



# Economic Outlook

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October 2022

**Charlie Dougherty**

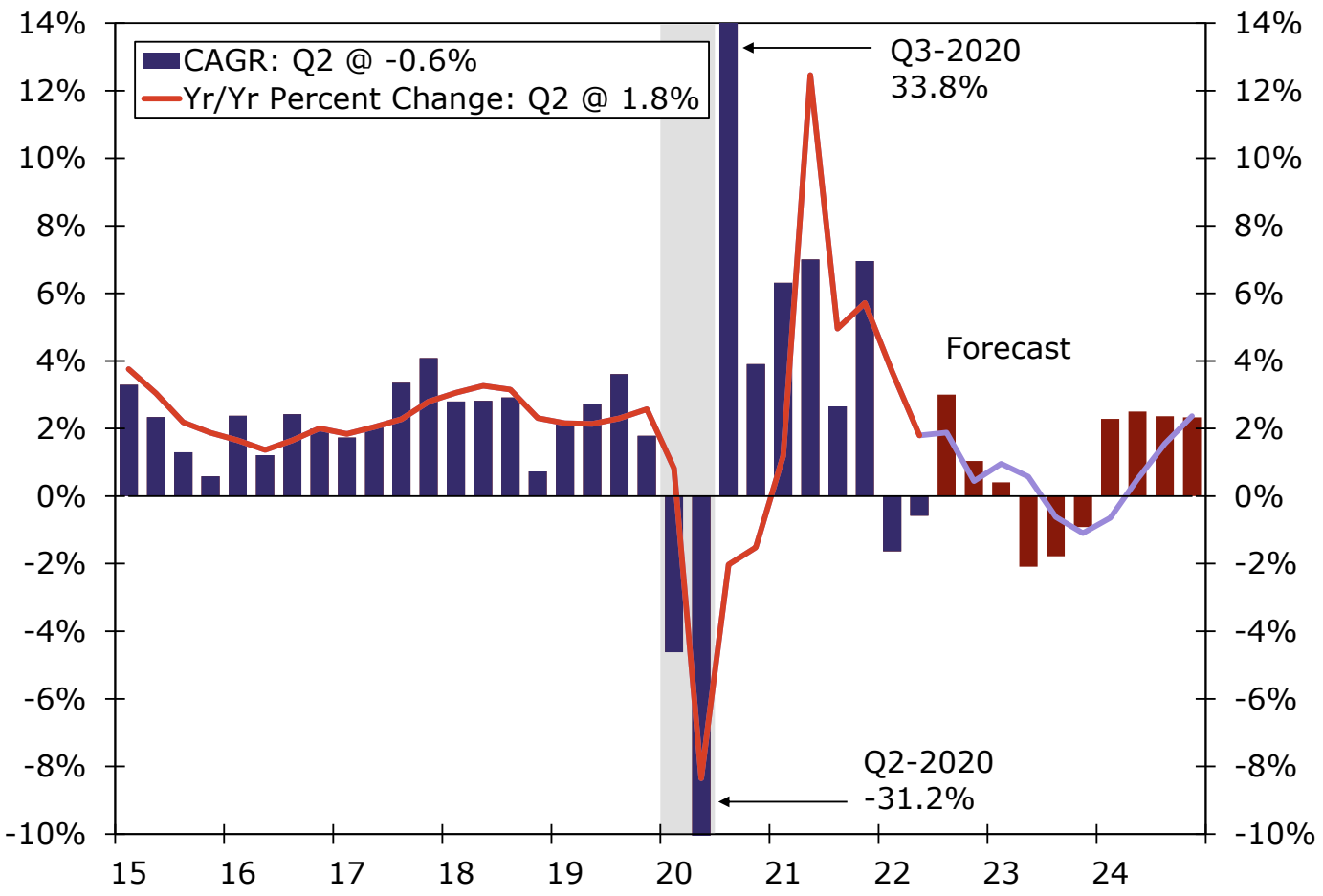
Vice President & Economist | Wells Fargo Economics

[charles.dougherty@wellsfargo.com](mailto:charles.dougherty@wellsfargo.com) | 704-410-6542

# Recession Risks Rising

The U.S. economy is not currently in recession. However, we now believe a mild recession in 2023 is more likely than not.

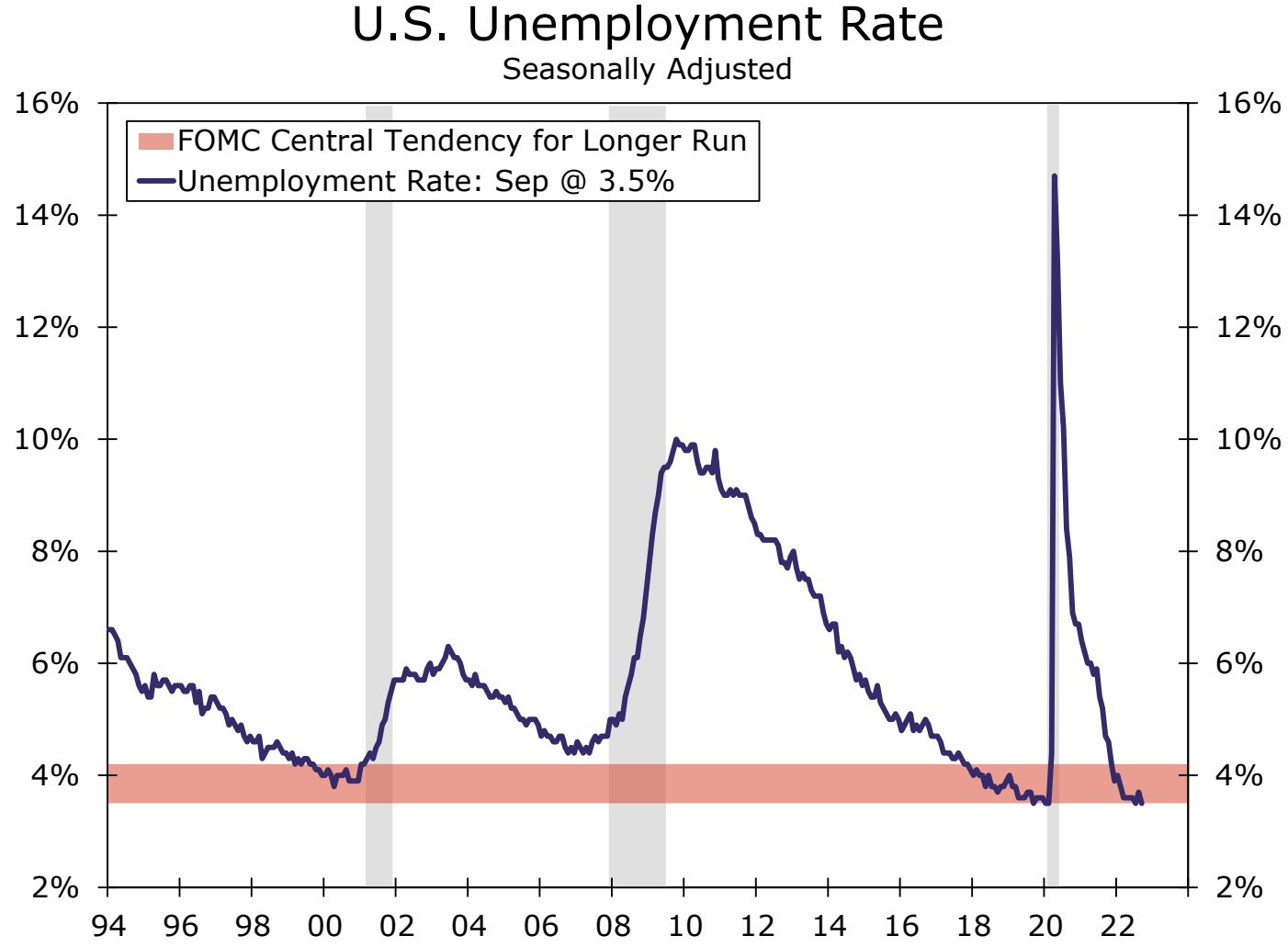
## U.S. Real GDP Growth



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

# Labor Market Still Tight but Loosening

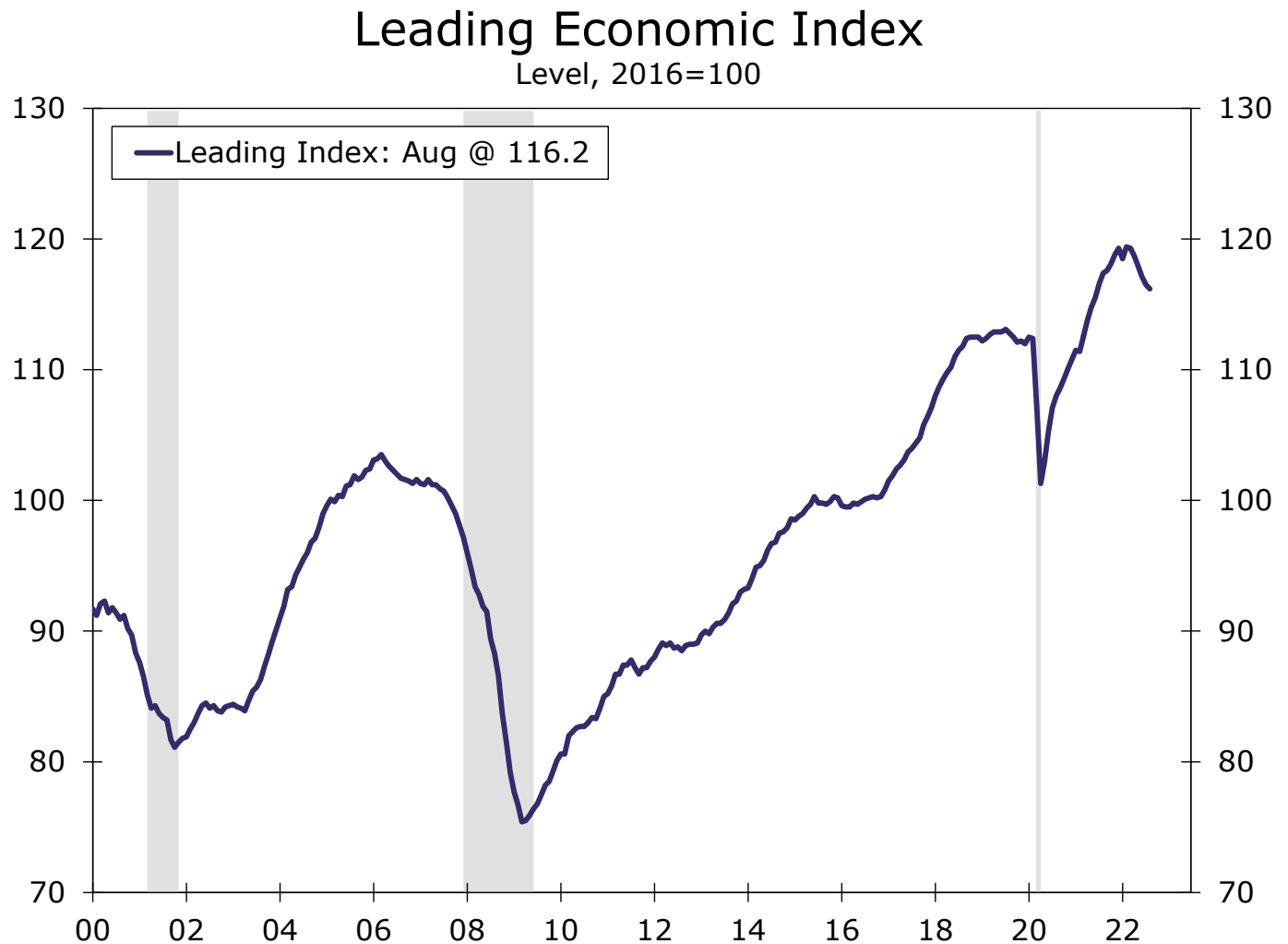
The unemployment rate is now on par with pre-pandemic levels, which is hardly consistent with the economy being in a recession.



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

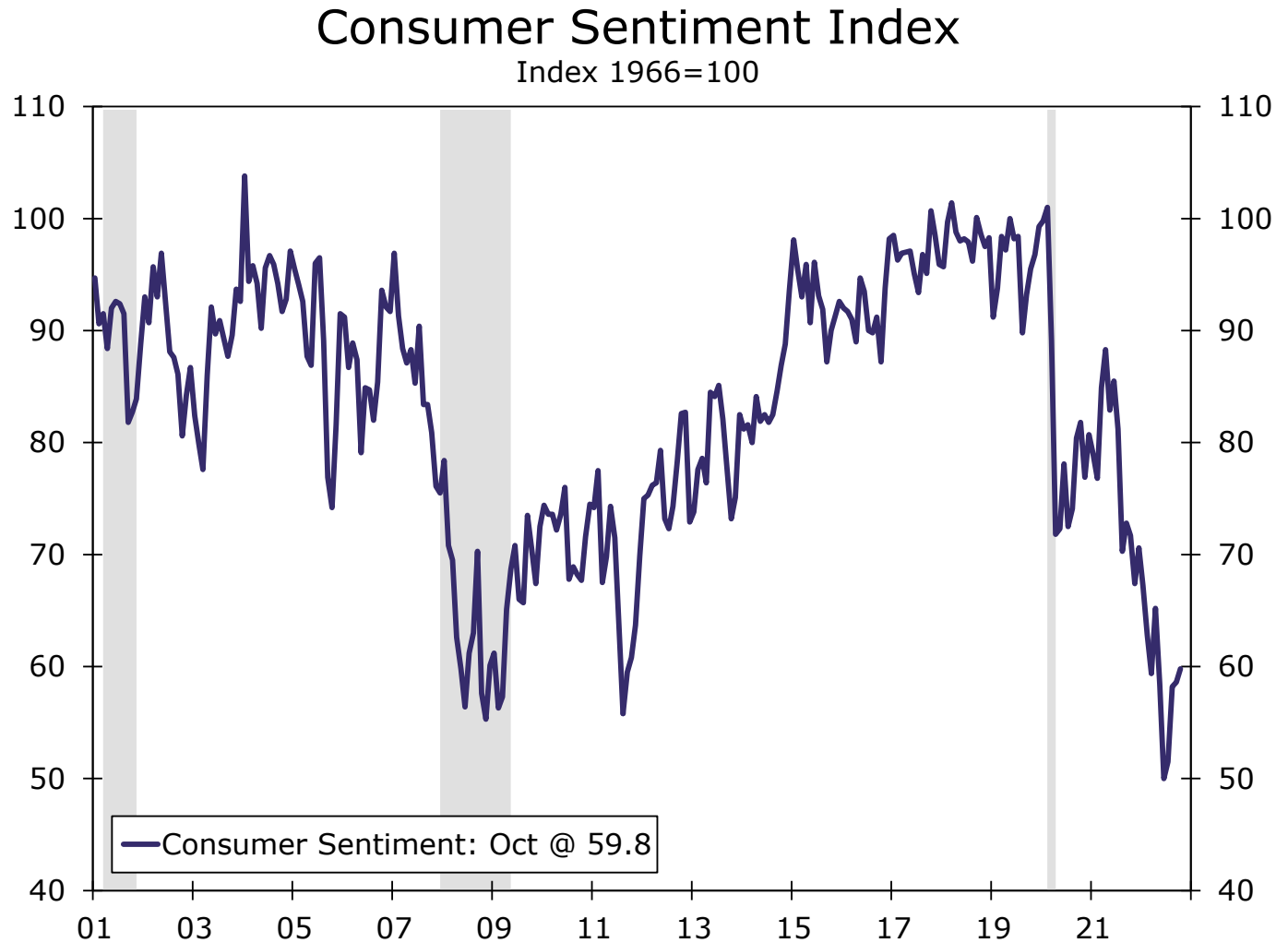
# Leading Economic Index

There has been a trend decline in the leading economic index, which usually indicates growth is nearing an inflection point.

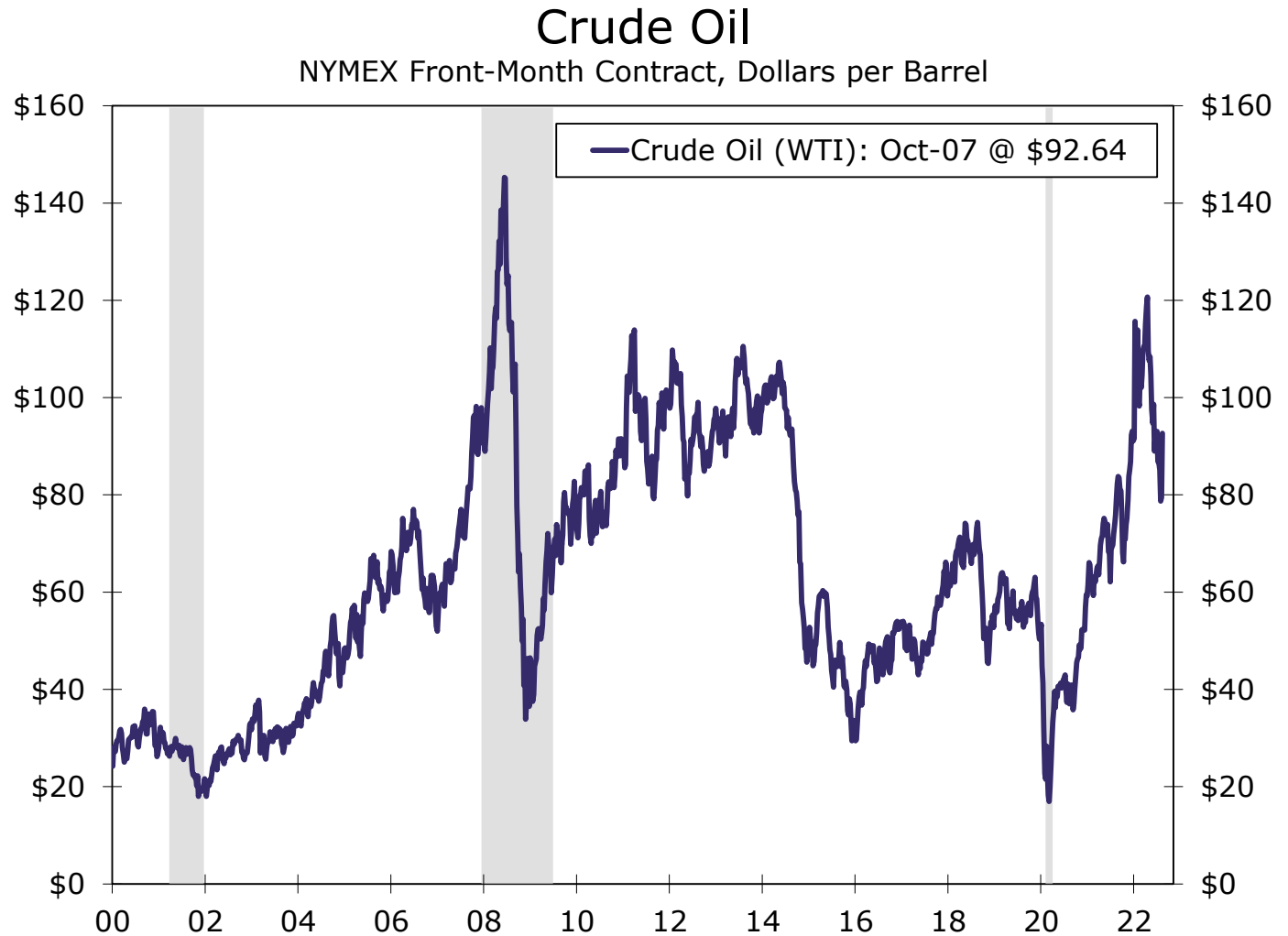


# Consumer Sentiment

Amid high inflation, rising interest rates and volatile financial markets, consumer sentiment has turned down.

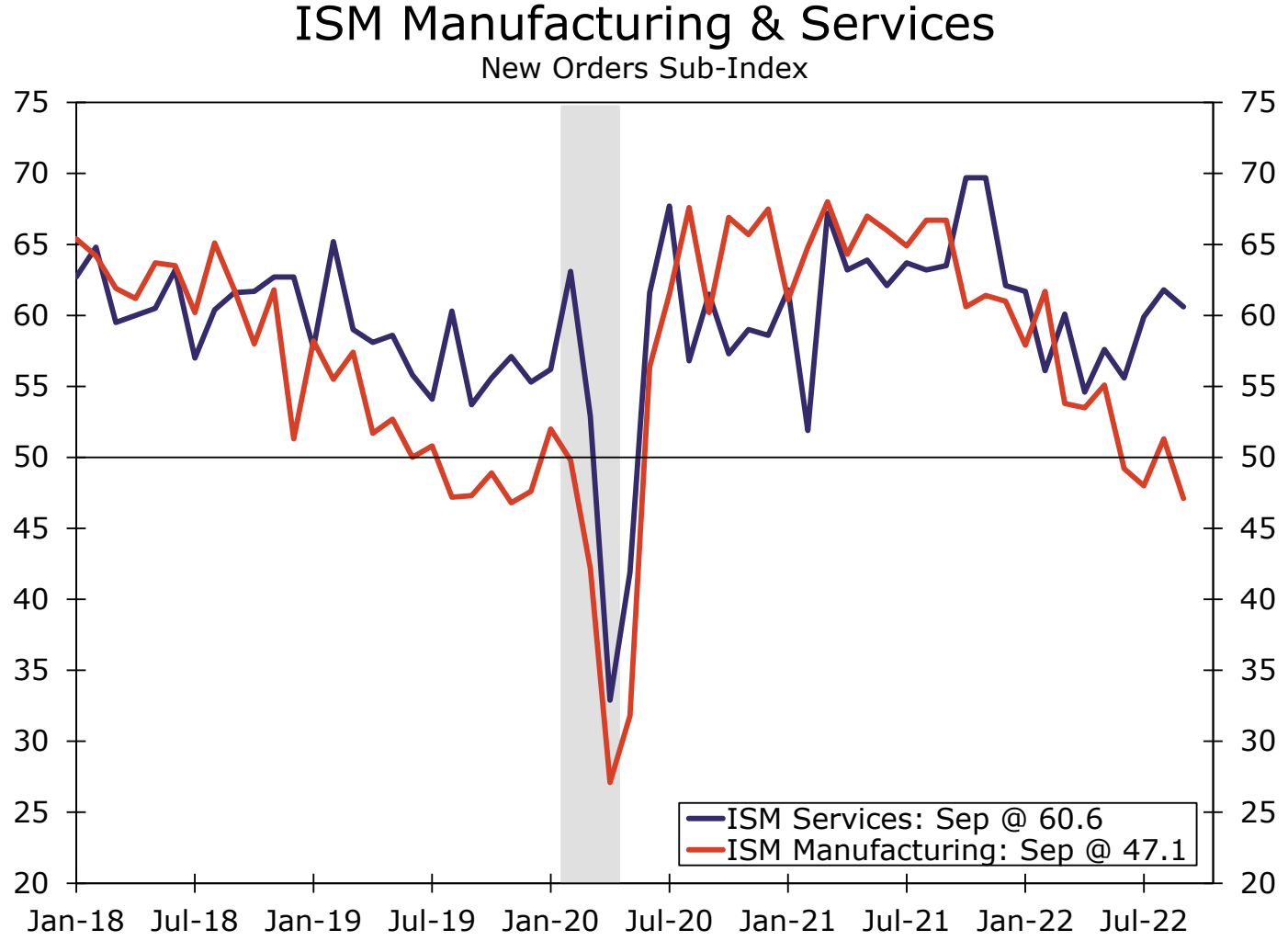


Oil prices have declined since spiking earlier in the year following Russia's invasion of Ukraine.



# Manufacturing and Service Sector Activity

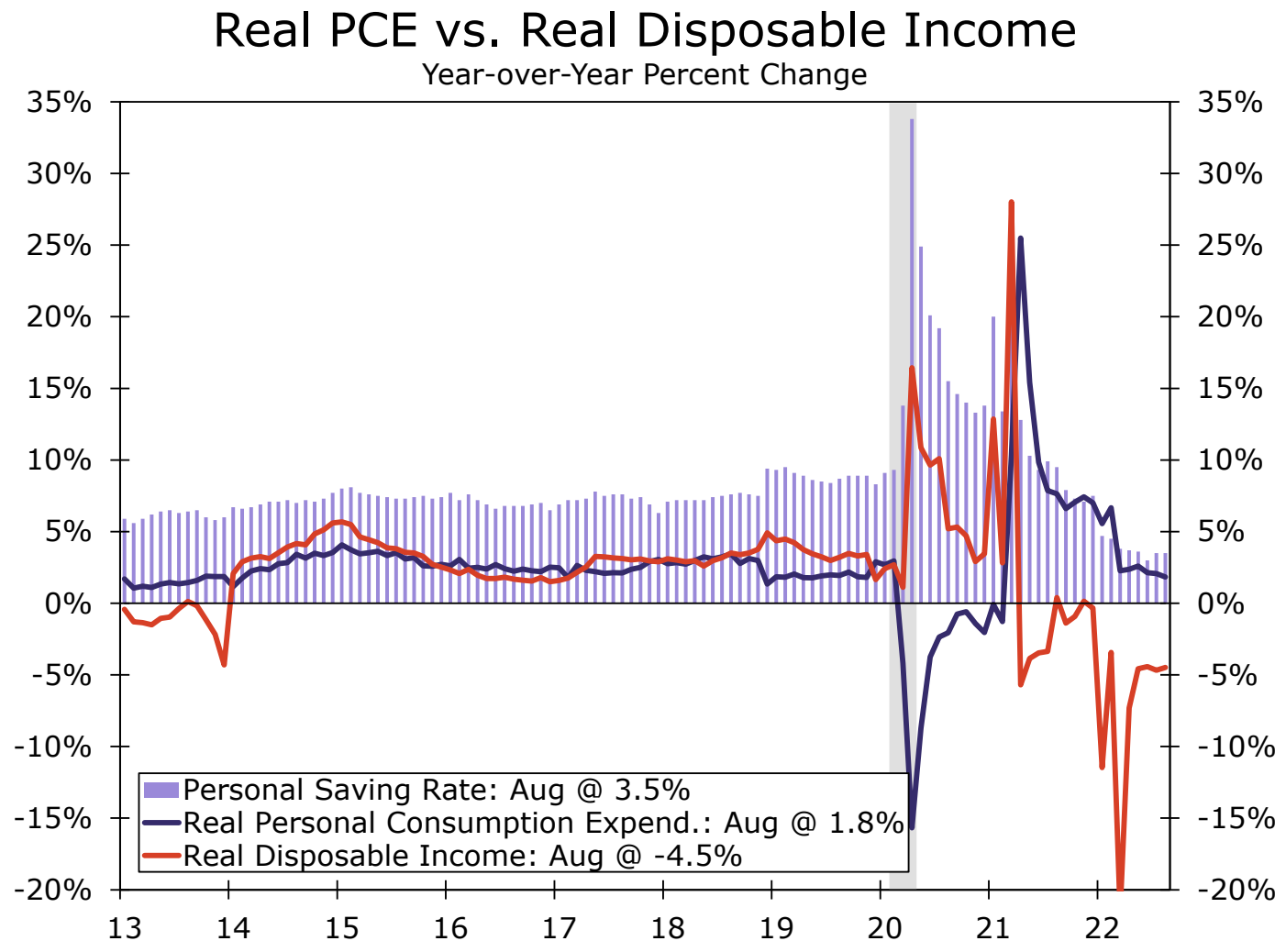
Service sector activity appears to holding up much better compared to manufacturing, which has seen new orders fall as businesses look to bleed down inventories.



Source: Institute for Supply Management and Wells Fargo Economics

# Real Income Growth in the Red

Inflation-adjusted income growth has turned negative, presaging significantly weaker consumer spending growth ahead.

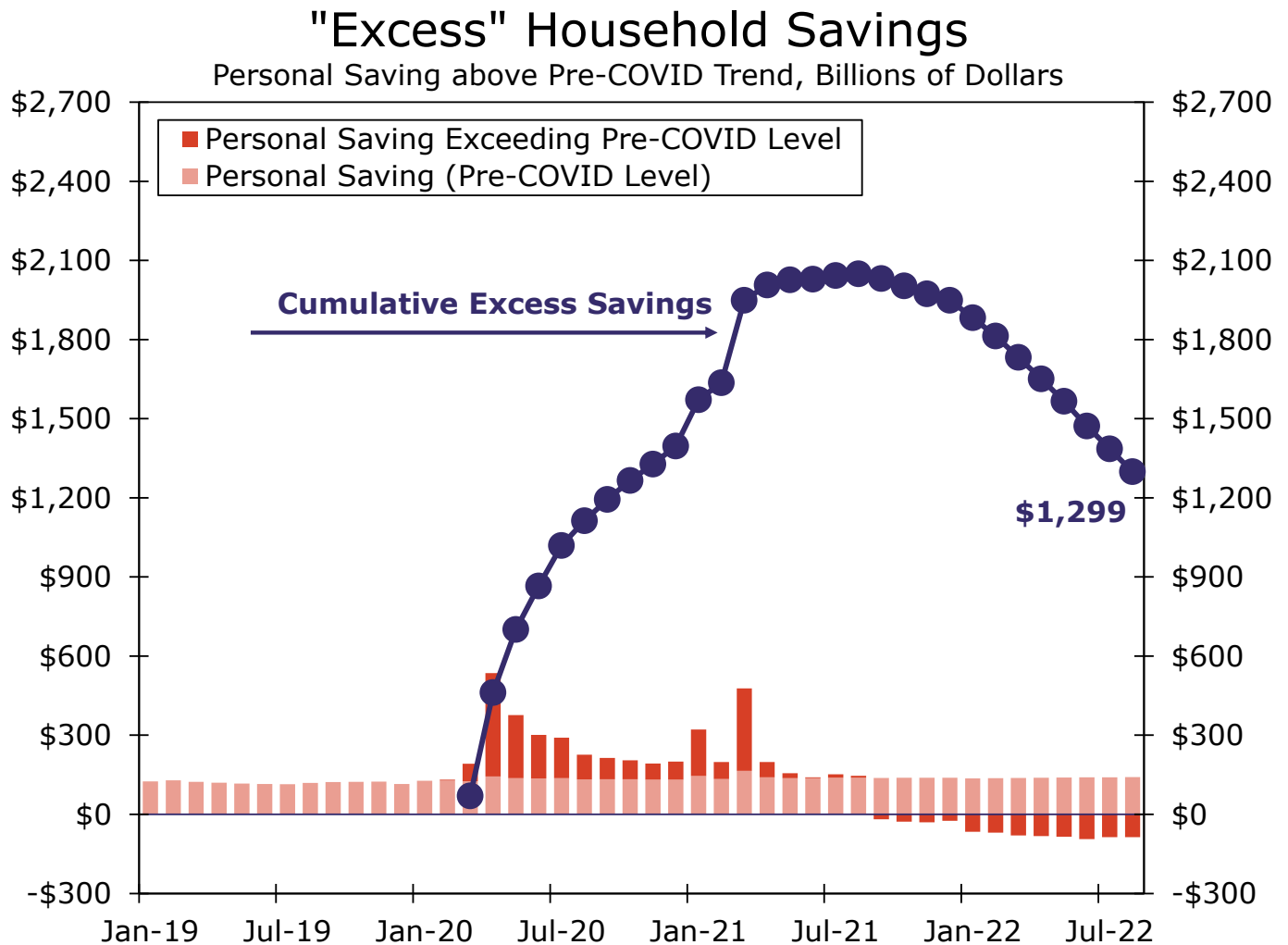


Source: U.S. Department of Commerce and Wells Fargo Economics

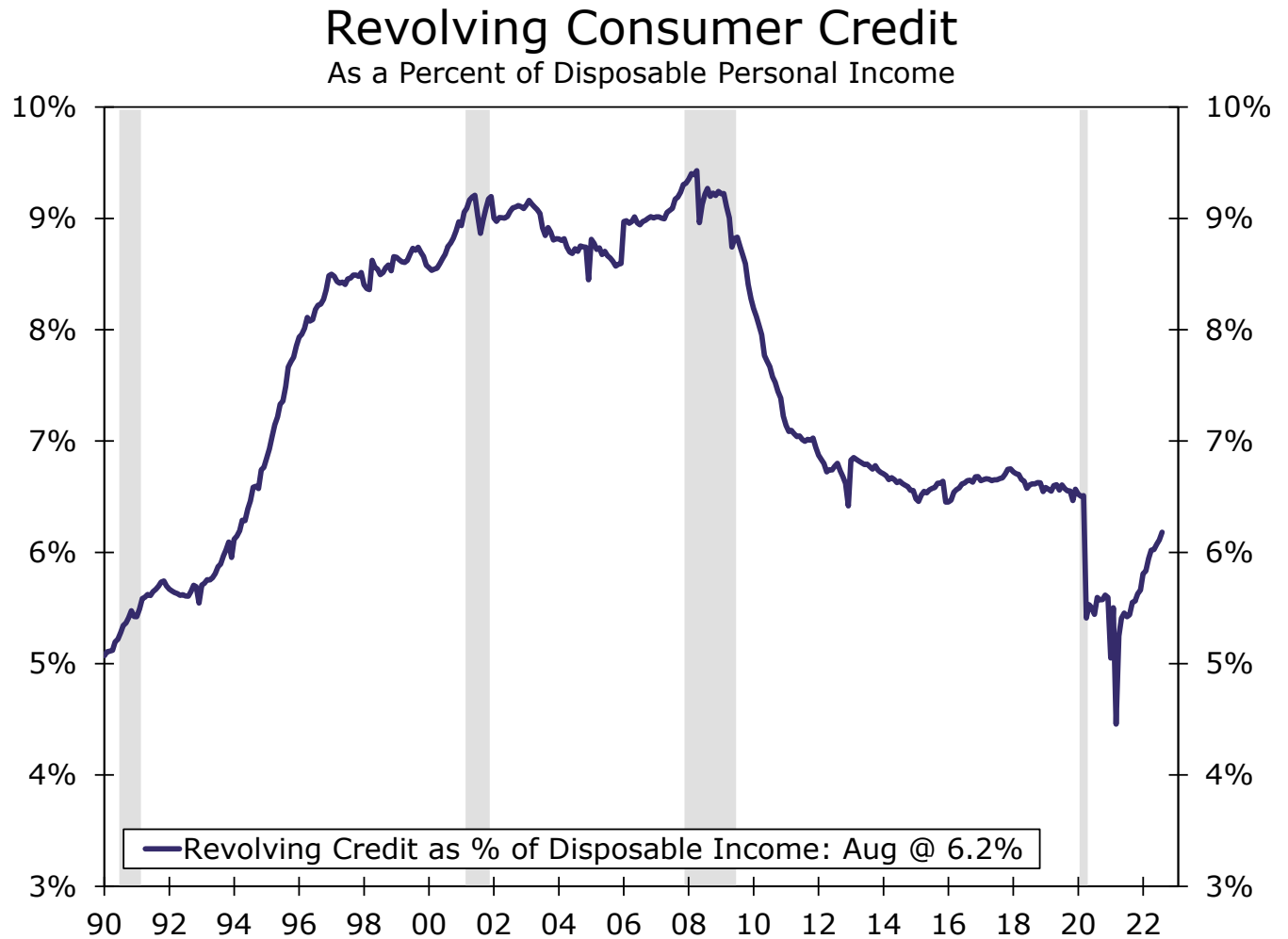


# Consumer Savings Will Provide A Cushion

The strength of household balance sheets will help support consumer spending in the years ahead. Inflation, however, is quickly eating into the pile.



Consumers are leaning more on their balance sheets.

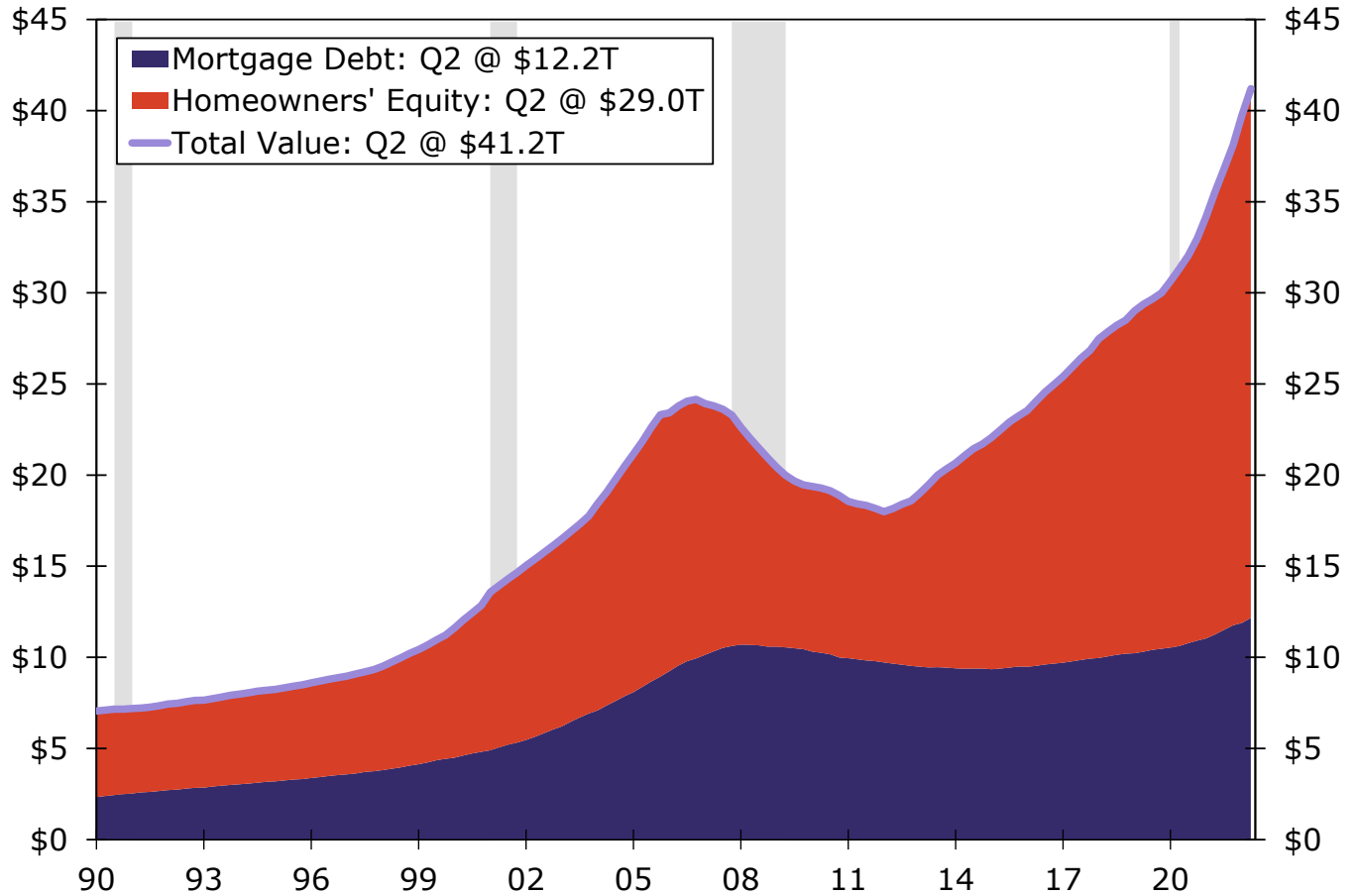


# Home Equity

Homeowners have a significant equity cushion. Federal Reserve data show single-family home equity at a record \$27.8 trillion.

## Value of the U.S. Single-Family Housing Market

Trillions of Dollars

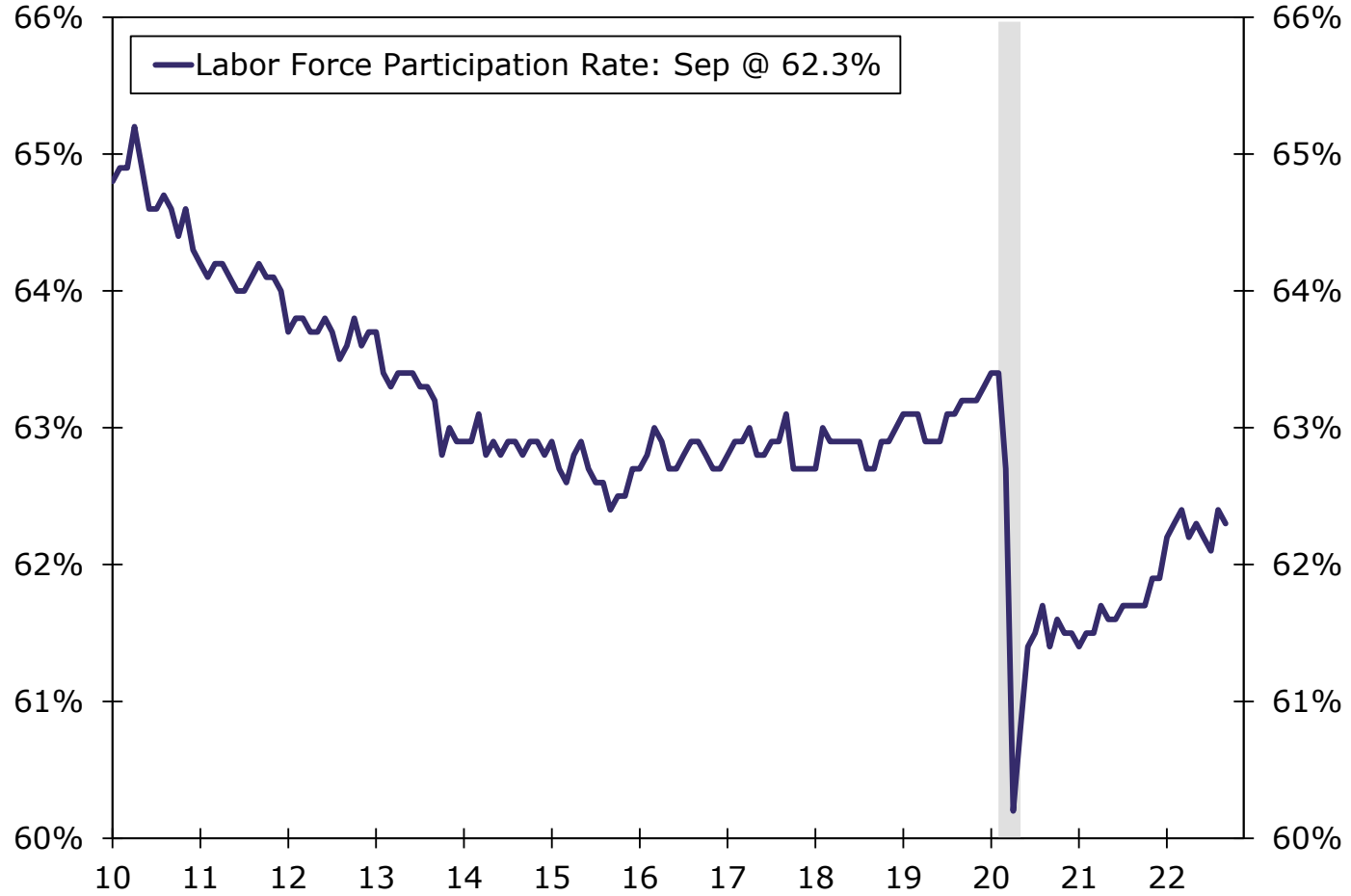


# Labor Market: Still a Seller's Market

Businesses continue to report that finding qualified workers to fill open positions is a challenge.

## Labor Force Participation Rate

16 Years and Over, Seasonally Adjusted

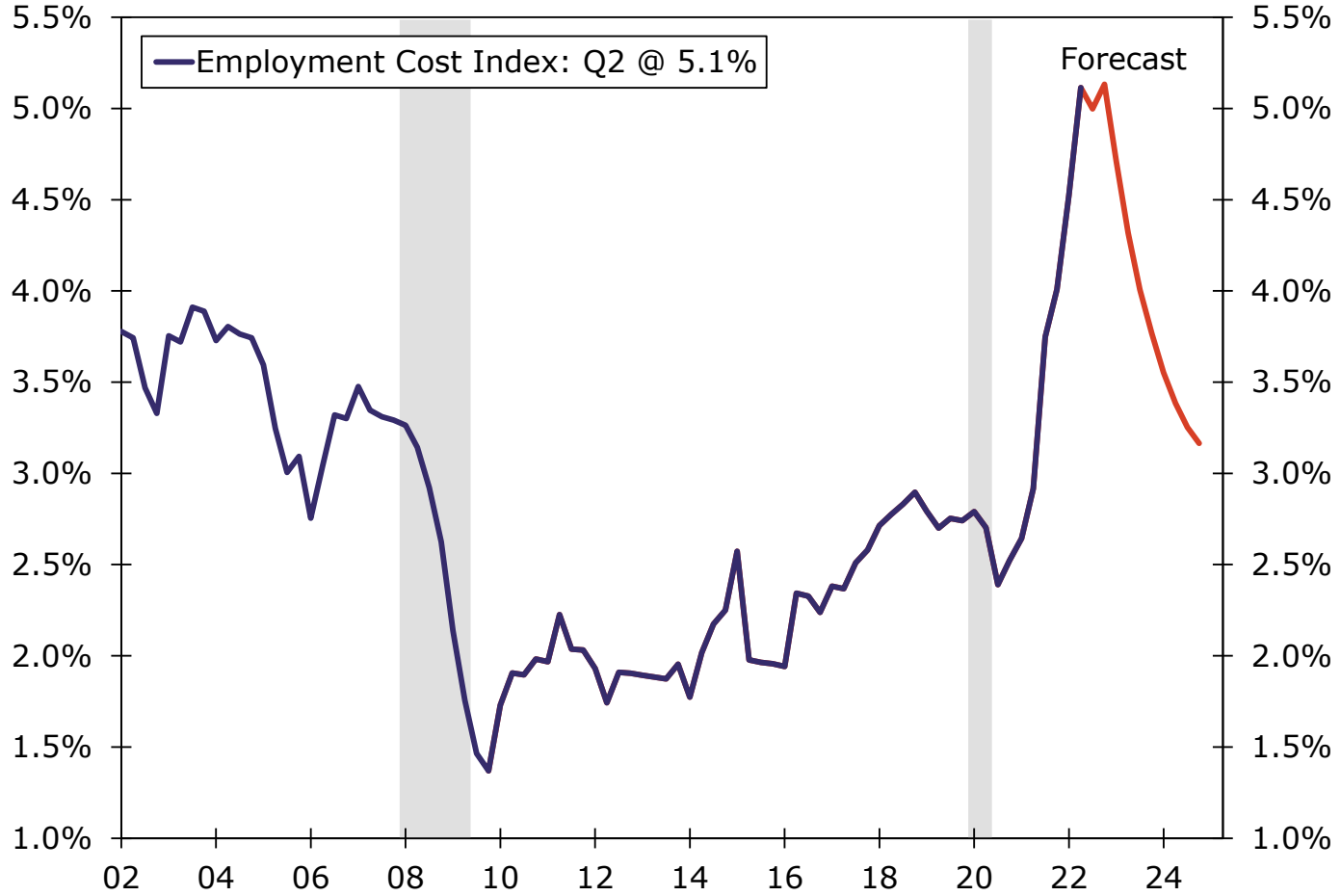


Source: U.S. Department of Labor and Wells Fargo Economics

Tight labor markets have pushed up wages, which is feeding into inflation pressures. More labor market slack will lead to wage growth moderation.

## Employment Cost Index

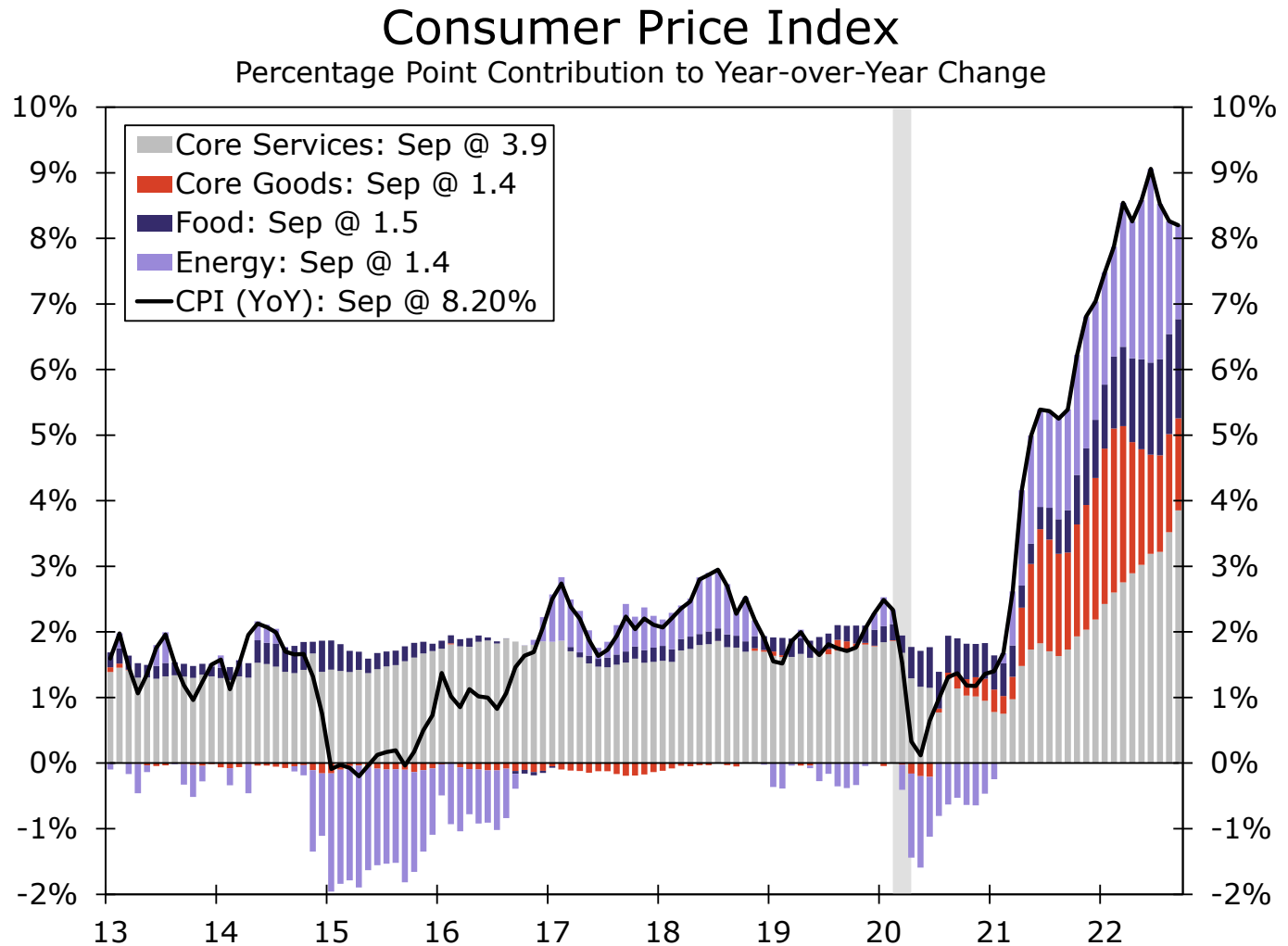
Year-over-Year Percent Change



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

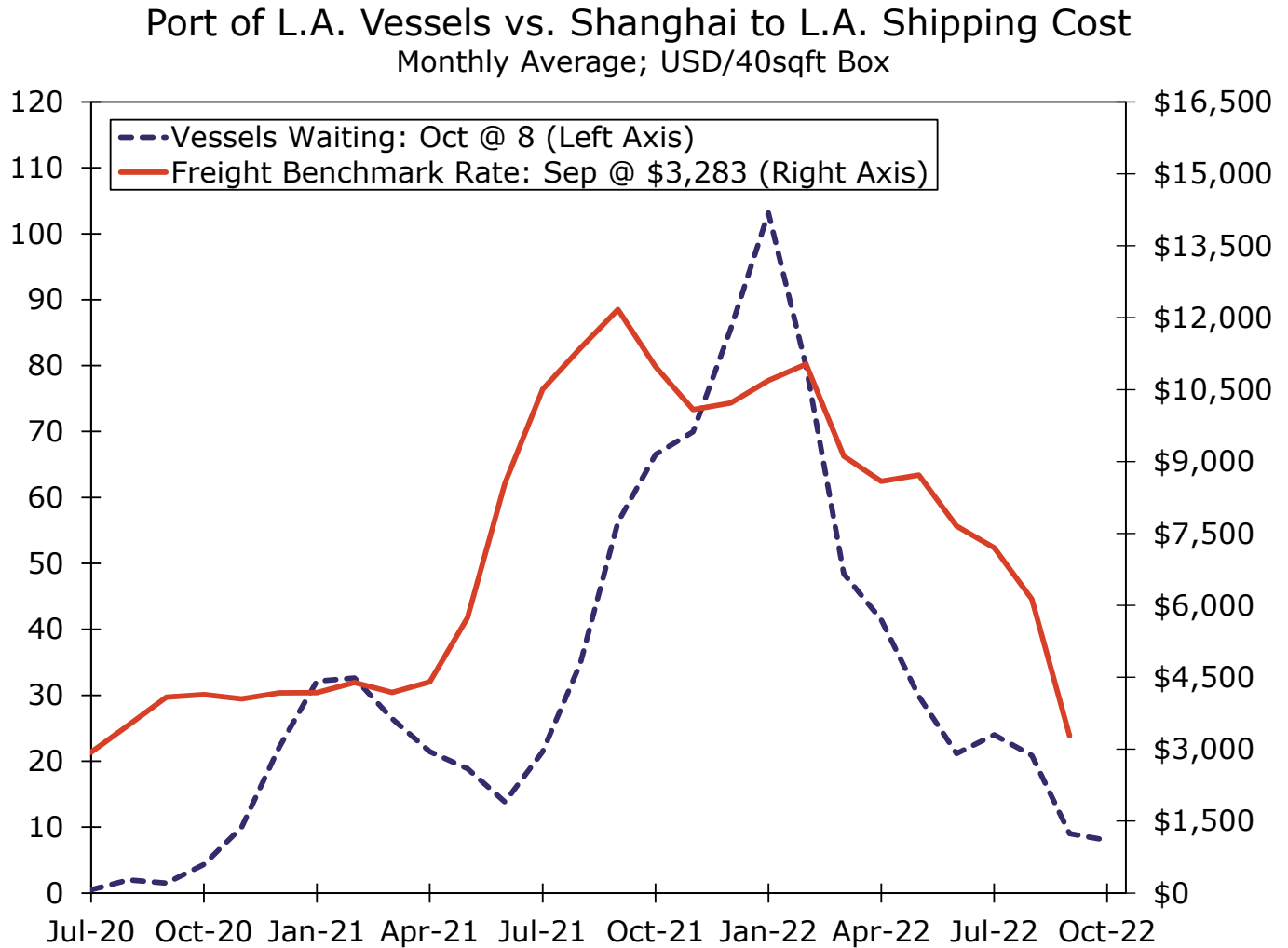
# Consumer Price Inflation

Inflation has broadened into food and energy as well as the service sector as a whole.



# Supply Bottlenecks

Supply chain constraints are beginning to ease, which suggests less price pressures in the months ahead.



# Supply Chain Strains Easing

Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-22	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>Volume</b>																																
Unfilled Orders (a)	9.0%	6.2%	2.6%	0.6%	1.1%	4.6%	5.6%	7.4%	9.4%	10.7%	10.3%	11.2%	12.6%	15.3%	16.2%	15.6%	14.1%	12.4%	11.6%	9.1%	7.8%	6.0%	4.5%	4.4%	3.9%	4.3%	3.5%	2.2%	1.2%	1.5%	3.2%	
Cass Freight Index (a)	-13.2%	14.0%	-33.5%	-44.1%	-36.3%	48.0%	88.4%	115.9%	80.5%	21.6%	-17.4%	-21.7%	-8.1%	29.1%	26.8%	59.0%	12.2%	-0.3%	-10.6%	-14.4%	4.1%	-8.8%	8.4%	-32.4%	-11.1%	-1.6%	39.7%	23.7%	0.0%	3.5%	14.7%	34.7%
Taiwan Elect. Product Exports (a)	-38.1%	14.7%	56.6%	41.7%	14.7%	39.7%	120.9%	87.0%	96.2%	3.3%	-9.4%	10.2%	-47.1%	23.5%	6.6%	133.2%	35.7%	39.3%	73.1%	70.5%	-2.4%	20.0%	-7.5%	41.6%	-4.8%	58.0%	37.1%	27.1%	-19.5%	-5.8%	8.4%	-6.5%
Real Goods Consumption (b)	0.0%	-1.1%	-13.9%	-1.0%	5.1%	7.7%	6.9%	9.2%	8.9%	8.0%	7.2%	12.3%	9.9%	20.7%	18.9%	16.7%	16.8%	14.9%	14.8%	15.5%	16.8%	16.4%	14.0%	16.7%	15.3%	15.1%	15.3%	14.7%	14.9%	14.6%	14.4%	
<b>Time</b>																																
ISM Manuf. Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	73.4	75.6	72.2	64.9	64.6	66.1	65.4	67.2	65.7	57.3	55.2	55.1	52.4
ISM Serv. Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6	68.8	75.7	75.7	63.9	65.7	66.2	63.4	65.1	61.3	61.9	57.8	54.5	53.9
Ships Awaiting Space LA & LB (c)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	34.8	56.3	66.6	70.0	85.6	103.2	79.9	48.4	41.5	29.8	23.0	24.0	20.9	9.0
<b>Price</b>																																
World Container Index (WCI)	\$1,633	\$1,520	\$1,500	\$1,549	\$1,788	\$2,009	\$2,144	\$2,541	\$2,592	\$2,806	\$3,955	\$5,263	\$5,227	\$4,991	\$4,919	\$5,898	\$7,052	\$8,879	\$9,556	\$10,237	\$9,891	\$9,180	\$9,227	\$9,518	\$9,398	\$8,783	\$7,907	\$7,667	\$7,412	\$6,908	\$6,317	\$4,894
PPI Transp. & Ware. of Goods (a)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	16.9%	14.4%	12.5%	9.6%	11.9%	16.4%	22.5%	19.6%	21.0%	19.5%	35.1%	34.3%	36.5%	16.7%	7.8%	-6.1%	
Dry Van Rate Per Mile (a)	7.6%	-16.0%	-28.6%	-49.7%	-16.5%	52.6%	352.8%	315.4%	191.1%	112.6%	48.8%	12.2%	-25.4%	10.5%	12.6%	52.0%	-8.4%	-8.6%	-0.2%	41.8%	64.5%	57.1%	54.4%	91.6%	70.1%	-7.2%	-56.2%	-69.7%	-67.0%	-57.5%	-35.7%	-26.2%
<b>Inventory</b>																																
Retail Inventory-to-Sales Ratio	1.42	1.53	1.69	1.35	1.23	1.22	1.23	1.23	1.25	1.27	1.27	1.22	1.24	1.10	1.09	1.09	1.09	1.12	1.12	1.10	1.09	1.10	1.17	1.15	1.15	1.18	1.18	1.20	1.21	1.23		
ISM Manuf. Cons. Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2	31.7	31.7	25.1	31.7	33.0	31.8	34.1	37.1	32.7	35.2	39.5	38.9	41.6
Inventory Too Low (d)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%	10.0%	9.0%	15.0%	9.0%	7.0%	7.0%	9.0%	6.0%	8.0%	5.0%	2.0%	3.0%	
<b>Labor</b>																																
Production & Manuf. Posts (b)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%	87.3%	92.4%	103.0%	115.3%	102.9%	108.9%	108.3%	96.3%	97.1%	92.9%	91.1%	89.3%	91.1%
Loading & Stocking Posts (b)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%	82.4%	92.4%	106.5%	114.9%	92.9%	97.5%	93.9%	80.7%	84.9%	83.5%	89.3%	74.1%	79.3%
Jobs Hard to Fill (d)	37.6%	35.2%	23.5%	23.2%	31.9%	30.2%	33.4%	36.4%	33.1%	33.5%	32.3%	32.7%	39.6%	42.2%	44.0%	48.0%	46.0%	49.0%	50.0%	51.0%	49.0%	48.0%	49.0%	47.0%	48.0%	47.0%	47.0%	51.0%	50.0%	49.0%	49.0%	

Notes: (a) 3-Month Annualized Rate, (b) versus February 2020, (c) Monthly Average, (d) Net % of Firms, Current Month Reflects Monthly Average of Available Data for All Series

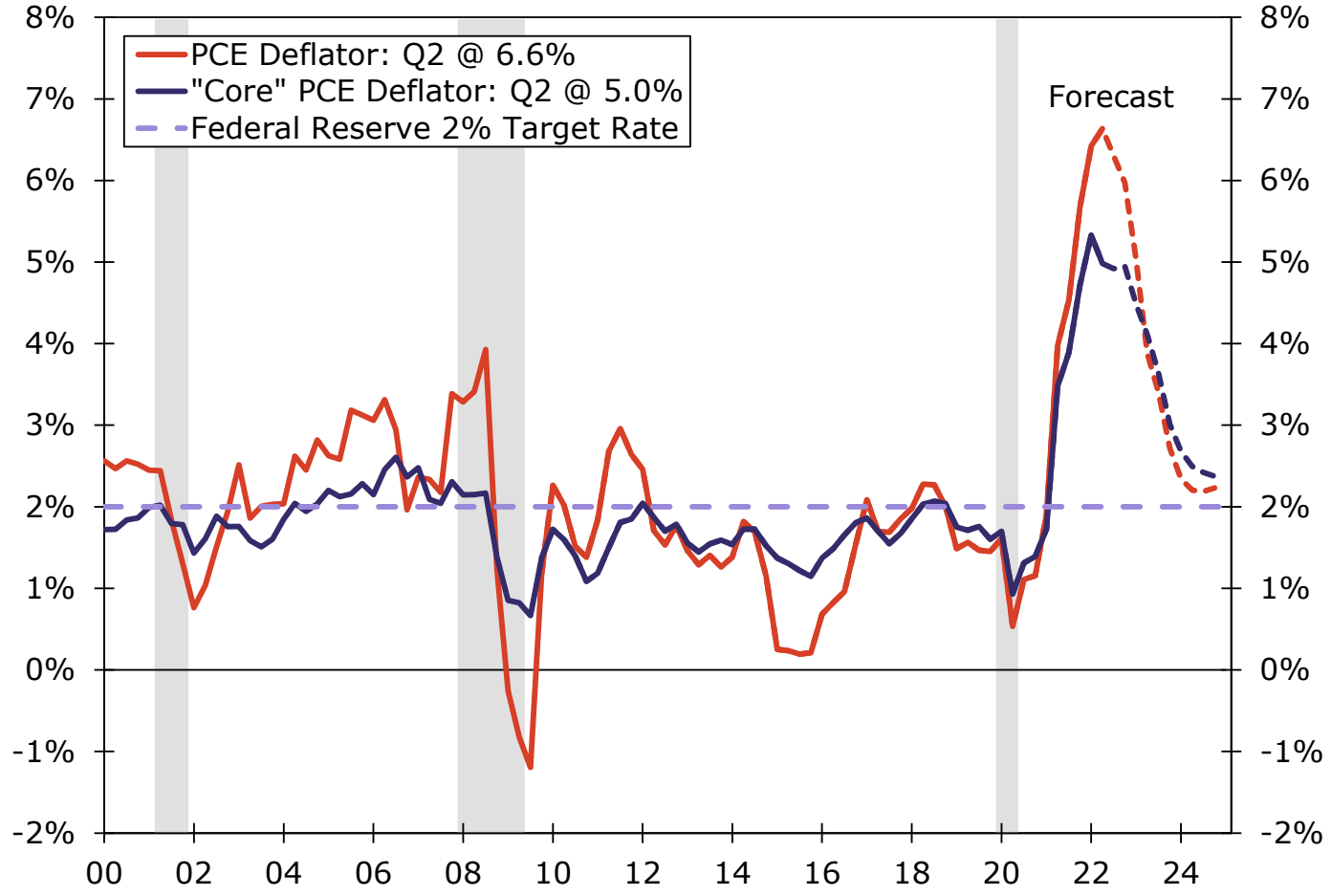
Source: U.S. Department of Commerce, Bloomberg Finance L.P., Taiwan Ministry of Finance, Institute for Supply Management (ISM), Drewry, U.S. Department of Labor, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Economics



We expect inflation to remain elevated in 2022, but look for more moderate price increases later in the year as supply and demand imbalances normalize.

## PCE Deflator & "Core" PCE Deflator

Year-over-Year Percent Change

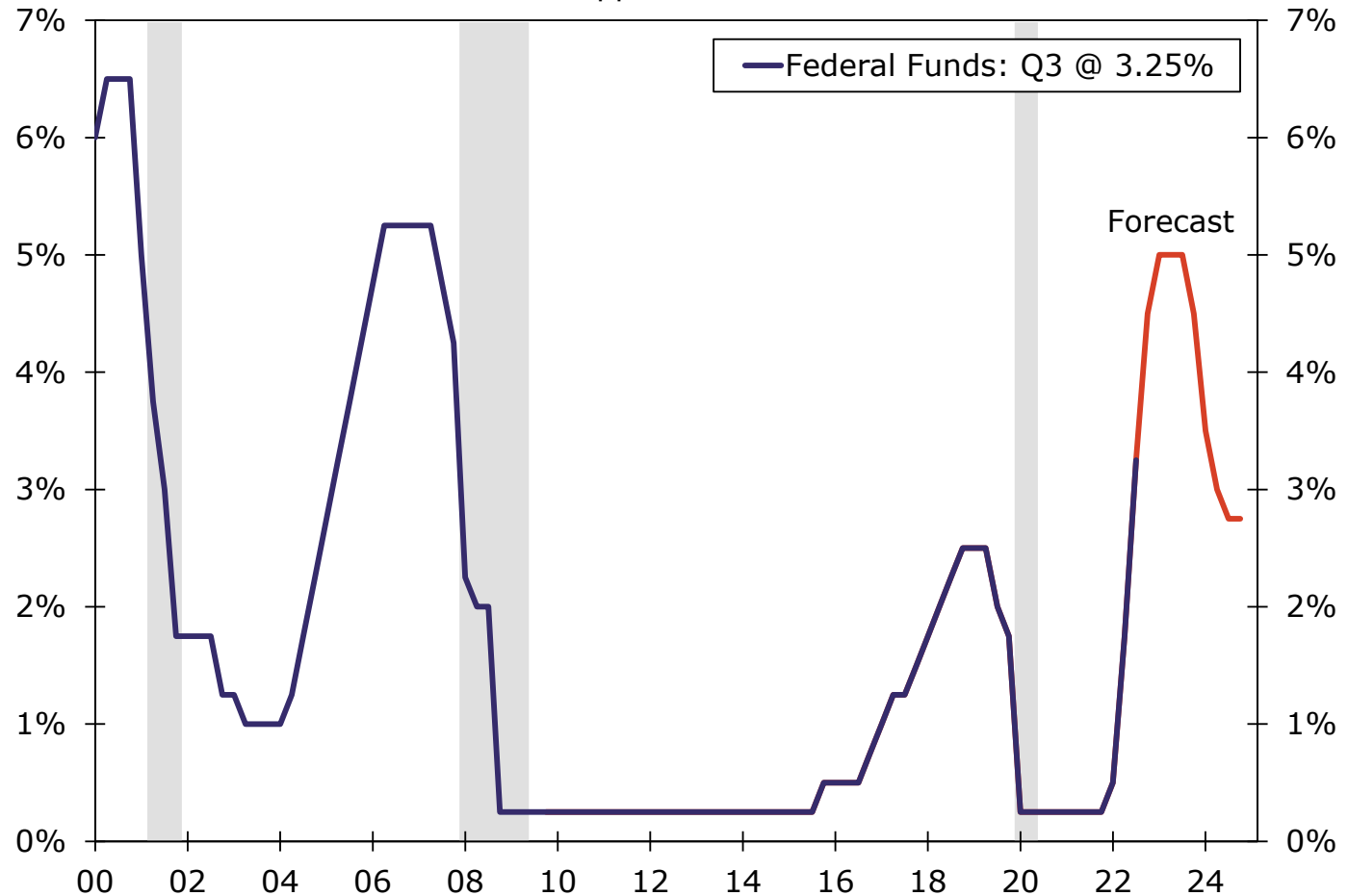


Source: U.S. Department of Commerce and Wells Fargo Economics

We expect the Fed to raise the federal funds rate aggressively until material progress has been made with respect to tamping down inflation.

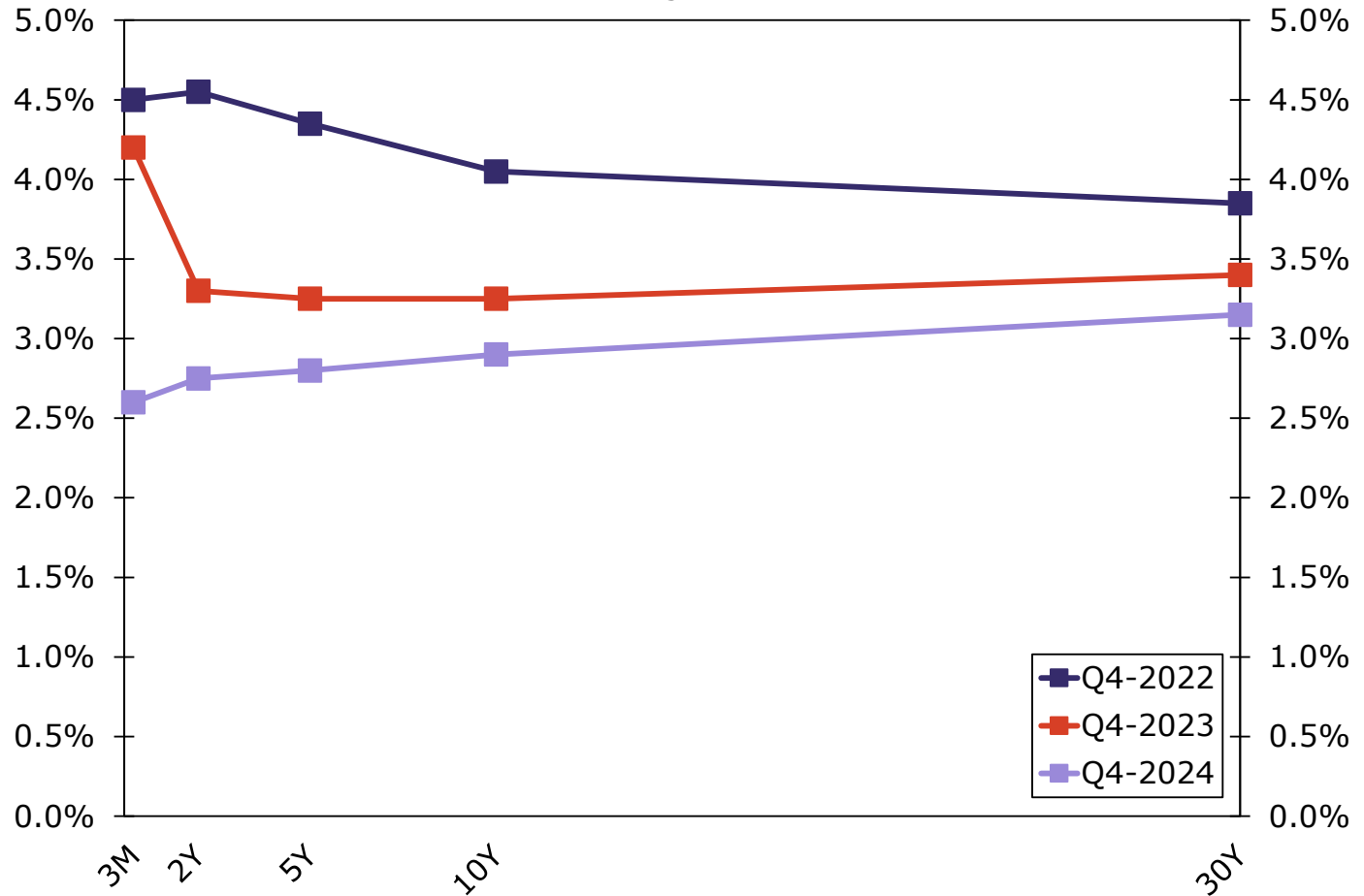
## Federal Funds Target Rate

Upper Bound



The expected path of monetary policy continues to impact the yield curve.

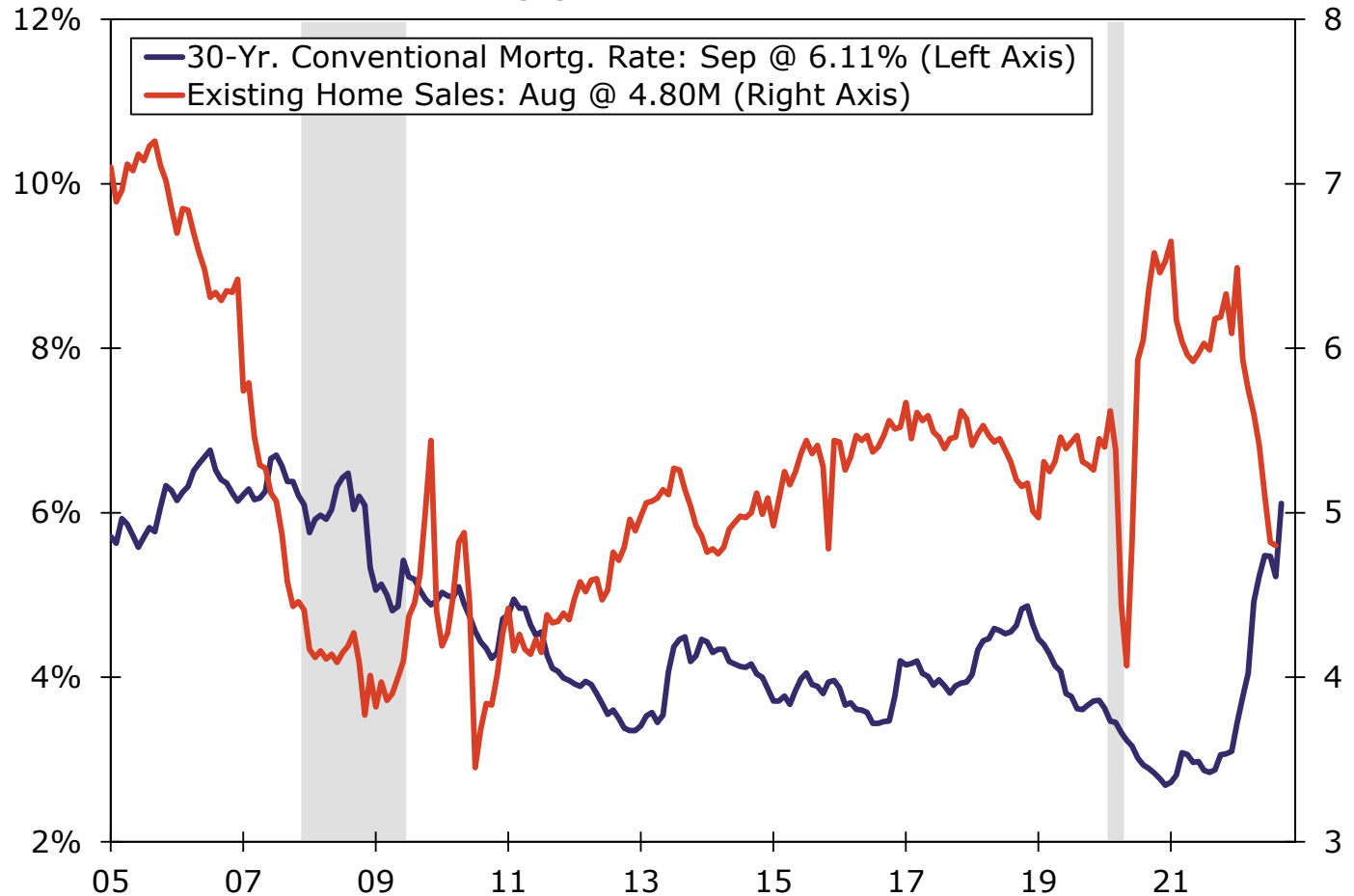
## Wells Fargo Rates Forecast Through 2024



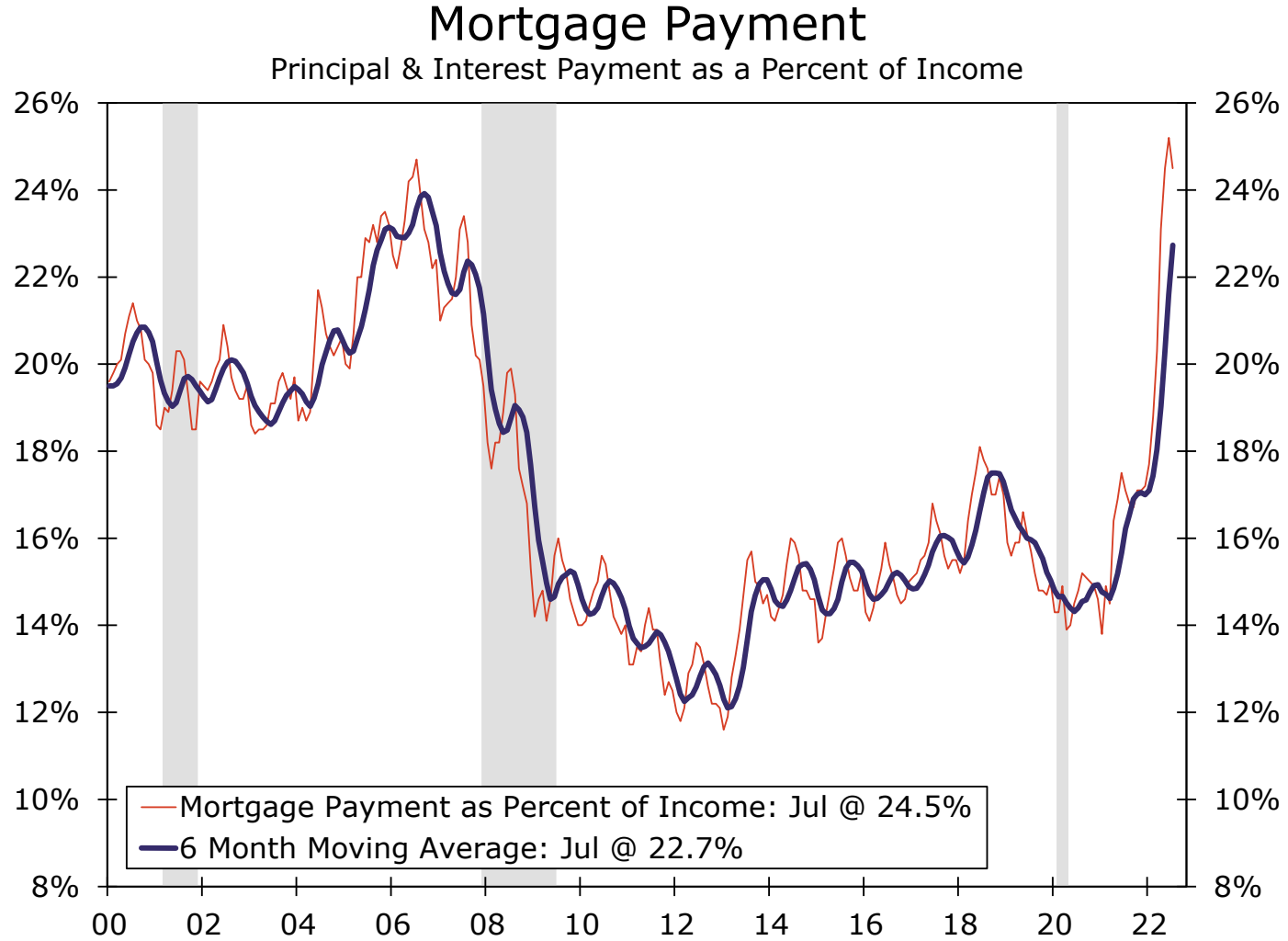
Home sales have slowed markedly alongside higher mortgage rates.

## Mortgage Rate vs. Existing Home Sales

Mortgage Rate; SAAR, Millions

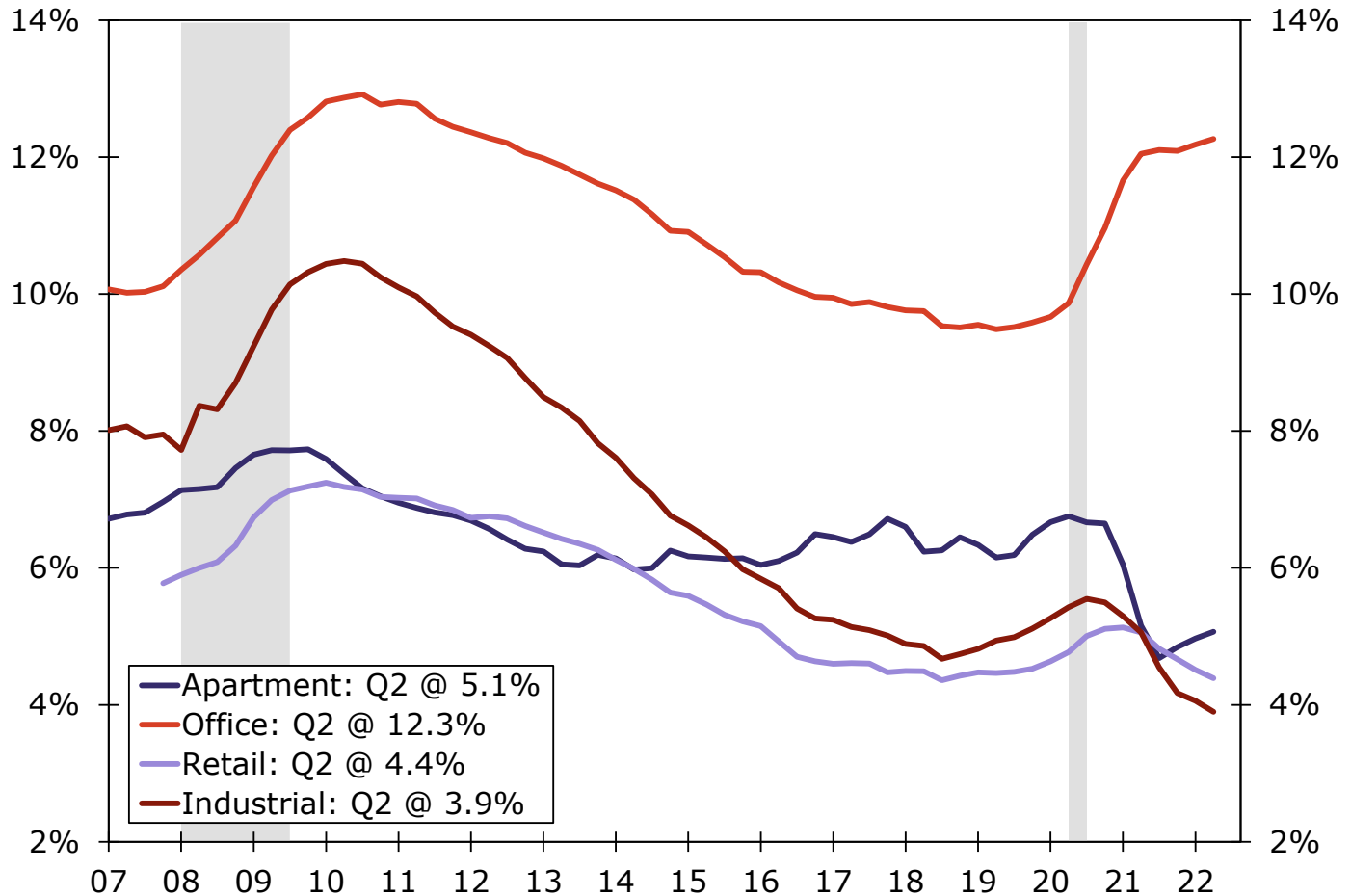


Rising incomes have provided some offset to higher borrowing costs. However, as a share of income, average mortgage payments are now the highest since the early 1980s.

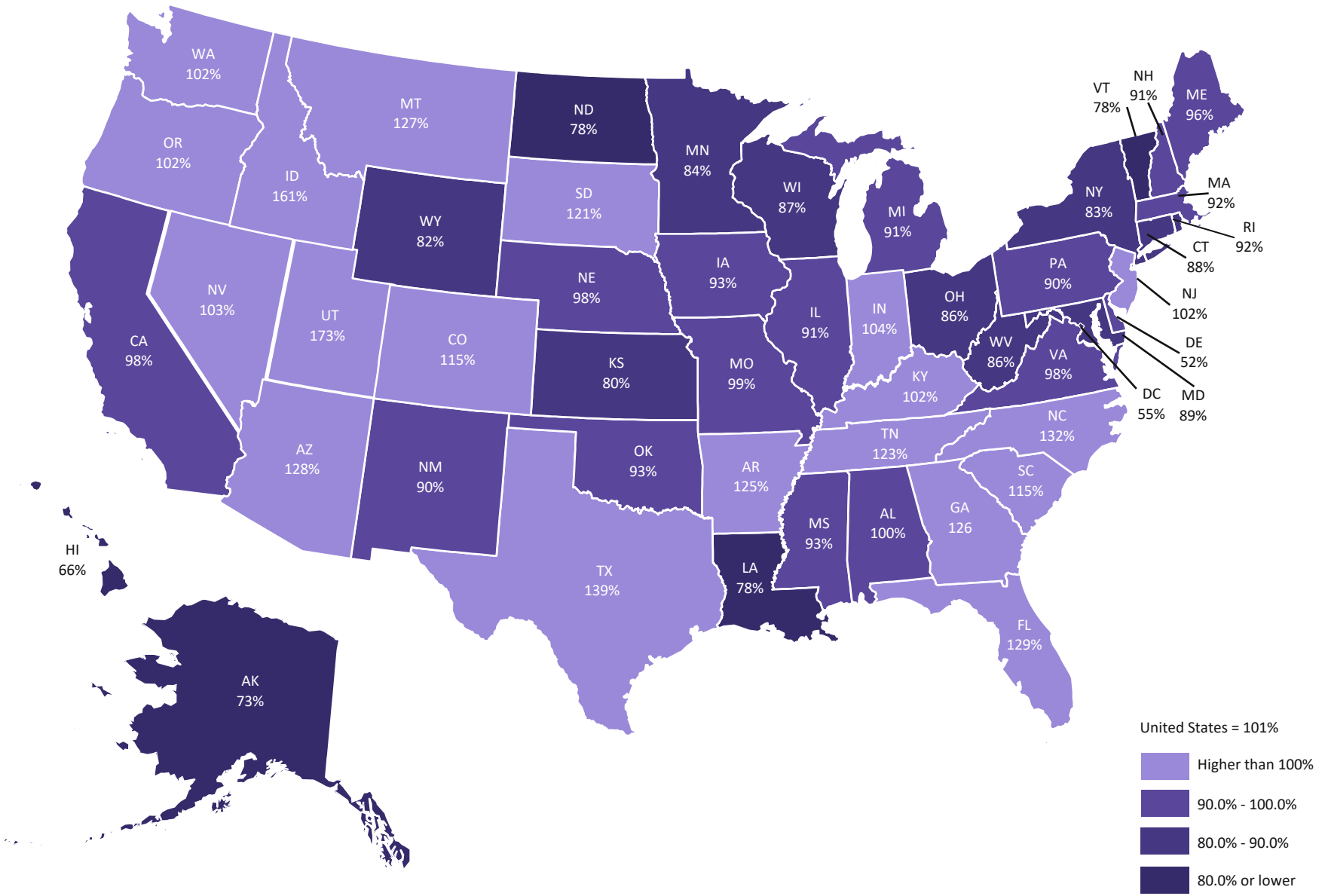


Inflation and higher interest rates are starting to slow CRE demand. The aftershocks of the pandemic continue to hold down the office market.

## CRE Vacancy Rates



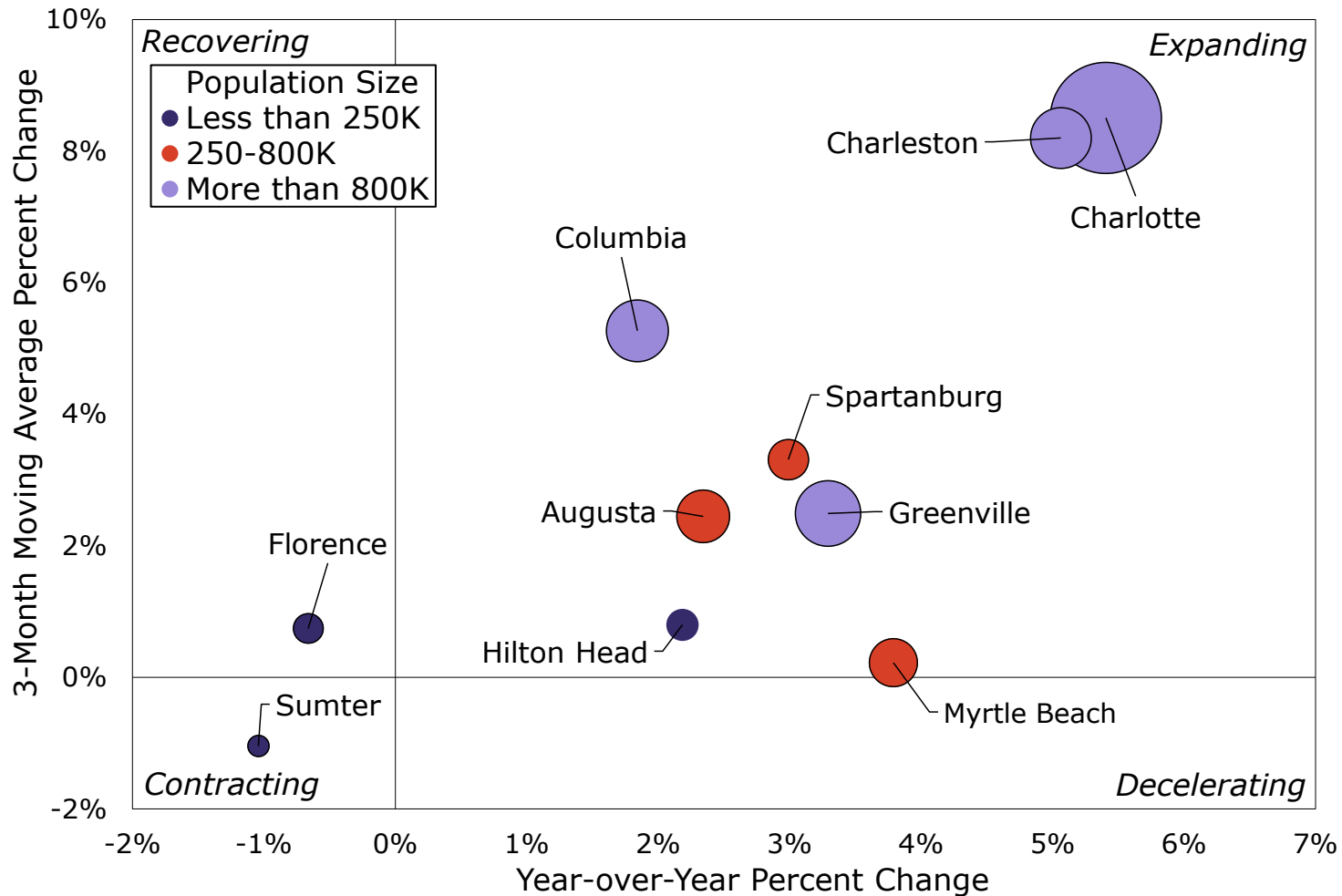
# Percent of March and April Job Losses Recovered – August 2022



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

# South Carolina Employment by MSA

## South Carolina Employment Growth: August 2022 Year-over-Year Percent Change, 3-Month Moving Average



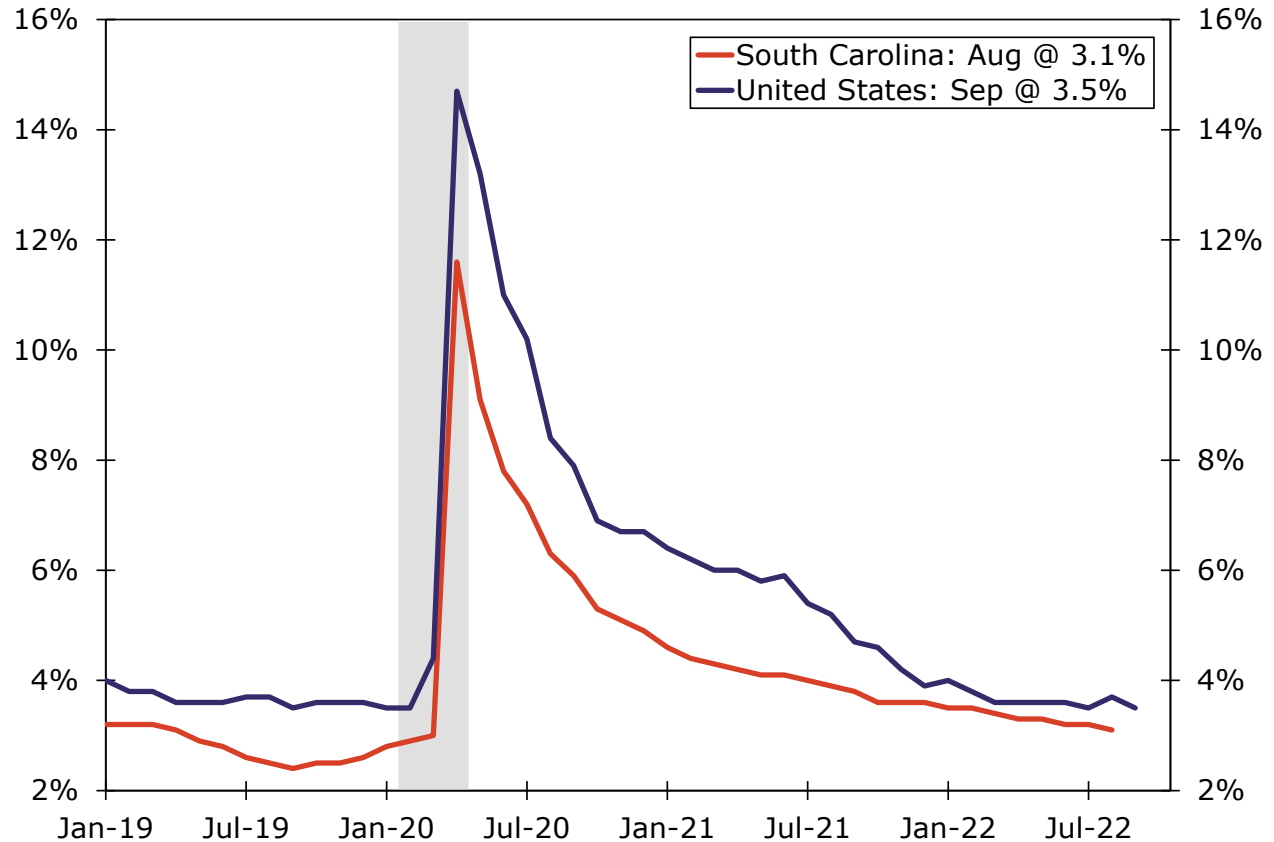


South Carolina's recovery has run well ahead of the national average.

The recovery has been uneven however, with sectors such as financial activities rocketing past pre-pandemic payroll levels while leisure & hospitality continues to face hiring difficulties.

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

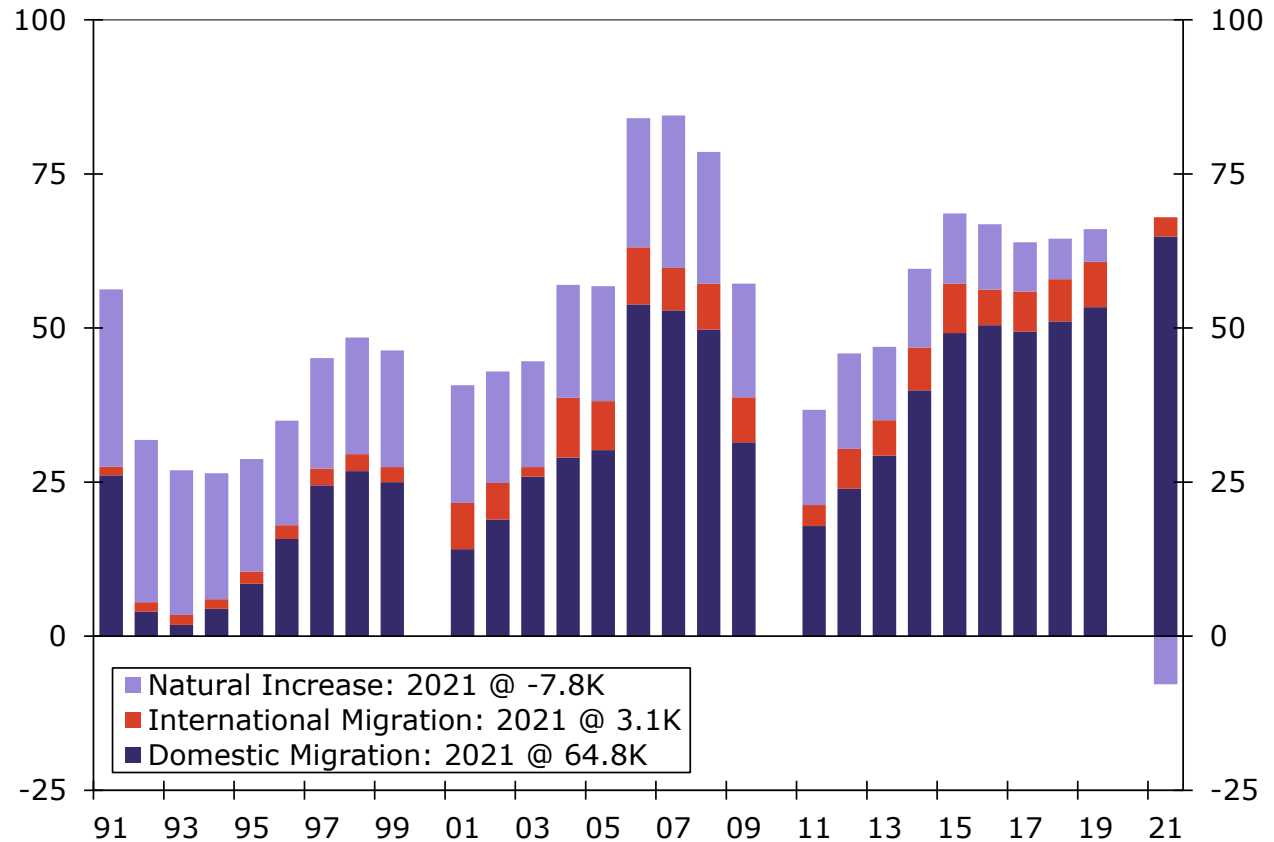
Seasonally Adjusted



# South Carolina Population

South Carolina has experienced increasing inflows of domestic migration.

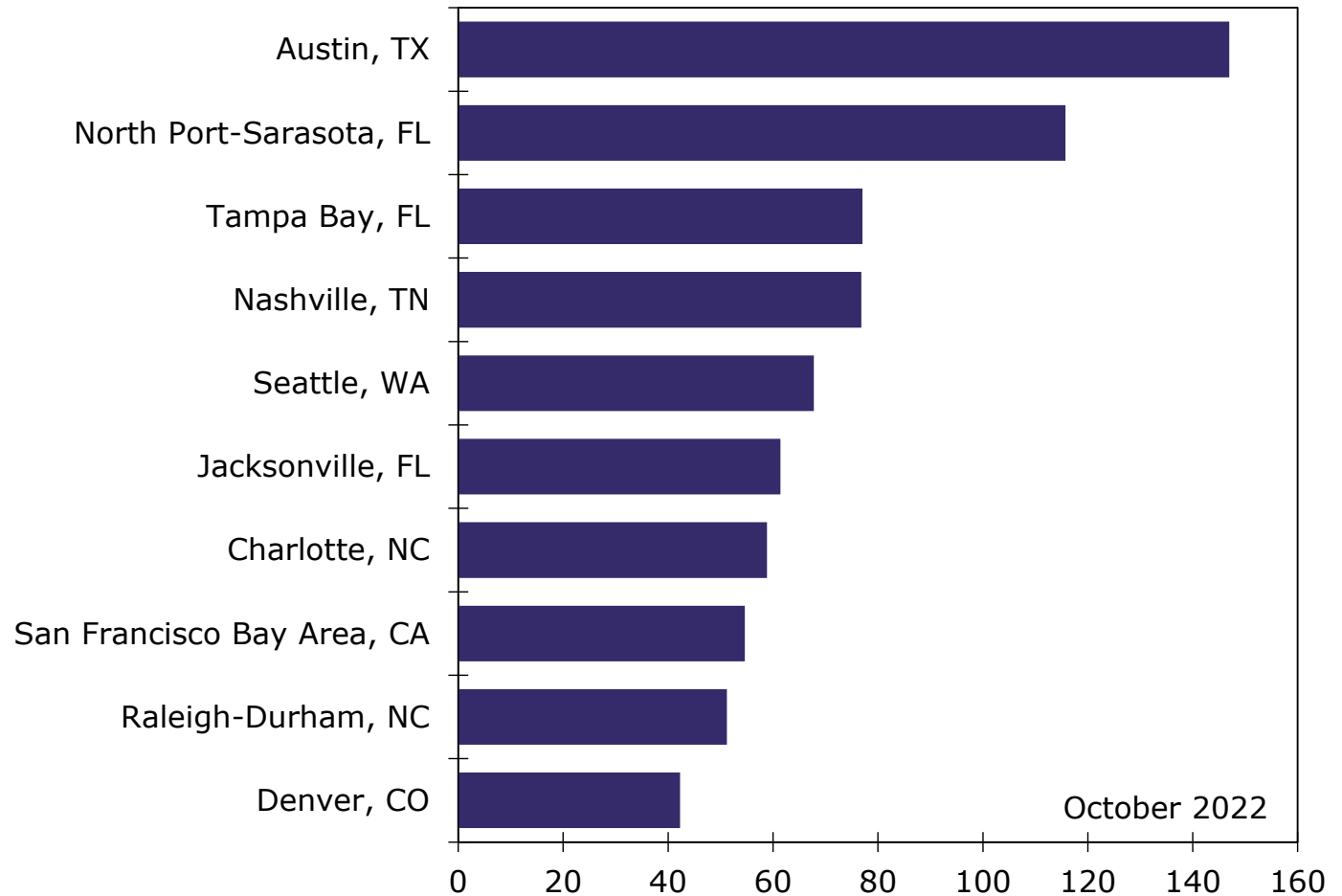
Components of Population Change: South Carolina  
In Thousands, Series Breaks on Decennial Census Years



There is a growing body of evidence of an affordability migration to traditionally smaller, secondary markets across the Sun Belt and South.

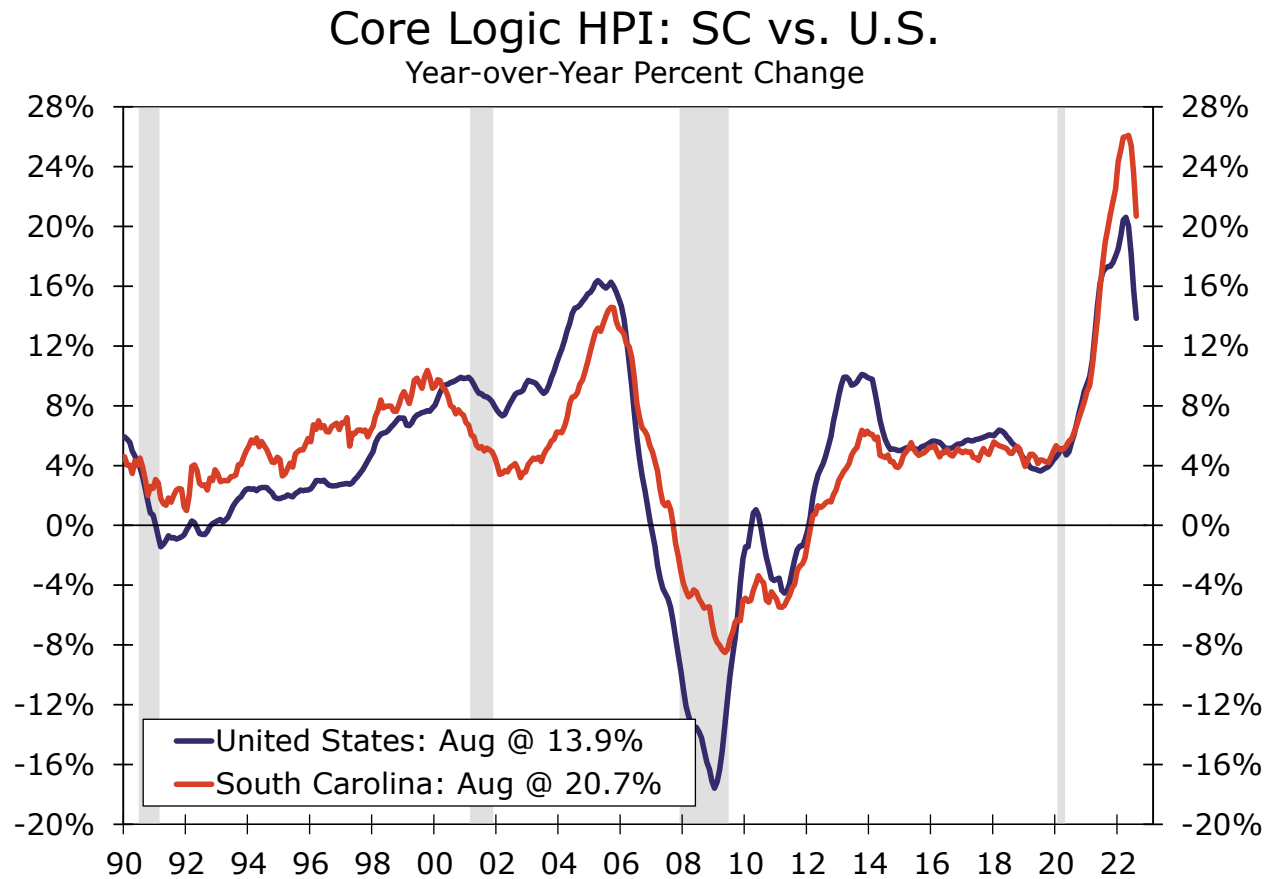
## Cities that Gained the Most Workers

LinkedIn Population Gain per 10,000 Members, Over Past 12 Months



# South Carolina Home Prices

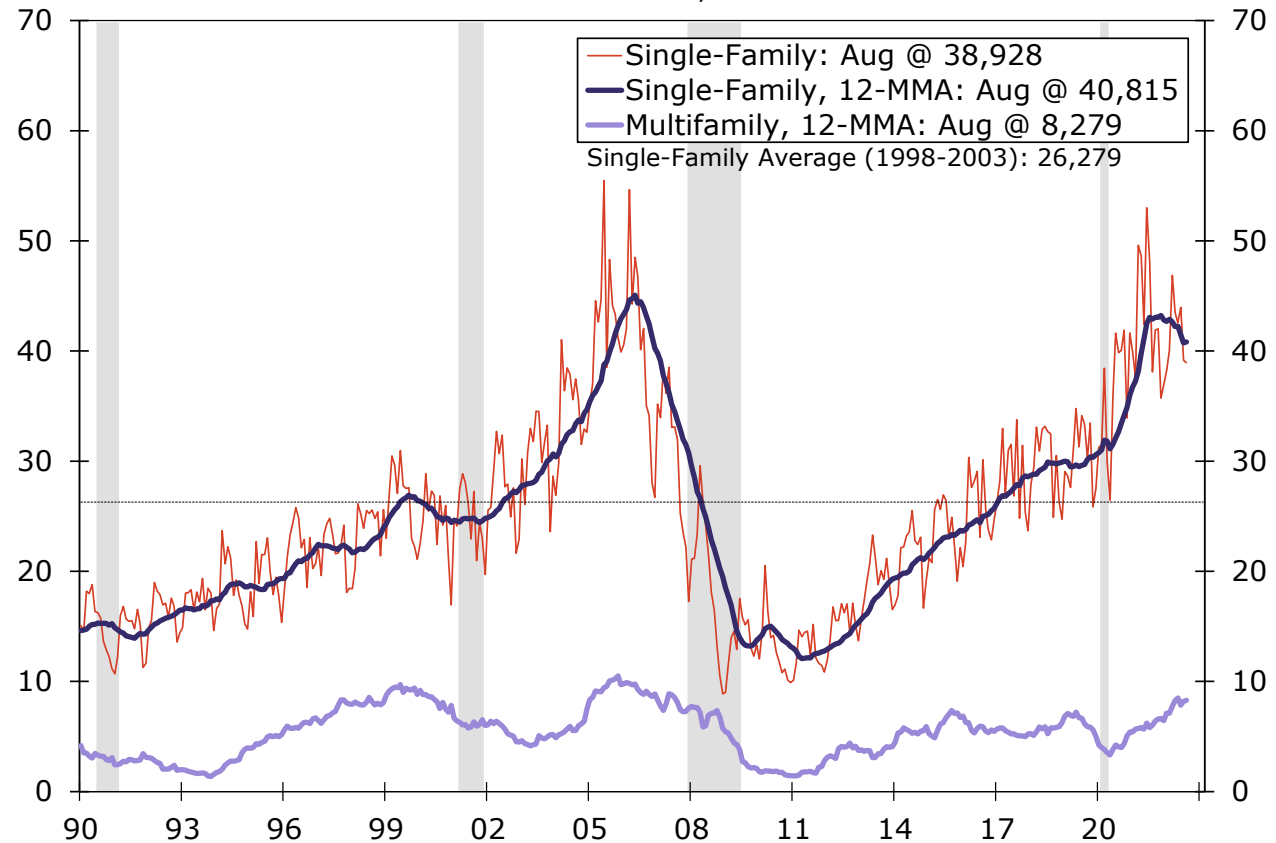
Home prices have begun to fall from their pandemic peaks.



The growth of Myrtle Beach, Charleston and Greenville in particular have fueled housing growth in South Carolina.

## South Carolina Housing Permits

Thousands of Permits, Annual Rate



# U.S. Forecast

## Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2022				2023				2024				2021	2022	2023	2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	-1.6	-0.6	3.0	1.0	0.4	-2.1	-1.8	-0.9	2.3	2.5	2.4	2.3	5.9	1.9	0.0	0.9
Personal Consumption	1.3	2.0	0.6	0.9	0.5	-1.3	-1.8	-0.7	1.2	1.9	2.1	2.1	8.3	2.5	0.0	0.6
Business Fixed Investment	7.9	0.1	4.4	2.6	1.4	-1.8	-3.3	-0.7	1.4	2.4	3.5	4.6	6.4	3.6	0.6	0.8
Equipment	11.4	-2.0	4.0	2.4	0.2	-2.9	-6.1	-2.0	1.2	2.3	3.5	4.3	10.3	3.9	-0.6	0.1
Intellectual Property Products Structures	10.8	8.9	8.2	4.5	2.6	-1.8	-2.2	-0.4	1.3	2.5	3.7	5.5	9.7	8.9	2.4	1.1
Residential Investment	-4.3	-12.7	-4.5	-2.3	1.2	1.5	1.8	2.1	2.3	2.4	2.6	2.8	-6.4	-7.6	-0.9	2.2
Government Purchases	-3.1	-17.8	-25.5	-21.0	-17.0	-14.0	-6.0	6.0	8.0	9.5	10.4	11.3	10.7	-10.1	-16.0	5.1
Net Exports <sup>2</sup>	-2.3	-1.6	-0.1	0.3	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.4	0.6	-1.3	0.6	1.2
Inventories <sup>2</sup>	-3.1	1.2	3.4	0.3	0.0	0.3	0.4	0.3	-0.3	-0.1	-0.2	-0.4	-1.7	-0.6	0.7	0.0
	0.2	-1.9	-0.5	0.3	0.2	-1.0	-0.5	-1.0	1.1	0.4	0.0	0.0	0.2	0.7	-0.4	0.0
Nonfarm Payroll Change <sup>3</sup>	539	349	372	175	93	-7	-167	-283	-150	0	133	160	562	359	-91	36
Unemployment Rate	3.8	3.6	3.6	3.6	3.7	3.9	4.3	4.9	5.4	5.3	5.2	4.9	5.4	3.6	4.2	5.2
PCE Deflator <sup>4</sup>	6.4	6.6	6.3	6.0	5.0	3.9	3.4	2.7	2.3	2.2	2.2	2.2	4.0	6.3	3.7	2.2
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate	0.50	1.75	3.25	4.50	5.00	5.00	5.00	4.50	3.50	3.00	2.75	2.75	0.25	2.50	4.88	3.00
Secured Overnight Financing Rate	0.29	1.50	2.98	4.30	4.85	4.85	4.85	4.35	3.35	2.85	2.60	2.60	0.04	2.27	4.73	2.85
3 Month LIBOR*	0.96	2.29	3.75	4.85	5.25	5.25	-	-	-	-	-	-	0.16	2.96	5.25	-
Prime Rate	3.50	4.75	6.25	7.50	8.00	8.00	8.00	7.50	6.50	6.00	5.75	5.75	3.25	5.50	7.88	6.00
Conventional Mortgage Rate	4.42	5.81	6.70	6.65	6.55	6.35	6.15	5.60	5.35	5.20	5.10	5.00	2.95	5.90	6.16	5.16
3 Month Bill	0.52	1.72	3.33	4.50	4.85	4.85	4.80	4.20	3.20	2.80	2.60	2.60	0.04	2.52	4.68	2.80
6 Month Bill	1.06	2.51	3.92	4.65	4.85	4.80	4.70	3.95	3.20	2.75	2.65	2.65	0.06	3.04	4.58	2.81
1 Year Bill	1.63	2.80	4.05	4.65	4.75	4.65	4.45	3.60	2.95	2.75	2.70	2.70	0.10	3.28	4.36	2.78
2 Year Note	2.28	2.92	4.22	4.55	4.60	4.45	4.15	3.30	2.95	2.85	2.75	2.75	0.27	3.49	4.13	2.83
5 Year Note	2.42	3.01	4.06	4.35	4.35	4.20	3.95	3.25	3.00	2.85	2.80	2.80	0.86	3.46	3.94	2.86
10 Year Note	2.32	2.98	3.83	4.05	4.05	3.90	3.75	3.25	3.05	2.95	2.90	2.90	1.45	3.30	3.74	2.95
30 Year Bond	2.44	3.14	3.79	3.85	3.85	3.75	3.60	3.40	3.25	3.20	3.15	3.15	2.06	3.31	3.65	3.19

Forecast as of: October 14, 2022

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter    <sup>2</sup> Percentage Point Contribution to GDP    <sup>3</sup> Average Monthly Change

<sup>4</sup> Year-over-Year Percentage Change    <sup>5</sup> Annual Numbers Represent Averages    \*3 Month LIBOR will no longer be published after June 30, 2023

# Wells Fargo Economics Group

## Economists

Jay H. Bryson, Chief Economist	<a href="mailto:jay.bryson@wellsfargo.com">jay.bryson@wellsfargo.com</a>
Sam Bullard, Senior Economist	<a href="mailto:sam.bullard@wellsfargo.com">sam.bullard@wellsfargo.com</a>
Nick Bennenbroek, International Economist	<a href="mailto:nicholas.bennenbroek@wellsfargo.com">nicholas.bennenbroek@wellsfargo.com</a>
Tim Quinlan, Senior Economist	<a href="mailto:tim.quinlan@wellsfargo.com">tim.quinlan@wellsfargo.com</a>
Sarah House, Senior Economist	<a href="mailto:sarah.house@wellsfargo.com">sarah.house@wellsfargo.com</a>
Azhar Iqbal, Econometrician	<a href="mailto:azhar.iqbal@wellsfargo.com">azhar.iqbal@wellsfargo.com</a>
Charlie Dougherty, Economist	<a href="mailto:charles.dougherty@wellsfargo.com">charles.dougherty@wellsfargo.com</a>
Michael Pugliese, Economist	<a href="mailto:michael.d.pugliese@wellsfargo.com">michael.d.pugliese@wellsfargo.com</a>
Brendan McKenna, International Economist	<a href="mailto:brendan.mckenna@wellsfargo.com">brendan.mckenna@wellsfargo.com</a>
Shannon Seery, Economist	<a href="mailto:shannon.seery@wellsfargo.com">shannon.seery@wellsfargo.com</a>

## Analysts

Nicole Cervi, Economic Analyst	<a href="mailto:nicole.cervi@wellsfargo.com">nicole.cervi@wellsfargo.com</a>
Jessica Guo, Economic Analyst	<a href="mailto:jessica.guo@wellsfargo.com">jessica.guo@wellsfargo.com</a>
Karl Vesely, Economic Analyst	<a href="mailto:karl.vesely@wellsfargo.com">karl.vesely@wellsfargo.com</a>
Patrick Barley, Economic Analyst	<a href="mailto:patrick.barley@wellsfargo.com">patrick.barley@wellsfargo.com</a>
Jeremiah Kohl, Economic Analyst	<a href="mailto:jeremiah.j.kohl@wellsfargo.com">jeremiah.j.kohl@wellsfargo.com</a>

## Assistants

Coren Burton, Administrative Assistant	<a href="mailto:coren.burton@wellsfargo.com">coren.burton@wellsfargo.com</a>
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