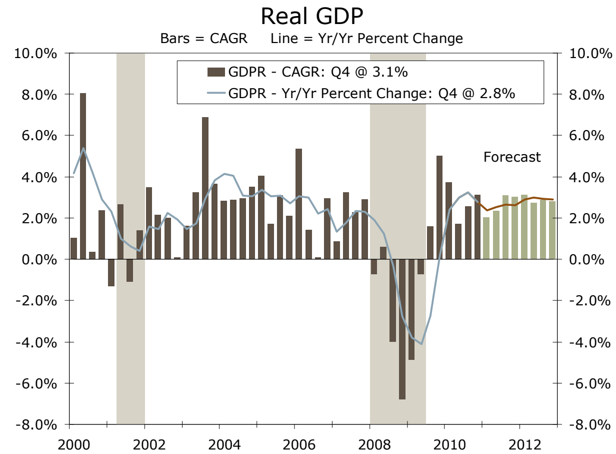
Economics Group

Weekly Economic & Financial Commentary

U.S. Review

Slightly Slower Growth Amid Strengthening Job Market

- In our latest forecast, we pared back our outlook for first-quarter growth due to soft numbers on consumer and business spending growth, as well as a slightly larger drag from international trade. We still look for continued expansion this year with the economy growing at a roughly 3 percent pace in the second half of the year.
- The recovery in the job market seems to have shifted gears. With initial jobless claims below 400,000 for six of the past seven weeks, we are now at a level that is historically associated with strong job growth.



Global Review

Mixed Signals in Russia

- Russian economic growth improved to 4.5 percent year over year in the fourth quarter from 3.1 percent. Manufacturing and construction led the way, while rising oil prices bolstered net exports. Wholesale and retail trade slowed, however, as rising inflation crimped real wage growth.
- While high oil prices are hurting Russian consumers, they should benefit the country overall. Higher tax revenues from oil exports should support government spending in the run-up to the elections. Increased capital flows have bolstered the ruble and the stock market rally.

Wells Fargo U.S. Economic Forecast

	Actual 2010				Forecast 2011				Actual			Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2008	2009	2010	2011	2012
Real Gross Domestic Product [1]	3.7	1.7	2.6	3.1	2.0	2.3	3.1	3.0	0.0	-2.6	2.9	2.5	2.9
Personal Consumption	1.9	2.2	2.4	4.0	2.0	1.9	2.1	3.0	-0.3	-1.2	1.7	2.5	2.3
Inflation Indicators [2]													
"Core" PCE Deflator	1.8	1.5	1.2	0.8	0.9	1.0	1.3	1.7	2.3	1.5	1.3	1.2	1.8
Consumer Price Index	2.4	1.8	1.2	1.2	2.2	3.3	3.6	3.8	3.8	-0.3	1.6	3.2	3.3
Industrial Production [1]	8.1	7.1	6.7	3.7	5.6	2.7	4.1	3.9	-3.3	-11.1	5.3	4.6	3.9
Corporate Profits Before Taxes [2]	37.6	37.0	26.4	18.3	8.2	6.2	6.2	6.7	-16.4	-0.4	29.2	6.8	7.0
Trade Weighted Dollar Index[3]	76.1	78.8	73.6	73.2	70.6	71.0	72.0	73.0	74.3	77.7	75.6	71.6	75.5
Unemployment Rate	9.7	9.6	9.6	9.6	8.9	8.7	8.5	8.4	5.8	9.3	9.6	8.6	8.2
Housing Starts[4]	0.62	0.60	0.59	0.53	0.55	0.58	0.64	0.70	0.90	0.55	0.59	0.62	0.83
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	1.88	0.25	0.25	0.25	1.19
Conventional Mortgage Rate	4.97	4.74	4.35	4.71	4.84	5.20	5.25	5.30	6.04	5.04	4.69	5.15	5.70
10 Year Note	3.84	2.97	2.53	3.30	3.47	3.70	3.75	3.80	3.66	3.26	3.22	3.68	4.23

Forecast as of: April 6, 2011
[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

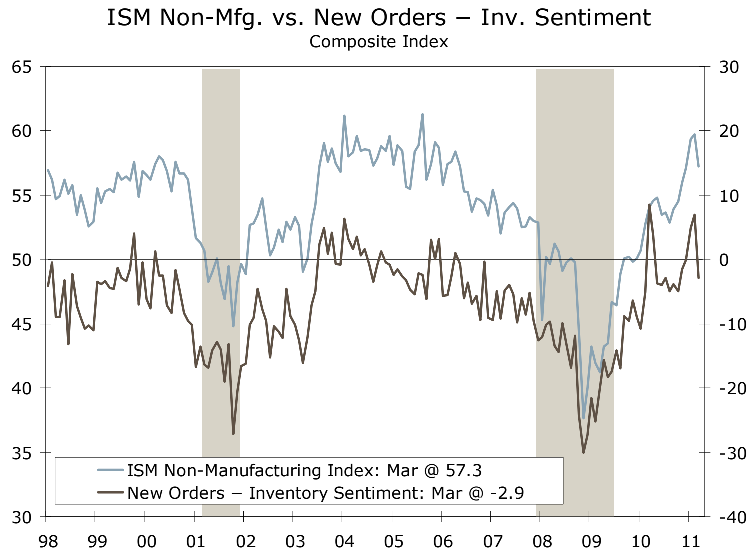
ISM Non-Manufacturing Report Mirrors Economy

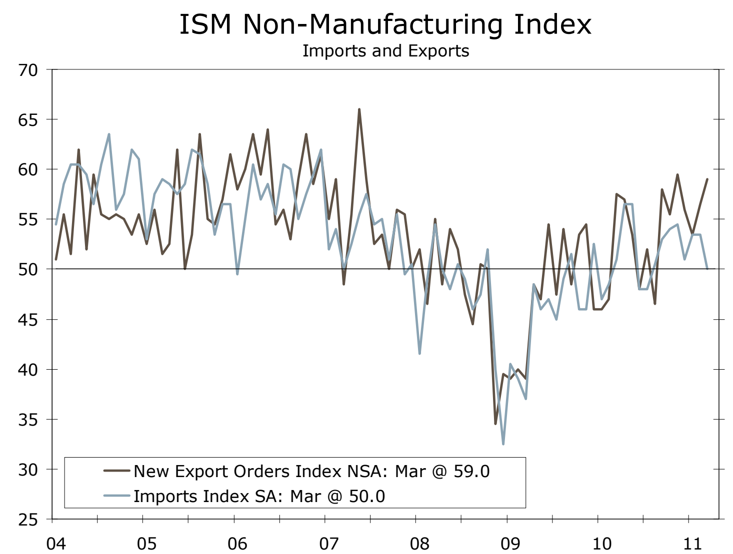
We learned this week that the ISM non-manufacturing index slipped to 57.3 in March from 59.7 in February. While this does suggest a somewhat slower pace of growth in the service sector, a reading in the high 50s is still consistent with economic expansion. In many ways, this report is consistent with our assessment of the ongoing economic expansion, which is to say a slightly slower pace of growth, but still firmly in expansion. The new orders subcomponent slipped a bit to 64.1 from 64.4 in February—not altogether shocking considering the slowing we have seen in recent months in new orders for nondefense capital goods ex-aircraft, our favorite yardstick for business spending. We still look for business spending to contribute meaningfully to growth this year, particularly in terms of increased spending on equipment and software. That said, in our latest revision to our forecast we dialed back our first-quarter estimates for the contribution to GDP growth from business spending in light of the recent orders weakness. Combined with an outlook for slower consumer spending growth and a slightly larger drag from international trade, we now look for first-quarter GDP growth to come in at just a 2.0 percent annualized pace.

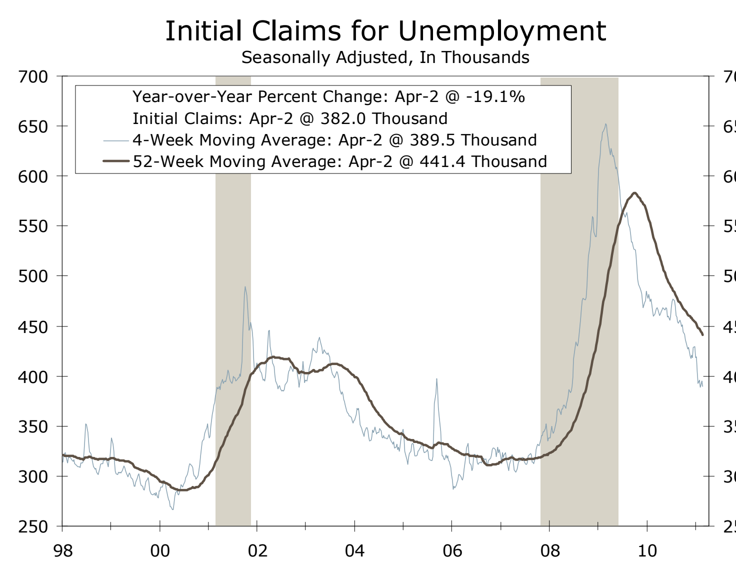
While export growth has held fairly steady, the drag from trade is the result of a recent surge in imports driven primarily by autos and petroleum products. The jump certainly reflects the recent spike in oil prices, but petroleum imports picked up on a volume basis as well. Not only are we paying more per barrel, but we are importing more barrels as well. Oil prices are not expected to decline anytime soon, but we expect this dynamic to unwind somewhat in coming months as exports outpace imports and we see some evidence of that in this week's ISM Non-Manufacturing report as well. The export orders series strengthened to 59.0 from 56.5 the previous month, while the imports component slipped to the breakeven 50 level in March from 53.5 in February.

Consumer Outlook and Jobs

When consumer spending surged to a more than 4 percent annualized pace in the fourth quarter we said at the time that we did not think that pace growth could be sustained given the challenges in the job market. Our most recent revision pared back the outlook for consumer spending growth to a 2.o percent growth rate in the first quarter. Higher food and gas costs are holding back stronger growth in consumer spending in our opinion. In addition, consumers remain fairly highly levered and we suspect the deleveraging process will translate into spending growth over the next few years that will seem restrained compared with the fast-growing pace of consumer spending we saw in the last cycle. One dynamic that is supportive for the consumer outlook is that despite signs of slowing growth in other parts of the economy, the job market finally seems to have kicked into gear. On top of March's strong 216,000 increase in payrolls, initial claims for unemployment insurance continue to trend lower and have come in below the key 400,000 level six times in the past seven weeks.





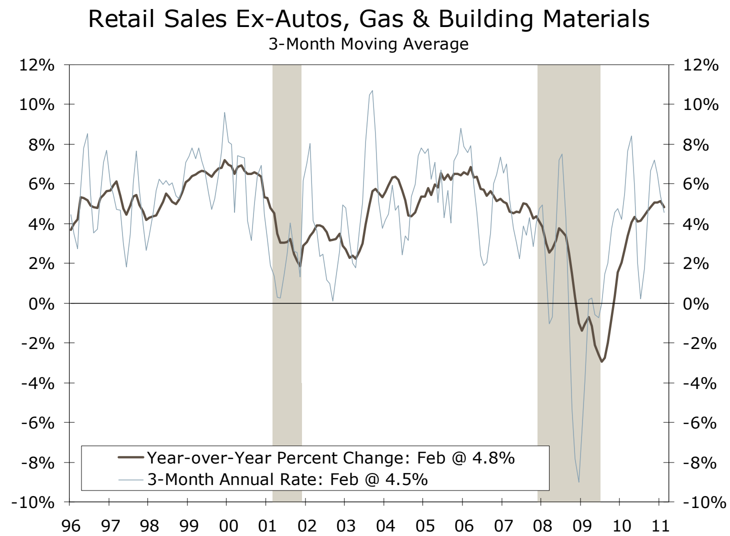


Retail Sales • Wednesday

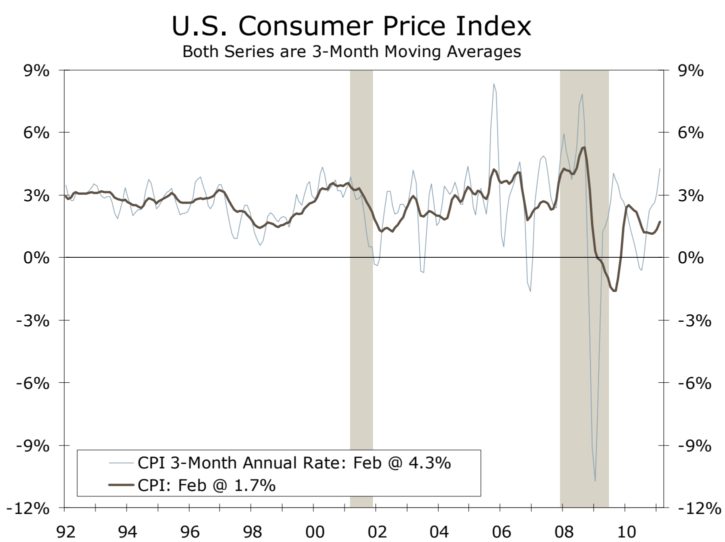
Retail sales continued to increase for the eighth consecutive month in February. On a three-month annualized basis, retail sales excluding gasoline, building materials and autos, are now up 4.5 percent, which should provide a modest boost to real GDP in the first quarter. We expect consumer spending to increase at a 2.0 percent annual pace in the first quarter, which is much slower than the 4.0 percent annual pace in the fourth quarter. While consumers returned to stores in great numbers for the holiday season, many have returned to repairing impaired balanced sheets. In the coming months, much of the increase in headline retail sales will likely be driven by higher prices at the pump. As consumers reallocate spending to compensate for higher commodity prices, we could see a pullback in other components. Supporting our forecast, same-store sales rose a modest 2.0 percent in March, on a year ago basis with increases in luxury, wholesale clubs and drug stores.

Previous: 1.0% **Wells Fargo: 1.2%**

Consensus: 0.5% (Month-over-Month)



Consumer Price Index • Friday



Led by the higher energy and food prices, consumer prices rose a broad-based 0.5 percent in February, the largest monthly gain since June 2009. On a year-ago basis, consumer prices are now up 2.1 percent in February from 1.6 percent in January. Producers have been grappling with higher raw material costs for some time and due to sluggish demand have been unable to pass on much of the increased costs. Real final sales are expected to grow at a modest 2.9 percent annual pace in 2011, which is a pickup from the sluggish 1.4 percent annual pace in 2010. Producers are likely trying to recover some of the expenses and the projected slight increase in demand provides a glimmer of hope. Moreover, housing which has been subdued, rose 0.3 percent in February. Core prices, however, remain muted at 1.1 percent in February on a year-ago basis which should give the Fed continued flexibility.

Previous: 0.5% **Wells Fargo: 0.6%**

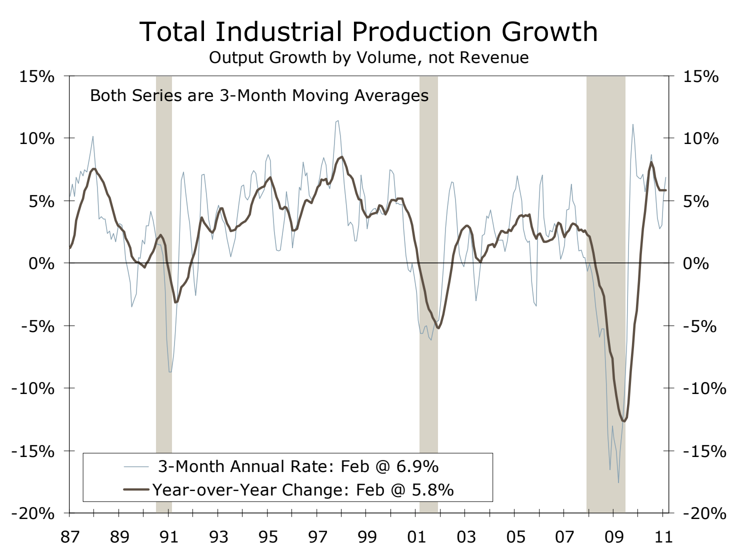
Consensus: 0.5% (Month-over-Month)

Industrial Production • Friday

Industrial production fell an unexpected 0.1 percent in February, but much of the decline was likely due to weather. According to NOAA, for the central and southern United States, the second half of the month saw temperatures 15 degrees higher than normal, on average, while a warm spell brought spring-like weather early in the Southeast. Utilities fell a sharp 4.5 percent in February, but are expected to rebound in March. Manufacturing output, however, continued to gain momentum and is up 6.9 percent on a year ago basis. The strength in the factory sector is being led by robust growth in the auto sector, but the natural disaster in Japan could slow some of this momentum. Manufacturing production should remain in positive territory in coming months, however. To support this claim, the ISM Manufacturing Survey Index showed solid strength in March with the forward-looking new orders component firmly in expansionary territory. Regional surveys were also strong.

Previous: -0.1% **Wells Fargo: 0.8%**

Consensus: 0.5% (Month-over-Month)



Global Review

Mixed Signals in Russia

Russia's economic growth accelerated in the fourth quarter to 4.5 percent year over year following a 3.1 percent pace in the third quarter. Still, growth lagged the other BRIC countries as China's economy grew 10.3 percent in the fourth quarter, India's grew 8.2 percent and Brazil's expanded 5.0 percent. Manufacturing in Russia rose 13.3 percent, while construction jumped 6.1 percent after several quarters of declines. The agriculture sector saw a second straight contraction amid lingering effects of the drought and fires of last summer that brought wheat exports to a standstill. But the spike in oil prices fueled a $6.6 billion increase in oil exports in the fourth quarter compared to a year ago that far outweighed the $1.1 billion decline in wheat exports. Meanwhile, wholesale and retail trade grew just 4.5 percent, the slowest growth in a year. Retail sales have taken it on the chin recently as rising food and gasoline prices have led to slower real wage growth. In fact, real disposable incomes declined on a year-ago basis in the first two months of the year.

After soaring to 9.6 percent year over year in January from the July low of 5.5 percent, inflation leveled off at 9.5 percent in February and March as food price inflation leveled off at a little over 14 percent. Still, grain prices are a staggering 81.1 percent higher than a year ago, while bread is up 12.6 percent, pasta is up 9.1 percent and meat is up 9.0 percent. With the recovery still on shaky ground and the ruble appreciating on the back of higher oil prices, the central bank left interest rates unchanged on March 25, choosing instead to raise bank reserve requirements for the fourth consecutive month to fight inflation and tamp down inflation expectations.

While higher oil prices are bad news for consumers, they are good news for Russia on the whole in our opinion. Higher oil prices should lead to more tax revenue for the government. With parliamentary elections coming up in December and the presidential election looming in March 2012, higher tax revenues from strong oil exports should allow the government to step up government spending in an effort to win voter support. In addition, high oil prices are attracting foreign capital to Russia's shores, helping to strengthen the ruble, which has appreciated nearly 10 percent against the dollar over the past four months, as well as fueling a stock market rally of nearly 20 percent during the same period. Although Russia is not without risks, recent unrest in Middle Eastern oil-producing countries has likely made Russia more attractive to oil and commodity investors. Compared to some of those countries, Russia appears quite stable, both politically and socially.

However, as long as oil prices stay high, the urgency for much needed reforms could be reduced, keeping Russia from gaining ground on the other BRIC countries in investment, productivity, growth and international reputation. Russia was recently ranked one of the most corrupt countries in the world by Transparency International, so much work needs to be done to catch up to its BRIC brethren.

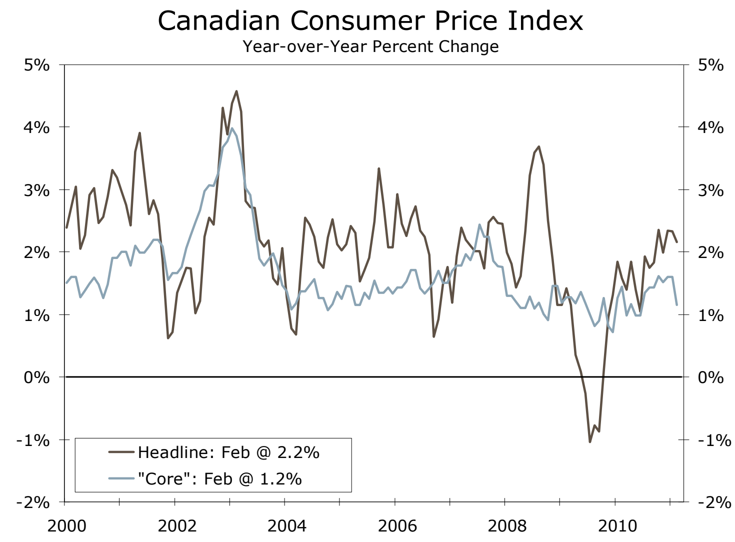
Canadian Interest Rate • Tuesday

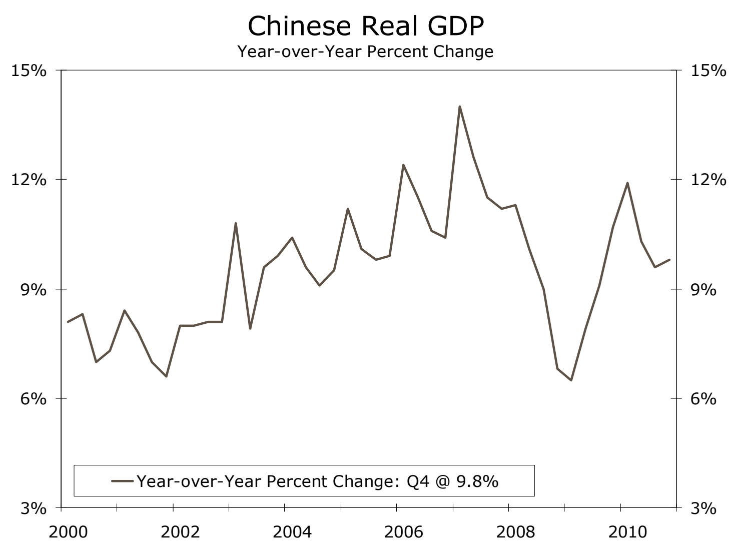
The Bank of Canada is expected to keep the overnight lending rate, its main policy rate, at 1.00 percent after being one of the first central banks in the world to make preemptive moves on interest rates as soon as the financial crisis eased back in July of 2010. Since the recession, the BoC has delivered three 25 basis points increases that took the overnight rate to 1.00 percent in October of 2010. More recently, the BoC has remained on hold, gauging the effects the previous three moves have had on inflation.

The good news for the BoC is that inflation has started to recede, both at the core and at the general level. Furthermore, the Canadian dollar has continued to appreciate to stand at $0.97 cents to the dollar by April of this year. This is also helping to keep inflation under tabs, giving the central bank more time to gauge the inflation situation. As it stands today, we still believe the BoC will keep its options open and remain data-driven.

Previous: 1.00% **Wells Fargo: 1.00%**

Consensus: 1.00%





Chinese GDP • Thursday

For the last year or so, the Chinese government has put out many measures, both monetary and fiscal, to slow down economic activity as inflation has been on the uptrend. On Thursday, we will have the opportunity to see whether these measures have been effective in slowing down the economy as well as inflation or if the authorities will have to do more to bring growth down to more sustainable levels. Markets are expecting growth to have slowed down to 9.3 percent in the first quarter of 2011 from a reading of 9.8 percent during the last quarter of last year, all on a year-earlier basis. While the expected slowdown is not very large, the direction will be the correct one in our opinion and will give markets an idea of the effectiveness of current Chinese economic policy. But the inflation numbers, which will be released on the same day, will probably give a better idea of the direction of future Chinese monetary policy.

Previous: 9.8% **Wells Fargo: 9.0%**

Consensus: 9.4% (Year-over-Year)

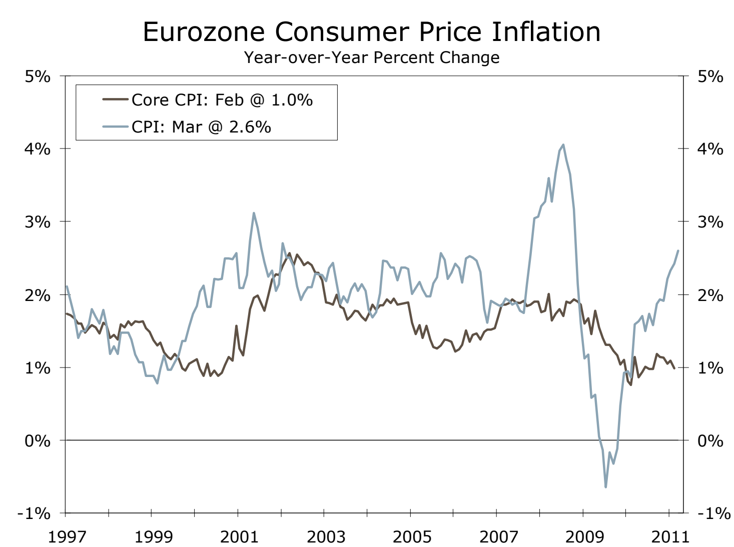
Eurozone Core CPI • Friday

The Eurozone will release inflation numbers on Friday, one week and a day after the European Central Bank (ECB) decided to increase the target interest rate by 25 basis points, from 1.00 percent to 1.25 percent, in order to preempt any potential change in inflationary expectations. While the core inflation rate has remained low and has even decreased during the past several months, the overall rate has accelerated to close March at 2.6 percent, up from a 1.6 percent rate on August of last year.

Thus, the ECB seems to be more concerned with the overall consumer price index behavior than with the behavior of the core inflation rate. This seems to be a clear indication of the very important difference between the ECB and its correspondent institution in the United States, the Federal Reserve. For the U.S. Federal Reserve, the behavior of the core price index has more weight on its decisions than what happens to the general price level.

Previous: 1.0%

Consensus: 1.1% (Year-over-Year)



Interest Rate Watch

T-Bills Plunge Ahead of Shutdown

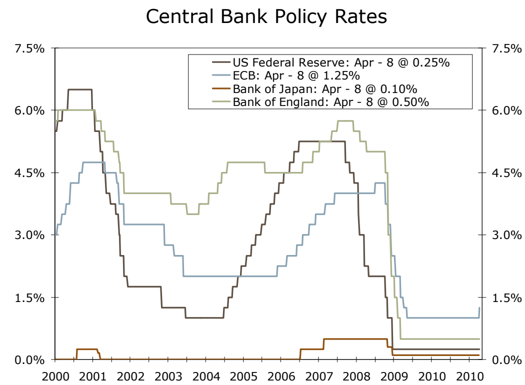
Rates on short-term T-Bills flirted with zero this week, as a regulatory change by FDIC boosted demand for Treasury Bills at the same time the Treasury's $200 billion Supplemental Financing Program was winding down. The policy changes also came at the end of the first quarter, which also marked the end of the Japanese fiscal year and should not be interpreted as a flight to safety. The drop in Treasury yields has caused money funds to move further out the curve, pulling down other rates. Rates on T-Bills have begun to nudge back up more recently but remain exceptionally low at just 0.04 percent for 3-month bills and 0.12 percent for 6–month bills.

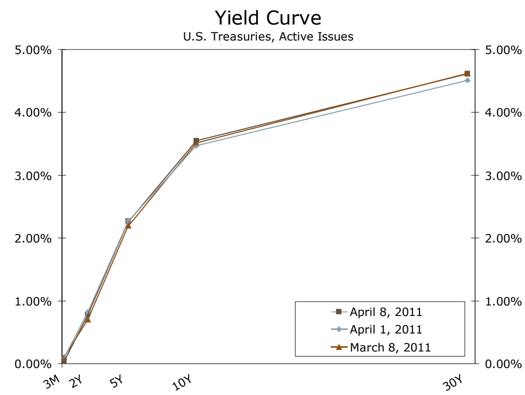
Yields on long-term notes rose on the week, as inflation fears continued to build and the quarter-point rate hike by the European Central Bank added to fears that the Federal Reserve has fallen behind the curve in containing inflation. The concerns make sense. Some of those fears abated this week, as more comments from the European Central Bank cast some doubt about the pace of future rate hikes.

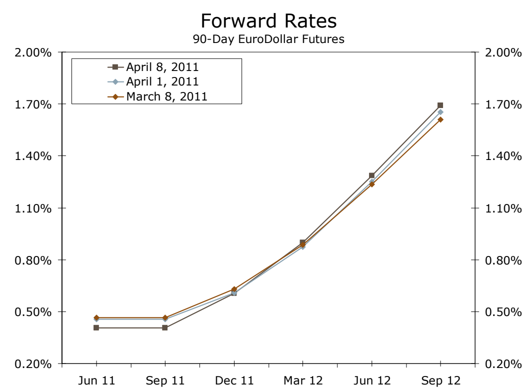
Worries about inflation will likely persist, however, as food and energy prices are likely to be problematic for some time. Oil prices continued to climb this week, with the price of West Texas Intermediate crude rising to $111 a barrel this week. Moreover, the most recent crop forecasts are not strong enough to stem the run-up in prices, even if the weather cooperates.

Fed Chairman Ben Bernanke, as well as most other Fed speakers made it clear this week that the Fed intends to complete its $600 billion in Treasury security purchase as scheduled in June. There is still some question as to whether the Fed will reinvest the proceeds of maturing debt, which average about $20 billion a month. We believe it will and that there is also a chance that it will engage in some sort of enhanced money market operations that fall just short of being labeled QE3.

The prospects of a federal government shutdown may also be impacting the market, boosting demand for T-Bills and making long-term issues less attractive.







Credit Market Insights

Consumer Credit Expansion

Consumer credit in February expanded by $7.6 billion, a 3.8 percent increase from a year ago. Revolving credit, which consists of mostly credit cards, decreased 4.1 percent for the month. Nonrevolving credit which includes education loans and other types of personal loans led the increase for the month, up 7.7 percent. These increases in credit availability were also highlighted in this week's release of the minutes from the March 15th FOMC meeting. The minutes pointed to the fact that both auto loan and student loan availability has been increasing. The availability of auto loans likely helped to support the stronger-than-expected auto sales numbers in February which increased 6.7 percent for the month.

The rise in student lending, however, can be attributed to recent policy changes mostly on the part of state governments. With reductions in both state and federal government tuition assistance along with reduced state funding to public institutions of higher education, many public universities have been forced to raise tuition. This has resulted in marked tuition increases at many of these universities. Thus, the demand for student loan products has risen. In 2009, college seniors graduated with an average of $24,000 in student loan debt, this is up 6 percent from the year before. As a result of some of these policy decisions, the upward trend in student loan debt is likely to continue.

Mortgage Data

	Current	Week Ago	4 Weeks Ago	Year Ago
Mortgage Rates				
30-Yr Fixed	4.86%	4.81%	4.87%	5.08%
15-Yr Fixed	4.09%	4.04%	4.15%	4.39%
5/1 ARM	3.70%	3.62%	3.72%	4.10%
1-Yr ARM	3.26%	3.21%	3.23%	4.05%
MBA Applications				
Composite	485.3	524.4	445.1	602.8
Purchase	188.5	191.7	172.8	243.0
Refinance	2,222.5	2,471.2	2,034.7	2,707.8

Source: Freddie Mac, Mortgage Bankers Association and Wells Fargo Securities, LLC

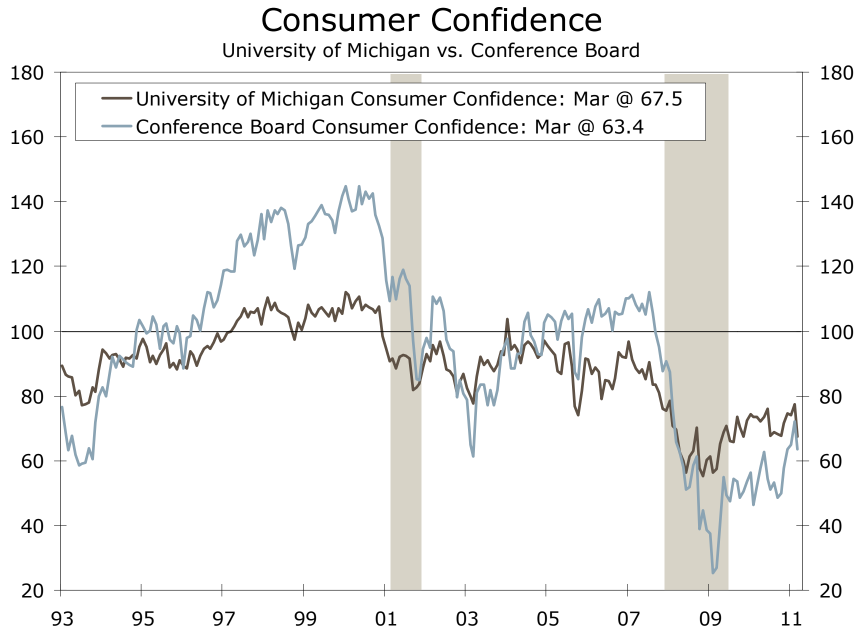
Topic of the Week

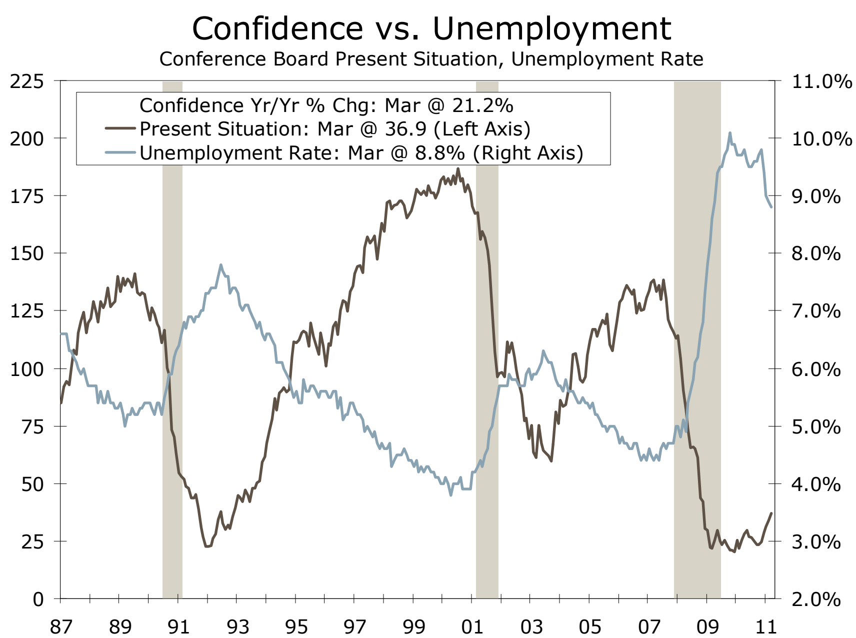
Consumer Confidence in Context

What does it really mean when consumer confidence rises or falls? Should markets pay attention to so-called "soft" data such as sentiment surveys that focus on what the consumer says and not what the consumer does? There are various measures of consumer confidence, but most ask a series of questions geared towards gauging consumer sentiment about current economic conditions and expectations of future conditions.

Research shows that the Conference Board's Consumer Confidence Index does an excellent job of tracking actual consumer sentiment. Previous studies and our own research suggest that the survey yields stronger results when broken down into its component surveys: the present conditions component and the expectations component. The present conditions component boasts the strongest correlation with the coincident level of economic activity, while the expectations component shows a stronger relationship with the pace of economic activity. Both the Conference Board and the University of Michigan's surveys of current consumer sentiment show very strong negative correlations with the unemployment rate.

So what insight can we glean from today's numbers? Most measures of consumer confidence have been trending higher from the disturbingly low levels reached during the recession. The recovery in both the Conference Board and University of Michigan surveys is in line with recoveries in sentiment in prior recessions, but the absolute levels are still low for this stage in the business cycle. Unfortunately, the improvement in consumer sentiment may reflect optimism rather than real improvement in current economic conditions. Expectations are likely to remain subdued with unfolding events in Portugal, Libya, Japan and here at home with the budget debate. However, gains in financial markets tend to bolster sentiment by boosting household wealth, which could support sentiment. For more information on consumer sentiment see our recent special report *A Primer on Consumer Confidence*.





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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 4/8/2011	1 Week Ago	1 Year Ago
3-Month T-Bill	0.04	0.06	0.16
3-Month LIBOR	0.29	0.30	0.29
1-Year Treasury	0.25	0.30	0.40
2-Year Treasury	0.82	0.80	1.06
5-Year Treasury	2.33	2.24	2.63
10-Year Treasury	3.60	3.44	3.89
30-Year Treasury	4.65	4.49	4.75
Bond Buyer Index	5.04	5.00	4.45

Foreign Exchange Rates

	Friday 4/8/2011	1 Week Ago	1 Year Ago
Euro ($/€)	1.442	1.424	1.336
British Pound ($/£)	1.636	1.611	1.528
British Pound (£/€)	0.881	0.883	0.874
Japanese Yen (¥/$)	85.320	84.060	93.380
Canadian Dollar (C$/$)	0.955	0.963	1.002
Swiss Franc (CHF/$)	0.913	0.924	1.073
Australian Dollar (US$/A$)	1.053	1.039	0.929
Mexican Peso (MXN/$)	11.739	11.838	12.217
Chinese Yuan (CNY/$)	6.536	6.548	6.824
Indian Rupee (INR/$)	44.077	44.585	44.465
Brazilian Real (BRL/$)	1.573	1.607	1.781
U.S. Dollar Index	75.173	75.833	81.534

Foreign Interest Rates

	Friday 4/8/2011	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.24	1.19	0.58
3-Month Sterling LIBOR	0.82	0.82	0.65
3-Month Canadian LIBOR	1.20	1.20	0.42
3-Month Yen LIBOR	0.20	0.20	0.24
2-Year German	1.90	1.82	0.92
2-Year U.K.	1.41	1.38	1.15
2-Year Canadian	1.92	1.83	1.85
2-Year Japanese	0.21	0.22	0.17
10-Year German	3.49	3.37	3.10
10-Year U.K.	3.81	3.72	4.01
10-Year Canadian	3.47	3.37	3.67
10-Year Japanese	1.33	1.29	1.39

Commodity Prices

	Friday 4/8/2011	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	111.54	107.94	85.39
Gold ($/Ounce)	1469.10	1428.80	1150.55
Hot-Rolled Steel ($/S.Ton)	857.00	880.00	700.00
Copper (¢/Pound)	449.40	425.15	358.10
Soybeans ($/Bushel)	13.46	13.93	9.38
Natural Gas ($/MMBTU)	4.06	4.36	3.91
Nickel ($/Metric Ton)	26,799	26,075	24,678
CRB Spot Inds.	634.25	627.38	508.19

Next Week's Economic Calendar

	Monday 11	Tuesday 12	Wednesday 13	Thursday 14	Friday 15
U.S. Data		**Import Price Index** February 1.4% March 2.6% (W) **Trade Balance** January -$46.3B February -$46.8B (W)	**Retail Sales** February 1.0% March 1.2% (W) **Retail Sales Ex Autos** February 0.7% March 1.3% (W) **Business Inventories** January 0.9% February 0.9% (W)	**PPI** February 1.6% March 0.8% (W) **Core PPI** February 0.2% March 0.3% (W)	**CPI** February 0.5% March 0.6% (W) **Industrial Production** February 0.0% March 0.5% (W) **Capacity Utilization** February 77.0% March 77.4% (W)
Global Data	**Japan** **Machine Orders (MoM)** Previous (Jan) 4.2% **India** **IP (YoY)** Previous (Jan) 3.7%	**U.K.** **CPI (YoY)** Previous (Feb) 4.4% **Canada** **Bank of Canada Rate** Previous (March) 1.0%	**Eurozone** **IP (MoM)** Previous (Jan) 0.3%	**China** **Real GDP (YoY)** Previous (1Q) 9.8% **China** **CPI (YoY)** Previous (Feb) 4.9%	**Eurozone** **Core CPI (YoY)** Previous (Feb) 1.0% **Japan** **IP (MoM)** Previous (Jan) 0.4%

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

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