

**WELLS  
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# 2014 GFOASC Fall Meeting Global Economic Outlook

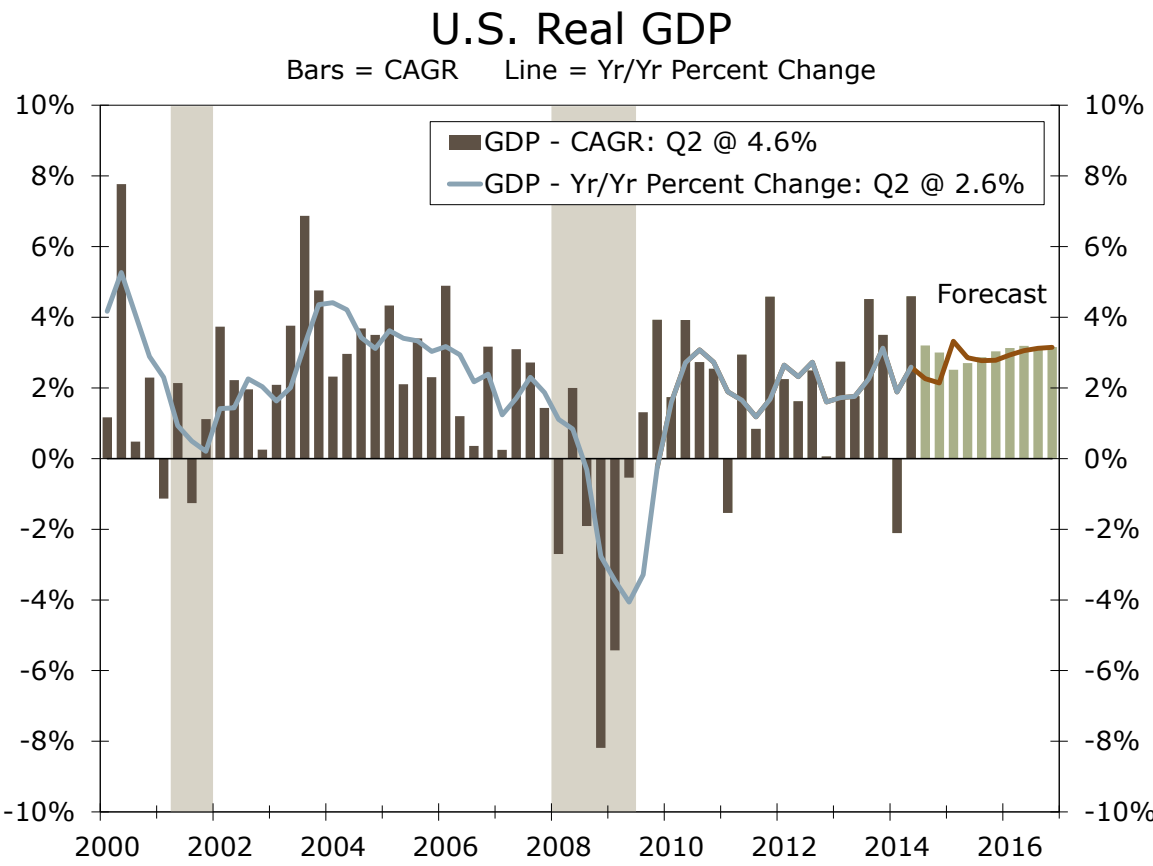
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**Tim Quinlan, Economist**  
October 14, 2014

**Together we'll go far**



Big downward revision sets up a tough base for full year growth, big rebound in Q2

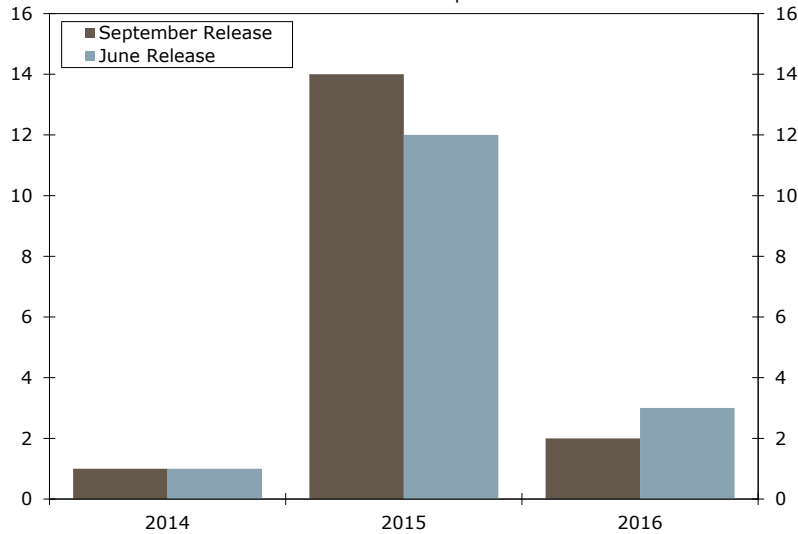


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The FOMC has reaffirmed its concern with inflation remaining below its longer-run objective, while more participants feel 2015 is the appropriate time for policy firming.

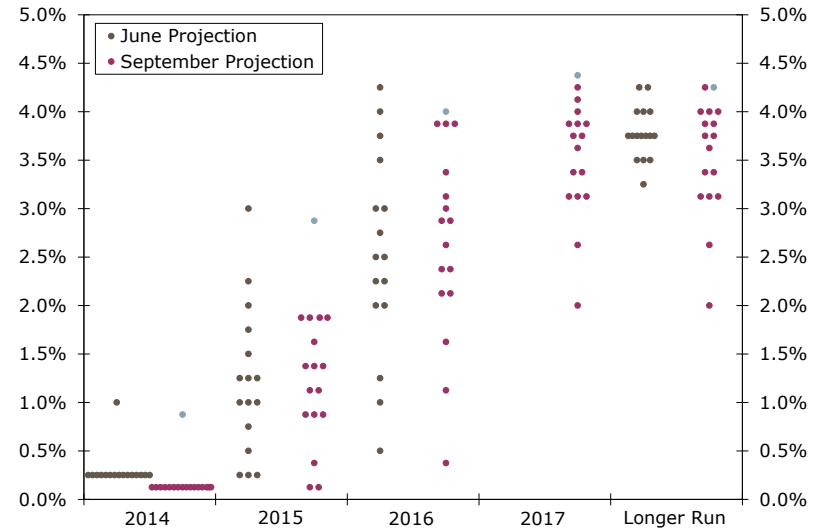
### Timing of Firming

Appropriate Timing of Policy Firming  
Number of Participants



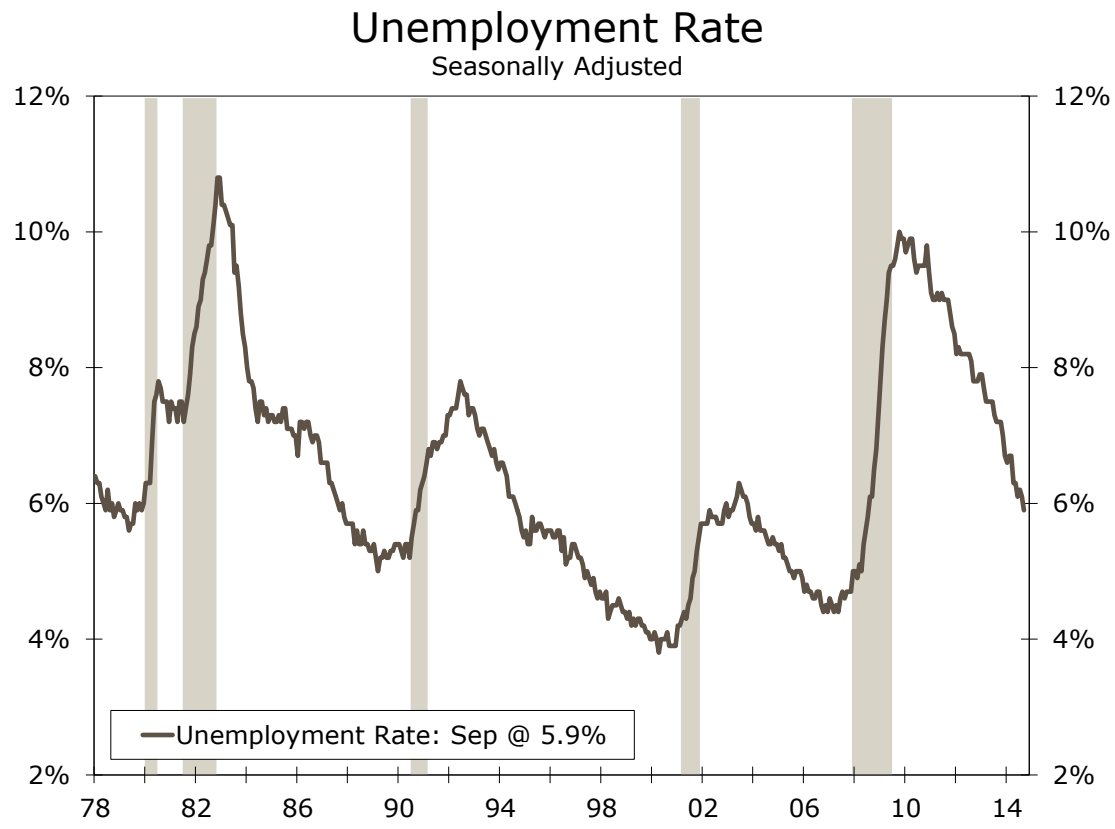
### Target Fed Funds Rate

Appropriate Pace of Policy Firming  
Target Federal Funds Rate at Year-End



Source: Federal Reserve Board and Wells Fargo Securities, LLC

“Currently, we have an unemployment rate of 7.6%, which I think, if anything, overstates the health of our labor markets...”  
-Ben Bernanke, July 2013

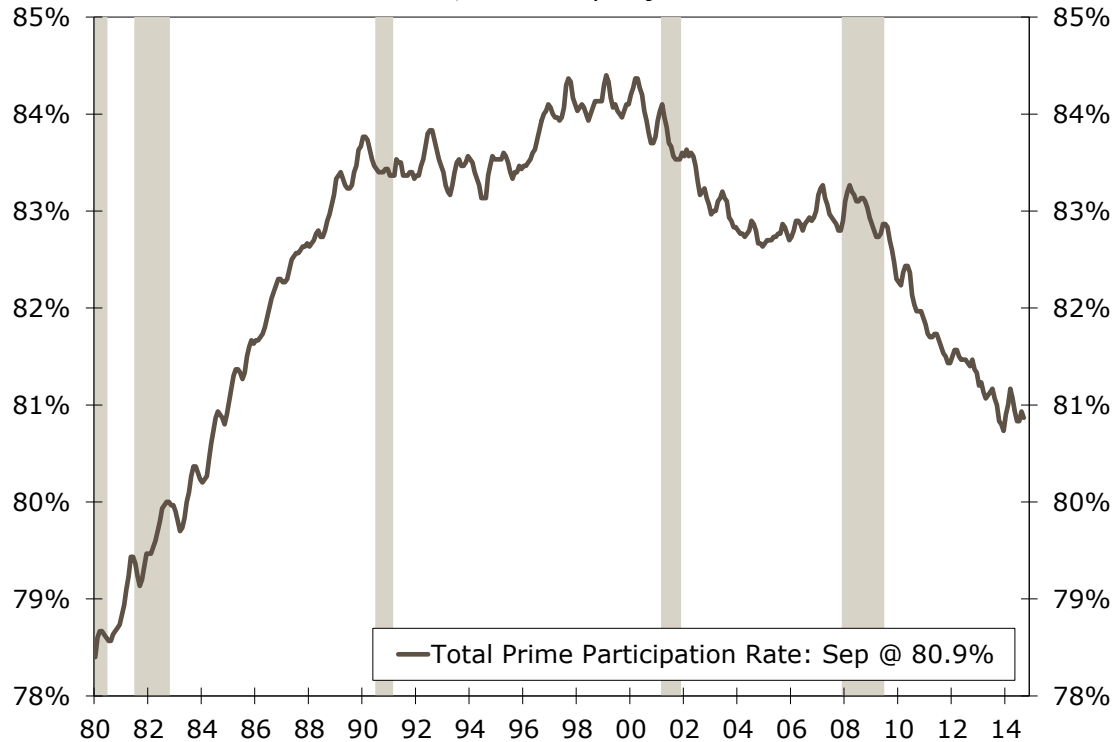


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

“...given participation rates and many other indicators of underemployment and long-term unemployment.”  
-Ben Bernanke, July 2013

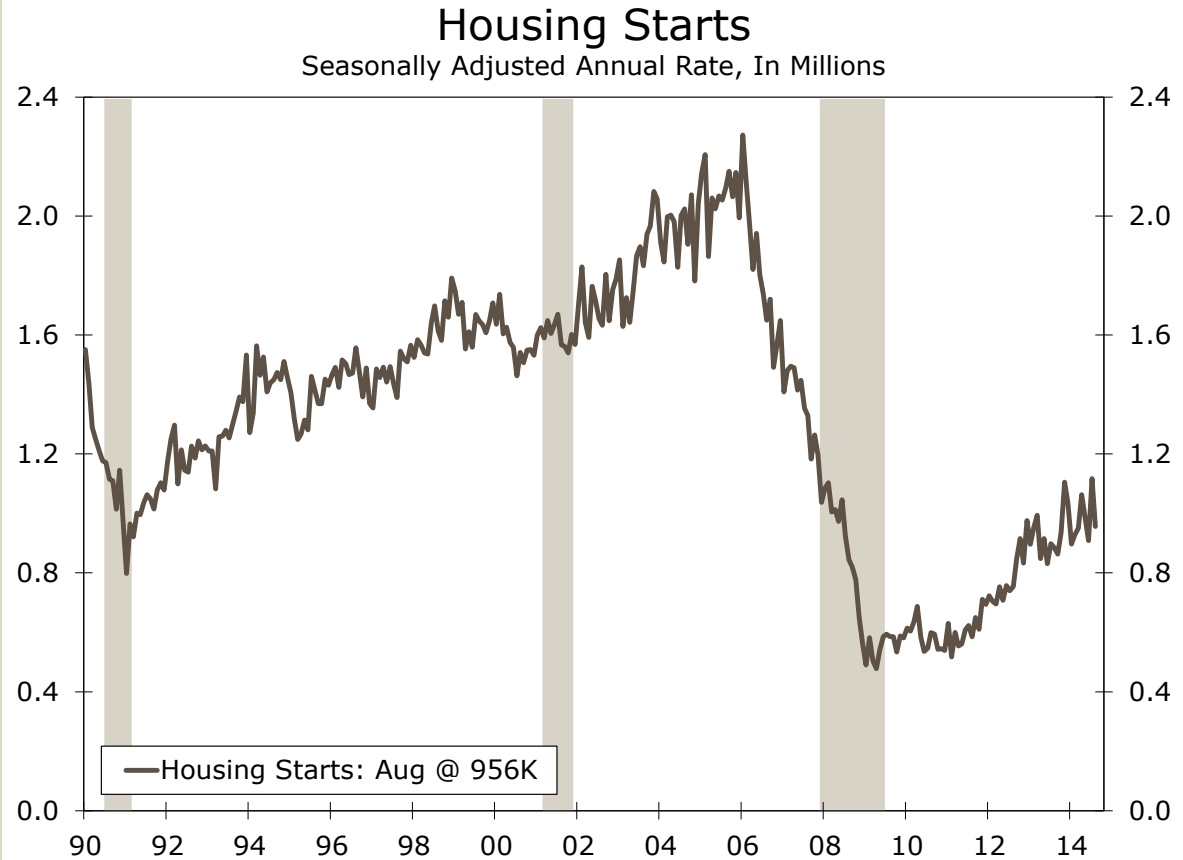
### Prime Age Labor Force Participation

25-54 Years, Seasonally Adjusted 3-MMA



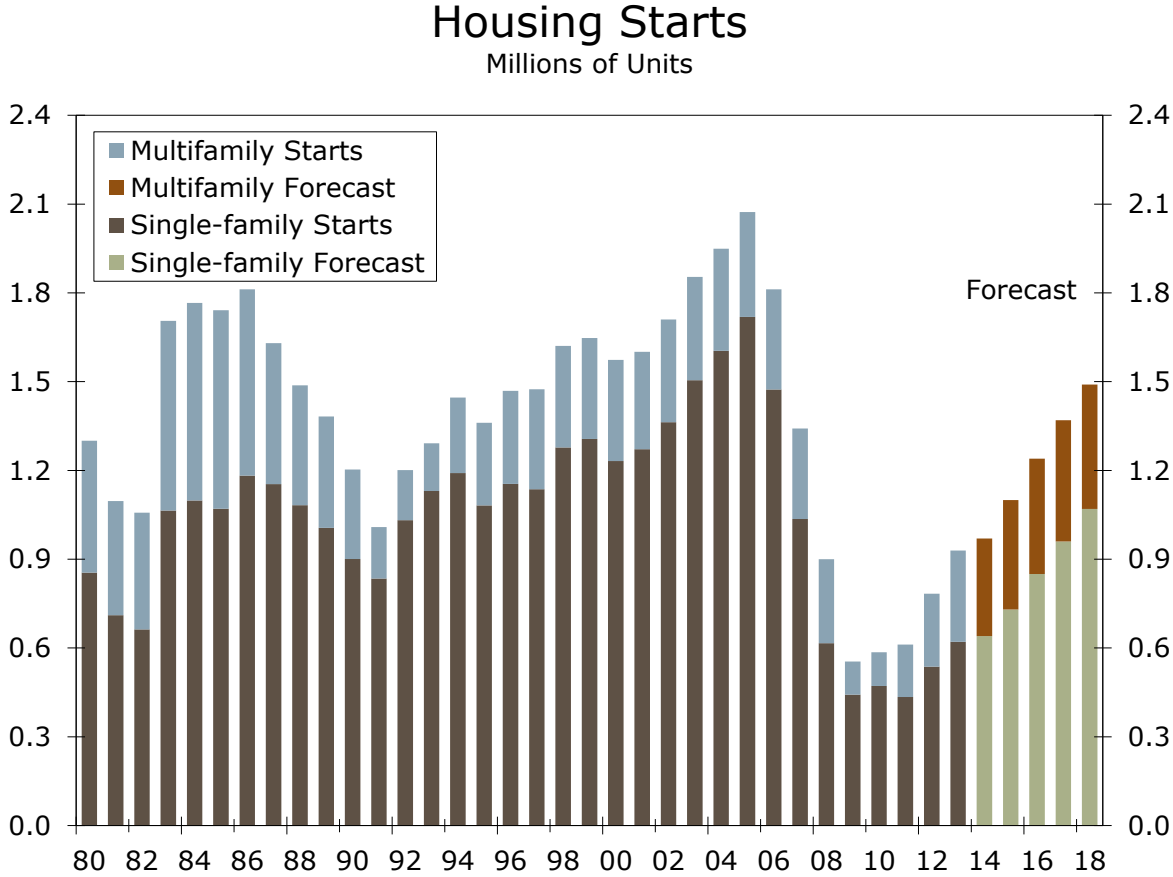
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Despite the tough start to the year, housing is a key bright spot for the outlook



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

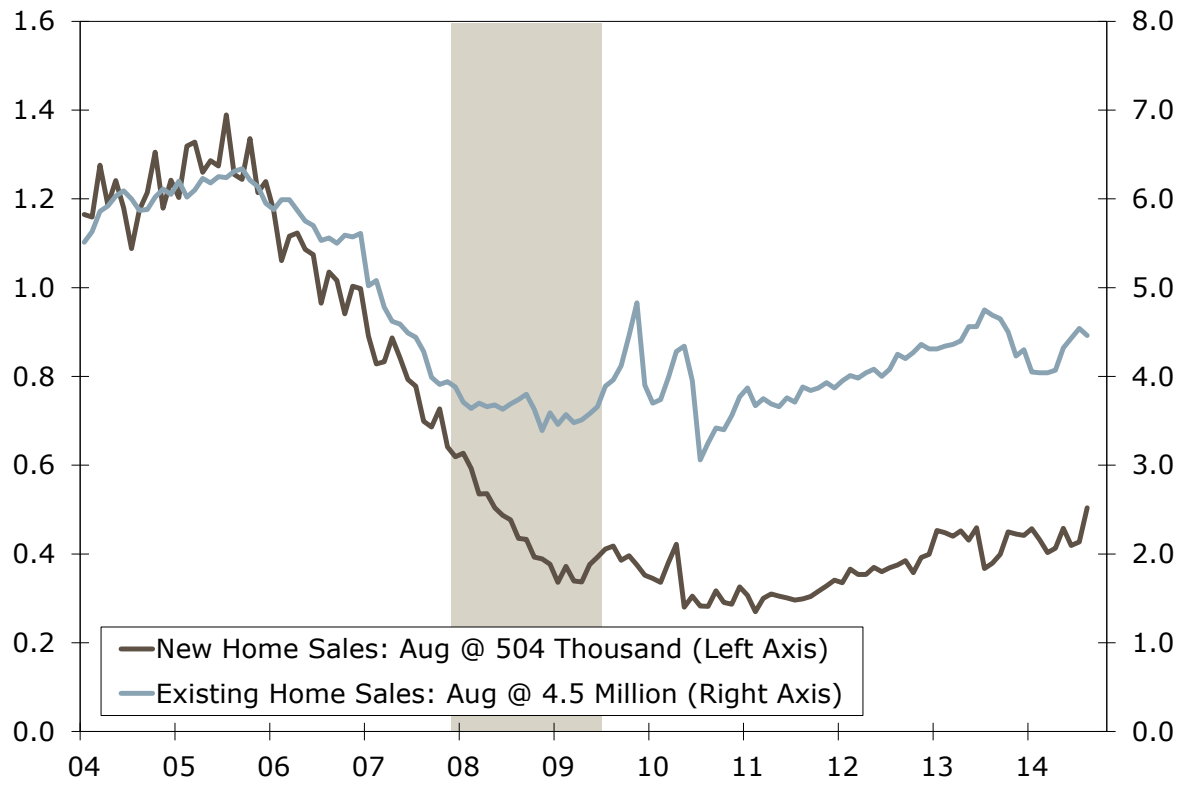
Housing starts remain well below historical levels, but are expected to increase in the coming years



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

The gap between existing and new home sales remains

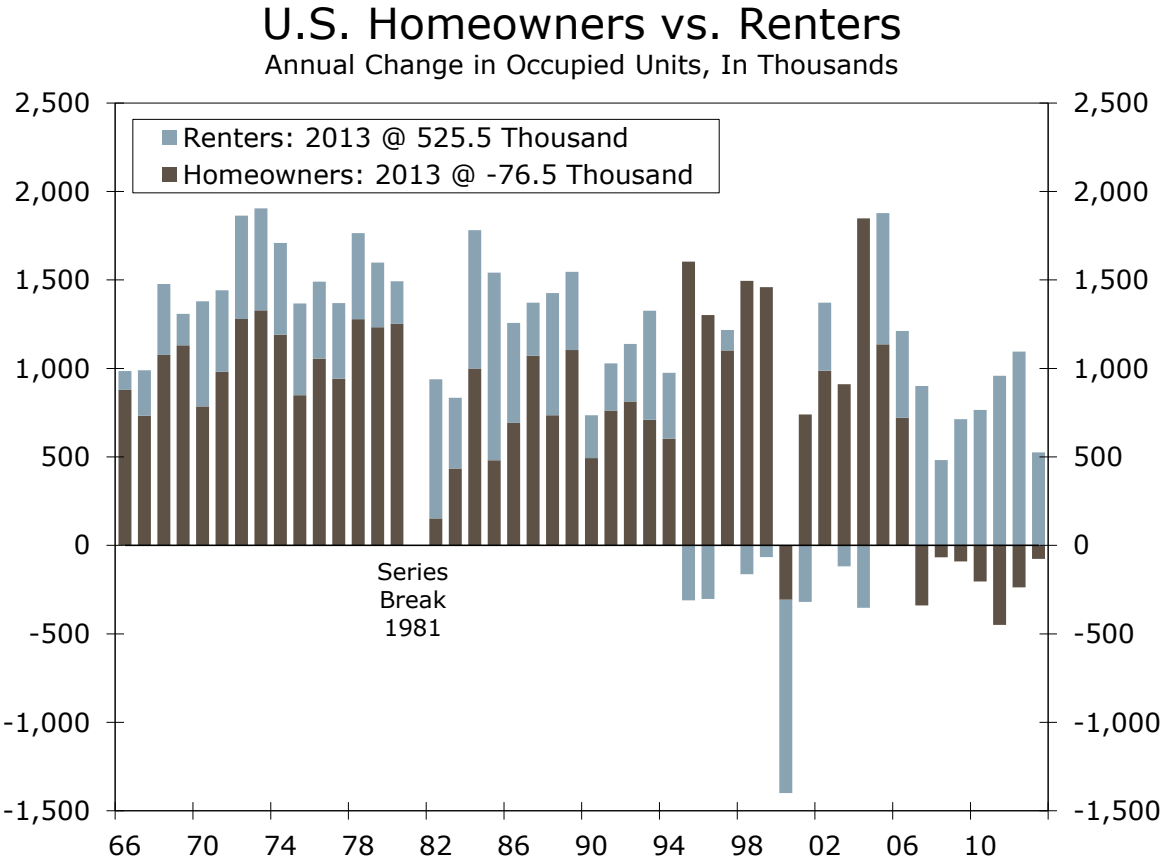
Existing & New Single-Family Home Sales  
In Millions, Seasonally Adjusted Annual Rate



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

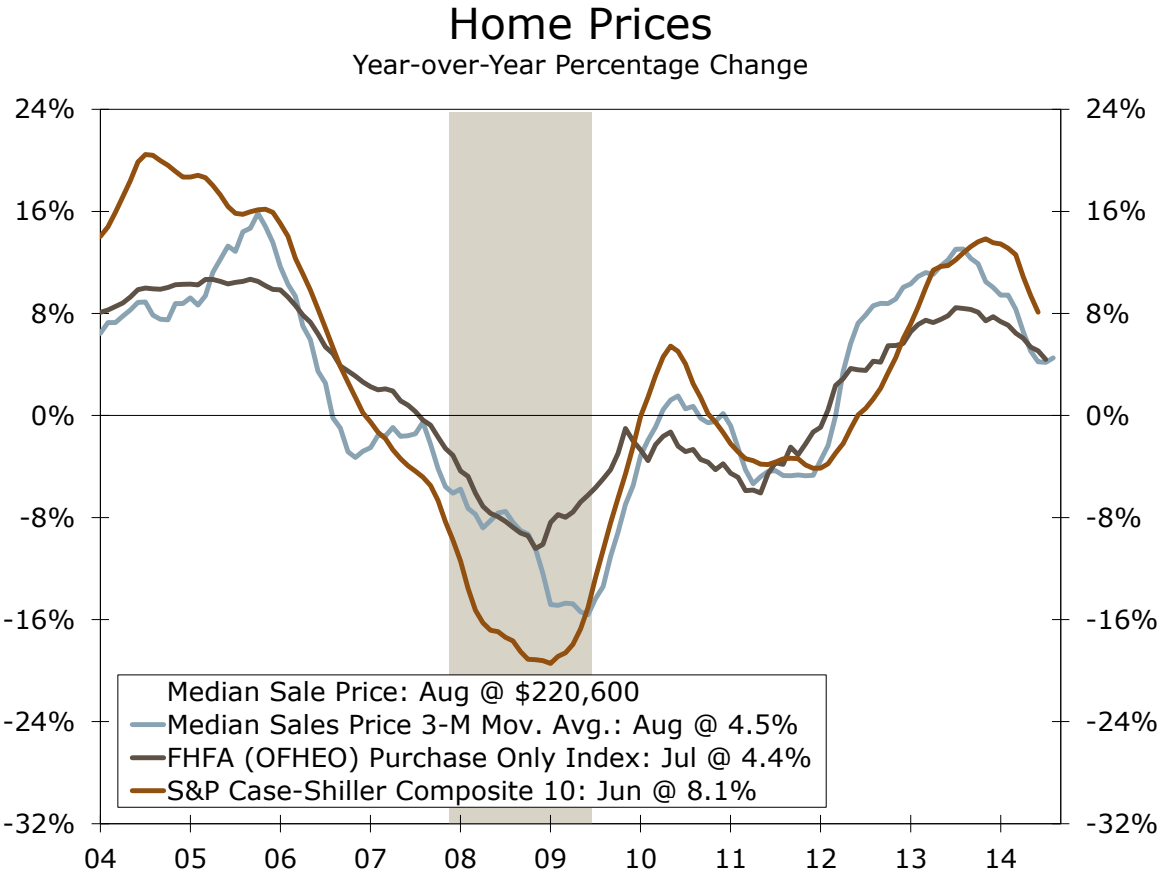


The number of renters has been accelerating steadily since 2007, while homeowners have been declining



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

Home price growth is moderating

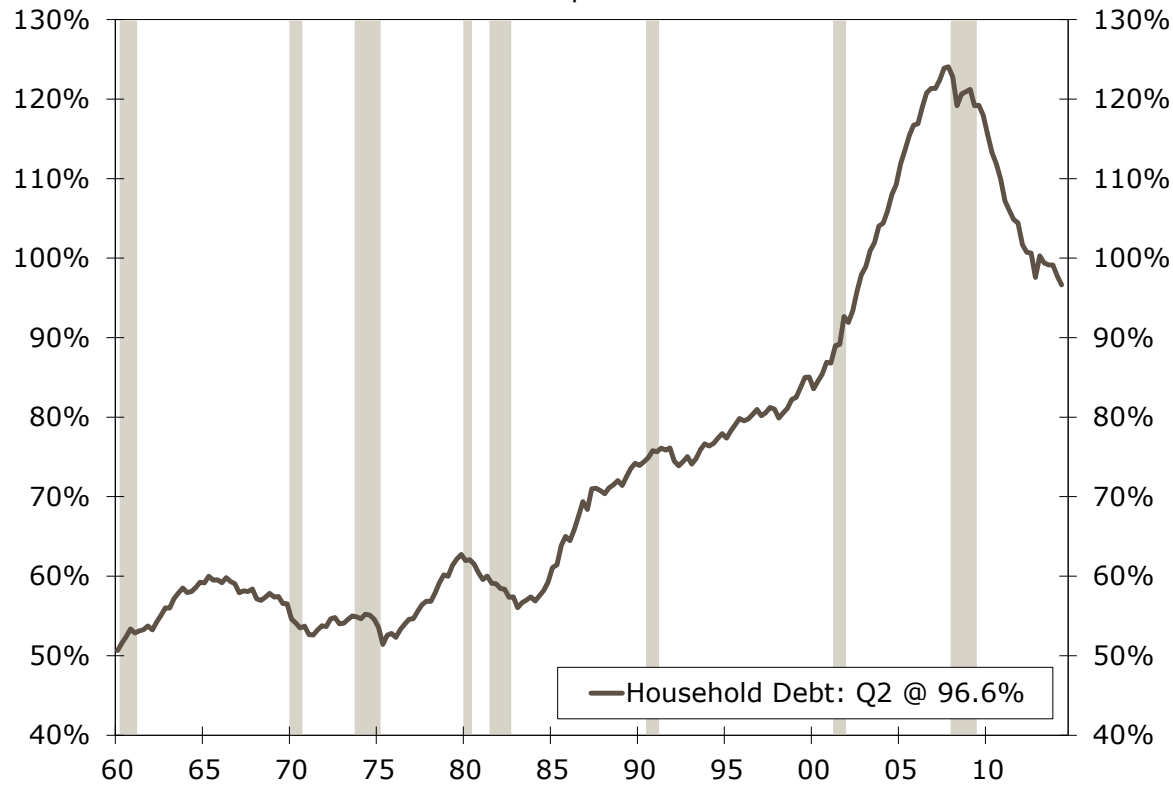


Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

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

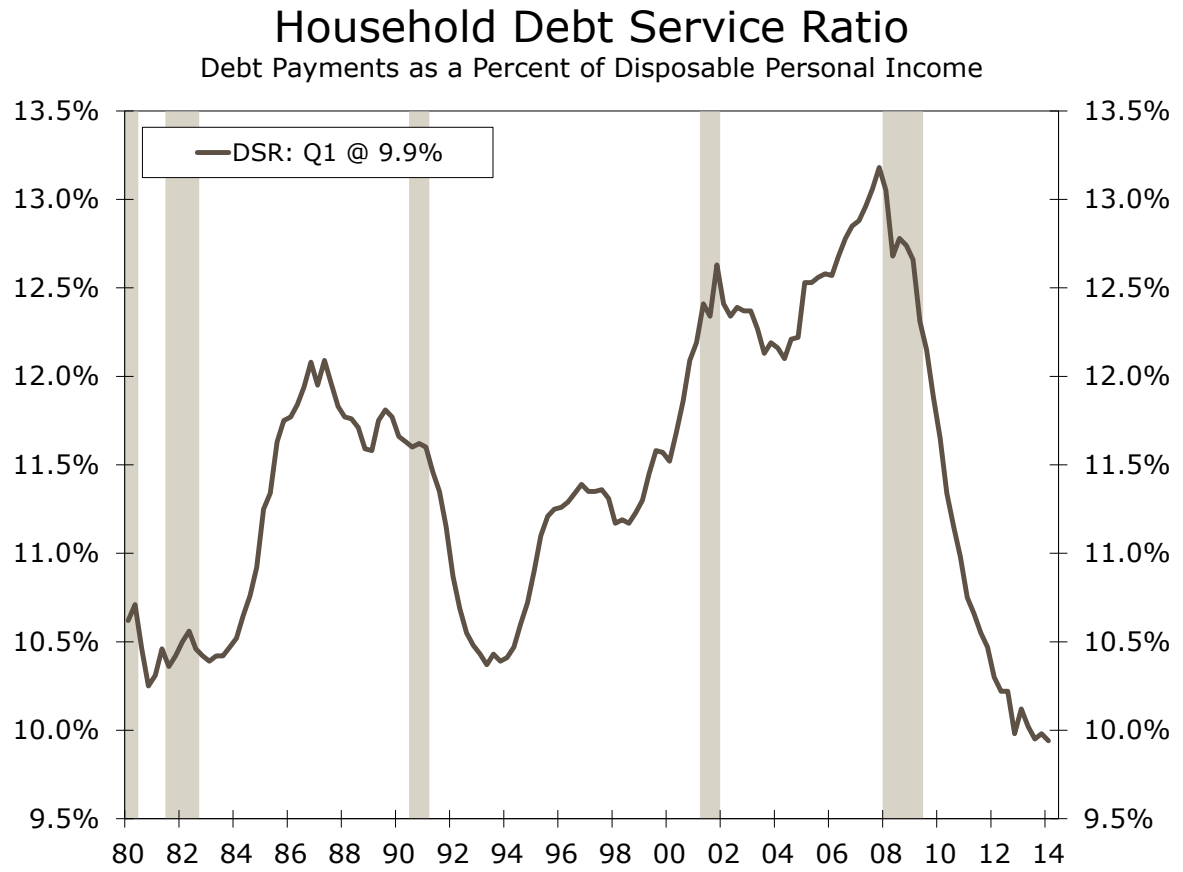
### Household Debt - Consumer & Mortgage

As a Percent of Disposable Personal Income



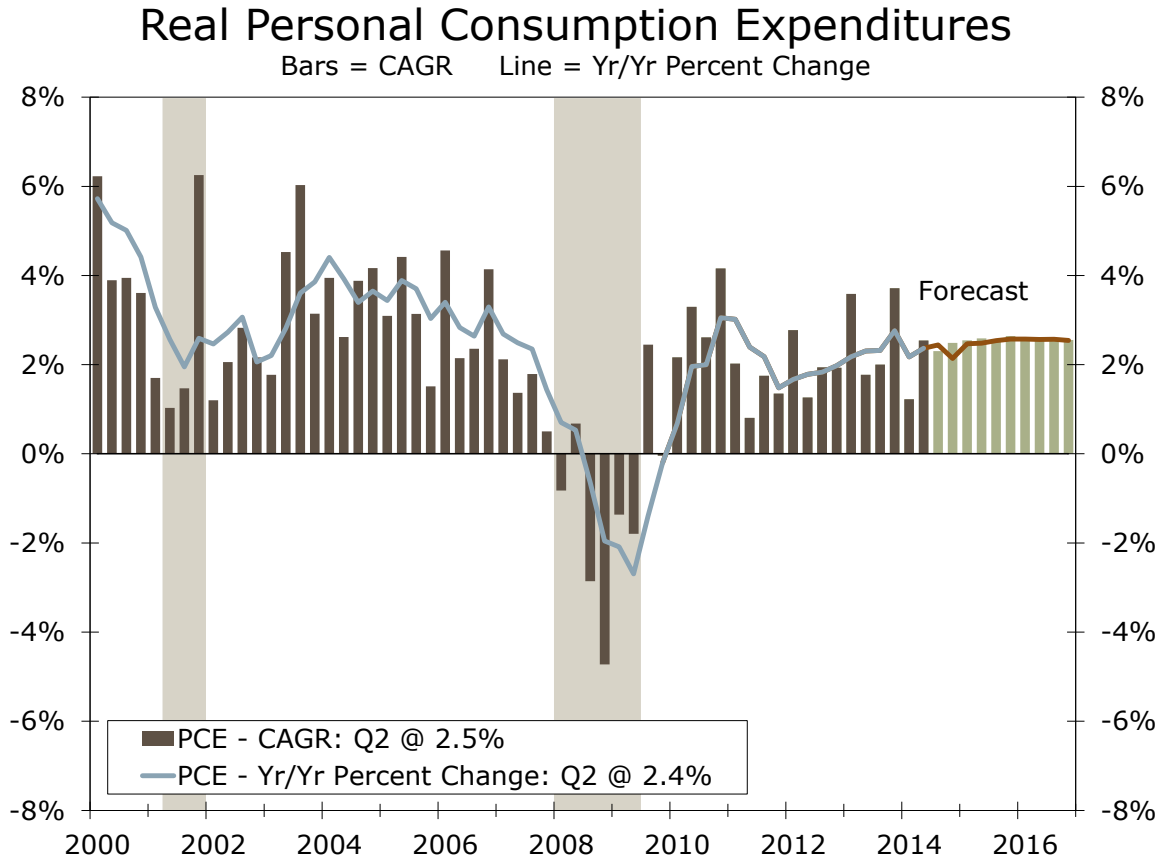
Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Securities, LLC

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

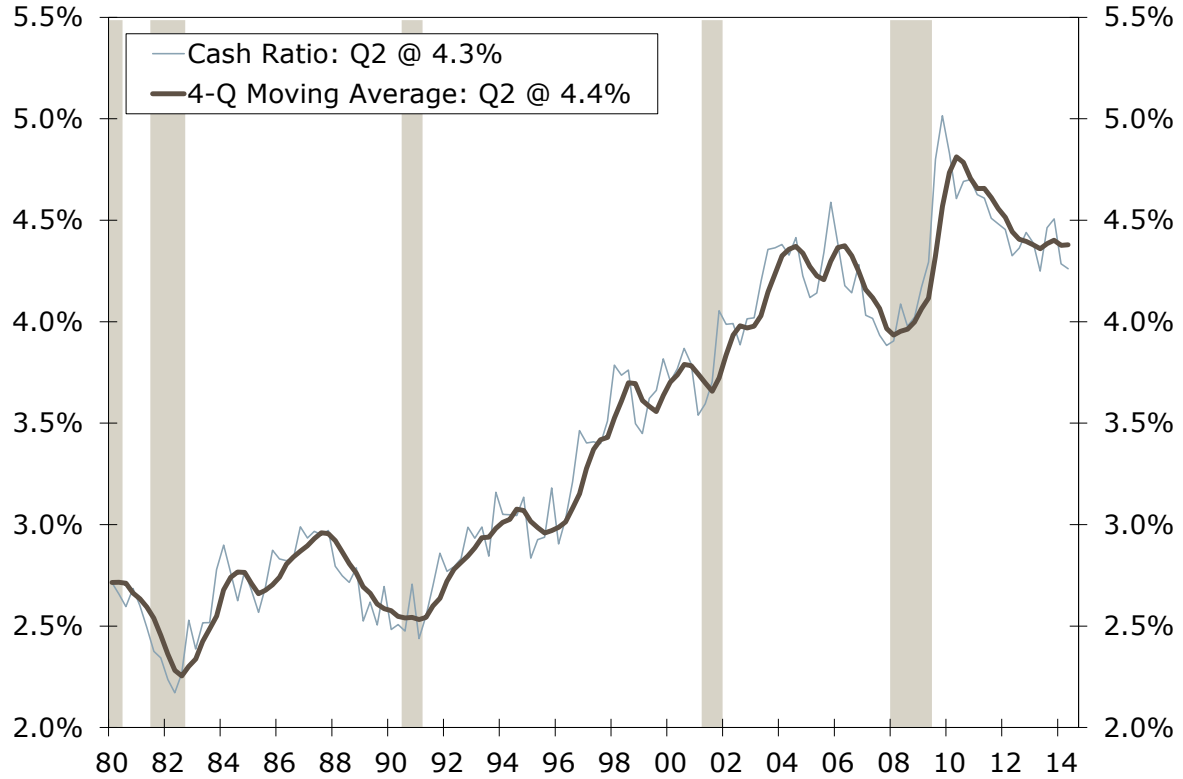


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The financial health of the corporate sector is very strong

### U.S. Nonfin. Corporate Cash Holdings

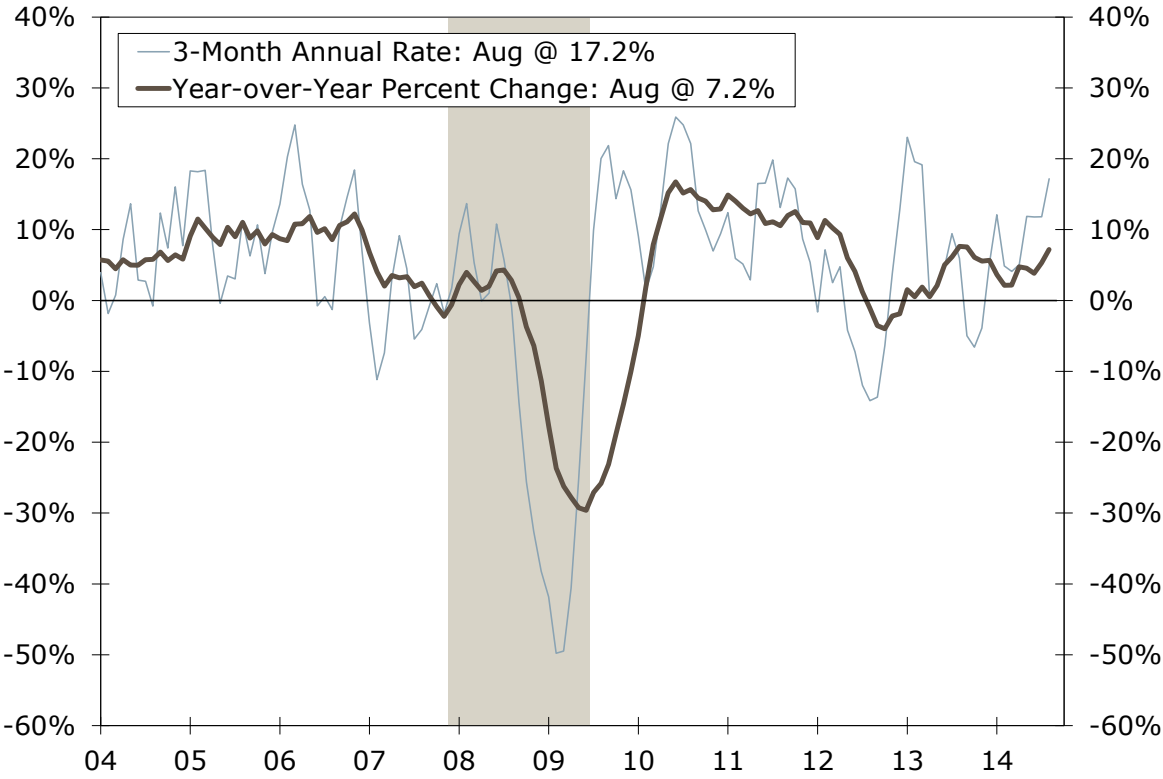
Total Assets Market Value, U.S. Nonfinancial Corporations



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Orders and production are gaining momentum

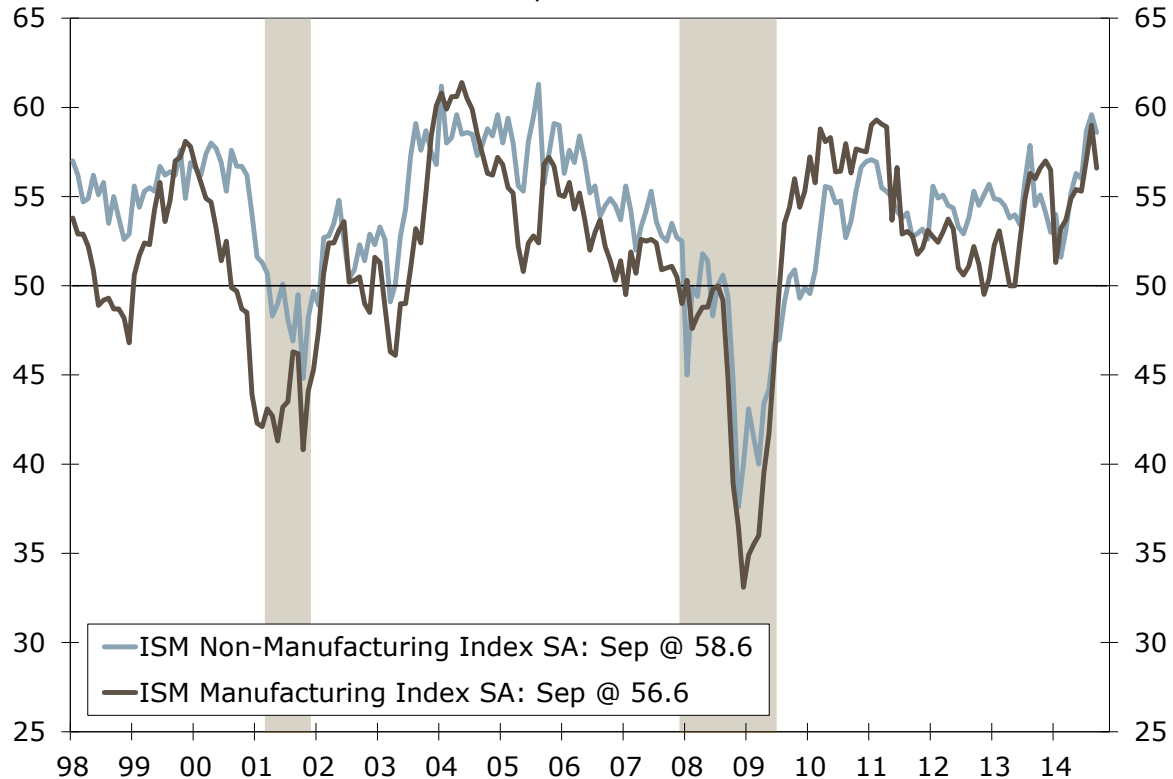
Nondefense Capital Goods Orders, Ex-Aircraft  
Series Are 3-Month Moving Averages



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

Business activity is still growing, and at an accelerating pace in both the manufacturing and service sectors

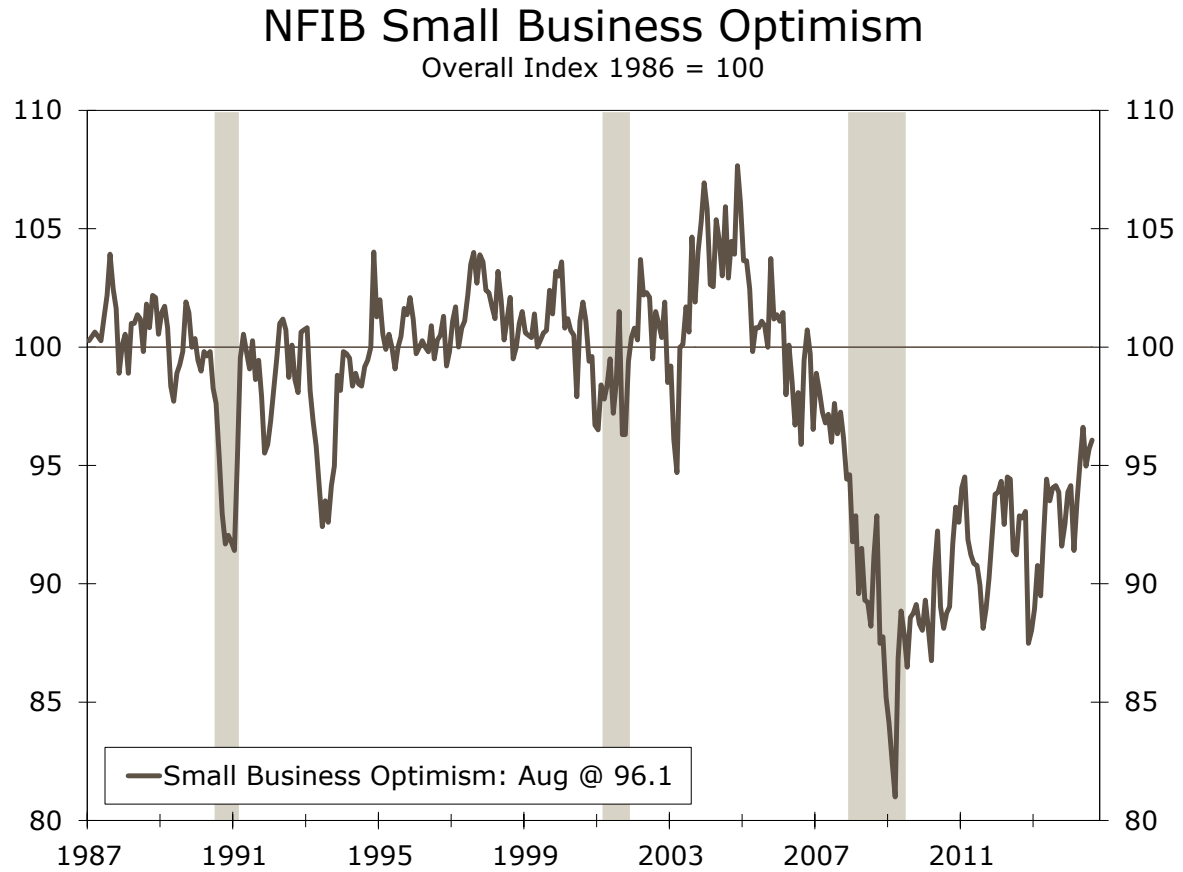
### ISM Manufacturing & Non-Manufacturing Composite Index



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



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

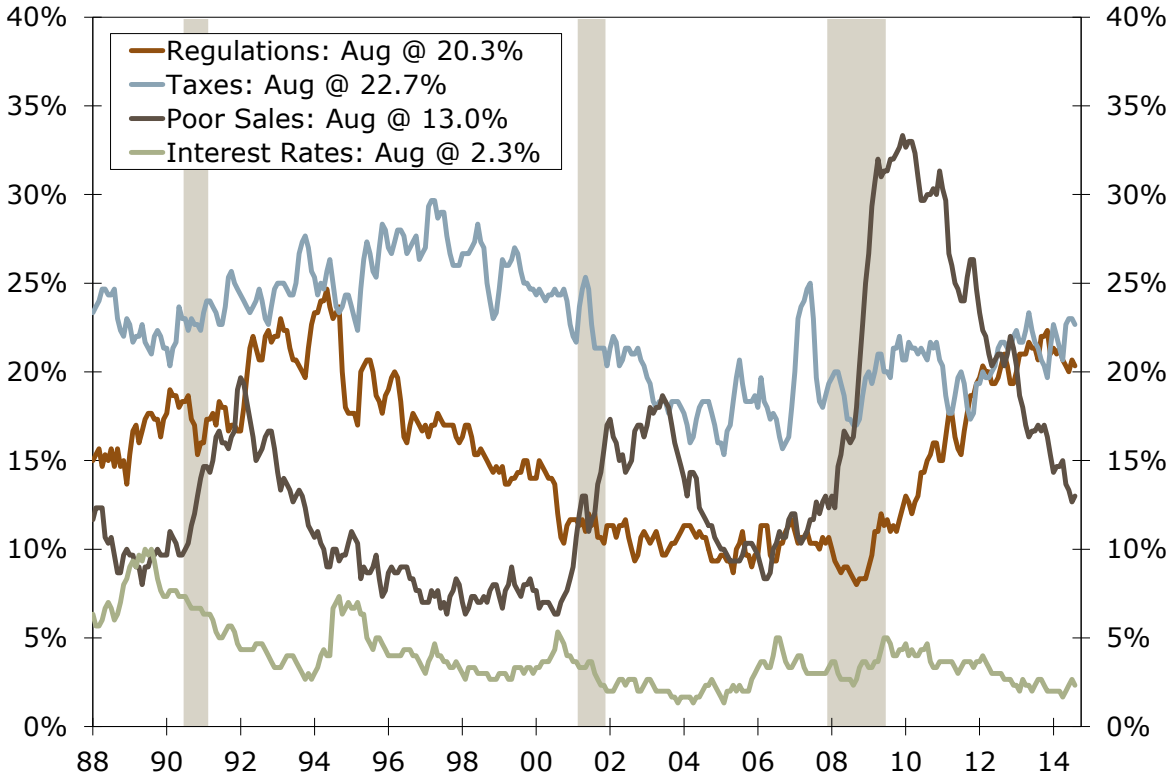


Source: National Federation of Independent Business and Wells Fargo Securities, LLC

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

### Small Business Important Problems

Single Most Important Problem Facing Firms, SA 3-MMA

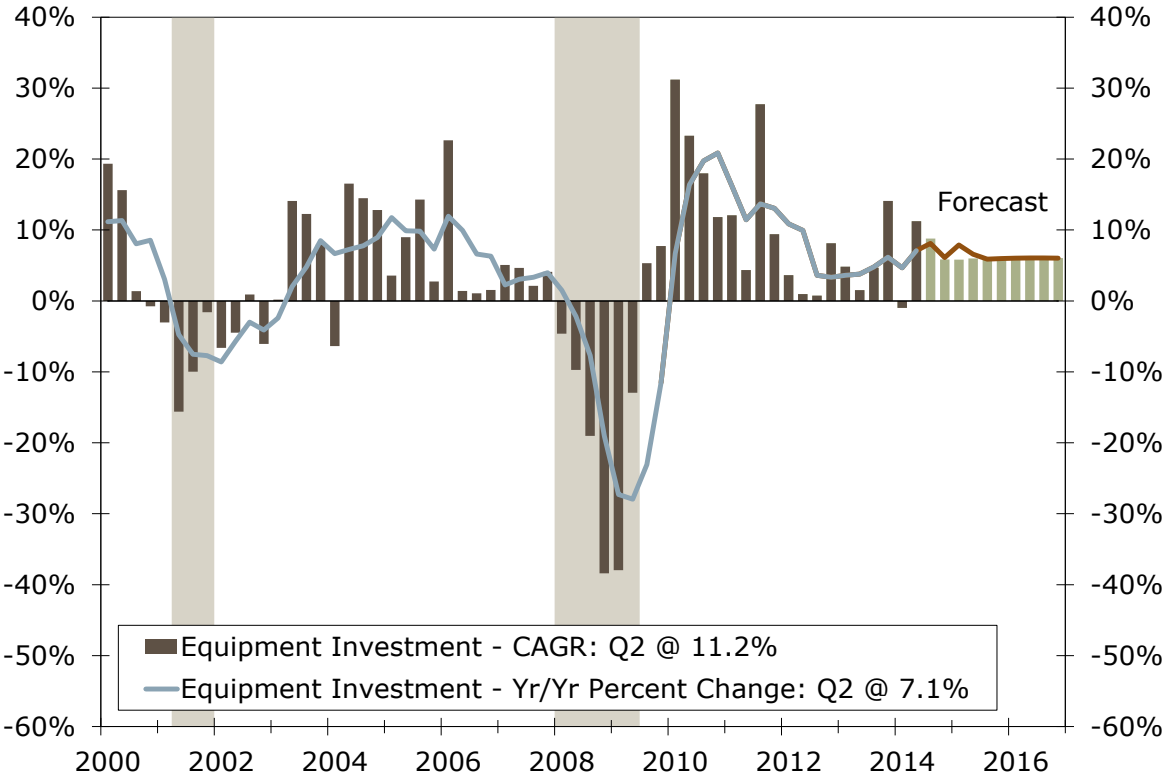


Source: National Federation of Independent Business and Wells Fargo Securities, LLC

We anticipate modest growth in capital expenditures

### Real Equipment Investment

Bars = CAGR Line = Yr/Yr Percent Change



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

## Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast		
	2014				2015				2012	2013	2014	2015	2016
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product <sup>1</sup>	-2.1	4.6	3.2	3.0	2.5	2.7	2.9	3.0	2.3	2.2	2.2	2.9	3.1
Personal Consumption	1.2	2.5	2.3	2.5	2.5	2.6	2.5	2.6	1.8	2.4	2.3	2.5	2.6
Inflation Indicators <sup>2</sup>													
PCE Deflator	1.1	1.6	1.5	1.6	1.7	1.6	1.8	2.0	1.8	1.2	1.5	1.8	2.1
Consumer Price Index	1.4	2.1	1.8	1.9	1.9	1.7	2.0	2.2	2.1	1.5	1.8	2.0	2.4
Industrial Production <sup>1</sup>	3.9	5.5	2.4	3.8	5.0	4.9	4.9	4.9	3.8	2.9	3.9	4.5	4.2
Corporate Profits Before Taxes <sup>2</sup>	-4.8	0.1	3.8	4.0	4.1	4.2	4.4	4.5	11.4	4.2	0.9	4.3	3.4
Trade Weighted Dollar Index <sup>3</sup>	76.9	75.9	81.0	81.3	81.8	82.3	83.0	83.8	73.5	75.9	78.8	82.7	85.3
Unemployment Rate	6.7	6.2	6.1	5.9	5.8	5.7	5.6	5.5	8.1	7.4	6.2	5.7	5.4
Housing Starts <sup>4</sup>	0.93	0.99	1.03	1.03	1.05	1.11	1.15	1.18	0.78	0.92	0.99	1.12	1.25
Quarter-End Interest Rates <sup>5</sup>													
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	0.25	0.25	0.25	0.63	2.00
Conventional Mortgage Rate	4.34	4.16	4.12	4.26	4.31	4.44	4.46	4.62	3.66	3.98	4.22	4.46	5.20
10 Year Note	2.73	2.53	2.52	2.66	2.71	2.84	2.86	3.02	1.80	2.35	2.61	2.86	3.60

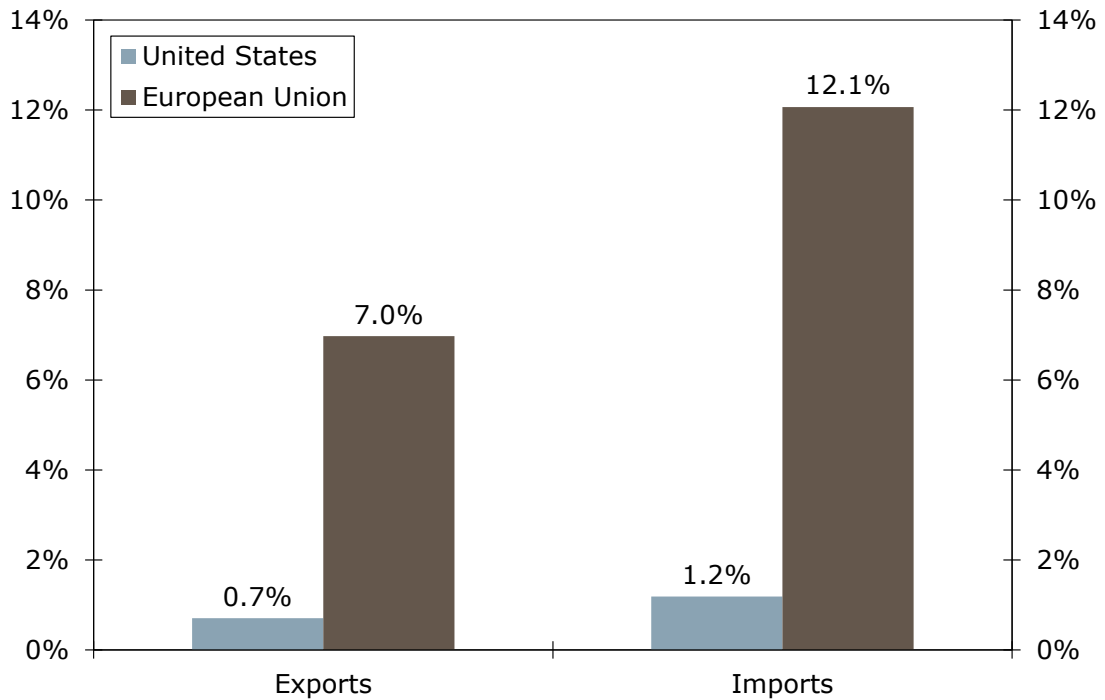
Forecast as of: October 8, 2014

<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

The European Union has extensive trade ties, especially in energy products, with Russia

### U.S. and E.U. Trade with Russia

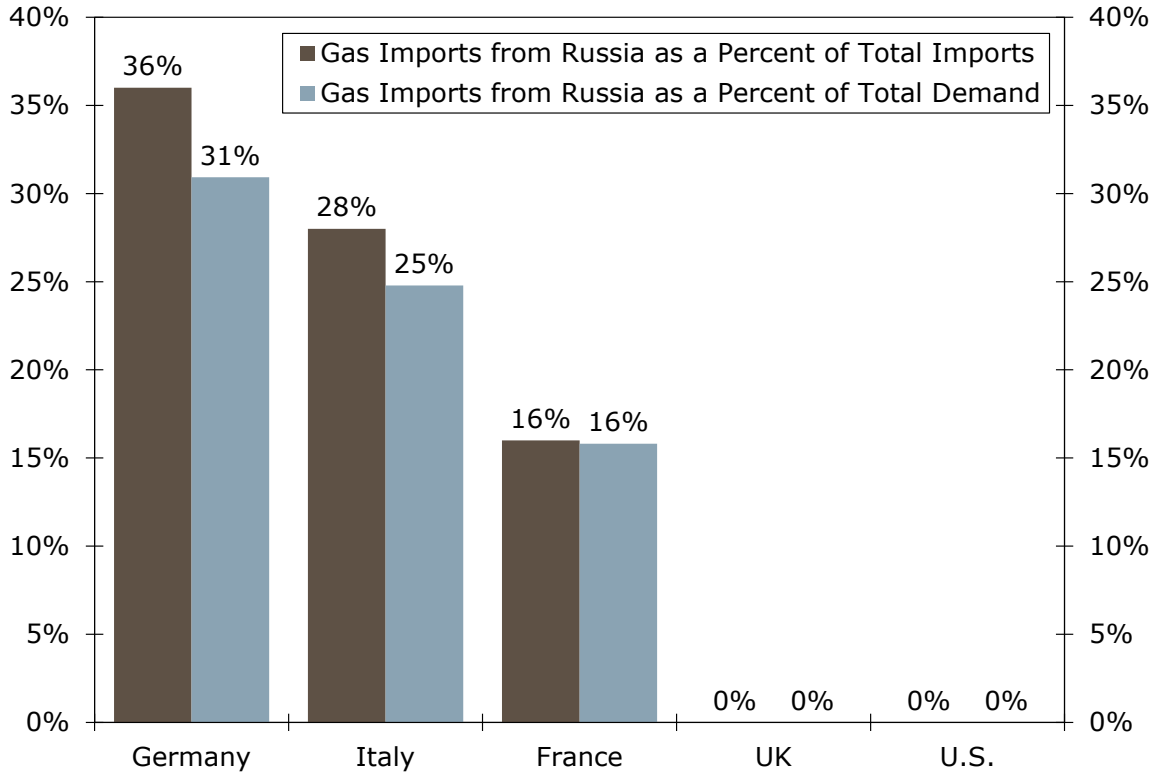
Percent of Total, 2013



Source: International Monetary Fund and Wells Fargo Securities, LLC

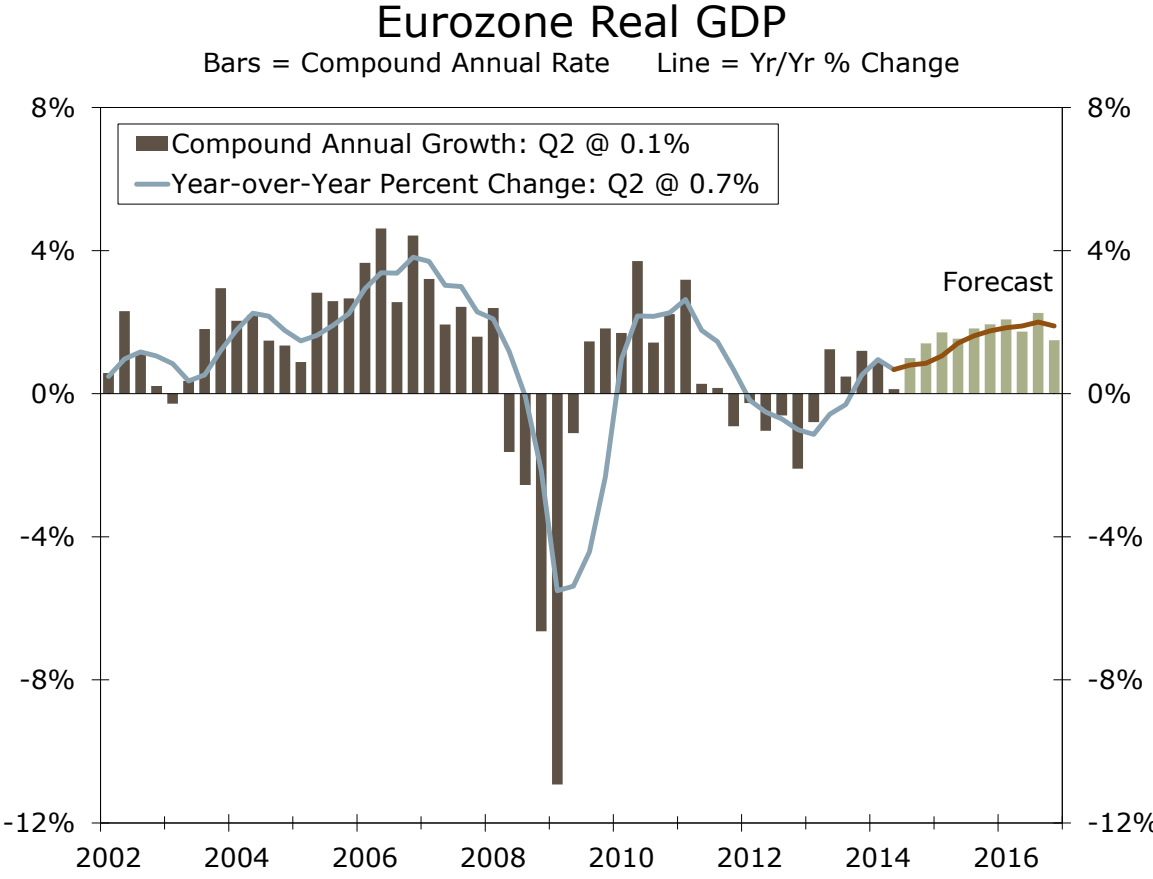
Many EU countries are highly dependent on energy imports from Russia

### Exposure to Russian Energy Natural Gas - 2012



Source: IEA, OECD, IMF and Wells Fargo Securities, LLC

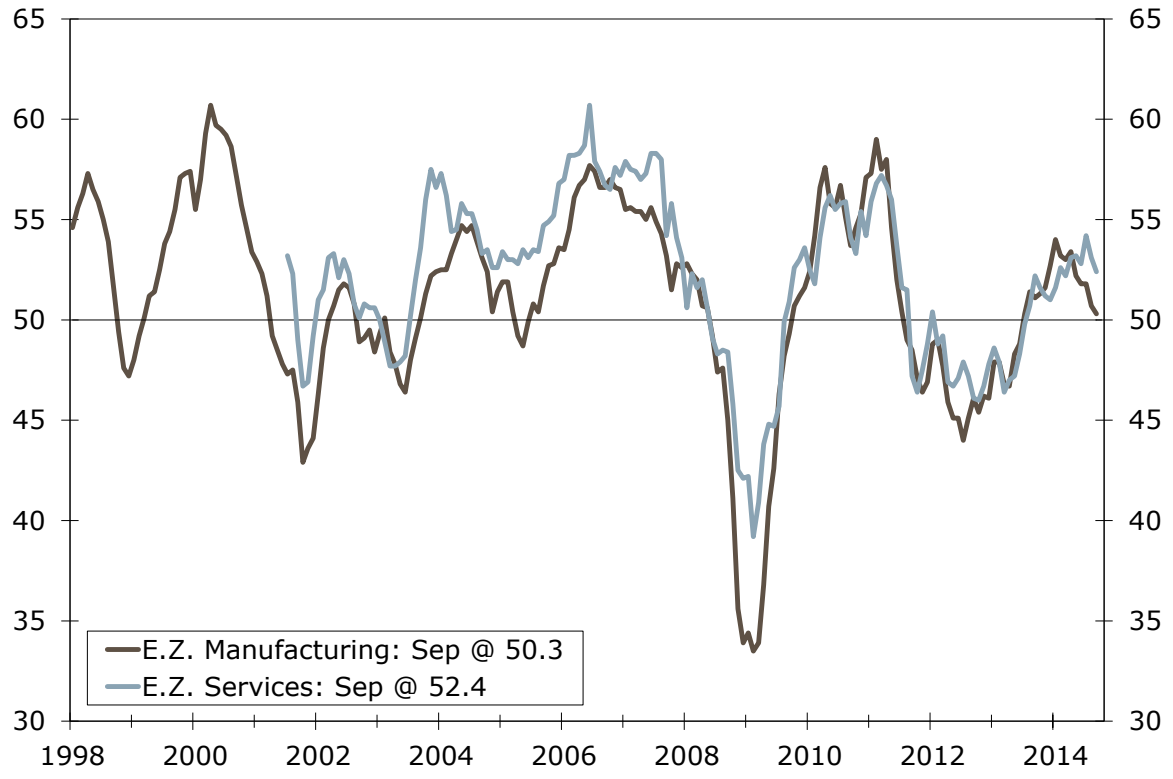
The Eurozone has exited recession, the problems have not gone away



Source: IHS Global Insight and Wells Fargo Securities, LLC

The purchasing managers' indices skating on thin ice

Eurozone Purchasing Managers' Indices  
Index

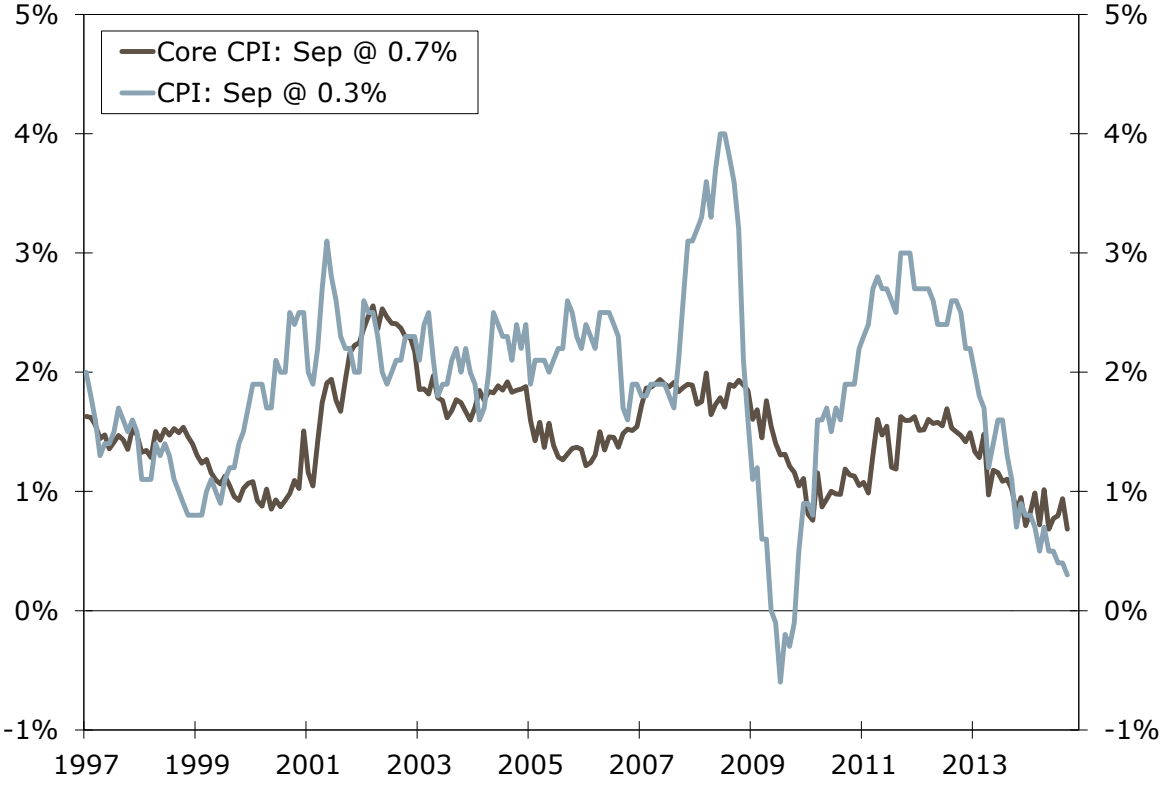


Source: Bloomberg LP and Wells Fargo Securities, LLC



Dangerously close to deflation

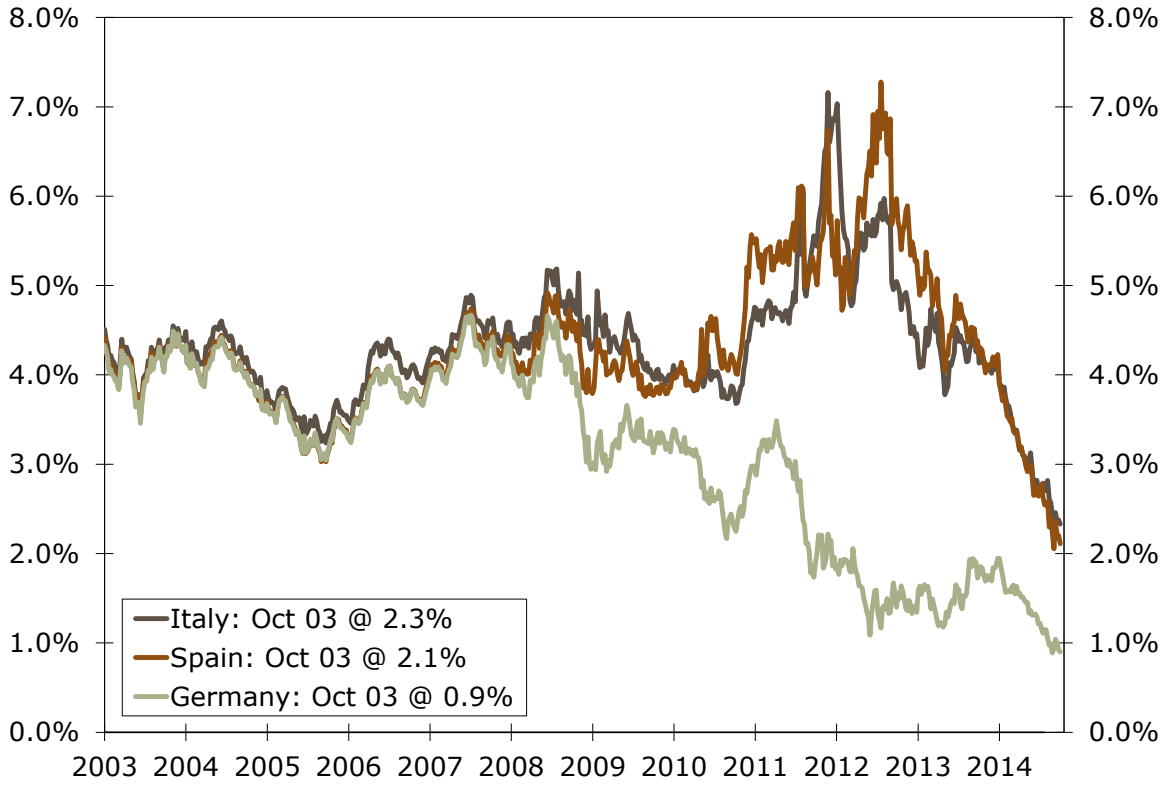
Eurozone Consumer Price Inflation  
Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

Financial market tensions in Europe have eased, but Europe is not “fixed” yet

10-Year Government Bond Yields  
Percent

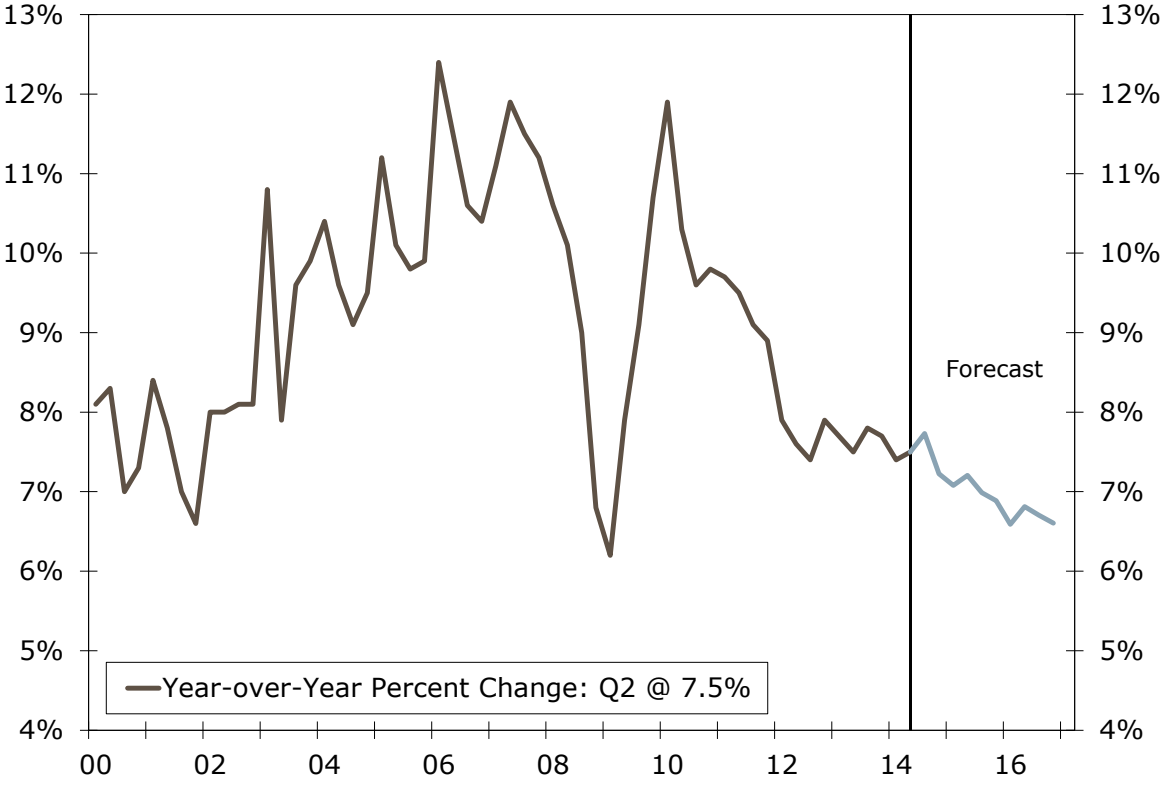


Source: IHS Global Insight and Wells Fargo Securities, LLC

Growth in China has stabilized, we do not expect it to return to the double-digit growth rates seen in the past

### Chinese Real GDP Forecast

Year-over-Year Percent Change

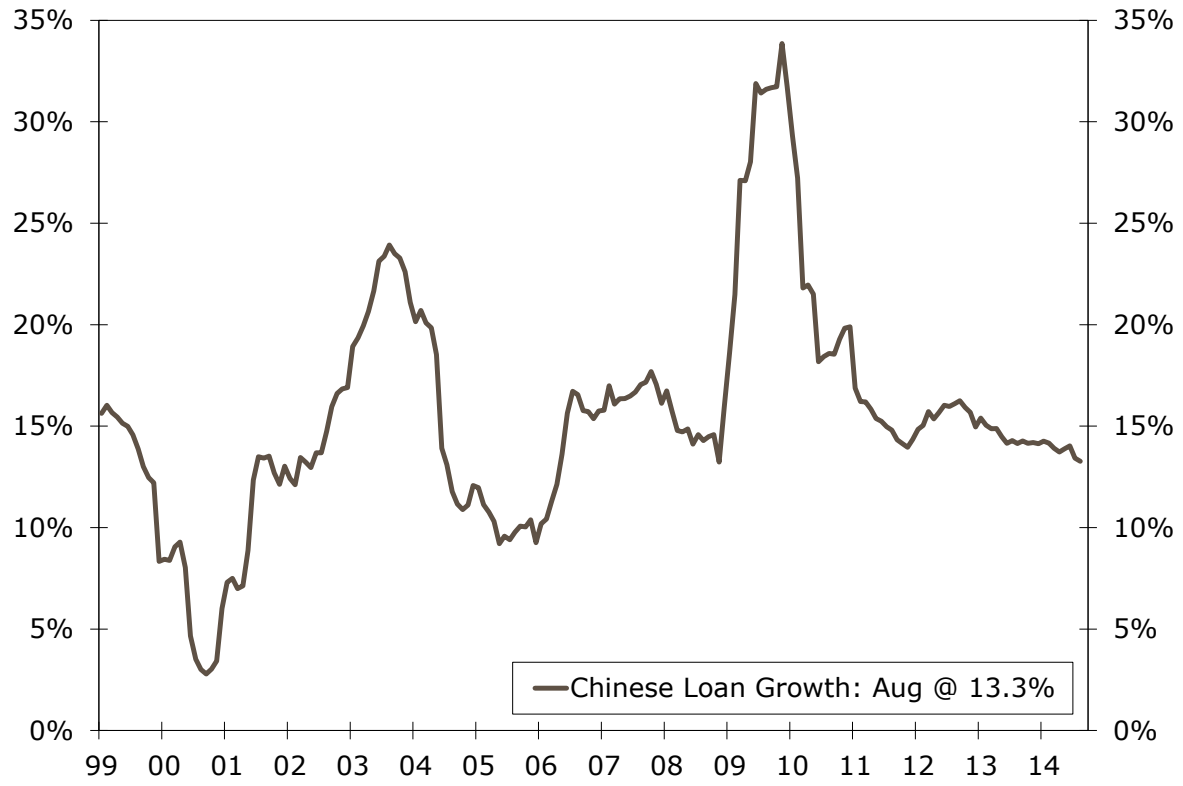


Source: Bloomberg LP and Wells Fargo Securities, LLC

Loan growth in China is also stabilizing

## Chinese Loan Growth

Year-over-Year Percent Change

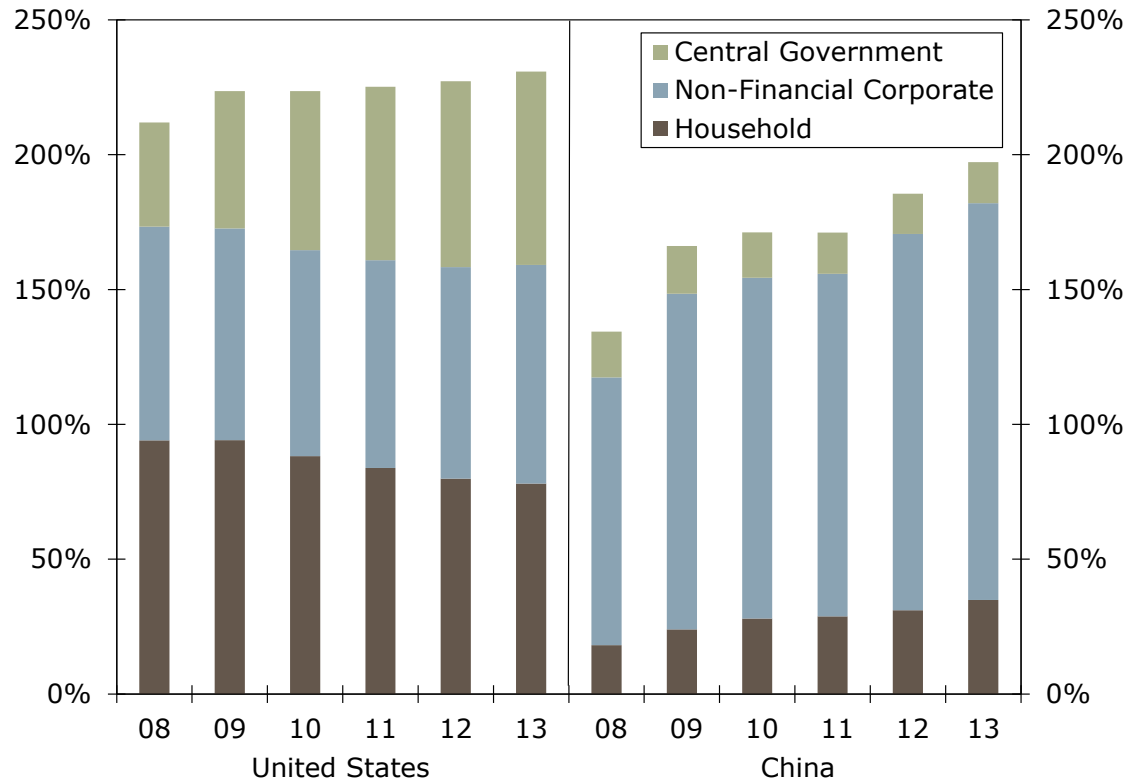


Source: CEIC and Wells Fargo Securities, LLC

If there is a leverage issue in the Chinese economy it resides in the non-financial corporate sector

## U.S. vs. China Debt Outstanding by Sector

Percent of GDP

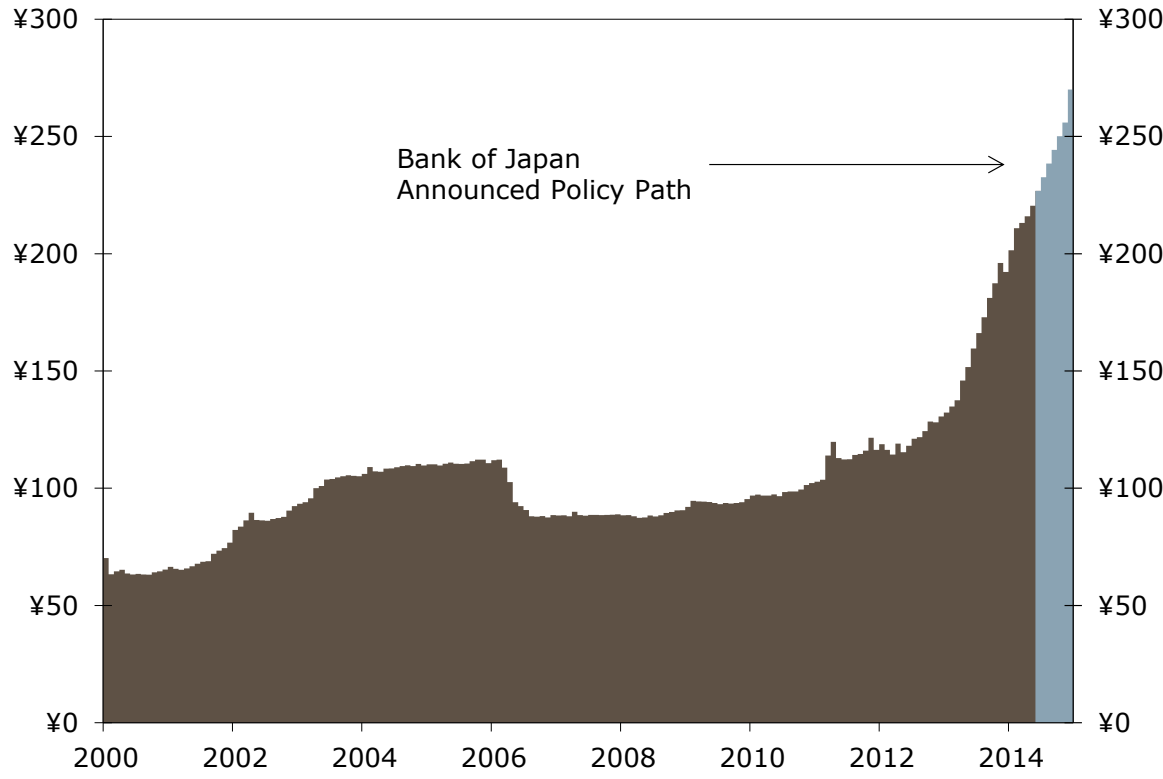


Source: CEIC, BIS, U.S. Department of Commerce and Wells Fargo Securities, LLC

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

## Japan's Monetary Base

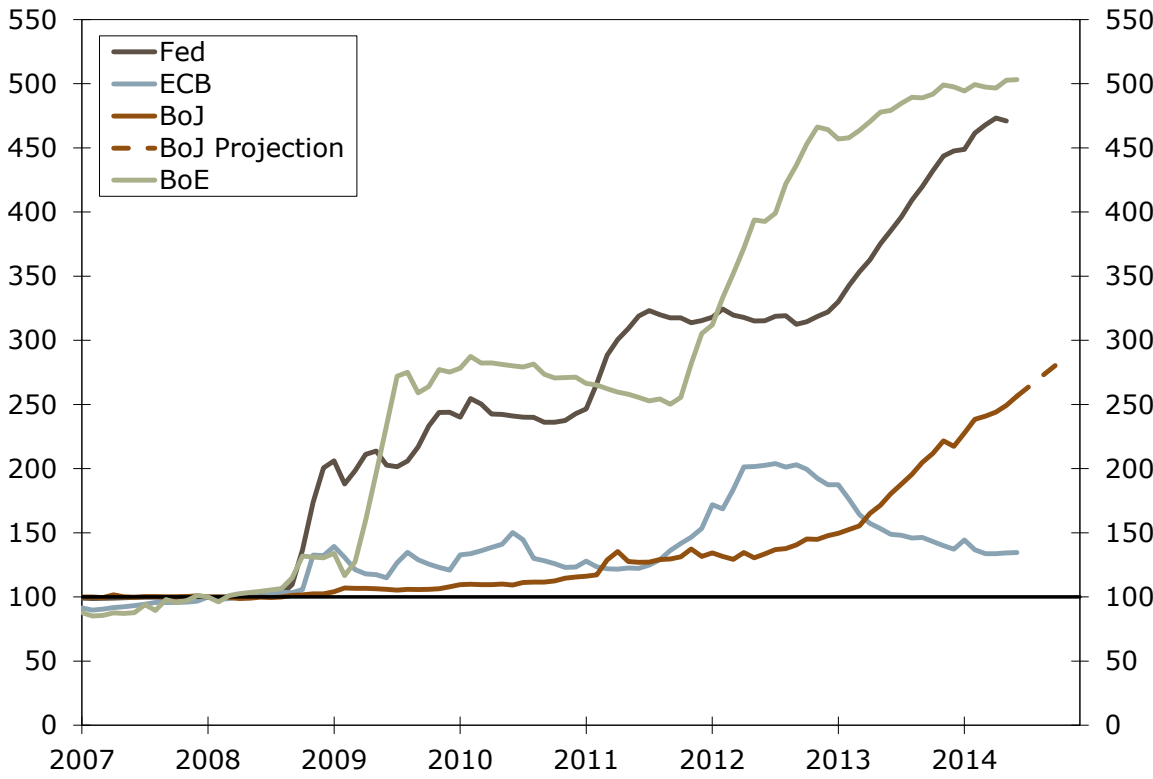
Trillions of Yen



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

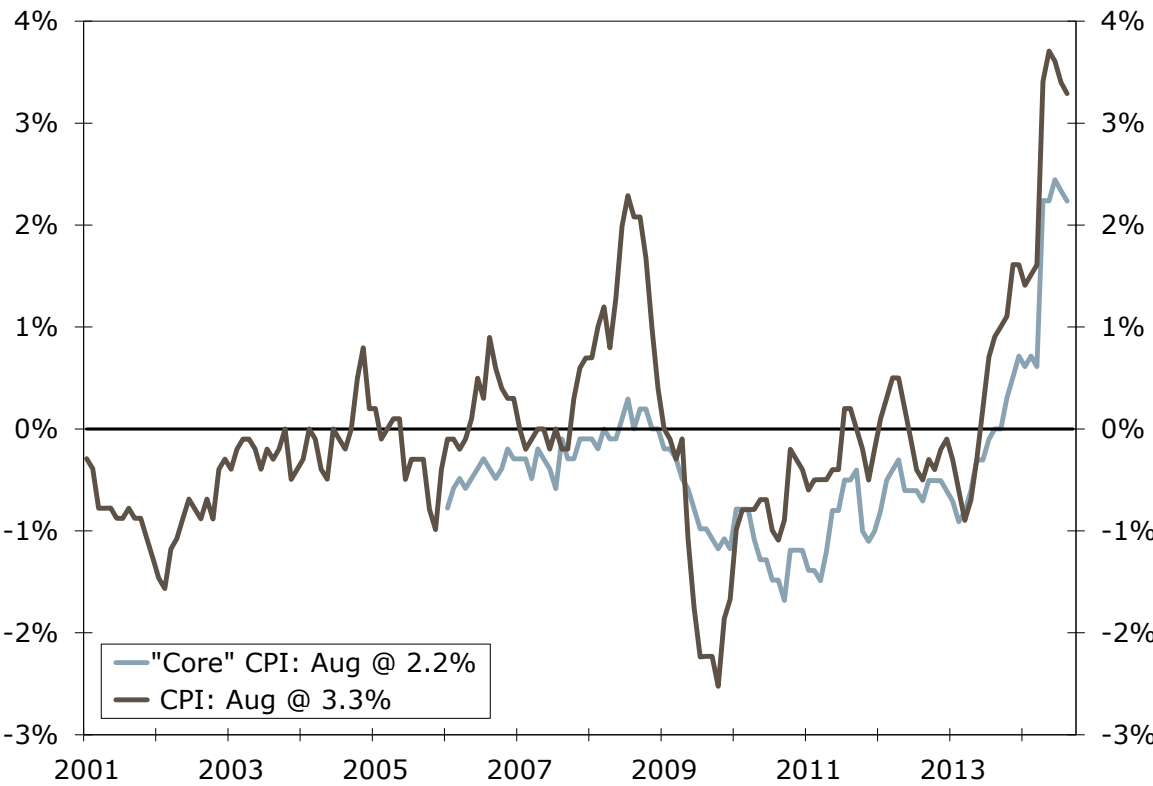


Source: Bank of Japan, Bloomberg LP and Wells Fargo Securities, LLC

Early signs of success, watch for surge in April

## Japanese Consumer Price Index

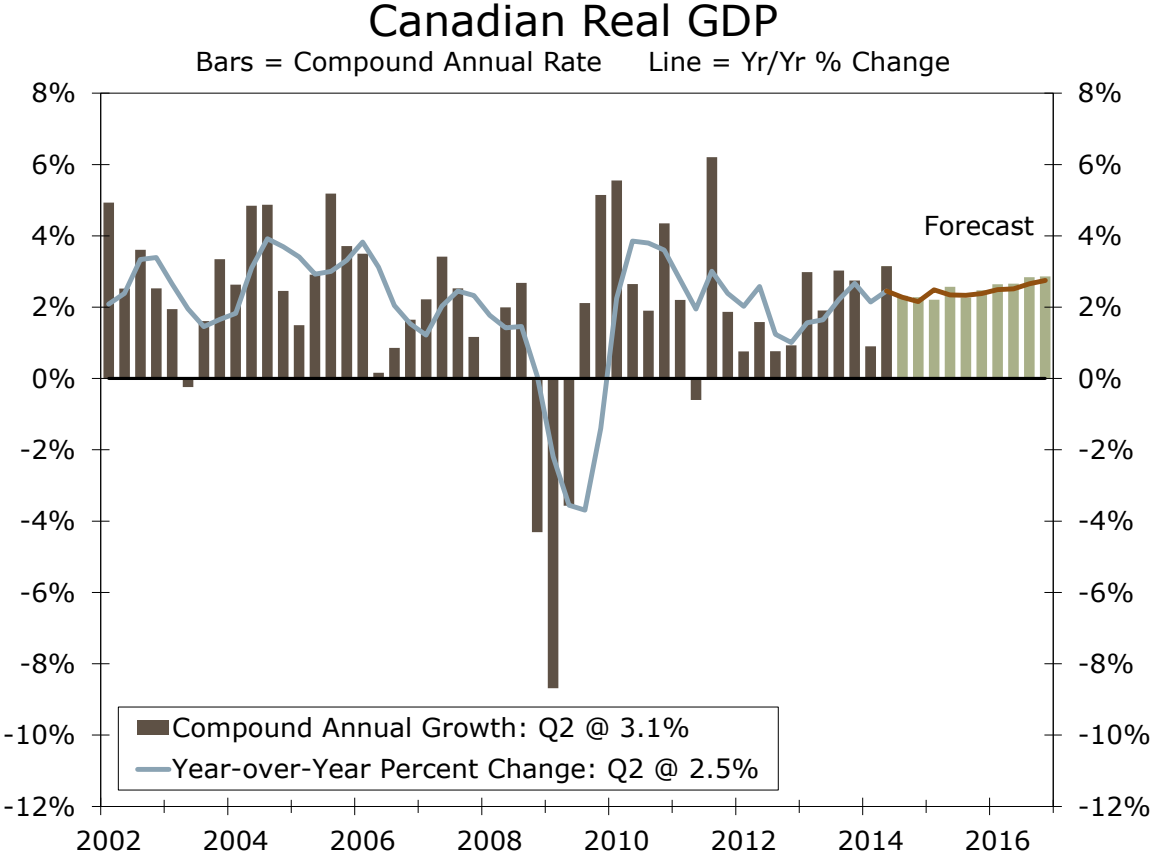
Year-over-Year Percent Change



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



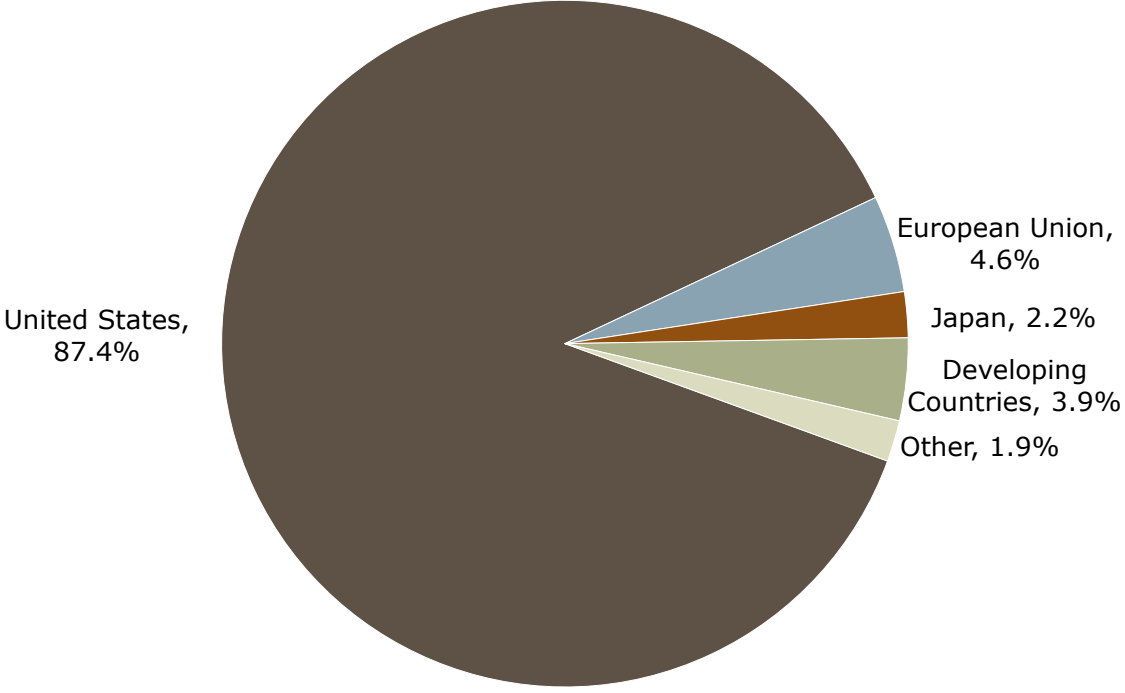
The long-awaited rotation is finally arriving



Source: IHS Global Insight and Wells Fargo Securities, LLC

“When the United States Sneezes...”

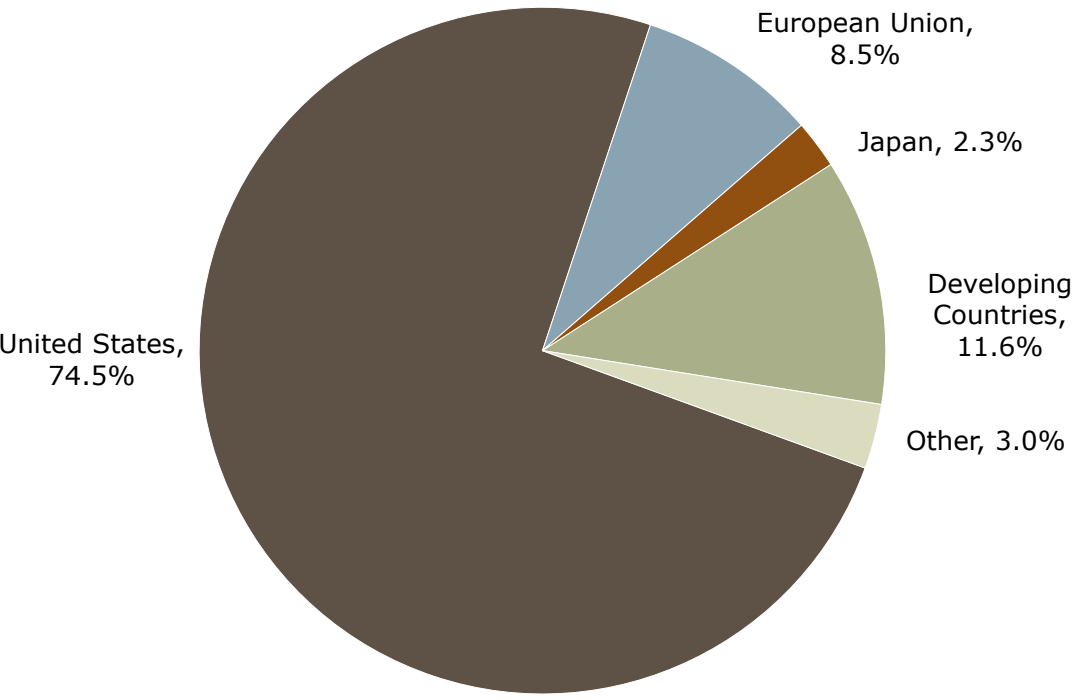
Canadian Exports  
2000



Source: IHS Global Insight and Wells Fargo Securities, LLC

Still true, but the picture is changing

### Canadian Exports 2012

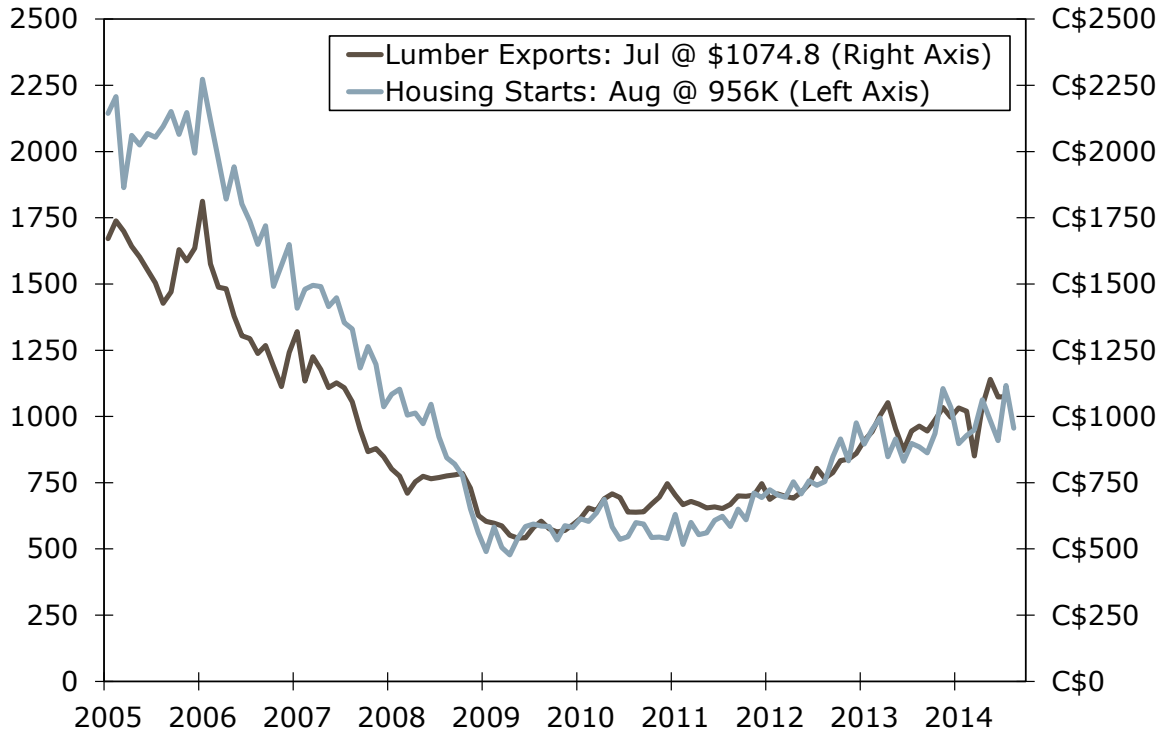


Source: IHS Global Insight and Wells Fargo Securities, LLC

Undeniable link to the U.S. economy

### U.S. Housing Starts vs. Canadian Lumber Exports

Thousands of Starts, Millions of CAD



Source: U.S. Department of Commerce, IHS Global Insight 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		
	2014	2015	2016	2014	2015	2016
Global (PPP weights)	3.3%	3.7%	3.8%	3.9%	3.9%	3.8%
Global (Market Exchange Rates)	2.7%	3.2%	3.3%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	1.9%	2.5%	2.6%	1.6%	1.8%	2.0%
United States	2.2%	2.9%	3.1%	1.8%	2.0%	2.4%
Eurozone	0.8%	1.3%	1.8%	0.5%	0.9%	1.3%
United Kingdom	3.0%	2.6%	2.3%	1.7%	1.9%	2.2%
Japan	1.2%	1.4%	0.9%	2.9%	1.8%	1.3%
Korea	3.5%	3.7%	3.6%	1.4%	2.2%	2.4%
Canada	2.4%	2.8%	2.7%	2.0%	2.0%	2.2%
Developing Economies <sup>1</sup>	4.6%	4.9%	5.0%	6.0%	5.8%	5.7%
China	7.3%	6.8%	6.5%	2.1%	2.4%	2.6%
India <sup>2</sup>	5.4%	5.8%	6.2%	7.8%	6.8%	6.0%
Mexico	2.0%	3.2%	3.5%	3.9%	3.8%	3.8%
Brazil	0.2%	1.8%	2.3%	6.1%	4.9%	5.1%
Russia	0.6%	1.5%	2.3%	7.4%	6.9%	5.7%

Forecast as of: October 8, 2014

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

<sup>2</sup>Forecasts Refer to Fiscal Year

Source: International Monetary Fund and Wells Fargo Securities, LLC

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