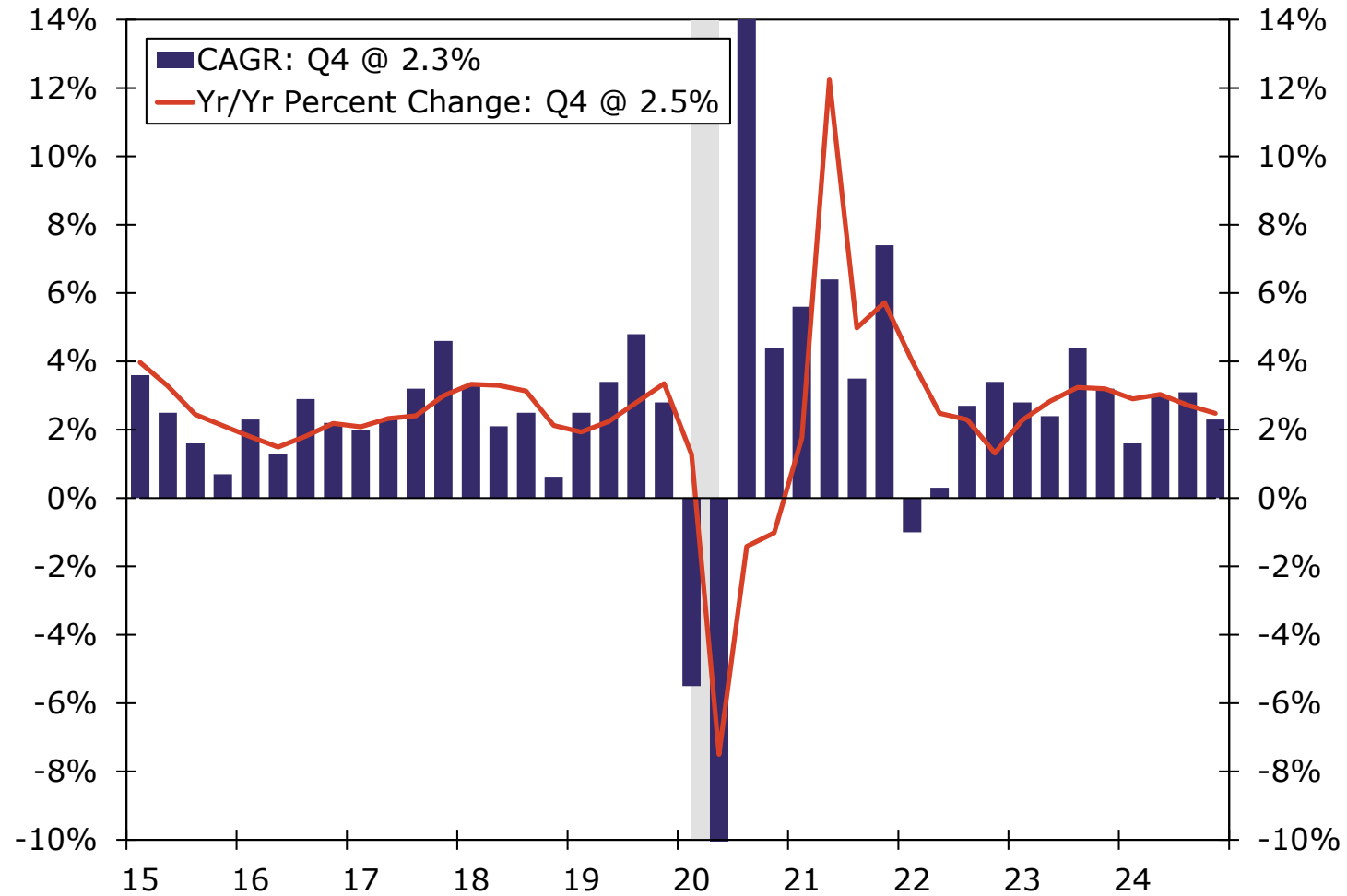
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The U.S. economy continues to expand at a robust pace

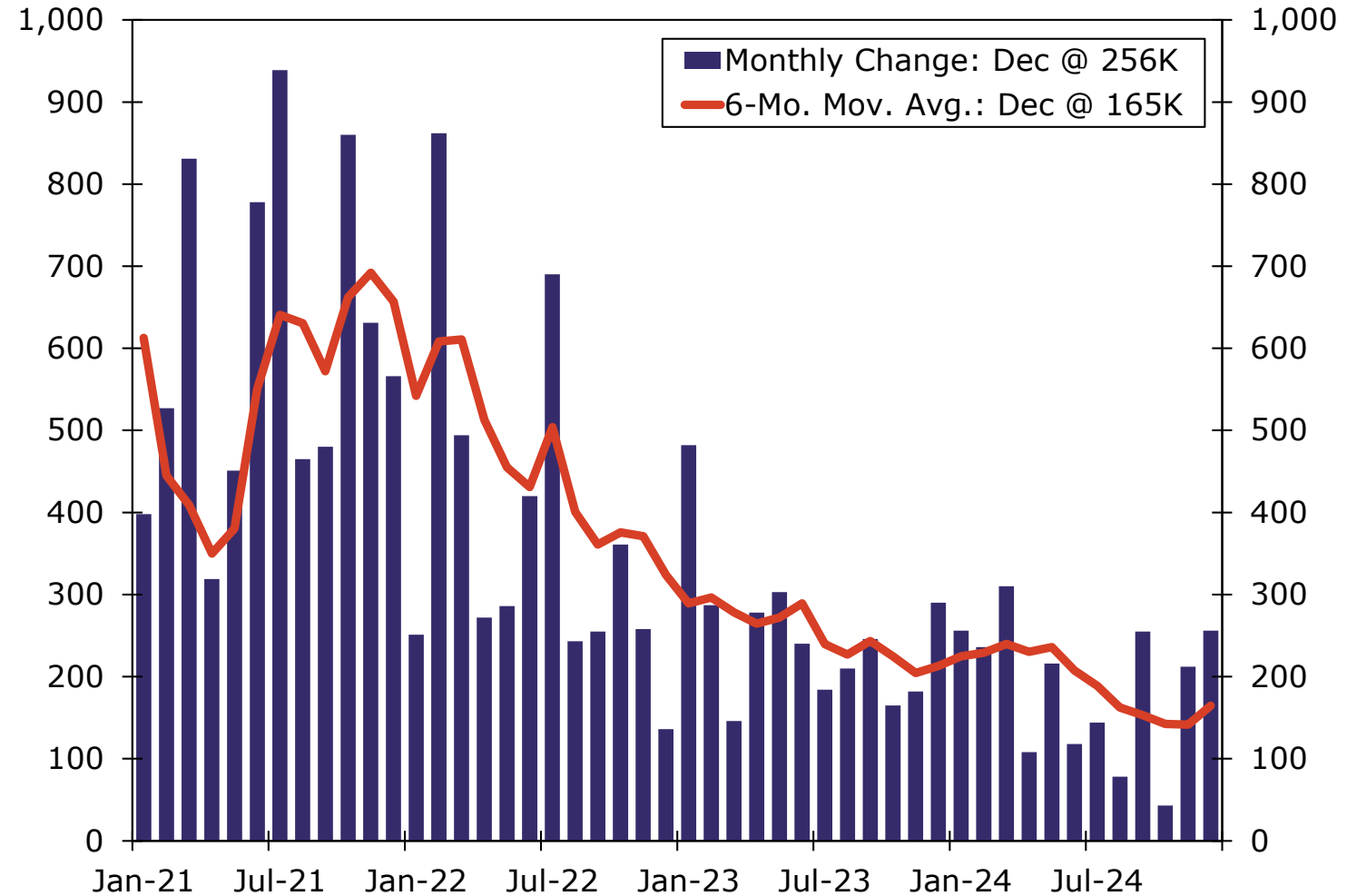
## U.S. Real GDP Growth



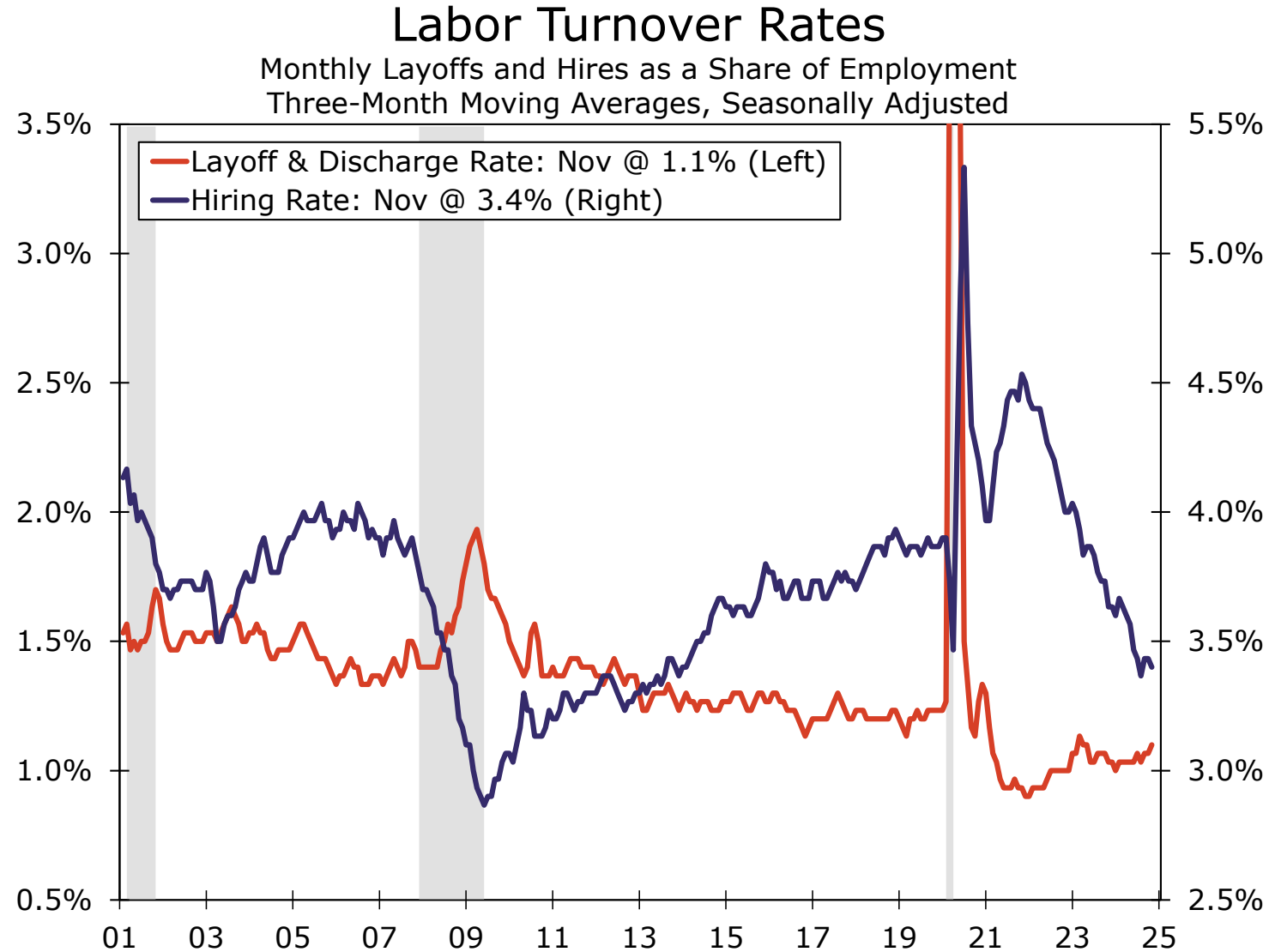
Employers are adding jobs at a respectable clip, although the pace of employment growth has moderated over the past year

## U.S. Nonfarm Employment Change

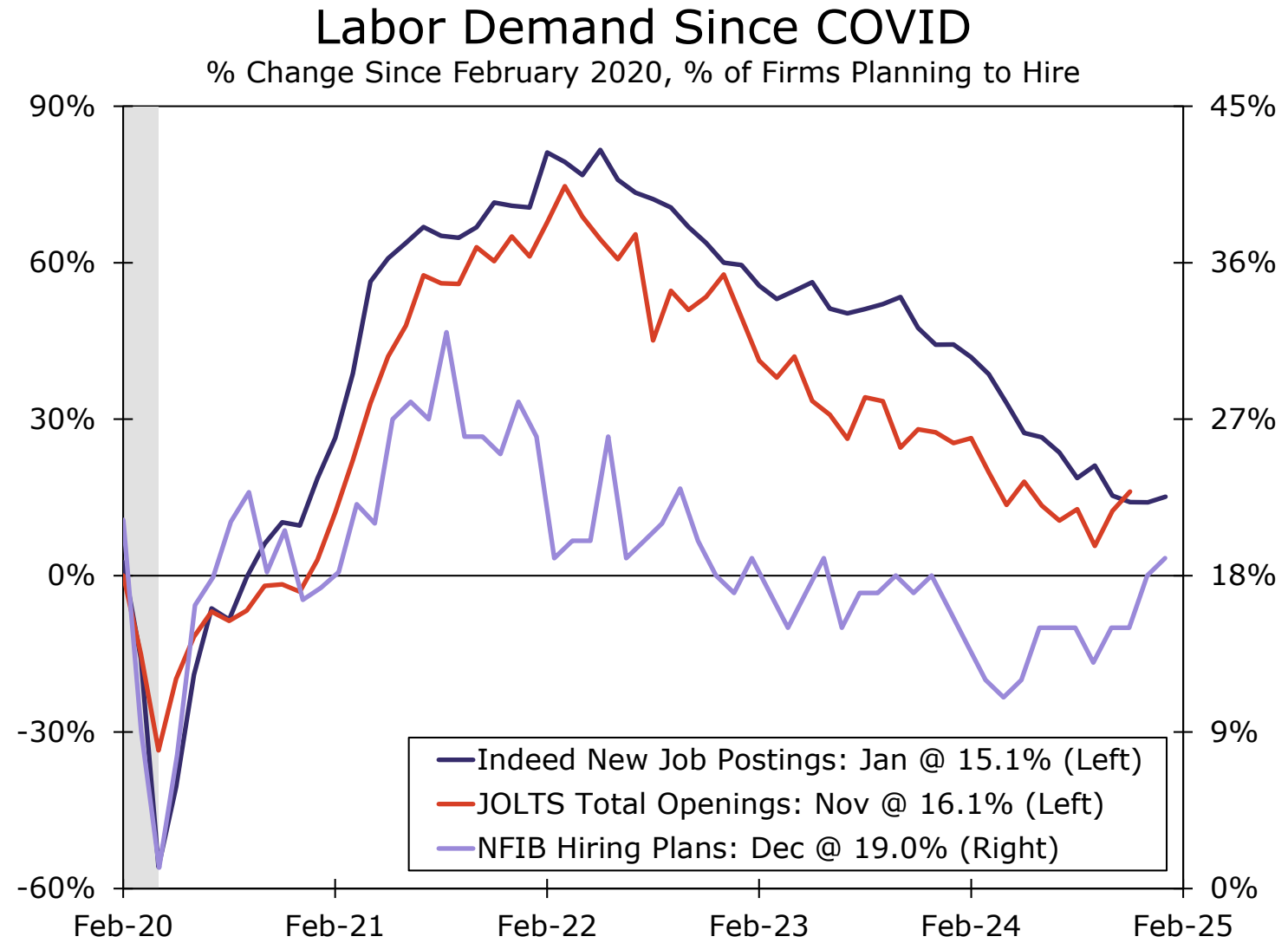
Thousands



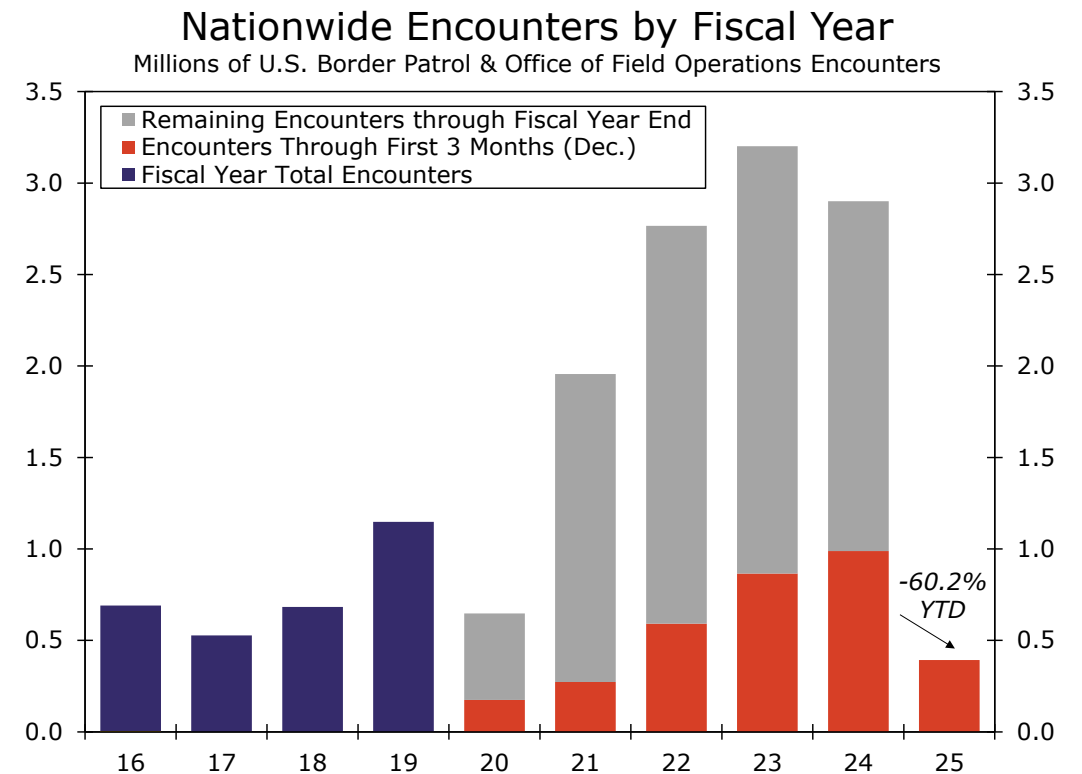
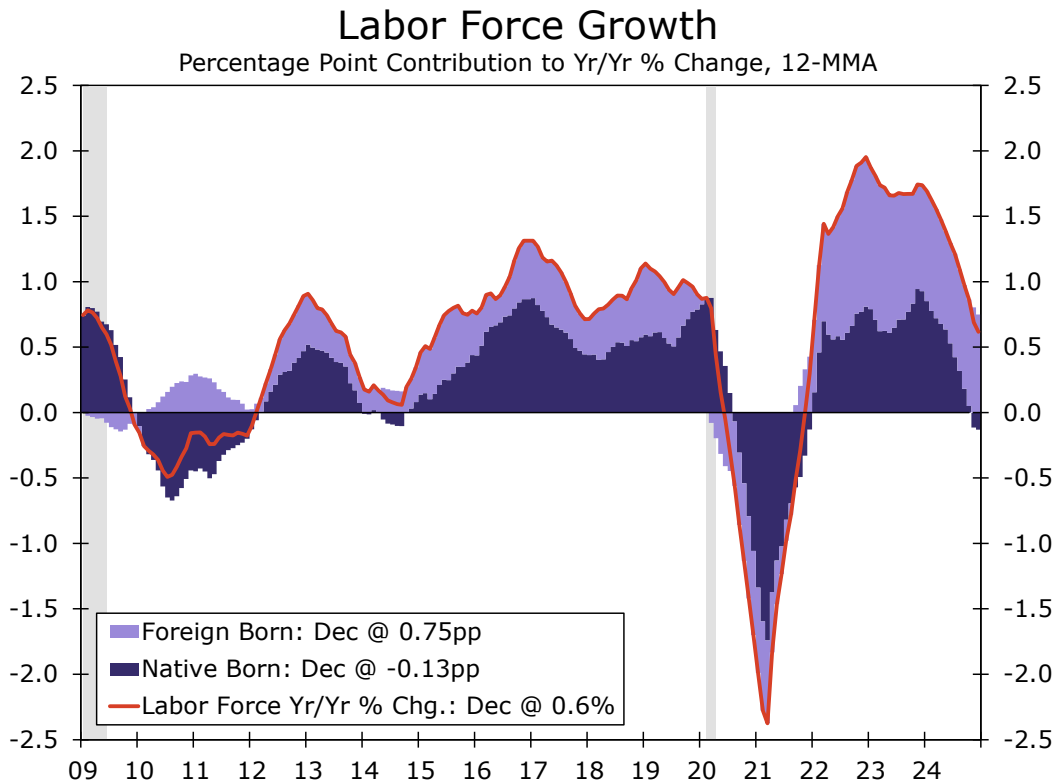
Businesses are cautious about hiring new workers, but reluctant to lay off existing ones



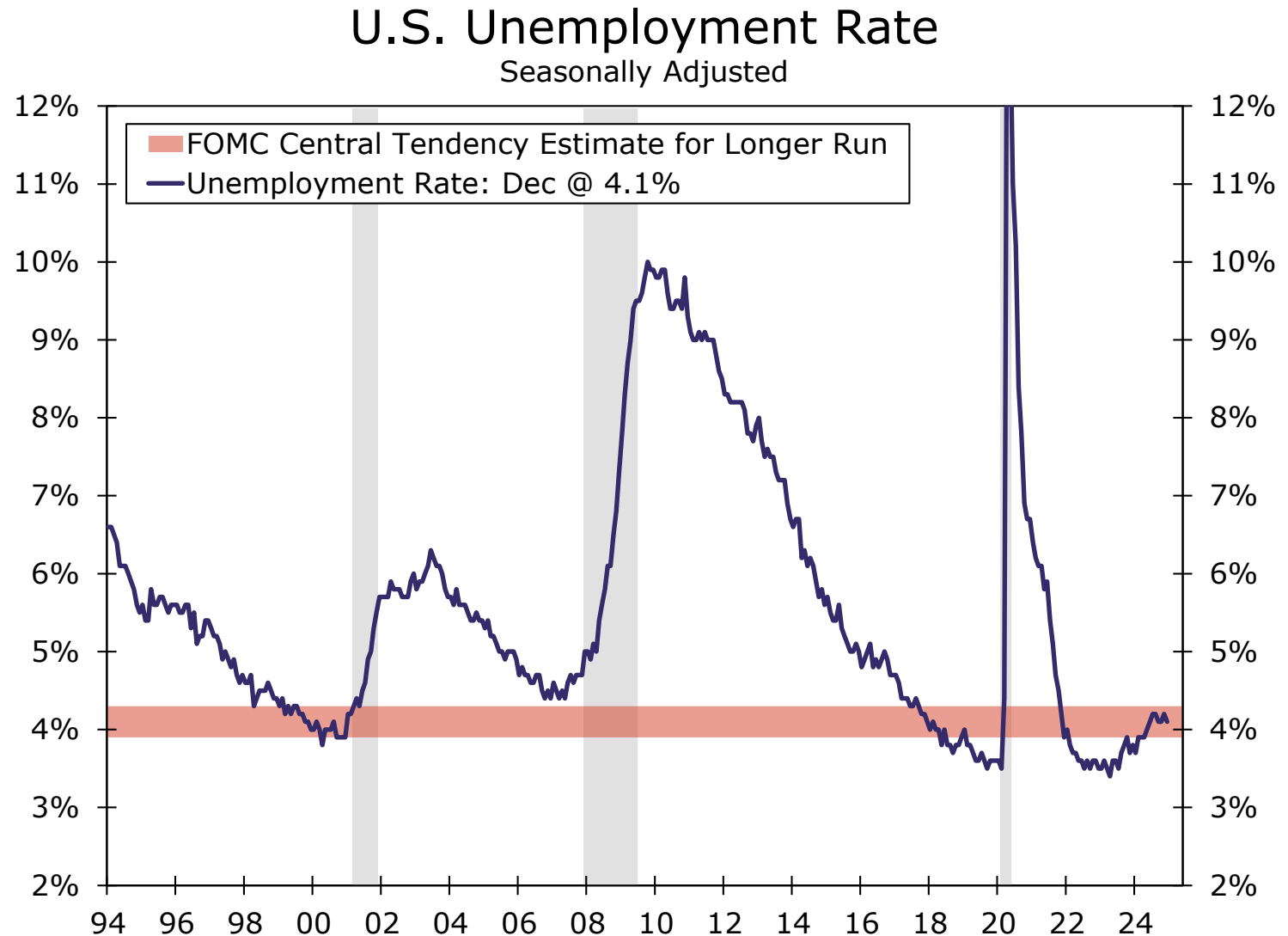
The downward trend in labor demand shows some tentative signs of coming to an end



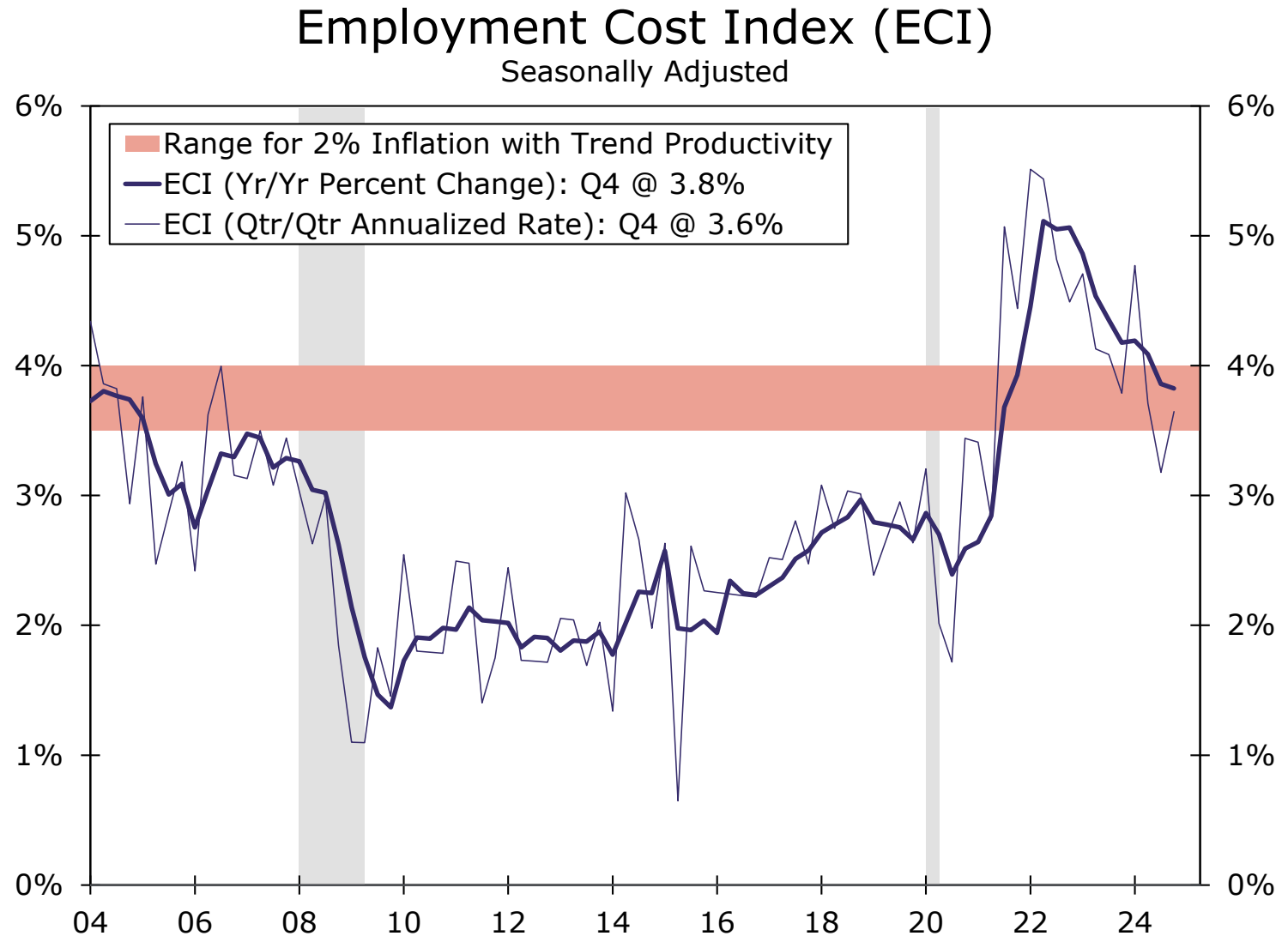
The post-pandemic rebound in labor force growth has come to an end, while tighter immigration poses an additional challenge to labor supply growth ahead



The jobs market has cooled in an orderly way and is consistent with the Fed's estimate of "full employment"

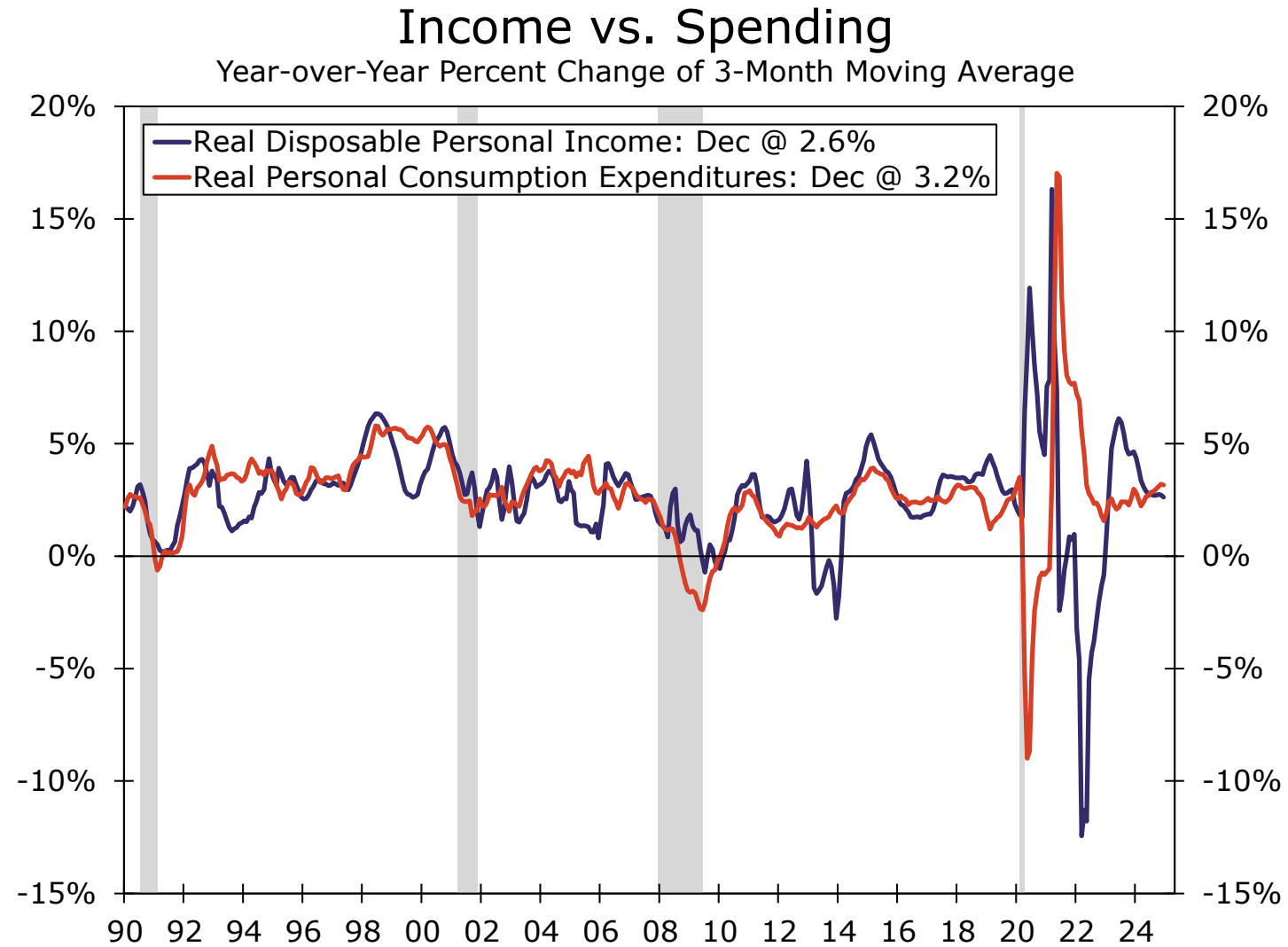


Employment costs are roughly in line with the Fed's 2% target when considering productivity growth





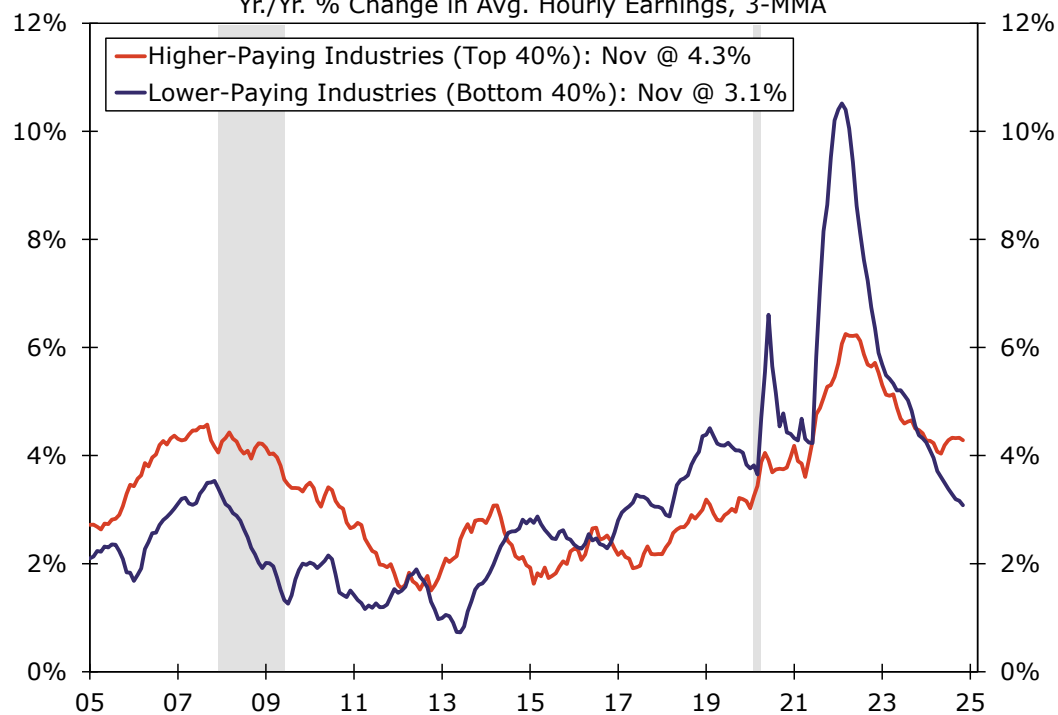
Real income growth is allowing consumers to continue to spend at a solid pace



The aggregate strength of consumer spending masks some variation under the surface. Wage growth has slowed more sharply for lower-paid workers, and households at the lower end of the income distribution are also facing stiffer inflation.

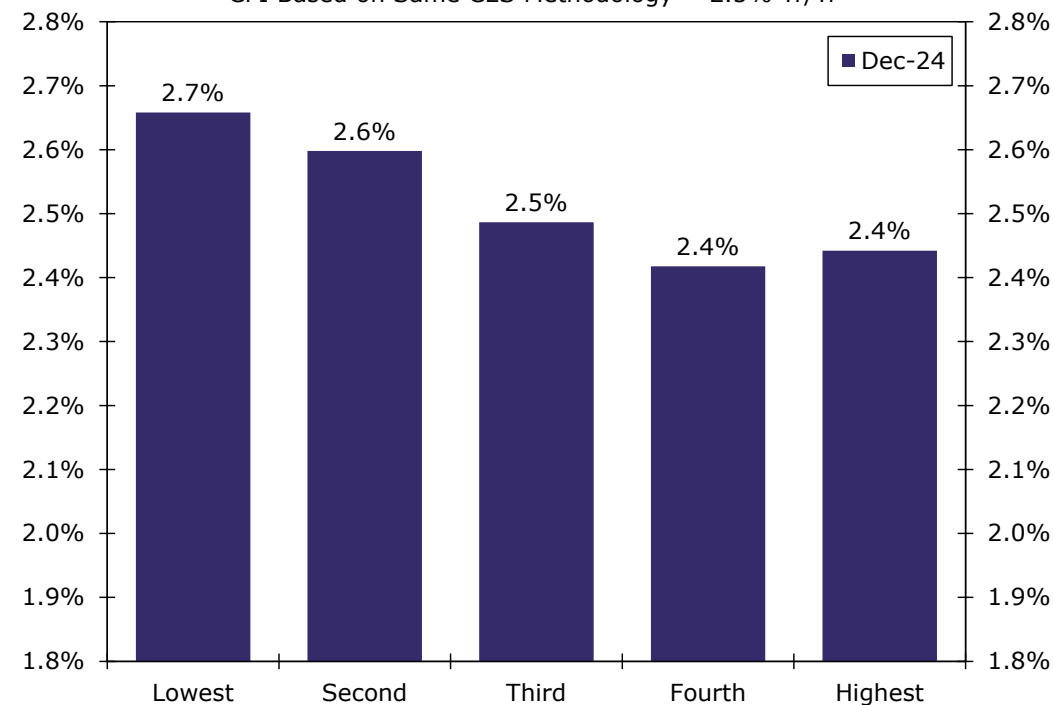
## Wage Growth Across the Pay Spectrum

Jobs Ranked by 2022 Industry Average Weekly Earnings  
Yr./Yr. % Change in Avg. Hourly Earnings, 3-MMA



## Inflation by Income Quintiles

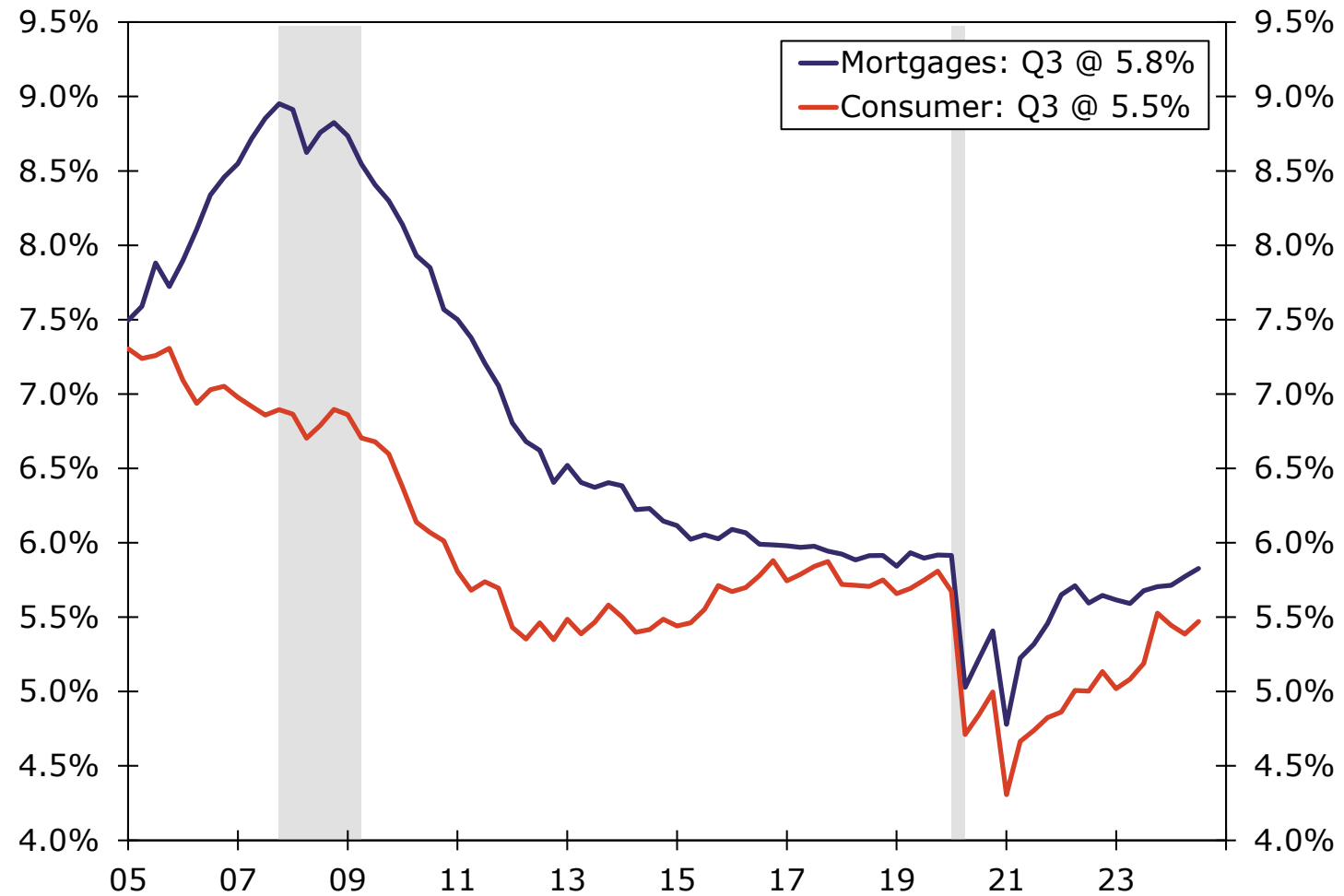
CPI Based on Same CES Methodology = 2.5% Yr/Yr



Household balance sheets remain in good shape overall. Debt service remains moderate despite higher interest rates over the past few years.

## Debt Service Ratios: Mortgages vs. Consumer

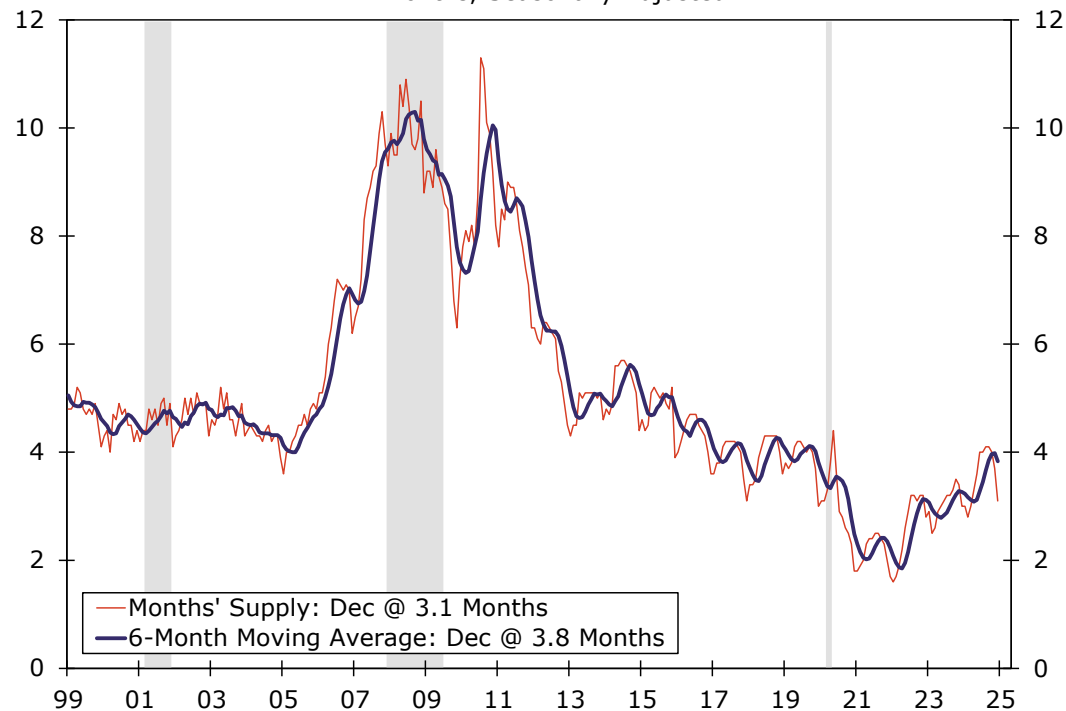
As a Percent of Disposable Personal Income



Despite improving over the past two years, the inventory of homes for sale remains historically low. Affordability remains a significant challenge to new buyers.

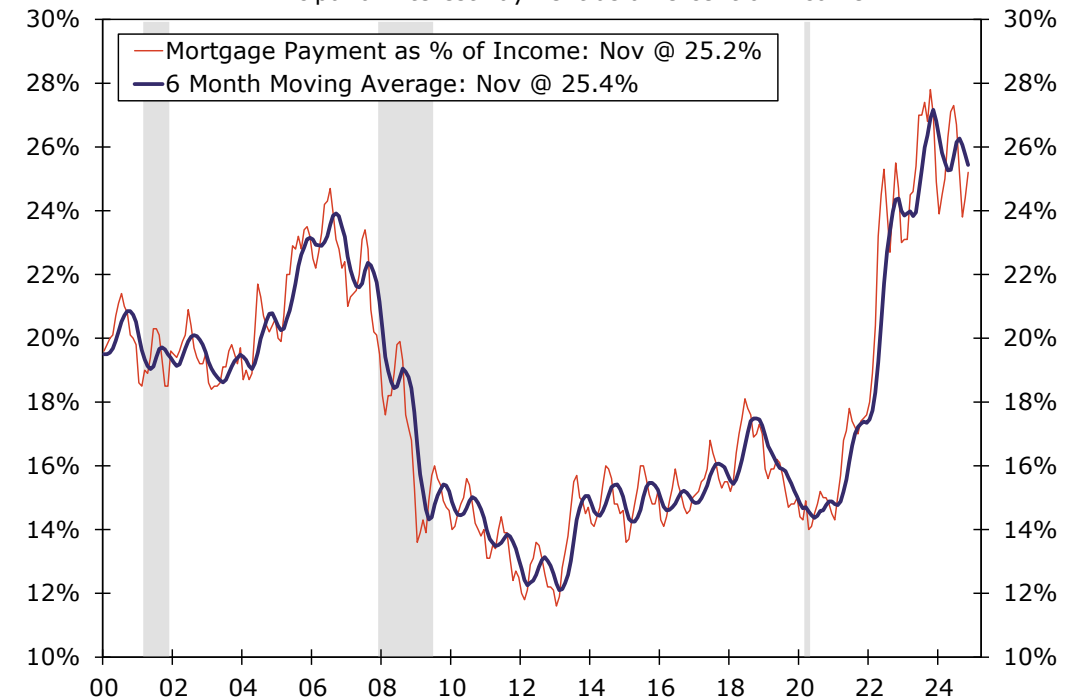
## Inventory of Existing Single-Family Homes

In Months, Seasonally Adjusted



## Mortgage Payment of New Buyers

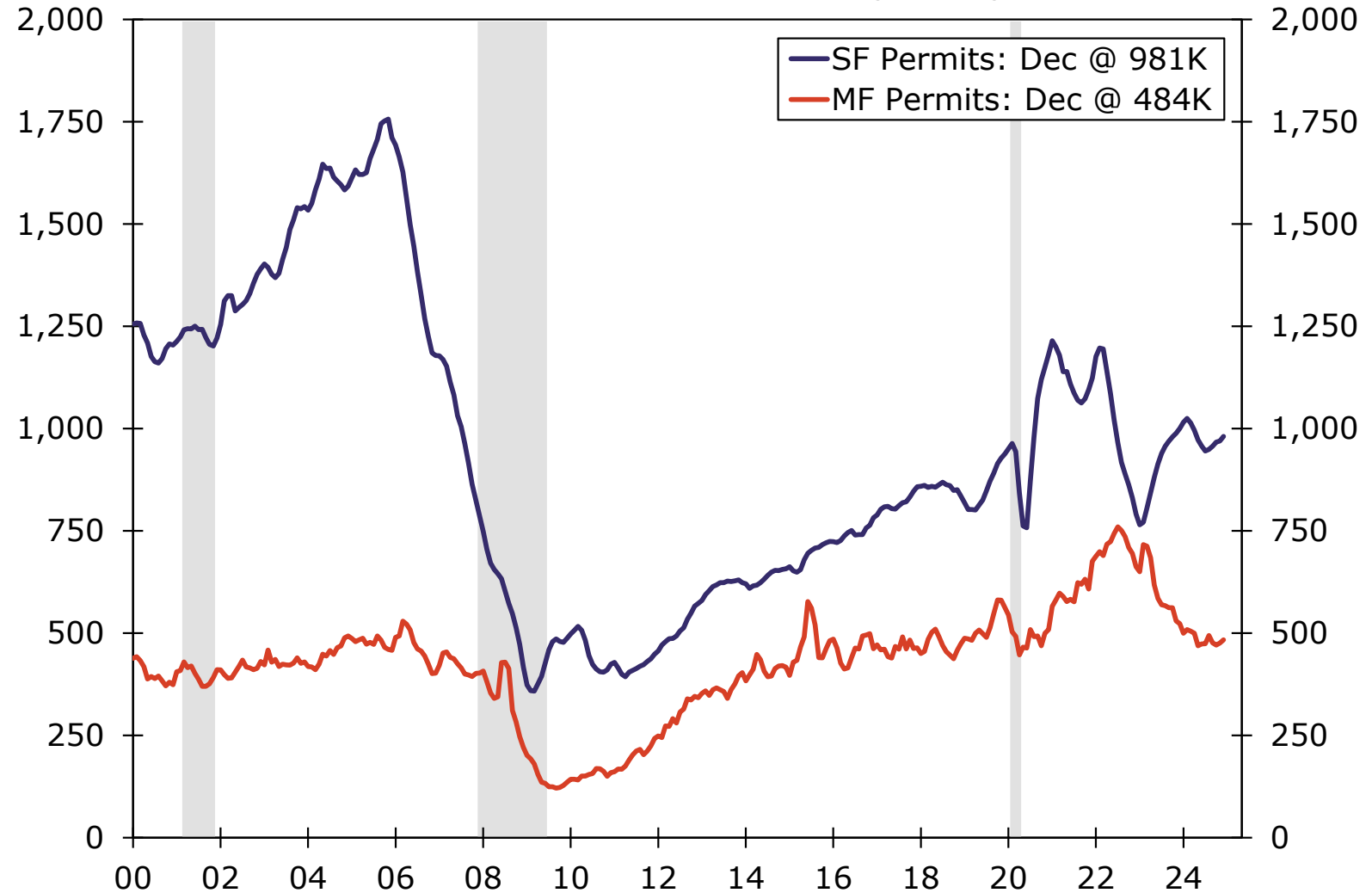
Principal & Interest Payment as a Percent of Income



Housing units under construction remain high compared to the past cycle, but the pipeline has started to thin amid elevated supply of new homes for sale and apartment vacancy rates

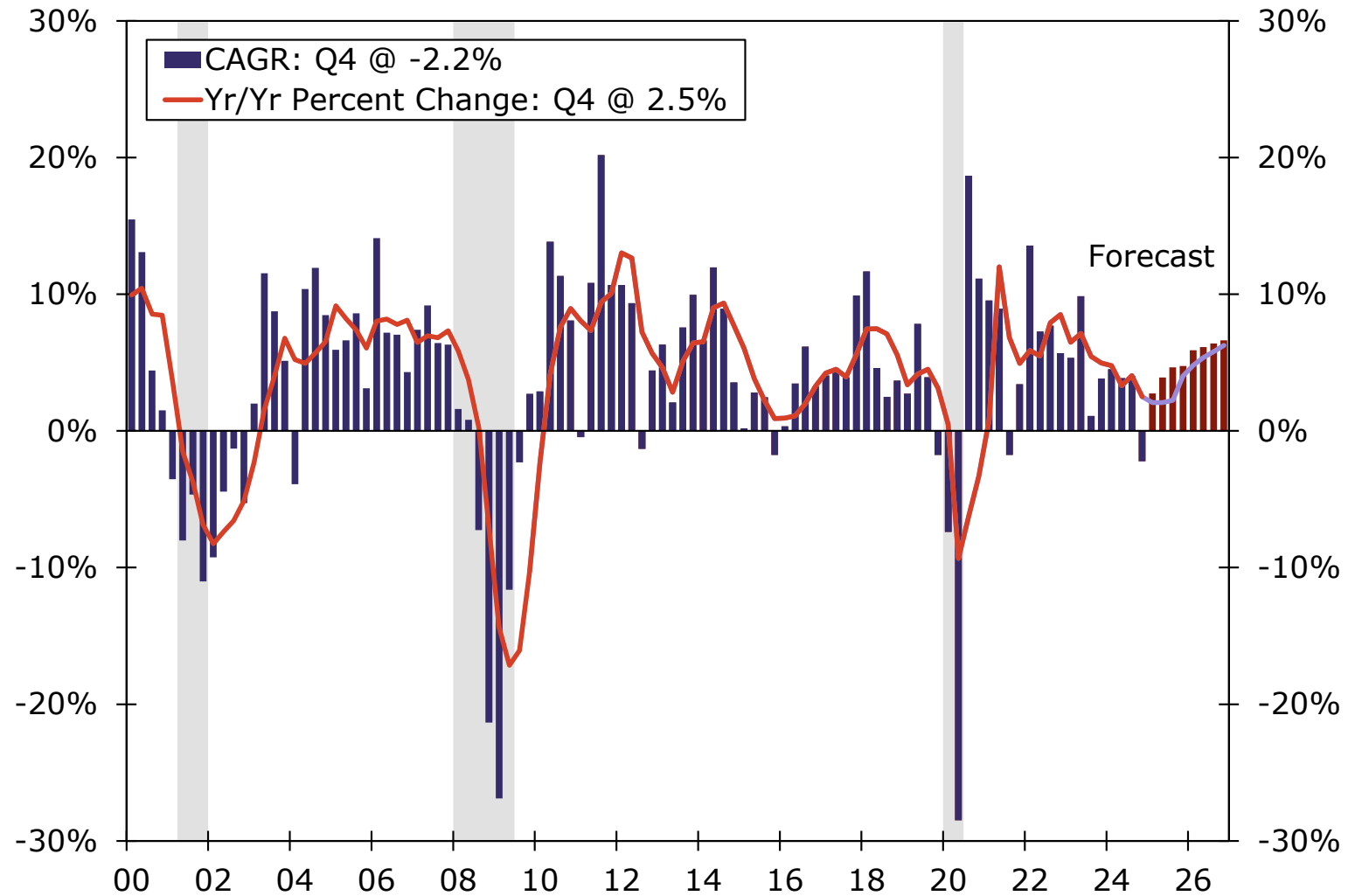
## Single & Multifamily Building Permits

SAAR, Thousands, 3-Month Moving Average



Business investment has slowed following higher borrowing rates

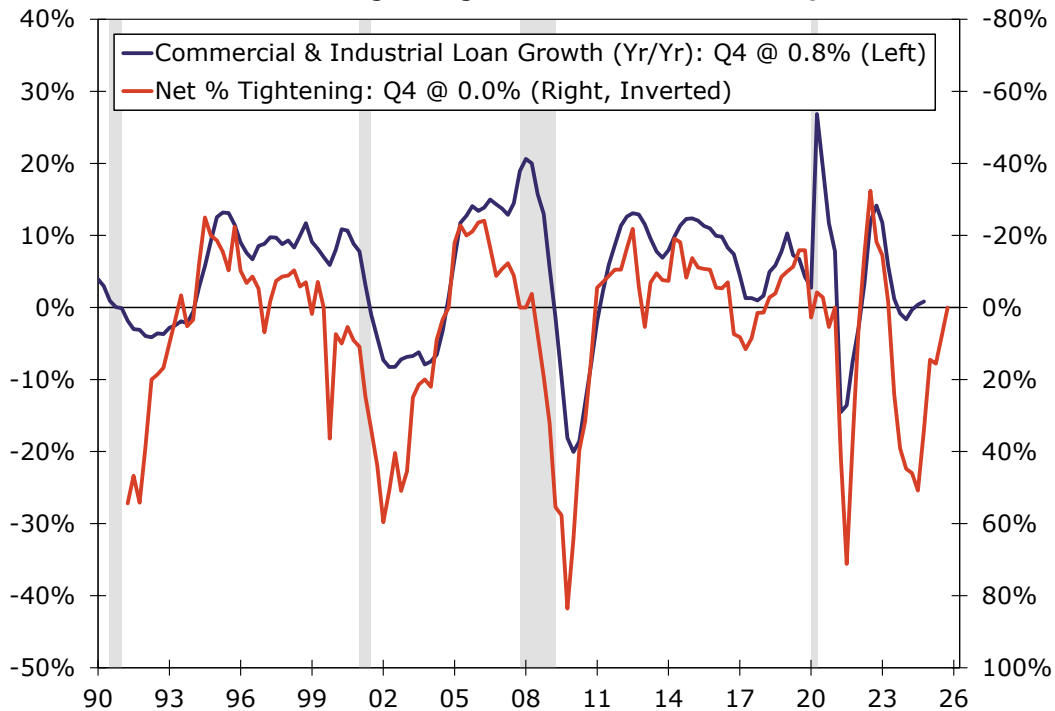
## Real Business Fixed Investment



Easing credit conditions and improving capital expenditure plans should help to support capital spending later this year

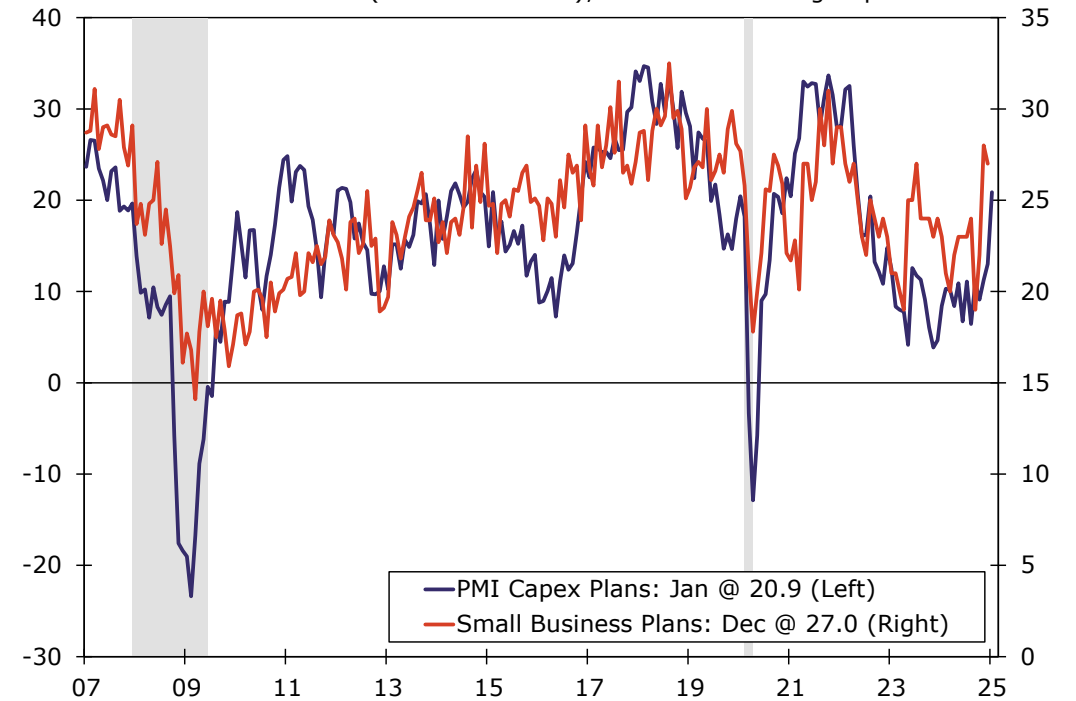
## Commercial Bank Lending vs. Loan Standards

Net % of Banks Tightening Standards Advanced Four Quarters

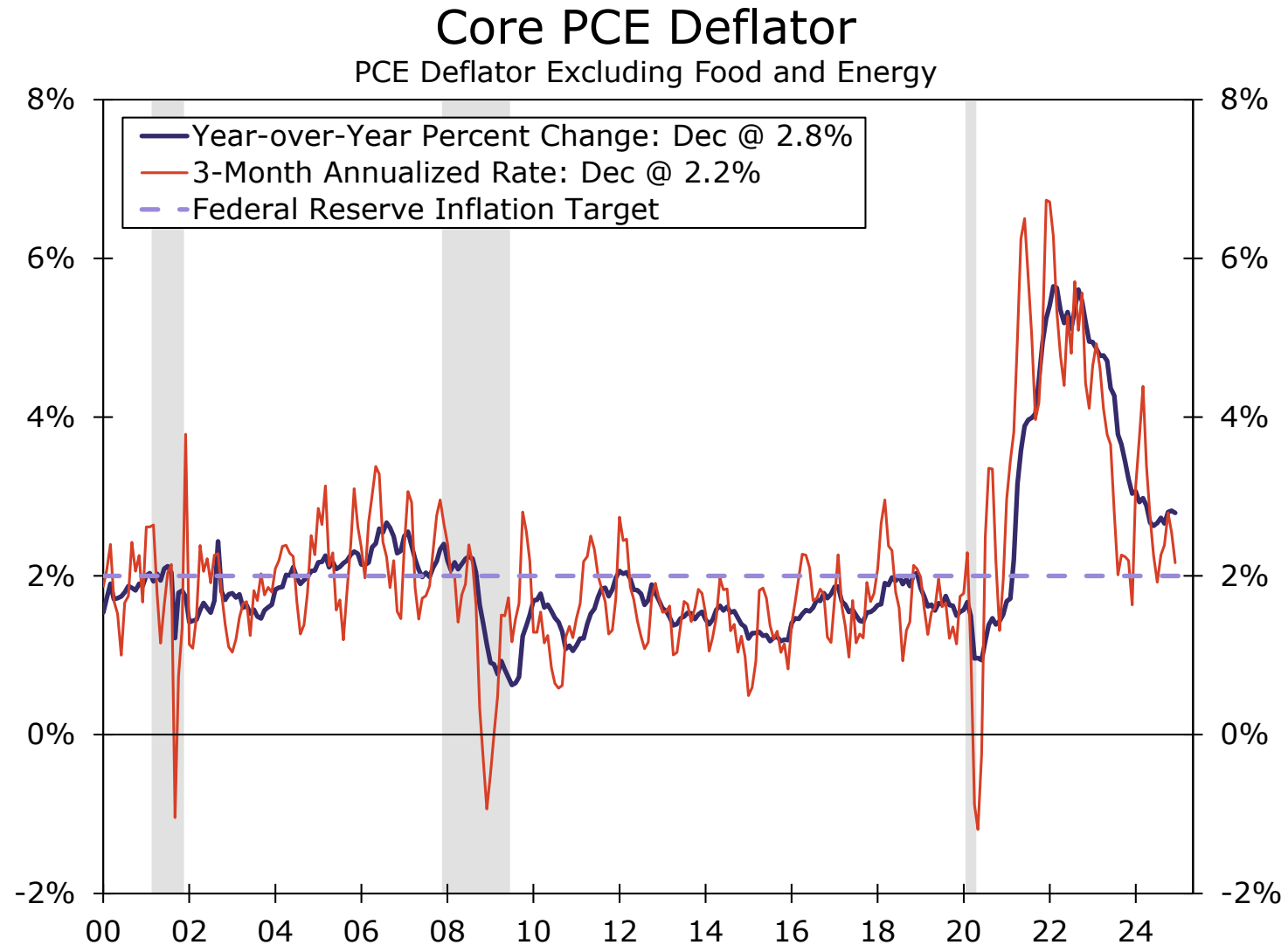


## Capex Plans Six Months Ahead

Fed Manuf. PMIs (Diffusion Indices); NFIB % Increasing Capex

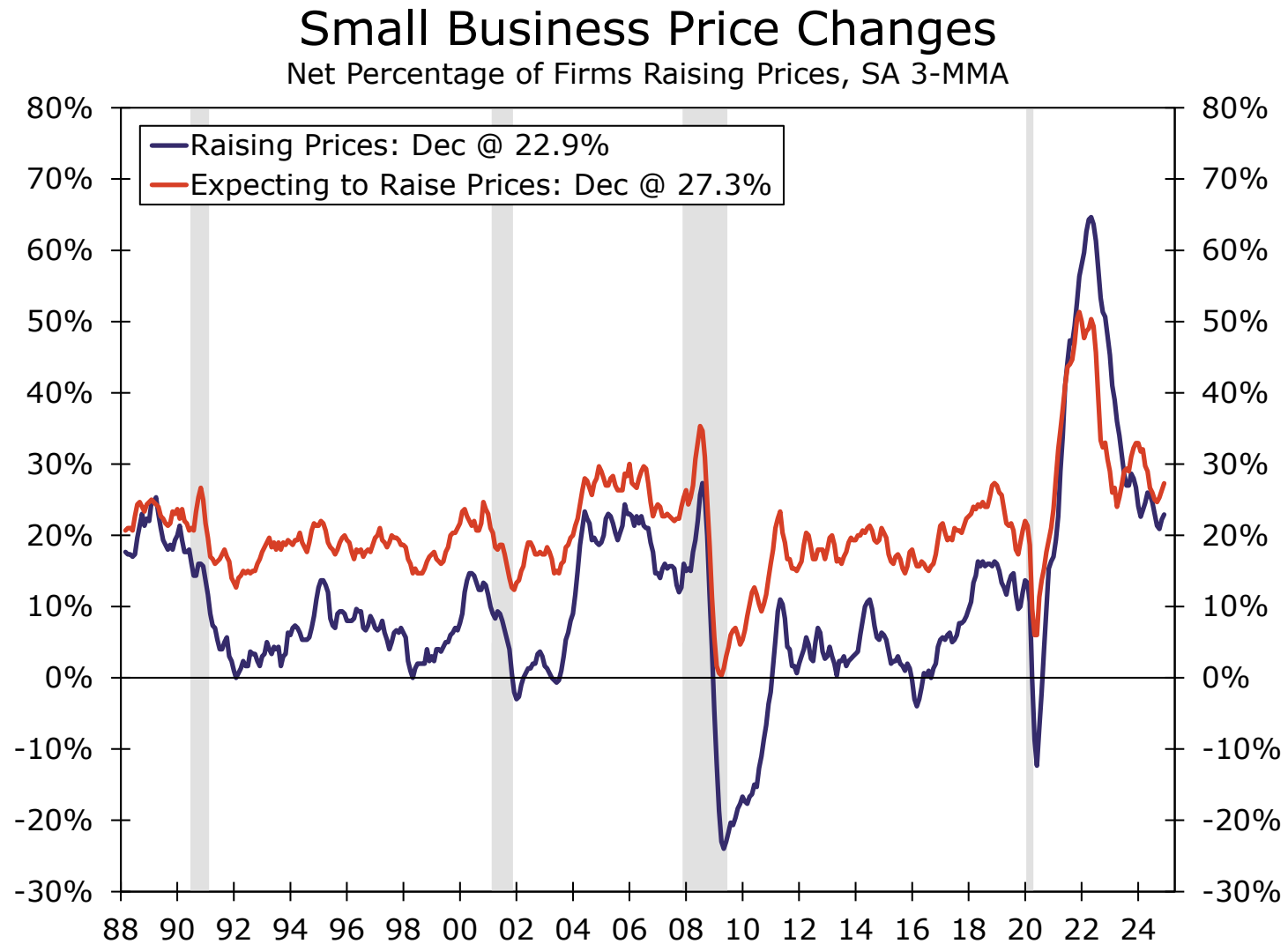


Inflation has fallen significantly since its peak this cycle, but progress has been frustratingly-slow more recently

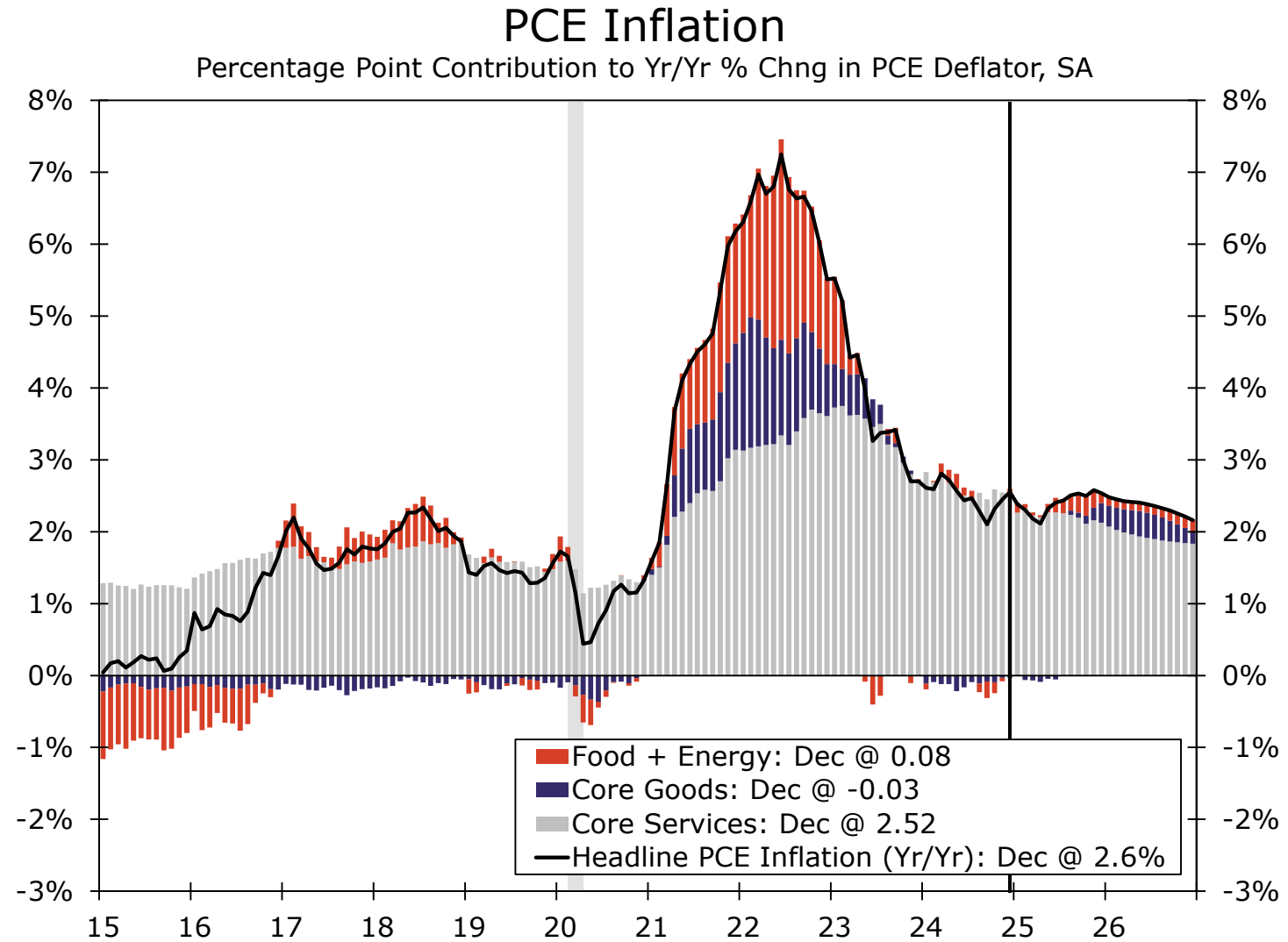




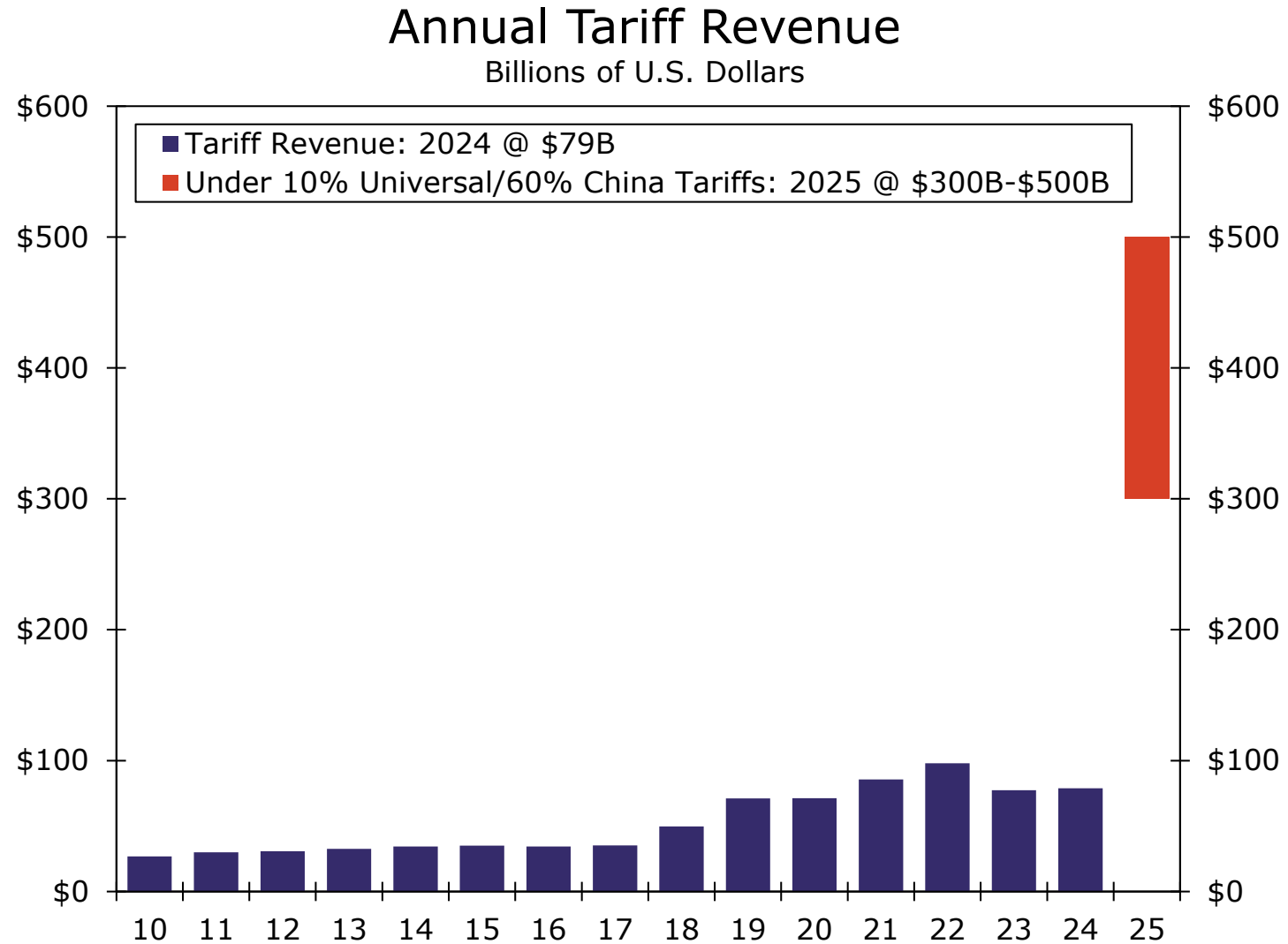
Businesses continue to adjust prices more frequently than before the pandemic



Inflation is likely to remain stuck above the 2% target this year



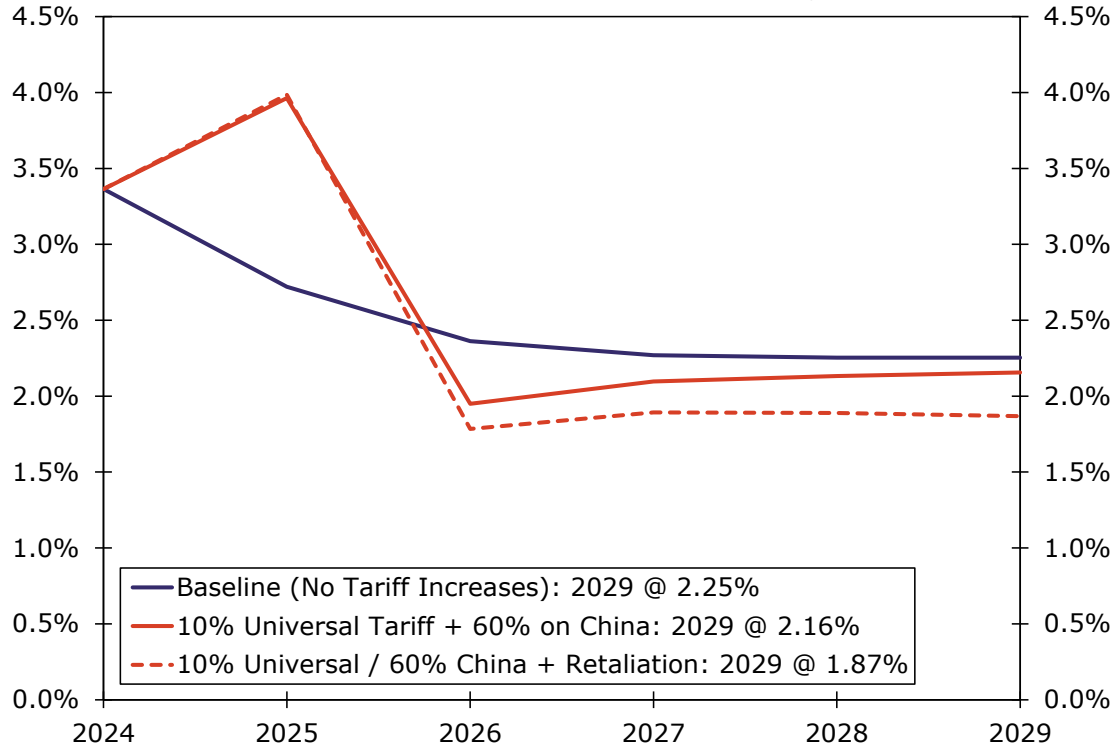
The magnitude of potential tariff increases stands to be large and could be a significant source of additional revenue



Tariffs would impart a stagflationary shock to the economy

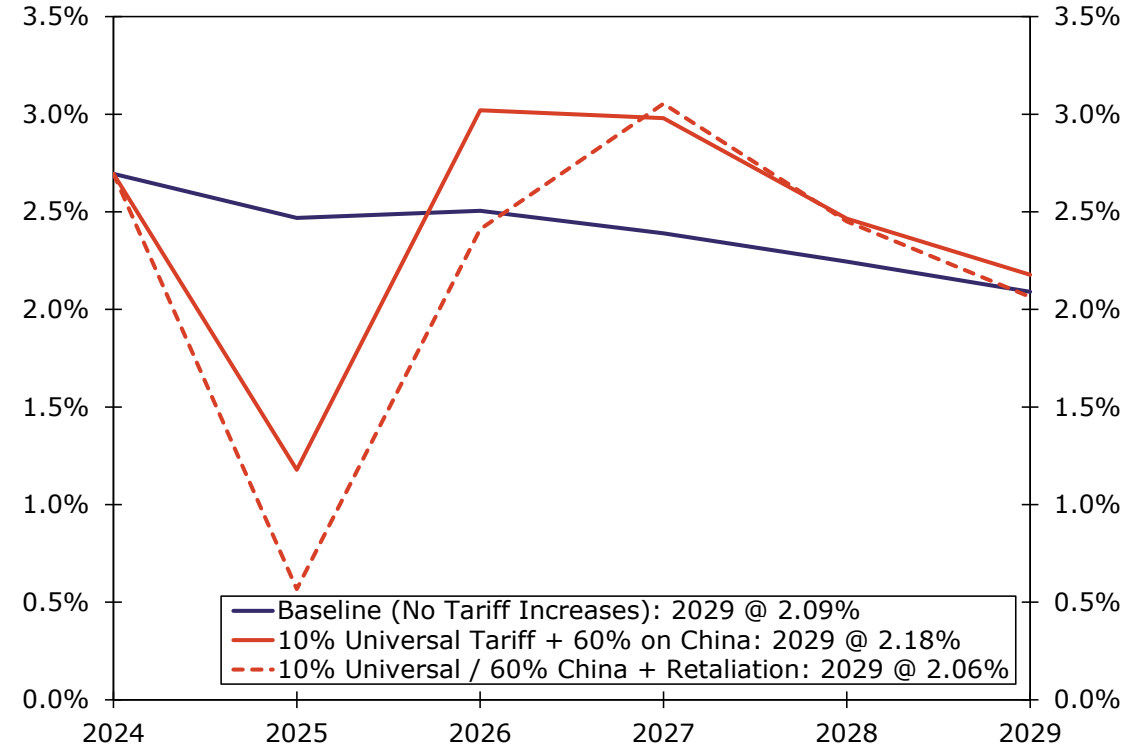
## U.S. Inflation Under Tariff Scenarios

Core Consumer Price Index Yr/Yr % Change



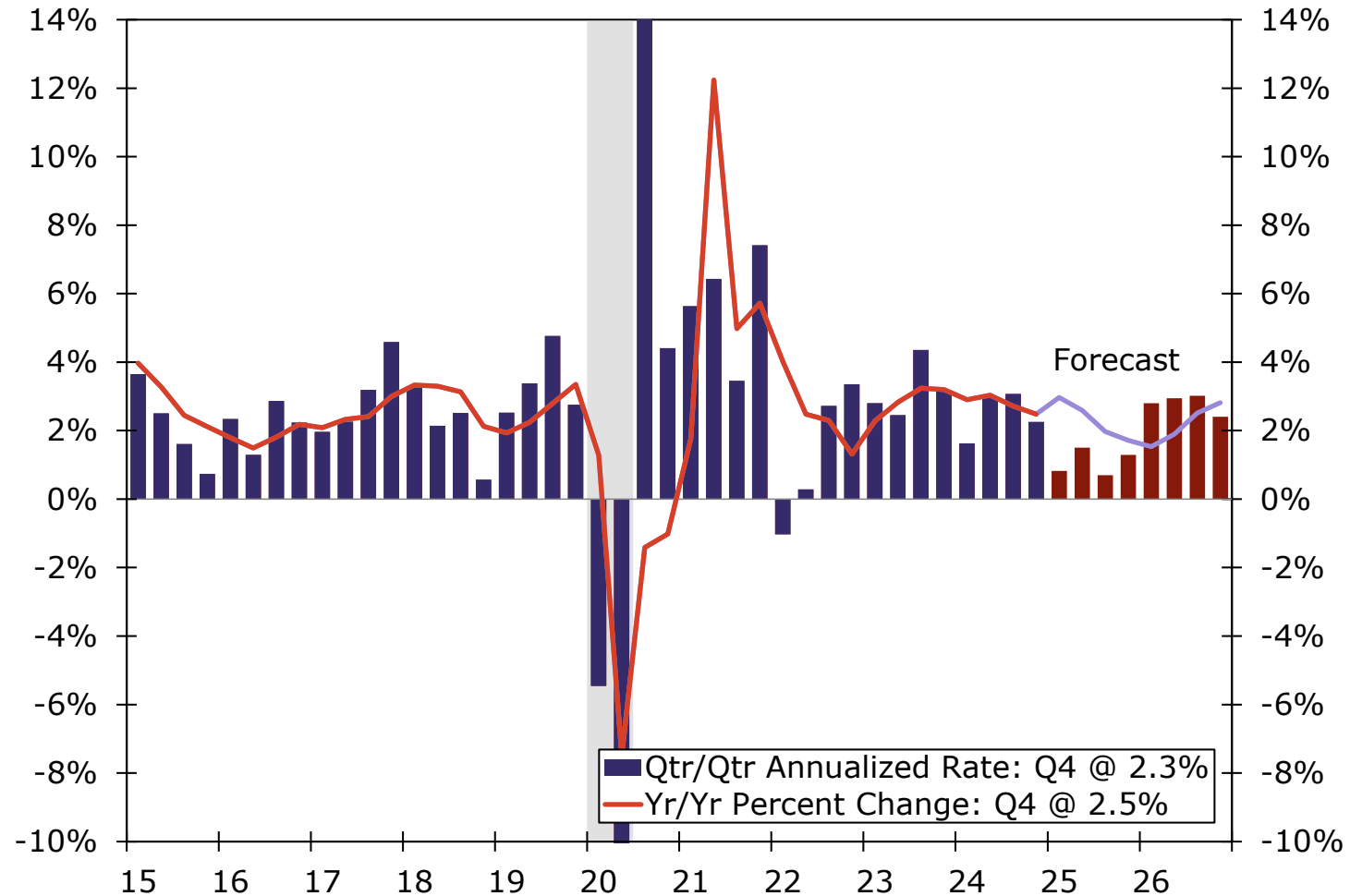
## Real GDP Growth Under Tariff Scenarios

Year-over-Year % Change of Annual Average

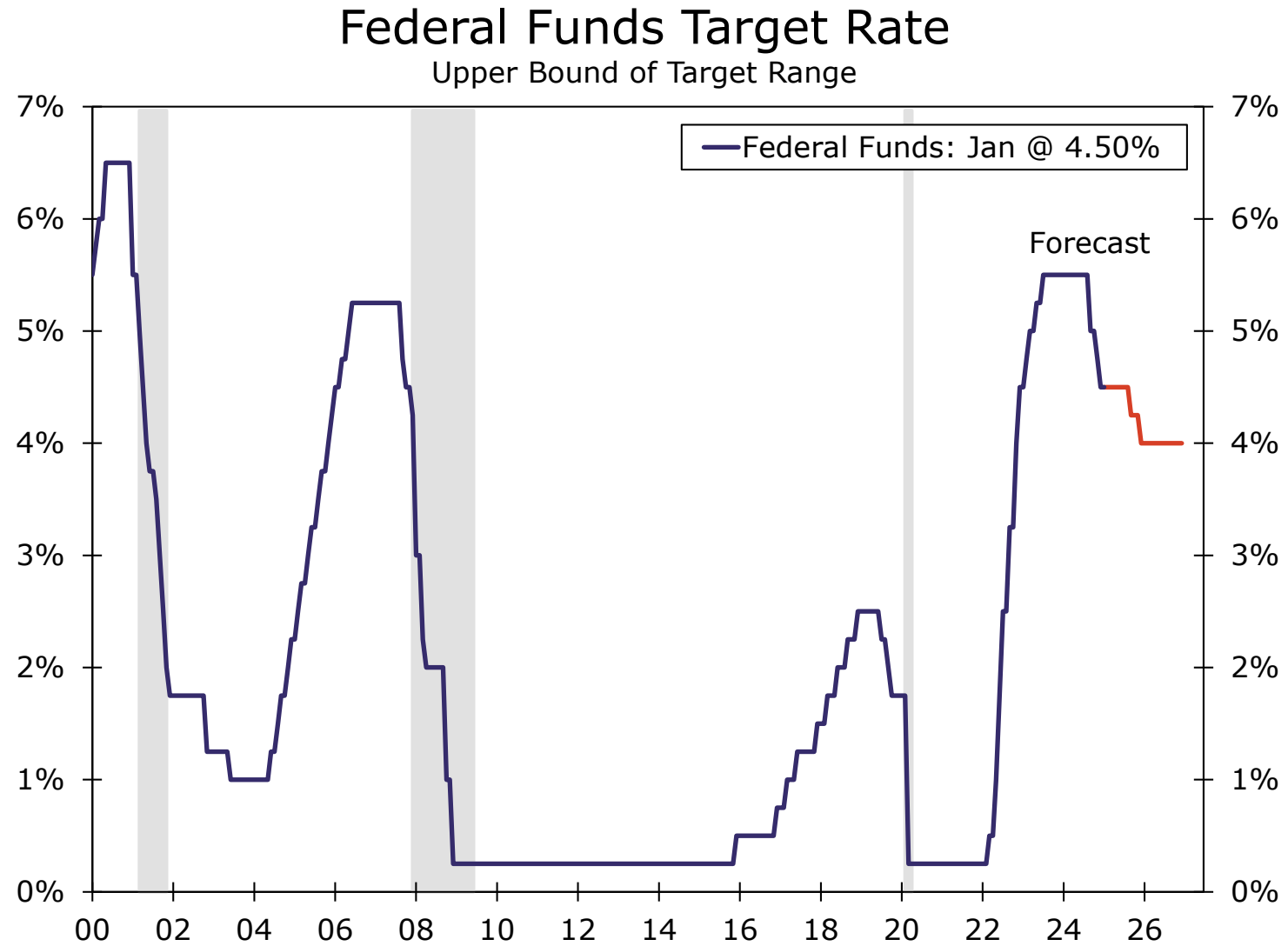


We expect the U.S. economy to continue to expand, but for growth to proceed at a slower pace next year before rebounding in 2026

## U.S. Real GDP Growth



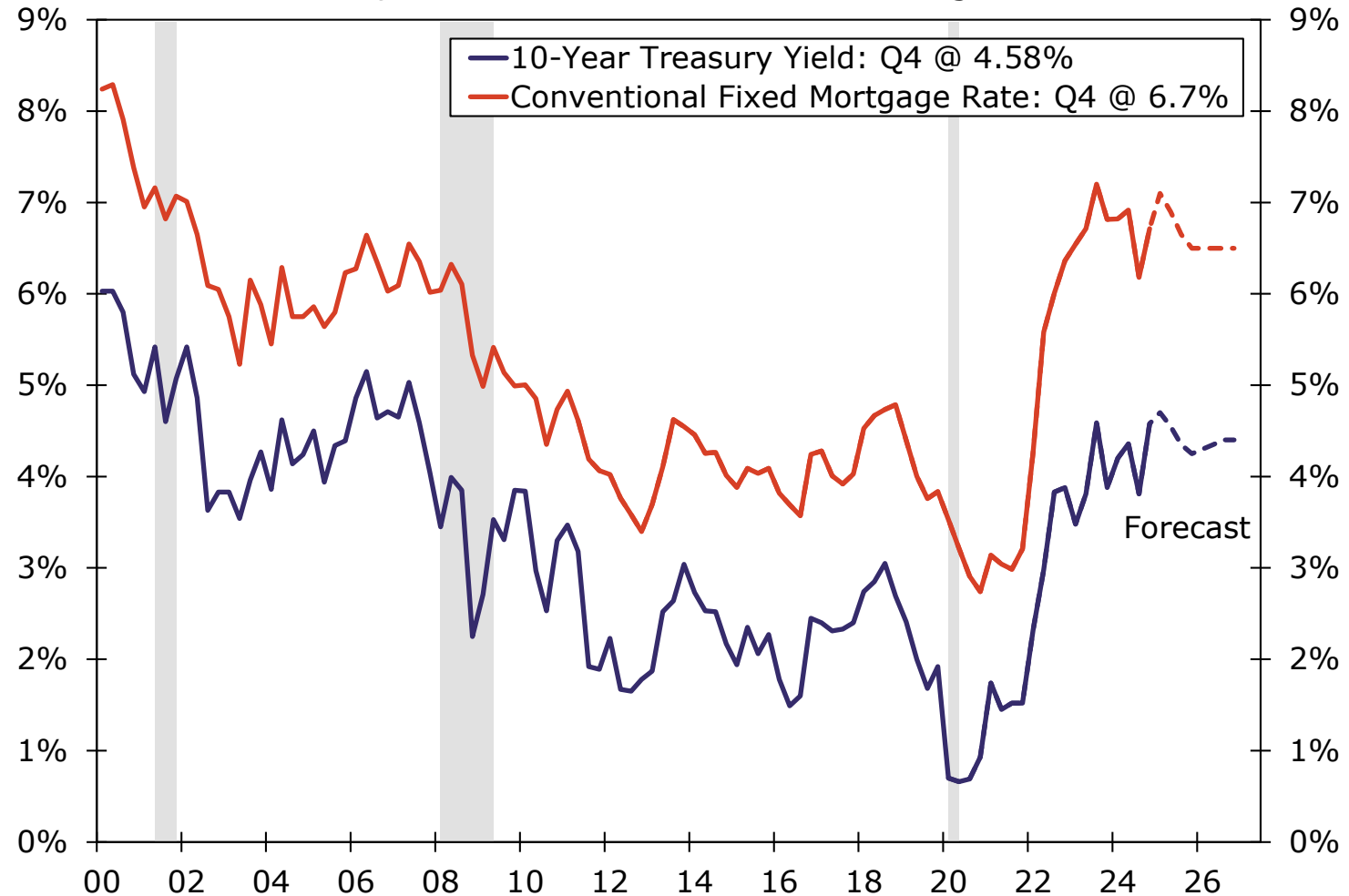
The FOMC is likely to ease policy only slightly further this year, which would keep interest rates elevated relative to the prior cycle



Some further Fed easing should help reduce benchmark borrowing rates, but concerns over inflation and the federal deficit are likely to limit the decline this year

## Mortgage Rate vs. 10-Year Treasury Yield

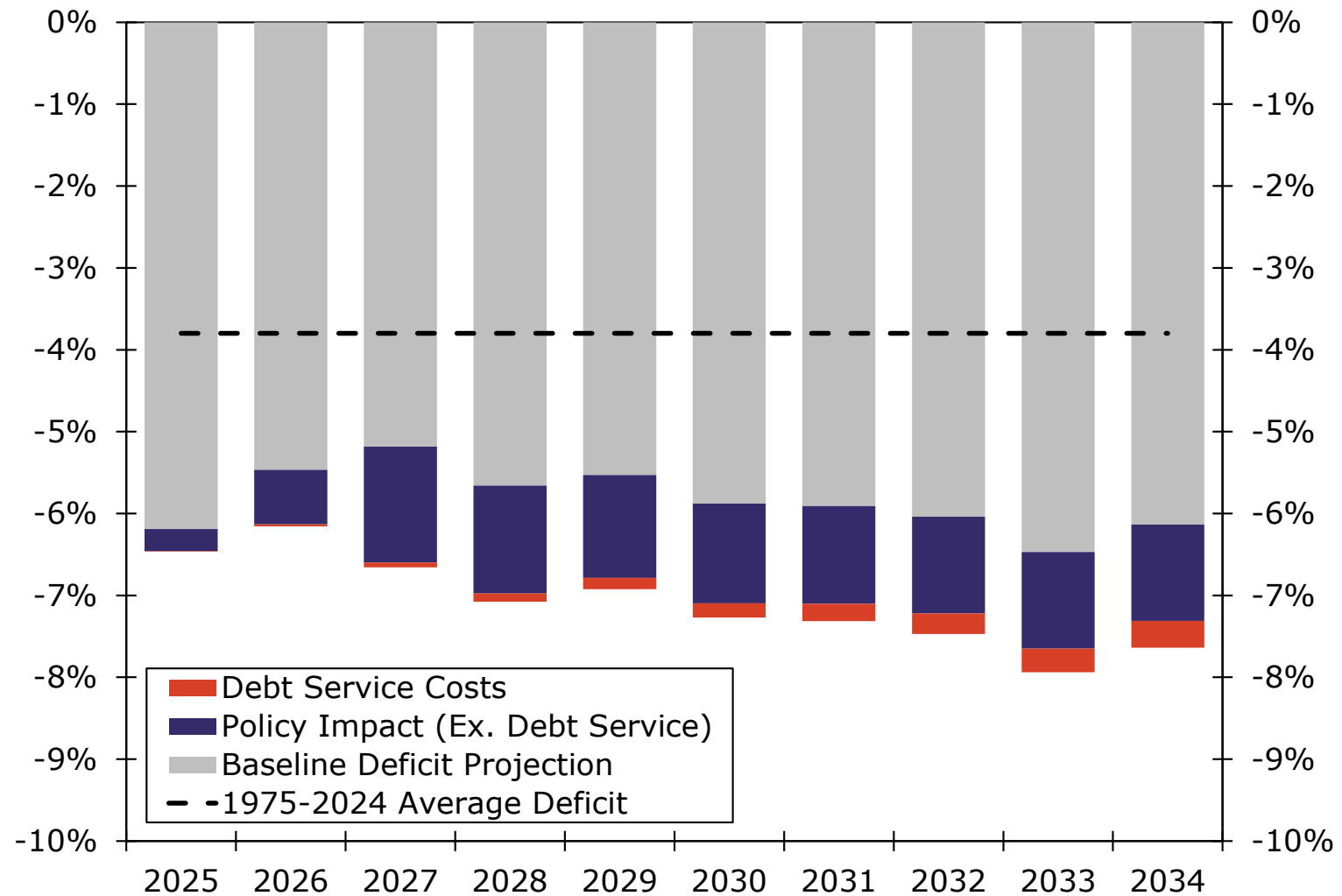
Quarter-End, 30-Year Fixed Rate Average



The Tax Cuts and Jobs Act is likely to be extended in full, with some additional new tax cuts effective at the beginning of 2026

## The Fiscal Cost of Extending the TCJA

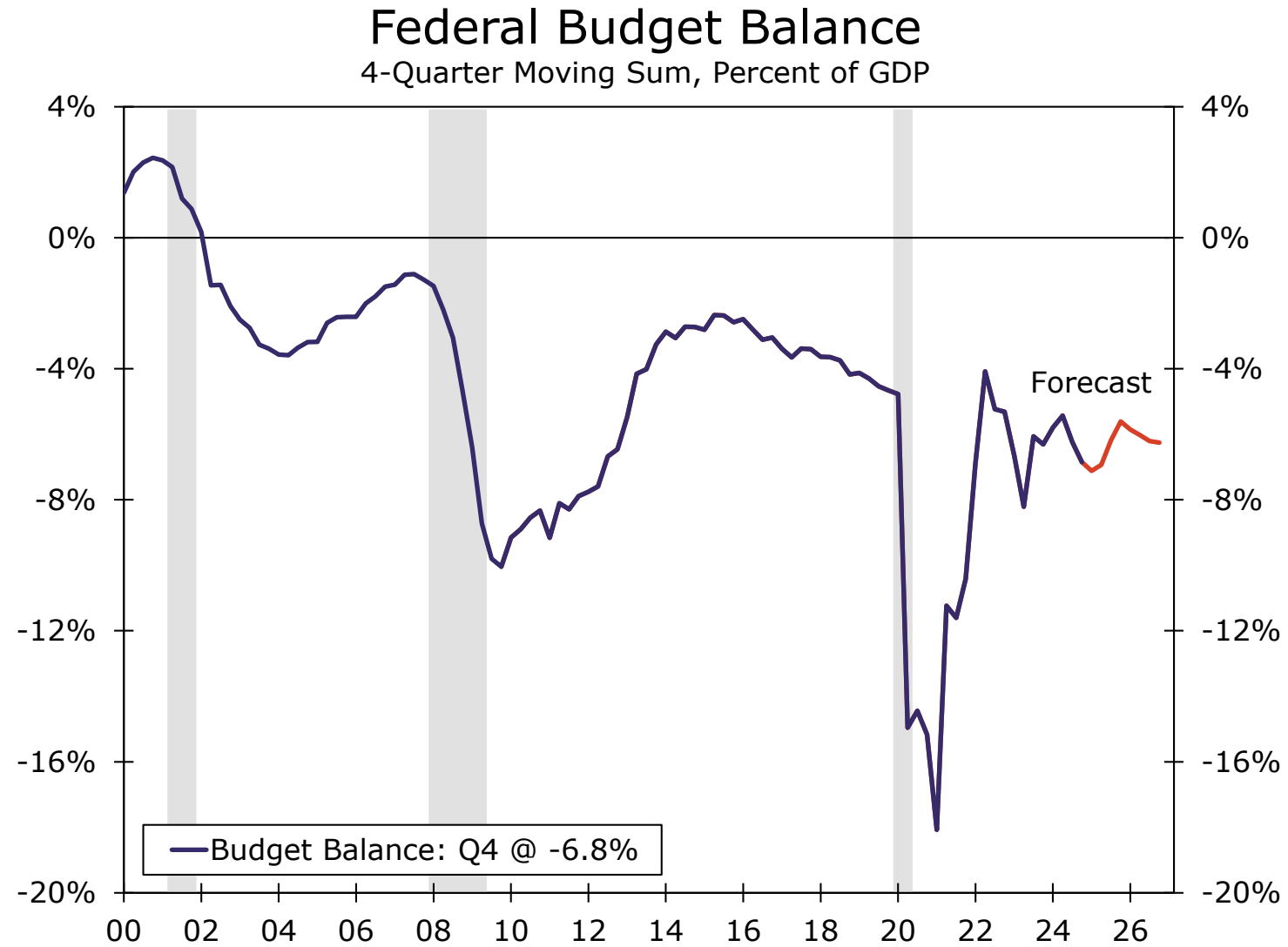
Deficit under Full Extension; % of GDP; CBO Estimates





# Federal Budget Deficit

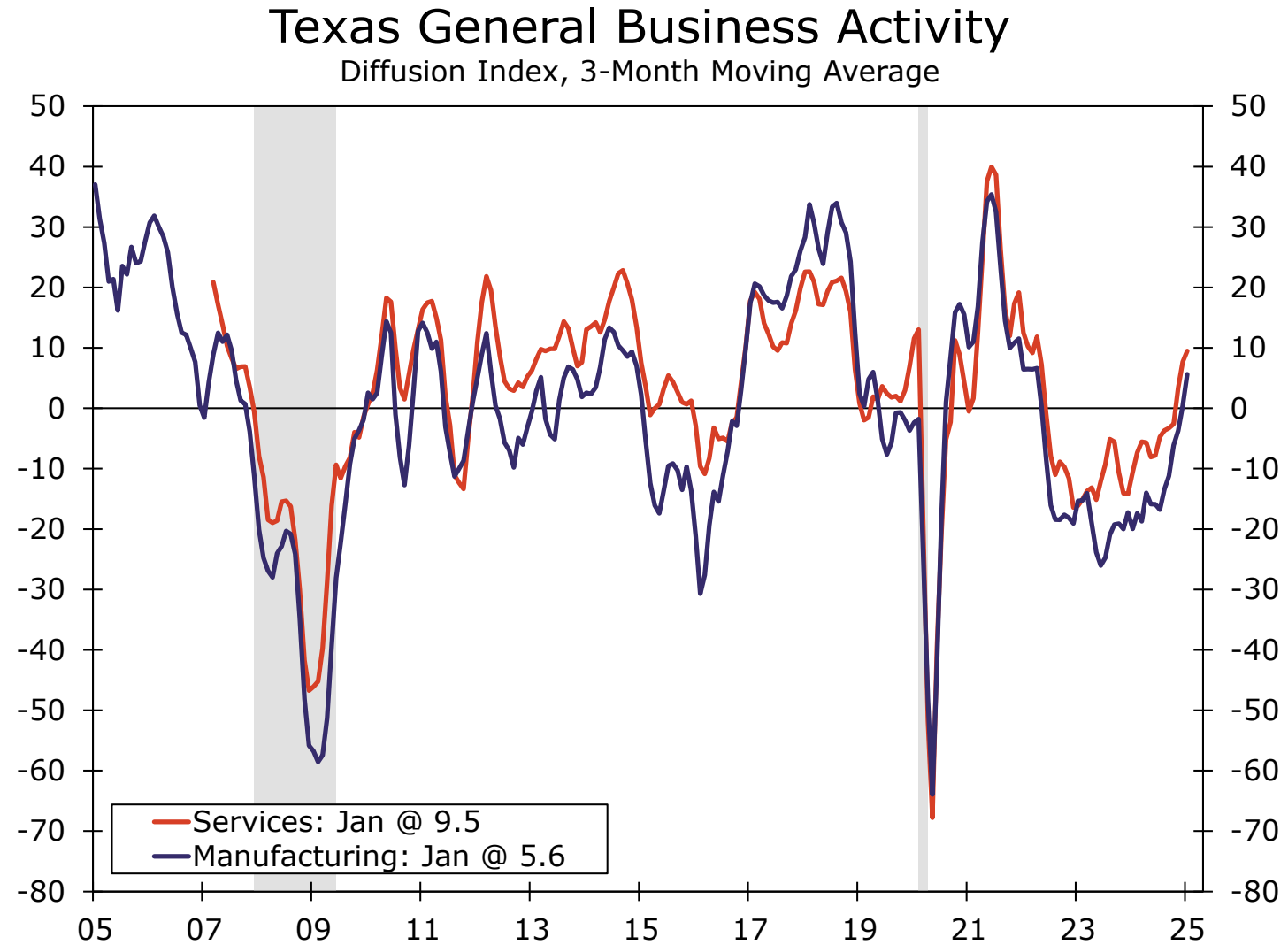
The U.S. is already running a historically wide deficit

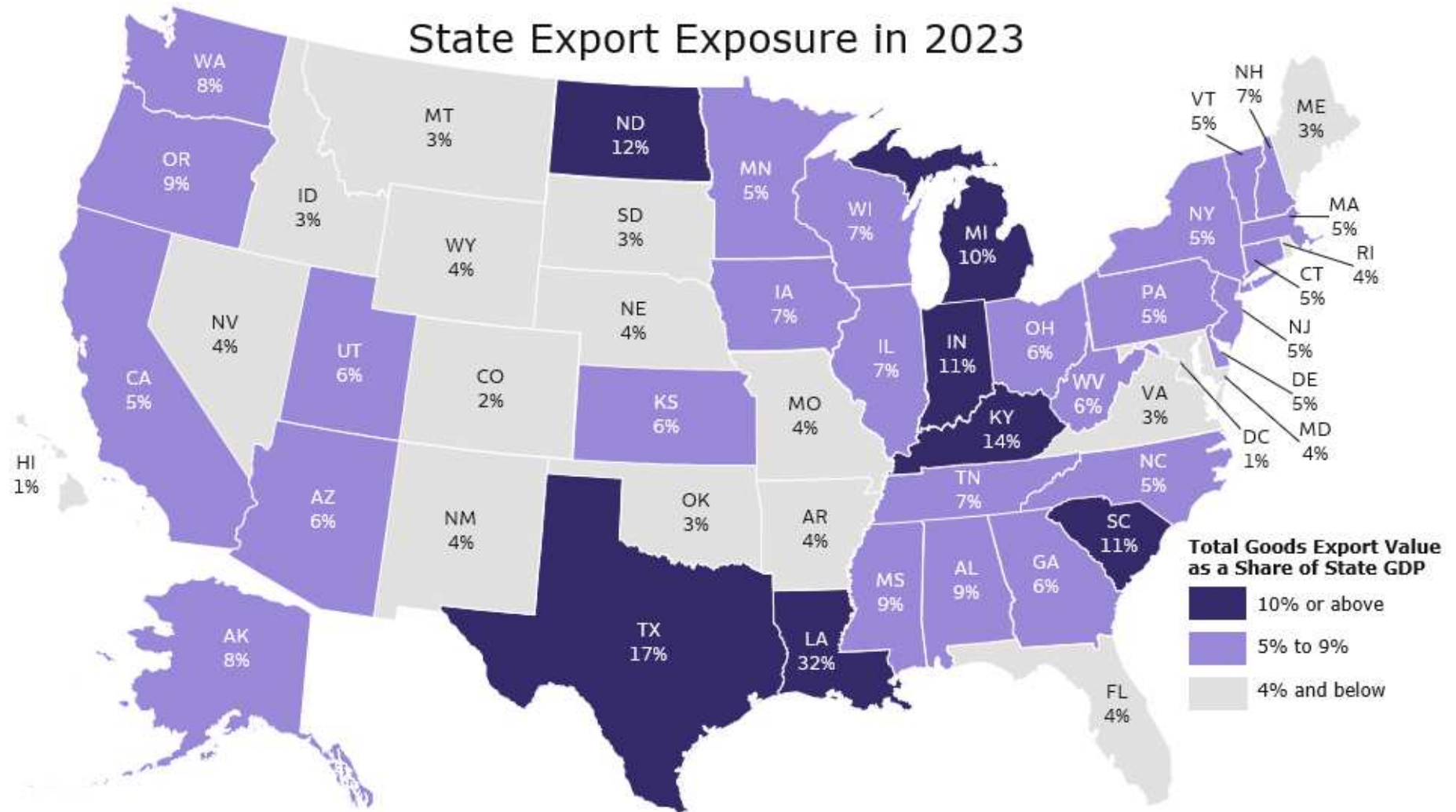


# Dallas Outlook

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Activity in the region  
is on the upswing



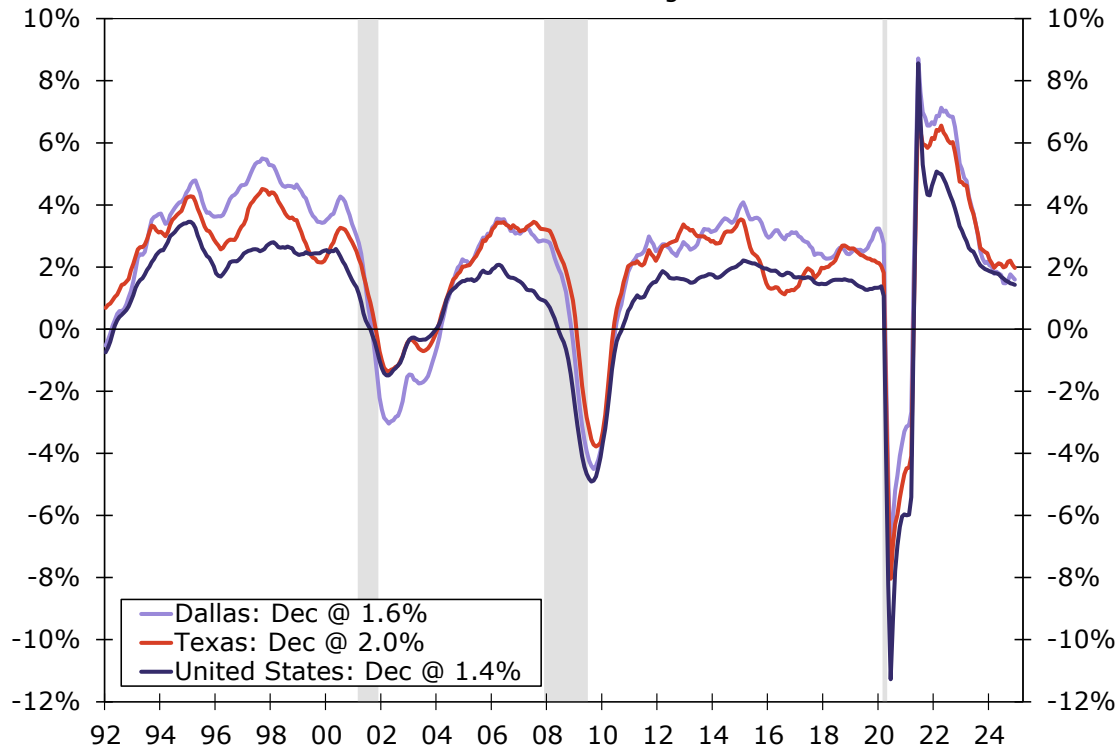


# Dallas Metro: Employment

The Dallas labor market has become more balanced

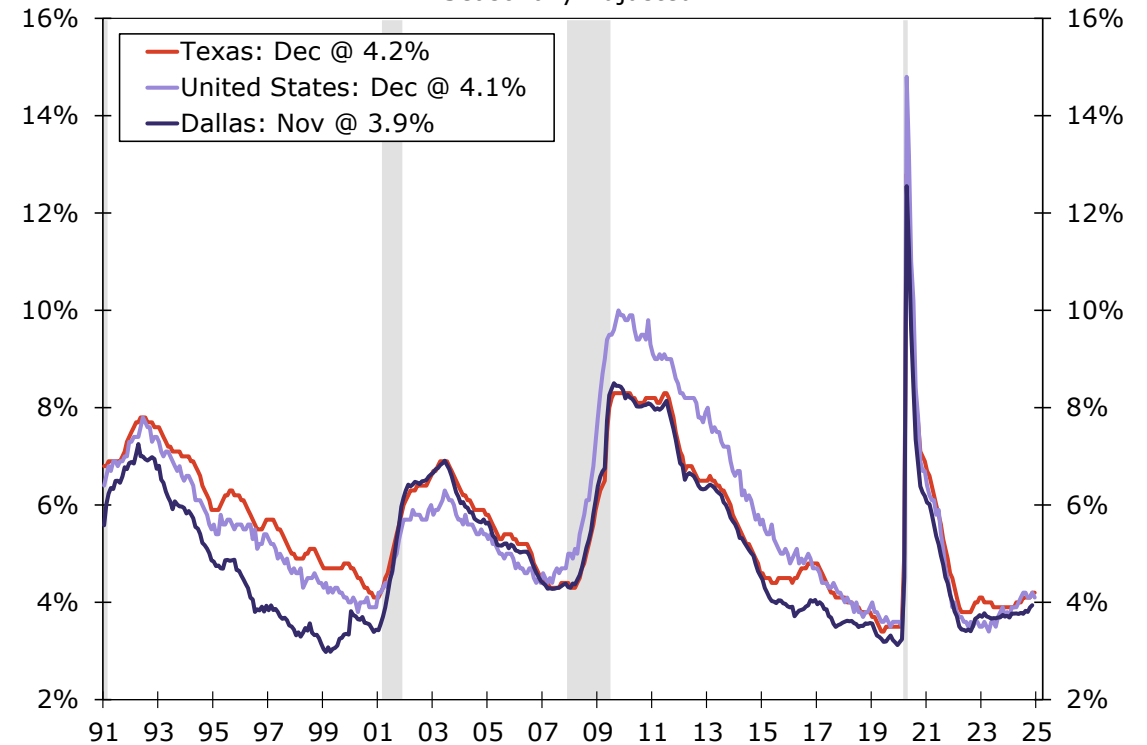
## Dallas Nonfarm Employment Growth

Year-over-Year Percent Change of 3-MMA



## Unemployment Rates

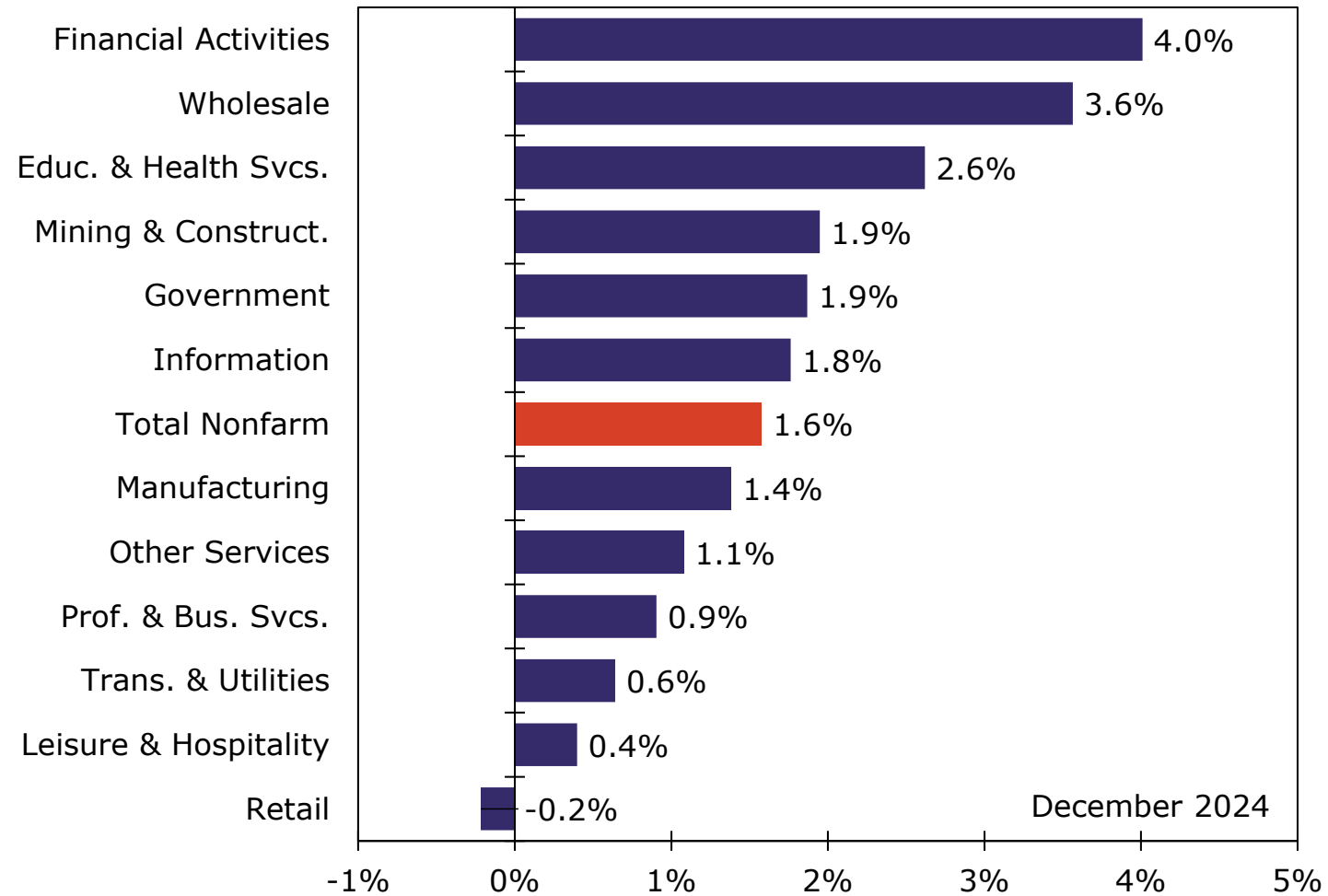
Seasonally Adjusted



Hiring has skewed toward relatively well-paying industries over the past year

## Dallas MSA Employment Growth By Industry

Year-over-Year Percent Change

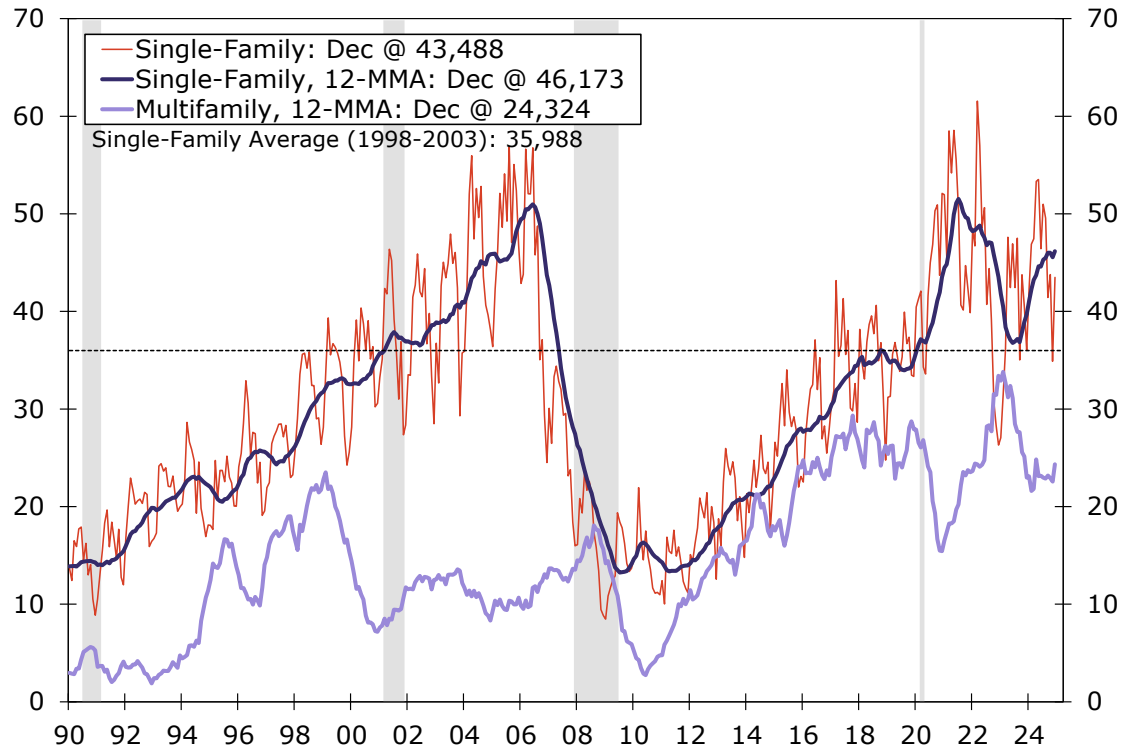


# Dallas Metro: Residential Construction

Despite the headwinds of higher borrowing rates, residential construction in Dallas has remained resilient

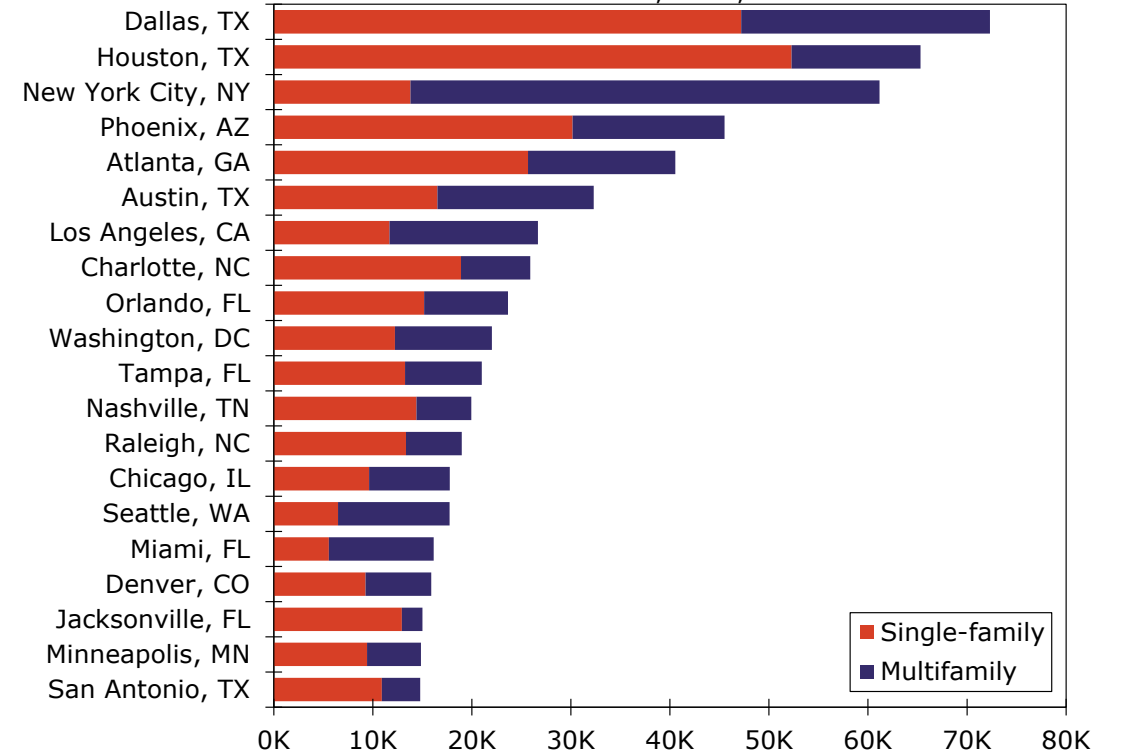
### Dallas–Fort Worth Building Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



### Residential Building Permits by MSA

Thousands Permits Issued, 2024, NSA



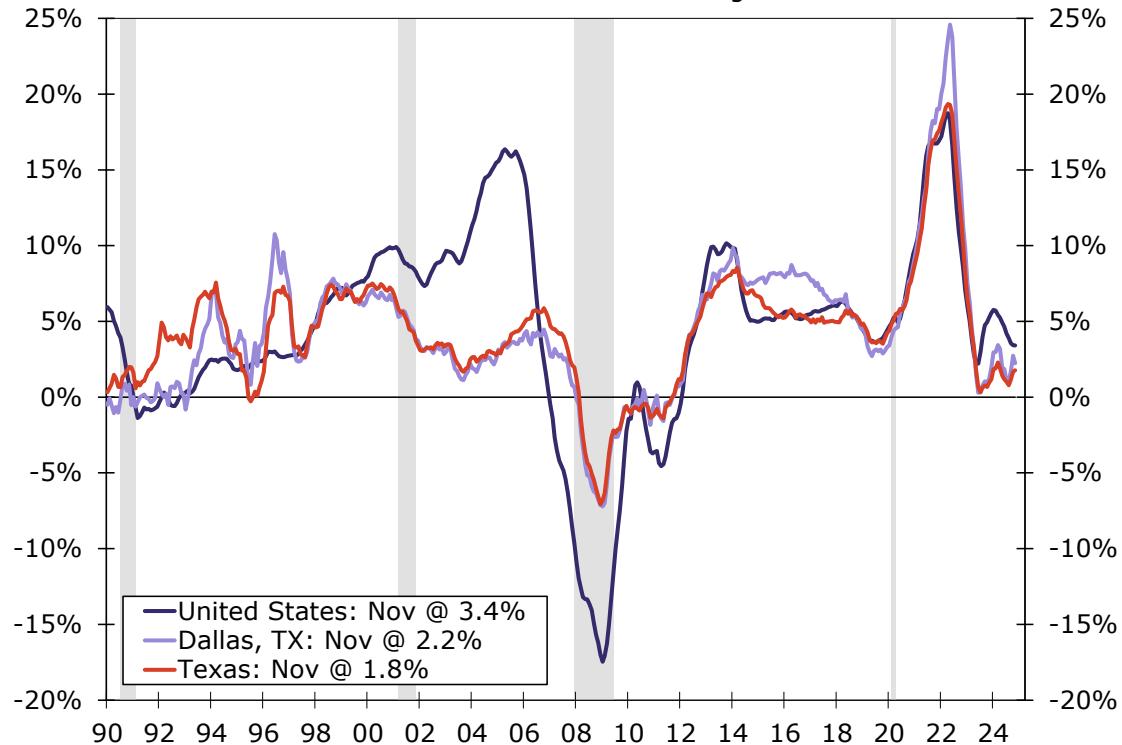
Source: U.S. Department of Commerce and Wells Fargo Economics

# Dallas Metro: Residential Construction

Home price appreciation has been more moderate in the Dallas metro amid stronger supply growth, but affordability remains a challenge

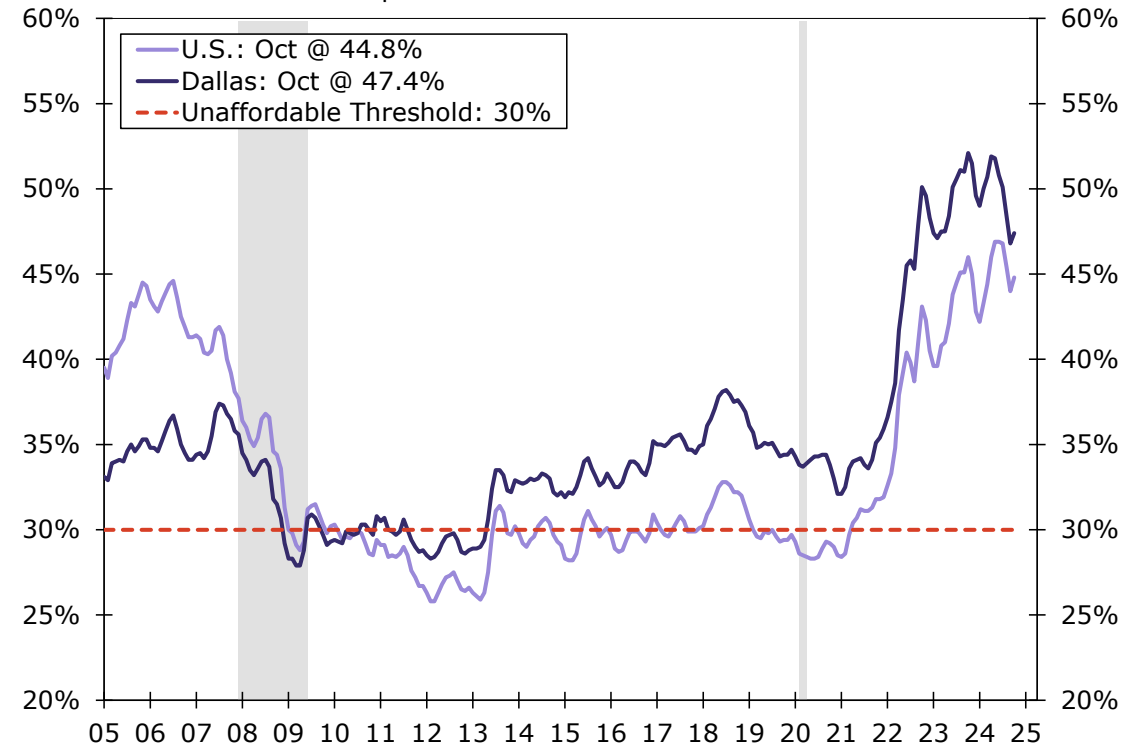
### CoreLogic: Home Prices

Year-over-Year Percent Change



### Dallas Homeownership Affordability

Homeownership Cost as a Percent Share of Median Income



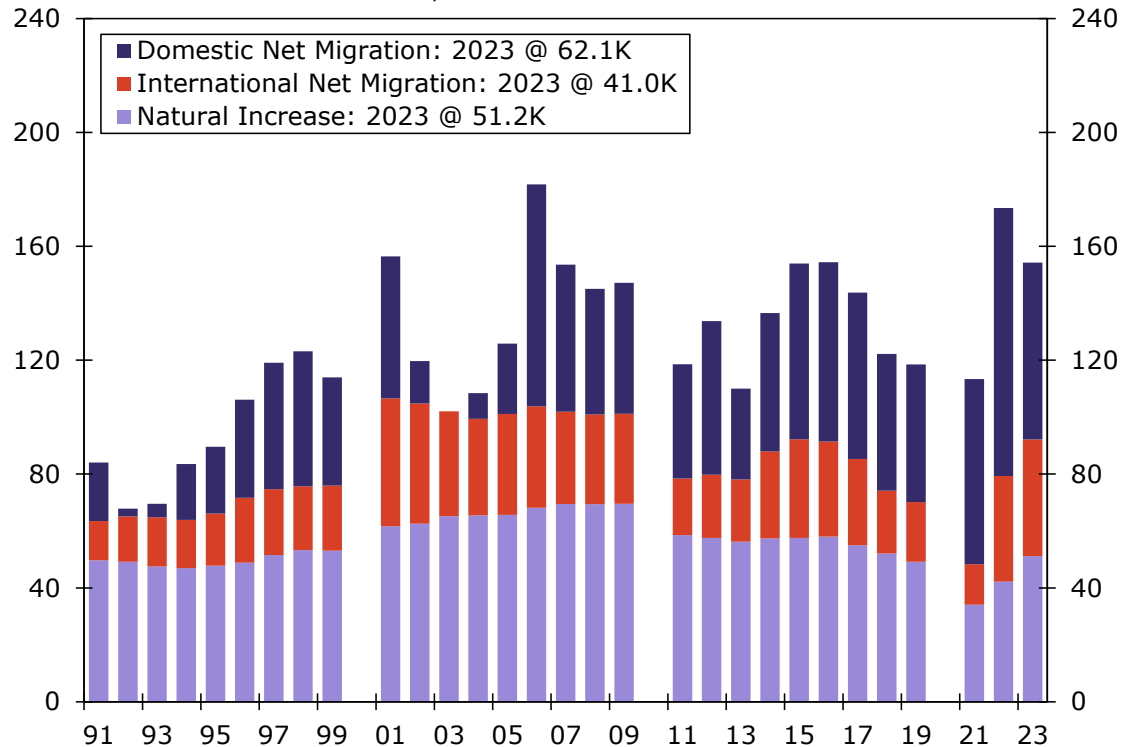


# Dallas Metro: Population Growth

Population growth remains strong and broadly based in the region

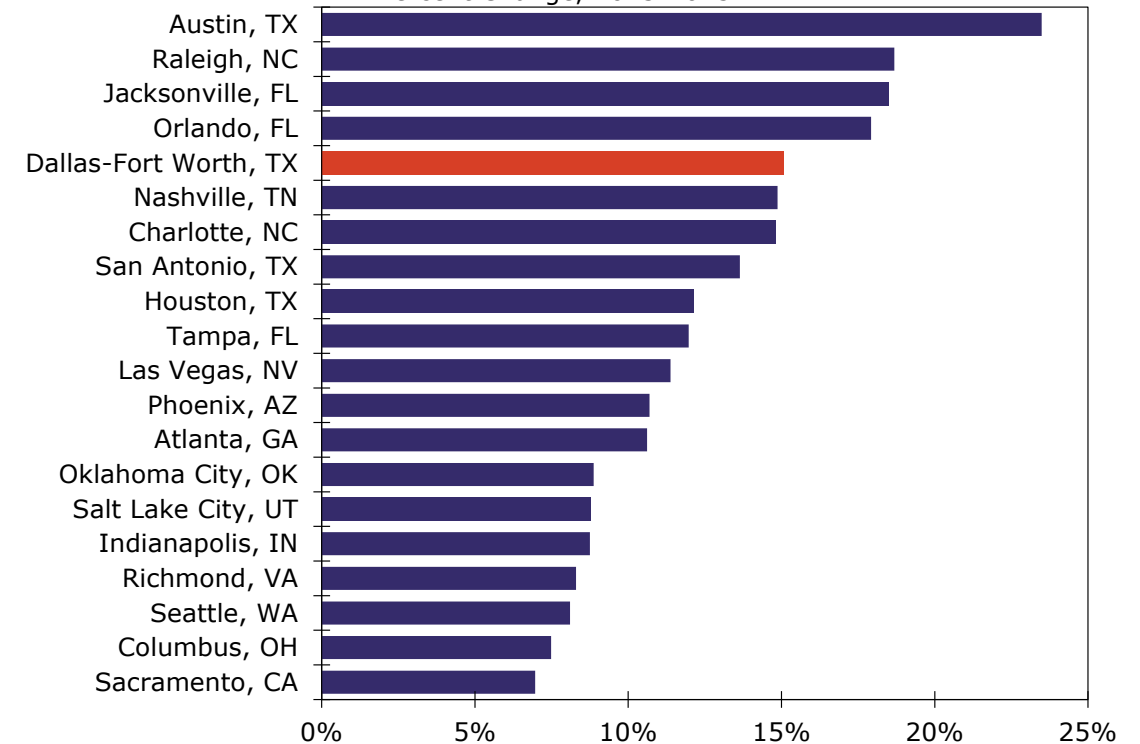
## Dallas-Fort Worth MSA Population Growth

In Thousands, Series Breaks on Decennial Years



## Metro Area Population Growth: Top 20

Percent Change, 2015-2023



## Inflation

- Inflation is likely to move sideways in 2025 and stay above target. The firming trend in goods should linger with tariffs in the near term, offsetting a further moderation in services.
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## Labor Market

- The labor market has cooled enough to no longer be adding to upward pressure on inflation. Slower labor force growth should keep the unemployment rate from rising meaningfully.
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## Spending & Investment

- Consumers are still spending, but outlays increasingly rely on the jobs market given costly credit and less saving. Private investment is still modest but should benefit from lower rates.
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## Monetary Policy

- Stubborn inflation and a resilient labor market should keep the FOMC on hold through much of this year, resulting in interest rates remaining elevated relative to the prior cycle.
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## Fiscal Policy

- Proposed changes to tax, trade and immigration policy all point to a somewhat higher path of inflation but create crosscurrents for growth. The deficit is set to remain wide.
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# Appendix

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## Wells Fargo U.S. Economic Forecast

	Actual		Forecast												Actual		Forecast	
	2024				2025				2026				2023	2024	2025	2026		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product <sup>1</sup>	1.6	3.0	3.1	2.7	2.4	1.5	0.7	1.3	2.8	2.9	3.0	2.4	2.9	2.8	2.1	2.2		
Personal Consumption	1.9	2.8	3.7	3.0	2.1	2.1	1.8	1.5	2.4	2.9	3.0	2.9	2.5	2.7	2.4	2.3		
Business Fixed Investment	4.5	3.9	4.0	-0.8	2.7	3.9	4.7	4.8	5.9	6.1	6.4	6.6	6.0	3.8	2.9	5.6		
Residential Investment	13.7	-2.8	-4.3	4.2	-1.4	-2.5	-3.1	-3.8	-2.4	1.2	3.4	3.8	-8.3	4.1	-1.4	-1.0		
Government Purchases	1.8	3.1	5.1	2.5	1.2	1.7	1.7	1.4	1.4	1.2	1.0	1.0	3.9	3.4	2.2	1.3		
Net Exports <sup>2</sup>	-0.6	-0.9	-0.4	0.1	-0.4	-0.6	-0.2	0.1	0.0	-0.4	-0.8	-0.9	0.5	-0.5	-0.4	-0.3		
Inventories <sup>2</sup>	-0.5	1.1	-0.2	0.0	0.8	-0.1	-1.2	-0.7	0.1	0.3	0.5	0.0	-0.4	0.1	0.0	-0.1		
Nonfarm Payroll Change <sup>3</sup>	267	147	159	170	148	135	125	116	123	135	138	140	251	186	131	134		
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.2	4.2	4.2	4.1	4.0	3.9	3.6	4.0	4.2	4.1		
Consumer Price Index <sup>4</sup>	3.2	3.2	2.6	2.7	2.7	2.7	3.1	2.9	2.7	2.7	2.7	2.6	4.1	3.0	2.8	2.7		
PCE Deflator <sup>4</sup>	2.7	2.6	2.3	2.5	2.3	2.3	2.5	2.6	2.5	2.4	2.3	2.2	3.8	2.5	2.5	2.3		
"Core" PCE Deflator <sup>4</sup>	3.0	2.7	2.7	2.8	2.5	2.5	2.6	2.6	2.6	2.6	2.5	2.3	4.1	2.8	2.6	2.5		
Employment Cost Index <sup>4</sup>	4.2	4.1	3.9	3.8	3.6	3.6	3.6	3.6	3.6	3.5	3.6	3.6	4.5	4.0	3.6	3.6		
Real Disposable Income <sup>1</sup>	5.6	1.0	1.1	2.9	2.2	2.2	2.0	2.2	4.9	3.2	2.5	3.4	5.1	2.9	2.1	3.1		
Quarter-End Interest Rates <sup>5</sup>																		
Federal Funds Target Rate <sup>6</sup>	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00	5.23	5.27	4.31	4.00		
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	7.10	6.90	6.65	6.50	6.50	6.50	6.50	6.50	6.80	6.72	6.79	6.50		
2 Year Note	4.59	4.71	3.66	4.25	4.35	4.25	4.10	4.00	4.00	4.05	4.10	4.10	4.58	4.37	4.18	4.06		
10 Year Note	4.20	4.36	3.81	4.58	4.70	4.55	4.35	4.25	4.30	4.35	4.40	4.40	3.96	4.21	4.46	4.36		

Forecast as of: January 16, 2025

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

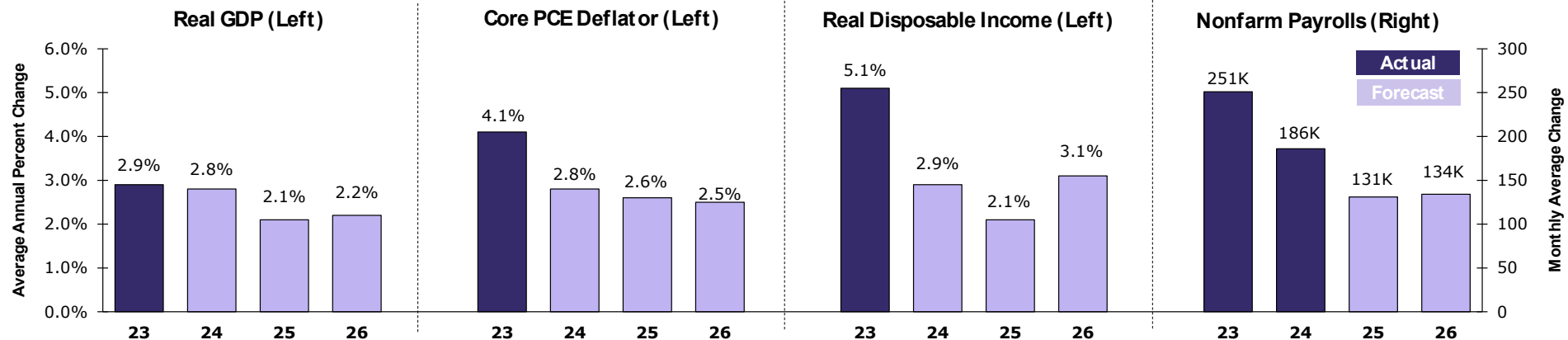
<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

<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 Range



Forecast as of: January 16, 2025

## Wells Fargo International Economic Forecast

	GDP				CPI			
	2023	2024	2025	2026	2023	2024	2025	2026
Global (PPP Weights)	3.3%	3.1%	2.7%	2.6%	6.7%	3.9%	3.9%	3.8%
Advanced Economies <sup>1</sup>	1.7%	1.8%	1.8%	1.9%	4.6%	2.7%	2.5%	2.4%
United States	2.9%	2.8%	2.1%	2.2%	4.1%	3.0%	2.8%	2.7%
Eurozone	0.4%	0.7%	0.9%	1.2%	5.4%	2.4%	2.1%	2.0%
United Kingdom	0.4%	0.8%	1.5%	1.7%	7.3%	2.5%	2.5%	2.2%
Japan	1.5%	-0.2%	1.1%	0.9%	3.3%	2.7%	2.2%	1.9%
Canada	1.5%	1.3%	1.7%	1.7%	3.9%	2.4%	2.0%	2.0%
Switzerland	0.7%	1.4%	1.4%	1.2%	2.1%	1.1%	0.7%	0.9%
Australia	2.1%	1.0%	1.9%	2.1%	5.6%	3.3%	2.9%	2.7%
New Zealand	1.8%	-0.4%	1.4%	2.5%	5.7%	2.9%	2.1%	2.0%
Sweden	0.0%	0.6%	1.8%	2.0%	6.1%	1.9%	1.8%	1.9%
Norway	0.6%	1.0%	1.7%	1.6%	5.5%	3.2%	2.4%	2.1%
Developing Economies <sup>1</sup>	4.4%	3.9%	3.3%	3.1%	8.1%	4.7%	4.8%	4.8%
China	5.4%	5.0%	4.5%	4.1%	0.2%	0.2%	1.0%	1.4%
India	7.7%	6.3%	5.9%	6.0%	5.7%	4.9%	4.5%	4.5%
Mexico	3.3%	1.5%	1.1%	1.1%	5.5%	4.7%	3.6%	3.9%
Brazil	3.2%	3.1%	2.0%	1.7%	4.6%	4.4%	4.6%	4.0%

Forecast as of: January 27, 2025

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

Wells Fargo International FX Forecast							
Currency Pair*	Current Rate	Q1-2025	Q2-2025	Q3-2025	Q4-2025	Q1-2026	Q2-2026
<b>G10</b>							
EUR/USD	1.0516	1.0300	1.0100	1.0000	0.9900	0.9700	0.9500
USD/JPY	154.19	152.00	150.00	150.00	151.00	153.00	155.00
GBP/USD	1.2505	1.2400	1.2300	1.2200	1.2100	1.1900	1.1700
USD/CHF	0.8996	0.9125	0.9250	0.9300	0.9350	0.9475	0.9675
USD/CAD	1.4382	1.4600	1.4800	1.5000	1.5200	1.5300	1.5400
AUD/USD	0.6288	0.6300	0.6200	0.6100	0.6000	0.5900	0.5800
NZD/USD	0.5690	0.5600	0.5500	0.5400	0.5300	0.5200	0.5100
USD/NOK	11.2322	11.4575	11.6325	11.7000	11.7675	11.9600	12.1575
USD/SEK	10.9253	11.1650	11.3375	11.4000	11.4650	11.6500	11.8425
<b>Asia</b>							
USD/CNY	7.2444	7.3000	7.3500	7.4000	7.5000	7.6500	7.7500
USD/CNH	7.2433	7.3000	7.3500	7.4000	7.5000	7.6500	7.7500
USD/IDR	16172	16300	16400	16600	16800	16900	17000
USD/INR	86.34	87.00	88.00	89.00	90.00	91.00	92.00
USD/KRW	1433.33	1420.00	1440.00	1470.00	1500.00	1520.00	1540.00
USD/PHP	58.44	59.00	59.50	60.00	60.50	61.00	61.50
USD/SGD	1.3437	1.3500	1.3600	1.3800	1.4000	1.4100	1.4200
USD/TWD	32.68	33.00	33.25	33.50	33.75	34.00	34.25
USD/THB	33.70	34.50	35.00	35.50	36.00	36.50	37.00
<b>Latin America</b>							
USD/BRL	5.9192	6.1000	6.3000	6.5000	6.7500	7.0000	7.1000
USD/CLP	985.40	990.00	1000.00	1020.00	1040.00	1060.00	1080.00
USD/MXN	20.5787	21.0000	21.5000	22.5000	23.5000	24.0000	24.5000
USD/COP	4238.98	4400.00	4450.00	4550.00	4650.00	4700.00	4750.00
USD/ARS	1050.51	1100.00	1200.00	1300.00	1450.00	1500.00	1550.00
USD/PEN	3.7322	3.7300	3.7500	3.7800	3.8000	3.8300	3.8500

Forecasts as of: January 27, 2025

# Wells Fargo Economics

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