Economics Group

WELLS FARGO SECURITIES

MONTHLY OUTLOOK

U.S. Overview	International Overview

Economy—Early Post-Election, Q4 Still Subpar

Our outlook is for subpar 1.4 percent growth in the fourth quarter, and unless there is a sharp change in policy, we expect sub-2 percent growth in the first half of next year as well. Current strength in consumer spending is not sustainable, in our view, since real income growth remains weak due to modest job gains and weak wage increases, while some current spending has been financed by a decline in the saving rate. Going into 2013, there are a set of tax increases that may also hinder consumer and business spending. Meanwhile, core capital goods orders are down 23.2 percent on a 3-month average annualized rate in September; the bonus depreciation on capital equipment ends this year, and federal funding for extended unemployment benefits winds down. Residential investment will provide some offset to weaker business investment, but on net, we foresee growth remaining at 2 percent or less for 2013 given current trends.

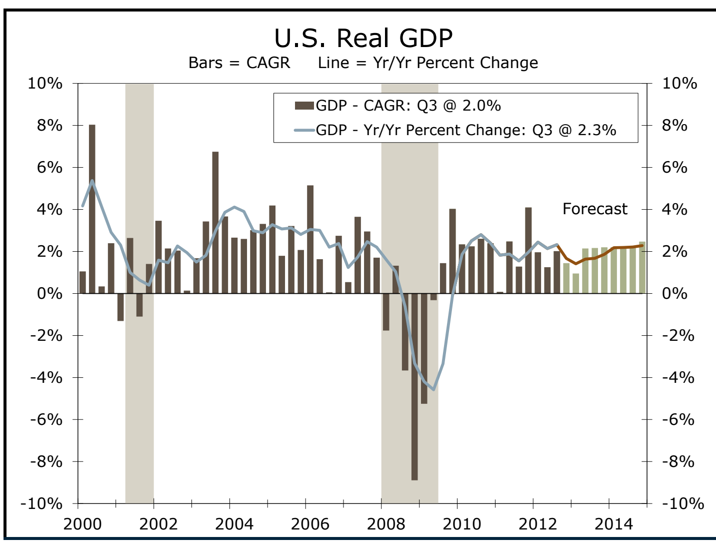
Both headline and core CPI inflation are up 2 percent year over year. As we look to the fourth quarter and into 2013, we see a modest pickup in the pace of headline consumer inflation. However, given the soft demand outlook, combined with ample economic slack that restrains income growth and the pass-through of commodity prices, no acceleration of inflation is in tow. We expect the Fed to remain on autopilot with its open-ended MBS bond-buying program for the foreseeable future; the Fed is squarely intent on fostering a more receptive job-creating environment. As Operation Twist expires, we expect the Fed will step in and fill the $45 billion gap.

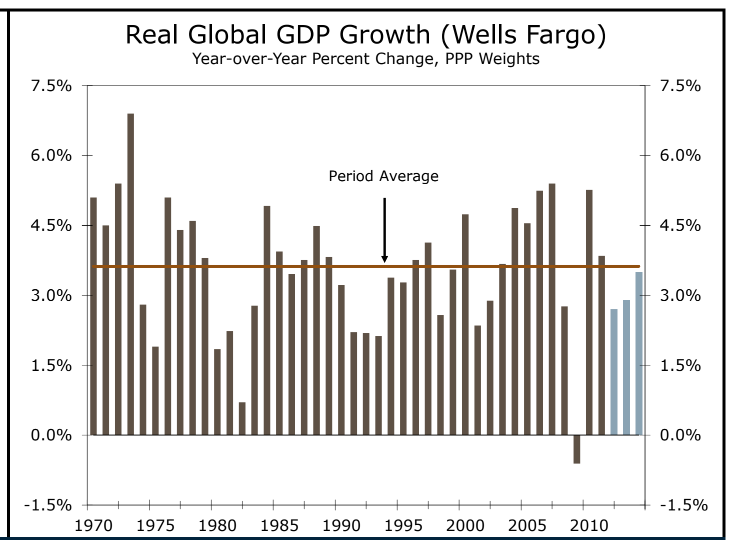
Weak Global Growth but Risks Beginning to Fade

In the past several months, we have laid out our case for a global growth environment that is weaker than the long-run average for global GDP growth. Our forecast has also been consistently below the more optimistic forecast from the International Monetary Fund (IMF). We still expect weak global growth this year and next, before returning to a more "normal" growth rate in 2014. There are still a number of obvious challenges for global growth, but fiscal and monetary authorities around the world are taking appropriate measures to mitigate the downside risk.

We are not yet ready to signal the all clear. Europe is still in recession, growth in China will remain below trend for the next couple of years and the U.S. economy is still stuck in slow-growth mode. That said, things seem to be on firmer footing than they were in the summer months when European sovereign bond yields were testing multi-year highs, China was feared to be headed for a more substantial slowdown and some forecasters thought the U.S. economy was poised to slip back into recession.

For the first time since the global economy emerged from the 2009 recession, the various risks seem to be abating rather than growing. Europe has a more robust framework for dealing with sovereign debt problems, China's economy is stabilizing and, provided it can sidestep the fiscal cliff, the U.S. economy appears to be on firmer footing. The global outlook remains weak, but it is less risky, and it is on the mend.





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

This report is available on wellsfargo.com/economics and on Bloomberg WFEC.

Growth Outlook: A Changing Mix of Pluses & Minuses

During the third quarter, the overall pace of economic growth improved; however, this trend will not continue into the fourth quarter and the first quarter of 2013. We expect growth to slow to a 1.4 percent pace in the fourth quarter, before slowing further to 1.0 percent in the first quarter of 2013. For the third quarter, there were gains in consumer spending, residential investment and government spending. Going forward, consumer spending and residential investment should continue to support growth, but declines in equipment spending, structures and a slow pace of government spending will limit gains. In addition, the uncertainties surrounding the fiscal cliff and Hurricane Sandy may provide significant drag.

Steady gains in real disposable income and employment will likely support consumer spending in the fourth quarter of this year, but the payroll tax cut elimination and higher taxes for the Affordable Care Act will limit job and income growth. For 2013, we expect consumer spending gains of 1.4 percent compared to 1.9 percent this year. We foresee continued improvement in housing, with housing starts exceeding 990,000 at an annual rate compared to 770,000 this year. Residential investment, both new starts and remodeling, should add to growth, although housing remains a small slice of overall GDP. Rebuilding from Hurricane Sandy will also provide a lift in 2013.

Unfortunately, business investment and government spending likely will not be positive forces. Equipment and software spending will likely decline 0.5 percent in 2013 compared to a gain of 6.3 percent this year. Orders for capital goods have been weak lately, and the end of the capital tax allowance should further hit investment spending. Structures spending may also be a drag as petroleum and office construction remains weak and the payback to the strength in power construction in early 2012 hits back in 2013.

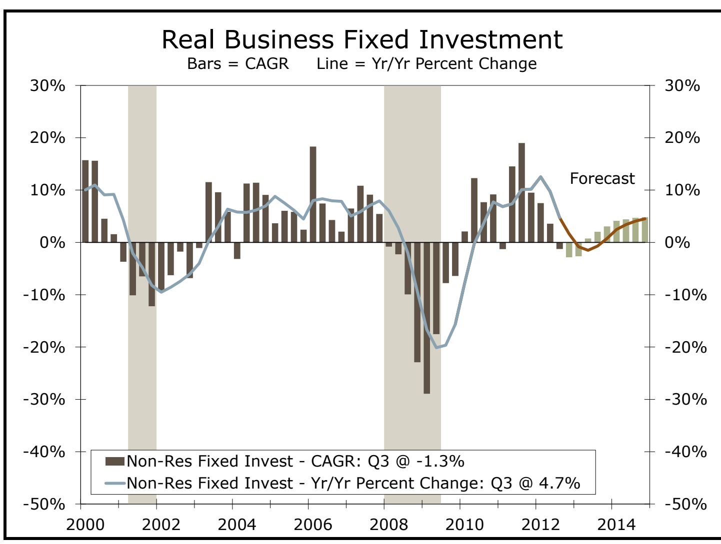
Net exports should provide a positive boost to growth in 2013 compared to a neutral contribution in 2012. We expect imports to remain weak in 2013, thereby allowing the net export number to make a solid positive contribution to growth.

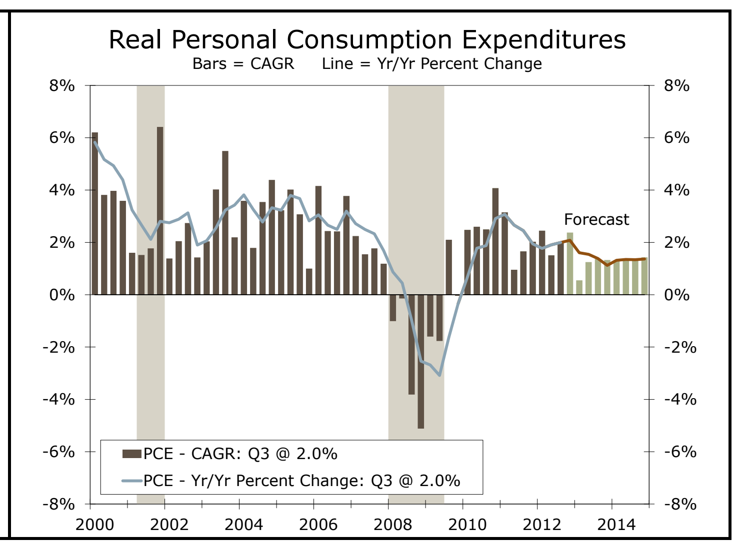
Inflation and Interest Rates

For the Federal Reserve, the benchmark inflation gauge, the PCE deflator, remains safely ensconced below the 2 percent target. However, we expect that CPI inflation will rise to 2.5 percent in 2013 from 2.2 percent this year. The Midwest drought may significantly influence retail food prices, while crude oil prices will likely drift upwards as next year unfolds. As for interest rates, our outlook suggests little to alter the current path of Fed policy and thus, the path of short-term rates. However, the 10-year rate continues its disconnect from inflation, as 2013 will represent the third year in a row in which CPI inflation exceeds the return on the 10-year Treasury note. Our expectation is that 10-year Treasury and mortgage rates will gradually rise in the year ahead.

Downside and Upside Risks

Political stalemate associated with the fiscal cliff remains the major downside risk for the economy. Due to the close election results, we expect greater political animosity will result, which adds to the possibility of greater downside push from fiscal policy on the economy in the short-run. On the upside, we expect that uncertainty surrounding the election and fiscal cliff has produced pent up demand that could suggest faster growth in 2013 than estimated. In addition, bank lending standards have eased but investment has moderated such that clarity on policy could incentivize firms to invest more than expected. Employment gains may also pick up as indicators such as the Conference Board suggest. Finally, the service sector offers possibilities for growth that are often overlooked in each economic recovery as the U.S. economy continues to reinvent itself over time.





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

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast		
	2011				2012				2013				2014				2010	2011	2012	2013	2014
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product (a)	0.1	2.5	1.3	4.1	2.0	1.3	2.0	1.4	1.0	2.1	2.2	2.2	2.2	2.2	2.3	2.5	2.4	1.8	2.1	1.6	2.2
Personal Consumption	3.1	1.0	1.7	2.0	2.4	1.5	2.0	2.4	0.6	1.2	1.4	1.3	1.3	1.4	1.3	1.4	1.8	2.5	1.9	1.4	1.3
Business Fixed Investment	-1.3	14.5	19.0	9.5	7.5	3.6	-1.3	-2.8	-2.7	0.7	2.0	3.1	4.1	4.4	4.7	4.8	0.7	8.6	7.0	-0.6	3.6
Equipment and Software	11.1	7.8	18.3	8.8	5.4	4.8	0.0	-2.7	-3.0	0.4	1.7	2.8	4.0	4.2	4.5	4.5	8.9	11.0	6.3	-0.5	3.4
Structures	-28.2	35.2	20.7	11.5	12.9	0.6	-4.4	-4.0	-1.5	2.0	3.0	4.0	4.5	5.0	5.5	6.0	-15.6	2.7	8.8	-0.7	4.4
Residential Construction	-1.4	4.2	1.4	12.0	20.6	8.4	14.4	15.5	12.5	14.0	15.0	16.0	15.0	16.0	17.0	17.0	-3.7	-1.4	12.1	13.9	15.7
Government Purchases	-7.0	-0.8	-2.9	-2.2	-3.0	-0.7	3.7	0.4	-0.8	-0.7	-0.7	-0.7	-0.6	-0.5	-0.4	-0.3	0.6	-3.1	-1.3	0.0	-0.6
Net Exports	-416.6	-399.6	-397.9	-418.0	-415.5	-407.4	-413.7	-412.2	-385.2	-358.6	-338.7	-320.3	-304.2	-293.0	-281.4	-265.8	-419.7	-408.0	-412.2	-350.7	-286.1
Pct. Point Contribution to GDP	0.0	0.5	0.0	-0.6	0.1	0.2	-0.2	0.0	0.8	0.8	0.6	0.5	0.5	0.3	0.3	0.4	-0.5	0.1	0.0	0.5	0.5
Inventory Change	30.3	27.5	-4.3	70.5	56.9	41.4	34.1	36.5	32.0	37.0	40.5	43.0	44.0	44.5	45.0	45.0	50.9	31.0	42.2	38.1	44.6
Pct. Point Contribution to GDP	-0.5	0.0	-1.1	2.5	-0.4	-0.5	-0.1	0.1	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	1.5	-0.2	0.1	0.0	0.0
Nominal GDP	2.2	5.2	4.3	4.2	4.2	2.8	5.0	3.3	2.8	4.0	4.0	4.2	4.4	4.3	4.5	4.7	3.8	4.0	4.0	3.6	4.3
Real Final Sales	0.6	2.4	2.4	1.5	2.4	1.7	2.1	1.7	1.1	2.0	2.1	2.1	2.2	2.2	2.2	2.5	0.9	2.0	2.0	1.7	2.2
Retail Sales (b)	7.9	8.1	8.6	7.4	6.6	4.7	4.8	4.5	3.4	4.5	4.1	3.4	3.8	4.1	4.3	4.5	5.5	8.0	5.1	3.8	4.2
Inflation Indicators (b)																					
PCE Deflator	1.8	2.6	2.8	2.5	2.4	1.6	1.5	1.8	1.5	1.7	1.6	1.5	1.7	1.8	1.9	2.0	1.9	2.4	1.8	1.6	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.8	1.9	1.7	2.3	2.2	2.7	2.7	2.3	2.3	2.2	2.1	2.1	1.6	3.1	2.2	2.5	2.2
"Core" Consumer Price Index	1.1	1.5	1.9	2.2	2.2	2.3	2.0	1.9	1.8	1.6	1.7	1.9	2.0	2.0	2.0	2.0	1.0	1.7	2.1	1.8	2.0
Producer Price Index	4.8	6.6	7.0	5.5	3.5	1.1	1.6	3.2	3.3	4.8	3.9	2.5	2.5	2.6	2.7	2.7	4.2	6.0	2.3	3.6	2.6
Employment Cost Index	2.0	2.2	2.0	2.0	1.9	1.7	2.0	2.0	2.1	2.0	2.0	2.0	2.2	2.1	2.0	2.1	1.3	2.6	1.9	2.0	2.1
Real Disposable Income (a)	4.4	-1.5	-1.3	-0.2	3.7	3.1	0.8	0.6	-1.8	2.7	1.6	1.7	1.8	1.9	2.1	2.1	1.8	1.3	1.3	0.8	1.9
Nominal Personal Income (b)	6.3	5.3	4.7	4.1	2.9	3.2	3.6	4.1	2.4	2.1	2.3	2.6	3.5	3.5	3.5	3.3	3.8	5.1	3.5	2.3	3.4
Industrial Production (a)	4.4	1.2	5.6	5.1	5.9	2.6	-0.4	0.5	0.7	3.5	4.1	4.1	3.3	3.9	4.1	4.1	5.4	4.1	3.6	1.8	3.8
Capacity Utilization	76.2	76.3	77.1	77.9	78.7	78.9	78.5	78.7	78.8	79.1	79.4	79.5	79.6	79.8	80.0	80.2	73.7	76.8	78.7	79.2	79.9
Corporate Profits Before Taxes (b)	4.6	10.8	4.7	9.2	10.3	6.7	5.7	5.3	4.8	5.2	5.7	6.3	6.7	6.8	7.0	7.3	26.8	7.3	6.9	5.5	7.0
Corporate Profits After Taxes	2.1	11.0	7.8	14.5	9.2	4.4	5.0	5.0	4.2	4.7	5.2	5.8	6.1	6.3	6.5	6.7	23.9	8.9	5.8	5.0	6.4
Federal Budget Balance (c)	-460.5	-141.1	-326.3	-321.7	-457.2	-125.3	-185.1	-350.0	-265.0	-195.0	-240.0	-205.0	-260.0	-195.0	-240.0	-205.0	-1294.2	-1296.8	-1089.4	-1050.0	-900.0
Current Account Balance (d)	-120.0	-119.1	-108.2	-118.7	-133.6	-117.4	-115.0	-125.0	-130.0	-130.0	-130.0	-135.0	-135.0	-130.0	-130.0	-130.0	-442.0	-465.9	-491.0	-525.0	-525.0
Trade Weighted Dollar Index (e)	70.5	69.2	72.8	73.3	72.7	74.5	72.7	73.0	74.0	75.0	76.0	77.0	76.0	75.0	74.0	73.0	75.4	70.9	73.2	75.5	74.5
Nonfarm Payroll Change (f)	192.0	129.7	127.7	164.0	225.7	66.7	173.7	143.7	120.0	130.0	145.0	150.0	155.0	160.0	165.0	170.0	85.6	153.3	152.4	136.3	162.5
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.2	8.1	7.8	7.7	7.8	7.9	7.9	7.8	7.7	7.6	7.5	9.6	9.0	8.1	7.8	7.7
Housing Starts (g)	0.58	0.57	0.61	0.68	0.71	0.74	0.79	0.84	0.90	0.96	1.02	1.08	1.12	1.15	1.20	1.23	0.59	0.61	0.77	0.99	1.17
Light Vehicle Sales (h)	12.7	12.2	12.6	13.5	14.1	14.1	14.5	14.3	13.9	14.0	14.2	14.5	14.6	14.8	14.9	15.0	11.6	12.7	14.2	14.2	14.8
Crude Oil - Brent - Front Contract (	105.21	116.88	111.79	108.43	118.12	108.68	109.03	109.67	109.00	111.00	113.00	114.00	109.00	111.00	113.00	115.00	80.47	110.58	111.38	111.8	112.0
Quarter-End Interest Rates (j)																					
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	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 Month LIBOR	0.30	0.25	0.37	0.58	0.47	0.46	0.36	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.34	0.34	0.40	0.30	0.30
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Conventional Mortgage Rate	4.84	4.51	4.11	3.96	3.95	3.68	3.50	3.40	3.40	3.40	3.45	3.50	3.60	3.70	3.90	4.00	4.69	4.46	3.63	3.44	3.80
3 Month Bill	0.09	0.03	0.02	0.02	0.07	0.09	0.10	0.08	0.10	0.15	0.20	0.25	0.30	0.30	0.35	0.35	0.14	0.05	0.09	0.18	0.33
2 Year Note	0.80	0.45	0.25	0.25	0.33	0.33	0.23	0.20	0.25	0.30	0.40	0.50	0.60	0.70	0.80	0.90	0.70	0.45	0.27	0.36	0.75
5 Year Note	2.24	1.76	0.96	0.83	1.04	0.72	0.62	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.93	1.52	0.77	0.85	1.25
10 Year Note	3.47	3.18	1.92	1.89	2.23	1.67	1.65	1.70	1.70	1.80	1.85	1.90	2.00	2.10	2.20	2.30	3.22	2.78	1.81	1.81	2.15
30 Year Bond	4.51	4.38	2.90	2.89	3.35	2.76	2.82	2.80	2.80	2.85	2.85	2.90	3.00	3.10	3.30	3.40	4.25	3.91	2.93	2.85	3.20

Forecast as of: November 8, 2012

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Yr.
(d) Quarterly Sum - Billions USD
(e) Federal Reserve Major Currency Index, 1973=100 - Quarter En
(f) Average Monthly Change
(g) Millions of Units
(h) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(i) Quarterly Average of Daily Close
(j) Annual Numbers Represent Averages

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

Global Growth Outlook: Still Weak but Less Risky

Since the IMF began compiling global GDP in 1970, the average growth rate per annum is 3.6 percent. We have certainly seen a number of market cycles during that period. In the United States alone, we have experienced seven recessions since 1970. However, only once in that more than 30-year period have we seen the global economy shrink for the full calendar year. Typically, slow growth or recession in one country is offset by a faster pace of growth in another economy. The exception was in 2009 when the fires of the U.S. credit crunch the previous autumn spread to the rest of the world, and the financial crisis hobbled the global economy. The drop in annual global growth that year was 0.6 percent.

The initial recovery was robust, as full year growth for 2010 and 2011 was above average. However, with 2012 almost in the books at this point, it seems likely that global growth probably cooled to about 2.7 percent, and our forecast for 2013 is another below-average growth rate of about 2.9 percent.

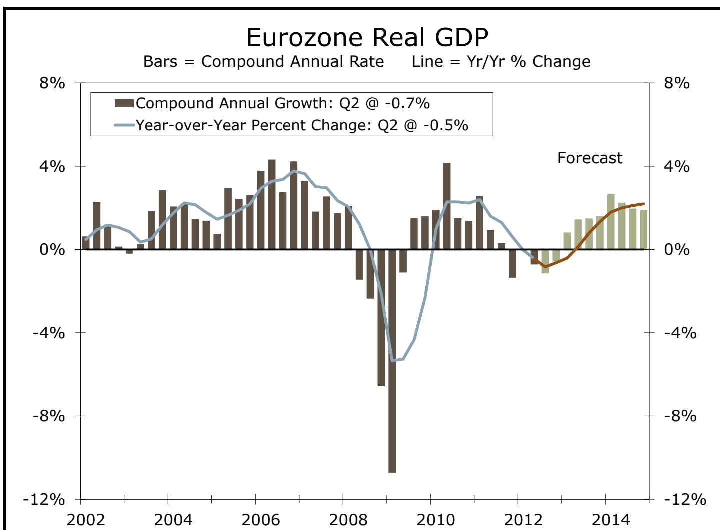
In the past few years, we have highlighted a number of headwinds for global economic growth including, but not limited to: the ongoing sovereign debt crisis in Europe, a slower pace of growth in China and a "new normal" slow-growth outlook for the U.S. economy. On the surface, our global outlook is little changed from last month, but it bears noting at this point that there has been some improvement in these risk factors.

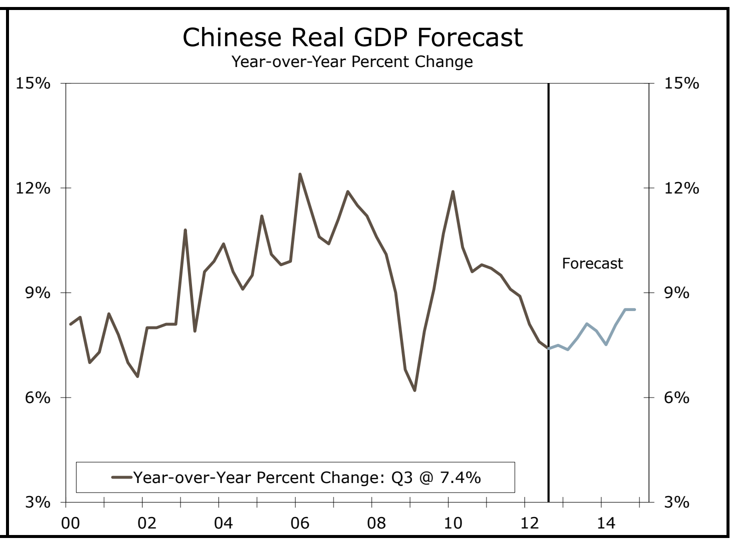
In Europe, the European Central Bank (ECB) has rolled out the framework by which it could provide direct financing to troubled Eurozone-member economies by purchasing the sovereign bonds of these economies in the secondary market. In order to be eligible, the member state in question must formally request the assistance of the ECB. So far, Spain (one of the main targets for this program) has yet to request assistance. The reticence may be attributable to the fact that such a request would "look bad," and Spain faces regional elections later in November. Spanish 10-year bond yields remain below 6 percent, so emergency funding is not necessary at this point. The bottom line here is that the threat of another financial crisis spawned by defaults in Europe seems less of a threat today than it did six months ago.

Chinese economic growth slowed in the third quarter, but it appears that growth in the world's second-largest economy is stabilizing. Although growth in China may be bottoming out, we do not look for significant acceleration in economic activity anytime soon. We project this year's growth rate will come in at 7.6 percent, which would be the slowest annual rate of real GDP growth since 2001, and we forecast that the economy will grow 7.8 percent next year. While growth rates of less than 8 percent are a far cry from the double-digit rates that were commonplace in the previous decade, the risk of a more substantial slowdown in China appear to be abating.

With three consecutive years of positive GDP growth, the U.S. economy today is larger than its pre-recession level. While 2 percent seems to be the speed limit for U.S. growth, consumers and businesses are better capitalized than a few years ago, and the Fed is committed to keeping policy extraordinarily accommodative. As we point out in the U.S. Outlook section of this report, as we get past the political wrangling related to the fiscal cliff, we might finally have some tailwinds rather than headwinds when it comes to political influences on the domestic economy.

While the global growth outlook remains subpar, it is not as though things are falling apart. On the contrary, it appears that the world's central banks have taken measures to minimize the downside risks.





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

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2012	2013	2014	2012	2013	2014
Global (PPP weights)	2.7%	2.9%	3.5%	4.2%	4.2%	4.1%
Global (Market Exchange Rates)	1.5%	1.7%	2.2%	n/a	n/a	n/a
Advanced Economies[1]	1.2%	1.3%	2.2%	2.1%	2.0%	1.9%
United States	2.1%	1.4%	2.0%	2.1%	2.4%	2.2%
Eurozone	-0.5%	0.5%	2.0%	2.5%	2.0%	2.0%
United Kingdom	0.0%	1.6%	2.2%	2.7%	2.1%	2.1%
Japan	2.2%	0.9%	1.5%	0.0%	-0.2%	0.1%
Korea	2.3%	3.2%	4.3%	2.3%	2.4%	2.4%
Canada	1.9%	2.0%	2.8%	1.6%	1.8%	0.9%
Developing Economies[1]	4.4%	4.8%	5.2%	6.7%	6.7%	6.7%
China	7.6%	7.8%	8.2%	2.7%	2.5%	2.8%
India	5.6%	6.2%	6.5%	9.3%	8.5%	8.4%
Mexico	3.8%	3.4%	4.1%	4.1%	4.3%	4.2%
Brazil	1.1%	2.9%	3.3%	5.4%	5.9%	5.9%
Russia	3.3%	3.5%	3.7%	5.1%	6.2%	5.5%

Forecast as of: November 8, 2012

[1]Aggregated Using PPP Weights

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR						10-Year Bond					
	2012	2013				2014	2012	2013				2014
	Q4	Q1	Q2	Q3	Q4	Q1	Q4	Q1	Q2	Q3	Q4	Q1
U.S.	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	1.60%	1.65%	1.70%	1.75%	1.80%	1.90%
Japan	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.85%	0.90%	0.95%	1.00%	1.05%	1.10%
Euroland*	0.15%	0.15%	0.15%	0.20%	0.30%	0.50%	1.50%	1.65%	1.80%	2.00%	2.20%	2.40%
U.K.	0.55%	0.55%	0.55%	0.55%	0.55%	0.60%	1.80%	2.00%	2.20%	2.30%	2.50%	2.80%
Canada	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	1.85%	2.10%	2.40%	2.75%	3.00%	3.30%

Forecast as of: November 8, 2012

*10-year German Government Bond Yield

Source: IHS Global Insight and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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