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# Economic Outlook

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Mark Vitner, Managing Director & Senior Economist  
December 2020

**Economic Outlook**

- **With the election over, public policy will likely become more centrist. The next stimulus bill will take longer to pass and will be smaller. There is some downside risk to near-term growth but 2021 should be a much better year.**

**High-Frequency Data Series**

- **High-frequency data point to some slowing at restaurants and small businesses. With COVID cases spiking, people are spending more time at home. Travel did pick up around Thanksgiving but in-person shopping did not.**

**The Holiday Season Will Be Challenging**

- **Thanksgiving to February is the height of the cold and flu season and hospitalizations will likely spike. While another lockdown seems unlikely, local lockdowns and independent actions will slow growth in coming weeks.**

**The Geography of Economic Growth is Changing**

- **There continues to be a significant move away from large, globally connected urban areas. The suburbs and exurbs are booming in many parts of the country. Businesses are adjusting to this shift in preferences.**

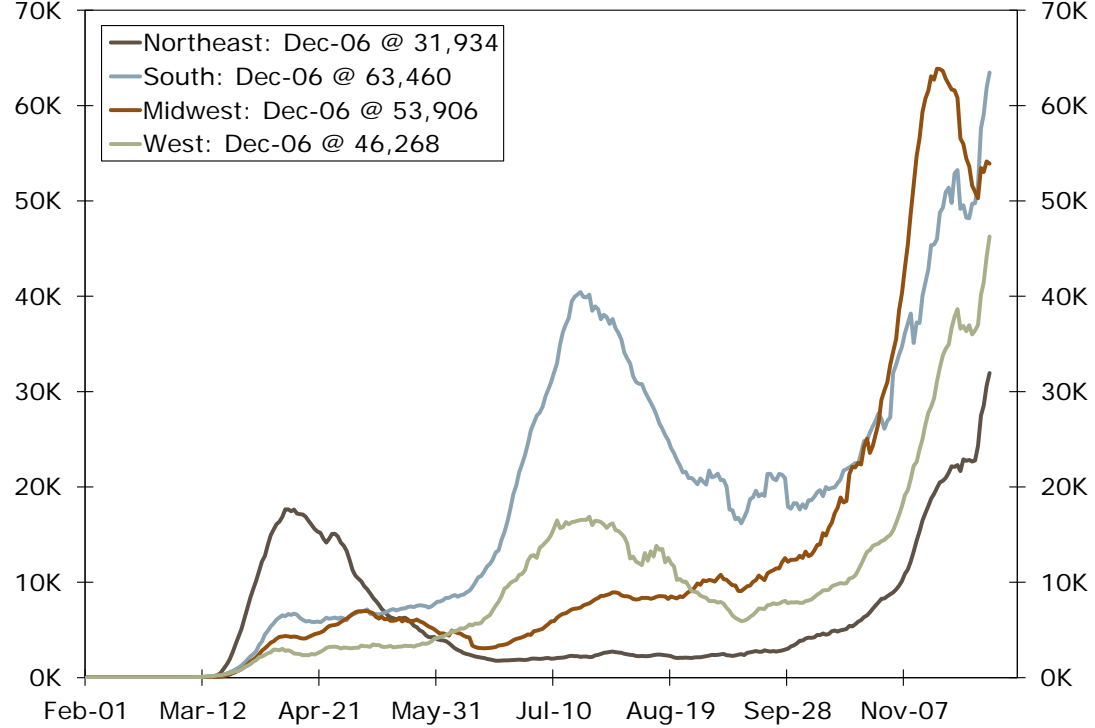
**North Carolina**

- **Charlotte and Raleigh remain top destinations for new businesses and residents. Home sales are exceptionally strong but commercial real estate is facing challenges. Manufacturing and logistics are notable bright spots.**

The latest wave of COVID-19 infections is showing signs of topping out. Unfortunately, travel during the Thanksgiving holiday may spur another spike in confirmed cases.

The increasing likelihood of regional lockdowns poses a risk to near-term economic growth.

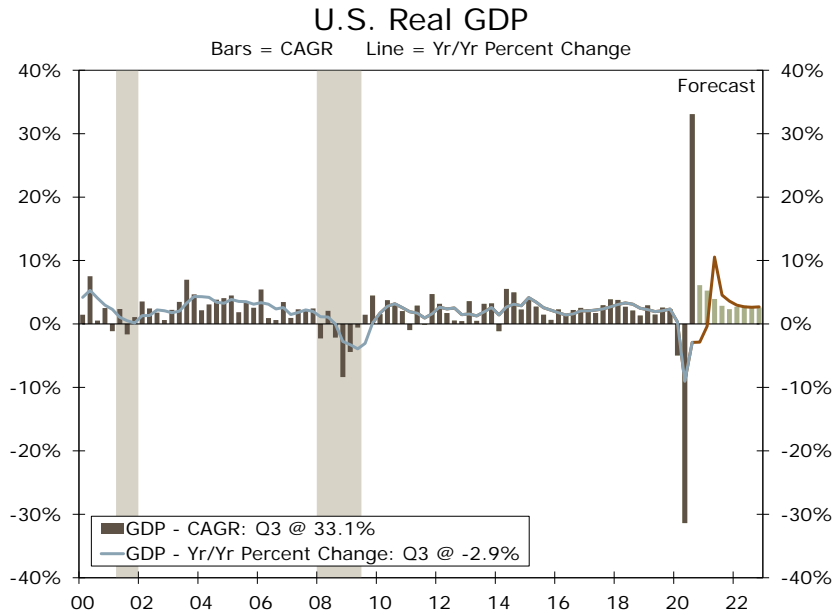
New COVID-19 Cases by Region  
7-Day Moving Average of Daily Change; Thousands



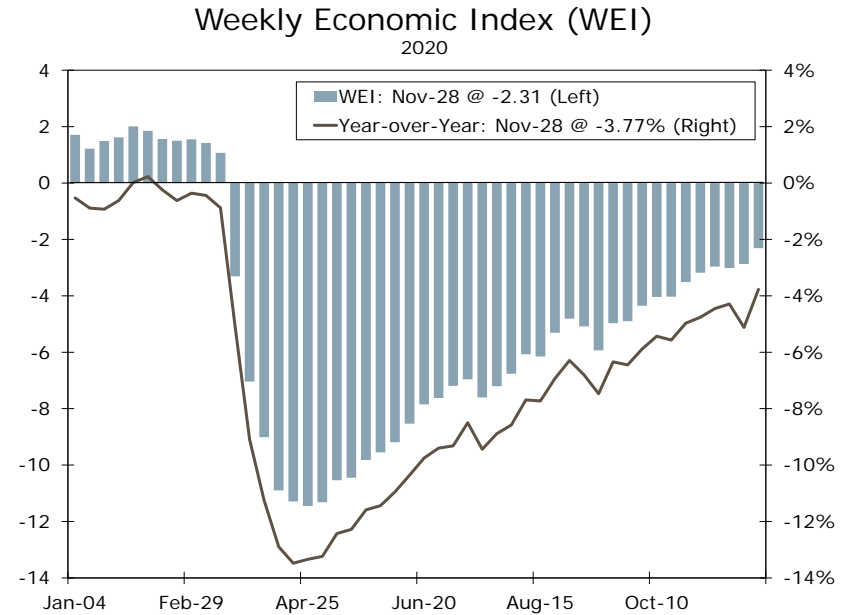
Source: Bloomberg LP and Wells Fargo Securities

Real GDP growth swung back into positive territory during the third quarter, as consumer spending, homebuilding and business fixed investment came roaring back. Aggregate measures of high-frequency data series suggest that first quarter real GDP growth may be close to zero, which has added to the calls for more stimulus. Growth is likely to slow in any event.

**Blowout Q3 GDP**



**Recent Activity Picking Back Up**



Source: U.S. Department of Commerce, Federal Reserve Bank of Dallas and Wells Fargo Securities

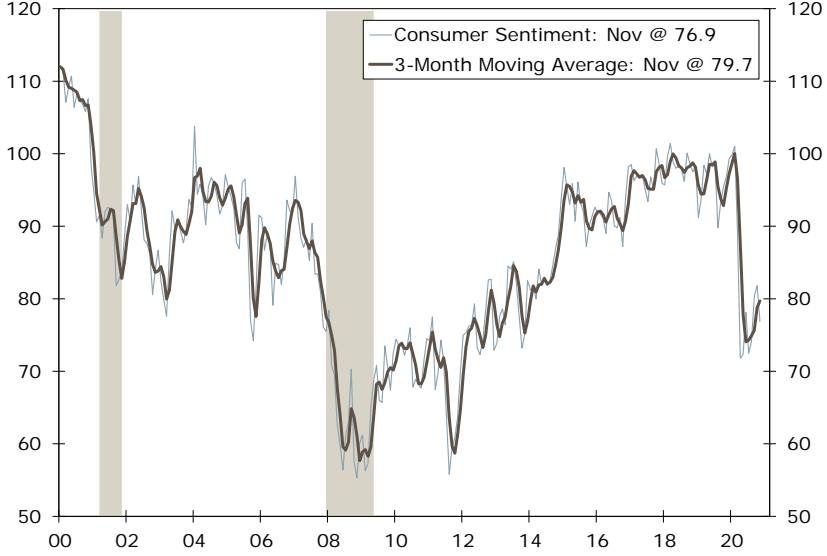
Consumer sentiment fell slightly in November, as rising COVID case counts and concerns about financial conditions among lower-paid workers weighed on sentiment. The successful rollout of a safe and effective vaccine would likely boost consumer sentiment later this year or in early 2021. Immunizations will take time to reach a critical mass or herd immunity.

## Downtick in Overall Sentiment

## Lost Momentum in Regional Confidence

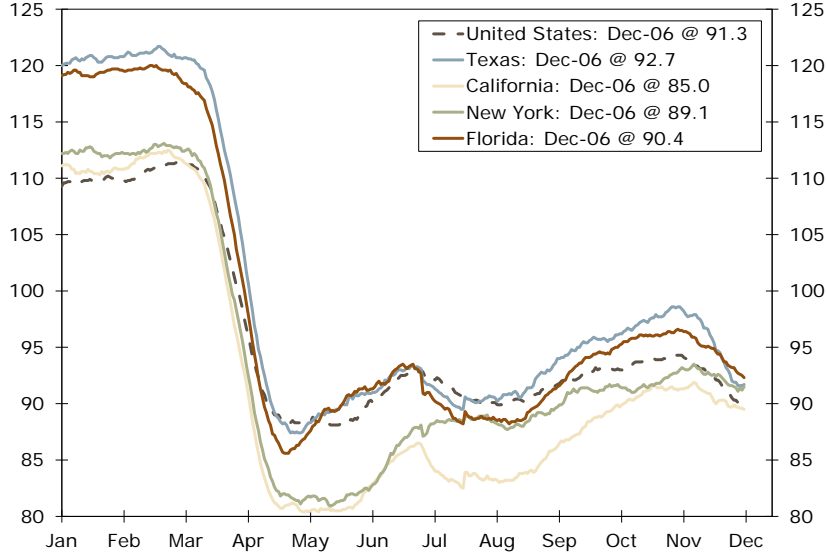
Michigan Consumer Sentiment

Index, 1966=100



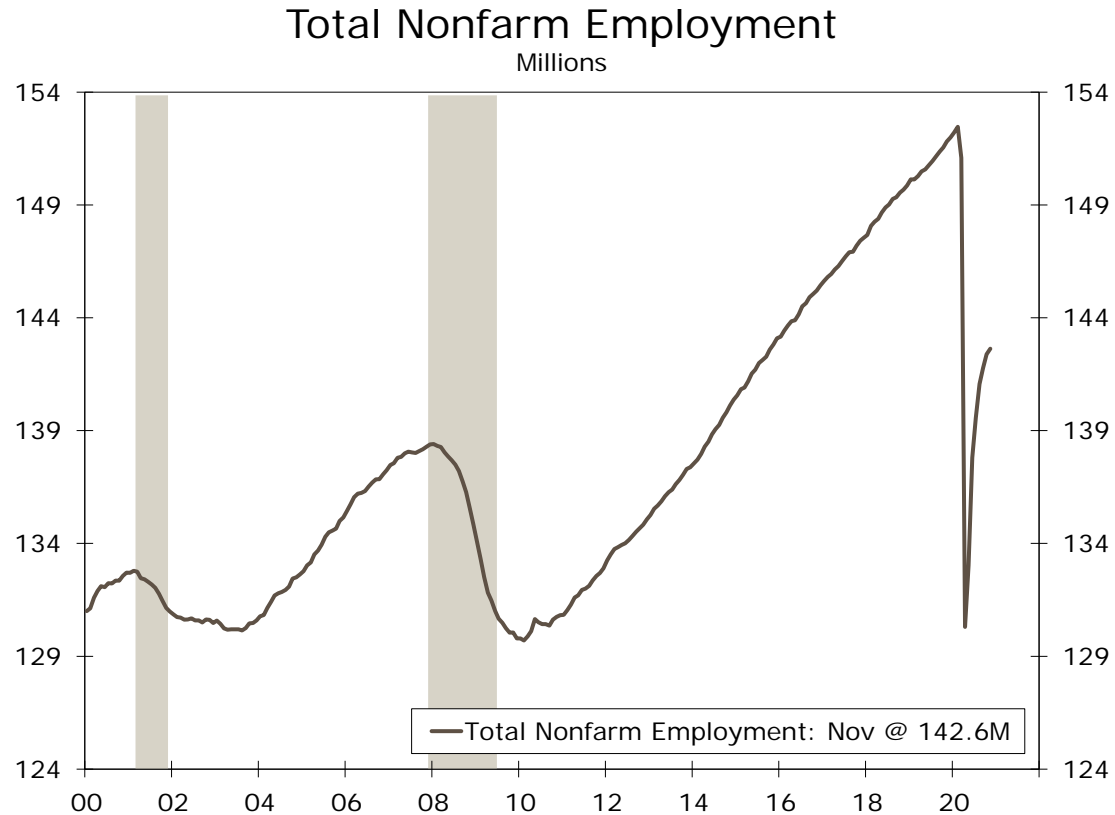
Consumer Sentiment

2020, Morning Consult ICS, 7-day EWMA



Source: University of Michigan, Morning Consult and Wells Fargo Securities

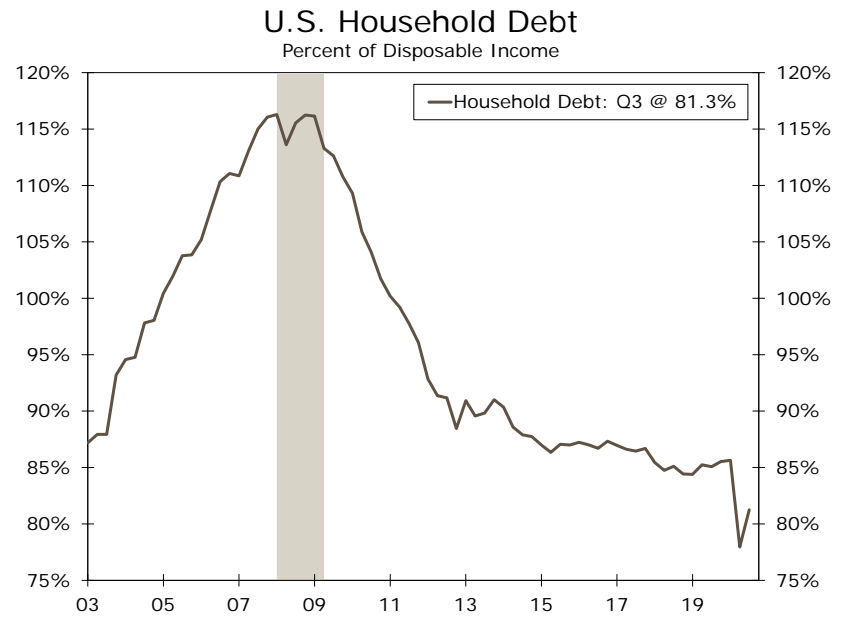
Strains of the latest COVID-19 surge are starting to take a toll on the labor market. The pace of recovery is moderating and the economy still has 9.8 million fewer jobs since February.



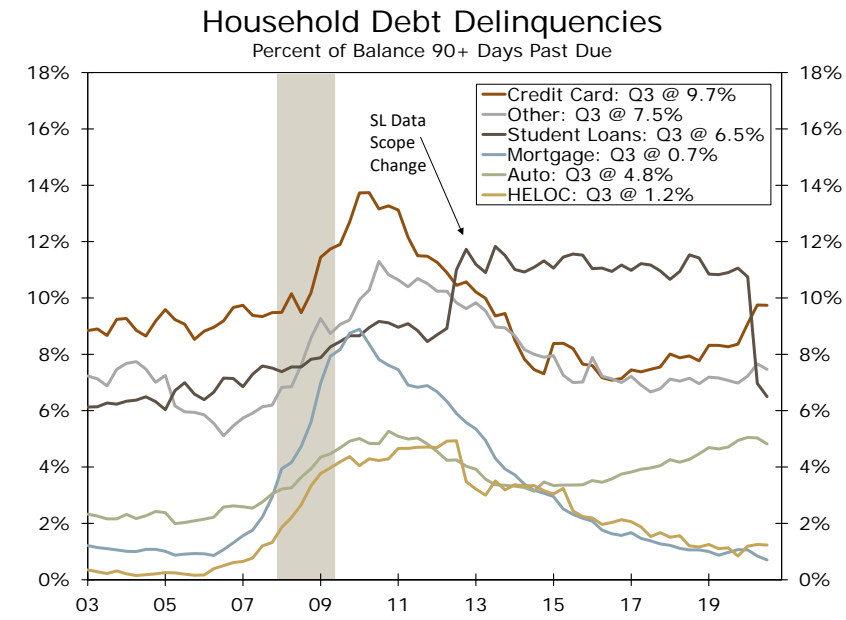
Source: U.S. Department of Labor and Wells Fargo Securities

Household debt increased headed into the winter, as mortgage and auto loan originations rose while credit card debt declined. Delinquency rates fell further in Q3. We suspect that consumers used excess savings to pay down debt and benefitted from forbearance programs.

## Household Debt Turning Higher



## Delinquency Rates Continued to Fall

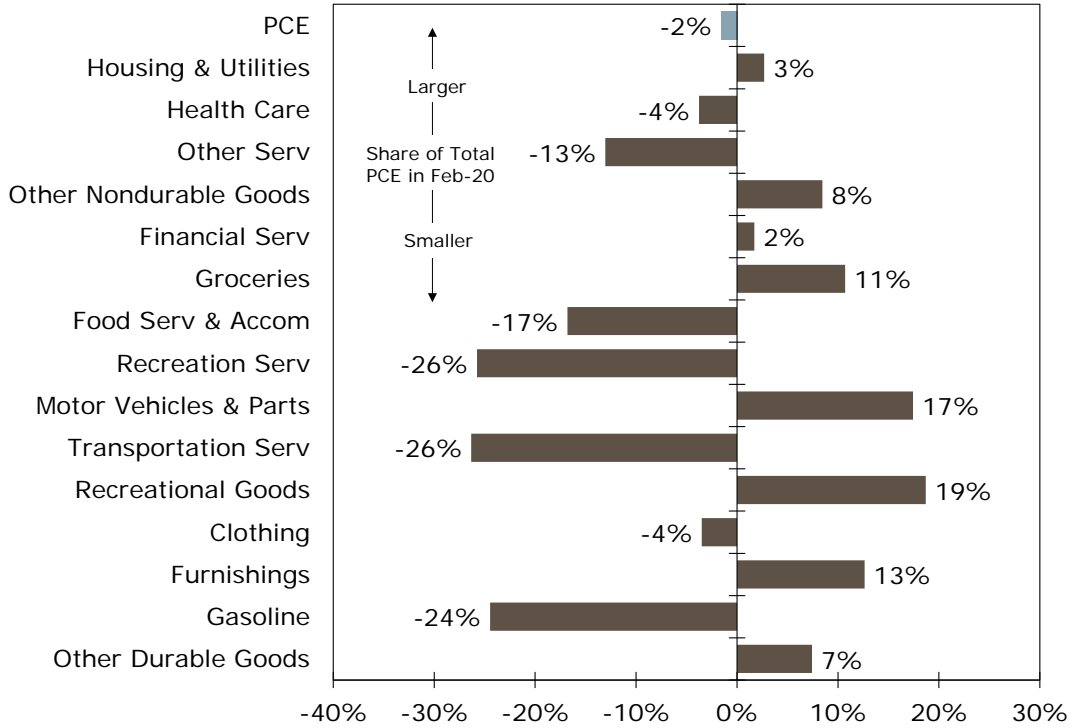


Source: IHS Markit and Wells Fargo Securities

Most service categories remain below their pre-pandemic peaks. Forced thrift in services spending may free up more money for goods spending heading into the holidays.

## Personal Consumption by Category

Change from Pre-Pandemic (February) to October 2020



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

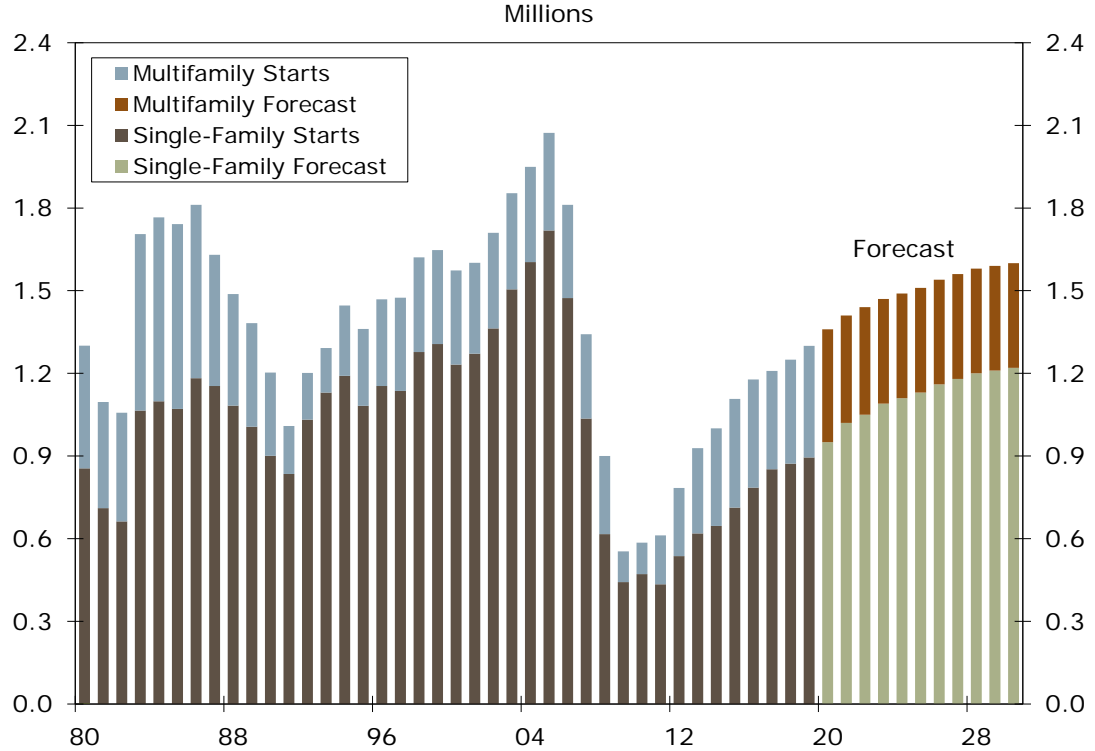


New home construction had gotten off to an incredibly strong start in 2020 before COVID knocked the wind out of the housing recovery.

Single-family construction is now trending higher but apartment construction appears to have topped out, at least temporarily.

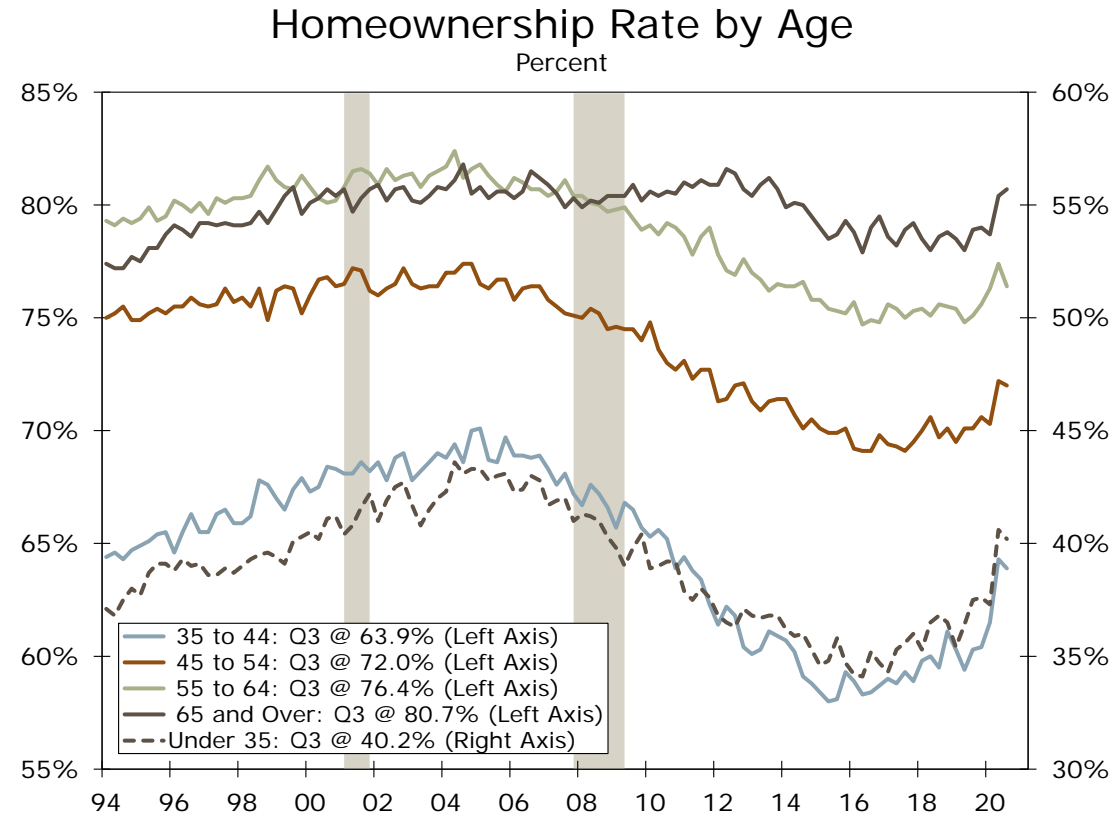
Growth is also shifting toward more suburban locations, as the pipeline of urban/lifestyle apartments continues to wind down.

### Housing Starts



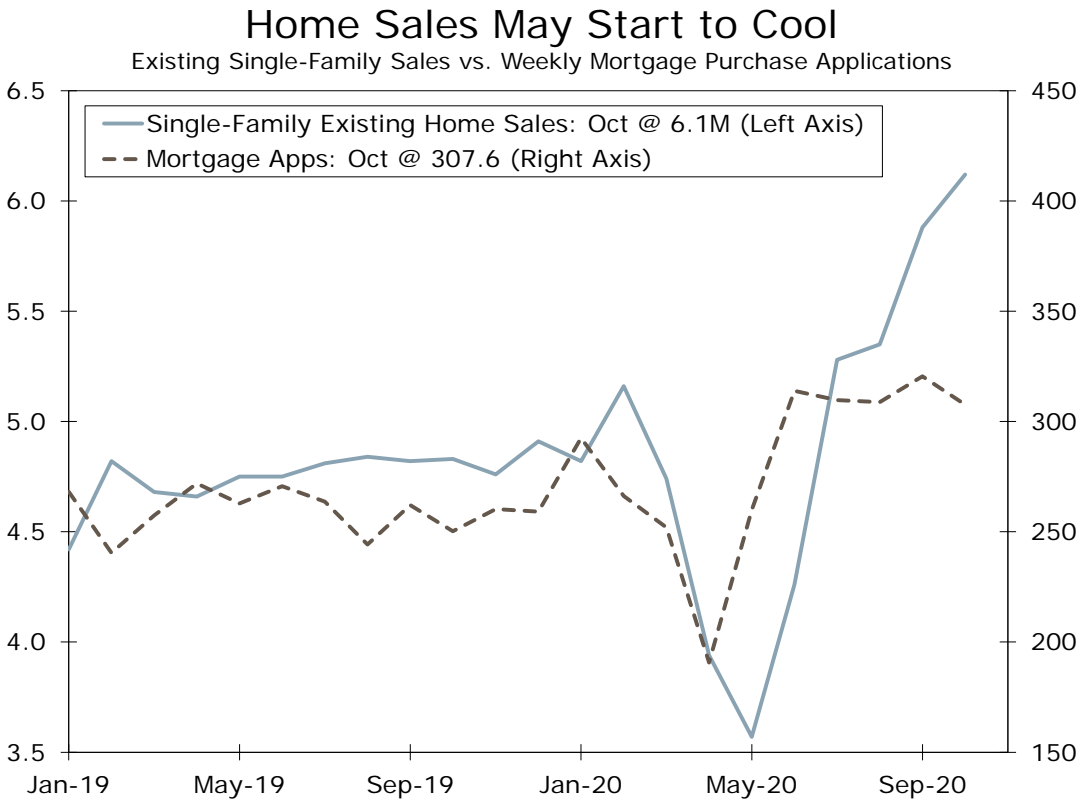
Source: U.S. Census Bureau and Wells Fargo Securities

Homeownership has turned up sharply for every demographic and age cohort and in all geographic regions, while the number of renter households appears to have declined substantially.



Source: U.S. Census Bureau and Wells Fargo Securities

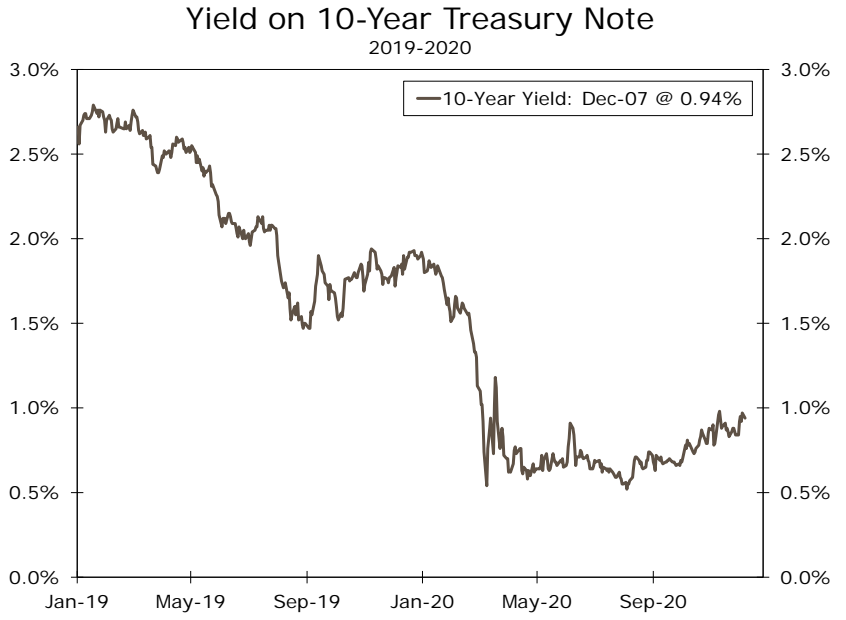
Existing home sales rose 4.3% in October, well ahead of expectations and the fastest since 2006. While we expect strong sales to continue, the pace of improvement may soon slow.



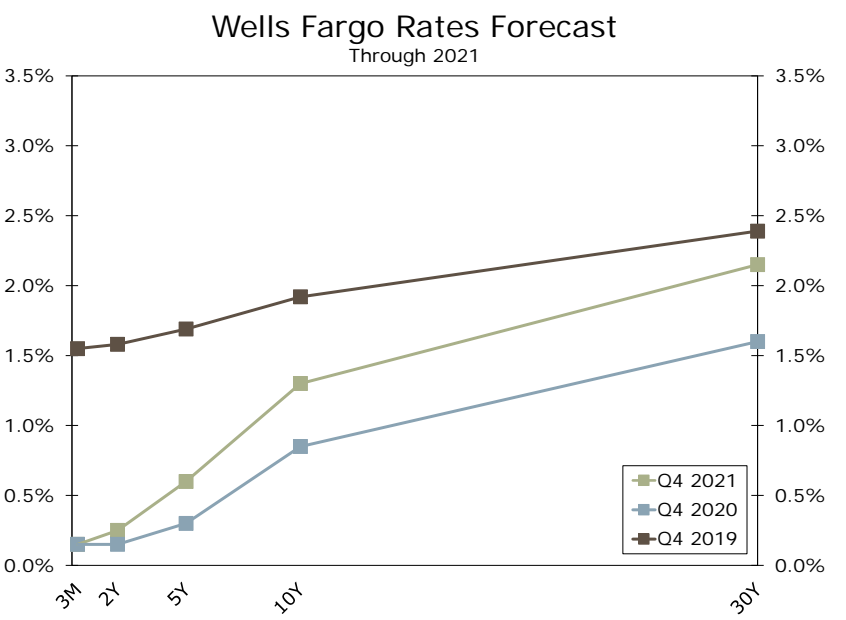
Source: IHS Markit, National Association of Realtors and Wells Fargo Securities

The yield on the 10-year Treasury plummeted at the onset of the pandemic. Yields have soared following promising COVID vaccine announcements, but the bond market has remained fixated on the run-up in infections. We expect the yield curve to steepen as the path to recovery becomes more certain.

## 10-Year Treasury Yield



## Rates Forecast



Source: IHS Markit, Bloomberg LP and Wells Fargo Securities

Investors are paying close attention to effective vaccine deployment, which is near critical analysis points.

### S&P 500 and NASDAQ

2020; Index



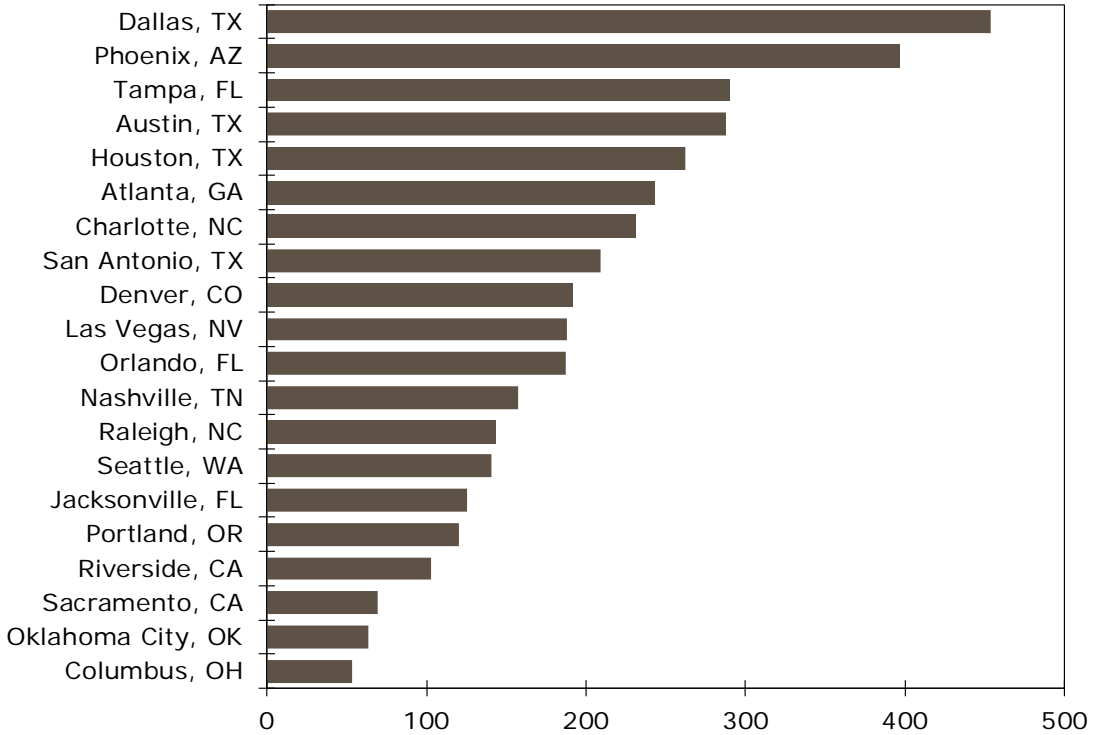
Source: Bloomberg LP and Wells Fargo Securities

A handful of large urban areas accounted for a disproportionate share of economic growth this past decade, with creative jobs clustering in major urban areas.

The pandemic may challenge this growth model going forward, but we suspect the trend toward urbanization will retain strong momentum in the coming decade, albeit with some notable changes.

## Metro Area Net Domestic Migration: Top 20

Cumulative Total in Thousands, 2010-2019



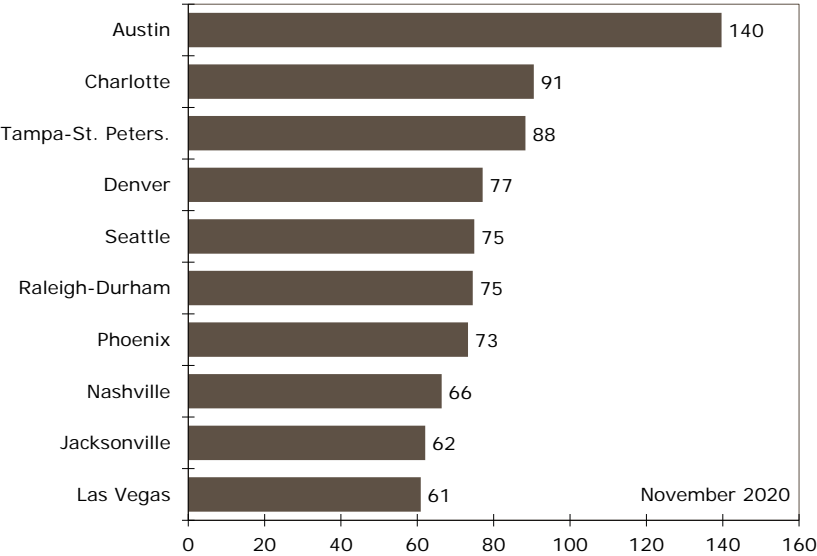
Source: U.S. Department of Commerce and Wells Fargo Securities

For every 10,000 LinkedIn members in Austin, 140 arrived in the last 12 months. According to U.S. News, metro areas such as Denver and Charlotte are highly ranked for good value, desirability, job prospects, and quality of life.

**Top 10 LinkedIn Gainers**

**Top 10 Attractive Metro Areas**

**Cities that Gained the Most Workers**  
LinkedIn Population Gain per 10,000 LinkedIn Members

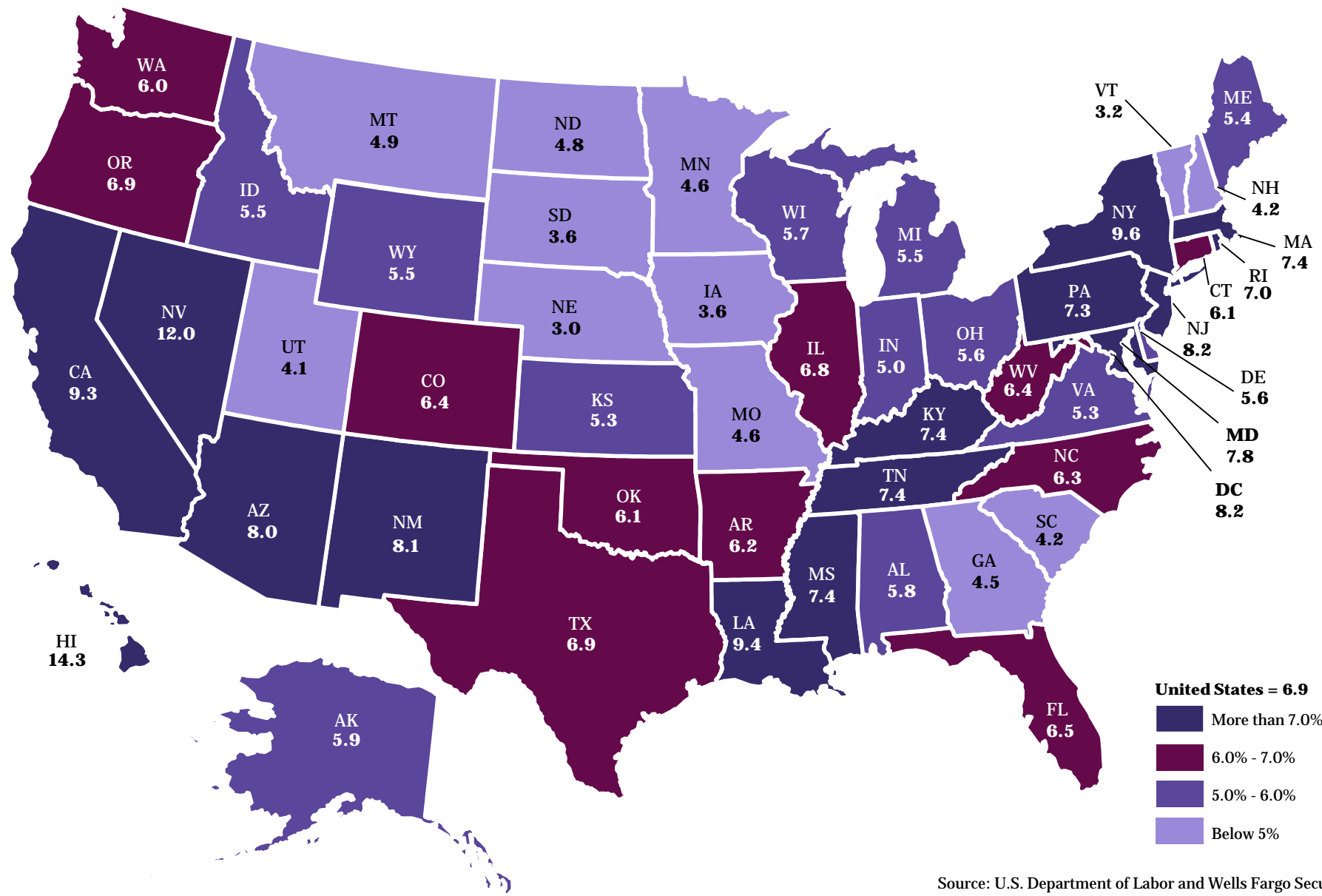


**Best Places to Live in the U.S.**  
2020-21; Metro Area Population > 1M

- |     |                          |
|-----|--------------------------|
| 1.  | Denver, CO               |
| 2.  | Austin, TX               |
| 3.  | Charlotte, NC            |
| 4.  | Portland, OR             |
| 5.  | San Francisco, CA        |
| 6.  | Raleigh-Durham, NC       |
| 7.  | Seattle, WA              |
| 8.  | Nashville, TN            |
| 9.  | Boston, MA               |
| 10. | Minneapolis-St. Paul, MN |

Source: LinkedIn Corporation, U.S. News & World Report and Wells Fargo Securities

# Unemployment Rate by State – October 2020



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



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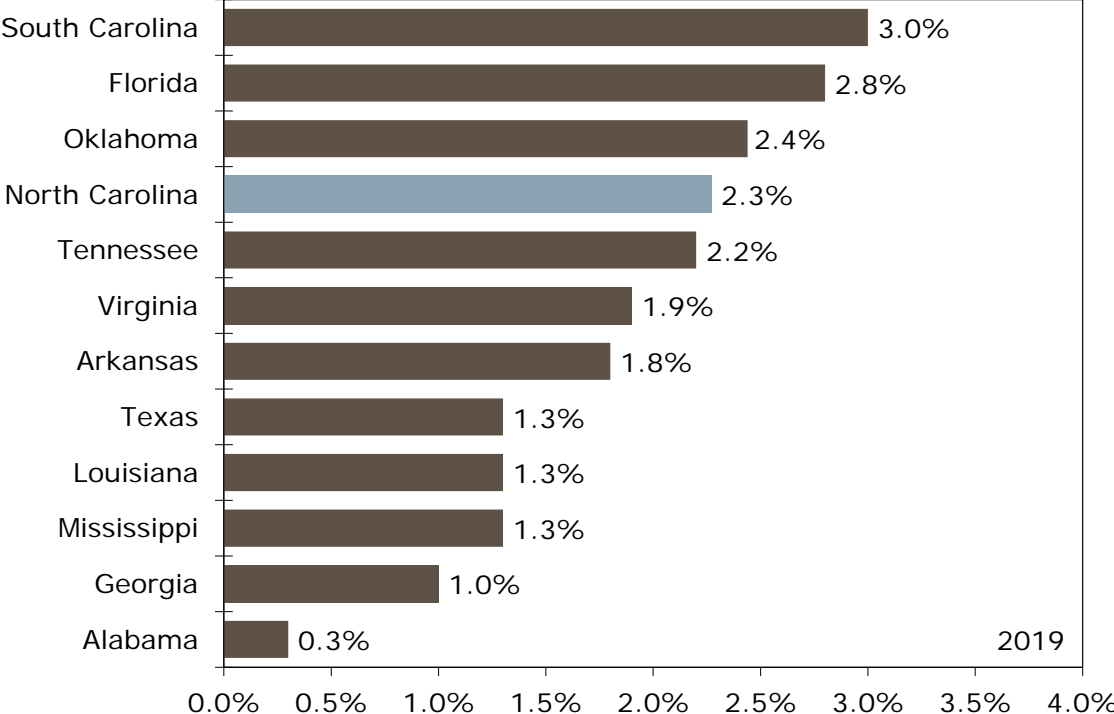
**SECURITIES**

# North Carolina Commentary

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North Carolina's economic output grew at a healthy rate last year.

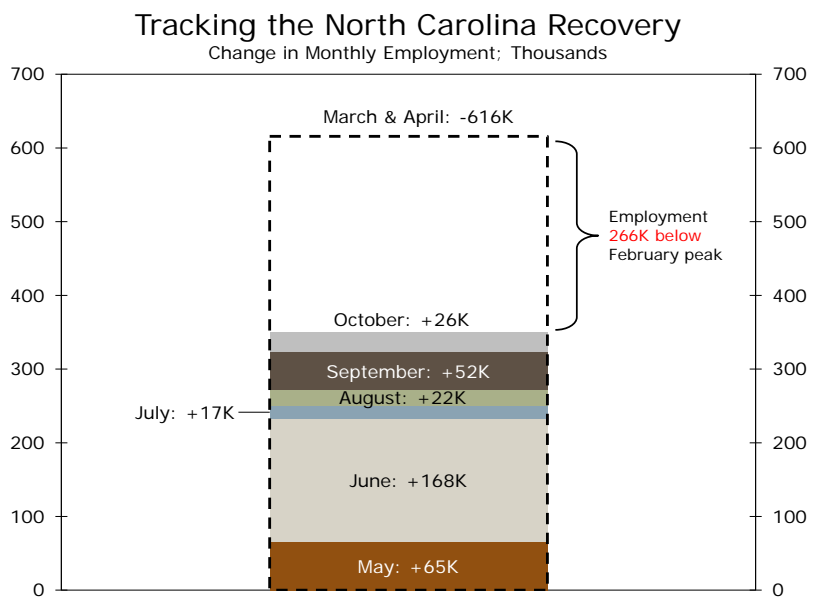
Southern U.S. GDP Growth  
Year-over-Year Percent Change



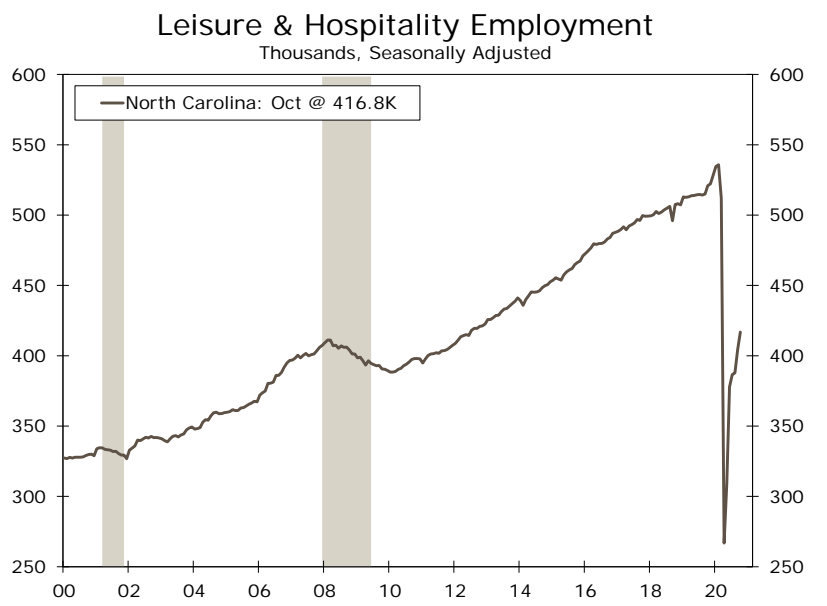
Source: U.S. Department of Commerce and Wells Fargo Securities

North Carolina's economy continues to gradually regain ground lost during the COVID induced lockdowns. Employers have recouped 57% of the jobs lost in March and April, trailing most neighboring states in its employment recovery.

## North Carolina Employment Since March



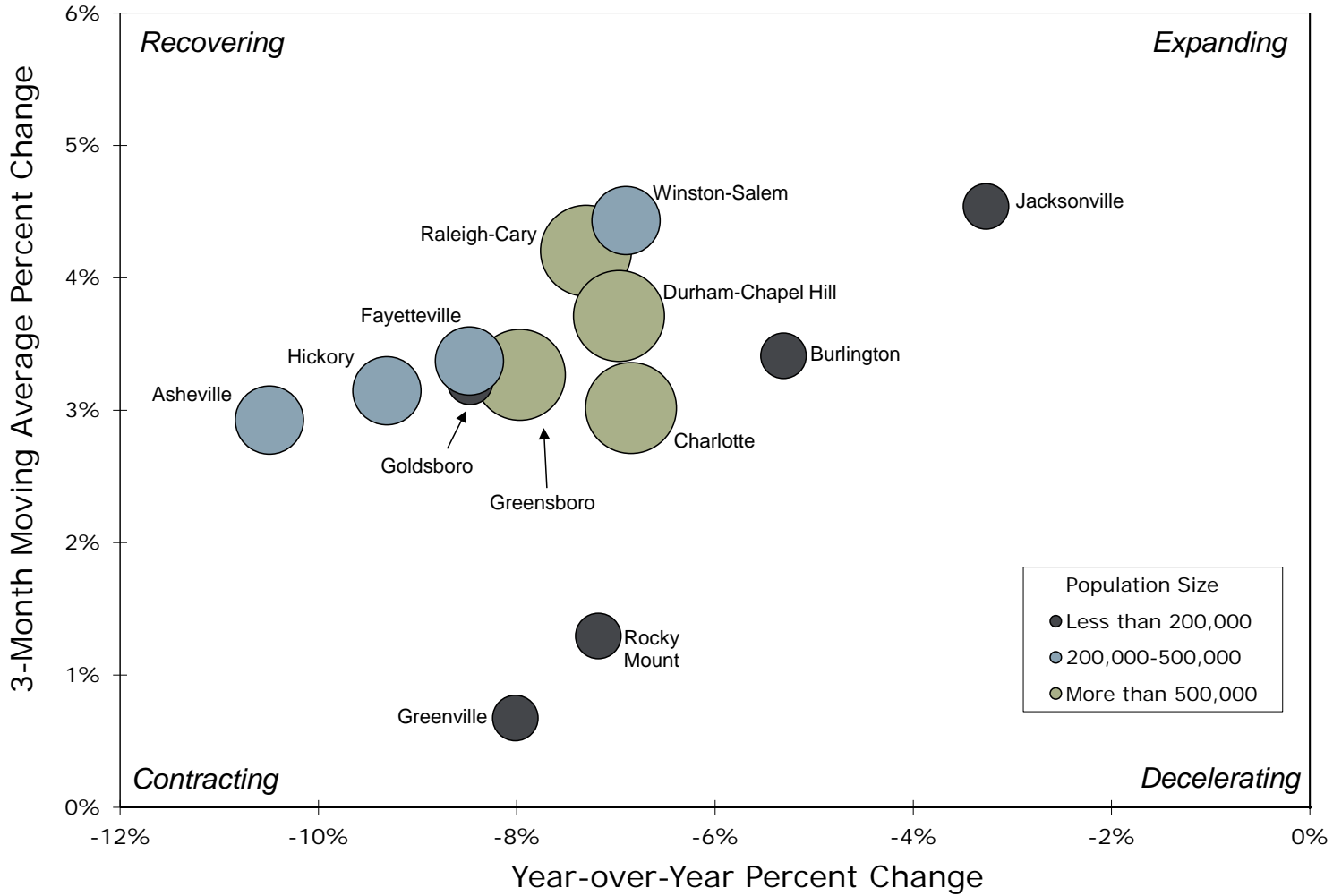
## Leisure & Hospitality Slow to Recover



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

# North Carolina Job Growth by Metro

Year-over-Year Percent Change, 3-Month Moving Average, October 2020

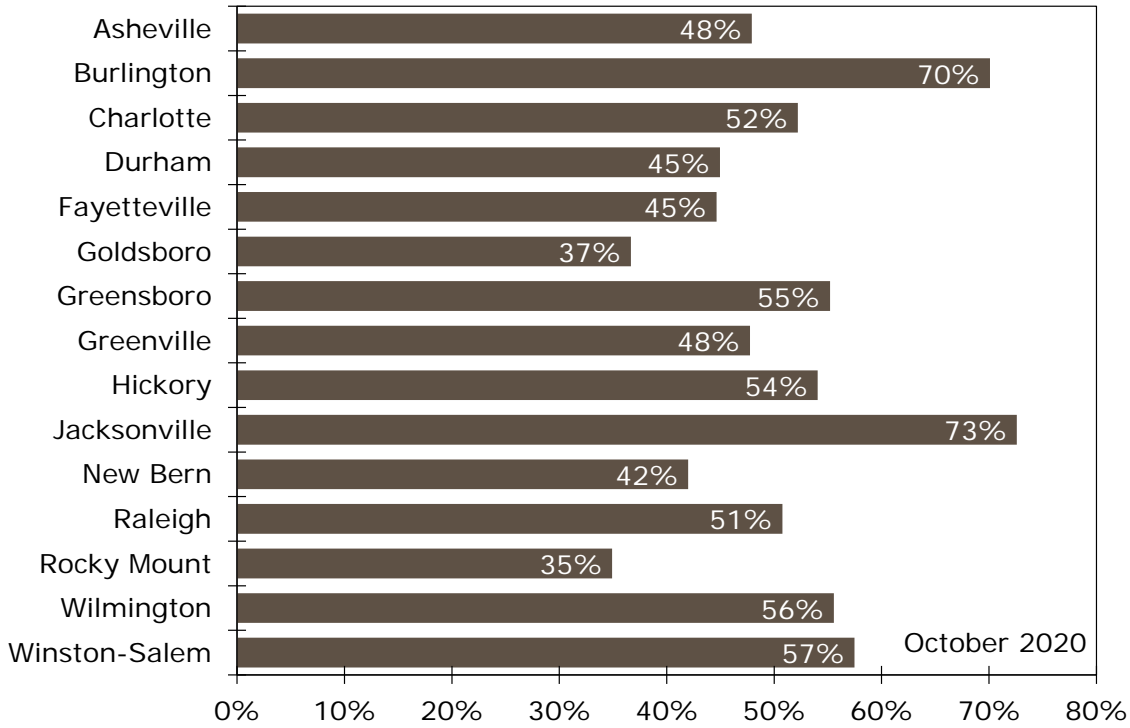


Source: U.S. Department of Labor and Wells Fargo Securities

Jacksonville has recovered over 70% of the jobs lost during the shutdown months.

### North Carolina Employment Recovery by MSA

Percent of Jobs Recovered from March-April 2020 Losses

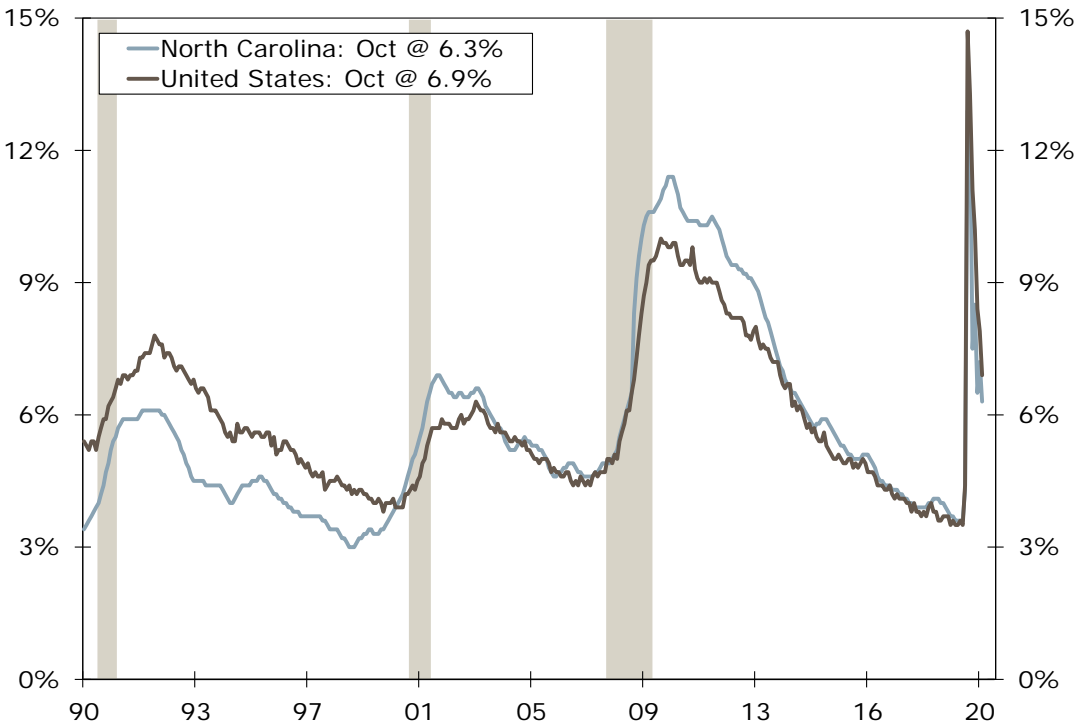


Source: U.S. Department of Labor and Wells Fargo Securities

The unemployment recovery in North Carolina has recovered ahead of the nation, despite a slower recovery in nonfarm jobs.

### North Carolina vs. U.S. Unemployment Rate

Seasonally Adjusted



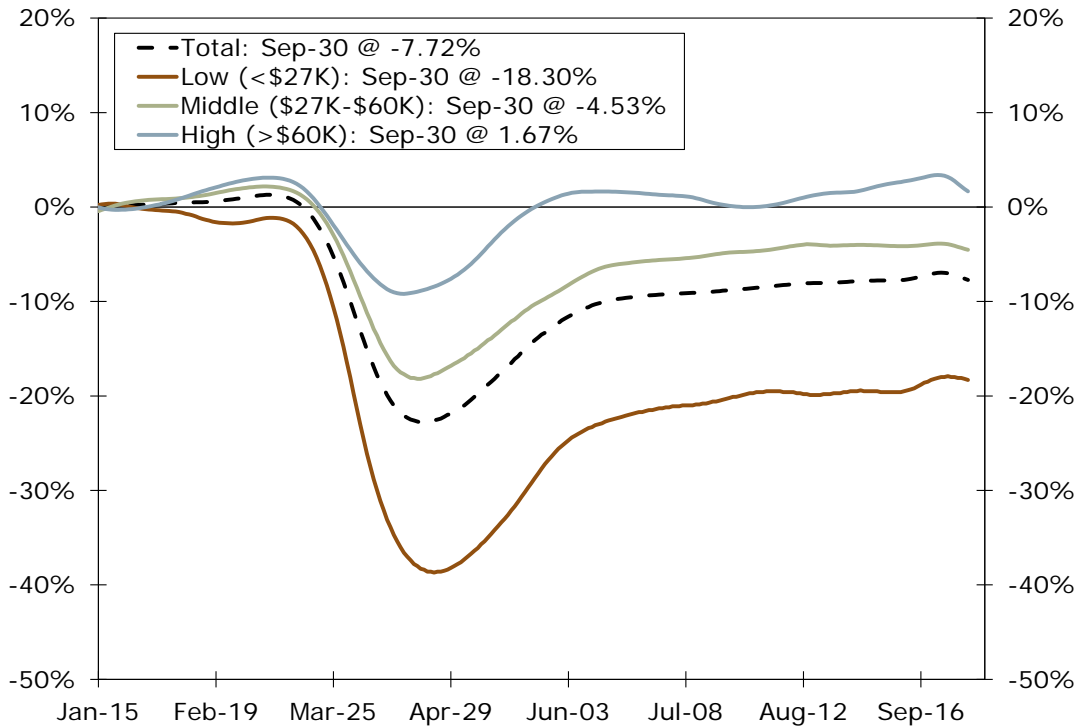
Source: U.S. Department of Labor and Wells Fargo Securities

Employment among workers earning less than \$27,000 a year in North Carolina remains 18.3% below where it was at the start of 2020.

On balance, workers in the top wage quartile have seen the best recovery in employment rates.

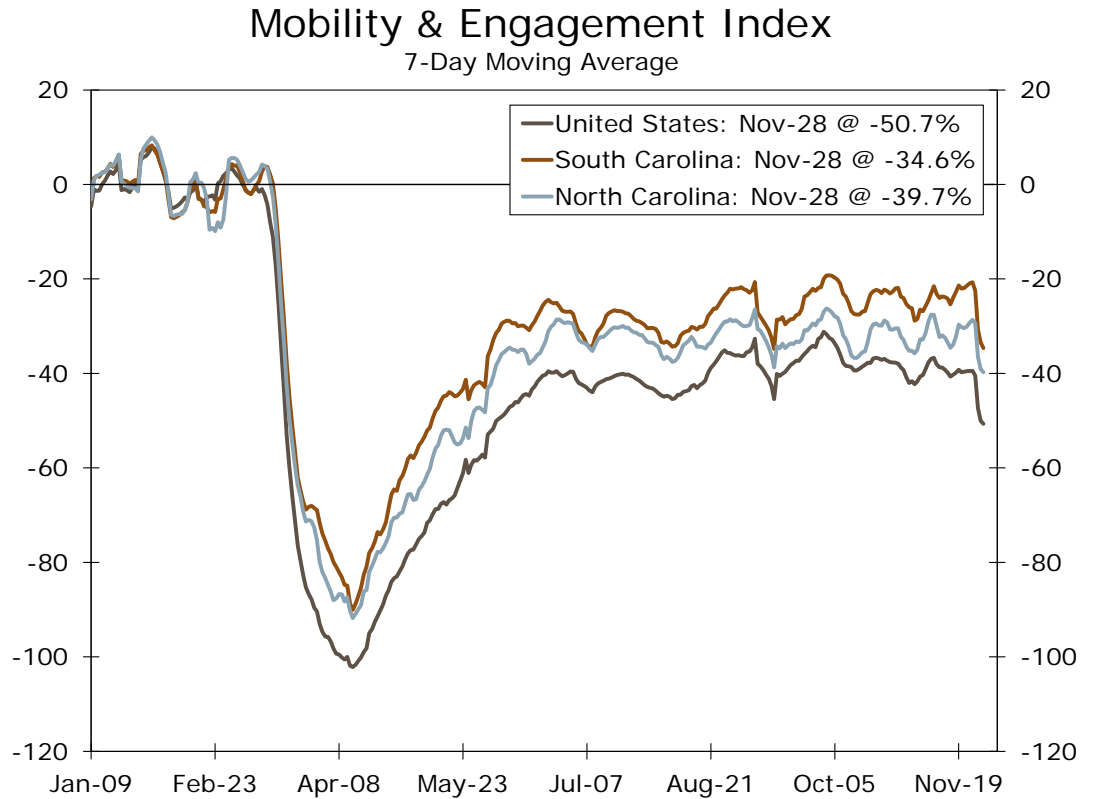
### North Carolina Employment Rates

Percent Change from January 2020 by Wage Level



Source: Opportunity Insights and Wells Fargo Securities

Mobility and economic engagement (measured by geolocation data from mobile devices) is losing momentum across the Carolinas.



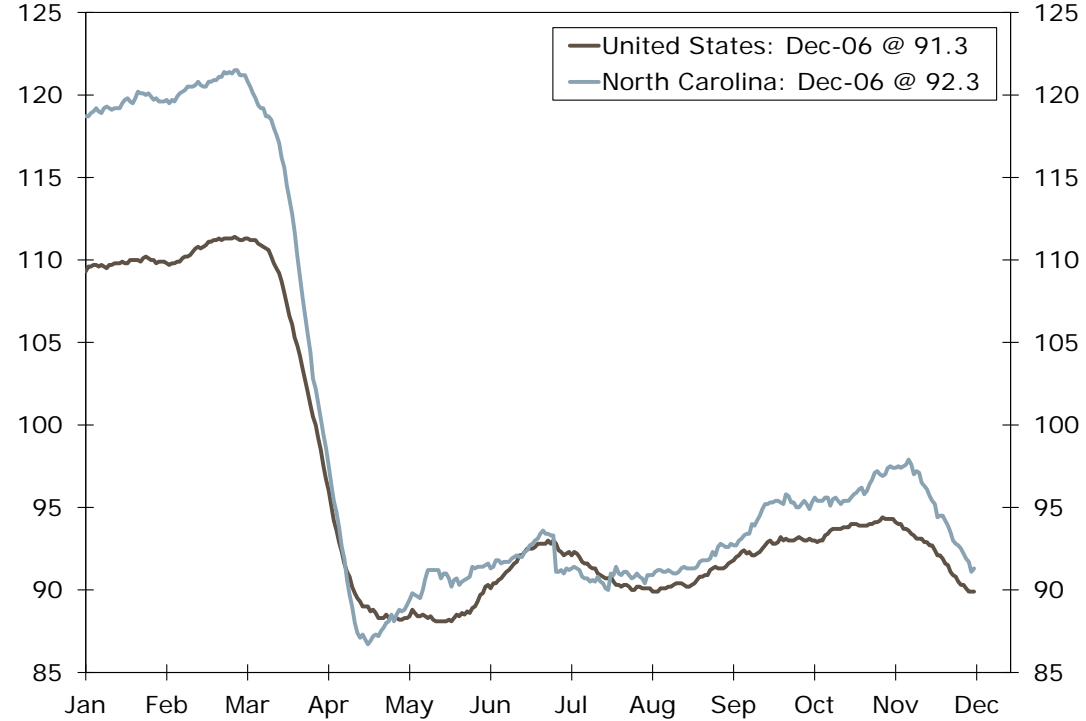
Source: Federal Reserve Bank of Dallas and Wells Fargo Securities



With virus case counts on the rise and persistently uncertain outlooks, consumer confidence waned in November.

### Consumer Sentiment

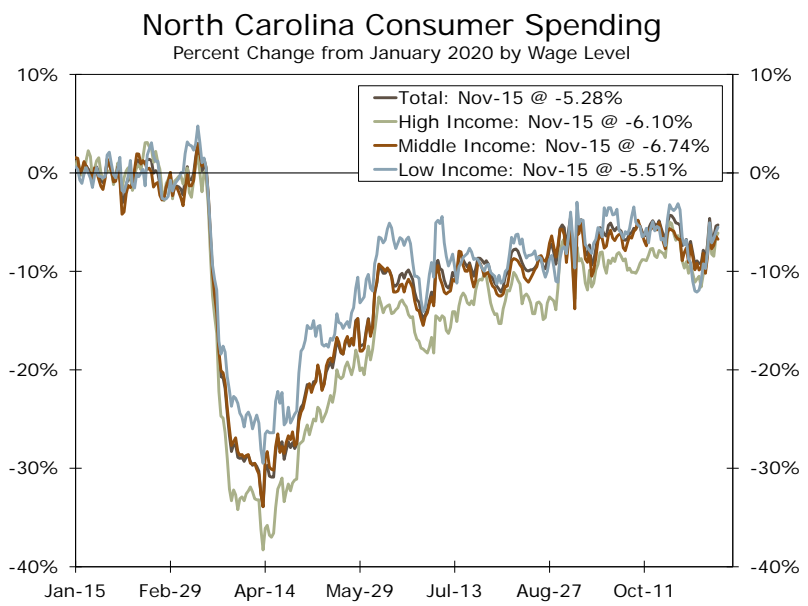
2020, Morning Consult ICS, 7-day EWMA



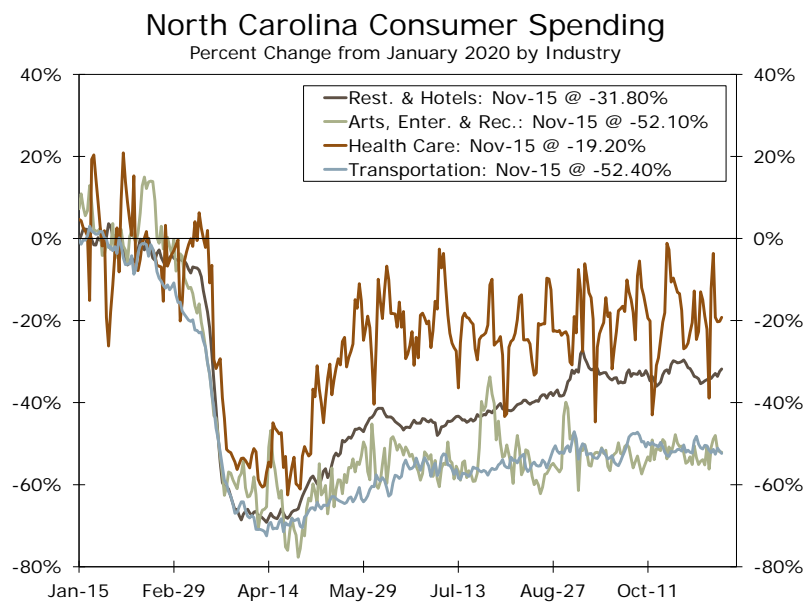
Source: Morning Consult and Wells Fargo Securities

In North Carolina, total spending by all consumers is 5.3% below where it was at the beginning of the year. Spending on transportation, entertainment and recreation has been slower to recover, while health care spending is rebounding.

## Total Spending is Rebounding Solidly



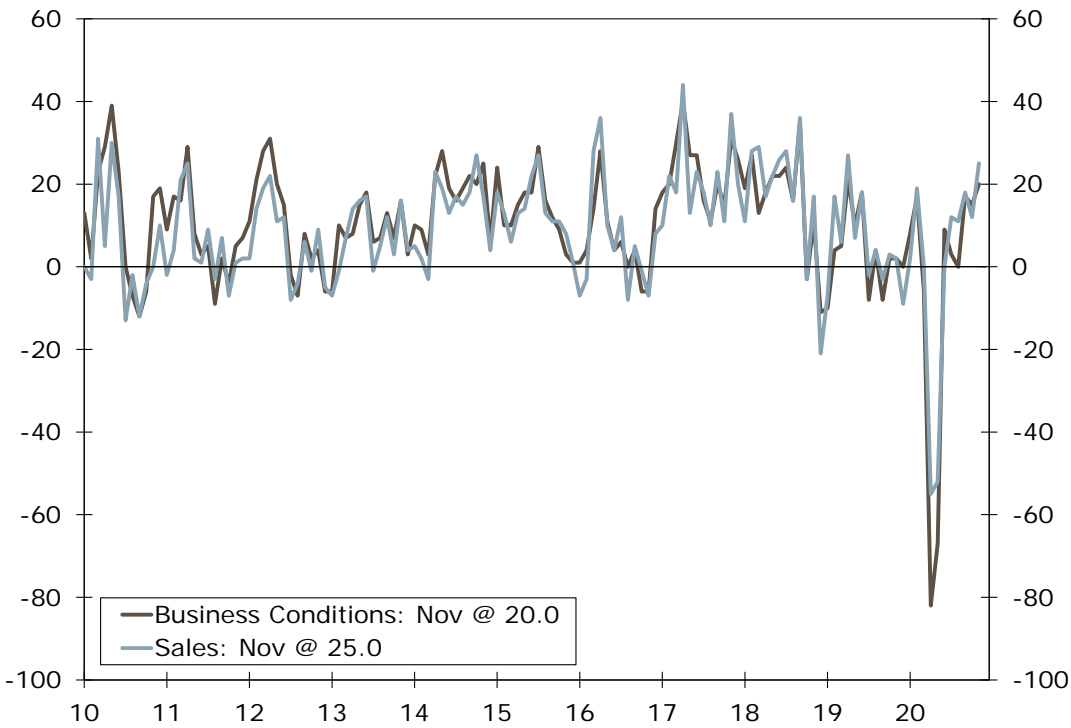
## Transportation Spending Remains Depressed



Source: Opportunity Insights and Wells Fargo Securities

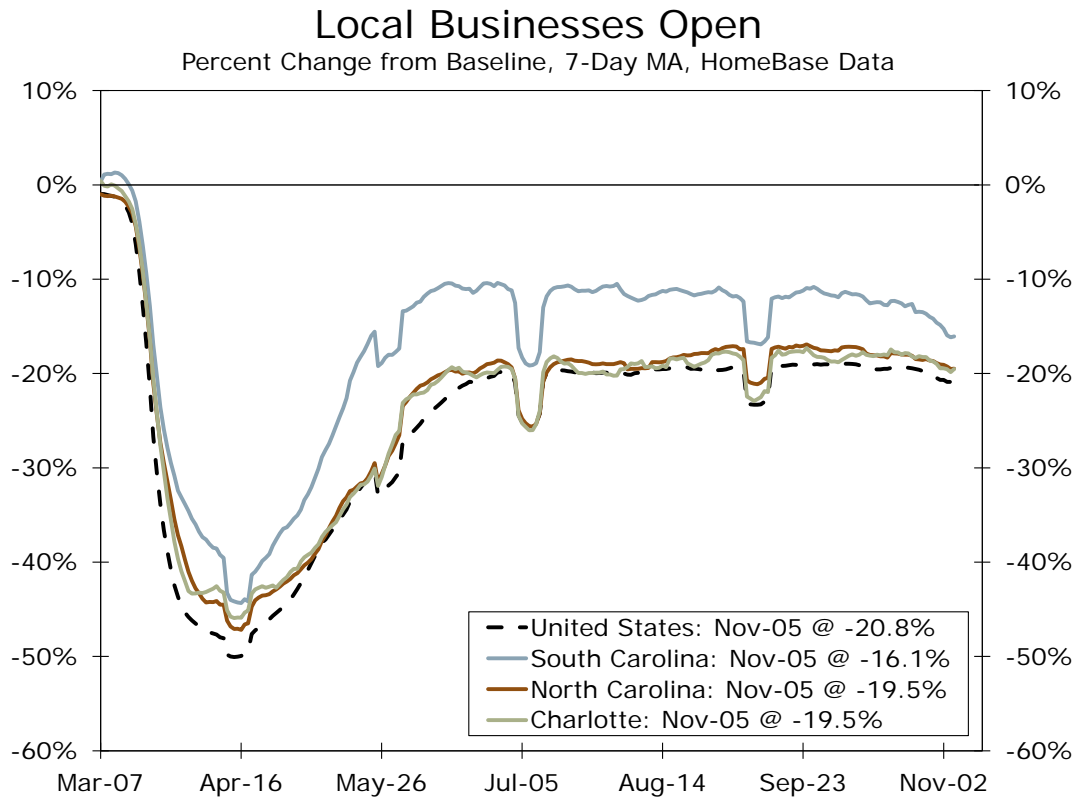
Firms in the Carolinas generally reported growth in November, sending both the general business conditions and sales indices to their highest readings since April 2019.

Carolinas Survey of Business Activity  
Index



Source: Federal Reserve Bank of Richmond and Wells Fargo Securities

Local business openings have slightly weakened in recent weeks after seeing no material improvement since July.

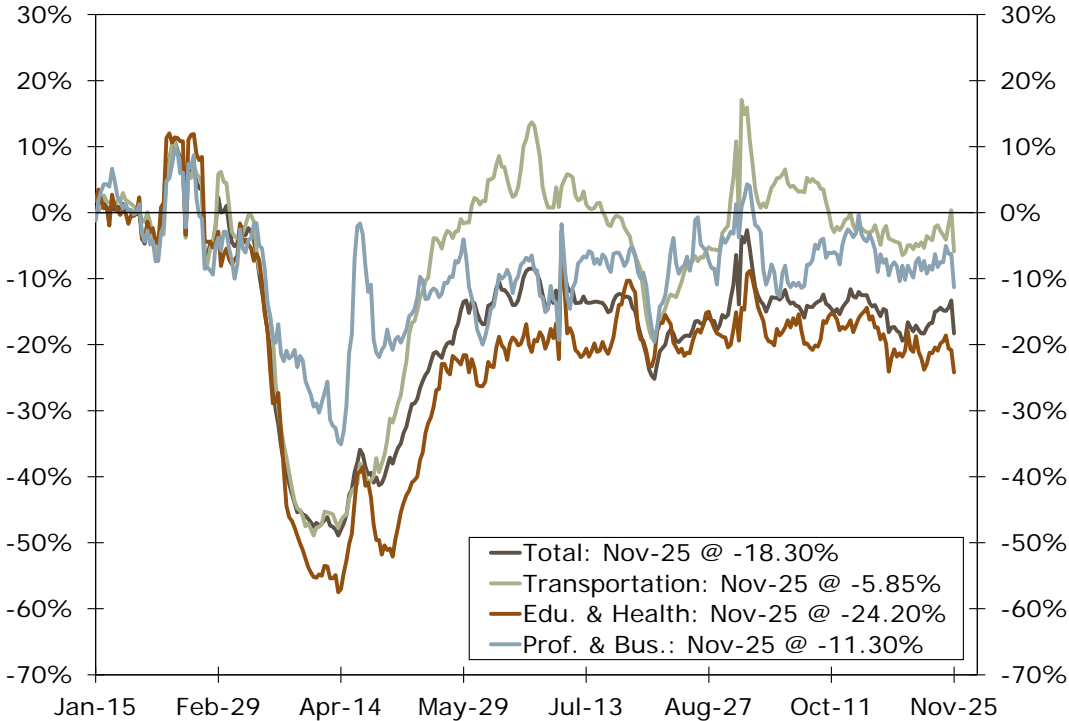


Source: HomeBase and Wells Fargo Securities

As of late November, small business revenue in North Carolina has decreased just over 18% compared to January 2020.

### North Carolina Small Business Revenue

Percent Change from January 2020 by Industry



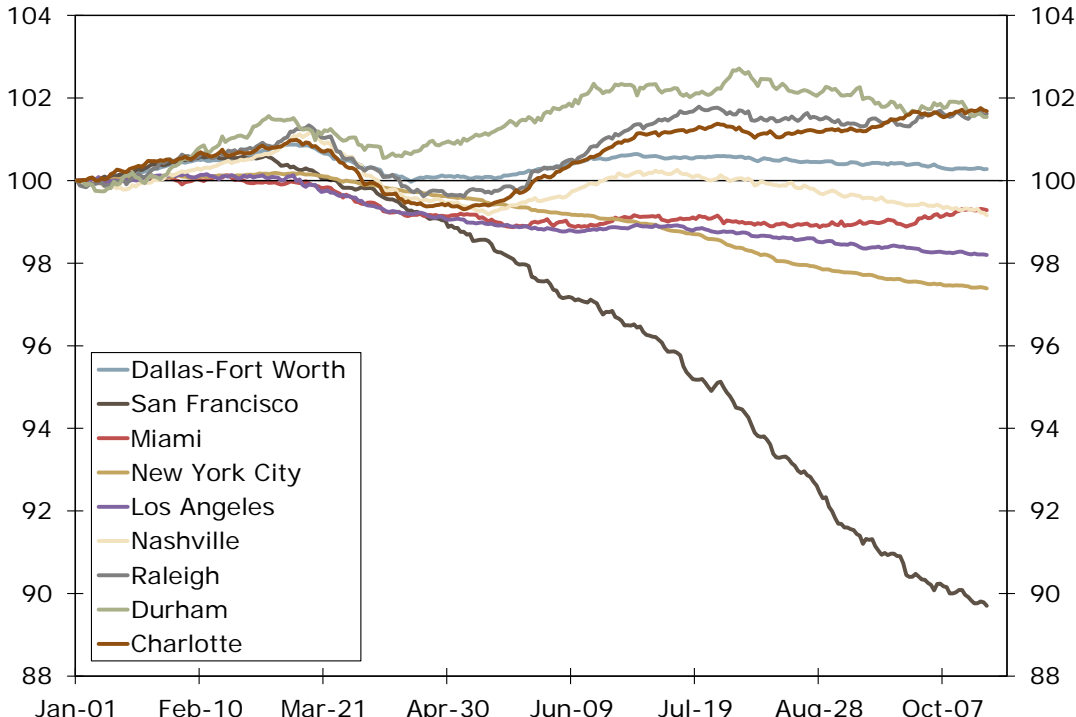
Source: Opportunity Insights and Wells Fargo Securities

Many apartment owners in higher-cost metros have lowered rents aggressively in the wake of the COVID crisis.

Rents is more affordable markets such as Durham and Charlotte have held up better.

### Daily Asking Apartment Rents per SF

Indexed, Jan. 2020=100



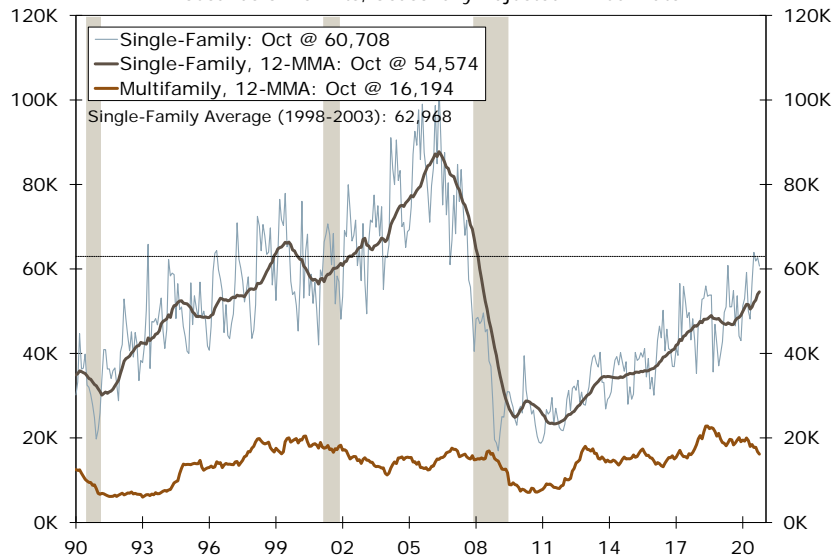
Source: CoStar Inc. and Wells Fargo Securities

Single-family housing starts are trending higher in North Carolina as exceptionally strong demand and low inventories has boosted homebuilder confidence. Furthermore, home prices have recovered from their fall during the lockdown months and are on the upswing.

## Housing Starts

### North Carolina Housing Permits

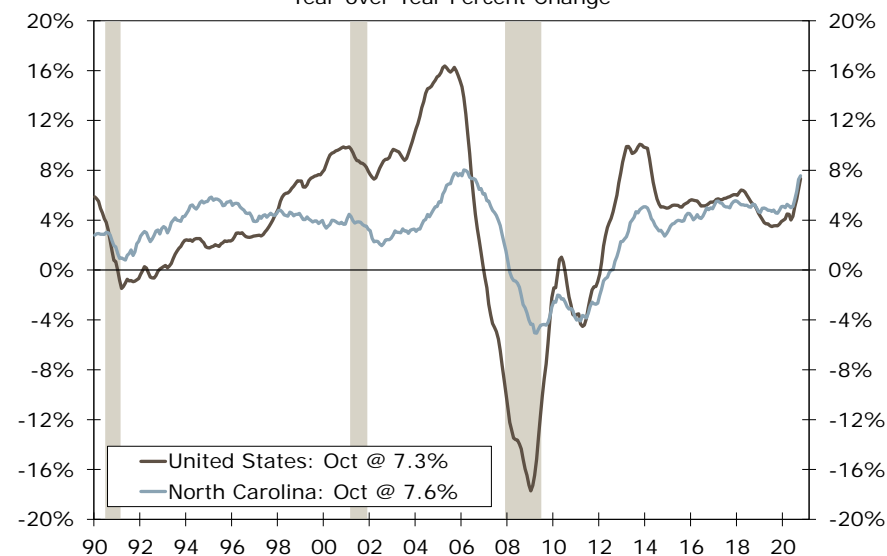
Thousands of Permits, Seasonally Adjusted Annual Rate



## Home Prices

### Core Logic HPI: NC vs. U.S.

Year-over-Year Percent Change

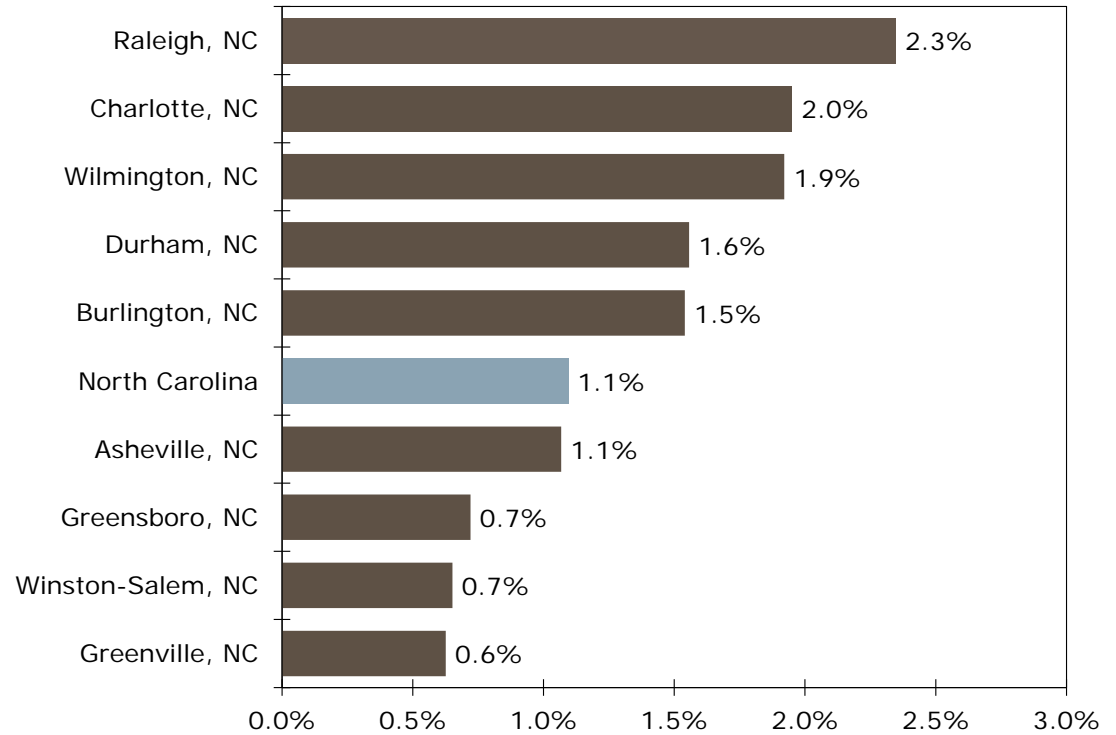


Source: U.S. Department of Commerce, CoreLogic and Wells Fargo Securities

Population growth in Raleigh and Charlotte has benefitted from an affordability migration and professional office relocations.

## North Carolina Population Growth

Average Annual Percent Change, 2014-2019



Source: U.S. Census Bureau and Wells Fargo Securities



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