May 4, 2012

Economics Group

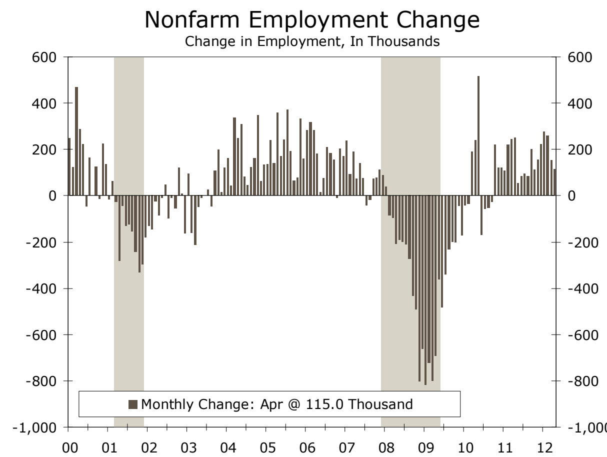
WELLS FARGO SECURITIES

Weekly Economic & Financial Commentary

U.S. Review

Modest Growth on a Broadening Base

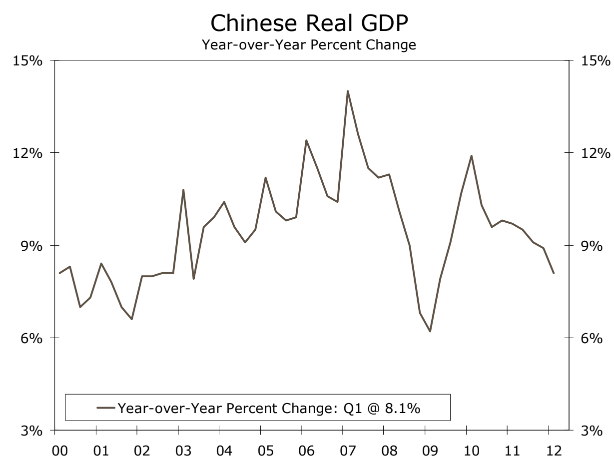
- The underlying tone of the recent economic reports remains consistent with modest economic growth. Consumer spending ended the first quarter on a solid note and spending is now on track to grow at a 2 percent pace in the second quarter.
- Reports from the regional manufacturing surveys showed some weakness but the National ISM report came in stronger than expected. The nonmanufacturing survey, however, came in below expectations.
- Nonfarm employment rose by 115,000 jobs in April and the unemployment rate fell 0.1 percent to 8.1 percent.



Global Review

What Country is Capable of Rescuing Global Growth?

- Europe is in recession, China is slowing down, and the U.S. economy is growing at a rate that cannot do much for global economic activity; Latin American countries are growing, but per-capita incomes for the region are still too low to make a large dent on global economic growth; the rest of Asia is growing, but it is also highly dependent on China and the developed world.
- It is important to note that, while commodity prices have come down from the peak reached during the first half of 2011, they remain elevated and there are still no signs that the world economy is close to a recession.



Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual			Forecast	
	2011				2012				2009	2010	2011	2012	2013
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product [1]	0.4	1.3	1.8	3.0	2.2	2.0	1.9	2.0	-3.6	3.0	1.7	2.1	2.1
Personal Consumption	2.1	0.7	1.7	3.0	2.9	2.0	1.5	1.4	-2.0	2.0	2.2	2.0	1.4
Inflation Indicators [2]													
PCE Deflator	1.8	2.5	2.9	2.7	2.3	2.1	2.0	2.1	0.6	1.8	2.5	2.1	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.8	2.3	1.9	2.1	-0.3	1.6	3.1	2.3	2.1
Industrial Production [1]	4.4	1.2	5.6	5.0	5.4	2.3	3.0	2.2	-11.3	5.4	4.1	4.0	2.4
Corporate Profits Before Taxes [2]	8.8	8.5	7.5	7.0	6.2	6.0	6.2	6.4	9.1	32.2	7.9	6.2	6.4
Trade Weighted Dollar Index [3]	70.6	69.4	72.8	73.3	72.7	72.1	73.5	74.0	77.7	75.6	70.9	72.9	76.0
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.1	8.2	8.1	9.3	9.6	9.0	8.2	7.9
Housing Starts [4]	0.58	0.57	0.62	0.67	0.69	0.73	0.76	0.75	0.55	0.58	0.61	0.73	0.85
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	3.95	3.90	3.90	3.90	5.04	4.69	4.46	3.92	4.15
10 Year Note	3.47	3.18	1.92	1.89	2.23	1.96	2.00	2.10	3.26	3.22	2.78	2.04	2.35

Forecast as of: May 4, 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

Together we'll go far

U.S. Review

Modest Growth on a Broadening Base

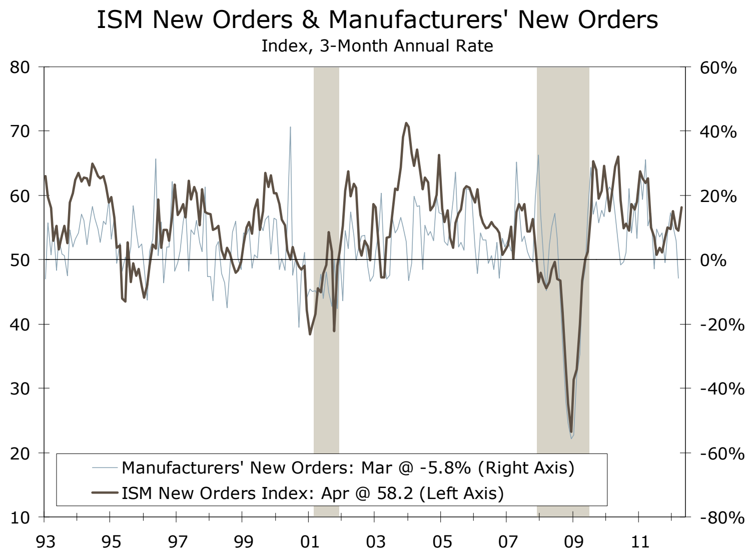
This week's ISM report came in better than expected, rising 1.4 points to 54.8 in April, which greatly relieves fears built up from the weaker factory orders report, which fell 1.5 percent in March, and some of the April regional manufacturing surveys. Reconciling all of these reports to get a true read on the momentum in the nation's factory sector requires a careful read of underlying data in these reports, which is not as inconsistent as the headlines initially suggest.

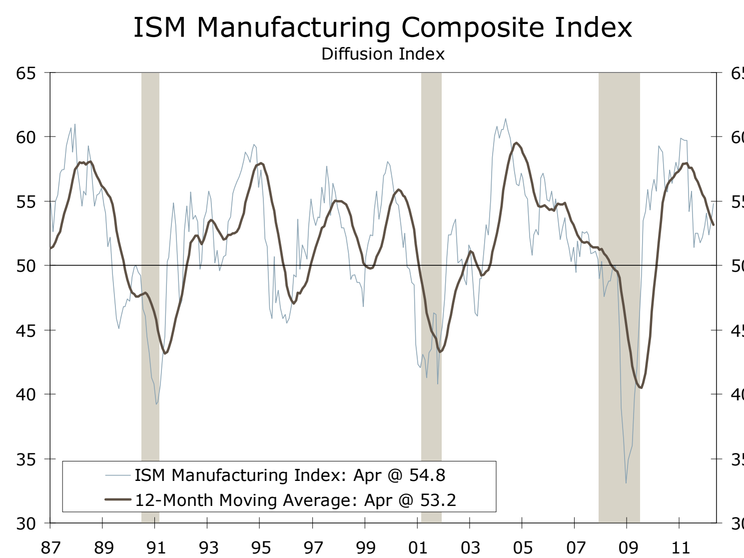
The ISM survey is a diffusion index and provides us with a measure of the breadth of the strength or weakness in the factory sector. When the ISM manufacturing index increases, as it did in April, it does not necessarily mean that manufacturing activity strengthened, or that the rate of growth in the factory sector accelerated; it merely means that more manufacturers reported that conditions were improving in April. There is no indication of how much or how little conditions have improved, or whether they improved at large manufacturers or small ones.

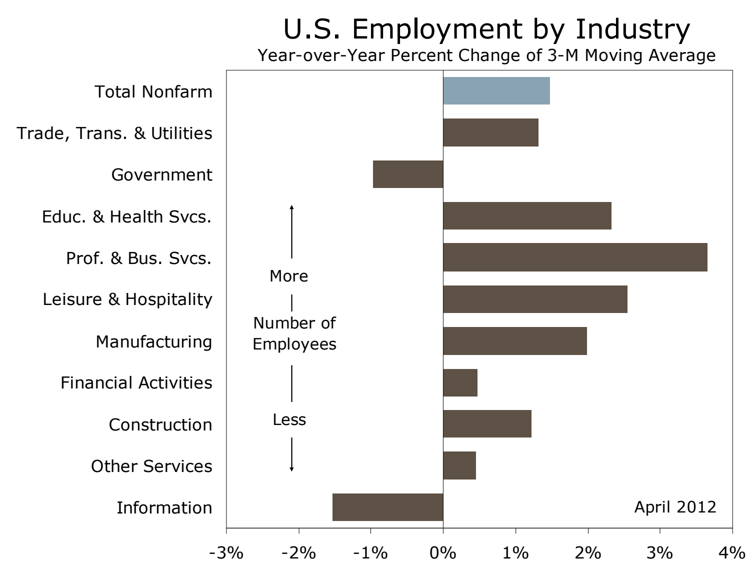
The factory orders data, on the other hand, provide us with a real-time view of the strength or weakness in overall orders. The 1.5 percent drop in orders in March was heavily concentrated in a handful of industries, most notably civilian aircraft, steel and computer products. Of these three sectors, only the computer sector is showing a decline on a year-to-year basis. Civilian aircraft orders are up 25.2 percent and orders for primary metals are up 26.1 percent. Most other industries posted gains during the month. Of the 21 major sectors in the factor orders report, 15 posted an increase in orders during March.

Modest growth across a wider variety of sectors is also evident in the employment data. The diffusion index for nonfarm employment, which measures the proportion of industries adding jobs during the month, has remained above 60 percent for the past four months. A similar measure for the factory sector shows 71.6 percent of manufacturers added jobs on average during the past three months. The breadth of employment gains is important because gains, even modest ones, over a broader assortment of industries tend to be more sustainable than narrowly focused gains, even if such gains are larger.

The April employment report is a bit of a head scratcher. Nonfarm payrolls rose by just 115,000 in April, much less than expected but the unemployment rate fell to 8.1 percent. Part of the shortfall in jobs may reflect some payback from the early Easter and early arrival of spring-like weather. Employment in the leisure and hospitality sector rose by just 12,000 in April, after adding an average of 45,000 jobs a month during the three previous months. Most of the slowdown was at amusement attractions and performing arts and spectator sports. By contrast, hiring rose solidly at restaurants and bars, with a net gain of 19,700 jobs in April. Hiring was also up solidly in retail trade and at employment staffing firms. The continued preponderance of low-wage jobs is one reason real average hourly earnings were unchanged in April, which suggests income growth will remain constrained in the coming months.





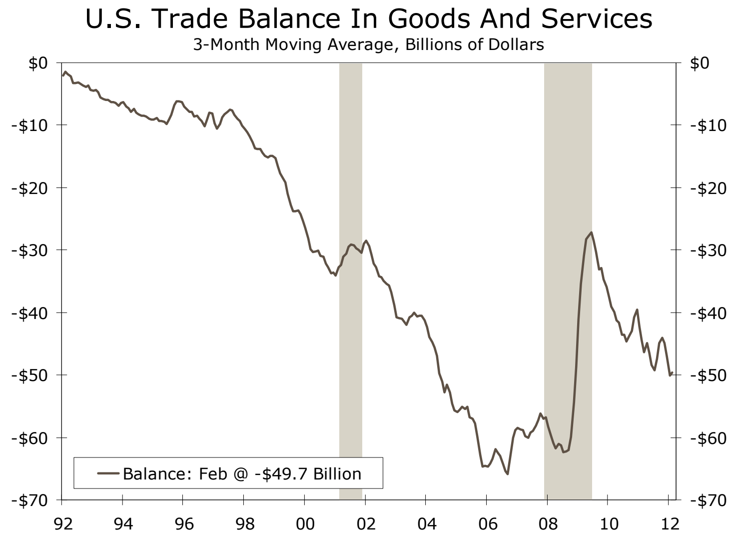


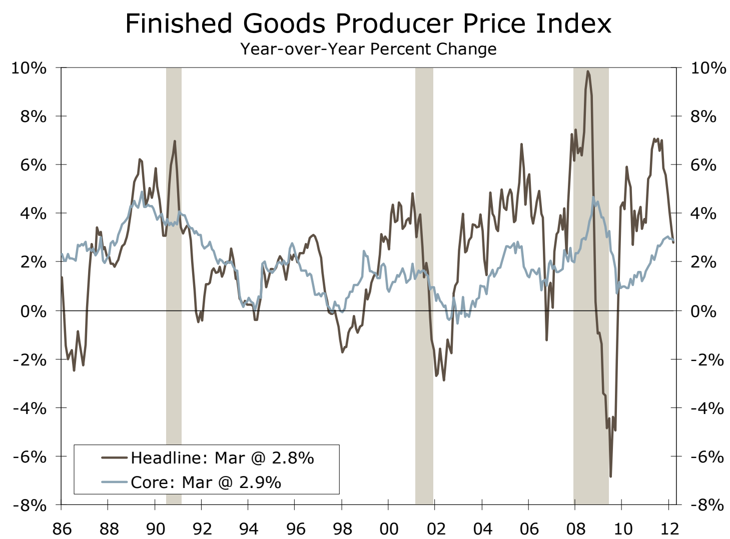
Trade Balance • Thursday

The nominal trade balance narrowed in February to -$46.0 billion as exports far outpaced imports. Exports rose a modest 0.1 percent on the month, with consumer goods and services leading the way. The boost in exports is the third consecutive monthly gain. Imports, however, pulled back 2.7 percent, the first decline in four months. The decline in imports was concentrated in goods, with nearly broad-based weakness. Consumer goods, food and beverage and automotive showed the largest declines. Imported services rose 0.7 percent, the fourth consecutive monthly increase. Moreover, imports of energy-related petroleum dropped 17.7 percent on the month. That said, the real trade balance narrowed to -$44.1 billion in February, as real goods imports dropped 3.9 percent and exports fell 1.0 percent. If this trend persists, it appears that net exports will not cause as much drag on overall GDP growth in the first quarter.

Previous: -$46.0B **Wells Fargo: -$52.0B**

Consensus: -$50.0B





Producer Price Index • Friday

Reflecting lower energy costs, wholesales prices were flat in March. However, core producer prices, which exclude food and energy, rose 0.3 percent in last month and are up 2.9 percent on a year-ago basis. Much of the increase in March was concentrated in passenger cars and light trucks. The rise in wholesale vehicles is likely due to reduced manufacturer incentives as unit vehicle sales from manufacturers to dealers are now at the highest level since early 2008. Further back in the pipeline, core intermediate prices rose 0.6 percent, as basic organic chemicals posted its second outsized gain and core raw materials were up 1.1 percent on the month. Over the past year, core intermediate goods prices have risen 2.4 percent, while core crude prices remained largely unchanged at 0.1 percent. While wholesale prices are showing upward pressure at the intermediate level, there is some hope for wholesalers that raw material prices are moderating.

Previous: 0.0% **Wells Fargo: 0.0%**

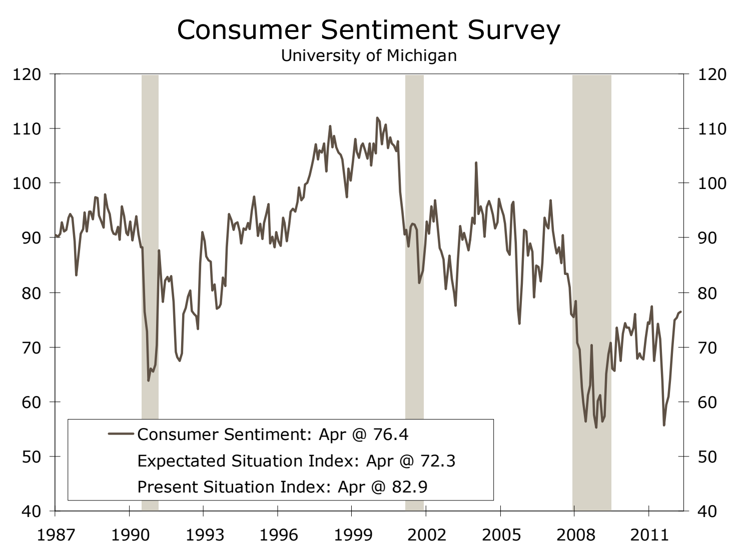
Consensus: 0.0%

University of Michigan Confidence • Friday

Consumer sentiment, which is largely influenced by retail gas prices and unemployment, has shown gains over the past three months. Retail gasoline prices moderated in April, but the labor market continues to post less-than-stellar gains. That said, initial jobless claims, while recently affected by the unseasonably mild winter, finally drifted lower in the week ending April 28. As illustrated by the nonfarm employment released in April, the labor market continues to grapple with sluggish growth due to both weak demand and a rise in structural unemployment. These obstacles cannot be fixed overnight, which means sentiment will remain well below its long-run trend. Also, embedded in the report are inflation expectations, which have moderated in the medium and long term. With inflation expectations well anchored, the Fed will continue to have the green light to maintain its accommodative monetary policy stance.

Previous: 76.4

Consensus: 76.4



Global Review

What Country is Capable of Rescuing Global Growth?

Europe is in recession, China is slowing down, and the U.S. economy is growing at a rate that cannot do much for global economic activity; Latin American countries are growing, albeit with large differences between countries, but with per-capita incomes still low to make a large dent on global economic growth; the rest of Asia is growing, but it is also highly dependent on China and the developed world. Meanwhile, fiscal levers in the developed countries have been maxed out, while monetary levers could continue to be pulled but with highly uncertain consequences for the future of the world economy.

It seems that everybody is waiting for the Chinese to pull their own fiscal levers so growth can resume; China is the only country with enough freedom to do the trick, with massive amounts of foreign reserves and the willingness not to allow its economy to slow down further. This was probably the reason why markets took the recent Chinese decision to lower its target growth rate from 8.0 percent to 7.5 percent with such concern.

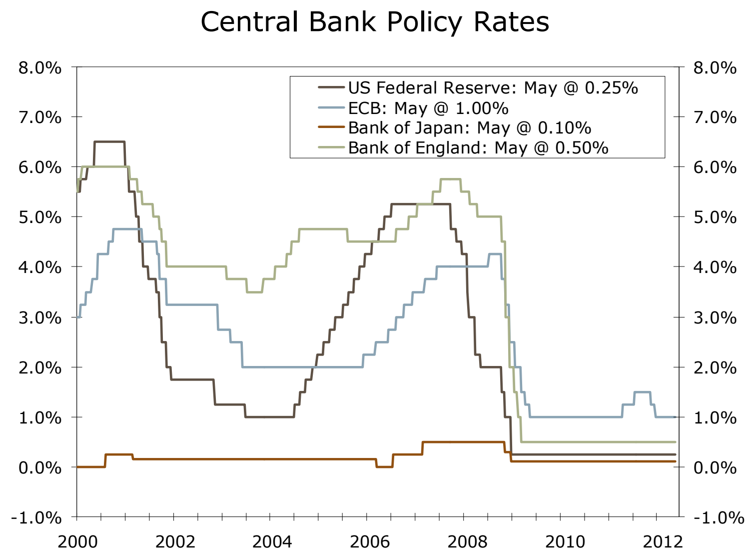
As Europeans are starting to learn, the polls are not fond of governments that keep asking their countrymen for an ever-increasing share of sacrifice. It appears that French President, Mr. Sarkozy, could be the next prey of this new environment if he loses, on the second-round voting on Sunday, to the socialist candidate, Mr. Hollande. If that is the case, then the rest of the politicians of the Euro region will start to take note and this could, potentially start to change the arguments for the different alternative policy prescriptions across the Eurozone region. Thus, we may start to see a change in the current European paradigm, as politicians across the region start to second guess their support for more austerity measures. However, it is still unclear what else policymakers can do and what the potential consequences could be of doing more to help economic growth.

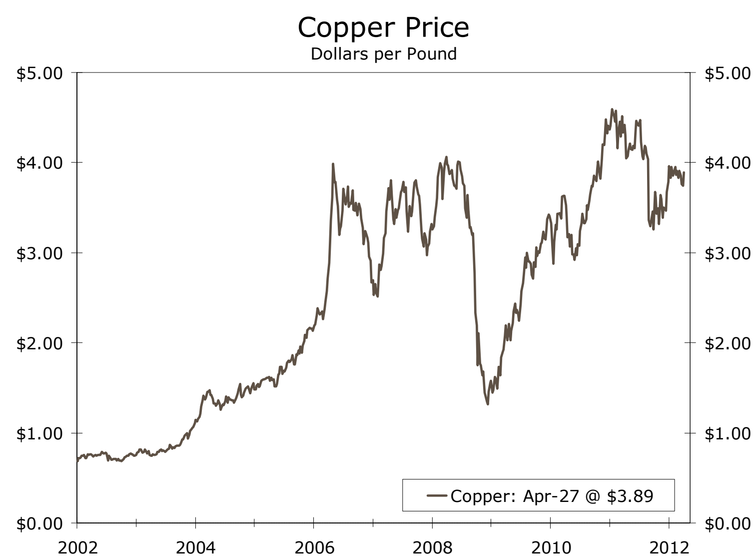
The world economy is, today, close to the edge once again, but not because we are close to a global recession but because if growth continues to weaken, there is probably not much policymakers will be able to do to push economic growth higher.

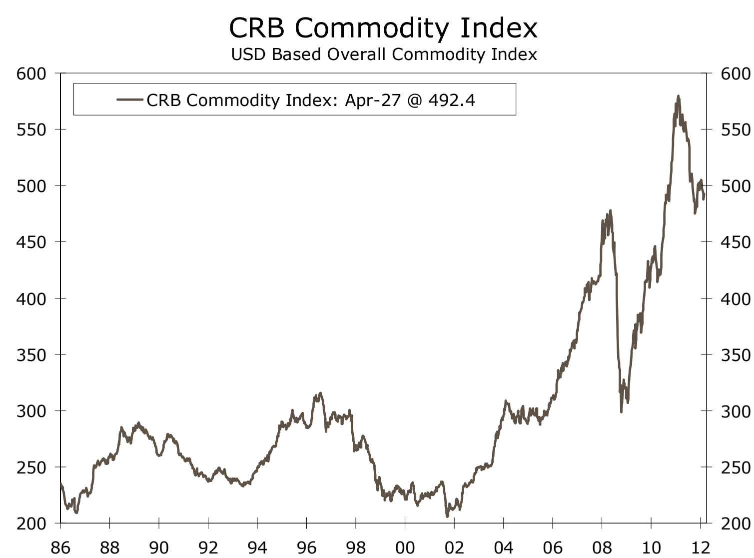
Commodity Prices Down but not Showing Recession

It is important to note that, while commodity prices have come down from the peak in the first half of 2011, these prices remain elevated and there are still no signs that the world economy is close to a recession. The world economy has slowed down due to the Eurozone crisis and the slowdown in Chinese economic activity, but global growth will remain positive. This is good news for all the countries depending on commodity exports and indicates that these economies are going to continue to outperform the rest of the economies of the world.

We expect the emerging-market economies to outperform the developed economies once again in 2012, but we are aware that growth across these economies will not be homogeneous.







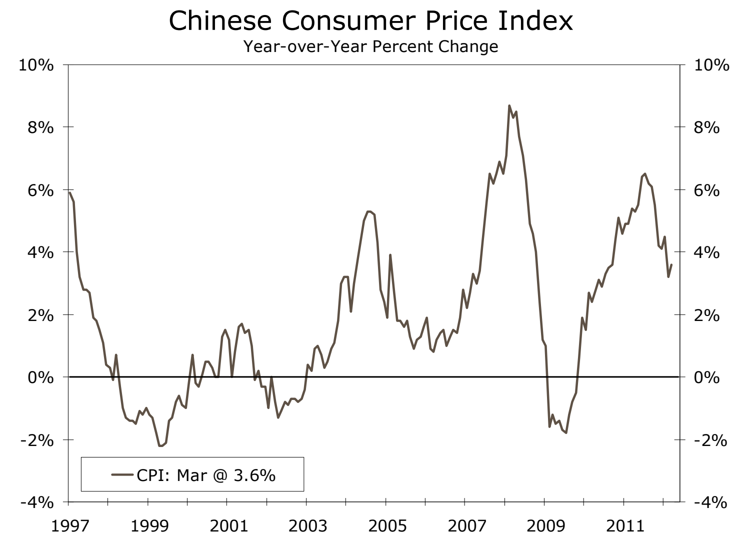
Chinese CPI • Friday

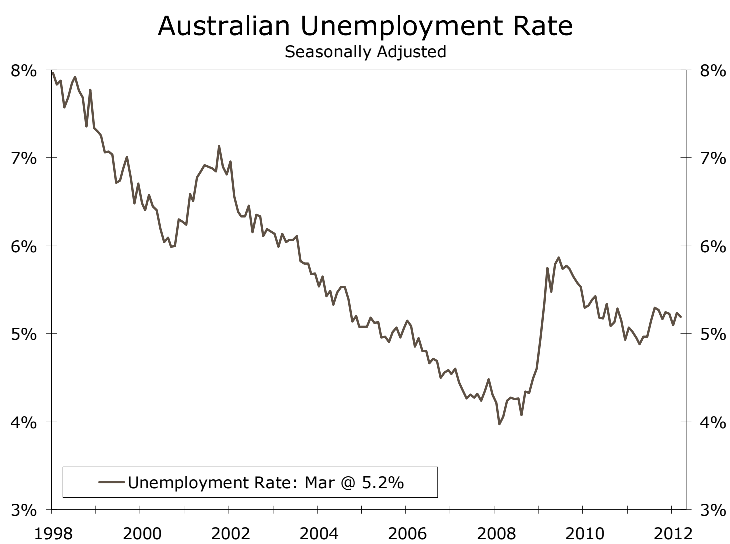
At the outset of 2011, when the Chinese economy was still growing at more than 10 percent on a year-over-year basis, Chinese authorities viewed inflation as the more imminent concern for the domestic economy. Loan growth in China in 2010 had been growing at a torrid rate of more than 30 percent on a year-over-year basis which had given way to a jump in home prices and consumer inflation of more than 6 percent. The central bank hiked its benchmark lending rate by 125 bps between October 2010 and July 2011, and it also raised reserve requirements by 450 bps over that period. Furthermore, it directed banks to slow the rate of loan growth.

These measures have largely worked as is evident from the more subdued 3.6 percent annual CPI inflation rate reported in March. We look for the inflation rate to stay at 3.6 percent before price growth begins to slow further in subsequent months.

Previous: 3.6% (Year over Year) Wells Fargo: 3.6%

Consensus: 3.4%





Australian Unemployment Rate • Friday

Australia's central bank, the Reserve Bank of Australia (RBA), surprised markets earlier this week with a larger-than-expected rate cut. The RBA slashed the overnight rate to 3.75 percent from 4.25 percent. Citing headwinds including the sovereign debt situation in Europe and potential weakening in China's economy, the accompanying statement made it clear that the RBA was poised to cut rates further if economic activity did not pick up meaningfully.

On Friday of next week, we will get a report on employment activity for April. The effect of the rate cut will obviously not yet be reflected in this data, but it will give markets a sense of how the labor market is holding up. While job growth has been choppy in recent months, the unemployment rate has been rather steady, remaining below 5.5 percent since January 2011.

Previous: 5.2%

Consensus: 5.2%

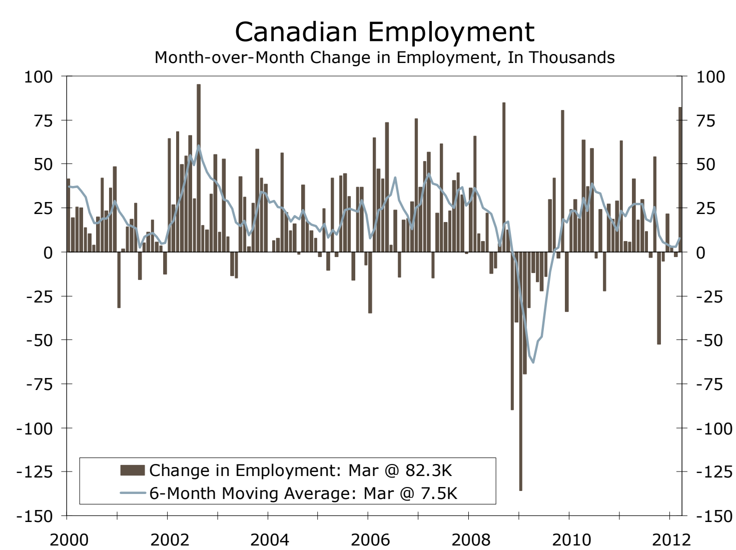
Canadian Employment • Friday

Between July and February, Canadian employers, on a net basis, added fewer than 9,000 workers to nonfarm payrolls. It was a welcome relief when the March payrolls report revealed an 82,300 spike in jobs. It was the largest monthly gain since before the financial crisis first hit in autumn of 2008. The unemployment rate fell to 7.2 percent, the lowest level in the current cycle.

In the press release following its April meeting, the Bank of Canada (BoC) struck a more optimistic tone, noting the "profile for global economic growth has improved" and "economic momentum in Canada is slightly firmer." The bias of the BoC now seems to be toward tightening sooner than many analysts had thought, perhaps as early as later this year. The jobs picture will inform any policy decision, so markets will be closely watching Friday's employment report in Canada.

Previous: 82.3K

Consensus: 10K



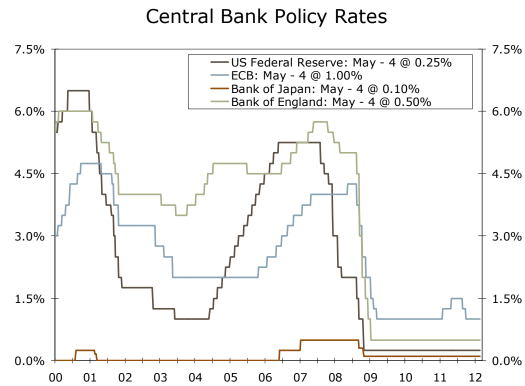
Interest Rate Watch

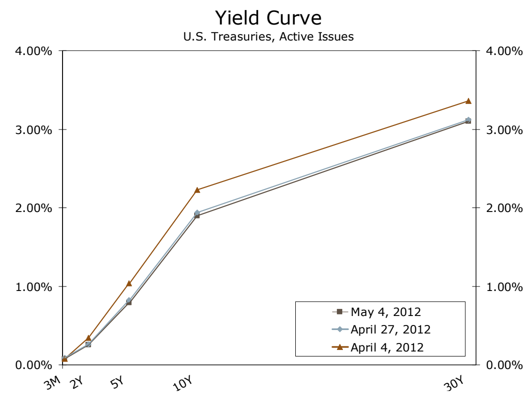
Further ECB Ahead?

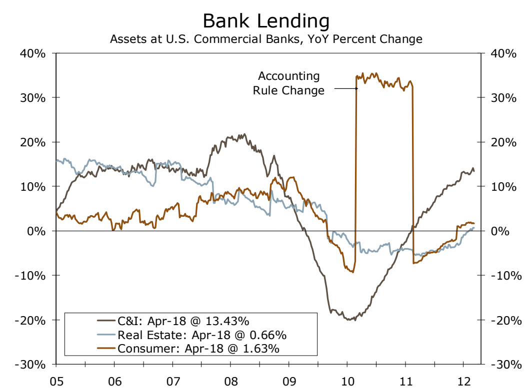
As widely expected, the European Central Bank (ECB) kept its main policy rate unchanged at 1.00 percent at its monthly policy meeting this week. However, the ECB's description of the present state of the Eurozone economy was anything but rosy. The ECB said the economy has stabilized, albeit at a low level, but also stated that the outlook was subject to downside risks, most notably from the ongoing sovereign debt crisis. Although we believe the ECB will refrain from cutting its policy rate further, we acknowledge that further easing could transpire if economic activity remains depressed for longer than we anticipate. In that regard, the weaker-than-expected PMIs for the manufacturing and service sectors for April suggest that growth remains anemic, if not negative, thus far in the second quarter. Significant pressure on Spanish and/or Italian debt markets would probably induce the ECB to engage in another round of massive liquidity support to the banking system.

Bank of England in Quandary

Across the English Channel, the Bank of England holds a regularly scheduled policy meeting on May 10. The Monetary Policy Committee (MPC) has maintained its main policy rate at only 0.50 percent for more than three years, and further cuts from this low level do not seem likely. However, the MPC gradually increased the size of its asset purchase program (i.e. quantitative easing program) from £75 billion in March 2009, to £325 billion in February of this year. As recently as last month, it appeared that the MPC was done increasing the size of its asset purchase program because one of the committee's most vocal doves had voted to maintain the size of the program rather than increase it further. However, last week's news that the British economy has slipped back into recession will raise the pressure on the MPC to undertake further quantitative easing. We believe that the MPC will maintain its asset purchase program at £325 billion at its upcoming policy meeting and that it will continue to watch incoming economic data.







Credit Market Insights

Loan Demand Strengthens

According to the latest Senior Loan Officer Survey released this week, loan demand increased over the last three months as domestic banks continued to ease credit conditions in most loan categories. The fact that loan demand continues to edge upward suggests that both business and consumer confidence are beginning to show some signs of improvement.

Among businesses, C & I loan demand among firms of all sizes increased over the last quarter. Domestic banks reported that loan standards to small, large and middle-market firms remained unchanged however, lending terms to firms of all sizes eased in response to increased competition from other lenders.

Household demand for loans also continued to rise over the last quarter as more consumers sought mortgages and auto loans. Mortgage lending demand rose again in the last quarter as lending standards for prime mortgages remained unchanged while nontraditional mortgage standards continued to tighten. Domestic banks also reported that credit standards for consumer loans, credit cards and auto loans eased in the first three months of the year. The survey specifically pointed out the strong demand for auto loans, perhaps due to the narrowing spreads. The stronger consumer credit market was likely the key to supporting strong first-quarter consumer spending in the absence of strong personal income growth.

Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
30-Yr Fixed	3.84%	3.88%	3.98%	4.71%
15-Yr Fixed	3.07%	3.12%	3.21%	3.89%
5/1 ARM	2.85%	2.85%	2.86%	3.47%
1-Yr ARM	2.70%	2.74%	2.78%	3.14%
Bank Lending	**Current Assets (Billions)**	**1-Week Change (SAAR)**	**4-Week Change (SAAR)**	**Year-Ago Change**
Commercial & Industrial	$1,413.3	-7.74%	21.46%	13.43%
Revolving Home Equity	$543.6	-7.27%	-4.79%	-4.48%
Residential Mortgages	$1,574.9	21.31%	5.20%	5.84%
Commerical Real Estate	$1,423.0	-0.18%	0.40%	-2.62%
Consumer	$1,097.4	-5.70%	6.13%	1.63%

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

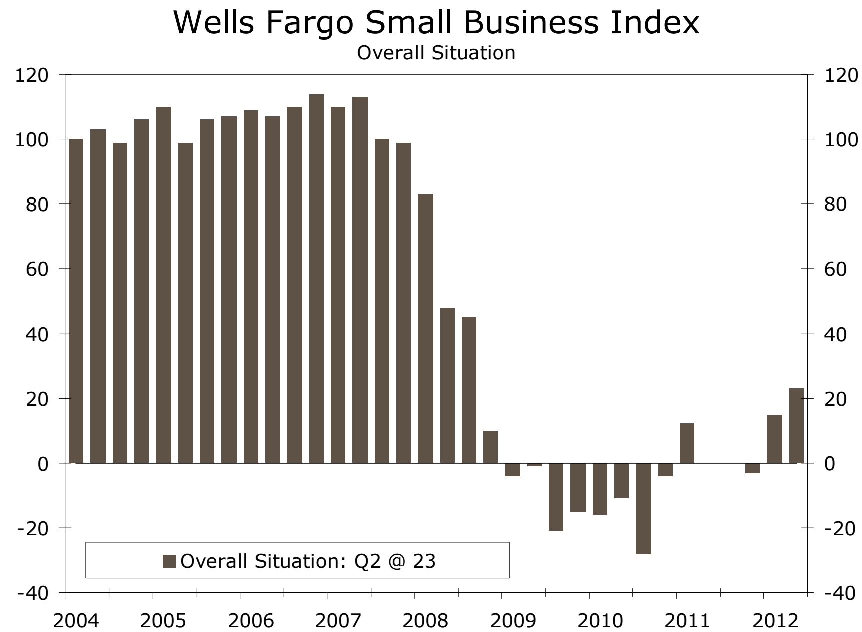
Topic of the Week

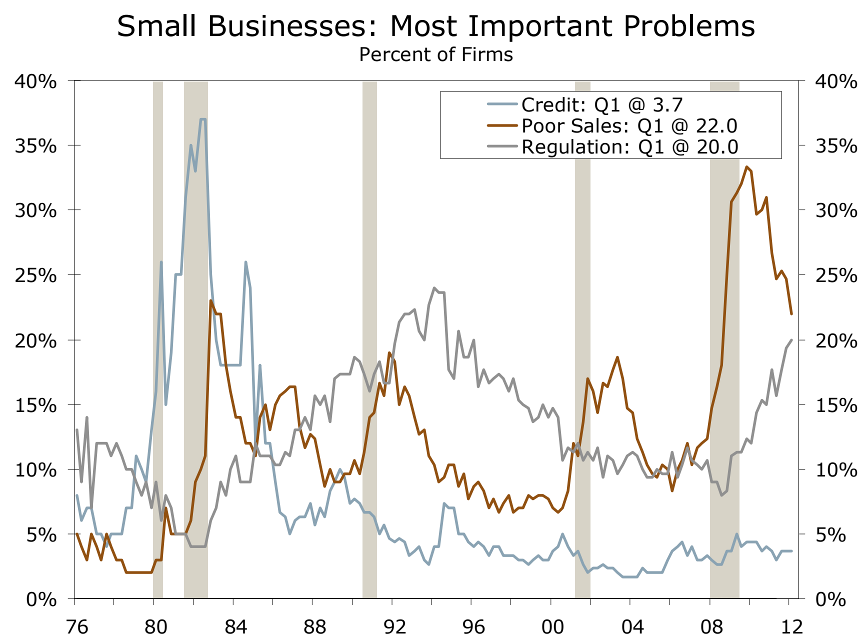
Small Businesses: Better, but Still a Way to Go

Small business sentiment has improved in recent months, according to the second quarter results of the Wells Fargo Small Business Index. The overall situation index, which reflects both current conditions and the future outlook, rose to its highest level since the financial crisis, but remains well off levels seen during the previous economic expansion (top chart). Overall, firms still remain cool toward the present situation, but financial conditions are firming. More firms reported their cash flow as "good" over the quarter, with the index rising 3 points to 45 percent. Stronger consumer spending in recent months also helped to boost revenues at small businesses, with the percent of firms reporting an increase climbing to 36 percent from 33 percent. On net, however, more firms continue to report a decline in revenues over the past 12 months than are reporting an increase. While this gap has narrowed significantly over the past year, data from the National Federation of Independent Businesses show that poor sales remain the top concern of small businesses (bottom chart).

Like the slowdown in total private job gains seen in the national employment report over the past two months, hiring at small businesses has cooled a bit in recent months. Looking ahead, fewer small businesses have plans to hire over the next 12 months, which could put a damper on job growth, as firms with fewer than 50 employees account for 45 percent of total employment.

Credit conditions are easing for small businesses. Fewer respondents reported difficulty obtaining credit over the past 12 months, while the Fed's Senior Loan Officer Opinion Survey reported loans standards for small businesses had eased in the second quarter. Loan demand for small firms has also increased over the past quarter, but, like other sectors of the economy, small businesses appear to be deleveraging. Thirty-two percent of firms reported reducing debt levels over the past year, compared to 20 percent reporting an increase. This may be part of the reason why, currently, credit is not a significant problem for many small businesses.





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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 5/4/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.08	0.09	0.02
3-Month LIBOR	0.47	0.47	0.27
1-Year Treasury	0.10	0.10	0.17
2-Year Treasury	0.25	0.26	0.59
5-Year Treasury	0.79	0.83	1.94
10-Year Treasury	1.90	1.93	3.22
30-Year Treasury	3.10	3.12	4.32
Bond Buyer Index	3.81	3.86	4.69

Foreign Exchange Rates

	Friday 5/4/2012	1 Week Ago	1 Year Ago
Euro ($/€)	1.315	1.326	1.483
British Pound ($/£)	1.618	1.627	1.649
British Pound (£/€)	0.813	0.815	0.899
Japanese Yen (¥/$)	79.950	80.270	80.610
Canadian Dollar (C$/$)	0.992	0.980	0.959
Swiss Franc (CHF/$)	0.914	0.906	0.862
Australian Dollar (US$/A$)	1.022	1.047	1.075
Mexican Peso (MXN/$)	13.069	12.968	11.644
Chinese Yuan (CNY/$)	6.306	6.310	6.493
Indian Rupee (INR/$)	53.475	52.543	44.468
Brazilian Real (BRL/$)	1.916	1.888	1.618
U.S. Dollar Index	79.208	78.709	73.031

Foreign Interest Rates

	Friday 5/4/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.62	0.64	1.37
3-Month Sterling LIBOR	1.01	1.01	0.82
3-Month Canadian LIBOR	1.35	1.35	1.20
3-Month Yen LIBOR	0.20	0.20	0.20
2-Year German	0.09	0.10	1.91
2-Year U.K.	0.39	0.43	1.02
2-Year Canadian	1.28	1.42	1.69
2-Year Japanese	0.11	0.11	0.20
10-Year German	1.59	1.70	3.30
10-Year U.K.	2.00	2.13	3.38
10-Year Canadian	2.05	2.09	3.12
10-Year Japanese	0.89	0.90	1.21

Commodity Prices

	Friday 5/4/2012	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	100.26	104.93	109.24
Gold ($/Ounce)	1636.90	1662.75	1516.32
Hot-Rolled Steel ($/S.Ton)	655.00	670.00	780.00
Copper (¢/Pound)	373.90	382.00	412.05
Soybeans ($/Bushel)	14.66	14.78	13.56
Natural Gas ($/MMBTU)	2.32	2.19	4.58
Nickel ($/Metric Ton)	17,211	18,122	27,290
CRB Spot Inds.	542.03	538.66	618.36

Next Week's Economic Calendar

	Monday	Tuesday	Wednesday	Thursday	Friday
	7	8	9	10	11
U.S. Data	**Consumer Credit** February $8.735B March $10.0B		**Wholesale Inventories** February 0.9% March 0.6% (C)	**Trade Balance** February -$46.0B March -$50.0B **Import Price Index** March 1.3% April 0.2% (W) **Budget Statement** March -$198.158B April $30.0B	**PPI (MoM)** March 0.0% April 0.0% (W) **Core PPI (MoM)** March 0.3% April 0.2% (W) **U. of Mich. Confidence** April 76.4 May 76.4 (C)
Global Data		**Germany** **IP (YoY)** Previous (Feb) -1.3%	**China** **Trade Balance** Previous (Mar) $5.35B **Australia** **Employment Change** Previous (Mar) 44.0K	**U.K.** **BoE Rates Decision** Previous (Apr) 0.50% **China** **CPI (YoY)** Previous (Mar) 3.6%	**Canada** **Employment Change** Previous (Mar) 82.3K

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

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Senior Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	Ed.kashmarek@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com

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