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U.S. Economic Outlook

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Together we'll go far



Overall Outlook

- **We continue to look for the economy to grow in the 2.0 range in 2016. Domestic demand remains strong, which will help offset sluggish global growth.**
-

Monetary Policy

- **The Fed's initial interest rate hike came late in the cycle amid circumstances more consistent with cutting interest rates. Policymakers will move extra cautiously.**
-

Inflation

- **Slowing global economic growth and the stronger dollar are pulling commodity prices lower and will likely restrain headline inflation for quite some time.**
-

Fiscal Policy

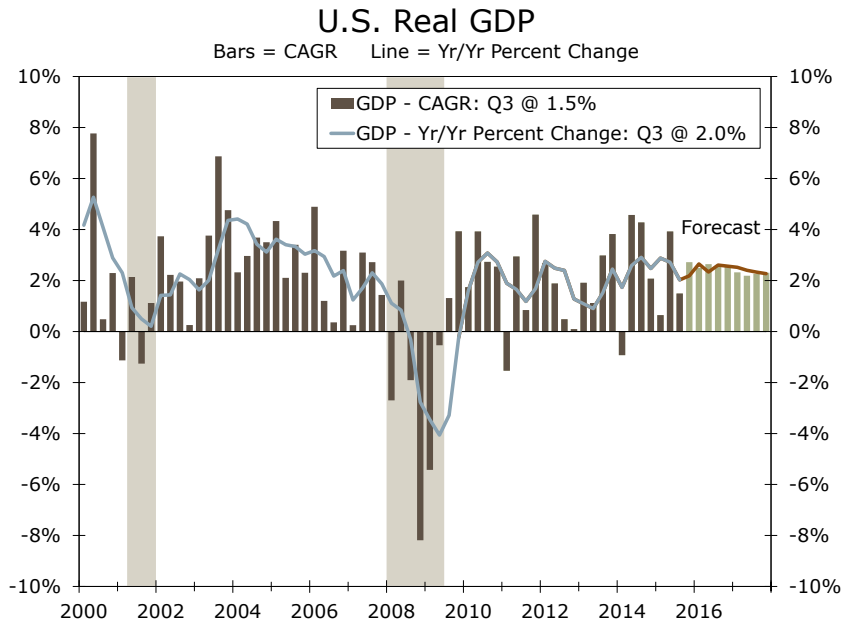
- **Last year's federal budget deal will provide a slight boost to economic growth in 2016. State and local governments are also boosting spending modestly.**
-

Global Economy

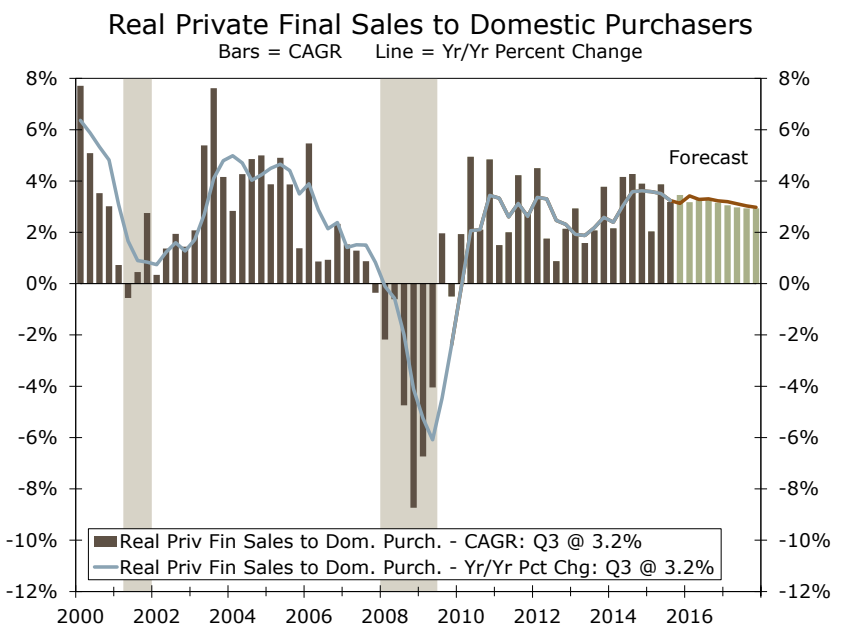
- **Slower growth in China is weighing on other economies, pushing the value of the dollar higher and presenting a threat to U.S. exports and corporate earnings.**

Real GDP growth has been disappointing throughout most of this recovery and has also been unusually volatile. Much of the recent volatility is due to swings in international trade and business inventories. Private final domestic demand is growing more solidly and consistently.

Real GDP Forecast



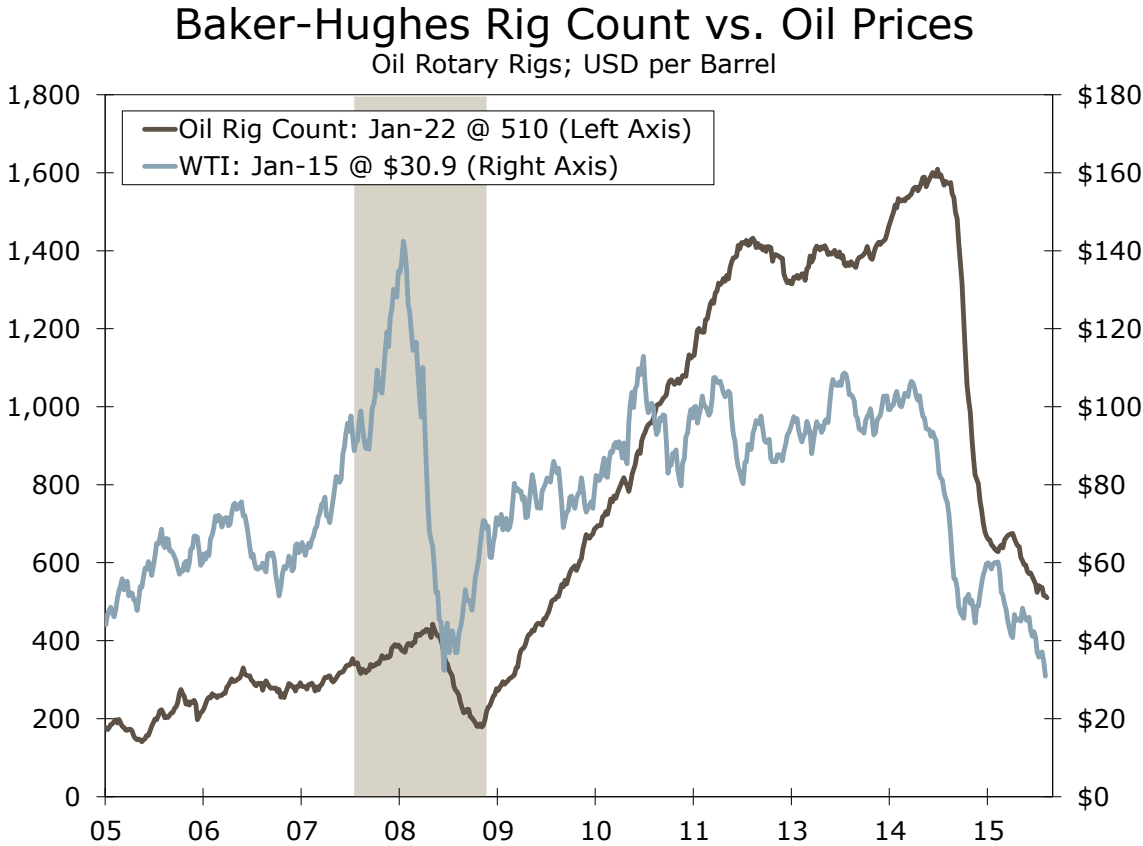
Real Private Final Sales



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

Oil prices began collapsing during the second half of 2014 and have fallen further than industry analysts had expected.

The RIG count has followed oil prices lower and neither show a sign of bottoming.

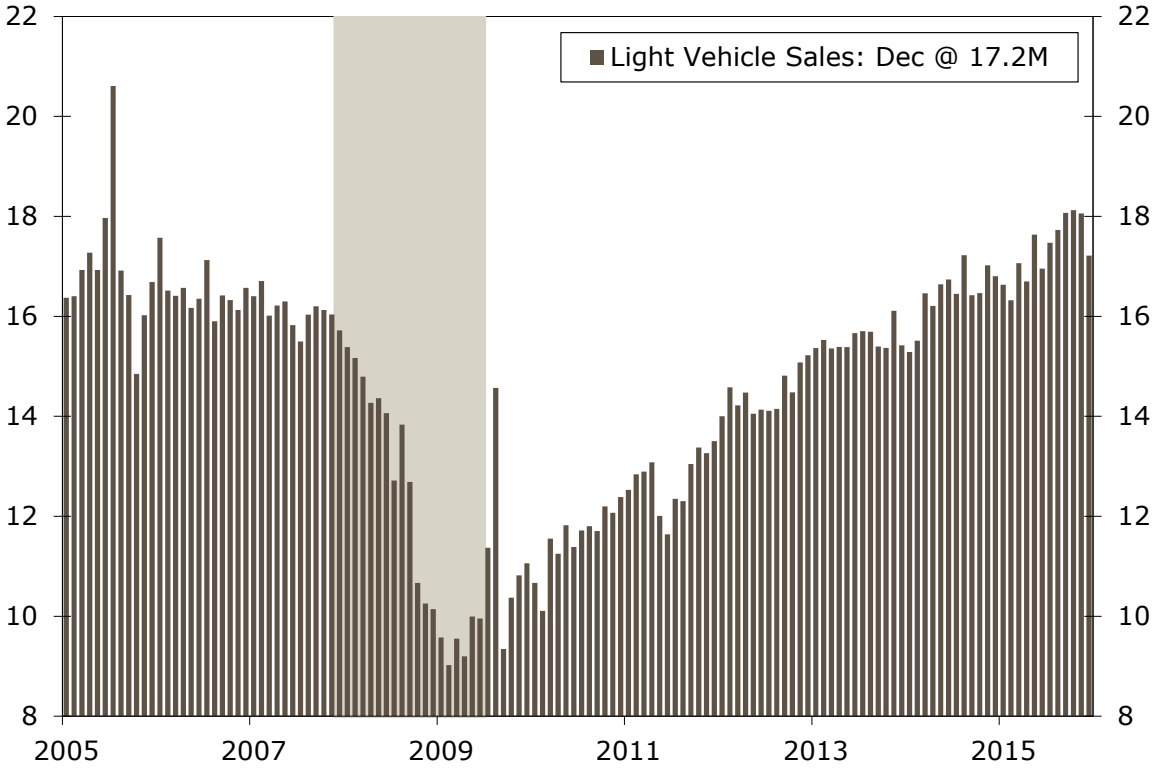


Source: Bloomberg LP and Wells Fargo Securities, LLC

Motor vehicle sales surged in 2015, possibly reflecting the increased use of incentives. Credit terms have also been very aggressive, particularly for subprime borrowers.

Total U.S. Light Motor Vehicle Sales

In Millions, Seasonally Adjusted Annual Rate

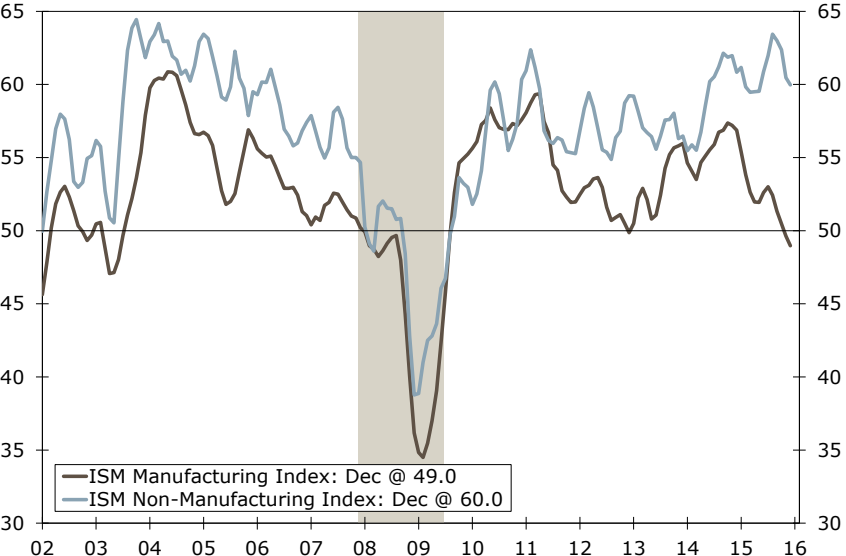


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The ISM manufacturing index has been below the 50 demarcation line for two consecutive months and Federal Reserve Board regional manufacturing surveys have also fallen notably.

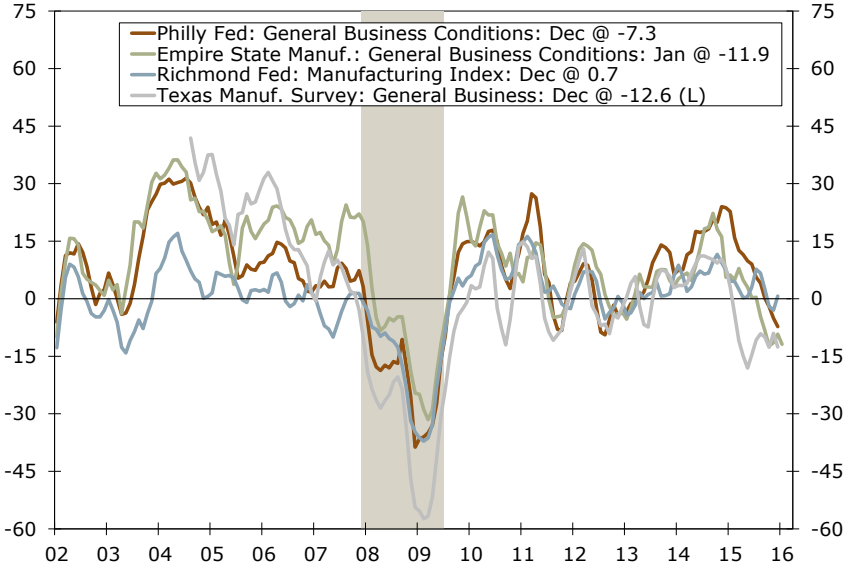
ISM Manufacturing vs. Non-Manufacturing

ISM Surveys of Business Activity
Diffusion Indices, 3-Month Moving Averages



Regional Surveys

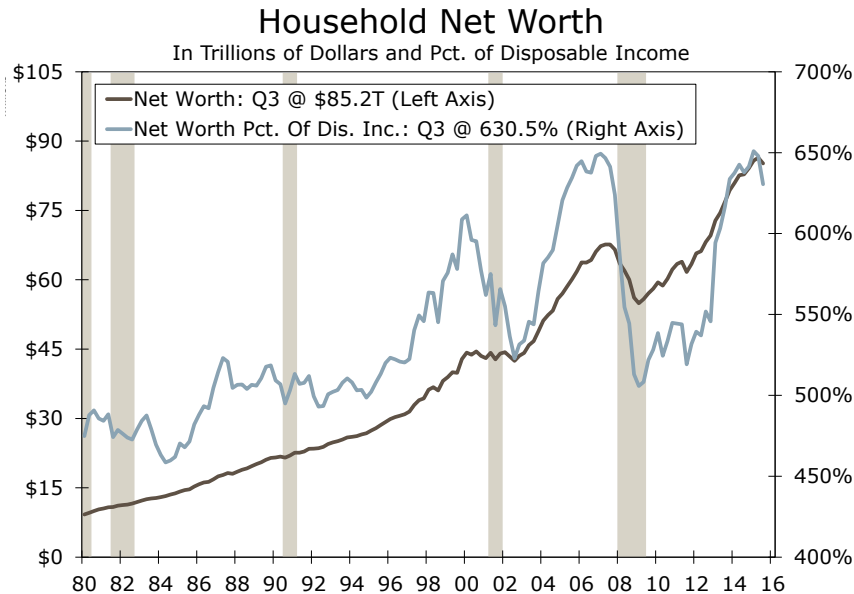
U.S. Regional Fed Surveys
Diffusion Index, 3-Month Moving Averages



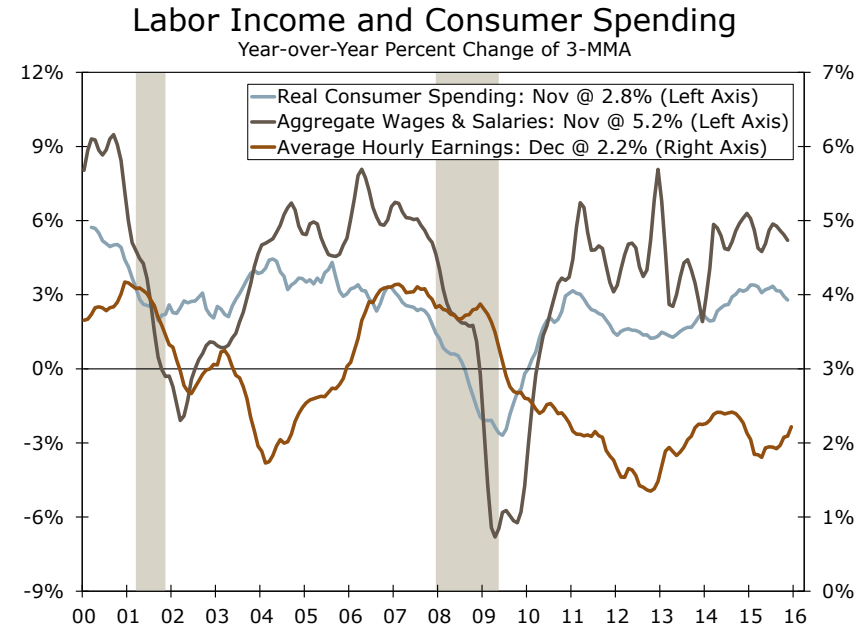
Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Securities, LLC

Consumer spending has been driven by a rebound in household wealth and gradual recovery in employment and income prospects. Wages and salaries have risen faster than average hourly earnings, reflecting gains in hours worked and innovative employment options.

Household Net Worth

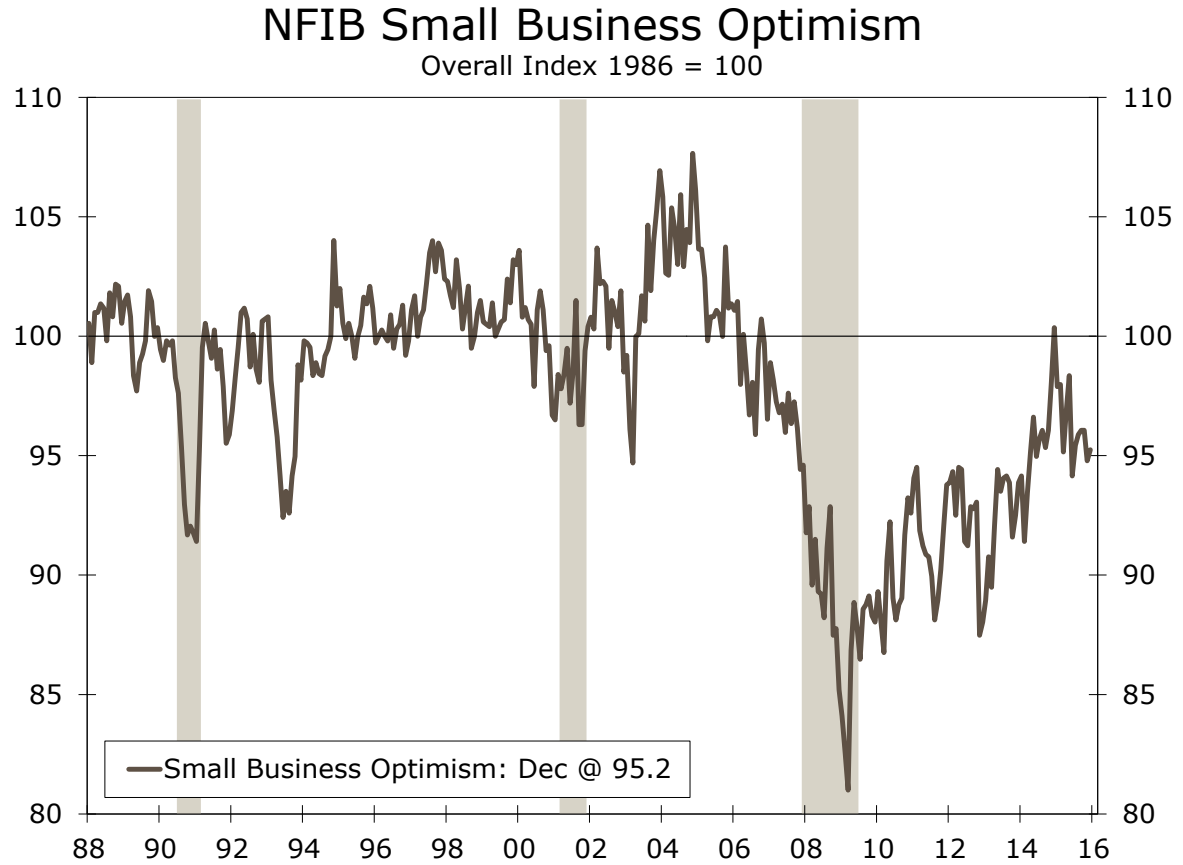


Income & Consumer Spending



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

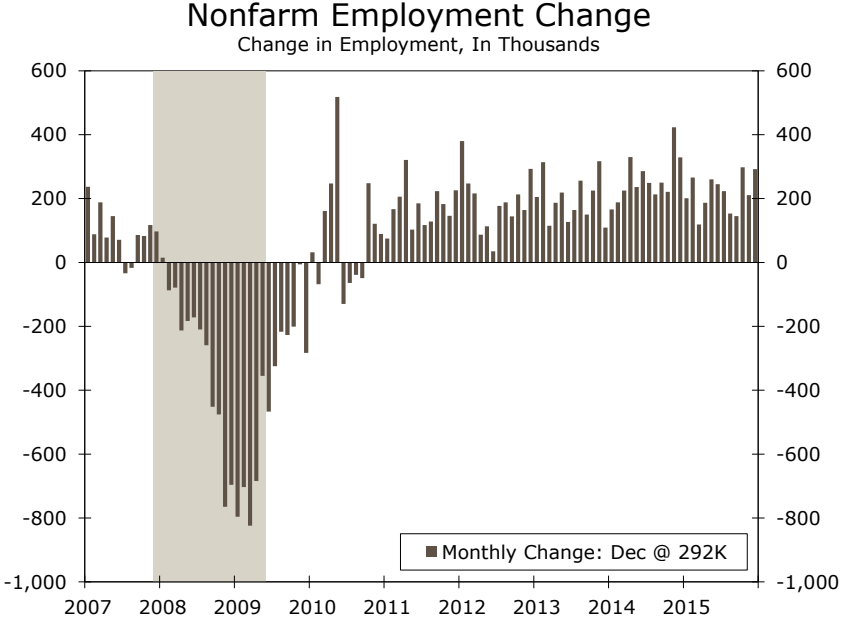
Small business owners continue to express concern about the state of the economy.



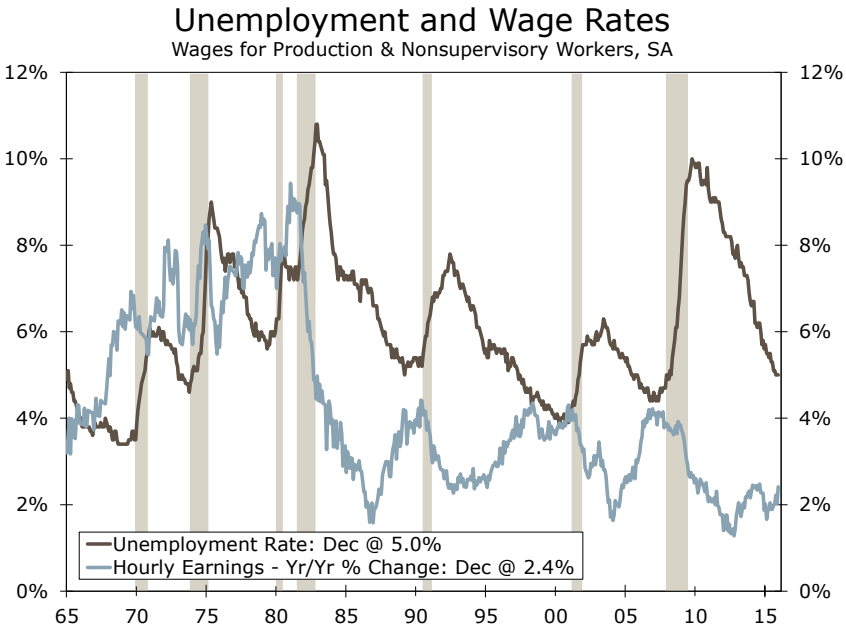
Source: NFIB and Wells Fargo Securities, LLC

Nonfarm employment posted solid gains the past three months, alleviating fears about a slowdown. Unemployment continues to trend lower and is close to most measures of “full employment.” The Fed is taking its cue from the strengthening labor market.

Nonfarm Employment

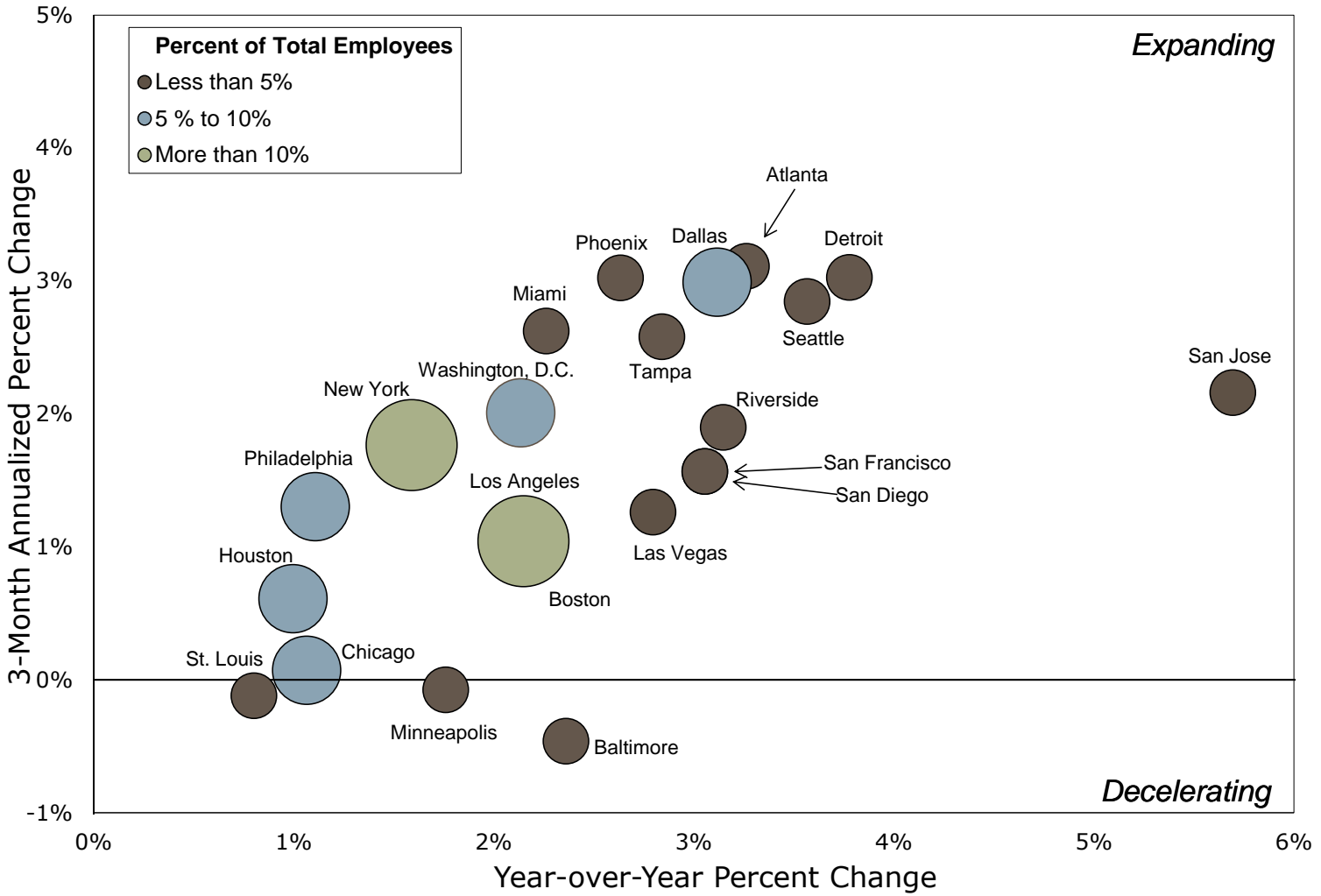


Unemployment Rate



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

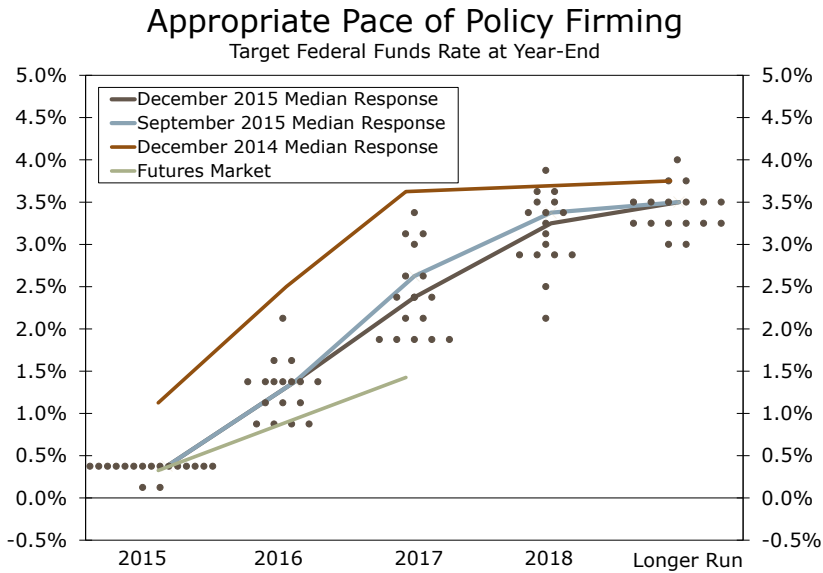
U.S. Employment Growth by MSA 3-Month Moving Averages, November 2015



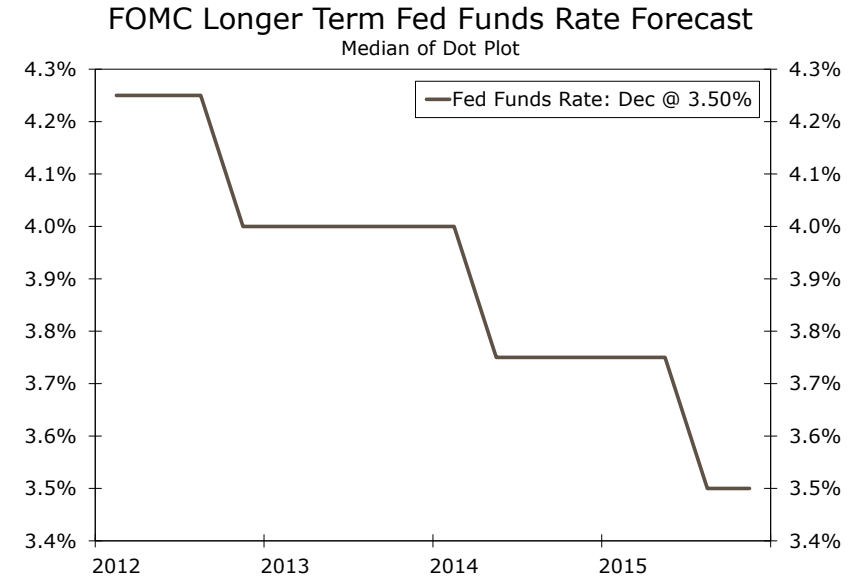
Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities, LLC

The FOMC has continuously reduced their expectation for interest rates for both the near- and long-term. The near-term expectations signal intentions to gradually raise interest rates. The lower long-term funds rate underscores doubts about long-term potential real GDP growth.

Fed's Dot Plot



Long Term Forecast



Source: Federal Reserve Board and Wells Fargo Securities, LLC

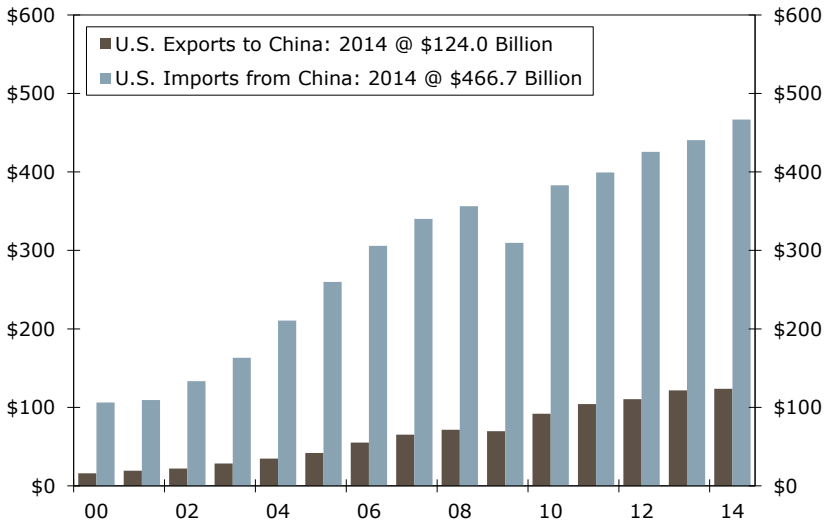
China

How Exposed Is the U.S. Economy to China?

U.S. exports to China comprise about 7 percent of all U.S. exports and less than one percent of GDP. American banks have relatively little direct exposure to China, with about \$100 billion of loans or less than one percent of loans. Indirect exposure to China is likely greater, however.

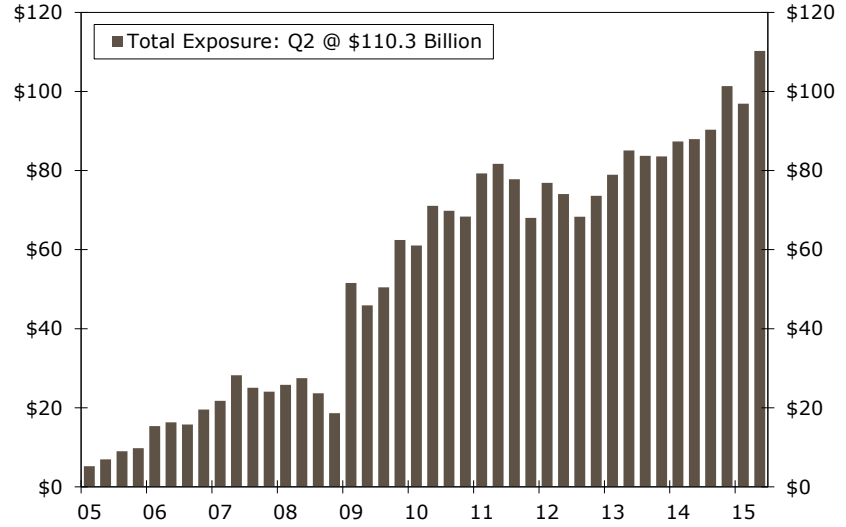
Trade Relationship

U.S. Trade With China
Billions of Dollars



Lending to China

U.S. Bank Exposure to China
Billions of Dollars

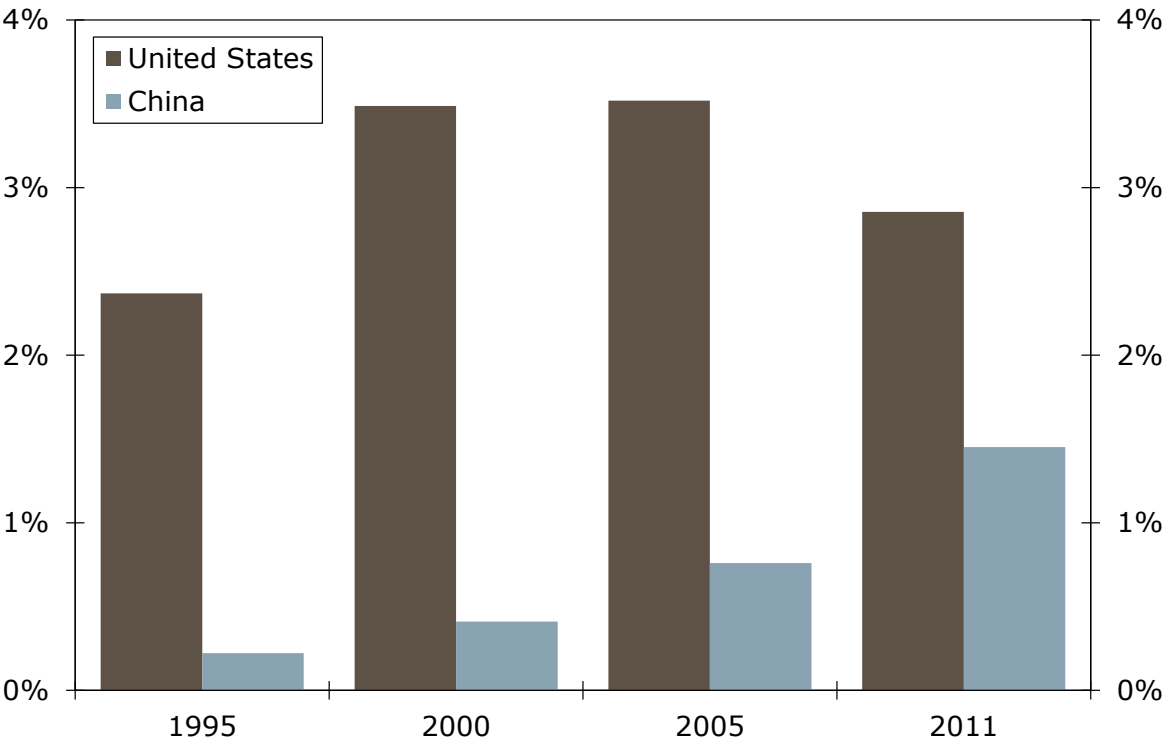


Source: Bank for International Settlements, IHS Global Insights and Wells Fargo Securities, LLC

Chinese final domestic demand accounted for a bit more than 1 percent of global value added in 2011, which is the latest data.

While China's pull on the rest of the world has increased over the past two decades, it only had about one-half the weight on global economic activity as the United States in 2011.

Global Value-Added Embodied in FDD Percent of Global GDP

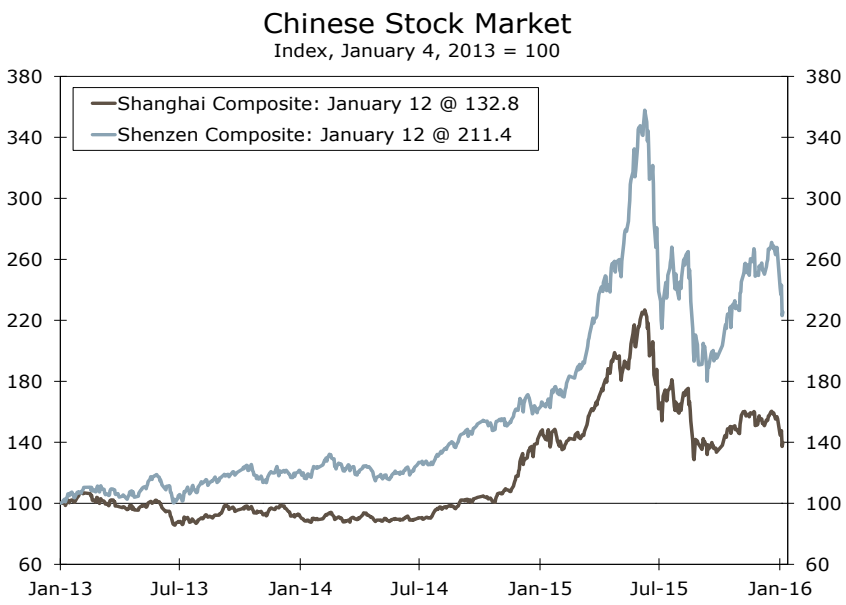


Source: Organisation for Economic Cooperation and Development and Wells Fargo Securities, LLC

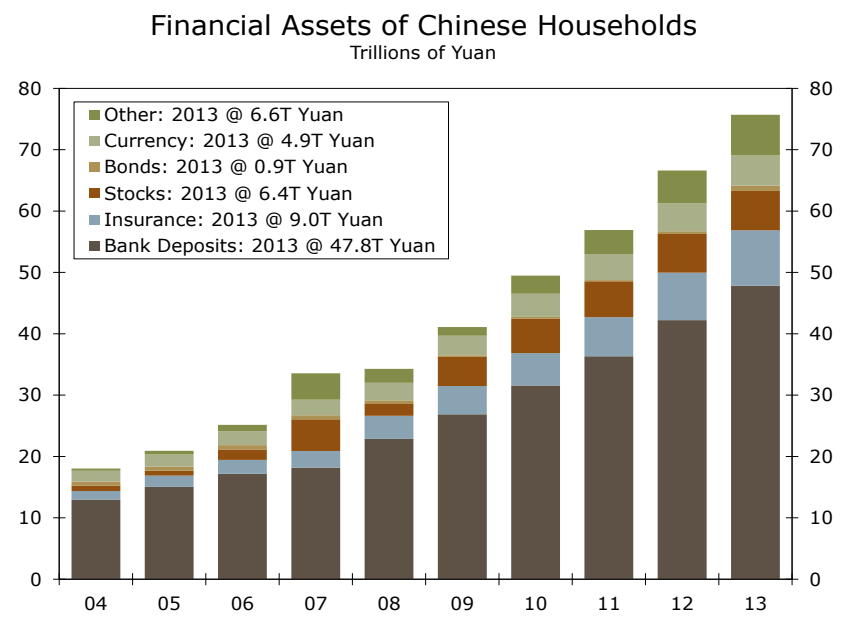
Will Chinese Stock Market Selloff Ruin Transition to Domestic Demand?

Since last summer the Shanghai and Shenzhen composites have introduced greater volatility in global financial markets. Unlike many developed economies, however, equity holdings of the typical household in China comprises less than 10 percent of total financial assets.

Stock Prices



Value Added



Source: Bloomberg LP, CEIC and Wells Fargo Securities, LLC

Housing & Commercial Real Estate

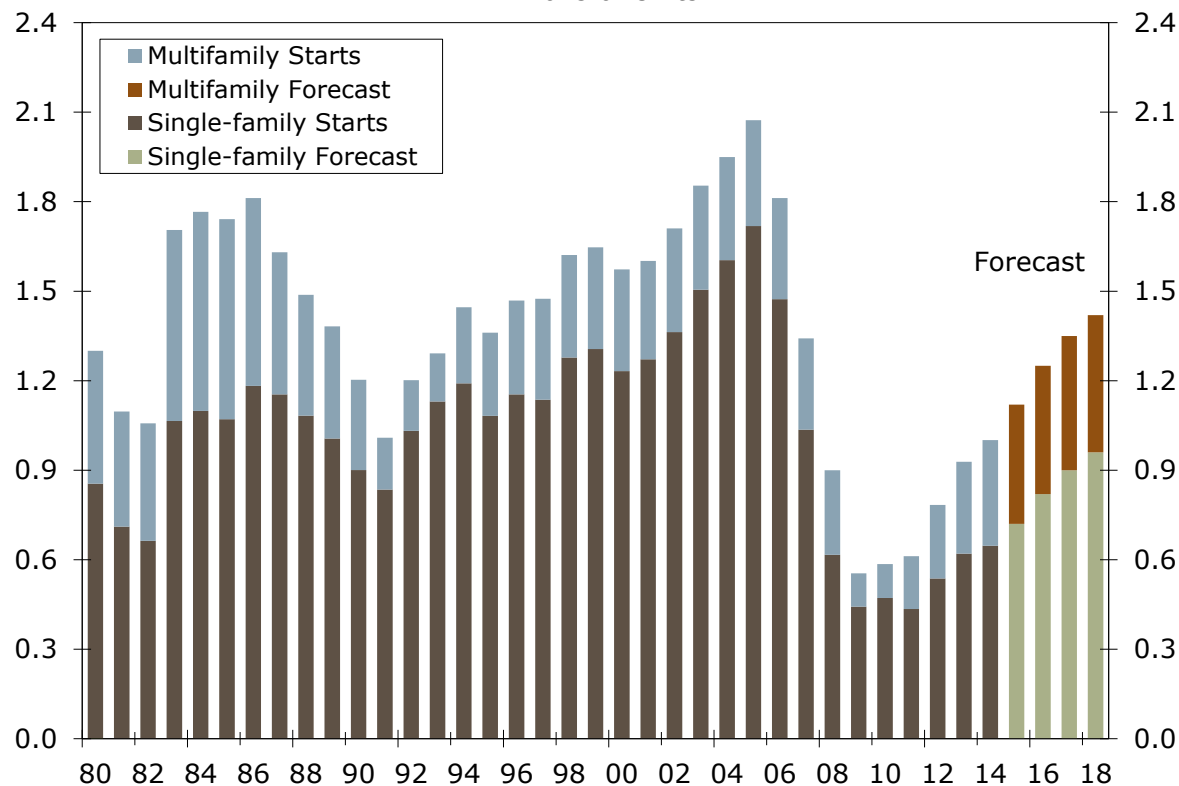
We continue to look for a gradual recovery in homebuilding.

Apartment demand remains exceptionally strong but supply is catching up with demand.

Single-family housing starts are beginning to ramp back up. Gains will be more modest than in past building cycles.

Housing Starts

Millions of Units

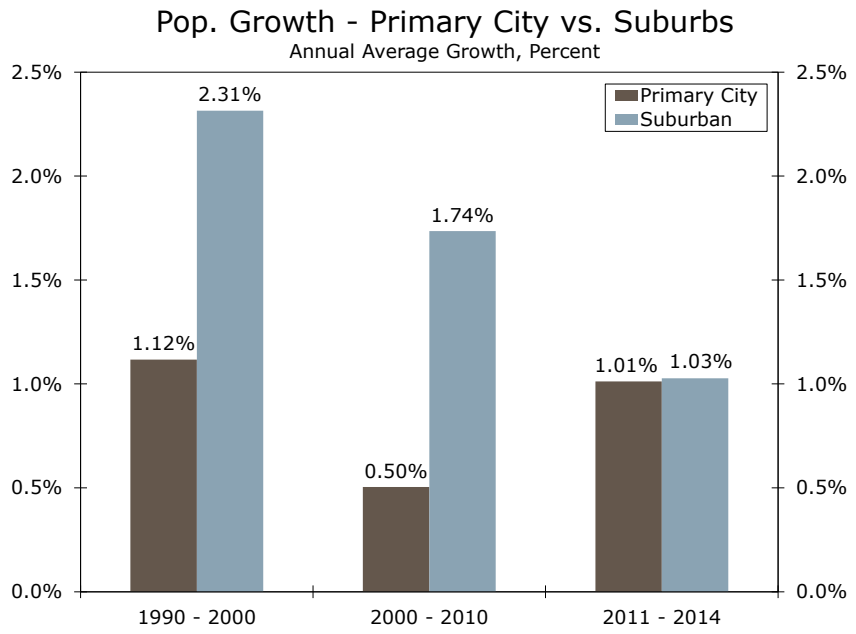


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

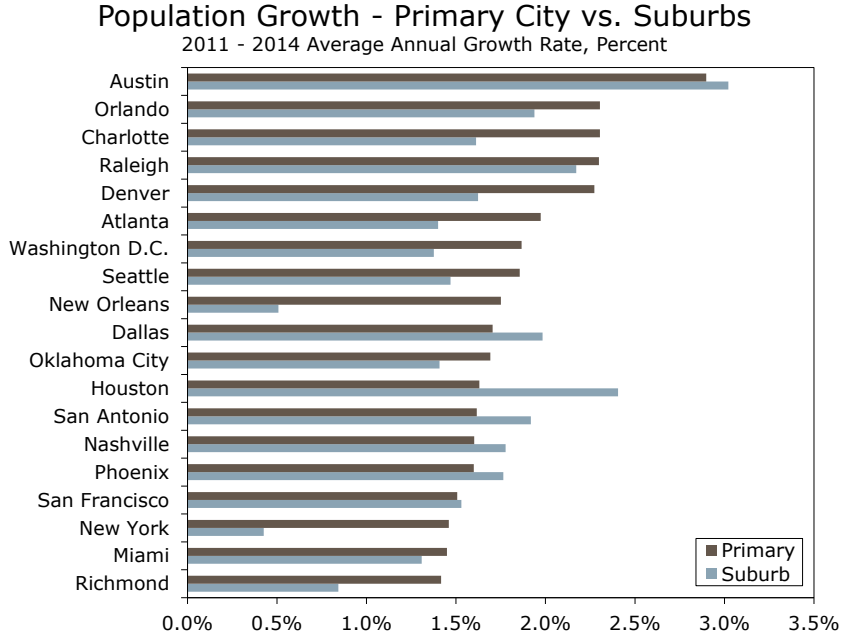
Suburbs vs. Primary Cities

There has been a move back into the center city of many major metro areas of the South and West. For many this marks a new development, as suburban areas have typically accounted for the bulk of population growth in recent decades. We believe this shift has staying power.

Primary City vs. Suburban



Population Growth by Metro

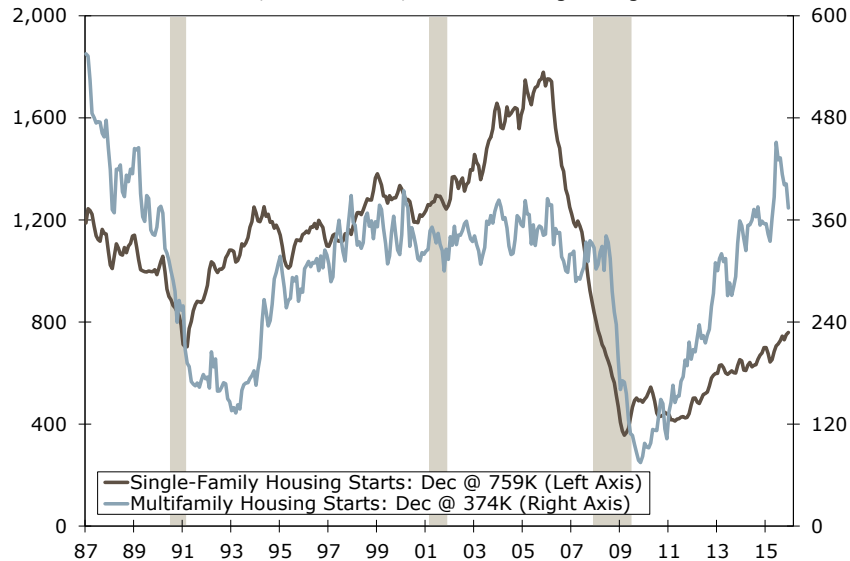


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Apartment construction accounts for much of the recent improvement in homebuilding. We believe multifamily housing will account for a larger proportion of future starts.

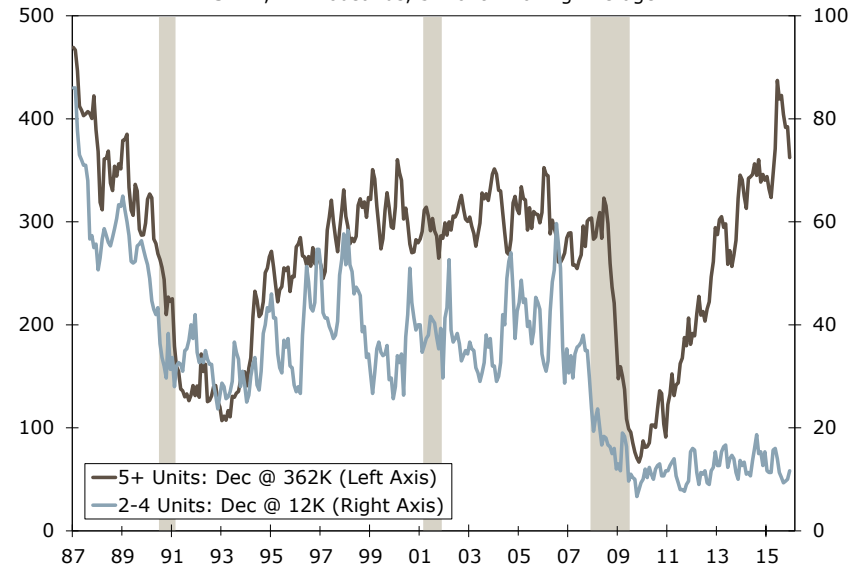
Single & Multifamily Housing Starts

Single & Multifamily Housing Starts
SAAR, In Thousands, 3-Month Moving Average



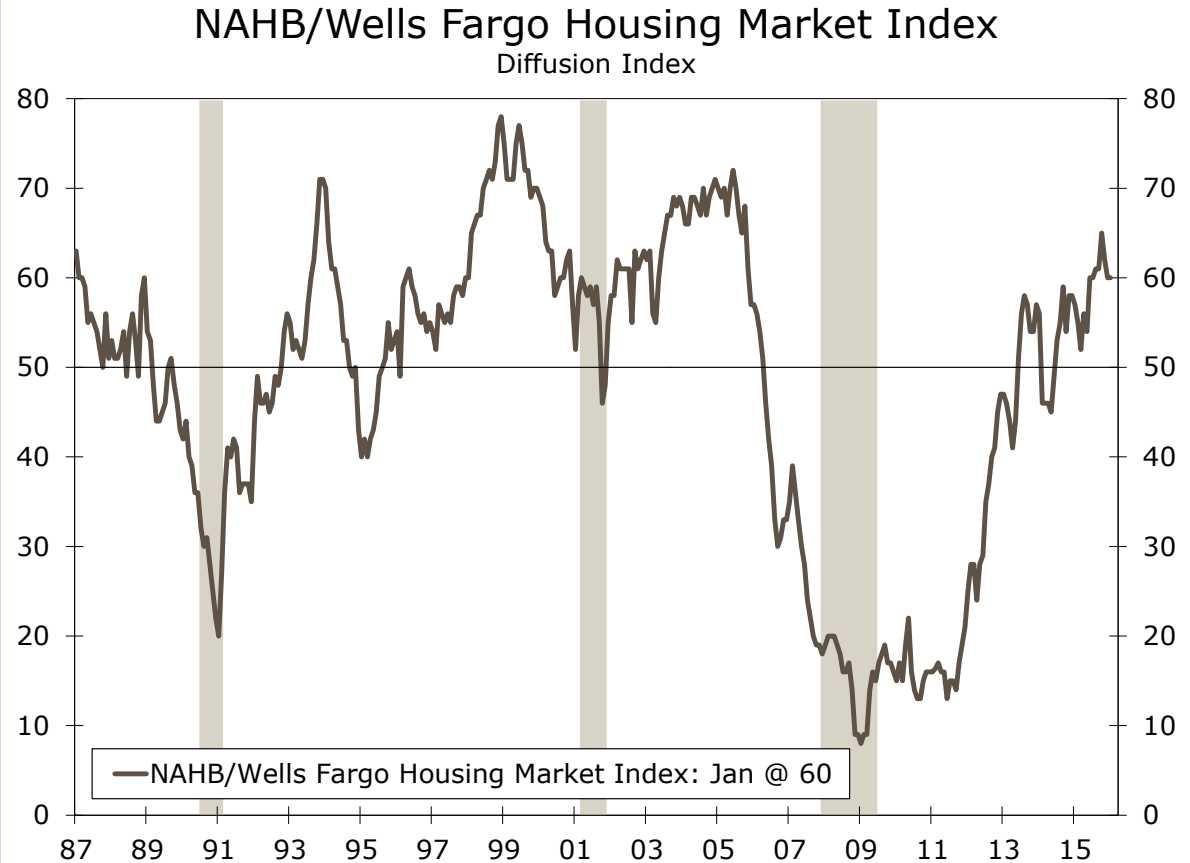
Multifamily Housing Starts

Multifamily Housing Starts
SAAR, In Thousands, 3-Month Moving Average



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

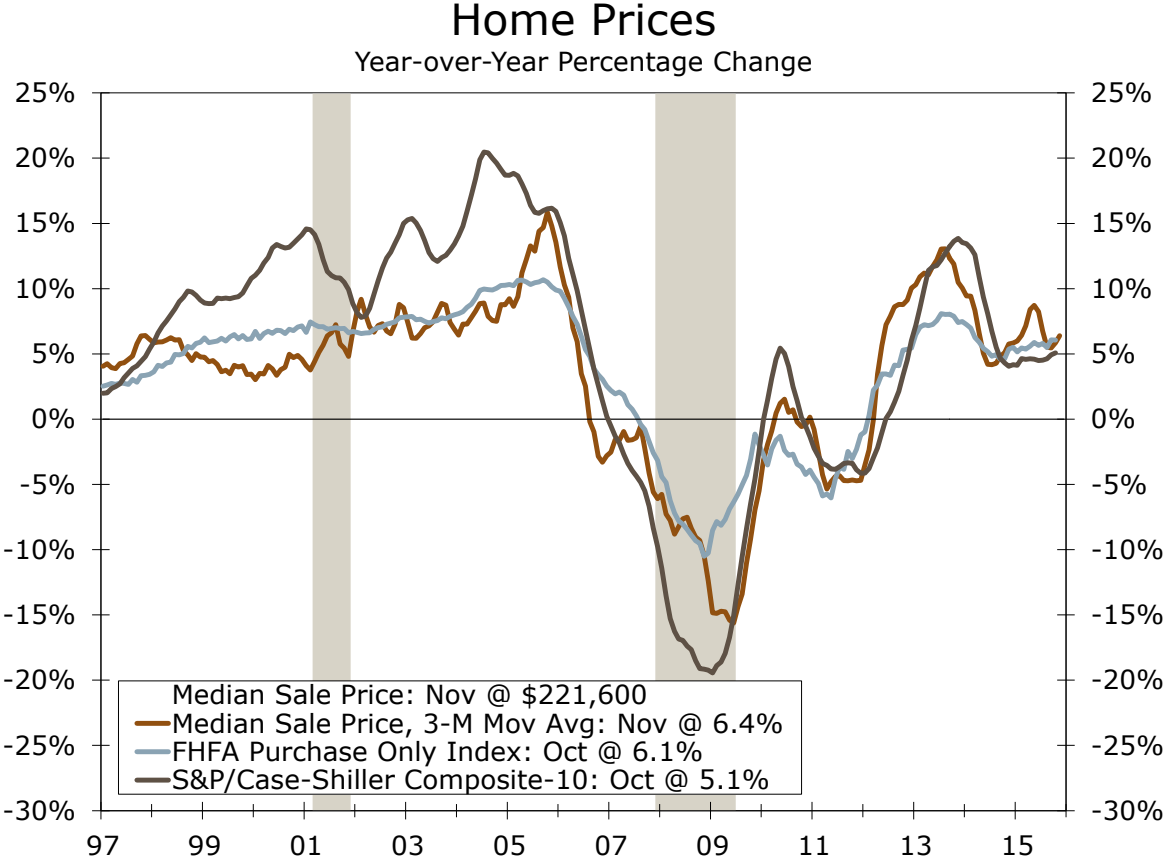
Homebuilder sentiment has risen significantly over the past year, but it is still at a relatively low level.



Source: National Association of Home Builders and Wells Fargo Securities, LLC

Tight inventories for new and existing homes combined with solid demand from traditional buyers and investors is supporting solid gains in home price appreciation.

Prices are rising faster than income, which is straining affordability.



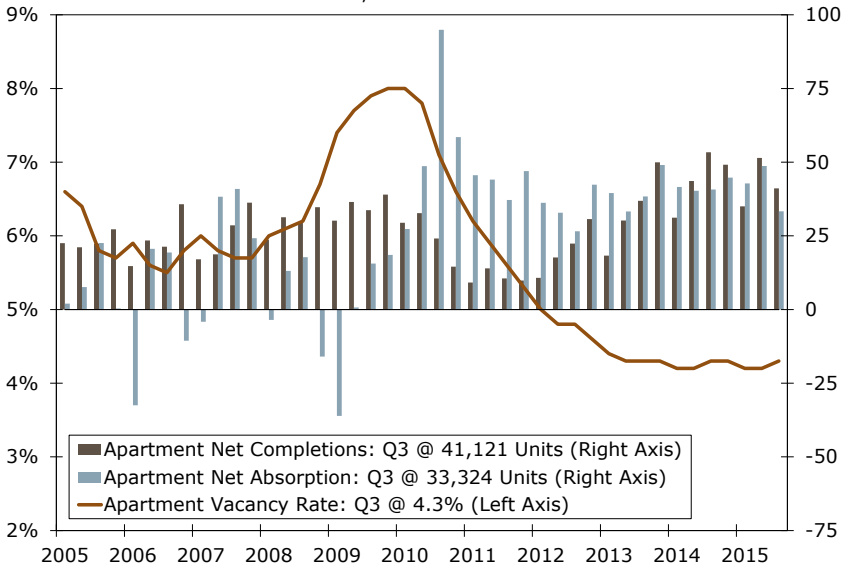
Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

Apartments have seen the greatest improvement in operating fundamentals.

Apartment

Apartment Supply & Demand

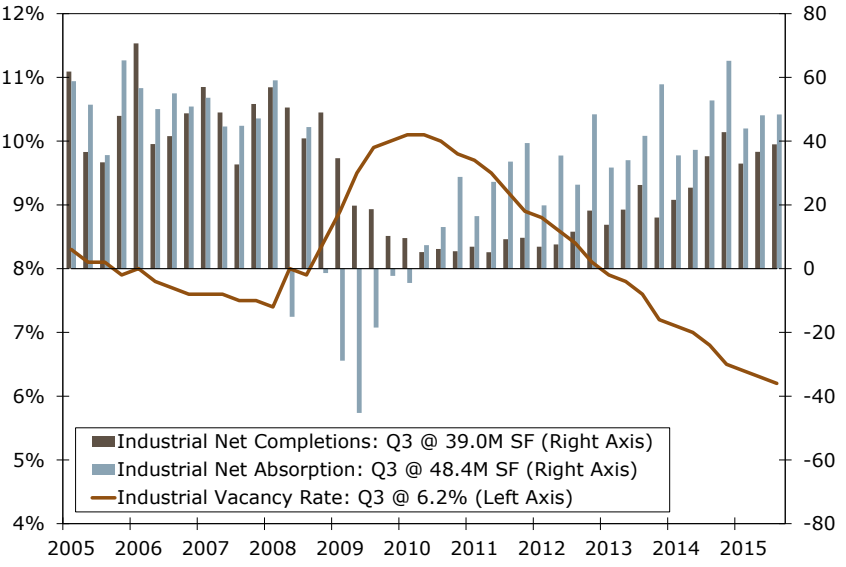
Percent, Thousands of Units



Industrial

Industrial Supply & Demand

Percent, Millions of Square Feet

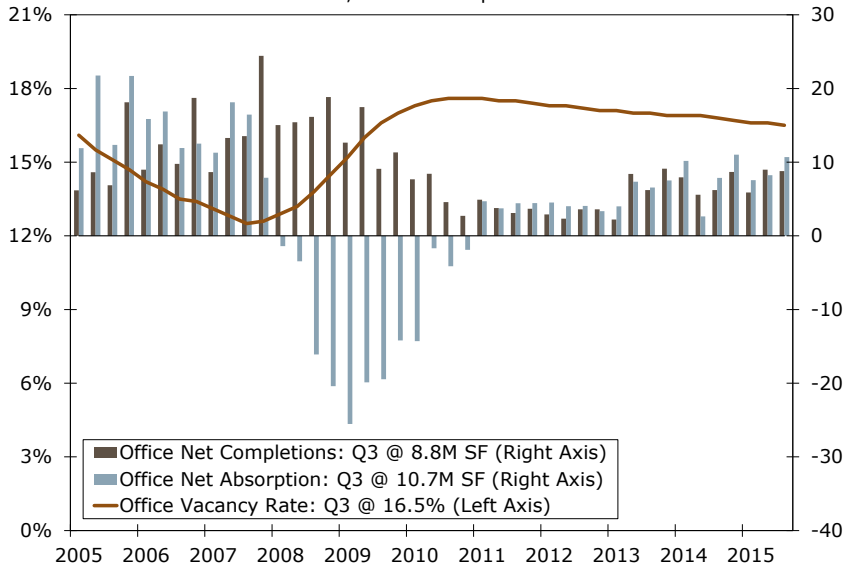


Source: Reis, Inc., CoStar Realty Information, Inc. and Wells Fargo Securities, LLC

Office vacancy rates have leveled off but absorption remains relatively weak.

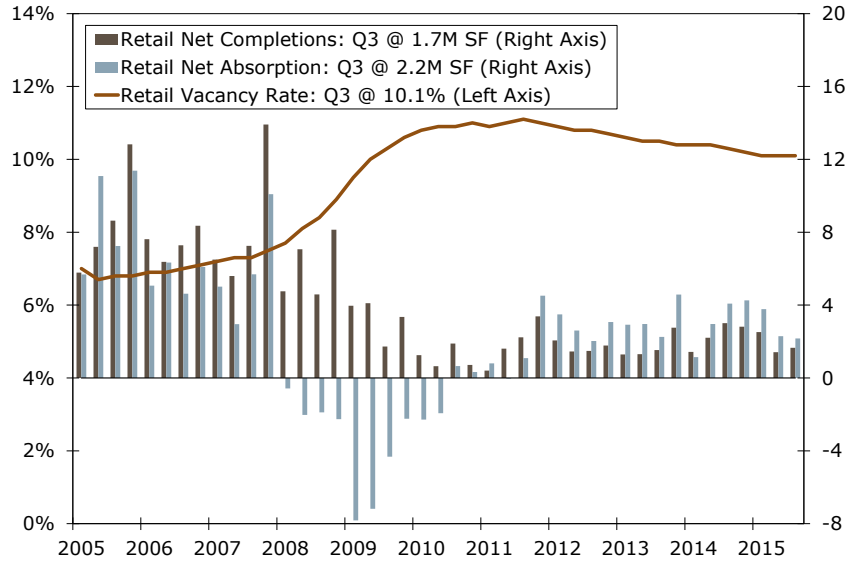
Office

Office Supply & Demand
Percent, Millions of Square Feet



Retail

Retail Supply & Demand
Percent, Millions of Square Feet

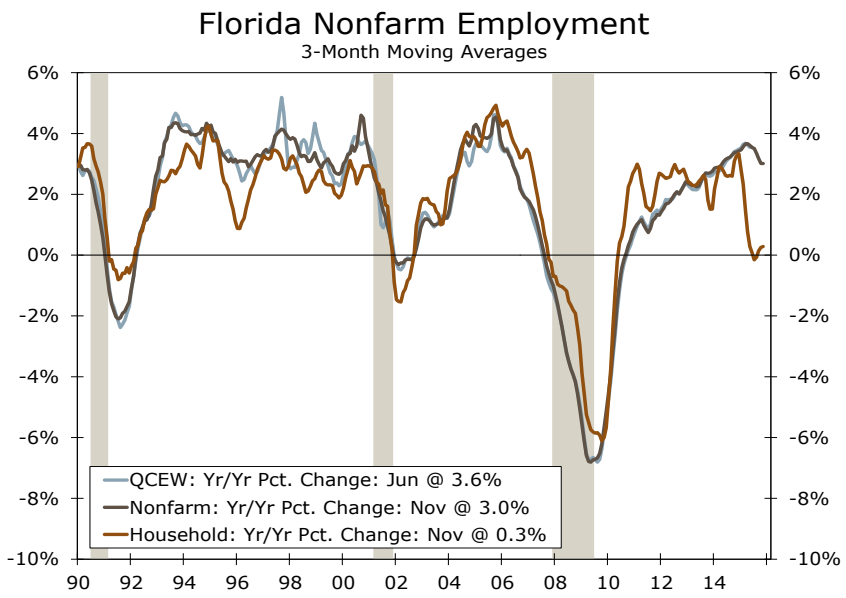


Source: Reis, Inc. and Wells Fargo Securities, LLC

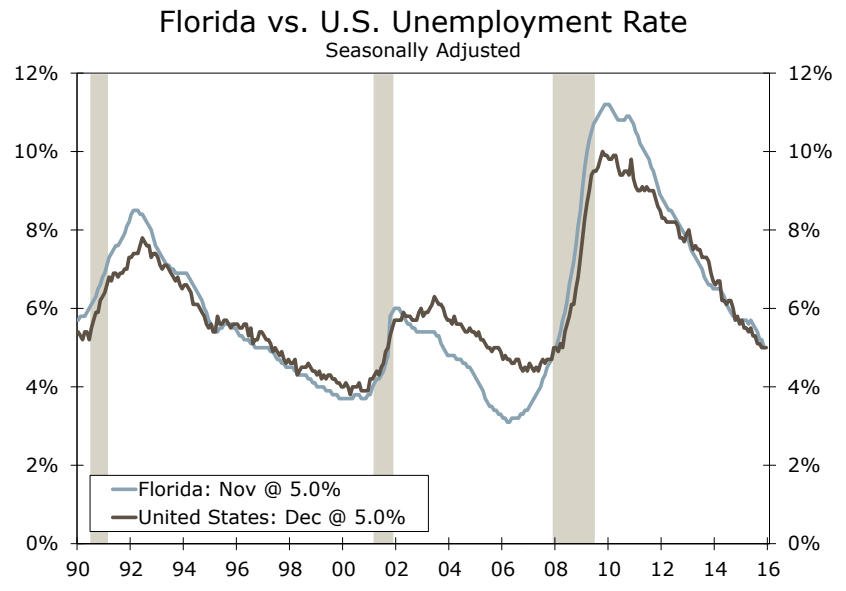
Florida & South Florida

Nonfarm employment grew 3.6 percent year-to-year in Florida. Job gains were broad based, as a majority of the region's large industries saw a pickup over the year. The steady pace of hiring has pulled the unemployment rate down, matching the national rate at 5.0 percent.

Nonfarm Employment



Unemployment Rate

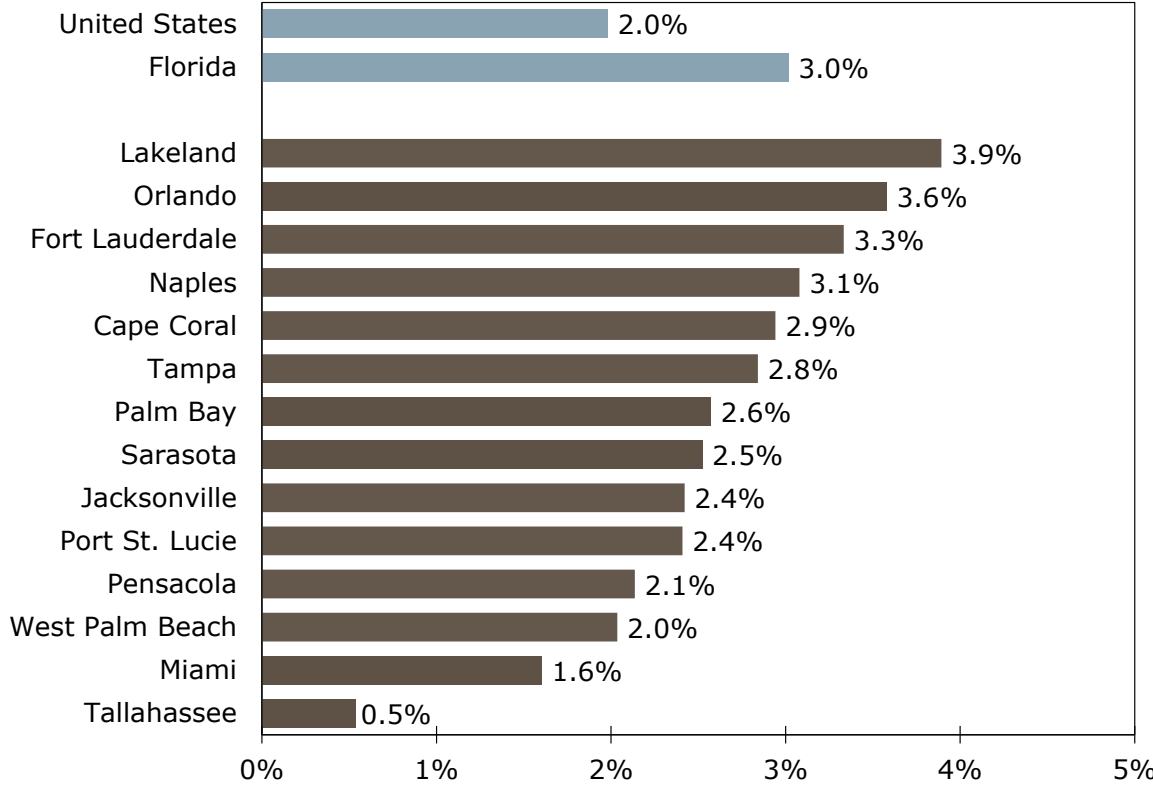


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Florida's central metro areas including Lakeland and Orlando have seen the strongest job growth over the past year.

Florida Employment Growth: November 2015

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

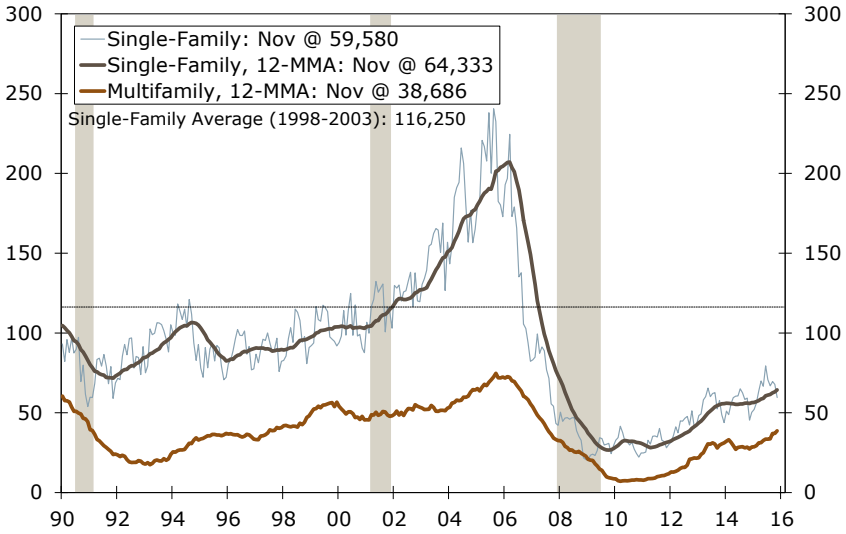


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Residential construction activity has improved over the past year. Housing permits have trended up, largely thanks to the state's sizable population gains.

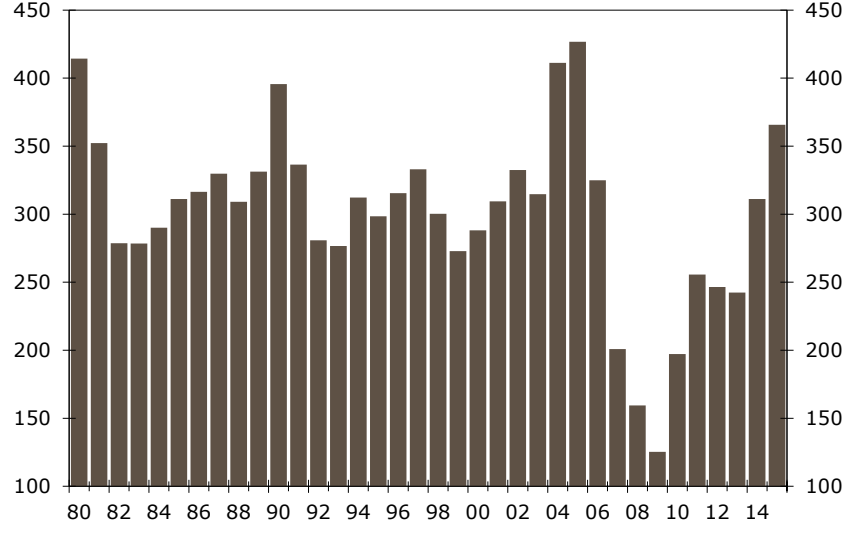
Housing Permits

Florida Housing Permits
Thousands of Permits, Annual Rate



Population

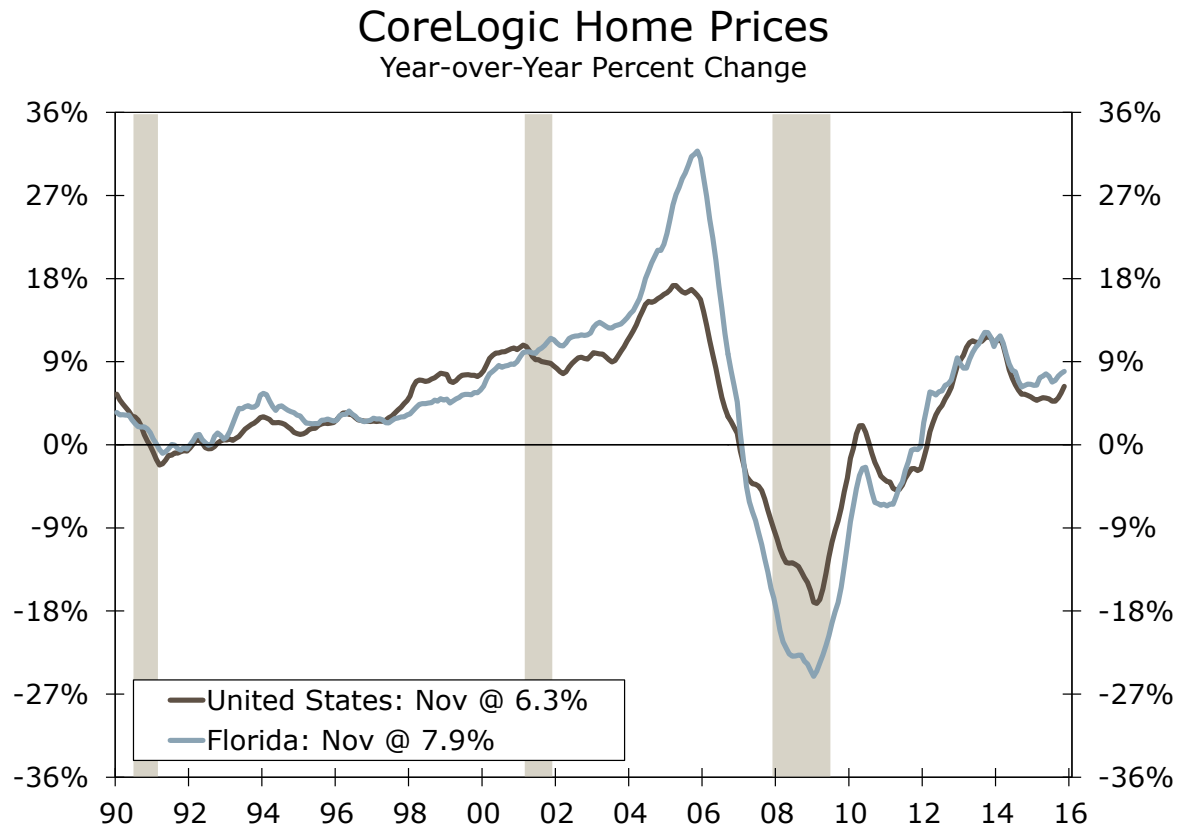
Florida Population Growth
In Thousands



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

Home prices have appreciated at a faster rate in Florida relative to the nation as a whole.

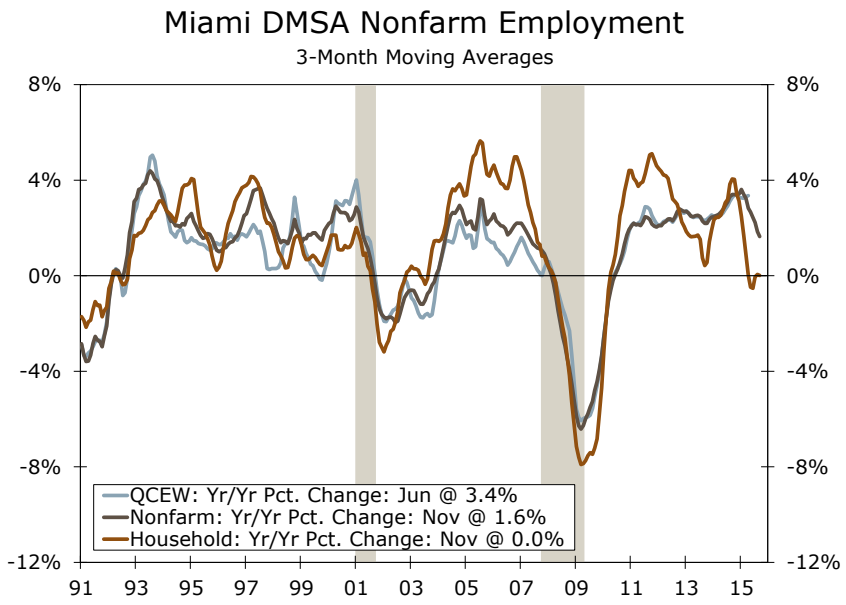
Home prices in Florida, however, still remain well off their pre-recession peak.



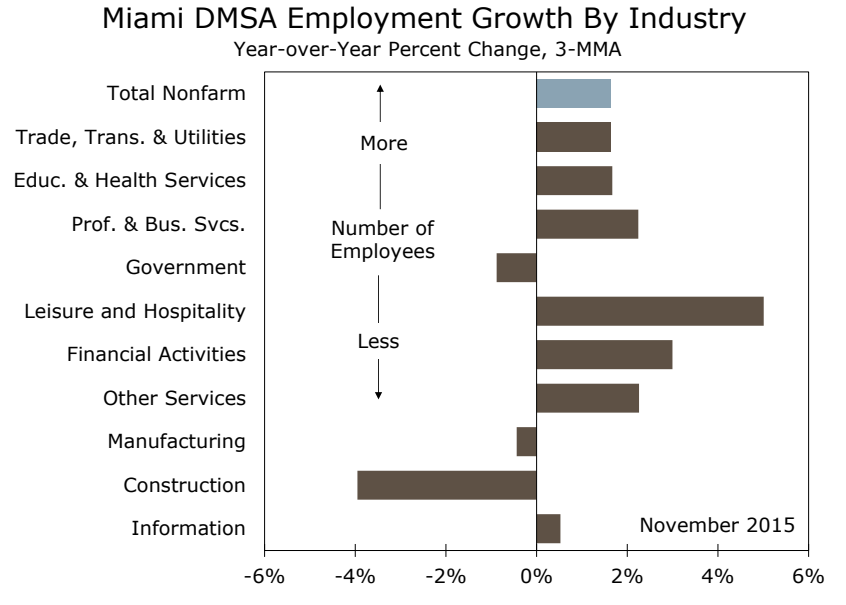
Source: CoreLogic and Wells Fargo Securities, LLC

Nonfarm employment picked up 1.6 percent over the year in Miami. Job growth has reportedly decelerated in recent months. The latest 'hard data' ends in June at 3.4 percent.

Nonfarm Employment



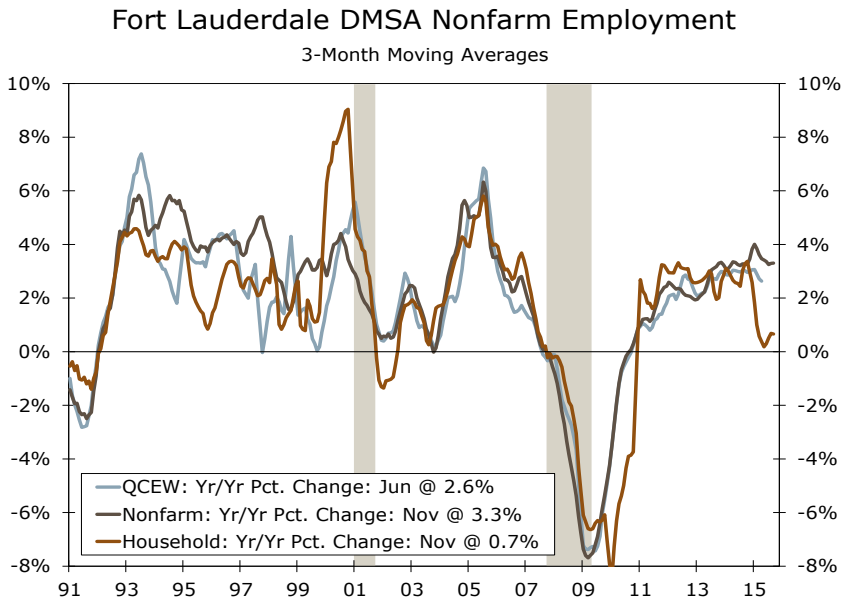
Employment by Industry



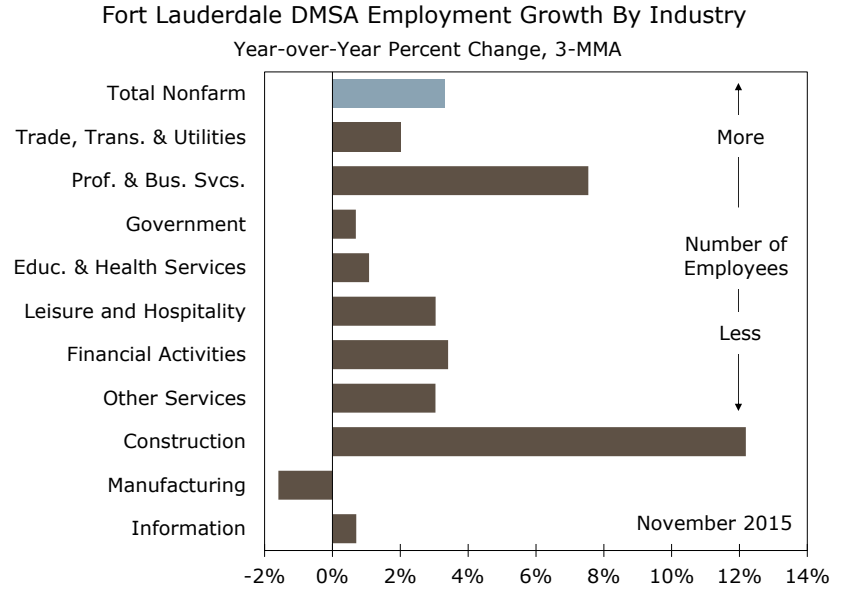
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Nonfarm employment rose a solid 3.3 percent over the year in Fort Lauderdale. Job growth has been broad based, with the largest gains seen in the professional & business services industry.

Nonfarm Employment



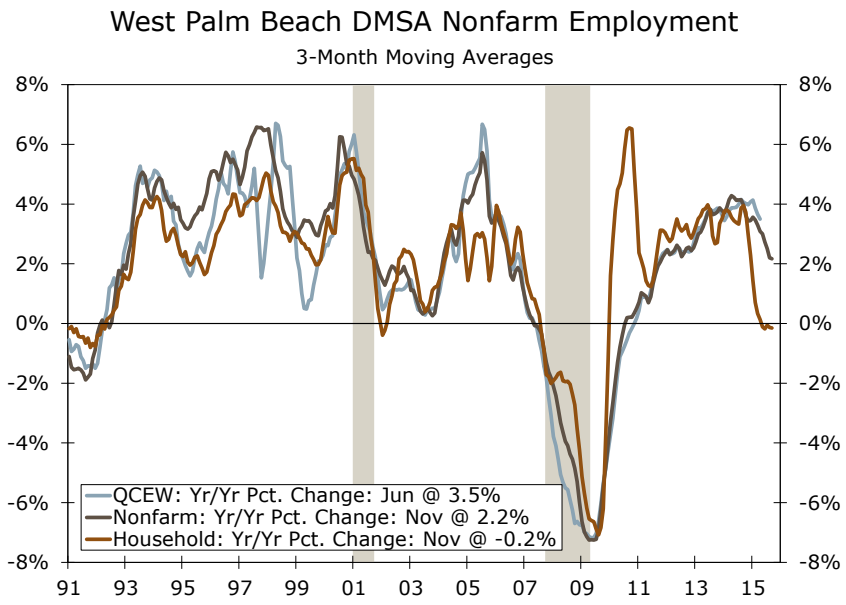
Employment by Industry



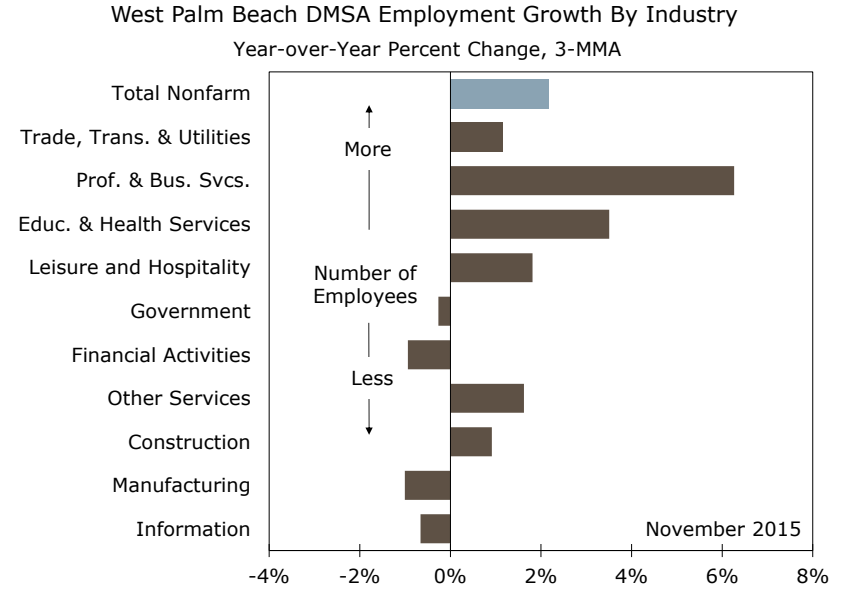
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Nonfarm employment rose a 2.2 percent over the year in West Palm Beach. Job growth has decelerated in recent months.

Nonfarm Employment



Employment by Industry

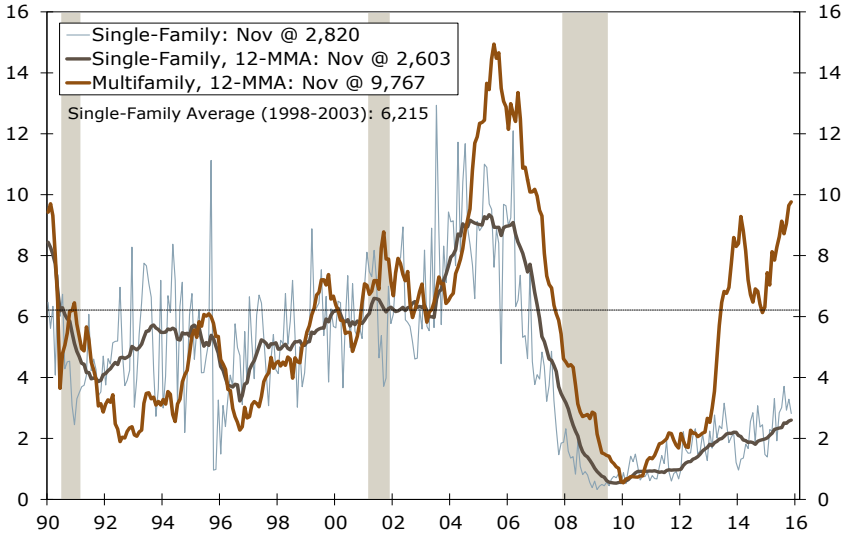


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Residential construction has ramped up over the year in Miami. Multifamily housing permits have skyrocketed as condominium and apartment construction has taken off again.

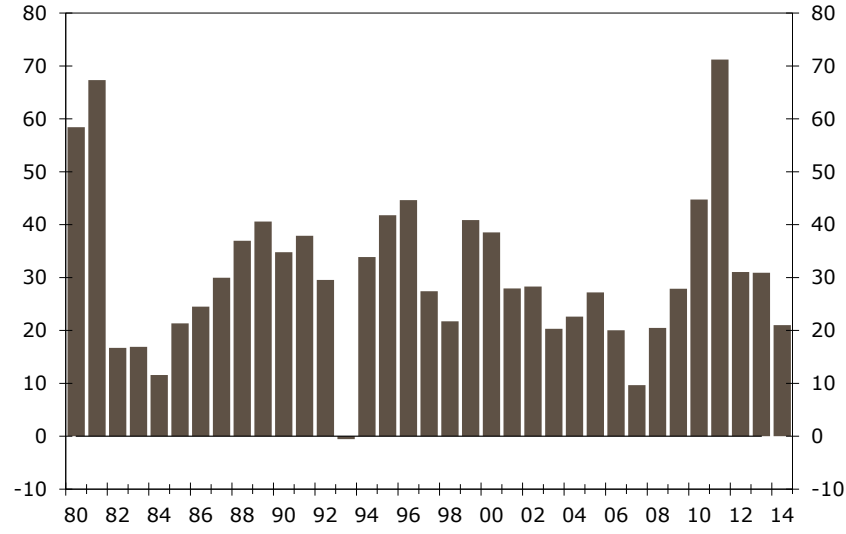
Housing Permits

Miami DMSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Population

Miami DMSA Population Growth
In Thousands

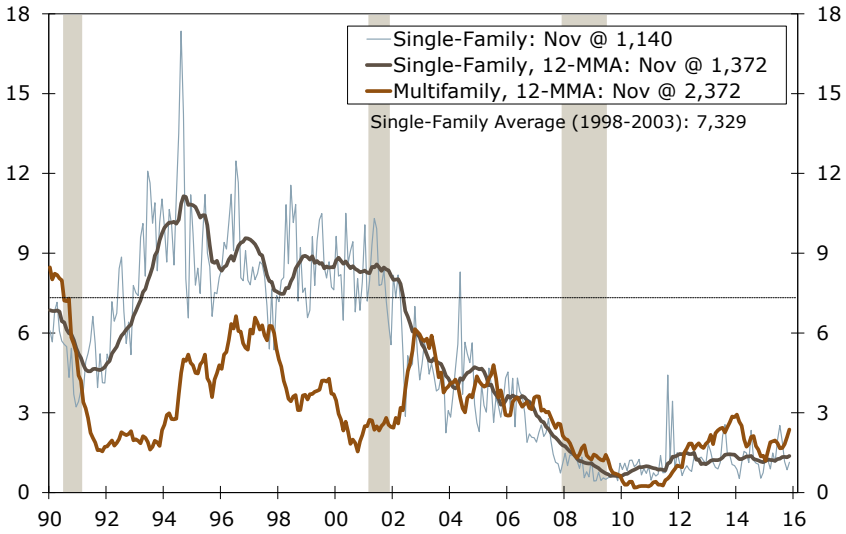


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Residential construction has been moderate at best in Fort Lauderdale. Housing permits have remained relatively flat since the recession, even though population growth increased.

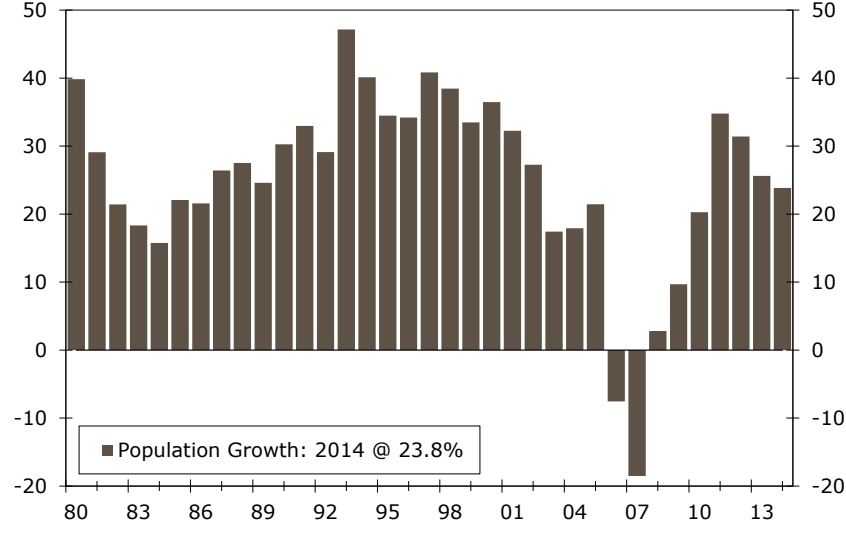
Housing Permits

Fort Lauderdale DMSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Population

Fort Lauderdale DMSA Population Growth
In Thousands

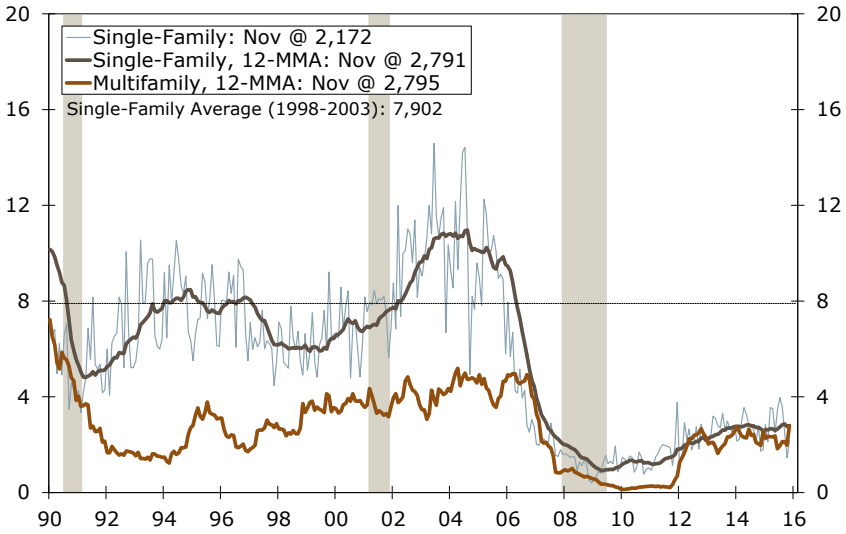


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Residential construction activity has picked up modestly in West Palm Beach. Both single-family and multifamily housing permits have trended upward.

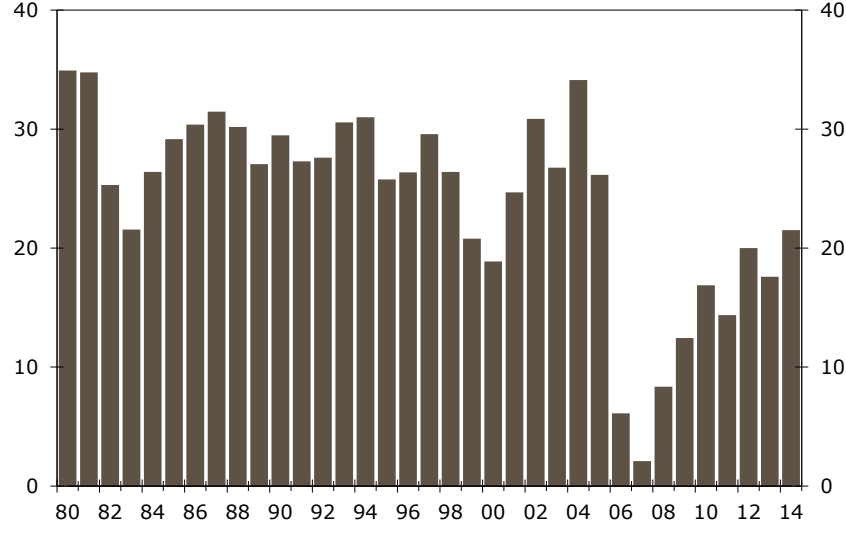
Housing Permits

West Palm Beach DMSA Housing Permits
Thousands of Permits, Seasonally Adjusted Annual Rate



Population

West Palm Beach DMSA Population Growth
In Thousands



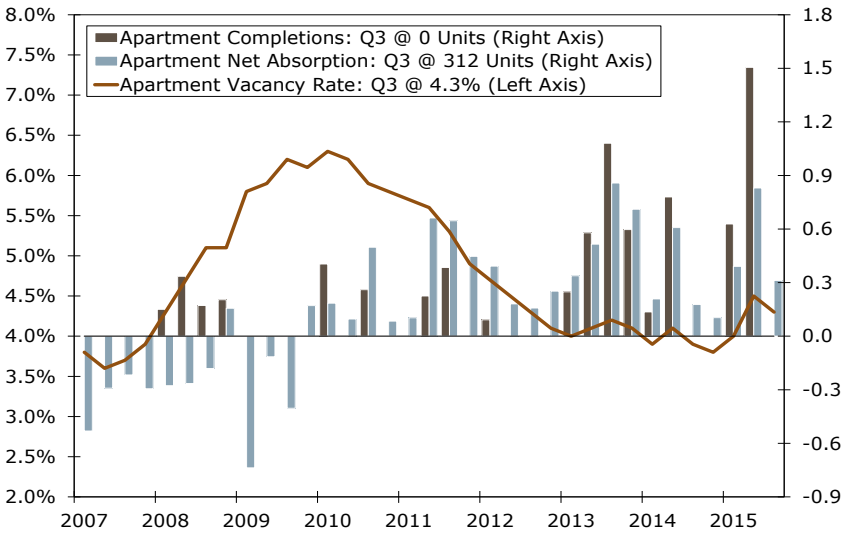
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Miami's apartment market has seen a great deal of supply come to market over the past two years. Demand nearly matched deliveries, however, and vacancy rates remain low.

Miami

Miami Apartment Supply & Demand

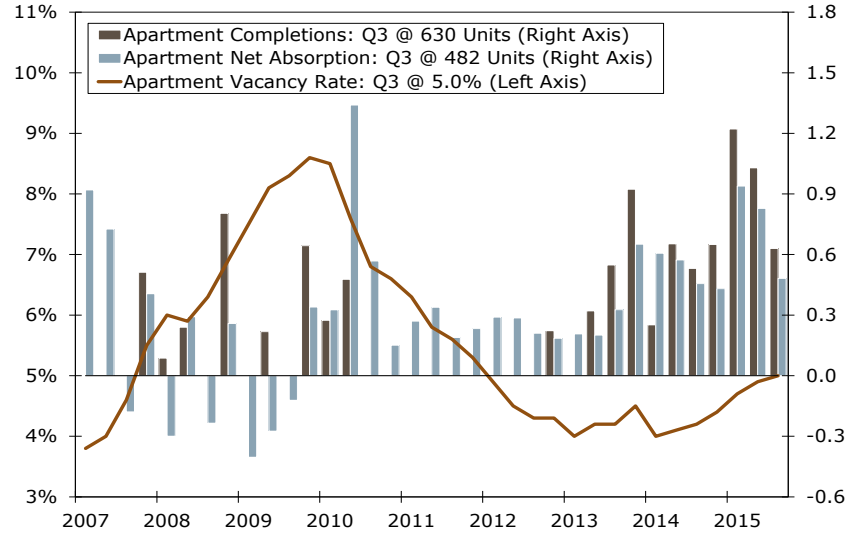
Percent, Thousands of Units



Fort Lauderdale

Fort Lauderdale Apartment Supply & Demand

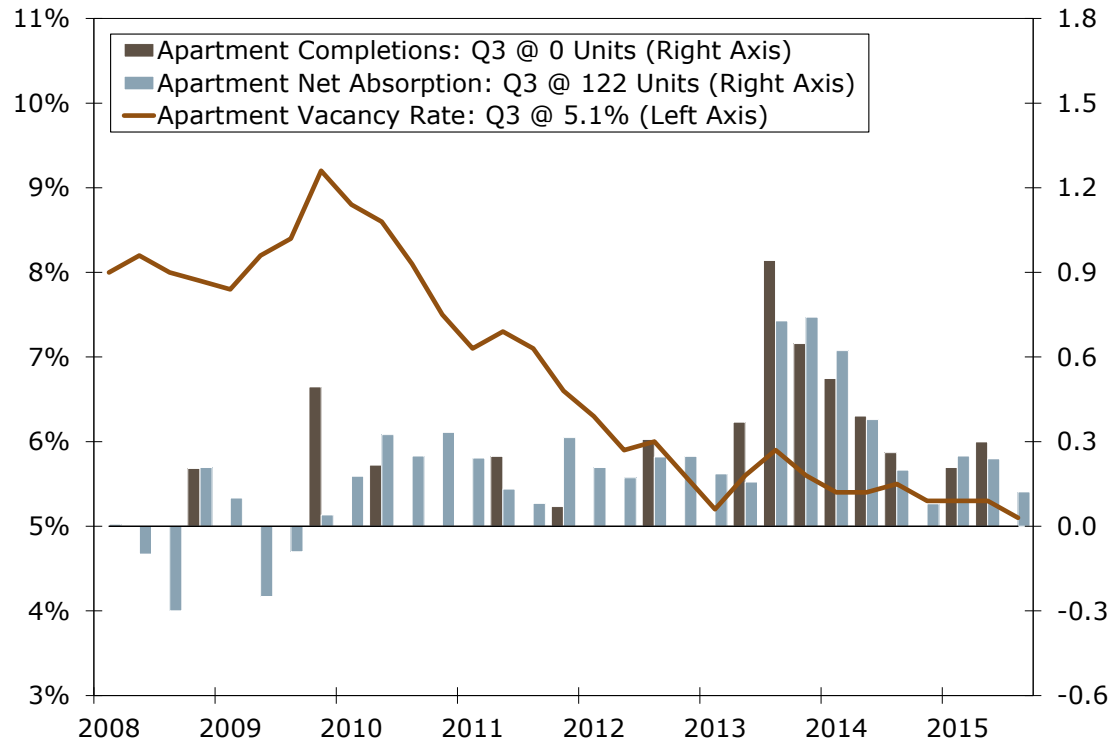
Percent, Thousands of Units



Source: REIS Inc. and Wells Fargo Securities, LLC

The apartment vacancy rate in Palm Beach County continues to trend lower.

West Palm Beach Apartment Supply & Demand
Percent, Thousands of Units

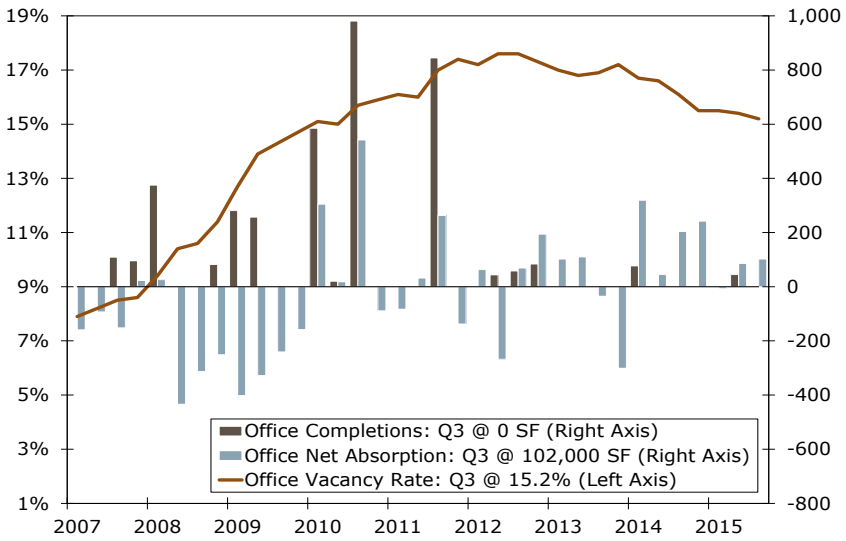


Source: REIS, Inc. and Wells Fargo Securities, LLC

Office development has been slow to get back on track. Absorption of space has been tepid at best on an overall basis. Users are continuously finding ways to become more efficient and demand for well located modern space remains strong.

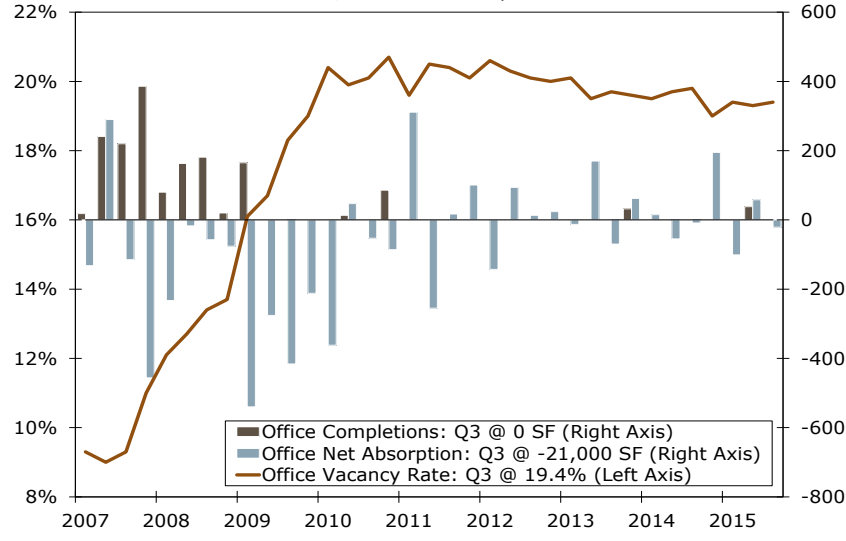
Miami

Miami Office Supply & Demand
Percent, Thousands of Square Feet



Fort Lauderdale

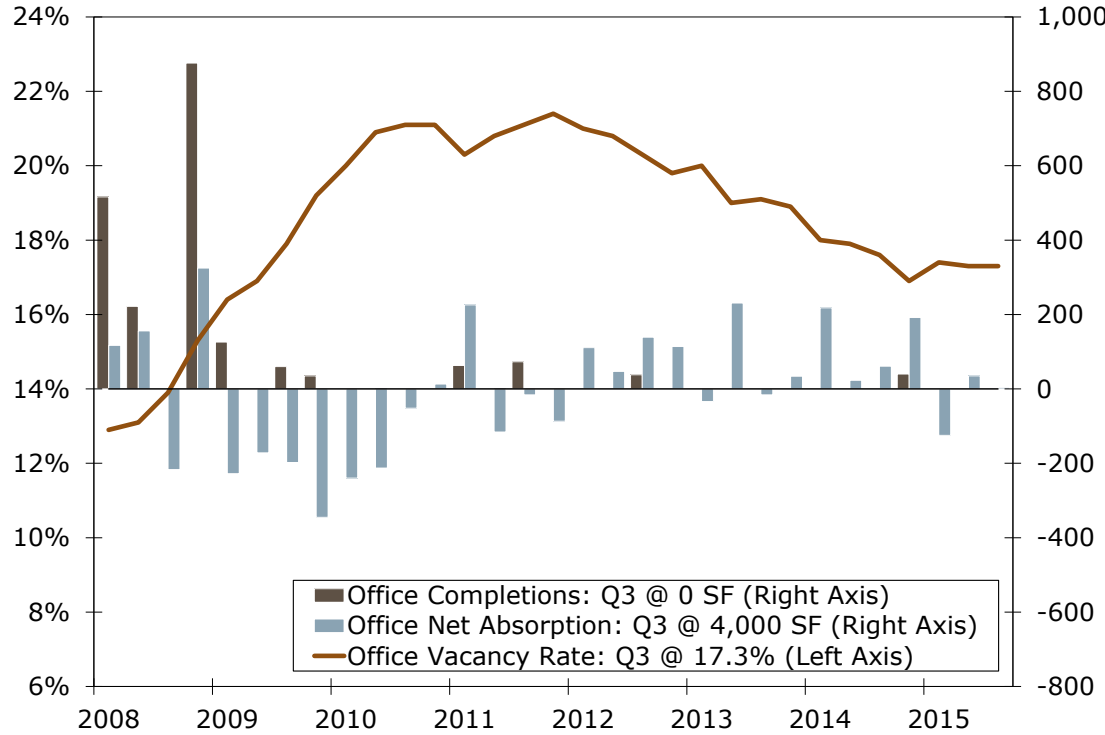
Fort Lauderdale Office Supply & Demand
Percent, Thousands of Square Feet



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

With little new supply coming online, even modest office demand has helped pull vacancy rates steadily lower.

West Palm Beach Office Supply & Demand
Percent, Thousands of Square Feet

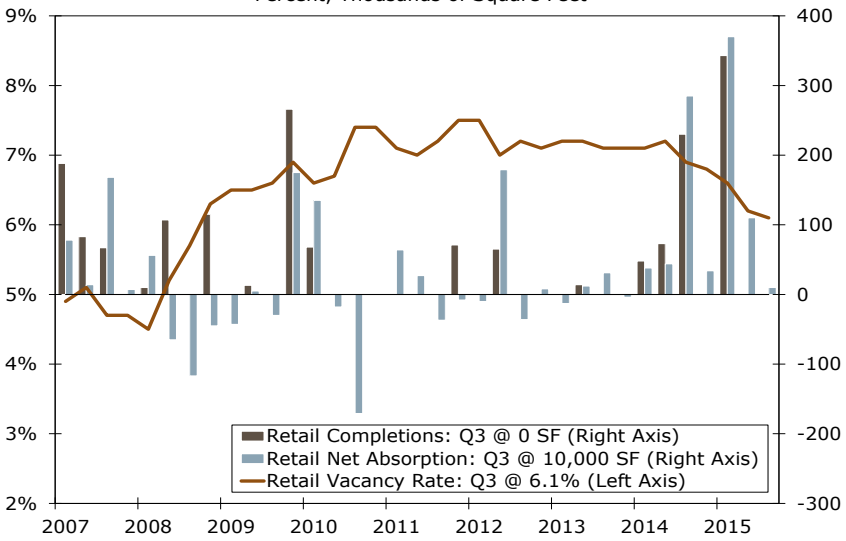


Source: CoreLogic and Wells Fargo Securities, LLC

Demand for retail space has generally been sluggish across much of the country. Miami has been a rare exception, helped by strong growth in international tourism. Fort Lauderdale has benefitted less from this trend but has seen steady absorption and lower vacancy rates.

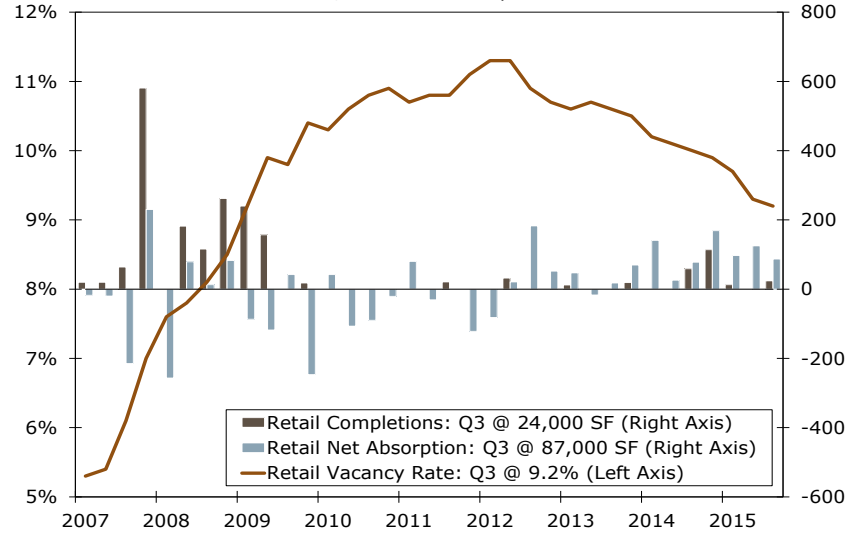
Miami

Miami Retail Supply & Demand
Percent, Thousands of Square Feet



Fort Lauderdale

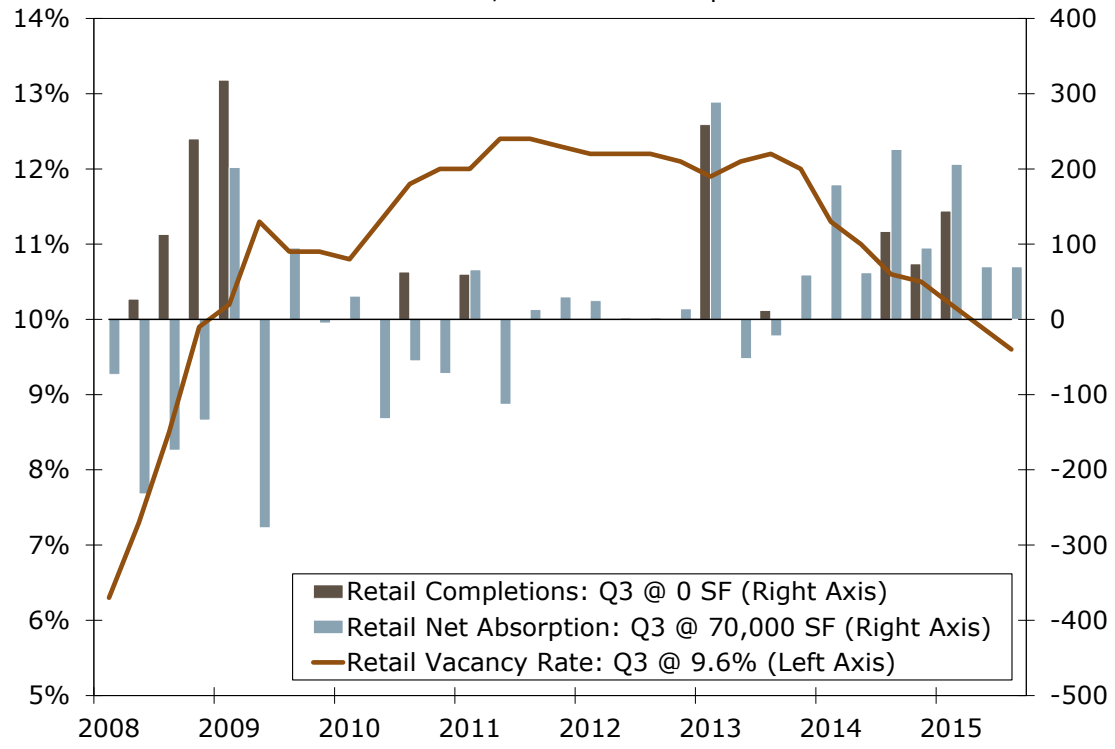
Fort Lauderdale Retail Supply & Demand
Percent, Thousands of Square Feet



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

Demand for retail space in Palm Beach County has been strong in recent quarters.

West Palm Beach Retail Supply & Demand
Percent, Thousands of Square Feet

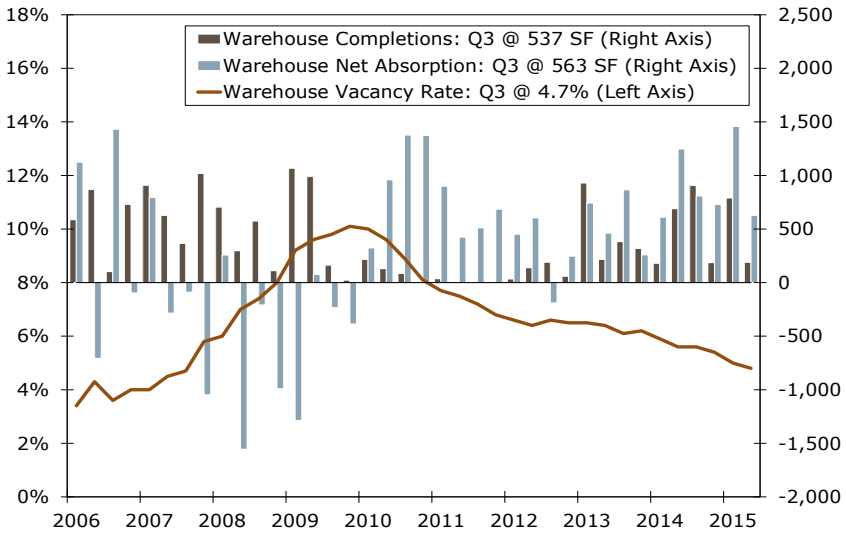


Source: REIS, Inc. and Wells Fargo Securities, LLC

Industrial markets have been active throughout South Florida, benefitting from stronger population growth, strengthening construction and the growth in international trade. Vacancy rates have fallen and rents have risen to levels that support new development.

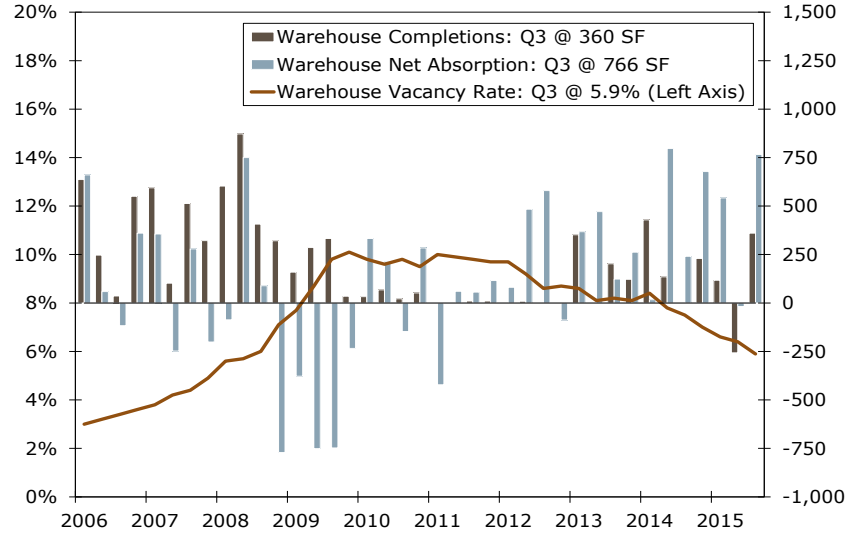
Miami

Miami Warehouse Supply & Demand
Percent, Thousands of Square Feet



Fort Lauderdale

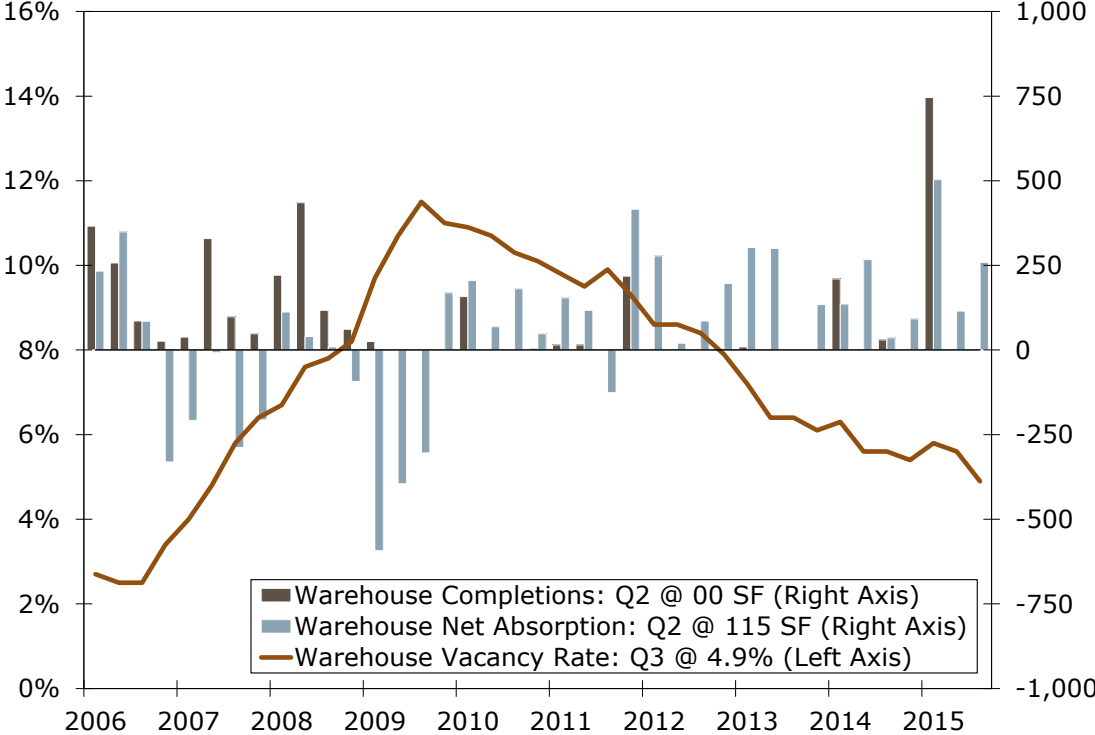
Fort Lauderdale Warehouse Supply & Demand
Percent, Thousands of Square Feet



Source: CoStar Realty Information, Inc. and Wells Fargo Securities, LLC

The industrial vacancy rate has trended lower in Palm Beach County as demand continues to outpace supply.

West Palm Beach Warehouse Supply & Demand
Percent, Thousands of Square Feet



Source: CoStar Realty Information, Inc. and Wells Fargo Securities, LLC

Economic Outlook

- **The economy should weather the global economic slowdown. Exports will clearly decelerate. We expect real GDP to rise 2.4 percent in 2015 and 1.9 percent 2016.**
-

Weaker Global Growth

- **The weaker global economy continues to pull at industries closely tied to it, creating a disinflationary undertow that is squeezing corporate profits.**
-

Interest Rates

- **The Federal Reserve has begun to ‘normalize’ interest rates amid a challenging backdrop. Policymakers will likely move very gradually and cautiously.**
-

The Housing Recovery

- **Demand for single-family homes is reviving, with first-time homebuyers beginning to come back into the market. Apartment construction is close to peaking.**
-

The Mix of Growth is Shifting

- **The economy is better for consumers than producers. Regions exposed to agriculture, energy, mining and manufacturing are seeing conditions weaken.**

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast		
	2015				2016				2013	2014	2015	2016	2017
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	0.6	3.9	2.0	0.2	1.9	2.5	2.6	2.5	1.5	2.4	2.4	1.9	2.4
Personal Consumption	1.8	3.6	3.0	1.7	2.7	2.7	2.7	2.6	1.7	2.7	3.1	2.6	2.5
Inflation Indicators ²													
PCE Deflator	0.2	0.3	0.3	0.4	0.9	0.9	1.1	1.7	1.4	1.4	0.3	1.1	2.0
Consumer Price Index	-0.1	0.0	0.1	0.4	1.1	1.0	1.2	1.8	1.5	1.6	0.1	1.3	2.3
Industrial Production ¹	-0.3	-2.3	2.8	-3.4	-0.3	2.1	1.1	2.2	1.9	3.7	1.3	0.1	2.1
Corporate Profits Before Taxes ²	4.6	0.6	-5.1	3.0	2.2	2.6	2.5	2.4	2.0	1.7	0.6	2.4	2.3
Trade Weighted Dollar Index ³	92.1	89.9	92.3	94.5	93.3	94.8	96.5	97.8	75.9	78.5	91.1	95.6	99.3
Unemployment Rate	5.6	5.4	5.2	5.0	4.9	4.8	4.7	4.6	7.4	6.2	5.3	4.7	4.5
Housing Starts ⁴	0.98	1.16	1.16	1.13	1.19	1.20	1.20	1.22	0.92	1.00	1.11	1.20	1.25
Quarter-End Interest Rates ⁵													
Federal Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	0.25	0.25	0.27	0.88	1.88
Conventional Mortgage Rate	3.77	3.98	3.89	3.96	4.05	4.13	4.15	4.19	3.98	4.17	3.85	4.13	4.34
10 Year Note	1.94	2.35	2.06	2.27	2.31	2.39	2.44	2.50	2.35	2.54	2.14	2.41	2.68

Forecast as of: January 22, 2016

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Federal Reserve Major Currency Index, 1973=100 - Quarter End⁴ Millions of Units⁵ Annual Numbers Represent Averages

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2015	2016	2017	2015	2016	2017
Global (PPP Weights)	2.9%	3.0%	3.4%	3.3%	3.1%	3.6%
Global (Market Exchange Rates)	2.8%	2.8%	3.2%	n/a	n/a	n/a
Advanced Economies ¹	2.0%	2.0%	2.3%	0.2%	1.1%	1.9%
United States	2.4%	2.0%	2.4%	0.1%	1.3%	2.2%
Eurozone	1.5%	1.9%	2.2%	0.0%	0.8%	1.4%
United Kingdom	2.2%	2.1%	2.1%	0.1%	1.0%	1.8%
Japan	0.6%	0.6%	0.8%	0.8%	0.7%	1.1%
Korea	2.5%	2.6%	3.3%	0.7%	1.6%	2.0%
Canada	1.2%	1.8%	2.4%	1.2%	1.8%	1.9%
Developing Economies ¹	3.8%	3.9%	4.4%	6.1%	5.1%	5.3%
China	7.0%	6.3%	6.0%	1.4%	1.3%	1.8%
India ²	7.3%	7.4%	7.8%	6.0%	5.0%	5.3%
Mexico	2.5%	2.3%	2.7%	2.7%	2.9%	2.9%
Brazil	-3.7%	-2.0%	2.6%	9.0%	8.5%	7.7%
Russia	-4.0%	-0.6%	1.6%	15.6%	7.6%	6.3%

Forecast as of: January 13, 2016

¹Aggregated Using PPP Weights

²Forecasts Refer to Fiscal Year

Source: IHS Global Insight and Wells Fargo Securities, LLC

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Selected Recent Economic Reports		
Date	Title	Authors
U.S. Macro		
January-14	"Taylor-ing" Monetary Policy Amidst Uncertainty	Silvia & Moehring
January-12	Potential Growth: Slower Future	Silvia, House & Moehring
January-11	Is the Manufacturing Industry in a Recession?	Quinlan & House
December-22	Our Favorite Charts of 2015	Silvia
December-16	FOMC Moves Forward In a Fog: Gradual, Data Dependent	Silvia
U.S. Regional		
January-21	Minnesota Economic Conditions: December 2015	Vitner & Batcheller
January-21	Georgia Employment Conditions: December 2015	Vitner & Batcheller
January-06	Texas Economic Outlook: January 2016	Vitner & Batcheller
December-18	California Employment Conditions: November 2015	Vitner & Batcheller
December-16	North Carolina Economic Outlook: December 2015	Vitner & Batcheller
Global Economy		
January-19	China GDP: Slowdown of Deterioration?	Bryson & Nelson
January-11	Mexican Industrial Production: Weak Across the Board	Alemán
January-08	Canada Struggling as Oil Prices Grind Lower	Quinlan
January-07	Brazil Industrial Production: Good That People Still Eat, Drink	Alemán
January-05	Are Australian & Canadian Households Over-Levered?	Bryson, Quinlan & Nelson
Interest Rates/Credit Market		
January-20	Market Volatility as the Product of Economic Fundamentals	Silvia
January-13	Comptroller Report: It Happens Every Cycle	Silvia
January-06	Interest Rates as Dependent Variable in 2016	Silvia, Vitner & Brown
December-16	2016 Net Treasury Issuance Outlook	Silvia, Vitner & Brown
December-09	Bank Lending Conditions: Support for Consumer Spending	Silvia, Vitner & Brown
Real Estate		
January-15	CRE Impact From Tax Extenders	Khan
December-22	Nonresidential Construction Recap: December	Khan
December-04	Housing Chartbook: November 2015	Vitner & Khan
November-30	Nonresidential Construction Recap: November	Khan
November-24	Commercial Real Estate Chartbook: Q3	Khan

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