



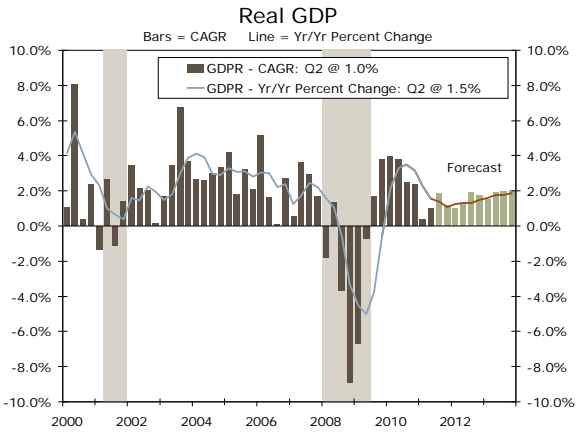
Economic Outlook

September 29, 2011



Economic Growth

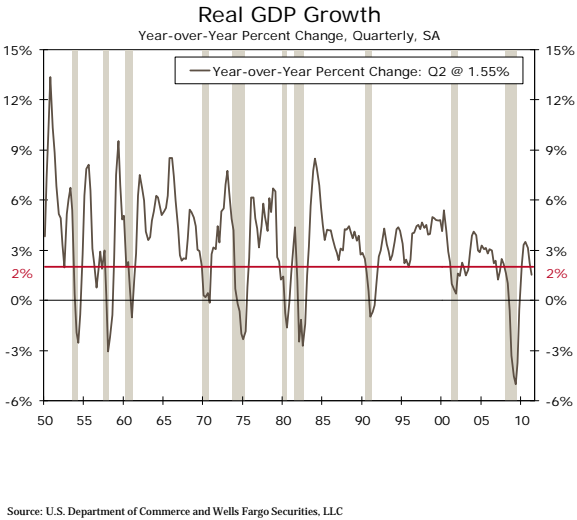
We are two years into the economic recovery and there is still a considerable amount of uncertainty regarding sovereign debt issues in Europe, the federal budget deficit and the U.S. housing sector



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

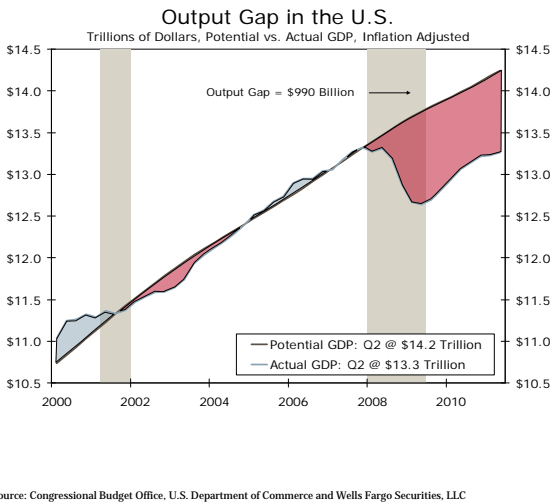
Economic Growth

The year-over-year percent change in real GDP dipped below the two percent mark in the second quarter, which is a worrisome sign that has often preceded recessions in the past



Output Gap

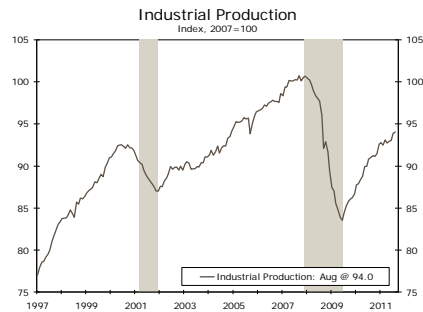
The Great Recession has produced an enormous output gap that will take years to close



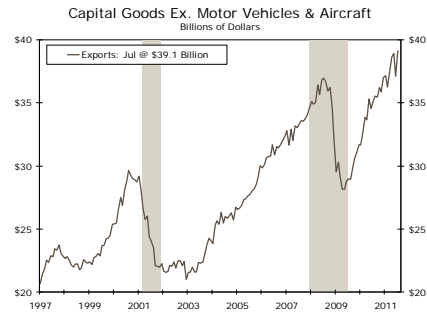
Industrial Production & Exports

A pickup in international trade is boosting industrial production and exports; however, it's not likely to create a whole lot of jobs as growth is concentrated in capital intensive industries

Industrial Production



Exports



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

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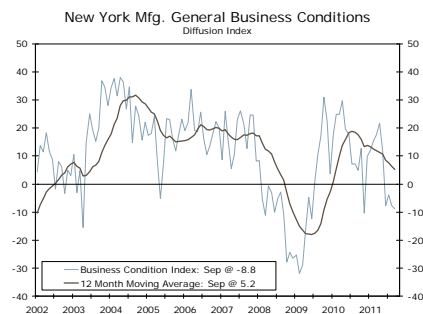
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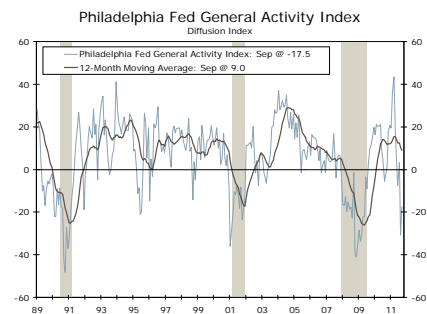
Regional Manufacturing Surveys

Regional manufacturing surveys have turned down in recent months

New York Manufacturing



Philadelphia Manufacturing

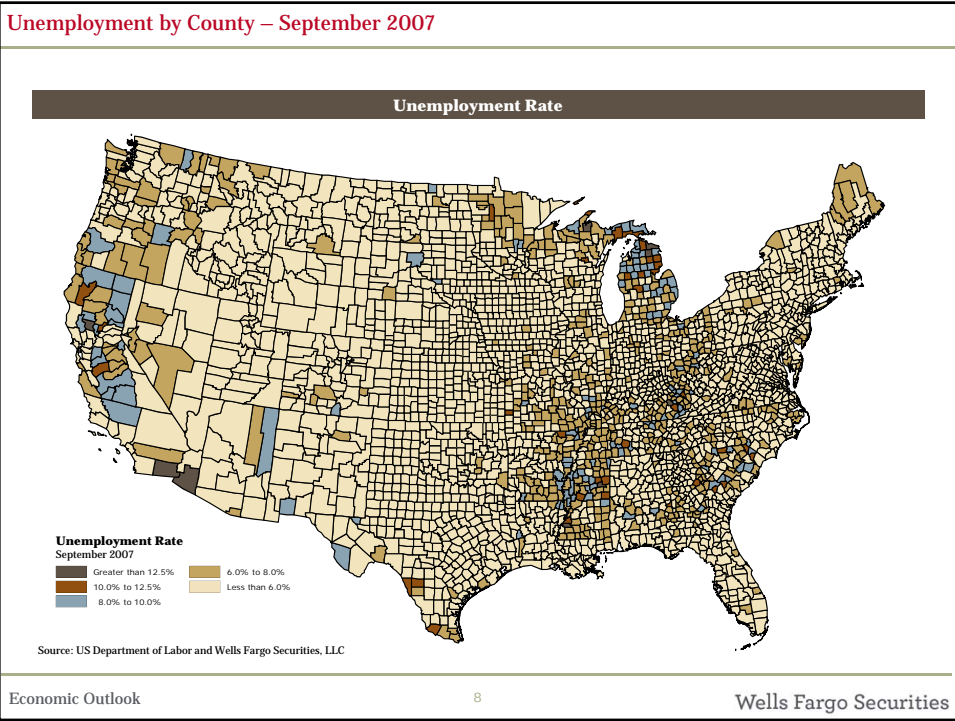
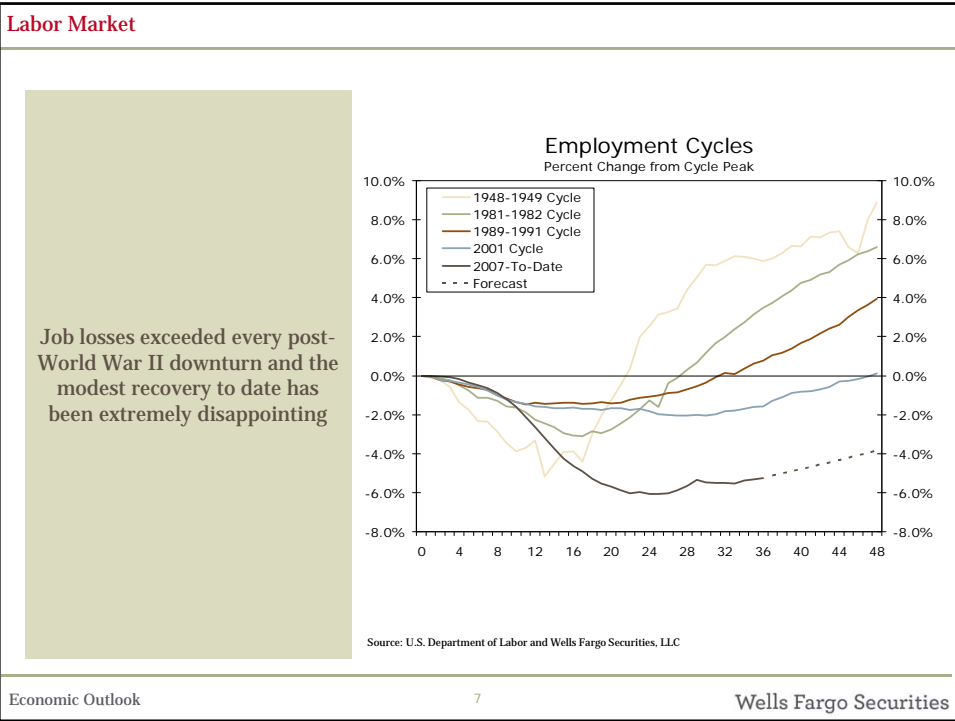


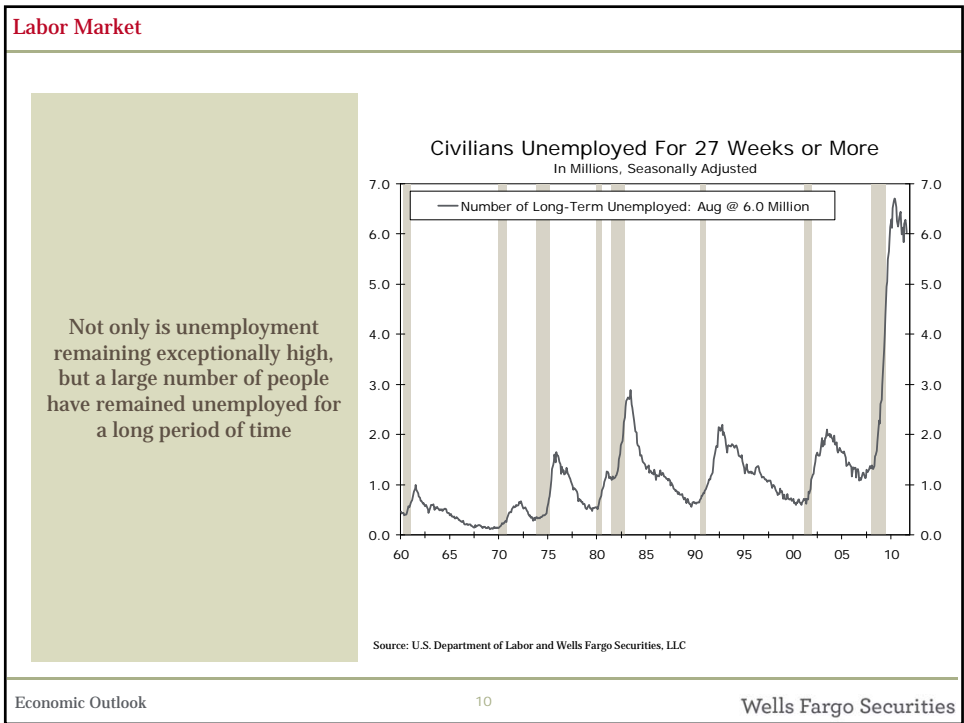
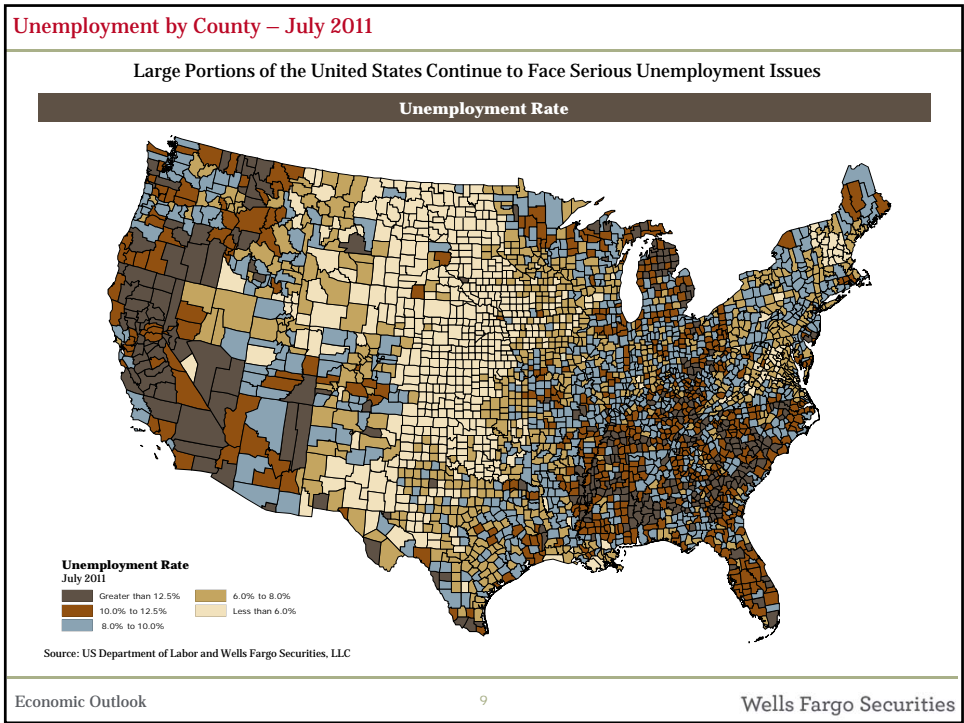
Source: Federal Reserve Banks of New York and Philadelphia, and Wells Fargo Securities, LLC

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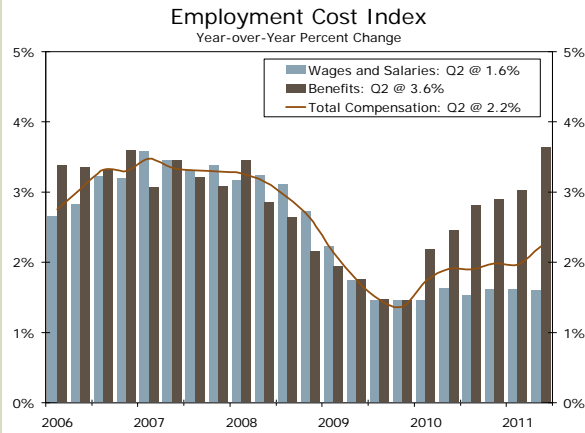
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Employment Costs

Compensation costs remain contained, but the cost of providing healthcare retirement benefits is accelerating



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

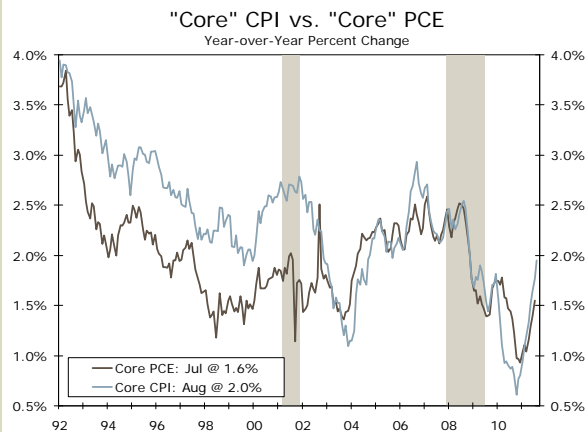
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Inflation

Core inflation is running slightly below the lower bound of the Fed's comfort zone



Source: Federal Reserve Board, Moody's and Wells Fargo Securities, LLC

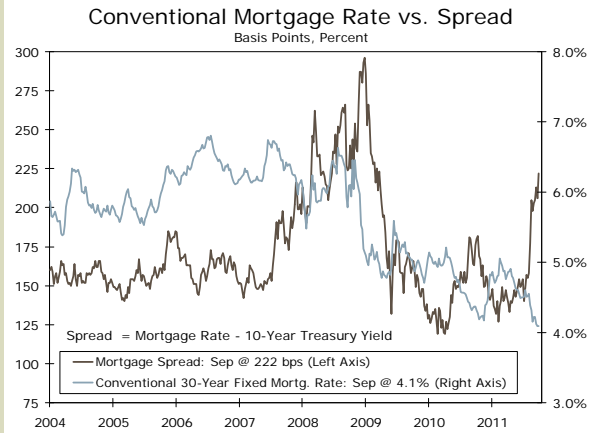
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Mortgage Rates

Mortgage rates are currently near an all-time low, even though spreads have returned to their historic norm



Source: Freddie Mac, Federal Reserve Board and Wells Fargo Securities, LLC

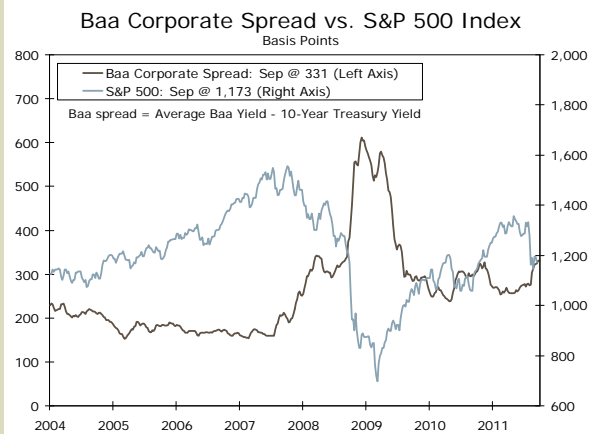
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Corporate Bond Spread

Stock prices began rising in anticipation of QE2, but have fallen significantly since the program ended in June



Source: Federal Reserve Board, Moody's, S&P Corp. and Wells Fargo Securities, LLC

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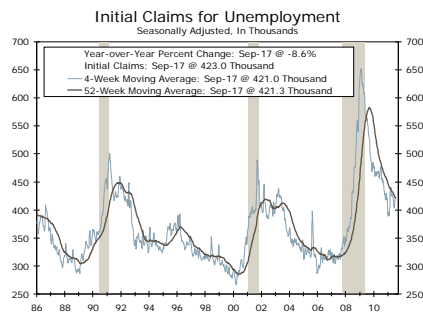
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Jobless Claims and Mortgage Applications

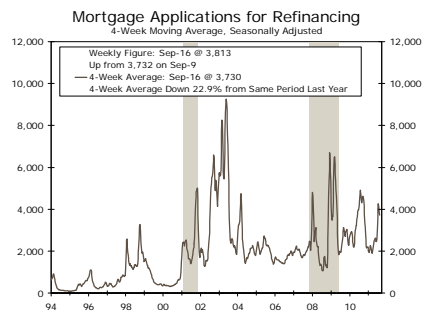
The high-frequency data, such as jobless claims and mortgage applications, is a good place to measure the effectiveness of monetary policy initiatives

Initial Jobless Claims



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

Mortgage Refinancing Activity



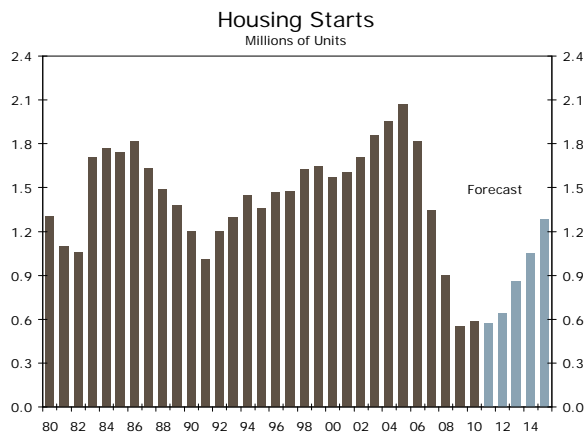
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Homebuilding

We believe housing starts have bottomed and will increase modestly through 2012 and return to a “normal” level by 2015



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

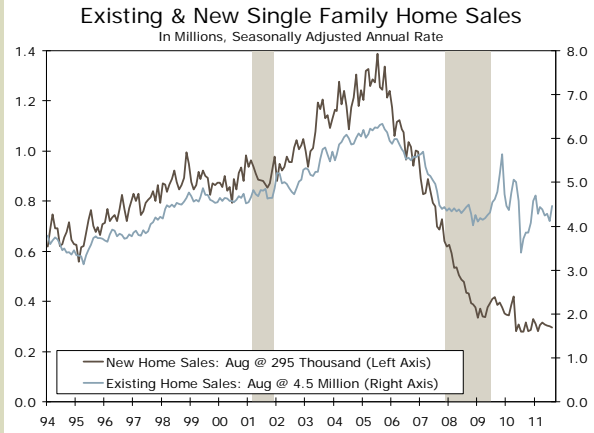
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Home Sales

The gap between existing and new home sales is widening



Source: National Association of Realtors, U.S. Department of Commerce and Wells Fargo Securities, LLC

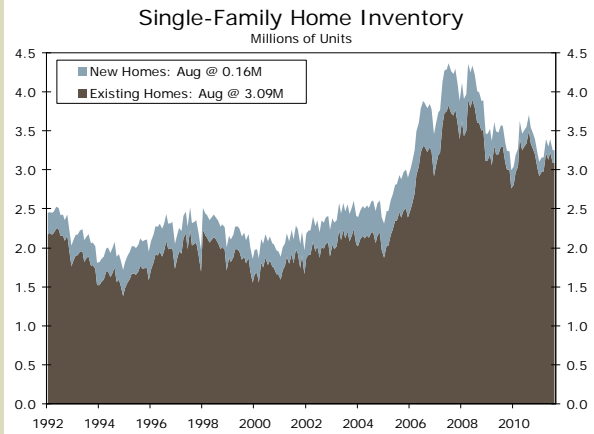
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Housing Inventory

The U.S. housing market is still being weighed down by the enormous supply of vacant homes for rent and for sale



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

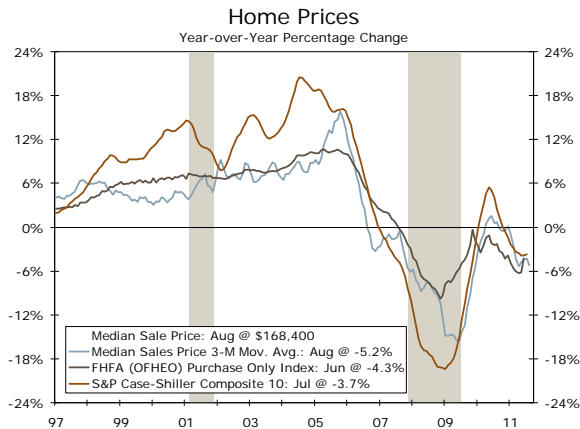
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Home Prices

Various mortgage foreclosure moratoriums and stimulus programs likely supported prices earlier and are now giving way



Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

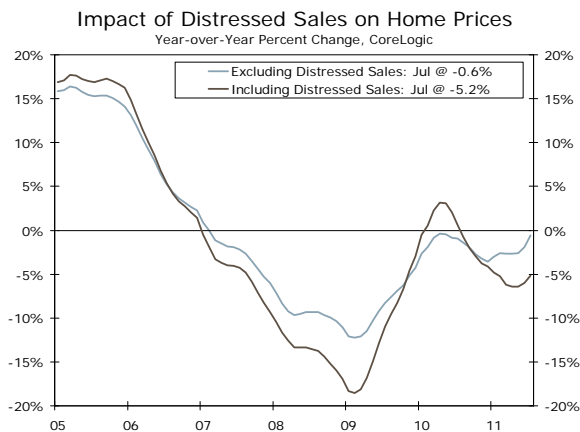
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Distressed Home Prices

Home prices of non-distressed properties have likely bottomed in many areas around the country, but falling prices for foreclosures and bank sales continue to drag overall home indices lower

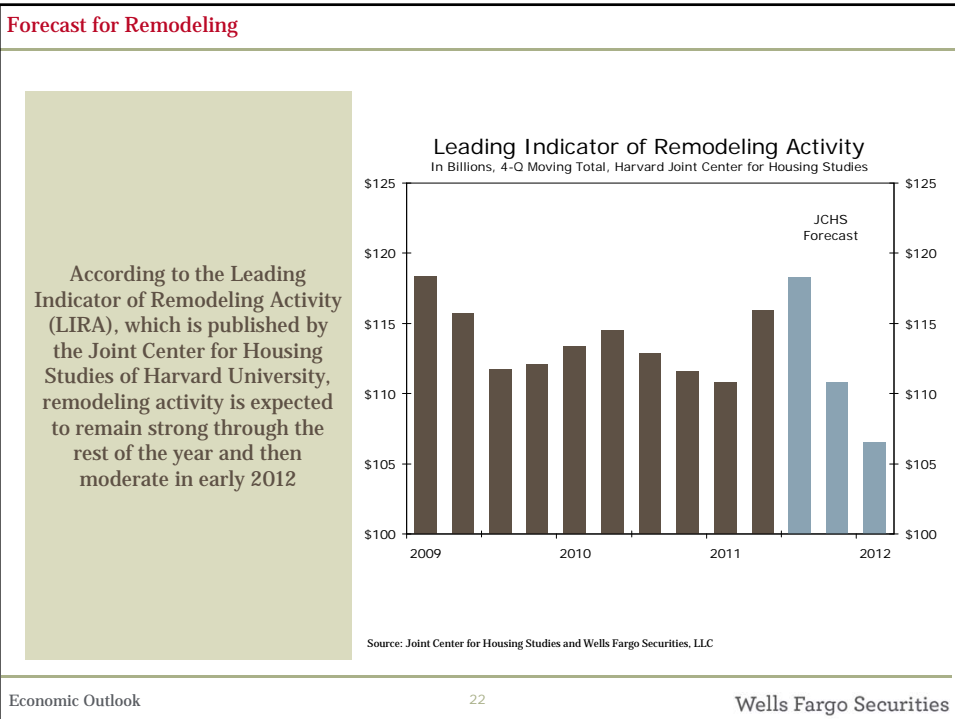
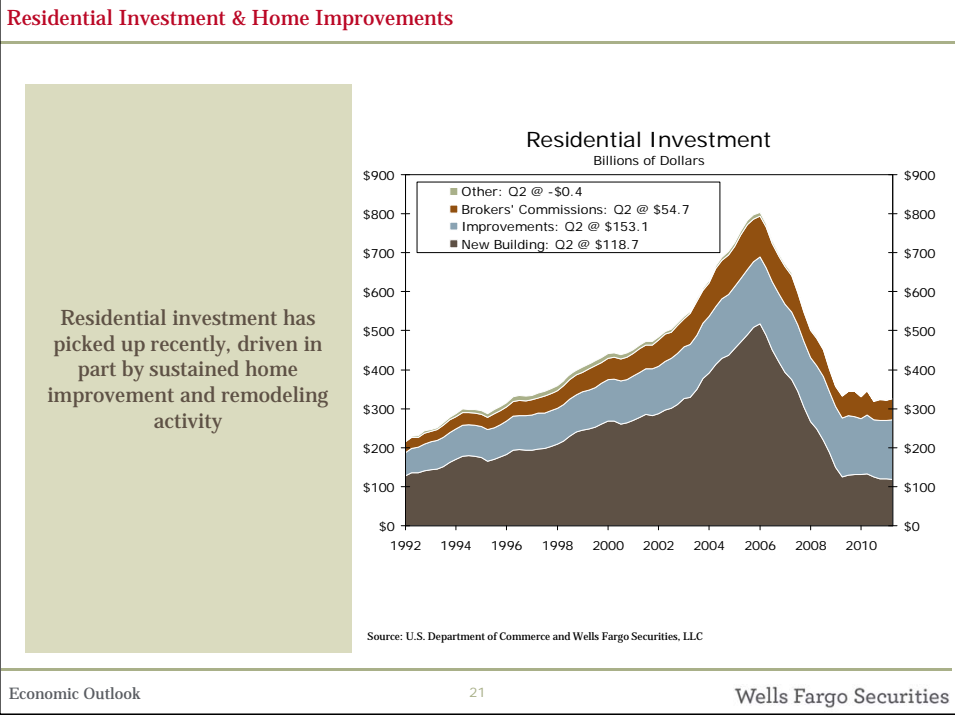


Source: CoreLogic and Wells Fargo Securities, LLC

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Issues to Watch



Economic Outlook

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Our Forecast

Wells Fargo U.S. Economic Forecast													
	Actual				Forecast				Actual		Forecast		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2009	2010	2011	2012	2013
Real Gross Domestic Product ¹	0.4	1.0	1.8	1.2	1.0	1.2	1.9	1.7	-3.6	3.0	1.6	1.3	1.7
Personal Consumption	2.1	0.4	1.8	1.2	1.3	1.3	1.4	1.4	-2.0	2.0	2.1	1.3	1.3
Inflation Indicators ²													
"Core" PCE Deflator	1.1	1.3	1.6	2.0	2.1	2.0	1.9	1.8	1.5	1.4	1.5	1.9	1.7
Consumer Price Index	2.2	3.3	3.7	3.7	2.8	2.3	2.0	1.8	-0.3	1.6	3.2	2.2	2.0
Industrial Production ¹	4.8	0.5	4.9	1.5	2.3	3.2	3.7	3.7	-11.1	5.3	3.8	2.8	3.8
Corporate Profits Before Taxes ²	8.8	8.3	6.5	6.4	6.2	6.0	6.4	6.6	7.9	32.2	7.5	6.3	7.1
Trade Weighted Dollar Index ³	70.6	69.4	68.5	69.5	70.5	71.5	72.5	73.0	77.7	75.6	69.5	71.9	74.9
Unemployment Rate	8.9	9.1	9.1	9.4	9.5	9.5	9.5	9.4	9.3	9.6	9.1	9.5	9.2
Housing Starts ⁴	0.58	0.57	0.58	0.55	0.57	0.62	0.67	0.70	0.55	0.58	0.57	0.64	0.86
Quarter-End Interest Rates ⁵													
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Conventional Mortgage Rate	4.84	4.51	3.90	3.70	3.70	3.80	4.00	4.10	5.04	4.69	4.24	3.90	4.28
10 Year Note	3.47	3.18	1.75	1.60	1.80	2.00	2.20	2.30	3.26	3.22	2.50	2.08	2.55

Forecast as of: September 23, 2011

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Federal Reserve Major Currency Index, 1973=100 - Quarter End⁴ Millions of Units⁵ Annual Numbers Represent Averages

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Appendix

Wells Fargo Economics Group Publications

A Sampling of Our Recent Special, Regional & Industry Commentary

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Recent Special Commentary

Date	Title	Authors
September-26	Employment: Beyond the Sound Bites—Reading the Signals IV	Silvia & Watt
September-21	"Operation Twist" Gets Underway	Bryson
September-20	Credit Quality Monitor: September 2011	Anderson & Kashmarek
September-16	Global Chartbook: September 2011	
September-15	Florida Economic Outlook: September 2011	Vitner, Brown & Seydl
September-09	The Direction of Treasury Rates: A Japanese Story?	Anderson, Bryson & Seydl
September-08	Long-Term Unemployment: Costs & Consequences	Silvia & Watt
September-07	Housing Data Wrap-Up: September 2011	Vitner, Khan & Seydl
September-07	Brazil: GDP and Central Bank Autonomy	Aleman
September-06	Strength of Currency Weighs on Swiss GDP Growth	Bryson
September-02	Is Another Recession Brewing in Germany?	Bryson & Kruse
September-01	Housing and Arizona: Rebuilding a Marketplace	Aleman & Kruse
August-30	The Evolution of Economic Relationships: The PMI and Growth	Silvia, Iqbal & Watt
August-26	Tacking in Treacherous Waters: No Full Sail for QE3	Silvia
August-26	Barzilian Economy: Growing Pains	Aleman
August-24	Will the Renminbi Eventually Rival the Dollar?	Bryson
August-23	State Coincident Indicators Highlight A Disturbing Trend	Vitner & Brown
August-23	Are We Headed for Another Global Recession?	Bryson, Quinlan & Kruse
August-22	Philadelphia Fed Index: Can It Predict a Recession?	Silvia, Khan, Iqbal & Watt
August-22	Gold Bubble Fears Overlorn	Anderson & Kashmarek
August-22	Mexican Economy Grows Despite Slowdown in Q2	Aleman
August-22	The Kids Are Alright	Silvia, Quinlan & Seydl
August-19	Even Slower Growth with Significant Downside Risk	Silvia
August-15	Why Is France in the Crosshairs?	Bryson & Kruse
August-11	Commercial Real Estate Chartbook: Quarter 2	Vitner, Khan & Seydl
August-11	Employment: Beyond the Sound Bites—Reading the Signals III	Silvia & Watt
August-07	S&P Downgrade of Treasury /Fed Credit: Fiscal Imbalances	Silvia & Vitner
August-05	What are the Risks of Recession?	Vitner
August-02	Economic Implications of the Debt Ceiling Compromise	Silvia, Vitner, Bullard & Brown
August-02	Real GDP Per Capita Stalled Out in the First Half of 2011	Vitner & Seydl
August-01	Employment: Beyond the Sound Bites—Reading the Signals II	Silvia & Watt
July-29	Housing Chartbook: July 2011	Vitner, Khan & Seydl
July-27	With Greece "Stabilized," Will the Fire Spread?	Bryson & Kruse
July-25	Is the Greek Debt Problem "Solved"?	Bryson & Kruse
July-21	Employment: Beyond the Sound Bites—Reading the Signals I	Silvia & Watt
July-21	Moody's Blues: Implications for a U.S. Downgrade	Bryson, Quinlan & Seydl
July-15	Employment: Issues Linger in New Jersey	Vitner, Khan & Watt
July-15	Global Chartbook: July 2011	
June-30	Maryland: Economic Diversity Breeds Uneven Growth	Silvia, Brown & Kruse
June-30	The Brazilian Exchange Rate Conundrum	Aleman
June-29	Housing Data Wrap-Up: June 2011	Vitner, Khan & Seydl
June-24	Texas Budget: 2012-2013 Biennium	Aleman & Kruse
June-24	Regional Chart Book: Quarter 2	Vitner, Brown & Seydl
June-22	Credit Quality Monitor	Anderson & Kashmarek
June-22	FOMC: Steady as She Goes	Bullard
June-21	An Economic Framework for Financial Services	Silvia, Brown & Watt
June-01	U.K. Trip Notes: Will the Expansion Continue?	Bryson

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