



The Economic Outlook

March 2023

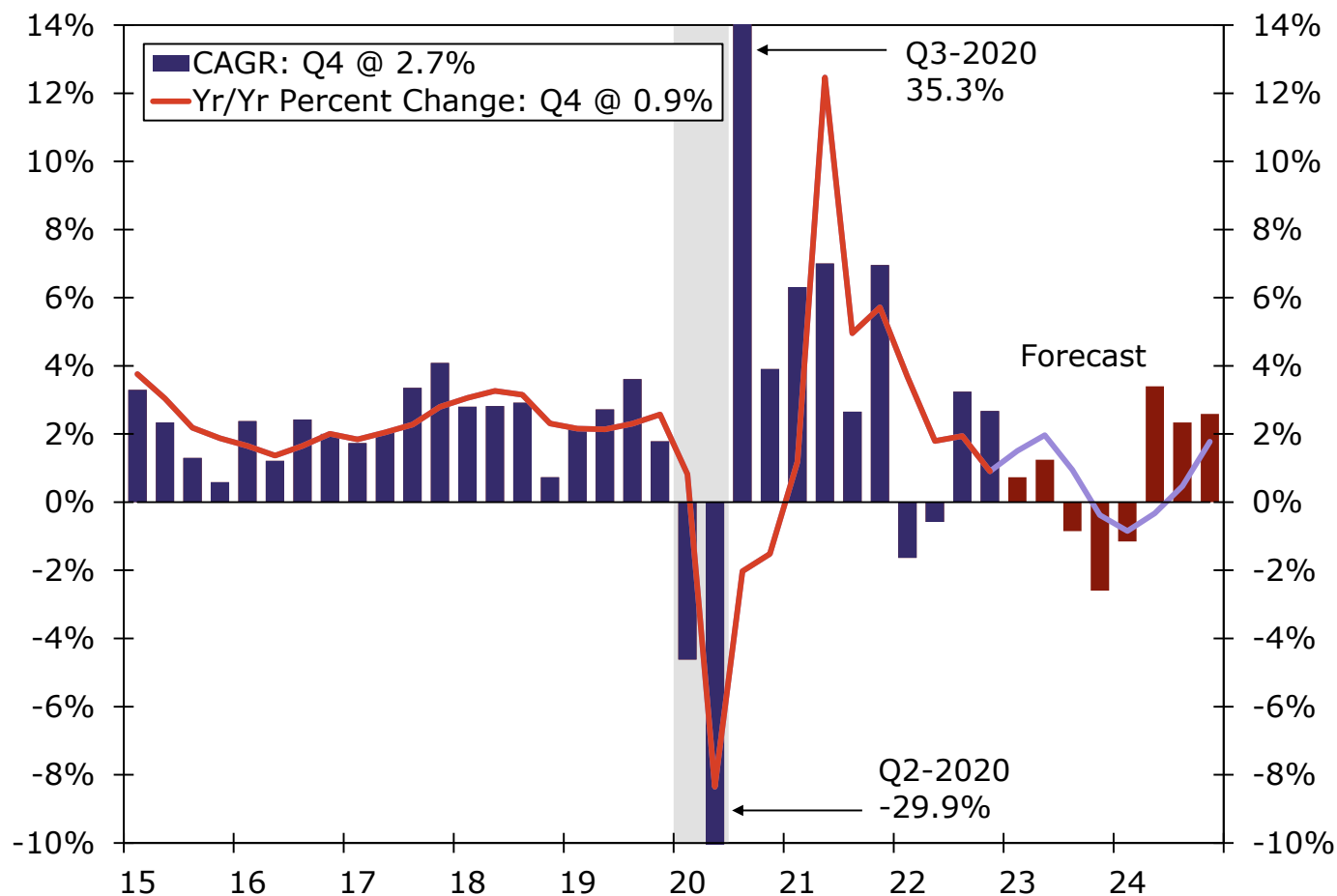
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The U.S. economy is not currently in recession. However, we forecast a mild recession starting in the second half of this year.

U.S. Real GDP Growth

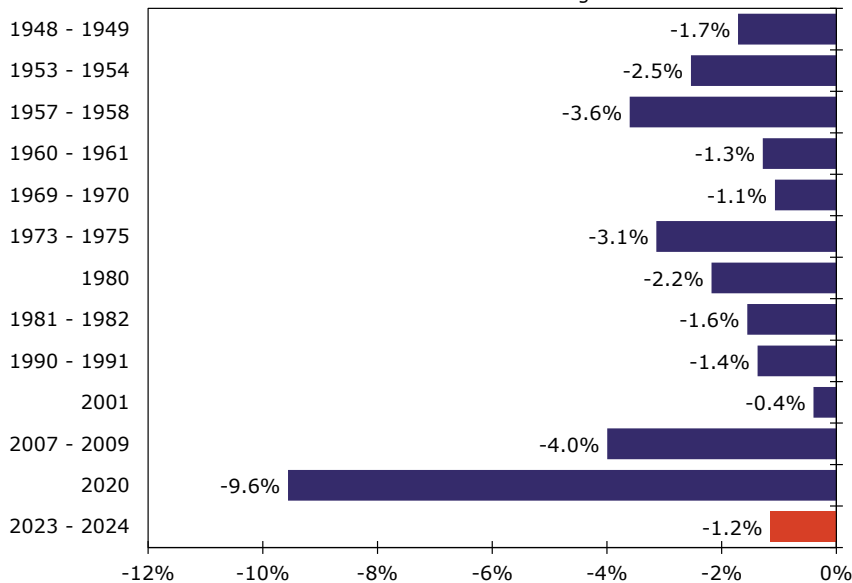


Recession in Historical Context

While we expect the Fed's efforts to tame inflation will tip the economy into a recession, we do not expect the downturn to be as severe as the recessions in most recent memory.

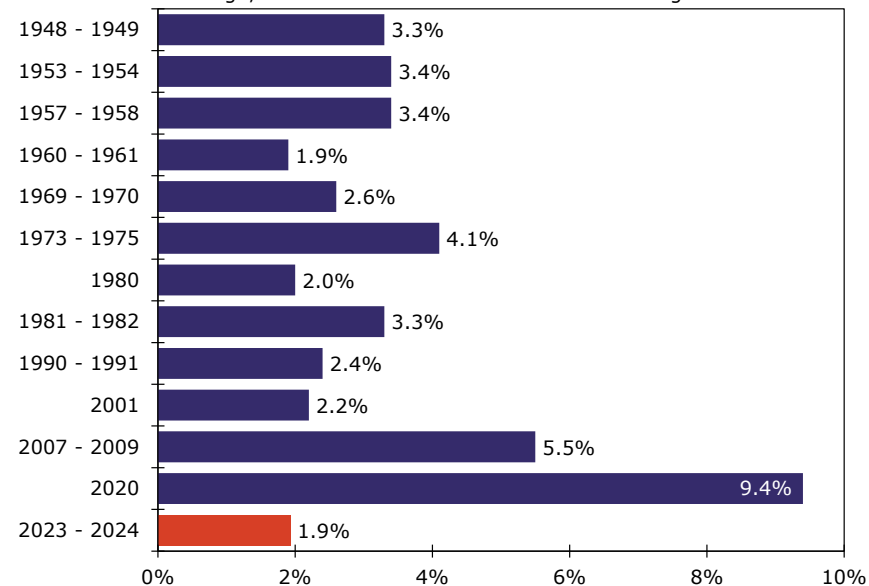
Recession GDP Peak to Trough

2023 Recession based on March Wells Fargo Forecast



Recession Unemployment Rate Change

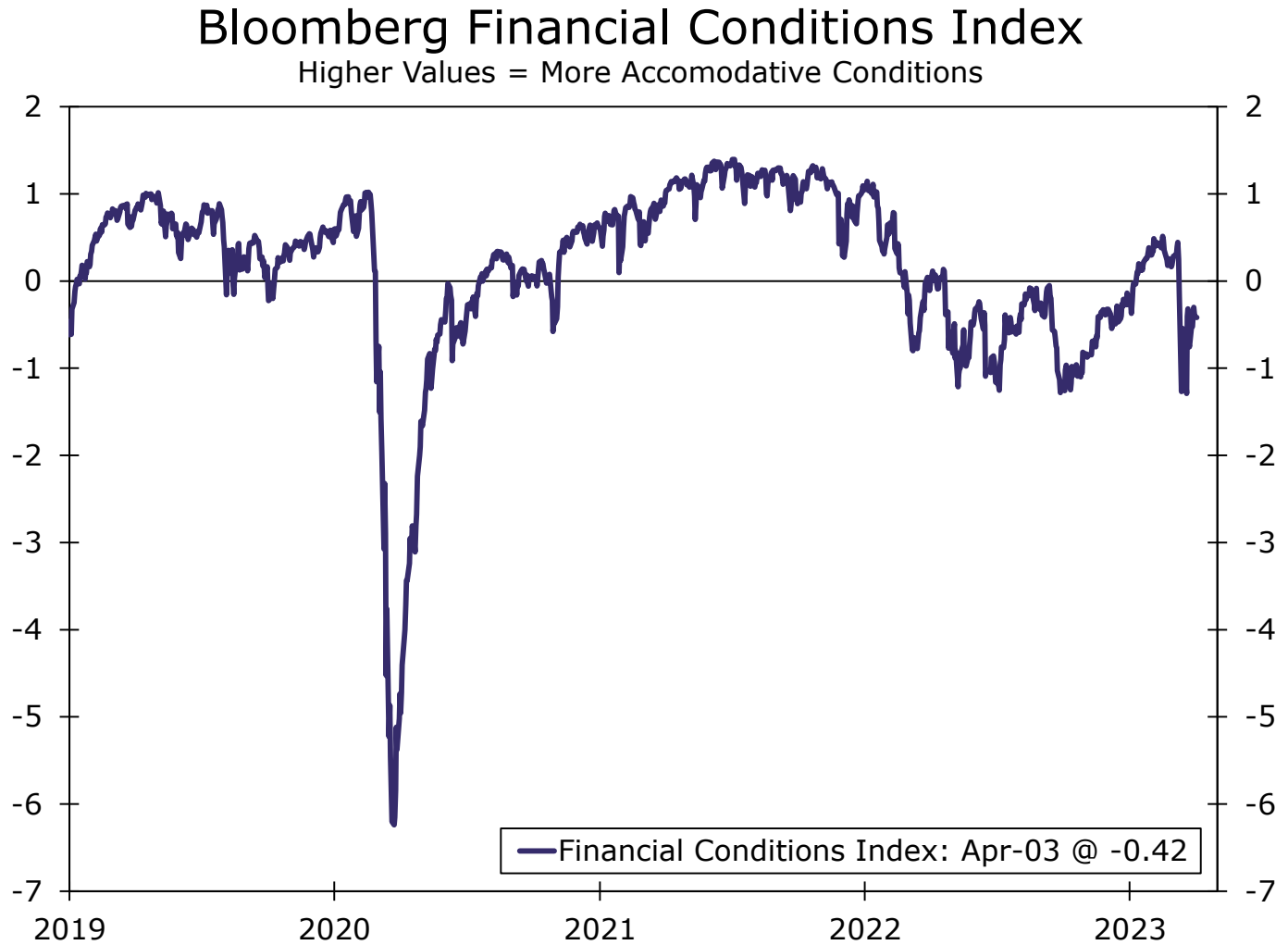
Peak to Trough, 2023 Recession based on March Wells Fargo Forecast



What is Driving Our Outlook?

Tighter Financial Conditions

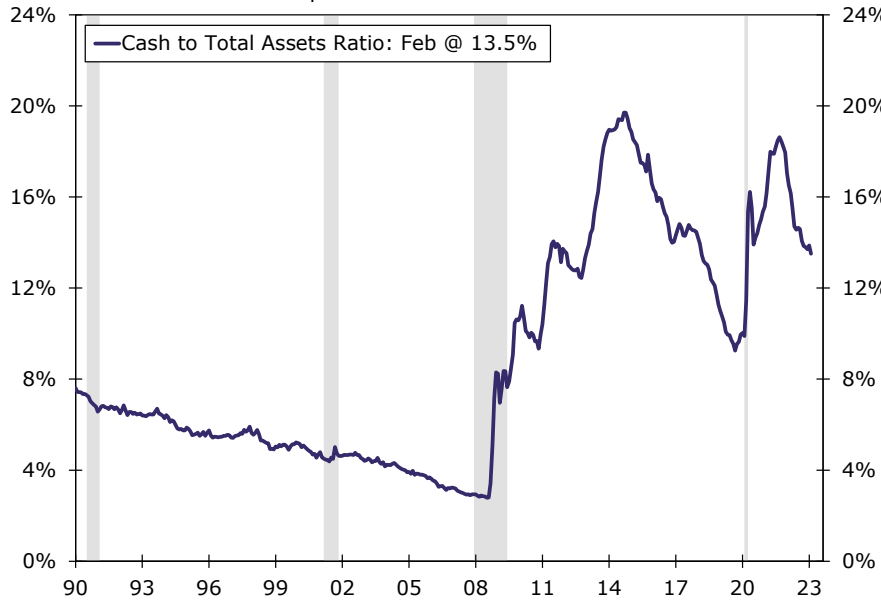
The collapse of several regional banks has led to a rapid tightening of financial conditions.



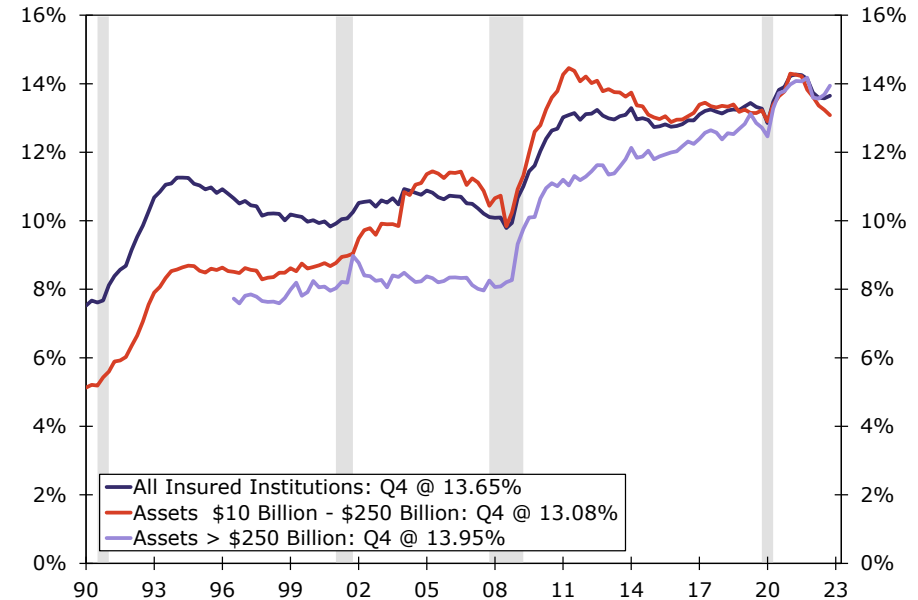
The broader banking system is liquid and well-capitalized.

Commercial Bank Cash Holdings

Proportion of Cash to Total Assets

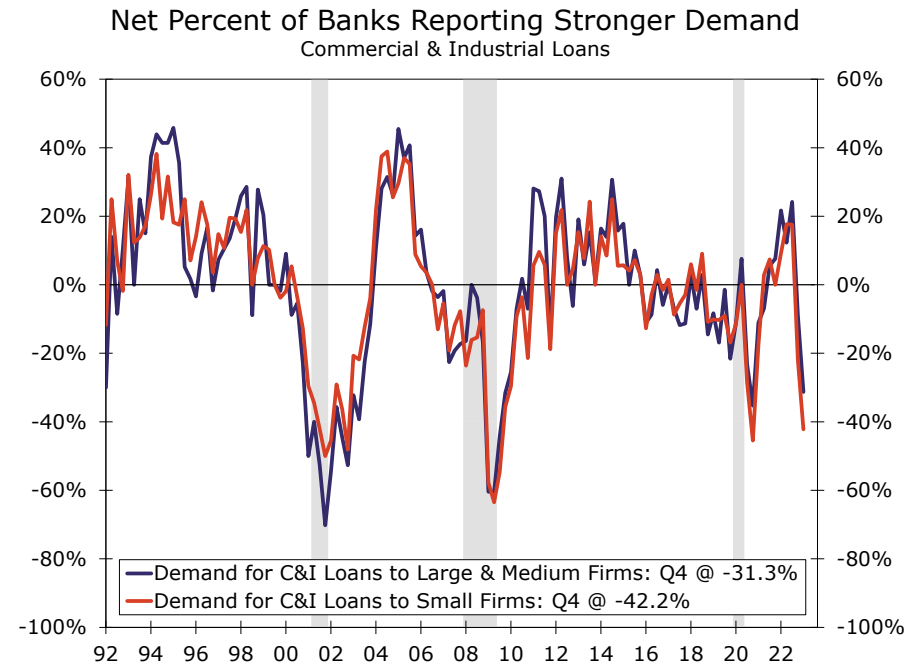
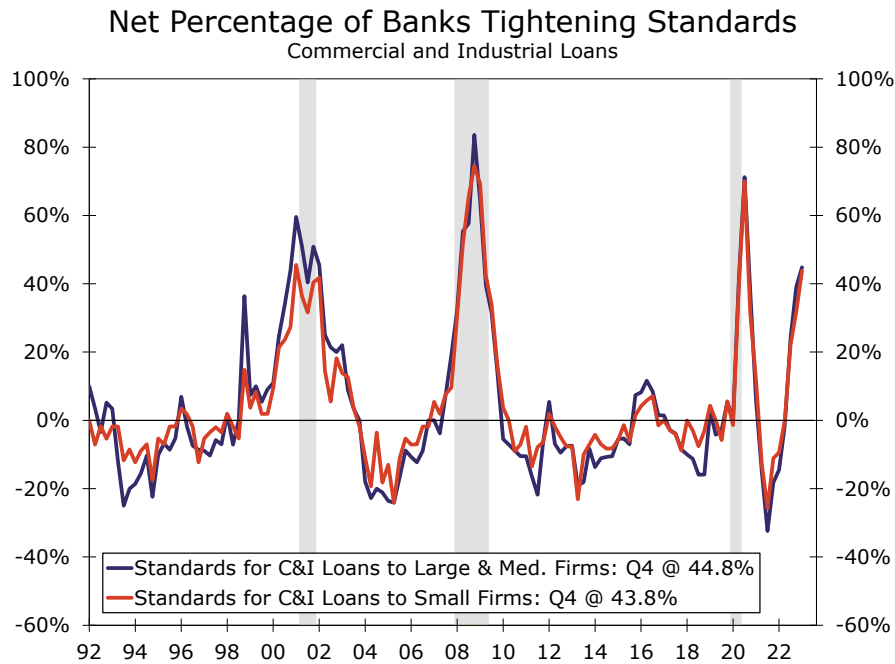


Tier 1 Risk-Based Capital Ratio

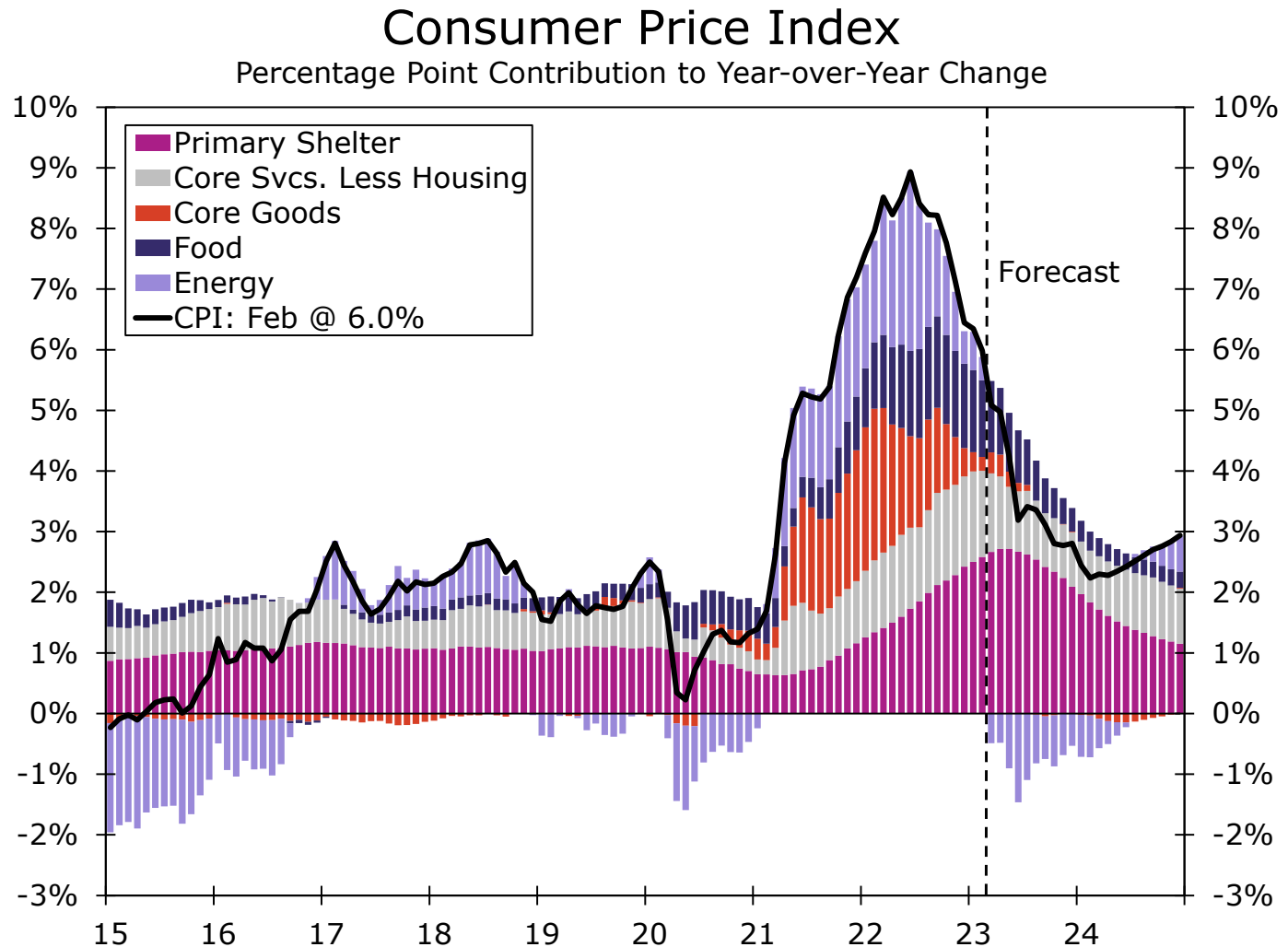


Stricter Lending Standards

Lending standards tightened and borrowing costs rose considerably in 2022. Recent financial turmoil will likely lead to even stricter standards this year.

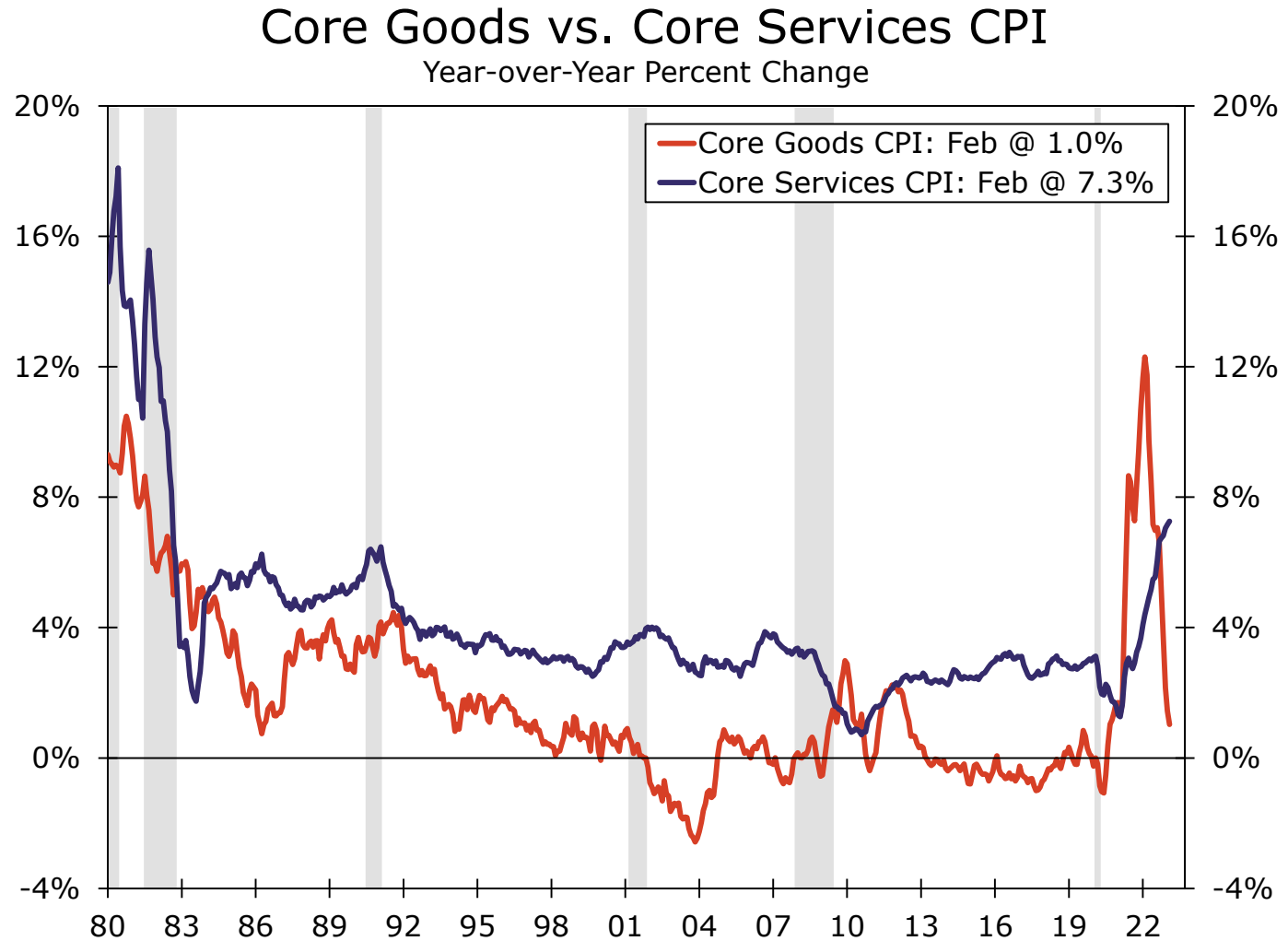


Inflation is still running at a four-decade high. Declining goods and energy prices have provided relief, but core inflation is still being propped up by services.



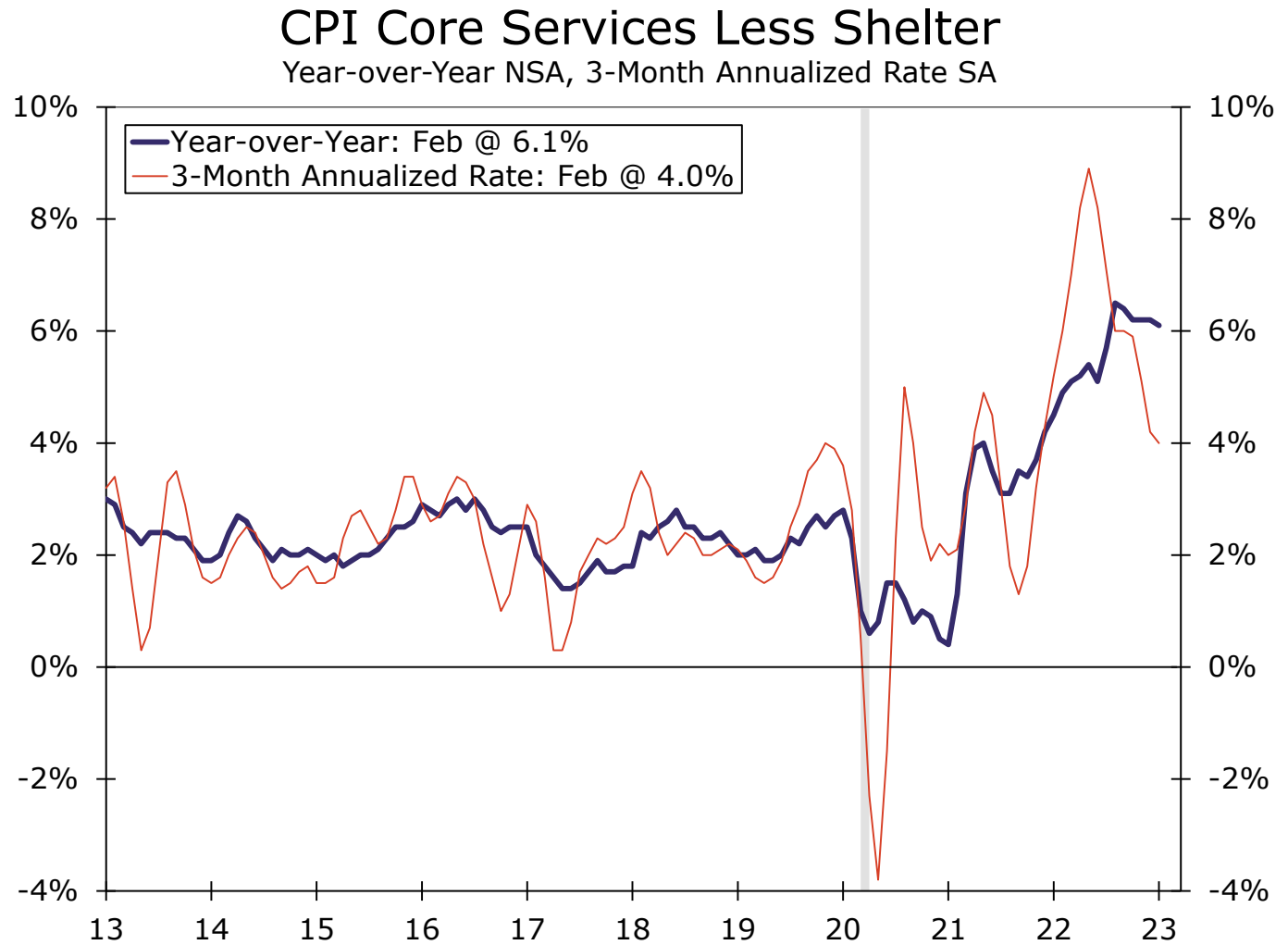
Inflation: Core Goods & Core Services

Goods inflation is quickly retreating, but services inflation remains the Fed's biggest challenge.



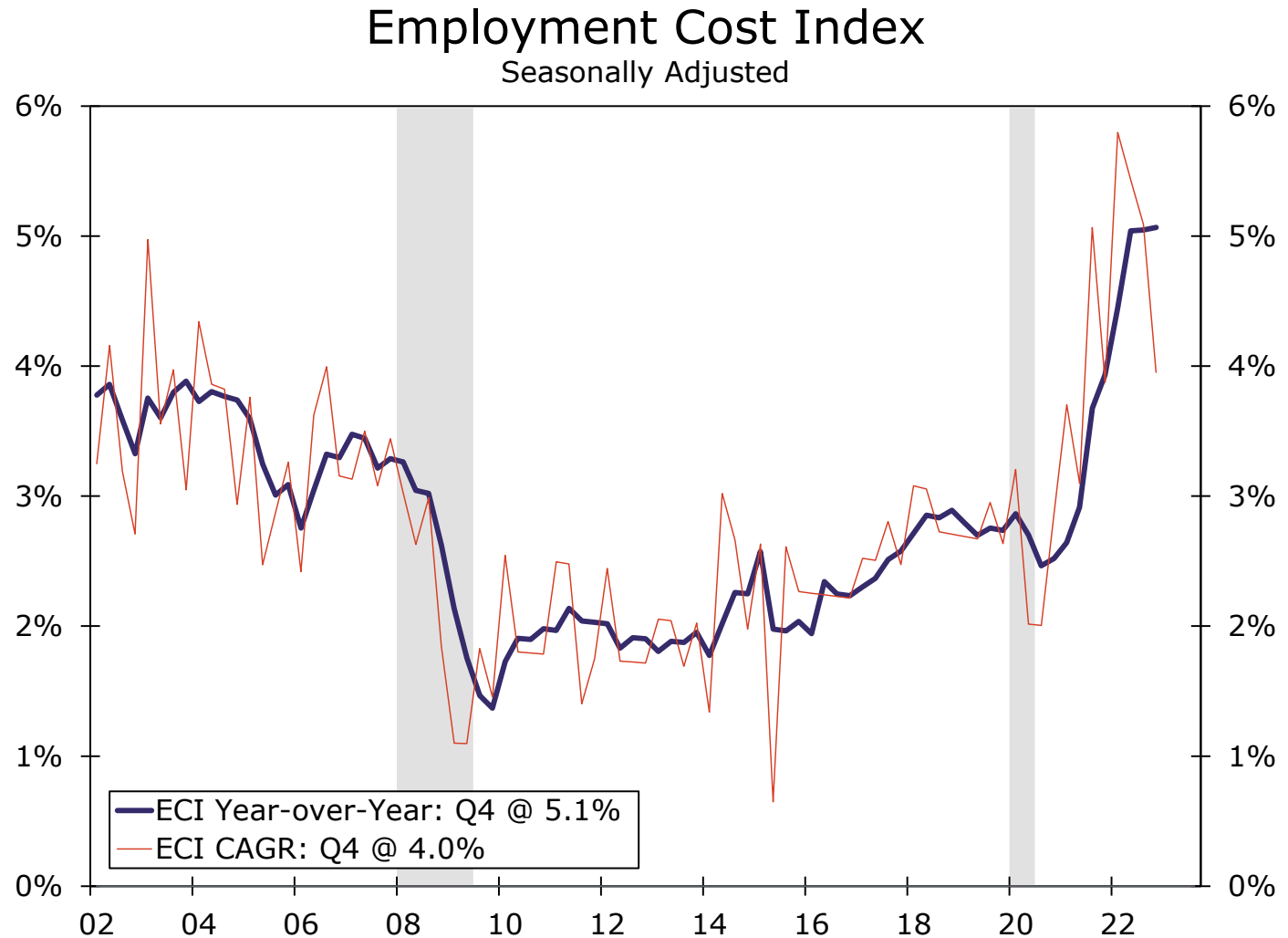
Inflation: “Super-Core”

Broader services prices continue to advance at an aggressive pace.

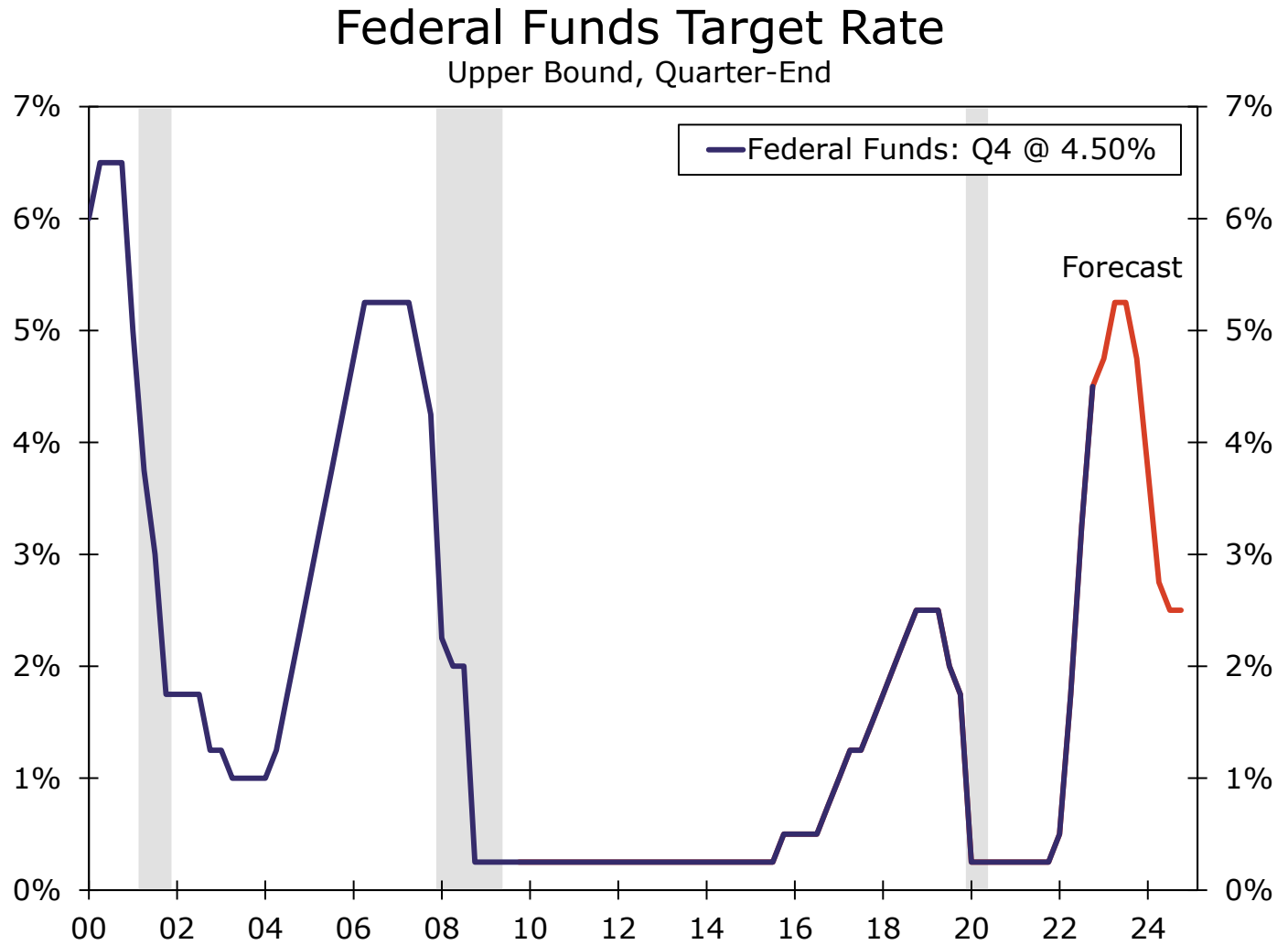


The Sticking Point is Labor Costs

Labor costs are running well in excess of the Fed's 2% inflation goal.



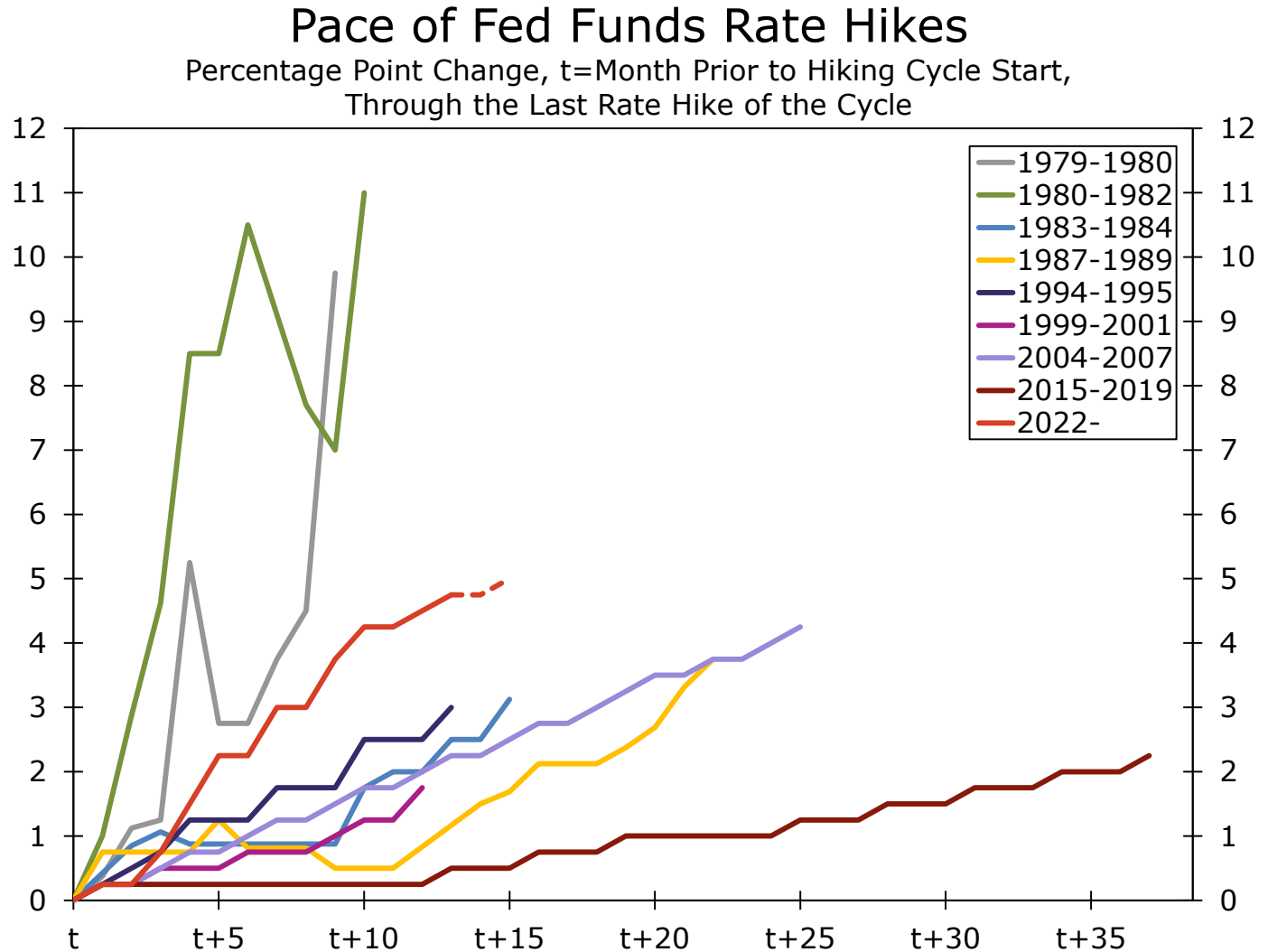
We expect that the Fed is nearing the end of its tightening cycle.



Production & Investment

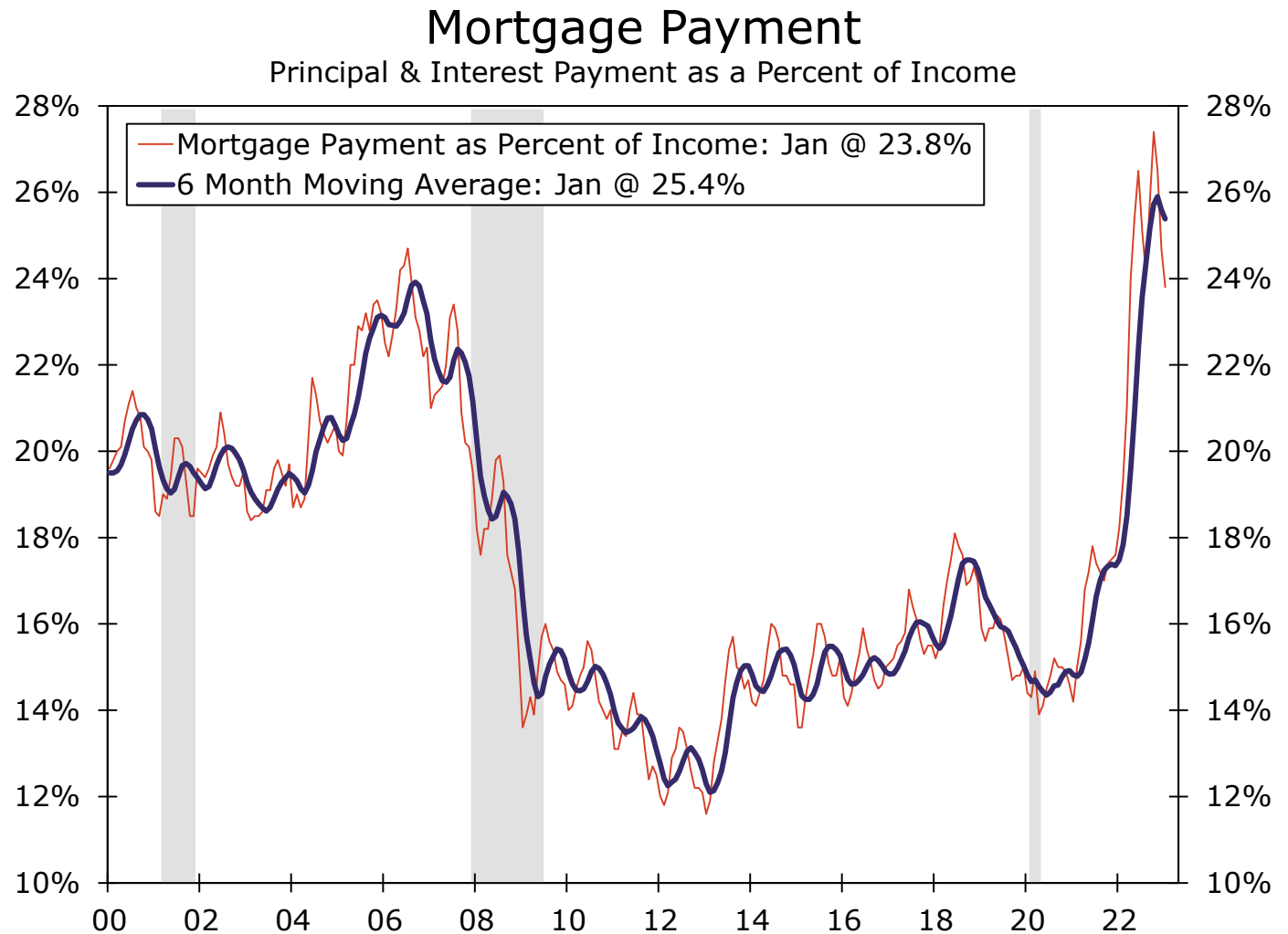
Rapid Fed Tightening Cycle Underway

The pace of rate hikes is the fastest since 1982.



High Mortgage Rates Eroded Affordability

As a share of income, average mortgage payments are now the highest since the early 1980s.

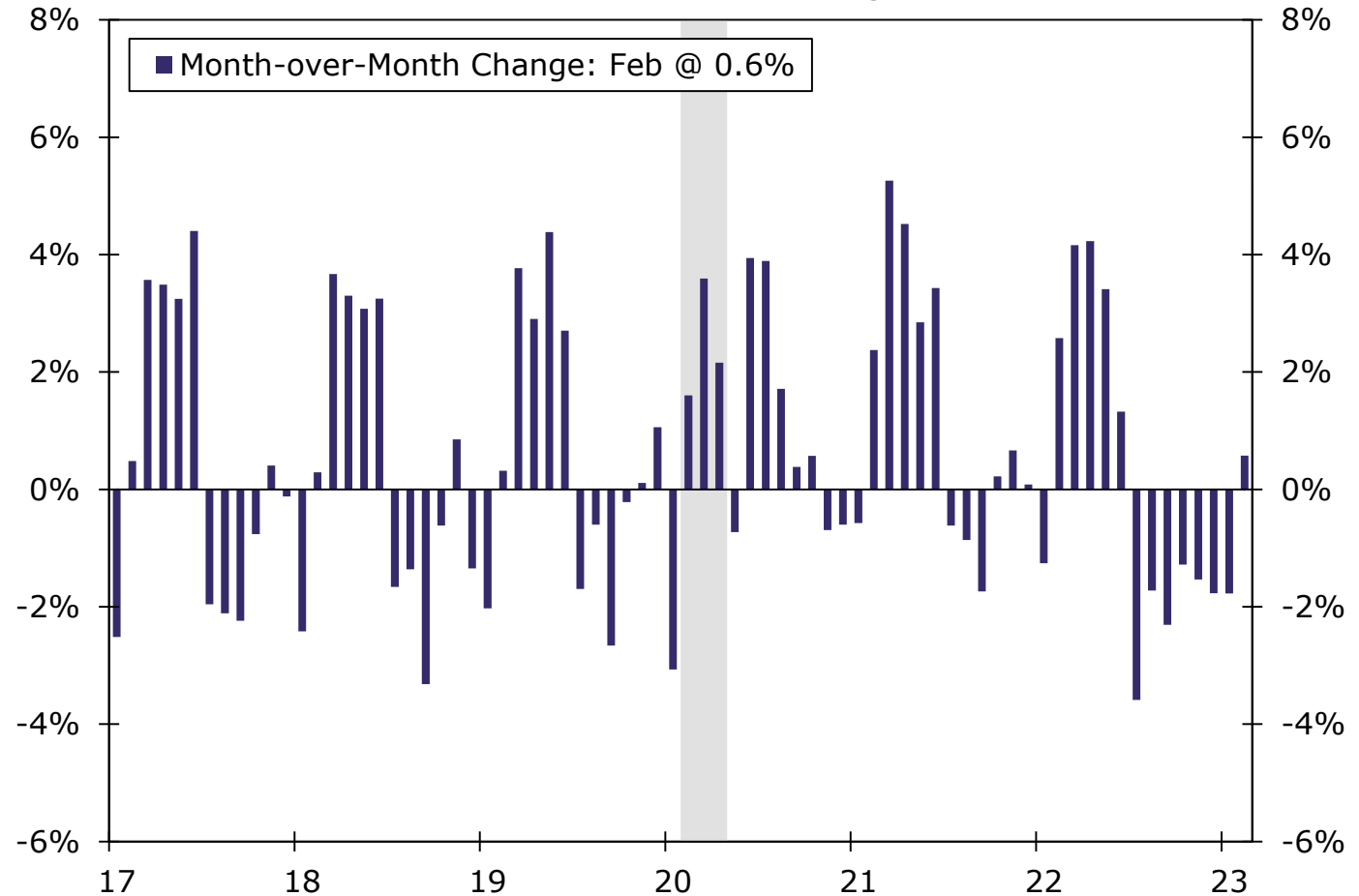


Home Prices on the Decline

Home prices started to falter as high mortgage rates wipe out buyer demand.

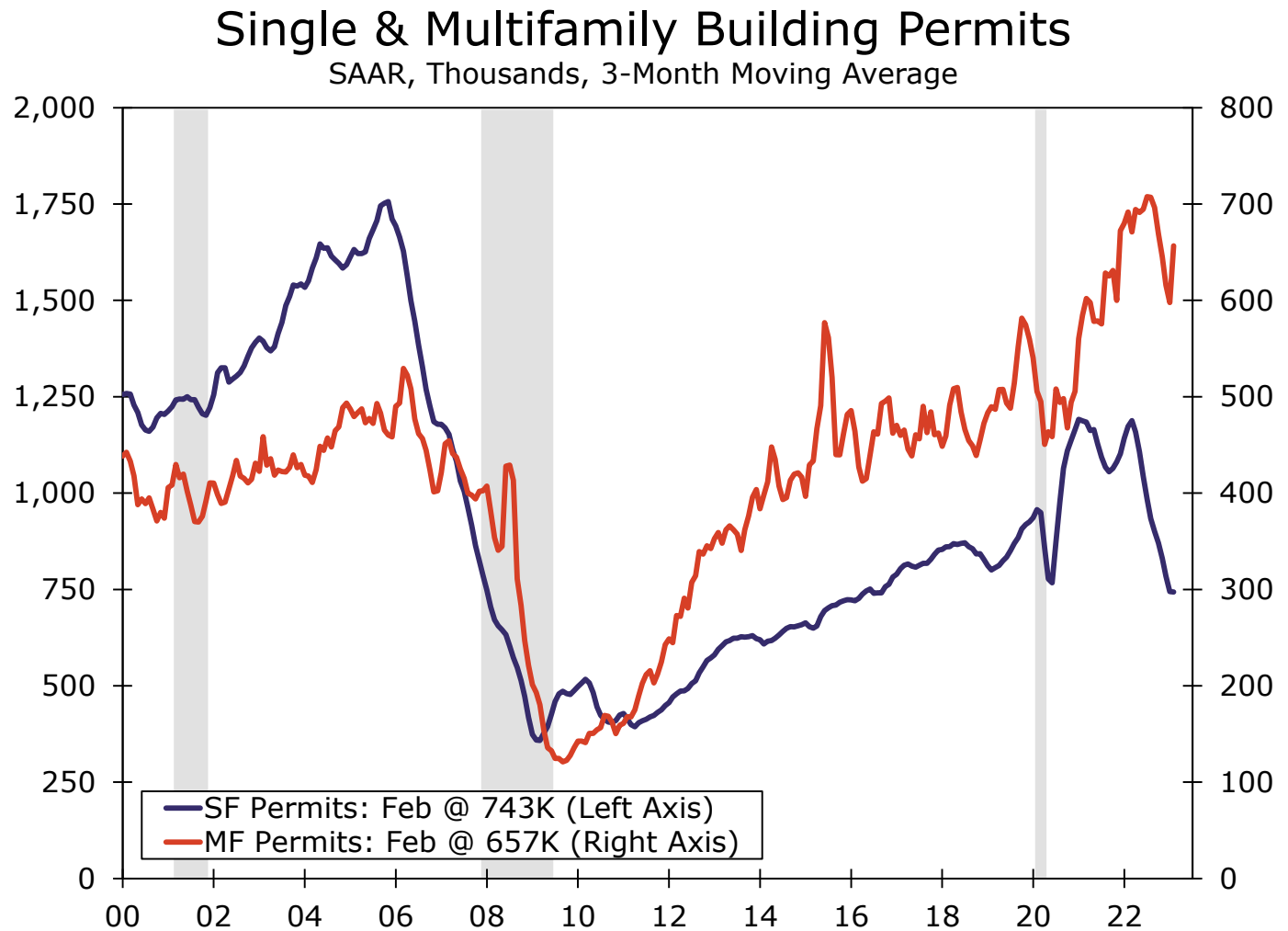
Median Existing Single Family Home Price

Month-over-Month Percent Change, NSA

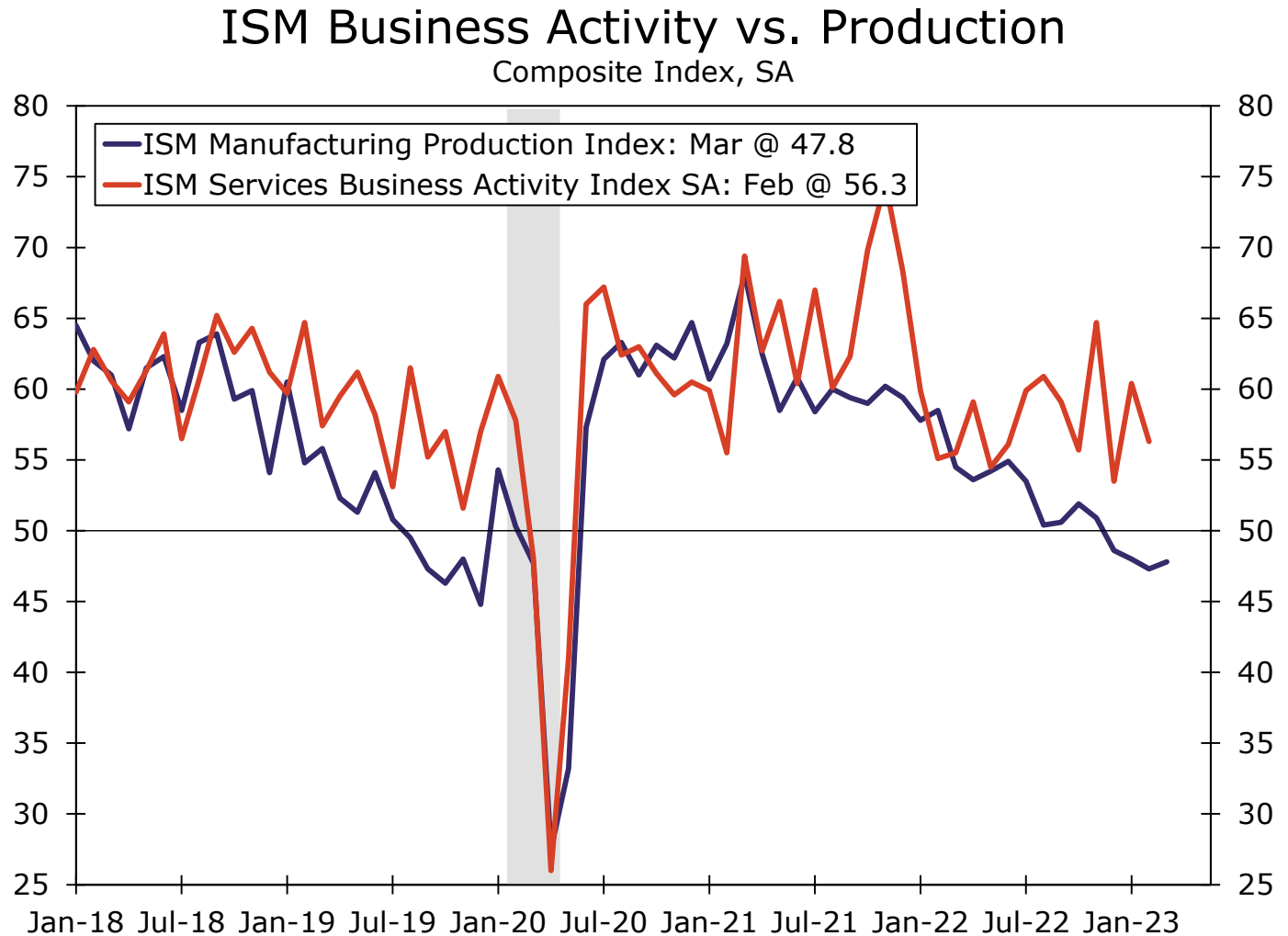


Home Construction Set to Trend Lower

High mortgage rates and economic uncertainty have caused builders to reassess the current demand environment.

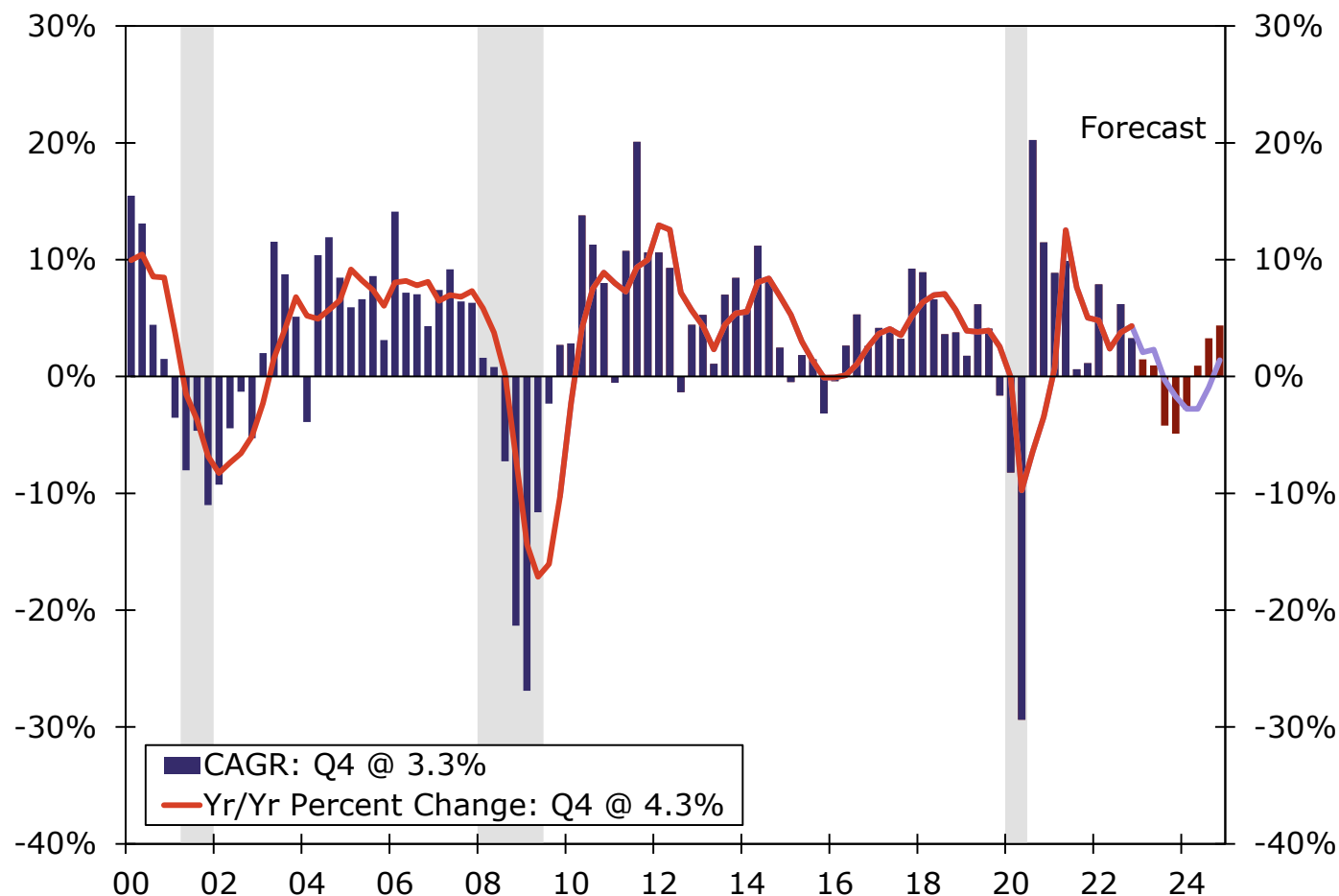


Higher interest rates have pushed the manufacturing sector into recession. The services sector appears to be holding up better.



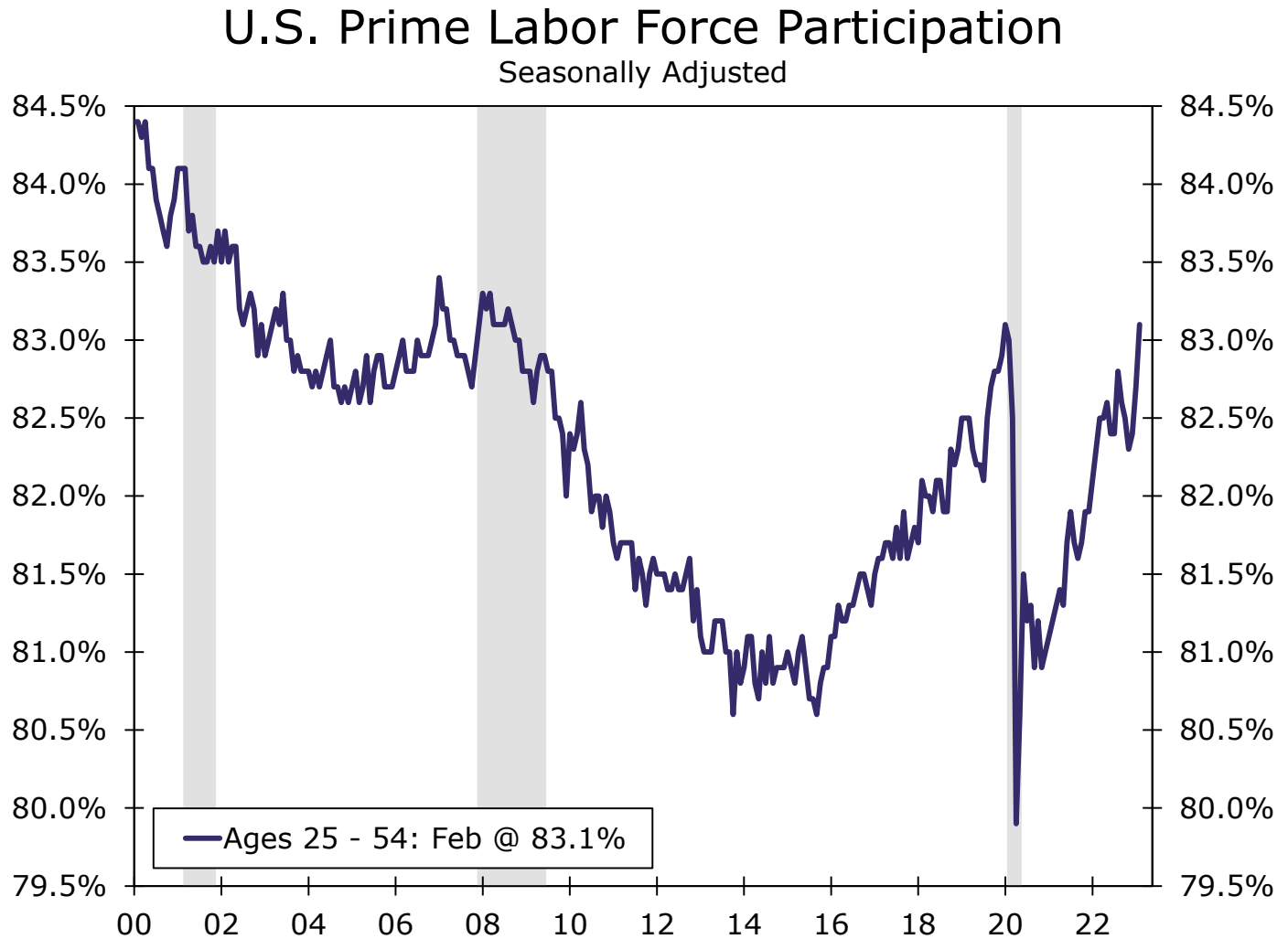
We expect tighter financial conditions and higher financing costs will weigh on business investment.

Real Business Fixed Investment

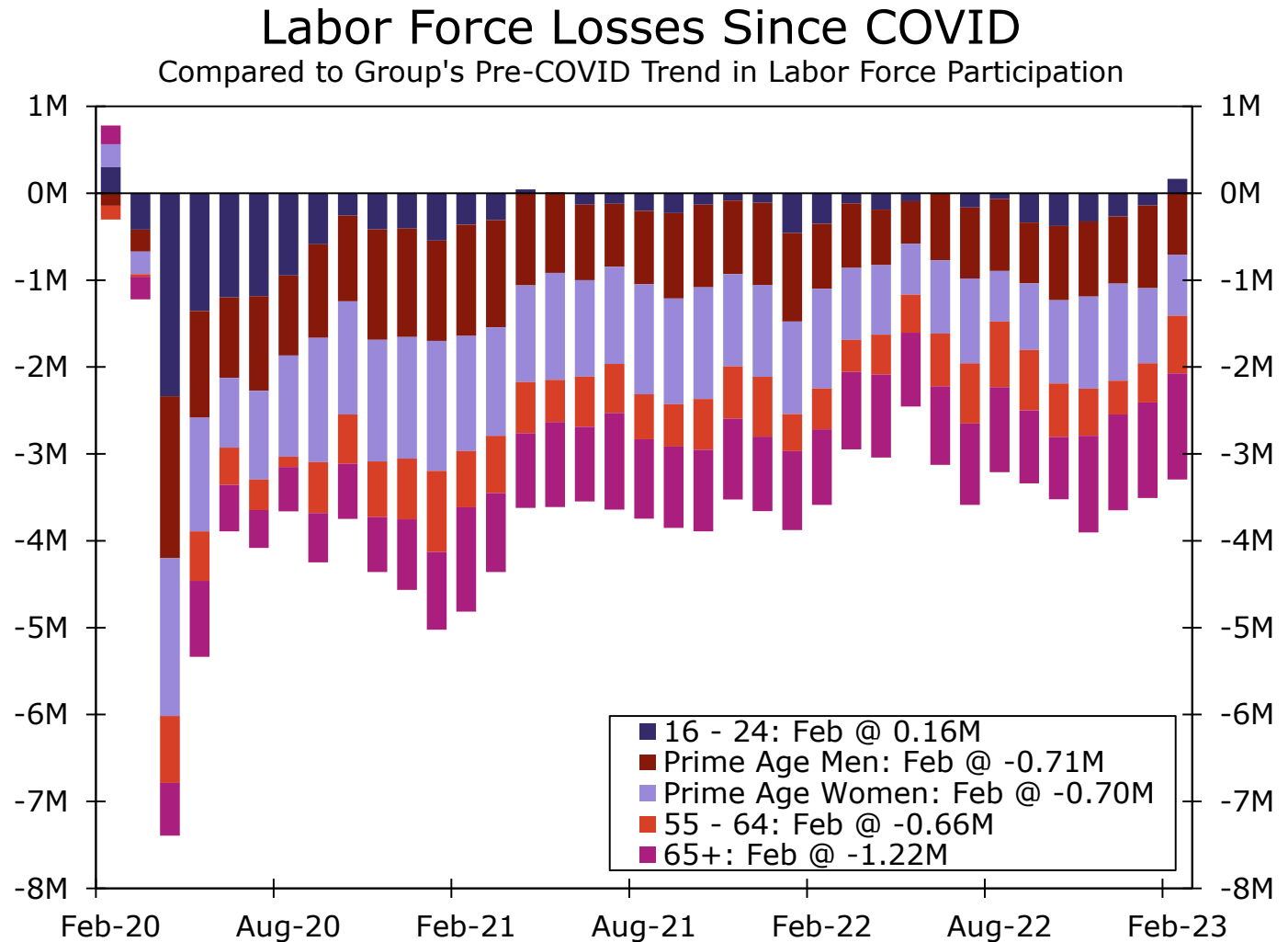


The Labor Market

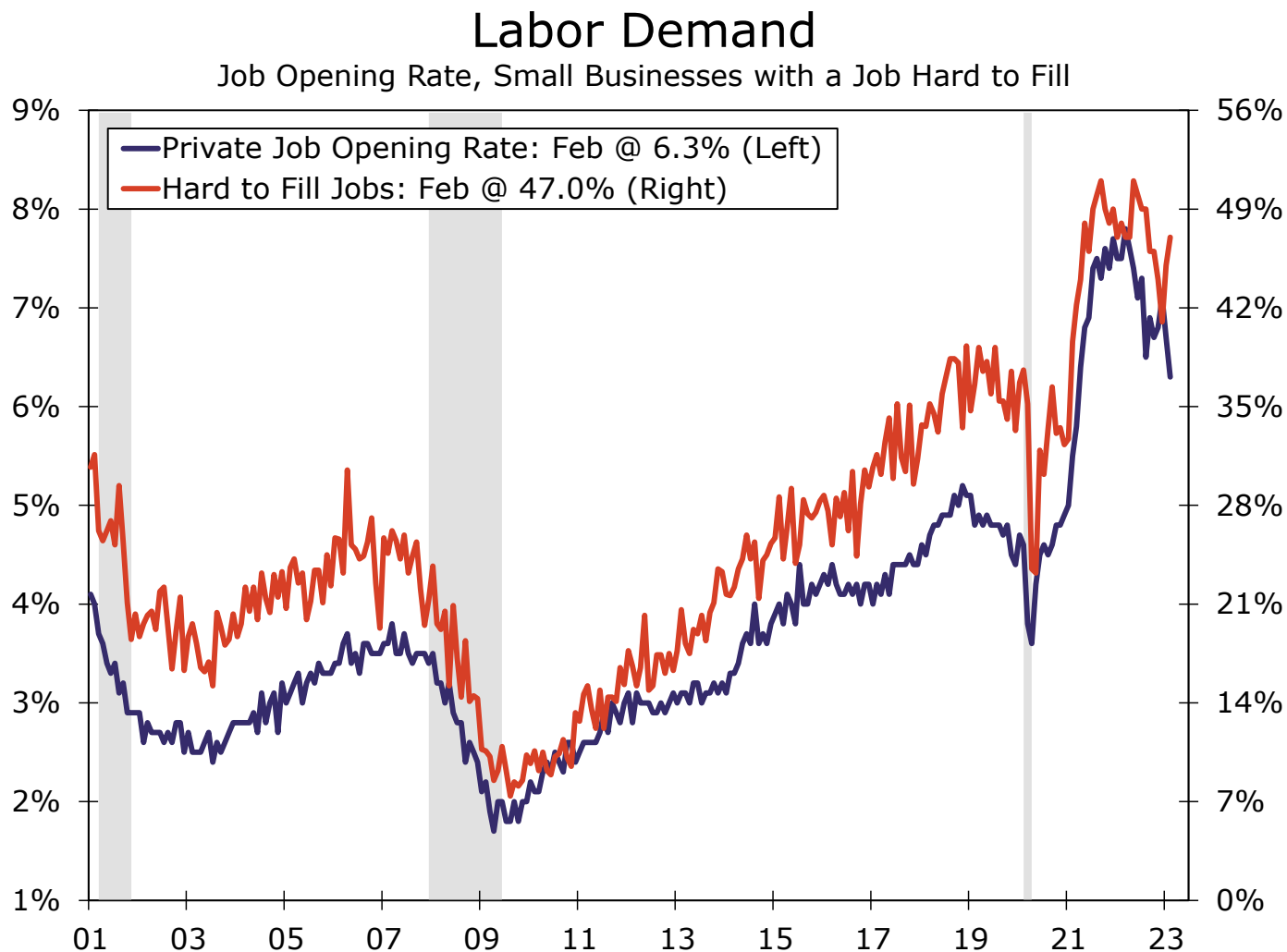
After three years, prime-age labor force participation fully recovered to its pre-pandemic level.



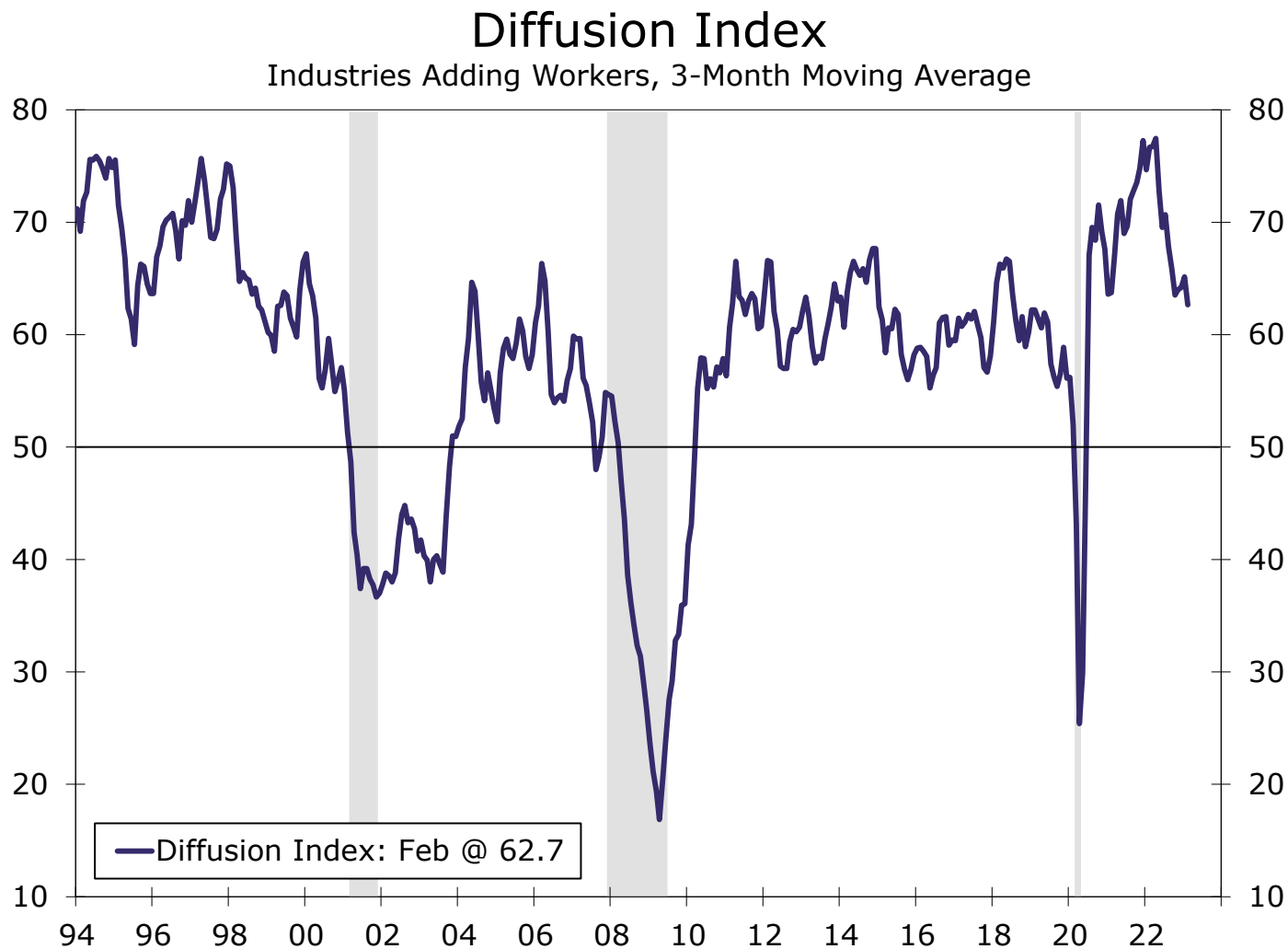
Relative to pre-COVID trends, however, labor supply is down among nearly every age group.



The Fed's aggressive efforts to fight inflation have started to cool labor demand, although it remains historically strong.



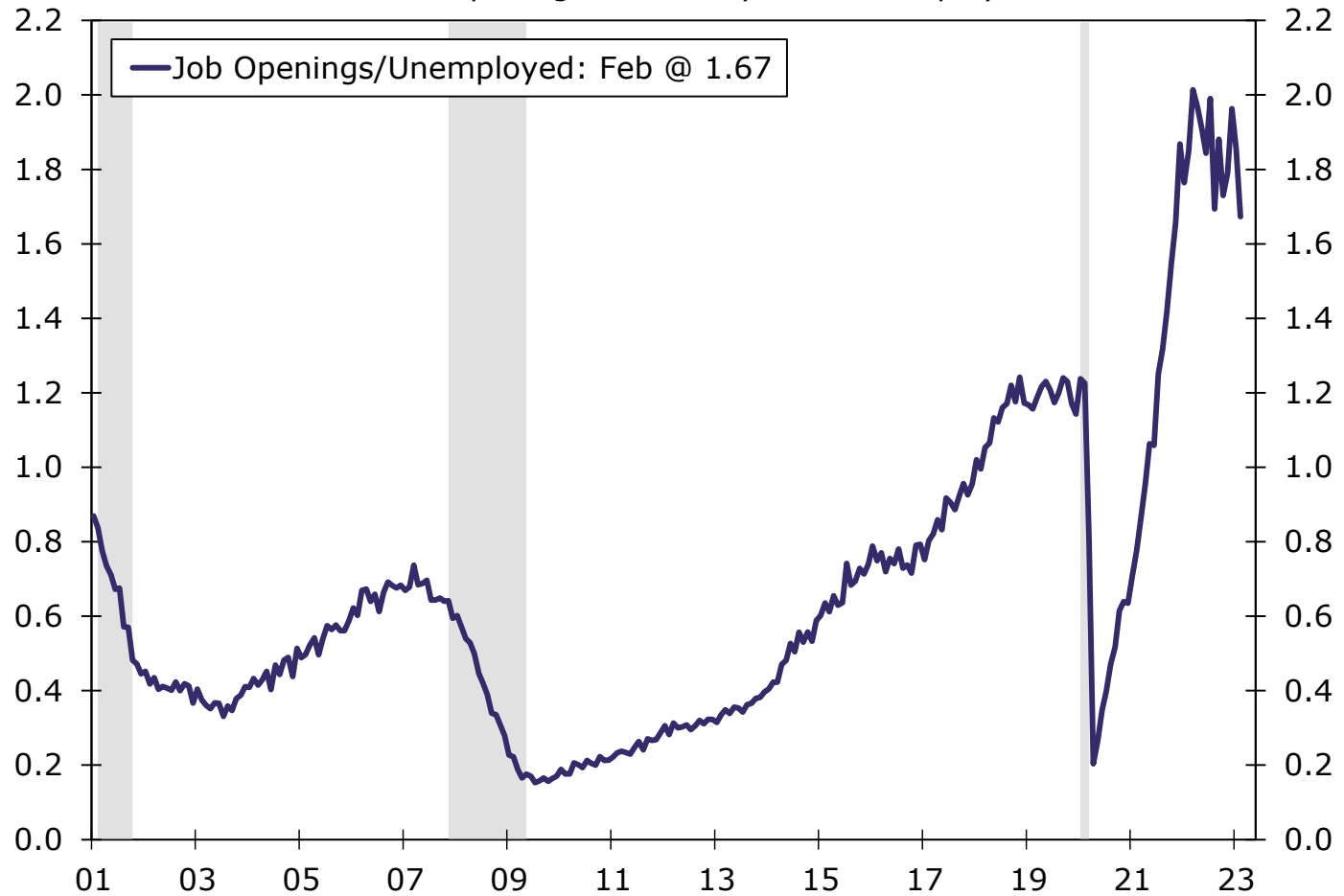
The proportion of industries adding jobs has fallen to its lowest share since April 2020



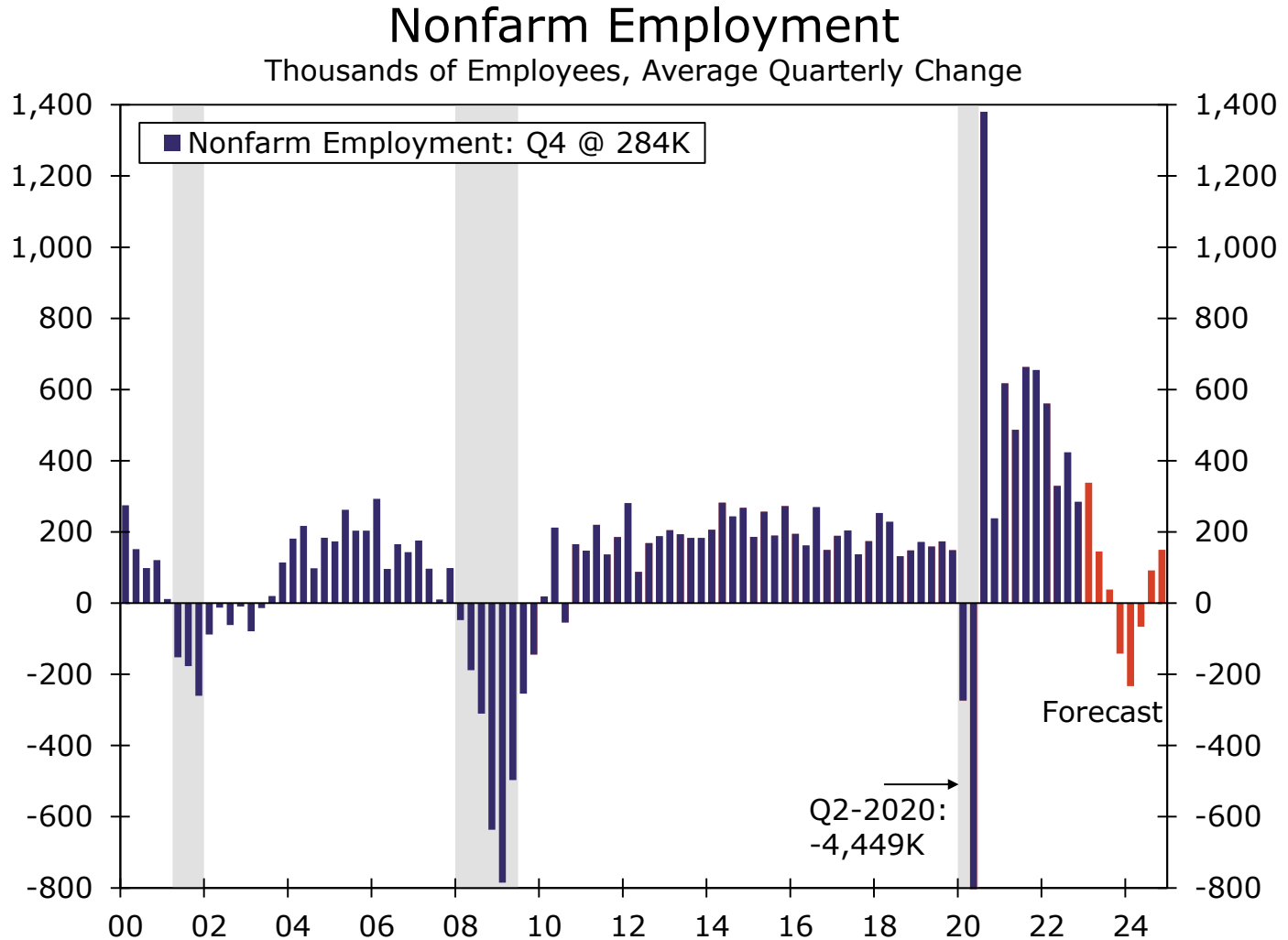
Weak labor supply relative to demand will continue to stoke inflationary pressures.

Job Openings Per Unemployed Person

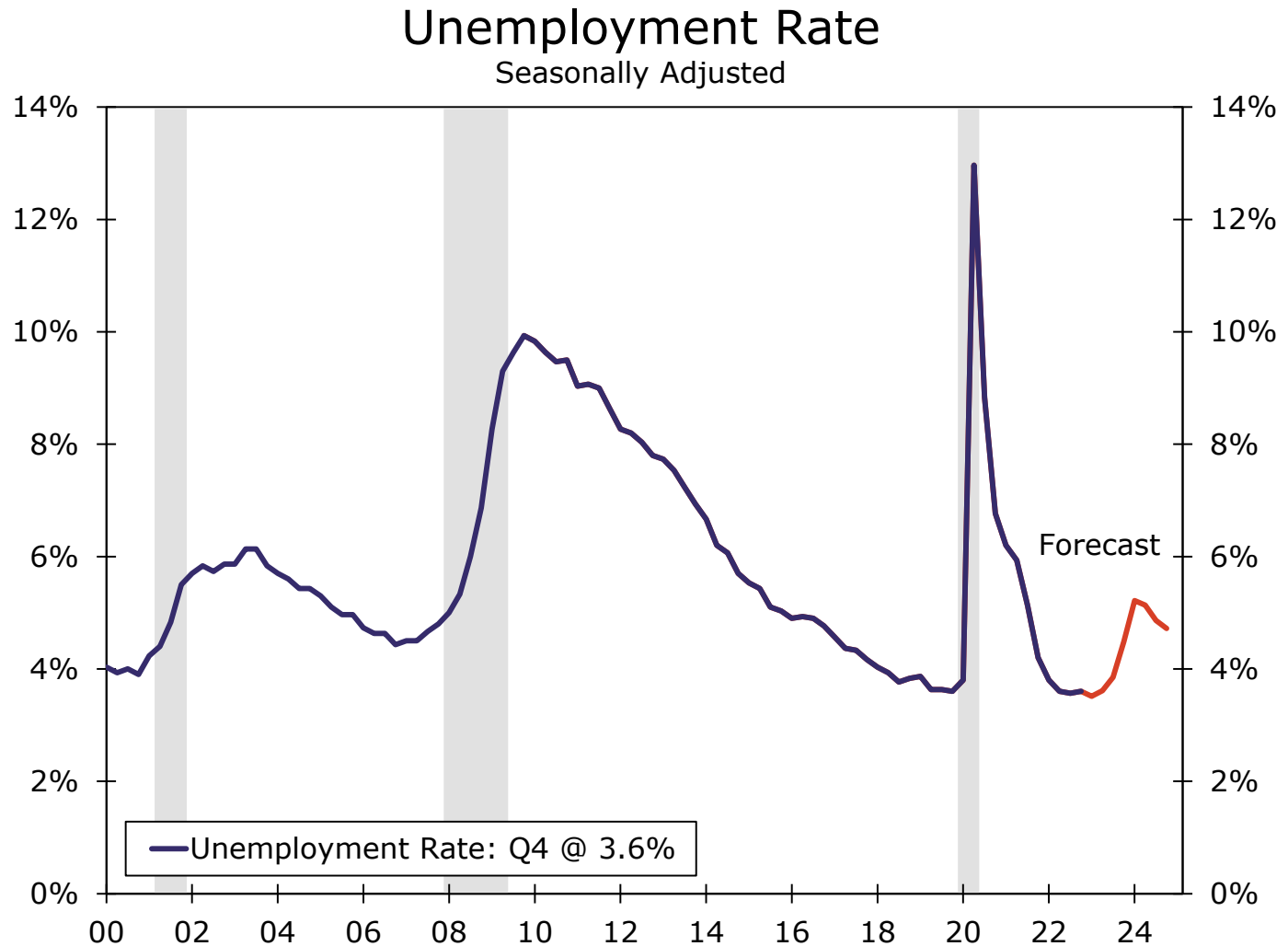
Total Job Openings Divided by Total Unemployed



We expect tighter credit conditions combined with lagged effects of monetary tightening will lead business to shed workers.



Weak labor supply will likely prevent a massive round of layoffs, however.

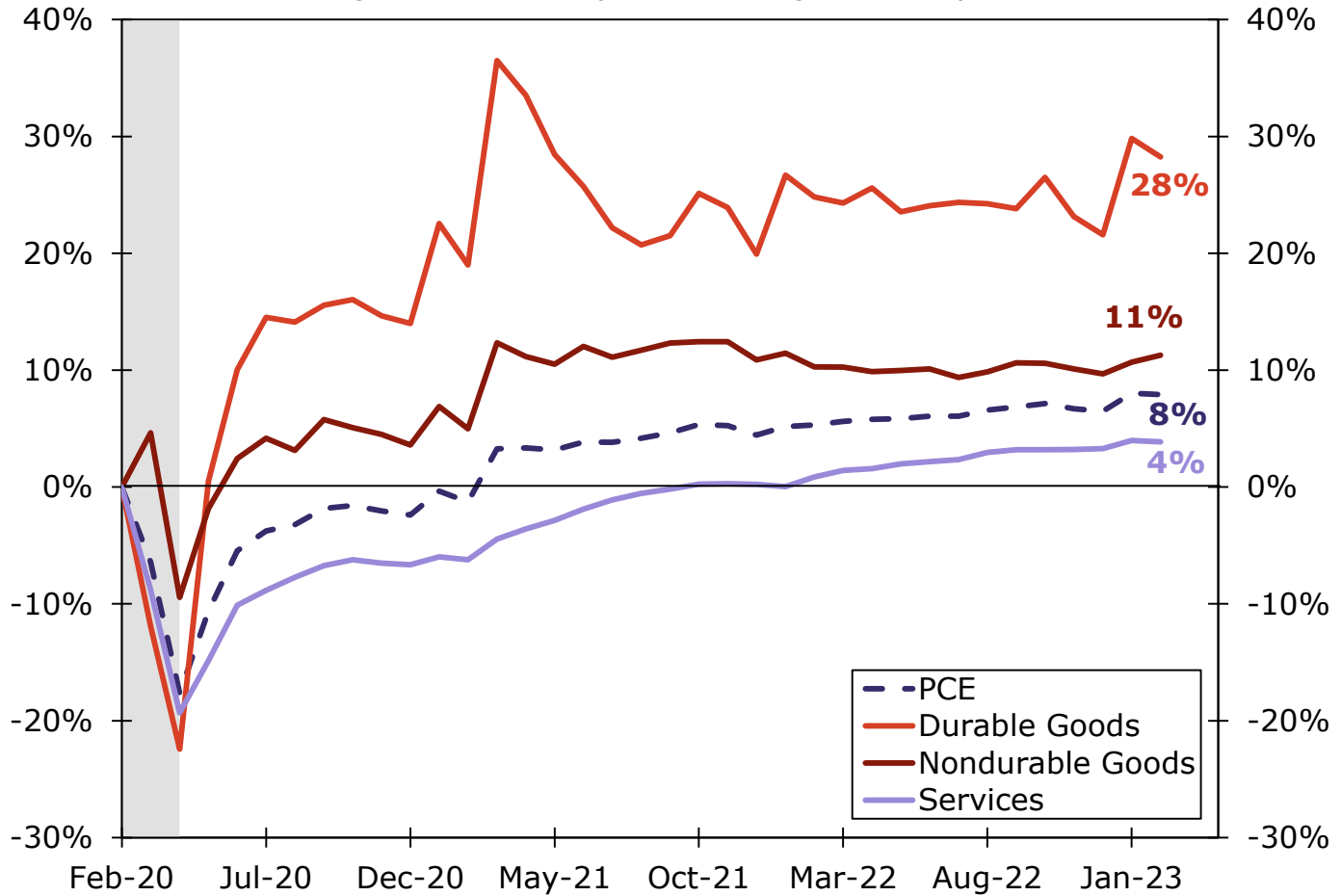


Consumer Health

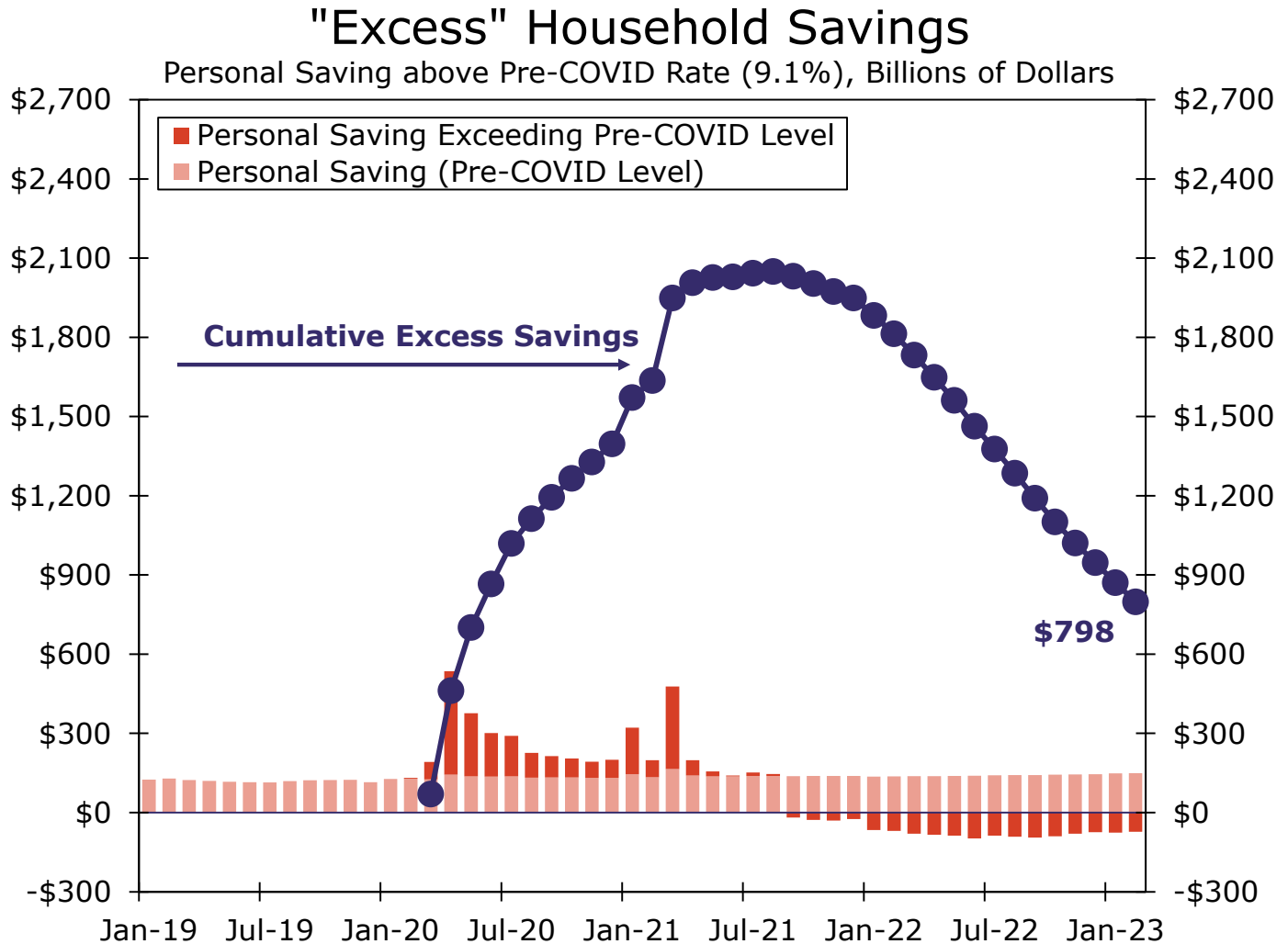
Consumers have shown incredible resilience in the face of elevated inflation and rising financing costs.

Real Personal Consumption Expenditures

Change from February 2020 through February 2023



Excess savings accumulated during the pandemic has helped to sustain spending, but they won't last forever.

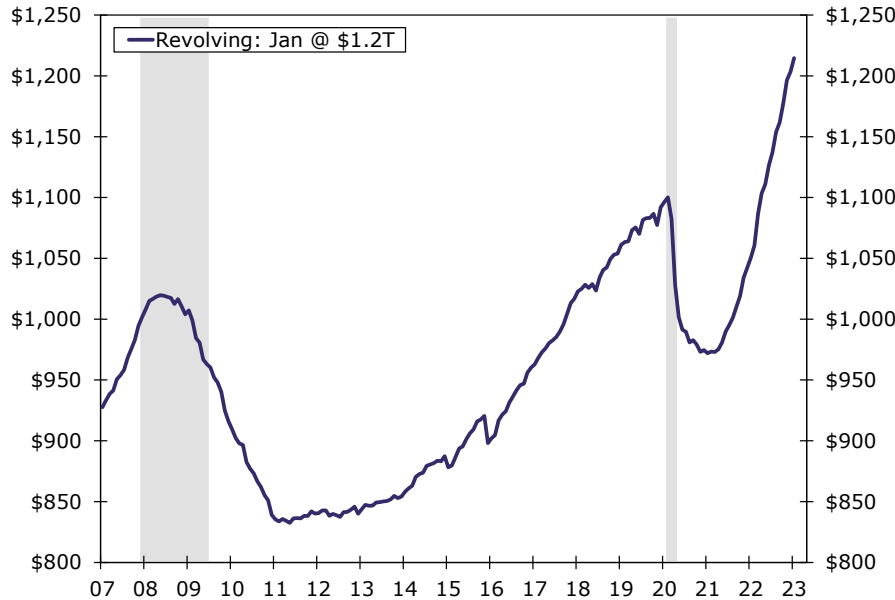


Household Staying Power

Consumers have also increasingly relied on credit to sustain spending, but credit access is likely to diminish following recent banking sector upheaval.

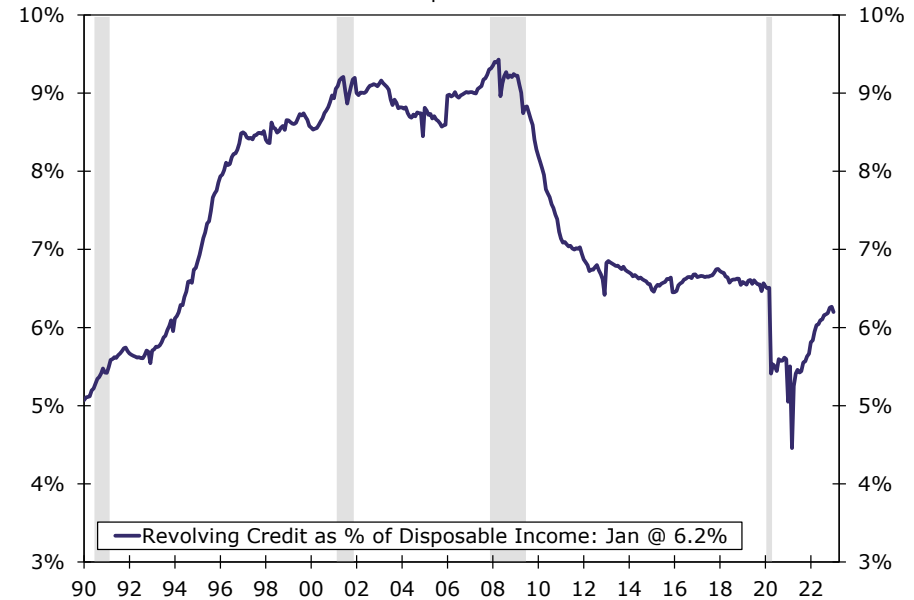
Revolving Consumer Credit

Billions of USD

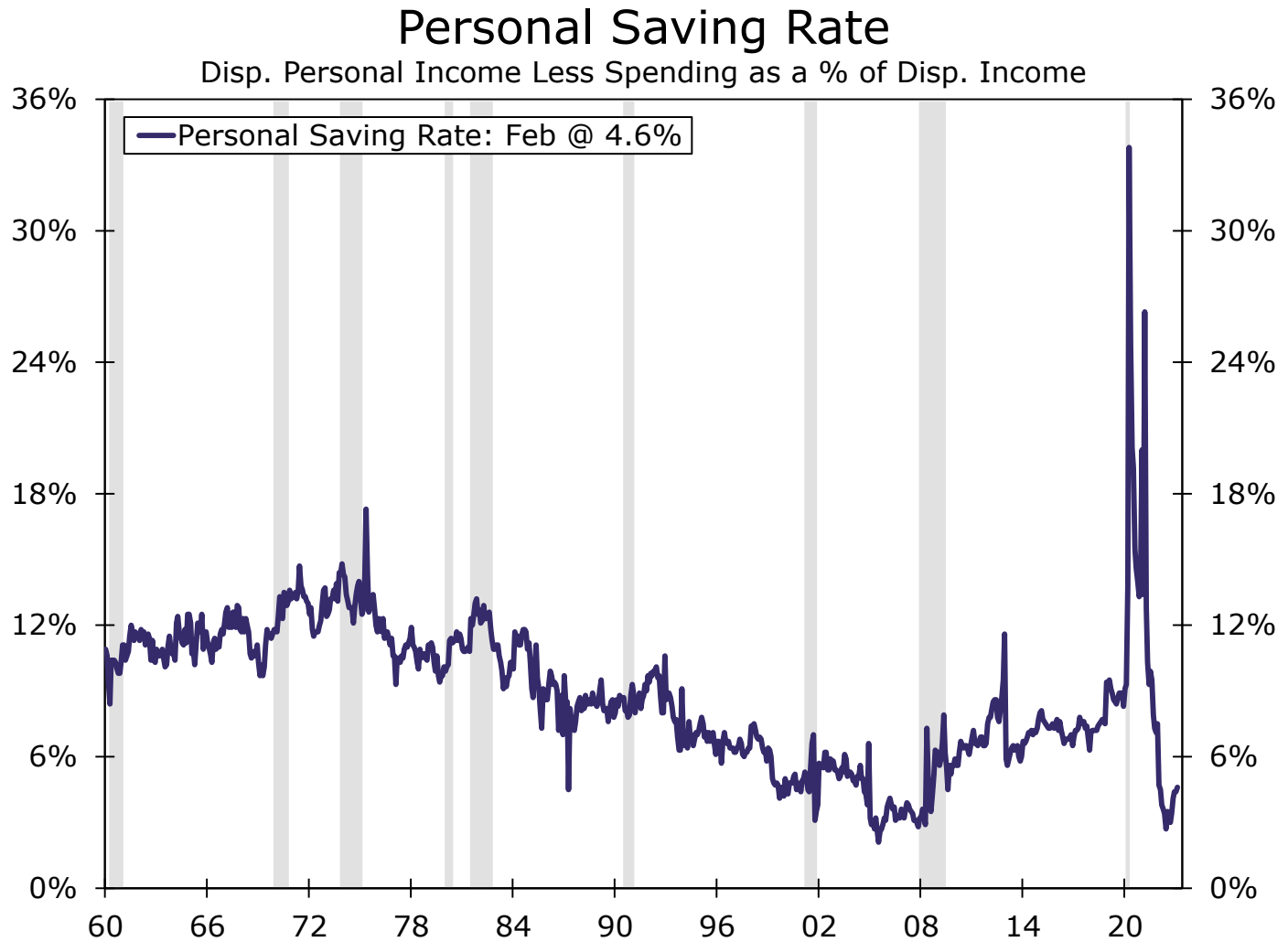


Revolving Consumer Credit

As a Percent of Disposable Personal Income



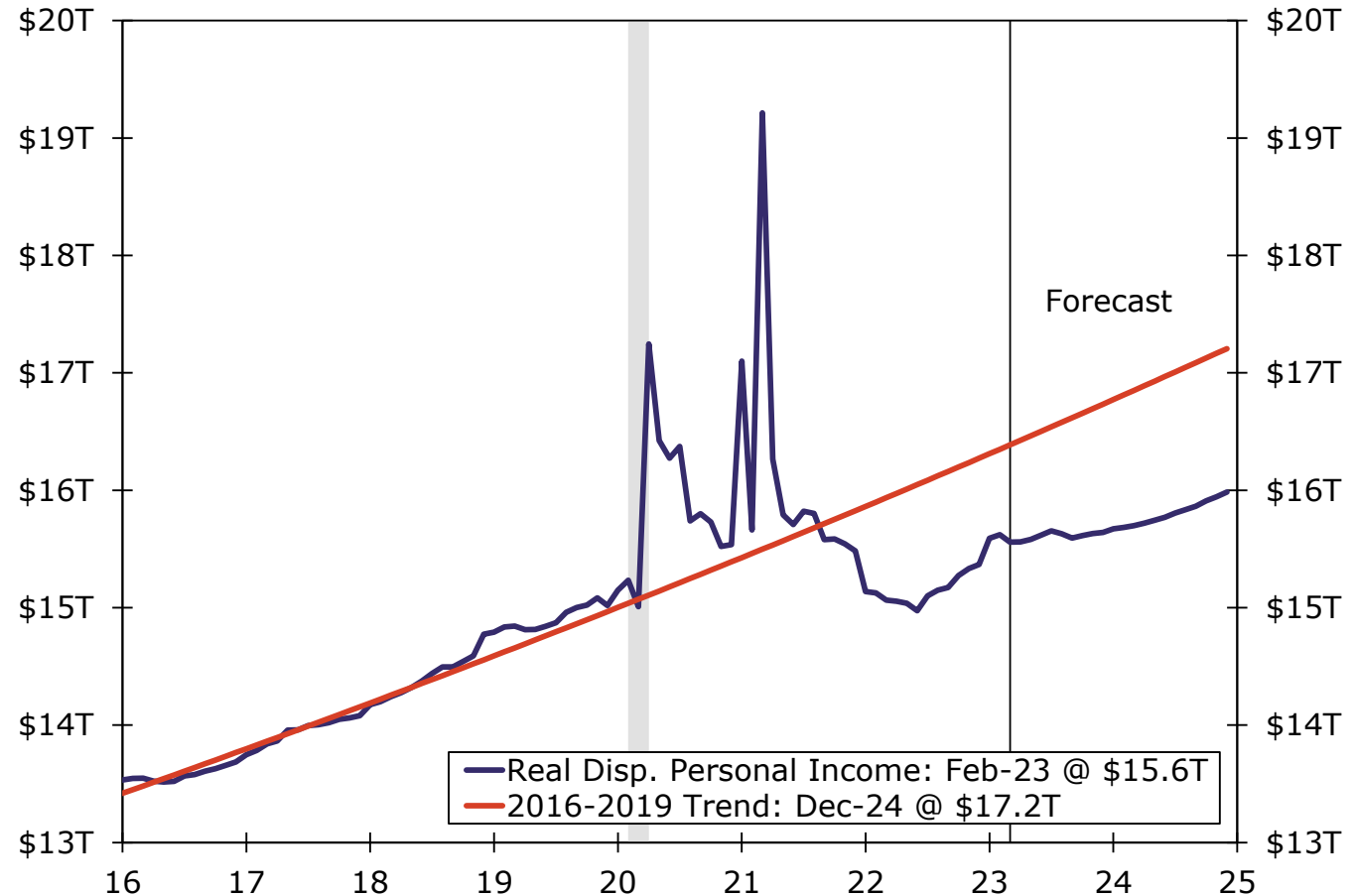
Growth in spending outstripped income at an unusual rate, causing the saving rate to reach a near-historic low.



More recently, easing inflation combined with a tight jobs market has provided a more sustainable source of spending.

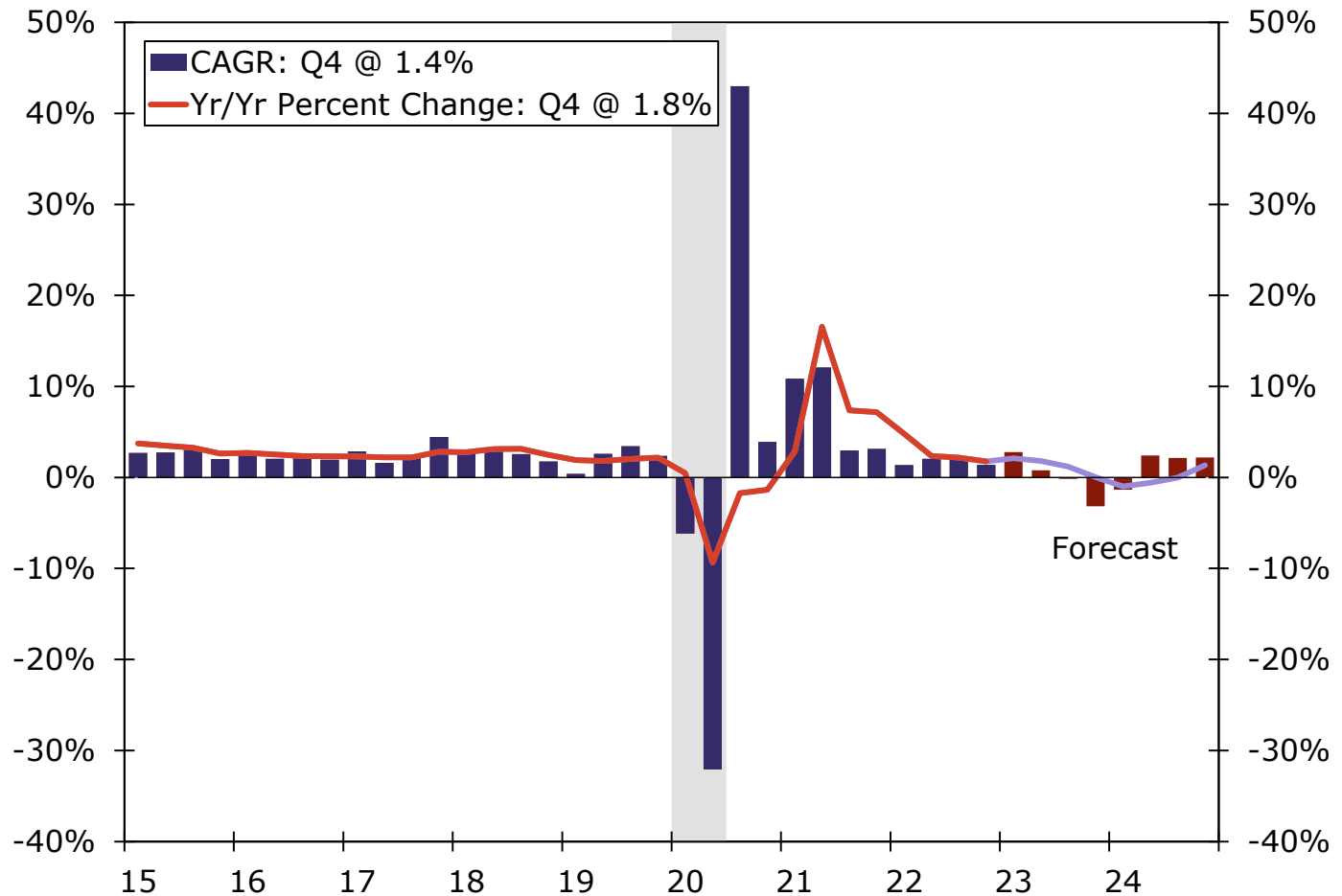
Real Disposable Personal Income

Trillions of 2012 Dollars



If monetary tightening and tighter credit conditions triggers labor market weakness as we expect, we look for consumer spending to start contracting mid-2023.

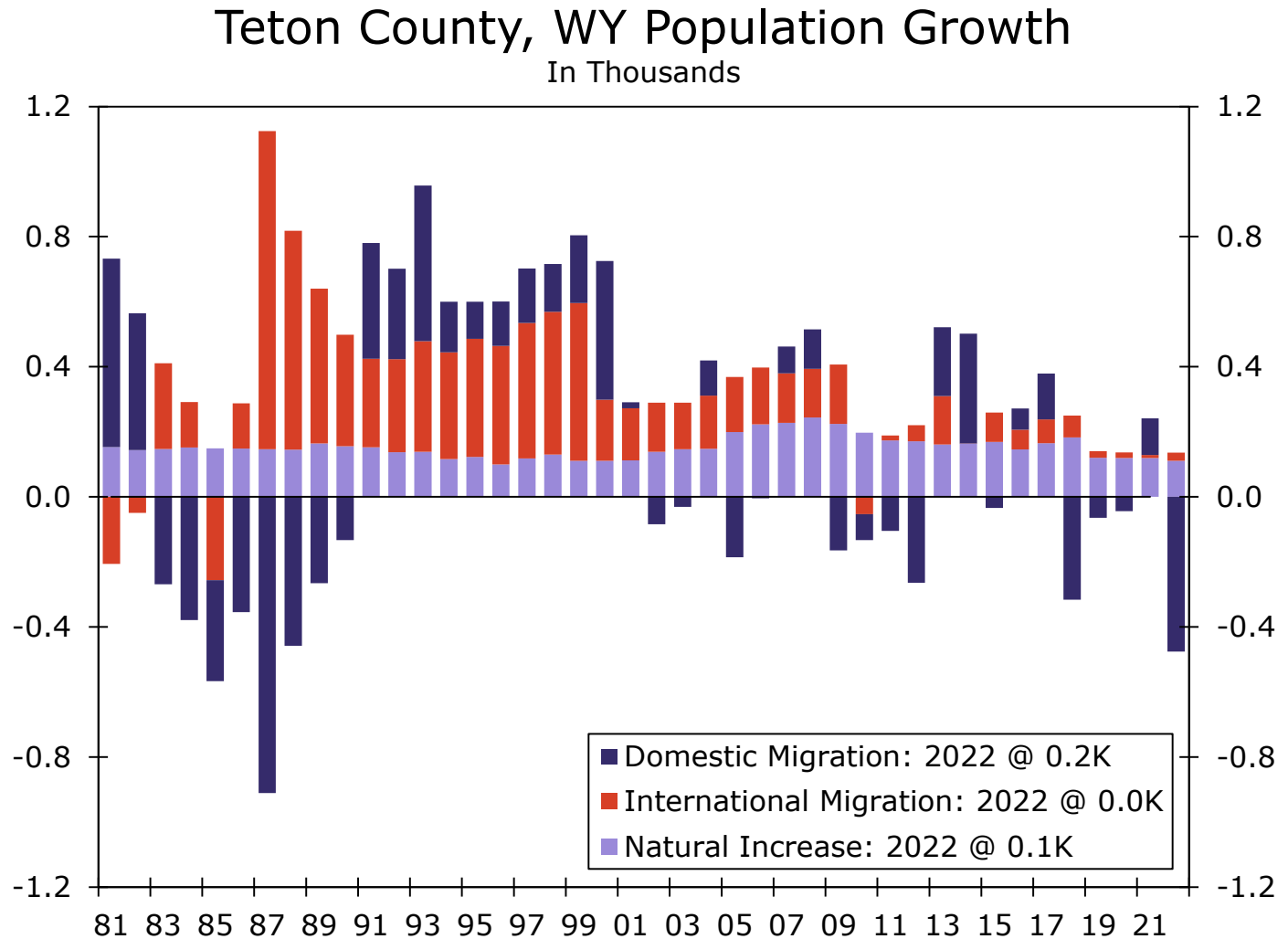
Real Personal Consumption Expenditures



The Jackson Hole Economy

Teton County Population

Domestic outmigration has slowed population growth in recent years.

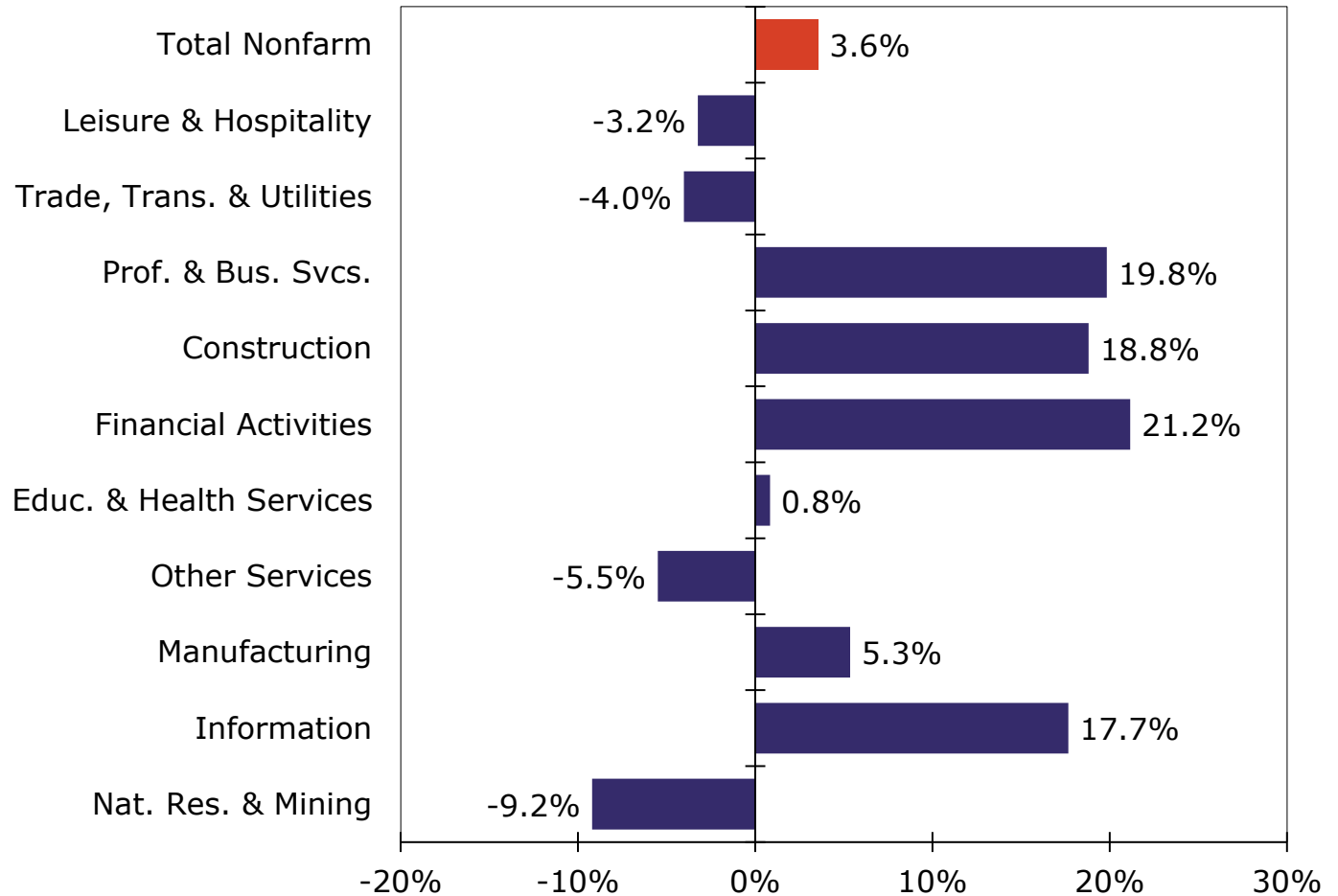


Teton County Employment

Growth in tech industries, construction and real estate helped propel the post-pandemic job recovery.

Teton County, WY Employment Recovery by Industry

Percent Change of 12-MMA from February 2020, Industries Ranked by Size

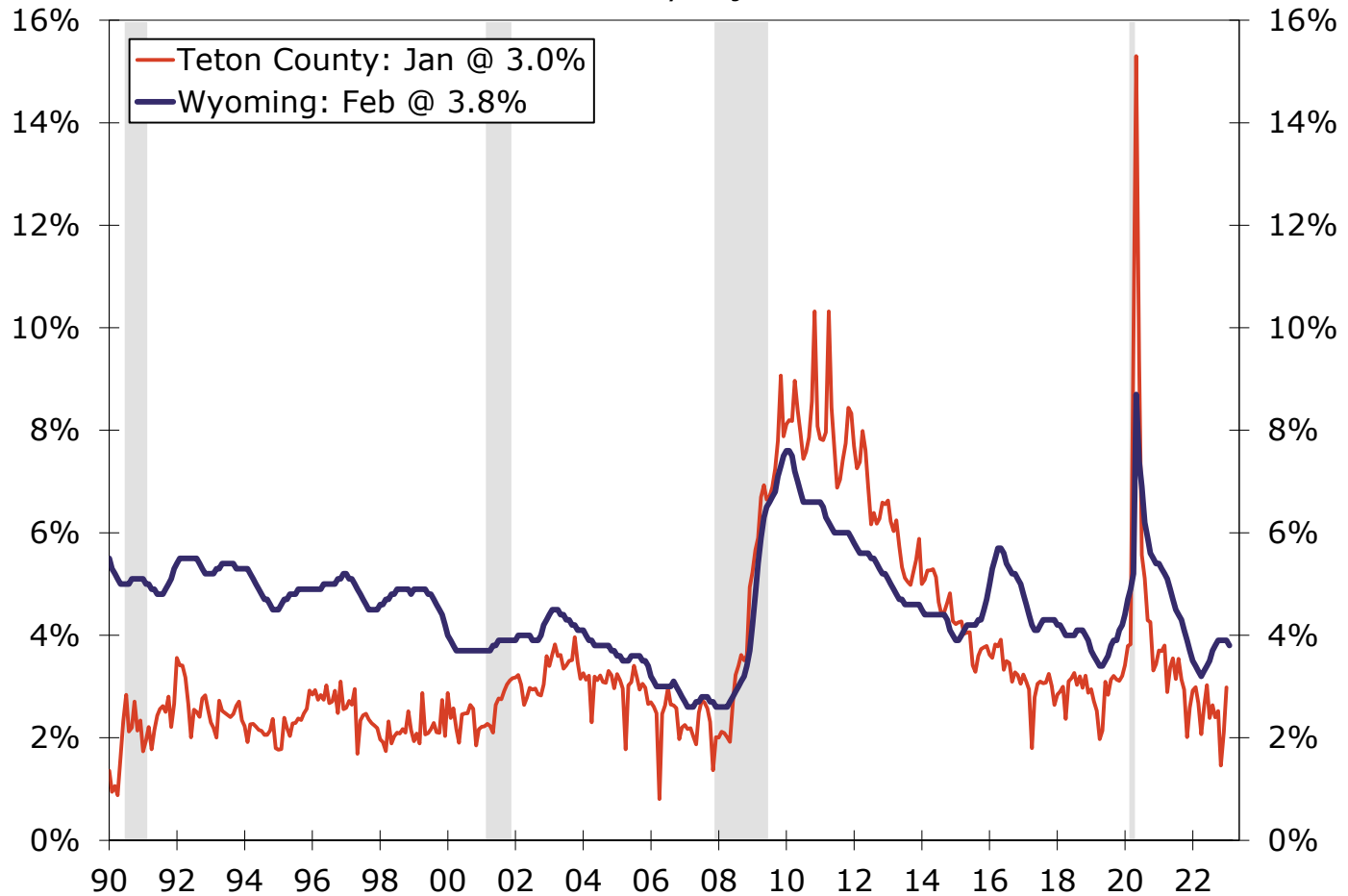


Teton County Unemployment

Jackson's tourism-centered economy was hit particularly hard by the pandemic but recovered at a faster pace compared to Wyoming at large.

Teton County, WY Unemployment Rate

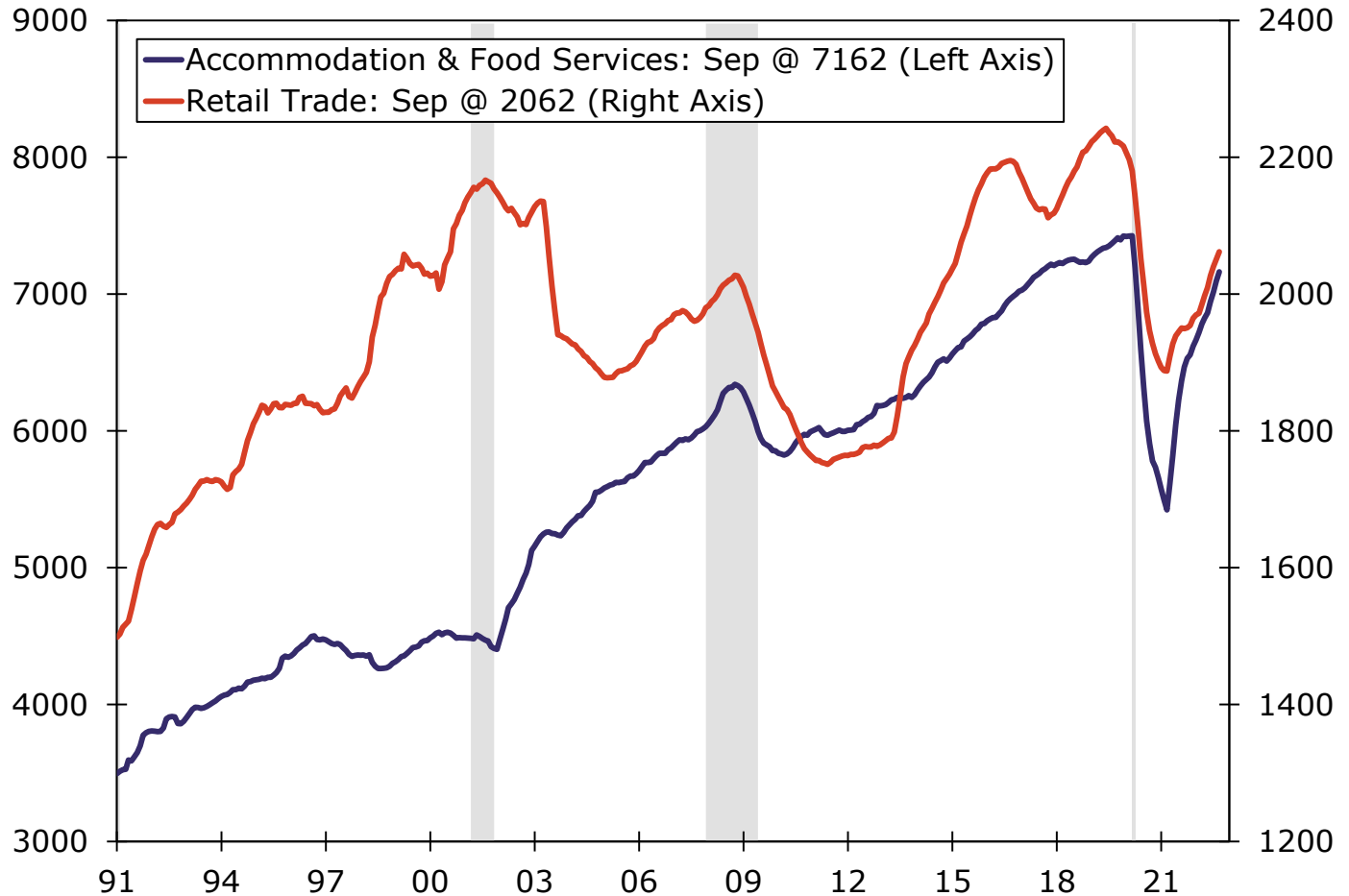
Seasonally Adjusted



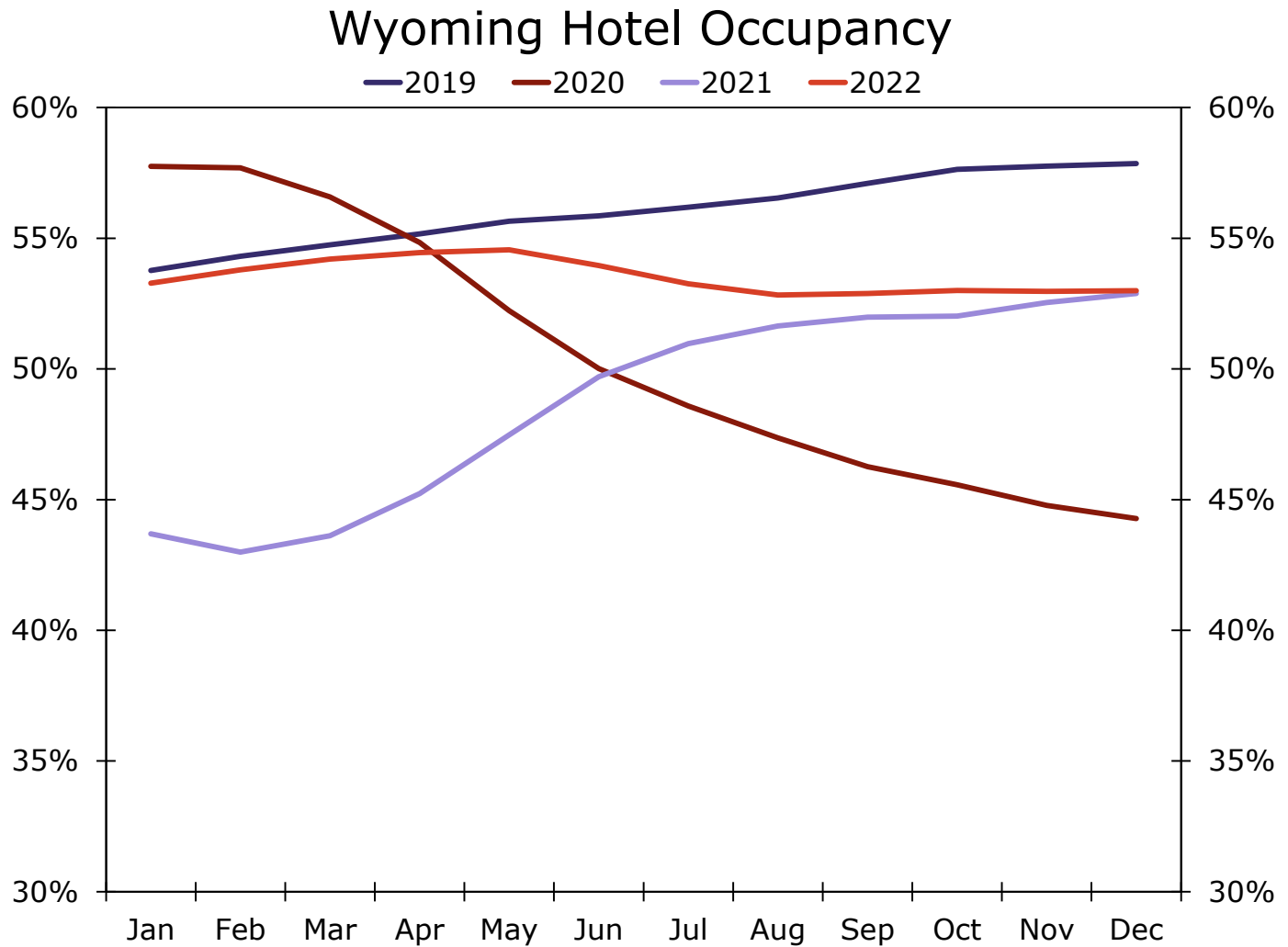
Teton County Employment

Much of the existing employment shortfall is concentrated in hotels, restaurants and retail.

Teton County, WY Accomodation & Food Vs. Retail Emp.
Total Private, 12-Month Moving Average, Not Seasonally Adjusted



Hotel occupancy in the state has recovered in part but still lags 2019 traffic.



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 ¹	-1.6	-0.6	3.2	2.7	0.7	1.2	-0.9	-2.6	-1.2	3.4	2.3	2.6	5.9	2.1	1.0	0.3
Personal Consumption	1.3	2.0	2.3	1.4	2.8	0.8	-0.2	-3.2	-1.3	2.4	2.1	2.2	8.3	2.8	1.3	-0.1
Business Fixed Investment	7.9	0.1	6.2	3.3	1.8	1.4	-2.8	-4.8	-3.3	0.9	3.3	4.4	6.4	3.8	1.4	-1.2
Equipment	11.4	-2.0	10.6	-3.2	-3.4	-0.2	-4.0	-8.4	-6.2	0.4	3.5	4.1	10.3	4.3	-1.4	-3.0
Intellectual Property Products	10.8	8.9	6.8	7.4	6.9	3.8	-1.8	-1.8	-0.6	2.2	3.8	5.5	9.7	8.9	4.8	0.7
Structures	-4.3	-12.7	-3.6	8.5	2.6	-1.0	-2.5	-3.2	-2.9	-1.8	1.3	1.7	-6.4	-6.9	0.1	-1.8
Residential Investment	-3.1	-17.8	-27.1	-25.9	-11.5	-8.7	-4.5	-2.4	-1.4	3.2	4.4	5.7	10.7	-10.7	-15.3	-0.5
Government Purchases	-2.3	-1.6	3.7	3.6	2.8	1.7	1.6	1.4	1.2	1.1	1.0	0.9	0.6	-0.6	2.4	1.2
Net Exports ²	-3.1	1.2	2.9	0.5	0.0	-0.1	0.3	0.7	0.5	0.2	0.0	0.0	-1.7	-0.6	0.7	0.3
Inventories ²	0.2	-1.9	-1.2	1.5	-1.7	0.5	-0.8	-0.5	-0.4	1.1	0.1	0.1	0.2	0.7	-0.4	0.0
Nonfarm Payroll Change ³	561	329	423	284	338	145	38	-142	-233	-67	92	150	606	399	95	-15
Unemployment Rate	3.8	3.6	3.6	3.6	3.5	3.6	3.9	4.5	5.2	5.1	4.9	4.7	5.4	3.6	3.9	5.0
Consumer Price Index ⁴	8.0	8.6	8.3	7.1	5.8	4.1	3.3	2.8	2.3	2.3	2.6	2.8	4.7	8.0	4.0	2.5
Real Disposable Income ⁴	-12.8	-5.7	-3.8	-1.4	3.0	3.8	3.2	2.0	0.8	1.0	1.3	2.0	1.9	-6.1	3.0	1.3
Quarter-End Interest Rates ⁵																
Federal Funds Target Rate	0.50	1.75	3.25	4.50	4.75	5.25	5.25	4.75	3.75	2.75	2.50	2.50	0.25	2.02	5.00	2.88
Conventional Mortgage Rate	4.27	5.58	6.01	6.36	6.40	6.20	5.75	5.40	5.35	5.10	4.90	4.75	3.03	5.38	5.94	5.03
2 Year Note	2.28	2.92	4.22	4.41	4.15	4.20	3.50	2.90	2.65	2.55	2.55	2.65	0.27	2.99	3.69	2.60
10 Year Note	2.32	2.98	3.83	3.88	3.60	3.50	3.15	2.90	2.85	2.80	2.80	2.85	1.45	2.95	3.29	2.83

Forecast as of: March 17, 2023

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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