

Economics Group

Weekly Economic & Financial Commentary

U.S. Review

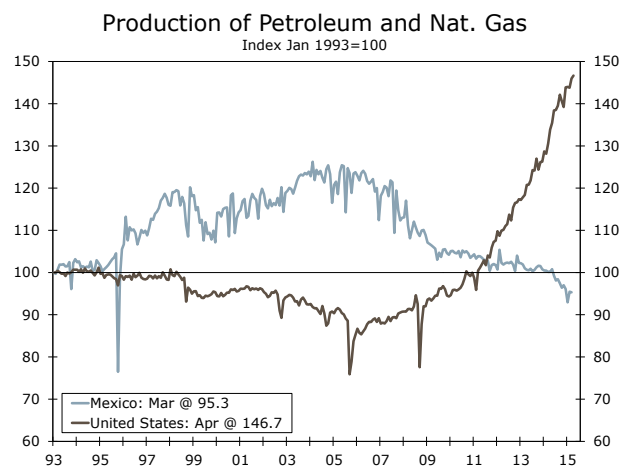
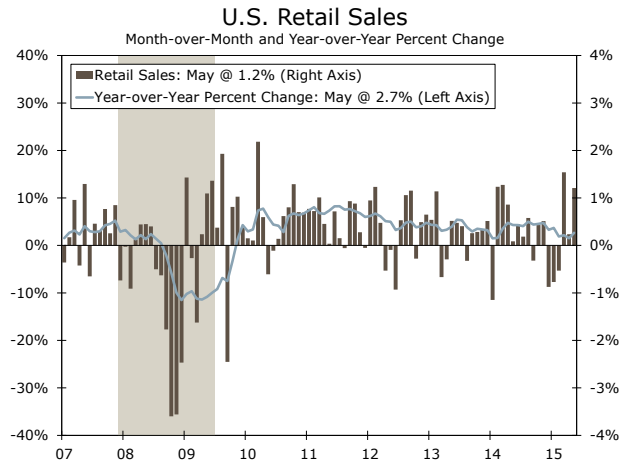
Consumers Emerge From Hiding

- The slump in consumer spending that characterized the first part of the year looks to be over. Retail sales rose 1.2 percent in May while spending in March and April was revised higher.
- Job openings in April rose to the highest level in the series' 15-year history, which should keep payroll gains strong in the coming months.
- Small business confidence rose more than expected in May and is now at the second-highest level of the expansion.
- Inflation showed further signs of firming this week, with producer prices and import prices posting strong gains.

Global Review

Mexican Petroleum: Calling on Investors, Fast!

- The 0.1 percent drop in industrial production on a month-over-month basis was mainly the result of a 3.6 percent collapse in mining output, itself a consequence of a 5.3 percent drop in petroleum and natural gas production. On a year-over-year basis, mining production collapsed 8.3 percent, a result of a 10.0 percent drop in petroleum and natural gas production.
- The IMF, a major player in Greek debt talks and a major lender to the parties involved, abandoned the discussions with the Greek government of Prime Minister Alexis Tsipras.



Wells Fargo U.S. Economic Forecast													
	Actual				Forecast				Actual			Forecast	
	2014				2015				2012	2013	2014	2015	2016
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	-2.1	4.6	5.0	2.2	-0.7	1.3	2.9	3.6	2.3	2.2	2.4	1.9	2.9
Personal Consumption	1.2	2.5	3.2	4.4	1.8	2.5	2.8	3.0	1.8	2.4	2.5	2.8	2.8
Inflation Indicators ²													
PCE Deflator	1.1	1.6	1.5	1.1	0.3	0.0	0.2	0.8	1.8	1.2	1.3	0.3	1.9
Consumer Price Index	1.4	2.1	1.8	1.2	-0.1	-0.1	0.1	0.8	2.1	1.5	1.6	0.2	2.2
Industrial Production ¹	3.9	5.7	4.1	4.6	-0.7	0.0	3.5	3.1	3.8	2.9	4.2	2.2	3.2
Corporate Profits Before Taxes ²	-4.8	0.1	1.4	-0.2	3.7	3.2	3.9	4.8	11.4	4.2	-0.8	3.9	5.3
Trade Weighted Dollar Index ³	76.9	75.9	81.3	85.1	92.1	90.5	91.5	92.8	73.5	75.9	78.5	91.7	95.9
Unemployment Rate	6.6	6.2	6.1	5.7	5.6	5.4	5.3	5.2	8.1	7.4	6.2	5.4	5.0
Housing Starts ⁴	0.93	0.98	1.03	1.06	0.97	1.14	1.21	1.24	0.78	0.92	1.00	1.13	1.22
Quarter-End Interest Rates ⁵													
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.25	0.25	0.25	0.44	1.56
Conventional Mortgage Rate	4.34	4.16	4.16	3.86	3.77	4.05	4.15	4.23	3.66	3.98	4.17	4.05	4.51
10 Year Note	2.73	2.53	2.52	2.17	1.94	2.25	2.35	2.41	1.80	2.35	2.54	2.24	2.66

Forecast as of: June 10, 2015
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

Source: U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve Board, IHS Global Insight and Wells Fargo Securities, LLC

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Together we'll go far



U.S. Review

Consumers Emerge From Hiding

With gasoline prices having fallen more than 25 percent over the past year and job gains rising at the fastest pace in 15 years, the weak rate of consumer spending since the start of the year has been somewhat puzzling. This week's data go a long way in helping to solve that puzzle. Retail sales lived up to expectations for the first time since November. Sales jumped 1.2 percent in May, but the details of the report suggested an even stronger comeback of the consumer. First, sales in March and April were upwardly revised a combined 0.4 percent. Second, May sales excluding gasoline stations (which we knew were boosted by higher gas prices) and excluding auto dealers (which we already knew had a spectacular month), rose 0.7 percent, outdoing expectations for a 0.5 percent gain. Retail sales in the control group, which most closely aligns with the components used to estimate personal consumption expenditures in the GDP report, are now increasing at a three-month average annualized rate of 3.7 percent compared to 0.4 percent in April.

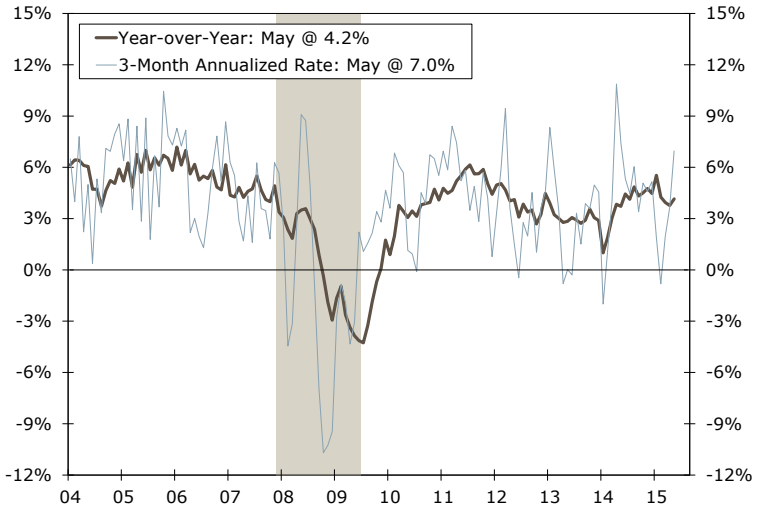
The release of the Quarterly Services Survey also suggests consumer spending in the first quarter may not have been as weak as previously reported. Spending on healthcare in the first quarter, which accounts for nearly one-fifth of personal consumption expenditures, rose more than the Bureau of Economic Analysis estimated and should lead to an upward revision in first quarter household spending.

The long awaited rebound in consumer spending comes as the labor market has continued to strengthen. The Job Opening and Labor Turnover Survey showed job openings at the end of April were the highest in the series' 15-year history. Over the past year, openings are up 22 percent. Yet turnover rates remain rather low, with both the hiring and separation rates edging back over the month and remaining below levels that prevailed from 2001-2007. The unemployment rate still looks rather high given the job opening rate, which suggests employers are having a tough time finding qualified workers or taking their time more generally to fill vacant positions.

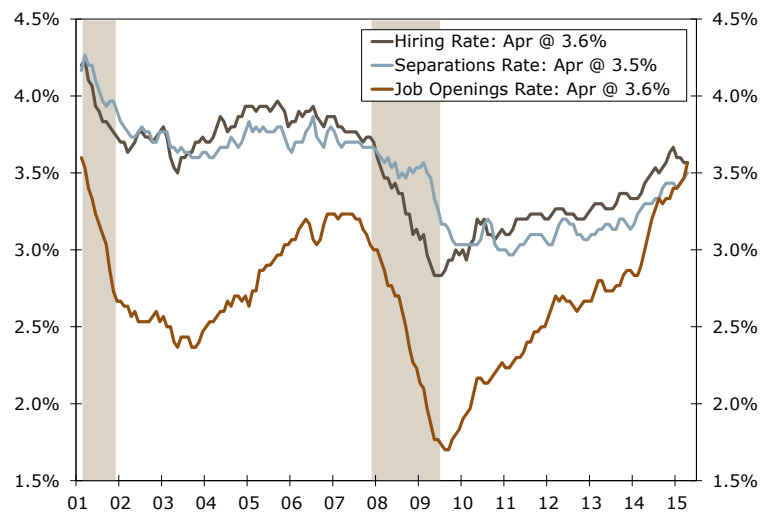
Employers are having a tough time finding workers, as evidenced by the share of small businesses reporting they have at least one position hard to fill, which rose to 29 percent in May. More businesses now report their single most important problem as "quality of labor" rather than "poor sales" (although taxes and regulation are still the most commonly cited single most important issue). Overall small business confidence continues to improve, with the NFIB Small Business Optimism Index rising to its highest level this year. Hiring plans increased in May, as did the share of firms reporting higher selling prices.

The rise in the share of small businesses raising selling prices follows the uptick in producer price inflation. The Producer Price Index for final demand rose 0.5 percent in May, the largest monthly increase since 2012 as food and energy posted strong gains. Import price inflation has also turned around. Amid higher energy costs and a pause in the dollar's recent rally, the import price index posted its first increase in 10 months in May.

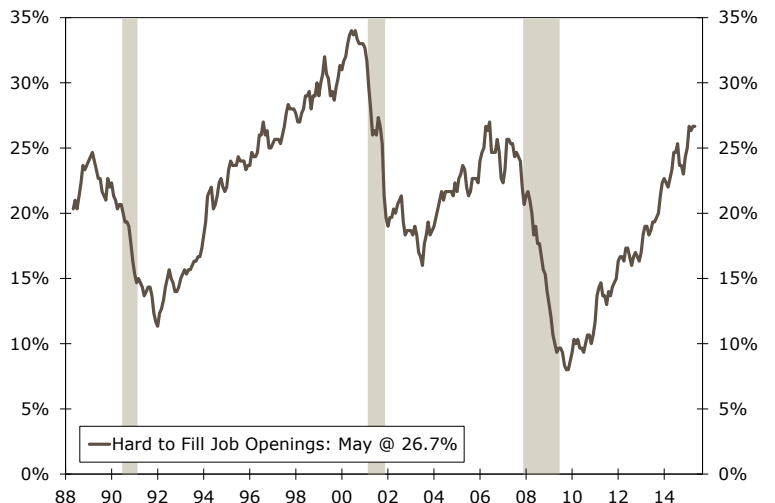
Retail Sales Ex-Autos, Gas & Building Materials
"Core" Retail Sales



JOLTS Rates
3-Month Moving Averages, Seasonally Adjusted



Small Business Hiring
Firms With a Job Opening Hard To Fill, SA 3-MMA



Source: U.S. Depts. of Commerce and Labor, National Federation of Independent Business and Wells Fargo Securities, LLC

Industrial Production • Monday

April marked the fifth consecutive decline in industrial production, leaving the headline number just 1.9 percent higher than a year ago. The largest component of industrial production, manufacturing, was flat in the month, thanks to more motor vehicle production balancing out the declines outside of the auto industry. Most of the recent weakness, however, has come from utilities and mining, which fell 1.3 percent and 0.8 percent, respectively. The recent decline in utilities production is the predictable reversal of the surge in demand experienced during the especially cold winter months. Mining also continues to decline, as the oil industry struggles amid relatively low crude prices. The month of May should mark the first month this year where industrial production actually increased. The headwinds from the stronger dollar and low oil prices are finally easing and should help push industrial production up 0.2 percent.

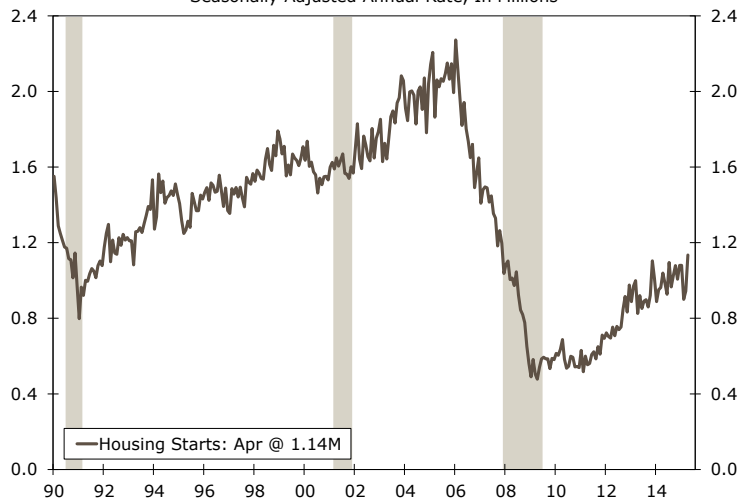
Previous: -0.3%

Wells Fargo: 0.2%

Consensus: 0.2% (Month-over-Month)

Housing Starts

Seasonally Adjusted Annual Rate, In Millions



Consumer Price Index • Friday

Although consumer prices are still lower than year-ago levels, the consumer prices index (CPI) increased for three straight months leading into April. Energy continues to weigh on the headline number and the energy index as a whole is 19.4 percent lower than a year ago. After excluding the volatile components of food and energy, consumer prices increased 0.3 percent in April, bringing year-over-year inflation to a more sustainable 1.8 percent. In general, service sector prices have held up better than goods prices, as they do not face the same downward pressure from the stronger dollar and the resultant drop in import prices. As a number of those deflationary pressures subside, we expect consumer prices to rise 0.5 percent in May. We already saw import prices and producer prices rebound in the month, which should provide some upward pressure on consumer prices that are typically further down in the production pipeline.

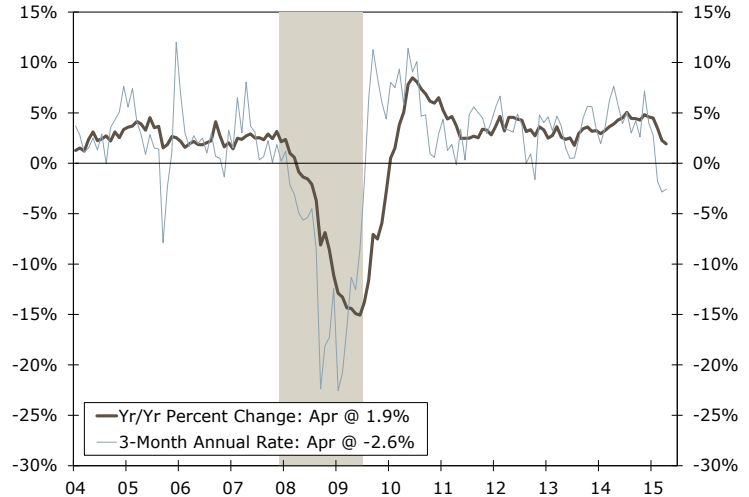
Previous: 0.1%

Wells Fargo: 0.5%

Consensus: 0.5% (Month-over-Month)

Total Industrial Production Growth

Output Growth by Volume



Housing Starts • Tuesday

Housing starts surged 20.2 percent in April, bringing the seasonally adjusted annualized pace of homebuilding to 1.135 million units. Both single-family and multifamily housing starts rebounded in the month. April's strength comes after a particularly harsh winter that contributed to a double digit decline in February and only a modest rebound in March. A similar pattern was seen in the housing permits data, with declines throughout much of the winter and a 10.1 percent rebound in April. Gains in permits were most heavily concentrated in the multifamily market, but single-family permits bounced back some too. The huge gains in April are likely to be short lived as the homebuilding recovery looks to be a slow one. In May we expect some payback for the strong April numbers, with the seasonally adjusted annualized pace of homebuilding slipping to 1.083 million units. The consensus is that permits also slipped slightly to 1.100 million units.

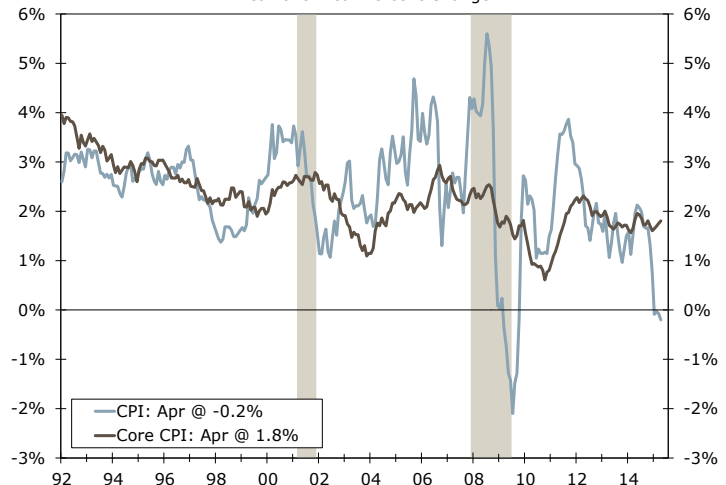
Previous: 1.135M

Wells Fargo: 1.083M

Consensus: 1.100M (SAAR)

Headline CPI vs. Core CPI

Year-over-Year Percent Change



Source: Federal Reserve Board, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC.

Global Review

Mexican Petroleum: Calling on Investors, Fast!

Mexican industrial production disappointed once again in April. This time around we cannot blame the result on seasonal factors. The 0.1 percent drop on a month-over-month basis was mainly the result of a 3.6 percent collapse in mining output, itself a consequence of a 5.3 percent drop in petroleum and natural gas production. On a year-over-year basis, mining production collapsed 8.3 percent, a result of a 10.0 percent drop in petroleum and natural gas production.

It is true that petroleum and natural gas investment in exploration and production takes some time, but at the rate petroleum production is declining today it is very difficult to see any positive developments from the recent energy sector reform, at least so far.

Meanwhile public utilities output was also down in April, coming in at -0.2 percent compared to March and up 1.7 percent compared to April of last year. Construction activity was up 0.1 percent month over month and 4.8 percent on a year-ago basis.

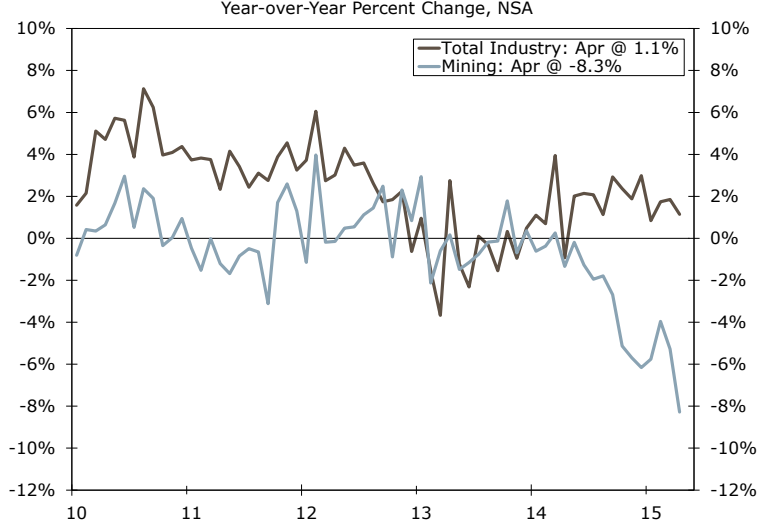
The good news is that the Mexican manufacturing sector continued to expand, this time recording a growth rate of 2.0 percent compared to March and 3.7 percent versus April of last year. This strength in the Mexican manufacturing sector is consistent with the strength shown by automobile sales in the United States. Although it is very difficult to know if the energy reform is going to lead to a positive turnaround in the Mexican petroleum sector in the long run, it is clear that the Mexican auto manufacturing sector continues to be the driving force of the Mexican economy. It will, however, be nice to see the Mexican natural gas and petroleum sector join the party of the auto sector, but it seems that, if it ever happens, will take a while.

The Greek Saga Continues: Five Years and Counting.

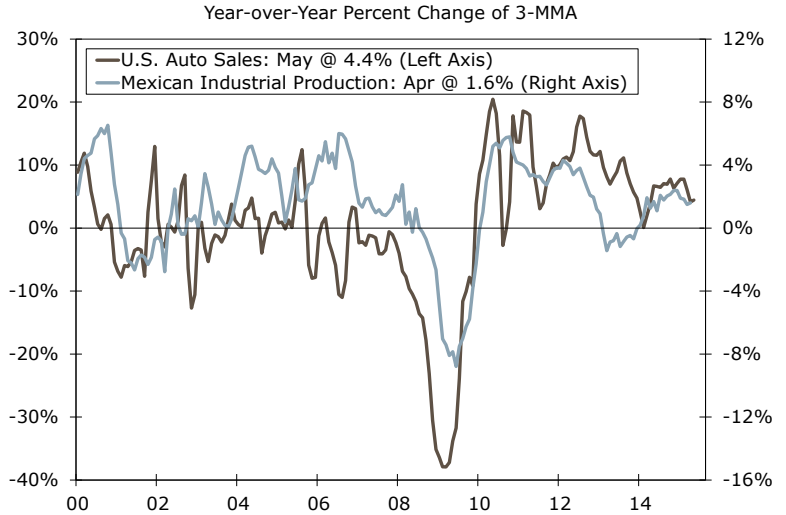
As if the world had not had enough already with the Greek crisis, a crisis that since its start back in 2010 seems to have more lives than a cat, the IMF, a major player in Greek debt talks and a major lender to the parties involved, abandoned the discussions with the Greek government of Prime Minister Alexis Tsipras. According to reports, Greece is scheduled to pay €1.5 billion to the IMF on June 30, but the speculation is that the country is not going to be able to pay and needs a deal with the IMF to find a solution. Meanwhile, while all this was happening in Brussels, Angela Merkel, the German Chancellor, put a more conciliatory tone when it referred to Greece saying that “when there is a will, there is a way,” putting emphasis on the need for all the parties involved to make concessions. Perhaps the exit of the IMF from the negotiating table was another way to say to Greek negotiators that it was their time to put this willingness to come to a solution on the table.

We have written extensively on the Greek crisis. Our most recent report, available on our website, was “Will Greece Actually Default.” We still believe that Greece will finally agree with its creditors, but the road toward that solution seems to be, every day, more and more daunting.

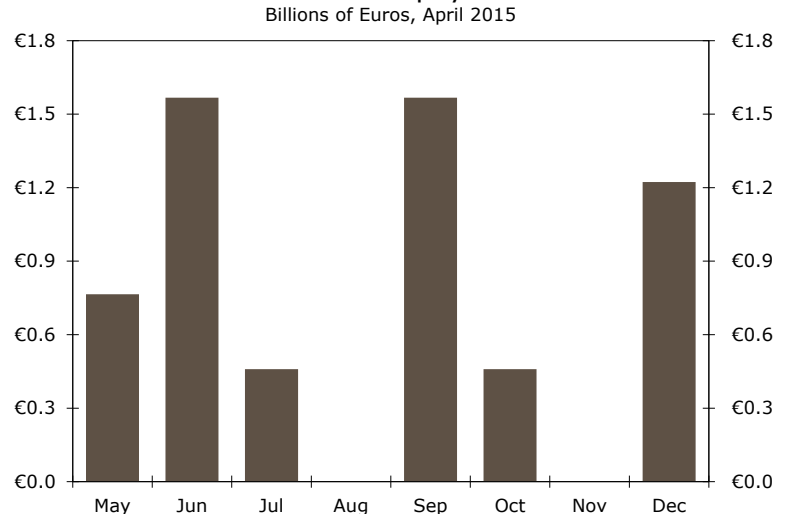
Mexican Industrial Production Index



U.S. Auto Sales vs. Mexican IP



Greek Gov't Loan Repayments to IMF



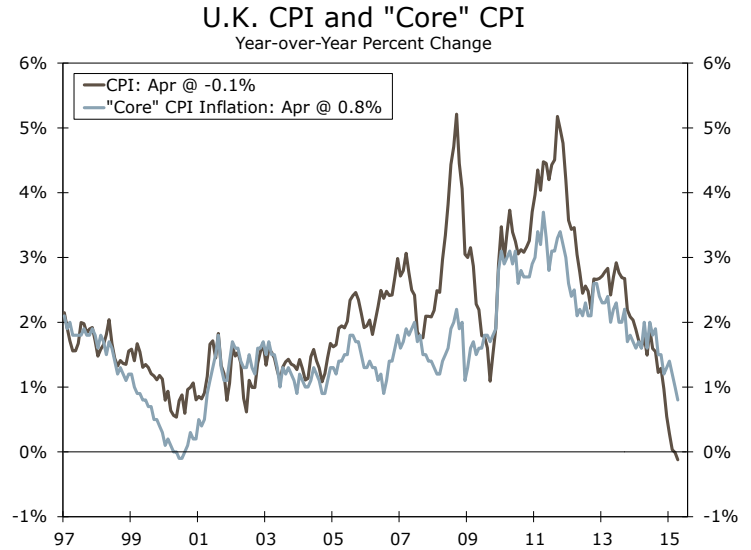
Source: IHS Global Insight, IMF, U.S. Department of Commerce and Wells Fargo Securities, LLC

U.K. CPI Inflation • Tuesday

The year-over-year rate of overall CPI inflation in the United Kingdom dipped into negative territory in April. Although the collapse in oil prices has contributed to the sharp fall in overall CPI inflation in recent months, the decline in the core rate of inflation shows that there are few inflationary pressures in general in the British economy at present. Consequently, the Bank of England does not appear to be in any hurry to tighten monetary policy, and we look for the Monetary Policy Committee to remain on hold through the end of the year.

Growth in consumer spending has been strong recently—retail sales rose 4.7 percent on a year-ago basis in April—and data on retail spending in May will give analysts insights into how British consumers are faring at present. Labor market data are also slated for release next week.

Previous: -0.1% **Wells Fargo: 0.3%**
Consensus: 0.1% (Year-over-Year)



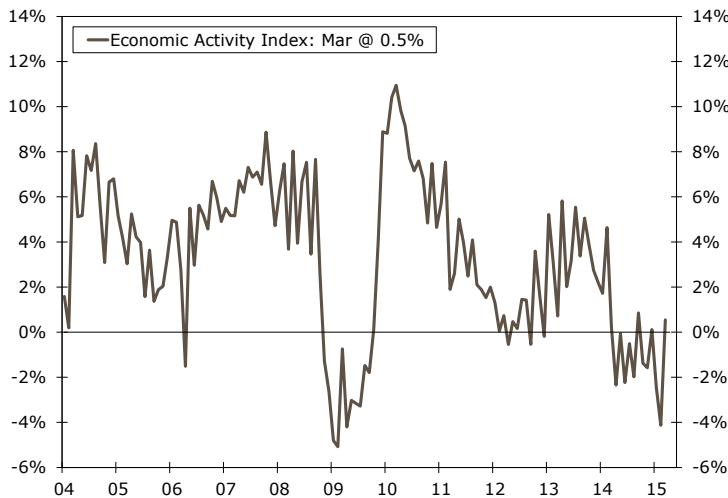
Brazil Economic Activity Index • Wed

If one defines recession as two consecutive quarters of negative GDP growth (sequential basis), then Brazil is not in a recession at present. By any measure, however, the Brazilian economy is essentially dead in the water with real GDP down 1.6 percent on a year-ago basis in Q1-2015. The economic activity index, which is a good proxy for real GDP growth, is slated for release on Wednesday, and the data will show how the Brazilian economy was faring at the beginning of the second quarter.

The Brazilian Institute of Geography and Statistics measure of CPI inflation is on the docket on Friday. This measure of inflation shot up from 6.5 percent in December to 8.2 percent in May due, at least in part, to the sharp depreciation of the Brazilian real that has occurred in recent months. Another elevated inflation reading could keep the central bank, which has hiked its main policy rate 275 bps since October, in tightening mode.

Previous: 0.5 % (Year-over-Year)
Consensus: -2.5%

Brazilian Economic Activity Index
 Year-over-Year Percent Change



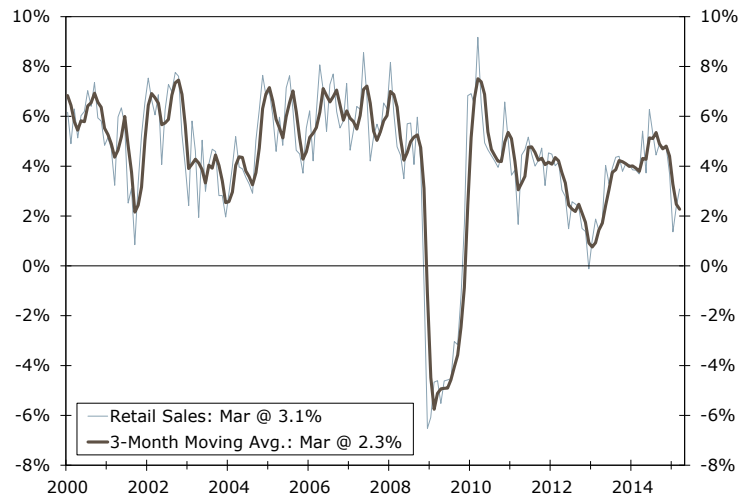
Canada Retail Sales • Friday

The year-over-year growth rate in Canadian retail sales has weakened in recent months. As in many other economies, however, some of the weakness in nominal retail spending reflects the sharp decline in gasoline prices that has occurred since last autumn. A measure of spending growth that excludes automobiles and gasoline has been more resilient in recent months, posting a year-over-year growth rate of 5.7 percent in March. The retail sales report for April, which is on the docket on Friday, will show how Canadian consumers are faring at present.

Consumer price data for May will also print on Friday. The overall rate of CPI inflation has been pulled down to 0.8 percent by the drop in gasoline prices. The core rate of CPI inflation is higher at present at 2.3 percent. In our view, the Bank of Canada will remain on hold until early next year due to the combination of sluggish economic growth and generally benign inflation.

Previous: 0.7% (Month-over-Month)
Consensus: 0.5%

Canadian Retail Sales
 Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

Interest Rate Watch

Economic Data Strengthens Ahead of the June FOMC Meeting

Following the news of contracting first quarter GDP growth and a continuation of soft performances in early second quarter consumer spending and manufacturing activity, doubts were running high over the Fed's capacity to raise rates later this year. Over the past couple of weeks, however, incoming economic data have materially strengthened, supporting the notion that the Fed is still on track to hike rates in the not-too-distant future.

Although last month's improved manufacturer sentiment, rebounding retail sales and motor vehicle sales at a ten-year high are welcome developments, the key economic indicator that will likely influence the Fed the most heading into next week's FOMC meeting will be the May employment report. Nonfarm hiring increased a stronger-than-expected 280,000 in May, while the modest increase in the unemployment rate was largely due to an increase in the labor force, a development that should be viewed positively by Fed officials. Even the missing labor market recovery piece, wage growth, reported some good news as average hourly earnings increased a better-than-expected 0.3 percent on the month. While confirmation of a sustained, accelerated pace of wage growth remains elusive, further reduction of labor market slack continues to support the call that wage growth should pick up materially in the coming quarters.

Being a quarter end meeting, the FOMC will provide its updated economic outlook and follow-on press briefing with Fed Chair Yellen. Prospects are high that GDP growth will be revised lower for 2015 due to the soft start to the year. That said, we look for little change to the inflation and unemployment rate projections, which continue to point to further progress being made toward longer-run targets. Financial market attention will likely focus on the Fed's rate projections, particularly what those projections imply for a rate hikes this year. Unless the conviction of the outlook deteriorates, the FOMC seems poised to raise rates at the September meeting.

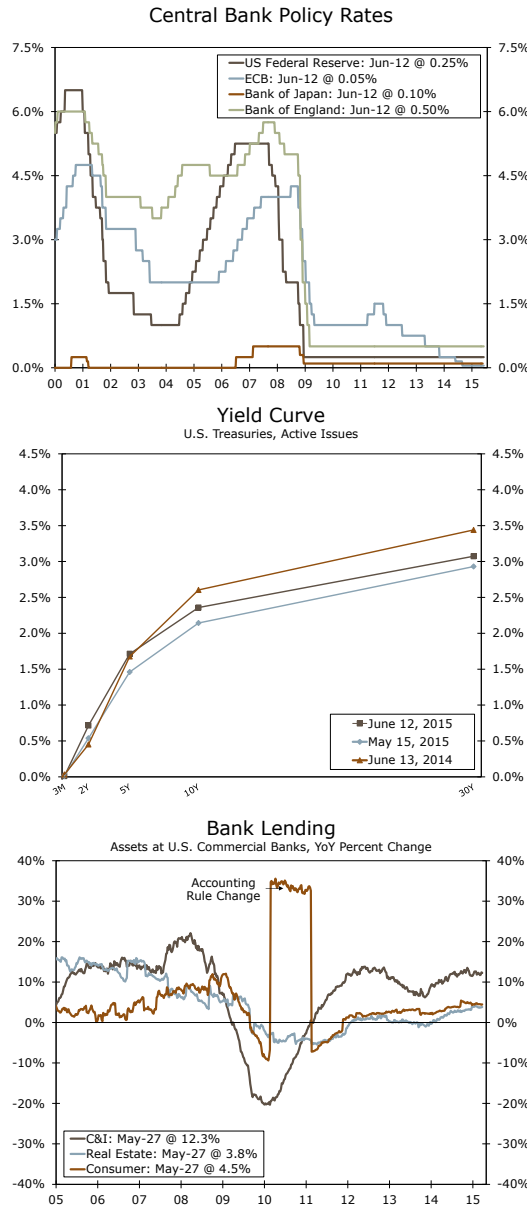
Credit Market Insights

Mortgage Rates: And We're Off!

Freddie Mac's *Mortgage Market Survey*, released this week, showed the average 30-year fixed mortgage rate (FRM) reaching its highest rate seen thus far in 2015—an above 4 percent reading (4.04 percent up from 3.87 percent). The last time the 30-year FRM was above 4 percent was in early November 2014. Conversely, mortgage applications for new home purchases were down 9 percent in May.

As concerning as this may appear, the data should be viewed in context with the current health of the economy. We have seen solid employment data recently with strong-than-expected payroll gains of 280,000. In addition, job openings climbed to 5.4 million and are up 22 percent year over year and the market is responding to such factors.

What does this mean for the housing market? The recent rise in rates might prove to be transitory and may have little long-term effect on the market as it is too soon to say if this trend will continue. As the year progresses, however, focus will shift to the Fed and when and by how much they will raise rates. We still expect the Fed to raise rates in September; however, this is contingent on the data. Regardless of when the Fed does decide to raise rates, more than likely it will be slow with rates staying low, which will be beneficial for the housing market.



Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities, LLC

Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
30-Yr Fixed	4.04%	3.87%	3.84%	4.20%
15-Yr Fixed	3.25%	3.08%	3.05%	3.31%
5/1 ARM	3.01%	2.96%	2.88%	3.05%
1-Yr ARM	2.53%	2.59%	2.51%	2.40%

Bank Lending	Current Assets (Billions)	1-Week Change (SAAR)	4-Week Change (SAAR)	Year-Ago Change
Commercial & Industrial	\$1,879.1	10.98%	13.99%	12.28%
Revolving Home Equity	\$450.4	-4.36%	-5.44%	-3.33%
Residential Mortgages	\$1,605.6	3.62%	5.02%	1.86%
Commercial Real Estate	\$1,666.8	5.39%	11.28%	8.03%
Consumer	\$1,219.0	10.26%	4.48%	4.48%

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

Topic of the Week

Solid GDP Growth Across the States

Real GDP increased in nearly every state in 2014. The Southwest and Rocky Mountain regions again led growth, thanks in large part to energy-rich states. Gains were also strong in the West, thanks to sizable tech sector growth. The Plains states had previously seen much stronger growth, but with agriculture contracting in 2014, output also slipped in this region. Growth along the East Coast has perked up some, thanks to improvements in large states, such as Massachusetts, New York, Pennsylvania, Georgia and Florida.

Energy States Power Through 2014

The strongest gains were seen in states that have a large concentration of energy resources. Indeed, the five fastest growing states in 2014, North Dakota, Texas, West Virginia, Wyoming and Colorado, all have outsized energy industries. In West Virginia and Wyoming, mining contributed an astonishing 5.0 and 3.5 percentage points, respectively.

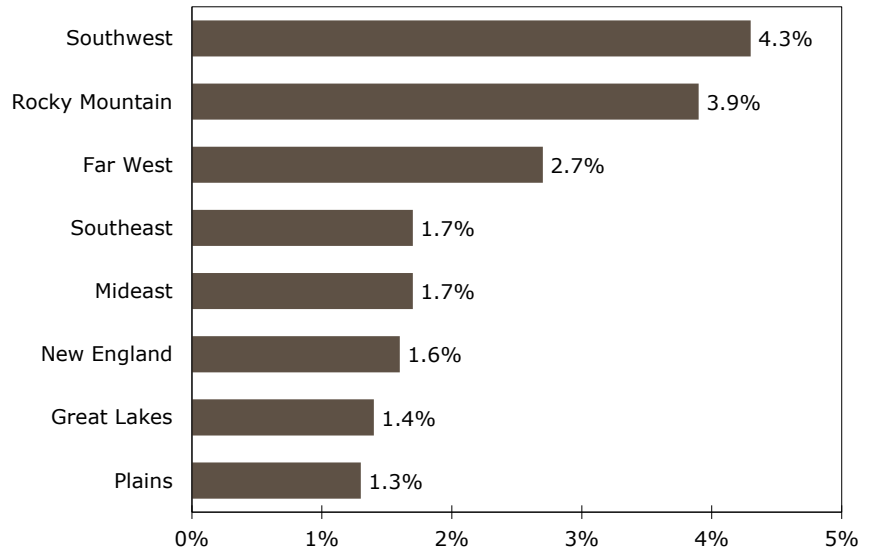
Such strong gains in these states may seem at odds with reports of cutbacks among energy producers. Although the price of oil plummeted in 2014, the negative impacts became most evident after the start of the new year. Mining employment increased every month on a seasonally adjusted basis in 2014. By contrast, mining employment has fallen every month thus far in 2015.

High-Tech Industries Lead Growth

Although mining is the driver for the fastest growing states, it was not the industry that contributed the most to national output. Professional, scientific & technical services contributed 0.3 percentage points to real GDP growth, more than any other industry. The fastest growing states with little mining operations owe much of that growth to this industry, which usually includes high-tech employers. Such firms contributed more than a half percentage point to growth in California, Massachusetts and Utah. Other high-tech industries are concentrated in the information sector, which contributed to large gains in Washington, California, Georgia, Utah, New Hampshire and New York.

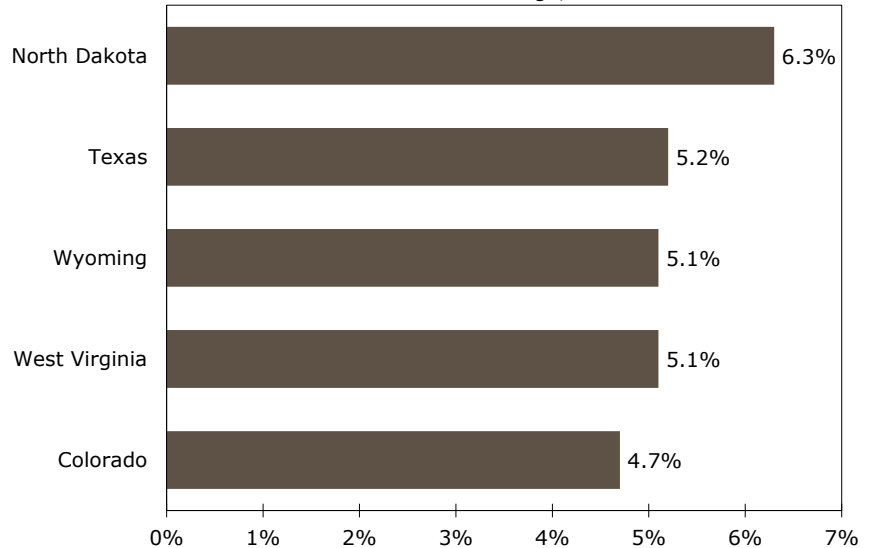
State GDP Growth by Region

Year-over-Year Percent Change, 2014



Energy States GDP Growth

Year-over-Year Percent Change, 2014



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 6/12/2015	1 Week Ago	1 Year Ago
3-Month T-Bill	0.01	0.02	0.04
3-Month LIBOR	0.29	0.28	0.23
1-Year Treasury	0.29	0.28	0.14
2-Year Treasury	0.71	0.71	0.44
5-Year Treasury	1.70	1.74	1.68
10-Year Treasury	2.35	2.41	2.60
30-Year Treasury	3.06	3.11	3.41
Bond Buyer Index	3.87	3.81	4.37

Foreign Exchange Rates

	Friday 6/12/2015	1 Week Ago	1 Year Ago
Euro (\$/€)	1.127	1.111	1.355
British Pound (\$/£)	1.557	1.527	1.693
British Pound (£/€)	0.724	0.728	0.801
Japanese Yen (¥/\$)	123.280	125.630	101.700
Canadian Dollar (C\$/\\$)	1.230	1.244	1.086
Swiss Franc (CHF/\$)	0.927	0.940	0.899
Australian Dollar (US\$/A\$)	0.774	0.762	0.943
Mexican Peso (MXN/\$)	15.416	15.712	12.978
Chinese Yuan (CNY/\$)	6.208	6.203	6.219
Indian Rupee (INR/\$)	64.060	63.755	59.255
Brazilian Real (BRL/\$)	3.116	3.142	2.231
U.S. Dollar Index	94.865	96.306	80.576

Source: Bloomberg LP and Wells Fargo Securities, LLC

Foreign Interest Rates

	Friday 6/12/2015	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.01	-0.01	0.24
3-Month Sterling LIBOR	0.57	0.57	0.53
3-Month Canada Banker's Acceptance	1.00	0.99	1.27
3-Month Yen LIBOR	0.10	0.10	0.14
2-Year German	-0.18	-0.18	0.04
2-Year U.K.	0.52	0.57	0.73
2-Year Canadian	0.64	0.64	1.08
2-Year Japanese	0.01	0.00	0.09
10-Year German	0.84	0.84	1.39
10-Year U.K.	1.97	2.08	2.72
10-Year Canadian	1.78	1.83	2.32
10-Year Japanese	0.52	0.49	0.60

Commodity Prices

	Friday 6/12/2015	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	59.87	59.13	106.53
Gold (\$/Ounce)	1182.25	1172.00	1273.45
Hot-Rolled Steel (\$/S.Ton)	461.00	464.00	668.00
Copper (¢/Pound)	267.15	269.25	301.55
Soybeans (\$/Bushel)	9.36	9.43	14.55
Natural Gas (\$/MMBTU)	2.80	2.59	4.76
Nickel (\$/Metric Ton)	13,268	12,922	18,215
CRB Spot Inds.	468.90	467.81	536.90

Next Week's Economic Calendar

	Monday 15	Tuesday 16	Wednesday 17	Thursday 18	Friday 19
U.S. Data	Industrial Production April -0.3% May 0.2% (W)	Housing Starts April 1135K May 1083K (W)	FOMC Rate Decision May 0.25% June 0.25% (W)	CPI (MoM) April 0.1% May 0.5% (W)	
	TIC Previous (March) -\$100.9B		Current Account Balance Q4 -\$113.5B Q1 -\$110.0B (W)	LEI April 0.7% May 0.3% (W)	
		United Kingdom CPI (YoY) Previous (April) -0.1%	Brazil Economic Activity Index Previous (March) 0.5%	Russia Unemployment Rate Previous (April) 5.8%	Canada Retail Sales Previous (March) 0.7%
Global Data			Eurozone CPI (MoM) Previous (April) 0.2%		

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

Source: Bloomberg LP and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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