October 10, 2018

# Economics Group

WELLS FARGO SECURITIES

## Monthly Outlook

### U.S. Overview

**Solid Growth Despite Being Late in Economic Cycle**

The general theme of a U.S. economy growing above potential in the near term before gradually losing momentum remains more or less intact. The incoming data over the past month have been broadly positive, though admittedly sometimes a mixed bag, and we have updated our forecast accordingly.

Our full-year GDP growth numbers for this year, 2019 and 2020 are unchanged at 2.9%, 2.8% and 2.2% respectively. Our forecast for third quarter GDP growth benefited from a slight upward revision. We now expect the economy grew at a 3.3% annualized rate in the period, up from just 3.1% in our September forecast. Some of the faster Q3 growth is "borrowed" from the current quarter, and we have pared our estimate for Q4 by just a tenth of a percentage point to 2.7%.

Real personal consumption is shaping up a bit stronger than we had anticipated previously and the indicators in this sector have been broadly positive. Retail sales for August came in a bit weaker than expected, but upward revisions to prior data indicated that retailers were having a good year ahead of the key holiday shopping season.

Consumer confidence is firming as well; though the measures of just how well the consumer is faring vary slightly between the two bellwether measures. Michigan consumer sentiment rose to a six-month high, but the Conference Board's consumer confidence index rose to a new cycle high of 138.4. The last time this measure of consumer confidence was as high as it is today was in the year 2000. A number of financial and economic indicators from that era are similar to where they are today.

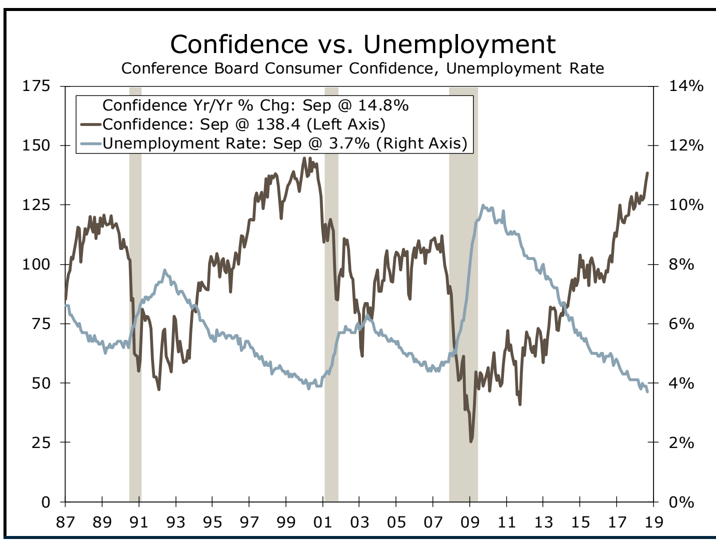
### International Overview

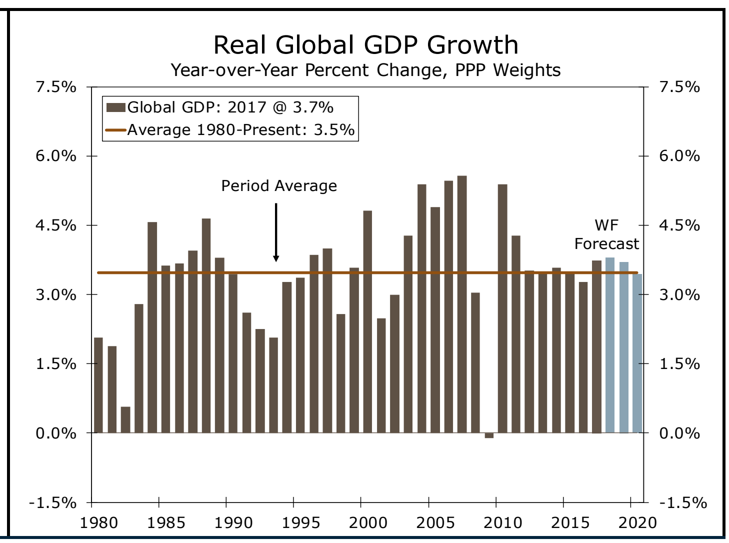
**Global Growth Stirs Beneath a Calmer Surface**

The global economy maintained a steady and solid pace during the first half of 2018, with Q2 GDP growth for the G20 economies at 3.9% year-over-year, near the fastest rate of growth since mid-2011. Still, this relative calmness on the surface masks some areas of instability among the details. U.S. growth has been particularly strong this year, boosted by fiscal stimulus, but growth for the other G7 economies has slowed noticeably. There is also a similar split among the emerging economies, with areas of both strength and weakness.

There are some important downside risks that could lead to a faster global slowdown. Trade tensions between the U.S. and China have continued to escalate, although the latest data for July (which captures the early rounds of tariffs) shows a still-respectable pace of export volume growth. Meanwhile, there are hints of stronger wage growth starting to emerge from some of the major economies. Were that to lead to a more rapid removal of monetary policy accommodation than we currently expect, that could unsettle markets and hurt global economic growth.

There are some reasons for optimism as well. The recently announced trade agreement between the U.S., Canada and Mexico has perhaps eased trade tensions at the margin, and boosted our outlook for the Canadian economy. Meanwhile, with only moderate financial headwinds and as Brexit uncertainty lessens, we expect Eurozone and U.K. growth will firm going forward. Our overall global GDP growth forecasts are unchanged from last month—we see a modest slowing to 3.7% in 2019 and 3.4% in 2020.




Source: The Conference Board, U.S. Department of Labor, International Monetary Fund and Wells Fargo Securities

Together we'll go far

This report is available on wellsfargo.com/economics and on Bloomberg WFRE.

**Consumer Spending Stronger…at Least for Now**

The stock market was soaring to all-time record highs, the unemployment rate was below 4% and the economy was in its 10th year of uninterrupted expansion. Then, as now, there were few people seeing an end in sight.

For now, the surge in consumer dynamics cannot be denied and we would be foolish to bet against the consumer with such a solid backdrop. But there are some things that are different from 2000. The bottom chart plots consumer confidence alongside both retail sales (ex-autos) and real income growth on a per-capita basis.

Here we see something that Fed policymakers have been wringing their hands over throughout this cycle, which is: if the labor market is so hot, how come income growth is so tepid? That slower income growth tempers our enthusiasm for the ability of consumer spending to sustain growth indefinitely. Personal income grew just 0.3% in August, which was shy of the 0.4% growth that had been expected and the jobs report revealed that despite the lowest jobless rate since the 1960s, average hourly earnings are still growing at less than 3% on a year-over-year basis. As the benefit of tax cuts begins to fade, and without a significant pick-up in earnings, we have limited expectations for the long-term sustainability of spending growth. In the meantime, we expect slightly faster consumer spending in the third quarter at the expense of fourth quarter consumer spending, which we have pared slightly.

**Trade Giveth and Trade Taketh Away**

We had already expected trade to go from being a help (as it was in Q2) to a hindrance (as we expect it to be in Q3). Net exports added 1.2 percentage points to the blockbuster headline GDP print of 4.2%. It appears that at least some of the pick-up in exports during the second quarter was an attempt by some businesses to get merchandise out the door ahead of the expected retaliatory tariffs. The higher frequency data confirm that some of these vulnerable categories, particularly soybeans, are already retrenching. We expect trade to be a 1.6 percentage point drag on headline GDP in the third quarter.

**Inventories to the Rescue**

That might ordinarily be enough to derail the headline growth rate, but despite the big drag from trade we still have a 3-handle for third quarter GDP, thanks to a boost from inventories.

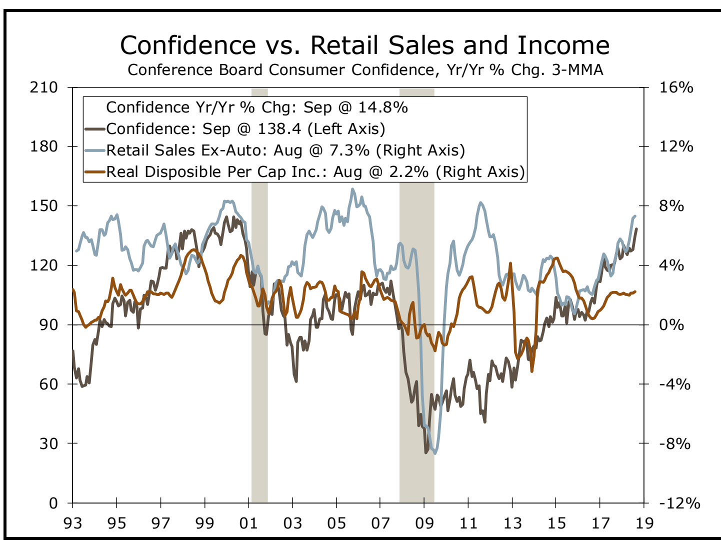
After a big inventory drawdown in the second quarter, even a modest build in the third quarter can translate into a big contribution to headline GDP. The average quarterly change in inventories in this cycle is about $60 billion. We are penciling in a number of closer to $50 billion, but even that would result in a nearly 2 percentage point boost to the headline number.

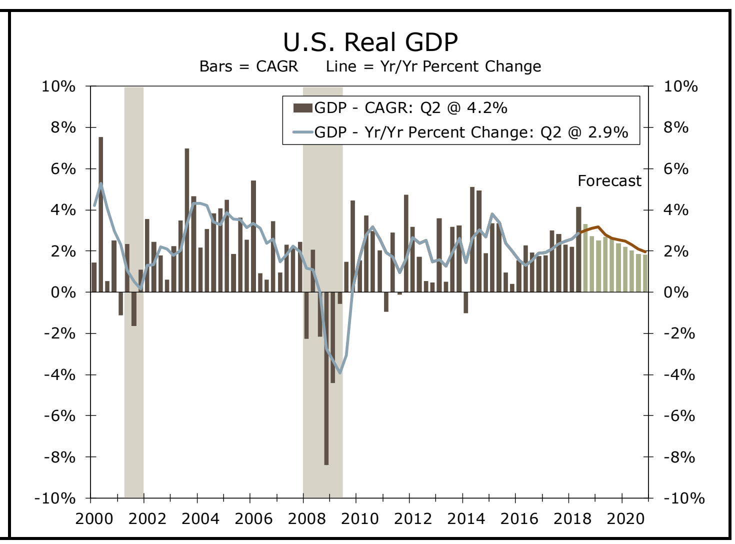
**Big Picture: Expansion Intact, No Change in Fed Call**

If the economy is still in expansion by next summer, this expansion will break the record for the longest uninterrupted expansion on record. Not only do we not have a recession, we have above-trend growth. Our expectation at this point is that with the job market remaining white hot and inflation cresting above the Fed's 2.0% target, policymakers will continue to raise the fed funds rate a quarter of a point in each of the next four quarters.

If that proves accurate, that would put the fed funds rate at 3.25% by this time next year. We forecast that GDP growth will generally remain solid in coming quarters, but that it will slow somewhat from its current above-potential pace as fiscal stimulus fades and as monetary tightening exerts some headwinds on the economy (bottom right chart).

Looking into 2020, we believe that growth will slow enough to lead the Fed to reverse itself by cutting rates 25 bps at the end of 2020. That is admittedly pretty far out into the forecast horizon and there is a lot that could change. But by that point the current expansion would have exceeded the record for longest duration by about a year and a half, so a circumspect Fed at that stage would not be unusual. In the meantime, the FOMC will continue to hike rates at a gradual pace.




Source: The Conference Board, U.S. Department of Commerce and Wells Fargo Securities

## Wells Fargo U.S. Economic Forecast

| | Actual | | | | | | | | Forecast | | | | | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2018 | | | | 2019 | | | | 2020 | | | | 2017 | 2018 | 2019 | 2020 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product (a) | 1.8 | 3.0 | 2.8 | 2.3 | 2.2 | 4.2 | 3.3 | 2.7 | 2.5 | 2.7 | 2.6 | 2.4 | 2.2 | 2.0 | 1.9 | 1.8 | 2.2 | 2.9 | 2.8 | 2.2 |
| Personal Consumption | 1.8 | 2.9 | 2.2 | 3.9 | 0.5 | 3.8 | 3.4 | 2.8 | 2.2 | 2.9 | 2.6 | 2.5 | 2.1 | 2.2 | 1.8 | 1.7 | 2.5 | 2.6 | 2.8 | 2.2 |
| Business Fixed Investment | 9.6 | 7.3 | 3.4 | 4.8 | 11.5 | 8.7 | 5.5 | 5.4 | 4.7 | 4.9 | 4.4 | 4.0 | 3.7 | 3.6 | 2.9 | 2.8 | 5.3 | 7.3 | 5.1 | 3.7 |
| Equipment | 9.1 | 9.7 | 9.8 | 9.9 | 8.5 | 4.6 | 4.1 | 4.8 | 3.8 | 4.2 | 3.7 | 3.1 | 2.7 | 2.6 | 2.1 | 2.0 | 6.1 | 7.4 | 4.1 | 2.8 |
| Intellectual Property Products | 8.0 | 6.6 | 1.7 | 0.7 | 14.1 | 10.5 | 7.1 | 5.2 | 4.8 | 5.3 | 4.7 | 4.6 | 4.7 | 4.6 | 3.7 | 3.6 | 4.6 | 7.4 | 5.6 | 4.5 |
| Structures | 12.8 | 3.8 | -5.7 | 1.3 | 13.9 | 14.5 | 7.0 | 7.0 | 6.5 | 6.0 | 5.5 | 5.0 | 4.5 | 4.0 | 3.5 | 3.5 | 4.6 | 7.1 | 6.8 | 4.5 |
| Residential Construction | 11.1 | -5.5 | -0.5 | 11.1 | -3.4 | -1.3 | 0.5 | 2.5 | 4.5 | 5.0 | 4.5 | 4.0 | 3.5 | 3.0 | 2.5 | 2.0 | 3.3 | 0.7 | 3.3 | 3.5 |
| Government Purchases | -0.8 | 0.0 | -1.0 | 2.4 | 1.5 | 2.5 | 3.2 | 3.1 | 2.4 | 1.6 | 1.0 | 0.8 | 0.7 | 0.5 | 0.3 | 0.1 | -0.1 | 1.8 | 2.2 | 0.7 |
| Net Exports | -845.5 | -844.1 | -845.9 | -899.2 | -902.4 | -841.0 | -916.6 | -945.8 | -960.3 | -982.8 | -997.6 | -1008.1 | -1009.6 | -1019.1 | -1016.5 | -1010.6 | -858.7 | -901.4 | -987.2 | -1013.9 |
| Pct. Point Contribution to GDP | -0.1 | 0.1 | 0.0 | -0.9 | 0.0 | 1.2 | -1.6 | -0.6 | -0.3 | -0.5 | -0.3 | -0.2 | 0.0 | -0.2 | 0.1 | 0.1 | -0.4 | -0.2 | -0.5 | -0.1 |
| Inventory Change | -2.4 | 11.9 | 64.4 | 16.1 | 30.3 | -36.8 | 48.0 | 50.0 | 51.0 | 52.0 | 57.0 | 56.0 | 56.0 | 55.0 | 55.0 | 55.0 | 22.5 | 22.9 | 54.0 | 55.3 |
| Pct. Point Contribution to GDP | -0.8 | 0.2 | 1.0 | -0.9 | 0.3 | -1.2 | 1.8 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| Nominal GDP (a) | 3.9 | 4.2 | 4.8 | 5.1 | 4.3 | 7.6 | 4.7 | 5.5 | 5.7 | 5.2 | 5.3 | 4.9 | 4.6 | 4.4 | 4.4 | 4.2 | 4.2 | 5.2 | 5.4 | 4.7 |
| Real Final Sales | 2.6 | 2.8 | 1.8 | 3.2 | 1.9 | 5.4 | 2.2 | 2.7 | 2.5 | 2.7 | 2.5 | 2.4 | 2.2 | 2.0 | 1.9 | 1.8 | 2.2 | 2.9 | 2.7 | 2.2 |
| Retail Sales (b) | 4.9 | 4.1 | 4.2 | 5.6 | 4.5 | 5.7 | 6.1 | 4.9 | 5.4 | 4.8 | 4.4 | 4.5 | 4.5 | 4.4 | 4.4 | 3.7 | 4.7 | 5.3 | 4.8 | 4.2 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 2.0 | 1.6 | 1.6 | 1.8 | 1.9 | 2.2 | 2.2 | 2.2 | 2.4 | 2.5 | 2.7 | 2.6 | 2.5 | 2.4 | 2.4 | 2.4 | 1.8 | 2.1 | 2.5 | 2.4 |
| "Core" PCE Deflator | 1.8 | 1.6 | 1.5 | 1.6 | 1.7 | 1.9 | 2.0 | 2.0 | 2.2 | 2.2 | 2.3 | 2.3 | 2.2 | 2.2 | 2.2 | 2.1 | 1.6 | 1.9 | 2.2 | 2.2 |
| Consumer Price Index | 2.6 | 1.9 | 2.0 | 2.1 | 2.3 | 2.6 | 2.7 | 2.6 | 2.6 | 2.8 | 3.0 | 2.9 | 2.7 | 2.7 | 2.5 | 2.5 | 2.1 | 2.5 | 2.8 | 2.6 |
| "Core" Consumer Price Index | 2.1 | 1.8 | 1.7 | 1.7 | 1.9 | 2.2 | 2.3 | 2.3 | 2.4 | 2.6 | 2.7 | 2.7 | 2.5 | 2.3 | 2.4 | 2.4 | 1.8 | 2.2 | 2.6 | 2.4 |
| Producer Price Index (Final Demand) | 2.0 | 2.2 | 2.4 | 2.8 | 2.8 | 3.0 | 2.9 | 2.7 | 2.8 | 2.8 | 3.1 | 3.1 | 2.9 | 2.9 | 2.7 | 2.6 | 2.3 | 2.9 | 2.9 | 2.8 |
| Employment Cost Index | 2.4 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.8 | 2.9 | 2.9 | 3.0 | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 | 3.3 | 2.5 | 2.8 | 3.1 | 3.3 |
| Real Disposable Income (a) | 4.5 | 2.2 | 2.2 | 2.3 | 4.4 | 2.5 | 2.5 | 2.5 | 2.8 | 2.6 | 2.6 | 2.6 | 2.6 | 2.5 | 2.2 | 2.0 | 2.6 | 2.9 | 2.6 | 2.5 |
| Nominal Personal Income (b) | 4.1 | 4.3 | 4.5 | 4.6 | 4.3 | 4.7 | 4.6 | 4.3 | 4.5 | 4.7 | 4.8 | 4.8 | 4.6 | 4.3 | 4.2 | 3.9 | 4.4 | 4.5 | 4.7 | 4.2 |
| Industrial Production (a) | 1.0 | 5.0 | -1.5 | 7.7 | 2.5 | 5.1 | 3.4 | 3.7 | 2.4 | 4.2 | 1.2 | 4.0 | 2.5 | 4.7 | 0.7 | 0.1 | 1.6 | 3.8 | 3.2 | 2.8 |
| Capacity Utilization | 75.4 | 76.2 | 75.8 | 77.0 | 77.2 | 77.8 | 78.1 | 78.4 | 78.5 | 78.6 | 78.6 | 78.8 | 78.9 | 79.1 | 79.0 | 78.9 | 76.1 | 77.9 | 78.6 | 79.0 |
| Corporate Profits Before Taxes (b) | 3.0 | 3.6 | 2.8 | 3.3 | 5.9 | 7.3 | 8.0 | 6.2 | 5.6 | 1.8 | 0.5 | -0.8 | -1.6 | -2.2 | -2.6 | -3.4 | 3.2 | 6.9 | 1.7 | -2.4 |
| Corporate Profits After Taxes | 6.0 | 6.2 | 6.4 | 7.3 | 15.1 | 15.8 | 17.0 | 12.5 | 4.7 | 1.9 | 0.3 | -1.0 | -1.8 | -2.4 | -2.9 | -3.7 | 6.5 | 15.1 | 1.4 | -2.7 |
| Federal Budget Balance (c) | -317 | 4 | -143 | -225 | -375 | -7 | -168 | -321 | -396 | -63 | -270 | -337 | -416 | -63 | -283 | -364 | -666 | -775 | -1050 | -1100 |
| Trade Weighted Dollar Index (d) | 94.0 | 90.5 | 88.1 | 87.5 | 86.3 | 90.0 | 90.1 | 90.5 | 89.8 | 88.5 | 87.3 | 86.3 | 84.8 | 84.0 | 82.8 | 81.8 | 91.1 | 89.2 | 87.9 | 83.3 |
| Nonfarm Payroll Change (e) | 177 | 190 | 142 | 221 | 218 | 217 | 190 | 180 | 170 | 170 | 160 | 160 | 150 | 140 | 100 | 90 | 182 | 201 | 165 | 120 |
| Unemployment Rate | 4.7 | 4.3 | 4.3 | 4.1 | 4.1 | 3.9 | 3.8 | 3.8 | 3.7 | 3.6 | 3.6 | 3.5 | 3.4 | 3.3 | 3.3 | 3.3 | 4.4 | 3.9 | 3.6 | 3.3 |
| Housing Starts (f) | 1.23 | 1.17 | 1.17 | 1.26 | 1.32 | 1.26 | 1.25 | 1.33 | 1.34 | 1.36 | 1.36 | 1.38 | 1.39 | 1.40 | 1.41 | 1.42 | 1.20 | 1.29 | 1.36 | 1.41 |
| Light Vehicle Sales (g) | 17.1 | 16.8 | 17.1 | 17.6 | 17.1 | 17.2 | 16.9 | 16.8 | 16.8 | 16.7 | 16.7 | 16.6 | 16.6 | 16.5 | 16.4 | 16.3 | 17.1 | 17.0 | 16.7 | 16.5 |
| Crude Oil - Brent - Front Contract (h) | 54.6 | 50.8 | 52.2 | 61.4 | 66.9 | 74.6 | 75.8 | 82.0 | 80.0 | 85.0 | 88.0 | 82.0 | 80.0 | 74.0 | 70.0 | 70.0 | 54.7 | 74.9 | 83.8 | 73.5 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 1.00 | 1.25 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 2.75 | 3.00 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.00 | 1.13 | 2.13 | 3.06 | 3.19 |
| 3 Month LIBOR | 1.15 | 1.30 | 1.33 | 1.69 | 2.31 | 2.34 | 2.40 | 2.70 | 2.95 | 3.15 | 3.40 | 3.40 | 3.40 | 3.40 | 3.40 | 3.15 | 1.26 | 2.44 | 3.23 | 3.34 |
| Prime Rate | 4.00 | 4.25 | 4.25 | 4.50 | 4.75 | 5.00 | 5.25 | 5.50 | 5.75 | 6.00 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.00 | 4.13 | 5.13 | 6.06 | 6.19 |
| Conventional Mortgage Rate | 4.20 | 3.90 | 3.81 | 3.94 | 4.44 | 4.57 | 4.63 | 4.95 | 5.05 | 5.15 | 5.25 | 5.30 | 5.30 | 5.25 | 5.20 | 5.15 | 3.99 | 4.65 | 5.19 | 5.23 |
| 3 Month Bill | 0.76 | 1.03 | 1.06 | 1.39 | 1.73 | 1.93 | 2.19 | 2.40 | 2.65 | 2.90 | 3.05 | 3.10 | 3.05 | 3.00 | 2.95 | 2.75 | 0.95 | 2.06 | 2.93 | 2.94 |
| 6 Month Bill | 0.91 | 1.14 | 1.20 | 1.53 | 1.93 | 2.11 | 2.36 | 2.60 | 2.80 | 2.95 | 3.10 | 3.15 | 3.10 | 3.05 | 3.00 | 2.80 | 1.07 | 2.25 | 3.00 | 2.99 |
| 1 Year Bill | 1.03 | 1.24 | 1.31 | 1.76 | 2.09 | 2.33 | 2.59 | 2.80 | 3.00 | 3.05 | 3.15 | 3.20 | 3.15 | 3.10 | 3.05 | 2.90 | 1.20 | 2.45 | 3.10 | 3.05 |
| 2 Year Note | 1.27 | 1.38 | 1.47 | 1.89 | 2.27 | 2.52 | 2.81 | 3.00 | 3.10 | 3.15 | 3.25 | 3.25 | 3.20 | 3.15 | 3.10 | 3.00 | 1.40 | 2.65 | 3.19 | 3.11 |
| 5 Year Note | 1.93 | 1.89 | 1.92 | 2.20 | 2.56 | 2.73 | 2.94 | 3.15 | 3.25 | 3.35 | 3.45 | 3.50 | 3.45 | 3.40 | 3.35 | 3.25 | 1.91 | 2.85 | 3.39 | 3.36 |
| 10 Year Note | 2.40 | 2.31 | 2.33 | 2.40 | 2.74 | 2.85 | 3.05 | 3.35 | 3.45 | 3.55 | 3.65 | 3.70 | 3.70 | 3.65 | 3.60 | 3.55 | 2.33 | 3.00 | 3.59 | 3.63 |
| 30 Year Bond | 3.02 | 2.84 | 2.86 | 2.74 | 2.97 | 2.98 | 3.19 | 3.55 | 3.65 | 3.80 | 3.90 | 3.95 | 4.00 | 4.00 | 3.95 | 3.90 | 2.89 | 3.17 | 3.83 | 3.96 |

Forecast as of: October 10, 2018

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Yr.
(d) Federal Reserve Major Currency Index, 1973=100 - Quarter End
(e) Average Monthly Change
(f) Millions of Units - Annual Data - Not Seasonally Adjusted
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Annual Numbers Represent Averages

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

### Global Growth Stirs Beneath a Calmer Surface

Our outlook for the global economy is little changed from our last update, and we continue to see a slow deceleration in global GDP growth to 3.7% in 2019 and 3.4% in 2020. The global economy maintained steady and solid momentum through the first half of 2018, with Q2 GDP for the G20 economies rising 1.0% quarter over quarter (not annualized), and 3.9% year over year—the latter still near the fastest pace of annual growth since mid-2011. Even areas of significant focus and concern have shown only a modest slowing. Global export volumes rose 3.8% year-over-year in July, down from the pace seen through much of 2017, but still respectable. The July figures capture the initial round of aluminum and steel tariffs, and the initial tariffs on a wider range of goods between the U.S. and China, although there is likely some lag and admittedly, does not encompass the more recent escalation in U.S./China trade tensions.

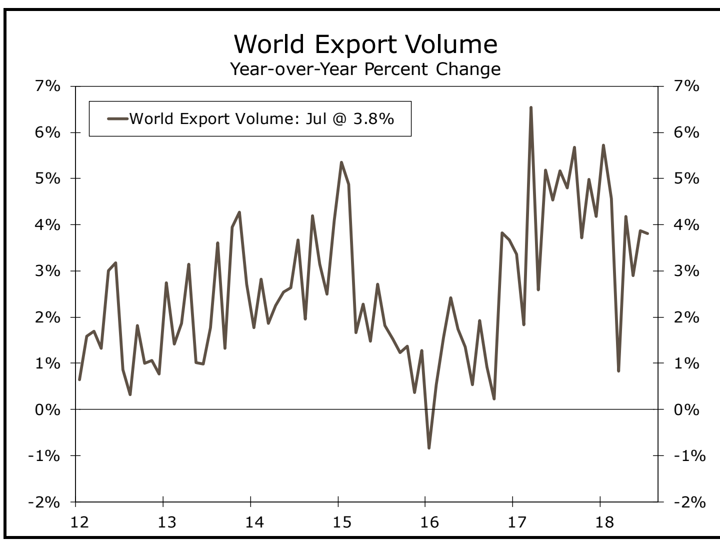
While looking calm and steady on the surface, a closer examination hints at some areas of instability across the global economy. U.S. economic growth has been particularly strong in 2018, boosted by fiscal stimulus, but growth for the other G7 economies has slowed noticeably (see chart at bottom right). A similar dichotomy is apparent among the emerging economies, which have shown areas of strength (India), steadiness (China), and weakness (Argentina). That said, there has not so far been strong evidence of widespread contagion—either economic or financial market—across emerging countries.

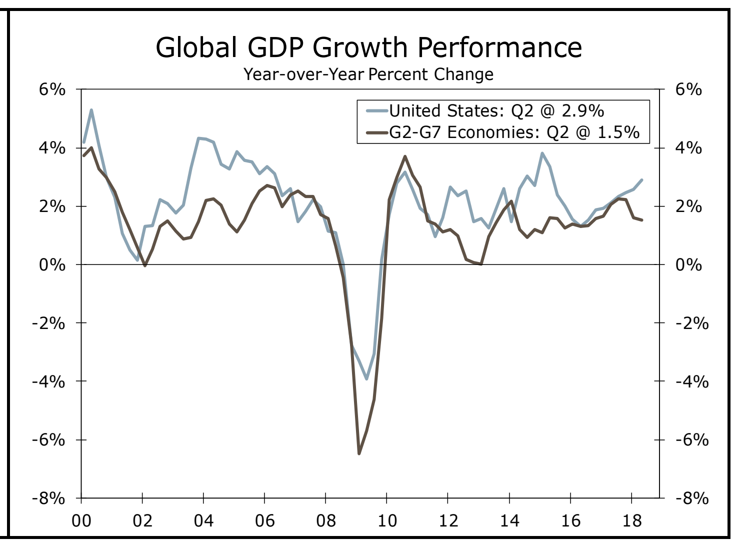
With some variation in economic performance, major central banks have also adopted a varied approach to removing monetary policy accommodation. The Federal Reserve continues to lead the way, followed by the Bank of Canada, where we expect one more rate hike in 2018 and three rate hikes in 2019. The European Central Bank and Bank of England are expected to be more cautious, with their initial or next rate hike not seen until well into 2019, due to subdued growth and Brexit uncertainty. Meanwhile, China's central bank has paused its deleveraging efforts in recent months.

There are some important downside risks that could lead to a faster global slowdown than we currently expect. Should trade tensions between the U.S. and China continue to escalate for an extended period, export volumes could slow noticeably further or perhaps even move into outright contraction, a dynamic that would likely restrain emerging economy performance more broadly. In addition, with some signs of wage growth starting to emerge (including in the U.S., Canada and Eurozone, among others) there remains some risk that major central banks could remove monetary policy accommodation more quickly than currently expected, a risk scenario that could both unsettle markets and hurt economic growth.

There are, however, also some reasons for optimism. The recently announced trade agreement between the U.S., Canada and Mexico has perhaps eased trade tensions at the margin. Moreover, it has led us to increase our GDP growth forecast for Canada, while we also expect Mexican economic growth to remain relatively resilient. In addition, given only moderate financial headwinds we see potential for the Eurozone to emerge from its soft patch early this year, and forecast Eurozone GDP growth of 2.1% in 2019. U.K. economic growth could also improve as Brexit uncertainty lessens, while in China easier liquidity and increased government spending should ensure that economy's slowdown remains gradual. Taking a balanced approach to the pessimistic and optimistic factors above, our global growth forecast is unchanged from last month, and continues to envisage only a gradual slowdown.

Finally, we see potential for foreign central banks to be more active next year, which could help foreign currencies to strengthen versus the U.S. dollar. In addition to policy moves from Canada, the Eurozone and the U.K., Norway's central bank recently hiked rates, and Sweden's central bank is expected to do so by early 2019. The other G10 central banks could be less active. We do not expect significant policy moves from Japan and Switzerland, while little to no change is expected from the Australian and New Zealand central banks in 2019 as well.




Source: IHS Markit, Datastream and Wells Fargo Securities

## Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

| | GDP | | | CPI | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Global (PPP Weights) | 3.8% | 3.7% | 3.4% | 3.6% | 3.8% | 3.7% |
| Advanced Economies[1] | 2.5% | 2.5% | 2.0% | 2.2% | 2.4% | 2.4% |
| United States | 2.9% | 2.8% | 2.2% | 2.5% | 2.8% | 2.6% |
| Eurozone | 2.0% | 2.1% | 1.7% | 1.8% | 1.9% | 1.8% |
| United Kingdom | 1.2% | 1.5% | 1.5% | 2.4% | 2.1% | 2.0% |
| Japan | 1.2% | 1.2% | 0.5% | 1.0% | 1.2% | 2.0% |
| Canada | 2.2% | 2.2% | 1.7% | 2.5% | 2.2% | 2.0% |
| Developing Economies[1] | 4.7% | 4.6% | 4.5% | 4.5% | 4.8% | 4.7% |
| China | 6.6% | 6.3% | 6.1% | 2.1% | 2.3% | 2.3% |
| India | 7.7% | 7.5% | 7.3% | 4.9% | 5.1% | 4.8% |
| Mexico | 2.0% | 2.4% | 2.3% | 4.8% | 4.0% | 3.7% |

Forecast as of: October 10, 2018

[1]Aggregated Using PPP Weights

## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

| | 3-Month LIBOR | | | | | | 10-Year Bond | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | | | | 2020 | 2018 | 2019 | | | | 2020 |
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| U.S. | 2.70% | 2.95% | 3.15% | 3.40% | 3.40% | 3.40% | 3.35% | 3.45% | 3.55% | 3.65% | 3.70% | 3.70% |
| Japan | -0.01% | 0.00% | 0.00% | 0.00% | 0.01% | 0.01% | 0.18% | 0.20% | 0.24% | 0.27% | 0.30% | 0.30% |
| Euroland[1] | -0.35% | -0.30% | -0.25% | -0.15% | 0.05% | 0.30% | 0.65% | 0.80% | 0.95% | 1.05% | 1.15% | 1.25% |
| U.K. | 0.80% | 0.85% | 0.95% | 1.05% | 1.10% | 1.10% | 1.70% | 1.80% | 1.85% | 2.00% | 2.10% | 2.15% |
| Canada[2] | 2.15% | 2.40% | 2.65% | 2.90% | 2.85% | 2.85% | 2.70% | 2.80% | 2.90% | 3.00% | 3.05% | 3.05% |

Forecast as of: October 10, 2018

[1] 10-year German Government Bond Yield [2] 3-Month Canada Bankers' Acceptances

Source: International Monetary Fund and Wells Fargo Securities

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