

U.S. Economic Outlook: Some Thoughts on the Second Half

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Together we'll go far



Economic Growth

- **There was more than bad weather behind the big drop in first quarter real GDP. Consumer spending and business fixed investment both struggled, while the trade gap widened and inventory building slowed.**

Structural Issues Continue to Weigh on Growth

- **Economic growth continues to be weighed down by a host of still unfolding structural issues, including global rebalancing, re-regulation, deleveraging and inequality.**

Policy Adjustment

- **So far, the wind down of QE has gone reasonably well - stock prices have risen and interest rates have fallen. Risk have increased more recently, however, both from domestic policy and geopolitical events.**

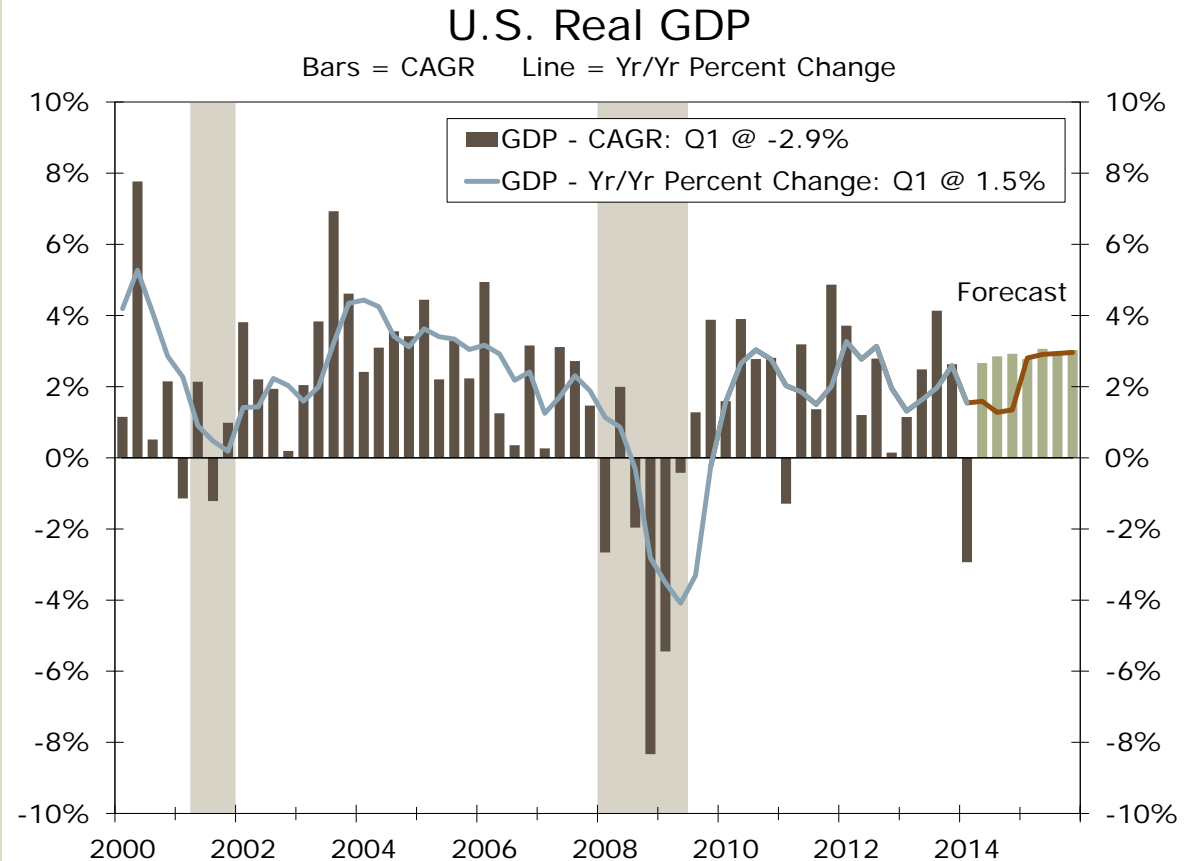
Improvement is Broadening

- **Energy and technology, as well as regions where these industries are clustered, remain notable bright spots. We see economic growth broadening this year, as conditions improve in long-moribund sectors.**

Global Economy

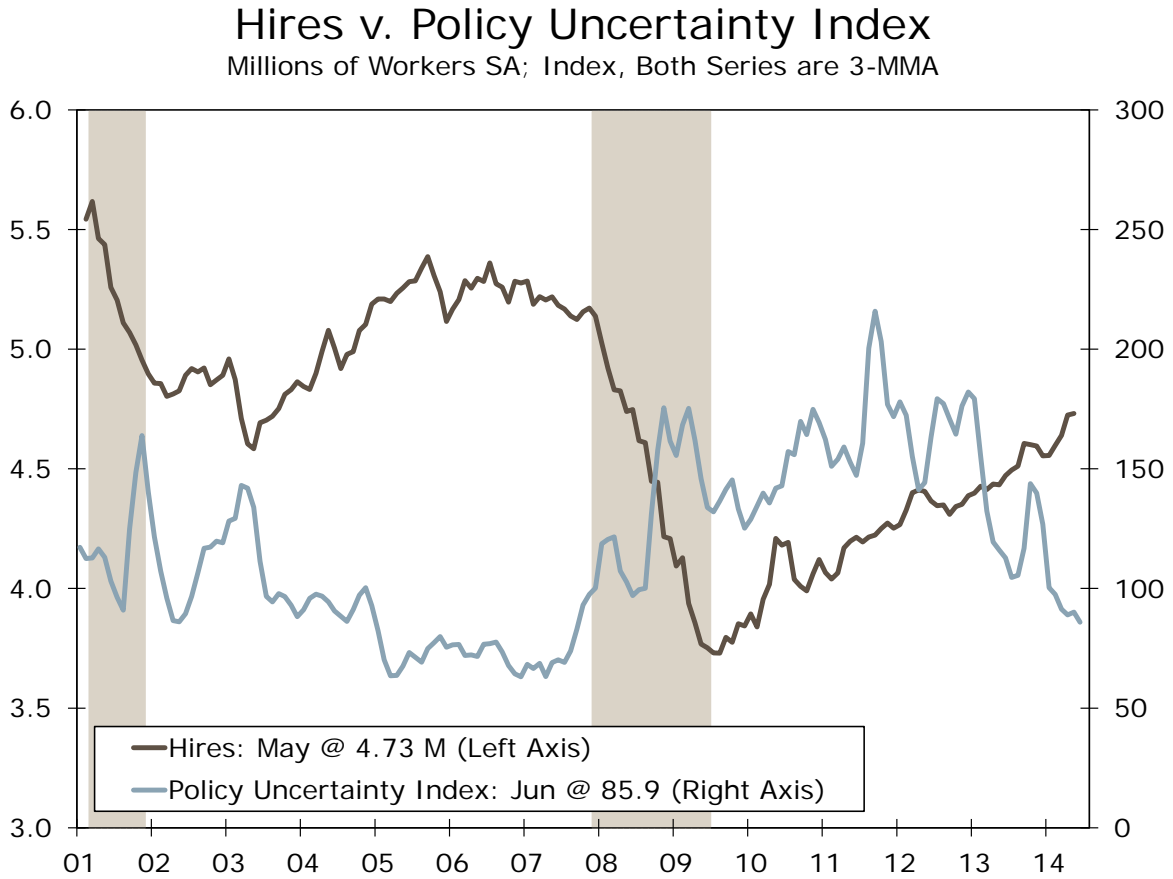
- **Global economic growth has been steadily downgraded over the course of this year and will likely be a drag on US growth.**

Following the massive downward revision to first quarter real GDP, we expect economic growth to regain momentum as homebuilding improves, commercial construction strengthens and the drag from state and local government diminishes..



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

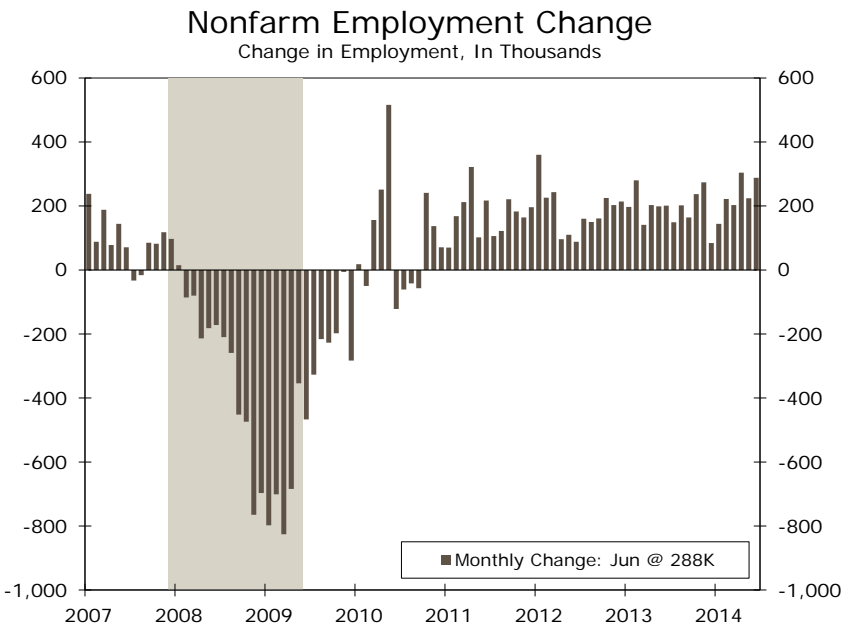
With policy uncertainty receding, businesses are becoming more confident about hiring and boosting capital investment.



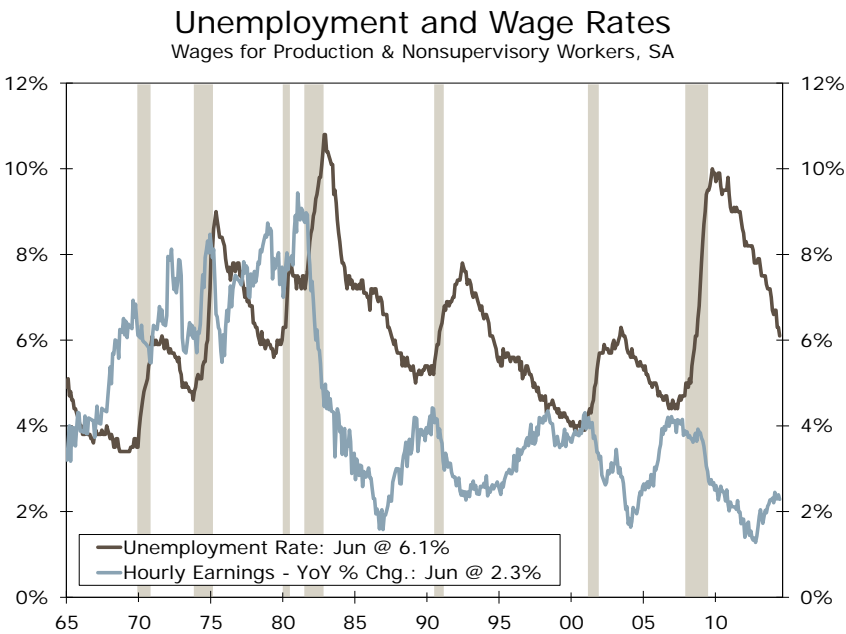
Source: JOLTS, PolicyUncertainty.com and Wells Fargo Securities, LLC

Job growth appears to have ratcheted up a bit in recent months. Wages are now behaving the way they have when the economy began to approach full employment.

Nonfarm Employment



Unemployment Rate

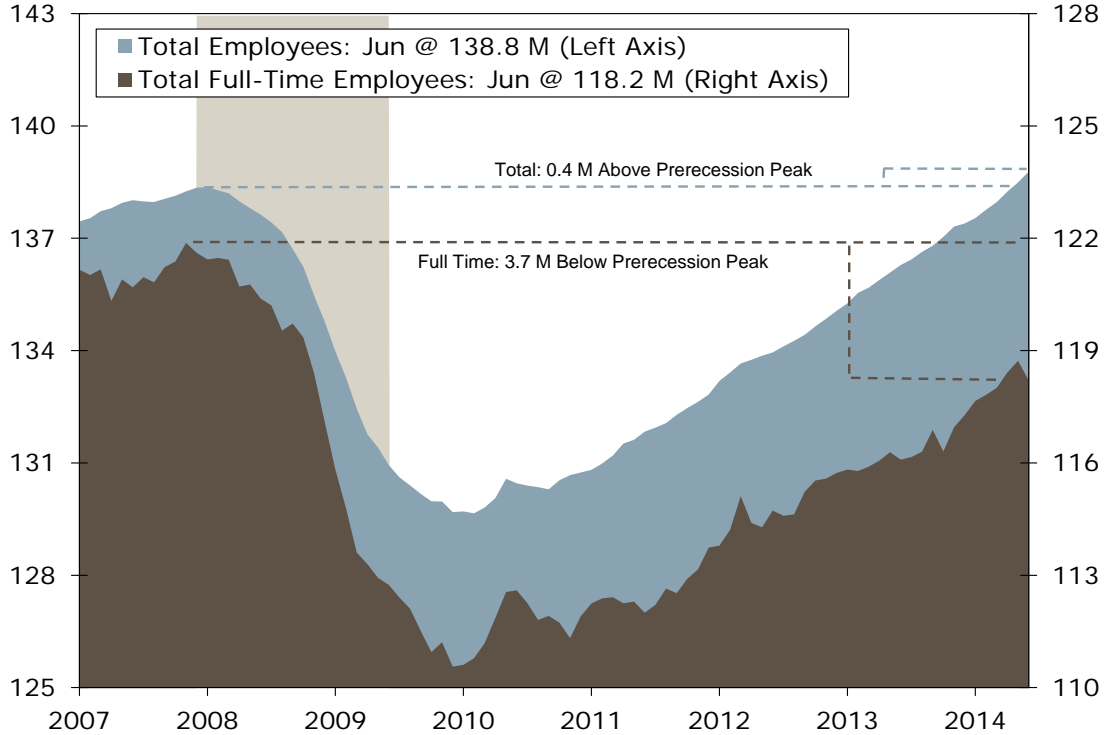


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

A large proportion of the jobs created over the past four years have been part-time, which has weighed on wage & salary growth and reinforced calls to raise the minimum wage

Full-Time vs. Total Employment

Millions

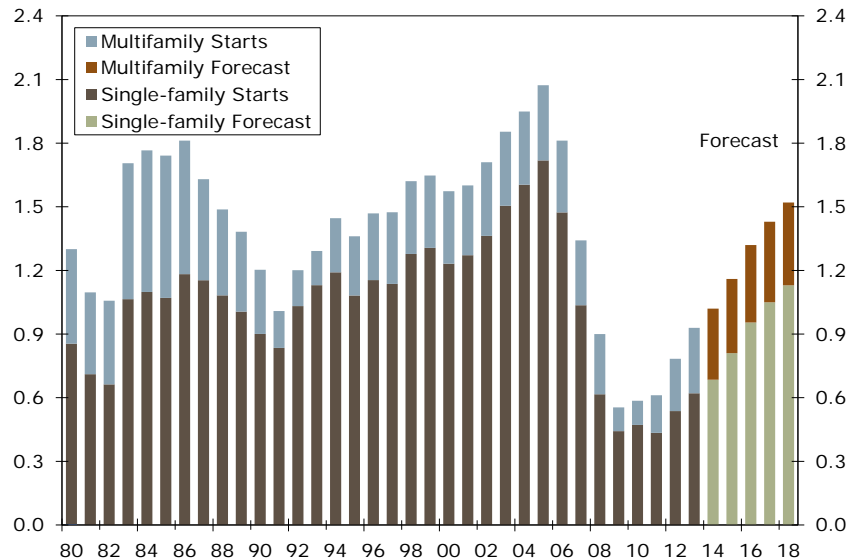


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Despite some recent setbacks, we continue to look for a gradual recovery in homebuilding. Apartments are playing a larger role than in previous building cycles.

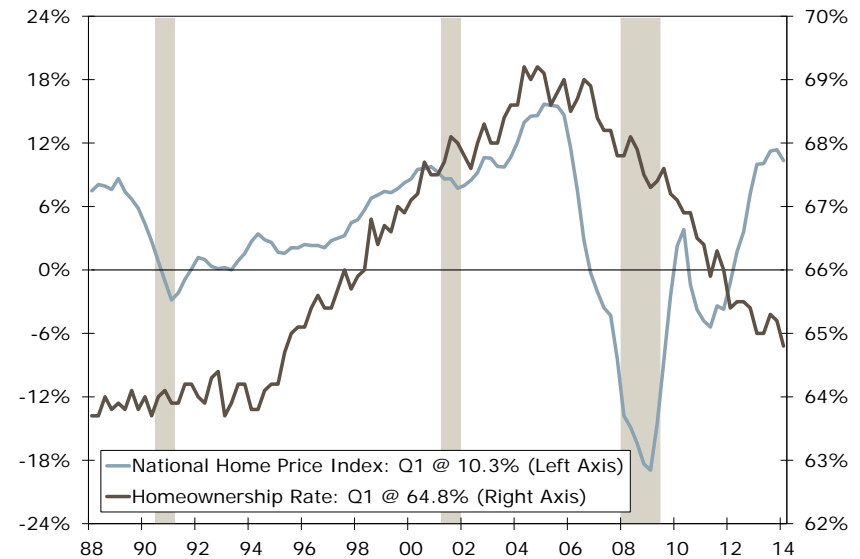
Housing Starts

Housing Starts
Millions of Units



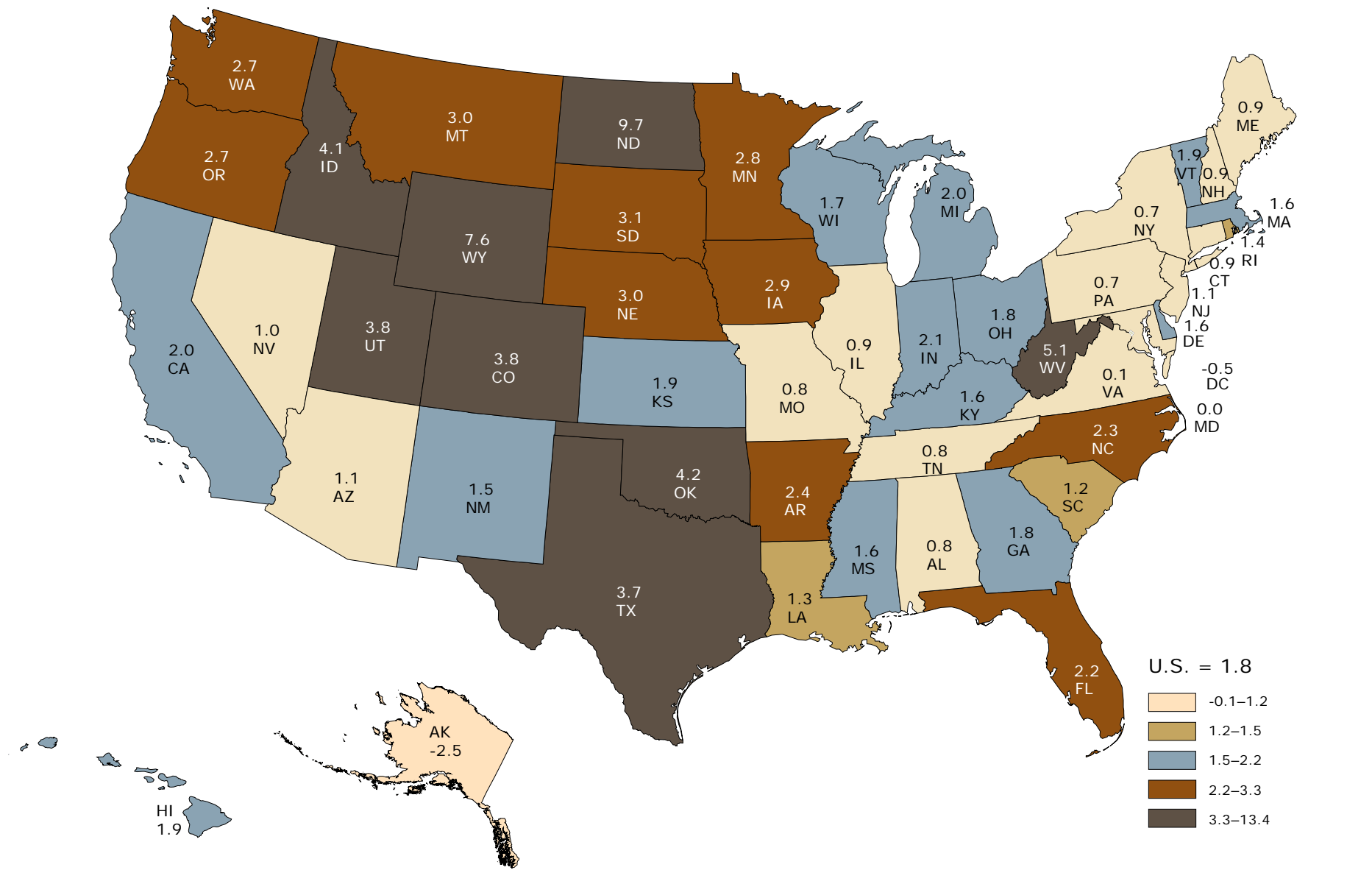
Home Prices

S&P Case-Shiller National Home Price Index vs.
Homeownership Rate



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

Percent Change in Real GDP by State 2012-2013

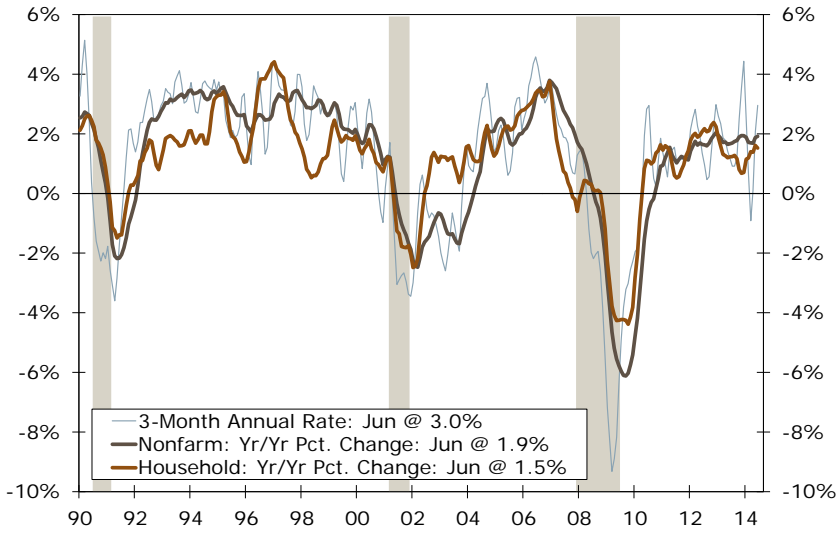


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

North Carolina's unemployment rate has plummeted over the past year.

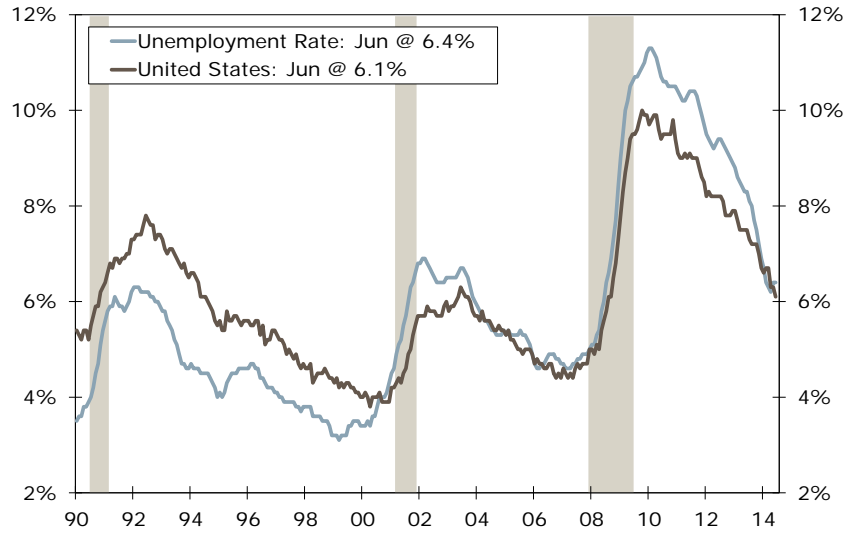
Employment

North Carolina Nonfarm Employment
3-Month Moving Averages



Unemployment

North Carolina vs. U.S. Unemployment Rate
Seasonally Adjusted

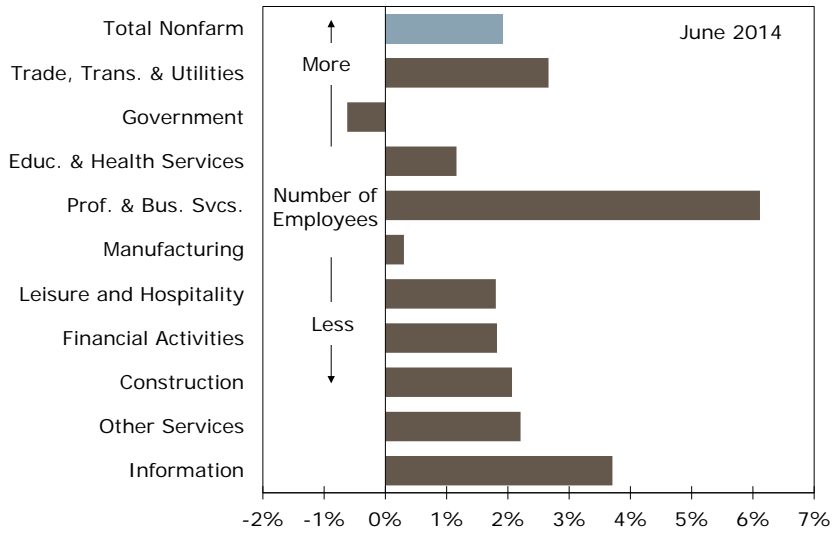


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

North Carolina has seen broad-based employment gains.
Stronger job growth has led to increased population growth.

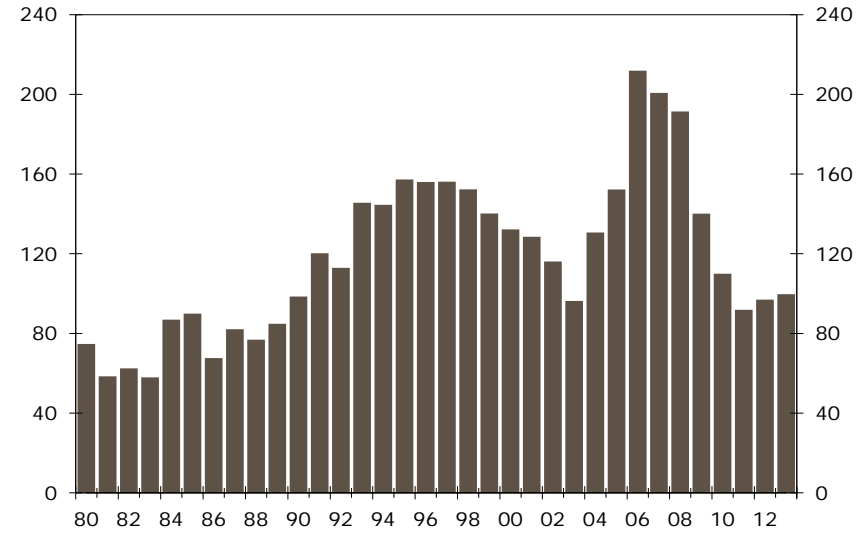
Employment

North Carolina Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



Unemployment

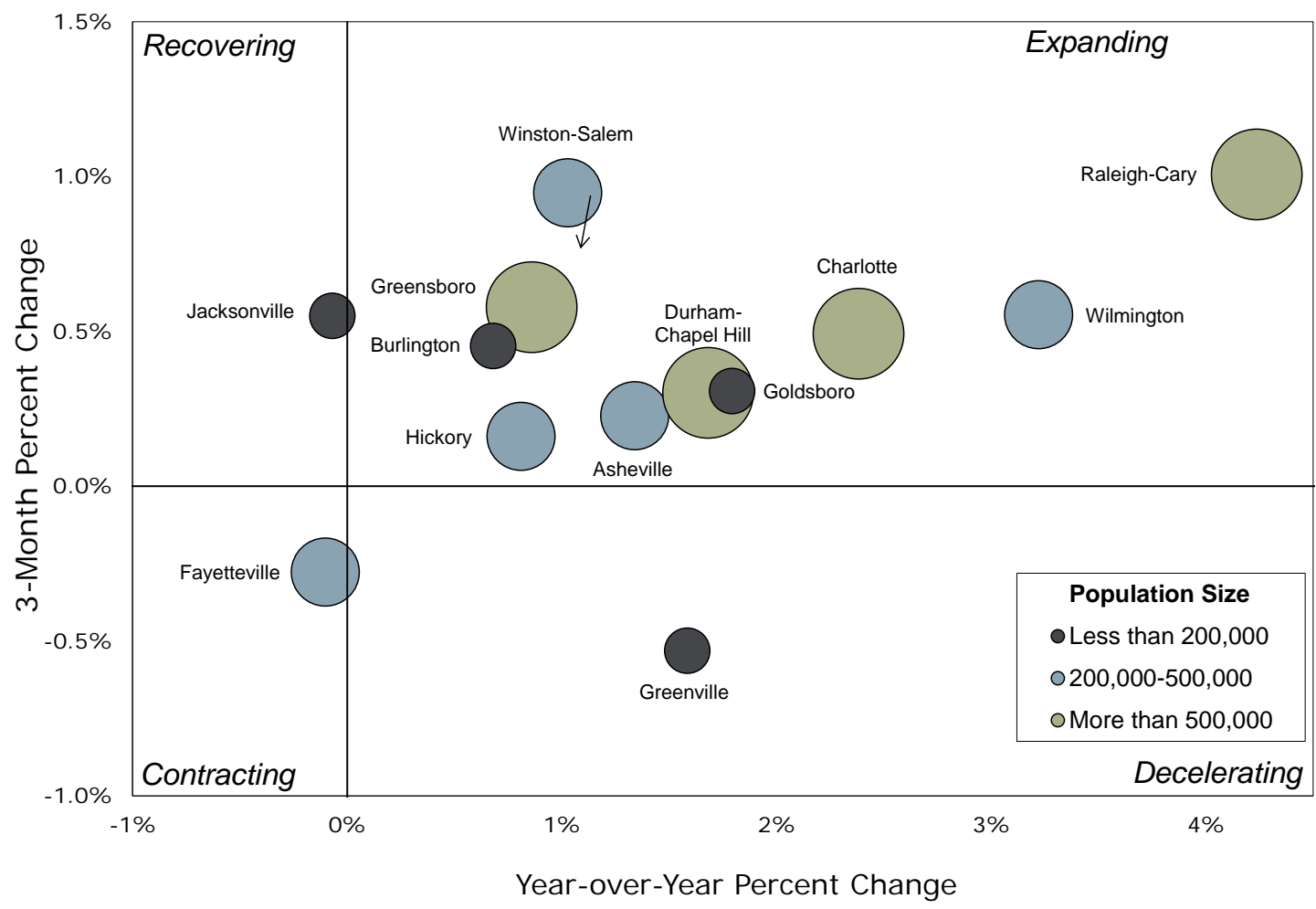
North Carolina Population Growth
In Thousands



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

North Carolina Employment Growth: June 2014

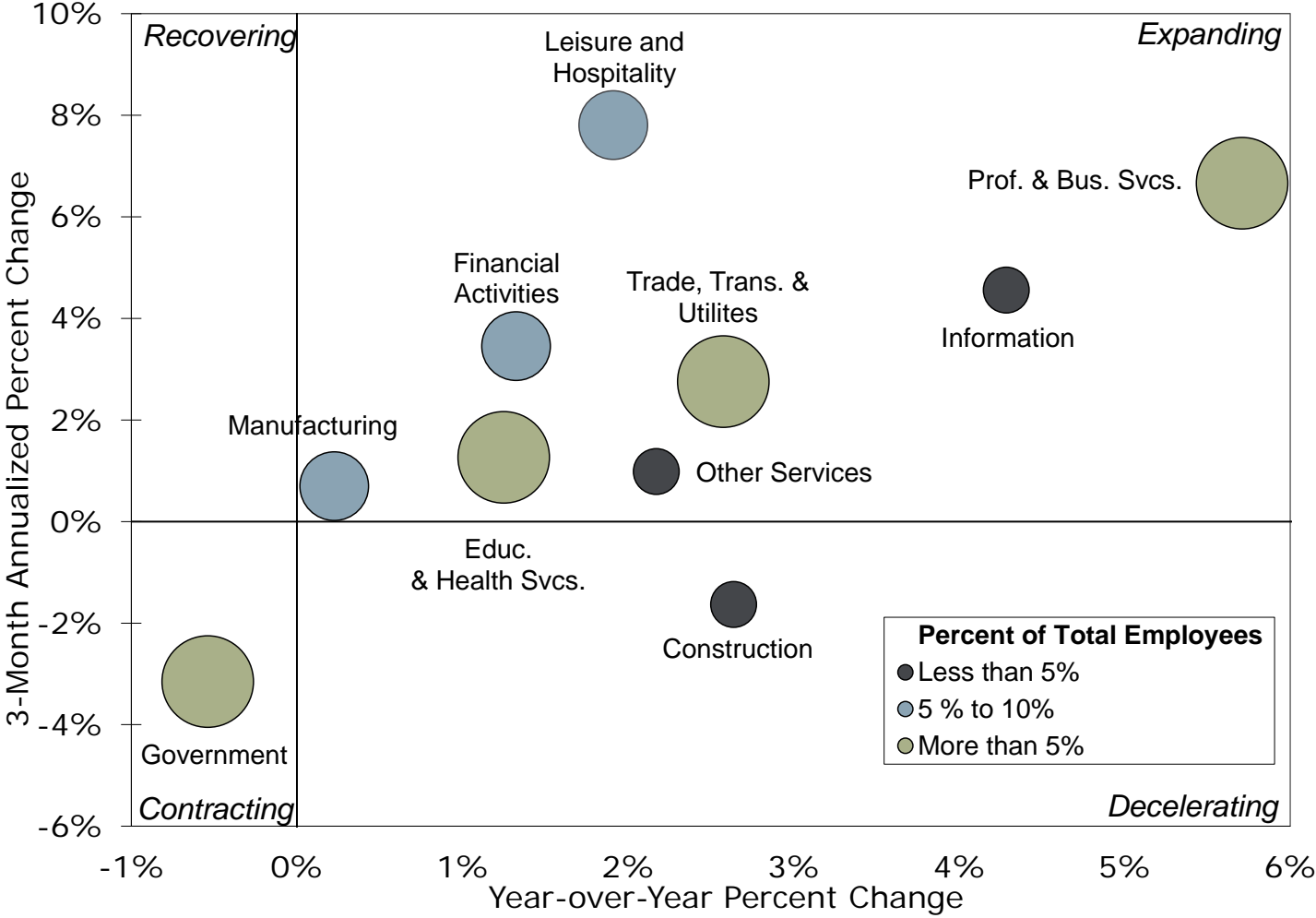
3-Month Moving Averages



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

North Carolina Employment Growth by Industry

3-Month Moving Averages, June 2014

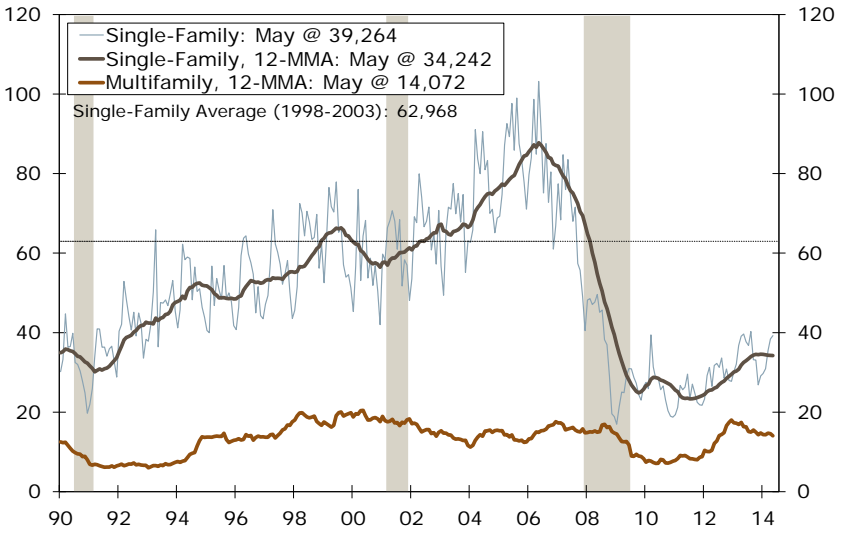


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Home prices have picked up in past months, and now remain close to their prerecession peak.

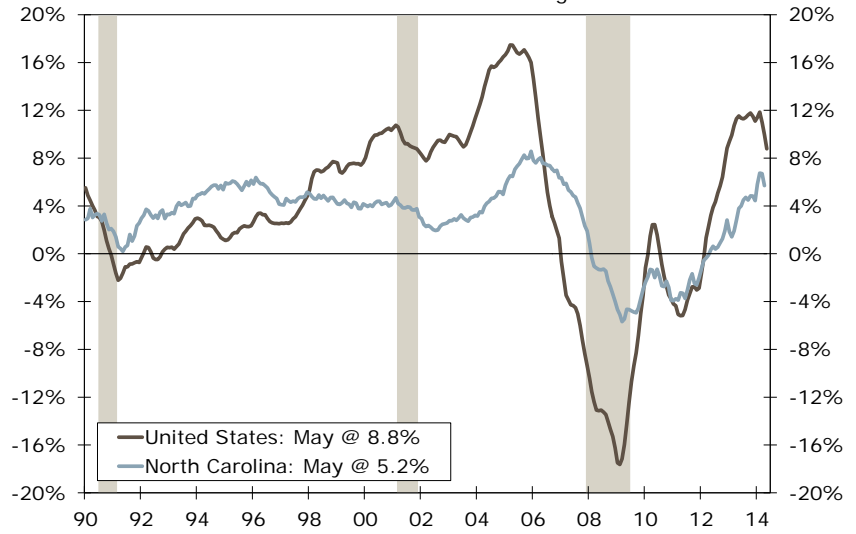
Housing Permits

North Carolina Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate

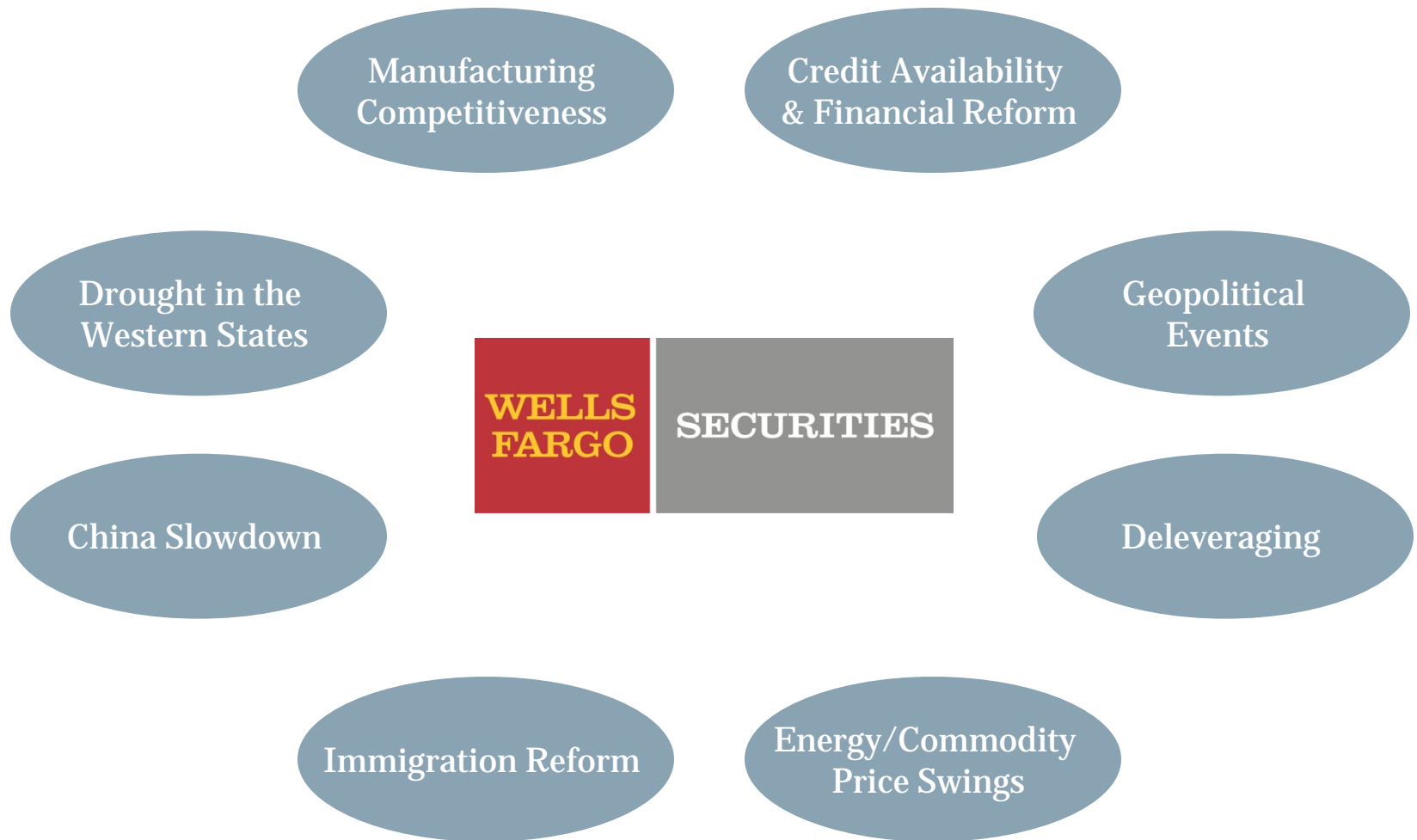


Home Prices

Core Logic HPI: NC vs. U.S.
Year-over-Year Percent Change



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



Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual			Forecast	
	2013				2014				2011	2012	2013	2014	2015
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	1.1	2.5	4.1	2.6	-2.9	2.5	2.9	2.9	1.8	2.8	1.9	1.4	2.9
Personal Consumption	2.3	1.8	2.0	3.3	1.0	2.2	2.4	2.5	2.5	2.2	2.0	2.1	2.5
Inflation Indicators ²													
PCE Deflator	1.4	1.1	1.1	1.0	1.1	1.6	1.7	1.9	2.4	1.8	1.1	1.6	2.0
Consumer Price Index	1.7	1.4	1.5	1.2	1.4	2.0	2.1	2.4	3.1	2.1	1.5	2.0	2.3
Industrial Production ¹	4.2	1.9	2.5	4.9	3.9	5.5	3.7	4.3	3.3	3.8	2.9	4.1	4.7
Corporate Profits Before Taxes ²	2.1	4.5	5.7	6.2	-2.2	3.6	3.8	4.0	7.9	7.0	4.6	2.4	4.3
Trade Weighted Dollar Index ³	76.2	77.5	75.2	76.4	76.9	75.9	76.5	76.8	70.9	73.5	75.9	76.5	78.2
Unemployment Rate	7.7	7.5	7.2	7.0	6.7	6.2	6.0	5.9	8.9	8.1	7.4	6.2	5.7
Housing Starts ⁴	0.95	0.86	0.88	1.03	0.93	0.98	1.06	1.07	0.61	0.78	0.92	1.01	1.18
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	0.63
Conventional Mortgage Rate	3.57	4.07	4.49	4.46	4.34	4.16	4.35	4.34	4.46	3.66	3.98	4.30	4.46
10 Year Note	1.87	2.52	2.64	3.04	2.73	2.53	2.75	2.80	2.78	1.80	2.35	2.70	3.00

Forecast as of: July 18, 2014

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

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary

Date	Title	Authors
July-09	Housing Data Wrap-Up: June 2014	Vitner & Khan
July-08	Middle of the Curve Moves on Better Economic Data	Silvia, Vitner & Brown
July-07	Reaching the Tipping Point: Tough Fiscal Policy Choices Ahead	Silvia & Brown
July-02	Disappointing GDP Growth, Little Impact on Interest Rates?	Silvia, Vitner & Brown
July-01	Better Credit Fundamentals: Rise in Overall Quality	Silvia & Miller
June-30	Will Argentina Default on Its Debt Again?	Alemán
June-27	Interest Rate Weekly: Is the Fed Behind the Curve?	Silvia, Vitner & Brown
June-24	Japan and the Third Arrow of Abenomics	Quinlan
June-24	Florida Economic Outlook: June 2014	Vitner, Wolf & Miller
June-24	Arizona Economic Outlook: June 2014	Vitner, Wolf & Miller
June-20	California Employment Conditions: May 2014	Vitner & Wolf
June-20	Florida Employment Declines in May	Vitner & Wolf
June-20	Texas Posts Largest Monthly Payroll Gain in Nation	Vitner & Wolf
June-19	Addressing the Skills Gap: Do You Have the Skills to Pay the Bills?	Khan, Brown & Zachary
June-18	No Major Changes in the FOMC Policy Statement	Vitner & House
June-18	Interest Rate Weekly: Unresolved Issues at Mid-Cycle	Silvia, Vitner & Brown
June-16	New Jersey Economic Outlook: June 2014	Vitner, Wolf & Miller
June-16	Information: Past Imperfect, Present Incomplete, Future Uncertain	Silvia
June-13	Global Chartbook: June 2014	Quinlan & Miller
June-13	Labor Force Participation: A Cross-Country Analysis	Bryson, House & Griffiths
June-11	Mexican Industry: Still No Signs of Improvement	Alemán
June-11	The Highway Trust Fund Is Expected to Run out of Gas	Khan & Zachary
June-11	Housing Chartbook: May 2014	Vitner & Khan
June-11	GDP Growth in Q1 Overstates Momentum in Turkish Economy	Bryson
June-09	Brazilian Economic Problems Not All About China	Alemán
June-06	Power Outlays Pull Structure Investment Lower in Q1	Khan
June-05	ECB Announces a Package of Policy Changes	Bryson
June-04	Predicting the Probability of FOMC Rate Decisions: An Ordered Probit Approach	Silvia, Iqbal & Zachary
June-03	2014 Federal Fiscal Policy Outlook Part II: Outlays Shift Toward Mandatory Spending	Silvia, Brown & Zachary
June-03	Are We There Yet? Dynamic Adjustment in the U.S. Economy	Silvia
June-02	America's Income Composition: The Rise of Non-Labor Income	Silvia & House
May-30	Brazilian Economy Remained Weak in Q1	Alemán
May-30	Structure Investment Post Second Quarterly Decline	Khan, Iqbal & Zachary
May-30	Japanese Economy Absorbs the Consumption Tax Hike	Quinlan
May-30	Outlook for Swedish Economy is Solid Despite Stall in Q1	Bryson
May-29	Swiss Real GDP Continues to Expand at Modest Pace	Bryson
May-28	Commercial Real Estate Chartbook: Q1	Vitner & Khan
May-27	Florida Consumer Sentiment Declines but Not All Bad	Vitner & Wolf
May-27	Labor Market Remains Challenging for Hispanics	Alemán
May-23	Mexican Economy: Still Weak in Q1 2014	Alemán
May-23	Baltimore's Growth: Slow and Steady, Not Divine	Vitner & Wolf
May-22	Labor Market Slack Diminishing? Fed to Follow?	Silvia & House

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