

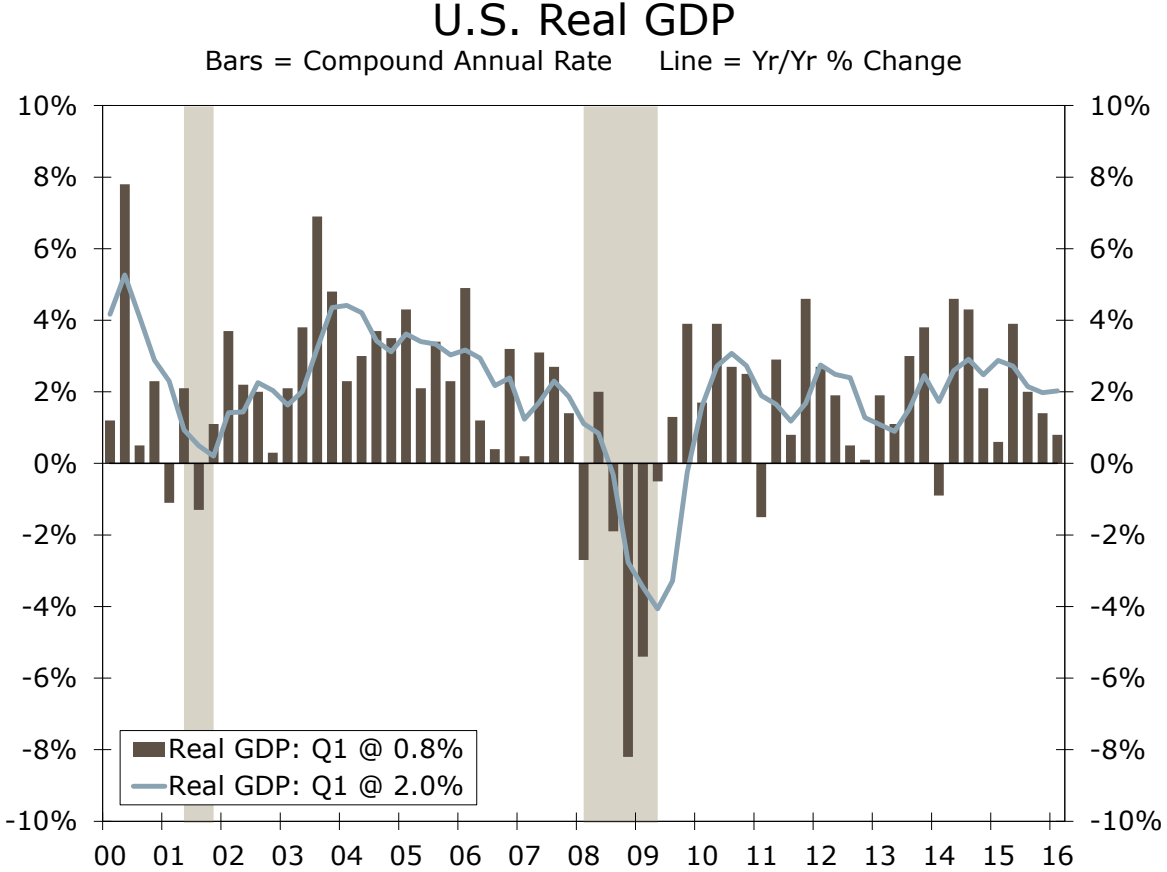
The U.S. Economy: “Bracing for Higher Interest Rates”

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Director and Senior Economist

June 2016

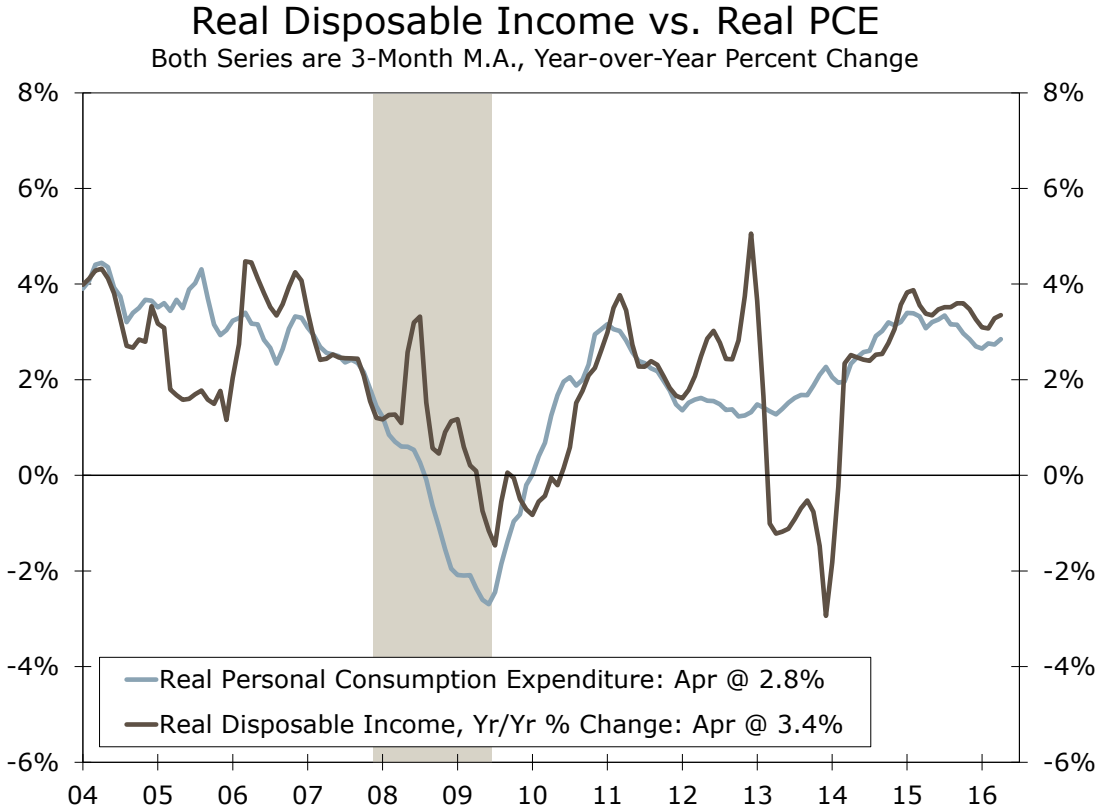


The U.S. economy continues to grow



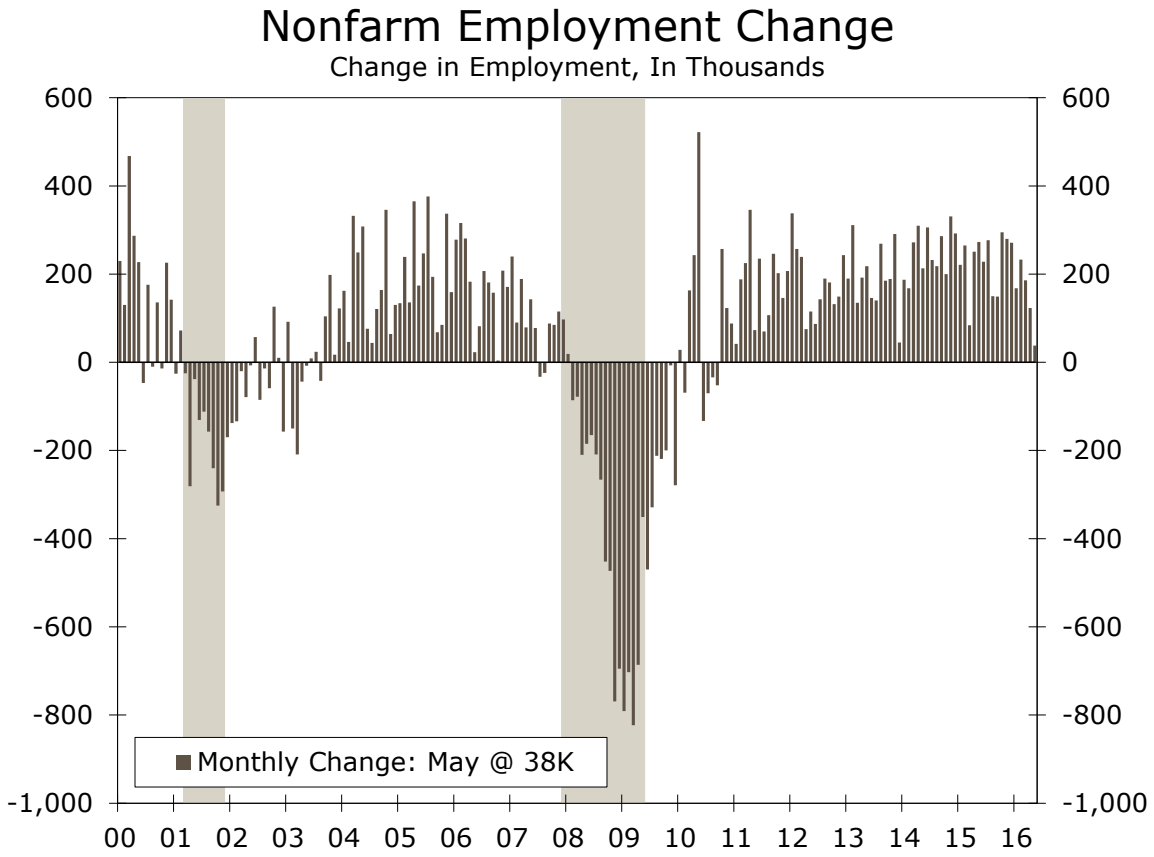
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Relatively strong growth in disposable income is helping to support growth in consumer spending



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

Very weak employment number in May

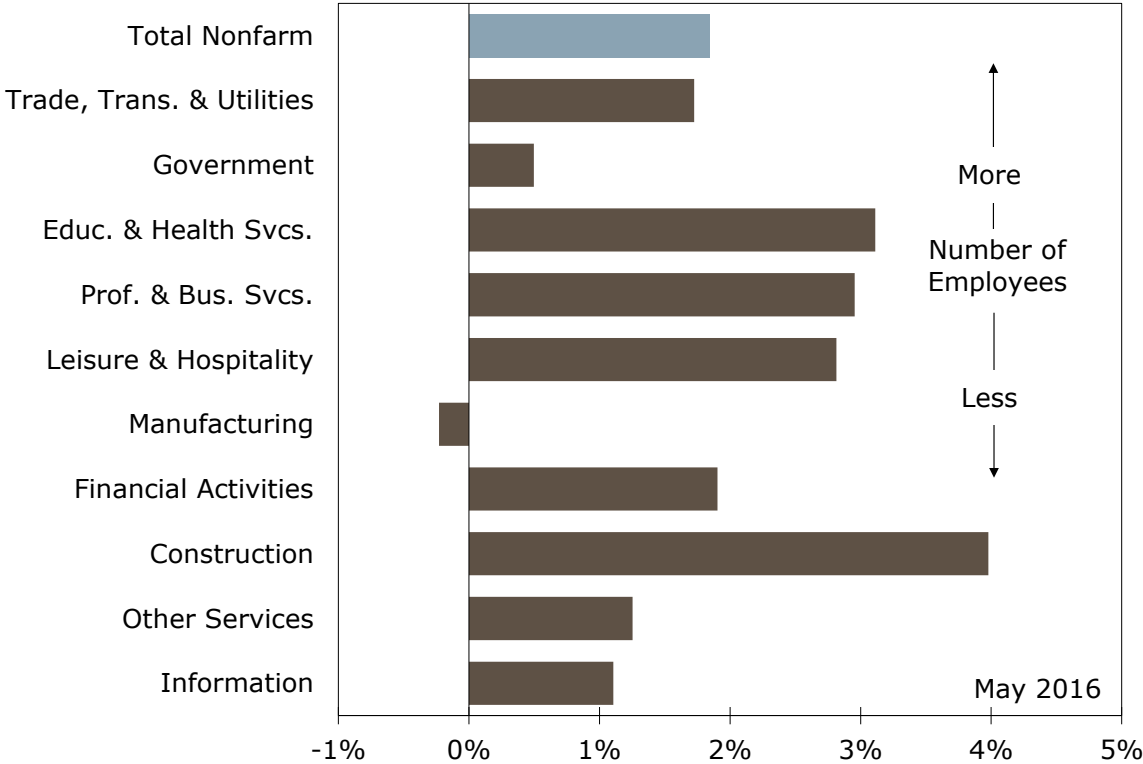


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Employment growth is positive almost across the board

U.S. Employment by Industry

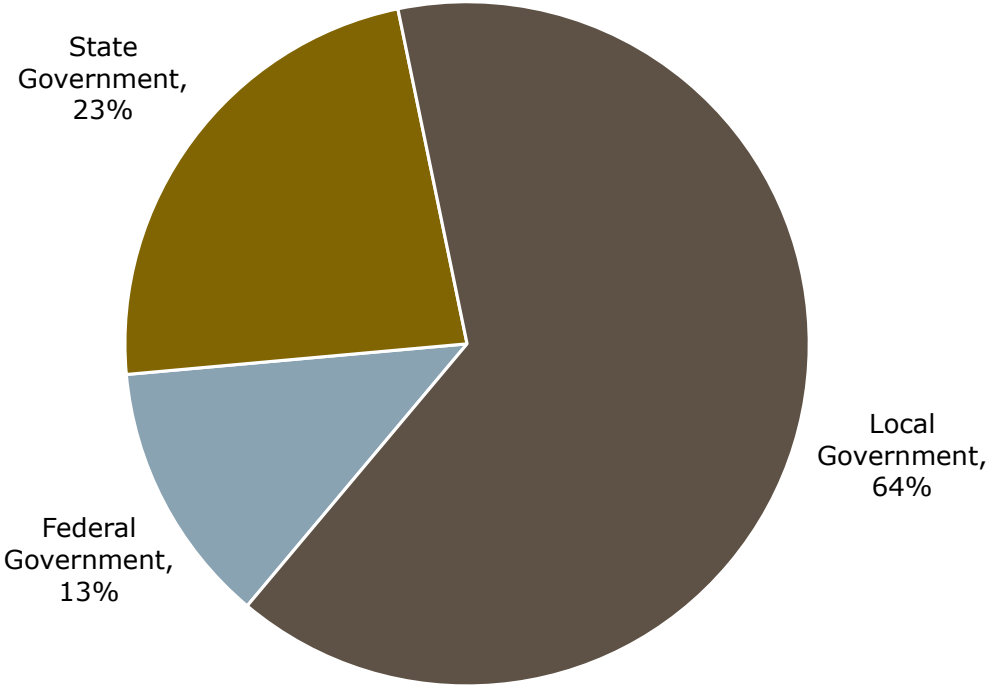
Year-over-Year Percent Change of 3-M Moving Average



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

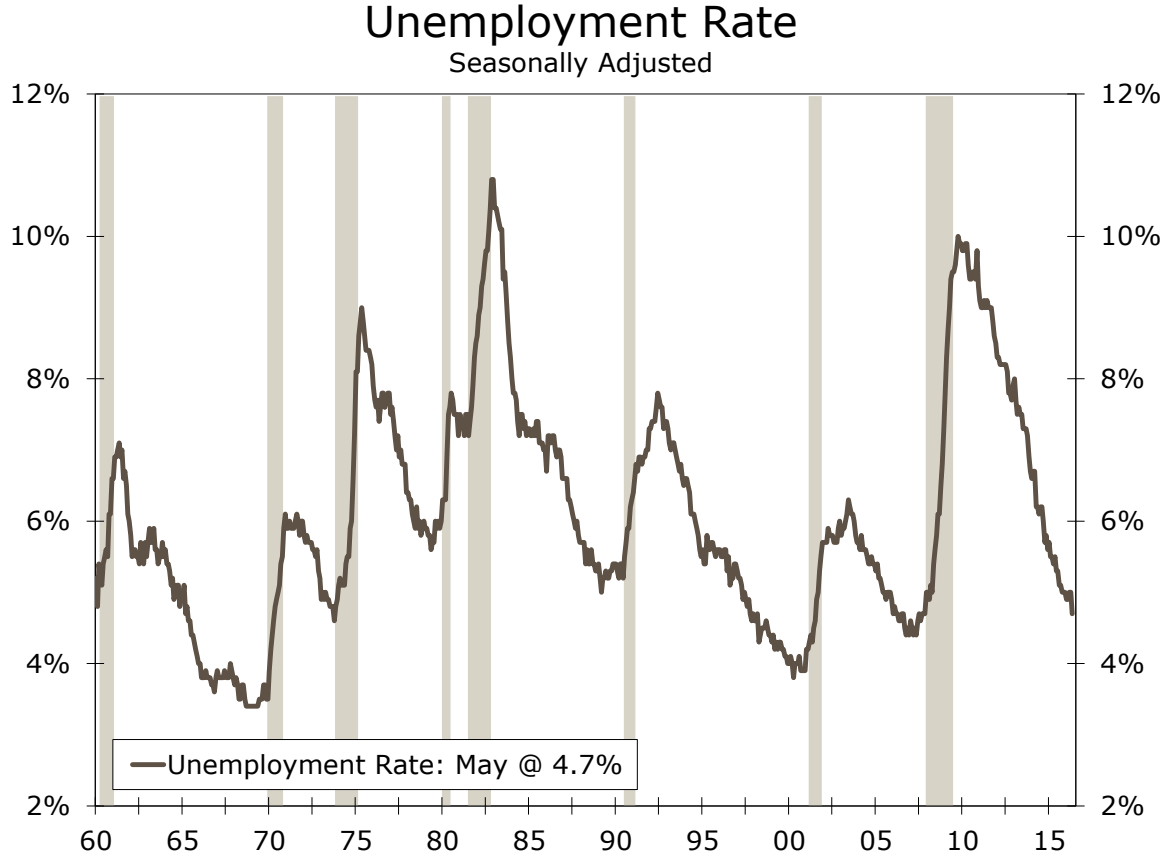
It is not the Federal Government!

U.S. Government Employment Composition



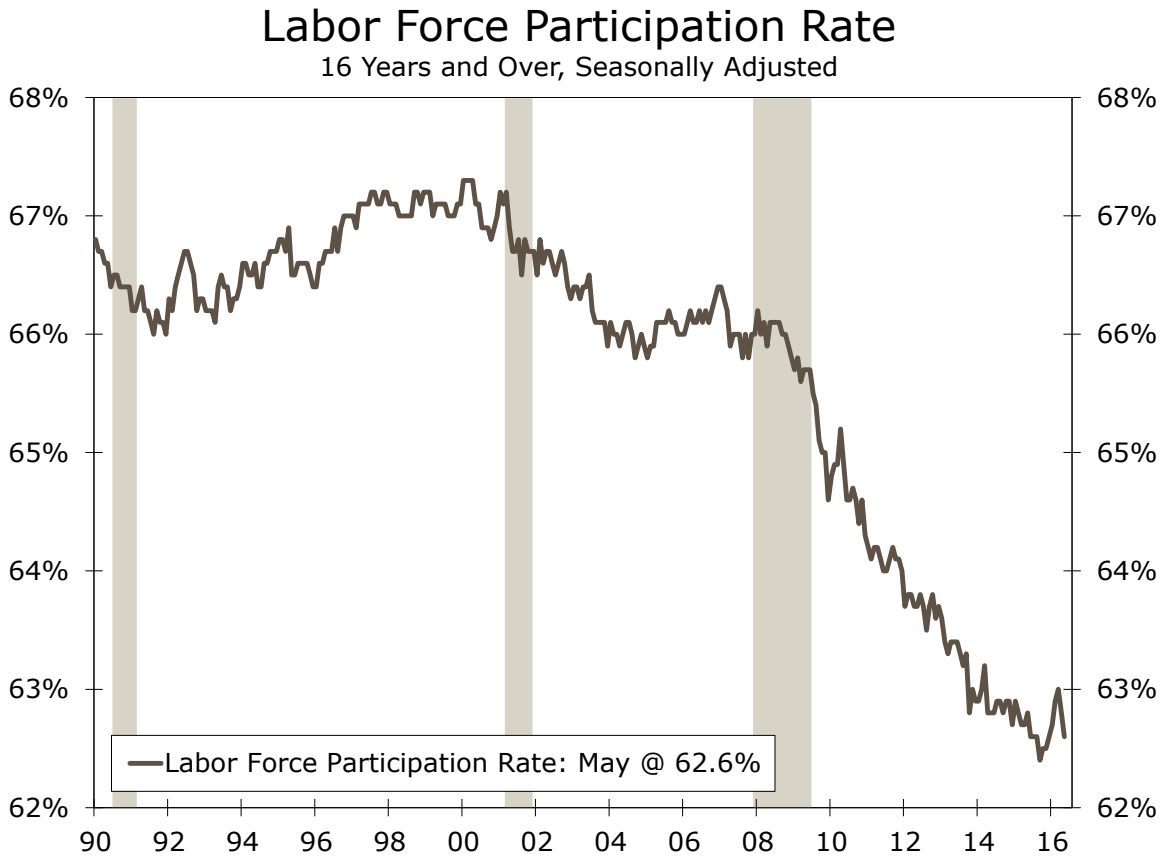
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Unemployment rate dropped to 4.7 percent in May



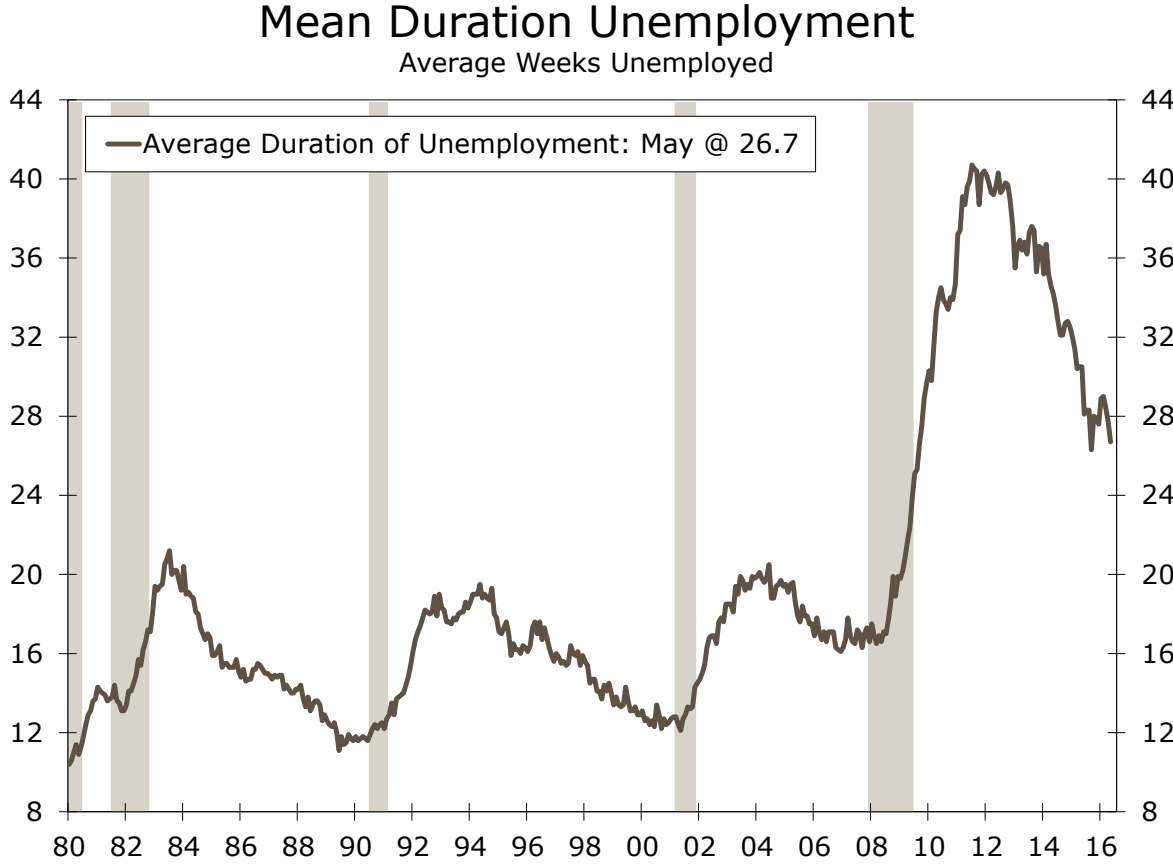
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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

Finally, the mean duration of unemployment has started to improve but it is still too high

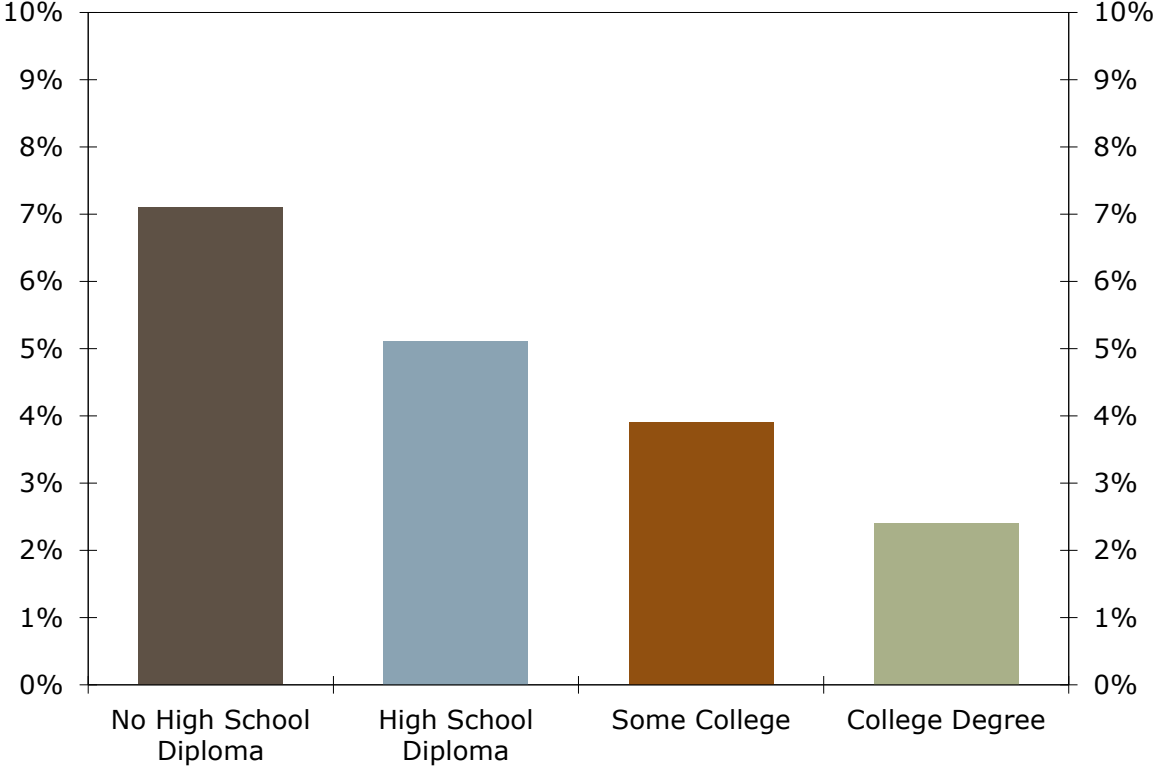


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Unemployment continues to come down, especially for those with education

Unemployment Rate by Education Level

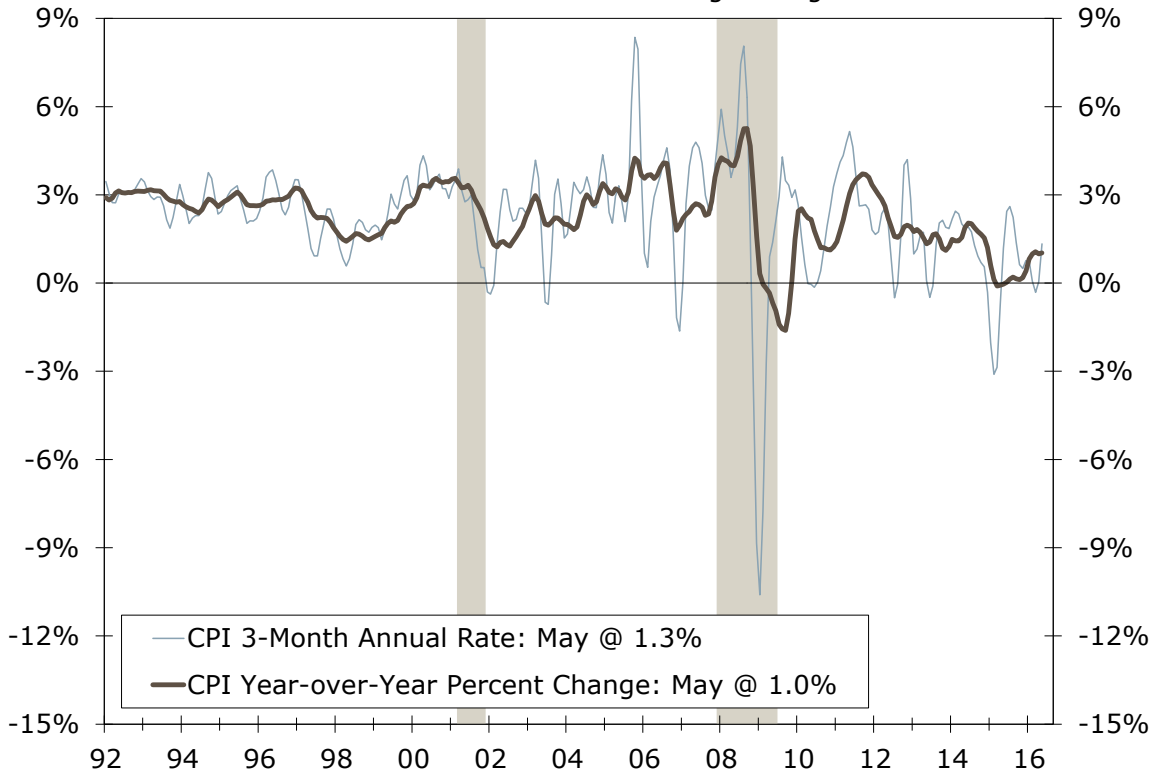
May 2016



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

Inflation? What inflation?

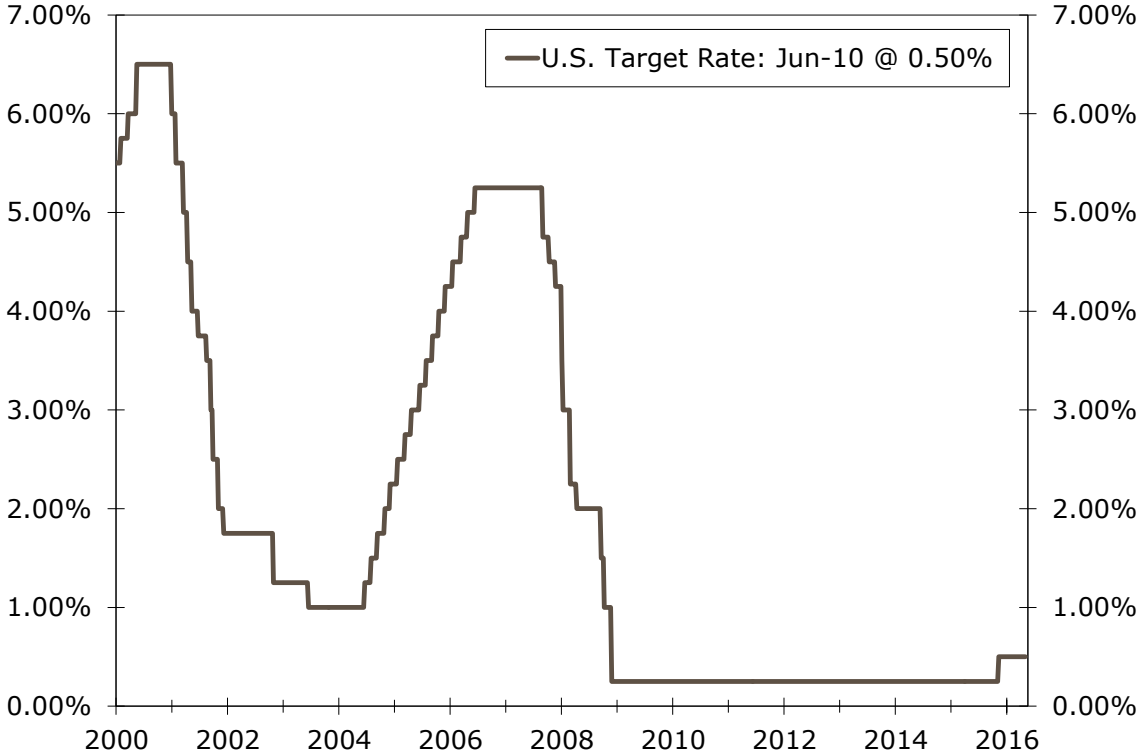
U.S. Consumer Price Index
Both Series are 3-Month Moving Averages



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

Monetary policy remains extremely expansive

U.S. Federal Reserve Target Rate

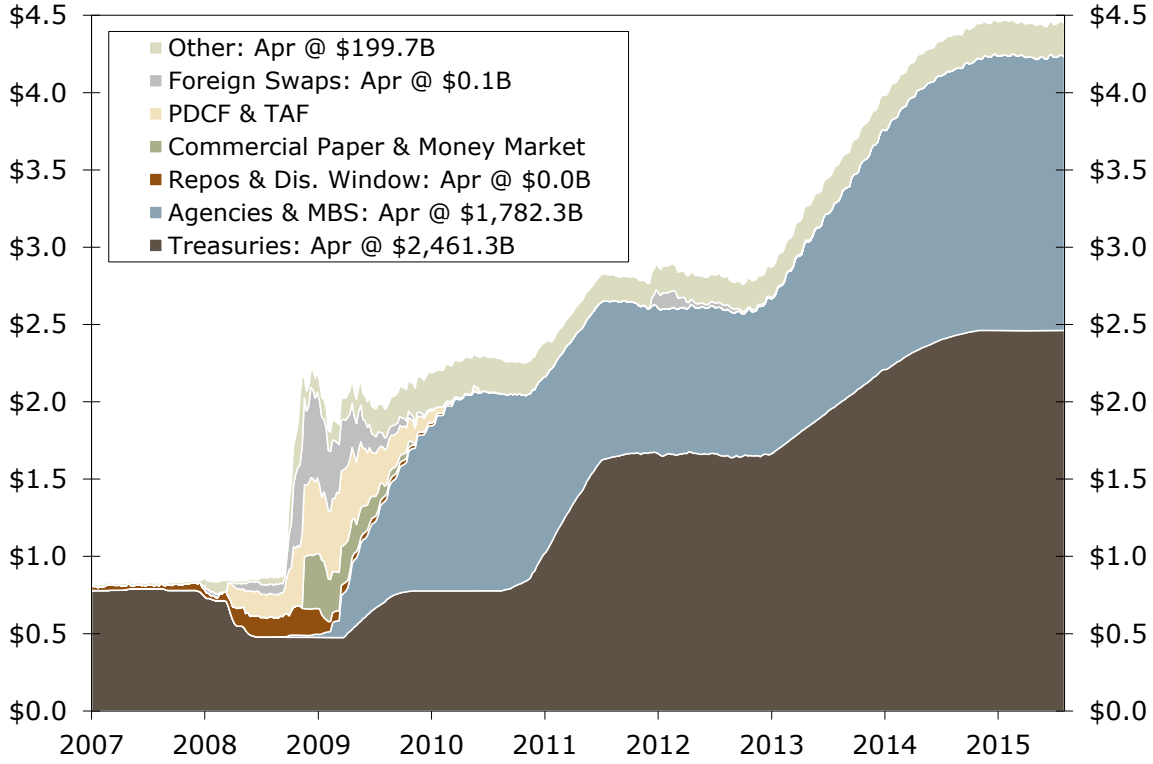


Source: Federal Reserve Board and Wells Fargo Securities, LLC

The Fed's balance sheet is no longer growing

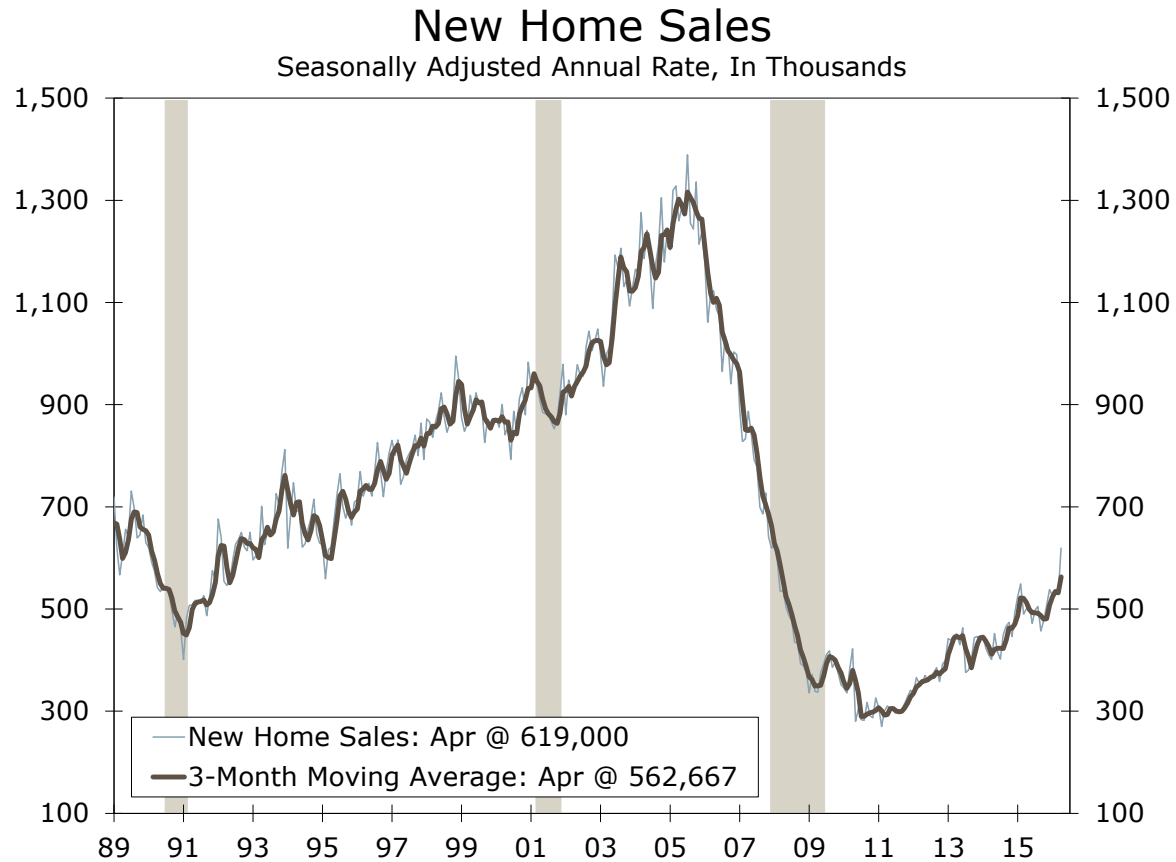
Federal Reserve Balance Sheet

Trillions



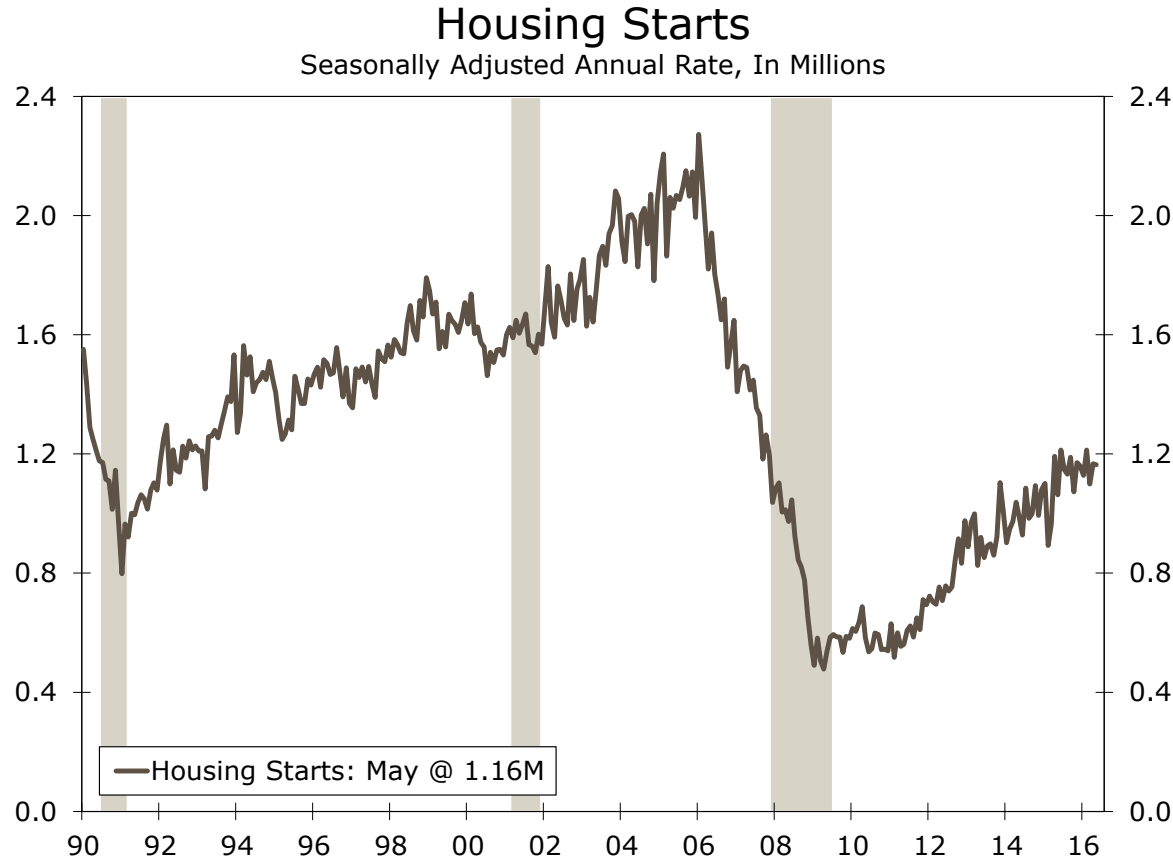
Source: Federal Reserve Board and Wells Fargo Securities, LLC

New home sales are improving
but remain weak



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

Housing starts continue to recover

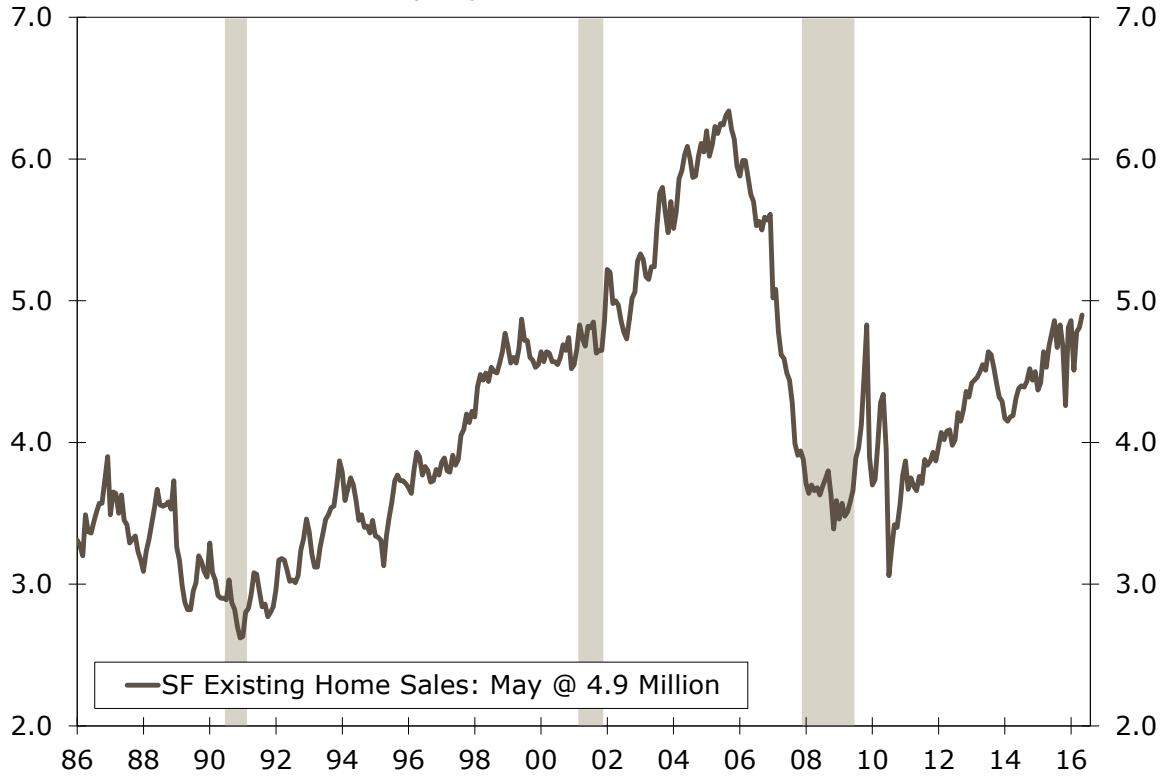


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Existing home sales remain strong

Existing Single-Family Home Resales

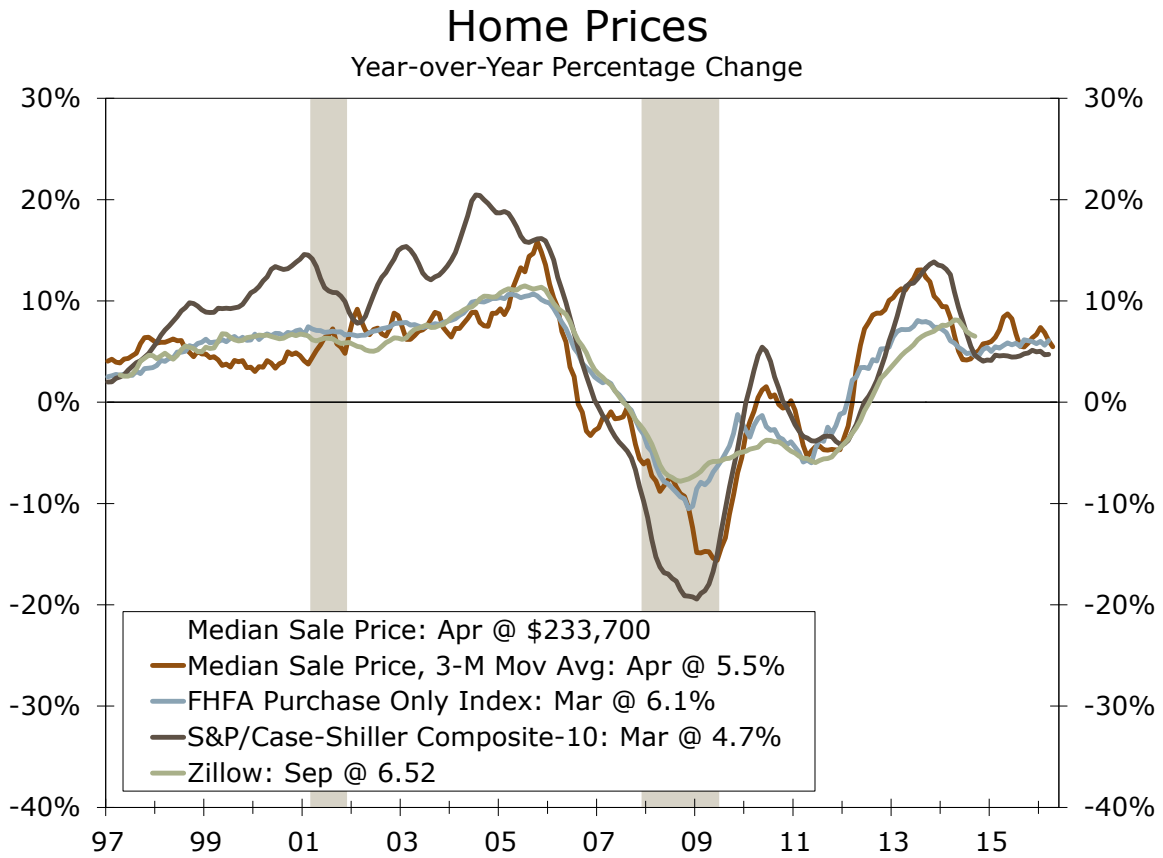
Seasonally Adjusted Annual Rate - In Millions



SF Existing Home Sales: May @ 4.9 Million

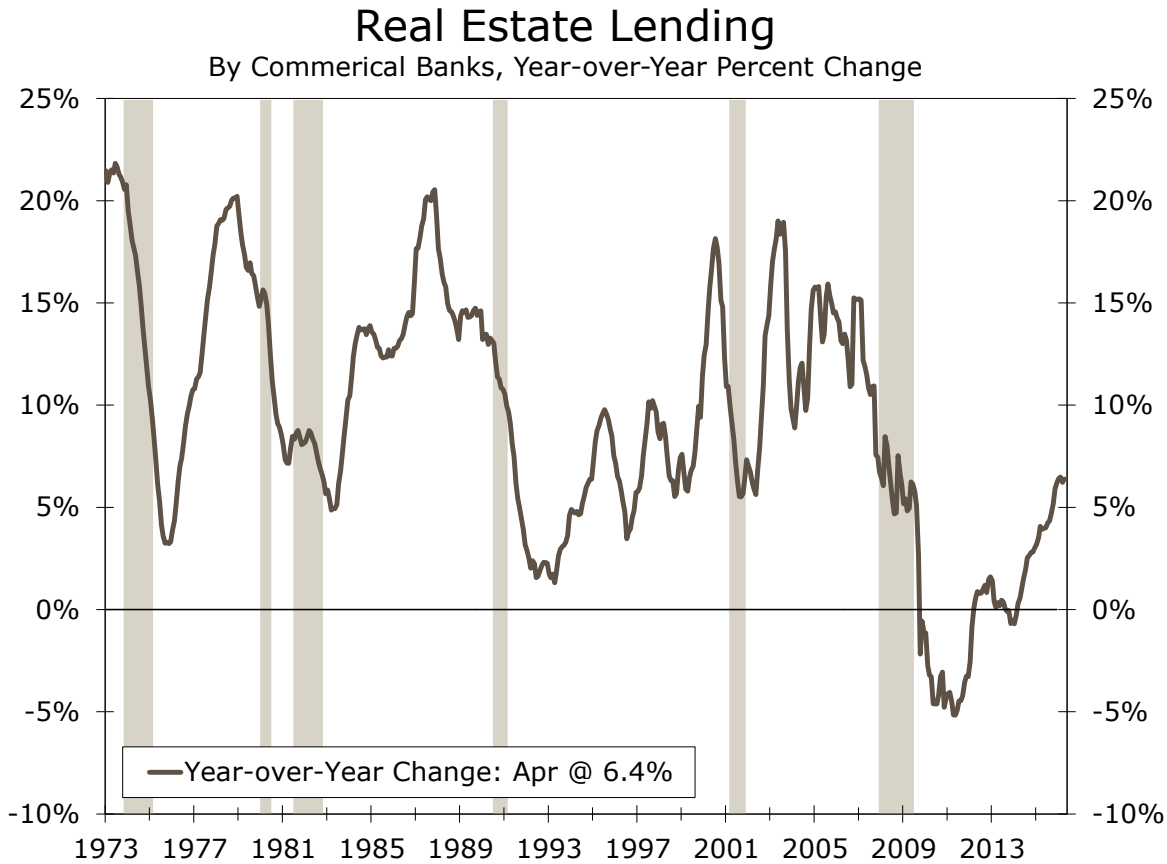
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Home price growth has stabilized somewhat



Source: National Association of Realtors, FHFA, S&P Case-Shiller and Wells Fargo Securities, LLC

Mortgage lending is still weak but has improved over the past several years

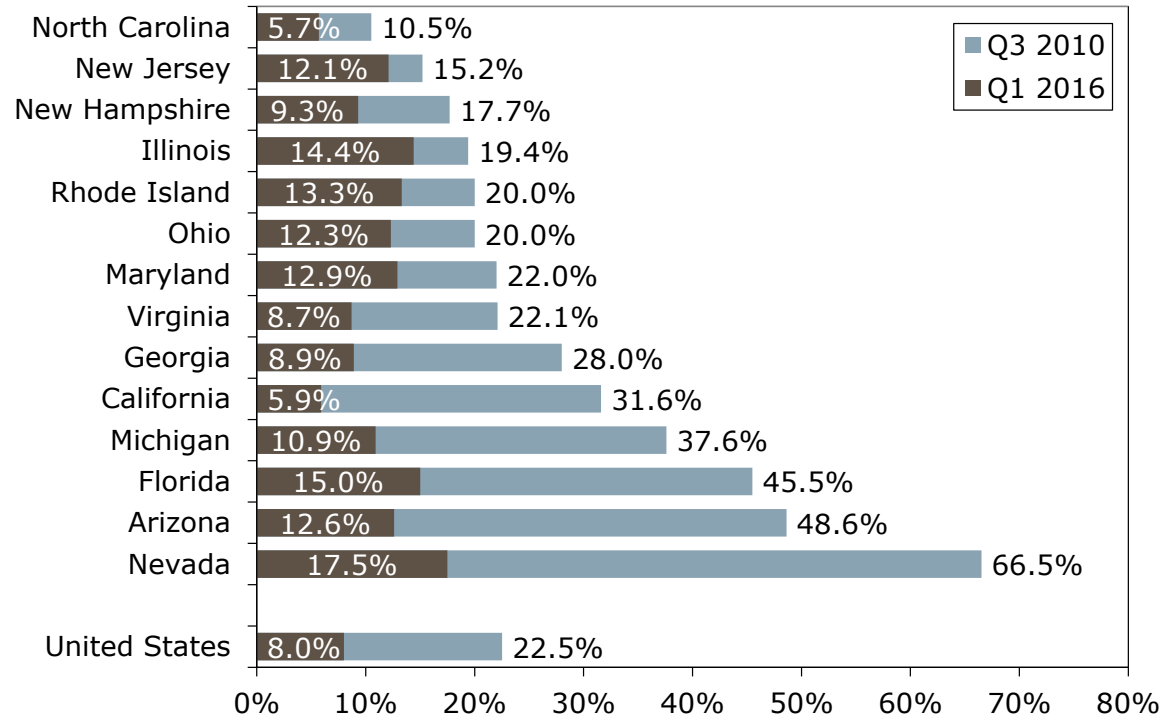


Source: Federal Reserve Board and Wells Fargo Securities, LLC

Negative equity continues to improve

Negative Equity by State

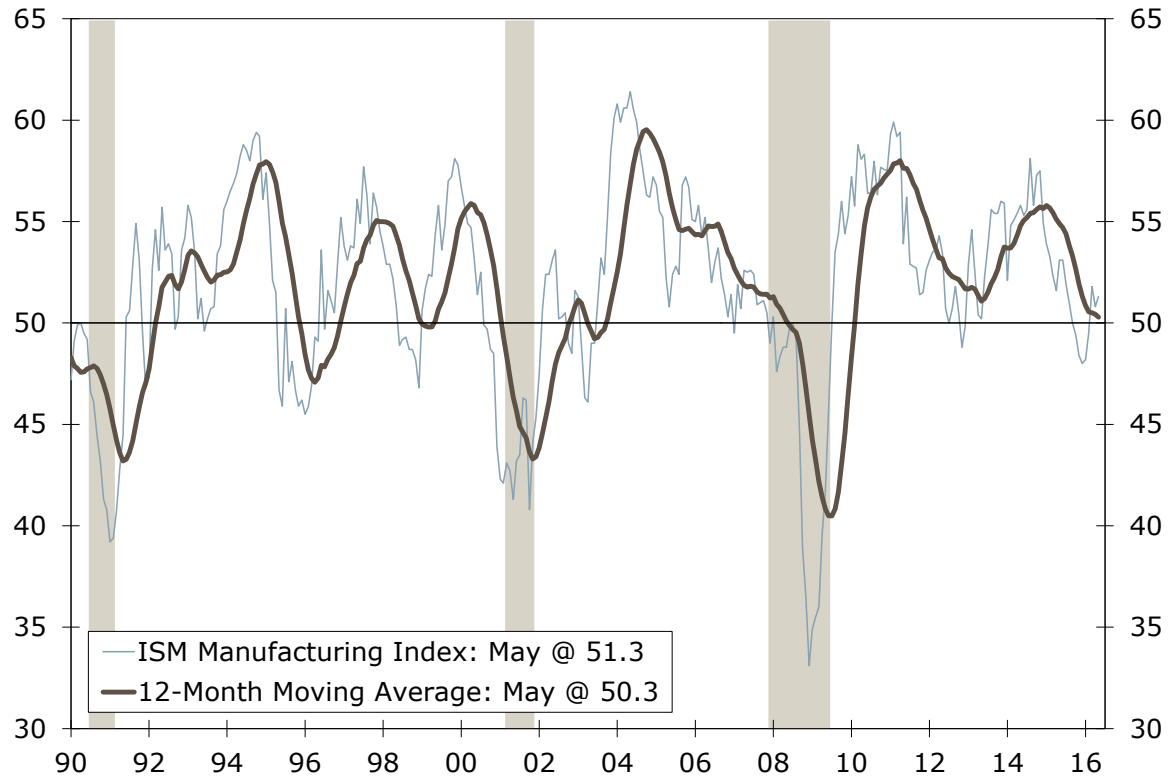
Percent of Mortgages Outstanding



Source: CoreLogic and Wells Fargo Securities, LLC

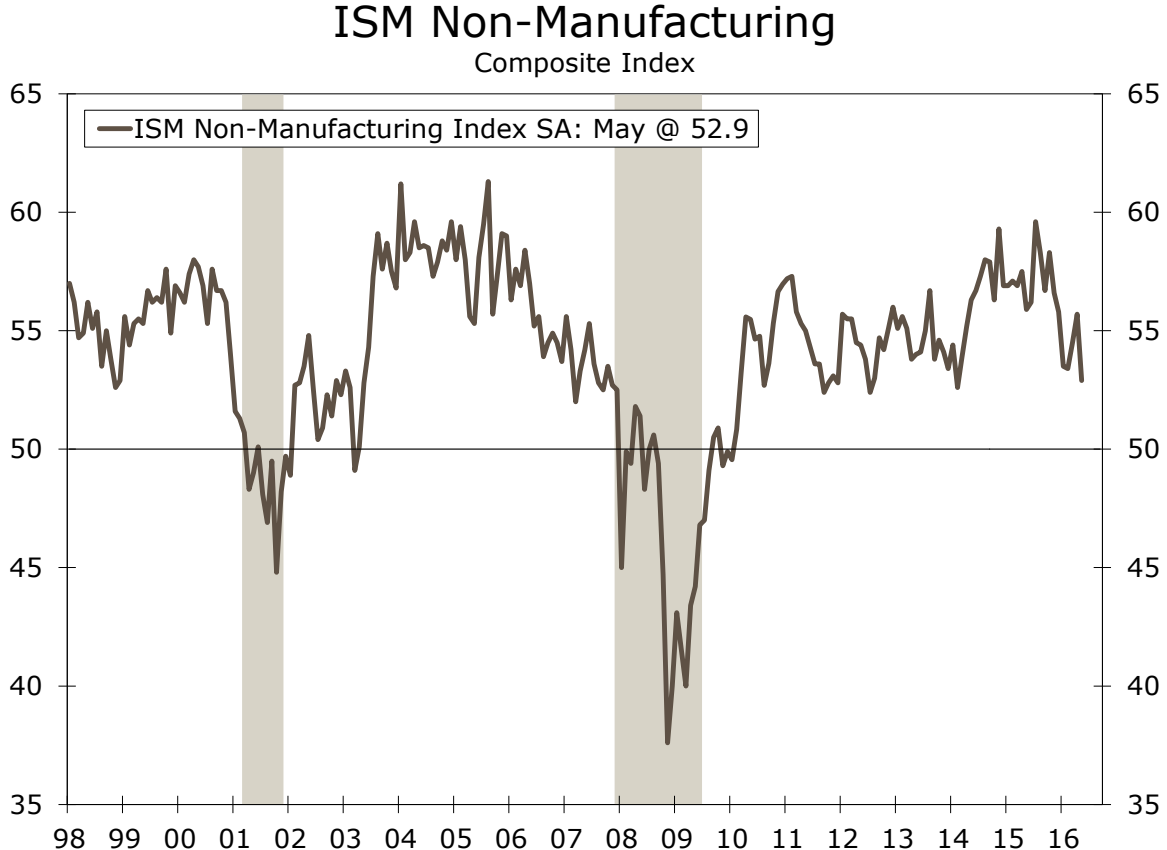
Manufacturing activity remains weak

ISM Manufacturing Composite Index Diffusion Index



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

The service economy continues to move along

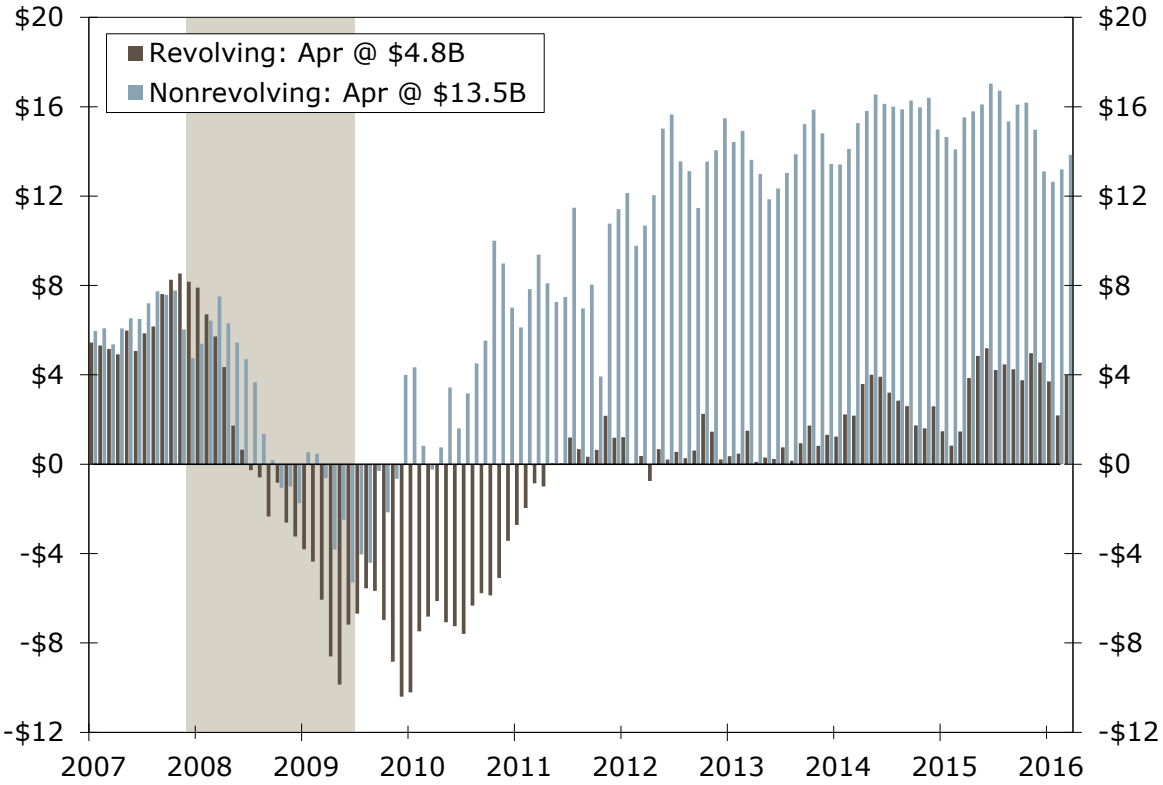


Source: Institute for Supply Management and Wells Fargo Securities, LLC

Credit card lending is improving

Revolving & Nonrevolving Debt

Change in Billions of Dollars, 3-Month Moving Average

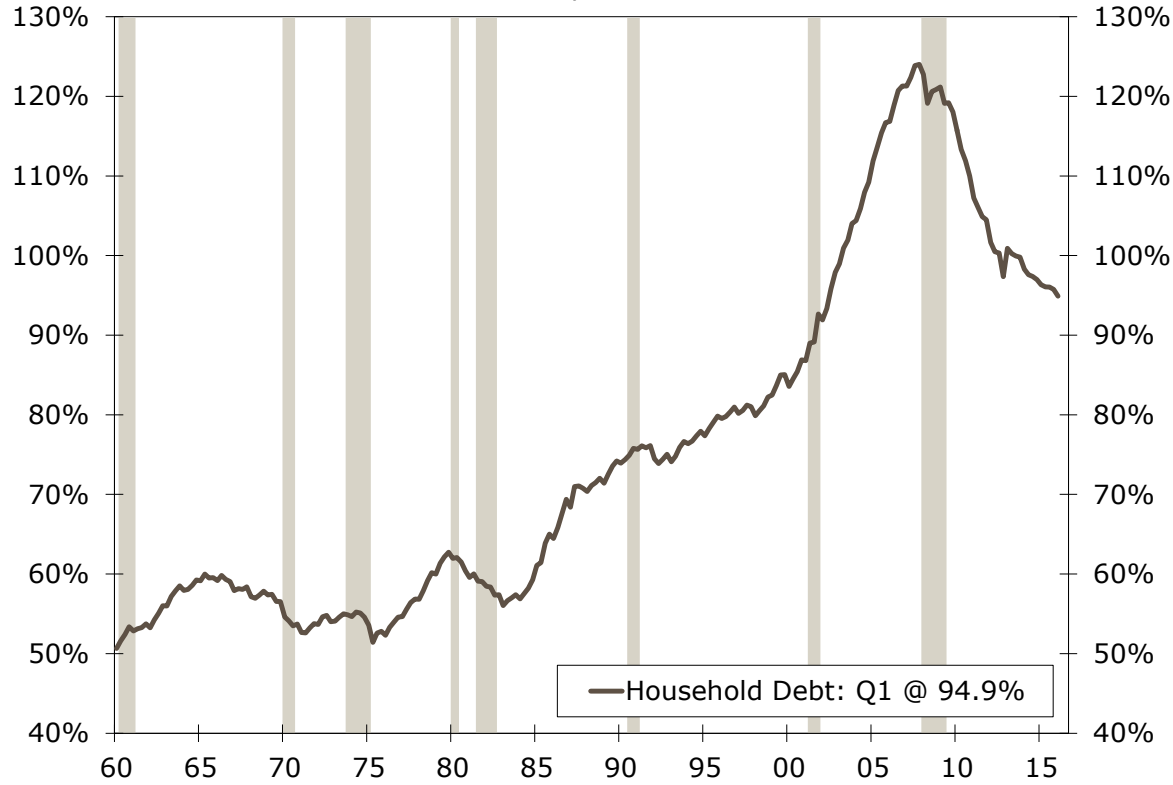


Source: Federal Reserve Board and Wells Fargo Securities, LLC

Households continue to deleverage

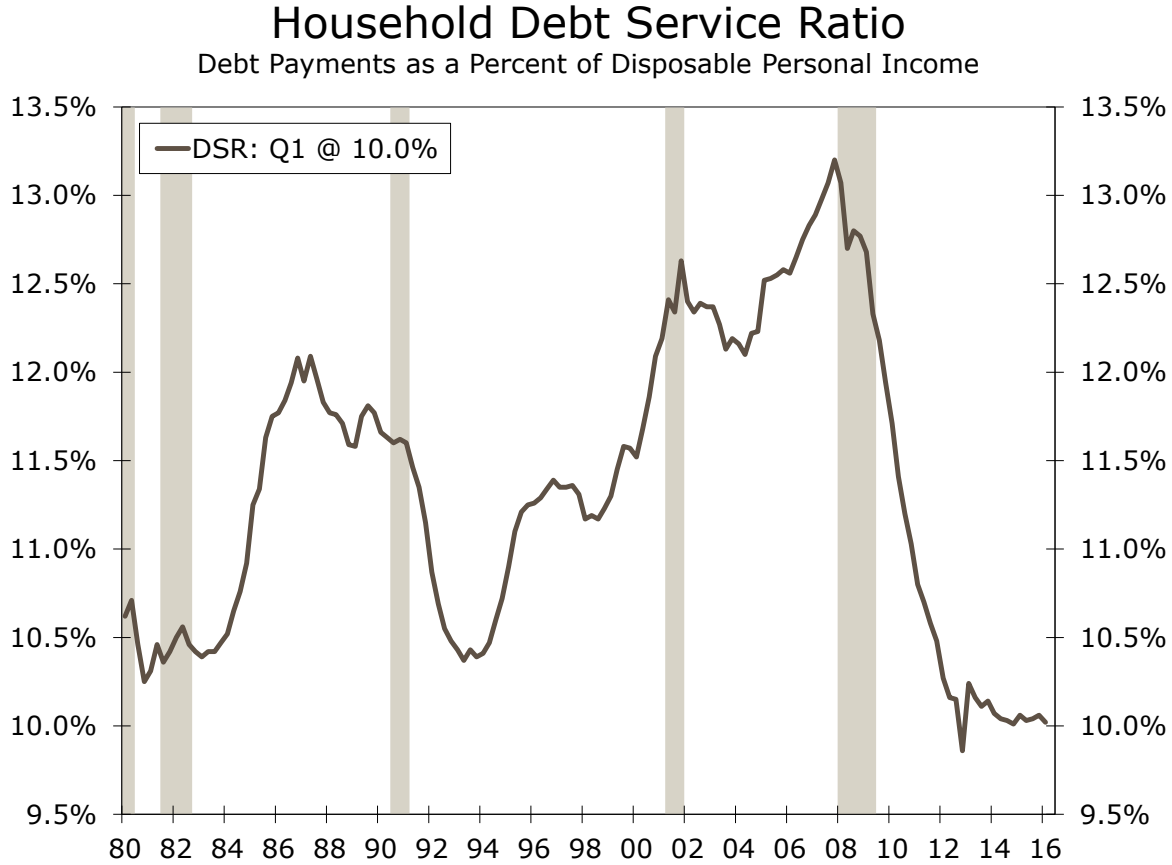
Household Debt - Consumer & Mortgage

As a Percent of Disposable Personal Income



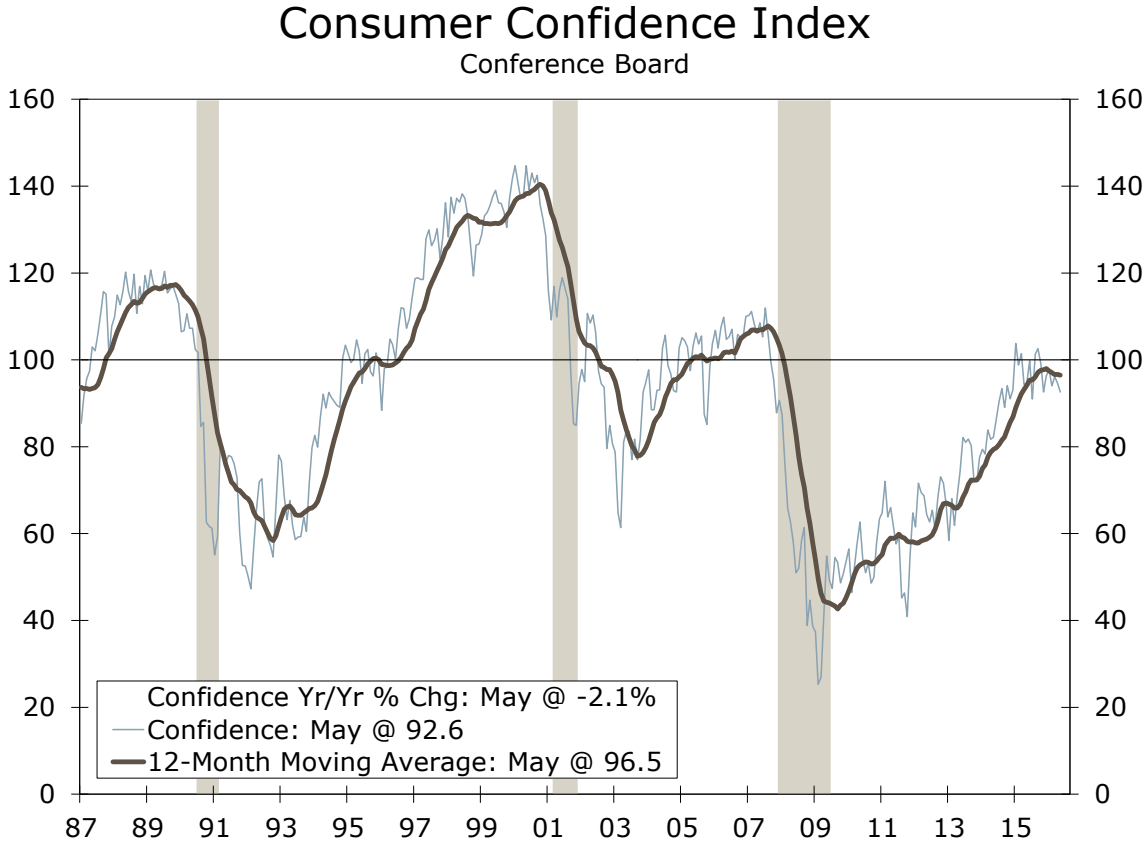
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Households are feeling pretty good today!



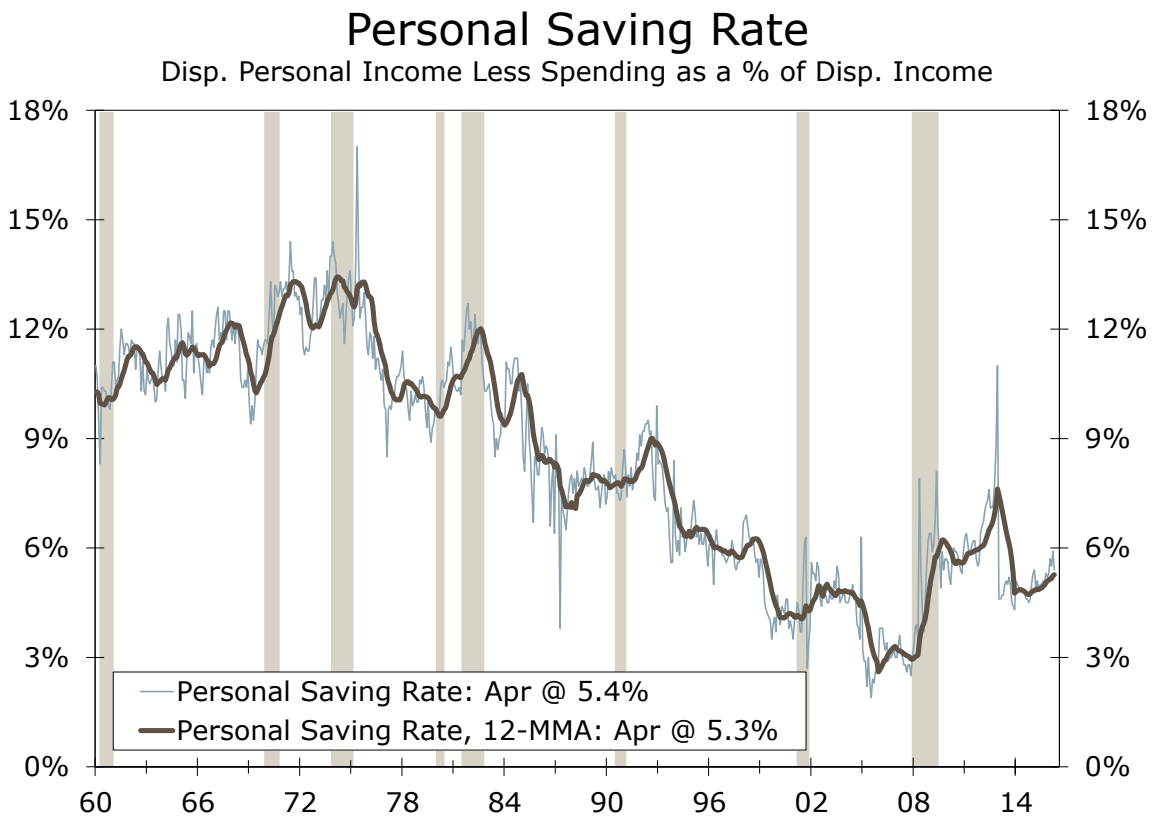
Source: Federal Reserve Board and Wells Fargo Securities, LLC

Consumer confidence has improved but remains below other recovery periods



Source: The Conference Board and Wells Fargo Securities, LLC

The saving rate has inched up a bit in the last several months

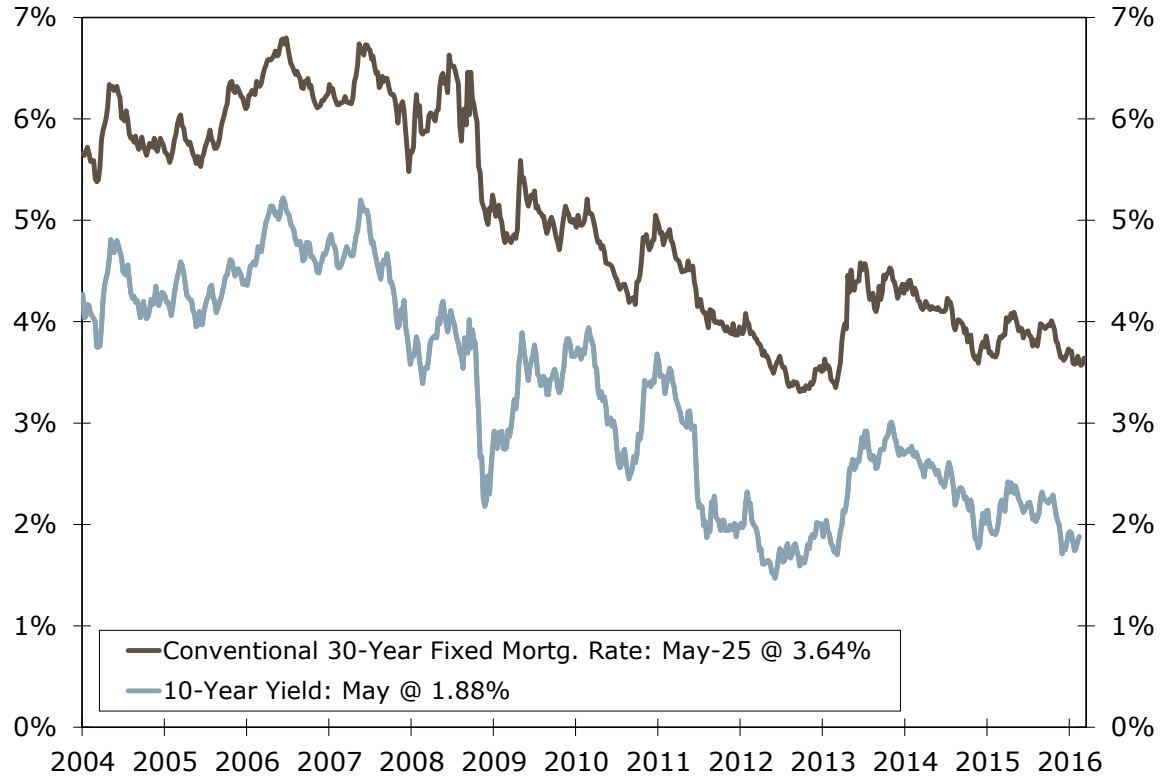


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Mortgage interest are still at almost historic lows

Conventional Mortgage Rate vs. 10-Year Treasury Yield

Percent



Source: Freddie Mac, Federal Reserve Board and Wells Fargo Securities, LLC

U.S. economic growth will
remain range-bound

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2015	2016	2017	2015	2016	2017
Global (PPP Weights)	3.0%	2.9%	3.1%	2.6%	3.2%	3.4%
Global (Market Exchange Rates)	2.8%	2.7%	2.9%	n/a	n/a	n/a
Advanced Economies ¹	1.9%	1.8%	2.2%	0.3%	0.9%	1.5%
United States	2.4%	2.0%	2.2%	0.1%	1.4%	2.4%
Eurozone	1.5%	1.6%	1.9%	0.0%	0.2%	1.2%
United Kingdom	2.3%	1.6%	1.9%	0.0%	0.6%	1.4%
Japan	0.6%	0.3%	1.2%	0.8%	0.0%	1.0%
Korea	2.6%	2.6%	2.8%	0.7%	0.9%	1.9%
Canada	1.1%	1.9%	2.7%	1.1%	1.3%	1.9%
Developing Economies ¹	4.0%	3.9%	4.0%	4.7%	5.5%	5.3%
China	6.9%	6.5%	5.7%	1.4%	2.1%	2.0%
India ²	6.6%	7.2%	7.6%	6.0%	4.9%	5.2%
Mexico	2.5%	2.6%	2.8%	2.7%	2.9%	2.8%
Brazil	-3.9%	-4.2%	-1.0%	9.0%	9.0%	7.2%
Russia	-3.7%	0.3%	1.7%	15.6%	7.3%	5.9%

Forecast as of: June 8, 2016

¹Aggregated Using PPP Weights

²Forecasts Refer to Fiscal Year

Source: IMF and Wells Fargo Securities, LLC

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