

WELLS
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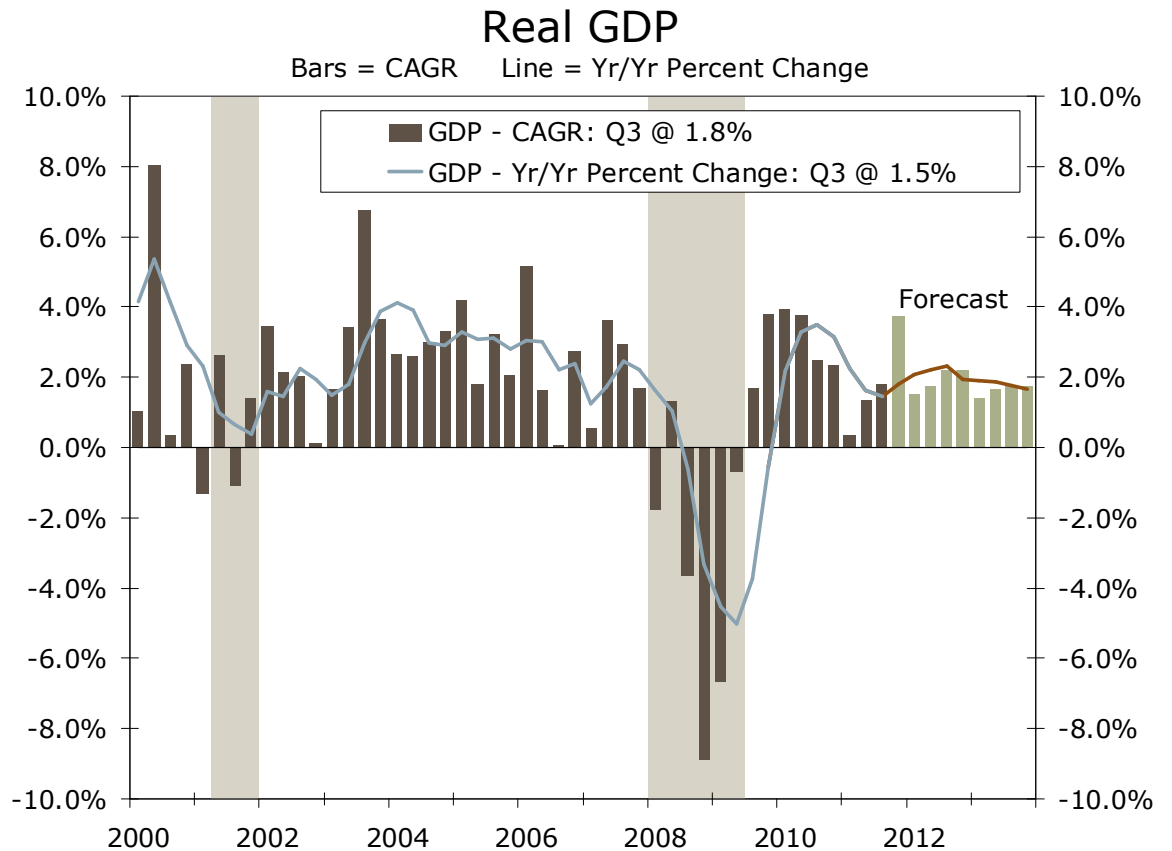
SECURITIES

Economic Outlook

Mark Vitner, Managing Director & Senior Economist
January 19, 2012

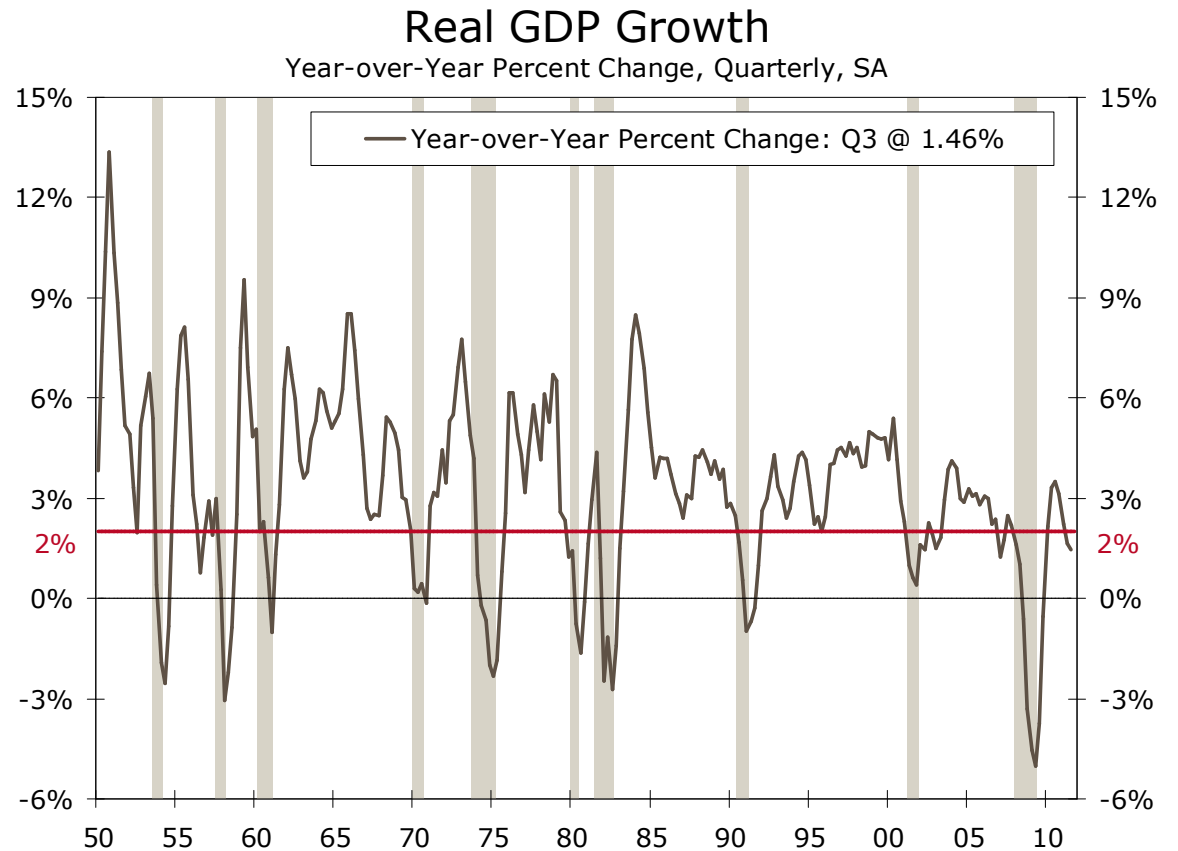


We are more than two years into the economic recovery and there is still a considerable amount of uncertainty regarding sovereign debt issues in Europe, the federal budget deficit and the U.S. housing sector



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

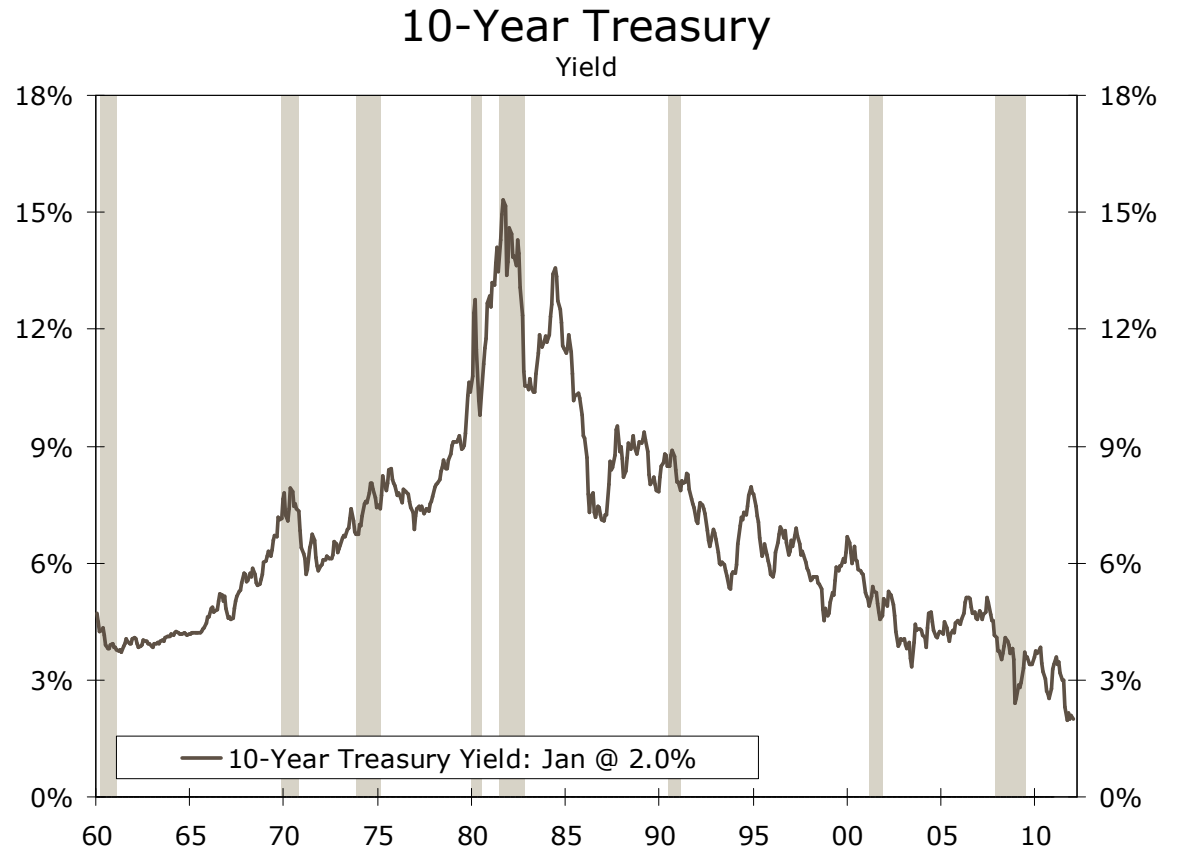
The year-over-year percent change in real GDP dipped below the two percent mark in the second quarter, which is a worrisome sign that has often preceded recessions in the past



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



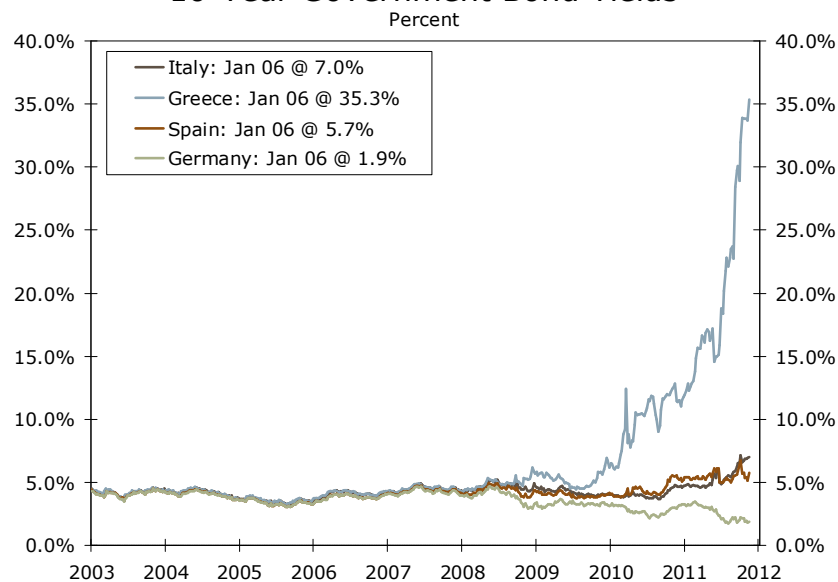
Source: Federal Reserve Board and Wells Fargo Securities, LLC

The European Sovereign Debt Crisis

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

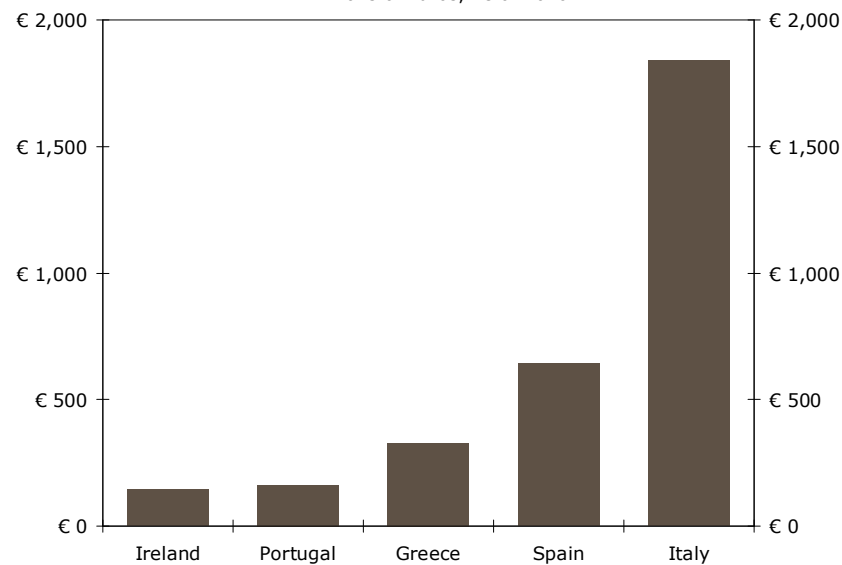
10-Year Government Bond Yields



Budget Deficits as a Share of GDP

Total Outstanding Debt Among Selected European Countries

In Billions of Euros, As of 2010

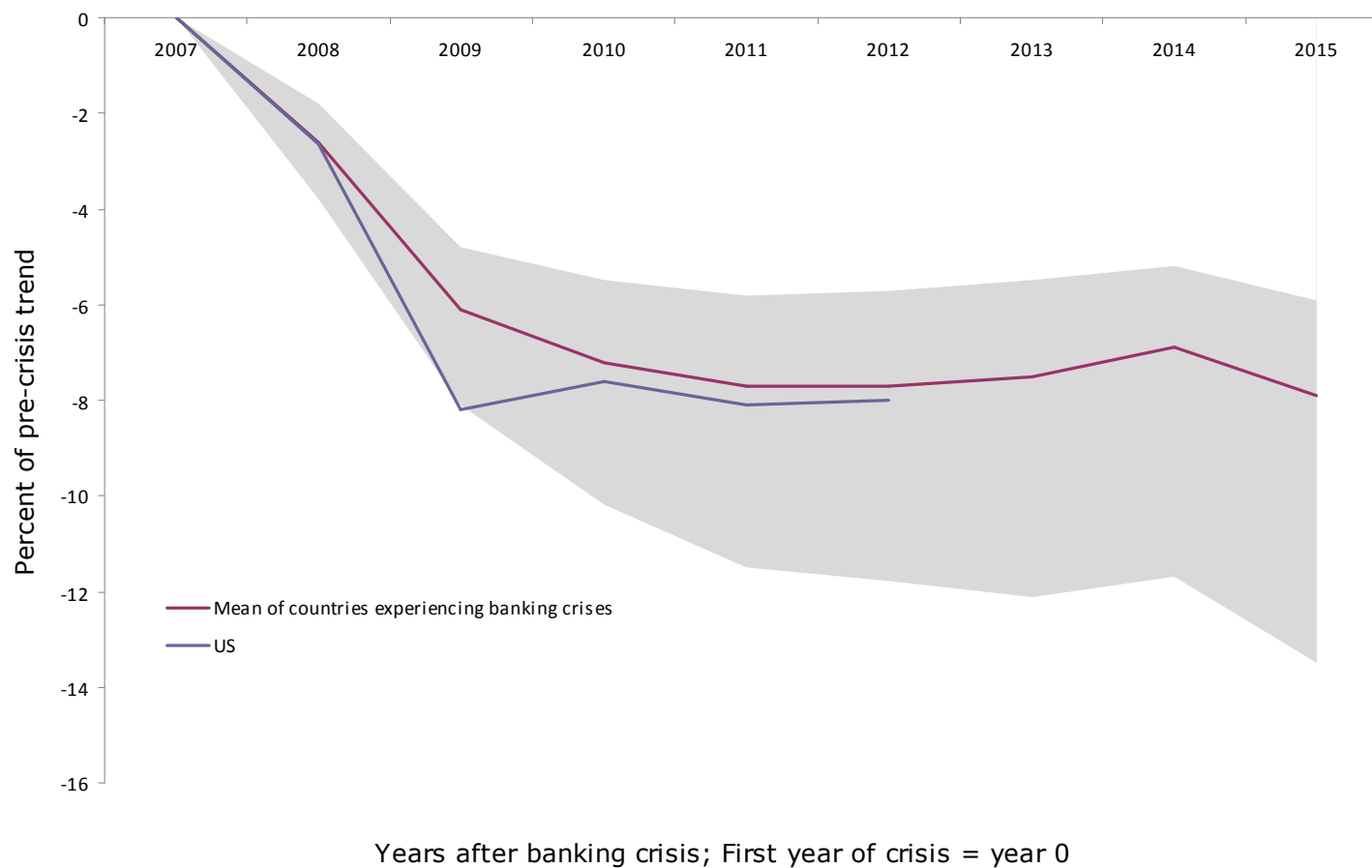


Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities, LLC

Weak Growth Following Financial Crises

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

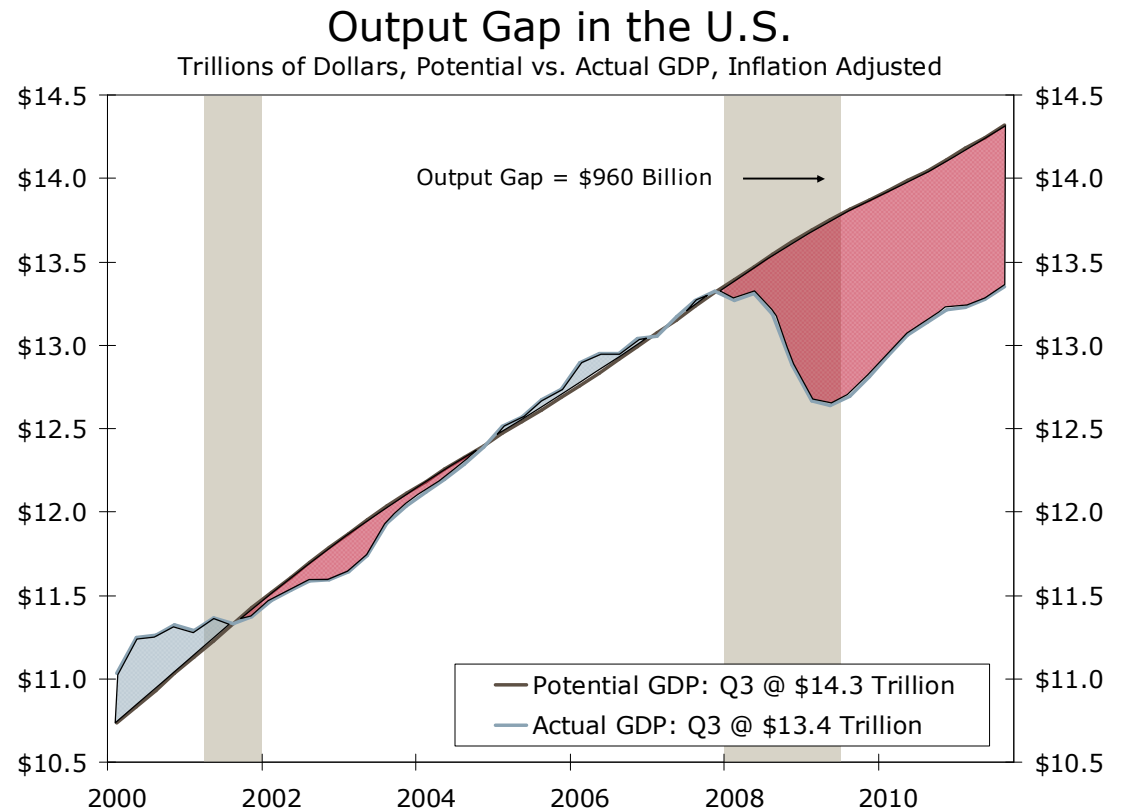
U.S. GDP Compared to GDP After Banking Crises Percent of Previous Peak



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

Output Gap

The Great Recession has produced an enormous output gap that will take years to close

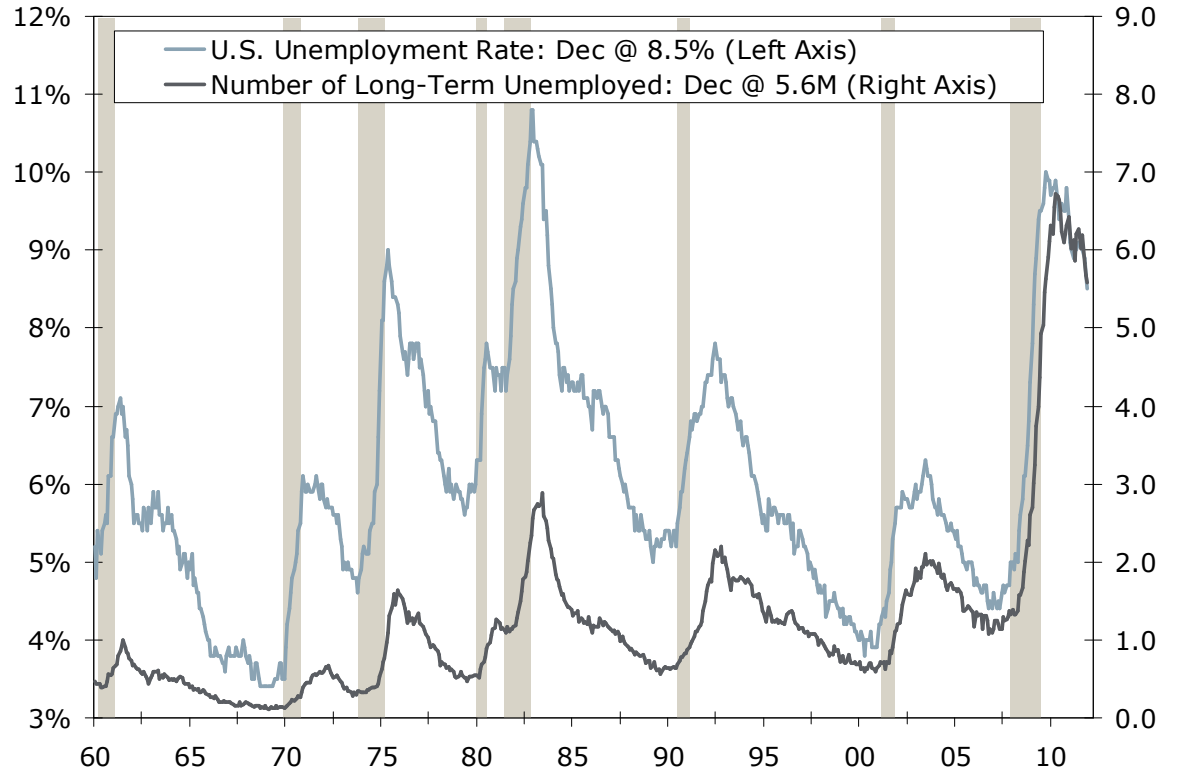


Source: Congressional Budget Office, U.S. Department of Commerce and Wells Fargo Securities, LLC

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

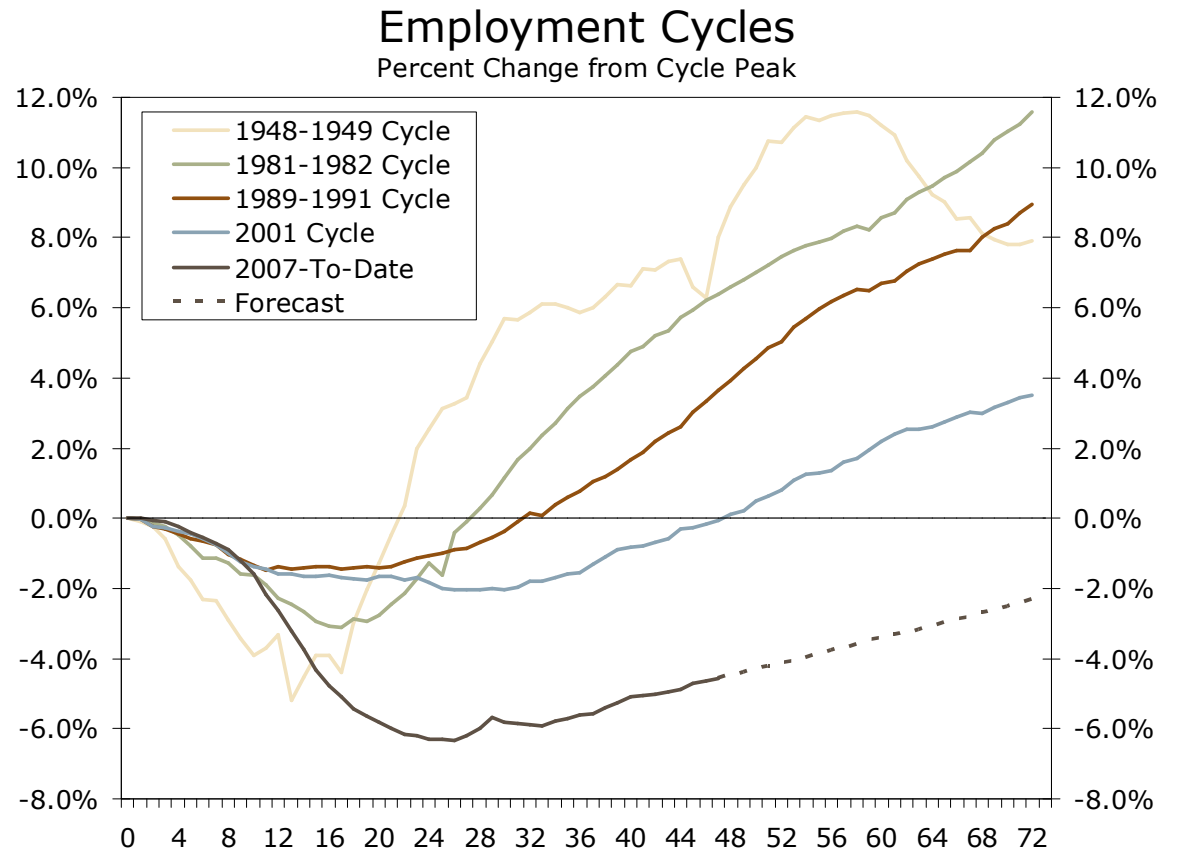
Unemployment and Long-Term Unemployment

Percent, In Millions, Seasonally Adjusted



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

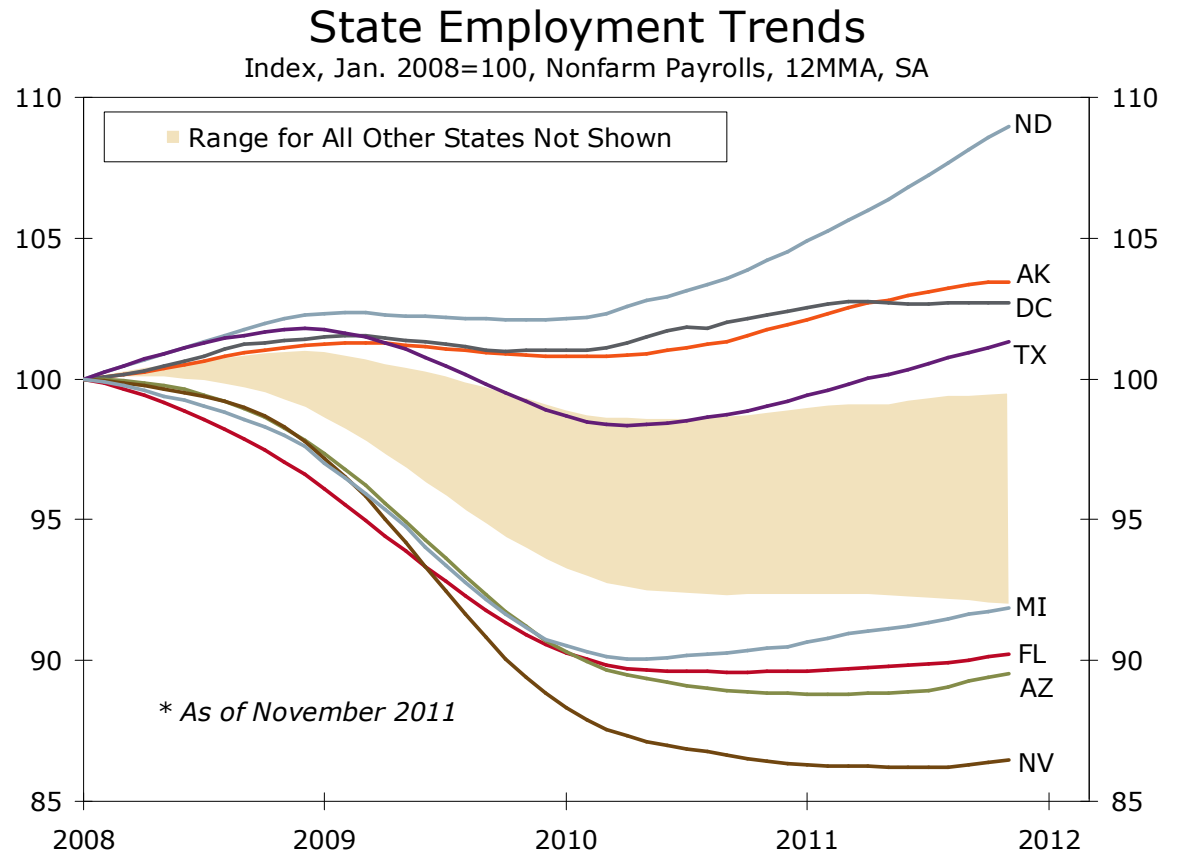
In the current cycle, job losses exceeded every post-World War II downturn and the modest recovery to date has been extremely disappointing



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

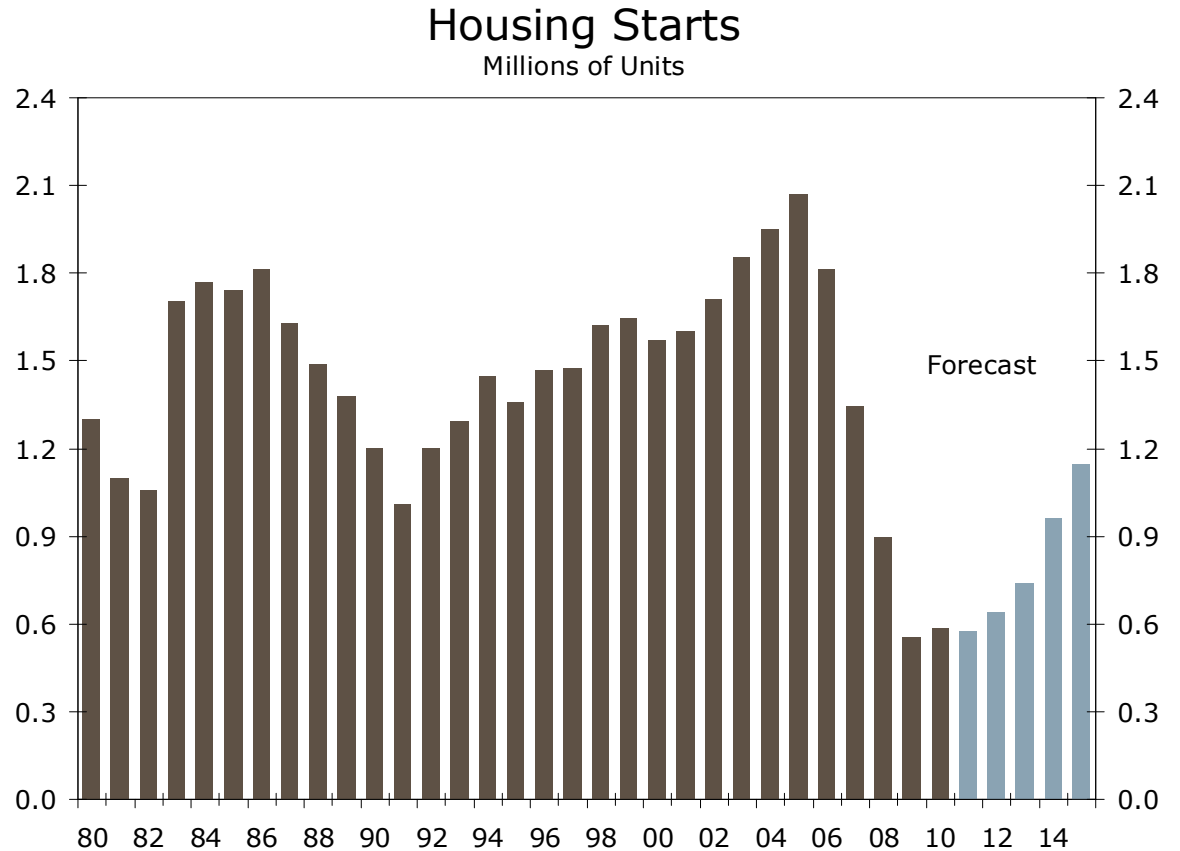
Employment Growth by State

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



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

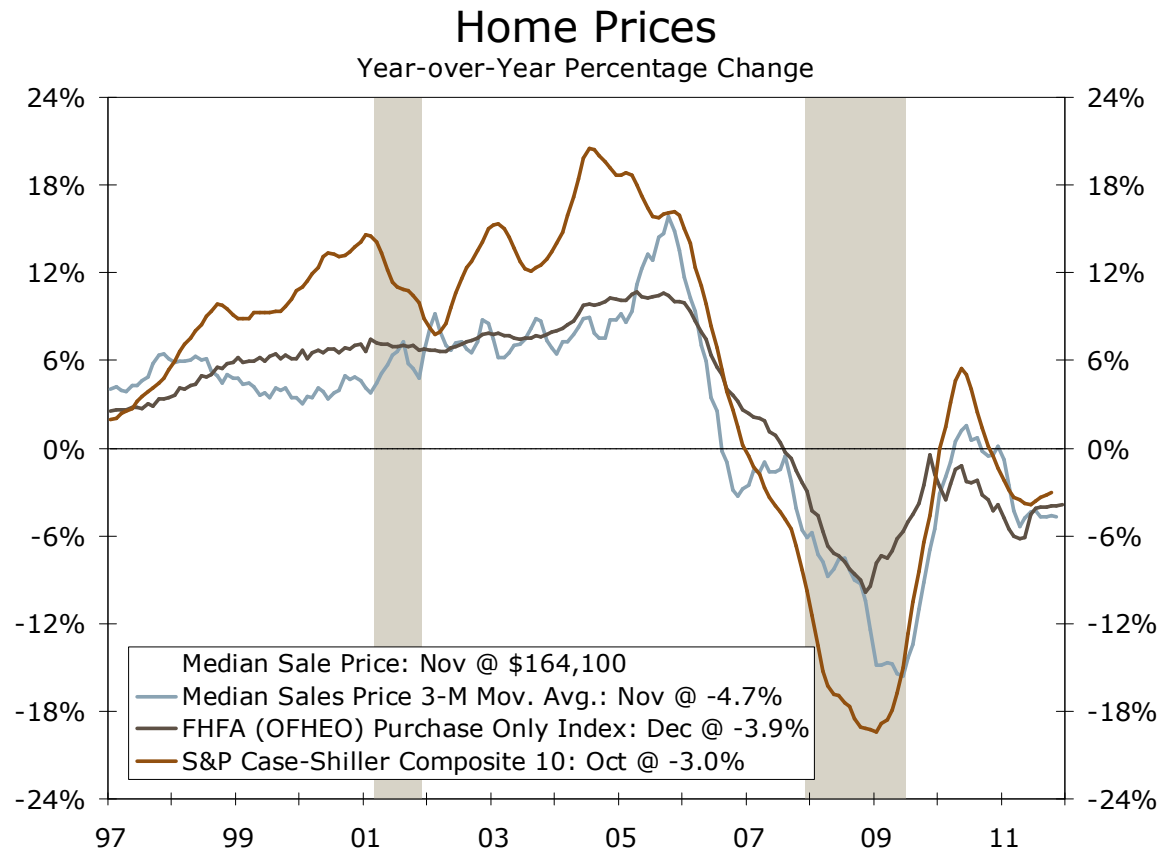
We believe housing starts have bottomed and will increase modestly through 2012, returning to a “normal” level by 2015



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

Home Prices

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



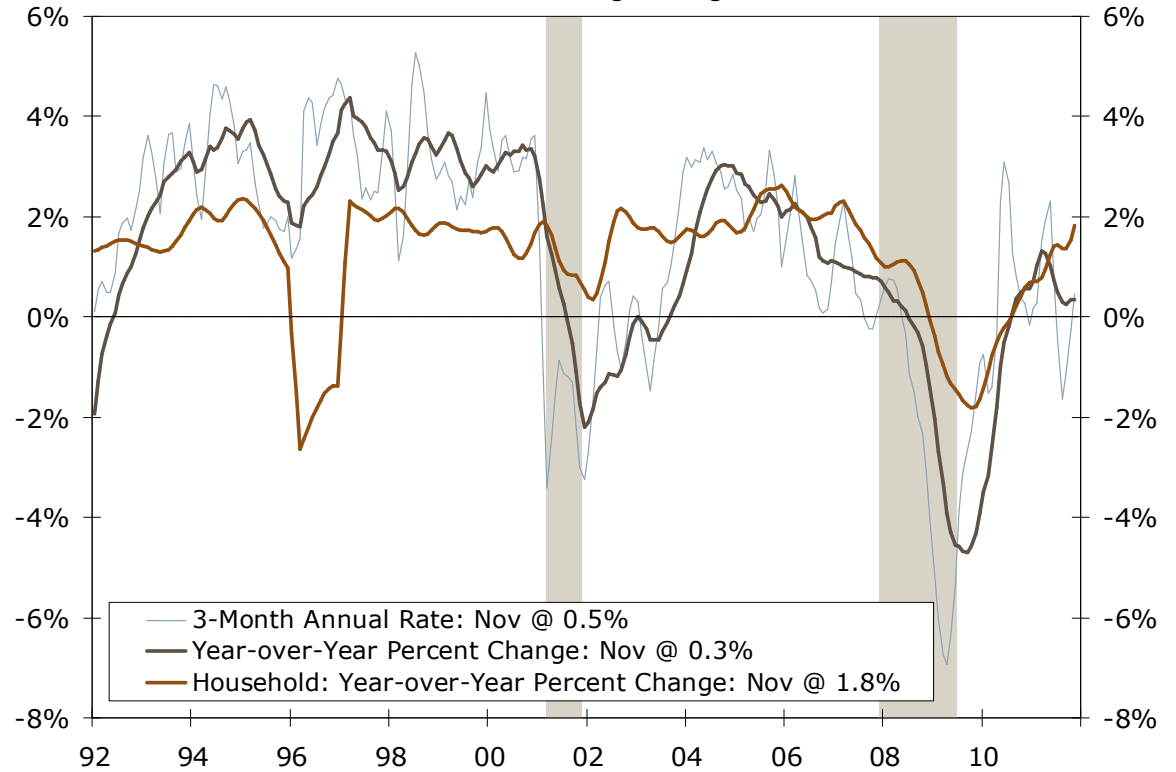
Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

Virginia

Private sector payrolls continue to improve

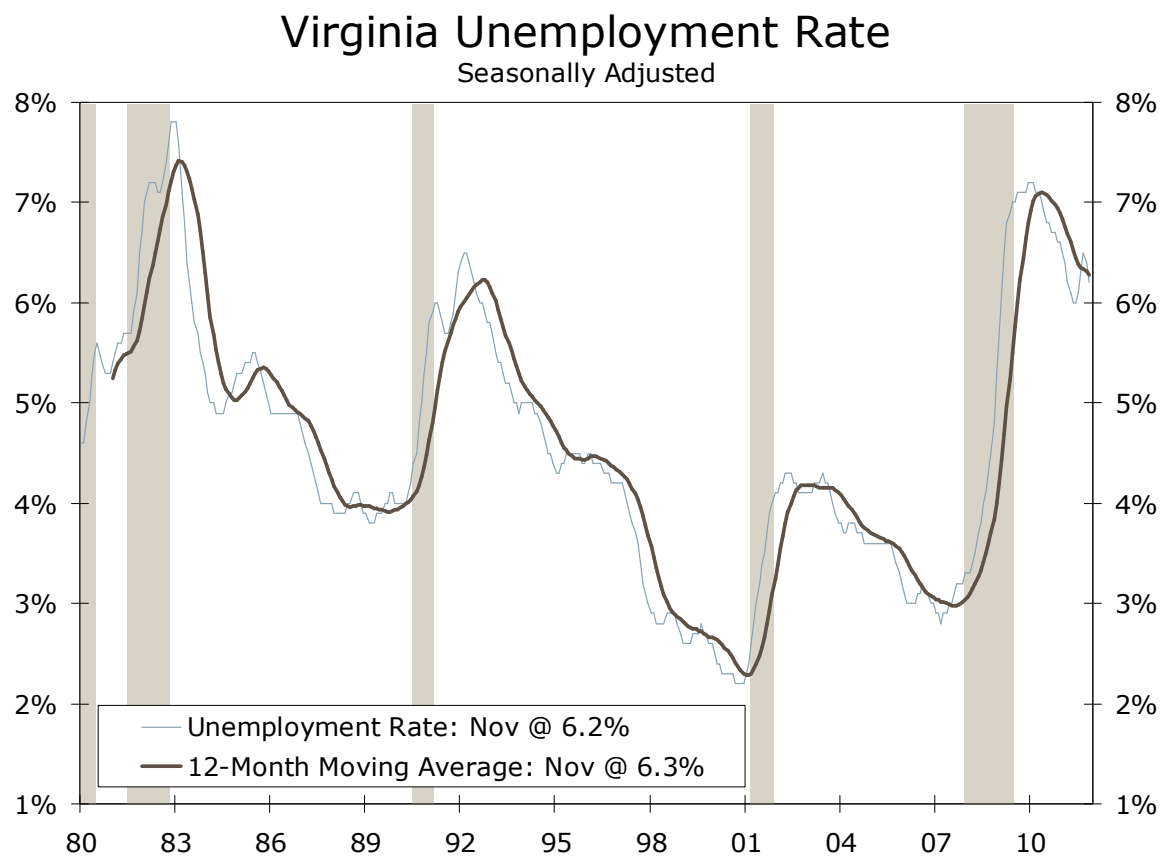
Virginia Nonfarm Private Employment

3-Month Moving Averages



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

The unemployment rate remains well below the national average



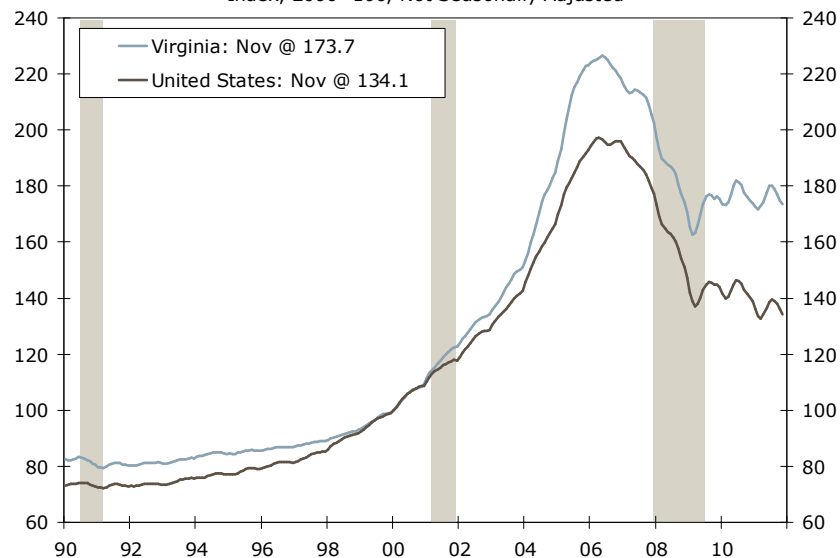
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Virginia – Home Prices and Construction

Home prices in Virginia remain relatively resilient, but construction activity remains weak

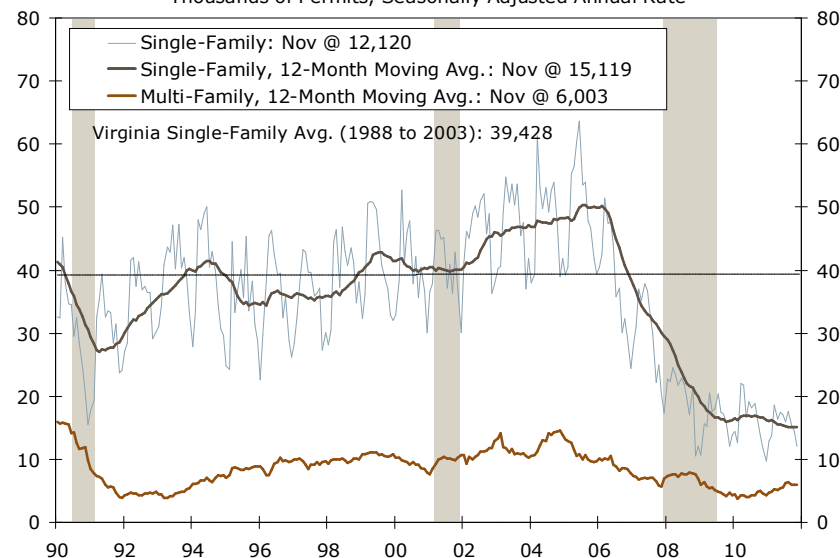
Home Prices

CoreLogic Home Price Index: VA vs. US
Index, 2000=100, Not Seasonally Adjusted



Housing Permits

Virginia Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate

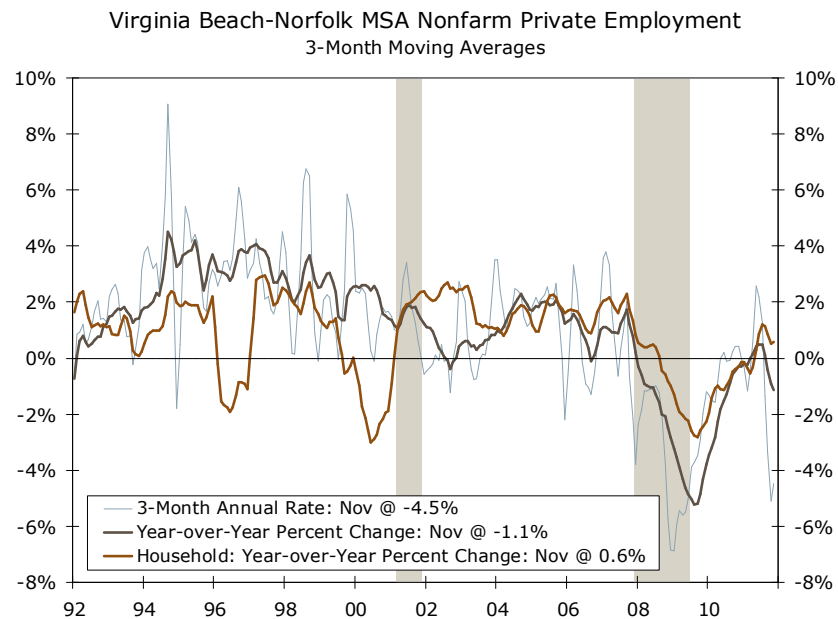


Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

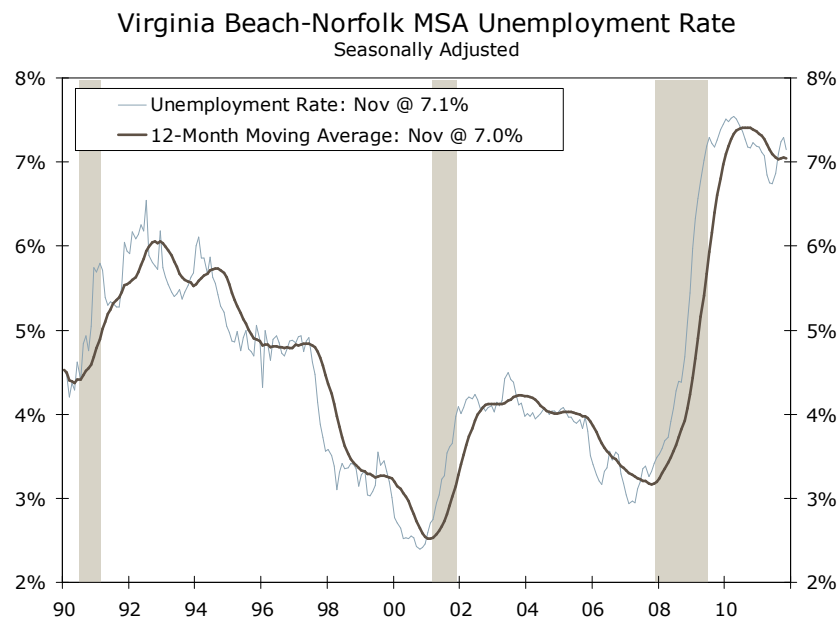
Virginia Beach MSA – Employment Growth & Unemployment Rate

Private sector employment has turned down in recent months.
The unemployment rate is well above the state average.

Employment



Unemployment Rate

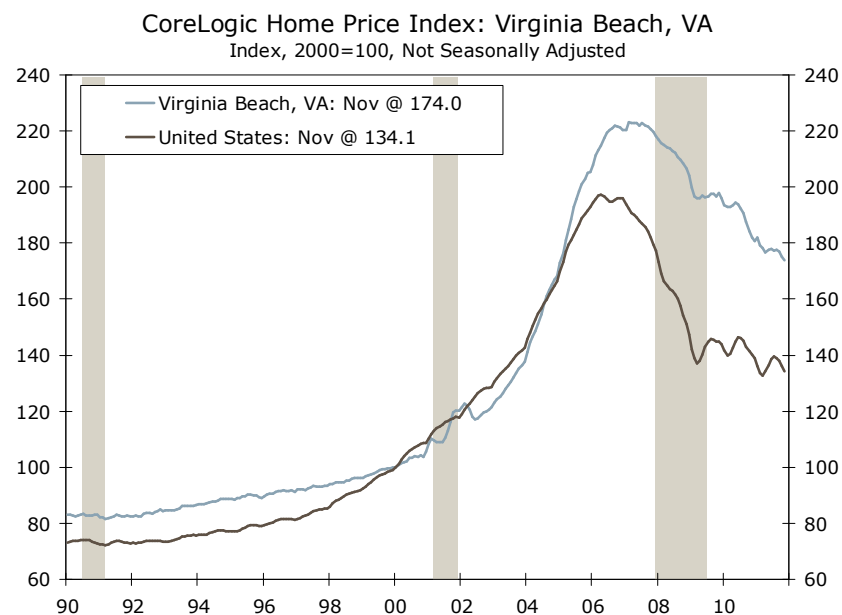


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

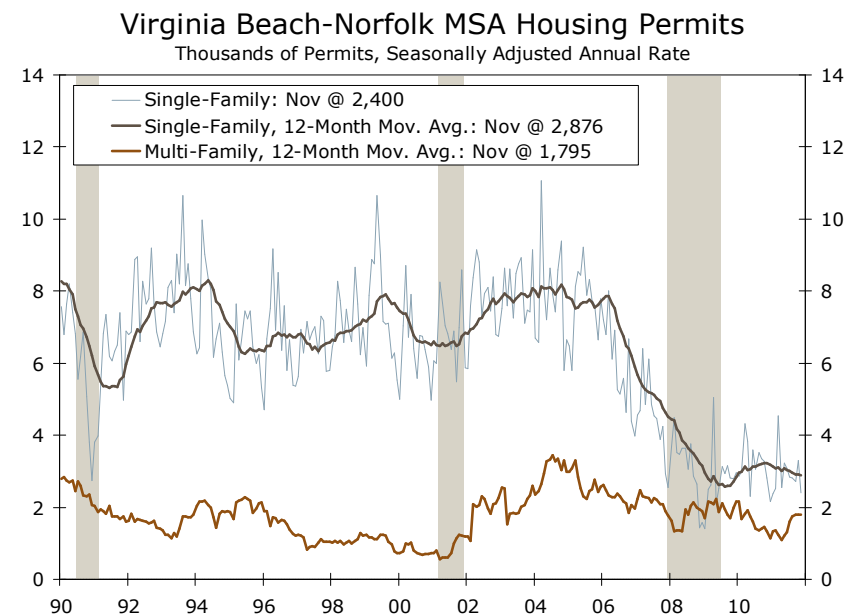
Virginia Beach MSA – Home Prices & Construction

Home prices continue to slide, and single-family construction activity remains weak. Multifamily construction activity, however, has picked up.

Home Prices



Housing Permits

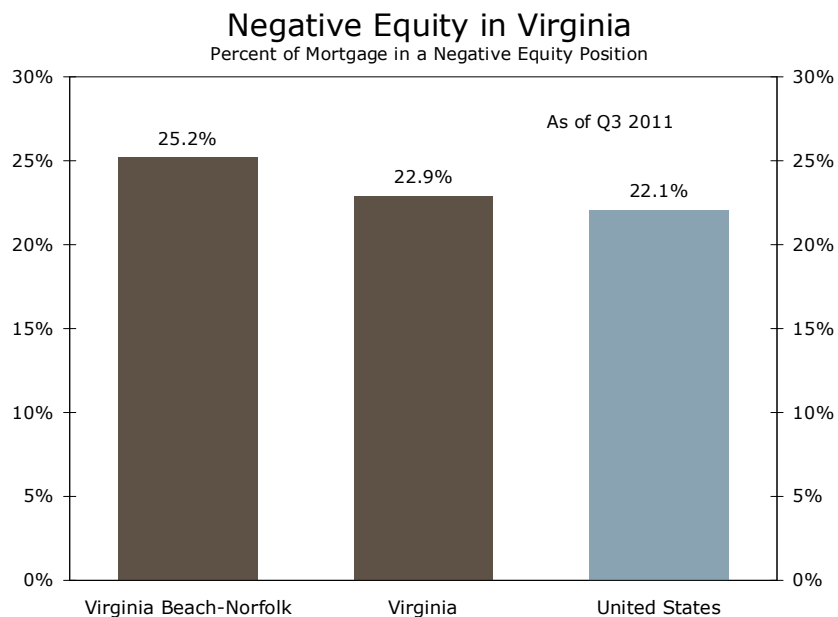


Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

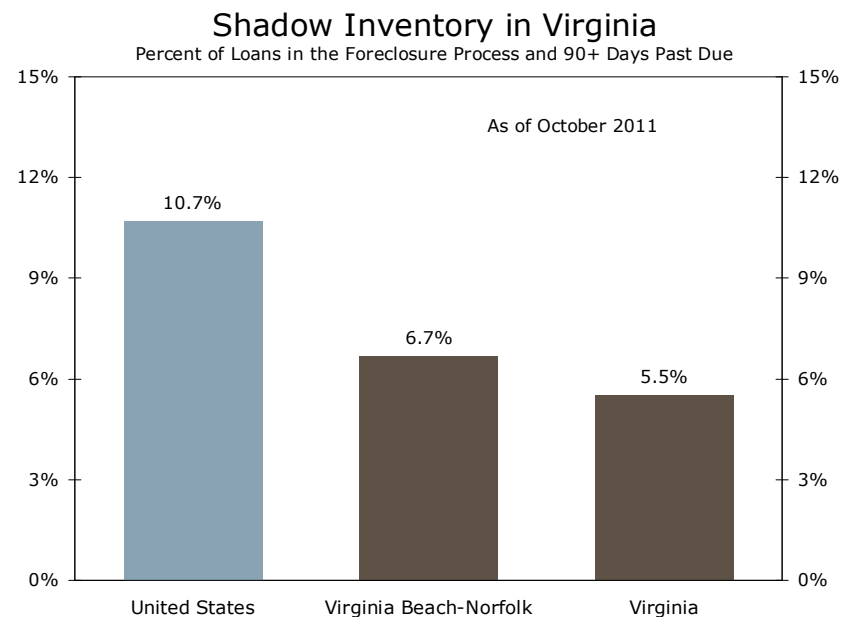
Negative Equity and Shadow Inventory – Virginia Beach

Virginia has a higher negative equity rate than the U.S. negative equity rate. However, the backlog of homes waiting to enter the foreclosure process is relatively small.

Mortgage in Negative Equity



Shadow Inventory



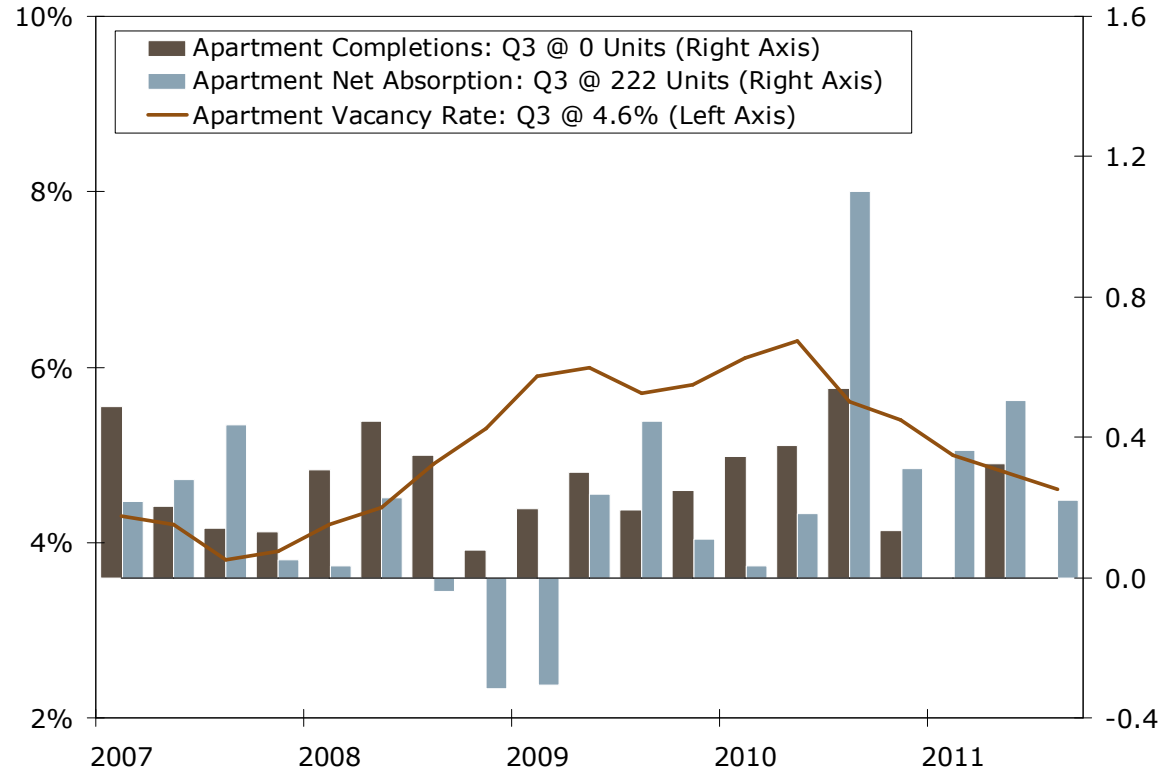
Source: CoreLogic and Wells Fargo Securities, LLC

Hampton Roads Apartment Market

The apartment market in Hampton Roads continues to improve. Vacancy rates have fallen 1.0 percentage point over the past year.

Hampton Roads Apartment Supply & Demand

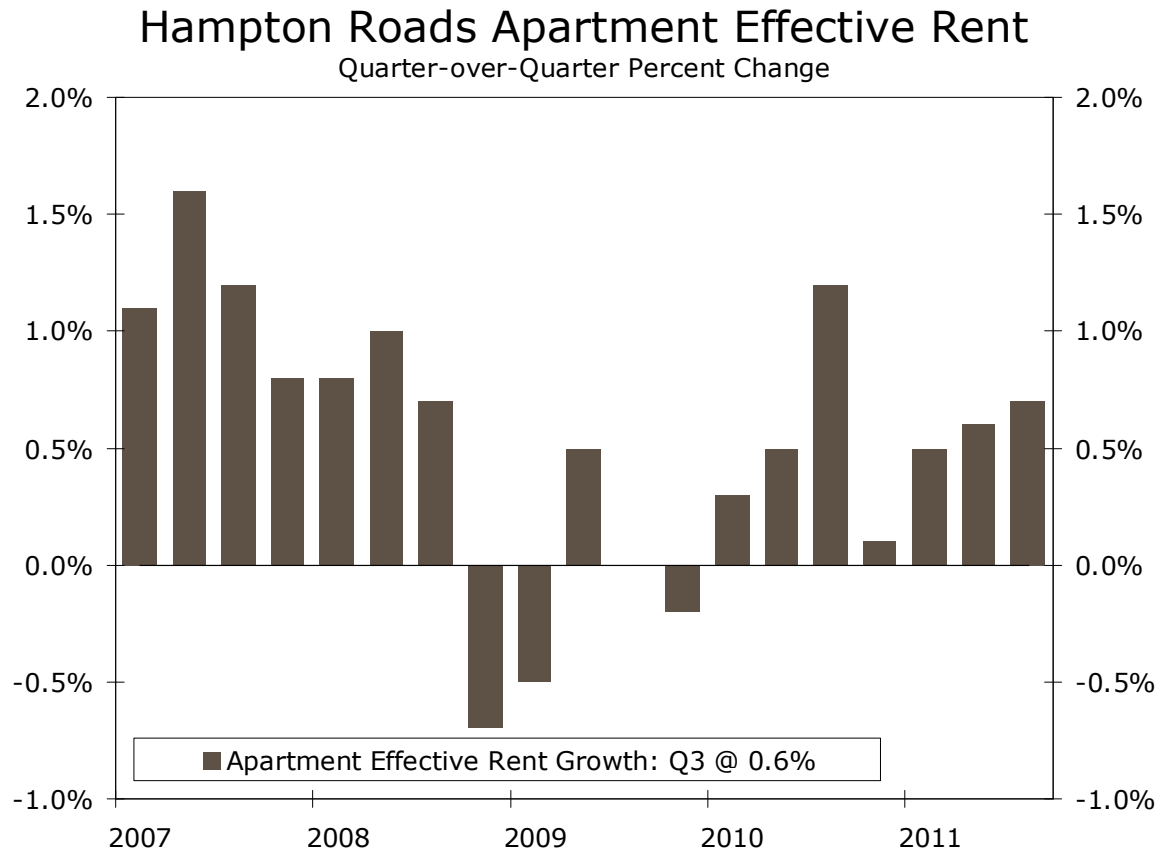
Percent, Thousands of Units



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

Hampton Roads Apartment Market

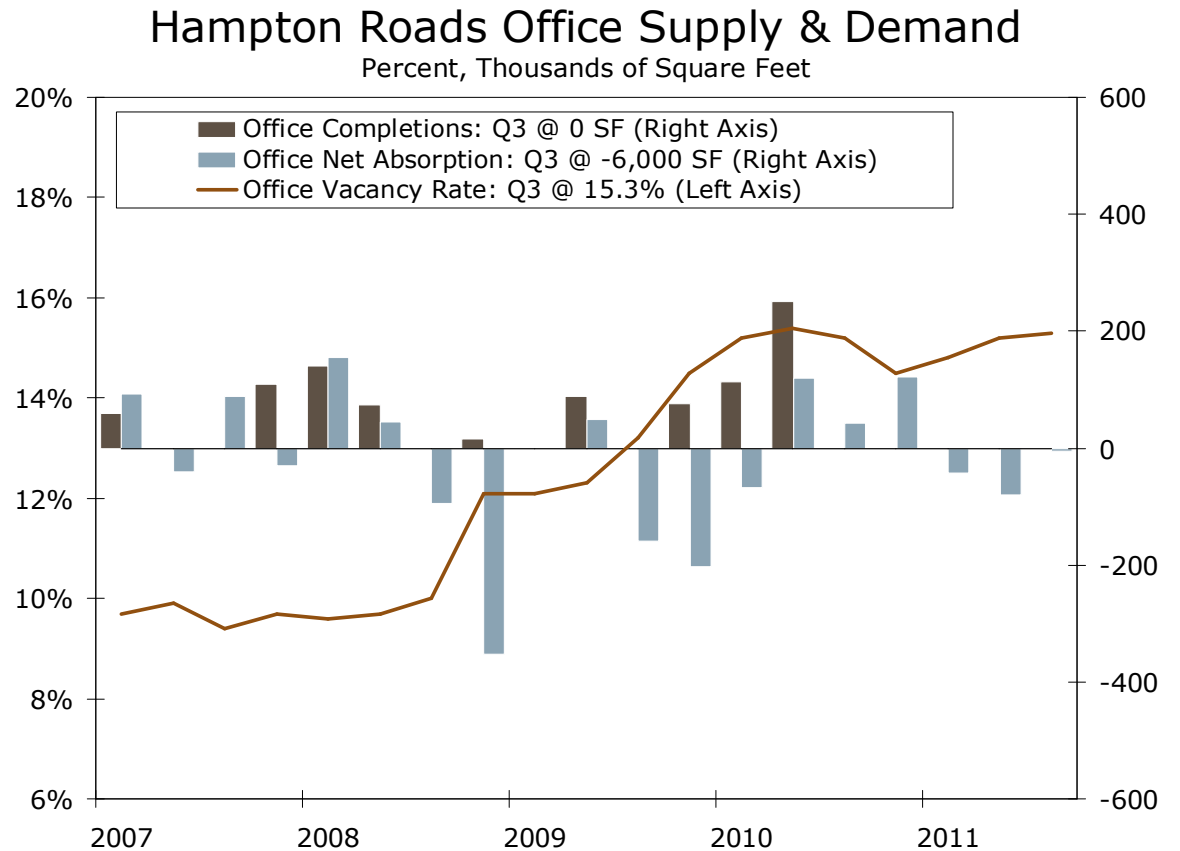
Rents continue to grow in Hampton Roads' apartment market



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

Hampton Roads Office Market

The office market in Hampton Roads remains weak. Construction is null, and vacancies remain high.



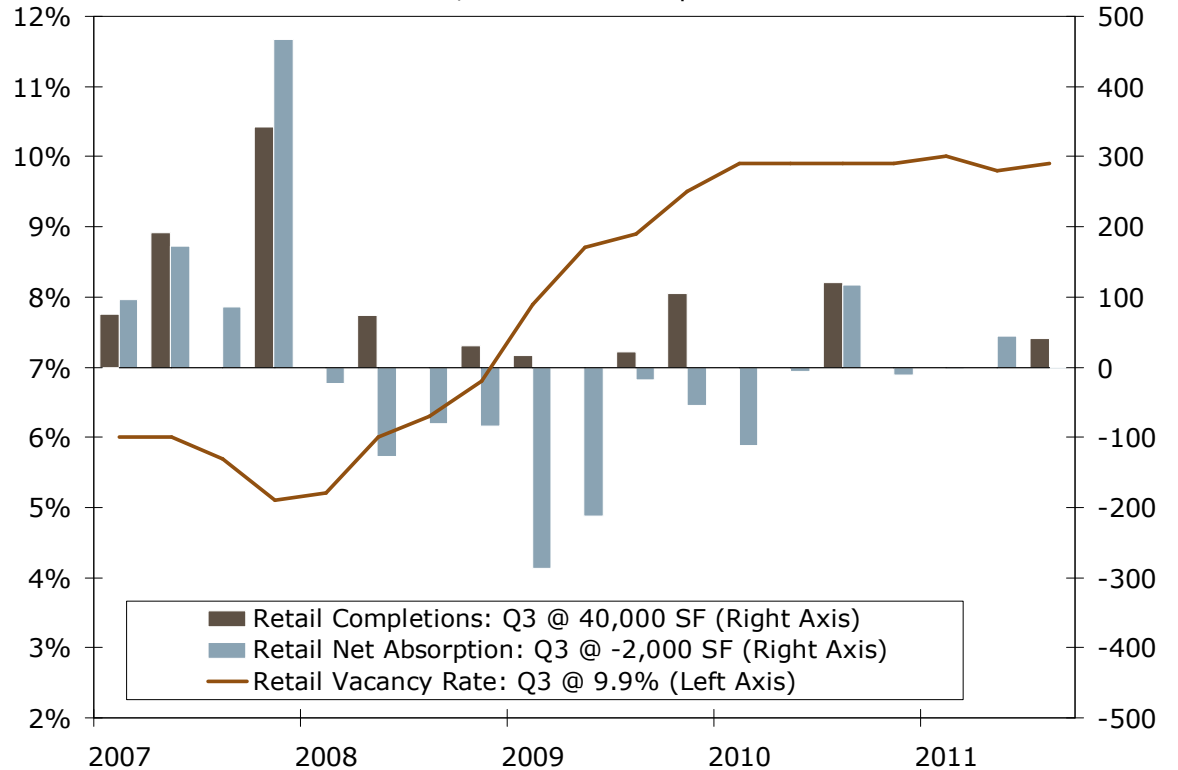
Source: Reis, Inc. and Wells Fargo Securities, LLC

Hampton Roads Retail Market

Hampton Roads' retail market also continues to struggle.

Hampton Roads Retail Supply & Demand

Percent, Thousands of Square Feet

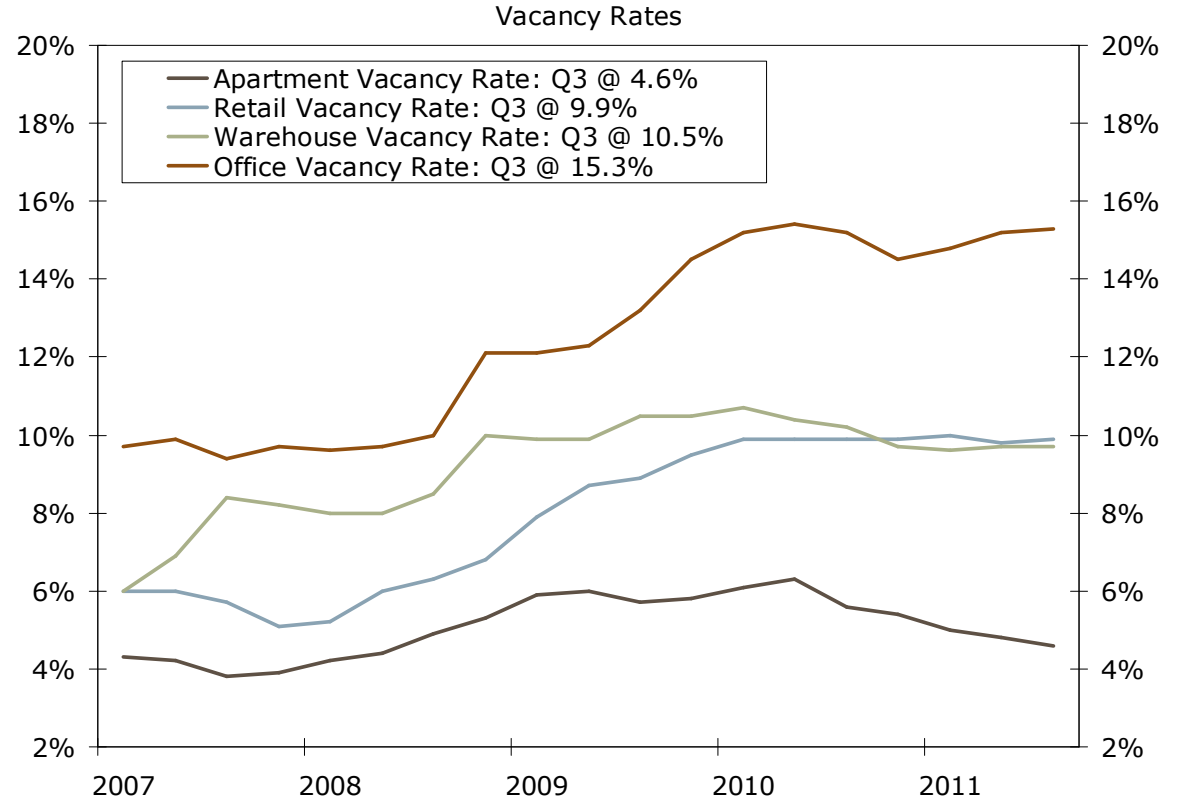


Source: Reis, Inc. and Wells Fargo Securities, LLC

Hampton Roads CRE Vacancy Rates

Hampton Roads' industrial market has shown some improvement. However, most of the improvement in commercial real estate in Hampton Roads has occurred in the apartment space.

Hampton Roads Commercial Real Estate



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

Issues to Watch



Our Forecast

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast		
	2011				2012				2009	2010	2011	2012	2013
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	0.4	1.3	1.8	3.4	1.3	1.8	2.2	2.4	-3.6	3.0	1.8	2.0	1.9
Personal Consumption	2.1	0.7	1.7	3.4	1.2	1.5	1.7	2.1	-2.0	2.0	2.2	1.7	1.4
Inflation Indicators ²													
"Core" PCE Deflator	1.1	1.3	1.6	1.7	1.7	1.5	1.4	1.6	1.5	1.4	1.4	1.5	1.6
Consumer Price Index	2.2	3.3	3.8	3.3	2.4	1.9	1.5	1.8	-0.3	1.6	3.2	1.9	2.0
Industrial Production ¹	4.8	0.7	6.1	2.7	2.7	3.7	3.1	2.4	-11.1	5.3	4.1	3.2	2.4
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	7.0
Trade Weighted Dollar Index ³	70.6	69.4	72.8	73.3	74.0	74.5	75.0	76.0	77.7	75.6	70.9	74.9	78.5
Unemployment Rate	9.0	9.0	9.1	8.7	8.4	8.5	8.6	8.5	9.3	9.6	9.0	8.5	8.3
Housing Starts ⁴	0.58	0.57	0.62	0.66	0.66	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	4.10	4.10	4.20	5.04	4.69	4.46	4.10	4.30
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: January 13, 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
January-13	How Might Fiscal Restraint Generate Economic Growth?	Silvia & Watt
January-13	Eastern Europe Faces Monetary Policy Dilemma	Anderson & Kashmerek
January-12	Global Chartbook: January 2012	
January-11	Bank Credit: A Surprisingly Typical Cycle	Silvia & Watt
December-30	Commodity Price Volatility to Continue	Aleman
December-28	Colorado Outlook: December 2011	Anderson & Kashmerek
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 & Kashmerek
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 & Kashmerek
December-08	Credit Quality Monitor - December 2011	Anderson & Kashmerek
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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