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U.S. Economic Outlook

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Together we'll go far



Overall Outlook

- **U.S growth remains solid but unspectacular. Hiring is improving but wage growth is lacking and there are still huge pockets of underemployment.**
-

Monetary Policy

- **The Fed is poised to raise interest rates later this year but monetary policy will remain expansionary for quite some time. We expect the Fed to move cautiously.**
-

Inflation

- **Slowing growth in China is pulling commodity prices lower and will likely restrain consumer prices as well. Lower inflation will hold down long-term interest rates.**
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Fiscal Policy

- **The drag from government spending cuts is lessening in the US and major decisions need to be made soon on the highway bill, corporate tax rates and federal budget.**
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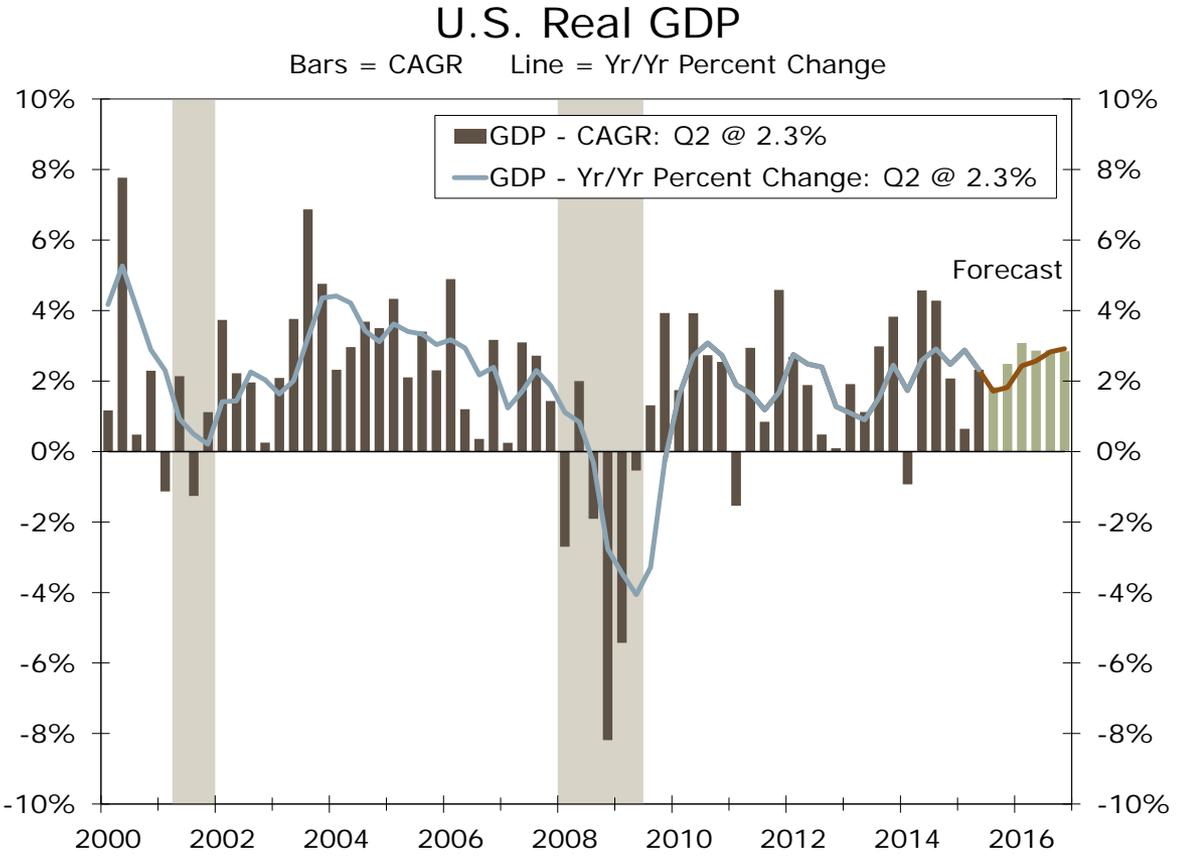
Global Economy

- **Slower growth in China is weighing on growth in other emerging economies, pushing up the value of the dollar and slowing U.S. exports.**

Overall Growth

Revisions to previously published data slightly boosted estimates of economic growth for the first half of 2015 but lowered economic growth over the past three years.

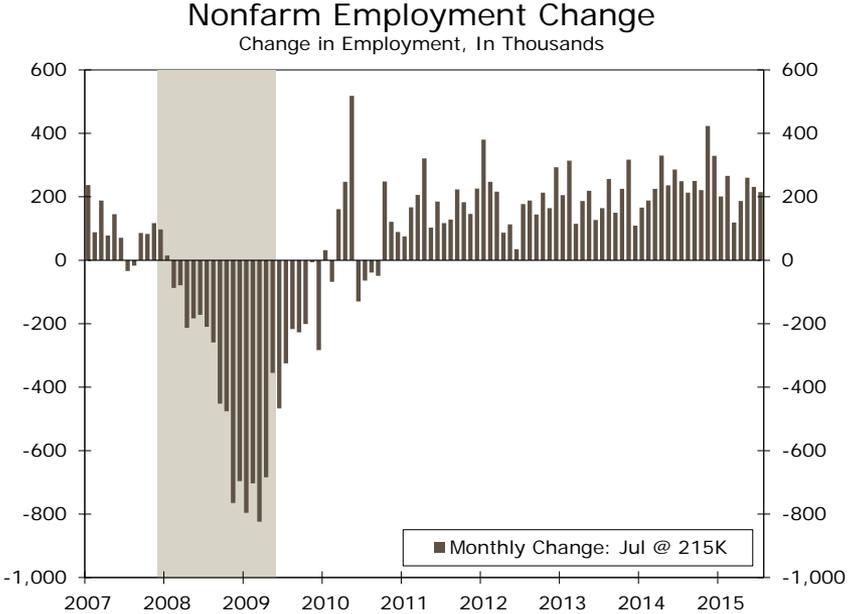
We look for real GDP growth to strengthen modestly over the next six quarters, with the improvement driven by stronger gains in consumer spending, homebuilding and commercial construction.



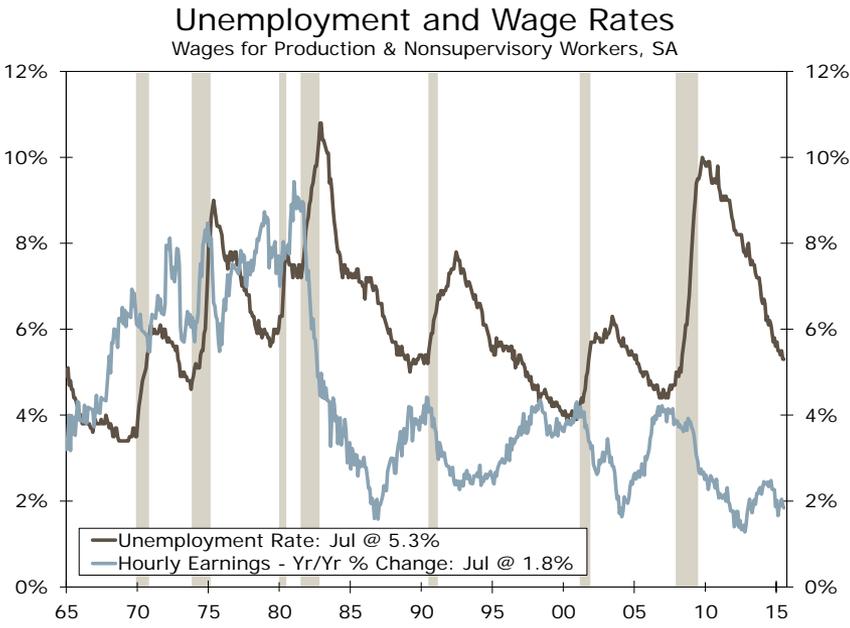
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The labor market has improved considerably over the past five years, but wage increases are suspiciously absent and the labor force participation rate remains exceptionally low.

Nonfarm Employment



Unemployment Rate

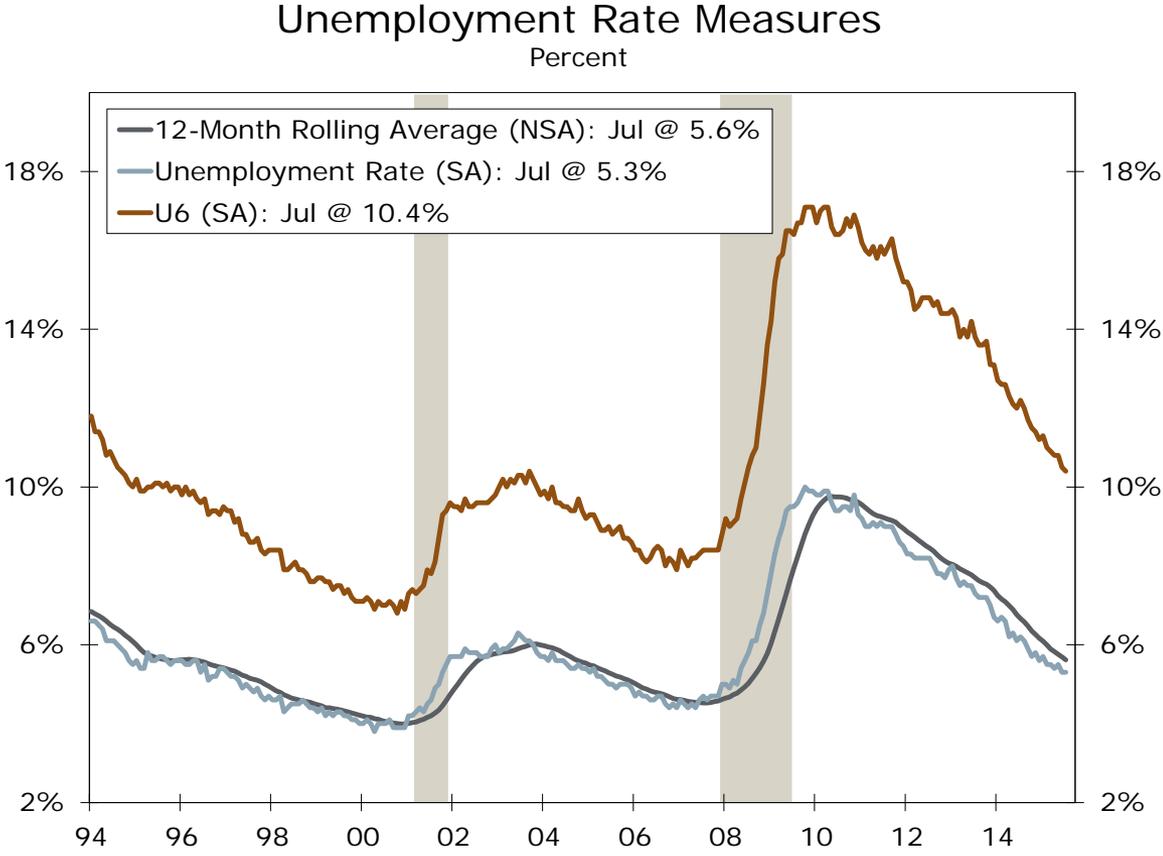


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The unemployment rate is slowly but steadily improving.

The broader U6 unemployment rate has done a better job of capturing the excess slack in the labor market in this recovery.

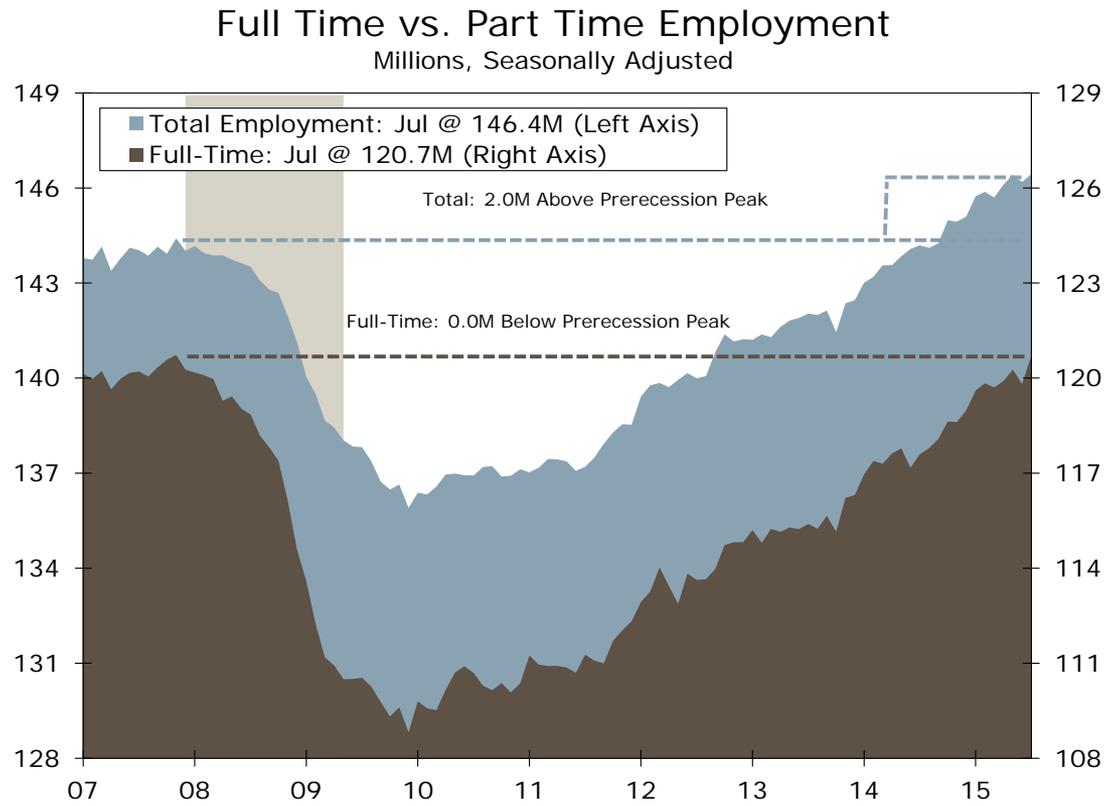
U6 improved relative to the overall unemployment rate during the past year, suggesting that some of the headwinds in the labor market are lessening



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

Full-time employment has only recently risen back to its previous peak.

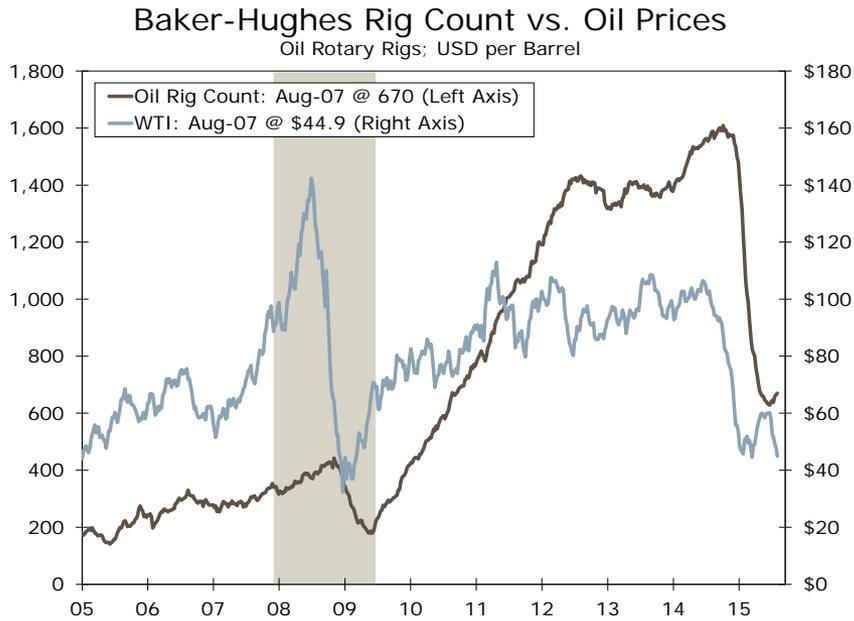
Full-time jobs have been rising more rapidly over the past year and more part-time workers are seeing their hours increase.



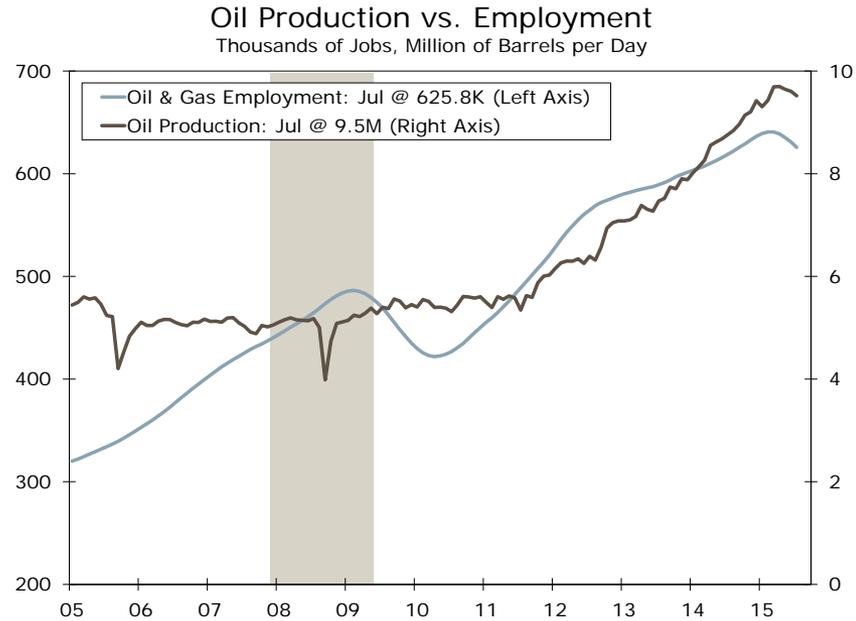
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Oil prices collapsed in late 2014 and early 2015. The number of active oil rigs has subsequently fallen sharply. While there are some tentative signs that the rig count has bottomed, another slide in energy prices and another downturn in the rig count cannot be ruled out.

WTI



Production & Employment

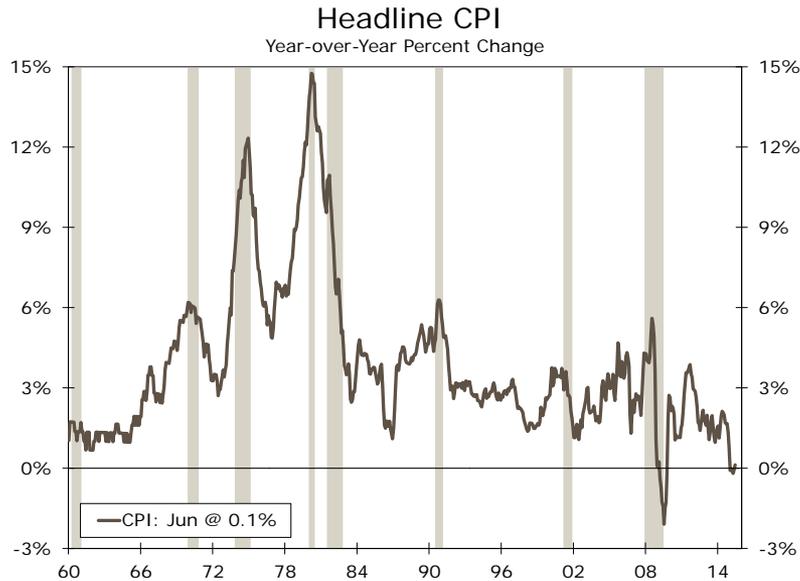


Source: IHS Global Insight, Baker-Hughes, U.S. Department of Energy, U.S. Department of Labor and Wells Fargo Securities, LLC

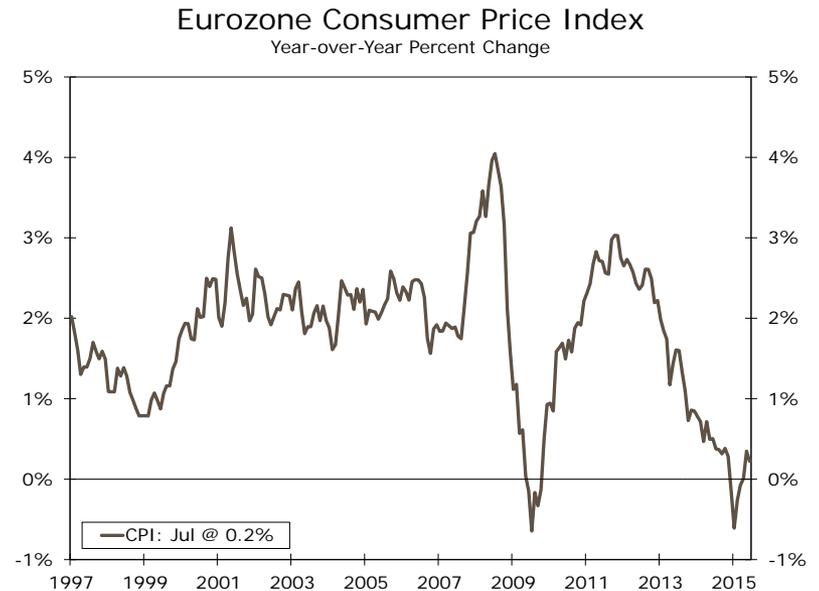
Inflation and Interest Rates

Global disinflation has led more aggressive easing moves by the ECB and BOJ. We expect the Fed to look through this transitory slowdown, however, and raise the federal funds rate.

U.S. CPI



Eurozone CPI

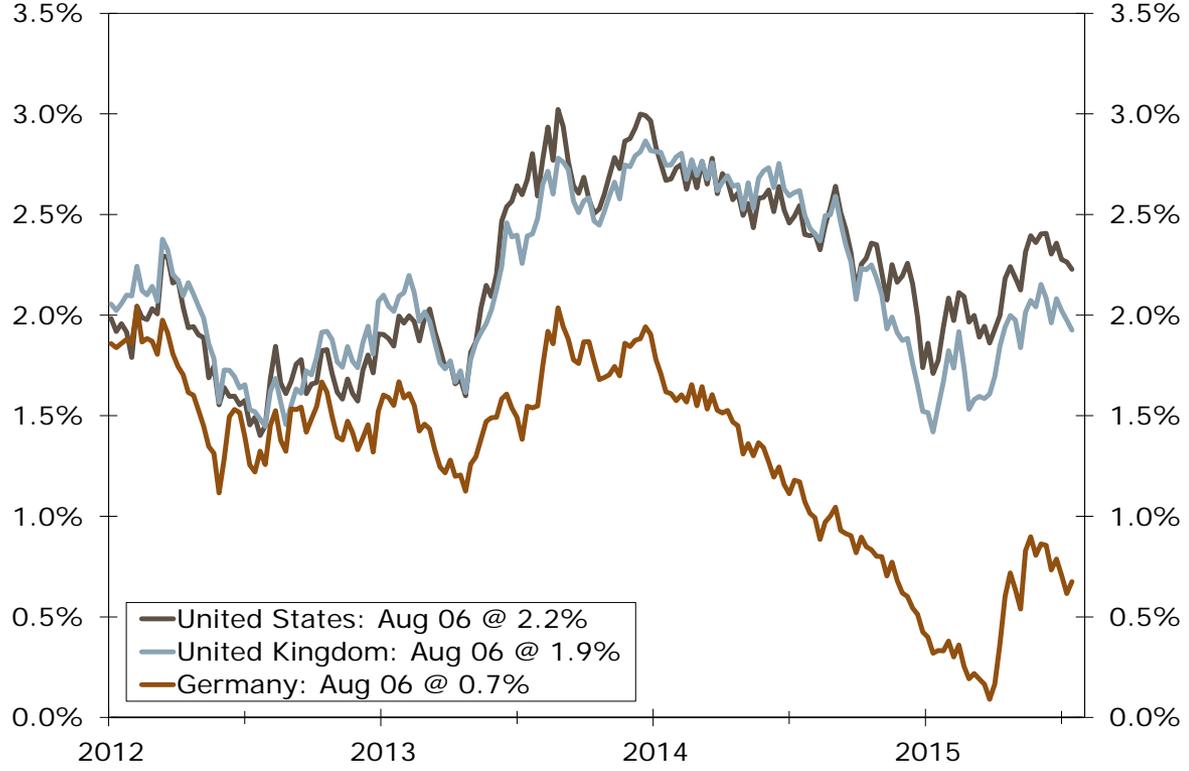


Source: U.S. Department of Labor, IHS Global Insight and Wells Fargo Securities, LLC

U.S. yields have tended to follow Eurozone yields. The bounce back from earlier lows reflects greater comfort with the growth and inflation outlooks. The latest iteration of the Greek crisis led to only a modest pullback in yields but growth and inflation prospects have been scaled back a bit.

10-Year Government Bond Yields

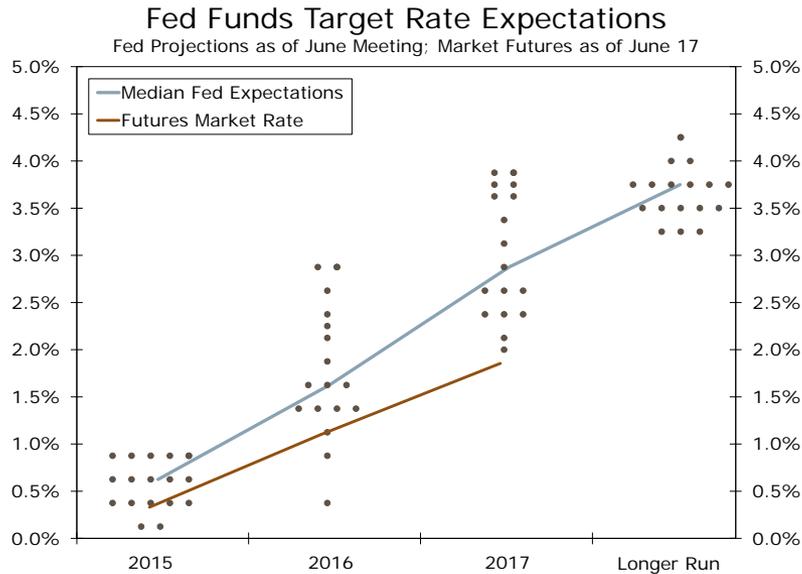
Percent



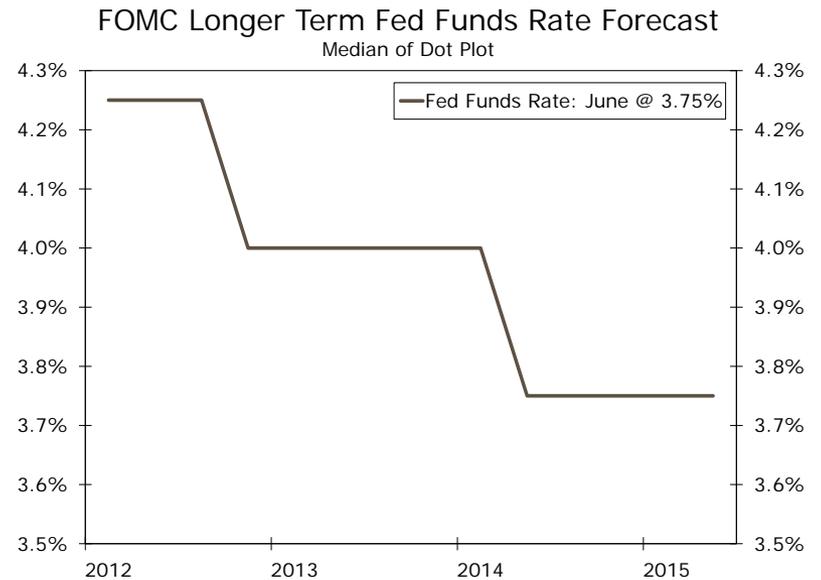
Source: IHS Global Insight and Wells Fargo Securities, LLC

The FOMC is slightly more optimistic about the economy's near-term prospects than the financial markets but has consistently expressed caution about long-term growth prospects.

Fed's Dot Plot



Long Term Forecast

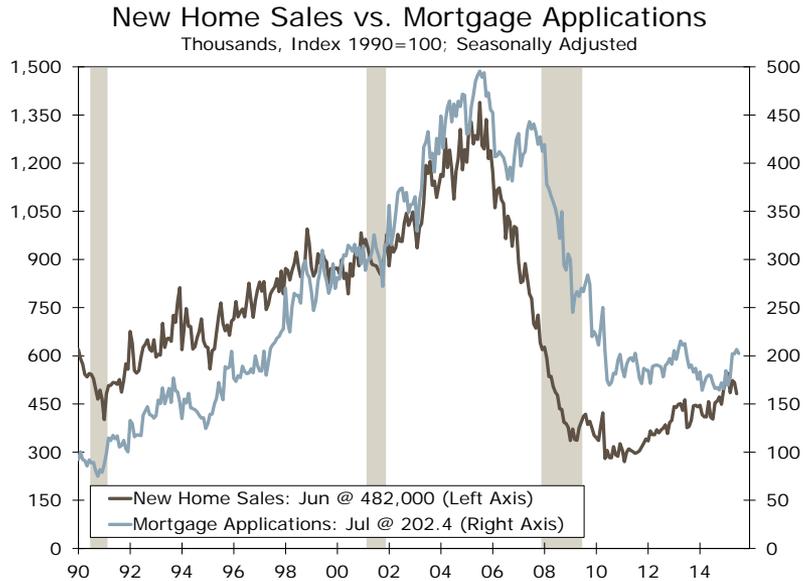


Source: Federal Reserve Board and Wells Fargo Securities, LLC

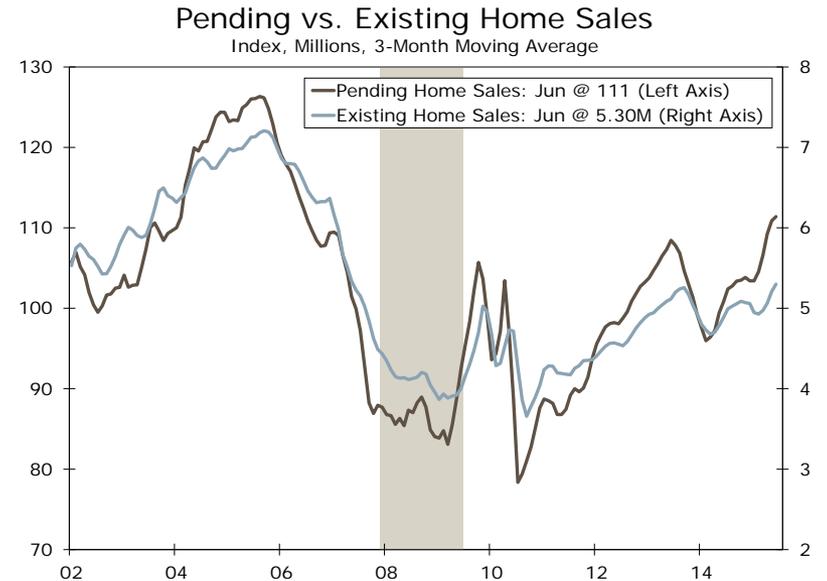
Housing

Mortgage purchase applications and pending home sales both point to further strengthening in new and existing home sales. Most other leading indicators also remain positive.

New Home Sales



Existing Home Sales



Source: U.S. Department of Commerce, MBA, National Association of Realtors and Wells Fargo Securities, LLC

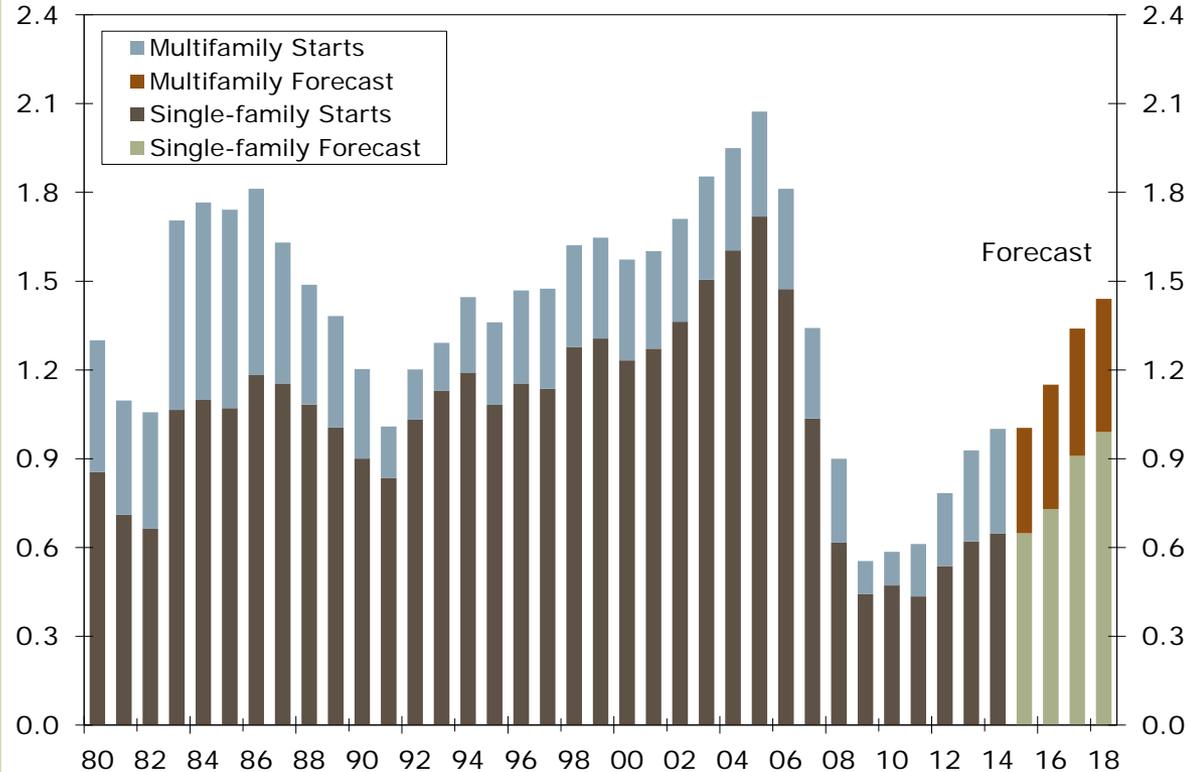
We continue to look for a gradual recovery in homebuilding.

Apartment demand remains exceptionally strong but supply is catching up with demand.

Single-family housing starts are beginning to ramp back up. Gains will be more modest than in past building cycles.

Housing Starts

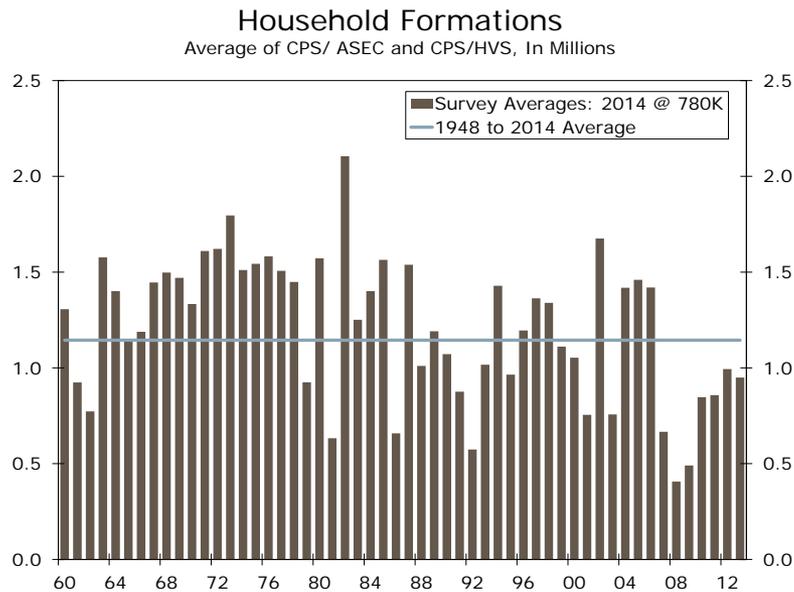
Millions of Units



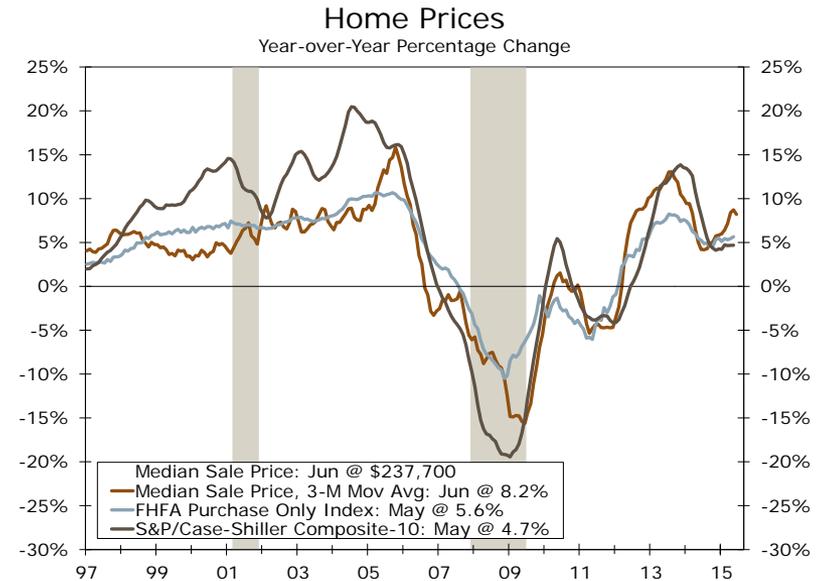
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Household formations have picked up in a significant way in recent quarters, likely reflecting improving labor market conditions. Stronger demand and tight inventories are resulting in higher home prices, at least as measured by median sales prices.

Household Formation



Home Prices



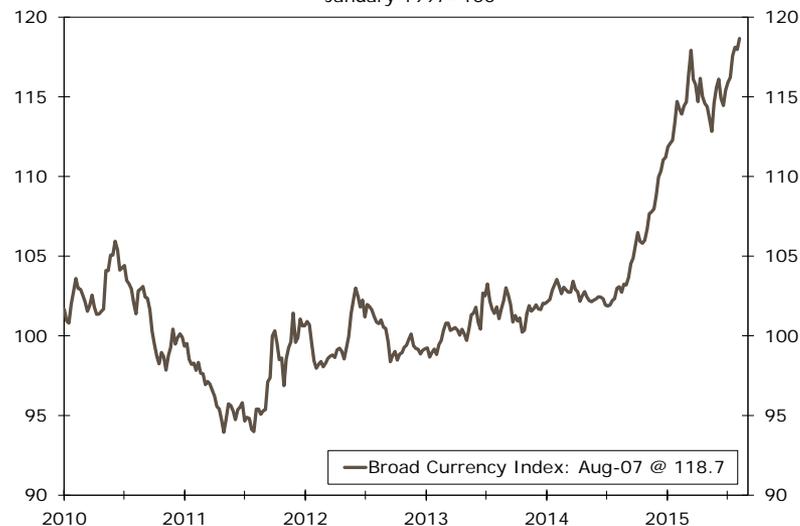
Source: U.S. Department of Commerce, National Association of Realtors, S&P and Wells Fargo Securities, LLC

Stronger Dollar & Global Markets

The dollar has appreciated versus most of our largest trading partners over the past year. That said, dollar appreciation has varied significantly by country.

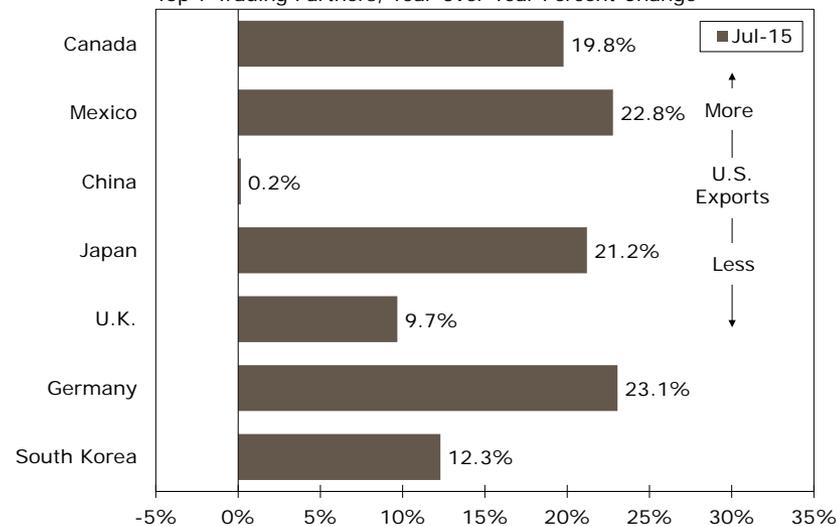
Dollar Appreciation

U.S. Trade Weighted Dollar Index
January 1997=100



Export Destinations

U.S. Dollar Appreciation vs. Top Export Destinations
Top 7 Trading Partners, Year-over-Year Percent Change

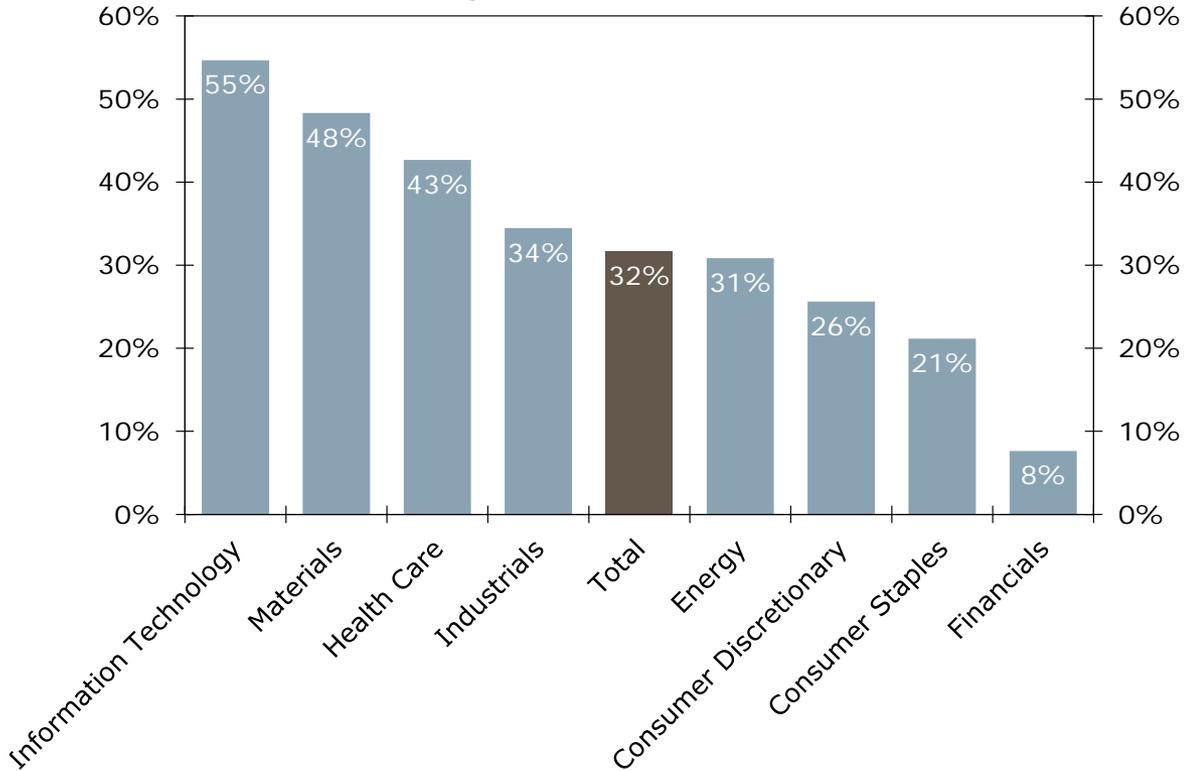


Source: Bloomberg LP, Federal Reserve Board and Wells Fargo Securities, LLC

IT and Materials earn the highest share of their revenues abroad, making those industries the most at risk to the stronger dollar.

Percent of S&P Revenues Earned Abroad

By Sector, June, 2015



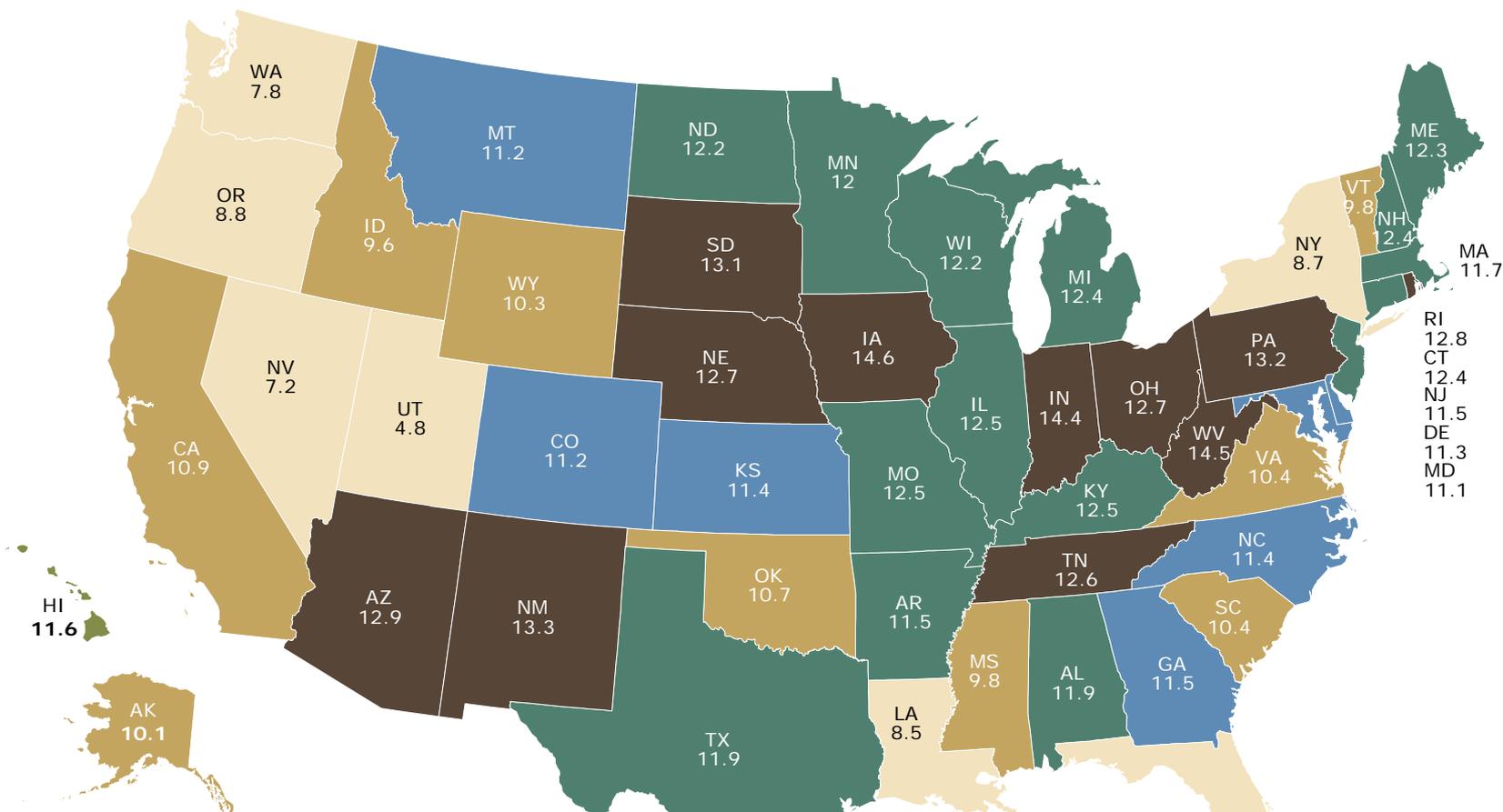
Source: Bloomberg LP and Wells Fargo Securities, LLC

Trade with China has slowed on both sides of the ledger.



Source: IHS Global Insight and Wells Fargo Securities, LLC

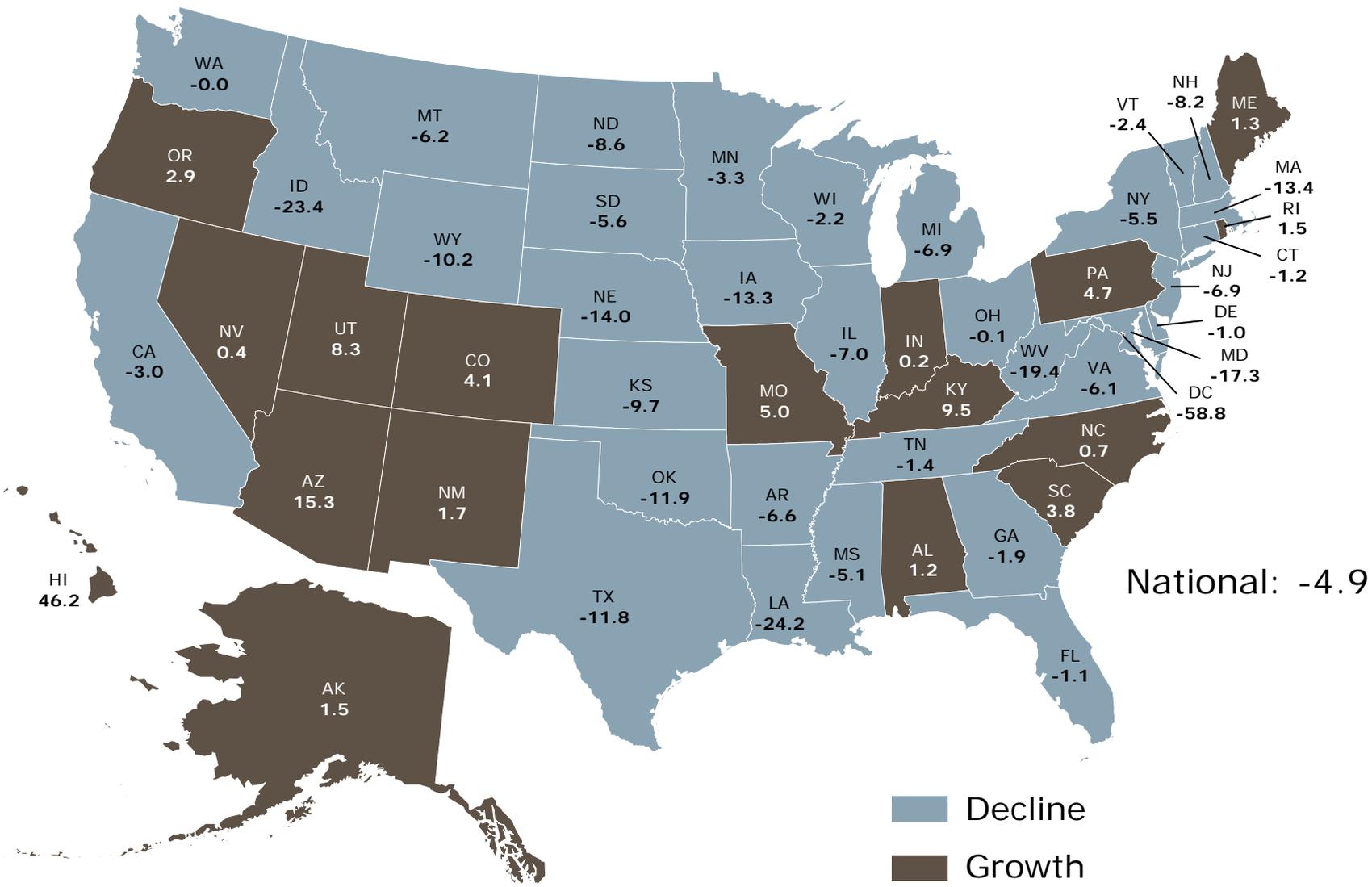
State Comparison: Percent Change In Trade-Weighted Value (June 2014 – June 2015)



Percent Change in Trade-Weighted Value Measured in US Dollars

- Less Than 9%
- 9.0-11.0%
- 11.0%-11.5%
- 11.5%-12.5%
- Greater Than 12.5%

State Exports: Percent Change in Exports (June 2015 YTD vs June 2014 YTD)

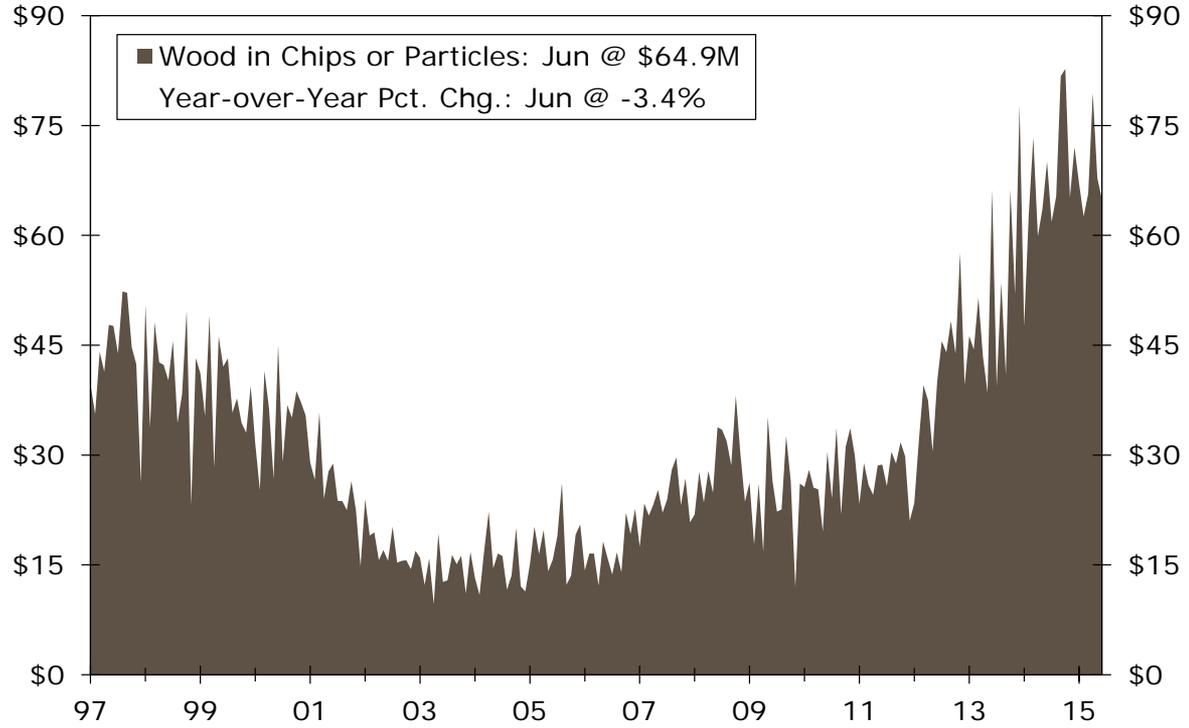


Source: U.S. Census Bureau and Wells Fargo Securities, LLC

After a long run up, global exports in wood chips have slowed.

U.S. Wood Chip Exports

Millions of Dollars

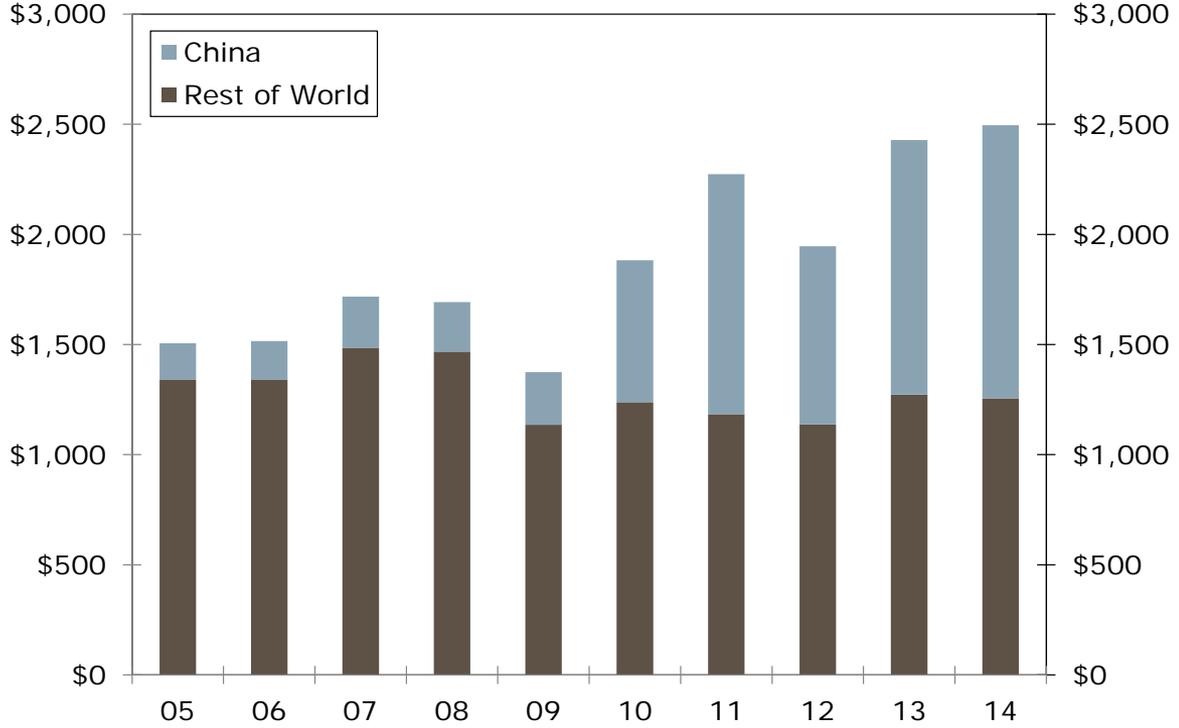


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

China has accounted for most of the growth in exports of timber and logs over the past decade.

Offshore Timber & Log Exports

In Millions of Dollars

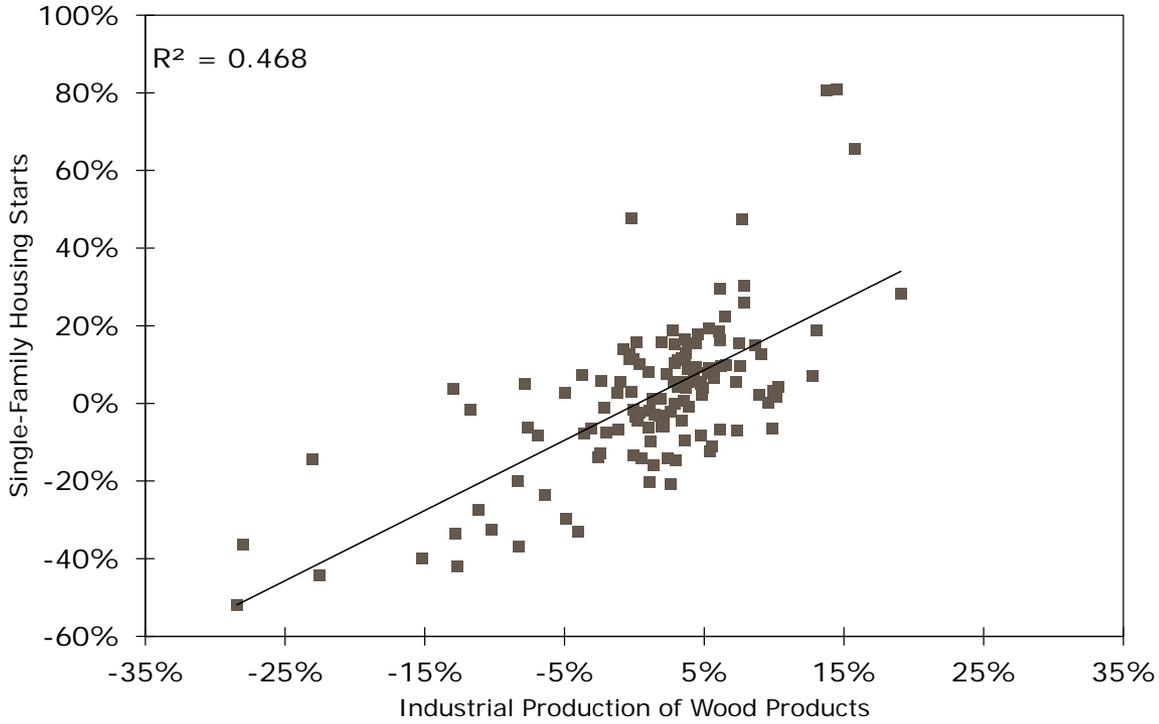


Source: International Trade Administration and Wells Fargo Securities, LLC

Production of lumber and wood products is strong correlated with single-family homebuilding.

Single-Family Starts vs. IP Wood Products

Year-over-Year Percent Change (1983 - 2014)



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

Economic Outlook

- **The economy should weather the recent slide in oil prices and turmoil in Europe. Look for real GDP to rise 2.1 percent in 2015 and 2.5 percent in 2016.**

Weaker Global Growth is Weighing on Commodity Prices

- **The stronger gains seen in Europe earlier this year will likely give way as efforts to deal with the Greek debt crisis move forward. China's economy also appears to be slowing and will weigh further on commodity prices.**

Interest Rates Will Rise This Year

- **We still look for the Fed to raise the federal funds rate this fall but the pace and ultimate magnitude of rate hikes now looks to be less than previously thought.**

The Housing Recovery Will Gain Momentum

- **Demand for single-family homes is reviving, with first-time homebuyers finally coming back into the market. Apartment construction is close to peaking.**

Forest Products

- **Demand for forest products should improve, as the housing recovery gains momentum. The stronger dollar is likely to create a bit of a headwind, however.**

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	-0.9	4.6	4.3	2.1	0.6	2.3	1.6	2.3	2.2	1.5	2.4	2.1	2.5
Personal Consumption	1.3	3.8	3.5	4.3	1.8	2.9	3.0	3.0	1.5	1.7	2.7	3.0	2.8
Inflation Indicators ²													
PCE Deflator	1.3	1.7	1.6	1.1	0.2	0.2	0.3	0.9	1.9	1.4	1.4	0.4	1.9
Consumer Price Index	1.4	2.1	1.8	1.2	-0.1	0.0	0.3	1.0	2.1	1.5	1.6	0.3	2.1
Industrial Production ¹	3.6	5.7	3.9	4.7	-0.2	-1.7	2.3	3.1	2.8	1.9	3.7	1.8	3.0
Corporate Profits Before Taxes ²	-3.6	1.2	5.8	3.4	4.6	5.3	4.9	6.6	10.0	2.0	1.7	5.3	6.7
Trade Weighted Dollar Index ³	76.9	75.9	81.3	85.1	92.1	89.9	92.0	93.0	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	0.98	1.14	1.19	1.25	0.78	0.92	1.00	1.15	1.25
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	1.38
Conventional Mortgage Rate	4.34	4.16	4.16	3.86	3.77	3.98	4.15	4.23	3.66	3.98	4.17	4.03	4.51
10 Year Note	2.73	2.53	2.52	2.17	1.94	2.35	2.41	2.49	1.80	2.35	2.54	2.30	2.71

Forecast as of: August 12, 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

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Selected Recent Economic Reports		
Date	Title	Authors
U.S. Macro		
August-06	Wells Fargo Small Business Survey: Q3 2015	Vitner & Wolf
August-04	Case Study of the Taper Tantrum and Term Premiums	Silvia & Moehring
August-04	Presidential Elections in America: A Primer	Silvia, Quinlan & Brown
August-04	Inflation Charbook: August 2015	Bullard & House
July-30	2015 Federal Long-Term Fiscal Outlook: How Dramatically Does Policy Have to Change?	Silvia, Brown & Pugliese
U.S. Regional		
August-06	Western Economic Roundup	Vitner & Wolf
July-21	A Strong First Half For North Carolina	Vitner & Wolf
July-17	California Employment Conditions: June 2015	Vitner & Wolf
July-17	Florida's Unemployment Rate Continues to Trend Lower	Vitner & Wolf
July-17	Texas Labor Market Remains Resilient in June	Vitner & Wolf
Global Economy		
August-04	A Slightly More Upbeat RBA Keeps Rates on Hold	Quinlan
July-31	Taiwanese GDP Considerably Weaker Than Expected in Q2	Quinlan & Nelson
July-30	Stronger-Than-Expected Q2 GDP Growth in Sweden	Quinlan & Nelson
July-28	U.K. GDP Growth Bounces Back in Q2	Quinlan & Nelson
July-24	MENA: Got Oil?	Bryson, Aléman & Nelson
Interest Rates/Credit Market		
August-05	TIP: Pay Little Heed to Current TIPS Breakeven Inflation	Silvia, Vitner & House
July-29	Potential Fiscal Policy Challenges to Monetary Policy: Part II	Silvia, Vitner & Brown
July-22	Potential Fiscal Policy Challenges to Monetary Policy: Part I	Silvia, Vitner & Brown
July-15	A Closer Look at the 2-Year Treasury	Silvia, Vitner & Brown
July-08	Consumers Expect to Borrow More	Silvia, Vitner & Brown
Real Estate		
August-07	Commercial Real Estate Chartbook: Q2	Khan
July-31	Housing Chartbook: July 2015	Vitner, Khan & Batcheller
July-24	Nonresidential Construction Recap: July	Khan
June-30	Housing Data Wrap-Up: June 2015	Vitner, Khan & Moehring
June-30	Nonresidential Construction Recap: June	Khan

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