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# The Global Economic Outlook

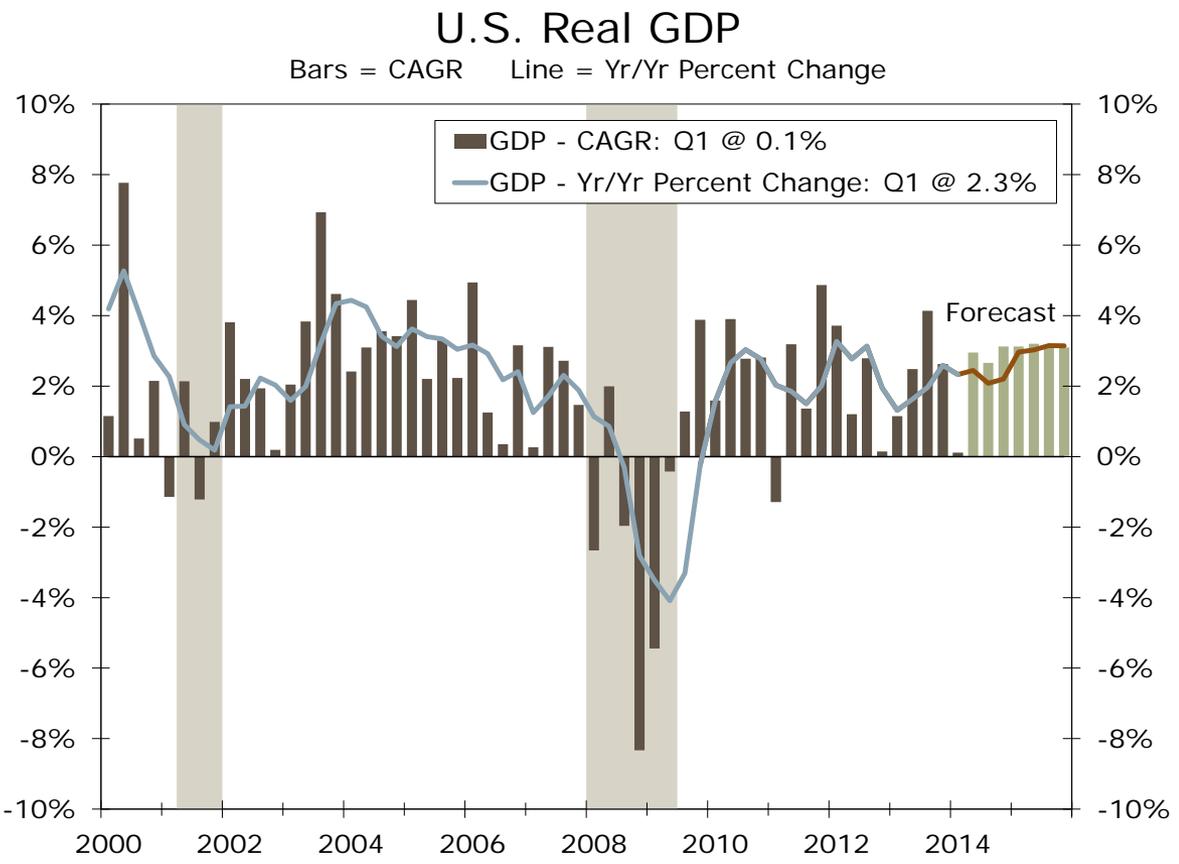
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Jay H. Bryson, Managing Director and Global Economist  
May 13, 2014

Together we'll go far



Our forecast looks for growth to slowly strengthen over the next two years

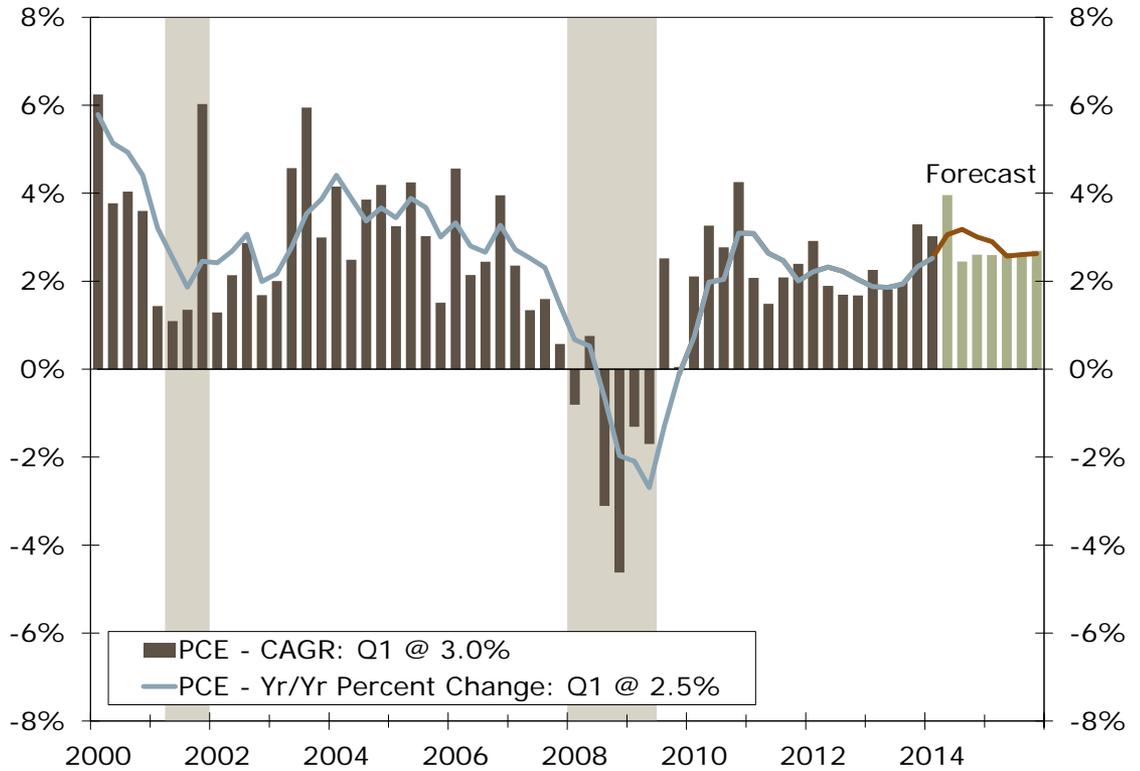


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Growth in consumer spending, which has been relatively weak, should slowly ramp up

### Real Personal Consumption Expenditures

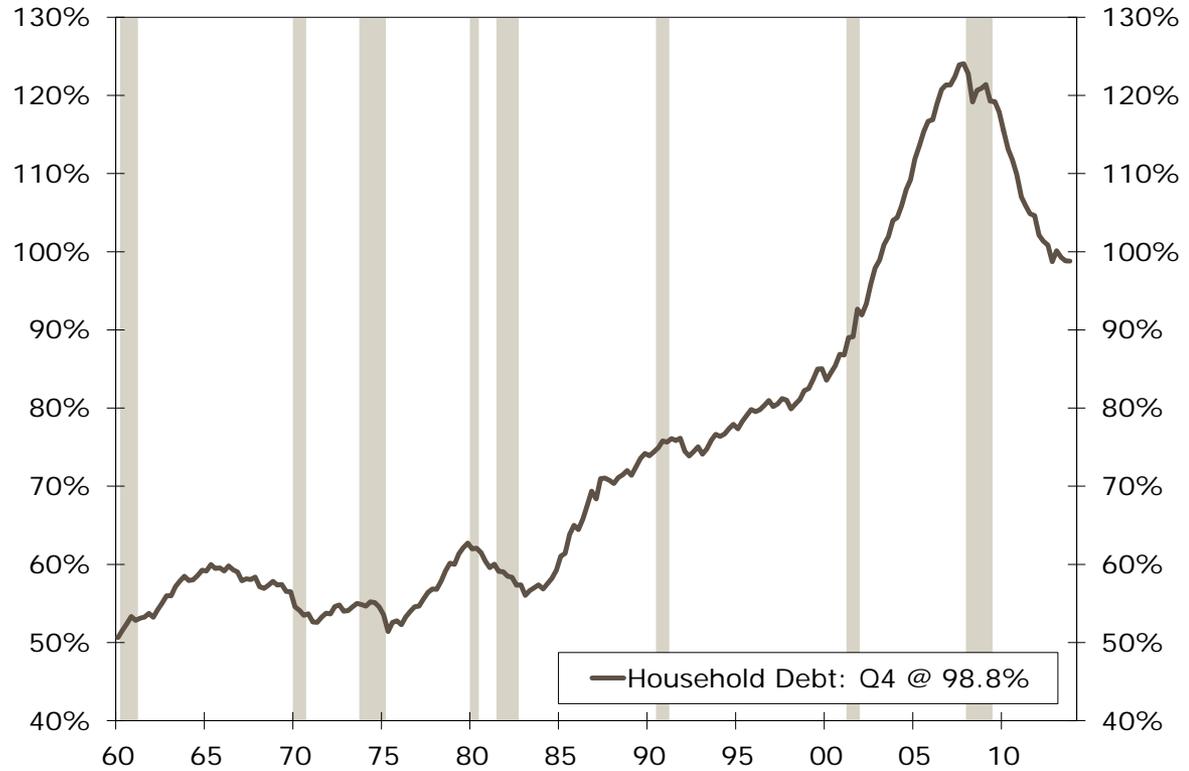
Bars = CAGR Line = Yr/Yr Percent Change



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

Consumer leverage is moving in the right direction, but it remains elevated

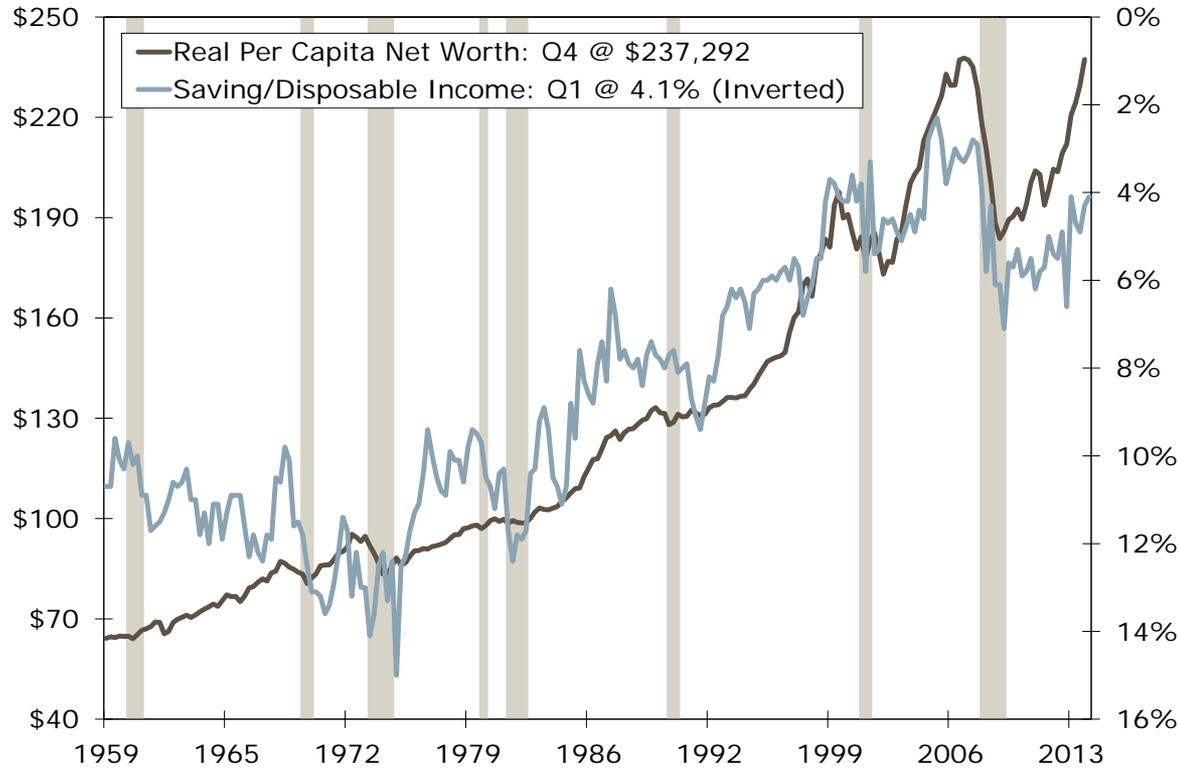
Household Debt - Consumer & Mortgage  
As a Percent of Disposable Personal Income



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

## Real Per Capita Household Net Worth

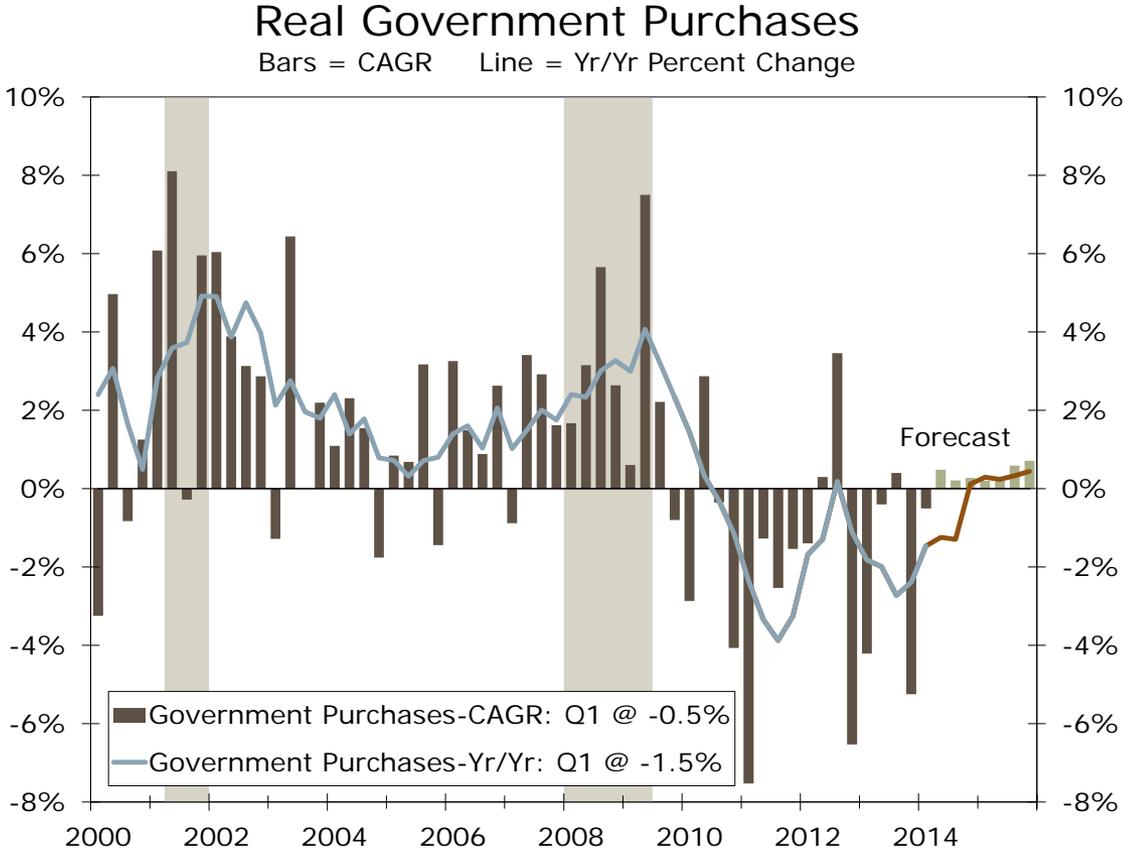
Thousands of Dollars, Savings as a Percent of Disposable Income (Inverted)



The drop in real per capita net worth induced consumers to increase their savings rates

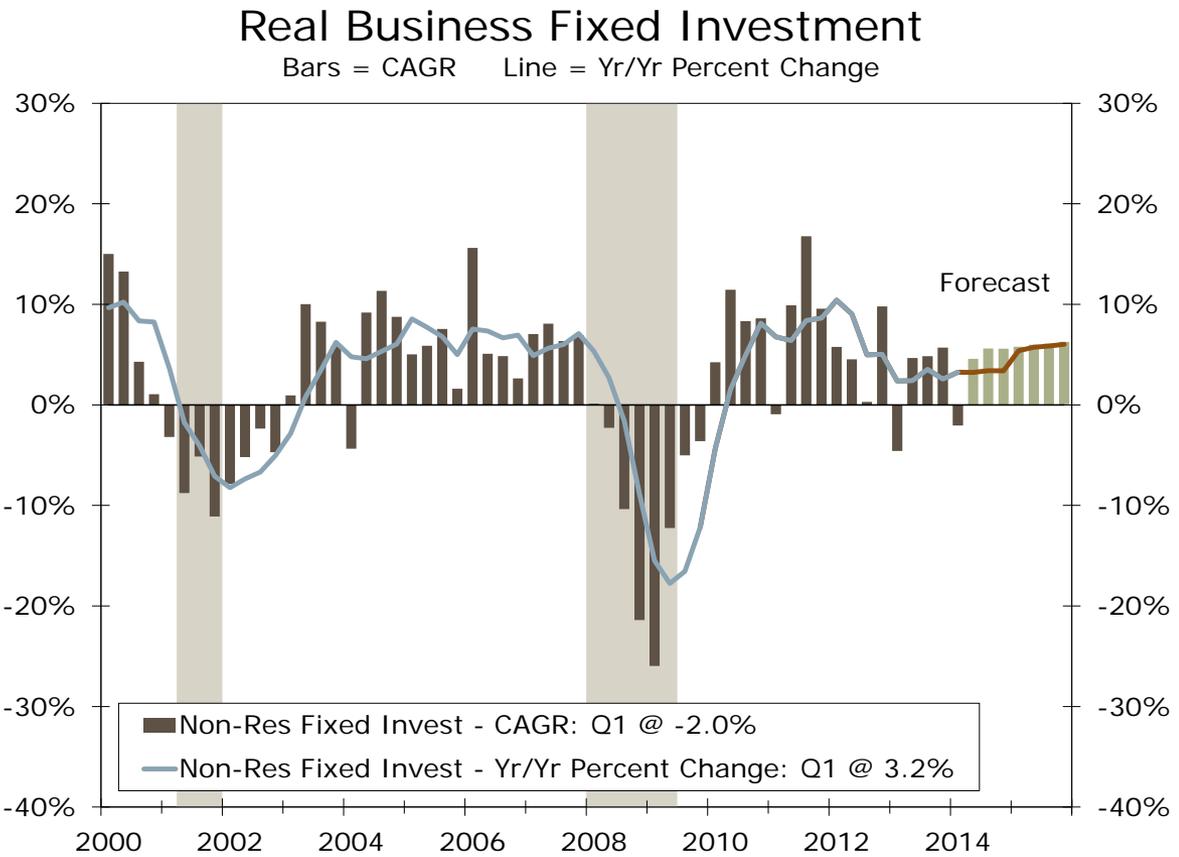
Source: Federal Reserve Board and Wells Fargo Securities, LLC

The headwinds on growth from government spending are starting to dissipate



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

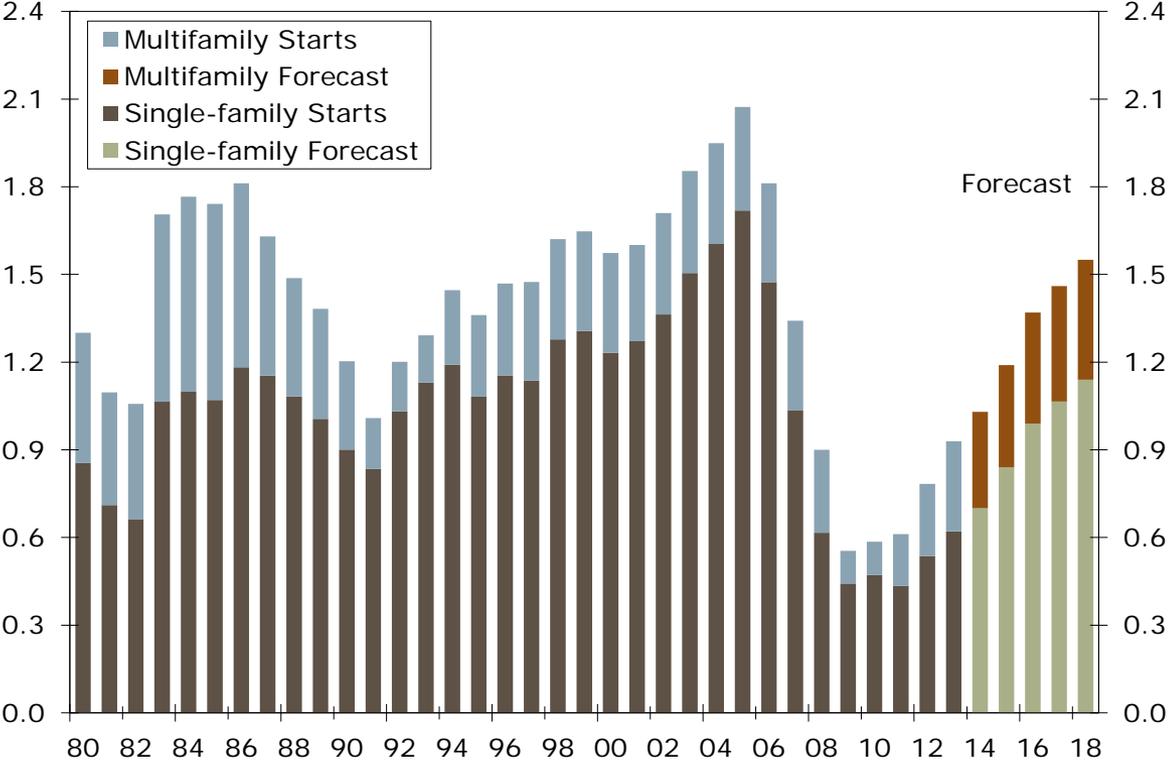
Business fixed investment spending should continue to grow at a solid pace, as it usually does at this point in the cycle



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

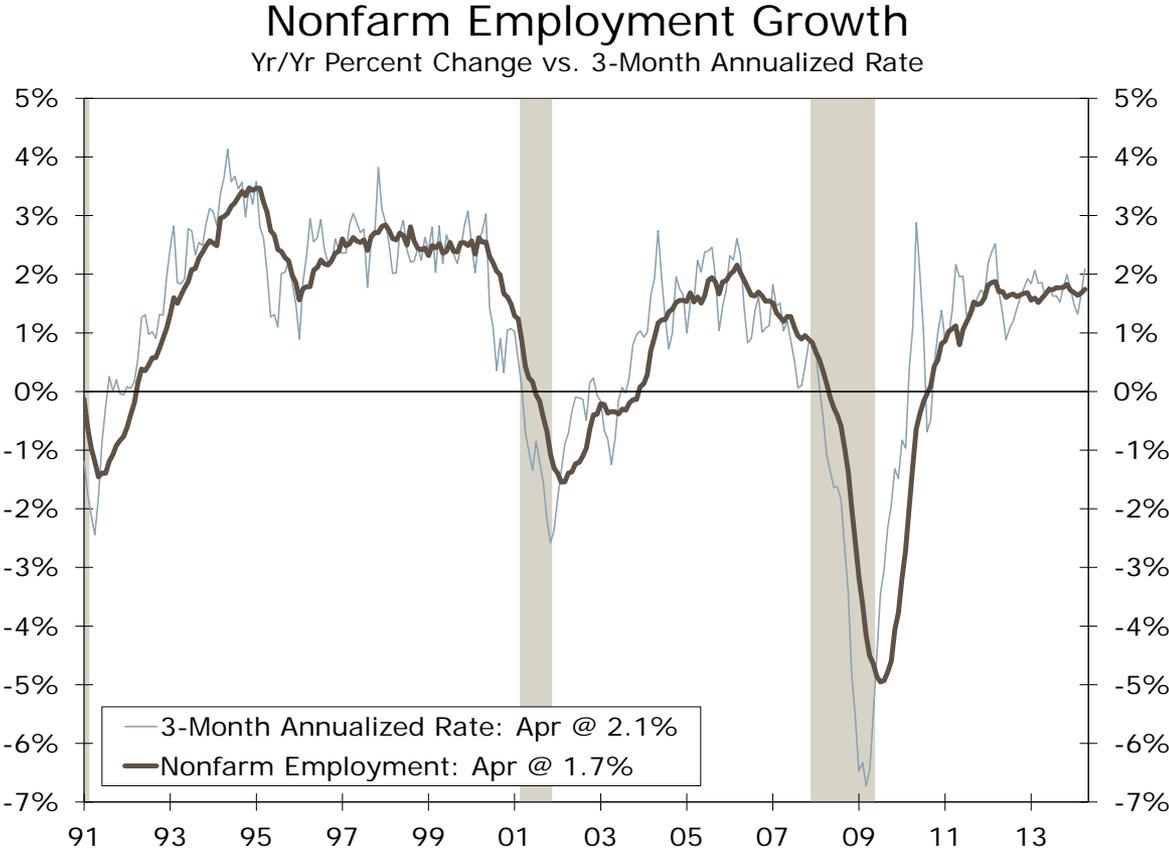
Although housing starts are still at low levels, they are trending in the right direction

Housing Starts  
Millions of Units



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

Employment is growing at a decent pace, but even faster growth would be desirable

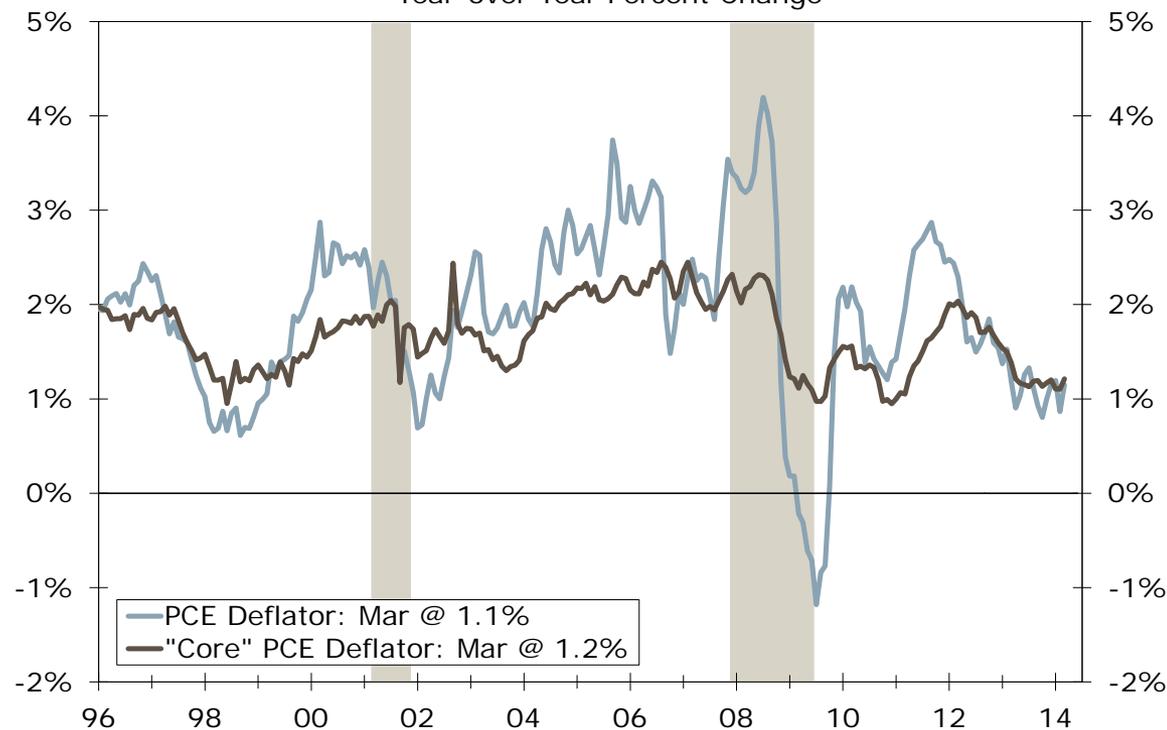


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

PCE inflation is just not a problem at present

## PCE Deflator vs. "Core" PCE Deflator

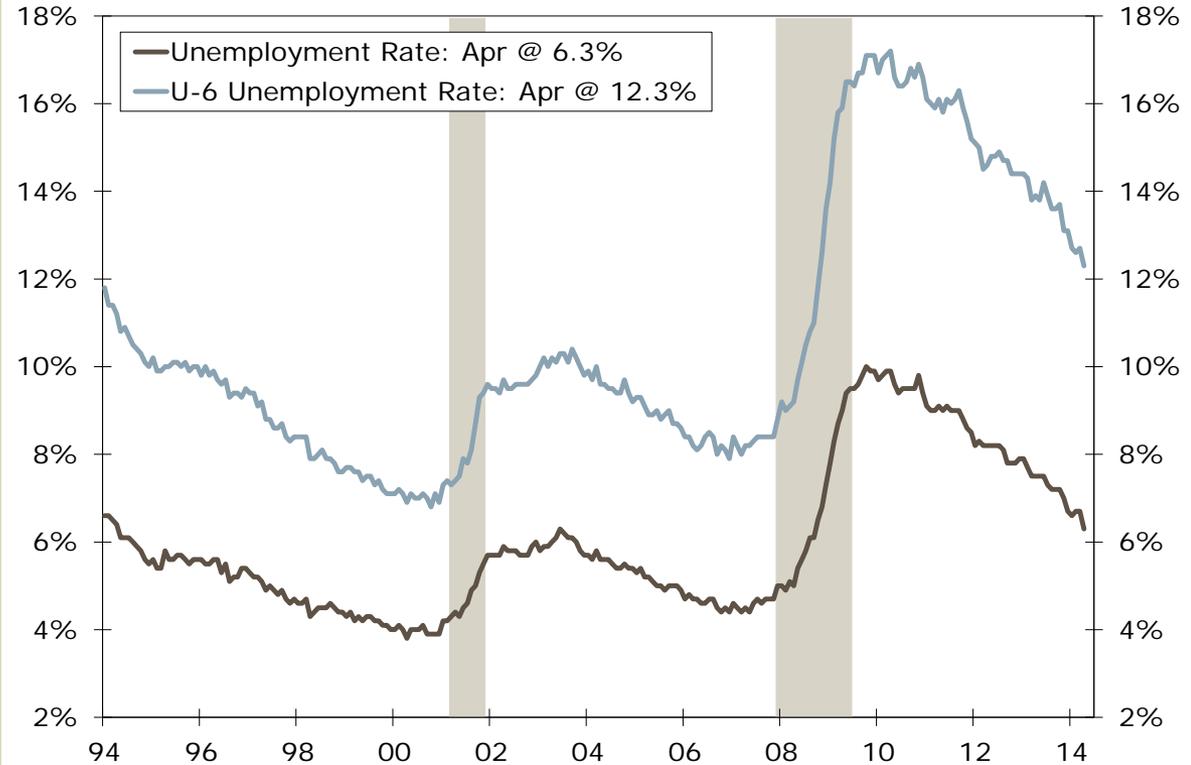
Year-over-Year Percent Change



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

The Fed is clearly concerned about the weak state of the labor market

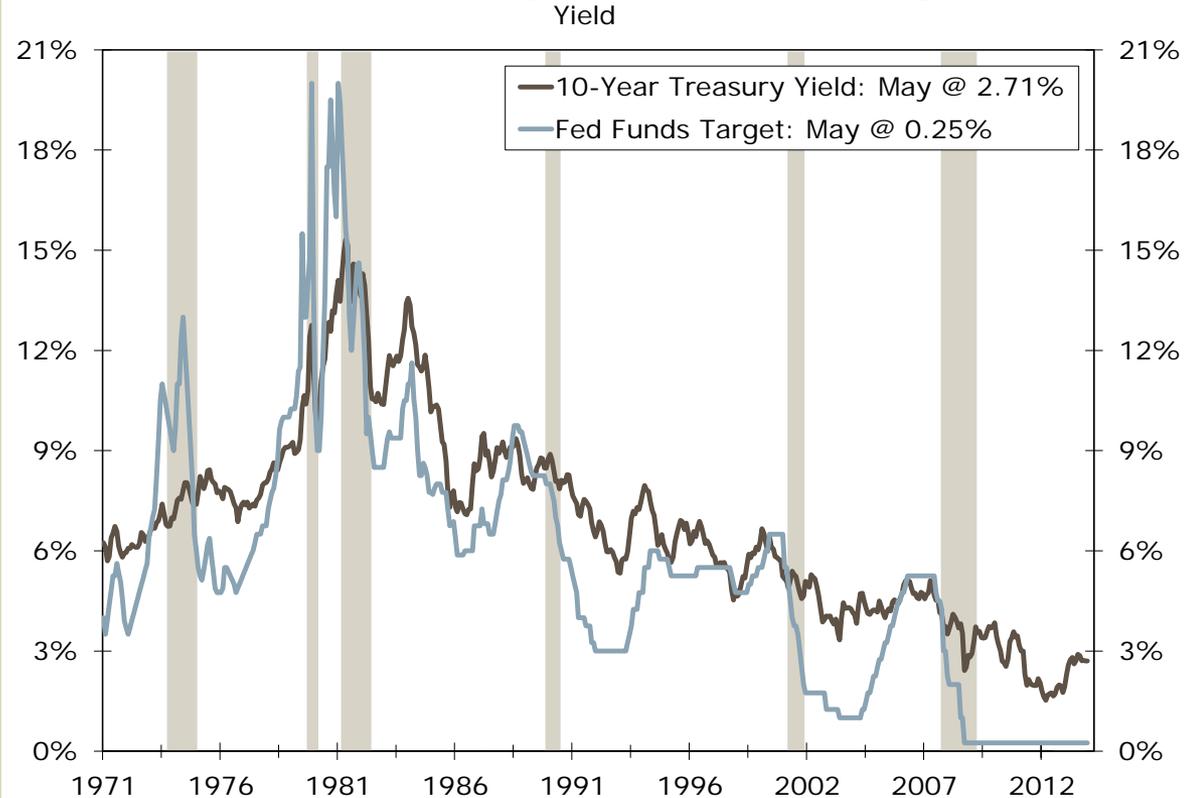
## Unemployment Measures



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

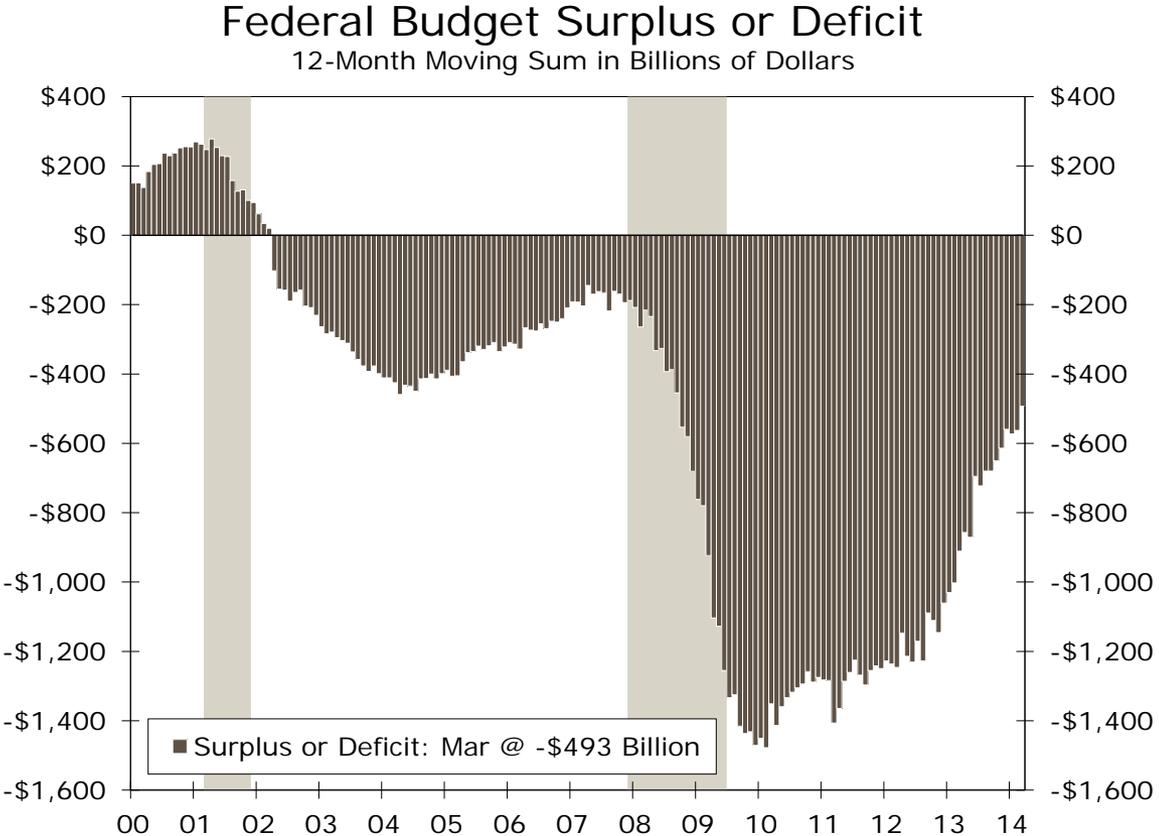
The Fed likely will begin to raise the fed funds rate in mid-2015

## 10-Year Treasury & Fed Funds Target



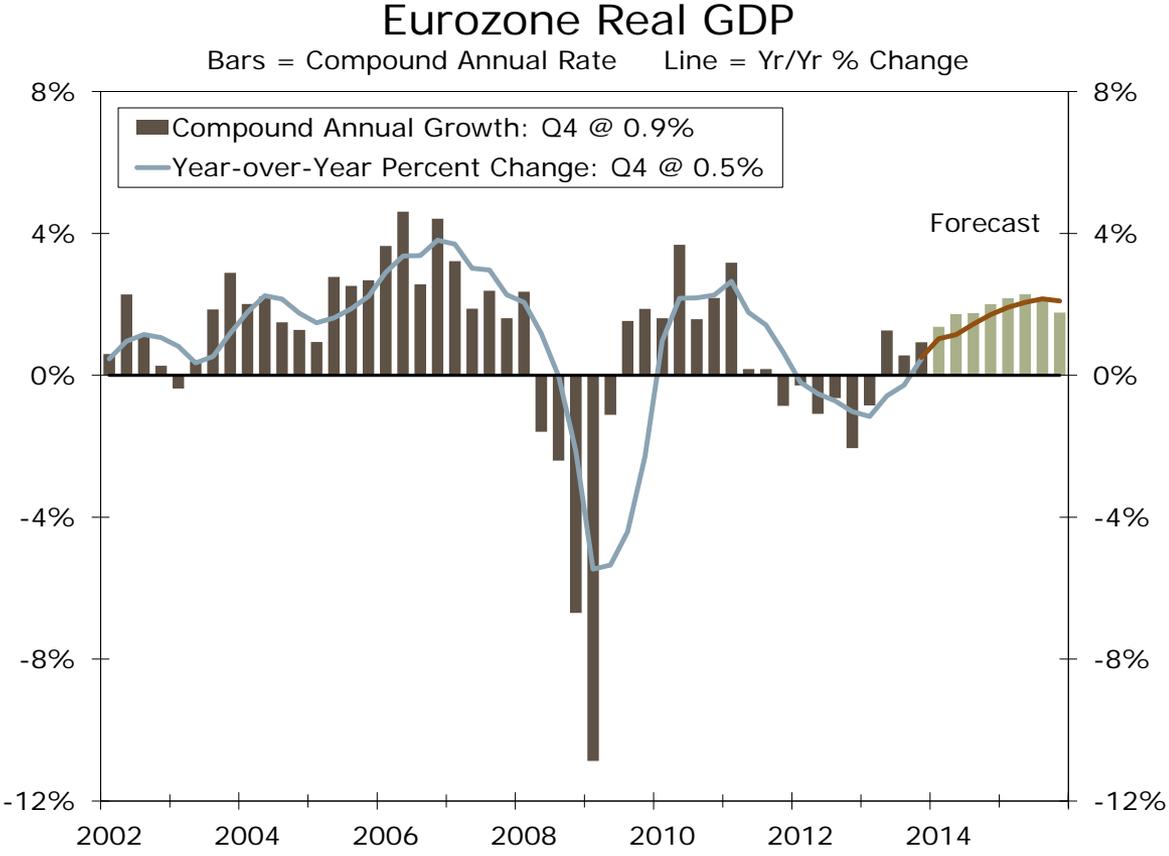
Source: IHS Global Insight and Wells Fargo Securities, LLC

The federal budget deficit, although much smaller than a few years ago, is the largest imbalance in the U.S. economy at present



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

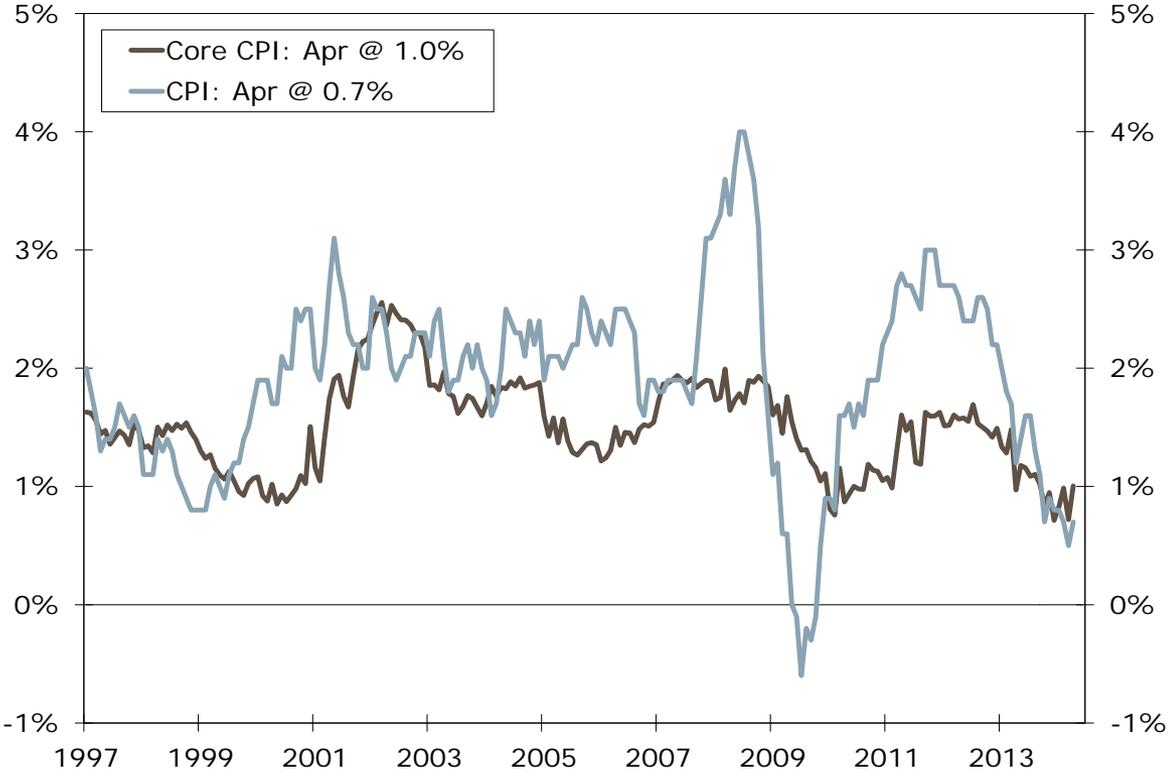
The Eurozone has recently exited recession, and the recovery should continue



Source: IHS Global Insight and Wells Fargo Securities, LLC

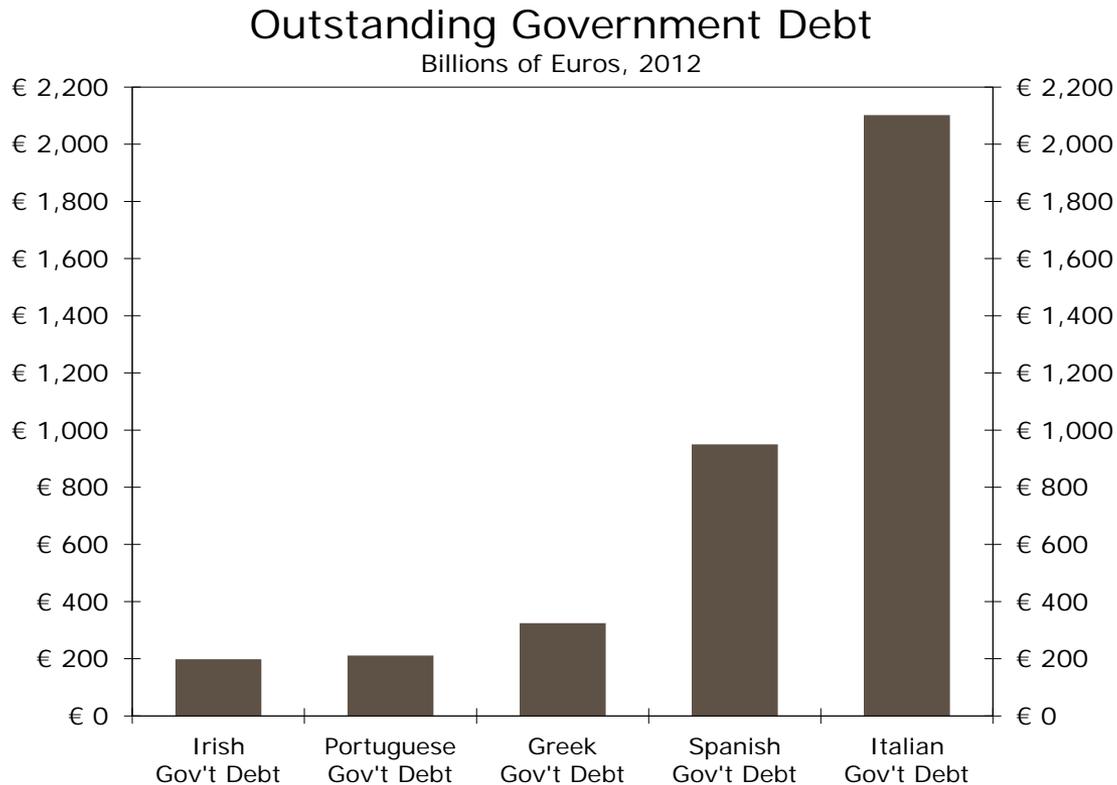
With inflation benign, the ECB likely will not be tightening policy anytime soon

Eurozone Consumer Price Inflation  
Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

The outstanding debt of the Spanish and Italian governments swamps the others



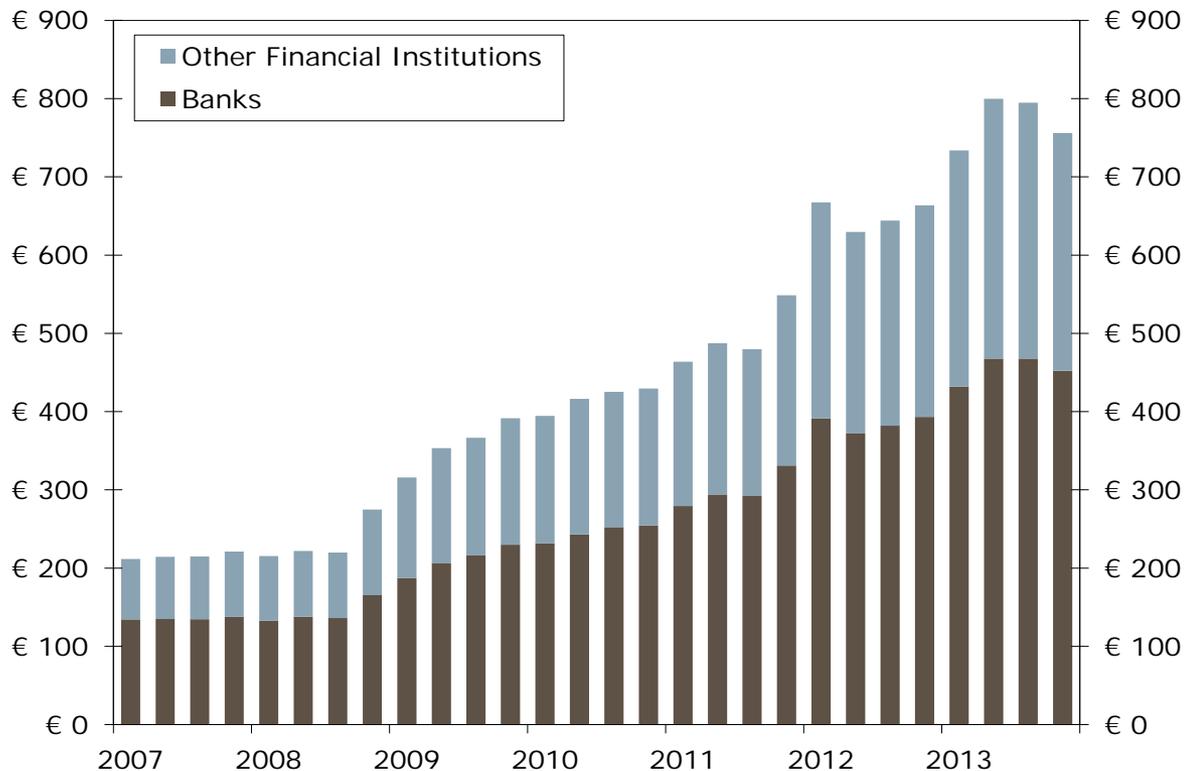
Source: IHS Global Insight Wells Fargo Securities, LLC

# Spanish Government Debt Held by Spanish Financial Institutions

The Spanish financial system has become more exposed to Spanish government debt

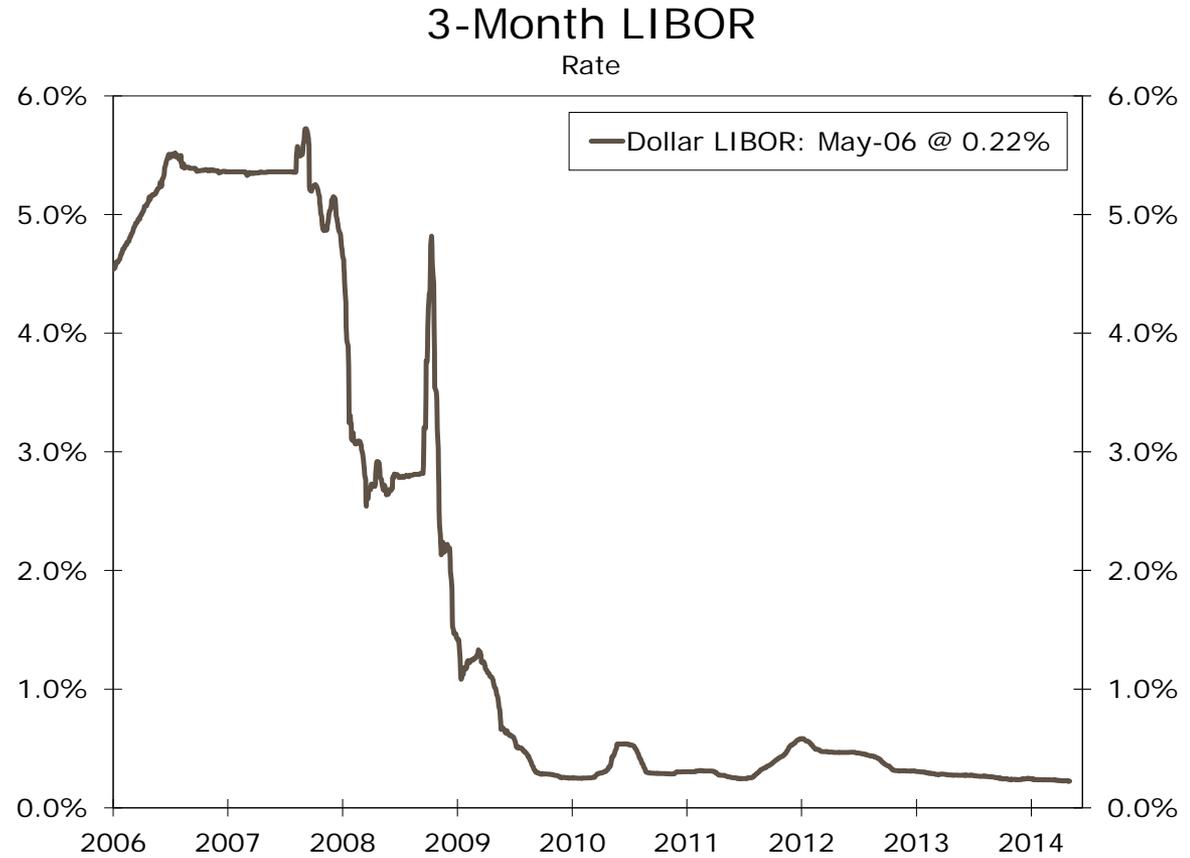
### Domestic Ownership of Spanish Government Debt

Billions of Euros



Source: Bank of Spain and Wells Fargo Securities, LLC

LIBOR could spike if Europe were to “blow up”

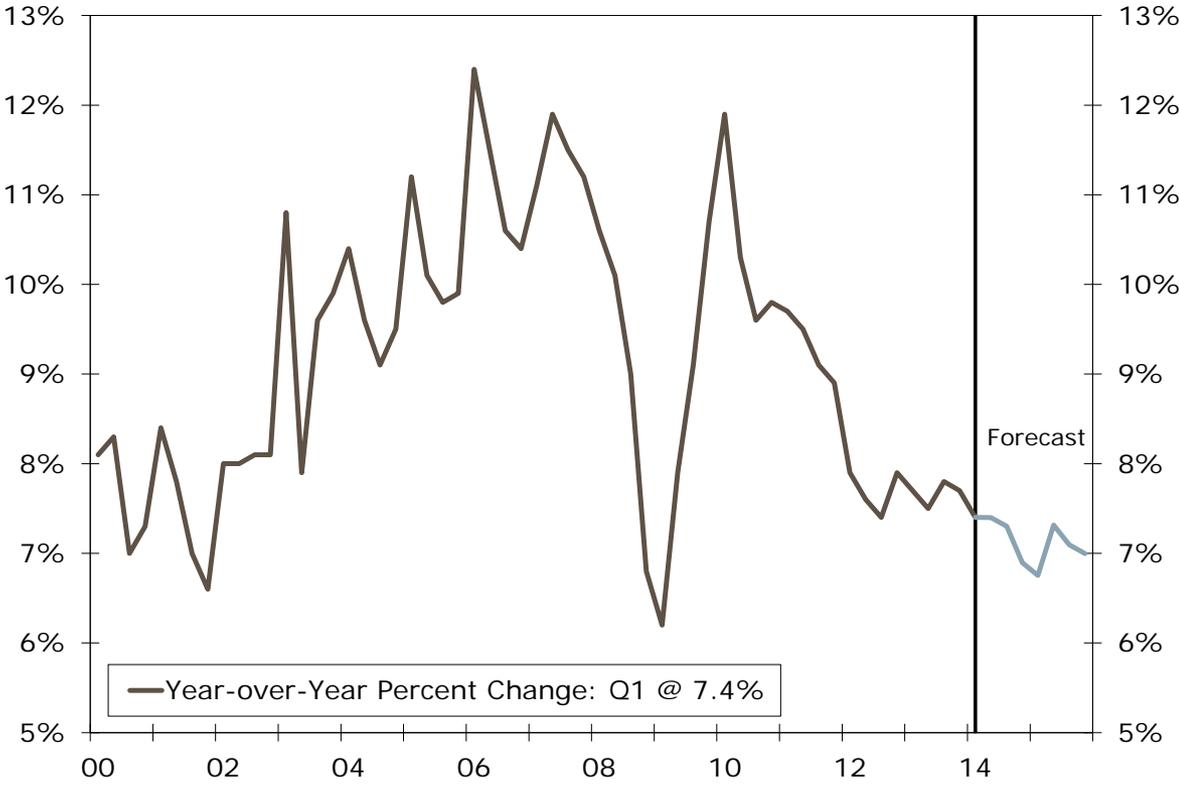


Source: Bloomberg LP and Wells Fargo Securities, LLC

Growth in China probably won't return to double-digit rates ever again

### Chinese Real GDP Forecast

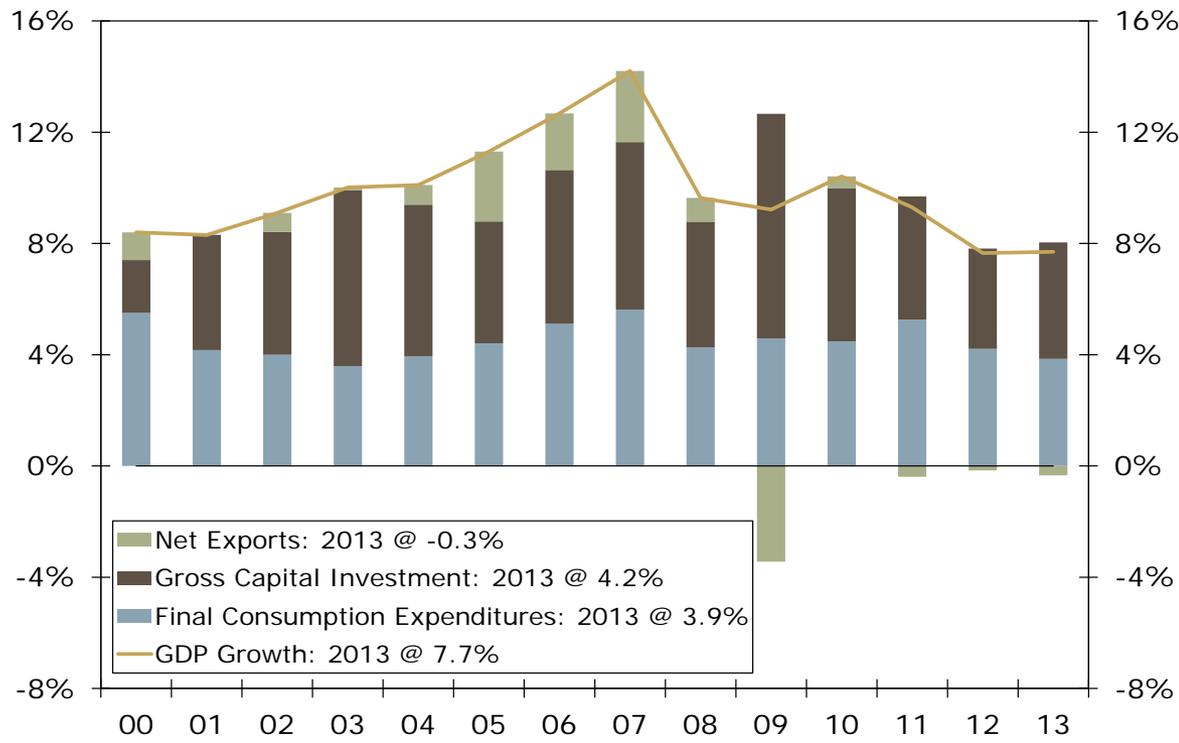
Year-over-Year Percent Change



Source: Bloomberg LP and Wells Fargo Securities, LLC

Investment spending in China has accounted for roughly one-half of GDP growth

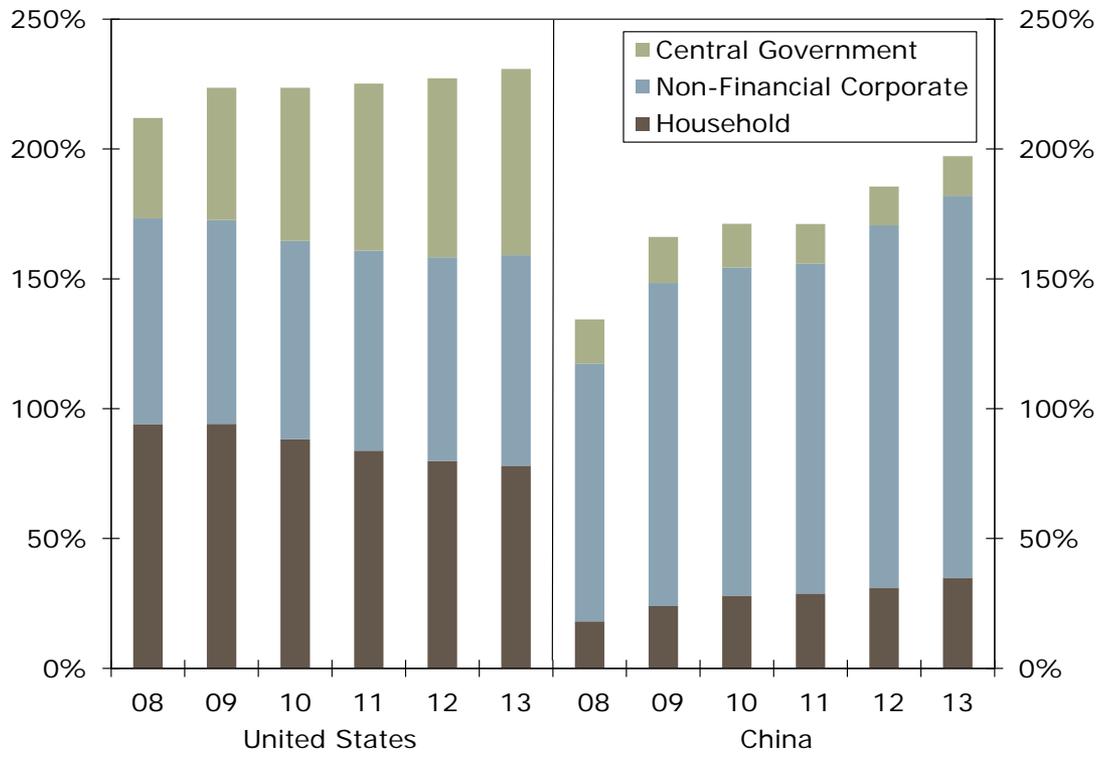
Contributions to Chinese Real GDP Growth



Source: CEIC and Wells Fargo Securities, LLC

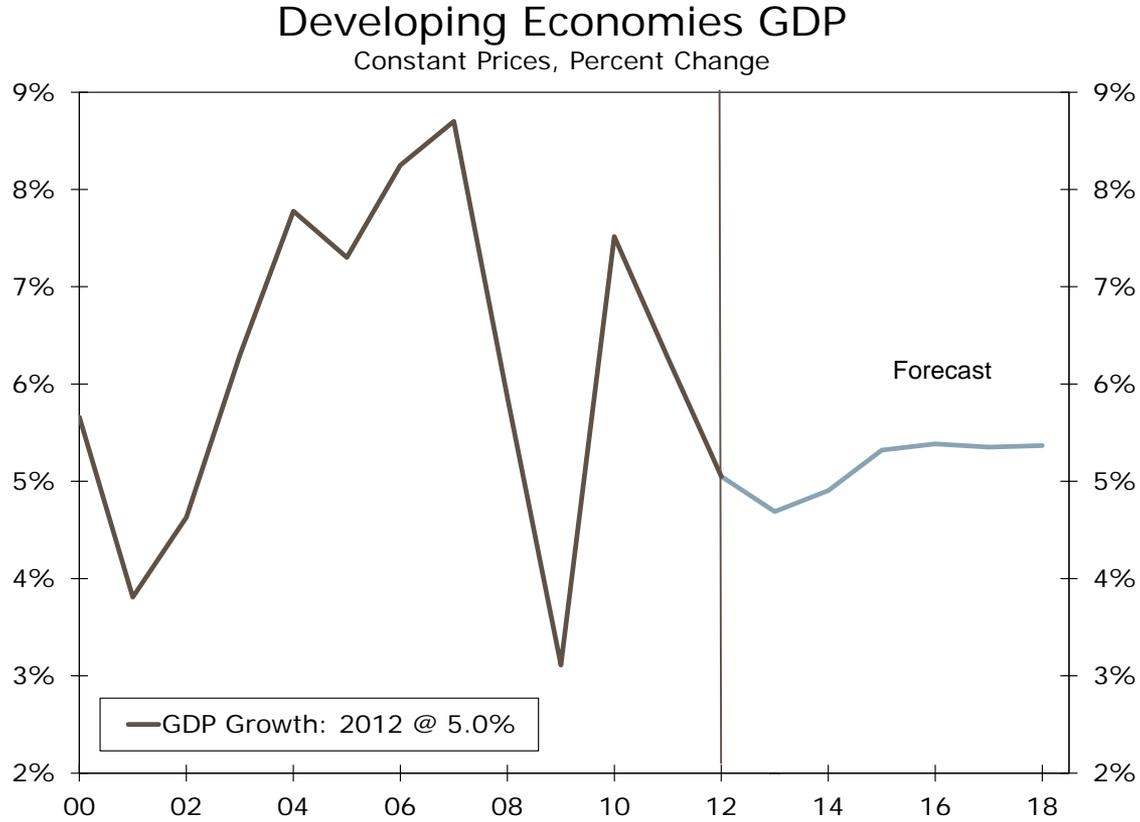
If there is a leverage issue in the Chinese economy it resides in the non-financial corporate sector

U.S. vs. China Debt Outstanding by Sector  
Percent of GDP



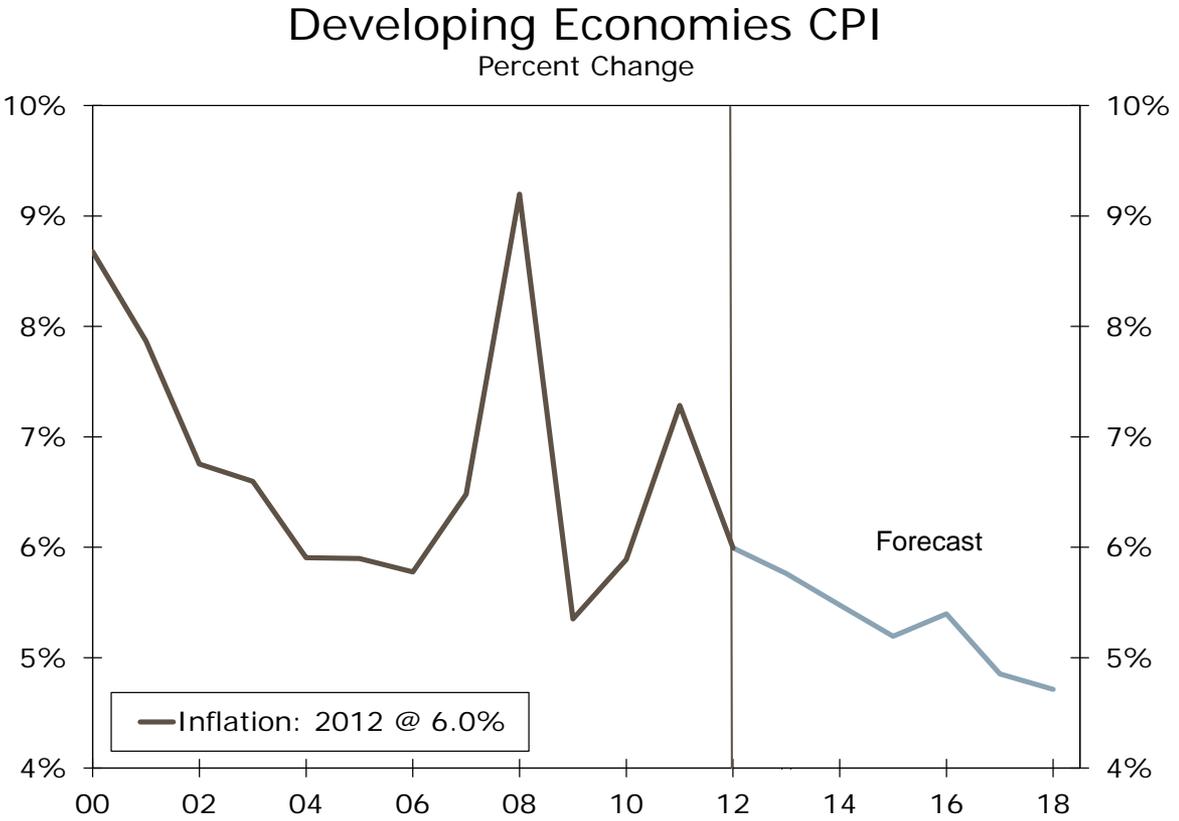
Source: CEIC, BIS and Wells Fargo Securities, LLC

Growth in the developing world is not quite as rapid as it was prior to the global financial crisis



Source: International Monetary Fund and Wells Fargo Securities, LLC

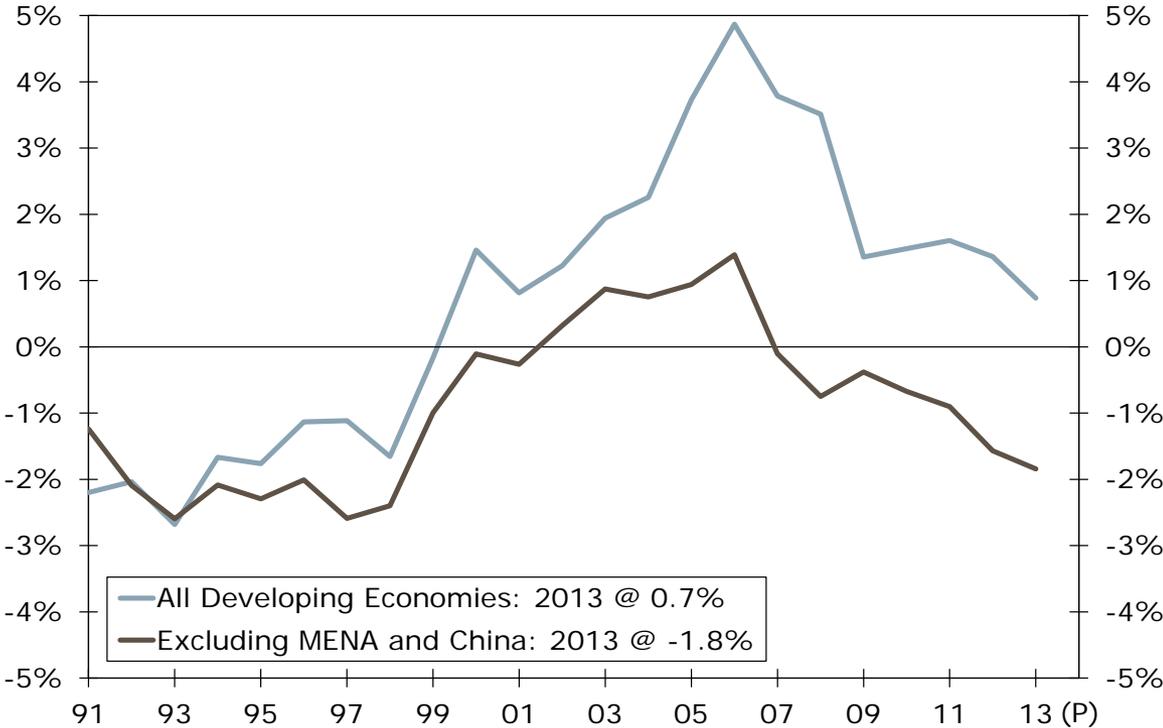
Slower growth and higher inflation implies that potential growth in the developing world probably has downshifted



Source: International Monetary Fund and Wells Fargo Securities, LLC

Economic fundamentals in the developing world have deteriorated at the margin in recent years

Developing Economies Current Account  
Percent of GDP

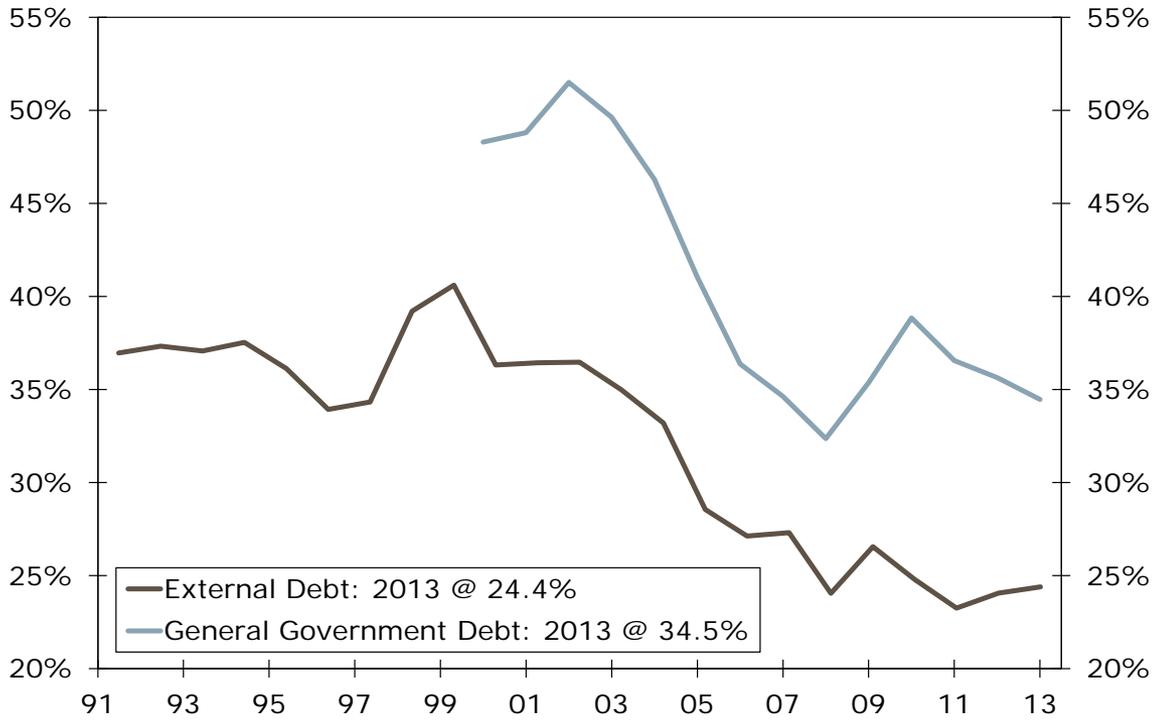


Source: International Monetary Fund and Wells Fargo Securities, LLC

Economic fundamentals in developing economies generally are not as weak today as they were in the mid-90s

### Developing Countries Debt

Percent of GDP

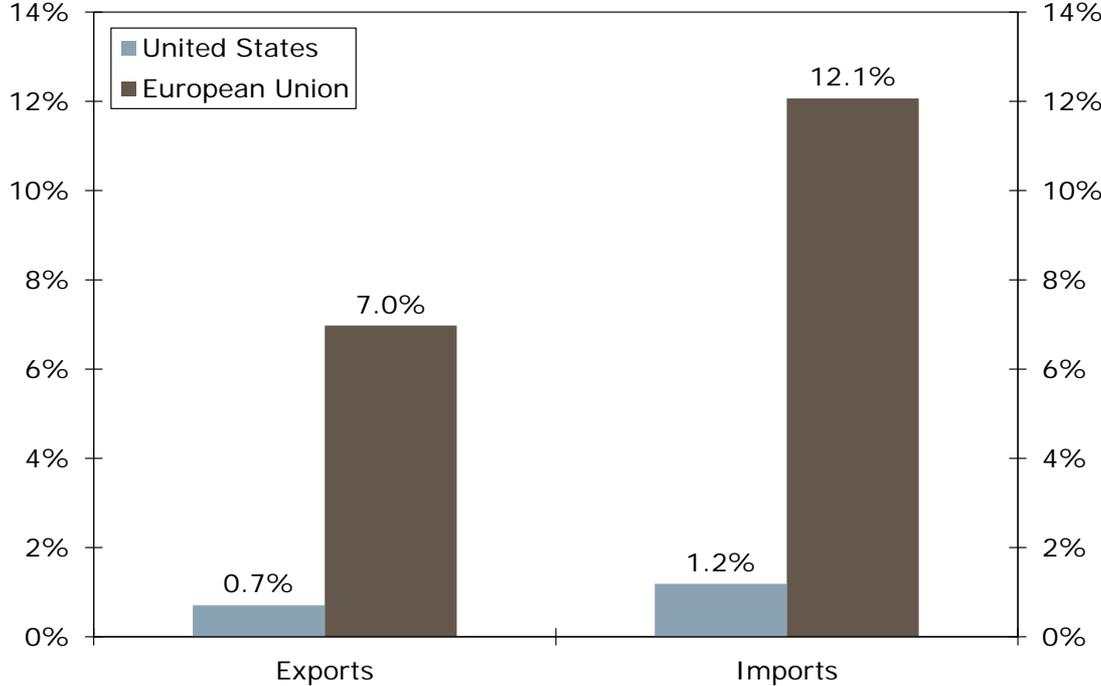


Source: International Monetary Fund and Wells Fargo Securities, LLC

The European Union has extensive trade ties, especially in energy products, with Russia

### U.S. and E.U. Trade with Russia

Percent of Total, 2013



Source: International Monetary Fund and Wells Fargo Securities, LLC

The global economy should grow close to its long-run average in 2014 and a bit above it in 2015

## Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2013	2014	2015	2013	2014	2015
Global (PPP weights)	3.0%	3.4%	3.9%	4.0%	3.9%	3.9%
Global (Market Exchange Rates)	2.4%	2.9%	3.4%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	1.4%	2.1%	2.7%	1.3%	1.5%	1.5%
United States	1.9%	2.3%	3.1%	1.5%	1.8%	2.2%
Eurozone	-0.4%	1.3%	2.1%	1.4%	0.8%	1.4%
United Kingdom	1.7%	2.9%	2.9%	2.6%	1.9%	2.3%
Japan	1.5%	1.4%	1.4%	0.4%	2.3%	1.6%
Korea	3.0%	4.1%	4.3%	1.3%	1.8%	2.7%
Canada	2.0%	2.0%	2.4%	0.9%	1.7%	1.9%
Developing Economies <sup>1</sup>	4.6%	4.7%	5.1%	6.6%	6.1%	6.1%
China	7.7%	7.2%	7.0%	2.6%	2.2%	2.8%
India <sup>2</sup>	4.6%	5.0%	5.4%	10.1%	8.2%	7.6%
Mexico	1.1%	2.4%	3.9%	3.8%	4.5%	4.2%
Brazil	2.3%	2.3%	3.2%	6.2%	6.6%	5.7%
Russia	1.3%	1.0%	2.5%	6.8%	6.5%	5.7%

Forecast as of: May 07, 2014

<sup>1</sup>Aggregated Using PPP Weights

<sup>2</sup>Forecasts Refer to Fiscal Year

Source: Wells Fargo Securities, LLC

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