

Economics Group

Weekly Economic & Financial Commentary

U.S. Review

November Payroll Data Douse Economic Optimism

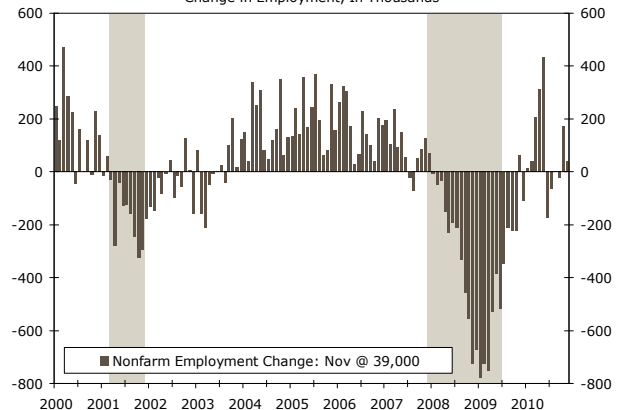
- November payroll data put icy cold water on expectations for a near-term acceleration in U.S. labor market trends. Non-farm payrolls barely increased in November, up 39 thousand, while the U.S. unemployment rate jumped two-tenths to 9.8 percent.
- Some important economic data released this week, including chain store sales, consumer confidence, pending home sales, construction spending, and vehicle sales all beat market expectations. November's weak payroll data put into doubt whether the pace of these gains are sustainable in the months ahead.

Global Review

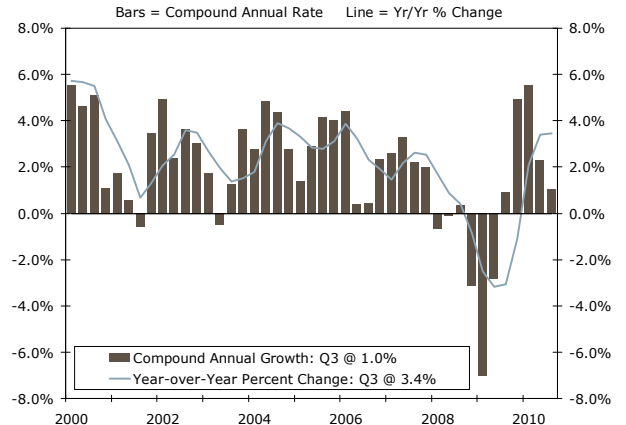
Pace of Canadian Recovery Is Slowing Fast

- The Canadian economy has been expanding at a slower rate each quarter this year. The pace of growth slowed from 5.5 percent in Q1 to 2.3 percent in Q2, and this week we learned Q3 growth had slowed to just one percent. That said, domestic demand remains strong in Canada; trade is the primary drag on growth.
- The Canadian job market added 15,200 jobs in November. The unemployment rate dipped to 7.6 percent as people (primarily young people) left the workforce. The gain was somewhat less than expected and much smaller than gains seen earlier this year.

Nonfarm Employment Change
Change in Employment, In Thousands



Canadian Real GDP



Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast			
	2010				2011				2008	2009	2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1Q	2Q	3Q	4Q
Real Gross Domestic Product ¹	3.7	1.7	2.5	2.6	2.5	2.2	2.7	3.0	0.0	-2.6	2.8	2.5	3.4	
Personal Consumption	1.9	2.2	2.8	3.3	1.8	1.5	2.1	3.0	-0.3	-1.2	1.8	2.2	2.3	
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	2.2	
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	8.0	6.0	6.0	6.5	-16.4	-0.4	27.9	6.6	6.9	
Trade Weighted Dollar Index ³	76.1	78.8	73.6	70.0	70.0	71.0	72.0	73.0	74.3	77.7	74.6	71.5	76.3	
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	9.1	
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	4.57	4.18	4.55	
10 Year Note	3.84	2.97	2.53	2.80	2.70	2.80	3.00	3.20	3.66	3.26	3.04	2.93	3.70	

Forecast as of: December 3, 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

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Together we'll go far



U.S. Review

Is The Economy Heating Up or Cooling Down?

You are seeing and hearing the words “better than expected” a lot recently to describe the steady drumbeat of the economic data being released in the United States, but Friday’s November payroll data were stinkers that could put a quick end to the accelerating recovery party. Without the follow through of stronger job creation, some of the improvement we have seen recently in consumer spending is likely to peter out before long.

Non-farm payrolls have been expanding at a mere 62 thousand a month pace over the past three months, with almost all the jobs coming from healthcare, temporary help and leisure & hospitality. Outside of those sectors, nothing appears to be happening on the employment front. The household employment data are notably worse, contracting at a 121 thousand a month pace on average over the past three months, which has been bad enough to push the U.S. unemployment rate up to 9.8 percent in November. The U.S. unemployment rate was just 9.5 percent last summer. The median duration of unemployment is on the rise again, moving up to 21.6 weeks up from 19.9 weeks in August.

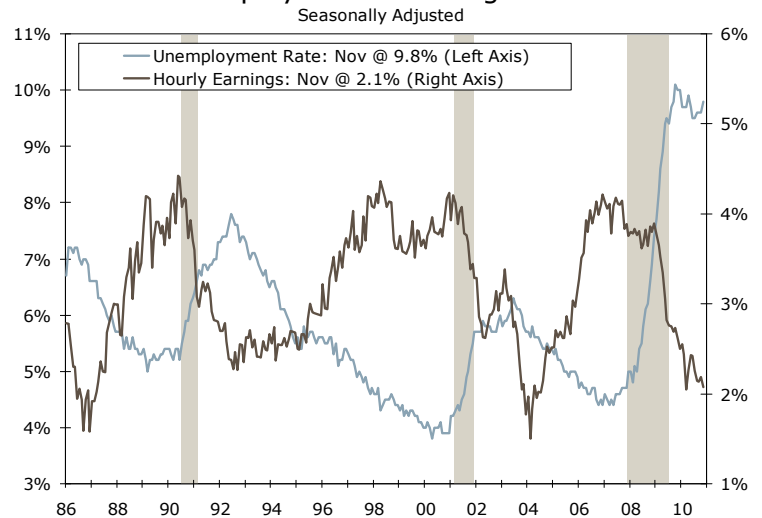
There was some good economic news this week. The strong first weekend of the holiday shopping season helped push chain store sales up 5.8 percent from November of last year, according to the International Council of Shopping Centers. Wholesale clubs jumped 8.5 percent followed by department stores up 6.8 percent, while apparel stores cruised to a robust 6.3 percent increase from last year. Vehicle sales for November also held strong, even gaining a bit on October’s sales at 12.26 million. Analysts had been expecting vehicle sales to soften a touch in November.

More impressive was the resurgence in consumer confidence for November, even as global stock markets struggled with large monthly declines. Consumer expectations on employment, business conditions, and incomes six months from now all improved to levels not seen since last spring. The resolution of the mid-term elections and the constant drone of negative campaign advertising could also have gotten some fence sitters to finally pull the trigger and spend.

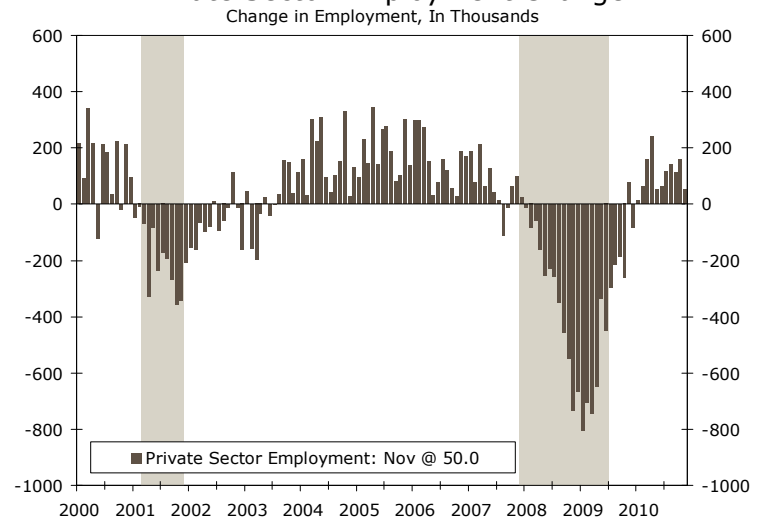
U.S. home sales and homebuilding also came roaring back to life in October. October pending home sales jumped a record 10.4 percent, lead by a 27 percent jump in the Midwest and a 20 percent gain in the Northeast. October construction spending also grew again in October, rising 0.7 percent, confounding analyst forecasts for a -0.3 percent monthly decline. Private residential construction alone jumped 2.5 percent in October, the biggest increase in private residential construction since April 2010.

Yet home prices appear to be moving in the opposite direction. The Case-Shiller national home price index fell 3.44 percent in the third quarter. The seasonally adjusted 20-City U.S. Composite index has been falling for two consecutive months now, and of the 20 major metropolitan housing markets, only New York had an increase in home prices in August. Big monthly home price declines were seen in Phoenix, Denver, Cleveland and Dallas.

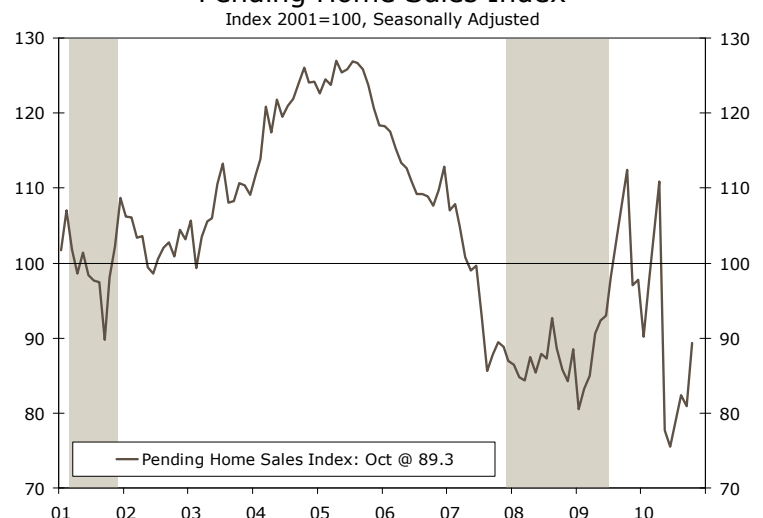
Unemployment and Wage Rates



Private Sector Employment Change



Pending Home Sales Index

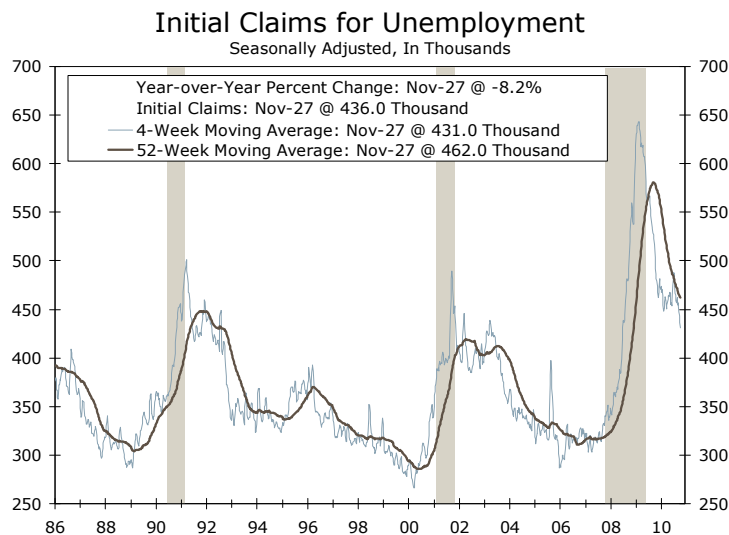


Wholesale Inventories • Thursday

Wholesale inventories rose 1.5 percent in September, led by gains in nondurable goods. Durable goods also showed a slight increase of 0.7 percent. Sales in September increased a modest 11.9 percent over last year's depressed levels led by gains in grocery and computer sales, which both increased by 1.1 percent in September. September's report also indicated further inventory building due to continued weakness in sales. The inventory-to-sales ratio edged up again in September to 1.18, the highest level since April of this year. With continued evidence of inventory building, there will likely be a drag on fourth quarter economic growth as firms choose to decrease production until inventory levels begin to be drawn down. Our forecast for the fourth quarter of 2010 indicates a drag on fourth quarter GDP of 0.6 percent due to the anticipated pull back in inventories.

Previous: 1.5%

Consensus: 0.9%



International Trade • Friday

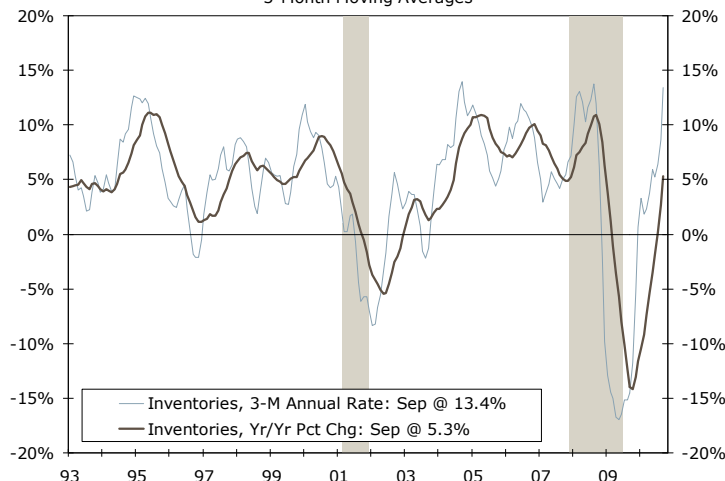
The September trade deficit narrowed \$2.2 billion to -\$44.0 billion as exports increased slightly and imports dropped. Exports rose by 0.3 percent lead by a sharp increase in civilian aircraft, food and beverage and consumer goods. Imports fell one percent due to declines in consumer goods and automobiles. We expect the trade deficit continued to narrow in October to -\$41.2 billion, due to increases in exports and relatively flat imports. However, the improvements in the employment situation combined with increased consumer spending could stimulate buying, thus adding to the trade deficit through the end of the year. Our forecast indicates that the trade deficit will subtract 0.6 percent from GDP in the fourth quarter of 2010 as imports begin to rise.

Previous: -\$44.0B

Wells Fargo: -\$41.2B

Consensus: -\$43.6B

Wholesalers' Inventories
3-Month Moving Averages

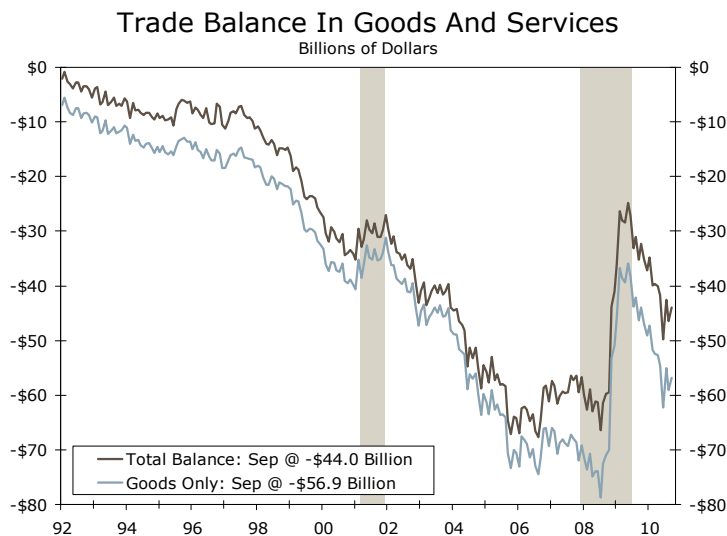


Initial Jobless Claims • Thursday

Initial jobless claims have shown marked improvement over the past month with the four-week moving average falling by 5,750 to 431,000 this week. The claims data are beginning to trend toward the important 400,000 breakthrough level, which, if sustained, would signal acceleration in employment gains. While we expect the jobs picture to continue to gradually improve, the initial claims data should be interpreted with some level of caution. Over the next couple of months the expiration of unemployment benefits combined with statistical noise from the seasonal adjustment process. These factors may lead to greater volatility in the initial claims number, which may not accurately reflect the actual pace of improvement in the employment picture. Thus, we are not reading too much into the slight rise in initial jobless claims for this week, which increased 6.3 percent.

Previous: 436K

Consensus: 427K



Global Review

Pace of Recovery Slowing in Canada

In the immediate wake of the recent global recession, when the developed economies of the world struggled to return to economic expansion, Canada was the standout. On a peak-to-trough basis, Canadian GDP declined “only” 3.3 percent, a number that appears small only when compared to the 5.3 percent decline in Eurozone GDP or the 6.5 percent plunge in the United Kingdom. Since bottoming in the second quarter of 2009, the Canadian economy has rallied 3.7 percent and real GDP is now higher than pre-recession levels. That said, the pace of the Canadian recovery is slowing. Earlier this week, we learned that the economy expanded at only a one percent pace in the third quarter, which was weaker than the 2.3 percent rate registered in the previous quarter and also slower than the 1.5 percent growth rate the consensus had been expecting.

While the turnout in the third quarter came as a disappointment, a look at the components of growth presents a somewhat more favorable picture of the Canadian recovery. Government spending slowed in the quarter, but that had been largely expected as the Canadian stimulus program winds down. Consumer spending and business investment were quite strong and roughly in line with the pace of expansion in previous quarters. Indeed, final domestic demand expanded at a 3.9 percent annual pace. So what is the wrench in the works that is holding back growth in Canada?

Net exports have not been a positive contributor to GDP growth since the first quarter of 2009. In the third quarter net exports exerted a 4.4 percent drag on GDP.

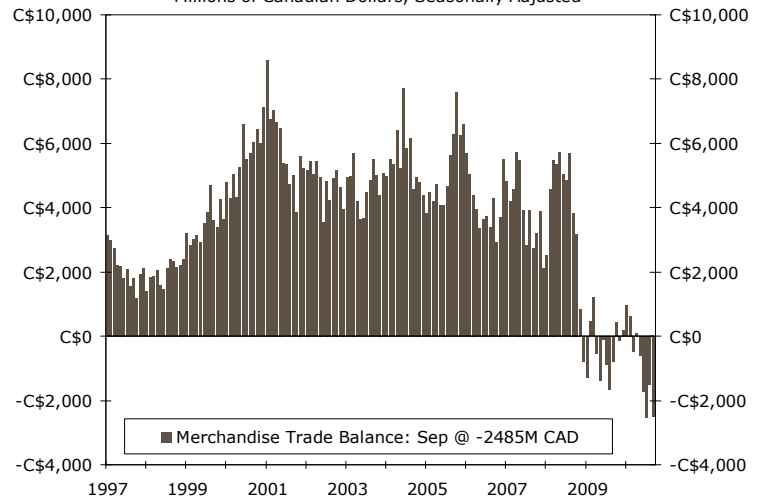
In September, the trade deficit widened to C\$2.49 billion, spitting distance from the C\$2.51 billion level hit in July, which represented the biggest gap in the Canadian trade deficit since records began in 1971. In the decade preceding the recession, Canada never ran a trade deficit. There are two primary reasons for the reversal in trade in this cycle: 1) Slower growth in the United States has slowed exports; and 2) Domestic demand in Canada has been relatively strong. Indeed, Canadian imports have grown for five straight quarters.

So far, the Bank of Canada (BoC) is the only central bank from a G7 country to have raised the target lending rate, hiking from 0.25 last June to 1.00 percent at the September meeting. The BoC manages monetary policy, with an objective of keeping the inflation rate between 1 and 3 percent. In October, headline CPI inflation came in at 2.3 percent (within the acceptable range, but above the mid-point target of 2 percent). While this has given rise to speculation that the BoC may resume its tightening campaign, we maintain our view that slowing economic growth in the coming quarters will convince the BoC that the cooling economy will bring down inflation without any tightening in monetary policy.

On Friday, the net change in employment in November came in weaker than expected at 15,200. Total Canadian payrolls grew swiftly earlier this year, but job growth has slowed, on trend, which may slow consumer spending growth.

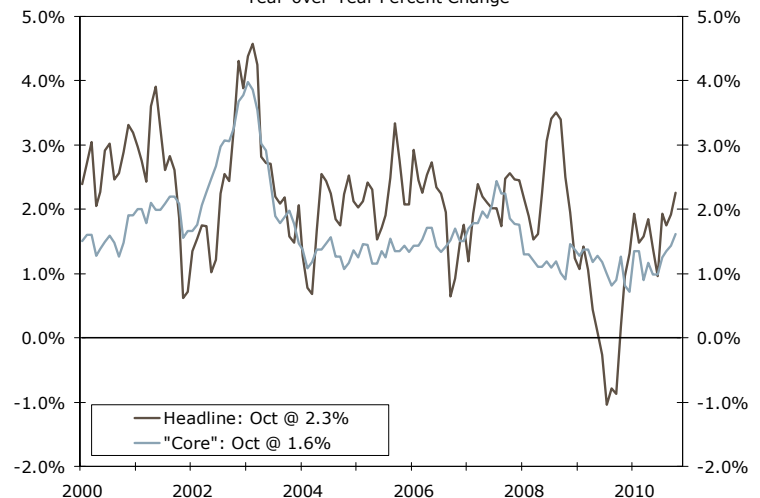
Canadian Merchandise Trade Balance

Millions of Canadian Dollars, Seasonally Adjusted

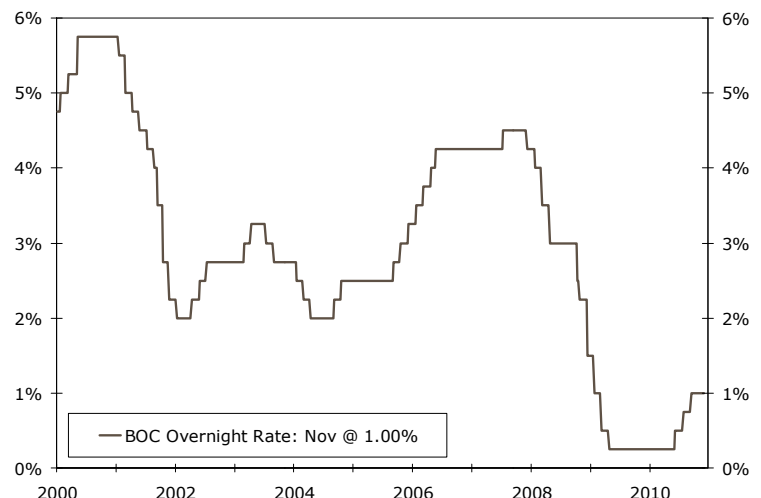


Canadian Consumer Price Index

Year-over-Year Percent Change



Bank of Canada Overnight Lending Rate



Brazilian Automobile Production • Monday

Anfavea, the Brazilian association of automobile producers, is scheduled to report vehicle production, exports and sales to the domestic market on Monday and the expectation is for confirmation that the domestic market continues to slow down as it has been the case during the past several months.

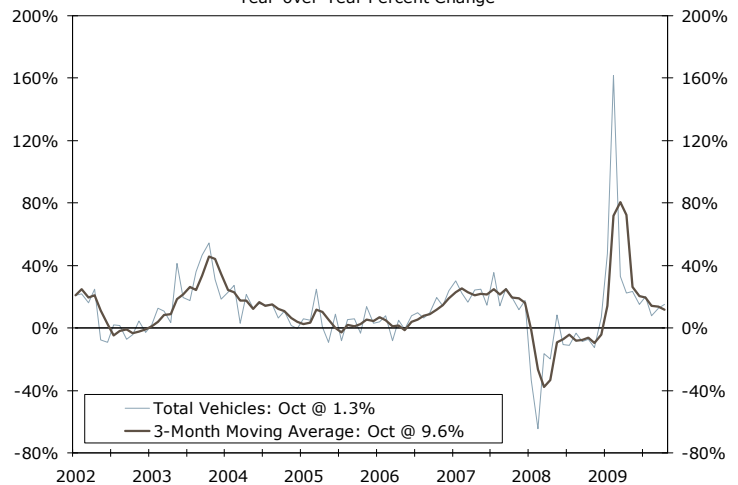
Total automobile production increased by only 1.4 percent year over year in October, while domestic sales (measured as domestic vehicle registrations) grew by only 2.9 percent during the same period of time. The only sector that has remained strong has been automobile exports. Meanwhile, exports grew by 61.0 percent in October and if they remain strong in November then it will also confirm that demand from the rest of the world remains robust.

A slowdown in domestic sales would be good for the central bank as it tries to combat accelerating inflation.

Previous: 303,172

Consensus: N/A

Total Brazilian Vehicle Production
Year-over-Year Percent Change



U.K. Industrial Production • Tuesday

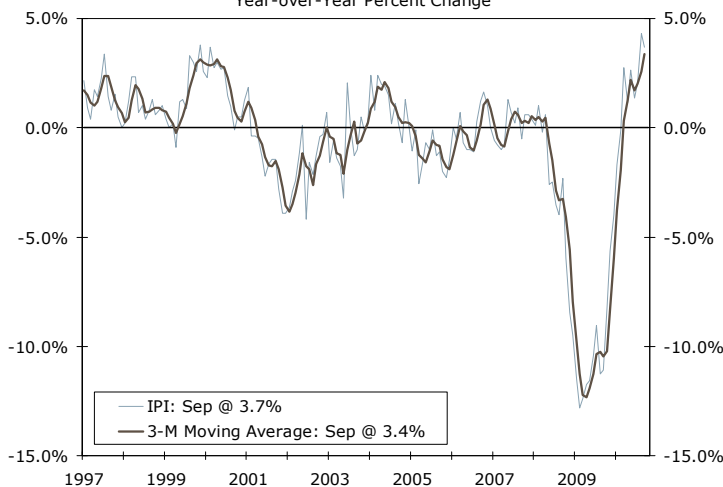
With the hindsight of knowing how the U.K. economy performed during the third quarter of the year the October Industrial Production index will probably serve as a first look at the economy during the last quarter of the year. If this number is positive then it would be fair to say that the U.K.'s economy, while weaker than earlier in the year, has been able to weather the storm better than its European counterparts.

However, the Bank of England (BoE) will remain vigilant to any further indication of potential weakening when considering any moves earlier next year. While we are not expecting the BoE to engage in a further expansion of its quantitative easing program any time soon, central bankers are normally data driven and they will react to data that do not conform to their views of stable economic growth.

Previous: 3.8%

Consensus: 3.9% (Year-over-Year)

U.K. Industrial Production Index
Year-over-Year Percent Change



Germany Industrial Prod. • Wednesday

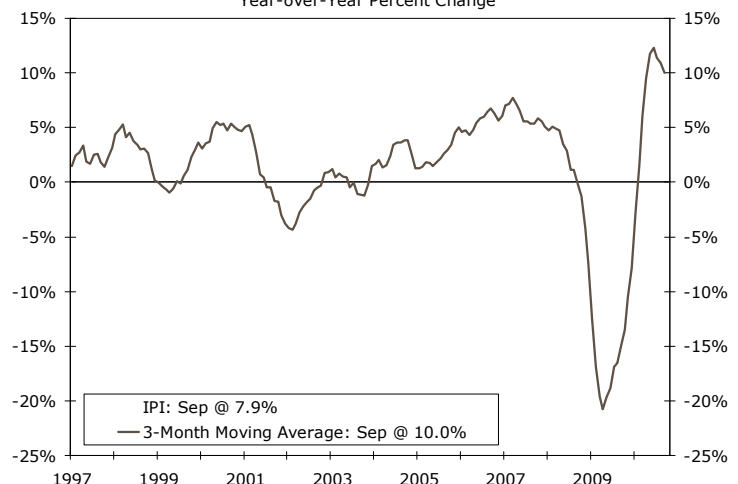
With the coming release of October industrial production and factory orders numbers in Germany next week, markets will have a clear indication of the direction of the German economy. Will it remain in a league of its own, or will recent turmoil and news of an economic slowdown across the world finally make a dent on Germany's performance?

If we go by the recent Ifo survey and the PMI numbers released during the past several weeks, then we should expect both industrial production and factory orders to have remained strong in October on a year-earlier basis. However, if the seasonally adjusted numbers come in negative again then this will be the second consecutive month of negative numbers on a seasonally adjusted basis, which would point to a weakening production environment going forward.

Previous: 7.9%

Consensus: 10.0% (Year-over-Year)

German Industrial Production Index
Year-over-Year Percent Change



Interest Rate Watch

Not So Fast My Friend

Treasury yields rose most of this week, with the yield on the 10-year note rising above three percent early Friday morning. Bond investors were beginning to buy into the recovery story, which has been fueled by a whole host of stronger economic reports and upwardly revised economic forecasts. Our own forecast has been increased modestly for 2011 and 2012 and we have slightly raised the trajectory of interest rates over the forecast period.

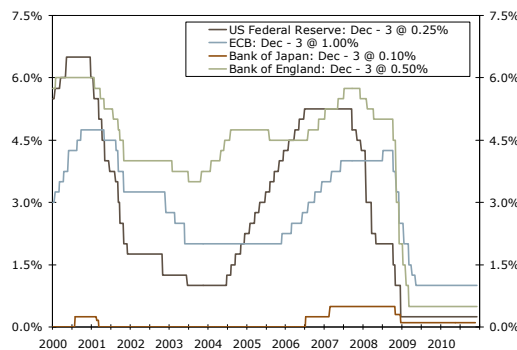
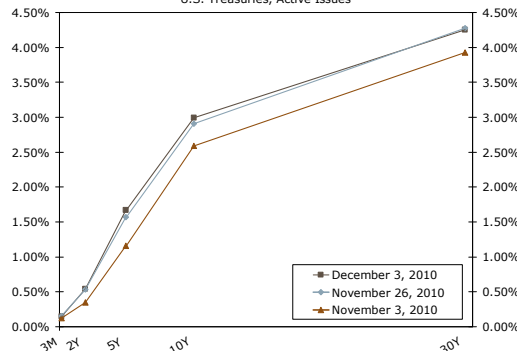
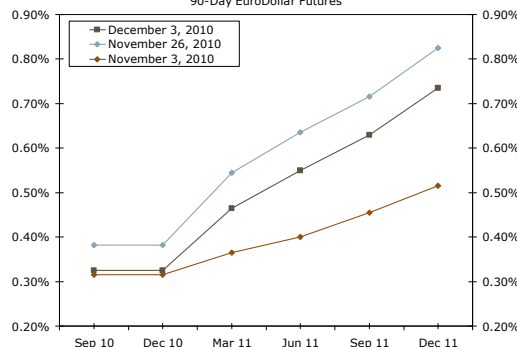
Just because the economy appears to be out of the woods does not mean that it is smooth sailing from here on out. Even with 2.5 percent growth in 2011 and 3.4 percent growth in 2012, the recovery will continue to be unusually sluggish, which means we will continue to see disappointing reports, along the lines of this morning's jobs report, from time to time. As Lee Corso would say to those betting on a return to strong economic growth, "Not so fast my friend."

November's weaker employment report and higher unemployment rate should also put the kibosh on any talk that the Fed will not go through with all of the securities purchases it outlined in its QE2 program. They will continue to purchase securities in the first half of 2011 and, with the unemployment rate remaining high, there is a better chance that the Fed will ultimately buy more securities than currently planned rather than less.

The world is still a very dangerous place, with financial crises and geopolitical events likely to be supportive of lower yields in the U.S. for some time to come.

We still see long-term interest rates drifting lower during the early part of 2011 before stronger economic growth and diminishing fears of deflation begin to take rates higher in the second half of the year. The Federal Reserve is unlikely to raise short-term interest rates before the second half of 2012, and even a rate hike then looks iffy with our projections, and consensus expectations, of the unemployment rate still well above eight percent.

Central Bank Policy Rates

Yield Curve
U.S. Treasuries, Active IssuesForward Rates
90-Day EuroDollar Futures

Credit Market Insights

More Improvement in Credit Quality

Recent reports show that credit quality continues to improve in many areas of the economy. The overall loan delinquency rate has dropped for three consecutive quarters but remains very high on an historical basis. Improvement was seen in nearly every category from the prior quarter. On a year-ago basis, real estate delinquency rates are still higher as improvement has been slow to come, while delinquency rates on consumer loans have declined amid deleveraging and charge-offs. There was even good news in the commercial sector as the commercial real estate delinquency rate declined for a second straight quarter.

There was also good news in the residential sector as the share of mortgages, either delinquent or in foreclosure, fell again, but this was all due to a drop in the foreclosure inventory rate as the delinquency rate was basically unchanged. Unfortunately, the share of loans entering foreclosure during the quarter jumped to the highest in a year.

Banks reported increased willingness to lend in the third quarter. However, while large banks generally eased terms and conditions, small banks generally tightened. Despite increased willingness to lend, however, consumer credit outstanding and net new loans were much lower than in the second quarter thanks to continued charge-offs. Both personal and business bankruptcies declined in the third quarter as well. Check out our Credit Quality Monitor for further analysis.

Mortgage Data

	Current	Week Ago	4 Weeks Ago	Year Ago
Mortgage Rates				
30-Yr Fixed	4.46%	4.40%	4.24%	4.71%
15-Yr Fixed	3.81%	3.77%	3.63%	4.27%
5/1 ARM	3.49%	3.45%	3.39%	4.19%
1-Yr ARM	3.25%	3.23%	3.26%	4.25%
MBA Applications				
Composite	608.8	728.8	787.3	613.7
Purchase	207.2	205.0	178.9	232.3
Refinance	2,974.4	3,793.6	4,328.8	2,866.4

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

Topic of the Week

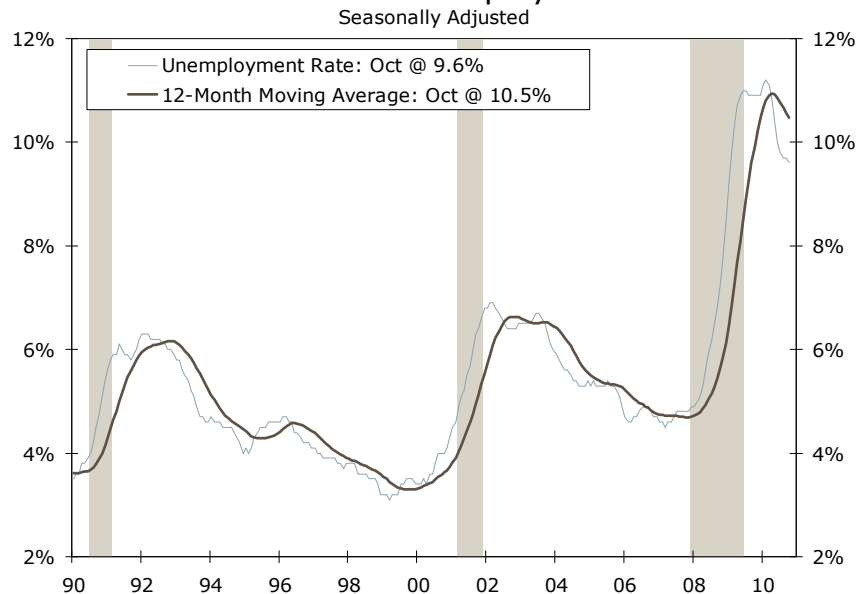
North Carolina Economic Outlook

In today's world employment is taken as the measure of economic success. In North Carolina, the recovery in employment growth reflects cyclical gains in some sectors, but the lack of employment gains in other sectors signals structural problems in several industries. There is not a single snapshot of employment for the broader economy, while green shoots are starting to emerge, there are still some major challenges facing the state.

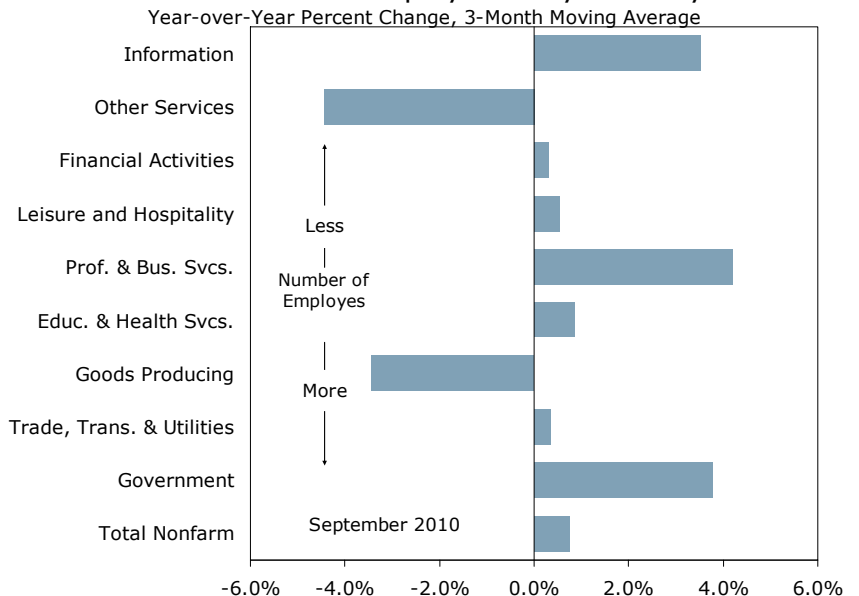
North Carolina remains highly dependent on manufacturing as an engine of economic growth. This dependence remains a challenge for the state's labor market due to a structural shift in the demand for skilled labor and an under supply of qualified employees within the state to meet the demands of the professional service sector. Manufacturing employment has been on a secular decline since 2000 due to productivity gains from increases in the rate of technology adoption.

Historically, cheap labor was an incentive to move manufacturing to North Carolina from other states. That path has closed and the globalization of production has ended the appeal of North Carolina as a low-cost labor state. The slow recovery of the state's economy also has implications for the state's budget leaving the North Carolina General Assembly with another year of tough decisions during the upcoming legislative session. North Carolina's state budget remains strained as temporary tax increases and federal stimulus programs come to an end. Finally, a comparison of the four major metropolitan areas around the state shows that the recovery is not taking hold in all areas equally. The areas with the biggest hits to employment were Asheville and Greensboro. Raleigh experienced the smallest number of job losses consistent with their employment base consisting of mostly state government employees. The state is on the cusp of evolving a to more information and a service-based economy; the question that remains is whether or not the labor force will be able to adapt to this newly retooled state economy.

North Carolina Unemployment Rate



North Carolina Employment by Industry



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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 12/3/2010	1 Week Ago	1 Year Ago
3-Month T-Bill	0.14	0.15	0.04
3-Month LIBOR	0.30	0.29	0.26
1-Year Treasury	0.23	0.25	0.22
2-Year Treasury	0.47	0.51	0.72
5-Year Treasury	1.57	1.53	2.12
10-Year Treasury	2.94	2.87	3.38
30-Year Treasury	4.24	4.21	4.33
Bond Buyer Index	4.65	4.60	4.24

Foreign Exchange Rates

	Friday 12/3/2010	1 Week Ago	1 Year Ago
Euro (\$/€)	1.336	1.324	1.505
British Pound (\$/£)	1.569	1.559	1.654
British Pound (£/€)	0.852	0.849	0.910
Japanese Yen (¥/\$)	82.770	84.100	88.260
Canadian Dollar (C\$/¥)	1.004	1.021	1.057
Swiss Franc (CHF/\$)	0.979	1.004	1.001
Australian Dollar (US\$/A\$)	0.988	0.965	0.924
Mexican Peso (MXN/\$)	12.373	12.489	12.639
Chinese Yuan (CNY/\$)	6.663	6.669	6.827
Indian Rupee (INR/\$)	45.105	45.855	46.091
Brazilian Real (BRL/\$)	1.692	1.728	1.710
U.S. Dollar Index	79.512	80.357	74.631

Foreign Interest Rates

	Friday 12/3/2010	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.97	0.97	0.68
3-Month Sterling LIBOR	0.74	0.74	0.61
3-Month Canadian LIBOR	1.23	1.22	0.48
3-Month Yen LIBOR	0.18	0.19	0.29
2-Year German	0.86	0.93	1.29
2-Year U.K.	1.01	1.02	1.15
2-Year Canadian	1.62	1.67	1.13
2-Year Japanese	0.19	0.20	0.18
10-Year German	2.86	2.73	3.18
10-Year U.K.	3.40	3.35	3.63
10-Year Canadian	3.16	3.11	3.24
10-Year Japanese	1.22	1.20	1.27

Commodity Prices

	Friday 12/3/2010	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	87.81	83.76	76.46
Gold (\$/Ounce)	1401.89	1363.75	1207.60
Hot-Rolled Steel (\$/S.Ton)	565.00	565.00	510.00
Copper (¢/Pound)	396.85	375.10	321.95
Soybeans (\$/Bushel)	12.65	12.35	10.09
Natural Gas (\$/MMBTU)	4.38	4.40	4.46
Nickel (\$/Metric Ton)	23,627	22,777	16,230
CRB Spot Inds.	559.14	550.71	473.56

Next Week's Economic Calendar

	Monday 6	Tuesday 7	Wednesday 8	Thursday 9	Friday 10
U.S. Data		Consumer Credit		Wholesale Inventories	Trade Balance
		September \$2.1 B		September 1.5 %	September -\$44.0 B
		October -\$1.0 B (C)		October 0.9 % (C)	October -\$41.2 B (W)
					Import Price Index
					October 0.9 % November 0.8 % (W)

Global Data	Canada	Japan	Japan	China
	PMI	Machine Orders (MoM)	GDP (QoQ)	Trade Balance (USD)
	Previous (Oct) 56.7	Previous (Sep) 10.3 %	Previous (3 Qp) 0.9 %	Previous (Oct) \$27.15 B
	Brazil	Brazil	Mexico	
	Vehicle Production	IBGE Inflation (MoM)	CPI (MoM)	
	Previous (Oct) 322 K	Previous (Oct) 0.75 %	Previous (Oct) 0.62 %	

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

Wells Fargo Securities, LLC Economics Group

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