

WELLS
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SECURITIES

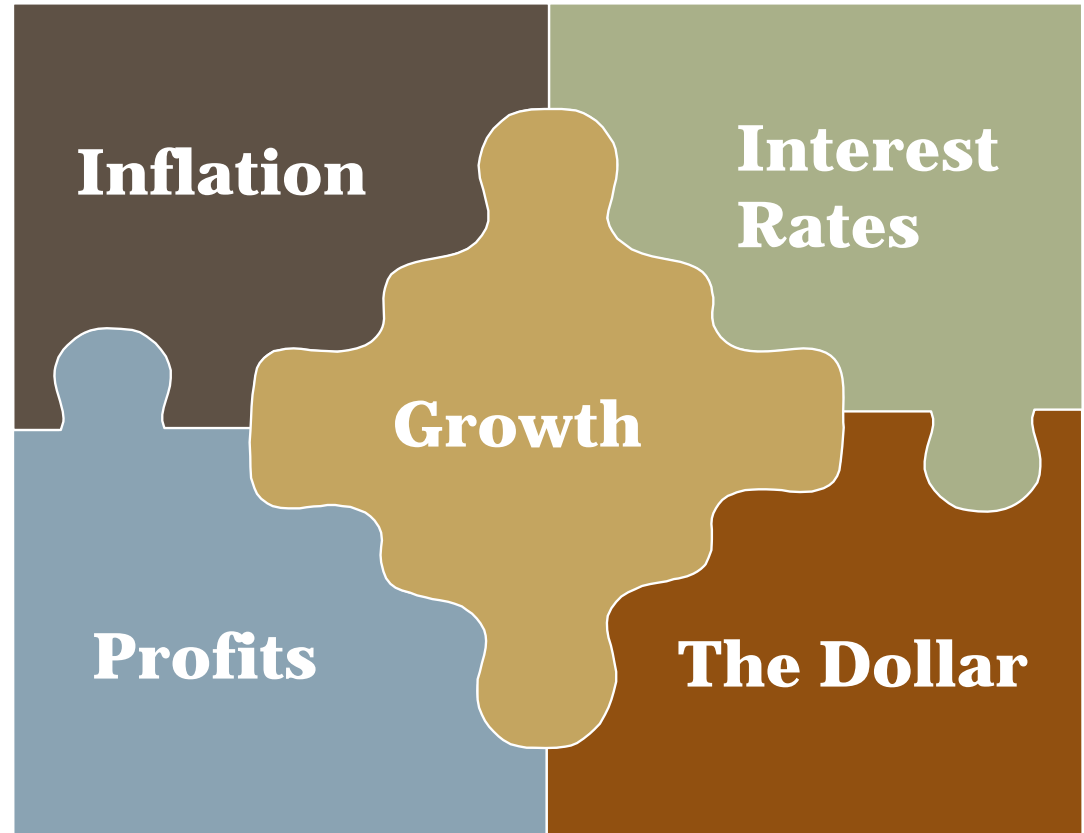
Economic Outlook for 2011 and Beyond Charlotte Economics Club

December 15, 2010

Together we'll go far



What is your outlook for...

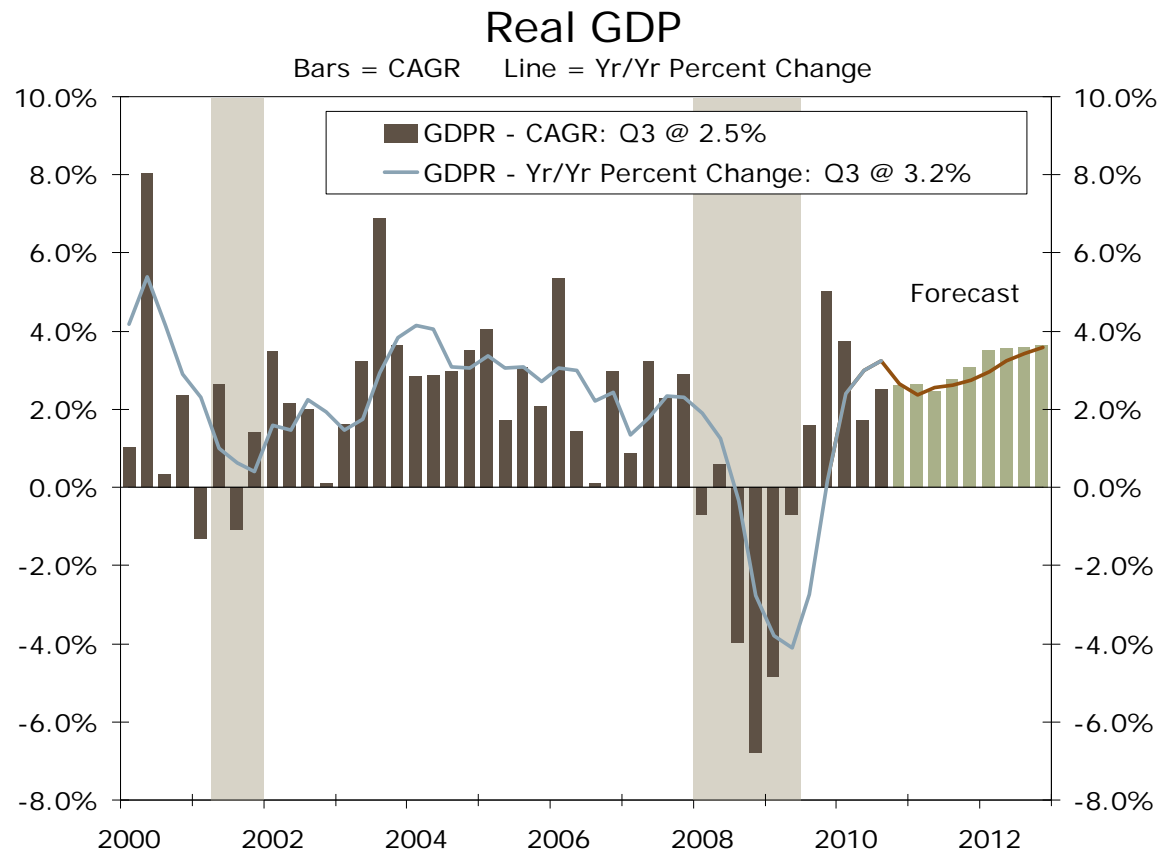


How do we differ from
consensus?

Expectations for the Future

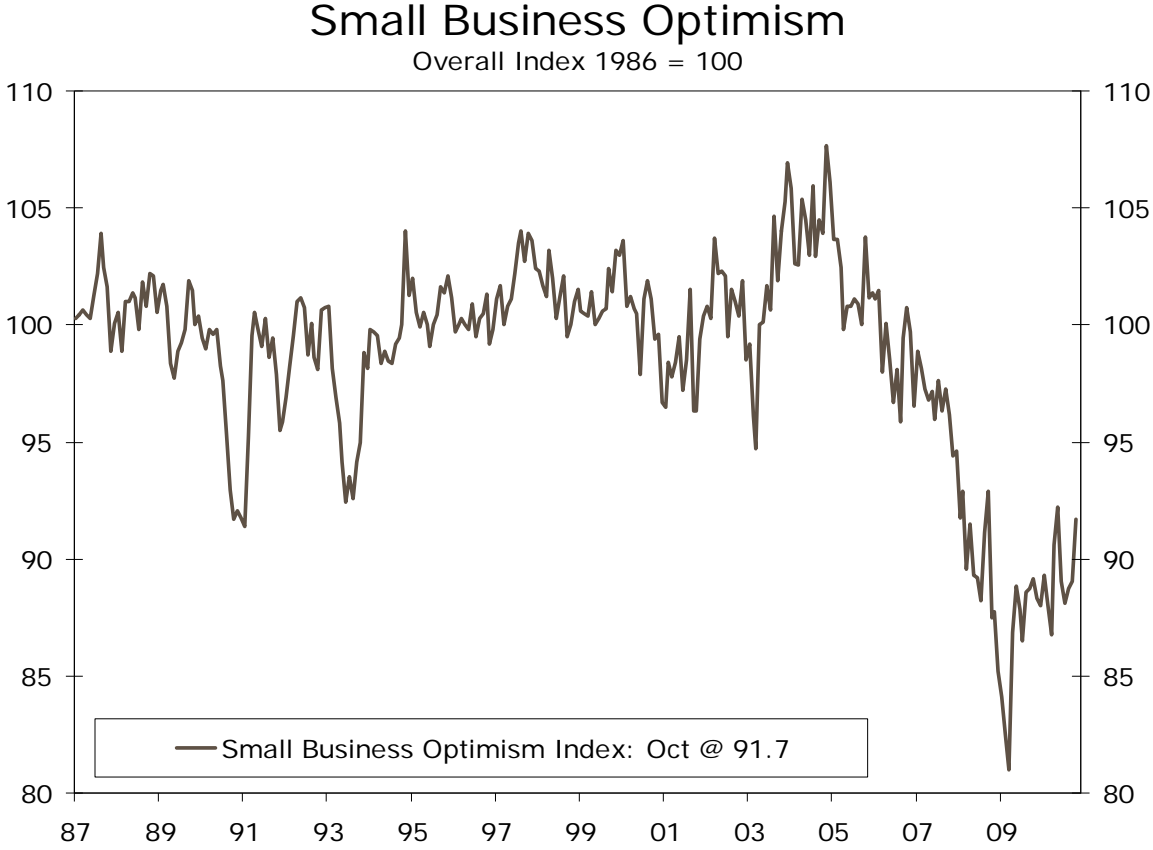
- Sustained growth: no double dip recession
- Still cautious on the consumer
- Still cautious on housing
- More bearish on employment: cyclical and structural change

Sustained recovery in 2010 and 2011, improvement in 2012



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

Renewed confidence is still distant

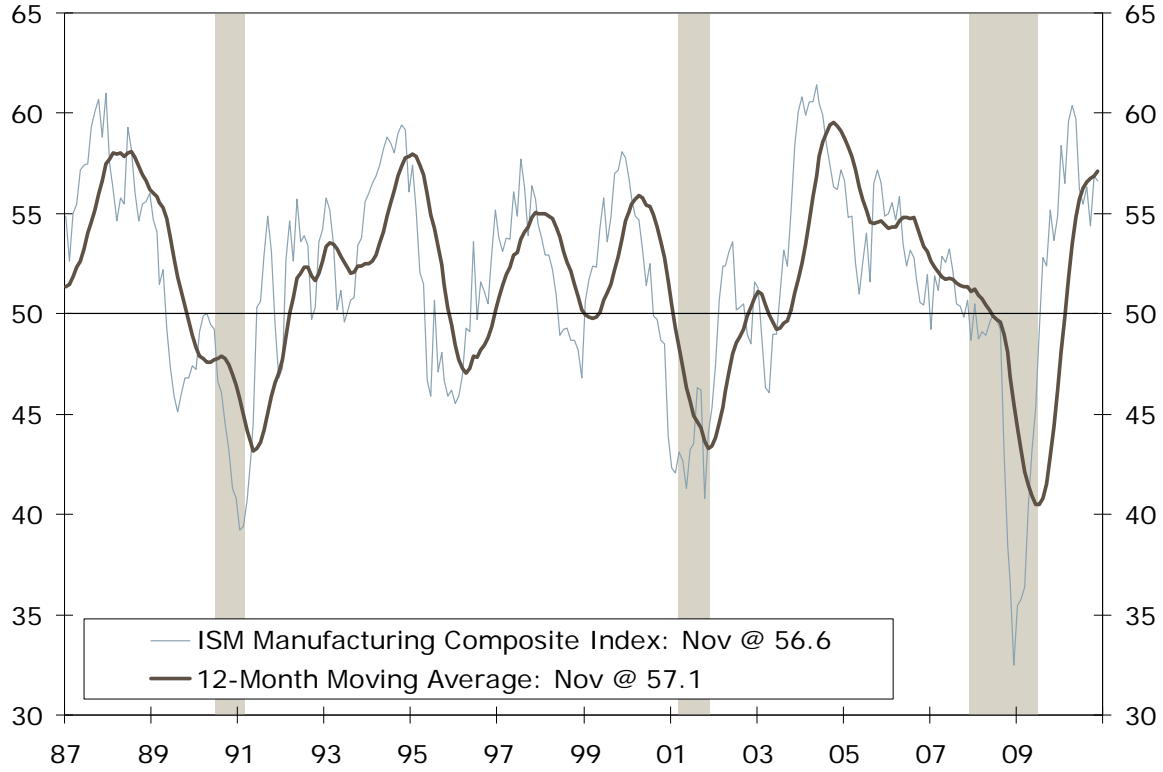


Source: National Federation of Independent Businesses and Wells Fargo Securities, LLC

Manufacturing sees recovery in output, orders and employment

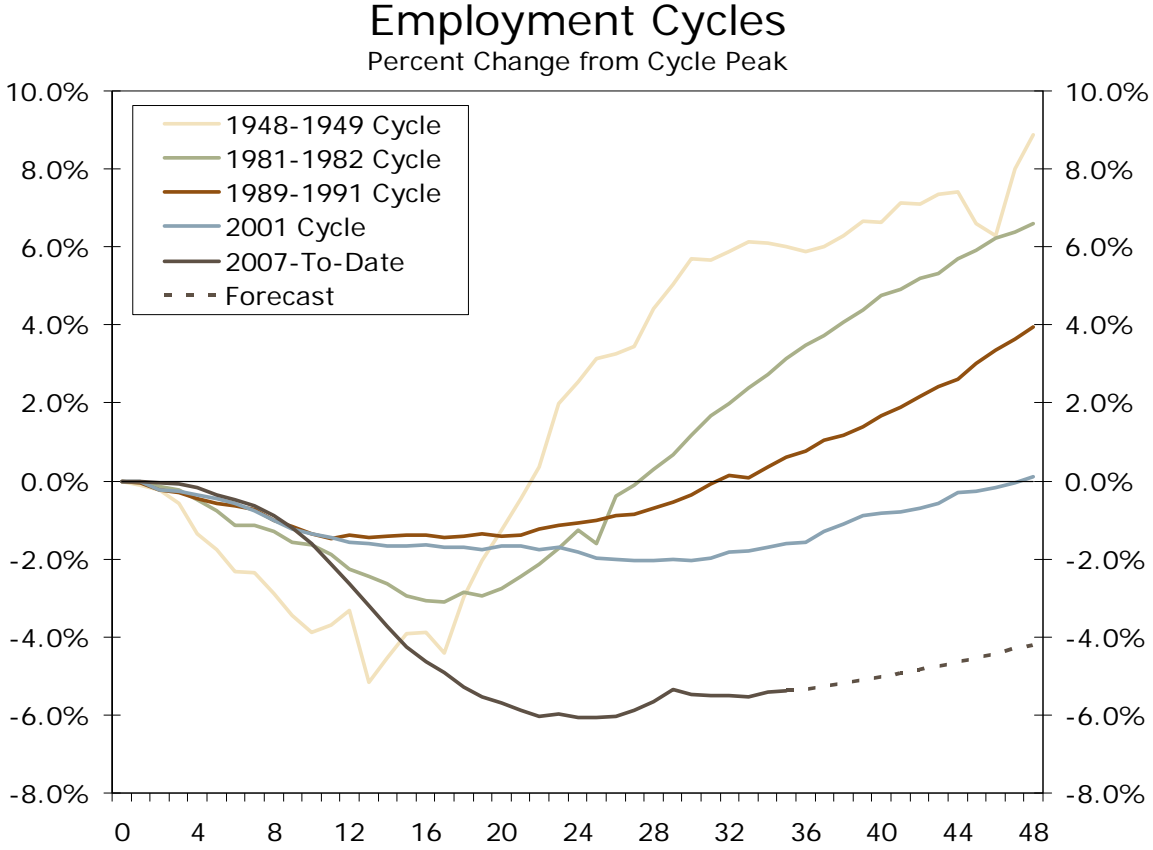
ISM Manufacturing Composite Index

Diffusion Index



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

Employment will eventually regain its peak, but not quickly

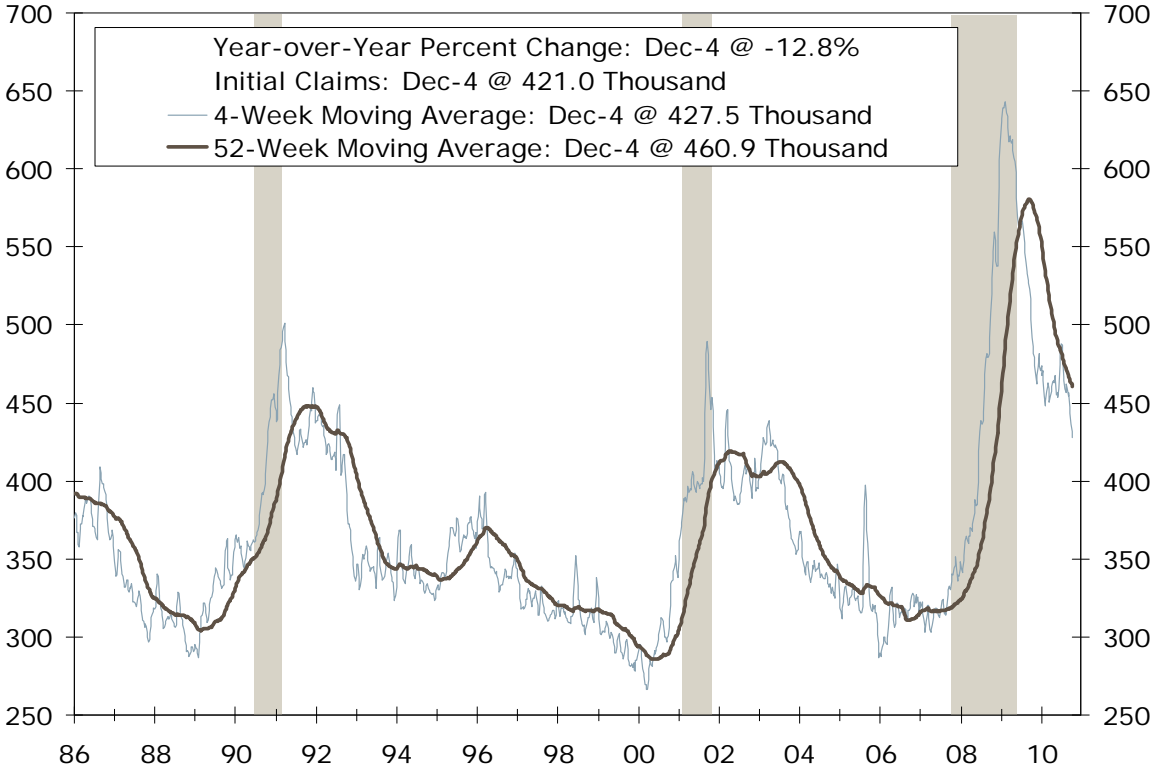


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Turning the corner—slowly—
for job gains

Initial Claims for Unemployment

Seasonally Adjusted, In Thousands

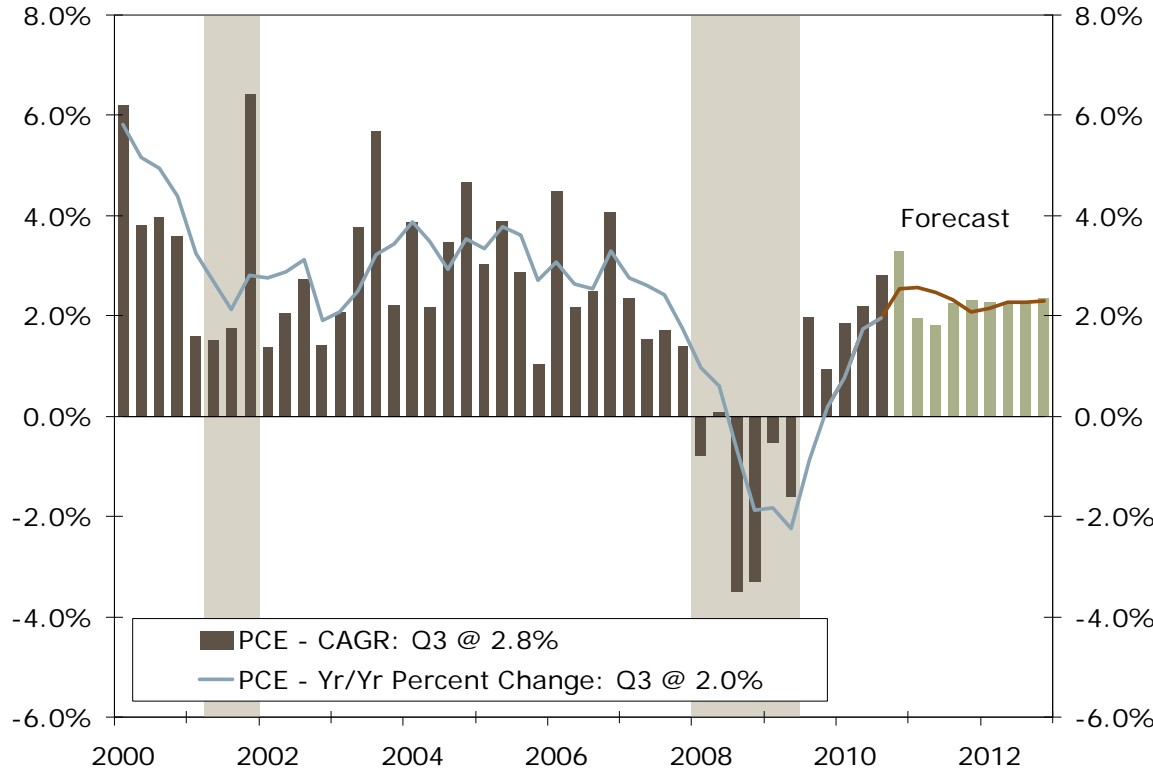


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Subpar recovery suggests deleveraging consumer, cautious credit and slow job gains

Real Personal Consumption Expenditures

Bars = CAGR Line = Yr/Yr Percent Change

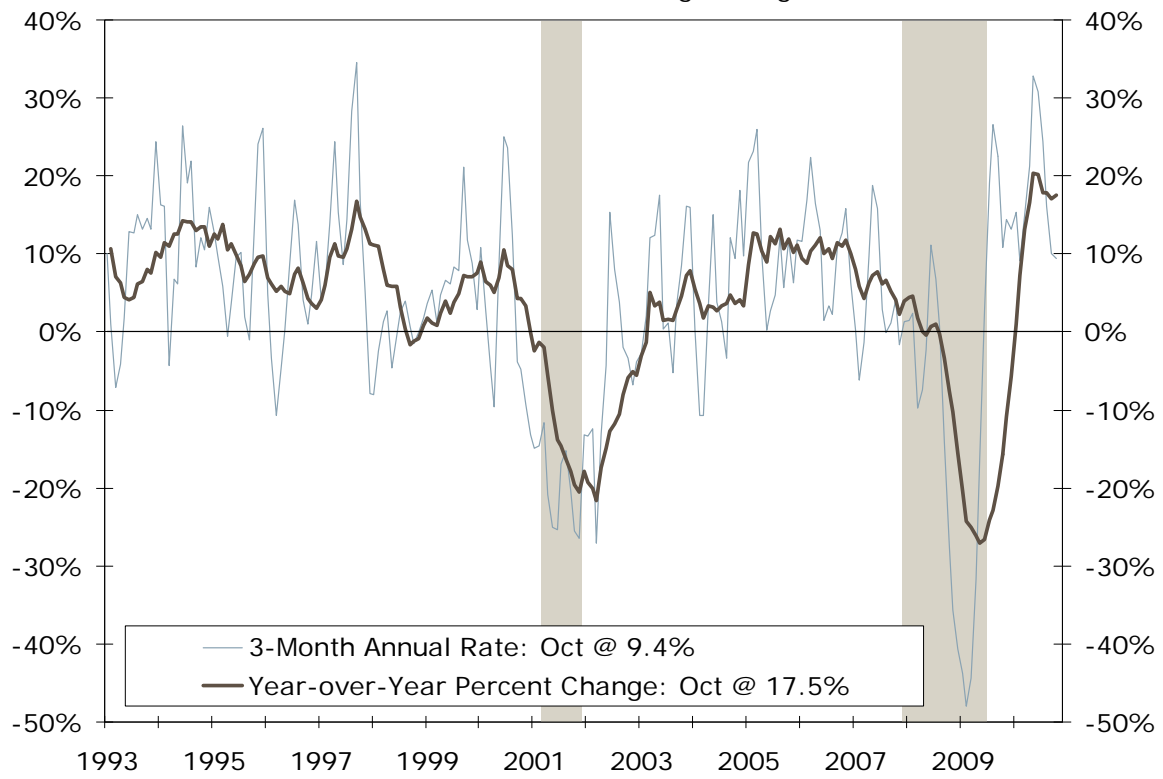


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Signs of life appeared early in capital goods orders

NonDefense Capital Goods Orders, Ex-Aircraft

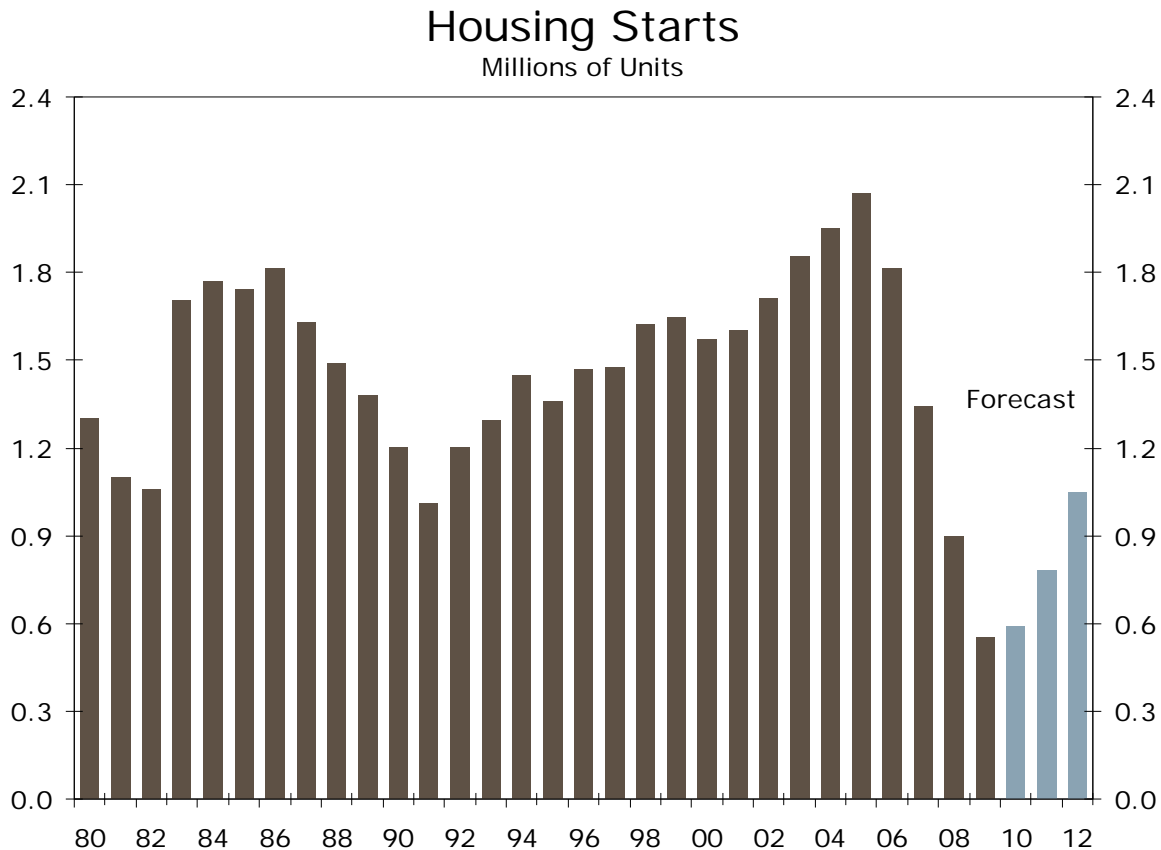
Series are 3-Month Moving Averages



— 3-Month Annual Rate: Oct @ 9.4%
— Year-over-Year Percent Change: Oct @ 17.5%

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

The declines in construction are behind us, but recovery will not be quick—what is the new sustainable pace? Below 1.5 million?

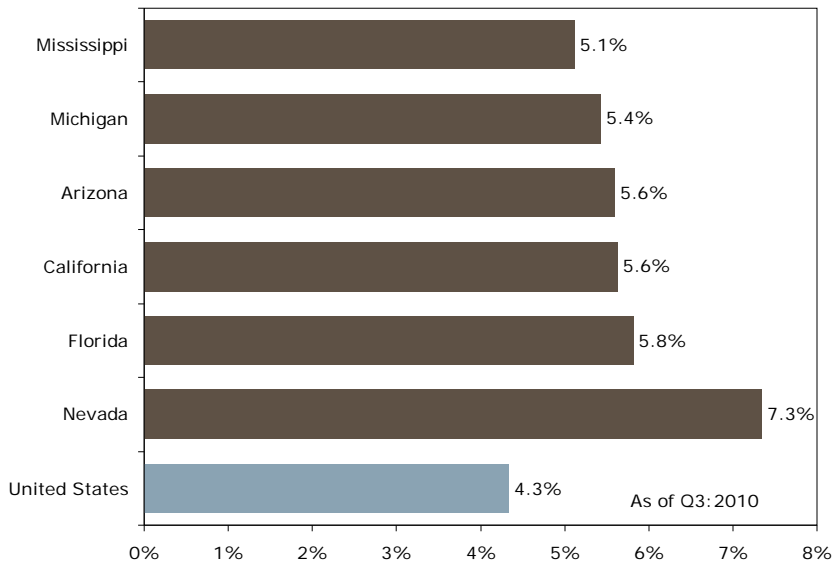


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Delinquencies and inventories have come down somewhat from their all-time peaks, but still remain elevated

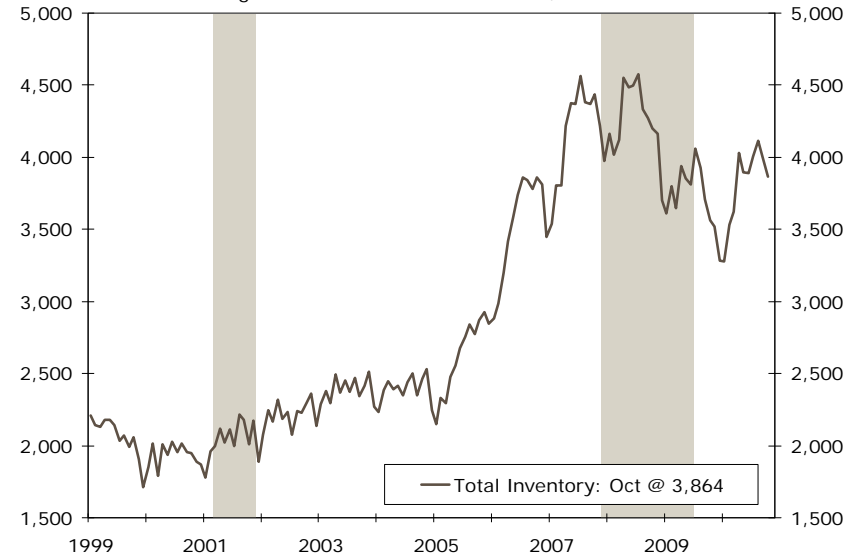
Delinquencies

Mortgages 90+ Days Delinquent - By State
Percent of Mortgages Outstanding



Inventory

Inventory of Existing Homes for Sale
Existing Homes for Sale at End of Month, In Thousands



Source: Mortgage Bankers Association, National Association of Realtors and Wells Fargo Securities, LLC

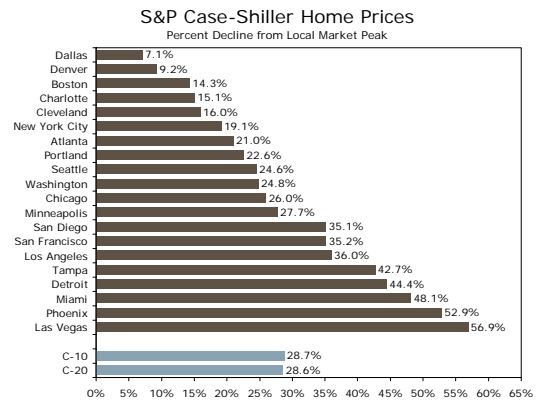
Timing of Recovery Will Vary Across Metro Areas

S&P/Case-Shiller Home Price Index – September

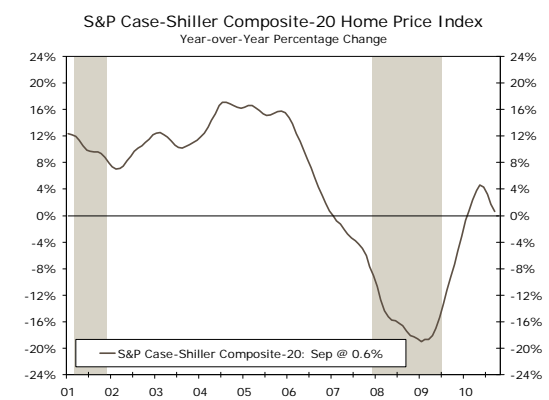
	<u>Yr/Yr % Change</u>	<u>3-Month Annual Rate</u>
Charlotte	-3.72%	-5.84%
Dallas	-2.63%	-12.23%
Los Angeles	4.32%	-6.98%
San Francisco	5.43%	-9.29%
New York City	-0.18%	0.81%
Washington, DC	4.40%	1.99%

The steepest declines are behind us, but recovery will be slow in areas with excess supply

Historical Perspective

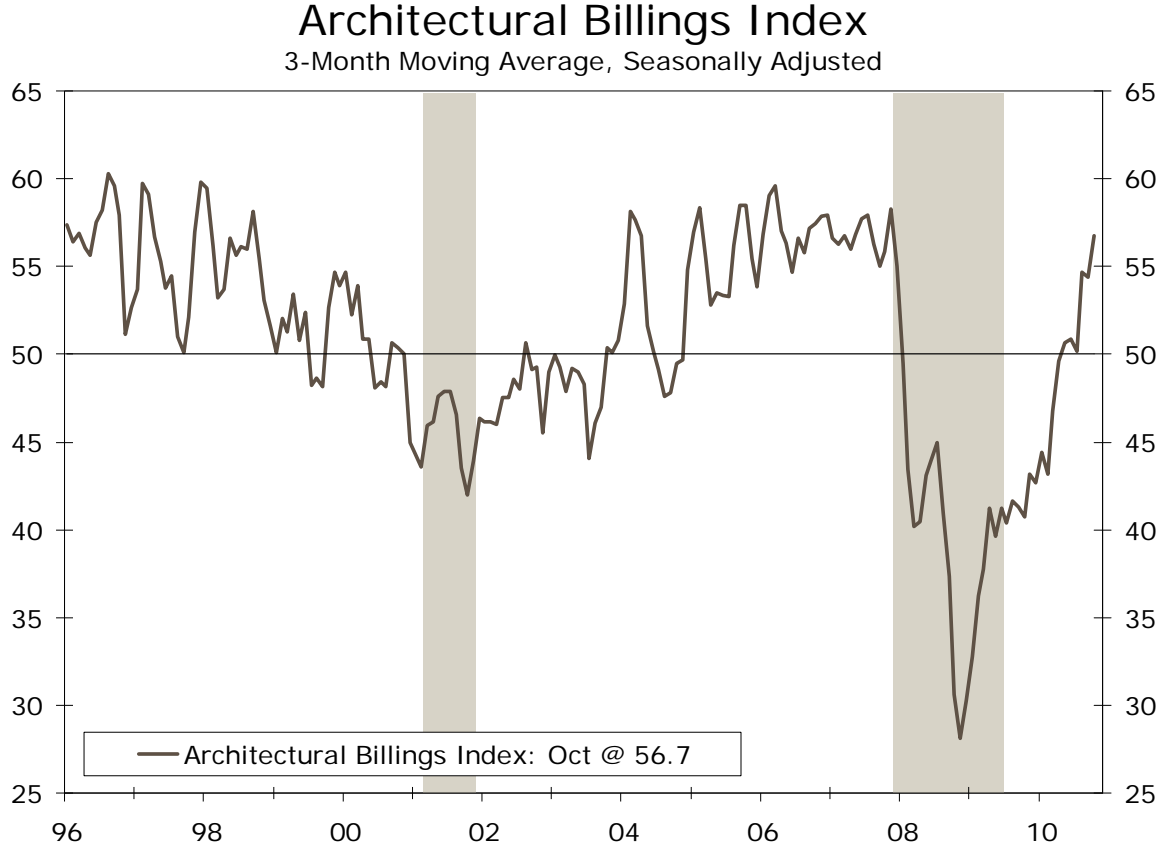


Historical Perspective



Source: S&P Case-Shiller and Wells Fargo Securities, LLC

The leading indicator of commercial building has rebounded in recent months

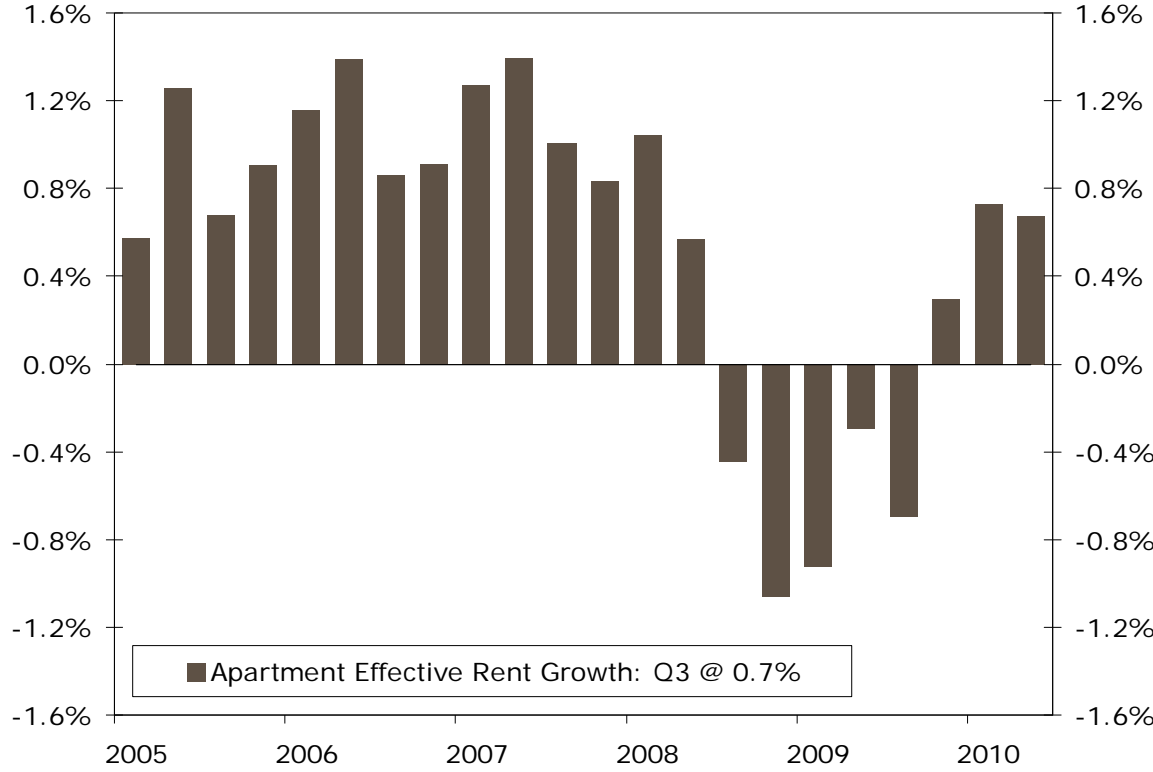


Source: The American Institute of Architects and Wells Fargo Securities, LLC

The apartment market has shown signs of improvement, though the recovery is still tentative

Apartment Effective Rent Growth

Quarter-over-Quarter Percent Change



Source: Reis, Inc. and Wells Fargo Securities, LLC



Inflation Remains Low

Deflation, not inflation, is the concern for the Fed

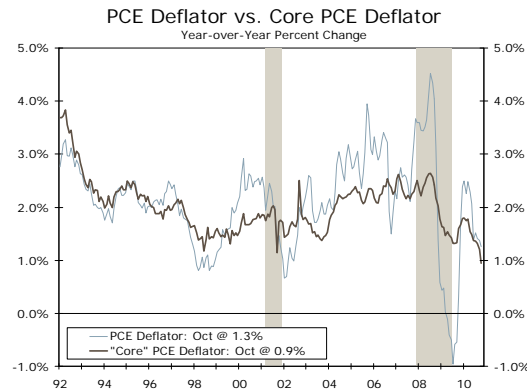
Inflation Indicators

(Yr/Yr Percent Change)

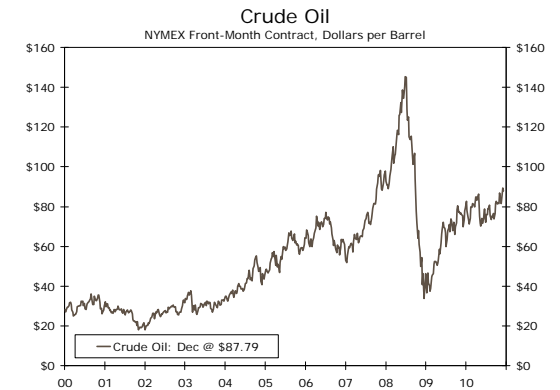
October-10

PCE Deflator	1.3%
Core PCE Deflator	0.9%
Average Hourly Earnings	2.1%
Crude Oil	8.0%

Historical Perspective

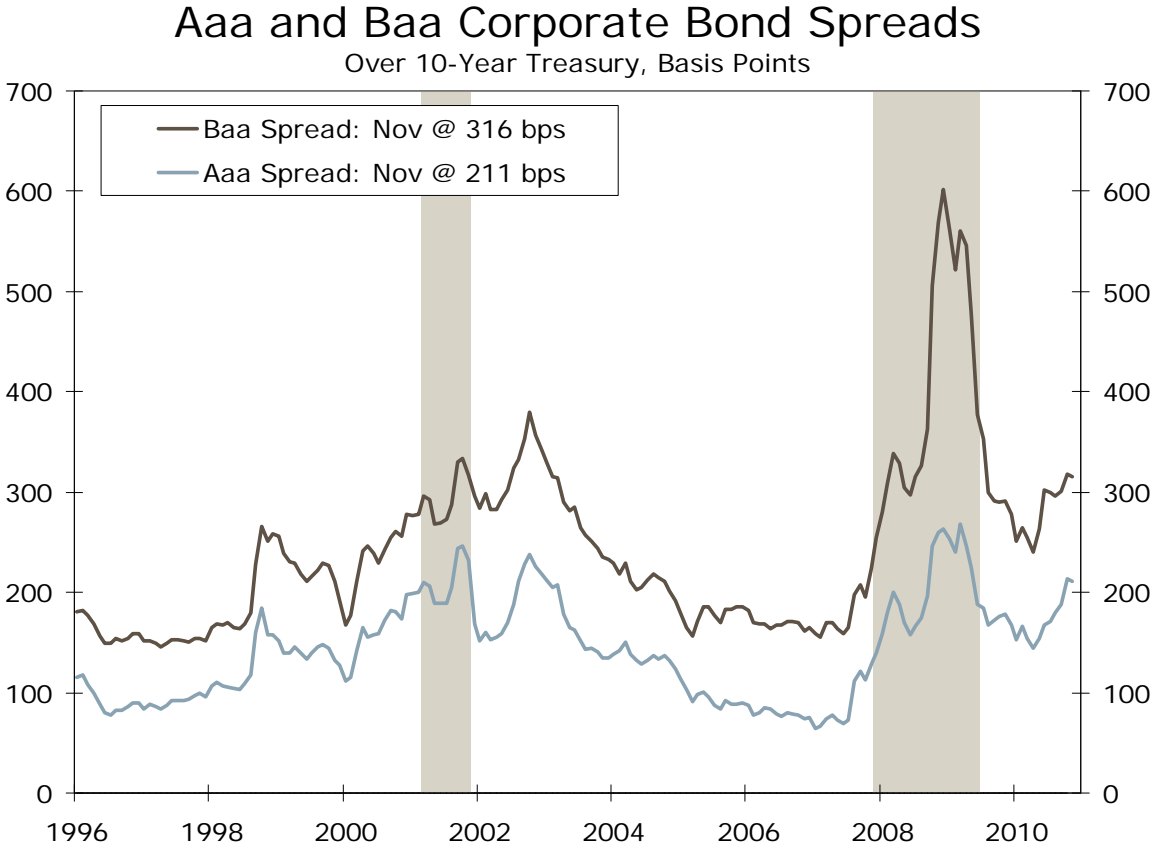


Historical Perspective



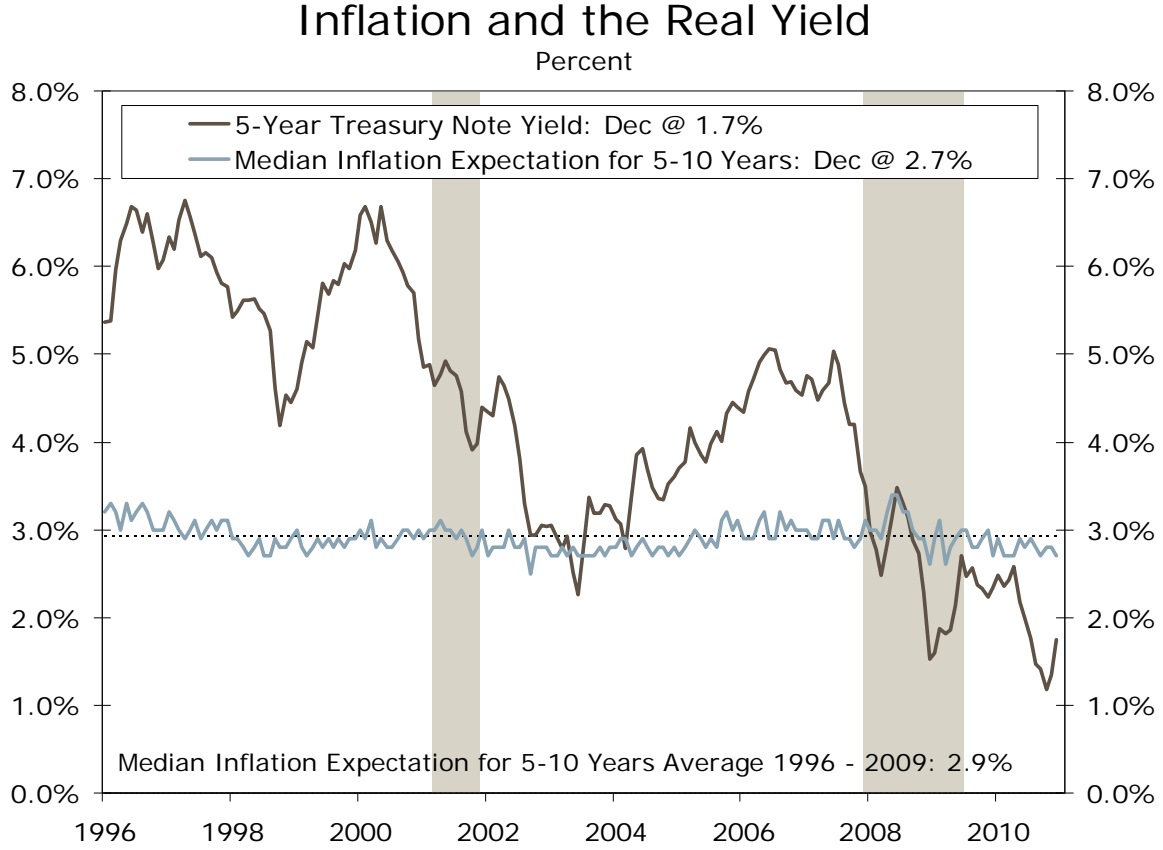
Source: U.S. Department of Commerce, U.S. Department of Labor, NYMEX and Wells Fargo Securities, LLC

Spreads have returned to a more normal level; bond issuance is strong



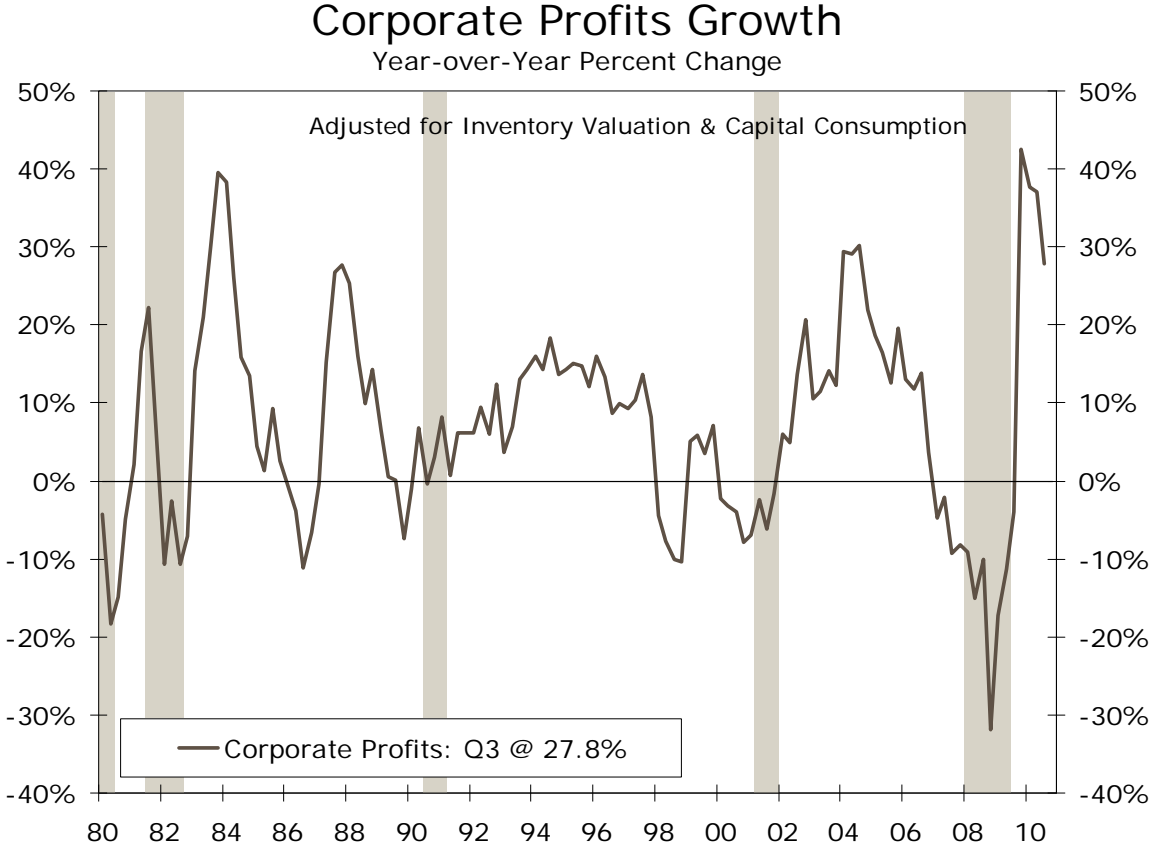
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Inflation expectations exceed nominal returns



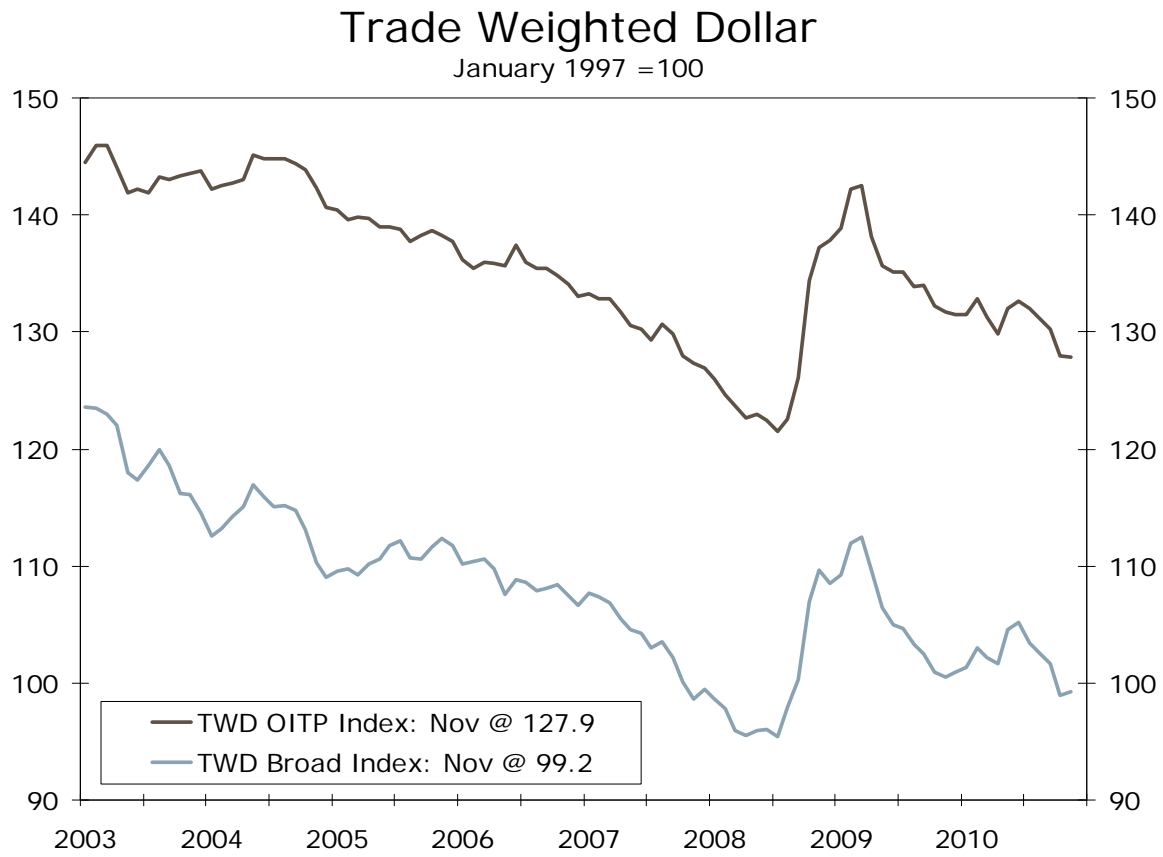
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Profits have improved significantly over the past year



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

Economic fundamentals and risks abroad will drive the dollar. Effects of Fed QE2?

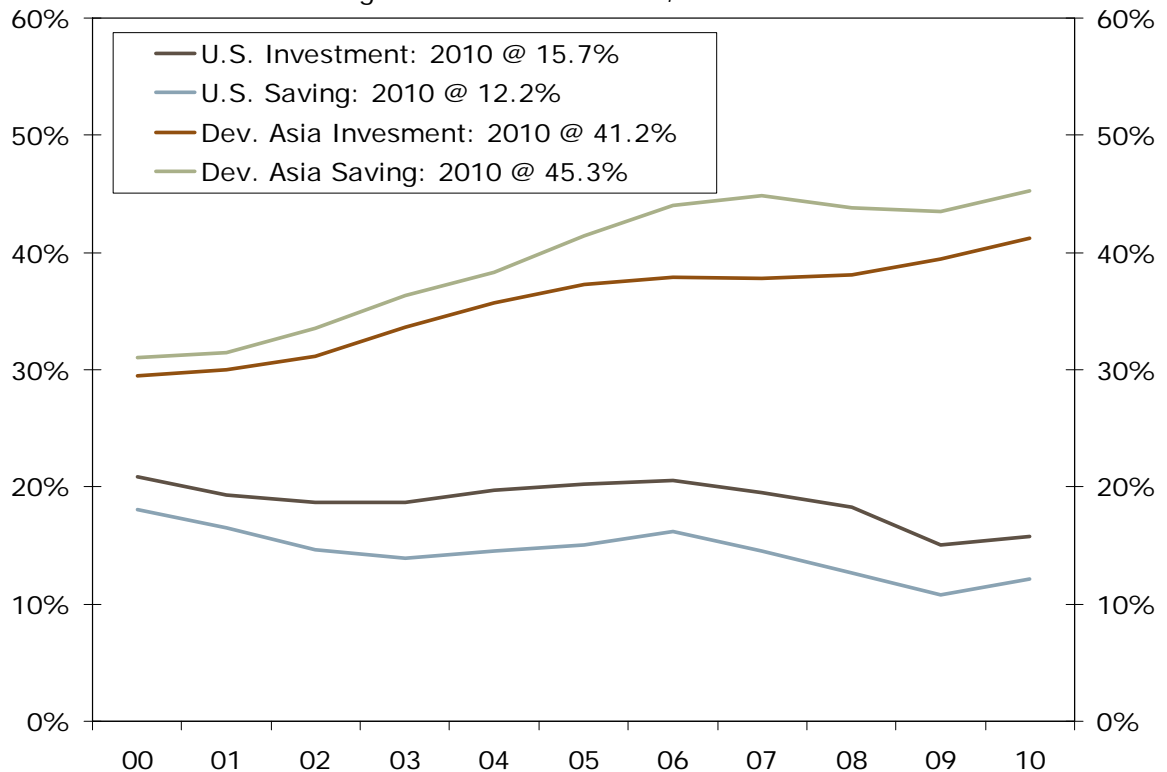


Source: Federal Reserve and Wells Fargo Securities, LLC

High savings rates in Asia should continue to underpin strong economic growth for the foreseeable future

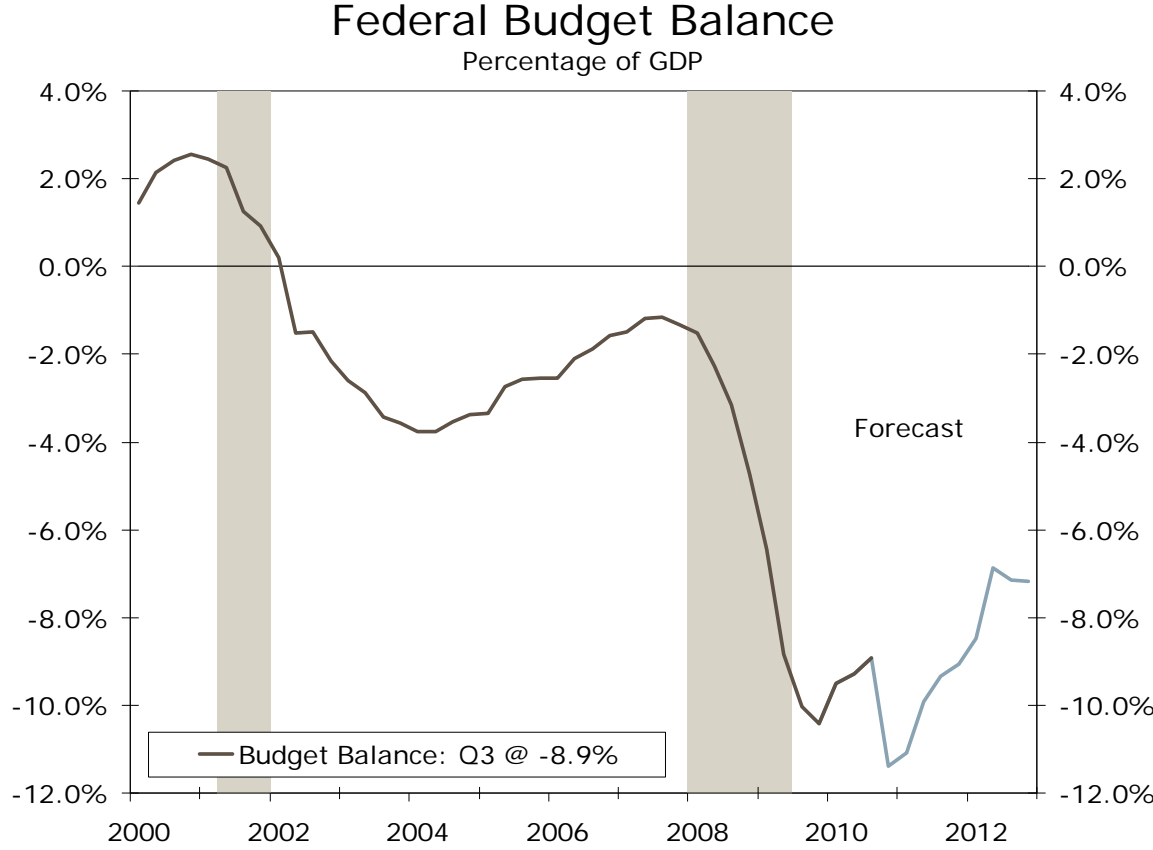
United States and Developing Asia

Saving and Investment Rates, Percent of GDP



Source: International Monetary Funds and Wells Fargo Securities, LLC

The nation has entered uncharted waters in fiscal policy



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

Components of the Federal Budget

Percentage of GDP

	<u>1970</u>	<u>2007</u>	<u>2020 March Baseline</u>
Revenues	19.0	18.5	21.0
Outlays	19.3	19.6	23.9
Social Security, Medicare, and Medicaid	3.8	8.2	11.5
Defense	8.1	3.9	3.8
Other mandatory spending and nondefense discretionary spending	6.0	5.8	2.1
Net interest	1.4	1.7	3.4
Deficit	0.3	1.2	3.0

Note: Figures are shown net of offsetting receipts where relevant. CBO Director's Blog, August 19, 2010

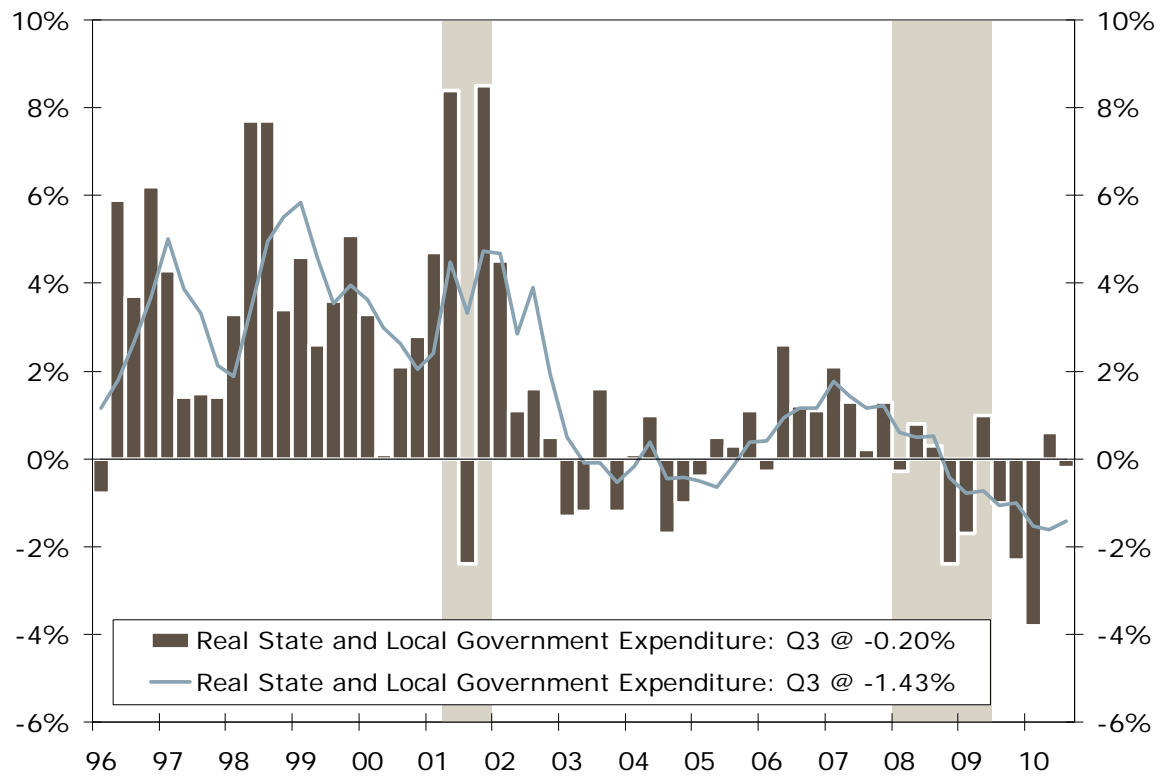
Source: Congressional Budget Office and Wells Fargo Securities, LLC

The future budget picture shows entitlement spending accelerating

State and local fiscal conditions will limit expenditures and gains in GDP

Real State & Local Government Expenditure

Bars = Compound Annual Rate Line = Yr/Yr % Change



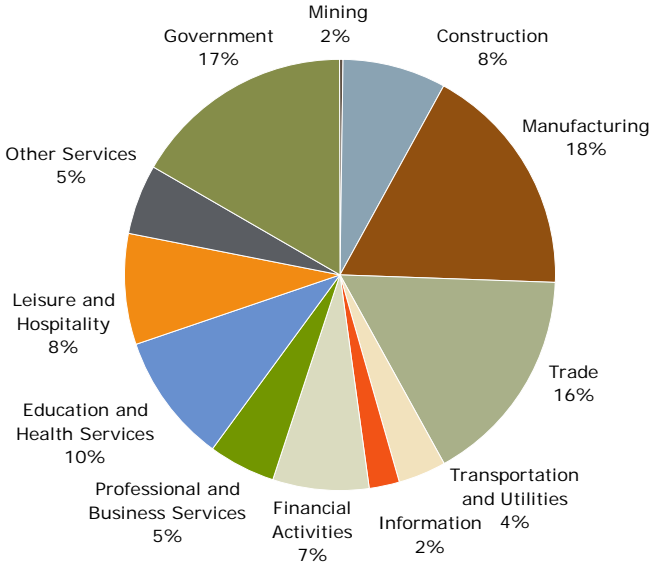
■ Real State and Local Government Expenditure: Q3 @ -0.20%
 — Real State and Local Government Expenditure: Q3 @ -1.43%

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

The North Carolina economy has evolved from construction, manufacturing and trade into more service-oriented sectors

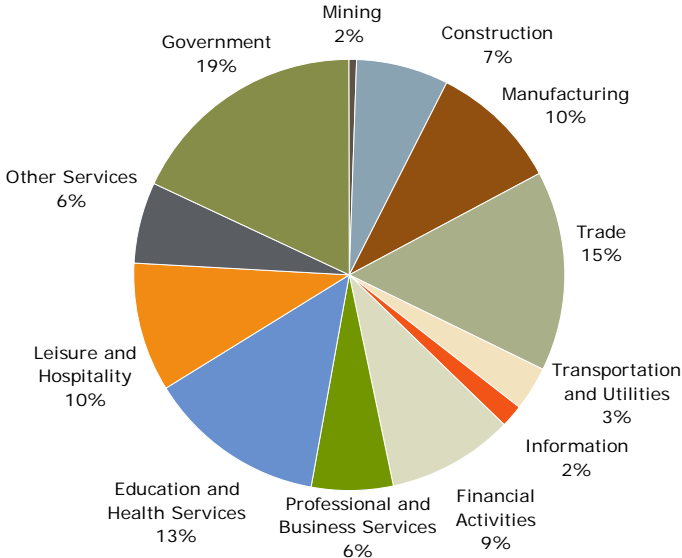
2000

2000 North Carolina Industry Employment



2009

2009 North Carolina Industry Employment

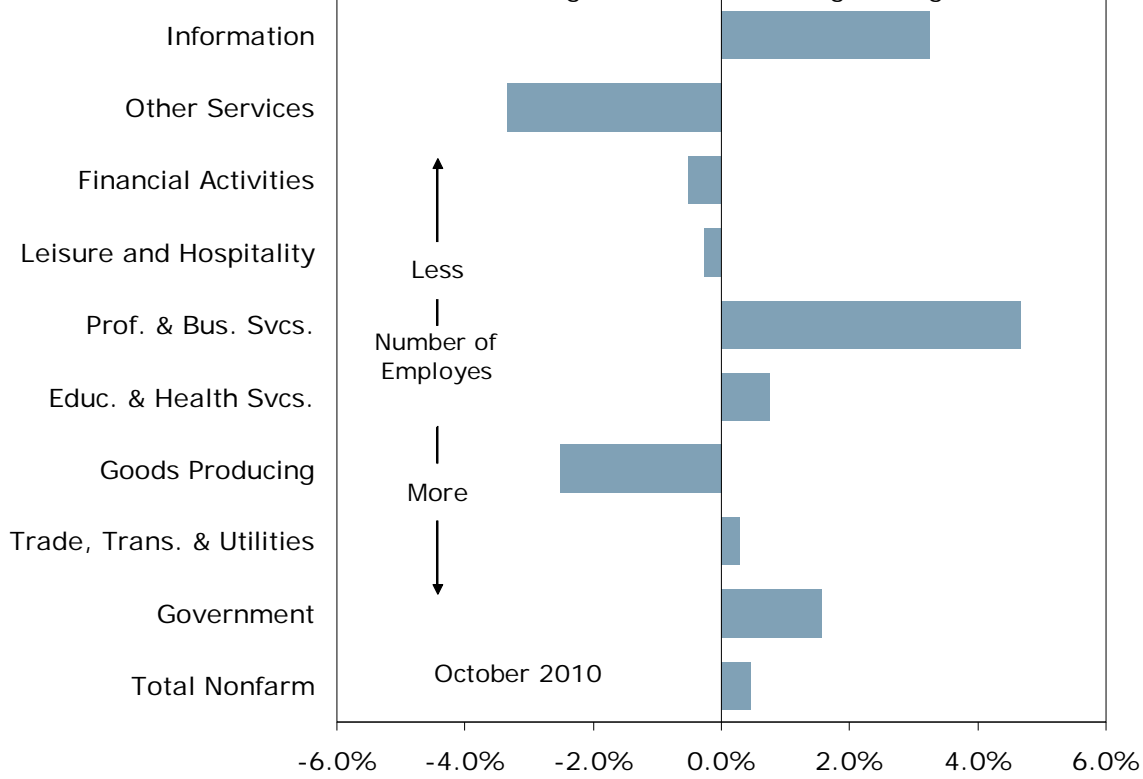


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Employment is improving, led by gains in the professional & business services, government and information industries

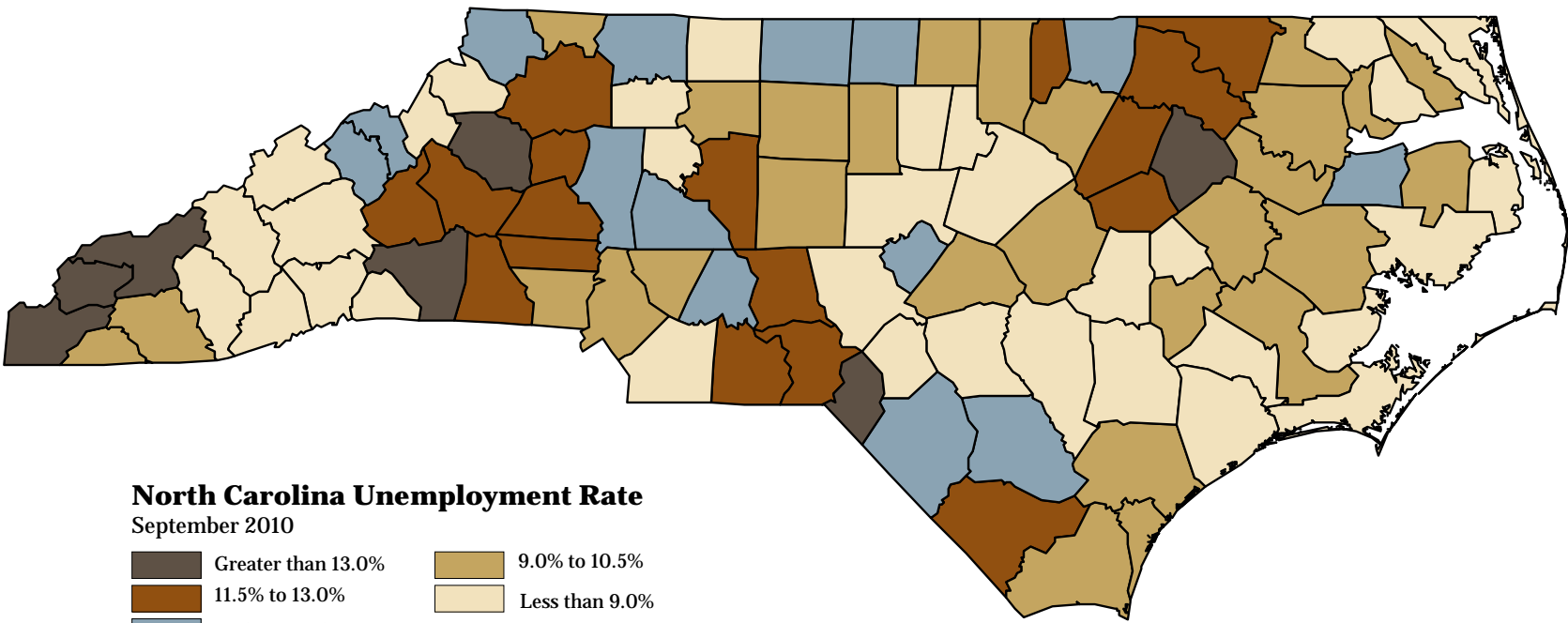
North Carolina Employment by Industry

Year-over-Year Percent Change of 3-Month Moving Average



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

Unemployment Rate by County



North Carolina Unemployment Rate

September 2010

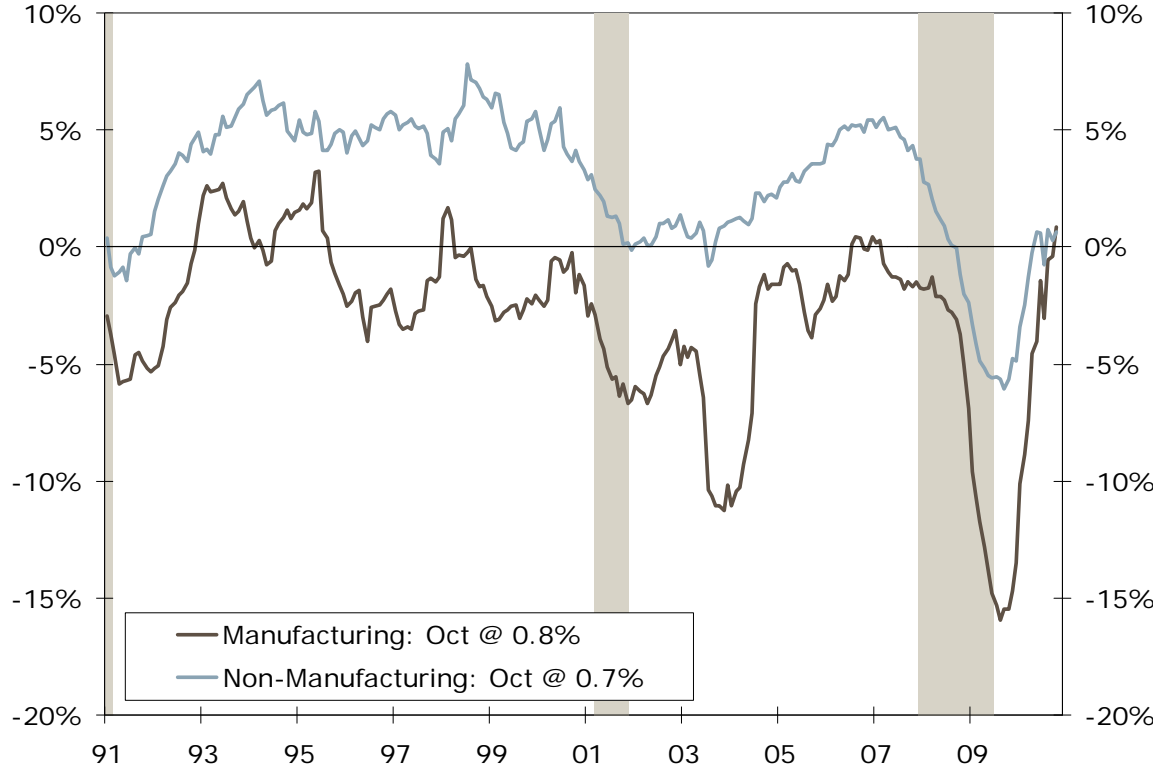
- Greater than 13.0%
- 11.5% to 13.0%
- 10.5% to 11.5%
- 9.0% to 10.5%
- Less than 9.0%

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

Both manufacturing and non-manufacturing employment are showing some signs of improvement

Charlotte MSA Employment

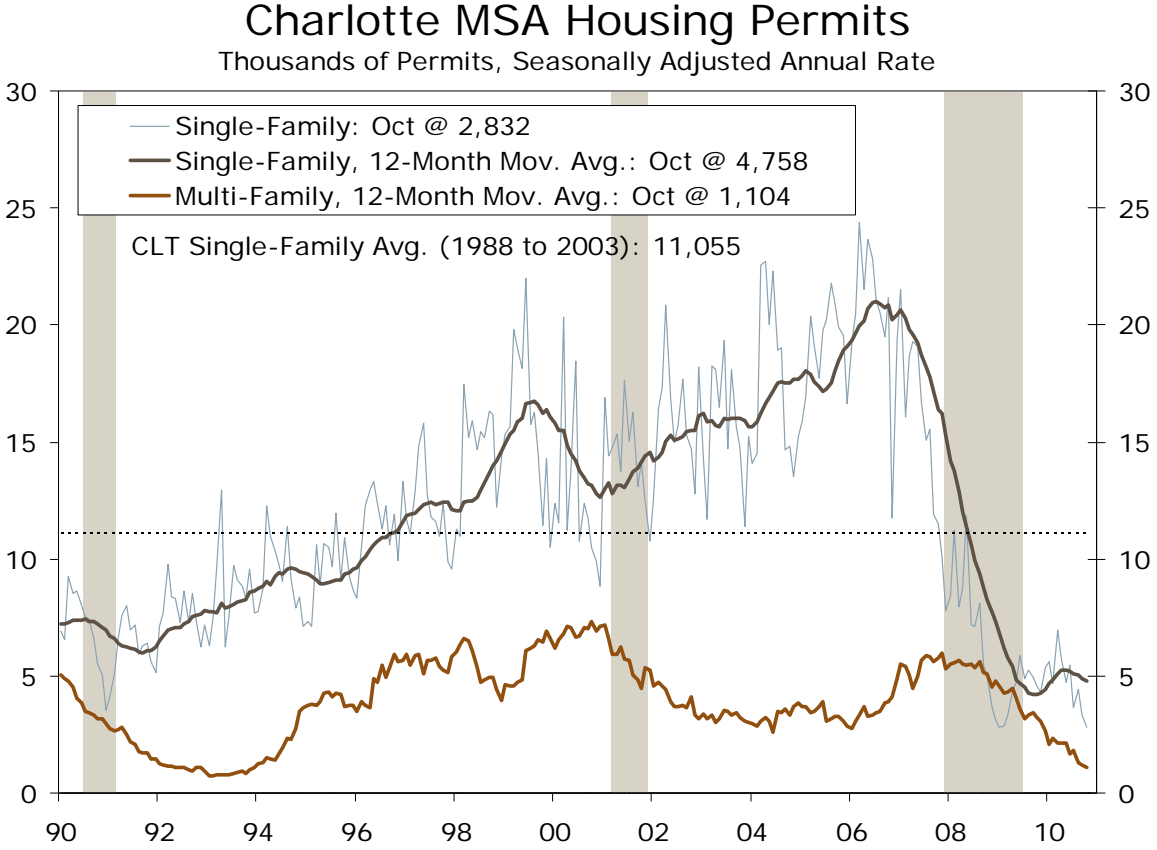
Year-over-Year Percent Change



— Manufacturing: Oct @ 0.8%
— Non-Manufacturing: Oct @ 0.7%

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

Permitting activity has continued to decline in 2010 despite a temporary boost from tax credits



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

What are the primary risks to the outlook?

Potential Challenges to the Outlook

- Easier monetary policy brings questions for the dollar, inflation, interest rate and outlook
- Bush Tax Cuts not renewed
- Stronger job recovery takes hold
- Fiscal policy: spending completely unconstrained
- Housing: unable to sustain growth on its own
- Trade protectionism hits U.S. exporters/importers

Recovery has Begun, Led by Gains in Equipment Investment and Slow Growth in Consumer Spending, Exports and Government Spending

Wells Fargo U.S. Economic Outlook

	Actual		Forecast		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Real Gross Domestic Product ¹	0.0	-2.6	2.8	2.6	3.3
Personal Consumption	-0.3	-1.2	1.8	2.4	2.2
Equipment and Software	-2.4	-15.3	15.7	15.5	14.6
Government Purchases	2.8	1.6	1.3	1.7	1.1
Consumer Price Index ²	3.8	-0.3	1.6	1.7	2.4
Corporate Profits Before Taxes ²	-16.4	-0.4	27.9	6.8	6.7
10-Year Treasury Note	3.66	3.26	3.20	2.98	3.70

Forecast as of: December 8, 2010

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Year-over-Year Percentage Change

Source: Wells Fargo Securities, LLC

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Recent Special Commentary		
Date	Title	Authors
December-08	Annual Economic Outlook 2011: Turning The Corner	
December-02	North Carolina Economic Outlook: Growth	Silvia & Brown
November-18	Housing Chartbook: November 2010	Vitner & Khan
November-17	Global Chartbook: November 2010	
November-15	Retailers Can Expect a Happy Holiday	Vitner & Quinlan
November-12	Commercial Real Estate Chartbook: Quarter 3	Vitner & Khan
November-03	FOMC: QE 1.6 Sets Sail in Uncertain Seas	Silvia
October-26	Would Canadian-Style Budget Cutting Work in America?	Bryson & Quinlan
October-20	Housing Data Wrap-Up: October 2010	Vitner & Khan
October-07	Structural Unemployment: Fact, Fiction or Too Early to Tell?	Silvia & Khan
October-07	Canadian Economic Recovery: Update & Outlook	Bryson & Quinlan
October-04	Will India Reach Its Long-Run Growth Potential?	Bryson
September-22	Brazil Pre-Election Update	Aleman
September-15	Housing Chartbook: September 2010	Vitner & Khan
September-10	Credit Quality Monitor: September 2010	Anderson & Kashmarek
September-01	How Steep Is The Japan Slowdown?	Anderson
September-01	Indian Economy Booming Again	Bryson
August-17	Housing Data Wrap-Up: August 2010	Vitner & Khan
August-12	Petroleum Markets: Comparing Two Crises	Aleman
August-11	Russia Bans Grain Exports Amid Drought, Fires	Anderson & Kashmarek
August-02	Understanding the Risk of Deflation	Vitner & Iqbal
July-28	Minnesota Economic Outlook: July 2010	Anderson
July-28	Colorado Economic Outlook: July 2010	Anderson & Kashmarek
July-27	America's Unemployment Experience: Diversity in the Details	Silvia & Whelan
July-22	Georgia Economic Outlook: July 2010	Vitner
July-21	Four Wobbly Legs Beneath Throne of Economic Growth	Silvia
July-21	Nothing New From The Fed	Vitner
July-15	Global Chartbook: July 2010	
July-15	New Jersey Economic Outlook: July 2010	Vitner & Khan
July-12	California Economic Outlook: July 2010	Anderson
July-09	Housing Chartbook: July 2010	Vitner & Khan
July-09	What Really Drives Growth in the Industrial Sector?	Bryson & Quinlan
July-02	Florida Economic Outlook: July 2010	Vitner & Kamaruddin

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Together we'll go far



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