

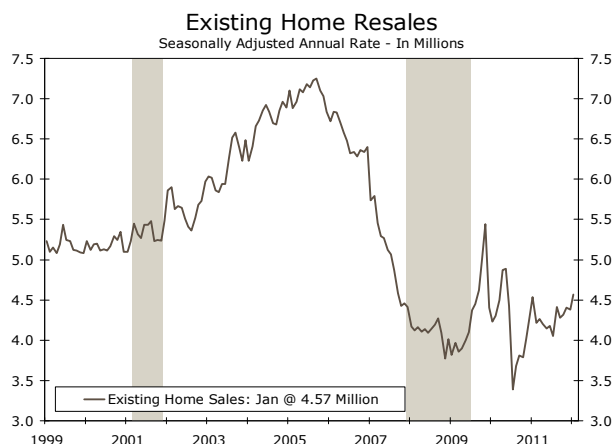
Economics Group

Weekly Economic & Financial Commentary

U.S. Review

Housing Market Recovery: A Regional Story

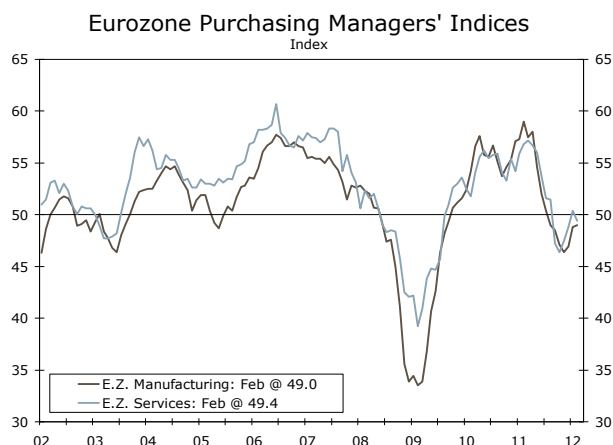
- This week, data on the housing market pointed to some slight firming. Although new home sales edged down 0.9 percent, existing home sales were up 4.3 percent. Even with the somewhat better housing data this week, concerns remain about the backlog of foreclosures and their effect on the market.
- Initial jobless claims continued to trend downward last week declining to 351K. The four-week moving average, the best indicator of the trend, also dropped to 359K suggesting sustained declines in layoffs.



Global Review

Lack of Confidence in Europe

- European bourses sold off this week as a slate of mostly disappointing news and economic data rattled investors' nerves.
- The European Commission changed its forecast for modest GDP growth of 0.5 percent in 2012 to a decline of 0.3 percent for the year.
- The Eurozone Purchasing Managers' Indices (PMIs) for both manufacturing and the service sector came in below consensus estimates and at a level consistent with continued declines in economic output.



Wells Fargo U.S. Economic Forecast													
	Actual 2011				Forecast 2012				Actual			Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2009	2010	2011	2012	2013
Real Gross Domestic Product ¹	0.4	1.3	1.8	2.8	1.8	1.5	2.3	2.5	-3.6	3.0	1.7	2.0	2.1
Personal Consumption	2.1	0.7	1.7	2.8	1.8	1.5	1.6	1.8	-2.0	2.0	2.2	1.7	1.4
Inflation Indicators ²													
PCE Deflator	1.8	2.5	2.9	2.6	2.0	1.7	1.6	1.9	0.6	1.8	2.4	1.8	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.6	2.0	1.6	1.8	-0.3	1.6	3.1	2.0	2.0
Industrial Production ¹	4.8	0.7	6.2	3.9	4.1	3.6	3.0	2.2	-11.1	5.3	4.2	3.8	2.3
Corporate Profits Before Taxes ²	8.8	8.5	7.5	6.4	6.2	6.0	6.4	6.6	9.1	32.2	7.8	6.3	6.6
Trade Weighted Dollar Index ³	70.6	69.4	72.8	73.3	72.0	73.0	74.0	75.0	77.7	75.6	70.9	73.5	76.3
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.2	8.4	8.4	9.3	9.6	9.0	8.3	8.3
Housing Starts ⁴	0.58	0.57	0.62	0.67	0.67	0.70	0.69	0.70	0.55	0.58	0.61	0.69	0.80
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	4.11	3.96	4.00	4.00	4.10	4.10	5.04	4.69	4.46	4.05	4.25
10 Year Note	3.47	3.18	1.92	1.89	2.00	2.00	2.10	2.20	3.26	3.22	2.78	2.08	2.30

Forecast as of: February 24, 2012
¹ Compound Annual Growth Rate Quarter-over-Quarter
² Year-over-Year Percentage Change
³ Federal Reserve Major Currency Index, 1973=100 - Quarter End
⁴ Millions of Units
⁵ Annual Numbers Represent Averages

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Together we'll go far



U.S. Review

Jobless Filings Point to Fewer Layoffs

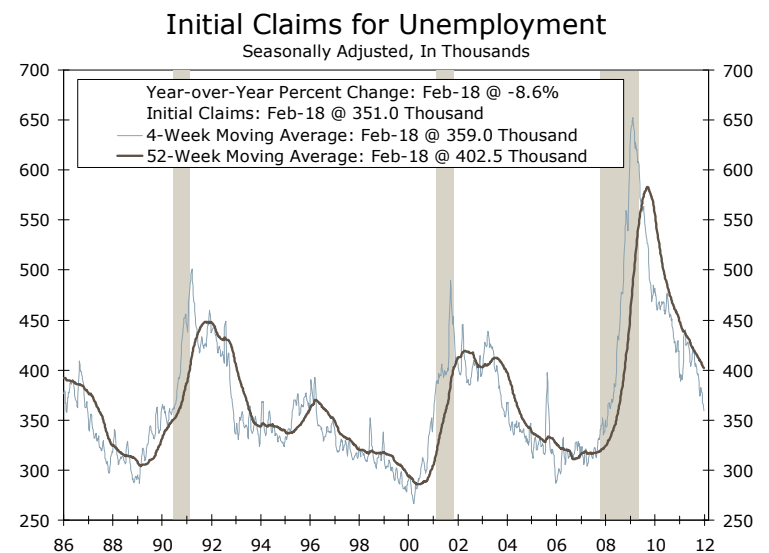
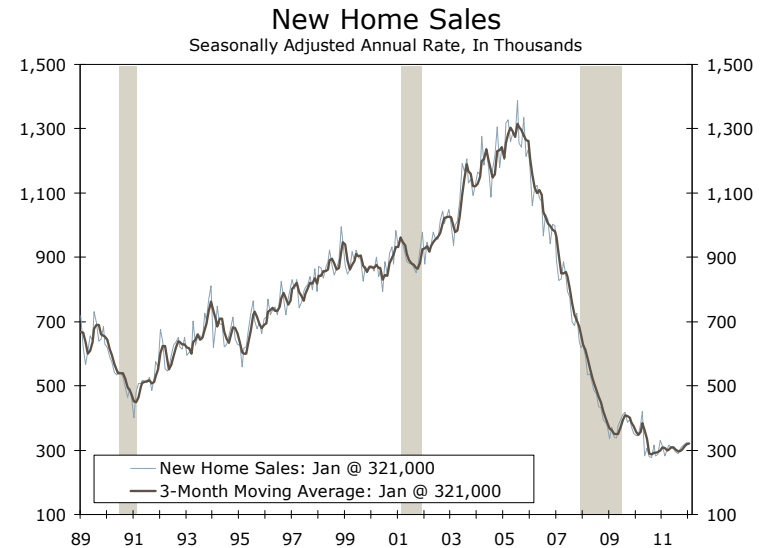
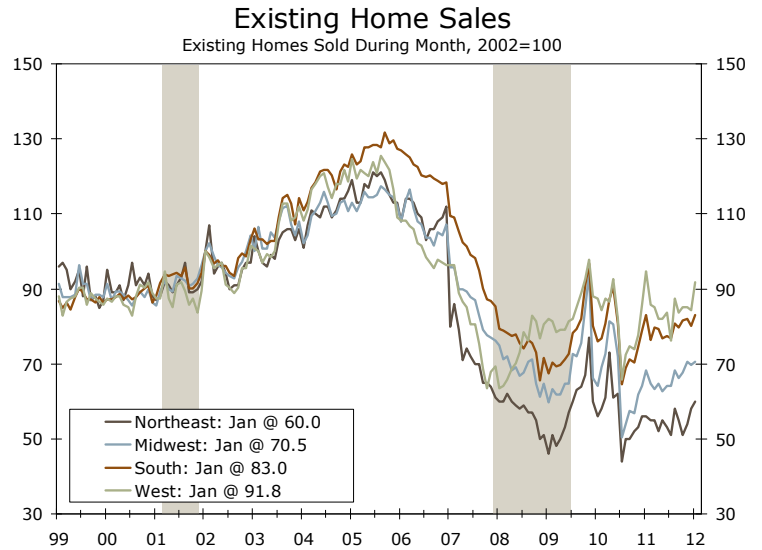
The focus of this week's data was on the housing market with the release of existing home sales and new home sales. The housing data reinforced the notion that the housing recovery will vary in pace around the country. Also, initial jobless claims data pointed to a continual downward trend reflecting a firming in the labor market. There were few changes to our outlook given the light data week. The only major change came in the form of our rates forecast. The upward movement in rates over the past few weeks led us to upwardly revise our outlook for interest rates.

Existing home sales improved in January rising 4.3 percent to a 4.57 million unit pace. The big story, however, was the downward revision to December's sales figures that showed a 0.5 percent decline. Even with the disappointing downward revision, the January numbers were strong enough to suggest that the momentum in existing home sales continues to strengthen. Inventories of existing homes came down again in January with the month's supply falling to 6.1 months. The downward trend, however, is not likely to last given the backlog of foreclosures that should hit the existing home market over the next few months due to the moratorium on home foreclosures subsiding.

New home sales pulled back slightly in January, declining 0.9 percent to a 321K unit pace. The December data were revised upward to a 1.9 percent increase. Net of the revisions, new home sales remained relatively flat indicative of the depressed level of new home sales. The inventory of new homes also remains low as builders had little incentive to begin new construction projects due to the price differential between new and existing homes. The months' supply of new home inventories fell to 5.6 months from December's 5.7 months.

The existing home sales and new home sales data pointed to the pace of the housing recovery being a regionally focused story. The West continues to post the largest improvements in existing home sales as the region works through its large excess inventory. The South has also posted an improvement over the past year with both new and existing home sales posting improvements. New and existing home sales in the Northeast remain slower than other parts of the nation, as the price stability in the region has slowed sales volumes. While existing home sales are beginning to improve at a slightly faster pace in the Midwest, new home sales remain sluggish in the wake of high foreclosure activity and steep price declines across the region.

Initial jobless claims continued to trend lower this week reinforcing the evidence for somewhat stronger job gains in February. In looking at the prior week's details in jobless claims, there was not a single state that reported more than 1,000 first-time filings for jobless claims, a sign that job layoff activity is slowing in every state. This week's jobless claims release covers the reference week for the February employment report. Therefore expectations for payroll growth in February will likely be high.

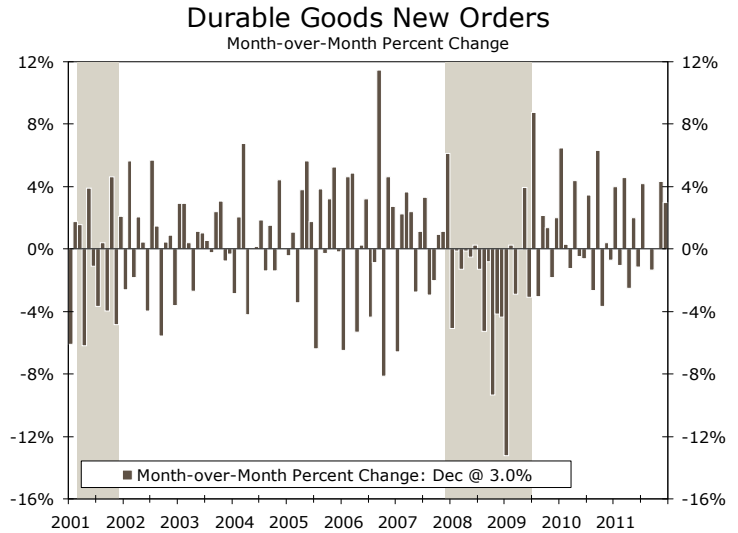


Durable Goods Orders • Tuesday

Durable goods orders rose 3.0 percent in December from the prior month. Outside of volatile aircraft orders, machinery orders led the way with a 6.0 percent increase, while primary metals orders rose more than 5.0 percent for the third straight month. Vehicles and parts orders were little changed after being flat in November. Orders for nondefense capital goods excluding aircraft, a proxy for future business investment, rose 2.9 percent following two months of declines. We expect to see a bit of a pullback in durable goods orders for January as nondefense aircraft orders will likely fall following two straight months of increases. In addition, although machinery orders will likely remain solid as the economy has shown signs of renewed strength, December's surge is unlikely to be repeated. January's data will be an important barometer for the economy after business fixed investment contributed the least to economic growth in two years in the fourth quarter of 2011.

Previous: -1.0% (Month-over-Month)

Consensus: 3.0%



Consumer Confidence • Tuesday

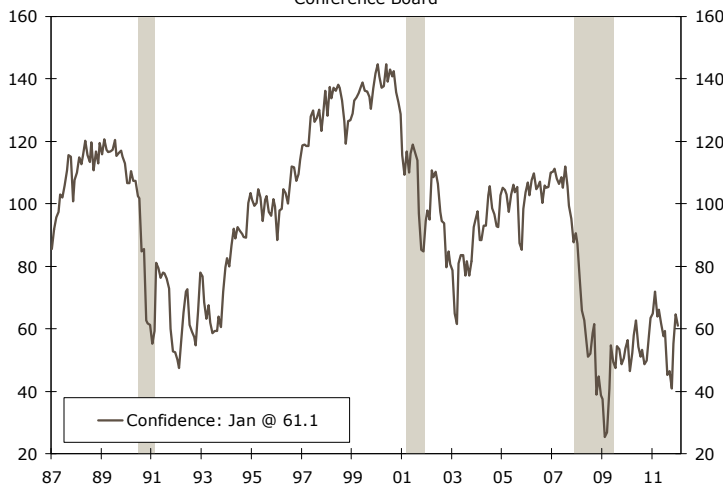
The consumer confidence index unexpectedly dipped to 61.1 in January from 64.8 in December. The present situation index accounted for most of the decline, falling to 38.4 from 46.5. Consumers were less sanguine on the labor market as fewer respondents reported jobs were "plentiful", while more reported jobs were "hard to get". The expectations index slid to 76.2 from 77.0. Higher gas prices weighed on consumer plans to purchase big-ticket items, such as autos, homes and major appliances, over the next six months. Consumers were also less optimistic about their incomes rising. The first estimate of the University of Michigan Sentiment Index showed a decline in February. However, since that first estimate, better data has been released on housing, manufacturing and jobless claims, leading to an upward revision that ultimately meant the index rose in February. Thus, the Conference Board's measure should rise as well.

Previous: 61.1

Wells Fargo: 63.2

Consensus: 63.0

Consumer Confidence Index
Conference Board



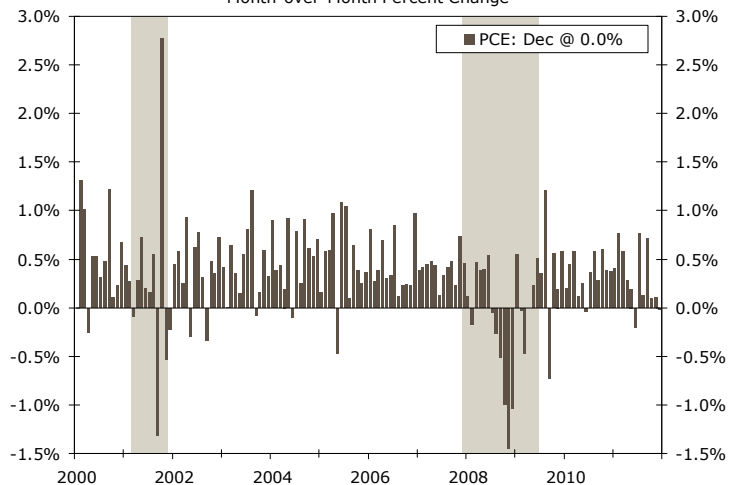
Personal Spending • Thursday

Personal spending was flat in December following two months of scant 0.1 percent growth. Adjusted for inflation, real spending fell 0.1 percent. While spending on goods declined, spending on services rose. Meanwhile, incomes rose 0.5 percent, driven primarily by service industry wages, dividends and government insurance payments. As such, the personal savings rate rose from 3.5 percent to 4.0 percent, the biggest increase since April 2010. As consumers outspent the growth in their incomes since June 2010, the savings rate plunged from 5.8 percent to just 3.5 percent in November. The rebound in the savings rate in December might suggest consumers are a bit tapped out at present and may need to start building up savings again, leading us to believe consumer spending could soften somewhat in 2012. Politics, gas prices and Europe could also hamper confidence and spending. However, spending could surprise to the upside if job growth remains robust.

Previous: 0.0% (Month-over-Month) Wells Fargo: 0.4%

Consensus: 0.4%

Personal Consumption Expenditures
Month-over-Month Percent Change



Global Review

A Mixed Bag in Europe

In this space last week, we discussed the Eurozone economy and whether GDP there would contract again in the current quarter following a modest 1.3 percent annualized decline in the fourth quarter of 2011. Many casual observers equate two consecutive quarterly declines in real GDP with recession, making this an important distinction. We maintain our forecast for real GDP in the Eurozone to decline in the current quarter at roughly the same rate as it did in the fourth quarter. This week's news of the deterioration in the various PMIs across the Eurozone, while disappointing market expectations, seems to underpin our view. Also, there remains very little in the way of "hard" data from the first quarter at this point, and sentiment indicators in February have not been universally disappointing. Indeed, we learned this week that the widely followed Ifo index of German business sentiment rose to 109.6 in February. That marks a seven-month high for this key yardstick of German business sentiment.

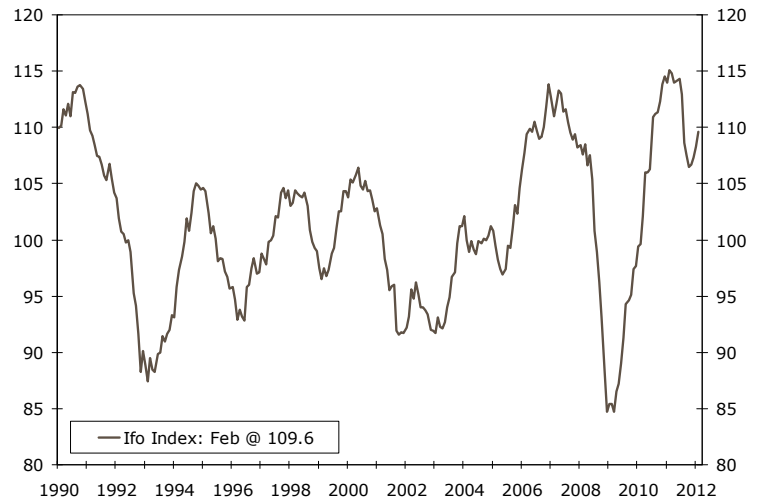
To some extent, news that business sentiment remains high in Germany even as it is deteriorating in the rest of the Eurozone does not come as a complete surprise. The middle graph shows the year-over-year rate of GDP growth for selected Eurozone economies. Even as troubled southern European economies, such as Portugal and Greece, struggle with steep declines in output, Germany continues to boost overall growth in the Eurozone.

The sovereign debt situation in Europe grabbed headlines again this week as Fitch downgraded Greece's credit rating even further down the "junk" scale to "C" from "CCC." The proposed restructuring of Greek debt was approved by the Greek parliament but has not yet been finally signed off by the lenders involved.

Despite the uncertainty surrounding the Greek restructuring package and the deteriorating sentiment in the Eurozone as a whole, financial market indicators seem to be signaling that the crisis is abating somewhat. Sovereign bond yields outside of Greece have come down. Italian 10-year government bonds, for example, are yielding roughly 5.5 percent at present, compared to more than 7 percent at the outset of the year. In addition, three-month LIBOR has come down more from 0.58 percent at the outset of 2012, to just 0.49 percent at present. This signals an increased willingness to lend in the inter-bank lending market and suggests some of the worst fears about imminent danger in Europe are waning somewhat.

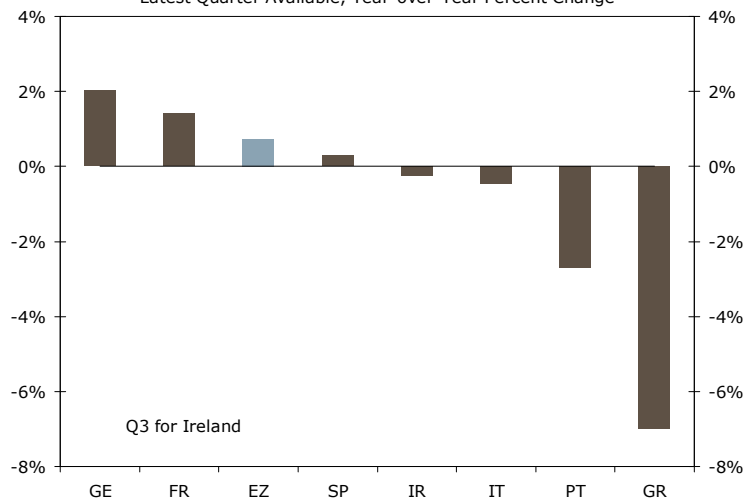
That said, we are far from out of the woods. The European Commission this week forecast a 0.3 percent contraction in the Eurozone economy in 2012, with Greece experiencing the largest (4.4 percent) decline. This is a fairly substantial about-face for the European Commission, which had previously penciled in a 0.5 percent expansion for the year. We were not as optimistic then, and we are not as pessimistic now. We suspect another sequential decline in the first quarter before growth picks up again in the remaining quarters of the year. Full-year GDP in the Eurozone is likely to be essentially unchanged from the past year.

German Ifo Index



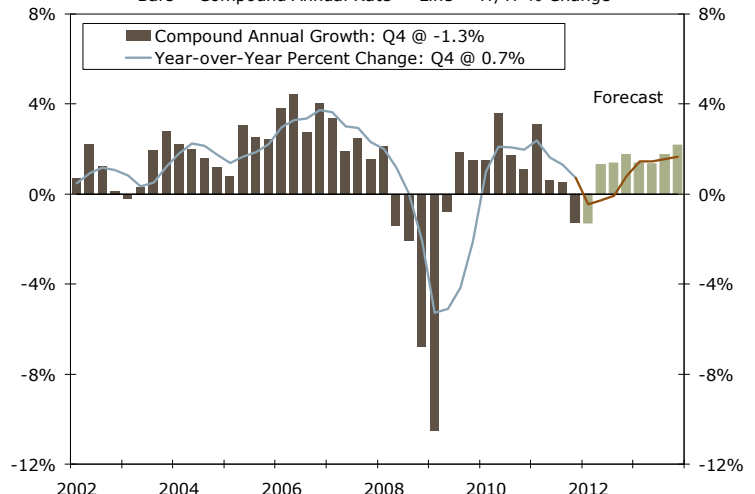
Eurozone Real GDP Growth

Latest Quarter Available, Year-over-Year Percent Change



Eurozone Real GDP

Bars = Compound Annual Rate Line = Yr/Yr % Change



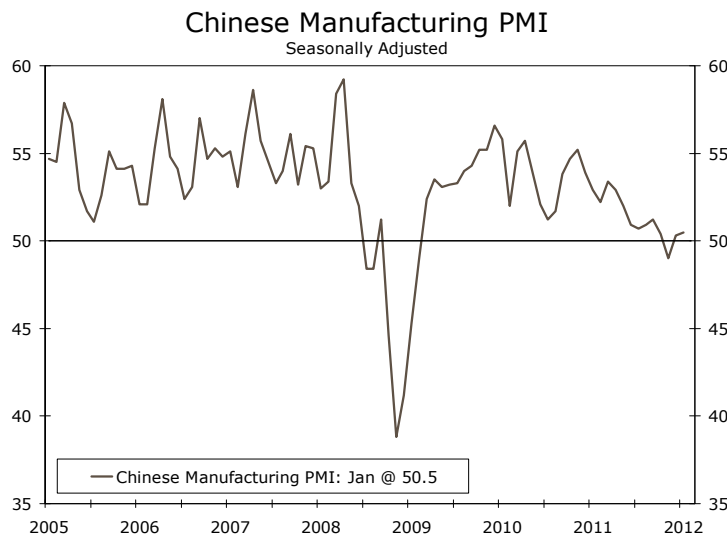
Japan Industrial Production • Tuesday

Japan will release the industrial production index for January on Tuesday following the release of the Markit/JMMA manufacturing PMI for February. Both numbers will probably show a still-weak economy that is still trying to recover from one of the worst natural disasters that has hit the islands in its long history.

The PMI has been teetering with the expansion/contraction limit since May of last year after recovering somewhat from the severe effects caused by the earthquake and Tsunami. We don't expect a break-out number for this index but a higher than 50 print will be a positive development for the Japanese economy. Meanwhile, industrial production was down by 4.3 percent on a year-over-year basis in December 2011 but increased by 3.8 percent on a month-over-month basis. Industrial production should continue to recover in the coming months.

Previous: -4.3% (Year-over-Year)

Consensus: -1.6%



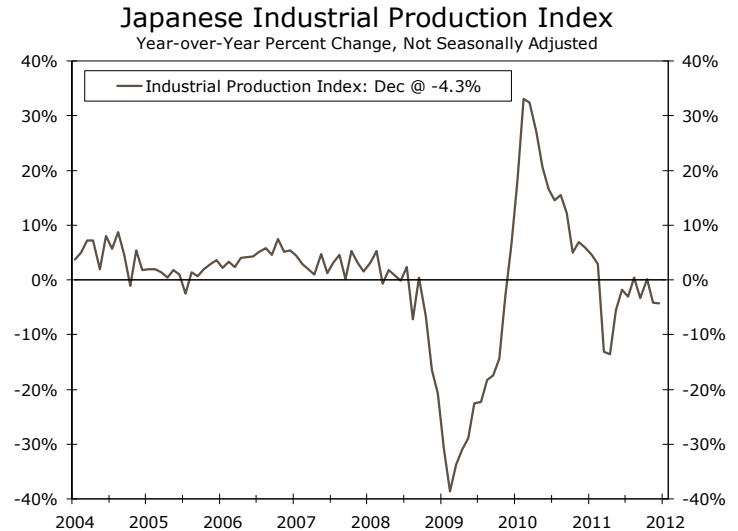
Canada GDP • Friday

Canada will release its fourth-quarter 2011 GDP number on Friday, and the expectation is for the economy to have continued to slow down during the last quarter of the year as exports were impaired by the global economic slowdown prompted by the European sovereign debt crisis. Furthermore, Canada's energy industry was also affected negatively by the decrease in petroleum prices registered during the last quarter of the year at the same time that demand from the rest of the world was slowing down.

We are expecting Canadian GDP to have increased by 1.9 percent on an annualized basis during the last quarter of the year, taking economic growth for the whole of 2011 to 3.5 percent, down from a growth rate of 4.9 percent during 2010. As it stands today, we expect the Canadian economy to continue to grow in 2012 but at an annual rate of 3.3 percent as the international environment remains uncertain.

Previous: 3.5% (Annualized) Wells Fargo: 1.9%

Consensus: 1.8%



China PMI Manufacturing • Wednesday

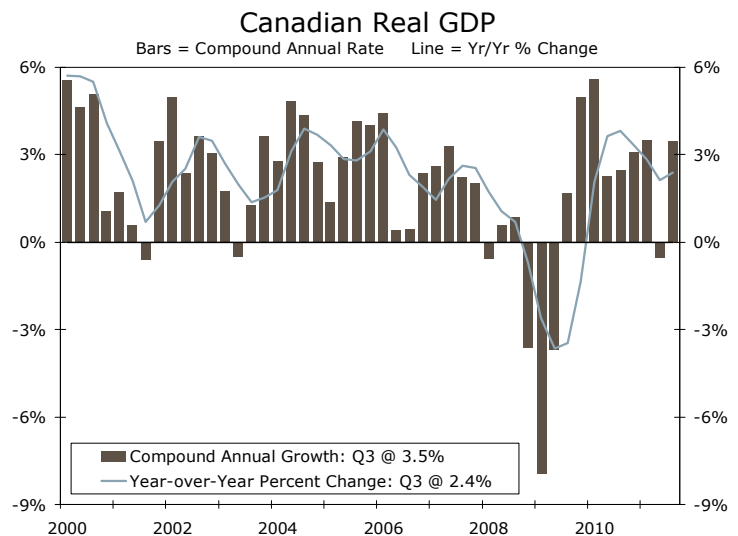
The release of the Chinese PMI manufacturing index for February will probably be the "real" release next week, and the level will tell us a lot of what is going on in the world economy. The Chinese economy has been the lightning rod for world economic growth and a better-than-expected PMI manufacturing number will be a market mover.

There has been lots of speculation that the Chinese economy has continued to slow down, so a better-than-expected PMI number will mean a lot to change those expectations. Markets are expecting the PMI to be just above the expansion/contraction demarcation level, at 50.7 from a 50.5 reading in January.

If, on the other hand, the number comes in below the demarcation between expansion/contraction, then expectations on world economic growth will continue to deteriorate.

Previous: 50.5

Consensus: 50.8



Interest Rate Watch

Forecast Faceoff: Rates and Growth

In comparison to the president's administration outlook, we are looking for lower 10-year Treasury rates as well as slower economic growth. What are the fundamentals behind these forecasts?

Economic growth is estimated by the administration at 2.7 percent for this year in contrast to our outlook for 2.0 percent. Our outlook reflects continued modest gains in consumer spending consistent with continued employment gains accompanied by rising compensation. Also, business investment in both equipment and commercial real estate as well as improvement in residential investment—especially in remodeling—helps.

Meanwhile, inflation remains modest as we estimate the annual average for the CPI will come in at 2.0 percent, although we are watching the pass-through possibilities of the current increase in oil prices.

Monetary policy is expected to keep the funds rate low, while the Fed is expected to continue to buy longer-term Treasury issues and thereby provide a small downward bias to interest rates.

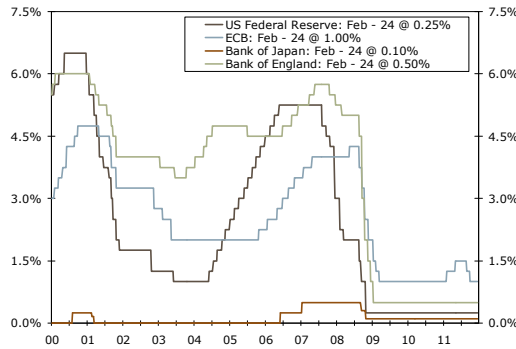
The 10-Year at 2.1 Percent

As a result, we expect the 10-year Treasury rate to average 2.1 percent this year in contrast to the administration's expectation that the 10-year will average 2.8 percent.

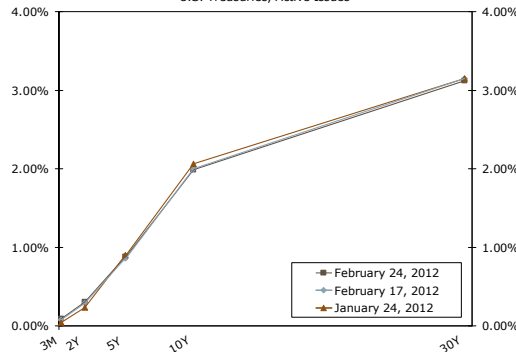
Our outlook for continued low interest rates for Treasury issues also reflects the global investor's flight to safety in Treasury notes in the face of ongoing concerns about Europe. This week, there were hints of additional public sector aid to Greece as well as concerns with respect to sovereign debt in other countries.

Although we often focus on the apparent contradiction of inflation exceeding current nominal Treasury yields, as well as the possibility that tax rates on investors could possibly rise in the year ahead, the actual market yields remain below what we would perceive as sustainable over time. The flight to safety appears to trump all other fundamentals for now—but for how long remains a concern here.

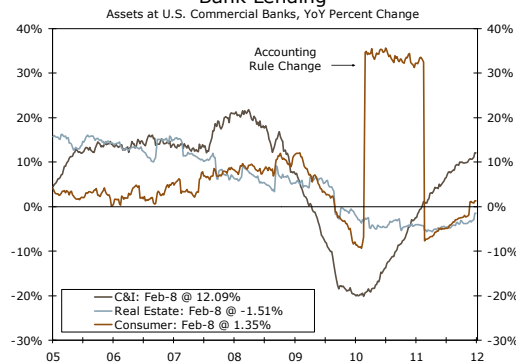
Central Bank Policy Rates



Yield Curve
U.S. Treasuries, Active Issues



Bank Lending



Credit Market Insights

Foreign Bank Lending in the U.S.

Recent data show that lending from U.S. banks has strengthened as the economic recovery has firmed. Loans from commercial banks in the United States have steadily increased since March and are currently up 3.8 percent year over year.

However, the ongoing financial uncertainty caused by the Eurozone crisis appears to be weighing on foreign bank lending in the United States. While lending at domestically chartered banks has climbed since the start of the year, lending at foreign-related banks—branches and agencies of foreign-owned banks within the United States—has stagnated. Foreign-related banks account for slightly less than 10 percent of total bank lending in the United States, but the sector provides nearly a quarter of commercial and industrial bank loans. Moreover, U.S. branches of foreign banks have tightened credit standards for C&I loans for two consecutive quarters, citing worries over the economic outlook or their liquidity position. While the Eurozone crisis has cooled a bit with ECB measures to boost bank liquidity and another Greek bailout this week, the underlying issues are still far from resolved. Foreign-related banks, especially those with European ties, will likely remain cautious in their lending until longer-term resolutions are implemented. This may limit the pace of lending growth of foreign-related banks in the United States and weigh on the recovery in bank credit, particularly to businesses.

Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
30-Yr Fixed	3.95%	3.87%	3.98%	4.95%
15-Yr Fixed	3.19%	3.16%	3.24%	4.22%
5/1 ARM	2.80%	2.82%	2.85%	3.80%
1-Yr ARM	2.73%	2.84%	2.74%	3.40%

Bank Lending	Current Assets	1-Week Change	4-Week Change	Year-Ago Change
	(Billions)	(SAAR)	(SAAR)	
Commercial & Industrial	\$1,367.1	-3.11%	14.98%	12.09%
Revolving Home Equity	\$551.5	-7.29%	11.48%	-4.15%
Residential Mortgages	\$1,550.2	-1.01%	14.42%	1.59%
Commercial Real Estate	\$1,427.3	-5.90%	17.13%	-3.69%
Consumer	\$1,087.9	-3.67%	-8.38%	1.35%

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

Topic of the Week

The Pace of Regional Growth Picked Up in 2011

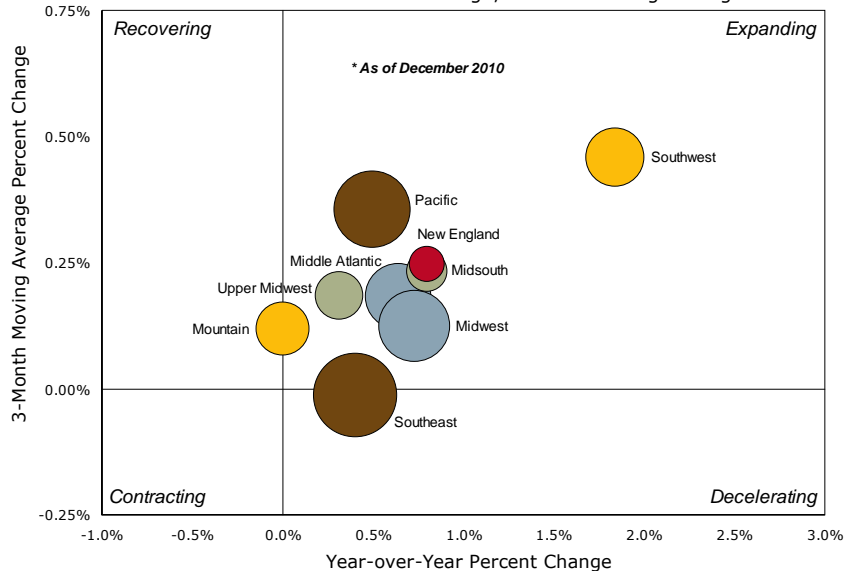
In 2011, economic growth in most regions across the country picked up pace. The top chart shows the pace of employment growth that many regions faced at the end of 2010, while the bottom chart shows the pace of employment growth the same regions faced at the end of 2011. Any movements to the upper-right of each chart indicate a faster pace of employment growth. Clearly, the regional growth story improved in 2011, as the drags from the 2007–2009 recession subsided somewhat.

The West Coast, in particular, saw economic activity improve, as the negative effects associated with the housing slump moderated and key industries, such as information technologies, life sciences, media and entertainment, and aerospace, all rebounded solidly. Economic growth in the Southeast also shifted into higher gear, as housing and commercial construction presented less of a drag on economies in Florida, Georgia and the Carolinas, allowing the improvement in tourism, international trade, life sciences and manufacturing to shine through. The Southwest, the Mountain states and the Midsouth all continue to post solid gains, while the pace of expansion in New England, the Mid-Atlantic states and the Midwest has moderated. The slowdown in New England and the Mid-Atlantic states was primarily due to global financial uncertainty stemming from European debt crisis and continued tight regulatory oversight, which cut into securities issuance and mergers and acquisitions activity.

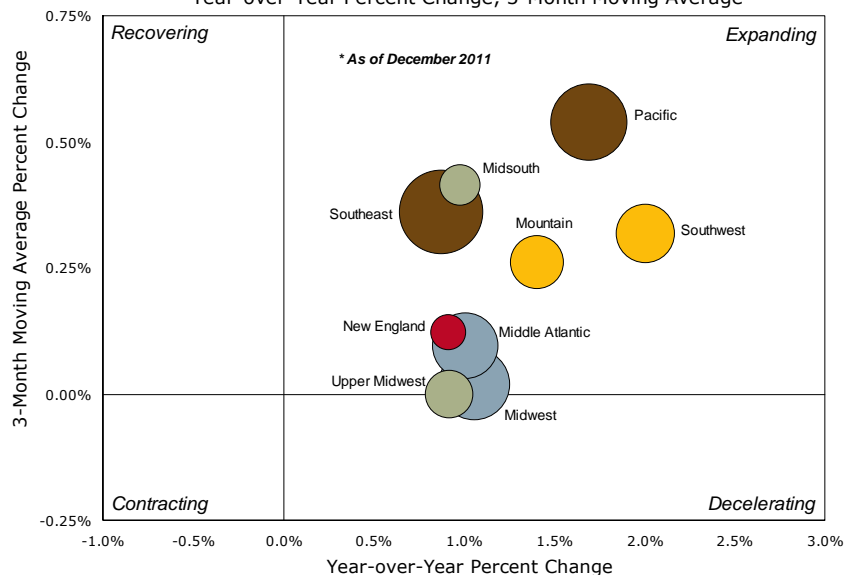
We expect the recovery to continue to broaden in 2012 and believe the Southeast and the West Coast will strengthen relative to the rest of the country. The story should be much the same as last year, with the positives from expansions in the technology sector, life sciences, tourism and international trade becoming more pronounced, and the negatives from housing and commercial real estate becoming less negative.

For more regional economic analysis, see: “2012 Regional Chartbook: Quarter 1,” found on our website.

U.S. Employment Growth By Census Region
Year-over-Year Percent Change, 3-Month Moving Average



U.S. Employment Growth By Census Region
Year-over-Year Percent Change, 3-Month Moving Average



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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 2/24/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.09	0.08	0.12
3-Month LIBOR	0.49	0.49	0.31
1-Year Treasury	0.25	0.23	0.31
2-Year Treasury	0.30	0.29	0.74
5-Year Treasury	0.88	0.86	2.19
10-Year Treasury	1.99	2.00	3.45
30-Year Treasury	3.12	3.15	4.54
Bond Buyer Index	3.69	3.65	4.95

Foreign Exchange Rates

	Friday 2/24/2012	1 Week Ago	1 Year Ago
Euro (\$/€)	1.341	1.314	1.380
British Pound (\$/£)	1.581	1.583	1.614
British Pound (£/€)	0.849	0.830	0.855
Japanese Yen (¥/\$)	80.550	79.550	81.890
Canadian Dollar (C\$/¥)	0.998	0.997	0.983
Swiss Franc (CHF/\$)	0.898	0.920	0.926
Australian Dollar (US\$/A\$)	1.072	1.071	1.009
Mexican Peso (MXN/\$)	12.807	12.759	12.147
Chinese Yuan (CNY/\$)	6.298	6.299	6.581
Indian Rupee (INR/\$)	48.945	49.275	45.475
Brazilian Real (BRL/\$)	1.710	1.714	1.664
U.S. Dollar Index	78.531	79.331	77.057

Foreign Interest Rates

	Friday 2/24/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.92	0.97	1.05
3-Month Sterling LIBOR	1.06	1.07	0.80
3-Month Canadian LIBOR	1.39	1.39	1.21
3-Month Yen LIBOR	0.20	0.20	0.19
2-Year German	0.25	0.25	1.53
2-Year U.K.	0.38	0.43	1.45
2-Year Canadian	1.08	1.07	1.80
2-Year Japanese	0.11	0.11	0.23
10-Year German	1.88	1.93	3.13
10-Year U.K.	2.07	2.19	3.62
10-Year Canadian	2.03	2.04	3.32
10-Year Japanese	0.98	0.95	1.24

Commodity Prices

	Friday 2/24/2012	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	108.27	102.31	97.28
Gold (\$/Ounce)	1777.18	1723.38	1402.88
Hot-Rolled Steel (\$/S.Ton)	728.00	728.00	845.00
Copper (¢/Pound)	382.25	379.10	432.65
Soybeans (\$/Bushel)	12.74	12.53	12.95
Natural Gas (\$/MMBTU)	2.60	2.57	3.79
Nickel (\$/Metric Ton)	19,917	19,813	28,658
CRB Spot Inds.	544.02	546.43	614.99

Next Week's Economic Calendar

	Monday 27	Tuesday 28	Wednesday 29	Thursday 1	Friday 2
U.S. Data	Pending Home Sales December -3.5 % January 1.0% (C)	Durable Goods Orders December 3.0% January -1.1% (C)	GDP (Q/Q Annualized) 4Q A 2.8 % 4Q S 2.9% (W)	Personal Income December 0.5 % January 0.4% (W)	
		Durables Ex. Transp. December 2.2% January 0.0% (C)	Personal Consumption 4Q A 2.0 % 4Q S 2.0% (C)	Personal Spending December 0.0% January 0.4% (W)	
		Consumer Confidence January 61.1 February 63.2 (W)	Fed's Beige Book	ISM Manufacturing January 54.1 February 54.9 (W)	
Global Data	Japan Retail Trade (MoM) Previous (Dec) 0.3%	Germany CPI (MoM) Previous (Jan) -0.4%	Eurozone CPI (MoM) Previous (Dec) 0.3%	U.K. PMI Manufacturing Previous (Jan) 52.1	U.K. PMI Construction Previous (Jan) 51.4
		Japan IP (MoM) Previous (Dec) 3.8%	China PMI Manufacturing Previous (Jan) 50.5	Japan CPI (YoY) Previous (Dec) -0.2%	Canada GDP (Q/Q Annualized) Previous (3Q) 3.5%

Note: (W) = Wells Fargo Estimate (C) = Consensus Estimate

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