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Economic Outlook for 2015 and Beyond

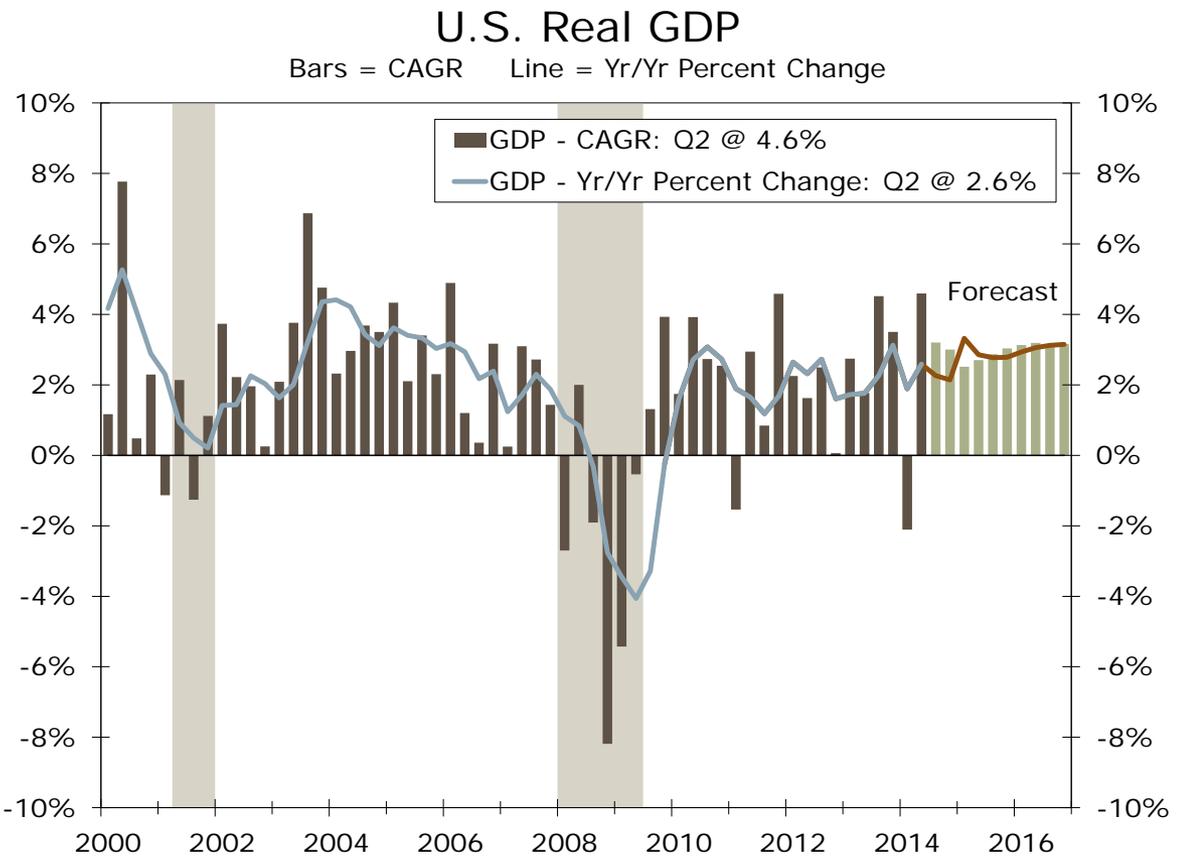
Michael A. Brown, Economist

October 15, 2014

Together we'll go far



We expect economic activity to continue to accelerate in the second half of the year

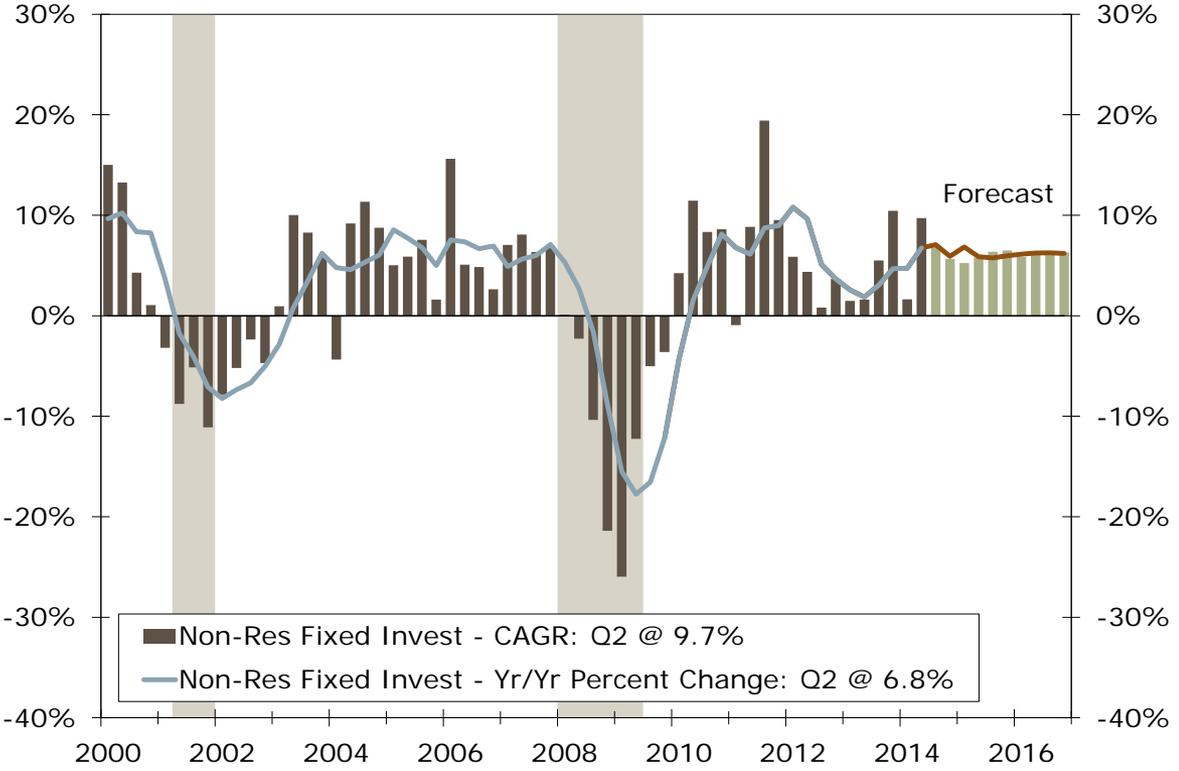


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Growth in business fixed investment spending will continue to buoy growth in the coming years

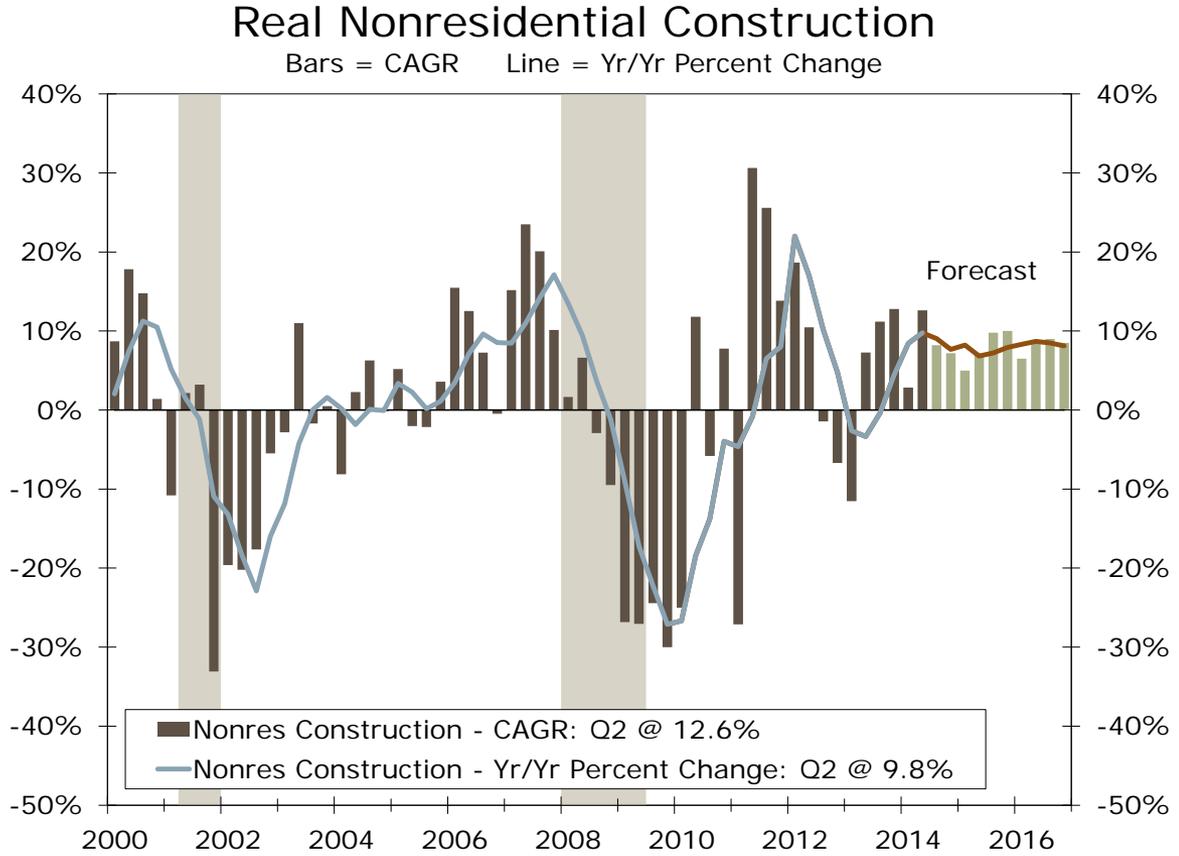
Real Business Fixed Investment

Bars = CAGR Line = Yr/Yr Percent Change



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

Commercial construction spending will help to perpetuate business investment in the year ahead

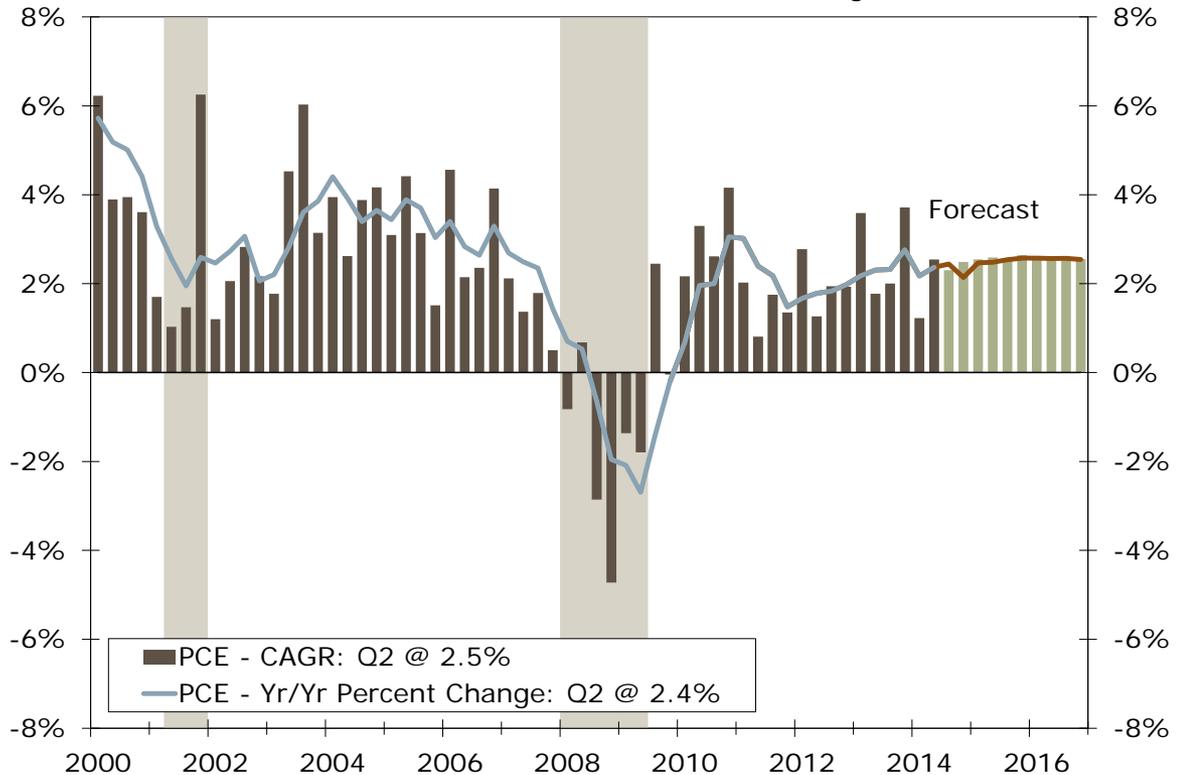


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Consumer spending growth will continue to average around 2.5 percent

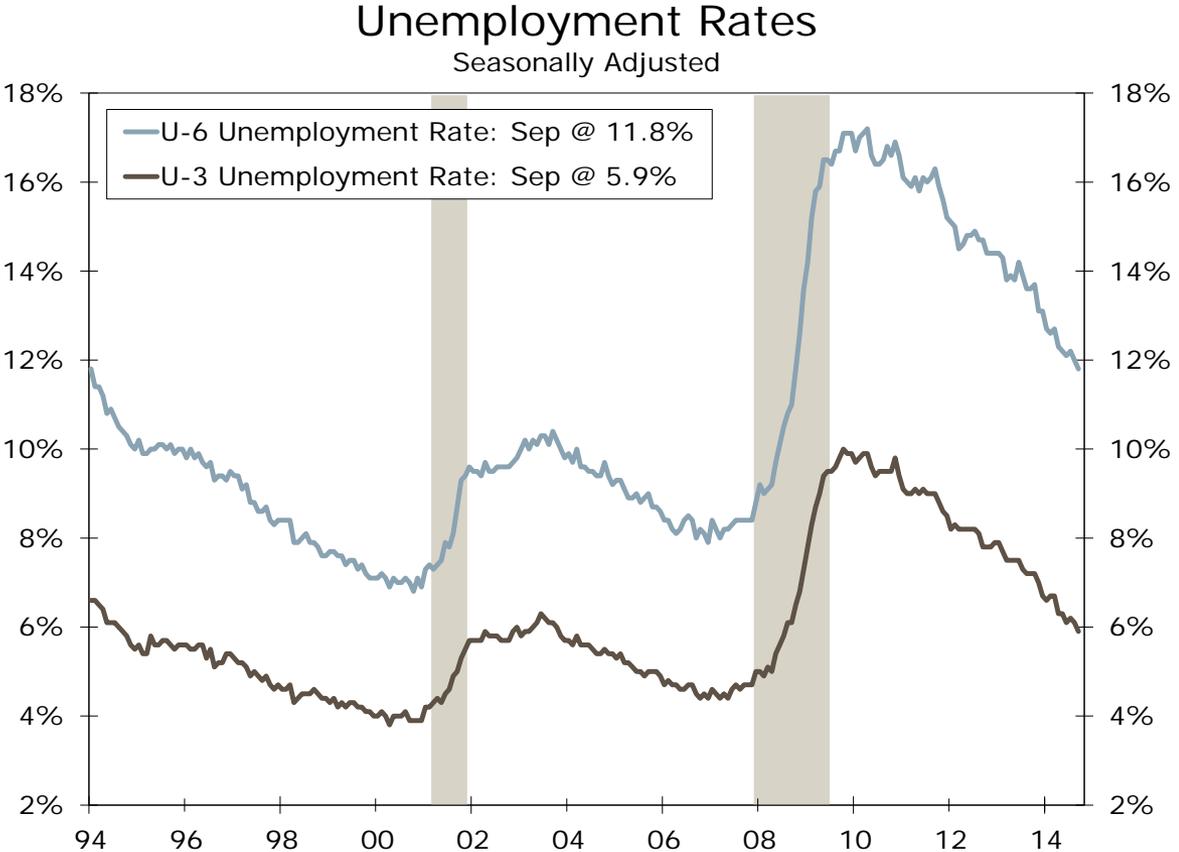
Real Personal Consumption Expenditures

Bars = CAGR Line = Yr/Yr Percent Change



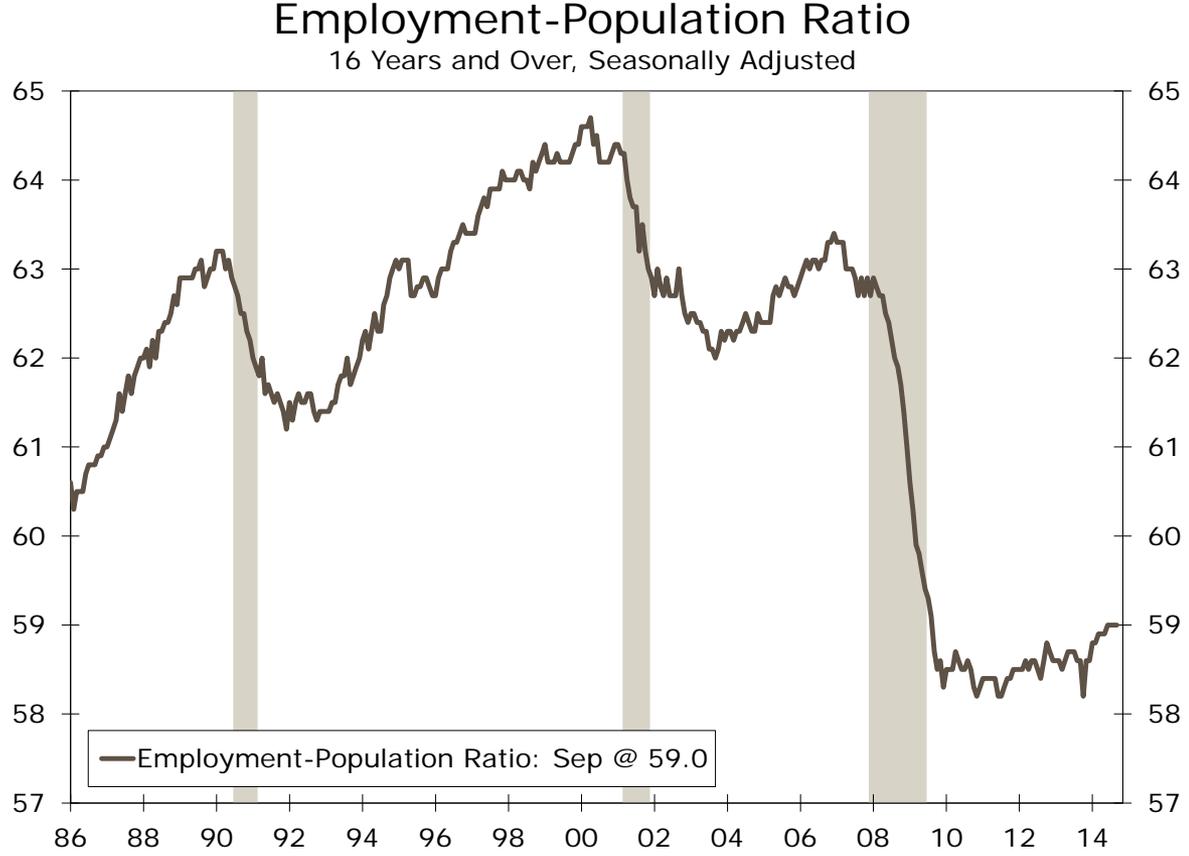
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Alternative measures of unemployment show an historically high level of underemployment



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

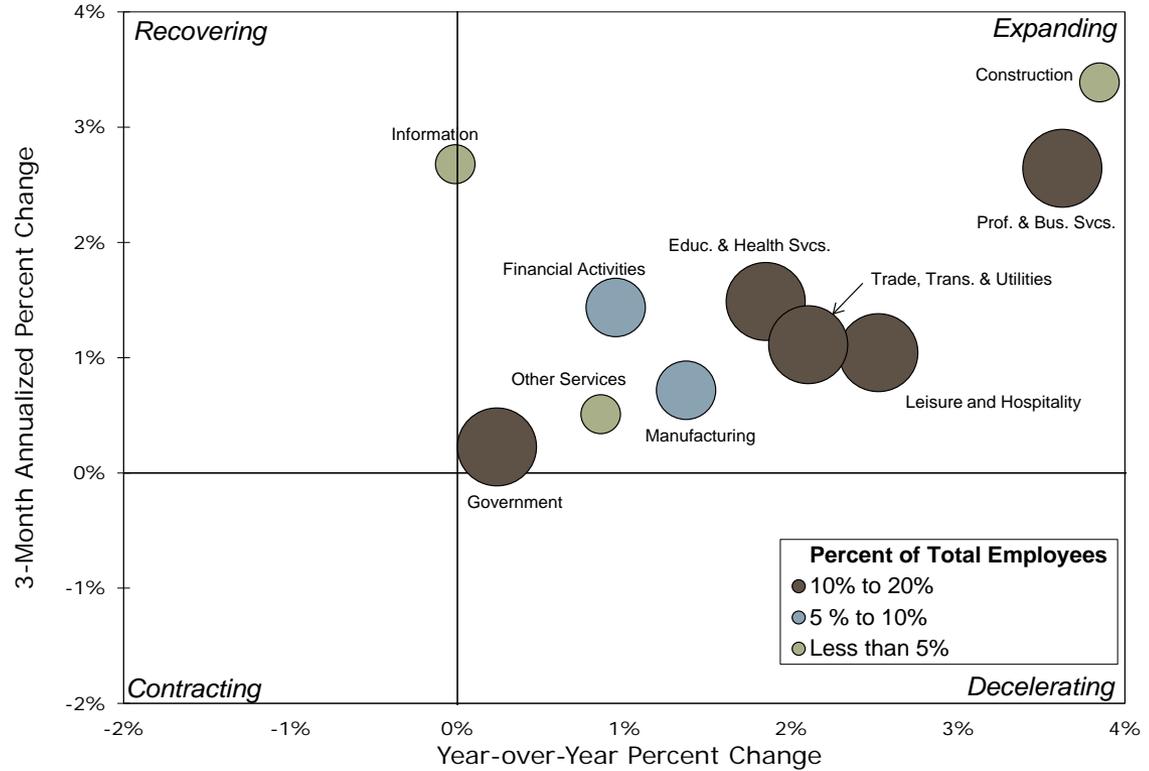
The employment rate shows how dramatically the working population has shrunk following the recession



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

The services sector continues to lead job growth

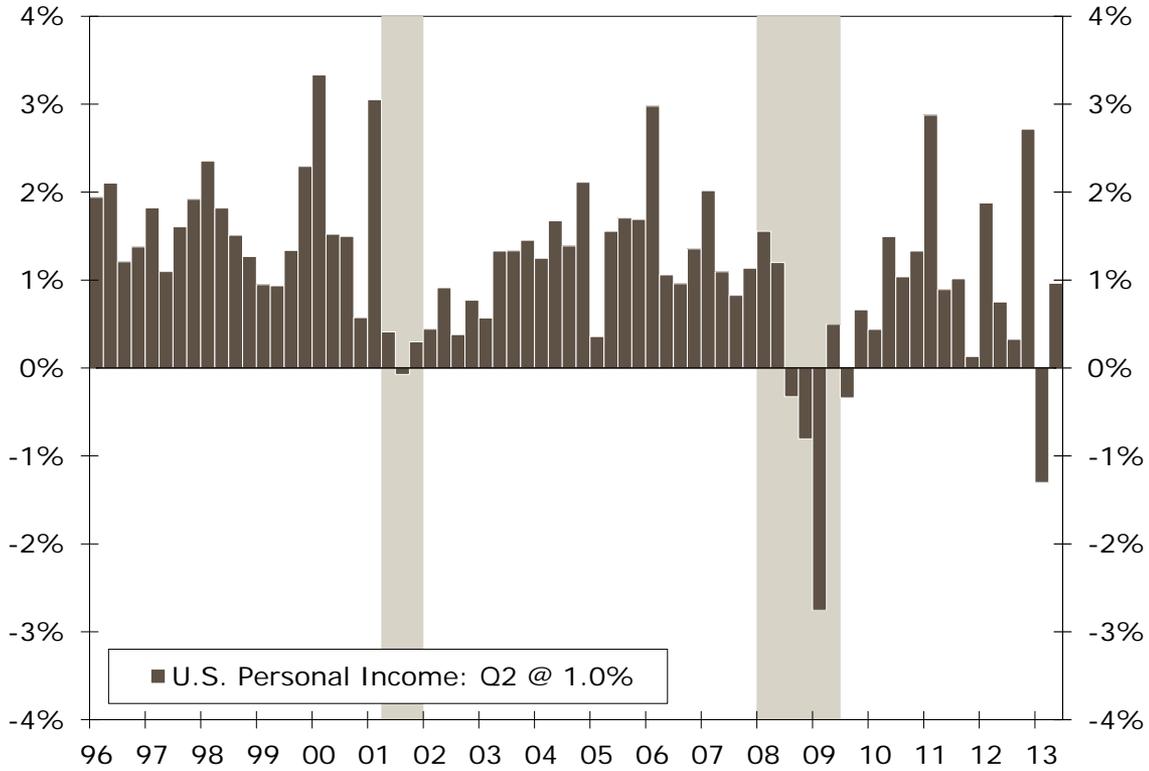
U.S. Employment Growth by Industry
3-Month Moving Averages, September 2014



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

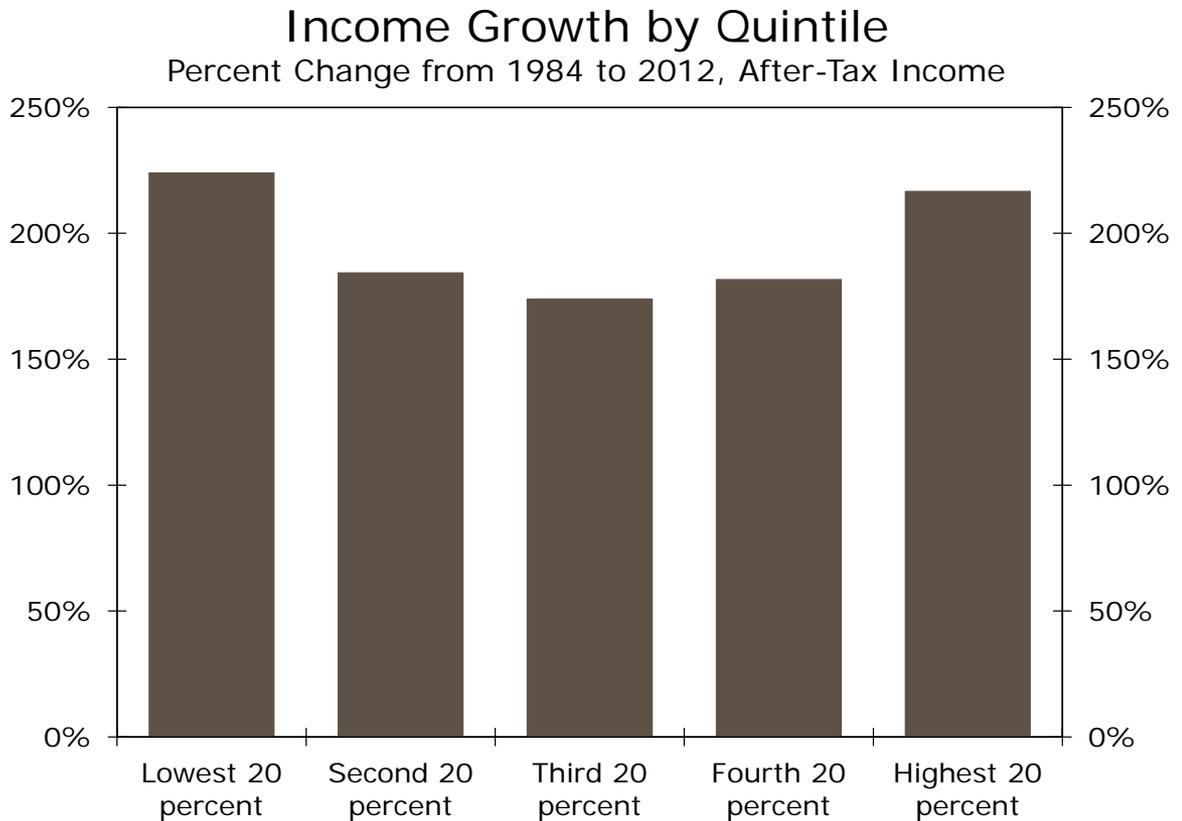
Personal income growth picked up in the second quarter after a sharp decline

U.S. Average State Personal Income
Quarter-over-Quarter Percent Change



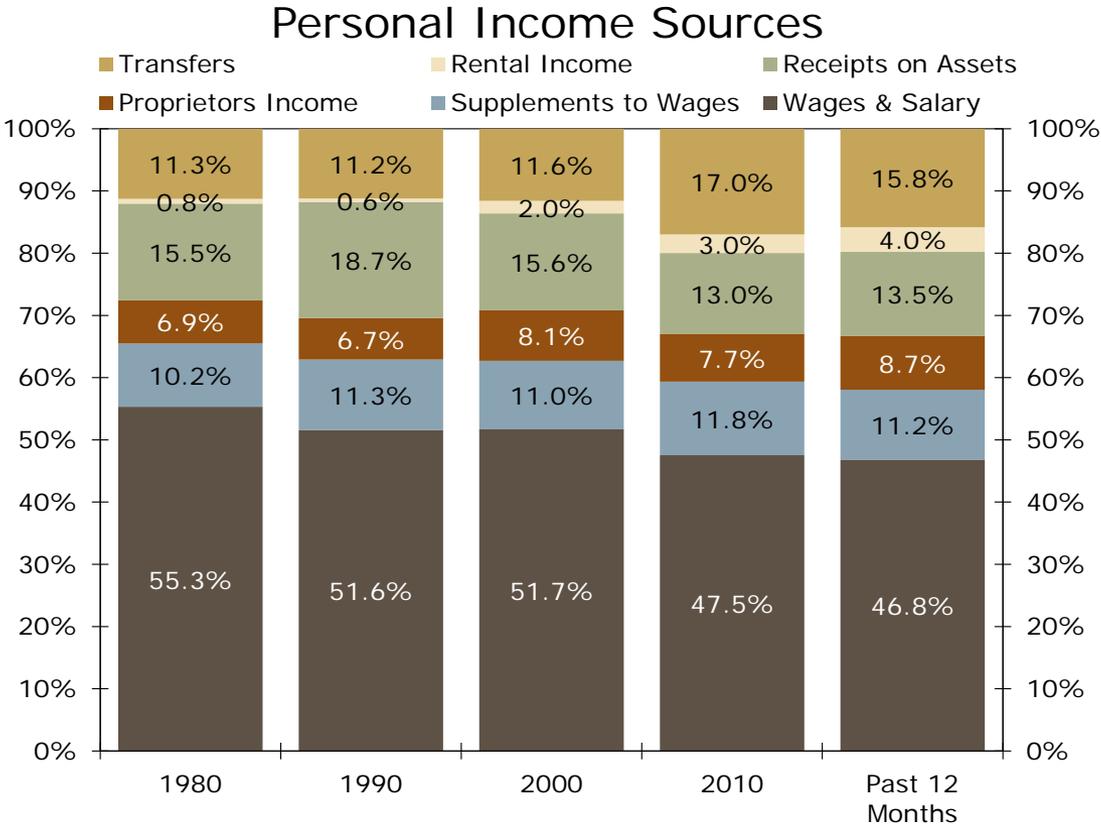
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

After-tax income has increased the most for the lowest and highest income households since the mid-1980s



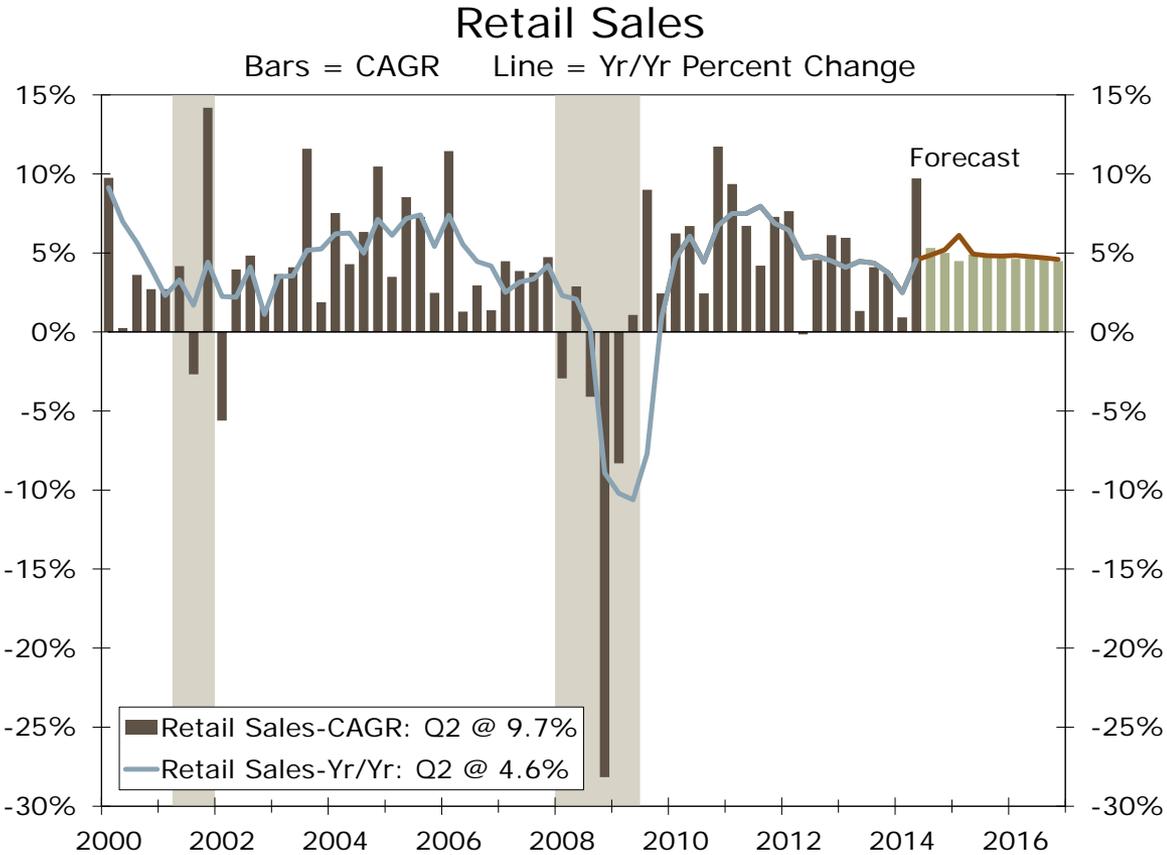
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Wages and salaries now make up less than half of personal income as transfer payments make up a greater share of income over time



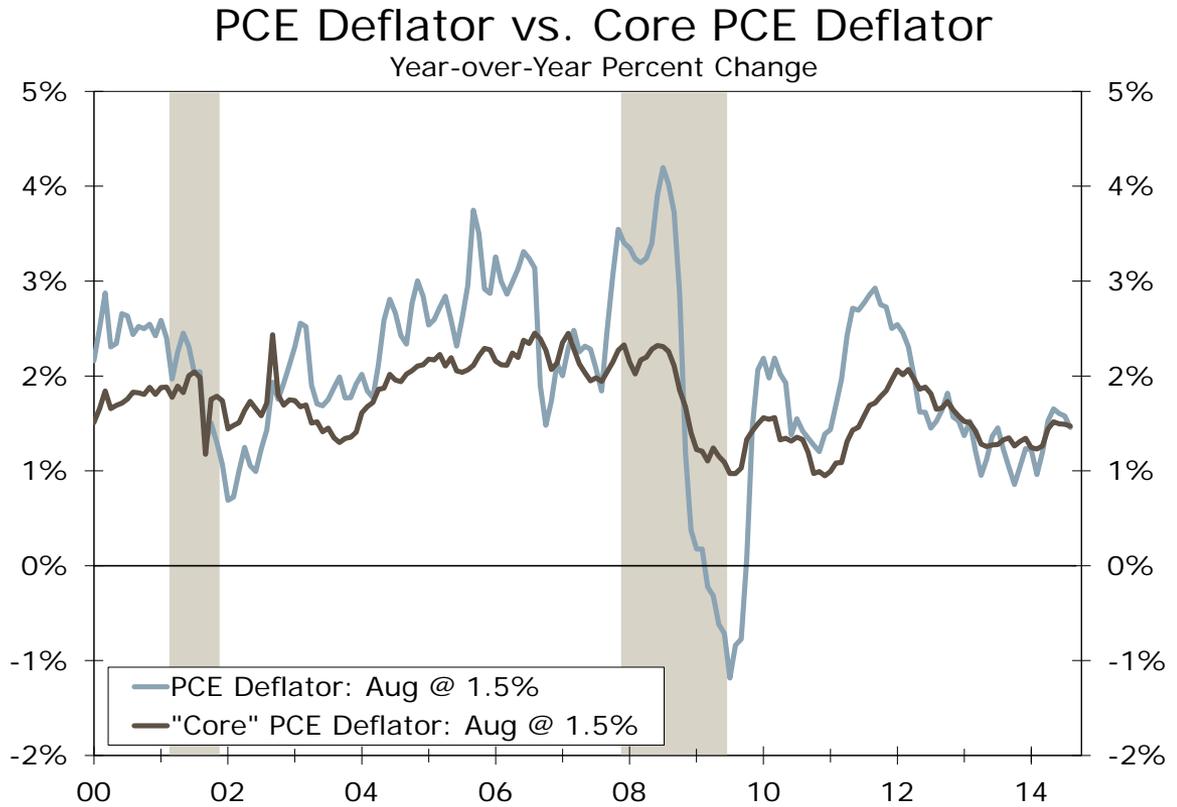
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Sales tax collections should improve slightly over the current forecast horizon



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

Inflation remains in check



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

Fiscal policy issues that could impact our outlook

Fiscal Policy Summary

November – Mid-Term Elections

- Could introduce fiscal policy or regulatory uncertainty, slowing business investment.

After Mid-Term Elections

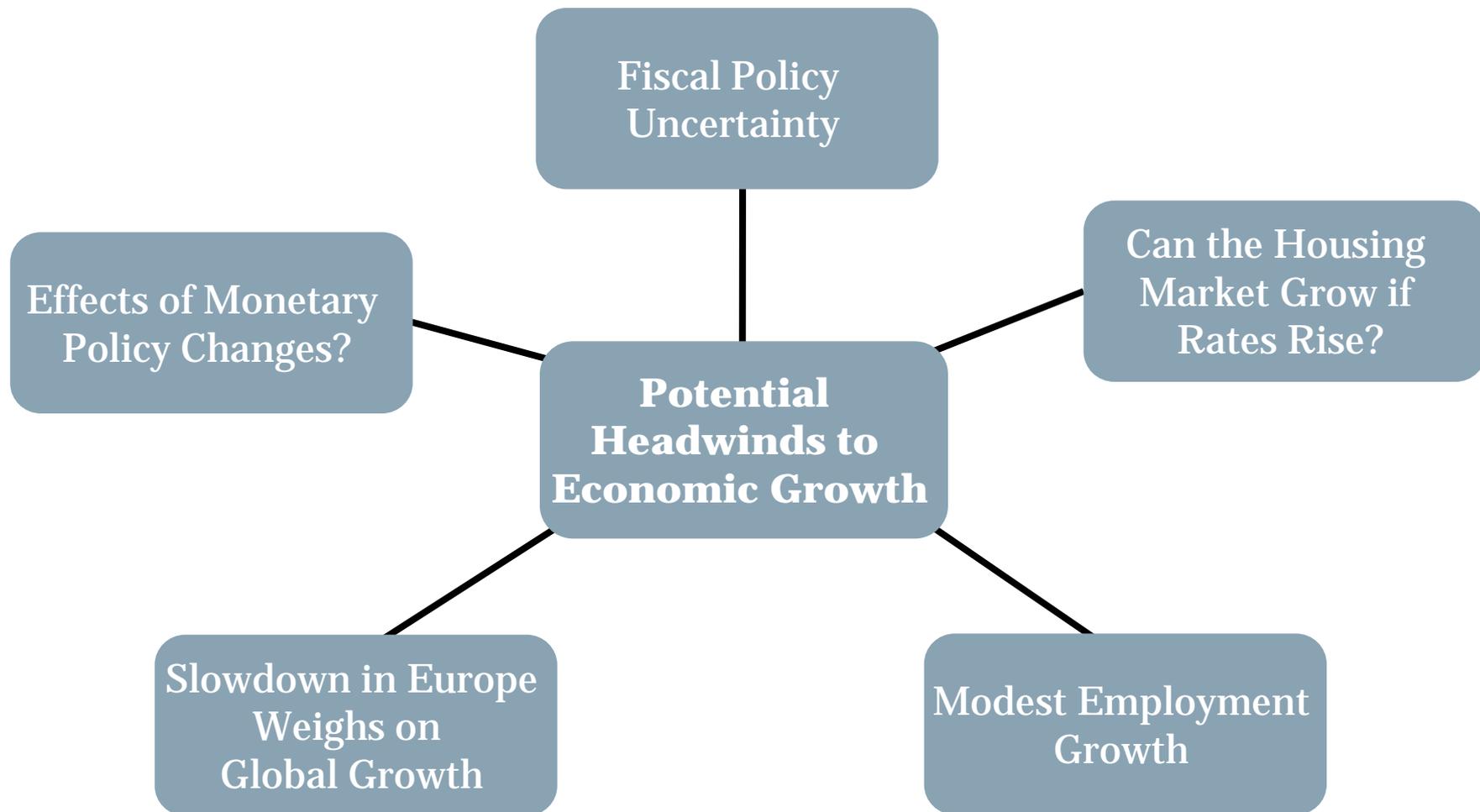
- Tax extenders legislation likely to be considered, may support business investment and consumer spending.

December 11th – FY 2015 Appropriation Bills (or CR)

- Would introduce economic uncertainty & negatively impact government spending.

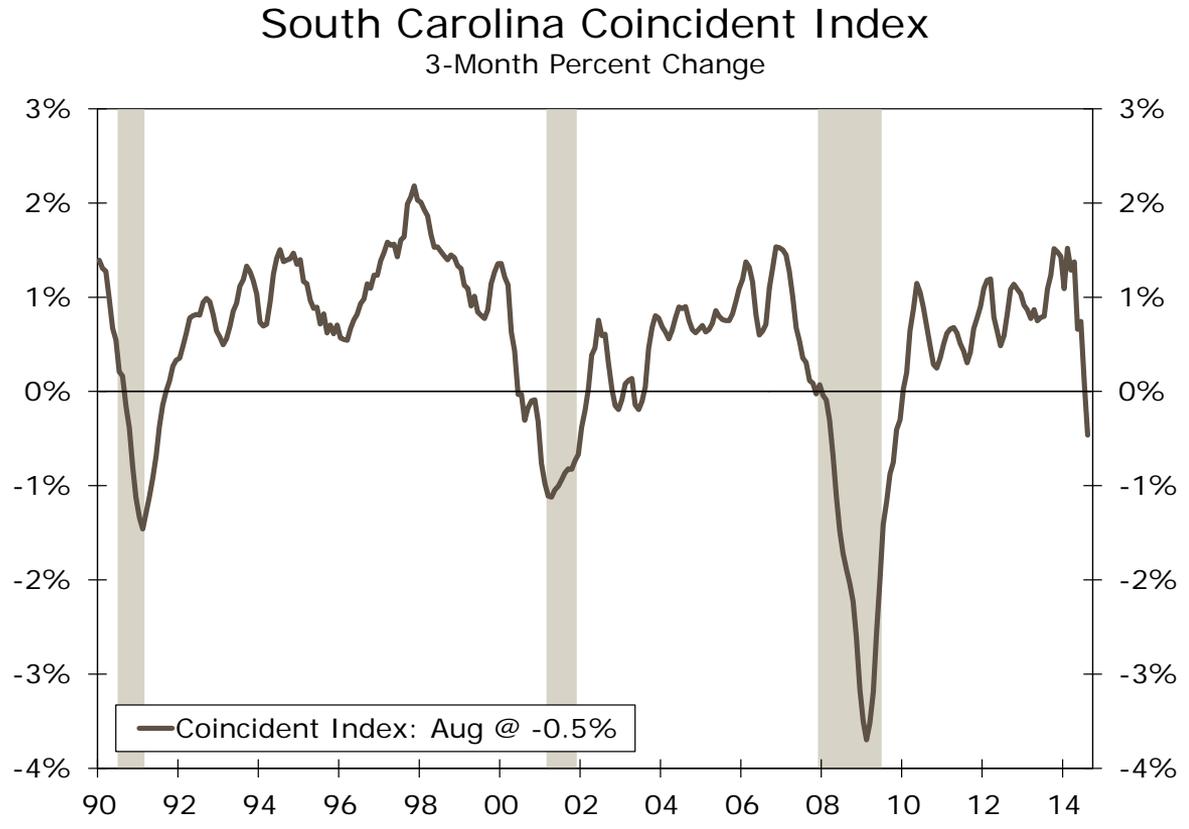
First Half 2015 – Debt Ceiling

- More of a financial market impact, but could also affect both consumer and business spending.



The South Carolina Economy

Economic growth in South Carolina seems to be slowing down

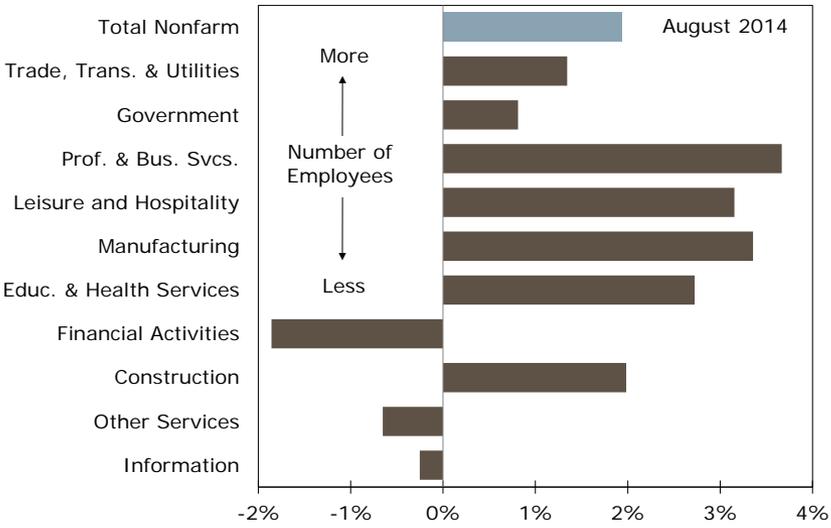


Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

Employment is growing nicely in most sectors, yet the unemployment rate has turned upward in recent months

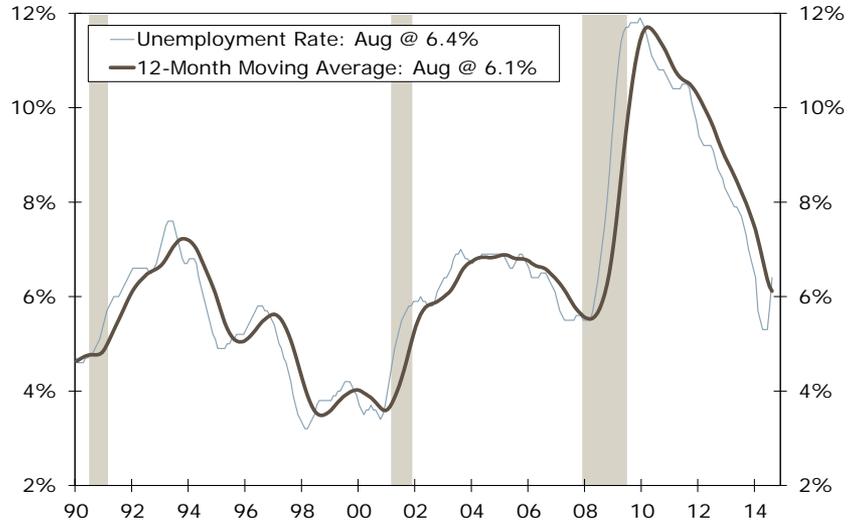
Employment

South Carolina Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



Unemployment Rate

South Carolina Unemployment Rate
Seasonally Adjusted

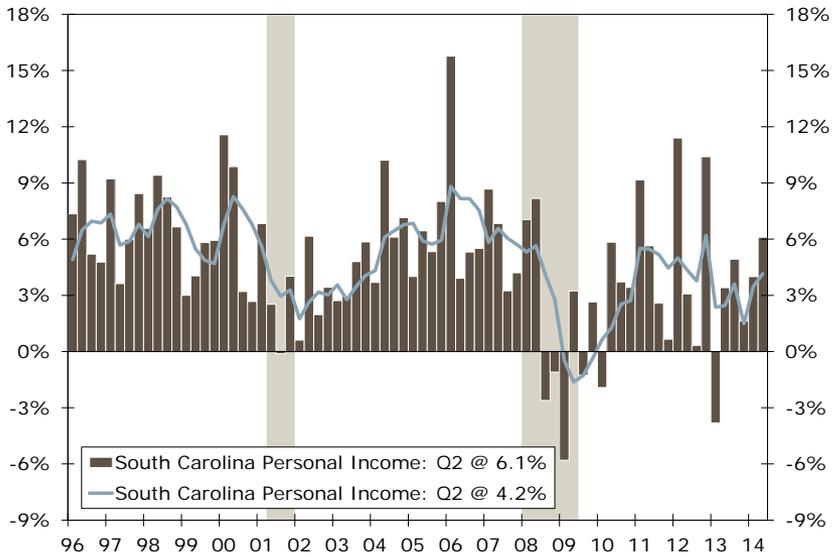


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Income growth has returned, however the bulk of the gains in personal income have come from transfer payments

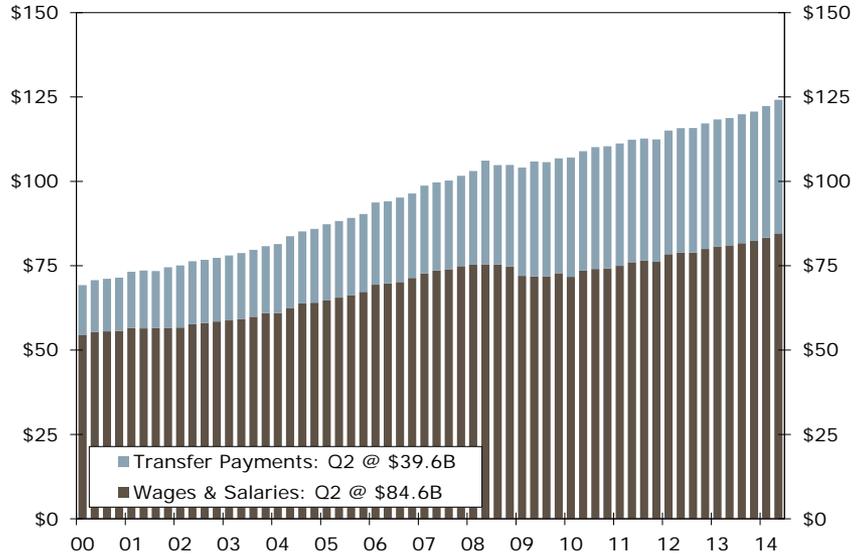
Personal Income

South Carolina State Personal Income
 Bars = Compound Annual Rate Line = Yr/Yr % Change



Composition of Income Growth

South Carolina: Wages & Salaries vs. Transfers
 In Billions, Seasonally Adjusted Annual Rate

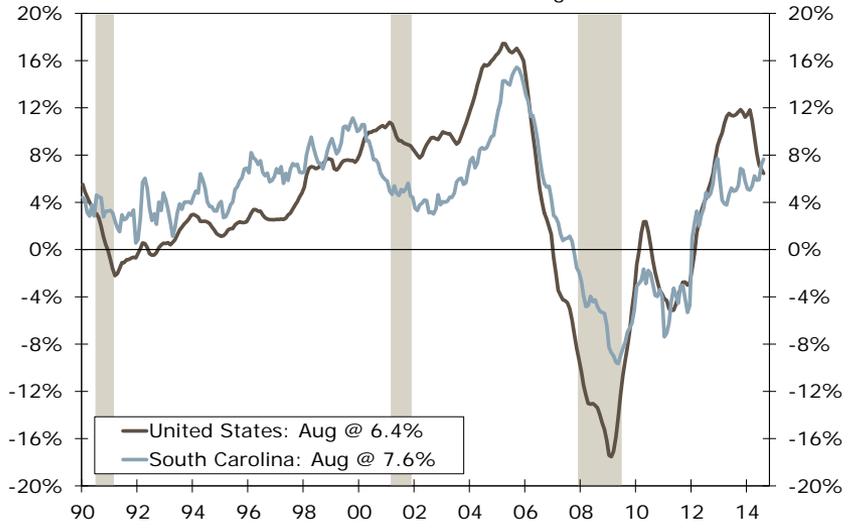


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Home price growth in the state remains strong as building activity regains momentum

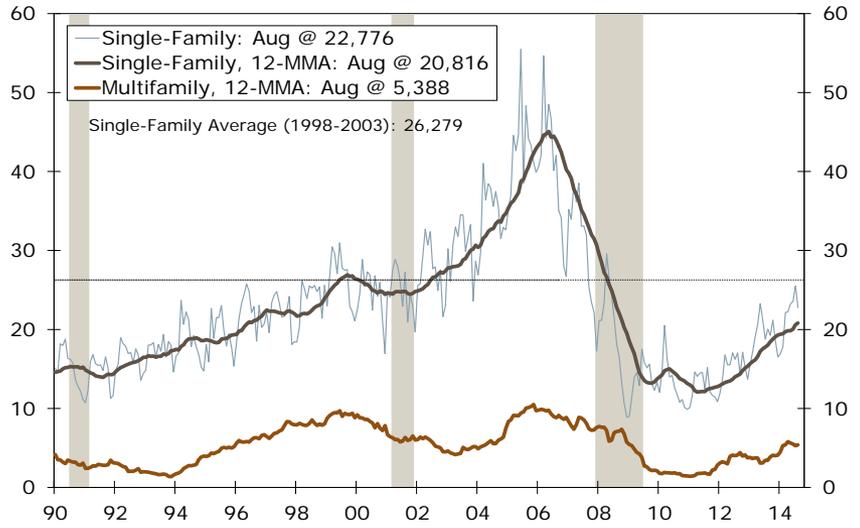
Home Prices

Core Logic HPI: SC vs. U.S.
Year-over-Year Percent Change



Housing Permits

South Carolina Housing Permits
Thousands of Permits, Annual Rate

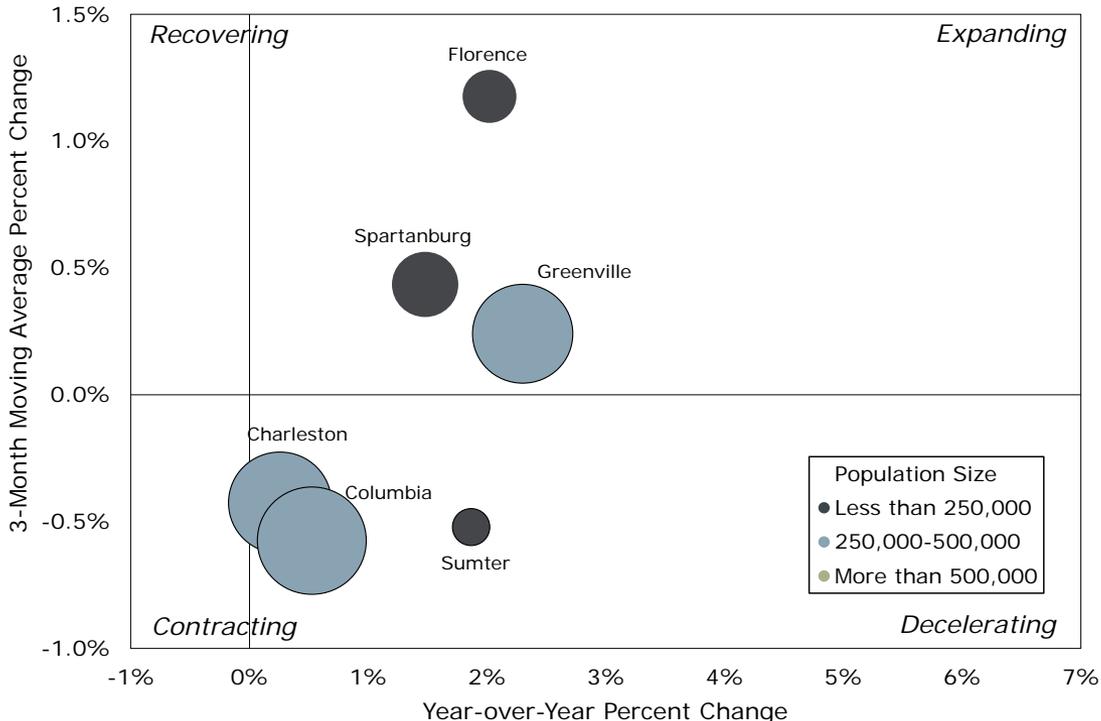


Source: CoreLogic, Inc., U.S. Department of Commerce and Wells Fargo Securities, LLC

Employment growth around the state is uneven

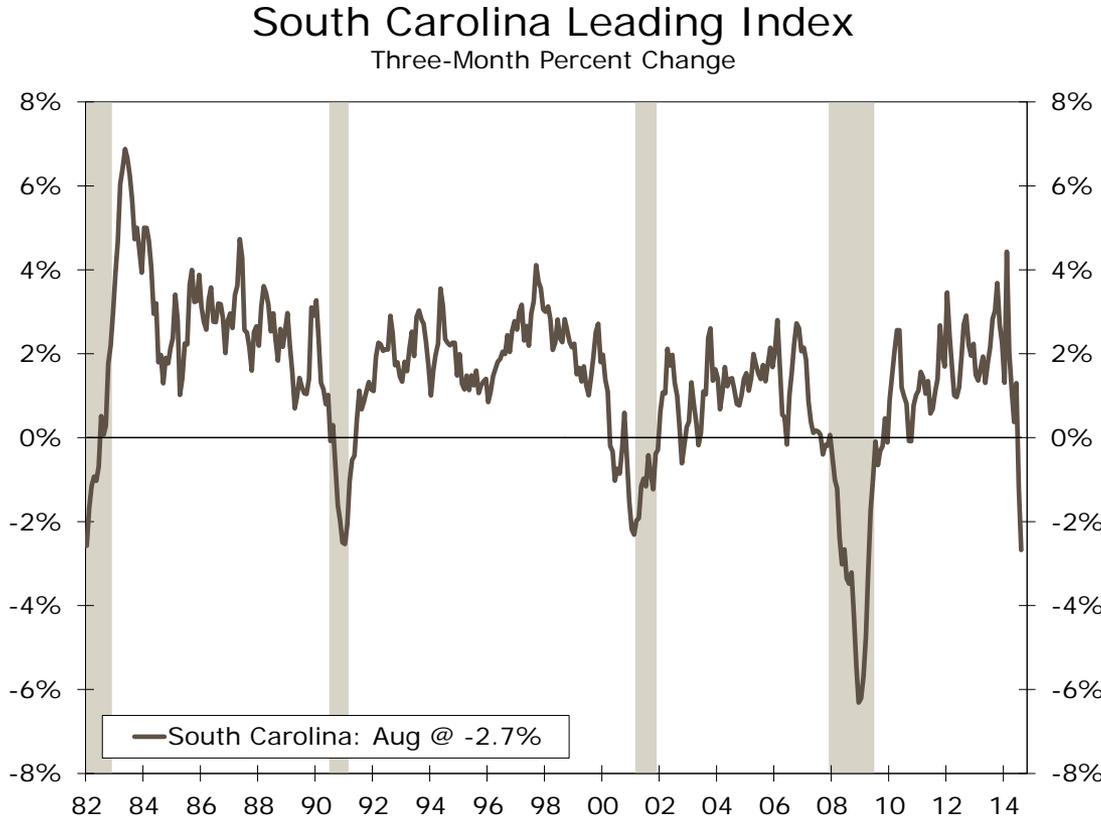
South Carolina Employment Growth: August 2014

Year-over-Year Percent Change, 3-Month Moving Average



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

The leading economic index is currently pointing toward a downshift in economic activity over the next six months



Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

What should we look for in the U.S. economy in the next few quarters?

Expectations for the Future

- **A sustained modest pace of economic growth**
 - Slightly stronger pace of GDP growth but below trend

- **Business spending will improve over the next year**
 - Investment in commercial real estate will support growth

- **Consumer spending will begin to pick up**
 - Income growth remains a challenge

- **The housing market continues to improve**
 - Some regions will recover faster than others

- **Employment growth will remain robust**
 - Structural issues remain

Wells Fargo U.S. Economic Outlook

	Actual				Forecast								Actual 2013	Forecast			
	2014				2015				2016					2014	2015	2016	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		2014	2015	2016	2016
Real Gross Domestic Product ¹	-2.1	4.6	3.2	3.0	2.5	2.7	2.9	3.0	3.1	3.2	3.1	3.2	2.2	2.2	2.9	3.1	
Personal Consumption	1.2	2.5	2.3	2.5	2.5	2.6	2.5	2.6	2.5	2.5	2.5	2.6	2.4	2.3	2.5	2.6	
Business Fixed Investment	1.6	9.7	6.8	5.6	5.2	5.8	6.4	6.5	5.8	6.3	6.4	6.3	3.0	6.1	6.1	6.2	
Equipment	-1.0	11.2	8.8	5.8	5.8	6.0	6.0	6.1	6.0	6.0	6.0	6.0	4.6	6.5	6.6	6.0	
Intellectual Property Products	4.7	5.5	2.9	4.2	4.5	4.6	4.6	4.6	5.0	5.0	5.0	5.0	3.4	3.7	4.3	4.9	
Structures	2.9	12.6	8.2	7.2	5.0	7.0	9.8	10.0	6.5	8.5	9.0	8.5	-0.5	8.7	7.6	8.4	
Residential Construction	-5.3	8.8	14.0	9.0	9.0	10.0	11.0	12.0	14.0	14.5	15.0	15.0	11.9	3.2	10.2	13.3	
Government Purchases	-0.8	1.7	2.0	0.9	1.1	1.2	1.4	1.6	1.8	2.0	2.2	2.4	-2.0	-0.3	1.3	1.8	
Net Exports ²	-1.7	-0.3	1.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.4	-0.4	0.2	-0.1	-0.1	-0.3	
Inventories ²	-1.2	1.4	-0.6	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Nonfarm Payroll Change ³	190	267	224	225	210	212	210	210	200	197	195	190	194	226	210	195	
Unemployment Rate	6.7	6.2	6.1	5.9	5.8	5.7	5.6	5.5	5.4	5.4	5.3	5.3	7.4	6.2	5.7	5.4	
Consumer Price Index ⁴	1.4	2.1	1.8	1.9	1.9	1.7	2.0	2.2	2.3	2.3	2.4	2.5	1.5	1.8	2.0	2.4	
Quarter-End Interest Rates ⁵																	
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.75	2.25	2.75	0.25	0.25	0.63	2.00	
Conventional Mortgage Rate	4.34	4.16	4.12	4.26	4.31	4.44	4.46	4.62	4.84	5.07	5.32	5.58	3.98	4.22	4.46	5.20	
2 Year Note	0.44	0.47	0.58	0.86	0.97	1.42	1.48	2.09	2.18	2.41	2.91	3.31	0.31	0.59	1.49	2.70	
10 Year Note	2.73	2.53	2.52	2.66	2.71	2.84	2.86	3.02	3.24	3.47	3.72	3.98	2.35	2.61	2.86	3.60	

Forecast as of: October 8, 2014

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Percentage Point Contribution to GDP

³ Millions of Units

⁴ Year-over-Year Percentage Change

⁵ Annual Numbers Represent Averages

Source: Wells Fargo Securities, LLC

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
U.S. Macro		
September-29	Population Trends Alter the Growth of Federal Revenues	Silvia, Brown & Miller
September-25	Labor Force Flows: Movement Behind the Headlines	Silvia & House
September-24	The Face of Job Polarization	Alemán & Khan
September-03	The Great Inflation: Once in a Lifetime?	Silvia, Iqbal, House & Nelson
U.S. Regional		
September-19	California Employment Conditions: August 2014	Vitner & Wolf
September-19	Texas Keeps Employment Growth Up	Vitner & Wolf
September-19	Florida Payrolls Stronger in August	Vitner & Wolf
September-19	California Employment Conditions: August 2014	Vitner & Wolf
Global Economy		
October-01	Slow Foreign Growth: Should America Worry?	Bryson
September-26	Is The Long-Awaited Rotation Arriving in Canada?	Quinlan
September-25	Outlook for "Big Ticket" Spending in the Eurozone	Bryson & Griffiths
September-10	Turkey: Weak Domestic Demand Hits Q2 Economic Growth	Bryson & Griffiths
Interest Rates/Credit Market		
October-01	Notes on the Fed's Exit Strategy, Part II	Silvia, Vitner & Brown
September-24	Time to Worry about Auto Lending?	Alemán & Griffiths
September-24	A Long and Awkward Road Back to Normal	Silvia, Vitner & Brown
September-17	Declaring Victory at Half-Time: Not So Fast My Friend	Silvia, Vitner & Brown
Real Estate		
October-01	Nonresidential Construction Recap: September	Khan
September-02	Commercial Real Estate Chartbook: Q2	Vitner & Khan
September-02	Housing Data Wrap-Up: August 2014	Vitner & Khan
August-29	Implications of a House Price Collapse in China	Bryson

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