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SECURITIES

Economic Outlook

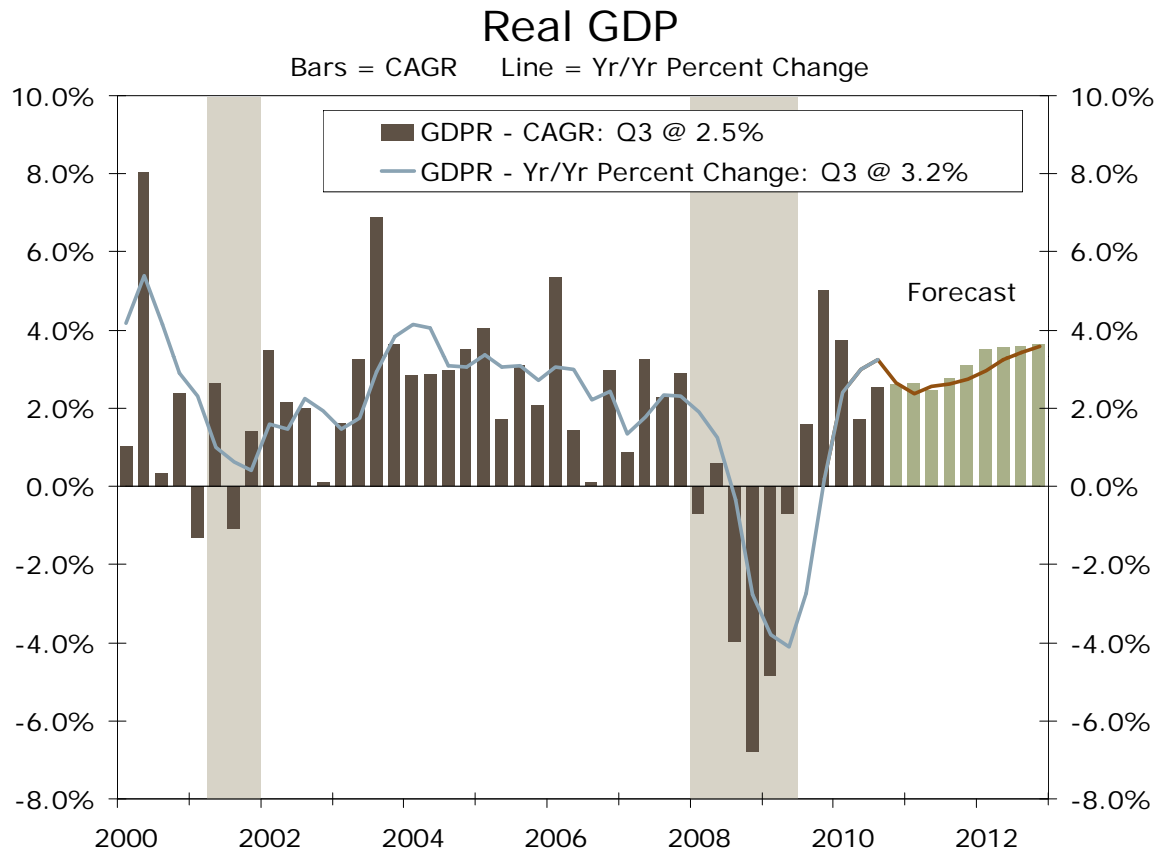
North Carolina Association of County Commissioners

December 15, 2010



Economic Growth

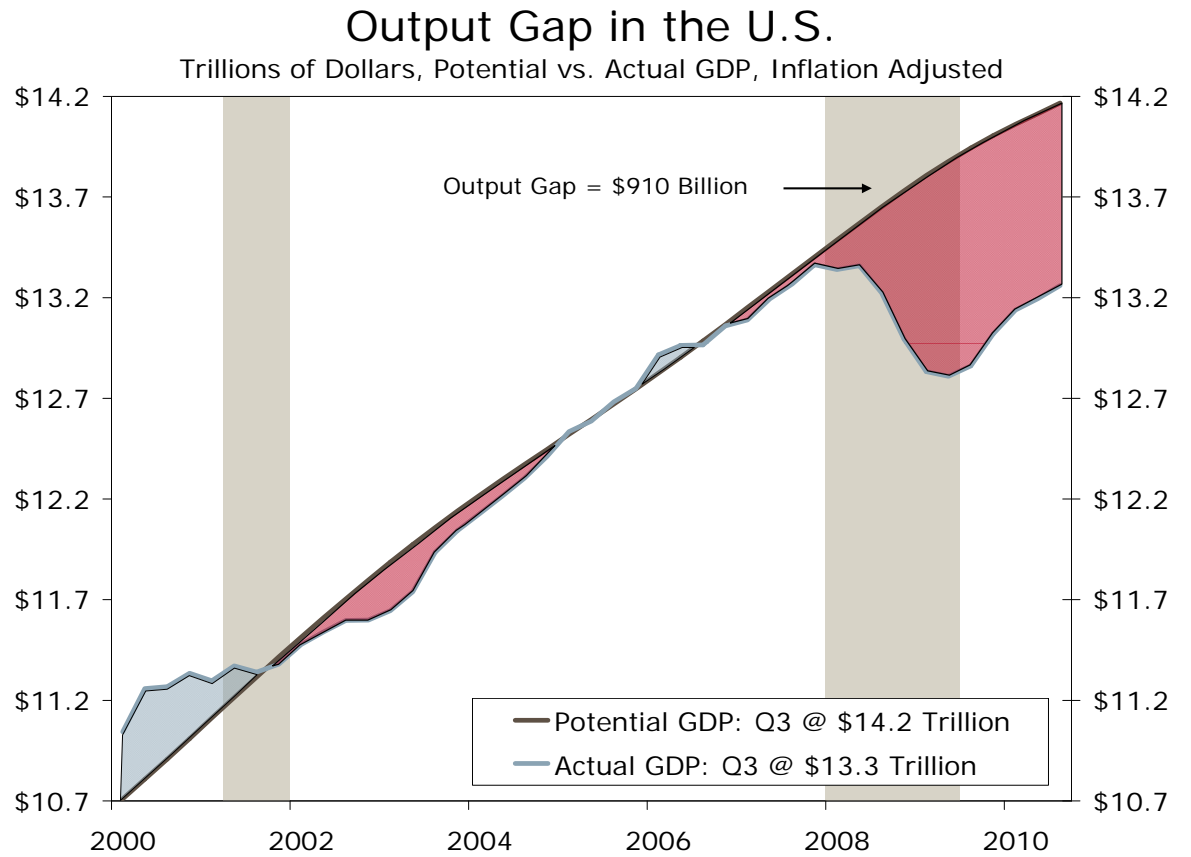
Real GDP has moderated as the lift from fiscal & monetary stimulus and inventory rebuilding is winding down



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

Output Gap

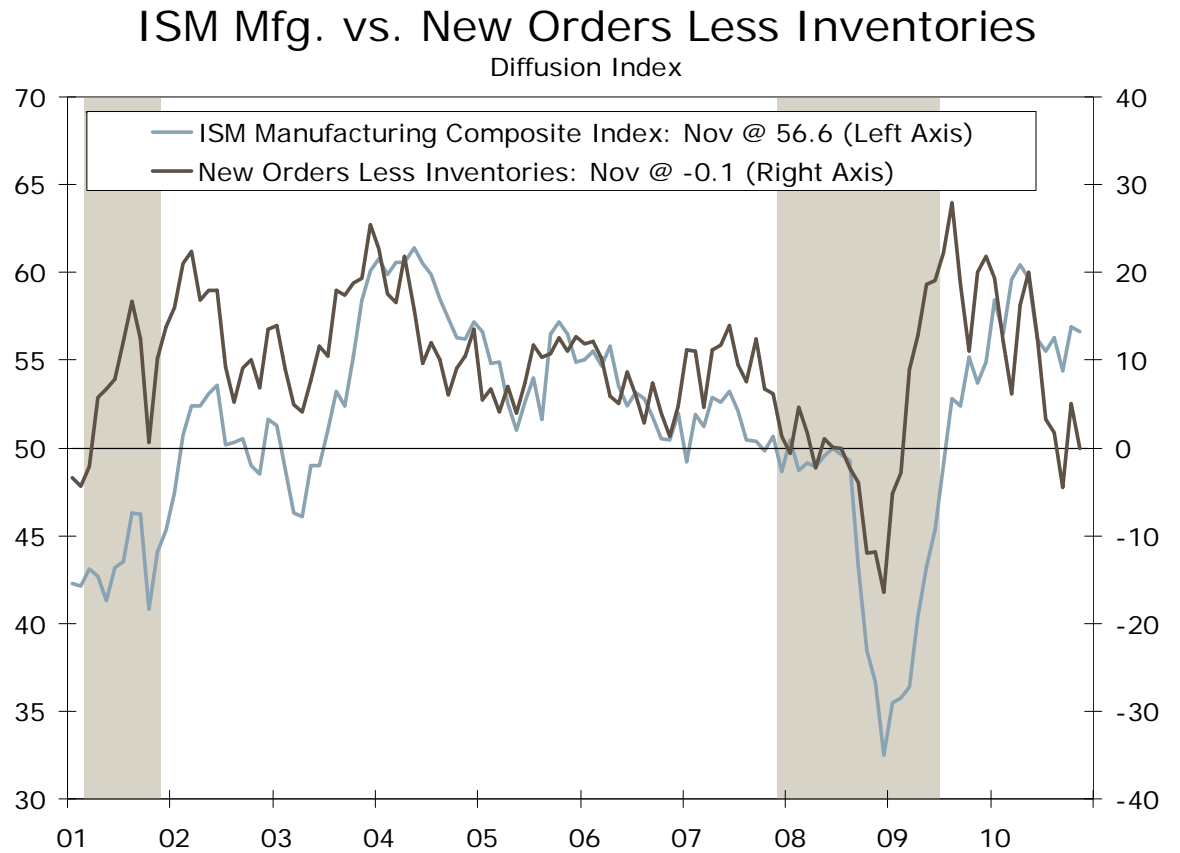
Revenue growth is coming up short at businesses and governments largely due to the monster sized output gap



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

Manufacturing Outlook

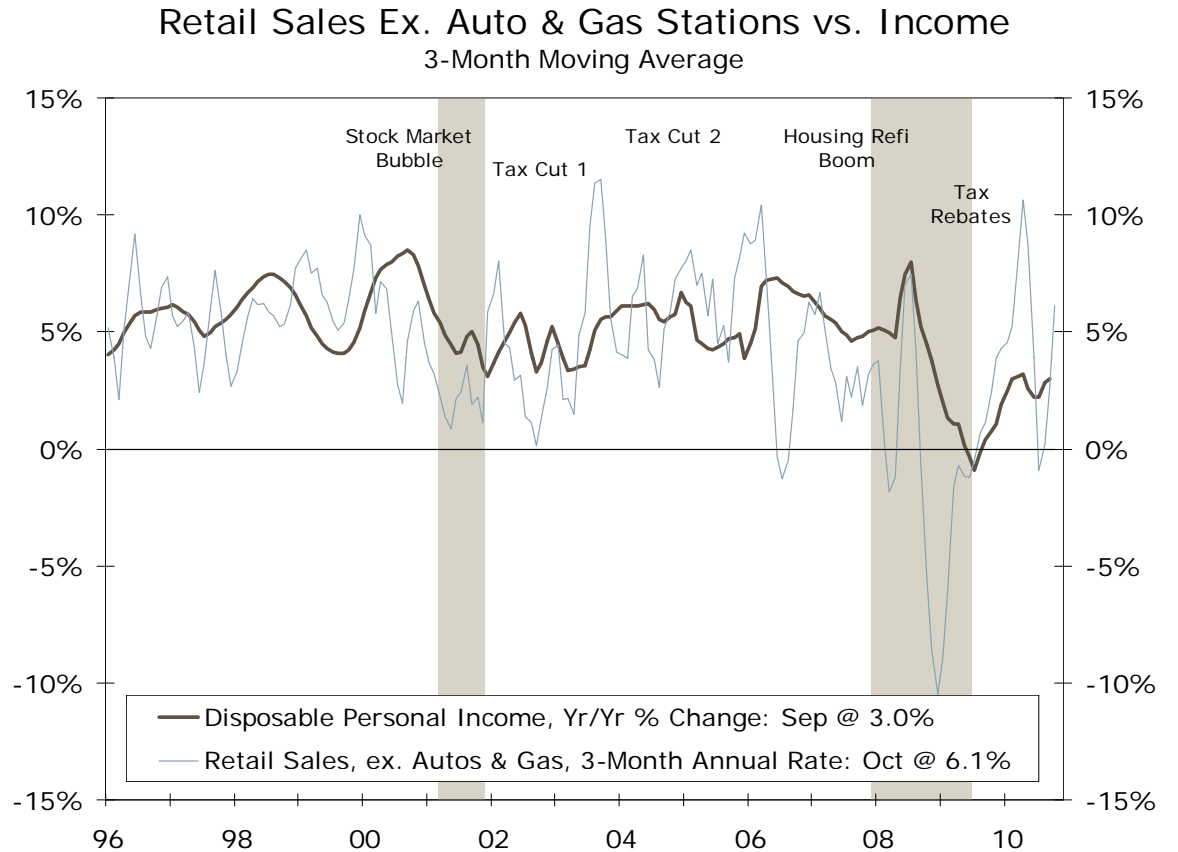
Growth in the manufacturing sector is beginning to moderate



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

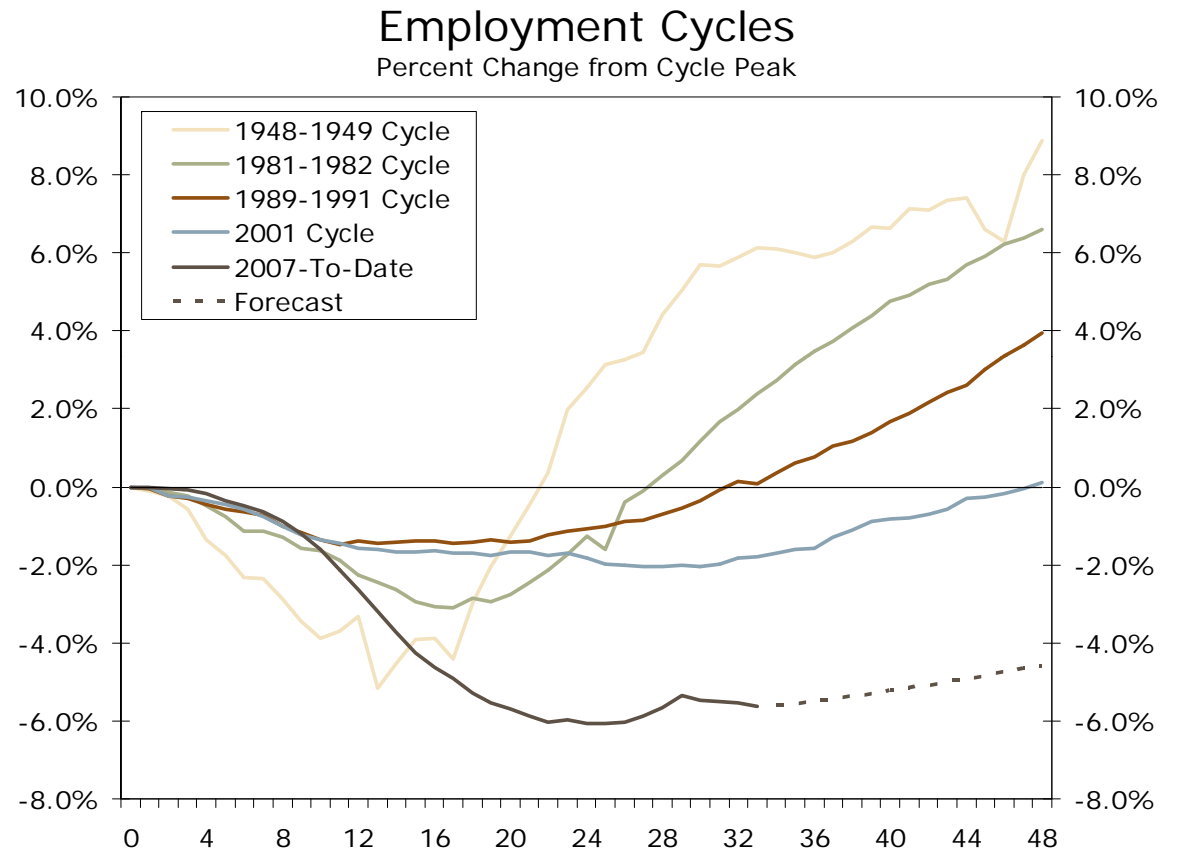
Consumer Spending

Solid gains in after-tax income are fueling spending



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

The labor market remains the primary concern as job losses exceeded every post-World War II downturn and the recovery remains unusually tepid

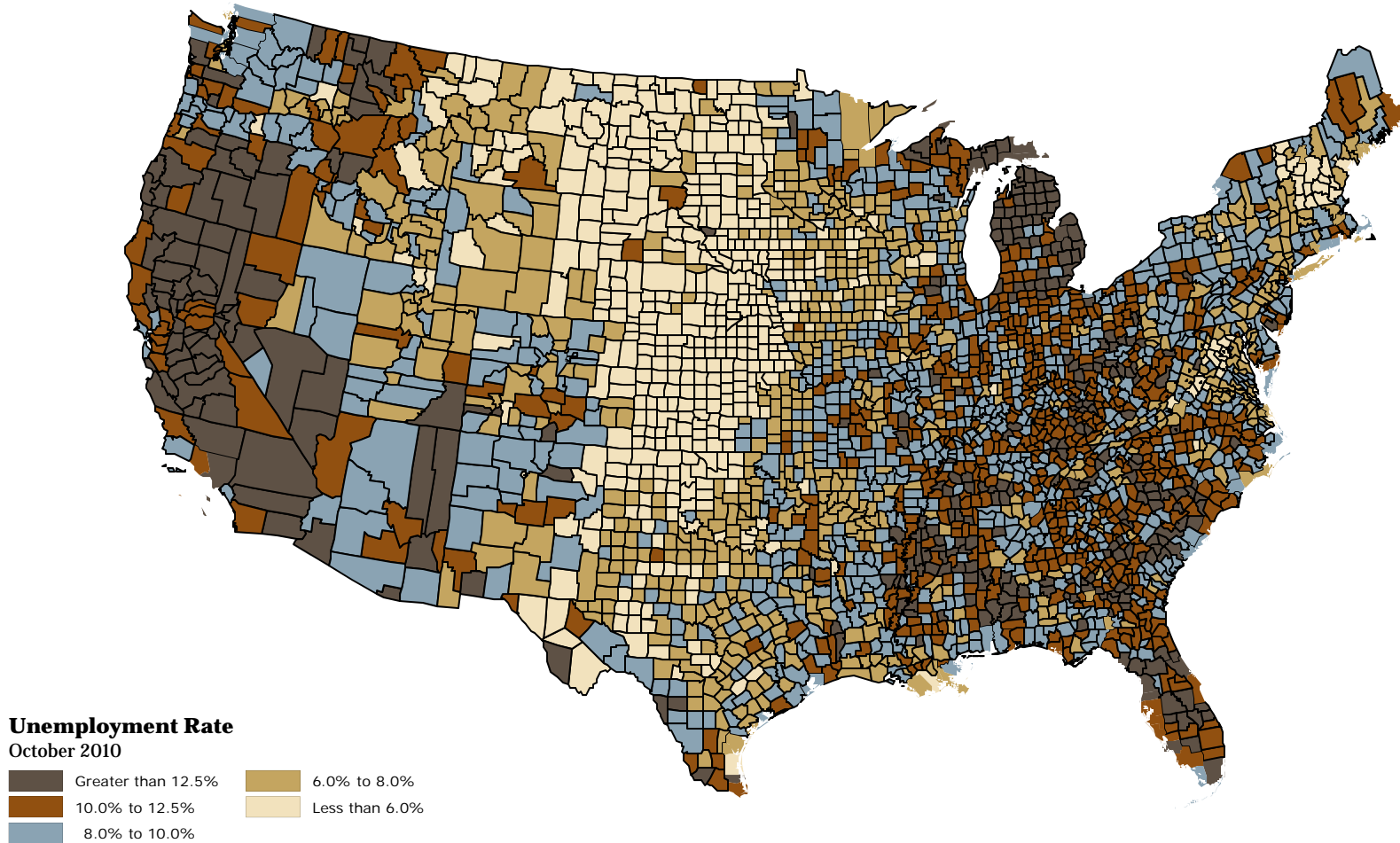


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Unemployment by County

Large Portions of the United States Continue to Face Serious Unemployment Issues

Unemployment Rate



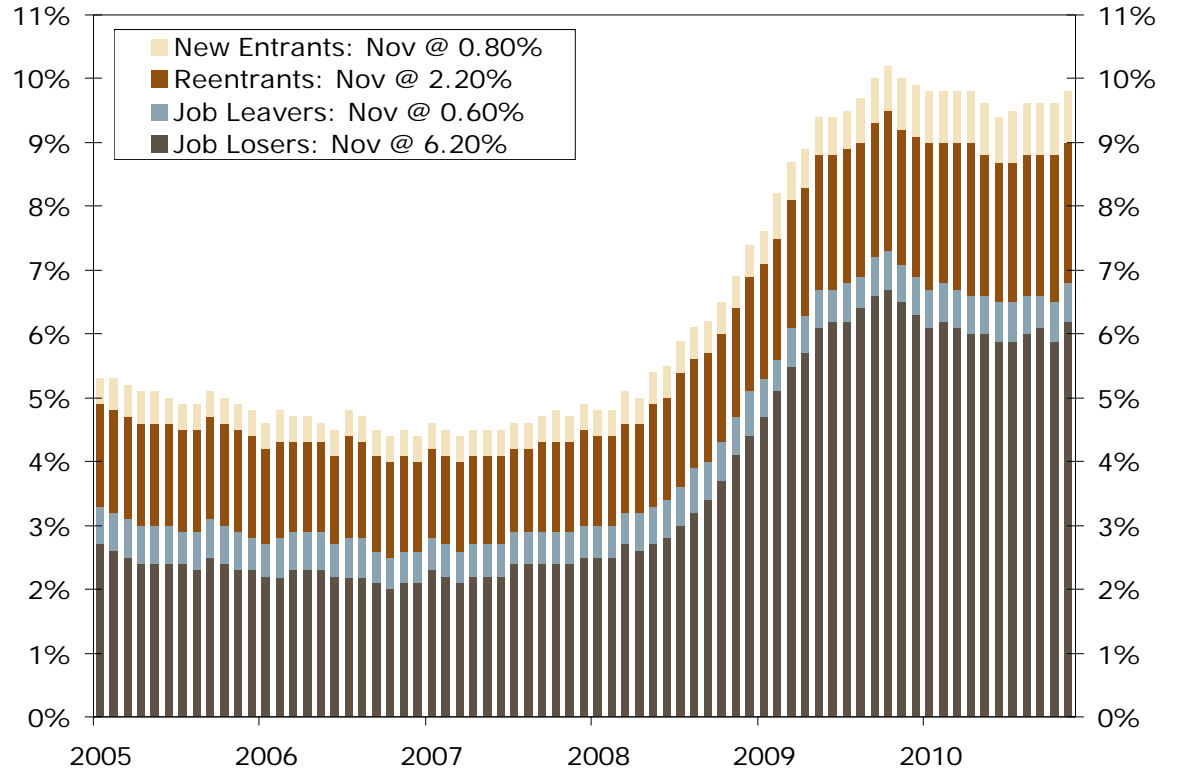
Source: US Department of Labor and Wells Fargo Securities, LLC

Reason for Unemployment

Reentrants and new entrants are beginning to account for a larger share of the unemployed

Unemployed by Reason for Unemployment

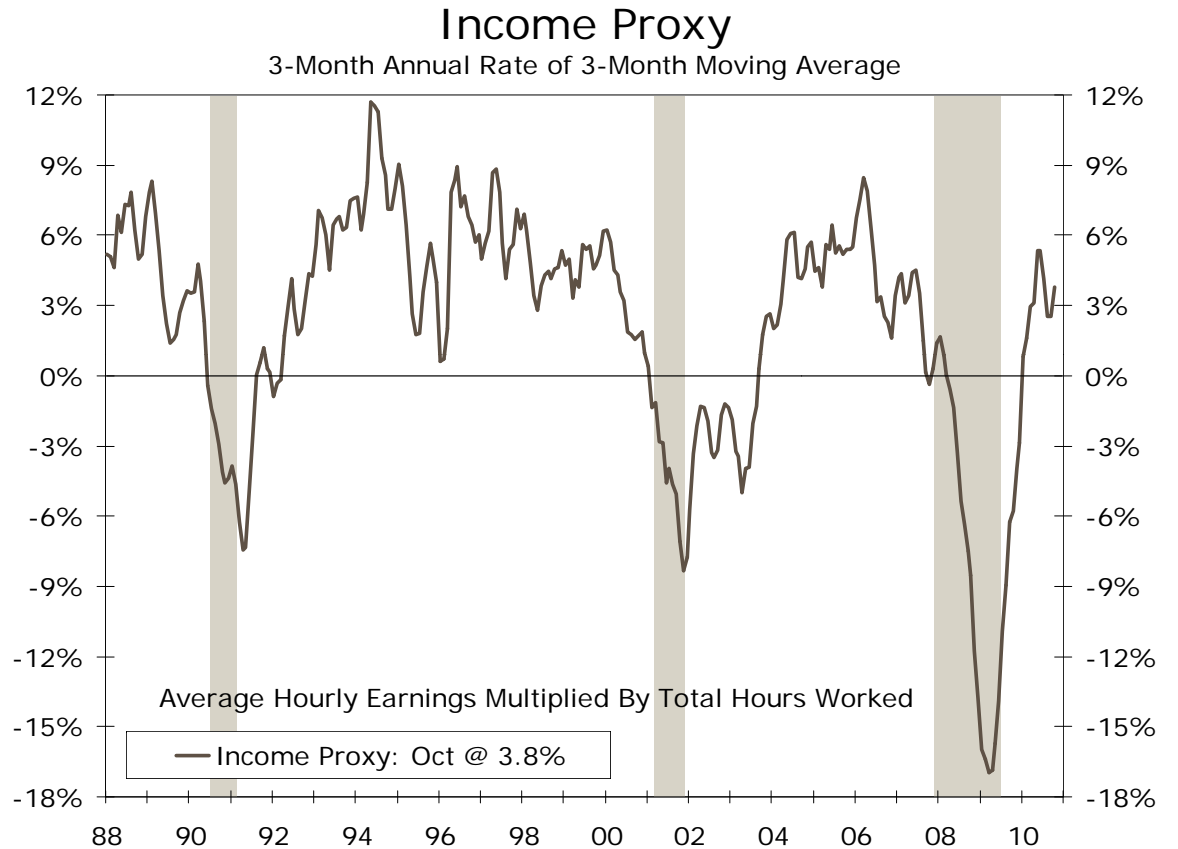
As a Percent of the Civilian Labor Force



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

Income Proxy

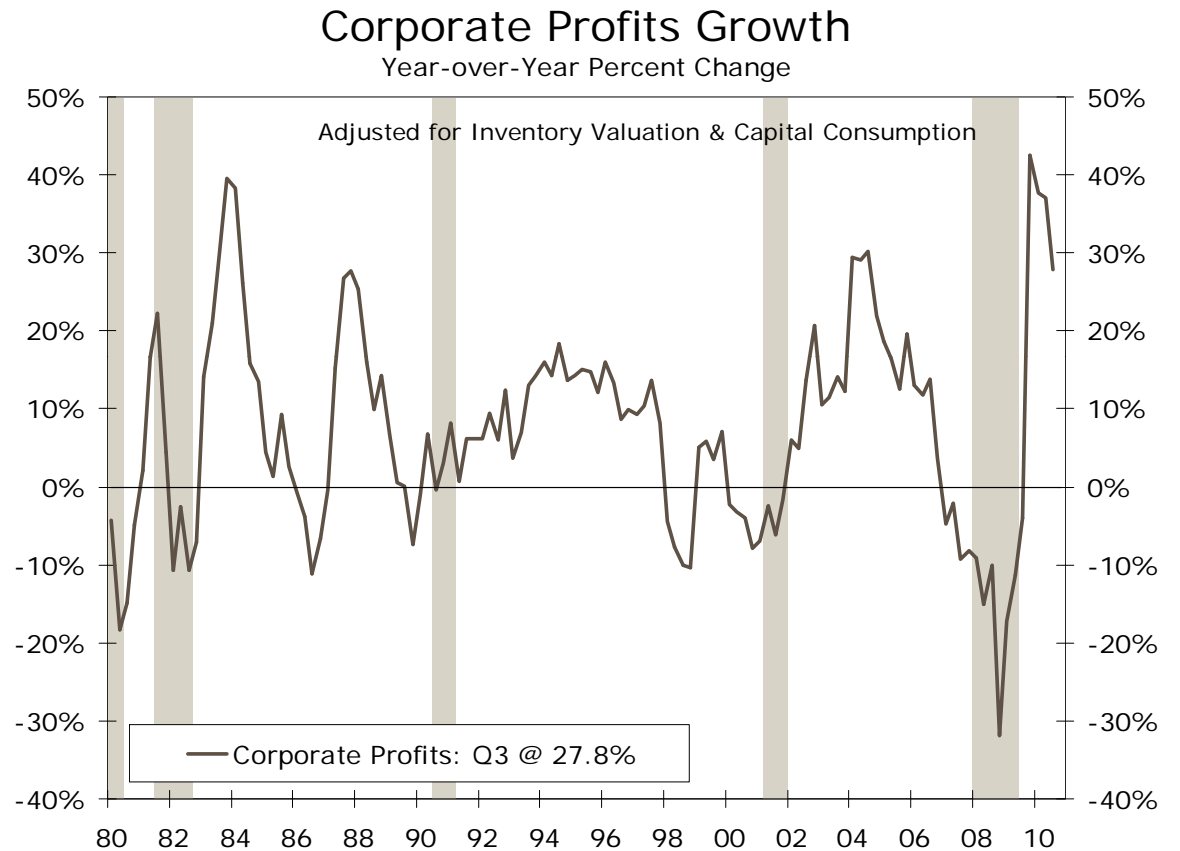
Incomes are making up the steep losses incurred during recession, but there is a great deal of lost ground to make up and growth has slowed recently



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

Corporate Profits

Increased corporate profits have stood out recently, but easy gains from cost cutting are largely behind us and year-to-year comps will get tougher



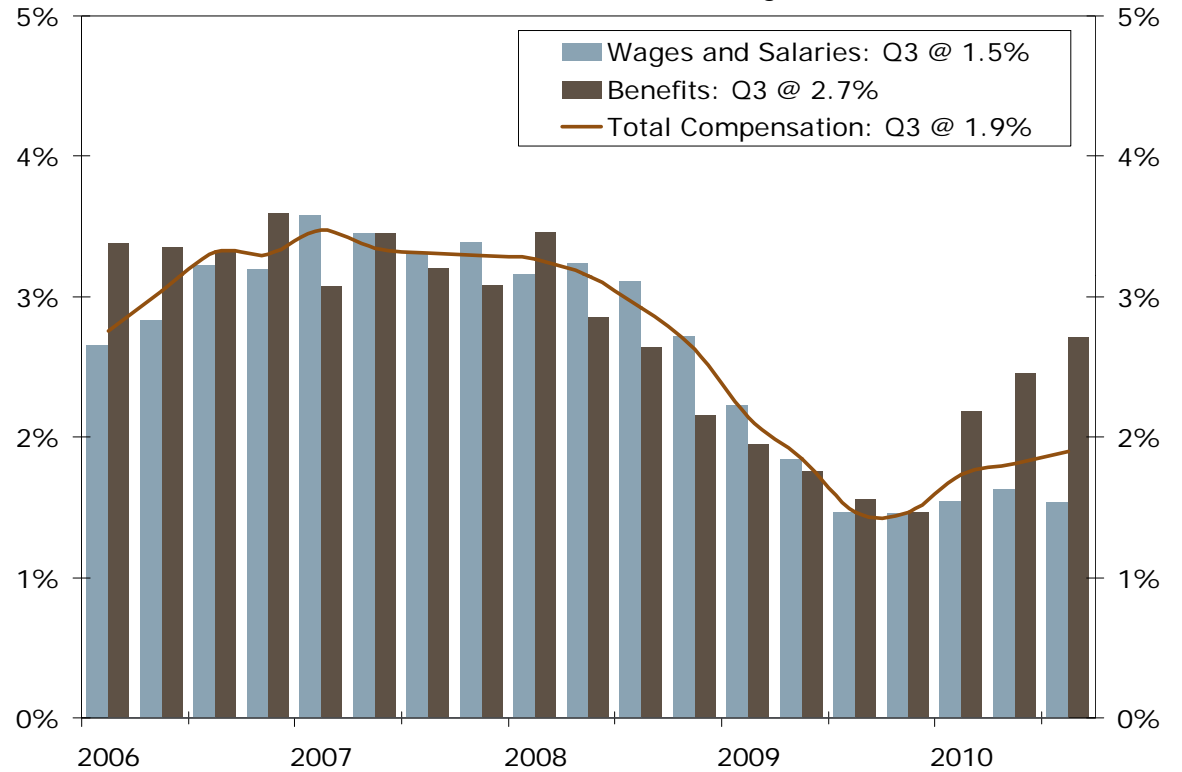
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Employment Costs

Compensation costs remain contained, but the cost of providing healthcare retirement benefits is accelerating

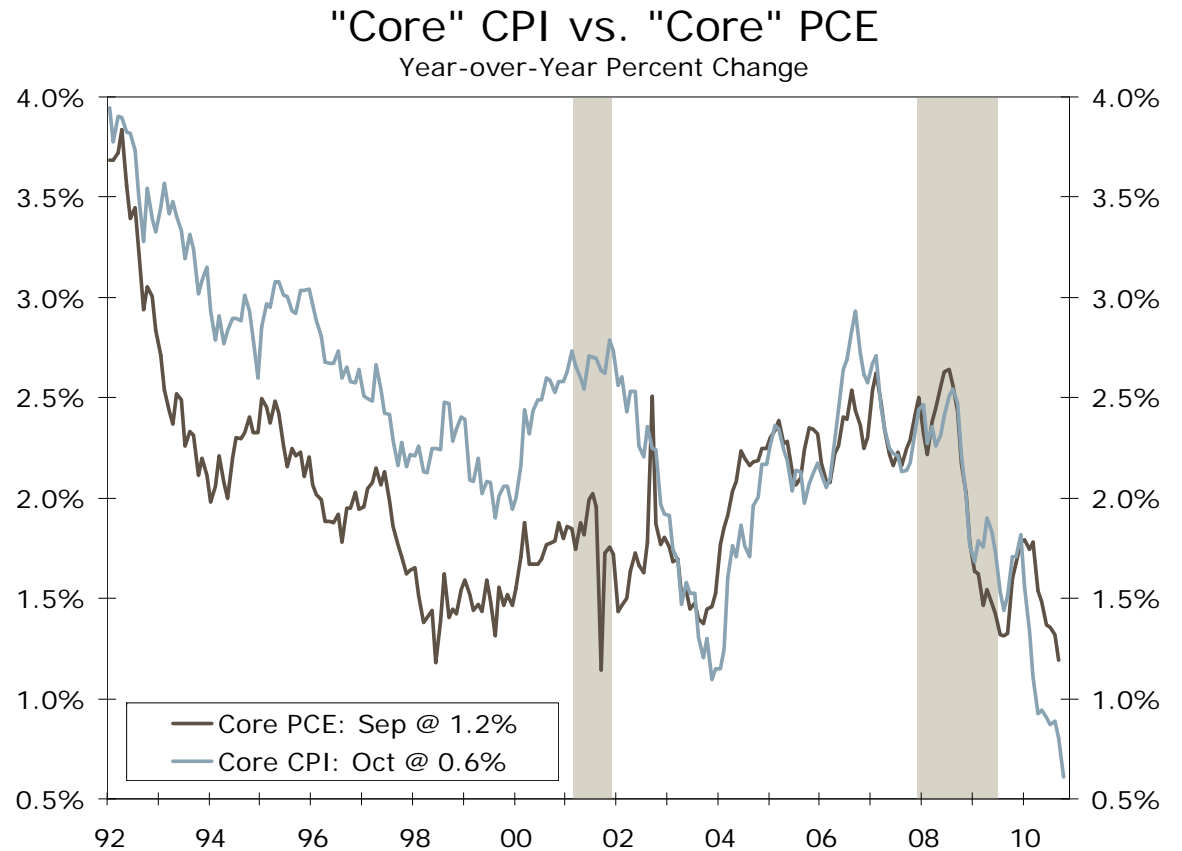
Employment Cost Index

Year-over-Year Percent Change



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

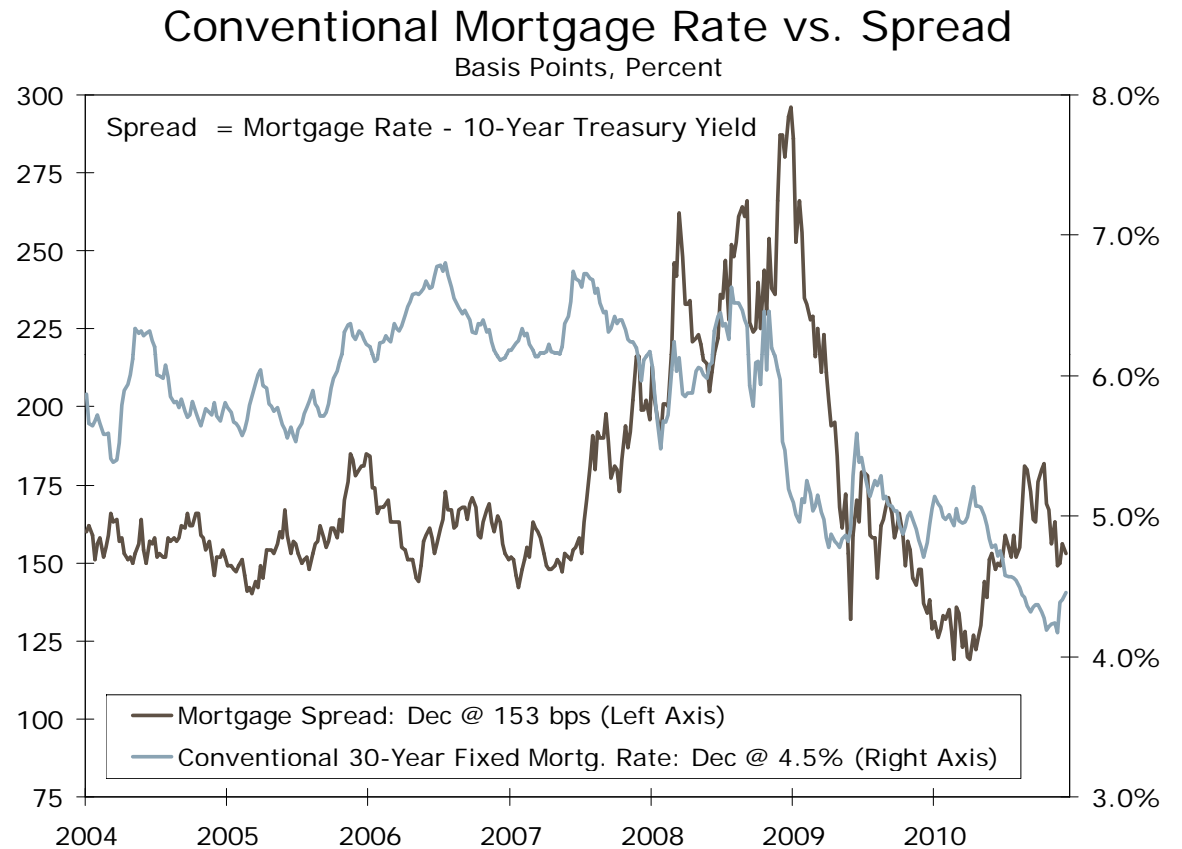
Core inflation is running slightly below the lower bound of the Fed's comfort zone



Source: Federal Reserve Board, Moody's and Wells Fargo Securities, LLC

Mortgage Rates

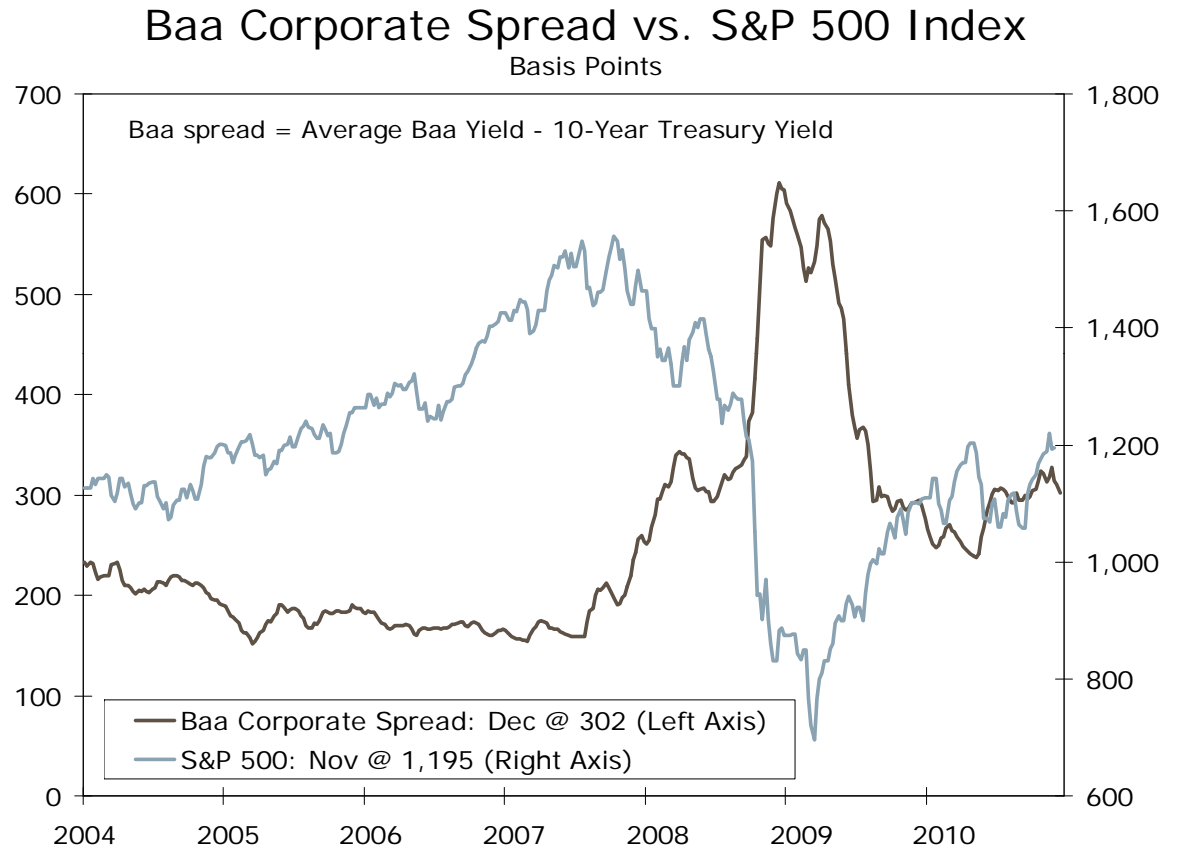
Mortgage rates are currently near an all-time low, even though spreads have returned to their historic norm



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

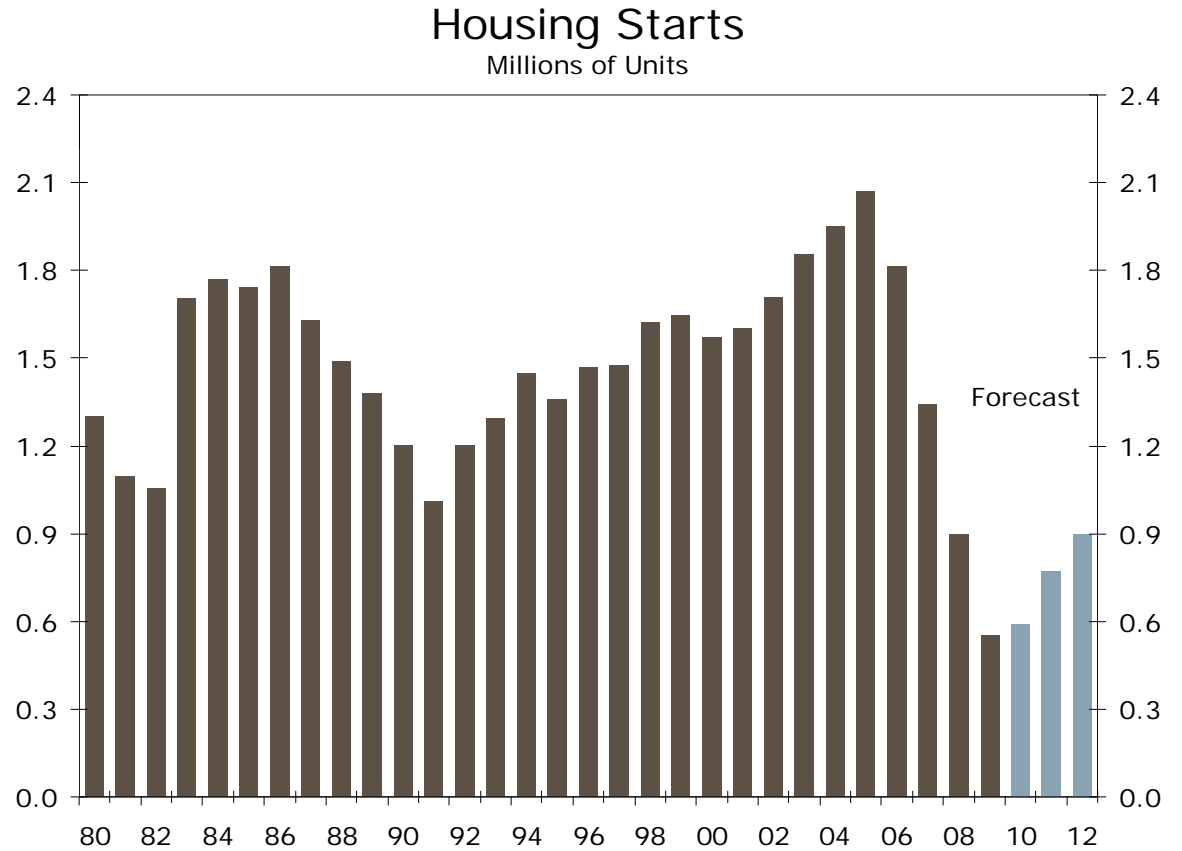
Corporate Bond Spread

Stock prices began rising in anticipation of QE2, but credit spreads have so far benefitted much less



Source: Federal Reserve Board, Moody's, S&P Corp. and Wells Fargo Securities, LLC

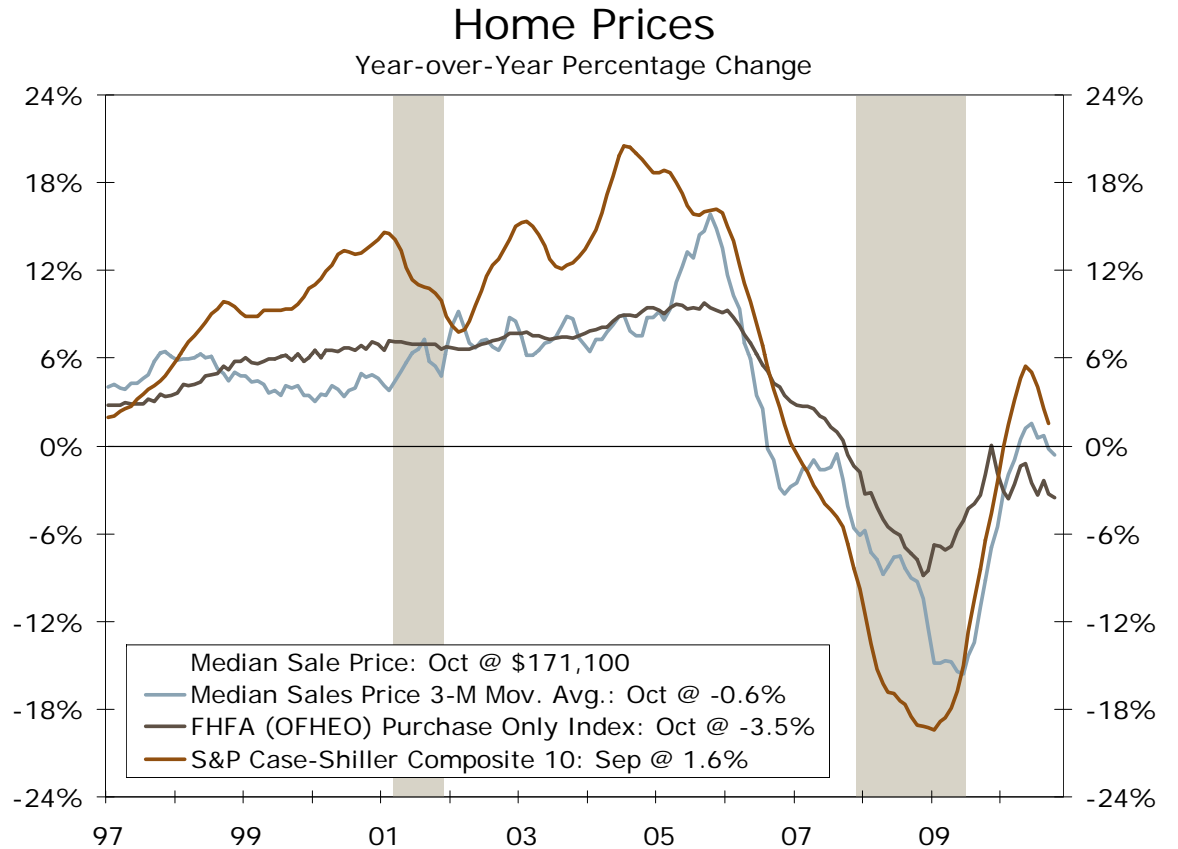
We believe housing starts have bottomed and will increase modestly through 2012



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

Home Prices

Most regions have seen modest price gains over the past year. Various mortgage foreclosure moratoriums and stimulus programs likely supported prices earlier and are now giving way



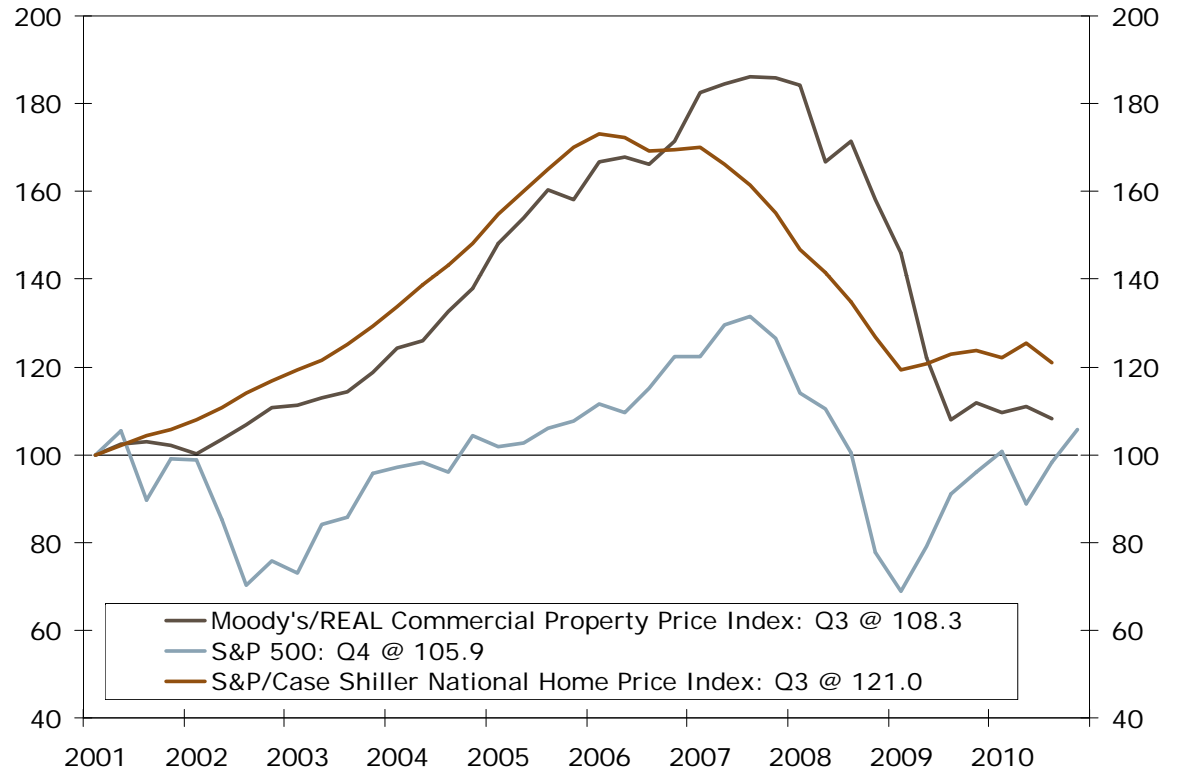
Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

Commercial Real Estate Prices

Commercial real estate prices have improved slightly since last year, but transactions volume remains low with many distressed sales

Commercial Property Prices vs. S&P 500

Index, Q1 2001 = 100

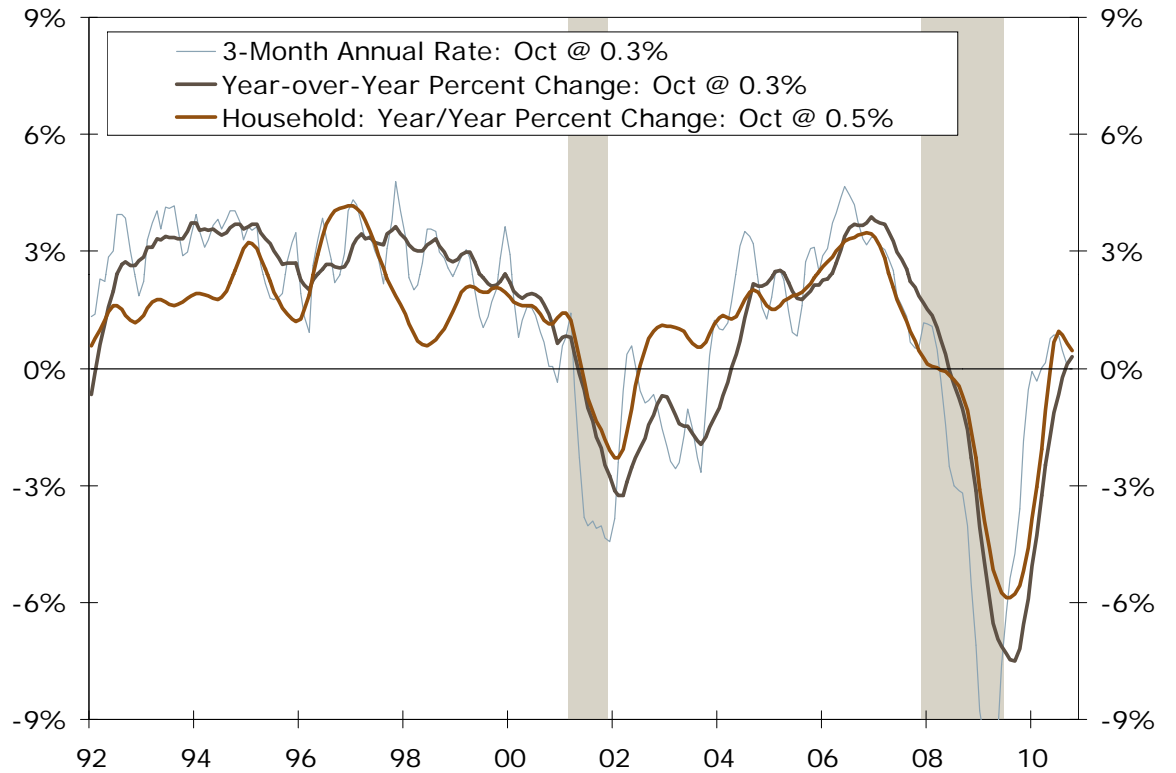


Source: Moody's, Standard & Poor's and Wells Fargo Securities, LLC

North Carolina

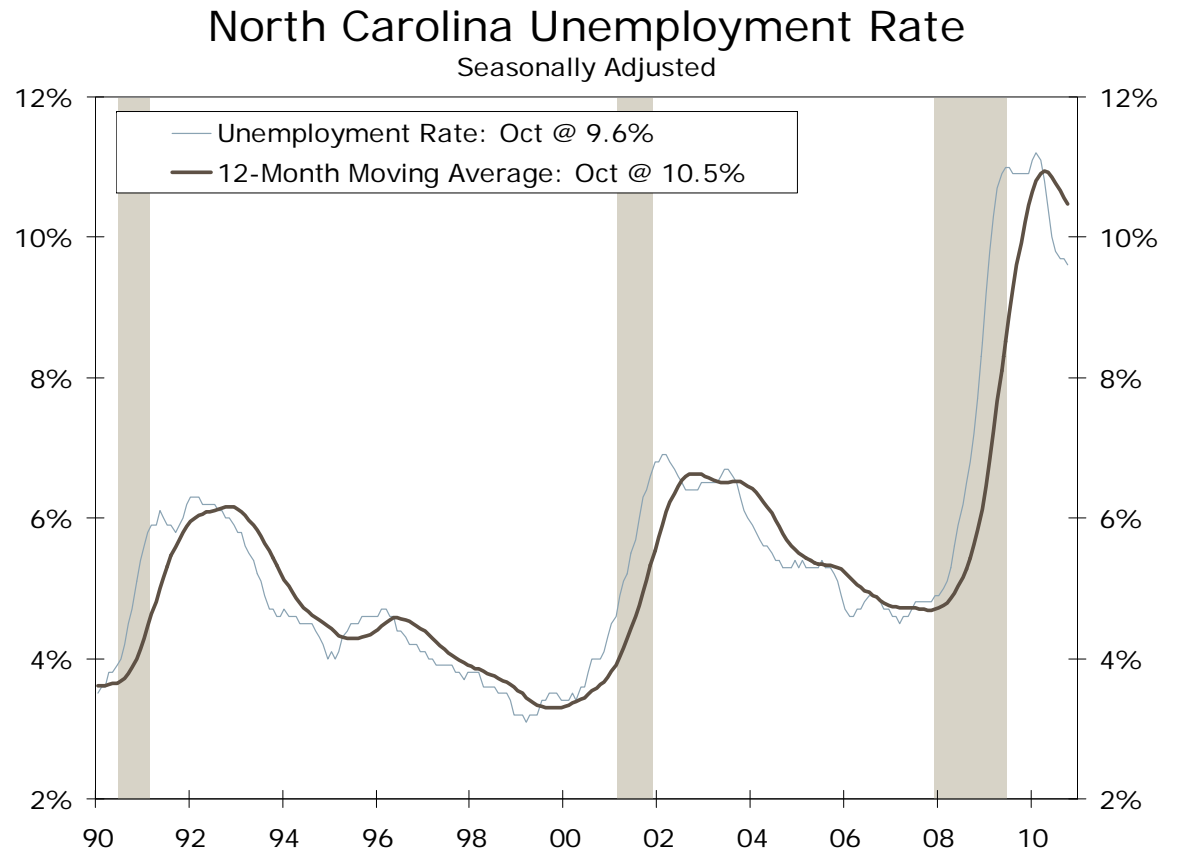
Data show a modest improvement in employment

North Carolina Nonfarm Private Employment
3-Month Moving Averages



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

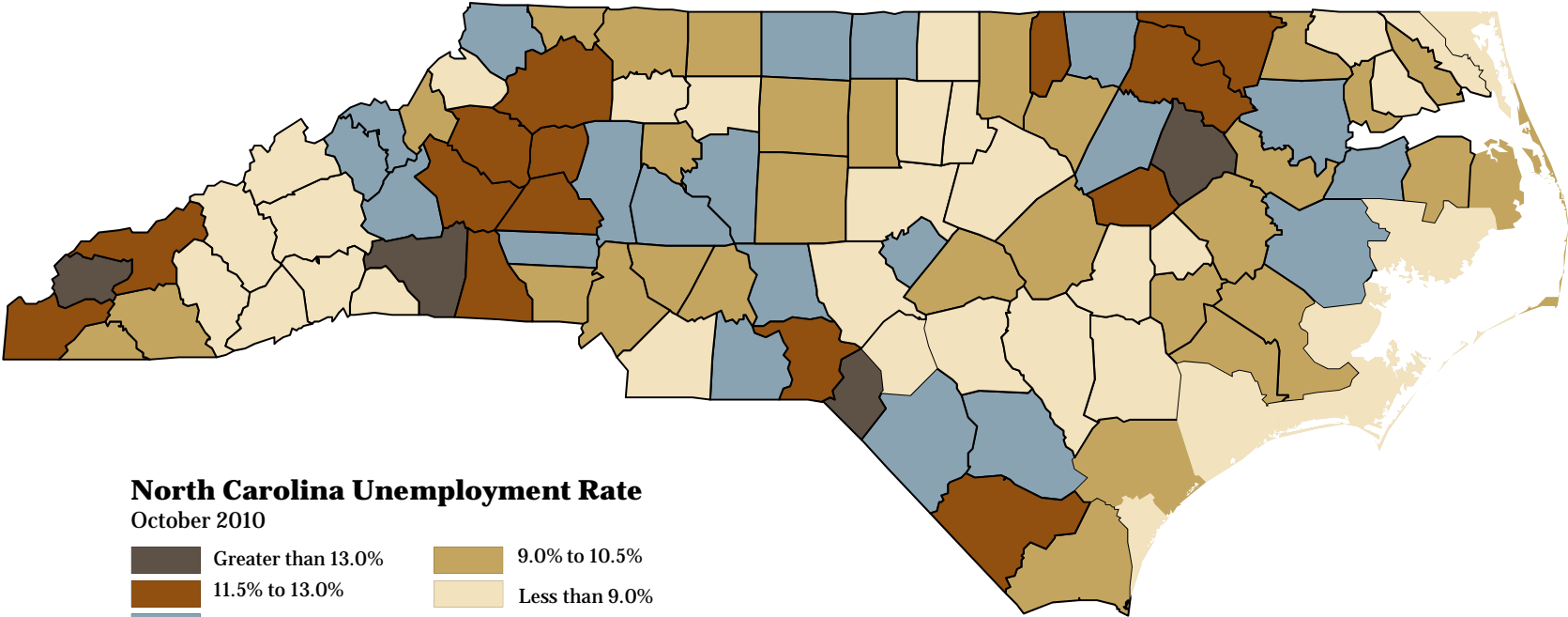
The unemployment rate is falling, mainly as a result of job creation in private services industries and public administration



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

North Carolina – Unemployment Rate Composition

Unemployment Rate by County



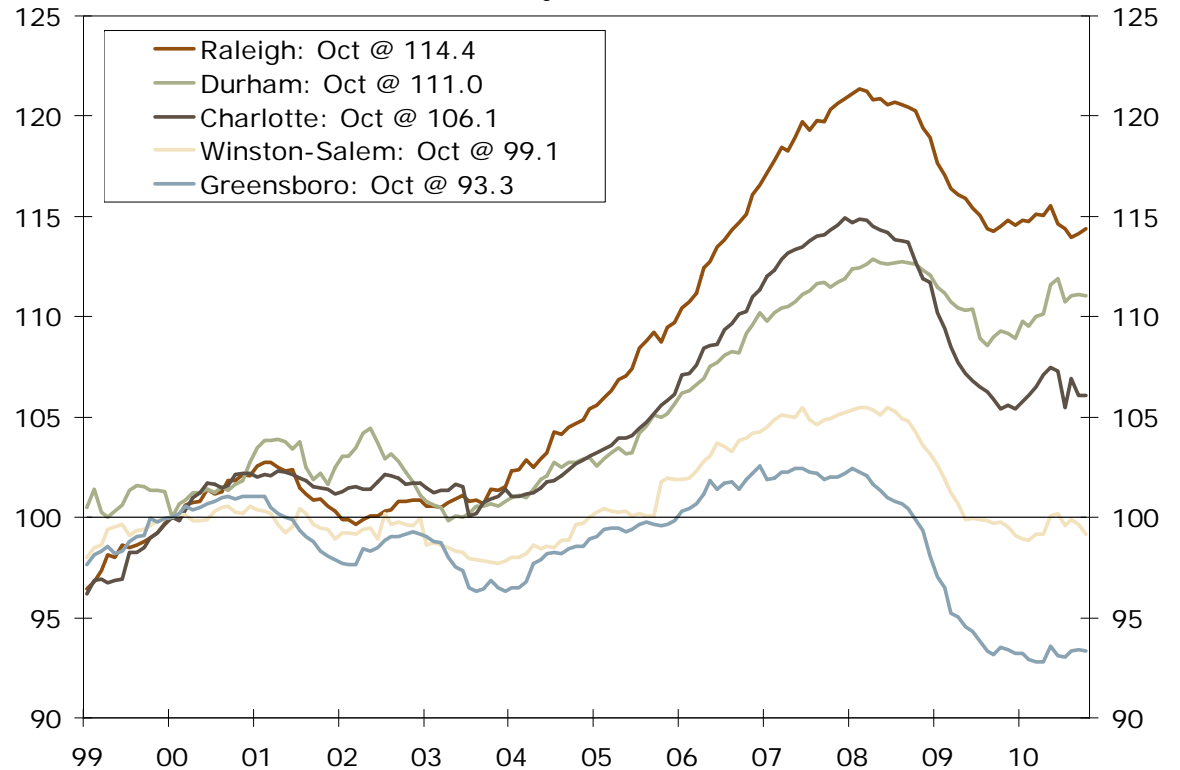
Source: US Department of Labor and Wells Fargo Securities, LLC

North Carolina – MSA Employment

Most NC metro areas continue to struggle. Private sector payrolls began to turn up slightly late last year, but recent months have seen some of those gains slip away

North Carolina Relative Employment

January 2000 = 100

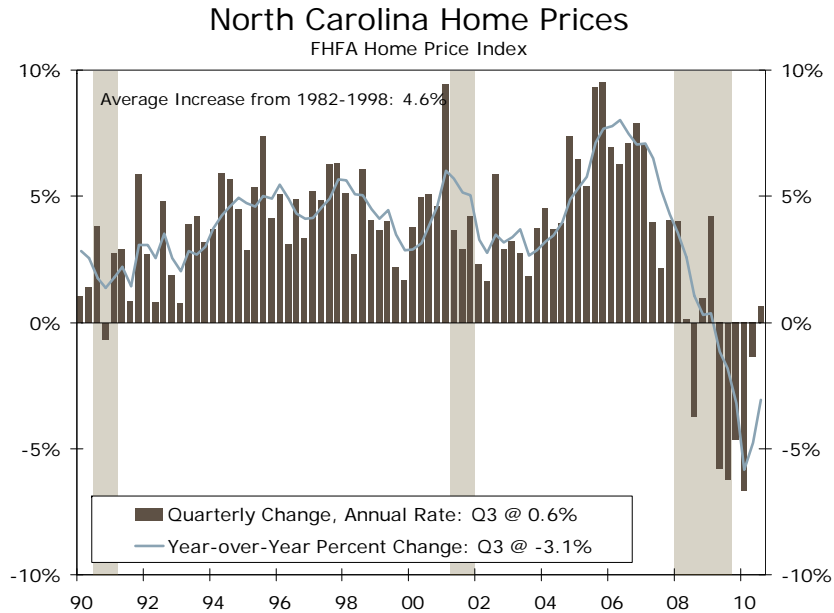


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

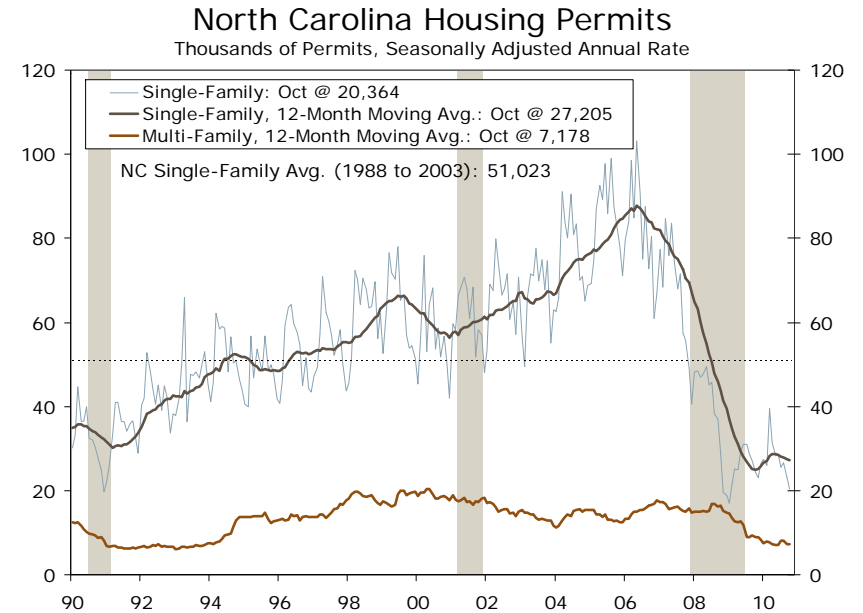
North Carolina – Home Prices and Construction

Home prices continued to fall following the expiration of the homebuyer tax credits. Housing construction is still being constrained by high inventory levels and distressed transactions

Home Prices



Housing Permits

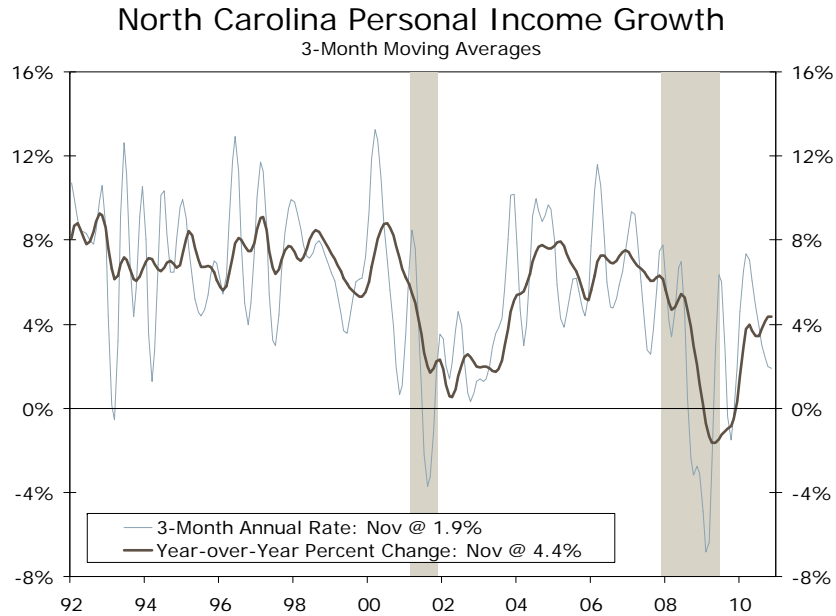


Source: FHFA, U.S. Department of Commerce and Wells Fargo Securities, LLC

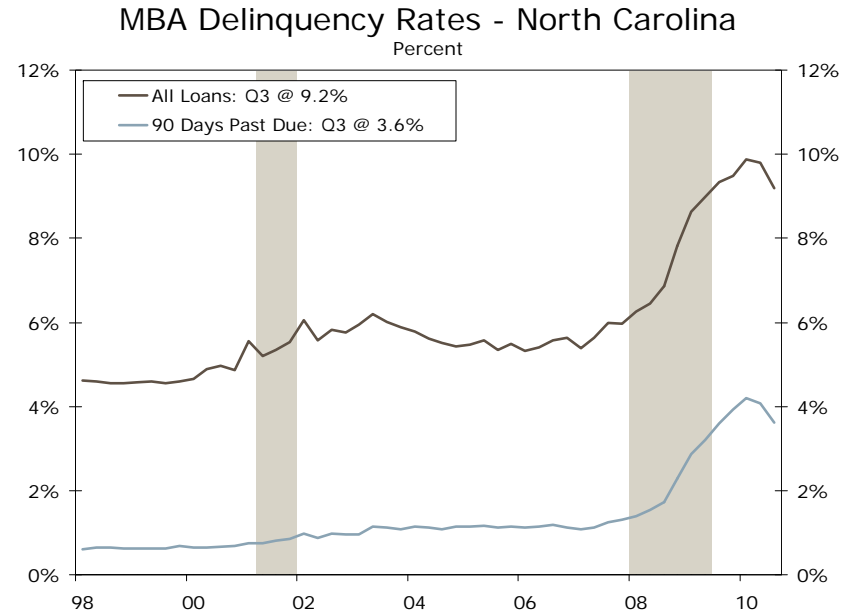
North Carolina – Personal Income and Delinquency Rates

Personal income growth is improving across the state of North Carolina and delinquency rates, though still high, are finally falling

Personal Income Growth



Delinquency Rates



Source: U.S. Department of Commerce, Moody's Analytics, Mortgage Bankers Association and Wells Fargo Securities, LLC

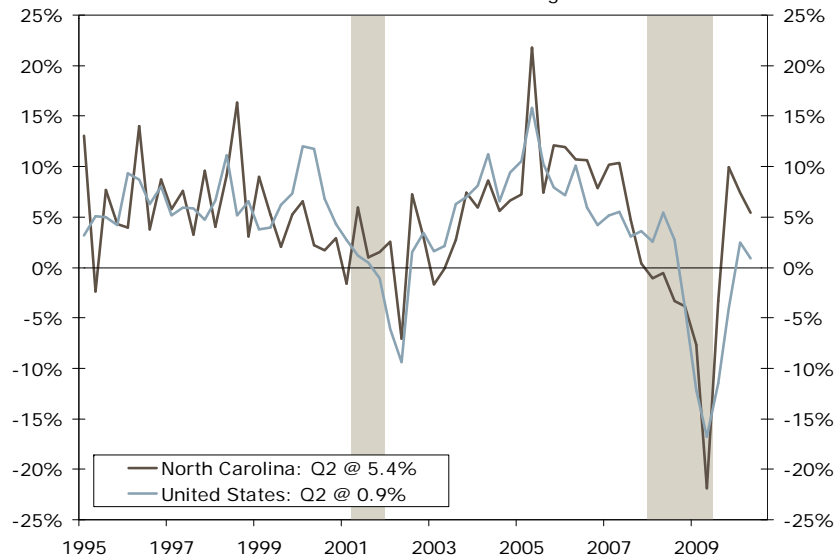
North Carolina – Tax Receipts & Budget Concerns

The NC budget remains strained as temporary tax increases and federal stimulus programs wind down. Most of the recent increase in collections is attributed to sales tax revenue spikes

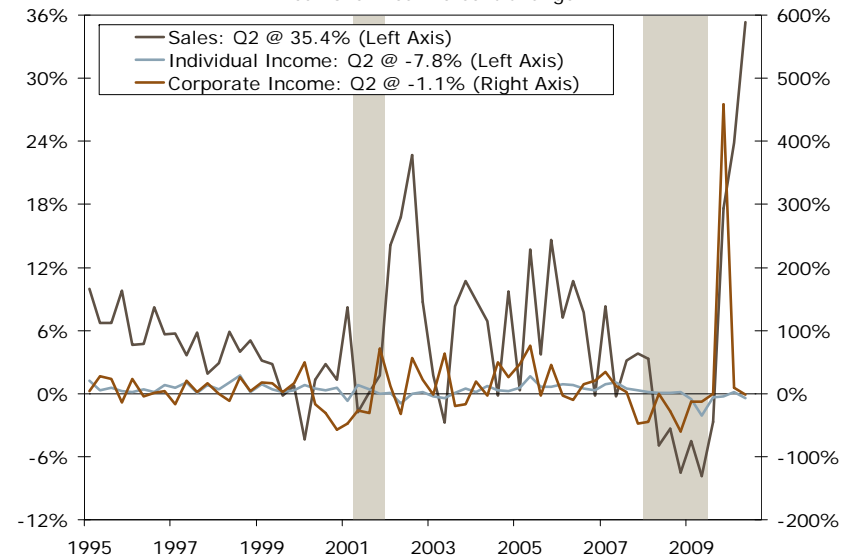
State Tax Receipts

Tax Revenue Breakdown

State Tax Receipts - U.S. vs. North Carolina
Year-over-Year Percent Change



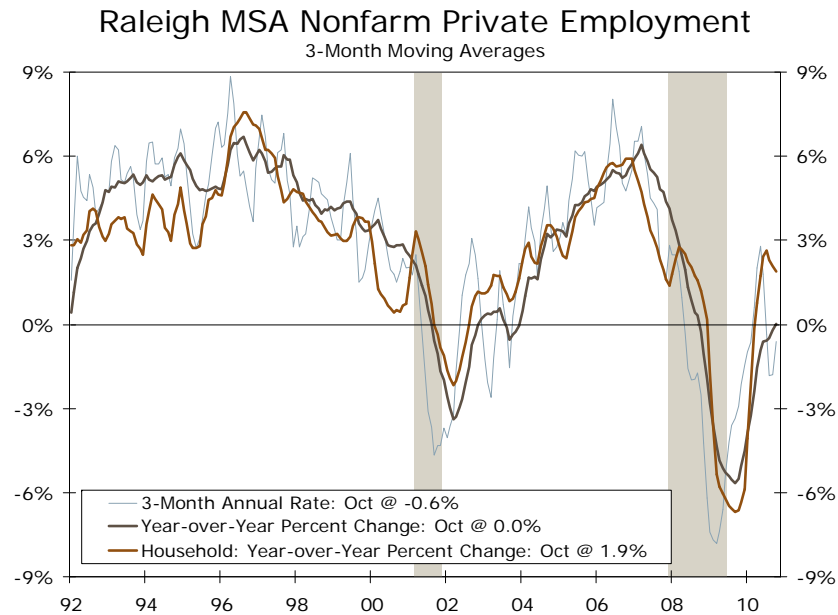
North Carolina State Tax Receipts
Year-over-Year Percent Change



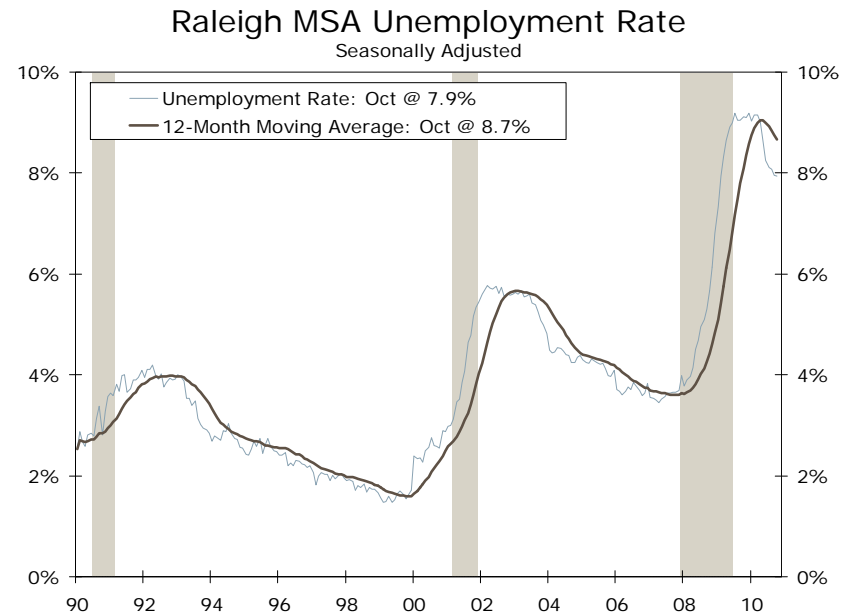
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Private sector employment has weakened, falling sharply in October following three months of gains. The unemployment rate is lower than the national average, however

Employment



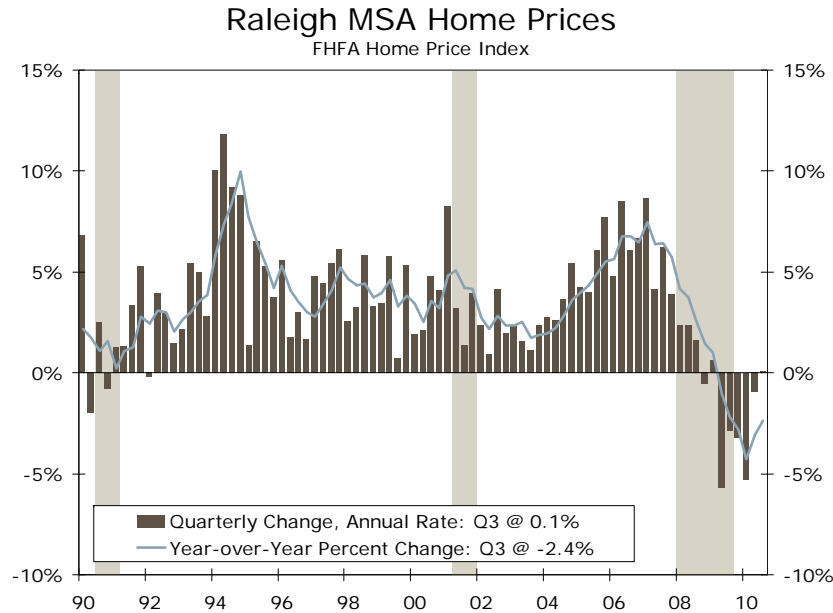
Unemployment Rate



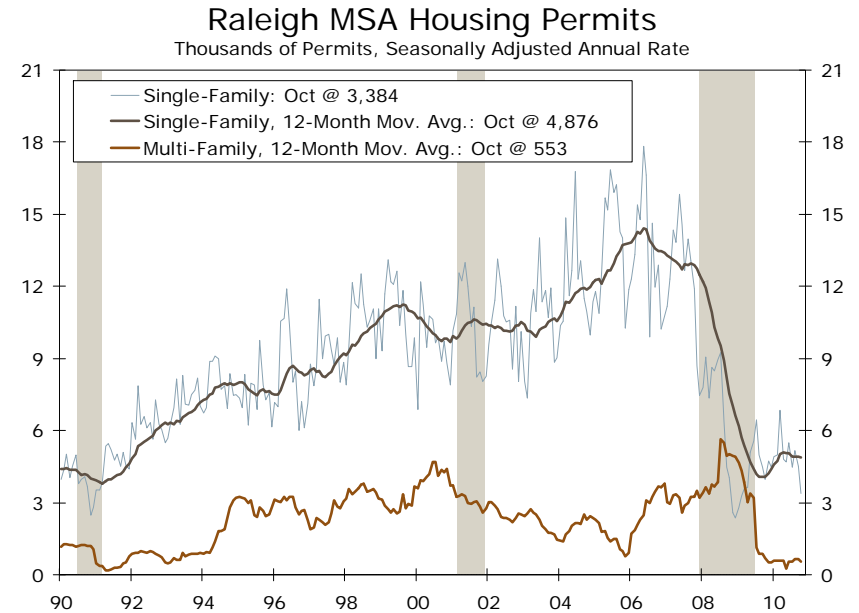
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Home prices are beginning to stabilize, though construction activity—which improved initially following the homebuyer tax credits—has slumped more recently

Home Prices



Housing Permits



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

North Carolina Wrap-Up

Observations

- The recovery is making progress in North Carolina
 - The unemployment rate is falling in the state, mainly as a result of accelerating job creation in private services industries and public administration
- The state's housing market continues to slowly heal
 - Though elevated foreclosures pose a significant risks to the state's housing outlook
 - Home prices remain constrained by rising distressed sales – particularly in metro areas such as Charlotte
- Tax revenues have begun to improve over the past two quarters, but the state's high unemployment rate combined with the slow pace of hiring and nominal wage gains will continue to put downward pressure on the growth of both sales and personal income tax collections

North Carolina Through the Years

(Percent Change Per Annum)

	1970s	1980s	1990s	2000s
Population	1.5	1.2	1.9	1.7
Personal Income	10.9	9.7	6.8	4.9
Employment	3.1	2.6	2.3	0.2
Single Family Housing Permits	-	-	6.1	(8.6)
Multi Family Housing Permits	-	-	5.5	(8.3)
Coincident Index	-	4.7	4.2	1.1
State Tax Revenue ¹	-	-	7.5	5.3
Sales Tax Revenue ¹	-	-	7.7	4.4
Personal Income Tax Revenue ¹	-	-	8.1	3.1

¹Begins in 1991

Newspaper Commentary

“North Carolina's imminent budget crisis has school districts across the state waiting to figure out what will have to go. We've heard a lot about the jobs that are at stake.

– *Local Tech Wire*, 11/30/2010

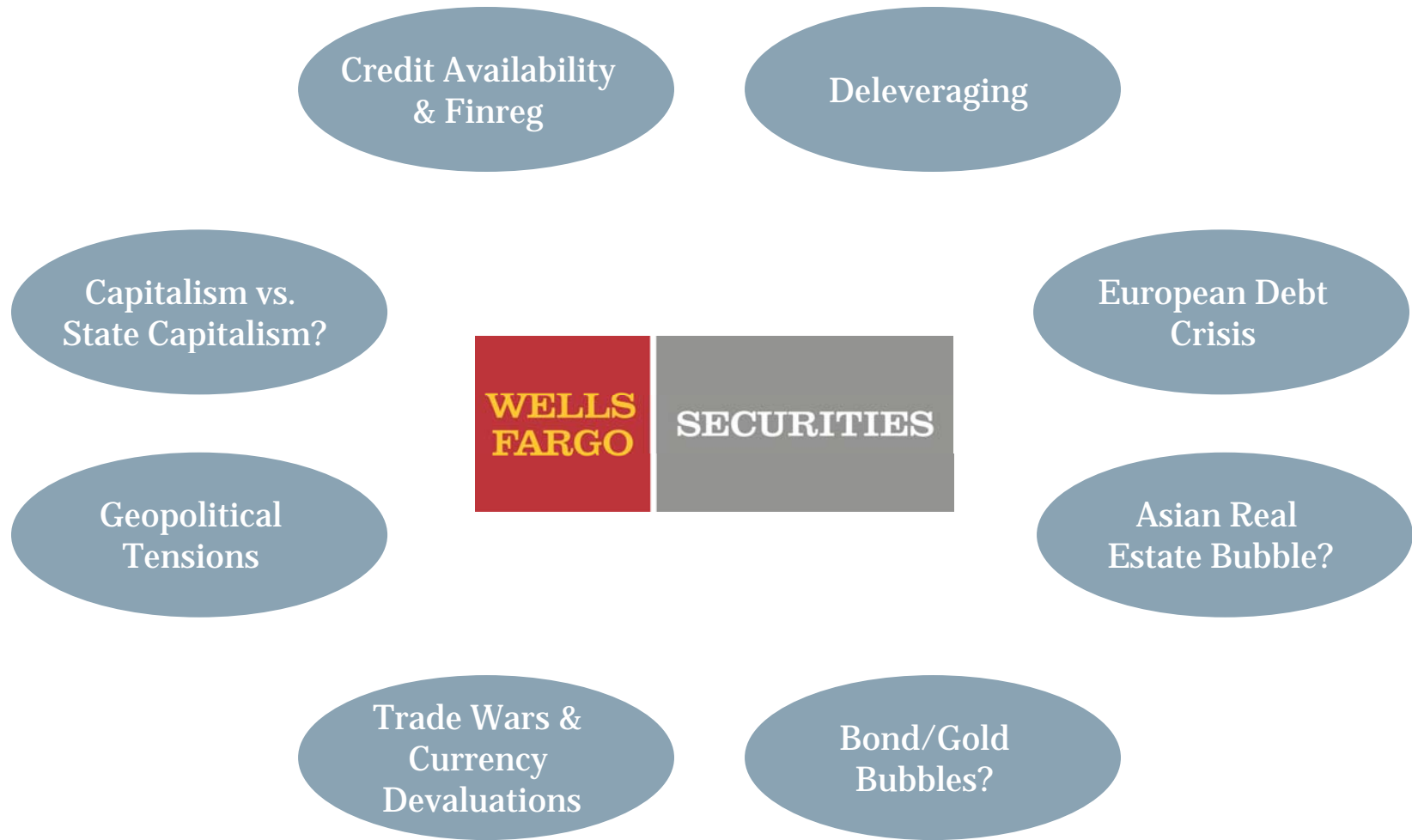
“North Carolina has gained back just a fraction of the jobs it lost during the recession, and job growth remains one of the most pressing challenges.”

– *Charlotte Business Journal*, 12/8/2010

“Most people surveyed in an Elon University Poll say they favor a permanent increase in North Carolina's sales tax to deal with the state's budget shortfall...While 61 percent said they oppose new taxes, 56 percent favor making permanent a 1-percent increase in the state sales tax “to take care of” a projected budget shortfall of more than \$3 billion.”

– *Burlington Times News*, 11/19/2010

Issues to Watch



Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

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Recent Special Commentary

Date	Title	Authors
December-08	Annual Economic Outlook 2011: Turning The Corner	
December-02	North Carolina Economic Outlook: Growth	Silvia & Brown
November-18	Housing Chartbook: November 2010	Vitner & Khan
November-17	Global Chartbook: November 2010	
November-15	Retailers Can Expect a Happy Holiday	Vitner & Quinlan
November-12	Commercial Real Estate Chartbook: Quarter 3	Vitner & Khan
November-03	FOMC: QE 1.6 Sets Sail in Uncertain Seas	Silvia
October-26	Would Canadian-Style Budget Cutting Work in America?	Bryson & Quinlan
October-20	Housing Data Wrap-Up: October 2010	Vitner & Khan
October-07	Structural Unemployment: Fact, Fiction or Too Early to Tell?	Silvia & Khan
October-07	Canadian Economic Recovery: Update & Outlook	Bryson & Quinlan
October-04	Will India Reach Its Long-Run Growth Potential?	Bryson
September-22	Brazil Pre-Election Update	Aleman
September-15	Housing Chartbook: September 2010	Vitner & Khan
September-10	Credit Quality Monitor: September 2010	Anderson & Kashmarek
September-01	How Steep Is The Japan Slowdown?	Anderson
September-01	Indian Economy Booming Again	Bryson
August-17	Housing Data Wrap-Up: August 2010	Vitner & Khan
August-12	Petroleum Markets: Comparing Two Crises	Aleman
August-11	Russia Bans Grain Exports Amid Drought, Fires	Anderson & Kashmarek
August-02	Understanding the Risk of Deflation	Vitner & Iqbal
July-28	Minnesota Economic Outlook: July 2010	Anderson
July-28	Colorado Economic Outlook: July 2010	Anderson & Kashmarek
July-27	America's Unemployment Experience: Diversity in the Details	Silvia & Whelan
July-22	Georgia Economic Outlook: July 2010	Vitner
July-21	Four Wobbly Legs Beneath Throne of Economic Growth	Silvia
July-21	Nothing New From The Fed	Vitner
July-15	Global Chartbook: July 2010	
July-15	New Jersey Economic Outlook: July 2010	Vitner & Khan
July-12	California Economic Outlook: July 2010	Anderson
July-09	Housing Chartbook: July 2010	Vitner & Khan
July-09	What Really Drives Growth in the Industrial Sector?	Bryson & Quinlan
July-02	Florida Economic Outlook: July 2010	Vitner & Kamaruddin

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