

**Weekly Economic & Financial Commentary**

**U.S. Review**

**A Rough Start To April**

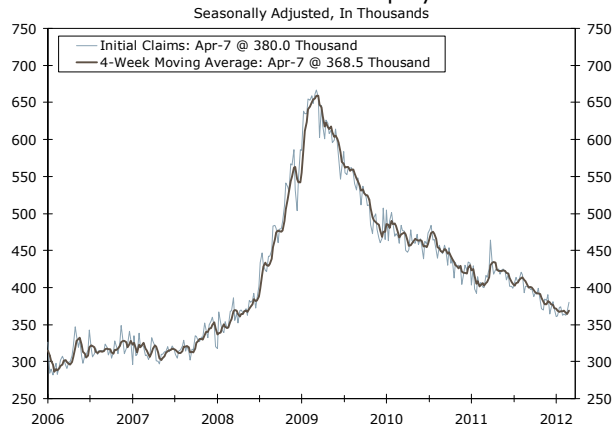
- Another week of softer U.S. economic data weighed on market sentiment this week. More hints of slower economic growth are appearing in the data, consistent with our forecast that U.S. GDP growth slows to a 2.8 percent annualized pace in the first quarter and continues slowing to a sub 2 percent annualized pace in the second.
- Initial jobless claims jumped by 13,000 in the first week of April. February imports plunged 2.7 percent, small business confidence fell in March for the first time in seven months and core inflation is on the rise.

**Global Review**

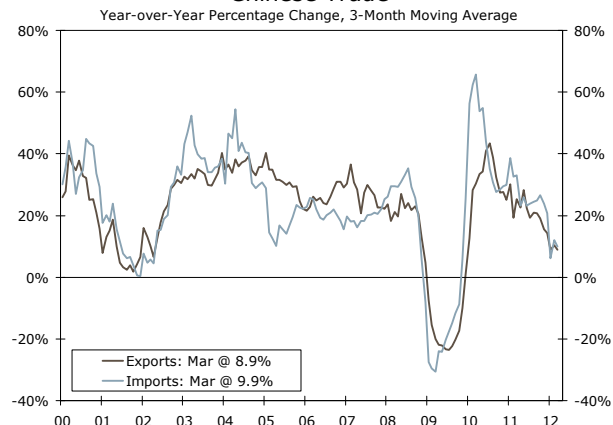
**More Grease Needed for Global Trade**

- Global trade continues to slow. This week, trade reports from Canada, Germany, the United Kingdom and China all exhibited signs of waning global demand. Austerity in Europe is crimping European demand, while China's attempt to engineer a soft landing is weighing on Chinese demand for goods from other Asian nations. In turn, other Asian nations are growing slower and importing fewer Chinese products.
- The slowdown in global trade could not come at a worse time as many countries are looking toward the external sector to offset tighter fiscal policy.

**Initial Claims for Unemployment**



**Chinese Trade**



Wells Fargo U.S. Economic Forecast													
	Actual				Forecast				2009	2010	2011	Forecast	
	2011				2012							2012	2013
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product <sup>1</sup>	0.4	1.3	1.8	3.0	2.8	1.5	2.2	2.3	-3.6	3.0	1.7	2.3	2.1
Personal Consumption	2.1	0.7	1.7	3.0	2.8	1.3	1.4	1.4	-2.0	2.0	2.2	1.9	1.2
Inflation Indicators <sup>2</sup>													
PCE Deflator	1.8	2.5	2.9	2.7	2.3	2.1	2.0	2.1	0.6	1.8	2.5	2.1	2.0
Consumer Price Index	2.1	3.3	3.8	3.3	2.8	2.5	2.3	2.5	-0.3	1.6	3.1	2.5	2.3
Industrial Production <sup>1</sup>	4.4	1.2	5.6	4.3	4.8	3.2	3.0	2.2	-11.3	5.4	4.0	3.9	2.3
Corporate Profits Before Taxes <sup>2</sup>	8.8	8.5	7.5	7.0	6.2	6.0	6.3	6.4	9.1	32.2	7.9	6.2	6.5
Trade Weighted Dollar Index <sup>3</sup>	70.6	69.4	72.8	73.3	72.7	74.0	74.5	75.0	77.7	75.6	70.9	74.1	77.0
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.4	8.6	8.5	9.3	9.6	9.0	8.4	8.3
Housing Starts <sup>4</sup>	0.58	0.57	0.62	0.67	0.69	0.71	0.72	0.71	0.55	0.58	0.61	0.71	0.82
Quarter-End Interest Rates <sup>5</sup>													
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	3.95	4.00	4.10	4.10	5.04	4.69	4.46	4.04	4.25
10 Year Note	3.47	3.18	1.92	1.89	2.23	2.30	2.40	2.50	3.26	3.22	2.78	2.36	2.73

Forecast as of: April 13, 2012  
<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter  
<sup>2</sup> Year-over-Year Percentage Change  
<sup>3</sup> Federal Reserve Major Currency Index, 1973=100 - Quarter End  
<sup>4</sup> Millions of Units  
<sup>5</sup> Annual Numbers Represent Averages

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Together we'll go far



## U.S. Review

### A Rough Start to April

United States economic data releases so far this month have not been kind to the bulls on Wall Street. The poor March payroll report rattled some nerves, but the payroll report was just the first of several others that followed this week, confirming a softer tone to U.S. economic data.

### Does Weaker Imports Mean a Weaker Consumer?

The most important piece of new economic information this week came from the February trade report. The trade balance for February improved to \$-46.0 billion, far better than consensus expectations for a \$-51.8 billion deficit. The effects on U.S. GDP are two fold. First, this number is good enough to bump up most estimates of first-quarter GDP as net exports will be less of a drag on growth. Second, the narrowing of the trade deficit in February was largely driven by a steep drop in U.S. imports. Imports dropped 2.7 percent from the month before in February. Consumer goods imports plunged 6.3 percent on the month, while auto imports slipped 4.2 percent. There were also substantial declines in food and beverage, industrial supplies and capital goods imports. Taken together, these data suggest an anticipation of softening consumer demand, which would not be good news for second-quarter GDP.

### Best News on Job Growth Behind Us?

There was also more reason to worry about the health of the U.S. labor market this week. Following on the heels of last week's March payroll disappointment, there was some confirmation in this week's initial claims report that perhaps the best news on the labor market may be behind us for awhile. Initial jobless claims unexpectedly rose 13,000 in the first week of April back up to 380,000. Some analysts blamed this miss on poor seasonal adjustment factors given the early Easter holiday, but it will be hard to say for sure until we get next week's initial claims print and see if last week's initial claims jump is just a one-week phenomenon. We expect the focus on next week's jobless claims data to be more intense than usual as long as there are doubts about the poor job growth.

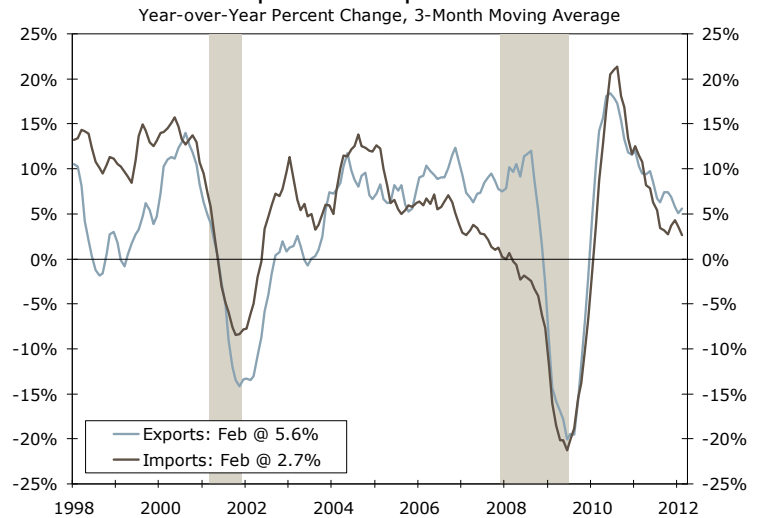
### Are Small Businesses Losing Faith?

The NFIB Small Business Optimism index for March fell back to levels last seen in November, the first decline for this index in seven months. Small businesses reported no plans to hire or increase inventory and they were less optimistic about earnings trends. Early in 2011, small-business optimism improved, only to be beaten lower later in the year; this latest data point raises the prospect that history could repeat itself again this year.

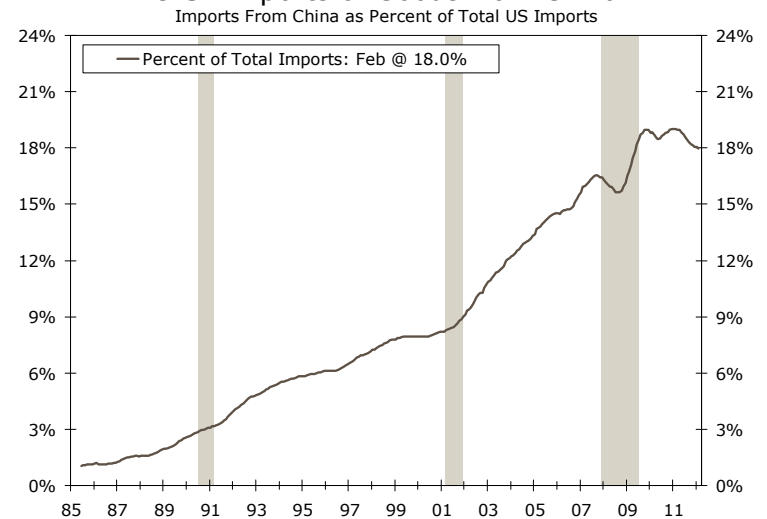
### Core Inflation Creeping Higher

Headline PPI inflation was better than expected in March as energy prices unexpectedly declined on seasonal adjustment factors despite gains in market crude oil and gas prices. This provides little comfort, however, since after stripping out food and energy, core inflation accelerated, rising 0.3 percent on the month for producer prices and core CPI increased to 2.3 percent, year over year.

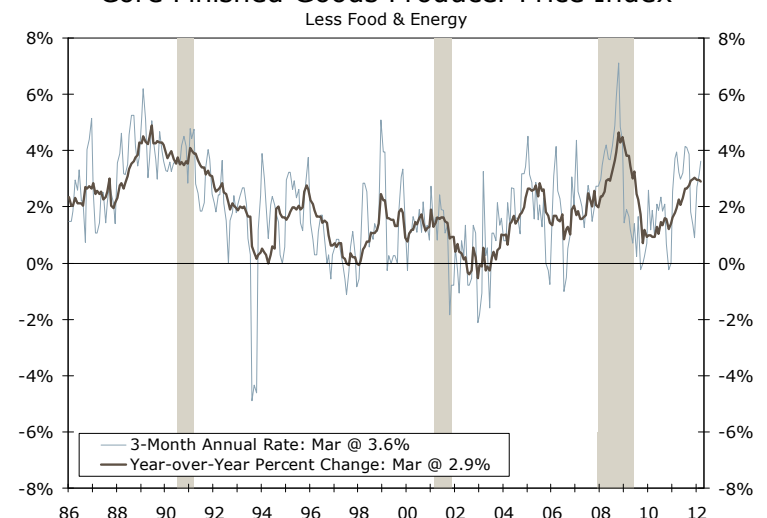
### Real Exports & Imports of Goods



### U.S. Imports of Goods from China



### Core Finished Goods Producer Price Index

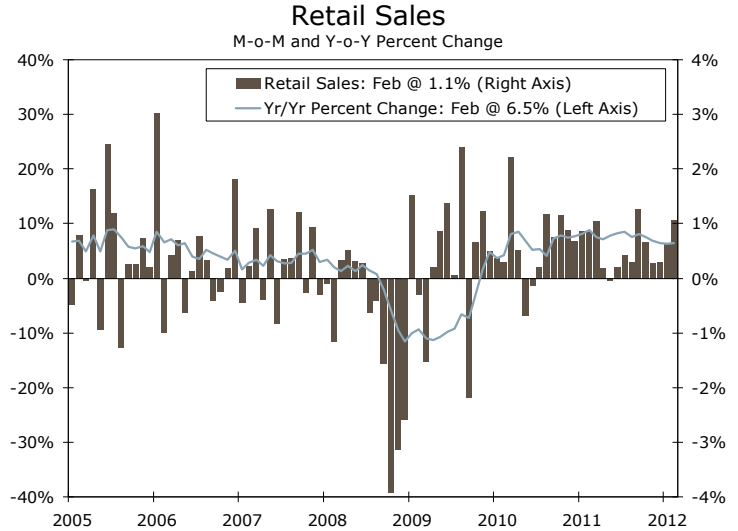


**Retail Sales • Monday**

Retail sales rose 1.1 percent in February, while January’s retail sales report was revised higher to 0.6 percent. The strong start to the year does raise some questions about the sustainability of the pace of sales. While chain-store sales continued to indicate improvement, auto sales slipped in March to an 11.1 million unit pace from the 11.7 million-unit pace reported in February. In addition, personal income growth remains sluggish, rising only 0.2 percent in February. These headwinds to sales should hold retail sales to a modest increase of about 0.4 percent for the month. Retail sales, excluding automobiles, should also rise 0.7 percent. Going forward, the consumer sector will remain more constrained through the end of the year, as slow job and income growth, combined with political uncertainty, is expected to weigh on consumer purchases. Our outlook for the year calls for personal consumption growth of around 1.9 percent for 2012.

**Previous: 1.1% (Month-over-Month) Wells Fargo: 0.4%**

**Consensus: 0.4%**



**Housing Starts • Tuesday**

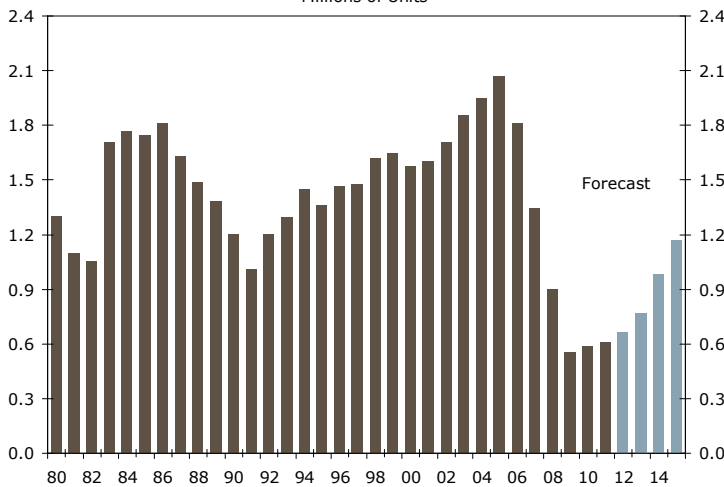
Housing starts pulled back in February as single-family housing starts declined a disappointing 9.9 percent. Unseasonably warm weather likely played a role in lifting starts during the typically slow homebuilding season. The multi-family sector continues to strengthen, posting an 85.4 percent year-over-year increase. Multi-family starts continue to be driven by strong demand in the apartment market. Building permits for both single- and multi-family homes posted sizable increases in February, suggesting somewhat stronger building activity in the months ahead. However, we expect that overall starts will post a nearly flat reading for the month of March, at a 696K unit pace. While currently experiencing a soft patch, housing starts should continue to improve, rising 16 percent on a year-over-year basis in 2012. The improvement in the multi-family market will continue to be the support to further growth in housing starts.

**Previous: 698K**

**Wells Fargo: 696K**

**Consensus: 705K**

Housing Starts  
Millions of Units



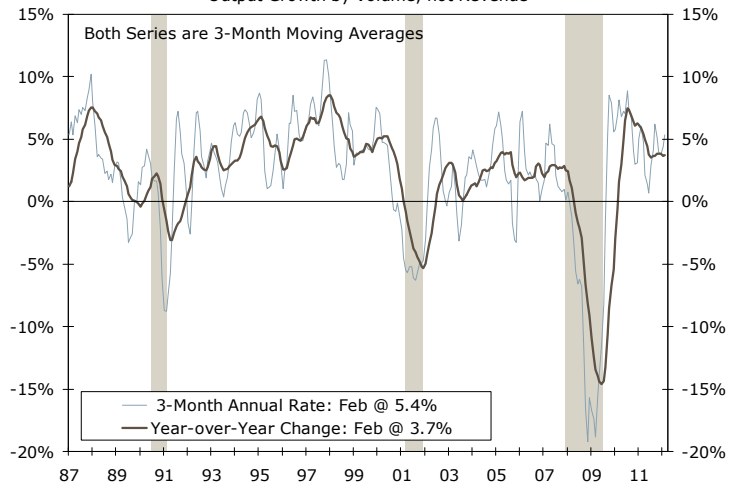
**Industrial Production • Tuesday**

Industrial production came in flat in February, after posting a 0.4 percent increase the month before. Manufacturing output remained in positive territory as well, posting a 0.3 percent increase. Output among producers continued to expand, indicating further support in the first quarter for equipment and software spending. Production of consumer goods was flat in February, as output for automobiles slowed on the month. The big factor to watch in next week’s industrial production report will be the effect of much warmer weather on utility output. Given the anticipated pullback in utility output, along with slower-than-expected automobile production, we believe that industrial production growth was held to 0.2 percent in March. Going forward, we continue to expect the pace of industrial production to moderate through the end of the year.

**Previous: 0.0% (Month-over-Month) Wells Fargo: 0.2%**

**Consensus: 0.3%**

Total Industrial Production Growth  
Output Growth by Volume, not Revenue



## Global Review

### More Grease Needed for Global Trade

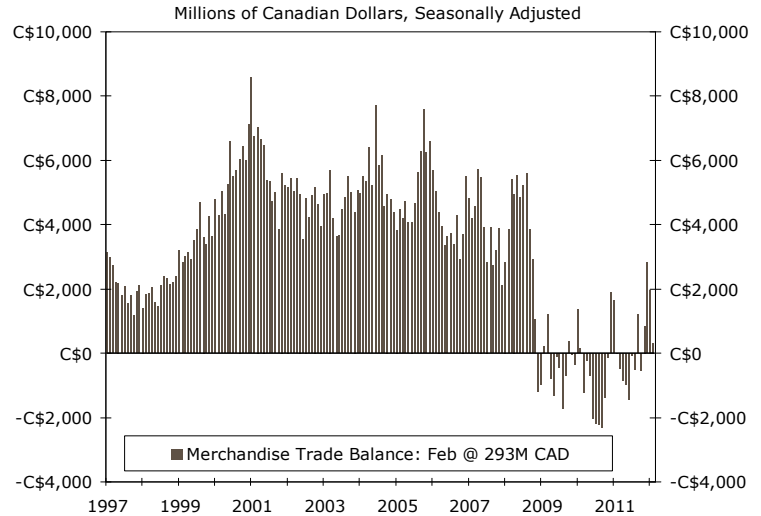
Several countries reported trade data this week, largely reflecting further slowing of global trade. Canada's trade surplus narrowed from \$1.9 billion in January to \$292 million in February, as exports fell 3.9 percent on the month while imports rose 0.2 percent. An 11.9 percent plunge in automotive exports led the decline in exports, while energy exports fell 6.9 percent and agricultural exports dropped 4.7 percent. The Eurozone debt crisis is weighing on demand for Canada's goods, as exports to the European Union (EU), excluding the United Kingdom (U.K.) have plunged 25 percent since November. An 18.3 percent jump in energy imports also contributed to the drop in the trade surplus. The drop in both imports and exports of autos was surprising, given the strength we have seen recently in global auto sales.

Germany's trade surplus also narrowed to 13.6 billion euros in February from 15.1 billion euros in January. Exports rose just 1.6 percent on the month after rising 3.4 percent in January. In addition, the three-month moving average of year-over-year export growth fell to the lowest in two years. Imports jumped 3.9 percent from the prior month, the most in almost two years, as a two-decade low unemployment rate and rising consumer confidence bolstered demand.

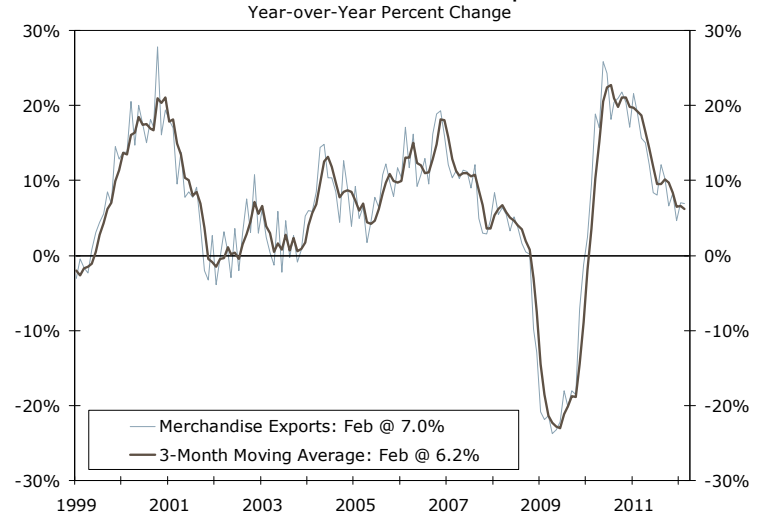
The trade deficit in the U.K. widened in February as exports fell 3.4 percent while imports were unchanged. Exports to non-EU countries fell 8.8 percent, as demand from China, Japan, South Korea and the United States waned. However, exports to EU countries rose 2.0 percent, as demand from France, Spain and the Netherlands firmed. The widening of the trade deficit in the U.K. is not good news, as budget cuts and the highest unemployment rate since 1995 weigh on domestic demand. Still, the rebound in exports to EU countries, despite the debt crisis, is encouraging.

China's trade balance returned to surplus in March, following a brief deficit in February. Exports rose 8.9 percent from a year ago, while imports rose just 5.3 percent, much less than expected. Exports to every region rose from the prior month, but exports to South Korea, Taiwan, India, Singapore and the EU were down from year-ago levels, with a 26 percent decline in exports to Italy leading the European slump. From the prior month, Chinese demand for goods from India and Italy fell, while demand was down from a year ago for goods from Japan, South Korea, Taiwan, India, Singapore, Germany and the Netherlands. Thus, while China's slowing growth has led to slower growth and falling demand from its Asian neighbors, the debt crisis and austerity have crimped demand from the EU. Meanwhile, slowing Chinese demand for goods from Asia and Europe is exacerbating the situation. While other countries are trying to boost exports, China is trying to boost imports by cutting some import duties. This should help to grease the wheels of global trade in the months ahead. Stronger demand from China would be welcome news to many countries embarking on austerity measures to improve fiscal situations, thereby making them more dependent on trade. But the global trade slowdown is complicating efforts to generate growth via exports.

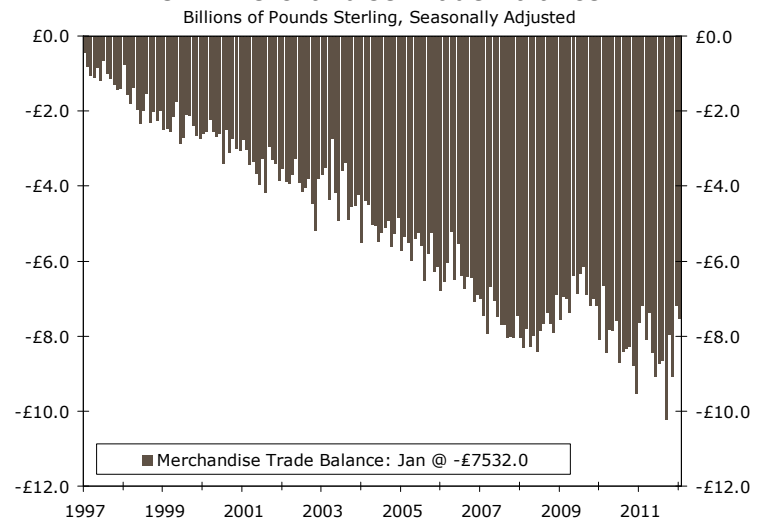
### Canadian Merchandise Trade Balance



### German Merchandise Exports



### U.K. Merchandise Trade Balance



## Bank of Canada Policy Meeting • Tuesday

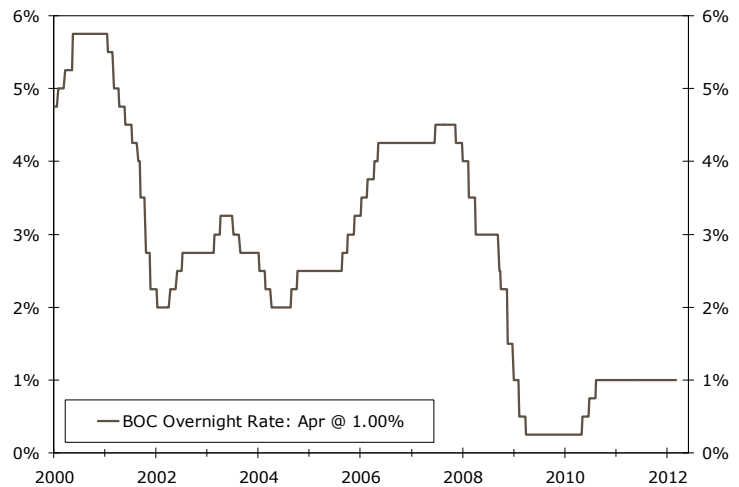
The Bank of Canada (BoC) holds a regularly scheduled policy meeting on Tuesday: the probability that the BoC changes its main policy rate from 1 percent, where it has been maintained since September 2010, is very low. However, analysts will scrutinize the statement that will be released at the conclusion of the meeting for clues about the stance of policy in coming months.

The BoC is tasked with maintaining the CPI inflation rate near the midpoint of a 1 percent to 3 percent range. At present, both the overall rate and the core rate of CPI inflation are in the upper half of the target range. Therefore, CPI data for March, which will be released on Friday, will help to form expectations of BoC policy in the months ahead. In that regard, we forecast that the year-over-year rate of CPI inflation will recede over the next few months and we expect the BoC to keep rates on hold through the end of the year.

**Previous: 1.00%**

**Consensus: 1.00%**

### Bank of Canada Overnight Lending Rate



## German Ifo Index • Friday

The Ifo index of German business sentiment is widely followed, as it is highly correlated with growth in German industrial production (IP). Therefore, the stabilization that has occurred in the Ifo index over the past few months should eventually show up in stronger growth in IP. Analysts will look to the Ifo index for April, which will print on Friday, for insights into the current state of the German economy.

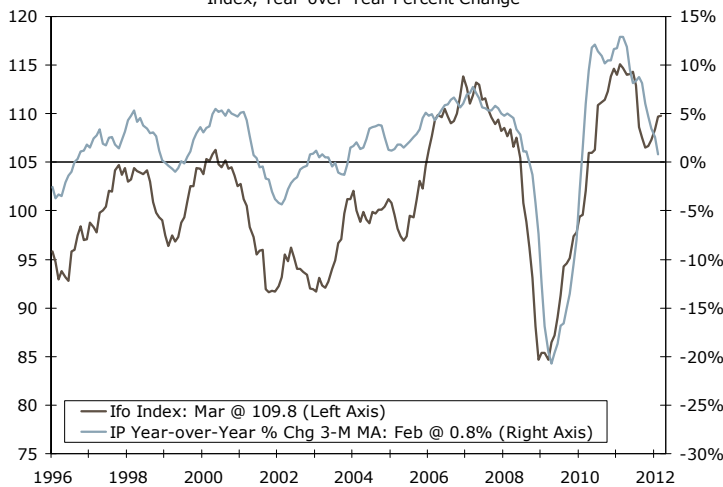
Also of interest next week will be CPI inflation data for the Eurozone, which are on the docket on Tuesday. Preliminary data showed that the overall rate of CPI inflation edged down to 3.6 percent in March from 3.7 percent in February. Not only will “final” data on the overall rate of CPI inflation be released, but the first look at the core rate of inflation will also print on Tuesday.

**Previous: 109.8**

**Consensus: 109.5**

### German Production Indicators

Index, Year-over-Year Percent Change



## British Retail Sales • Friday

Real GDP in the United Kingdom declined 0.3 percent (not annualized) in the fourth quarter of 2011; it is still an open question as to whether the economy contracted for the second consecutive quarter at the beginning of this year. Retail sales data for March, slated for release on Friday, will help analysts firm up their estimates of first-quarter GDP growth.

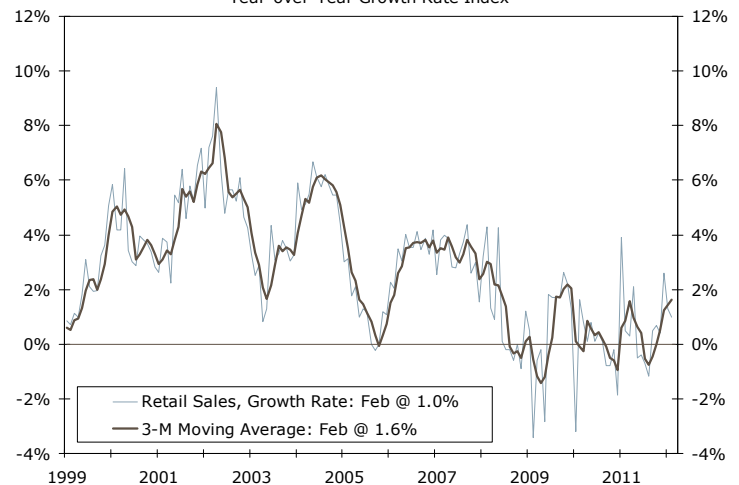
There are a number of other data releases on the docket next week that will also provide insights into the current state of the British economy. CPI inflation data are scheduled for release on Tuesday, and the market consensus forecast anticipates that the overall rate of inflation remained unchanged in March at February's rate of 3.4 percent. Unemployment data for March, which will print on Wednesday, will offer some insights into the state of the labor market.

**Previous: -0.8% (Month-over-Month)**

**Consensus: 0.4%**

### United Kingdom Retail Sales

Year-over-Year Growth Rate Index





**Interest Rate Watch**

**Low Rates are Hanging Around**

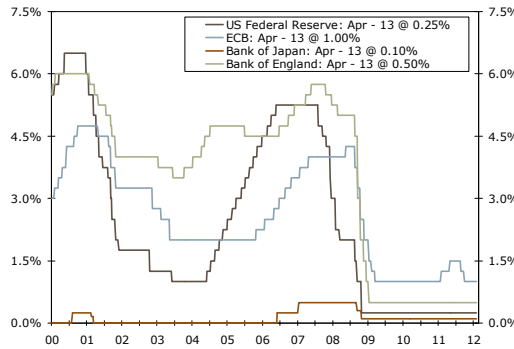
The Treasury market continues to take its cues from a domestic economy, which no longer seems to be ramping up as quickly as it was a few weeks earlier and the European Financial Crisis, which is still very much with us. News on inflation this week was largely as expected. While the inflation numbers continue to run a little ahead of the Fed's comfort zone, price increases are not particularly widespread and the headline CPI is still decelerating on a year-to-year basis.

The 10-Year Treasury note has been hanging around 2 percent for the past few weeks, after flirting with breaking out to the upside. The slide in long-term rates largely followed March's weaker employment report and growing concerns about the Spanish and Italian economies and financial system. Slowing Chinese economic growth and a slight drop in weekly gasoline prices have also helped soothe lingering inflation fears, at least the fears focused on the near term.

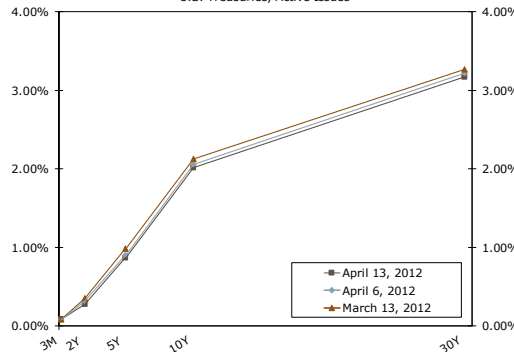
Talk of additional quantitative easing or extended Operation Twist was less pronounced this week. Fed speakers continue to dwell on the challenges facing the labor market. The statements by Federal Reserve Board Governors probably provide a clearer insight into the current thinking on the board. Ben Bernanke went to great lengths to talk about the decline in the unemployment two weeks ago, which he noted was inconsistent with historical relationships with overall economic growth. At a recent speech in Los Angeles, Fed Governor Sarah Bloom Raskin focused on the unusually low share of the working population currently employed and its long-term negative implications for economic growth. The bottom line is the unemployment rate does not seem sufficient to sway the Fed right now.

Higher interest rates in Spain and Italy are catching a great deal of attention recently, particularly since they are accompanying weaker economic growth. The implication is that Spain and Italy's weaker economic performance is raising credit quality concerns at banks and at the sovereign level.

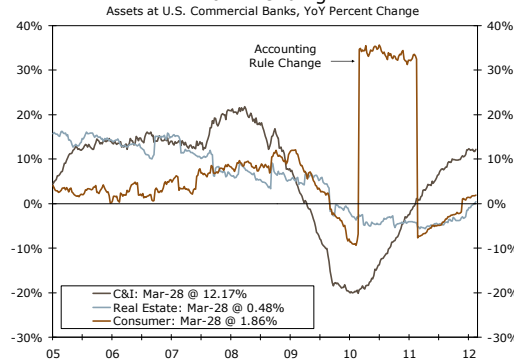
Central Bank Policy Rates



Yield Curve  
U.S. Treasuries, Active Issues



Bank Lending



**Credit Market Insights**

**C&I Lending Continues to Shine in Q1**

Weekly data incorporating almost all of March showed that lending at U.S. banks increased at a slightly faster pace in the first quarter. Total loans increased at a 5.6 percent annualized rate, compared to a 5.1 percent pace in the fourth quarter. Commercial and industrial loans continue to lead the resurgence in bank lending. C&I lending in the first quarter maintained its fourth-quarter pace, increasing at a 14 percent annualized rate. While C&I loans account for only 20 percent of banks' total loan assets, C&I loans increased by \$44 billion in the first quarter, compared to a net increase of \$95 billion for all loans. Real estate lending also picked up over the quarter, rising at a 6.6 percent annualized rate, while consumer loans fell.

Helping to fuel the recovery in C&I lending has been the improvement in credit quality among existing C&I loans. Falling for the ninth consecutive quarter, the delinquency rate for all C&I loans edged down to 1.6 percent in the fourth quarter. Delinquencies likely continued to tick down in the first quarter, as reports from the Federal Reserve's Beige Book this week noted further improvement in credit quality in many districts. Several districts in the Beige Book also reported increased demand for loans, which will further fuel the rebound in C&I lending. Continued improvement in C&I lending in the coming quarters will lend some support to GDP growth through new business investment and inventory building as the housing and consumer sectors continue to heal.

**Credit Market Data**

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
	30-Yr Fixed	3.88%	3.98%	3.92%
15-Yr Fixed	3.11%	3.21%	3.16%	4.13%
5/1 ARM	2.85%	2.86%	2.83%	3.78%
1-Yr ARM	2.80%	2.78%	2.79%	3.25%

Bank Lending	Current Assets	1-Week Change	4-Week Change	Year-Ago Change
	(Billions)	(SAAR)	(SAAR)	
Commercial & Industrial	\$1,390.1	36.97%	12.39%	12.17%
Revolving Home Equity	\$544.9	-6.71%	-8.70%	-4.51%
Residential Mortgages	\$1,571.3	12.87%	3.84%	5.50%
Commerical Real Estate	\$1,424.3	3.83%	-1.43%	-2.69%
Consumer	\$1,091.8	1.13%	-2.07%	1.86%

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

## Topic of the Week

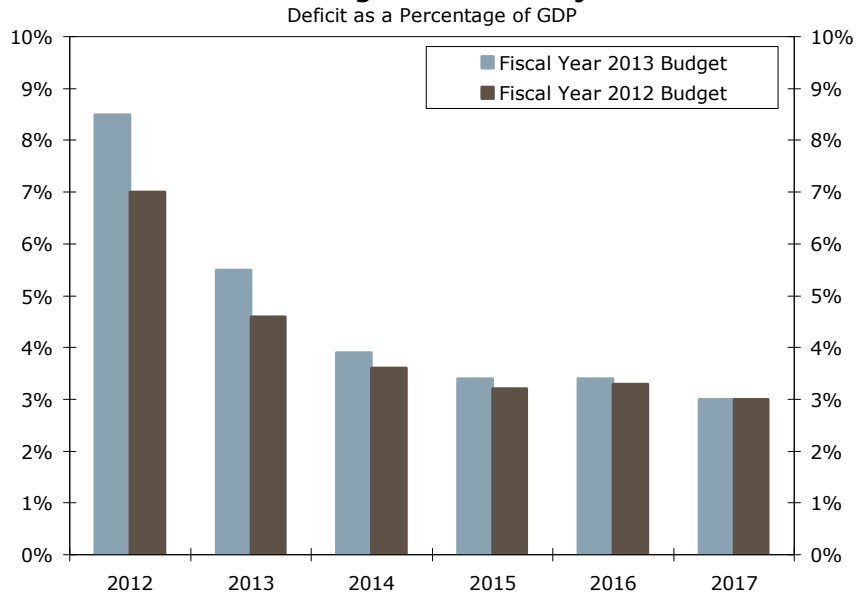
### Fiscal Consolidation and Sectoral Saving Flows

As the U.S. economy continues to grow, attention has shifted among policymakers toward reducing deficits in the public sector. Both President Obama's and Representative Paul Ryan's recent budget blueprints call for significant deficit reduction this decade. In a report released this week (See "Fiscal Consolidation in a Flow-of-Funds Framework"), we assessed the evolution of public-sector deficits from the perspective of a flow-of-funds accounting framework.

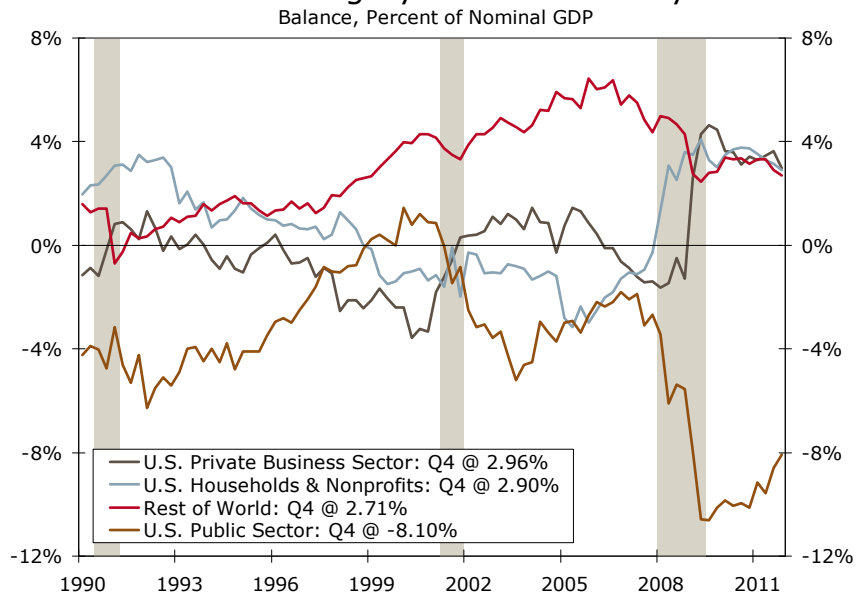
By definition, deficit reduction in the public sector must be offset by less saving from some combination of U.S. households, U.S. businesses and the rest of the world. During "normal" times, changes in private-sector behavior and in prices, interest rates and exchange rates facilitate the required changes that must take place in saving flows among sectors. Fiscal consolidation usually slows profit growth, causing businesses to save less. Slower overall growth from public-sector retrenchment also forces households to save less in order to smooth consumption expenditures. Finally, policy easing by the Federal Reserve during a period of fiscal consolidation normally leads to a weaker exchange rate, which then leads to a reduction in capital inflows from abroad.

However, there may currently be some impediments that could retard "normal" adjustment. Households may desire to keep saving rates elevated to repair battered balance sheets and businesses may choose to remain in a cash-hoarding mode. The adjustment toward a smaller current account deficit, which implies fewer capital inflows from abroad, could be hampered by attempts of foreign governments to prevent their currencies from appreciating against the dollar. The U.S. economy could then become trapped in a vicious cycle of fiscal consolidation, leading to private-sector risk aversion and weak export growth. In a subsequent report, which we will release shortly, we will examine the fiscal consolidation currently underway in the United Kingdom to ascertain what lessons this experience may hold for the United States.

### Federal Budget Deficit Projections



### Net Saving By Sector - Identity



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## Market Data ♦ Mid-Day Friday

## U.S. Interest Rates

	Friday 4/13/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.08	0.07	0.05
3-Month LIBOR	0.47	0.47	0.28
1-Year Treasury	0.16	0.21	0.18
2-Year Treasury	0.27	0.31	0.73
5-Year Treasury	0.86	0.90	2.17
10-Year Treasury	2.01	2.05	3.46
30-Year Treasury	3.17	3.22	4.54
Bond Buyer Index	3.97	4.08	5.06

## Foreign Exchange Rates

	Friday 4/13/2012	1 Week Ago	1 Year Ago
Euro (\$/€)	1.314	1.310	1.444
British Pound (\$/£)	1.593	1.587	1.627
British Pound (£/€)	0.825	0.825	0.888
Japanese Yen (¥/\$)	81.010	81.640	83.840
Canadian Dollar (C\$/)\$)	0.994	0.997	0.962
Swiss Franc (CHF/\$)	0.915	0.917	0.896
Australian Dollar (US\$/A\$)	1.040	1.031	1.051
Mexican Peso (MXN/\$)	13.079	12.984	11.776
Chinese Yuan (CNY/\$)	6.303	6.306	6.533
Indian Rupee (INR/\$)	51.303	51.105	44.505
Brazilian Real (BRL/\$)	1.834	1.823	1.587
U.S. Dollar Index	79.537	79.886	74.980

## Foreign Interest Rates

	Friday 4/13/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.66	0.67	1.27
3-Month Sterling LIBOR	1.02	1.02	0.82
3-Month Canadian LIBOR	1.35	1.36	1.20
3-Month Yen LIBOR	0.20	0.20	0.20
2-Year German	0.13	0.14	1.86
2-Year U.K.	0.40	0.42	1.26
2-Year Canadian	1.22	1.25	1.83
2-Year Japanese	0.11	0.12	0.21
10-Year German	1.74	1.74	3.44
10-Year U.K.	2.06	2.16	3.71
10-Year Canadian	2.01	2.13	3.37
10-Year Japanese	0.95	0.99	1.32

## Commodity Prices

	Friday 4/13/2012	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	103.17	103.31	107.11
Gold (\$/Ounce)	1668.20	1636.43	1457.30
Hot-Rolled Steel (\$/S.Ton)	690.00	695.00	855.00
Copper (¢/Pound)	365.30	379.55	429.45
Soybeans (\$/Bushel)	14.38	14.28	13.12
Natural Gas (\$/MMBTU)	1.99	2.09	4.14
Nickel (\$/Metric Ton)	18,635	18,381	26,686
CRB Spot Inds.	539.99	537.52	638.06

## Next Week's Economic Calendar

	Monday 16	Tuesday 17	Wednesday 18	Thursday 19	Friday 20
U.S. Data	<b>Retail Sales</b> February 1.1% March 0.4% (W)	<b>Housing Starts</b> February 698K March 696K (W)		<b>Existing Home Sales</b> February 4.59M March 4.61M (W)	
	<b>Net TIC Flows</b> January \$18.8	<b>Building Permits</b> February 715K March 710K (C)		<b>LEI</b> February 0.7% March 0.2% (W)	
	<b>Business Inventories</b> January 0.7% February 0.5% (W)	<b>Industrial Production</b> February 0.0% March 0.2% (W)			
		<b>Eurozone</b> <b>CPI (MoM)</b> Previous (Feb) 0.5%	<b>U.K.</b> <b>ILO Unemployment</b> Previous (Jan) 8.4%		<b>Germany</b> <b>IFO-Business Climate</b> Previous (Mar) 109.8
Global Data		<b>Canada</b> <b>BoC Policy Rate</b> Previous 1.00%		<b>U.K.</b> <b>Retail Sales (MoM)</b> Previous (Feb) -0.8%	

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



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