

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

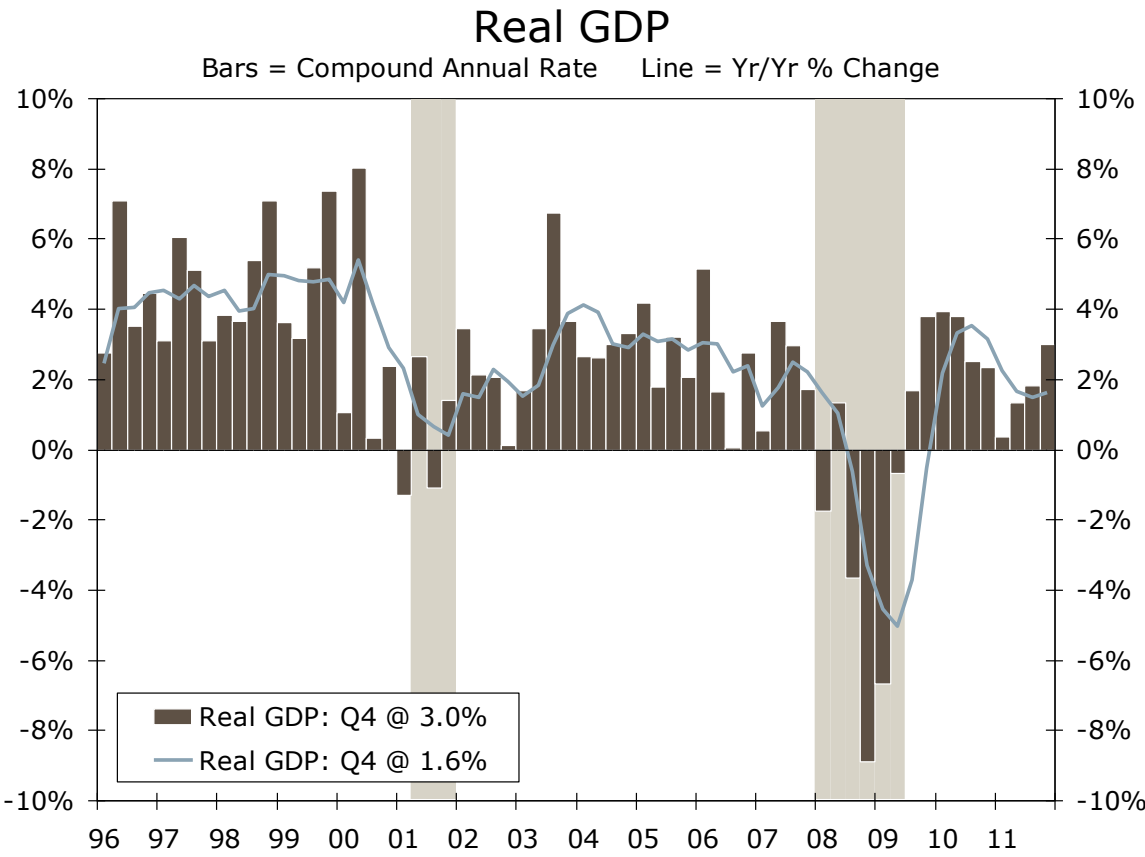
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Eugenio J. Aleman, Director and Senior Economist

March 22, 2012

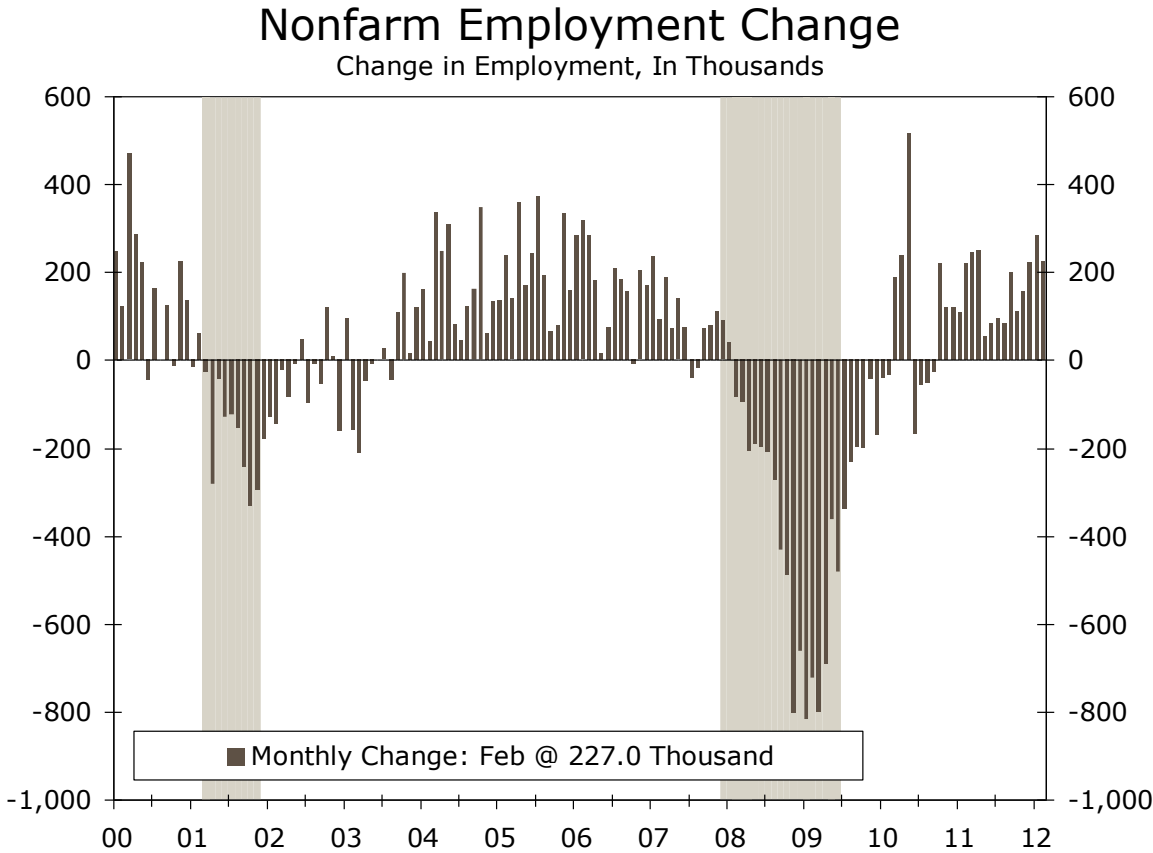


U.S. real GDP growth has strengthened but remains weak



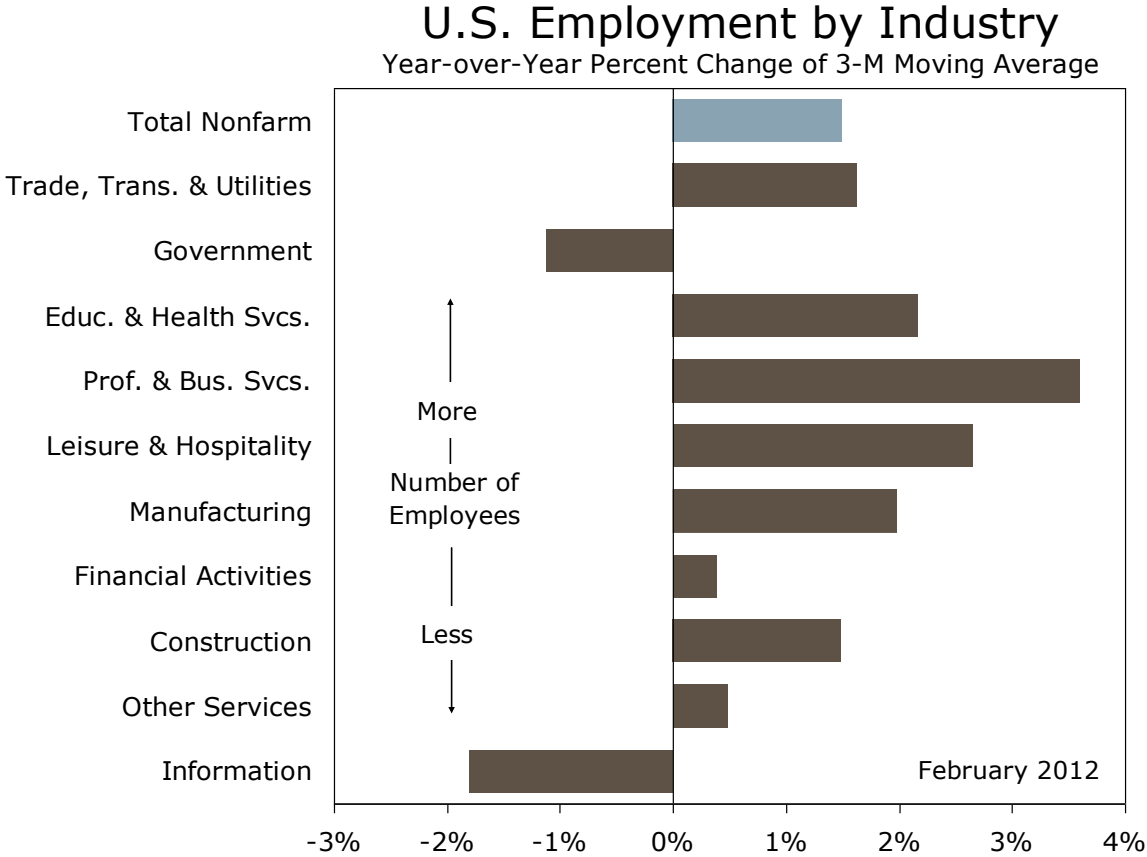
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Employment has turned the corner since October of 2010



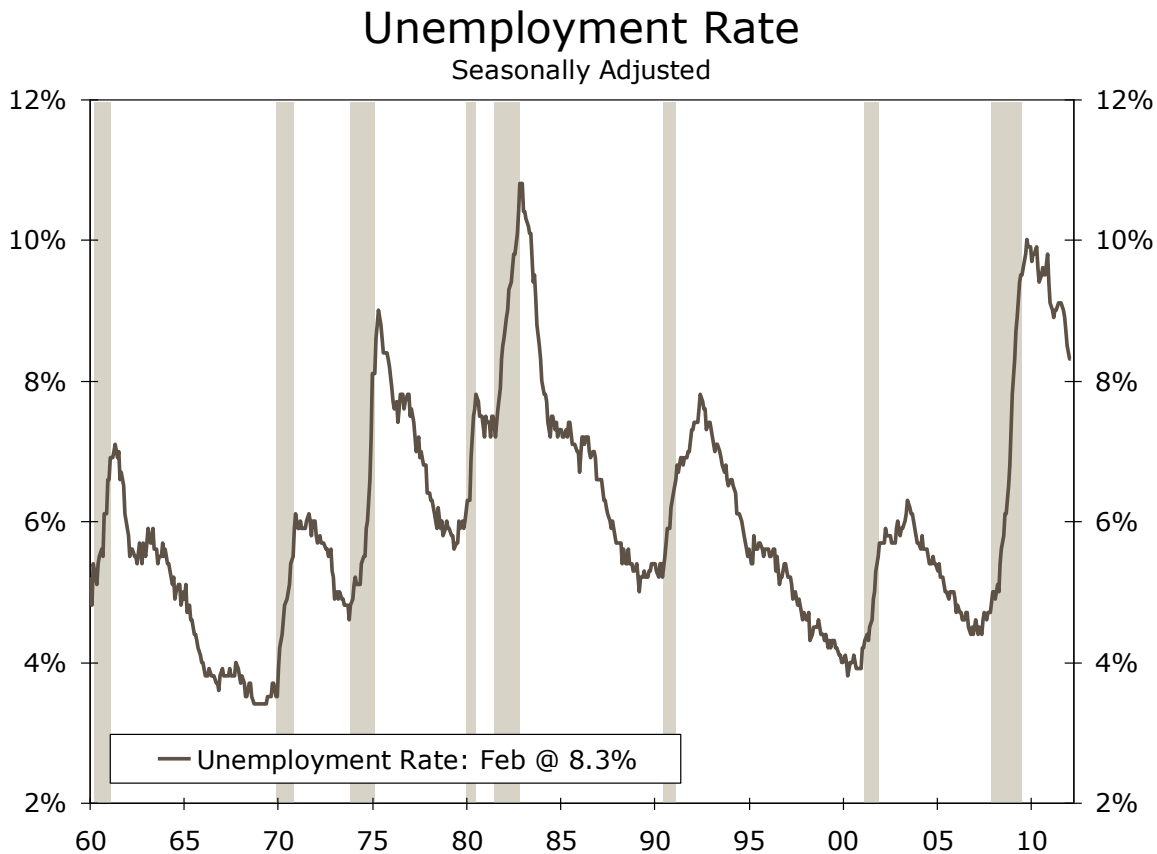
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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



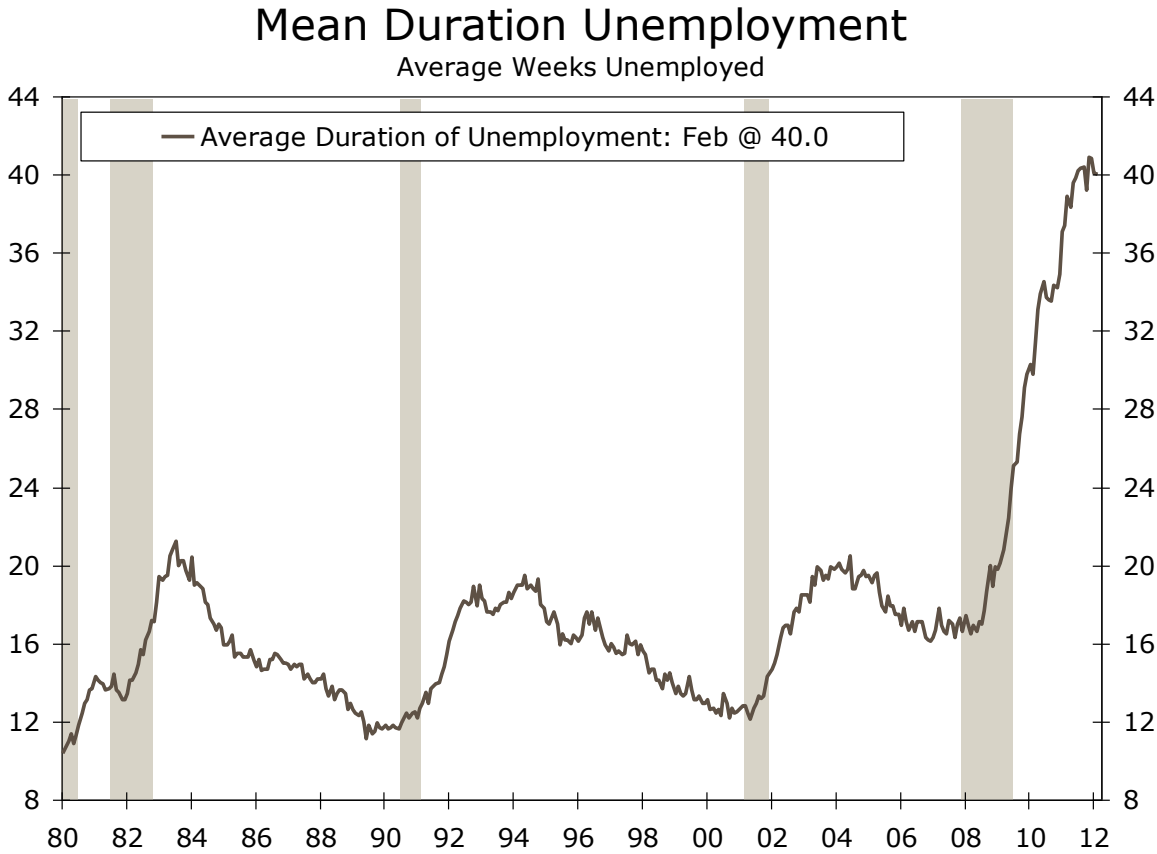
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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



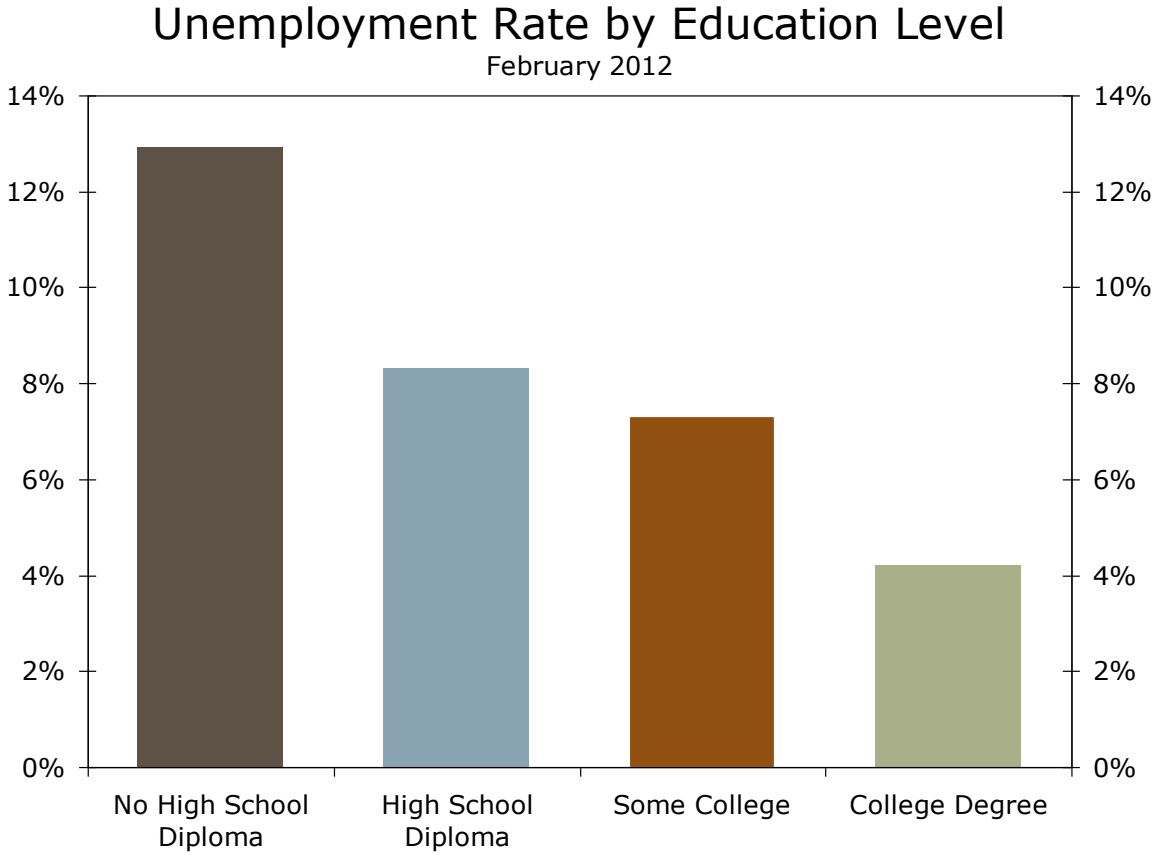
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Duration of unemployment shows a struggling labor market



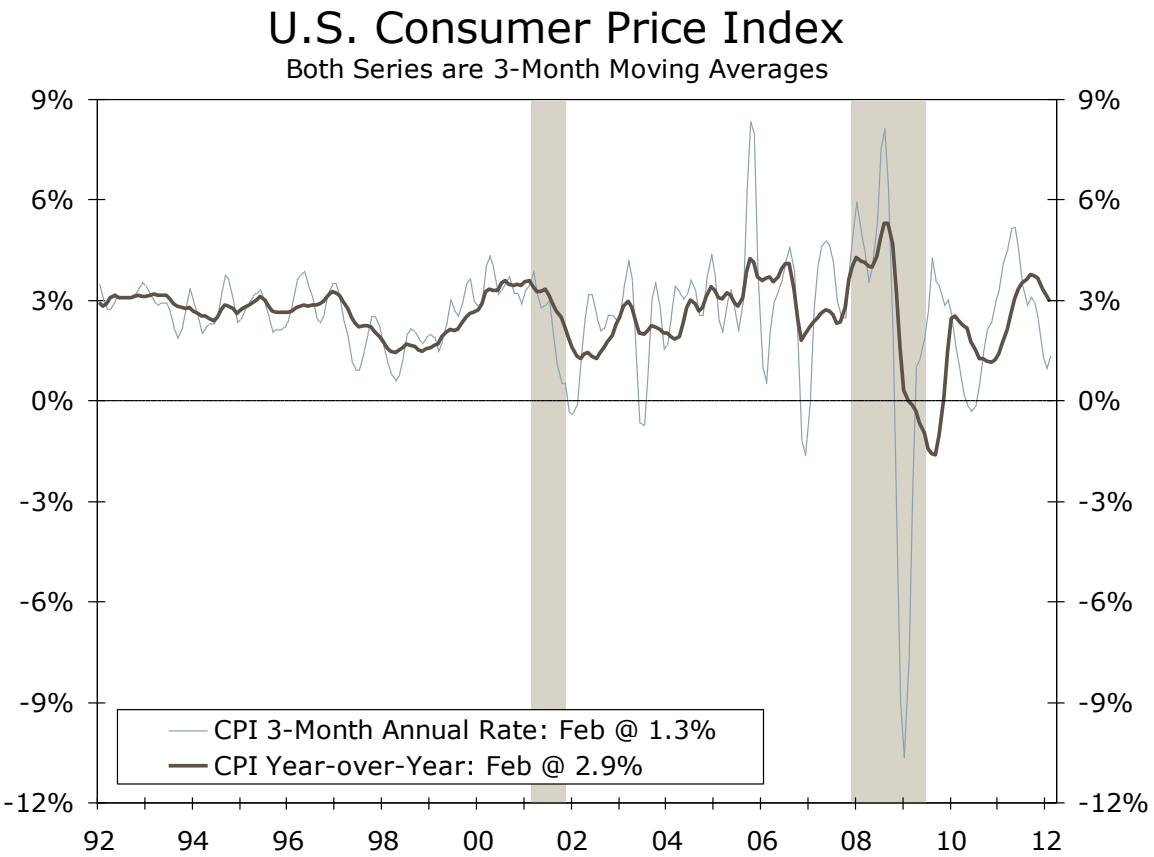
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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



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

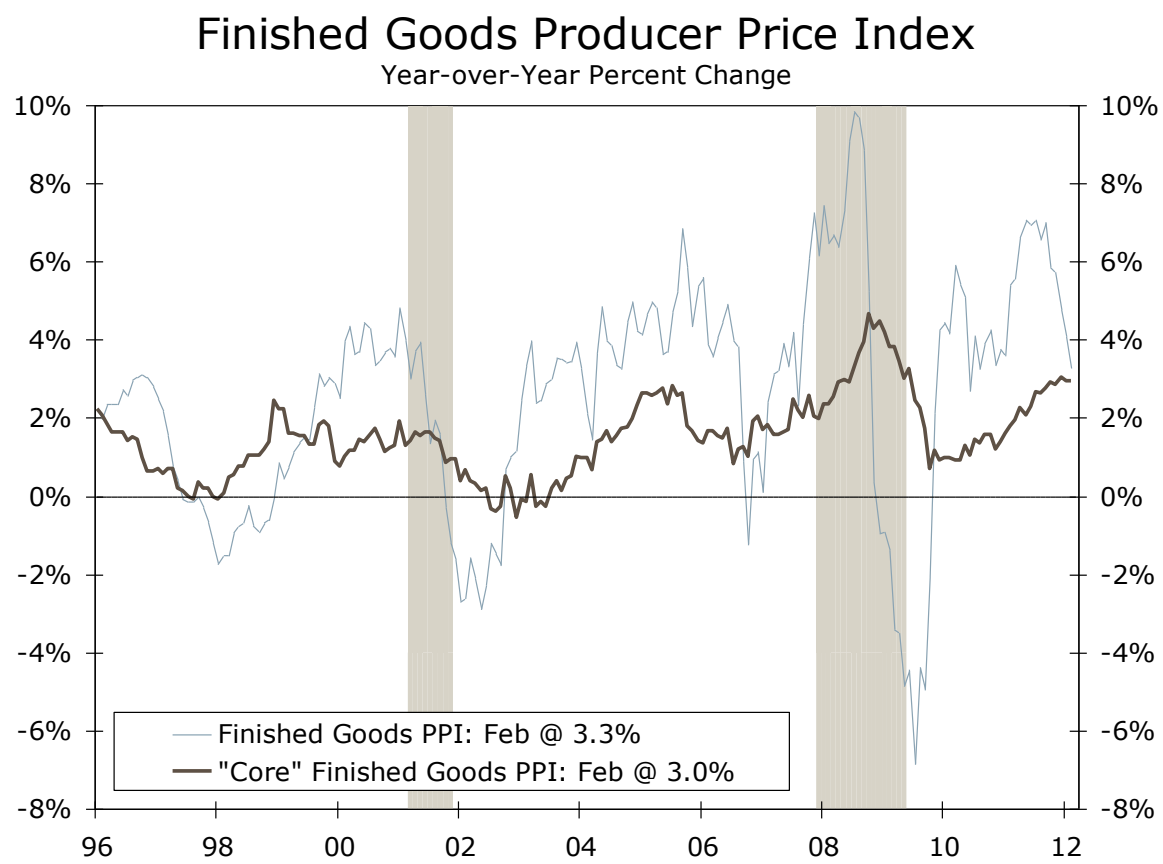
Consumer prices are increasing once again



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

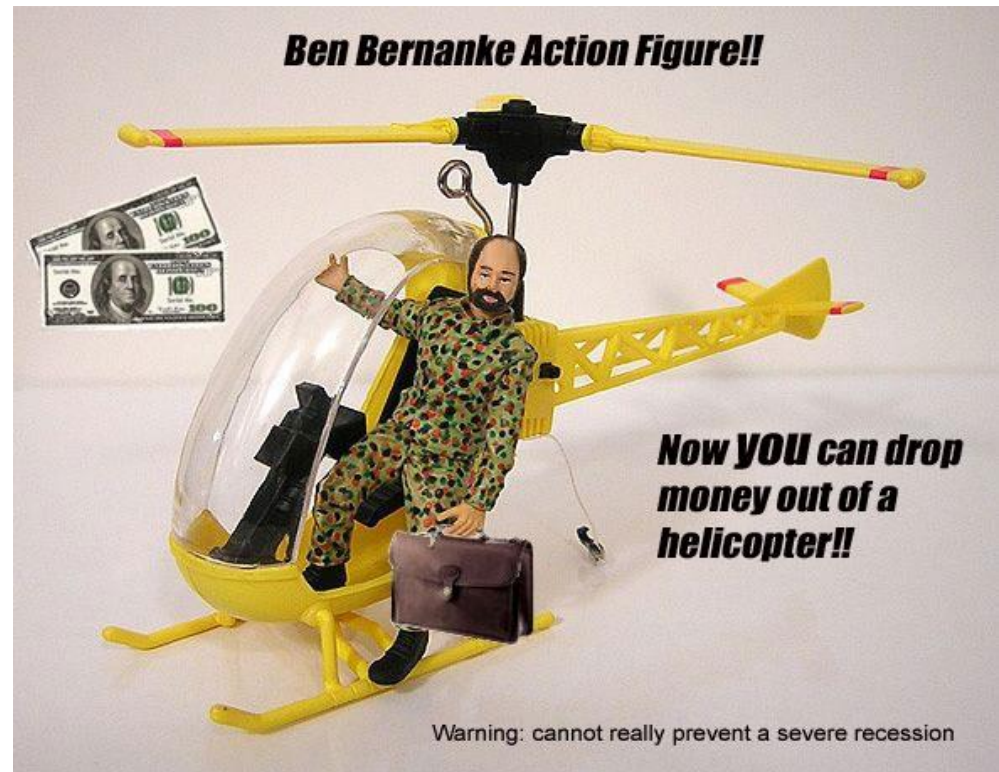
**On this side of the wall:**  
**1930's depression/  
Japan-like depression**



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

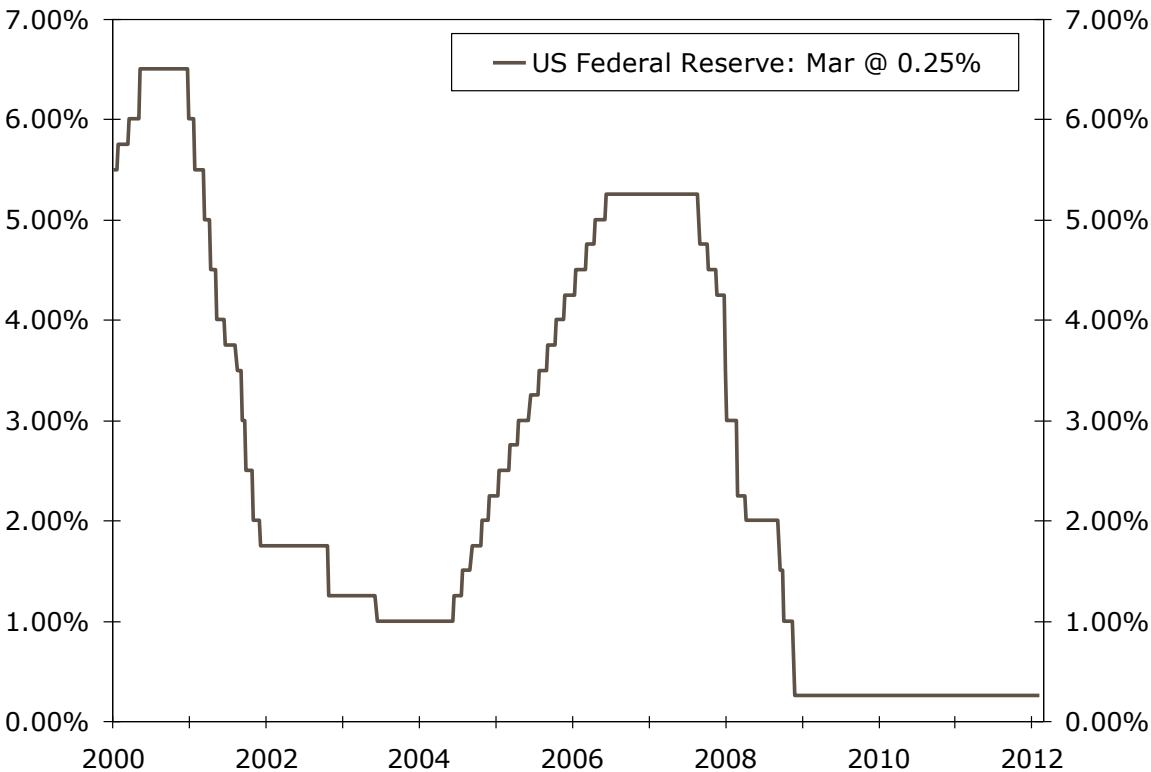
**The U.S. Economy sat on a wall,  
The U.S. Economy had a great fall.  
All the king's Treasury-men,  
And all the king's Federal Reserve-men,  
Couldn't put The U.S. Economy together again.**

The Helicopter Effect!



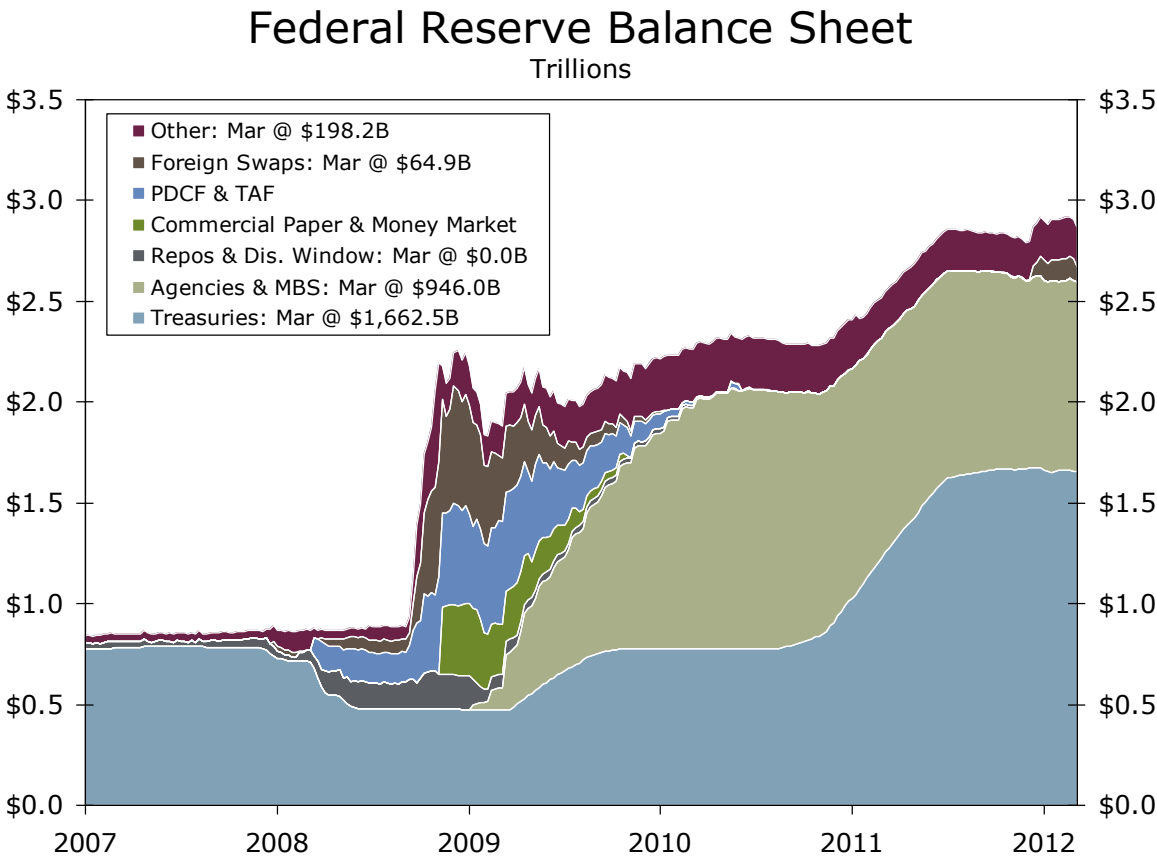
Monetary policy remains  
extremely expansive

U.S. Federal Reserve Target Rate



Source: Federal Reserve Board and Wells Fargo Securities, LLC

A Monetary Tsunami?



Source: Federal Reserve Board and Wells Fargo Securities, LLC

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# The Housing Market Today

You...



Your Buyer...





Your Lender...



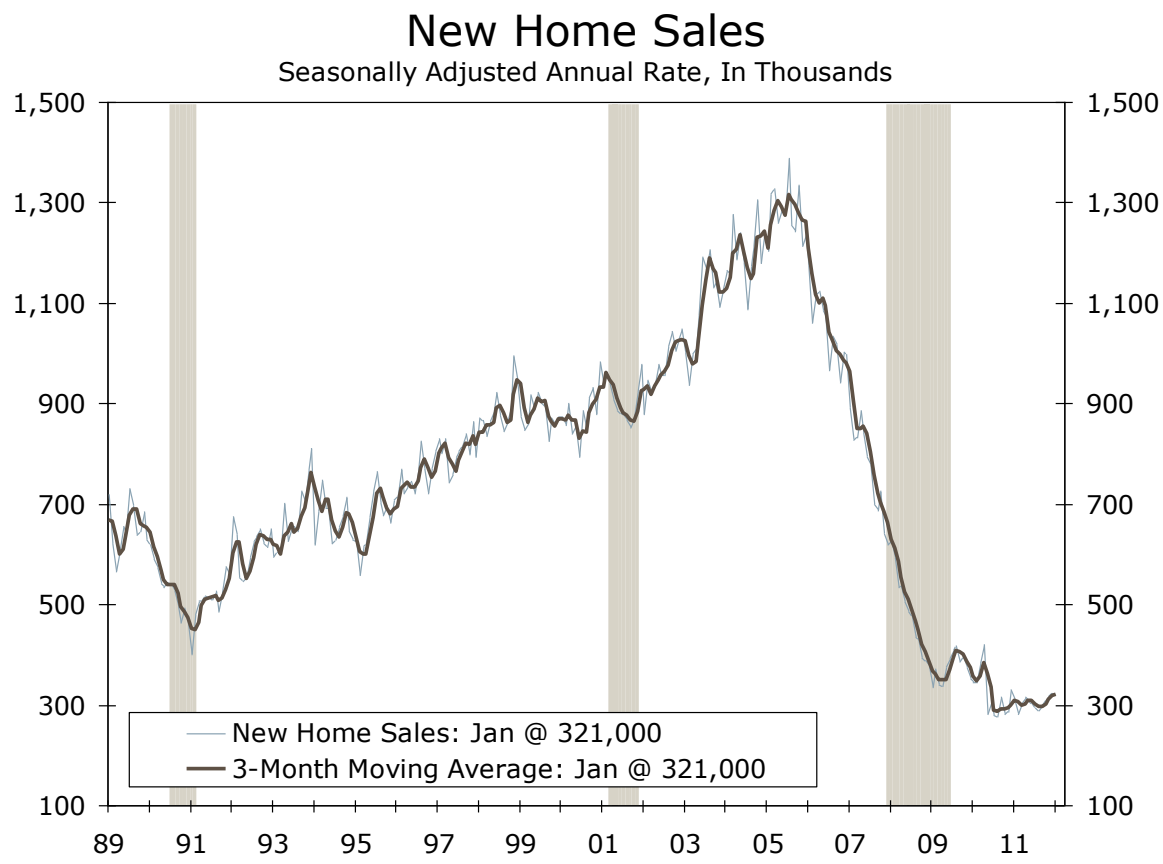
Your Appraiser...



And...  
Your County's Tax Assessor...

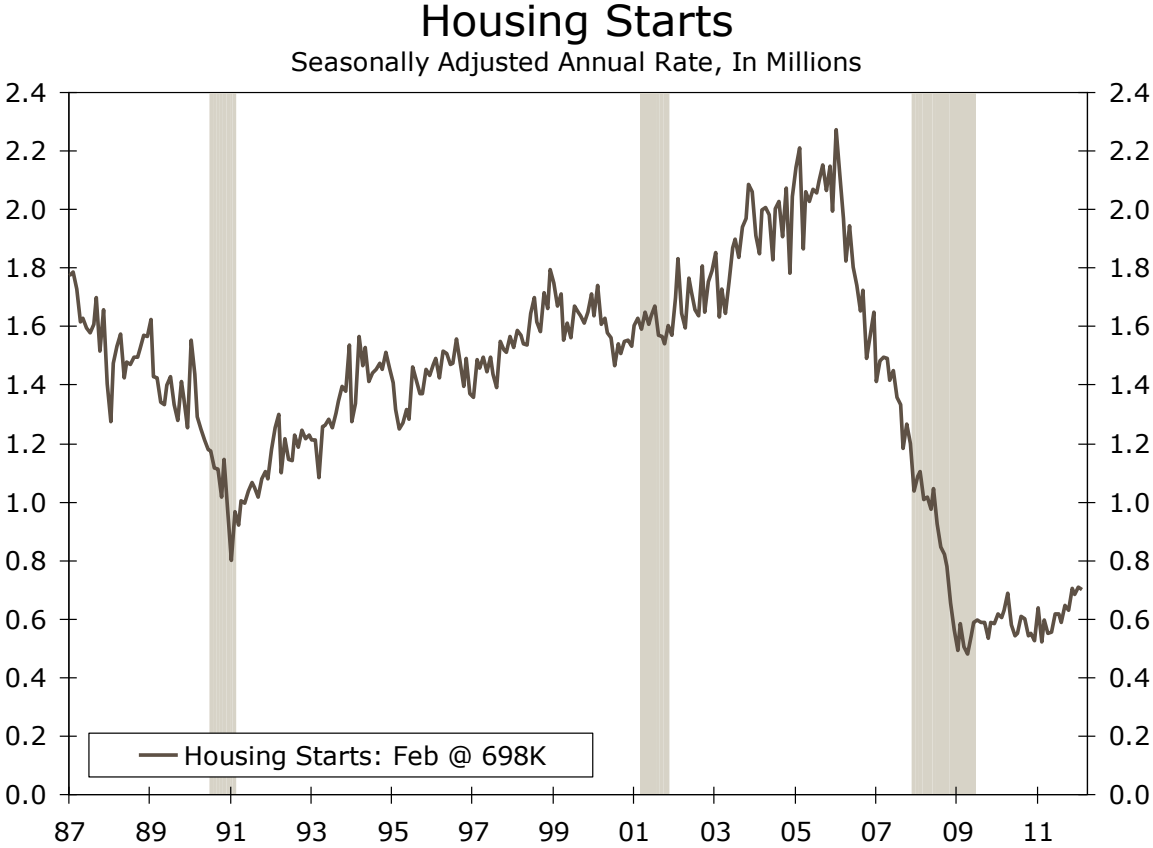


New home sales are very depressed



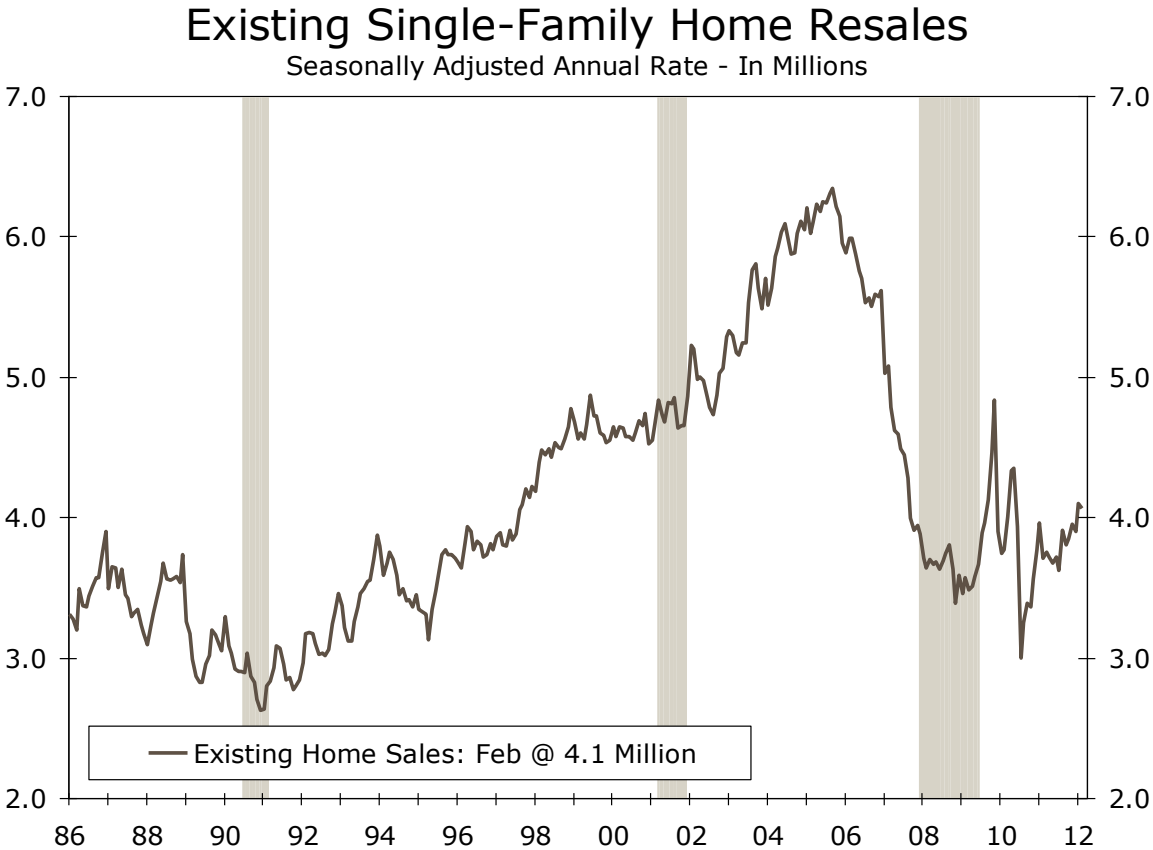
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Housing starts are showing  
some promise



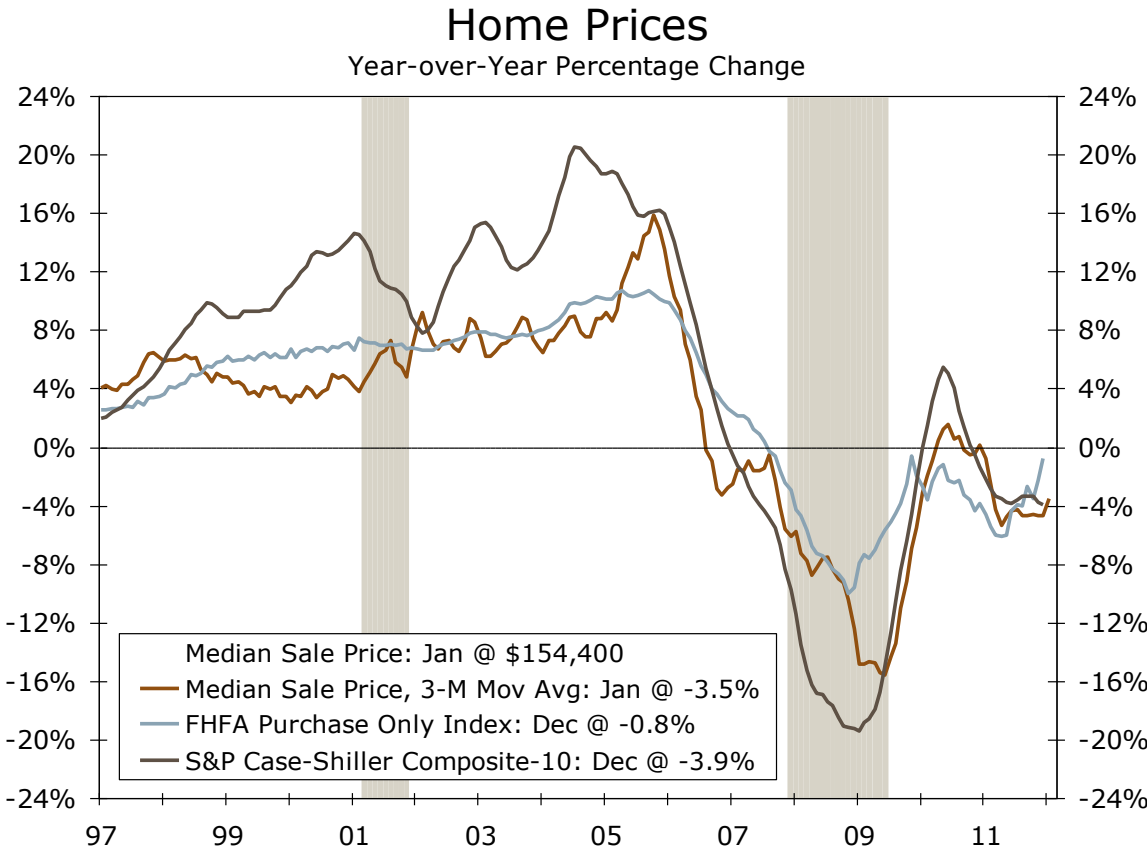
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Existing home sales are strengthening



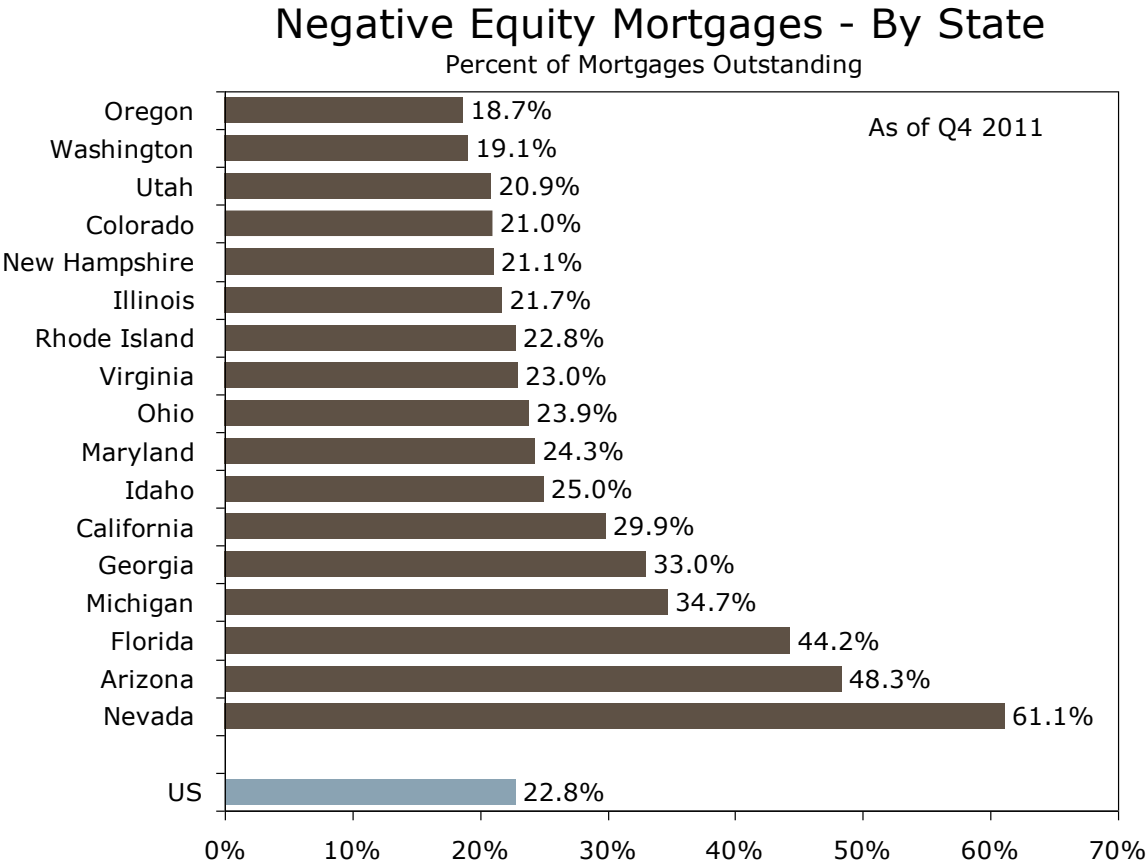
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Some price indices are turning the corner



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

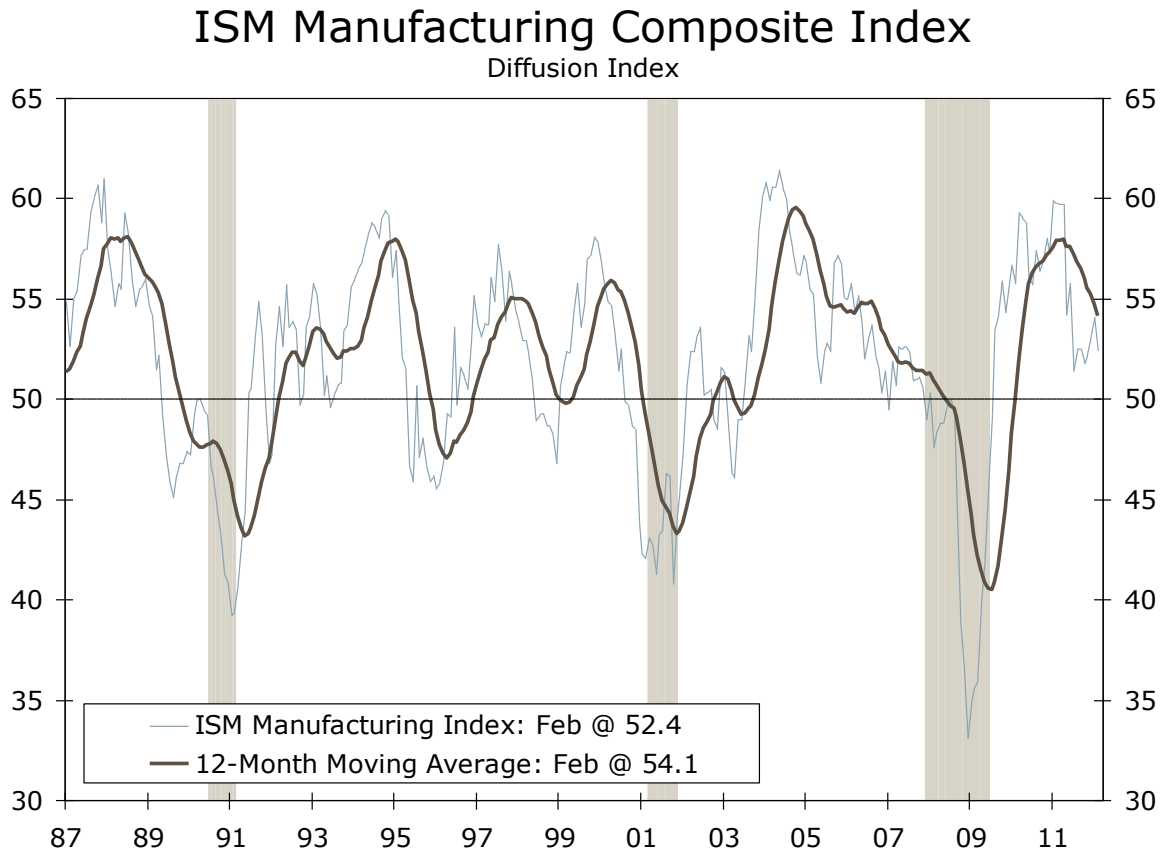
O...M...G...?



Source: FHFA and Wells Fargo Securities, LLC

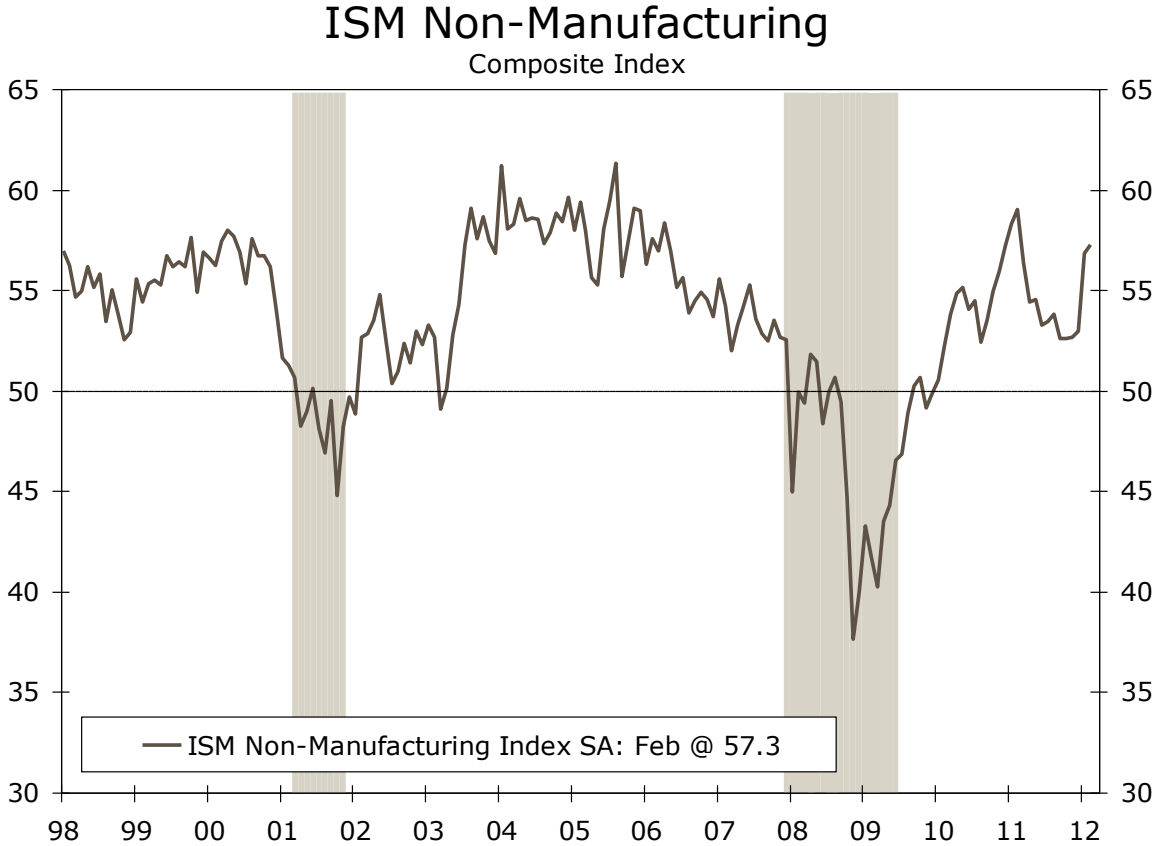


Manufacturing has expanded for more than two years



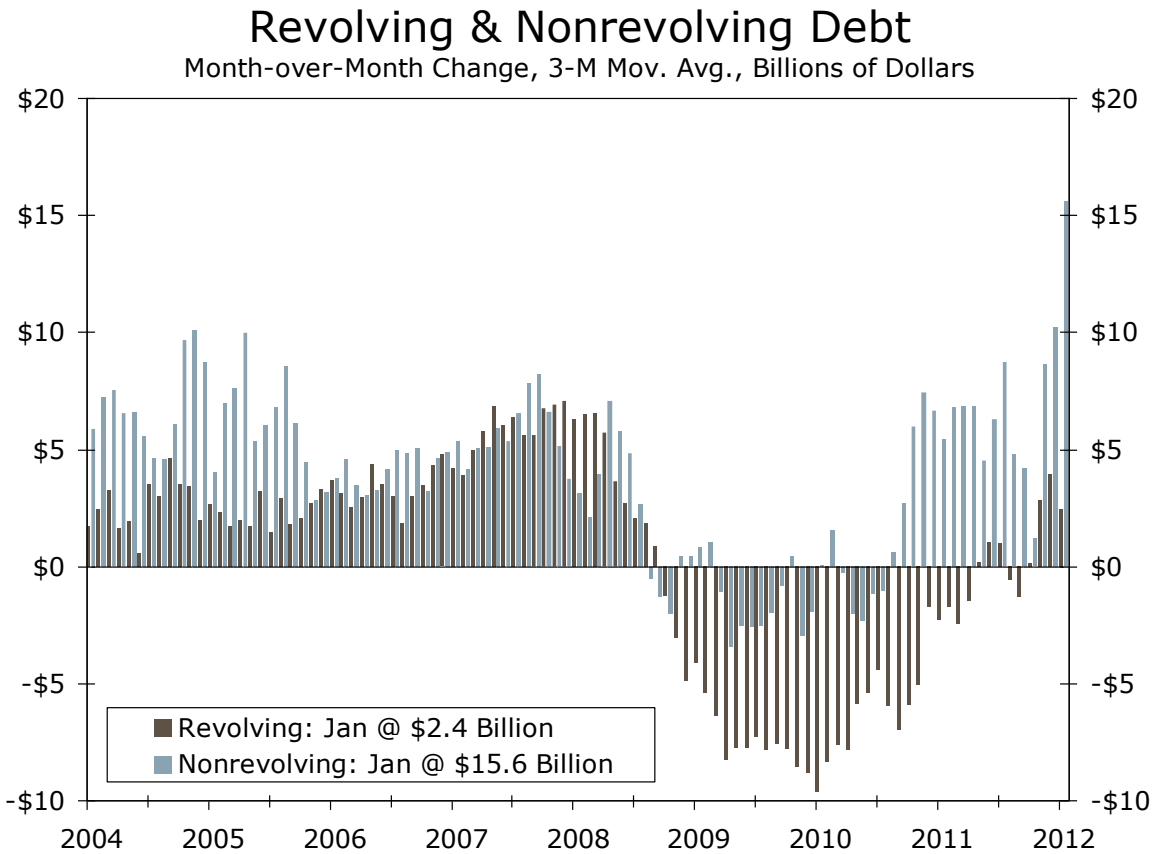
Source: Institute for Supply Management and Wells Fargo Securities, LLC

The service sector is also in expansion mode



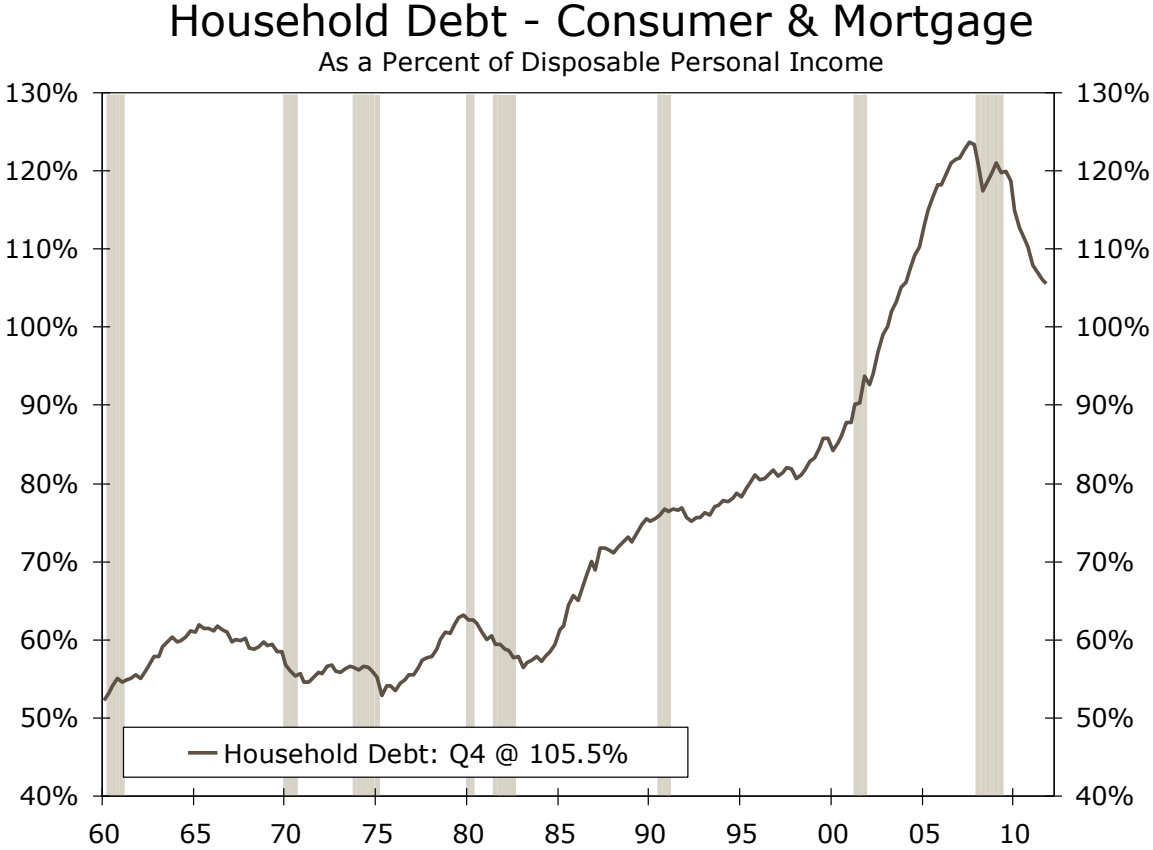
Source: Institute for Supply Management and Wells Fargo Securities, LLC

Credit card lending is non-existent



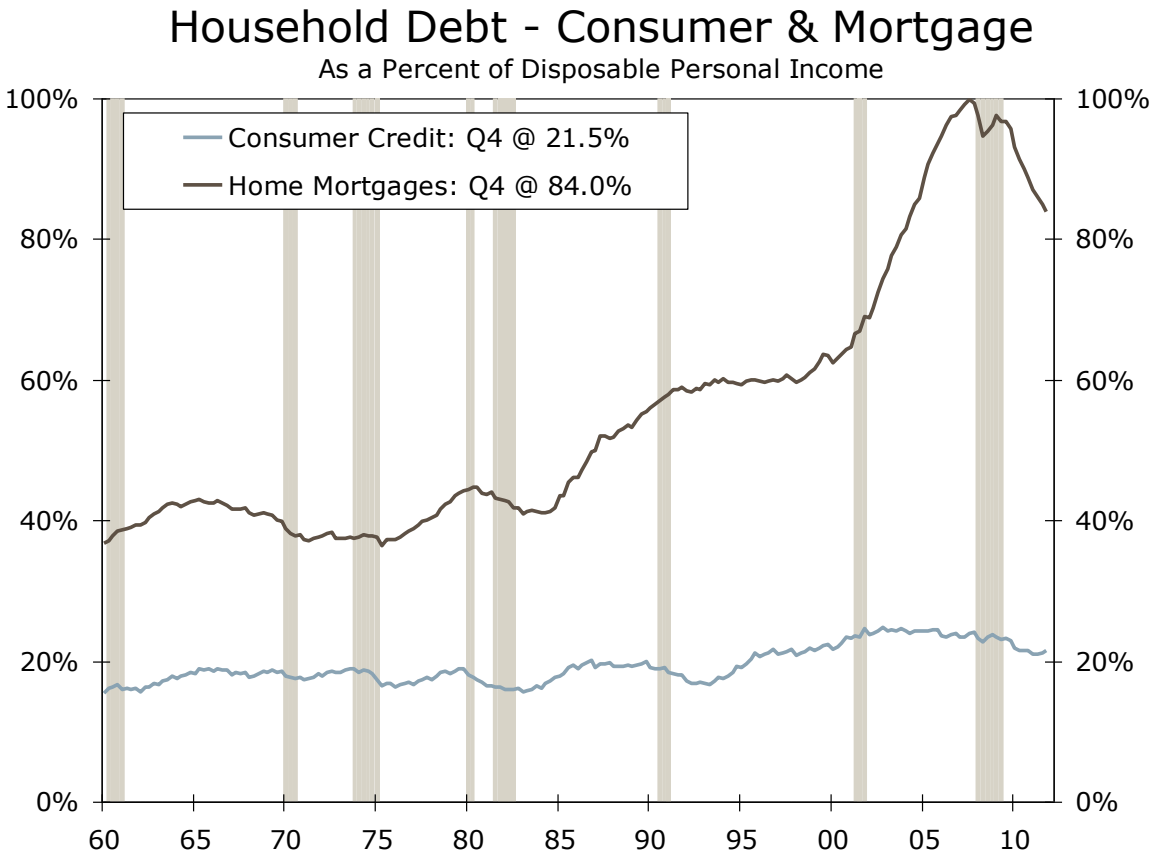
Source: Federal Reserve Board and Wells Fargo Securities, LLC

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



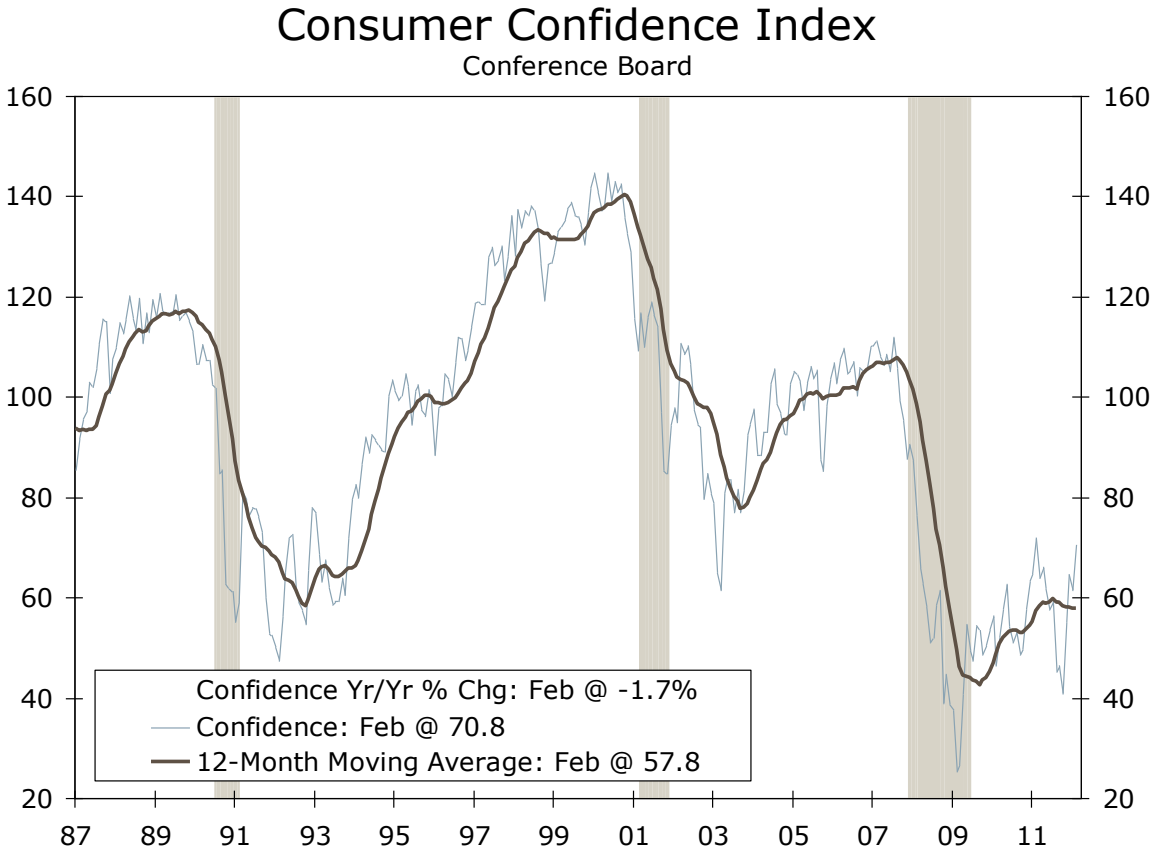
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Composition of household debt



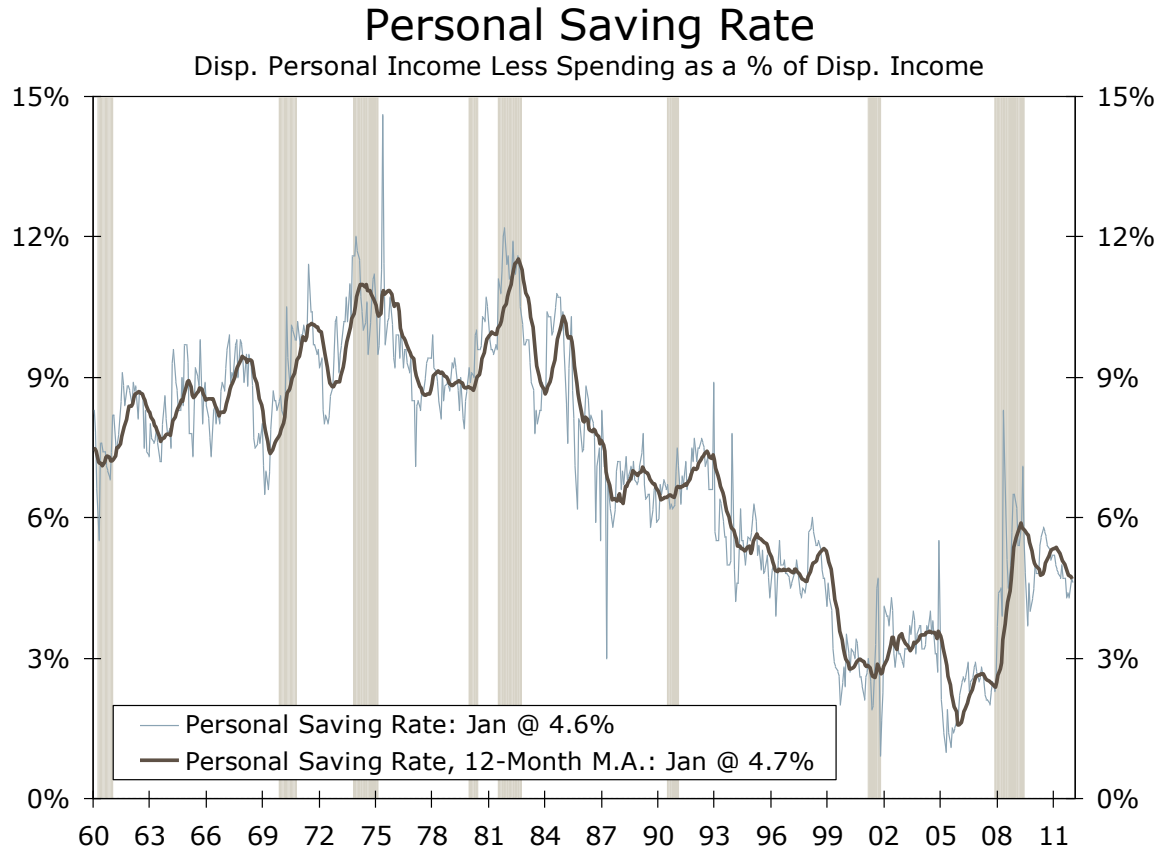
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Consumer confidence is still very weak for a strong recovery



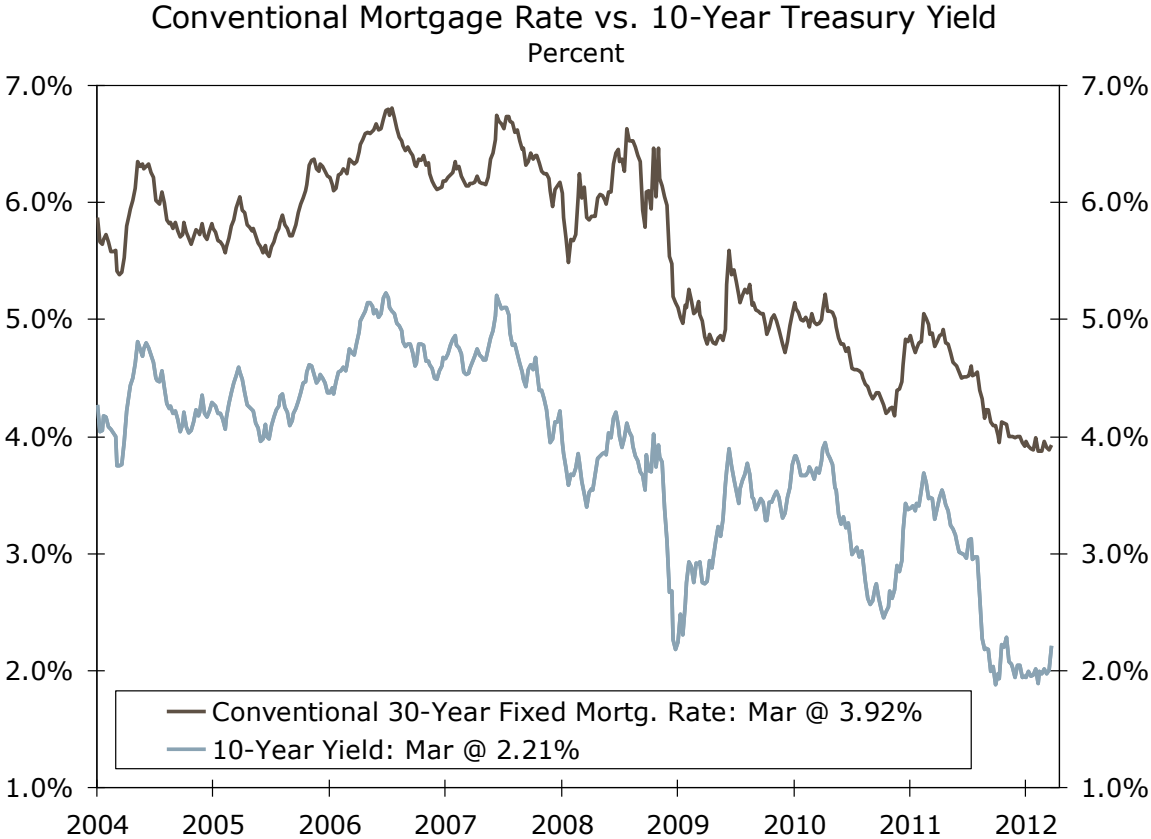
Source: The Conference Board and Wells Fargo Securities, LLC

The best news is that the saving rate has recovered



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

Mortgage interest rates have plummeted again but yields are increasing



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

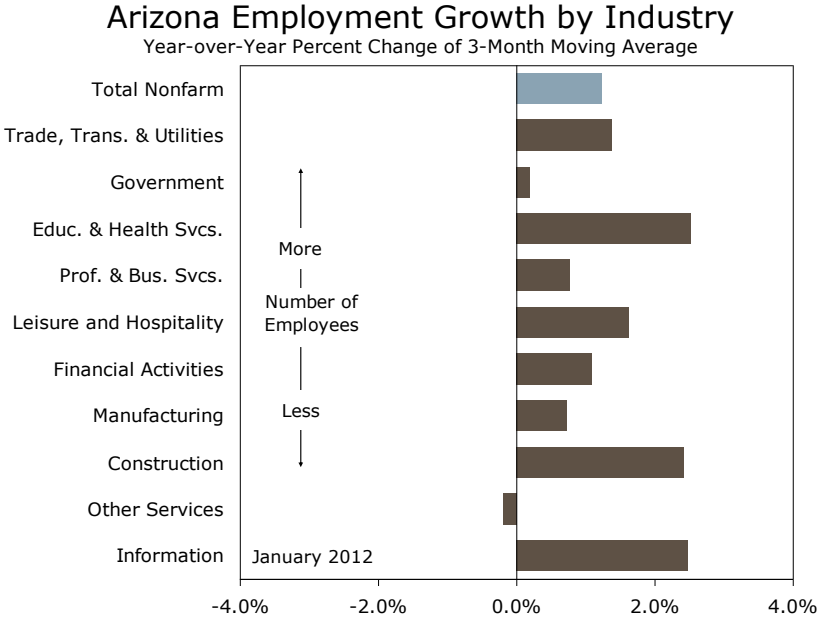


# The Arizona Economy

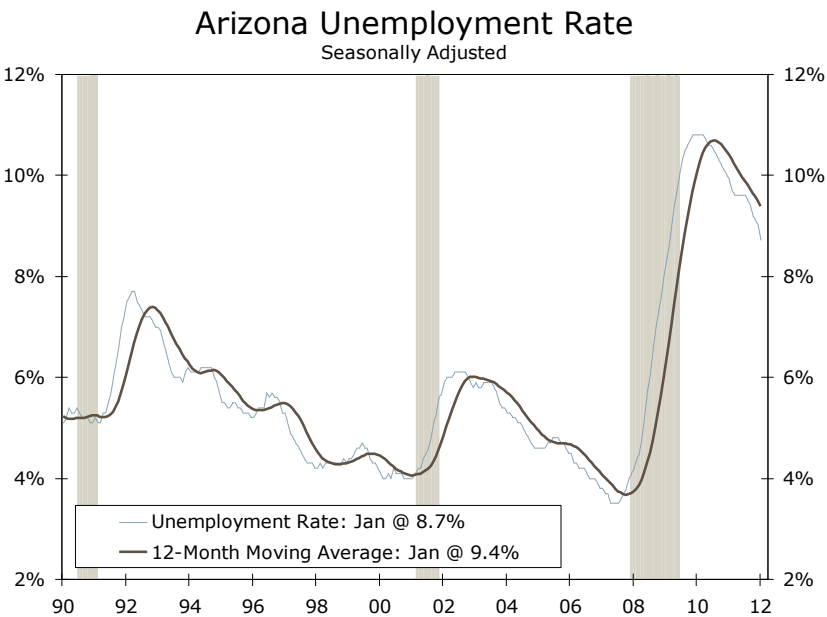
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Arizona’s labor market has shown some strength over the past year, with education and health services leading the way. The unemployment rate continues to trend downward.

## Employment



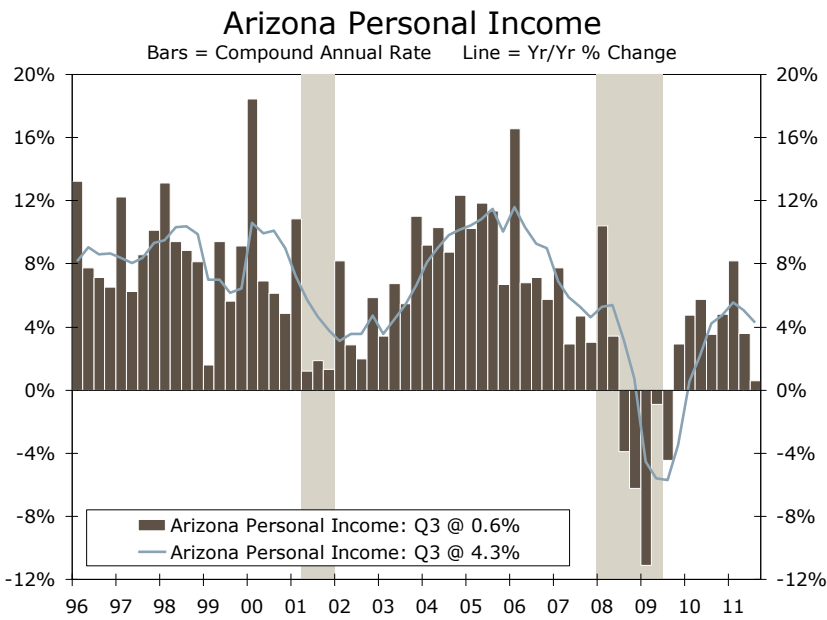
## Unemployment Rate



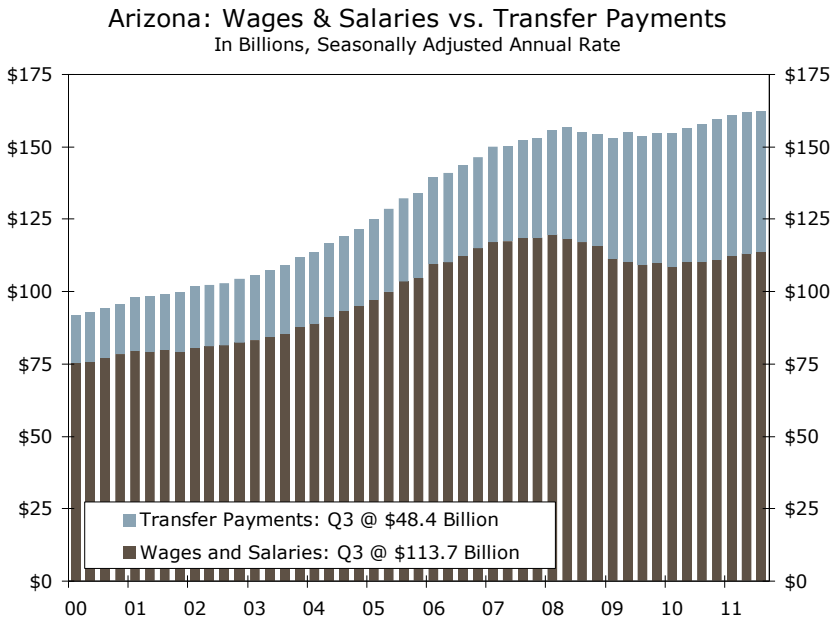
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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



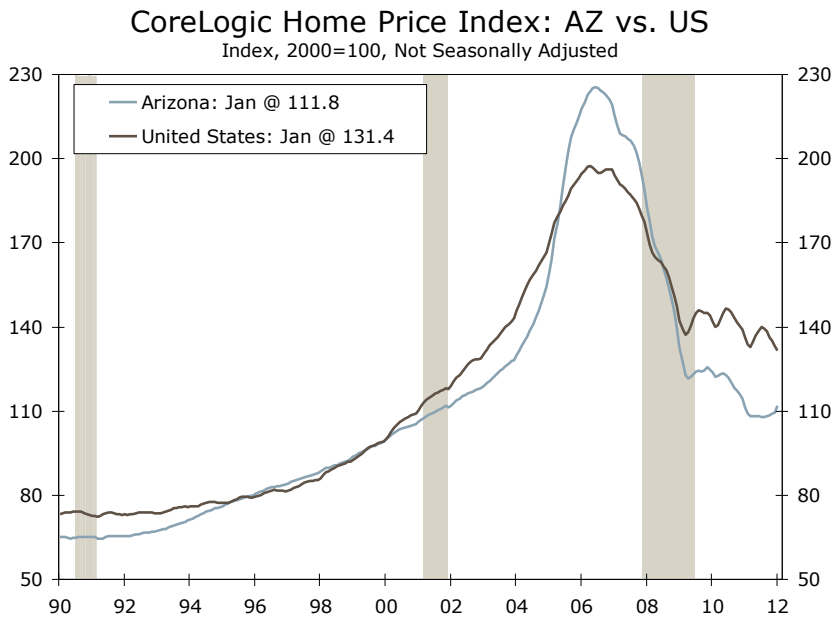
Composition of Income Growth



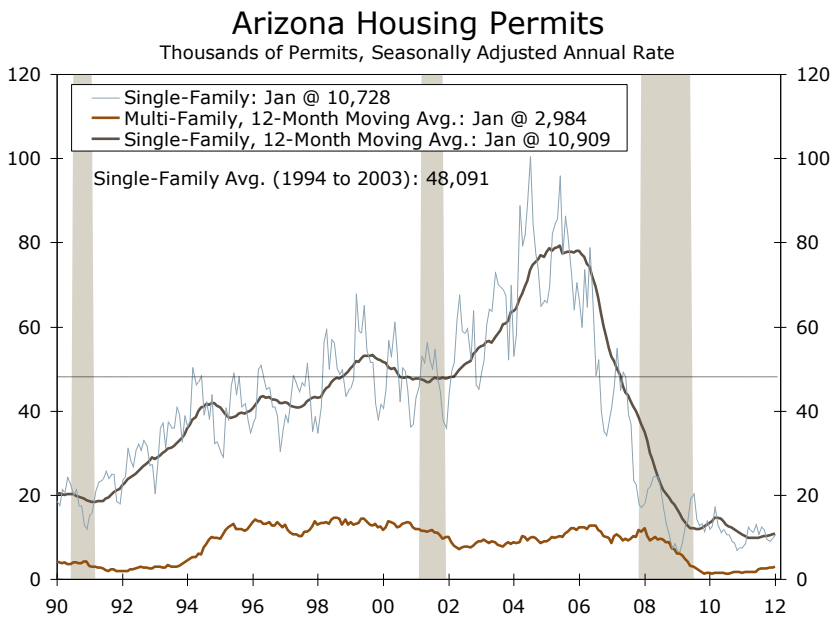
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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



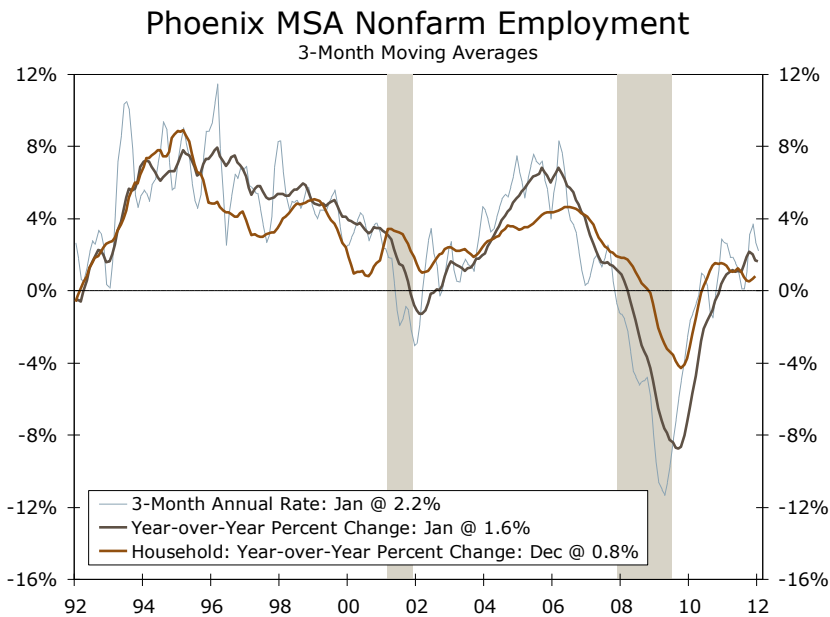
Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

# The Phoenix Metropolitan Economy

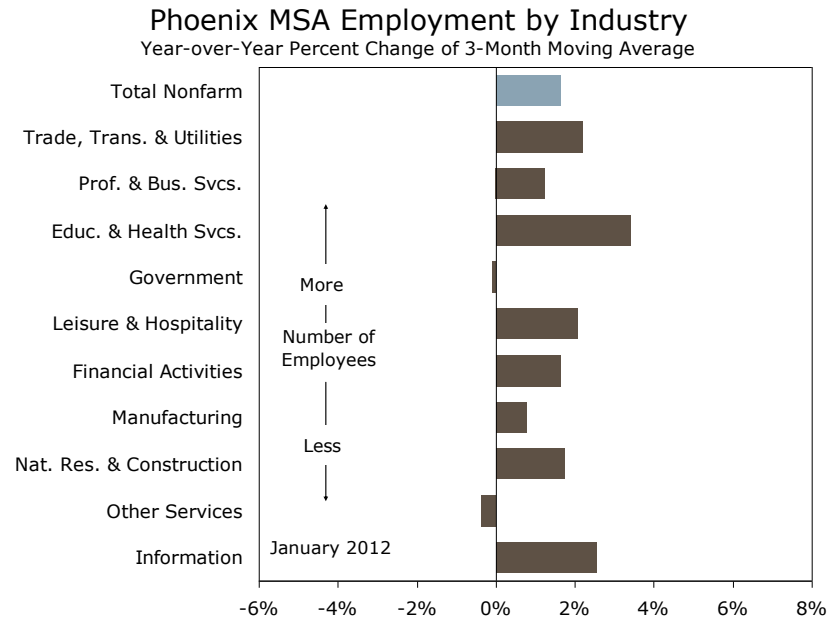
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The Phoenix MSA has relied on the service sectors to strengthen the labor market, however a full recovery is still not in the horizon.

## Employment



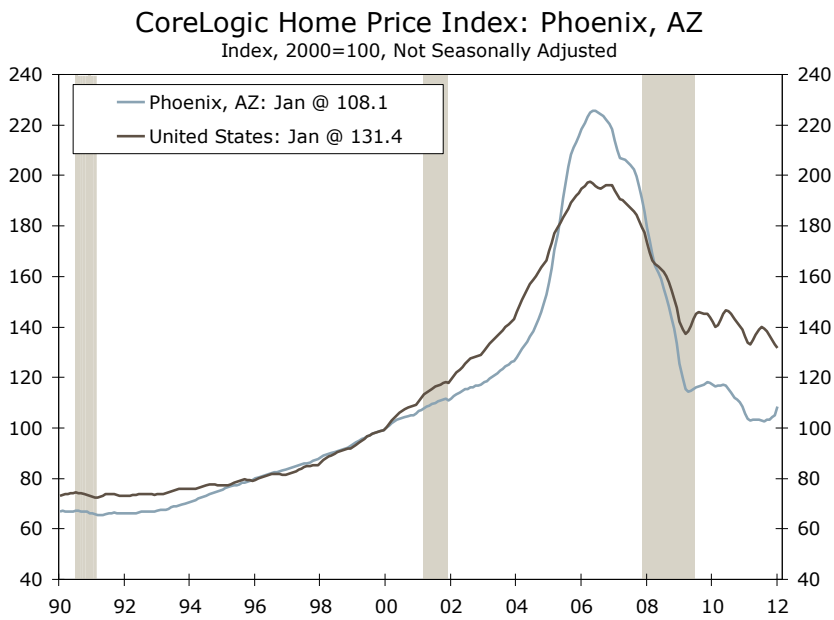
## Unemployment Rate



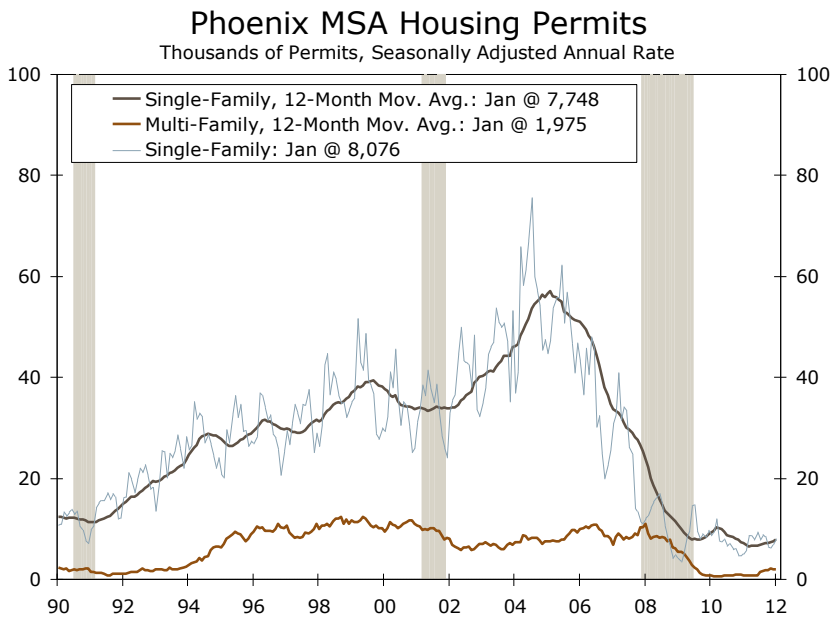
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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



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