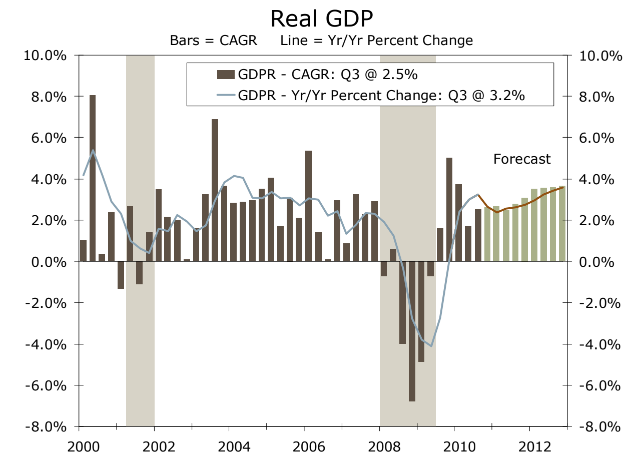
Economics Group

Weekly Economic & Financial Commentary

U.S. Review

A Slightly Brighter Outlook for the U.S. Economy

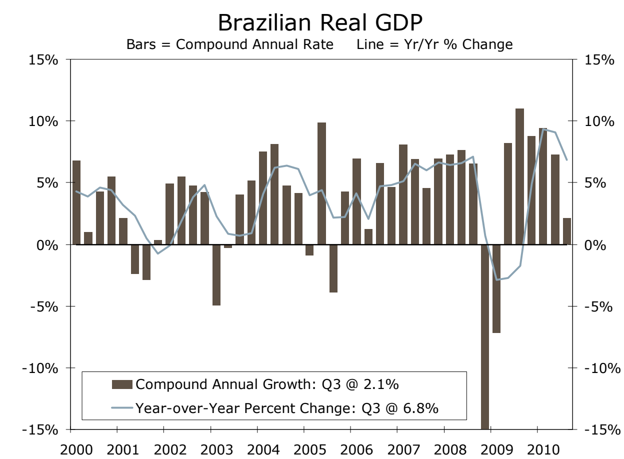
- The proposed deal between the White House and some members of Congress to extend Bush-era tax cuts, reduce payroll taxes and renew emergency unemployment benefits dominated headlines. GDP growth should get a slight boost in the coming year.
- Weekly first-time unemployment claims fell by 17,000 to 421,000 in the week ending December 4, the lowest reading of the year.
- The U.S. trade deficit narrowed sharply from $44.6 billion in September to $38.7 billion in October driven by strong export growth.



Global Review

Brazilian Economic Growth Slows Down

- The Brazilian economy slowed down during the third quarter of the year to post a growth rate of "only" 6.7 percent compared to the same quarter a year earlier.
- The biggest culprits for the slowdown in economic activity during Q3 were a drop of 1.5 percent in agricultural output and a decline of 1.3 percent in industrial output, both on a seasonally adjusted basis.
- The Rousseff administration's biggest problem is the recent rise in inflation, which will limit its ability to spend its way to success as the Lula administration did over the last several years.



Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast		
	2010				2011				2008	2009	2010	2011	2012
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product [1]	3.7	1.7	2.5	2.6	2.7	2.5	2.8	3.1	0.0	-2.6	2.8	2.6	3.3
Personal Consumption	1.9	2.2	2.8	3.3	2.0	1.8	2.2	3.1	-0.3	-1.2	1.8	2.4	2.2
Inflation Indicators [2]													
"Core" PCE Deflator	1.8	1.5	1.3	0.9	0.8	0.9	1.0	1.2	2.3	1.5	1.4	1.0	1.5
Consumer Price Index	2.4	1.8	1.2	1.1	1.1	1.8	1.9	1.9	3.8	-0.3	1.6	1.7	2.4
Industrial Production [1]	7.1	7.1	5.2	0.3	0.4	1.3	3.5	4.5	-3.3	-9.3	5.4	2.2	4.4
Corporate Profits Before Taxes [2]	37.6	37.0	27.8	12.5	8.2	6.2	6.2	6.7	-16.4	-0.4	27.9	6.8	6.7
Trade Weighted Dollar Index [3]	76.1	78.8	73.6	73.0	72.5	73.0	74.0	75.0	74.3	77.7	75.8	73.6	78.0
Unemployment Rate	9.7	9.7	9.6	9.8	10.0	9.9	9.8	9.6	5.8	9.3	9.7	9.8	9.2
Housing Starts [4]	0.62	0.60	0.58	0.56	0.65	0.72	0.83	0.88	0.90	0.55	0.59	0.77	0.90
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	0.50
Conventional Mortgage Rate	4.97	4.74	4.35	4.20	4.10	4.10	4.20	4.30	6.04	5.04	4.69	4.18	4.55
10 Year Note	3.84	2.97	2.53	2.80	2.80	2.90	3.00	3.20	3.66	3.26	3.20	2.98	3.70

Forecast as of: December 8, 2010

[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

"It's Beginning to Look a Lot Like Christmas…"

While it was a fairly light week for economic data, the proposed deal between the White House and some members of Congress to extend the Bush-era tax cuts, reduce payroll taxes and renew emergency unemployment benefits dominated headlines. Once the details are ironed out and some semblance of the package passes, most economists agree that GDP growth should get a slight boost in the coming year. This is indeed good news as the pullback in federal government spending next year was one of the major challenges for economic growth. We now expect real GDP to grow at a 2.6 percent annual pace in 2011 (for more details, please see our report: Annual Economic Outlook 2011).

The increase in economic growth, however, will still not be enough to bring the unemployment rate significantly lower. The unemployment rate should remain stubbornly above 9 percent well into 2012. As economic growth picks up in the coming quarters, much of the upward momentum in the unemployment rate will likely come from discouraged workers re-entering the workforce due to improving labor market conditions.

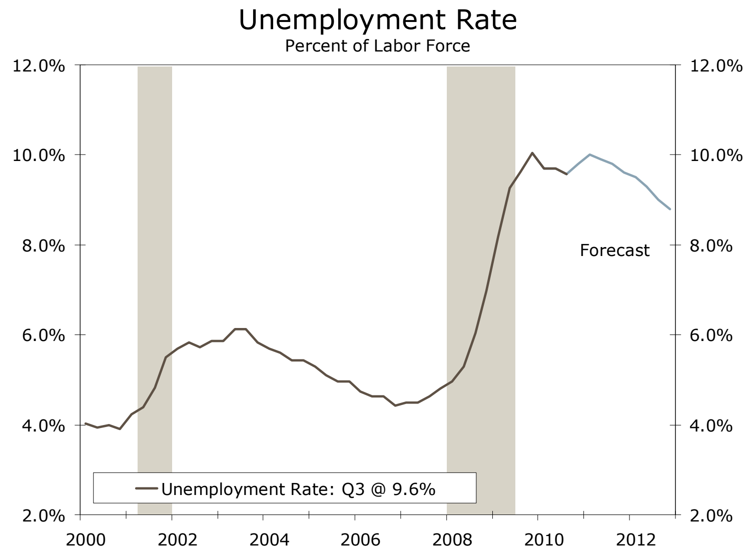
While an obstinately high unemployment rate seems daunting (and despite the disappointing November employment report), there are clear signs employment is improving. To help illustrate this point, we turn to five reliable indicators to gauge the strength of employment growth: temporary hiring, length of the workweek, initial jobless claims, the ISM index of employment and job openings relative to the size of employment. All measures have shown signs of stabilizing in recent months.

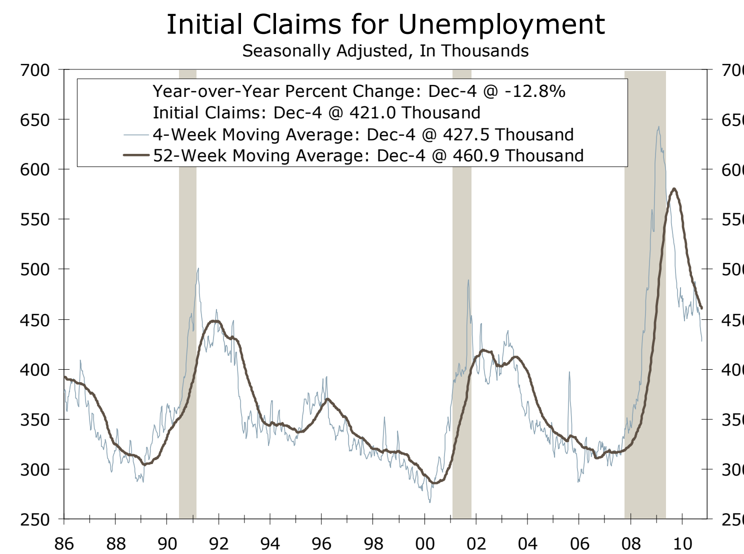
Weekly first-time unemployment claims fell by 17,000 to 421,000 in the week ending December 4, the lowest reading of the year. The four-week moving average, which is our preferred way to look at the volatile series, fell to 427,000 the lowest level since August 2008. The decline in the four-week moving average suggests improved payroll numbers ahead, but we still need claims to drop below 400,000 on a consistent basis for a self-sustaining recovery.

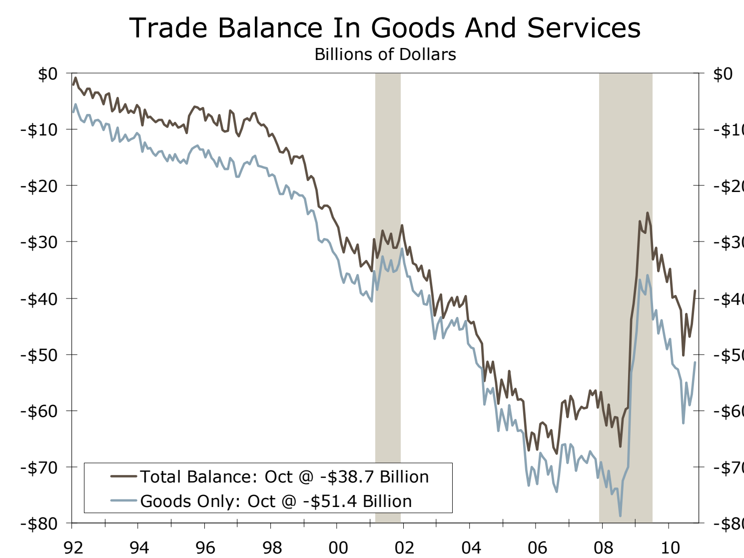
The number of people receiving extended and emergency benefits also dropped last week. We suspect the decline is related to claimants who exhausted all available benefits options. These numbers will probably continue to decline in the weeks ahead, until legislation extending unemployment benefits is passed.

Other data highlighting employment conditions were the Job Openings and Labor Turnover Survey. The job openings rate increased to 2.5 percent from 2.3 percent. The increase brings the number of job openings to 3.4 million and the ratio of unemployed to job openings to 4.4.

Another clear sign the economy continues to grow is the recently released data on the trade balance. The U.S. trade deficit narrowed sharply from $44.6 billion in September to $38.7 billion in October driven by strong export growth. All things being equal, we expect the decline in the deficit to have a positive effect on GDP growth in the fourth quarter.





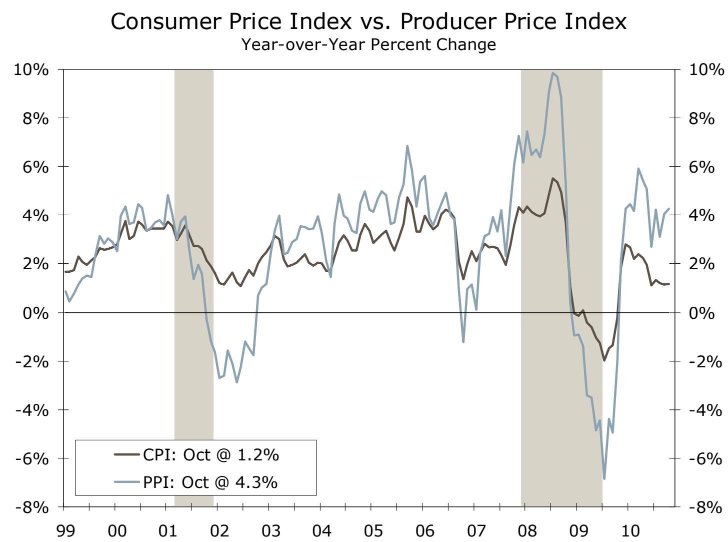


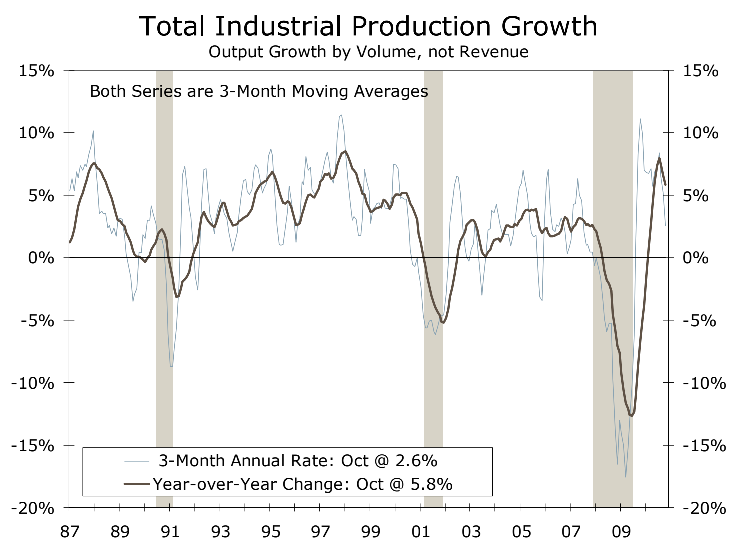
Producer Price Index • Tuesday

The October Producer Price Index rose 0.4 percent, led by increases in energy prices. The core PPI, which excludes food and energy, declined 0.6 percent in October, which was mostly due to falling prices for light trucks and passenger cars, which were down 4.3 percent and 3.0 percent, respectively. Intermediate goods prices increased in October to 1.2 percent, with core intermediate goods also rising 0.6 percent. Increases were also observed in crude goods which rose 4.3 percent, likely due to increases in commodity prices. We expect that the November PPI rose 0.3 percent on a monthly basis, and the core PPI edged up as well. With manufacturers unable to pass along higher prices to consumers there may be a negative effect on profits going forward. Our forecast indicates that the producer price index will rise 3.4 percent in the fourth quarter of 2010 on a year-over-year basis.

Previous: 0.5% **Wells Fargo: 0.3%**

Consensus: 0.7%





Industrial Production • Wednesday

Industrial production (IP) in October was unchanged, held back by unseasonably warm weather, which resulted in a 3.4 percent drop in utility output. Production in the factory sector rose 0.5 percent in October due to a 1.6 percent increase in motor vehicle output and a 1.4 percent increase in machinery. Output of business equipment rose 1.1 percent in October and is up 10.1 percent on a year-over-year basis. In contrast, production of consumer goods has pulled back, up only 3.7 percent year-over-year. Increased exports are likely helping to boost manufacturing output and will probably offset any drag from the reduction in inventory building. We estimate that IP increased 0.4 percent in November. Our forecast continues to indicate a slowdown in IP through the end of this year and the first quarter of 2011, mostly due to continued reductions in inventory building.

Previous: 0.0% **Wells Fargo: 0.4%**

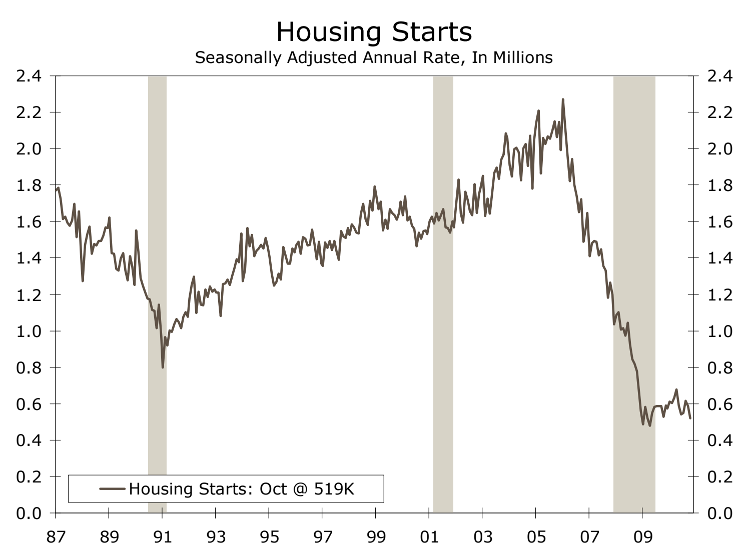
Consensus: 0.3%

Housing Starts • Thursday

Housing starts declined substantially in October, down 11.7 percent. Declines were observed across the board with multifamily starts plunging 44 percent and single-family homes falling 1.0 percent. Building permits rose slightly to 555,000, which is likely the new normal—at least for the time being—for the housing market. Some good news can be seen in the apartment market where demand has been rising steadily over the past year. We expect housing starts increased slightly to 540,000 in November due to continued low mortgage rates and some payback from the disappointing levels observed last month. Our forecast continues to indicate that housing starts have bottomed out, but new starts are estimated to total only 560,000 in the fourth quarter of this year.

Previous: 519K **Wells Fargo: 540K**

Consensus: 550K



Global Review

Brazilian Economic Growth Slows Down

As expected, the Brazilian economy slowed down somewhat during the third quarter to post a growth rate of "only" 6.7 percent compared to the year-earlier quarter. This means that the economy has grown by 7.5 percent during the past four quarters and by 8.5 percent year to date. Although the results of the third quarter were weaker than the previous quarters, the 6.7 percent annual rate is still very strong and will help the Brazilian central bank as it tries to limit the recent acceleration in inflation numbers.

GDP growth for 2009 was revised lower, from down 0.2 percent to down 0.6 percent, fundamentally due to a downward revision in industrial output, which went from a fall of 5.5 percent to a fall of 6.4 percent. Meanwhile, GDP grew by 0.5 percent (not annualized) in the third quarter compared to the previous quarter and on a seasonally adjusted basis compared to an increase of 1.8 percent during the second quarter.

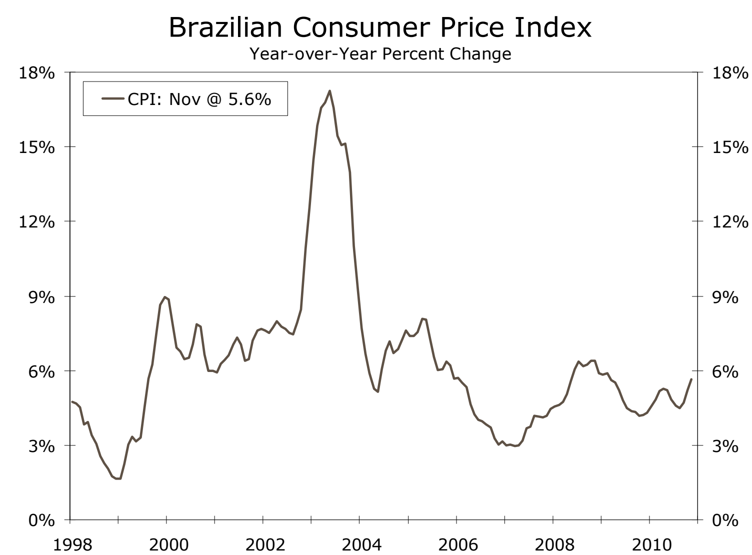
The biggest culprits for the slowdown in economic activity during the third quarter were a drop of 1.5 percent in agricultural output and a drop of 1.3 percent in industrial output while the service sector increased by 1.0 percent, all on a seasonally adjusted basis.

On the demand side, personal consumption increased by 5.9 percent, government consumption increased by 4.1 percent, gross fixed investment was up by 21.3 percent, exports of goods and services increased by 11.3 percent and imports of goods and services, which are a subtraction to GDP, surged by an impressive 40.9 percent, all compared to the same quarter a year earlier.

The surge in imports of goods and services is probably one of the biggest concerns for the Brazilian government and the central bank. Imports of goods and services have grown by almost 40 percent during the past three quarters and this is the reason why Brazilian government officials have been so adamant in complaining against countries that either depreciate their currencies or keep their currencies from appreciating. This increase in imports is putting pressure on the country's current account and, at some point in time, investors will start doubting the ability of the country to continue to attract enough foreign financing to take care of that deficit.

While the central bank has been implementing some measures to try to prevent a further appreciation of the currency, the currency has continued to strengthen and prospects are probably for the currency to remain strong for the foreseeable future. Some analysts are indicating that the new administration will need to pare down its planned investments because this will continue to add pressure on the current account deficit and on the currency.

Furthermore, the incoming Rousseff administration will need to rethink its populist rhetoric and come down to earth earlier than anticipated. However, the biggest problem for the Rousseff administration is the recent rise in inflation, which will also limit the new administration's ability to spend its way to success as the Lula administration was able to do over the past several years.



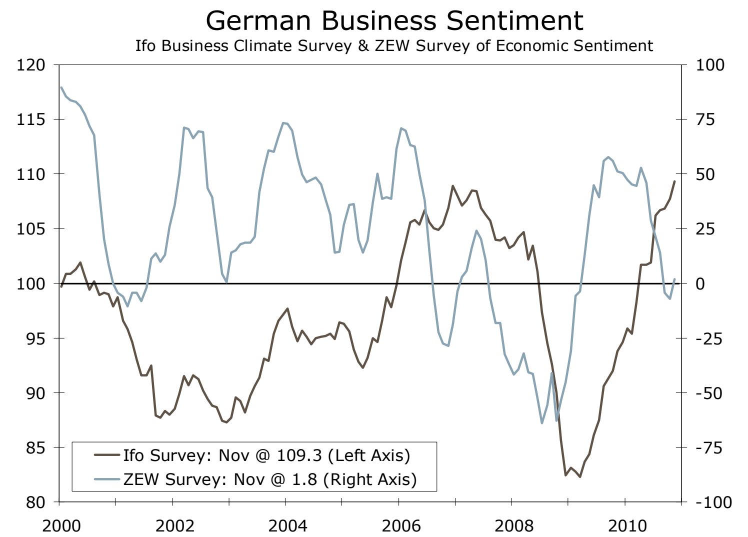
German Sentiment • Tuesday & Friday

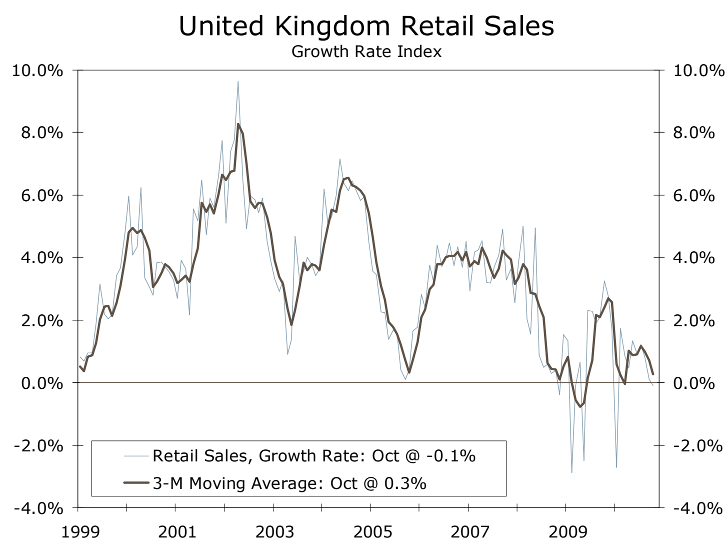
In November, the ZEW economic sentiment survey suggested an improving outlook for the largest economy in the Eurozone, despite indications of an intensifying sovereign debt crisis at the time. This view was confirmed by the Ifo business climate survey, which surged to a record high in November.

Since that time, most of the new data out of Germany has remained fairly positive, with GDP growing at a 2.8 percent pace in the third quarter, and stronger-than-expected retail sales for October. Factory orders increased in October as well, and the German PMIs both remain firmly in expansion territory. Will sentiment deteriorate as a result of the escalation of the sovereign debt situation? We will find out next week when the December reading of the ZEW survey hits the wire on Tuesday, December 14, and the Ifo survey comes out on Friday, December 17.

Previous: 109.3 (Ifo) & 1.8 (ZEW)

Consensus: 109.0 (Ifo) & 3.9 (ZEW)





U.K. Retail Sales • Thursday

The U.K. economy expanded at a faster-than-expected pace in the third quarter despite weak growth in consumer spending, which rose only 1 percent at an annualized rate.

Retail sales in the United Kingdom increased in October for the first time in three months, suggesting that growth consumer spending remains tepid. The sequential increase was not enough to keep the year-over-year measure out of negative territory as the level of sales slipped 0.1 percent from where it stood in October 2009. There has been some speculation that U.K. consumers might ramp up their spending a bit in November and December, trying to get in purchases ahead of the increase in the value-added tax that goes into effect in January. The November retail sales report is expected on Thursday of next week.

Previous: 0.5% (Month-over-month)

Consensus: 0.3%

Eurozone PMIs • Thursday

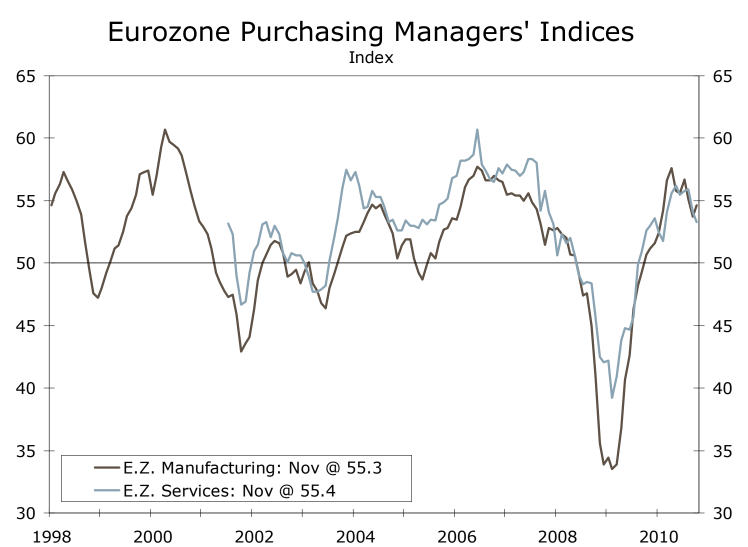
The 16-member Eurozone economy expanded at a 1.4 percent pace in the third quarter, marking the fifth consecutive quarterly expansion. Still, the level of GDP remains roughly 3 percent below the pre-recession peak.

We expect the Eurozone to grow again in the current quarter. Part of our justification stems from the current readings of the various purchasing managers' surveys, which remain well above the 50 line that separates expansion from contraction.

That said, the Eurozone is not without its share of problems at the moment. The ongoing challenge of the sovereign debt crisis certainly is not a positive for the outlook in Europe. On Thursday, December 16, December readings for the PMIs will tell us whether the fiscal problems in a few member countries will be enough to dampen sentiment across the Eurozone.

Previous: 55.3 (Manufacturing) 55.4 (Services)

Consensus: 55.2 (Manufacturing) 55.2 (Services)



Interest Rate Watch

Clear Sailing For Higher Rates?

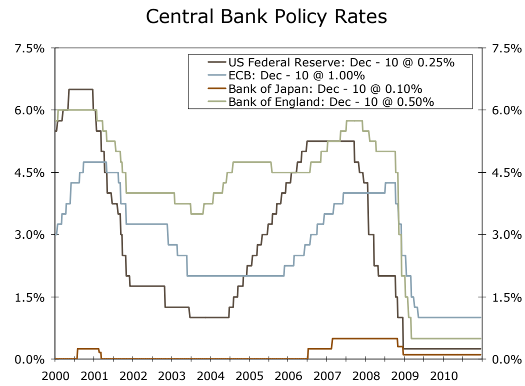
The apparent agreement between the Obama Administration and Republicans on extending the Bush-era tax cuts and reducing social security taxes by two percentage points has caused forecasters to raise their forecasts for 2011 and to become even more bearish about the intermediate to long-term outlook for the federal budget deficit and Treasury issuance. Long-term bond yields soared this week before rallying back following Thursday's better-than-expected auction of 30-year bonds.

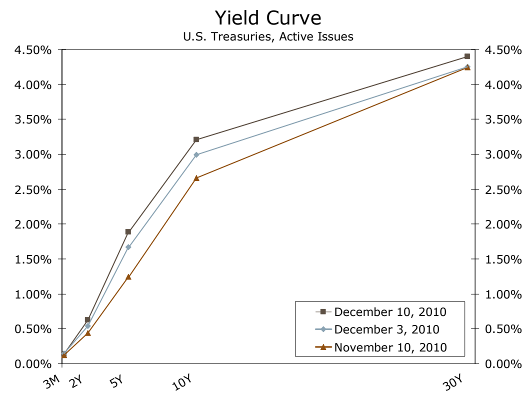
We believe the bond market has again gotten ahead of itself. There is no question the economy is improving and, even with the unexpected blow back by the Democrat leadership, the apparent agreement on extending the tax cuts is still likely to pass.

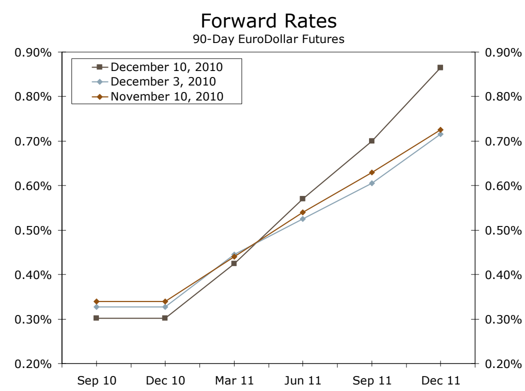
The assumptions being made on the impact of the agreement may be a bit of a stretch. Expectations for economic growth have been ramped up to 4 percent plus by many forecasters and talk about the budgetary impact tops out at around $1 trillion. We think the market is paying too much attention to these outsized estimates. If growth turns out to be that much stronger, the budget deficit, and Treasury financing needs, would almost certainly be less.

Our own forecast calls for a much more modest boost. Extending the lower rates on dividends and capital gains and continuing to pay extended unemployment does not provide any incremental stimulus to the economy. The boost to 2011 comes primarily from the reduction in the social security payroll tax from 6.2 percent to 4.2 percent, which will put more money into consumers' pockets. Overall growth, however, will only likely be a few tenths percentage points higher than otherwise.

The tax compromise has also led to questions as to whether the Fed will need to continue it QE2 program. It will. Inventory rebuilding and federal government stimulus are still diminishing. While a double-dip recession looks much less likely today, a return to 4 percent plus GDP growth would likely require more improvement in the housing sector than we are likely to see over the next few quarters.







Credit Market Insights

Consumer Credit Expands

Overall consumer credit outstanding expanded by $3.4 billion in October on a seasonally adjusted basis. Revolving credit, such as credit cards, fell by $5.6 billion. Built-up savings, high unemployment, account closures and hefty charge-offs continue to drag down revolving credit. Meanwhile, non-revolving credit jumped $9.0 billion. Although annualized auto sales hit a two-year high 12.25 million units in October, there is more than meets the eye regarding the increase in nonrevolving credit. Breakdowns by institution type are only reported on a non-seasonally-adjusted basis. Digging into the details, we see that finance company nonrevolving credit, which is primarily auto loans, declined by $26.0 billion. That would seem to indicate that consumers are financing autos via bank loans rather than auto dealer loans. However, we can also see that nonrevolving credit at commercial banks, a good portion of which are auto loans, also declined. That would suggest little in the way of auto financing from commercial banks as well. Thus, either charge-offs are overwhelming new auto loans at both finance companies and commercial banks or consumers are making cash purchases. In any event, it does not appear that auto loans are driving the increase in nonrevolving credit. Rather, the big increase came from federal government loans, primarily student loans, which rose $31.8 billion. Thus, sans education, consumer credit is generally still contracting.

Mortgage Data

	Current	Week Ago	4 Weeks Ago	Year Ago
Mortgage Rates				
30-Yr Fixed	4.61%	4.46%	4.17%	4.81%
15-Yr Fixed	3.96%	3.81%	3.57%	4.32%
5/1 ARM	3.60%	3.49%	3.25%	4.26%
1-Yr ARM	3.27%	3.25%	3.26%	4.24%
MBA Applications				
Composite	603.5	608.8	833.3	665.6
Purchase	210.9	207.2	188.7	241.5
Refinance	2,932.0	2,974.4	4,587.7	3,185.9

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

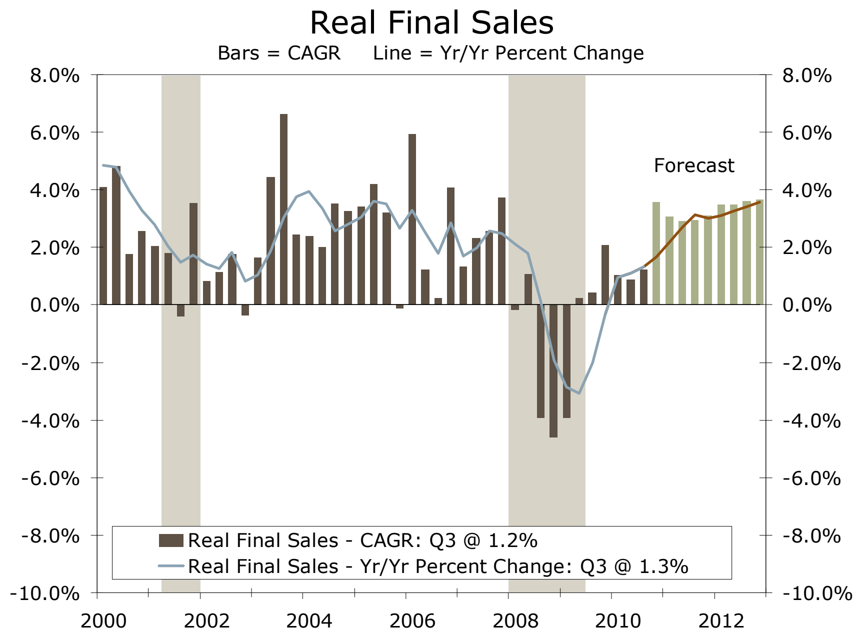
Topic of the Week

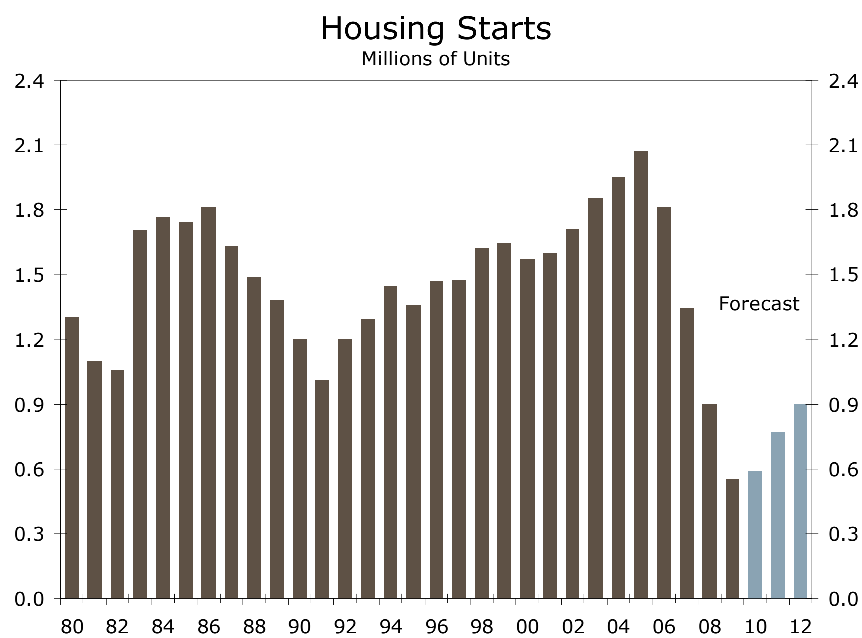
Economic Outlook: Turning the Corner in 2011

This week, we released our report: *Annual Economic Outlook 2011*. In our outlook this year, we have chosen to examine the path dependence issue that defines our expectations for the economy and the options for private and public decision-makers in their strategic planning for the year ahead. The economic recovery in 2011 begins with four main challenges. First, unconventional monetary policy tools have been employed on a massive scale in an attempt to prevent a deflationary spiral, a process responsible for deep recessions in the United States in the 1930s and Japan in the 1990s. Second, we are limited by the policy decisions of the past 40 years, which have levered our government, both federal and local, to unsustainable levels. Several of our most populous and politically important states, such as California and Florida, are among the worst examples of these troubling trends. Third, both the public and private sector fueled a bubble that blinded households and investors alike to the true value of assets in the housing market. Today, with continued government intervention and oversupply, the market still cannot indicate the true values of real estate. Finally, the pace of globalization continues to present challenges to economic actors due to path dependence.

Despite the challenges that face us, we have put the most arduous portion of our journey behind us. We have turned the corner, and for the year ahead, we believe sustained growth will reflect the influence of continued improvements in consumer and business investment as well as the turnaround in residential and commercial construction. We anticipate a change in the composition of growth with less inventory gains and federal spending and greater support for growth from final private demand. Over the next two years, we expect the U.S. economy to grow by 2.6 percent in 2011 and 3.3 percent in 2012.

For more, please visit our website and read our:
Annual Economic Outlook 2011





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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 12/10/2010	1 Week Ago	1 Year Ago
3-Month T-Bill	0.13	0.13	0.02
3-Month LIBOR	0.30	0.30	0.25
1-Year Treasury	0.27	0.23	0.26
2-Year Treasury	0.61	0.47	0.77
5-Year Treasury	1.92	1.61	2.19
10-Year Treasury	3.25	3.01	3.50
30-Year Treasury	4.39	4.31	4.51
Bond Buyer Index	4.86	4.65	4.19

Foreign Exchange Rates

	Friday 12/10/2010	1 Week Ago	1 Year Ago
Euro ($/€)	1.319	1.341	1.473
British Pound ($/£)	1.576	1.578	1.628
British Pound (£/€)	0.837	0.850	0.905
Japanese Yen (¥/$)	83.970	82.530	88.200
Canadian Dollar (C$/$)	1.010	1.004	1.052
Swiss Franc (CHF/$)	0.984	0.974	1.026
Australian Dollar (US$/A$)	0.984	0.993	0.917
Mexican Peso (MXN/$)	12.470	12.337	12.942
Chinese Yuan (CNY/$)	6.655	6.663	6.827
Indian Rupee (INR/$)	45.058	45.105	46.655
Brazilian Real (BRL/$)	1.717	1.687	1.757
U.S. Dollar Index	80.253	79.377	76.045

Foreign Interest Rates

	Friday 12/10/2010	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.96	0.97	0.68
3-Month Sterling LIBOR	0.75	0.74	0.61
3-Month Canadian LIBOR	1.23	1.23	0.47
3-Month Yen LIBOR	0.18	0.18	0.28
2-Year German	1.07	0.86	1.24
2-Year U.K.	1.10	1.02	1.17
2-Year Canadian	1.70	1.64	1.22
2-Year Japanese	0.23	0.19	0.18
10-Year German	2.95	2.86	3.18
10-Year U.K.	3.52	3.41	3.81
10-Year Canadian	3.28	3.19	3.36
10-Year Japanese	1.21	1.22	1.25

Commodity Prices

	Friday 12/10/2010	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	87.83	89.19	70.54
Gold ($/Ounce)	1377.75	1414.07	1131.00
Hot-Rolled Steel ($/S.Ton)	580.00	565.00	510.00
Copper (¢/Pound)	407.70	399.50	307.95
Soybeans ($/Bushel)	12.67	12.65	9.99
Natural Gas ($/MMBTU)	4.36	4.35	5.30
Nickel ($/Metric Ton)	23,547	23,627	16,487
CRB Spot Inds.	572.49	560.22	476.91

Next Week's Economic Calendar

	Monday 13	Tuesday 14	Wednesday 15	Thursday 16	Friday 17
U.S. Data		**PPI** October 0.4% November 0.3% (W) **Retail Sales** October 1.2% November 0.1% (W) **FOMC Rate Decision** Previous 0.25% Expected 0.25% (W)	**CPI** October 0.2% November 0.2% (W) **Industrial Production** October 0.0% November 0.4% (W) **Capacity Utilization** October 74.8% November 75.1% (W)	**Housing Starts** October 519K November 540K (W) **Current Account** 2Q -$123.3B 3Q -$122.0B (W)	**Leading Indicators** October 0.5% November 1.2% (W)
Global Data	**Mexico** **Industrial Prod. (YoY)** Previous (Sep) 6.3%	**Germany** **Zew Survey** Previous (Nov) 1.8 **Japan** **Tankan Manufacturers** Previous (Q3) 8	**United Kingdom** **Unemployment Rate** Previous (Sep) 7.7%	**Eurozone** **PMI Manufacturing** Previous (Nov) 55.3 **Eurozone** **CPI (YoY)** Previous (Oct) 1.9%	**Germany** **IFO Business Climate** Previous (Nov) 109.3

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

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