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U.S. Economic Outlook

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Together we'll go far



Economic Growth Remains Relatively Sluggish

Overall Outlook

- **We continue to look for the economy to grow in the 2.0 to 2.5 percent range in 2016. Domestic demand remains strong, which should offset sluggish global growth.**
-

Monetary Policy

- **The Fed's initial interest rate hike came late in the cycle amid circumstances more consistent with cutting interest rates. Policymakers will move extra cautiously.**
-

Inflation

- **Slowing global economic growth and the stronger dollar are pulling commodity prices lower and will likely restrain headline inflation for quite some time.**
-

Fiscal Policy

- **Last year's federal budget deal will provide a slight boost to economic growth in 2016. State and local governments are also boosting spending modestly.**
-

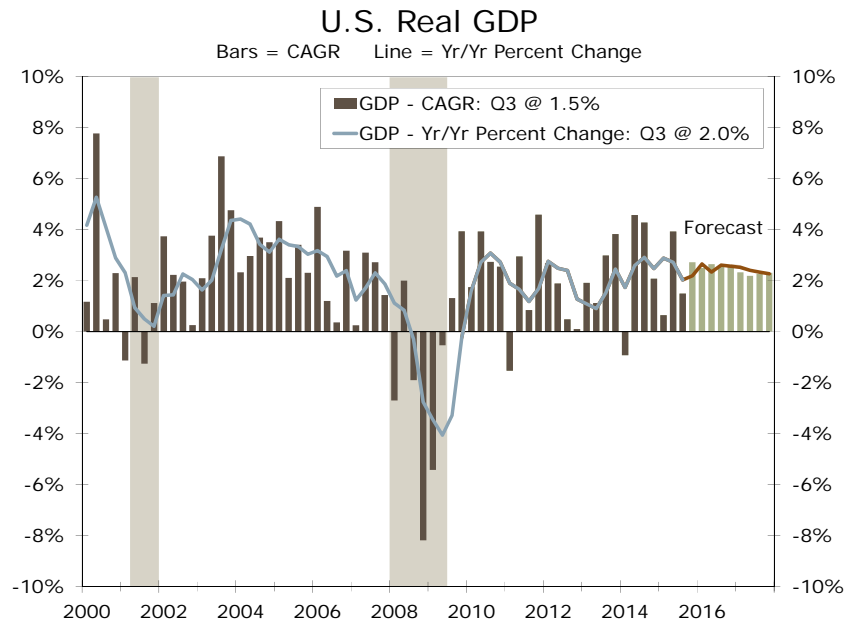
Global Economy

- **Slower growth in China is weighing on other economies, pushing the value of the dollar higher and presenting a threat to U.S. exports and corporate earnings.**

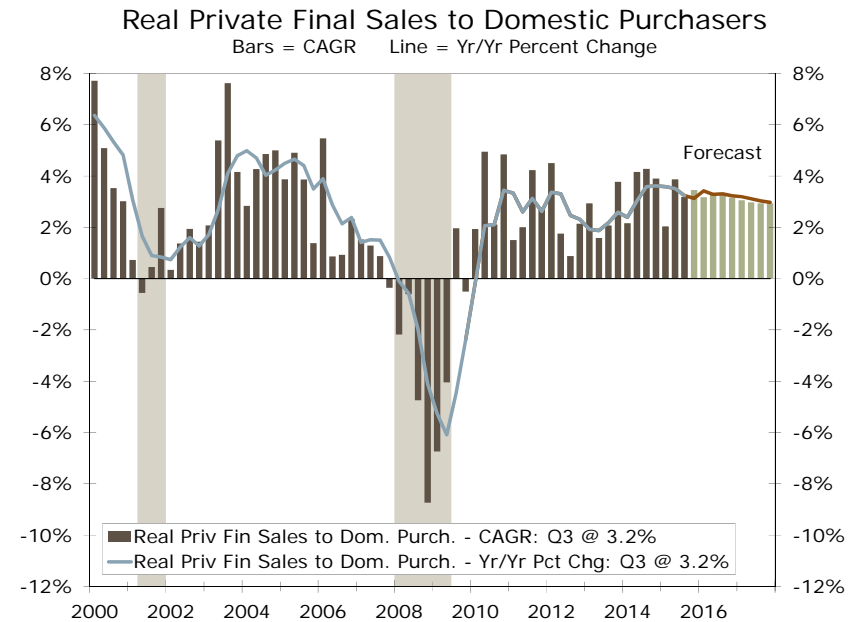
Economic Growth

Real GDP growth has been disappointing throughout most of this recovery and has also been unusually volatile. Much of the recent volatility is due to swings in international trade and business inventories. Private final domestic demand is growing more solidly and consistently.

Real GDP Forecast



Real Private Final Sales

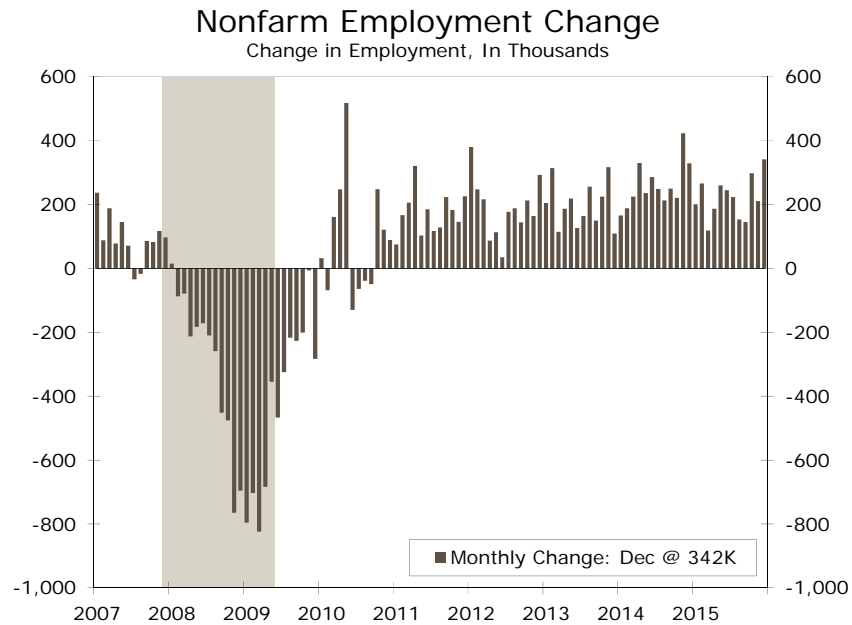


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

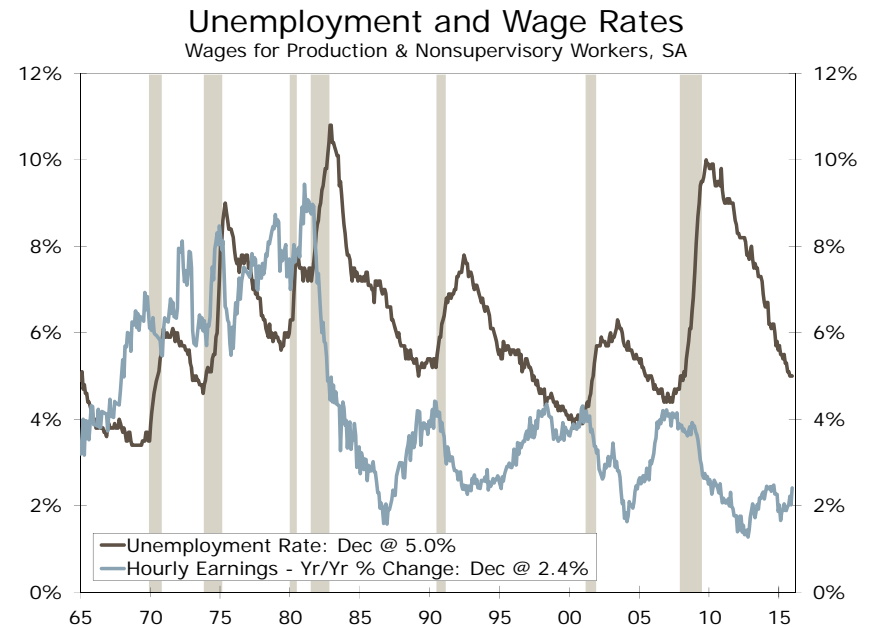
Employment Situation

Nonfarm employment posted solid gains the past three months, alleviating fears about a slowdown. Unemployment continues to trend lower and is close to most measures of “full employment.” The Fed is taking its cue from the strengthening labor market.

Nonfarm Employment



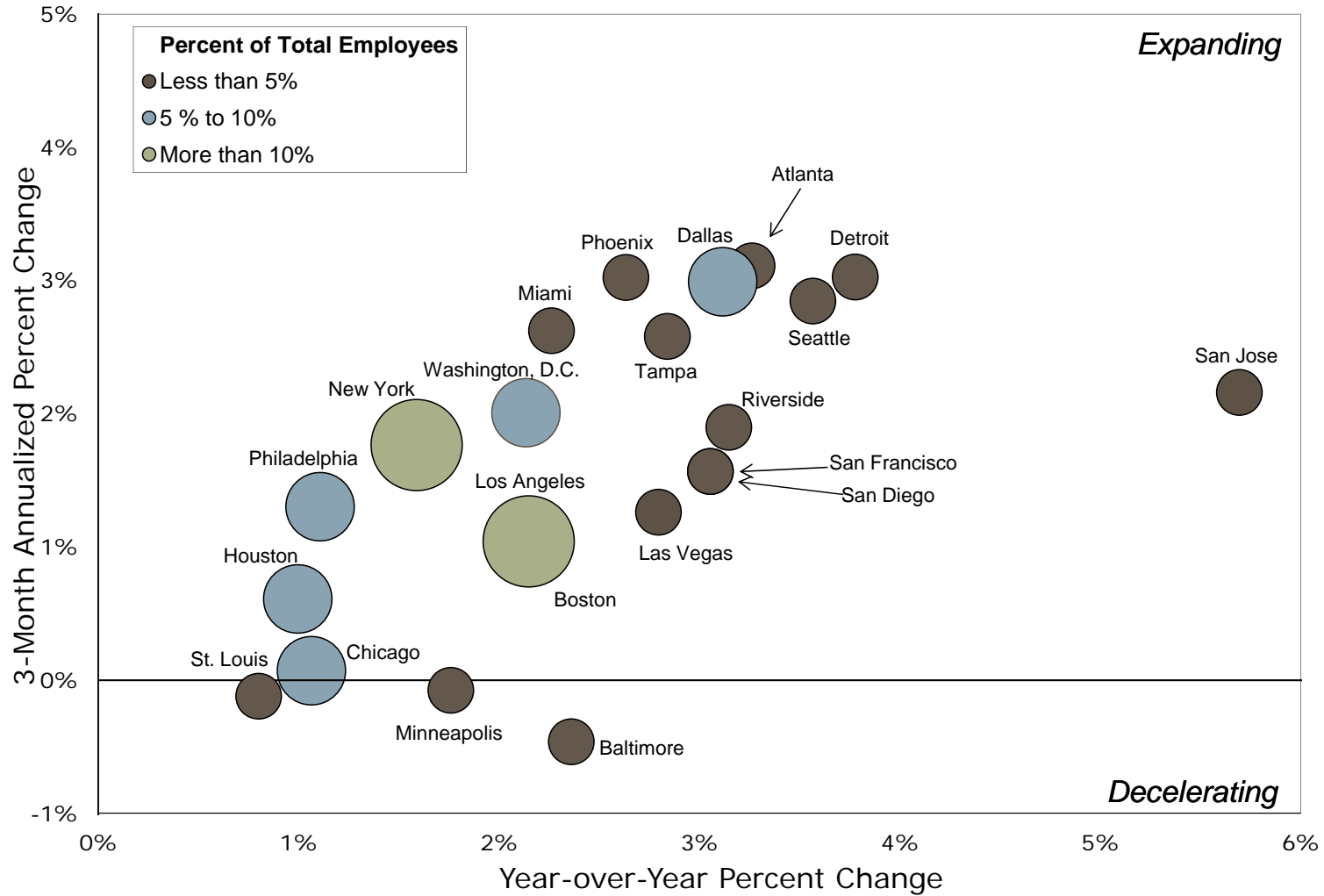
Unemployment Rate



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

Employment Growth of Largest U.S. MSAs

U.S. Employment Growth by MSA 3-Month Moving Averages, November 2015

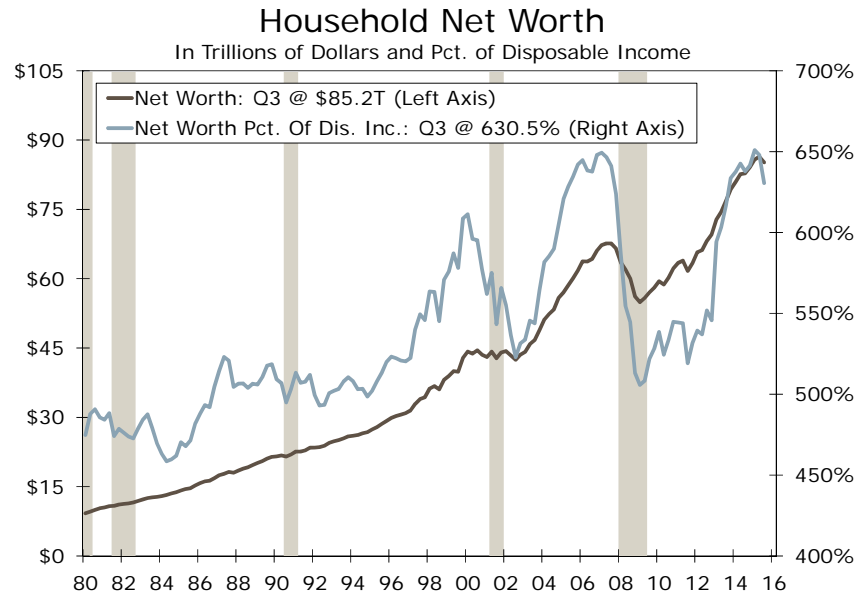


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

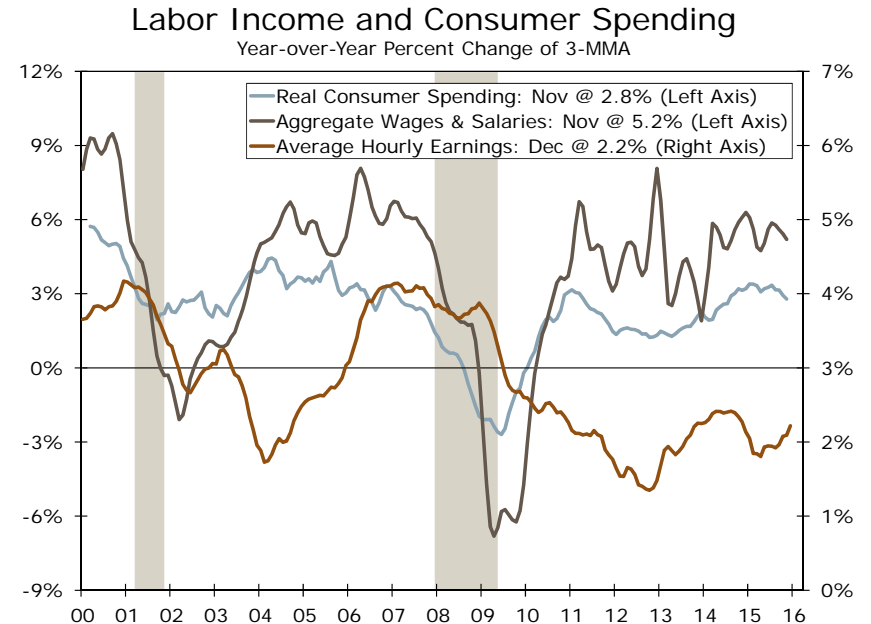
Consumer

Consumer spending has been driven by a rebound in household wealth and gradual recovery in employment and income prospects. Wages and salaries have risen faster than average hourly earnings, reflecting gains in hours worked and innovative employment options.

Household Net Worth



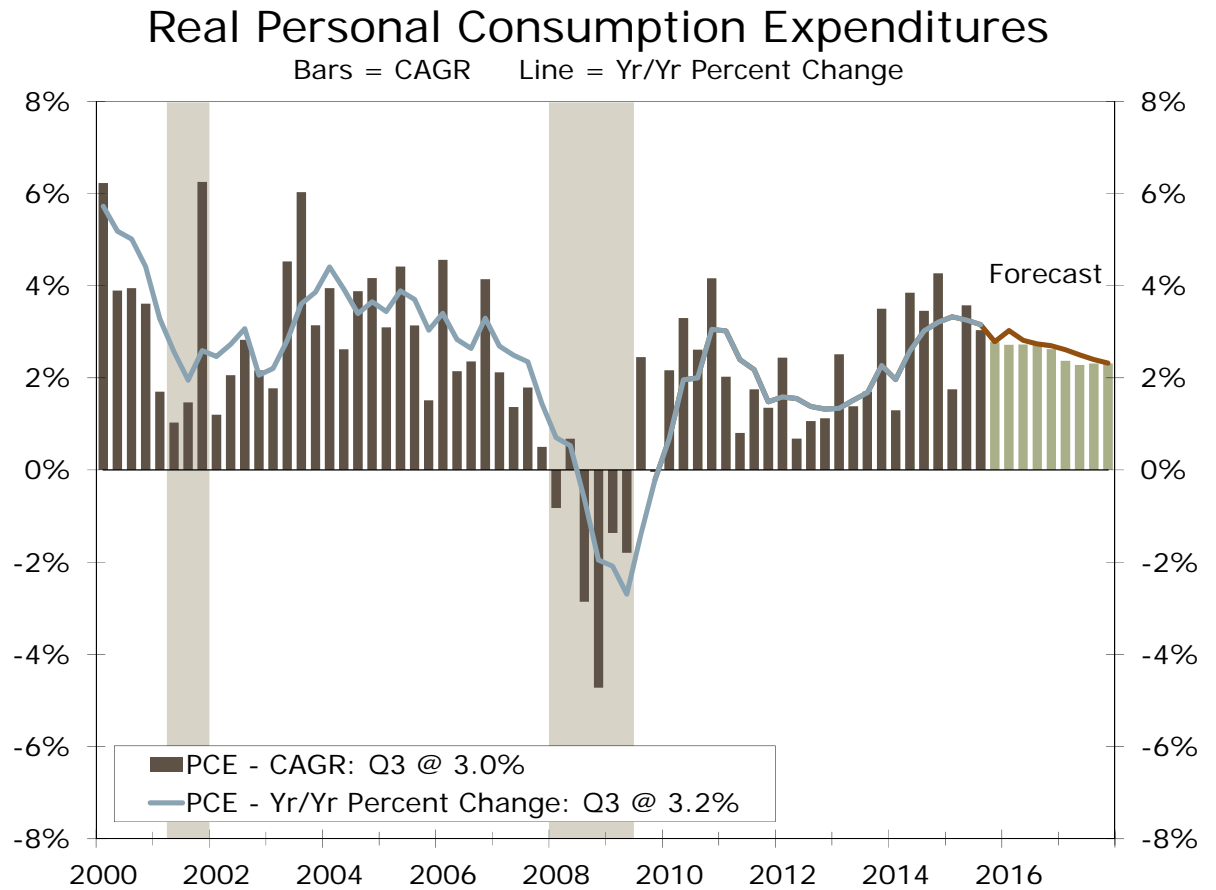
Income & Consumer Spending



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

Real PCE

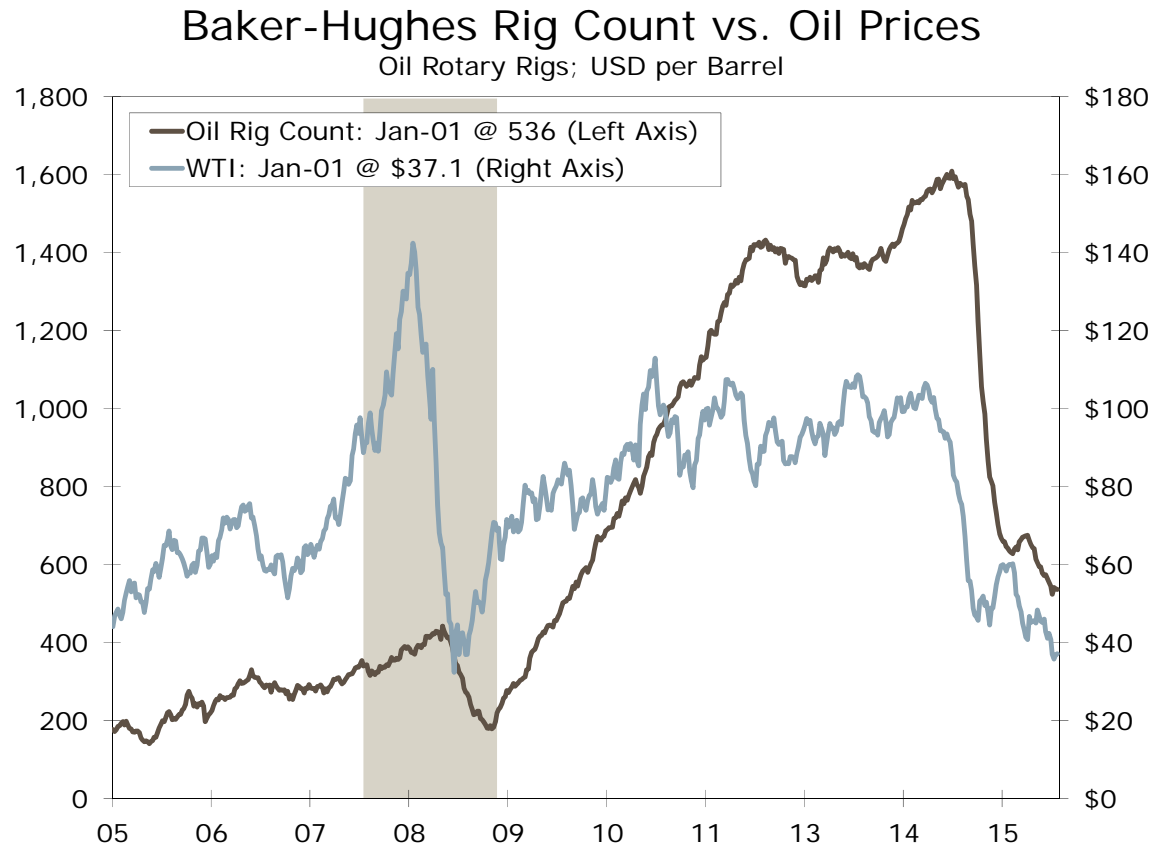
Real personal consumption expenditures are expected to grow less rapidly in coming years, as the bulk of the growth in big-ticket expenditures is now likely behind us.



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

Oil prices began collapsing during the second half of 2014 and have fallen further than industry analysts had expected.

The RIG count has followed oil prices lower and neither shows signs of bottoming just yet.



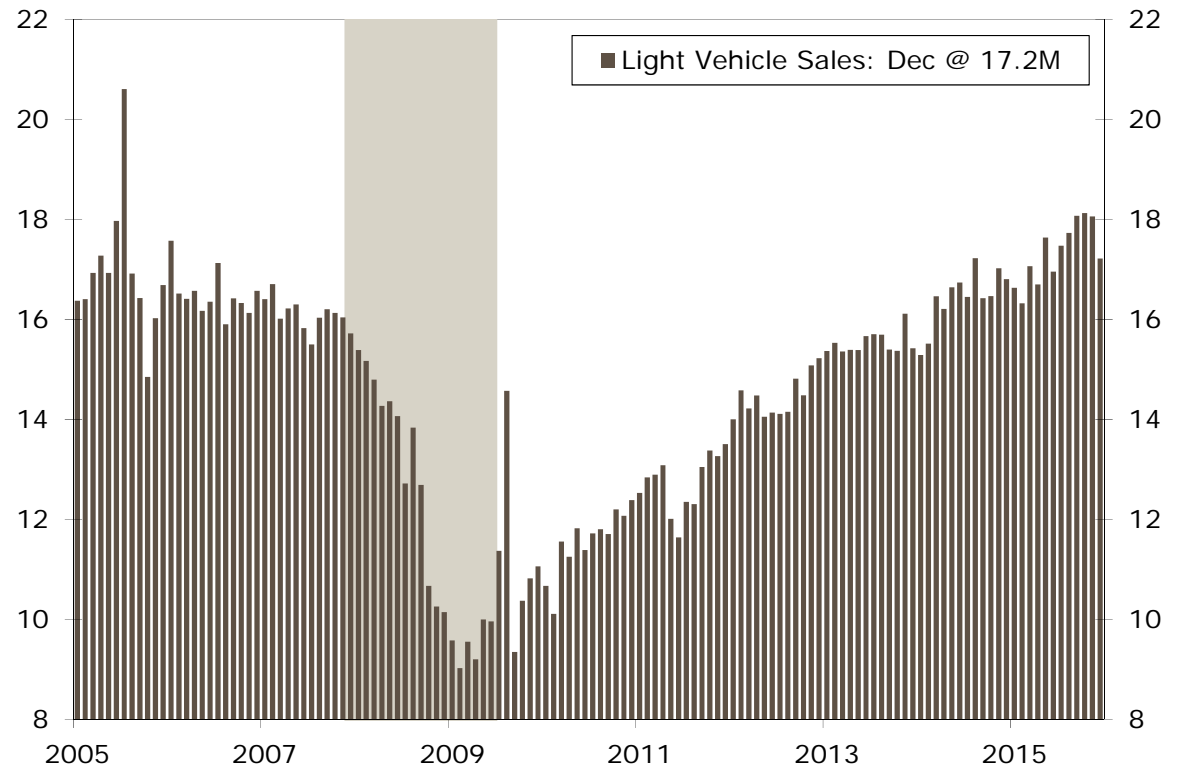
Source: Bloomberg LP and Wells Fargo Securities, LLC

Motor Vehicle Sales

Motor vehicle sales have surged in recent months, possibly reflecting the increased use of incentives. Credit terms have also been very aggressive, particularly for subprime borrowers.

Total U.S. Light Motor Vehicle Sales

In Millions, Seasonally Adjusted Annual Rate

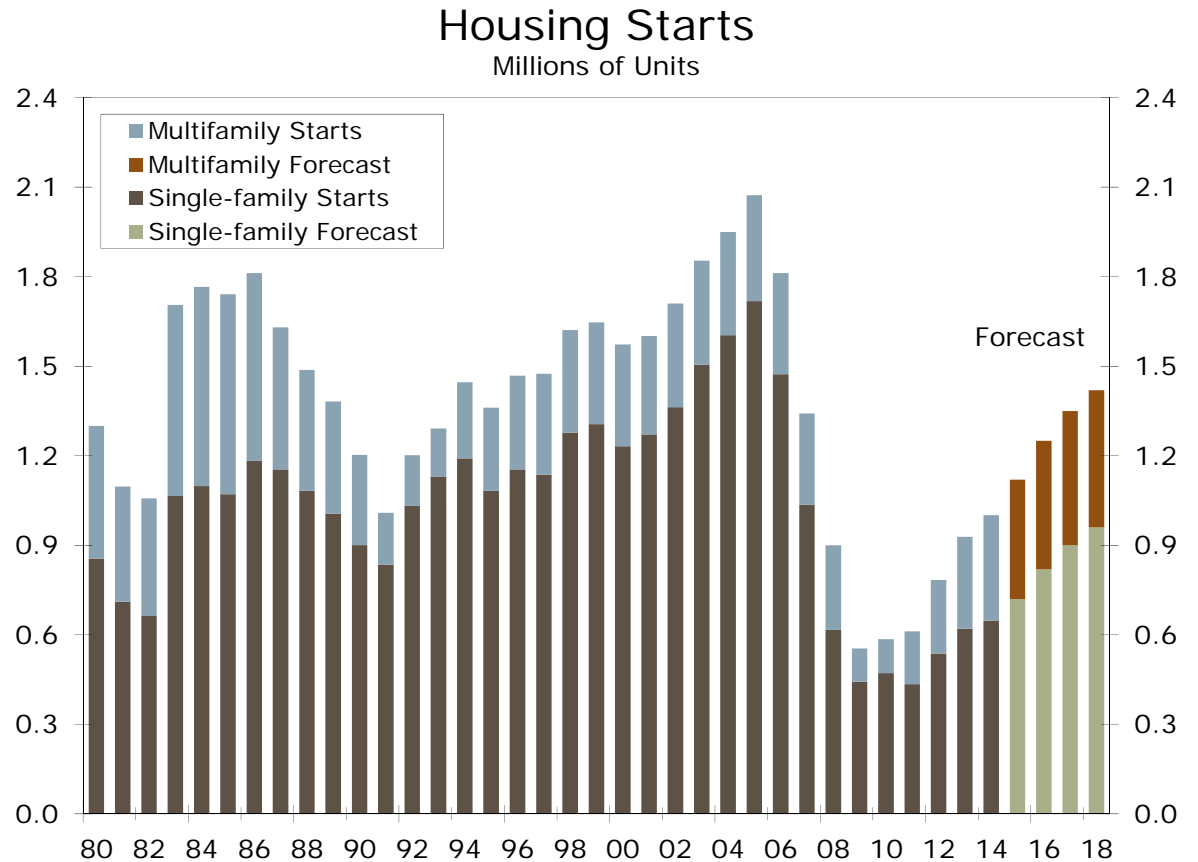


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

We continue to look for a gradual recovery in homebuilding.

Apartment demand remains exceptionally strong but supply is catching up with demand.

Single-family housing starts are beginning to ramp back up. Gains will be more modest than in past building cycles.

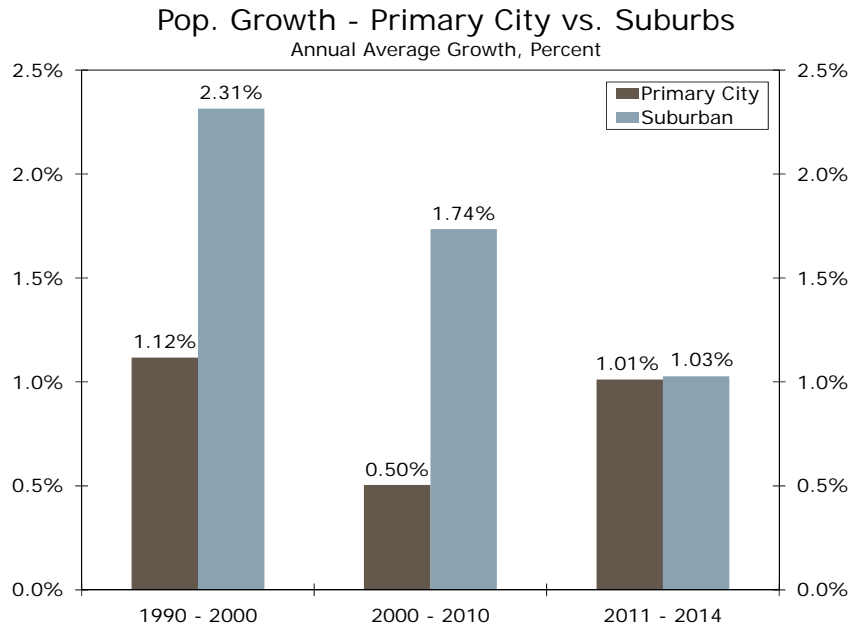


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

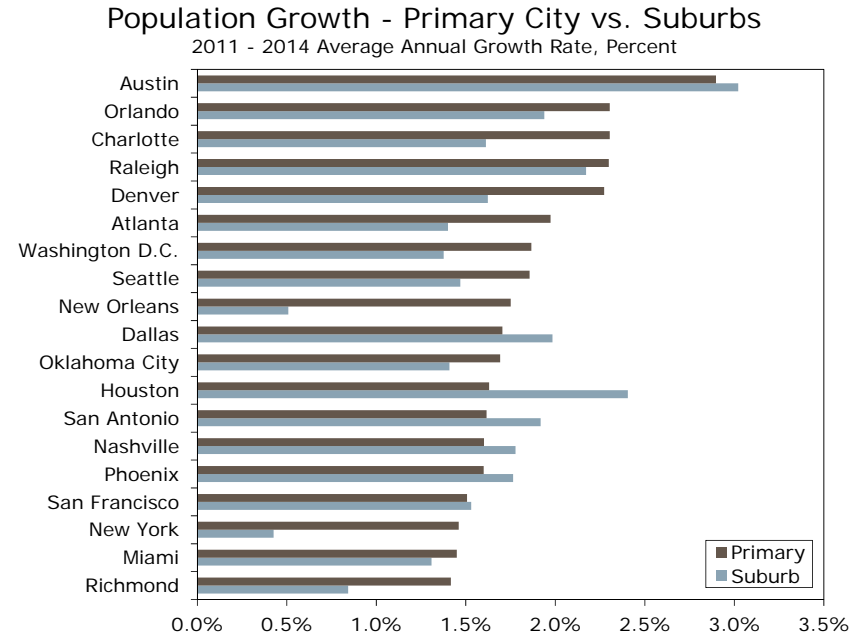
Suburbs vs. Primary Cities

There has been a move back into the center city of many major metro areas of the South and West. For many this marks a new development, as suburban areas have typically accounted for the bulk of population growth in recent decades. We believe this shift has staying power.

Primary City vs. Suburban



Population Growth by Metro



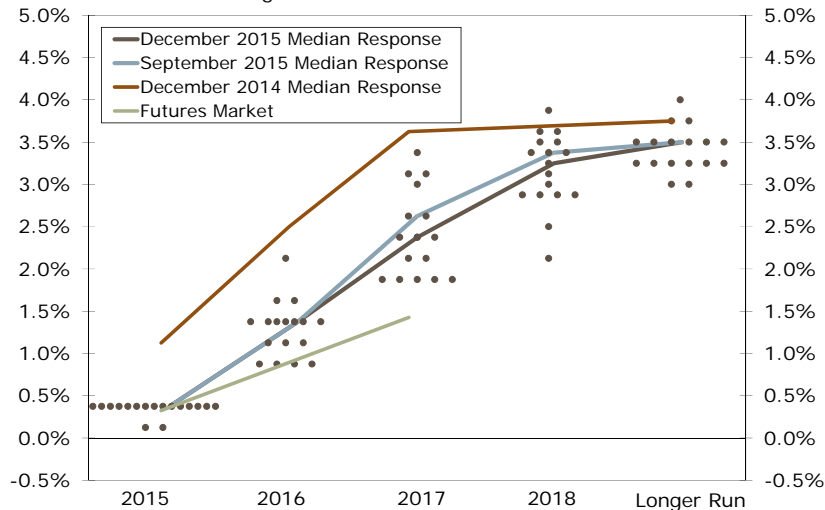
Source: U.S. Department of Commerce, Brookings Institution and Wells Fargo Securities, LLC

The FOMC has continuously reduced their expectation for interest rates for both the near- and long-term. The near-term expectations signal intentions to gradually raise interest rates. The lower long-term funds rate underscores doubts about long-term potential real GDP growth.

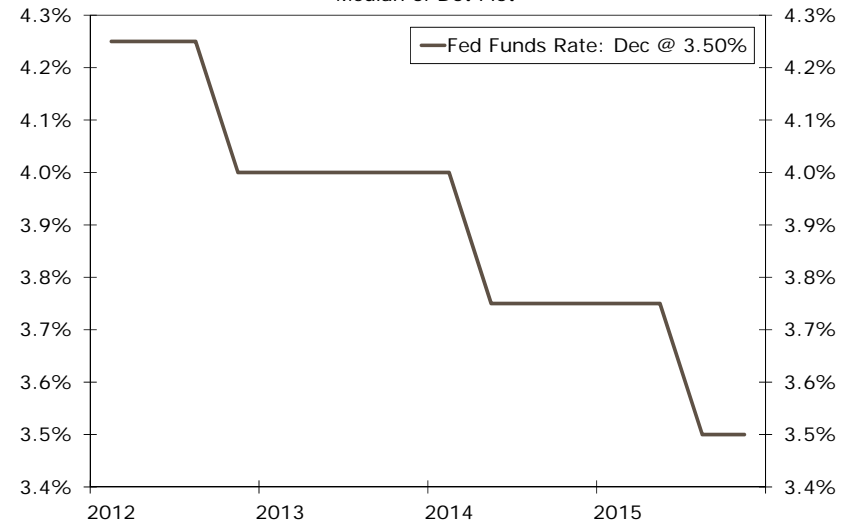
Fed's Dot Plot

Long Term Forecast

Appropriate Pace of Policy Firming
Target Federal Funds Rate at Year-End



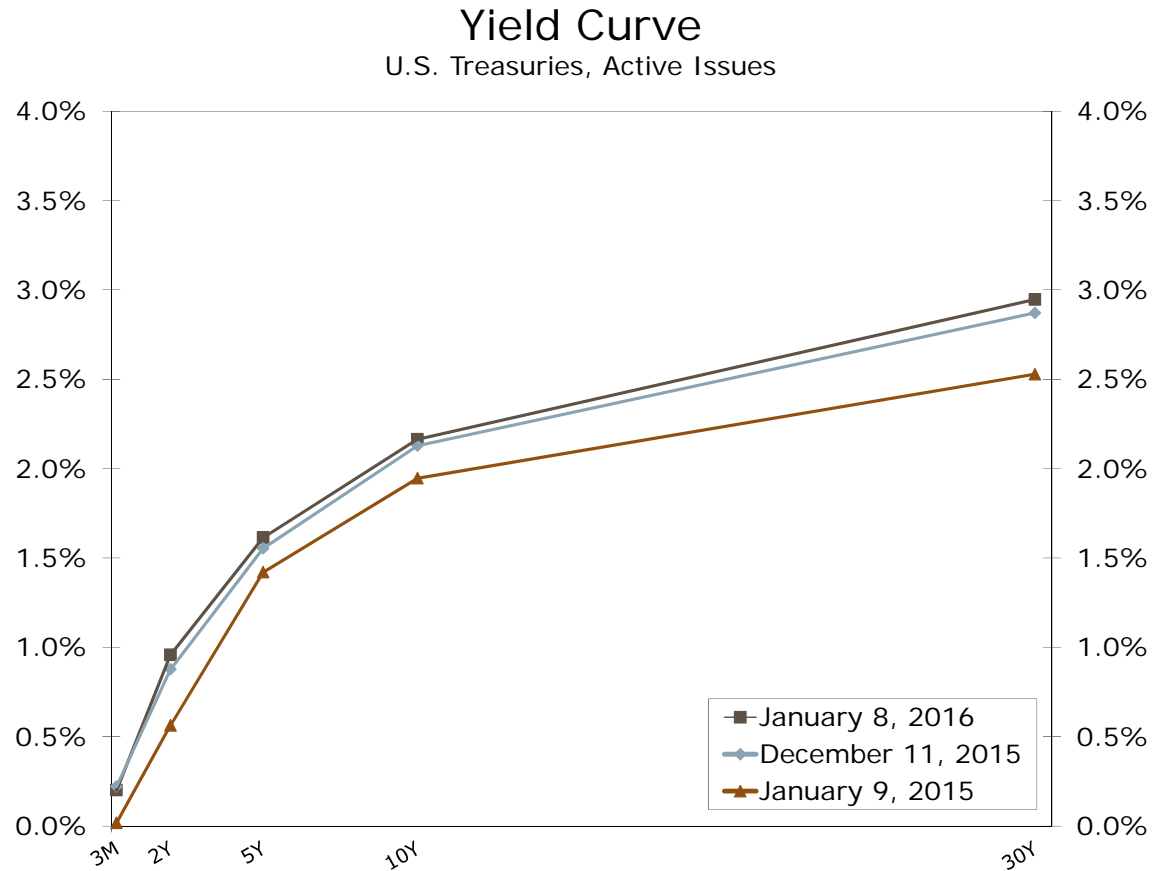
FOMC Longer Term Fed Funds Rate Forecast
Median of Dot Plot



Source: Federal Reserve Board and Wells Fargo Securities, LLC

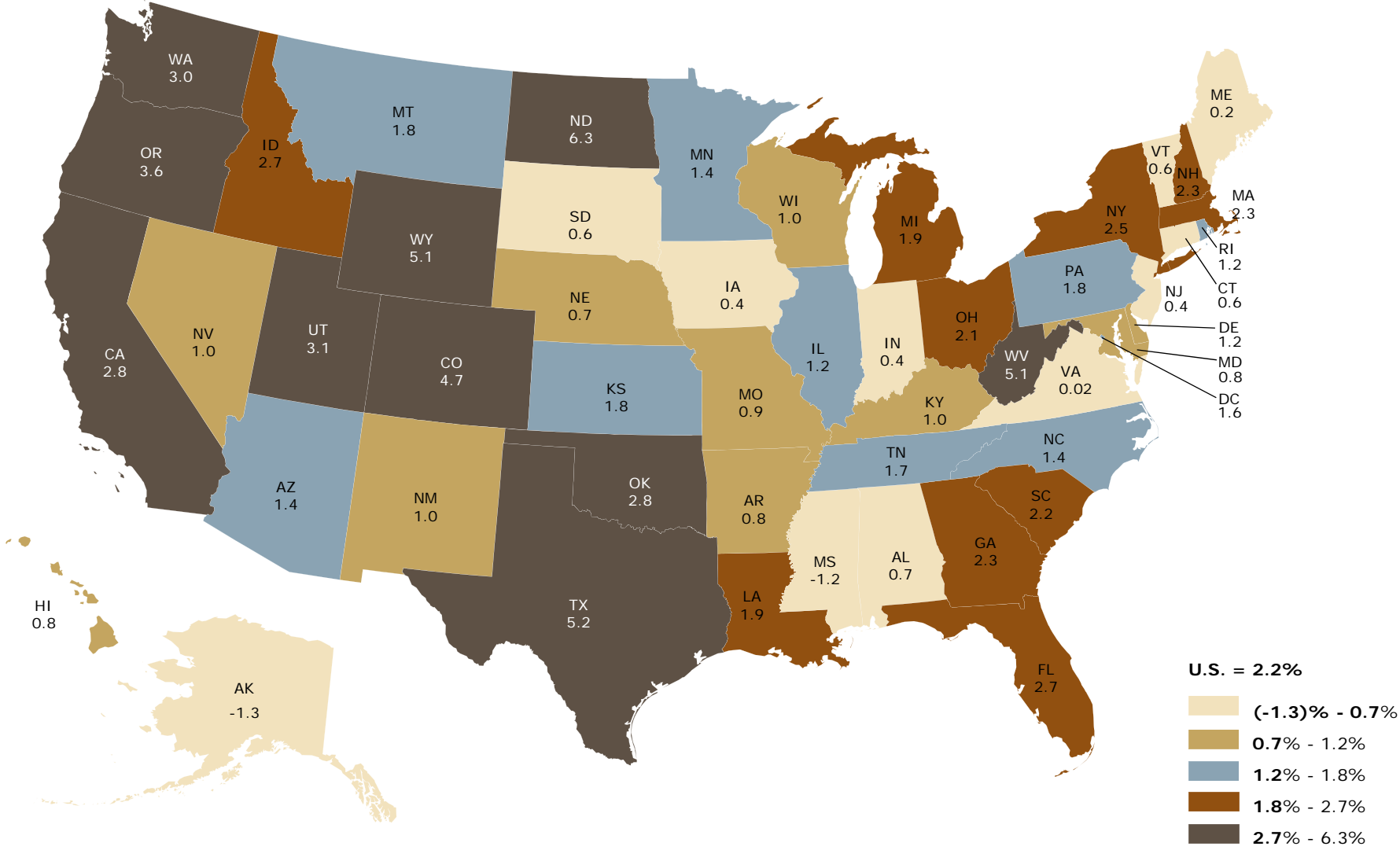
Yield Curve

The yield curve remains relatively flat from a historical perspective but should steepen a little bit as the economy strengthens enough to support additional interest rate hikes from the Federal Reserve.



Source: Bloomberg LP and Wells Fargo Securities, LLC

Percent Change in Real GDP by State (2013-2014)



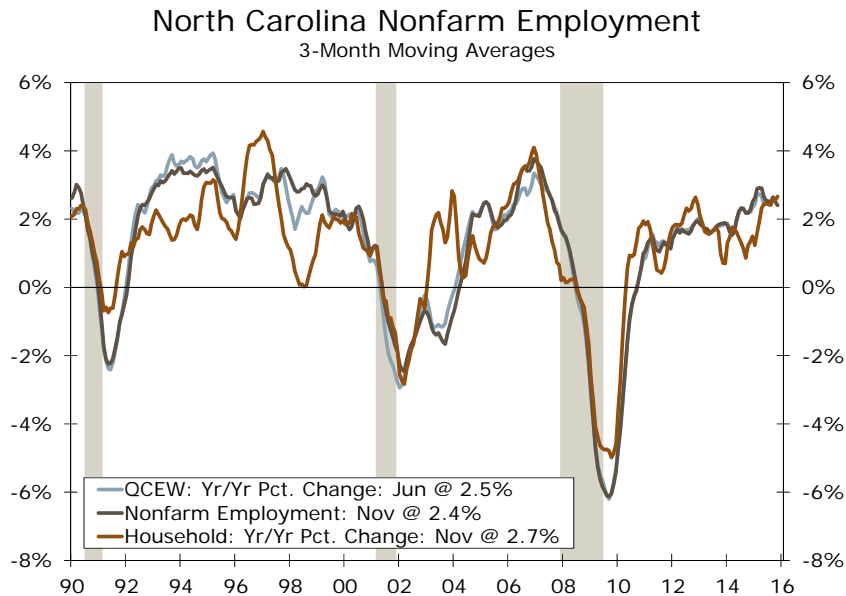
Source: U.S. Dept. of Commerce and Wells Fargo Securities, LLC

North Carolina & Charlotte

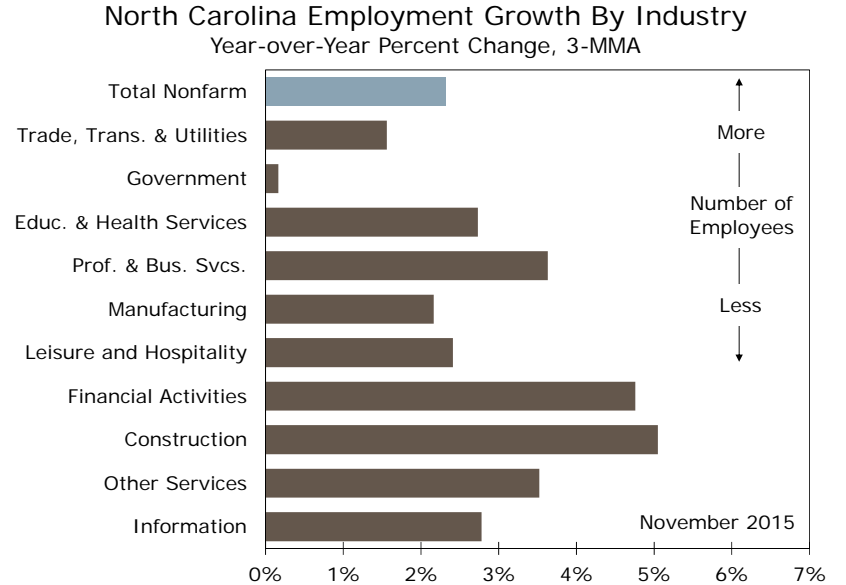
Employment Situation — North Carolina

Nonfarm employment has grown at a steady 2.4 percent over the year in North Carolina. Job gains remain broad based, as employment has increased in all major industries over the year.

Nonfarm Employment



Employment by Industry

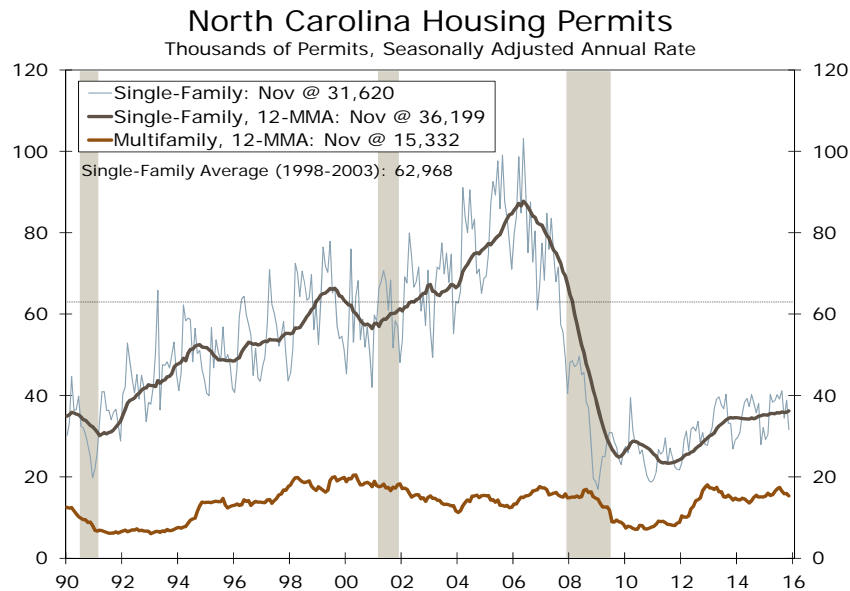


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

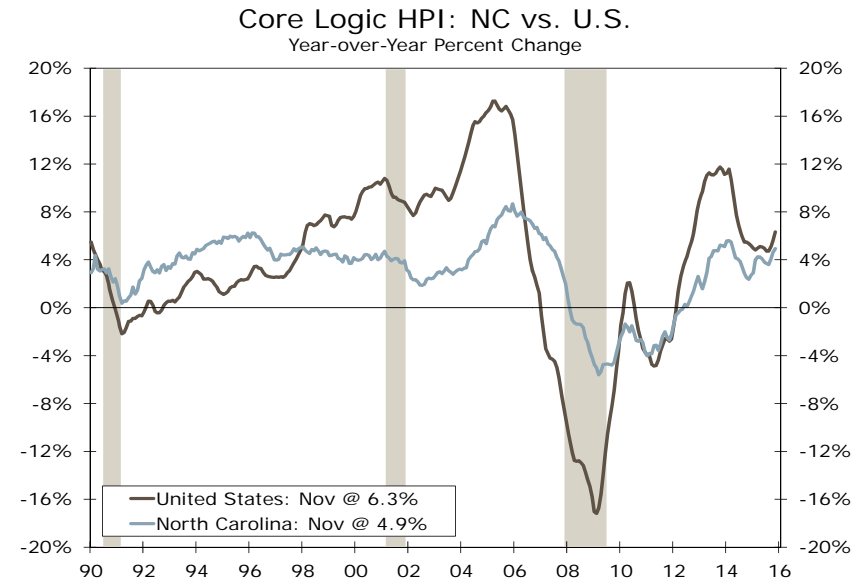
Housing Market — North Carolina

The housing market in North Carolina has improved modestly over the past year. Permits remain well below historic norms, particularly given the recent rebound in population growth.

Housing Permits



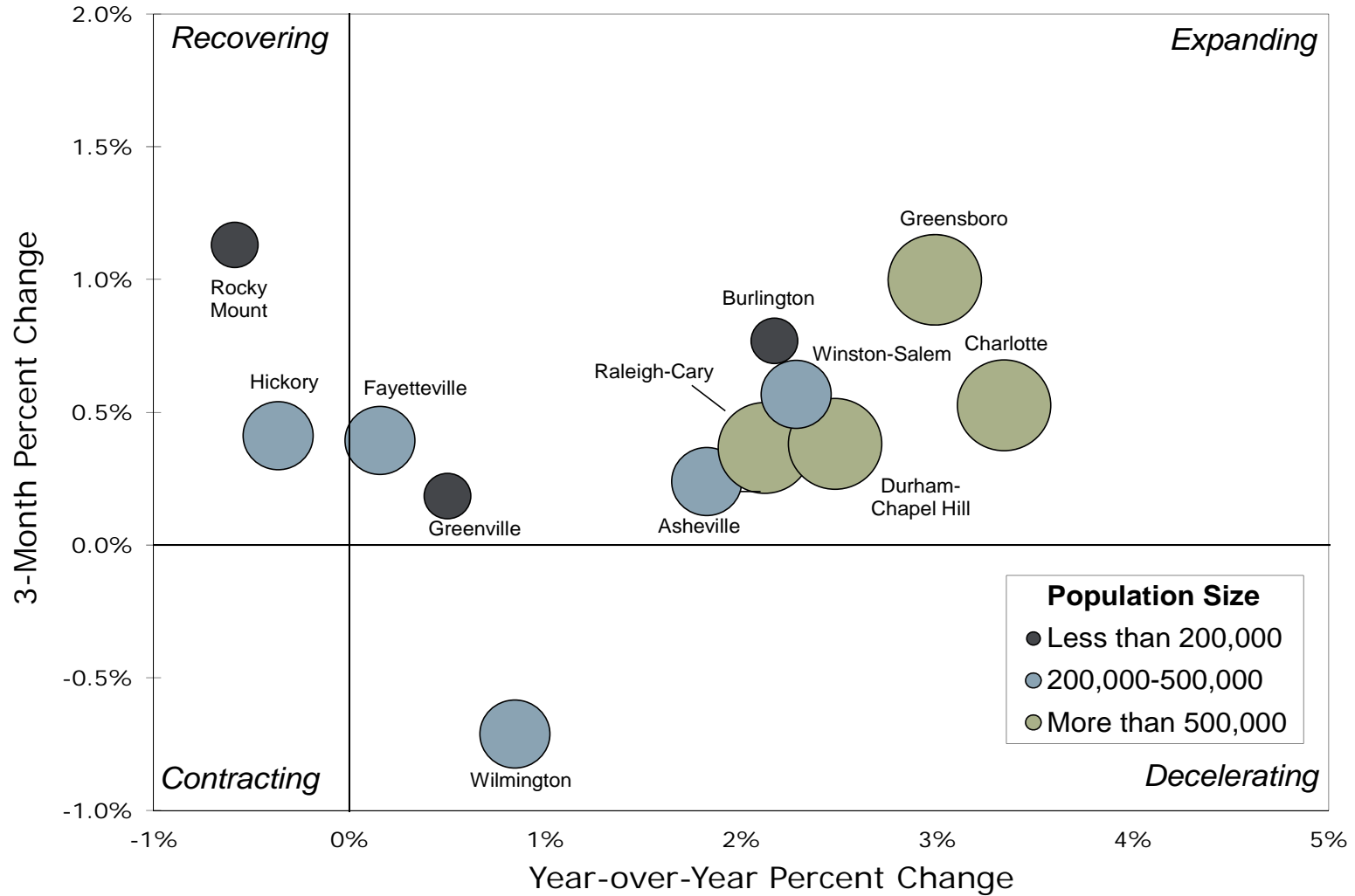
Home Prices



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

North Carolina Employment Growth by MSA

North Carolina Employment Growth: November 2015 3-Month Moving Averages

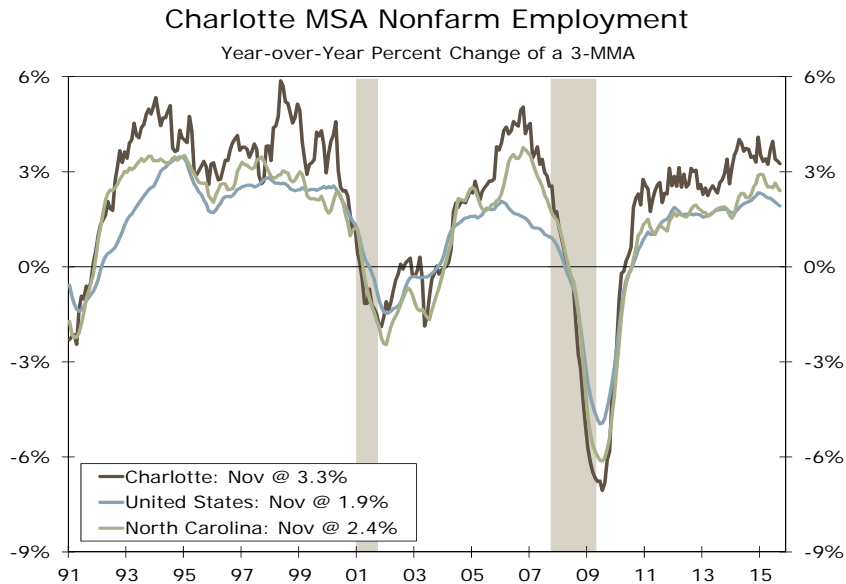


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

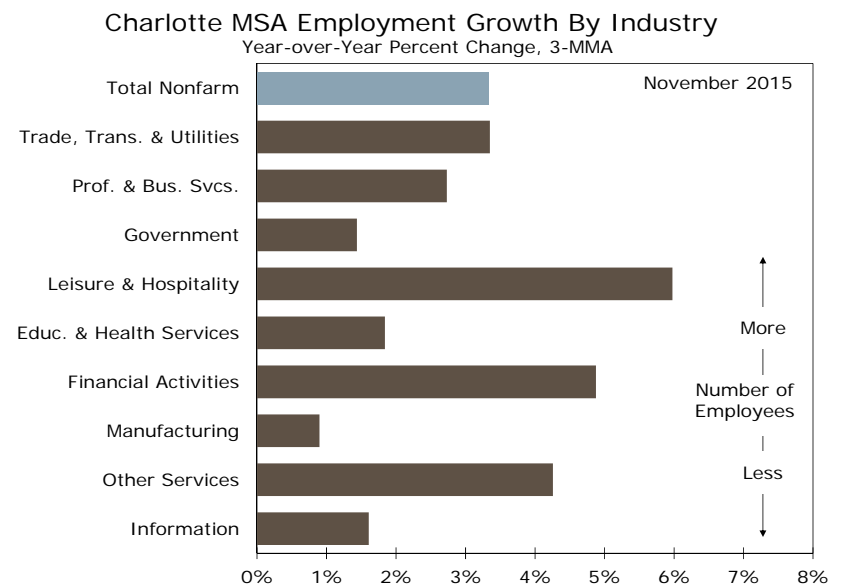
Employment Situation – Charlotte MSA

Nonfarm employment has risen 3.3 percent over the past year in Charlotte and has more or less maintained that pace for the past year. The greatest gains have been in leisure and hospitality, financial services and trade, transportation and utilities.

Nonfarm Employment



Employment by Industry

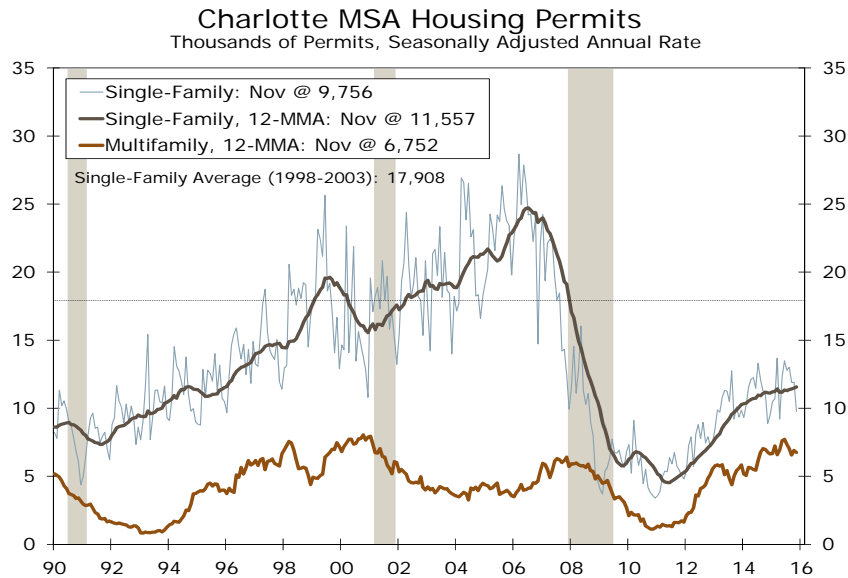


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

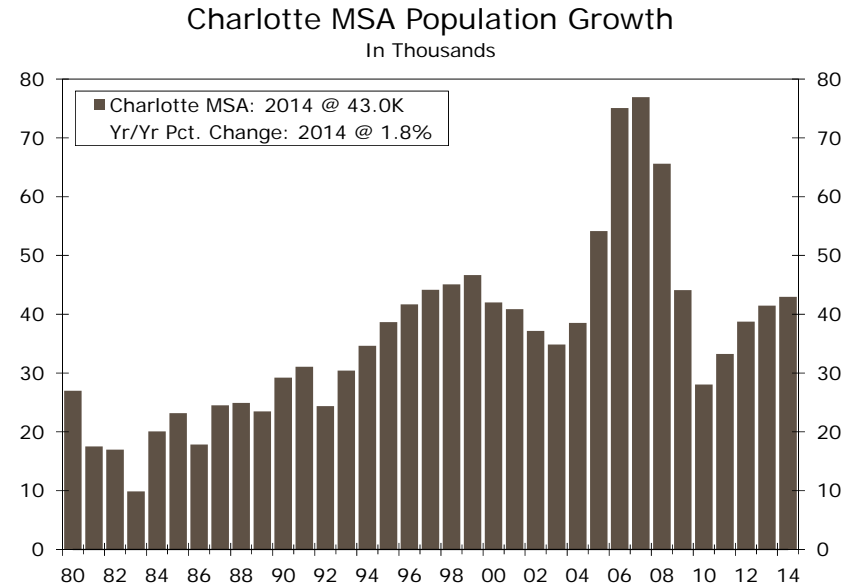
Housing Market – Charlotte MSA

Charlotte's population growth has ramped back up in recent year, reflecting an influx of both job seekers and retiree. Apartment construction has lifted multi-family permits back near all-time highs, with much of the growth in and around Uptown Charlotte.

Housing Permits



Population Growth



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

Five Critical Key Takeaways

Economic Outlook

- **The economy should weather the global economic slowdown. Exports will clearly decelerate. We expect real GDP to rise 2.4 percent in 2015 and 2.0 percent 2016.**
-

Weaker Global Growth

- **The weaker global economy continues to pull at industries closely tied to it, creating a disinflationary undertow that is squeezing corporate profits.**
-

Interest Rates

- **The Federal Reserve has begun to ‘normalize’ interest rates amid a challenging backdrop. Policymakers will likely move very gradually and cautiously.**
-

The Housing Recovery

- **Demand for single-family homes is reviving, with first-time homebuyers beginning to come back into the market. Apartment construction is close to peaking.**
-

The Mix of Growth is Shifting

- **The economy is better for consumers than producers. Regions exposed to agriculture, energy, mining and manufacturing are seeing conditions weaken.**

U.S. Forecast

Wells Fargo U.S. Economic Forecast

| | Actual | | | | Forecast | | | | Actual | | Forecast | | |
|---|--------|------|------|------|----------|------|------|------|--------|------|----------|------|------|
| | 2015 | | | | 2016 | | | | 2013 | 2014 | 2015 | 2016 | 2017 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | | |
| Real Gross Domestic Product ¹ | 0.6 | 3.9 | 2.1 | 1.1 | 2.6 | 2.6 | 2.7 | 2.6 | 1.5 | 2.4 | 2.4 | 2.4 | 2.5 |
| Personal Consumption | 1.8 | 3.6 | 3.0 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 1.7 | 2.7 | 3.1 | 2.8 | 2.5 |
| Inflation Indicators ² | | | | | | | | | | | | | |
| PCE Deflator | 0.2 | 0.3 | 0.3 | 0.5 | 1.4 | 1.3 | 1.6 | 2.0 | 1.4 | 1.4 | 0.3 | 1.6 | 2.0 |
| Consumer Price Index | -0.1 | 0.0 | 0.1 | 0.5 | 1.8 | 1.6 | 1.8 | 2.2 | 1.5 | 1.6 | 0.2 | 1.9 | 2.2 |
| Industrial Production ¹ | -0.3 | -2.3 | 2.6 | -0.1 | 2.4 | 2.1 | 1.1 | 2.2 | 1.9 | 3.7 | 1.5 | 1.4 | 2.1 |
| Corporate Profits Before Taxes ² | 4.6 | 0.6 | -4.7 | 5.0 | 4.3 | 4.8 | 4.6 | 4.6 | 2.0 | 1.7 | 1.3 | 4.6 | 4.4 |
| Trade Weighted Dollar Index ³ | 92.1 | 89.9 | 92.3 | 93.0 | 94.0 | 95.5 | 97.0 | 98.3 | 75.9 | 78.5 | 91.8 | 96.2 | 99.8 |
| Unemployment Rate | 5.6 | 5.4 | 5.2 | 5.0 | 4.9 | 4.8 | 4.7 | 4.6 | 7.4 | 6.2 | 5.3 | 4.7 | 4.5 |
| Housing Starts ⁴ | 0.98 | 1.16 | 1.15 | 1.17 | 1.24 | 1.24 | 1.25 | 1.26 | 0.92 | 1.00 | 1.12 | 1.25 | 1.35 |
| Quarter-End Interest Rates ⁵ | | | | | | | | | | | | | |
| Federal Funds Target Rate | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.75 | 1.00 | 1.25 | 0.25 | 0.25 | 0.31 | 0.88 | 1.88 |
| Conventional Mortgage Rate | 3.77 | 3.98 | 3.89 | 3.96 | 4.10 | 4.15 | 4.17 | 4.20 | 3.98 | 4.17 | 3.90 | 4.16 | 4.35 |
| 10 Year Note | 1.94 | 2.35 | 2.06 | 2.28 | 2.45 | 2.50 | 2.55 | 2.60 | 2.35 | 2.54 | 2.16 | 2.53 | 2.80 |

Forecast as of: December 9, 2015

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Year-over-Year Percentage Change

³ Federal Reserve Major Currency Index, 1973=100 - Quarter End

⁴ Millions of Units

⁵ Annual Numbers Represent Averages

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

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| Selected Recent Economic Reports | | |
|-------------------------------------|---|-------------------------|
| Date | Title | Authors |
| U.S. Macro | | |
| December-22 | Our Favorite Charts of 2015 | Silvia |
| December-16 | FOMC Moves Forward In a Fog: Gradual, Data Dependent | Silvia |
| December-10 | Household Debt: Opportunities/Risks in the Auto Sector | Silvia & Moehring |
| December-09 | The Great Divide: 2016 Annual Economic Outlook | Silvia |
| November-23 | Are Risks Brewing in Consumer Lending? | Khan & Brown |
| U.S. Regional | | |
| December-18 | California Employment Conditions: November 2015 | Vitner & Batcheller |
| December-16 | North Carolina Economic Outlook: December 2015 | Vitner & Batcheller |
| December-10 | State GDP: Low Commodity Prices Hit Energy and Farm Economies | Vitner & Batcheller |
| November-24 | California Economic Outlook: November 2015 | Vitner & Batcheller |
| November-20 | Florida's Economy Continues to Add Jobs at a Rapid Pace | Vitner & Batcheller |
| Global Economy | | |
| January-04 | Singapore's Economy Ends a Week 2015 on a High Note | Bryson & Nelson |
| December-10 | Turkey: Stronger Savings & Investment Needed | Bryson & Nelson |
| December-10 | Global Chartbook: December 2015 | Quinlan, House & Nelson |
| December-03 | Brazilian Economy Continues to Plunge | Alemán |
| December-03 | ECB Disappoints at Today's Policy Meeting | Bryson |
| Interest Rates/Credit Market | | |
| December-16 | 2016 Net Treasury Issuance Outlook | Silvia, Vitner & Brown |
| December-09 | Bank Lending Conditions: Support for Consumer Spending | Silvia, Vitner & Brown |
| November-12 | All Systems Go for a FOMC Move in December? | Silvia, Vitner & Brown |
| November-04 | Inflation Expectations Ease Further | Silvia, Vitner & Brown |
| October-28 | Debt Ceiling Debates and Their Effects on Yields and Volatility | Silvia, Vitner & Brown |
| Real Estate | | |
| December-22 | Nonresidential Construction Recap: December | Khan |
| December-04 | Housing Chartbook: November 2015 | Vitner & Khan |
| November-30 | Nonresidential Construction Recap: November | Khan |
| November-24 | Commercial Real Estate Chartbook: Q3 | Khan |
| November-16 | Are Risks Brewing in CRE Lending? | Khan & Brown |

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