WELLS FARGO SECURITIES

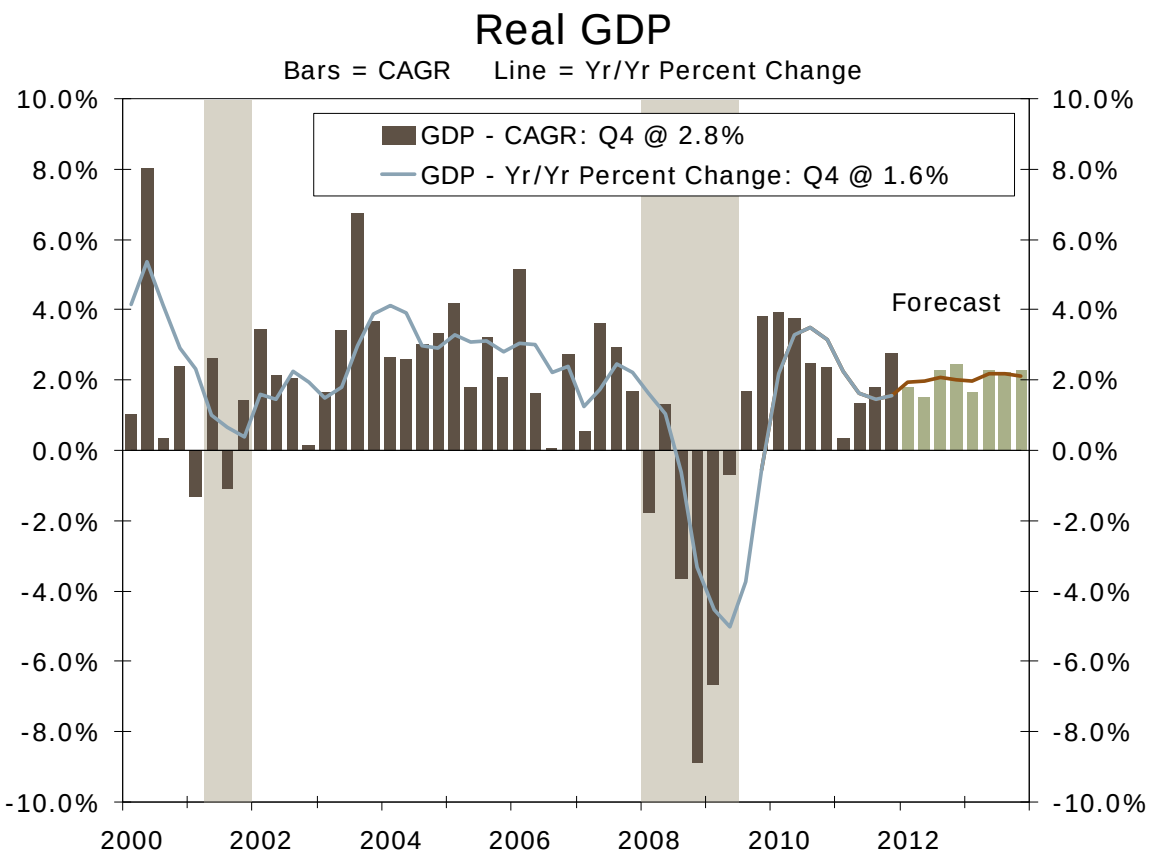
Economic Outlook

Mark Vitner, Managing Director & Senior Economist

February 23, 2012

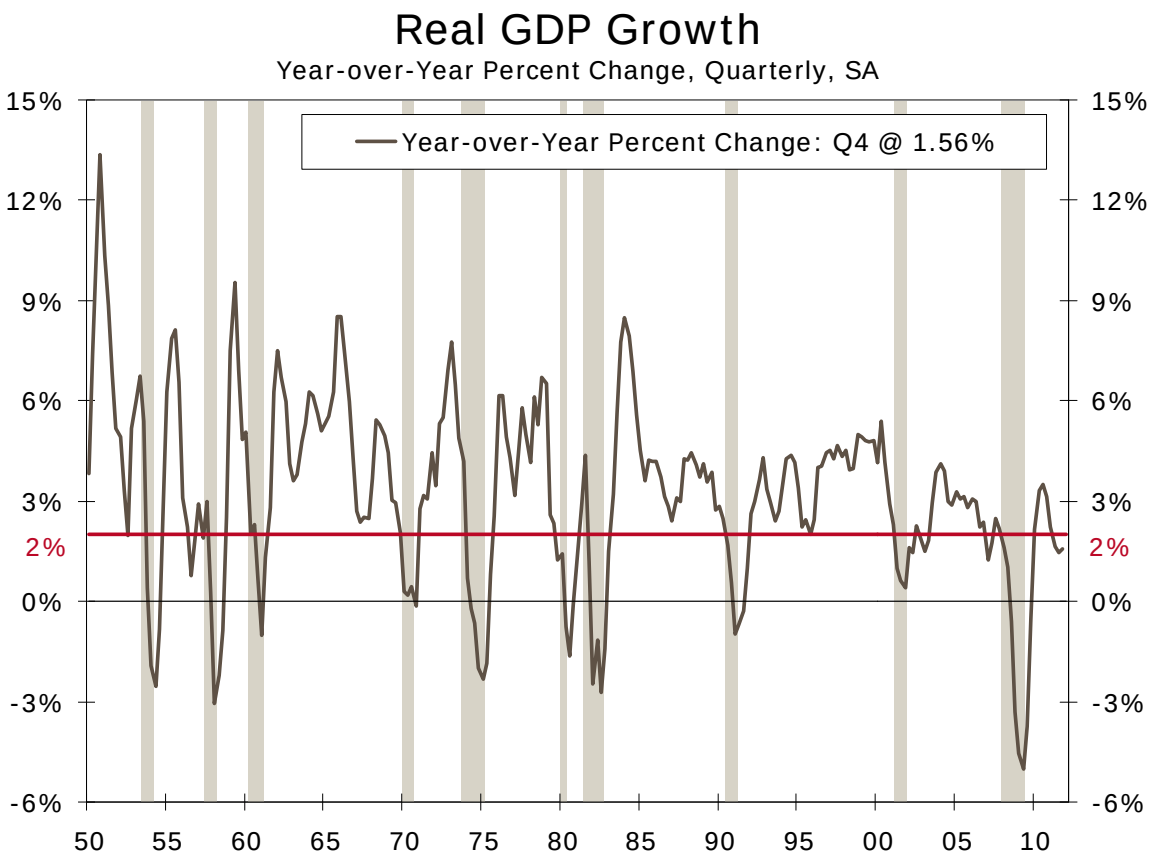
Together we'll go far

We are more than two years into the economic recovery and there is still a considerable amount of uncertainty regarding sovereign debt issues in Europe, the federal budget deficit and the U.S. housing sector



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

The year-over-year percent change in real GDP dipped below the two percent mark in the second quarter, which is a worrisome sign that has often preceded recessions in the past



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

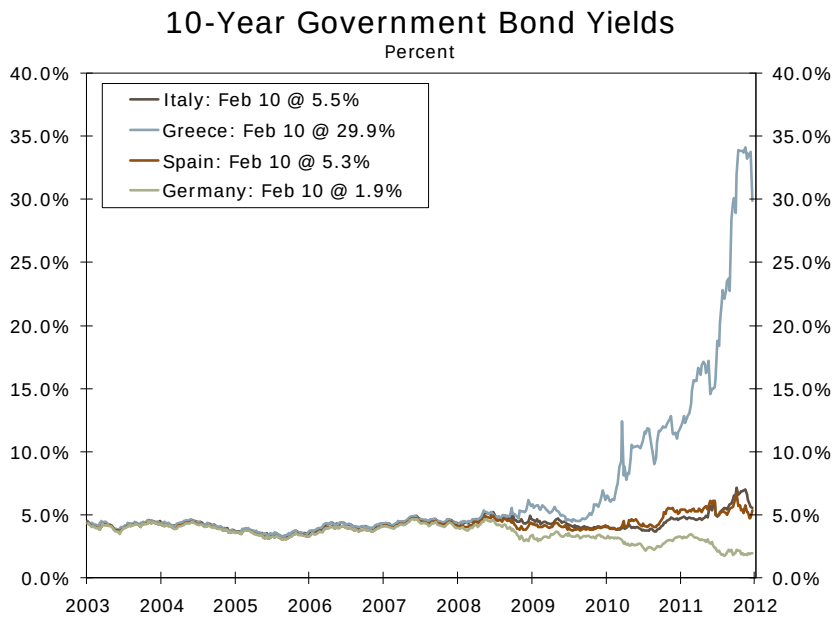
Financial Crises Are Becoming More Frequent

Financial crises around the world have been occurring more frequently in recent decades, which is driving volatility in the U.S. Treasury bond market

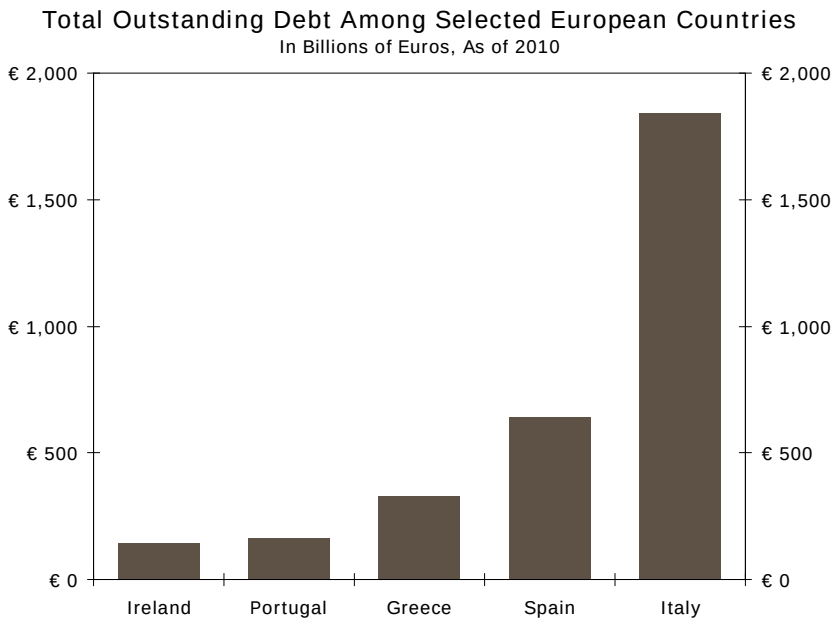
Source: Federal Reserve Board and Wells Fargo Securities, LLC

The European debt crisis has intensified. Borrowing rates remain elevated across the Eurozone. Italy is the most worrisome country, with nearly €2 trillion in debt outstanding.

European Interest Rates

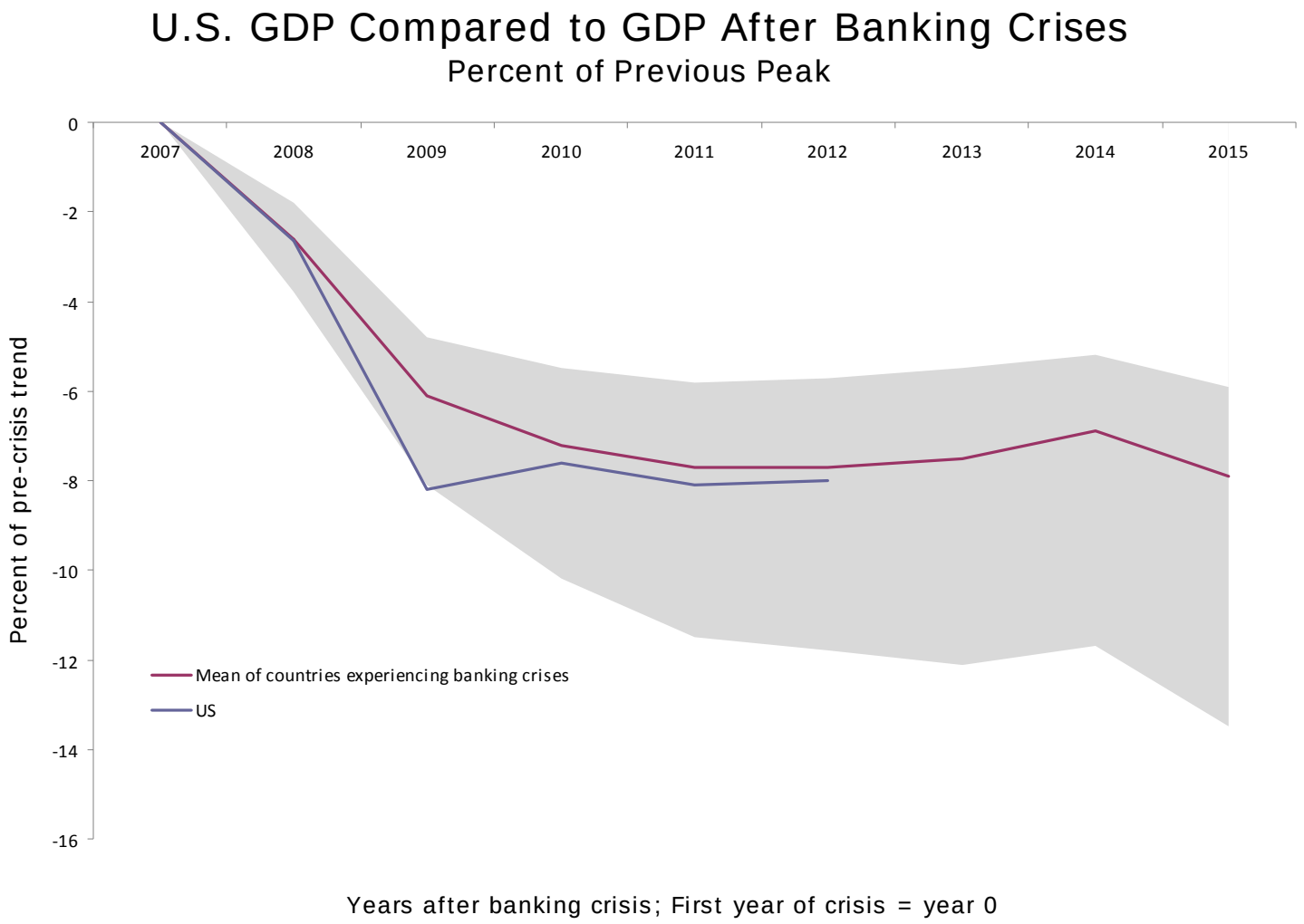


Budget Deficits as a Share of GDP



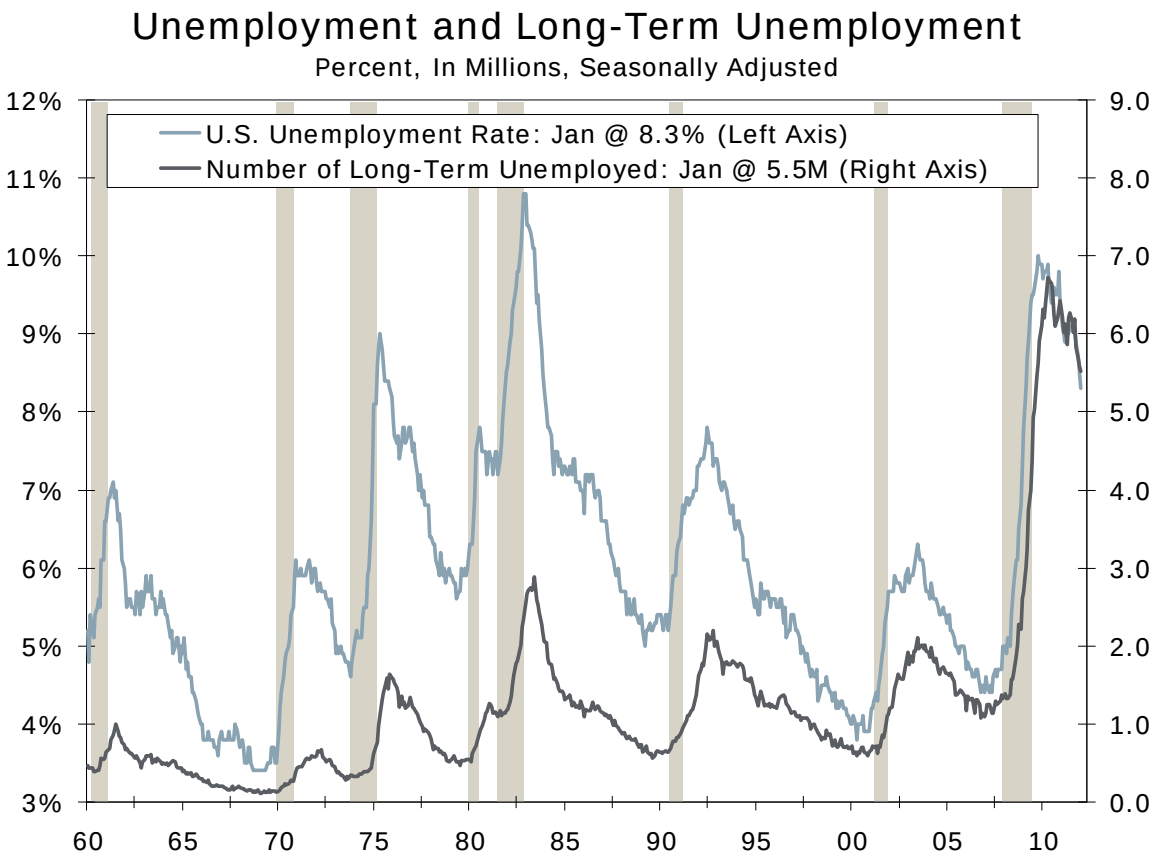
Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities, LLC

History shows us that recoveries from financial crises tend to be slow and protracted



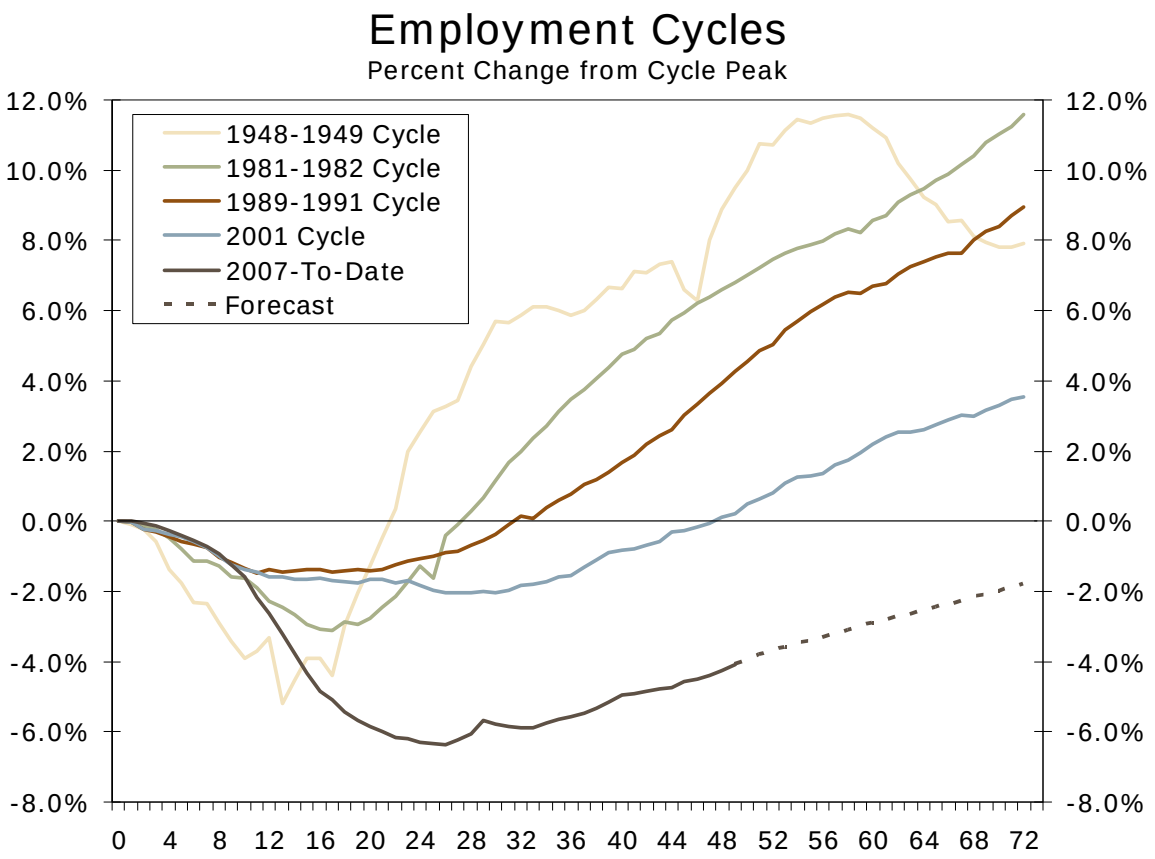
Source: Dallas Fed, World Economic Outlook, Bureau of Economic Analysis, author's calculations

Not only is unemployment remaining exceptionally high, but a large number of people have remained unemployed for a long period of time



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

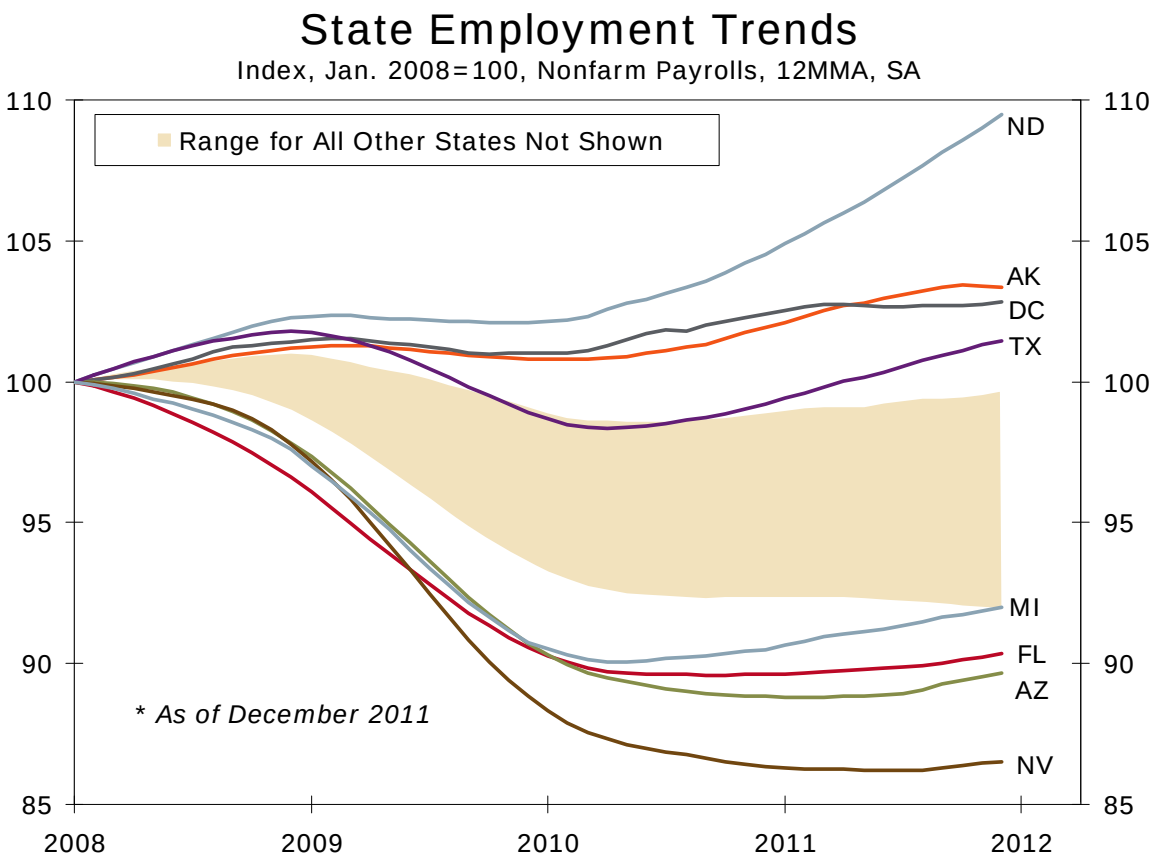
Job losses exceeded every post-World War II downturn and the modest recovery to date has been extremely disappointing



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

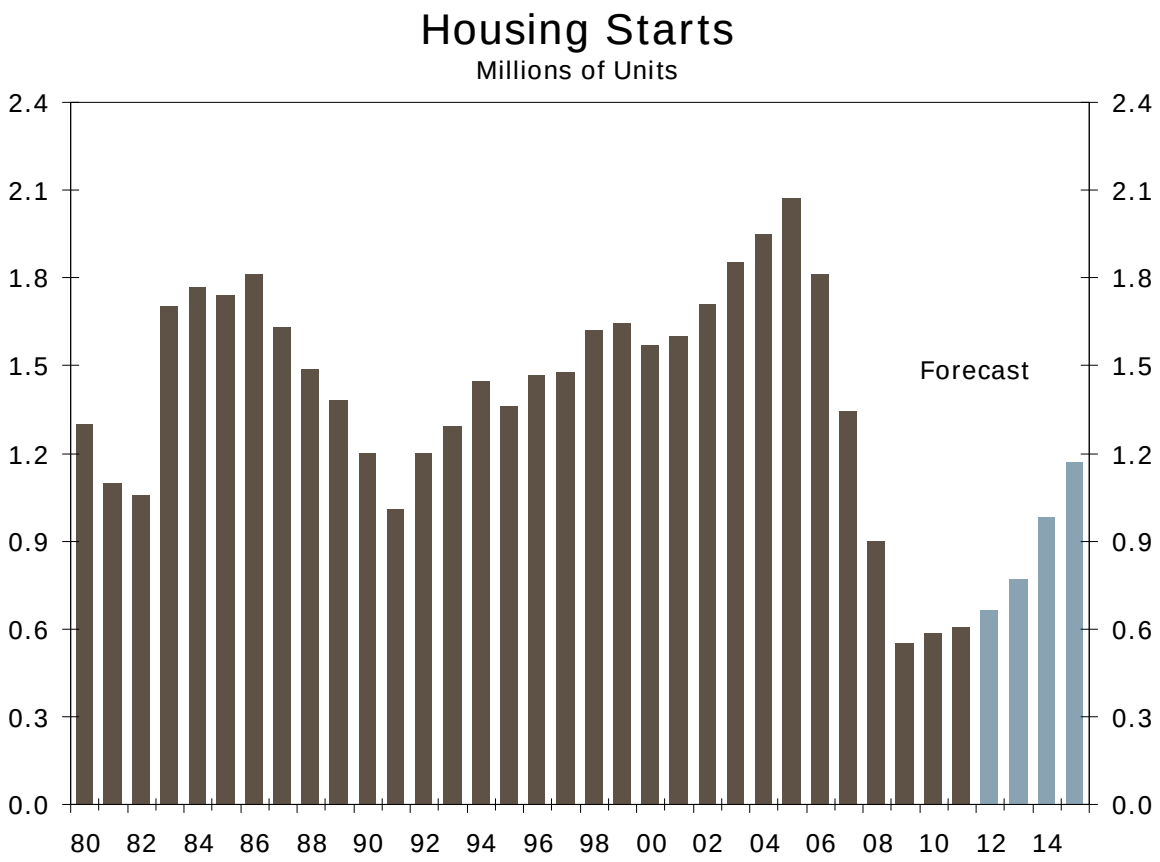
Employment Growth by State

North Dakota, Alaska and Washington, D.C., continue to lead the nation in employment growth, while the labor markets in Nevada, Florida and Arizona remain exceptionally weak



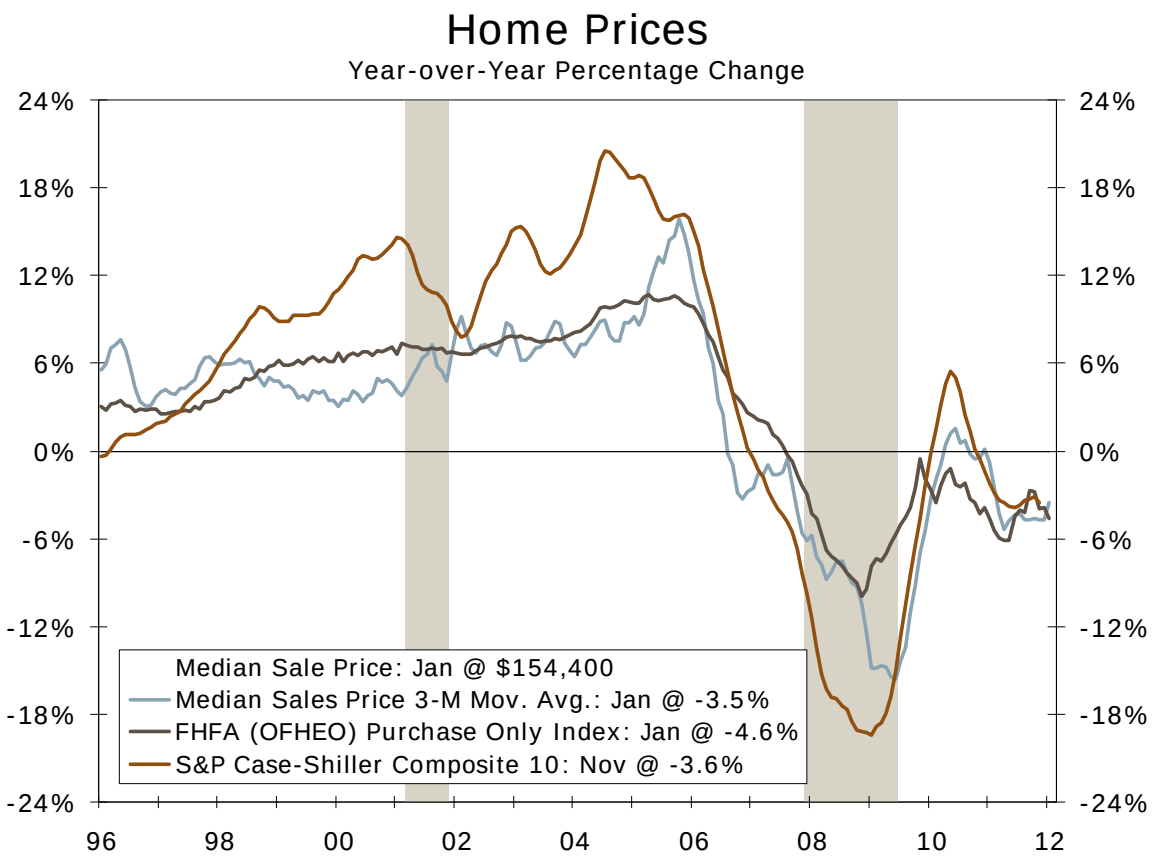
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

We believe housing starts have bottomed and will increase modestly through 2012, returning to a "normal" level by 2015



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

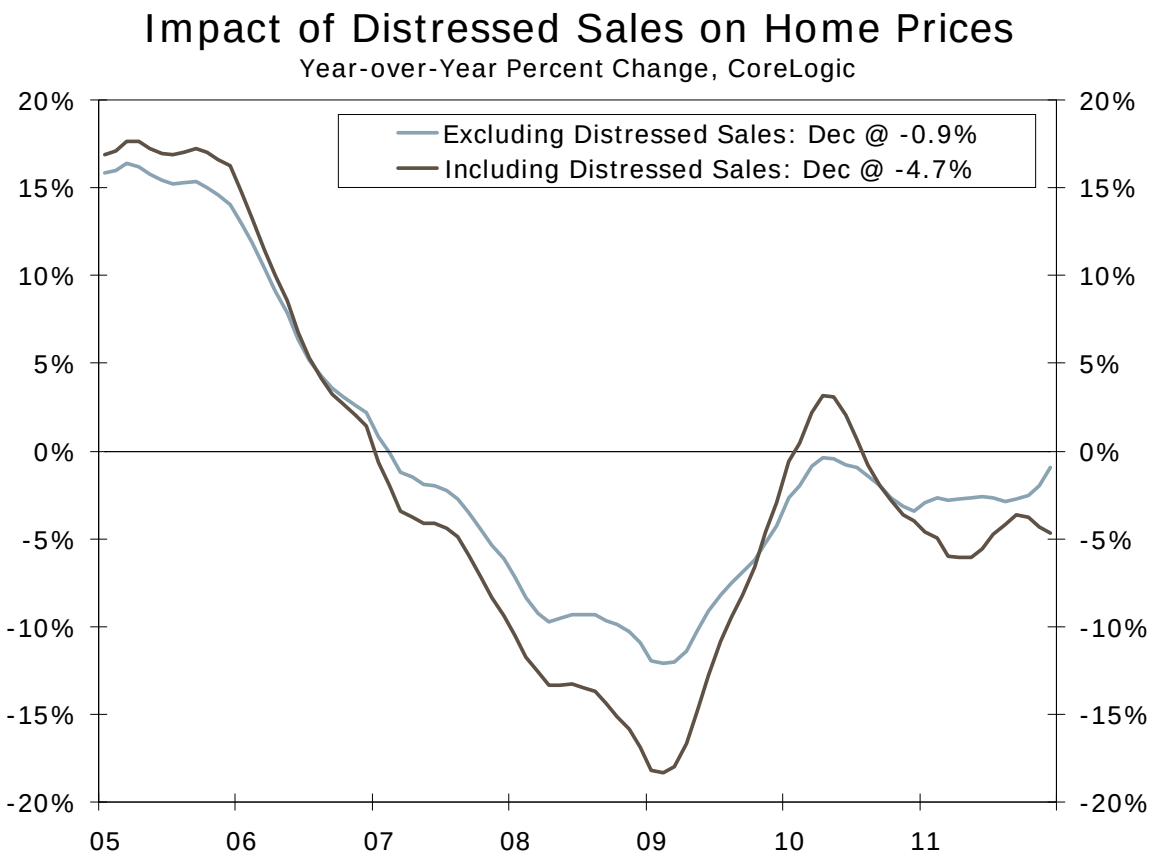
Various mortgage foreclosure moratoriums and stimulus programs likely supported prices earlier and are now giving way



Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

Impact of Distressed Sales on Home Prices

Prices for non-distressed transactions have just about bottomed, while distressed sales continue to drag overall home price indices lower

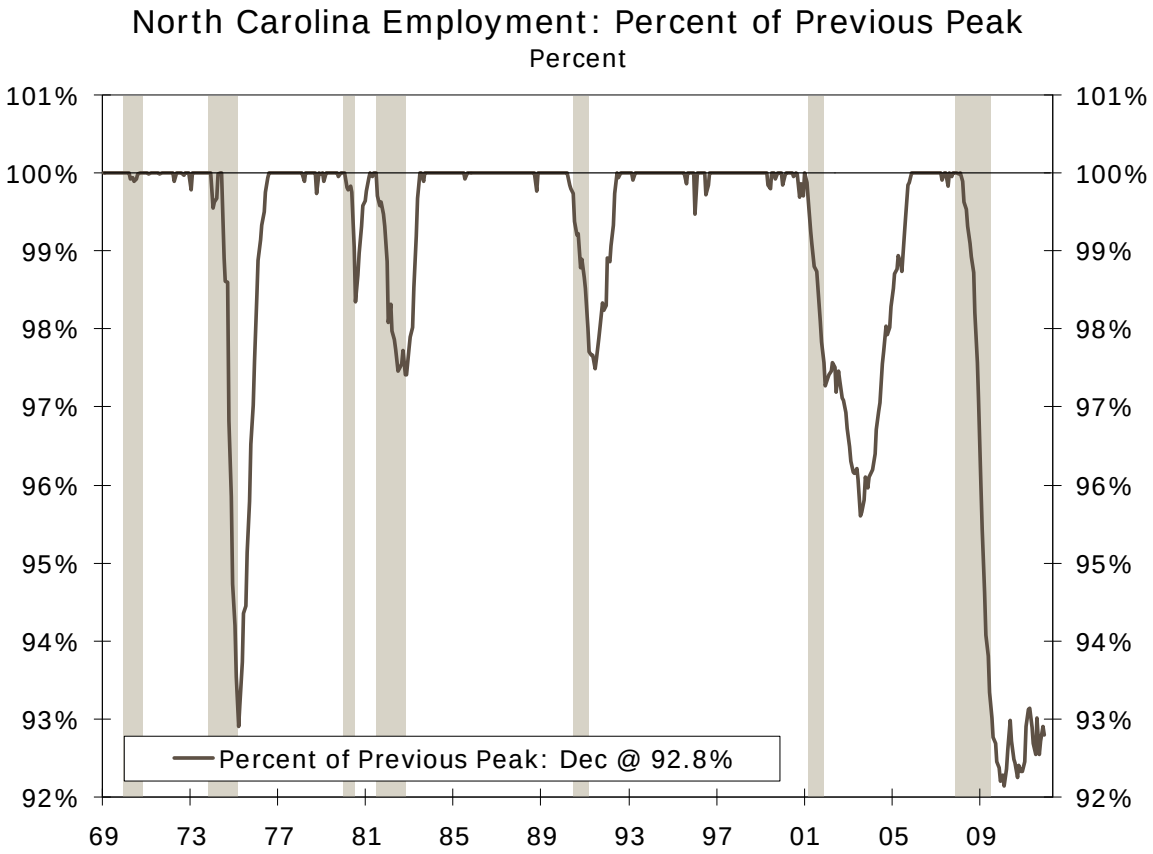


Source: CoreLogic and Wells Fargo Securities, LLC

North Carolina

North Carolina Employment Picture

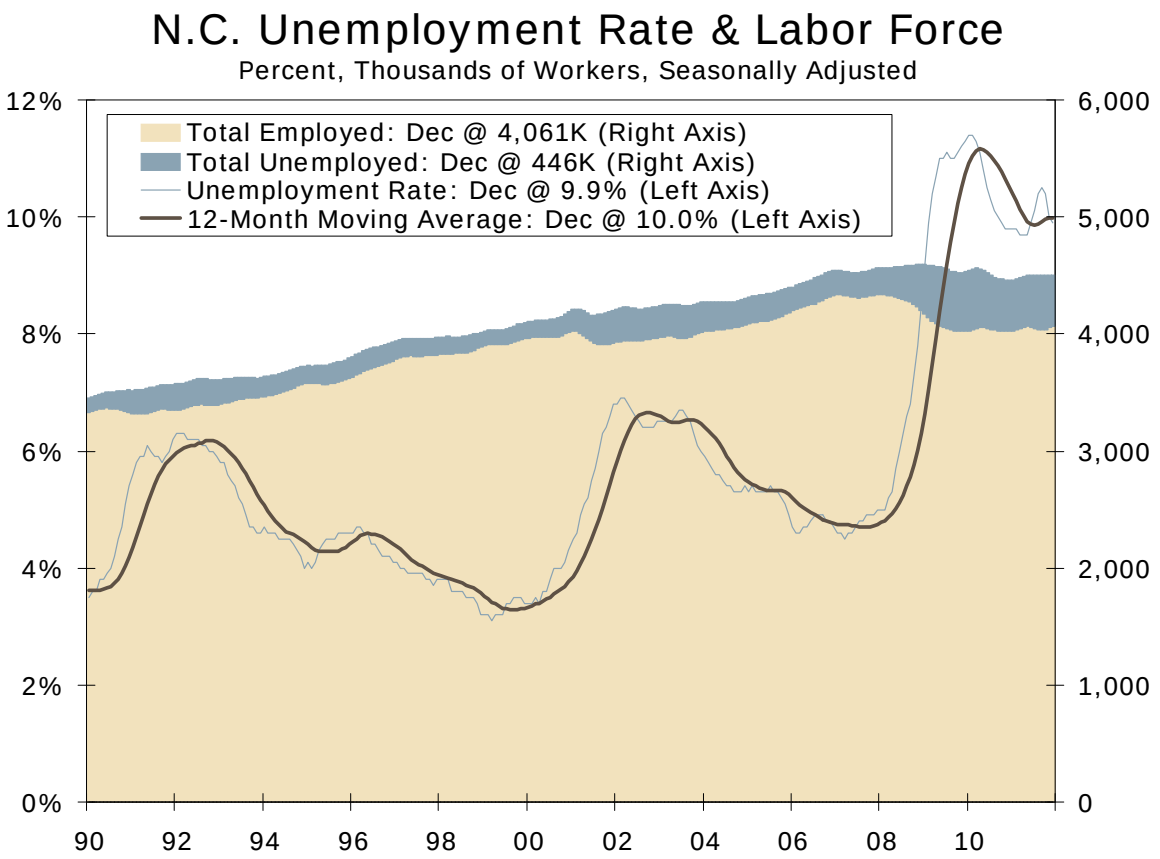
North Carolina's labor market is still severely impaired. Nonfarm payrolls are more than 7 percentage points below their prerecession peak.



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

North Carolina Unemployment Rate

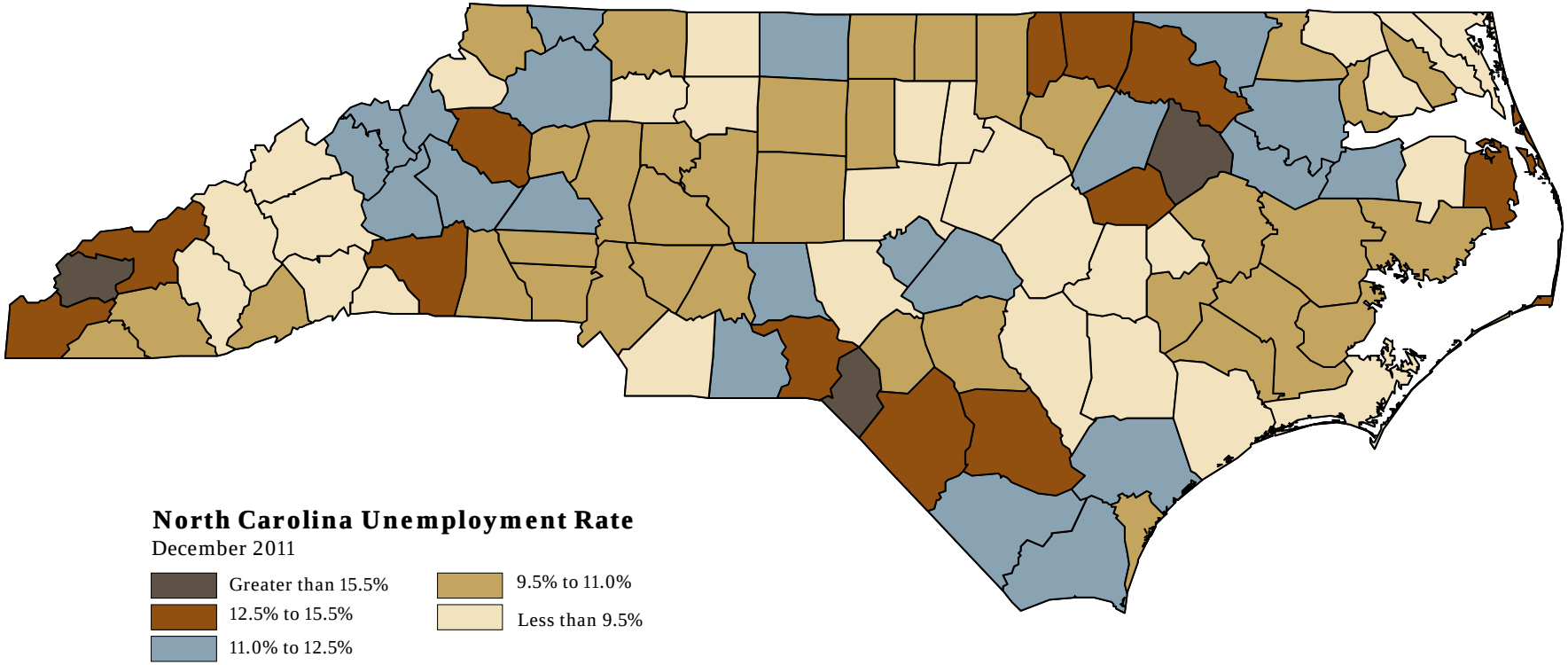
The unemployment rate in North Carolina is well above the national average



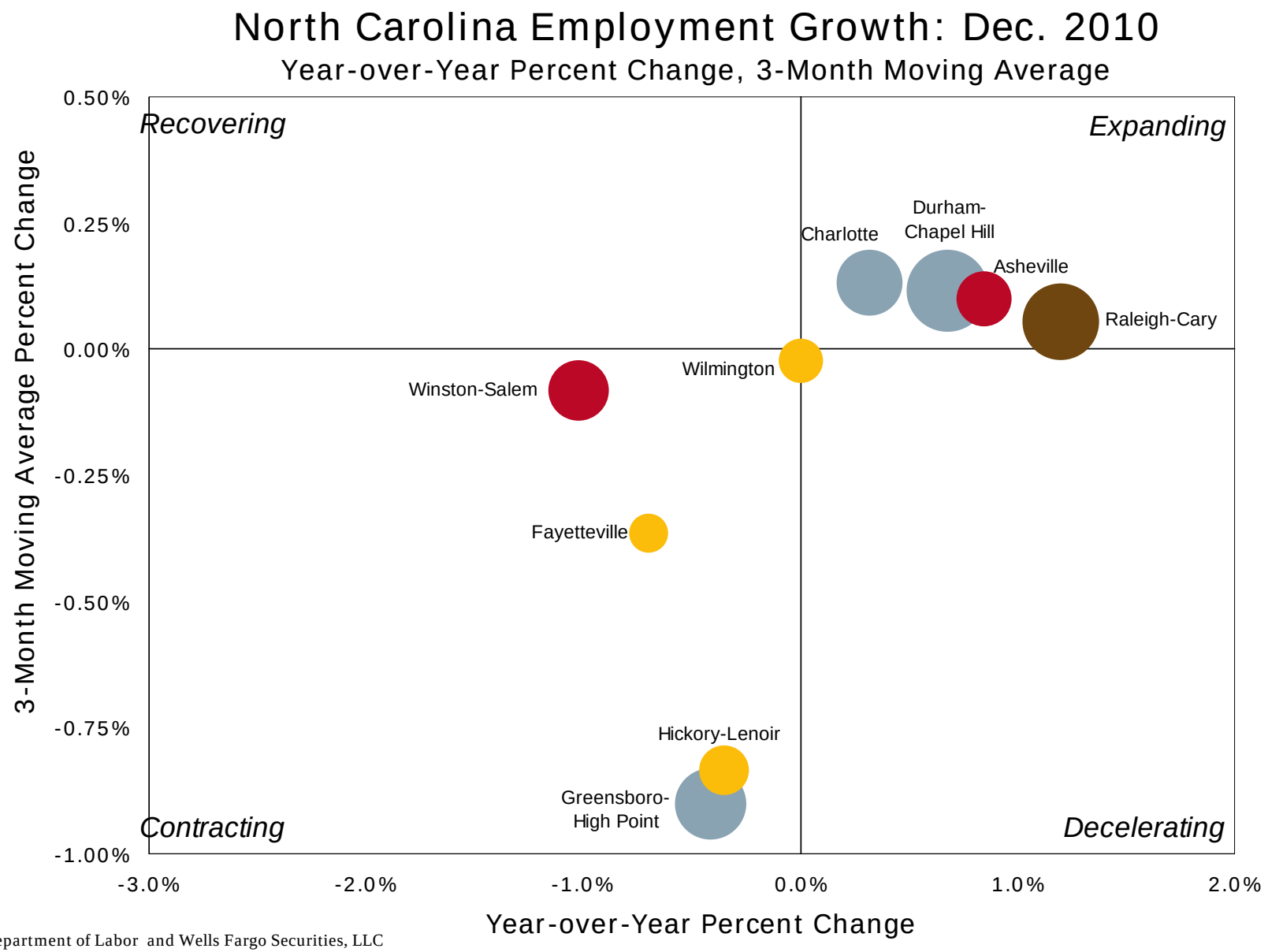
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

North Carolina – Unemployment Rate Composition

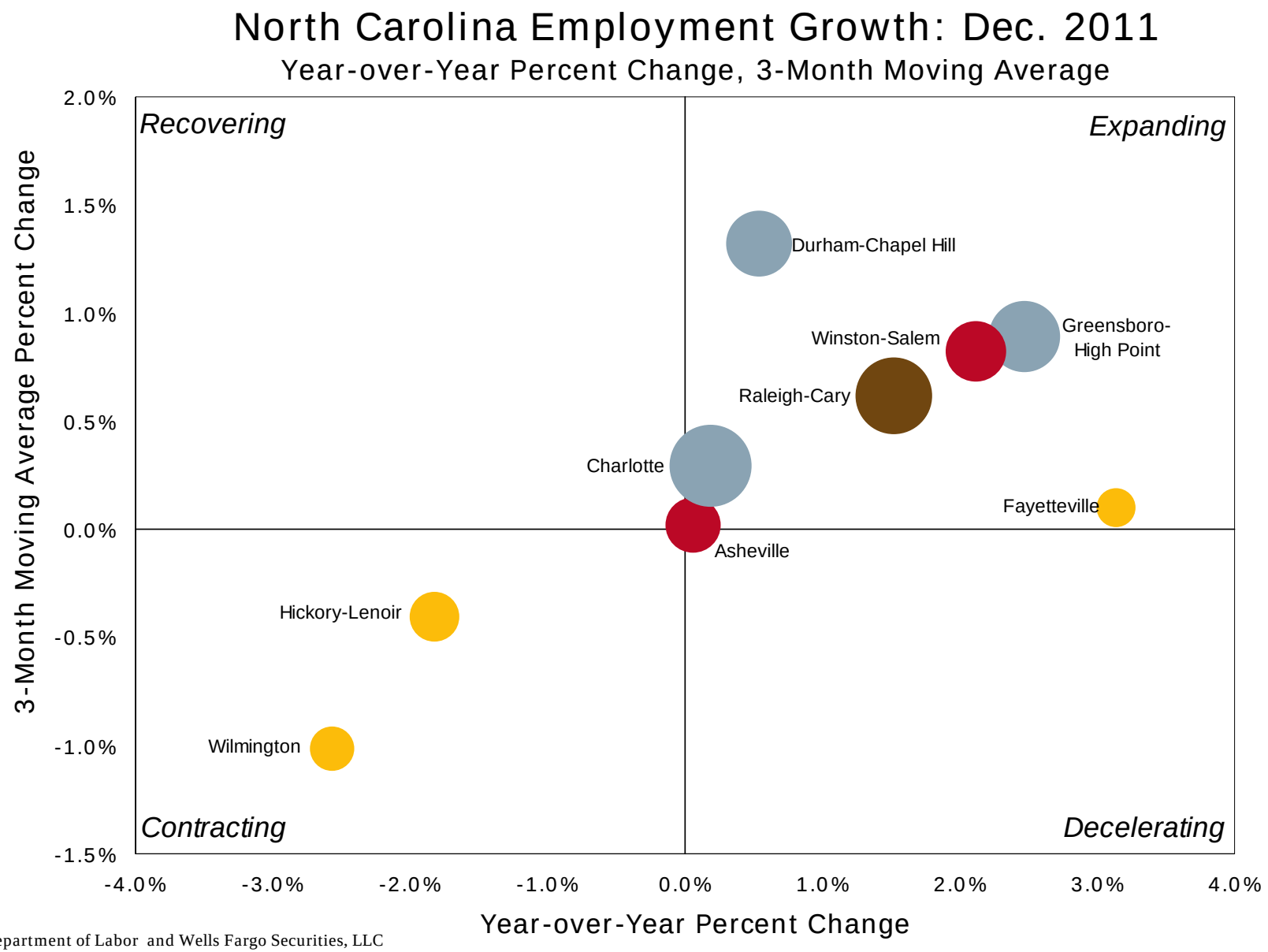
Unemployment Rate by County



Source: US Department of Labor and Wells Fargo Securities, LLC



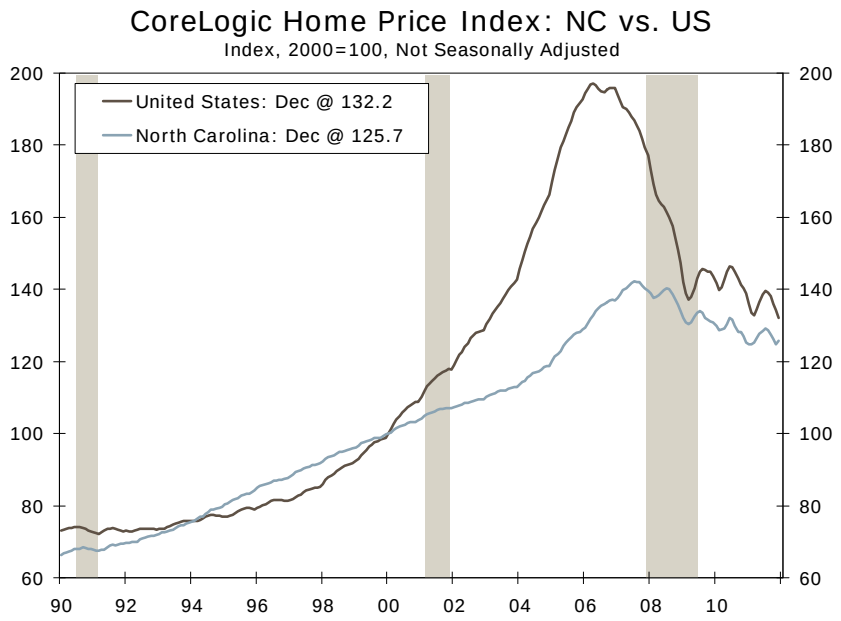
Source: U.S. Department of Labor and Wells Fargo Securities, LLC



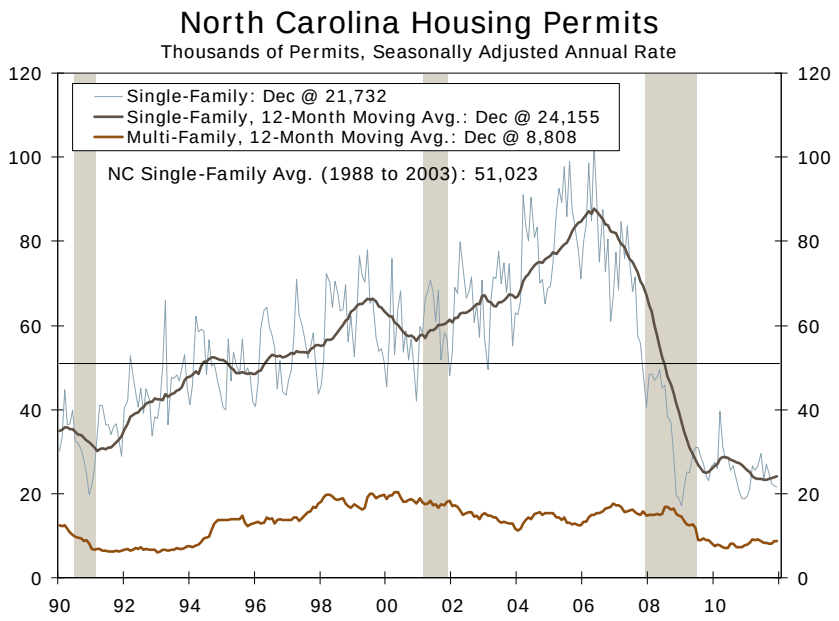
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Even though home prices in North Carolina did not become too far out of whack during the boom years, construction took a big hit and continues to struggle

Home Prices

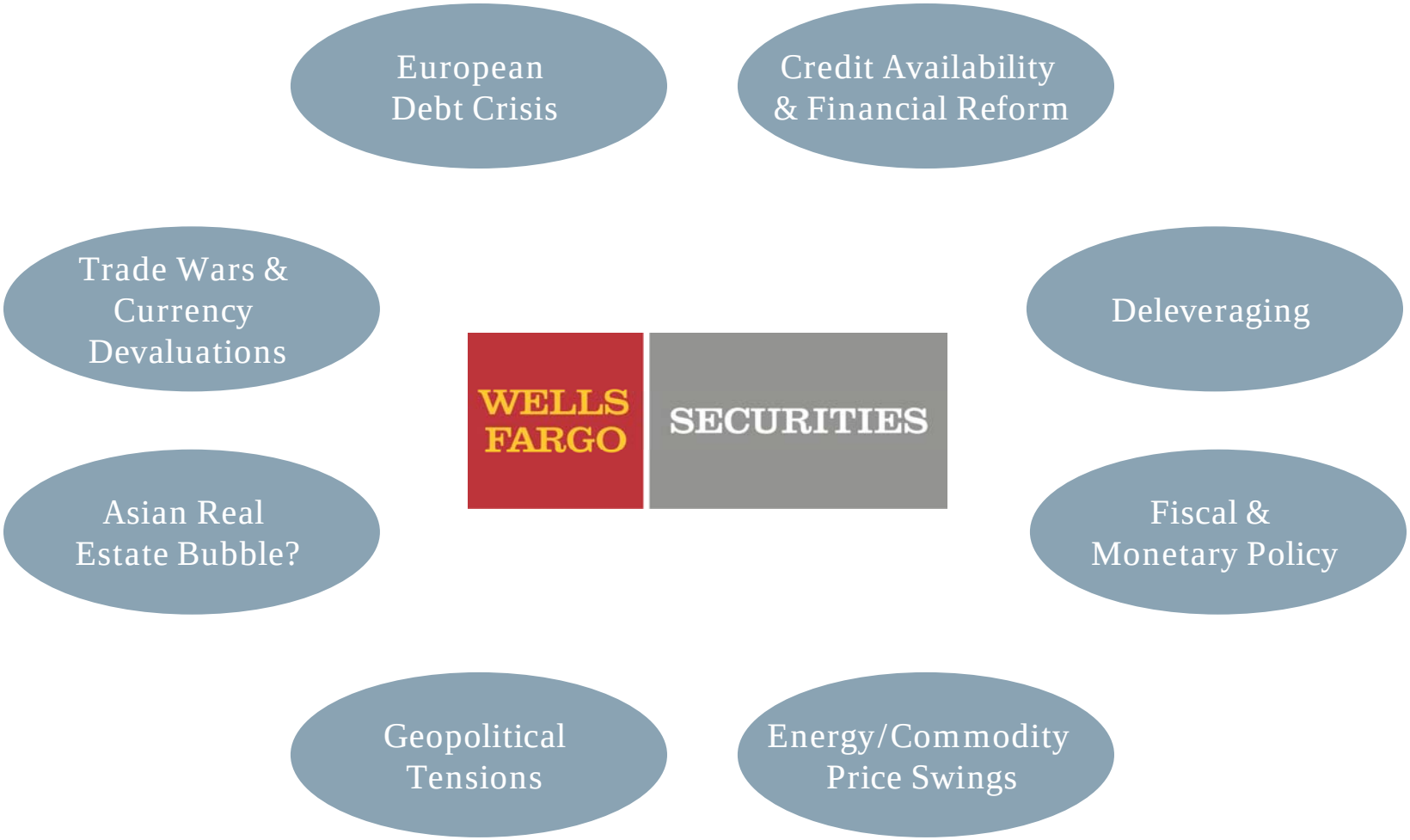


Housing Permits



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

Issues to Watch



Wells Fargo U.S. Economic Forecast

	Actual 2011				Forecast 2012				Actual			Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2009	2010	2011	2012	2013
Real Gross Domestic Product [1]	0.4	1.3	1.8	2.8	1.8	1.5	2.3	2.5	-3.6	3.0	1.7	2.0	2.1
Personal Consumption	2.1	0.7	1.7	2.8	1.8	1.5	1.6	1.8	-2.0	2.0	2.2	1.7	1.4
Inflation Indicators [2]													
PCE Deflator	1.8	2.5	2.9	2.6	2.0	1.7	1.6	1.9	0.6	1.8	2.4	1.8	1.9
Consumer Price Index	2.1	3.3	3.8	3.3	2.6	2.0	1.6	1.8	-0.3	1.6	3.1	2.0	2.0
Industrial Production [1]	4.8	0.7	6.2	3.9	4.1	3.6	3.0	2.2	-11.1	5.3	4.2	3.8	2.3
Corporate Profits Before Taxes [2]	8.8	8.5	7.5	6.4	6.2	6.0	6.4	6.6	9.1	32.2	7.8	6.3	6.6
Trade Weighted Dollar Index [3]	70.6	69.4	72.8	73.3	72.0	73.0	74.0	75.0	77.7	75.6	70.9	73.5	76.3
Unemployment Rate	9.0	9.0	9.1	8.7	8.3	8.2	8.4	8.4	9.3	9.6	9.0	8.3	8.3
Housing Starts [4]	0.58	0.57	0.62	0.67	0.67	0.70	0.69	0.70	0.55	0.58	0.61	0.69	0.80
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	0.25
Conventional Mortgage Rate	4.84	4.51	4.11	3.96	4.00	4.00	4.10	4.10	5.04	4.69	4.46	4.05	4.25
10 Year Note	3.47	3.18	1.92	1.89	1.90	2.00	2.10	2.20	3.26	3.22	2.78	2.05	2.35

Forecast as of: February 17, 2012

[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

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Recent Special Commentary

Date	Title	Authors
February-16	Does the New LEI Alter Recession Predictability Accuracy?	Silvia & Iqbal
February-13	Disparities of Education and Structural Unemployment	Silvia, Brown & Swankoski
February-13	WTI: No Longer A Benchmark For Oil Prices	Aleman
February-08	Bank Lending: Fed's Survey Suggests Support for Growth	Silvia & Watt
February-02	The Fragile Fiscal Policy Outlook: I	Silvia & Brown
January-31	Housing Chartbook: January 2011	Vitner, Khan & Seydl
January-31	How Does The Recent Drop In The Unemployment Rate Square With Okun's Law?	Vitner & Seydl
January-25	FOMC: Why the Recent Past Seldom Predicts the Future	Silvia
January-19	Vacancies and the Housing Recovery	Vitner & Seydl
January-13	How Might Fiscal Restraint Generate Economic Growth?	Silvia & Watt
January-13	Eastern Europe Faces Monetary Policy Dilemma	Anderson & Kashmarek
January-12	Global Chartbook: January 2012	
January-11	Bank Credit: A Surprisingly Typical Cycle	Silvia & Watt
January-05	The Charlotte Economy: Improvement Ahead	Silvia & Brown
December-30	Commodity Price Volatility to Continue	Aleman
December-28	Colorado Outlook: December 2011	Anderson & Kashmarek
December-22	South Korea Moves Forward on Free Trade	Anderson
December-21	Indian Economy: Still Deteriorating at the Margin	Bryson
December-21	Georgia Economic Outlook: December 2011	Vitner & Seydl
December-20	What's Behind the Upward Trend in Housing Activity?	Vitner & Khan
December-14	New Jersey Faces Additional Hurdles	Vitner, Khan & Watt
December-14	Russia: Black Gold and Political Stranglehold	Anderson & Kashmarek
December-20	Arizona: Growth, but at a Lower Gear	Aleman & Swankoski
December-19	Europe in 2012: Renaissance or More Dark Ages	Bryson, Quinlan, & Seydl
December-12	Thunder Down Under: Australia Braces for a Storm	Quinlan
December-09	Pennsylvania Economic Update and Outlook	Bryson, Quinlan, & Seydl
December-08	Minnesota Economic Outlook: December 2011	Anderson & Kashmarek
December-08	Credit Quality Monitor - December 2011	Anderson & Kashmarek
December-05	What is Driving Construction Spending?	Vitner & Khan
November-30	Coordinated Action by Major Central Banks	Bryson
November-30	California Outlook: November 2011	Anderson & Watt
November-22	The Deficit Reduction Committee: A Successful Failure	Silvia, Bullard, Brown & Watt
November-22	Giddy-Up Jingle Horse: Holiday Sales Preview	Vitner, Quinlan, & Seydl
November-16	Global Chartbook: November 2011	
November-15	Has the Fed's Unconventional Approach Been Successful?	Silvia & Khan
November-15	Economic Mobility: Is "Rags to Riches" Still Possible?	Silvia, Quinlan & Seydl
November-14	U.S. States with Exposure to a European Recession	Vitner & Brown
November-07	North Carolina: A Story of Uneven Progress	Silvia & Brown
November-03	Is U.S. Manufacturing in Decline?	Anderson, Brown & Swankoski
November-02	ASEAN-5 Economies Fundamentally Sound	Bryson
November-02	Employment: Beyond the Sound Bites—Reading the Signals IV	Silvia & Watt
November-01	Character of Recovery V: Sector and Employment Differences	Silvia & Iqbal
October-25	Regional Chartbook: Quarter 4, 2011	Vitner, Brown & Seydl
October-11	Employment: Beyond the Sound Bites—Reading the Signals V	Silvia & Watt
October-06	Real Home Prices: A Metro-Area Look	Vitner & Seydl
October-03	More QE from the BoE?	Bryson

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