March 23, 2012

Economics Group

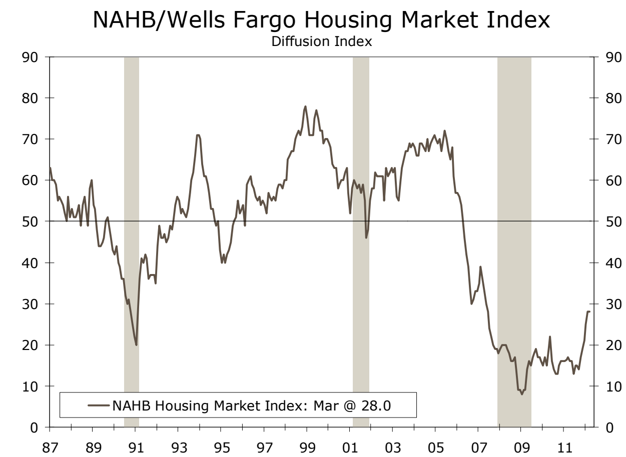
WELLS FARGO SECURITIES

Weekly Economic & Financial Commentary

U.S. Review

Housing Indicators Pulled Back, but Don't Be Alarmed

- This week, the economic calendar was chock-full of housing market data. While housing indicators painted somewhat of a mixed picture, with nearly all housing market indicators unexpectedly declining on the month, we continue to see real improvement. That said, much of the pullback was due to the mild winter, which likely exacerbated the seasonal adjustment process.
- Housing starts unexpectedly fell 1.1 percent to a 698,000-unit pace in February. January starts, however, were upwardly revised to a 706,000-unit pace, the highest level since October 2008.



Global Review

Argentina Walks a Protectionist Path

- Even though the country has continued to record a trade surplus, policies are being implemented to restrict imports, generating problems with the country's main trading partners and especially with Brazil.
- The administration is working to change the central bank's charter to allow the government to use the country's reserves. Thus, the current policy of restricting imports fits the administration's stated strategy. The administration argues that its decision to restrict imports is to protect national industrial interests rather than securing a source of funding for the government.

Wells Fargo U.S. Economic Forecast

	Actual 2011				Forecast 2012				Actual			Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2009	2010	2011	2012	2013
Real Gross Domestic Product [1]	0.4	1.3	1.8	3.0	1.8	1.4	2.4	2.3	-3.6	3.0	1.7	2.0	2.2
Personal Consumption	2.1	0.7	1.7	3.0	1.8	1.3	1.6	1.5	-2.0	2.0	2.2	1.6	1.3
Inflation Indicators [2]													
PCE Deflator	1.8	2.5	2.9	2.7	2.1	1.9	1.7	1.8	0.6	1.8	2.5	1.9	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.8	2.4	2.2	2.4	-0.3	1.6	3.1	2.4	2.3
Industrial Production [1]	4.8	0.7	6.2	3.8	4.4	3.2	3.0	2.2	-11.1	5.3	4.2	3.7	2.3
Corporate Profits Before Taxes [2]	8.8	8.5	7.5	6.4	6.2	6.0	6.3	6.5	9.1	32.2	7.8	6.3	6.5
Trade Weighted Dollar Index [3]	70.6	69.4	72.8	73.3	73.5	74.0	74.5	75.0	77.7	75.6	70.9	74.3	77.0
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.3	8.5	8.4	9.3	9.6	9.0	8.4	8.3
Housing Starts [4]	0.58	0.57	0.62	0.67	0.69	0.70	0.71	0.70	0.55	0.58	0.61	0.70	0.81
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	2.30	2.30	2.40	2.50	3.26	3.22	2.78	2.38	2.73

Forecast as of: March 16, 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

Inside

U.S. Review

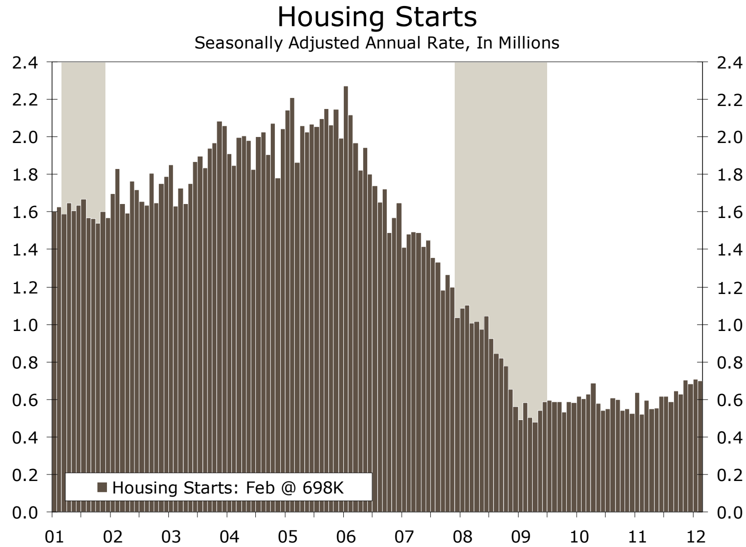
Housing Indicators Pulled back, but Don't Be Alarmed

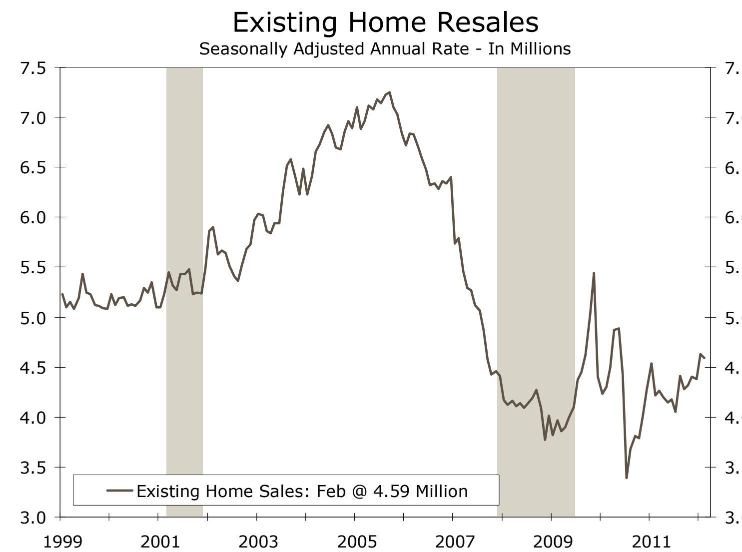
This week the economic calendar was chock-full of housing market data. While the monthly indicators painted a somewhat mixed picture, the housing story remains unchanged. Unseasonably warm weather during the normally slow winter months likely lifted activity due to the seasonal adjustment process. Consequently, the milder weather likely exacerbated the seasonal effect, thereby lifting sales to higher levels than would normally occur. Indeed, according to the NOAA, January and February each registered the fourth warmest winter on record. The pullback in February does not fully characterize the underlying trend in housing. We are seeing real improvement in housing and continue to expect modest gains in the coming months.

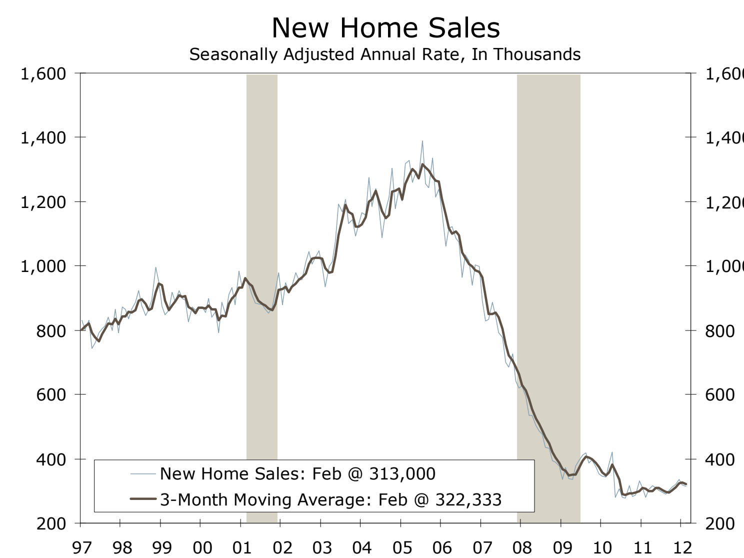
On numerous occasions we have written that the pace of economic growth depends on the housing market recovery. This spring, the homebuying season will provide the real test. However, there are some risks. First, seasonal adjustment factors may once again come into play. Since home sales and new home construction did not fall off as much as they typically do this winter, there may not be as much of a pickup this spring. This will show up as weaker-than-expected seasonally adjusted numbers. Second, the housing market continues to grapple with well noted structural impediments that will make it nearly impossible for supply and demand dynamics to correct in the near term.

One indicator that illustrated disappointing monthly volatility was housing starts. Housing starts unexpectedly fell 1.1 percent to a 698,000-unit pace in February. January starts, however, were upwardly revised to a 706,000-unit pace, the highest level since October 2008. The stall in starts was also mirrored in builder sentiment. Following five consecutive monthly gains, builder confidence was unchanged in March, but remained at the highest level since June 2007. While building activity has clearly picked up in recent months, most of the new home construction is confined to partially complete residential developments, where builders have been able to secure inexpensive lots and construct homes that can compete with nearby foreclosures. Builders have also had some success with infill locations. That said, builders' expectations continue to improve, offering a glimmer of hope.

Existing and new home sales activity also fell back more than expected in February. Sales of existing homes fell 0.9 percent in February to a 4.59 million-unit pace from an upwardly revised 4.63 million-unit pace in January. While the pullback in sales activity may be disconcerting at first blush, some details of the report are a little more encouraging. While still elevated, nearly all components made some improvement. Distressed transactions and contract failures pulled back one percentage point on the month. Moreover, all-cash sales, which are preferred by investors, remained solid accounting for 33 percent of all transactions. Another positive point to be noted is that the inventory of homes available for sale rose 4.3 percent to 2.43 units. Anecdotally, reflecting less trade up activity, some realtors have even mentioned they have too little inventory.





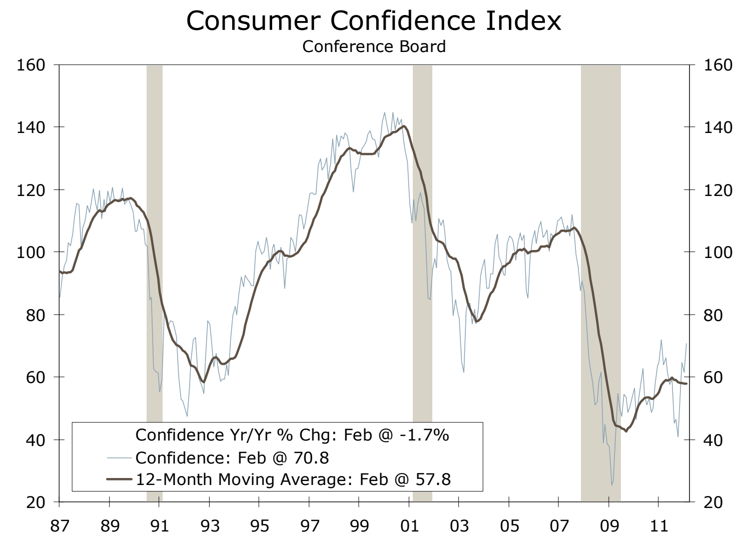


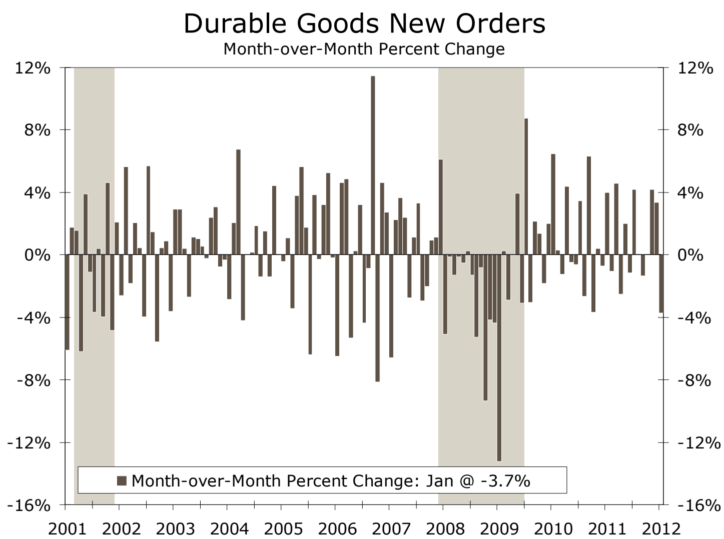
Consumer Confidence • Tuesday

Consumer confidence is likely to fall back a bit in March after rising to 70.8 in February. Consumer confidence is approaching levels last seen in February 2011, although consumer confidence is still at levels consistent with past recessions. Rising gas prices in March appear to have taken some of the wind out of consumers' confidence about the future. Confidence has been on the rise, as stock prices have hit some of the highest levels seen in years. The S&P 500 is up more than 25 percent from its recent low in October 2011 lows and has doubled since the March 2009 trough. At the same time, the drop in initial jobless claims and better nonfarm payroll growth suggests a real firming in the U.S. labor market. The University of Michigan's Consumer sentiment indicator receded in March, as falling consumer expectations led the decline. Other consumer confidence indexes for March have been mixed.

Previous: 70.8 **Wells Fargo: 72.6**

Consensus: 70.0





Durable Goods Orders • Wednesday

Durable goods orders should see a solid rebound for February from a deep 3.7 percent drop in January. Boeing's orders remain healthy, which should provide an important support for the headline orders figures in February. Manufacturing appears to have cooled in February, but there is little sign of a big reversal of fortune. The ISM manufacturing index slipped to 52.4 from 54.1, while industrial production for February was unchanged from an upwardly revised January gain. Despite the softer manufacturing data in February, we still expect business equipment and software expenditures to rise at a faster pace in the first quarter of 2012 than they did in the fourth quarter. Generally the first month of the quarter tends to be weaker than the others, giving us some reason to look for a bounce in February orders. We need to see a rebound in durable orders excluding transportation to give investors confidence that the recent slowing in orders is only temporary.

Previous: -3.7% (Month-over-Month) **Wells Fargo: 3.4%**

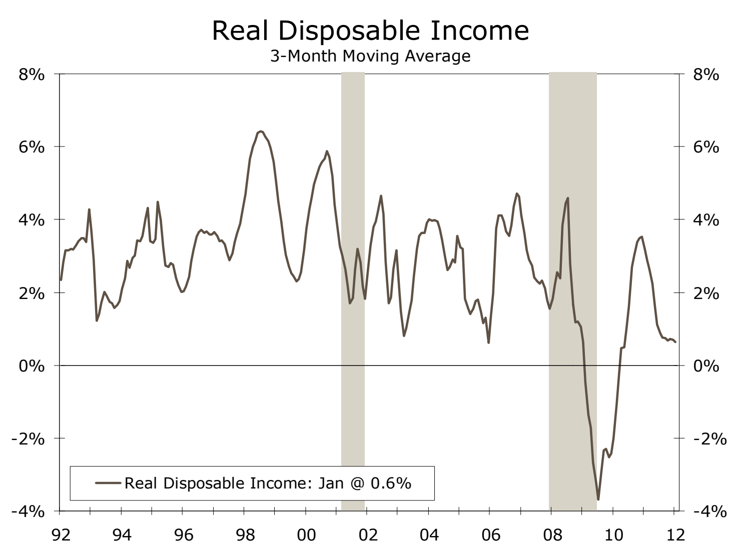
Consensus: 2.9%

Personal Income • Friday

Personal income should grow at a slightly faster 0.4 percent pace in February, while personal consumption expenditures are expected to sprint ahead at a 0.6 percent pace on the month. The stronger-than-expected February non-farm payroll report certainly makes an upside surprise more likely. February retail sales jumped 1.1 percent from January and unit vehicle sales rocketed to 15.0 million units on an annualized basis; 900,000 more on an annualized basis than in January. Income growth has been somewhat disappointing given the renewed strength in the U.S. labor market and in real terms disposable personal income growth has been having trouble staying ahead of inflation. Consumers have been spending more, but have had to reduce their saving rate and take on more consumer debt to keep their current pace of spending growth. Stronger income growth is badly needed at this point to sustain further improvement in consumer spending.

Previous: 0.3% (Month-over-Month) **Wells Fargo: 0.3%**

Consensus: 0.4%



Global Review

Argentina Walks a Protectionist Path

Argentina continues to be the talk of South America. Everybody that comments on the country's economy says that it is growing fast and that it seems to be an example to follow. However, not everything that shines is gold. Argentina's government has been meddling with the calculation of the rate of inflation, showing a lower rate of inflation than what is really true, according to private statistical calculations. And now, it seems to also have been meddling with the GDP growth numbers, according to a recent article written by one of Argentina's top economists. According to this article, the Argentine economy grew by about 6 percent rather than 9 percent, as the government reported for 2011. Of course, 6 percent is still good but at some point in time this meddling with the numbers will severely affect confidence.

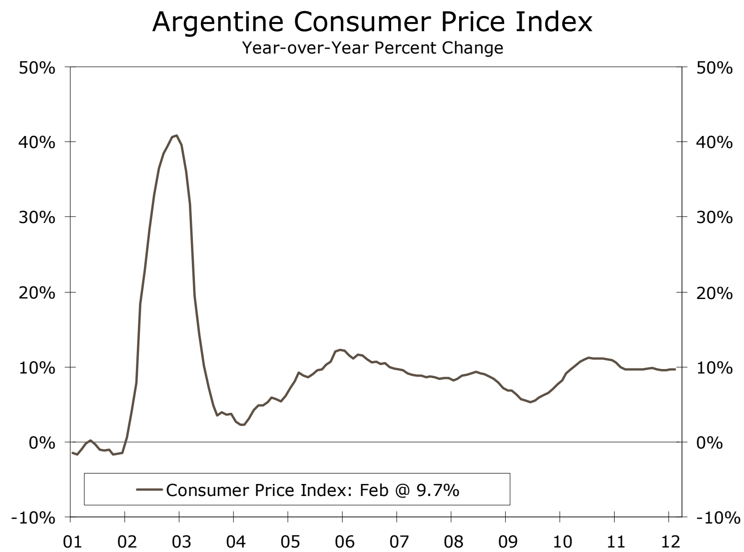
A higher rate of inflation makes your currency less competitive, i.e., your currency appreciates in real terms versus other currencies of the world, especially if the country's central bank has a policy of preventing the domestic currency from nominally depreciating or it allows the currency to depreciate at a slower pace than the rate of inflation.

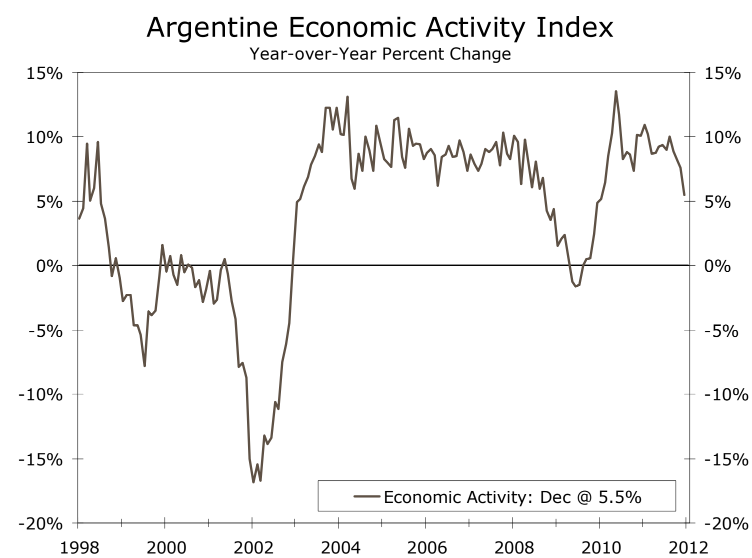
Today, even though the country has continued to record a trade surplus, policies are being implemented to restrict imports, generating problems with the country's main trading partners, but especially with Brazil. Brazil, as a member of the Mercosur custom union, has institutionalized mechanisms at its reach to try to solve its disputes with Argentina. The problem seems to be that these measures are broadening in scope, affecting other countries that are not part of Mercosur.

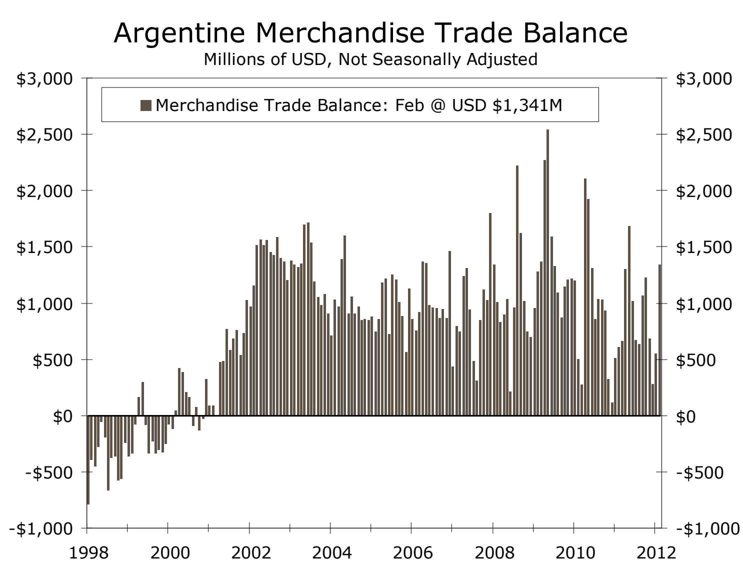
For these countries the problem is different. According to recent reports Perú, Chile, México and Colombia are planning to complain against Argentina's trade restrictions to the World Trade Organization. According to Argentine government officials they have not heard anything about a complaint from those countries yet.

Argentina still has a surplus of a bit more than $10 billion per year, from a peak surplus of more than $17 billion back in 2009. Thus, it is not that the country is about to face a balance of payment crisis due to a large trade or current account deficit. However, the government is probably trying to preserve one of the most important sources of foreign reserves. The Kirchner administration has already used the country's foreign reserves as its piggy bank to pay debts. In fact, the previous central bank president was removed from his post when he opposed the administration's decision to use those reserves to pay back debt.

Today, the administration is working to change the central bank's charter to allow the government to use the country's reserves as a source for paying government debt. Thus, the current policy of restricting imports fits the administration's stated strategy. Of course, the administration argues that its decision to restrict imports is to protect national industrial interests rather than securing a source of funding for the government. Whatever the reasons may be, the strategy will probably continue.





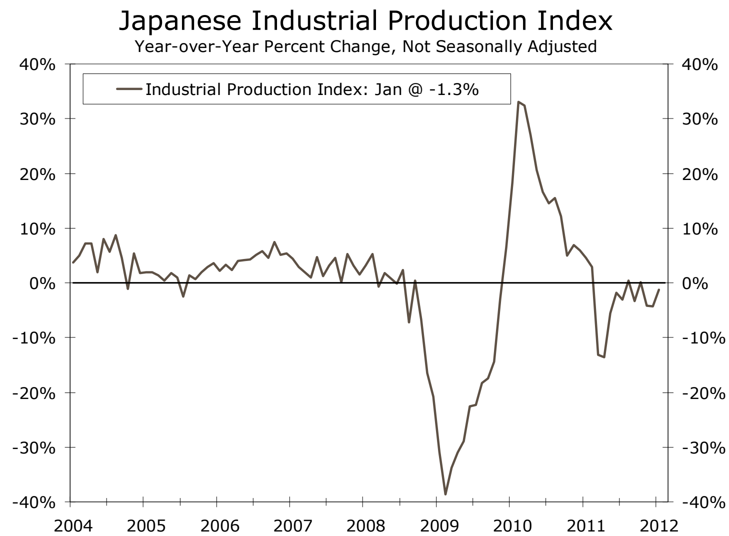


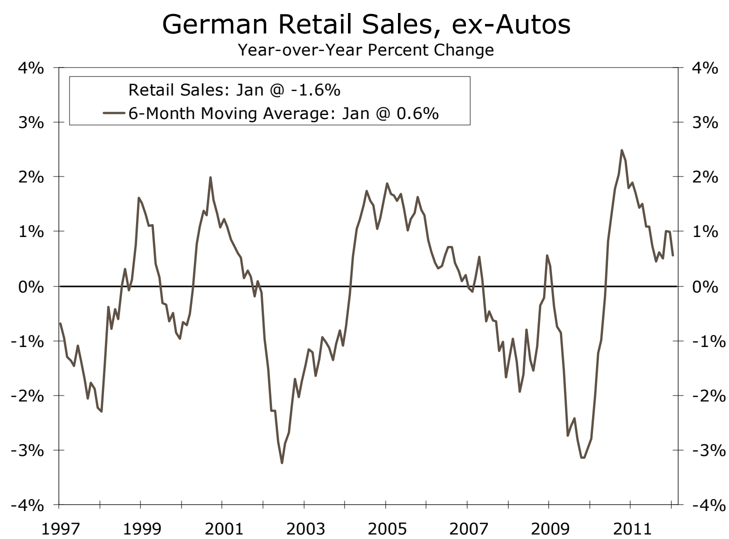
Japan Industrial Production • Thursday

Industrial production slowed in January to 1.9 percent month over month from 3.8 percent in December. However, the year-over-year pace improved to -1.3 percent from -4.3 percent. Auto production was up 5.3 percent on the month, as it appears production is leveling out following the volatility due to the flooding in Thailand late last year, the effects of which reverberated throughout the supply chain. Although semiconductor parts production posted positive growth for the first time in months, production was still down 21.6 percent from a year ago, as this industry was also affected by the floods. According to the World Bank, the Thailand flooding was the fourth-costliest natural disaster on record behind the Japanese earthquake and tsunami of 2011, the Kobe earthquake in 1995 and Hurricane Katrina in 2005. Thus, it will take awhile for production in many of the region's industries to return to normal. The slowdowns in Europe and China will only lengthen the process.

Previous: -1.3% (Year-over-Year)

Consensus: 3.7%





Germany Retail Sales • Friday

German retail sales excluding autos fell 1.6 percent in January from the prior month, the biggest decline since May. In real terms, sales fell 2.3 percent, the largest drop in three years. In addition, the three-month moving averages for nominal and real sales have been trending down for several months. In January, Germans bought less food, tobacco and clothing for the third straight month. Vehicle sales also declined and have been flat or negative for three months running.

Just as politicians appear to be making progress on the European debt crisis, along comes a rise in oil and gas prices to put a further damper on the outlook. Recent increases in consumer confidence and employment and strong, albeit slowing, wage growth should lead to somewhat better retail sales numbers for March. However, the recent increase in gas prices may have kept sales for other goods subdued despite improving job growth and confidence.

Previous: -1.6% (Month-over-Month)

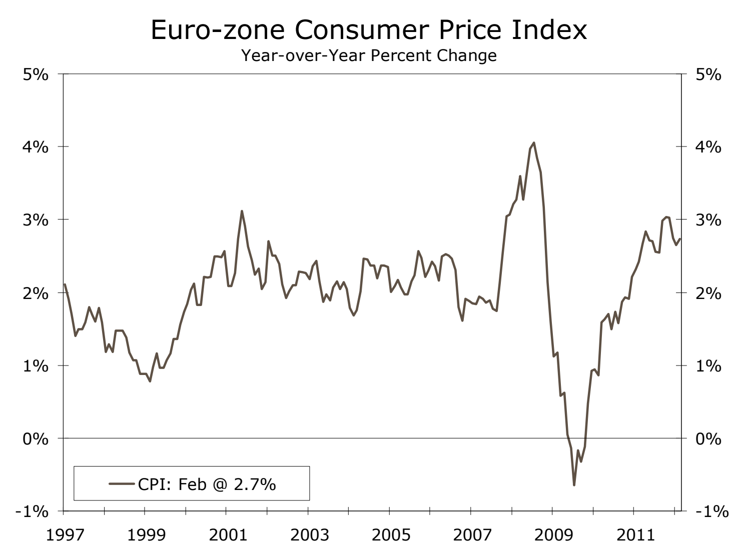
Consensus: 1.1%

Eurozone Consumer Prices • Friday

Eurozone consumer prices rose 0.5 percent in February from January and were up 2.7 percent from a year ago. Core inflation held at 1.5 percent year over year. Price growth accelerated on a year-ago basis for food, alcohol and tobacco, clothing, transport, hotels and restaurants. Energy prices also saw faster growth, rising 9.5 percent year over year, up from January's 9.2 percent. Gas and heating oil prices accounted for the bulk of the year-over-year rise in prices. The jump in energy prices comes at a time when the European Central Bank (ECB) has been trying to stimulate the economy in the aftermath of the global downturn and subsequent debt crisis. While inflation has been trending down recently, it remains above the ECB's 2 percent target. Further increases in oil prices could complicate the bank's attempts to support the economy. Still, we do not believe the ECB will raise interest rates to fight inflation like they did last year; the economy is just too fragile.

Previous: 2.7% (Year-over-Year)

Consensus: 2.5%



Interest Rate Watch

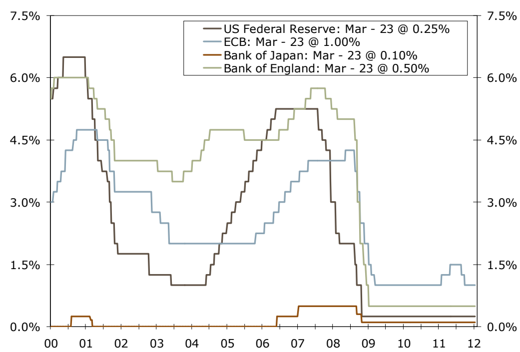
European Rates Have Receded

As we discussed in this space in our January 20, 2012 weekly report, LIBOR rates declined after central banks took some steps to improve liquidity in funding markets. First, on Nov. 30, six central banks (including the Federal Reserve) reduced interest rates that they charge each other for swap-line borrowing. Second, not only did the European Central Bank (ECB) cut its main policy rate by 50 bps late last year, but it conducted two long-term refinancing operations that allowed European banks to lock up funding from the ECB for three years.

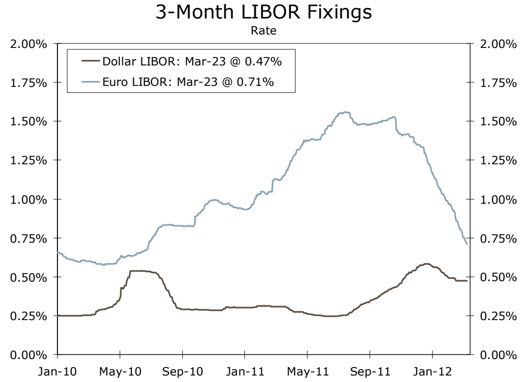
In the case of euro LIBOR, interest rates continue to trend lower. The three-month euro LIBOR rate, which exceeded 1.50 percent in early November, has receded to about 0.70 percent (middle chart). The three-month U.S. dollar LIBOR rate has declined about 10 bps from its recent peak at the end of last year, but it is now moving sideways. Moreover, with the federal funds rate effectively at 0 percent, the three-month LIBOR rate should only be 0.15 percent to 0.20 percent if times were “normal.” Just as the three-month LIBOR rate remained elevated ahead of year-end, some analysts believe that end-of-quarter funding pressures will keep rates high for another week. According to this analysis, U.S. dollar LIBOR rates should recede further after the end of the quarter passes.

The financial steps taken by European authorities have also reduced borrowing costs faced by many European governments. For example, the yield on the 10-year Italian government bond has fallen more than 200 bps since the beginning of the year, and yields on Spanish government bonds have also receded as well (bottom chart). Lower borrowing costs are important because they help improve the debt sustainability prospects of the Italian and Spanish governments. Italy and Spain should be able to eventually stabilize their debt-to-GDP ratios if borrowing costs remain where they are today. However, there is no guarantee that rates will remain where they are, and the crisis could rear its ugly head again. Stay tuned.

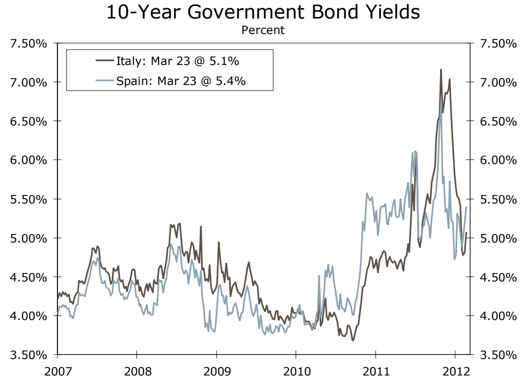
Central Bank Policy Rates



3-Month LIBOR Fixings



10-Year Government Bond Yields



Credit Market Insights

Public Sector Borrowing Overtakes Household Borrowing

Total credit market borrowing for domestic nonfinancial sectors continued to advance in the fourth quarter, rising at an annualized rate of 4.9 percent. The federal government sector was the largest driver of the increase as borrowing through Treasury securities increased at a $1.3 trillion annualized pace. Households continued to reduce mortgage debt over the fourth quarter, but a jump in consumer credit led to the first increase in total household credit borrowing since the second quarter of 2008. Despite the uptick in total household borrowing over the past quarter, the government sector is now the largest borrower via credit market instruments. While state and local governments have reduced credit liabilities by 1.9 percent over the past year, debt in this sector still stands at more than $3 trillion. This combined with the rapid rise in federal debt since the recession has pushed up total public sector debt, while household credit liabilities are 4.6 percent below their peak in the third quarter of 2008 after significant deleveraging.

In the nonfinancial corporate sector, debt also picked up in the fourth quarter, rising at a $460 billion, or 6.0 percent, annualized rate. Driving the acceleration were corporate bond liabilities, as companies took advantage of lower yields during the quarter. Corporate bond debt now stands at $4.9 trillion, an increase of 1.8 percent from the third quarter.

Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
30-Yr Fixed	4.08%	3.92%	3.95%	4.81%
15-Yr Fixed	3.30%	3.16%	3.19%	4.04%
5/1 ARM	2.96%	2.83%	2.80%	3.62%
1-Yr ARM	2.84%	2.79%	2.73%	3.21%

Bank Lending	Current Assets (Billions)	1-Week Change (SAAR)	4-Week Change (SAAR)	Year-Ago Change
Commercial & Industrial	$1,379.3	4.99%	11.32%	12.23%
Revolving Home Equity	$547.2	-13.68%	-9.56%	-4.47%
Residential Mortgages	$1,567.3	1.91%	15.38%	4.34%
Commerical Real Estate	$1,424.4	-5.64%	-2.76%	-3.39%
Consumer	$1,093.4	-0.96%	6.51%	1.76%

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

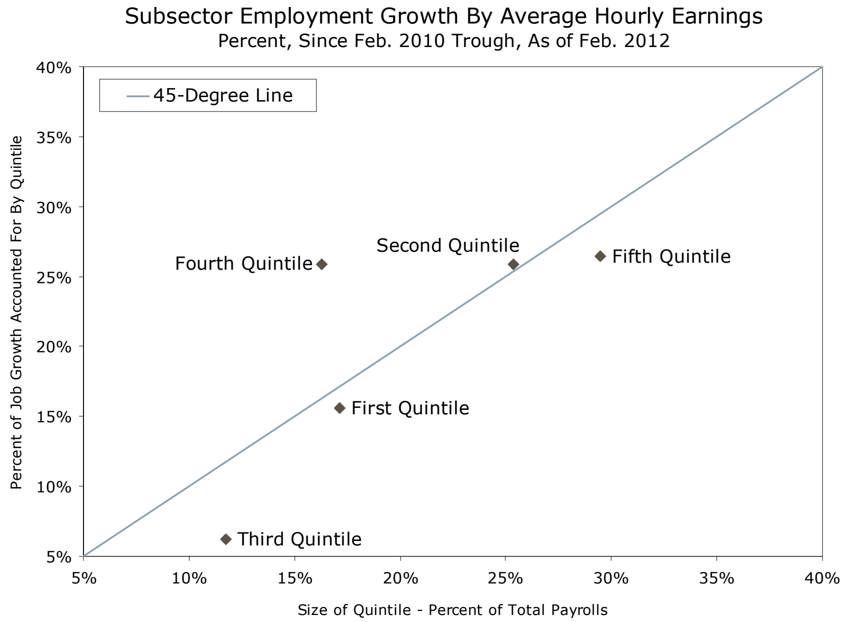
Topic of the Week

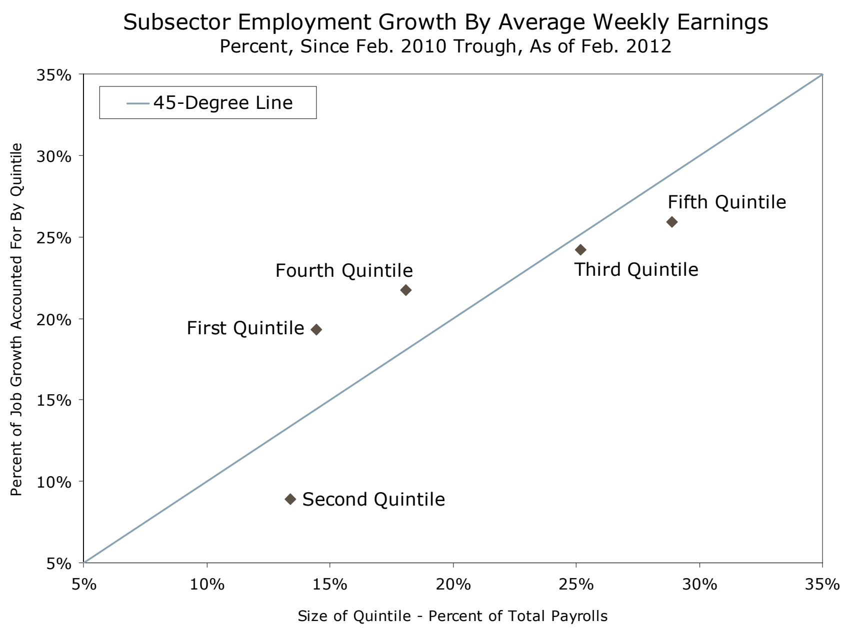
Quality of Jobs Added and Weak Income Growth

It is well known that the current labor market recovery has been characterized by exceptionally sluggish income growth. Over the past year, disposable personal income has risen only 3 percent, which is well below the above 5 percent pace in disposable income growth witnessed at the same stage in the previous expansion. The sluggish income growth associated with the current cycle has prompted a debate as to whether weak income gains are related to the composition and pay of the jobs that have been added in recent years or simply due to excess slack in the labor market.

In a report released this week (See, *The Composition of Job Growth: A Low-Wage Bias?*), we examined employment trends at the North American Industry Classification System's three-digit subsector level to determine whether job growth in the current cycle has been disproportionately skewed toward low-wage professions. Our analysis ranked subsectors by average hourly earnings and by average weekly earnings. In each case, the results are the same: That is, there is little evidence to suggest that job growth has been primarily concentrated at the bottom of the earnings distribution in recent years.

The two charts to the right show the overall employment performance of each earnings quintile since the overall labor market bottom in February 2010, using hourly and weekly earnings measures to determine the subsectors in each quintile. If a quintile lies above the 45-degree line, it suggests that the quintile has experienced a relatively strong recovery. Similarly, if a quintile lies below the 45-degree line, it suggests that the quintile has experienced a relatively weak recovery. In each chart, the fifth quintile lies below the 45-degree line, suggesting that job growth has not been disproportionately concentrated at the bottom of the earnings distribution. Our findings therefore suggest that, rather than the quality of job growth, labor market slack is likely the overriding factor accounting for the sluggish income growth witnessed in recent years.





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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 3/23/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.07	0.08	0.08
3-Month LIBOR	0.47	0.47	0.31
1-Year Treasury	0.23	0.24	0.26
2-Year Treasury	0.35	0.36	0.66
5-Year Treasury	1.08	1.11	2.05
10-Year Treasury	2.23	2.29	3.35
30-Year Treasury	3.32	3.41	4.45
Bond Buyer Index	4.01	3.95	4.91

Foreign Exchange Rates

	Friday 3/23/2012	1 Week Ago	1 Year Ago
Euro ($/€)	1.325	1.318	1.409
British Pound ($/£)	1.585	1.584	1.624
British Pound (£/€)	0.836	0.832	0.868
Japanese Yen (¥/$)	82.340	83.430	80.920
Canadian Dollar (C$/$)	1.002	0.992	0.982
Swiss Franc (CHF/$)	0.910	0.916	0.908
Australian Dollar (US$/A$)	1.039	1.059	1.013
Mexican Peso (MXN/$)	12.858	12.669	12.022
Chinese Yuan (CNY/$)	6.308	6.323	6.560
Indian Rupee (INR/$)	51.218	50.386	44.964
Brazilian Real (BRL/$)	1.822	1.800	1.660
U.S. Dollar Index	79.459	79.786	75.794

Foreign Interest Rates

	Friday 3/23/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.71	0.75	1.14
3-Month Sterling LIBOR	1.03	1.04	0.81
3-Month Canadian LIBOR	1.37	1.37	1.20
3-Month Yen LIBOR	0.20	0.20	0.20
2-Year German	0.22	0.33	1.69
2-Year U.K.	0.43	0.48	1.28
2-Year Canadian	1.23	1.28	1.68
2-Year Japanese	0.11	0.12	0.22
10-Year German	1.86	2.05	3.24
10-Year U.K.	2.25	2.45	3.55
10-Year Canadian	2.16	2.24	3.21
10-Year Japanese	1.03	1.05	1.23

Commodity Prices

	Friday 3/23/2012	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	106.27	107.06	105.75
Gold ($/Ounce)	1657.58	1660.00	1437.40
Hot-Rolled Steel ($/S.Ton)	690.00	690.00	875.00
Copper (¢/Pound)	377.75	387.40	441.85
Soybeans ($/Bushel)	13.45	13.64	13.42
Natural Gas ($/MMBTU)	2.30	2.33	4.34
Nickel ($/Metric Ton)	18,376	19,299	26,340
CRB Spot Inds.	541.95	547.61	620.61

Next Week's Economic Calendar

	Monday 26	Tuesday 27	Wednesday 28	Thursday 29	Friday 30
U.S. Data	**Pending Home Sales** January 2.0% February 1.0% (C)	**S&P/CS 20 City (MoM)** December -0.50% January -0.30% (C) **Consumer Confidence** February 70.8 March 72.6 (W)	**Durable Goods Orders** January -3.7% February 3.4% (W) **Durable Goods Ex Tran.** January -3.0% February 1.2% (W)	**GDP (Q/Q Annualized)** 4Q-S 3.0% 4Q-T 3.0% (W) **Personal Consumption** 4Q-S 2.1% 4Q-T 2.1% (C)	**Personal Income** January 0.3% February 0.3% (W) **Personal Spending** January 0.2% February 0.5% (W) **PCE Deflator (YoY)** January 2.4% February 2.3% (W)
Global Data	**Germany** **IFO- Business Climate** Previous (Feb) 109.6		**Germany** **CPI (YoY)** Previous (Feb) 2.3%	**Japan** **IP (YoY)** Previous (Jan) -1.3% **Japan** **CPI (YoY)** Previous (Jan) 0.1%	**Germany** **Retail Sales (MoM)** Previous (Jan) -2.3% **Eurozone** **CPI (YoY)** Previous (Feb) 2.7%

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

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