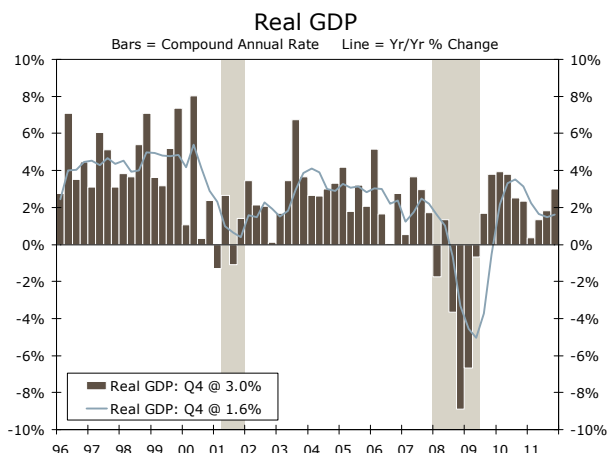


Weekly Economic & Financial Commentary

U.S. Review

A Better Tone to the Data but Growth Remains Sluggish

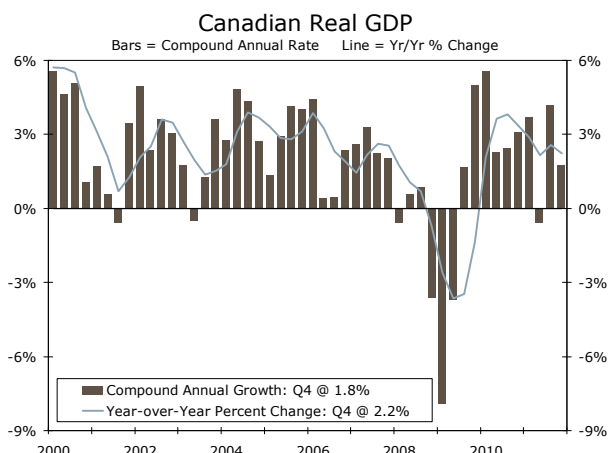
- The economic data clearly have a better feel to them but there is no evidence of a sudden break out to the upside.
- Fourth quarter real GDP was revised up to a 3.0 percent annual rate and inflation was also revised slightly higher.
- Personal income came in slightly below expectations but upward revisions to previously published data put the saving rate at 4.6 percent in January, well above the earlier reported level of 4.0 percent.
- Manufacturing data were mixed, with orders down but purchasing managers' surveys remaining strong.



Global Review

Canadian Expansion Losing Momentum

- Economic growth in Canada slowed to a 1.8 percent annual rate in the fourth quarter as the boost to growth from net exports faded and the pace of government spending slowed to a crawl.
- Despite slow growth in the Canadian labor market, consumer spending growth accelerated in the fourth quarter, but as we discuss in the week's global review, the spending growth is being accompanied by near record-high levels of consumer debt.



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 ¹	0.4	1.3	1.8	3.0	1.5	1.1	2.2	2.5	-3.6	3.0	1.7	1.9	2.2
Personal Consumption	2.1	0.7	1.7	3.0	1.3	1.1	1.5	1.6	-2.0	2.0	2.2	1.5	1.3
Inflation Indicators ²													
PCE Deflator	1.8	2.5	2.9	2.7	2.1	1.8	1.6	1.8	0.6	1.8	2.5	1.8	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.6	2.0	1.8	2.0	-0.3	1.6	3.1	2.1	2.1
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: March 2, 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

Lots of Good News but Still Only Modest Growth

We received a full complement of economic reports this week, providing new intel on consumer spending, manufacturing activity and housing. For the most part, the data are consistent with modest economic gains but they also show the economy is more resilient than previously thought and should be better able to weather the storm from rising gasoline prices.

Economic growth was revised modestly higher for the fourth quarter, with real GDP rising at a 3.0 percent annual rate. The composition of growth was also a little better, with personal consumption rising at a 2.1 percent annual rate and inventories rising a little less than first reported. Final sales rose at a still tepid 1.1 percent, up from the initial estimate of just 0.8 percent.

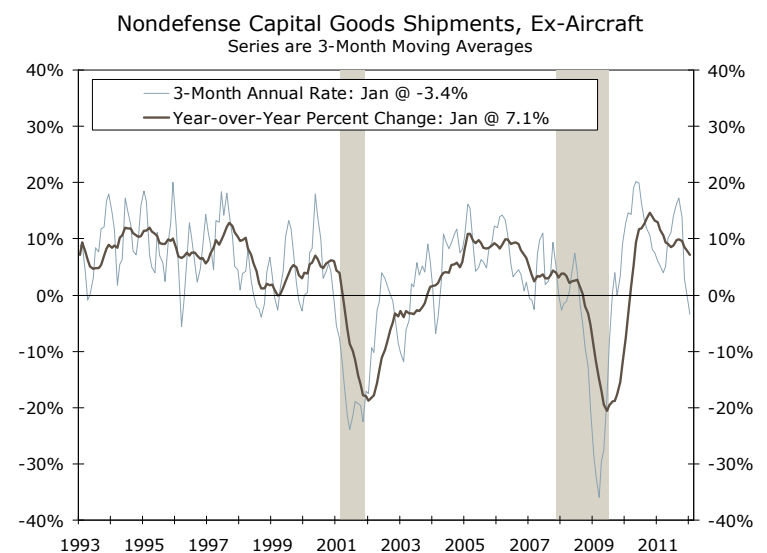
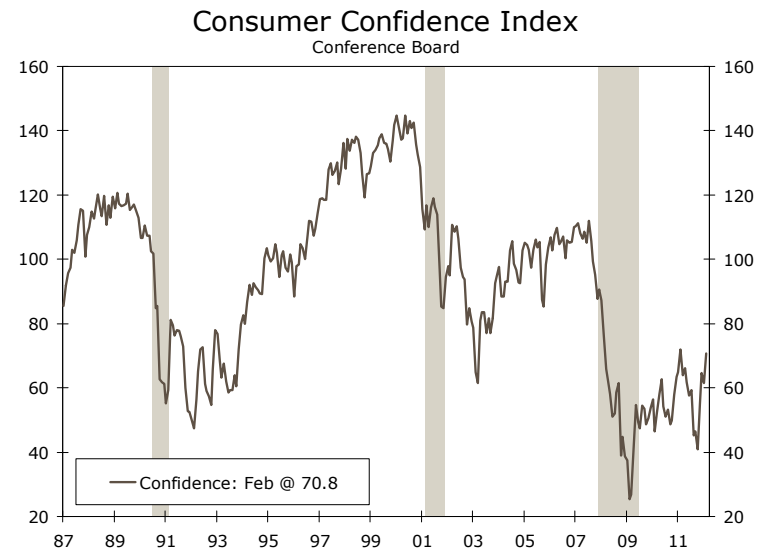
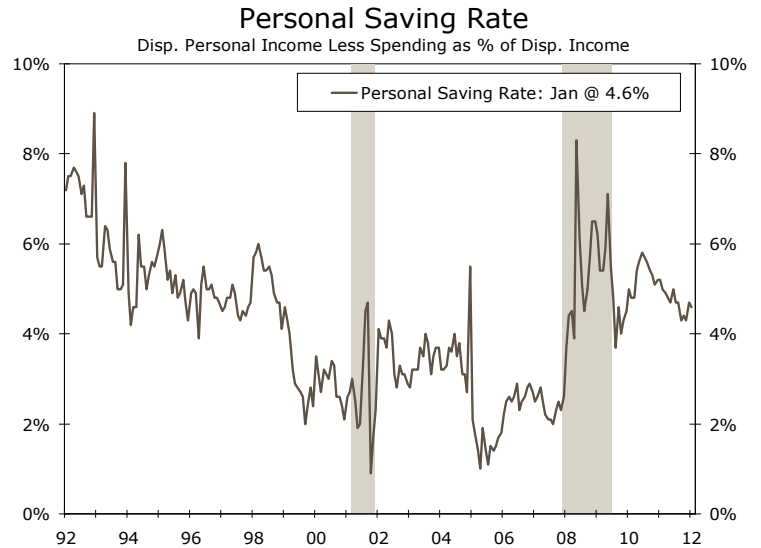
Personal income was also revised higher for the second half of 2011 and did not show as much deterioration in real terms as first reported. The stronger income figures boosted the saving rate, which had earlier been reported to have fallen to just 4.0 percent at year-end and now comes in at 4.6 percent. High gasoline prices are clearly still a problem for consumers, particularly for lower and middle income households. Real after-tax income per capita has fallen in two of the past three months and is currently slightly below its year-ago level. The higher saving rate, however, means that consumers have a little more wherewithal to deal with those higher prices.

Data made available on the consumer this week was notably upbeat. Consumer confidence jumped 9.3 points to 70.8, which is the highest it has been since February of last year. The February survey was taken before the most recent spike in gasoline prices.

Evidence has pointed to consumer behavior for February being fairly positive. Chain-store sales came in well above expectations, with sales up 6.7 percent from last year. However, January's figures were revised lower. Motor vehicle sales soared, climbing to a 15.0 million unit rate, which was the strongest pace seen since March 2008. We believe that an increase in fleet sales is responsible for much of the increase in motor vehicle sales over the past two month. The milder weather may also have provided a slight boost

Reports from the manufacturing sector were more mixed. The advance report on durable goods orders posted a much sharper-than-expected 4.0 percent drop in January, following a 3.2 percent jump in December. Orders fell across the board and shipments also decreased. Part of the drop is likely due to the more generous depreciation that was provided for equipment put into use by the end of December. That deadline likely pulled some orders and shipments forward in 2011. January's drop, however, means business fixed investment will likely be relatively soft in the first quarter, even with gains in February and March.

The weaker factory orders and shipments data, combined with the 0.1 percent drop in real personal consumption outlays in January caused us to slightly reduce our forecast for first quarter economic growth. We now expect real GDP to rise at a 1.5 percent pace in the first quarter and grow 1.9 percent for all of 2012.



ISM Non-Manufacturing • Monday

The ISM non-manufacturing index has been improving for the last several months and while it is still below the highest level achieved during the recovery from the Great Recession it has been contributing considerably to a new-found sense of economic revival. Though the ISM manufacturing index disappointed markets on Thursday of this week, a higher service sector reading could help cement the belief that economic activity has continued to improve during the first months of the year.

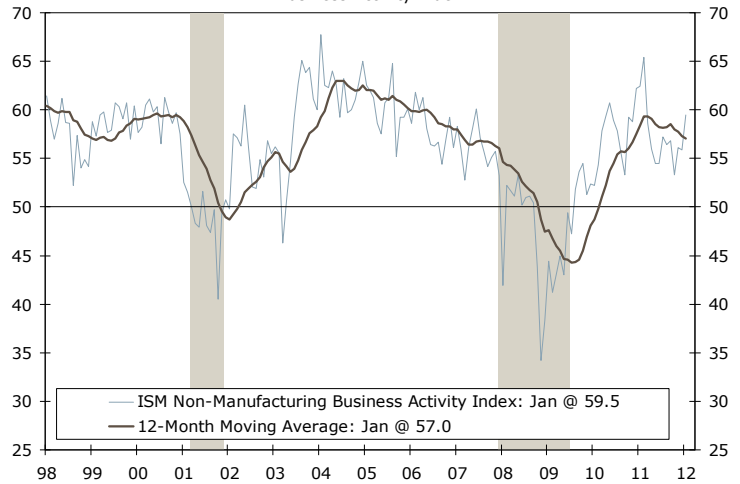
The ISM manufacturing index was helped by a surge in export orders, though the overall number declined compared to January. However, the service sector index will have to mostly rely on the U.S. domestic market and will have little help from the external sector. Thus, the service sector index performance will probably be a better indicator of job performance in February ahead of the nonfarm payroll number.

Previous: 56.8

Wells Fargo: 55.5

Consensus: 56.3

ISM Non-Manufacturing Business Activity
Business Activity Index



Trade Balance • Friday

The U.S. trade balance is expected to have improved a bit in January after posting a deficit of \$48.8 billion in December. This is not very good news for the trade account as oil prices in January were very low compared to prices in February and early March. Thus, we can expect this number to deteriorate during the rest of the first and second quarter of the year.

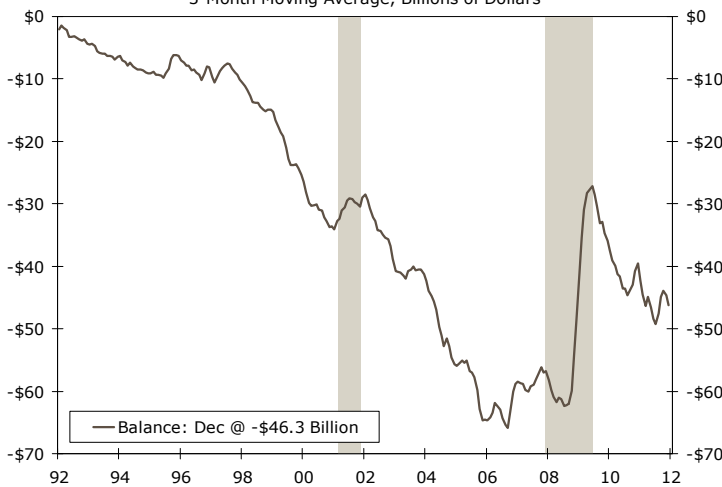
The only caveat is that export orders, according to the ISM manufacturing index, have skyrocketed and could limit the deterioration in the U.S. trade deficit going forward if these export orders come to fruition. The expectation is for the U.S. trade balance to come in a bit lower in January and improvement in external conditions could help limit the effects of oil prices going forward. The only unknown is the strength in petroleum prices, which depends on very uncertain world events.

Previous: -\$48.8B

Wells Fargo: -\$48.4B

Consensus: -\$49.0B

U.S. Trade Balance In Goods And Services
3-Month Moving Average, Billions of Dollars



Nonfarm Payrolls • Friday

Once again, the nonfarm payroll number release will keep everybody on edge. The number has surprised on the upside during the last several months and another number pointing to a better-than-expected increase in payrolls during February could set the stage for a revision in GDP expectations for the first quarter of the year.

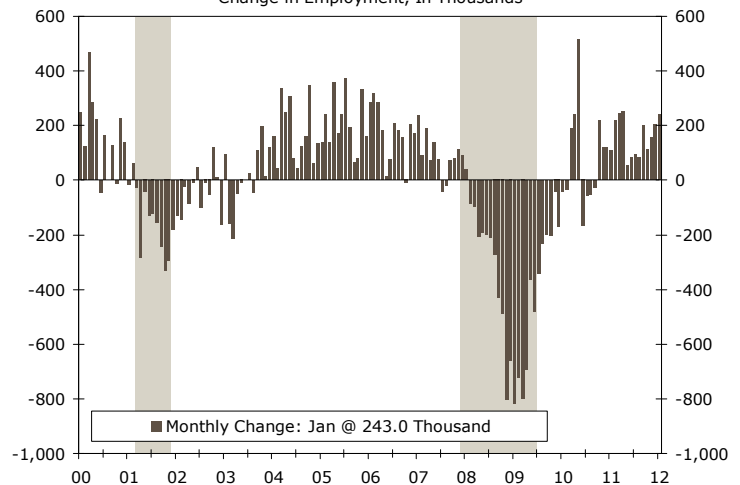
However, the same caveat that applied for the December and January releases of nonfarm payrolls will also apply to this one. Warmer than normal winter weather is probably behind the upbeat expectations regarding the U.S. labor market. If the number of who could not work due to weather-related conditions remains below the norm for other years, then the release will remain a bit suspicious. However, good news is good news in any league and could help the psychological underpinnings of the current state of economic activity.

Previous: 243K

Wells Fargo: 210K

Consensus: 210K

Nonfarm Employment Change
Change in Employment, In Thousands



Global Review

Slow Job Market Holds Back Expansion in Canada

In recent months, economic data out of Canada has been mixed with some parts of the economy like the job market clearly struggling, while other areas like consumer spending and exports seemingly holding up. Still, top-line growth numbers have been broadly disappointing and the economy there is experiencing a modest slowdown in the pace of growth. Even before this week's report of fourth quarter GDP showed that the Canadian economy expanded at just a 1.8 percent rate, we knew total output was on shaky footing. Monthly GDP reports showed flat growth in October and a 0.1 percent contraction in growth for November.

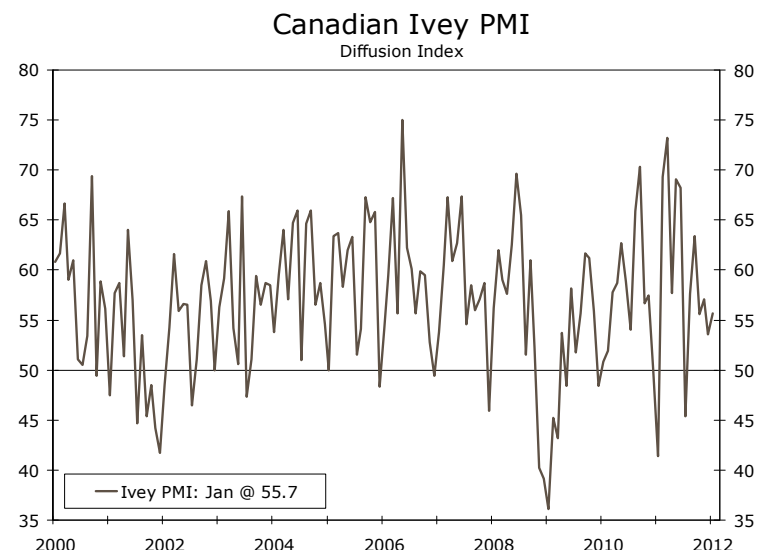
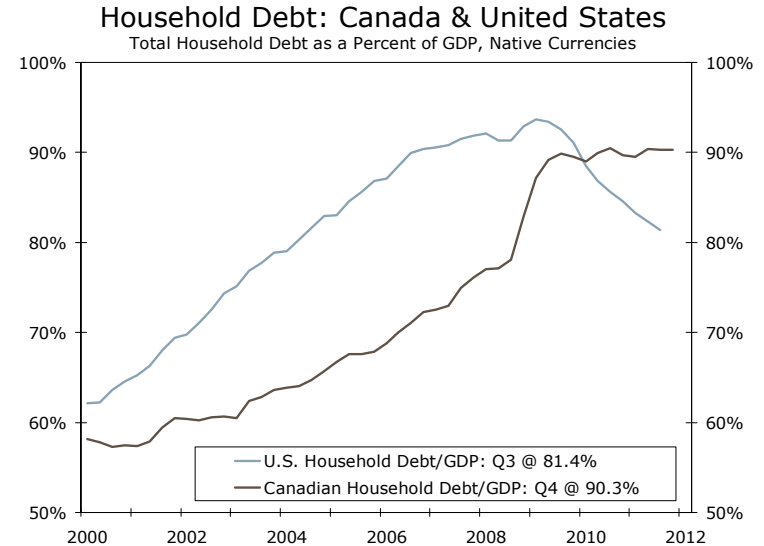
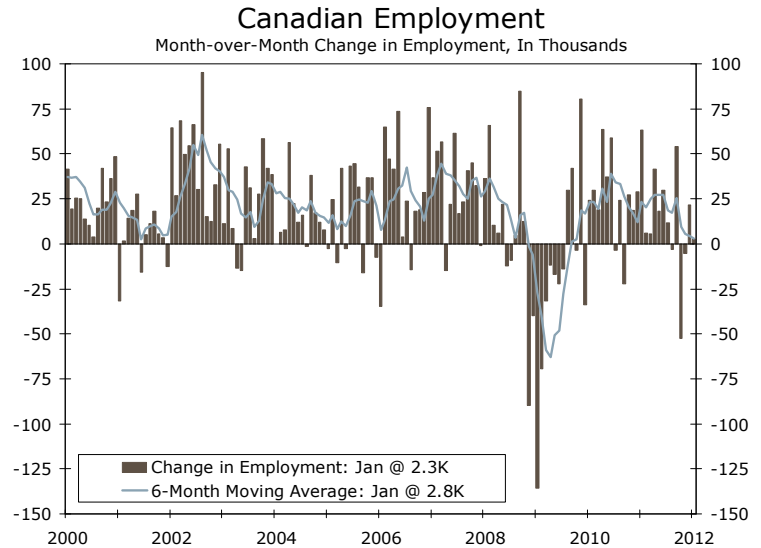
The struggling labor market is perhaps the most worrying dynamic in Canada at present. In fact, since July, Canadian employers, on a net basis, have added fewer than 9,000 workers to nonfarm payrolls as the unemployment rate has increased to 7.6 percent from 7.3 percent in July. The underlying details show that in recent months, the only growth was in part-time work. Full-time employment has fallen in three of the past four months.

The situation with the consumer in Canada is not altogether different from the experience of U.S. shoppers over the past several months. Canadian retail sales slipped 0.2 percent in December, but the miss in December follows four months of increasing sales and the bulk of December's decline was in volatile components like autos and sales at gasoline stations. The one major difference between Canadian consumers and their American counterparts has to do with household debt. While Americans have been paying down debt for the better part of the past two years, Canadian household debt-to-GDP is near an all-time high. In the fourth quarter, Canadian consumer spending grew at a 2.9 percent annualized pace and was the largest positive contribution to growth during the quarter.

The next largest contribution to growth in the fourth quarter came from business fixed-investment spending which grew at a 1.8 percent rate. Business sentiment remains strong as well suggesting that business spending will remain supportive of growth in the first quarter. The Ivey Purchasing Managers' Index at 55.7 in January represents a move higher into expansion territory.

When the sovereign debt crisis in Europe flared up at the end of 2011, there was some concern that slower growth in Europe might stymie Canadian exports. While Europe now commands a larger share of Canadian exports than it did a decade ago, roughly three-quarters of Canadian exports are still destined for the United States. With growth in the United States still on relatively strong footing (we look for 1.9 percent GDP growth in 2011), Canadian exports grew at a 4.6 percent clip in the fourth quarter, following up on a 16.0 percent pace of growth the prior quarter.

Consumer price inflation in Canada, at 2.5 percent on a year-over-year basis in January, is roughly in line with the Bank of Canada's 2 percent target and we expect the bank to continue to keep the overnight rate at its present level of 1 percent.



Eurozone Retail Sales • Monday

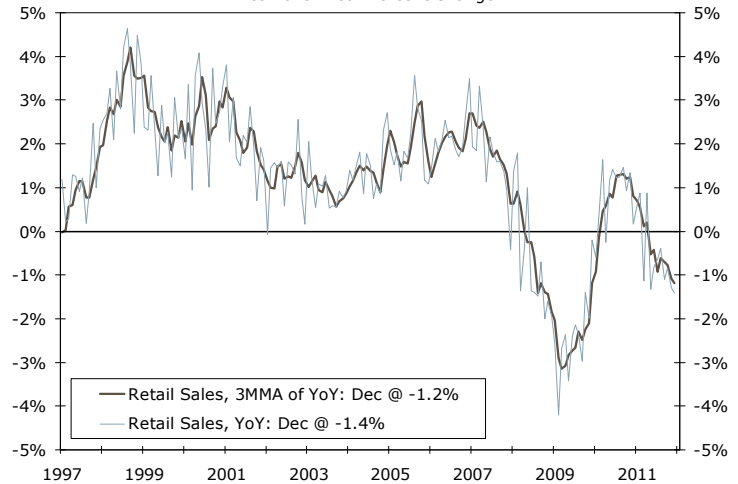
Eurozone retail sales fell 0.3 percent in December from November and were down 1.3 percent from the prior year. Food sales fell 0.2 percent, while non-food sales dropped 0.1 percent. Textiles sales, automotive fuel and specialty store sales have been particularly weak over the last few months. In heavily indebted countries, sales rose 2.2 percent in Portugal, but were flat in Ireland and fell 0.8 percent in Spain. Meanwhile, sales fell 0.3 percent in France and 1.4 percent in Germany.

With a 14-year high unemployment rate of 10.4 percent and austerity measures starting to bite, we believe Eurozone retail sales are likely to show continued weakness for January. Although European leaders have made progress in the debt crisis by passing a fiscal stability pact and agreeing to a second bailout package for Greece, the political fallout will now give way to economic reality. Austerity measures in Europe are going to sting for some time.

Previous: -0.3% (Month-over-Month)

Consensus: -0.1%

Eurozone Retail Sales, Ex-Motor Vehicles
Year-over-Year Percent Change



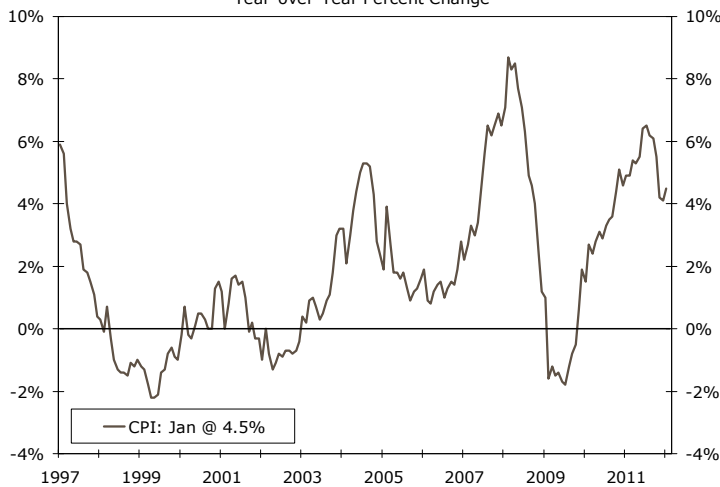
China CPI • Thursday

Inflation unexpectedly accelerated in China to 4.5 percent year-over-year in January from 4.1 percent in December, higher than most forecasts. The 1.5 percent month-over-month increase was the highest in four years. The Chinese New Year was the main driver, as retail sales and prices tend to rise during the celebration. The fact that the holiday was in January this year versus February last year also contributed to the above-consensus increase. Bad weather contributed as well, causing meat and vegetable prices to rise more than usual. With inflation cooling, the central bank lowered the required reserve ratio in December for the first time in three years. Despite the bump in inflation in January, the bank lowered the ratio again in late February. The government expects inflation to moderate further this year, while slowing exports and a cooling property market necessitate trying to boost domestic credit and spending.

Previous: 4.5% (Year-over-Year)

Consensus: 3.4%

Chinese Consumer Price Index
Year-over-Year Percent Change



Germany Trade Balance • Friday

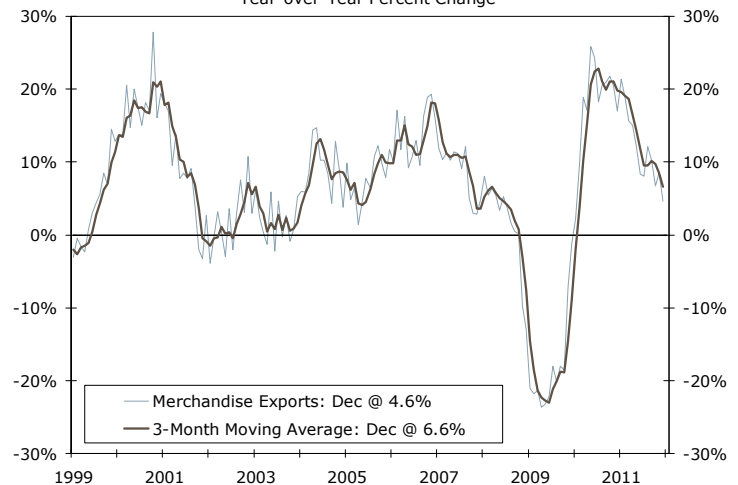
Germany's trade surplus fell to 12.9 billion Euros in December, as exports fell 4.5 percent, four times more than expected, and imports fell 3.9 percent. Exports were up just 4.6 percent year over year, continuing the slowing trend seen throughout 2011. Since September, when the Eurozone debt crisis flared up again, exports have been down 4.7 percent. The effect of the crisis is evident, as exports to European countries were down 7.0 percent in December, while exports to non-European countries were up 1.2 percent.

The weakness in Europe is bad news for Germany because 70 percent of its exports go to European countries and 38 percent go to Eurozone countries. With exports cooling, the economy will need more domestic growth. Unfortunately, the decline in personal consumption in the fourth quarter does not offer much optimism. The agreement on a Greek bailout package is good news, but austerity will keep European demand for German goods subdued.

Previous: €12.9B

Consensus: €13.0 B

German Merchandise Exports
Year-over-Year Percent Change



Interest Rate Watch

Normalization and Lingering Issues

Credit markets for the non-financial corporate business sector have taken on the appearance of a balanced market for bank lending and a much more solid capital market. The net percentage of banks tightening standards and those reporting stronger demand appears to be fluctuating around neutral. The bank credit market for private-sector business lending appears to have stabilized at this point in the economic expansion. In addition, the pattern of C&I loans appears to follow the pattern of inventory gains. Business lending through banks appears consistent with the economic forces of inventory finance and little evidence exists of a credit crunch at banks at this time. Moreover, banks of all types, domestic and foreign, small and large, appear to be contributing to the growth of lending overall.

Whatever Happened to the Risk-Free Rate?

There are two credit issues on the bank lending side that represent structural challenges. First, real estate lending is clearly subpar in comparison to prior expansions. From the borrower's perspective, the demand for real estate credit is a derived demand. As today's buyers are uncertain about the value and future prices of homes, the demand for mortgage credit is extremely limited. On the supply side, lenders have limited ability to see across a minefield of present and future regulations and economic conditions in order to estimate an expected rate of return on mortgage lending.

The net interest margins in banking clearly have been declining since the early 1990s thereby raising the issue of how much bank lending can respond to or be a force supporting economic growth in the future. The trend for net interest indicates that bank lending will not be as strong a supporter of growth going forward as it has in past economic recoveries. This economic cycle, as is true of every cycle, is composed of cyclical movements with an underlying set of structural changes. The credit markets today are an example of this interesting mix.

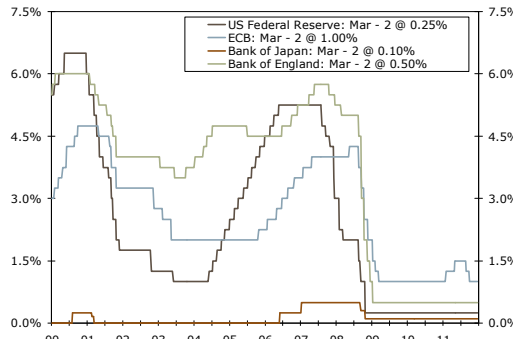
Credit Market Insights

What's Behind the Jump in Refis?

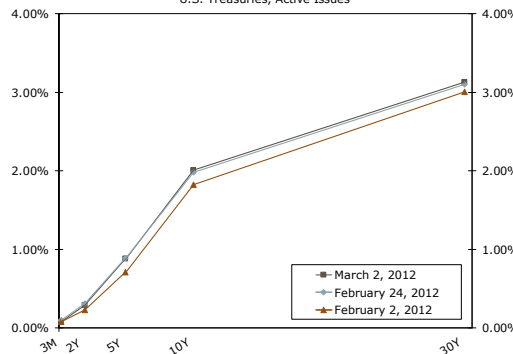
Mortgage refinancing is up 45.1 percent over the past three months, as borrowers are once again taking advantage of record low interest rates. Much of the refinancing activity can be attributed to the Home Affordable Refinance Program (HARP), which now allows even more borrowers to refinance. The loan must be owned by Freddie Mac or Fannie Mae and the borrower must be current on mortgage payments. With the 30-year fixed mortgage rate remaining below 4.0 percent for the past four months, lower mortgage payments could help free up extra cash. The population of borrowers that qualify, however, is still limited.

Tighter underwriting requirements, including higher FICO scores and larger down payments will still sideline would-be refinancing applicants who do not qualify for HARP. FICO scores show that only 13 percent of borrowers with prime conforming loans had a credit score below 720 in 2011, while 54 percent were offered mortgages in 2007. Another obstacle continues to be borrowers that owe more on their mortgage than their home is worth. According to CoreLogic, 11.1 million properties, or nearly 23 percent with a mortgage were in a negative equity position at the end of the fourth quarter of 2011. Until these significant hurdles improve, we do not expect the pick up in refinancing activity to be sustained once the program expires year.

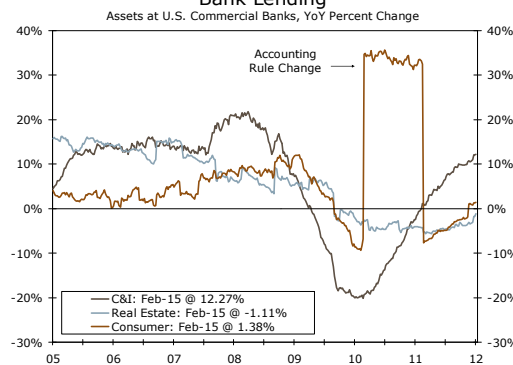
Central Bank Policy Rates



Yield Curve
U.S. Treasuries, Active Issues



Bank Lending



Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
30-Yr Fixed	3.90%	3.95%	3.87%	4.87%
15-Yr Fixed	3.17%	3.19%	3.14%	4.15%
5/1 ARM	2.83%	2.80%	2.80%	3.72%
1-Yr ARM	2.72%	2.73%	2.76%	3.23%

Bank Lending	Current Assets	1-Week Change	4-Week Change	Year-Ago Change
	(Billions)	(SAAR)	(SAAR)	
Commercial & Industrial	\$1,373.3	26.75%	24.34%	12.27%
Revolving Home Equity	\$549.1	-7.38%	7.16%	-4.45%
Residential Mortgages	\$1,550.8	25.65%	30.06%	2.64%
Commercial Real Estate	\$1,425.8	-7.45%	17.22%	-3.65%
Consumer	\$1,087.9	-0.27%	-1.36%	1.38%

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

Topic of the Week

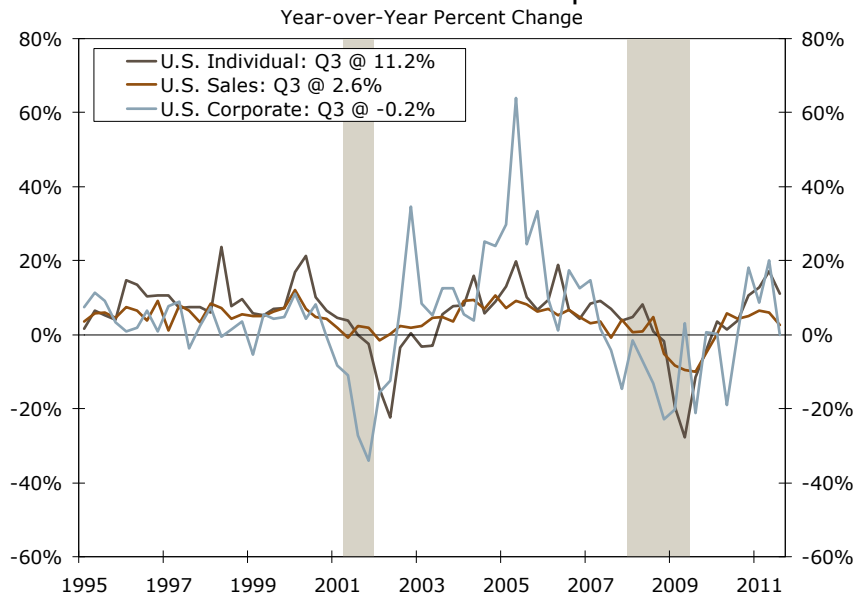
Behavior of State Revenues During Downturns

The 2009 recession was particularly difficult on state governments around the country. As financial markets fell, state revenues followed suit. The downturn in state revenues in 2009 reflected the broad-based contraction in the economy. Corporate and personal-income tax collections plummeted as corporate profits and personal incomes declined. This revenue drop in the last recession was more severe than the contraction in 2001 due to the broad-based nature of the revenue declines. The 2001 recession mostly affected corporate tax collections as can be seen in the chart to the right. The tech bubble and subsequent burst hit corporations more so than individuals. Although the composition of revenue declines was different, some states faced a more severe pullback in revenues than others during both downturns.

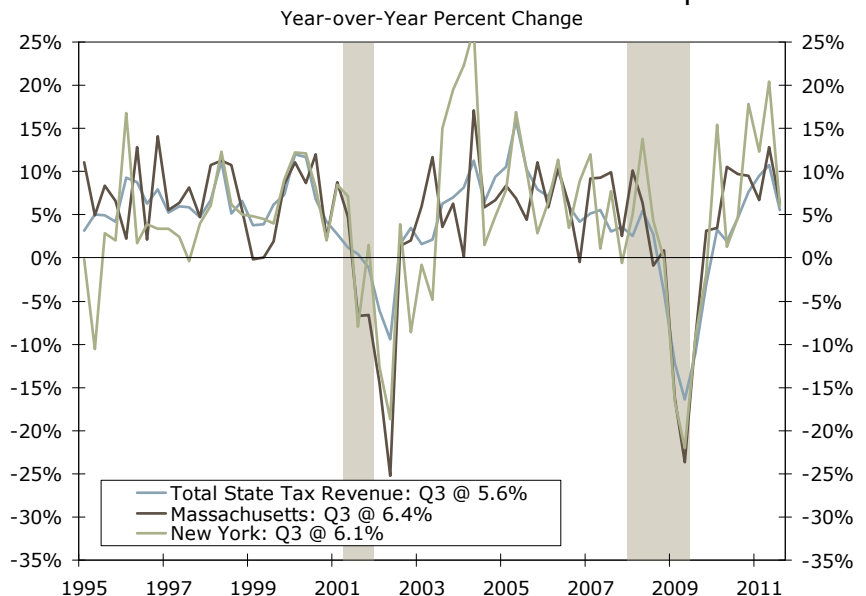
Among the states that experienced more severe revenue declines during both recessions were Colorado, Connecticut, Massachusetts, New York, Ohio and Virginia. Most of these states rely heavily on individual-income tax collections to support revenue growth. Although the loss of personal income was much lower during the 2001 recession, states with greater investment income and a higher concentration of corporate headquarters such as Connecticut, Massachusetts and New York experienced a larger drag on revenues during the 2001 recession.

Many more states faced greater-than-average declines in revenues during the 2009 recession. Among the hardest-hit states were Massachusetts, New York, Oklahoma and Georgia. The steep declines in these states were tied in large part to their exposure to the financial industry. Most of these severely affected states have seen revenues bounce back and state governments in general are much better off than they were a year ago. Now that the effects of the recession are in the rear-view mirror, states continue to focus on diversifying revenue sources and reducing operating costs to ensure budget stability.

U.S. State Tax Receipts



Total and Selected States' Tax Receipts



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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 3/2/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.07	0.09	0.12
3-Month LIBOR	0.48	0.49	0.31
1-Year Treasury	0.21	0.25	0.27
2-Year Treasury	0.28	0.30	0.69
5-Year Treasury	0.86	0.89	2.17
10-Year Treasury	1.99	1.98	3.47
30-Year Treasury	3.11	3.10	4.57
Bond Buyer Index	3.72	3.69	4.90

Foreign Exchange Rates

	Friday 3/2/2012	1 Week Ago	1 Year Ago
Euro (\$/€)	1.320	1.345	1.387
British Pound (\$/£)	1.585	1.588	1.633
British Pound (£/€)	0.833	0.847	0.849
Japanese Yen (¥/\$)	81.560	81.200	81.870
Canadian Dollar (C\$/¥)	0.988	0.999	0.973
Swiss Franc (CHF/\$)	0.914	0.896	0.924
Australian Dollar (US\$/A\$)	1.075	1.069	1.017
Mexican Peso (MXN/\$)	12.797	12.904	12.090
Chinese Yuan (CNY/\$)	6.298	6.298	6.572
Indian Rupee (INR/\$)	49.500	48.945	44.958
Brazilian Real (BRL/\$)	1.727	1.710	1.658
U.S. Dollar Index	79.397	78.352	76.671

Foreign Interest Rates

	Friday 3/2/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.86	0.92	1.05
3-Month Sterling LIBOR	1.05	1.06	0.80
3-Month Canadian LIBOR	1.38	1.39	1.21
3-Month Yen LIBOR	0.20	0.20	0.19
2-Year German	0.16	0.24	1.54
2-Year U.K.	0.40	0.38	1.39
2-Year Canadian	1.11	1.07	1.83
2-Year Japanese	0.11	0.11	0.24
10-Year German	1.81	1.88	3.20
10-Year U.K.	2.16	2.07	3.64
10-Year Canadian	1.98	2.02	3.34
10-Year Japanese	0.97	0.98	1.28

Commodity Prices

	Friday 3/2/2012	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	107.58	109.77	102.23
Gold (\$/Ounce)	1709.58	1772.45	1434.50
Hot-Rolled Steel (\$/S.Ton)	693.00	728.00	860.00
Copper (¢/Pound)	391.05	386.30	448.00
Soybeans (\$/Bushel)	13.15	12.74	13.49
Natural Gas (\$/MMBTU)	2.49	2.55	3.82
Nickel (\$/Metric Ton)	19,404	19,917	28,755
CRB Spot Inds.	549.12	544.02	620.34

Next Week's Economic Calendar

	Monday 5	Tuesday 6	Wednesday 7	Thursday 8	Friday 9
U.S. Data	ISM Non-Mfg. January 56.8 February 55.5 (W)		Nonfarm Productivity 4Q A 0.7% 4Q F 1.0% (W)		Nonfarm Payrolls January 243K February 210K (W)
	Factory Orders December 1.1% January -1.5% (W)		Unit Labor Costs 4Q A 1.2% 4Q F 1.2% (W)		Trade Balance December -\$48.8B January -\$48.4B (W)
			Consumer Credit December \$19.308B January \$12.000B (C)		Wholesale Inventories December 1.0% January 0.6% (C)
Global Data	Eurozone Retail Sales (MoM) Previous (Dec) -0.3%	Eurozone GDP (QoQ) Previous (4Q-F) -0.3%		Germany IP (MoM) Previous (Dec) -2.9%	Canada Employment Change Previous (Jan) 2.3K
	U.K. PMI Services Previous (Jan) 56.0	Canada Ivey PMI Previous (Jan) 64.1		China CPI (YoY) Previous (Jan) 4.5%	Germany Trade Balance Previous (Dec) 12.9B

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

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