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SECURITIES

U.S. Economic Outlook

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March 2, 2016

Together we'll go far



Overall Outlook

- **We continue to look for the economy to grow around 2.0 percent 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

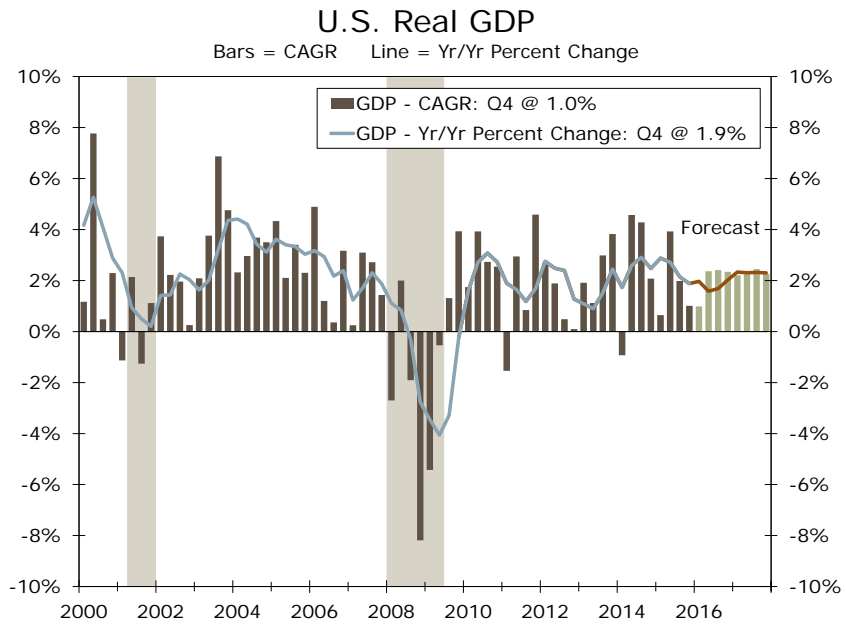
- **Last year's federal budget deal will provide a slight boost to economic growth in 2016. State and local governments are also boosting spending modestly.**
-

Global Economy

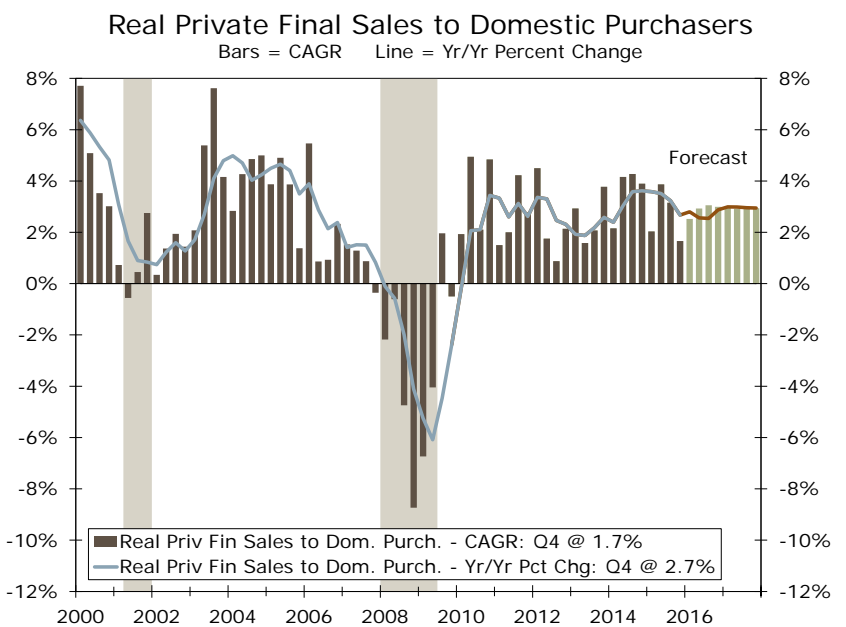
- **Slower growth in China is weighing on other economies, pushing the value of the dollar higher and presenting a threat to U.S. exports and corporate earnings.**

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



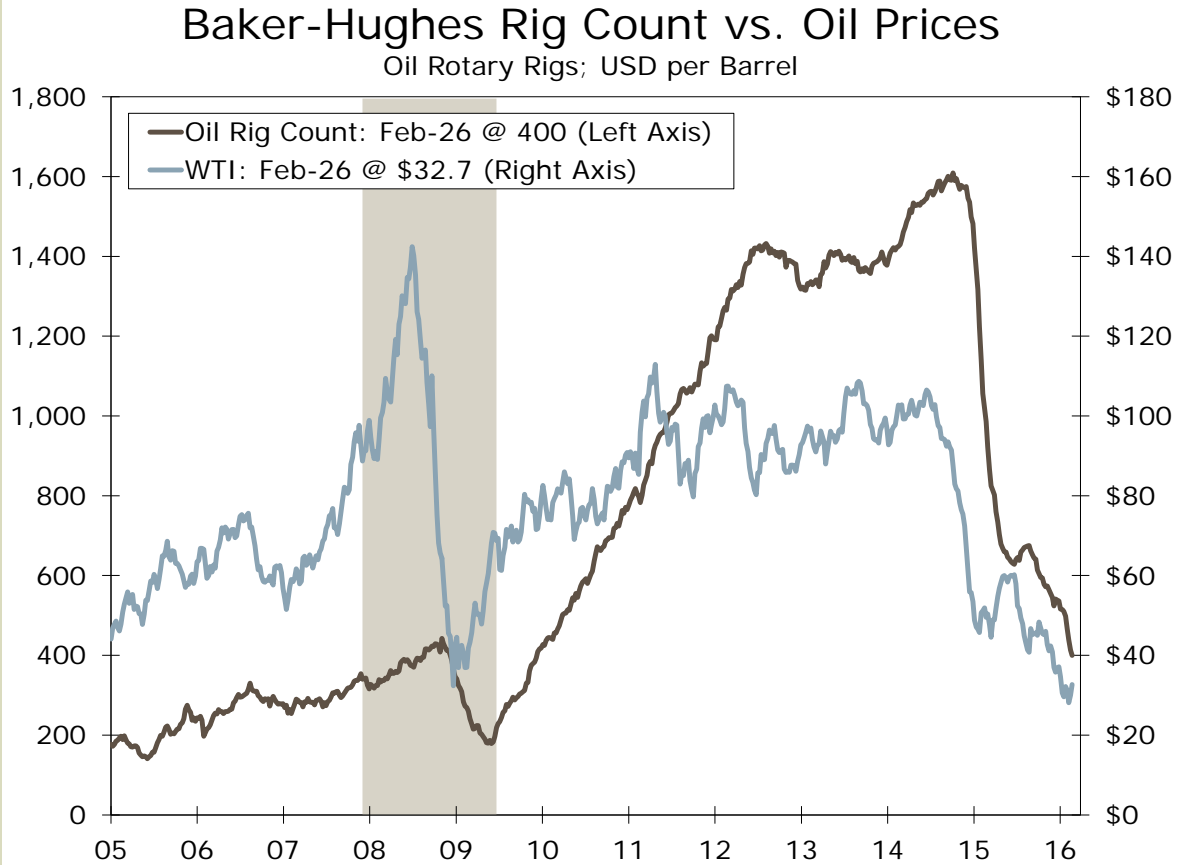
Real Private Final Sales



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.

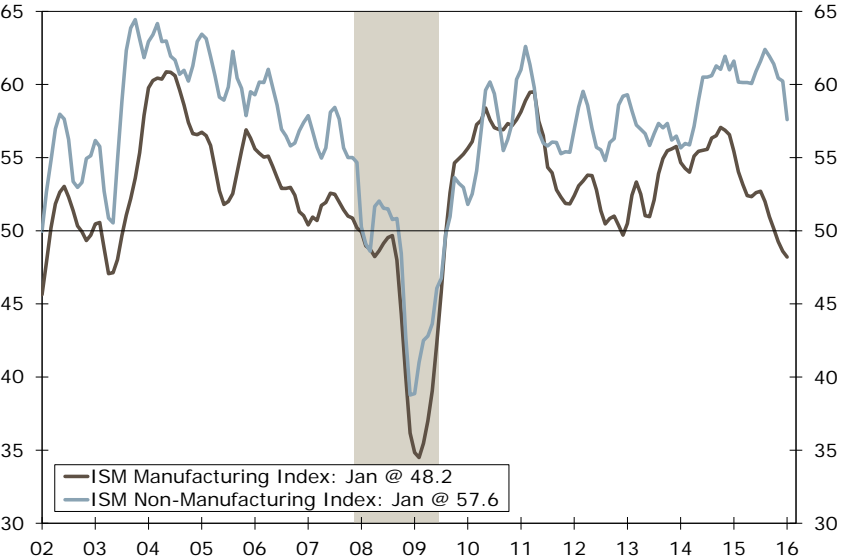


Source: Baker Hughes, Inc., Bloomberg LP and Wells Fargo Securities, LLC

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

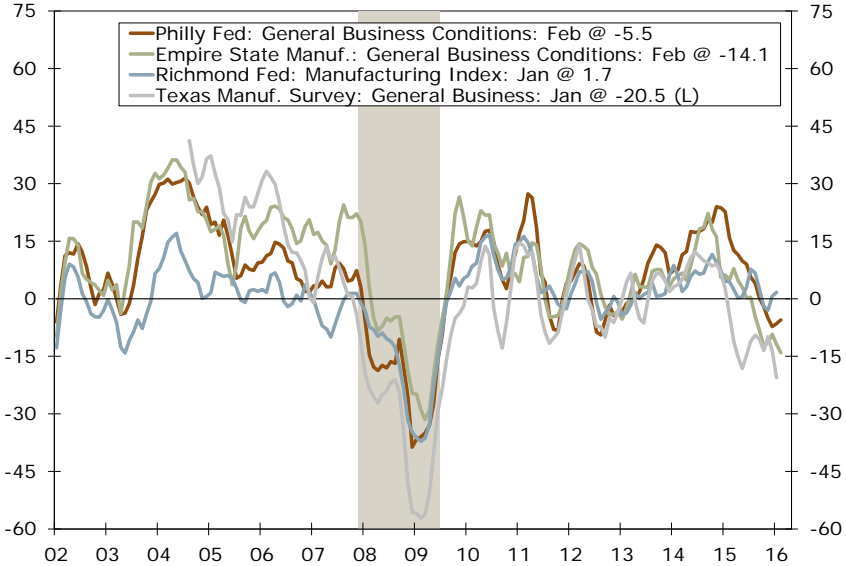
ISM Manufacturing vs. Non-Manufacturing

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



Regional Surveys

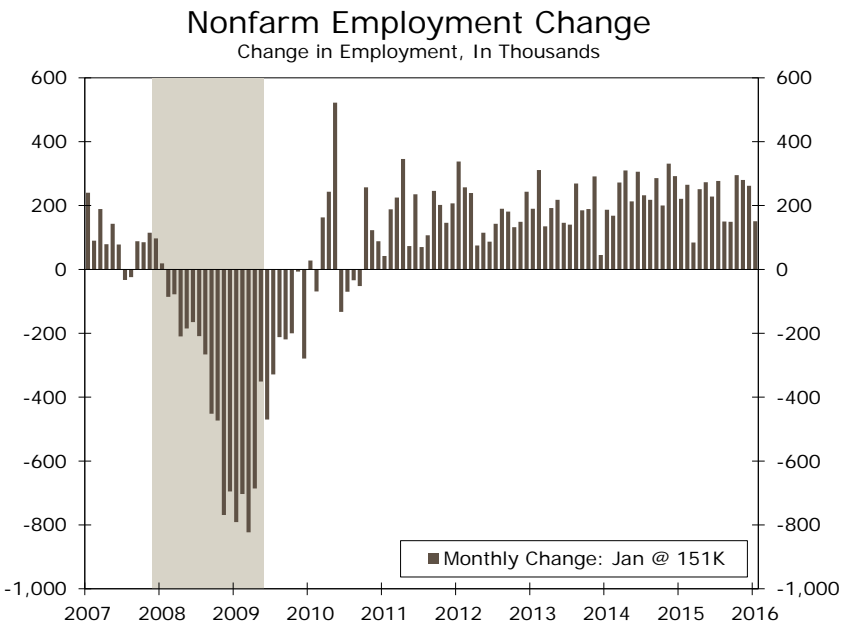
U.S. Regional Fed Surveys
Diffusion Index, 3-Month Moving Averages



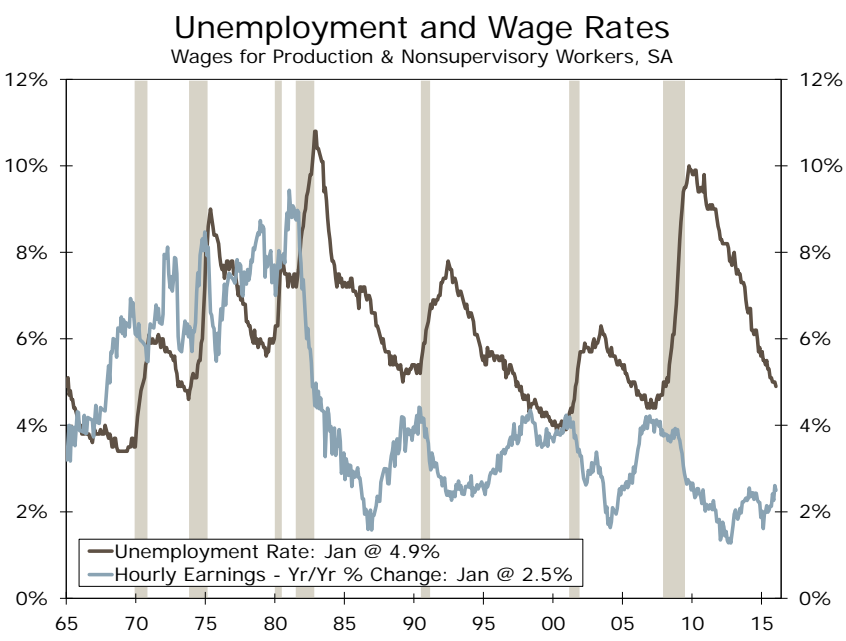
Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Securities, LLC

Nonfarm employment gains have been solid, 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



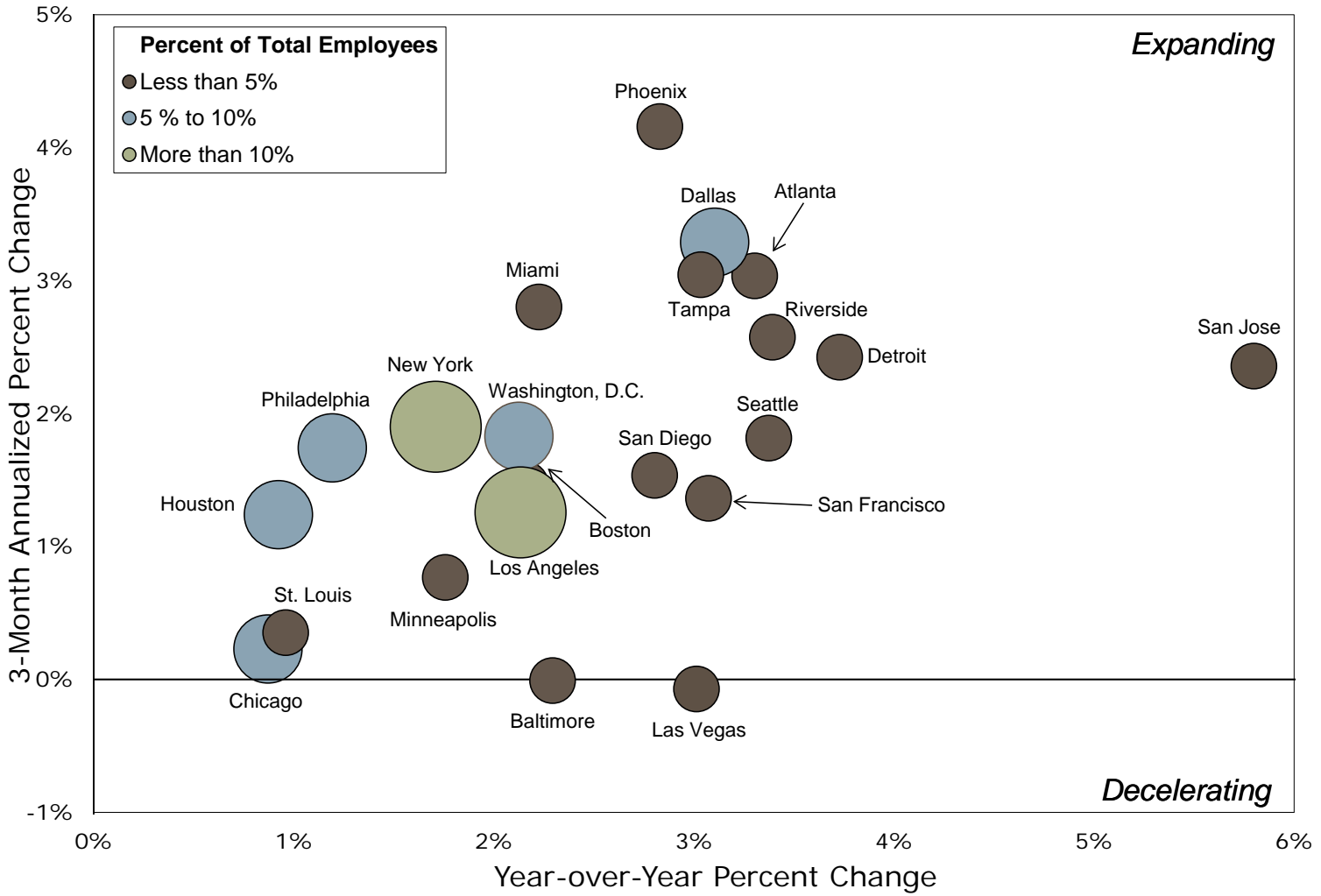
Unemployment Rate



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

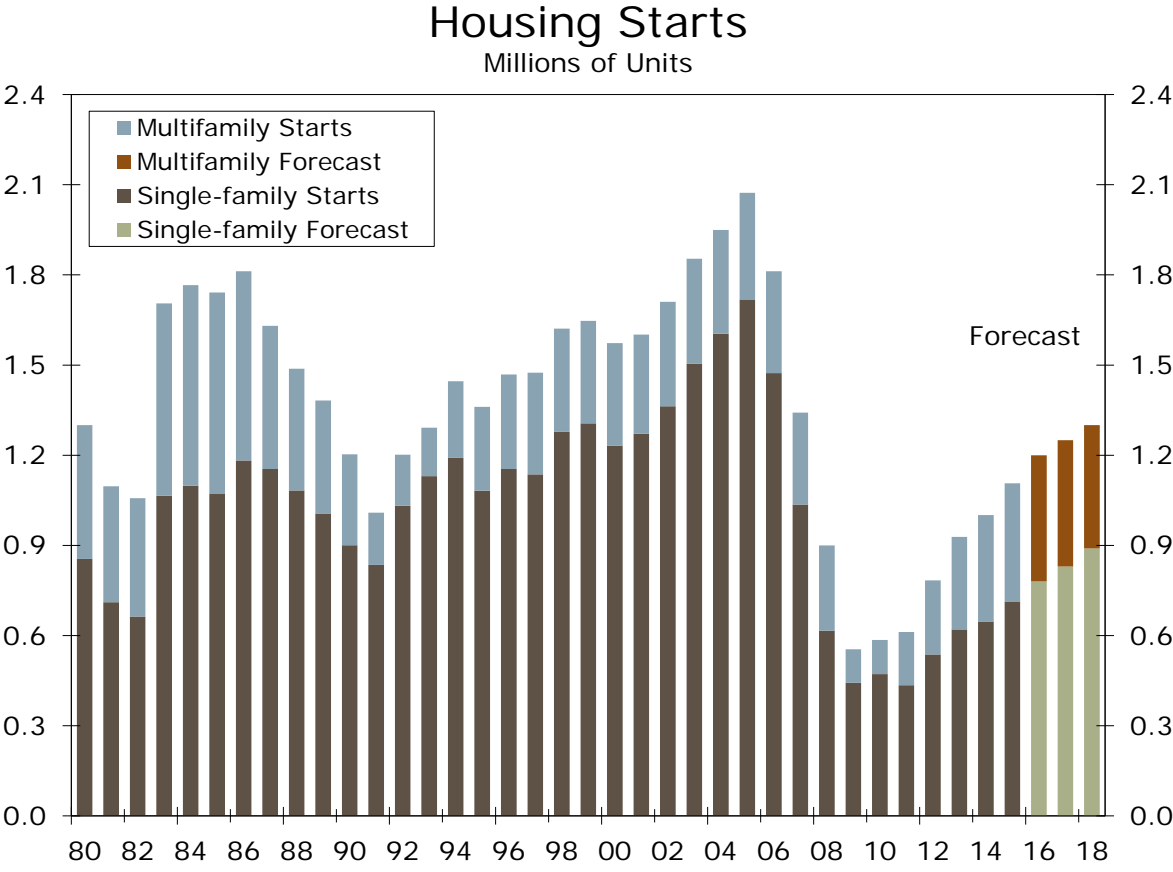
U.S. Employment Growth by MSA

3-Month Moving Averages, December 2015



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

We continue to look for a gradual recovery in homebuilding.

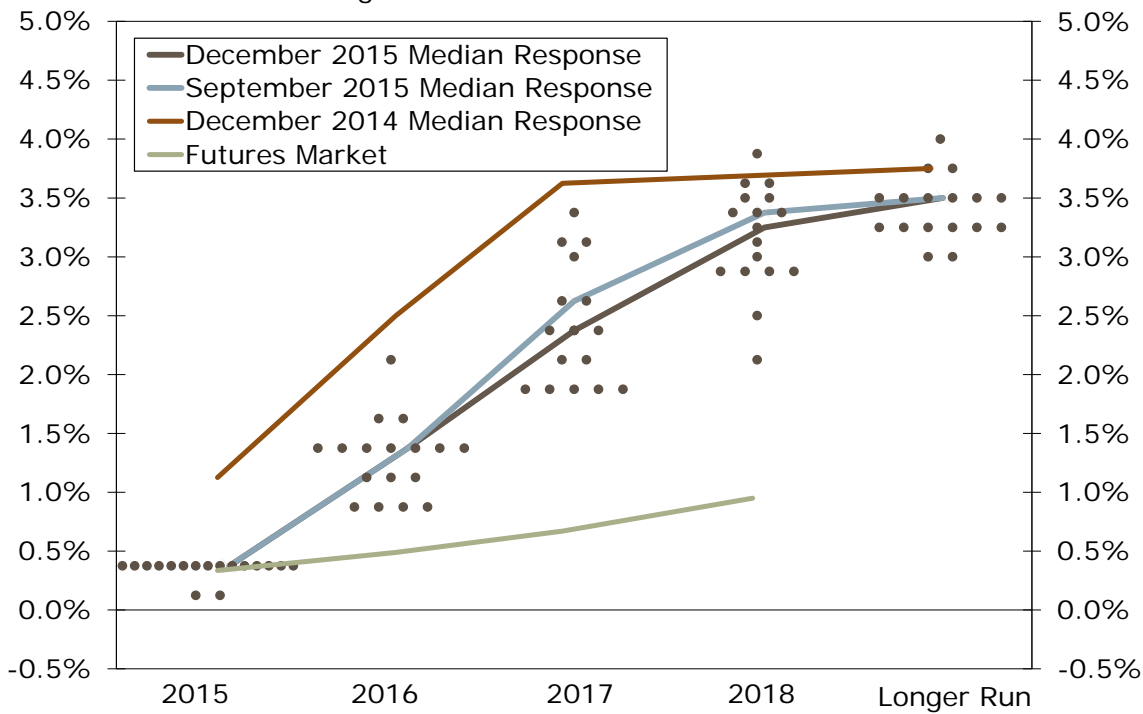


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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.

Appropriate Pace of Policy Firming

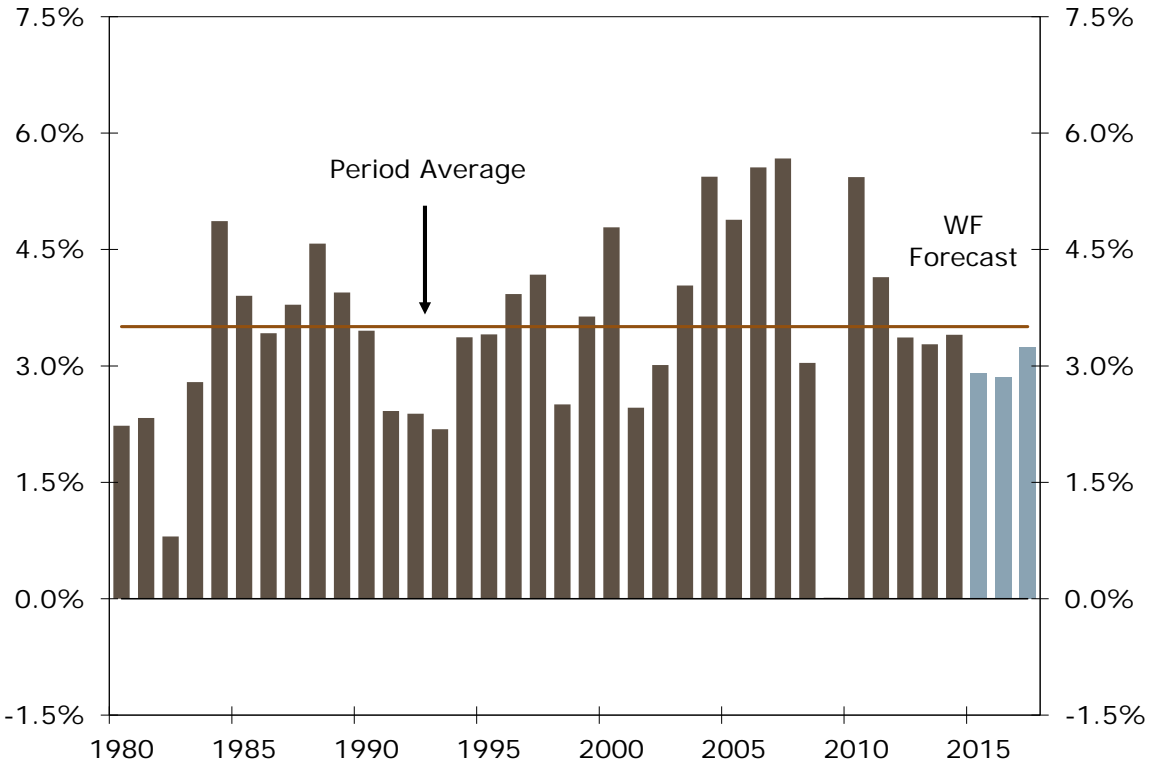
Target Federal Funds Rate at Year-End



Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities, LLC

Growth in the global economy remains below its long-run average.

Real Global GDP Growth
Year-over-Year Percent Change, PPP Weights

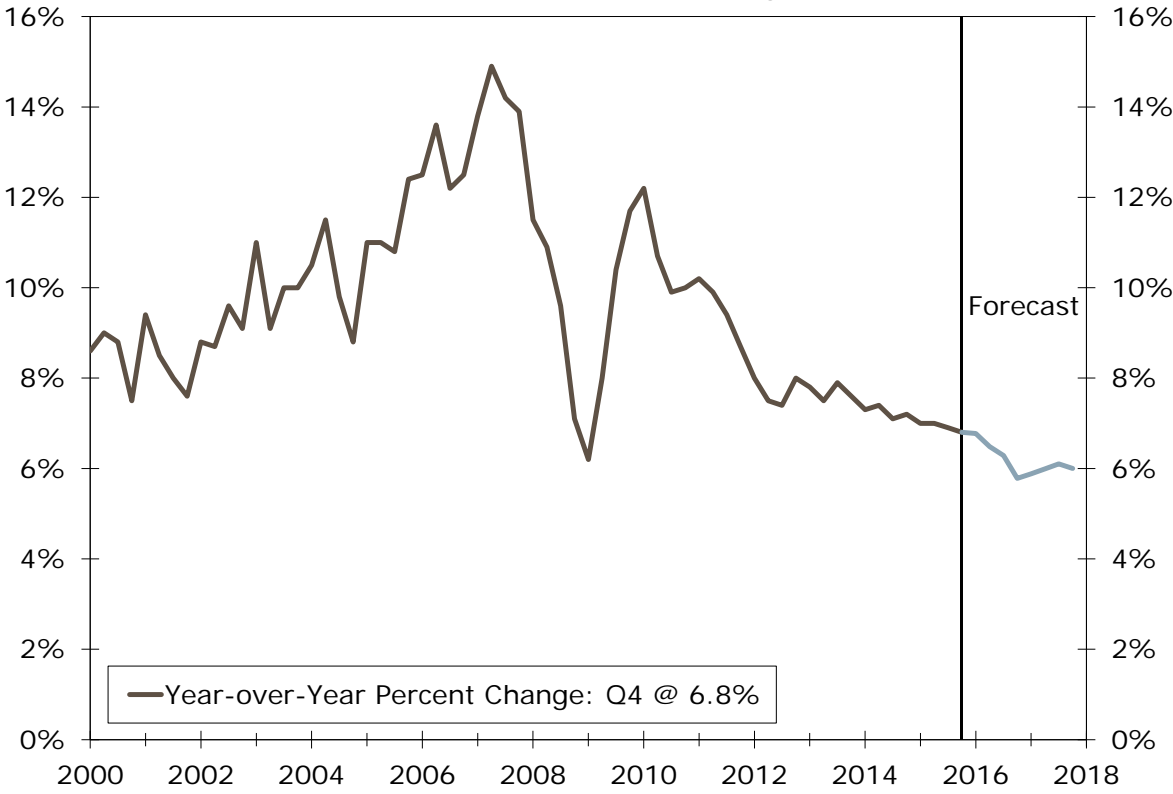


Source: International Monetary Fund and Wells Fargo Securities, LLC

We forecast that growth in China will slow further, but we do not expect the economy to completely fall apart.

Chinese Real GDP Forecast

Year-over-Year Percent Change

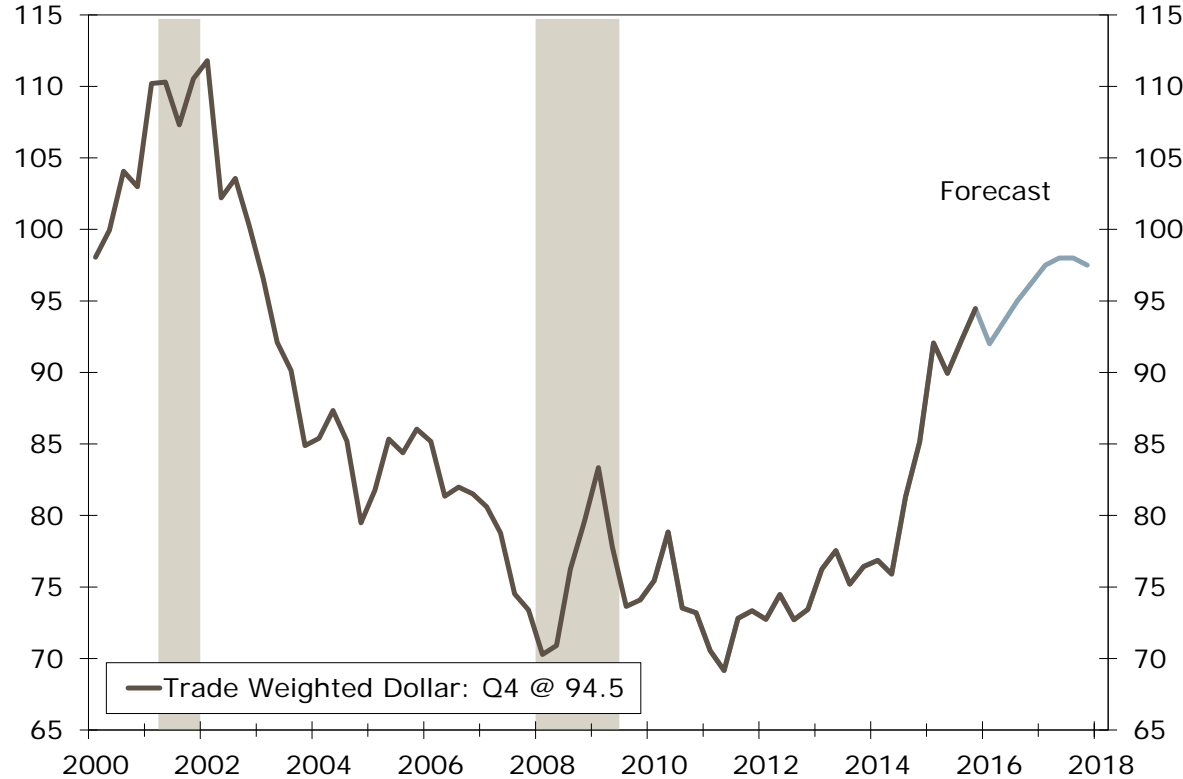


Source: Bloomberg LP and Wells Fargo Securities, LLC

The dollar has strengthened against most of our key trading partners.

Trade Weighted Dollar

Major Currency Index, 1973 = 100

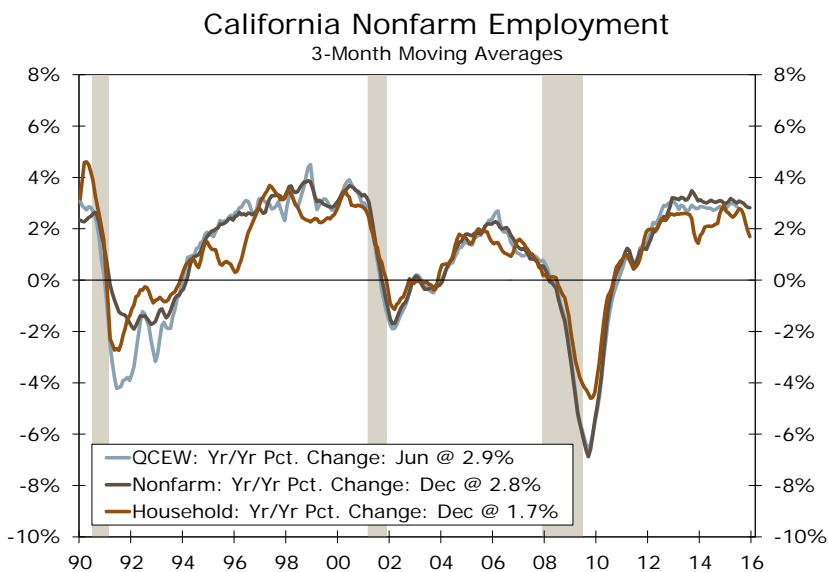


Source: Federal Reserve Board and Wells Fargo Securities, LLC

California & San Diego

California has enjoyed three years of strong employment gains. Hiring appears to have lost some momentum toward the end of the year, however, reflecting some moderation in the state's technology sector. Tourism, retail trade and construction remain quite strong.

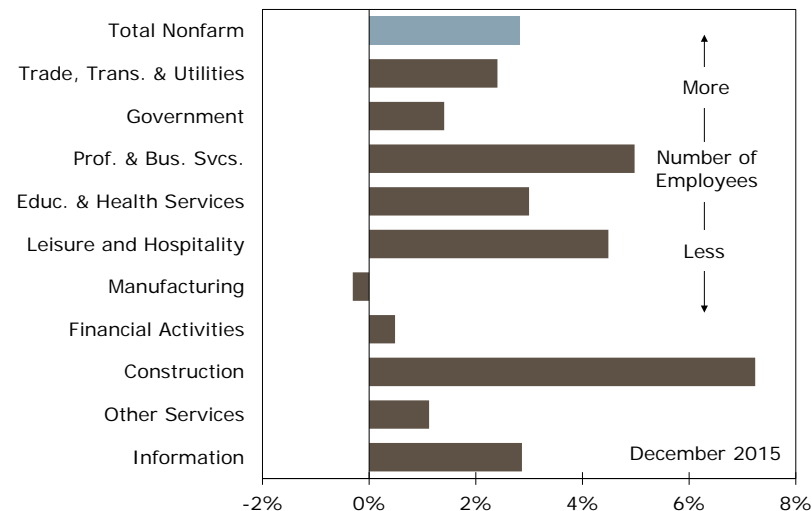
Nonfarm Employment



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

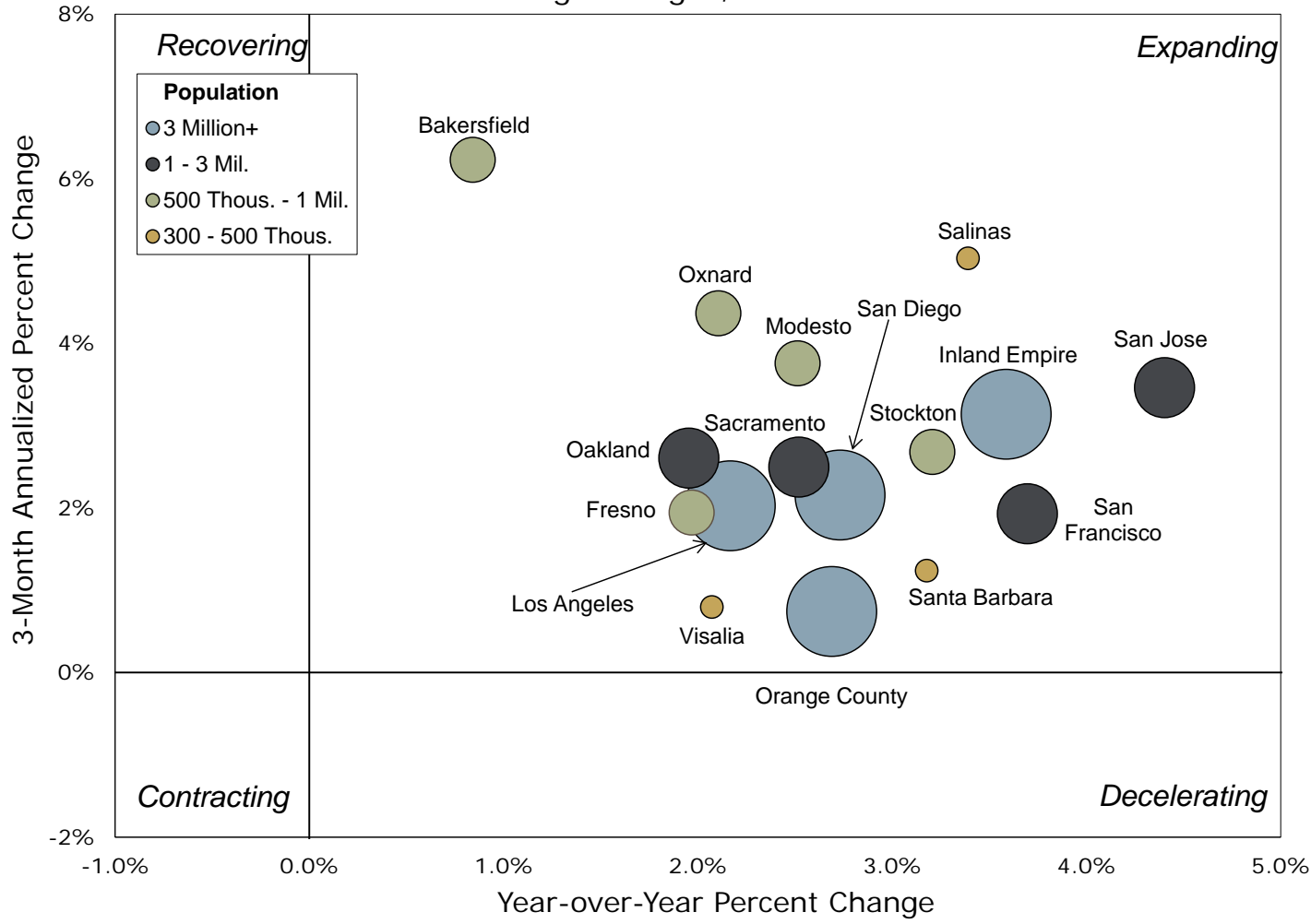
Employment by Industry

California Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA



California Employment Growth by Metro

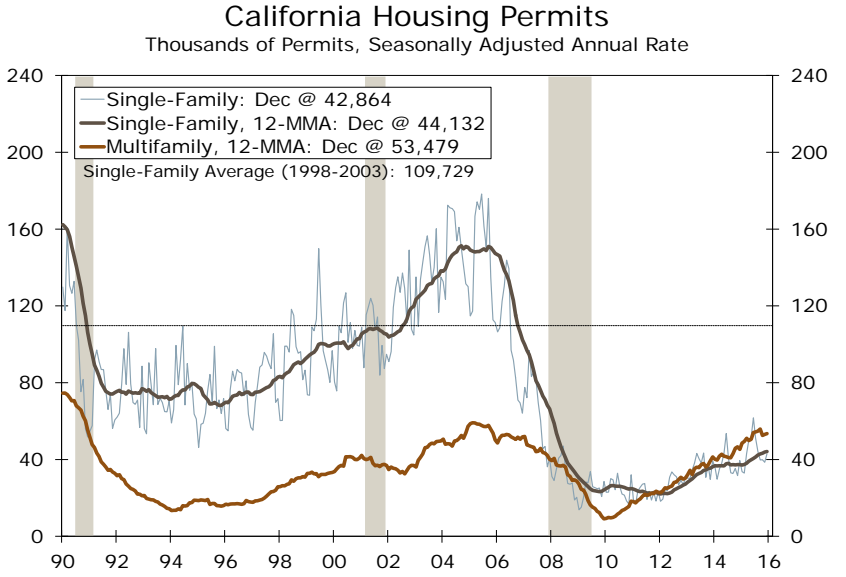
3-Month Moving Averages, December 2015



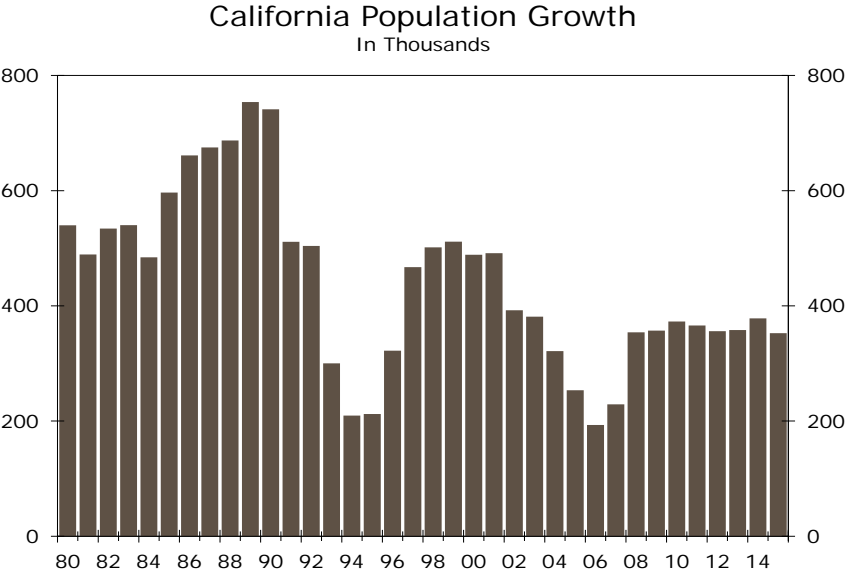
Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities, LLC

Residential construction is slowly getting back on track, as single and multifamily permits continue to trend higher. California's population has been growing solidly, with most of the gain coming from immigration. State-to-state migration remains modestly positive.

Housing Permits



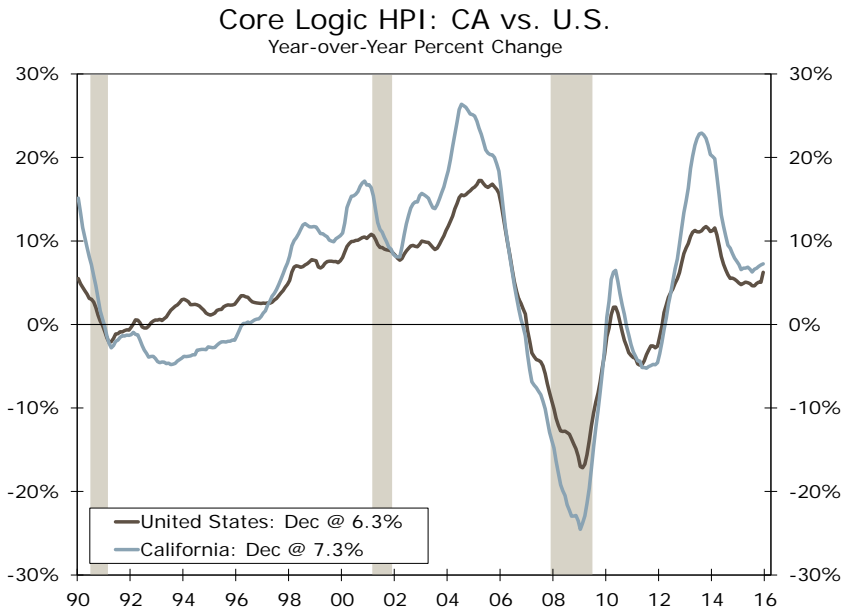
Population Growth



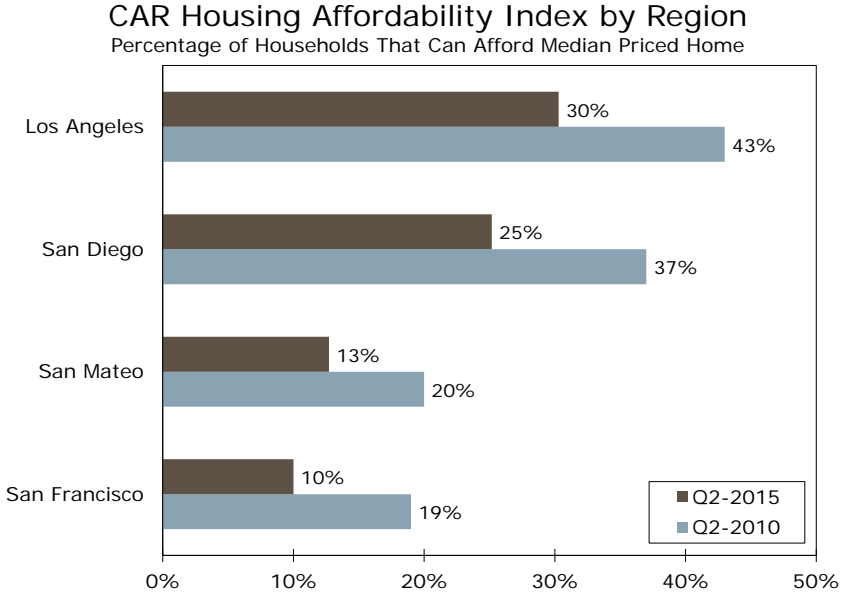
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Housing affordability is a significant challenge for much of California, particularly the larger metropolitan areas, which is where the majority of job growth has been in recent years.

Home Prices



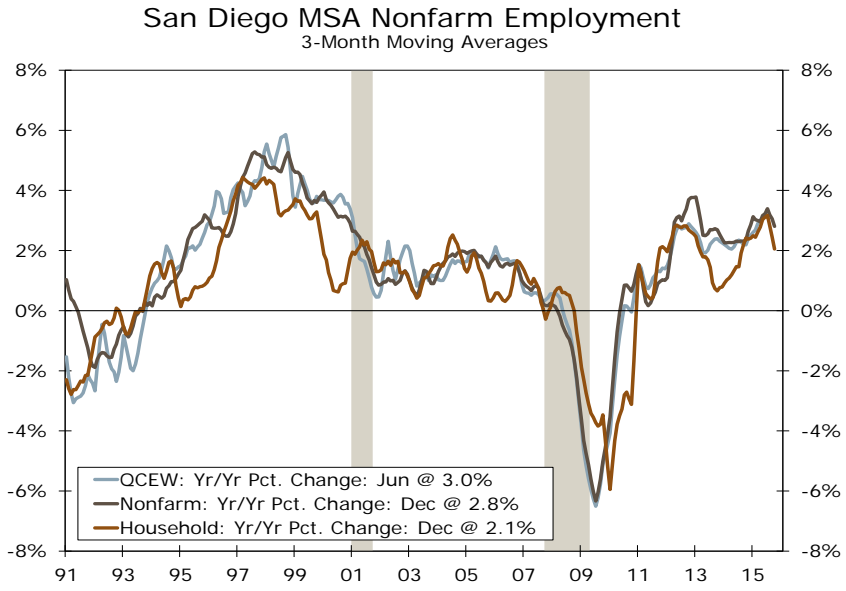
Housing Affordability



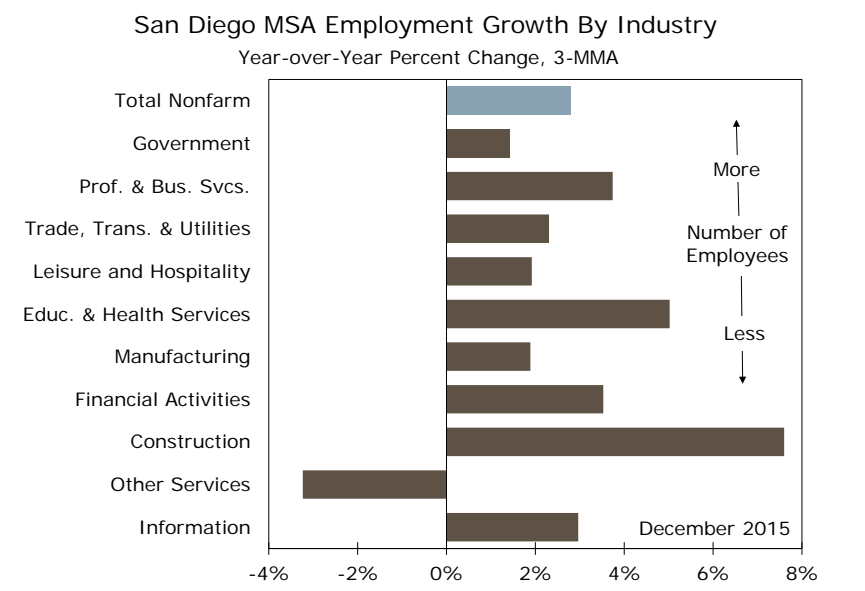
Source: California Association of Realtors, CoreLogic and Wells Fargo Securities, LLC

San Diego ended 2015 on a high note, as local employers added 37,500 net new jobs over the year. Education & health services, professional business services and construction are notable bright spots. Information technology, communications and life sciences remain key drivers.

Nonfarm Employment



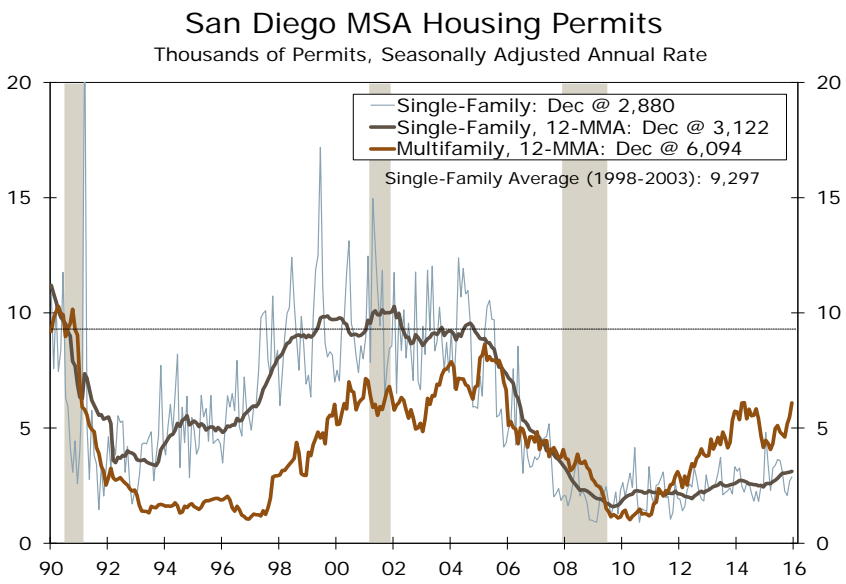
Employment by Industry



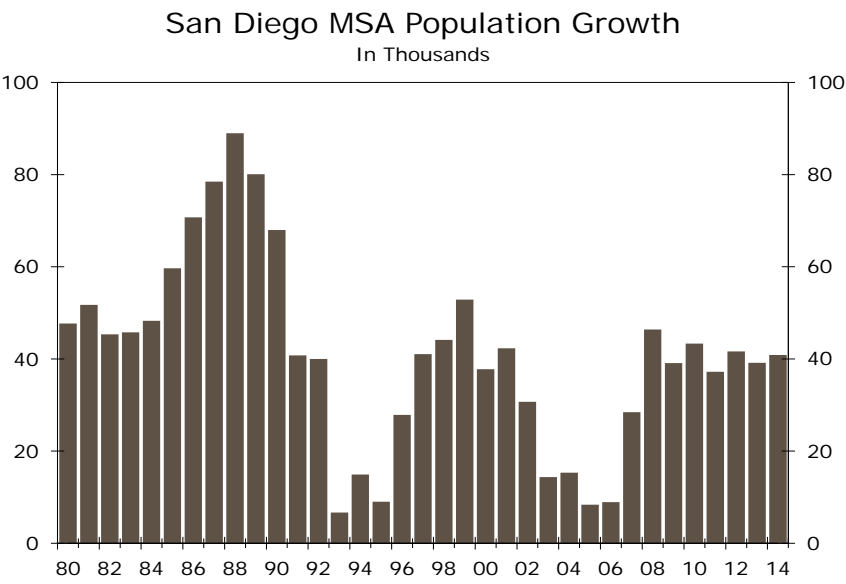
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Residential construction has been slow to recover. Single-family permits have ticked up slightly from their post-recession lows, while multifamily has seen a larger pickup. Apartment development has been a notable bright spot, particularly in areas near employment centers.

Housing Permits



Population Growth



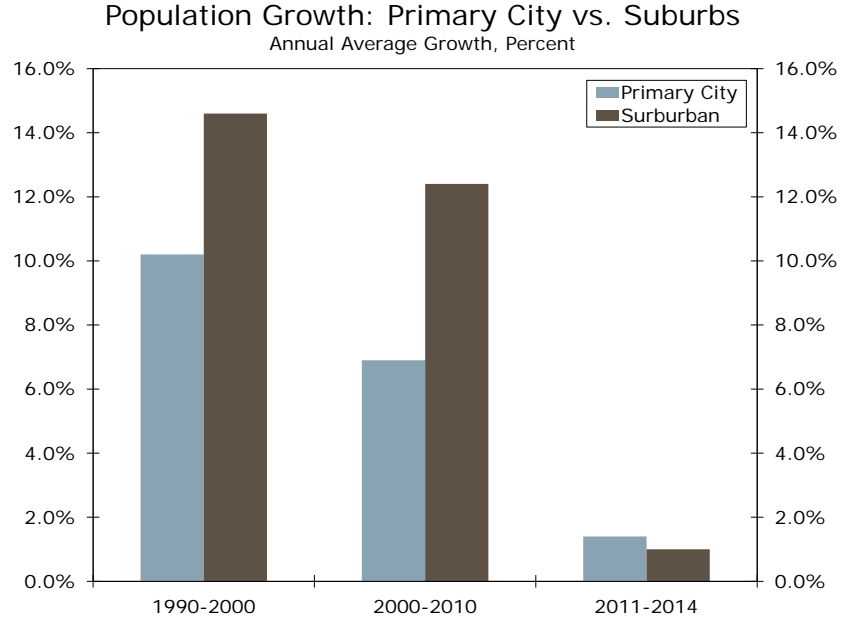
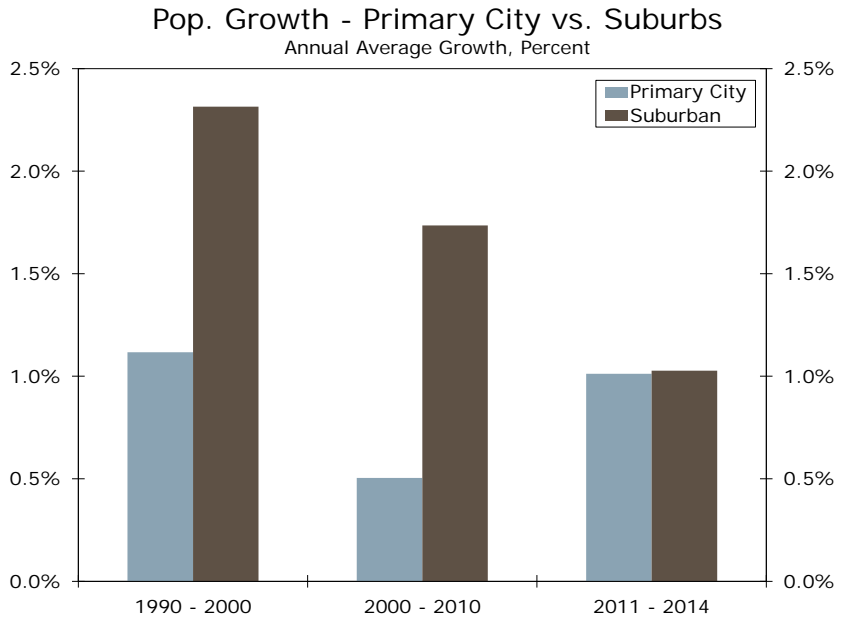
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Demographic Trends: Primary City vs. Suburban Growth

In line with broader national trends, the San Diego metro area has seen more of its population growth occur in the region's urban core relative to the suburbs.

United States

San Diego-Carlsbad



Source: U.S. Department of Commerce, The Brookings Institution 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 about 2 percent in 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	1.0	1.0	2.4	2.4	2.3	1.5	2.4	2.4	1.8	2.3
Personal Consumption	1.8	3.6	3.0	2.0	3.0	2.7	2.7	2.6	1.7	2.7	3.1	2.7	2.5
Inflation Indicators ²													
PCE Deflator	0.2	0.3	0.3	0.5	1.2	1.1	1.3	1.8	1.4	1.4	0.3	1.3	2.0
Consumer Price Index	-0.1	0.0	0.1	0.4	1.3	1.2	1.5	1.9	1.5	1.6	0.1	1.5	2.2
Industrial Production ¹	-0.3	-2.3	2.7	-3.3	1.6	2.1	1.1	2.2	1.9	3.7	1.3	0.6	2.1
Corporate Profits Before Taxes ²	4.6	0.6	-5.1	2.3	2.6	2.5	2.4	2.4	2.0	1.7	0.4	2.5	2.3
Trade Weighted Dollar Index ³	92.1	89.9	92.3	94.5	92.0	93.5	95.0	96.3	75.9	78.5	91.1	94.2	97.8
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	1.16	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	3.96	4.01	4.06	4.16	3.98	4.17	3.85	4.05	4.40
10 Year Note	1.94	2.35	2.06	2.27	2.01	2.06	2.12	2.23	2.35	2.54	2.14	2.10	2.52

Forecast as of: February 26, 2016

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

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2015	2016	2017	2015	2016	2017
Global (PPP Weights)	2.9%	2.9%	3.2%	3.3%	3.2%	3.6%
Global (Market Exchange Rates)	2.8%	2.6%	3.1%	n/a	n/a	n/a
Advanced Economies¹	2.0%	1.8%	2.2%	0.2%	1.1%	1.9%
United States	2.4%	1.8%	2.3%	0.1%	1.3%	2.2%
Eurozone	1.5%	1.7%	2.0%	0.0%	0.7%	1.4%
United Kingdom	2.2%	1.9%	2.1%	0.0%	0.9%	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	1.1%	1.4%	2.3%	1.2%	1.8%	1.9%
Developing Economies¹	3.8%	3.9%	4.2%	6.1%	5.3%	5.3%
China	6.9%	6.3%	5.8%	1.4%	1.4%	1.7%
India ²	7.5%	7.5%	7.2%	6.0%	5.0%	5.2%
Mexico	2.5%	2.4%	2.7%	2.7%	3.0%	3.0%
Brazil	-3.7%	-2.0%	2.6%	9.0%	9.7%	8.5%
Russia	-4.0%	-0.6%	1.6%	15.6%	7.7%	6.4%

Forecast as of: February 10, 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		
February-29	How Far Reaching Is the "Gig Economy"?	Silvia, House & Pugliese
February-24	Recession Talks in the Spotlight: Should We Worry?	Silvia, Iqbal & Pugliese
February-24	Capitol Hill Update: FY 2017 Budget Process Challenges	Silvia & Brown
February-22	In the Footsteps of Isaac Newton: Search for the Unseen Equilibrium Feds Funds Rate	Silvia, Iqbal & Moehring
February-16	Is There an Upside to PCE's Contribution to GDP?	Alemán
U.S. Regional		
February-29	South Florida Economic Update: Q4 2015	Vitner & Batcheller
February-09	South Carolina in the Spotlight: February 2016	Vitner
February-09	Lunar New Year 2016: The Year of the Monkey	Vitner
February-03	Denver vs. Charlotte: An Economic Matchup	Vitner & Batcheller
January-27	North Carolina Employment Conditions: December 2015	Vitner & Batcheller
Global Economy		
February-29	Sweden GDP Surges in Q4 2015	Bryson & Nelson
February-22	Peru GDP Growth Strengthened in 2015; Details not so strong	Alemán
February-19	Know When to Say Yen	Bennenbroek & Quinlan
February-18	Mexican Central Bank Surprises Markets	Alemán
February-16	How Exposed Are Banks to Developing Countries	Bryson & Nelson
Interest Rates/Credit Market		
February-25	Expectations and Monetary Policy	Silvia
February-17	Updated 2016 Net Treasury Issuance Projections	Silvia & Brown
February-10	Investors and the Imperfect Information Problem	Silvia
February-03	Updated CBO Budget Outlook: Pick Up in Net Issuance	Silvia & Brown
January-27	Bank Credit: Support for Continued Growth	Silvia
Real Estate		
February-16	Commercial Real Estate Chartbook: Q4	Khan & Causey
January-29	Housing Chartbook: February 2016	Vitner, Khan & Batcheller
January-15	CRE Impact From Tax Extenders	Khan
December-22	Nonresidential Construction Recap: December	Khan
December-04	Housing Chartbook: November 2015	Vitner & Khan

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