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SECURITIES

Economic Outlook

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Together we'll go far



Economic Outlook

- **Shutdowns implemented to slow the spread of COVID-19 wiped out Q1 economic growth and led to massive output and employment declines in Q2. Efforts to re-open the economy are progressing slowly but gaining momentum.**

Quantifying the Contraction

- **There were few obvious imbalances prior to the COVID-19 outbreak, which should help prevent the healthcare and economic crisis from becoming a financial crisis. The massive loss of income and wealth will take a heavy toll.**

Notable Impacts

- **With the leisure & hospitality industry abruptly shut down, layoffs have soared. Job losses extend well beyond the hospitality sector, however, and unemployment is likely to spike to 20% + in late spring and summer.**

What Kind of Recovery?

- **The abrupt shutdown of economic activity combined with the absence of imbalances in the most cyclical parts of the economy has given rise to hopes of a V-shaped recovery. We expect to see a “bouncing” swoosh.**

Charlotte

- **North Carolina employers shed 571,700 jobs in April, with losses concentrated in the leisure & hospitality sector, which lost 249,800 jobs. Charlotte payrolls fell by 14%, compared to 12% for the state as a whole.**

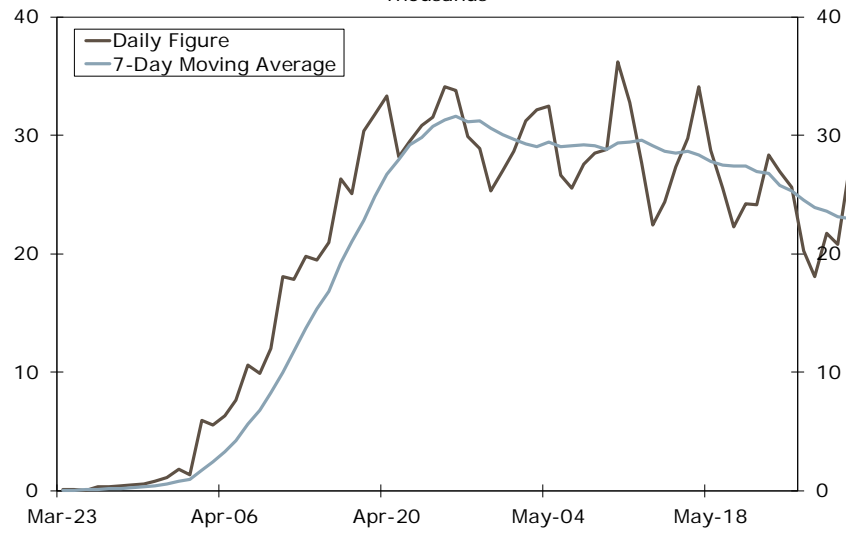
The curve has flattened in the U.S. and new confirmed cases are declining across much of the country. New York, New Jersey, Connecticut and Massachusetts were the epicenter of the outbreak in the U.S., accounting for 40% of confirmed cases and 25% of deaths. The 4 states account for 11.7% of the nation's population, 15.2% of income and 15.2% of GDP.

Cases

Deaths

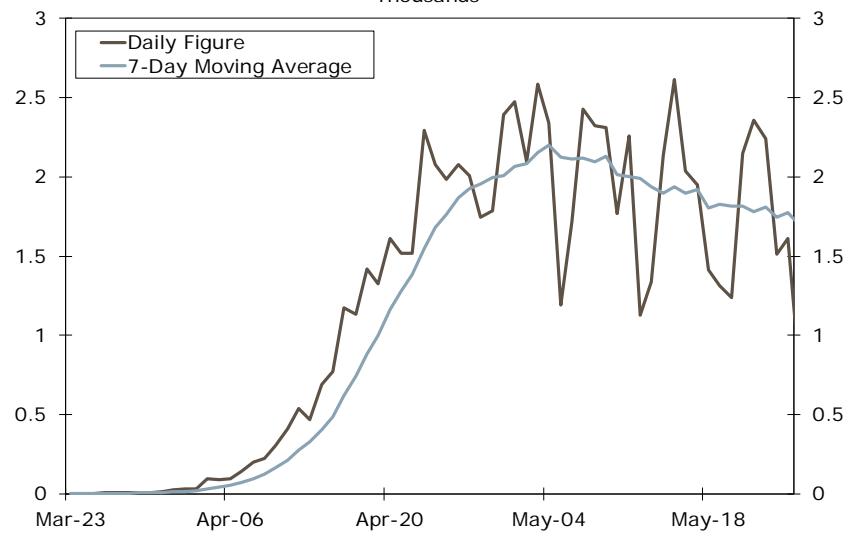
U.S. New COVID-19 Cases

Thousands



U.S. New COVID-19 Deaths

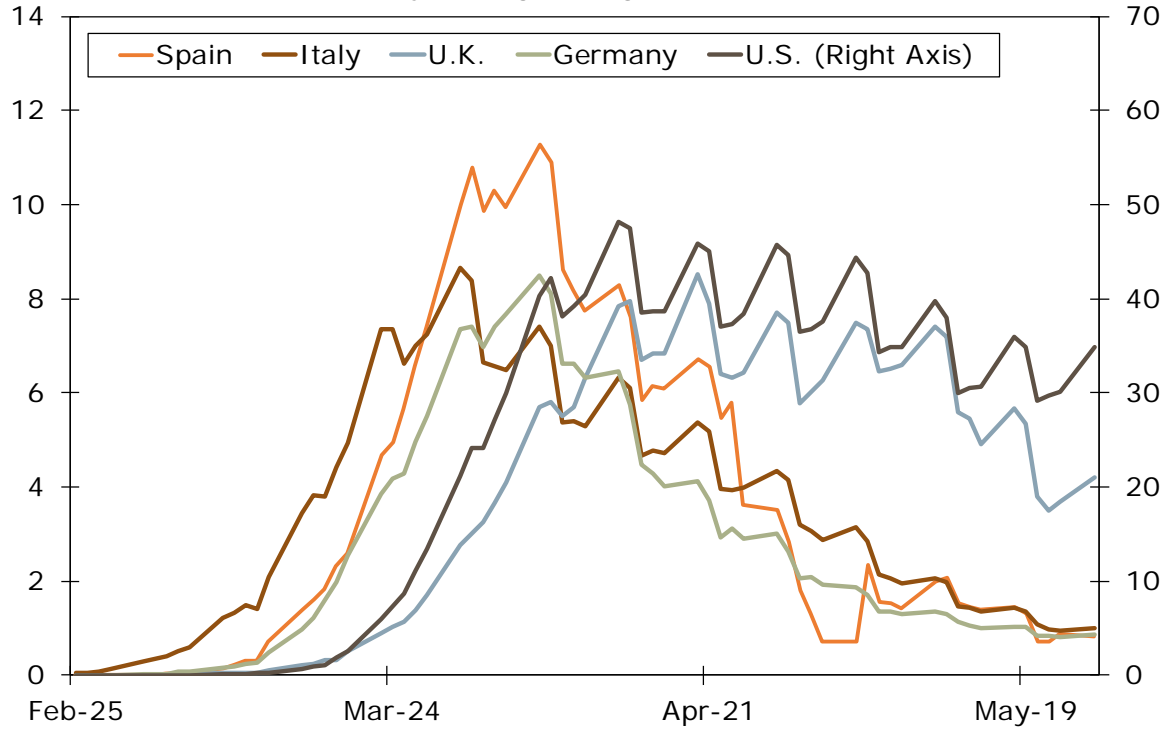
Thousands



Source: Bloomberg LP and Wells Fargo Securities

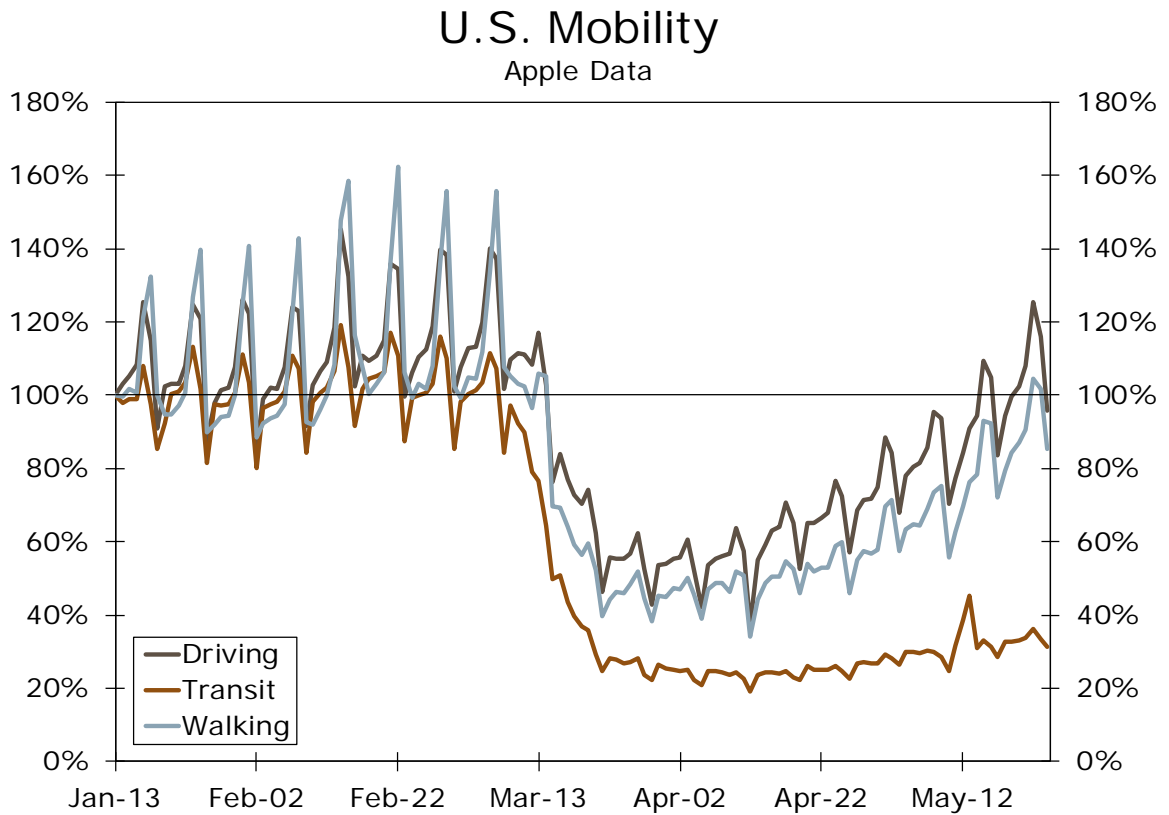
The push toward re-opening the economy is taking place in Europe at much the same pace, without the influence of U.S. politics

New COVID-19 Cases
7-Day Moving Average, Thousands



Source: Bloomberg LP and Wells Fargo Securities

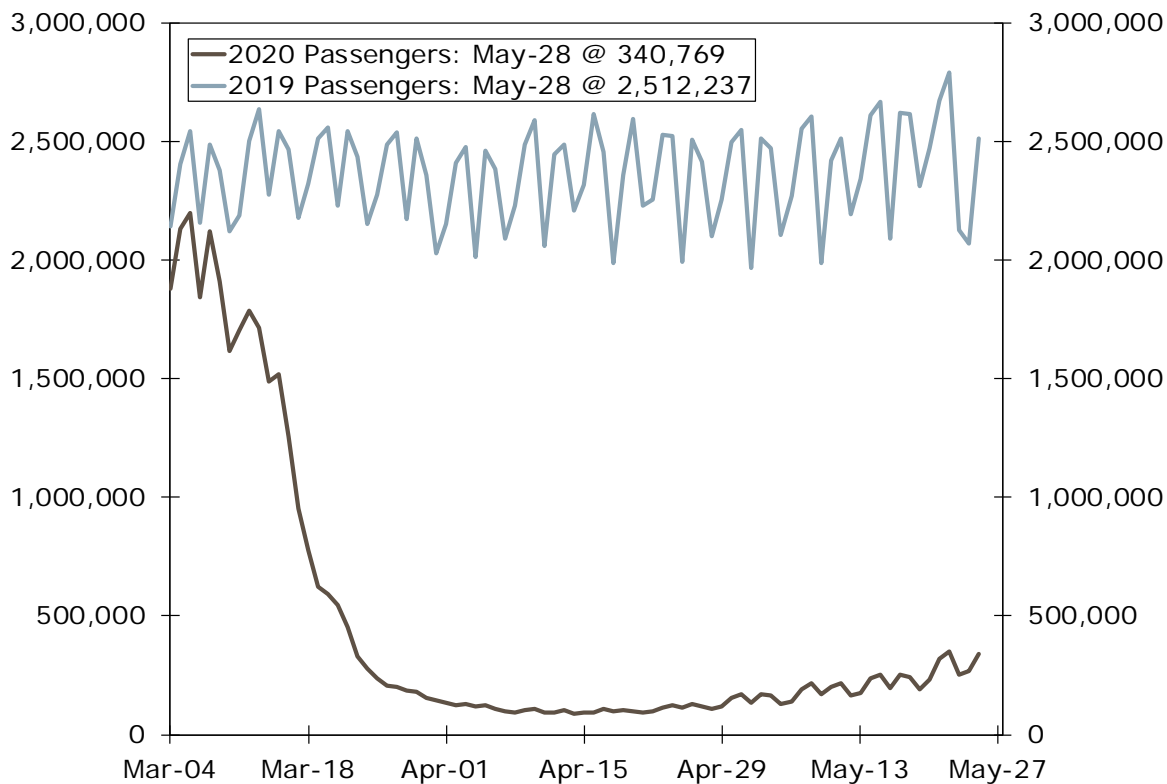
Driving and walking have recovered much of their decline. Mass transit remains repressed, however.



Source: Apple and Wells Fargo Securities

Air traffic is rising.

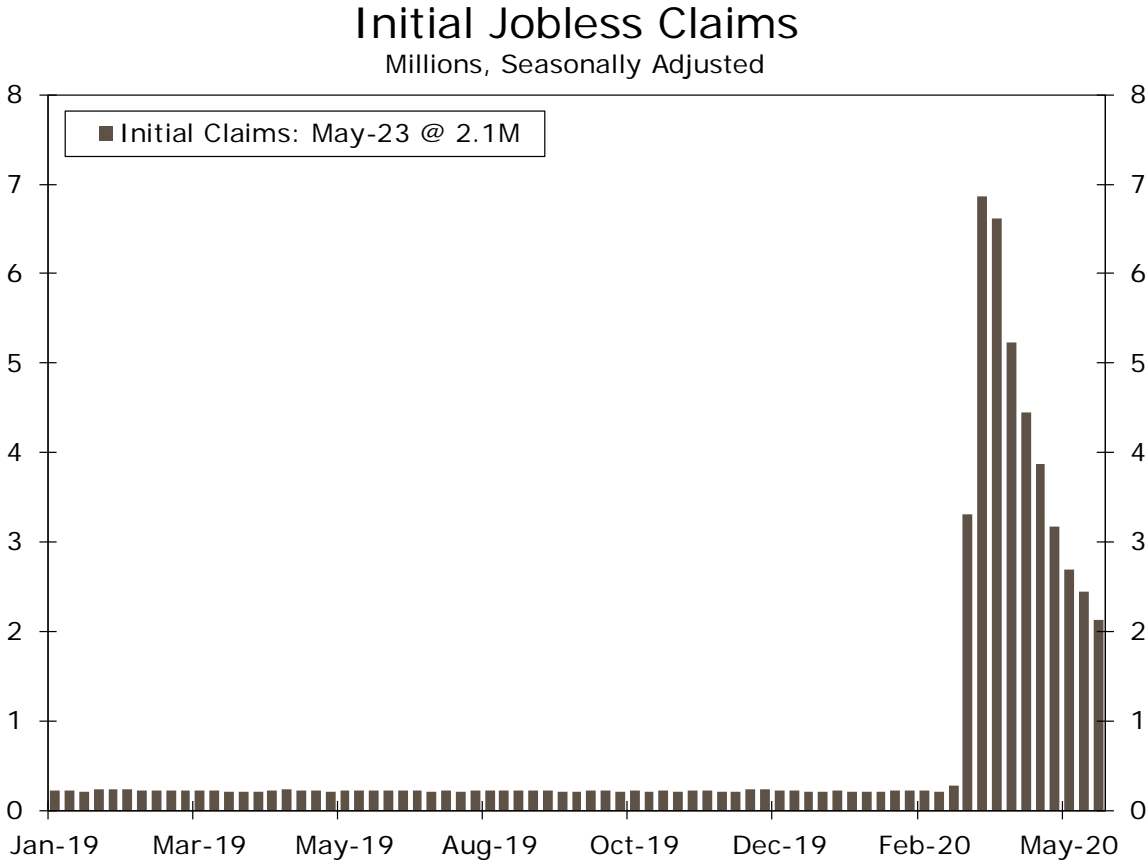
TSA - Number of U.S. Fliers



Source: TSA and Wells Fargo Securities

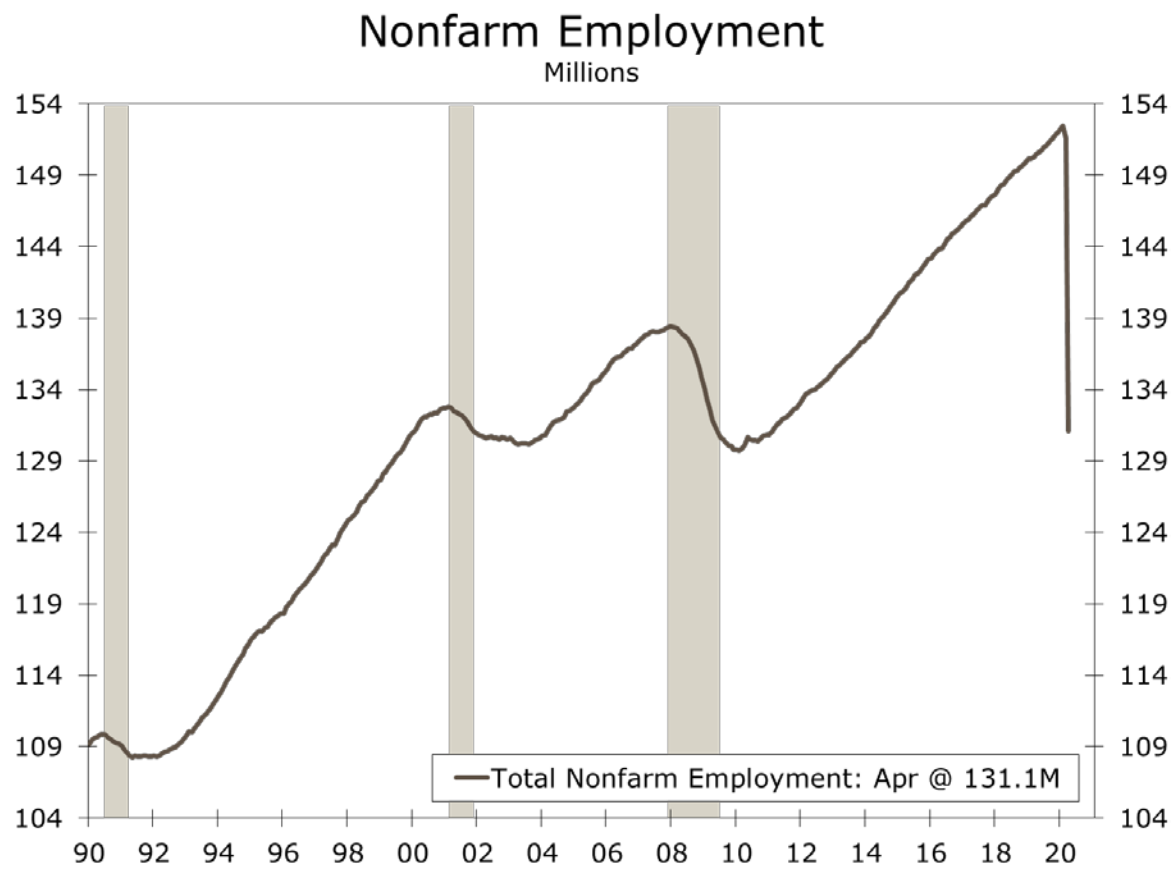
More than 40 million unemployment claims have been filed over the past ten weeks.

Continuing claims have finally begun to fall, however, indicating that laid off workers may be being recalled.



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

20.5 million jobs were lost in April.

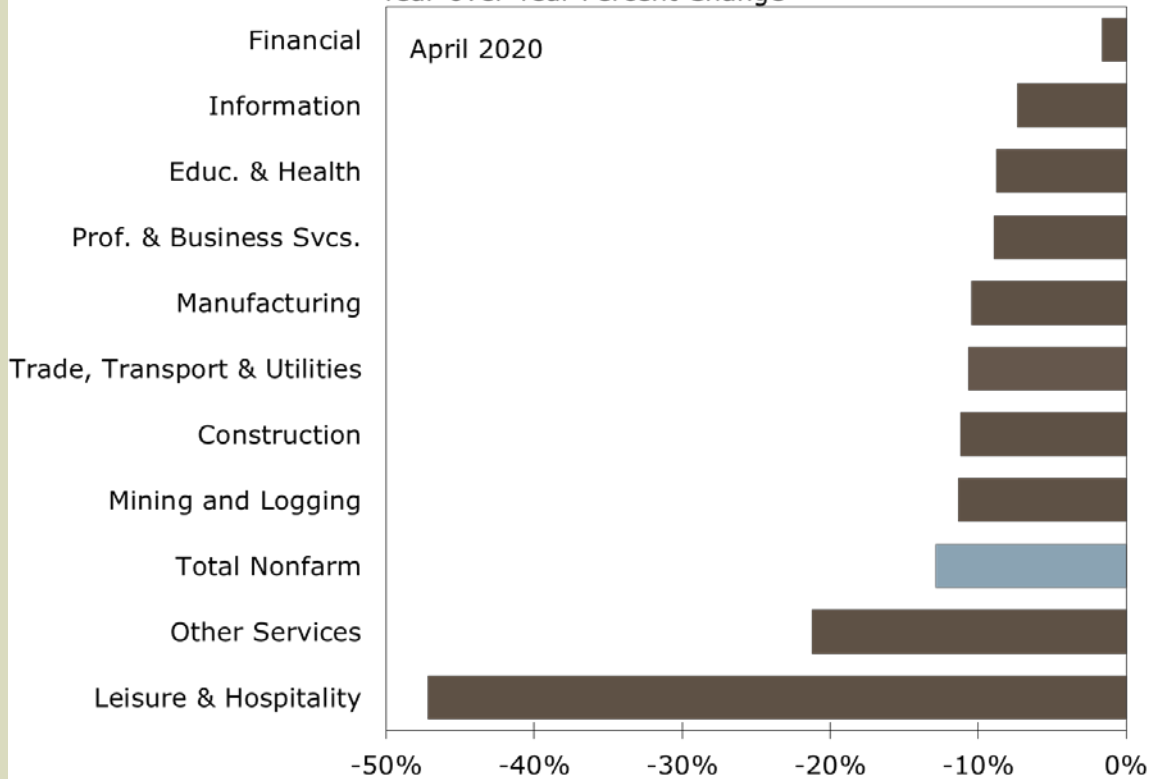


Source: U.S. Department of Labor and Wells Fargo Securities

Every sector lost jobs, with leisure & hospitality hit the hardest.

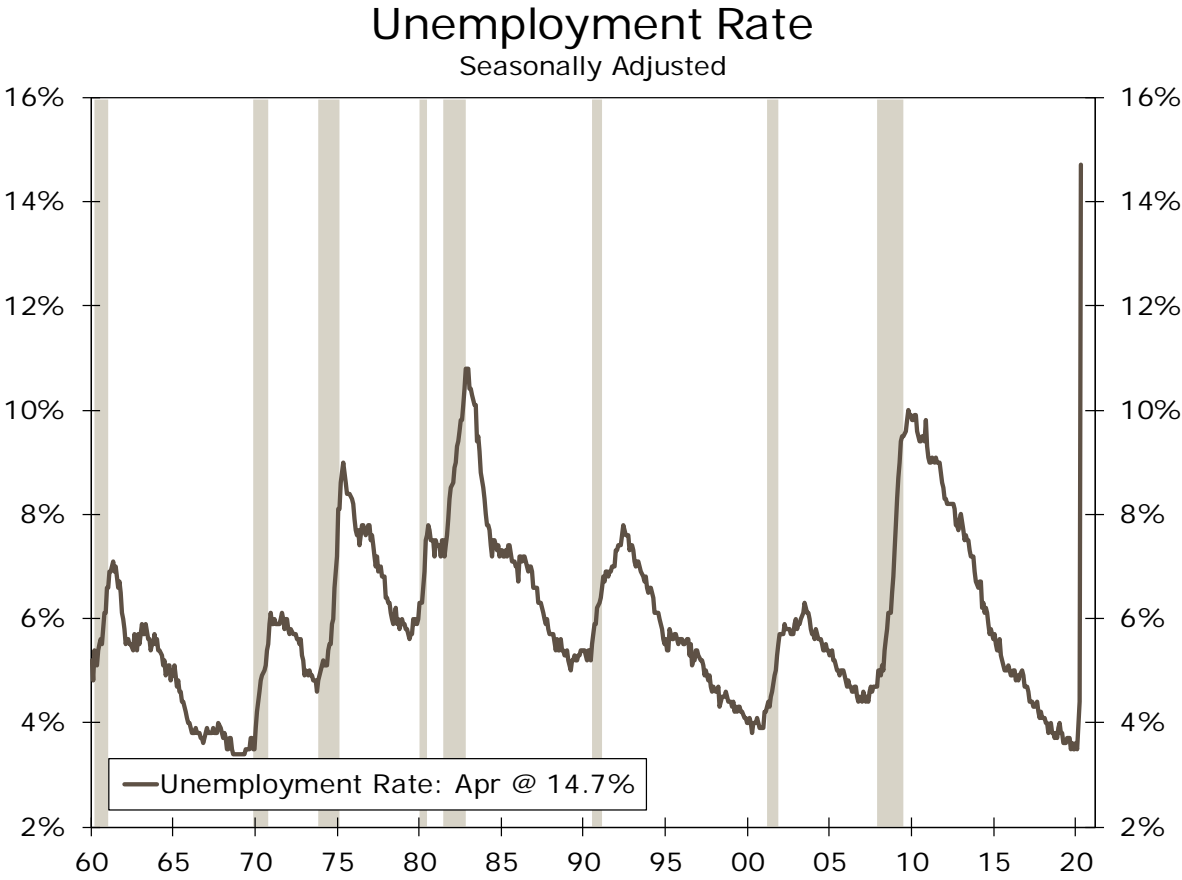
U.S. Employment by Industry

Year-over-Year Percent Change



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

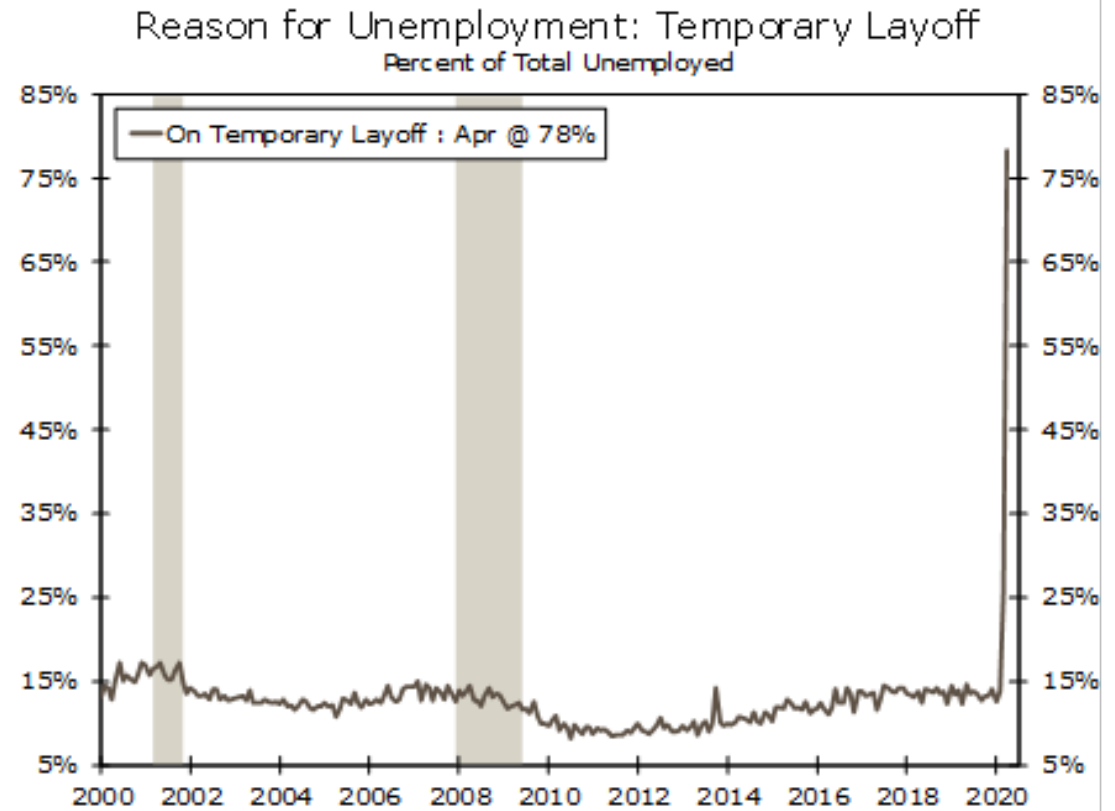
The BLS estimated the true unemployment rate is near 20%.



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

Of the 20M job losses, 18M were classified as 'temporary'.

This will likely prove too optimistic, however.

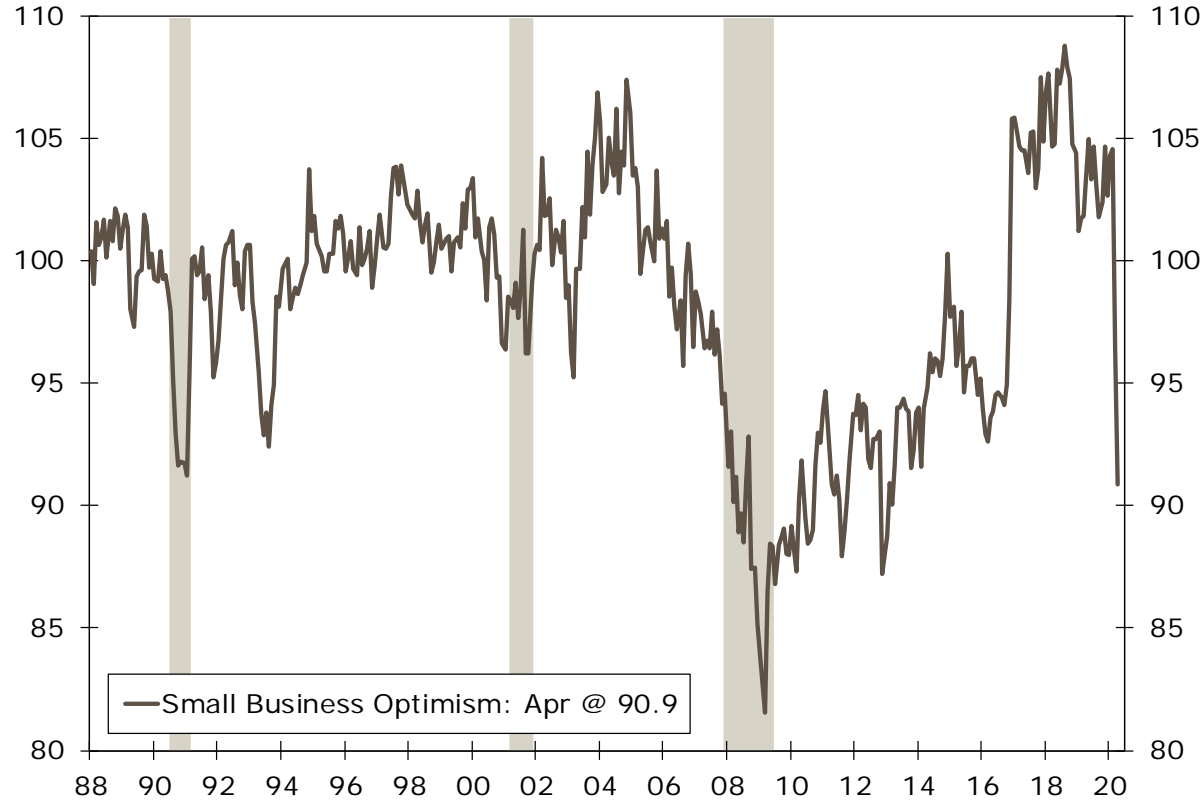


Source: U.S. Department of Labor and Wells Fargo Securities

NFIB Small Business Optimism

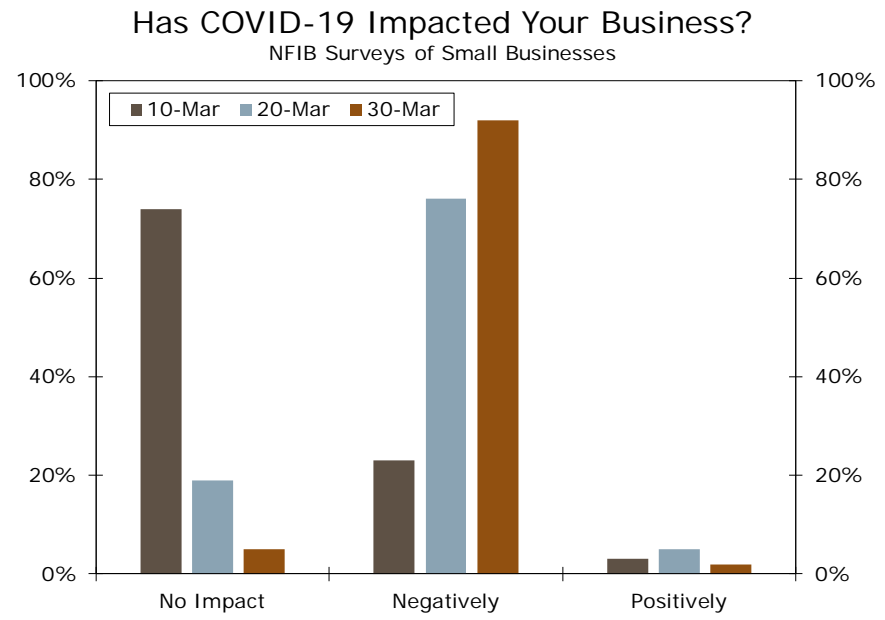
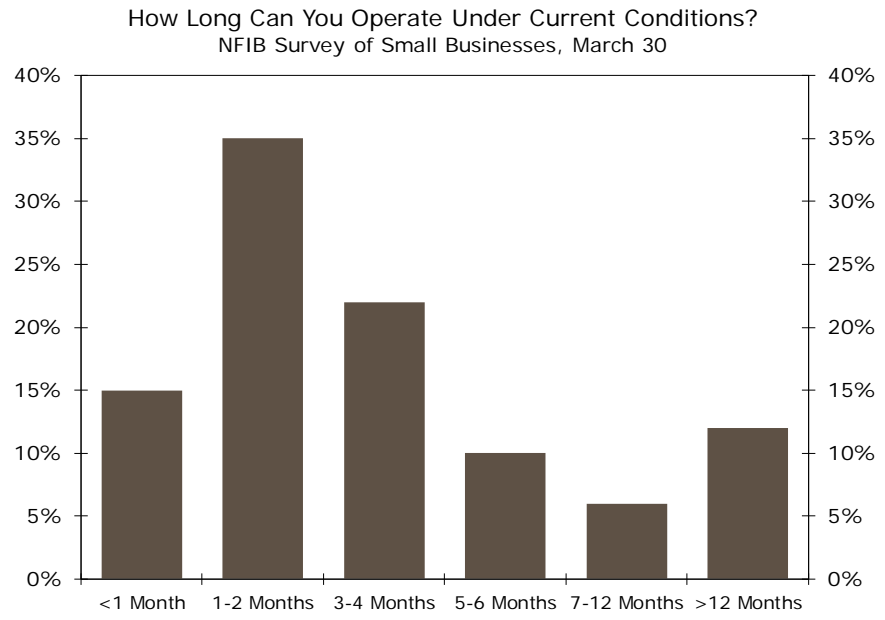
Overall Index 1986 = 100

The NFIB Small Business Optimism Index plunged in March and April.



Source: NFIB and Wells Fargo Securities

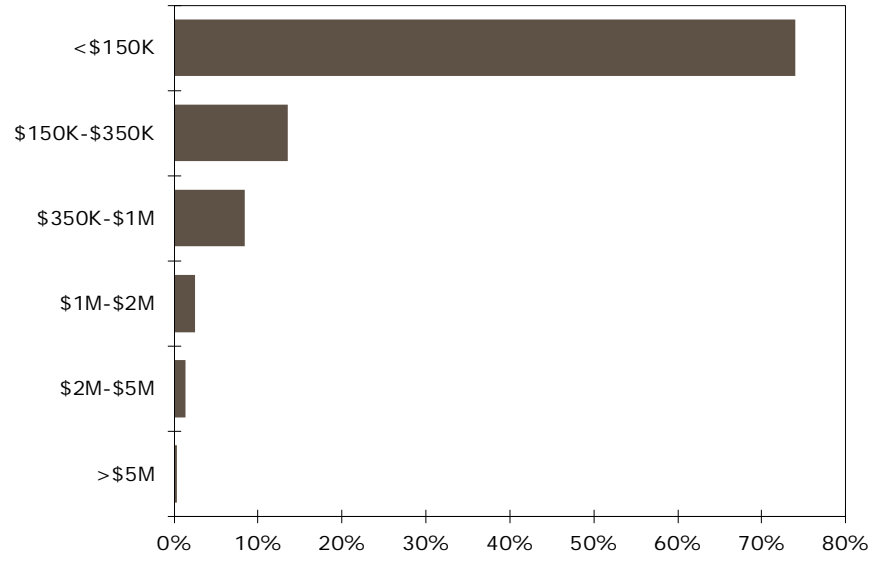
Most small businesses report only being able to last for a couple months under current conditions.



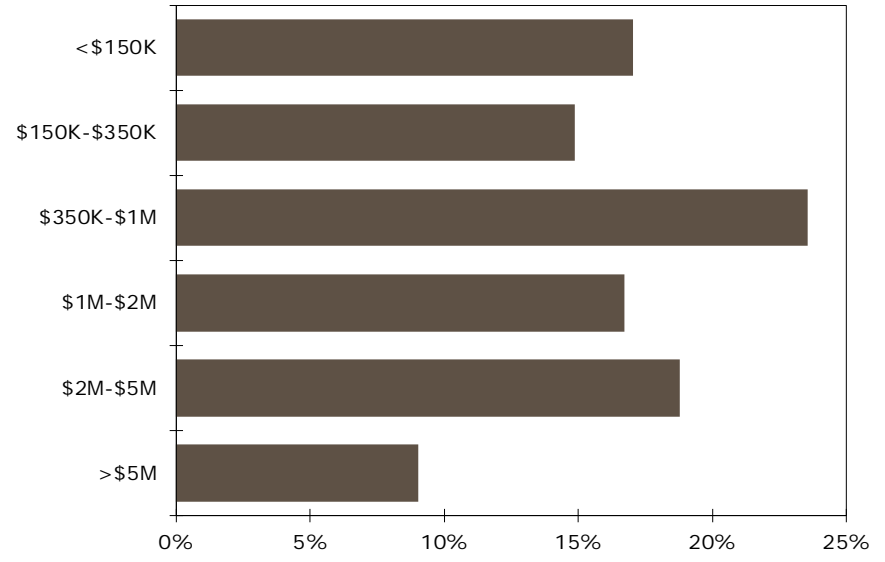
Source: NFIB and Wells Fargo Securities

The initial \$349 billion in PPP loans was exhausted quickly. Congress has added \$321 billion more.

PPP Loans Approved by Loan Size
% of Number of Loans



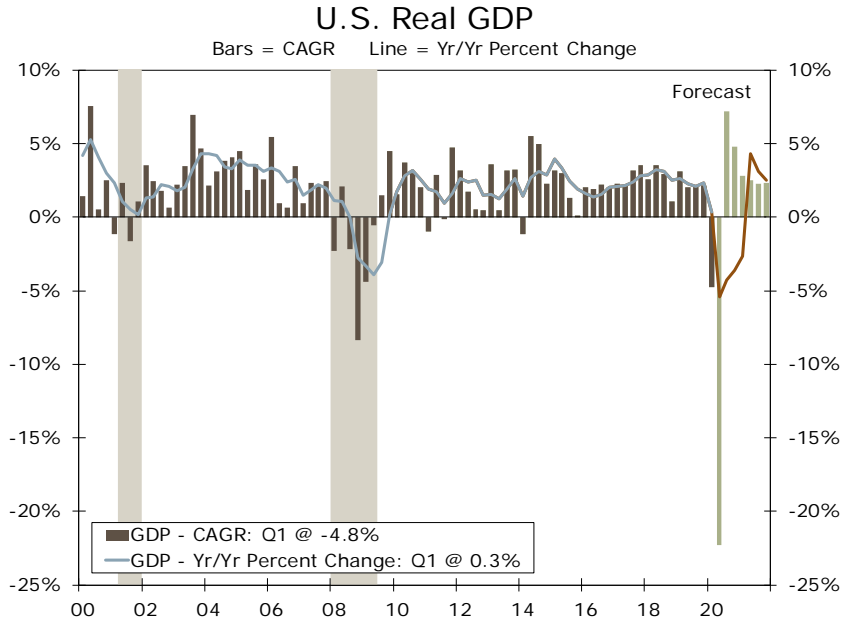
PPP Loans Approved by Loan Size
% of Total Dollars Approved



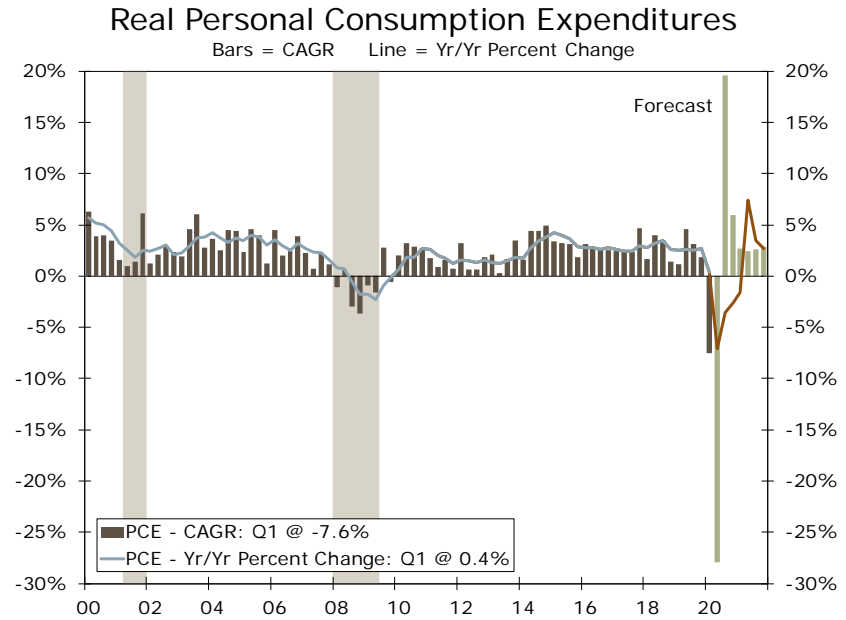
Source: Small Business Association and Wells Fargo Securities

The sudden stop in economic activity is difficult to quantify. First-order effects include supply chain disruptions and demand destruction emanating from massive shutdowns throughout the economy. Second-order effects will emanate from the financial disorder and weakening of corporate, household and public sector credit. Restarting growth may prove problematic.

GDP

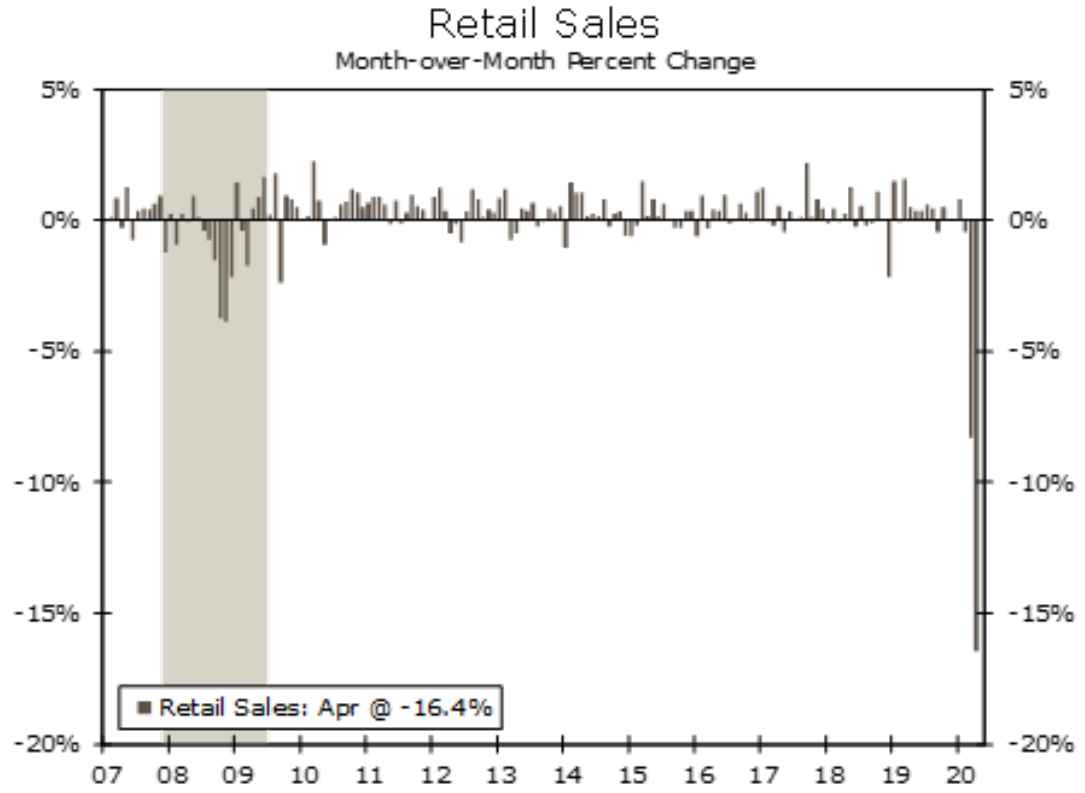


Personal Consumption



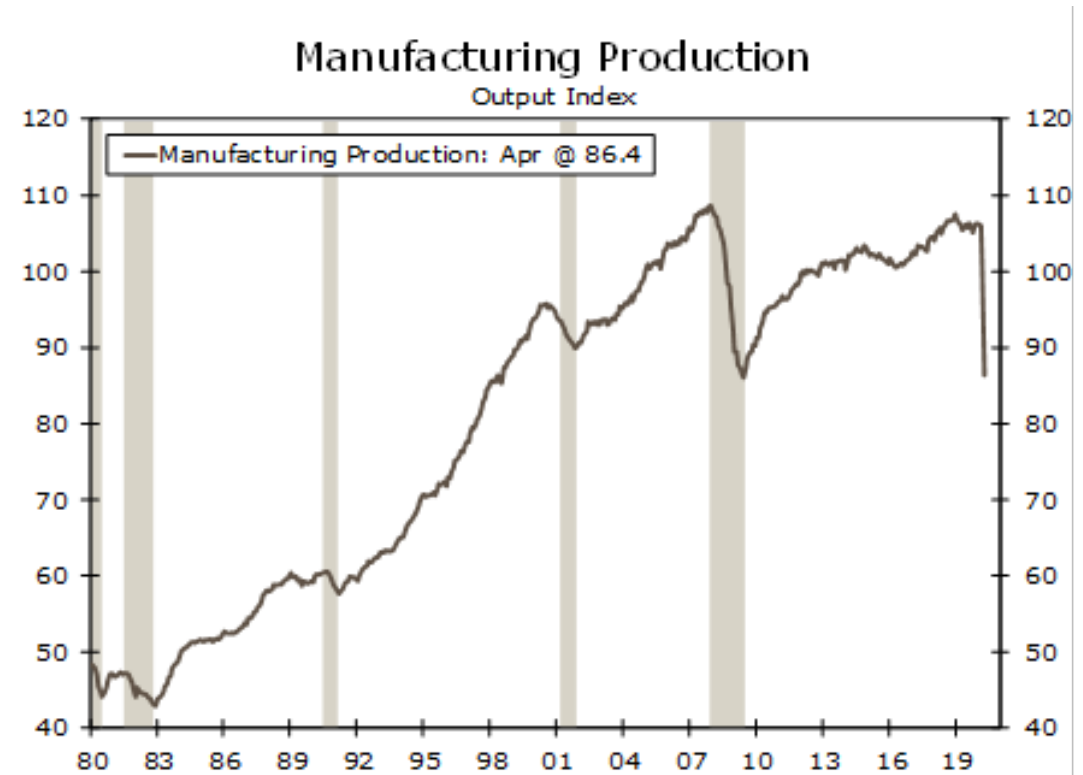
Source: U.S. Department of Commerce and Wells Fargo Securities

Retail sales fell the most on record.



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

Manufacturing output also fell the most on record.

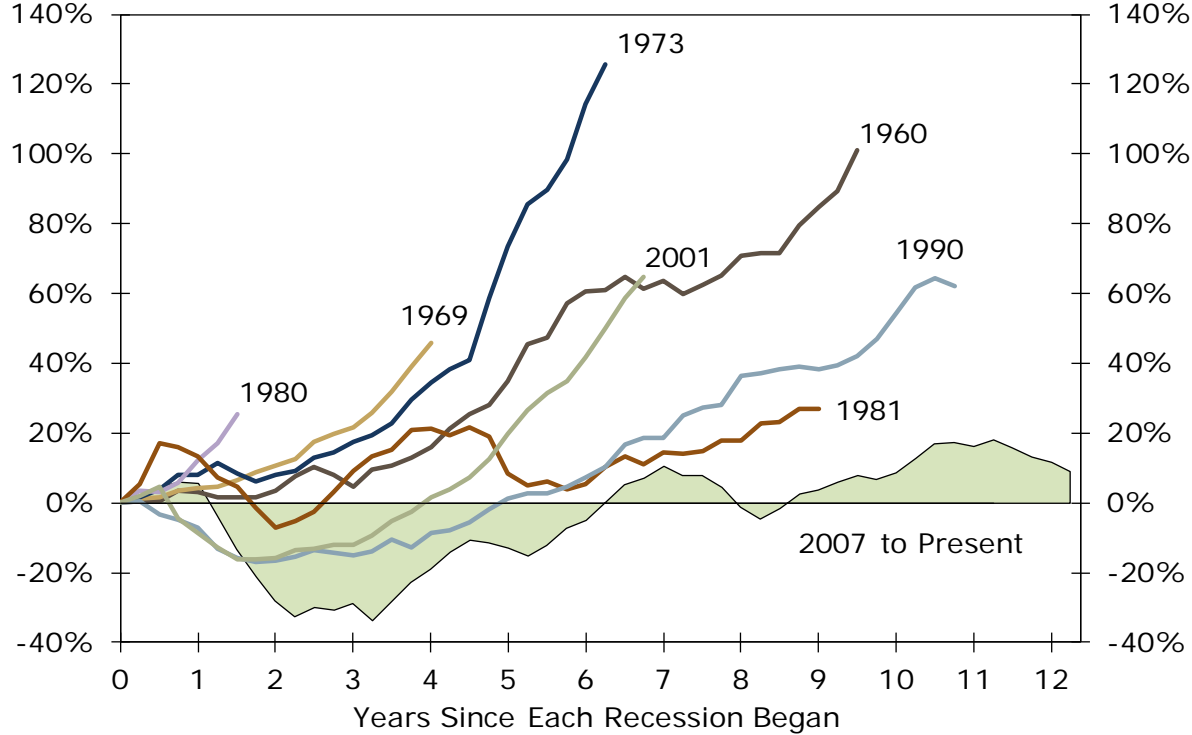


Source: Federal Reserve Board and Wells Fargo Securities

Overall building has remained relatively subdued this cycle.

Nonresidential Structures Investment

Percent Change Since Start of Each Recession

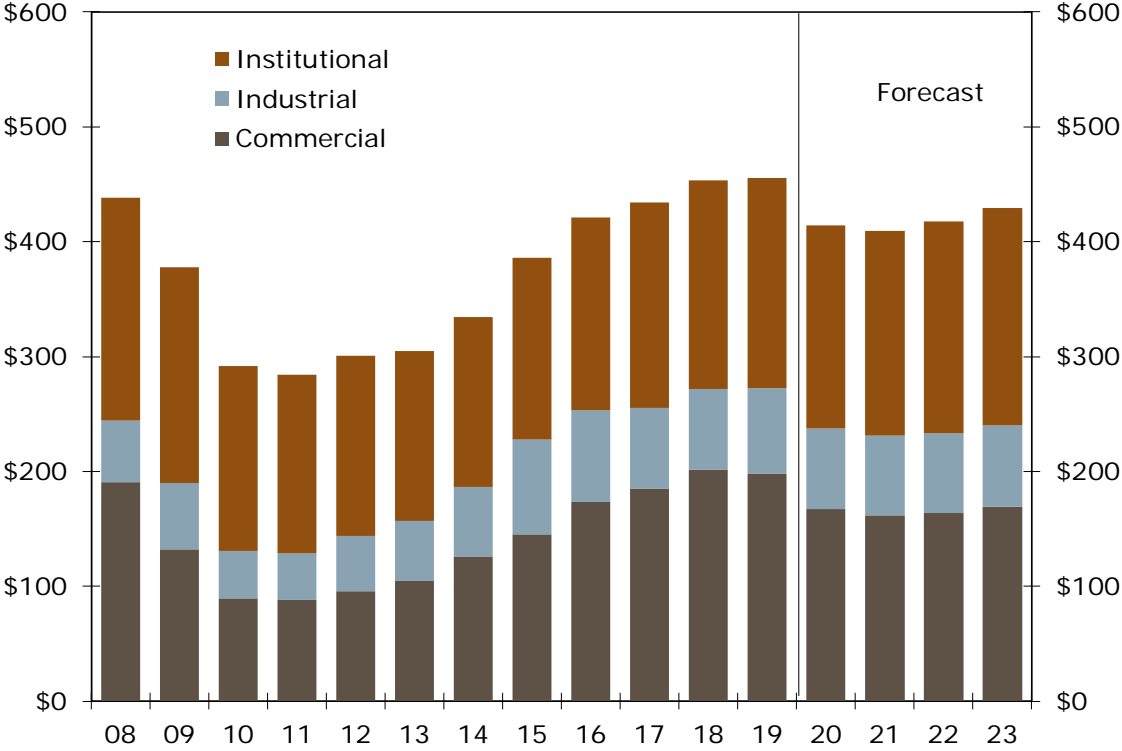


Source: U.S. Department of Commerce and Wells Fargo Securities

Even though many already-started nonresidential projects have moved forward, we expect a sharp decline in activity this year as developers postpone projects alongside increasingly uncertain economic outcomes.

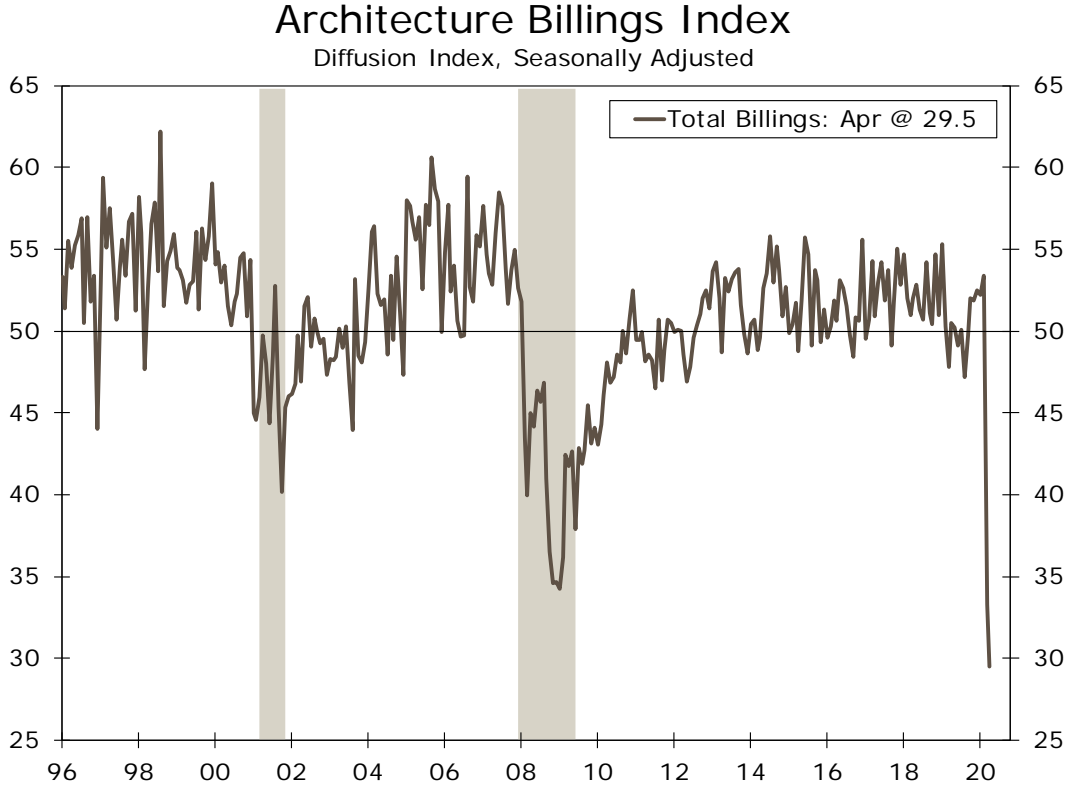
Nonresidential Construction Put-in-Place

Billions of USD



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

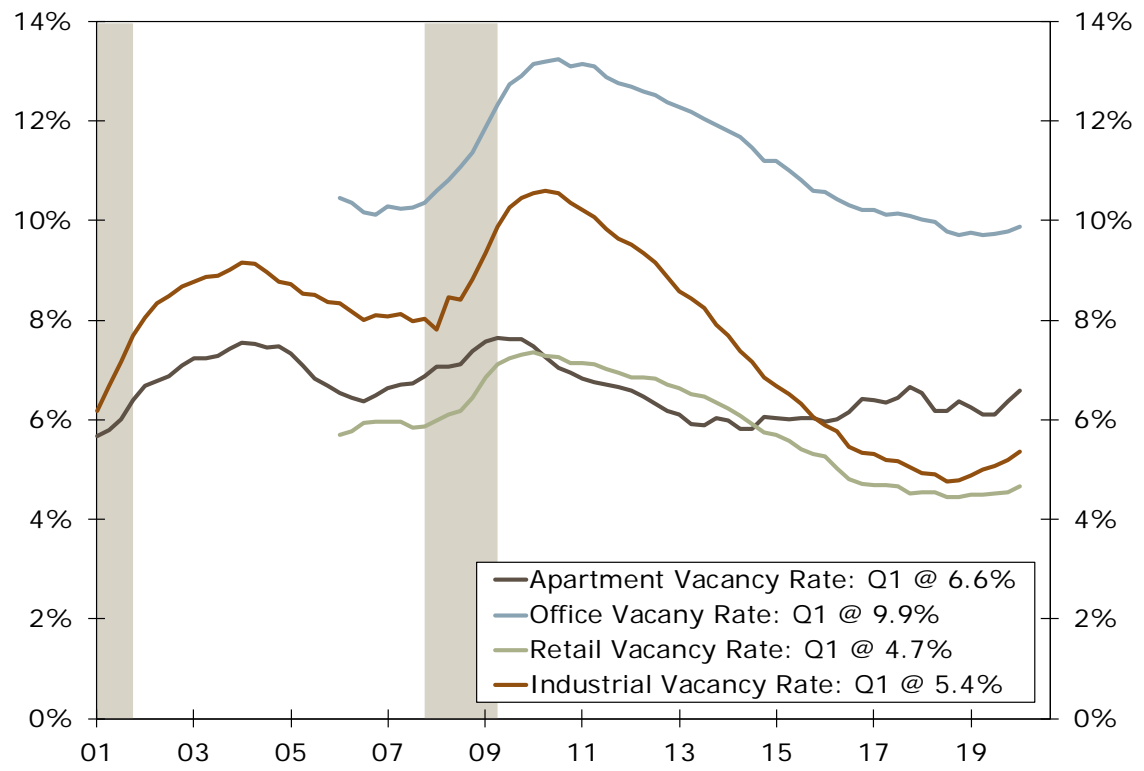
The forward-looking ABI collapsed in April, meaning construction activity will likely be depressed for the next 12 months.



Source: AIA and Wells Fargo Securities

Vacancy rates are likely to climb.

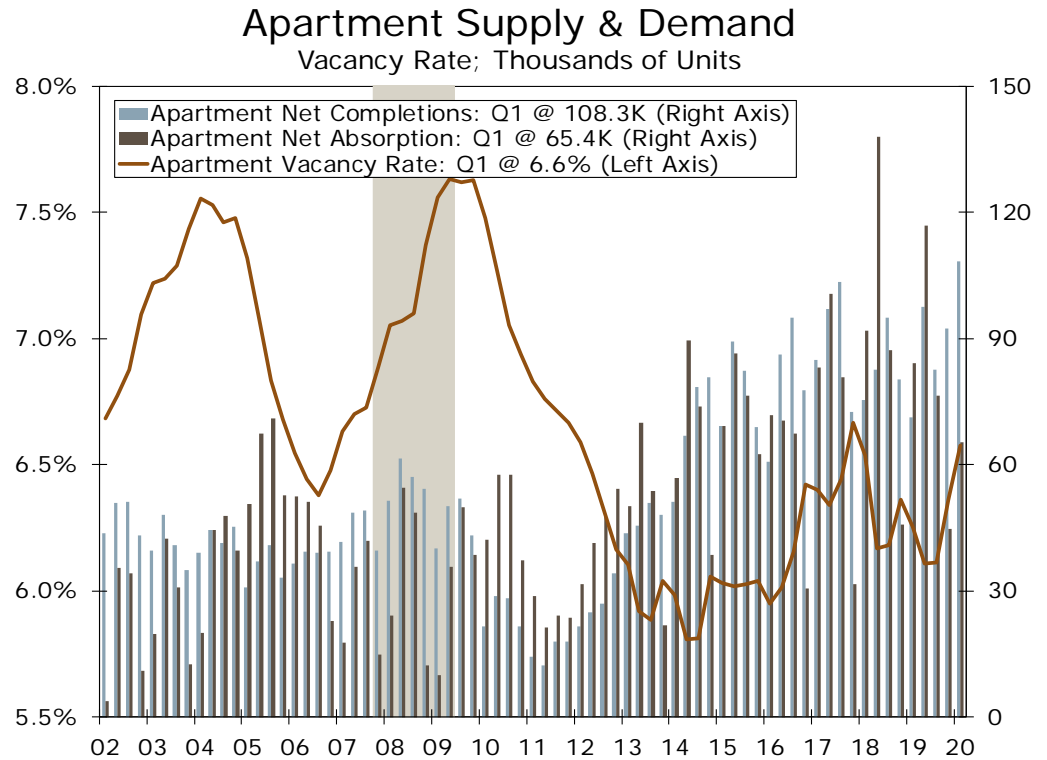
CRE Vacancy Rates



Source: CoStar, Inc. and Wells Fargo Securities

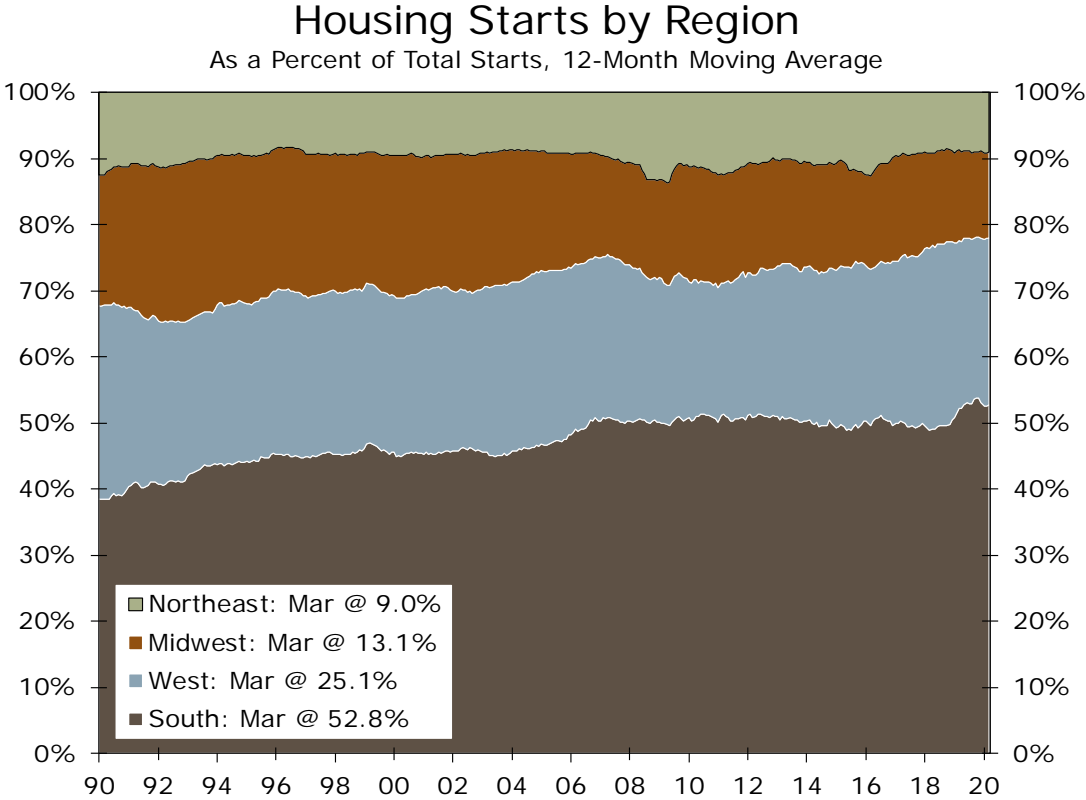
The number of multifamily units currently under construction will lead to an avalanche of new supply later this year and in early 2021.

We expect an abrupt slowing in multifamily starts later this year and in 2021.



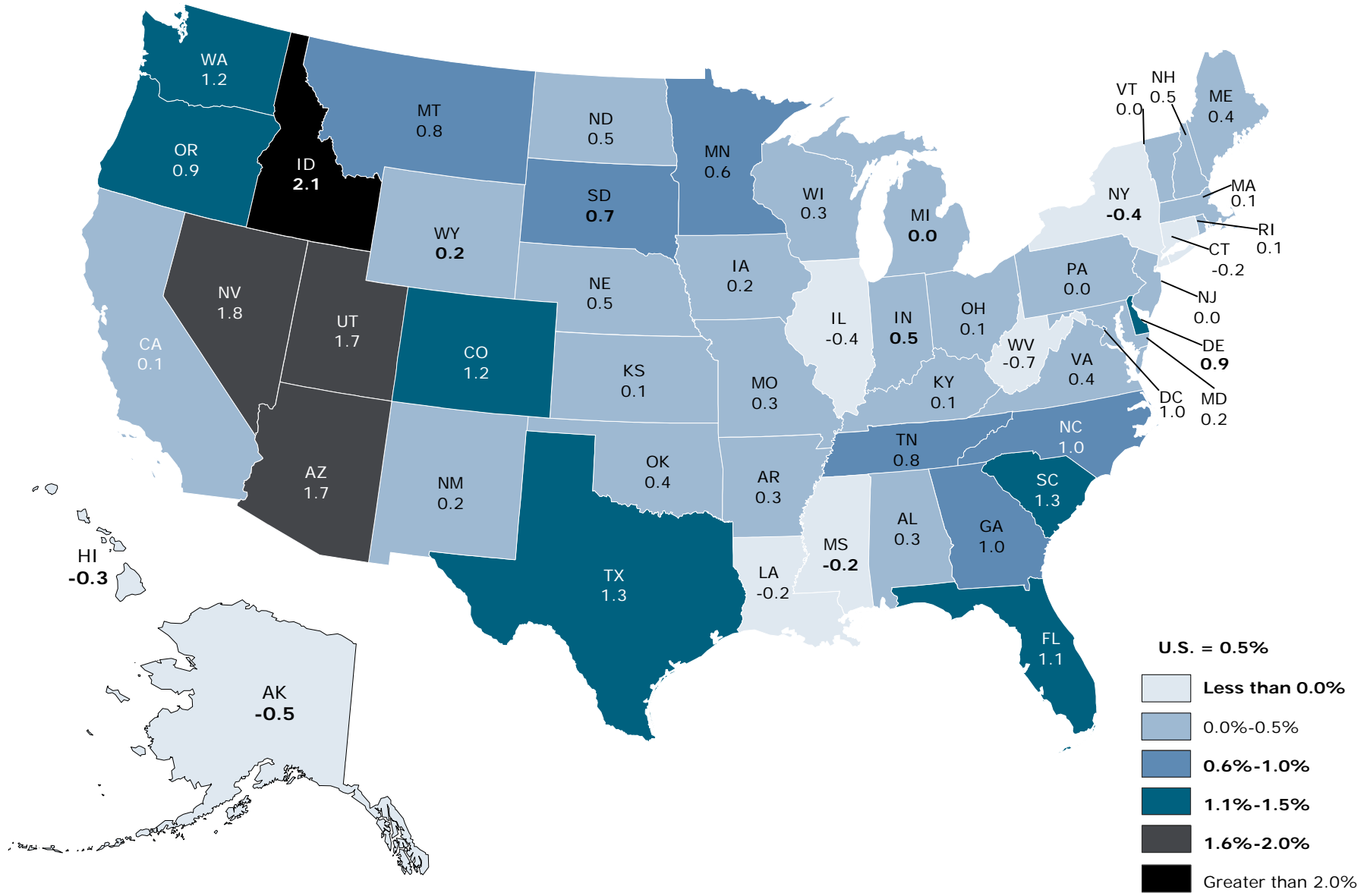
Source: CoStar, Inc. and Wells Fargo Securities

There has been a clear shift in preferences toward more affordable housing markets, many of which are in the South.



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

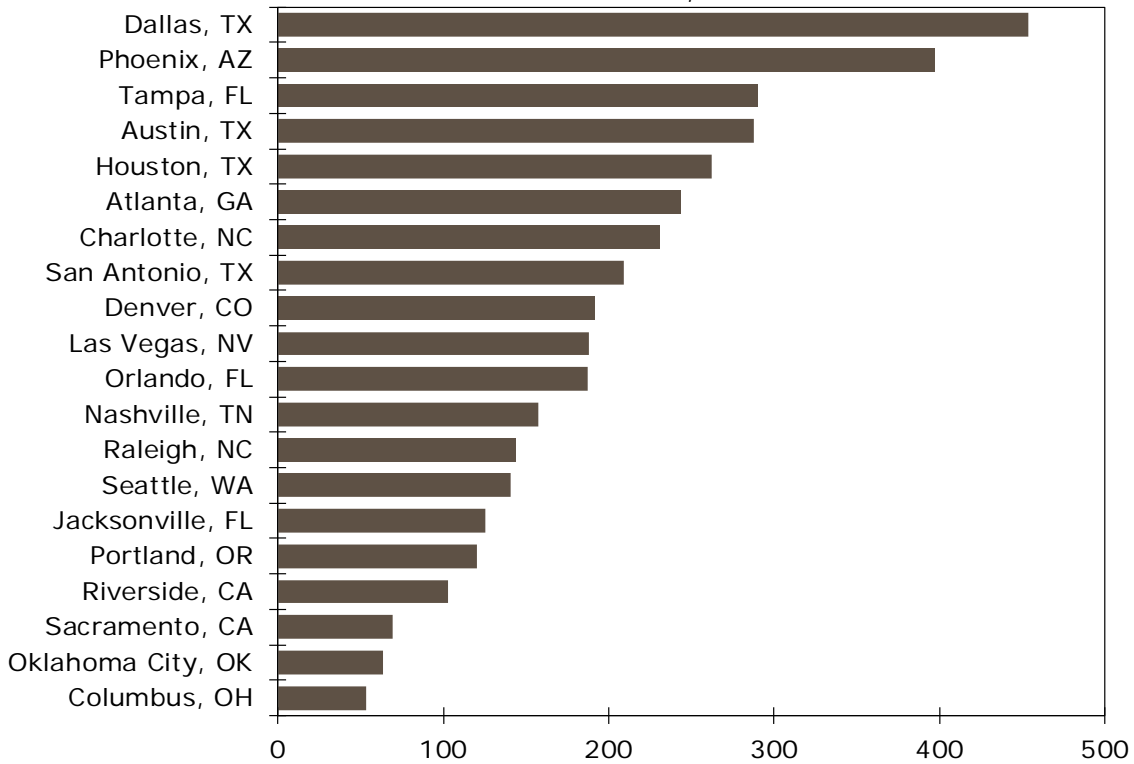
Population Growth by State – 2019



A handful of large urban areas accounted for a disproportionate share of economic growth this past decade, with creative jobs clustering in urban areas. The COVID-19 outbreak may challenge this growth model going forward but we suspect the trend toward urbanization will retain strong momentum in the coming decade.

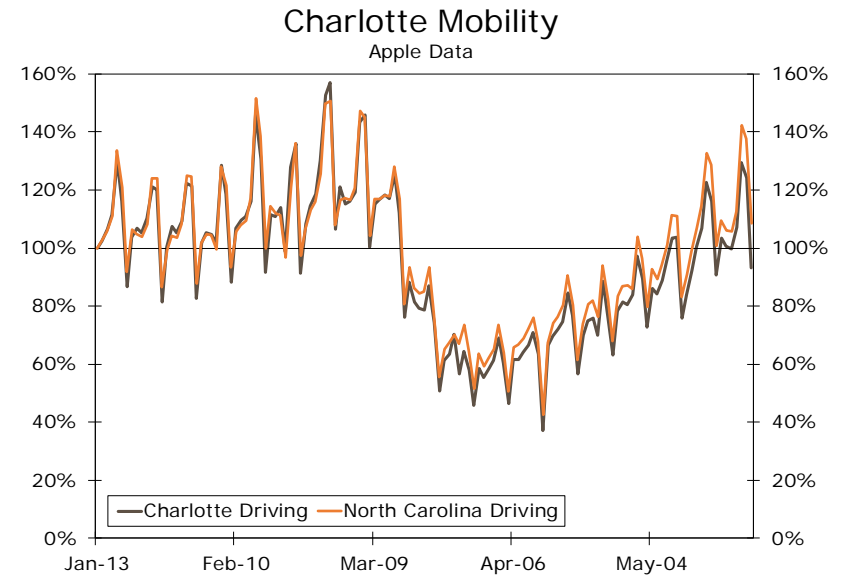
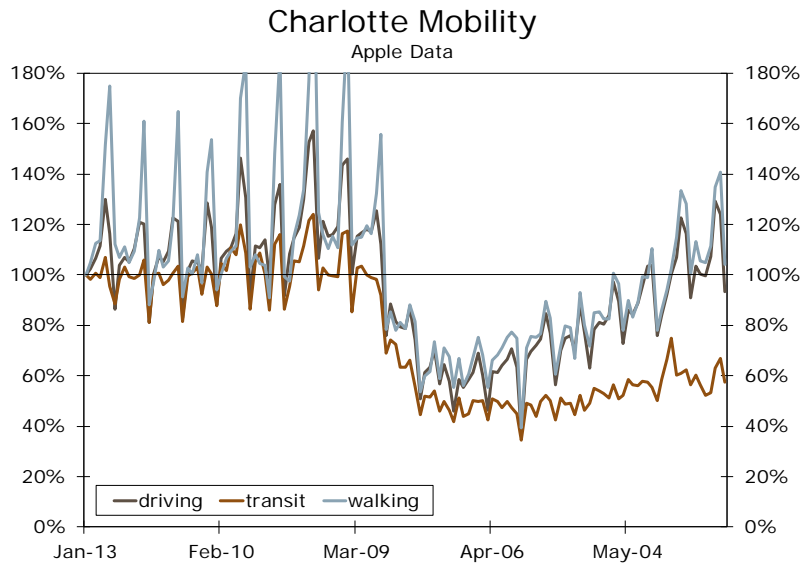
Metro Area Net Domestic Migration: Top 20

Cumulative Total in Thousands, 2010-2019



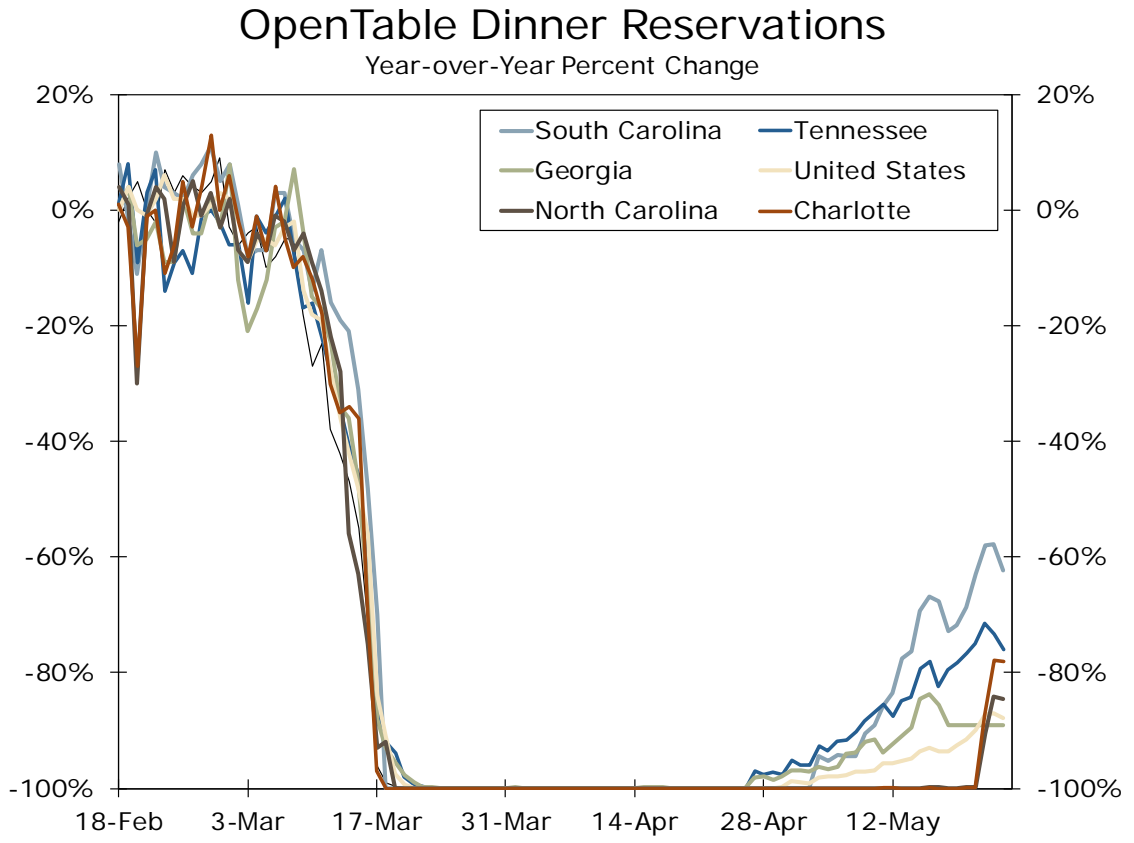
Source: U.S. Department of Commerce and Wells Fargo Securities

Walking and driving in Charlotte have mostly recovered.



Source: Apple and Wells Fargo Securities

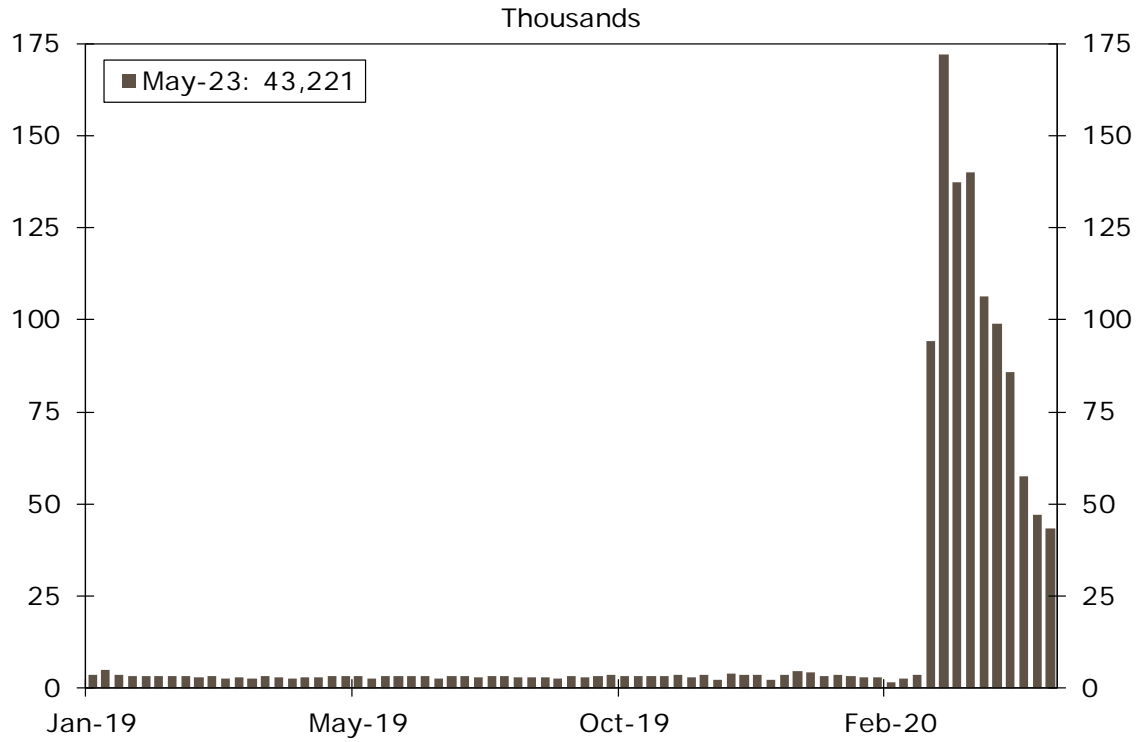
We can clearly see North's Carolina's delayed re-opening relative to its neighbors.



Source: OpenTable and Wells Fargo Securities

More than 980,000 initial jobless claims have been filed in ten weeks.

North Carolina Initial Jobless Claims



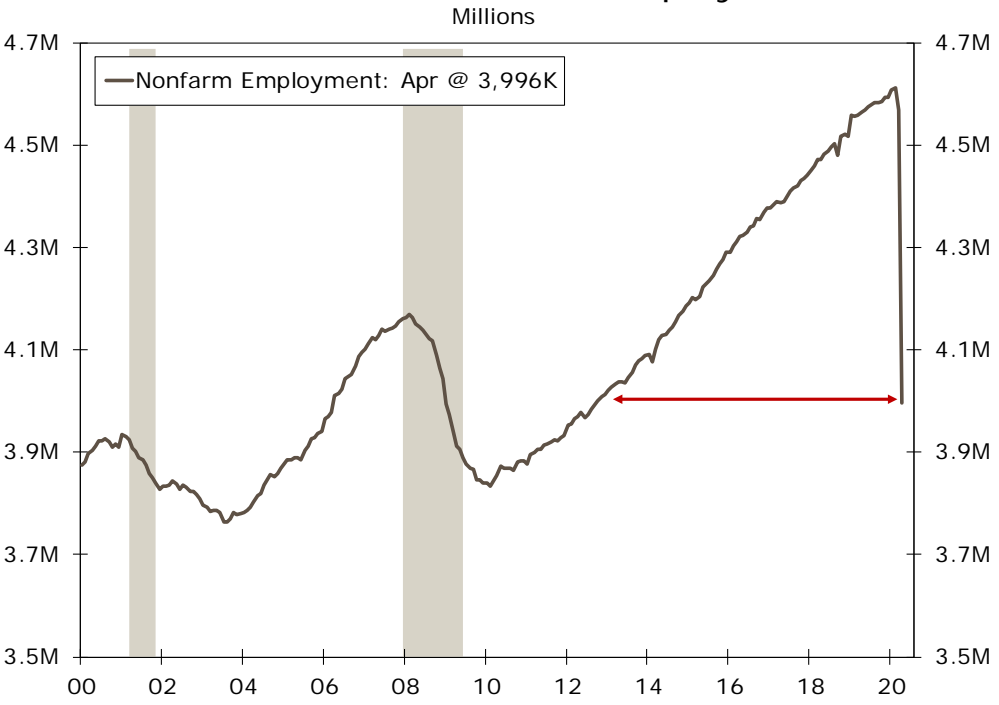
Source: U.S. Department of Labor and Wells Fargo Securities

Employment fell by a stunning 12.5%.

It took 89 months to add 571,000 jobs coming out of the Great Recession, and just one month of COVID-19 to wipe that many out.

The level of employment was set back to where it was in 2012.

North Carolina Nonfarm Employment

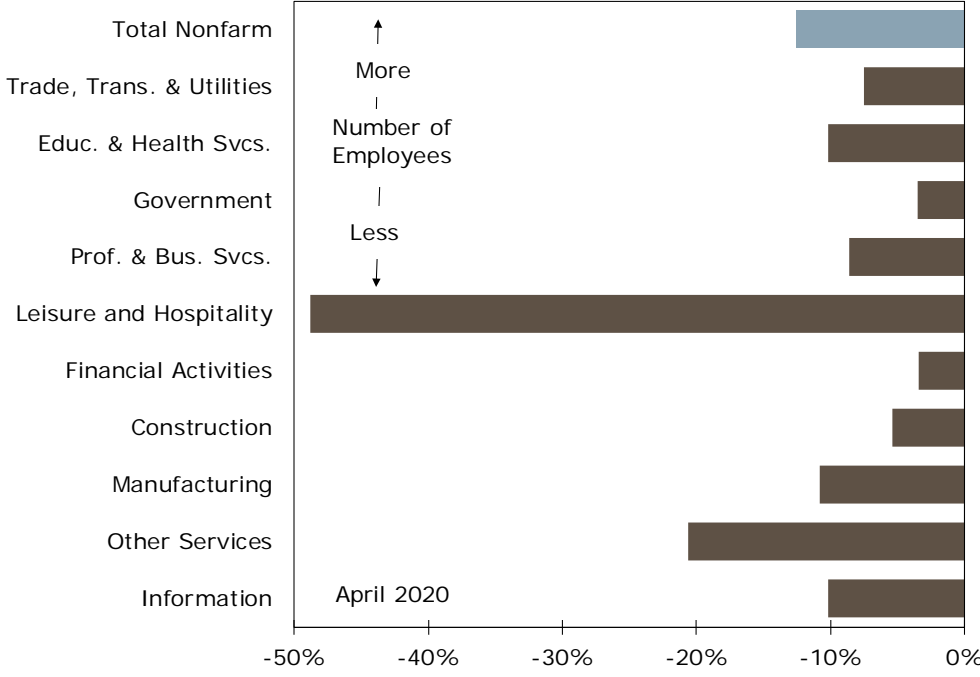


Source: U.S. Department of Labor and Wells Fargo Securities

Every industry lost jobs.

North Carolina Employment Growth By Industry

Month-over-Month Percent Change

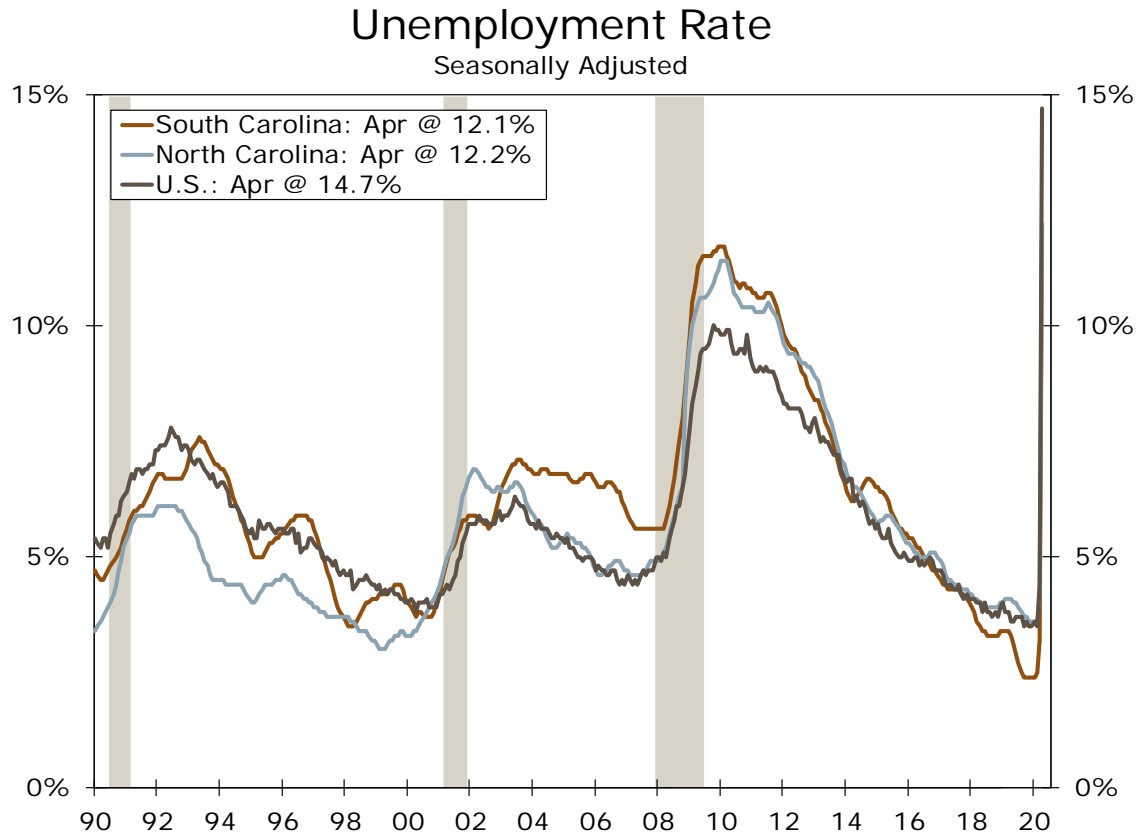


Source: U.S. Department of Labor and Wells Fargo Securities

- 890,000 small businesses in 2018
- 1.6 million small business employees, or 44% of total employment in 2015
 - Health care & social assistance: 252,000 employees (44% of total industry employment)
 - Accommodation & food services: 233,000 (59%)
 - Retail Trade: 154,000 (32%)
 - Manufacturing: 154,000 (36%)
 - Construction: 149,000 (84%)
- 9,400 small businesses exported goods in 2015, accounting for 26% of total exports

Source: Small Business Administration and Wells Fargo Securities

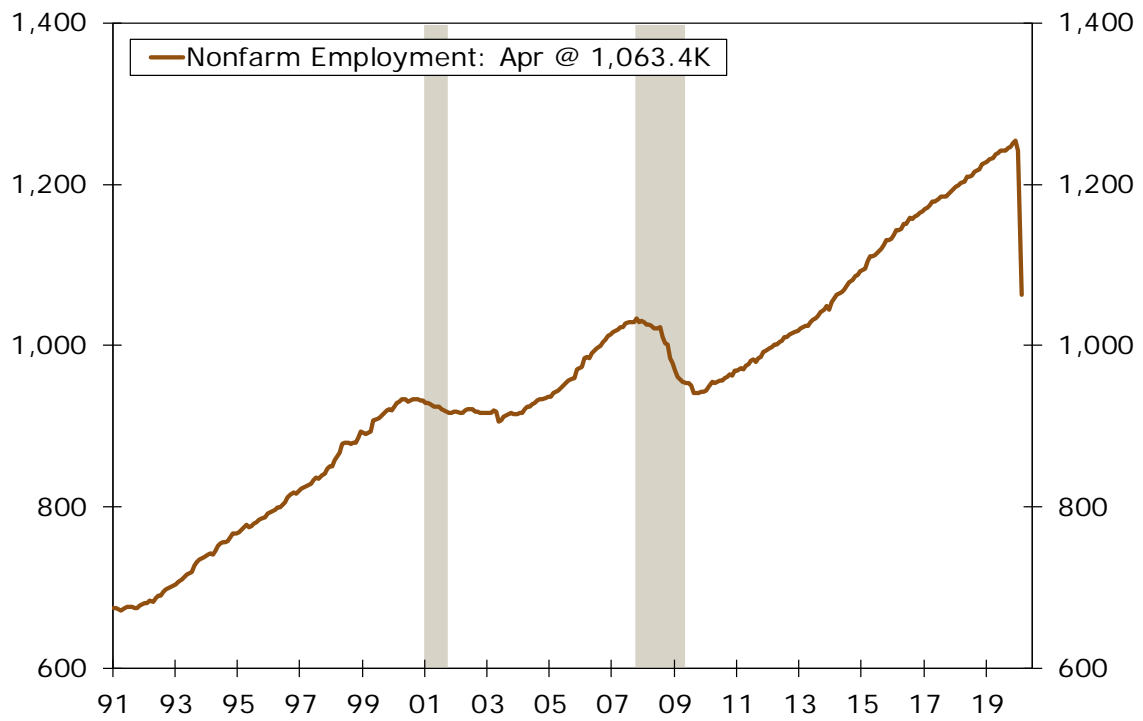
Unemployment will remain high for quite some time.



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

Charlotte employment fell by more than 14%.

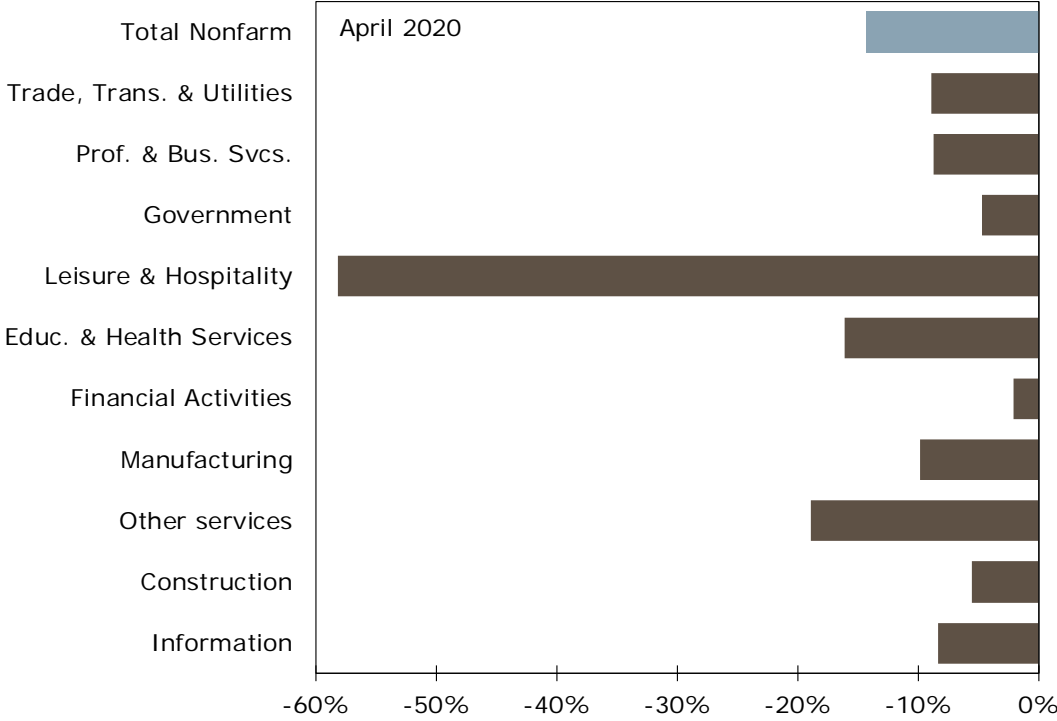
Charlotte MSA Employment Thousands



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

Leisure & hospitality
employment fell by almost 60%.

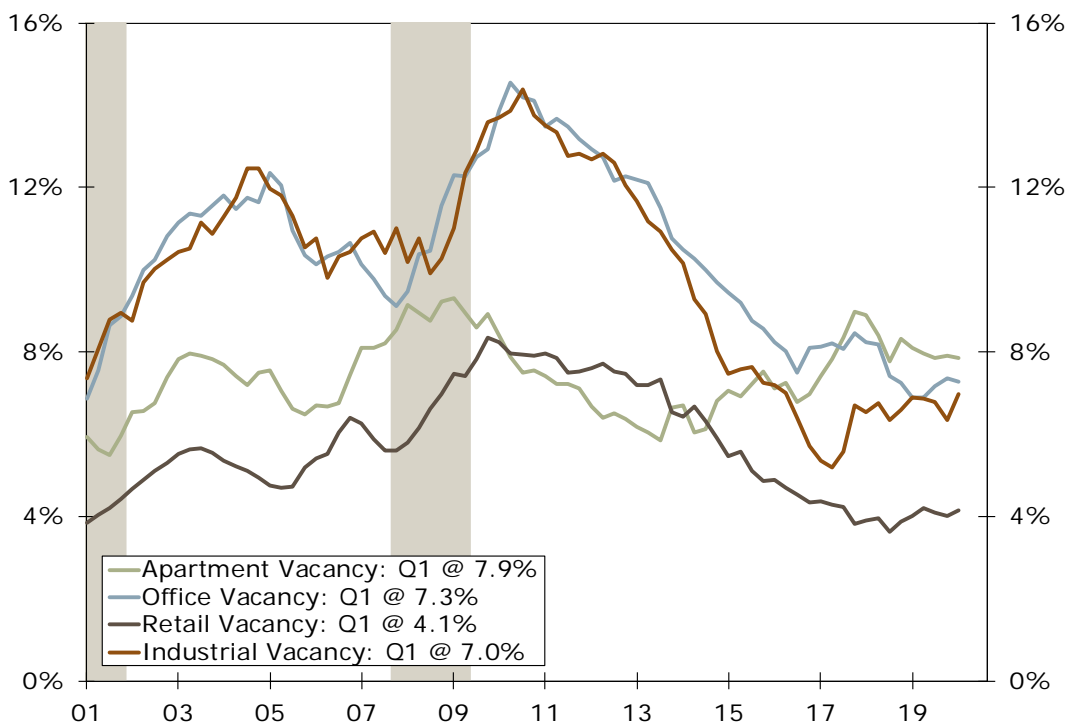
Charlotte MSA Employment Growth By Industry
Month-over-Month Percent Change



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

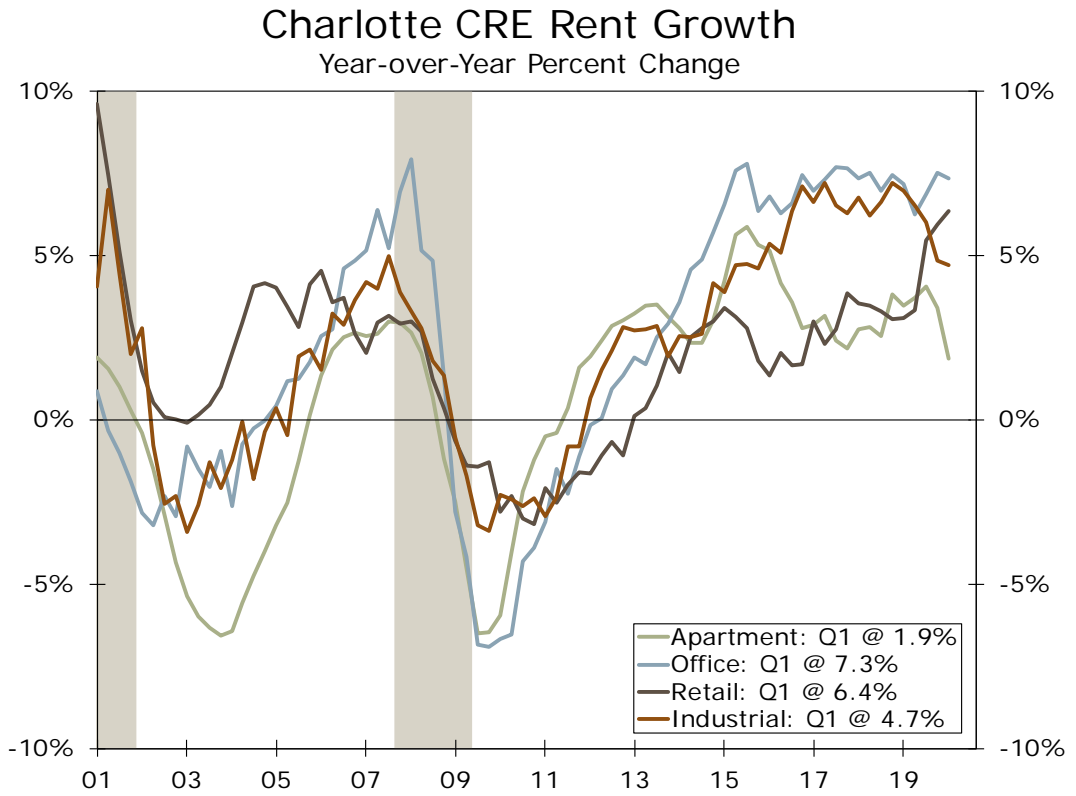
Vacancy rates will come under pressure.

Charlotte CRE Vacancy Rates



Source: CoStar, Inc. and Wells Fargo Securities

Apartment rent growth was already slowing prior to the outbreak.

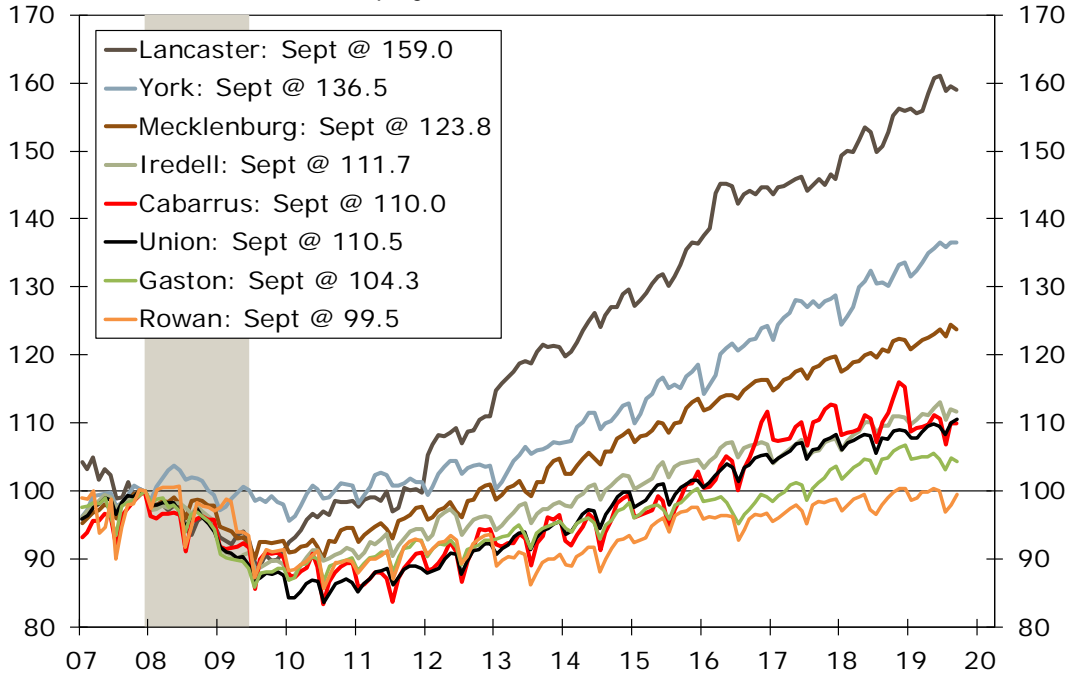


Source: CoStar, Inc. and Wells Fargo Securities

The strongest growth has been in South Carolina.

Charlotte MSA Job Recovery

QCEW Employment, Index, Dec. 2007 = 100

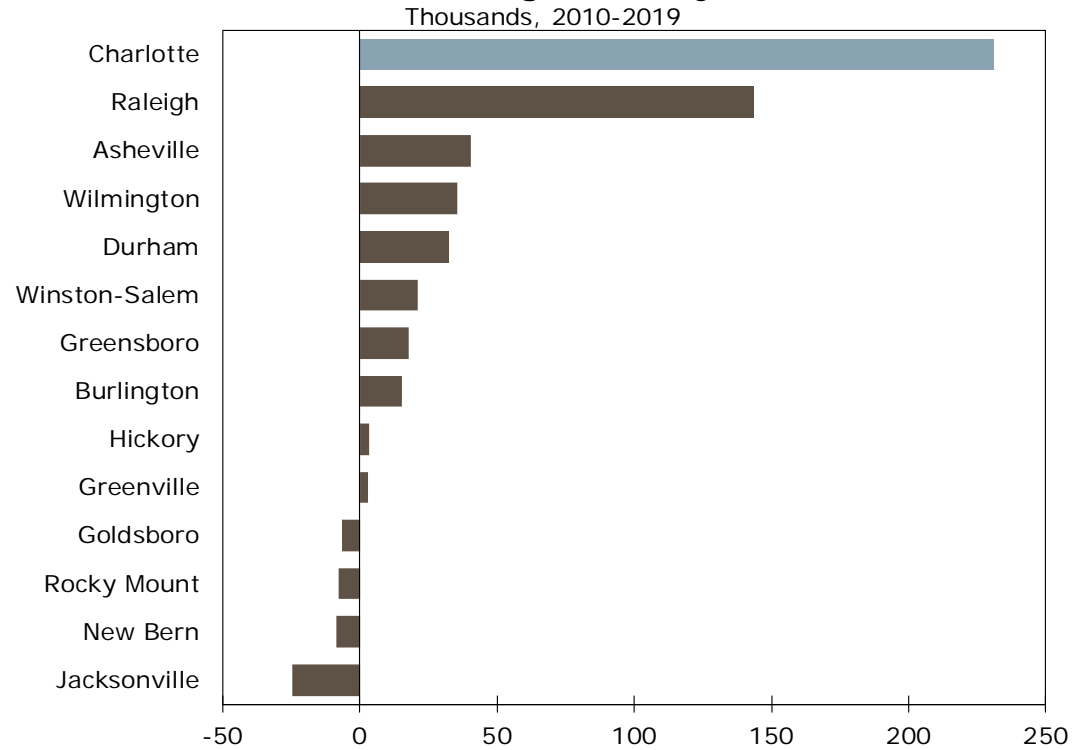


Source: U.S. Department of Labor and Wells Fargo Securities

Charlotte and Raleigh account for the vast majority of net migration to North Carolina.

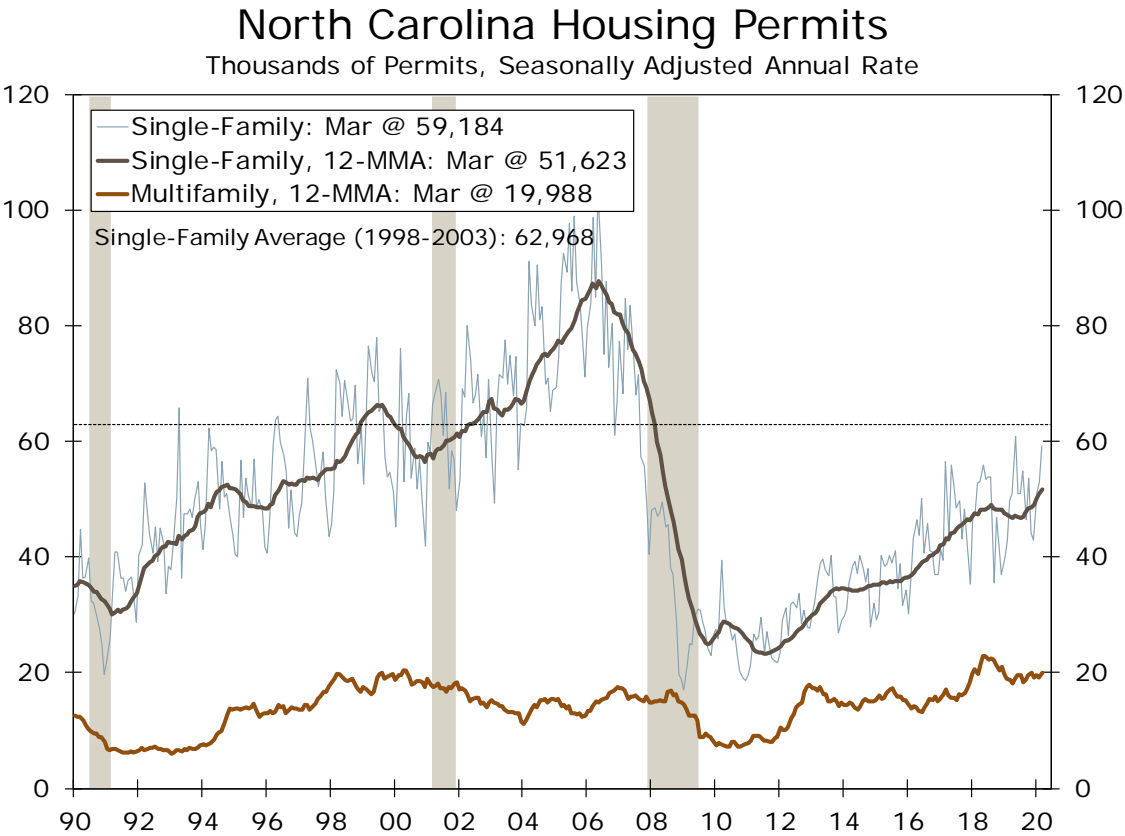
Much of Eastern North Carolina continues to lose population.

Net Domestic Migration by NC MSA



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

Single-family permits were rising solidly.

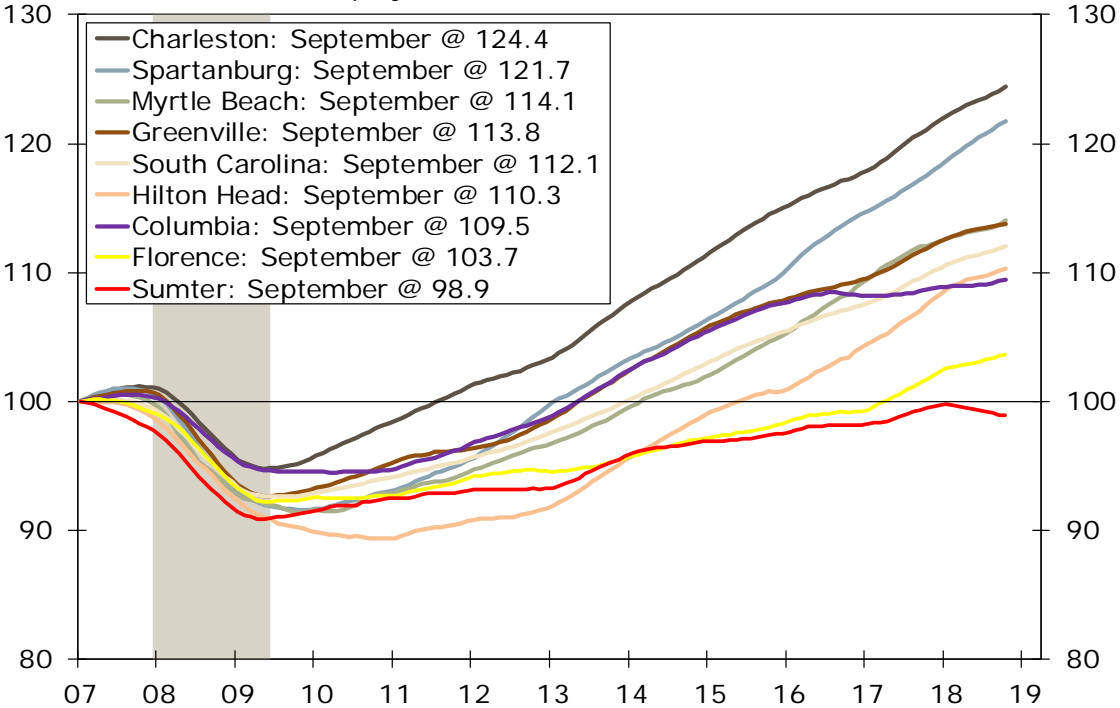


Source: U.S. Department of Commerce and Wells Fargo Securities

Charleston and Spartanburg have seen the strongest growth.

South Carolina MSA Job Recovery

OCEW Employment, Index, Dec. 2007 = 100



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

Wells Fargo Securities U.S. Economic Forecast

	Wells Fargo Securities U.S. Economic 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 ¹	2.6	3.5	2.9	1.1	3.1	2.0	2.1	2.1	-4.8	-24.7	6.7	4.4	2.0	2.3	2.3	2.5	2.9	2.3	-4.6	1.2
Personal Consumption	1.7	4.0	3.5	1.4	1.1	4.6	3.1	1.8	-7.6	-30.0	19.4	6.0	2.7	2.5	2.6	2.8	3.0	2.6	-4.9	2.7
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	-2.4	-8.6	-21.0	-9.3	3.1	3.0	5.2	4.9	4.9	6.4	2.1	-8.1	0.4
Equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	-4.3	-15.2	-31.3	-10.8	15.0	4.6	4.6	4.0	4.0	6.8	1.3	-12.1	1.5
Intellectual Property Products	9.7	11.9	4.1	11.7	10.8	3.6	4.7	2.8	0.4	-2.4	-2.8	-4.4	3.7	7.4	6.9	6.7	7.4	7.5	0.3	2.2
Structures	12.1	11.0	-2.1	-9.0	4.0	-11.1	-9.9	-7.2	-9.7	-32.0	-19.0	-7.5	-3.0	1.5	2.5	3.0	4.1	-4.3	-14.9	-6.5
Residential Investment	-5.3	-3.7	-4.0	-4.7	-1.0	-3.0	4.6	6.5	21.0	-36.0	-12.0	2.0	3.0	5.0	6.0	6.5	-1.5	-1.5	-3.3	-1.4
Government Purchases	1.9	2.6	2.1	-0.4	2.9	4.8	1.7	2.5	0.7	1.4	-0.1	-2.1	-3.3	-1.0	-0.2	0.0	1.7	2.3	1.3	-1.4
Net Exports ²	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.1	1.5	1.3	2.5	-5.3	-2.1	-0.1	-0.1	-0.2	-0.1	-0.4	-0.2	0.4	-1.0
Inventories ²	0.1	-1.2	2.1	0.1	0.5	-0.9	0.0	-1.0	-0.5	-1.8	1.4	2.2	0.3	0.0	-0.1	-0.2	0.1	0.1	-0.5	0.5
Nonfarm Payroll Change ³	234	211	153	172	139	159	203	210	-142	-9500	4250	800	500	300	230	130	193	178	-1148	290
Unemployment Rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.8	17.6	12.1	8.1	7.1	6.6	6.4	6.3	3.9	3.7	10.4	6.6
Consumer Price Index ⁴	2.2	2.7	2.7	2.2	1.6	1.8	1.8	2.0	2.1	0.3	0.2	0.2	0.5	1.8	1.9	1.7	2.4	1.8	0.7	1.5
Quarter-End Interest Rates ⁵																				
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.96	2.25	0.25	0.25
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.28	3.80	3.61	3.72	3.45	2.90	2.90	2.95	3.00	3.05	3.15	3.20	4.54	3.94	3.05	3.10
2 Year Note	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.58	0.23	0.35	0.40	0.50	0.65	0.75	0.85	0.95	2.53	1.97	0.37	0.80
10 Year Note	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.92	0.70	1.00	1.15	1.25	1.30	1.35	1.45	1.50	2.91	2.14	1.03	1.40

Forecast as of: May 13, 2020

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

Source: IHS Global Insight and Wells Fargo Securities

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
May-14	A Roadmap for the U.S. Labor Market	Bryson
May-13	Could the U.S. Economy Be Facing Deflation?	Bryson & Seery
May-05	The Animal Spirits Index Sinks Further into Negative Territory	Iqbal
May-05	The BFI Outlook in the Current Cycle	Bryson, Quinlan & Seery
April-28	Our Labor Market Index Hit Its Lowest Level Ever in March	Iqbal
U.S. Regional		
May-22	North Carolina Losses 571,700 Jobs in April	Vitner & Dougherty
May-22	The Regional Breakdown of a Labor Market in Meltdown	Vitner, Dougherty & Honnold
May-22	COVID-19 Crisis Brings Massive Decline to Texas Payrolls	Vitner & Dougherty
May-22	California Posts Record Decline in Payrolls	Vitner & Dougherty
May-21	Minnesota Sheds 360,000 Jobs in April	Vitner, Dougherty & Honnold
Global Economy		
May-21	Soft Japanese Economy, Subdued Yen	Bennenbroek & Licis
May-15	Keep Cautious and Carry On	Bennenbroek & Licis
April-30	Economy Slumps, ECB Eases Modestly	Bennenbroek
April-29	Scandi Slump Pressures Policymakers	Licis & Bennenbroek
April-27	Crude Reality	McKenna & Licis
Interest Rates/Credit Market		
May-06	Treasury Refunding Highlights	Pugliese & Mathews
April-30	Treasury Refunding Preview: Bills Barrage Continues	Pugliese & Mathews
April-29	FOMC Meeting: Committee Ready To Do More, If Needed	Bryson
April-28	Fed Expands Muni Purchase Eligibility	Vitner & Honnold
April-28	Fiscal Fallout from the COVID-19 Pandemic: Part III	Bryson, Pugliese and Mathews
Real Estate & Housing		
April-01	Commercial Real Estate Chartbook	Vitner & Dougherty
March-26	COVID-19 Undercuts The Housing Recovery	Vitner, Dougherty & Honnold
January-09	Housing Chartbook: January 2020 & Outlook	Vitner, Dougherty & Honnold
December-18	Commercial Real Estate Chartbook	Vitner, Dougherty & Honnold
December-05	Housing Maintains Solid Momentum Headed into 2020	Vitner, Dougherty & Honnold

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