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Economics Group

Special Commentary

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Global Chartbook: March 2017

Executive Summary

Growth in the global economy has slowed over the past few years. Specifically, global GDP grew 3.4 percent in 2014, 3.1 percent in 2015 and we estimate that global growth downshifted even further to 3.0 percent last year (Figure 1). However, we forecast that global GDP growth will strengthen somewhat in 2017 and 2018.

This forecast is not just wishful thinking as there are signs that global economic activity is beginning to accelerate. Growth in global industrial production (IP) has been anemic over the past few years, but global IP growth picked up to more than 3 percent in December, the strongest year-over-year rate in more than five years (Figure 2). Stronger IP growth has led to stronger real export growth. Indeed, the volume of global trade also grew in excess of 3 percent in December.

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Figure 1

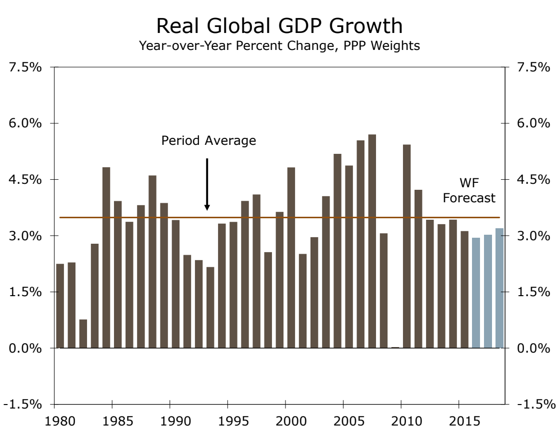
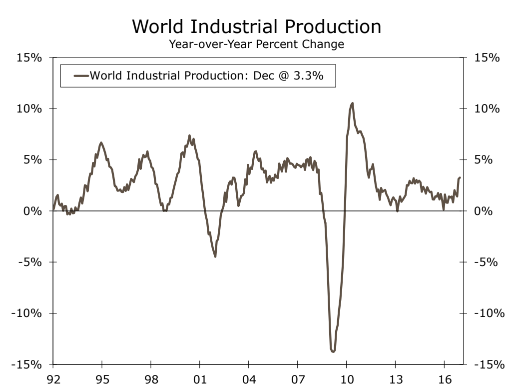


Figure 2



Source: IMF, IHS Global Insight and Wells Fargo Securities

The modest upturn in global economic growth that seems to be under way reflects, at least in part, the effects of macroeconomic policy. Although the Federal Reserve hiked rates by 25 bps in December 2015, it subsequently remained on hold for another 12 months to allow growth in U.S. domestic demand to gather more steam. American imports of real goods and services shot up more than 8 percent on a sequential basis in Q4-2016, the strongest annualized growth rate in two years. These American imports are exports for foreign economies, and they help to stimulate GDP growth in those economies.

Policymakers in China have also taken steps to stabilize economic growth in the world's second largest economy. The central bank reduced its benchmark lending rate through 2015, and the government directed banks to leave the credit taps open last year. Although China faces some long-run issues as it attempts to rebalance its economy away from excessive investment spending

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to more consumer spending, the policy steps that it has taken over the past two years has helped to stabilize the rate of real GDP growth to between 6 percent and 7 percent. Resilient growth in China has led to stronger growth in the Asian region recently. For example, the year-over-year rate of real GDP growth in Taiwan picked up to 2.9 percent in Q4 from 2.1 percent in Q3. Real GDP in Singapore also grew 2.9 percent in Q4. Although relatively slow by Singaporean standards, this was the highest year-over-year growth rate in the Lion City in two years.

Growth in real GDP in the Eurozone remains steady, if lackluster, at just under 2 percent. To guide market-determined rates as low as possible, the ECB cut its deposit rate into negative territory in mid-2014 and has subsequently left it there. The ECB also maintains a quantitative easing program that has been in place since 2015, and it continues to make liquidity available to banks at attractive terms on the condition that they use it to make loans to the private sector. In that regard, growth in bank lending in the euro area is slowly beginning to increase.

The former high-flying economies of Russia and Brazil struggled during the past two years, but there are indications that both of these economies are reaching their nadirs. Real GDP in Russia contracted nearly 3 percent in 2015, and growth remained negative last year although it appears that economic activity is beginning to stabilize. Brazil fared even more badly than Russia in 2015 and 2016, and real GDP in the largest economy in Latin America currently is 9 percent below its 2014 peak. Fortunately, there are indications that the economy may be bottoming, although signs of genuine recovery in Brazil are illusive.

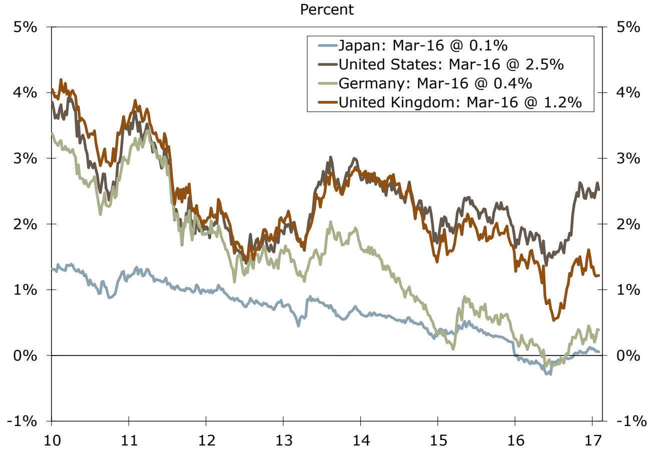
We are mindful of the downside risks that could negatively affect our forecast of continued global growth. In our view, the most credible downside risks to the forecast are associated with politics and geopolitics. In that regard, there are some important elections this year in Europe, especially in France. A victory by Marine Le Pen in the two-round French presidential election that ends on May 7, although seemingly unlikely, would be destabilizing because it would bring into question the future of economic and political integration in Europe. There are also a host of potential geopolitical flashpoints, from Russia to North Korea to the South China Sea to the Middle East and so on that could cloud the global economic outlook if military conflict were to arise.

The trade-weighted value of the U.S. dollar rose about 25 percent between mid-2014 and the end of last year as market participants began to anticipate the advent of policy tightening by the Federal Reserve. The Fed has already hiked rates once this year, and we look for it to raise its target range for the fed funds rate two more times in 2017 and three times in 2018. On the other hand, we expect central banks in most major foreign economies to refrain from tightening, at least in 2017. Consequently, we look for the greenback to strengthen modestly versus most foreign currencies through year end 2017.

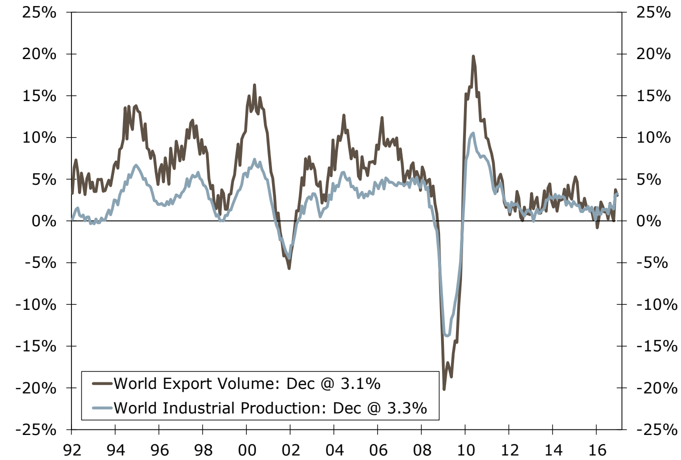
World

- Growth in the global economy has slowed over the past few years, increasing 3.4 percent in 2014 and 3.1 percent in 2015. We estimate that global growth downshifted even further to 3.0 percent last year. However, we forecast that global GDP growth will strengthen 3.1 percent in 2017 and 3.3 percent in 2018. While these rates are below the long-run average of 3.5 percent, the upward growth trend is encouraging.
- Global industrial production (IP) growth demonstrated strength to close out 2016. The 3.3 percent year-over-year rise in December is the strongest growth rate since September 2011. Exports grew 3.8 percent and 3.1 percent in November and December, respectively, the strongest consecutive monthly year-over-year rates in roughly two years.
- Inflation indices are beginning to creep up in developed nations, with the aggregate CPI index breaking the 2 percent threshold in December for the first time since July 2014. Although the rebound in energy prices has aided this price recovery, core inflation metrics in several countries are also showing signs of firming.
- With rising prices, several central banks in the OECD group are slowly shifting their rhetoric to reflect a slightly less dovish policy stance. Although, it must be noted that negative rates are currently the norm for several European central banks as well as the Bank of Japan. We look for the global CPI to increase 3.4 percent and 3.7 percent in 2017 and 2018 respectively.

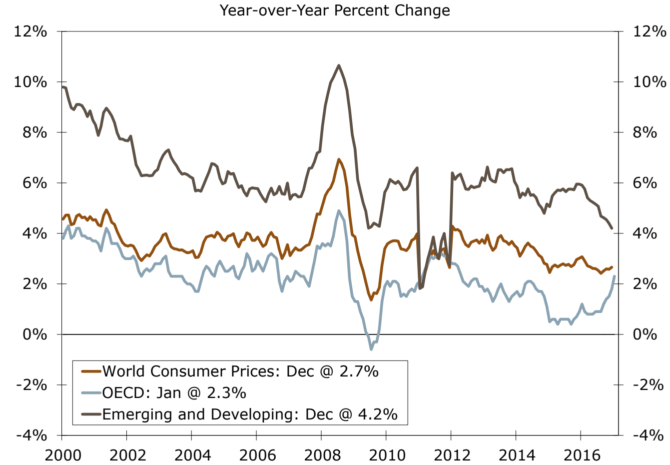
10-Year Government Bond Yields
Percent



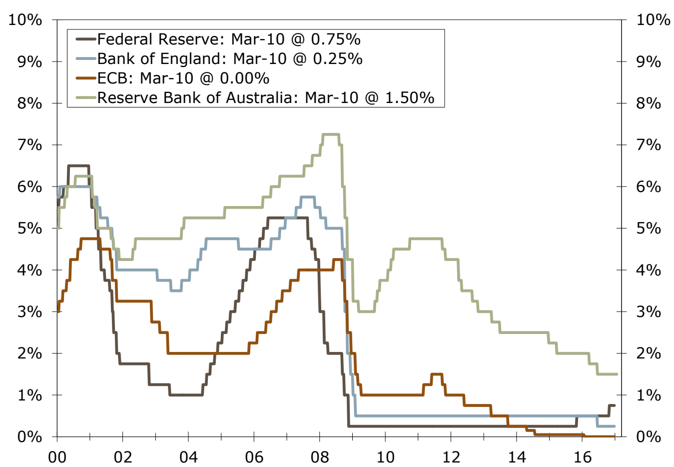
World Export & IP Volume
Year-over-Year Percent Change



World Consumer Price Inflation
Year-over-Year Percent Change



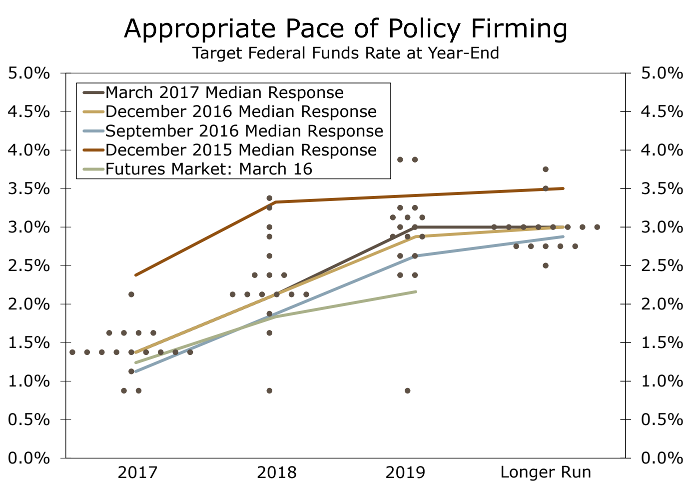
Central Bank Policy Rates

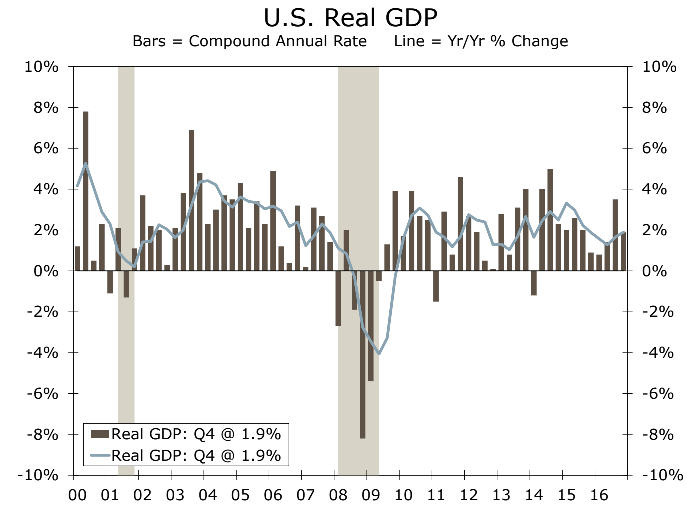


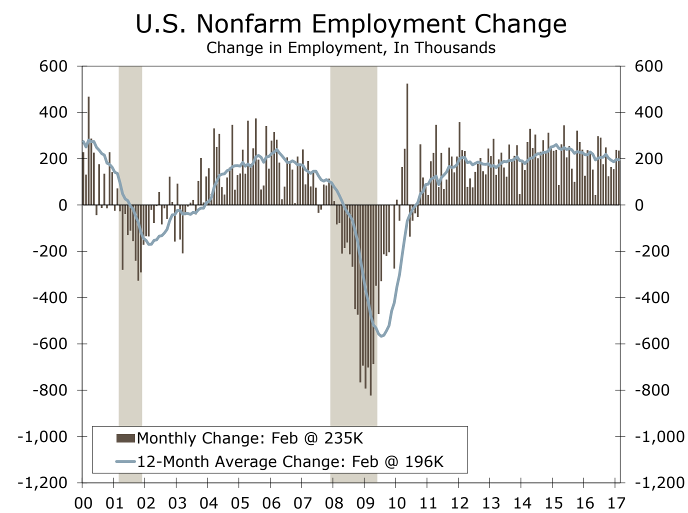
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

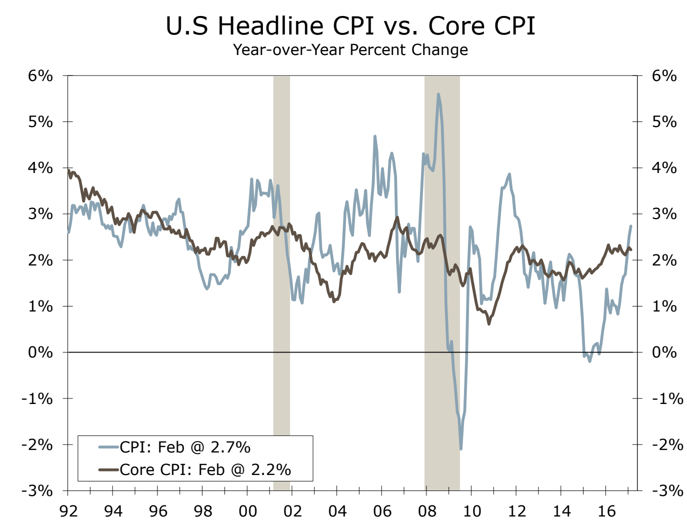
United States

- Real GDP grew at a 1.9 percent annualized rate in Q4 and 1.6 percent for all of 2016. Real final sales to domestic purchasers continue to move ahead based on the strength of consumer spending and government. In Q4, consumer spending grew at a 2.5 percent clip with better goods purchases but a bit of weakness in services. We expect consumer spending to rise 2.7 percent this year following a 2.7 percent rise in 2016.
- Spending is being supported by solid job growth, increased household wealth, and improving compensation. Government purchases rose 0.3 percent in Q4, and we look for this category to grow 0.4 percent and 1.6 percent in 2017 and 2018, respectively. Increased defense spending and a potential increase in infrastructure spending provide an upward bias to the 2018 spending outlook. Trade subtracted 1.7 percentage points from GDP growth with particular weakness in exports.
- The outlook for capital spending outside of the energy sector has improved now that the nearly two-year slide in industrial activity appears to have ended. Small business owners are also more upbeat, and a rising number of business owners plan to increase capital spending. The shift in business attitudes is a potential tailwind and raises some upside bias to our forecast.
- We expect the U.S. economy to grow 2.1 percent and 2.5 percent in 2017 and 2018, respectively.





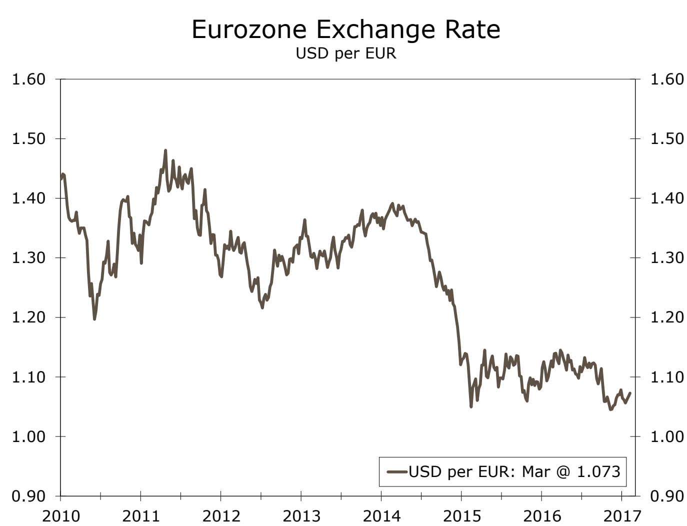


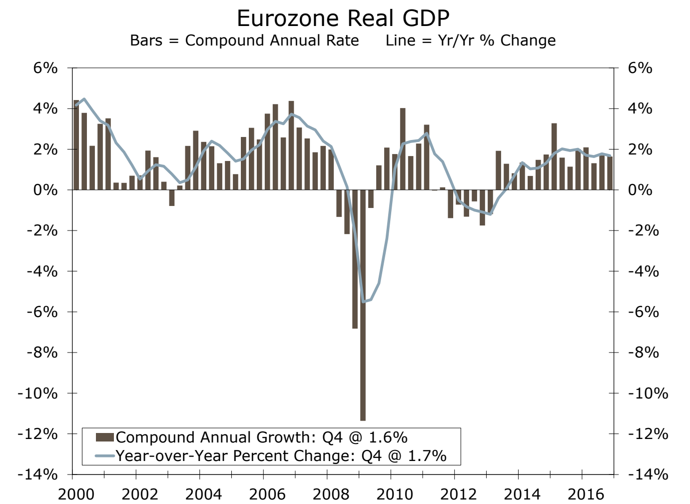


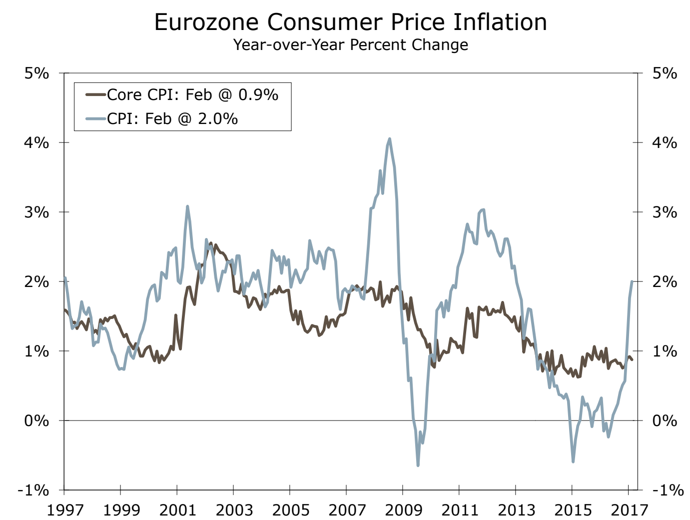
Source: U.S. Depts. of Labor and Commerce, Bloomberg LP, Federal Reserve Board and Wells Fargo Securities

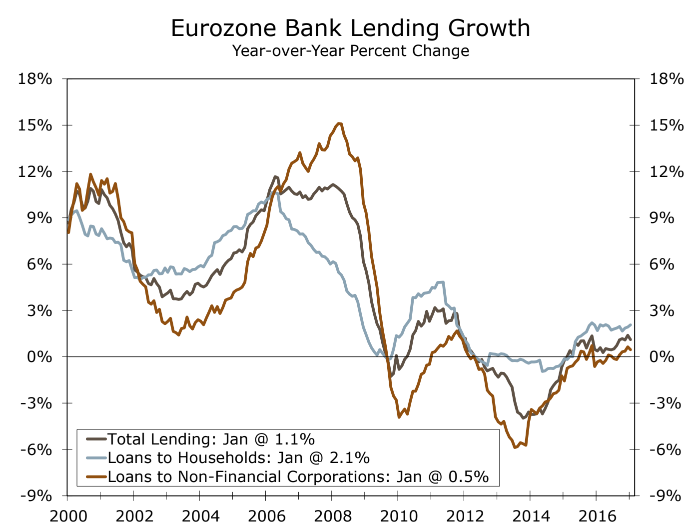
Eurozone

- Real GDP in the Eurozone rose 0.5 percent (2.0 percent annualized) on a sequential basis in Q4-2016. This marks the 15th consecutive quarter in which growth has been positive on a sequential basis. Real GDP in the Eurozone grew 1.7 percent in calendar year 2016, a slight slowdown from the 2.0 percent pace registered in 2015.
- Unfortunately, growth has not been strong enough over that period to lift inflation to any significant extent. Energy prices have rebounded over the past year, which has caused the CPI inflation rate for the entire Eurozone to return to positive territory in recent months. That said, the core rate of inflation has been trendless and remains stubbornly below 1 percent. In other words, there are very few inflationary pressures in the euro area at this time.
- We believe the ECB will not ease policy further this year. Specifically, we do not believe the Governing Council will sanction more reductions in the ECB's three policy rates nor do we look for it to expand its QE program further. The Governing Council has already announced a "tapering" of its monthly QE purchases to €60 billion from €80 billion, effective in April.
- The real effective exchange rate of the euro vis-à-vis the currencies of the Eurozone's major trading partners, has fallen roughly 10 percent over the past three years, which should lead to stronger export growth. In that regard, we look for the Eurozone economy to gain traction and expand 1.8 percent and 2.0 percent in 2017 and 2018, respectively.





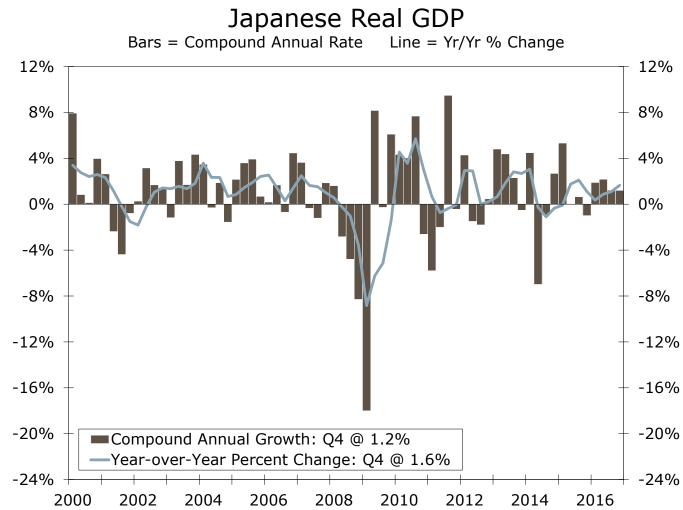


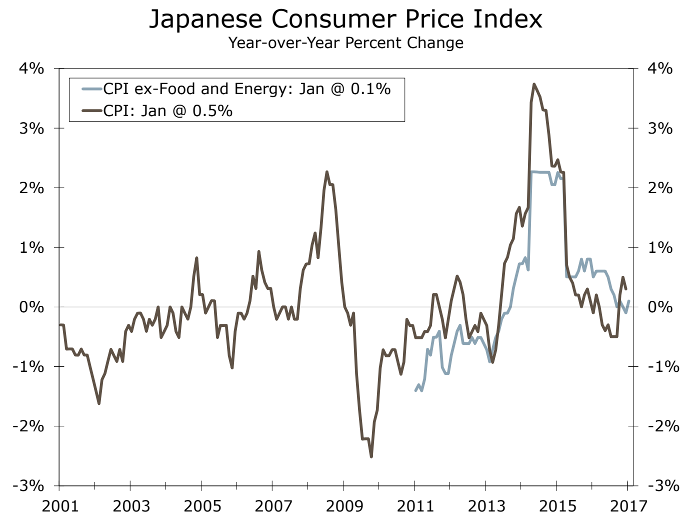


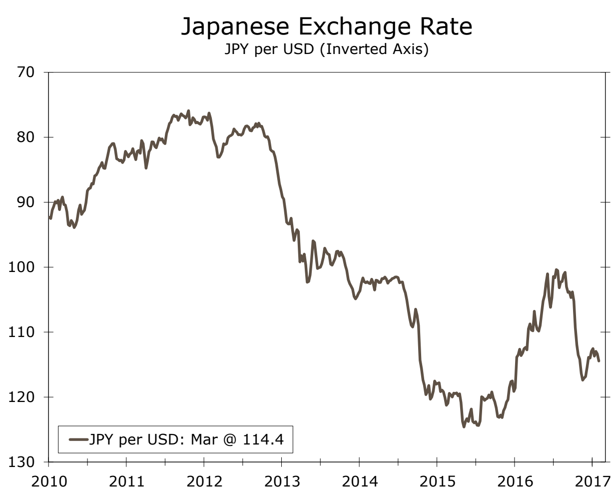
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

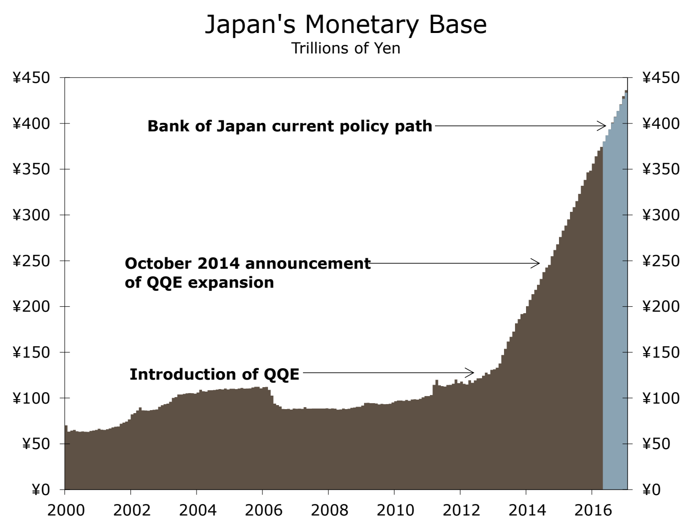
Japan

- The Japanese economy expanded 1.2 percent at an annualized pace in Q4, marking four sequential quarters of growth—a feat not seen in three years. The demand pull came from the business sector as business investments climbed 0.9 percent, while consumer spending was unchanged due to sluggish household spending and stagnant wage growth. Net exports have been a steady driver in the economy in Q4, with rising exports offsetting the 1.3 percent increase in imports.
- Given the important role of trade in the Japanese expansion, it is understandable that Prime Minister Abe is eager to work out trade deals with Japan's largest export markets. Unfortunately, after years of diplomacy with the Obama administration to bolster support for the Trans-Pacific Partnership, the dismissal of that trade pact by the new U.S. president is certainly not a positive development for Japan.
- The Bank of Japan (BoJ) has been exploring new frontiers in monetary policy accommodation in its bid to achieve the elusive goal of a 2.0 percent inflation target, which it has pledged to overshoot. However, growth is still not robust enough to generate and sustain the BoJ inflation target. The headline inflation rate climbed to 0.5 percent and core inflation rose 0.1 percent in January, which may sound uneventful, but represents the fastest rate of core CPI inflation since 2015—an indication of progress for the BoJ. The BoJ cannot afford to let up, but things are moving slowly in the right direction.







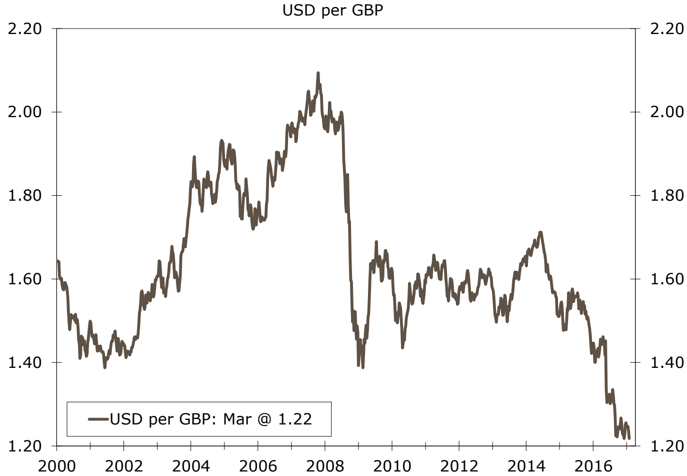


Source: IHS Global Insight, Bloomberg LP, Bank of Japan and Wells Fargo Securities

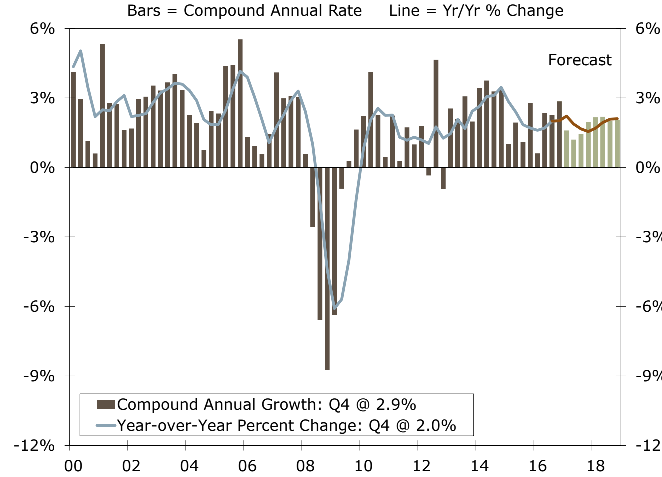
United Kingdom

- GDP in the United Kingdom rose 0.7 percent (not annualized) in Q4-2016 relative to the previous quarter. Growth surprised to the upside, slightly beating the consensus expectation that called for 0.6 percent growth. Personal consumption, government spending and strong export growth contributed to the positive topline figure. Investment spending was flat on the quarter, which is not much of a surprise given the uncertainty surrounding the "Brexit" negotiations. For 2016 as a whole, GDP grew 1.8 percent, a slight slowdown from the 2.2 percent growth rate registered in 2015.
- The marked weakening in U.K. GDP growth in the second half of 2016 that the Monetary Policy Committee (MPC) anticipated last summer has not materialized. Consequently, it no longer seems likely that the MPC will be easing policy further, at least not anytime soon. Although the unemployment rate fell to a cycle low of 4.7 percent in January, there are few signs of significant wage acceleration yet.
- The core rate of inflation, which is reflective of the economy's underlying inflation momentum, has edged higher for two consecutive months, reaching a two-year high of 1.6 percent in January. Everything else equal, the shifting inflation dynamics in the U.K. economy could be enough to induce the MPC to sanction a rate hike, but probably not until later this year, at the earliest.

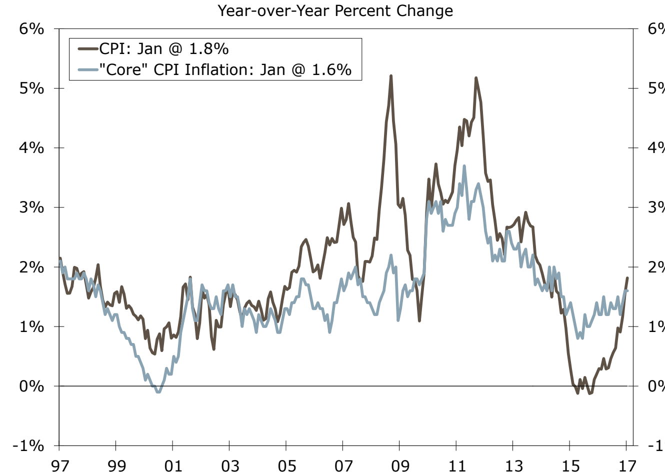
U.K. Exchange Rate
USD per GBP



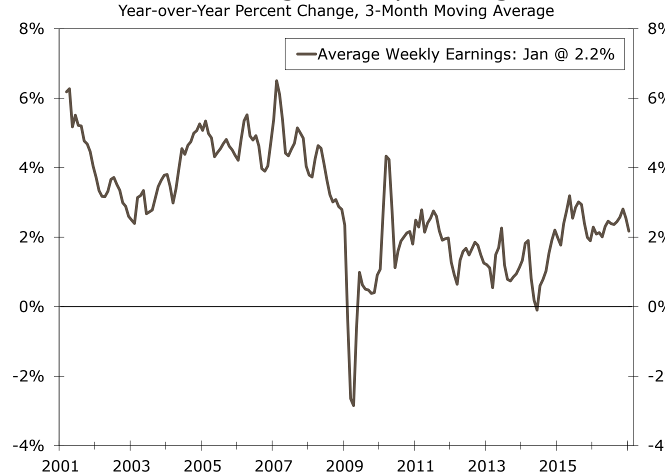
U.K. Real GDP
Bars = Compound Annual Rate Line = Yr/Yr % Change



U.K. CPI and "Core" CPI
Year-over-Year Percent Change



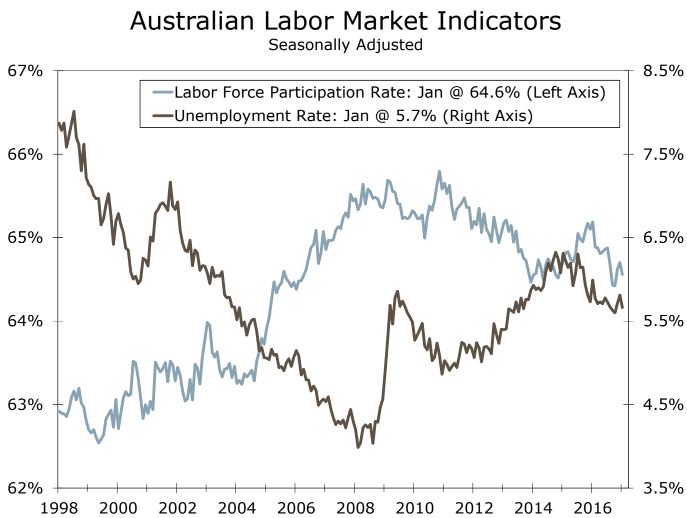
U.K. Average Weekly Earnings
Year-over-Year Percent Change, 3-Month Moving Average

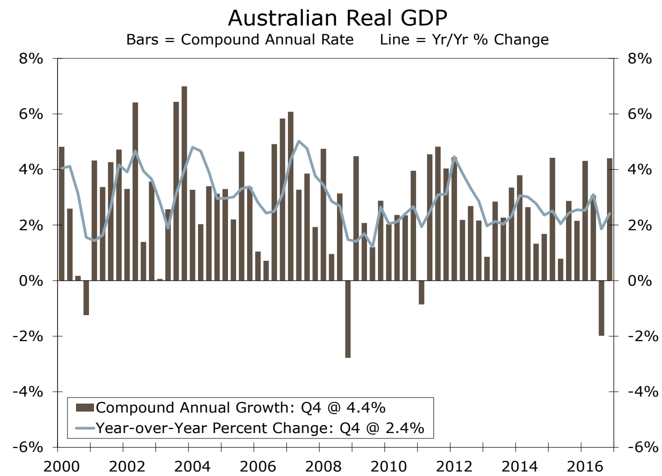


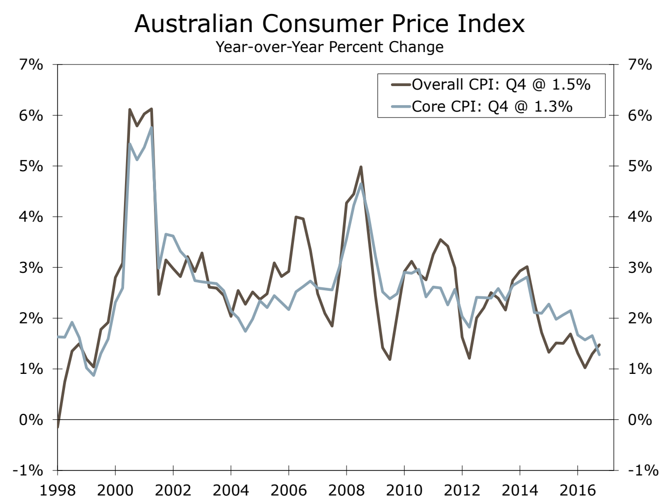
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

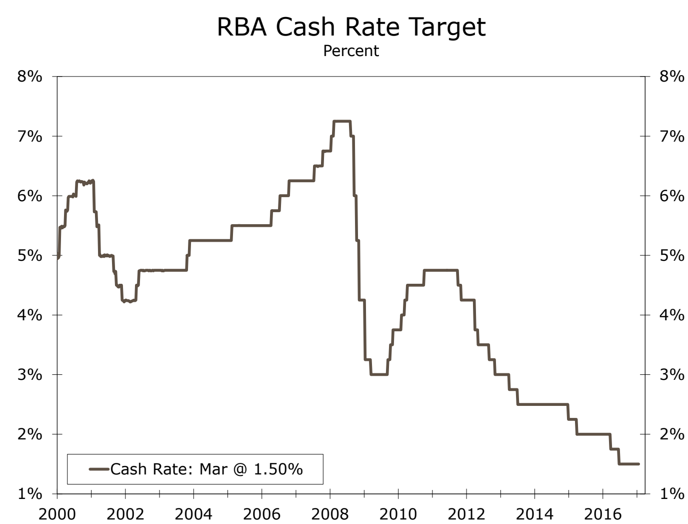
Australia

- The Australian economy recovered in the fourth quarter, bouncing back from its third quarter decline, expanding at an annualized pace of 4.4 percent. Consumer and business spending and higher commodity prices contributed to the increase with a smaller boost coming from net export and inventories. The strength in private sector demand and trade factors offset modest drags from a reduction in government spending and a slight decline in inventories.
- Australia's labor market has been quite volatile over the past few years with the divergence between full- and part-time job growth becoming more pronounced due to businesses shifting to more part-time positions. The strong job reports are overstating the health of the market as underemployment remains a concern. That said, the unemployment rate has trended lower, to 5.7 percent, but so has the labor force participation rate.
- Not coming as a surprise, the Reserve Bank of Australia held rates at a record low 1.50 percent indicating that economic factors were in line with growth and inflation targets. The bank is unlikely to raise rates this year so it does not exacerbate the higher cost of living, rapidly increasing consumer debt, sluggish wage growth and labor conditions.
- Household consumption will be a key factor to GDP growth and, despite subdued increases in wages, consumer confidence in the economy remains strong, leading us to believe that the previous quarter's downturn was only temporary.





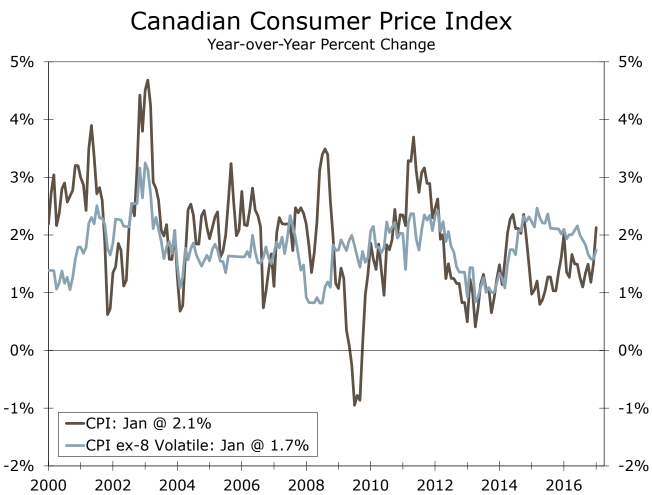


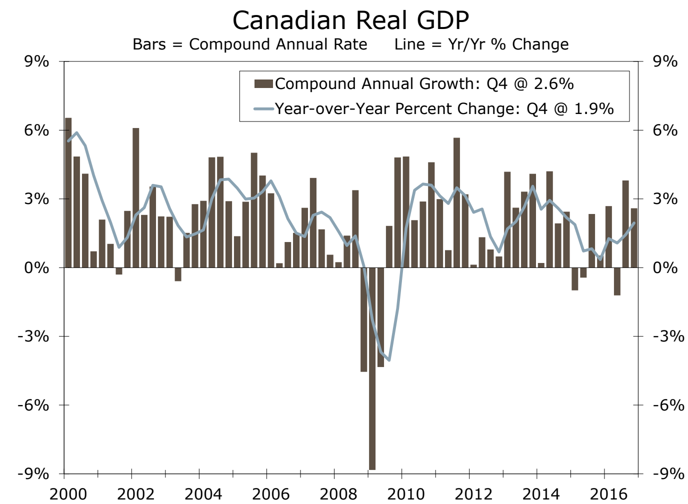


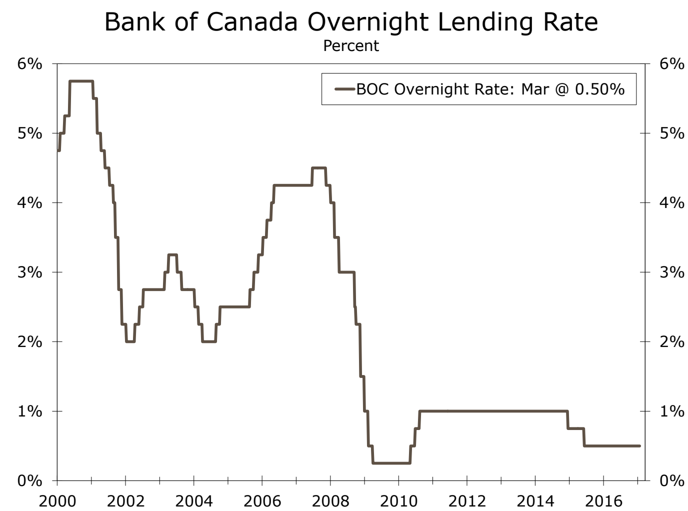
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

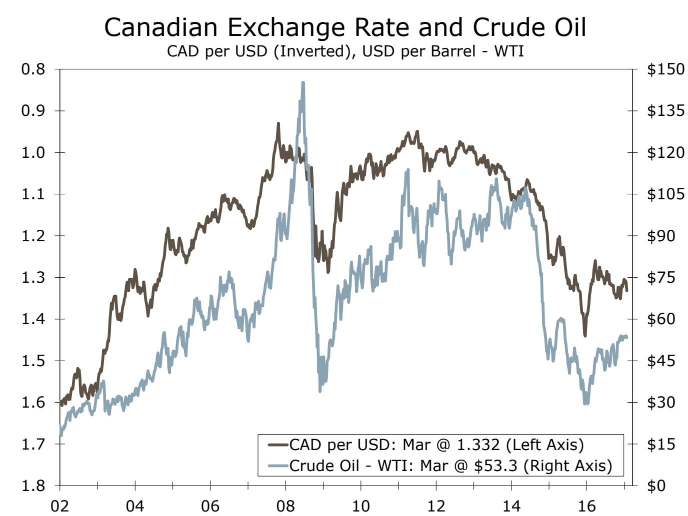
Canada

- The Canadian economy grew by a better-than-expected 2.6 percent annualized pace in Q4, with consumer spending and trade doing most of the heavy lifting. Business investment posted its ninth consecutive quarterly decline as Canada continues to absorb a lower price environment for oil and other commodities. We remain concerned about elevated consumer debt levels and what the debt implies about what the sustainability of consumer spending in Canada.
- Despite being quite volatile, Canada's employment growth has been strong in recent months due to the pickup in part-time job growth. The labor force has seen a decline in participants, which also has driven the unemployment rate lower. Depressed wage growth, which increased by its slowest pace since April 2003 in December, remains a concern for the Bank of Canada (BoC).
- The BoC recently met and announced that it would keep rates steady at 0.50 percent. The bank addressed some of the recent firming in inflation, which it believes to be transitory and that growth would remain under pressure. The BoC is also concerned by the lack of investment spending since the 2014 oil shock, which dampened investment in the energy sector.
- As such, we look for the Canadian economy to grow by 2.1 percent in 2017 and 1.9 percent in 2018 as residual damage from the oil shock continues to fade, personal consumption expands and exports receive a boost from improving U.S. and global economies.





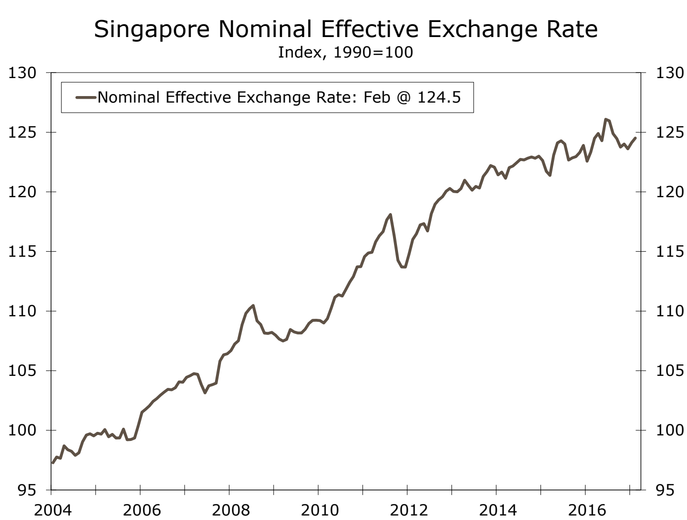


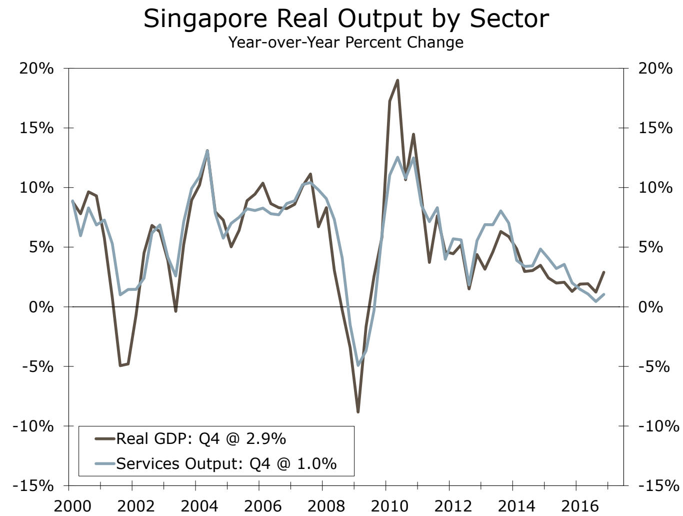


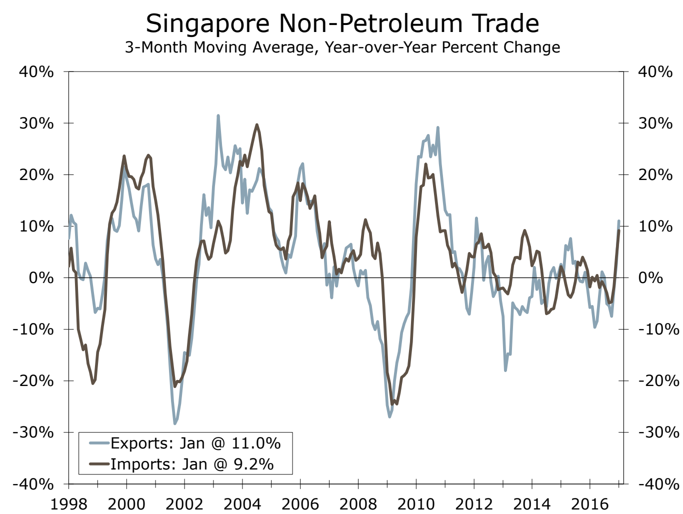
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

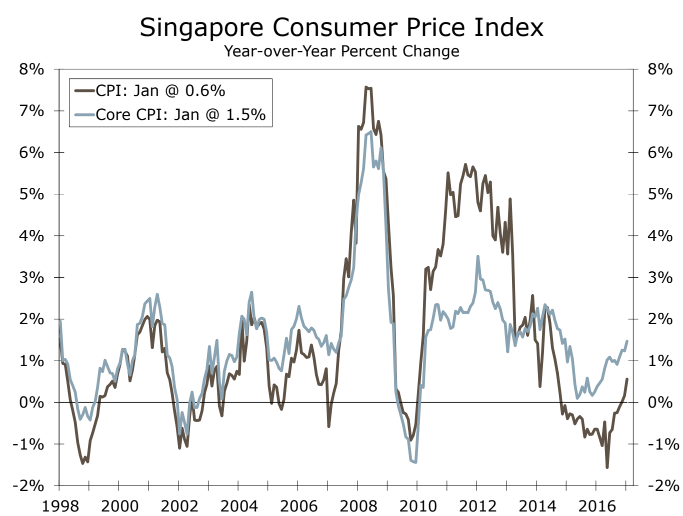
Singapore

- Real GDP expanded 2.9 percent on a year-over-year basis, beating the consensus expectation that called for just a 0.3 percent growth rate. Manufacturing was the primary driver of overall growth, rising 11.5 percent year over year. The services sector also experienced growth, improving 1.0 percent in Q4 from a year-ago, but has largely been on a downward trend since mid-2011. The construction sector contracted 2.8 percent year over year, its weakest quarter since Q4-2004.
- Because Singapore's economy is heavily dependent on trade, examining import and export volume can shed some light on the country's growth prospects. In January, on a three-month moving average basis, exports increased 4.7 percent from a year-ago, while import volume grew 6.8 percent. Moreover, China has become increasingly important to Singapore's economy, as China's growth is associated with a healthy Singapore economy. It is therefore no surprise that an expansionary 51.3 reading in China's manufacturing PMI in January coincided with stronger export figures from the island nation in the same period.
- Given the lack of inflation, the Monetary Authority of Singapore will not likely sanction a stronger exchange rate anytime soon. Our currency strategy team sees further weakness in the Sing dollar against the greenback given a Federal Reserve that is prepared to hike rates several times in 2017.







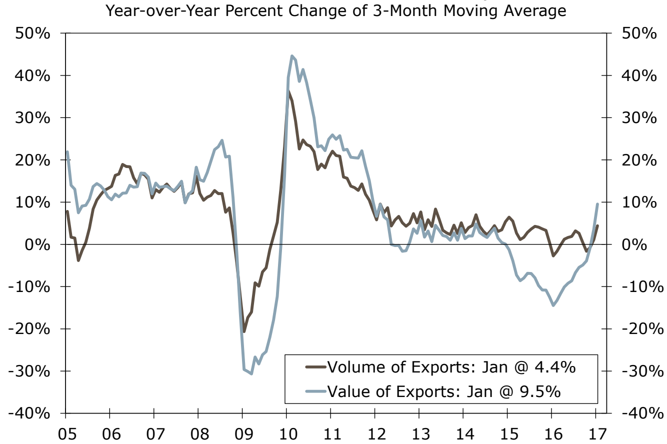


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

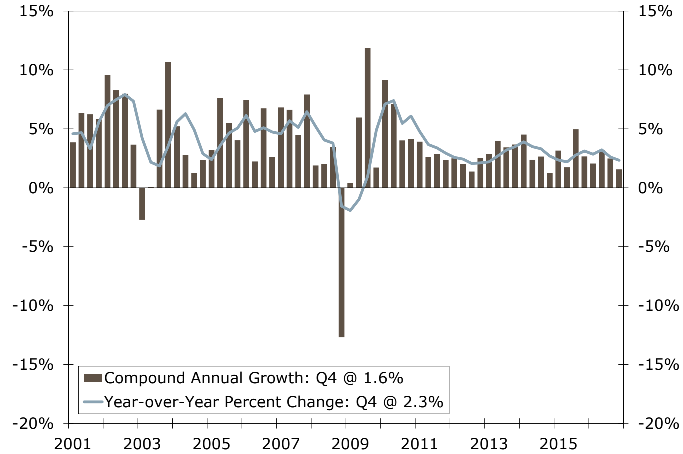
South Korea

- Economic growth in South Korea slowed in Q4, growing by a lackluster 1.6 percent on an annualized pace. On a year-over-year basis, Korea's economy grew 2.3 percent. Headwinds surrounding political and corporate scandals were a real drag on growth. Tepid private consumption also did little to help.
- Household debt in South Korea rose to 91.6 percent, the third-fastest pace out of the 43 major economies in the world. Most debt holders are from high-income households with the capacity to maintain debt; however, there is a growing share of lower income households that are seeing debt increases from upward pressures on interest rates. That said, the government has started taking steps to limit lending to ease some of the overheating and "bubbles" in certain areas.
- Korea's recent increase in headline inflation, largely due to a rebound in oil prices, is putting pressure on the Bank of Korea (BoK) to raise rates. The BoK has kept rates unchanged at 1.25 percent for the past nine months. Now that President Park Geun-hye has been impeached by Parliament over corruption charges, the BoK will need to review the impact of the accusations at a time of increasing concerns over the implications interest rate hikes in the Unites States could have on Korea's capital outflows.
- On a positive note, Korean exports have started to recover and are growing at the fastest pace in nearly five years indicating that global demand is starting to increase.

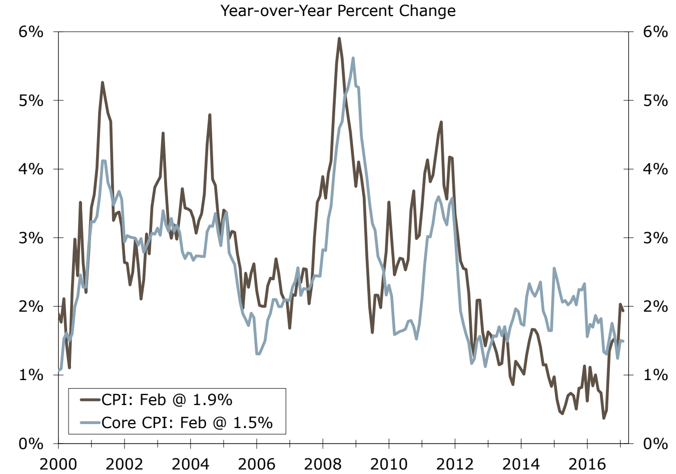
Korea Volume and Value of Exports
Year-over-Year Percent Change of 3-Month Moving Average



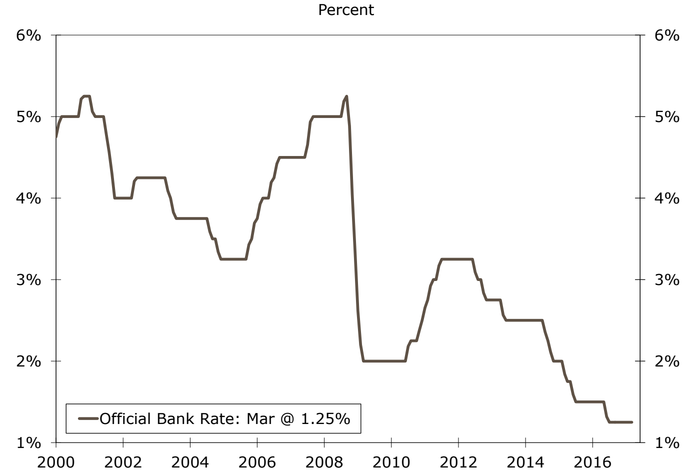
South Korean Real GDP
Bars = Compound Annual Rate Line = Yr/Yr % Change



South Korean Consumer Prices
Year-over-Year Percent Change



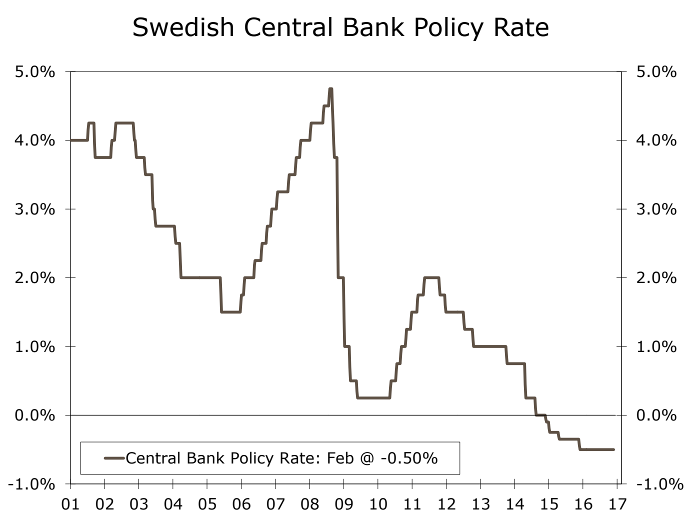
South Korean Official Bank Rate
Percent

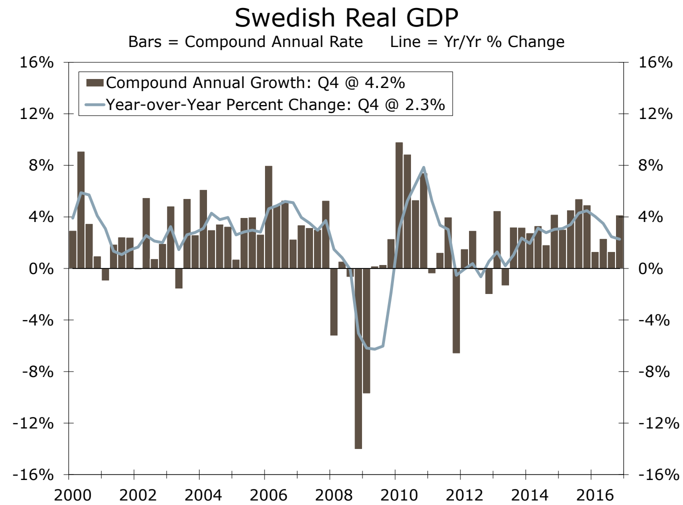


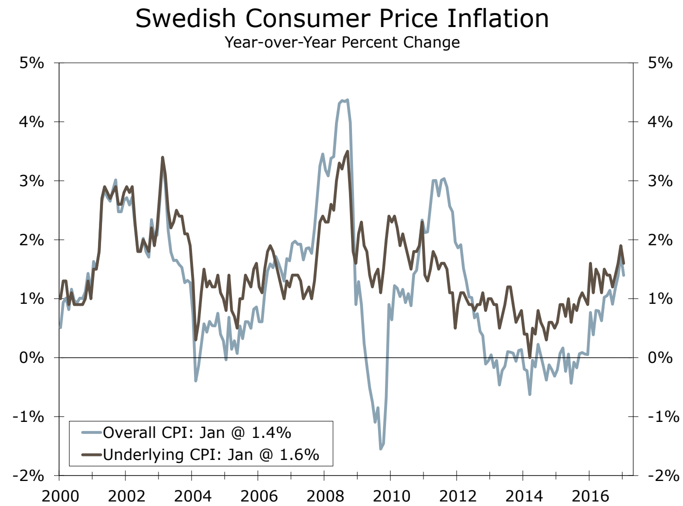
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

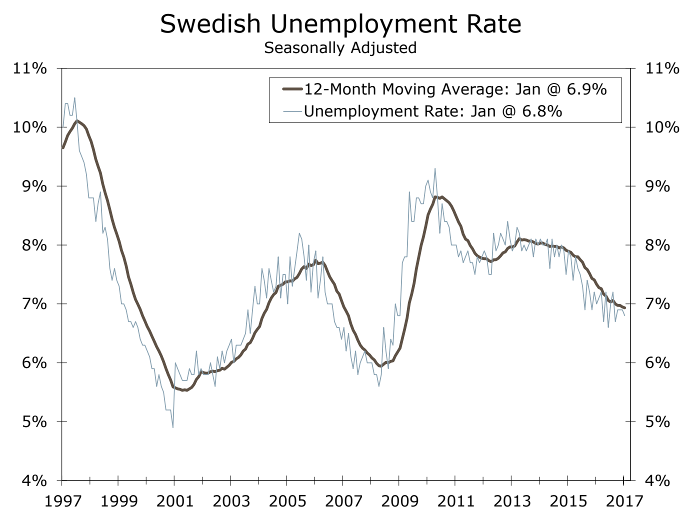
Sweden

- Swedish GDP grew at a 4.2 percent annualized rate, besting the forecast number, and expanded 2.3 percent year over year. Domestic demand, although a net positive for GDP growth, was not especially strong in Q4 2016.
- Private consumption grew 1.3 percent at an annualized rate, a slight slowdown from the 1.9 percent rate registered in Q3. Business investment grew 3.7 percent on the quarter but contributed just 0.9 percentage point to the annualized GDP figure. Inventories continued to exert a drag on the topline figure, slicing off 1.2 percentage points from GDP growth for the second consecutive quarter. A rebound in inventories, however, is likely as this contractionary trend is unlikely to continue.
- Net exports added 3.6 percentage points to the annualized growth figure in Q4, its largest contribution since Q3 2011. The strong growth rate in the export sector should not come as a surprise given the relative weakness of the Swedish krona, which is down nearly 10 percent on a trade-weighted basis since late 2013.
- The Riksbank decided to hold its main policy rate at -0.50 percent at its February meeting and noted that there is still a greater probability that the rate will be cut than raised in the near term. With rates expected to rise in the U.S. in the near term, we expect the Swedish krona to remain under downward pressure. This depreciation should help to support Swedish exports.





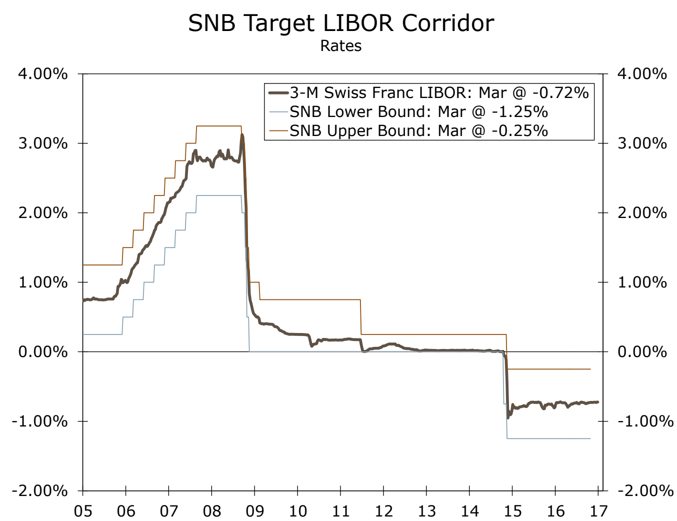


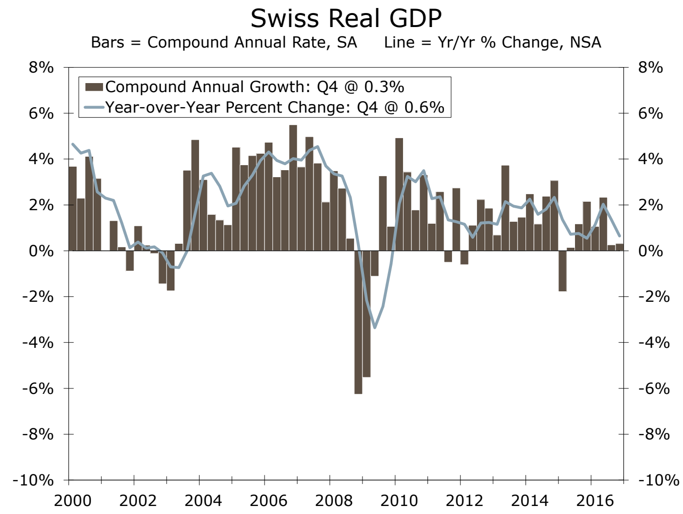


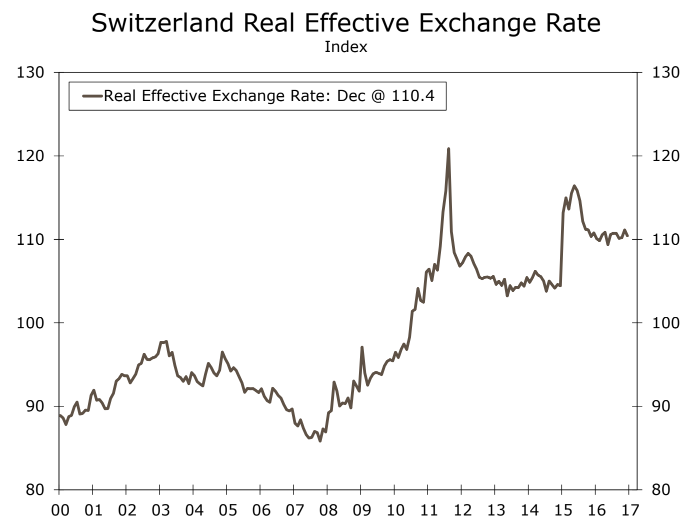
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

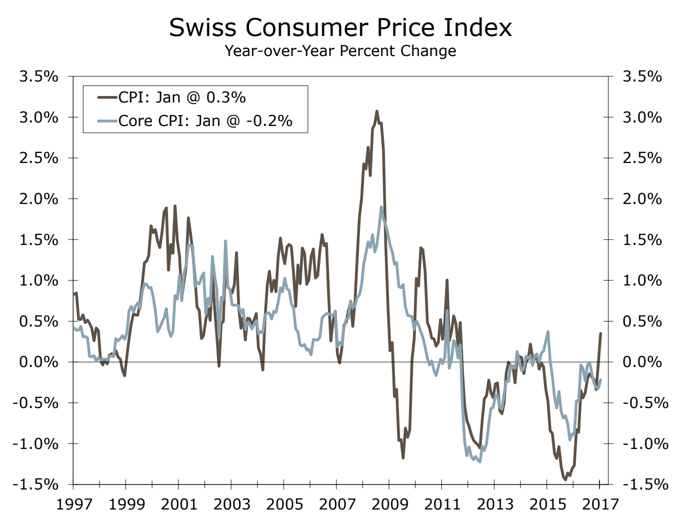
Switzerland

- Real GDP in Switzerland grew 1.3 percent over the course of 2016, compared to the 0.8 percent growth rate registered in 2015. In Q4-2016, real GDP grew just 0.1 percent (0.3 percent annualized), undershooting consensus expectations.
- A breakdown of the Q4 real GDP data into its underlying demand components shows varied results. Household consumption grew 0.9 percent on the quarter, its strongest quarterly increase since Q1-2012. Government spending also had a positive impact, growing 0.2 percent after a 0.1 percent contraction in Q3. Exports (excluding valuables), on the other hand, contracted 3.8 percent in Q4, its weakest quarterly result in three years.
- Swiss export growth has been lackluster recently, reflecting slow economic growth in many of Switzerland's major trading partners as well as the appreciation of the Swiss franc in recent years. The real appreciation of the currency has eroded the price competitiveness of Swiss goods and services, but it has also put downward pressure on inflation via lower import prices.
- We do not make explicit forecasts for the Swiss economy. However, the consensus looks for real GDP growth to remain more or less steady at around the 1.3 percent annual average rate that was registered in 2016. The consensus also expects that CPI inflation in Switzerland will slowly rise, but that it will remain well short of 1 percent in both 2017 and 2018.





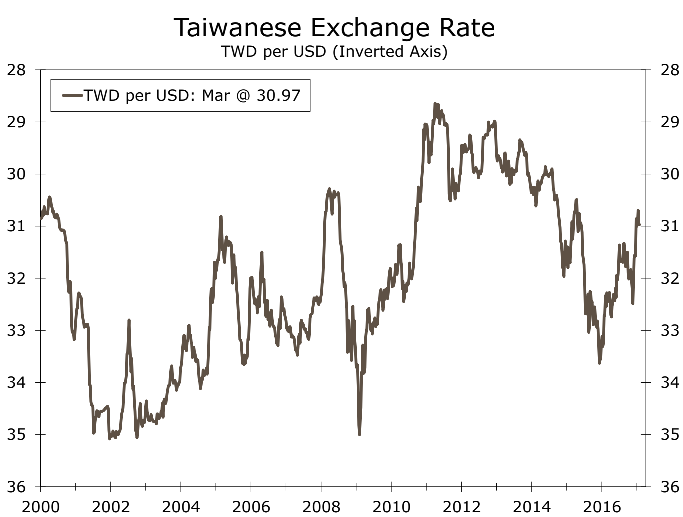


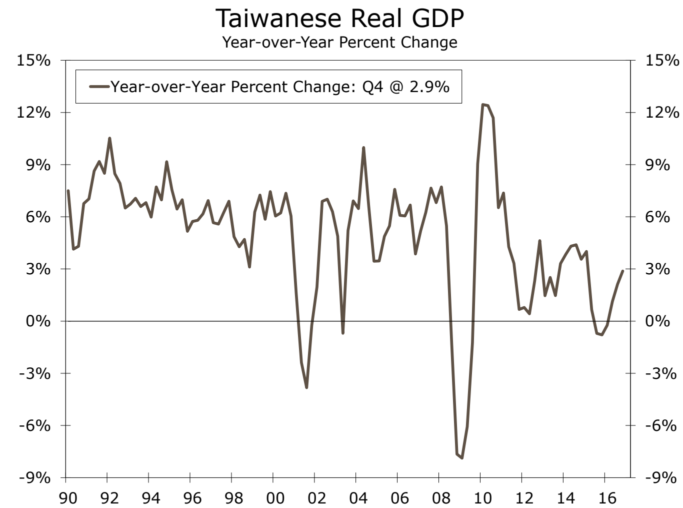


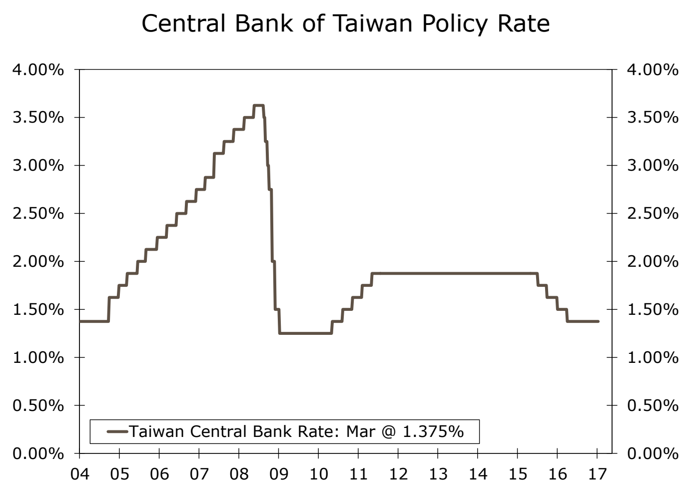
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

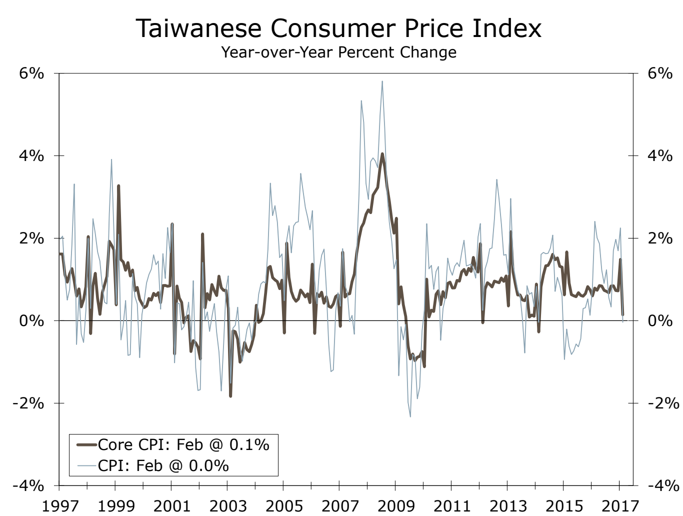
Taiwan

- Real GDP in Taiwan expanded 2.9 percent on a year-over-year basis in Q4. This most recent quarter marks the fourth consecutive one in which the year-over-year growth rate has strengthened and is the strongest reading since Q1-2015.
- GDP data by expenditure category reveal broad-based economic growth. Gross capital investment, which has recently exerted a drag on overall GDP growth, rose 1.6 percent in Q4. Likewise, exports of goods and services, a category that had contracted in four out of the last six quarters, grew 8.0 percent in Q4-2016. The increase in Taiwan's export sector is consistent with the modest upturn in GDP growth in China, a vital export market for the island nation. Its improving export sector is also consistent with growth in its own manufacturing sector, which expanded 1.8 percent in Q4 versus the prior year.
- Despite the improvement in GDP growth, inflation is unlikely to be spurred in any meaningful manner. Taiwan has experienced several bouts of mild deflation over the past decade, and inflationary pressures in Taiwan remain muted.
- The Taiwanese dollar has experienced some appreciation against the U.S. dollar to start 2017. However, our currency strategy team expects renewed weakness in Taiwan's currency versus the greenback due to expected Fed tightening.





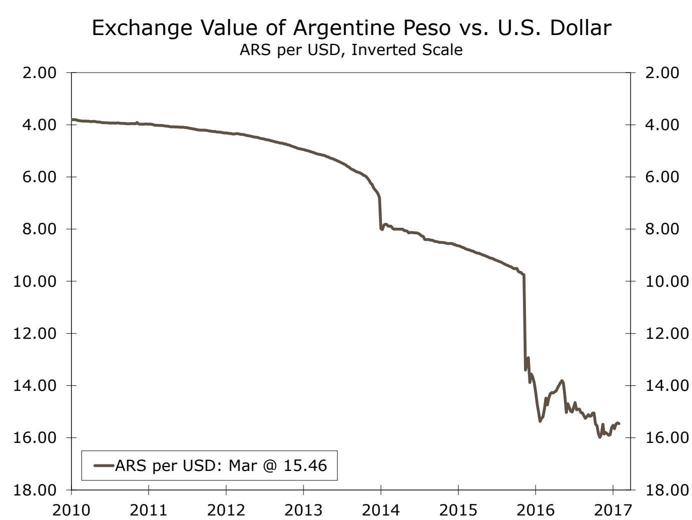


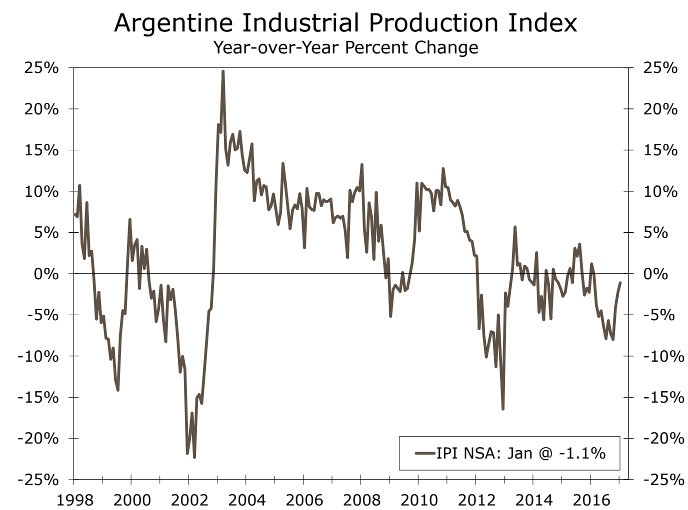


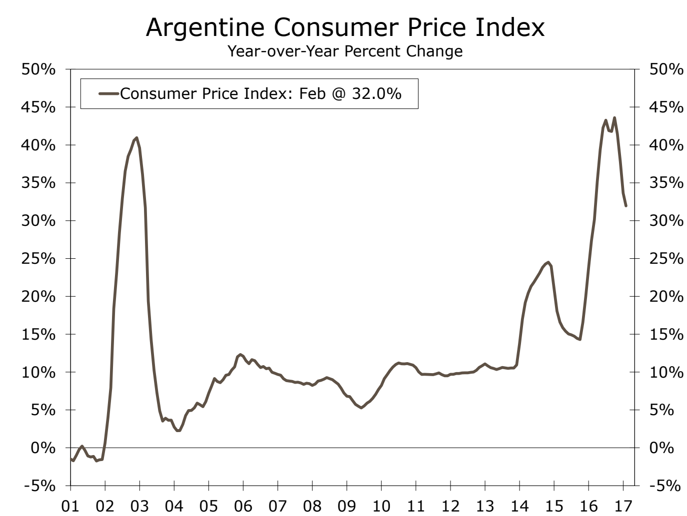
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Argentina

- The Argentine economy fell deeper into recession, plunging 3.8 percent versus a year-ago in Q3. Personal consumption and gross fixed capital formation tumbled 3.1 percent and 8.3 percent, year over year, respectively. The collapse in the latter was due to a sizeable drop in construction and equipment investment. Manufacturing also fared poorly, falling 8 percent year over year.
- Argentina's industrial production index contracted by its smallest pace since early-2016, indicating that the sector is showing signs of recovery. Declining steel production weighed on growth, while automobile production surged 71.1 percent.
- The Argentine government allowed citizens with undeclared assets outside and inside of the country to declare those assets, which totaled $97.8 billion—more than double the expected $40 billion. So far, the government has collected nearly $7 billion in taxes, which should lessen the need to access international financial markets. However, we do not expect the asset clearing process to have a meaningful impact on growth.
- The Macri administration is running out of time to deliver on the promise of economic growth. Mid-term elections are scheduled for this year, and President Macri's coalition, with its already-small representation in the Argentine Congress, could suffer from waning support. This could threaten any possibility for re-election.



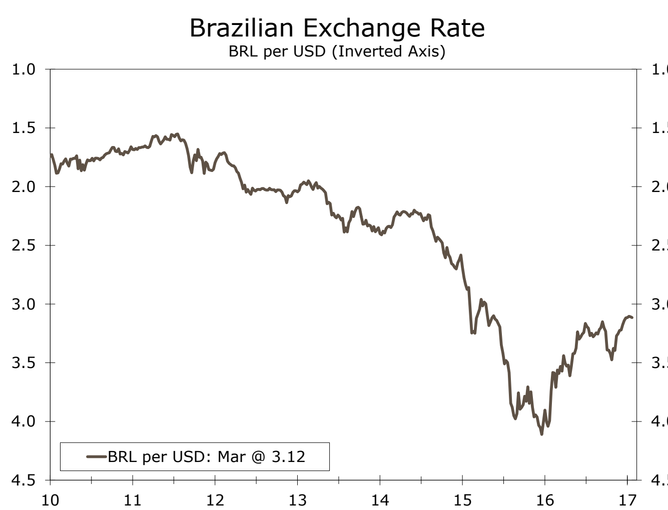


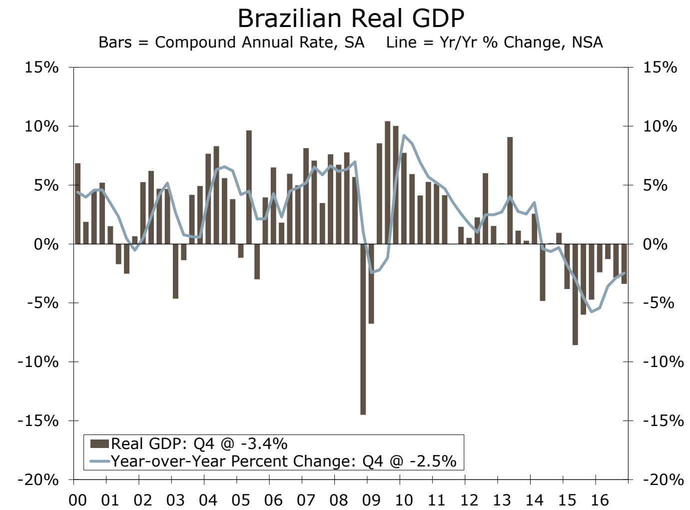


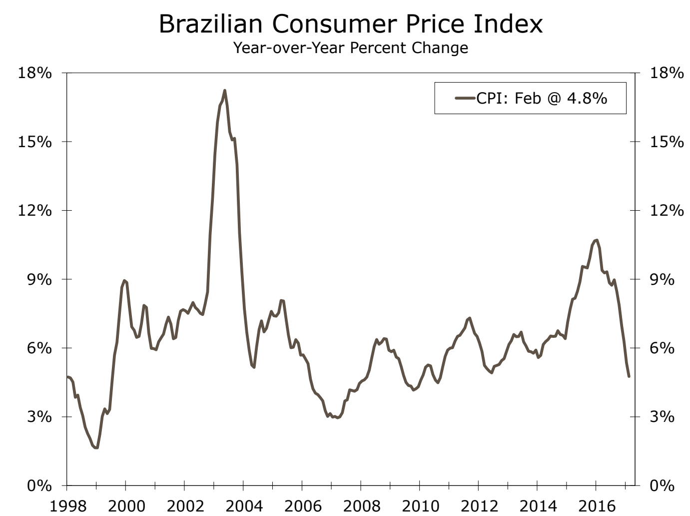
Source: IHS Global Insight and Wells Fargo Securities

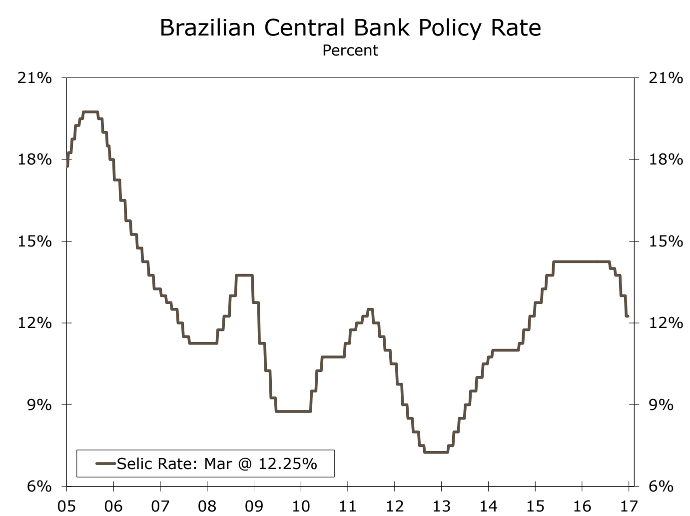
Brazil

- The Brazilian economy contracted for the second consecutive year in 2016 and remained mired in a deep recession in Q4-2016, falling 3.4 percent at an annualized rate and 2.5 percent year over year. Every sector on the demand side of the economy contracted, led by a drop in exports of goods and services due to the appreciation of the real. From the supply side of the economy, the agricultural and mining sectors saw a modest improvement, up 1.0 percent and 0.7 percent on a seasonally adjusted basis, respectively. On a positive note, the industrial sector, especially automobile production, appears to have bottomed, which bodes well for a recovery in the next several quarters.
- Brazil has experienced a drop in inflation since the nearly 11 percent year-ago pace seen in early-2016. This rapid decline to 4.8 percent has allowed the Brazilian central bank to reduce its main policy rate 200 bps since October.
- On the back of lower inflation and a weak economic recovery, lower interest rates should eventually boost economic activity, especially personal consumption and gross fixed investment. That said, we expect that economic growth in Brazil should emerge from its two-year recession this year but remain lackluster. We look for real GDP grow to 0.7 percent this year and 2.7 percent the next. We do not expect the economy to return to the supercharged pace of growth registered during the past decade.





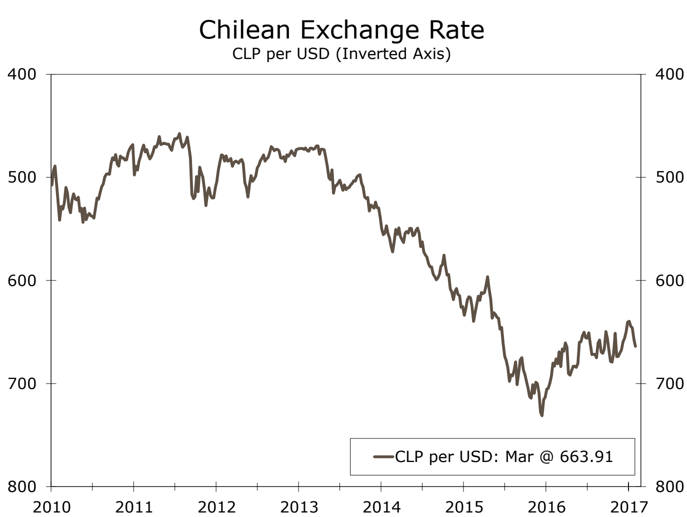


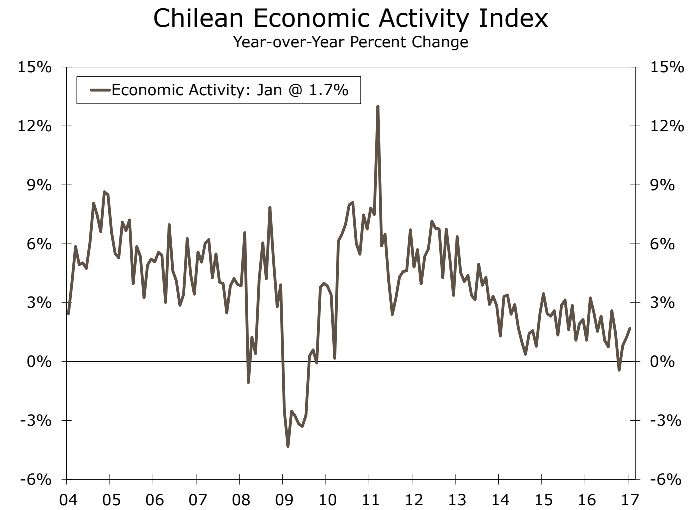


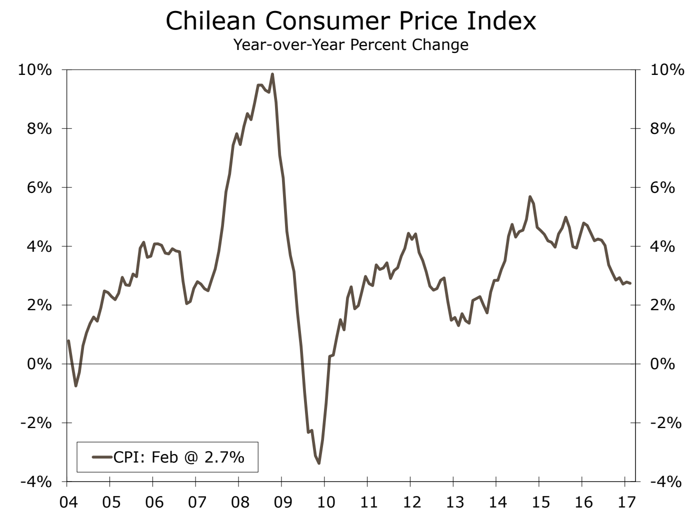
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

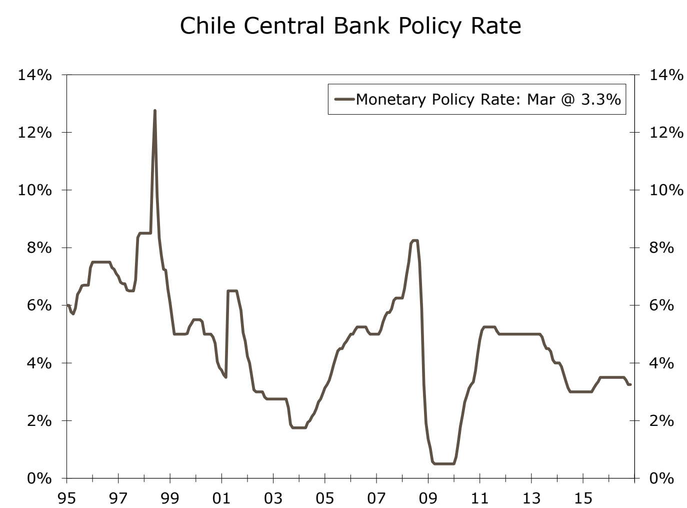
Chile

- The Chilean economy grew a better-than-expected 1.7 percent year-over-year in January, according to Chile's monthly economic activity indicator. Since October, the index has steadily increased suggesting that the country's GDP expanded in Q4, albeit at a slow pace. However, the production sector remains under pressure with the manufacturing and mining sectors declining 1.1 percent and 1.9 percent year over year, respectively in January.
- Copper, Chile's most important export, has seen a price surge due to supply constraints from production disruptions, which were due to strikes over wages at some of Chile's largest mines. If these disruptions continue, they could have a significant negative impact on growth.
- Consumer price inflation in Chile has slowed down to 2.7 percent year over year. Declines in the cost of living helped offset rising food prices. Inflation remains below Chile's central bank 3 percent target and more than likely a more expansive monetary policy will be needed to reach the near-term range. The bank lowered rates to 3.25 percent at the start of the year but has held rates constant since then.
- Although Chilean economic growth has stabilized over the past several quarters, there are no indications that economic activity is poised to accelerate in the near future.





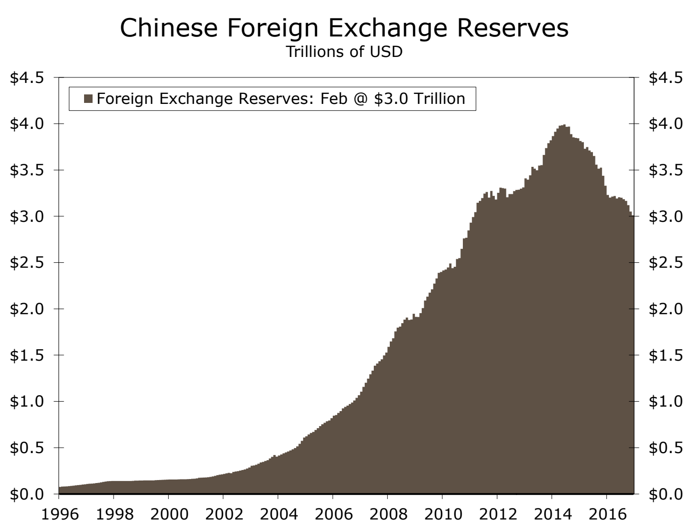


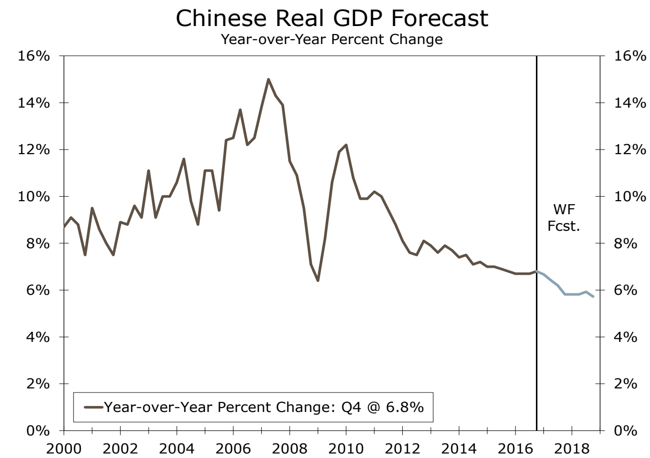


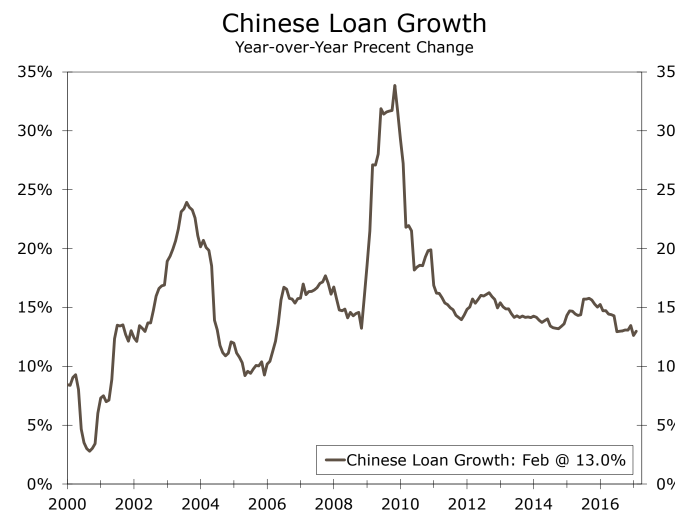
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

China

- Real GDP in China grew 6.8 percent on a year-ago basis in Q4-2016, the sixth consecutive quarter in which growth has been between 6.6 and 7.0 percent. A disaggregation of the GDP data into broad industry categories showed that growth in the "secondary" industries, which include the construction and industrial sectors, appears to have held steady at around 6 percent, while growth in the "tertiary" industries, essentially the service sector, appears to have strengthened somewhat.
- In that regard, the growth rate in nominal retail spending has picked up recently, but it remains well below the growth rates of the past several years. The sharp slowdown in investment spending that has occurred this decade is the primary cause for the deceleration in the Chinese economy. Growth in housing starts has picked up recently, but it is nowhere near the supercharged rates that were registered earlier in the decade. Although we do not foresee the Chinese economy crashing anytime soon, we anticipate a gradual slowdown with GDP growth slowing to 6.3 percent in 2017 and 5.8 percent in 2018.
- Despite stable GDP growth over the past few years, money is flowing out of China. China has been acting to offset some of the downward pressure on its currency for nearly three years, but it still has ample FX reserves. The Chinese government prizes stability and we think it will continue to sell down FX reserves and tighten capital controls to essentially control the rate of depreciation of its currency.



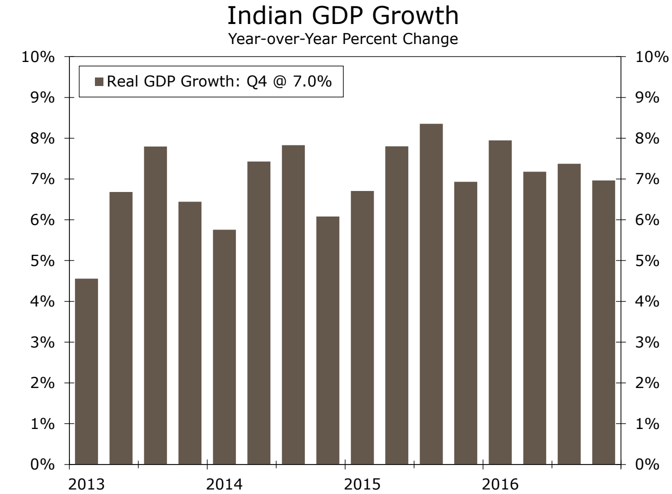


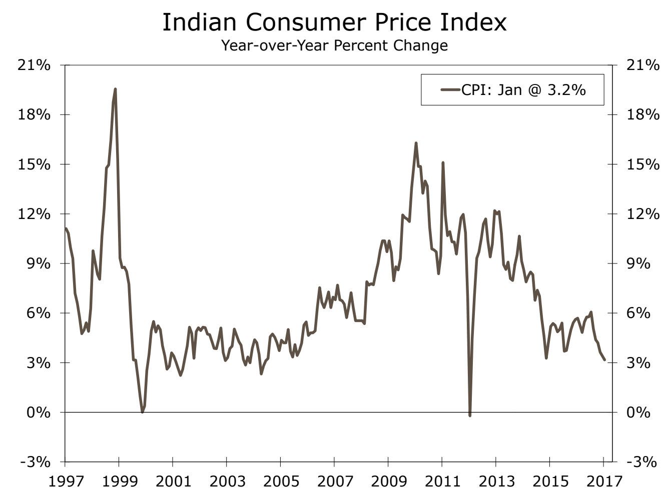


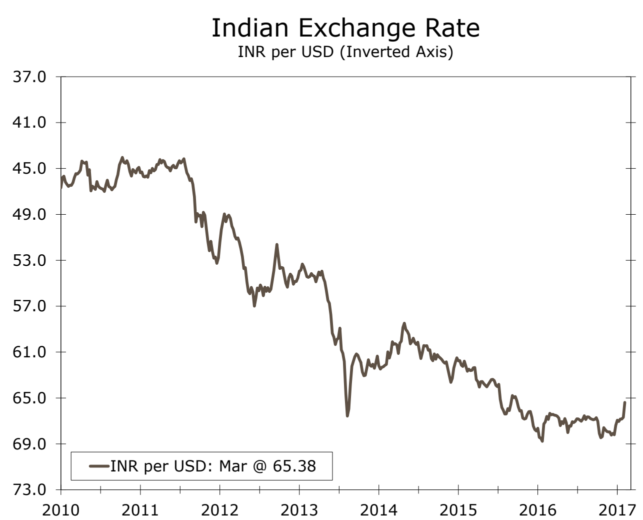
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

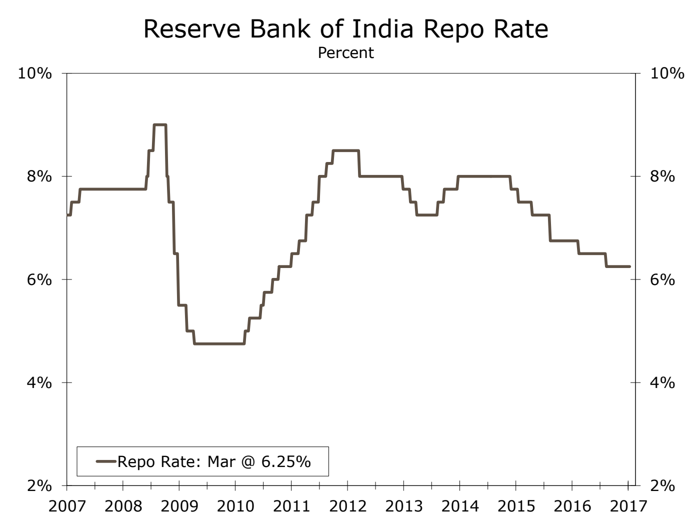
India

- Real GDP growth in India slowed modestly from 7.3 percent in Q3-2016 to 7.0 percent in Q4, which was not as sharp as many analysts had expected. Much of this deceleration in the Indian economy reflects the economic disruption that demonetization caused at the end of last year.
- The breakdown of the GDP data into its underlying demand components showed that consumer spending strengthened 10.1 percent in Q4, a very surprising figure given the recent demonetization measures implemented by the government. However, consumer spending in Q3 was downwardly revised to just 5.1 percent from its initial 7.6 percent annualized growth rate, which may partially explain the stronger-than-expected outturn in Q4.
- Moreover, business investment turned positive in Q4, expanding 3.5 percent while government spending grew a robust 19.9 percent. Likewise, imports and exports emerged from contractionary territory in Q4, growing 4.5 percent and 3.4 percent, respectively.
- By the end of this year, however, we forecast that real GDP growth will return to its underlying trend rate that probably is closer to 8 percent than it is to 7 percent. In short, the disruptive effects of demonetization likely will fade and the long-term determinants of economic growth likely will reassert themselves.





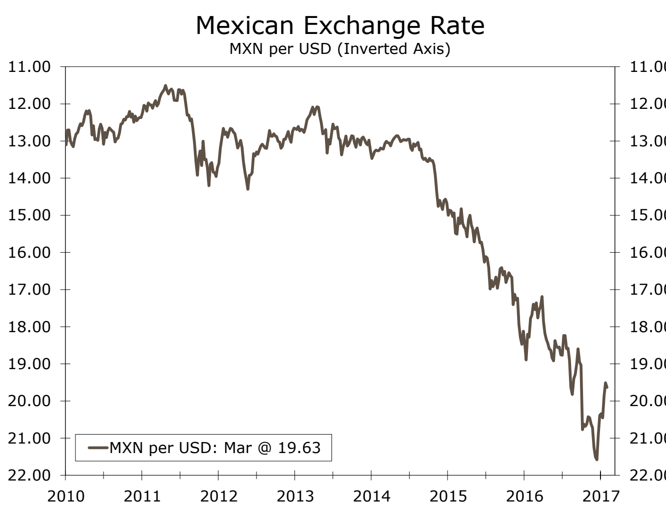


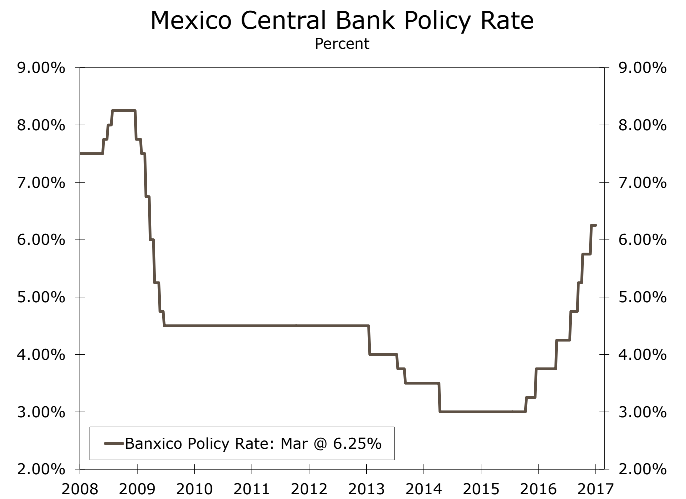


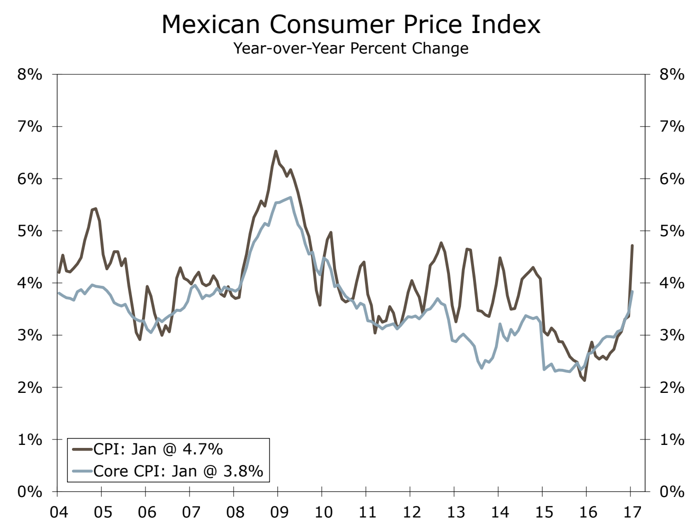
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Mexico

- Despite the uncertainty created in Mexico by President Trump's win, GDP grew 2.4 percent year over year in Q4—the second strongest quarter of 2016. The economy expanded 2.3 percent for 2016, lower than in the previous year. Despite slowing over the quarter, the main driving force behind much of the growth was the service sector, which has been resilient as of late. We expect this sector to slow in coming quarters.
- Conversely, weak performance in the industrial sector weighed on the economy and declined 0.4 percent during the year, meanwhile manufacturing was flat. In addition, the primary sector (i.e., agriculture and cattle) also contracted in Q4.
- Mexico's currency hit an all-time low in the aftermath of President Trump's electoral win. Since bottoming in January, the peso rose 10 percent against the U.S. dollar. The recovery in the peso comes as fears start to subside over the potential adverse changes in Mexico-U.S. relations. Moreover, Mexico's central bank has increased rates to 6.25 percent in February to better support the peso.
- We remain concerned for Mexican growth this year due to the current political environment, both north and south of the border and the potential effects this new environment may continue to have in the currency, the rate of inflation and the future. Thus, we still are forecasting a mild recession this year.



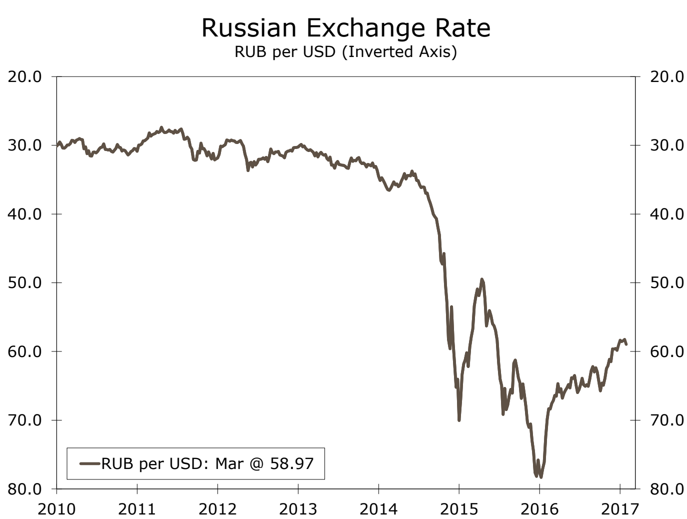


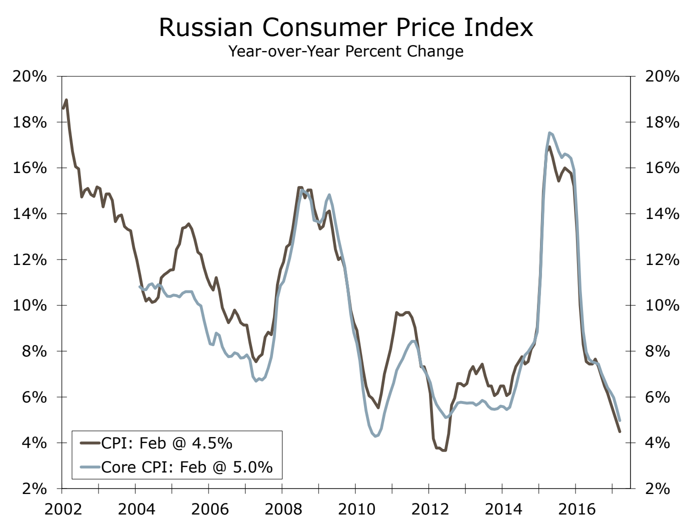


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Russia

- Fourth quarter GDP data for Russia is not slated to be released until the first week of April. The consensus forecast is calling for a 0.4 percent year-over-year rate of contraction in Q4-2016 GDP. For 2016 as a whole, GDP is estimated to have contracted 0.2 percent.
- Russian GDP has declined for seven consecutive quarters, but it appears the economy might be bottoming. This year should see growth rates turn positive, thanks, in part, to higher oil prices. As the Central Bank of the Russian Federation noted, higher average oil prices would mean an increase in foreign trade revenues, everything else equal. We estimate year over year growth rates of 1.4 percent and 2.1 percent in 2017 and 2018, respectively.
- Industrial production is up 2.3 percent year over year, a sign that domestic production is starting to strengthen. Real retail sales, on the other hand (down 2.3 percent year over year), suggest that domestic demand is still struggling to gain traction.
- Inflationary pressures continue to subside in the Russian economy, which is at odds with the recent rise in oil prices. However, GDP growth, or lack thereof, has failed to spur price pressures. CPI inflation stood at 4.5 percent in February after a 4.9 reading in January.

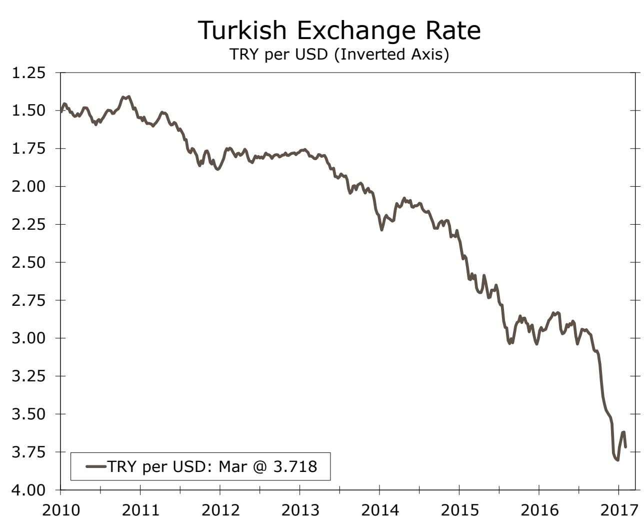


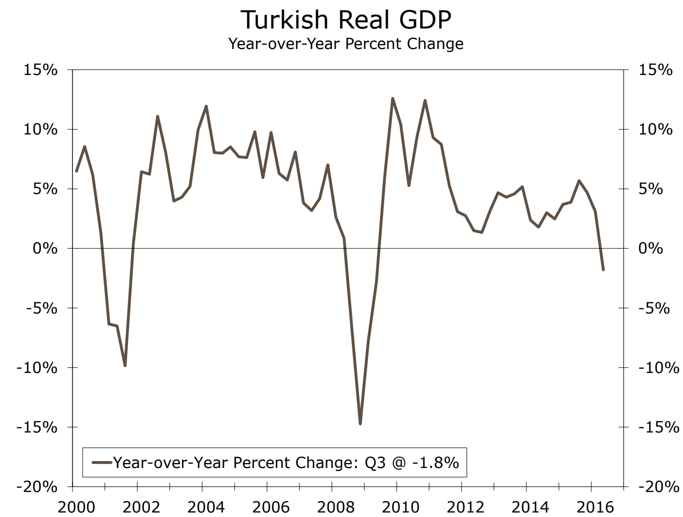


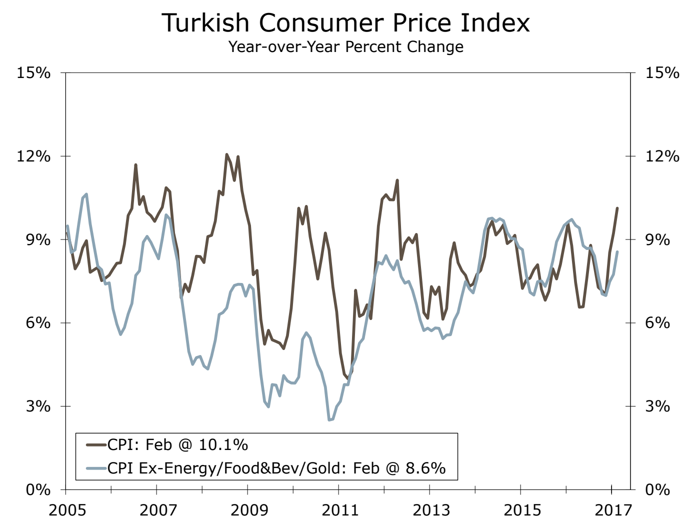
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

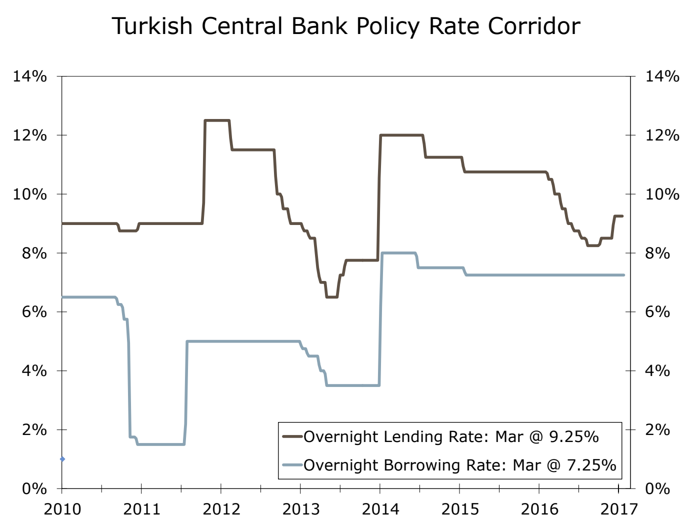
Turkey

- Third quarter GDP data point to a Turkish economy that continues to slow. GDP contracted 1.8 percent in Q3-2016 in the midst of domestic political upheaval. A drop off in tourists visiting Turkey has damaged its economic potential. However, the consensus forecast expects fourth quarter GDP growth (data to be released on March 31) to return to positive territory and expand 2.6 percent, year over year.
- Continued political turmoil has spilled over into the currency markets. The Turkish lira has depreciated roughly 30 percent against the U.S. dollar since the military coup in July. Likewise, Turkey's current account deficit increased to $4.3 billion in December from just $2.3 billion in November, which has put added downward pressure on the currency. The rate of CPI inflation ticked up to 10.1 percent in February from 9.2 percent the prior month.
- The depreciation of the lira and its inflationary implications has pressured the central bank to raise its overnight lending rate to 9.25 percent in February from 8.50 percent in January. Turkey's central bank forecasts inflation to be 8.0 percent at the end of 2017 and 6.0 percent in 2018.
- The manufacturing purchasing managers' index increased to 49.7 in February from 48.7 in January. Although the index improved, the reading below the 50.0 threshold signals a contraction in the manufacturing sector.





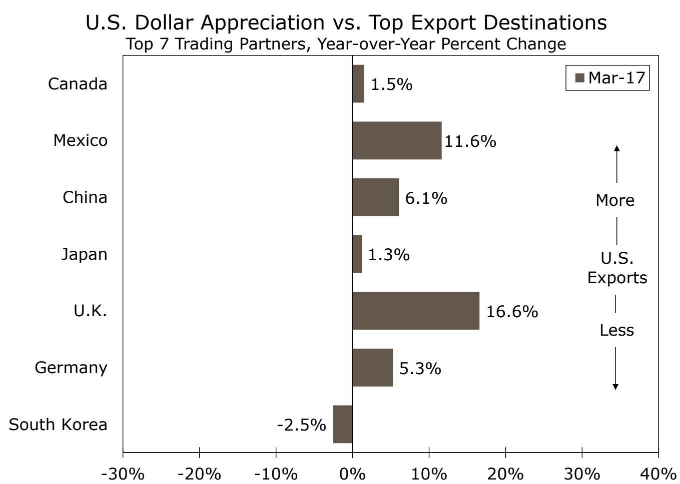


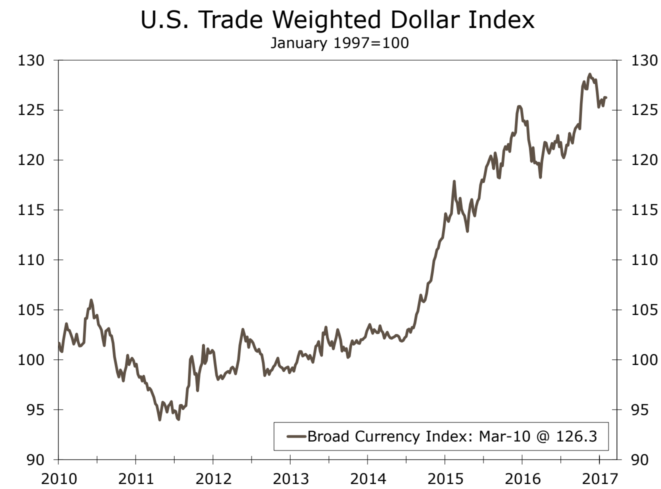


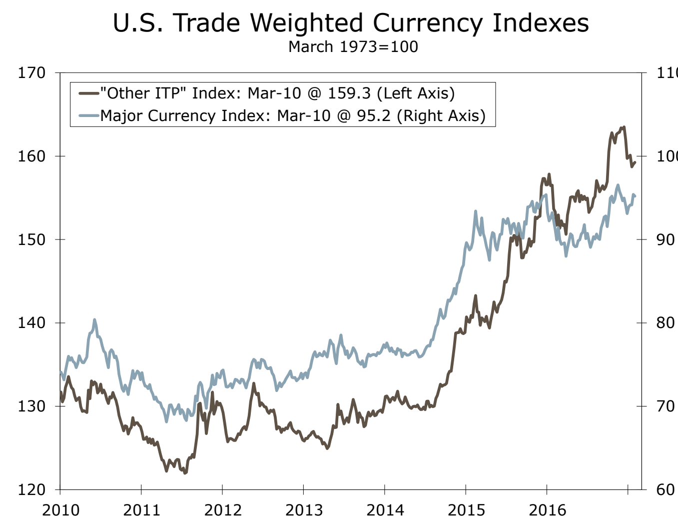
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

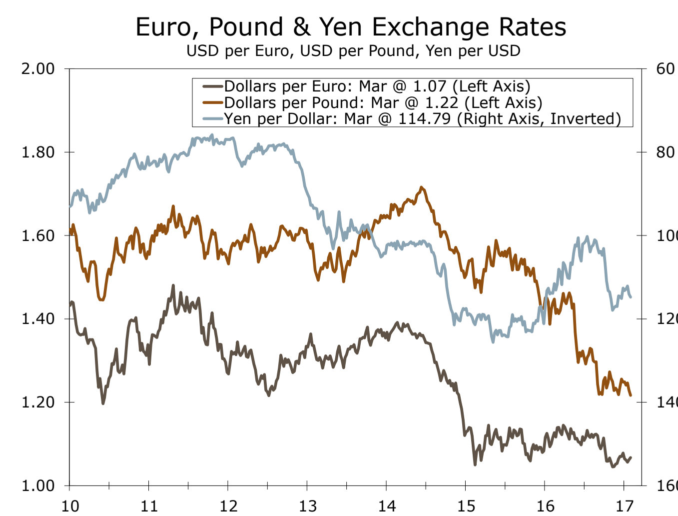
Dollar Exchange Rates

- The greenback has gained over the past month as U.S. economic data have generally been stronger than expected, Fed commentary has become more hawkish and the financial markets have priced in a March Fed hike. We expect this trend of U.S. dollar appreciation to continue as the market moves toward fully pricing in a June rate increase. More generally, as U.S. economic growth shows a slight upswing, supportive fiscal policy remains a potential upside risk for growth and the U.S. dollar.
- There are also some hints of policy adjustments from foreign central banks, although for now those hints remain tentative. The European Central Bank (ECB) is about to start reducing the pace of its asset purchases and its language has become less dovish in recent months. In contrast, the Bank of Canada's policy outlook remains relatively benign, and indeed slightly lower oil prices have weighed on the Canadian dollar recently.
- Overall, while we believe there will be eventual tightening by foreign central banks, we expect that eventuality will be more relevant for currency markets in 2018 than in 2017. The U.S. dollar could face countervailing forces in 2018. Repatriation flows associated with tax reform could potentially support the dollar, but foreign central bank moves could potentially weigh on the greenback. Against this backdrop we see an overall peak in the greenback in the first half of 2018, ahead of a depreciation trend in the U.S. dollar beginning in the second half of next year.





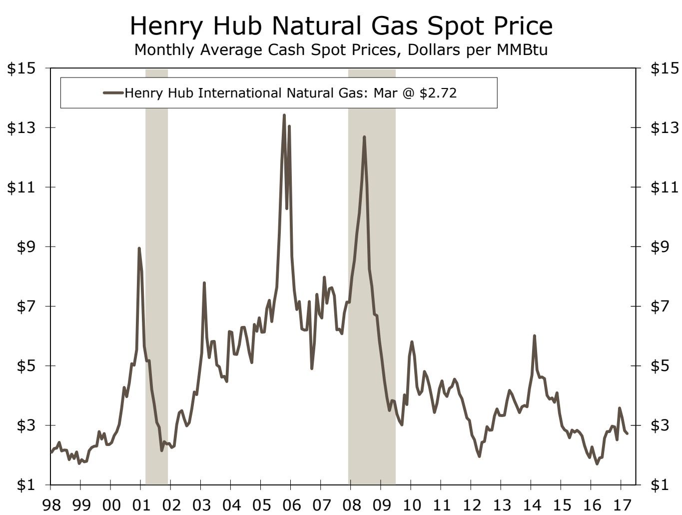


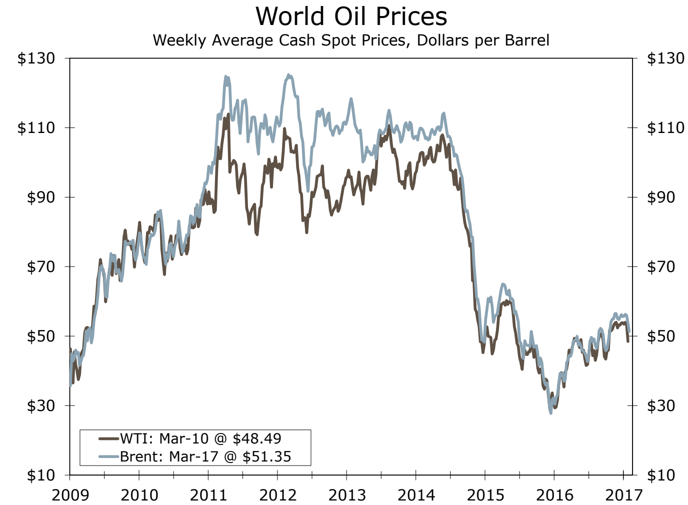


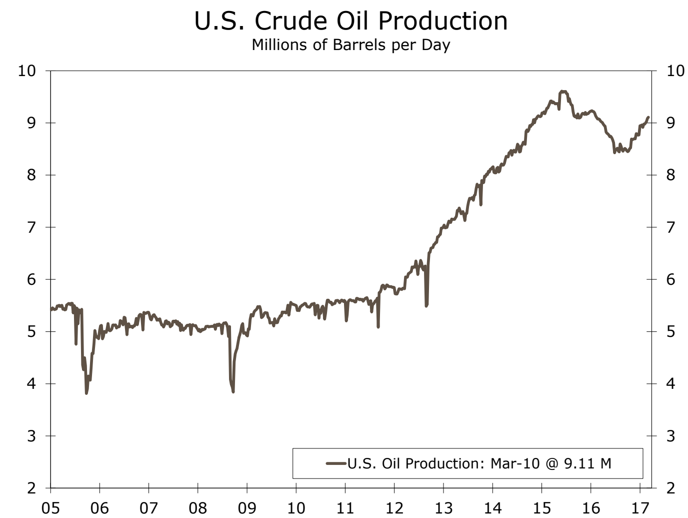
Source: Federal Reserve Board, Bloomberg LP, IHS Global Insight and Wells Fargo Securities

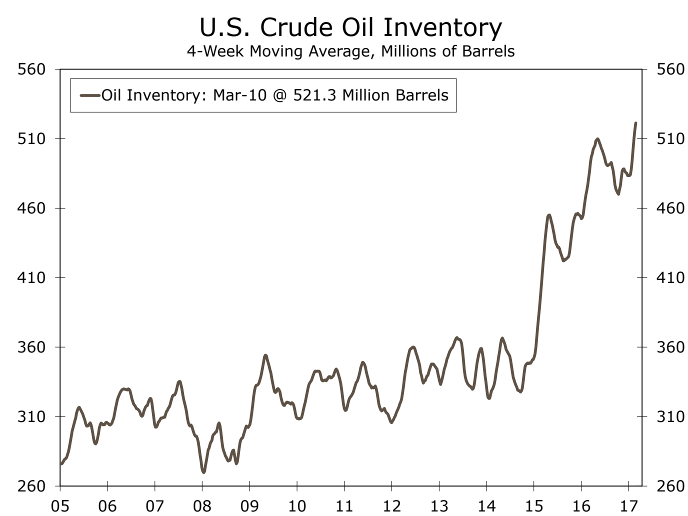
Energy

- Oil prices have come back under pressure the past couple of weeks. The price of WTI oil has slipped below $50 per barrel for the first time since OPEC cut a deal last December to limit production.
- While OPEC production has fallen by nearly 2 million barrels per day since November, oil inventories have climbed in recent weeks. The relative stability for oil prices in recent months, along with pledges from OPEC and other key oil producers like Russia to cut production, has helped reignite shale production in the United States. U.S. production is up 7 percent since bottoming last July, while inventories have climbed to new record highs.
- Demand, however, remains relatively solid. The pickup in global industrial production is consistent with increased energy demand. In the United States, consumer usage continues to grow with the number of vehicle miles traveled up nearly 3 percent over the past year.
- With the spring and summer driving season approaching, our energy team believes inventories that inventories will stabilize and prices should climb again through the summer.
- Natural gas prices have decreased since the start of the year following mild weather in January and February across most of the United States. However, prices remain up about 50 percent from a year ago since inventories are contracting for the first time in two years.







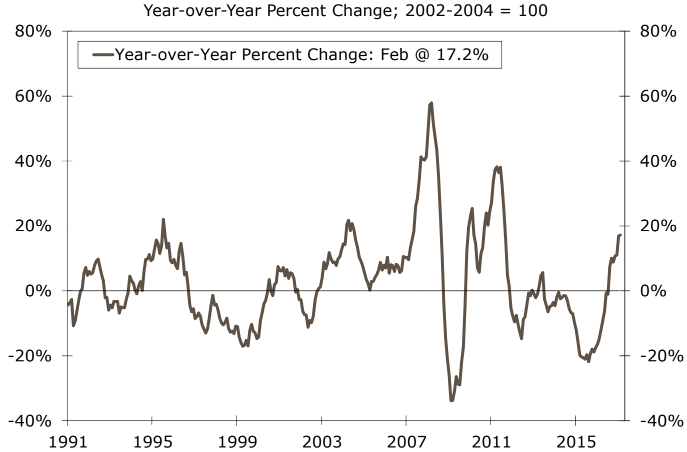


Source: IHS Global Insight, Moody's Analytics and Wells Fargo Securities

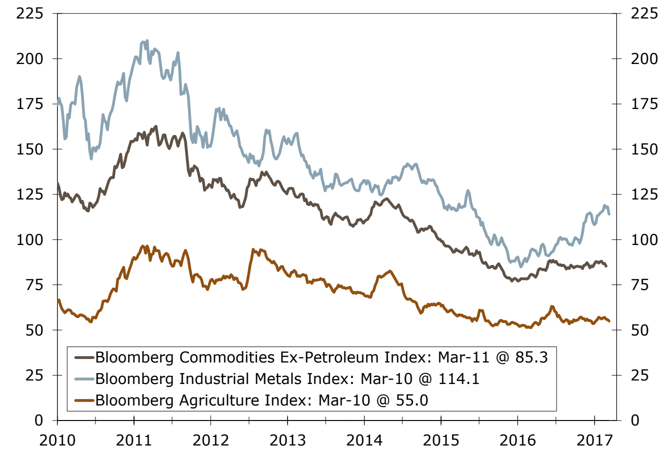
Other Commodities

- Prices for industrial metals have generally maintained the gains that followed the U.S. election, which had raised optimism about demand for the coming year. The Bloomberg Industrials Metals index is up a little more than 20 percent over the past year.
- Gains in metals prices over the past year have also been driven by diminishing fears over a "hard landing" in China, which is the largest user of industrial metals and growth has looked relatively stable over the past year. However, we expect growth to slow in the year ahead, which may weigh on prices unless new supply is held in check.
- Agriculture prices have been little changed on balance since the start of the year. After climbing through January, the Bloomberg Agriculture Index has trended lower in recent weeks amid a mild pullback in wheat, soybean and corn prices. Most under pressure has been cocoa, where prices are now at six-year lows following strong harvests in West Africa.
- While grain prices have been little changed in recent months, food prices more broadly have been climbing. According to the UN Food and Agriculture Organization, global prices for meat, dairy products cooking oils and sugar are all up nearly 10 percent or more over the past year. The overall food index is up 17 percent year-over-year and indicates rising global inflation is not just a function of the past year's rebound in energy prices.

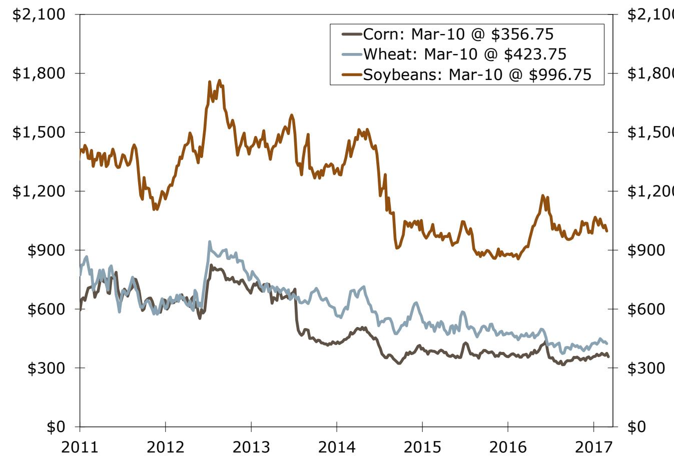
Monthly Food Price Index
Year-over-Year Percent Change; 2002-2004 = 100



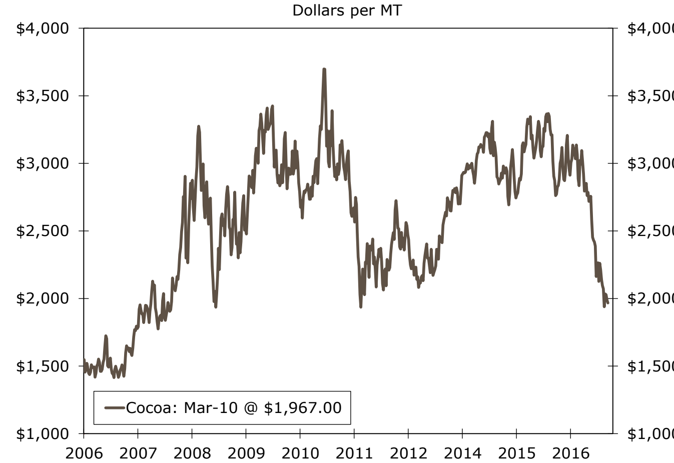
Commodity Indices Ex-Petroleum
Index: 1991 = 100



Crop Prices
Dollars per Bushel



Cocoa Price
Dollars per MT



Source: Bloomberg LP, Commodity Research Bureau and Wells Fargo Securities

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2016	2017	2018	2016	2017	2018
Global (PPP Weights)	3.0%	3.1%	3.3%	3.1%	3.5%	3.7%
Global (Market Exchange Rates)	2.7%	2.9%	3.1%	3.1%	3.5%	3.7%
Advanced Economies[1]	1.8%	2.0%	2.3%	0.7%	2.2%	2.1%
United States	1.6%	2.1%	2.5%	1.3%	2.7%	2.6%
Eurozone	1.7%	1.8%	2.0%	0.2%	1.7%	1.8%
United Kingdom	1.8%	1.8%	1.8%	0.7%	2.3%	2.2%
Japan	1.0%	1.1%	0.9%	-0.1%	0.6%	0.9%
Korea	2.7%	2.5%	2.6%	1.0%	2.1%	1.7%
Canada	1.4%	2.1%	1.9%	1.4%	1.8%	2.0%
Developing Economies[1]	4.2%	4.1%	4.3%	5.5%	4.8%	5.3%
China	6.7%	6.3%	5.8%	2.0%	1.5%	2.0%
India[2]	7.8%	7.0%	7.0%	5.0%	4.1%	5.5%
Mexico	2.3%	-1.0%	1.6%	2.8%	6.6%	6.1%
Brazil	-3.6%	0.7%	2.7%	8.7%	4.9%	5.5%
Russia	-0.2%	1.4%	2.1%	7.1%	4.4%	4.5%

Forecast as of: March 15, 2017

[1]Aggregated Using PPP Weights [2]Forecasts Refer to Fiscal Year

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR						10-Year Bond					
	2017				2018		2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2
U.S.	1.30%	1.50%	1.50%	1.75%	1.75%	2.00%	2.55%	2.62%	2.68%	2.72%	2.75%	2.78%
Japan	-0.02%	-0.02%	-0.02%	-0.02%	0.00%	-0.08%	0.05%	0.05%	0.07%	0.10%	0.12%	0.15%
Euroland[1]	-0.35%	-0.35%	-0.32%	-0.30%	-0.25%	-0.10%	0.40%	0.45%	0.55%	0.65%	0.85%	1.05%
U.K.	0.35%	0.35%	0.35%	0.40%	0.45%	0.60%	1.30%	1.40%	1.60%	1.75%	1.90%	2.10%
Canada[2]	0.95%	0.95%	0.95%	1.15%	1.15%	1.40%	1.80%	1.90%	2.00%	2.10%	2.25%	2.30%

Forecast as of: March 15, 2017

[1] 10-year German Government Bc [2] 3-Month Canada Bankers' Acceptances

Source: IMF and Wells Fargo Securities

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