



# U.S. Economic & Construction Outlook

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April 2024

**Charlie Dougherty**

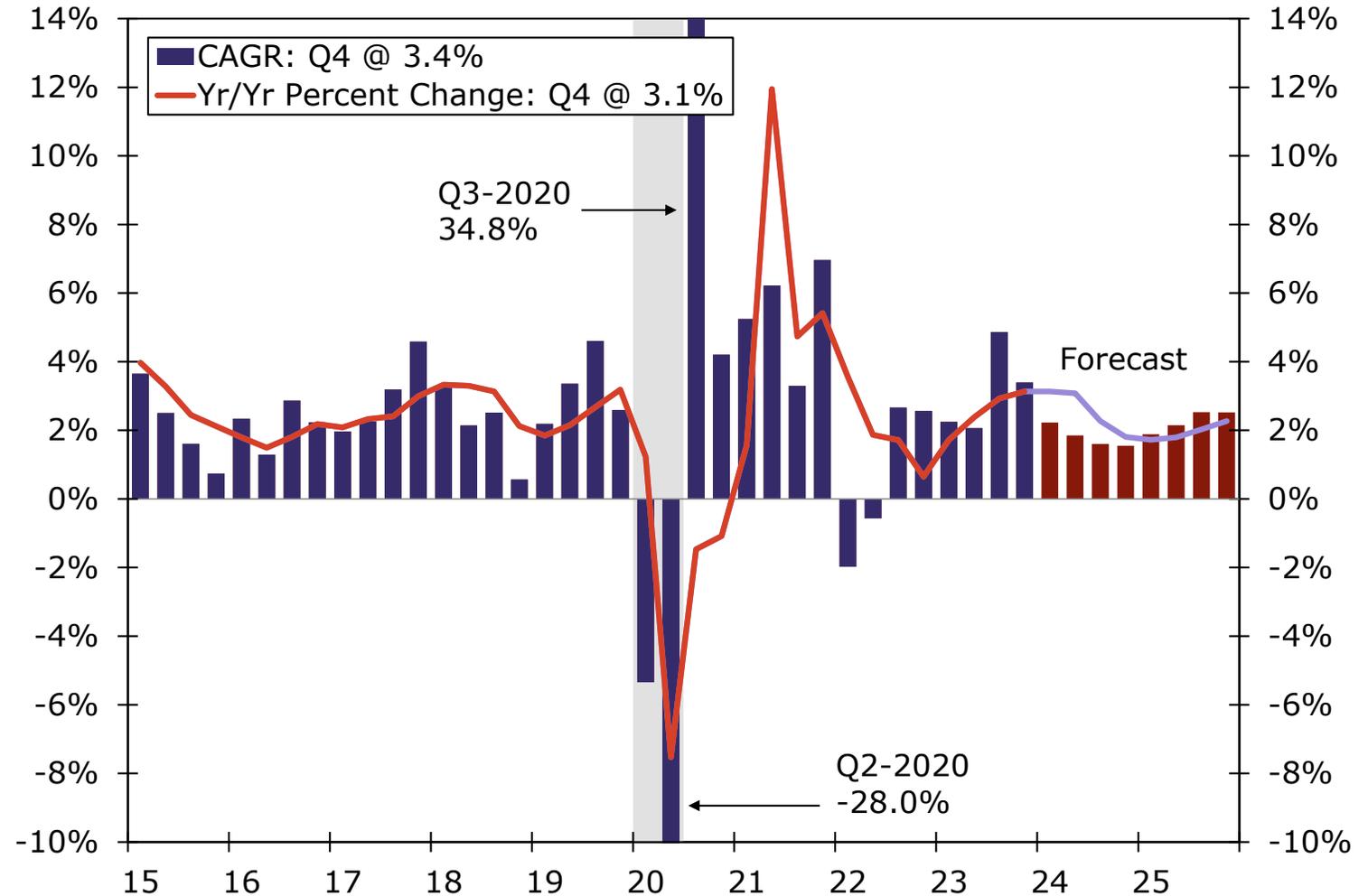
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# Is the U.S. Economy Headed for a Soft Landing?

Although growth is set to slow, we expect the U.S. to avoid a recession in 2024.

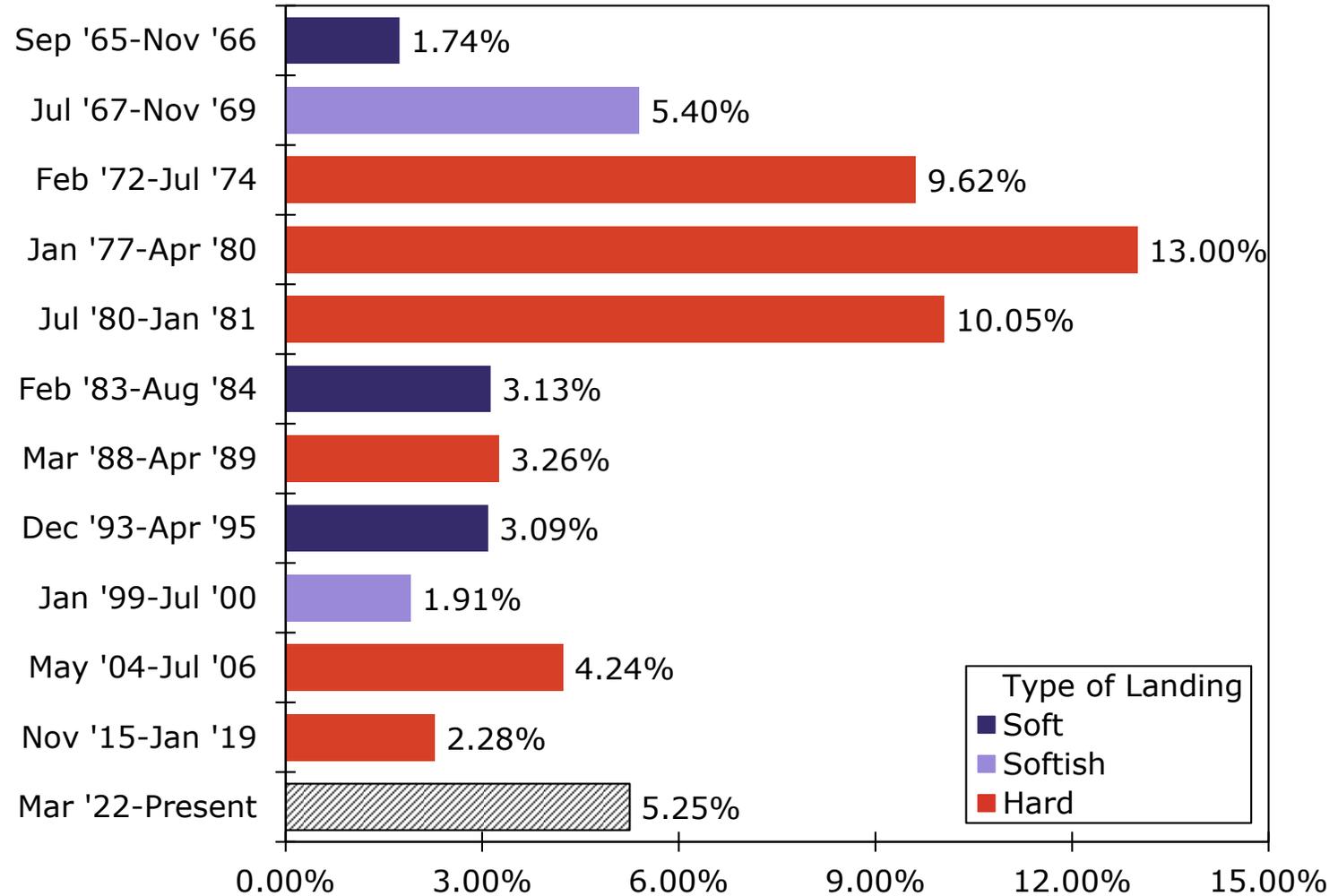
## U.S. Real GDP Growth



The risk of a recession remains unusually elevated given the aggressive pace of monetary tightening over the past two years.

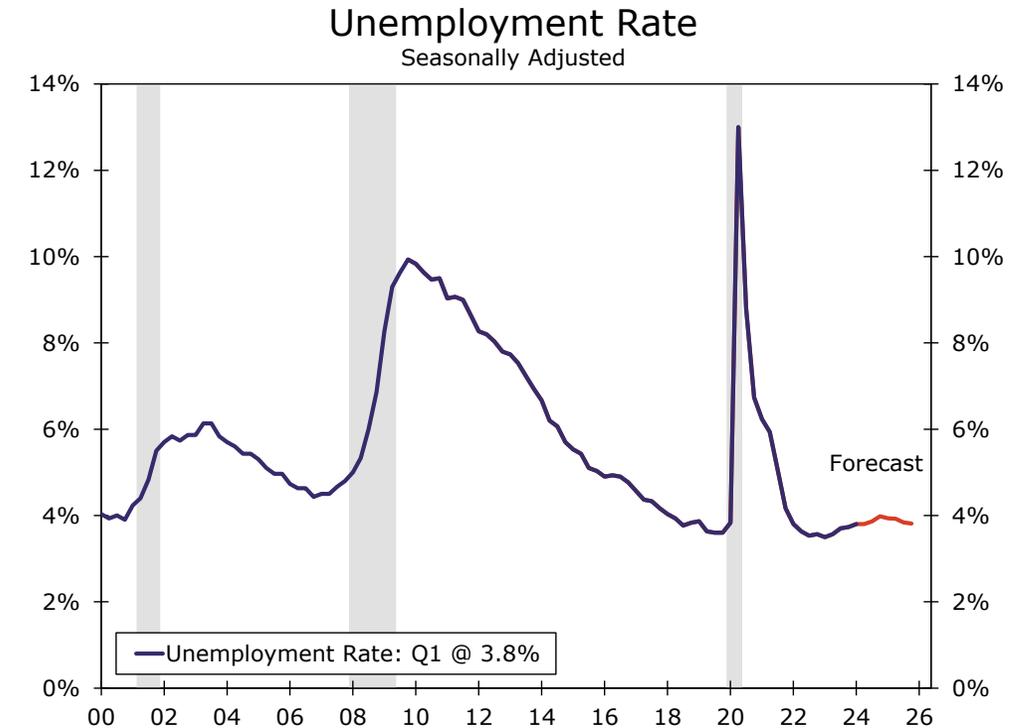
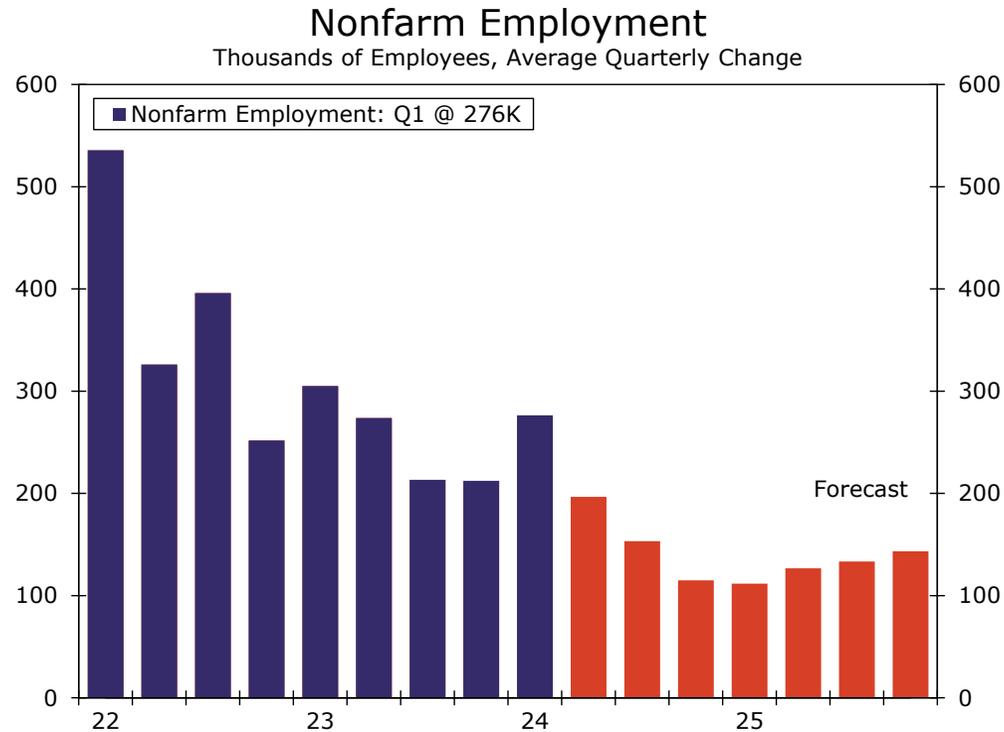
## How Common Are Soft Landings?

Change in Effective Federal Funds Rate

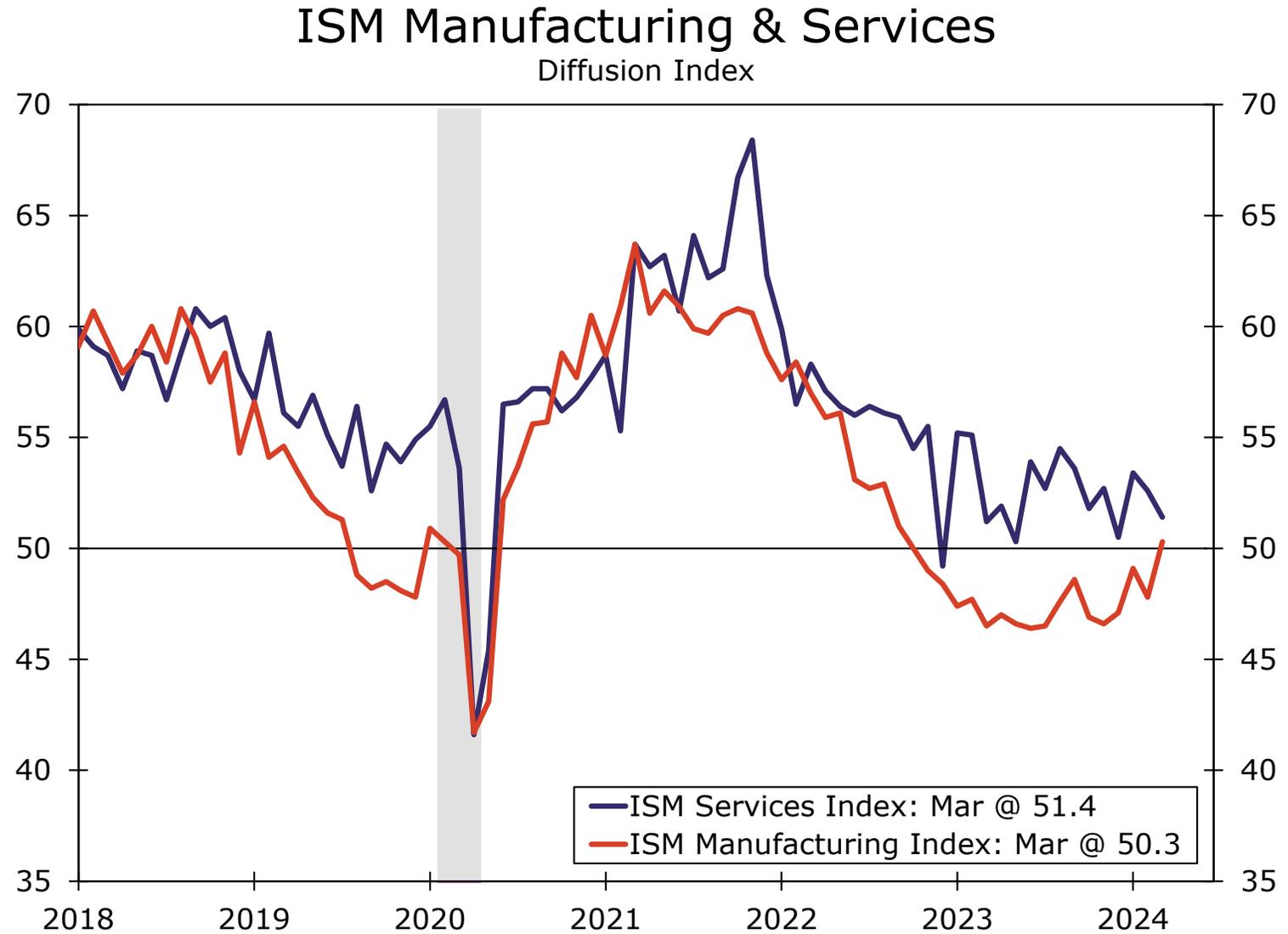


# Labor Market Still Strong but Some Slowing Ahead

Payroll growth has been remarkably solid lately, although some slowing this year seems likely. The unemployment rate may trend slightly higher as job growth moderates, but a sharp move up does not appear in the offing.

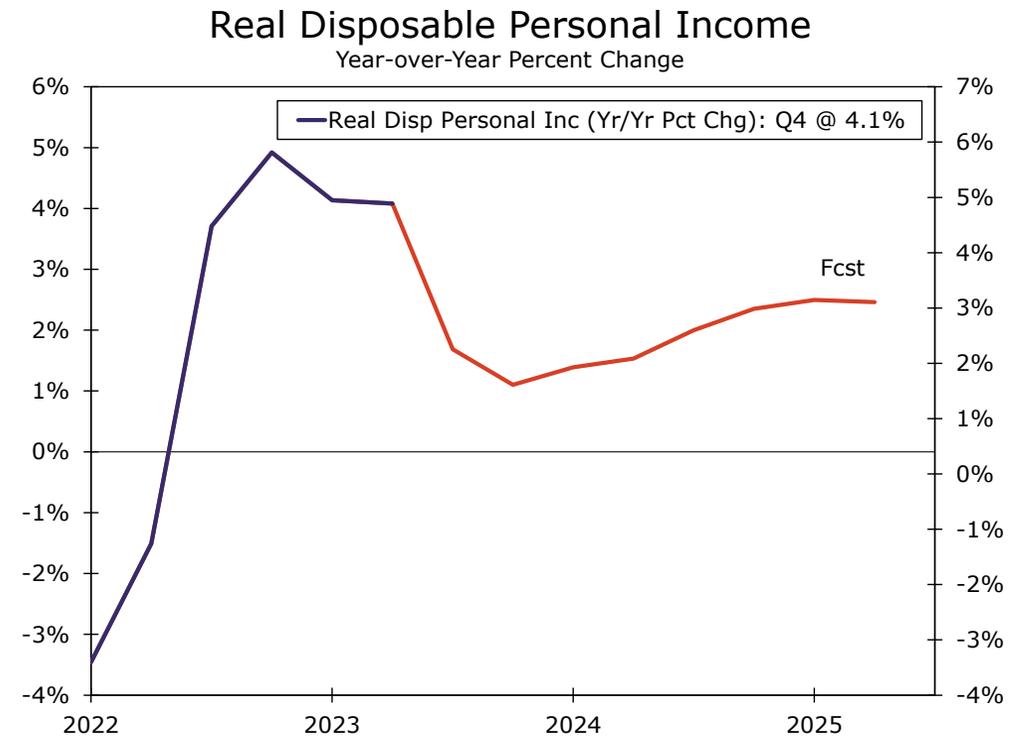
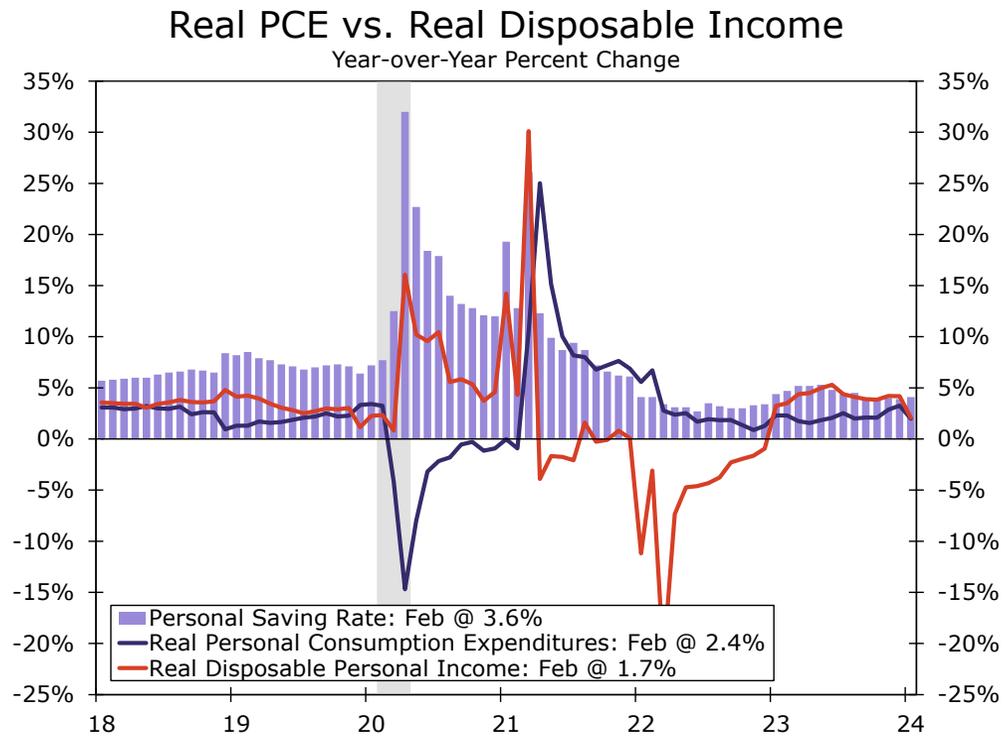


Manufacturing has been hit hard by higher rates. By contrast, the service sector is holding up relatively well.

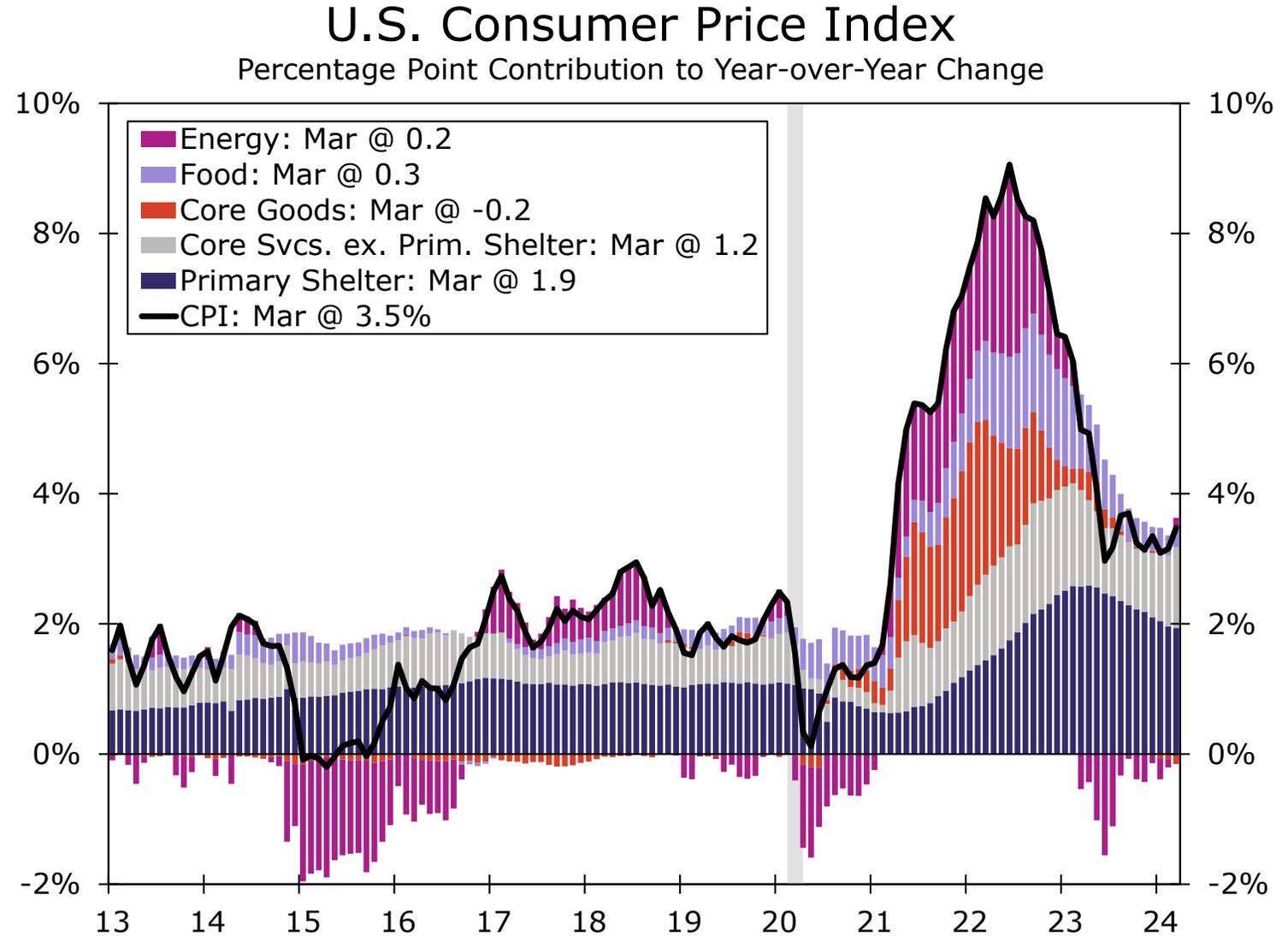


# Real Income Growth Now Supporting Spending

Positive inflation-adjusted income growth now appears to be driving consumer spending as the stockpile of household savings diminishes.

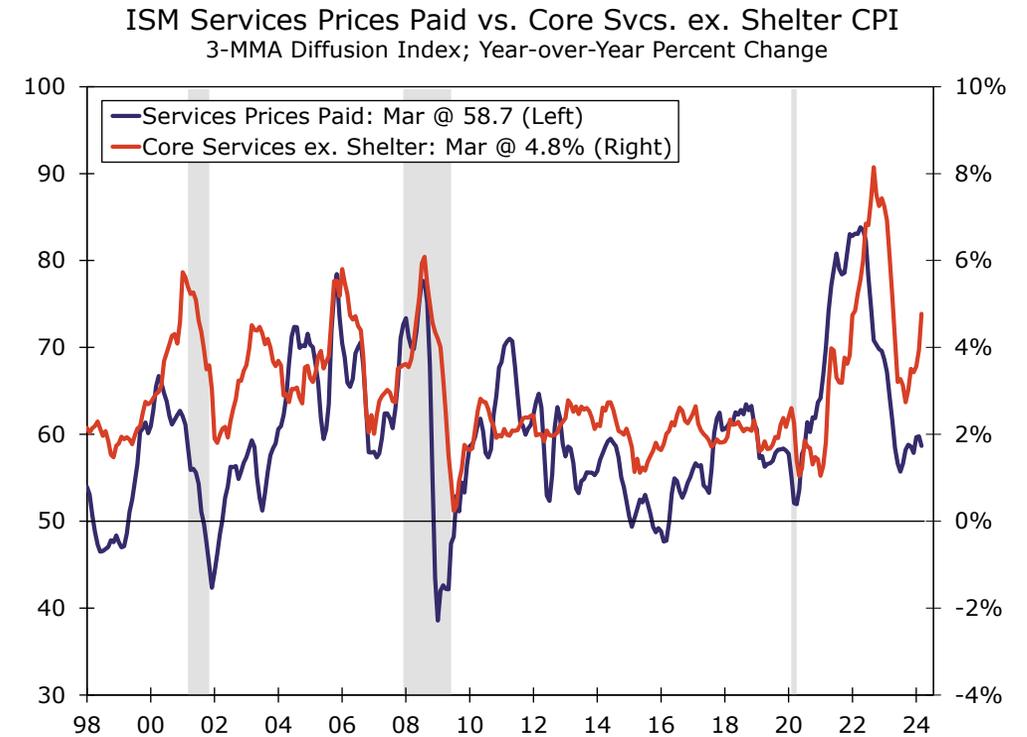


When will inflation return to the FOMC's 2% target on a sustained basis?



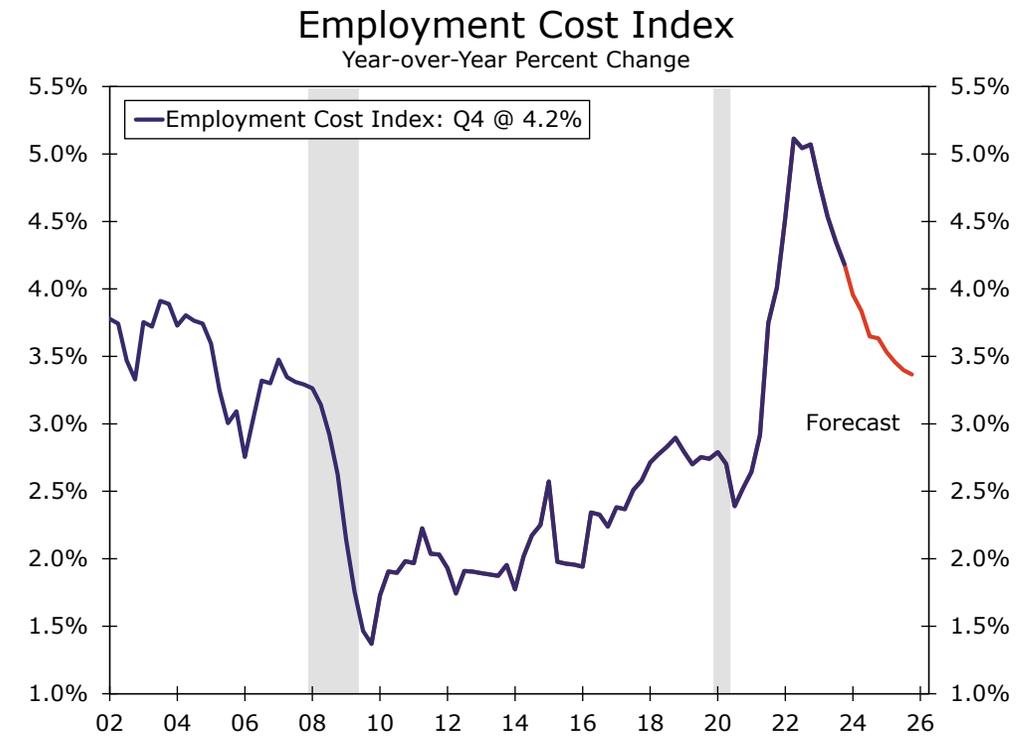
# Underlying Inflation Mostly Subsiding

For the most part, the inflationary forces resulting from the pandemic now appear to be receding. Service price pressures have not seen the same rapid descent.



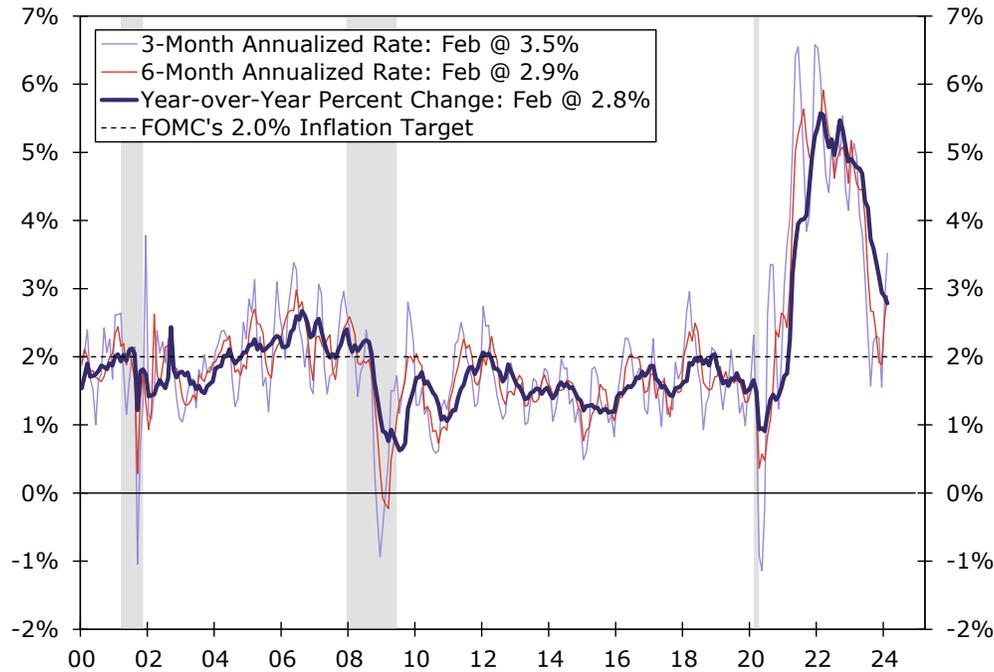
# Labor Market Becoming More Balanced

More balance in the labor market has led to reduced wage and labor cost pressure, which should help overall inflation moderate further over time.

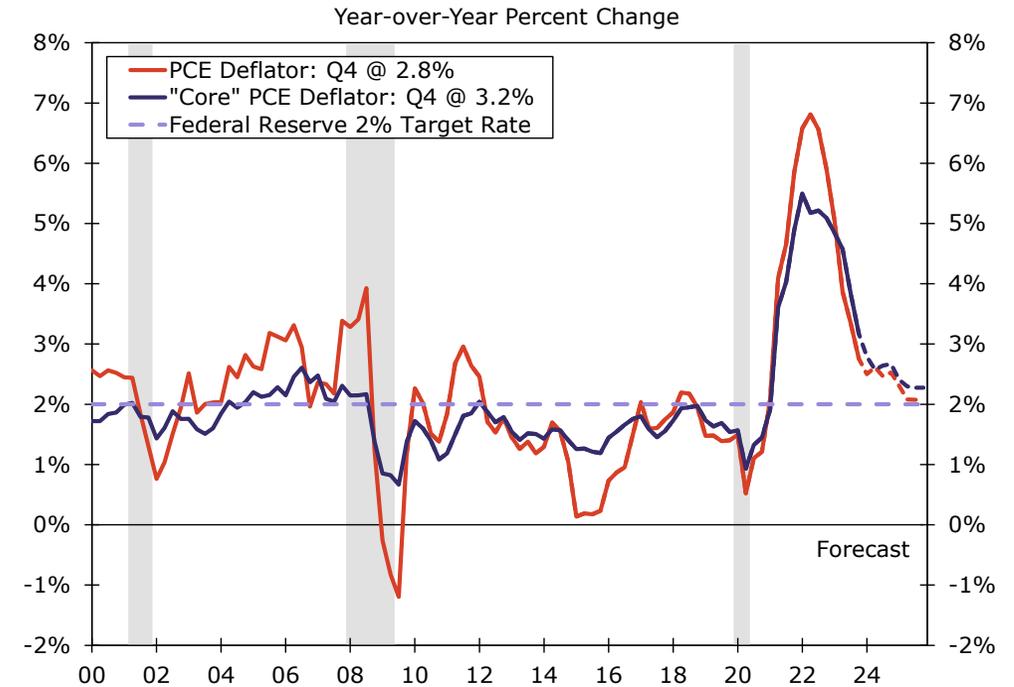


Core inflation has been running above the Fed's 2% target for the past six months. Although the descent should continue to be bumpy, we expect broader inflation to remain subdued as supply and demand balances continue to normalize.

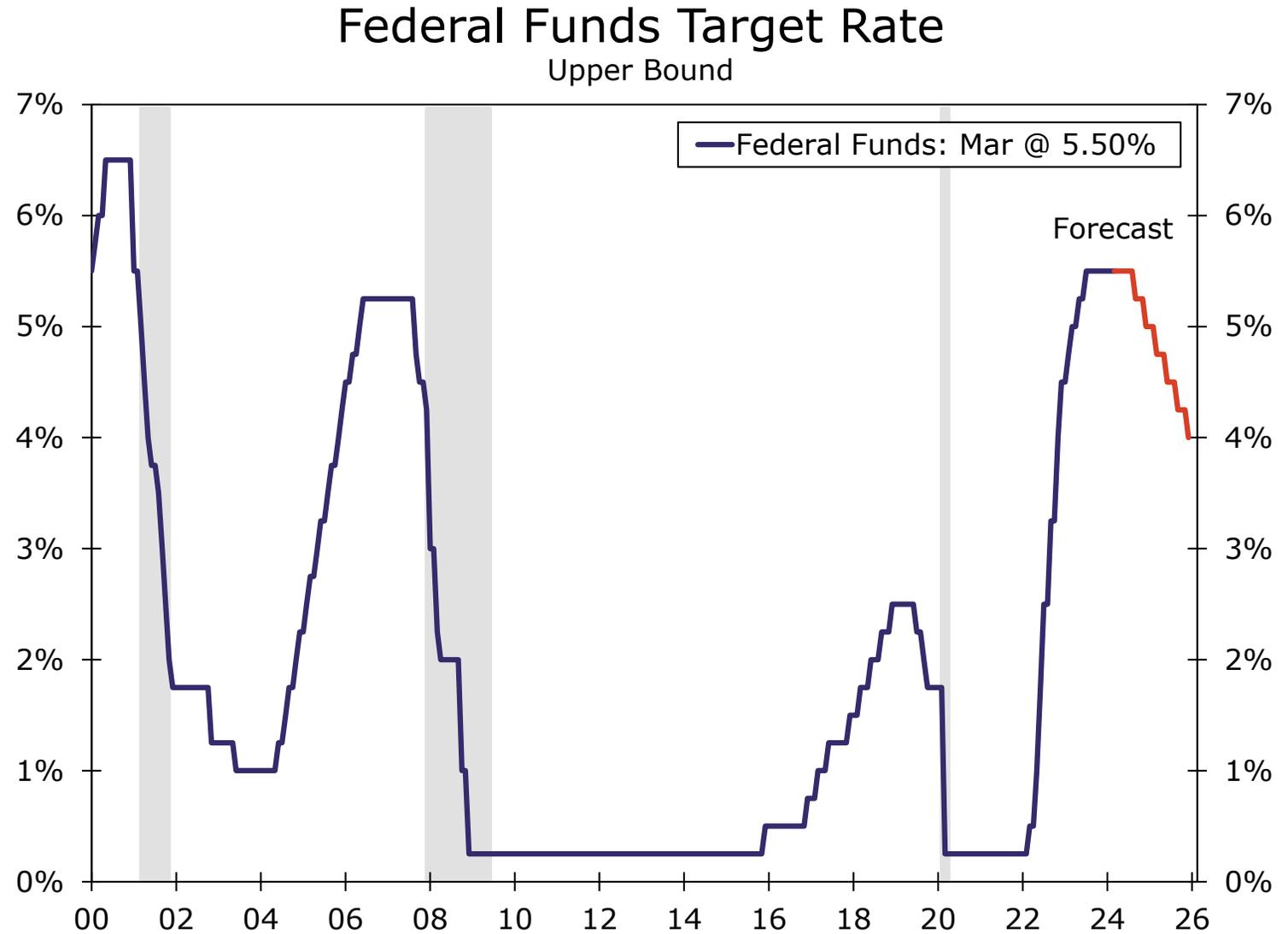
### Core PCE Deflator



### PCE Deflator & "Core" PCE Deflator

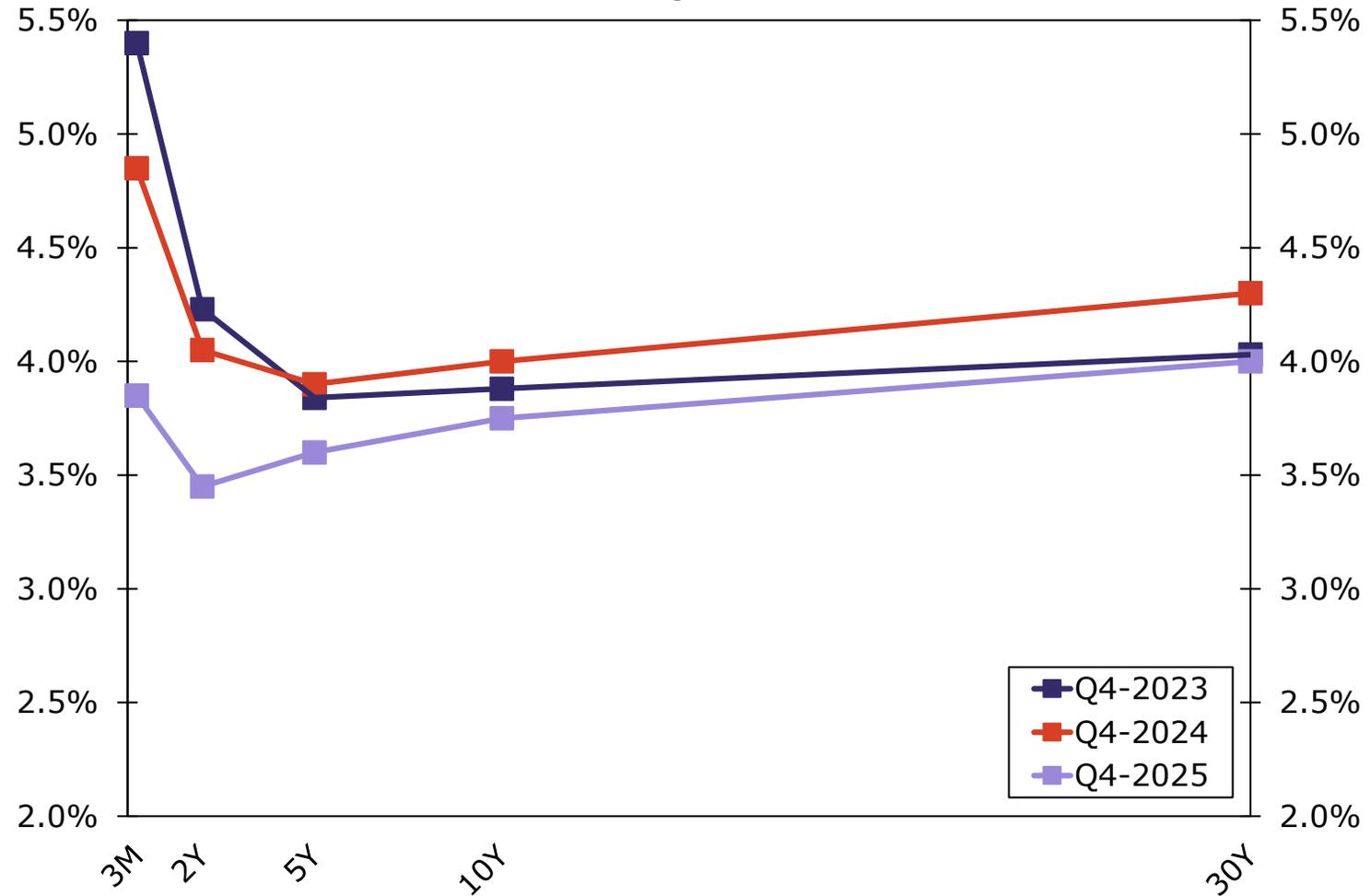


The FOMC will eventually lower the funds target rate in order to shift monetary policy to a less restrictive stance.

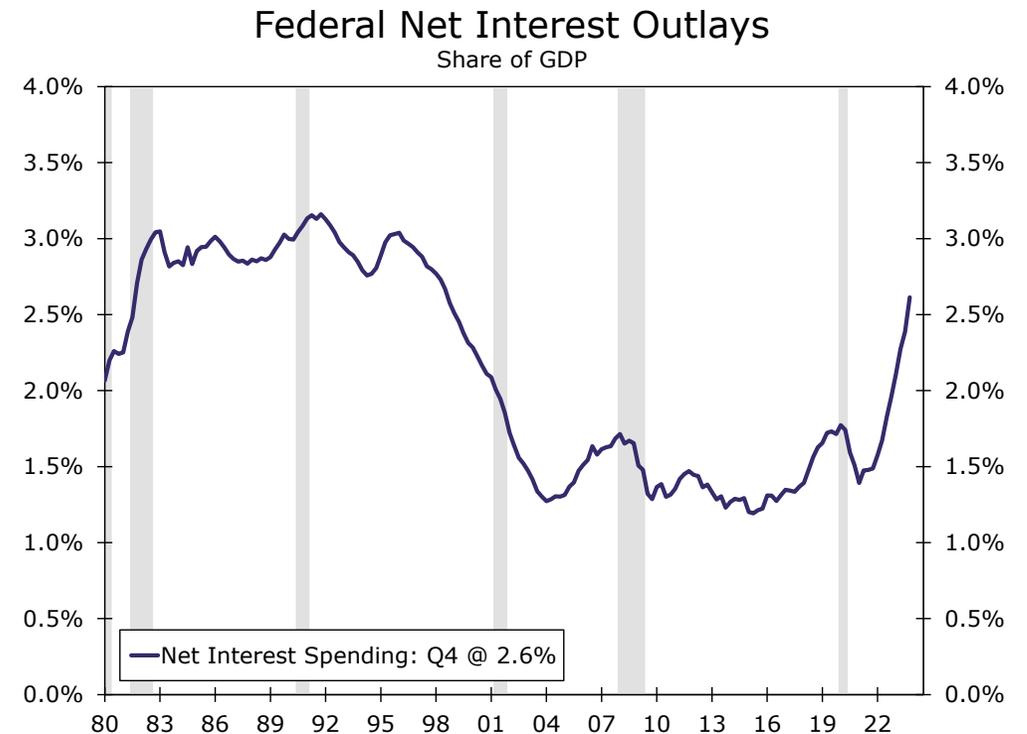
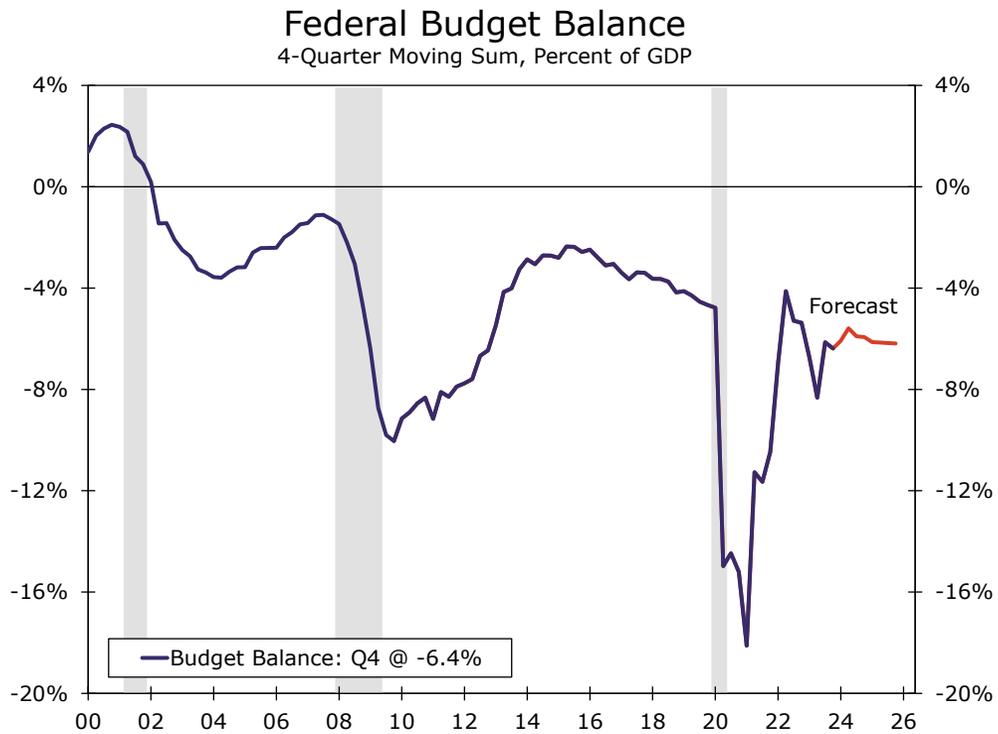


Rates across the yield curve are likely to gradually descend as the path of inflation and monetary policy come better into focus.

## Wells Fargo Treasury Yield Forecast Through 2025



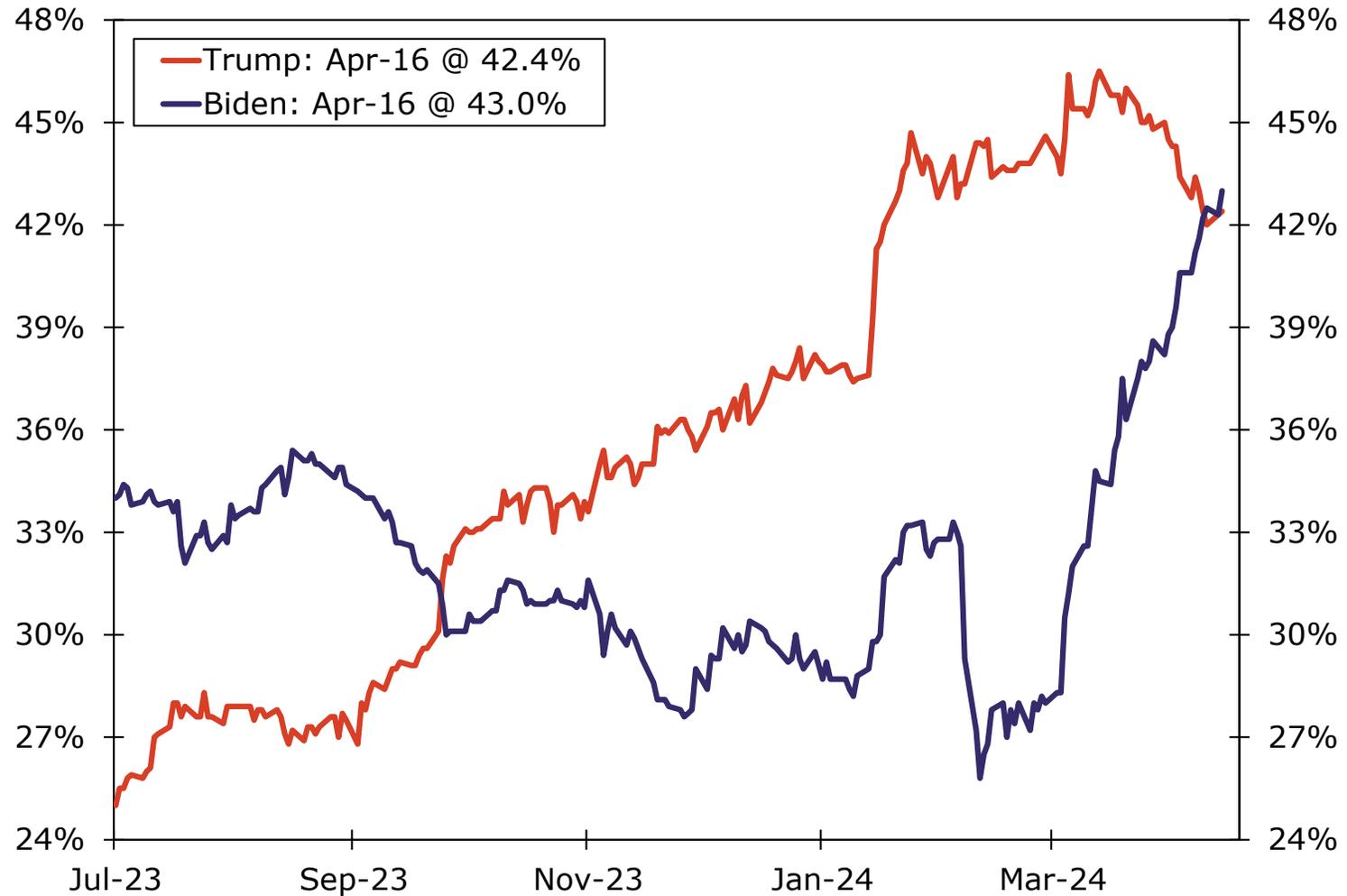
The United States is running a large federal budget deficit despite historically low unemployment



Betting markets currently assign roughly equal probability to a Trump or Biden presidency.

## 2024 U.S. Presidential Election Betting Average

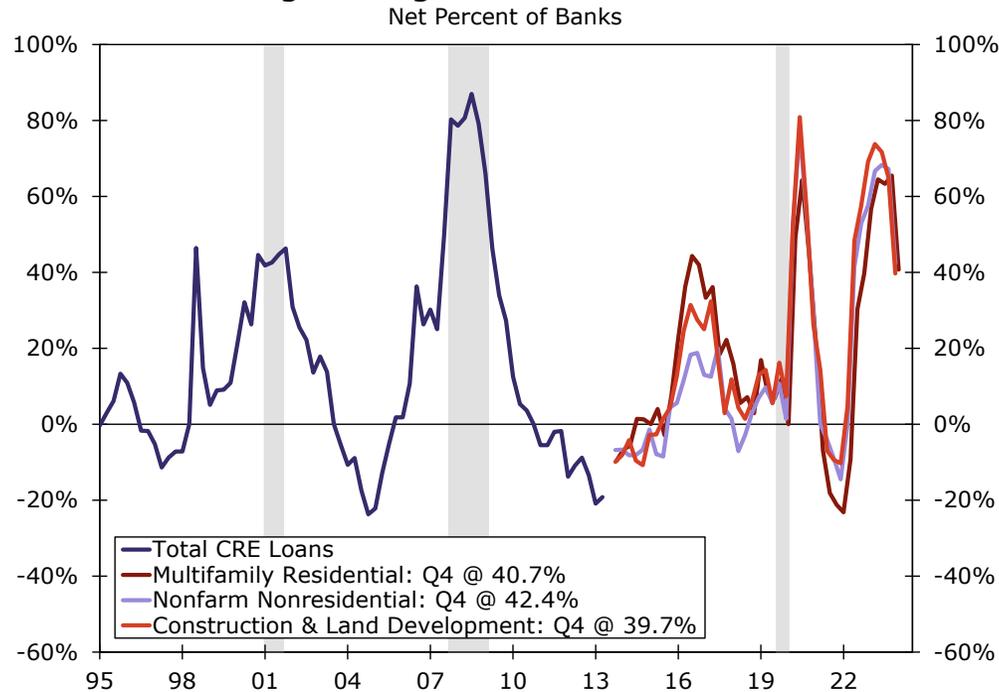
RealClearPolitics Betting Market Aggregator



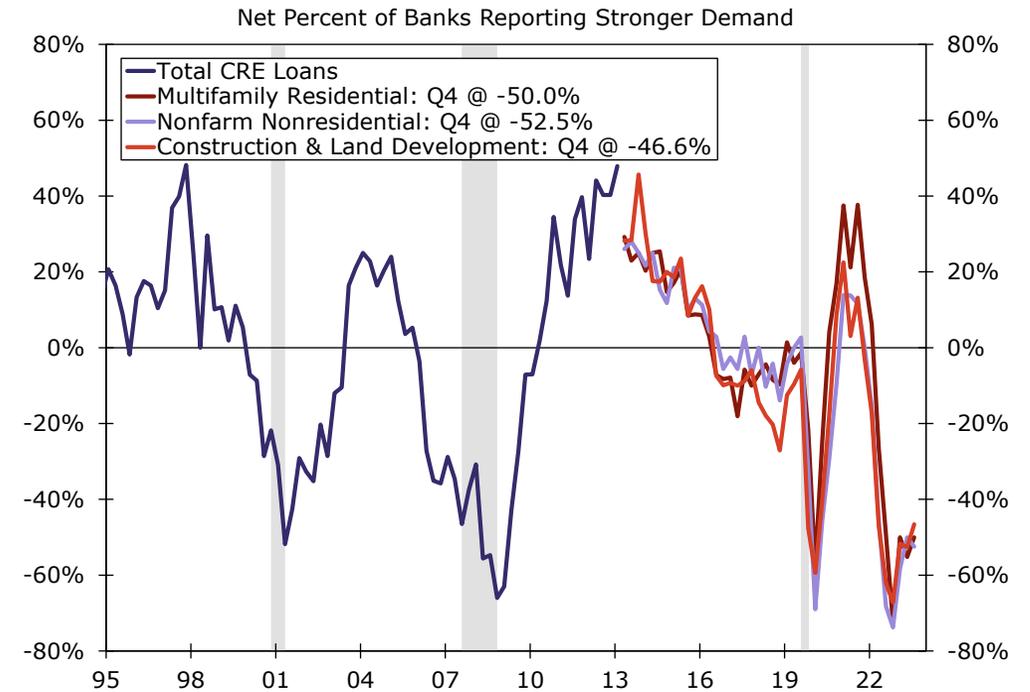
# Commercial Real Estate Lending

A majority of banks have tightened lending standards alongside an uncertain economic and monetary policy outlook. In particular, CRE lending has become more restrictive.

## Banks Tightening Standards for CRE Loans

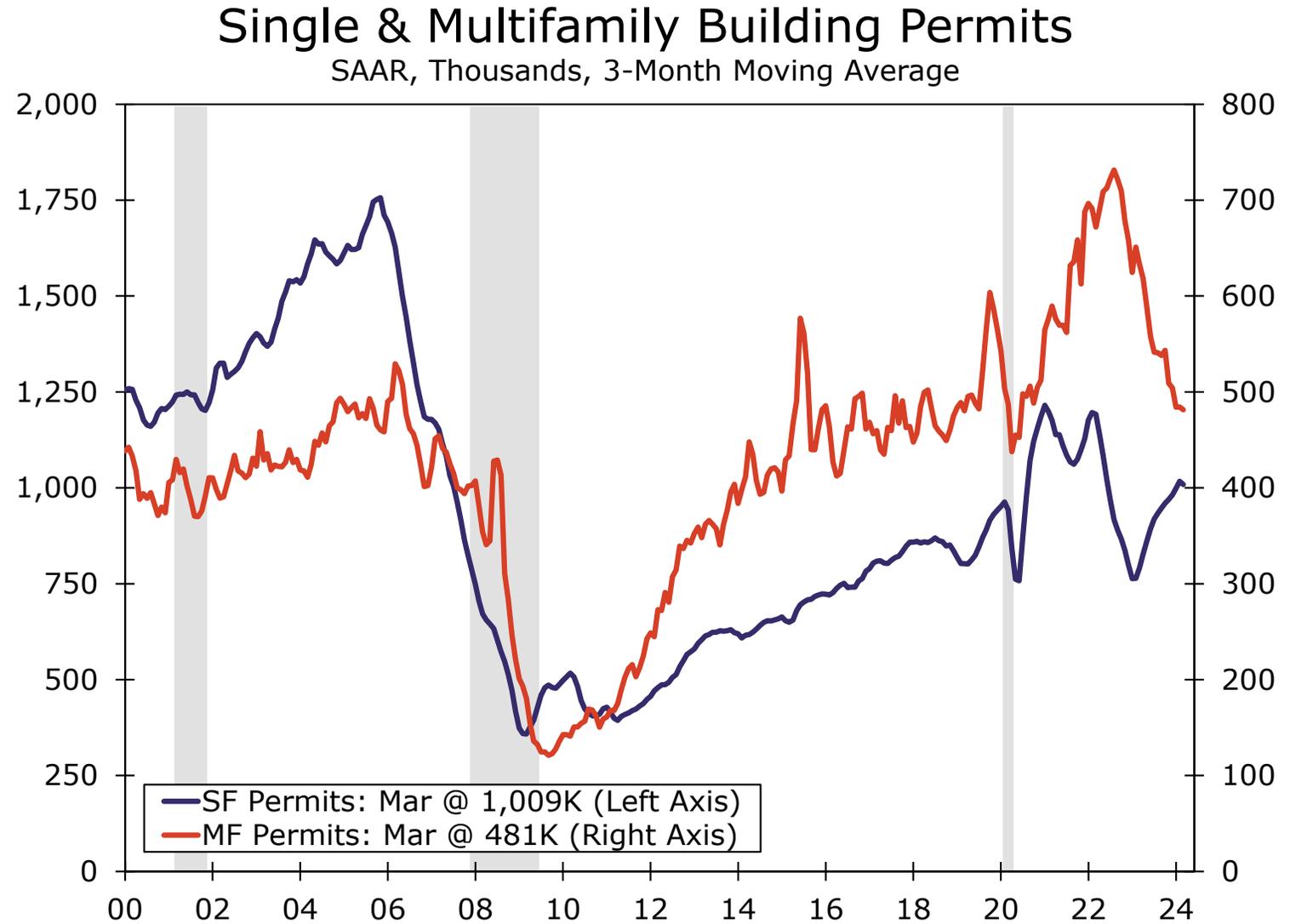


## Demand for CRE Loans



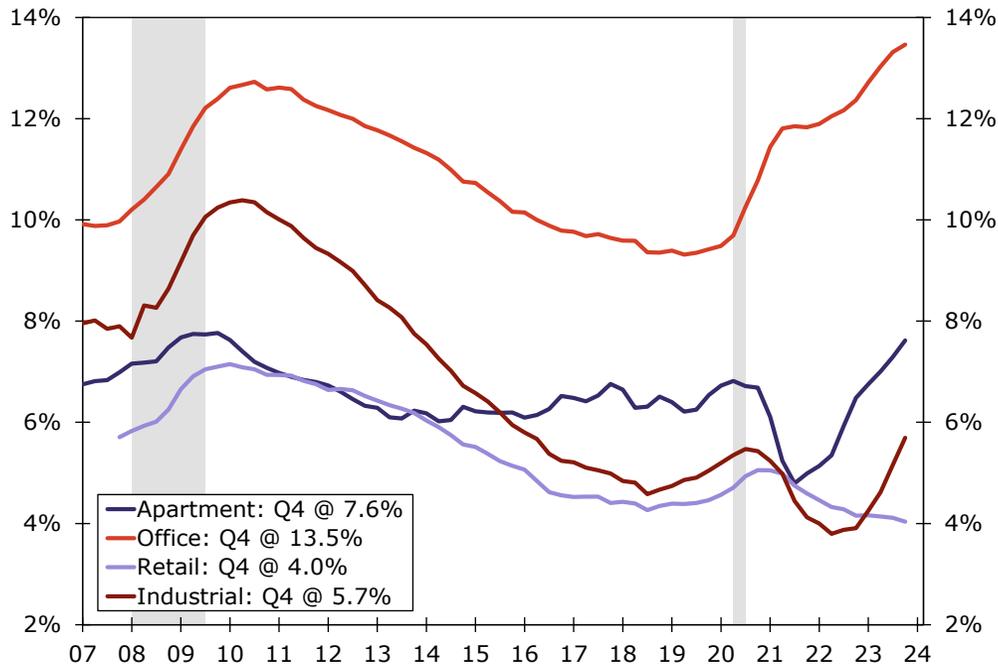
Multifamily permits are on the decline as developers reassess the current supply and demand environment.

Single-family permits have rebounded as builders benefit from low resale inventory.

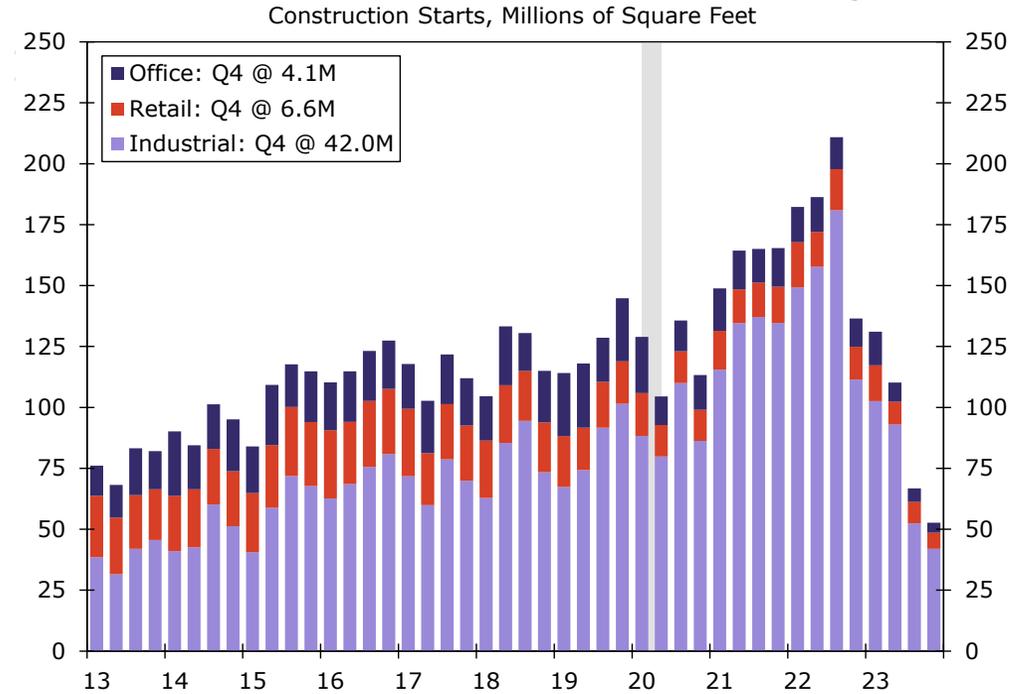


A rise in CRE vacancy rates and recent downshift in new commercial construction starts suggests a weaker pace of nonresidential outlays over the next few years.

### CRE Vacancy Rates



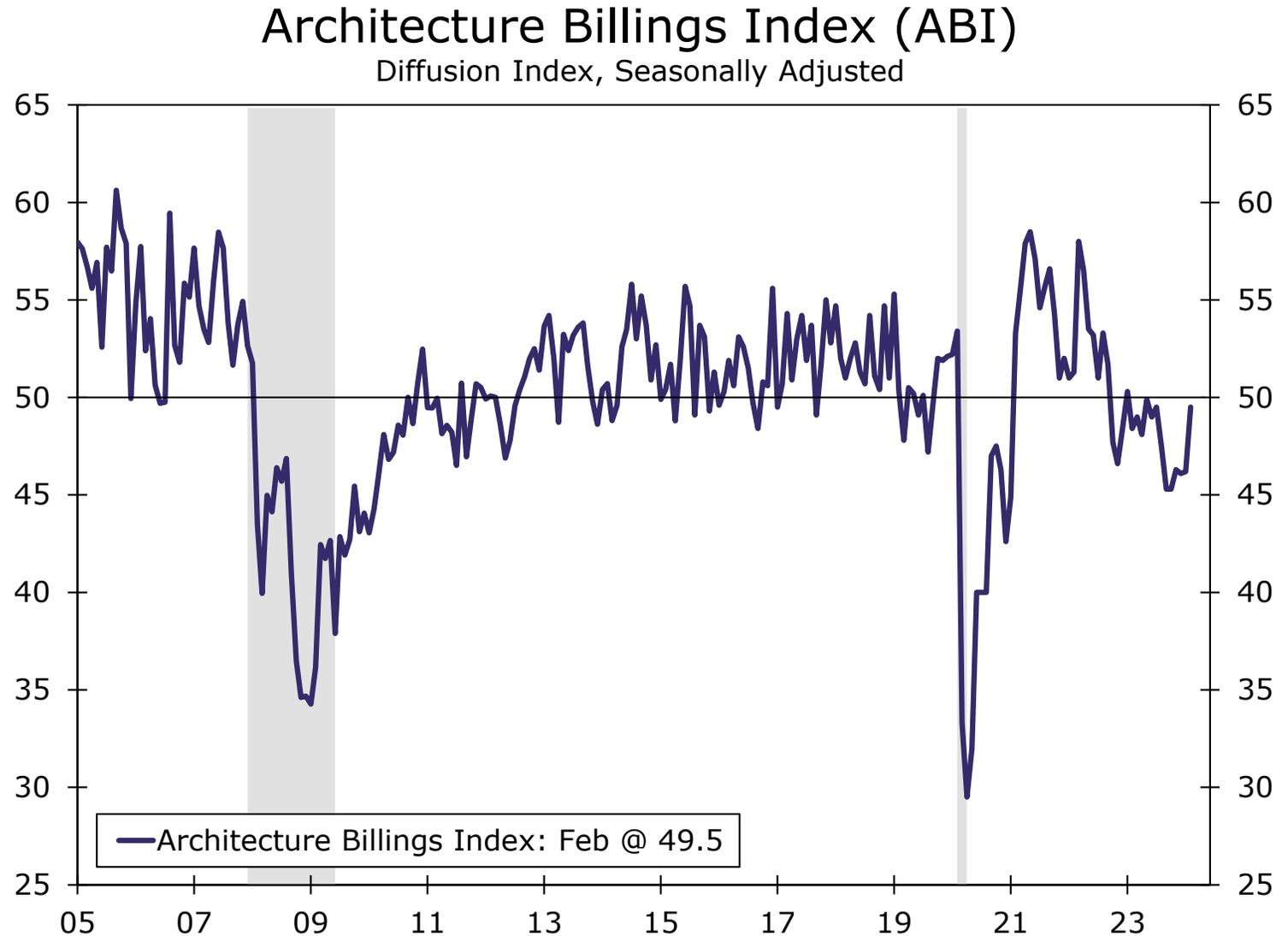
### Commercial Construction Downshifting



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A turnaround in the forward-looking Architectural Billings Index suggests a recent pick-up in activity.

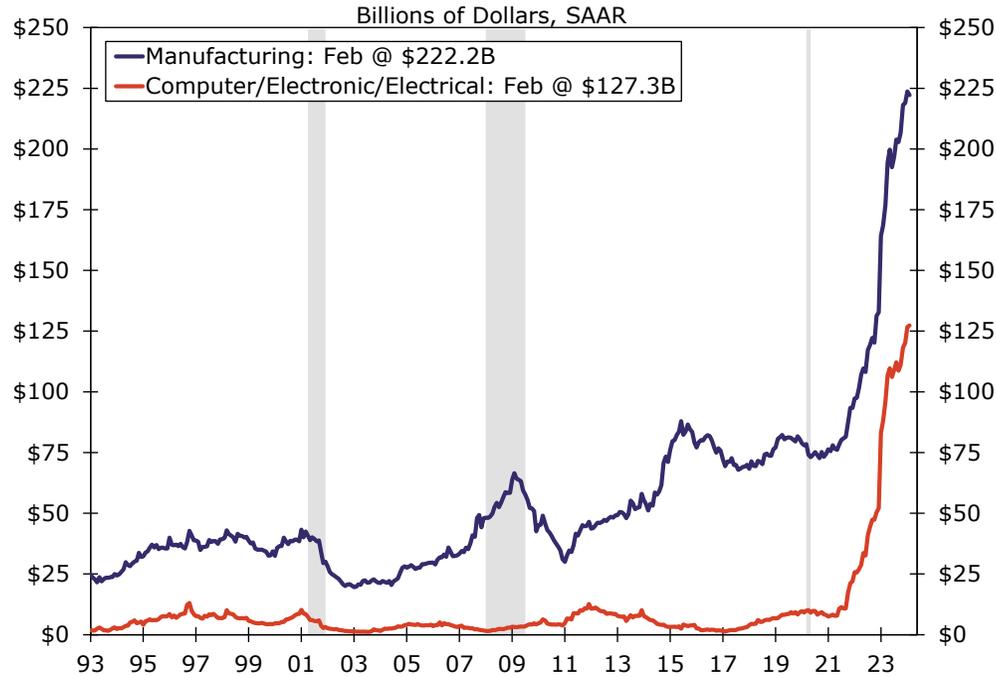
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# Private Nonresidential Construction

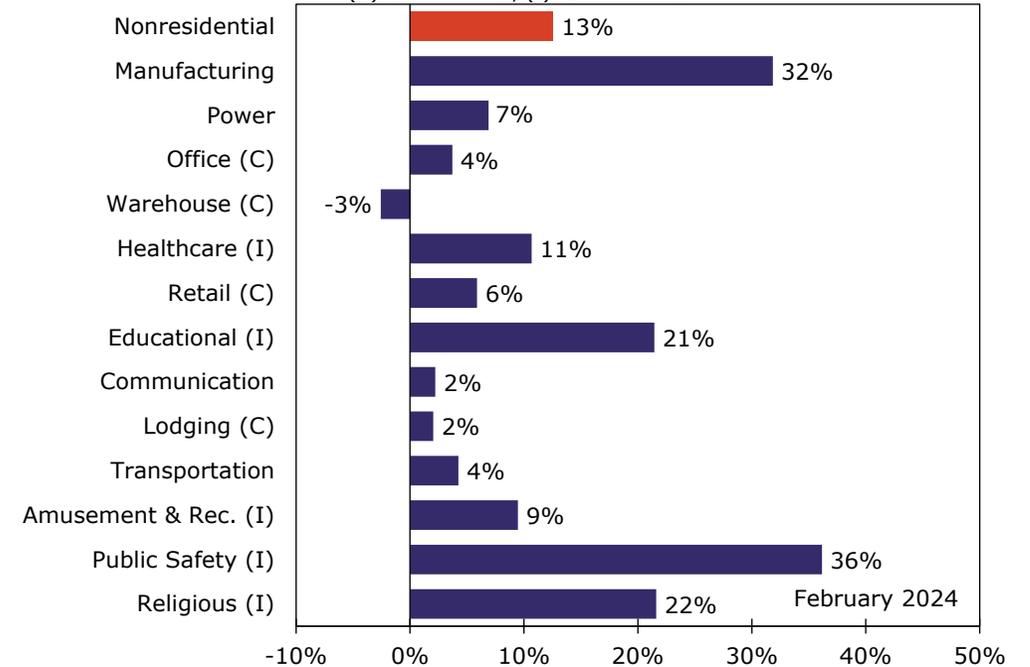
Nonresidential construction is trending higher thanks in large part to a surge in domestic manufacturing projects.

### Private Manufacturing vs. Computer, Electronic & Electrical Construction Put-in-Place



### Private Nonresidential Construction Put-in-Place

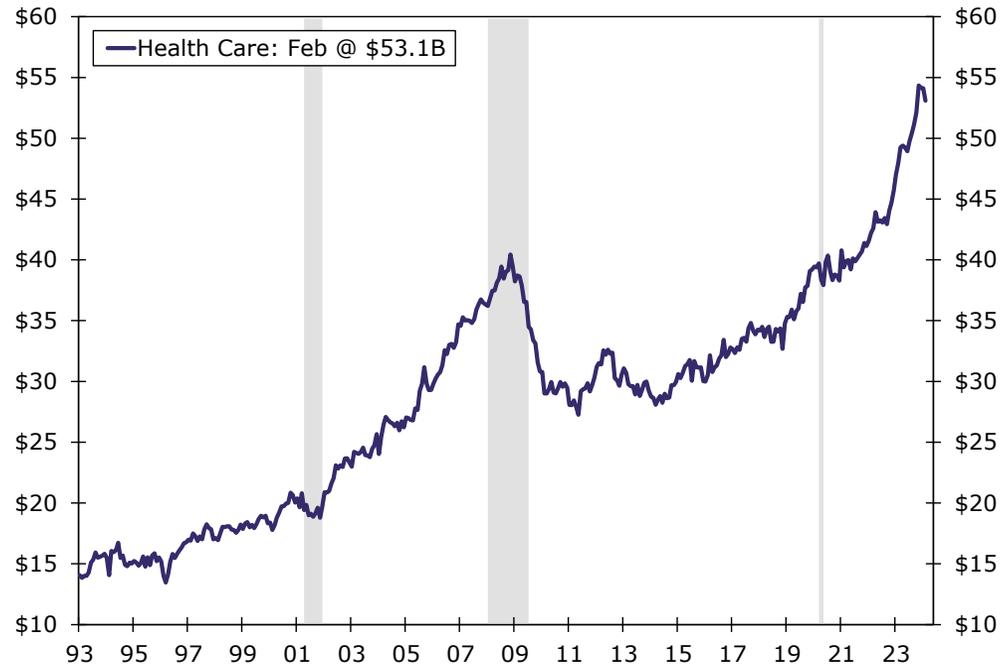
Year-over-Year % Change, Seasonally Adjusted, Ranked by Spending  
(C)=Commercial, (I)=Institutional



Healthcare and educational project spending has strengthened in recent years. The need to update and expand existing facilities should continue to boost spending.

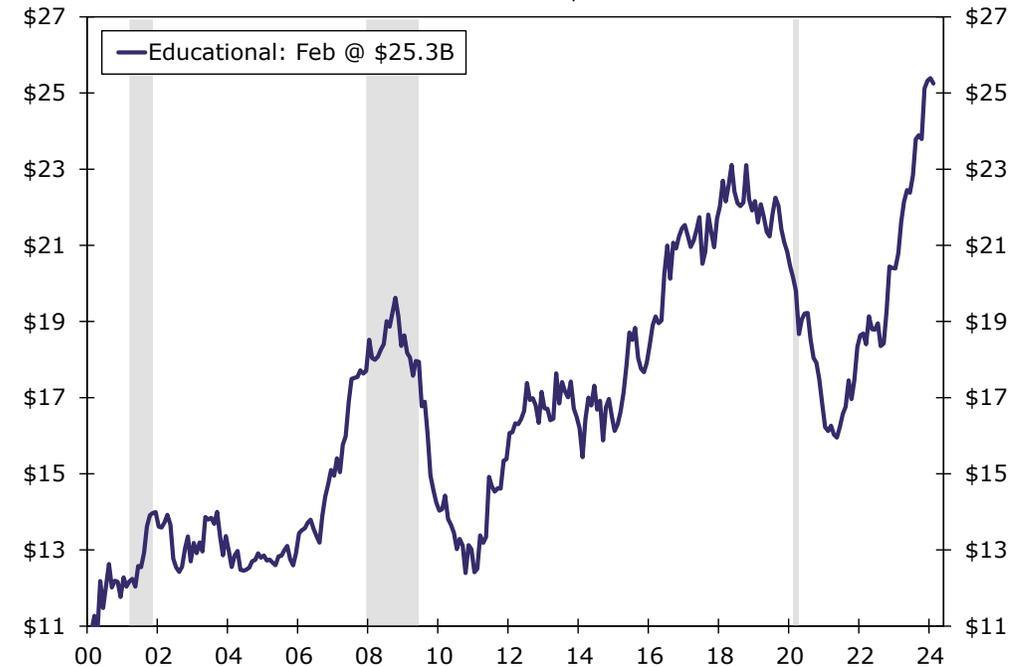
### Private Health Care Construction Put-in-Place

Billions of Dollars, SAAR

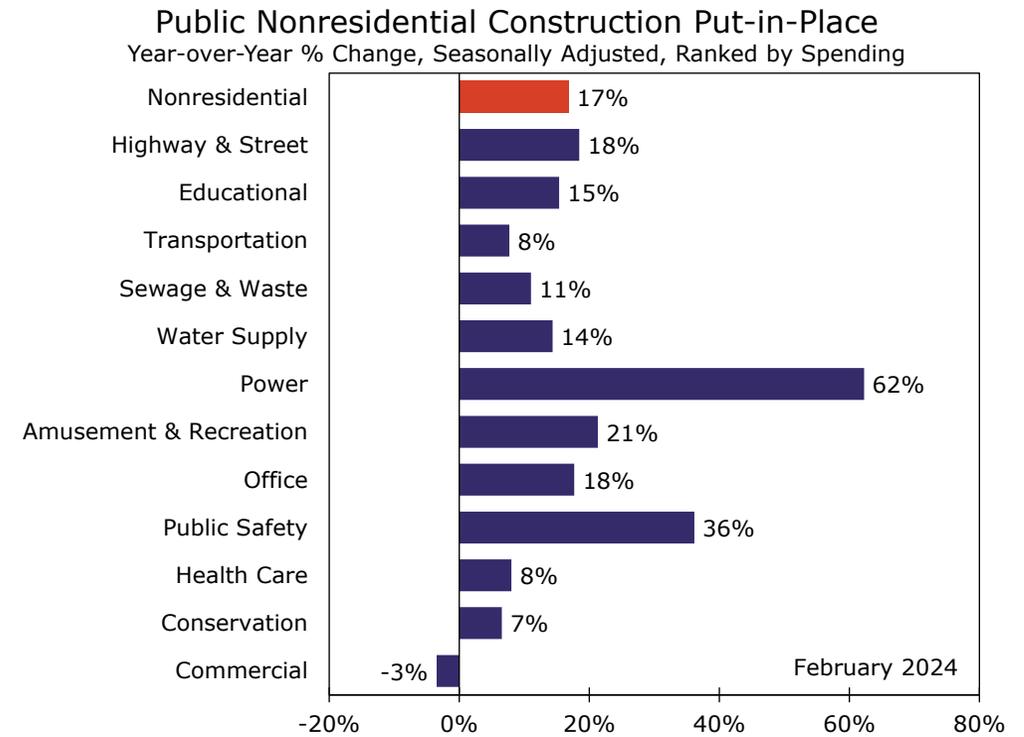
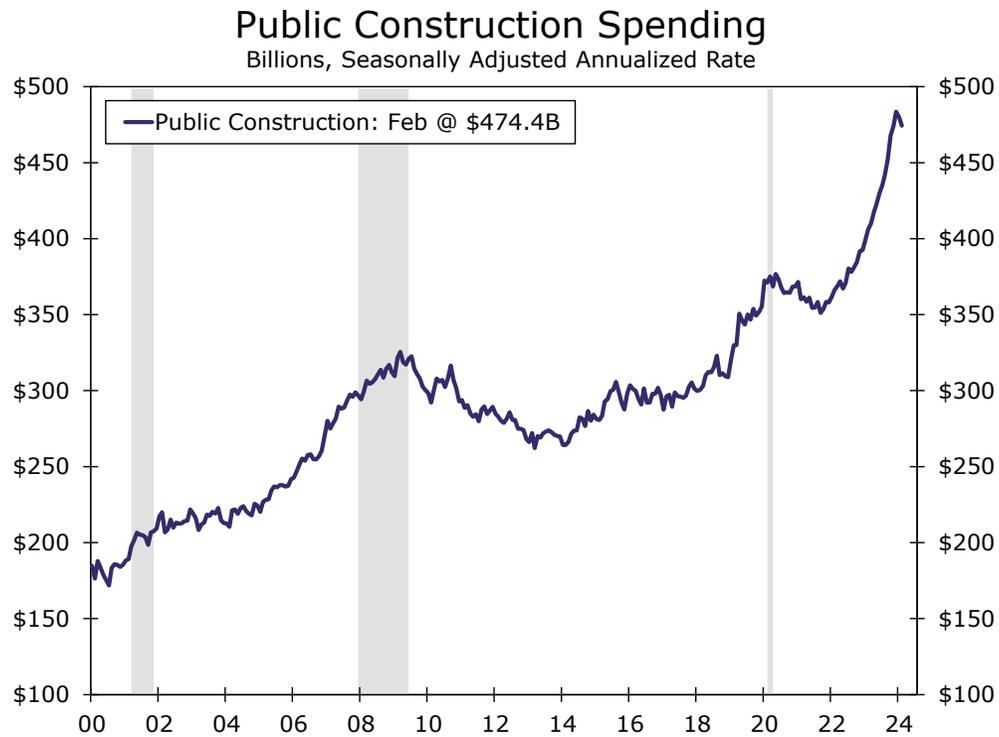


### Private Education Construction Put-in-Place

Billions of Dollars, SAAR



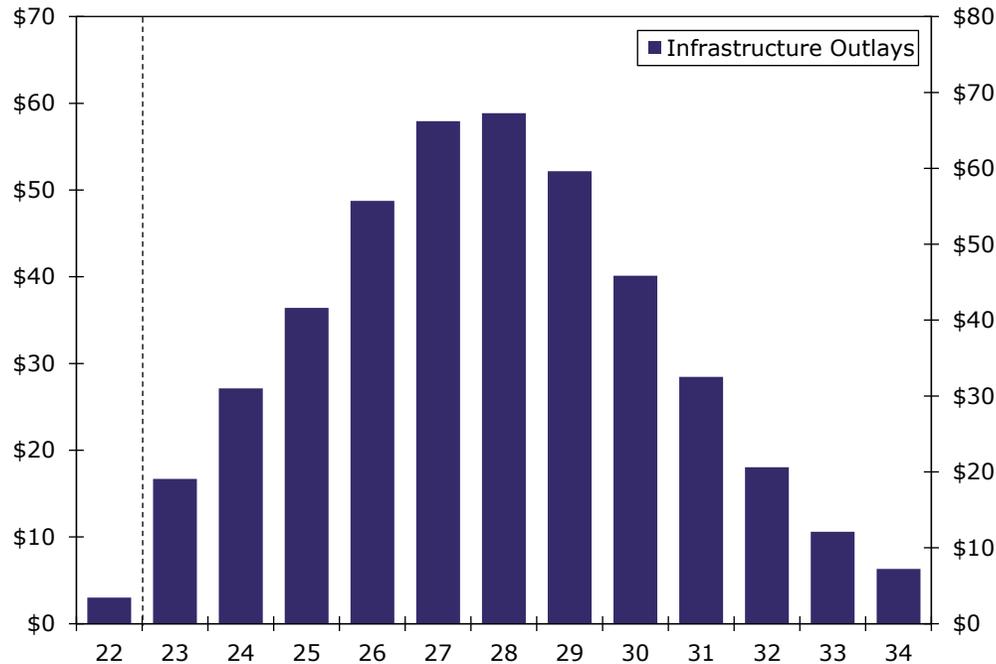
Public construction spending has picked up significantly, notably for highway & street, educational, transportation and power construction.



The Infrastructure Investment and Jobs Act, in addition to other public funding sources, will be supportive of overall construction for the next decade.

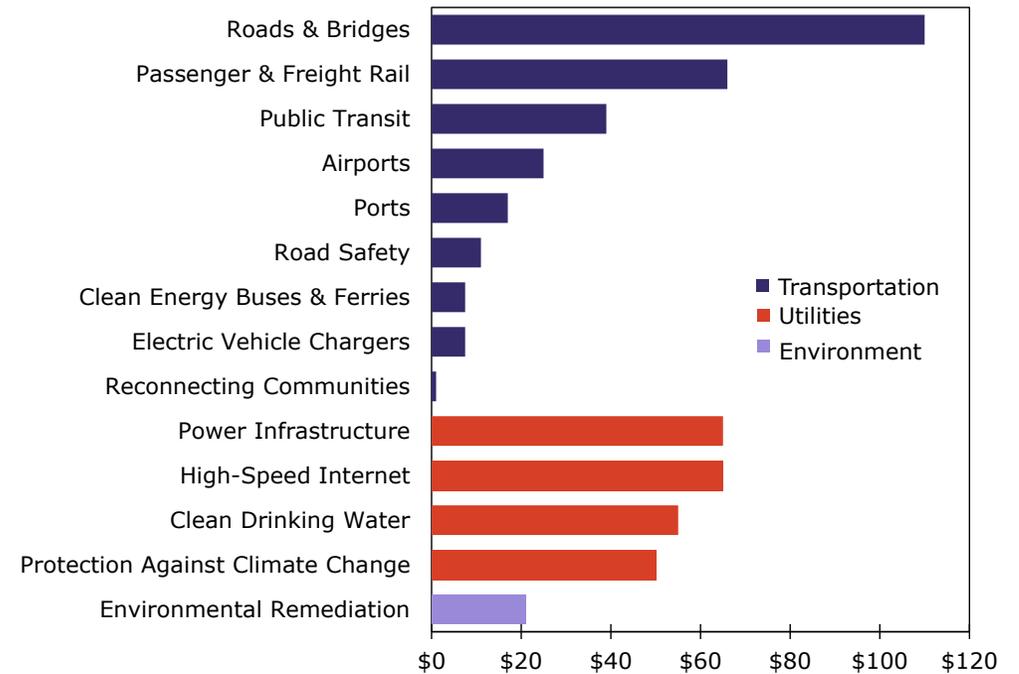
## Infrastructure Package Spend Out Projections

CBO Estimate, Billions, Fiscal Years, Includes IIJA and BSCA



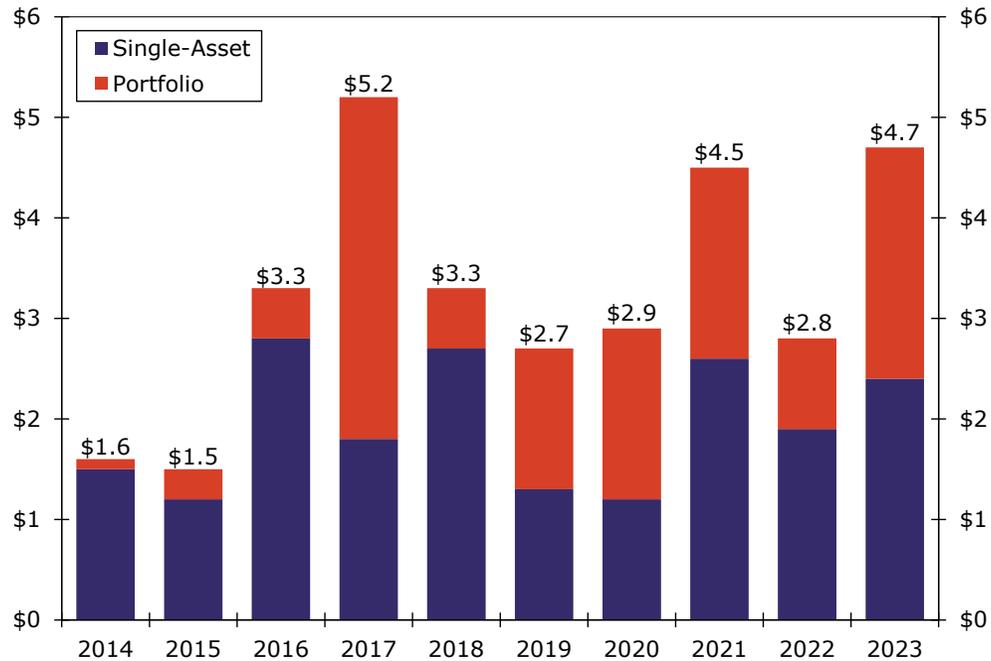
## New Investment in the Infrastructure Bill

Billions of Dollars

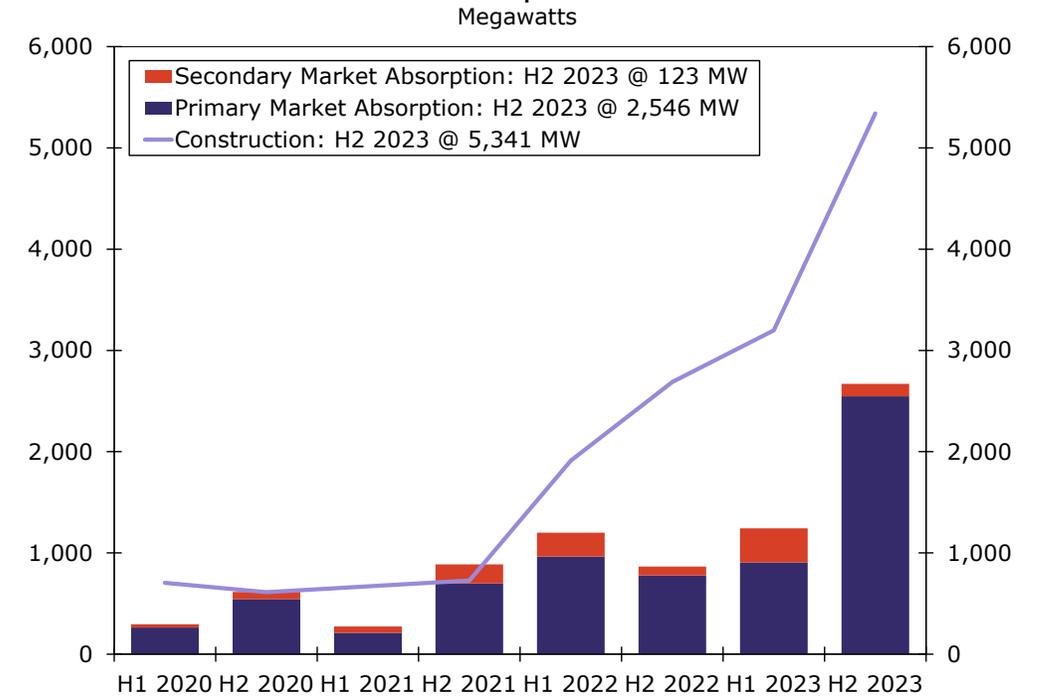


The rise of generative AI technology and other digital services are fueling demand for data centers. Generative AI is a power-intensive technology, and developers are racing to expand network capacity.

### North America Data Center Transaction Volume



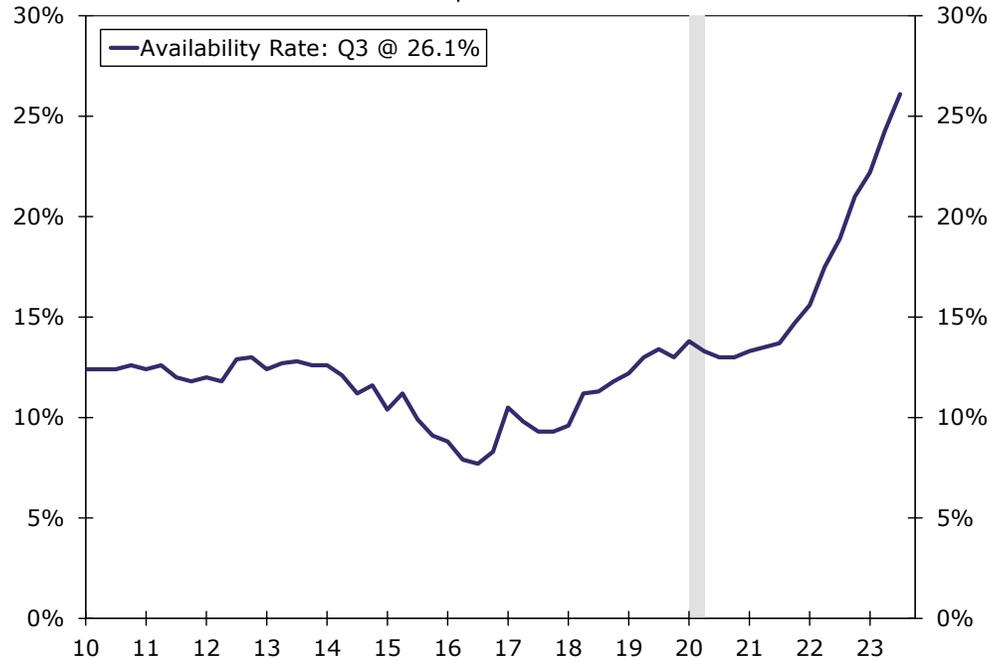
### U.S. Data Center Absorption and Construction



The flourishing life sciences industry has fueled the development of new lab space, particularly in research-intensive coastal metros. Lab space availability is poised to run higher as the supply pipeline has widened over the past few years.

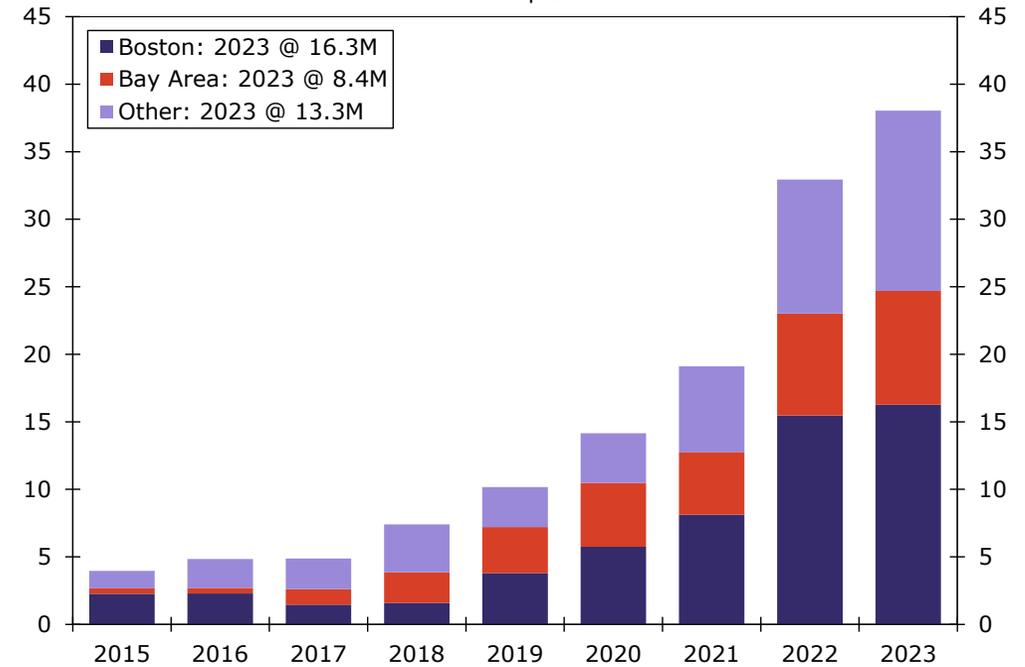
### Lab Space Availability Rate

Top Markets

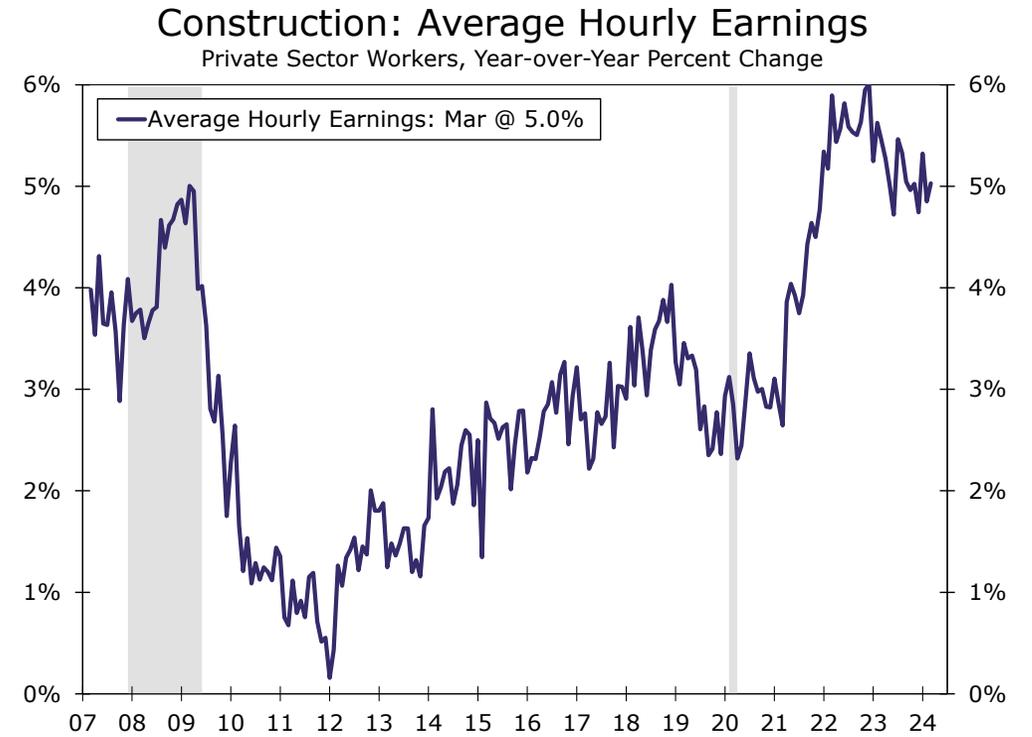
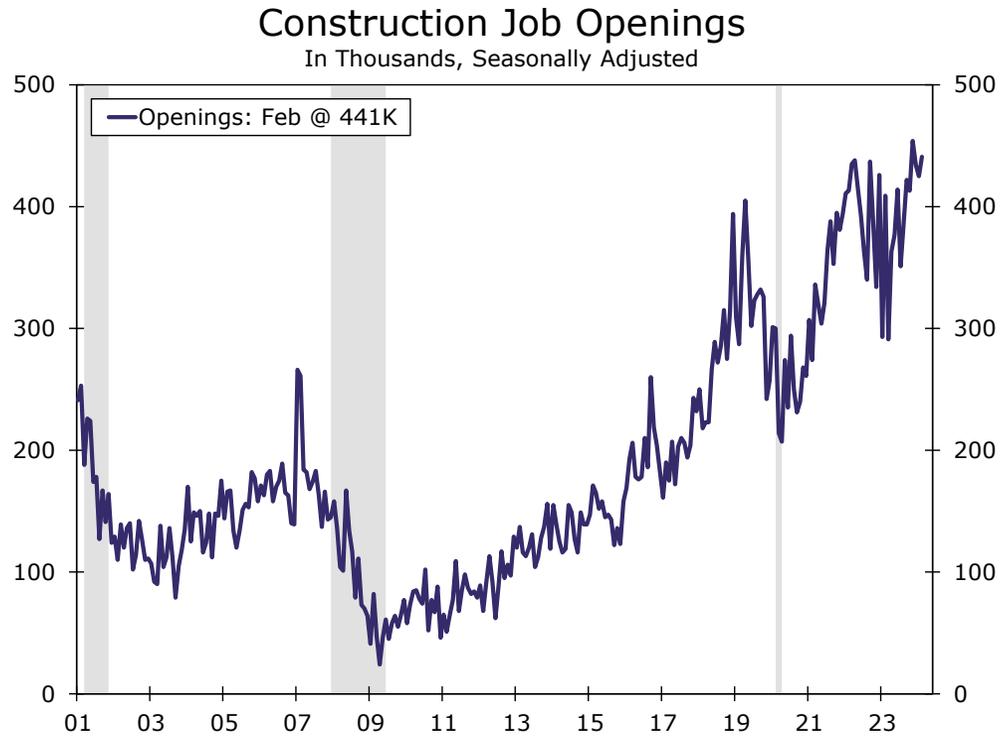


### Lab Space Under Development

Millions of Square Feet



Labor availability issues have further fueled cost pressures. Openings for construction jobs remain near record levels.

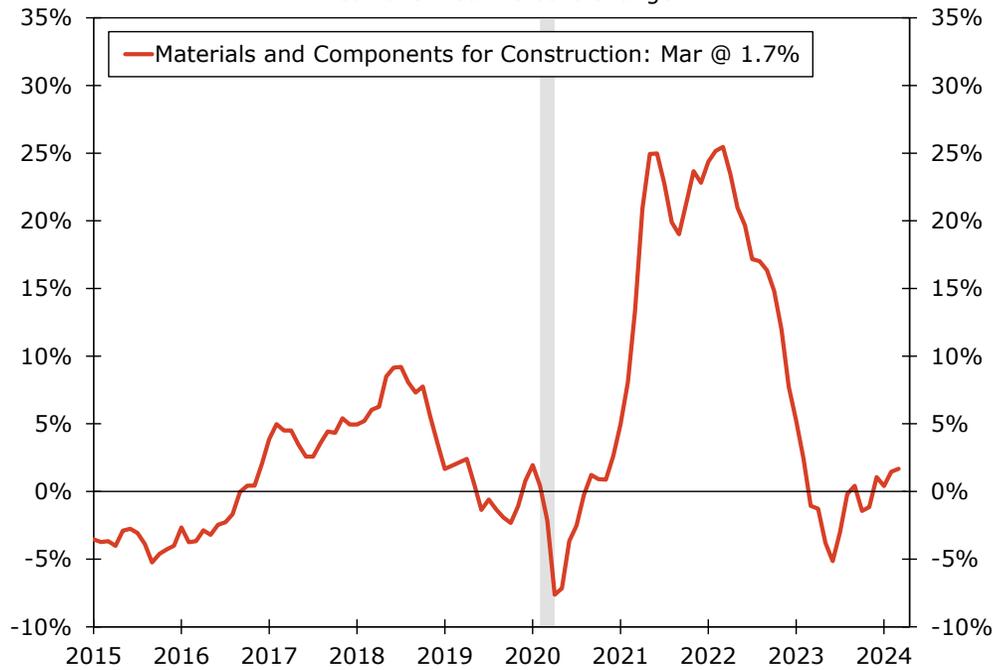


# Building Material Inflation

Although still markedly higher than pre-pandemic, building material cost inflation has eased considerably.

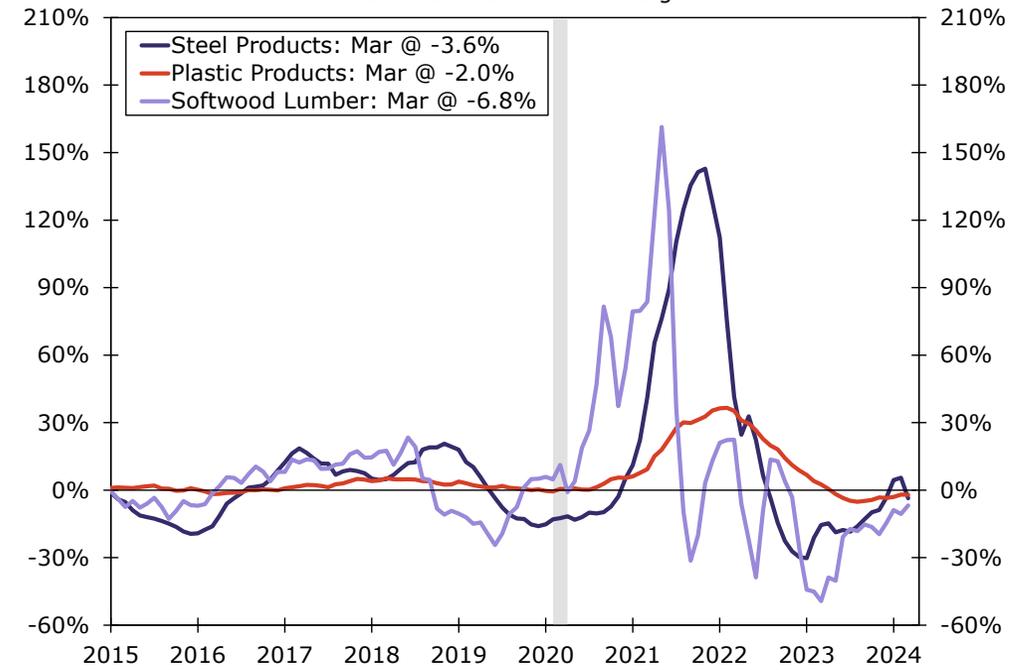
### Producer Price Index: Construction

Year-over-Year Percent Change

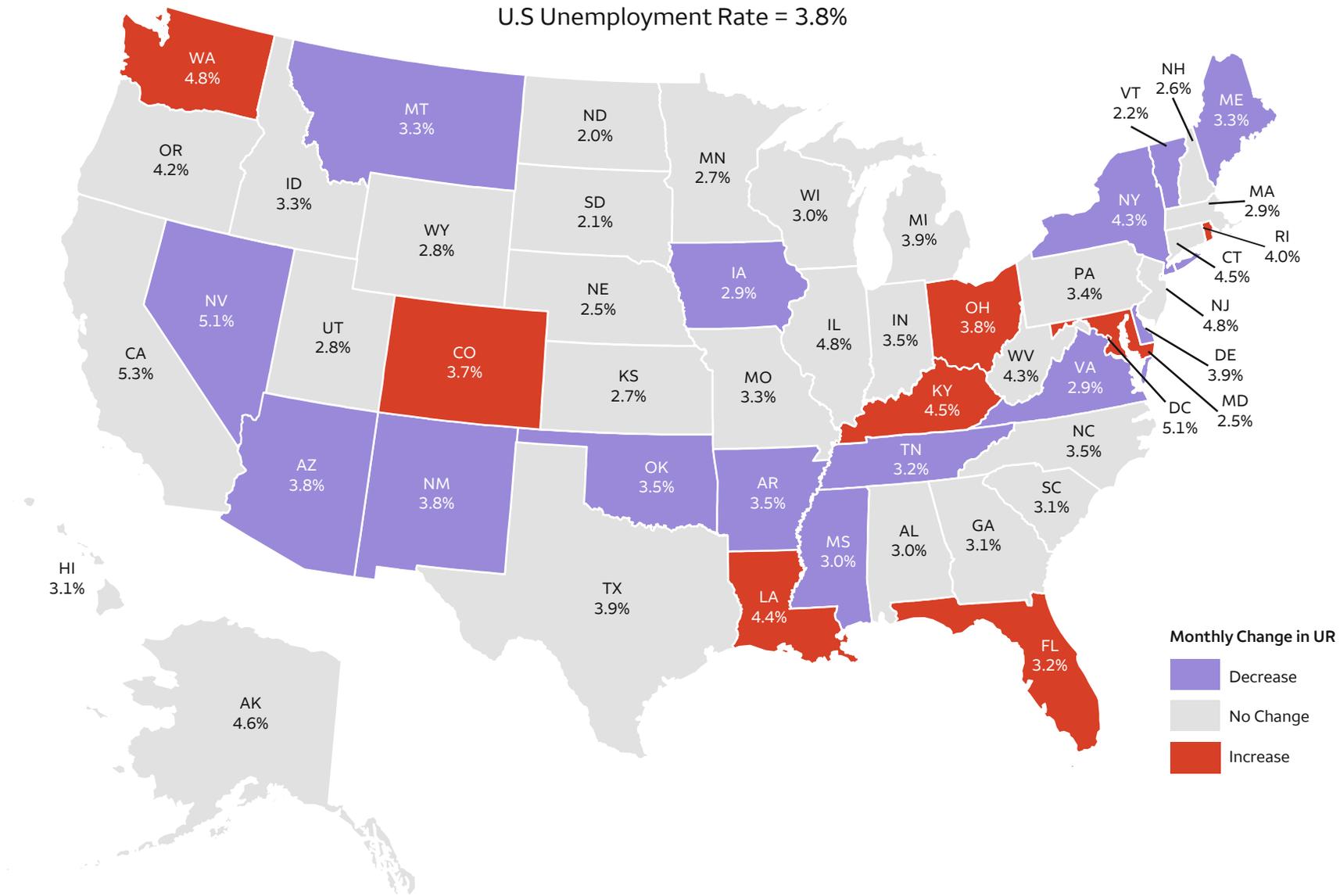


### PPI: Construction Prices

Year-over-Year Percent Change

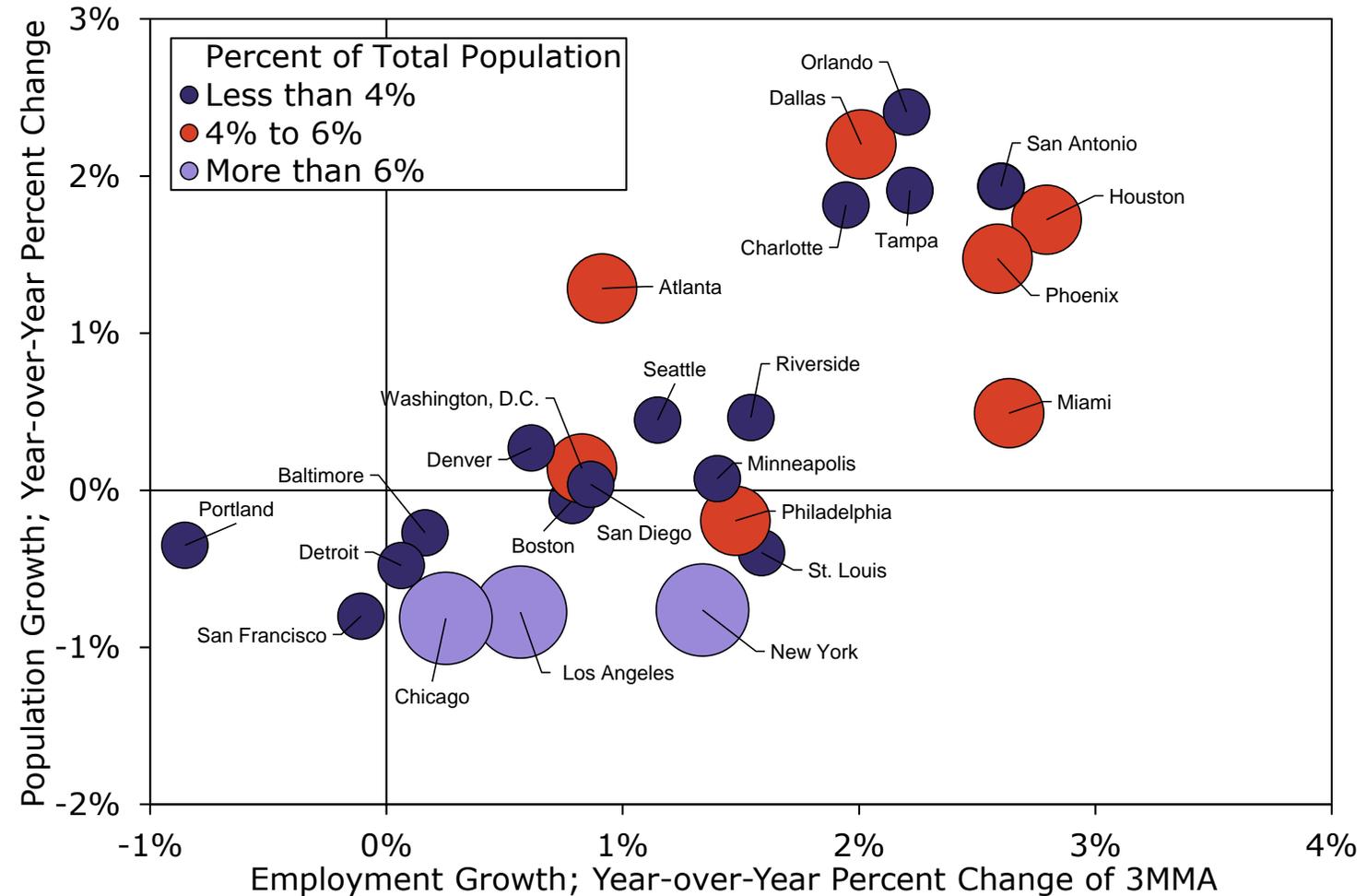


# State Unemployment Rates – March 2024



The Sun Belt markets continue to exhibit strong economic and population growth compared to other regions.

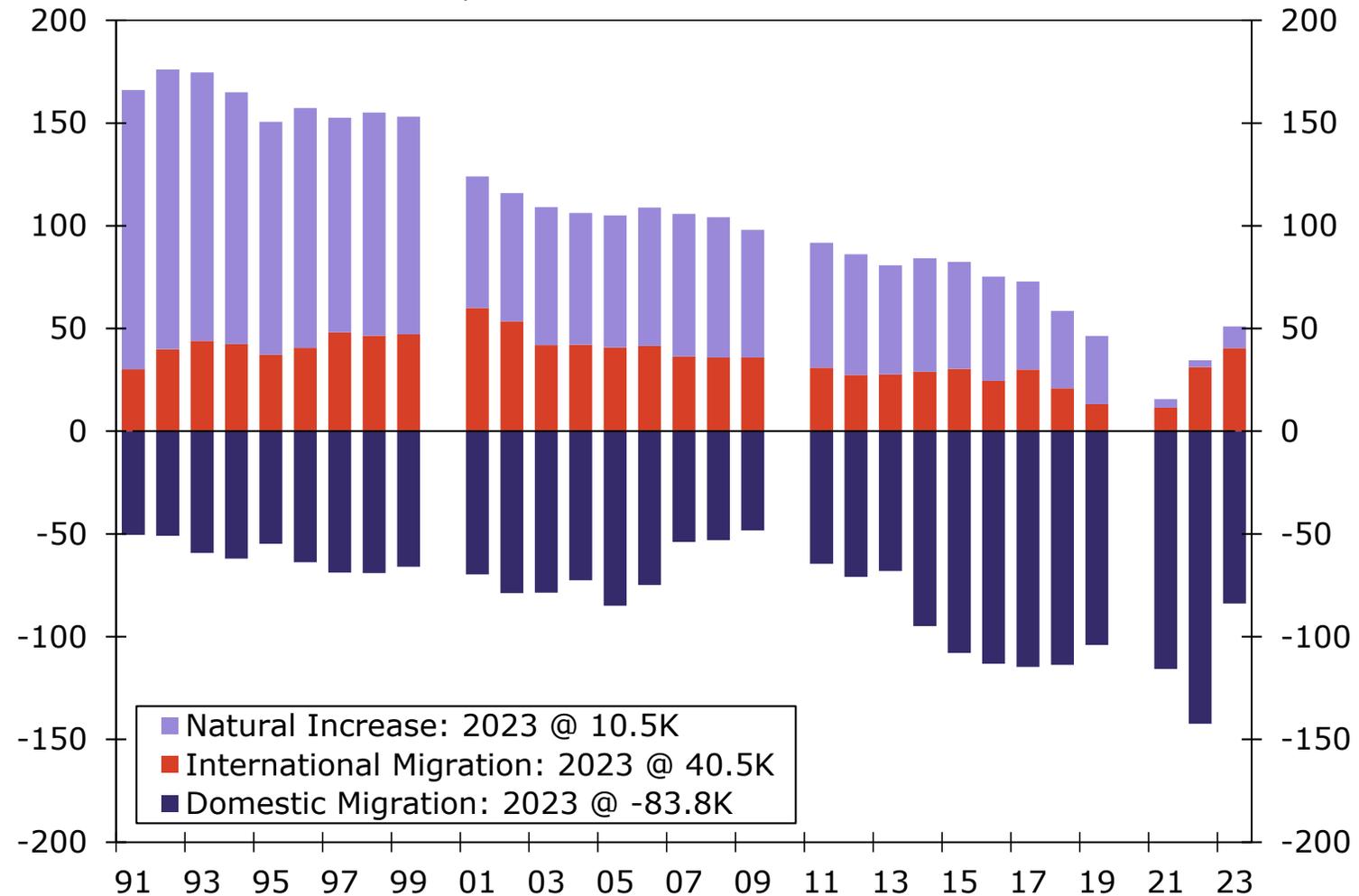
## U.S. Population & Employment Growth by MSA February 2024



Population loss in 2023 was the lowest since 2015, and recovering international migration should help to offset moderating domestic outflows.

## Components of Population Change: Illinois

In Thousands, Series Breaks on Decennial Census Years

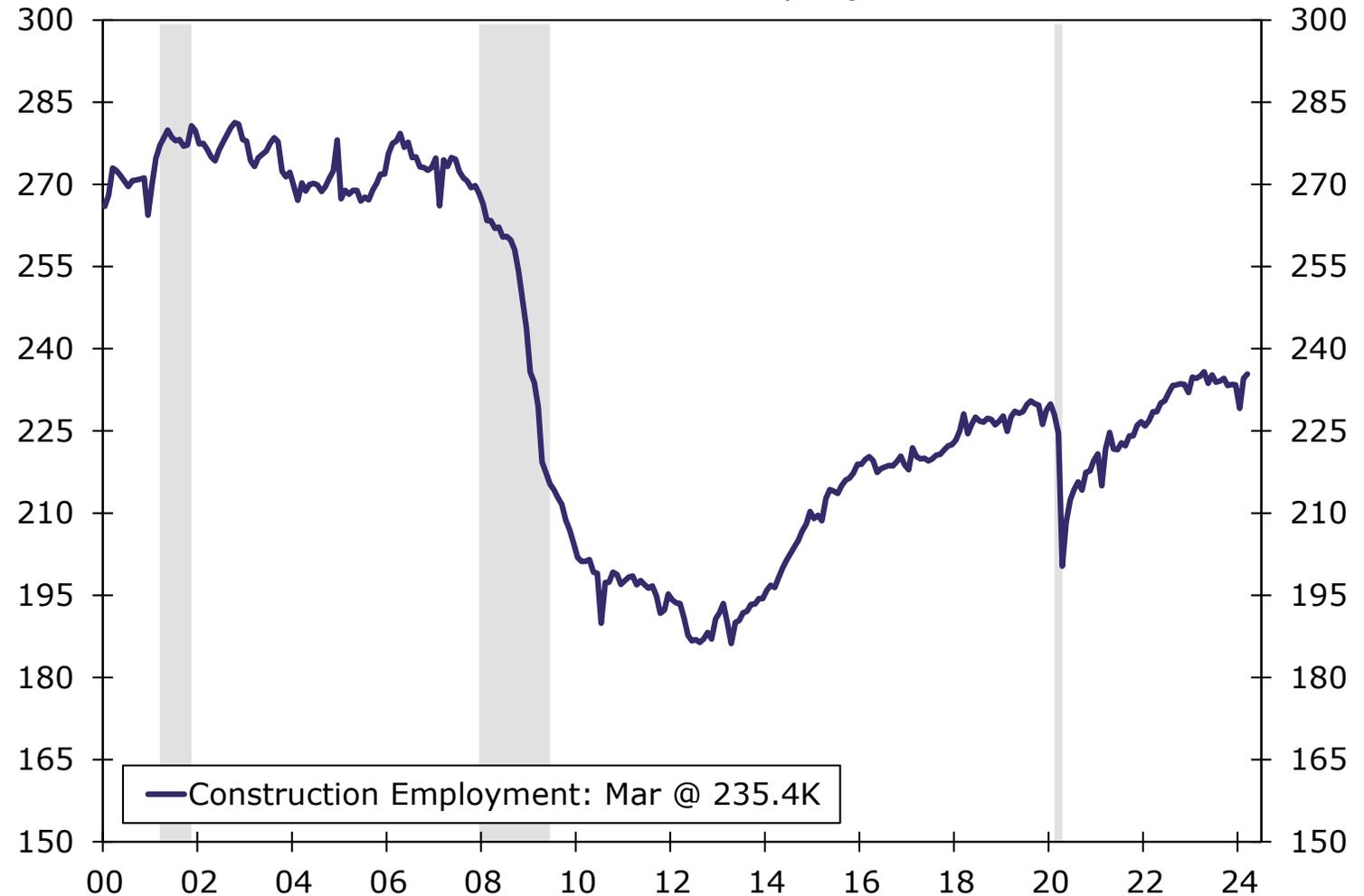


Construction employment has held steady since recovering from the pandemic downturn.

Manufacturing and infrastructure projects in the state should continue to support headcounts going forward.

## Illinois Construction Employment

In Thousands, Seasonally Adjusted



Wells Fargo U.S. Economic Forecast																
	Actual				Forecast								Actual		Forecast	
	2023				2024				2025				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.2	2.1	4.9	3.4	2.2	1.9	1.6	1.5	1.9	2.2	2.5	2.5	1.9	2.5	2.6	2.0
Personal Consumption	3.8	0.8	3.1	3.3	2.3	2.1	1.6	1.7	1.7	1.9	2.2	2.3	2.5	2.2	2.3	1.8
Business Fixed Investment	5.7	7.4	1.4	3.7	2.8	0.0	0.5	1.1	3.4	5.0	6.9	6.3	5.2	4.5	2.1	3.3
Equipment	-4.1	7.7	-4.4	-1.1	2.0	0.5	2.0	2.7	5.5	5.7	8.9	5.7	5.2	-0.3	0.7	4.7
Intellectual Property Products	3.8	2.7	1.8	4.3	4.0	1.0	1.2	1.3	3.8	5.6	6.9	7.6	9.1	4.5	2.6	3.8
Structures	30.3	16.1	11.2	10.9	1.5	-3.2	-3.7	-2.6	-1.6	2.4	3.2	4.5	-2.1	13.2	3.3	-0.5
Residential Investment	-5.3	-2.2	6.7	2.8	9.5	3.4	2.2	2.0	3.1	4.3	4.8	5.4	-9.0	-10.6	4.6	3.4
Government Purchases	4.8	3.3	5.8	4.6	2.4	2.0	1.5	1.2	1.2	1.0	1.0	0.8	-0.9	4.1	3.0	1.2
Net Exports <sup>2</sup>	0.6	0.0	0.0	0.3	-0.6	-0.1	0.2	0.1	-0.2	-0.3	-0.4	-0.4	-0.5	0.6	-0.1	-0.1
Inventories <sup>2</sup>	-2.2	0.0	1.3	-0.5	0.2	0.0	-0.1	-0.1	0.1	0.1	0.1	0.1	0.5	-0.4	0.1	0.0
Nonfarm Payroll Change <sup>3</sup>	305	274	213	212	276	197	153	115	112	127	133	143	377	251	185	129
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	3.8	3.9	4.0	3.9	3.9	3.8	3.8	3.6	3.6	3.9	3.9
PCE Deflator <sup>4</sup>	5.0	3.9	3.3	2.8	2.5	2.6	2.5	2.5	2.3	2.1	2.1	2.1	6.5	3.7	2.5	2.1
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate <sup>6</sup>	5.00	5.25	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50	4.25	4.00	2.02	5.23	5.31	4.38
Secured Overnight Financing Rate	4.87	5.09	5.31	5.38	5.34	5.35	5.15	4.90	4.65	4.40	4.15	3.90	1.64	5.01	5.19	4.28
Prime Rate	8.00	8.25	8.50	8.50	8.50	8.50	8.25	8.00	7.75	7.50	7.25	7.00	5.02	8.23	8.31	7.38
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.82	7.05	6.80	6.50	6.30	6.15	6.00	5.90	5.38	6.80	6.79	6.09
3 Month Bill	4.85	5.43	5.55	5.40	5.46	5.35	5.10	4.85	4.60	4.35	4.10	3.85	2.09	5.28	5.19	4.23
6 Month Bill	4.94	5.47	5.53	5.26	5.38	5.25	4.95	4.70	4.45	4.20	3.95	3.70	2.51	5.28	5.07	4.08
1 Year Bill	4.64	5.40	5.46	4.79	5.03	5.05	4.70	4.45	4.20	3.95	3.70	3.50	2.80	5.08	4.81	3.84
2 Year Note	4.06	4.87	5.03	4.23	4.59	4.80	4.40	4.05	3.85	3.70	3.55	3.45	2.99	4.58	4.46	3.64
5 Year Note	3.60	4.13	4.60	3.84	4.21	4.45	4.15	3.90	3.80	3.70	3.65	3.60	3.00	4.06	4.18	3.69
10 Year Note	3.48	3.81	4.59	3.88	4.20	4.40	4.20	4.00	3.90	3.85	3.80	3.75	2.95	3.96	4.20	3.83
30 Year Bond	3.67	3.85	4.73	4.03	4.34	4.50	4.40	4.30	4.20	4.10	4.05	4.00	3.11	4.09	4.39	4.09

Forecast as of: April 11, 2024

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

<sup>4</sup> Year-over-Year Percentage Change

<sup>5</sup> Quarterly Data - Period End; Annual Data - Annual Averages

<sup>6</sup> Upper Bound of the Federal Funds Target Range

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