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“The U.S. Economy and Its Lingering Fiscal Issues”

Eugenio J. Aleman, Director and Senior Economist

March 11, 2013

Together we'll go far

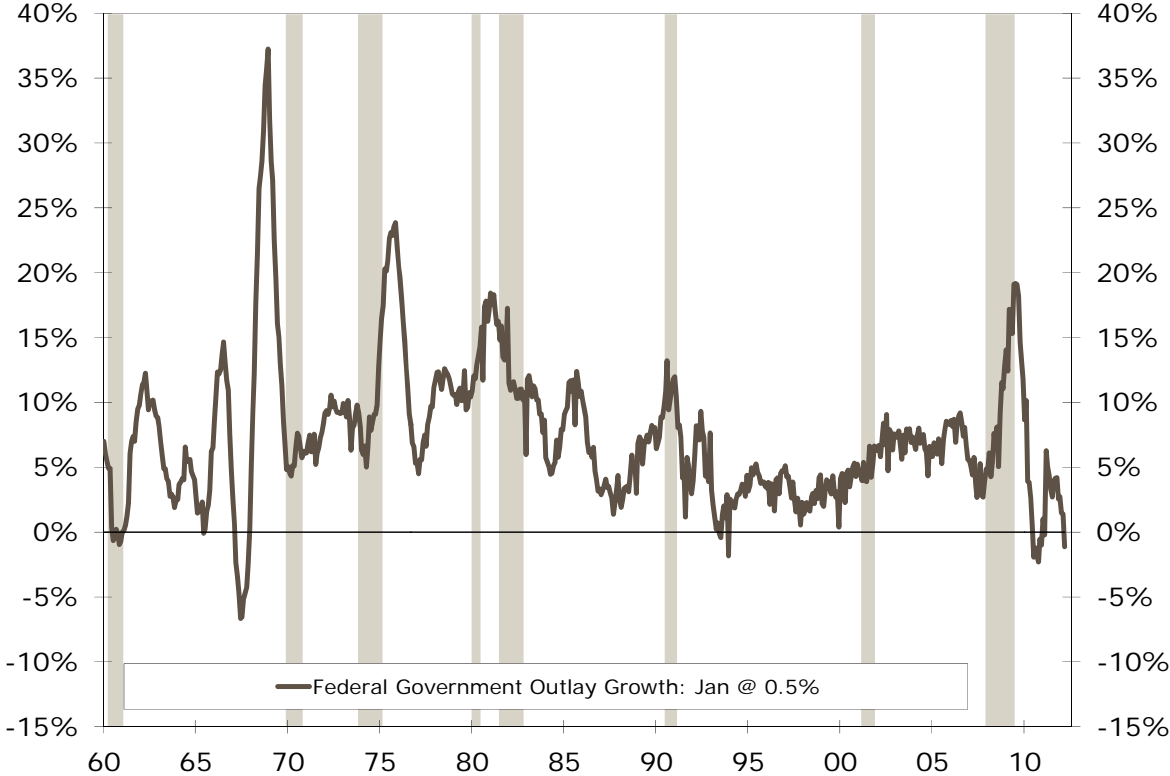


Let's Look at the Federal Government

Government outlays have come down considerably

Federal Government Outlay Growth

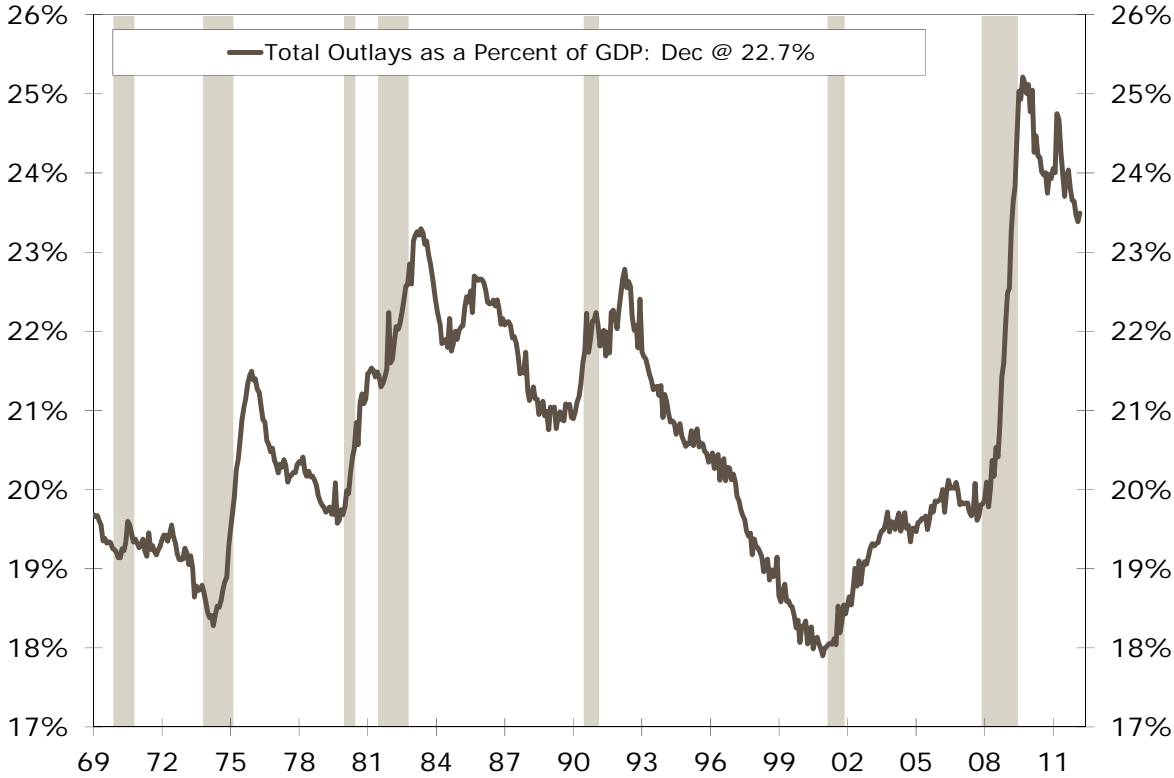
Year-over-Year Percent Change, 12-Month Moving Average



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

Strong fiscal reaction to avoid a depression

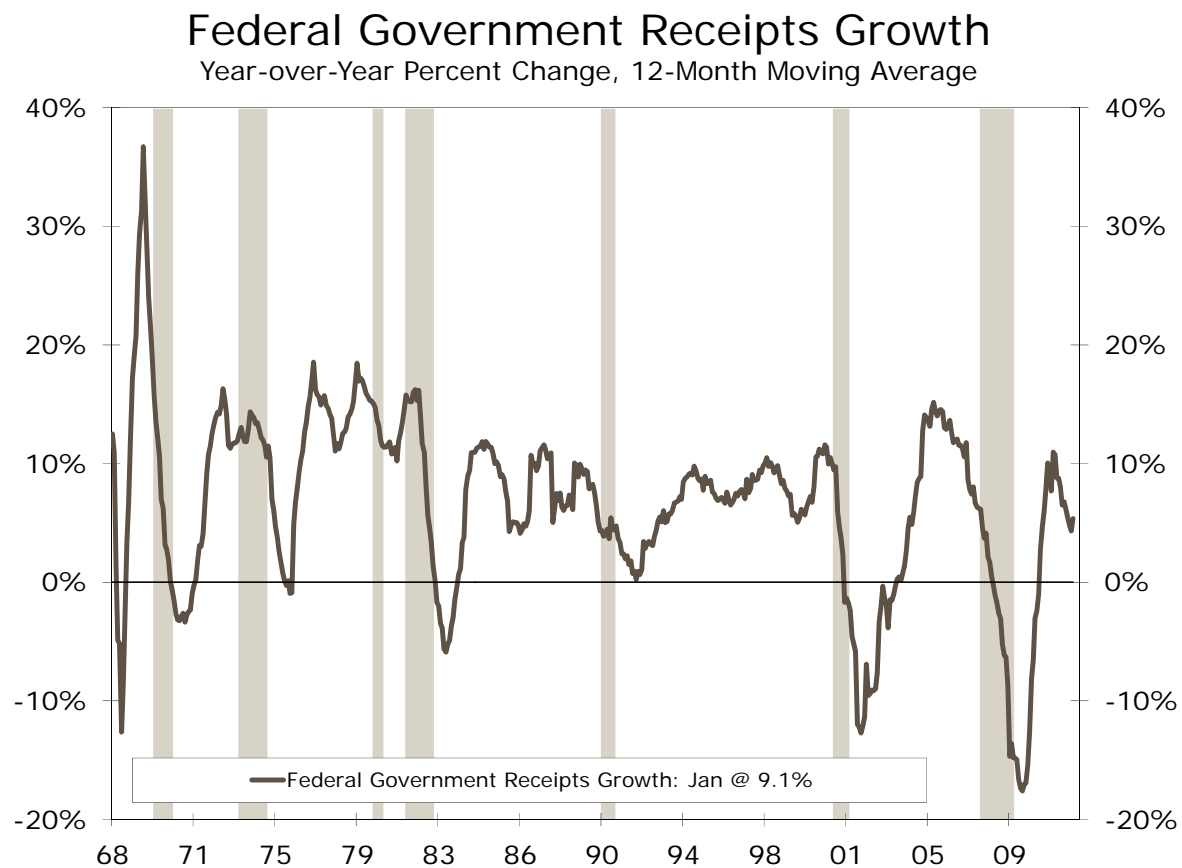
Total Outlays as Percent of Nominal GDP
12-Month Moving Average



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

Let's Look at the Federal Government

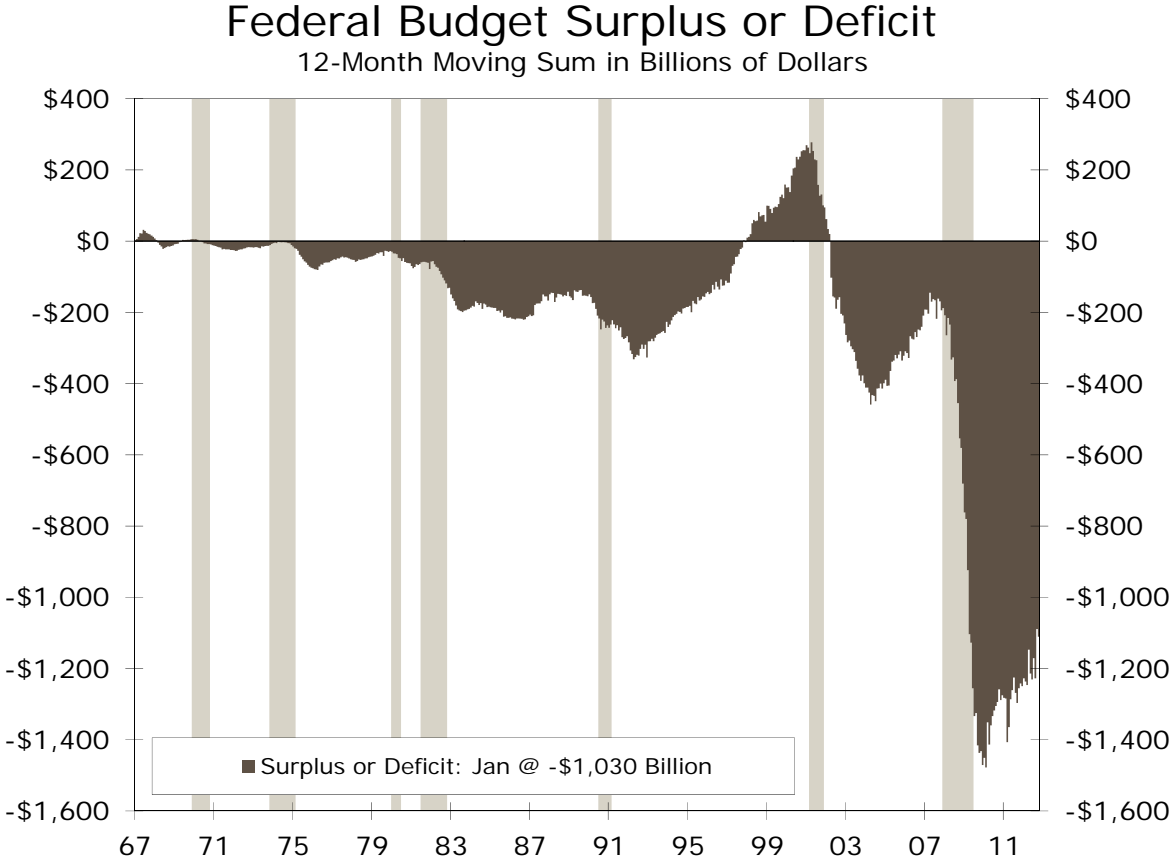
Very large drop in government receipts



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

Let's Look at the Federal Government

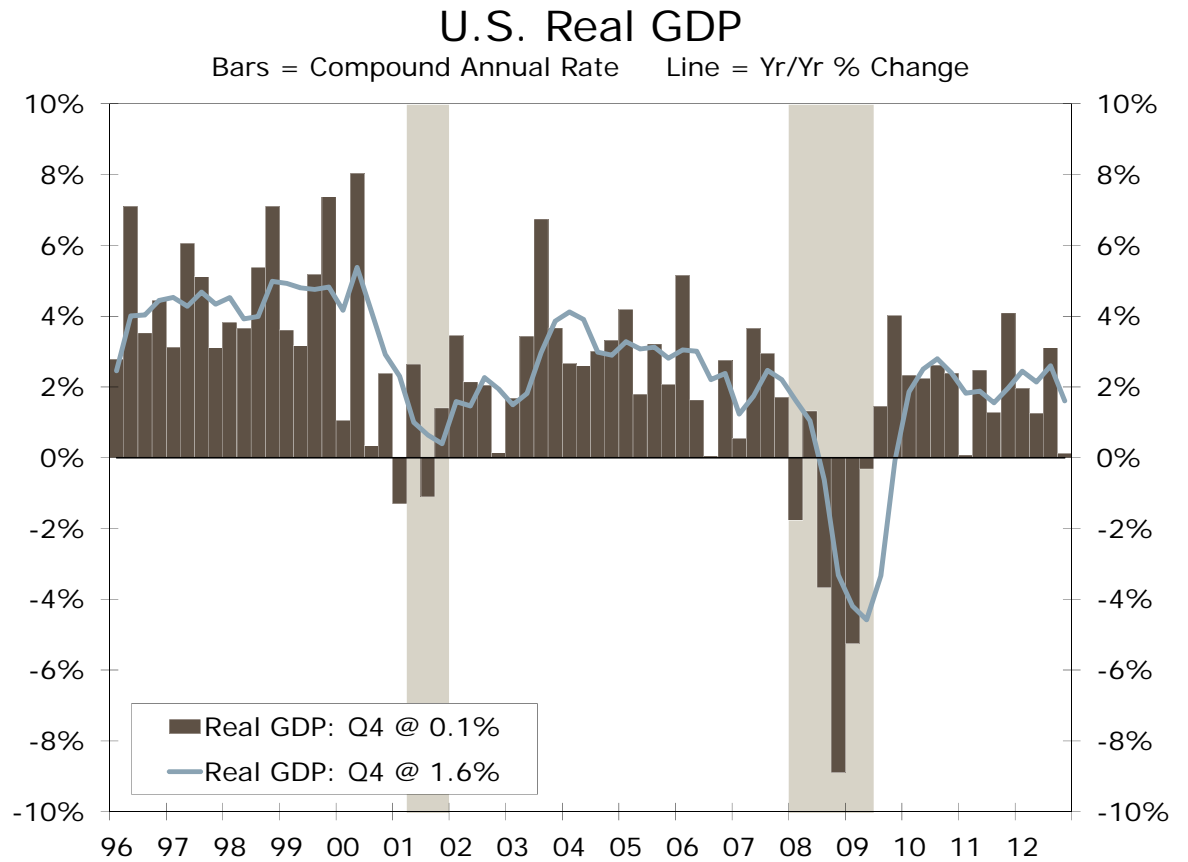
Fiscal Conservatism? Where?
When?



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

Real GDP Growth

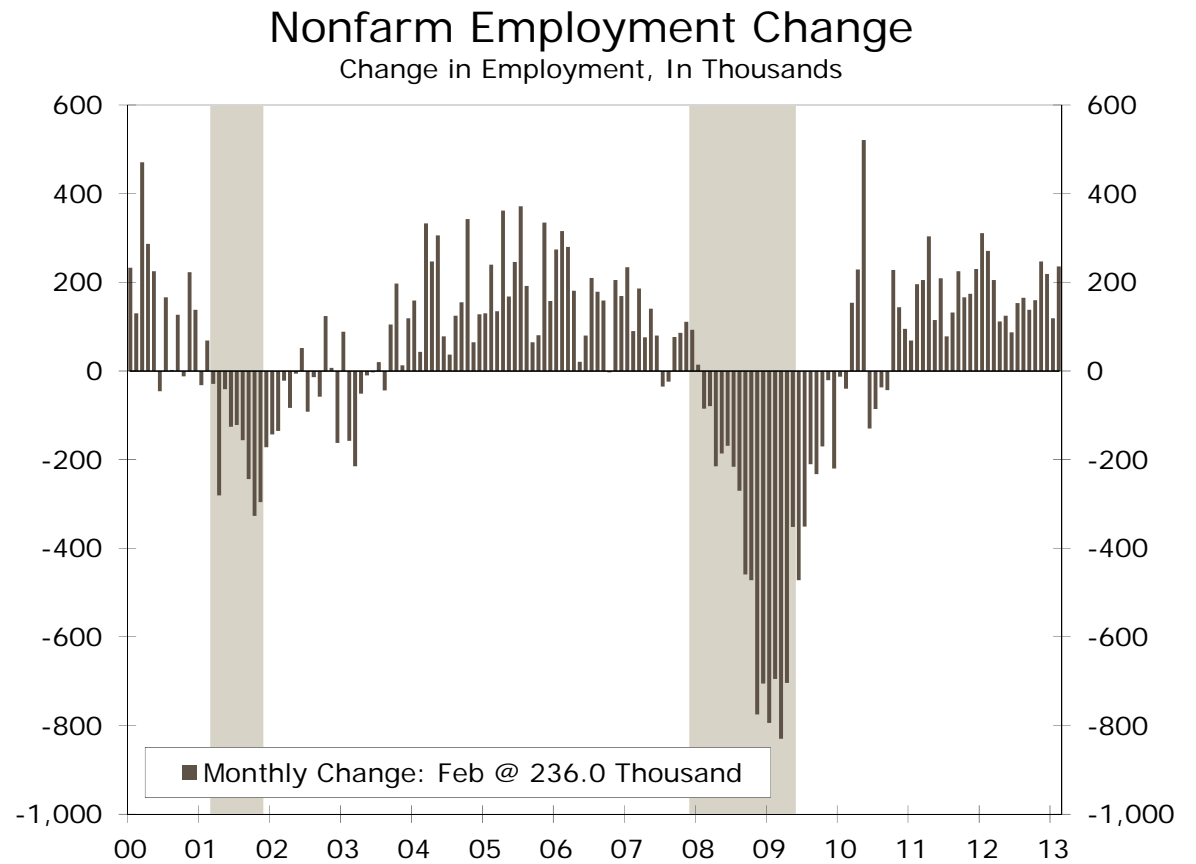
U.S. real GDP growth has recovered but remains weak



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

U.S. Nonfarm Employment

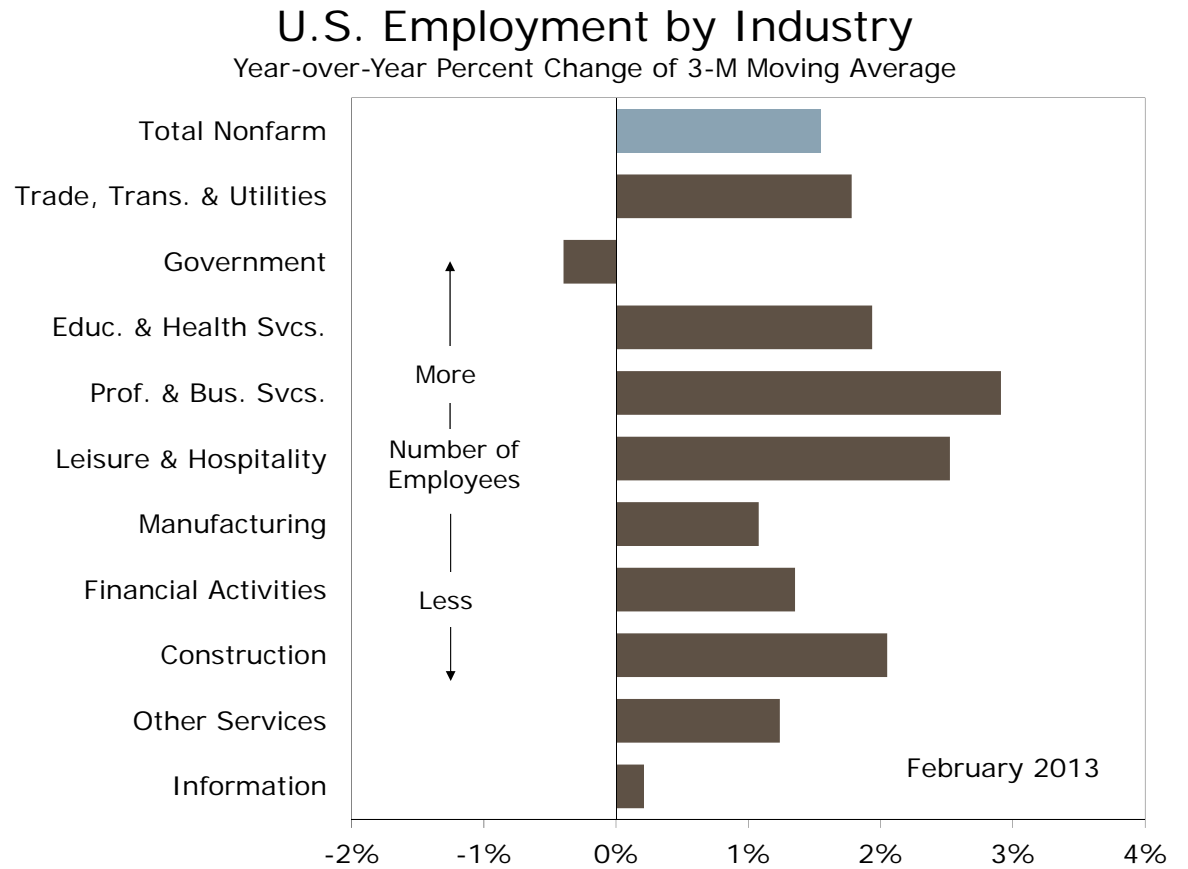
Employment turned the corner in October of 2010, but it is still weak



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

U.S. Employment By Industry

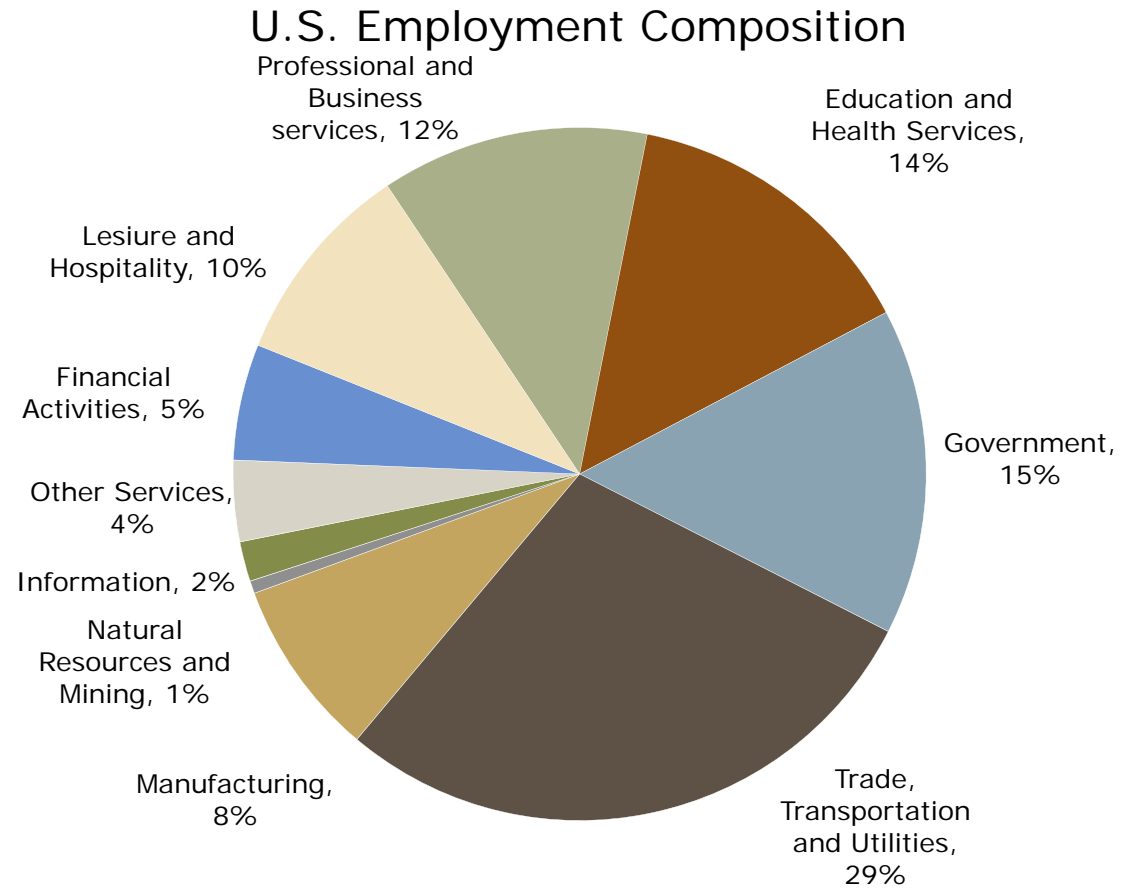
While employment growth has been broad based, the government sector has continued to struggle



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

U.S. Employment By Industry

As a percentage of total non-farm payrolls

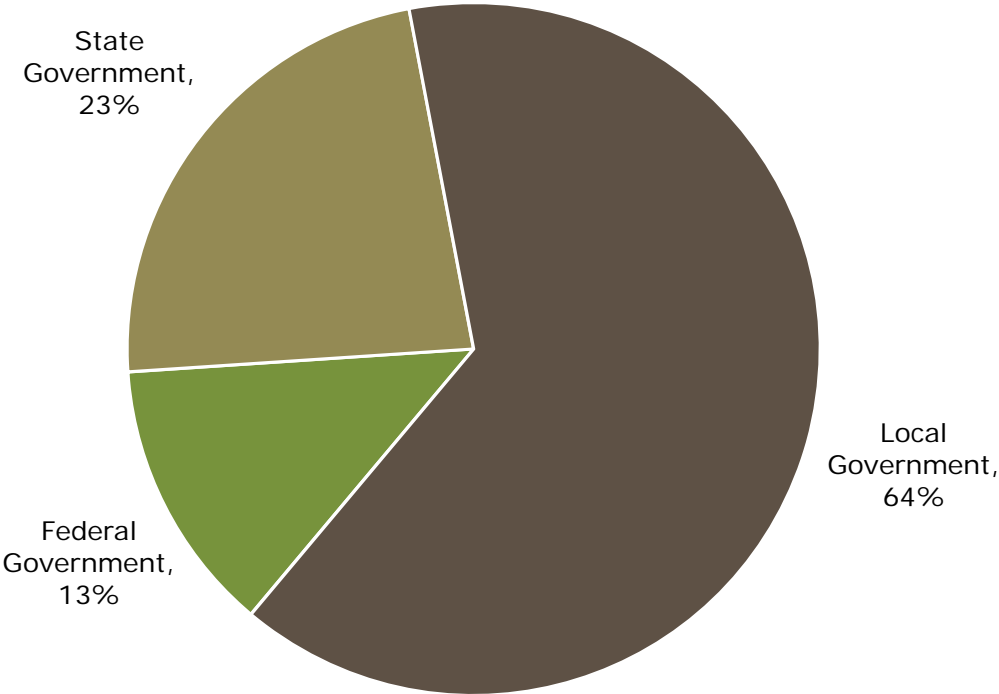


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Government Employment

It is not the Federal Government!

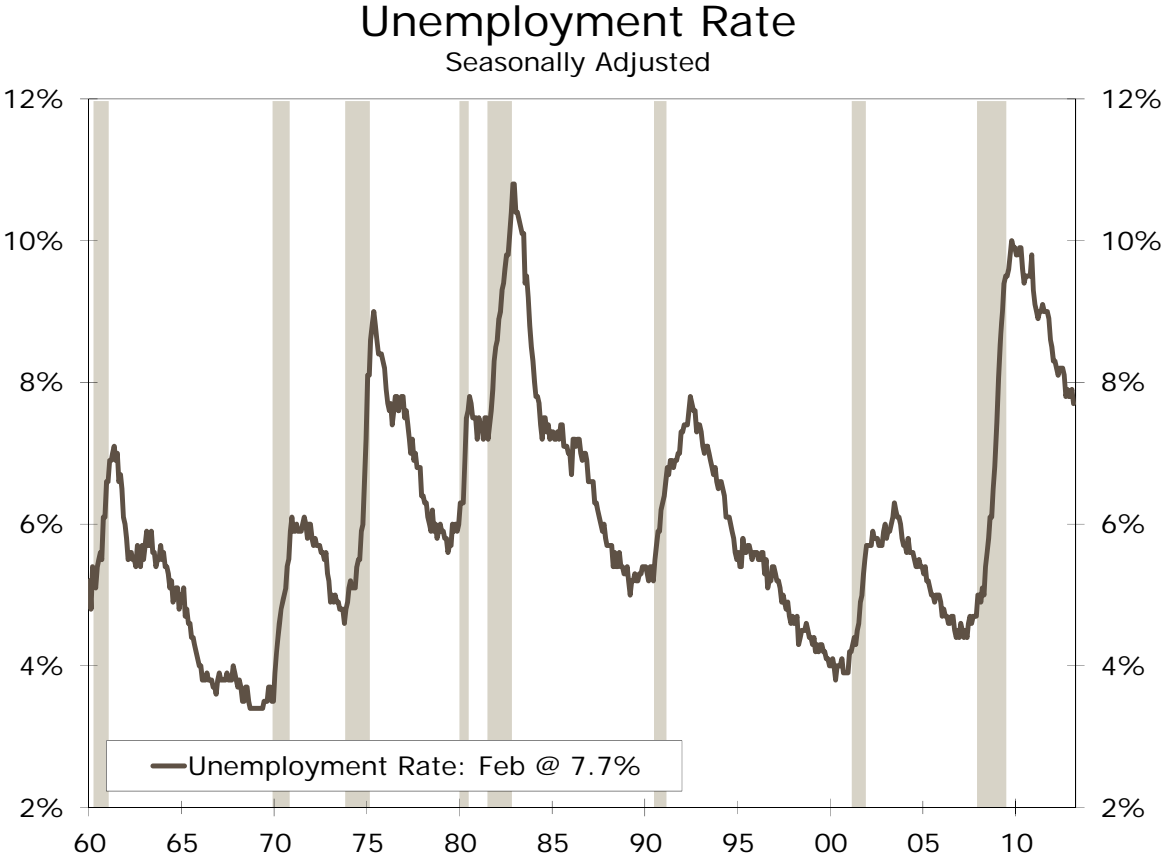
U.S. Government Employment Composition



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

Unemployment Rate

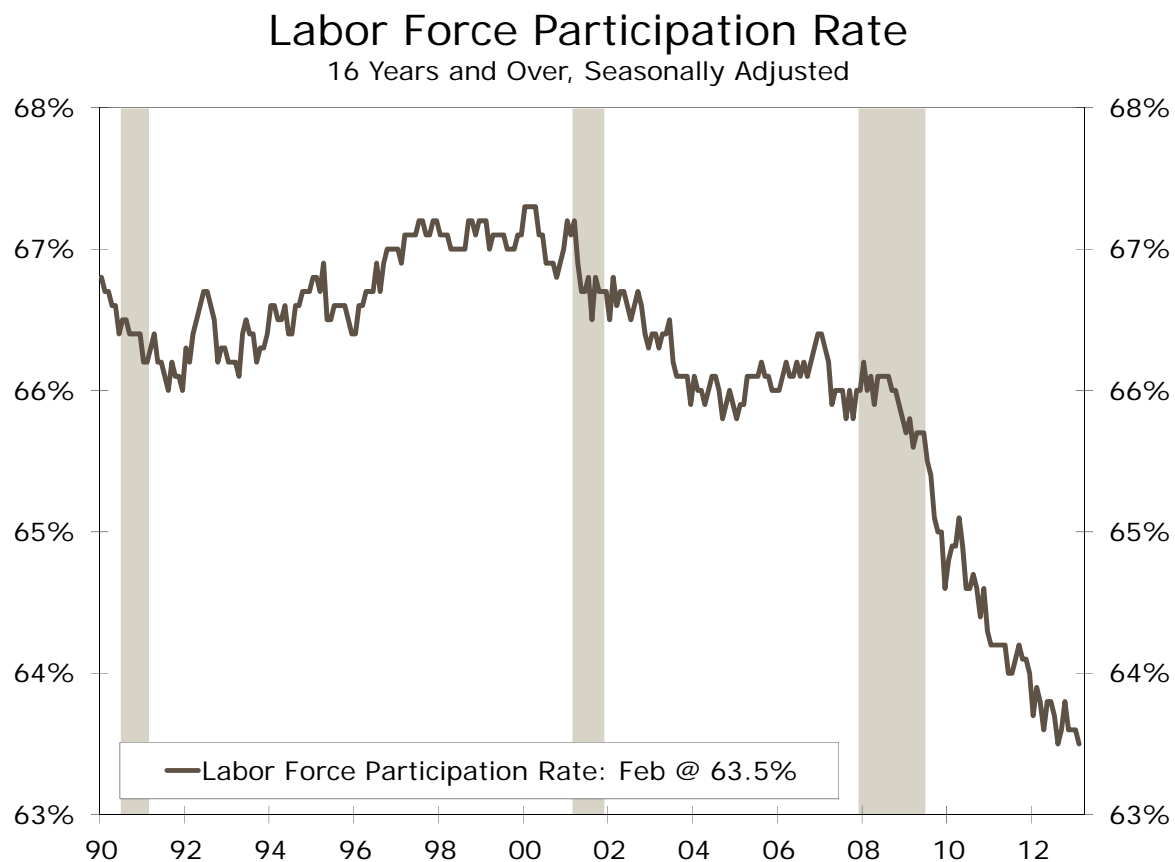
Not as high as during the 1980s recession, but more damaging



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

The Employment Situation

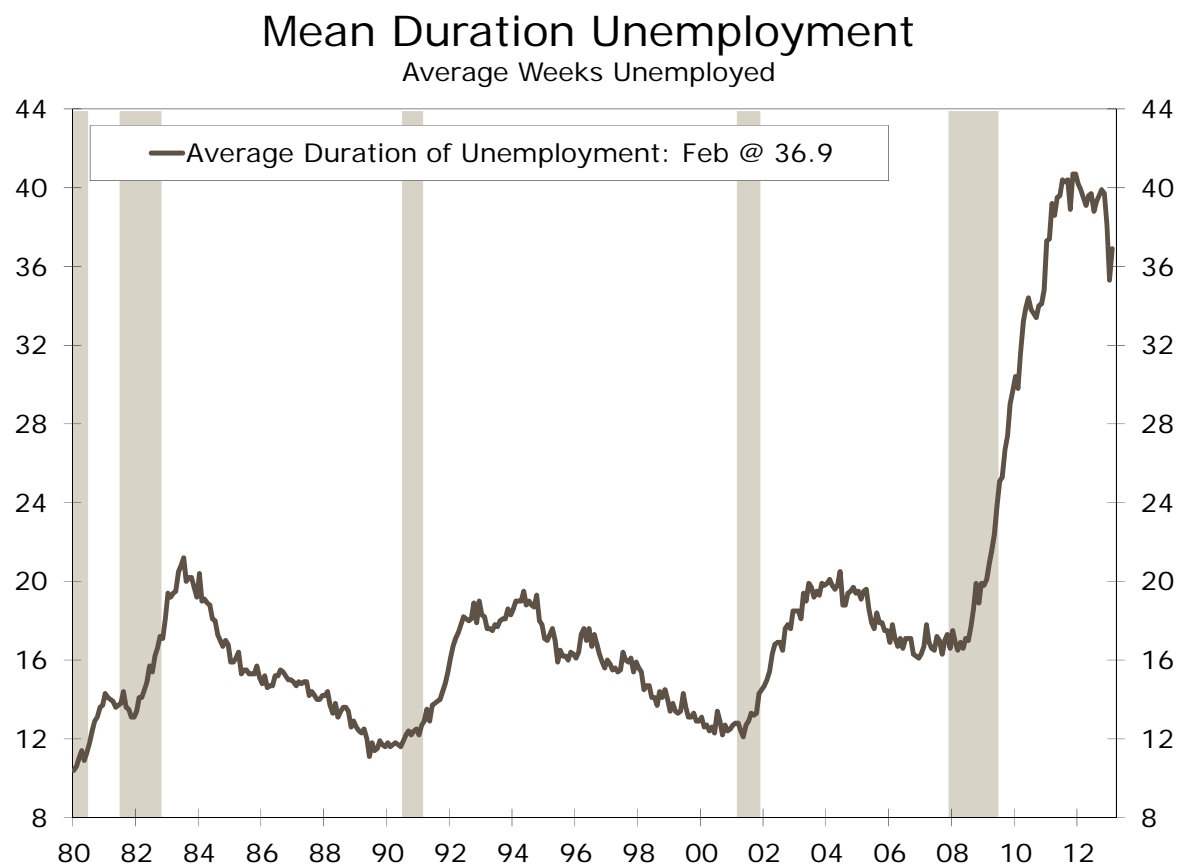
One of the reasons for the decline in the unemployment rate is tied to the drop-off in the labor force participation rate



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

Mean Duration of Unemployment

Duration of unemployment shows a struggling labor market



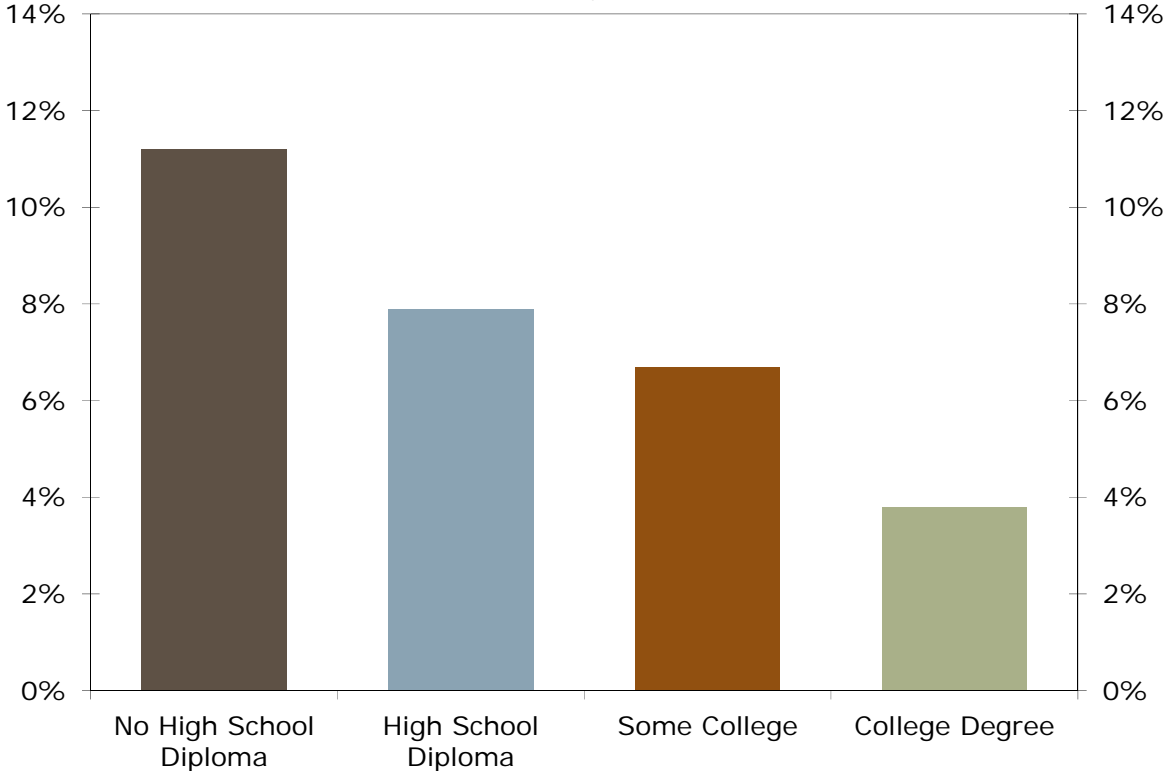
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Unemployment by Education Level

College graduates have the edge even in the worst recession since the depression

Unemployment Rate by Education Level

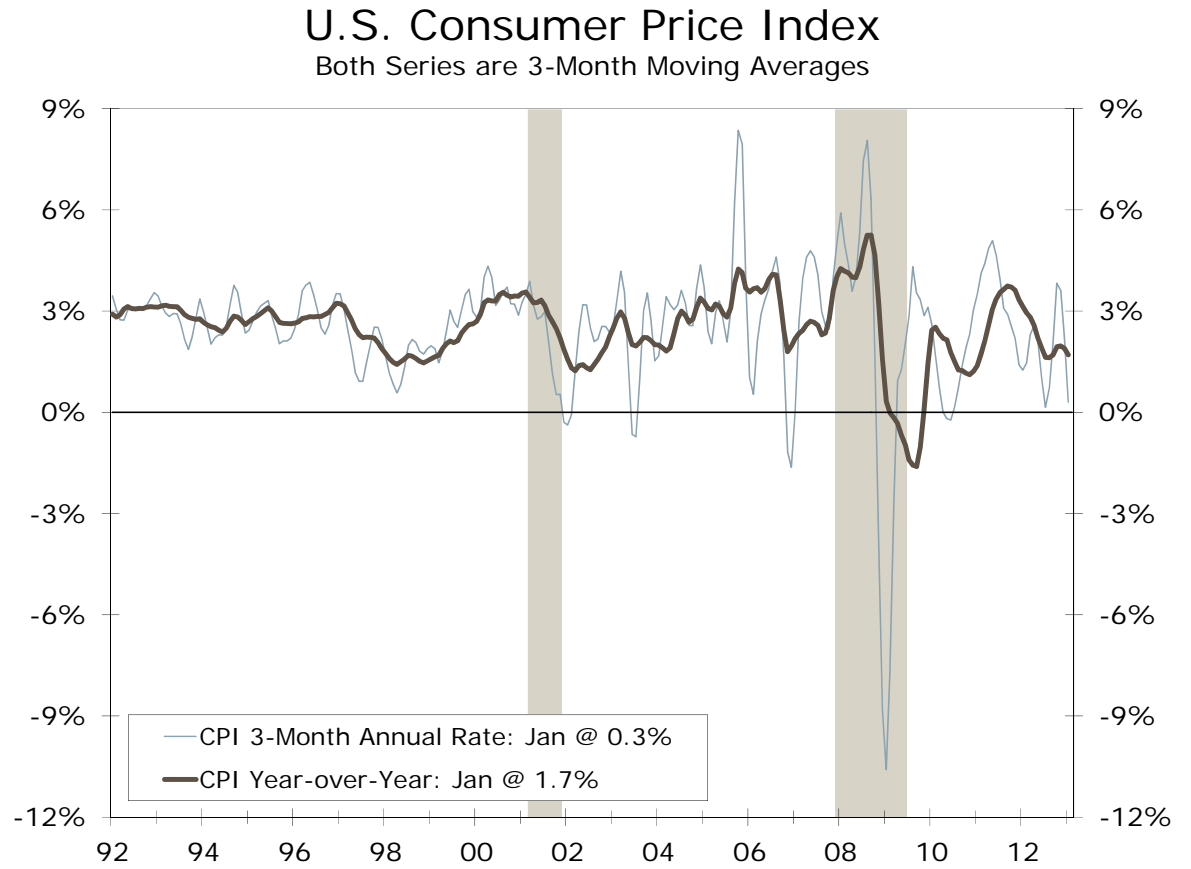
February 2013



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

Consumer Price Index

Consumer prices are slowing once again



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

The Humpty-Dumpty Economy

On this side of the wall:
1930's depression/
Japan-like depression

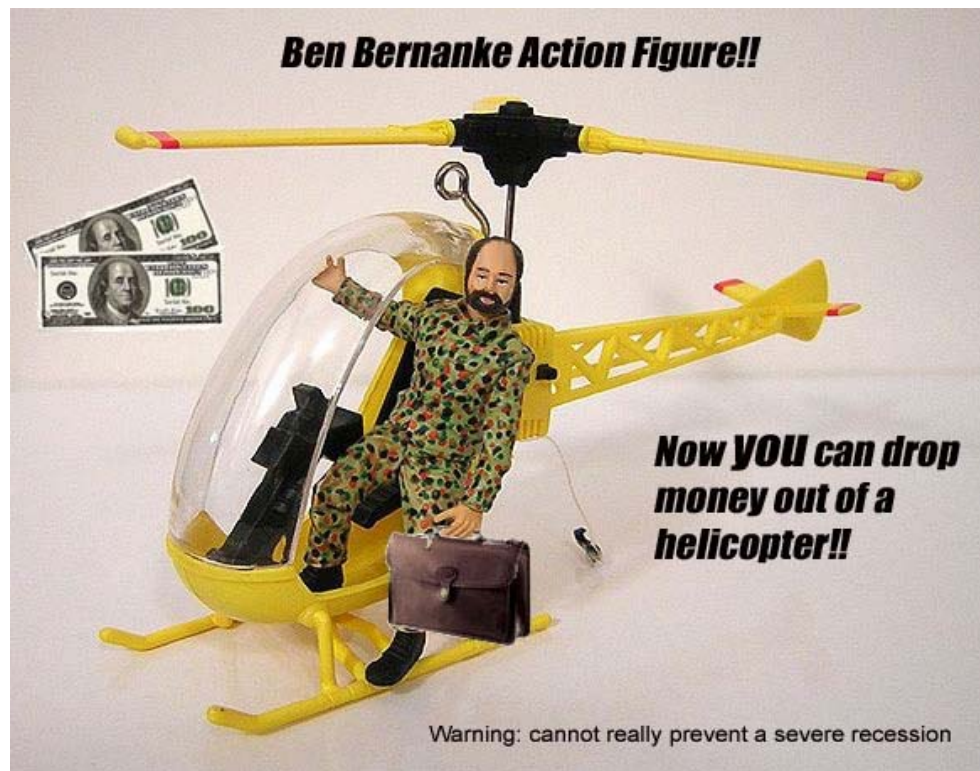


On this side of the wall:
Inflation & stagnation =
stagflation

**The U.S. Economy sat on a wall,
The U.S. Economy had a great fall.
All the king's Treasury-men,
And all the king's Federal Reserve-men,
Couldn't put The U.S. Economy together again.**

Helicopter Ben to the Rescue

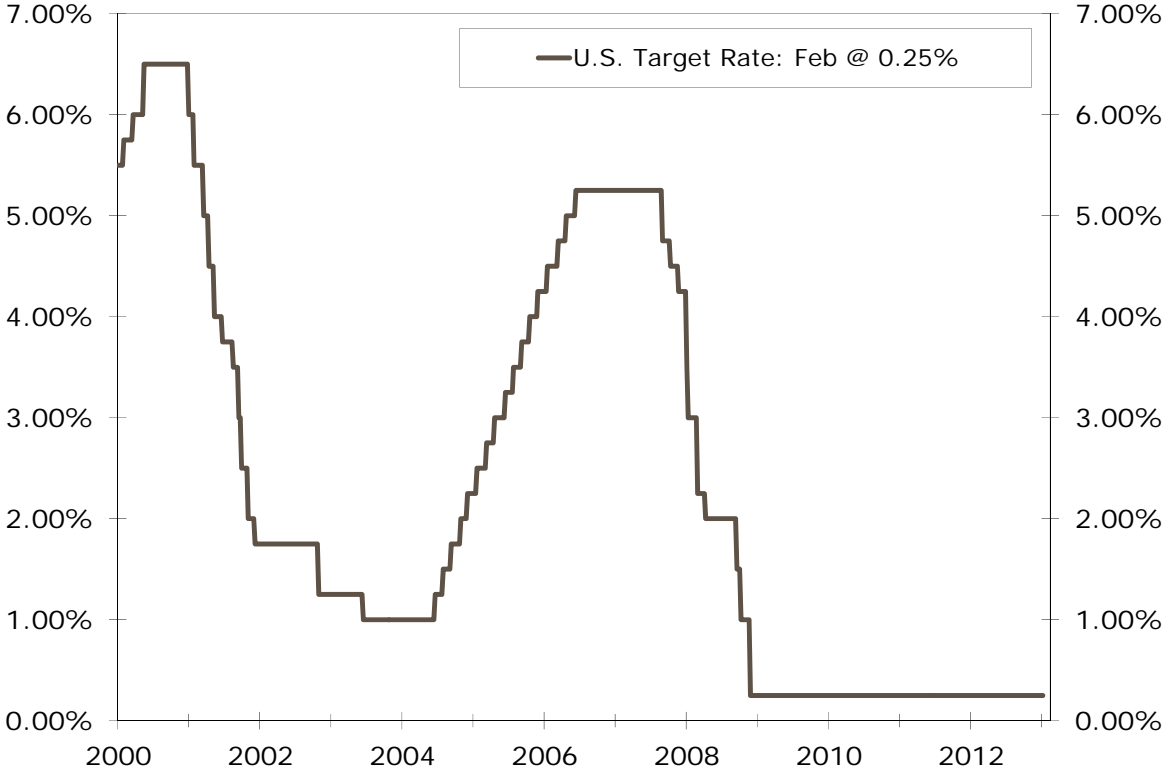
The Helicopter Effect!



Federal Reserve Target Rate

Monetary policy remains extremely expansive

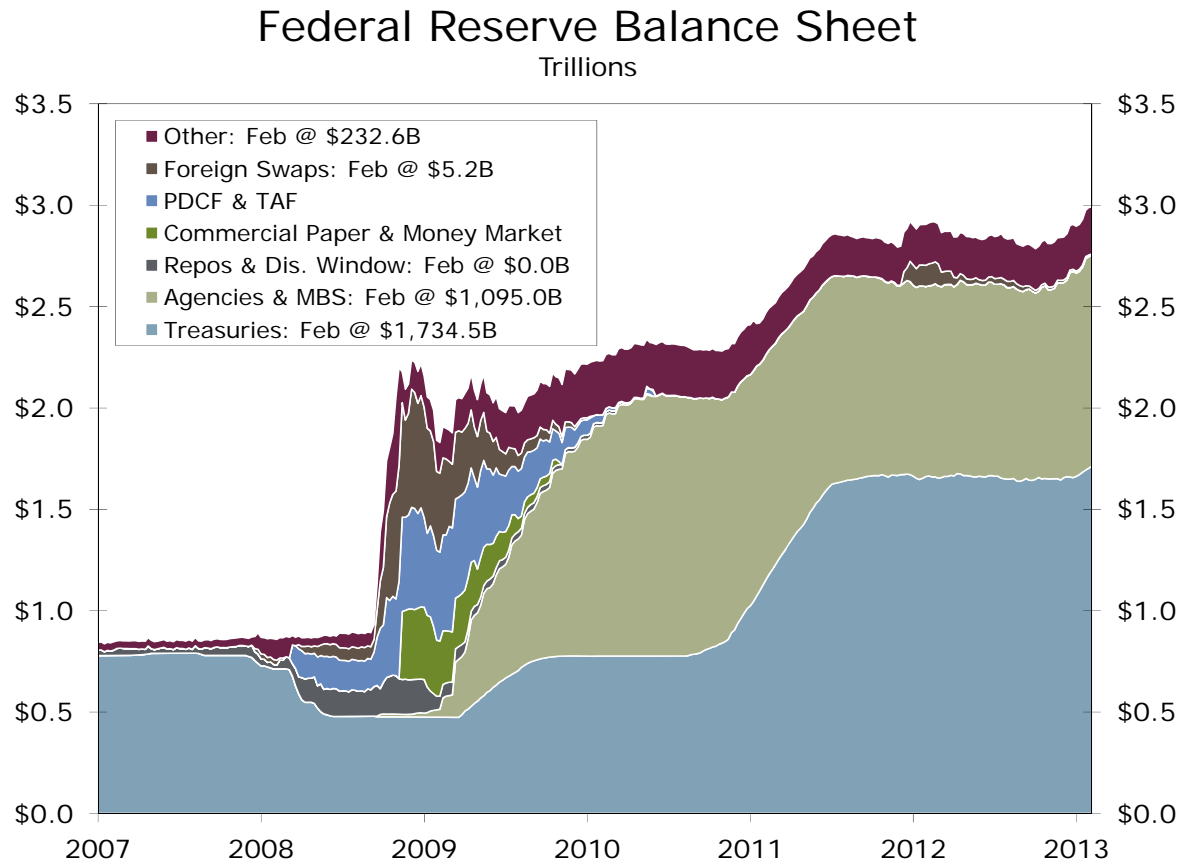
U.S. Federal Reserve Target Rate



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Federal Reserve Balance Sheet

A Monetary Tsunami?



Source: Federal Reserve Board and Wells Fargo Securities, LLC

The Housing Market Today

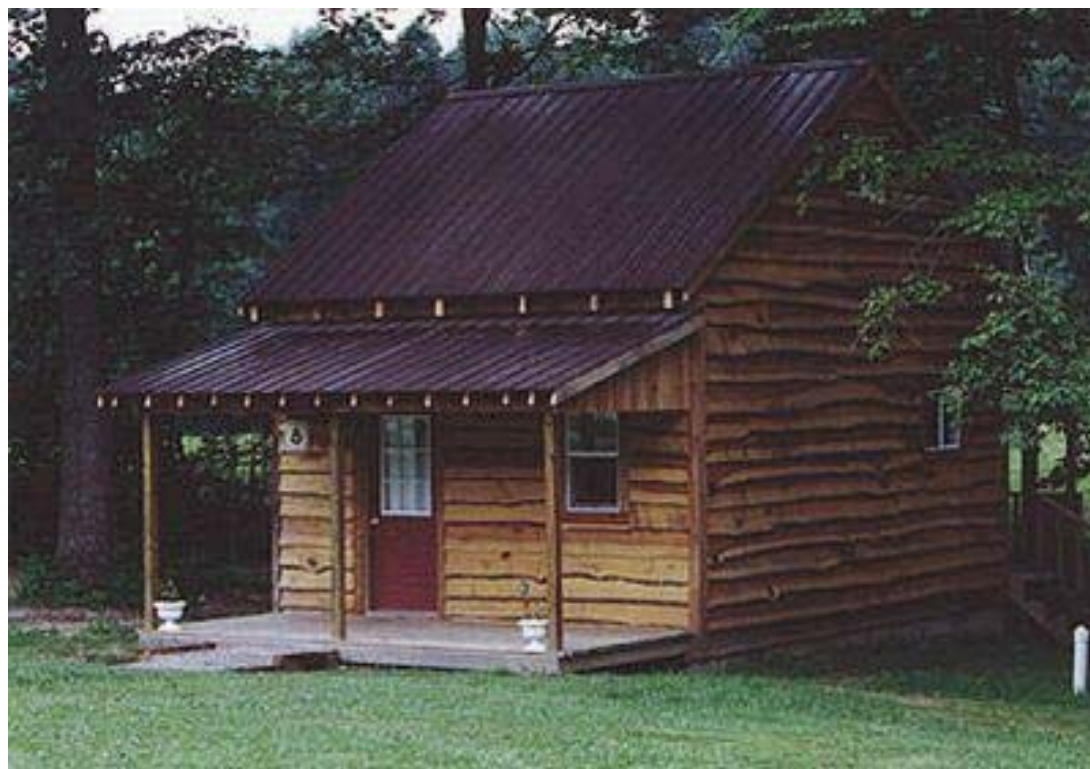
Your House As Seen By:

You...



Your House As Seen By:

Your Buyer...



Your House As Seen By:

Your Lender...



Your House As Seen By:

Your Appraiser...



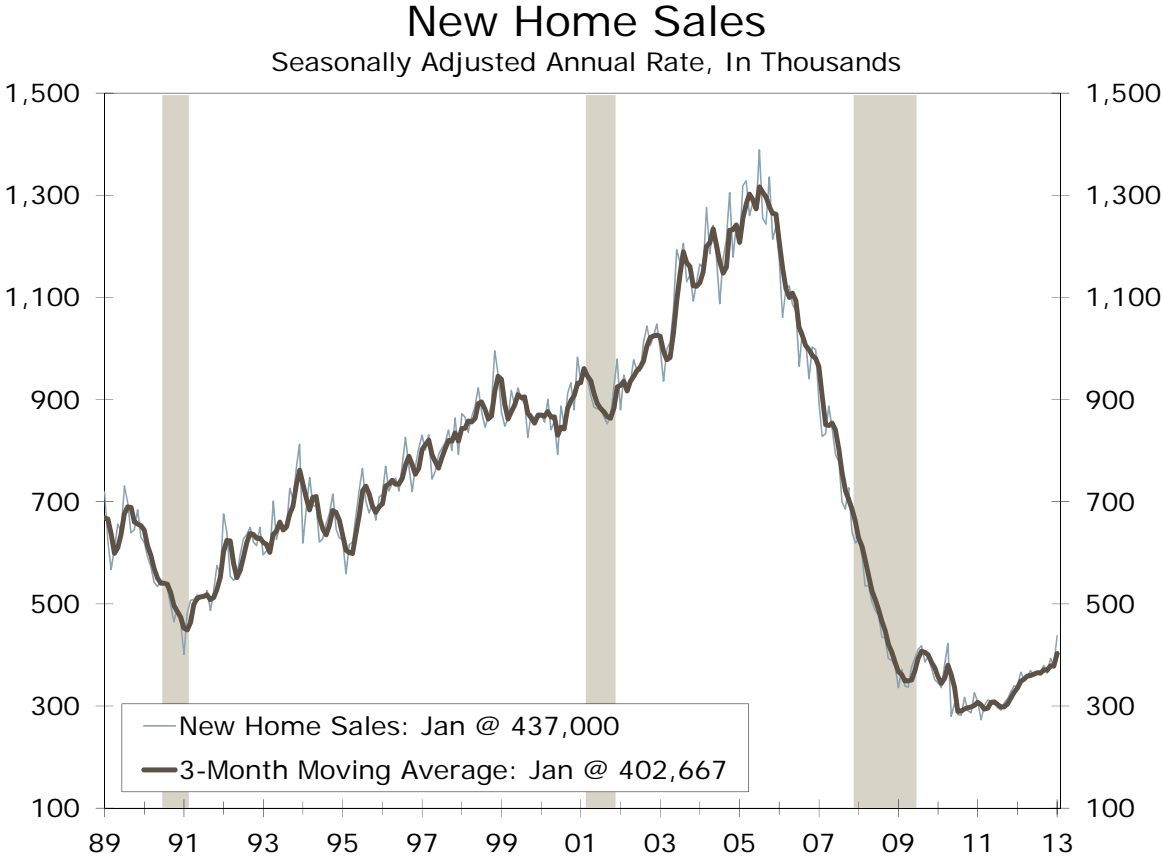
Your House As Seen By:

And...
Your County's Tax Assessor...



New Home Sales

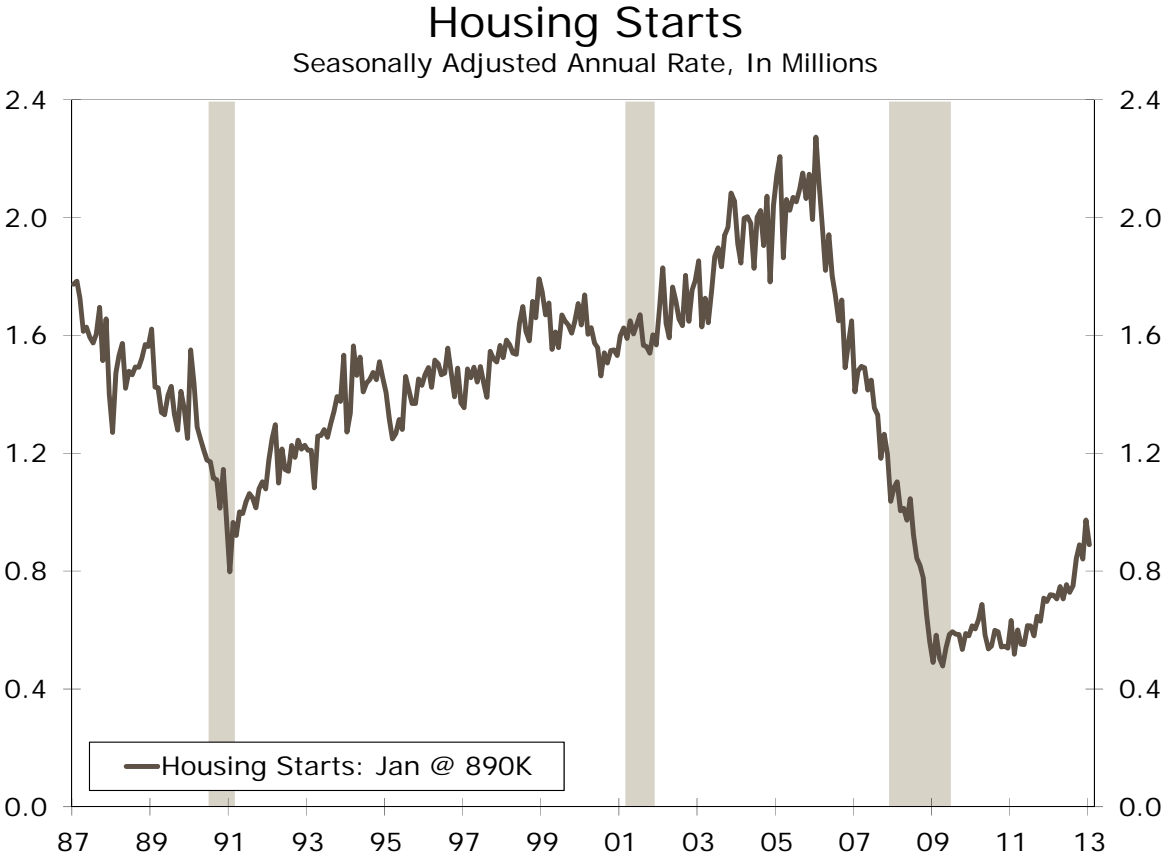
New home sales are still low but improving



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

Housing Starts

As well as housing starts



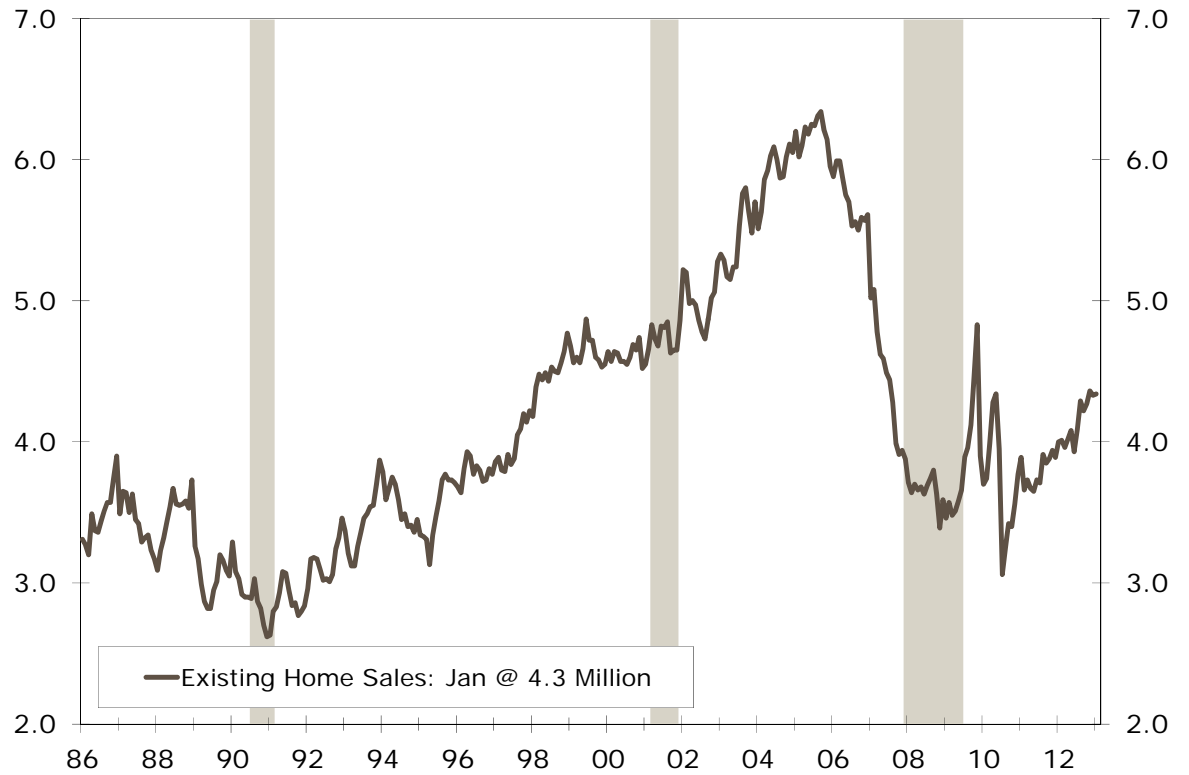
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Existing Home Sales

Existing home sales are relatively strong

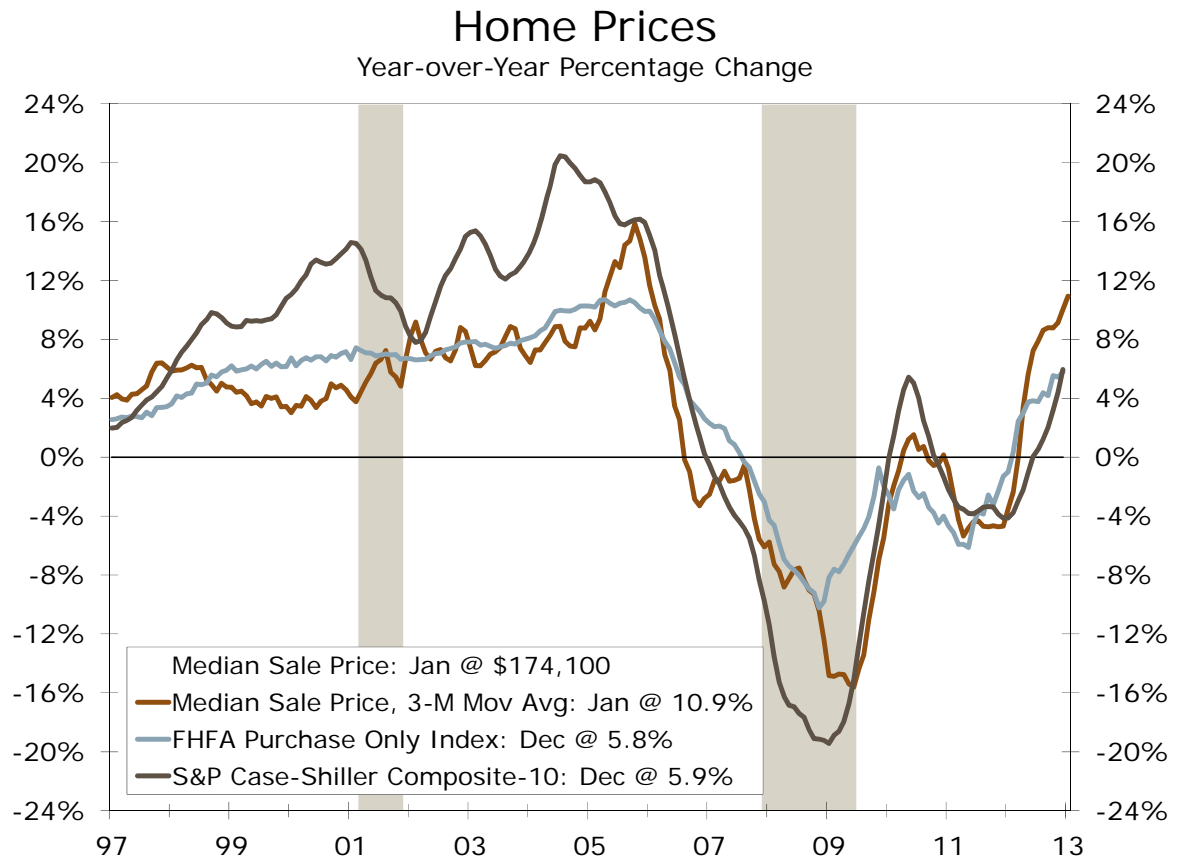
Existing Single-Family Home Resales

Seasonally Adjusted Annual Rate - In Millions



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

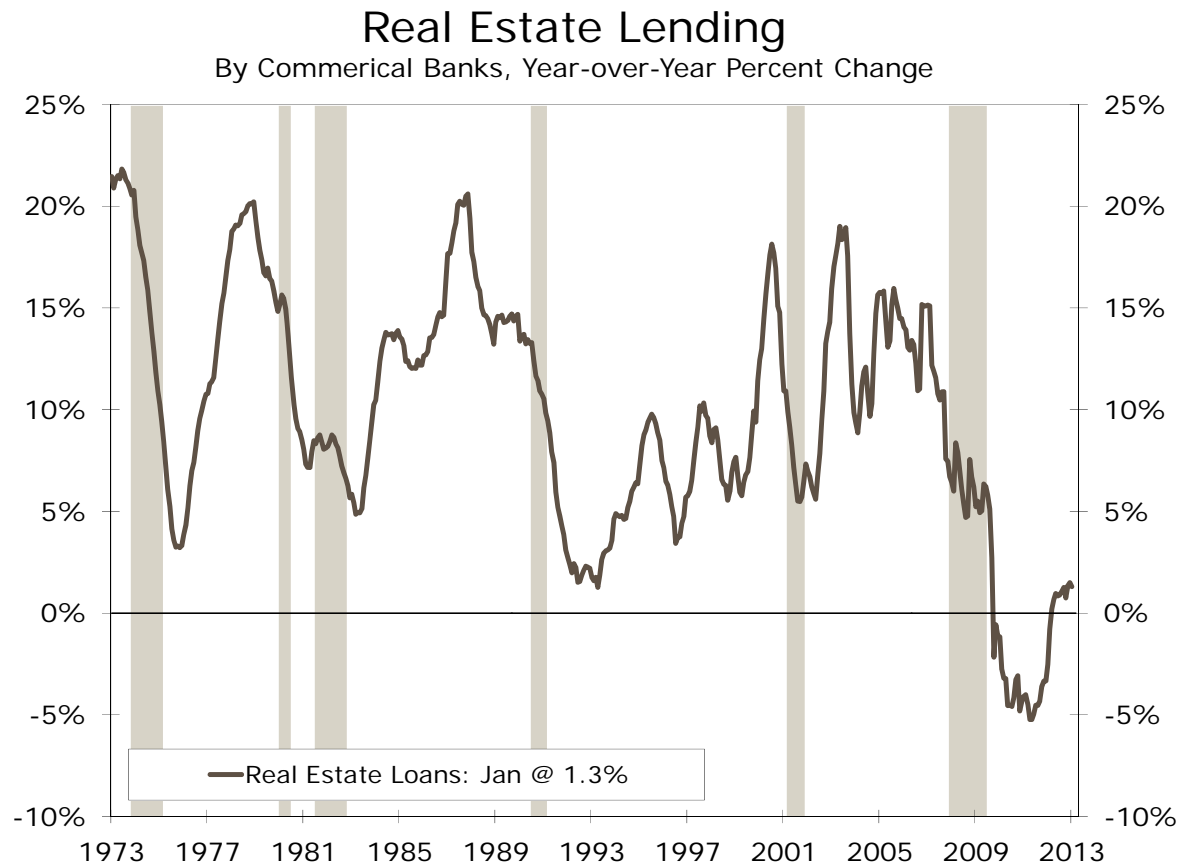
Home prices are finally showing signs of recovery



Source: National Association of Realtors, FHFA, S&P Case-Shiller and Wells Fargo Securities, LLC

Home Mortgages

Home mortgages have been declining for the past four years



Source: Federal Reserve Board and Wells Fargo Securities, LLC

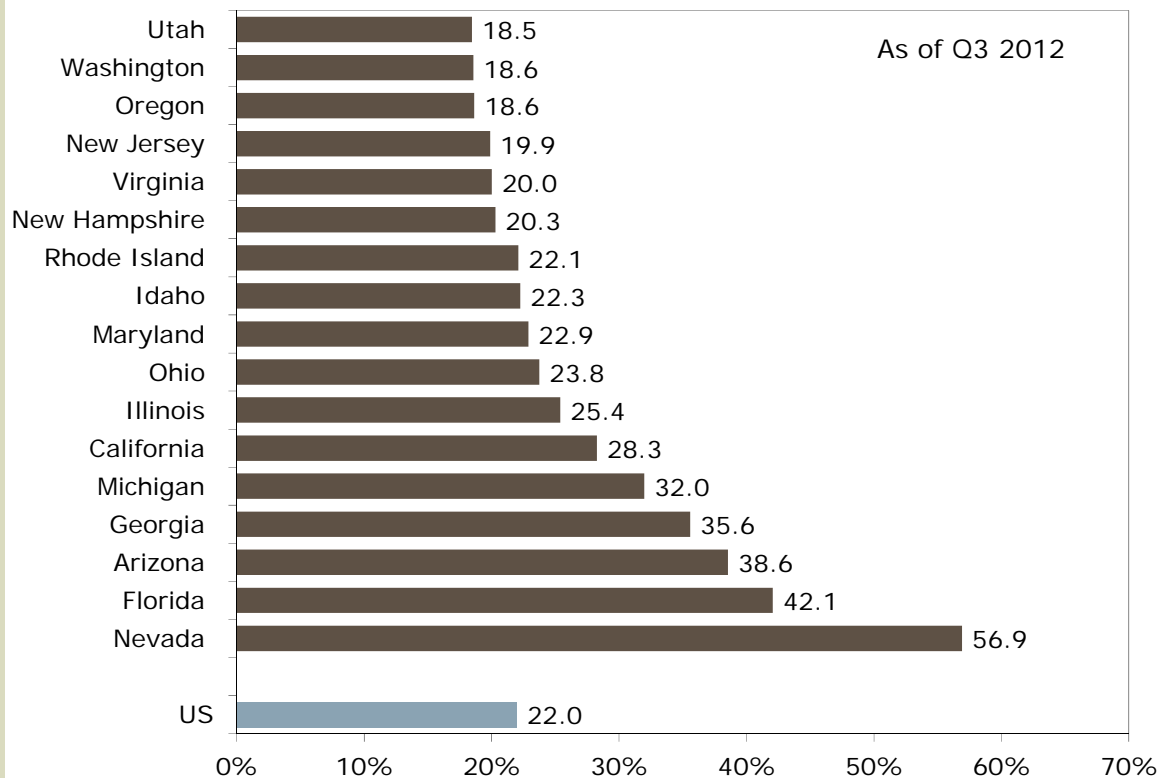
Negative Equity

O...M...G...?

Negative Equity Mortgages - By State

Percent of Mortgages Outstanding

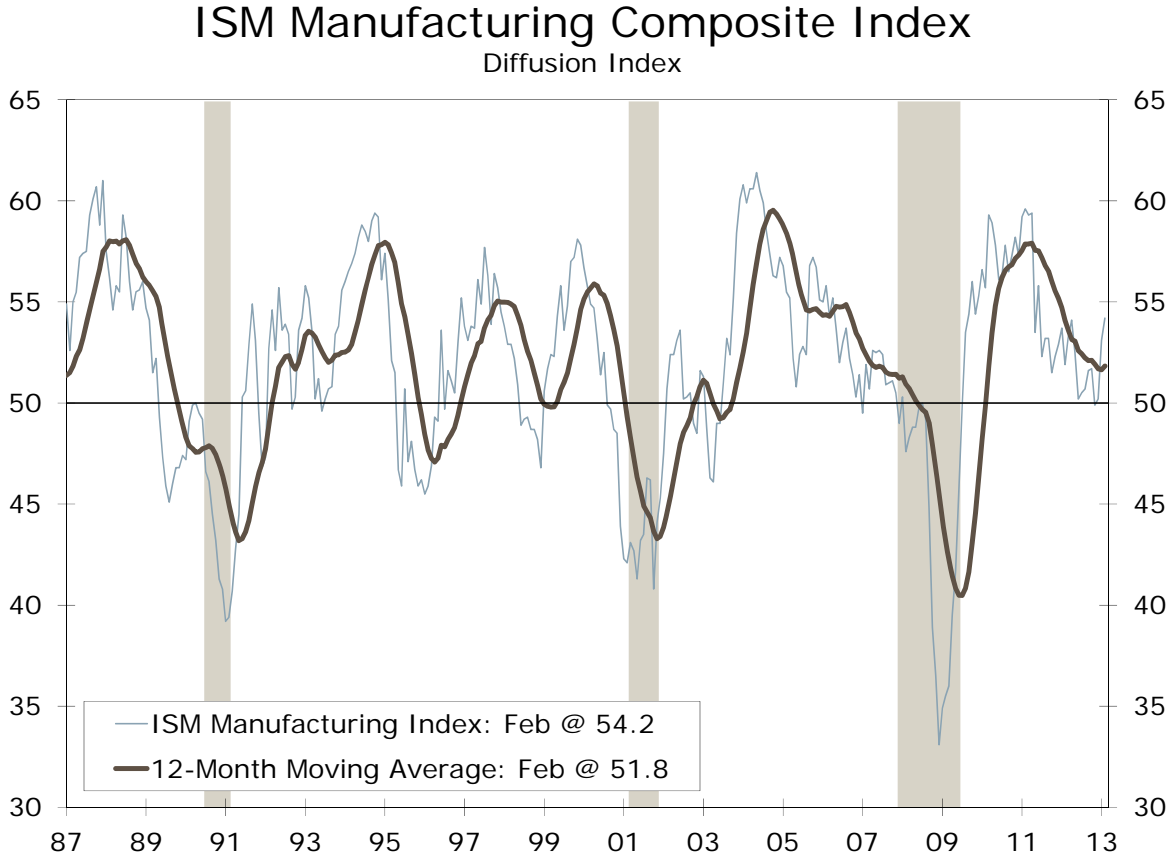
As of Q3 2012



Source: FHFA and Wells Fargo Securities, LLC

ISM Manufacturing Index

Manufacturing has weakened but it is back to expansion territory

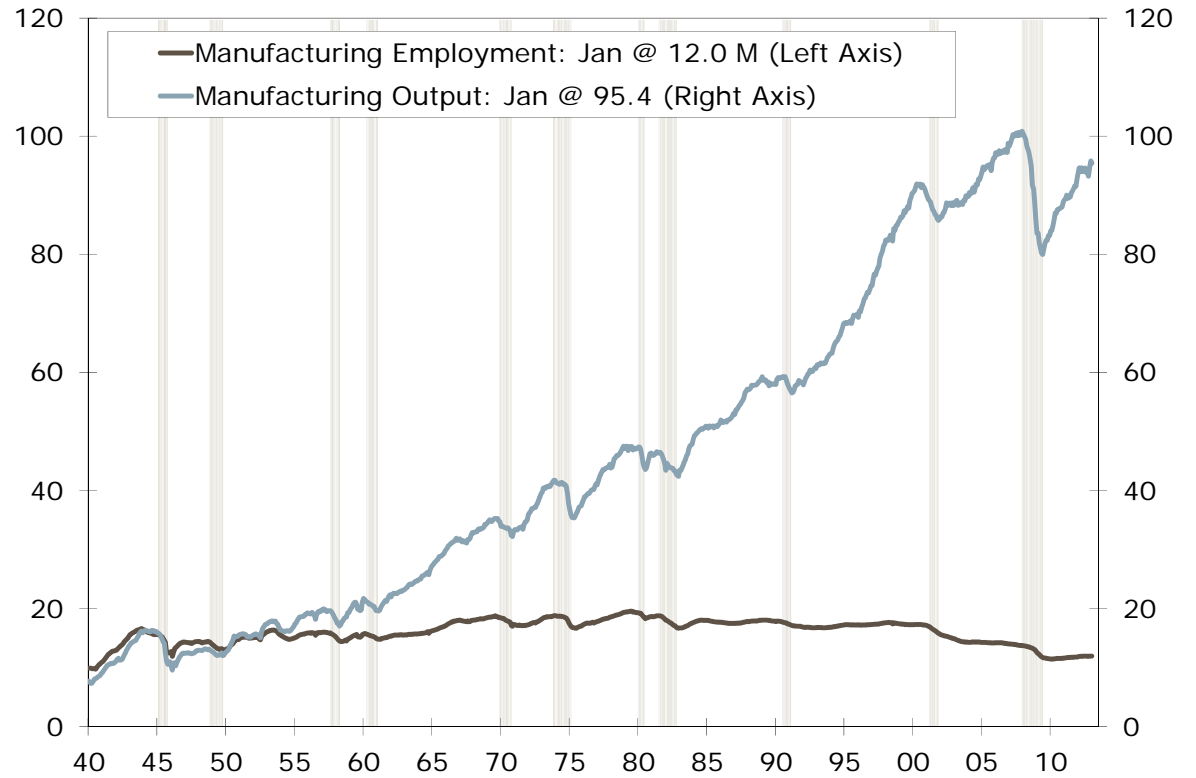


Source: Institute for Supply Management and Wells Fargo Securities, LLC

The Manufacturing Myth!

Manufacturing Output and Employment

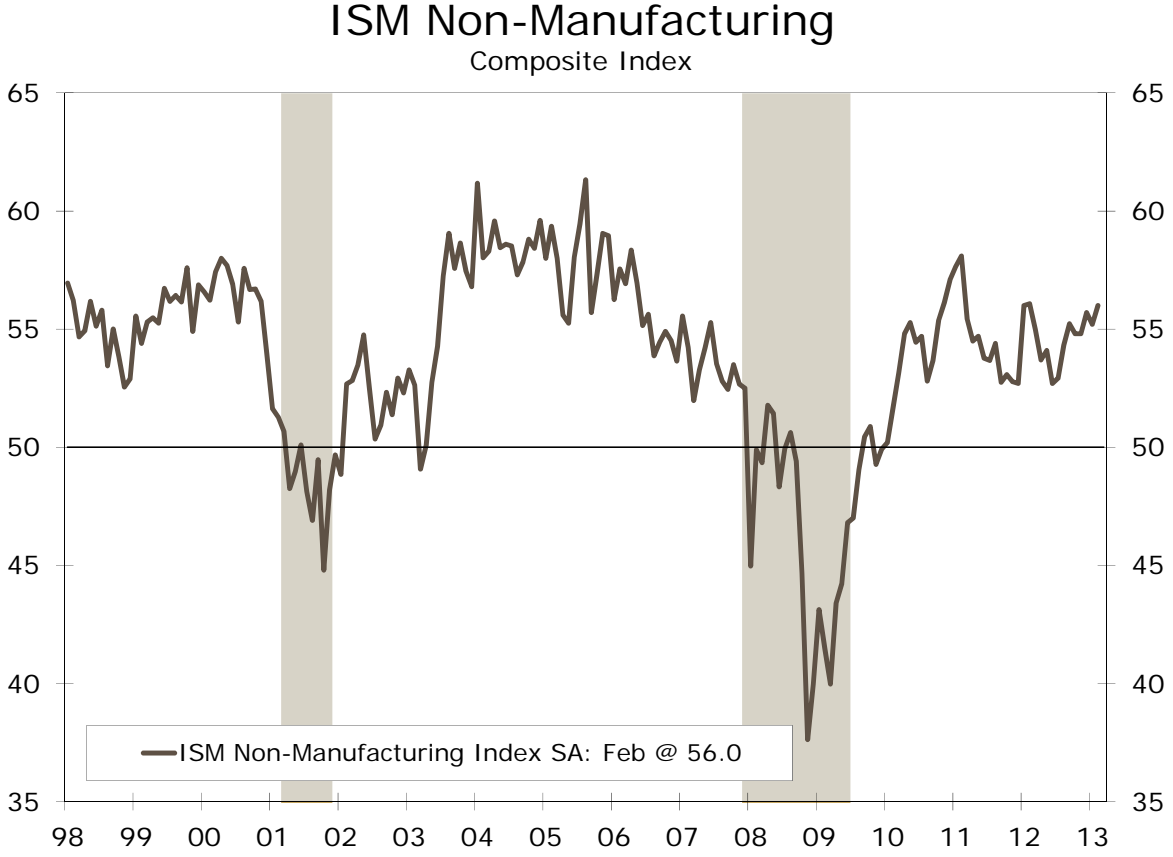
Employment in Millions; Output 2007 = 100



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

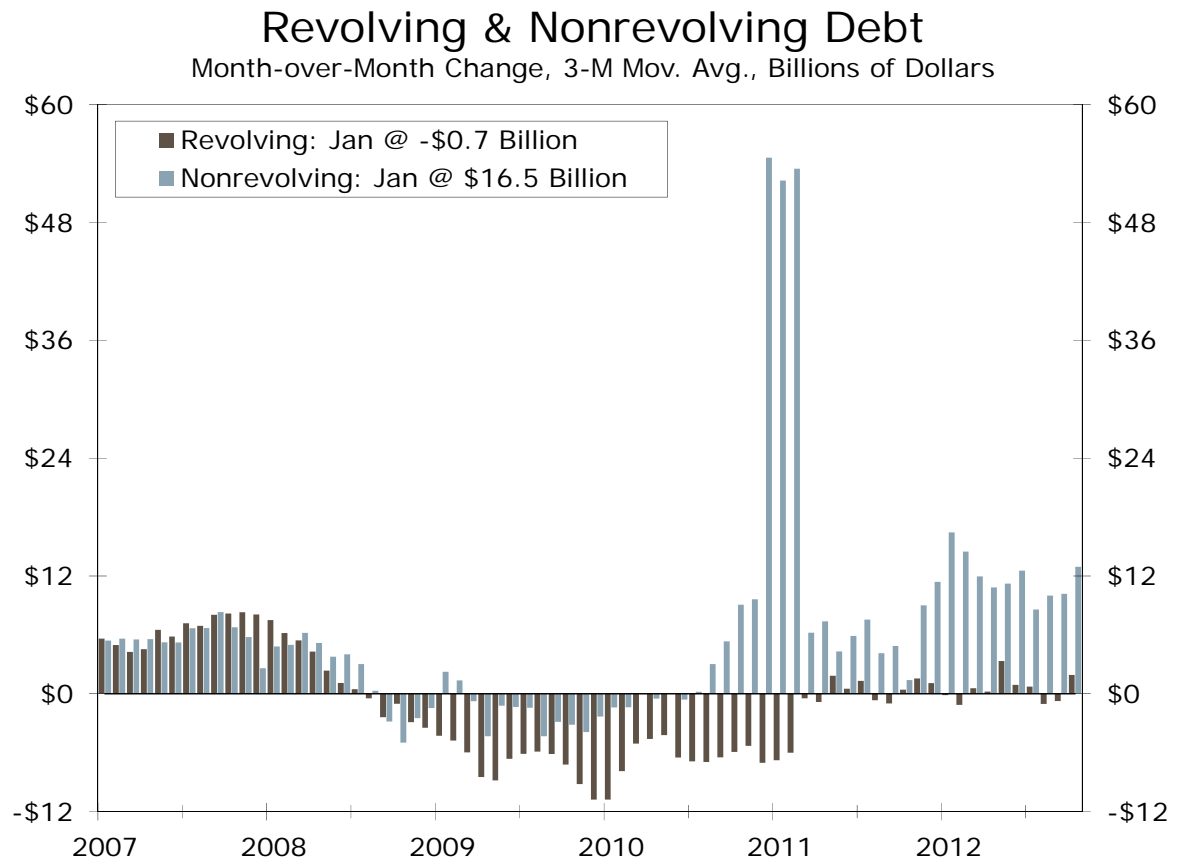
ISM Non-Manufacturing Index

But the service economy continues to move along



Source: Institute for Supply Management and Wells Fargo Securities, LLC

Credit card lending is non-existent



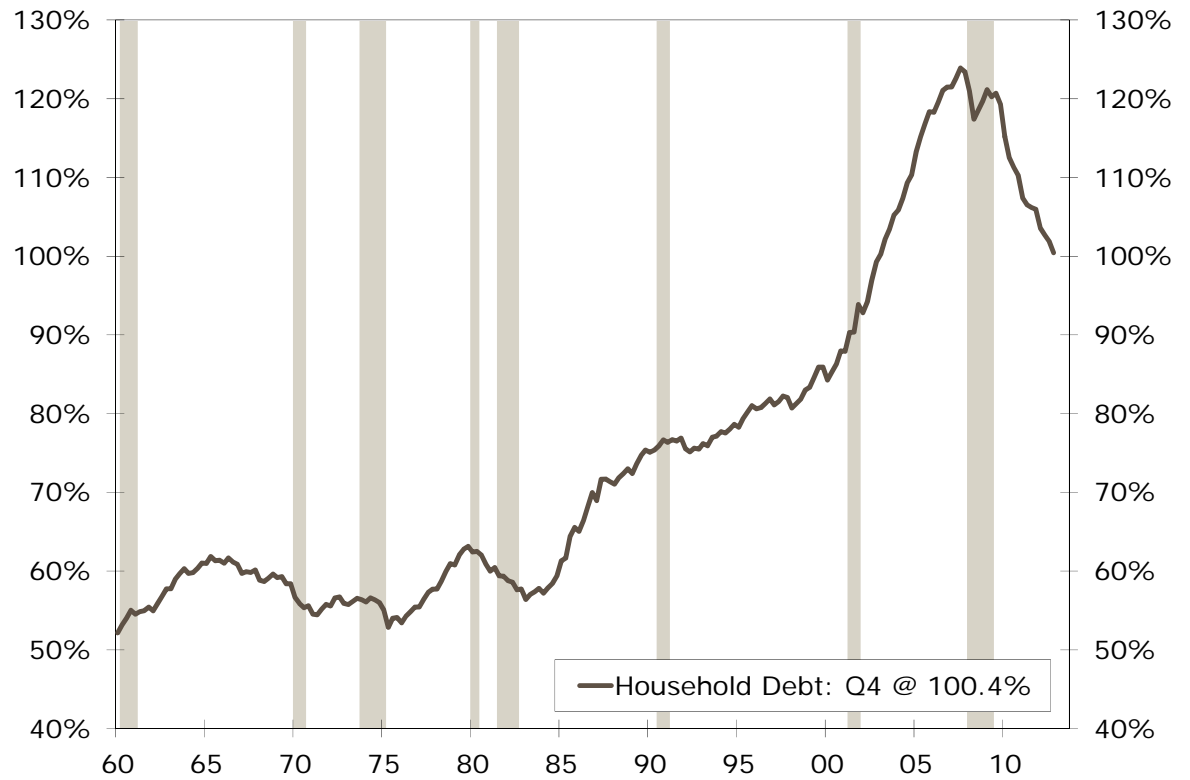
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Household Debt

Households are deleveraging fast...but not fast enough!

Household Debt - Consumer & Mortgage

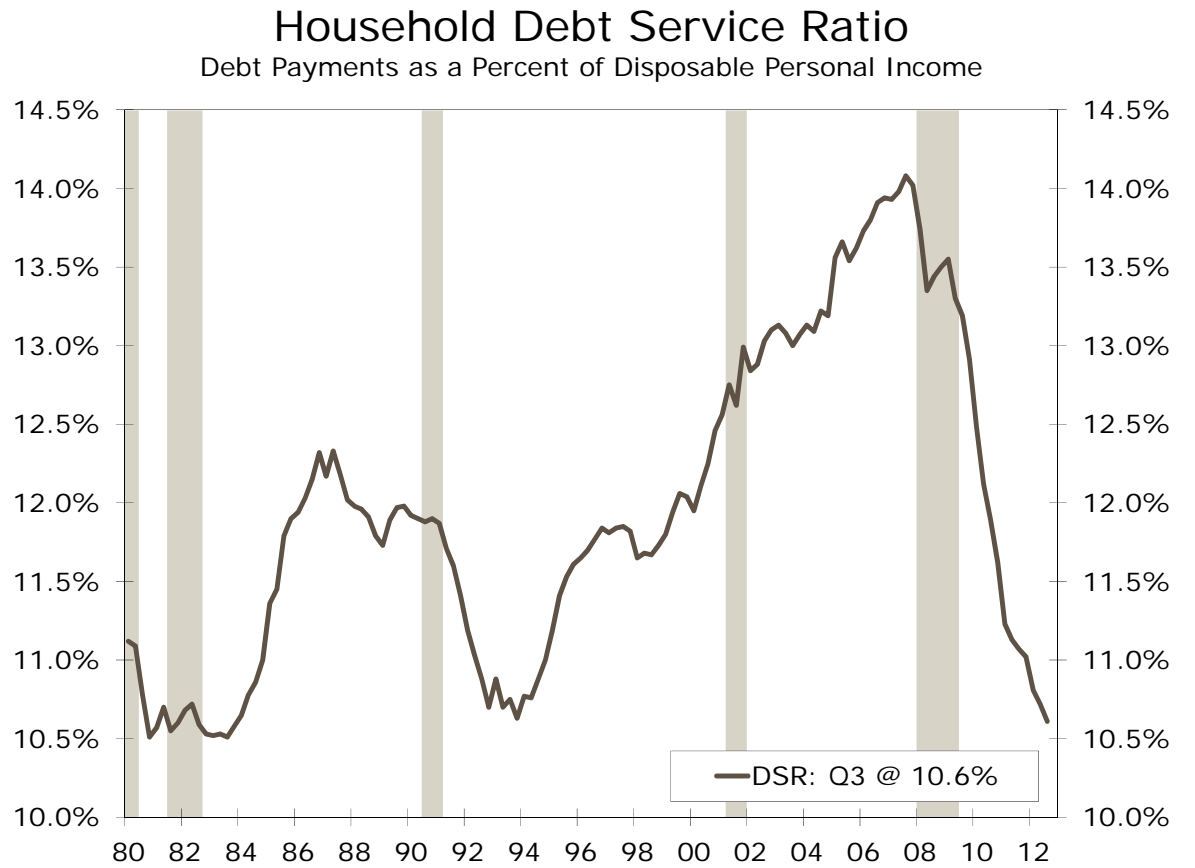
As a Percent of Disposable Personal Income



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Household Debt

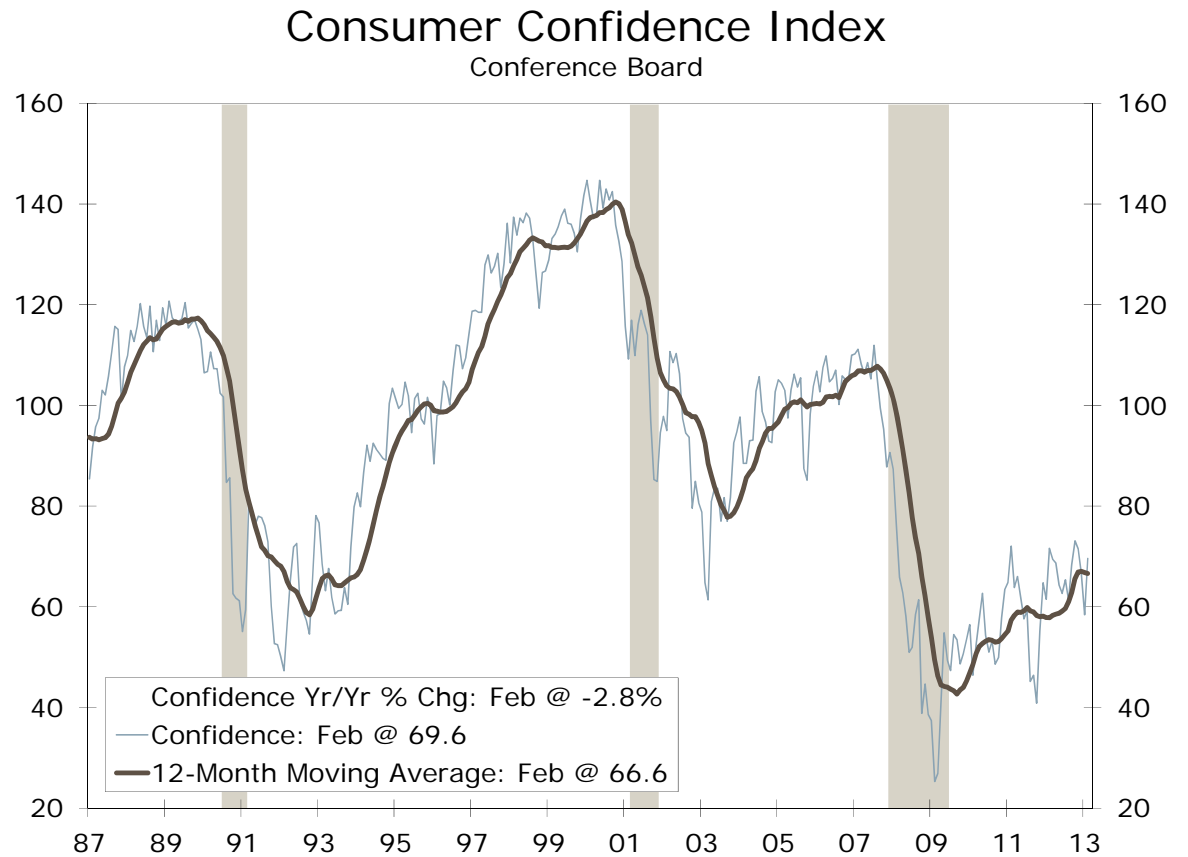
Households are ready to borrow again



Source: The Conference Board and Wells Fargo Securities, LLC

Consumer Confidence

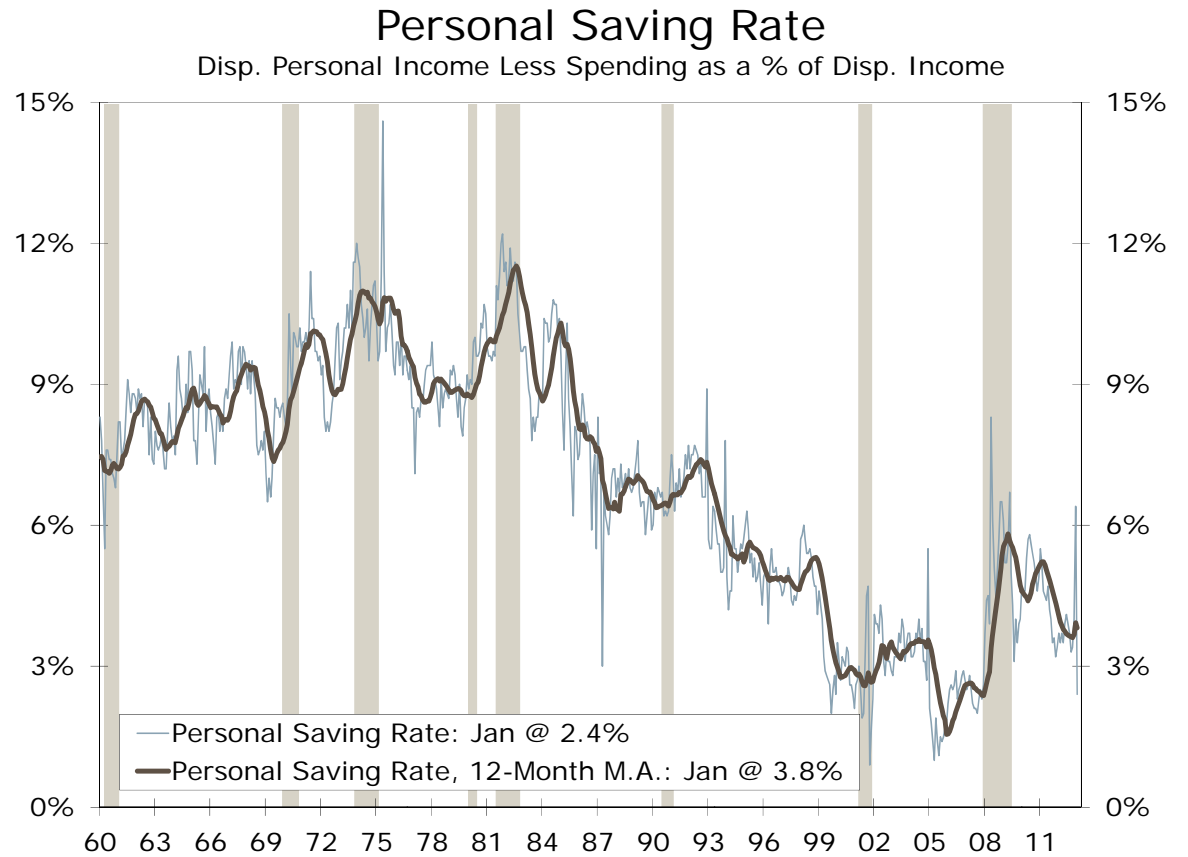
Consumer confidence is still very weak for a strong recovery



Source: The Conference Board and Wells Fargo Securities, LLC

Personal Saving Rate

The best news is that the saving rate has improved



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

Mortgage and Treasury Rates

Mortgage interest are starting to edge up from a very low base



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

Growth will remain positive but weak

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2012	2013	2014	2012	2013	2014
Global (PPP weights)	2.7%	2.8%	3.7%	4.2%	3.9%	4.3%
Global (Market Exchange Rates)	1.5%	1.6%	2.4%	n/a	n/a	n/a
Advanced Economies ¹	1.2%	1.2%	2.3%	2.1%	1.3%	1.8%
United States	2.2%	2.0%	2.3%	2.1%	1.6%	2.1%
Eurozone	-0.5%	-0.1%	1.8%	2.5%	1.3%	1.7%
United Kingdom	0.2%	1.1%	2.0%	2.8%	2.5%	2.1%
Japan	1.9%	0.4%	2.5%	0.0%	-0.2%	0.1%
Korea	2.1%	2.8%	4.3%	2.2%	2.6%	3.1%
Canada	1.8%	1.5%	2.6%	1.5%	1.1%	2.0%
Developing Economies ¹	4.4%	4.7%	5.4%	6.7%	7.0%	7.2%
China	7.7%	8.1%	8.4%	2.7%	3.0%	3.5%
India	5.0%	5.7%	6.5%	9.7%	9.0%	9.3%
Mexico	4.1%	3.3%	3.4%	4.1%	4.1%	4.8%
Brazil	0.8%	2.2%	4.2%	5.4%	6.3%	6.1%
Russia	3.4%	3.1%	3.7%	5.1%	6.0%	5.5%

Forecast as of: February 6, 2013

¹Aggregated Using PPP Weights

Source: Wells Fargo Securities, LLC

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