

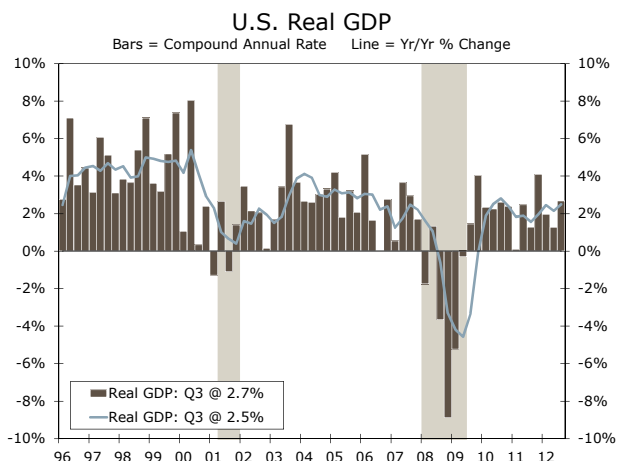
Economics Group

Weekly Economic & Financial Commentary

U.S. Review

Strong Q3 Growth Sets Up a Weak Fourth Quarter

- Third quarter economic growth was revised higher this week to 2.7 percent from an originally reported 2.0 percent. Increased inventory building, along with stronger support from the trade balance, helped to edge headline growth higher.
- October durable goods orders came in flat, while September's increase was revised downward. Core capital goods orders picked up slightly for the month.
- Personal income in October was unchanged, while nominal personal consumption fell 0.2 percent.



Global Review

Commodity-Based Economies: Still Waiting for China

- Much speculation over the past several months has centered on signs of stabilization coming from the Chinese economy and, in some cases, some data even point to a strengthening in those numbers.
- However, looking at the third quarter results from Brazil and Canada, there seems to be no signs that, at least through the third quarter of the year, this has translated into better economic growth for commodity-based economies.



Wells Fargo U.S. Economic Forecast													
	Actual				Forecast				Actual		Forecast		
	2012				2013				2010	2011	2012	2013	2014
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	2.0	1.3	2.7	1.0	0.7	1.0	2.1	2.2	2.4	1.8	2.2	1.3	2.2
Personal Consumption	2.4	1.5	1.4	1.3	1.1	1.4	1.2	1.4	1.8	2.5	1.8	1.3	1.3
Inflation Indicators ²													
PCE Deflator	2.4	1.6	1.5	1.7	1.4	1.6	1.6	1.5	1.9	2.4	1.8	1.6	1.9
Consumer Price Index	2.8	1.9	1.7	2.3	2.2	2.6	2.7	2.3	1.6	3.1	2.2	2.5	2.2
Industrial Production ¹	5.9	2.3	0.0	-2.1	0.7	3.5	4.1	4.1	5.4	4.1	3.5	1.3	3.8
Corporate Profits Before Taxes ²	10.3	6.7	8.7	5.3	4.8	5.2	5.7	6.3	26.8	7.3	7.7	5.5	7.0
Trade Weighted Dollar Index ³	72.7	74.5	72.7	73.0	74.0	75.0	76.0	77.0	75.4	70.9	73.2	75.5	74.5
Unemployment Rate	8.3	8.2	8.1	7.8	7.7	7.8	7.9	7.9	9.6	9.0	8.1	7.8	7.7
Housing Starts ⁴	0.71	0.74	0.78	0.86	0.90	0.96	1.02	1.08	0.59	0.61	0.78	0.99	1.17
Quarter-End Interest Rates ⁵													
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Conventional Mortgage Rate	3.95	3.68	3.50	3.40	3.40	3.40	3.45	3.50	4.69	4.46	3.63	3.44	3.80
10 Year Note	2.23	1.67	1.65	1.70	1.70	1.80	1.85	1.90	3.22	2.78	1.81	1.81	2.15

Forecast as of: November 30, 2012
¹ Compound Annual Growth Rate Quarter-over-Quarter
² Year-over-Year Percentage Change
³ Federal Reserve Major Currency Index, 1973=100 - Quarter End
⁴ Millions of Units
⁵ Annual Numbers Represent Averages

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

Strong Q3 Growth Sets Up a Weak Fourth Quarter

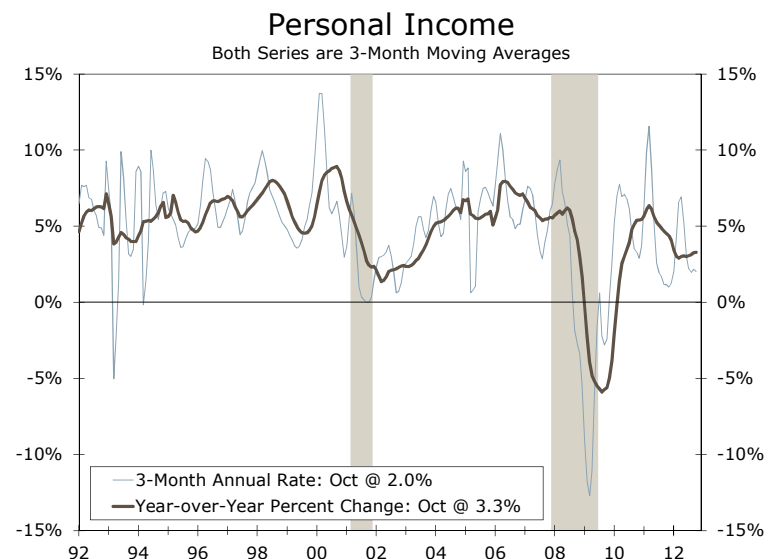
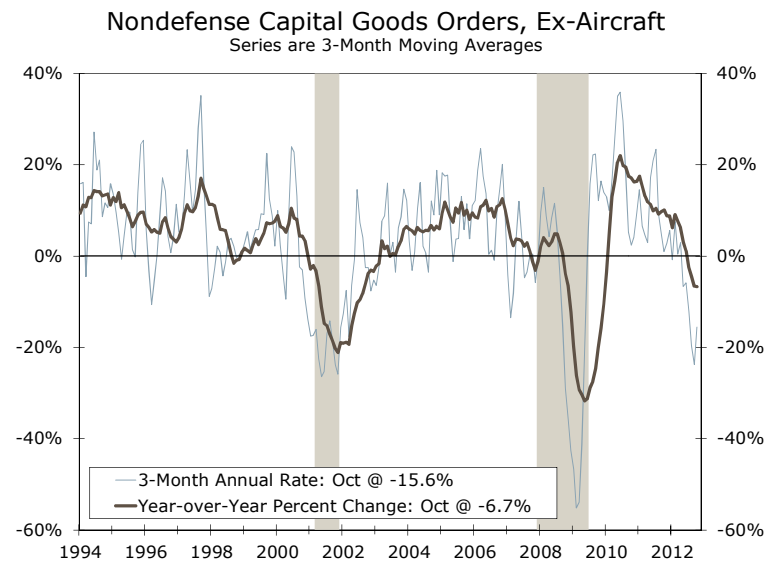
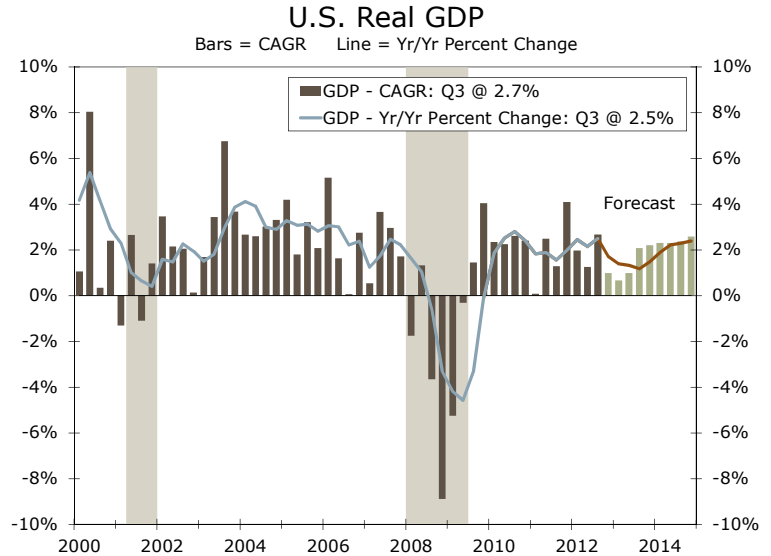
Following the slow holiday week, this week was full of economic data. The big news of the week was the sharp upward revision to third quarter GDP growth. We also found out this week that October durable goods orders flattened after a steep rise in September. On the consumer front, new home sales came in weaker than expected in October, while September personal consumption rose slightly. Personal income growth in September continued to improve, albeit at a sluggish pace. Based on this week's economic data, we have revised our fourth quarter GDP number to 1.0 percent. The stronger third quarter growth will not result in much weaker fourth quarter growth.

The upward revision to third quarter GDP growth from 2.0 percent to 2.7 percent was roughly in line with consensus expectations. A stronger increase in inventories, combined with greater support from international trade, helped to support stronger growth. Another positive aspect of the report was the stronger corporate profit growth for the quarter, rising to \$67.3 billion from \$21.8 billion in the second quarter. Business equipment and software spending was revised down to a 2.7 percent decline from a flat reading, likely reflecting the slower global growth environment and fears over the impending fiscal cliff. Personal consumption was also weaker than expected for the quarter, as personal consumption grew just 1.4 percent, with spending on nondurable goods and services softening.

On the manufacturing front, durable goods orders for October came in flat after rising a robust 9.2 percent in September. Nondefense capital goods orders excluding aircraft rose 1.7 percent, the strongest increase since May. However, these "core" orders remain 7 percent below last year's levels. The much slower pace of new orders, along with slower shipments, suggests that business spending will likely pull back again in the fourth quarter. Even beyond Q4, there are headwinds to business spending with the uncertainty around the fiscal cliff and the expiration of the accelerated depreciation business tax credit.

New home sales began to show some weakness in October after posting modest improvement earlier in the year. The 0.3 percent drop in new home sales was concentrated in the Northeast and the South. Inventories of new homes rose slightly for the month but remain low by historical standards. Even with the weaker sales in October, the housing market recovery remains intact, with sales up 19.8 percent over last year's levels. In the months ahead, we expect Hurricane Sandy to begin impacting the sales data in the Northeast, which will be reflected in an overall softening in the pace of sales.

Personal income growth was flat in October, with real disposable income falling 0.2 percent for the month. Nominal personal consumption fell a slight 0.1 percent, as consumers increased their savings rate to 3.4 percent. The weak pace of income growth remains a headwind to stronger consumption in the fourth quarter and beyond. After the first of the year, we expect real disposable incomes to fall further as new tax increases go into effect, in turn reducing consumption in the first quarter.



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

ISM Manufacturing • Monday

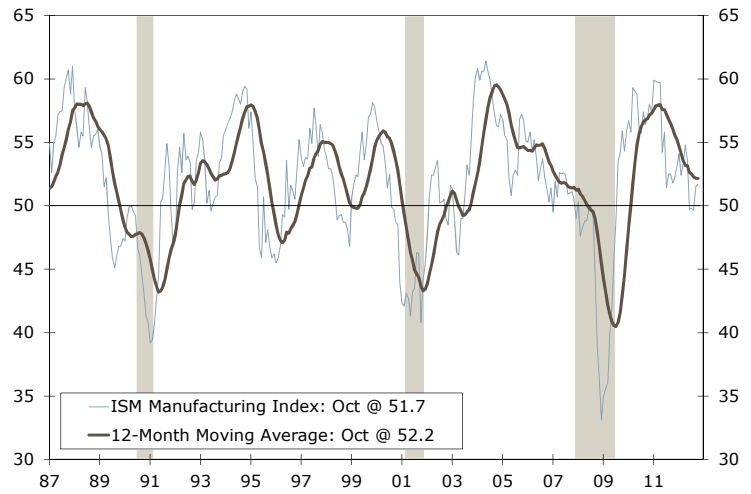
As many of the regional purchasing managers indices (PMIs) have remained in contraction territory in recent months, the ISM index has painted a brighter picture of the factory sector. After three months of sub-50 readings over the summer, the index has climbed back up into the low 50s, coming in at 51.7 in October. Improvement was seen in the production component, which moved into positive territory after two months of negative readings, and the new orders component rose to 54.2. However, activity in the manufacturing sector remains fairly weak. Over the past six months, the index has averaged 51.0, compared to 53.3 the previous month. We look for the ISM index to be little changed in November. The latest regional PMIs remain mixed between expansion and contraction, but are generally looking a bit stronger. In addition, the flash reading of the Markit PMI showed that manufacturing activity firmed in November.

Previous: 51.7

Wells Fargo: 51.7

Consensus: 51.5

ISM Manufacturing Composite Index
Diffusion Index



Construction Spending • Monday

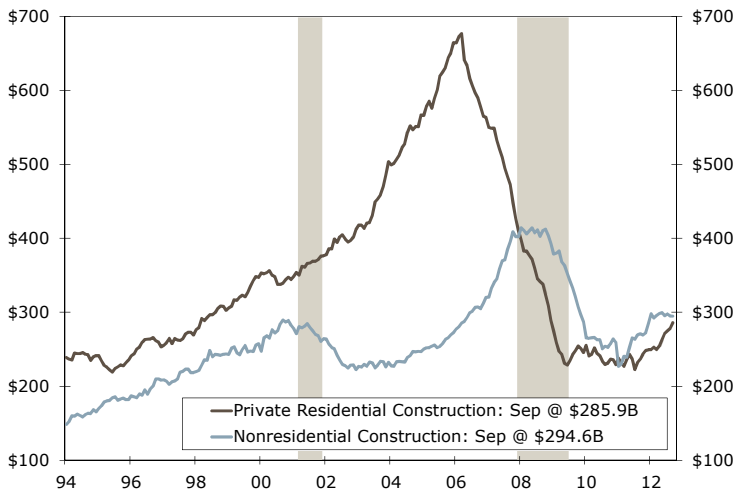
Construction spending rose 0.6 percent in September and is now up 7.8 percent compared to a year earlier. The housing market recovery has been a significant driver of recent gains. Residential construction, which has historically accounted for about 45 percent of total construction outlays, is up 19.2 percent on a year-over-year basis after posting gains for six consecutive months. Nonresidential spending, however, has deteriorated in recent months under weaker petroleum and office construction and has slowed to a 2.6 percent year-over-year pace.

We look for construction spending to have increased 0.4 percent in October. Housing starts increased 3.6 percent during the month and are up 42 percent over the past year. In addition, the October employment report showed the largest increase in construction employment since January, intimating another modest increase in construction activity for the month.

Previous: 0.6% (Month over Month) Wells Fargo: 0.4%

Consensus: 0.4%

Residential and Nonresidential Construction
Billions of Current Dollars, SAAR



Employment • Friday

The October employment report surprised to the upside, with 171,000 jobs added during the month. Moreover, previous months' data were revised to show an additional 84,000 jobs created, bringing the average monthly gain over the past three months up to 170,300 jobs. Given the recent strength, November's report could be disappointing. We look for firms to have added 80,000 new jobs during the month. With Hurricane Sandy hitting the East Coast shortly before the survey week, it is likely that the storm interfered with some hiring plans and will weigh on the November print. Initial jobless claims jumped by 90,000 in the week following the storm and have been slow to recede, making it difficult to discern the underlying trend in layoffs. The unemployment rate will likely tick up to 8.0 percent, given the effects of Sandy, but the increase will likely be temporary and unemployment should continue its downward trend in the first quarter.

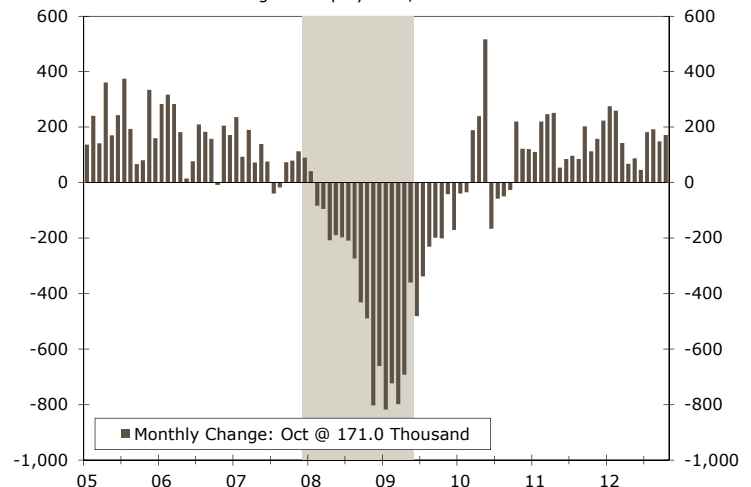
Previous: 171,000

Wells Fargo: 80,000

Consensus: 95,000

Nonfarm Employment Change

Change in Employment, In Thousands



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

Global Review

Commodity-Based Economies: Still Waiting for China

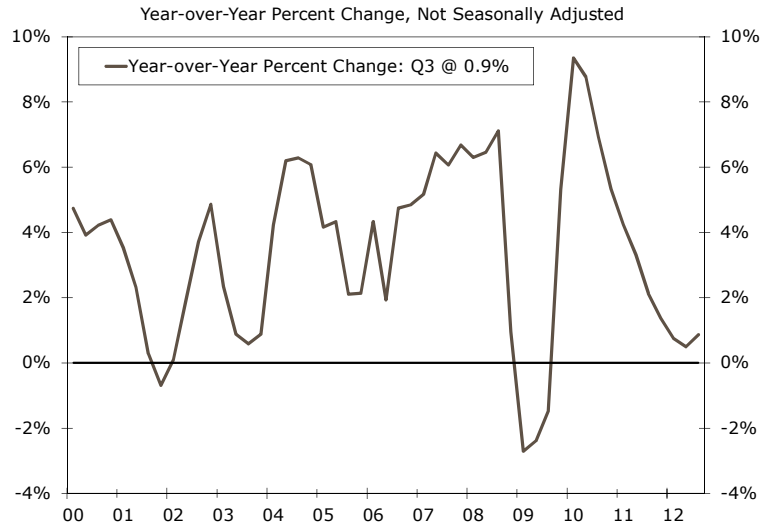
Much speculation over the past several months has centered on signs of stabilization coming from the Chinese economy and, in some cases, some data even point to a strengthening in those numbers. However, looking at the third quarter results from Brazil and Canada, there seems to be no signs that growth stabilization in China has translated into much better economic growth for commodity-based economies.

One of the cases in point is Brazil. The Brazilian economy grew by only 0.9 percent on a year-earlier basis. The result came in higher than the 0.5 percent growth rate in the second quarter but remains extremely weak. On a quarter-over-quarter basis, the economy improved by 0.6 percent, which was also better than the 0.2 percent growth rate reported during the second quarter. The weakness in economic activity continues to be related to the external market and shows no indications of a strengthening in external demand. Real gross fixed investment dropped for a third consecutive quarter, year over year, this time by 5.6 percent versus a drop of 3.7 percent in the second quarter. Meanwhile, real exports of goods and services fell for a second consecutive quarter, this time by 3.2 percent versus a 2.5 percent drop in the second quarter, both on a year-earlier basis. The domestic economy was relatively strong, with personal consumption expenditures improving by 3.4 percent while government consumption did its part, improving by 3.2 percent, year on year. The Brazilian central bank has been successful in “promoting” economic growth internally but cannot do much to improve the external economy.

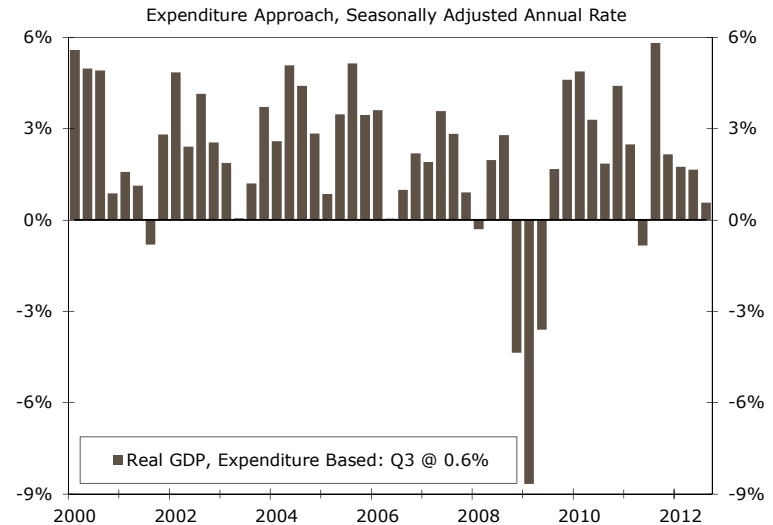
A similar picture came out from today’s release of Canada’s GDP numbers. The Canadian economy slowed to 0.6 percent annualized growth in the third quarter from 1.7 percent growth in the second quarter, quarter over quarter. On a year-over-year basis, the Canadian economy improved by only 1.0 percent versus 1.2 percent in the second quarter. Markets were expecting growth to have remained stable in the third quarter. However, the economy weakened further, pulled down by slowing global growth. Exports of goods and services were down 7.8 percent, at a seasonally adjusted annual rate, reflecting the weak external environment for growth just as shown in the Brazilian economy. Meanwhile, gross fixed capital formation dropped by 2.9 percent.

Canada’s domestic economy was relatively strong, with final consumption expenditures increasing 3.1 percent, the product of a 3.8 increase in household final consumption expenditures, a 4.3 percent increase in non-profit institutions serving households’ final consumption expenditures and an increase of 1.2 percent in general governments’ final consumption expenditures. Imports of goods and services, on the other hand, increased by 1.7 percent, essentially unchanged from the 1.9 percent rate recorded during the second quarter of the year. All this information clearly points to a still-weak world economic environment during the third quarter of the year; as such, governments will have to depend on domestic growth until something better comes from global growth.

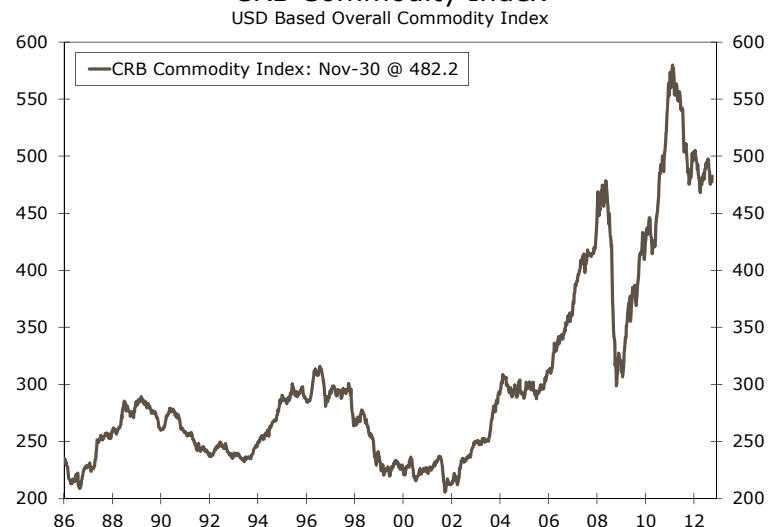
Brazilian Real GDP



Canadian Real GDP



CRB Commodity Index



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

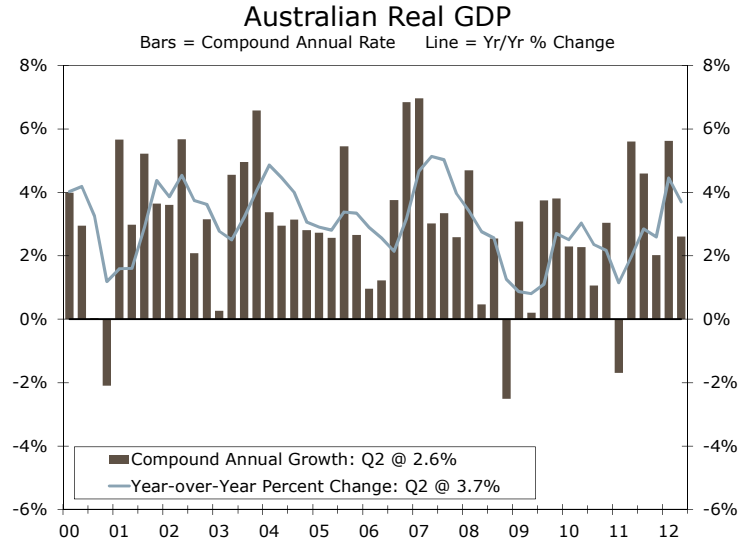
Australia GDP • Wednesday

The Australian economy seemed to have held up rather well in the third quarter, even as growth slowed in other economies around the world. While business confidence has been spotty, it appears that consumer spending has held up. Retail sales were off in July but bounced back in August and September, as consumer confidence returned to the highest level since February. Similarly, auto sales fell off a bit in July, but the decline was more than offset by back-to-back gains in auto sales in the remaining months of the quarter. Trade could be a modest drag, as exports slowed more than imports during the quarter.

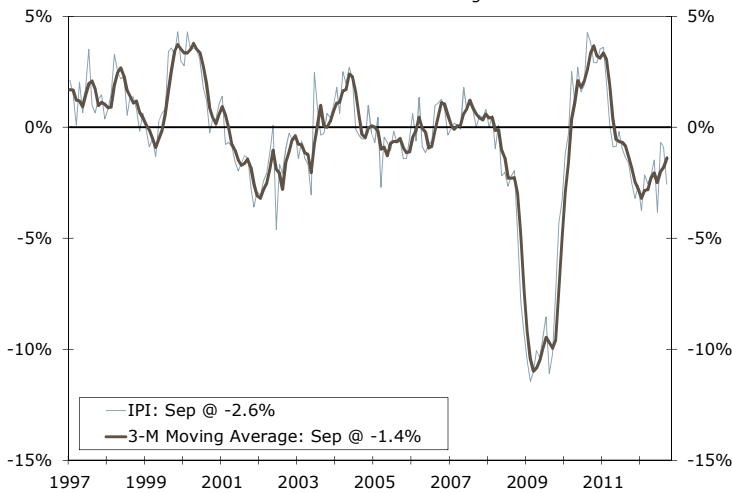
We will get official GDP figures on Wednesday of next week. The Reserve Bank of Australia meets the day before and will likely have a good idea of what the GDP figures will look like. Our expectation is that the RBA will leave the overnight rate at its current level of 3.25 percent.

Previous: 3.7% (Year over Year)

Consensus: 3.1%



U.K. Industrial Production Index



U.K. Industrial Production • Friday

Real GDP in the United Kingdom grew at its fastest pace in five years in the third quarter, thanks to a confluence of one-time factors, including the Queen's Diamond Jubilee in June and the Olympics, which helped to boost growth. Aside from this third quarter pop in GDP growth, economic recovery in the United Kingdom has been much more gradual. On Friday of next week, we will get a look at how the fourth quarter is shaping up with the October report of industrial production. Output fell in the last two months and remains negative on a year-over-year basis.

On Thursday of next week, the Bank of England will announce its latest monetary policy plans. With rates already low at 0.50 percent, the major question is whether or not the Bank will pursue additional asset purchases. We do not expect it will, though it is a close call.

Previous: -2.6% (Year over Year)

Consensus: -0.5%

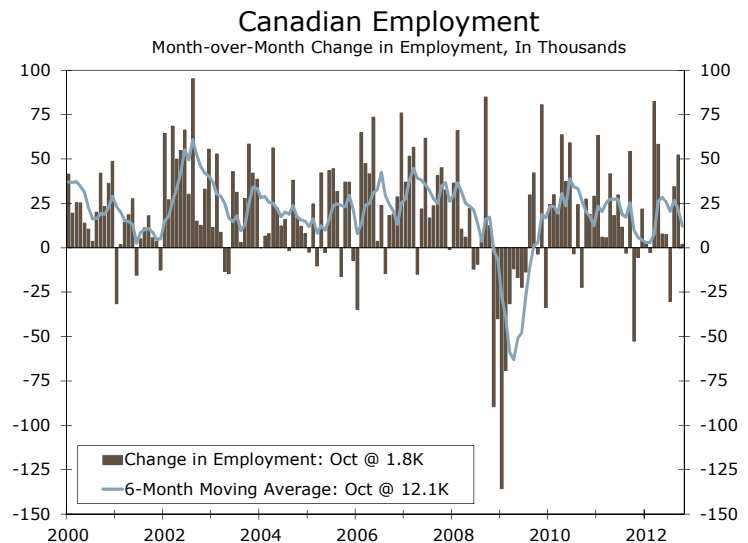
Canada Employment Report • Friday

The monthly job figures in Canada can be very choppy. To help smooth the volatility, we apply a six-month moving average in the chart to the right. By this measure, we can see that Canadian job growth is beginning to slow a bit. The unemployment rate at 7.4 percent is slightly better than the 7.9 percent rate in the United States, but the job market in Canada has recovered much better after the recession. The United States has 4.3 million fewer workers today than it did before the recession began and it will likely take years to regain those lost jobs. Canada returned to pre-recession levels of employment in January 2011 and has since added another 339,600 new jobs. After adjusting for the population difference, this would be comparable to more than 3 million new jobs in the United States.

Having said that, the momentum seems to be slipping somewhat. We get November jobs numbers for Canada next Friday.

Previous: 1,800

Consensus: 7,500



Source: IHS Global Insight and Wells Fargo Securities, LLC

Interest Rate Watch

Interest Rates Fall off the Fiscal Cliff

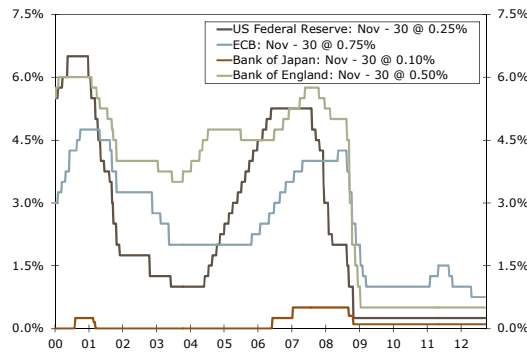
While the stock market has swung dramatically in the aftermath of the presidential election, rising on hopes of a favorable resolution of the issues surrounding the fiscal cliff and selling off when those hopes are invariably challenged, the bond market has taken a much more measured appraisal of the negotiations. Equity investors have grown more pessimistic about the outlook for corporate earnings and the tax treatment of investment income. This is one of the reasons the Dow Jones Industrial Average has sold off 1.7 percent since election day.

The more bearish view on economic growth is more palatable to the fixed income markets, as it suggests the Fed will find a way to continue purchasing long-term Treasury notes, even after it twists the last remaining short-term notes out of its portfolio. The yield on the Treasury's 10-year note has fallen 18 basis points to 1.60 percent this morning, with at least part of that drop reflecting the growing belief that the Fed will announce plans to purchase additional Treasury securities once Operation Twist winds down at year-end.

With fiscal policy caught up in a high-stakes poker game and businesses postponing hiring and investment decisions, the Fed has little choice but to continue to drive long-term interest rates even lower and keep them there until the economic recovery achieves escape velocity. Moreover, a breakdown in the fiscal policy negotiations could lead to another sell-off in equities, driving Treasury yields even lower.

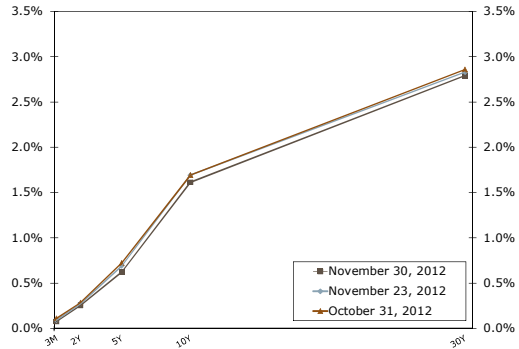
Even moving beyond the uncertainty of the fiscal cliff negotiations, interest rates will likely remain exceptionally low for some time to come. There is no plausible outcome that avoids tax increases and spending cuts hitting the bulk of the economy early next year. Forecasts for the current quarter and early 2013 have been trimmed back to the 1 percent range. The drag from higher taxes and tighter budgets will also extend into future years, reducing growth expectations and extending the period of time that investors expect the Fed to keep the federal funds rate near today's extraordinarily low level.

Central Bank Policy Rates



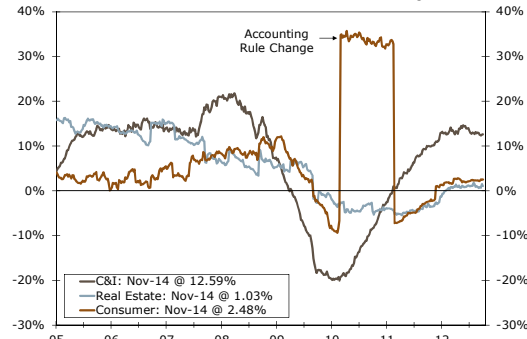
Yield Curve

U.S. Treasuries, Active Issues



Bank Lending

Assets at U.S. Commercial Banks, YoY Percent Change



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

Credit Market Insights

Credit Market Points Toward Continued Strength in Auto Sales

Earlier this week, the New York Fed released its quarterly household debt and credit report; details supported further strength in the auto sector. Outstanding auto loans are at the highest level since the fourth quarter of 2008, and auto loan originations increased 4.4 percent in the third quarter, marking the third consecutive quarterly increase. In addition, the percent of auto loan balances 90+ days delinquent has come down 0.8 percentage points over the past year to 4.3 percent. This compares to mortgage loans, whose percentage of 90+ day delinquent loans has fallen 0.9 percentage points to 5.9 percent over the same time period.

Along with the apparent increase in the number of auto loans outstanding and auto loans originated comes the high affordability associated with these loans. The interest rate on a 48-month new car loan is at record lows, averaging 4.9 percent in the third quarter. Thus, favorable credit conditions should help drive auto sales as consumers begin to replace their older models and some individuals in the Northeast replace vehicles damaged by Superstorm Sandy.

This encouraging data comes at a time when there is great speculation about the possible effects of Superstorm Sandy and the fiscal cliff on near-term auto sales. At the very least, the recent New York Fed credit report should assuage some fears of any sudden downturn in the auto market.

Credit Market Data

Mortgage Rates	Current	Week Ago	4 Weeks Ago	Year Ago
	30-Yr Fixed	3.32%	3.31%	3.39%
15-Yr Fixed	2.64%	2.63%	2.70%	3.30%
5/1 ARM	2.72%	2.74%	2.74%	2.90%
1-Yr ARM	2.56%	2.56%	2.58%	2.78%

Bank Lending	Current Assets (Billions)	1-Week Change (SAAR)	4-Week Change (SAAR)	Year-Ago Change
	Commercial & Industrial	\$1,488.6	7.71%	6.24%
Revolving Home Equity	\$518.3	-9.40%	-7.81%	-5.86%
Residential Mortgages	\$1,604.3	-37.91%	19.39%	4.66%
Commerical Real Estate	\$1,416.8	3.45%	1.77%	-0.22%
Consumer	\$1,117.0	1.91%	5.30%	2.48%

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

Topic of the Week

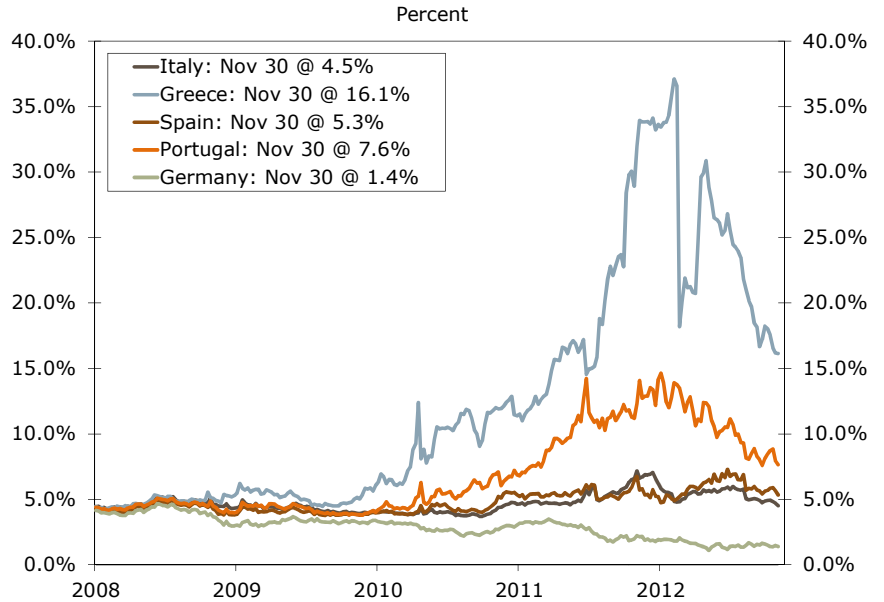
Greece Gets Some Breathing Room, for Now

Following recent fiscal austerity and structural reform measures that have been enacted in Greece, European finance ministers agreed this week to disburse €43.7 billion (about \$57 billion) in funds to the Hellenic Republic. The disbursement, which will occur in four tranches between December and the end of the first quarter of next year, will allow the Greek government to continue to pay its bills and to recapitalize its banks.

Greece also requested some relaxation in the terms of its adjustment program, and its creditors agreed to reduce interest rates and extend maturities of the country's borrowings. The agreement also included a debt buyback program. Because prices of Greek government bonds are currently about one-third of face value, the proposed €10 billion of purchases would retire roughly €30 billion worth of debt. In sum, the program aims to reduce the debt-to-GDP ratio of the Greek government, which currently is near 180 percent, to 124 percent in 2020 and 110 percent in 2022.

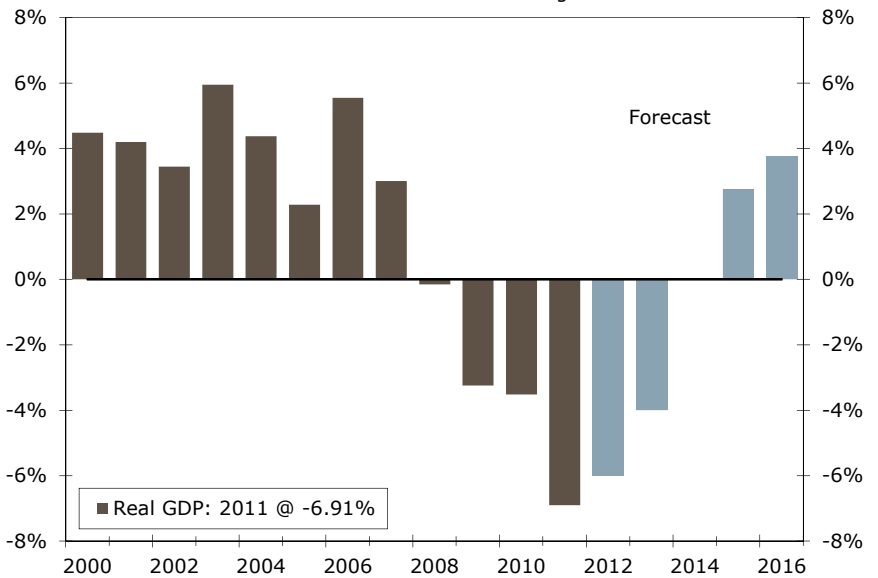
Yields on Greek government bonds have declined significantly in recent months, as investors have come around to the view that Greece will not leave the Eurozone and default on its debt, at least not in the near term. However, large questions still remain about the ultimate sustainability of Greece's government debt. First, it is not clear how many investors will tender their bonds at the prices stipulated in the debt buyback program. Thus, the outstanding amount of Greek government debt may not decline as much as officials hope if investor participation is less than expected. Second, the debt dynamics depend crucially on GDP assumptions. The program assumes that growth will turn positive again starting in 2014. However, Greece is mired in an economic depression at present, and recovery starting in 2014 is not assured. The sovereign debt crisis in Greece may be on the back burner at present, but the flame is not yet completely extinguished. The Hellenic Republic may eventually be back in the headlines yet again.

10-Year Government Bond Yields



Greek Real GDP

Year-over-Year Percent Change



Source: IHS Global Insight, IMF and Wells Fargo Securities, LLC

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 11/30/2012	1 Week Ago	1 Year Ago
3-Month T-Bill	0.07	0.09	0.00
3-Month LIBOR	0.31	0.31	0.53
1-Year Treasury	0.20	0.22	0.10
2-Year Treasury	0.25	0.27	0.25
5-Year Treasury	0.62	0.69	0.95
10-Year Treasury	1.61	1.69	2.07
30-Year Treasury	2.79	2.83	3.06
Bond Buyer Index	3.29	3.37	4.12

Foreign Exchange Rates

	Friday 11/30/2012	1 Week Ago	1 Year Ago
Euro (\$/€)	1.301	1.298	1.345
British Pound (\$/£)	1.603	1.603	1.570
British Pound (£/€)	0.812	0.809	0.856
Japanese Yen (¥/\$)	82.500	82.400	77.620
Canadian Dollar (C\$/¥)	0.993	0.993	1.017
Swiss Franc (CHF/\$)	0.926	0.928	0.913
Australian Dollar (US\$/A\$)	1.043	1.046	1.028
Mexican Peso (MXN/\$)	12.924	12.965	13.625
Chinese Yuan (CNY/\$)	6.227	6.228	6.379
Indian Rupee (INR/\$)	54.265	55.515	52.211
Brazilian Real (BRL/\$)	2.107	2.082	1.809
U.S. Dollar Index	80.144	80.192	78.384

Foreign Interest Rates

	Friday 11/30/2012	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.13	0.13	1.41
3-Month Sterling LIBOR	0.52	0.52	1.04
3-Month Canadian LIBOR	1.24	1.23	1.32
3-Month Yen LIBOR	0.19	0.19	0.20
2-Year German	0.01	0.00	0.34
2-Year U.K.	0.31	0.31	0.46
2-Year Canadian	1.07	1.12	1.01
2-Year Japanese	0.10	0.10	0.14
10-Year German	1.38	1.44	2.28
10-Year U.K.	1.77	1.84	2.31
10-Year Canadian	1.70	1.79	2.15
10-Year Japanese	0.72	0.74	1.07

Commodity Prices

	Friday 11/30/2012	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	88.51	88.28	100.36
Gold (\$/Ounce)	1717.37	1753.00	1746.38
Hot-Rolled Steel (\$/S.Ton)	650.00	618.00	630.00
Copper (¢/Pound)	361.20	352.80	356.30
Soybeans (\$/Bushel)	14.51	14.16	11.08
Natural Gas (\$/MMBTU)	3.63	3.90	3.55
Nickel (\$/Metric Ton)	16,949	16,501	17,043
CRB Spot Inds.	512.43	507.60	525.00

Next Week's Economic Calendar

	Monday 3	Tuesday 4	Wednesday 5	Thursday 6	Friday 7
U.S. Data	ISM Manufacturing October 51.7 November 51.7 (W)		Factory Orders September 4.8% October -0.1% (W)		Nonfarm Employment October 171K November 80K (W)
	Construction Spending September 0.6% October 0.4% (W)		ISM Non-Manf. October 54.2 November 53.7 (W)		Unemployment Rate October 7.9% November 8.0% (W)
	Total Vehicle Sales October 14.22M November 11.30M (C)				Consumer Credit September \$11.365B October \$10.000B (C)
	Eurozone	U.K.	Eurozone	Canada	U.K.
	PMI Manufacturing Previous (Nov) 46.2	PMI Construction Previous (Oct) 50.9	PMI Services Previous (Nov) 45.7	Building Permits (MoM) Previous (Sep) -13.2%	Industrial Production Previous (Sep) -2.6%
	U.K.		Australia		Canada
PMI Manufacturing Previous (Oct) 47.5		GDP Previous (2Q) 3.7%		Employment Report Previous (Oct) 1.8K	

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

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