WELLS FARGO

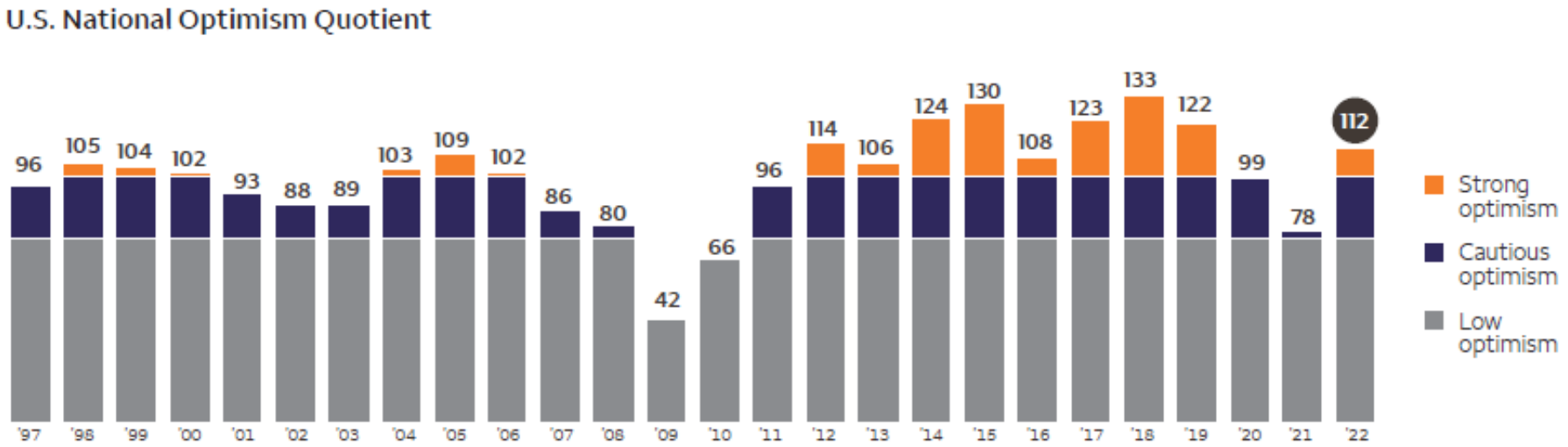
Economic and Construction Outlook

March 2022

Charlie Dougherty
Vice President & Economist | Wells Fargo Economics
charles.dougherty@wellsfargo.com | 704-410-6542

Strong U.S. National Optimism

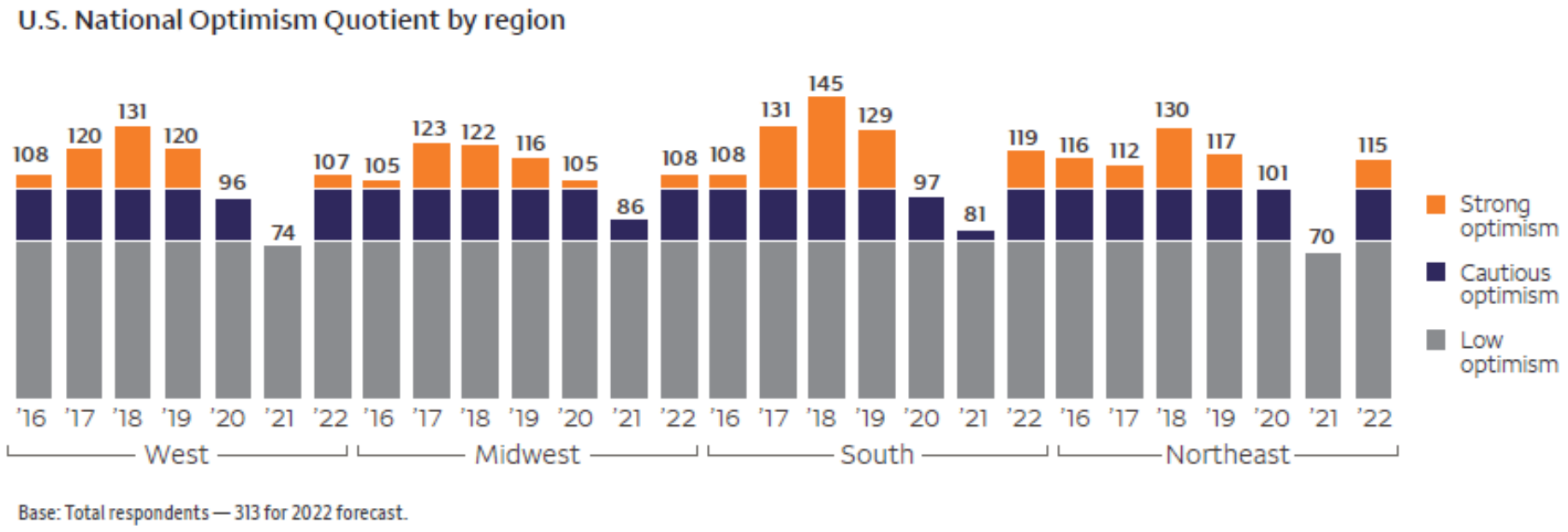
The Optimism Quotient (OQ), presented by Wells Fargo Equipment Finance, is directional in nature and gives an indication of industry executives' optimism about the coming year compared to the previous year.



Source: Wells Fargo Equipment Finance

Strong Regional Optimism

Optimism rose across all regions with the Northeast recording a 45 point swing in optimism after seeing the largest decline last year rising from 70 (low optimism) to 115 (strong optimism).



Source: Wells Fargo Equipment Finance

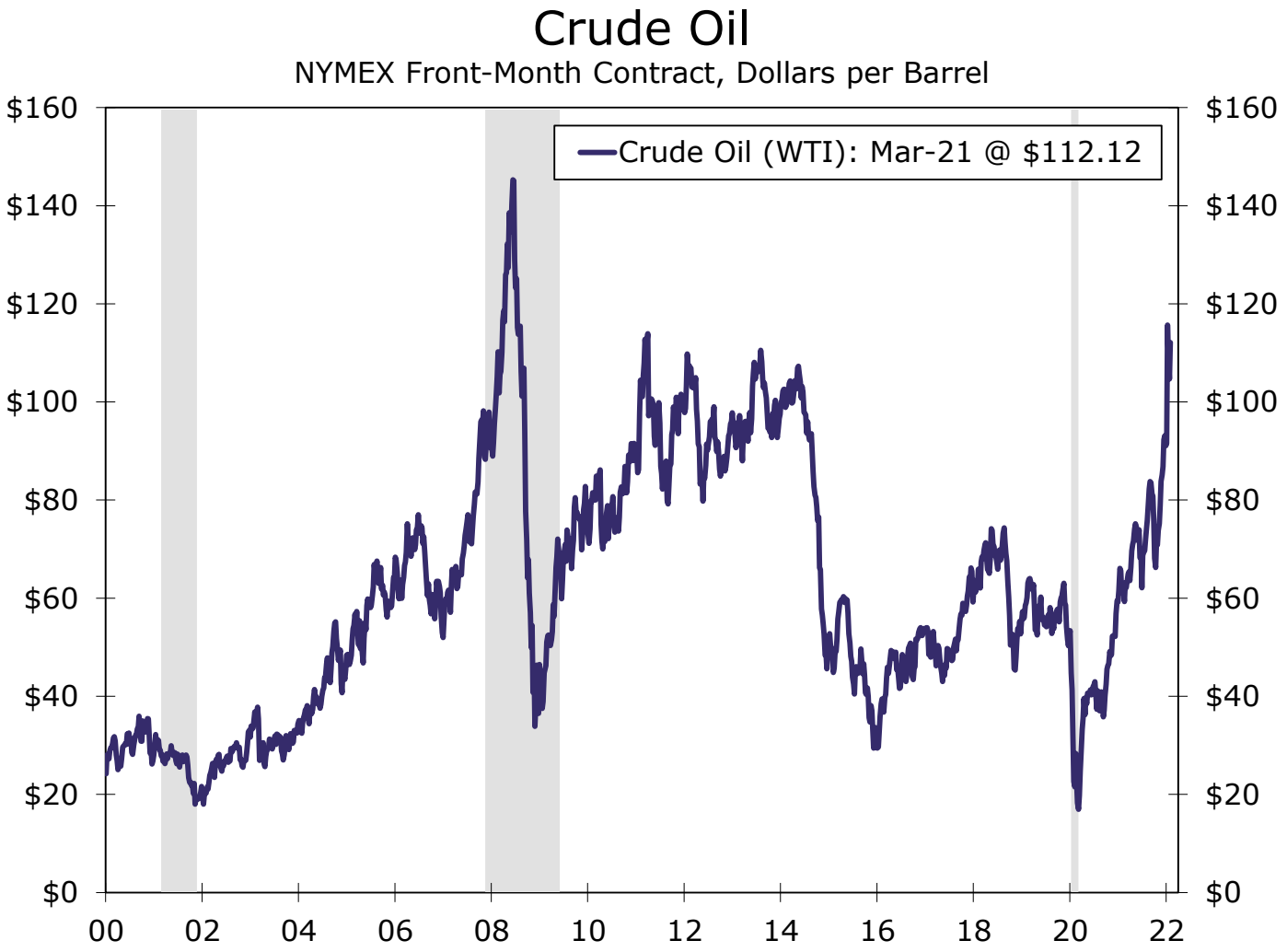
Russia and Ukraine War

The Russia-Ukraine conflict has shocked markets and driven up oil prices. The United States has insignificant trade exposure to the two countries, however the hostilities represent a clear downside risk for economic growth.

Source: International Monetary Fund and Wells Fargo Economics

Oil Prices

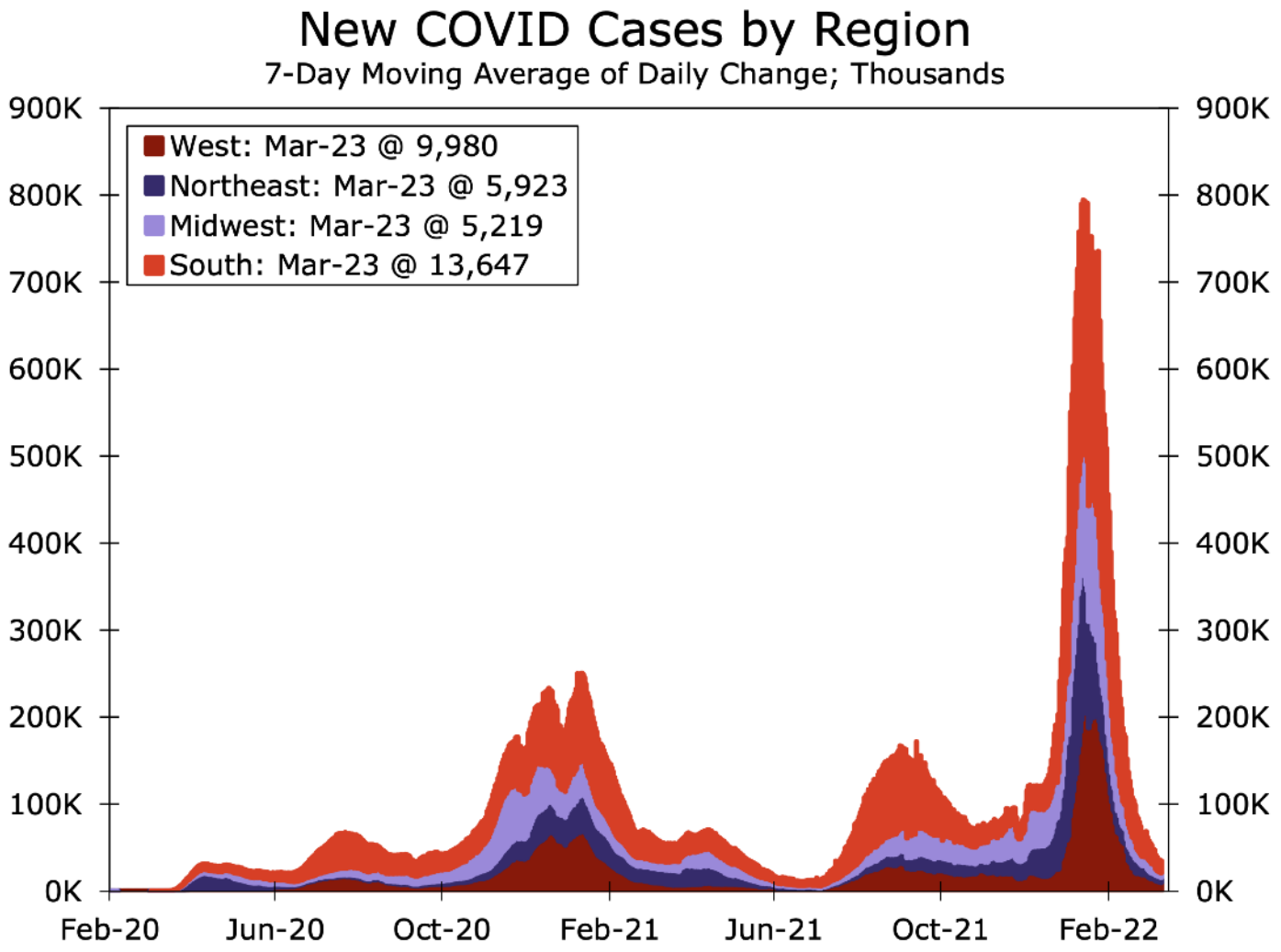
Russia is also a key oil and natural gas exporter, and the conflict has sharply raised oil prices worldwide.



Source: New York Mercantile Exchange and Wells Fargo Economics

COVID-19

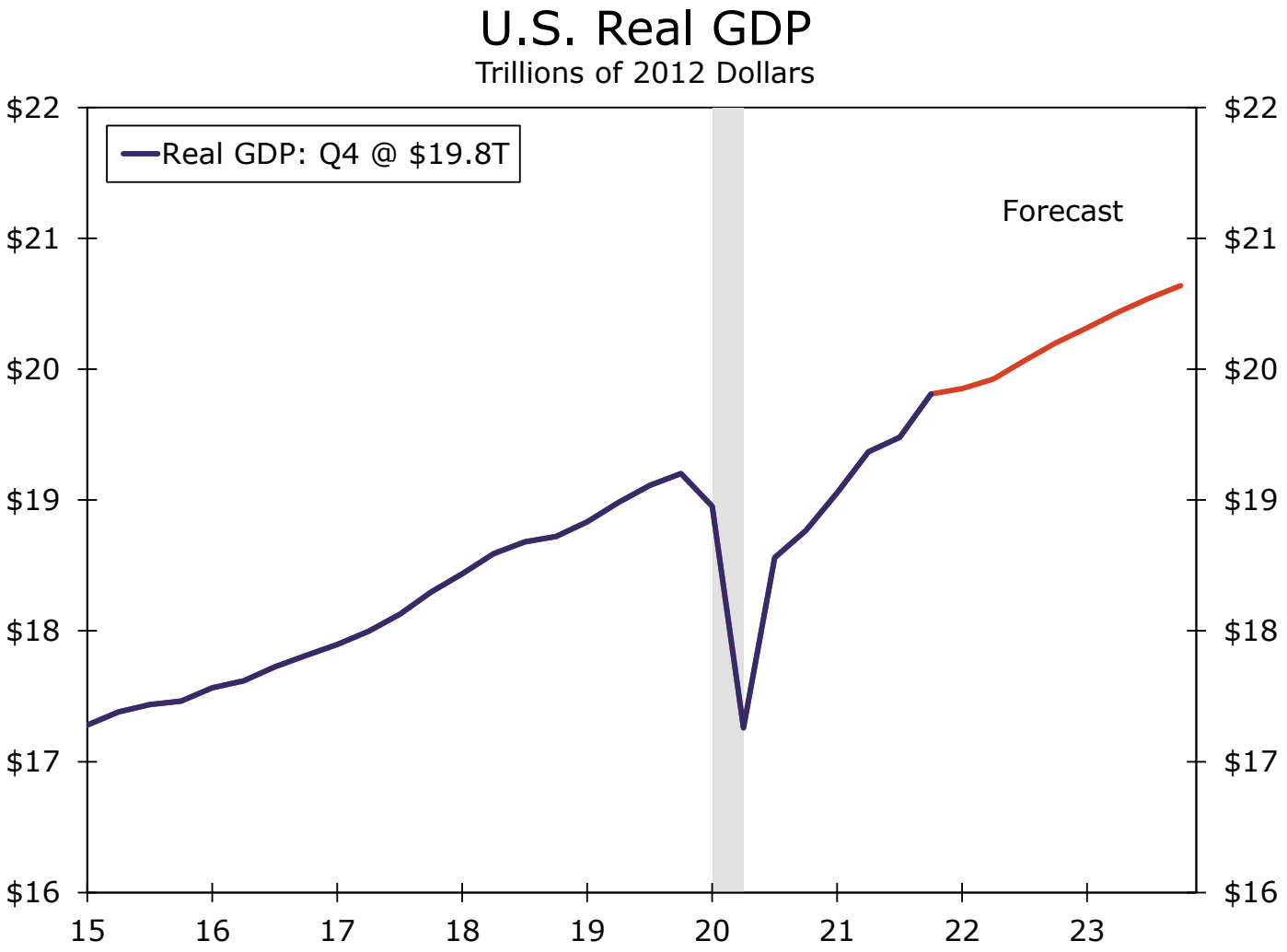
The Omicron wave appears to be subsiding.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

GDP

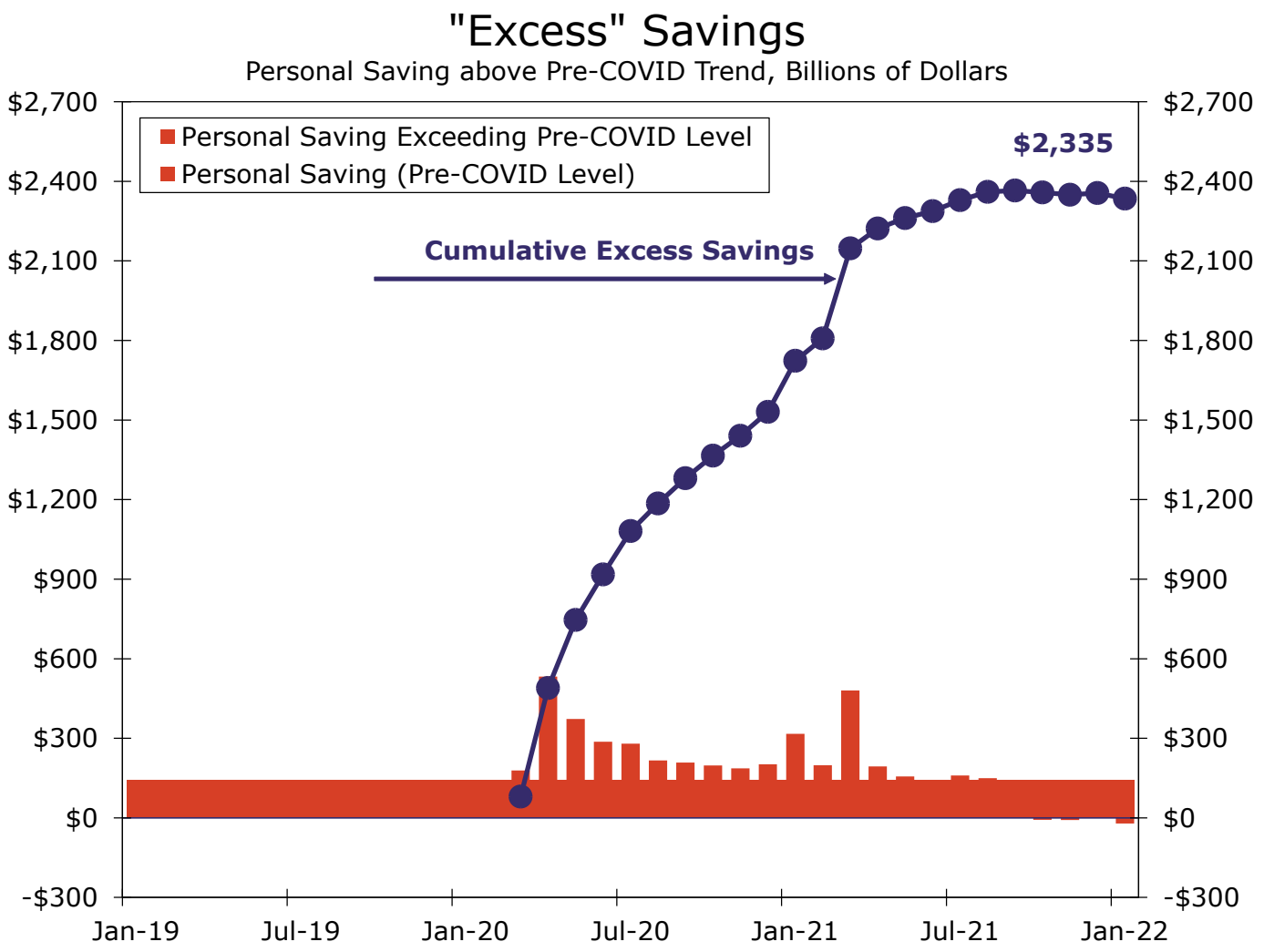
The U.S. economy likely returned to its prior trend path at the end of 2021. While we expect strong rates of growth over the next few quarters, the pace of improvement is likely to moderate.



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

Excess Savings to Drive Consumer Spending

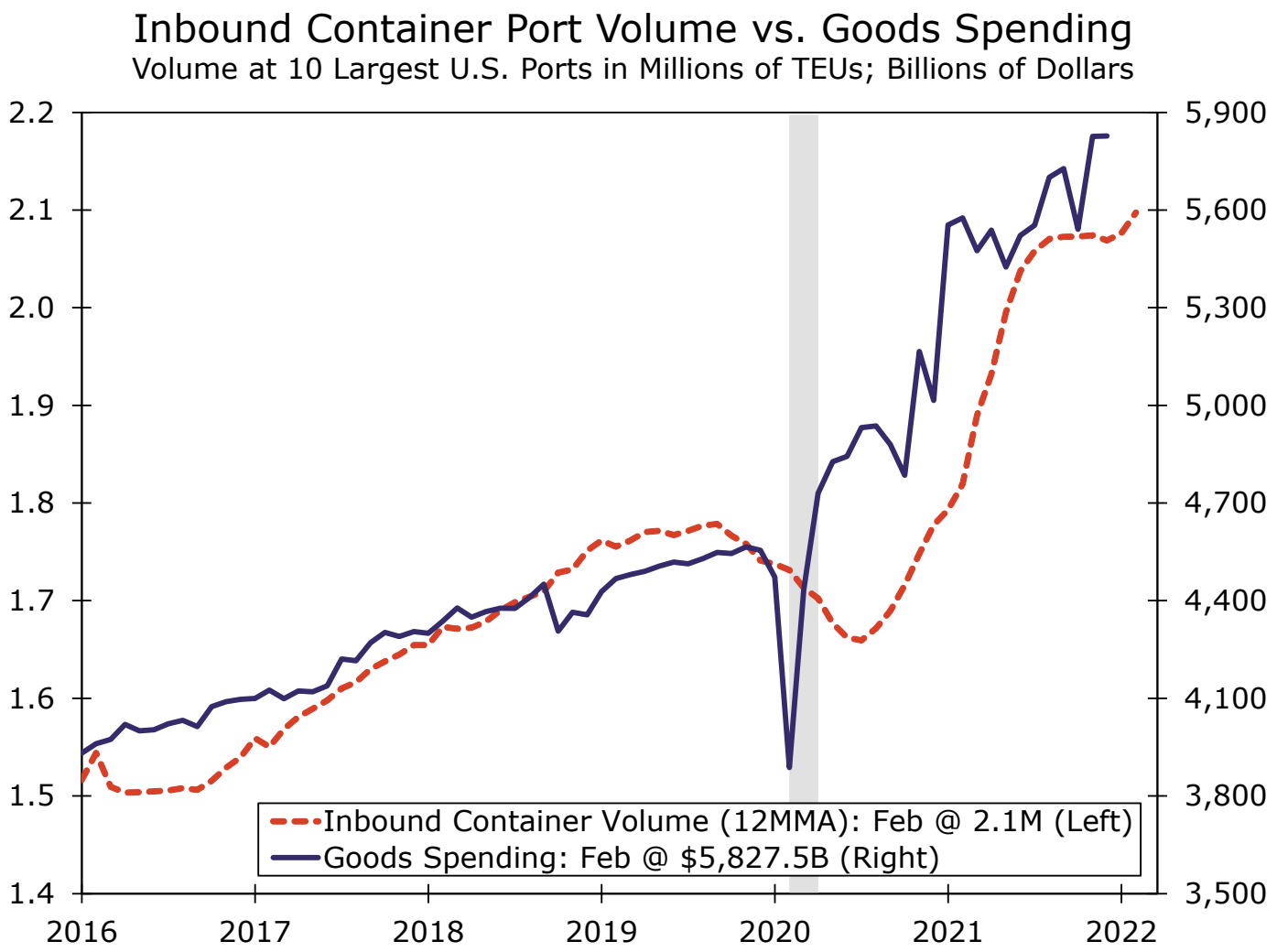
Forced thrift and fiscal stimulus both played a role in driving up household savings.



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

Supply Chains Snagged

Surging consumer goods spending has overwhelmed the nations transportation and distribution system, exacerbating global supply chain challenges.



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

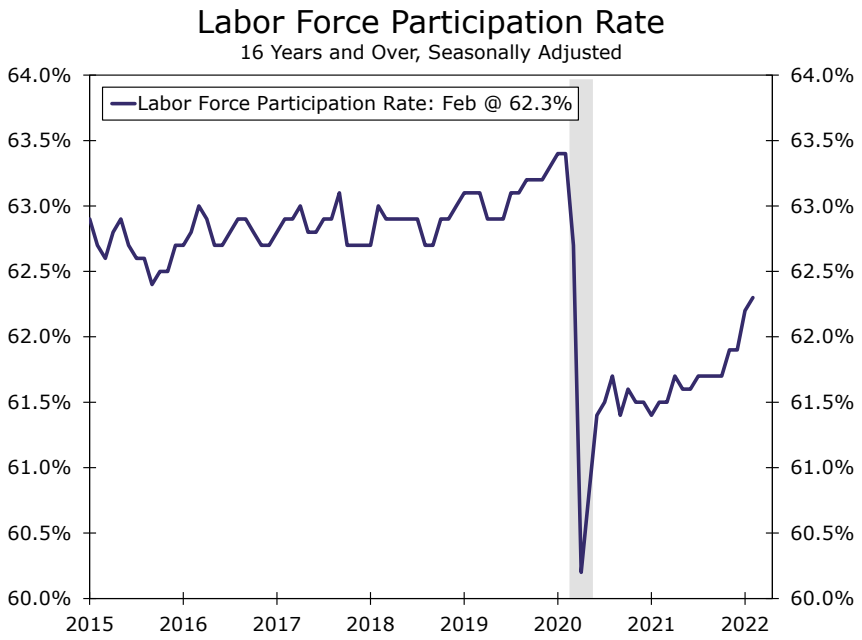
Pressure Gauge

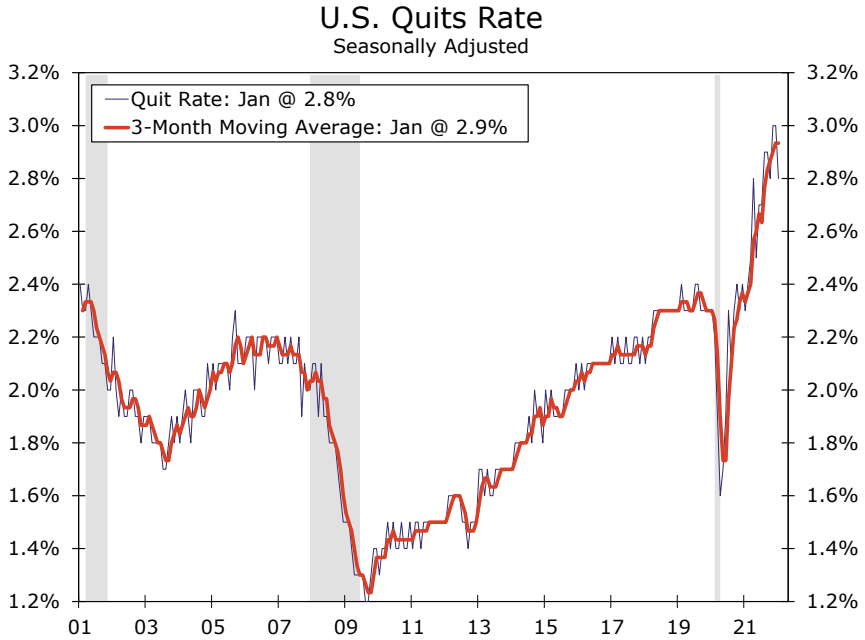
Indicator	Feb-20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb-22	Mar
Volume																										
Unfilled Orders (a)	7.6%	3.7%	.9%	-2.2%	-.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.5%	12.2%	12.2%	9.2%	8.0%	5.2%	4.9%		
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%	-.3%	-10.6%	-14.4%	4.1%	-8.8%	8.4%	-32.4%	-11.1%	
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%	35.6%	39.3%	73.1%	70.5%	-2.4%	20.0%	-7.5%	41.6%	31.8%	
Real Goods Consumption (b)	0.0%	-0.9%	-13.0%	-0.7%	5.0%	6.8%	6.7%	8.7%	9.0%	7.7%	5.2%	12.8%	9.1%	20.0%	19.5%	16.3%	16.8%	13.9%	15.3%	15.4%	17.0%	16.7%	12.2%	16.9%		
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	66.1	
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	
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	50.2
Price																										
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	$9,230
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%	22.4%	19.5%	19.4%	17.9%	
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%	9.5%
Inventory																										
Retail Inventory-to-Sales Ratio	1.43	1.52	1.67	1.34	1.22	1.21	1.22	1.22	1.23	1.26	1.28	1.19	1.23	1.10	1.07	1.08	1.08	1.11	1.10	1.09	1.07	1.08	1.16			
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	
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%	
Labor																										
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%	
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%	
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%	

Notes: (a) 3-Month Annualized Rate, (b) versus Februaray 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

Labor Market: Still a Seller's Market

Businesses continue to report that finding qualified workers to fill open positions is a challenge, which is likely holding back the labor market recovery to some extent.
Labor force participation should continue to gradually improve as COVID risks abate and accumulated savings from fiscal support dwindle.

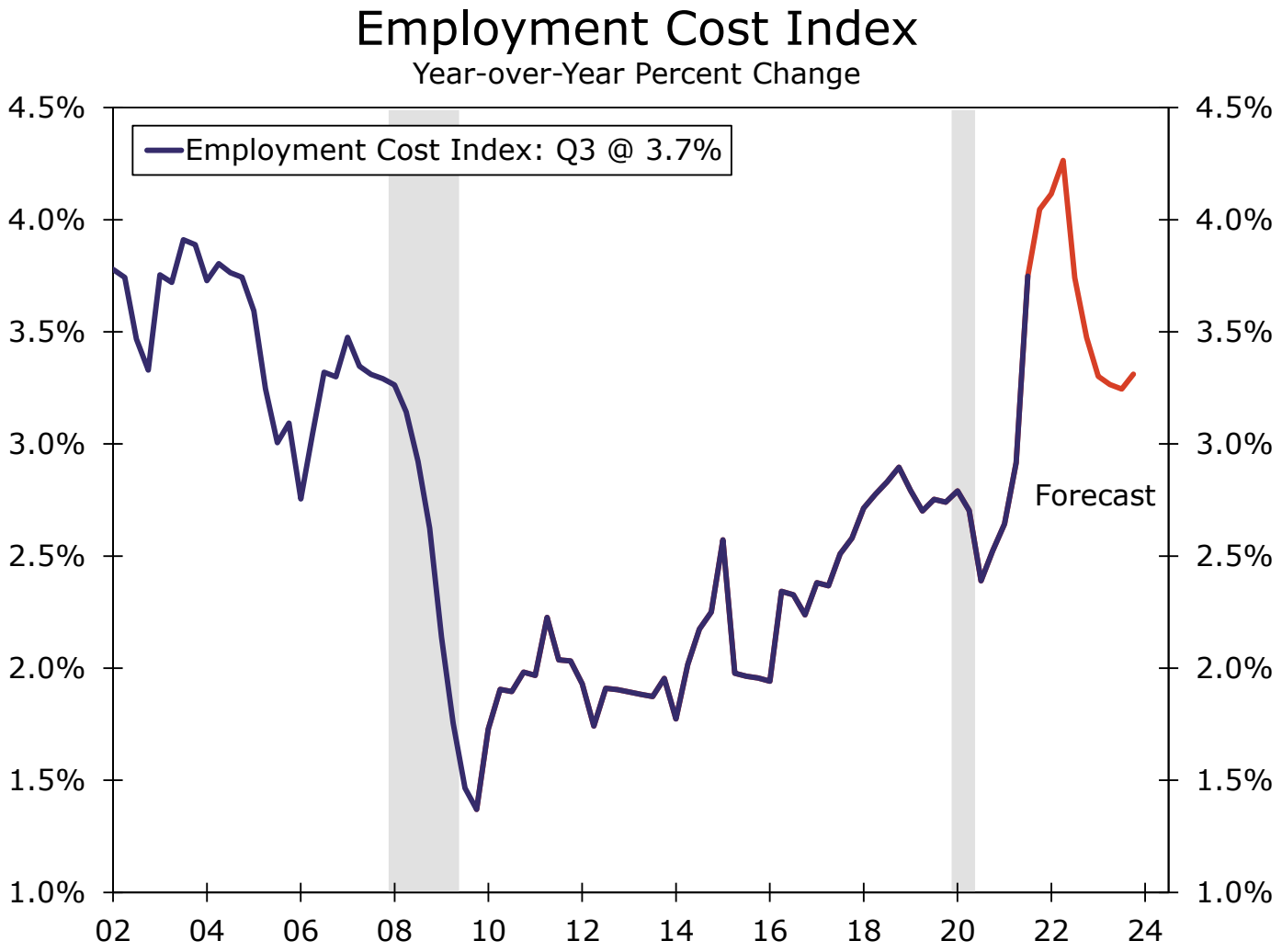




Source: U.S. Department of Labor and Wells Fargo Economics

Labor Costs

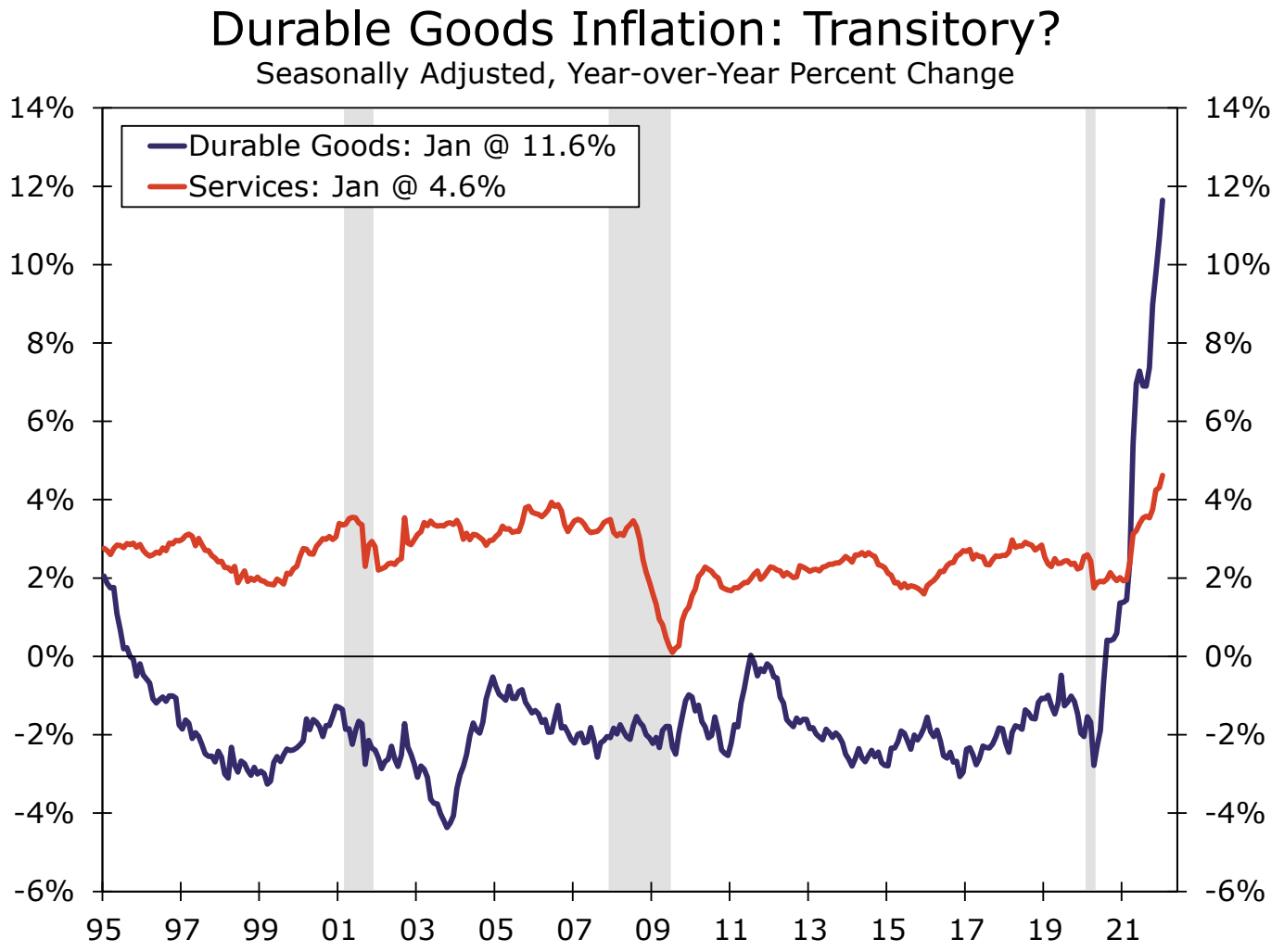
Wage growth has picked up, particularly in lower-paying industries struggling to get workers back to the jobsite.



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

Inflation: Breakdown

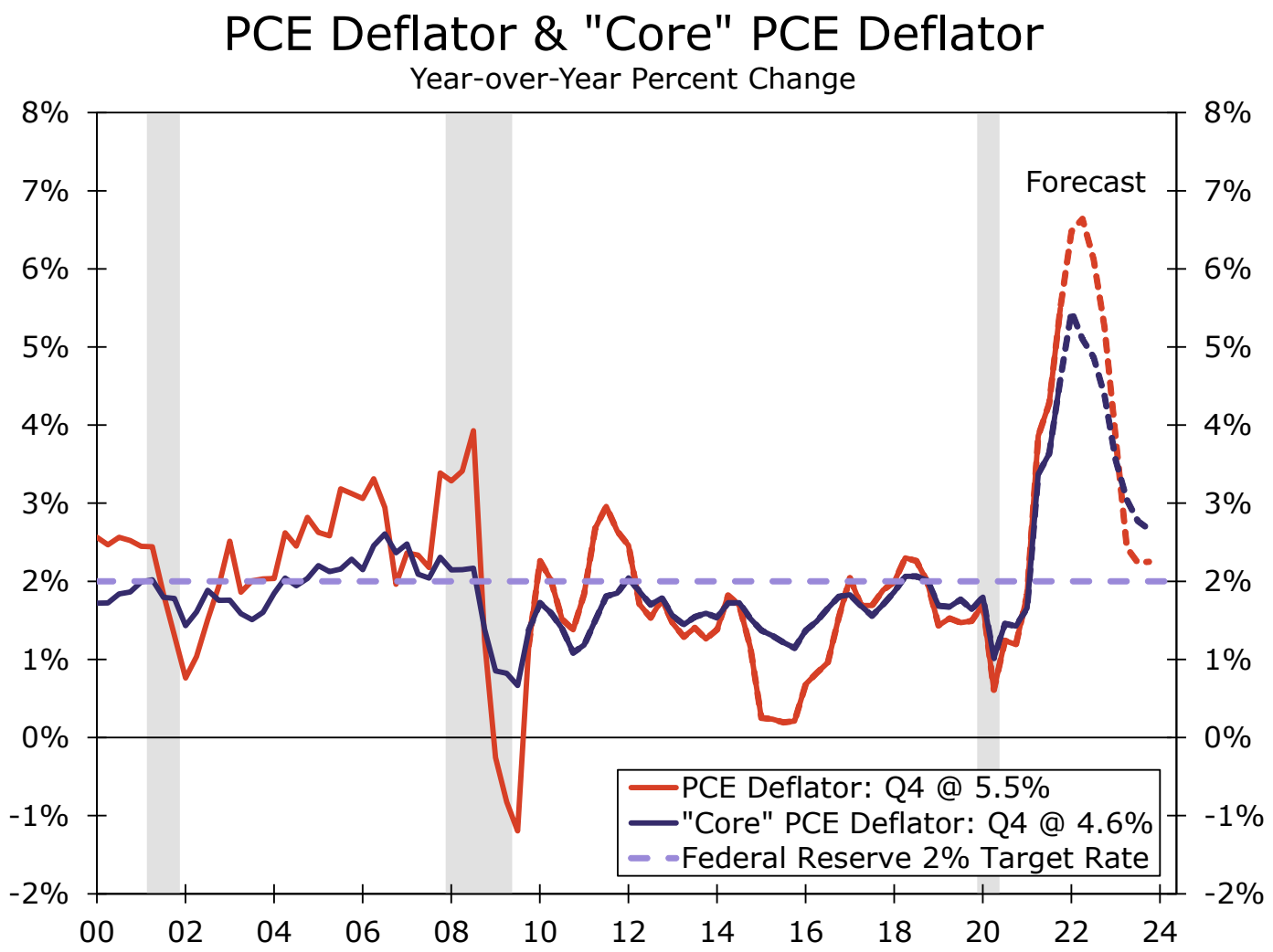
Inflationary pressures have mostly been on the durable goods side, which is unlikely to be sustained.



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

Inflation Outlook

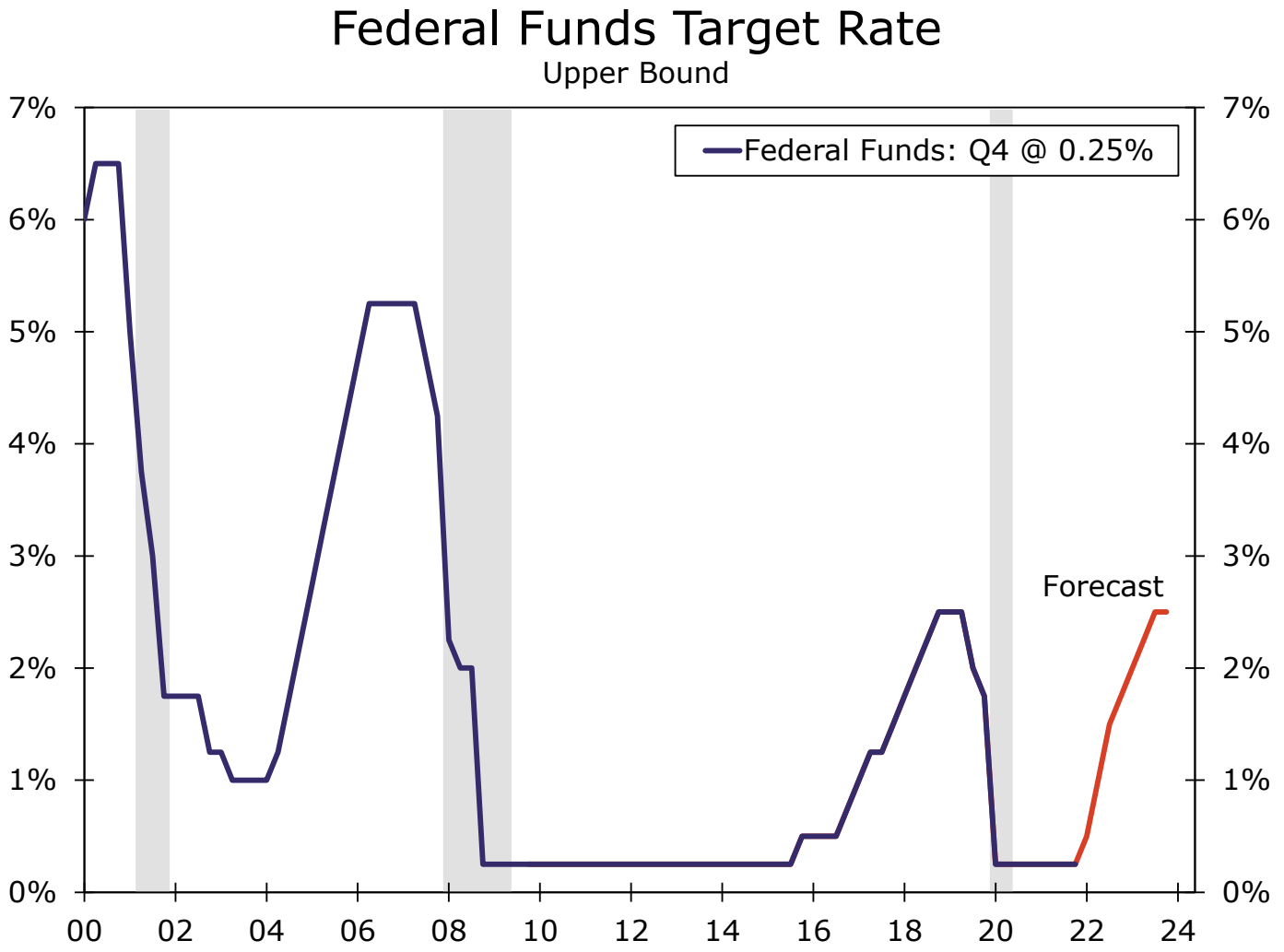
We expect inflation to remain elevated in 2022, but look for more moderate price increases later in the year as supply and demand imbalances normalize.



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

Monetary Policy: Lift-off Ahead

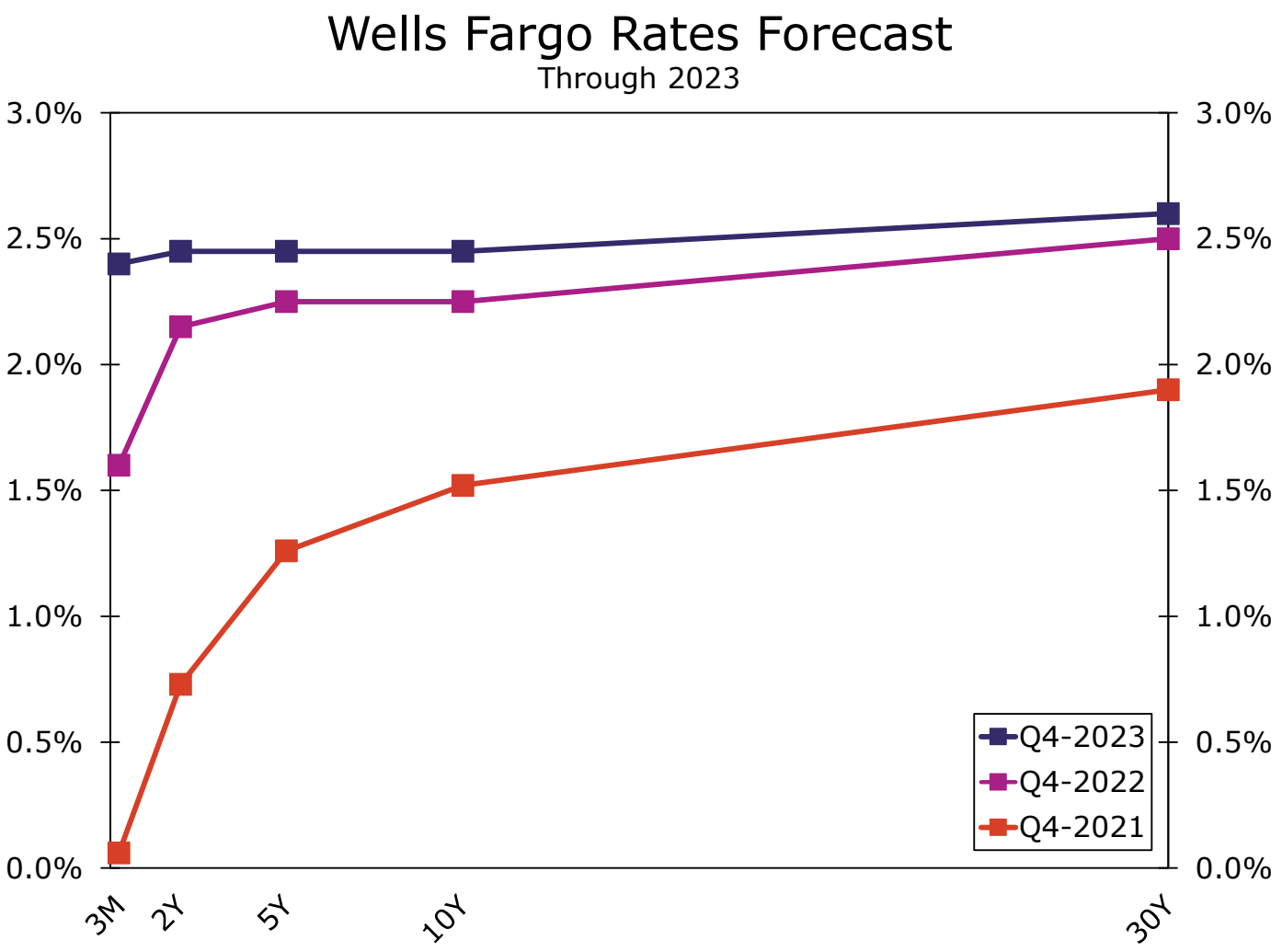
The Fed is set to raise rates multiple times in the coming months.



Source: Federal Reserve Board and Wells Fargo Economics

Interest Rates: Yield Curve

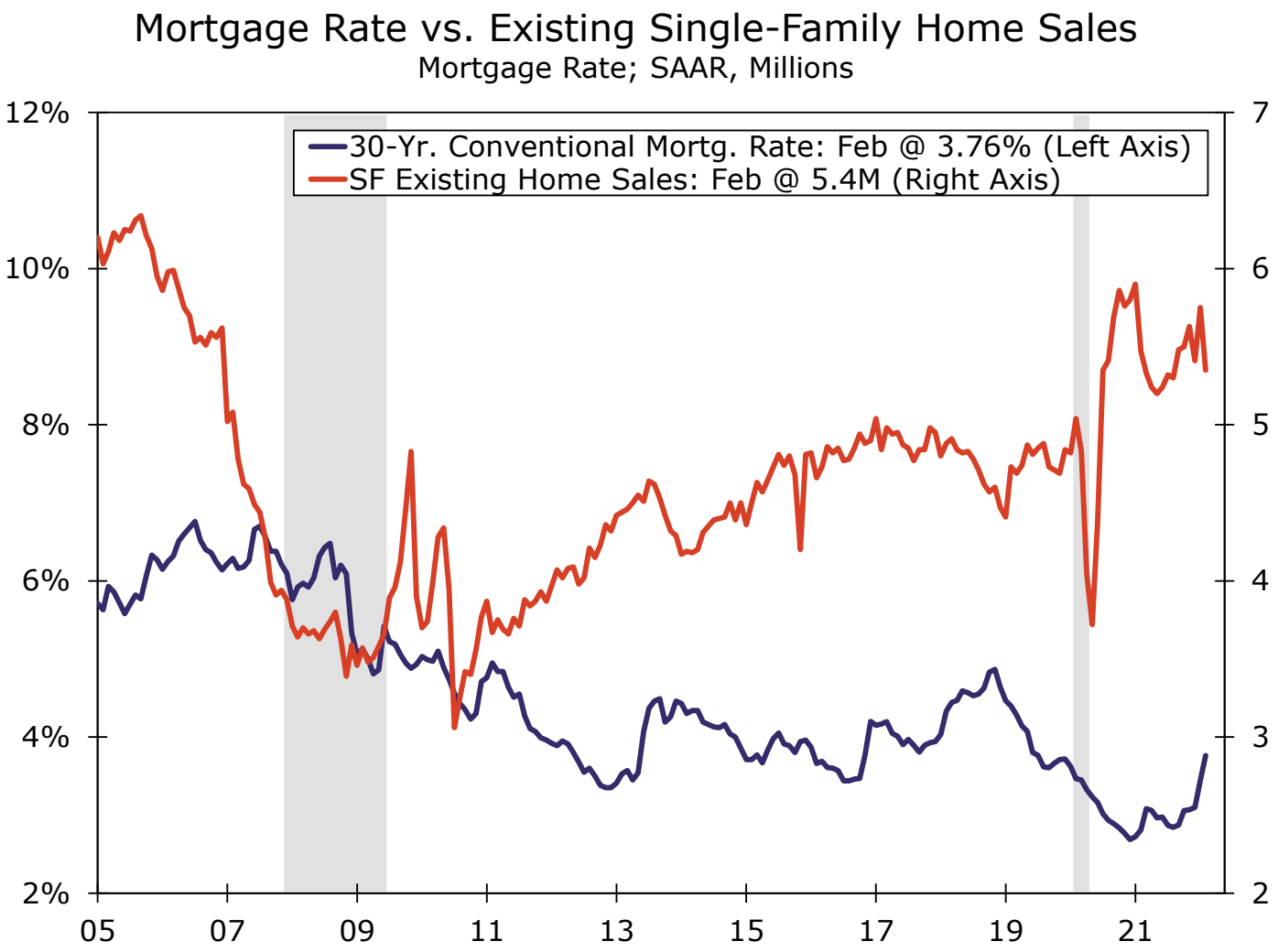
Interest rates across the board are poised to move higher as the Fed lifts off and begins to reduce its balance sheet.



Source: U.S. Department of the Treasury and Wells Fargo Economics

Housing a Bright Spot

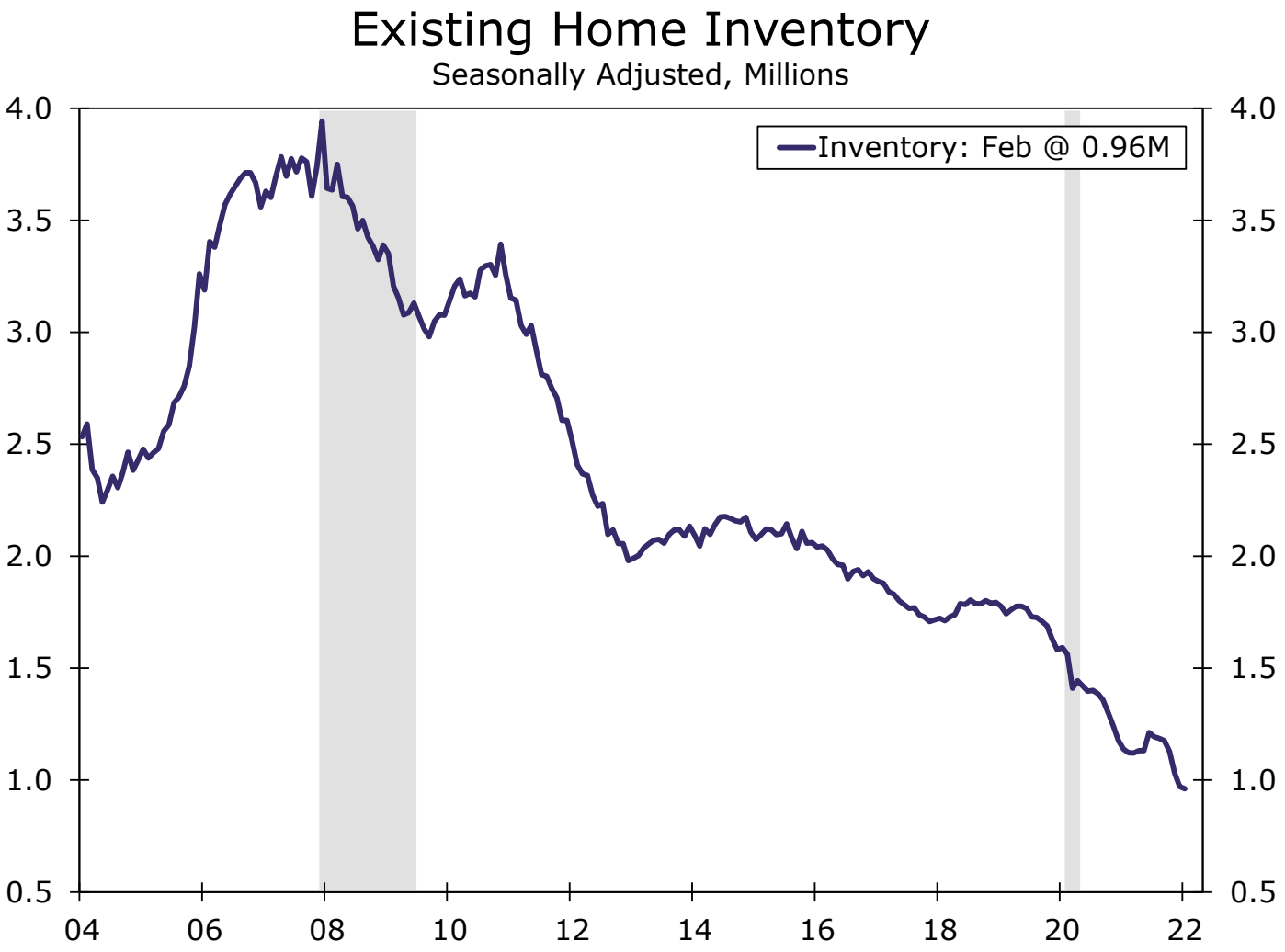
Low mortgage rates and the race for more space to accommodate virtual activities have fueled a rapid recovery in the housing market.



Source: National Association of Realtors, Freddie Mac and Wells Fargo Economics

Inventory Levels Low

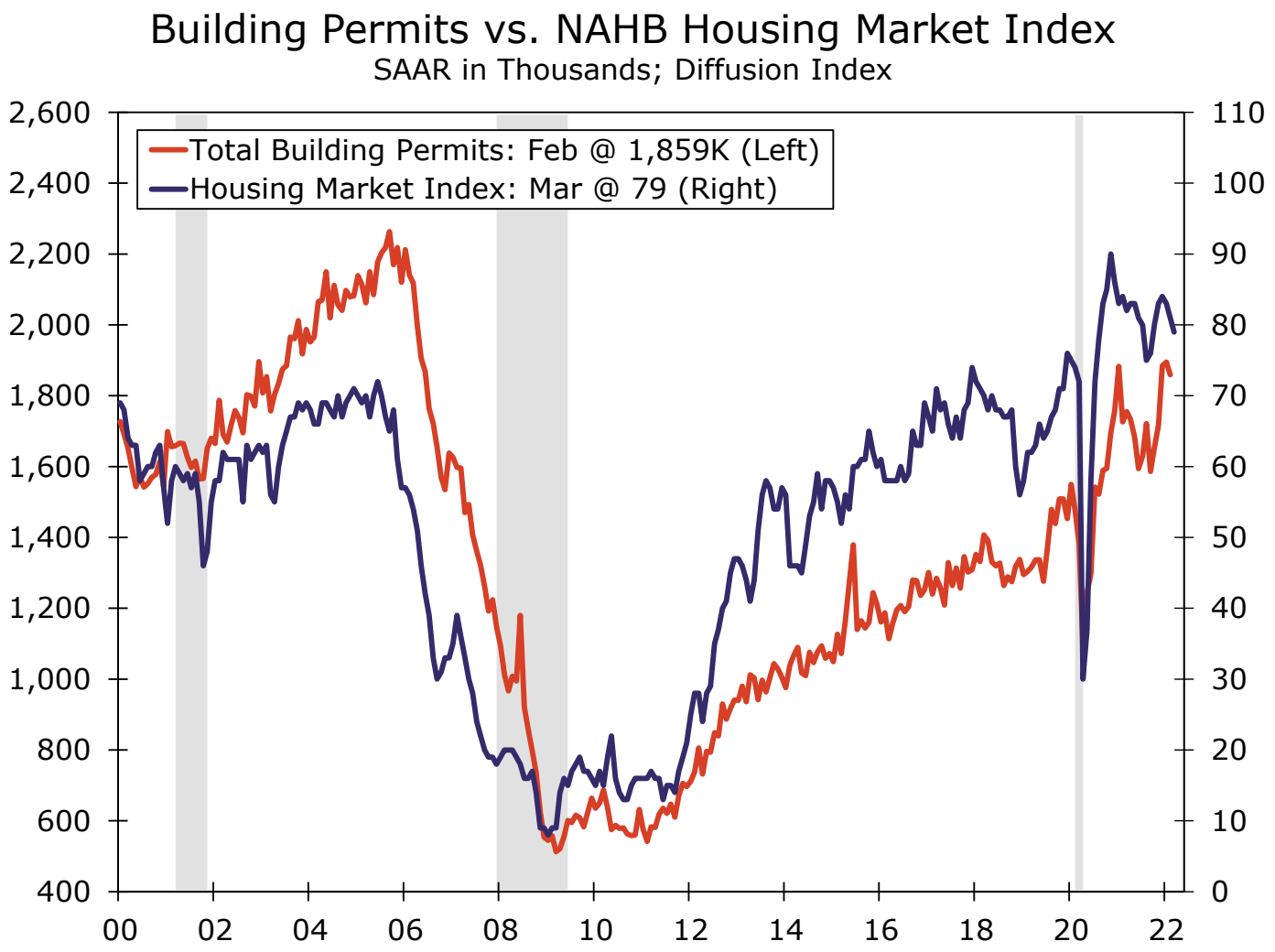
Inventory levels continue to test new lows, which is applying upward pressure on price growth.



Source: National Association of Realtors and Wells Fargo Economics

Residential Construction

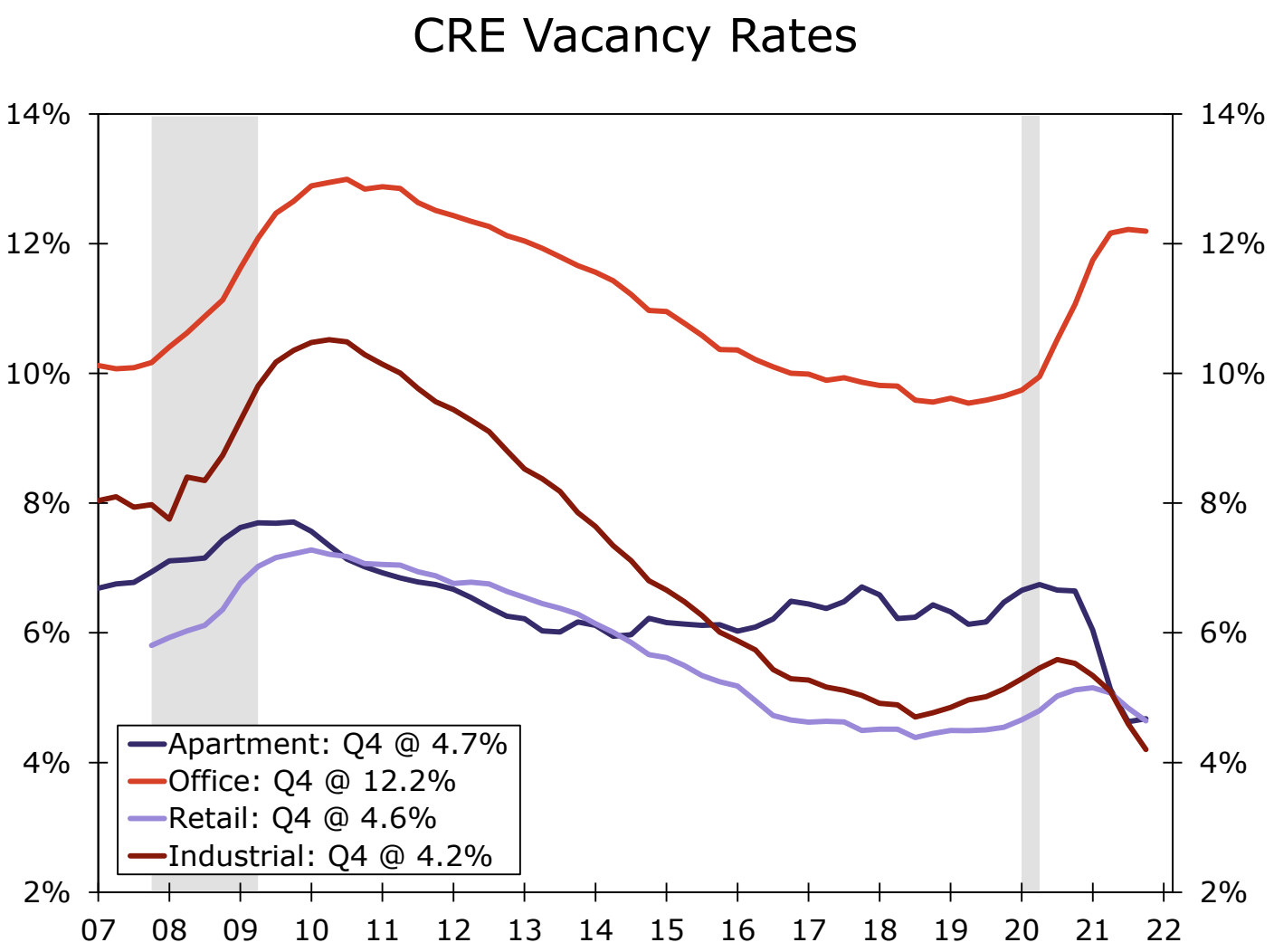
A structural shortfall of existing homes and still-strong buyer demand provide the foundation for a strong pace of home building this year.



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

Commercial Real Estate Fundamentals

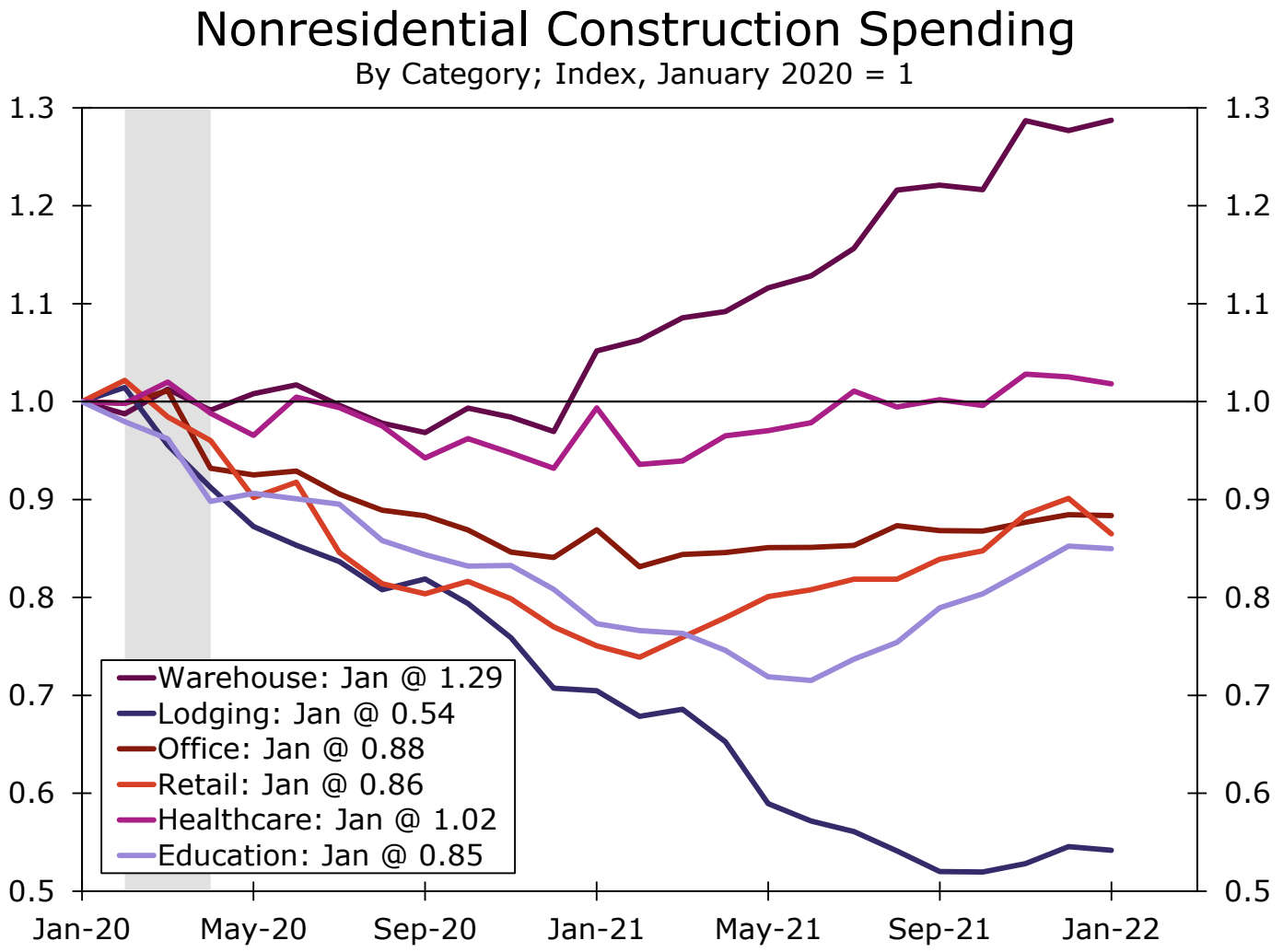
Aside from the hard-hit office market, commercial vacancy rates have plunged.



Source: CoStar Inc. and Wells Fargo Economics

Nonresidential Construction

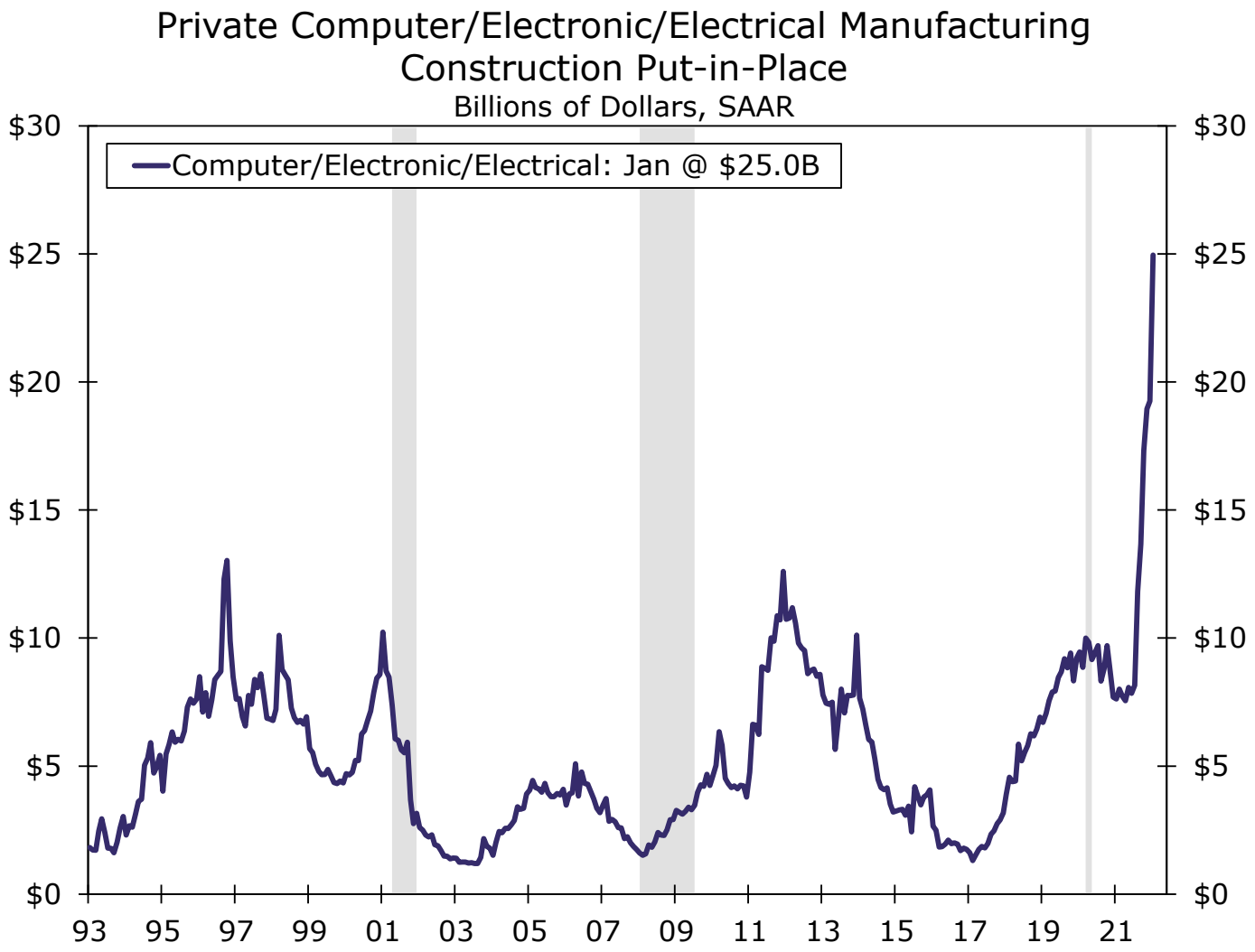
New warehouse and industrial development continues to rapidly expand, while office, hotel and education projects have struggled to get back on track.



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

Manufacturing Construction

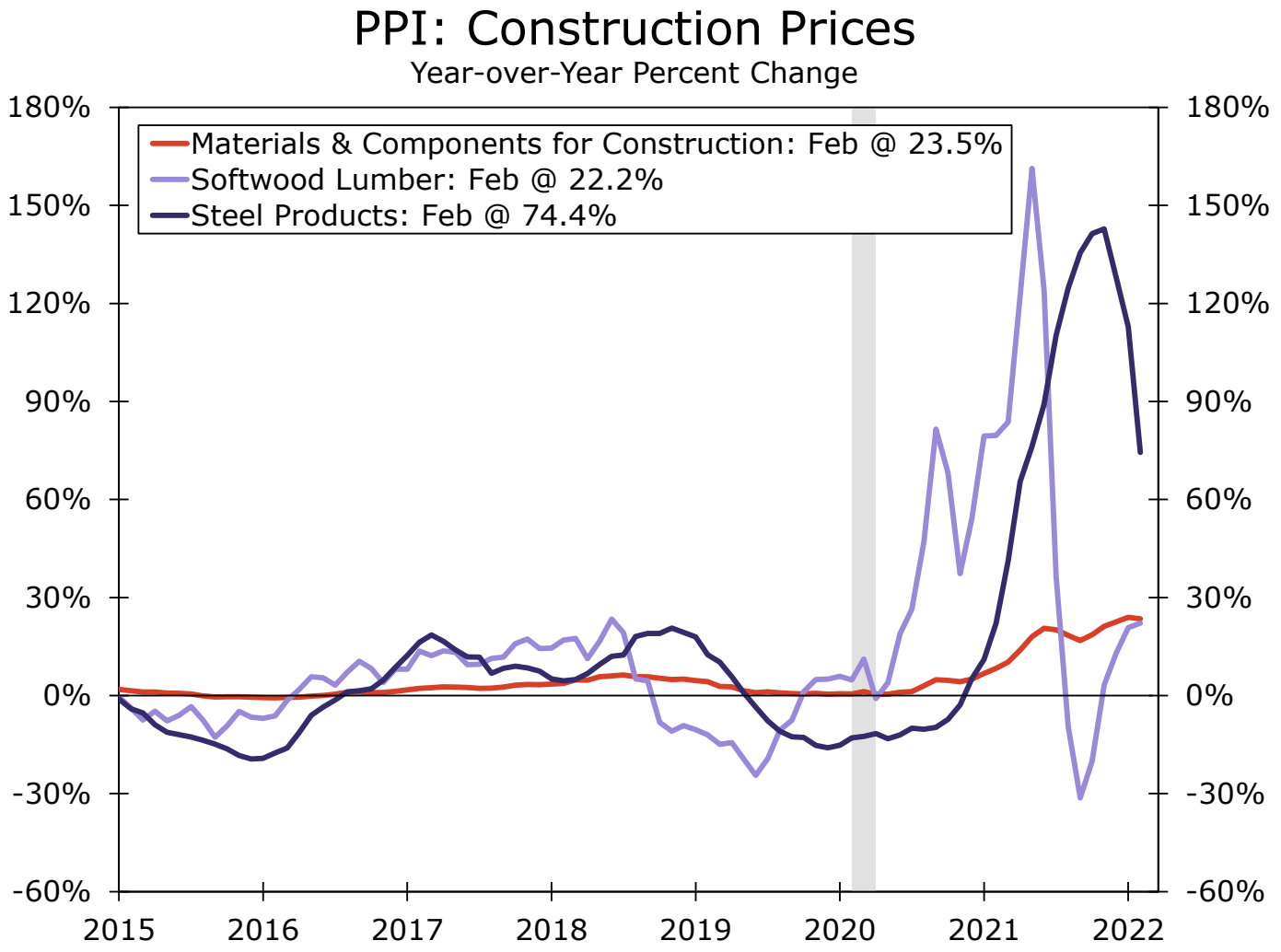
Manufacturing construction is ramping up alongside the shift to vehicle electrification and on-going semiconductor shortage.



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

Building Material Shortages Derail Residential Construction

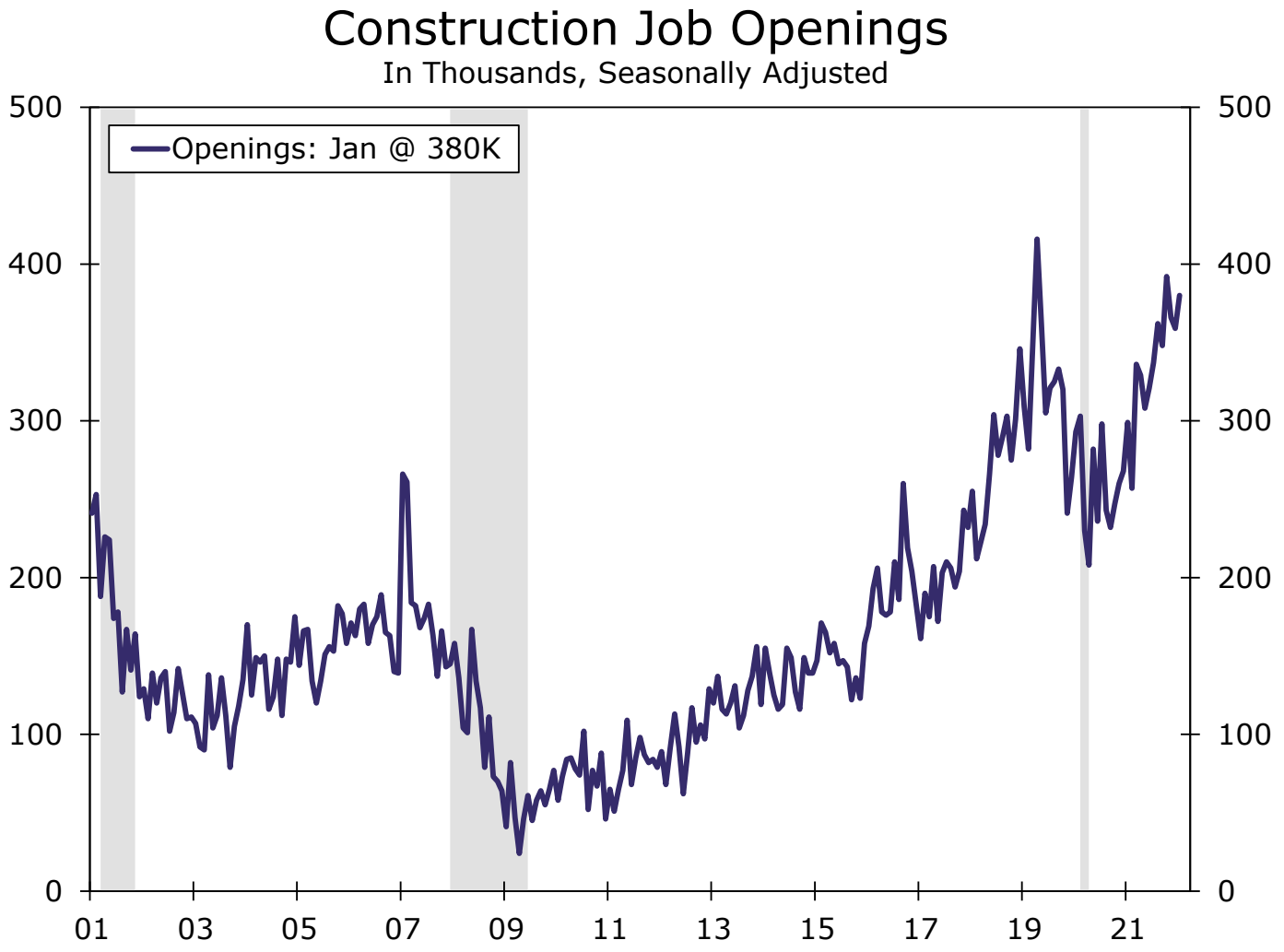
Building material and labor availability issues have led to project delays and postponements, limiting the extent to which builders can catch up with soaring buyer demand.



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

Construction Labor Market

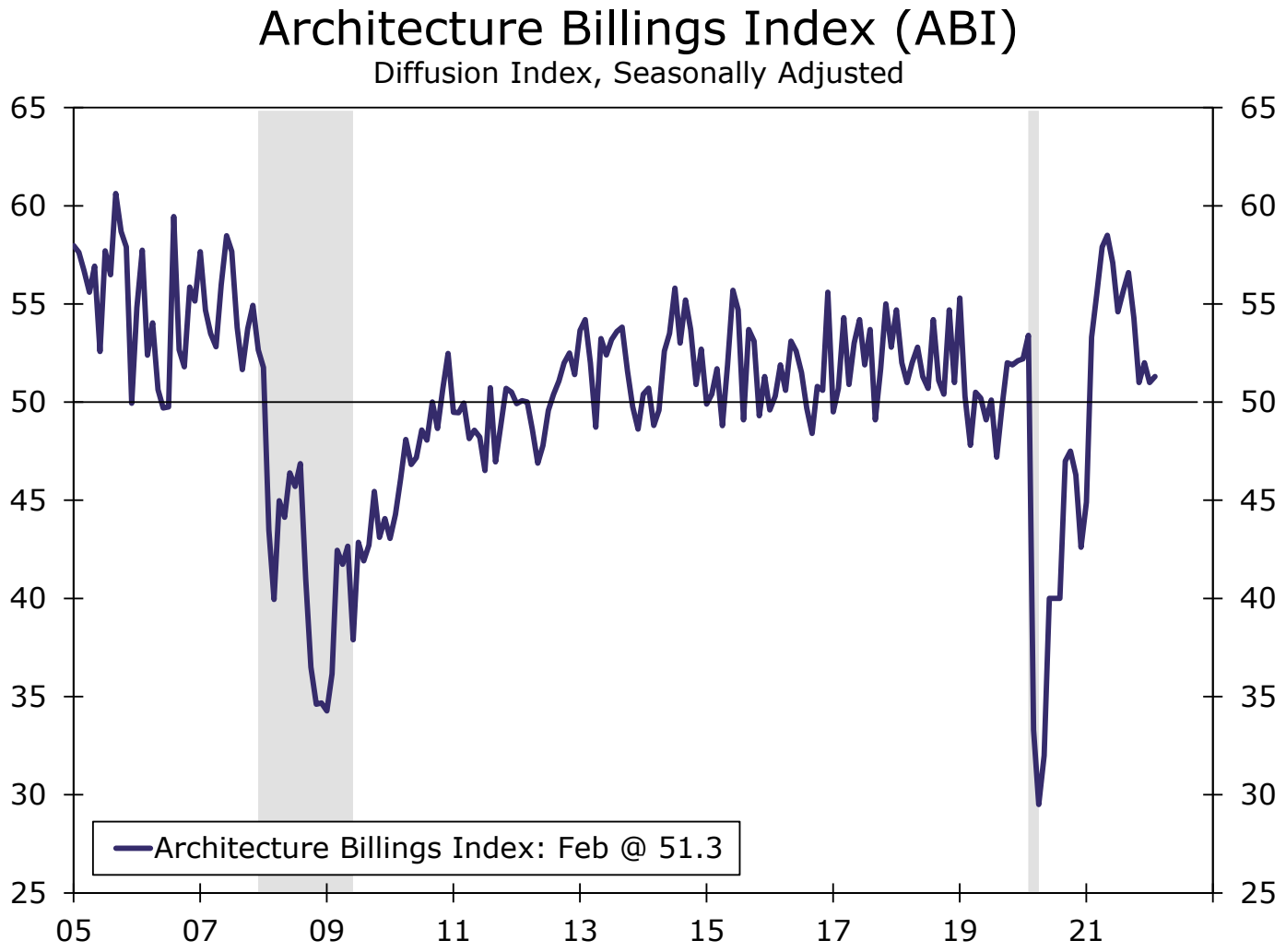
Shortfalls of labor are widespread across the construction industry, but appear most acute for skilled positions requiring technical knowledge, extensive training or certifications.



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

Architecture Billings Index

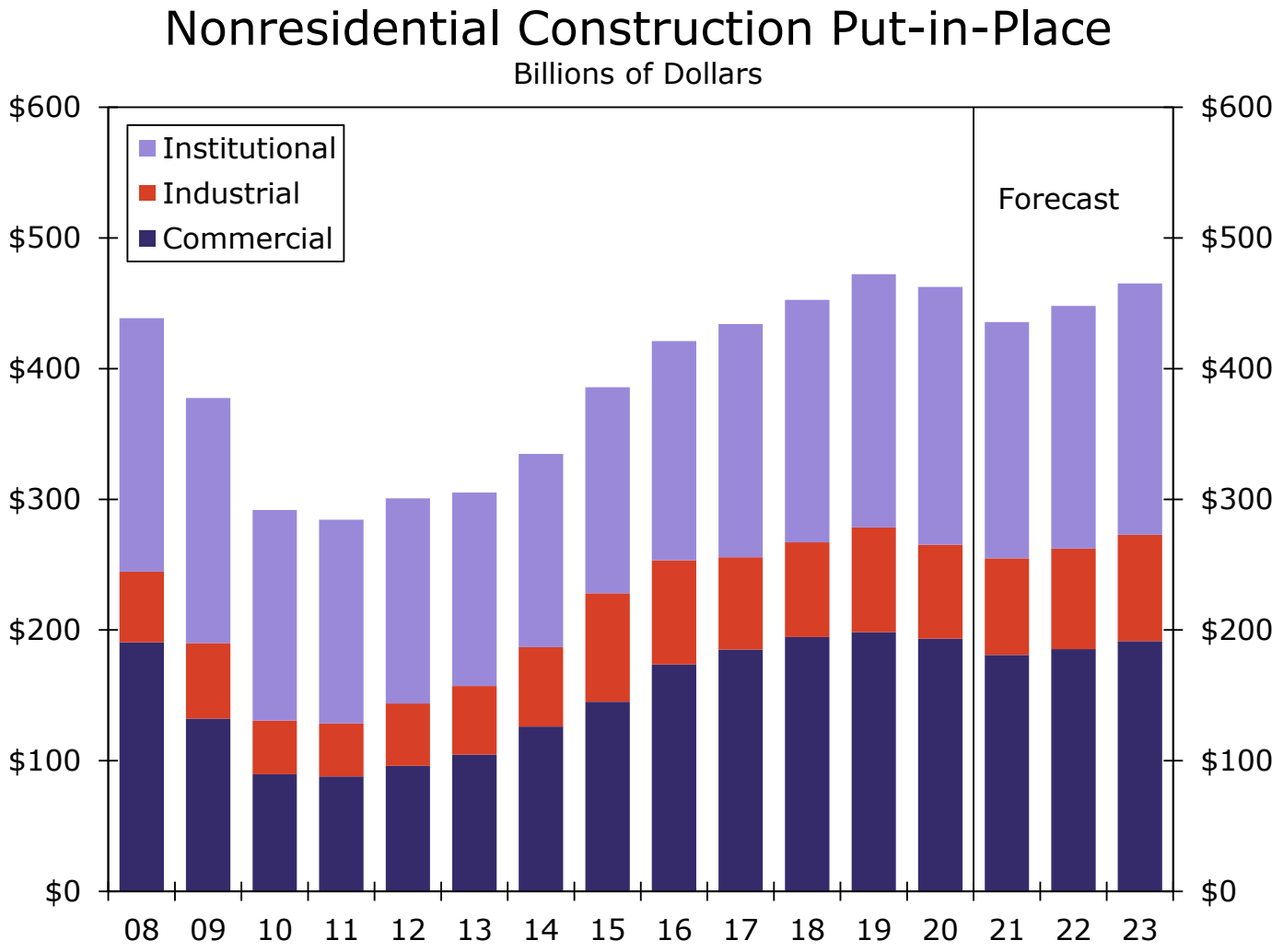
The forward-looking Architecture Billings Index has been solidly in expansion territory for most of the past year.



Source: American Institute of Architects and Wells Fargo Economics

Nonresidential Construction Forecast

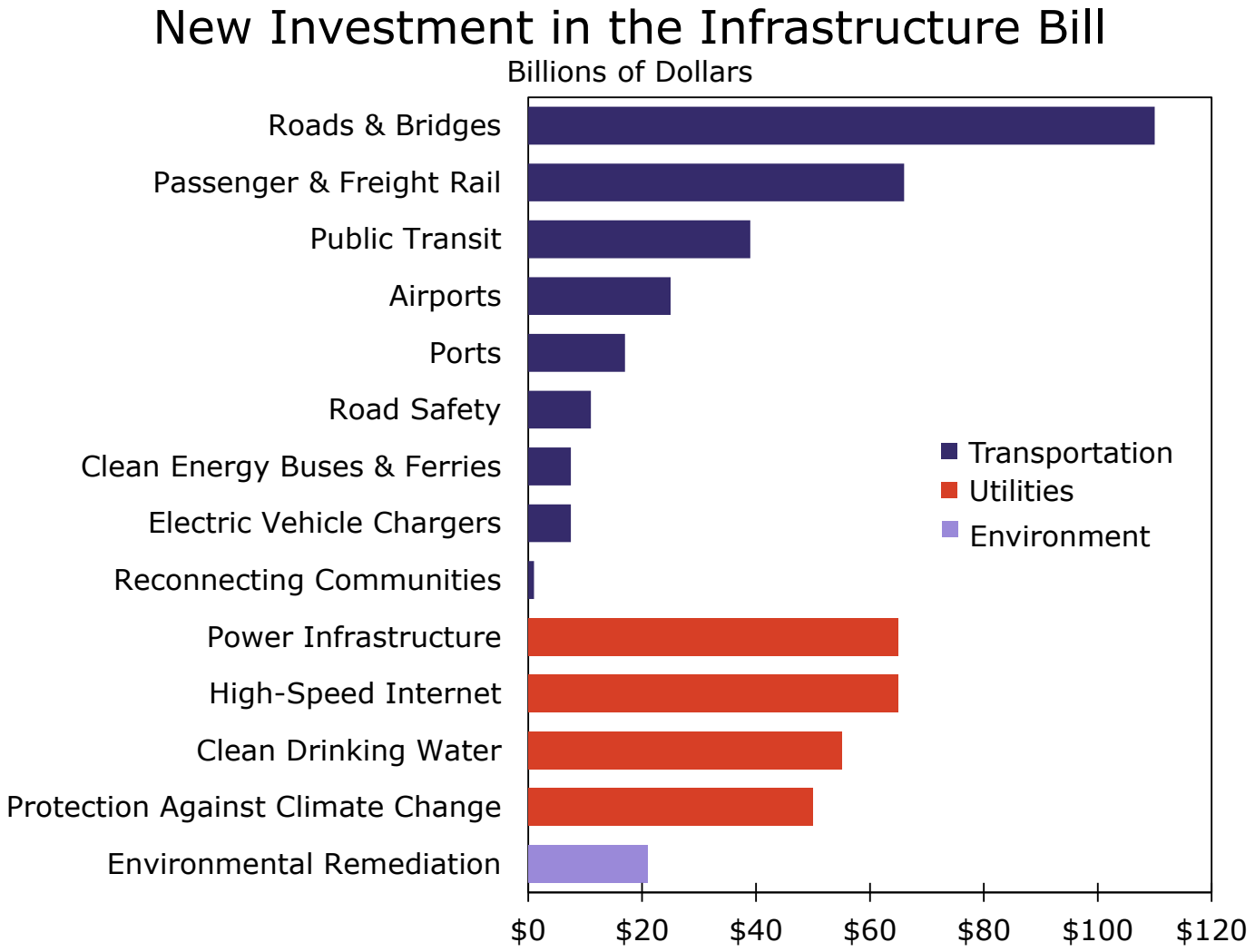
We anticipate private nonresidential spending to increase solidly in 2022, as commercial, institutional and manufacturing expenditures all pick up.



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

Breaking Down the Biden Infrastructure Framework

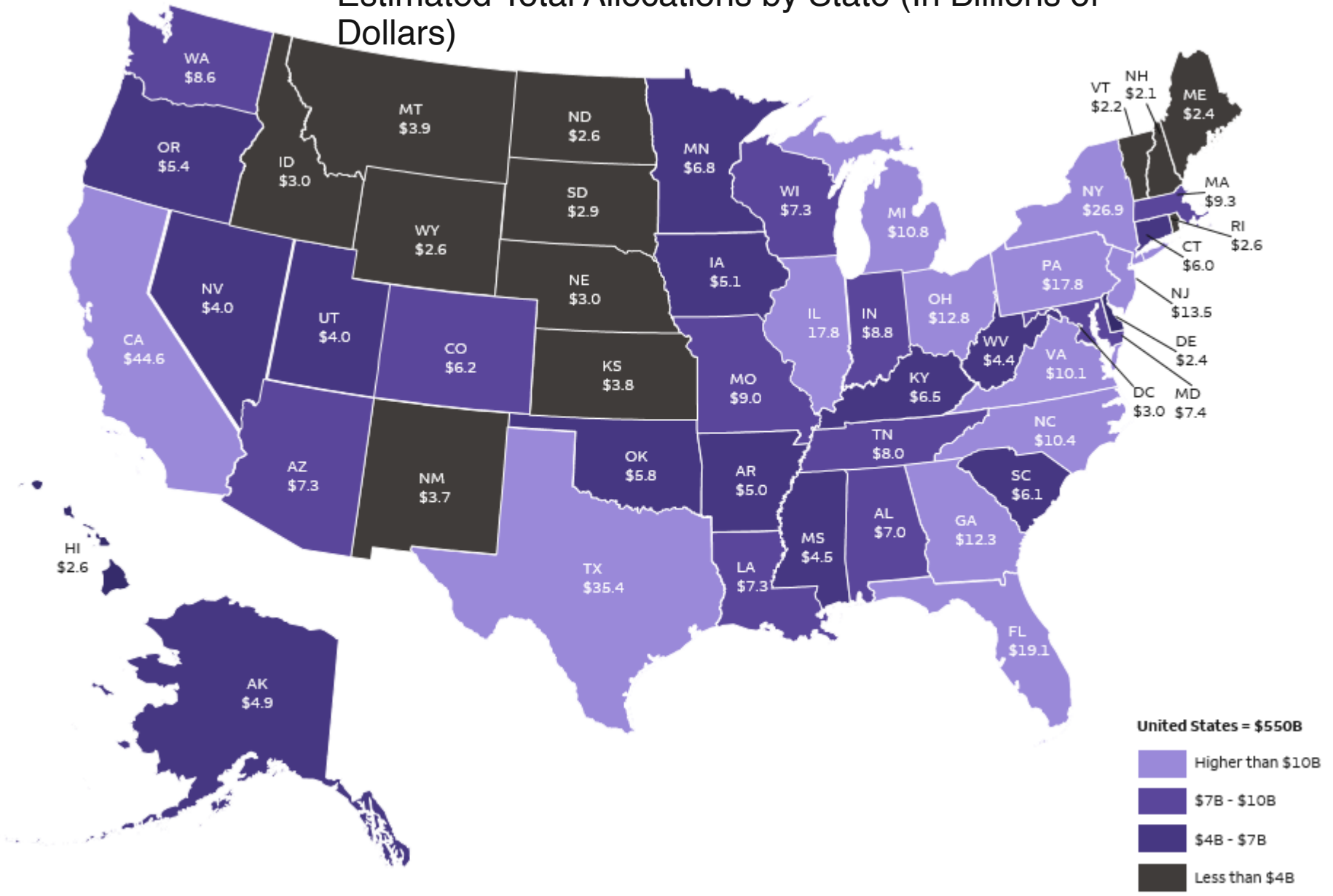
Much of the new spending appears to be allocated towards roads & bridges, passenger & freight rail, power infrastructure and high-speed internet.



Source: The White House and Wells Fargo Securities

Estimated BIF State Allocations

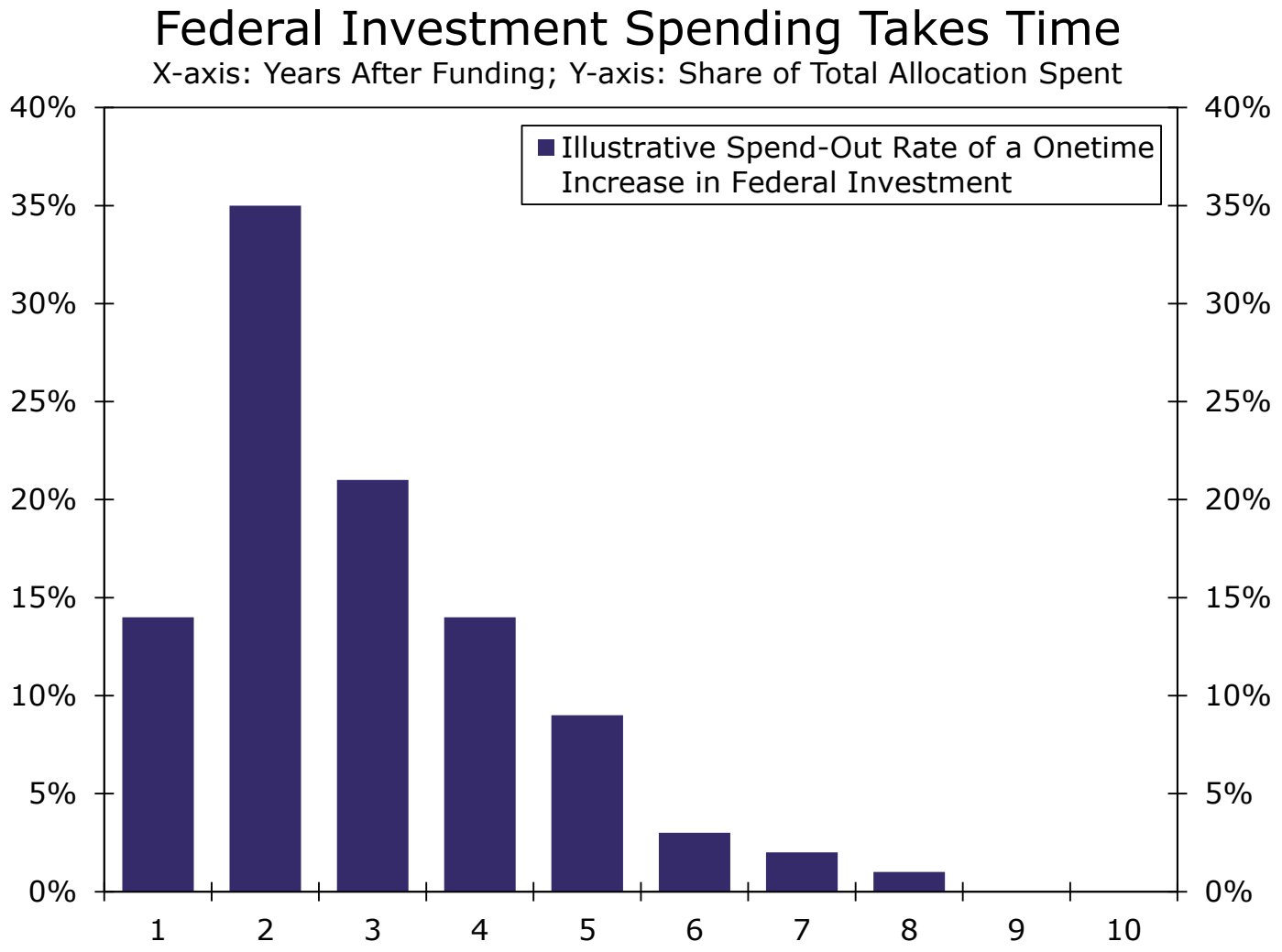
Estimated Total Allocations by State (In Billions of Dollars)



Source: The White House, Committee for a Responsible Federal Budget and Wells Fargo Securities

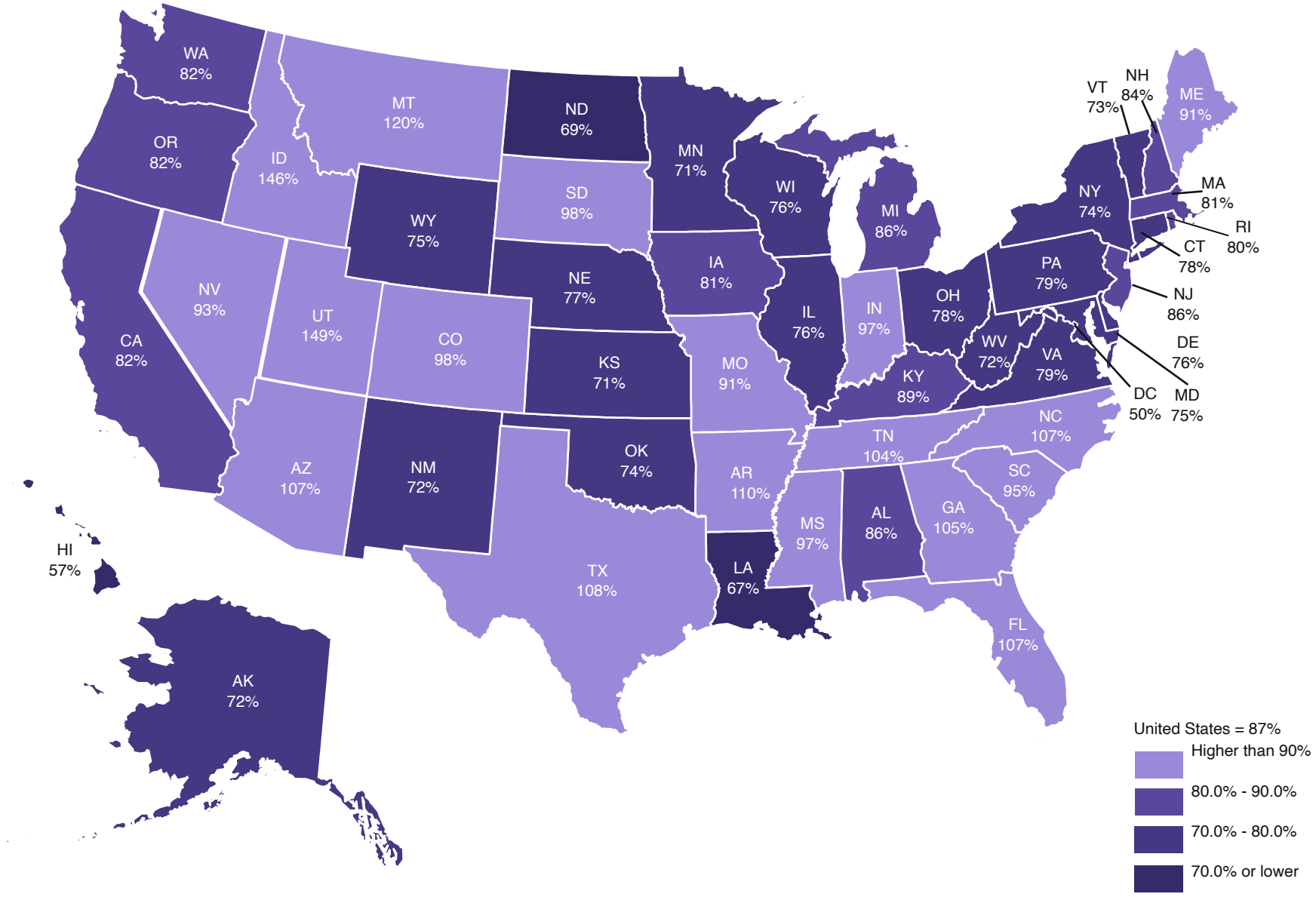
Federal Investment Spending

Unlike the American Rescue Plan, an infrastructure package would likely be spent out over years, if not decades



Source: Congressional Budget Office and Wells Fargo Economics

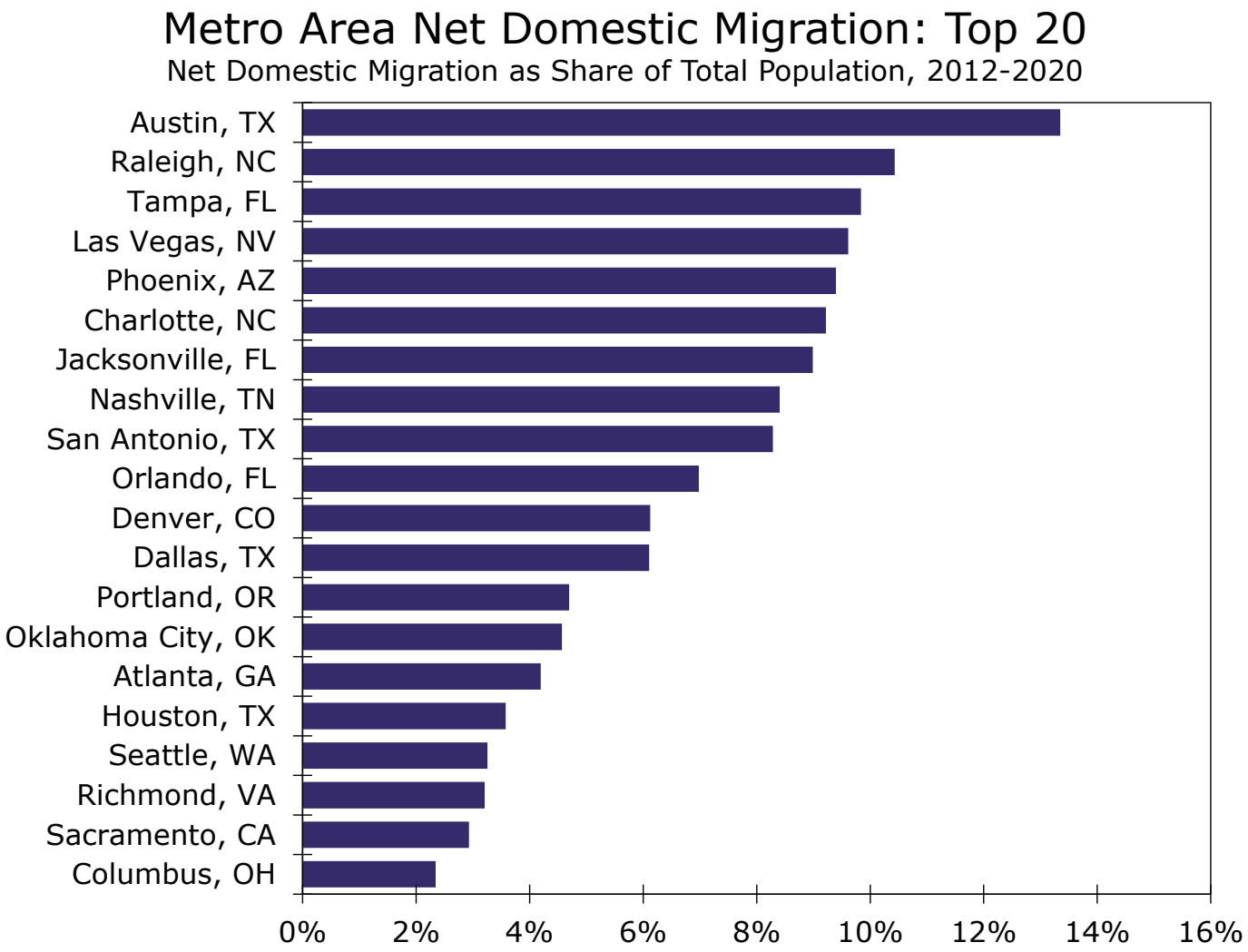
Percent of March and April Job Losses Recovered – January 2022



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

Domestic Migration

Markets across the South and Sunbelt are poised for above-average population growth over the next decade.



Source: U.S. Census Bureau and Wells Fargo Securities

U.S. Forecast

Wells Fargo U.S. Economic Forecast

	Actual 2021				Forecast 2022				Forecast 2023				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2020	2021	2022	2023
Real Gross Domestic Product [1]	6.3	6.7	2.3	7.0	0.8	1.5	2.9	2.7	2.3	2.4	2.1	1.9	-3.4	5.7	3.0	2.4
Personal Consumption	11.4	12.0	2.0	3.1	2.5	0.8	1.7	1.7	1.8	1.9	1.6	1.5	-3.8	7.9	2.6	1.7
Business Fixed Investment	12.9	9.2	1.7	3.1	7.7	5.0	5.7	5.2	5.1	4.1	3.8	3.4	-5.3	7.4	5.2	4.7
Equipment	14.1	12.1	-2.3	2.4	5.7	4.5	6.1	5.4	5.3	3.5	2.7	2.0	-8.3	13.0	4.2	4.5
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	-9.4	2.5	4.8	5.9	5.1	4.6	4.1	3.8	3.4	-12.5	-8.1	-0.1	4.6
Residential Investment	13.3	-11.7	-7.7	1.0	2.0	4.0	4.5	4.5	4.0	3.5	3.0	2.5	6.8	9.1	0.5	3.8
Government Purchases	4.2	-2.0	0.9	-2.6	1.1	3.5	2.9	2.6	1.9	1.9	1.8	1.7	2.5	0.5	1.0	2.2
Net Exports [2]	-1.6	-0.2	-1.3	-0.1	-1.2	-0.9	-0.7	-0.7	-0.2	-0.1	0.0	-0.1	-0.2	-1.8	-0.9	-0.3
Inventories [2]	-2.6	-1.3	2.2	4.9	-1.0	0.4	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	637	545	338	218	205	200	200	190	175	-774	562	327	191
Unemployment Rate	6.2	5.9	5.1	4.2	3.8	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	6.5	6.6	6.1	5.3	3.8	2.4	2.2	2.3	1.2	3.9	6.1	2.7
Quarter-End Interest Rates [5]																
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.00	1.50	1.75	2.00	2.25	2.50	2.50	0.50	0.25	1.19	2.31
Secured Overnight Financing Rate	0.01	0.05	0.05	0.05	0.30	0.80	1.30	1.55	1.85	2.10	2.40	2.40	0.36	0.04	0.99	2.19
3 Month LIBOR	0.19	0.15	0.13	0.21	0.75	1.25	1.45	1.75	2.00	2.30	2.60	2.60	0.65	0.16	1.30	2.38
Prime Rate	3.25	3.25	3.25	3.25	3.50	4.00	4.50	4.75	5.00	5.25	5.50	5.50	3.50	3.25	4.19	5.31
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.80	3.95	4.00	4.05	4.10	4.15	4.20	4.25	3.12	2.95	3.95	4.18
3 Month Bill	0.03	0.05	0.04	0.06	0.50	1.05	1.30	1.60	1.85	2.15	2.40	2.40	0.36	0.04	1.11	2.20
6 Month Bill	0.05	0.06	0.05	0.19	0.80	1.20	1.45	1.70	1.95	2.20	2.40	2.40	0.37	0.06	1.29	2.24
1 Year Bill	0.07	0.07	0.09	0.39	1.10	1.45	1.65	1.85	2.10	2.30	2.40	2.45	0.37	0.10	1.51	2.31
2 Year Note	0.16	0.25	0.28	0.73	1.70	1.90	2.05	2.15	2.25	2.35	2.40	2.45	0.39	0.27	1.95	2.36
5 Year Note	0.92	0.87	0.98	1.26	1.90	2.05	2.15	2.25	2.30	2.35	2.40	2.45	0.53	0.86	2.09	2.38
10 Year Note	1.74	1.45	1.52	1.52	1.95	2.10	2.20	2.25	2.30	2.35	2.40	2.45	0.89	1.45	2.13	2.38
30 Year Bond	2.41	2.06	2.08	1.90	2.30	2.40	2.45	2.50	2.55	2.55	2.60	2.60	1.56	2.06	2.41	2.58

Forecast as of: March 11, 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

Source: U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve Board, IHS Markit, Wells Fargo Economics

Wells Fargo Economics Group

Economists

Jay H. Bryson, Chief Economist	jay.bryson@wellsfargo.com
Mark Vitner, Senior Economist	mark.vitner@wellsfargo.com
Sam Bullard, Senior Economist	sam.bullard@wellsfargo.com
Nick Bennenbroek, International Economist	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan, Senior Economist	tim.quinlan@wellsfargo.com
Sarah House, Senior Economist	sarah.house@wellsfargo.com
Azhar Iqbal, Econometrician	azhar.Iqbal@wellsfargo.com
Charlie Dougherty, Economist	charles.dougherty@wellsfargo.com
Michael Pugliese, Economist	michael.d.pugliese@wellsfargo.com
Brendan McKenna, International Economist	brendan.mckenna@wellsfargo.com
Shannon Seery, Economist	shannon.seery@wellsfargo.com

Analysts

Sara Cotsakis, Economic Analyst	sara.cotsakis@wellsfargo.com
Nicole Cervi, Economic Analyst	nicole.cervi@wellsfargo.com
Jessica Guo, Economic Analyst	jessica.guo@wellsfargo.com
Karl Vesely, Economic Analyst	karl.vesely@wellsfargo.com
Patrick Barley, Economic Analyst	patrick.barley@wellsfargo.com

Assistants

Coren Burton, Administrative Assistant	coren.burton@wellsfargo.com

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2022 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE