



U.S. Economic Outlook: Still Flying

December 18, 2024

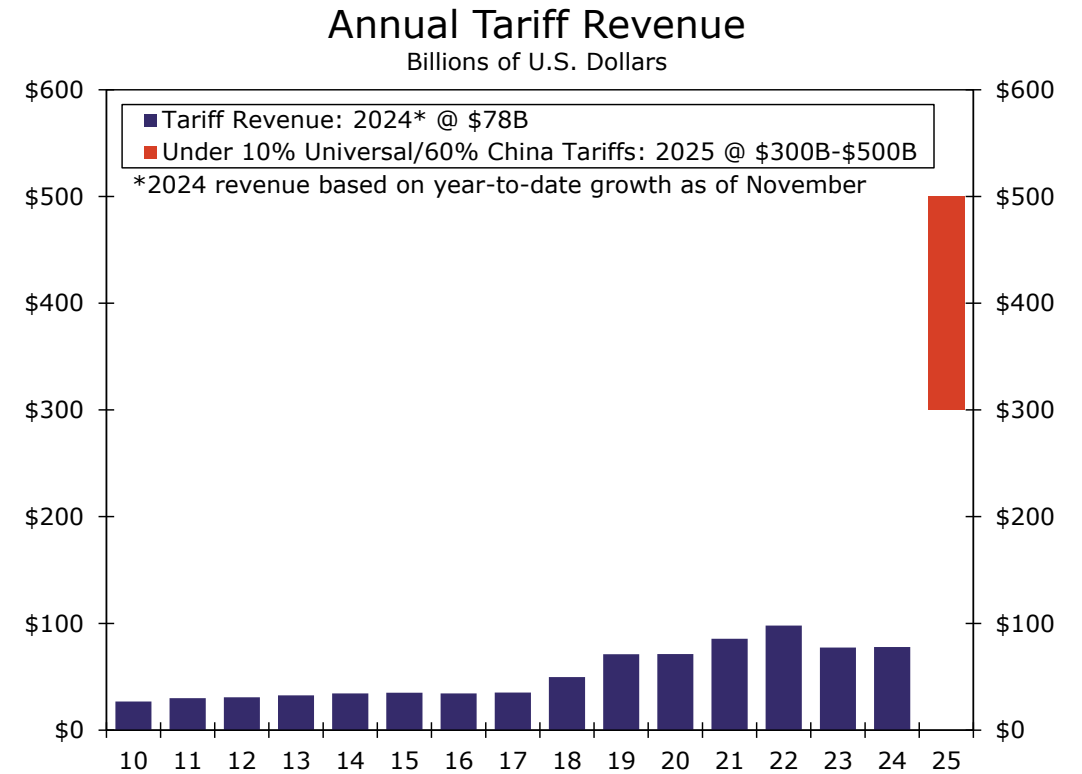
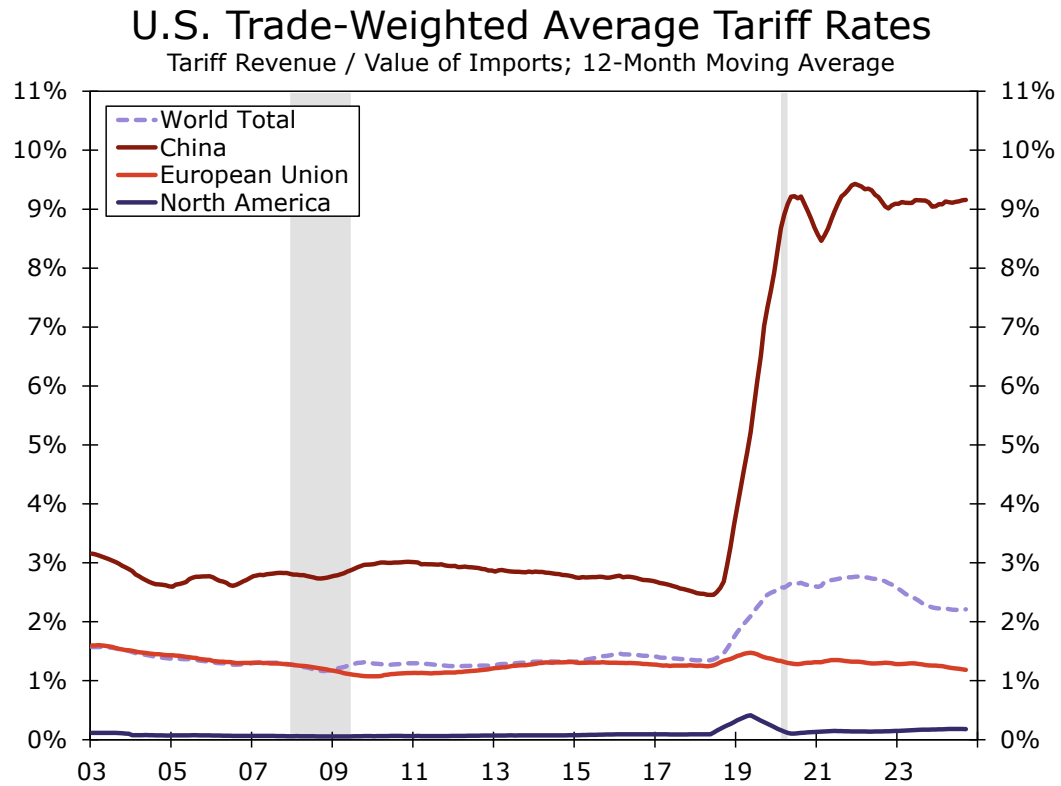
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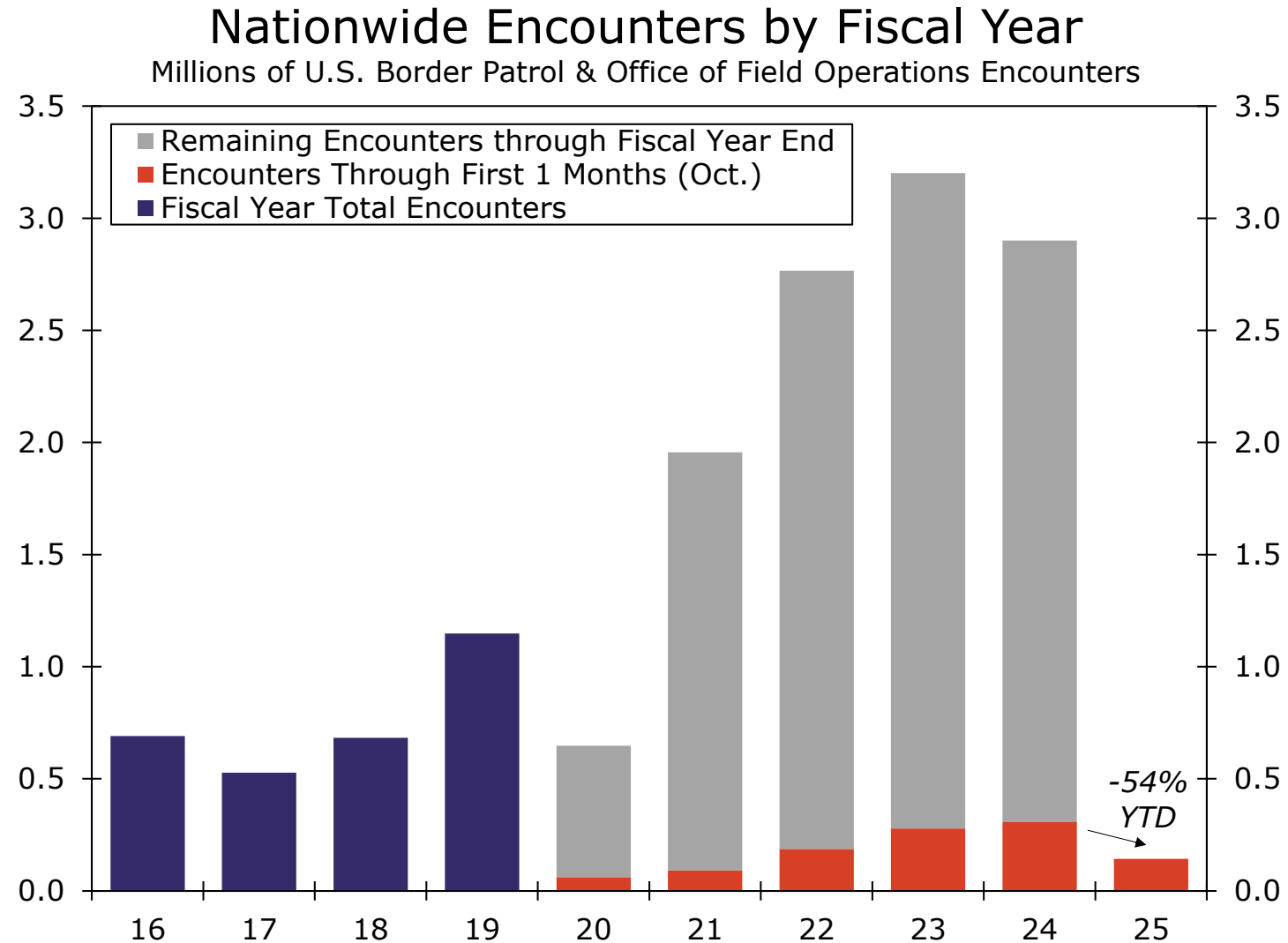
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Trade policy could shift dramatically in the upcoming year

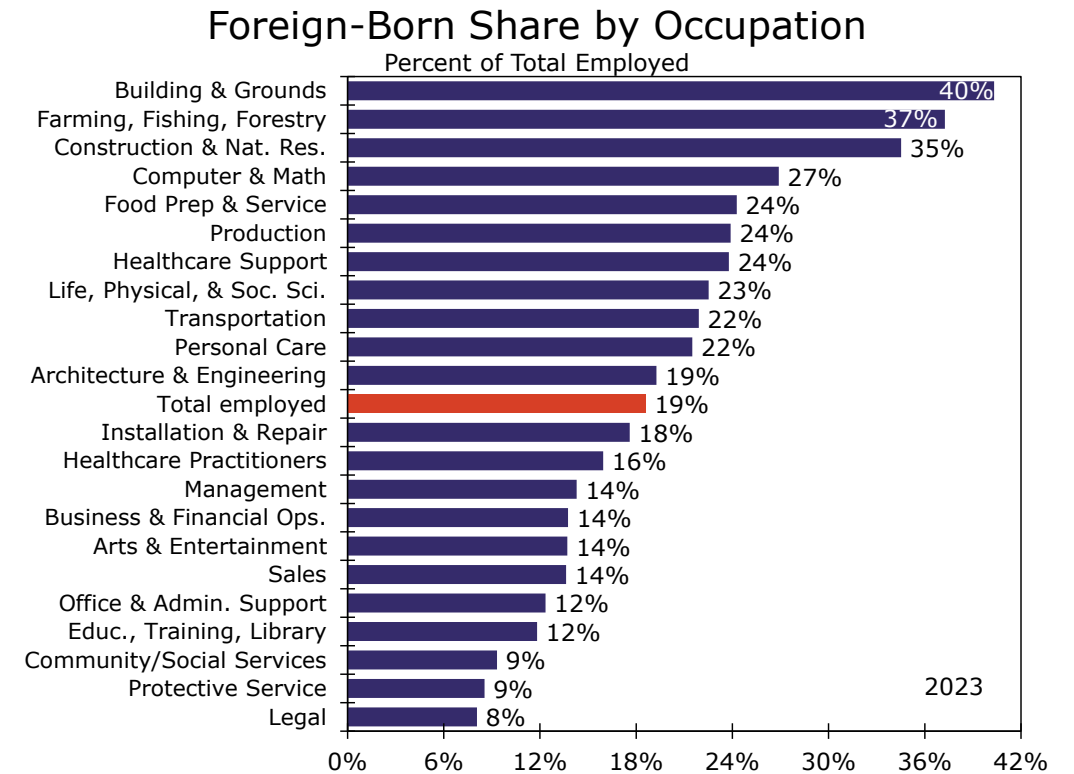
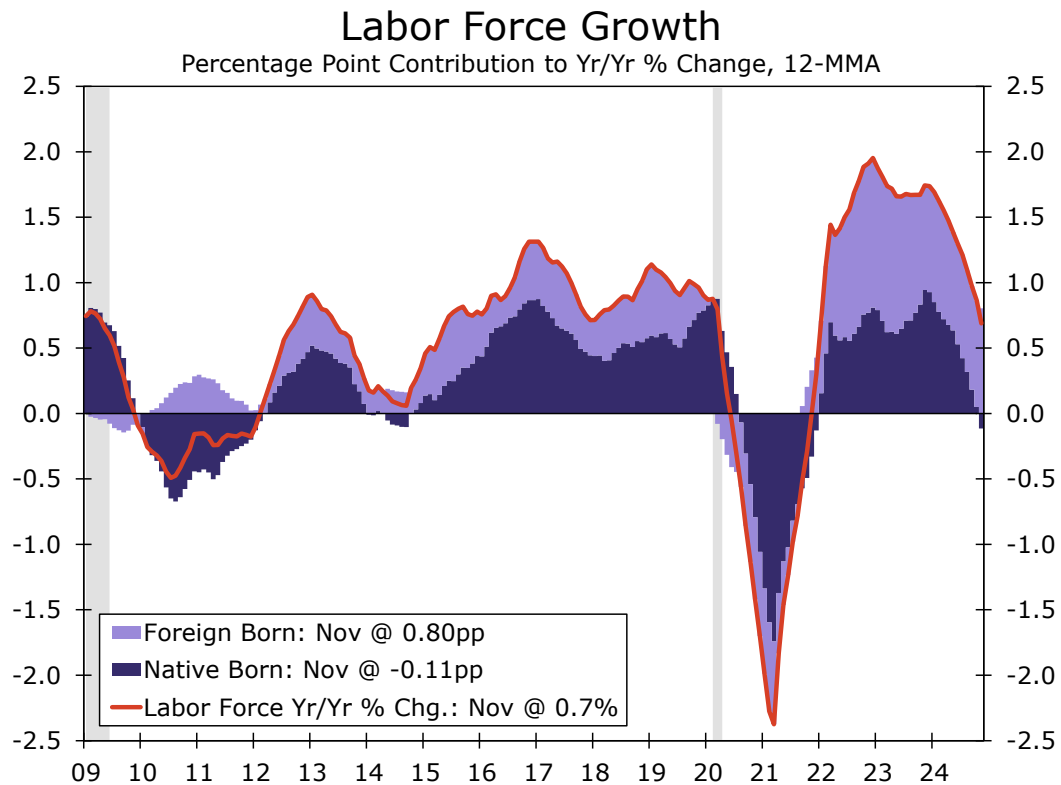


Source: U.S. Department of Commerce, Tax Foundation, Tax Policy Center and Wells Fargo Economics

After surging the past few years, immigration into the United States has slowed sharply in recent months



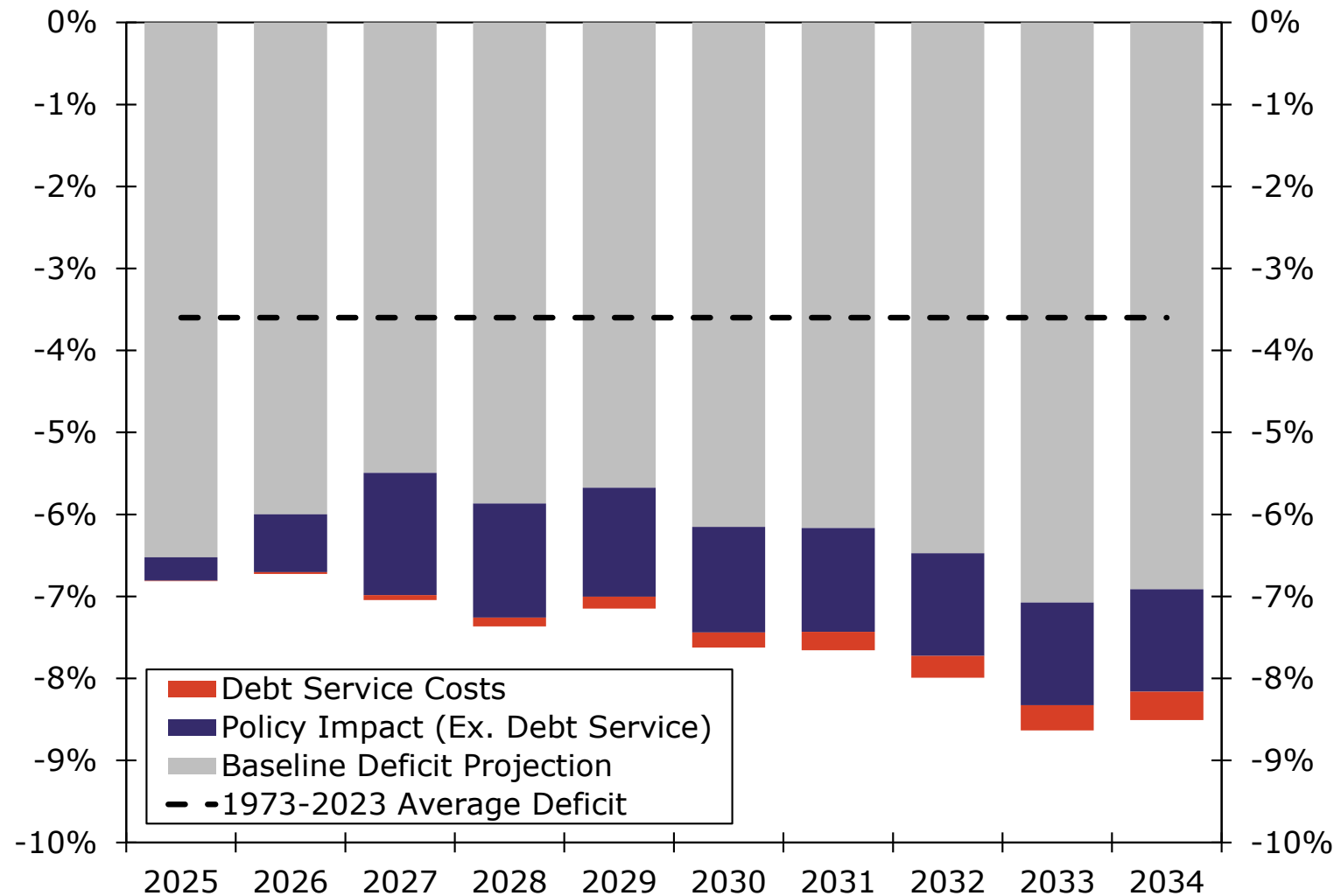
Immigration has provided a significant boost to the labor supply in recent years



The biggest swing factor in the fiscal policy outlook is the looming expiration of large parts of the Tax Cuts and Jobs Act

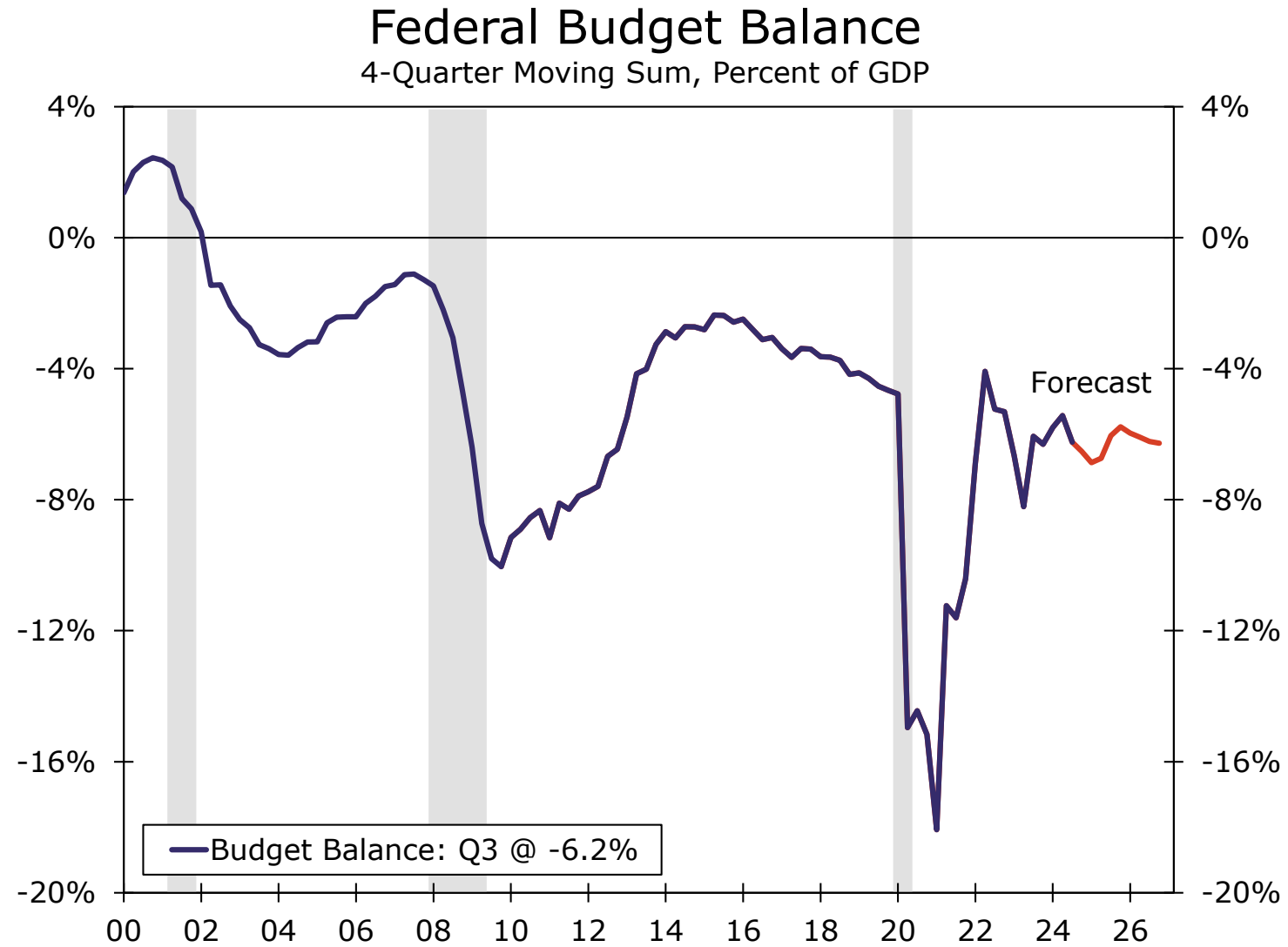
The Fiscal Cost of Extending the TCJA

Deficit under Full Extension; % of GDP; CBO Estimates



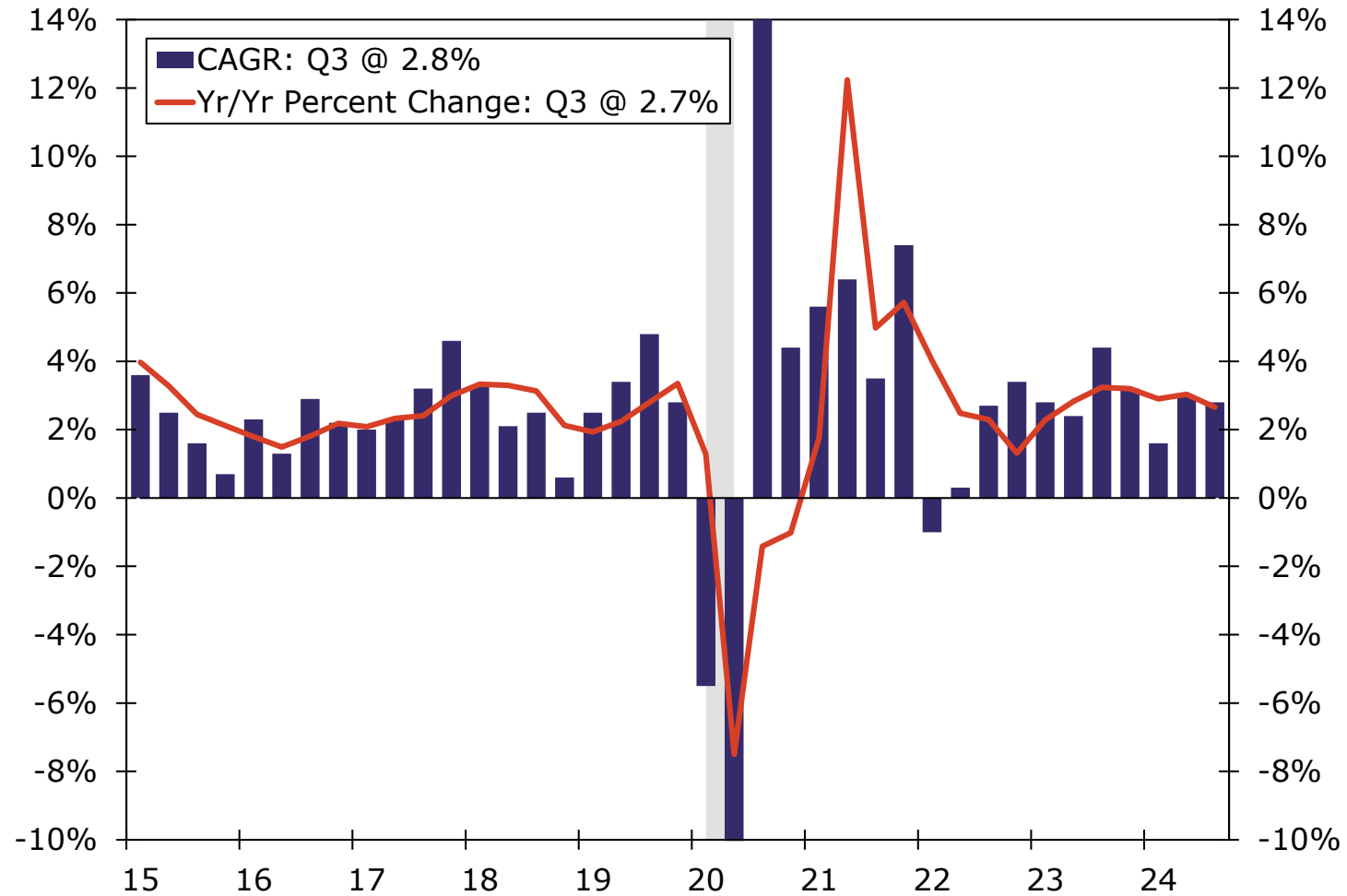
Federal Budget Deficit

The U.S. is already running a historically wide deficit

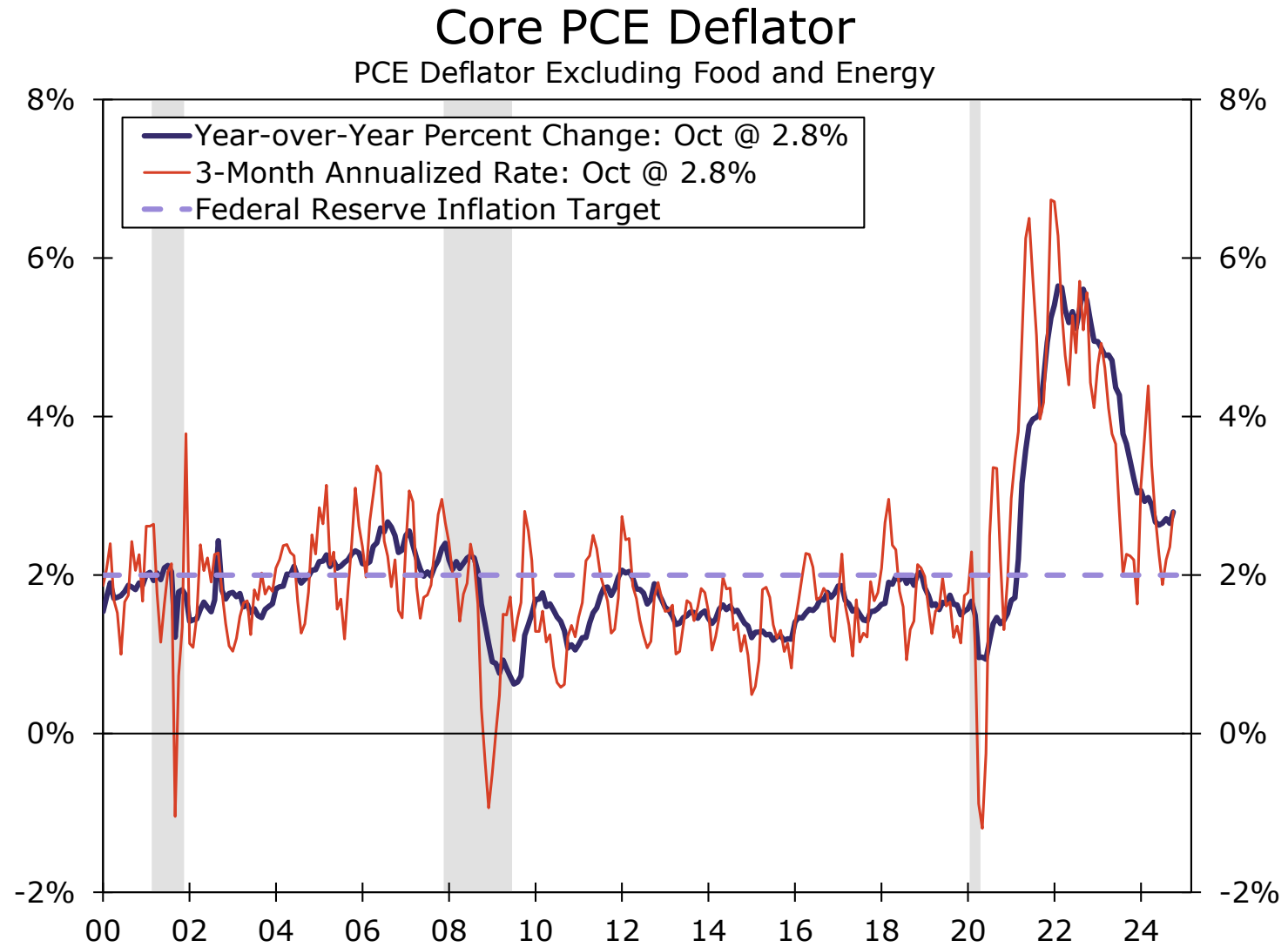


The U.S. economy continues to expand at a robust pace

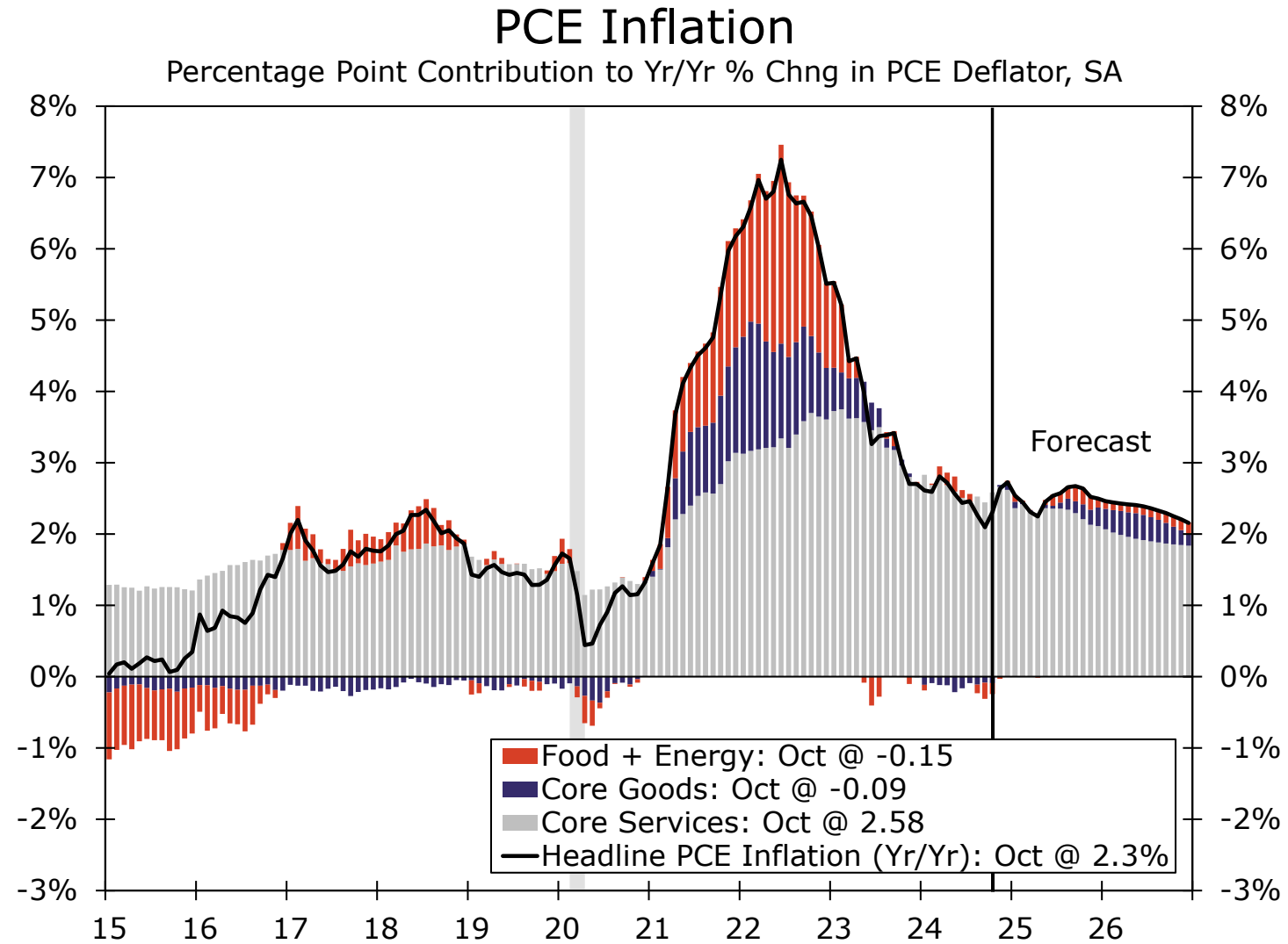
U.S. Real GDP Growth



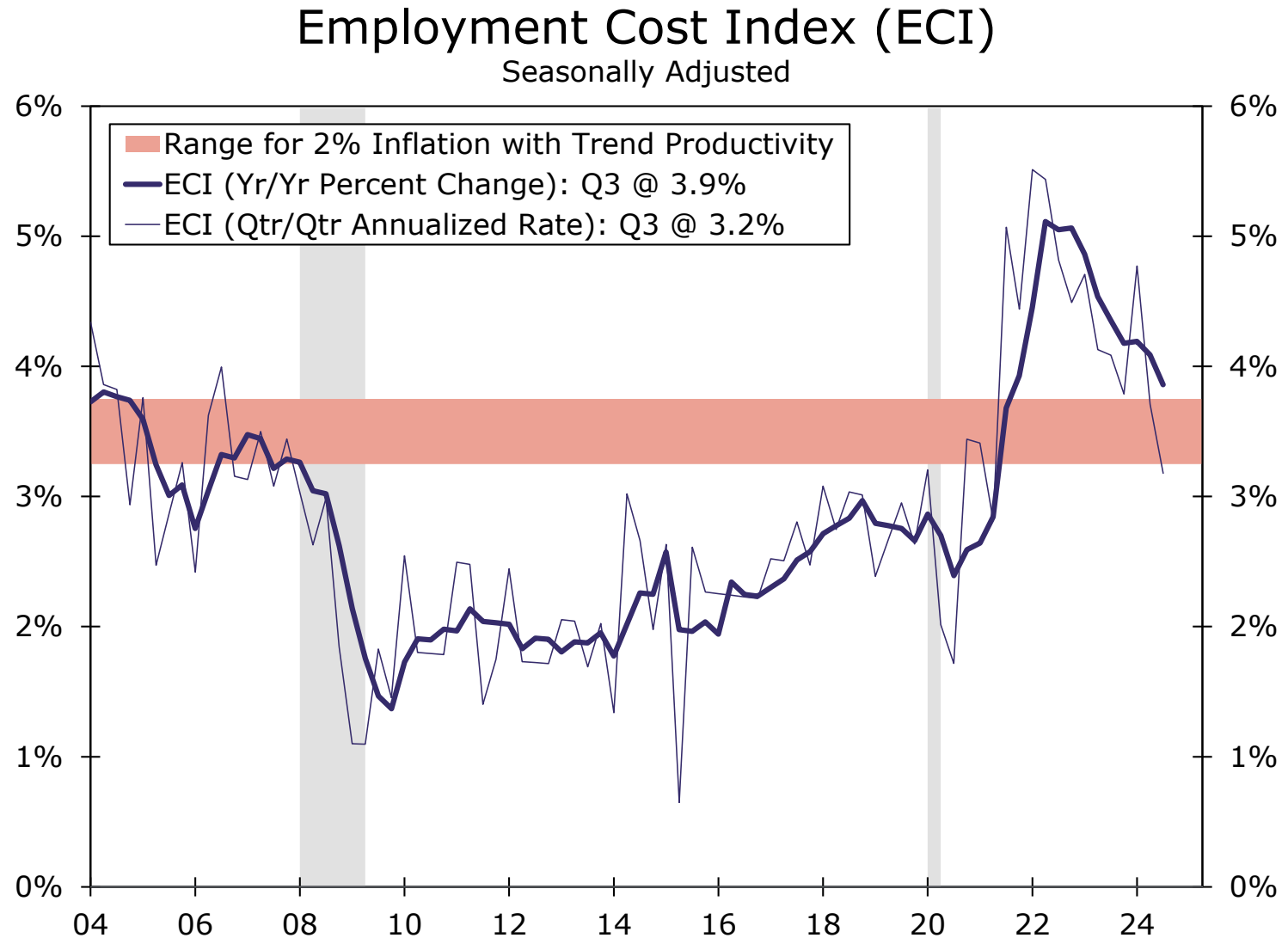
Inflation has fallen significantly since 2022 even as it is not yet back to the Fed's 2% target



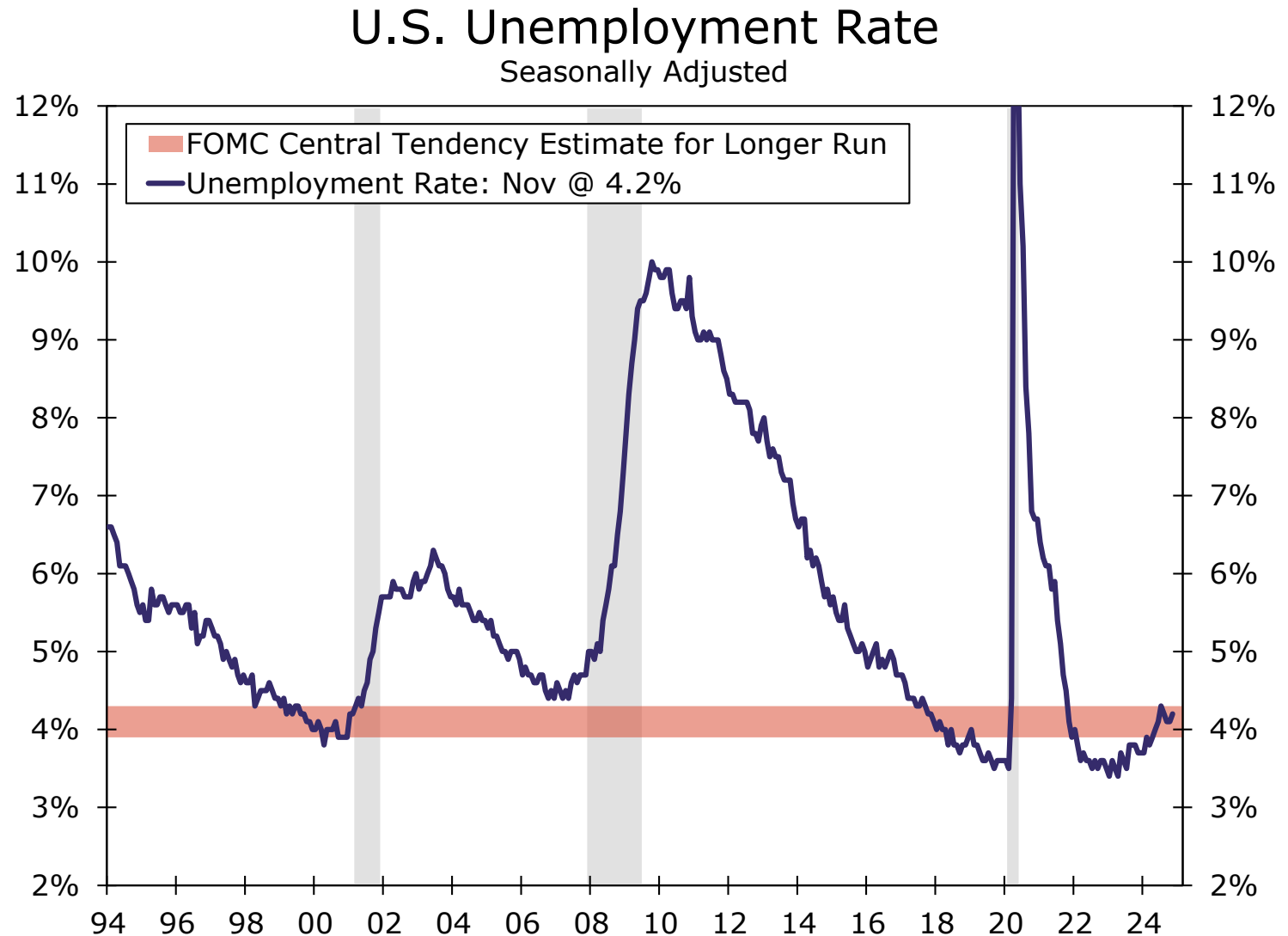
Inflation is likely to remain stuck above the 2% next year



Employment costs are no longer a threat to the Fed's inflation target



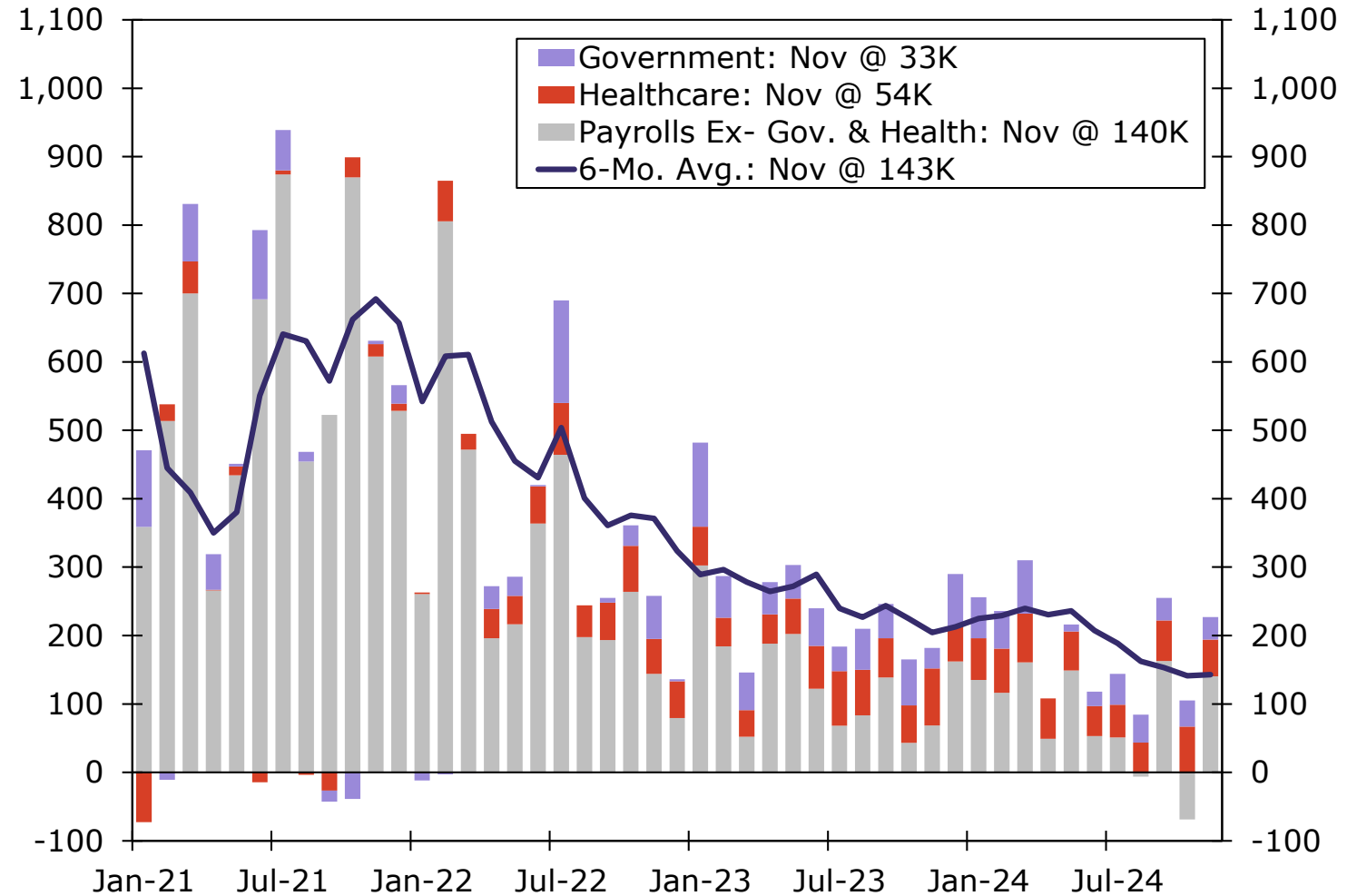
The Fed does not want to see the jobs market cool any further



Employment growth has downshifted since the spring and is being driven by a narrow set of industries

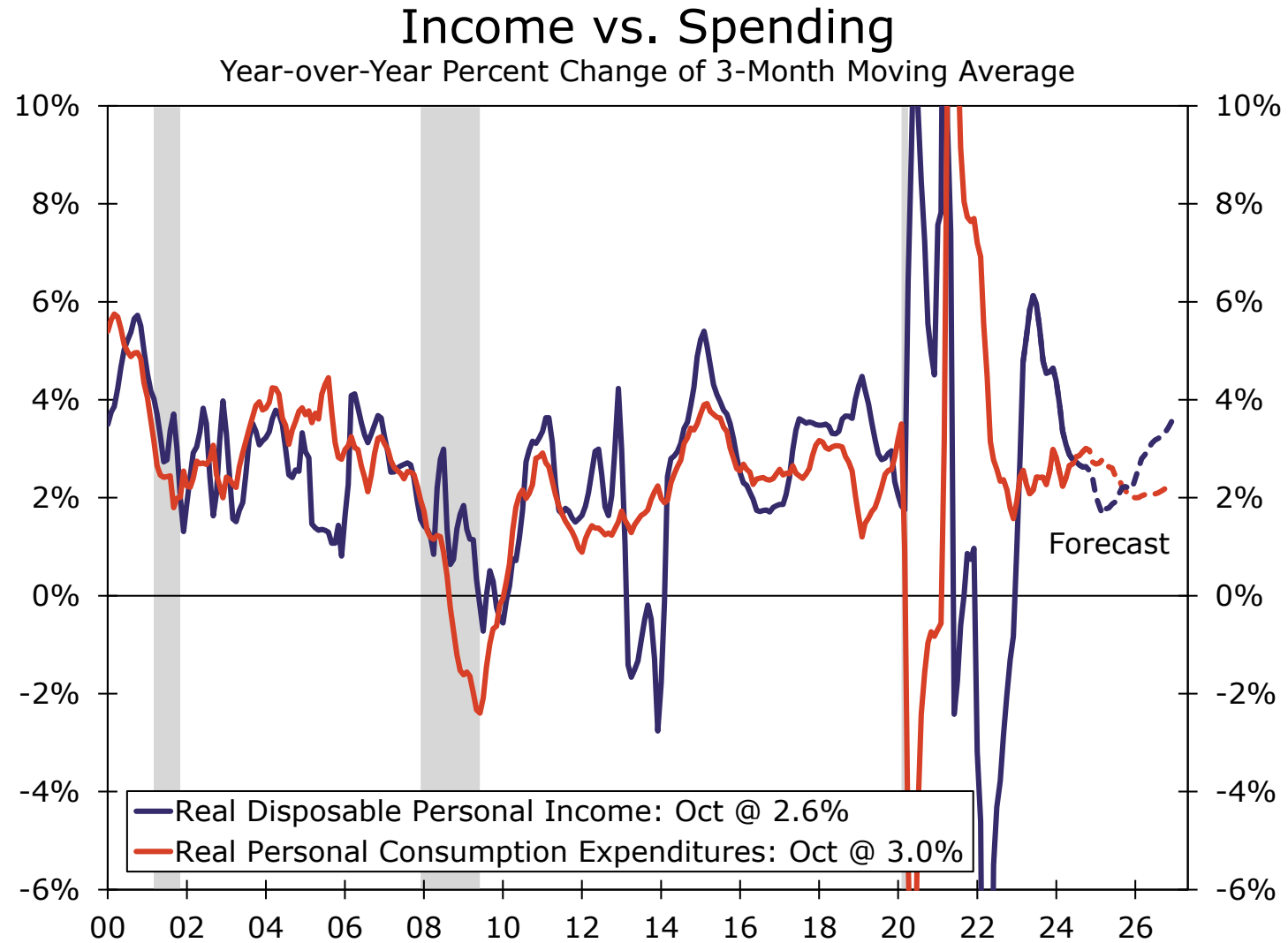
Monthly Change in Nonfarm Payrolls

Thousands



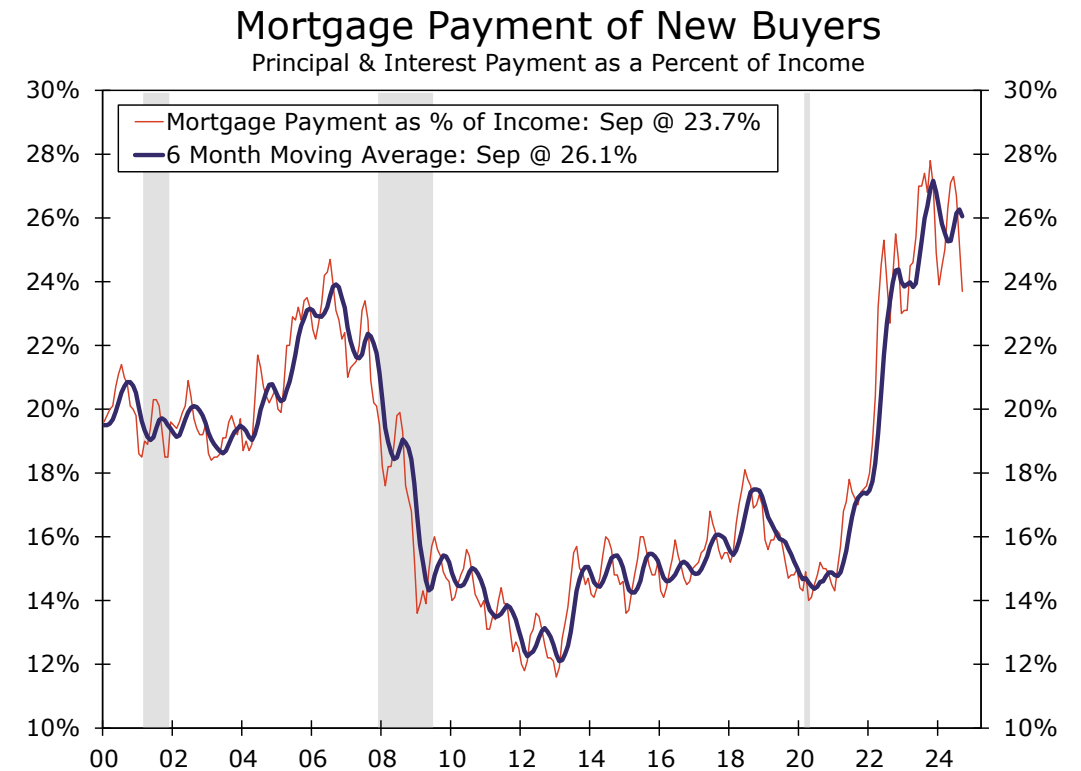
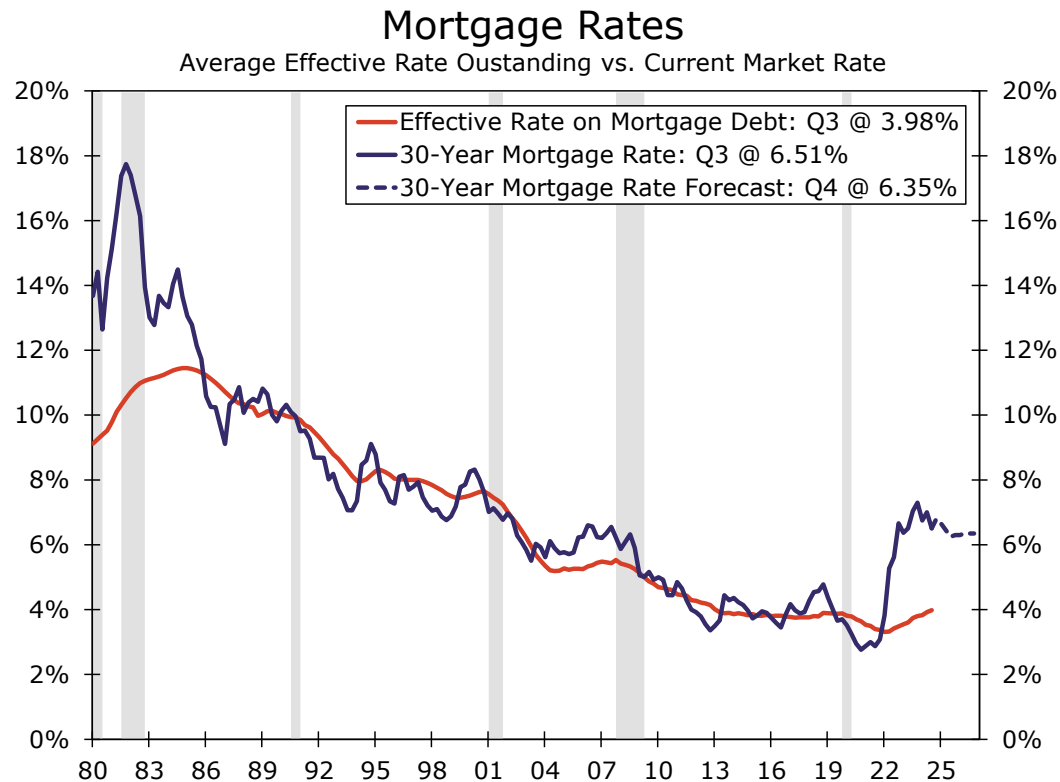
The financial position of U.S. households remains in good shape overall.

Real income growth is likely to slow next year amid stubborn inflation and the softer labor market, leading to a more moderate pace of spending.



Household Finances: Housing Considerations

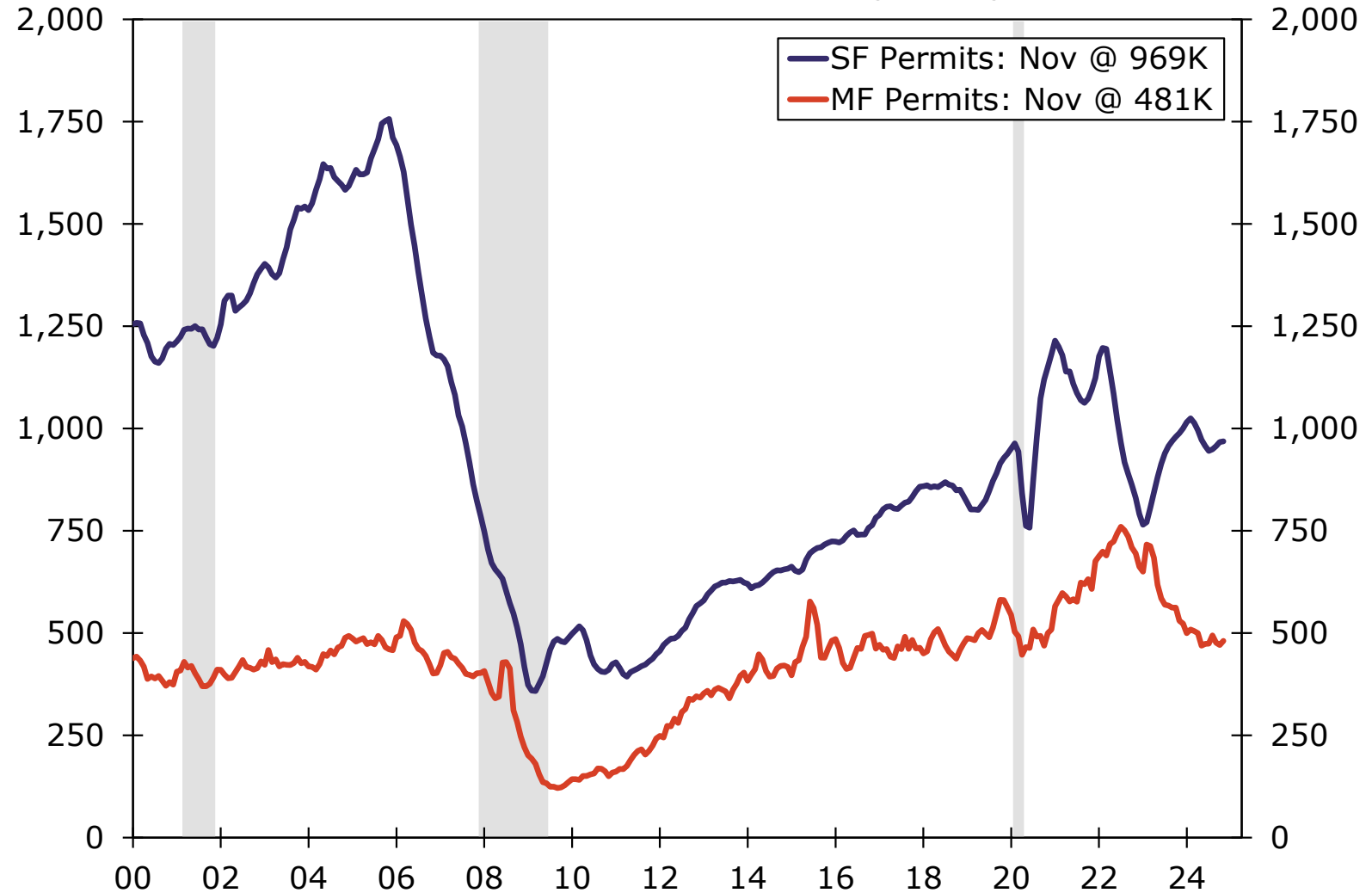
The higher rate environment has not been felt evenly. Homeowners who locked in mortgages at the start of the decade have been insulated from the rise in rates, while new buyers face some of the worst affordability conditions in decades.



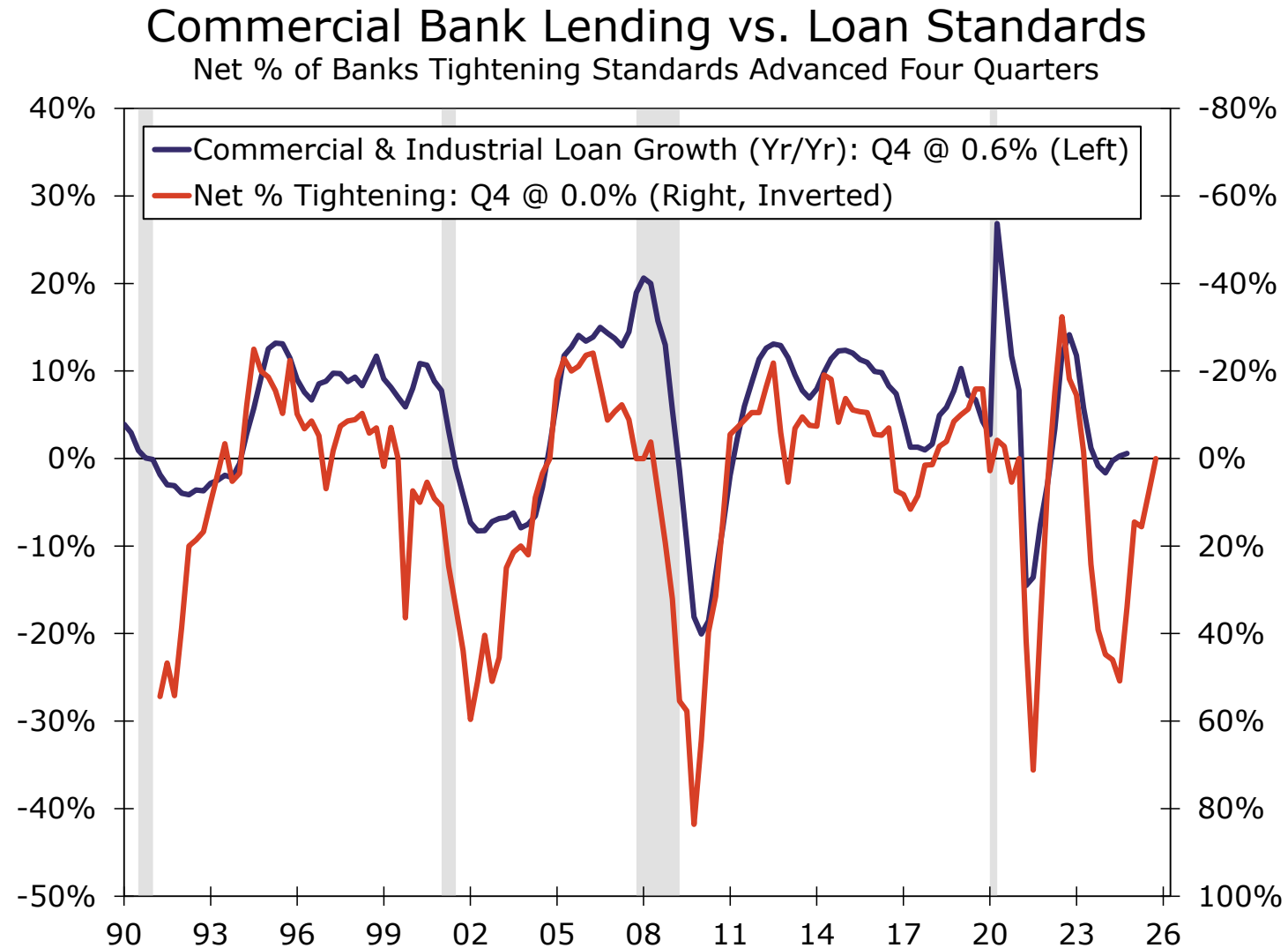
Housing units under construction remain high compared to the past cycle, but the pipeline has started to thin amid elevated supply of new homes for sale and apartment vacancy rates

Single & Multifamily Building Permits

SAAR, Thousands, 3-Month Moving Average

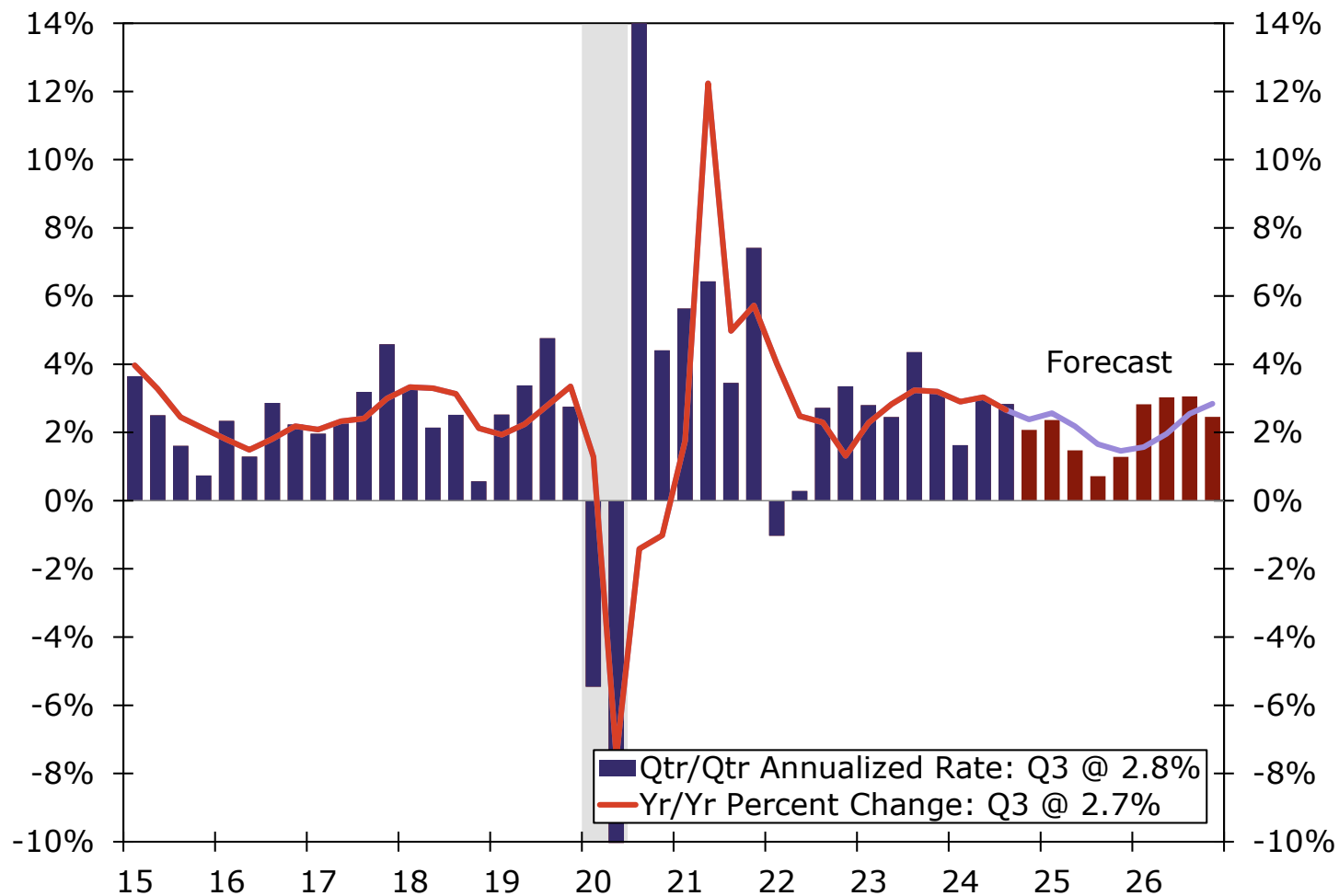


High borrowing rates and tight credit availability have been weighing on business loan growth, but conditions have started to turn

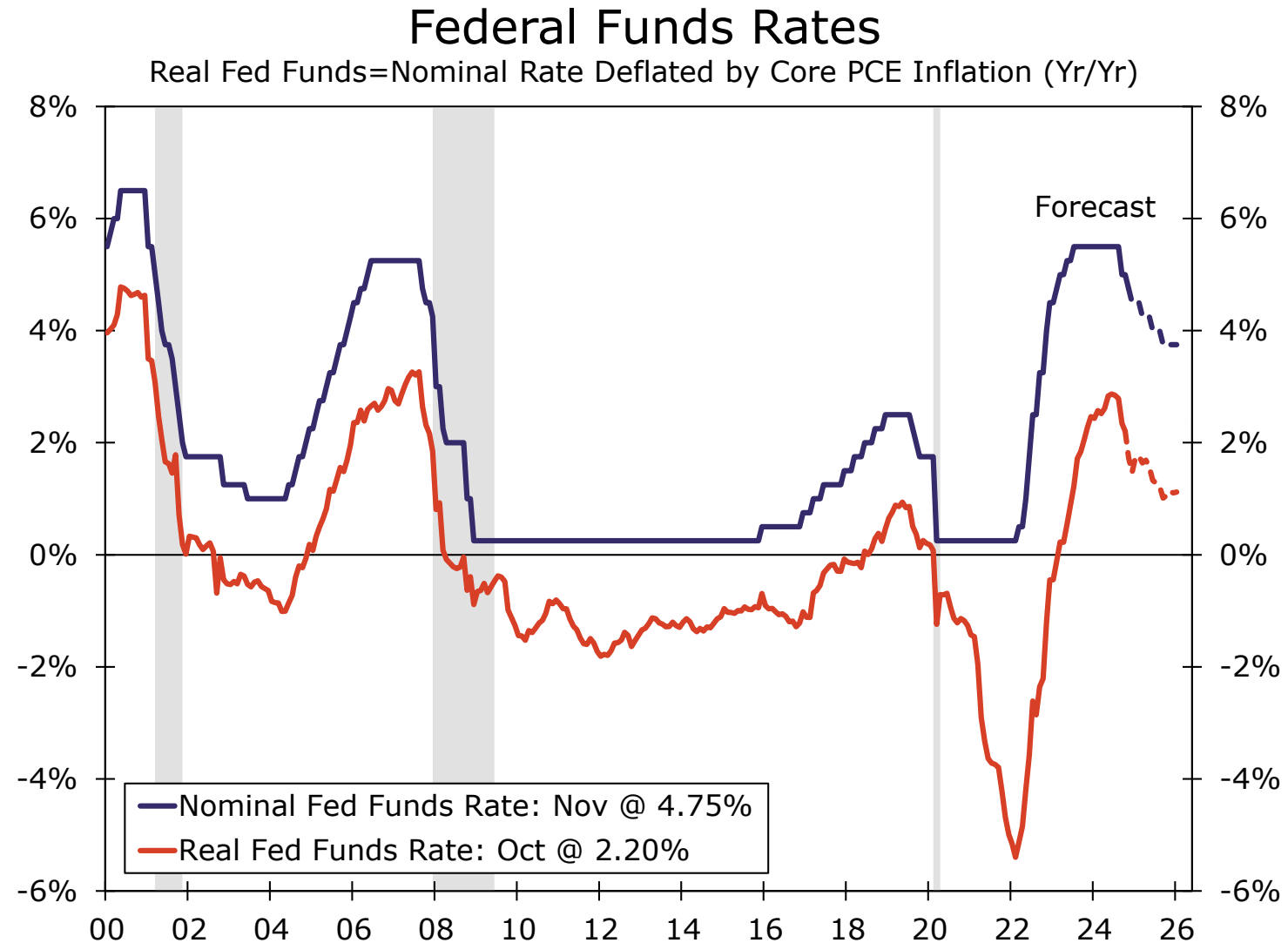


We expect the U.S. economy to continue to expand, but for growth to proceed at a slower pace next year before strengthening in 2026

U.S. Real GDP Growth

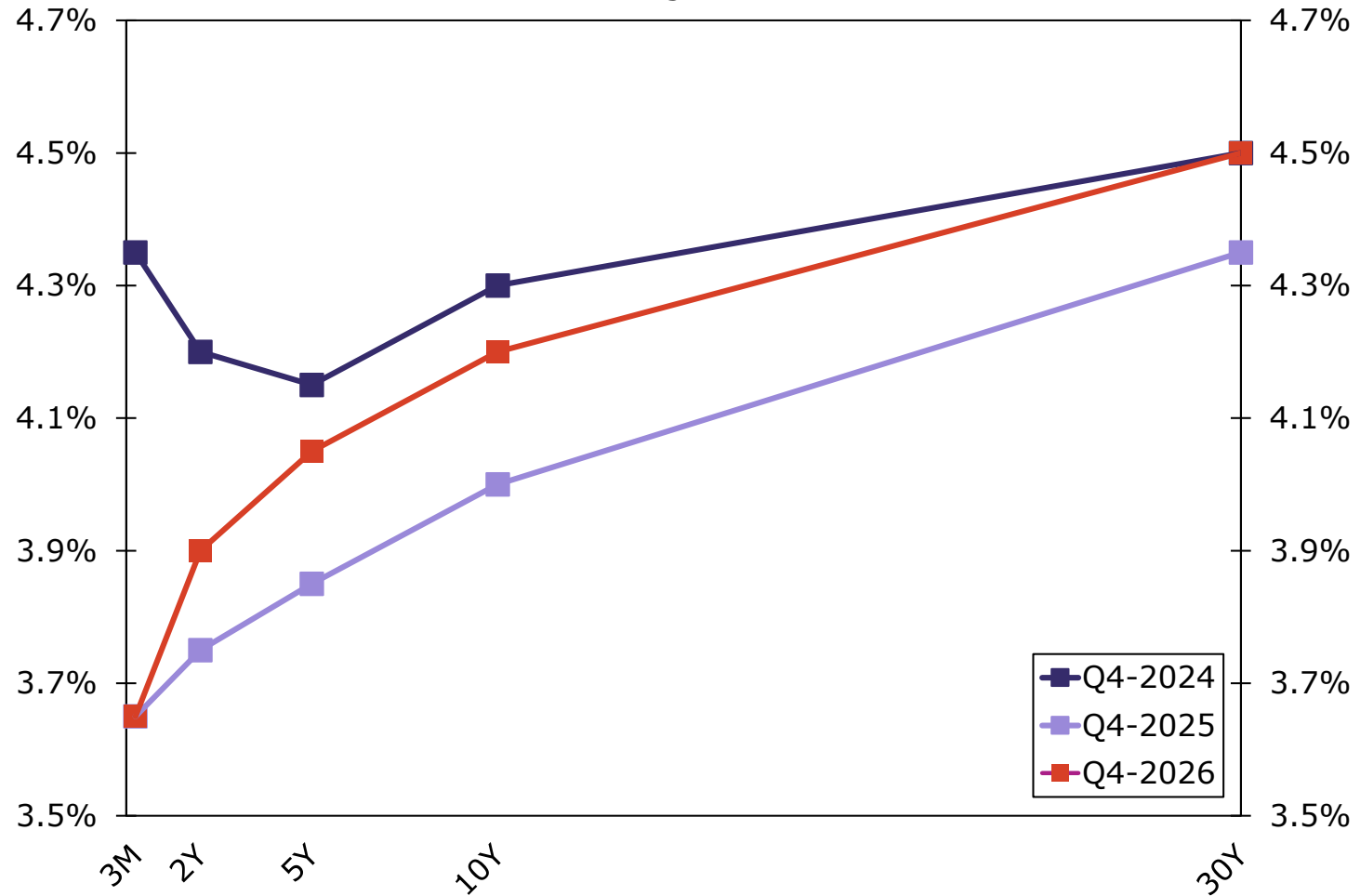


With inflation nearing the Fed's target and the jobs market back in balance, we expect the FOMC to reduce interest rates further



Firm inflation and large deficits should keep long-end yields near current levels the next few years even with a bit more Fed easing to come

Wells Fargo Treasury Yield Forecast Through 2026



Inflation

- Inflation is likely to move sideways in 2025 and stay above target. The firming trend in goods should linger with tariffs in the near term, offsetting a further moderation in services.
-

Labor Market

- The labor market has cooled enough to no longer be adding to upward pressure on inflation. Softer demand for workers points to job growth and labor income slowing ahead.
-

Spending & Investment

- Consumers are still spending, but outlays increasingly rely on the jobs market given costly credit and less saving. Private investment is still modest but should benefit from lower rates.
-

Monetary Policy

- Further Fed easing will proceed more slowly with policy no longer clearly tight and uncertainty around the neutral rate. Sticky inflation should keep policy slightly restrictive ahead.
-

Fiscal Policy

- Proposed changes to tax, trade and immigration policy all point to a somewhat higher path of inflation but create crosscurrents for growth. The deficit is set to remain wide.
-

Appendix

Our Economic Policy Assumptions

Tax Policy

- Congress fully extends the 2017 tax cuts, large parts of which are scheduled to expire at the end of 2025
 - Congress enacts \$100B per year of *net new* tax cuts primarily targeted at households effective January 2026
-

Trade Policy

- Roughly half of President-elect Trump's proposal for a 10% universal tariff and 60% tariff on Chinese imports goes into effect in Q3-2025
-

Regulatory Policy

- A more lenient regulatory policy environment may take hold under the Trump administration, but the modest impact on economic growth probably will not be seen until 2026 at the earliest
-

Immigration Policy

- Immigration into the U.S. will continue to decline relative to its surge over the past few years, reducing labor force growth to 0.5%-1.0% relative to ~1.6% annual growth in 2022–2023
-

Monetary Policy

- We look for the FOMC to cut the fed funds target range, currently at 4.50%-4.75%, by 100 bps through the third quarter of next year and then hold at 3.50%-3.75% through the end of 2026
-

Wells Fargo U.S. Economic Forecast

	Actual		Forecast												Actual	Forecast		
	2024				2025				2026				2023	2024	2025	2026		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product ¹	1.6	3.0	2.8	2.1	2.4	1.5	0.7	1.3	2.8	3.0	3.1	2.5	2.9	2.7	2.0	2.2		
Personal Consumption	1.9	2.8	3.5	2.6	2.1	2.1	1.8	1.5	2.4	2.9	3.0	2.9	2.5	2.6	2.3	2.3		
Business Fixed Investment	4.5	3.9	3.8	-0.6	2.8	3.9	4.7	4.8	6.0	6.2	6.4	6.7	6.0	3.7	2.9	5.6		
Residential Investment	13.7	-2.8	-5.0	2.1	-1.2	-2.3	-2.7	-3.3	-1.9	2.4	3.7	4.1	-8.3	3.9	-1.7	-0.4		
Government Purchases	1.8	3.1	5.0	2.7	1.2	1.7	1.7	1.4	1.4	1.2	1.0	1.0	3.9	3.4	2.2	1.3		
Net Exports ²	-0.6	-0.9	-0.6	0.0	-0.4	-0.6	-0.2	0.1	0.0	-0.5	-0.8	-0.9	0.5	-0.5	-0.4	-0.3		
Inventories ²	-0.5	1.1	-0.1	-0.1	0.8	-0.1	-1.2	-0.7	0.1	0.3	0.5	0.0	-0.4	0.1	0.0	-0.2		
Nonfarm Payroll Change ³	267	147	159	133	120	125	125	116	123	135	138	140	251	177	121	134		
Unemployment Rate	3.8	4.0	4.2	4.2	4.3	4.3	4.2	4.2	4.2	4.1	4.1	4.0	3.6	4.1	4.3	4.1		
Consumer Price Index ⁴	3.2	3.2	2.6	2.7	2.6	2.6	2.9	2.8	2.7	2.7	2.7	2.6	4.1	2.9	2.7	2.7		
PCE Deflator ⁴	2.7	2.6	2.3	2.6	2.4	2.4	2.6	2.6	2.4	2.4	2.3	2.2	3.8	2.5	2.5	2.3		
"Core" PCE Deflator ⁴	3.0	2.7	2.7	2.9	2.7	2.6	2.7	2.7	2.6	2.6	2.5	2.3	4.1	2.8	2.7	2.5		
Employment Cost Index ⁴	4.2	4.1	3.9	3.8	3.6	3.6	3.6	3.6	3.6	3.5	3.6	3.6	4.5	4.0	3.6	3.6		
Real Disposable Income ¹	5.6	1.0	0.8	1.8	2.2	1.8	2.2	2.2	5.1	3.1	2.7	3.4	5.1	2.8	1.8	3.2		
Quarter-End Interest Rates ⁵																		
Federal Funds Target Rate ⁶	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	5.23	5.13	3.94	3.75		
Conventional Mortgage Rate	6.82	6.92	6.18	6.80	6.65	6.45	6.25	6.30	6.30	6.35	6.35	6.35	6.80	6.68	6.41	6.34		
2 Year Note	4.59	4.71	3.66	4.20	4.00	3.85	3.75	3.75	3.80	3.85	3.90	3.90	4.58	4.29	3.84	3.86		
10 Year Note	4.20	4.36	3.81	4.30	4.20	4.05	3.90	4.00	4.05	4.10	4.15	4.20	3.96	4.17	4.04	4.13		

Forecast as of: December 12, 2024

¹ Compound Annual Growth Rate Quarter-over-Quarter

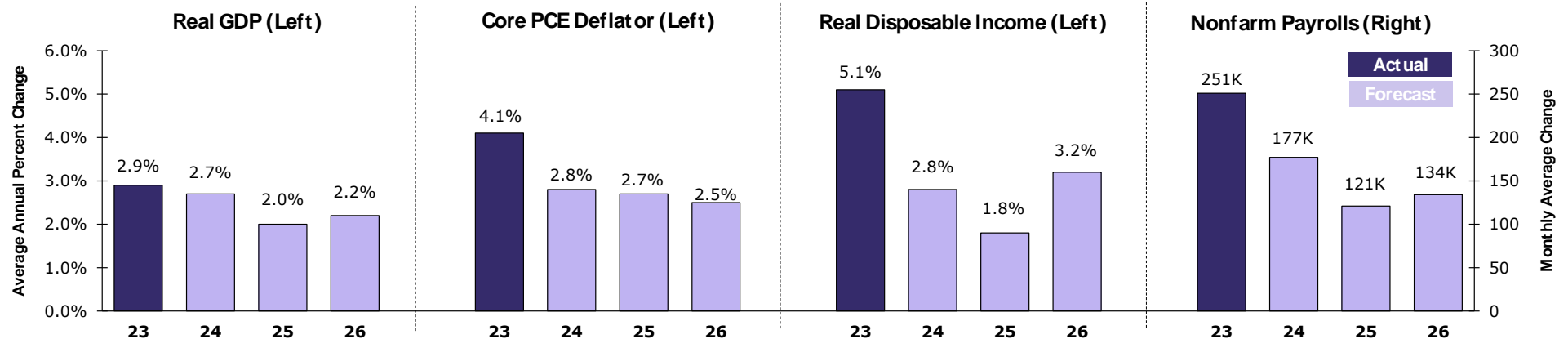
² Percentage Point Contribution to GDP

³ Average Monthly Change

⁴ Year-over-Year Percentage Change

⁵ Quarterly Data - Period End; Annual Data - Annual Averages

⁶ Upper Bound of the Federal Funds Target Range



Forecast as of: December 12, 2024

Wells Fargo International Economic Forecast

	GDP				CPI			
	2023	2024	2025	2026	2023	2024	2025	2026
Global (PPP Weights)	3.3%	2.9%	2.5%	2.6%	6.7%	3.9%	3.9%	3.8%
Advanced Economies ¹	1.7%	1.8%	1.7%	1.9%	4.6%	2.7%	2.5%	2.4%
United States	2.9%	2.7%	2.0%	2.2%	4.1%	2.9%	2.7%	2.7%
Eurozone	0.4%	0.7%	0.9%	1.2%	5.4%	2.4%	2.0%	2.0%
United Kingdom	0.3%	0.9%	1.6%	1.7%	7.3%	2.6%	2.4%	2.1%
Japan	1.7%	-0.2%	1.1%	0.9%	3.3%	2.6%	2.1%	1.7%
Canada	1.2%	1.3%	1.7%	1.7%	3.9%	2.4%	2.1%	2.0%
Switzerland	0.7%	1.4%	1.4%	1.2%	2.1%	1.1%	0.9%	1.0%
Australia	2.0%	1.0%	1.9%	2.1%	5.6%	3.4%	2.8%	2.7%
New Zealand	0.6%	0.2%	1.9%	2.1%	5.7%	2.9%	2.1%	2.0%
Sweden	-0.2%	0.6%	1.8%	1.7%	5.9%	1.9%	1.9%	2.0%
Norway	0.5%	1.0%	1.7%	1.6%	5.5%	3.3%	2.6%	2.3%
Developing Economies ¹	4.4%	3.7%	3.1%	3.0%	8.1%	4.8%	4.9%	4.8%
China	5.3%	4.6%	4.0%	4.0%	0.2%	0.3%	1.2%	1.4%
India	8.2%	6.3%	5.9%	6.0%	5.4%	4.9%	4.5%	4.5%
Mexico	3.2%	1.6%	1.3%	0.8%	5.5%	4.7%	3.8%	3.9%
Brazil	2.9%	3.1%	2.0%	1.7%	4.6%	4.4%	3.9%	3.6%

Forecast as of: December 12, 2024

¹Aggregated Using PPP Weights

Wells Fargo International FX Forecast							
Currency Pair*	Current Rate	Q4-2024	Q1-2025	Q2-2025	Q3-2025	Q4-2025	Q1-2026
G10							
EUR/USD	1.0509	1.0400	1.0200	1.0000	0.9900	0.9800	0.9700
USD/JPY	150.57	152.00	152.00	150.00	152.00	154.00	156.00
GBP/USD	1.2692	1.2700	1.2600	1.2500	1.2400	1.2300	1.2200
USD/CHF	0.8854	0.8950	0.9075	0.9200	0.9250	0.9400	0.9525
USD/CAD	1.4060	1.4100	1.4300	1.4500	1.4700	1.4900	1.5000
AUD/USD	0.6425	0.6500	0.6500	0.6400	0.6300	0.6200	0.6100
NZD/USD	0.5850	0.5800	0.5700	0.5600	0.5500	0.5400	0.5300
USD/NOK	11.0630	11.1050	11.2250	11.3500	11.4150	11.4800	11.5475
USD/SEK	10.9885	11.1550	11.4225	11.6000	11.6675	11.7350	11.8050
Asia							
USD/CNY	7.2684	7.3000	7.3500	7.4000	7.5000	7.6000	7.7500
USD/CNH	7.2743	7.3000	7.3500	7.4000	7.5000	7.6000	7.7500
USD/IDR	15937	16000	16000	16100	16300	16500	16700
USD/INR	84.74	85.00	85.50	86.00	86.50	87.00	87.50
USD/KRW	1417.01	1400.00	1420.00	1440.00	1460.00	1480.00	1500.00
USD/PHP	58.26	58.50	59.00	59.50	60.00	60.50	61.00
USD/SGD	1.3458	1.3500	1.3600	1.3700	1.3900	1.4100	1.4300
USD/TWD	32.43	32.50	32.75	33.00	33.50	34.00	34.50
USD/THB	34.27	34.50	35.00	35.50	36.00	36.50	37.00
Latin America							
USD/BRL	6.0637	6.1000	6.2000	6.4000	6.6000	6.8000	7.0000
USD/CLP	974.12	980.00	990.00	1000.00	1020.00	1040.00	1060.00
USD/MXN	20.3114	20.2500	20.5000	21.0000	22.0000	22.5000	23.0000
USD/COP	4426.97	4500.00	4600.00	4700.00	4800.00	4900.00	5000.00
USD/ARS	1012.77	1030.00	1130.00	1230.00	1330.00	1430.00	1530.00
USD/PEN	3.7355	3.7500	3.7800	3.8100	3.8500	3.8800	3.9000

Forecasts as of: December 12, 2024

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