

WELLS
FARGO

SECURITIES

U.S. Economic Outlook

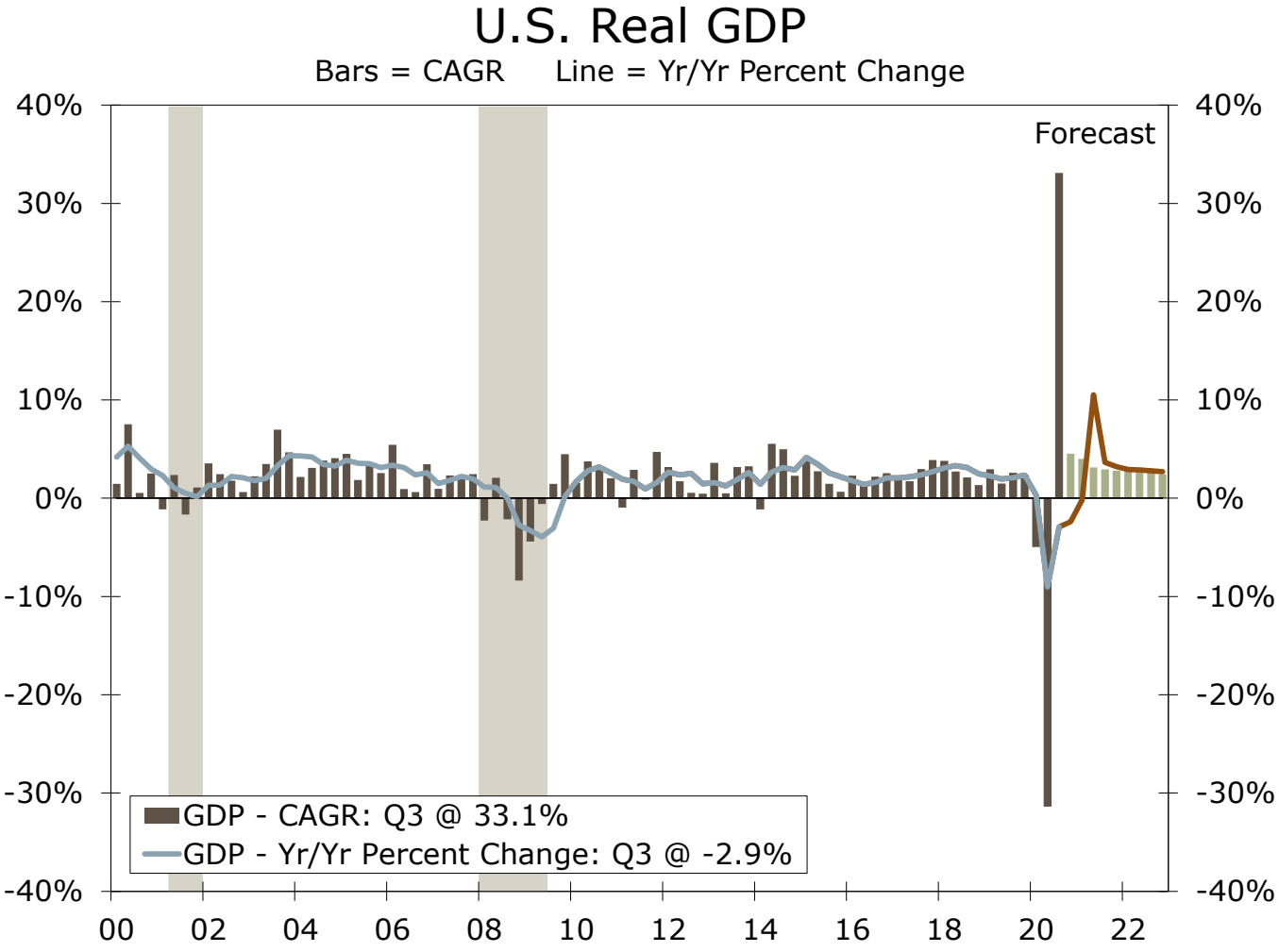
Shannon Seery, Economist

November 2020

Together we'll go far



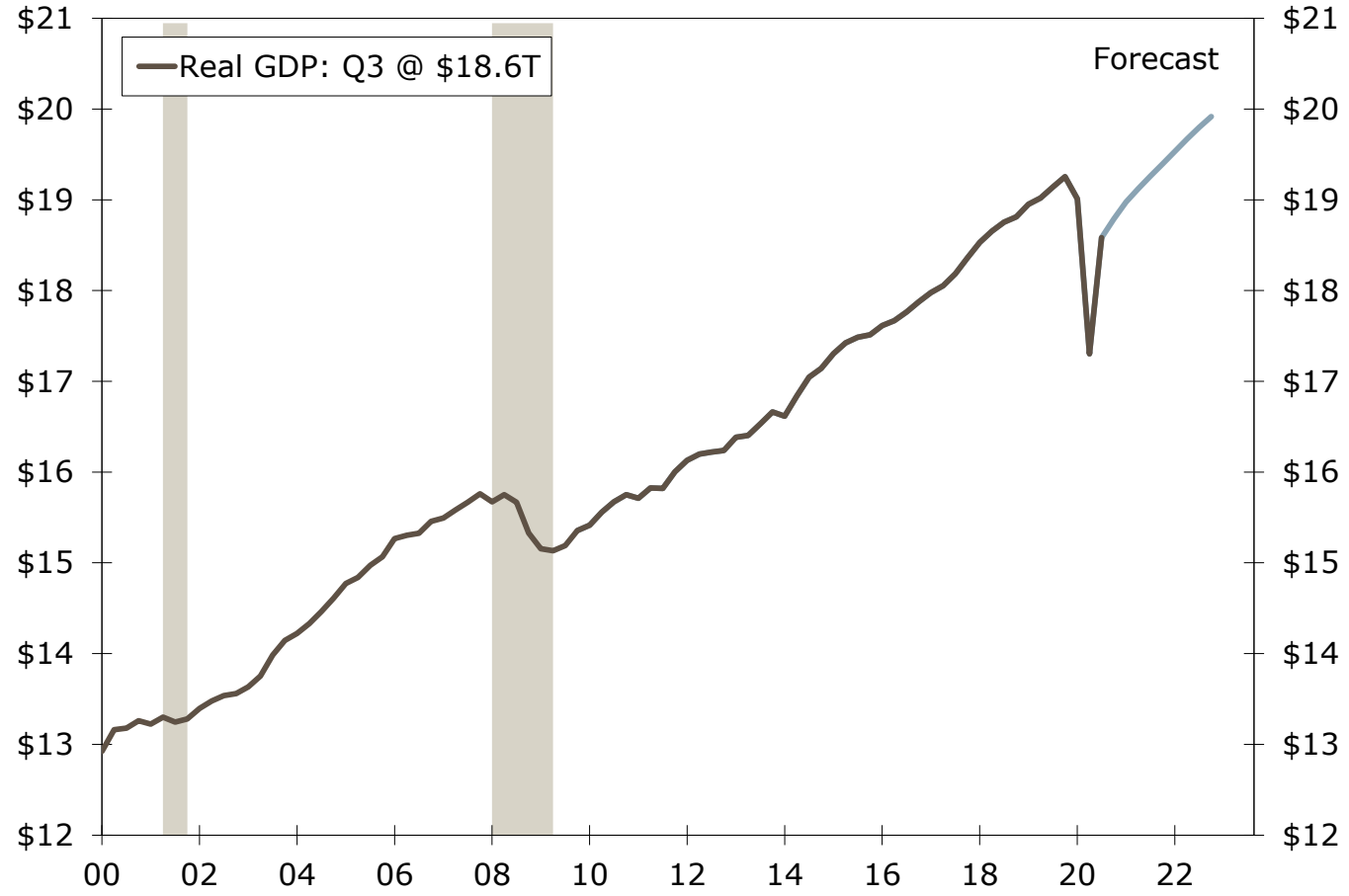
The recovery is underway...



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

...but still a way to go.

U.S. Real GDP Trillions of Dollars

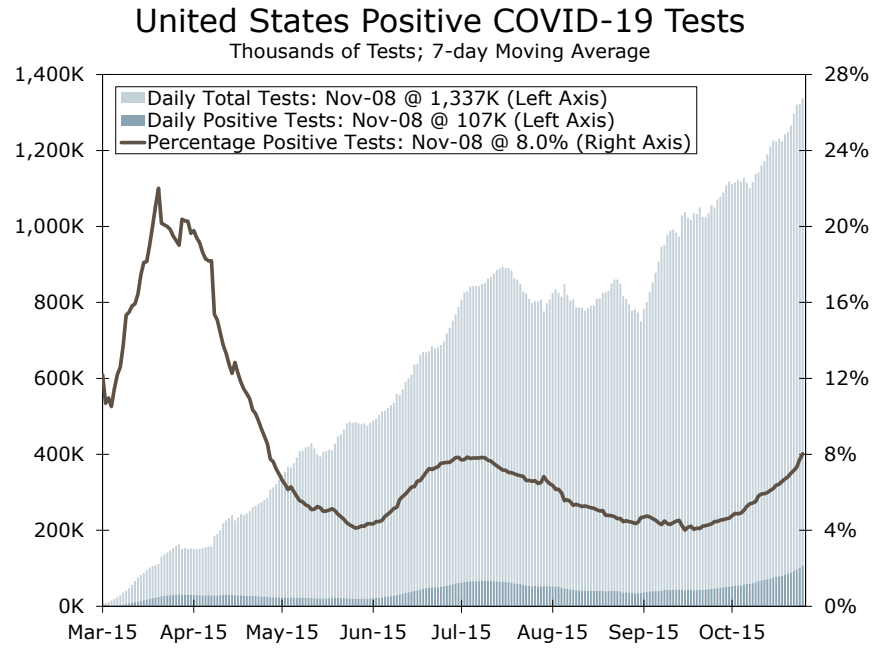
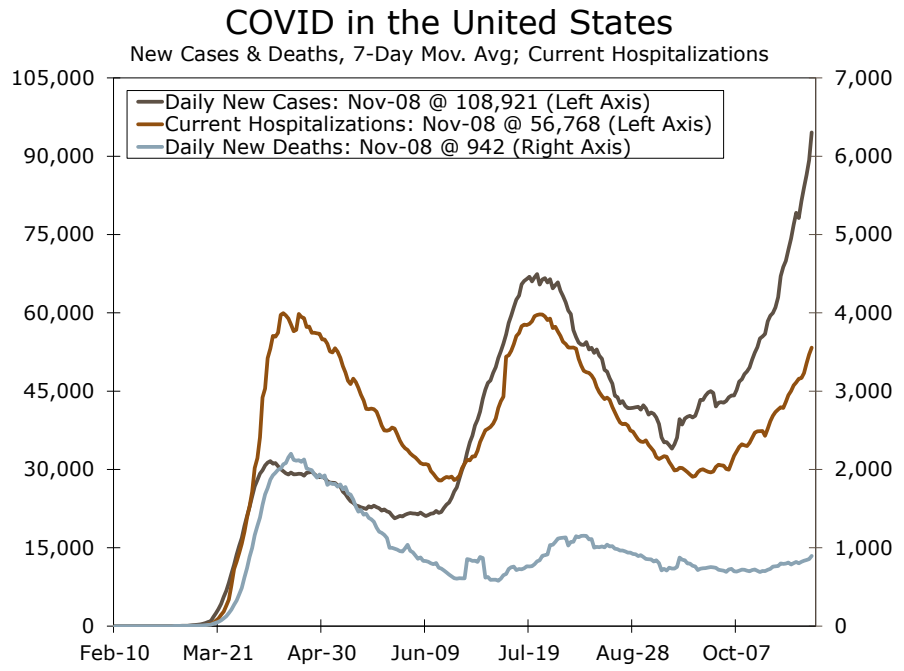


Source: U.S. Department of Commerce and Wells Fargo Securities

The outlook continues to depend heavily on the path of COVID-19.

Cases, Deaths & Hospitalizations

Positivity Rate



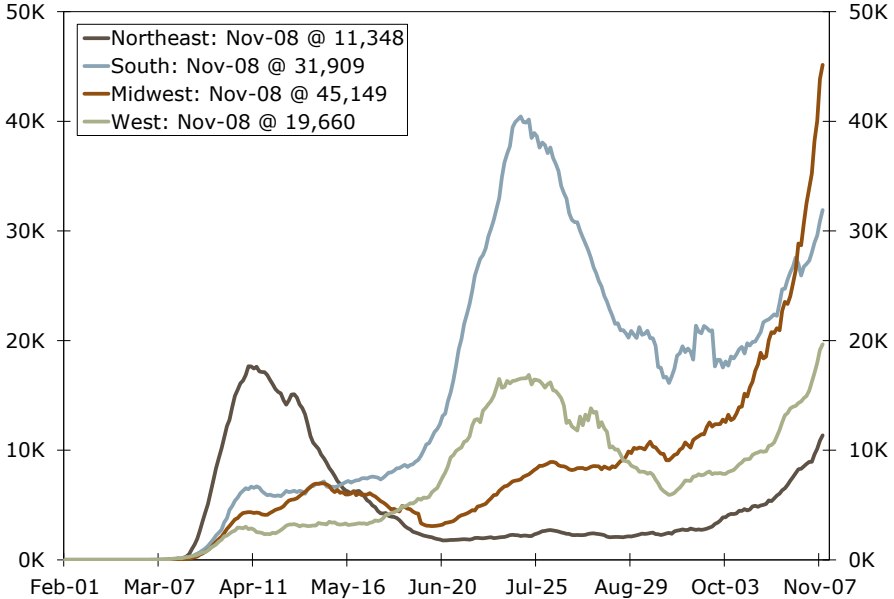
Source: Bloomberg LP, The COVID-19 Tracking Project and Wells Fargo Securities

The reacceleration in cases is hitting the Midwest the hardest, although cases are on the rise across the country.

Regional

New COVID-19 Cases by Region

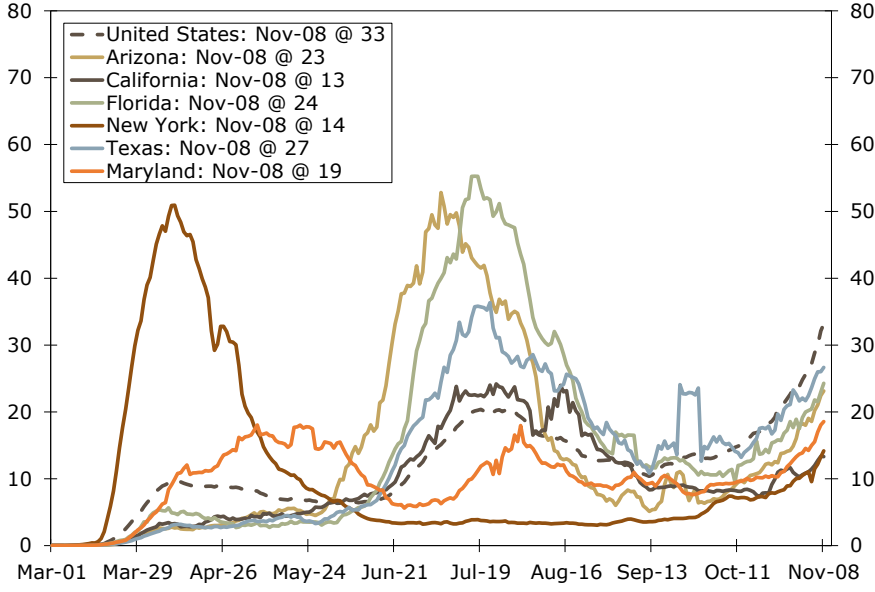
7-Day Moving Average of Daily Change; Thousands



By State

New COVID-19 Cases per 100K Residents

7-Day Moving Average

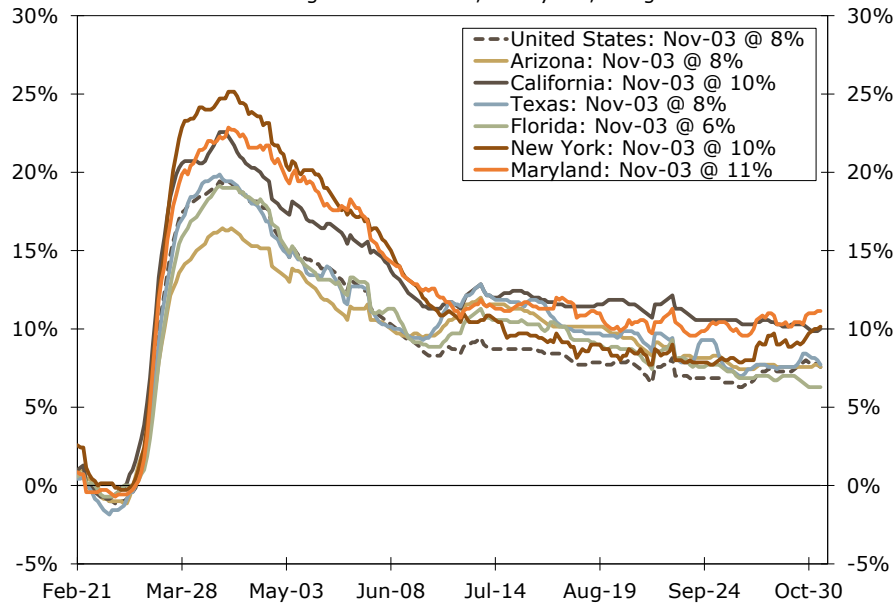


Source: Bloomberg LP, U.S. Department of Labor and Wells Fargo Securities

But recent data point to momentum slowing with activity still well-below pre-pandemic levels.

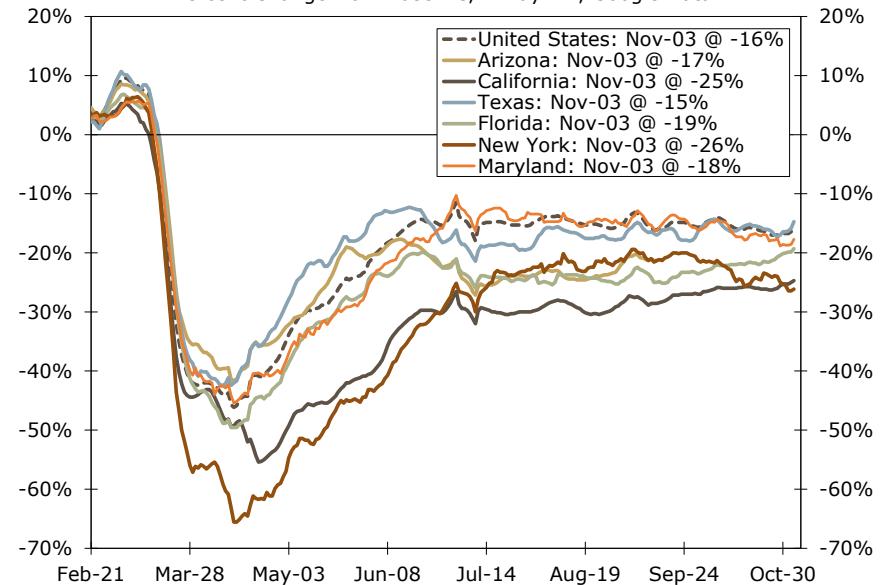
Still Staying Home

Time Spent at Residential Locations
Percent Change from Baseline, 7-Day MA, Google Data



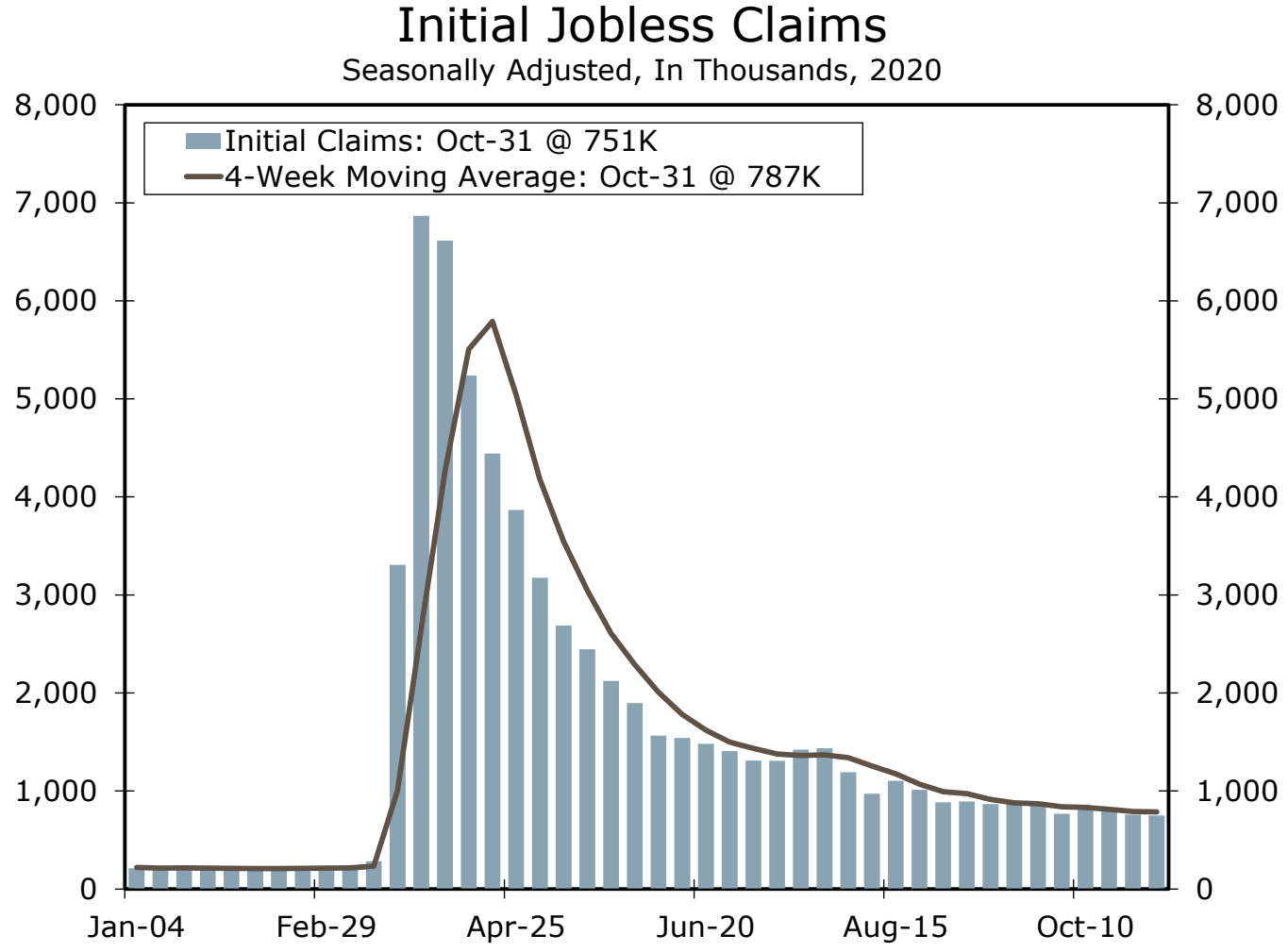
But Venturing Out

Visits to Retail & Recreation Locations
Percent Change from Baseline, 7-Day MA, Google Data



Source: Google and Wells Fargo Securities

Jobless claims are trending lower, but only gradually.



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

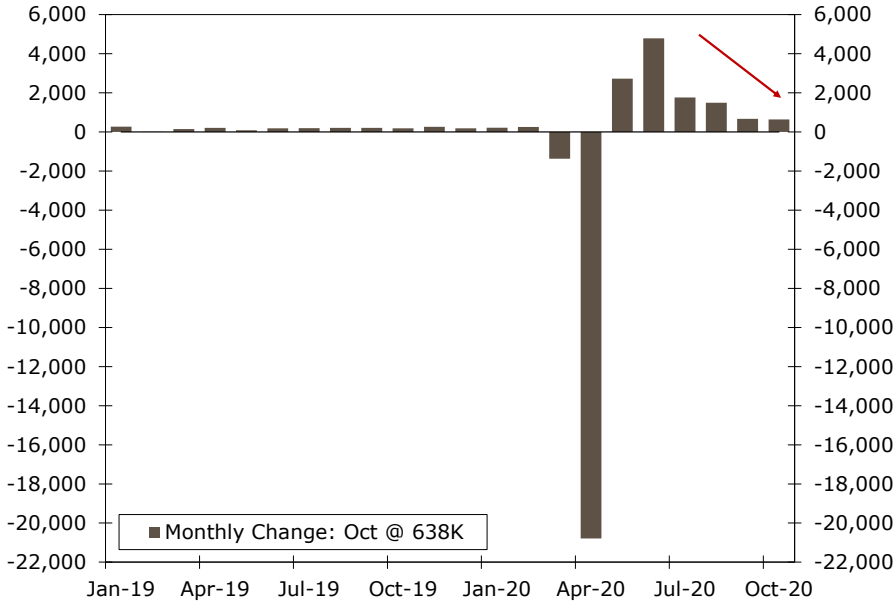
Hiring is slowing with only a little more than half of lost jobs recovered.

Gains Slowing...

...With a Long Way Still to Go

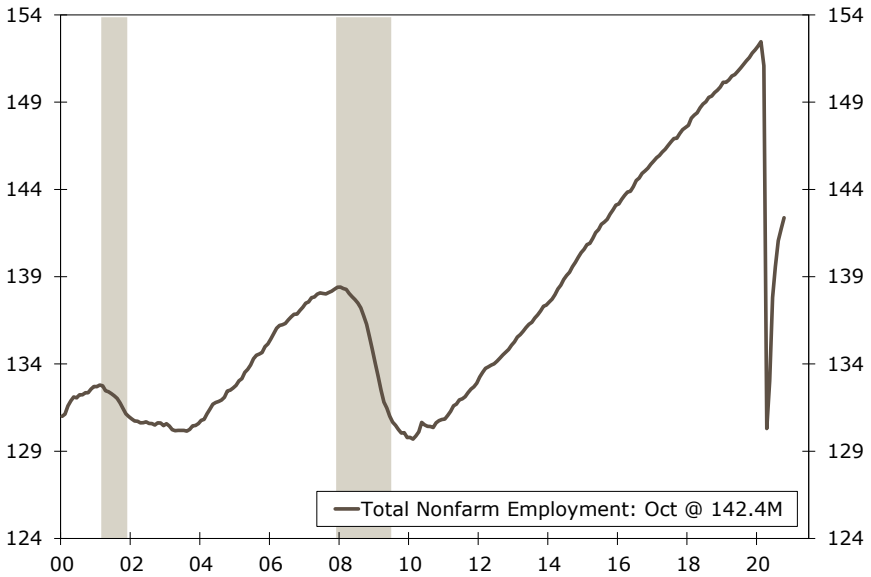
U.S. Nonfarm Employment Change

Thousands



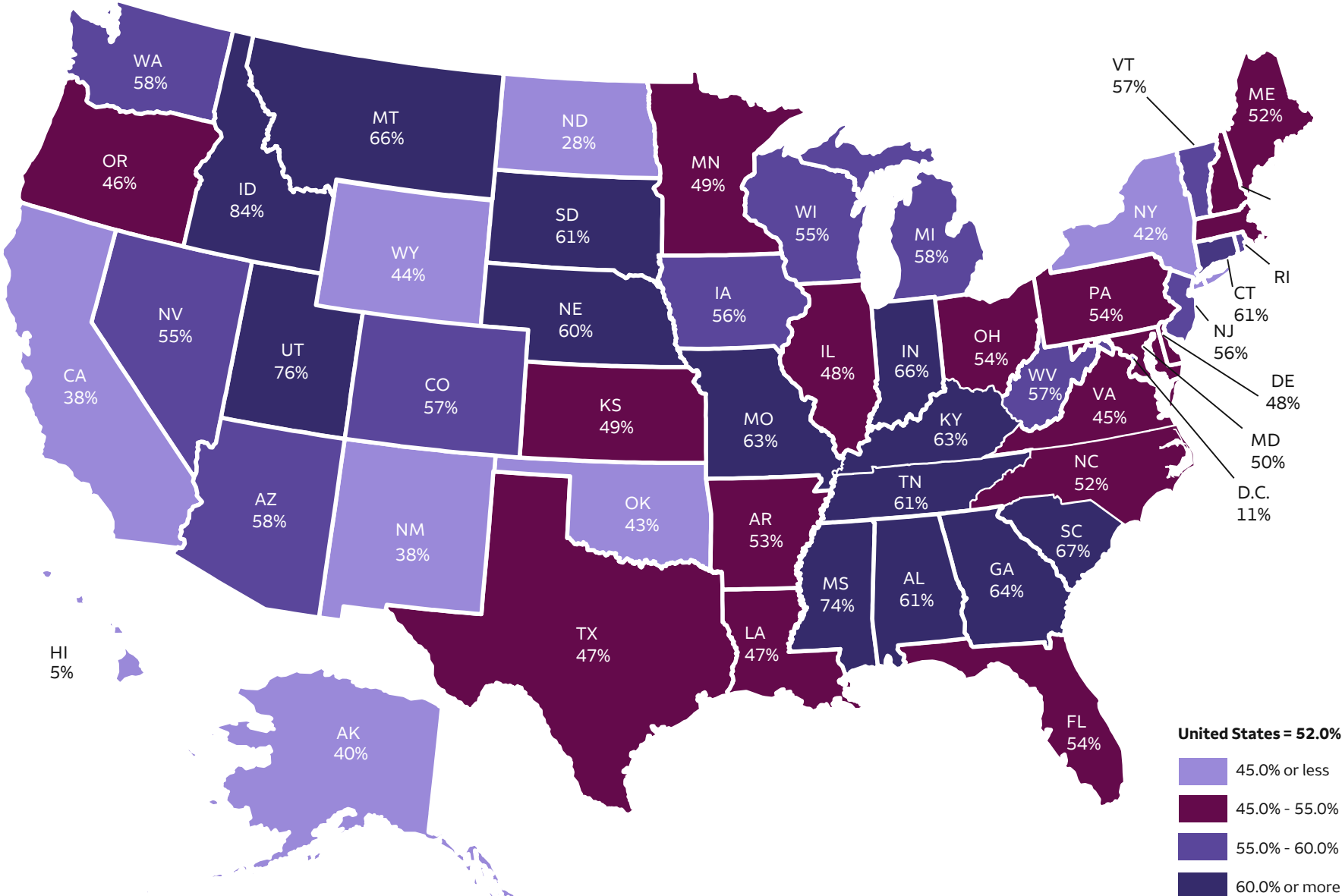
Total Nonfarm Employment

Millions



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

Percent of March and April Job Losses Recovered—September 2020

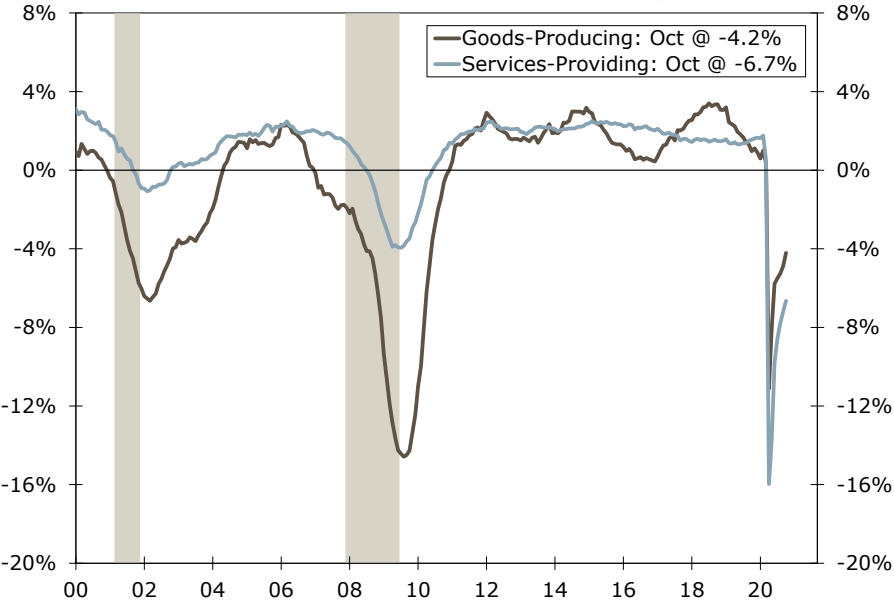


Source: U.S. Department of Labor and Wells Fargo Securities

In contrast to prior cycles, job losses have been concentrated in the service sector and have been skewed toward lower-paid service-sector workers.

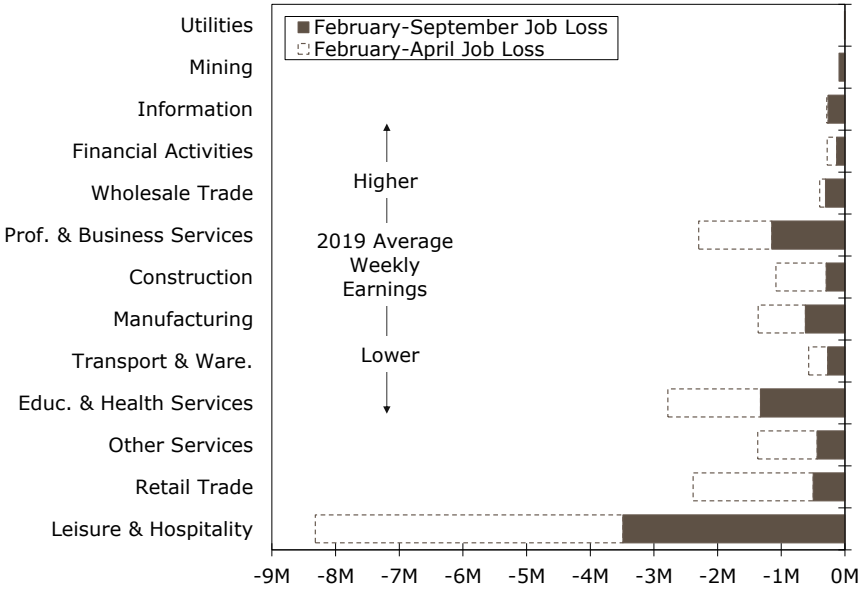
Services Still Struggling

Goods vs. Services Employment
Private Sector, Year-over-Year Percent Change



Services Hardest Hit

Job Loss by Industry
Millions



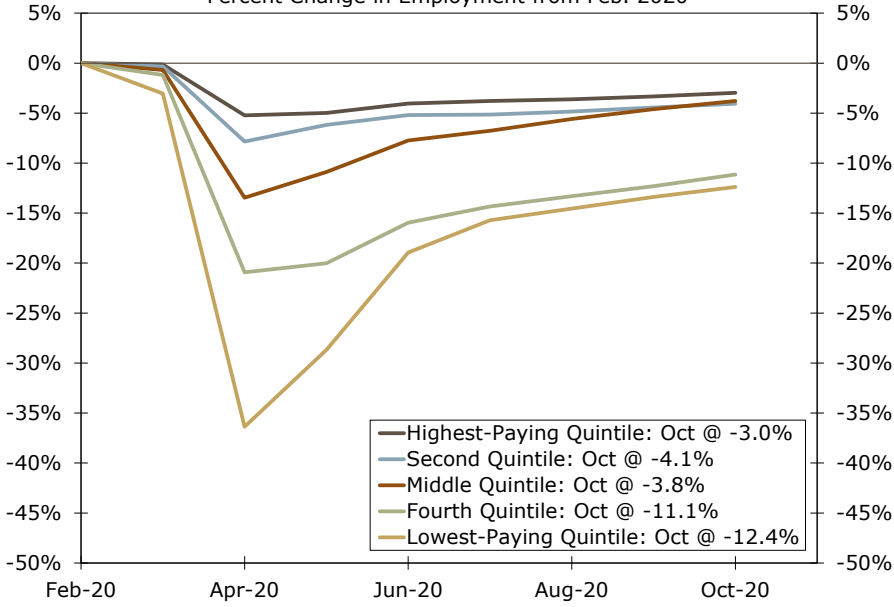
Source: U.S. Department of Labor and Wells Fargo Securities

The steepest job losses have occurred in industries which account for a lower share of income than spending.

Pay Spectrum

Employment Across the Pay Spectrum

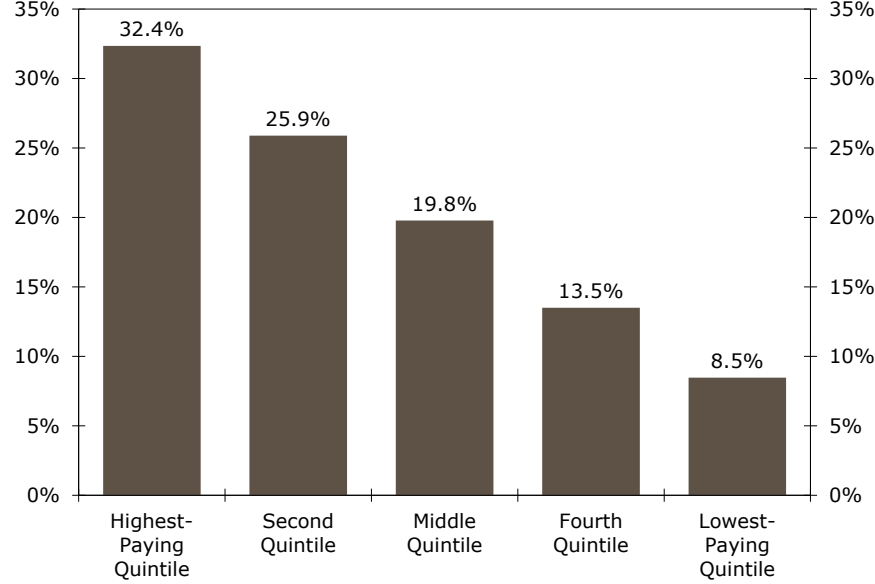
Jobs Ranked by 2019 Average Weekly Earnings,
Percent Change in Employment from Feb. 2020



Share of Earnings

Share of Labor Market Earnings

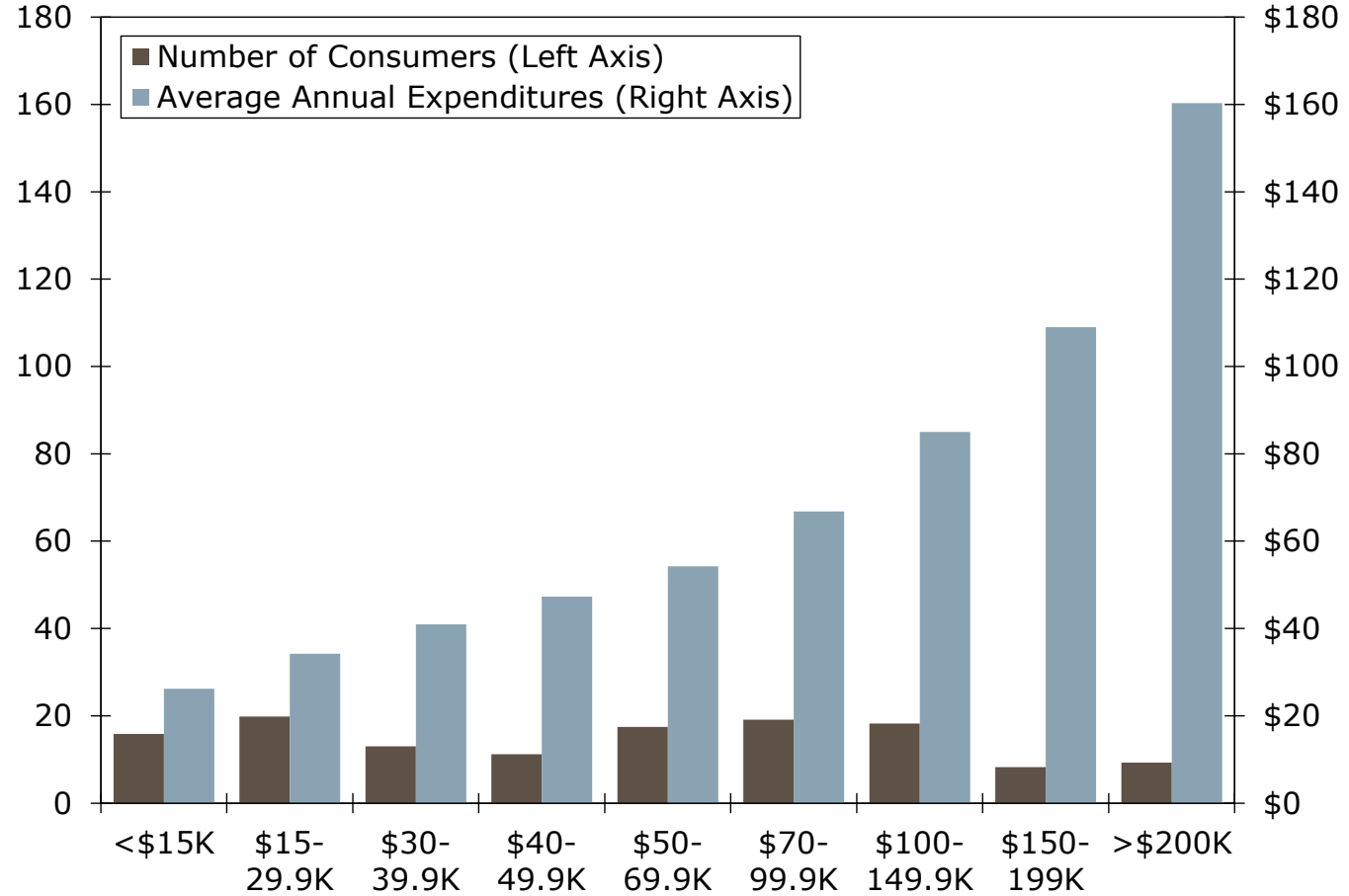
Job Quintiles Share of Aggregate Labor Market Earnings, 2019



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

A little group of big spenders have largely sidestepped the worst of the economic fallout, which helps explain the quick bounce-back in consumer spending.

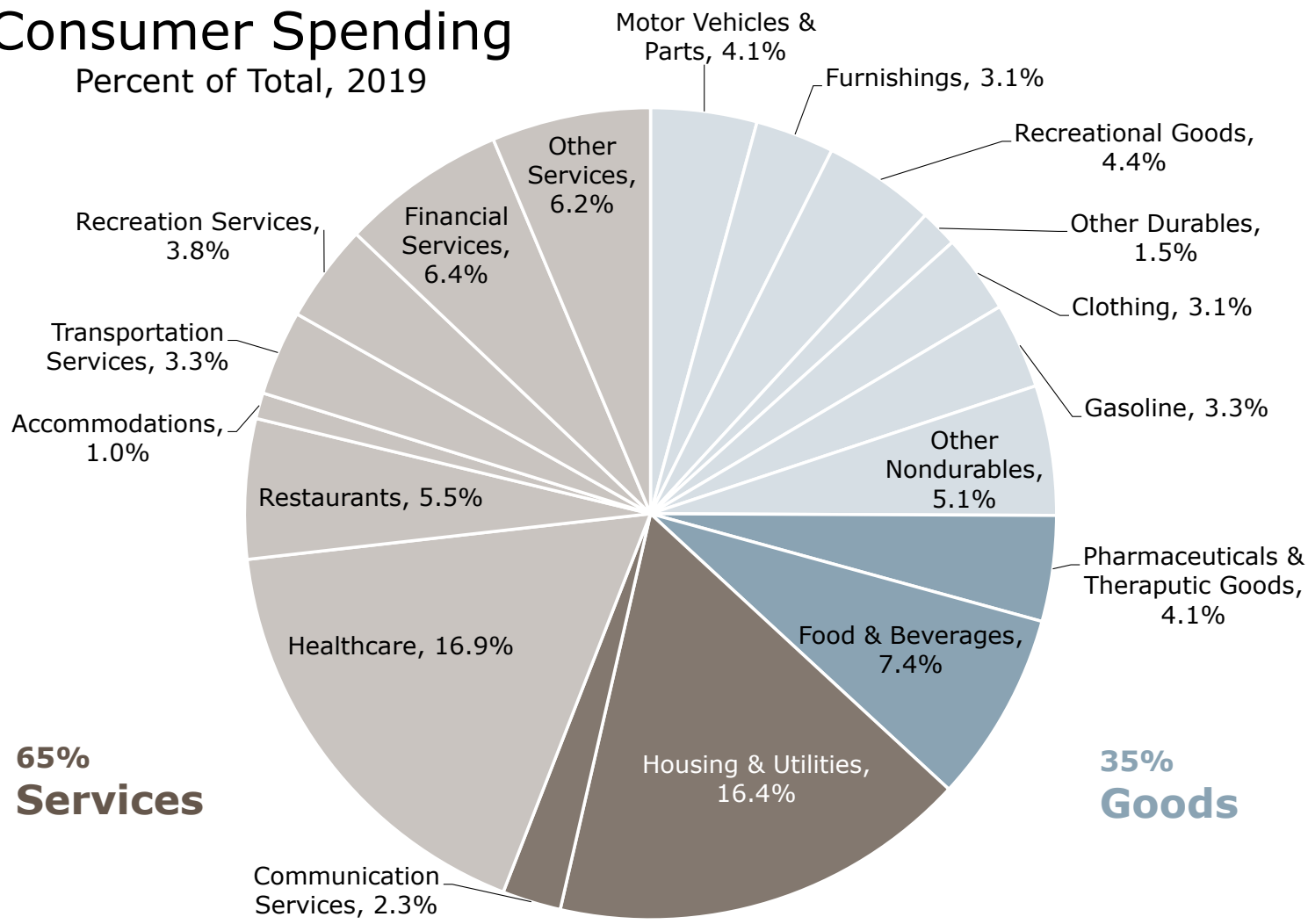
Little Group of Big Spenders
Millions of Consumers; Thousands of Dollars, 2019



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

Consumer Spending

Percent of Total, 2019

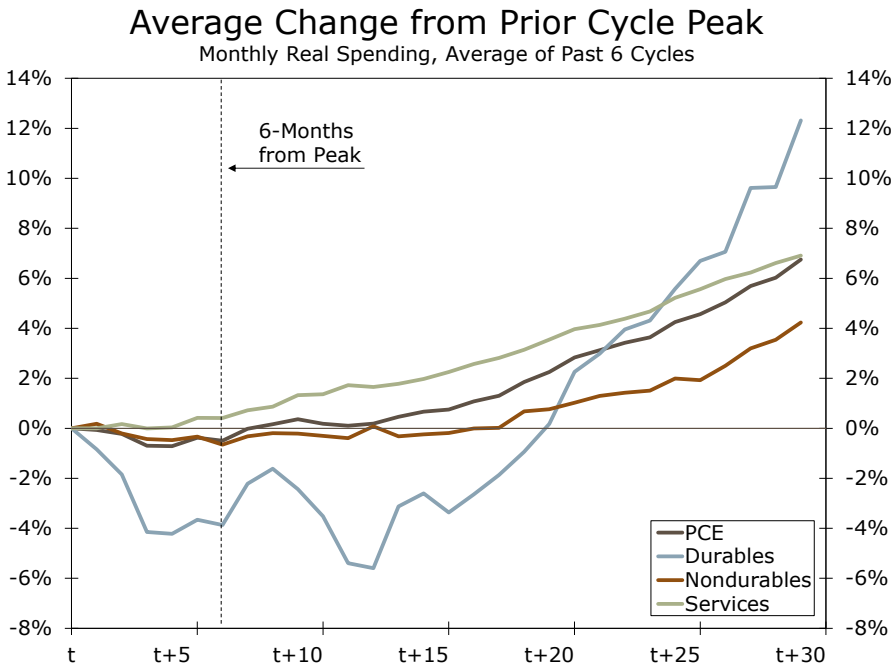


*Dark shades represent resilient categories of consumer spending.

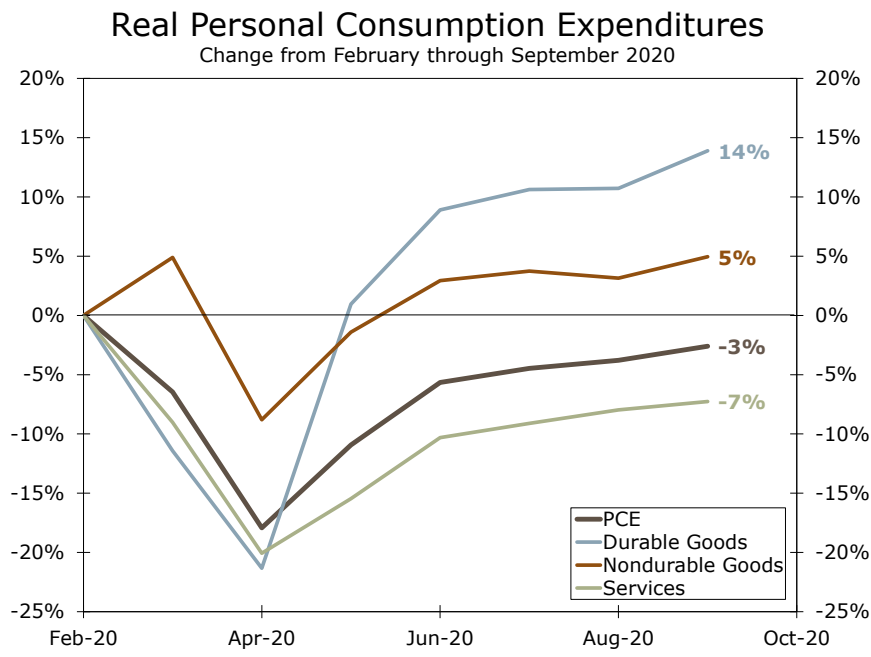
Source: U.S. Department of Commerce and Wells Fargo Securities

Unique to this cycle, durable goods spending has already recovered while the service sector continues to reel.

Typical Consumption



Consumption Today

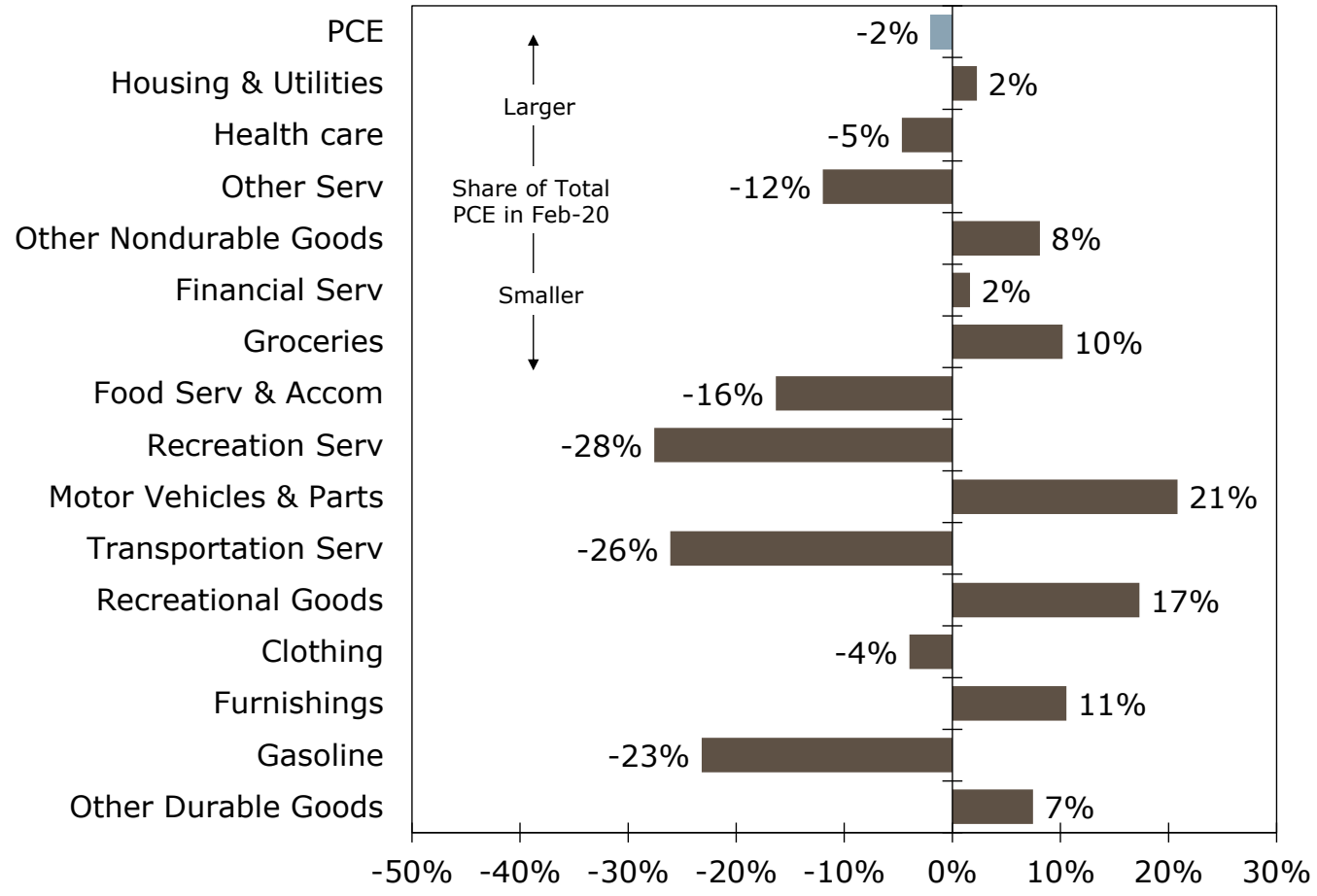


Source: U.S. Department of Commerce and Wells Fargo Securities

Consumption reflects the “stay at home” economy.

Personal Consumption by Category

Change from Pre-Pandemic (February) to September 2020



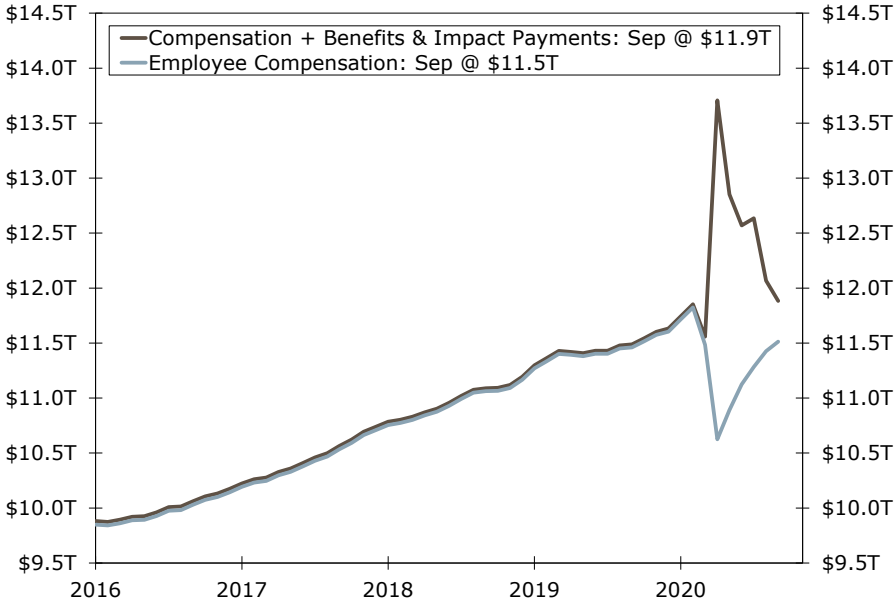
Source: U.S. Department of Commerce and Wells Fargo Securities

The fiscal stimulus passed at the onset of the crisis helped to lift overall household income.

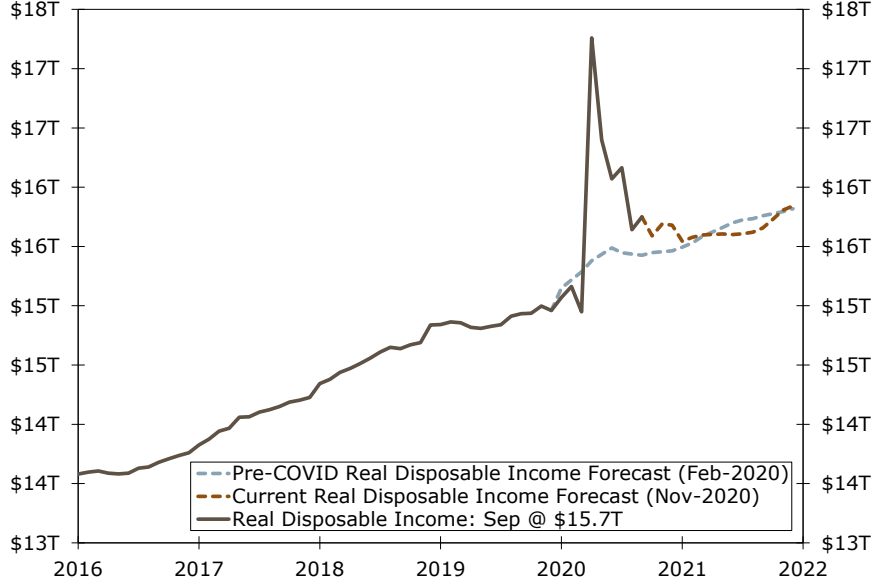
Stimulus Lift

Income Forecast

Personal Income: Compensation
Trillions of USD, SAAR

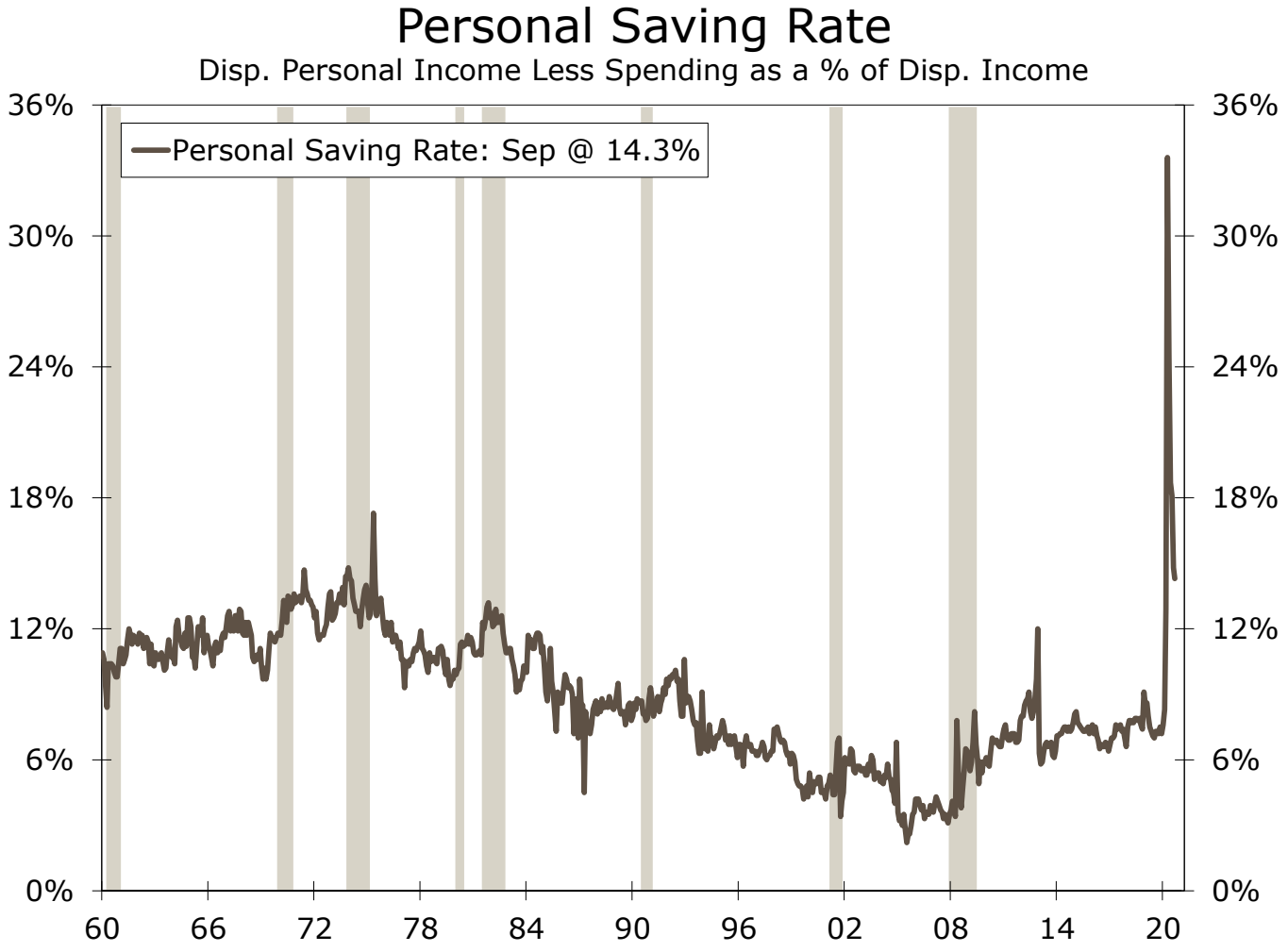


Real Disposable Personal Income Forecast
Trillions of USD, SAAR



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

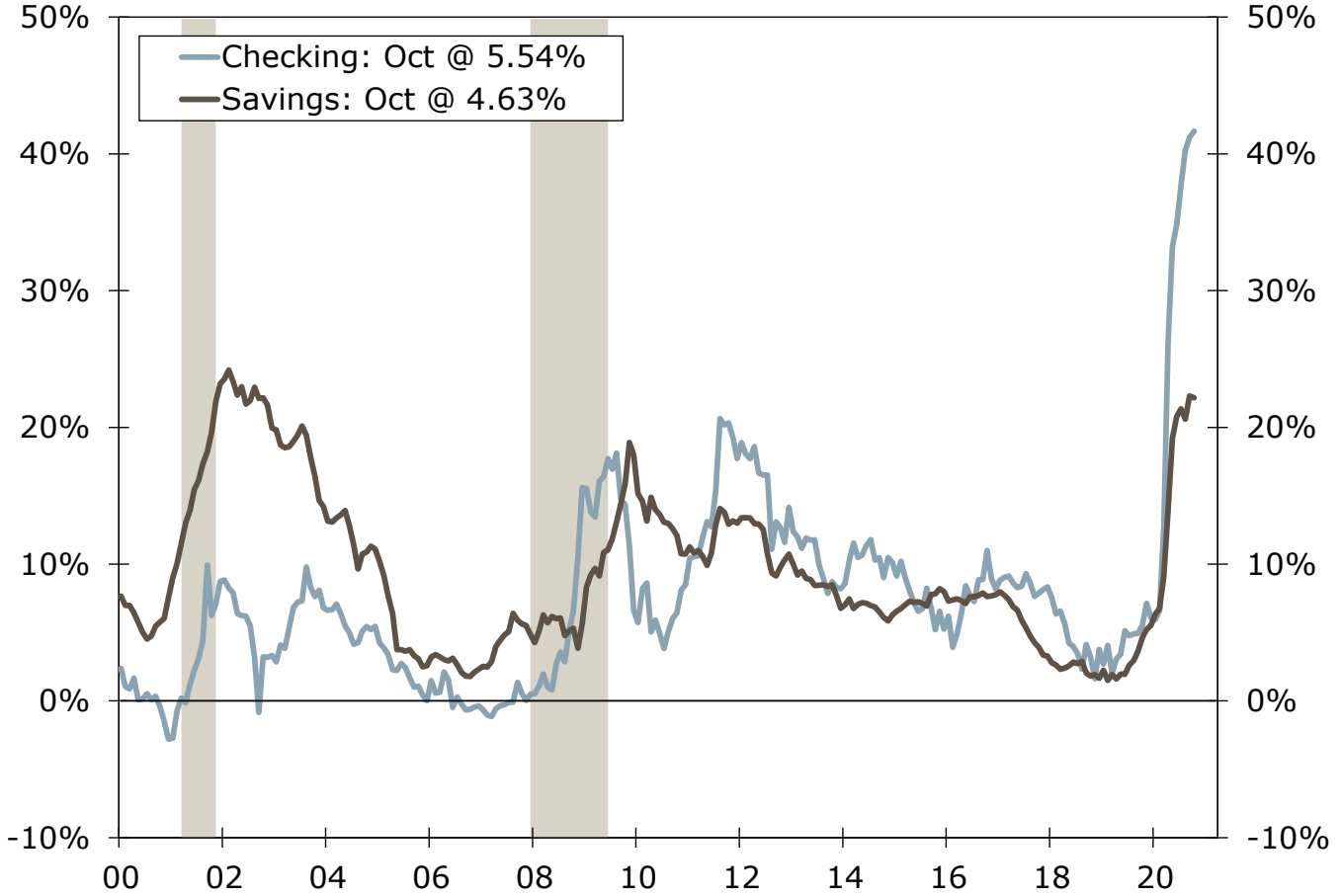
Savings has skyrocketed, giving households some near-term spending power.



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

Checking and Savings Account Deposits

Year-over-Year Percent Change

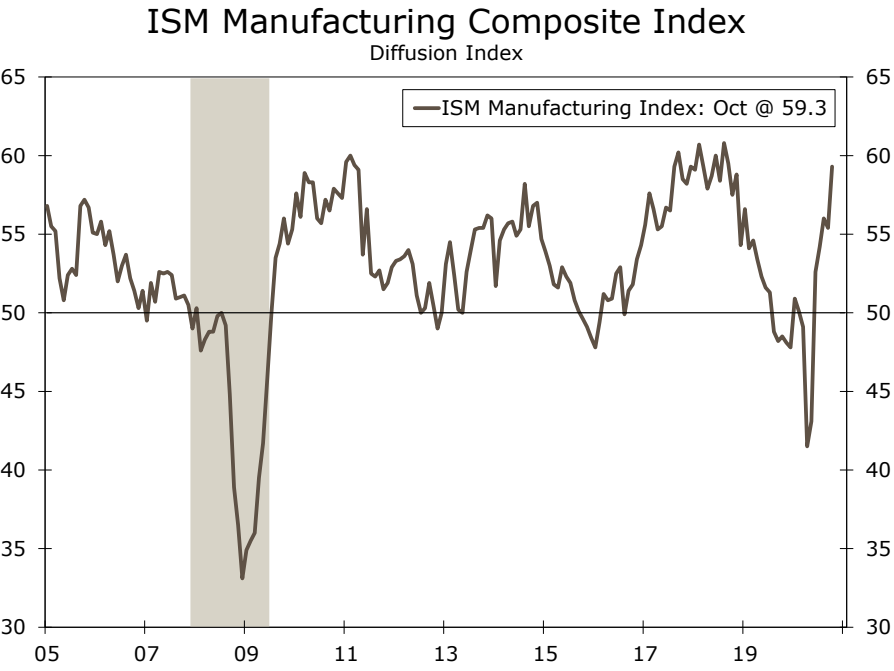


Consumers are depositing more into their checking and savings accounts than in prior cycles.

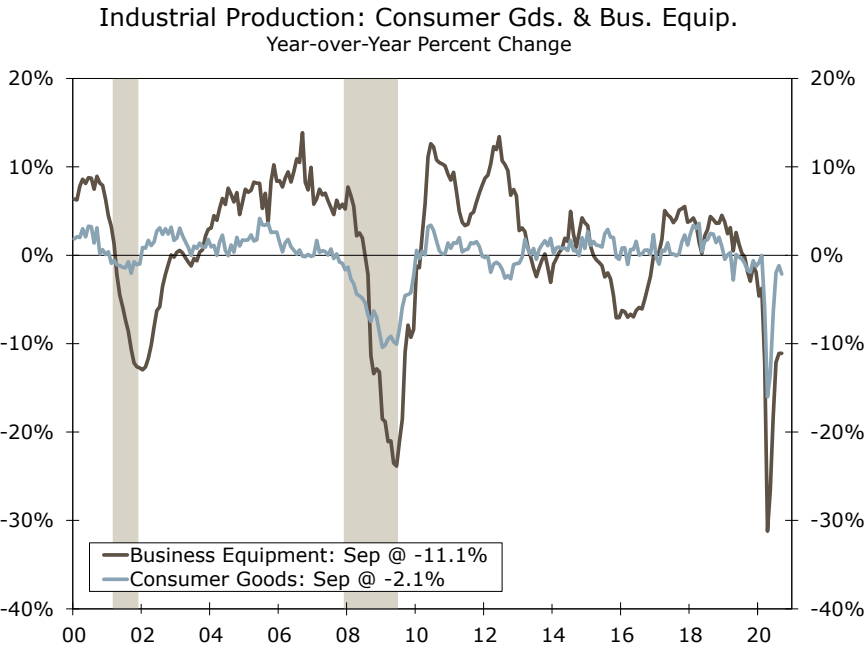
Source: Federal Reserve Board and Wells Fargo Securities

The strength of consumer goods purchases has helped foster a speedy recovery in manufacturing.

Manufacturing Momentum



Consumer vs. Business Related Production

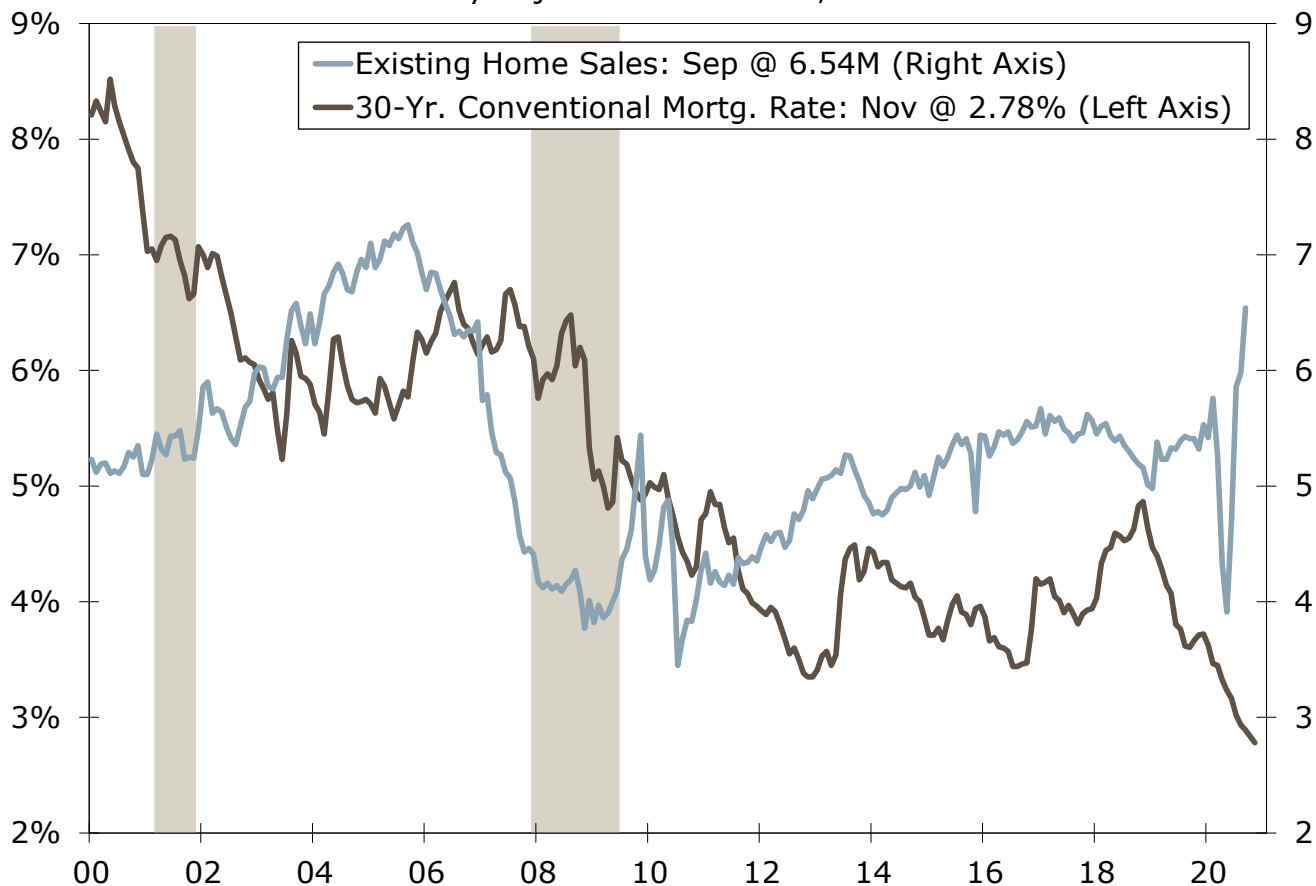


Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Securities

The housing market has stood out as a bright spot in recent months.

Existing Home Sales vs. Mortgage Rate

Seasonally Adjusted Annual Rate, In Millions

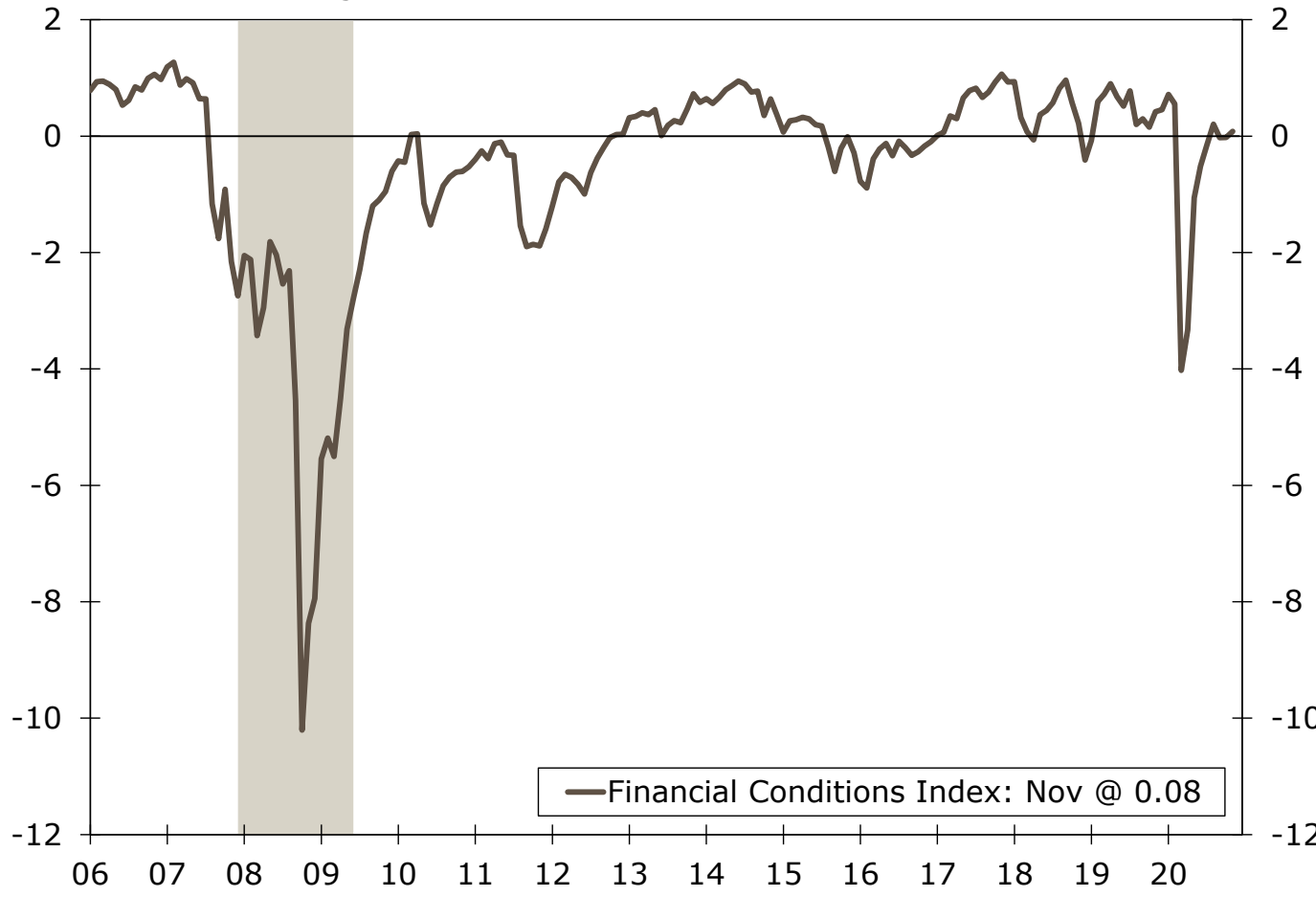


Source: National Association of Realtors, Freddie Mac and Wells Fargo Securities

Financial conditions have eased since the onset of the pandemic.

Bloomberg Financial Conditions Index

Higher Values = More Accommodative Conditions

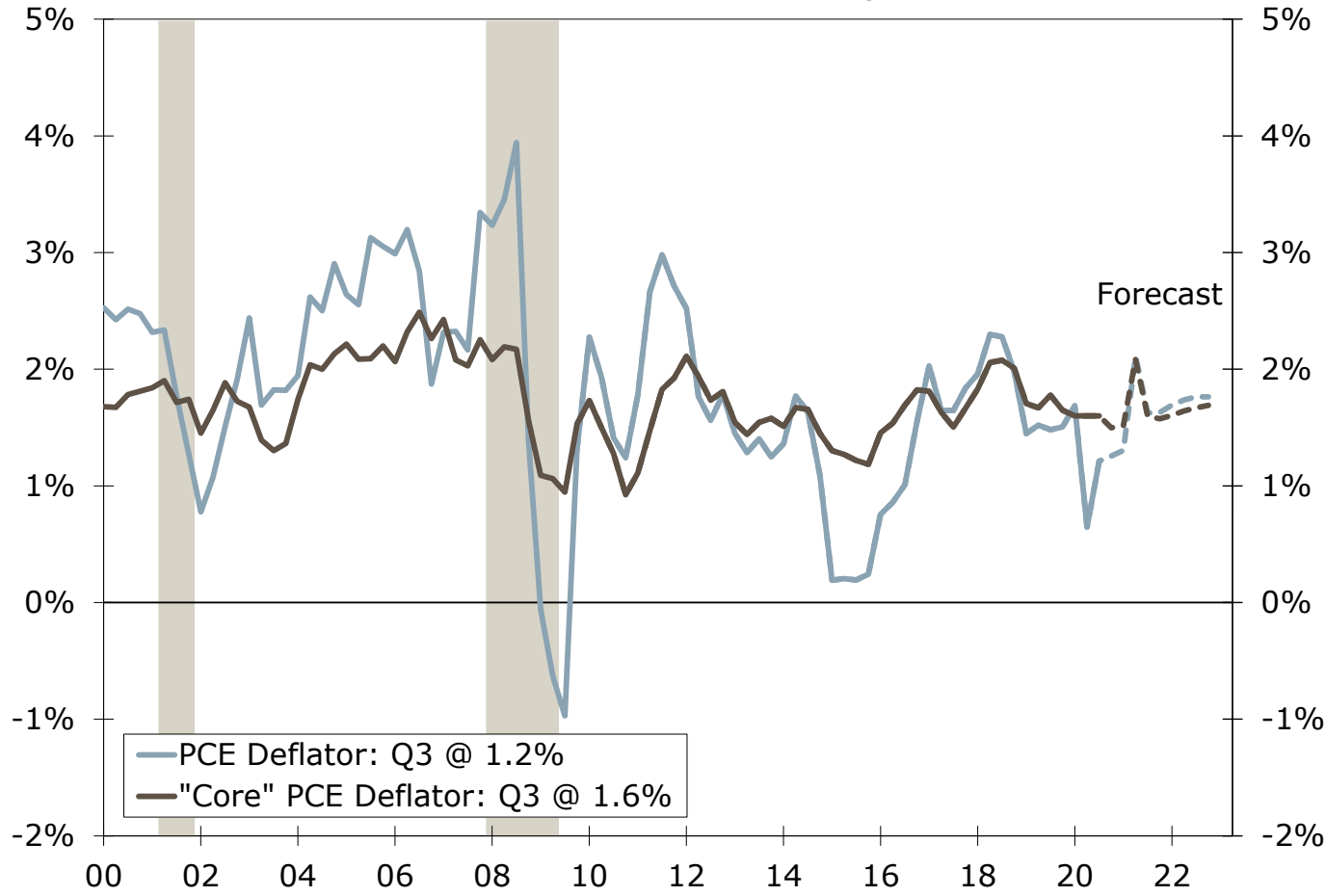


Source: Bloomberg LP and Wells Fargo Securities

Overall inflation will take time to return to the Fed's 2% target, even with the monetary and fiscal stimulus provided to date.

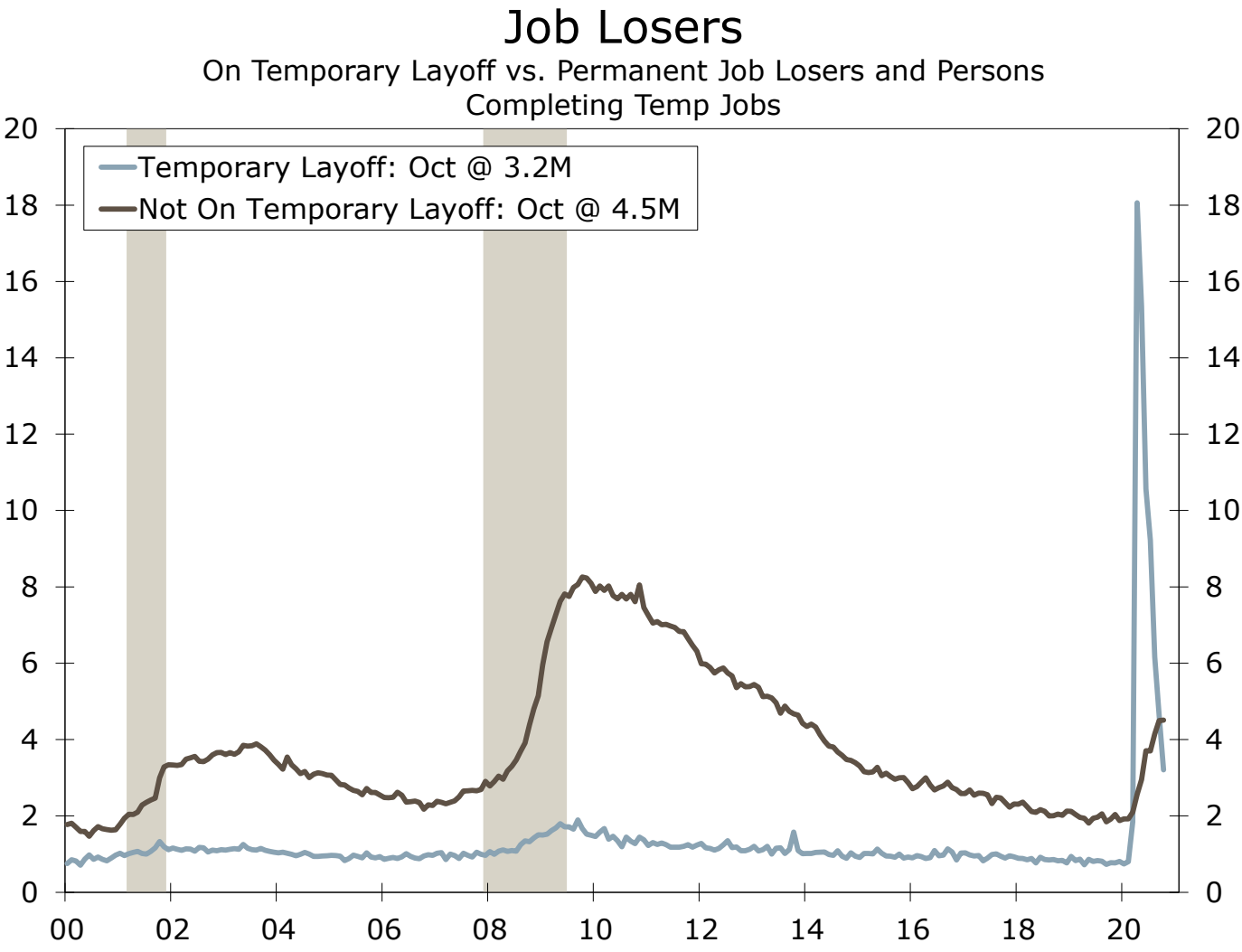
PCE Deflator & "Core" PCE Deflator

Year-over-Year Percent Change



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

The Fed wants to prevent temporary job losses from becoming permanent and is more willing to let the labor market run “hot” under its new framework.



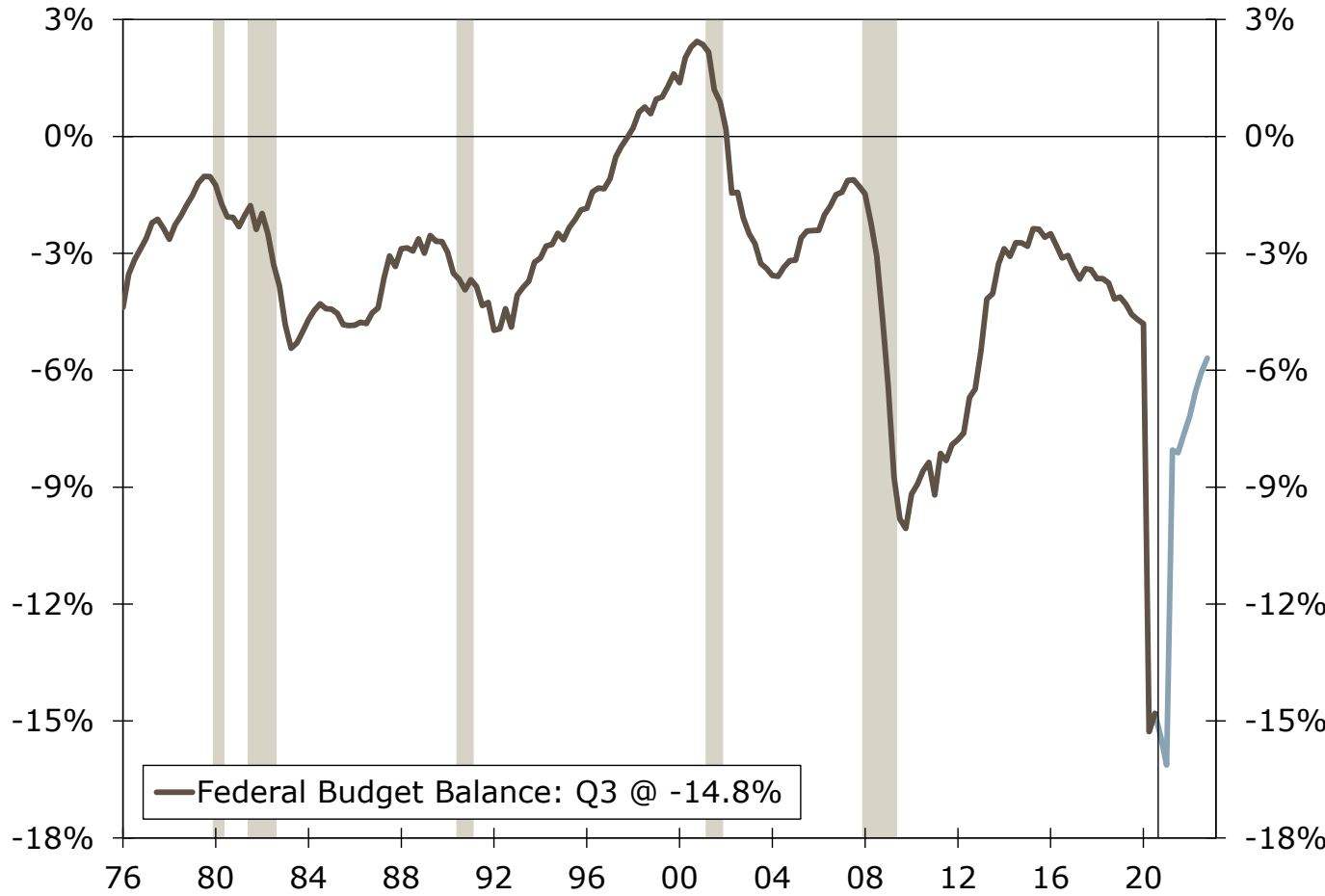
Source: U.S. Department of Labor and Wells Fargo Securities

| 2020 Presidential Candidates' Economic Policy Positions | | | |
|---|---|---|--|
| | Tax Policy | | Spending Proposals |
| | Individual | Corporate | |
| Biden | <ul style="list-style-type: none"> • Restore top individual tax rate to 39.6% from 37% for individuals earning over \$400K • Tax capital gains as ordinary income for those earning over \$1 million • Subject earnings above \$400K to 12.4% Social Security payroll tax • Limit tax benefit of itemized deductions at 28% of value for those earning over \$400K • Repeal step-up in basis for capital gains tax • Re-establish First Time Homebuyer tax credit • Expansion of Child Tax Credit to \$3,000 per child 6-17 yrs. & \$3,600 per child >6 yrs | <ul style="list-style-type: none"> • Raise the corporate tax rate to 28% from 21% • Double the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of US firms to 21% from 10.5% • 15% minimum tax on book income for corporations with at least \$100 million in annual income • Establish "financial risk fee" on certain liabilities of financial institutions with over \$50B in assets | <ul style="list-style-type: none"> • Tuition-free public college for families with incomes <\$125,000 • Two years of tuition-free community college • Federally-funded universal Pre-K • Triple Title I school funding • Roughly \$2T public investment plan to promote clean energy, support infrastructure projects and residential housing spending • Increase Social Security's minimum benefit & boost payments for those receiving benefits for >20 yrs • Increase the size of ACA subsidies • Implement a public health insurance option • Forgive a minimum of \$10,000 of federal student loan debt per person & increase the generosity of income-based student loan payments |
| Trump | <ul style="list-style-type: none"> • Make temporary individual provisions of TCJA permanent (e.g. modified tax rates, expanded standard deduction) • Forgiveness of deferred payroll tax • Payroll tax cut? • Cut capital gains tax rates? | <ul style="list-style-type: none"> • Make temporary corporate provisions of TCJA permanent (e.g. full expensing) | <ul style="list-style-type: none"> • Increase infrastructure spending • Increase defense spending? |

Source: Candidates' websites and Wells Fargo Securities

The biggest deficit since WWII is on its way and increases the chances of deficit fatigue in DC.

Federal Budget: Record Deficits Coming
4-Quarter Moving Sum, Percent of GDP, WFS Forecast in Blue



Source: U.S. Department of the Treasury and Wells Fargo Securities

U.S. Economic Forecast

Wells Fargo Securities U.S. Economic Forecast

| | Actual | | | | Forecast | | | | | | | | | | | | Actual | | Forecast | | |
|--|--------|------|------|------|----------|-------|-------|------|------|------|------|------|------|------|------|------|--------|-------|----------|------|--|
| | 2019 | | | | 2020 | | | | 2021 | | | | 2022 | | | | 2019 | 2020 | 2021 | 2022 | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | | |
| Real Gross Domestic Product ¹ | 2.9 | 1.5 | 2.6 | 2.4 | -5.0 | -31.4 | 33.1 | 4.5 | 4.0 | 3.1 | 2.9 | 2.8 | 2.8 | 2.9 | 2.6 | 2.4 | 2.2 | -3.5 | 4.2 | 2.8 | |
| Personal Consumption | 1.8 | 3.7 | 2.7 | 1.6 | -6.9 | -33.2 | 40.7 | 4.9 | 3.5 | 3.3 | 3.1 | 2.9 | 2.7 | 2.7 | 2.5 | 2.2 | 2.4 | -3.8 | 4.7 | 2.8 | |
| Business Fixed Investment | 4.2 | 0.0 | 1.9 | -0.3 | -6.7 | -27.2 | 20.3 | 9.0 | 3.7 | 4.2 | 4.9 | 4.9 | 5.4 | 5.2 | 5.2 | 5.0 | 2.9 | -4.5 | 4.6 | 5.1 | |
| Equipment | 2.0 | -3.8 | -1.7 | -1.7 | -15.2 | -35.9 | 70.1 | 12.4 | 5.0 | 6.0 | 6.2 | 6.8 | 7.1 | 6.4 | 6.1 | 5.8 | 2.1 | -5.5 | 9.8 | 6.5 | |
| Intellectual Property Products | 4.5 | 4.1 | 5.3 | 4.6 | 2.4 | -11.4 | -1.0 | 1.6 | 3.0 | 4.8 | 6.8 | 6.3 | 6.3 | 5.5 | 5.6 | 5.1 | 6.4 | 0.0 | 2.3 | 5.9 | |
| Structures | 8.2 | 1.6 | 3.6 | -5.3 | -3.7 | -33.6 | -14.6 | 4.5 | 1.5 | -1.5 | -2.2 | -3.4 | -1.4 | 1.3 | 1.9 | 2.1 | -0.6 | -10.1 | -4.2 | -0.8 | |
| Residential Investment | -1.7 | -2.1 | 4.6 | 5.8 | 19.0 | -35.6 | 59.3 | 17.0 | 5.5 | 8.0 | 7.5 | 7.0 | 6.5 | 6.5 | 6.0 | 6.0 | -1.7 | 4.7 | 10.5 | 6.7 | |
| Government Purchases | 2.5 | 5.0 | 2.1 | 2.4 | 1.3 | 2.5 | -4.5 | -1.7 | -0.2 | -0.6 | -0.4 | 0.2 | 0.2 | 0.5 | 0.5 | 0.8 | 2.3 | 1.1 | -0.9 | 0.2 | |
| Net Exports ² | 0.6 | -0.8 | 0.0 | 1.5 | 1.1 | 0.6 | -3.1 | -0.9 | 0.2 | 0.2 | 0.1 | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 | 0.1 | -0.7 | -0.1 | |
| Inventories ² | 0.2 | -1.0 | -0.1 | -0.8 | -1.3 | -3.5 | 6.6 | 1.3 | 0.7 | -0.2 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | 0.9 | -0.1 | |
| Nonfarm Payroll Change ³ | 139 | 159 | 203 | 210 | -303 | -4427 | 1309 | 563 | 450 | 328 | 283 | 270 | 257 | 243 | 227 | 213 | 178 | -715 | 333 | 235 | |
| Unemployment Rate | 3.9 | 3.6 | 3.6 | 3.5 | 3.8 | 13.0 | 8.8 | 6.8 | 6.7 | 6.5 | 6.2 | 5.9 | 5.6 | 5.3 | 5.0 | 4.7 | 3.7 | 8.1 | 6.3 | 5.2 | |
| Consumer Price Index ⁴ | 1.6 | 1.8 | 1.8 | 2.0 | 2.1 | 0.4 | 1.3 | 1.2 | 1.3 | 2.6 | 1.7 | 1.8 | 2.0 | 2.0 | 2.1 | 2.1 | 1.8 | 1.2 | 1.9 | 2.0 | |
| Quarter-End Interest Rates ⁵ | | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 2.50 | 2.50 | 2.00 | 1.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 2.25 | 0.25 | 0.25 | 0.25 | |
| Conventional Mortgage Rate | 4.28 | 3.80 | 3.61 | 3.72 | 3.45 | 3.16 | 2.89 | 2.80 | 2.80 | 2.85 | 2.90 | 3.00 | 3.05 | 3.10 | 3.15 | 3.20 | 3.94 | 3.08 | 2.89 | 3.13 | |
| 2 Year Note | 2.27 | 1.75 | 1.63 | 1.58 | 0.23 | 0.16 | 0.13 | 0.15 | 0.20 | 0.20 | 0.20 | 0.25 | 0.25 | 0.30 | 0.35 | 0.45 | 1.97 | 0.17 | 0.21 | 0.34 | |
| 10 Year Note | 2.41 | 2.00 | 1.68 | 1.92 | 0.70 | 0.66 | 0.69 | 0.85 | 1.00 | 1.10 | 1.20 | 1.30 | 1.35 | 1.40 | 1.45 | 1.50 | 2.14 | 0.73 | 1.15 | 1.43 | |

Forecast as of: November 10, 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

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

| | GDP | | | | CPI | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| Global (PPP Weights) | 2.8% | -4.0% | 5.6% | 3.5% | 3.5% | 3.2% | 3.1% | 3.3% |
| Advanced Economies ¹ | 1.7% | -5.2% | 3.9% | 3.0% | 1.4% | 0.8% | 1.3% | 1.6% |
| United States | 2.2% | -3.5% | 4.2% | 2.8% | 1.8% | 1.2% | 1.9% | 2.0% |
| Eurozone | 1.3% | -7.4% | 3.7% | 2.9% | 1.2% | 0.3% | 0.7% | 1.1% |
| United Kingdom | 1.5% | -11.2% | 2.5% | 2.9% | 1.8% | 0.9% | 1.4% | 1.6% |
| Japan | 0.7% | -5.8% | 2.4% | 2.0% | 0.5% | 0.1% | 0.1% | 0.6% |
| Canada | 1.7% | -5.6% | 4.2% | 2.8% | 1.9% | 0.6% | 1.7% | 2.0% |
| Switzerland | 1.2% | -4.3% | 2.6% | 1.8% | 0.4% | -0.7% | 0.1% | 0.5% |
| Australia | 1.8% | -3.6% | 2.7% | 3.0% | 1.6% | 0.7% | 1.6% | 1.8% |
| New Zealand | 2.2% | -5.2% | 5.3% | 3.3% | 1.6% | 1.4% | 1.6% | 1.8% |
| Sweden | 1.3% | -4.0% | 3.6% | 3.2% | 1.6% | 0.6% | 1.2% | 1.4% |
| Norway | 1.2% | -3.8% | 3.6% | 2.5% | 2.2% | 1.4% | 2.3% | 2.0% |
| Developing Economies ¹ | 3.7% | -3.0% | 7.0% | 4.0% | 5.1% | 5.0% | 4.4% | 4.6% |
| China | 6.1% | 2.2% | 9.5% | 5.8% | 2.9% | 2.8% | 2.0% | 2.3% |
| India | 4.2% | -9.0% | 9.9% | 5.8% | 4.8% | 6.3% | 4.4% | 4.6% |
| Mexico | -0.3% | -9.2% | 3.3% | 2.8% | 3.6% | 3.5% | 3.8% | 3.5% |
| Brazil | 1.1% | -5.7% | 3.8% | 2.7% | 3.7% | 2.6% | 3.0% | 3.4% |

Forecast as of: November 10, 2020

¹Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Securities

The Outlook

- The recovery from the virus shock is well underway, but the next leg of the recovery will be more arduous and slower going.
 - We assume that the economy's re-openings do not go into reverse and a vaccine becomes widely available the middle of next year.
-

COVID-19

- The virus sets the timeline. Economic activity has and will continue to ebb and flow with the virus.
 - The pandemic has led to a unique downturn: services spending and employment have been hit hardest, with job losses particularly acute in lower-paid industries.
-

Monetary Policy

- The Fed has wasted no time supporting the economy and financial system functioning through QE and emergency lending programs.
 - Interest rates will remain depressed for the foreseeable future as the Fed is unconcerned about inflation and more worried about lasting labor market scarring.
-

Fiscal Policy

- Fiscal stimulus helped shore-up income in the early stages of the pandemic, but the timing and degree of further support remains in question and could jeopardize the recovery.
- Low interest rates are keeping debt service manageable, for now.

Economists

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