

WELLS  
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# The Long Road Ahead

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Ed Kashmarek, Economist

May 10, 2012

Together we'll go far

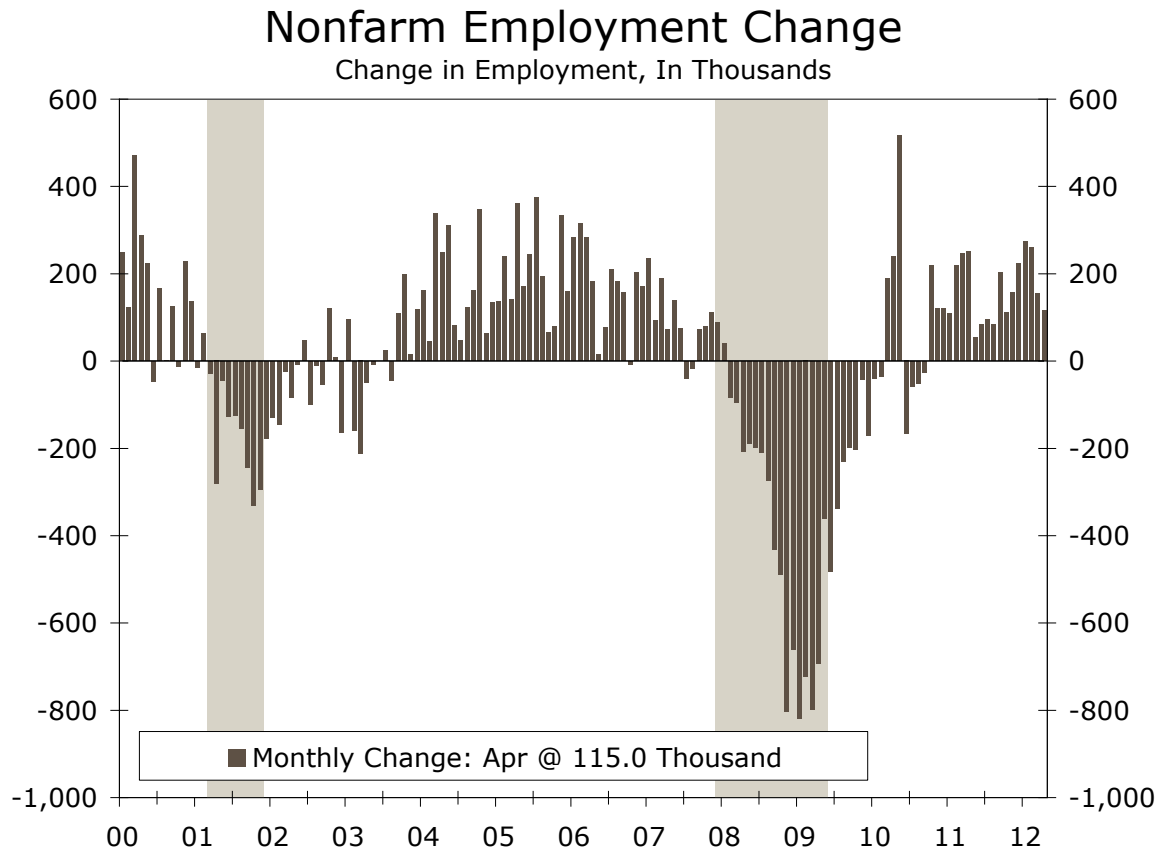


- **United States**
  - **Labor Market**
  - **Inflation/Interest Rates**
  - **Housing Market**
  - **Lending**
  - **Consumers**
  - **Economic Growth and Outlook**
  - **Budget Deficit/Debt**
  
- **Minnesota Economy**
  
- **Questions**

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# United States

The economy has added nearly 2 million jobs over the past year.

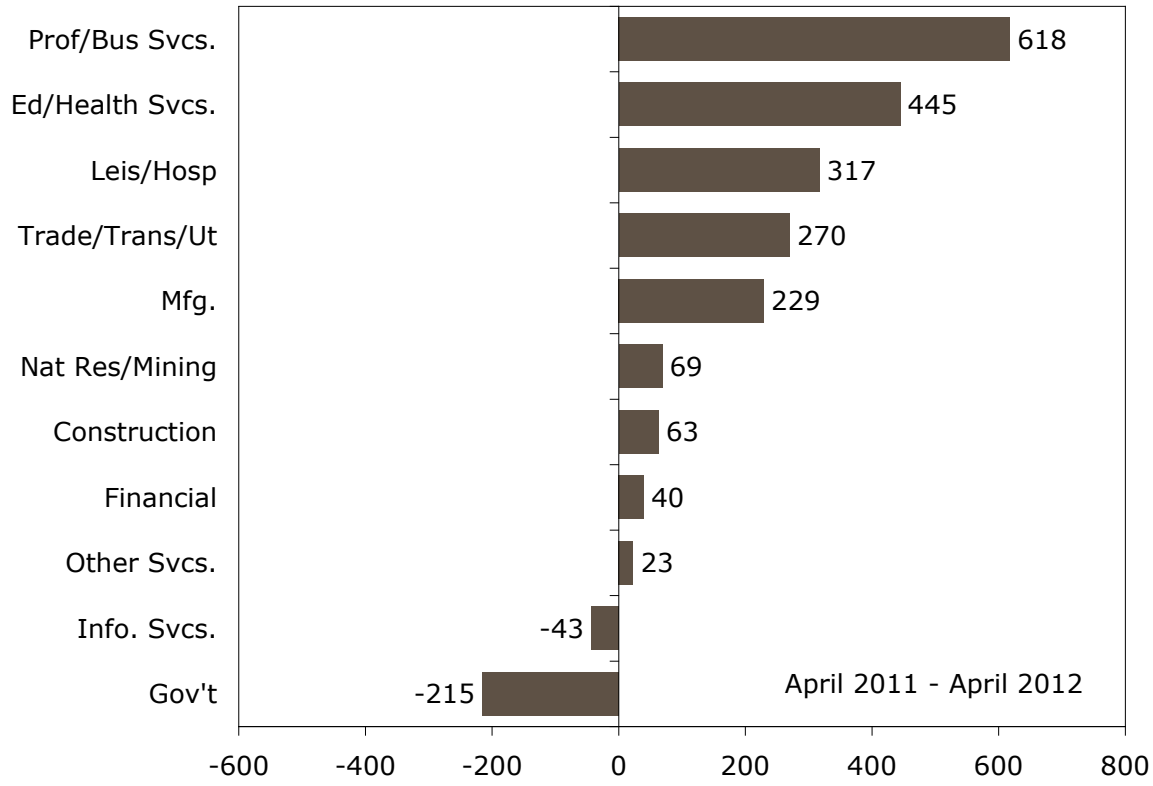


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Professional/business services and education/health services have led the way in job growth over the past year, while budget cuts have trimmed government payrolls.

## United States Job Growth by Industry

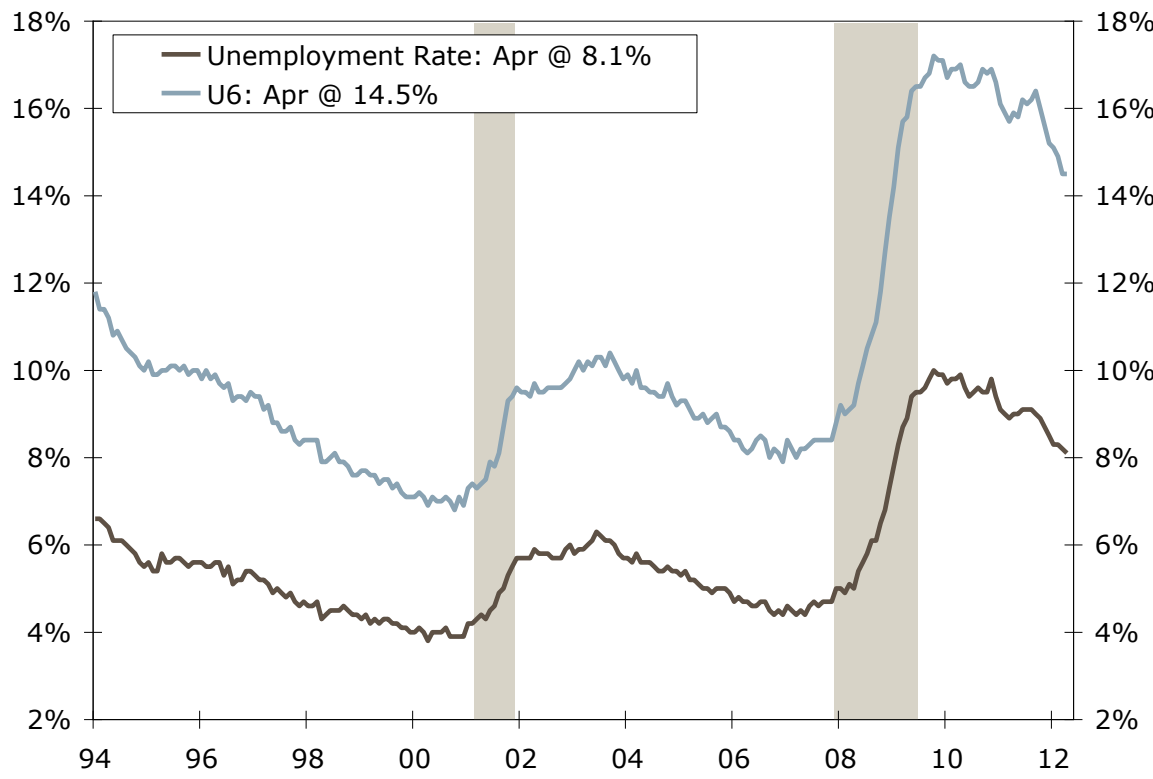
Thousands of Jobs, Year-over-Year Change



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

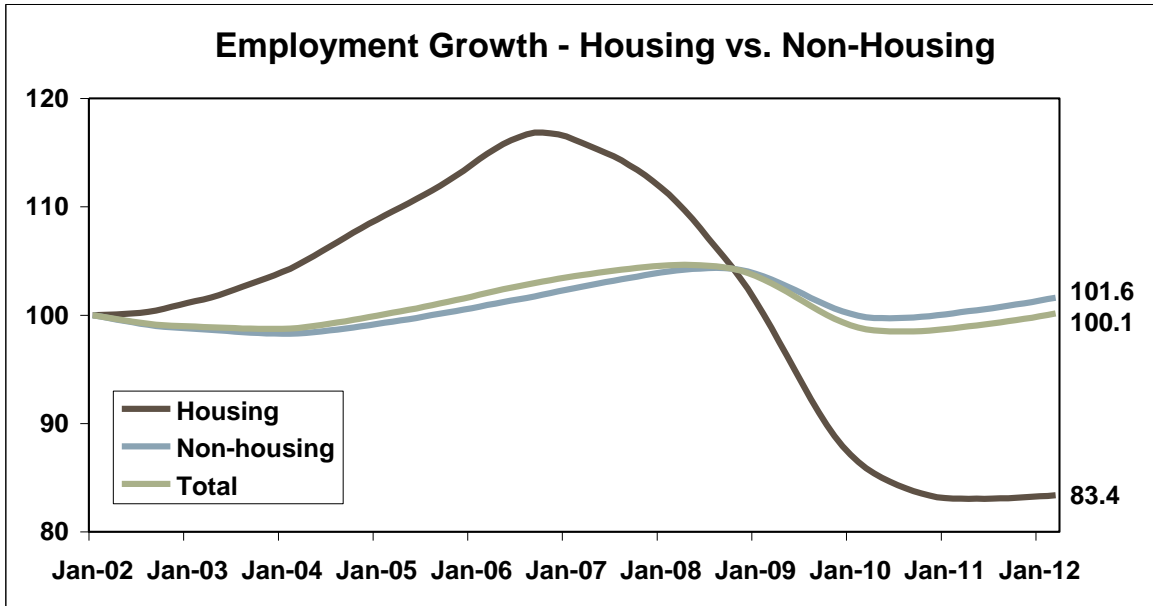
The unemployment rate has seen noticeable improvement recently, but remains uncomfortably high.

## Unemployment Measures



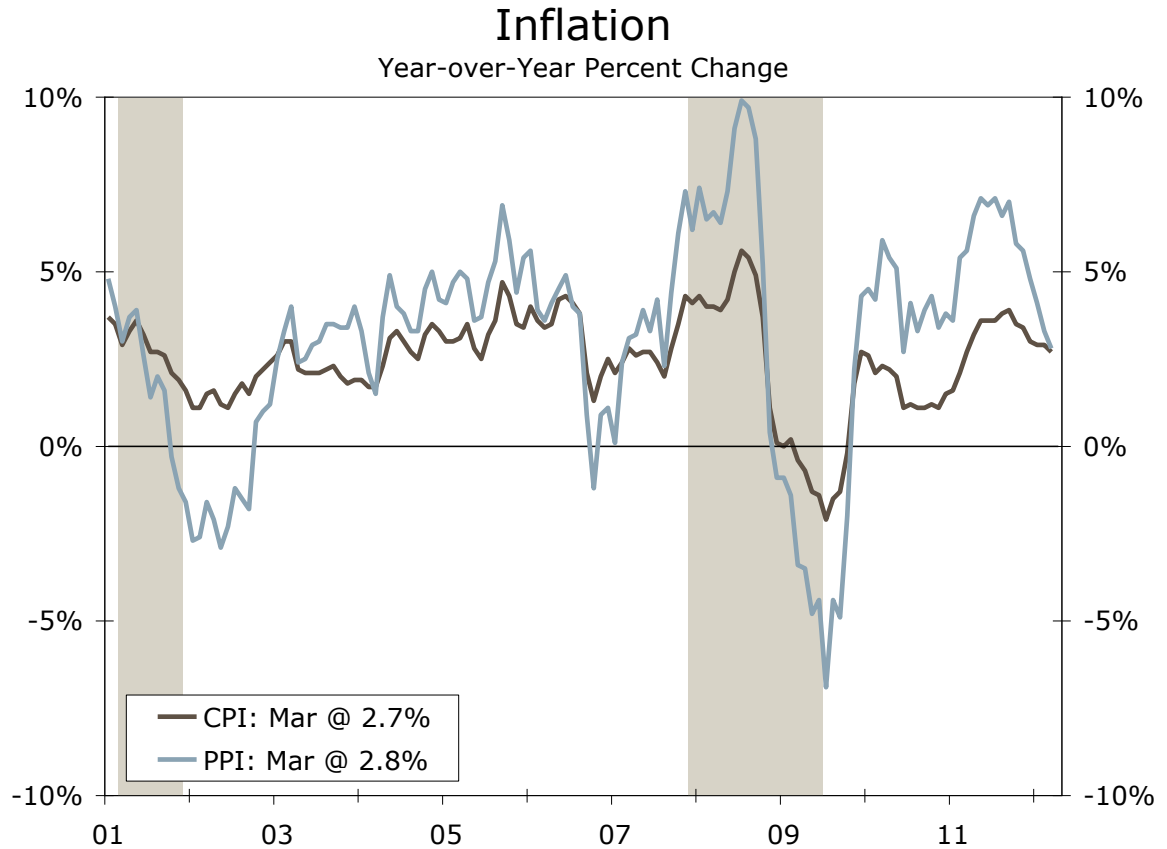
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

A major factor behind high unemployment is the millions of jobs lost in housing-related employment.



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

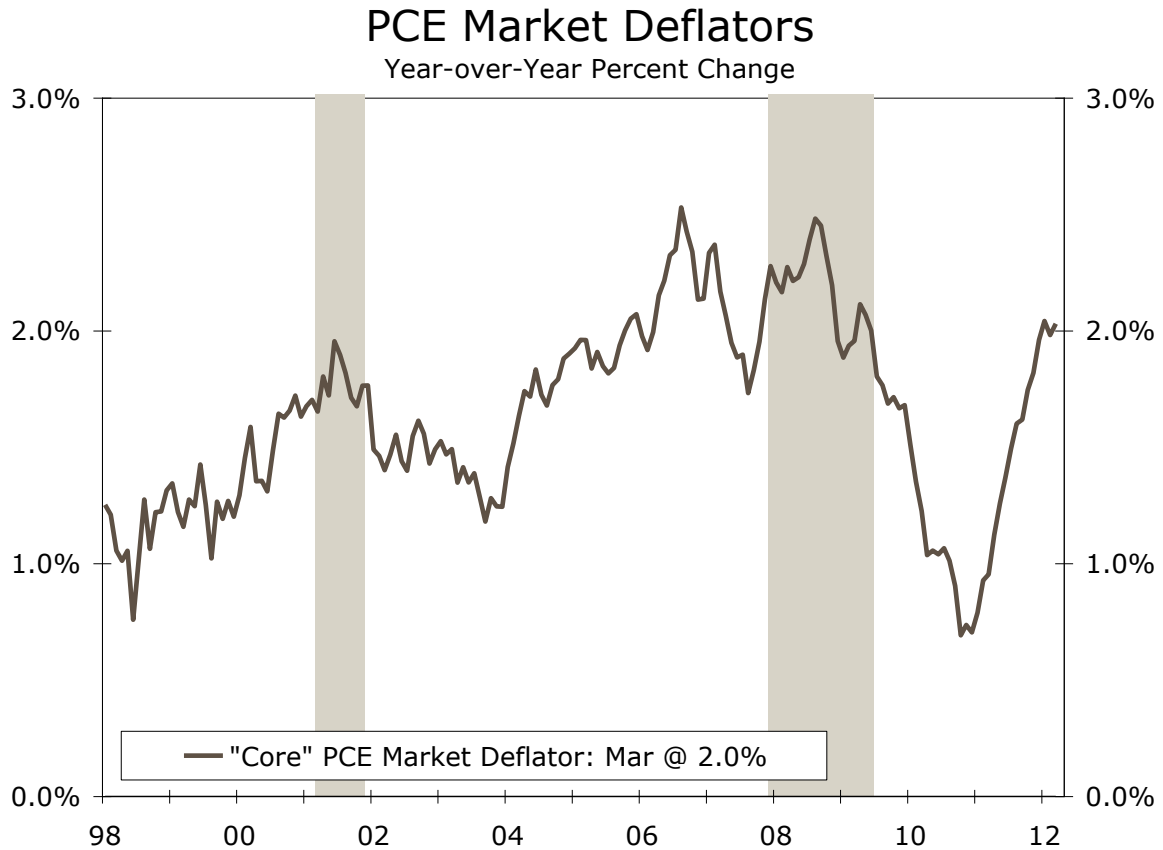
Inflation has moderated recently, but input costs have been rising much faster than selling prices over the past two years.



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



Core inflation has accelerated, but remains within the Fed's comfort zone of 1-2%, but just barely.

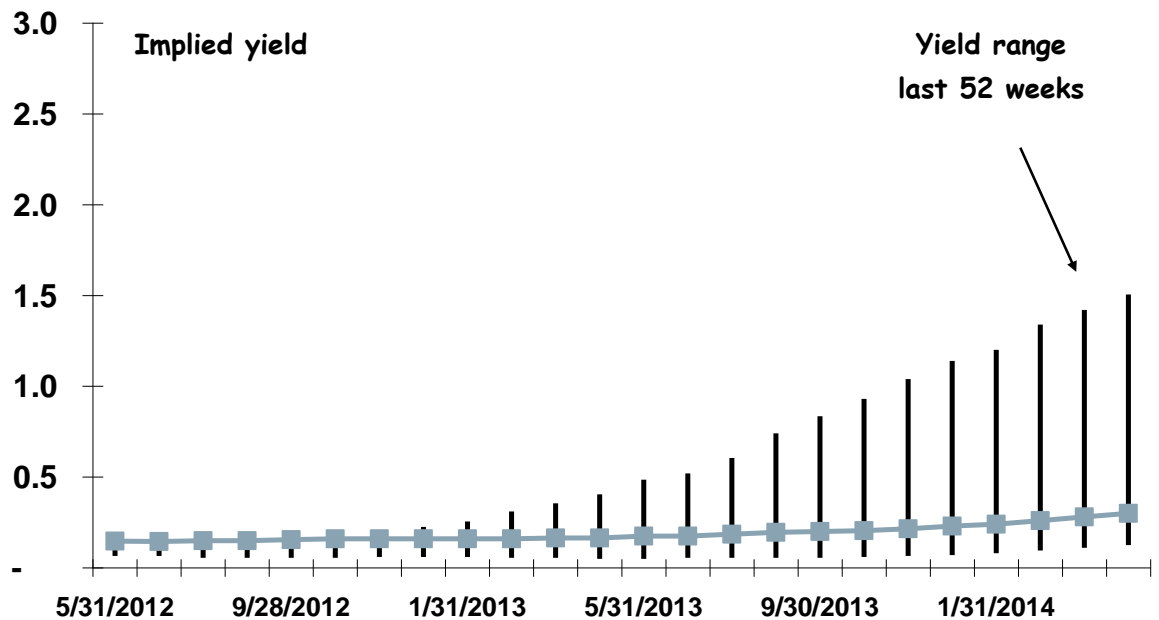


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Interest rates are expected to remain very low for the foreseeable future.

## Fed Funds Futures

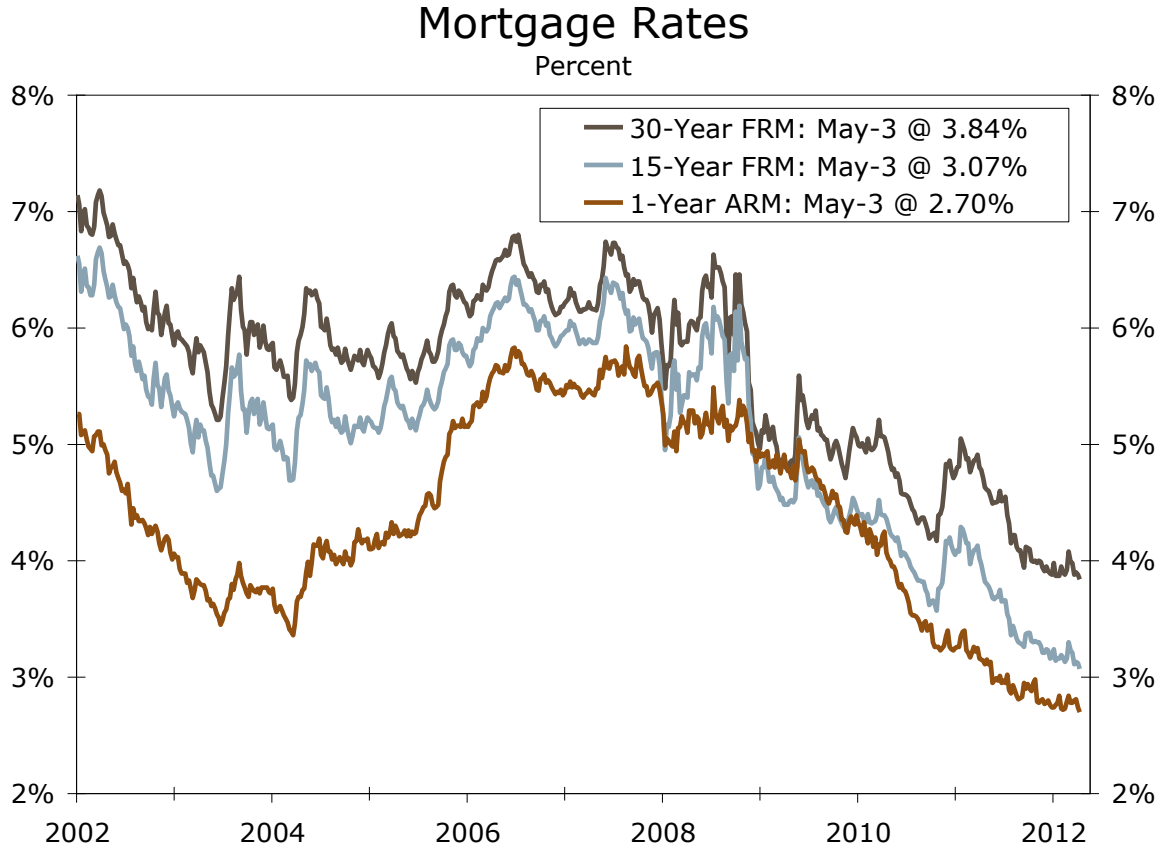
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Source: CBOT, WF Economics

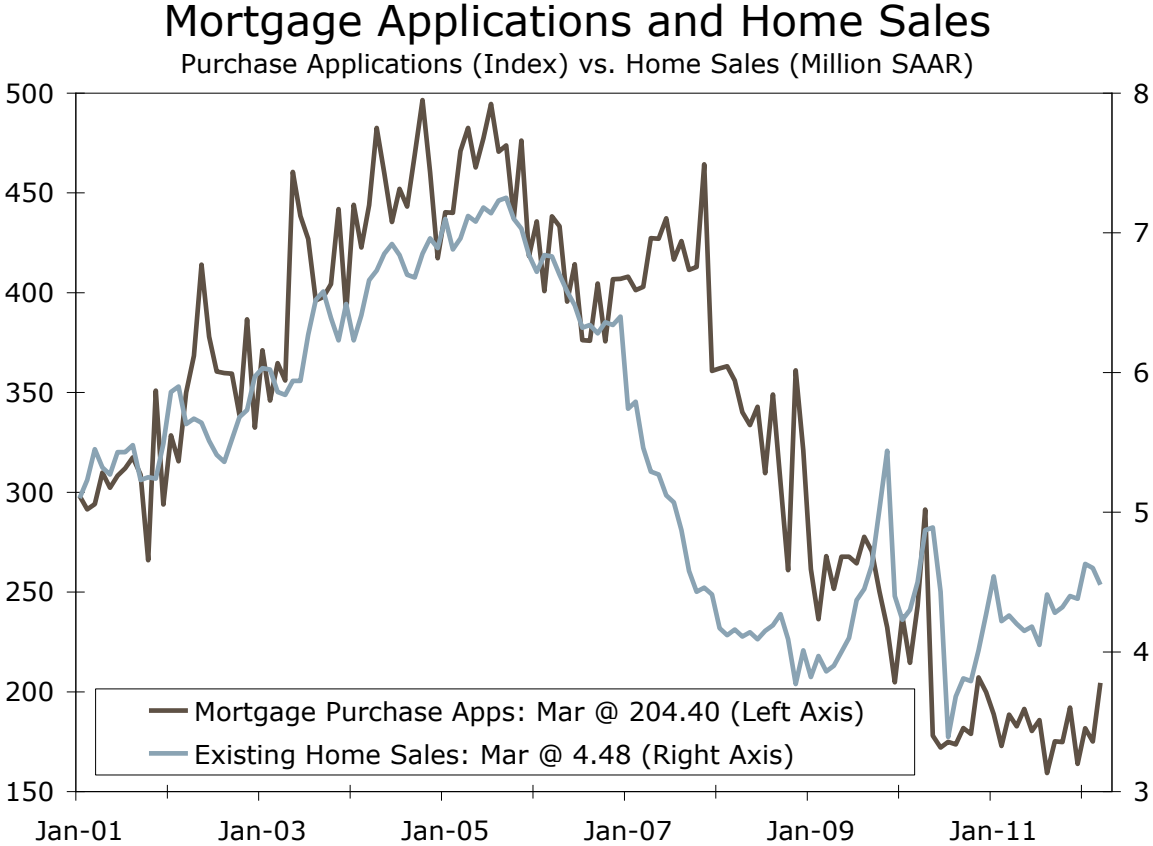
Source: CBOT and Wells Fargo Securities, LLC

Mortgage rates are at record lows, but many still cannot take advantage.



Source: Freddie Mac and Wells Fargo Securities, LLC

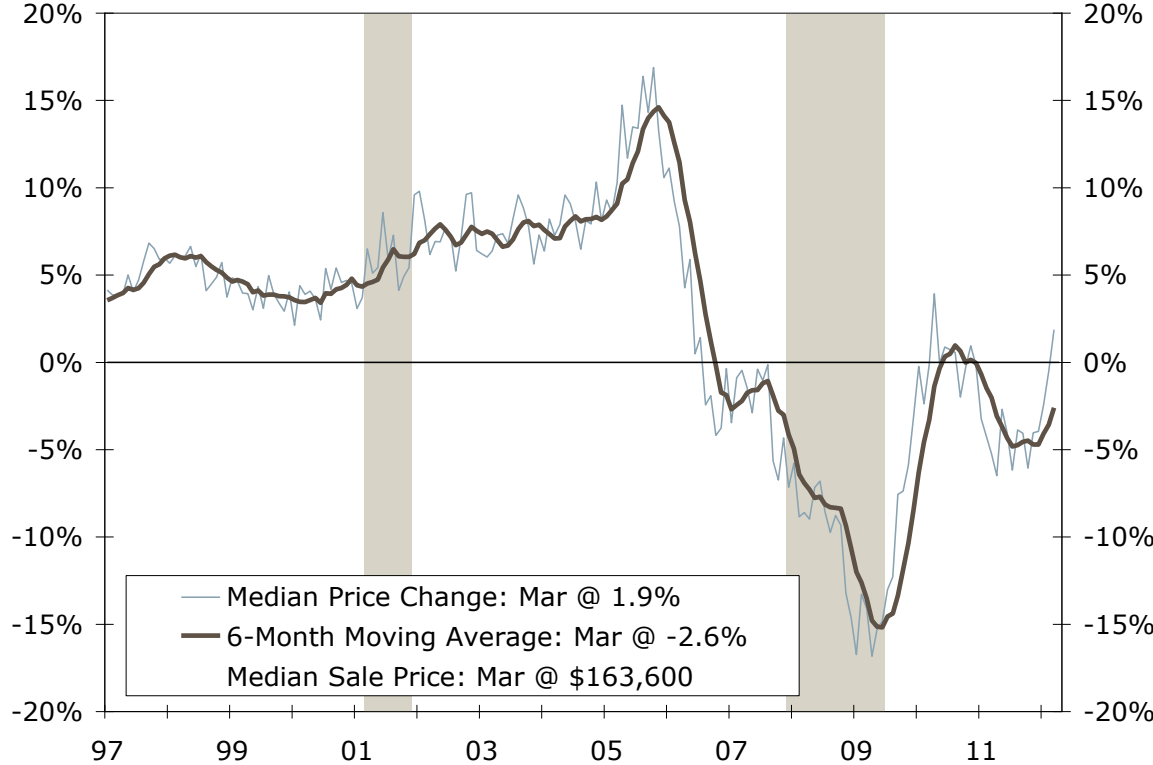
Home sales have improved, but purchase applications remain weak despite record low mortgage rates.



Source: Mortgage Bankers Association, National Association of Realtors and Wells Fargo Securities, LLC

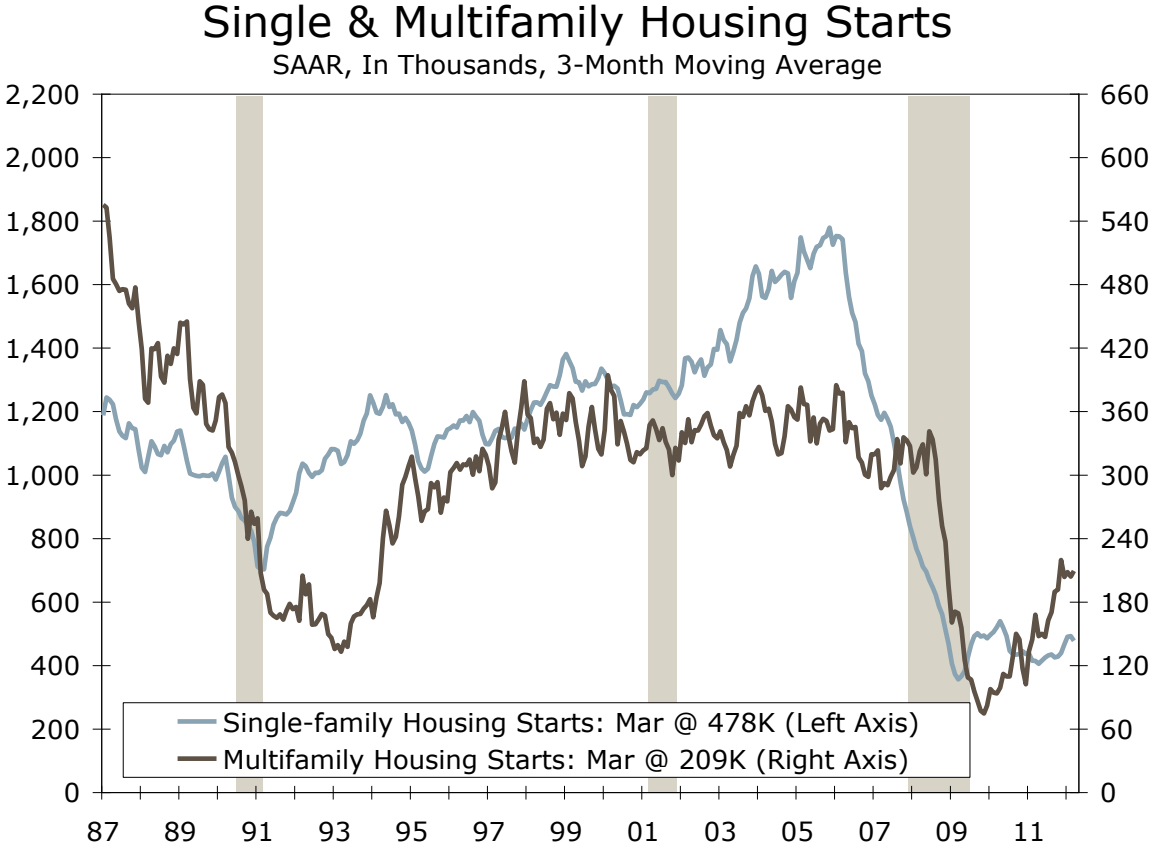
Home prices are starting to show signs of stabilization again.

Median Single-Family Existing Home Price  
Year-over-Year Percentage Change



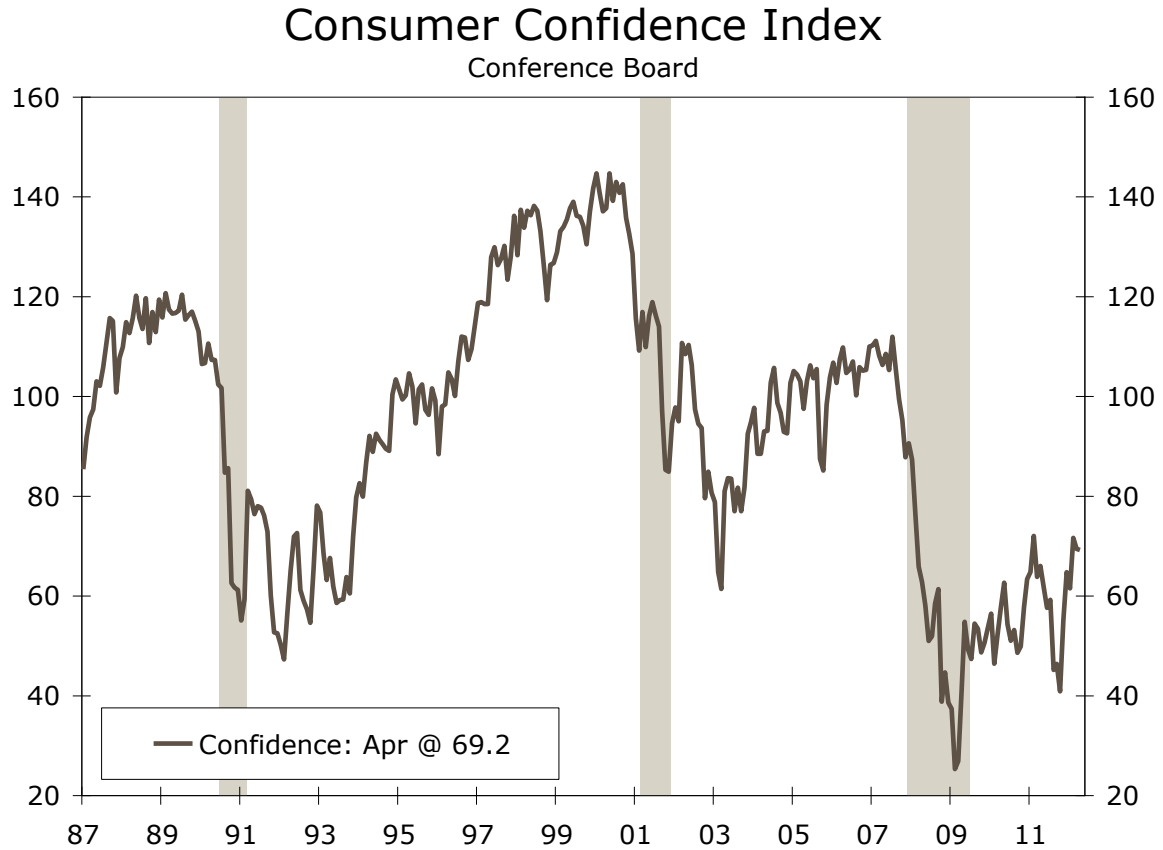
Source: National Association of Realtors and Wells Fargo Securities, LLC

While single-family housing starts remain subdued, multifamily starts have jumped.



Source: U.S. Census Bureau and Wells Fargo Securities, LLC

Consumer confidence has rebounded recently amid improvement in the labor market and better economic data.

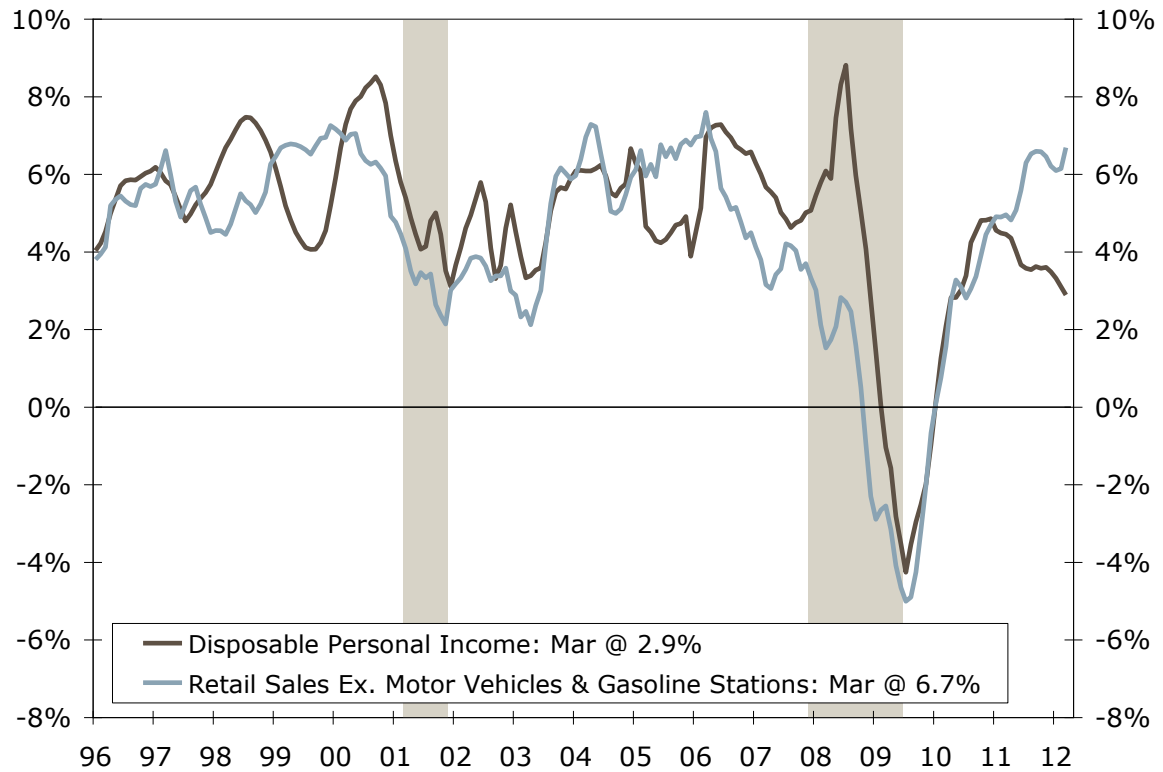


Source: The Conference Board and Wells Fargo Securities, LLC

Rising confidence has supported a rebound in personal spending recently, but this may not be sustained due to slowing income growth.

### Retail Sales Ex. Auto & Gas Stations vs. Disp. Income

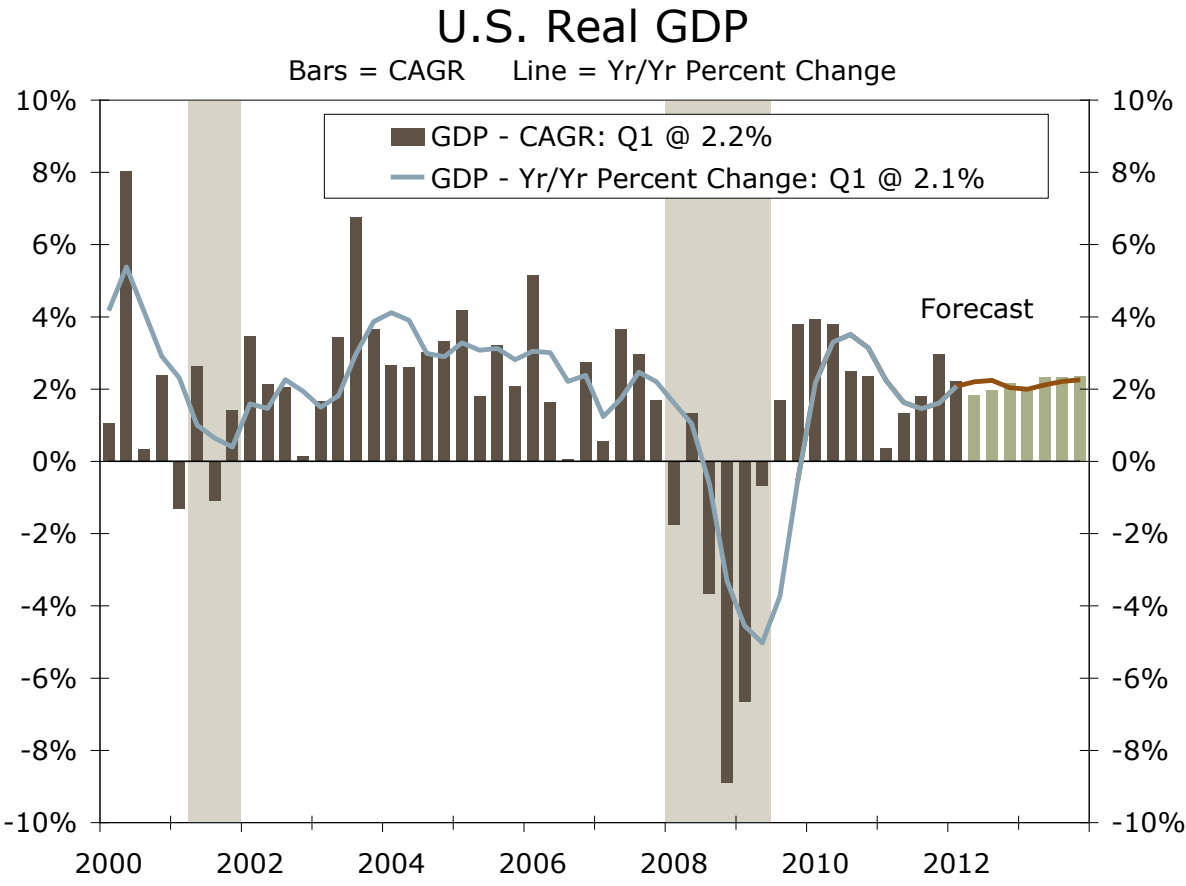
3-Month Moving Average, Year-over-Year Percent Change



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



We believe modest consumer spending and further declines in government spending will keep economic growth subpar. Business investment should remain decent, while residential investment should improve.



Source: U.S. Bureau of Economic Analysis and Wells Fargo Securities, LLC

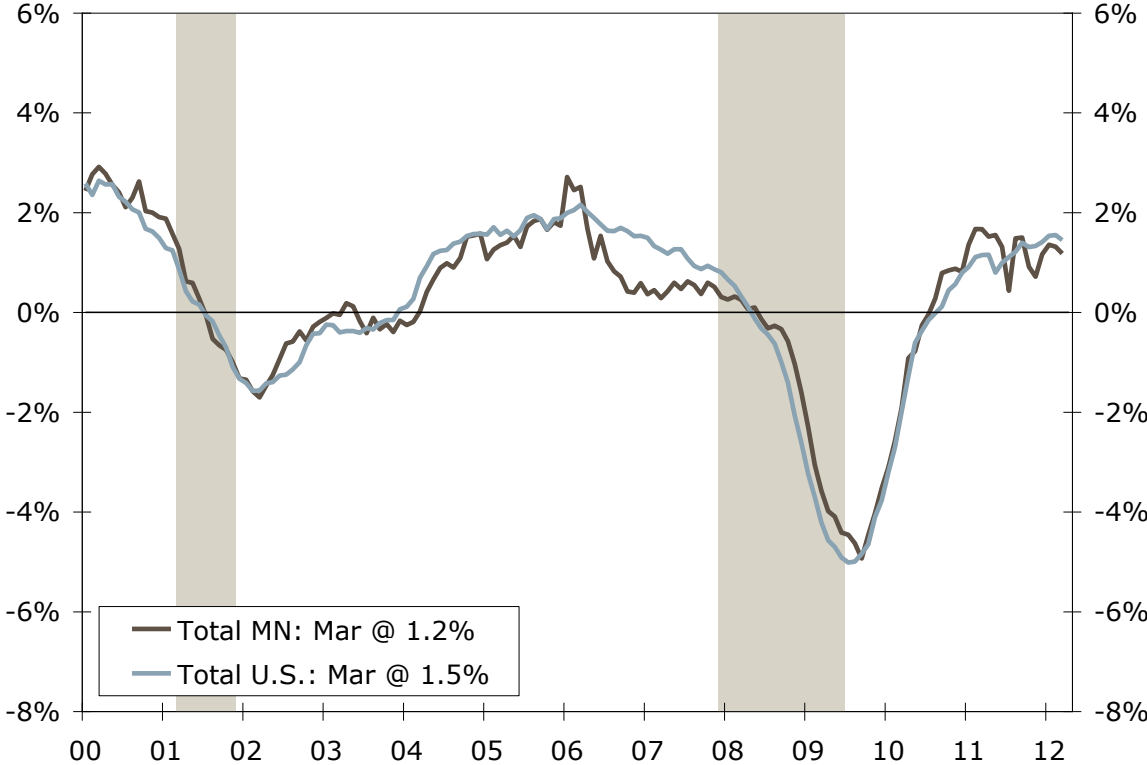
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# Minnesota

Employment growth has slipped below the national pace recently as construction, retail, leisure/hospitality services and manufacturing have weakened.

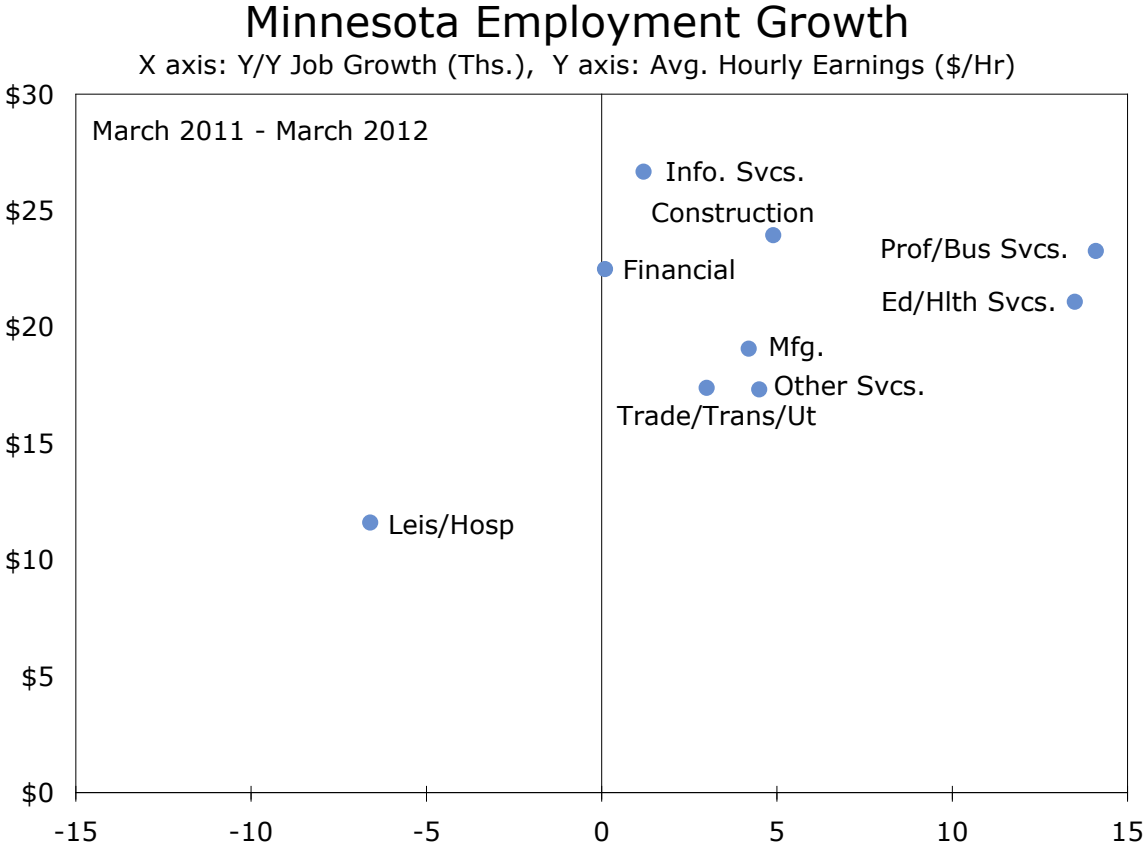
### Minnesota Nonfarm Employment

Year-over-Year Percent Change



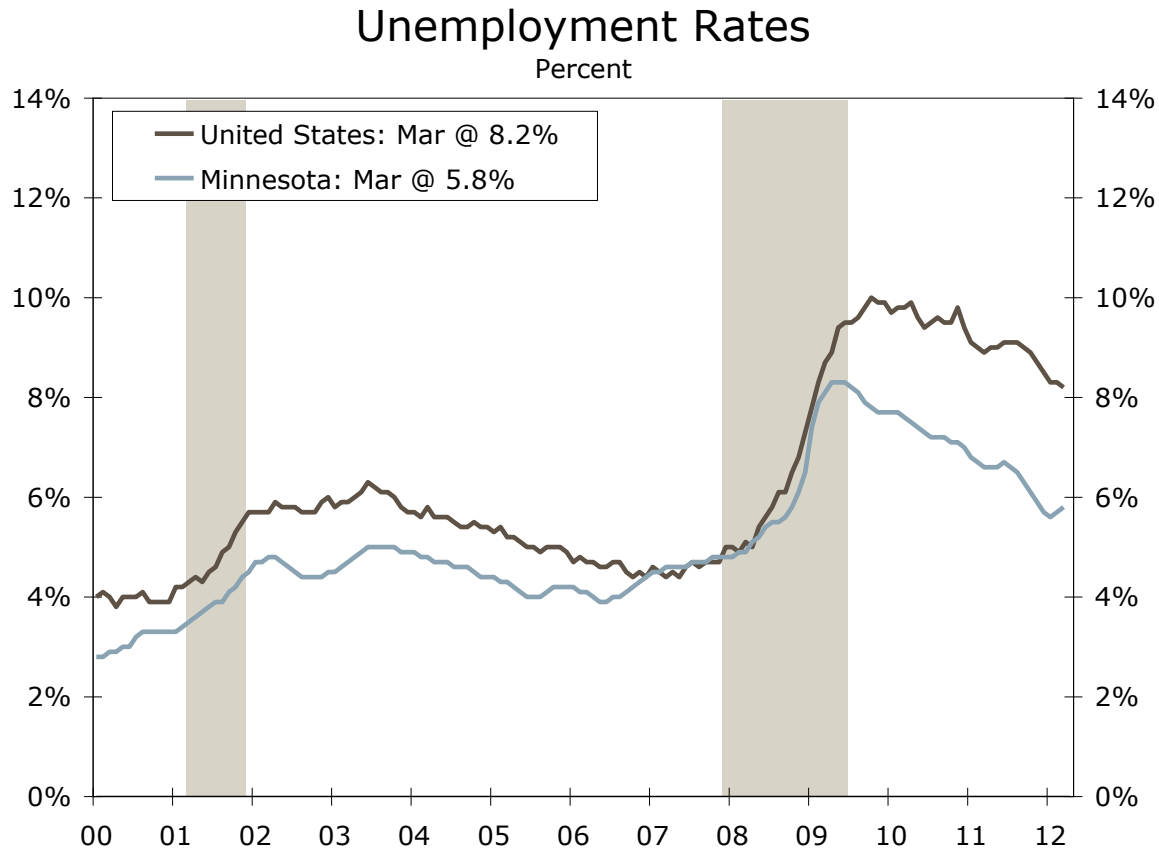
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Professional and business services have led job growth over the past year, while leisure and hospitality services have shed staff.



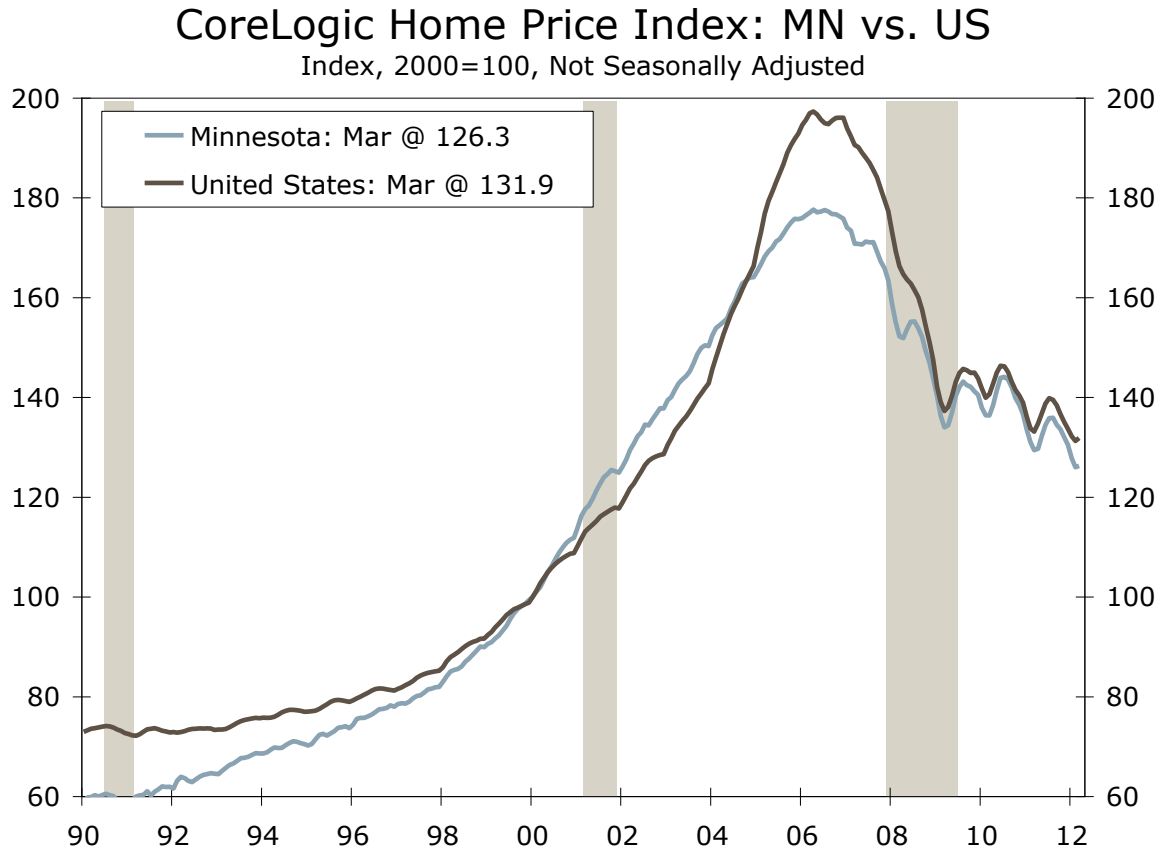
Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The Minnesota unemployment rate remains much lower than the national average.



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

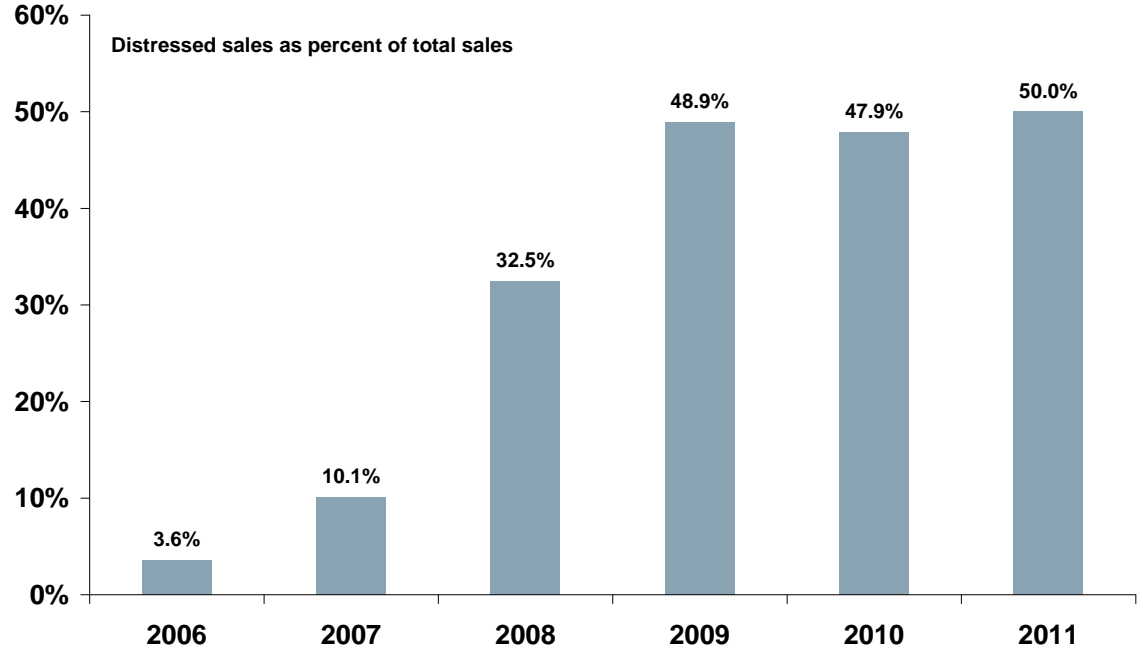
National and state home prices continue to fall.



Source: Core Logic and Wells Fargo Securities, LLC

Distressed sales accounted for half of all sales in 2011.

## Twin Cities - Distressed Sales

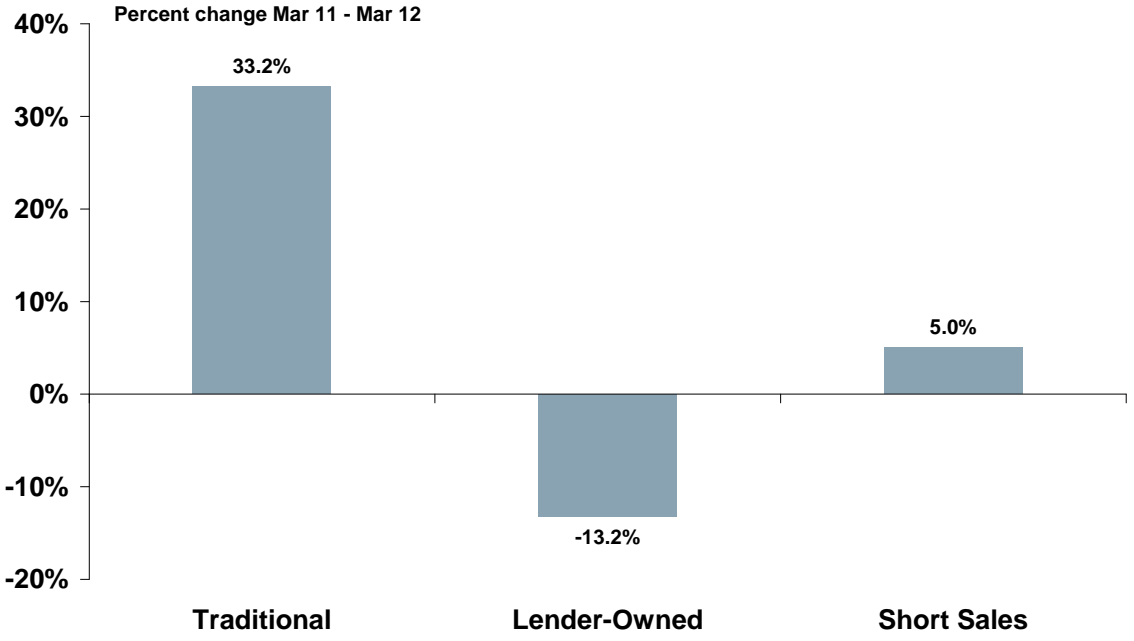


Source: Minneapolis Area Association of Realtors

Source: Minneapolis Association of Realtors and Wells Fargo Securities, LLC

The pullback in foreclosure filings has also restrained sales of lender-owned homes.

## Twin Cities - Closed Sales



Source: Minneapolis Area Association of Realtors

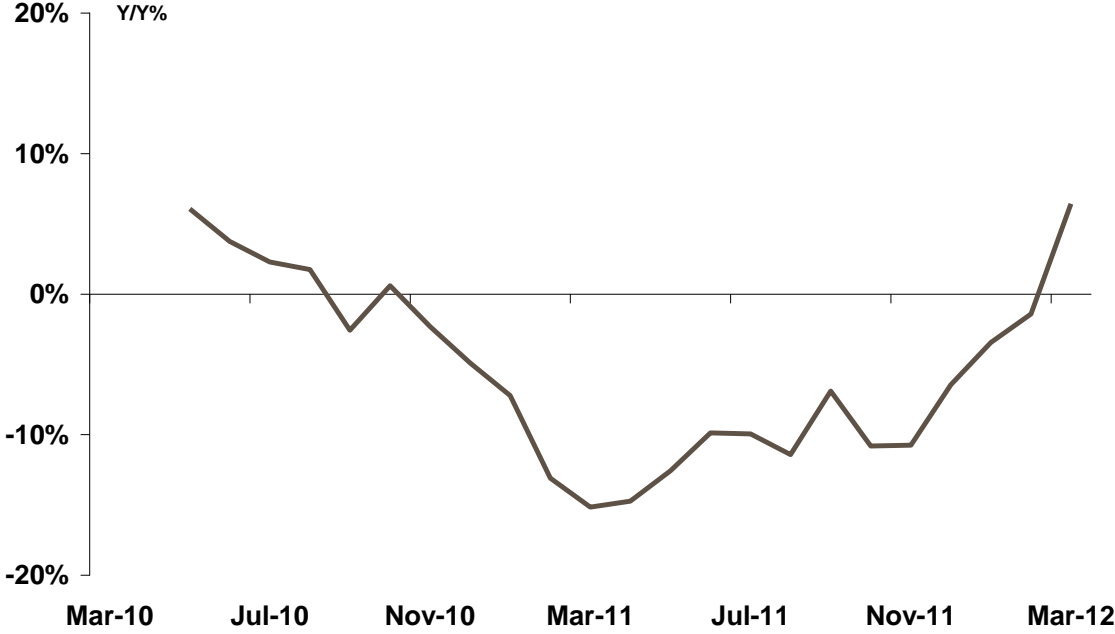
Source: Minneapolis Association of Realtors and Wells Fargo Securities, LLC



**97% of the variation in the median sales price is due to the mix of homes being sold**

Home prices are higher compared to a year ago for the first time since October 2010.

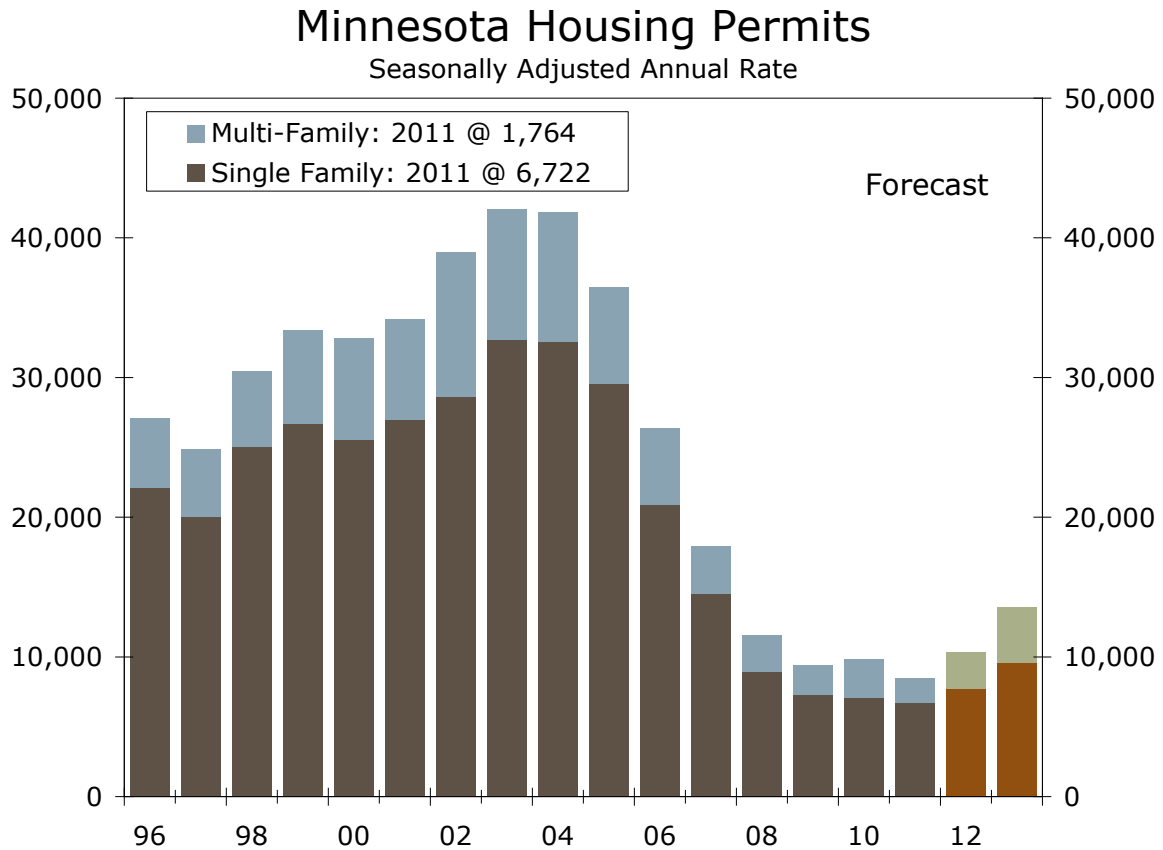
### Twin Cities - Median Home Price



Source: Minneapolis Area Association of Realtors

Source: Minneapolis Association of Realtors and Wells Fargo Securities, LLC

Housing starts remain extremely weak, but we expect an increase in activity this year.



Source: U.S. Census Bureau and Wells Fargo Securities, LLC

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# Key Takeaways

### ▪ **United States**

- Job growth: looking better but still a long way to go
- Housing market: encouraging signs but challenges remain
- Budget deficits: will likely weigh on growth nationally and locally

### ▪ **Minnesota**

- Job growth: in line with the national pace
- Housing market: looking a bit better (weather, housing mix)
- Sectors (y/y% compared to U.S.)
  - Stronger than average: construction, information services, other services, prof/bus svcs, retail, ed/hlth
  - Weaker than average: leisure/hospitality, government, manufacturing, financial services, trade/trans/util
- Sectors (recent m/m trend)
  - Strong: education/health, professional/business services, other services
  - Weak: all others including government
- Employment concentration
  - Greater than average: manufacturing, wholesale trade, financial, education/health, other services
  - Less than average: mining, construction, trans/util, retail, prof/bus, leisure/hosp, government
- Vulnerabilities
  - Manufacturing slowdown (Europe, China)
  - Consumer spending slowdown (would affect wholesale trade)
  - Another downturn in financial services (Europe)
  - Cuts in education funding
  - Healthcare policy

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# Questions?

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