

Economics Group

Special Commentary

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Georgia Economic Outlook: May 2019

Georgia Positioned Well for Growth

Georgia’s economy continues to outperform, creating jobs at a higher rate than the nation every month since 2012. Years of strong job growth have pushed the unemployment rate down to 3.8% despite significant growth in the labor force. Employment was hit hard by the Great Recession, which was particularly severe across Georgia, which had seen some of the fastest growth in homebuilding and is also home to a significant homebuilding products industry. Since bottoming out in early 2010, payrolls have added around 760,000 employees across an increasingly broad range of industries, reflecting the state’s concerted efforts to diversify its economy and attract new sources of investment. After dipping briefly below 2% in 2017, the year-over-year rate of employment growth rebounded to more than 2% in the first quarter of this year, driven higher by accelerating hiring in construction, trade & transport and professional & business services.

Georgia’s economy continues to outperform.

Real GDP expanded 2.6% in Georgia in 2018, slightly trailing the national 2.9% rise. Yet after a subdued first half, growth accelerated to 2.9% year-over-year in the fourth quarter of 2018, suggesting the state had strong momentum headed in 2019. Home to 33 Fortune 1000 companies, Georgia boasts a business-friendly tax and regulatory environment that continues to attract corporate relocations as well as international investment. The state’s geographic location—located in the heart of the burgeoning Southeast—is reinforced by robust infrastructure connections which have cemented its role as a key logistics hub. Georgia is not only attracting businesses—it was the ninth most popular destination for domestic migrants in 2018, as overall population rose more than 100,000. Housing affordability remains a major attraction, with an abundance of affordable lifestyle choices in and around Atlanta and throughout the state.

While this past year saw growth slightly trail the nation, Georgia has consistently ranked among the fastest growing large states, with real GDP growth averaging a 3.1% rate since the middle of 2014. The state has attracted many of the industries of the future and is major hub for the information technology, life sciences, transportation and entertainment industries.

Figure 1

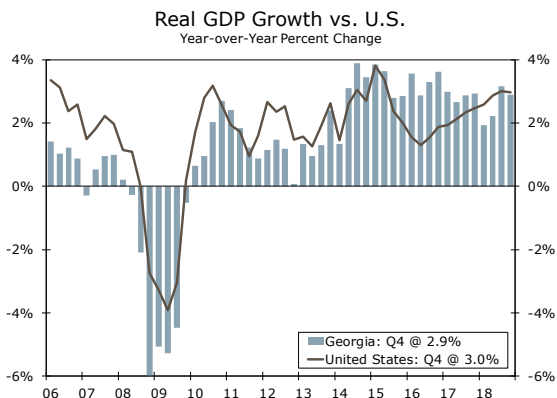
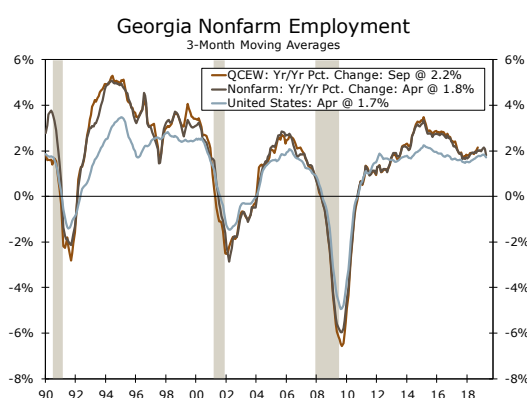


Figure 2



Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

Together we’ll go far



Georgia has successfully broadened its economic base.

Employment Growth Picking Up

Georgia has successfully broadened its economic base and increased its global connectivity in the aftermath of the Great Recession, building an economy that is not only stronger than it was previously but also more resilient. Real GDP and employment both plunged more than 6% year-over-year during the depths of the recession, but have grown more rapidly than the nation as a whole for most of the past decade. More importantly, the state has intentionally and successfully diversified toward higher value-added industries. Georgia lowered its corporate tax rate to 5.75% effective January 2019, and offers numerous business-friendly incentives, many of which are built around workforce training. Two flagship programs are the Job Tax Credit, which provides up to \$4,000 per year per qualifying job created, and the Quality Jobs Tax Credit, which provides an even higher credit if the position pays 10% above the average wage of the county.

The professional & business services sector has grown in size and stature, and now comprises 15% of the state’s payrolls—up from 9.5% in 1990—driving median income growth at a rate higher than the nation. This industry category is comprised of three broad categories—professional & technical services, management of corporate enterprises and administrative functions. Georgia has seen tremendous growth in all three categories, particularly in the Atlanta metro area, which is home to more than 60% of the state’s workers and 56.5% of its population. Atlanta boasts one of the nation’s most diverse economies and serves as corporate headquarters of firms such as Coca-Cola, Home Depot, UPS, Southern Company and Delta Airlines, and is home to several large privately held firms such as Cox Enterprises and Chick-fil-A.

While job growth has reportedly hit a bit of a lull the past two months, hiring remains up solidly year-over-year. Overall payrolls are up 1.5%, a net gain of 69,700 jobs. Professional & business services added 14,700 jobs over the year, 8,800 of which were in professional, scientific & technical services. Georgia Tech has long been a breeding ground for new tech firms, spawning giants such as Scientific Atlanta in the 1950s and Internet Security Systems in the early 1990s. Both companies were acquired by larger tech firms around the middle of the last decade—Scientific Atlanta by Cisco in 2005 and Internet Security Systems by IBM in 2006. Those acquisitions drive home the importance of developing a healthy tech ecosystem that leverages the region’s deep pool of assets in higher education and applied research, including Georgia Tech, Georgia State, Emory, the Centers for Disease Control (CDC), the American Cancer Society and the Arthritis Foundation.

Georgia Tech is playing an important role in developing that ecosystem, and expanding its footprint across the downtown connector into Midtown is a major part of that. Tech Square, which includes the recently completed 21-story Coda Tower, is helping create an innovation hub where private industry closely collaborates with researchers at Georgia Tech. About half of Coda’s 650,000-square feet will be used by Georgia Tech. Other tenants include Thyssenkrupp, Keysight Technologies and WeWork. The surrounding Midtown area has captured several new tech-focused expansions, including IT operations for Kaiser Permanente, Honeywell, Anthem, GE and NCR.

The Atlanta region has developed a healthy tech ecosystem.

Figure 3

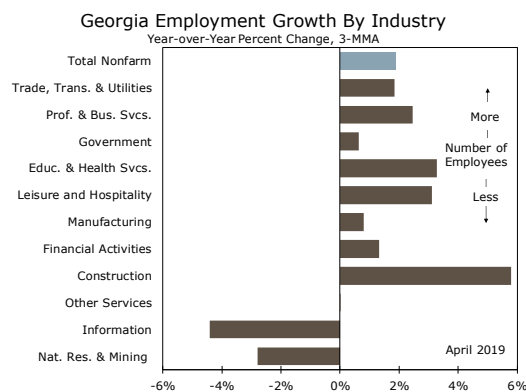
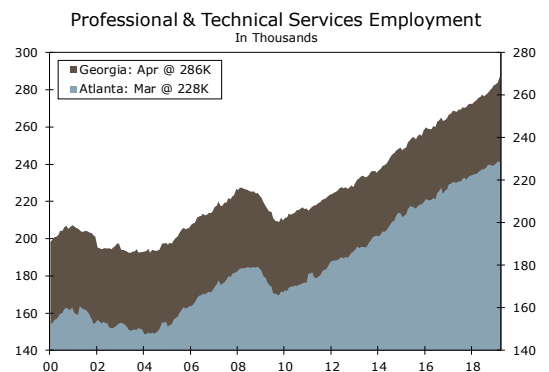


Figure 4



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

The growth in the IT sector in Midtown builds on Atlanta’s long-held strengths in payments processing and health management software. Cybersecurity, fintech and logistics are other key areas of strength that hold a great deal of promise for the state. Cyber goes hand in hand with Georgia’s large payments processing sector, much of which is headquartered around Atlanta. Most of the growth, however, has been in the national security area, primarily in Augusta, which is home to a large and growing cluster of cyber warfare, intelligence and training operations at Fort Gordon and the Georgia Cybersecurity Center, which recently opened at Augusta State University’s Riverside campus.

Life sciences are another key strength.

Life sciences are another key strength, with the Centers for Disease Control and area universities pulling in hundreds of millions of dollars in research funding from the National Institute for Health and other research agencies and organizations. Employment in Georgia’s life sciences industry has risen roughly twice as fast as it has nationally, rising 14.9% over the past 10 years versus 7.7% nationwide according to the 2019 Georgia Life Sciences State of the Industry Report. The bulk of Georgia’s life sciences industry is clustered around the CDC and Emory University. Georgia is also a center for animal health, particularly related to the poultry industry.

Georgia’s Geography Is a Key Competitive Advantage

Geographic location in the heart of the rapidly growing Southeast and an extensive infrastructure network are a major competitive advantage for the state. Its airport is the busiest in the world and offers nonstops to every continent. Transportation & warehousing has long been important to the state, with Atlanta first emerging as a key railroad center and then later as a trucking, distribution and airline hub. Savannah’s logistics role has grown in stature as well as the volume of international trade has surged over the past couple of decades.

Employment in transportation & warehousing has risen 2.2% pace over the past year, a net gain of 4,700 jobs. Couriers & messengers payrolls grew 12.8% over the past year, while warehousing & storage employment rose 8.8%. The Atlanta metro area has long served as the distribution hub of the Southeast and one of the nation’s largest inland distribution hubs, initially consolidating output from manufacturing centers throughout the South and then distributing to end markets around the country. Later Atlanta became a key distribution center for the burgeoning Southeast, consolidating goods produced outside the region and shipping to end markets within the Southeast. That latter role has taken on increased significance with the rapid growth of international trade. Deepwater ports in Savannah and Brunswick and inland barge operations in Bainbridge and Columbus serve as key gateways to the global economy, which have helped fuel industrial development and foreign direct investment. More recently the state has promoted the development of inland ports, which consolidate rail traffic to and from the ports around key industry centers in South Georgia, Northwest Georgia and soon in Northeast Georgia.

Geographic location is a major competitive advantage for the state.

Figure 5

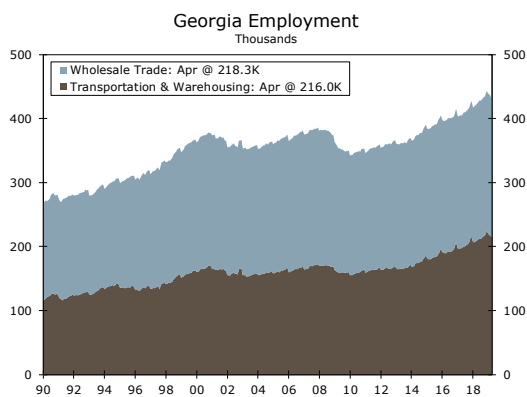
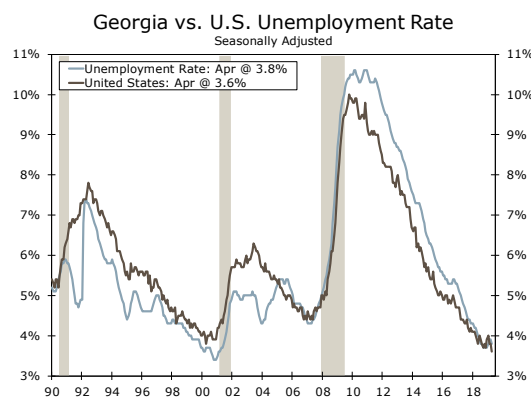


Figure 6



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

Atlanta is the economic and geographic center of the Southeast.

The Port of Savannah is the second largest container exporting port in the United States after the Port of Los Angeles. The port and its surrounding facilities have over three million square feet of warehouse space, access to I-16 and I-95 and are less than four hours by truck to major markets Atlanta, Orlando and Charlotte. The Port is served by two Class 1 railroads—Norfolk Southern and CSX—which enable containers to go directly from ships onto trains. The Mason Mega Rail Terminal Project currently underway will double rail capacity and make the port home to the largest on-terminal rail facility in North America when it is completed in 2020.

The Port's competitive advantage in transport is bolstered by Atlanta's proximity, which is 250 miles northwest of Savannah. Atlanta is home to nearly six million residents and adds about 100,000 net new residents each year. With its location at the intersection of I-75, I-85 and I-20, extensive rail networks and the Hartsfield-Jackson International Airport, Atlanta is the economic and geographic center of the Southeast and its population of nearly 100 million residents.

Atlanta's Hartsfield-Jackson International Airport is the busiest in the world. The airport serves as the primary hub for Delta and is the state's largest employer, responsible for more than 63,000 on-site jobs and an estimated economic impact of over \$30 billion annually. The airport's primacy is likely to persist, as Delta signed a two-decade lease in 2016 with the city to maintain its headquarters and primary hub there. A host of major expansions to ease congestion and increase cargo capacity, including the \$1 billion Concourse G and the eventual addition of a sixth runway, are either underway or in the planning stages. Norfolk Southern's corporate relocation from Norfolk to Atlanta adds another marquee company to the roster of transportation and logistics firms located in the metro area. UPS relocated its headquarters to Atlanta in 1991.

Construction employment has been a major bright spot in Georgia, recently posting double-digit year-over-year growth rates, boosted by strong momentum from residential construction as well as several major infrastructure projects, including the \$800 million I-285/SR 400 improvements and the deepening of the Savannah harbor. After years of study, the dredging of the outer harbor to 49 feet is expected to be completed within the year, to accommodate ever-larger post-Panamax container ships. Construction also continues on the \$25 billion Plant Vogtle expansion, which had been hindered by years of delays, uncertainty and higher costs. The ambitious project has endured a great deal of scrutiny and setbacks, including the Westinghouse Electric bankruptcy and the cancellation of the V.C. Summer project in neighboring South Carolina, but construction is back on track. The third and fourth reactors are currently the only nuclear power plant being built in the United States and represent the largest construction project in the state, employing nearly 10,000 construction workers and engineers at its peak.

Georgia emerged from the recession with a greater focus on advanced, high-skilled manufacturing.

Manufacturing in Georgia comprises 9% of total employment, just slightly above the national average. Georgia's factory sector has undergone a great deal of change in recent decades, with NAFTA and China's admittance to the WTO hitting the state's textile industry particularly hard. Foreign direct investment has helped reinvigorate Georgia's factory sector more recently and the state's large carpet industry has bounced back from the Great Recession, with producers broadening into other types of flooring and embracing recycling. The auto industry has also grown in importance, with an assembly plant opening in LaGrange earlier in the decade and several suppliers locating in the state to serve plants in neighboring Alabama and Tennessee.

Georgia emerged from the recession with a greater focus on advanced, high-skilled manufacturing, including electronics, aerospace and transportation. Over the past year, employment was essentially up modestly in food products, down 1% in textile manufacturing and up 0.7%—or 1,400 jobs—in durable goods. The numbers had been much stronger a few months ago and have been negatively impacted by the intensifying trade war with China. Georgia has made concerted efforts to enhance the skills of its workforce. In addition to the Georgia University System, the Technical College System offers certificates, two-year degrees, apprenticeships and on-the-job training, while the Hope Career Grant pays full tuition for those going into highly-skilled and sought after manufacturing fields. The state's single factor apportionment system means that companies without any sales in the state face no tax liability, a feature of the tax system along with R&D credits and reduced taxes on machinery and materials used in the manufacturing process that make the state increasingly attractive to goods-producing firms.

Demographics and Housing

Strong population and labor force growth have driven much of Georgia’s outperformance, as a favorable warm climate, low cost of living and strong labor market have boosted the labor force. Georgia’s population grew 1.0% percent in 2018, the 14th fastest pace in the nation. Domestic migration, however, was the ninth strongest of all the states and has risen the past four years, while international migration and natural increase have played less of a role. Atlanta has typically comprised a majority of the growth across the state, averaging over 70% of the state’s gain over the past three decades. Atlanta’s outsized share of Georgia’s population growth is not solely a consequence of the metro’s size, as the 29-county metropolitan area has consistently ranked as one of the fastest growing metropolitan areas in the nation. Many of the state’s fastest growing areas outside of Atlanta have tended to be just beyond the boundaries of metro Atlanta, such as Jackson County, Hall County and the Athens metropolitan area to the Northeast, and outlying communities such as Calhoun, Cedartown, LaGrange and Thomaston. In all, the 39-county Atlanta-Athens-Clarke County-Sandy Springs Combined Statistical Area (CSA) is home to more than 6.6 million residents and has added 719,000 residents since 2010, the fifth largest gain among all CSAs.

Strong population and labor force growth have driven much of Georgia’s outperformance.

Other areas outside Atlanta seeing meaningful population gains include the Savannah-Hinesville-Statesboro CSA, which has added 51,000 residents since 2010 and seen its population grow to nearly 550,000 residents. The region is home to one of the nation’s fastest growing container ports and a growing base of warehouse and distribution facilities. Statesboro is also home to Georgia Southern University, which is one of the fastest growing schools in the Georgia University System.

Figure 7

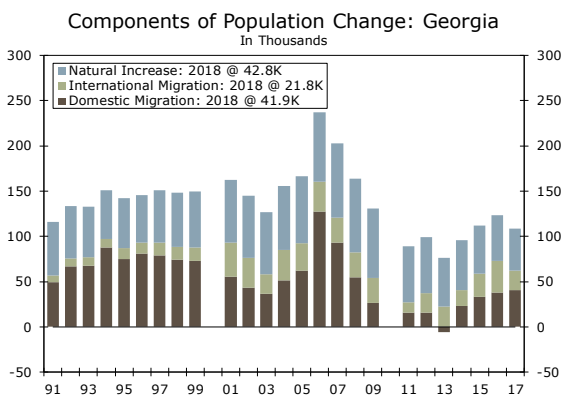
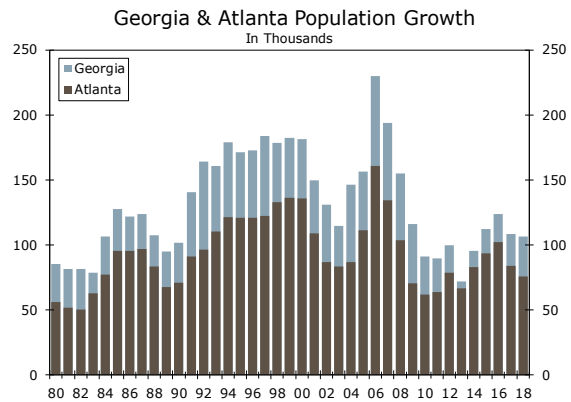


Figure 8



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

Georgia saw some of the highest rates of homebuilding before the Great Recession, and subsequently saw one of the steepest declines. Single-family construction has gradually trekked higher since then, but remains well below its pre-recession pace as well as its long-term average. Homes remain relatively affordable, but price appreciation has been among the highest rates in the Southeast, as population and employment growth have recovered much faster than homebuilding. The growing preference for urban living has also pulled prices higher for homes closer to major urban centers and transit. Retirees are becoming a bigger factor in the state, particularly around Savannah, parts of North Georgia and Georgia’s Lakes Region.

Population and employment growth have recovered much faster than homebuilding.

Atlanta has seen more than 200,000 new households since 2012, which has led to a surge in demand for apartments. New supply has tended to focus on high-end properties, often in Midtown and Buckhead. The office market has been robust, due to strong growth in office-using employment and relative undersupply. The Atlanta City Council passed a roughly \$2 billion incentive package in November 2018 to support redevelopment of the Gulch—currently a patchwork of parking lots and rail lines—into a revitalized portion of downtown hosting significant new office, hotel and retail space. Strong income gains have bolstered demand for retail, particularly in the affluent, fast growing northern suburbs. Gentrification should continue to spell demand for 4 & 5 star properties.

Atlanta remains the economic and geographic center of the Southeast.

Summary and Outlook

Georgia’s economy moderated a bit in 2018 and the latest jobs numbers show a surprisingly large 14,900-job loss in April. The drop in nonfarm jobs bears watching but seems at odds with the preponderance of recent economic data for Georgia and the Southeast. After years of strong growth and strategic development initiatives, Georgia has upskilled its manufacturing sector by pivoting towards advanced manufacturing and higher value-added goods, while invested heavily in its workforce. While a smaller part of the Georgia economy, manufacturing employment should be more resilient to swings in the business sector. International trade remains a wild card and will reduce the volume of both imports and exports transiting Georgia’s ports. Manufacturers and farmers will also face increased uncertainty in the near term, which will likely limit new investment. Georgia’s sizeable poultry industry may benefit from the African Swine Flu outbreak in China, which should boost demand for all animal protein products.

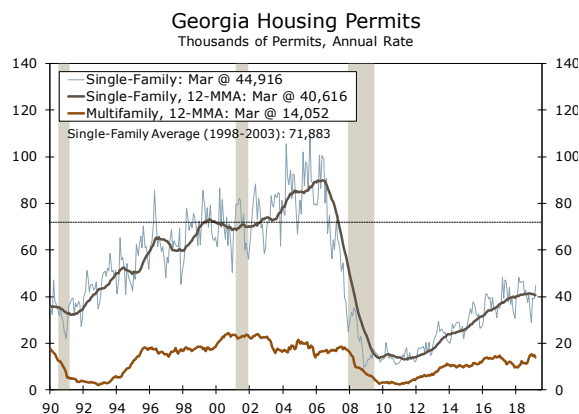
Atlanta remains the economic and geographic center of the Southeast, a rapidly growing region with 100 million residents. Atlanta’s growing tech and life sciences sectors have boosted income growth and encourage a move back to the city, which has revitalized Midtown and many in-town communities. The development of the Atlanta Beltline is helping consolidate much of this development along a corridor in East Atlanta, much of which had been neglected for decades. The bulk of Atlanta’s growth continues to the north, however, which was slower out of the gate following the Great Recession but has gained considerable momentum in recent years. Development on Atlanta’s Northside is consolidating around major employment and entertainment venues, including the new Braves stadium in Cobb County, Perimeter Center, the redevelopment of the GM site in Doraville and the revitalized downtown Alpharetta in north Fulton County.

Median income is rising across the state, and the cost of housing remains relatively low. The state’s geographic location and robust infrastructure network should ensure that it remains one of the fastest growing states in the country. Uncertainty surrounding trade and slowing global growth may cast a shadow over the state’s export and trade-related sectors, but Georgia’s greater connectivity to the world economy and Atlanta’s growing status as a global gateway city should ultimately benefit the Peach State and allow it to bounce back from any trade-related disruptions.

Our forecast for Georgia has the economy continuing to outpace the nation in terms of GDP and employment growth this year and next. As with many other rapidly growing states, economic gains have not been equally distributed across industries or geographies. Care should be taken in reviewing data for rapidly growing states like Georgia, however, which have changed enormously over the past few decades. The industrial base has shifted away from labor-intensive manufacturing, particularly in many of the state’s mid-sized metro and outlying areas and toward more advanced manufacturing, which requires significantly more capital investment and a higher-skilled workforce. Growth has broadened considerably over the past few years, lessening the North-South divide in the Atlanta metro area and urban-rural divide in the state as a whole.

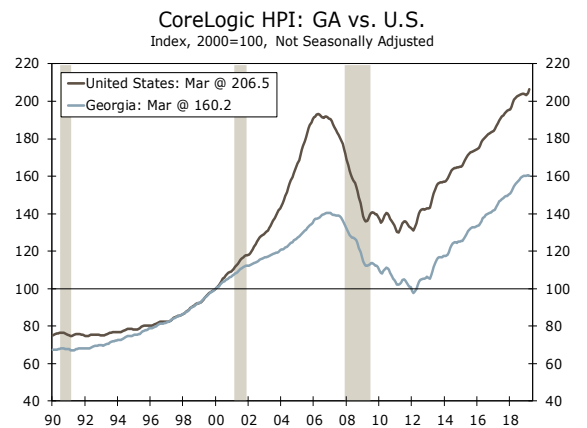
We expect Georgia to continue outpacing the nation.

Figure 9



Source: U.S. Department of Commerce, CoreLogic, Inc. and Wells Fargo Securities

Figure 10



Georgia Economic Outlook

	Actual					Forecast				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Real Gross Domestic Product by State, \$ Millions	444,132	450,772	464,061	479,242	495,226	509,422	522,424	541,230	554,761	
Annual Rate	1.0%	1.5%	2.9%	3.3%	3.3%	2.9%	2.6%	3.6%	2.5%	
Nominal Personal Income, \$ Millions	367,804	373,356	398,882	422,845	439,574	460,403	481,213	507,680	531,033	
Nominal Personal Income, Percent Change	2.3%	1.5%	6.8%	6.0%	4.0%	4.7%	4.5%	5.5%	4.6%	
Real Median Household Income, \$	51,472	49,530	51,362	52,529	54,678	57,016	59,354	60,480	61,420	
Population, Thousands	9,901	9,973	10,069	10,181	10,305	10,413	10,413	10,540	10,670	
Change in thousands	100	72	96	112	124	108	106	127	130	
Percent Change	1.0%	0.7%	1.0%	1.1%	1.2%	1.1%	1.0%	1.2%	1.2%	
Nonfarm Employment, Thousands	3,954	4,032	4,145	4,262	4,372	4,454	4,540	4,630	4,700	
Change in thousands	53	79	113	117	110	82	86	90	70	
Percent Change	1.4%	2.0%	2.8%	2.8%	2.6%	1.9%	1.9%	2.0%	1.5%	
Unemployment Rate, Annual Average	9.2%	8.2%	7.1%	6.0%	5.4%	4.7%	3.9%	3.6%	3.4%	
Total Housing Permits	23,474	34,721	37,403	43,935	51,052	49,591	57,926	57,000	58,000	
Single-Family Permits	16,896	23,741	26,058	31,857	36,081	39,753	41,377	42,200	44,000	
Multi-Family Permits	6,578	10,980	11,345	12,078	14,971	9,838	16,549	14,800	14,000	
FHFA Home Price Index, Percent Change	-3.7%	4.0%	6.8%	6.4%	6.5%	6.8%	8.7%	6.7%	6.0%	

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
Forecast as of: May 16, 2019

Atlanta-Sandy Springs-Roswell, GA Economic Outlook

	Actual					Forecast				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Real Gross Domestic Product by State, \$ Millions	278,536	288,394	299,830	311,373	324,971	334,488	344,525	356,930	369,425	
Annual Rate	1.4%	3.5%	4.0%	3.8%	4.4%	2.9%	3.0%	3.6%	3.5%	
Nominal Personal Income, \$ Millions	225,956	229,730	248,850	264,838	277,732	292,221	306,835	324,000	341,850	
Nominal Personal Income, Percent Change	2.8%	1.7%	8.3%	6.4%	4.9%	5.2%	5.0%	5.6%	5.5%	
Real Median Household Income, \$	55,108	55,910	57,373	59,666	62,738	65,381	66,362	67,689	68,934	
Population, Thousands	5,445	5,511	5,595	5,688	5,790	5,874	5,950	6,040	6,140	
Change in thousands	79	67	83	94	102	84	76	90	100	
Percent Change	1.5%	1.2%	1.5%	1.7%	1.8%	1.5%	1.3%	1.5%	1.7%	
Nonfarm Employment, Thousands	2,354	2,414	2,503	2,582	2,665	2,727	2,786	2,850	2,900	
Change in thousands	43	60	89	79	83	63	58	64	50	
Percent Change	1.8%	2.6%	3.7%	3.2%	3.2%	2.4%	2.1%	2.3%	1.8%	
Unemployment Rate, Annual Average	8.8%	7.8%	6.7%	5.7%	5.1%	4.5%	3.8%	3.6%	3.4%	
Total Housing Permits	14,372	24,337	26,431	30,011	36,121	32,890	39,132	40,300	51,500	
Single-Family Permits	9,162	14,843	16,935	19,885	22,931	24,849	26,097	27,800	28,500	
Multi-Family Permits	5,210	9,494	9,496	10,126	13,190	8,041	13,035	12,500	11,000	
FHFA Home Price Index, Percent Change	-4.0%	6.1%	9.5%	7.7%	7.4%	8.3%	9.8%	7.0%	6.0%	

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
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