



# The U.S. Economic Outlook

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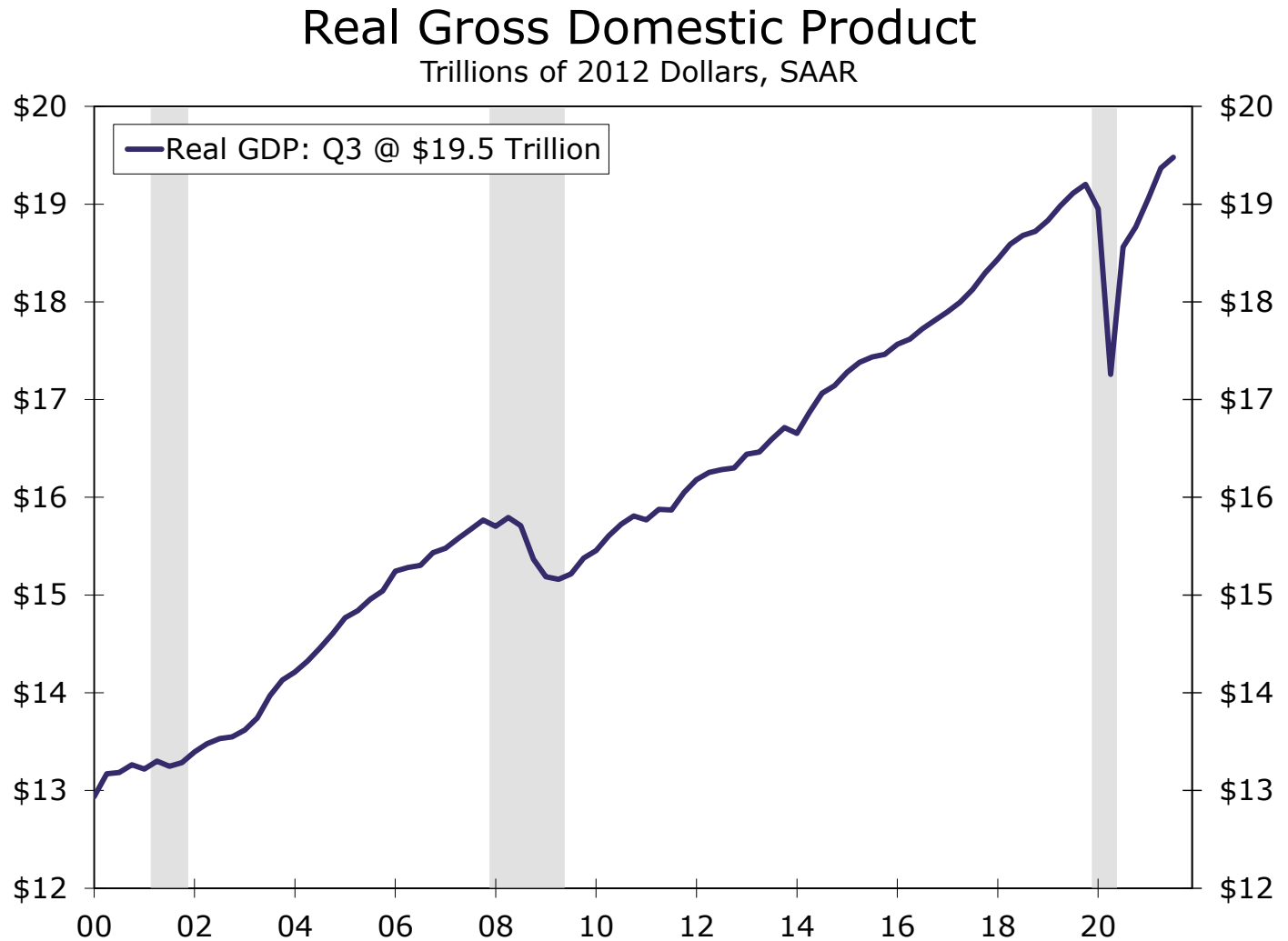
January 25, 2022

**Jay Bryson, Ph.D.**

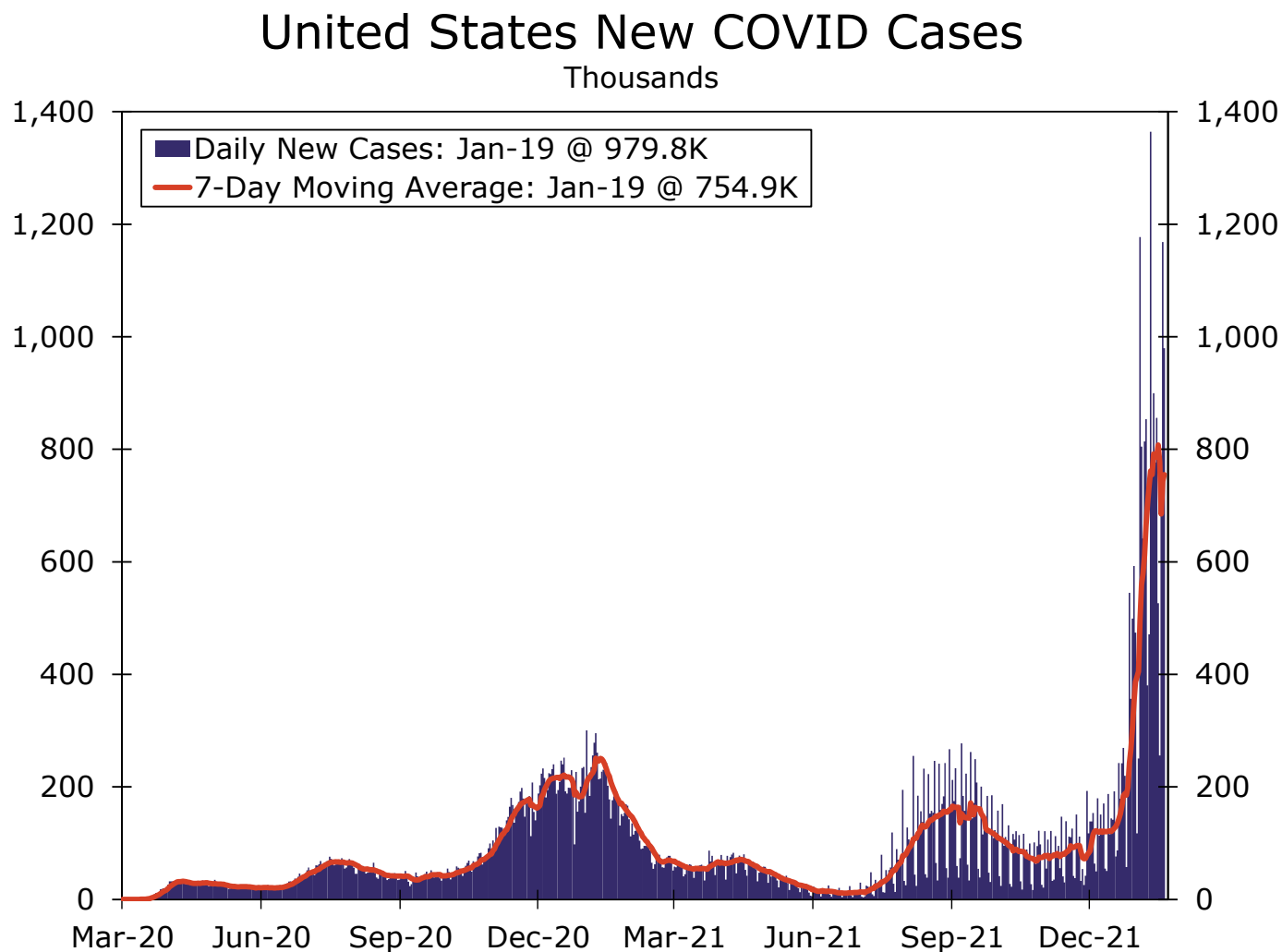
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The level of real GDP has surpassed its pre-pandemic peak



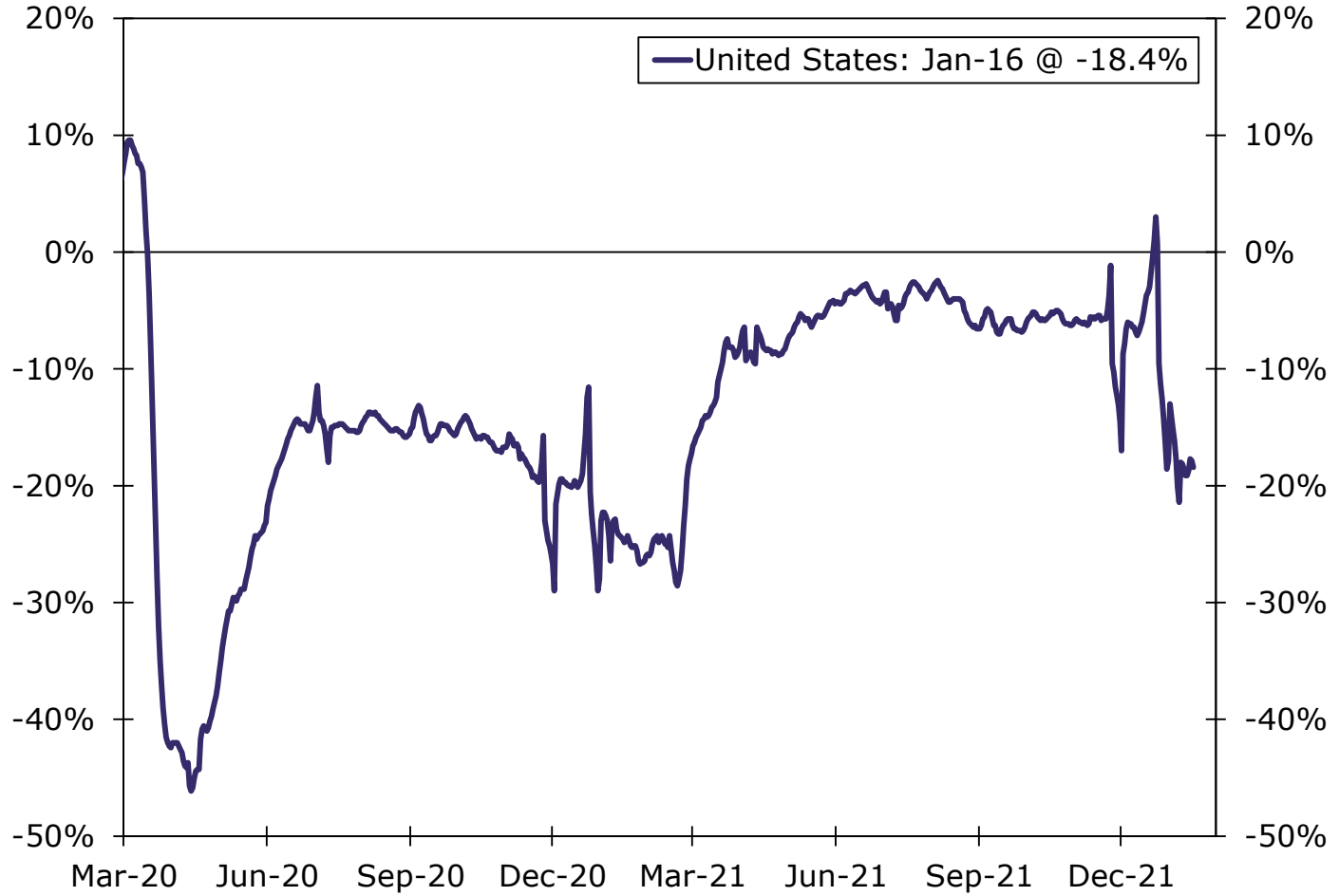
The Omicron variant adds uncertainty to the outlook



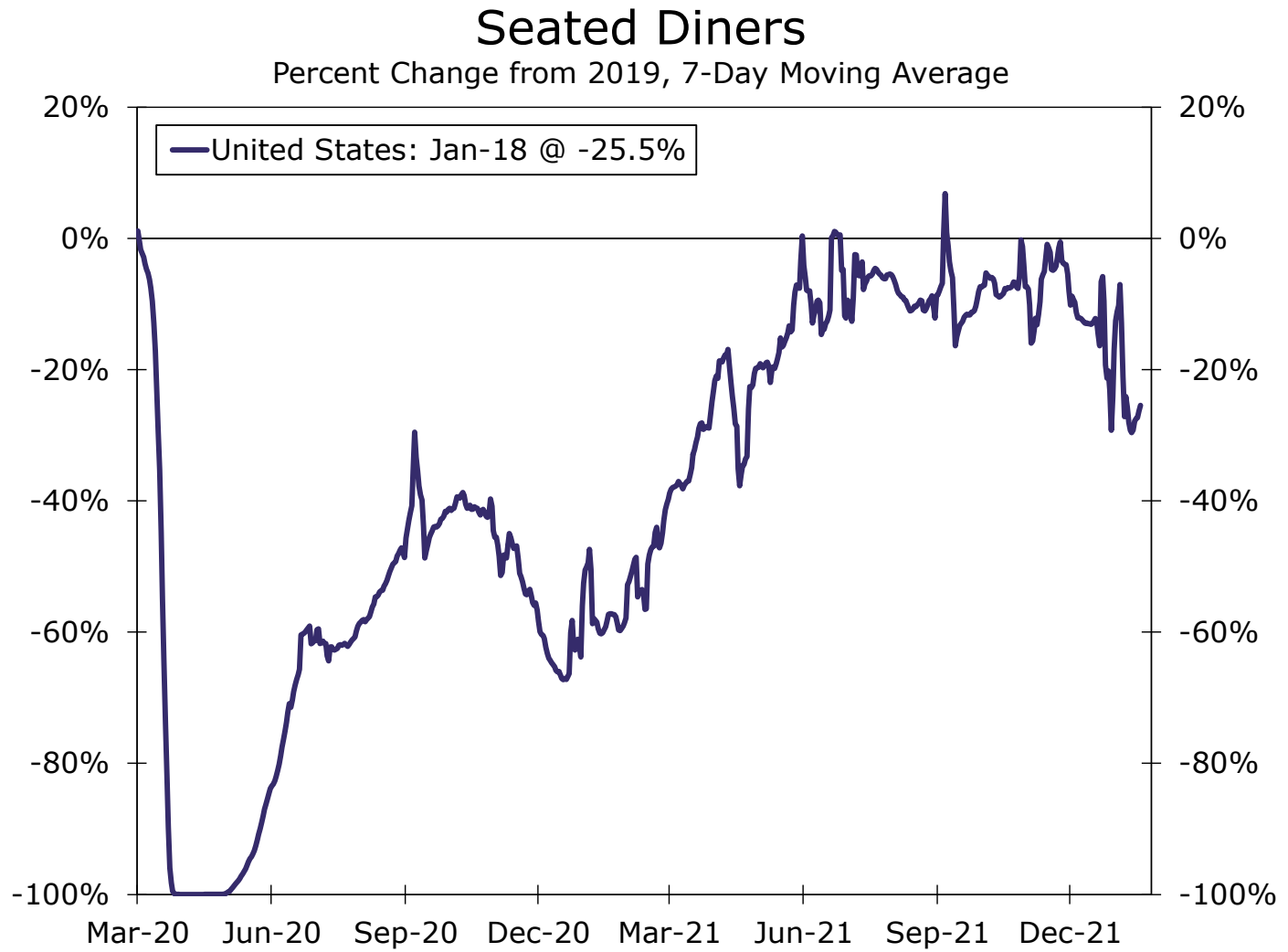
Visits to retail locations have weakened

## Visits to Retail & Recreation Locations

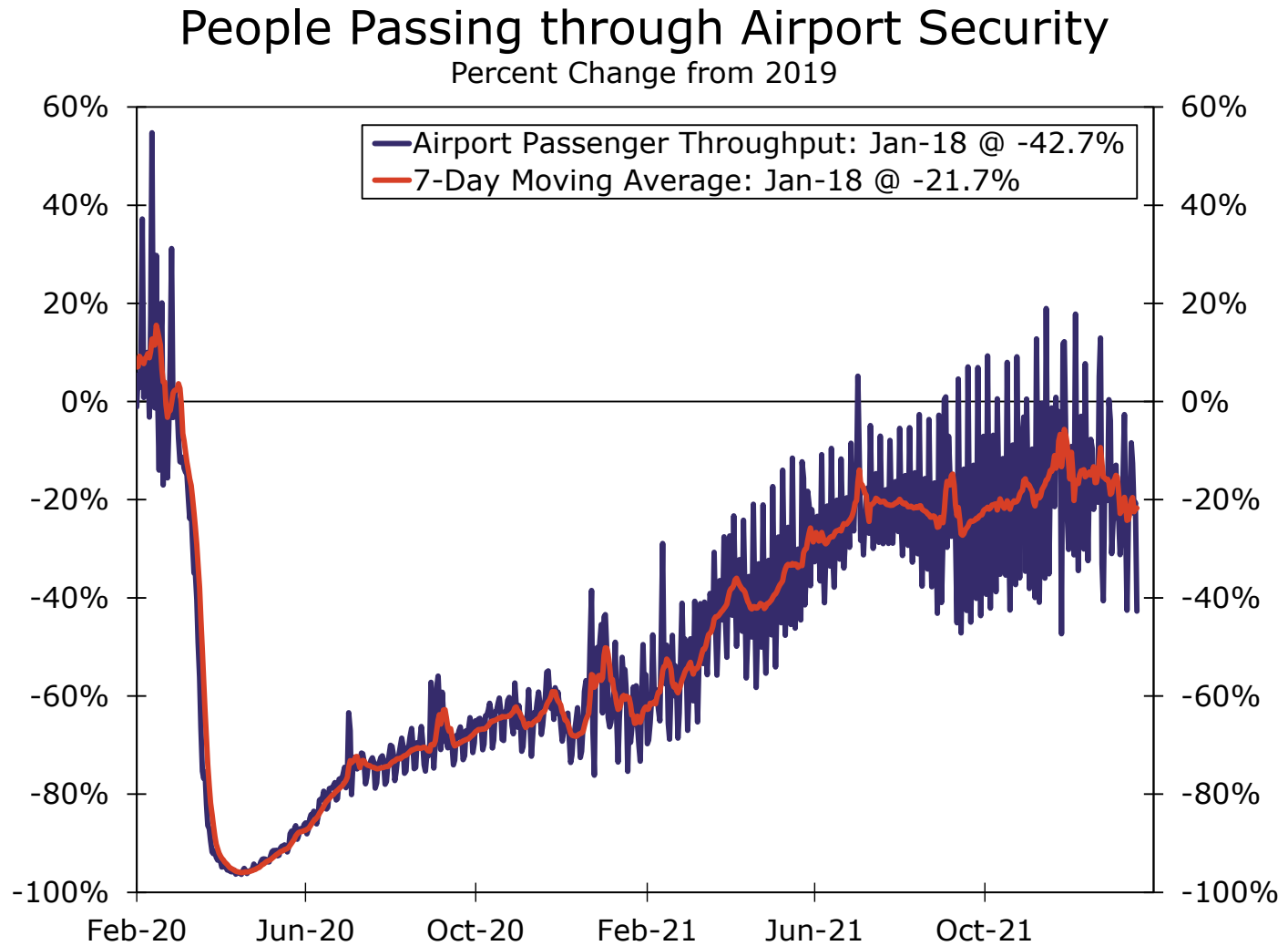
Percent Change from Baseline, 7-Day Moving Average



Dining at restaurants has rolled over

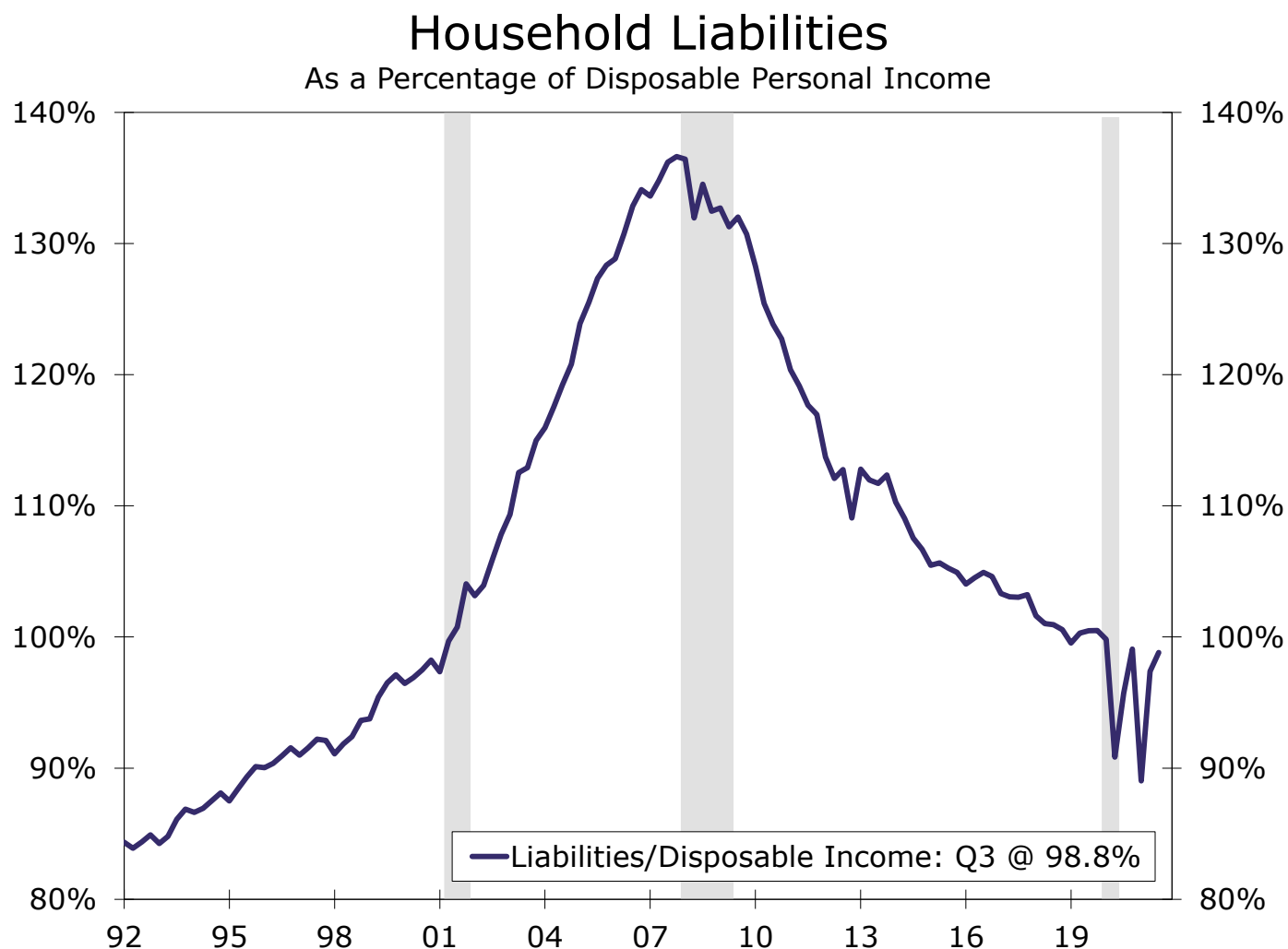


Air travel also is rolling over



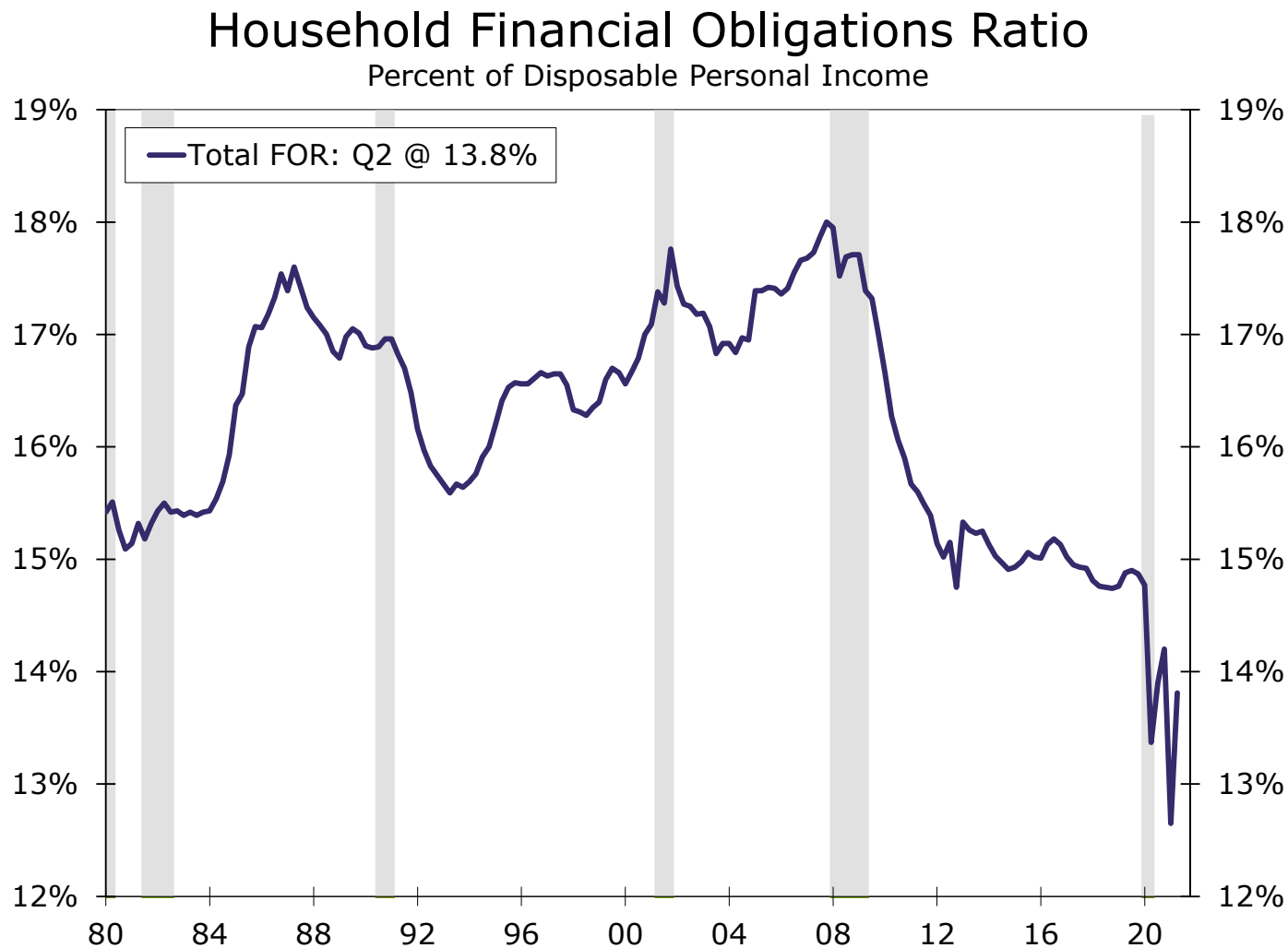
# Household Debt-to-Income

The household sector de-levered significantly over the past decade



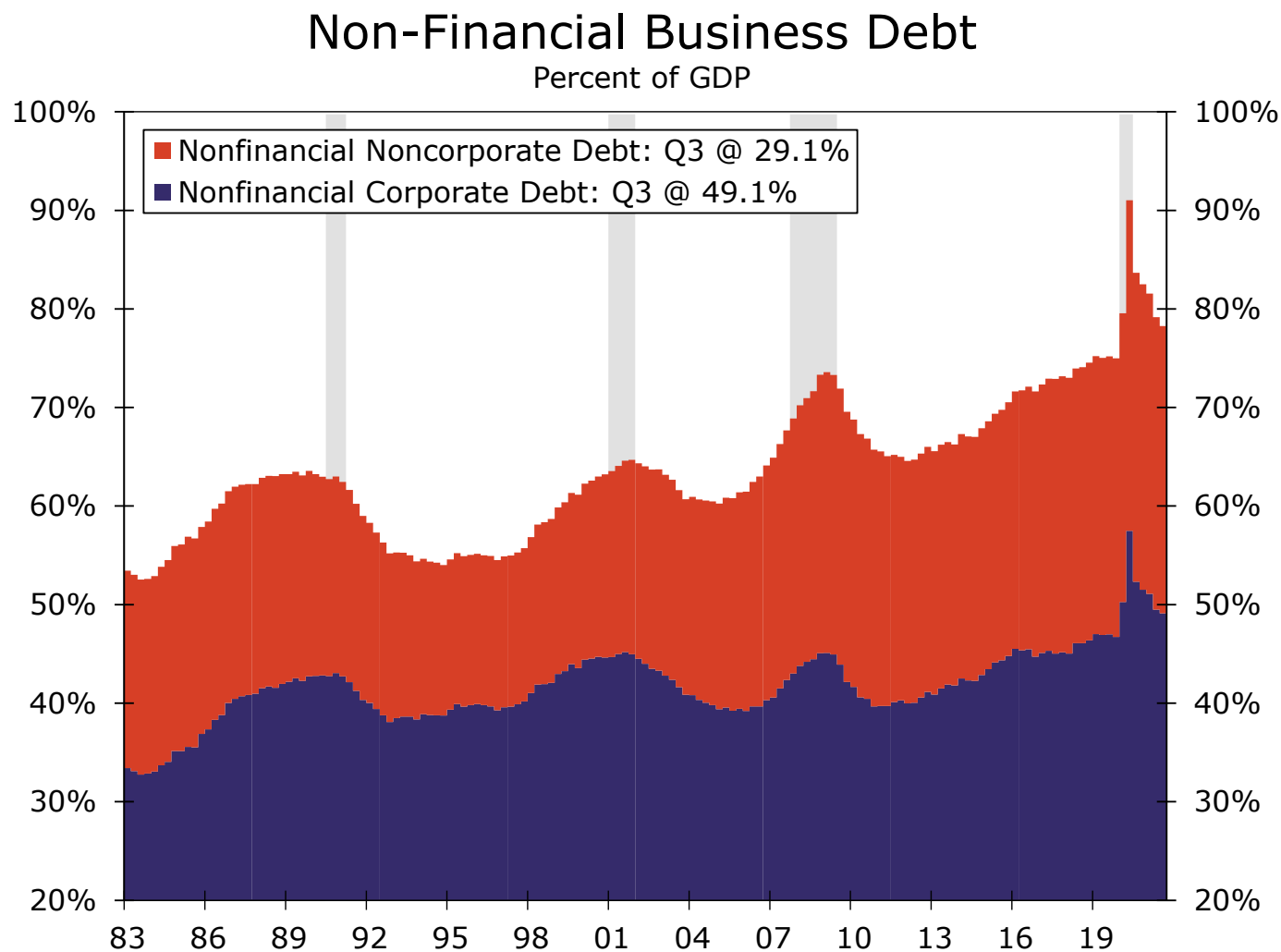
# Financial Obligations Ratio

The financial obligations ratio remains near an all-time low



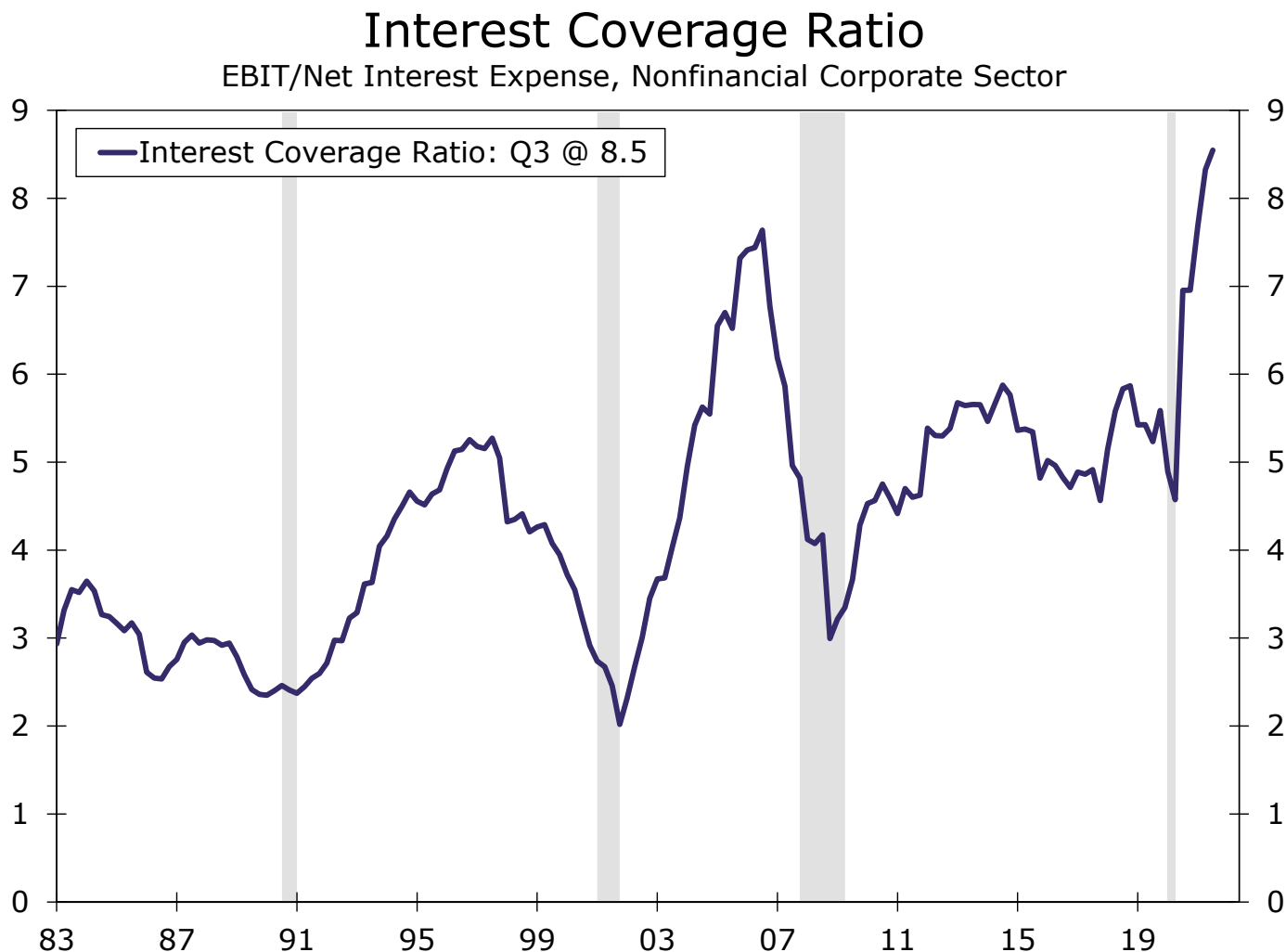


The business sector  
has become  
increasingly levered



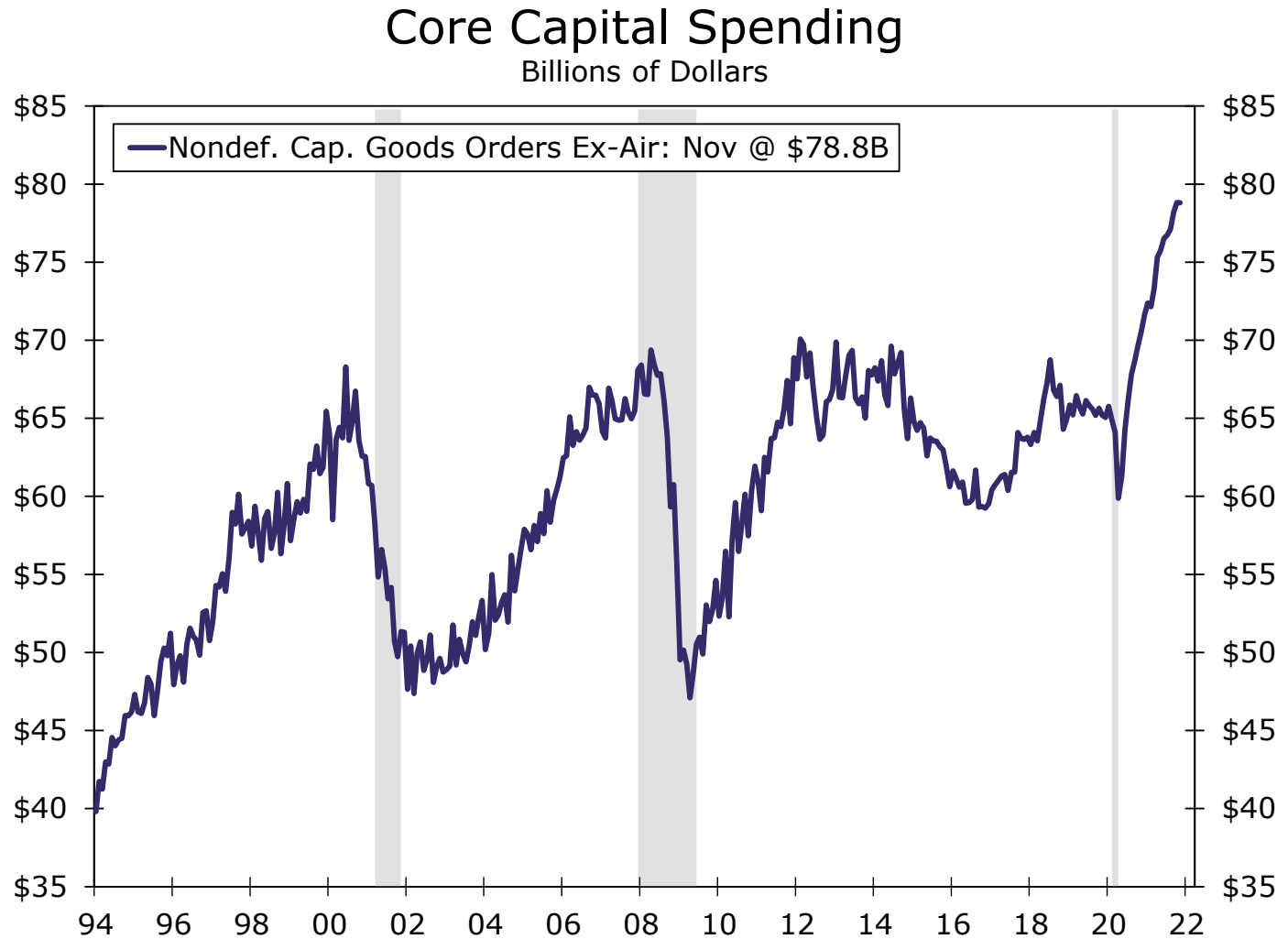
# Interest Coverage Ratio

But interest expenses in the non-financial corporate sector are manageable



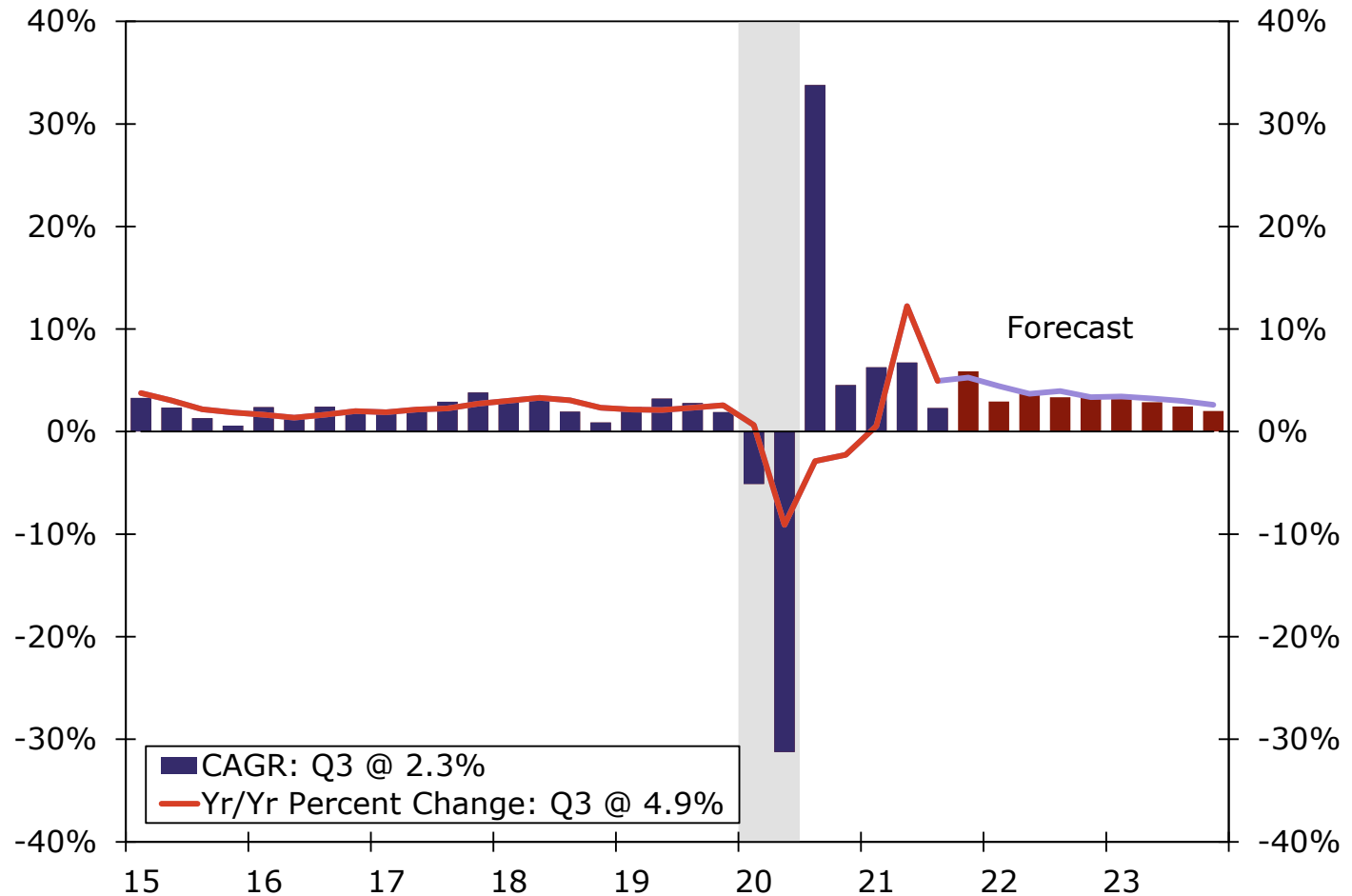
# Core Capital Goods Orders

Indicators of capital spending have been strong



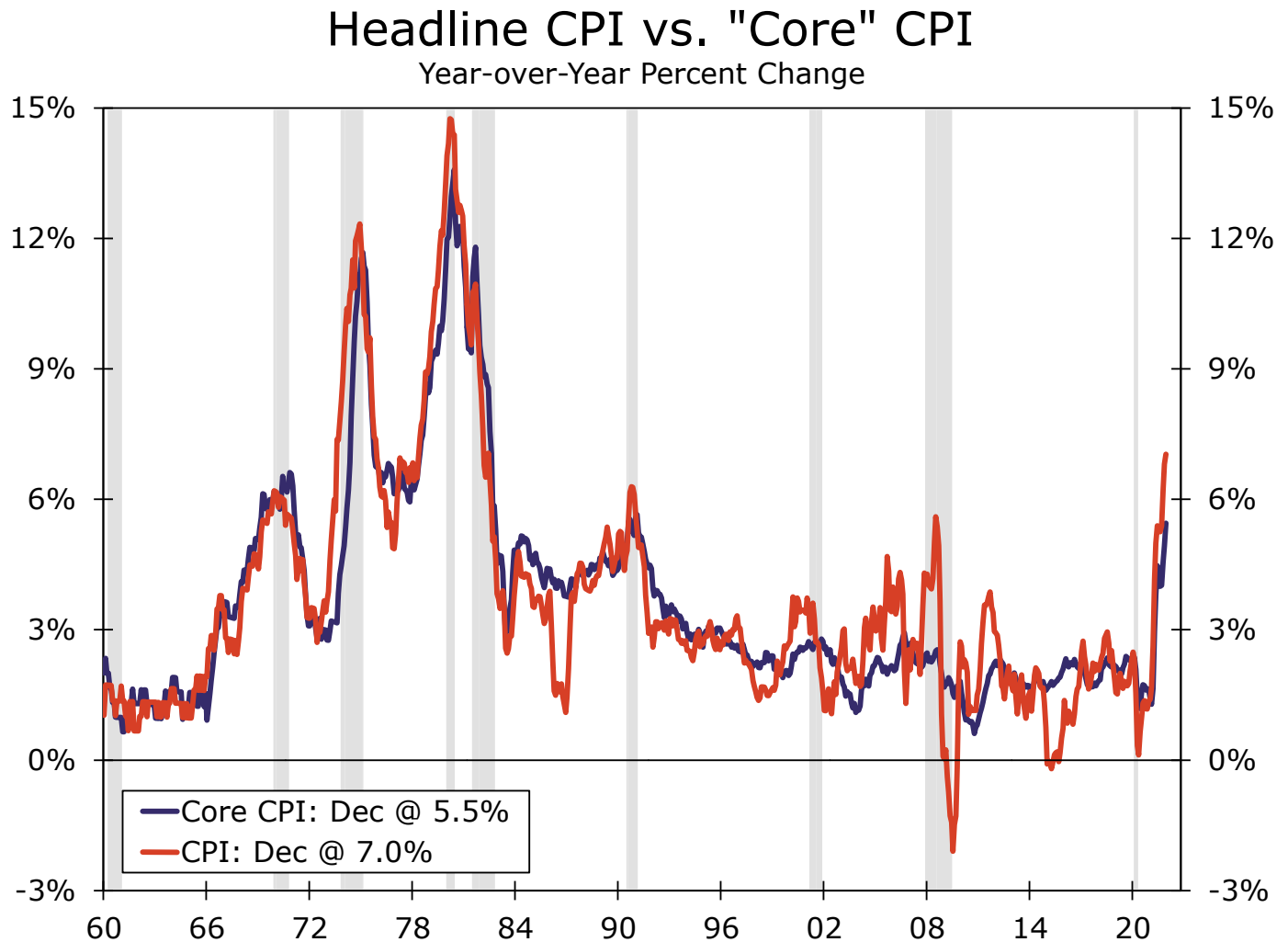
We look for growth in the U.S. economy to remain generally solid in coming quarters

## U.S. Real GDP Growth



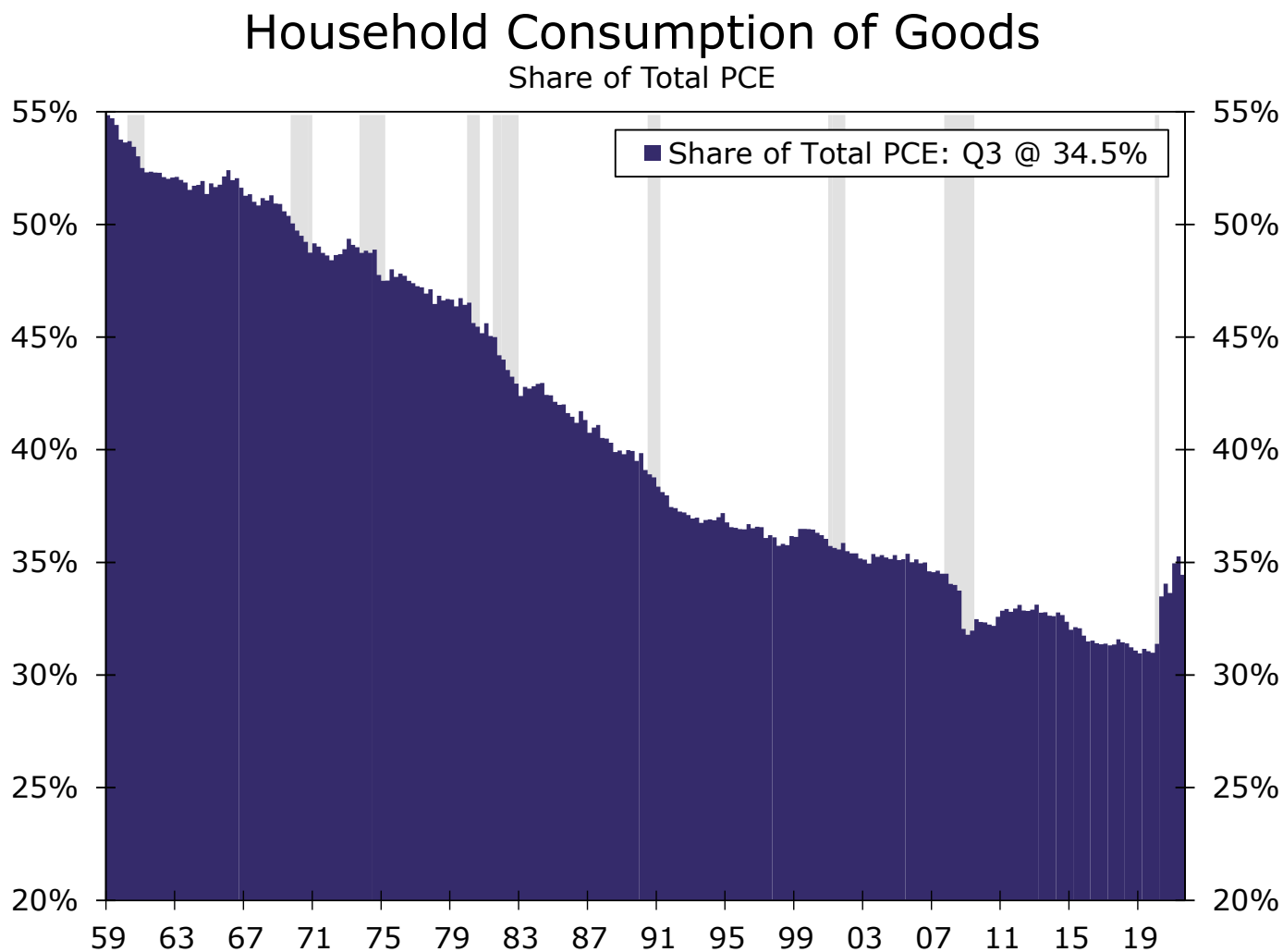
# Consumer Price Inflation

Inflation has risen significantly this year



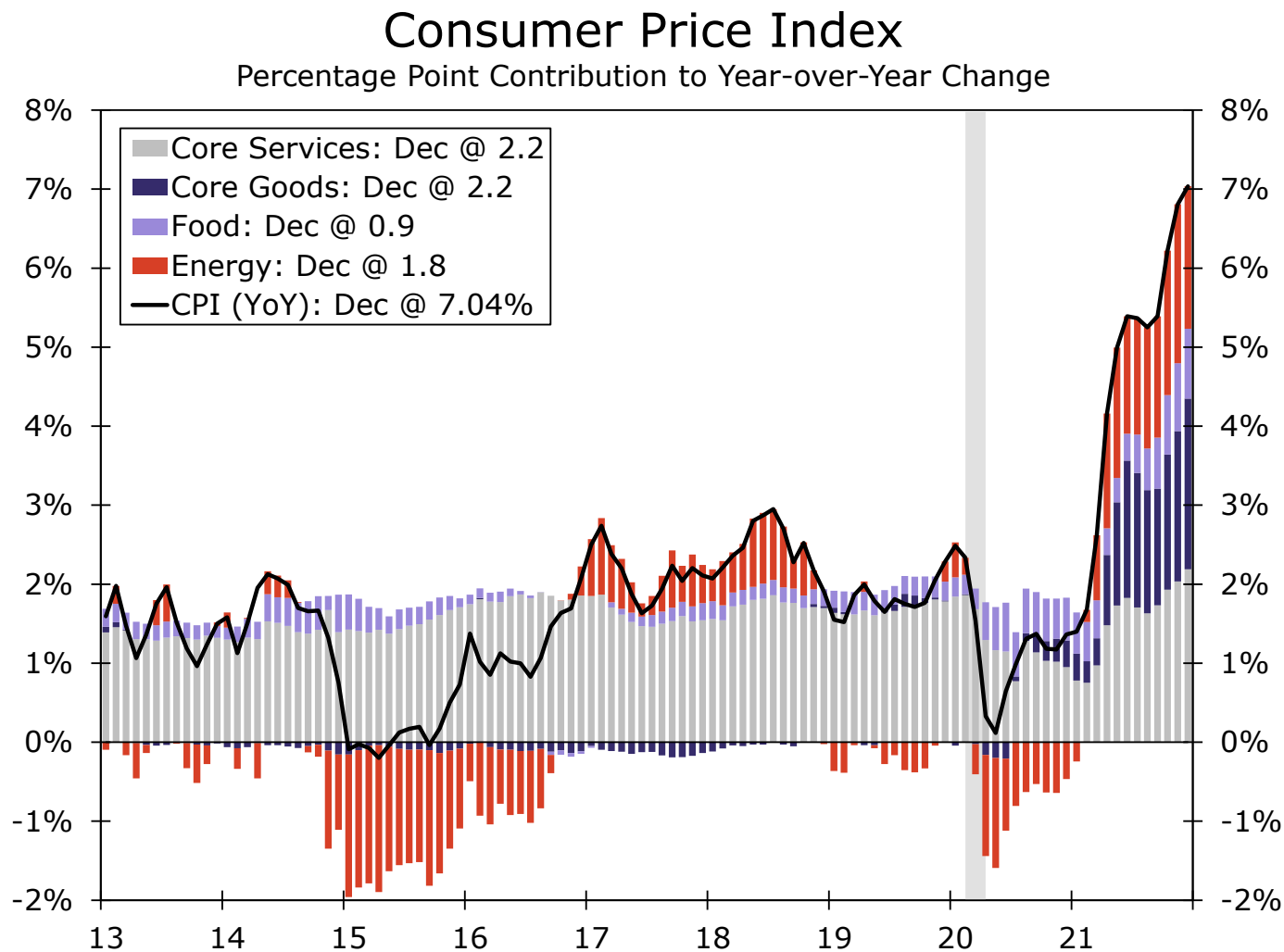
# Goods' Share of Spending

Goods account for  
one-third of  
household  
consumption today



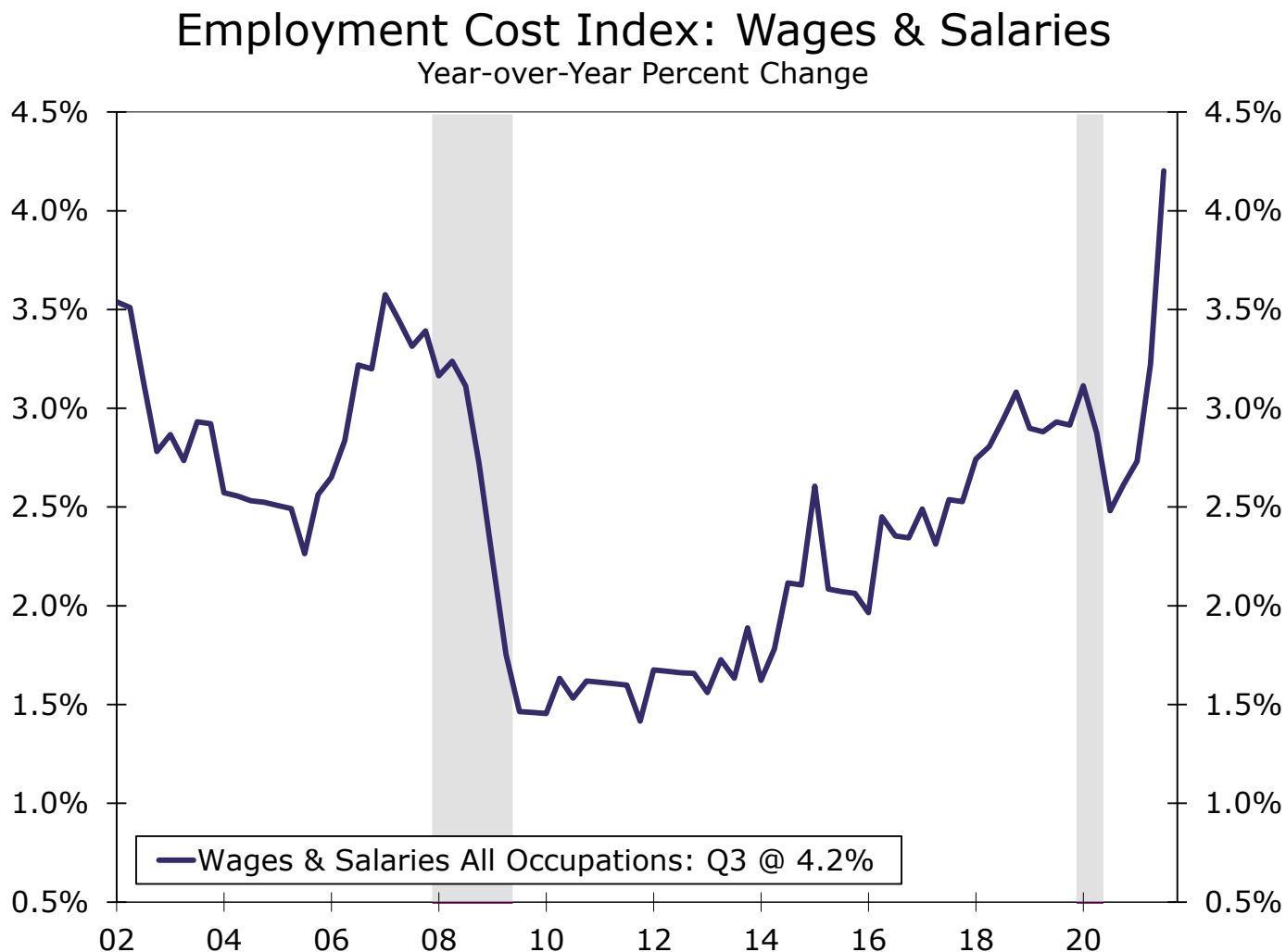
# Consumer Price Inflation

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



# Employment Cost Index

Wages and salaries likely will accelerate further, at least in the near term



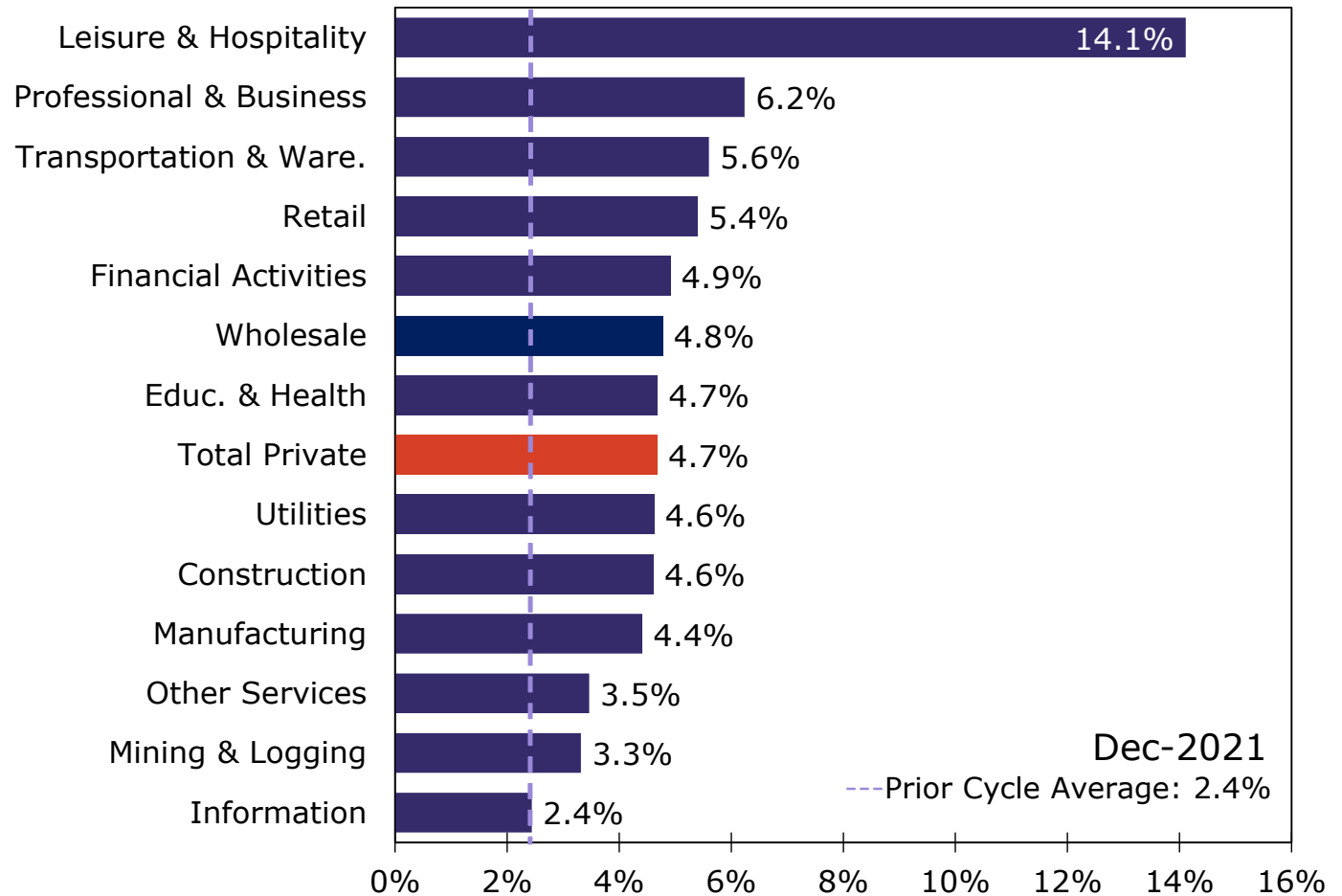


# Average Hourly Earnings

Growth in average hourly earnings varies widely across industries

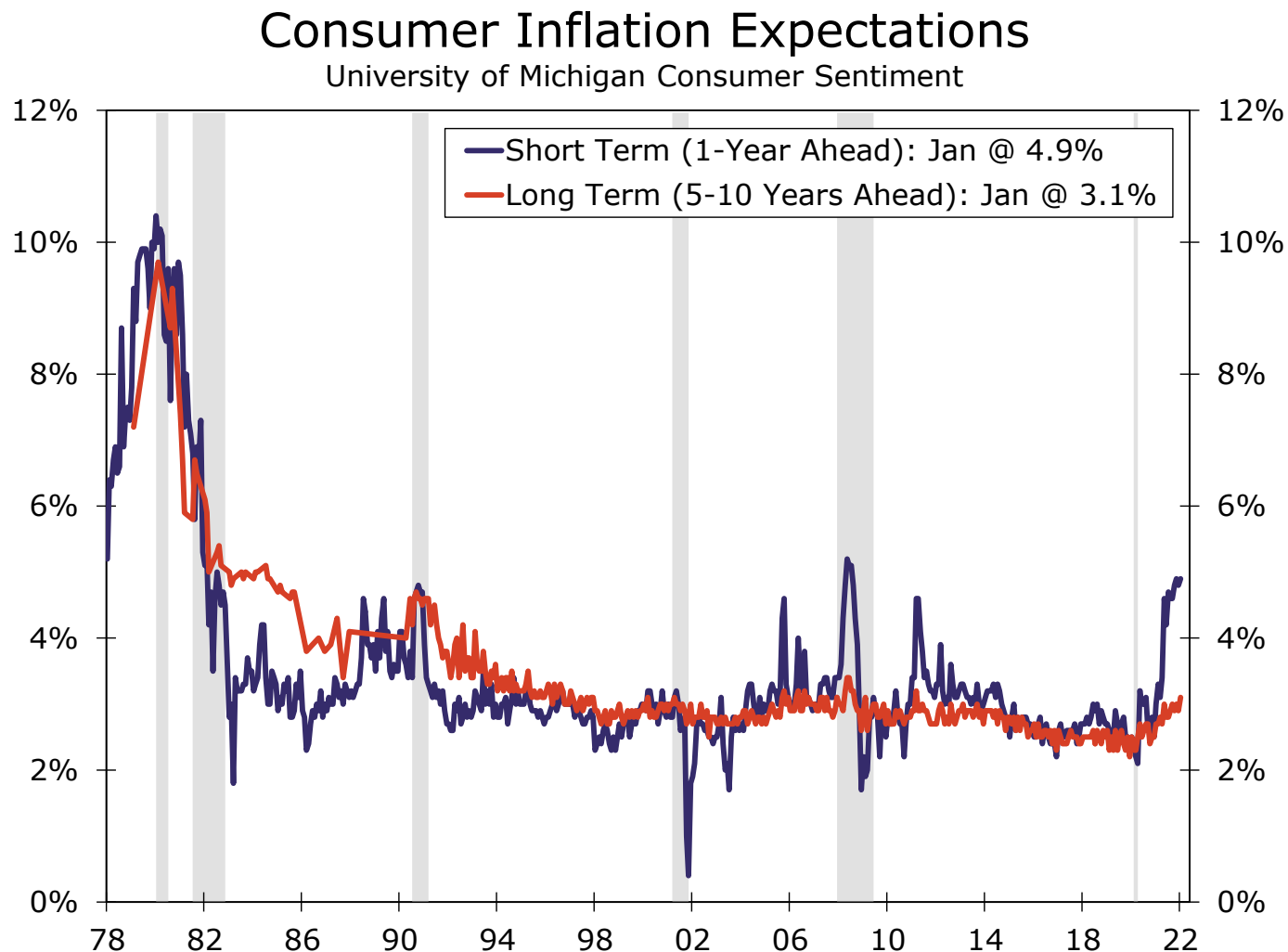
## Average Hourly Earnings by Industry

Year-over-Year Percent Change



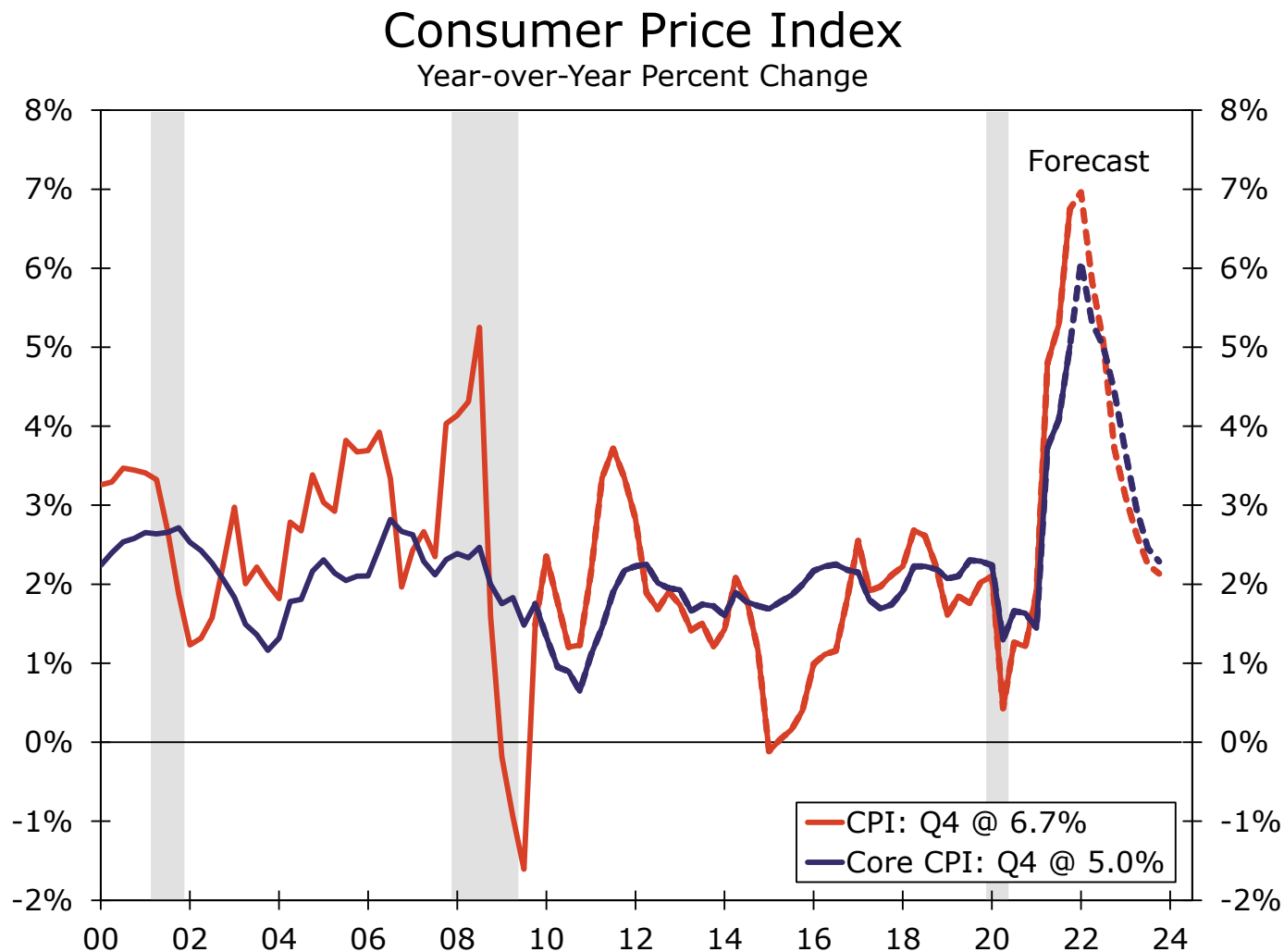
# Consumer Inflation Expectations

Longer-term  
inflation  
expectations  
generally remain  
contained



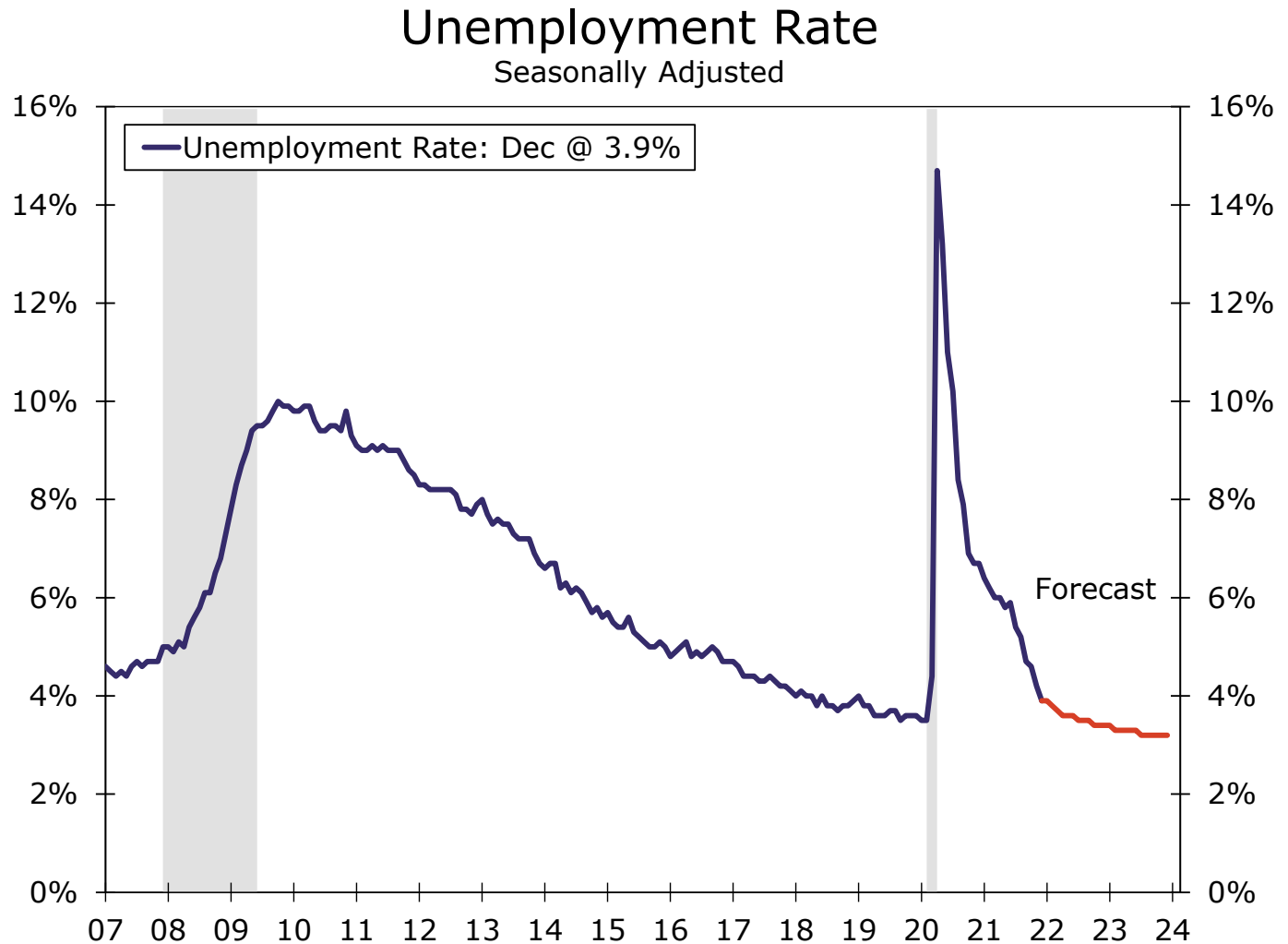
# Consumer Price Inflation

We look for inflation to recede next year, but to remain higher than the Fed's target



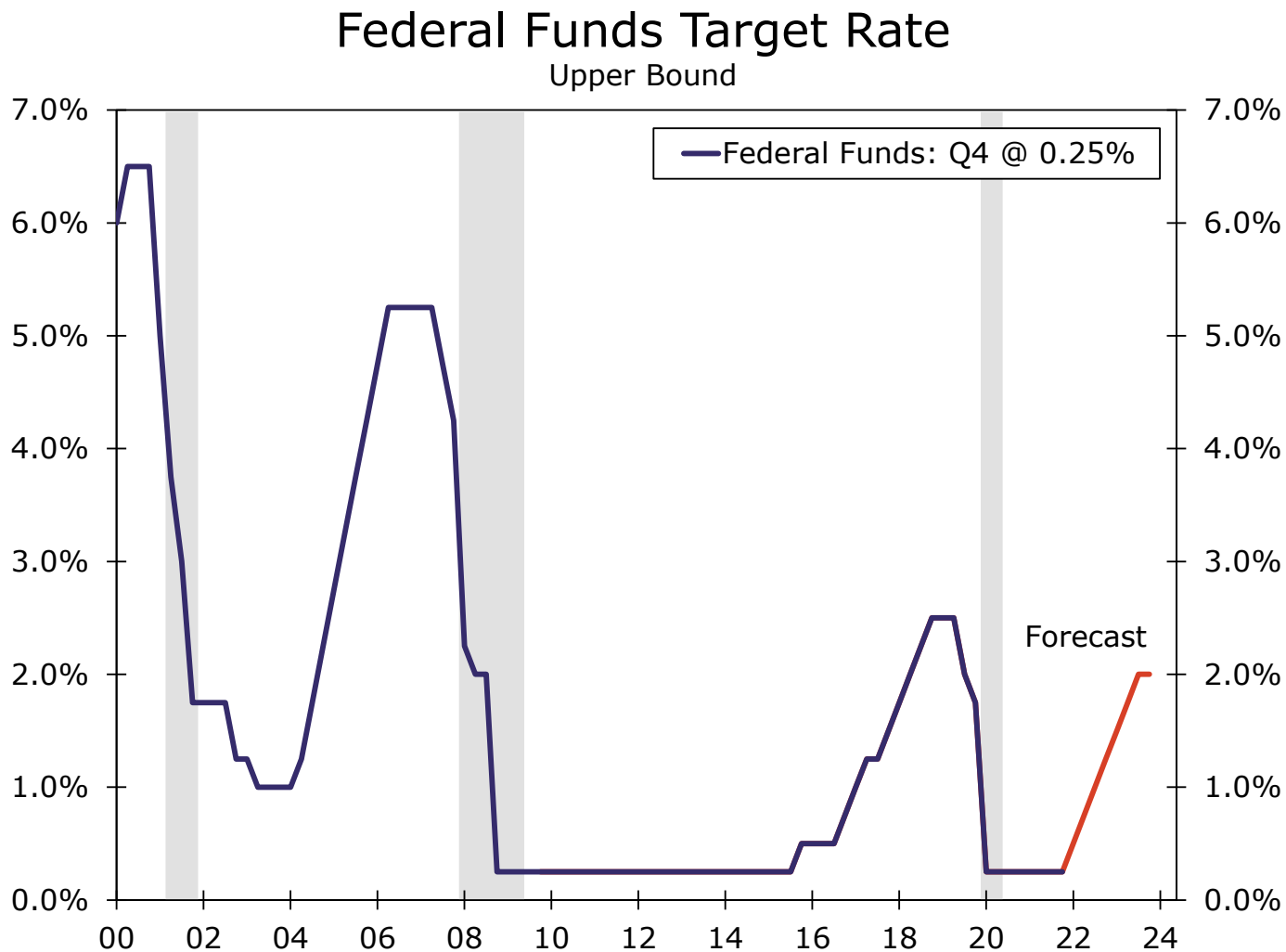
# Unemployment Rate Forecast

The unemployment rate should continue to trend lower



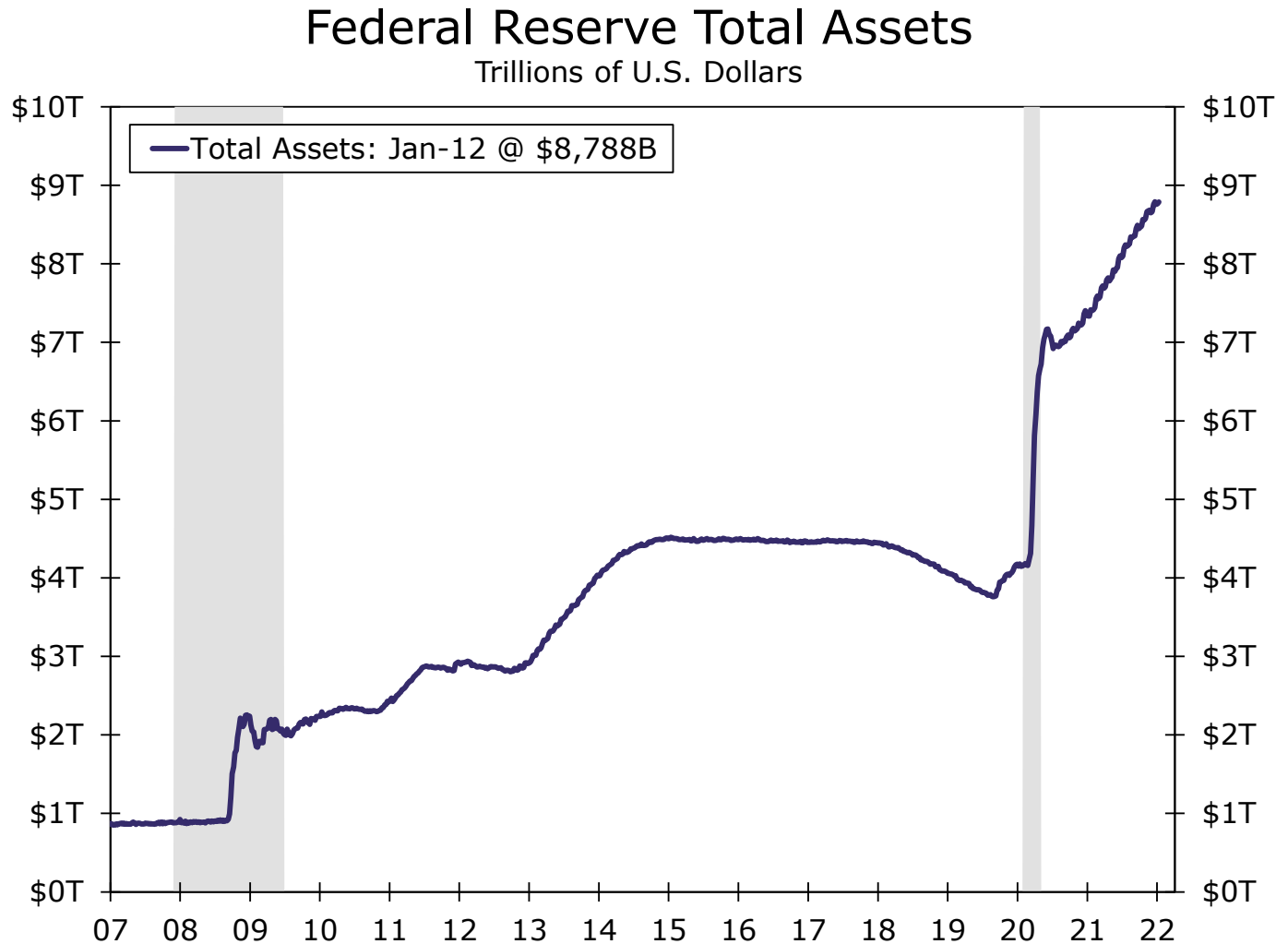
# Interest Rates

We look for the Fed to hike rates by 100 bps this year and by 75 bps more in 2023



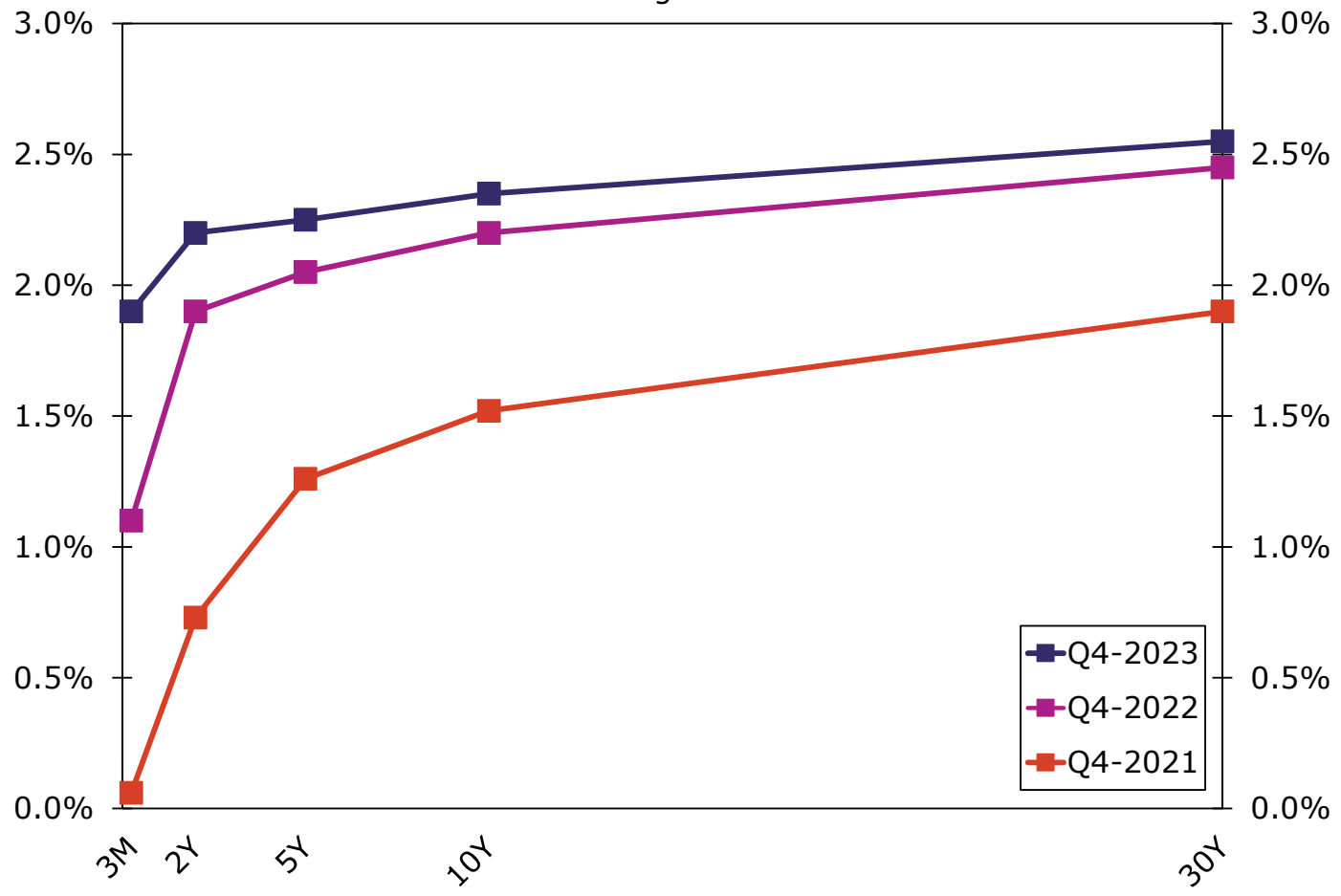
# Balance Sheet

The evolution of the Fed's balance sheet in coming years could have implications for long-term interest rates



We look for the Fed to hike rates 75 bps in the second half of 2023

## Wells Fargo Rates Forecast Through 2023



Source: Federal Reserve Board and Wells Fargo Economics, January 2022

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