The U.S. Economy: “No Fiscal Cliff; But Not Out of the Woods Yet”

Eugenio J. Aleman, Director and Senior Economist

February 21, 2013
Let’s Look at the Federal Government

Government outlays have come down considerably

Federal Government Outlay Growth
Year-over-Year Percent Change, 12-Month Moving Average

Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC
Let’s Look at the Federal Government

Strong fiscal reaction to avoid a depression

Total Outlays as Percent of Nominal GDP
12-Month Moving Average

Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC
Let’s Look at the Federal Government

Very large drop in government receipts

Federal Government Receipts Growth
Year-over-Year Percent Change, 12-Month Moving Average

Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC
Let’s Look at the Federal Government

Fiscal Conservatism? Where? When?

Federal Budget Surplus or Deficit
12-Month Moving Sum in Billions of Dollars

Surplus or Deficit: Jan @ -$1,030 Billion

Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC
Real GDP Growth

U.S. real GDP growth recovered somewhat, but remains weak.

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Employment turned the corner in October of 2010, but it is still weak.

Source: U.S. Department of Labor and Wells Fargo Securities, LLC.
While employment growth has been fairly broad based, the government sector has continued to struggle.
U.S. Employment By Industry

As a percentage of total non-farm payrolls

U.S. Employment Composition

- Trade, Transportation and Utilities, 29%
- Government, 15%
- Education and Health Services, 14%
- Professional and Business services, 12%
- Leisure and Hospitality, 10%
- Financial Activities, 5%
- Other Services, 4%
- Information, 2%
- Natural Resources and Mining, 1%
- Manufacturing, 8%

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

It is not the Federal Government!

U.S. Government Employment Composition

- Local Government, 64%
- State Government, 23%
- Federal Government, 13%

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

Not as high as during the 1980s recession, but more damaging

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
One of the reasons for the decline in the unemployment rate is tied to the drop-off in the labor force participation rate.

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

Duration of unemployment shows a struggling labor market

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
College graduates have the edge even in the worst recession since the depression.

Source: U.S. Department of Labor and Wells Fargo Securities, LLC
Consumer prices are slowing once again.

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

The Humpty-Dumpty Economy

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.

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

On this side of the wall:
1930's depression/
Japan-like depression
Helicopter Ben to the Rescue

The Helicopter Effect!

Ben Bernanke Action Figure!!

Now YOU can drop money out of a helicopter!!

Warning: cannot really prevent a severe recession
Monetary policy remains extremely expansive
A Monetary Tsunami?

Federal Reserve Balance Sheet

Source: Federal Reserve Board and Wells Fargo Securities, LLC
The Housing Market Today
Your House As Seen By:

You...
Your House As Seen By:

Your Buyer...
Your House As Seen By:

Your Lender...
Your House As Seen By:

Your Appraiser...
Your House As Seen By:

And...
Your County’s Tax Assessor...
New Home Sales

New home sales are still low but improving

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

As well as housing starts

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Existing home sales are relatively strong.

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
Home prices are finally showing signs of recovery.

Source: National Association of Realtors, FHFA, S&P Case-Shiller and Wells Fargo Securities, LLC
Home mortgages have been declining for the past four years.
O...M...G...?

Negative Equity

Negative Equity Mortgages - By State
Percent of Mortgages Outstanding

- Colorado: 18.2%
- New Jersey: 18.2%
- Oregon: 18.7%
- Washington: 19.1%
- Virginia: 20.1%
- New Hampshire: 20.8%
- Idaho: 22.5%
- Rhode Island: 22.6%
- Maryland: 23.2%
- Ohio: 24.1%
- Illinois: 25.8%
- California: 29.0%
- Michigan: 32.8%
- Georgia: 35.8%
- Arizona: 39.7%
- Florida: 42.7%
- Nevada: 58.6%
- US: 22.3%

As of Q2 2012

Source: FHFA and Wells Fargo Securities, LLC
Manufacturing has weakened but it is back to expansion territory.
The Manufacturing Myth!

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC
But the service economy continues to move along.
Credit card lending is non-existent

Source: Federal Reserve Board and Wells Fargo Securities, LLC
Households are deleveraging fast...but not fast enough!

Source: Federal Reserve Board and Wells Fargo Securities, LLC
Consumer confidence is still very weak for a strong recovery

Household Debt-Service Ratio
As a Percent of Disposable Personal Income

Source: The Conference Board and Wells Fargo Securities, LLC
Consumer confidence is still very weak for a strong recovery

Source: The Conference Board and Wells Fargo Securities, LLC
The best news is that the saving rate has improved

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

Mortgage interest rates have plummeted...but who is buying?

Source: Freddie Mac, Federal Reserve Board and Wells Fargo Securities, LLC
### Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>CPI</th>
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<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Global (PPP weights)</td>
<td>2.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Global (Market Exchange Rates)</td>
<td>1.5%</td>
<td>1.6%</td>
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<tr>
<td>Advanced Economies¹</td>
<td></td>
<td></td>
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<tr>
<td>United States</td>
<td>1.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-0.5%</td>
<td>0.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>2.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Korea</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.0%</td>
<td>1.7%</td>
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<tr>
<td>Developing Economies¹</td>
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<tr>
<td>China</td>
<td>4.5%</td>
<td>4.9%</td>
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<td>India</td>
<td>7.7%</td>
<td>8.1%</td>
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<td>Mexico</td>
<td>5.4%</td>
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<tr>
<td>Brazil</td>
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<td>Russia</td>
<td>0.8%</td>
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<td></td>
<td>3.4%</td>
<td>3.1%</td>
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Forecast as of: February 6, 2013

¹Aggregated Using PPP Weights

Source: Wells Fargo Securities, LLC
Wells Fargo Securities, LLC Economics Group

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