

**WELLS  
FARGO**

**SECURITIES**

# Global Economic Outlook

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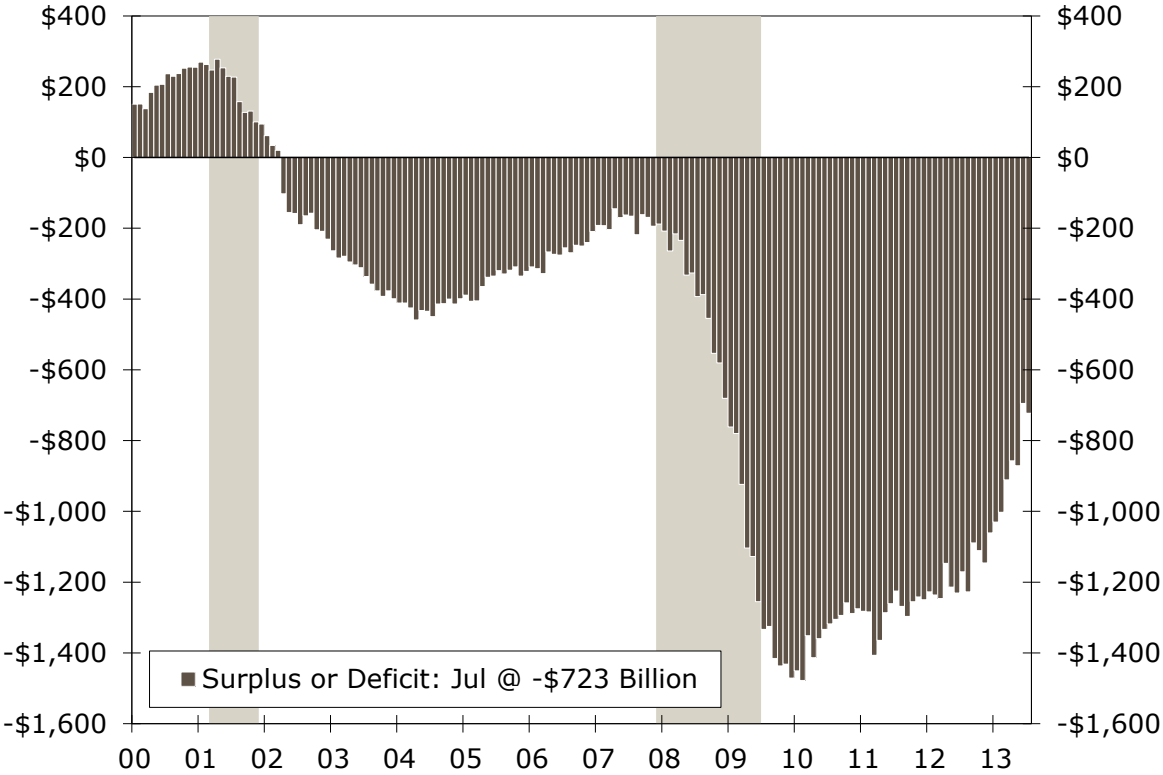
**Tim Quinlan, Economist**  
**September 6, 2013**

**Together we'll go far**



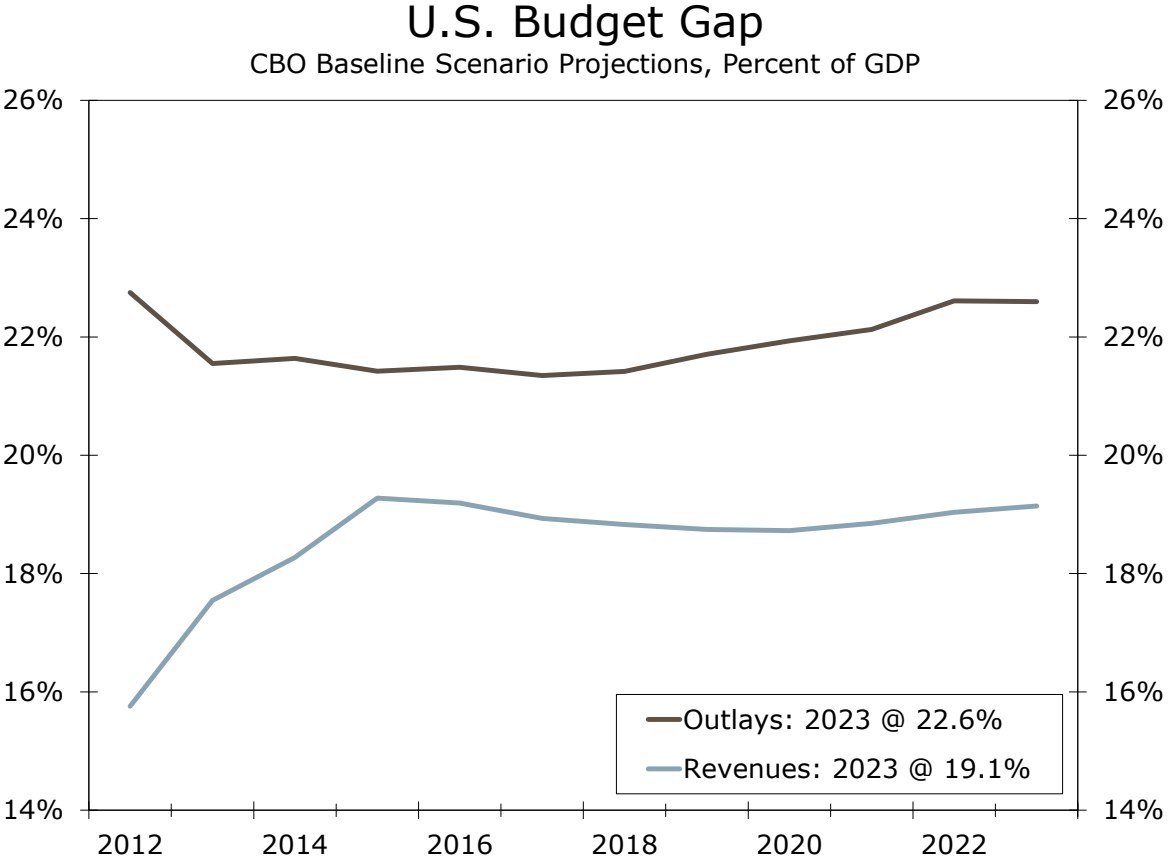
Deficit is shrinking, but not nearly fast enough

Federal Budget Surplus or Deficit  
12-Month Moving Sum in Billions of Dollars



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

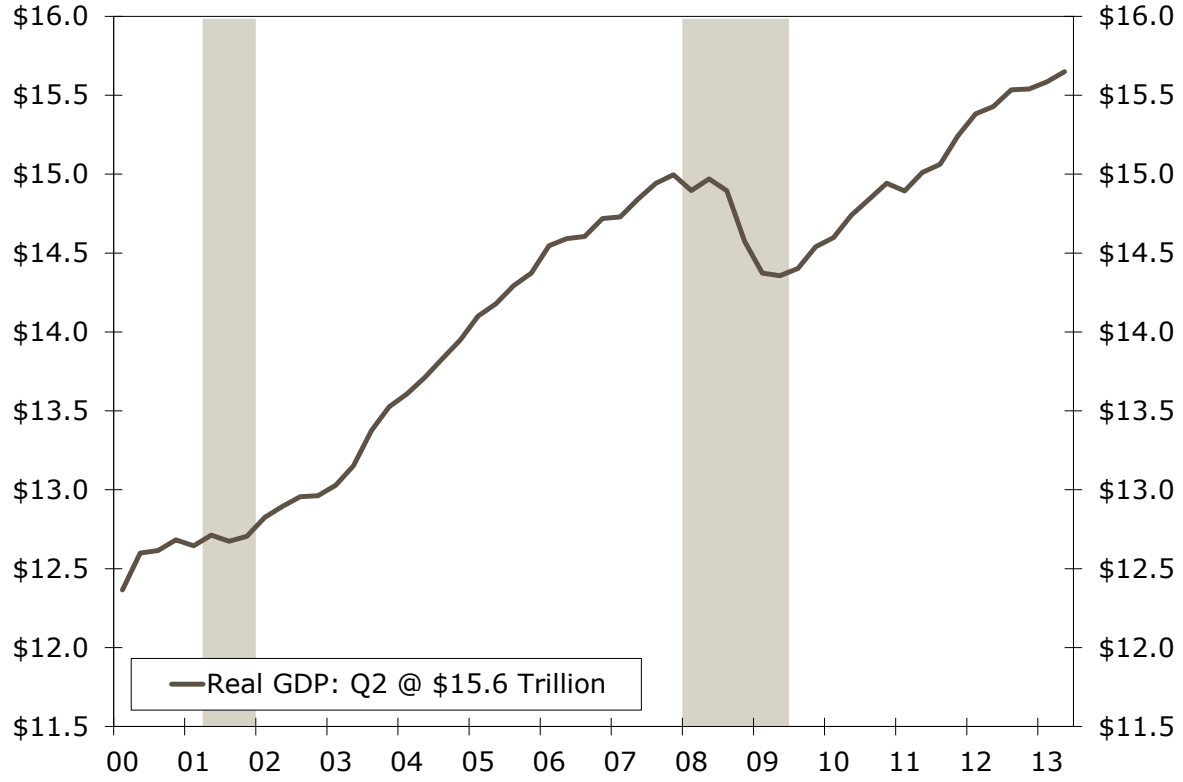
The federal government faces some significant fiscal challenges—the current path is not sustainable



Source: Congressional Budget Office and Wells Fargo Securities, LLC

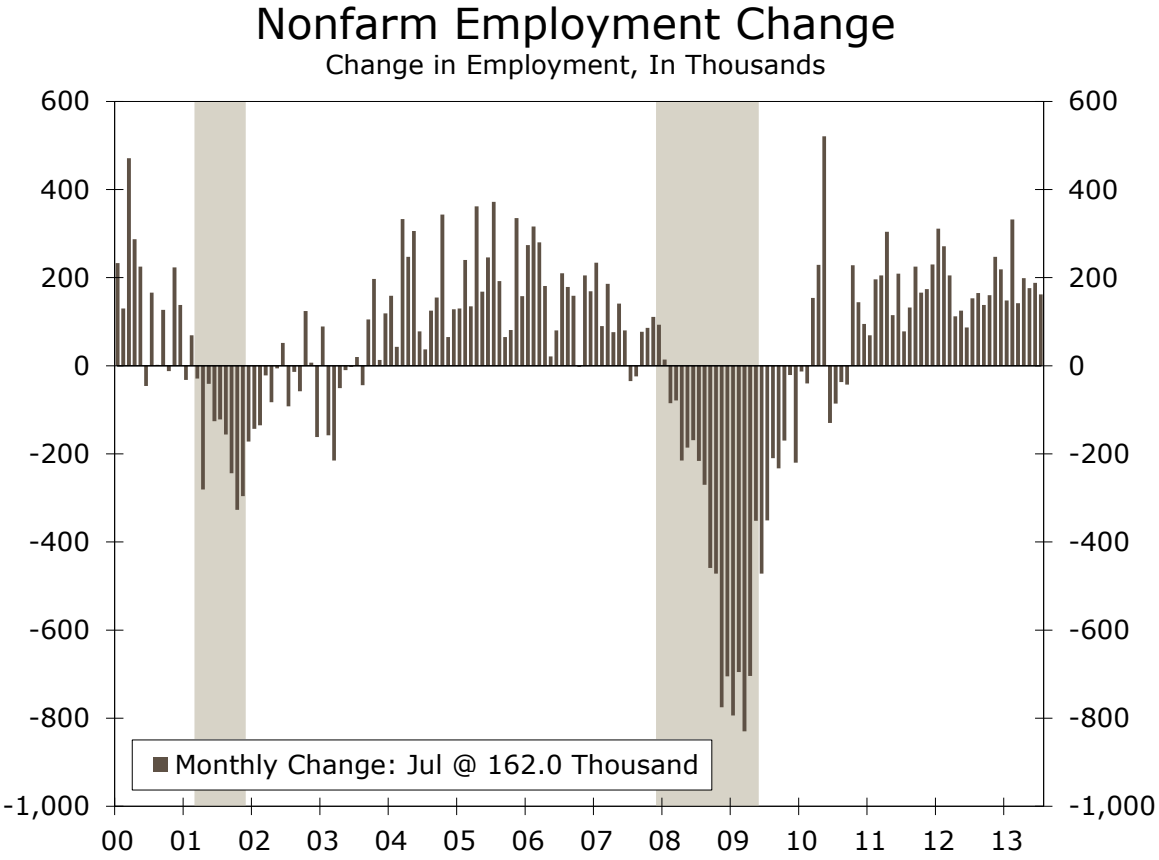
From recovery to expansion

Real Gross Domestic Product  
Trillions of Dollars, SAAR



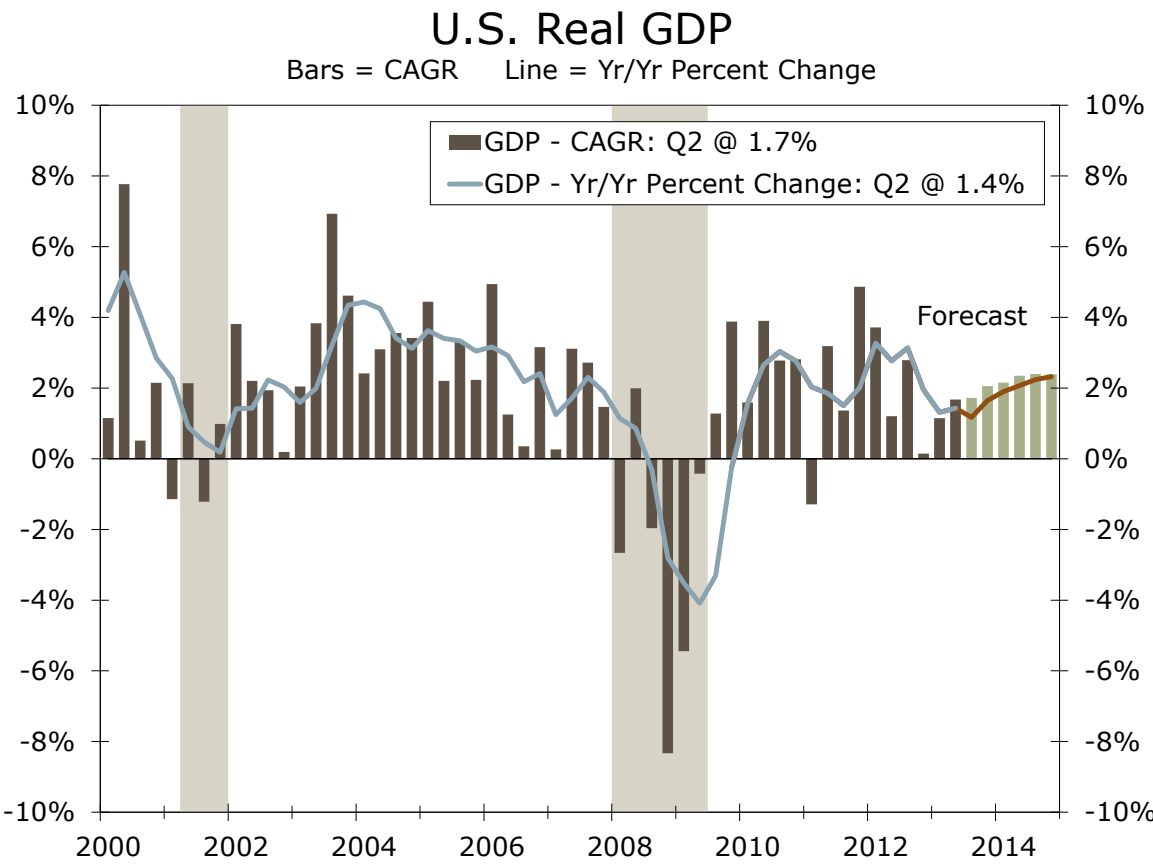
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

We have been adding jobs for two years, but still have a long way to go



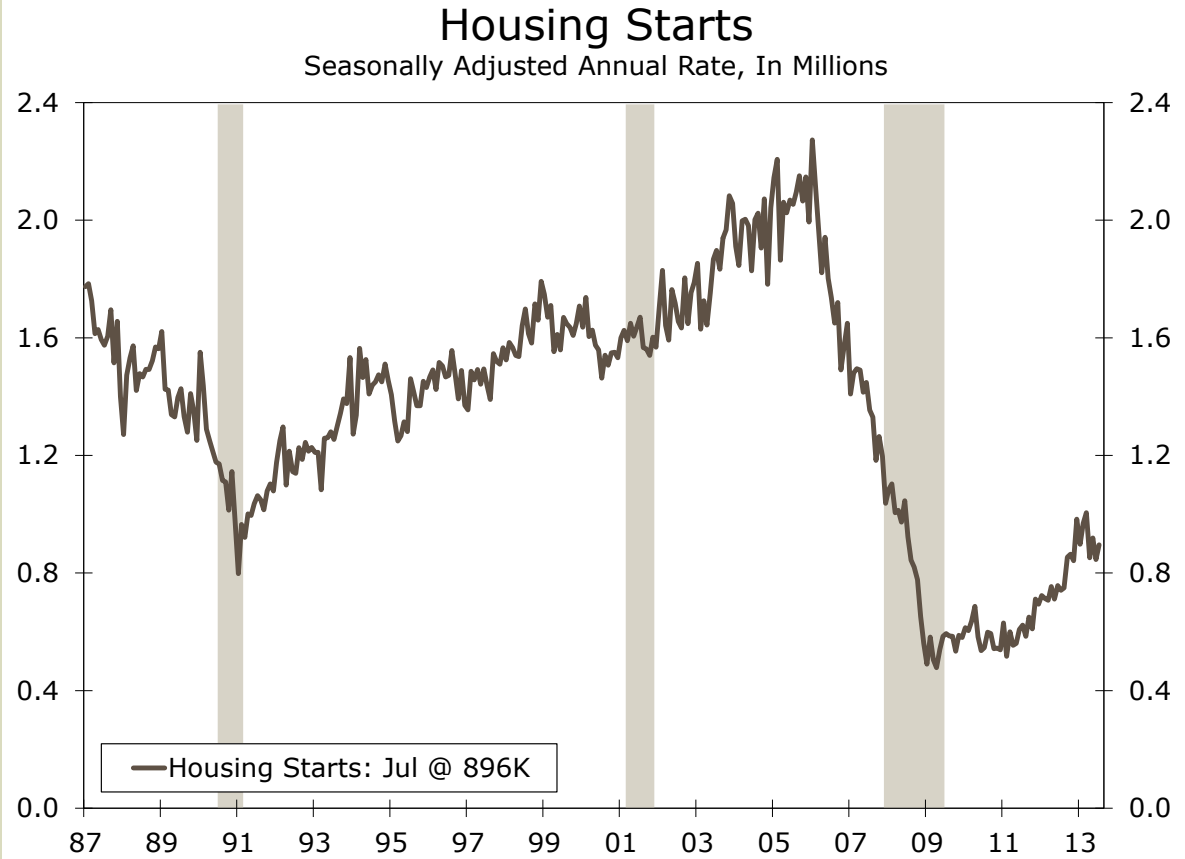
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Our forecast calls for the sub-par pace of economic growth to continue for the foreseeable future



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

Housing is a key bright spot for the outlook

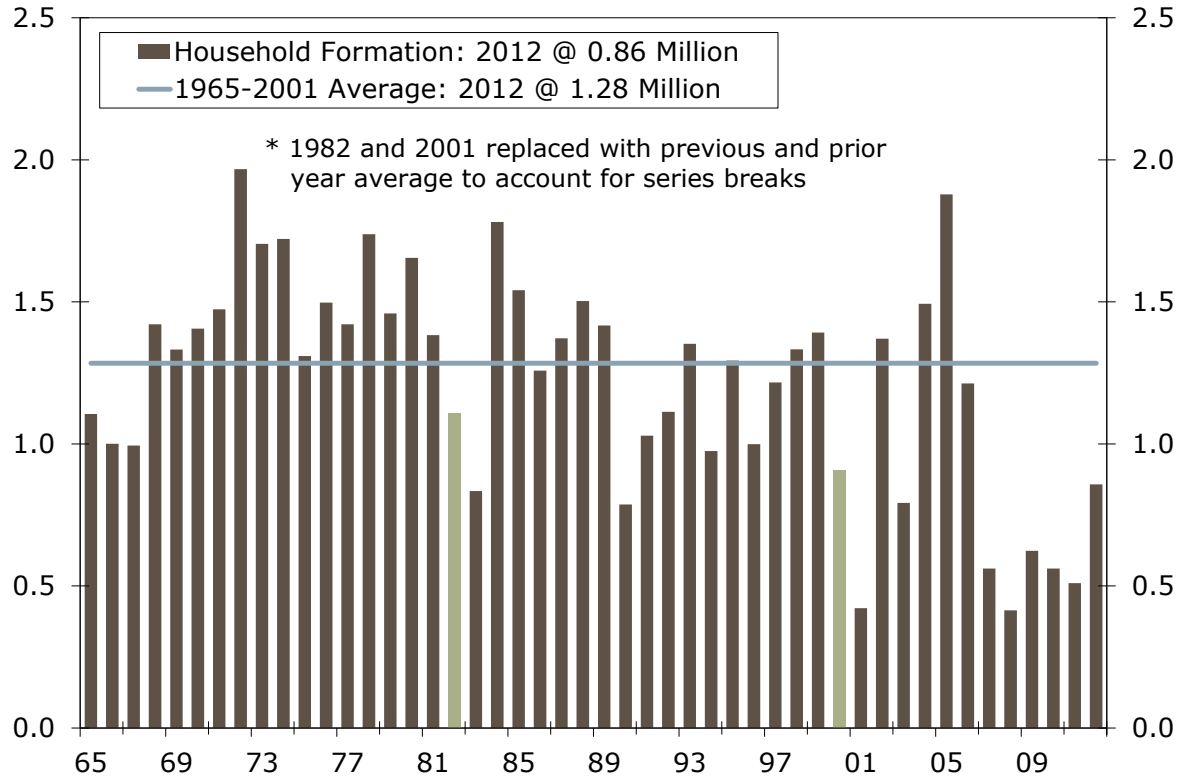


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The long-term run-rate of household formations is roughly 1.3 million

## Household Formation

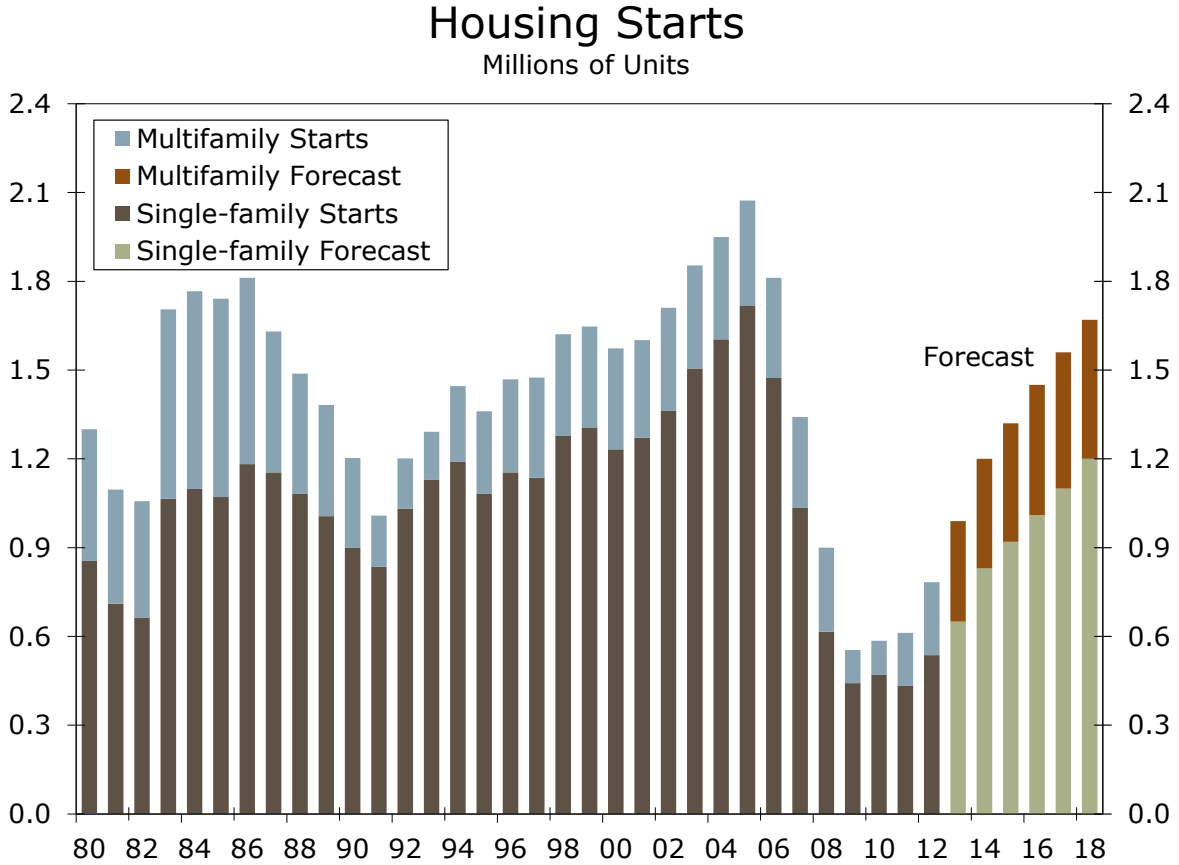
Millions of Households Formed



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



Housing starts remain well below historical levels, but are expected to increase in the coming years

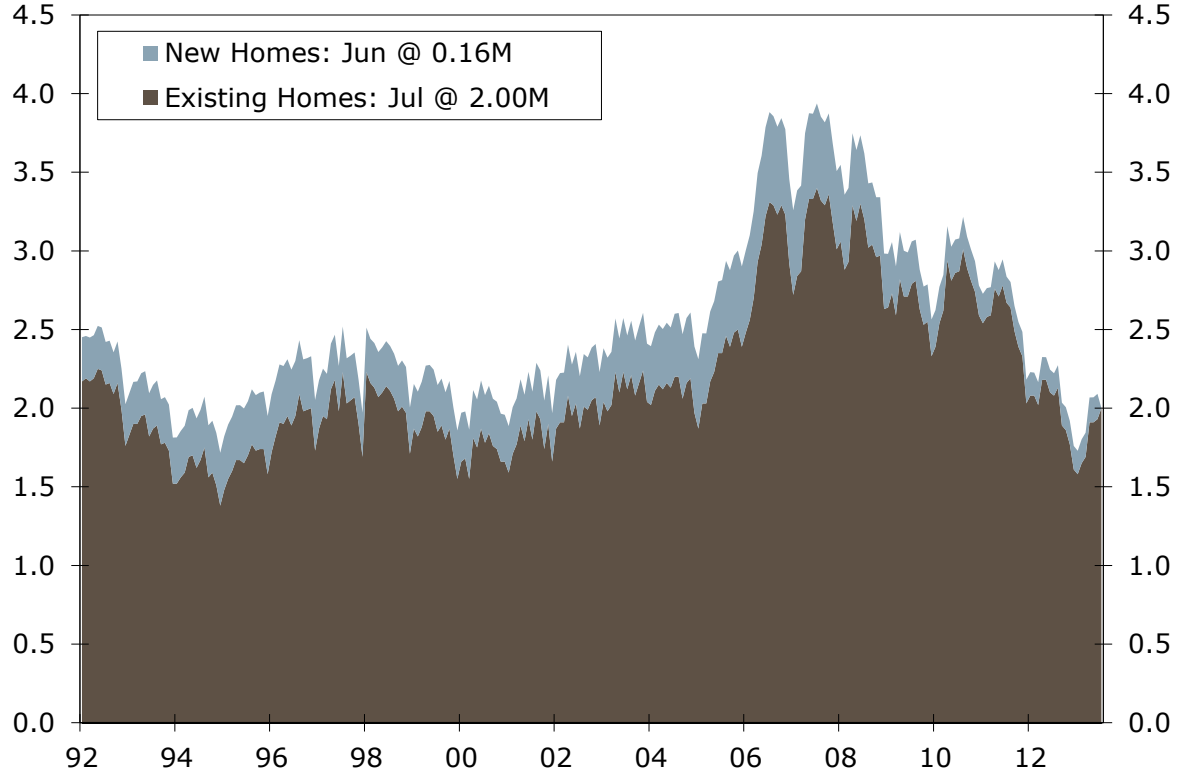


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Inventories have more or less cleared and are as low as they have been in years

### Single-Family Home Inventory

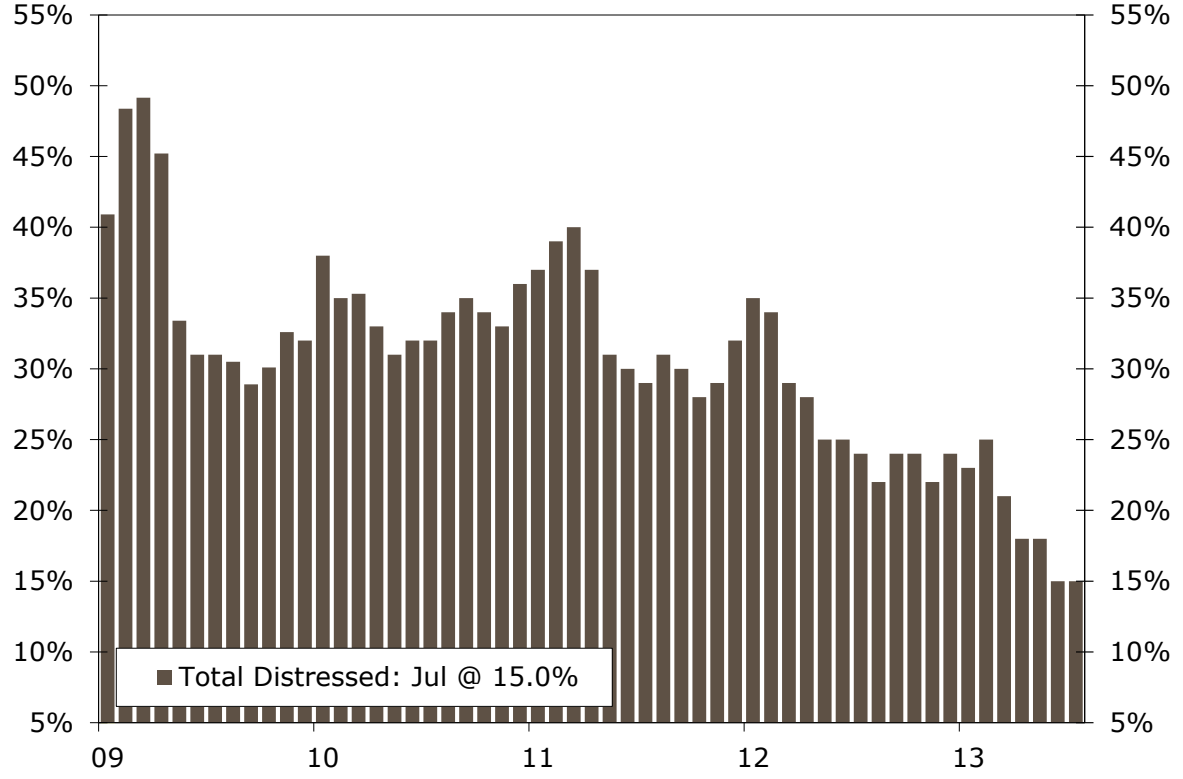
Millions of Units



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

U.S. Distressed Home Sales  
Percent of Total Sales

Distressed sales are trending lower

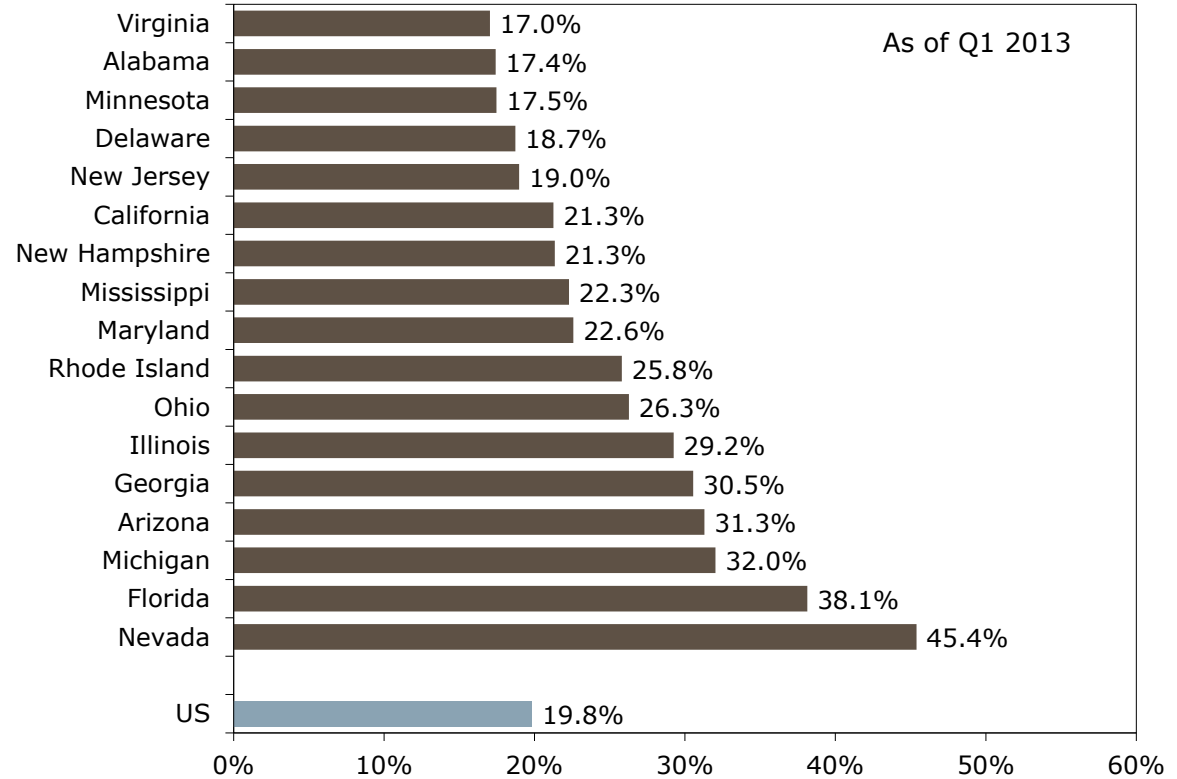


Source: National Association of Realtors and Wells Fargo Securities, LLC

The share of homes with negative equity has come down but remains elevated in many states

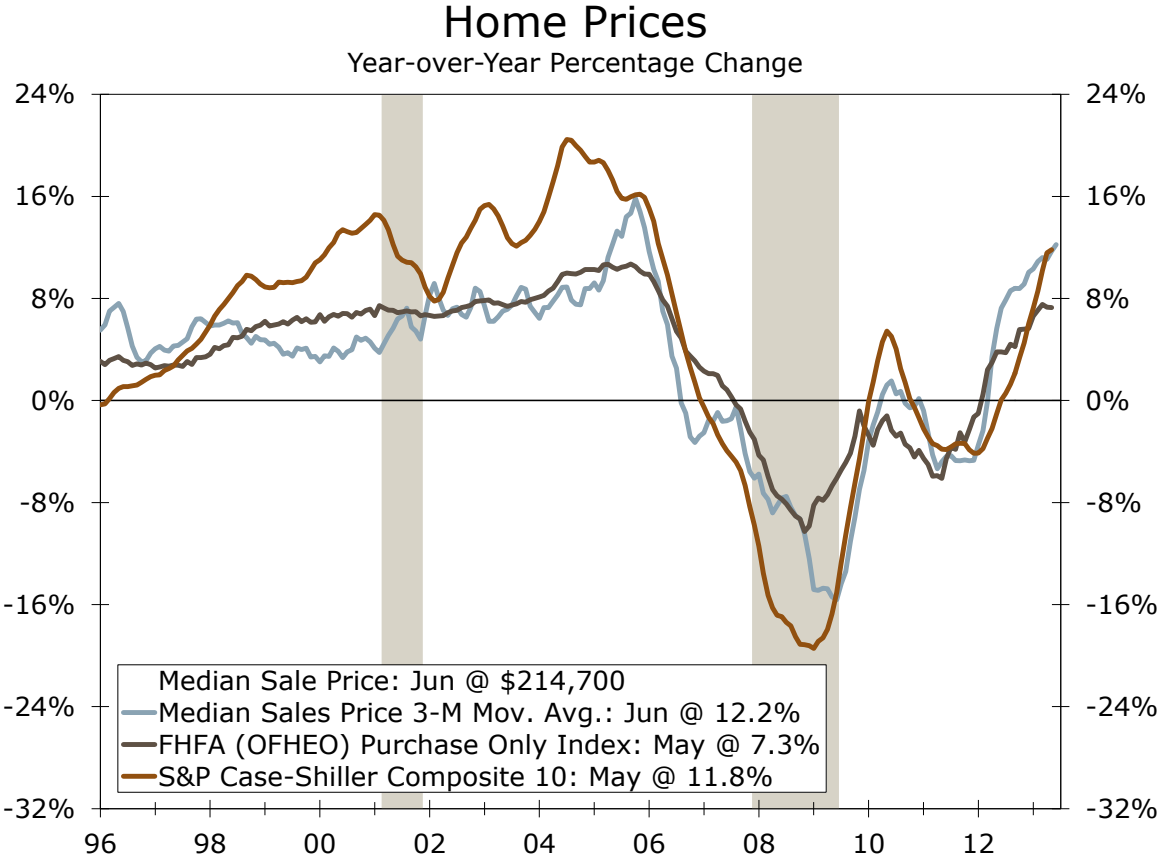
## Negative Equity Mortgages - By State

Percent of Mortgages Outstanding



Source: CoreLogic and Wells Fargo Securities, LLC

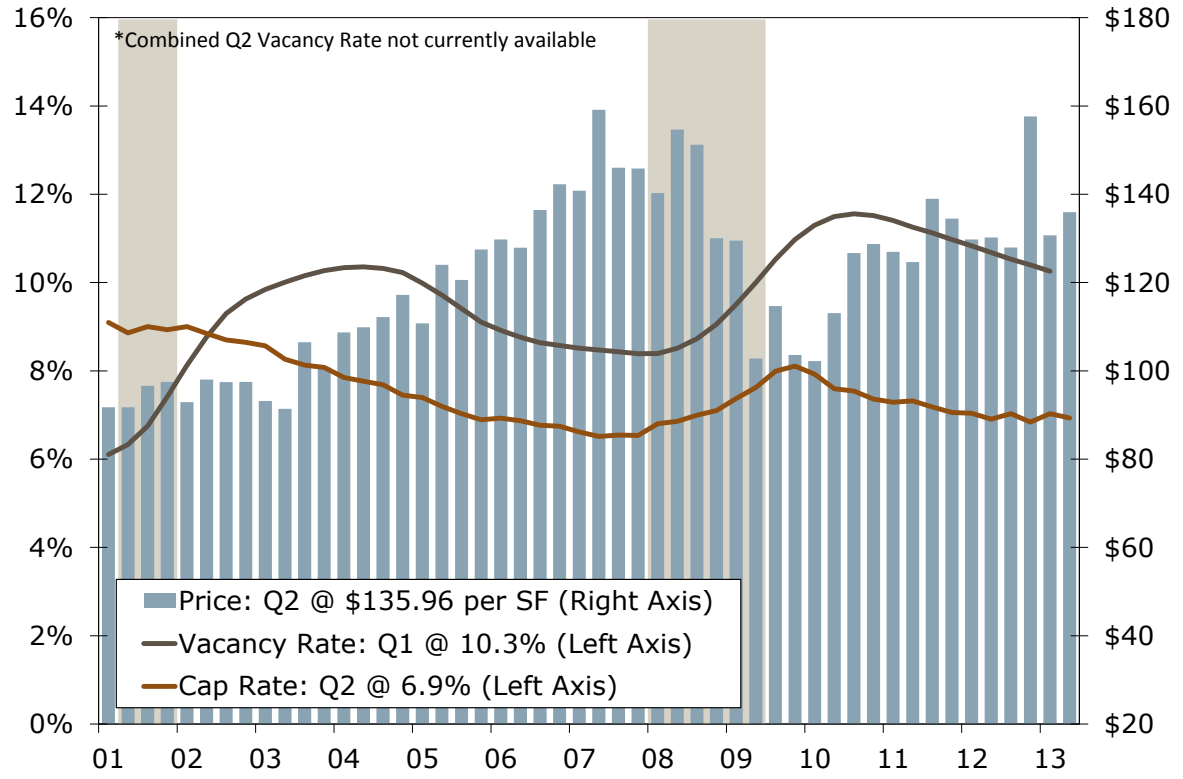
Most regions are starting to see improvement in home prices, but the recovery will be slow in areas with significant amounts of distressed transactions



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

CRE fundamentals point toward a very gradual recovery.

### Commercial Real Estate Percent, Dollars per Square Foot

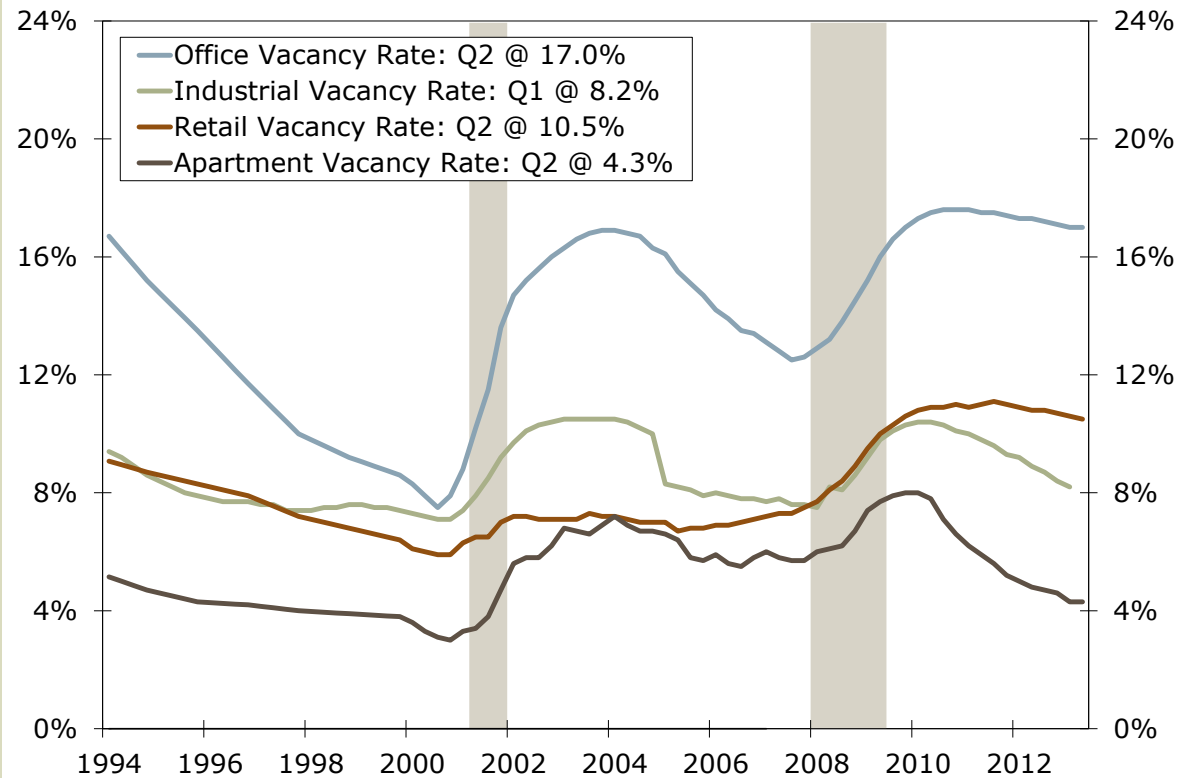


Source: Reis, Inc., RCA and Wells Fargo Securities, LLC

Vacancy rates are declining in apartments and industrial space but remain high elsewhere

## Commercial Real Estate Vacancy Rates

Percent

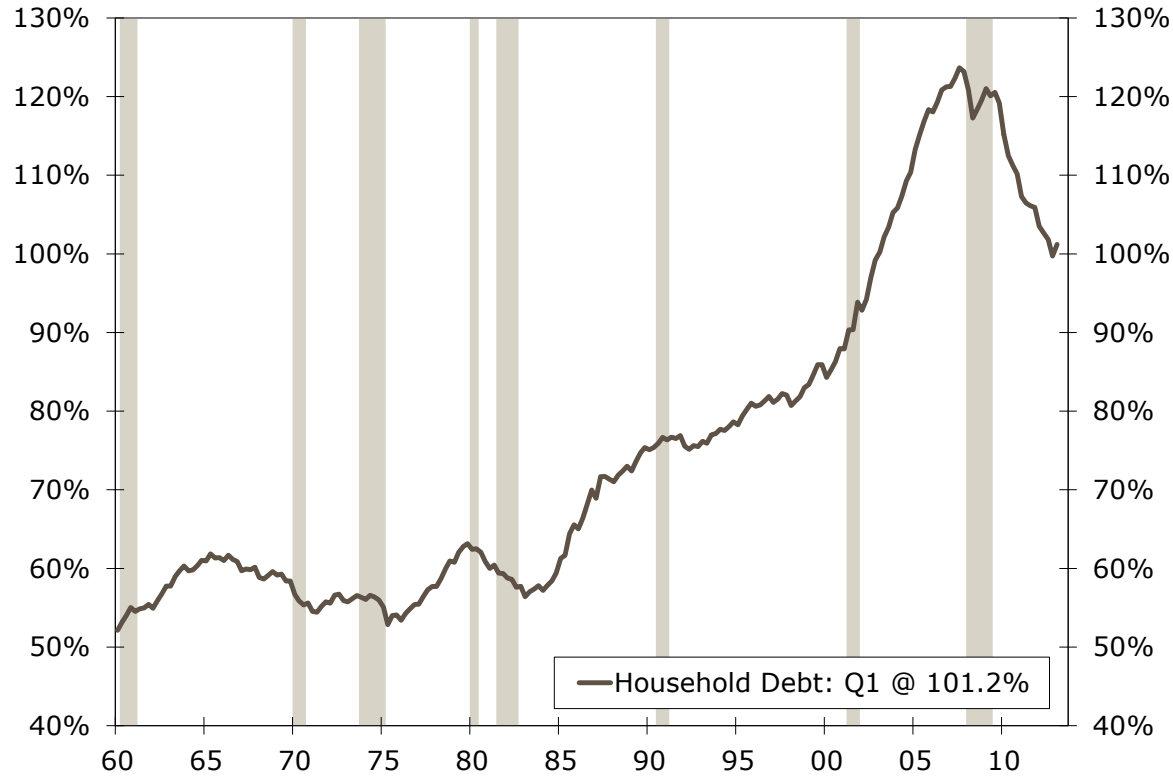


Source: Reis, Inc., RCA and Wells Fargo Securities, LLC

Although consumer leverage remains elevated, it is off its prerecession high

### Household Debt - Consumer & Mortgage

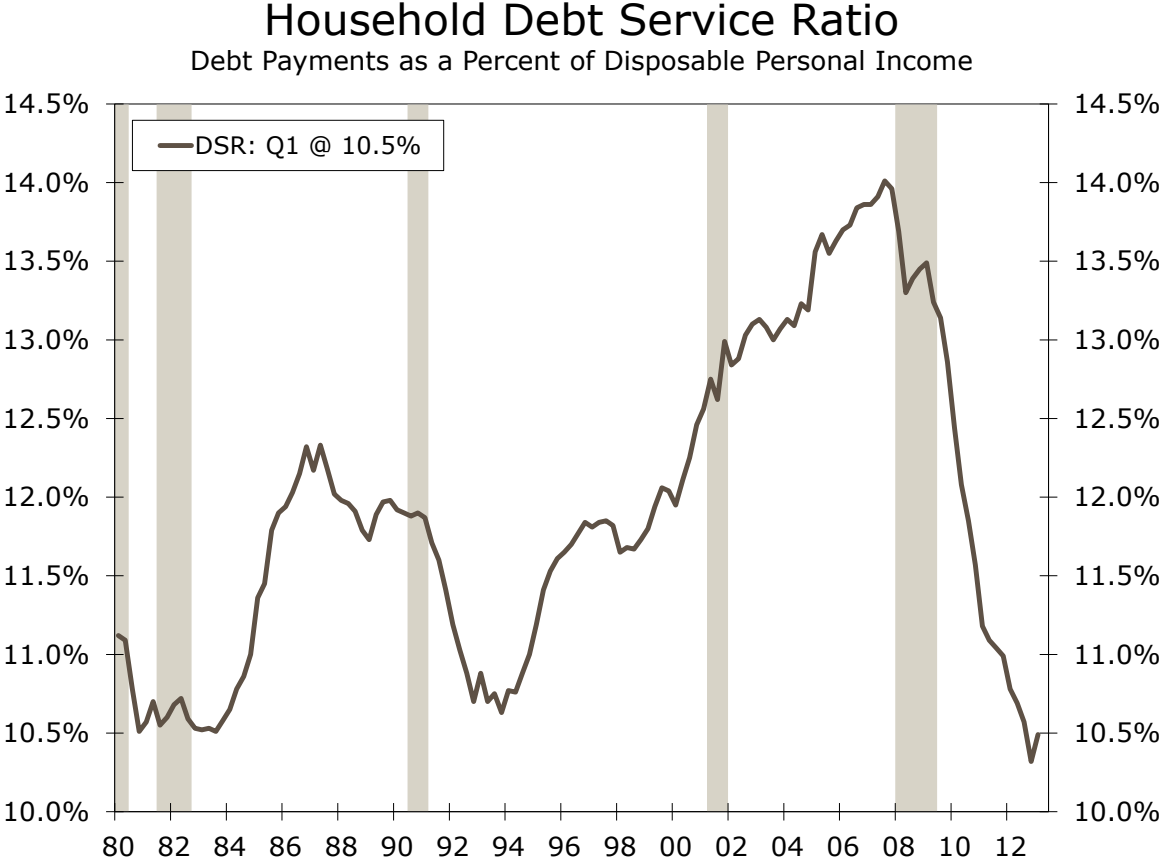
As a Percent of Disposable Personal Income



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



Low interest rates are supportive to consumer spending and housing

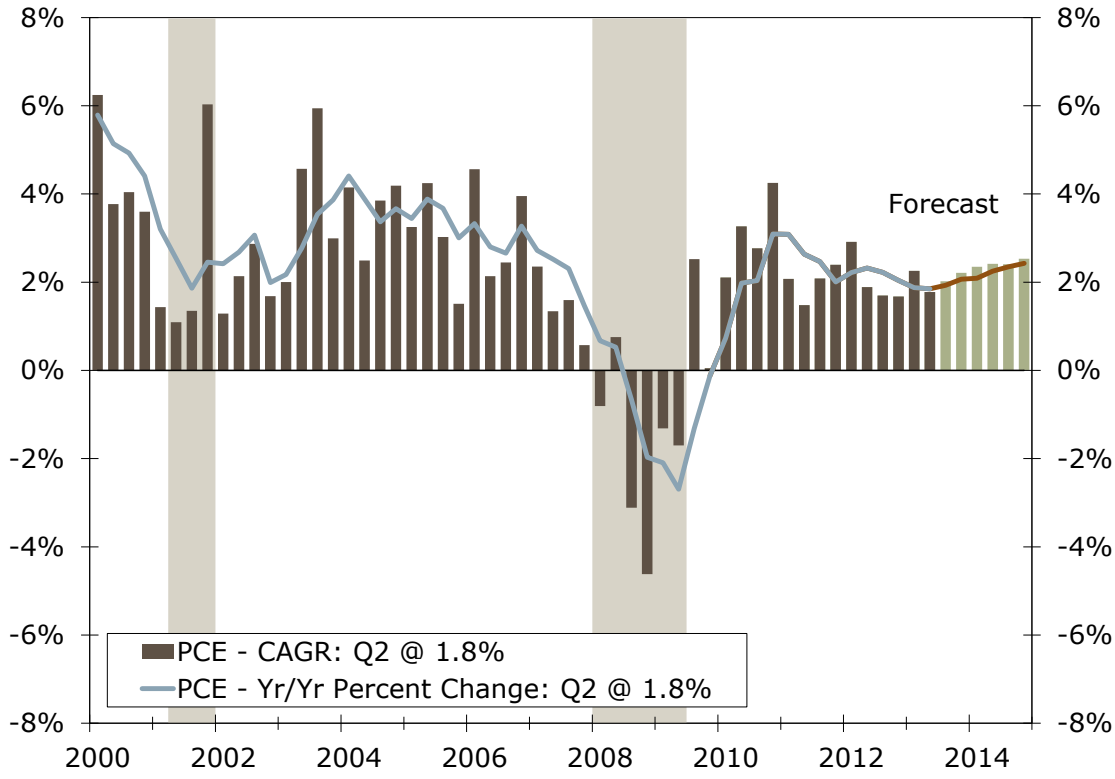


Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Securities, LLC

Continued deleveraging likely will constrain growth in consumer spending over the next year or so

### Real Personal Consumption Expenditures

Bars = CAGR Line = Yr/Yr Percent Change

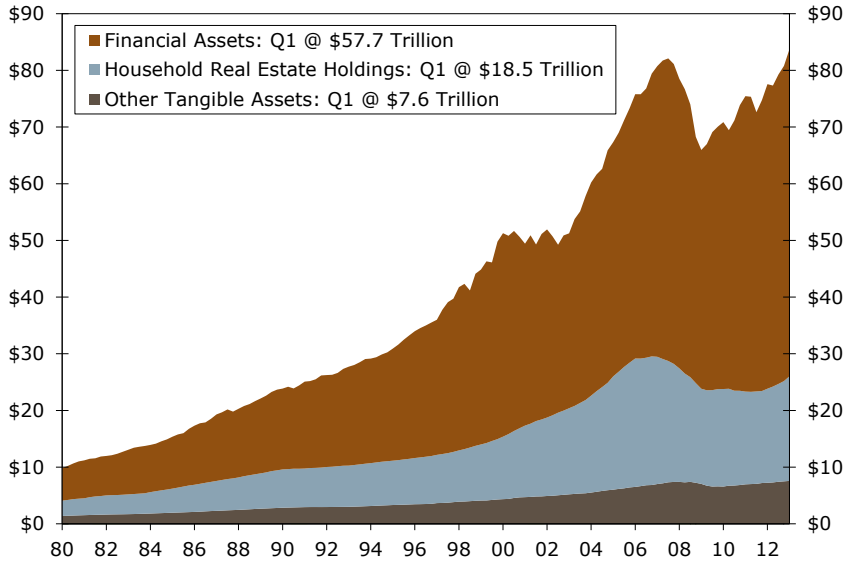


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Improvement in the stock market has helped bolster consumer spending at a time when real incomes are barely growing, and consumer confidence remains historically low.

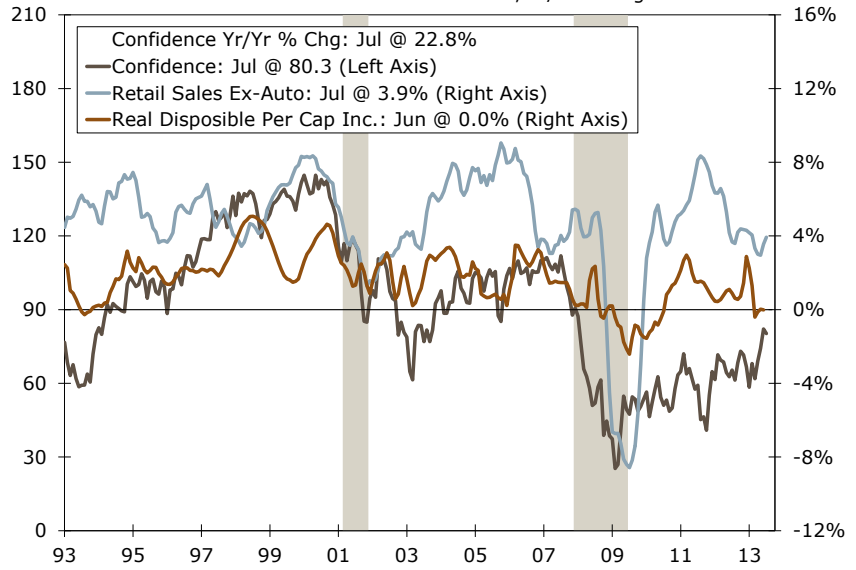
**Household Wealth**

**Household Assets**  
Trillions of Dollars



**Consumer Confidence**

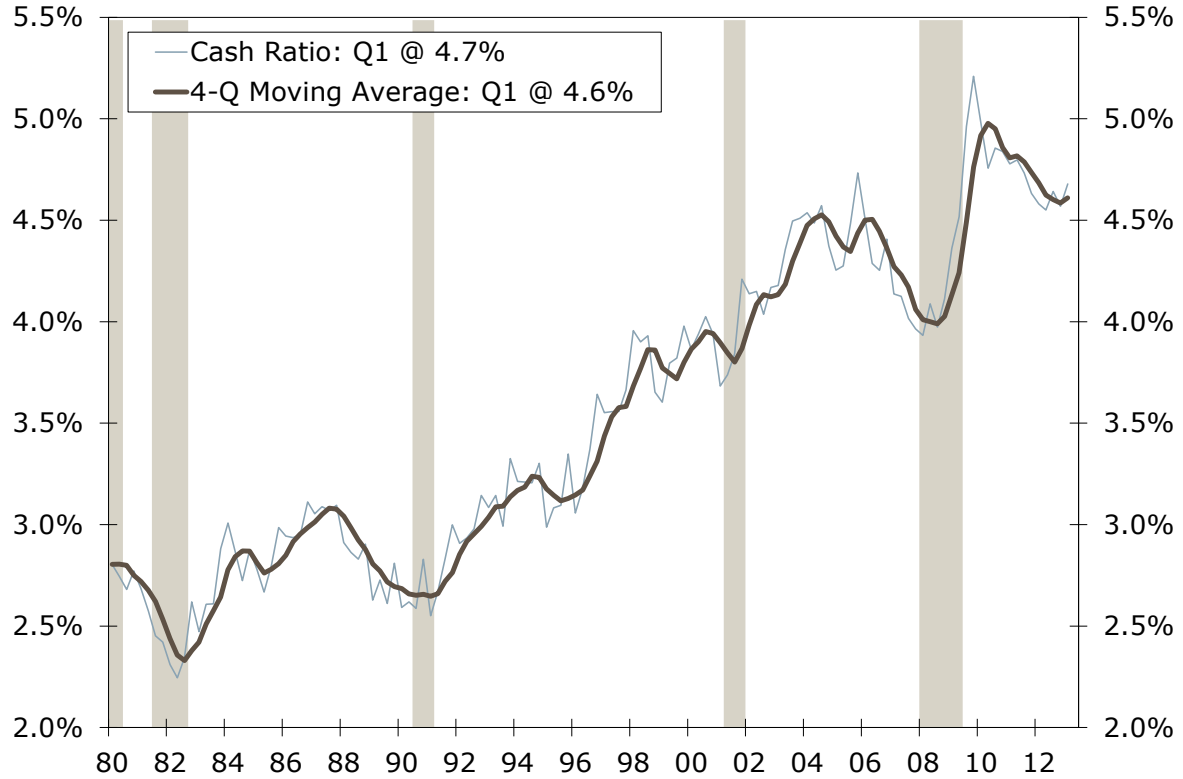
**Confidence vs. Retail Sales and Income**  
Conference Board Consumer Confidence, Yr/Yr % Chg. 3-MMA



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

The financial health of the corporate sector is very strong

### U.S. Nonfin. Corporate Cash Holdings Total Assets Market Value, U.S. Nonfinancial Corporations

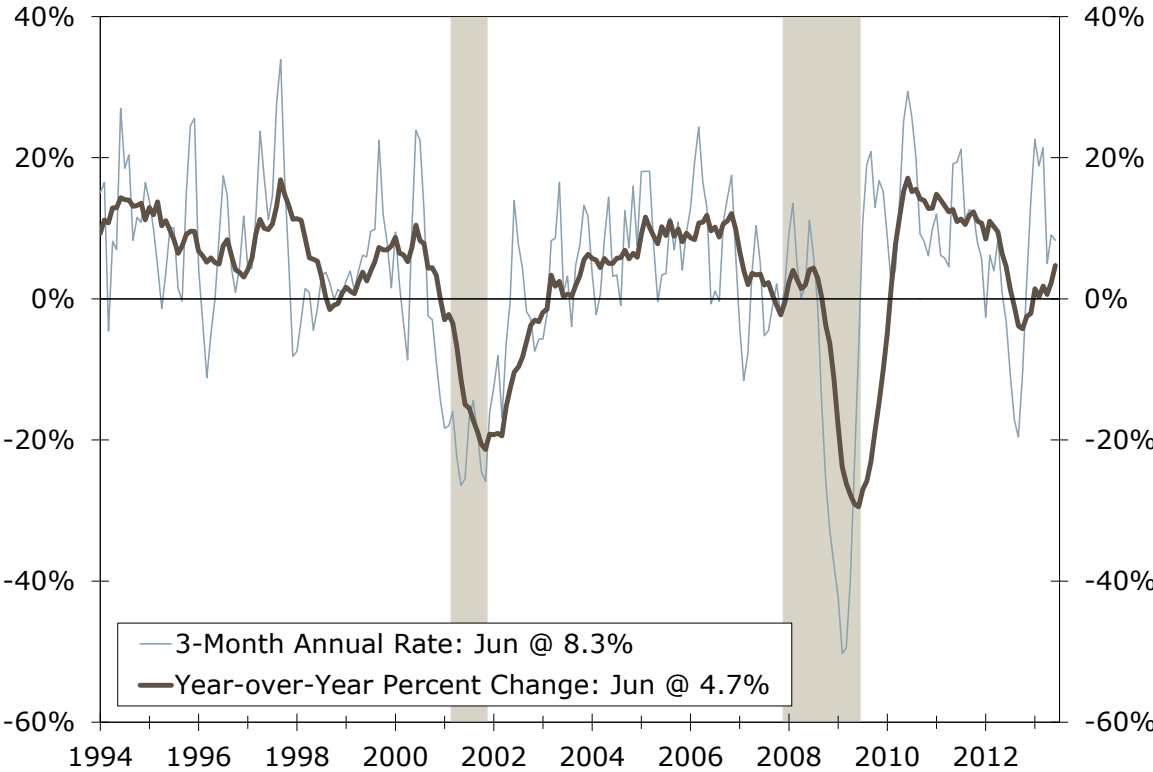


Source: Federal Reserve Board and Wells Fargo Securities, LLC

The rebound in capex has lost momentum

### Nondefense Capital Goods Orders, Ex-Aircraft

Series are 3-Month Moving Averages

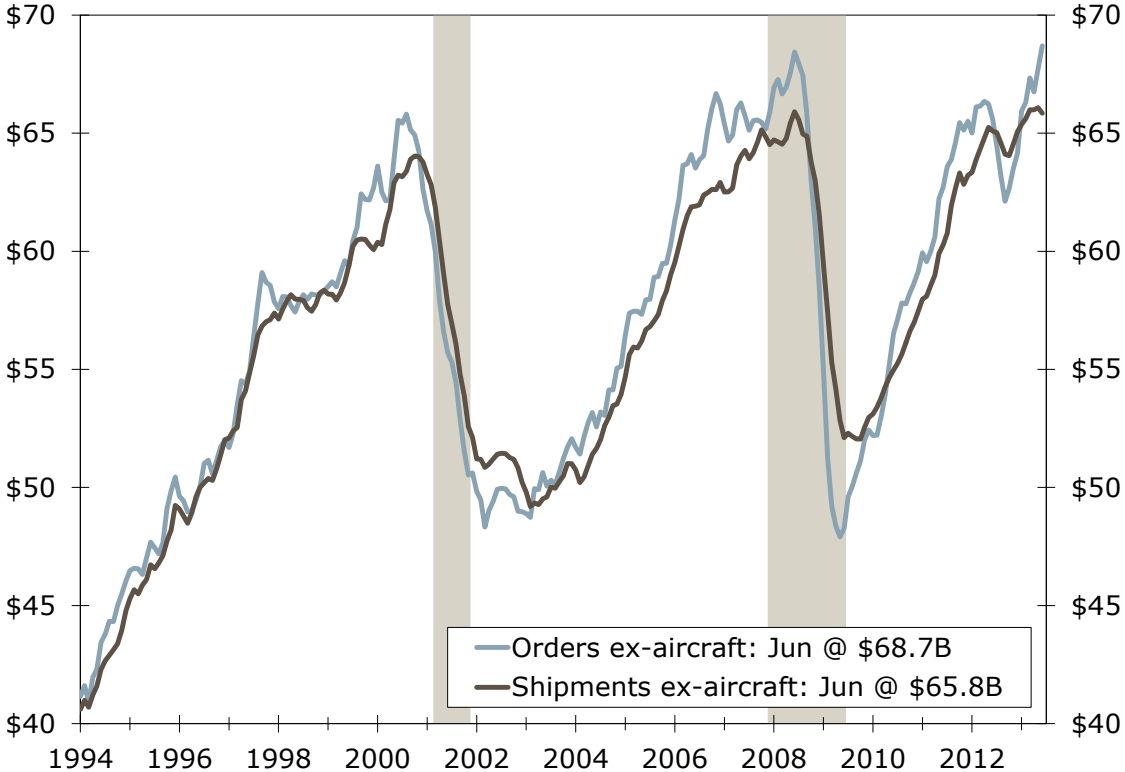


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The temporary drop in new orders below shipments was concerning, but now appears back on track

### Nondefense Capital Goods Orders vs. Shipments

Ex-Aircraft, Series are 3-Month Moving Averages in Billions

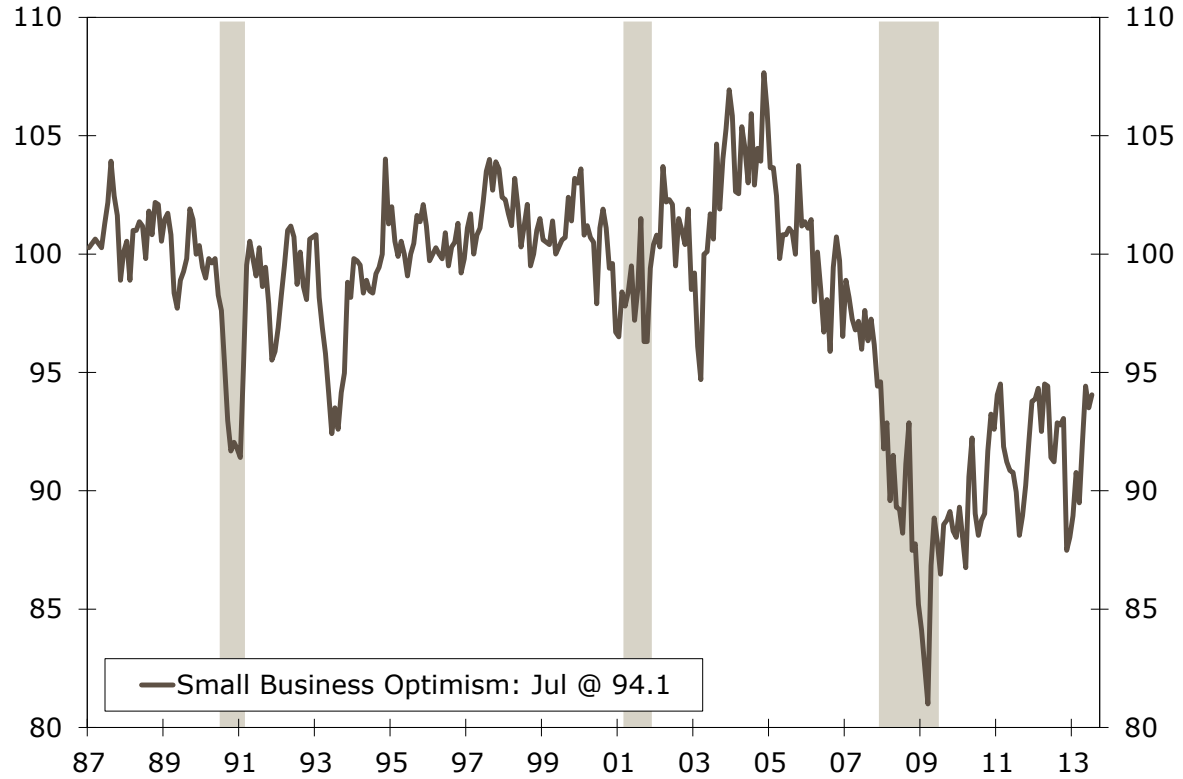


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Small business confidence is improving but still weak on a historical basis

### NFIB Small Business Optimism

Overall Index 1986 = 100

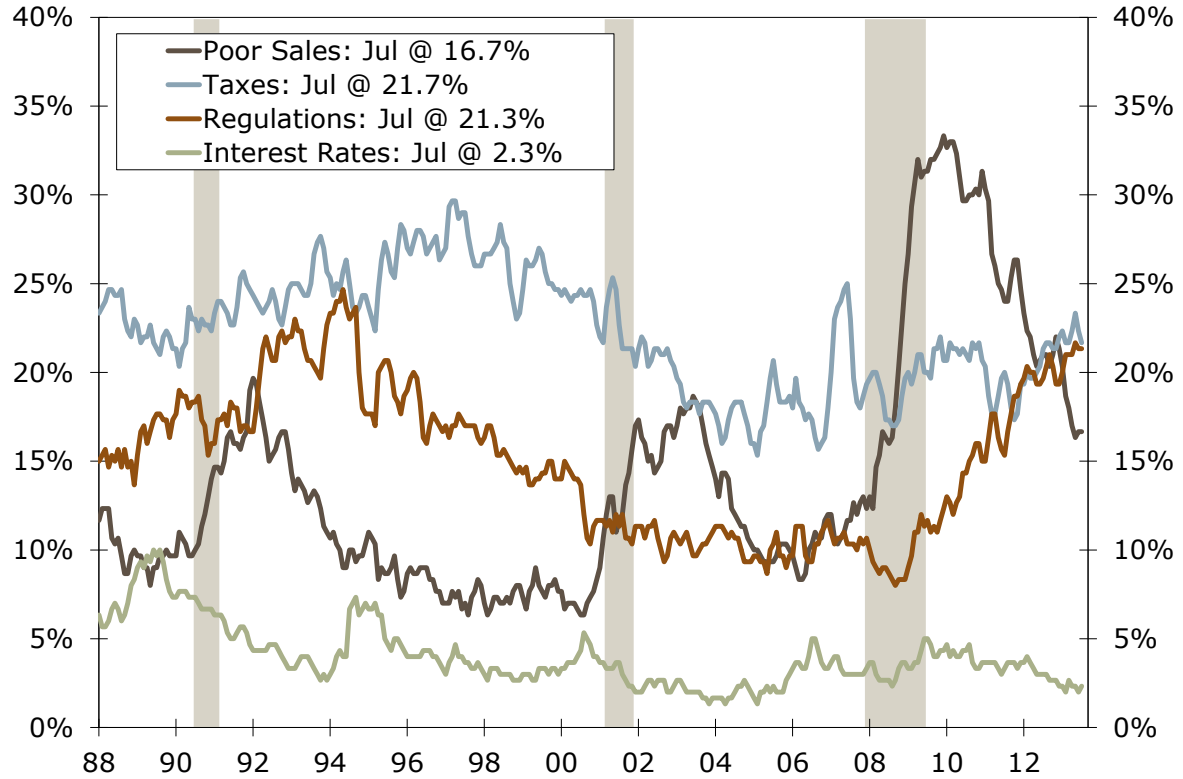


Source: National Federation of Independent Business and Wells Fargo Securities, LLC

### Small Business Important Problems

Single Most Important Problem Facing Firms, SA 3-MMA

Problem has shifted from fears about sales to concerns about taxes and regulation



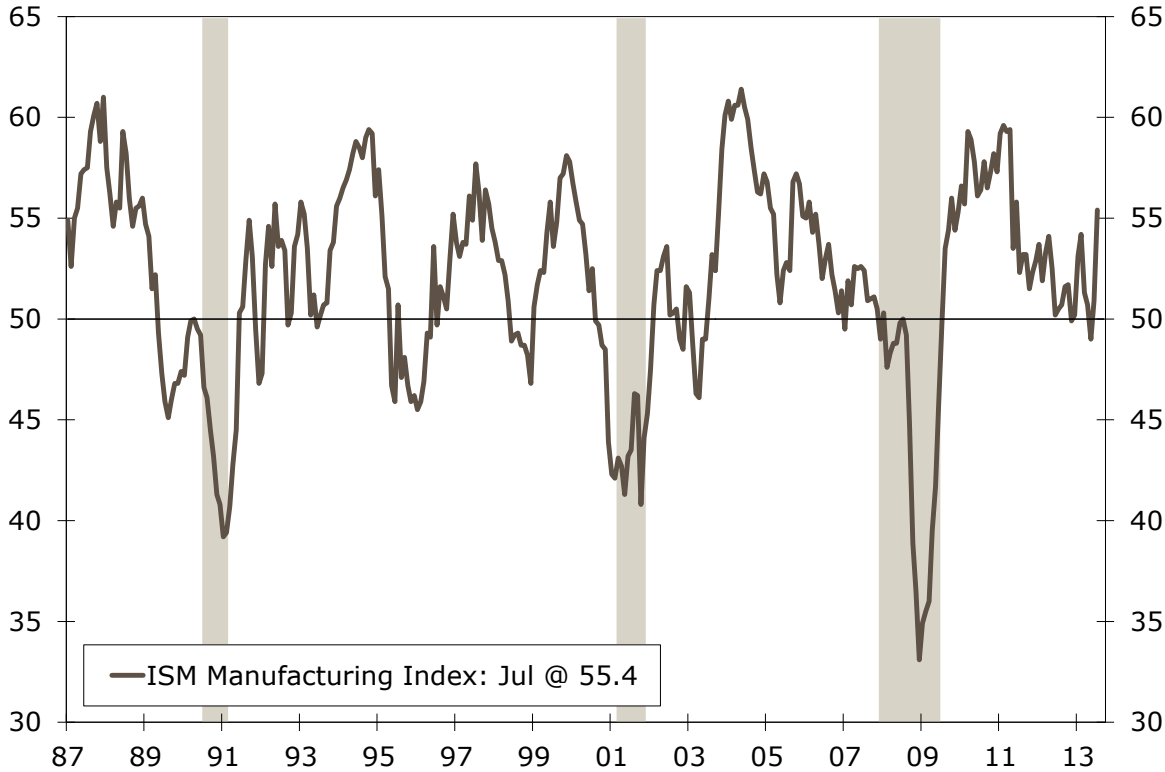
Source: National Federation of Independent Business and Wells Fargo Securities, LLC



ISM cannot make up its mind

### ISM Manufacturing Composite Index

Diffusion Index



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

## Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual			Forecast	
	2012				2013				2010	2011	2012	2013	2014
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product <sup>1</sup>	3.7	1.2	2.8	0.1	1.1	1.7	1.7	2.1	2.5	1.8	2.8	1.4	2.1
Personal Consumption	2.9	1.9	1.7	1.7	2.3	1.8	2.0	2.2	2.0	2.5	2.2	1.9	2.3
Inflation Indicators <sup>2</sup>													
PCE Deflator	2.4	1.7	1.6	1.7	1.4	1.1	1.3	1.3	1.7	2.4	1.8	1.3	1.9
Consumer Price Index	2.8	1.9	1.7	1.9	1.7	1.4	1.6	1.5	1.6	3.1	2.1	1.5	2.1
Industrial Production <sup>1</sup>	5.4	2.9	0.3	2.5	4.2	0.6	3.9	4.6	5.7	3.4	3.6	2.6	4.0
Corporate Profits Before Taxes <sup>2</sup>	12.8	6.9	6.3	2.7	2.1	5.2	5.3	5.7	25.0	7.9	7.0	4.6	6.4
Trade Weighted Dollar Index <sup>3</sup>	72.7	74.5	72.7	73.4	76.2	77.5	77.0	77.8	75.4	70.9	73.5	77.1	79.0
Unemployment Rate	8.3	8.2	8.0	7.8	7.7	7.6	7.5	7.3	9.6	8.9	8.1	7.5	7.1
Housing Starts <sup>4</sup>	0.71	0.74	0.78	0.90	0.96	0.87	1.02	1.04	0.59	0.61	0.78	0.99	1.12
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	3.95	3.68	3.50	3.35	3.57	4.07	4.50	4.60	4.69	4.46	3.66	4.19	4.95
10 Year Note	2.23	1.67	1.65	1.78	1.87	2.52	2.60	2.70	3.22	2.78	1.80	2.42	3.13

Forecast as of: August 7, 2013

<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

What are the primary risks to the outlook?

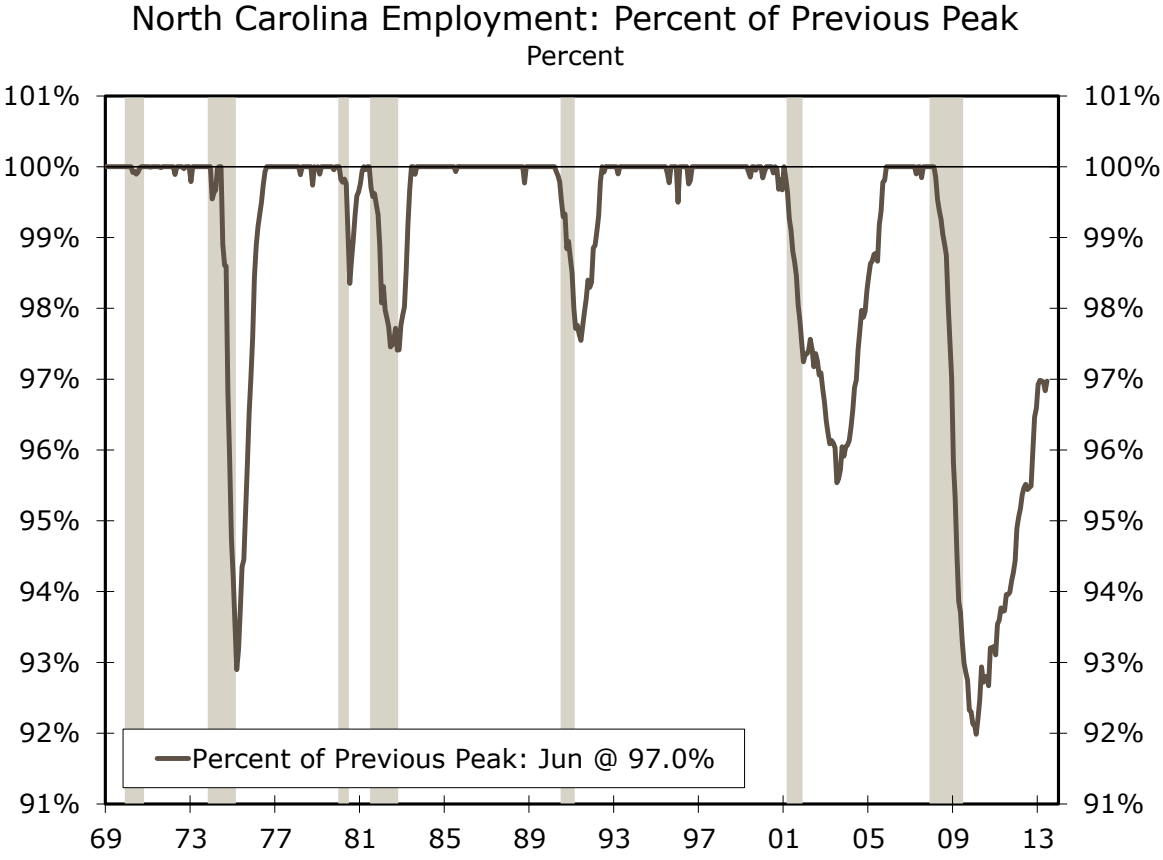
## Potential Challenges to the Outlook

- Shift in monetary policy raises questions about the dollar, inflation and especially interest rates
- Fiscal policy: tax increases and/or spending cuts face unsustainable long-run outlook
- Housing: unable to sustain growth on its own if rates rise?
- European debt crisis weighs on global growth and global credit allocation
- Modest employment growth means less-than-expected real income and spending growth for some consumer segments

# North Carolina

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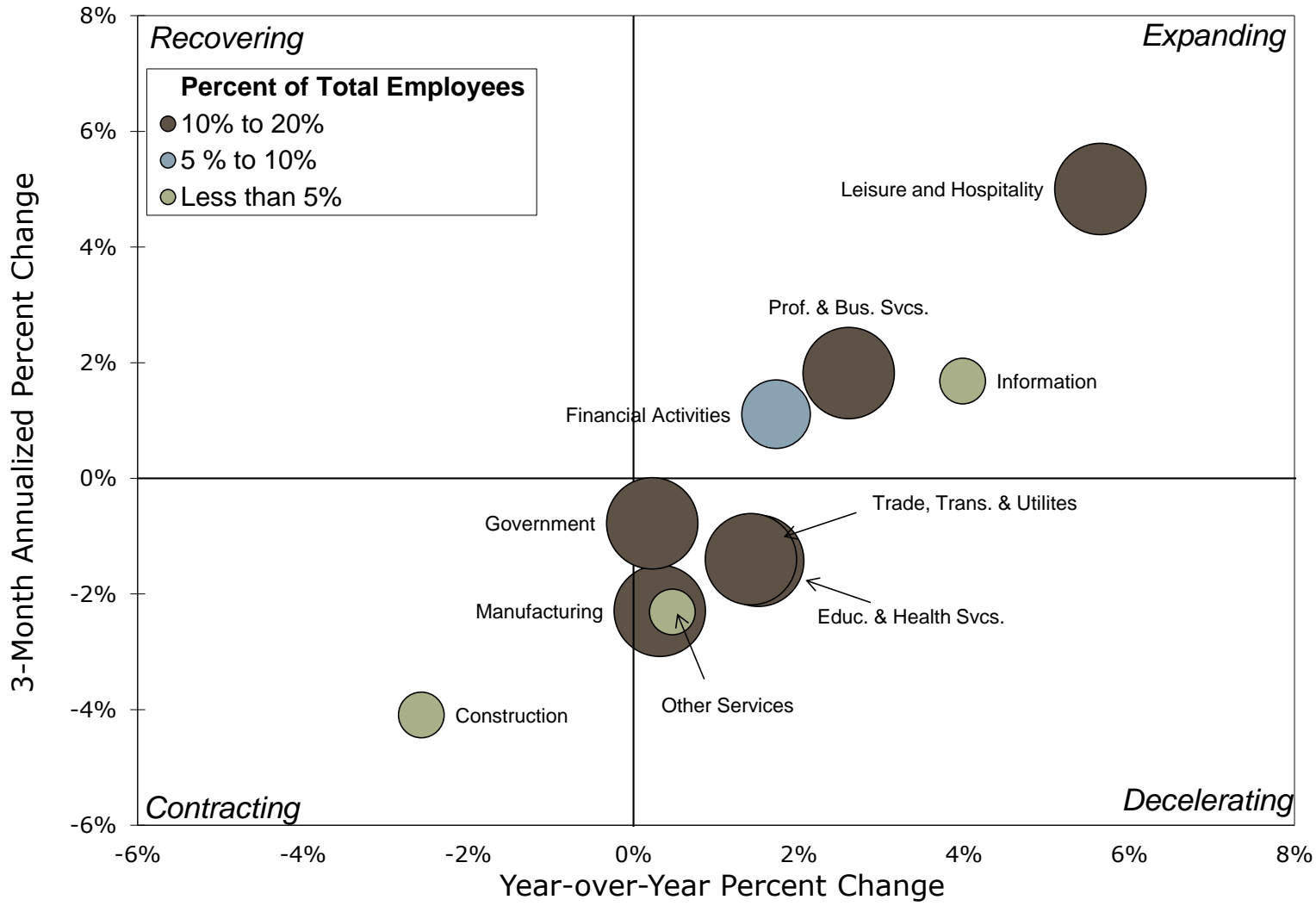
Nonfarm payrolls remain 3.0 percentage points below their prerecession peak



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

## North Carolina Employment Growth by Industry

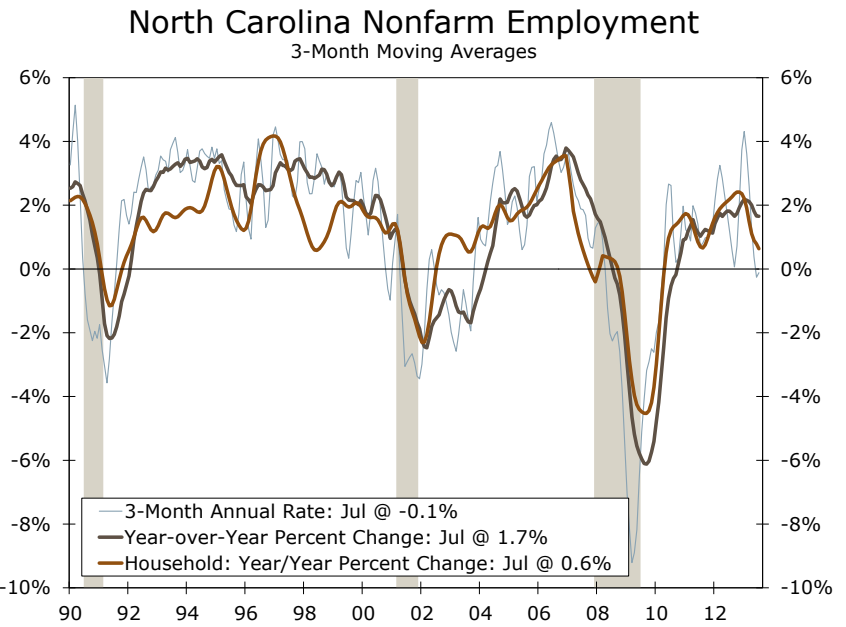
3-Month Moving Averages, July 2013



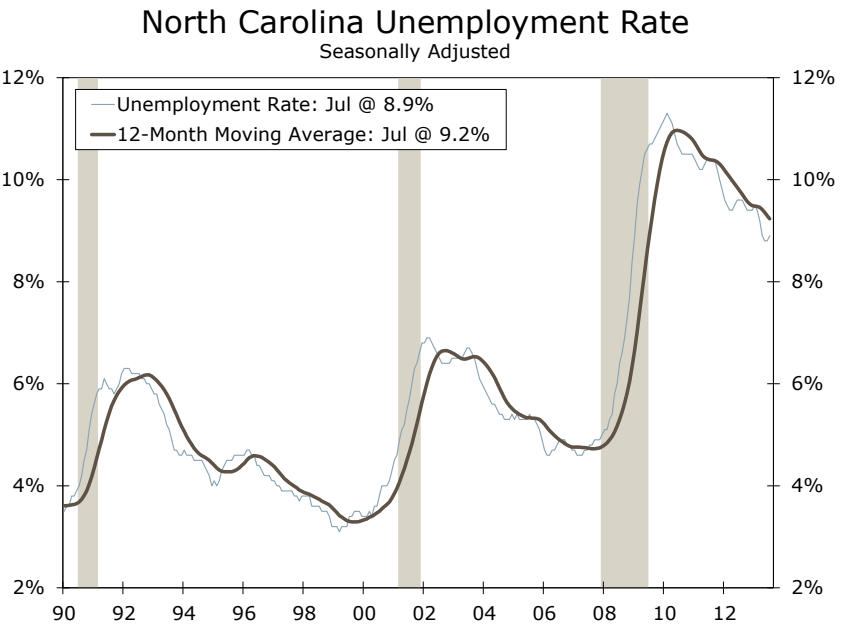
Source: US Department of Labor and Wells Fargo Securities, LLC

North Carolina’s labor market has improved over the past year, but the unemployment rate remains elevated

**Employment**



**Unemployment Rate**

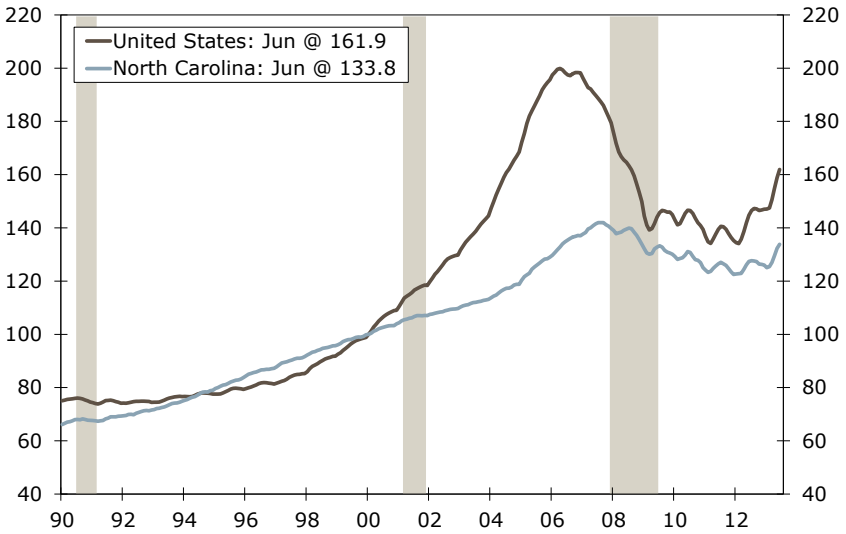


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The housing market recovery is gaining momentum off of an incredibly low base. Apartment construction has been red hot in Raleigh and Charlotte.

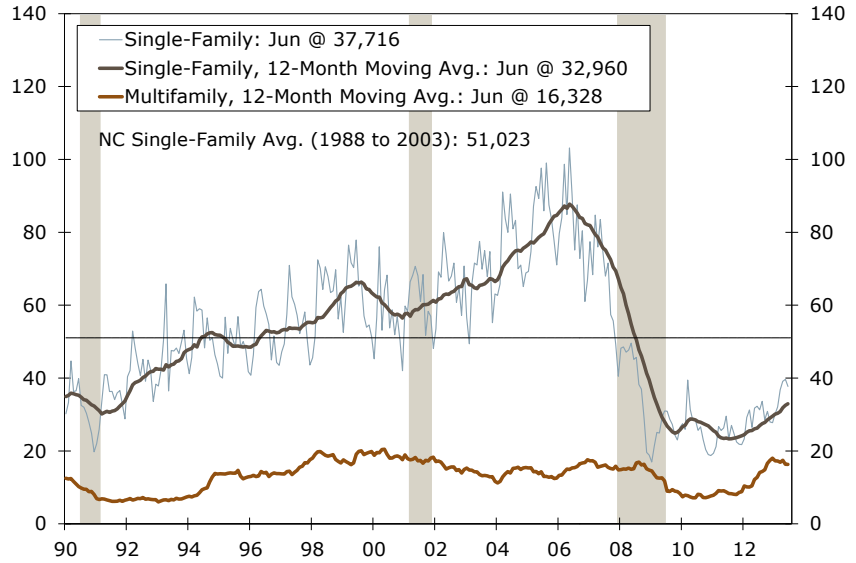
## Home Prices

**CoreLogic HPI: NC vs. U.S.**  
Index, 2000=100, Not Seasonally Adjusted



## Housing Permits

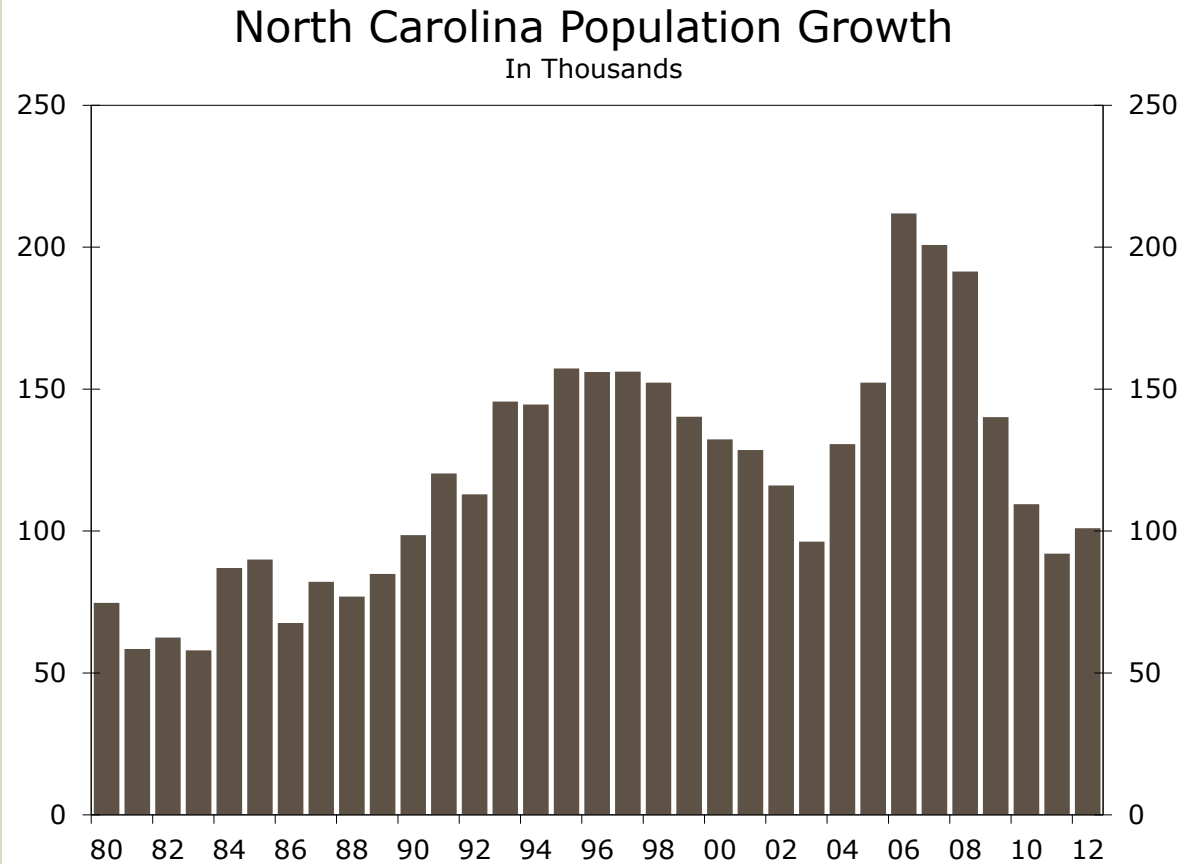
**North Carolina Housing Permits**  
Thousands of Permits, Seasonally Adjusted Annual Rate



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



North Carolina population growth picked up slightly in the past year.

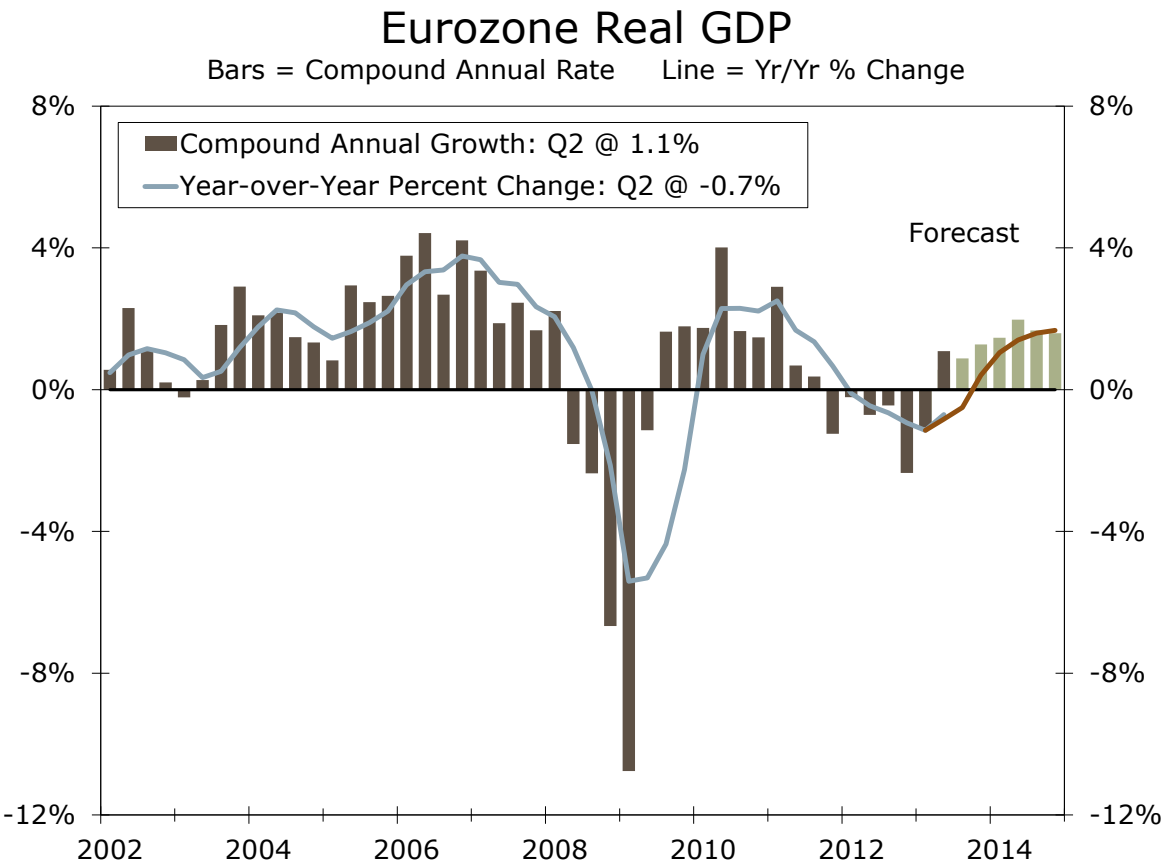


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# The Global Economy

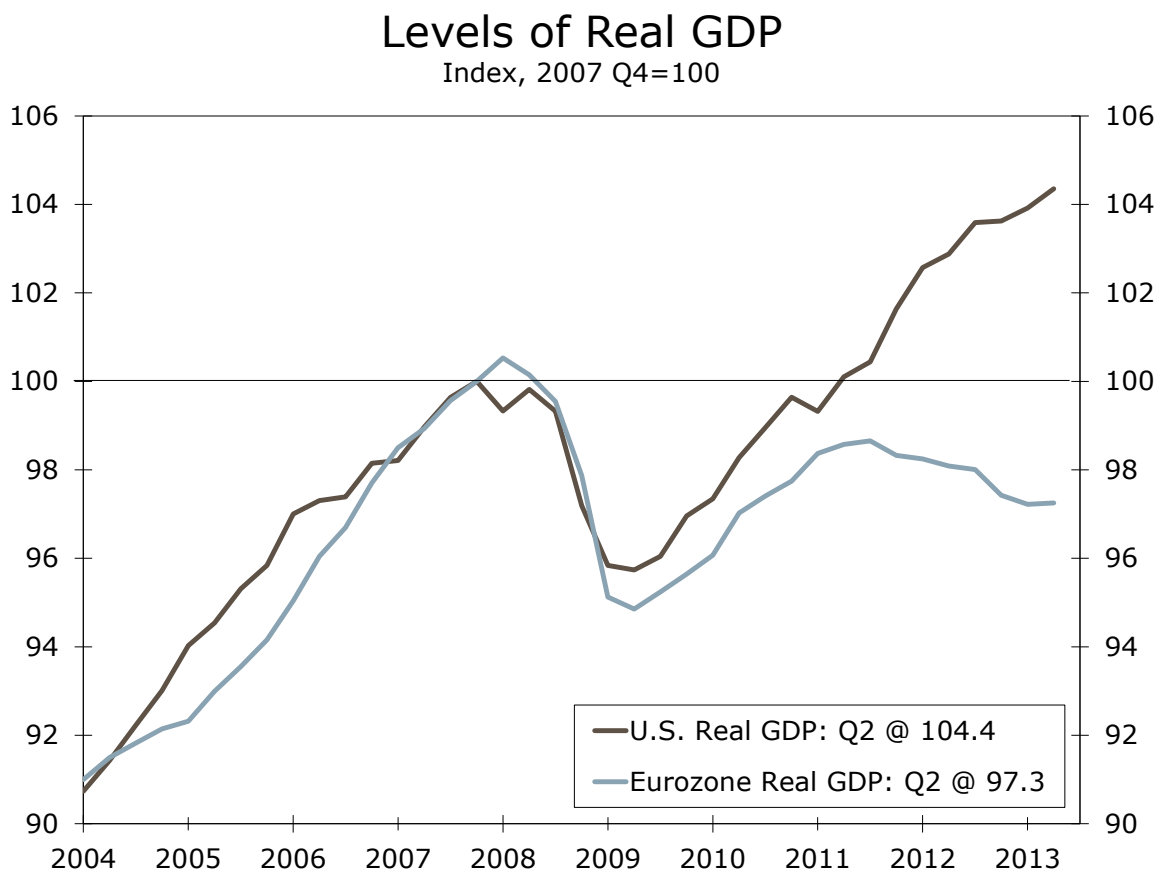
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The Eurozone has recently exited recession



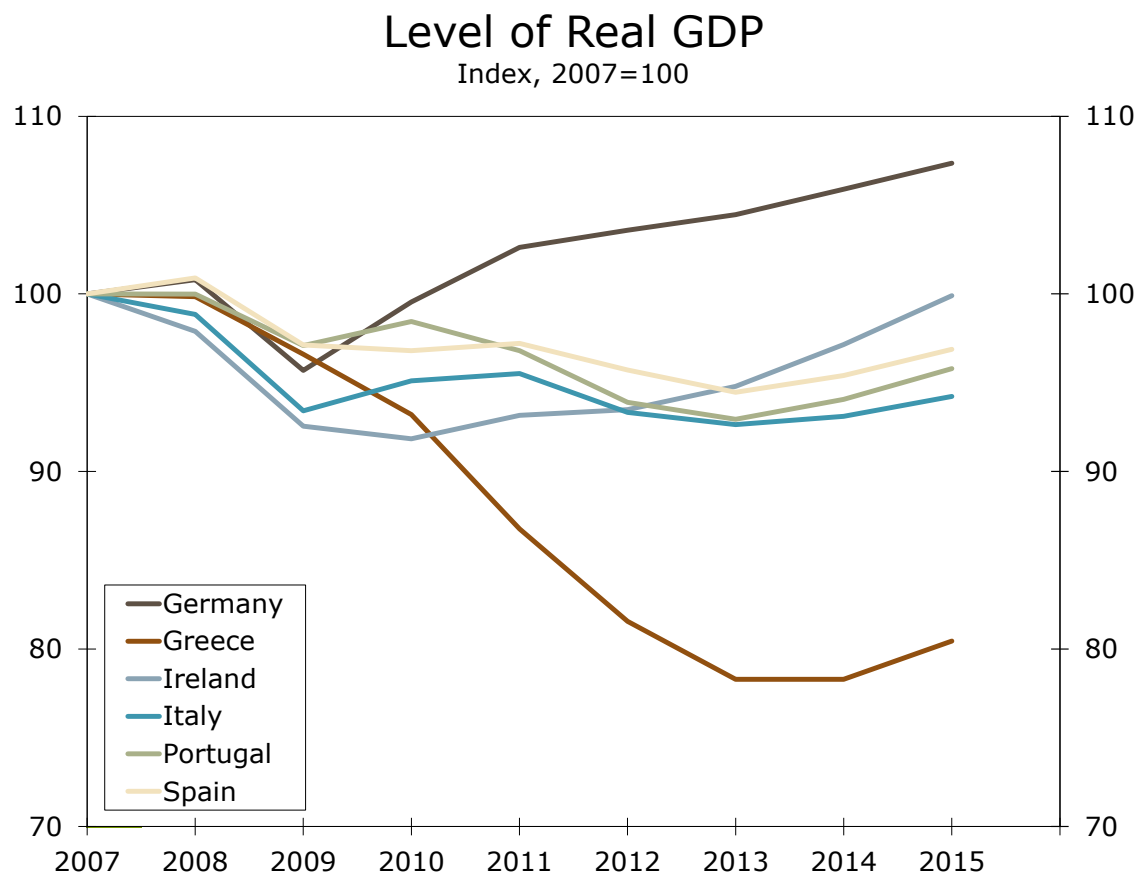
Source: IHS Global Insight and Wells Fargo Securities, LLC

Real GDP in the United States has surpassed its pre-crisis peak while the Eurozone still remains in the hole



Source: IHS Global Insight and Wells Fargo Securities, LLC

The economies of the highly indebted countries are smaller today than they were in 2007

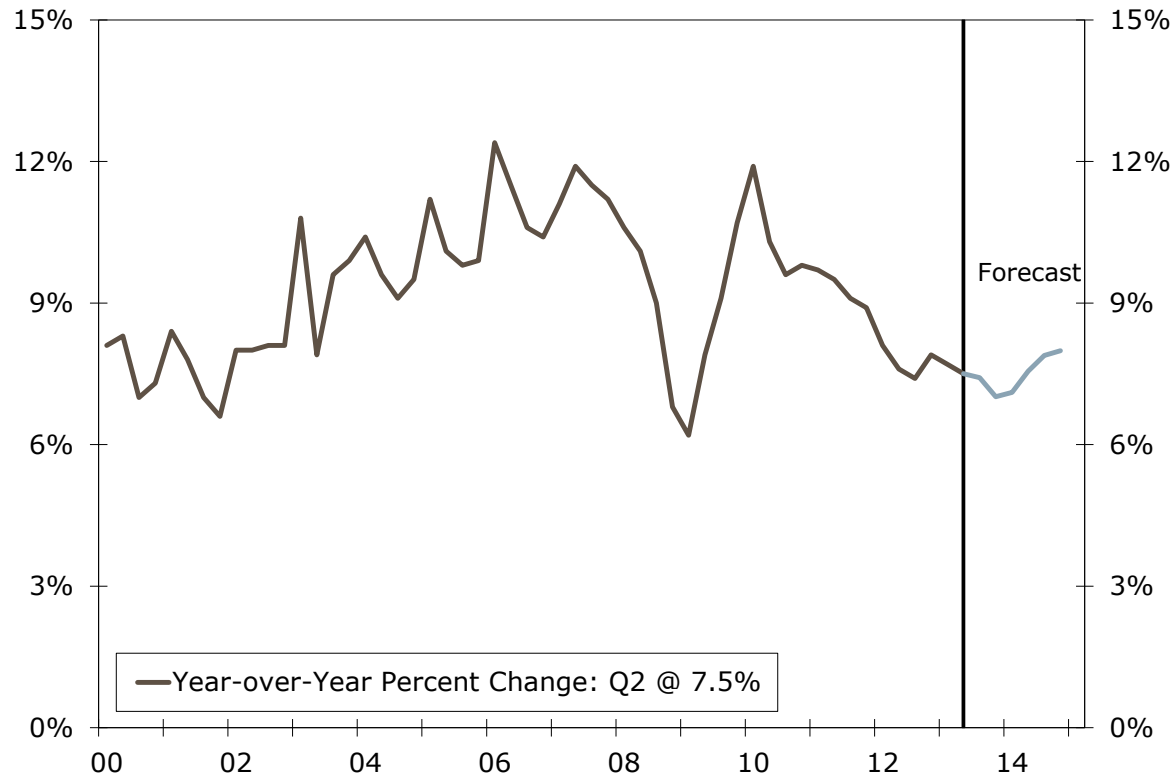


Source: International Monetary Fund and Wells Fargo Securities, LLC

Growth in China should strengthen, but not back to rates that prevailed in the last decade

### Chinese Real GDP Forecast

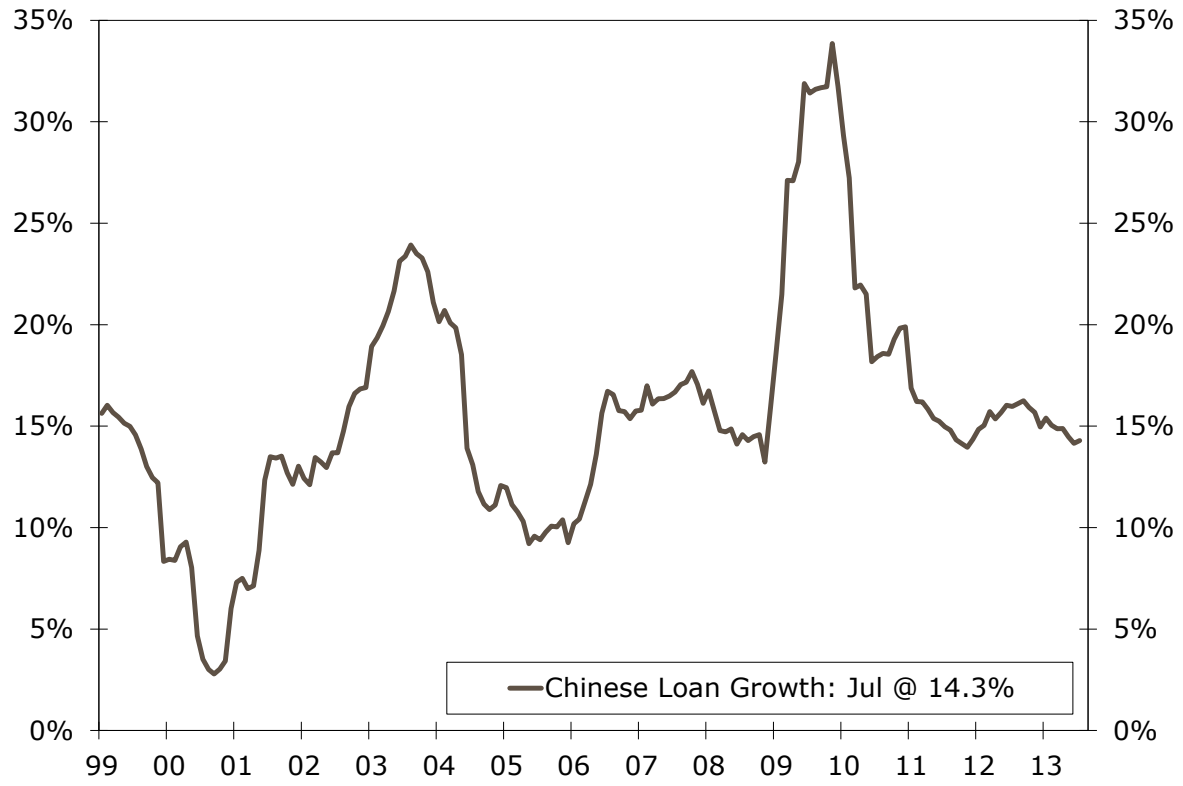
Year-over-Year Percent Change



Source: Bloomberg LP and Wells Fargo Securities, LLC

Loan growth in China is stabilizing

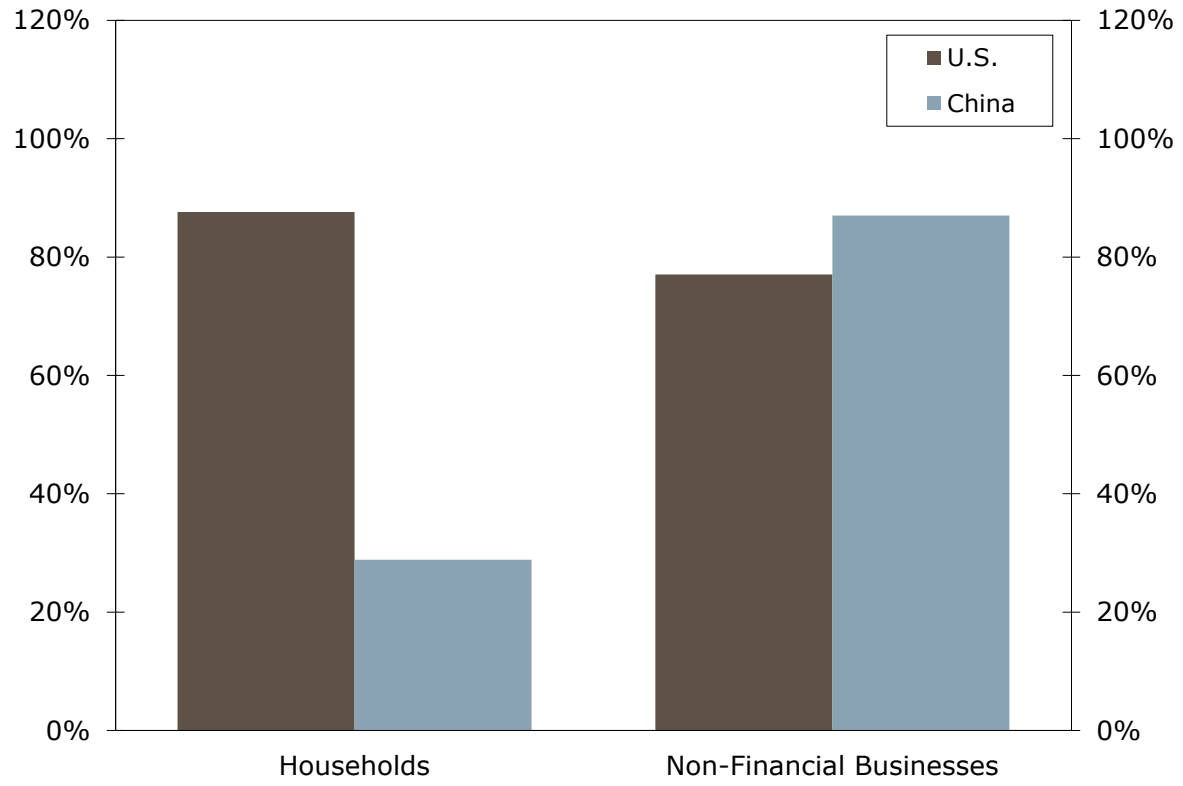
Chinese Loan Growth  
Year-over-Year Percent Change



Source: CEIC and Wells Fargo Securities, LLC

The Chinese economy is not significantly levered

Loans Outstanding by Sector  
As a Percent of GDP



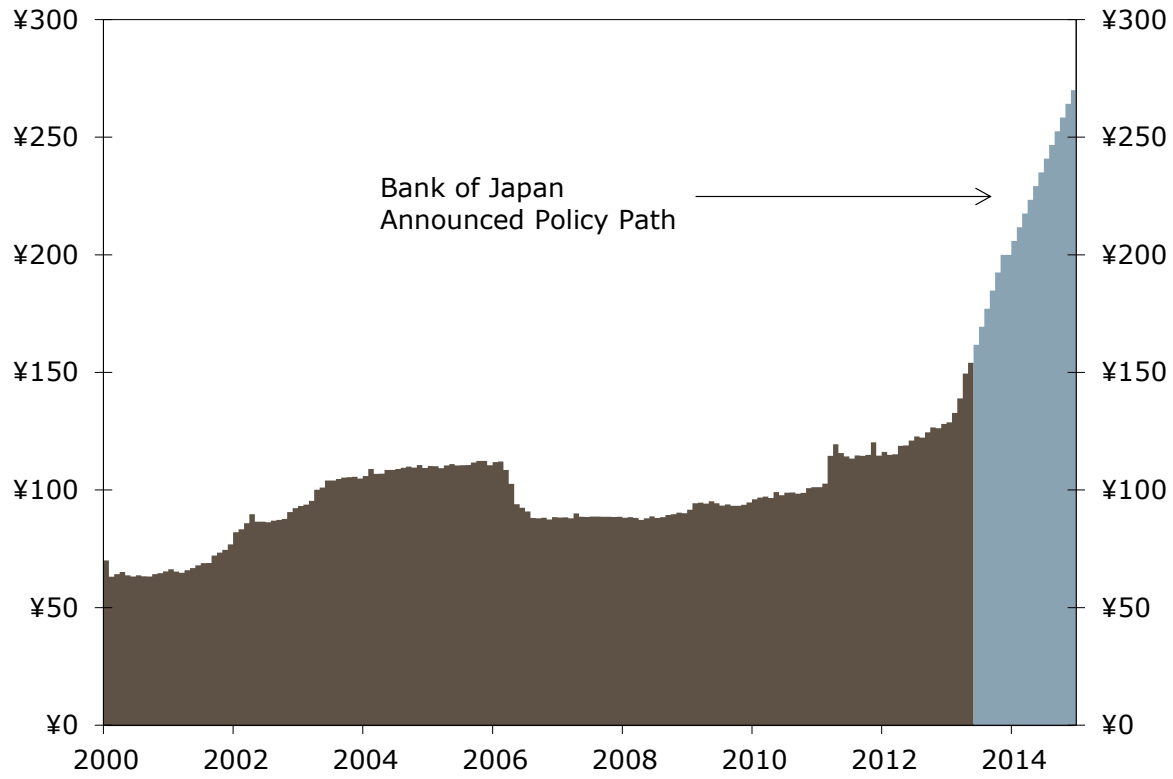
Source: CEIC, U.S. Department of Commerce and Wells Fargo Securities, LLC



The expansion of the monetary base will expand the size of the BoJ's balance sheet considerably

### Japan's Monetary Base

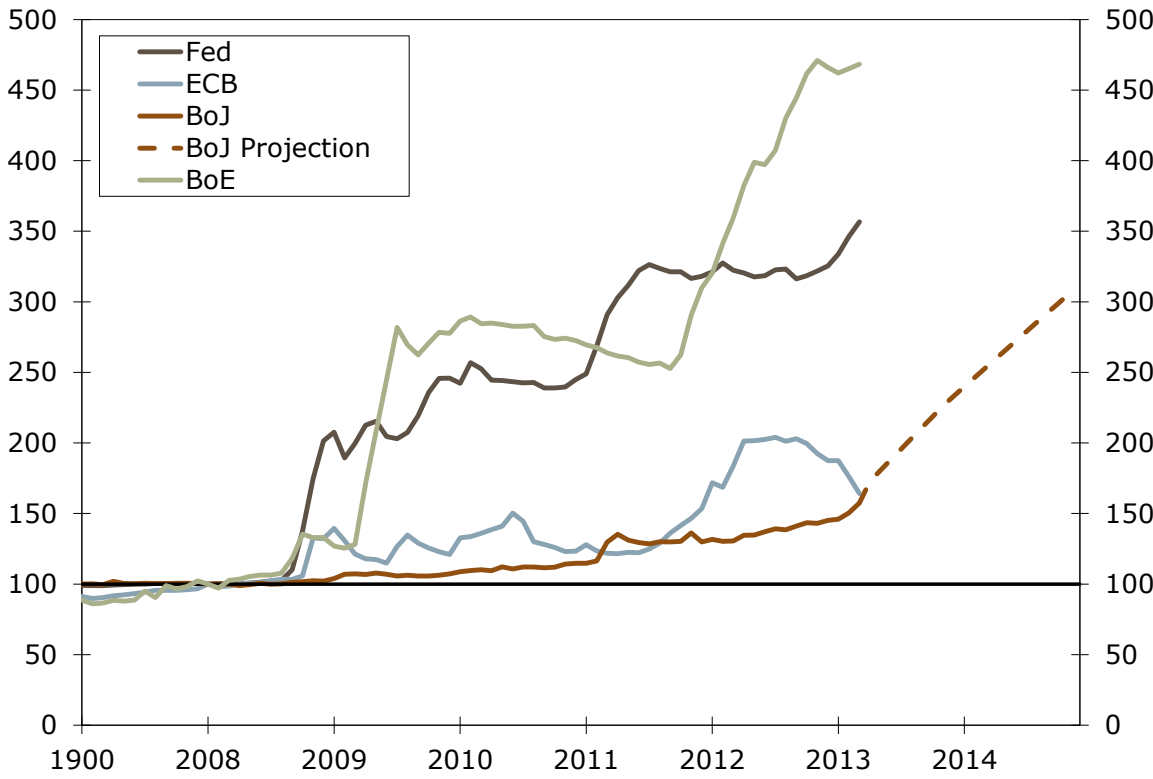
Trillions of Yen



Source: Bank of Japan, IHS Global Insight and Wells Fargo Securities, LLC

The planned expansion of the monetary base in Japan is really just playing catch-up ball with the Fed and ECB

Central Bank Monetary Base  
January 2008 = 100



Source: Bank of Japan, Bloomberg LP and Wells Fargo Securities, LLC

Growth in the global economy likely will remain slow in 2013 before picking up somewhat in 2014

### Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2012	2013	2014	2012	2013	2014
Global (PPP weights)	3.2%	2.9%	3.7%	3.9%	4.0%	4.2%
Global (Market Exchange Rates)	2.5%	2.5%	3.5%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	1.2%	1.1%	2.1%	2.0%	1.2%	1.7%
United States	2.8%	1.4%	2.1%	1.8%	1.3%	1.9%
Eurozone	-0.5%	-0.5%	1.4%	2.5%	1.4%	1.6%
United Kingdom	0.2%	1.1%	2.2%	2.8%	2.4%	2.1%
Japan	1.9%	2.0%	1.7%	0.0%	0.3%	1.5%
Korea	2.0%	2.8%	3.7%	2.2%	1.3%	2.7%
Canada	1.7%	1.7%	2.3%	1.5%	1.1%	1.9%
Developing Economies <sup>1</sup>	5.1%	4.7%	5.3%	5.9%	6.7%	6.5%
China	7.7%	7.4%	7.6%	2.7%	2.5%	2.7%
India	5.0%	5.5%	6.2%	9.7%	10.5%	9.6%
Mexico	3.9%	2.0%	3.1%	4.1%	4.2%	4.6%
Brazil	0.9%	2.2%	2.8%	5.4%	6.4%	5.7%
Russia	3.4%	2.6%	3.5%	5.1%	6.7%	5.7%

Forecast as of: August 7, 2013

<sup>1</sup>Aggregated Using PPP Weights

Source: Wells Fargo Securities, LLC

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