Wells Fargo Economics

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Southern Colorado Economic Forum
Colorado Springs, CO

October 30th, 2009
Economic Growth
The Labor Market

Unemployment is currently at 9.8%; in recession territory
Initial Claims for Unemployment
Seasonally Adjusted, In Thousands

Year-over-Year Percent Change: Oct-17 @ 10.9%
Initial Claims: Oct-17 @ 531.0 Thousand
4-Week Moving Average: Oct-17 @ 532.3 Thousand
52-Week Moving Average: Oct-17 @ 581.3 Thousand
Nonfarm Employment Change

Change in Employment, In Thousands

Nonfarm Employment Change: Sep @ -263,000
U.S. Consumer Price Index
Both Series are 3-Month Moving Averages

CPI 3-Month Annual Rate: Sep @ 3.6%
CPI: Sep @ -1.6%
Finished Goods Producer Price Index

Year-over-Year Percent Change

- Finished Goods PPI: Aug @ -4.3%
- "Core" Finished Goods PPI: Aug @ 2.3%
The Humpty-Dumpty Economy

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

On this side of the wall:
Japan-like & 1930’s depression

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.
Helicopter Ben to the Rescue

Ben Bernanke Action Figure!!

Now YOU can drop money out of a helicopter!!

Warning: cannot really prevent a severe recession
The Rescue Plan?
# The Helicopter in Motion!

<table>
<thead>
<tr>
<th></th>
<th>Committed</th>
<th>Spent/Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>New initiatives</td>
<td>$126.7 billion</td>
<td>n/a</td>
</tr>
<tr>
<td>TARP total</td>
<td>$700 billion</td>
<td>$372.5 billion</td>
</tr>
<tr>
<td>Fed total</td>
<td>$6.4 trillion</td>
<td>$1.3 trillion</td>
</tr>
<tr>
<td>Stimulus total</td>
<td>$1.2 trillion</td>
<td>$476.7 billion</td>
</tr>
<tr>
<td>AIG total</td>
<td>$182 billion</td>
<td>$115.8 billion</td>
</tr>
<tr>
<td>FDIC total</td>
<td></td>
<td>$35.9 billion</td>
</tr>
<tr>
<td>Other financial total</td>
<td>$1.7 trillion</td>
<td>$388.5 billion</td>
</tr>
<tr>
<td>Other housing total</td>
<td>$745 billion</td>
<td>$104.9 billion</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$11 trillion</strong></td>
<td><strong>$2.8 trillion</strong></td>
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Source: cnnmoney.com
Dear Corporate Scribe:

Thank you for your interest in the new, improved Federal Bail Out Program. In order to facilitate this process, we’ve designed this short, one-page application. It’s so simple, and easy to use that even Skadden Arps should bill no more $2.7 million to review it. Upon completion, please return this form to the Department of the Treasury, c/o Hank Paulson, via fax, email, or Fed-Ex. And again, thanks for your interest in “US Taxpayer Cash.”

Section One: Tell us a little something about yourself. (Please Print)

Your name: _____________________________ Name of Company: ____________________________

What business are you in? ☐ Automotive ☐ Financial Services ☐ Other (Not Sure)

Number of employees: _________ Your annual compensation: $ _________ Most recent closing stock price: $ _______

(If under $10 million) Year high/year low: $ _______

Is your company presently bankrupt? ☐ Yes ☐ No. Is bankruptcy an option? ☐ Yes ☐ No ☐ Are you kidding me?

Number of Years, Months, (or weeks) you’ve held your current position: _______

Section Two: Tell us a little something about your finances. (Please Print)

So, like, how much money do you need? (Please round off to the nearest billion) $ _______

Do you have a business plan for spending this money? ☐ Yes. ☐ No. ☐ Let me get back to you on that.

In the unlikely event we don’t approve this transaction, please tick off the box that best describes the consequences for the American economy: ☐ Dire ☐ Catastrophic ☐ Apocalyptic ☐ Frogs and Fish will rain from the sky, and it will be the end of America as we know it.

Section Three: Tell us a little more about your business/Industry. (Please tick off best description)

☐ Hey! We’re GM! We’ve made products people don’t want to buy, made sure that it’s a miserable experience to buy them, and now we want the US people to pay for arrogance and ineptitude. But we’re trying. Besides, it’s all Toyota’s fault.

☐ We’re Chrysler. Our products aren’t bad. But in our CEO Bob Nardelli’s previous job, he ran Home Depot into the ground.

☐ We’re a bank or a financial institution. We know we shouldn’t have been making all those idiot loans, but – hey – what the hell! we had the bonus pool to think of.

☐ We’re in some other business. But we the way we figure it, free money is free money, right?

Section Four: Administrivia – the legal stuff.

Once your funds are approved, please indicate how you would like to receive them:

☐ No worries. I’ll just drop by and pick them up with my Gulfstream.

☐ Unmarked bills, non-consecutively numbered. There’ll be getaway car waiting outside the Treasury Dept.

☐ Just wire the funds to our ULC, c/o Bank Swisse, the Grand Cayman Islands.

☐ Write a check directly to the Four Seasons Resort and Spa Complex, Laguna Hills, CA. attention ‘Charlee.”

Your signature: ___________________________ Date: ____________________________ Presidential Election Campaign Fund: Please check here if you would like $3.00 of your bailout money to go to this fund.

Form EZ-CASH: Dept of the Treasury, 1500 Pennsylvania Avenue, NW Washington, D.C. 20220 (202) 622-2000 Rev 6, 11/08

- Bruce Feinblatt, for Yancy Fak, VP. Com
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<td>(Please round to the nearest $10 million)</td>
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- Bruce Feirstein, for Vanity Fair, VF.Com
The state of the economy
The Housing Market!
New Home Sales
Seasonally Adjusted Annual Rate - In Thousands

- New Home Sales: Sep @ 402,000
- 3-Month Moving Average: Sep @ 410,667
Inventory of New Homes for Sale

Months of New Homes For Sale at Current Sales Rate

- Months' Supply: Sep @ 7.5
- 12-Month Moving Average: Sep @ 10.0
Housing Starts
Seasonally Adjusted Annual Rate, In Millions

Housing Starts: Sep @ 590K
Building Permits
Seasonally Adjusted Annual Rate, In Millions

Building Permits: Sep @ 573K
Existing Single-Family Home Resales

Seasonally Adjusted Annual Rate - In Millions

Existing Home Sales: Sep @ 4.9 Million
Home Prices

Year-over-Year Percentage Change

Median Sale Price: Sep @ $174,900
FHFA Purchase Only Index: Aug @ -3.6%
S&P Case-Shiller Composite-10: Aug @ -10.6%
The Rest of the Economy
ISM Manufacturing Composite Index

Diffusion Index

ISM Manufacturing Composite Index: Sep @ 52.6
12-Month Moving Average: Sep @ 41.5
The Consumer
Revolving & Nonrevolving Debt
Month-over-Month Change; 3-M Mov. Avg., Millions of Dollars

- Revolving: Aug @ -$5.7 Million
- Nonrevolving: Aug @ -$9.8 Million
Consumer Confidence Index

Conference Board

Confidence Yr/Yr % Chg: Oct @ 22.8%

- Confidence: Oct @ 47.7
- 12-Month Moving Average: Oct @ 43.4
Personal Consumption Expenditures
Month-over-Month Percent Change

PCE: Aug @ 1.3%
Personal Saving Rate

Disp. Personal Income Less Spending as a % of Disp. Income

- Personal Saving Rate: Aug @ 3.0%
- Personal Saving Rate, 12-Month M.A.: Aug @ 3.9%
Retail Sales
Month-over-Month Percent Change

Retail Sales: Sep @ -1.5%
The Financial Market
Tracking the 10 Year Yield

30 Year Mortgage

10 Year

Source: Federal Reserve, Freddie Mac
30-Year Mortgage vs. 10-Year Treasury

Spread over 10-year Treasury yield

Source: Federal Reserve; Freddie
Commercial Paper Spread

90-day asset-backed commercial paper yield less 3-month Treasury yield

Source: Bloomberg
LIBOR Spread

3-month LIBOR less 3-month Treasury yield

Source: Bloomberg
The Rest of the World
Chinese Industrial Production Index
Year-over-Year Percent Change of 3-Month Moving Average

Year-over-Year Industrial Production: Aug @ 12.3%
3-Month Moving Average: Aug @ 11.3%
Euro-zone Real GDP

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

Compound Annual Growth: Q2 @ -0.5%
Year-over-Year Percent Change: Q2 @ -4.7%
Euro-zone Industrial Production Index
Year-over-Year Percent Change

IPI: Jul @ -16.1%
3-Month Moving Average: Jul @ -16.6%
Brazilian Quarterly GDP
(% change year-over-year)

Source: IBGE
Brazil: External Sector
(billions of U.S. dollars)

Source: Ministério do Desenvolvimento, Indústria e Comércio Exterior
Mexican Real Quarterly GDP

Source: INEGI
Mexico: External Sector
(Billions of U.S. dollars)

Source: Banco de México, INEGI
U.S. Trade Weighted Dollar Major Index

March 1973=100

Major Currency Index: Sep @ 74.7
Trade Weighted Dollar
March 1973 =100

TWD Major Index: Aug @ 75.2
Summary & Conclusions

• Housing market shows signs of bottoming
• The U.S. economy and the World economy are in recession but in the recovery stage
• Probability of a double-dip remains high
• Inflation remains a medium and long-term concern
• The financial system is starting to work but it is still limiting the effectiveness of monetary policy
• Fiscal policy is the only alternative to get out of this recession, but it will be very EXPENSIVE
Thanks!

Wells Fargo Economics

Eugenio J. Alemán,
Senior Economist & VP

October 2009

http://www.wellsfargo.com/com/research/economics