

# The U.S. Economy: “The Recovery is Underway, But It Will be Slow”

---

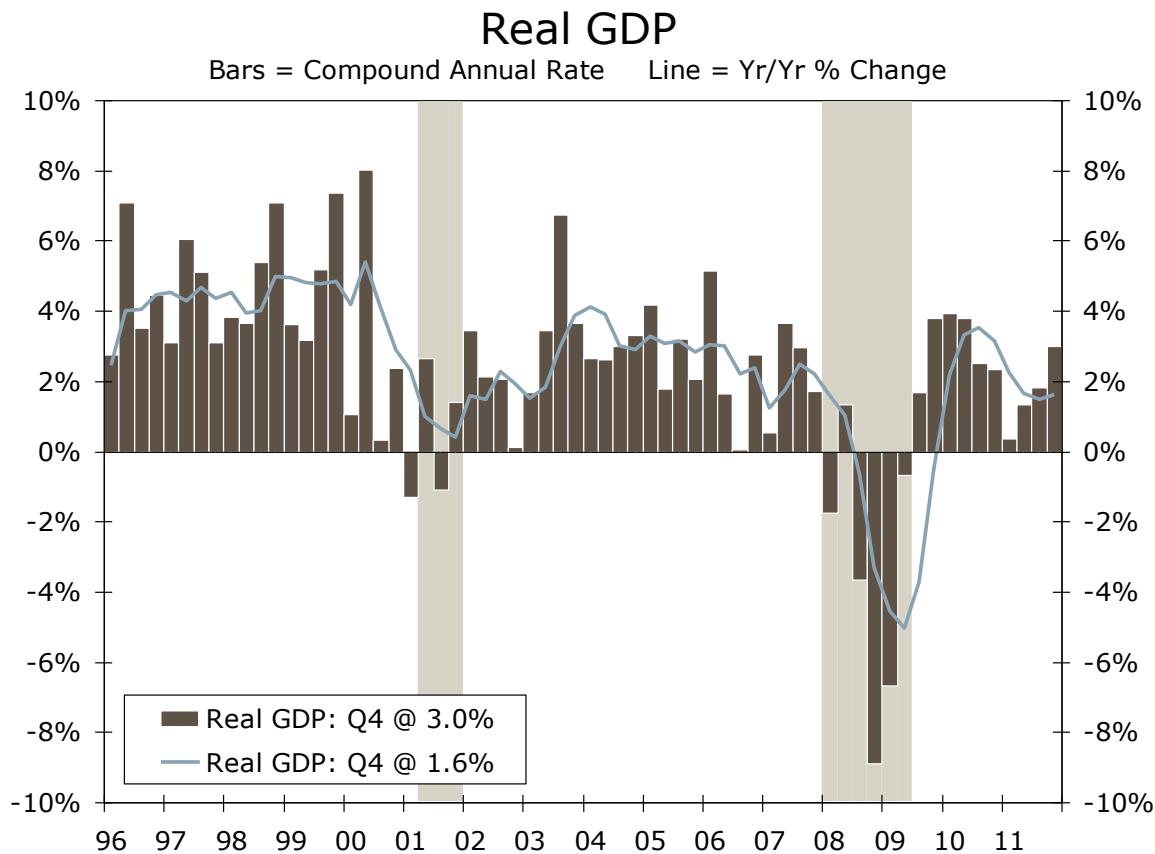
Eugenio J. Aleman, Director and Senior Economist

March 22, 2012

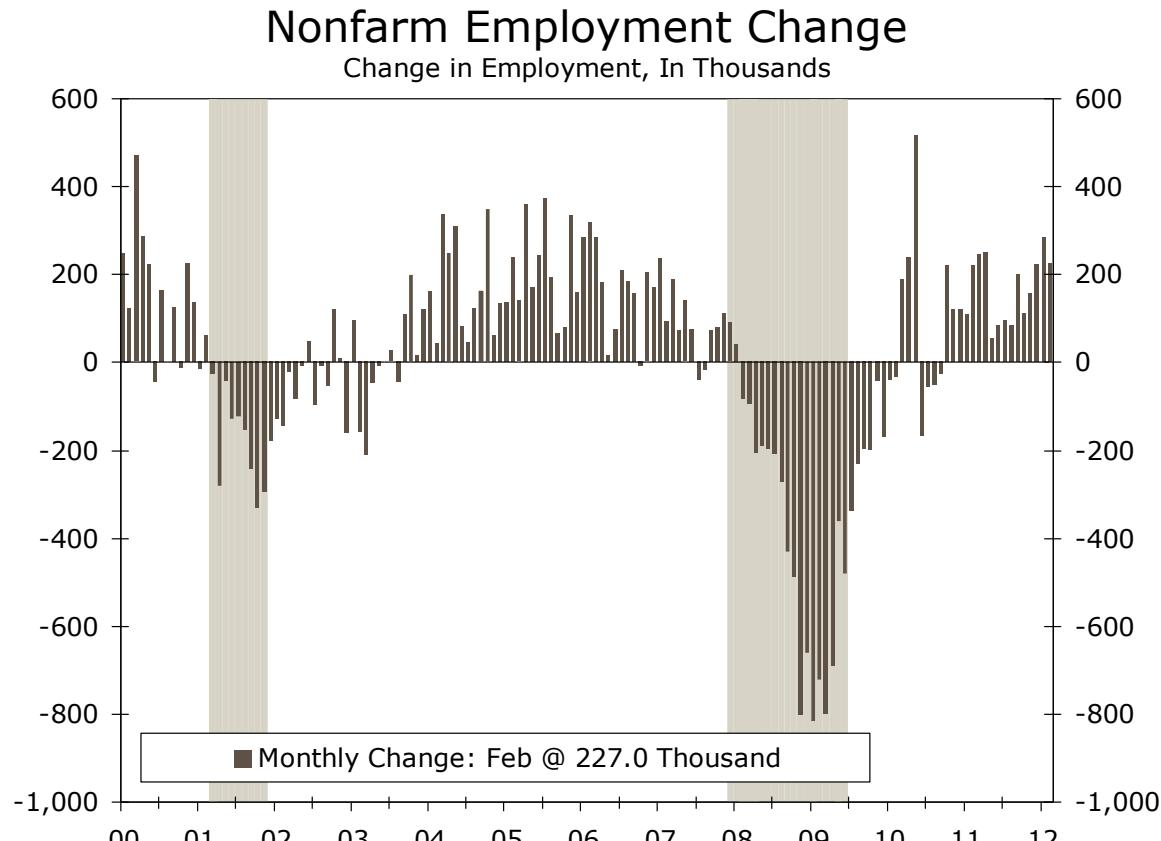
Together we'll go far



U.S. real GDP growth has strengthened but remains weak



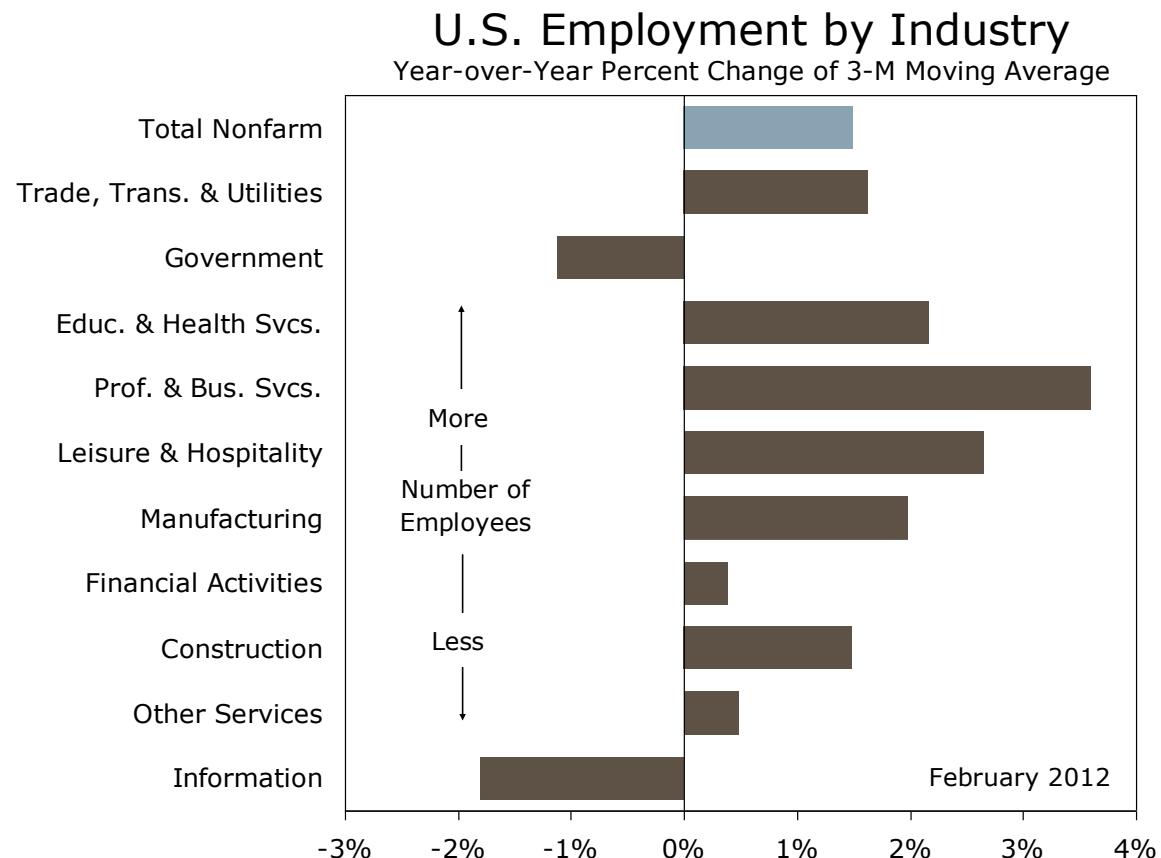
Employment has turned the corner since October of 2010



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

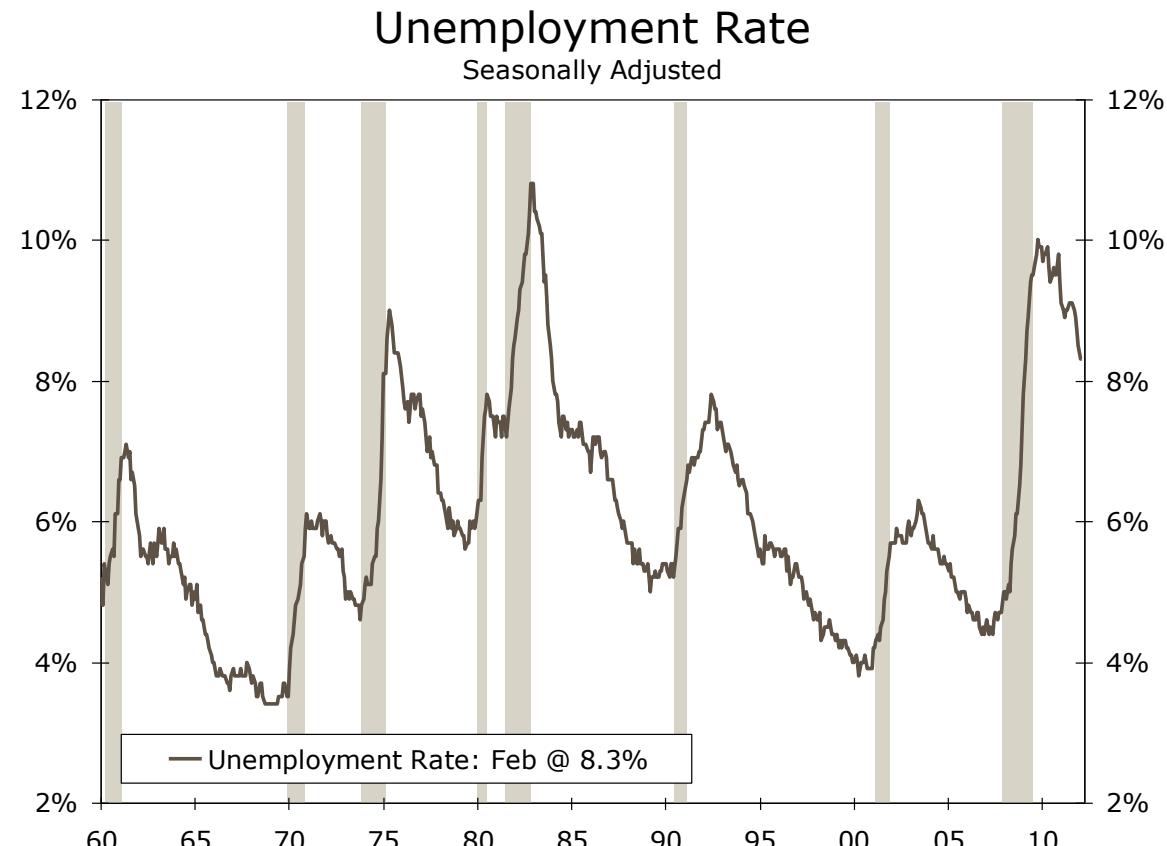
# U.S. Employment By Industry

While employment growth has been fairly broad based, the government sector has continued to struggle



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

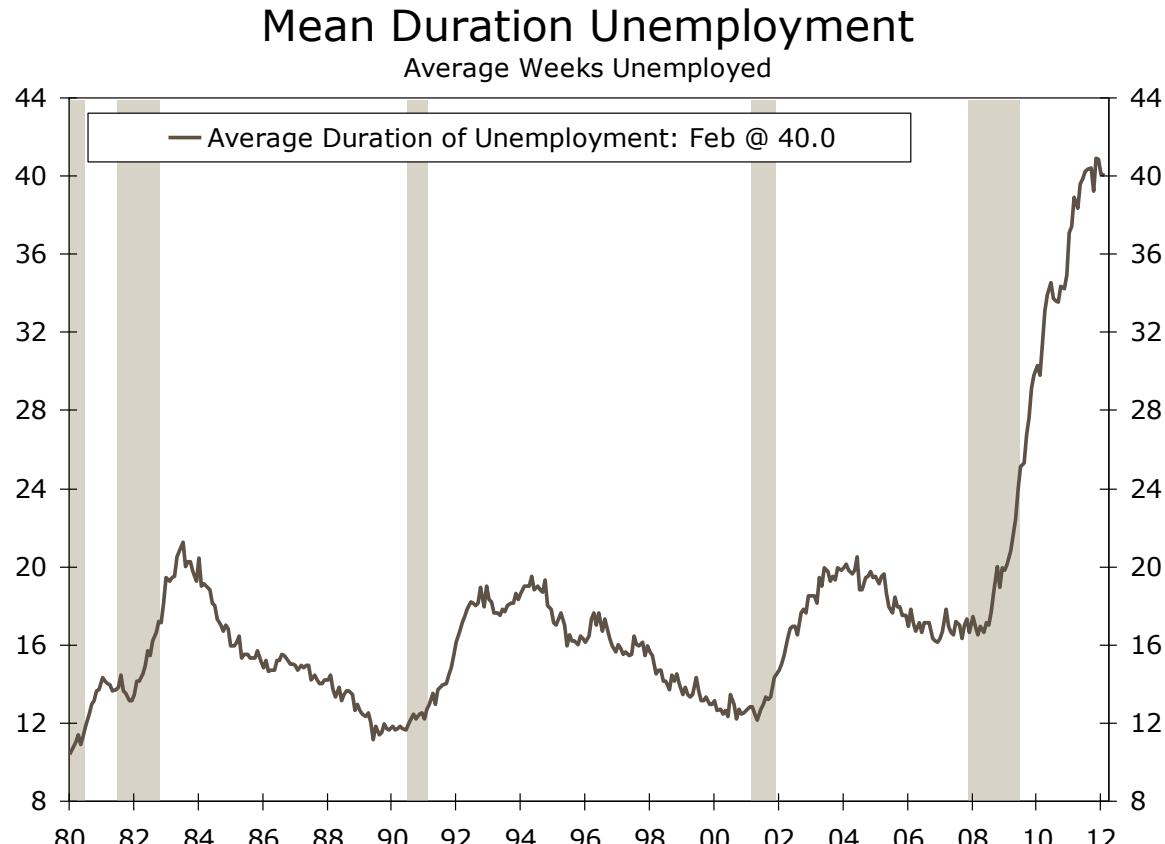
Not as high as during the 1980s recession, but more damaging



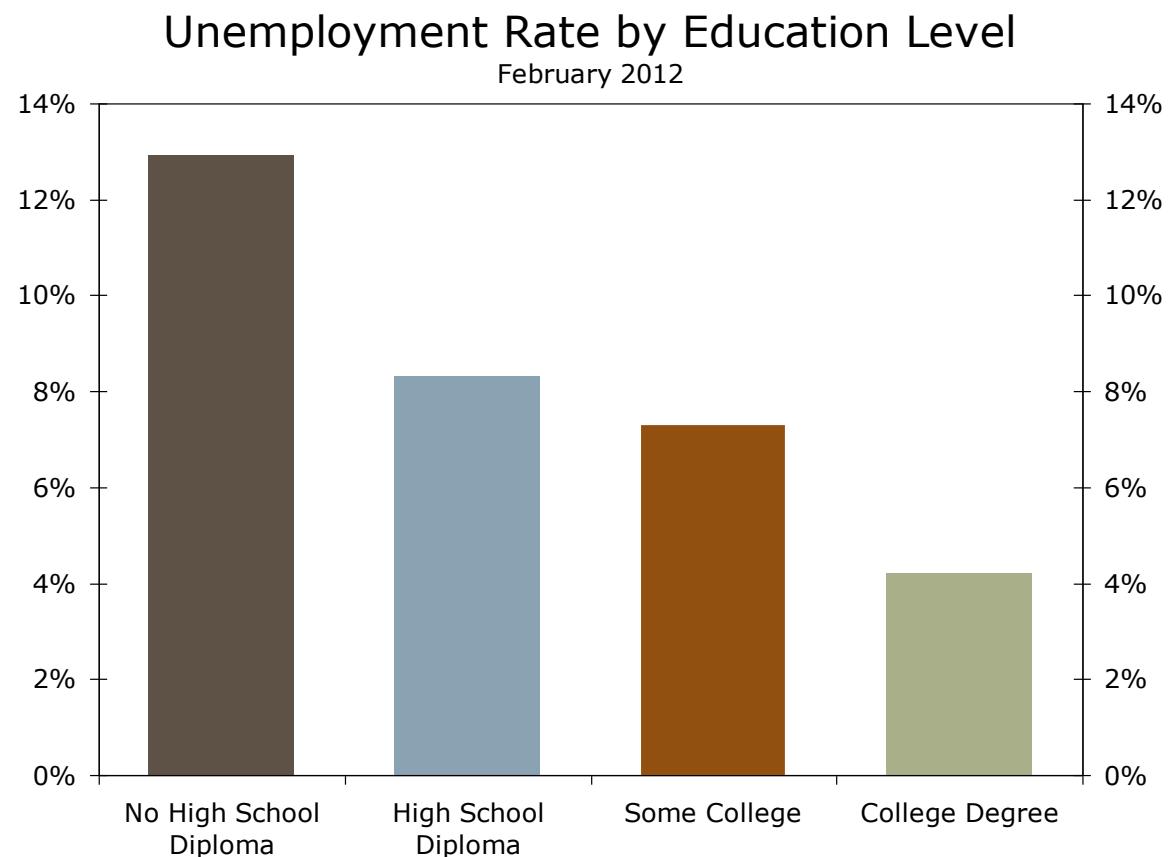
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

# Mean Duration of Unemployment

Duration of unemployment shows a struggling labor market

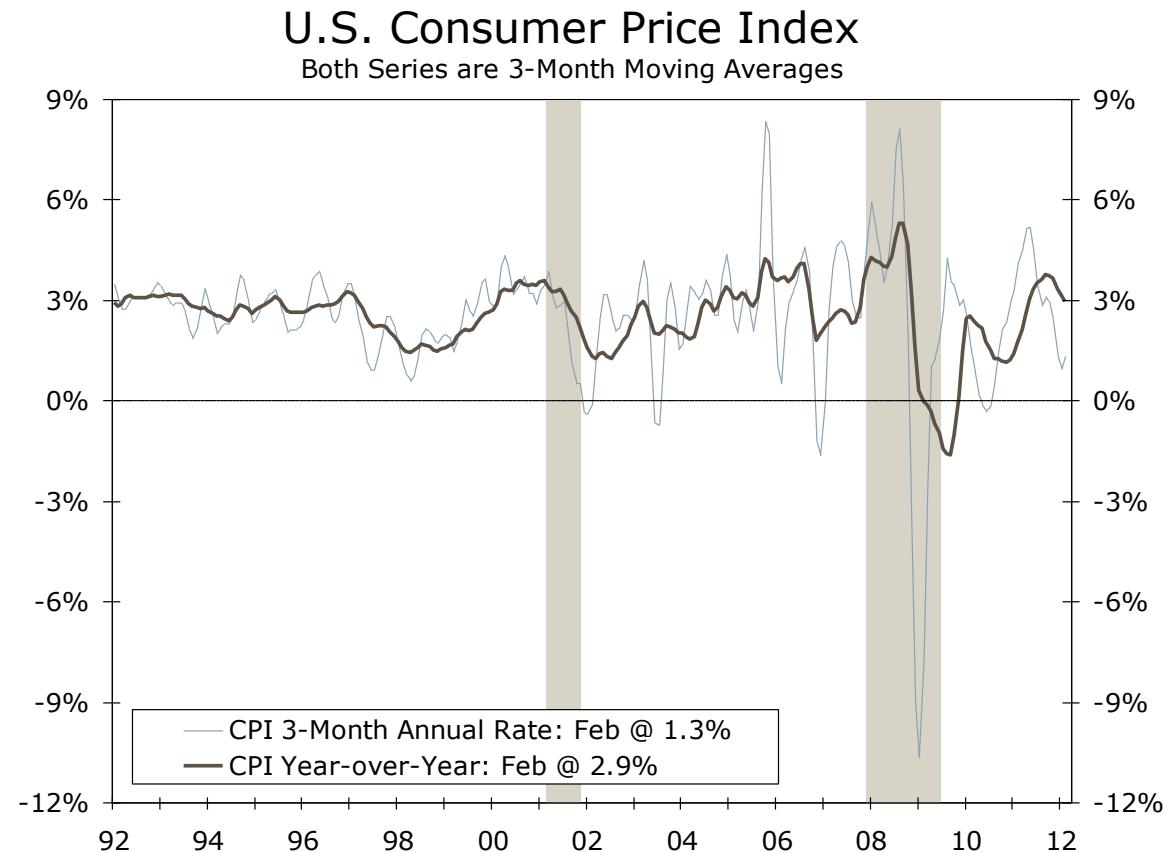


College graduates have the edge even in the worst recession since the depression



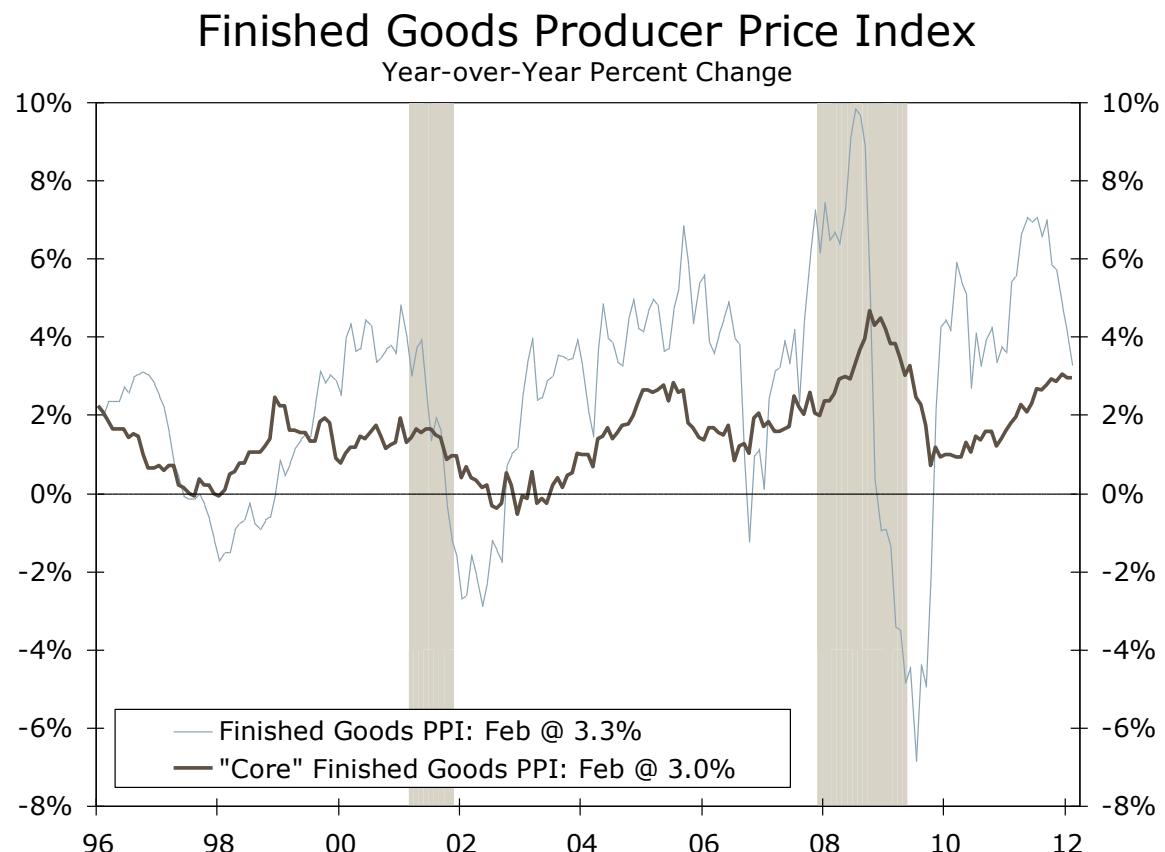
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Consumer prices are increasing once again



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

As well as producer prices



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



## The Humpty-Dumpty Economy

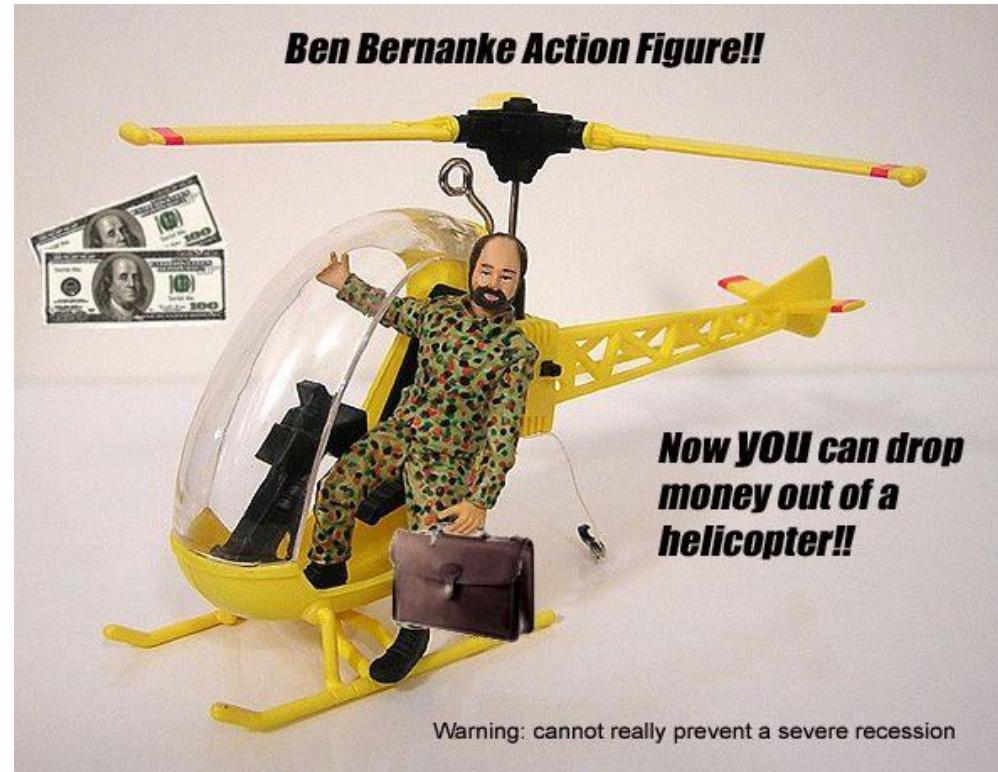
**On this side of the wall:  
1930's depression/  
Japan-like depression**



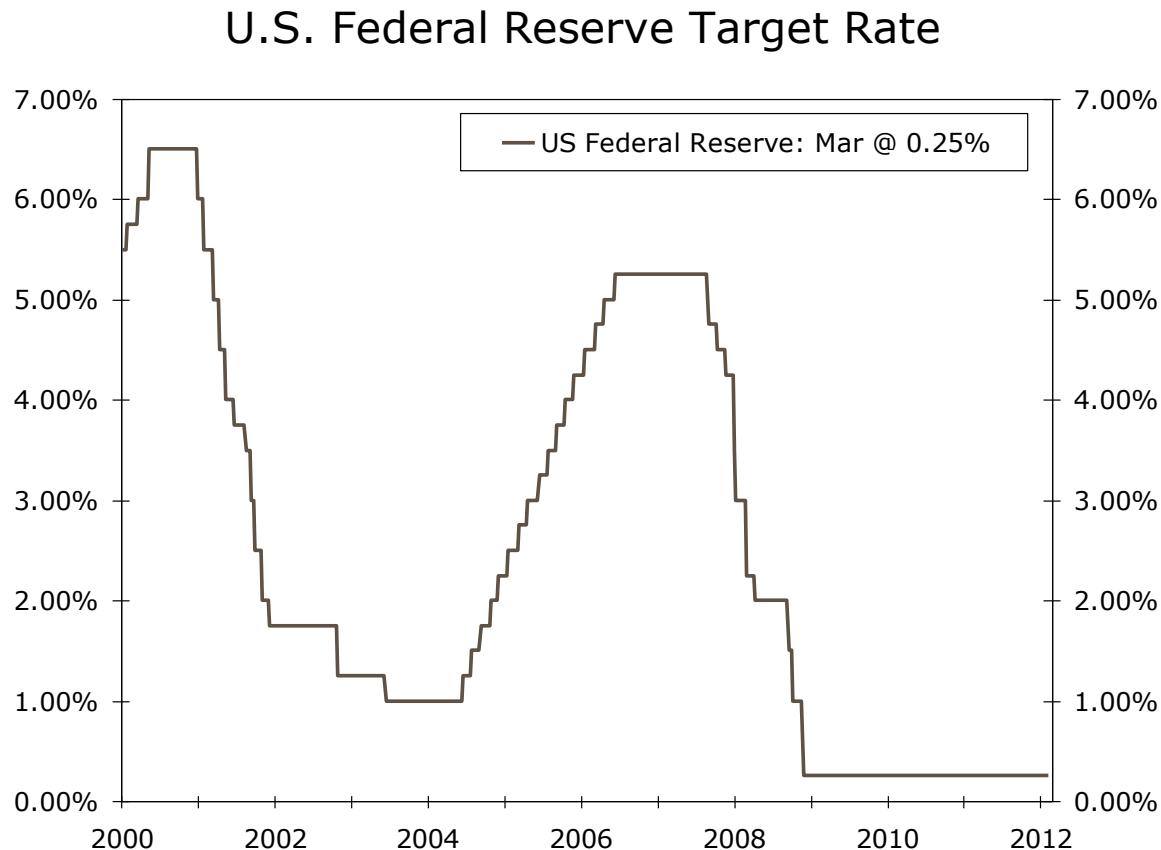
**On this side of the wall:  
Inflation & stagnation =  
stagflation**

**The U.S. Economy sat on a wall,  
The U.S. Economy had a great fall.  
All the king's Treasury-men,  
And all the king's Federal Reserve-men,  
Couldn't put The U.S. Economy together again.**

The Helicopter Effect!

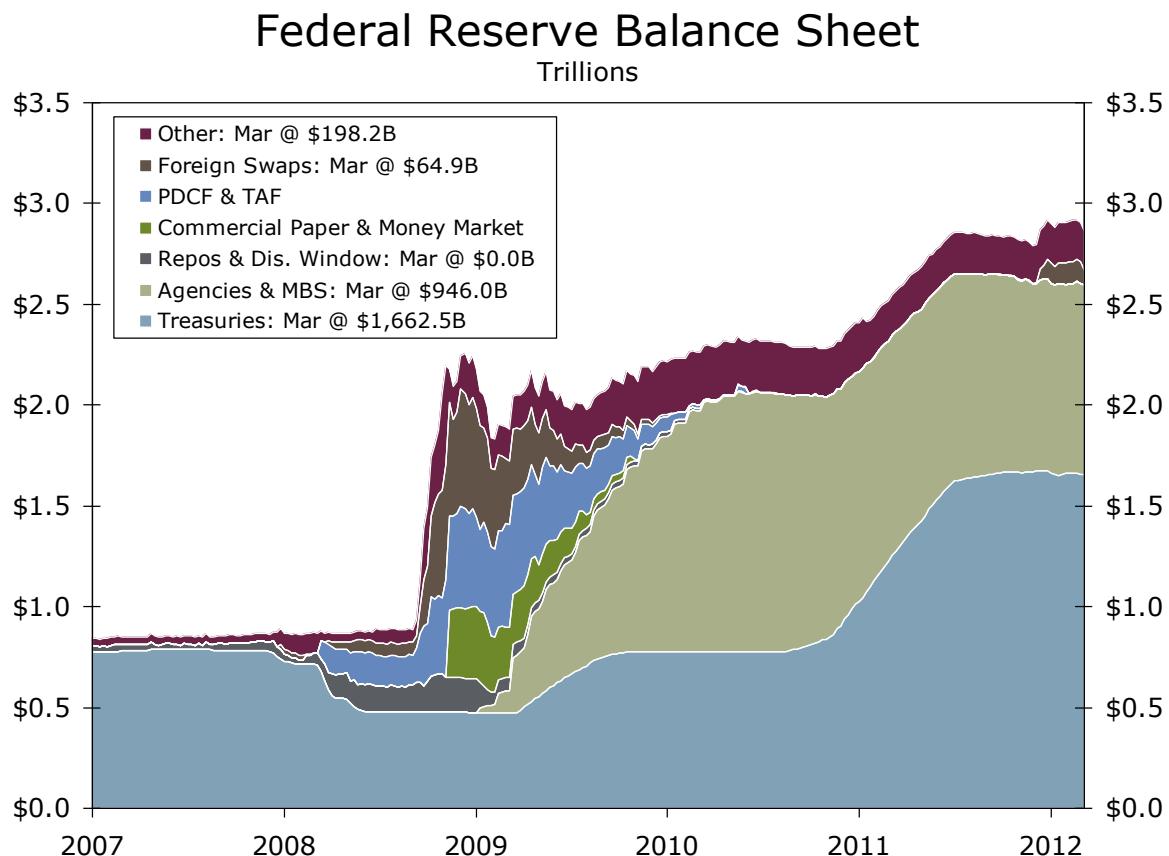


Monetary policy remains extremely expansive



Source: Federal Reserve Board and Wells Fargo Securities, LLC

A Monetary Tsunami?



---

## The Housing Market Today

## Your House As Seen By:

---

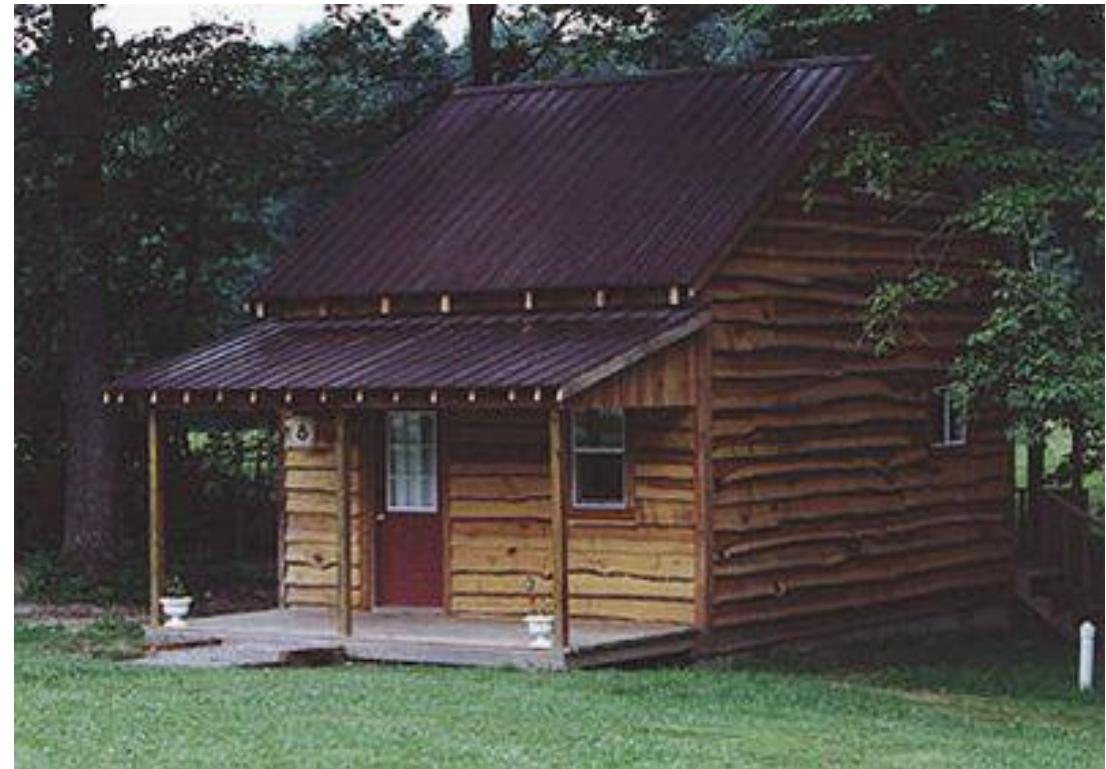
You...



## Your House As Seen By:

---

Your Buyer...



## Your House As Seen By:

---

Your Lender...



## Your House As Seen By:

---

Your Appraiser...



Your House As Seen By:

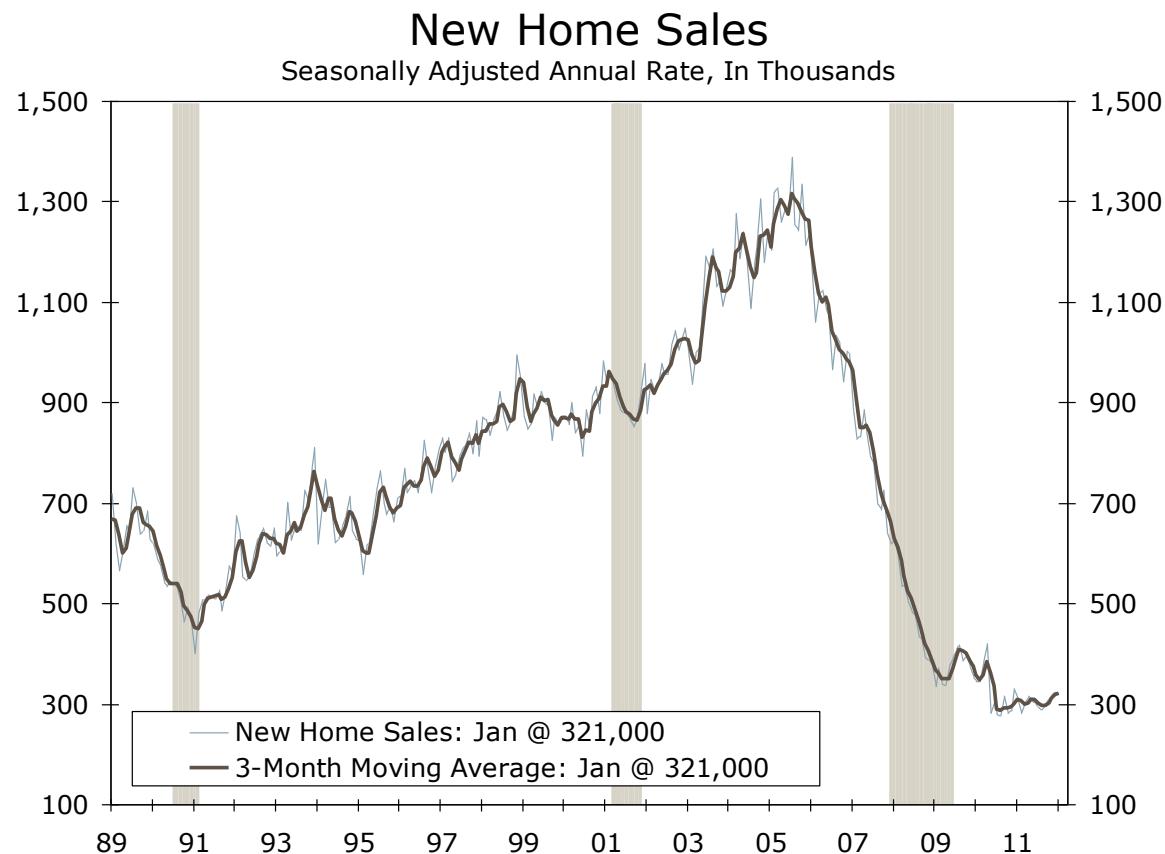
---

And...

Your County's Tax Assessor...



New home sales are very depressed



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

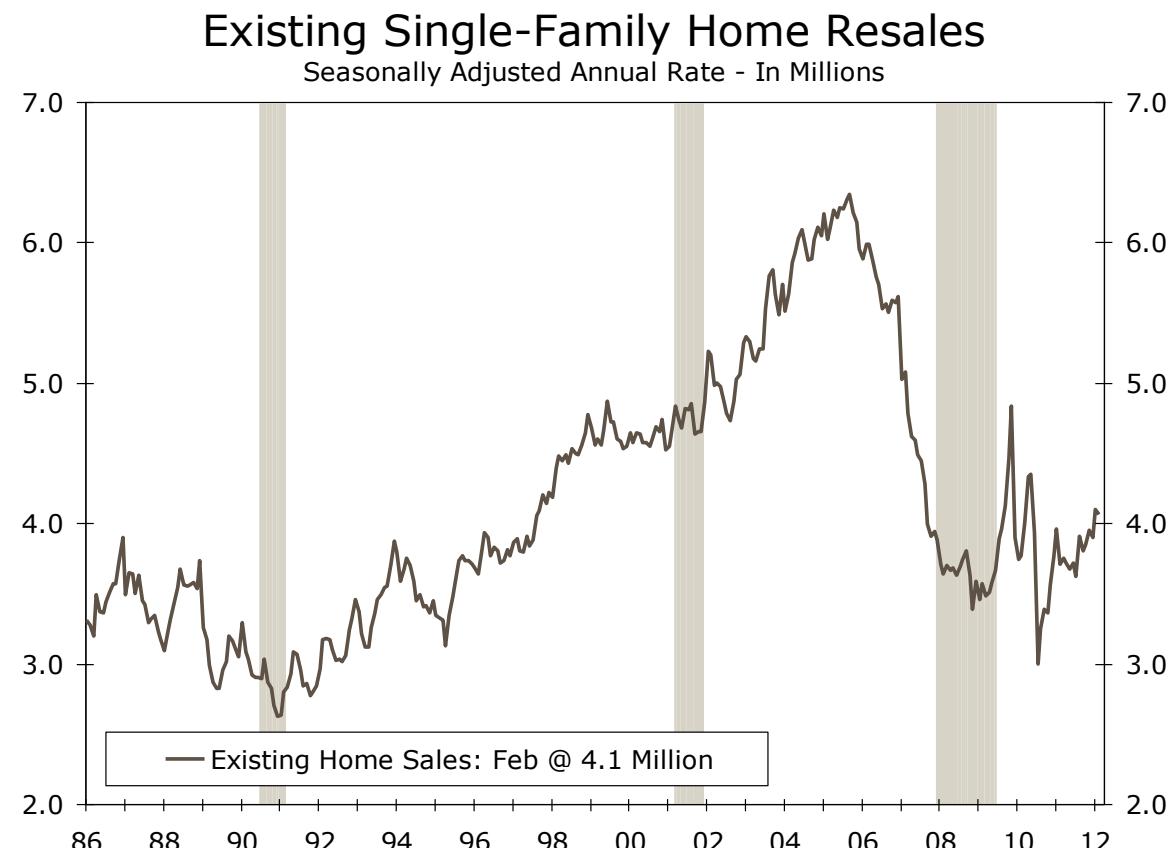
# Housing Starts

Housing starts are showing some promise



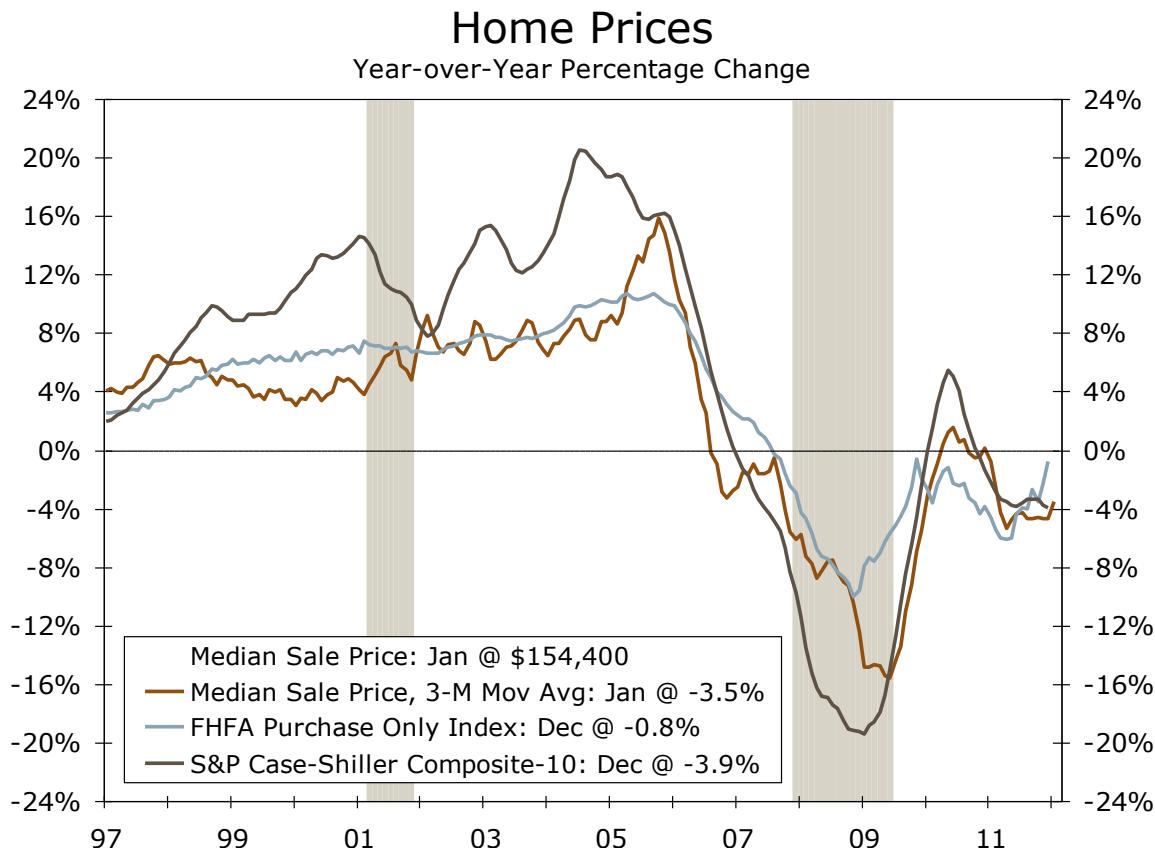
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Existing home sales are strengthening



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

Some price indices are turning the corner

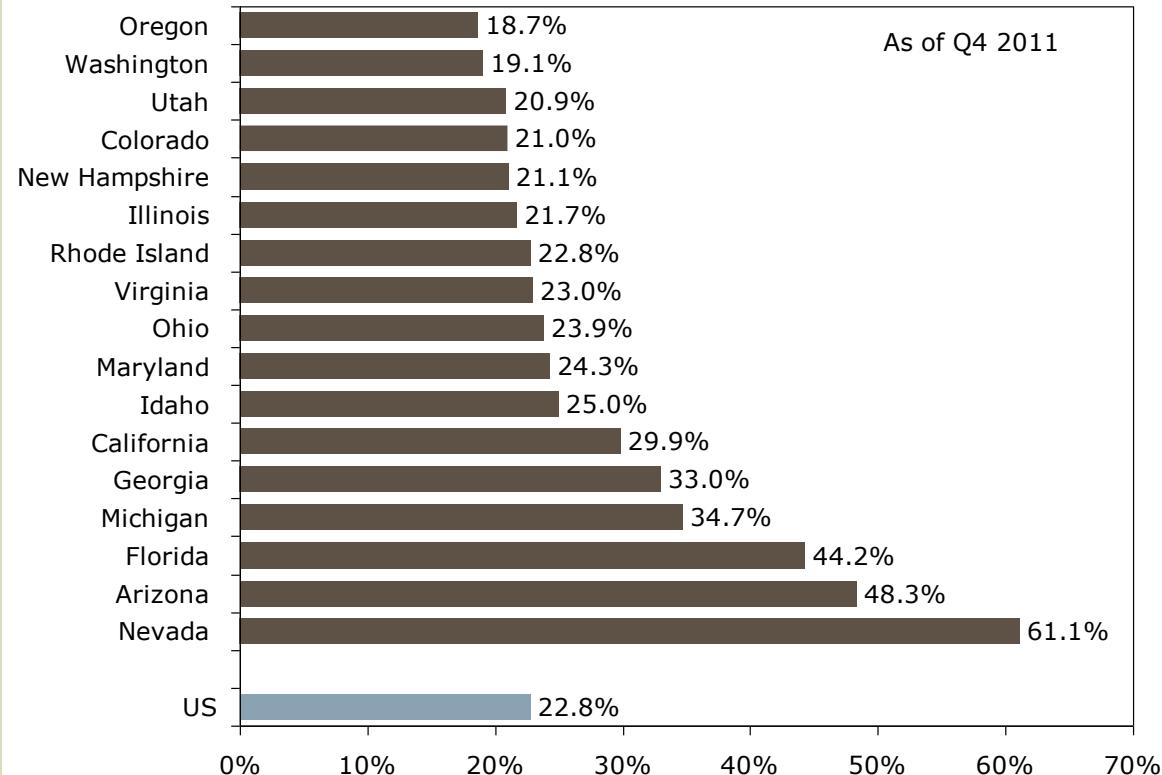


Source: National Association of Realtors, FHFA, S&P Case-Shiller and Wells Fargo Securities, LLC

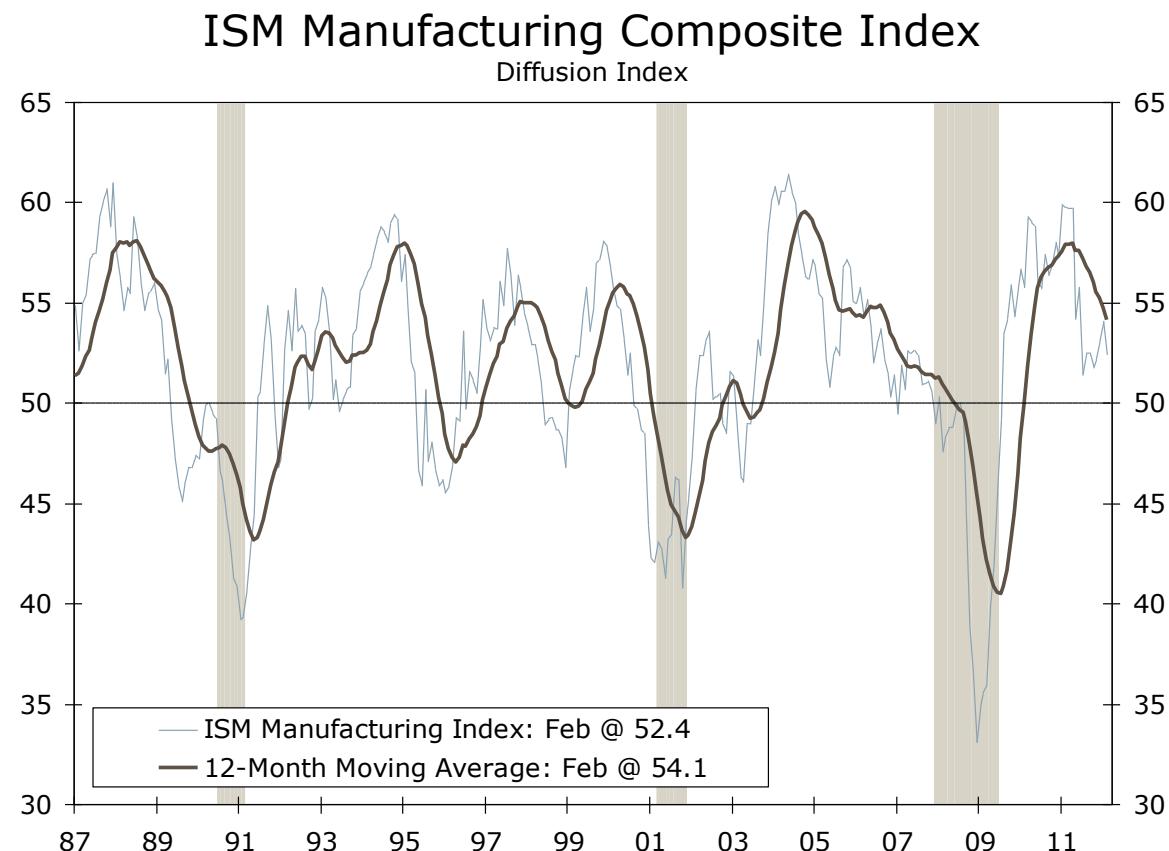
O...M...G...?

## Negative Equity Mortgages - By State

Percent of Mortgages Outstanding

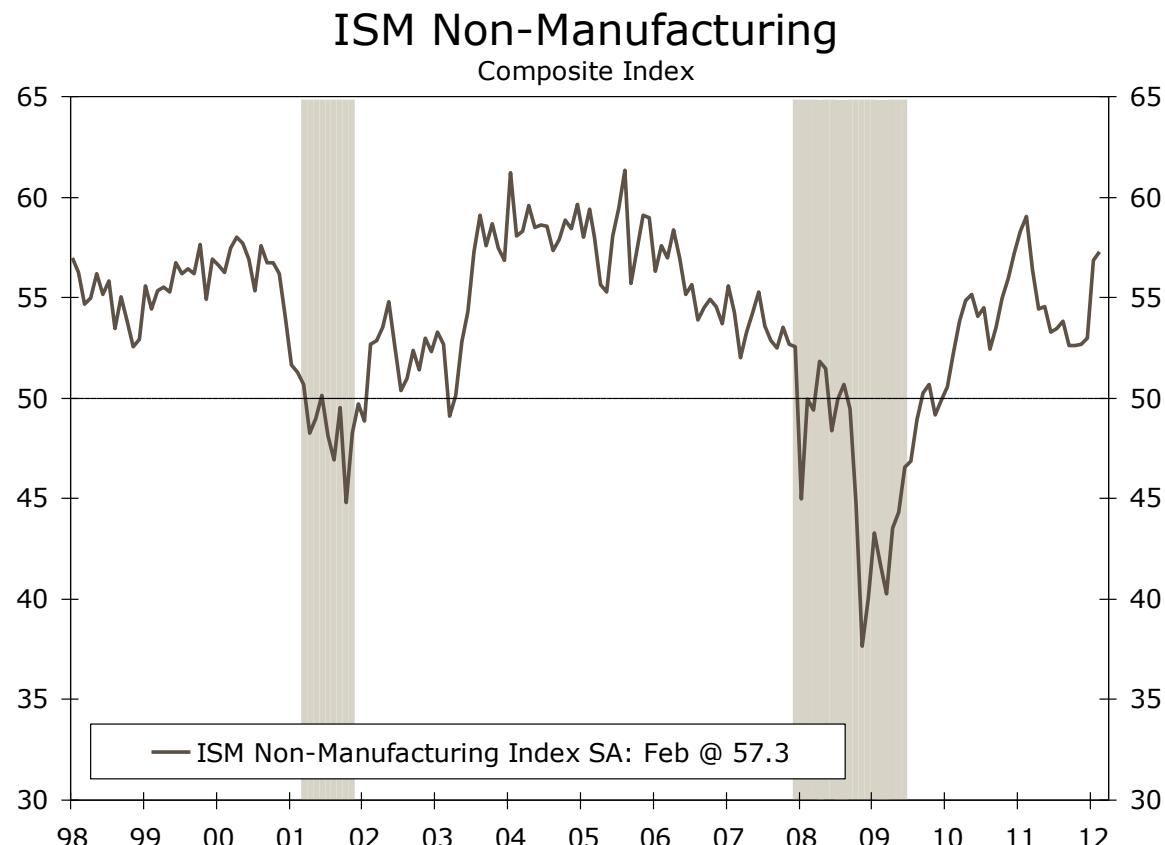


Source: FHFA and Wells Fargo Securities, LLC



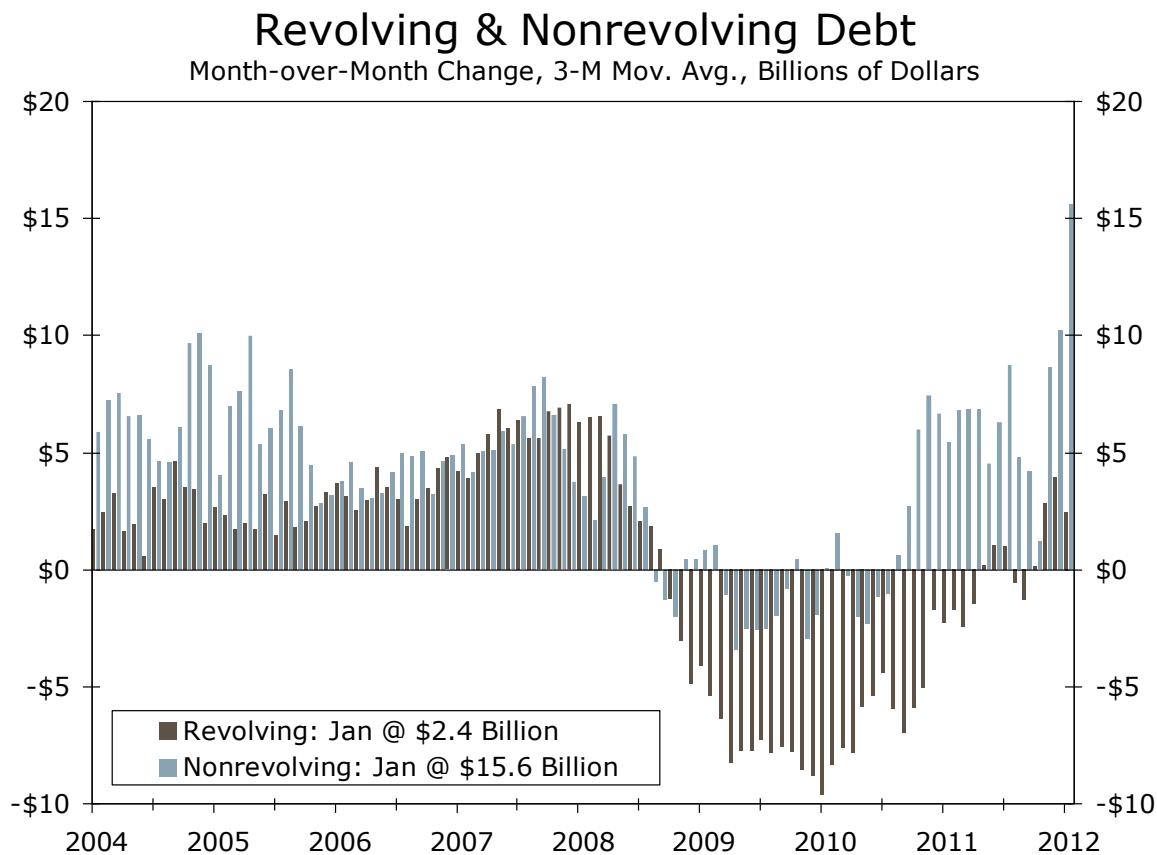
Source: Institute for Supply Management and Wells Fargo Securities, LLC

The service sector is also in expansion mode



Source: Institute for Supply Management and Wells Fargo Securities, LLC

Credit card lending is non-existent

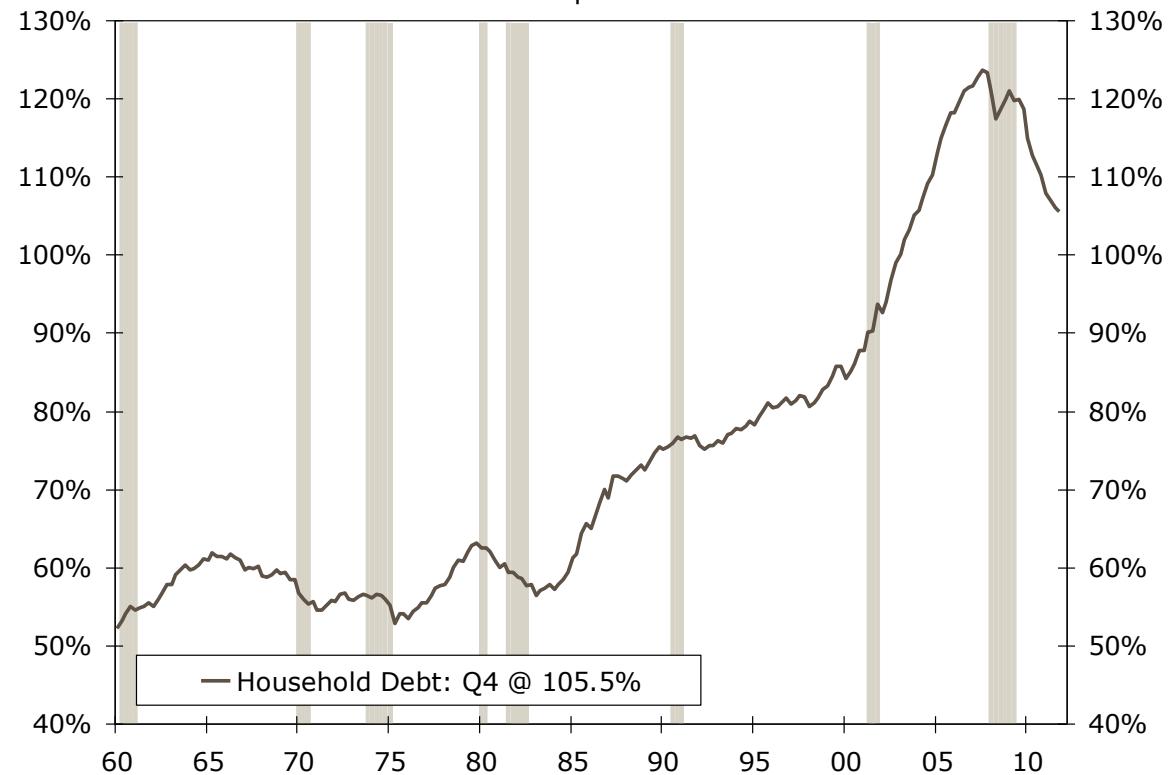


Source: Federal Reserve Board and Wells Fargo Securities, LLC

Households are deleveraging  
fast...but not fast enough!

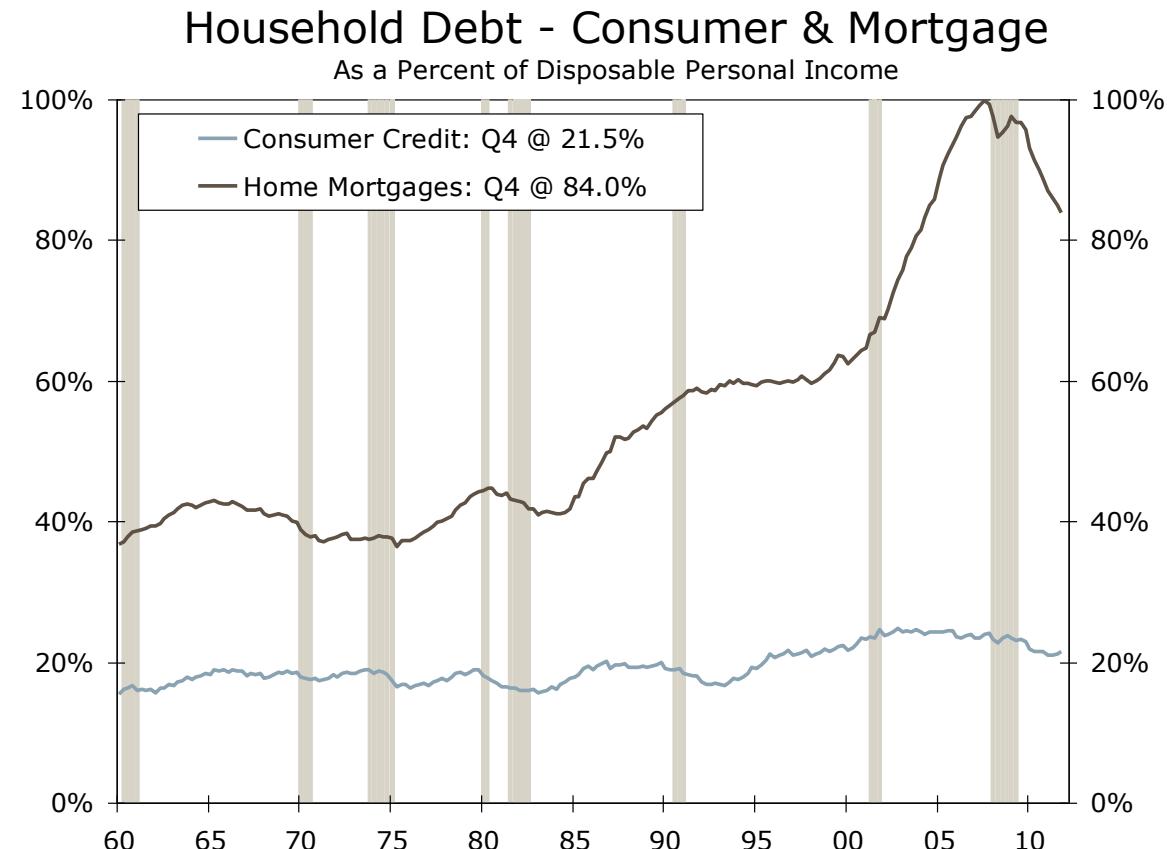
## Household Debt - Consumer & Mortgage

As a Percent of Disposable Personal Income



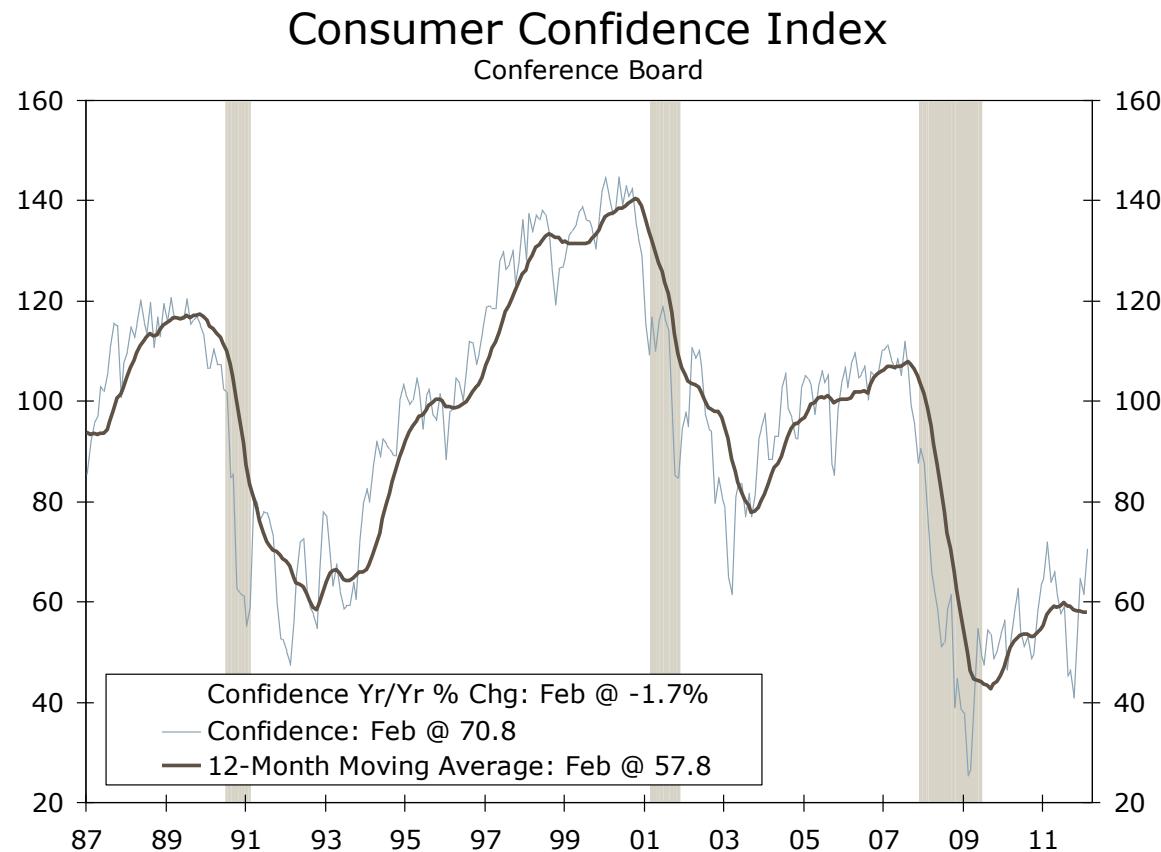
Source: Federal Reserve Board and Wells Fargo Securities, LLC

## Composition of household debt



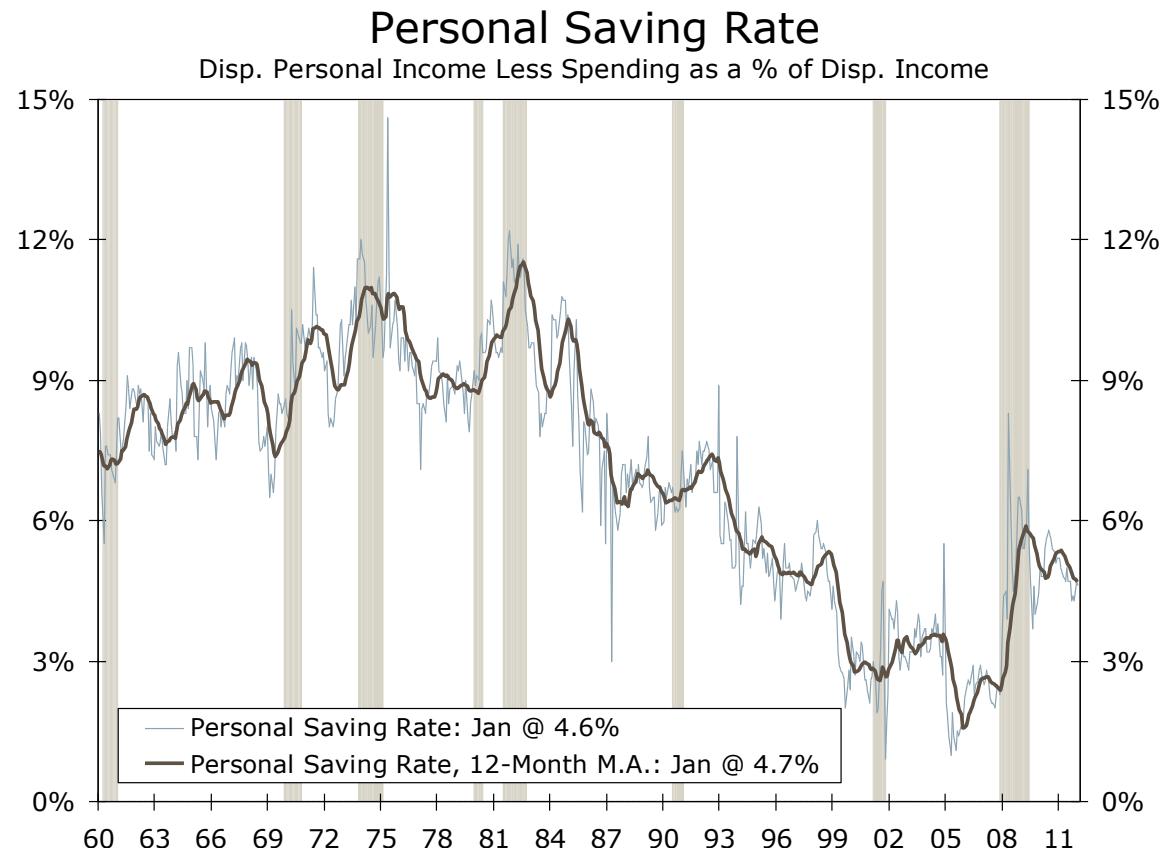
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Consumer confidence is still very weak for a strong recovery



Source: The Conference Board and Wells Fargo Securities, LLC

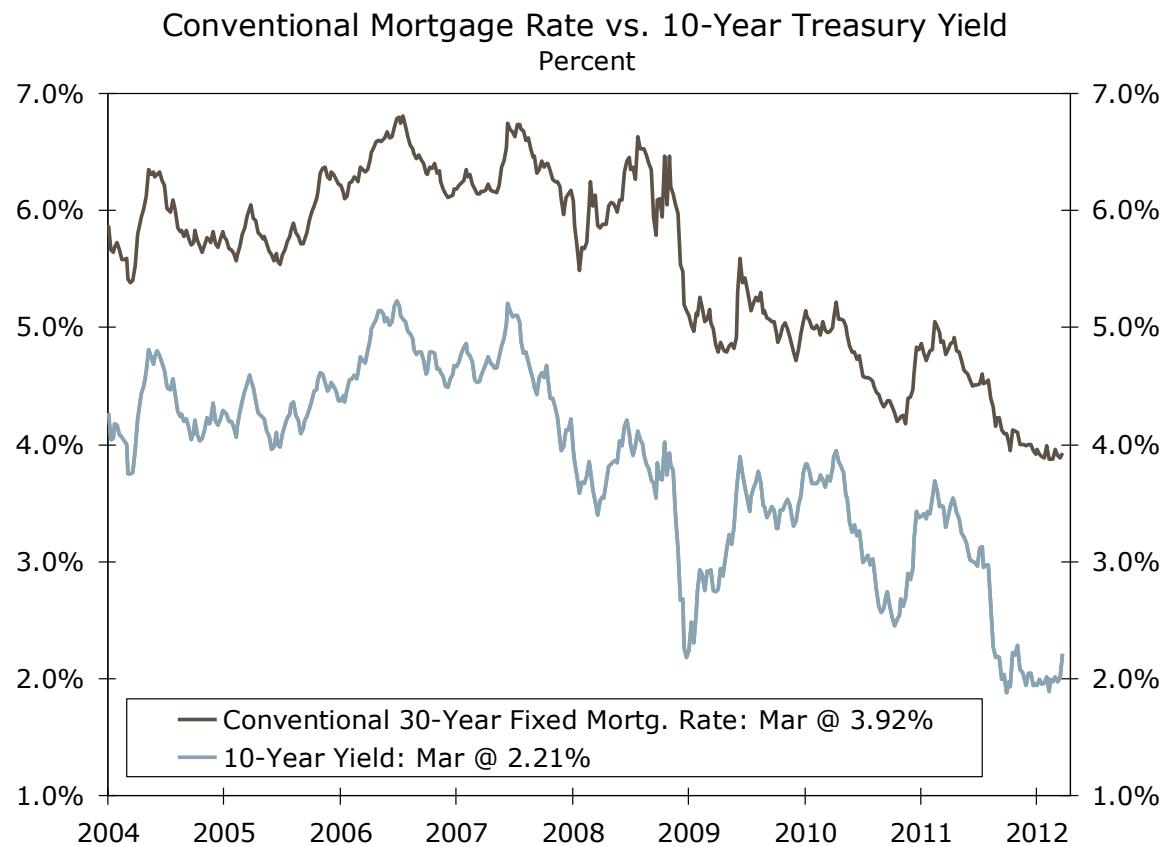
The best news is that the saving rate has recovered



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

## Mortgage and Treasury Rates

Mortgage interest rates have plummeted again but yields are increasing



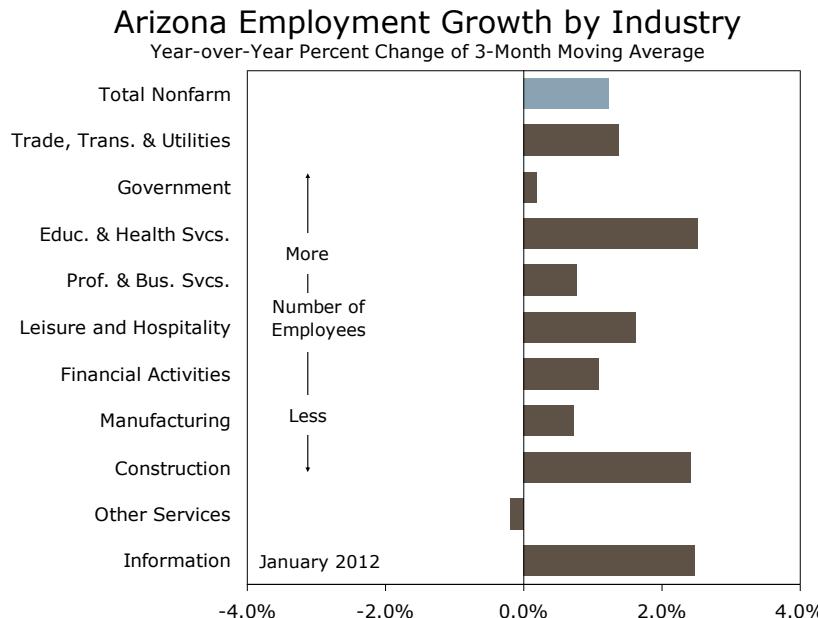
Source: Freddie Mac, Federal Reserve Board and Wells Fargo Securities, LLC

# The Arizona Economy

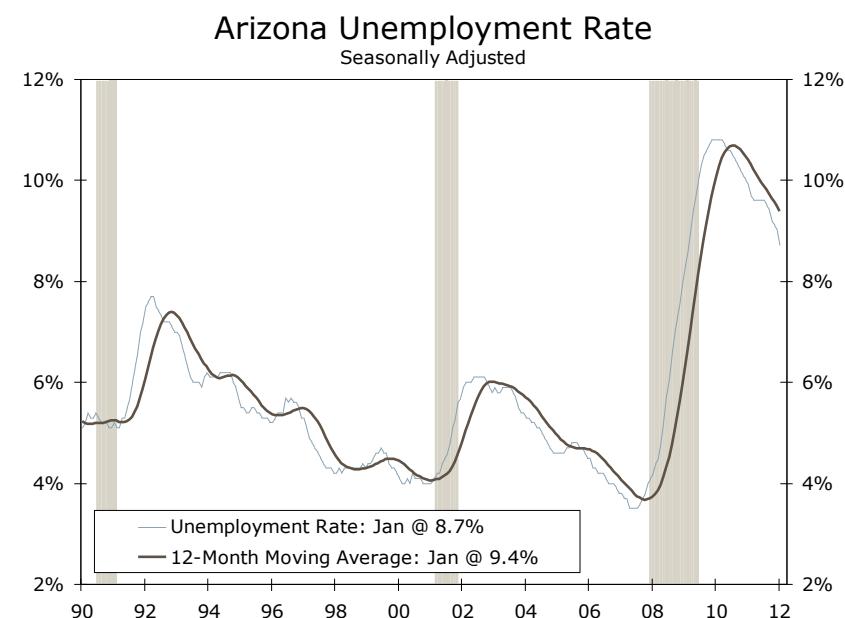
---

Arizona's labor market has shown some strength over the past year, with education and health services leading the way. The unemployment rate continues to trend downward.

## Employment



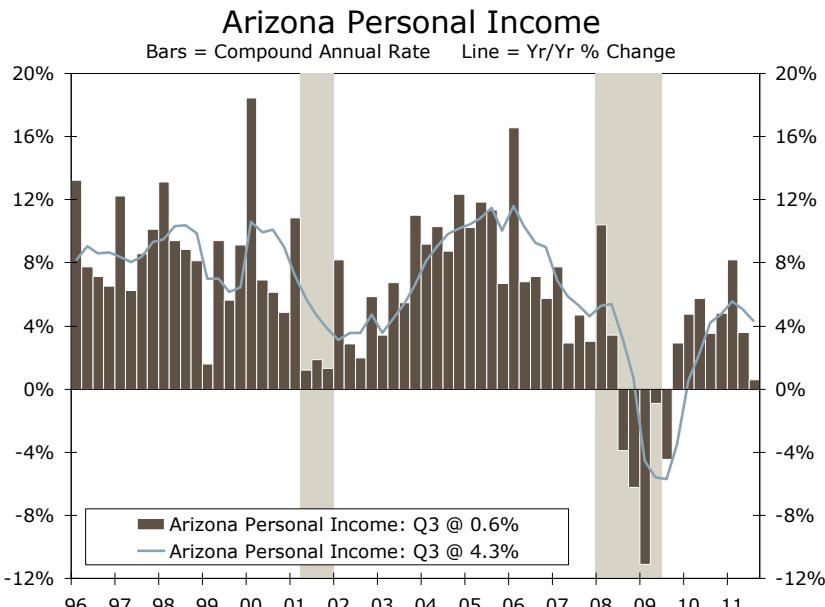
## Unemployment Rate



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

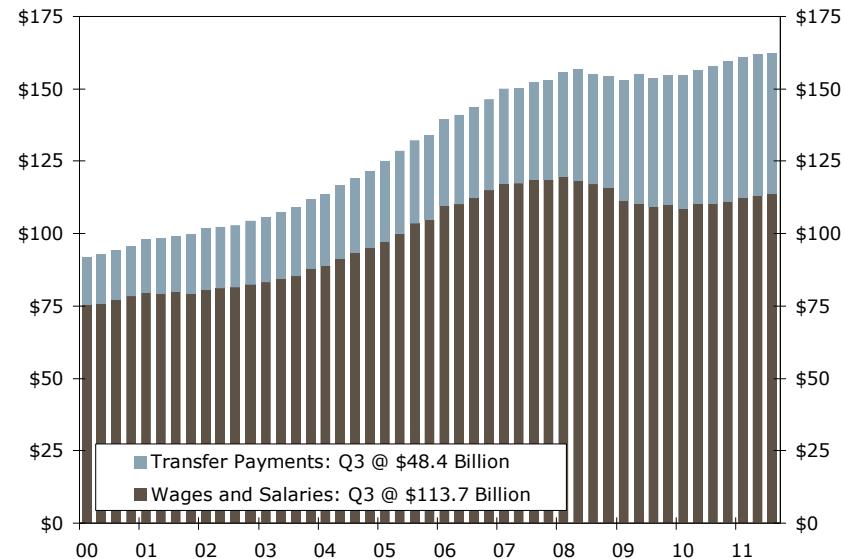
Arizona is beginning to see growth in wages and salaries, however transfer payments remain a significant source of personal income. Transfer payments currently account for 20 percent of personal income.

## Personal Income



## Composition of Income Growth

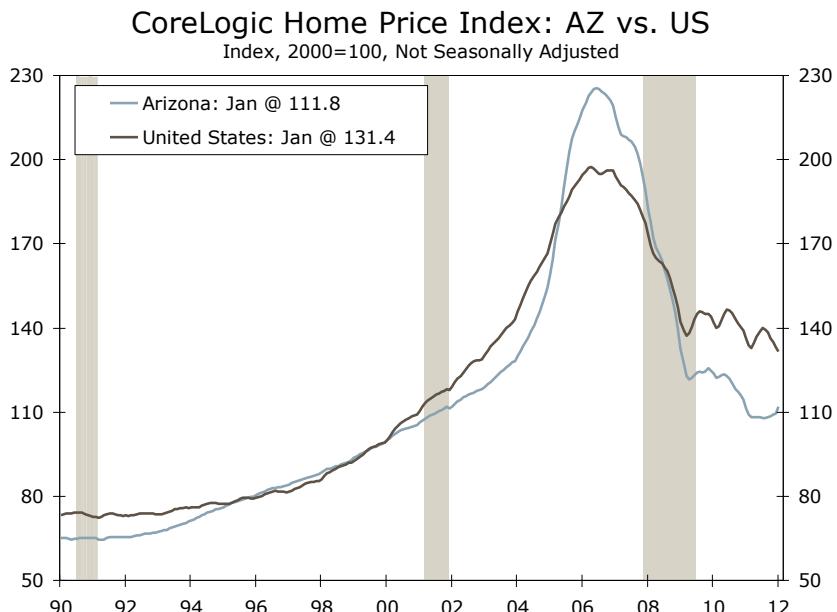
Arizona: Wages & Salaries vs. Transfer Payments  
In Billions, Seasonally Adjusted Annual Rate



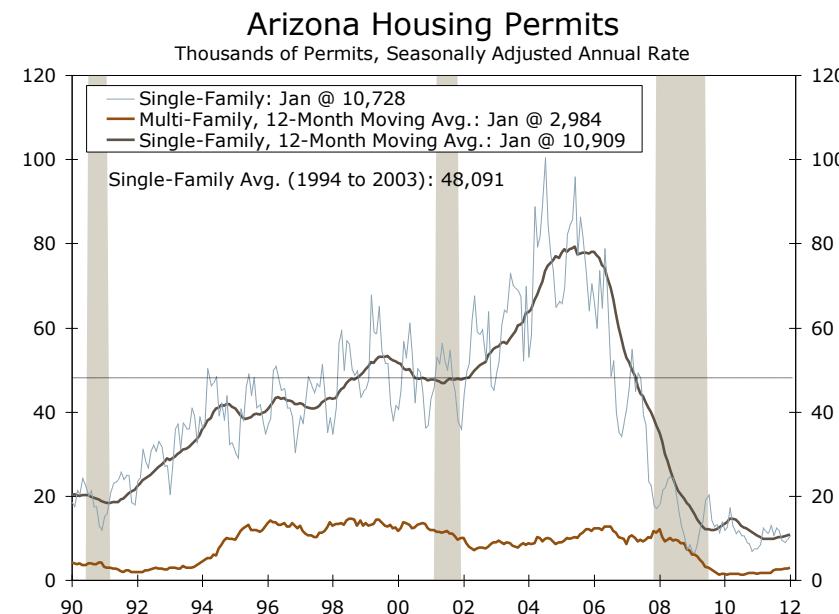
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Arizona house prices may have finally bottomed. Construction has yet to take hold in the multifamily or in the single-family sector. The backlog of distressed sales will continue to weigh on future housing activity.

## Home Prices



## Housing Permits



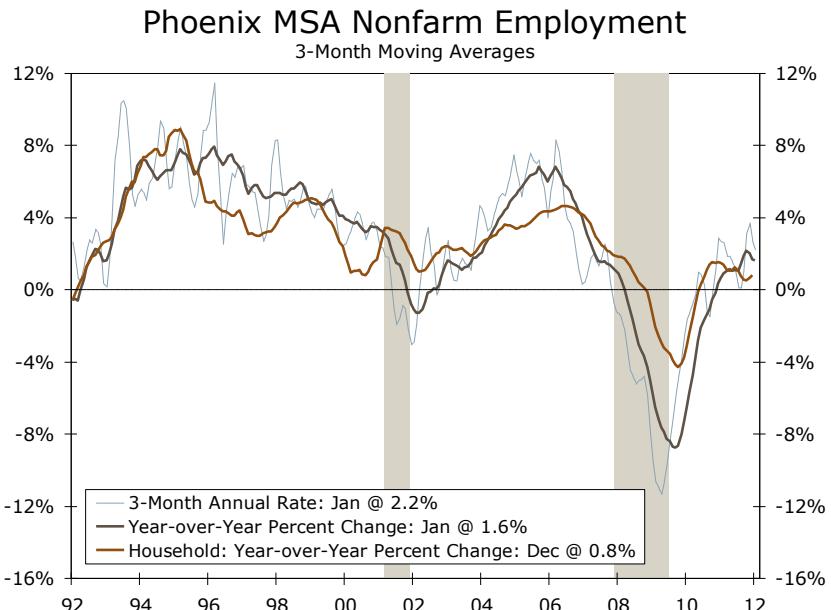
Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

# The Phoenix Metropolitan Economy

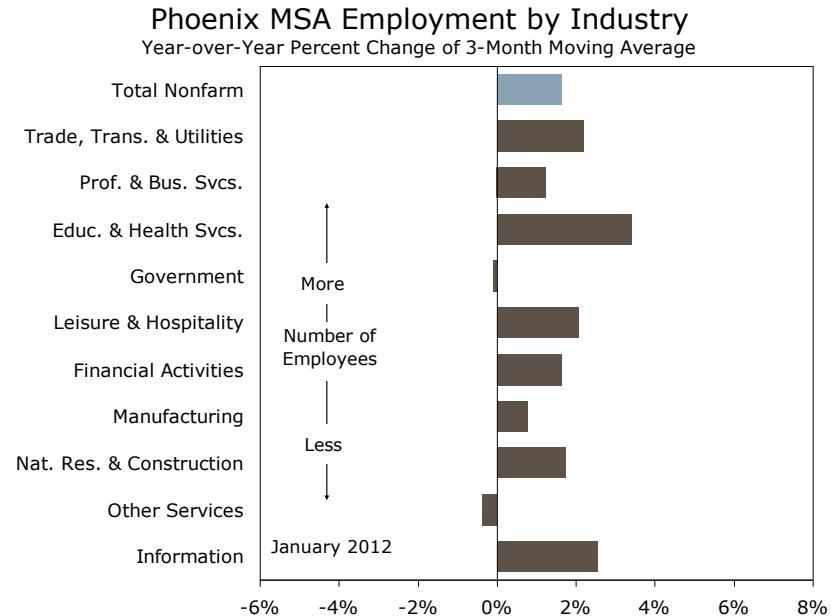
---

The Phoenix MSA has relied on the service sectors to strengthen the labor market, however a full recovery is still not in the horizon.

## Employment



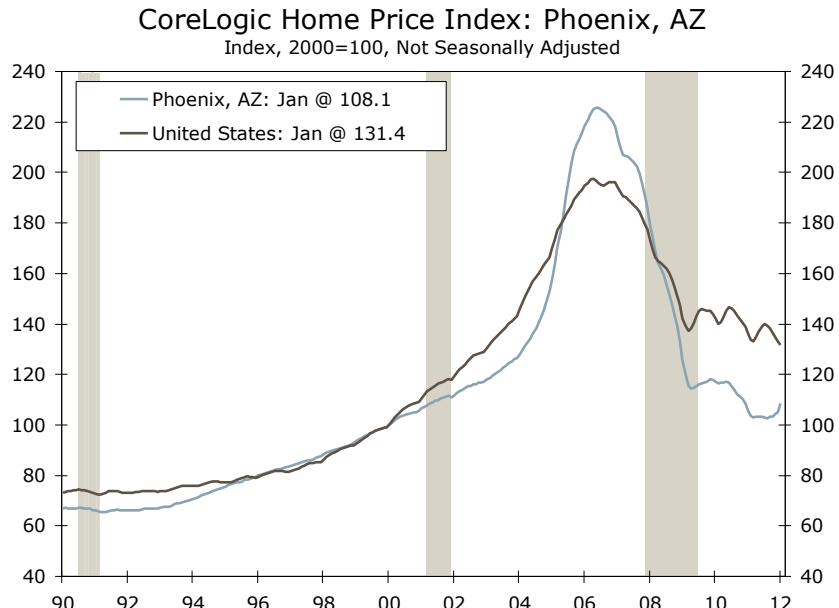
## Unemployment Rate



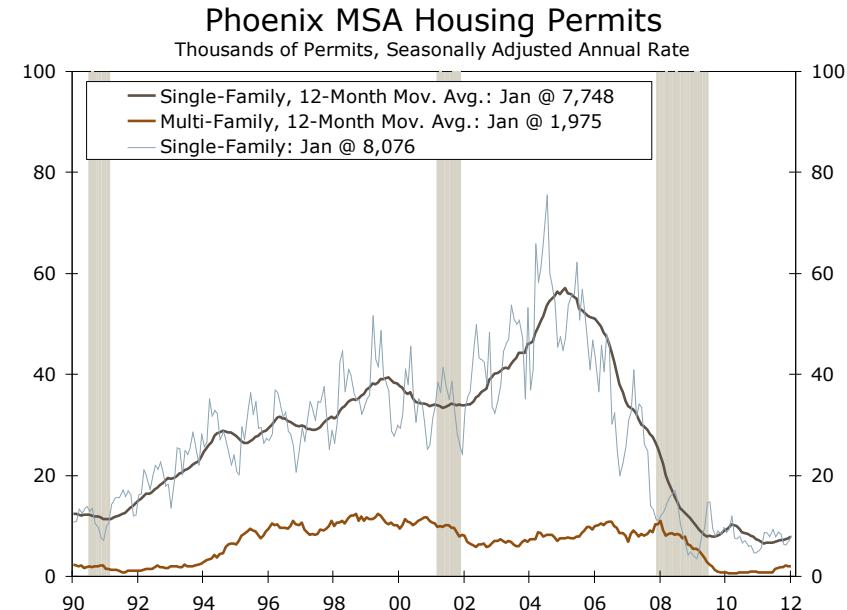
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Although, it appears that house prices have bottomed, the large foreclosure overhang will weigh on house prices. Construction permits remain depressed.

## Home Prices



## Housing Permits



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

Growth will remain positive but weak

Wells Fargo International Economic Forecast						
(Year-over-Year Percent Change)						
	GDP			CPI		
	2011	2012	2013	2011	2012	2013
Global (PPP weights)	3.4%	3.1%	3.7%	5.3%	4.1%	4.1%
Global (Market Exchange Rates)	2.2%	1.9%	2.4%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	1.5%	1.4%	2.0%	2.9%	2.1%	1.8%
United States	1.7%	1.9%	2.2%	3.1%	2.4%	2.2%
Eurozone	1.5%	0.2%	1.6%	2.7%	2.1%	1.7%
United Kingdom	0.8%	0.9%	1.8%	4.5%	2.8%	1.9%
Japan	-0.7%	1.4%	1.5%	-0.3%	-0.1%	-0.1%
Korea	3.6%	2.6%	3.4%	4.0%	3.2%	3.0%
Canada	2.5%	2.1%	2.5%	2.9%	2.1%	2.1%
Developing Economies <sup>1</sup>	5.7%	5.2%	5.6%	8.1%	6.5%	6.8%
China	9.3%	8.3%	8.8%	5.4%	3.4%	3.2%
India	6.5%	6.8%	7.0%	8.9%	6.4%	7.1%
Mexico	3.9%	3.7%	3.9%	3.4%	5.5%	5.8%
Brazil	2.7%	2.9%	4.0%	5.6%	5.4%	6.0%
Russia	4.3%	3.3%	3.0%	8.5%	4.2%	6.4%

Forecast as of: March 14, 2012

<sup>1</sup>Aggregated Using PPP Weights

Source: Wells Fargo Securities, LLC

## Global Head of Research and Economics

Diane Schumaker-Krieg

[diane.schumaker@wellsfargo.com](mailto:diane.schumaker@wellsfargo.com)

*Global Head of Research & Economics*

## Chief Economist

John Silvia

[john.silvia@wellsfargo.com](mailto:john.silvia@wellsfargo.com)

## Senior Economists

Mark Vitner, Senior Economist

[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com)

Jay Bryson, Global Economist

[jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com)

Scott Anderson, Senior Economist

[scott.a.anderson@wellsfargo.com](mailto:scott.a.anderson@wellsfargo.com)

Eugenio Aleman, Senior Economist

[eugenio.j.aleman@wellsfargo.com](mailto:eugenio.j.aleman@wellsfargo.com)

Sam Bullard, Senior Economist

[sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com)

## Economists

Anika Khan, Economist

[anika.khan@wellsfargo.com](mailto:anika.khan@wellsfargo.com)

Azhar Iqbal, Econometrician

[azhar.iqbal@wellsfargo.com](mailto:azhar.iqbal@wellsfargo.com)

Ed Kashmarek, Economist

[ed.kashmarek@wellsfargo.com](mailto:ed.kashmarek@wellsfargo.com)

Tim Quinlan, Economist

[tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com)

Michael Brown, Economist

[michael.a.brown@wellsfargo.com](mailto:michael.a.brown@wellsfargo.com)

## Economic Analysts

Joe Seydl, Economic Analyst

[joseph.seydl@wellsfargo.com](mailto:joseph.seydl@wellsfargo.com)

Sarah Watt, Economic Analyst

[sarah.watt@wellsfargo.com](mailto:sarah.watt@wellsfargo.com)

Kaylyn Swankoski, Economic Analyst

[kaylyn.swankoski@wellsfargo.com](mailto:kaylyn.swankoski@wellsfargo.com)

## Executive Assistant

Peg Gavin

[peg.gavin@wellsfargo.com](mailto:peg.gavin@wellsfargo.com)

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company.

**SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE**

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the “Materials”) are provided for general informational purposes only.