



The Economic Outlook

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U.S. Outlook

- The spike in COVID cases from the Omicron variant came too late in the year to impact Q4-2021 GDP. Preliminary data show real GDP grew 5.7% in 2021, marking the strongest growth since 1984. Economic growth has slowed at the start of 2022, as Omicron has worsened staffing shortages. While risks have increased, we look for solid economic growth to continue in 2022, with real GDP rising 3.4%.
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Inflation Has Accelerated

- Inflation has proven to be stronger and more persistent than the Fed had expected. The primary culprit is an incredibly expansive fiscal policy accommodated by an incredibly expansive monetary policy. Supply chain disruptions are playing a supporting role and price increases will ease a bit as bottlenecks diminish. Inflation expectations have risen at businesses, households and the Fed.
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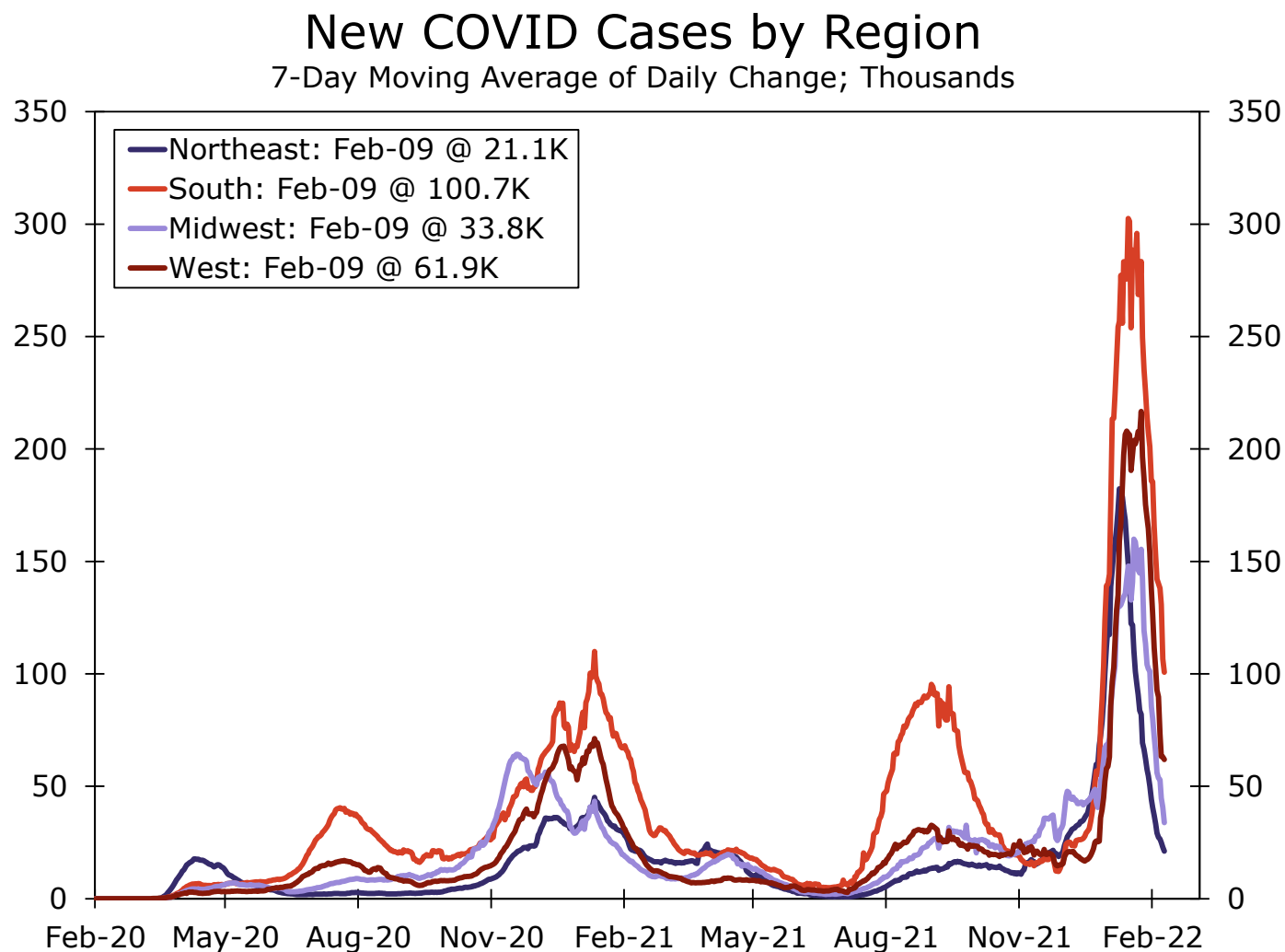
Affordability Migration

- The pandemic accelerated the migration from high-cost, densely-populated cities to secondary metro areas in the Mountain West and South. The move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas has fueled sales of single-family homes and motor vehicles. The shift has also bolstered suburban retailing and increased demand for suburban offices and apartments.
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Monetary and Fiscal Stimulus Winding Down

- After initially misreading the inflation threat, the Fed accelerated the wind down of quantitative easing and accelerated the timetable for normalizing interest rates. Fiscal policy has also run into a brick wall, as the prospect of higher inflation now outweighs the benefits of additional massive fiscal stimulus. With less stimulus in the pipeline, real after-tax income will slow and restrain consumer spending.
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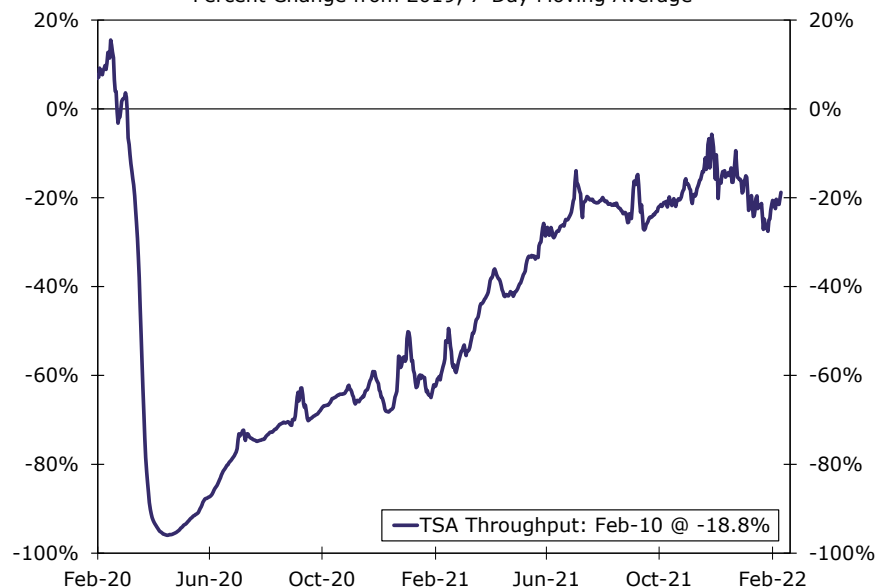
The Omicron wave is burning through the country faster than previous variants.



High-frequency measures of economic engagement have improved relative to 2020. The onset of colder weather, continued uncertainty about the return to office and in-person schooling has weighed on activity, however.

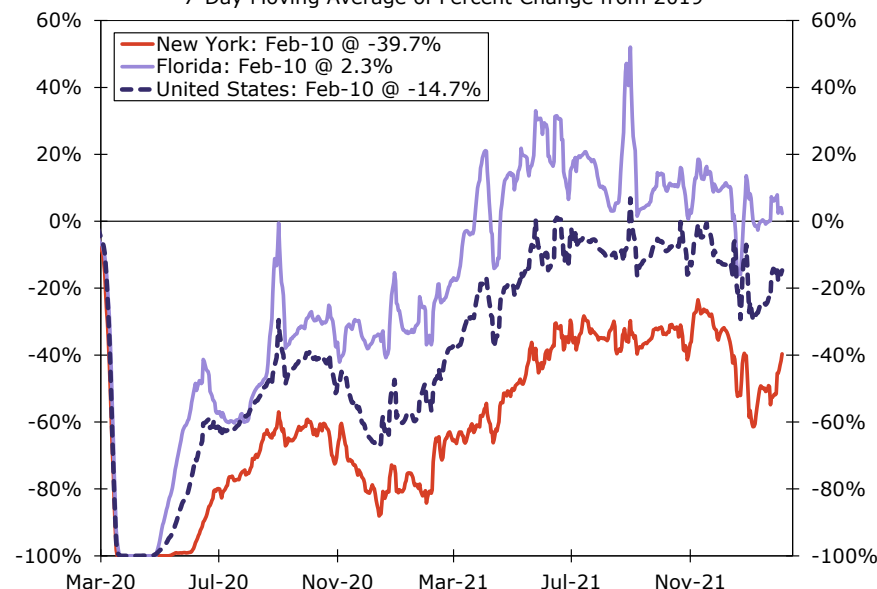
People Passing through U.S. Airport Security

Percent Change from 2019, 7-Day Moving Average



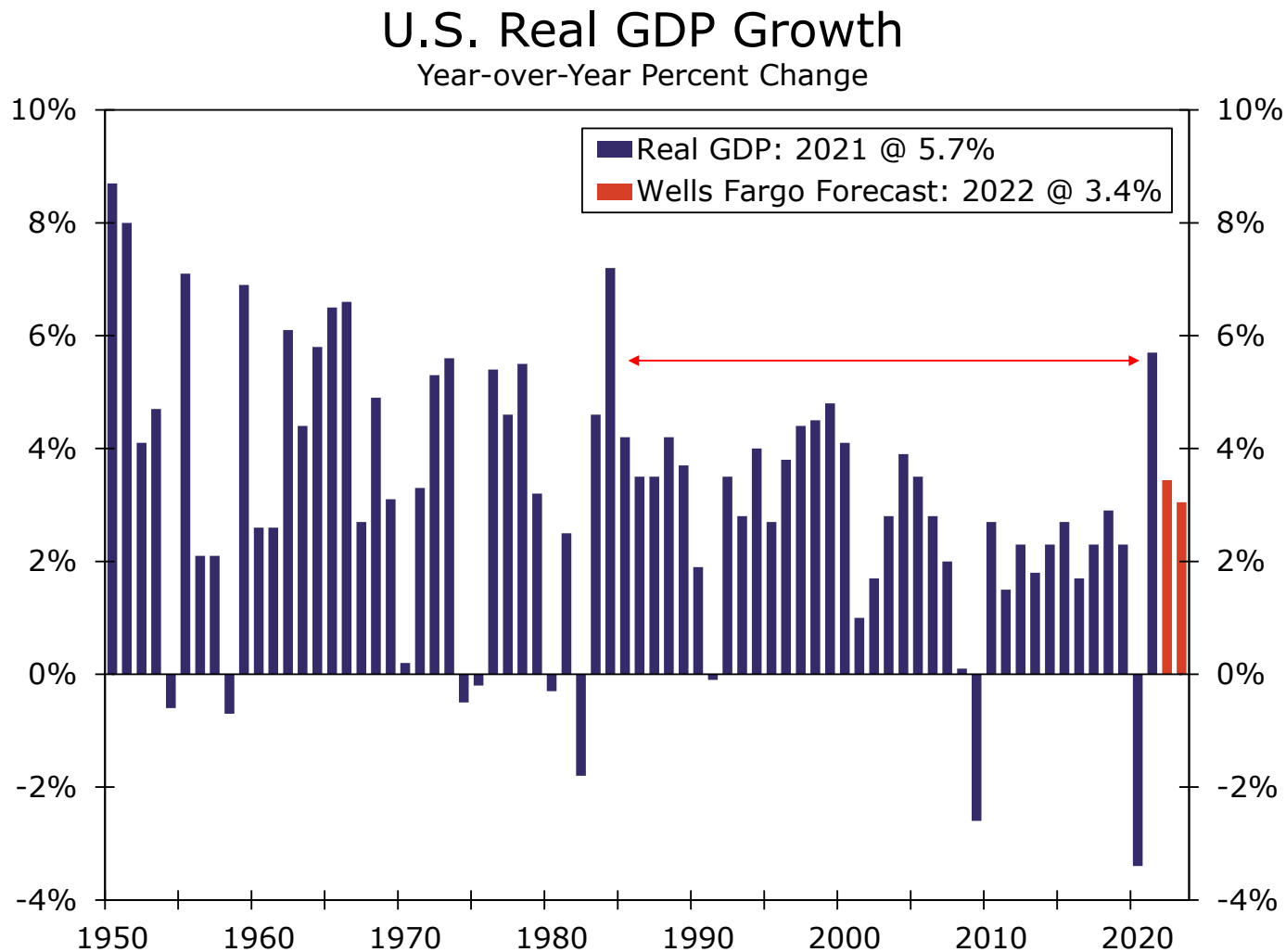
Seated Diners

7-Day Moving Average of Percent Change from 2019

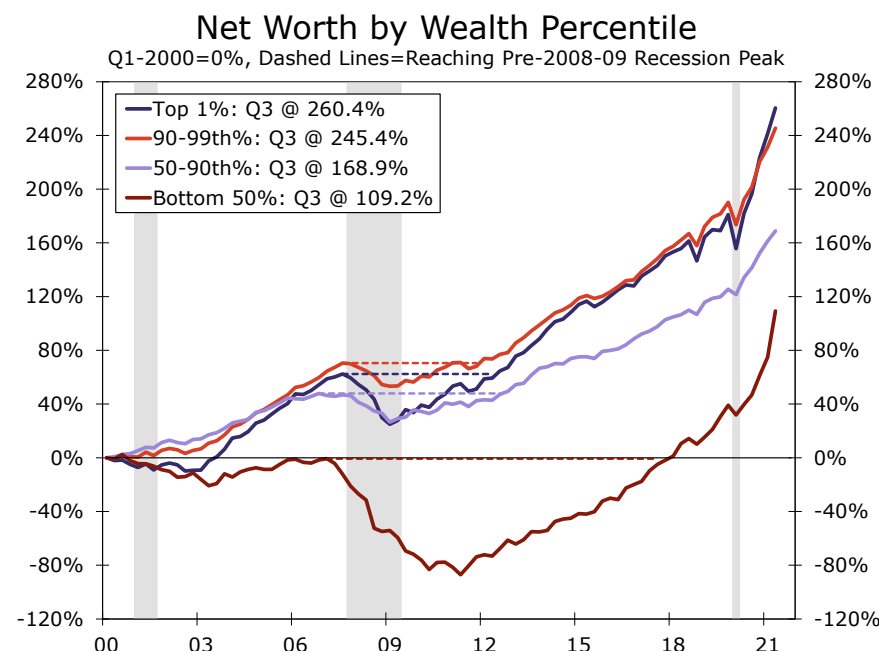
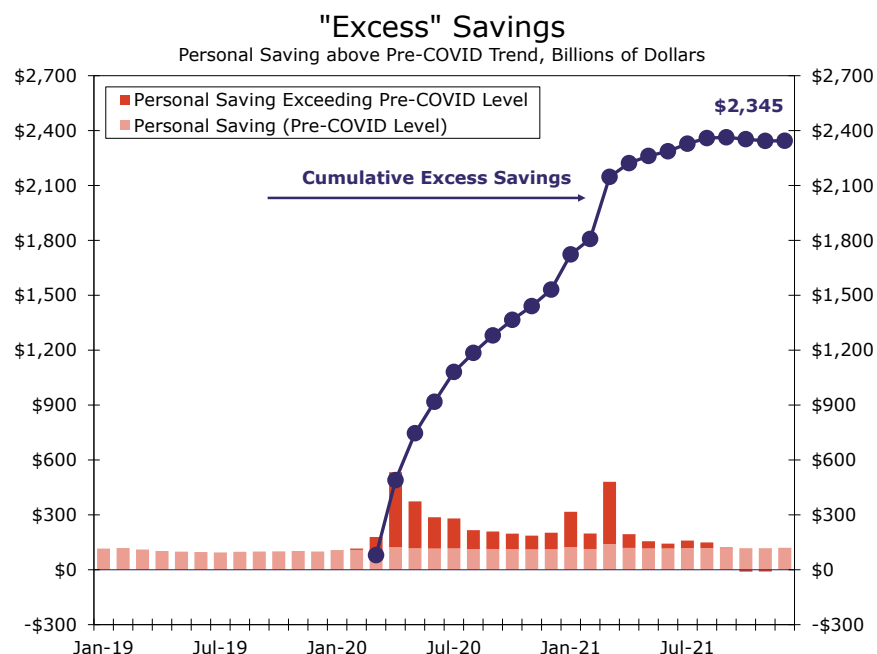


Full year GDP growth for 2021 came in at 5.7%, which marks the fastest GDP growth since 1984.

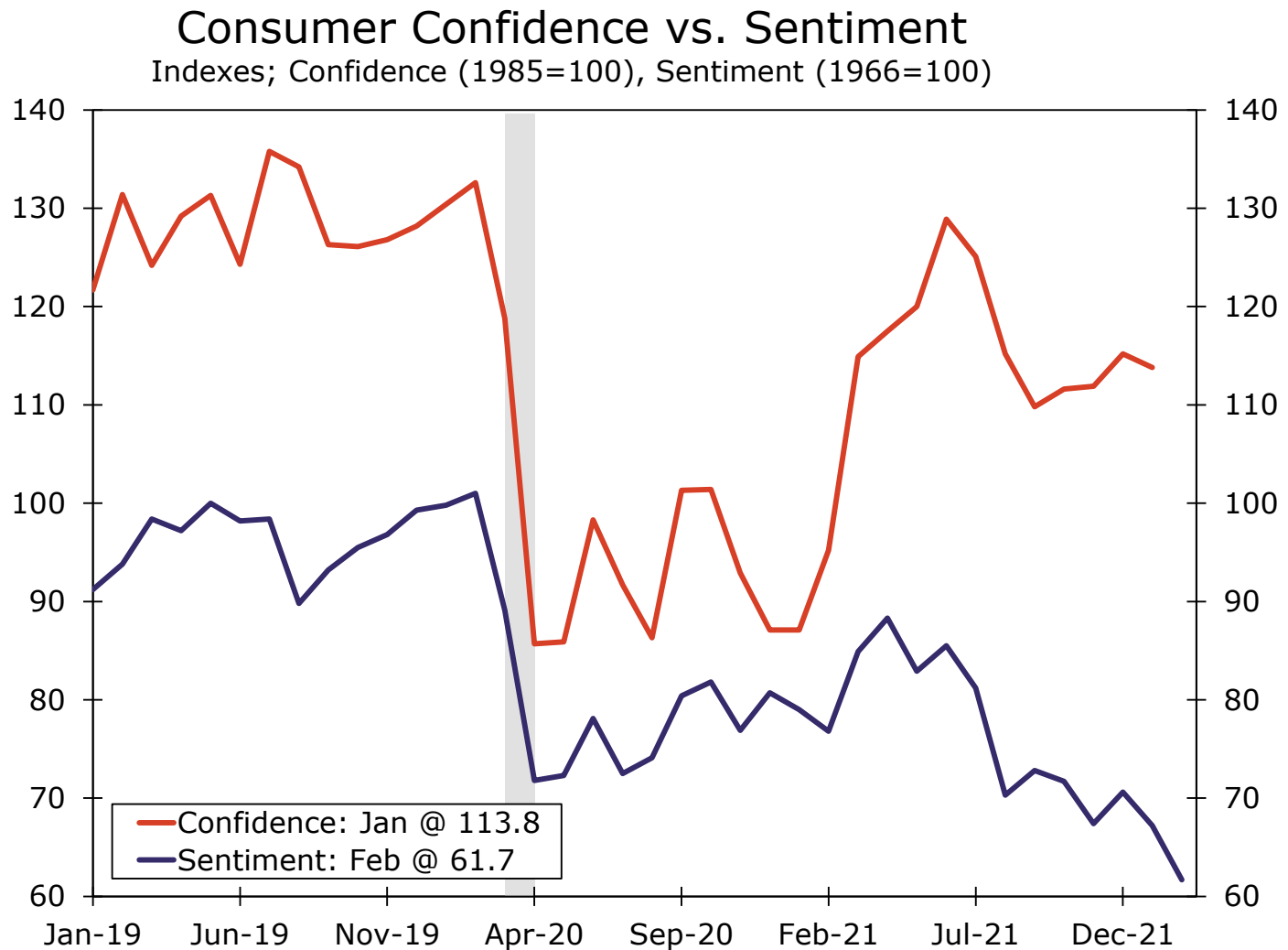
With less fiscal and monetary stimulus, economic growth is set to slow in coming year. We project 3.4% real GDP growth this year and 2.9% in 2023.



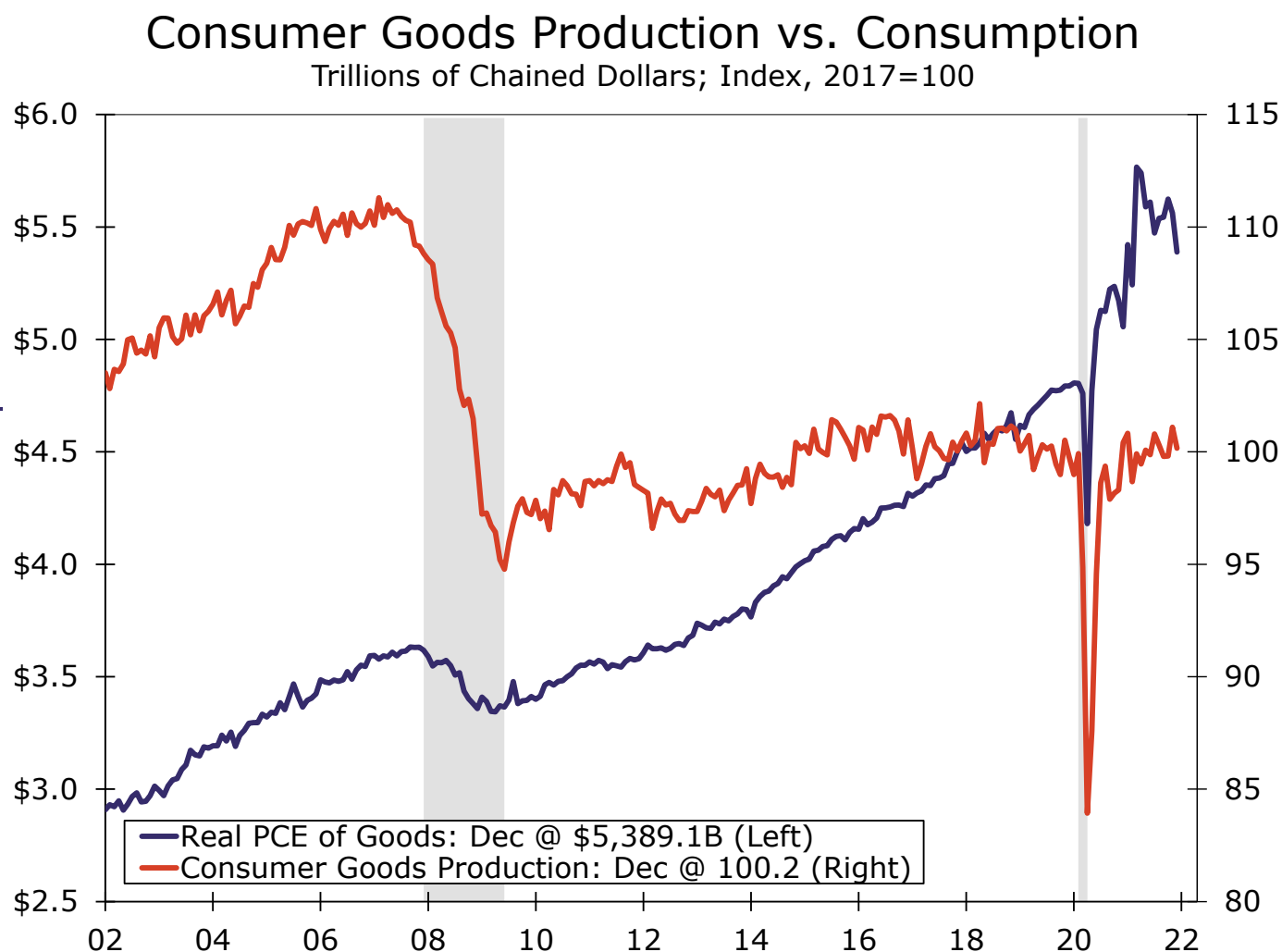
Excess savings and strong balance sheets should support spending even as fiscal support fades further in the rearview mirror.



There is a wide gap between the two most widely followed consumer confidence surveys, reflecting the divergence between job prospects and inflation concerns.

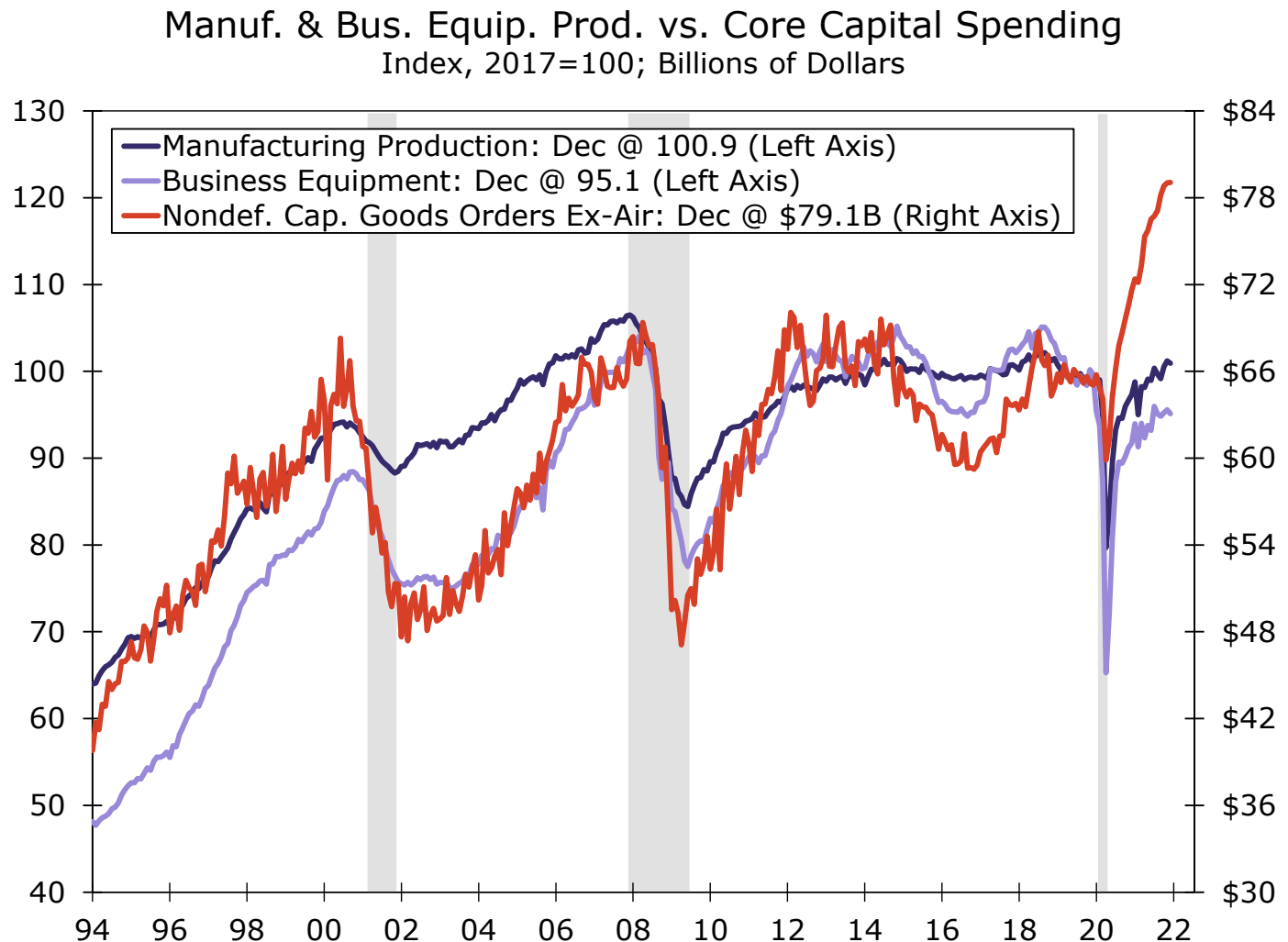


Demand for consumer goods surged well ahead of output, which slashed inventories and pulled in a torrent of imports.



Core Capital Goods Orders

Producers of capital equipment have had a hard time keeping up with the surge in demand.

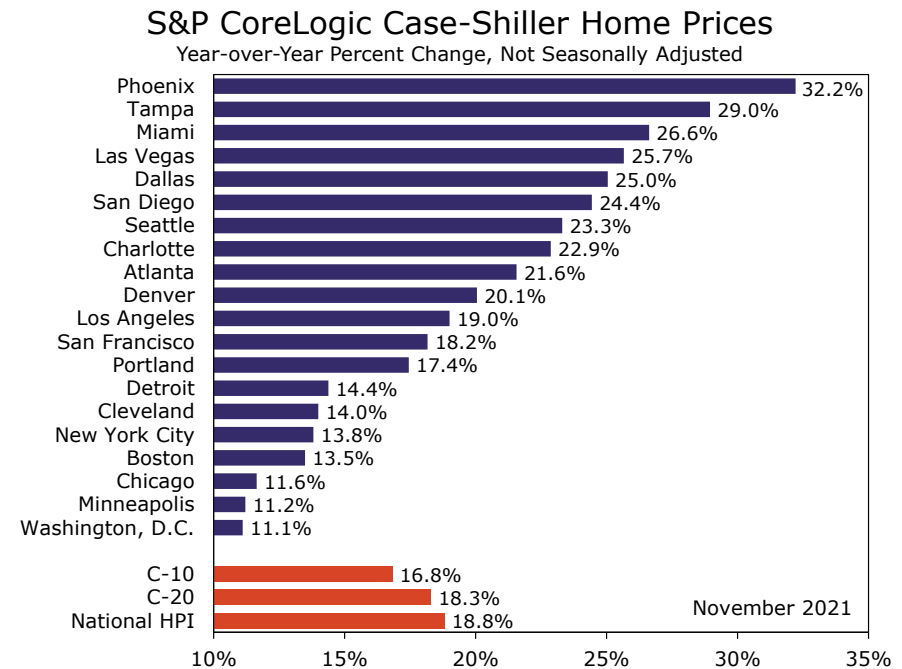
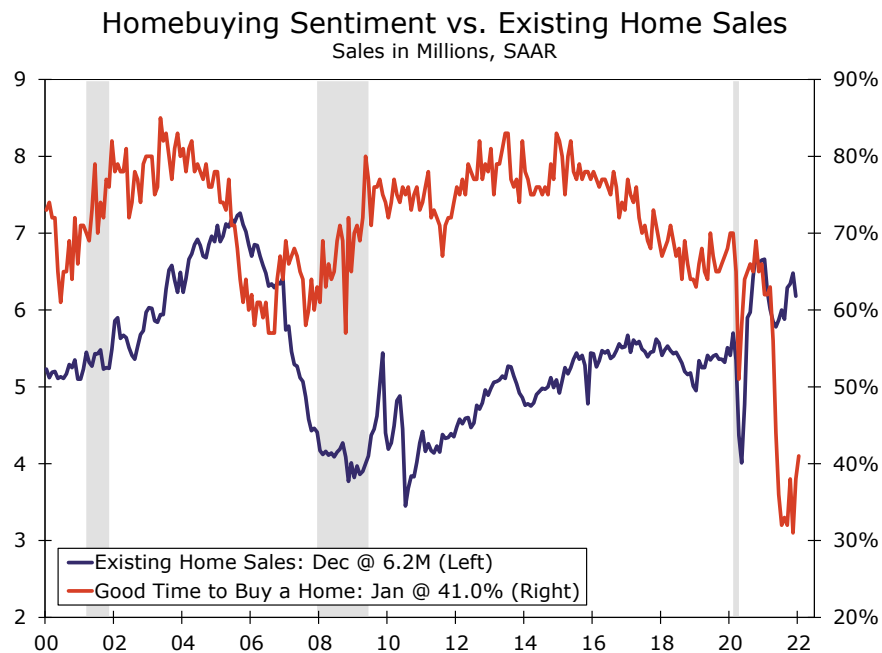


Pressure Gauge

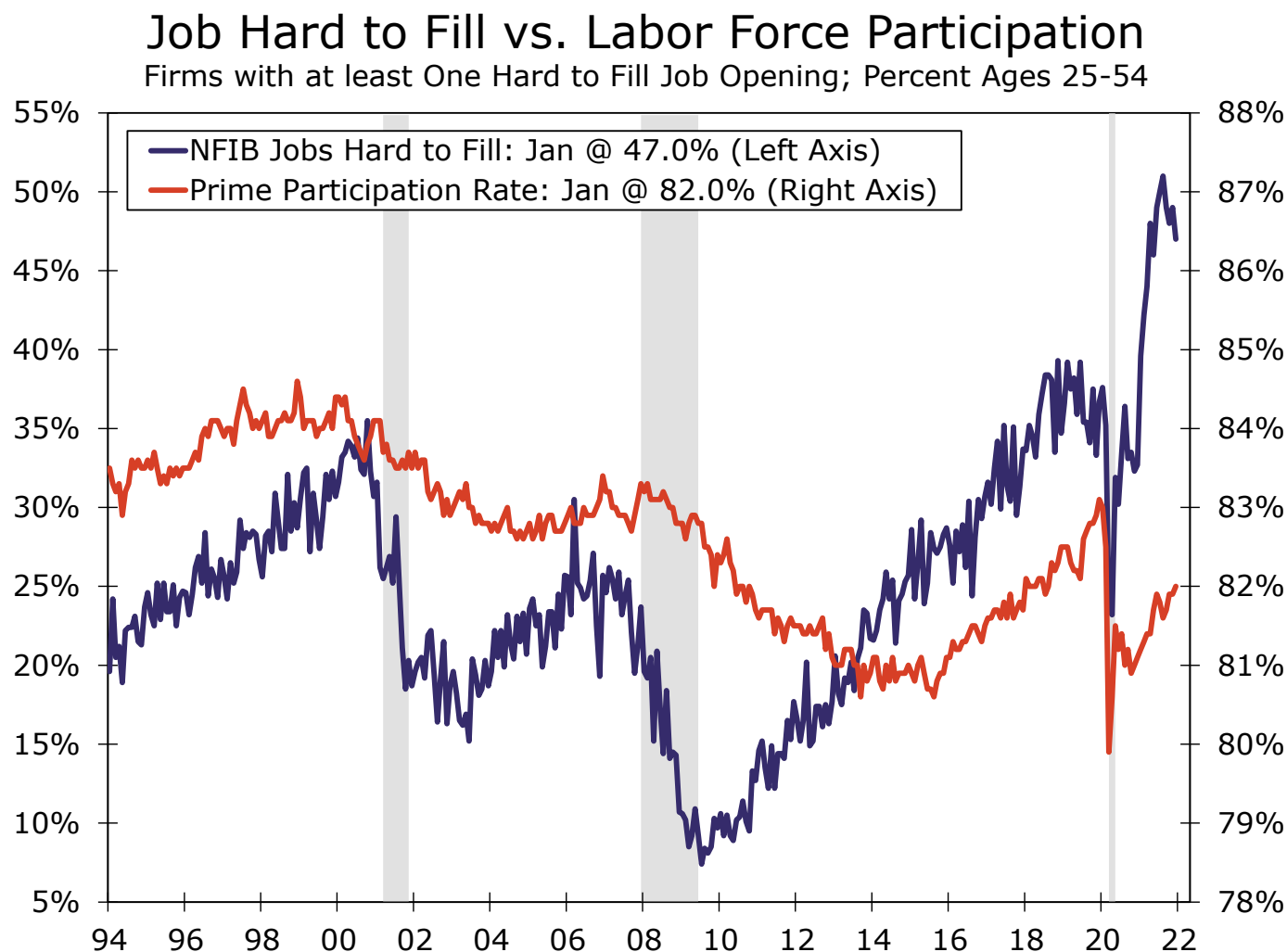
Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-22
Time																									
ISM Manuf. Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	73.4	75.6	72.2	64.9	64.6	
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	
Ships Awaiting Space LA & LB (a)	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	103.3	92.8
Volume																									
Taiwan Elect. Product Exports (b)	46.2%	18.1%	24.3%	13.2%	23.8%	15.3%	19.1%	26.1%	21.8%	19.0%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.9%	21.9%	26.8%	12.4%	26.6%	27.5%	19.7%	
Cass Freight Index (b)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	12.3%	0.6%	0.8%	4.5%	7.7%		
Unfilled Orders (c)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.5%	12.2%	12.2%	9.2%	8.0%	5.6%		
Price																									
World Container Index (WCI) (d)	\$1.6k	\$1.5k	\$1.5k	\$1.5k	\$1.8k	\$2.0k	\$2.1k	\$2.5k	\$2.6k	\$2.8k	\$4.0k	\$5.3k	\$5.2k	\$5.0k	\$4.9k	\$5.9k	\$7.1k	\$8.9k	\$9.6k	\$10.2k	\$9.9k	\$9.2k	\$9.2k	\$9.5k	\$9.4k
WCI: Shanghai-Los Angeles (d)	\$1.5k	\$1.4k	\$1.6k	\$1.7k	\$2.3k	\$2.9k	\$3.3k	\$3.9k	\$4.1k	\$4.0k	\$4.1k	\$4.2k	\$4.3k	\$4.2k	\$4.3k	\$5.5k	\$6.8k	\$9.8k	\$10.7k	\$12.0k	\$11.0k	\$10.0k	\$10.1k	\$10.8k	\$10.5k
PPI Transp. & Ware. of Goods (c)	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%	16.3%	23.1%	19.1%		
Dry Van Rate Per Mile (e)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%	21.8%	17.8%	16.5%	17.5%	28.6%	38.1%
Inventory																									
Bus. Inventory-to-Sales Ratio	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25	1.25	1.26	1.26	1.24	1.25			
ISM Manuf. Inventories Index	46.5	46.9	49.7	50.4	50.5	47.0	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2	55.6	56.4	56.3	54.6	53.2	
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	
Inventory Too Low (f)	-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%	
Labor																									
Production & Manuf. Posts (g)	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%	102.8%	
Loading & Stocking Posts (g)	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%	

Notes: (a) Monthly Average, (b) Year-over-Year Percent Change, (c) 3-Month Annualized Rate, (d) USD/40ft Box), (e) Year-over-Year of 4-Week Moving Average, (f) Net % of Firms, (g) versus February 2020
Source: Institute for Supply Management (ISM), Bloomberg Finance L.P., Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Economics

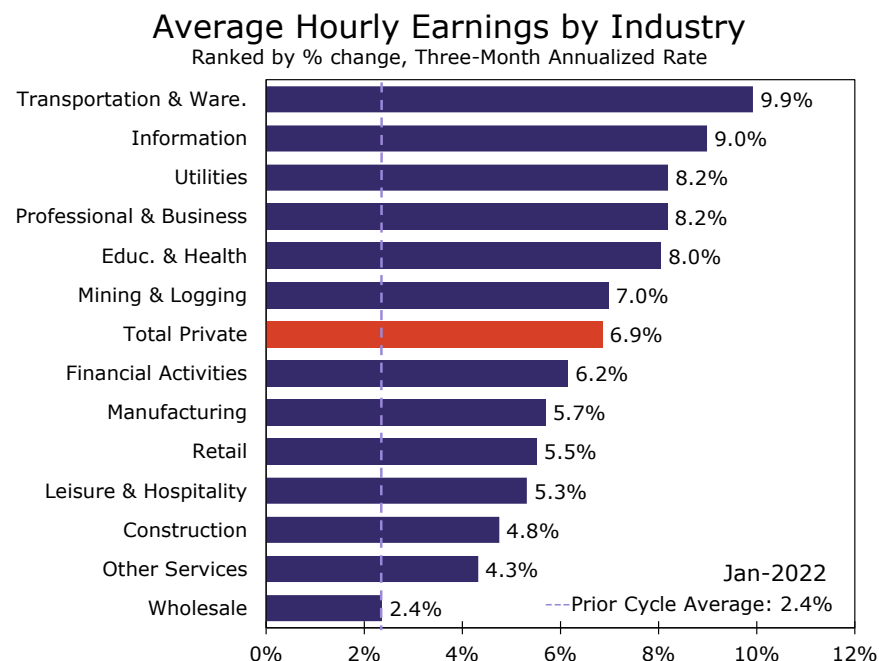
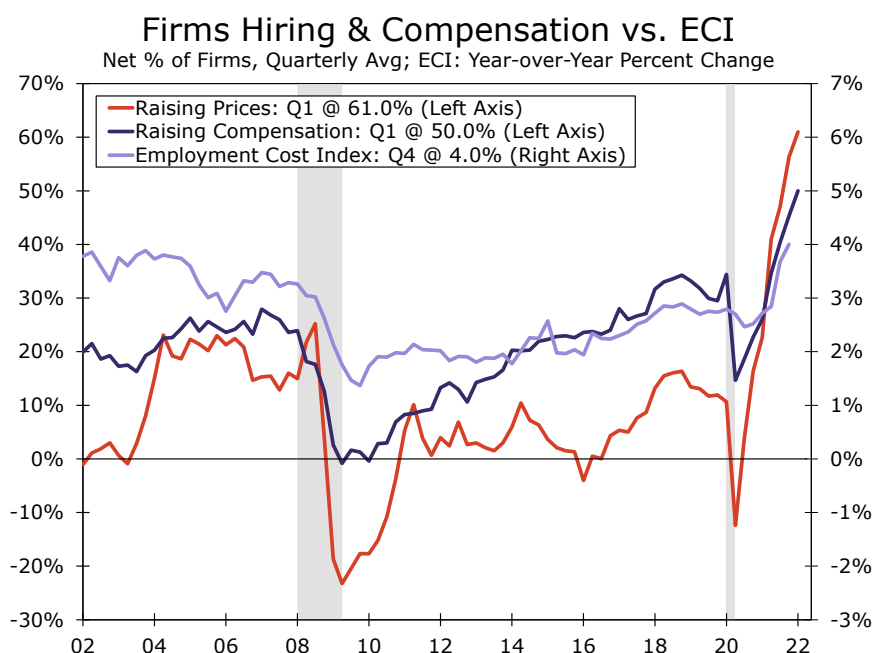
Tight inventories and fast-rising home prices have put homes out of reach for many prospective home buyers. The share of consumers that feel now is a good time to buy a home recently probed all-time lows.



The availability of workers continues to hold back the jobs recovery.

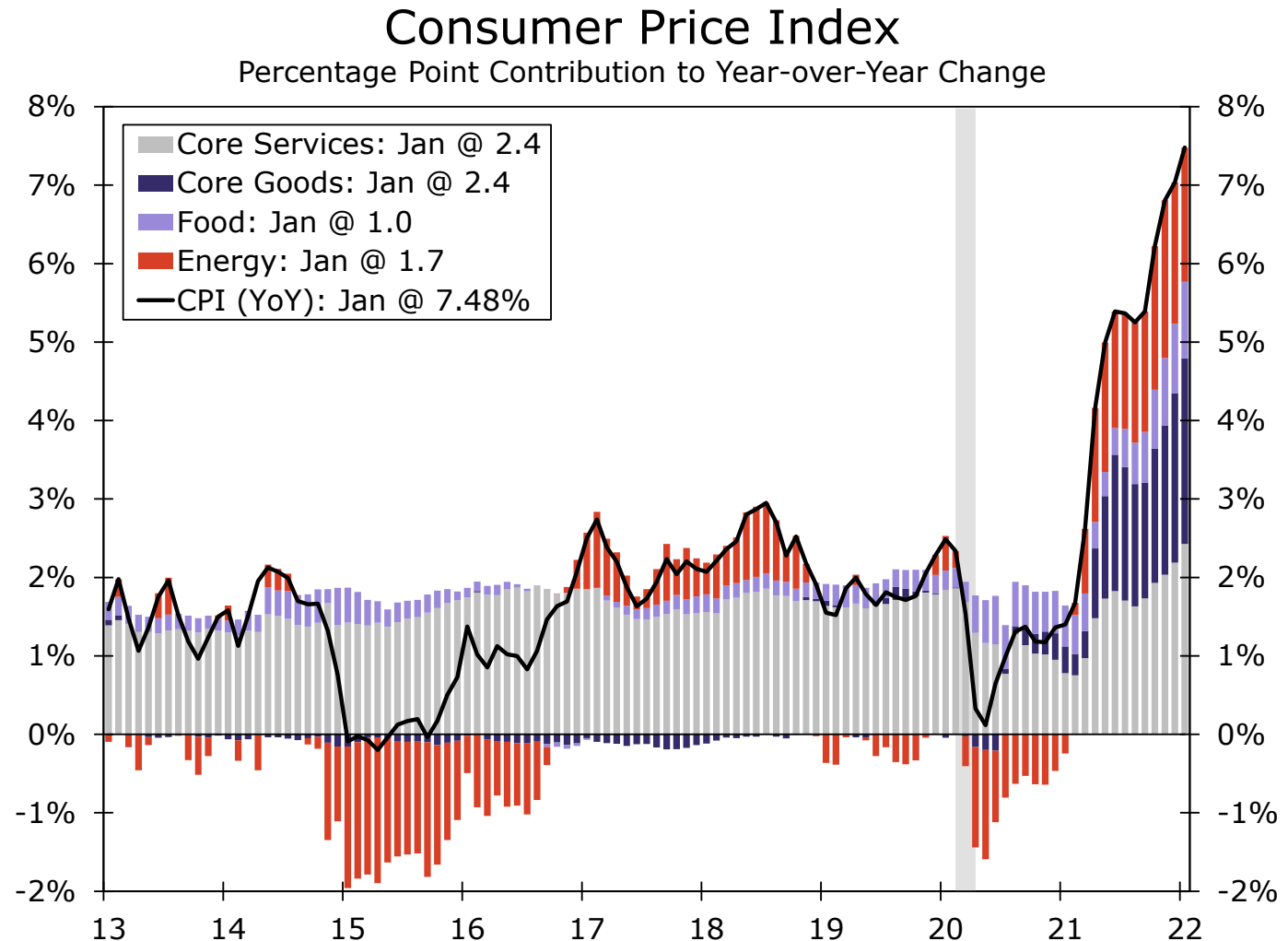


Wage growth has picked up, particularly in lower-paying industries that are struggling most to get workers back to the jobsite. At the same time, firms are raising prices in tandem with rising wages.

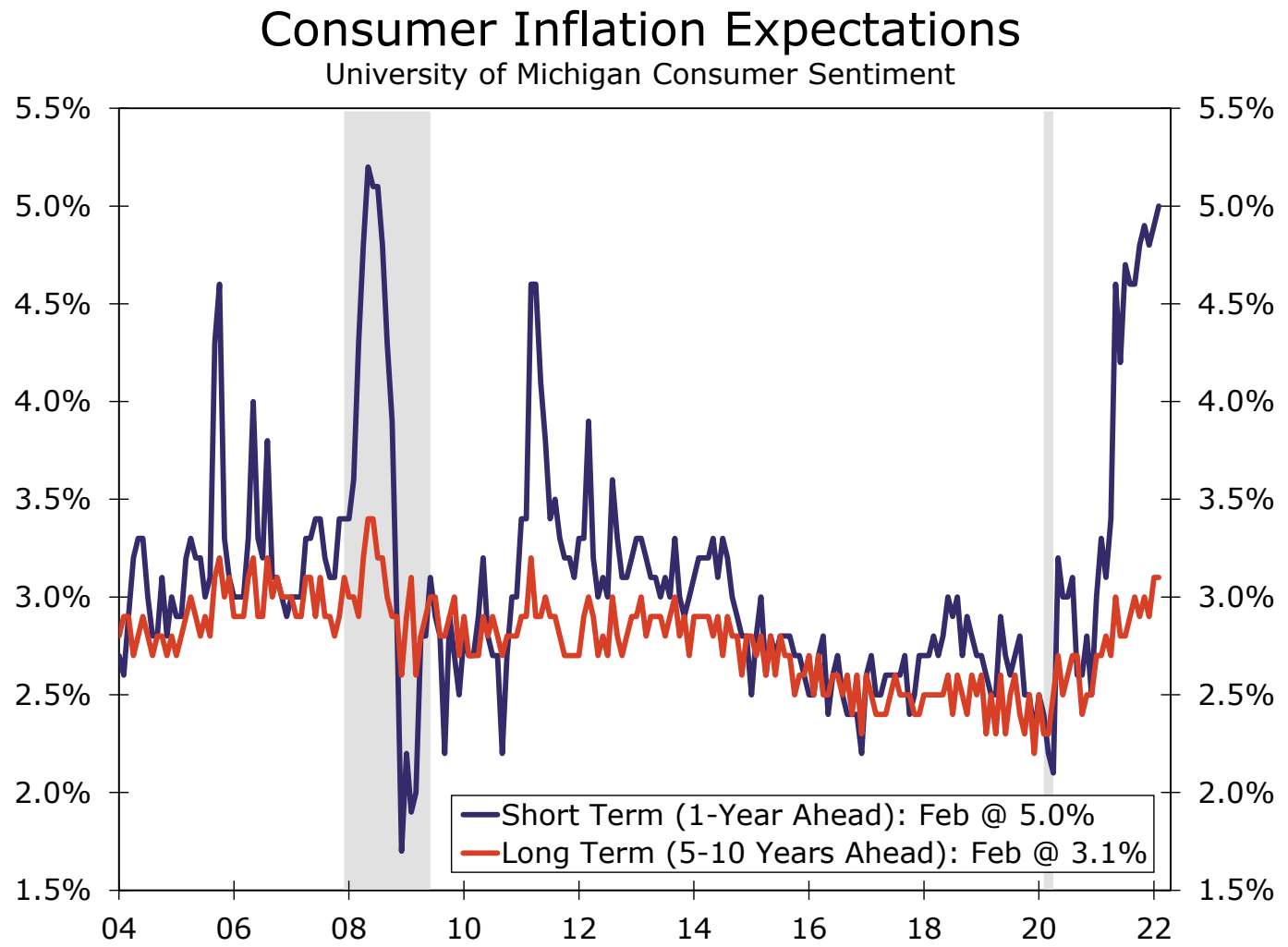


Consumer Price Inflation

Goods have accounted for much of the rise in inflation, at least thus far.



Surveys of consumers also show expectations for higher inflation.



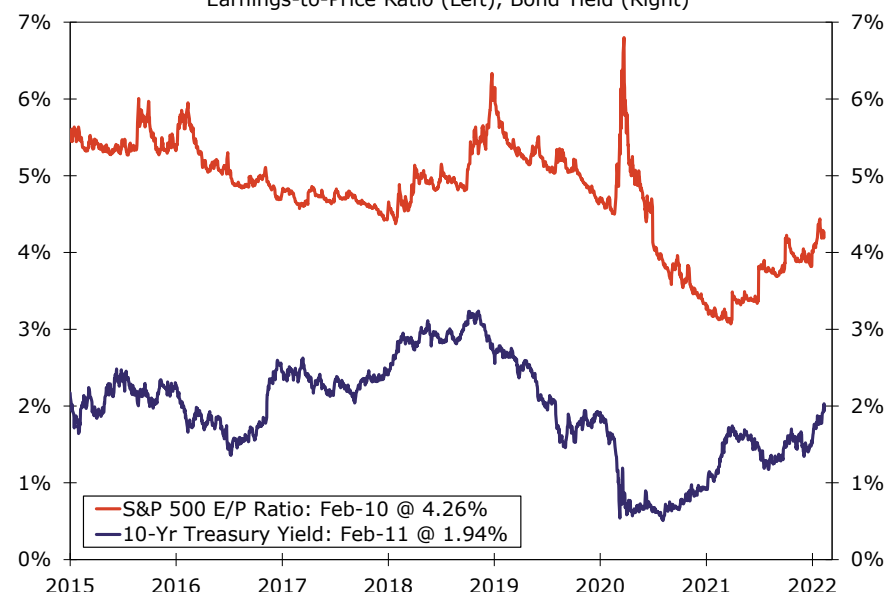
Low Treasury rates during the pandemic helped fuel a huge rally in stocks and other risky assets. Stocks have slumped this year as the Fed has undertaken a hawkish stance while Treasury yields have risen.

S&P 500



S&P 500 vs. 10-Year Treasury

Earnings-to-Price Ratio (Left), Bond Yield (Right)

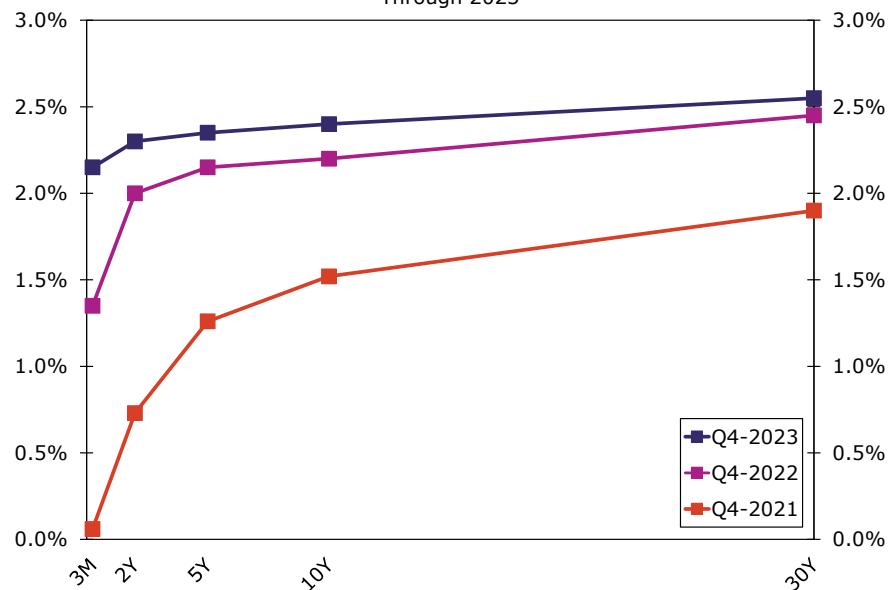


Interest Rate Outlook

The financial markets have begun to price in an aggressive shift in monetary policy. We expect the Fed to hike the federal funds rates 5 times this year and 3 times next year, raising the fed funds rate close to 2.25%. The Fed will need to balance the risks of moving too aggressively with the costs of allowing inflation to remain higher for a longer period.

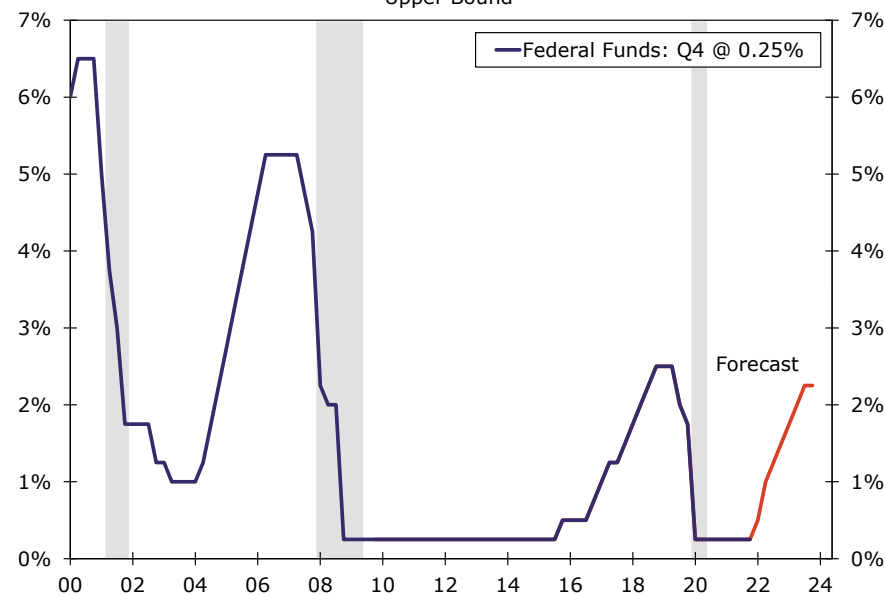
Wells Fargo Rates Forecast

Through 2023

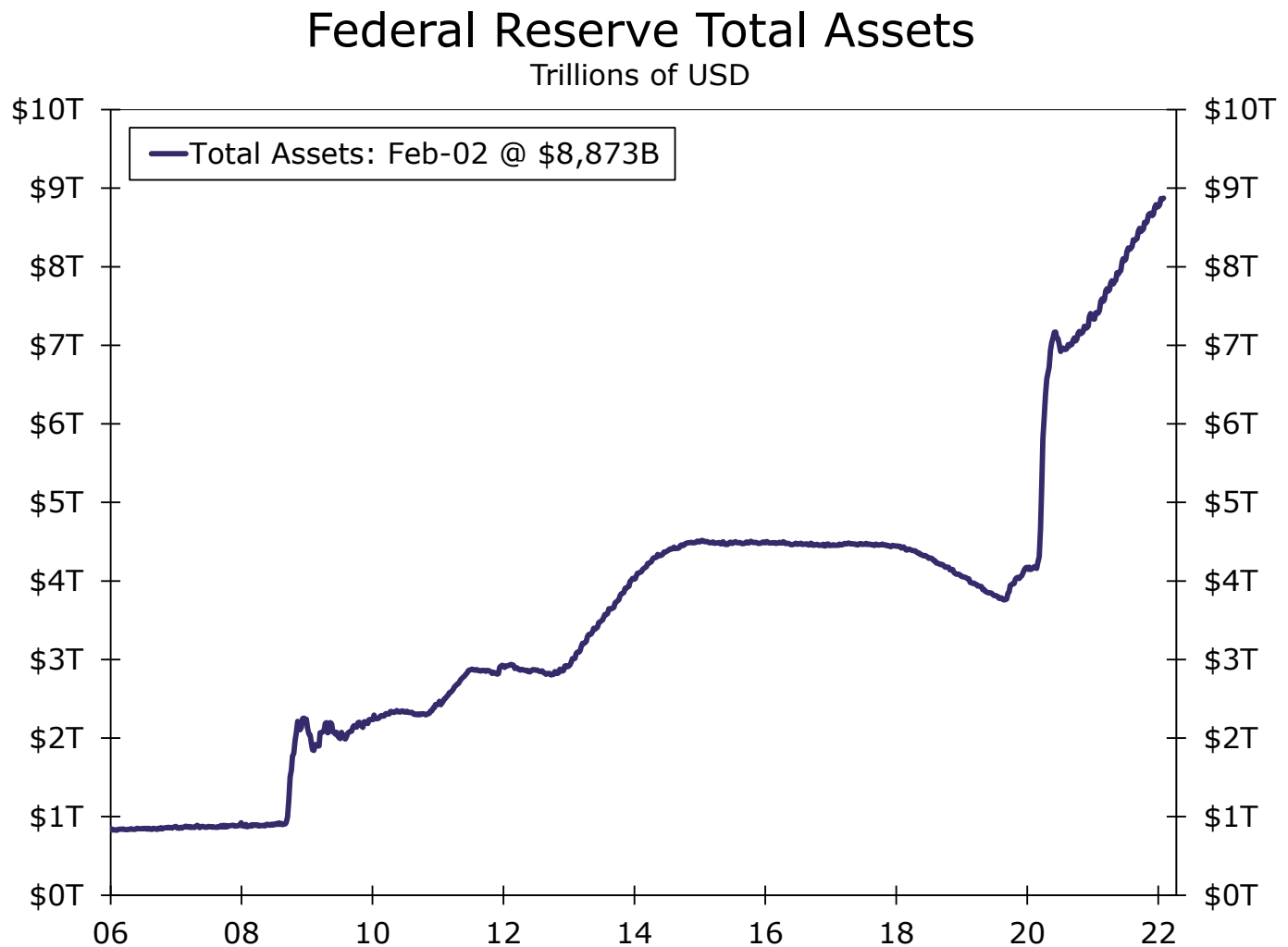


Federal Funds Target Rate

Upper Bound



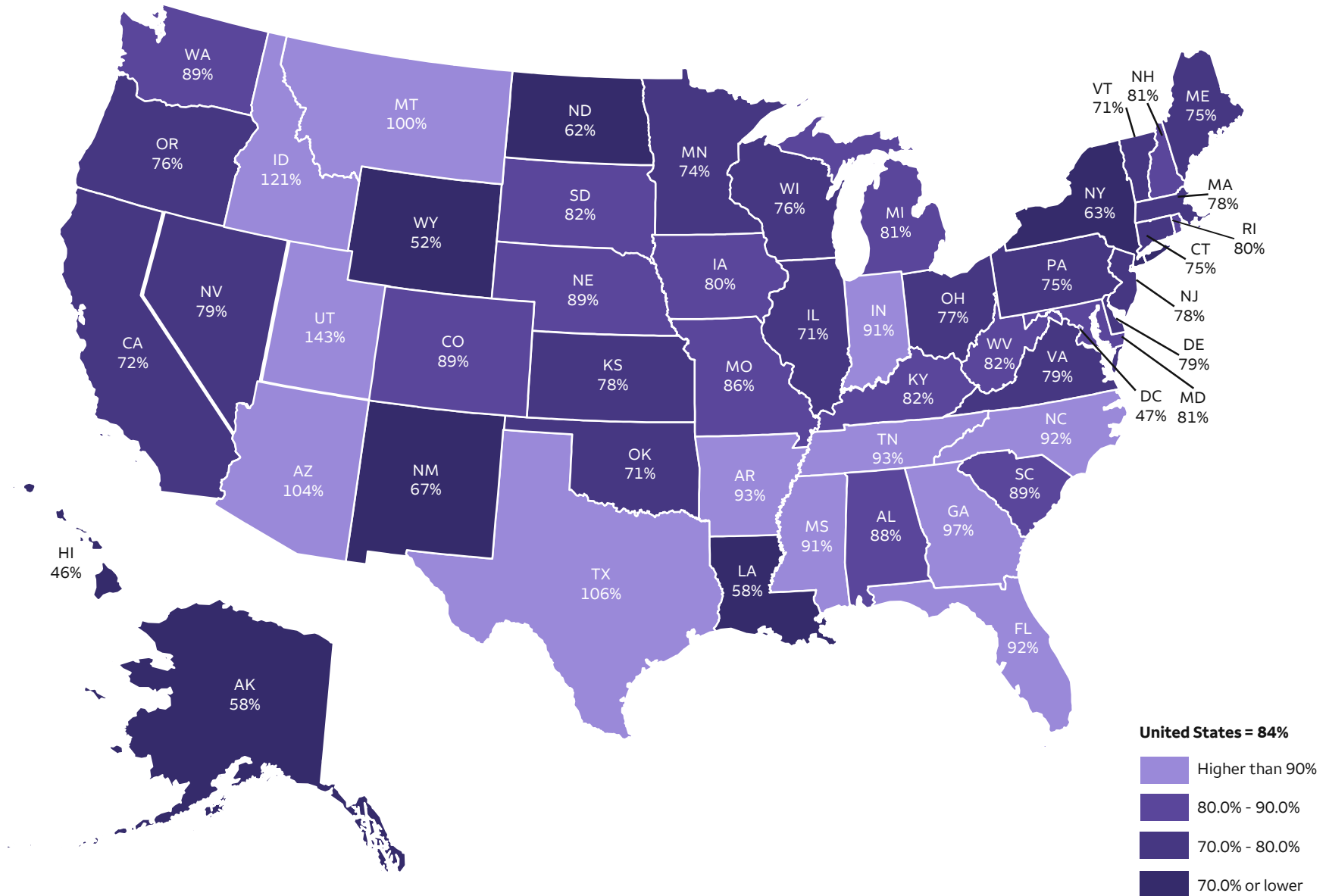
The Fed will likely begin to reduce its balance sheet during the second half of this year.





Regional Commentary

Percent of March and April Job Losses Recovered – December 2021

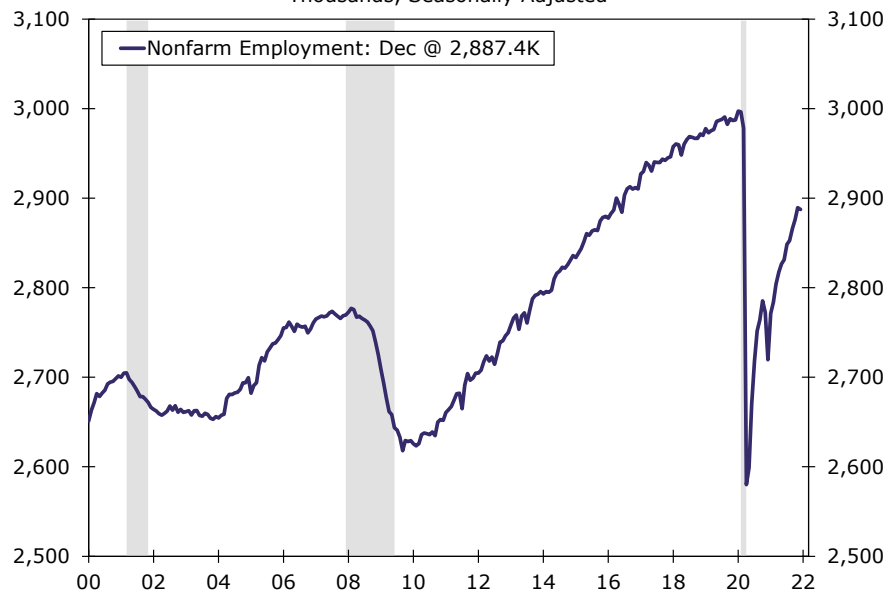


Source: U.S. Department of Labor and Wells Fargo Economics

Employers are still trying to recover all of the 416,300 jobs lost at the onset of the pandemic. The unemployment rate currently sits at 3.1% statewide which is lower than the national figure of 3.9%.

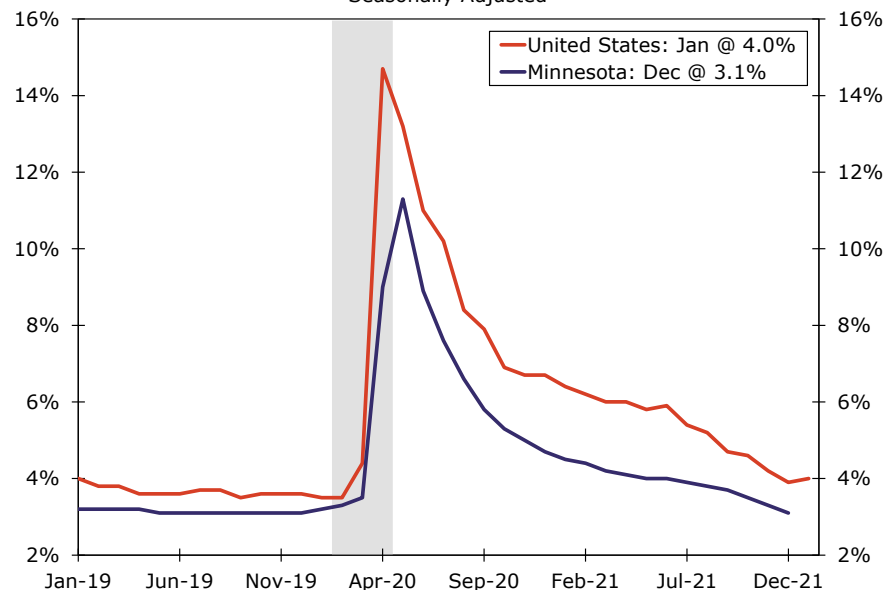
Minnesota Nonfarm Employment

Thousands, Seasonally Adjusted



Minnesota vs. U.S. Unemployment Rate

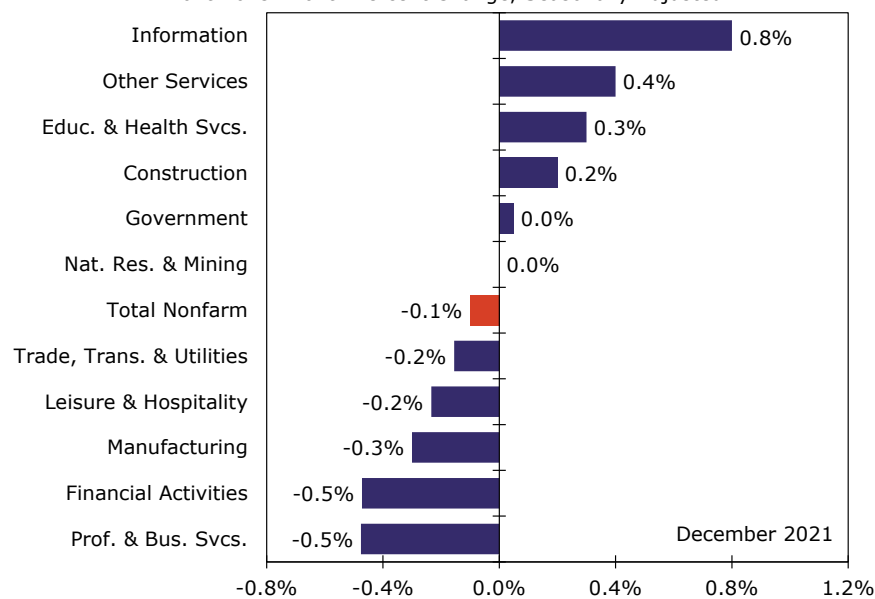
Seasonally Adjusted



The majority of the remaining 108,900 jobs yet to be recovered are in leisure and hospitality and other high-contact services. The Omicron wave has weighed on the recovery as businesses protocols were tightened in major cities. Measures of job openings also remain elevated.

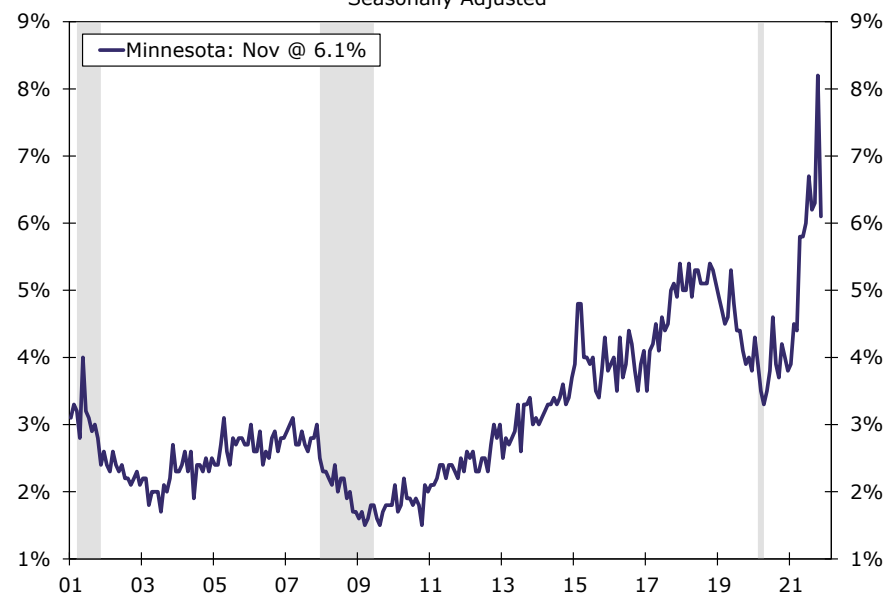
Minnesota Employment Growth By Industry

Month-over-Month Percent Change, Seasonally Adjusted



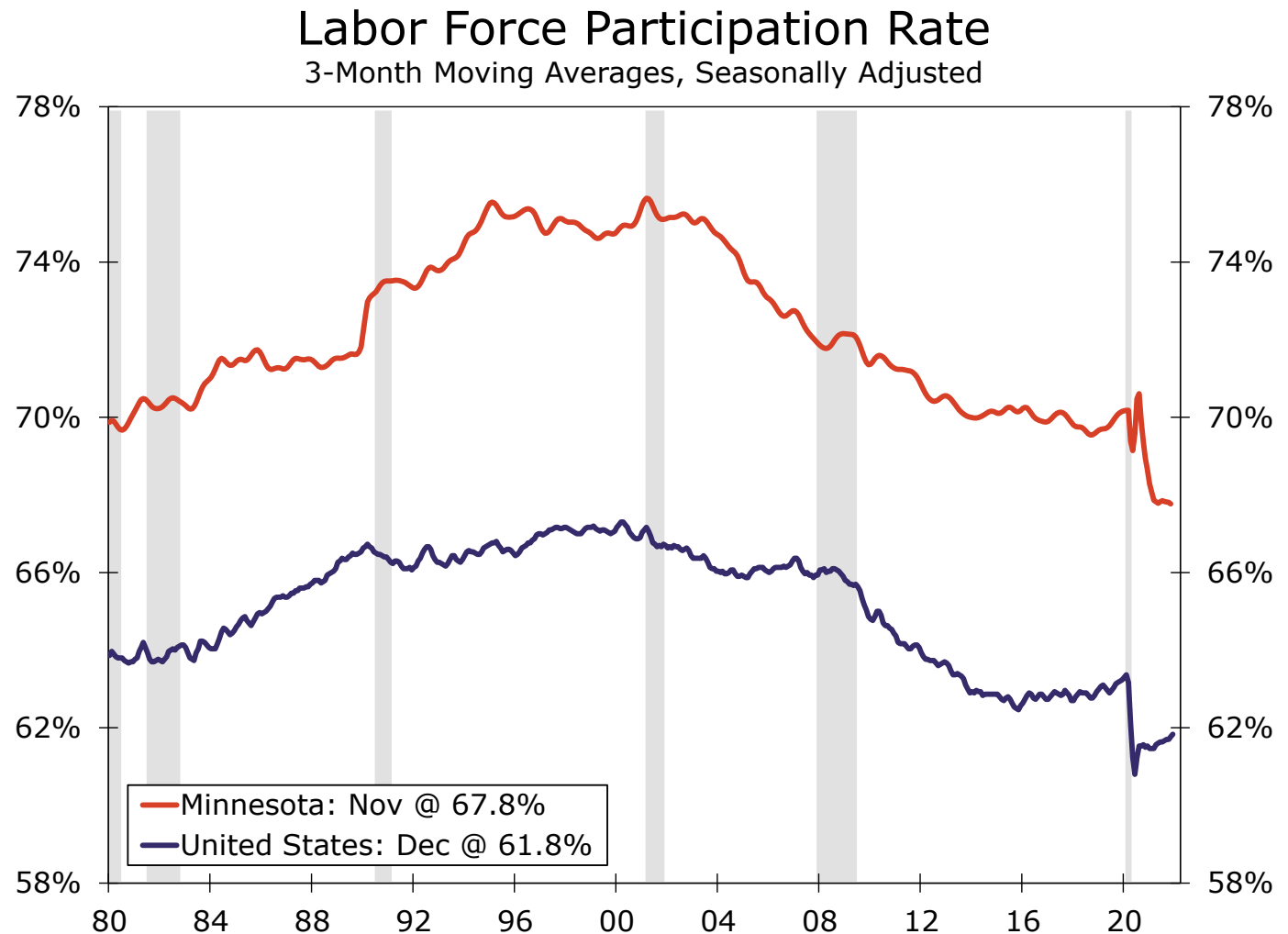
Minnesota Job Openings Rate

Seasonally Adjusted



Minnesota Population Change

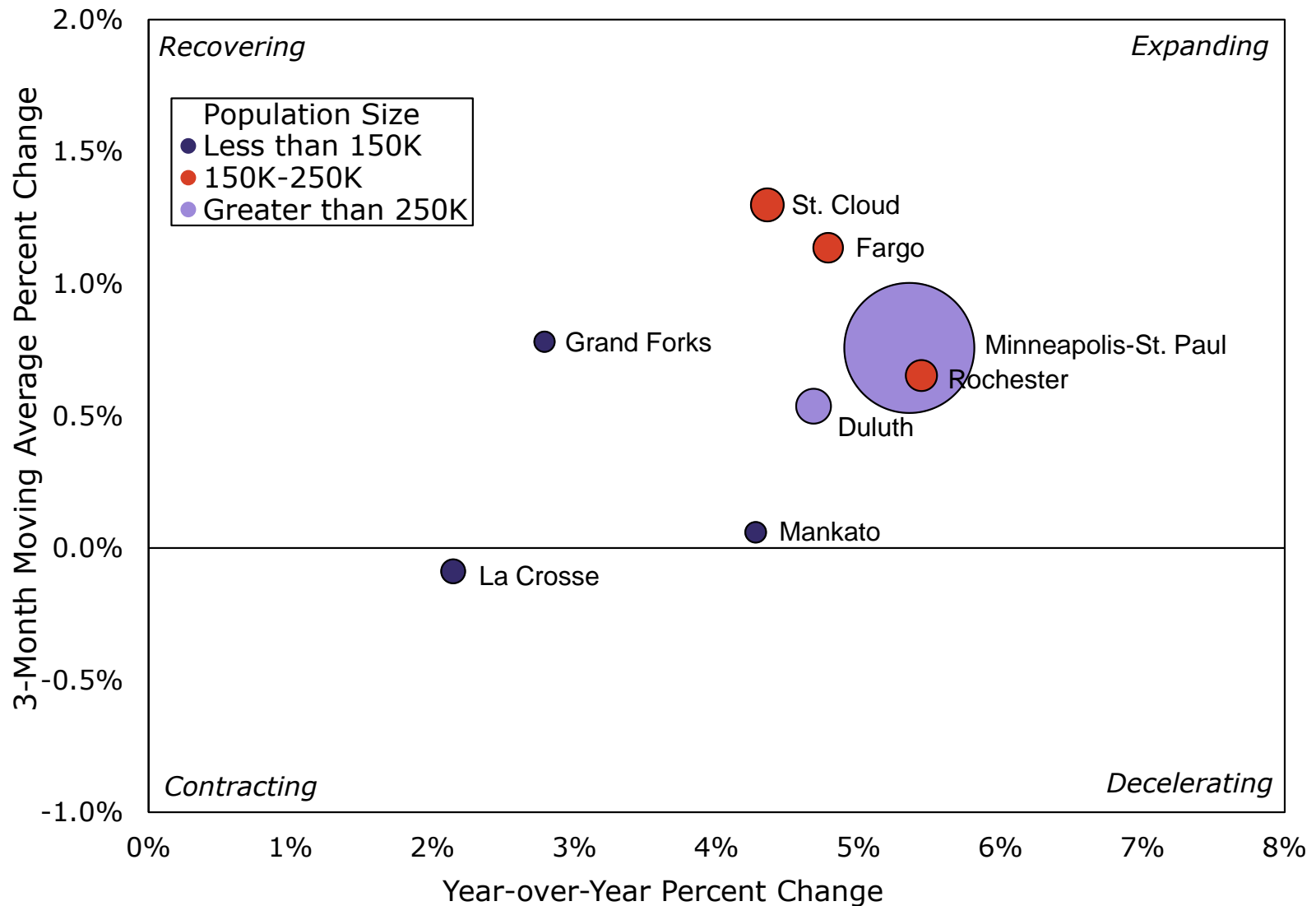
Minnesota enjoys a higher-than-average labor force participation rate, but it has struggled to recover pandemic losses.



Minnesota Employment Growth by Metro

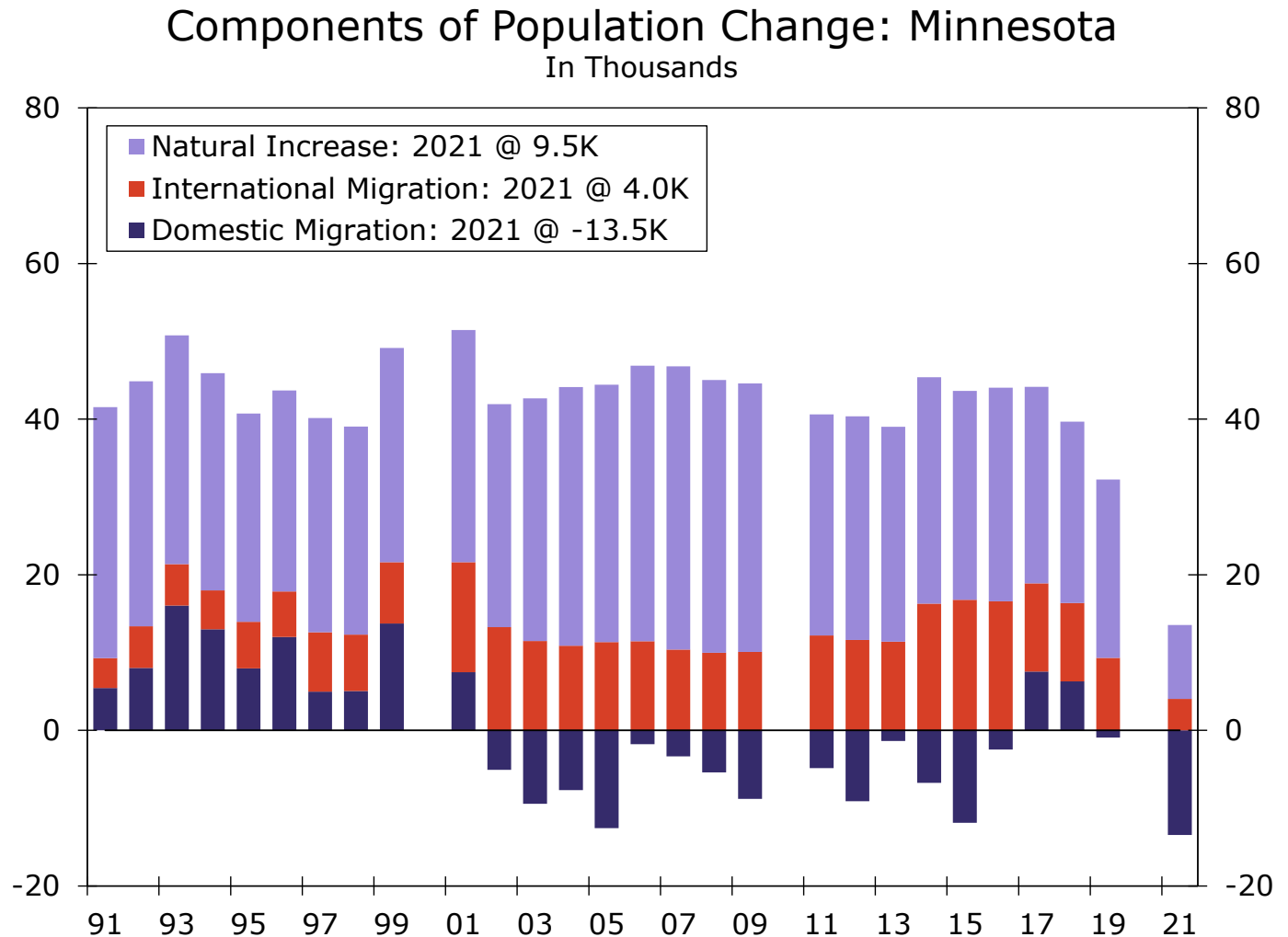
Minnesota Employment Growth: December 2021

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

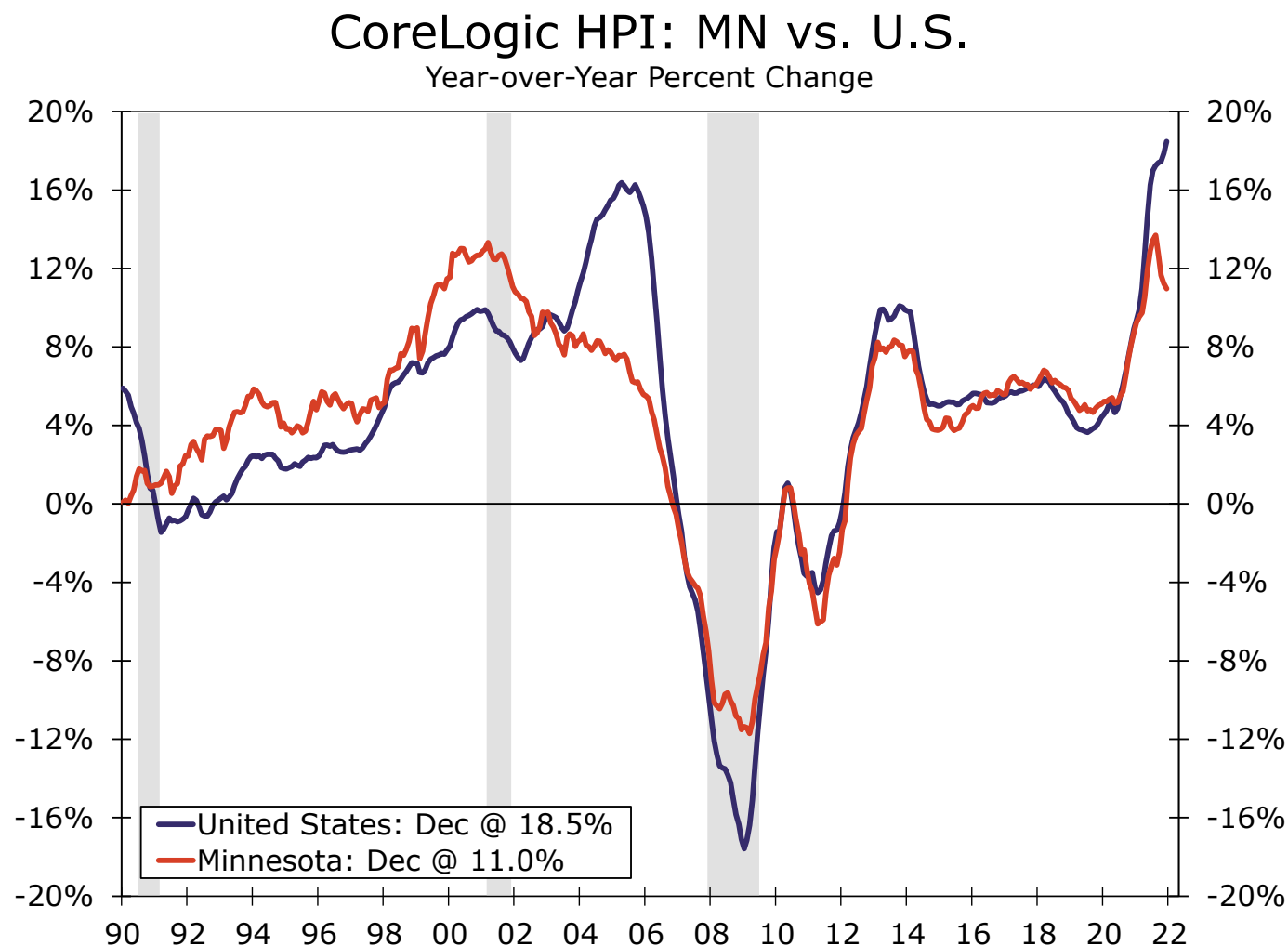


Minnesota Population Change

Minnesota is experiencing flat population change due to an increase in domestic migrants moving out of the state.



Minnesota's housing market has cooled off in recent months relative to the entire country.



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

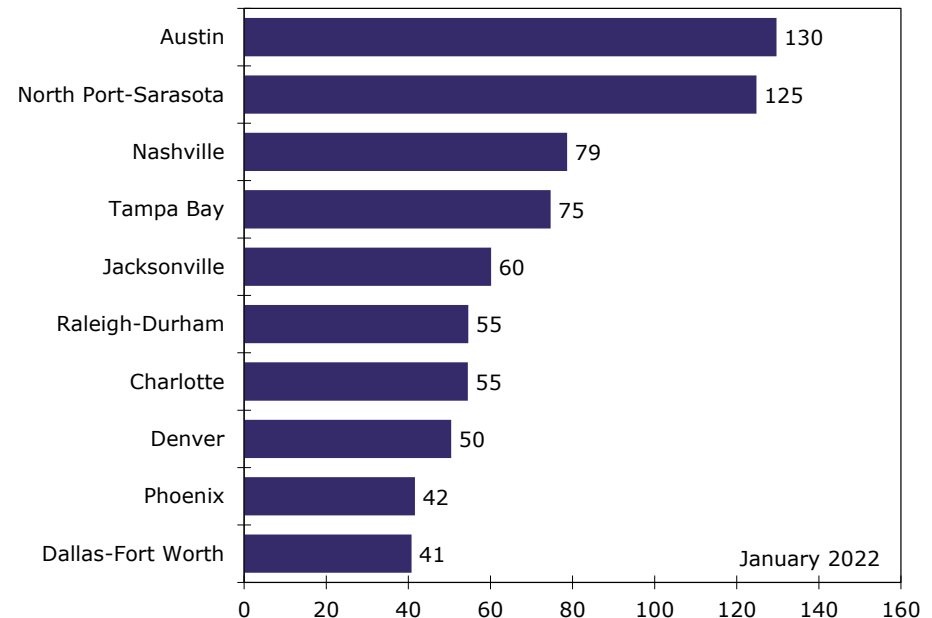
Best Places to Live in the U.S.

2021-22; Metro Area Population > 1M

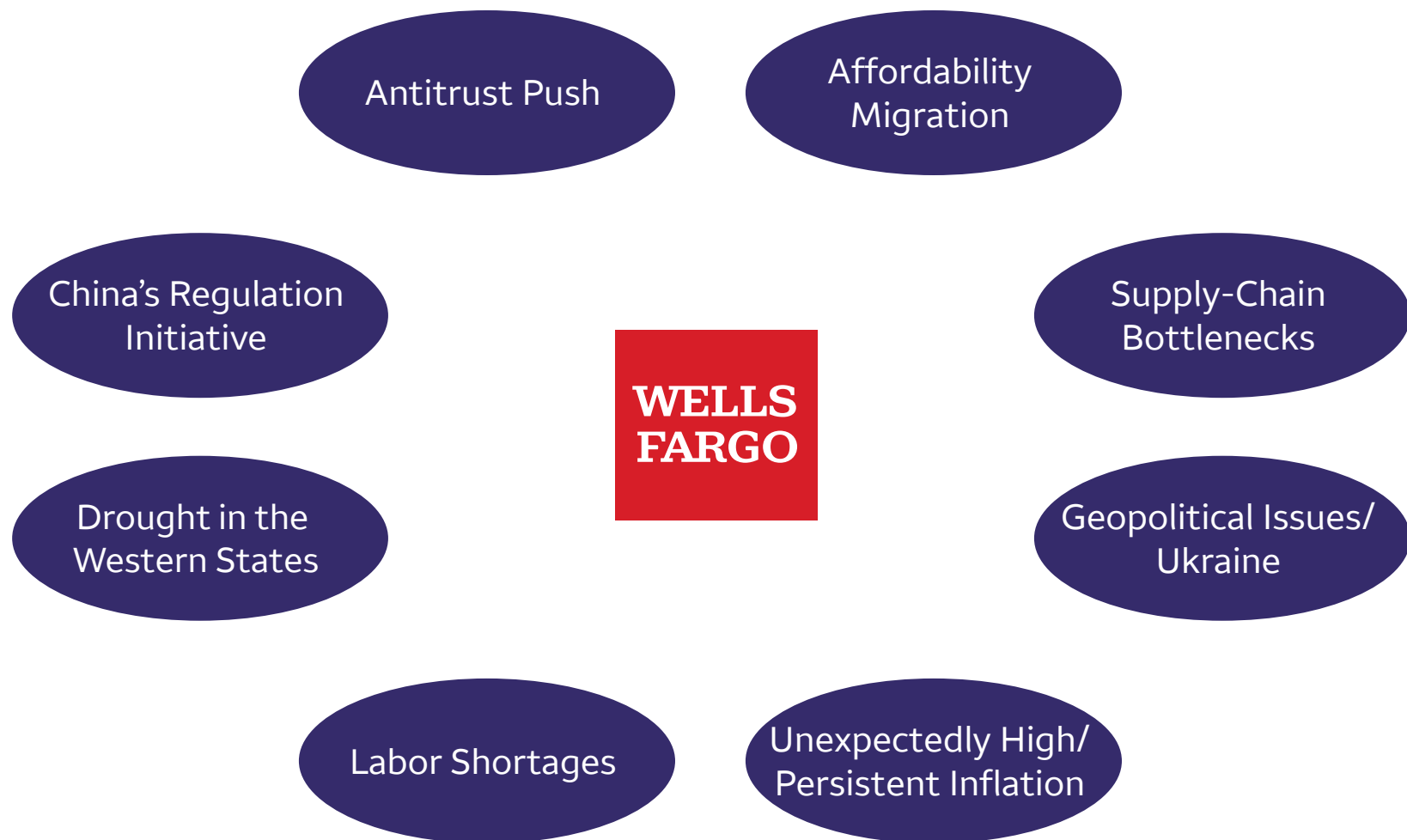
1. Raleigh-Durham, NC
2. Austin, TX
3. Portland, OR
4. Denver, CO
5. San Francisco, CA
6. Seattle, WA
7. Charlotte, NC
8. Jacksonville, FL
9. Salt Lake City, UT
10. Minneapolis-St. Paul, MN

Cities that Gained the Most Workers

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



Issues to Watch



Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2021				2022				2023				2020	2021	2022	2023
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	6.3	6.7	2.3	6.9	0.7	3.1	3.6	3.6	2.6	2.6	2.3	2.1	-3.4	5.7	3.4	2.9
Personal Consumption	11.4	12.0	2.0	3.3	1.0	2.5	2.5	2.6	2.3	2.3	1.9	1.8	-3.8	7.9	2.8	2.3
Business Fixed Investment	12.9	9.2	1.7	2.0	9.0	4.7	5.5	5.0	5.0	4.0	3.7	3.3	-5.3	7.3	5.3	4.6
Equipment	14.1	12.1	-2.3	0.8	9.8	4.9	6.8	5.6	5.3	3.6	2.8	2.0	-8.3	12.9	5.1	4.7
Intellectual Property Products	15.6	12.5	9.1	10.6	12.0	5.6	5.1	4.9	5.1	4.8	5.0	5.0	2.8	10.2	8.8	5.0
Structures	5.4	-3.0	-4.1	-11.4	-1.0	1.5	2.6	3.3	3.9	3.4	3.1	2.9	-12.5	-8.2	-2.4	3.2
Residential Investment	13.3	-11.7	-7.7	-0.8	2.0	4.0	4.5	4.5	4.0	3.5	3.0	2.5	6.8	9.0	0.1	3.8
Government Purchases	4.2	-2.0	0.9	-2.9	2.2	3.3	2.8	2.3	1.9	1.9	1.8	1.7	2.5	0.5	1.1	2.2
Net Exports ²	-1.6	-0.2	-1.3	0.0	-0.7	-0.5	-0.4	-0.4	-0.2	-0.1	0.0	0.0	-0.2	-1.8	-0.6	-0.2
Inventories ²	-2.6	-1.3	2.2	4.9	-1.1	0.3	0.7	0.8	0.0	0.0	0.0	0.0	-0.6	0.0	1.0	0.3
Nonfarm Payroll Change ³	645	422	543	611	406	325	228	215	210	200	190	175	-774	555	294	194
Unemployment Rate	6.2	5.9	5.1	4.2	3.9	3.6	3.5	3.4	3.3	3.3	3.2	3.2	8.1	5.4	3.6	3.3
PCE Deflator ⁴	1.8	3.9	4.3	5.5	5.7	4.8	4.1	3.1	2.6	2.4	2.3	2.3	1.2	3.9	4.4	2.4
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.00	1.25	1.50	1.75	2.00	2.25	2.25	0.50	0.25	1.06	2.06
Secured Overnight Financing Rate	0.01	0.05	0.05	0.05	0.30	0.80	1.05	1.30	1.60	1.85	2.10	2.15	0.36	0.04	0.86	1.93
3 Month LIBOR	0.19	0.15	0.13	0.21	0.60	0.95	1.20	1.45	1.75	2.00	2.25	2.35	0.65	0.16	1.05	2.09
Prime Rate	3.25	3.25	3.25	3.25	3.50	4.00	4.25	4.50	4.75	5.00	5.25	5.25	3.50	3.25	4.06	5.06
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.55	3.65	3.75	3.85	3.90	4.00	4.05	4.10	3.12	2.95	3.70	4.01
3 Month Bill	0.03	0.05	0.04	0.06	0.50	0.85	1.10	1.35	1.60	1.85	2.10	2.15	0.36	0.04	0.95	1.93
6 Month Bill	0.05	0.06	0.05	0.19	0.65	1.00	1.25	1.50	1.75	2.00	2.15	2.20	0.37	0.06	1.10	2.03
1 Year Bill	0.07	0.07	0.09	0.39	0.90	1.20	1.45	1.70	1.90	2.10	2.20	2.25	0.37	0.10	1.31	2.11
2 Year Note	0.16	0.25	0.28	0.73	1.35	1.60	1.85	2.00	2.10	2.20	2.25	2.30	0.39	0.27	1.70	2.21
5 Year Note	0.92	0.87	0.98	1.26	1.80	1.95	2.05	2.15	2.20	2.25	2.30	2.35	0.53	0.86	1.99	2.28
10 Year Note	1.74	1.45	1.52	1.52	1.95	2.05	2.15	2.20	2.25	2.30	2.35	2.40	0.89	1.45	2.09	2.33
30 Year Bond	2.41	2.06	2.08	1.90	2.25	2.35	2.40	2.45	2.45	2.50	2.50	2.55	1.56	2.06	2.36	2.50

Forecast as of: February 09, 2022

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 Annual Numbers Represent Averages

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