March 26, 2010

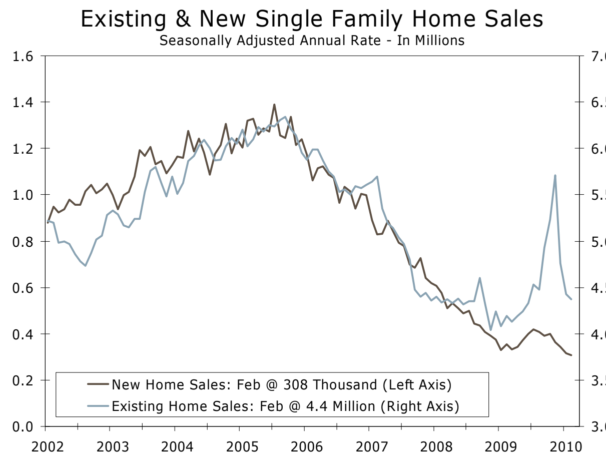
Economics Group

Weekly Economic & Financial Commentary

U.S. Review

Public Policy Grabs Center Stage

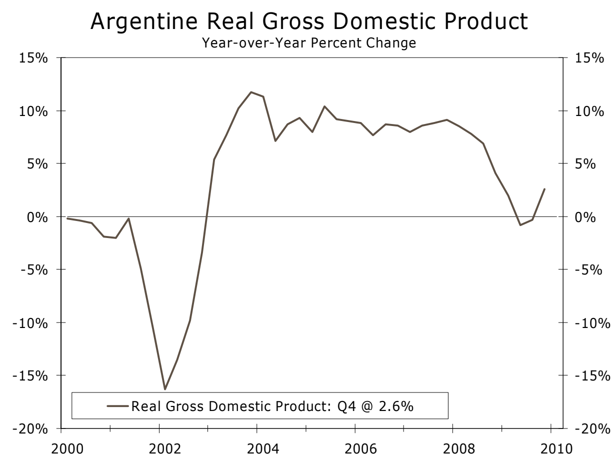
- Public policy dominated this week, with the passage of healthcare reform and confirmation the social security system would run into deficit this year contributing to disappointing Treasury auctions and higher bond yields.
- Advance orders for durable goods rose in line with expectations, but a large downward revision to January's nondefense capital goods orders raises a red flag as to how strong capital spending will be in the first quarter.
- Sales of new and existing homes both declined in February, raising fears the incipient recovery in housing has faltered.



Global Review

The Argentine Economy Surprises on the Upside

- The Argentine economy grew by 2.6 percent during the last quarter of 2009 compared to the same period a year earlier, and by 0.9 percent for the whole year.
- The most important contributor to last year's GDP performance for the Argentine economy was the collapse of imports.
- Government consumption increased by 7.7 percent during the last quarter of 2009 compared to the same period a year earlier, and rose 7.2 percent for the year as a whole.



Inside

Wells Fargo U.S. Economic Forecast

	Actual 2009				Forecast 2010				Actual				Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2006	2007	2008	2009	2010	2011
Real Gross Domestic Product [1]	-6.4	-0.7	2.2	5.9	3.4	2.0	2.0	2.3	2.7	2.1	0.4	-2.4	2.9	2.5
Personal Consumption	0.6	-0.9	2.8	1.7	2.2	1.0	1.4	1.6	2.9	2.6	-0.2	-0.6	1.6	1.7
Inflation Indicators [2]														
"Core" PCE Deflator	1.7	1.6	1.3	1.5	1.4	1.2	1.2	1.2	2.3	2.4	2.4	1.5	1.3	1.7
Consumer Price Index	-0.2	-1.0	-1.6	1.5	2.5	2.4	1.9	1.6	3.2	2.9	3.8	-0.3	2.1	2.1
Industrial Production [1]	-19.0	-10.4	6.4	6.6	8.3	3.9	3.4	6.5	2.3	1.5	-2.2	-9.7	4.9	5.7
Corporate Profits Before Taxes [2]	-19.0	-12.6	-6.6	24.0	22.0	16.0	10.0	8.5	10.5	-4.1	-11.8	-5.1	13.8	8.0
Trade Weighted Dollar Index [3]	83.2	77.7	74.3	74.7	75.4	76.8	78.5	80.1	81.5	73.3	79.4	74.7	80.1	83.6
Unemployment Rate	8.2	9.3	9.6	10.0	9.7	9.8	10.1	10.0	4.6	4.6	5.8	9.3	9.9	9.6
Housing Starts [4]	0.53	0.54	0.59	0.56	0.59	0.64	0.67	0.70	1.81	1.34	0.90	0.55	0.65	0.76
Quarter-End Interest Rates														
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	5.25	4.25	0.25	0.25	0.50	3.25
Conventional Mortgage Rate	5.00	5.42	5.06	4.88	5.40	5.70	5.80	5.80	6.14	6.10	5.33	4.88	5.80	6.10
10 Year Note	2.71	3.53	3.31	3.85	3.70	3.80	4.00	4.10	4.71	4.04	2.25	3.85	4.10	4.50

Forecast as of: March 10, 2010
[1] Compound Annual Growth Rate Quarter-over-Quarter
[2] Year-over-Year Percentage Change

Together we'll go far

U.S. Review

Strange Days in the Credit Markets

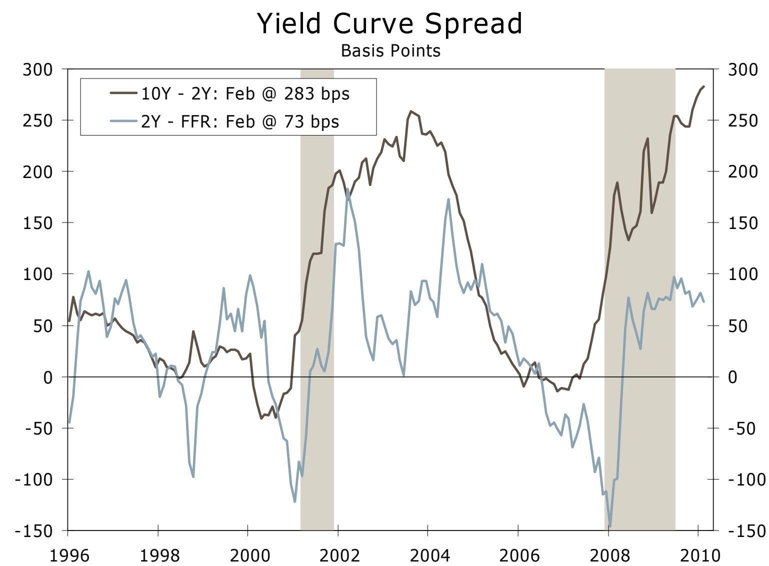
The bond market is the ultimate truth detector and its verdict on healthcare reform is the new law will be more costly than the Congressional Budget Office (CBO) estimated and budget deficits will be larger. The bond market was already on edge from the ongoing Greek debt saga and reports that Berkshire Hathaway and a handful of other businesses can now borrow more cheaply than the U.S. Treasury. The CBO confirmed the Social Security system would pay out more in benefits this year than it receives in taxes, something that was not supposed to occur until 2016. The Social Security shortfall means the Treasury will need to redeem the "special issue notes" issued to the Social Security trust fund, which will require the Treasury to sell real bonds, which has become more challenging in recent weeks.

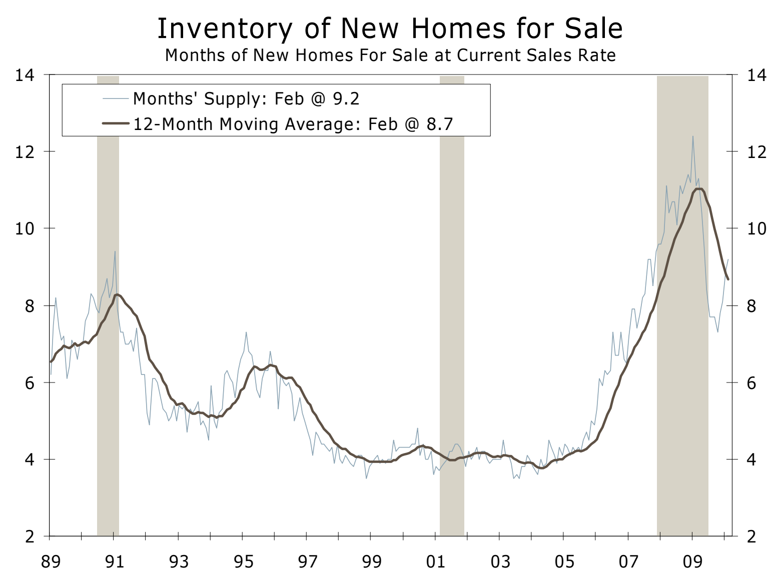
The last few years have seen Treasury yields rise during the spring, triggering a whole new set of challenges. History looks like it will repeat itself this year, with the end of the Fed's mortgage-backed securities purchases next week adding to the upward drift in yields. The supply of bonds coming to market will remain a challenge, with additional money needed to pay Social Security benefits and recapitalize Fannie Mae and Freddie Mac. Sovereign credit risk and worries about growing supply also extend to municipalities, which saw yields climb sharply recently.

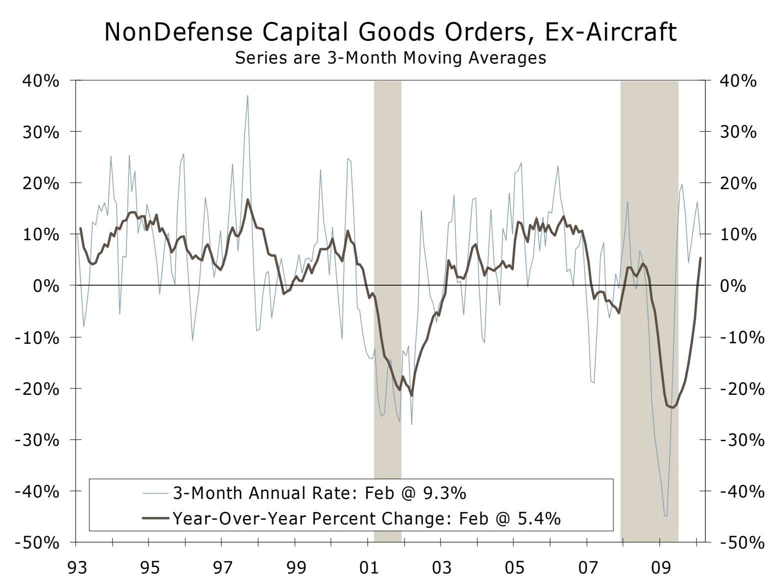
Rising interest rates will make it hard for the housing recovery to gain momentum. The latest numbers are clearly troubling, although anecdotal reports from builders and Realtors are not nearly as pessimistic as February's home sales were. New home sales fell to a new all-time low in February, falling 2.2 percent to 308,000. Builder sentiment also remains near all-time lows but builders are reporting some improvement in sales and buyer interest. On a net basis, housing is likely modestly stronger this year than last year. Supply remains a big issue, with a 9.2-month supply of new homes currently available for sale.

The harsh weather had less of an impact on existing home sales, which fell 0.6 percent in February. Single-family sales fell 1.4 percent, while condominium prices posted a slight increase. Maybe all that cold weather up North boosted the attractiveness of all those vacant condos in South Florida. The inventory of homes available for sale rose to an 8.6-month supply, as more homes are put up for sale in anticipation of the key spring home buying season and the expiration of the tax incentives.

The unusually prolonged drawdown in inventories has set off a strong cyclical recovery in parts of the factory sector. Advance orders for durable goods posted a 0.5 percent gain in February with January's numbers being revised higher. Big gains in orders for machinery appear to be driving the overall increase. New orders for nondefense capital goods, excluding aircraft, rose 1.1 percent in February, but the previous month's decline was a percentage point worse than first reported and now shows a 3.9 percent drop. The downward revision should cause forecasters to pull back their estimates for first quarter economic growth and may also signal a weaker trend for capital spending in general for 2010.





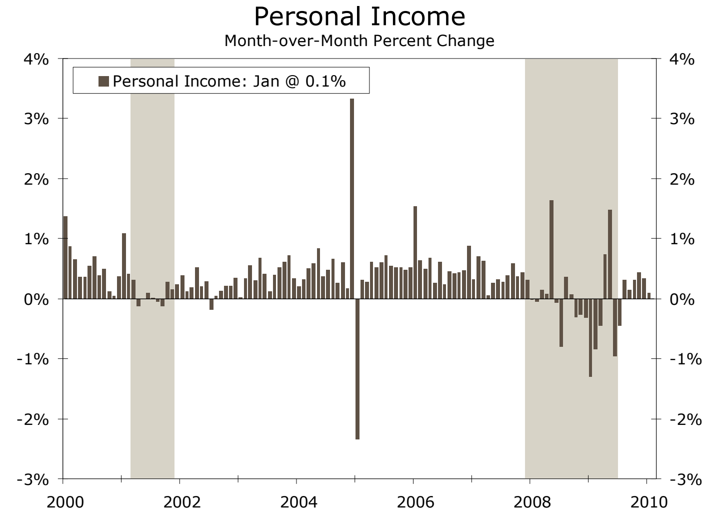


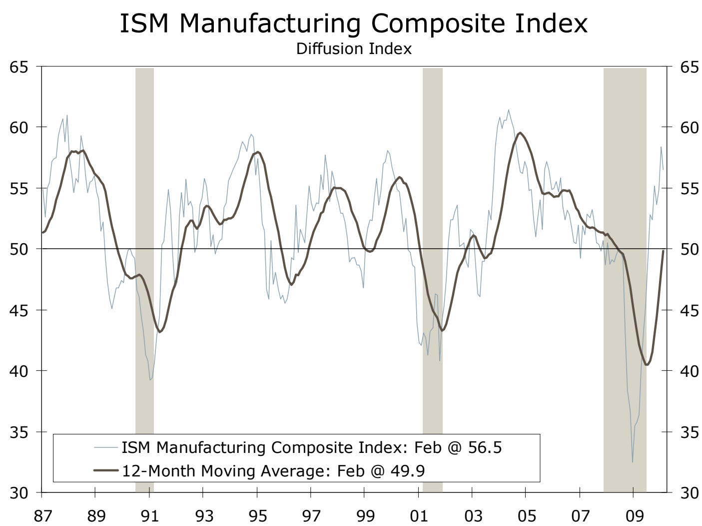
Personal Income and Spending • Monday

Personal income is expected to advance at a moderate 0.2 percent pace in February. Aggregate income data from the February employment report proved disappointing, falling 0.2 percent on the month. This should continue to weigh on the wage and salary growth component of income. Personal consumption expenditures are expected to rise a more tepid 0.2 percent in February, after strong gains of 0.5 percent in January. Unit vehicle sales dropped 2.0 percent in February, which will be an important factor behind the somewhat slower trend in overall consumption spending. The chain PCE price index should continue to point toward slowing consumer inflation. Headline PCE is expected to be unchanged in February, reducing the year-0n-year growth rate to 1.8 percent. Fears of inflation forcing the Fed's hand on interest rates appear overplayed at the moment.

Previous: 0.1 percent **Wells Fargo: 0.2 percent**

Consensus: 0.2 percent





ISM Manufacturing • Thursday

Regional manufacturing surveys for March suggest that manufacturing expansion remains firmly in place as we close out the first quarter. The rapid recovery in global trade, combined with the end of aggressive inventory cutting in the United States, is helping to boost manufacturing production at a healthy pace despite still-sluggish final demand growth from consumers and businesses. The March ISM index is expected at 56.7. This is a slight improvement from February's 56.5 reading, but still below January's 58.4, which marked the highest level since August 2004. The Chicago Business Barometer and Philadelphia Fed index both improved in March, though the Empire index moderated, suggesting a somewhat mixed picture on production gains in March. These ISM manufacturing levels are consistent with 6 to 7 percent industrial production growth on an annualized basis.

Previous: 56.5 **Wells Fargo: 56.7**

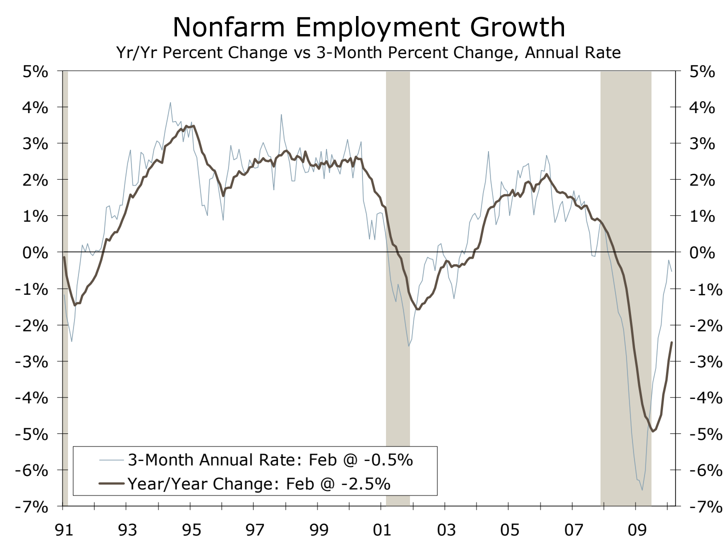
Consensus: 56.5

Employment • Friday

For March, we are finally expecting to see a positive net non-farm payroll print. The payroll report for February was encouraging in this regard: it revealed only a modest 36,000 net job loss in a month plagued by winter storms, suggesting the U.S. economy is on the verge of positive employment growth. A strong monthly boost from Census Bureau hiring should be the catalyst that finally pushes the payroll change into positive territory. The unemployment rate is expected to hold steady at 9.7 percent, though re-entering job seekers could still push the unemployment rate slightly higher in the months to come. Look for additional gains in working hours and hourly earnings to confirm the firmer labor market tone. Jobless claims remain stubbornly high, pointing to a weak underlying trend in private employment growth, and consumer confidence stumbled in light of labor market uncertainty.

Previous: -36 K **Wells Fargo: 177 K**

Consensus: 150 K



Global Review

The Argentine Economy Surprises on the Upside

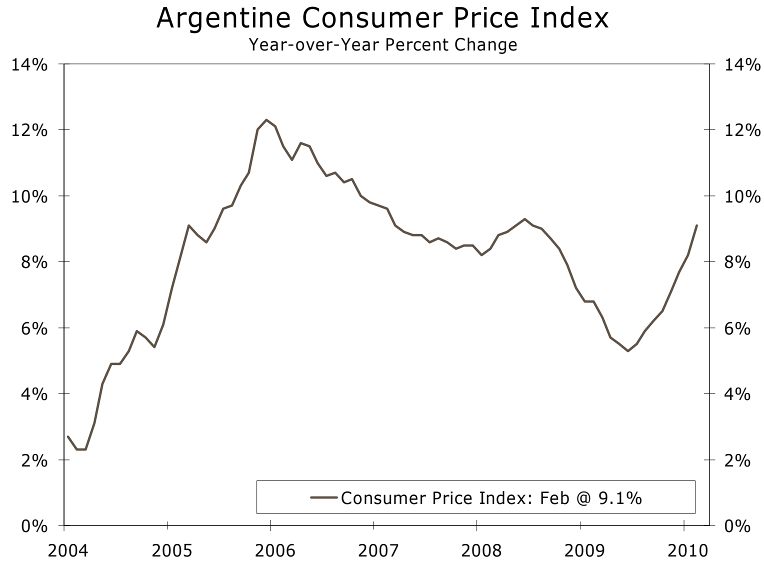
According to the INDEC, Argentina's statistical institute, the country's economy grew by 2.6 percent during the last quarter of 2009 compared to the same period a year earlier. This result followed two consecutive negative quarters when the economy dropped by 0.8 percent and 0.3 percent in the second and third quarters, respectively. The fourth quarter growth helped the economy to avoid a negative performance during the whole of 2009 by posting an annual growth rate of 0.9 percent. Interestingly enough, the economy's performance during the last quarter of the year was boosted by very strong personal consumption expenditures, which increased by 2.9 percent after dropping by 1.8 percent and 0.7 percent during the second and third quarters, respectively. However, personal consumption expenditures increased by only 0.5 percent during the whole of 2009.

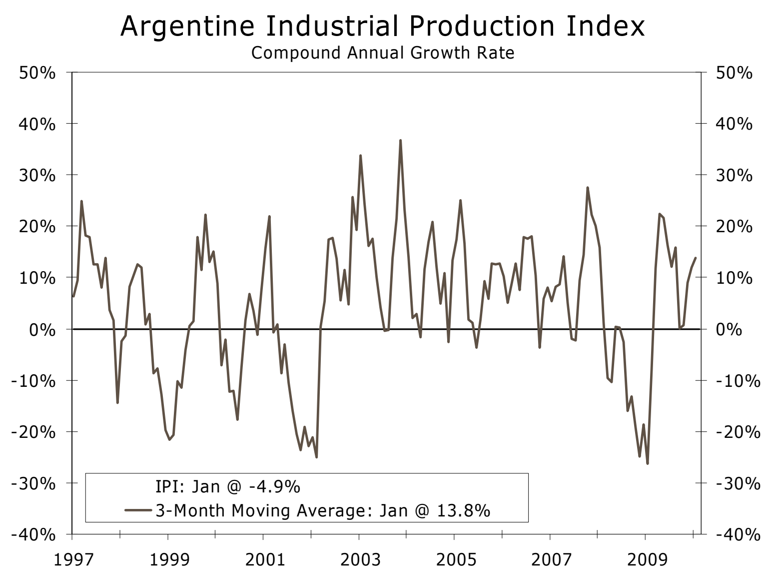
The most important contributor to last year's Argentine GDP performance was the collapse of imports. Imports of goods and services plunged by 19.0 percent in real terms during the year, while exports of goods and services dropped by only 6.4 percent. Thus, the strong drop in imports helped the economy prevent a deeper recession during the year as imports are a subtraction to GDP. On the other hand, the second most affected sector during 2009 was gross fixed investment, which dropped by 10.2 percent during 2009, the worst performance since the 2001-2002 financial crisis when gross fixed investment collapsed by a cumulative 52.1 percent in real terms.

Another contributor to growth during the year was strong government consumption. Government consumption increased by 7.7 percent during the last quarter of 2009 compared to the same period a year earlier, and rose 7.2 percent for the year as a whole. Thus, the Fernández-Kirchner administration continued to support economic growth through very strong fiscal policy at a time when fiscal revenues continued to dwindle due to the effects of the worldwide recession. Government consumption during 2009 was stronger than during the previous year even though the Argentine economy grew by 6.8 percent during 2008.

This is one of the reasons why many analysts are wondering if this policy is sustainable, considering that the Argentine government has been an international "pariah" and has not had access to international capital markets since the country's default back in 2001. Many are wondering how long will it take for the country to default on its debt again if it cannot continue to finance its increased expenditures.

So far the administration has been able to "find" domestic financing through several measures that have captured increased revenues, but the situation is getting tougher, fundamentally because the government has lost the majority in the Argentine Congress and it is becoming more difficult to bypass the institution to continue the spending spree.





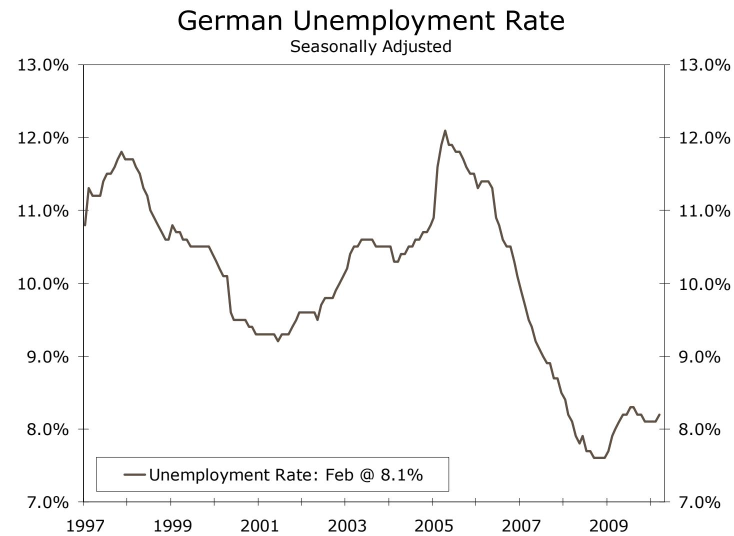
German Unemployment • Wednesday

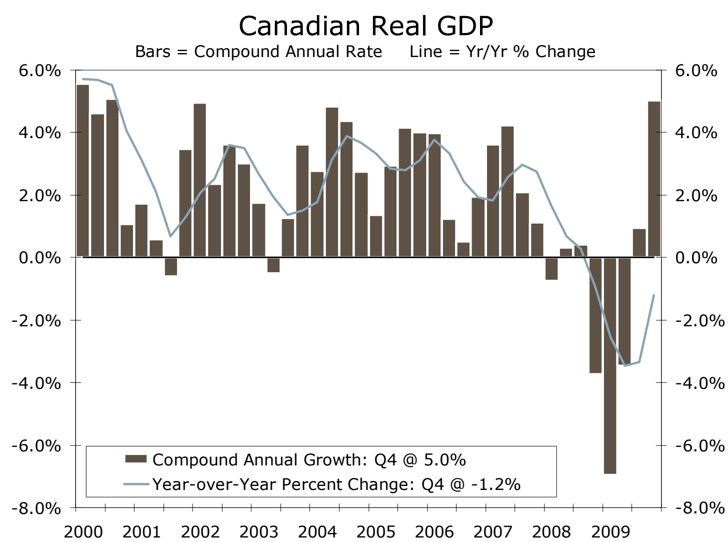
Despite the deep German recession—real GDP contracted nearly 7 percent between early 2008 and early 2009—the unemployment rate in Germany has barely risen. However, the unemployment rate understates the weakness of the German labor market because many workers have been put on "short shifts" (i.e., hours worked have been reduced). The consensus forecast anticipates a small increase in the number of unemployed workers in March when the data print on Wednesday. Preliminary CPI data for March are expected to show few inflationary pressures in Germany at present.

Other data will offer further insights into the current state of the Euro-zone economy. Italy releases unemployment and CPI data as well next week. In addition, the sizeable increases in the Euro-zone PMIs that were reported in March are expected to be confirmed by final data next week.

Previous: 8.2%

Consensus: 8.2%





Canadian GDP • Wednesday

Like its large neighbor on its southern border, the Canadian economy has grown for the past two quarters after enduring a painful recession. Canada is alone among major countries that provide GDP data on a monthly basis, and data that are slated for release on Wednesday are expected to show the economy continued to expand at a strong pace in January. If the consensus forecast is realized, then the Canadian economy would be on pace to register an annualized growth rate in excess of 4 percent in the first quarter of 2010.

Data on raw material and industrial prices are also on the docket next week. Although prices of raw materials have risen significantly over the past year, the Bank of Canada is not likely to raise rates anytime soon because the core rate of CPI inflation remains very benign (i.e., only 1.3 percent in January).

Previous: 0.6% (month-on-month change)

Consensus: 0.5%

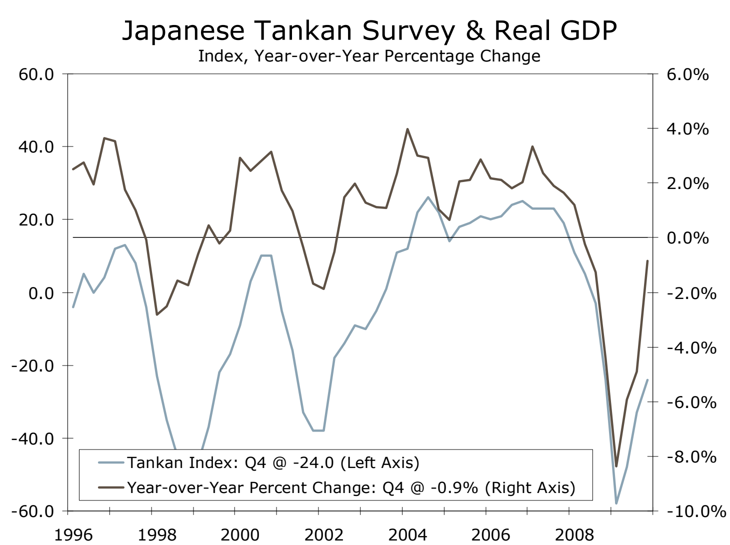
Japanese Tankan Index • Thursday

The quarterly Tankan survey that is conducted by the Bank of Japan is widely watched by investors. Not only does it contain a treasure trove of data on the Japanese economy, but the "headline" index, which measures sentiment among large manufacturers, is fairly correlated with real GDP growth. If, as expected, the "headline" index rises further, then investors will infer that the year-over-year growth rate in GDP in the first quarter rose into positive territory for the first time in two years.

Monthly data for February will offer further details about the present state of the Japanese economy. The consensus forecast looks for a small drop in industrial production last month, which, if realized, would be the first decline in IP in a year. Data on retail spending, the labor market and housing starts are also on the docket next week.

Previous: -24

Consensus: -14



Interest Rate Watch

Cyclical Rise in Rates Reinforced by Structural Deficits.

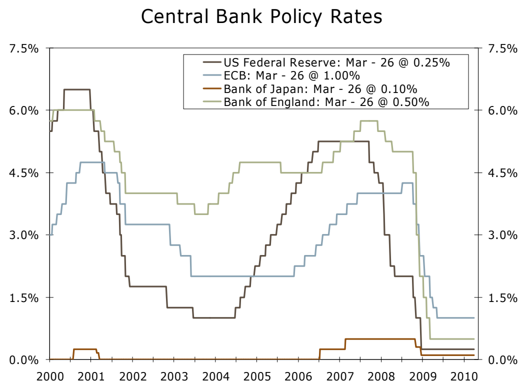
Over the last few weeks the typical cyclical pattern of rising interest rates has become more obvious. Improved economic activity tends to be associated with rising credit demand. With each economic recovery, the demand for credit tends to increase as firms raise their expectations for stronger final sales. Meanwhile, on the credit supply side, the opposite pattern starts to emerge as the Federal Reserve begins to withdraw liquidity. For now, many investors appear to anticipate that the Federal Reserve will maintain its accommodative policy for the rest of this year. This may be true for the politically sensitive federal funds rate but behind the scenes the risk is that the cost of funds is likely to rise while longer rates will also rise as the Fed reduces its role in the Treasury and mortgage backed security markets.

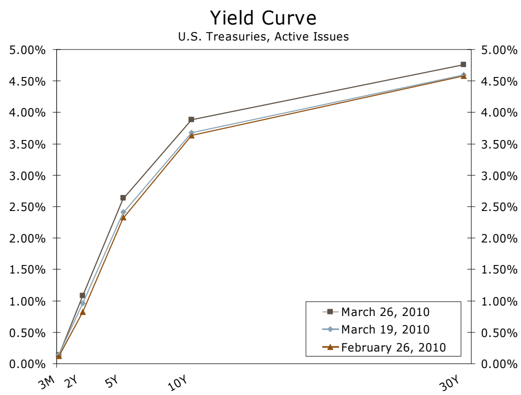
Structural Deficits Reinforce the Cycle

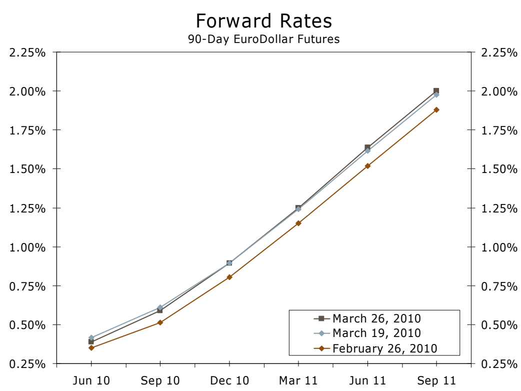
In the last two weeks the long-run outlook for U.S. fiscal deficits has deteriorated for two reasons: Social Security and healthcare. Recent estimates suggest that the Social Security fund will experience spending outflows in excess of revenue inflows this year—much earlier than prior estimates. This suggests the entitlement problems that were anticipated with the retirement of the baby boom generation are coming earlier than many expected.

Meanwhile, the budget implications of healthcare have become more visible. First, there is lots of skepticism on the ability of future Congresses to really enforce cuts in Medicare. Second, there are very few elements in the healthcare bill to control costs.

Research done at the Federal Reserve suggests that it is expected future federal deficits that influence interest rates today. Financial markets are forward-looking and the outlook is not good. This outlook is reinforced by the understanding that much of the Federal deficit in the last year has been purchased by the Fed and Asian buyers—two buyers that the markets are less confident about going forward.







Consumer Credit Insights

ABS Slowdown May Hinder Spending

During the credit boom, issuance of asset-backed securities (ABS) soared, peaking at $1.2 trillion in 2006. Since then, ABS issuance has fallen off a cliff, with a mere $177.4 billion being issued in 2009, a whopping 86 percent decline from the peak. While the year-to-date total through March 2010 of $27.9 billion is 42 percent above the same period in 2009, issuance through the rest of the year will have to largely match the last nine months of 2009 in order for 2010 totals to surpass 2009.

Unfortunately, that may not happen. After rebounding from a scant $600 million in October 2008 to $26.4 billion in September 2009 as investors' risk appetite returned, ABS issuance has slowed to just $9.2 billion in March 2010 as investors have turned cautious again. Following the cash-for-clunkers surge in fall 2009, auto ABS issuance has been cut in half. Credit card issuance has fared even worse as no securities have been issued in two of the last three months, leaving the three-month moving average at just $370 million versus about $8.0 billion last summer. Furthermore, the Fed's assistance is waning as ABS holdings via the TALF have actually declined since December.

Over the last couple years, consumer spending growth has been closely linked to ABS issuance, lagging it by about six to nine months. Thus, the recent slowing of ABS issuance suggests consumer spending growth could remain sluggish as we head into the summer.

Mortgage Data

	Current	Week Ago	4 Weeks Ago	Year Ago
Mortgage Rates				
30-Yr Fixed	4.96%	4.95%	4.93%	4.98%
15-Yr Fixed	4.33%	4.32%	4.33%	4.61%
5/1 ARM	4.09%	4.05%	4.12%	4.98%
1-Yr ARM	4.12%	4.22%	4.23%	4.91%
MBA Applications				
Composite	620.9	633.1	600.5	876.9
Purchase	221.5	226.8	212.3	257.1
Refinance	2,955.9	3,007.2	2,860.1	4,497.6

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

Topic of the Week

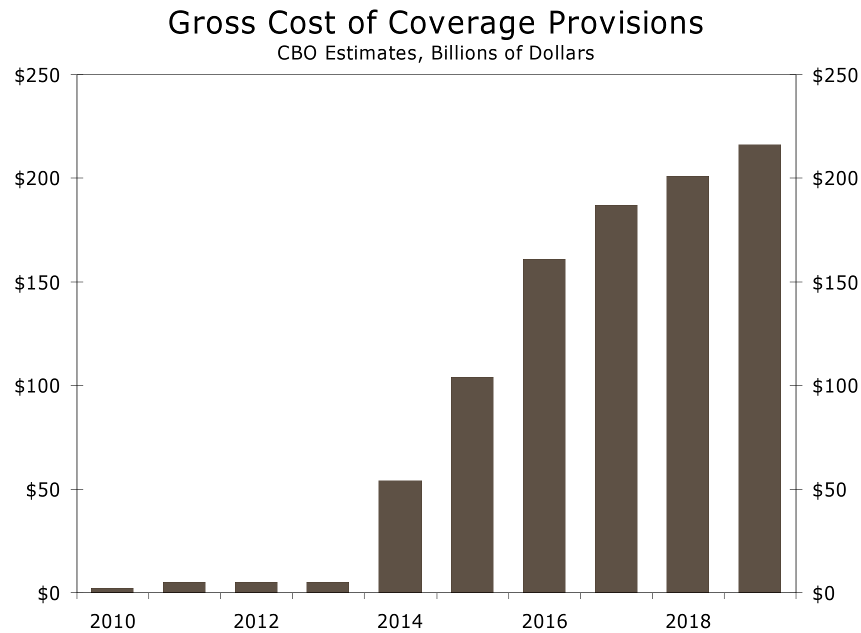
A Few Brief Comments on Healthcare Reform

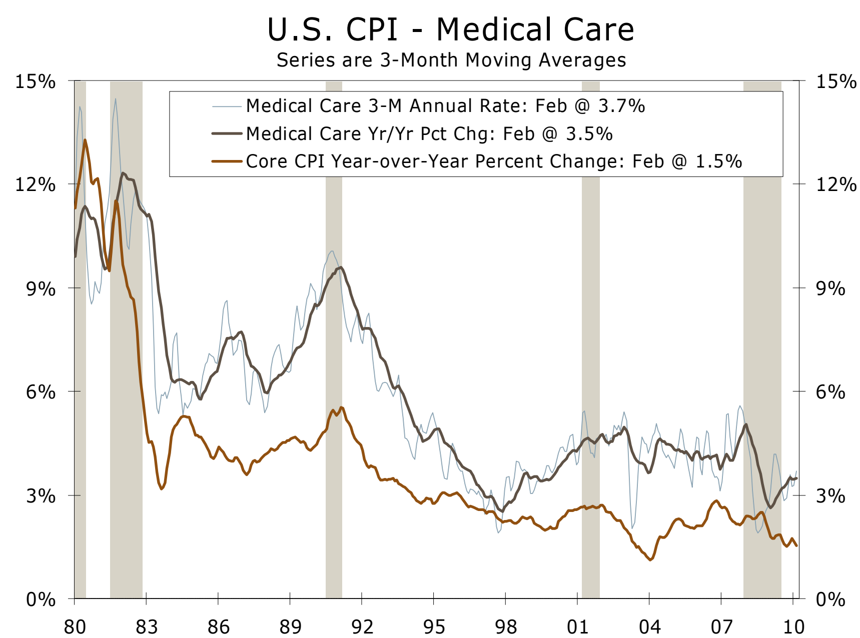
The financial markets appeared to have already priced in passage of the healthcare bill before last weekend. Our early assessment is that, while there is a great deal of cost shifting taking place, the bill that passed was less onerous than many had feared. Unfortunately, the history of massive social spending programs is that they tend to grow larger and larger over time. Moreover, the scoring by the Congressional Budget Office (CBO), which shows the program costing $940 billion and reducing the deficit $138 billion over the 2010 to 2019 period, was based on a strict interpretation of the bill as it was written. The costs will likely be higher than the CBO estimate and the budget deficit will also likely be larger. Savings from Medicare cutbacks will likely be harder to achieve. Moreover, the extended phase-in of the program will likely lead to incessant political pressure to expand benefits and scale back the tax hikes. The healthcare bill will have relatively little impact on economic conditions over the near term as most of the provisions will not take effect for a couple of years.

There is little evidence the new healthcare law will hold down the price of healthcare. Healthcare costs have been rising faster than the overall inflation rate for about as long as can be remembered. The driving force for this increase has been the aging population, which has resulted in increased demand of healthcare services and a lack of market discipline in the healthcare marketplace. Most costs are paid indirectly either by insurance companies or the government. This leads to over-consumption and little to no price sensitivity.

The higher tax rates on investment earnings will draw more investment dollars into tax avoidance projects and lead to modestly lower investment throughout the economy. Likewise, the new tax on medical devices and pharmaceutical companies could lead to reduced profitability and thus less innovation and product development.

Please visit our website for the full report.





Subscription Info

Wells Fargo's *Weekly Economic & Financial Commentary* is distributed to subscribers each Friday afternoon by e-mail.

To subscribe please visit: www.wachovia.com/economicsemail

The *Weekly Economic & Financial Commentary* is available via the Internet at www.wachovia.com/economics

Via The Bloomberg Professional Service at WFEC.

And for those with permission at www.wellsfargo.com/research

Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 3/26/2010	1 Week Ago	1 Year Ago
3-Month T-Bill	0.13	0.14	0.14
3-Month LIBOR	0.29	0.28	1.23
1-Year Treasury	0.43	0.40	0.55
2-Year Treasury	1.06	0.99	0.91
5-Year Treasury	2.62	2.46	1.79
10-Year Treasury	3.86	3.69	2.74
30-Year Treasury	4.76	4.58	3.65
Bond Buyer Index	4.44	4.32	5.00

Foreign Exchange Rates

	Friday 3/26/2010	1 Week Ago	1 Year Ago
Euro ($/€)	1.341	1.353	1.353
British Pound ($/£)	1.491	1.501	1.445
British Pound (£/€)	0.899	0.901	0.936
Japanese Yen (¥/$)	92.530	90.540	98.710
Canadian Dollar (C$/$)	1.029	1.017	1.231
Swiss Franc (CHF/$)	1.065	1.061	1.127
Australian Dollar (US$/A$)	0.904	0.915	0.702
Mexican Peso (MXN/$)	12.544	12.585	14.192
Chinese Yuan (CNY/$)	6.827	6.827	6.832
Indian Rupee (INR/$)	45.240	45.497	50.604
Brazilian Real (BRL/$)	1.822	1.802	2.249
U.S. Dollar Index	81.604	80.724	84.165

Foreign Interest Rates

	Friday 3/26/2010	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.58	0.58	1.53
3-Month Sterling LIBOR	0.65	0.65	1.70
3-Month Canadian LIBOR	0.41	0.40	1.05
3-Month Yen LIBOR	0.24	0.24	0.61
2-Year German	1.00	1.00	1.41
2-Year U.K.	1.19	1.25	1.28
2-Year Canadian	1.69	1.64	1.18
2-Year Japanese	0.17	0.15	0.42
10-Year German	3.15	3.11	3.13
10-Year U.K.	4.04	3.96	3.31
10-Year Canadian	3.57	3.48	2.89
10-Year Japanese	1.39	1.37	1.32

Commodity Prices

	Friday 3/26/2010	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	80.47	80.68	54.34
Gold ($/Ounce)	1104.45	1107.00	934.10
Hot-Rolled Steel ($/S.Ton)	615.00	615.00	450.00
Copper (¢/Pound)	340.05	336.45	184.95
Soybeans ($/Bushel)	9.30	9.45	9.54
Natural Gas ($/MMBTU)	3.97	4.17	3.95
Nickel ($/Metric Ton)	22,806	22,722	9,507
CRB Spot Inds.	501.12	503.52	332.94

Next Week's Economic Calendar

	Monday	Tuesday	Wednesday	Thursday	Friday
	29	30	31	1	2
U.S. Data	**Personal Income** January 0.1% February 0.2% (W) **Personal Spending** January 0.5% February 0.2% (W) **PCE Deflator** January 2.1% February 1.8% (W)	**Consumer Confidence** February 46.0 March 50.9 (W)	**Factory Orders** January 1.7% February 0.3% (W)	**ISM Manufacturing** February 56.5 March 56.7 (W) **Construction Spending** January -0.6% February -0.4% (W) **Total Vehicle Sales** February 10.36M March 11.5M (W)	**Nonfarm Payrolls** February -36K March 177K (W) **Unemployment Rate** February 9.7% March 9.7% (W)
Global Data	**Germany** **CPI (YoY)** Previous (Feb) 0.5%	**Japan** **Jobless Rate** Previous (Jan) 4.9% **Japan** **Industrial Prod. (MoM)** Previous (Jan) 2.7%	**Germany** **Unemployment Rate** Previous (Feb) 8.2% **Canada** **GDP (MoM)** Previous (Dec) 0.6%	**Japan** **Lge Manufacting PMI** Previous (4Q) -24 **UK** **PMI Manufacturing** Previous (Feb) 56.6	

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	(612) 667-0168	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Adam G. York	Economist	(704) 715-9660	adam.york@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wellsfargo.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wellsfargo.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wellsfargo.com

WELLS FARGO SECURITIES