



# Economic Outlook

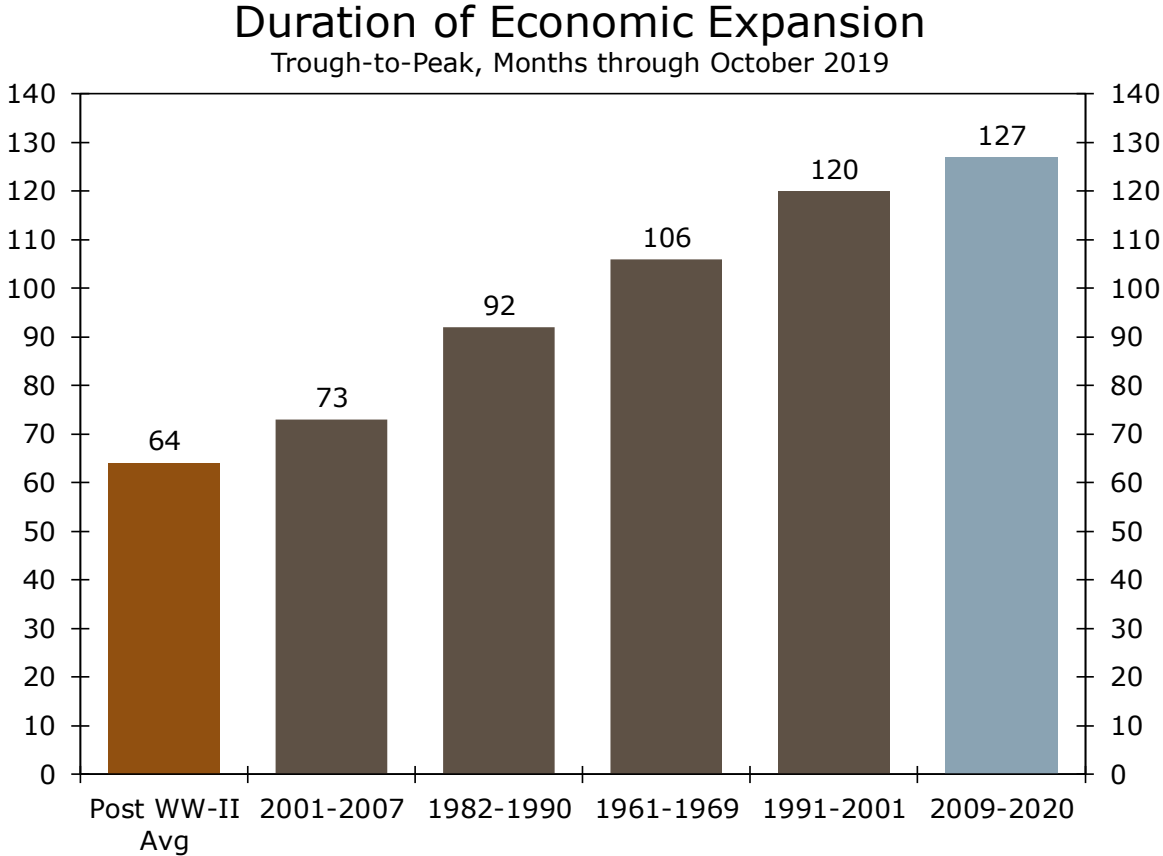
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Charlie Dougherty, Vice President & Economist  
January 15, 2020



# Economic Expansion Longest on Record

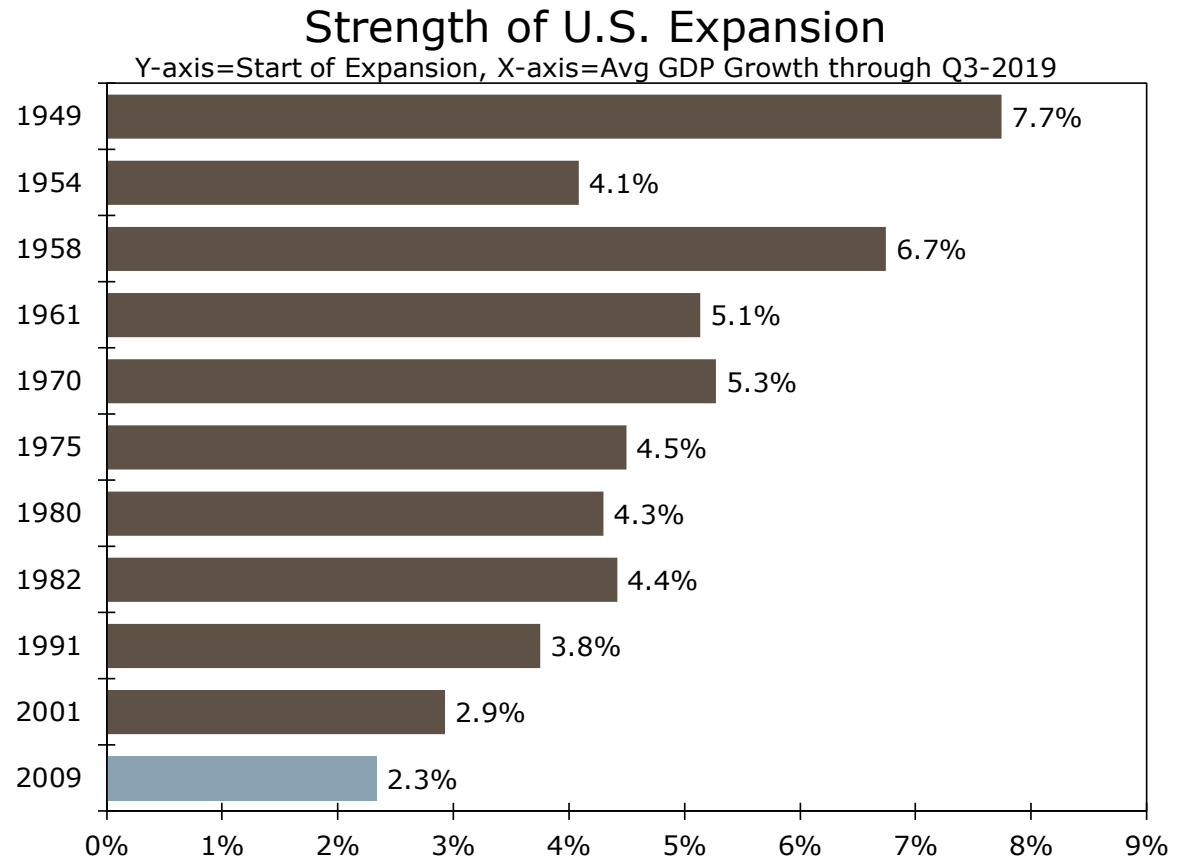
The economic expansion is now 10 years old and the longest on record.



Source: NBER and Wells Fargo Securities

## But Also the Weakest on Record

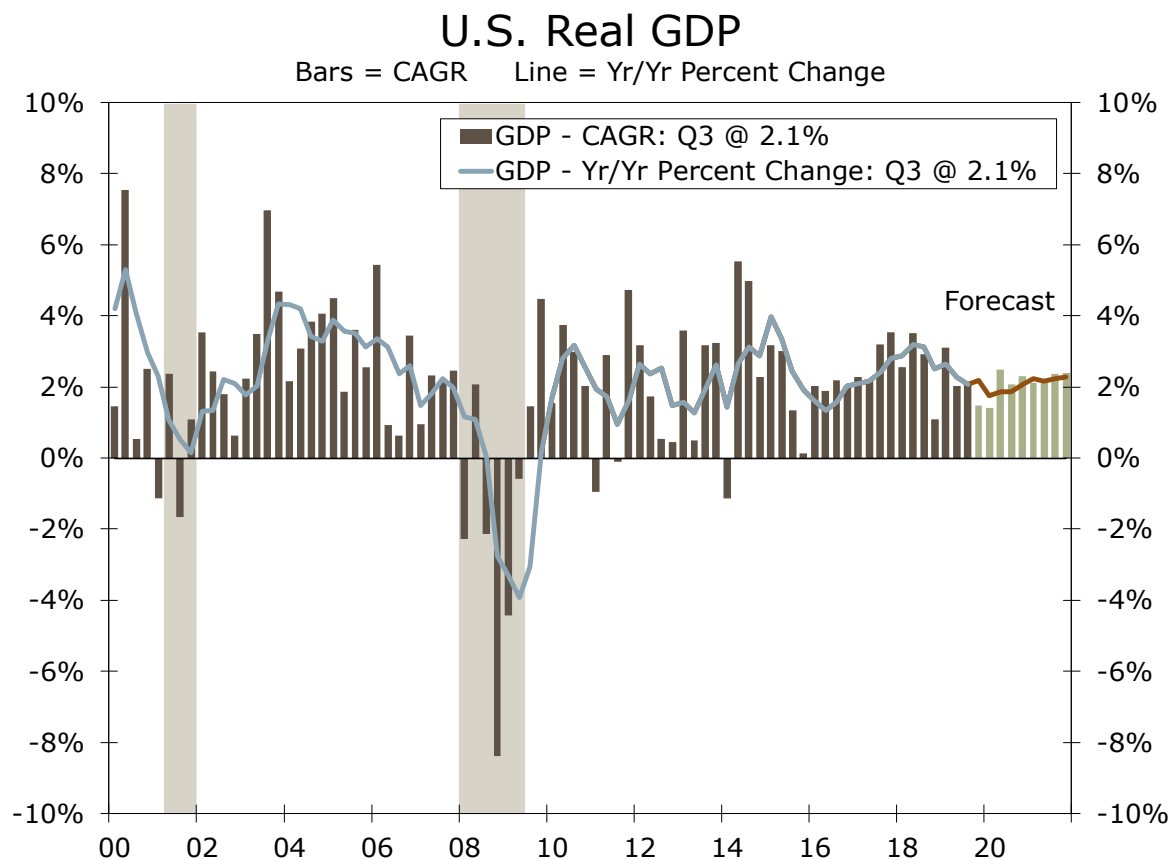
Over the past decade, the economy has grown at roughly half the pace of previous expansions.



Source: NBER and Wells Fargo Securities

## Although Growth Slowing, the Economy Appears in Good Shape

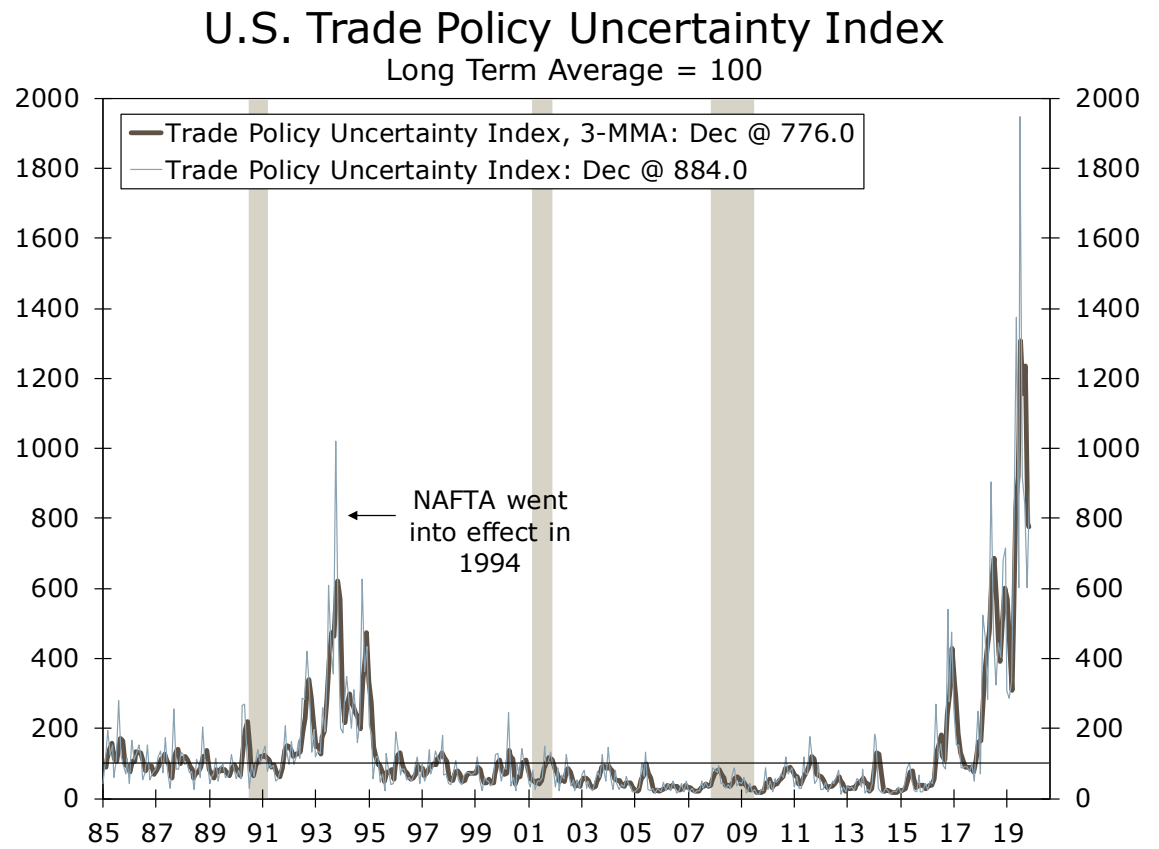
Real GDP growth will remain solid, yet likely moderate somewhat over the next few years.



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

## Clouds of Uncertainty Continue to Gather






Progress on both the USMCA and the Phase I trade deal with China will help clear up some of the trade uncertainty which is having a slowing impact on the economy. Businesses have had to reassess supply chains, build contingency plans and delay capital investments.



Source: OECD and Wells Fargo Securities

## Political Uncertainty

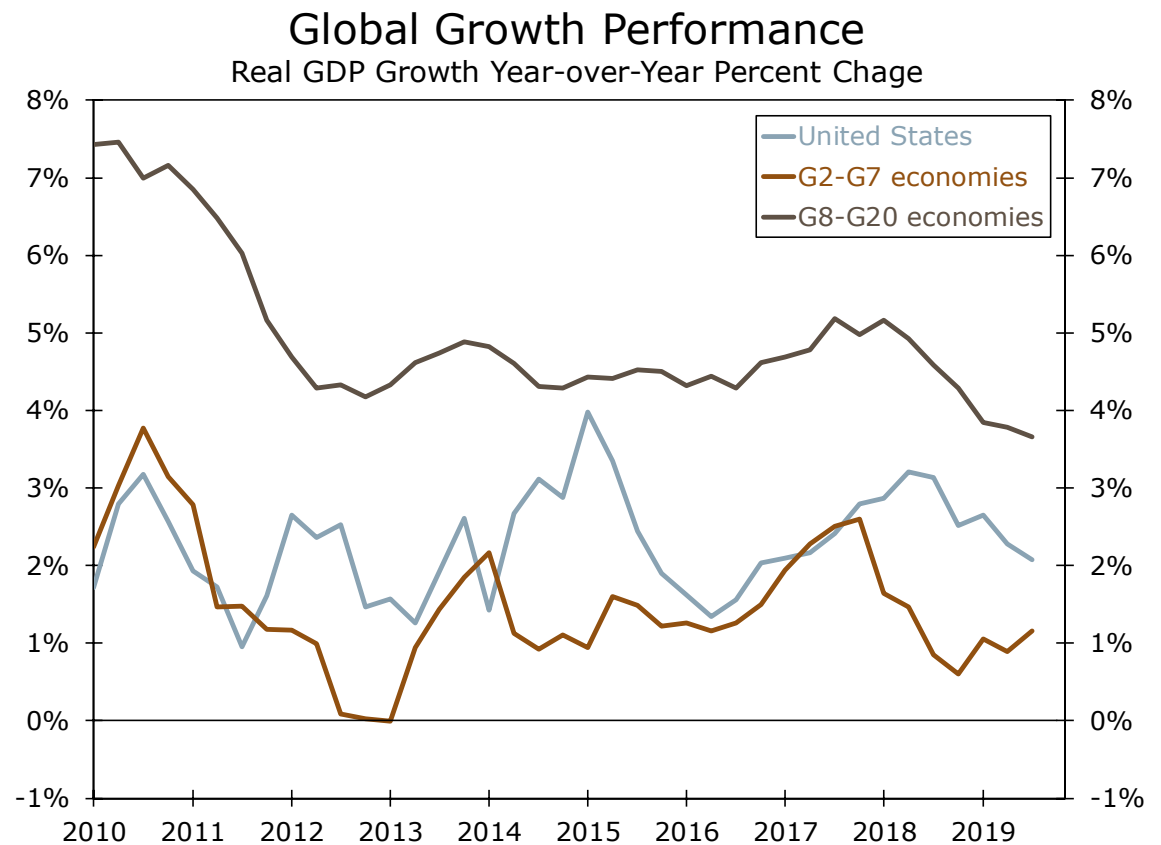
Given the wide range of potential outcomes, the upcoming election will only add more uncertainty to the economy. That noted, fears of a dramatic move in either direction are likely overblown, and much will depend on outcomes in the Senate and House of Representatives.

The 2020 Democratic Primary State of Play			
National Polling Average on Real Clear Politics as of January 7, 2020			Recent Change
1	Joe Biden	29.3%	
2	Bernie Sanders	19.9%	
3	Elizabeth Warren	14.4%	
4	Pete Buttigieg	7.7%	
5	Michael Bloomberg	5.6%	

Source: Real Clear Politics and Wells Fargo Securities

## Global Growth Has Lost Momentum

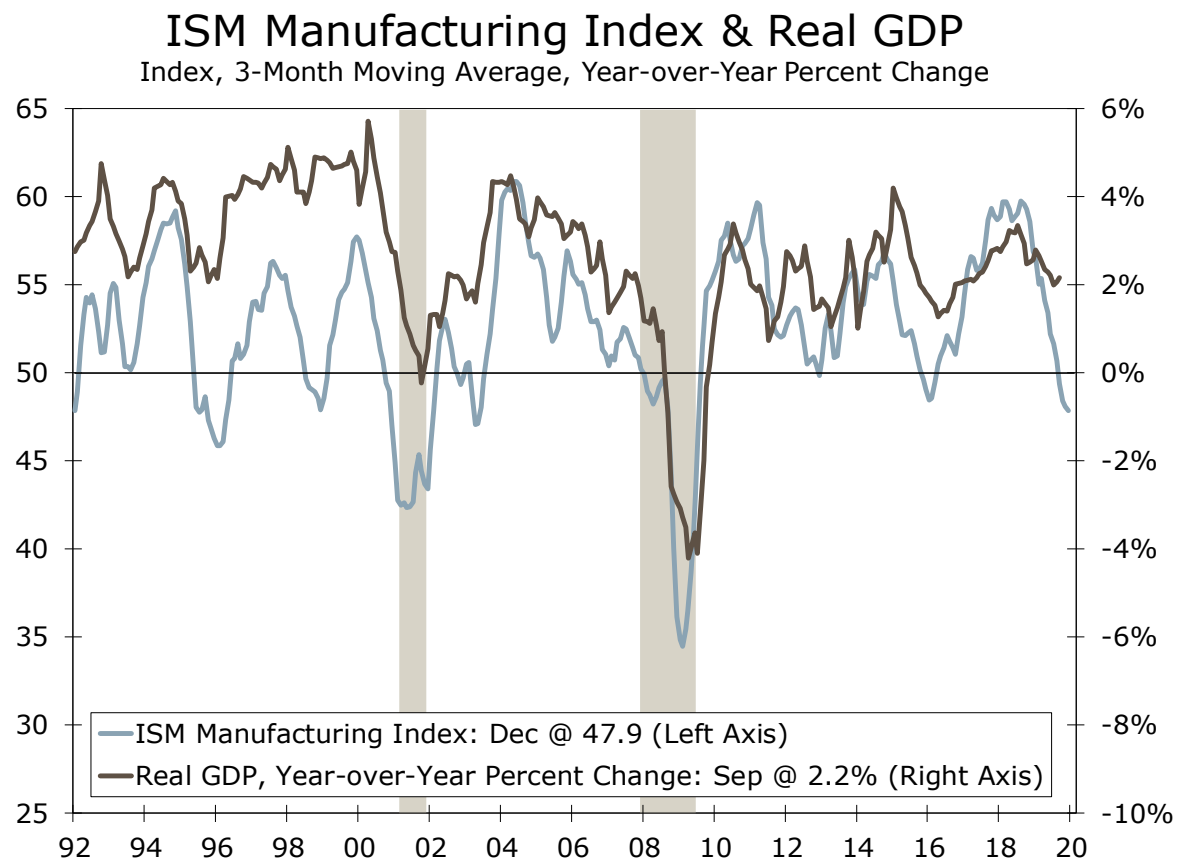
Global economic growth has been generally strong, but is slowing dramatically outside of the U.S., particularly in China and Germany.



Source: OECD and Wells Fargo Securities

## Manufacturing is at the Center of the Slowdown

Languishing global growth, a strong dollar, and the ongoing trade war are clearly having an impact on the factory sector.

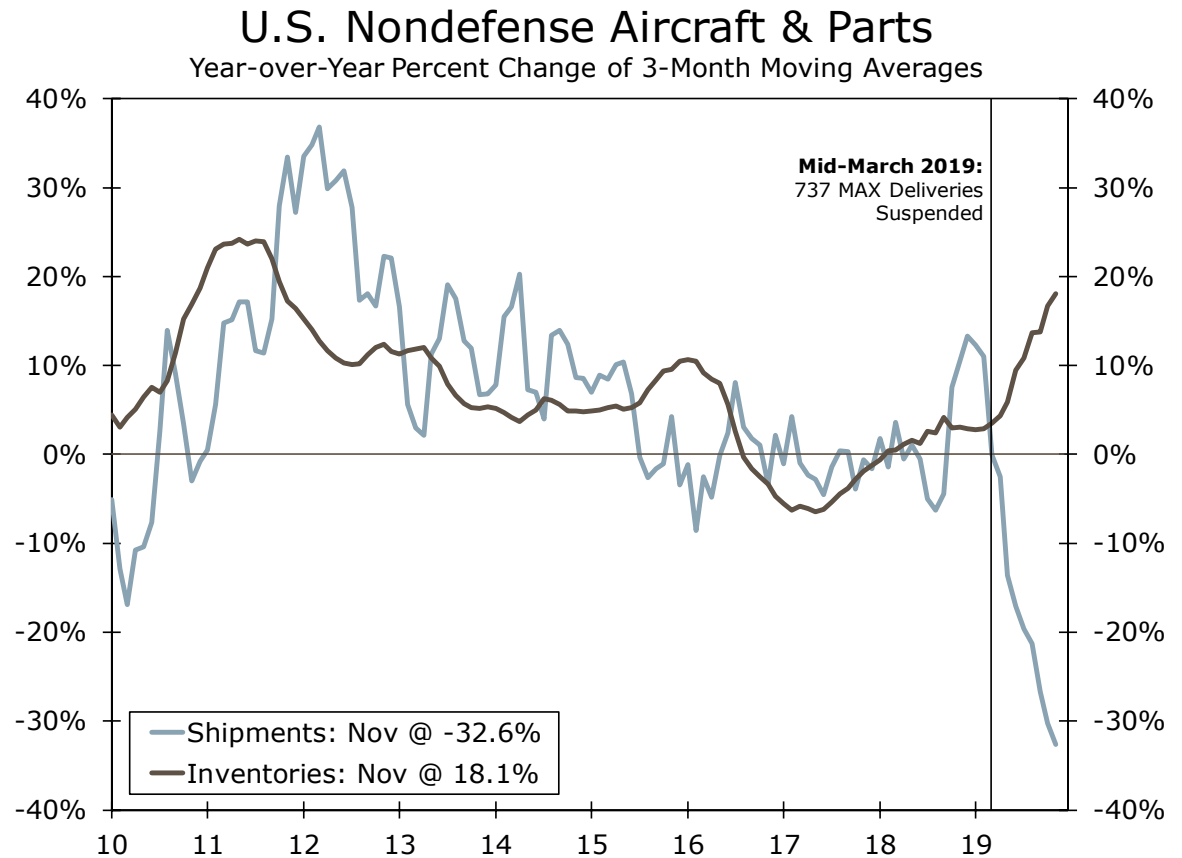


Source: Institute of Supply Management, BEA and Wells Fargo Securities



## Boeing 737MAX Impact

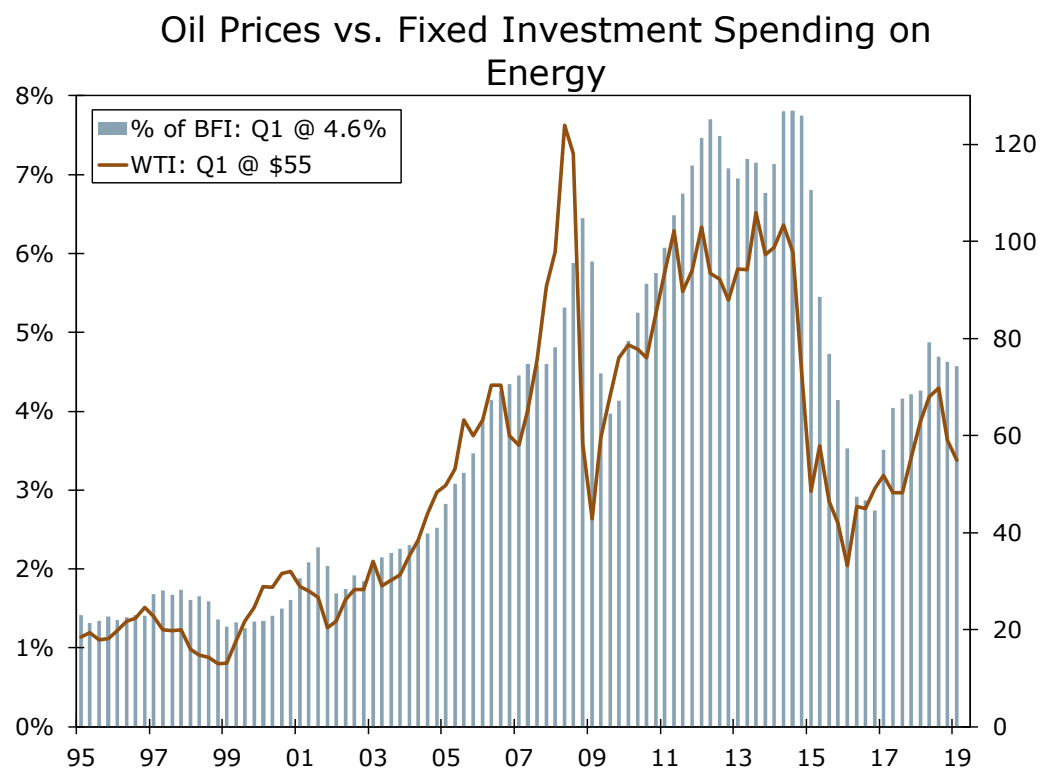
The suspension of production for the 737 MAX will continue to reverberate across the manufacturing sector.



Source: Department of Commerce and Wells Fargo Securities

## Energy Sector Pulling Back

Another reason for manufacturing weakness stems from the energy sector pulling back on capital spending. Following a sharp decline in oil prices last year, oil producers have become more financially disciplined.

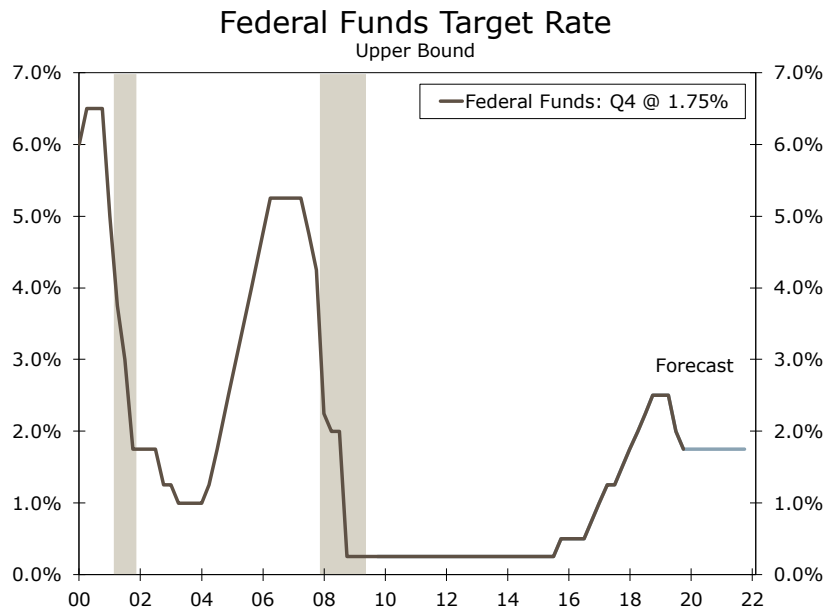


Source: U.S. Department of Commerce, Bloomberg L.P. and Wells Fargo Securities

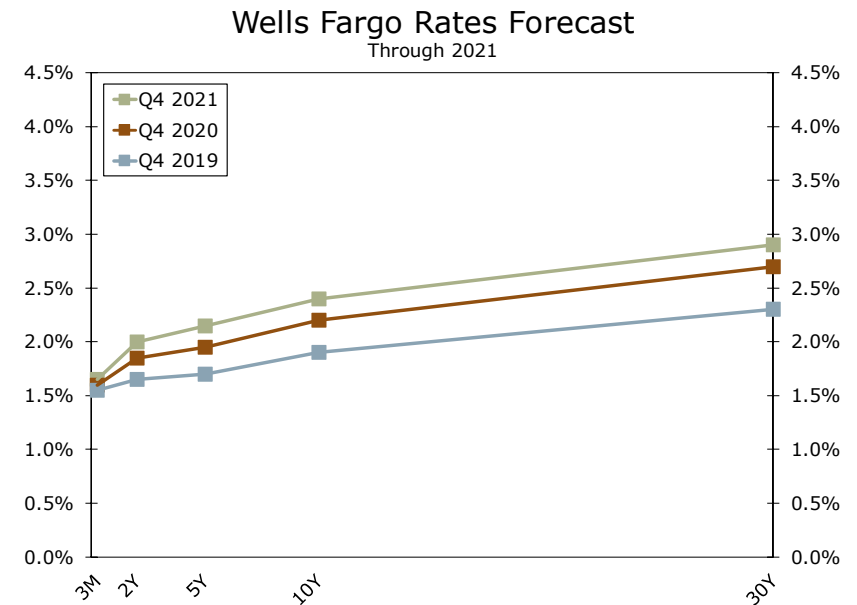
## Interest Rates Moving Lower

In an effort to give the U.S. economy a booster shot amid global economic malaise, the Fed has now lowered short-term interest rates by 75 basis points. The moves lower have helped steepen the yield curve, parts of which had been inverted causing widespread fear that a downturn is around the corner.

### Monetary Policy



### Interest Rates

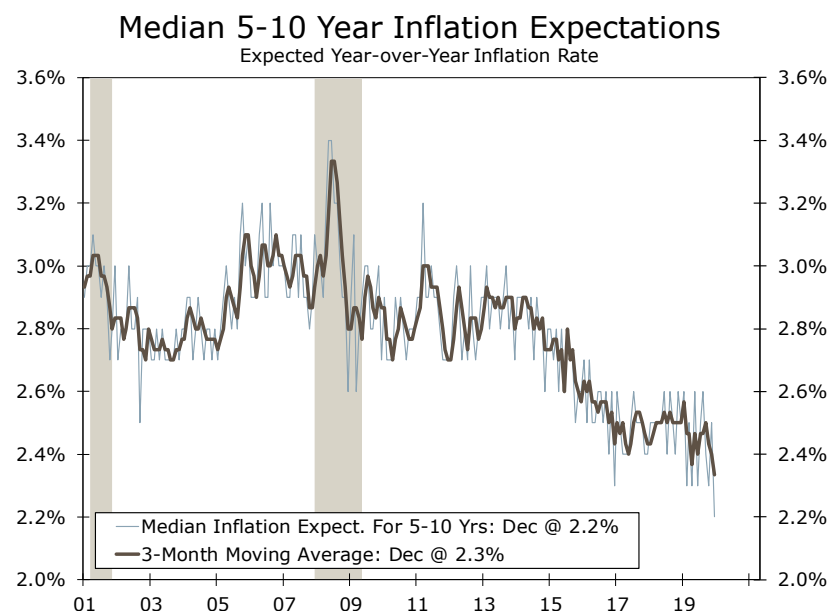


Source: Federal Reserve Board and Wells Fargo Securities

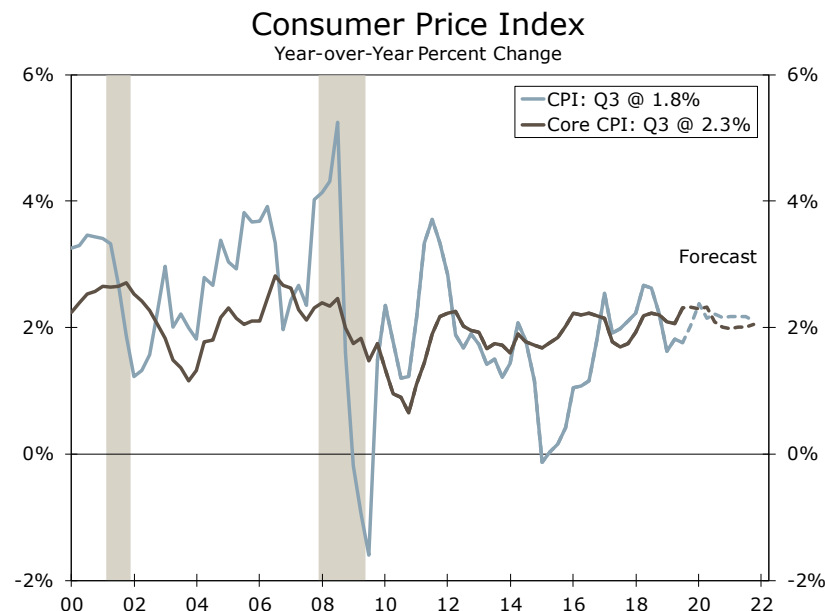
## Inflation at Bay

Inflationary pressures have subsided recently. Core measures, however, continue to firm around the Fed's target of 2.0%. Overall, inflation expectations remain low at present, which will help keep prices from dramatically heating up.

### Anchored Inflation Expectations



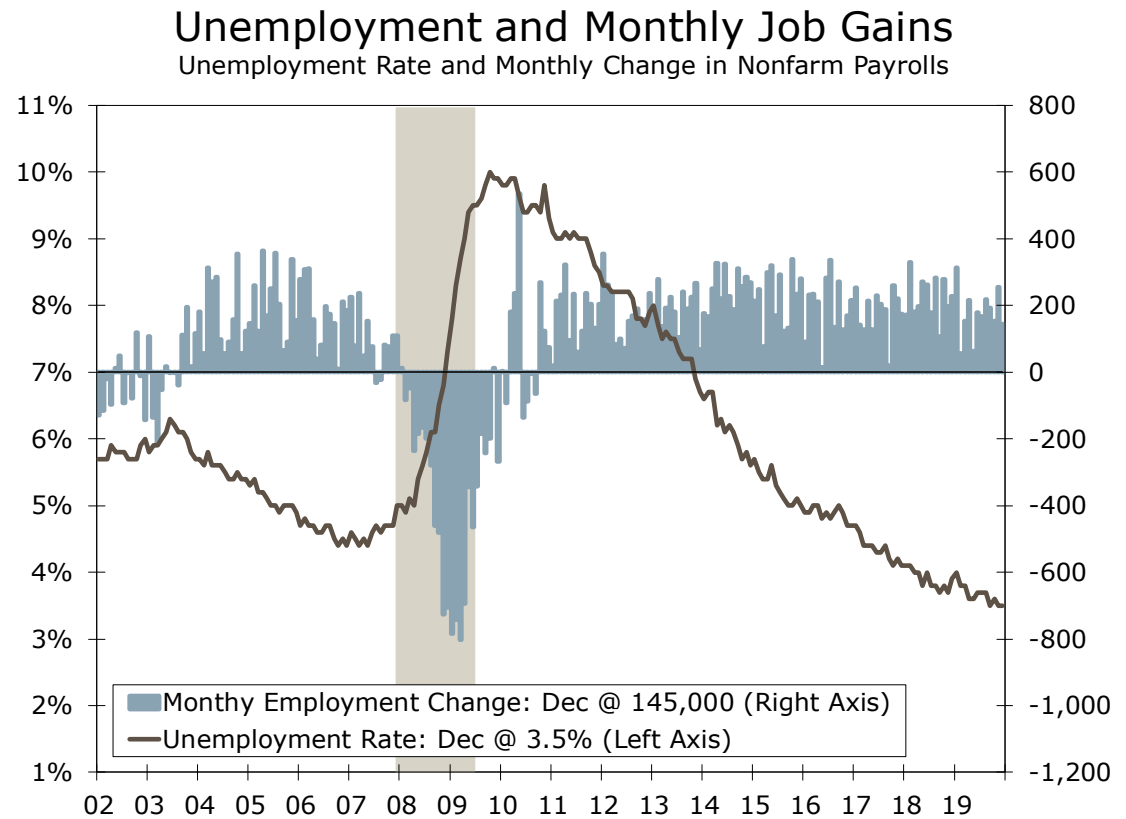
### Tame Inflation



Source: University of Michigan and Wells Fargo Securities

## Employment Growth Resilient

Hiring remains strong but is downshifting as employers struggle to find workers amid near record-low unemployment.

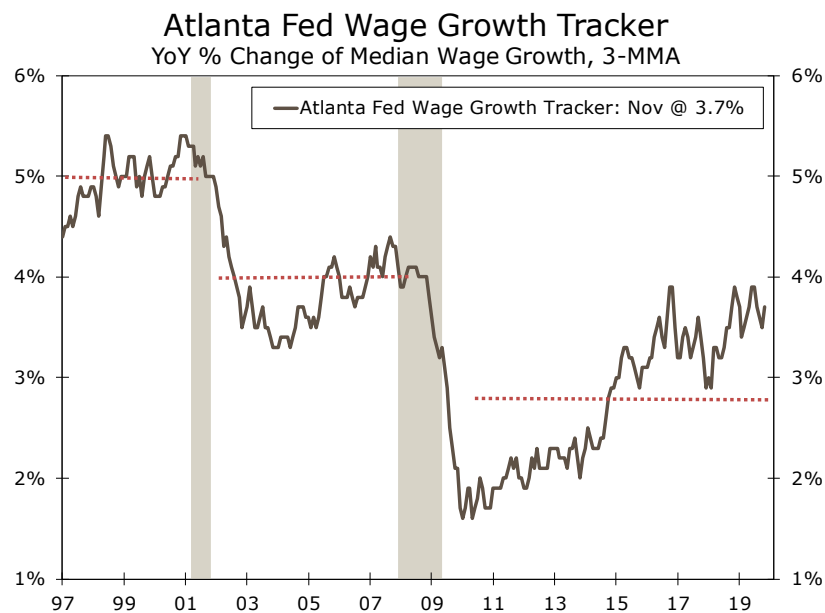


Source: U.S. Department of Labor and Wells Fargo Securities

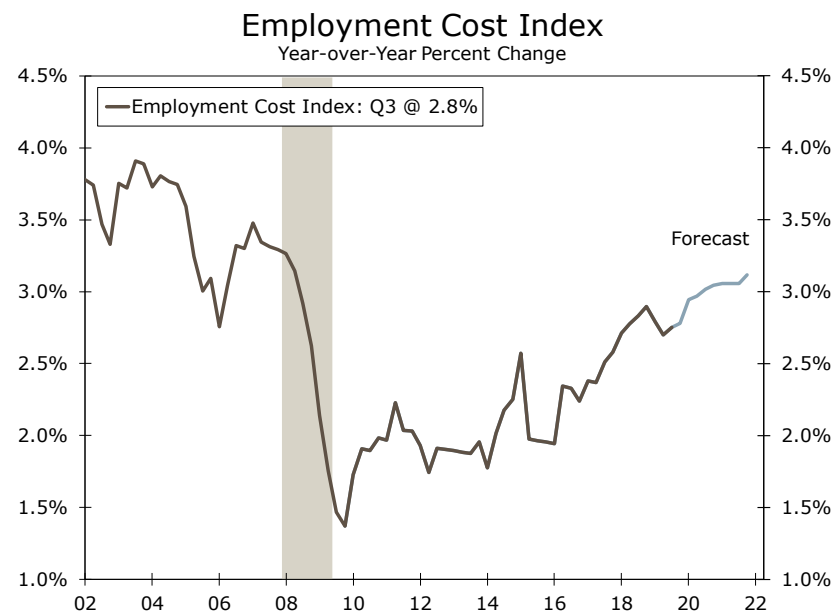
## Wages Are Finally Picking Up As Labor Market Tightens

Wage growth has picked up modestly but remains a missing piece to the recovery thus far due to slow productivity growth. On the flip side, employment costs also continue to go up.

### Wages Are Rising...



### ..So Are Employment Costs

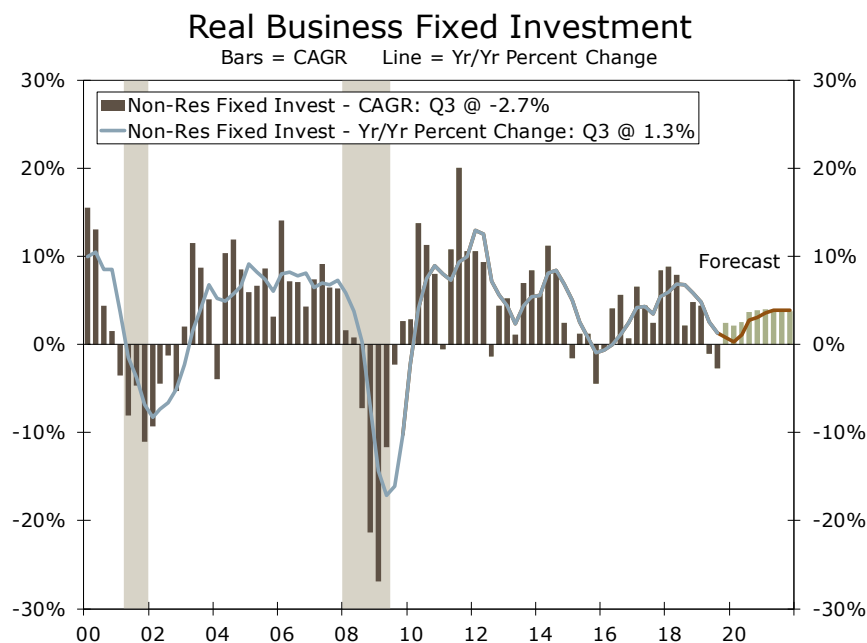


Source: U.S. Department of Labor, Federal Reserve Bank of Atlanta and Wells Fargo Securities

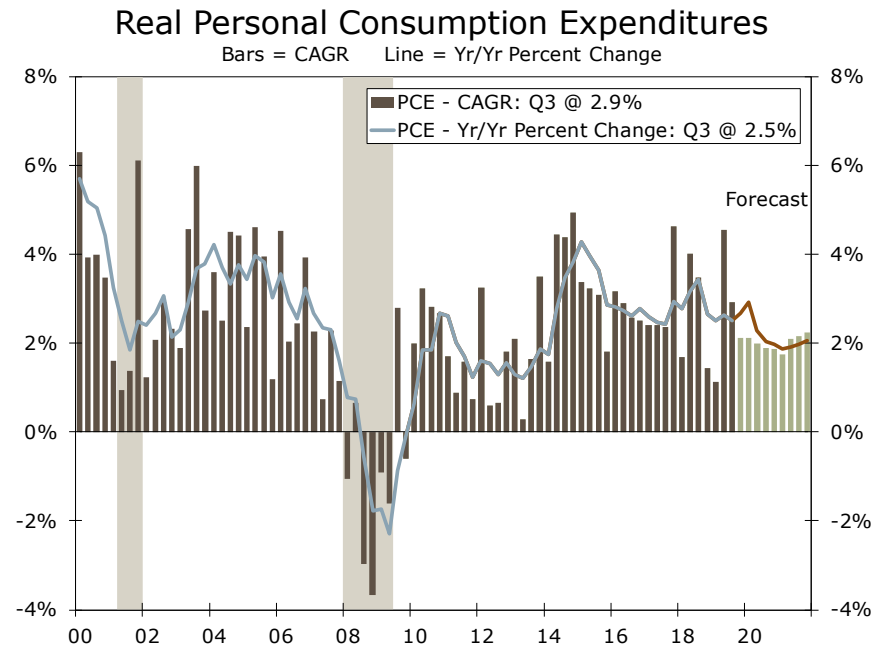
## Business Spending Weak, Consumer Spending Solid

Although business spending is downshifting, consumer spending remains strong enough to keep overall GDP growing at a solid rate.

### Business Investment Slows on Uncertainty...



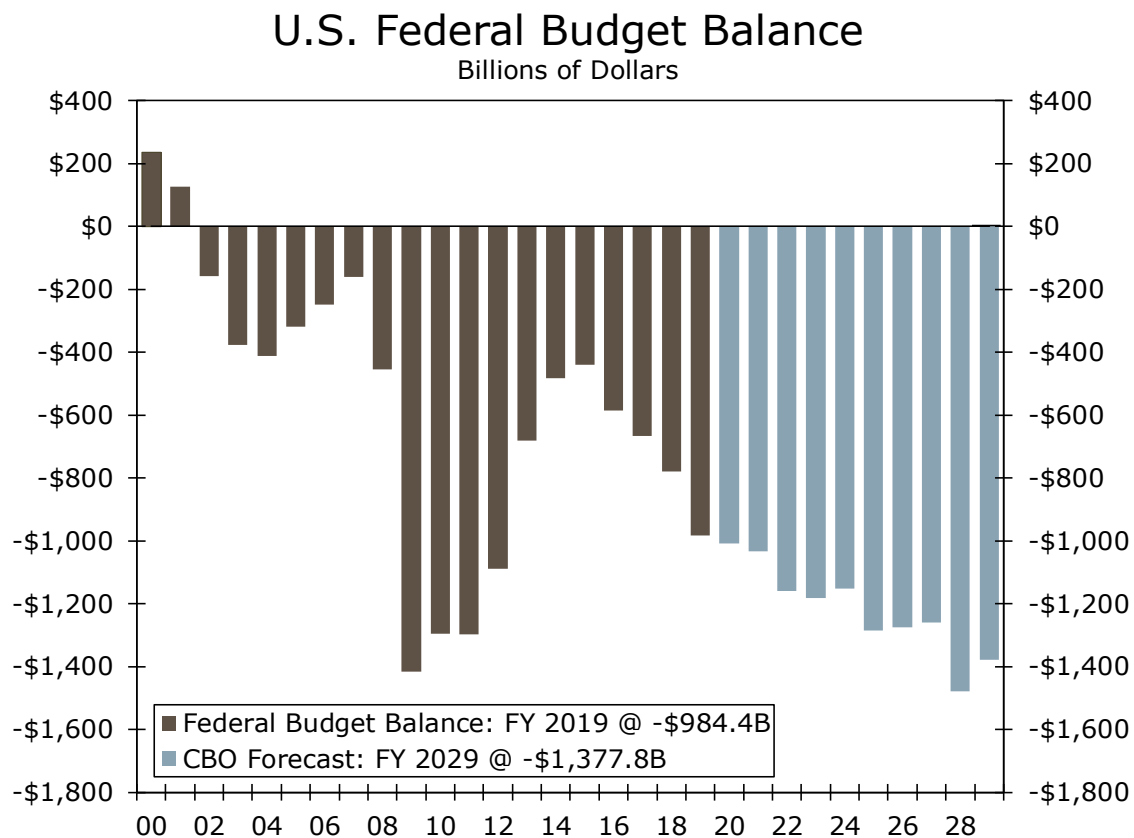
### ...But Solid Consumer Spending



Source: Federal Reserve Board, Department of Commerce and Wells Fargo Securities

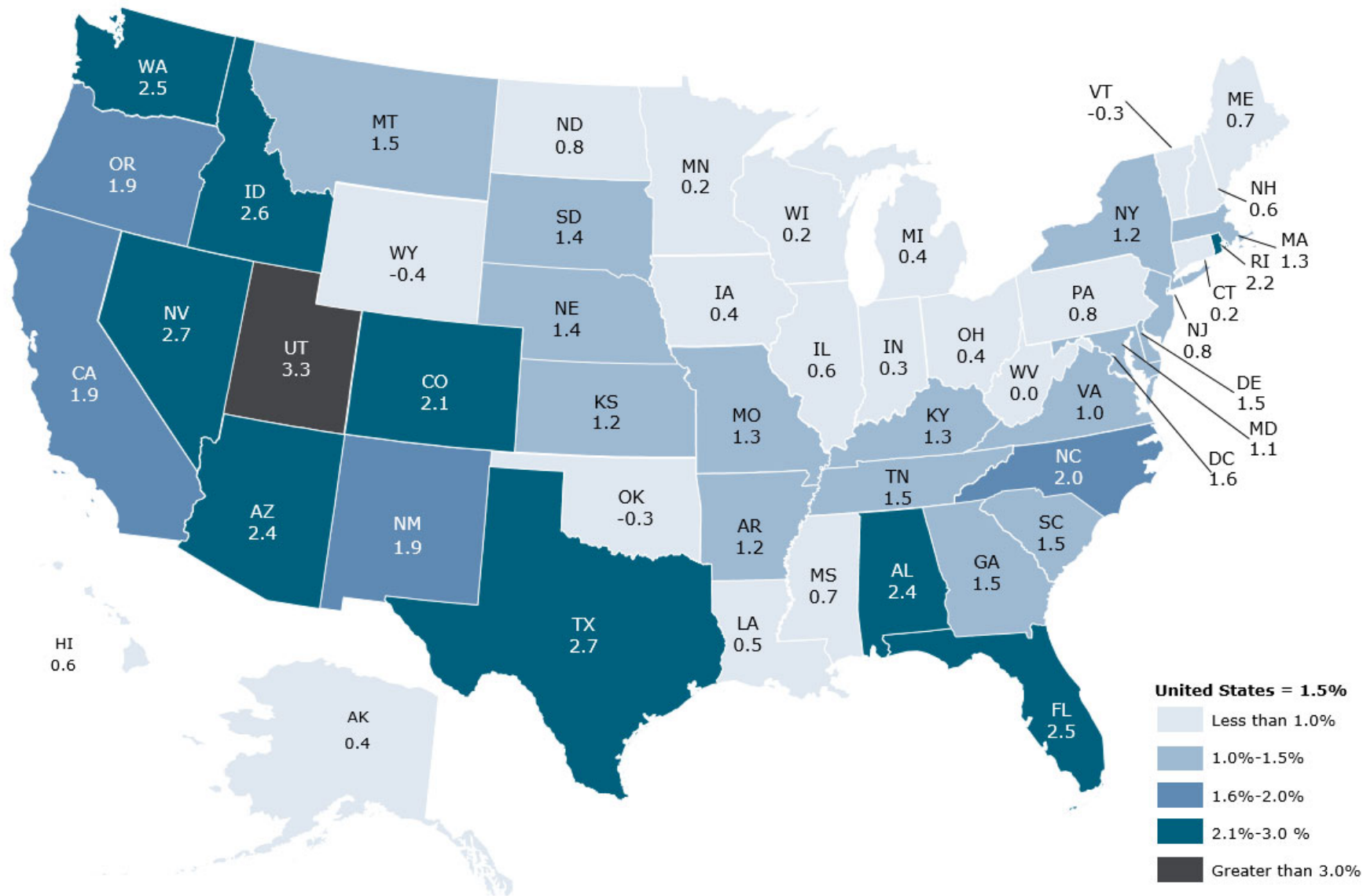
## Federal Spending: Short Term Stimulus, but Adding to Debt

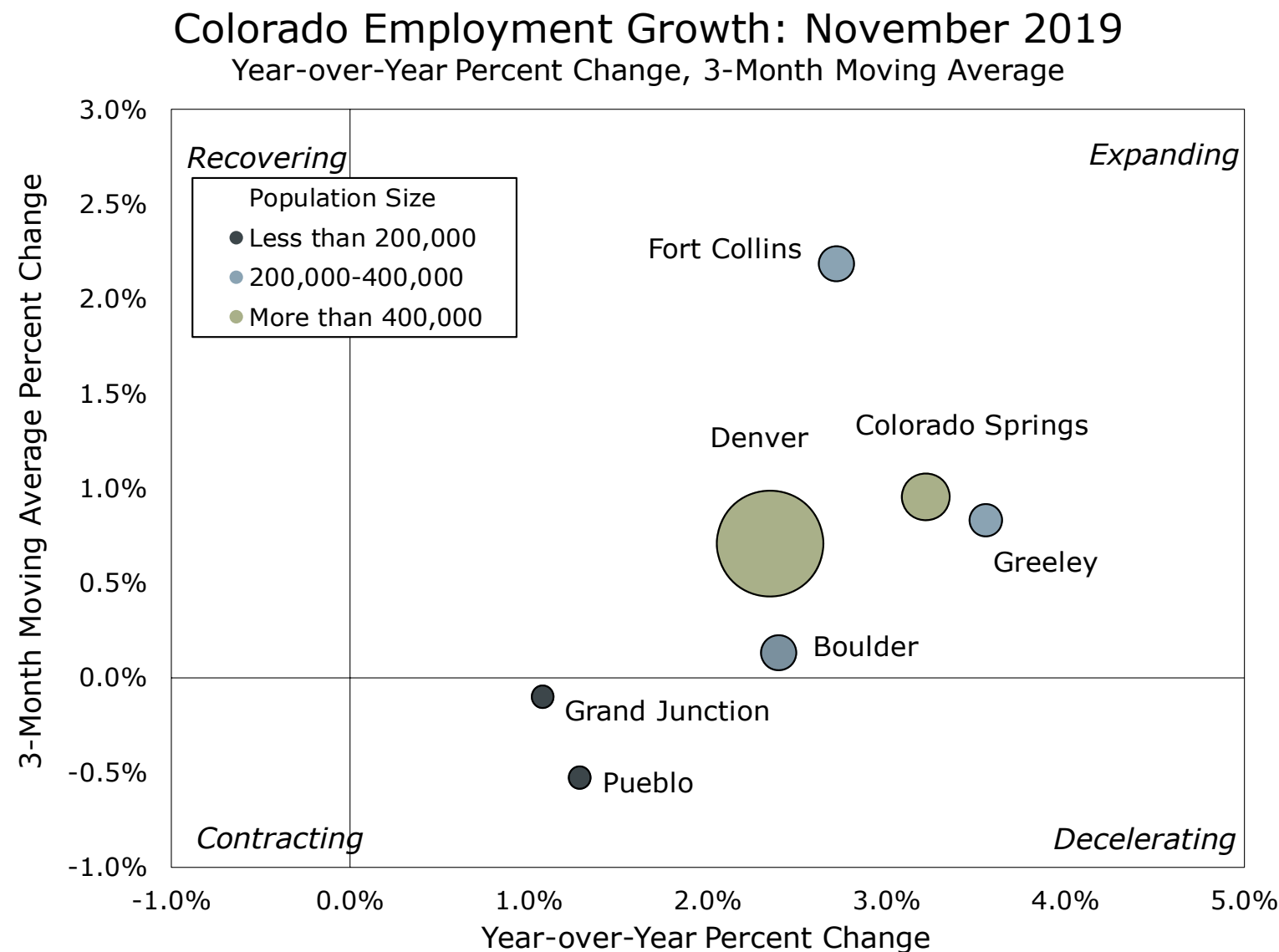
The recent budget deal, which removed caps on federal spending, will be a short term positive for economic growth. However, over the long term, a growing deficit could potentially push up interest rates, crowd out private investment and slow overall economic growth .



Source: Congressional Budget Office and Wells Fargo Securities

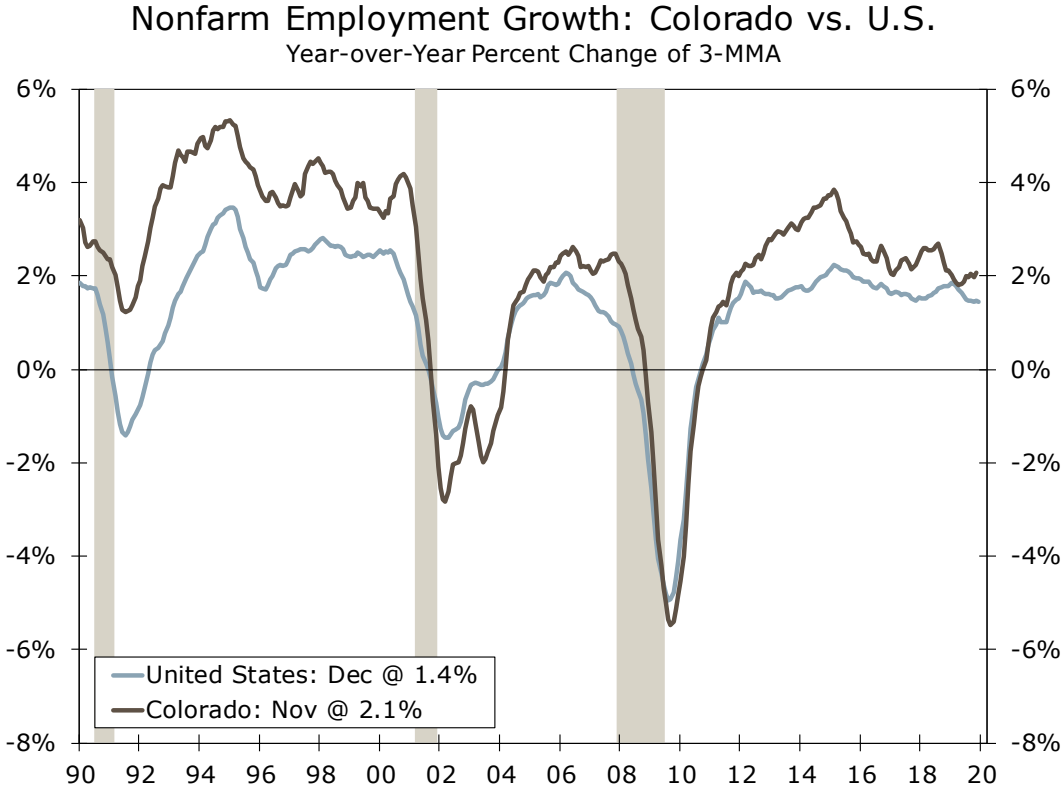






Source: U.S. Department of Labor and Wells Fargo Securities

Hiring continues to be robust, with employment growth outpacing the rest of the country.

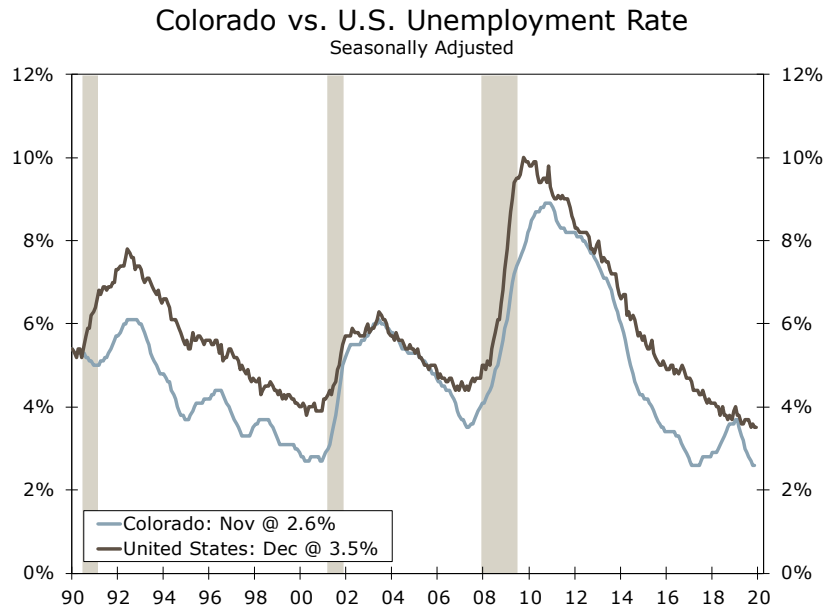


Source: Bureau of Labor Statistics and Wells Fargo Securities

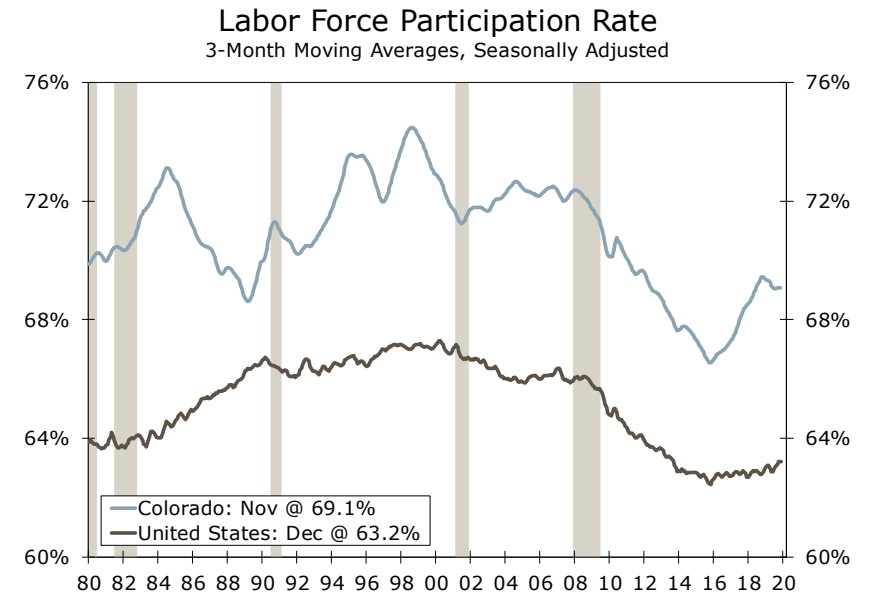
## Colorado Labor Market

The jobless rate in Colorado is also much lower than the national rate. Further evidence that the labor market is strengthening is in a steadily rising participation.

### Unemployment Low



### Labor Force Participation Improving

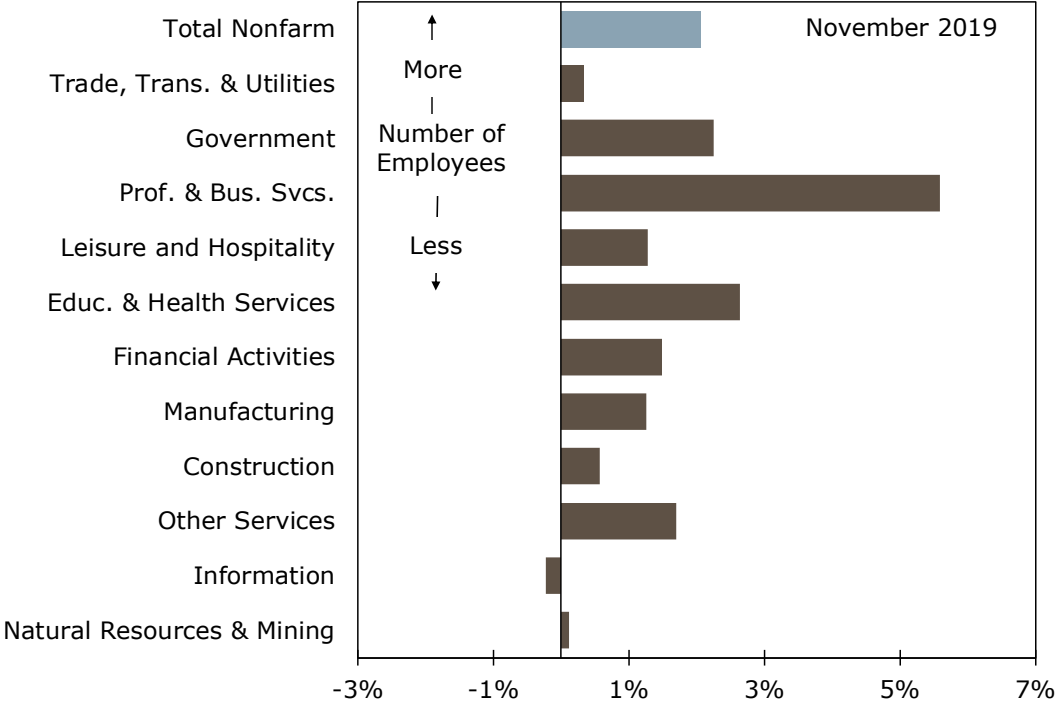


Source: Department of Labor and Wells Fargo Securities

Nearly every major industry is adding jobs, with hiring in the tech sector the clear standout.

Colorado Employment Growth By Industry

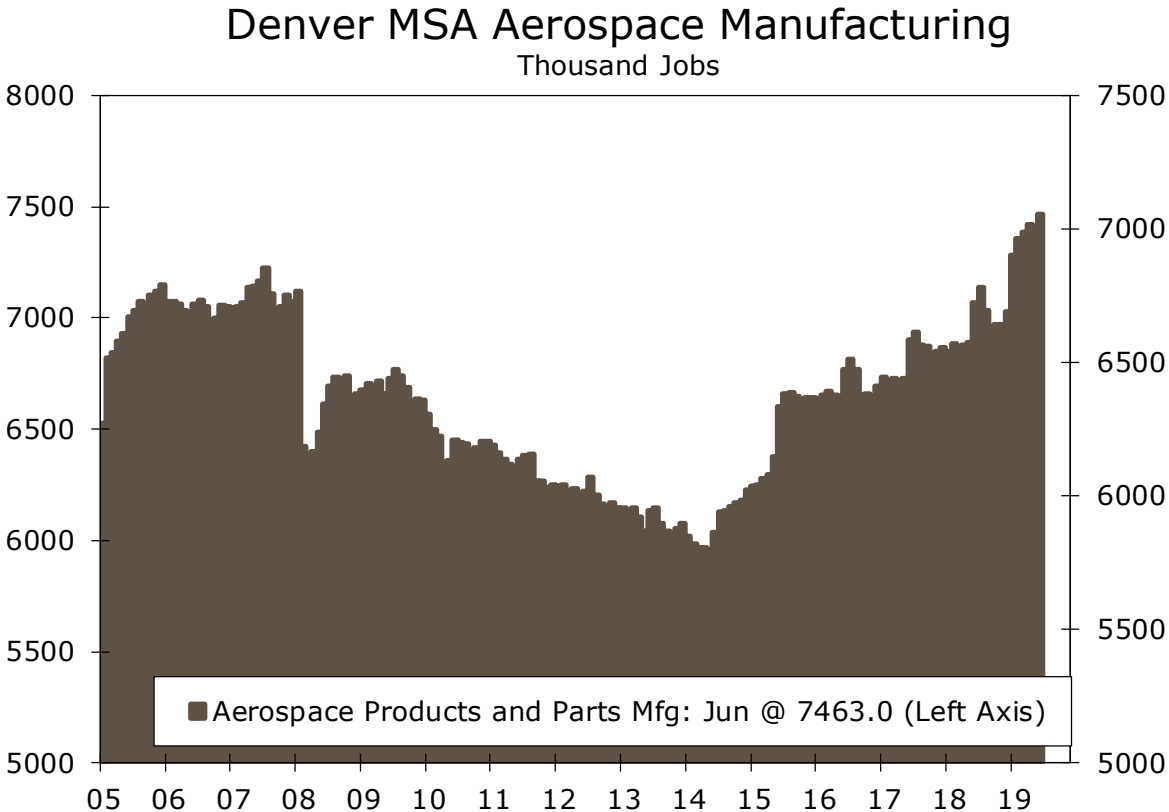
Year-over-Year Percent Change, 3-MMA



Source: Bureau of Labor Statistics and Wells Fargo Securities

# Colorado Aerospace Industry Ascends

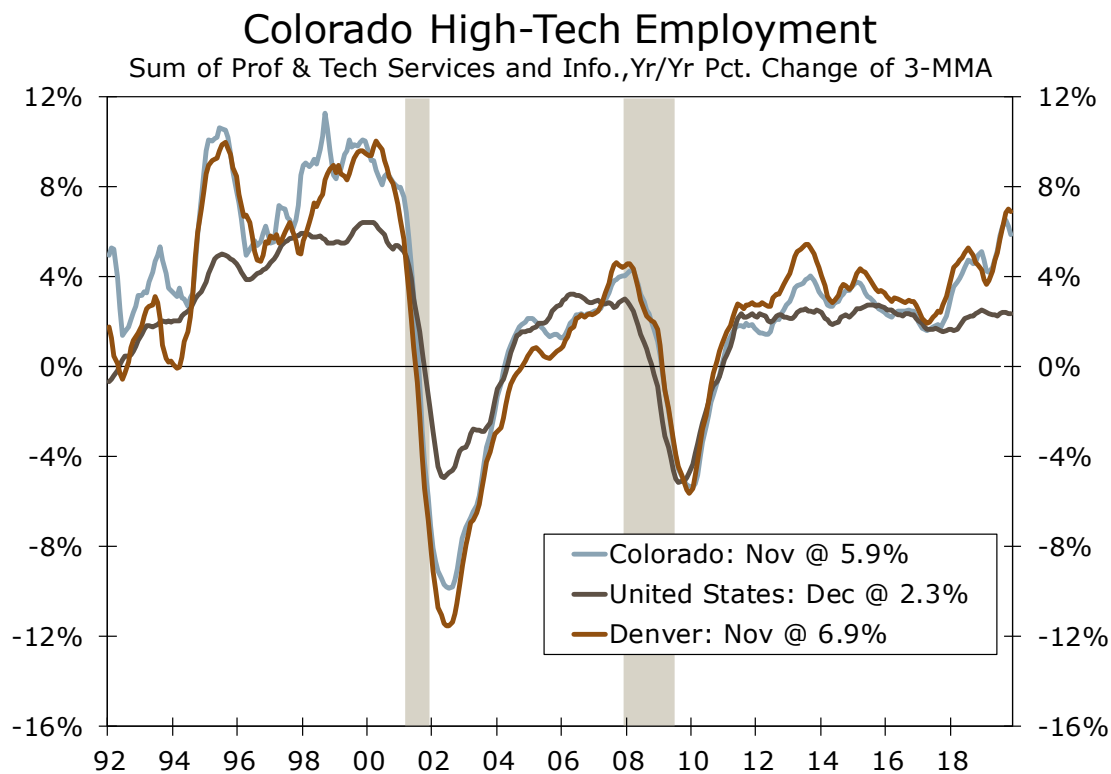
The aerospace products and parts manufacturing industry has seen hiring pickup recently, likely a result of increased federal spending from the 2018's budget deal.



Source: Bureau of Labor Statistics and Wells Fargo Securities

## High Tech Employment Continues to Climb

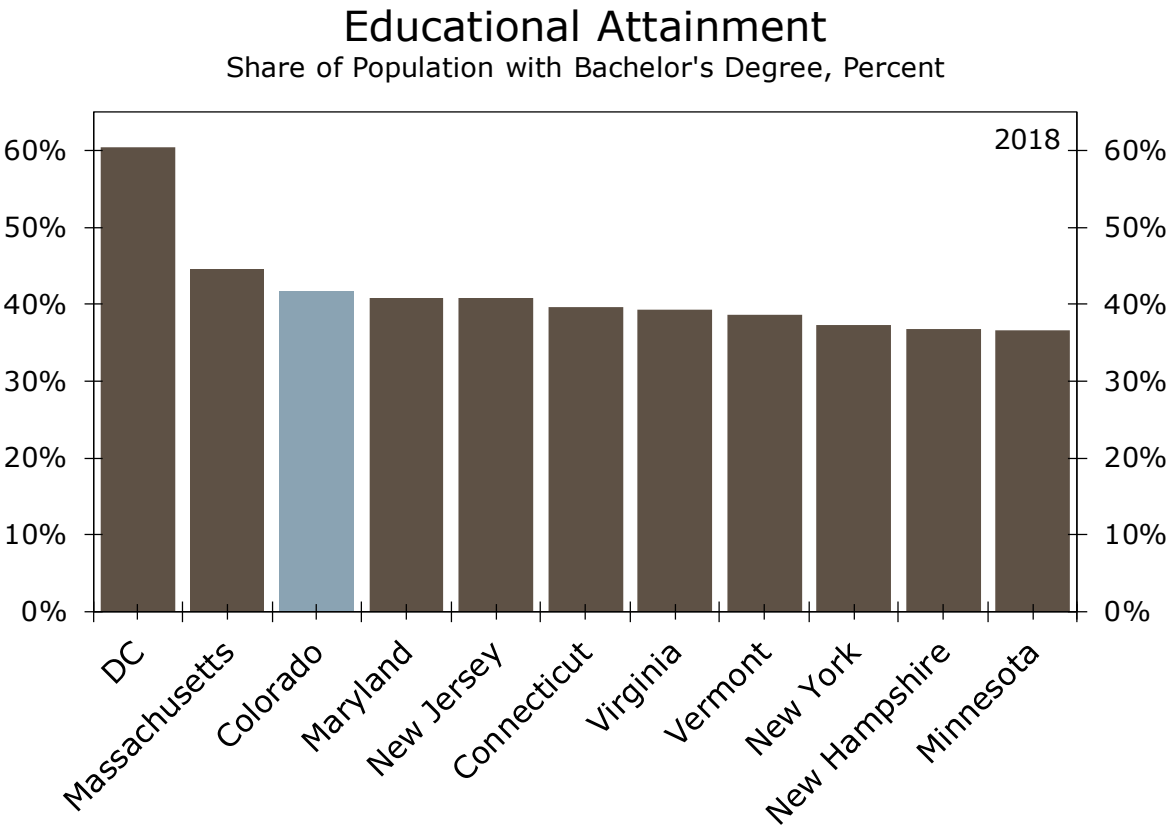
Tech hiring is not showing any signs of slowing down. Denver, Bolder and Colorado Springs continue to see an influx of major tech companies to the area.



Source: Bureau of Labor Statistics and Wells Fargo Securities

# Colorado's Labor Force One of the Most Highly Educated

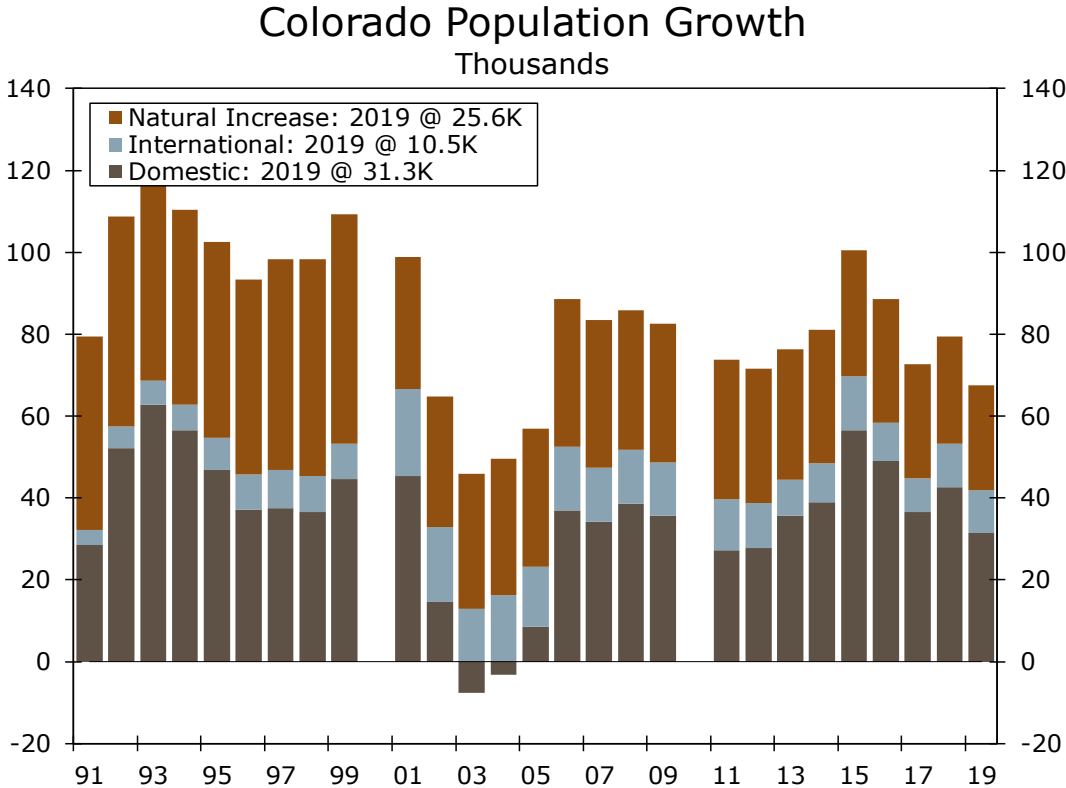
Behind much of the recent economic momentum is the state's deep pool of highly educated labor, a trait which is common among other high growth areas.



Source: Bureau of Labor Statistics and Wells Fargo Securities



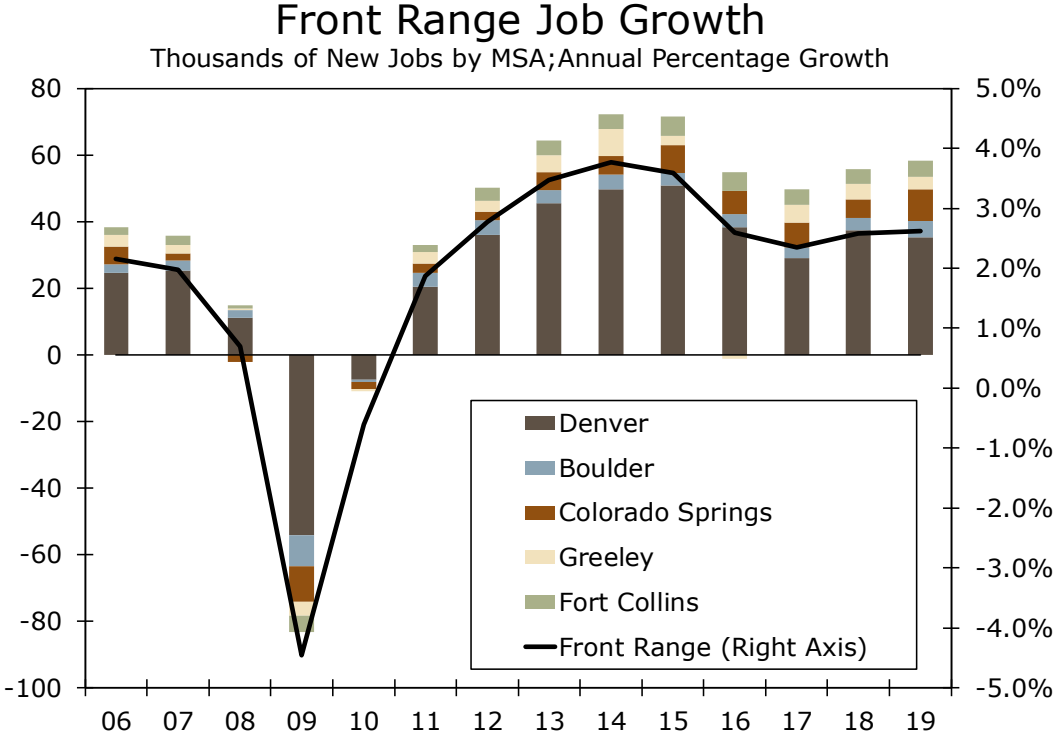
Population growth has moderated recently, as the state added over 67,000 new residents in 2019. Much of the gain continues to be owed to an influx of movers from out of state.



Source: Census Bureau and Wells Fargo Securities

# Front Range Area Employment

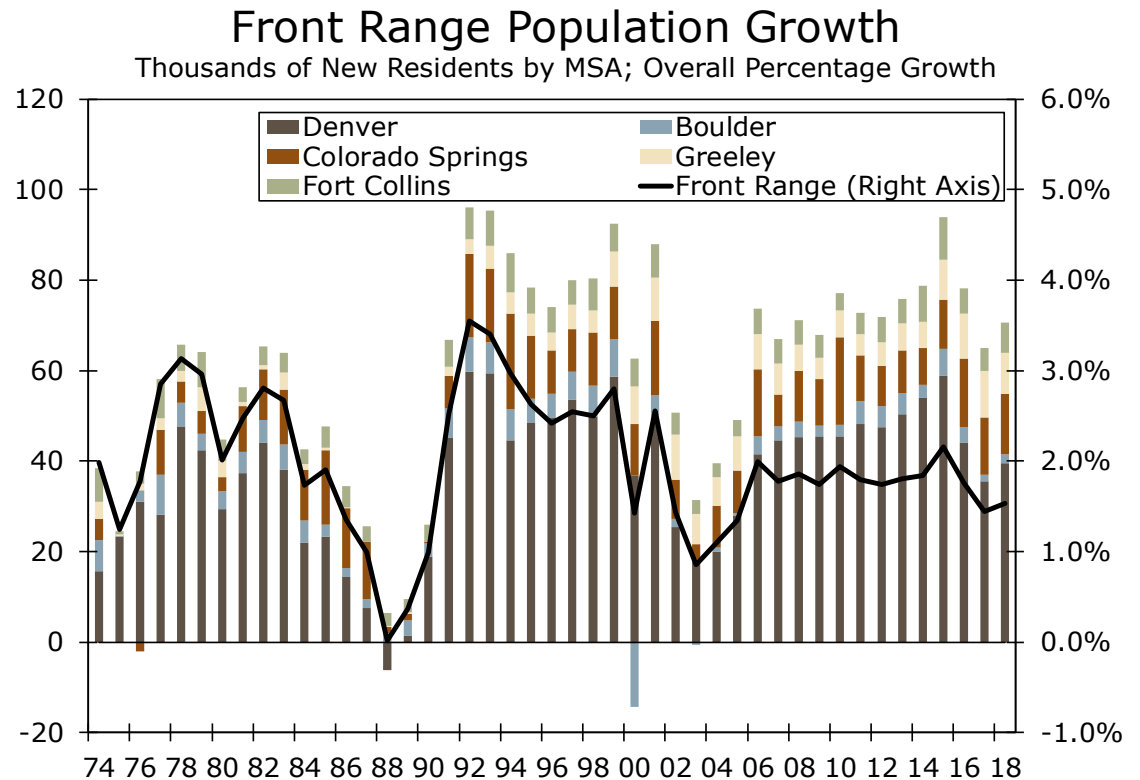
The Front Range area appears to be regaining momentum. The region added over 58,000 new jobs during 2019, which is the strongest gain since 2015



Source: BLS and Wells Fargo Securities

## Population Growth

Similar to the rest of the country, population growth is slowing. That noted, there continues to be an incredible amount of people moving to the area, which will help reinforce the region's economy.

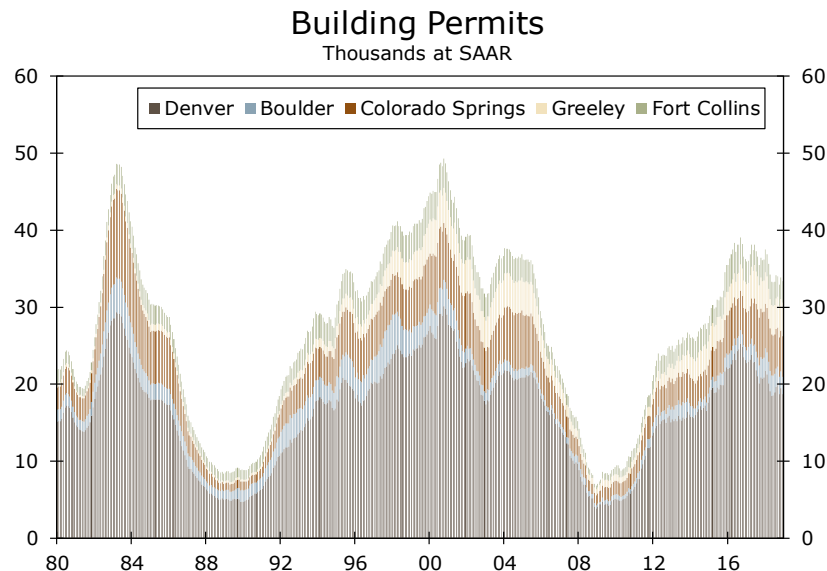


Source: Bureau of Labor Statistics and Wells Fargo Securities

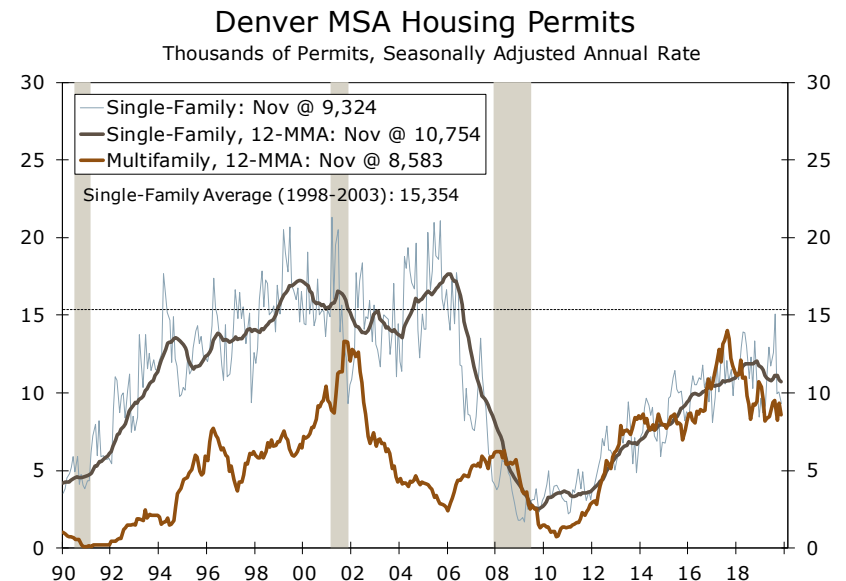
## Front Range Residential Construction

Local residential construction activity remains elevated but is cooling off a bit. Higher construction costs, mostly for land and labor, are making it challenging for builders to maintain the high levels of construction seen in recent years.

### Front Range Building Permits



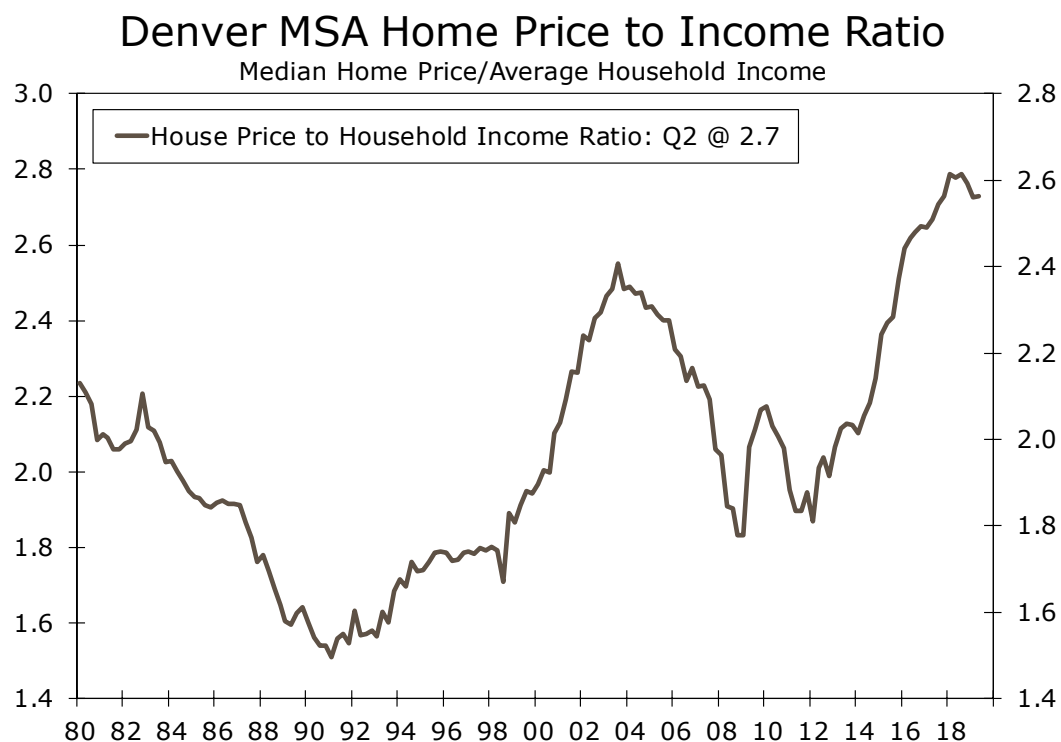
### Multifamily Has Surged



Source: Department of Commerce and Wells Fargo Securities

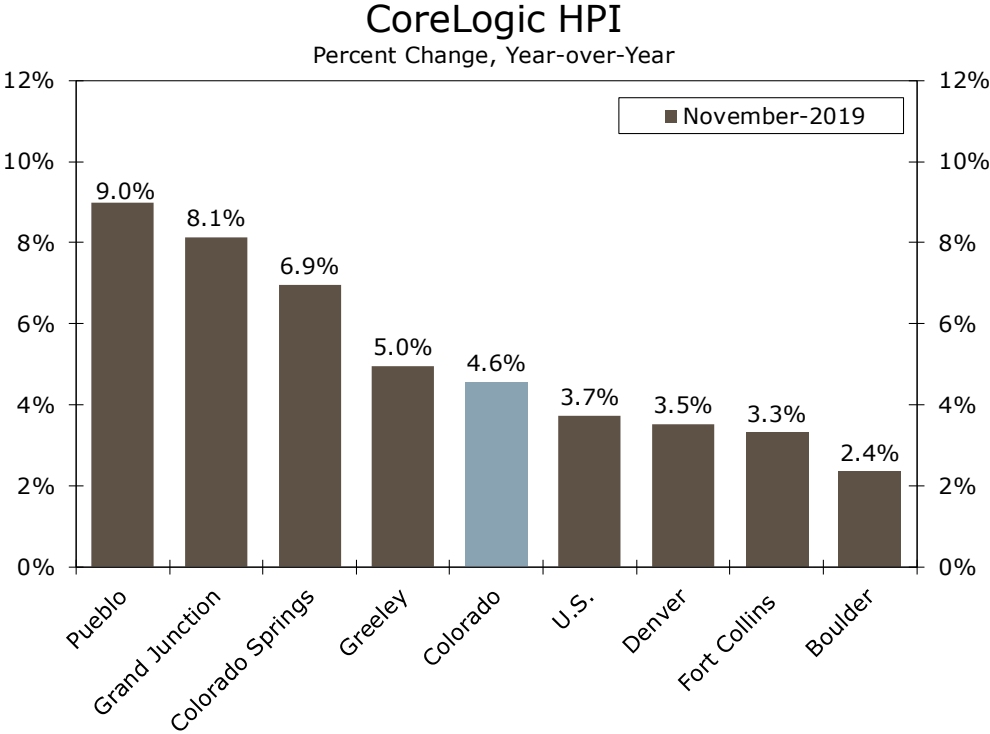
## Affordability Remains a Top Challenge

Home prices rising at a faster rate than incomes has led to a rapid deterioration in housing affordability in Denver and Boulder, which is pushing more development to lower cost areas in Colorado Springs and Fort Collins.



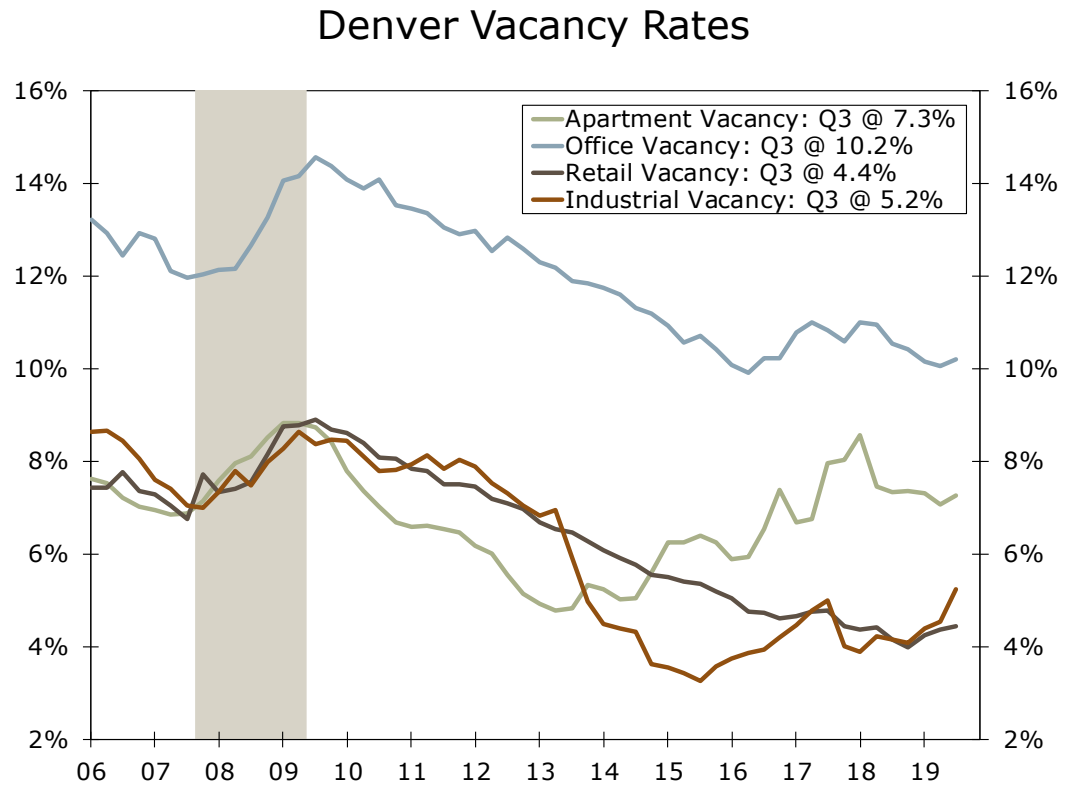
Source: Bureau of Labor Statistics and Wells Fargo Securities

Home prices have cooled off a bit relative to the brisk pace seen in recent years, which should help improve housing affordability and help attract more residents and businesses to the area.



Source: Bureau of Labor Statistics and Wells Fargo Securities

Vacancy rates generally remain low across property types, although the wave of new apartment buildings have led to vacancies trending higher.



Source: CoStar, Inc. and Wells Fargo Securities

# Appendix

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# U.S. Economic Forecast

## Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual	Forecast		
	2018				2019				2020				2021				2018	2019	2020	2021
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.6	3.5	2.9	1.1	3.1	2.0	2.1	1.5	1.4	2.5	2.1	2.3	2.1	2.2	2.4	2.4	2.9	2.3	1.9	2.2
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	2.9	2.1	2.1	2.0	1.9	1.9	1.8	2.1	2.2	2.2	3.0	2.6	2.3	2.0
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.7	2.5	2.2	2.6	3.7	3.8	4.0	3.9	3.9	3.8	6.4	2.3	1.8	3.8
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	1.1	1.4	1.5	2.6	2.9	3.4	3.4	3.2	3.0	6.8	1.6	0.9	3.0
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	5.1	6.2	5.1	4.4	5.7	6.0	5.9	5.5	5.6	5.7	7.4	7.8	5.2	5.7
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-12.0	-6.5	-1.5	1.5	2.5	2.0	1.8	1.9	2.0	2.1	4.1	-4.5	-3.2	2.0
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	5.1	4.5	4.3	4.5	4.5	4.3	4.0	4.0	3.8	3.5	-1.5	-1.6	4.0	4.1
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.6	0.5	1.1	1.1	1.0	0.8	0.8	0.8	0.7	0.7	1.7	2.2	1.2	0.9
Net Exports <sup>2</sup>	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	0.1	0.0	0.0	-0.2	-0.1	-0.2	-0.1	0.0	0.0	-0.4	-0.3	-0.1	-0.1
Inventories <sup>2</sup>	0.1	-1.2	2.1	0.1	0.5	-0.9	0.2	-0.5	-0.7	0.4	0.1	0.2	0.2	0.0	0.0	0.0	0.1	0.2	-0.2	0.1
Nominal GDP <sup>1</sup>	5.0	7.1	4.8	2.9	3.9	4.7	3.8	3.2	3.6	4.4	4.0	4.2	4.2	4.1	4.1	4.1	5.4	4.1	3.8	4.2
Corporate Profits Before Taxes <sup>3</sup>	2.9	2.4	4.2	4.2	-2.2	1.3	-0.8	2.6	3.0	0.8	3.2	2.2	1.4	3.2	2.5	1.0	3.4	0.2	2.3	2.0

Forecast as of: December 18, 2019

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter    <sup>2</sup> Percentage Point Contribution to GDP    <sup>3</sup> Year-over-Year Percentage Change

Source: IHS Global Insight and Wells Fargo Securities

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