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SECURITIES

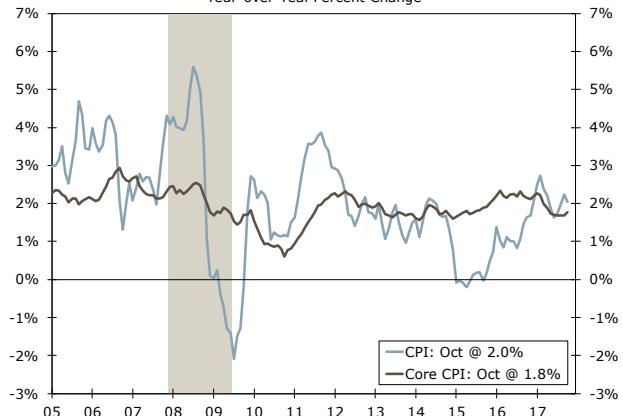
Weekly Economic & Financial Commentary

U.S. Review

Data Supportive of Fed Funds Hike in December

- Three of the leading U.S. inflation indicators, the consumer price index, the producer price index and the import price index, collectively showed a firming of inflation in October.
- Industrial production growth surged in October, but the gain was overstated by rebound effects from Hurricanes Harvey and Irma.
- Retail sales rose 0.2 percent in October. Over the past year, sales are up 4.6 percent amid strength in building supplies and non-store retailers.

Headline CPI vs. Core CPI Year-over-Year Percent Change

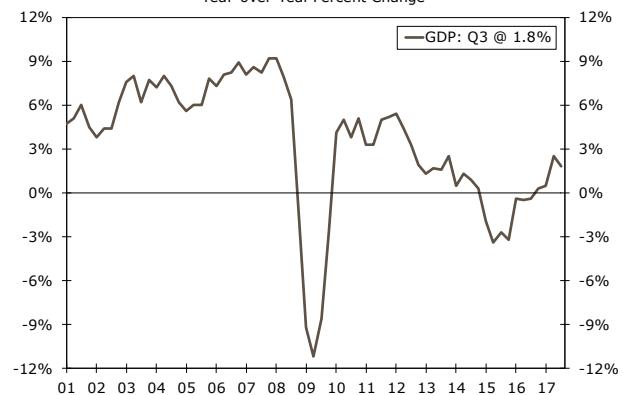


Global Review

Steady Growth in the Global Economy

- The global economy has continued to show signs of steady economic growth even though growth varies across countries. Case in point was this week's release of Russia's economic performance during the third quarter of the year, which came in lower than market expectations, up only 1.8 percent on a year-earlier basis.
- Meanwhile, the Eurozone reported that industrial production was down 0.6 percent in September on a sequential basis after a strong result in August, up 1.4 percent sequentially.

Russian Real GDP Year-over-Year Percent Change



Inside

Wells Fargo U.S. Economic Forecast													
	Actual				Forecast				Actual		Forecast		
	2017		2018		2015		2016		2017	2018	2019		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product ¹	1.2	3.1	3.0	2.5	2.3	2.5	2.6	2.6	2.9	1.5	2.2	2.6	2.5
Personal Consumption	1.9	3.3	2.4	3.0	2.5	2.6	2.6	2.6	3.6	2.7	2.7	2.7	2.5
Inflation Indicators ²													
PCE Deflator	2.0	1.6	1.5	1.5	1.4	1.8	1.8	1.6	0.3	1.2	1.6	1.7	1.8
Consumer Price Index	2.6	1.9	2.0	1.9	1.7	2.3	2.3	2.0	0.1	1.3	2.1	2.1	2.1
Industrial Production ¹	1.5	5.6	-1.5	1.4	2.4	2.2	2.3	2.1	-0.7	-1.2	1.5	1.9	2.3
Corporate Profits Before Taxes ²	3.3	6.3	3.0	3.2	3.1	3.0	3.0	2.9	-1.1	-2.1	4.0	3.0	2.8
Trade Weighted Dollar Index ³	94.0	90.5	88.1	89.0	87.8	86.5	85.0	83.5	91.1	91.6	90.4	85.7	80.5
Unemployment Rate	4.7	4.4	4.3	4.1	4.1	4.0	3.9	3.9	5.3	4.9	4.4	4.0	3.8
Housing Starts ⁴	1.24	1.17	1.17	1.27	1.27	1.28	1.28	1.29	1.11	1.17	1.22	1.28	1.37
Quarter-End Interest Rates ⁵													
Federal Funds Target Rate	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00	0.27	0.52	1.25	1.75	2.25
Conventional Mortgage Rate	4.20	3.90	3.81	3.89	3.97	4.06	4.11	4.18	3.85	3.65	3.95	4.08	4.30
10 Year Note	2.40	2.31	2.33	2.49	2.57	2.66	2.71	2.78	2.14	1.84	2.38	2.68	2.90

Forecast as of: November 8, 2017

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Federal Reserve Major Currency Index, 1973=100 - Quarter End⁴ Millions of Units⁵ Annual Numbers Represent Averages

Source: U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve Board, IHS Global Insight and Wells Fargo Securities

Together we'll go far



U.S. Review

Data Supportive of Fed Funds Hike in December

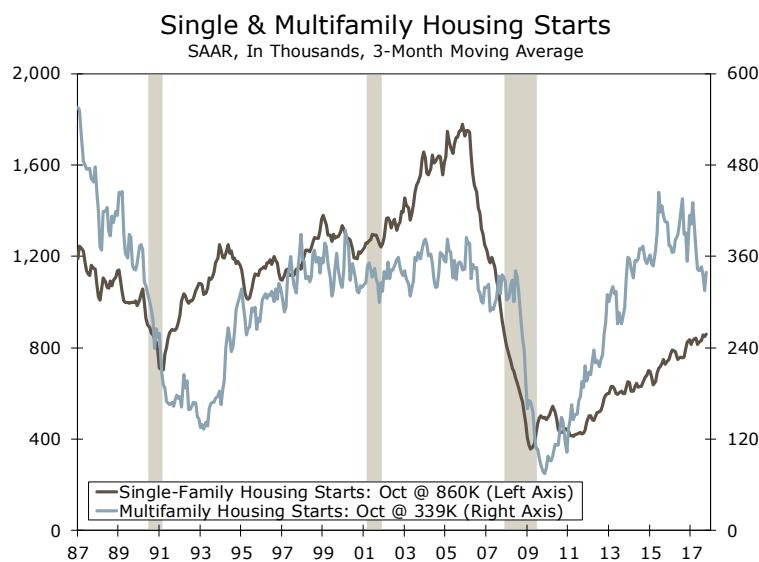
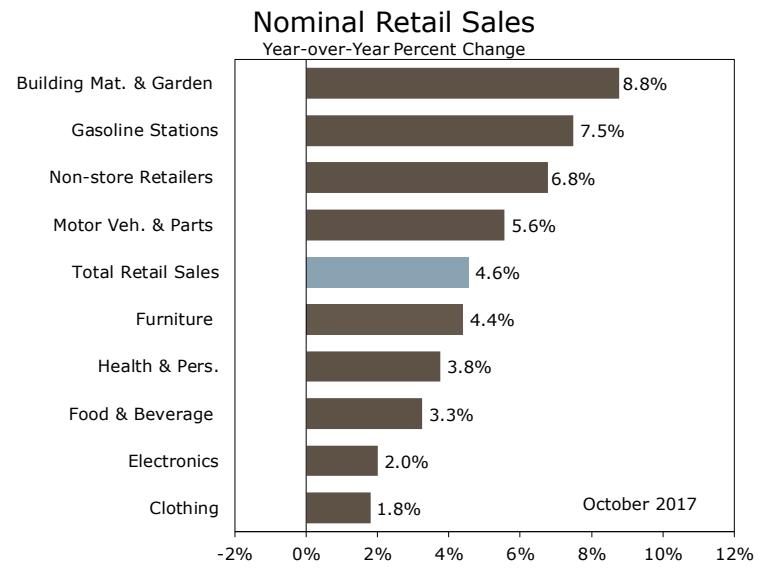
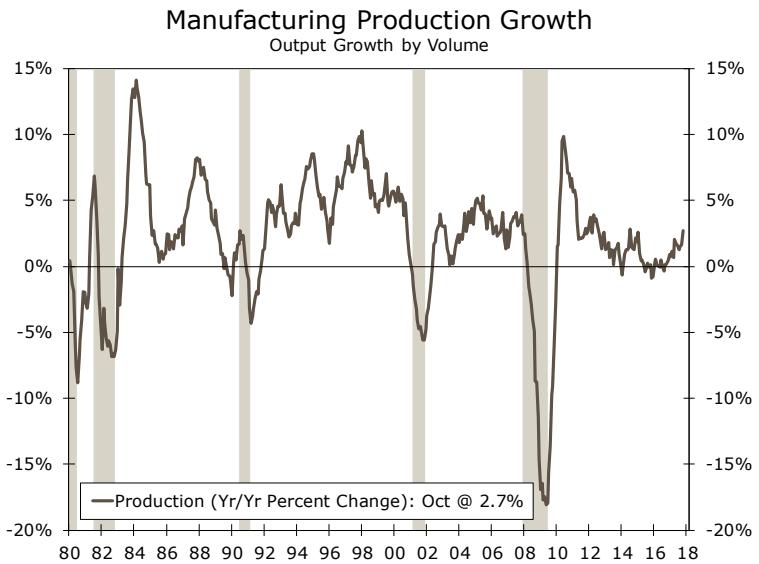
A slew of economic data were released in the United States ahead of the short holiday week. Three of the leading U.S. inflation indicators, the consumer price index, the producer price index and the import price index, collectively showed a firming of price growth in October (see chart on front page). Although the headline CPI decelerated slightly in October, the slowdown reflected a decline in energy prices as the supply disruptions surrounding Hurricanes Harvey and Irma abated. Excluding food and energy, inflation was noticeably stronger. Core services have been the primary source of inflation weakness this year, but services prices rose 0.3 percent in the month, while core goods prices also posted a rare increase.

For the second consecutive month, the PPI for final demand beat expectations, rising 0.4 percent in October. Core producer prices, excluding energy, food and trade services, reached a fresh record high for this relatively new (2013) series. In addition, the import price index showed the strongest rate of nonfuel import price inflation in more than five years. On balance, inflation has not rebounded sharply from its recent slowdown, but neither has it continued to fall. As a result, the stabilization of price growth and our expectation that it will slowly pick up should keep the FOMC on the path of gradual rate increases in the months ahead.

Industrial production jumped 0.9 percent in October, led by a 1.3 percent surge in manufacturing output, which matched the largest monthly increase since 2010. The factory sector has been held back over the past few months as Hurricanes Harvey and Irma knocked some capacity offline that has only now begun to swing back in full force. The Federal Reserve, which produces the industrial production statistics, estimates that, excluding the effects of the hurricanes, output advanced just 0.3 percent for the total index and 0.2 percent for manufacturing. Although the output data have been noisy recently, the trend remains broadly upward. Industrial production and manufacturing output are up 2.9 percent and 2.7 percent year over year, respectively, a clear improvement from the past couple years (top chart).

Retail sales rose 0.2 percent in October, and September's surge was revised higher to 1.9 percent. This was stronger than expected, as consensus had penciled in a flat month of sales as the boost from gas prices, building supplies and auto sales associated with the hurricanes eased from September. Control group sales—which exclude autos, food, gasoline and building materials—were less impacted by the hurricanes in September, and were up a stronger 0.3 percent in October. Over the past year, retail sales are up 4.6 percent, with continued strength in building supplies and non-store retailers (middle chart).

Housing starts rose 13.7 percent in October, halting a streak of three consecutive monthly declines and ending the week of data on a high note. The volatile multifamily component surged 36.8 percent, overstating some of the headline strength, but single-family starts posted a 5.3 percent increase as well. Year to date, single-family starts have risen 8.4 percent (bottom chart).



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

Existing Home Sales • Tuesday

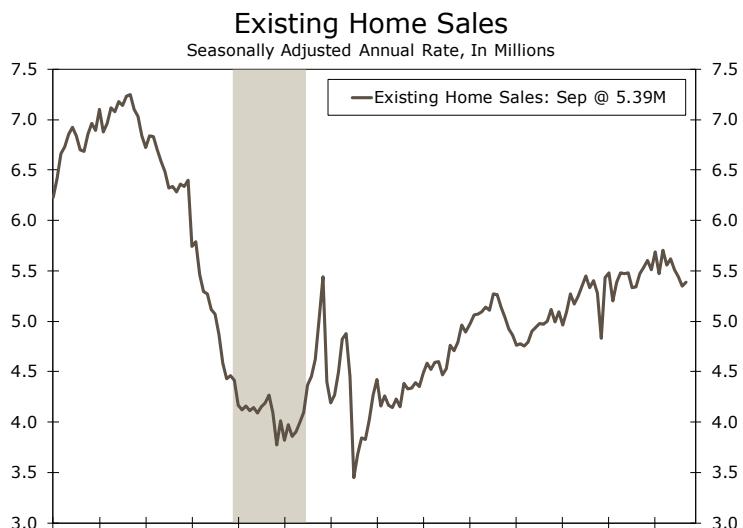
Resales increased in September after three consecutive months of decline. The continued strain from lean inventories has brought the year-to-year comparisons into negative territory, however. Existing home sales were down 1.5 percent over the year, but inventories were off even more, down 6.4 percent.

Data were also impacted in September as hurricanes shut down active markets in the South, though sales in other regions were enough to offset the decline. Pending home sales, which measure signed contracts and tend to lead existing sales by 1-2 months, were flat in September following a decline in August. Softness was largely in the South suggesting the hurricane effects have not fully flushed out in the resales data, which bears watching in coming months. Still, demand is strong in the housing market and recent weakness is largely due to the lack of available homes for sale.

Previous: 5.39M

Wells Fargo: 5.38M

Consensus: 5.40M



Durable Goods • Wednesday

Recent data from the factory sector have been largely positive. The final statistics for September durable goods showed a 2.0 percent increase on the month. Data for August and September have been impacted to some degree by the hurricanes and some payback may be in the offing in October. Looking through the disruptions, the road ahead looks generally positive for upcoming factory orders. Core orders in September were up 1.7 percent and running at a very strong 12.4 percent annualized pace, which supports our outlook for a healthy pace of equipment spending through year end.

The ISM manufacturing index for October softened only slightly from September's recent high but remained in solid expansion character. The new orders index also pointed to expansion in October. Still, there will likely be some payback from the distortion resulting from the hurricanes in October, but we remain upbeat about the underlying trend.

Previous: 2.0%

Wells Fargo: 0.1%

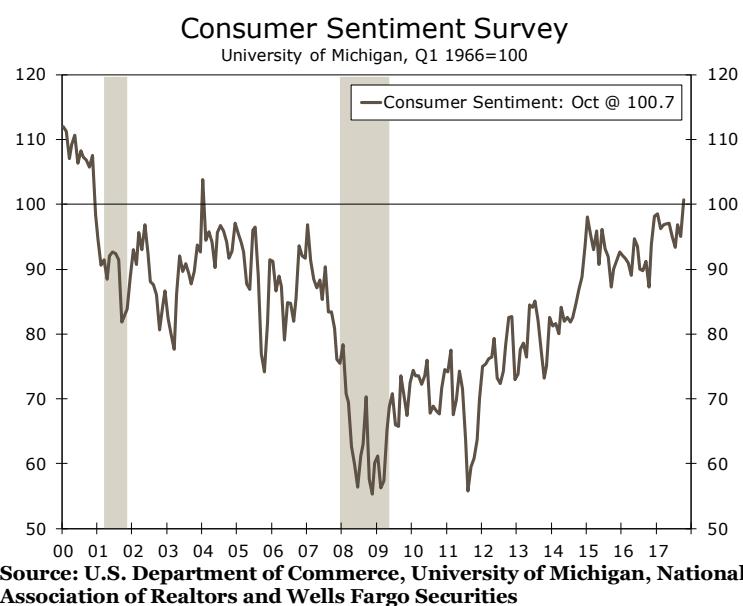
Consensus: 0.3% (Month-over-Month)

Consumer Sentiment • Wednesday

The University of Michigan's measure of consumer sentiment hit a cycle high in October on broad based optimism both about current conditions and expectations for the future. Over half of the consumers surveyed expected good times to continue for the next year, and 51 percent expected uninterrupted expansion for the next five years. Consumers had good reason for optimism, as the low unemployment rate reinforced confidence in the job market and income prospects. The continued uptrend in the stock market also gave reason for financial optimism. Recent data for personal spending suggest consumers are indeed spending more, though income gains continue to lag—making the current trend unsustainable in the long term unless income growth starts to pick up. The first look at consumer sentiment in November showed a slip from October but remained in elevated territory.

Previous: 100.7

Consensus: 99.0



Source: U.S. Department of Commerce, University of Michigan, National Association of Realtors and Wells Fargo Securities

Steady Growth in the Global Economy

The global economy has continued to show signs of steady economic growth even though growth varies across countries. Case in point was this week's release of Russia's economic performance during the third quarter of the year, which came in lower than what markets were expecting, up only 1.8 percent on a year-earlier basis. As we pointed out on our report in Russia's Q3 GDP, while personal consumption seems to have remained relatively strong in Q3, the probable culprit for the slowdown in economic activity was probably due to a slowdown in investment spending. More detailed results on Russia's GDP numbers will be ready later in the year.

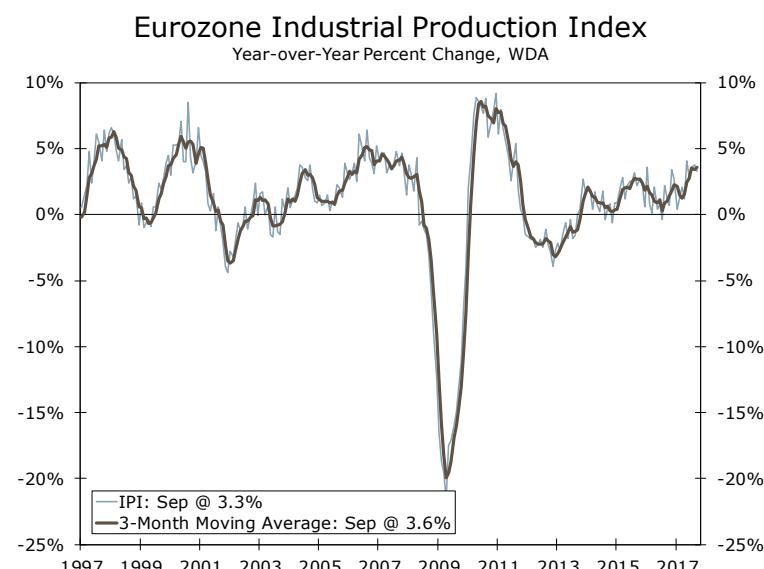
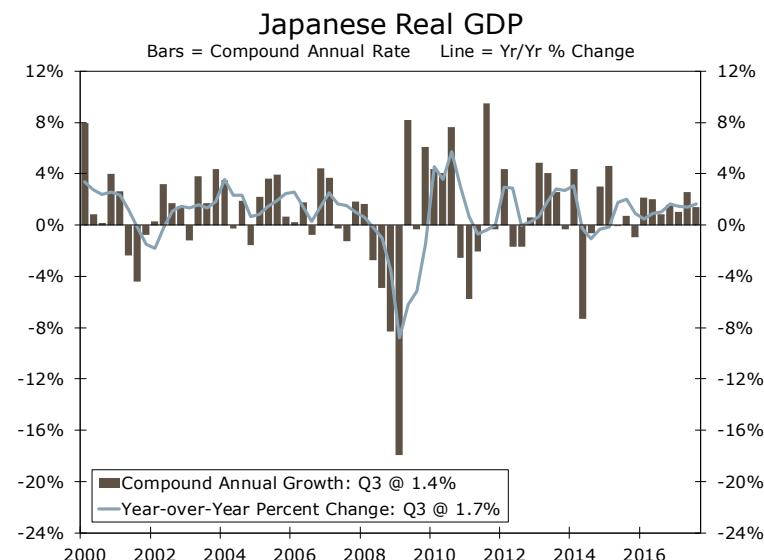
Meanwhile, in China, industrial production increased a slightly weaker than expected 6.2 percent in October compared to a growth rate of 6.6 percent in September of this year, year over year. Markets were expecting a 6.3 percent reading for the index in October. On the other hand, Chinese retail sales increased 10.0 percent in October versus a year earlier increase of 10.3 percent in September. Markets were expecting a growth rate of 10.5 percent. That is, these two measures of activity showed that the Chinese economy is a bit weaker in October of this year compared to September's readings.

Also in Asia, Japan released its Q3 GDP results and although it was weaker than the print reported in Q2 the economy has now grown for seven consecutive quarters. Consistent growth has been difficult for Japan to attain since the first days of the depression that started in the 1990s. This time, the Japanese economy increased 1.4 percent in annualized terms (middle chart). Furthermore, growth was motorized by the export sector in Q3 rather than by domestic consumption, which was the case in Q2. In fact, personal consumption expenditures were negative during the quarter.

Meanwhile, the Eurozone reported that industrial production was down 0.6 percent in September on a sequential basis after a strong result for August, up 1.4 percent sequentially. Markets were expecting a payback due to the strong print reported the previous month. On a more current release, the Eurozone ZEW Survey of expectations was up to 30.9 in November compared to 26.7 in October, which points to continuous improvement in the Eurozone economy going forward.

In South America, the Brazilian economy continues to make slow but sustained forward progress even if the political environment remains uncertain. Brazilian retail sales increased a strong 0.5 percent in September after falling 0.4 percent the previous month. On a year-earlier basis retail sales were also strong, up 9.3 percent compared to a rate of 7.7 percent in August. Of course, for a while we are going to see very strong numbers coming from Brazil because the base of comparison is so slow that any uptick in economic activity will show as if the economy were booming.

Having said this, the improvement in consumption is probably related to the strong slowdown in inflation and the appreciation of the Brazilian currency over the past several years, which is helping the purchasing power of Brazilian consumers.



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

Brazil Economic Activity Index • Monday

The Brazilian economy endured a deep recession in 2015 and 2016, but real GDP growth has turned positive again on a sequential basis this year. Data on the economic activity index, which has a high degree of correlation with real GDP growth, are slated for release next week. The data will be for September, which will give analysts an opportunity to sharpen their GDP growth estimates for the third quarter.

Brazil has a few different measures of consumer price inflation, and some of them are on the docket next week. In general, economic weakness and currency appreciation have led to a marked decline in Brazilian inflation this year. The central bank has slashed its main policy rate from 14.25 percent in October 2016 to 7.50 percent at present. Although the central bank is probably nearing the end of its easing cycle, it could cut rates a bit more if inflation falls even further.

Previous: 1.6%

Consensus: 1.4% (Year-over-Year)

Brazilian Economic Activity Index Year-over-Year Percent Change

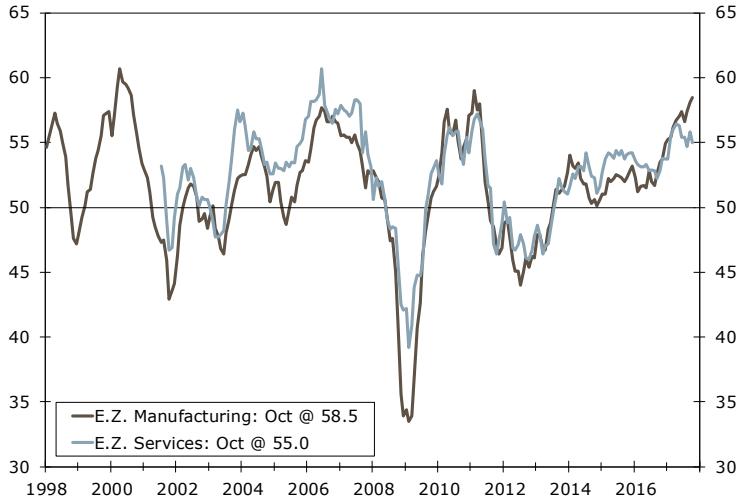


Eurozone PMIs • Thursday

The sharp rise in the purchasing managers' indices in the Eurozone over the past year or so is consistent with the acceleration in economic activity in the euro area that has occurred over that period. The PMI data that are on the docket for November will be helpful in gauging the strength of economic activity thus far in the fourth quarter.

Data released this week showed that real GDP in Germany grew 0.8 percent (not annualized) in Q3-2017. On a year-over-year basis, real GDP growth rose to a 6-year high of 2.8 percent. The German statistical office will provide a breakdown of the Q3 GDP data into its underlying demand-side components on Thursday. The Ifo index of German business sentiment will print on Friday. The "headline" index currently stands at an all-time high.

Eurozone Purchasing Managers' Indices Index



Mexican GDP • Friday

Mexico will release its second estimate of real GDP growth in Q3-2017 on Friday. Preliminary data that printed a few weeks ago showed that real GDP growth slowed to 1.6 percent on a year-over-year, non-seasonally adjusted basis. On a seasonally adjusted basis, real GDP contracted 0.2 percent (not annualized) in Q3. The revised data that are slated for release next week will provide the first breakdown of real GDP into its underlying demand components. Therefore, analysts will get a more complete picture of the current state of the Mexican economy.

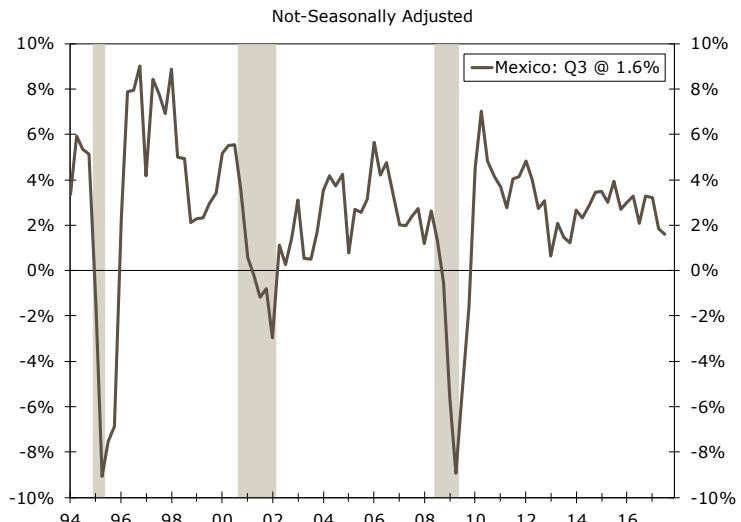
On Thursday, Mexican statistical authorities will release bi-weekly CPI inflation data. The CPI inflation rate ended last year at 3.4 percent, but it has nearly doubled this year, and the recent depreciation of the peso will put further upward pressure on inflation, at least in the near term. The Bank of Mexico may need to respond if inflation expectations were to become unmoored.

Previous: 1.6% (Year-over-Year) Wells Fargo: 1.6%

Prev. Manufacturing PMI: 58.5 Consensus: 58.2

Prev. Services PMI: 55.0 Consensus: 55.2

Mexican GDP Not-Seasonally Adjusted



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

Interest Rate Watch

Inflation “Mystery” Solved?

Slower inflation this year, as the labor market has reached full employment, has in the words of Fed Chair Janet Yellen been somewhat of a “mystery.” Core inflation, measured by the PCE deflator, has slowed to 1.3 percent after coming up just shy of the FOMC’s 2 percent target in February.

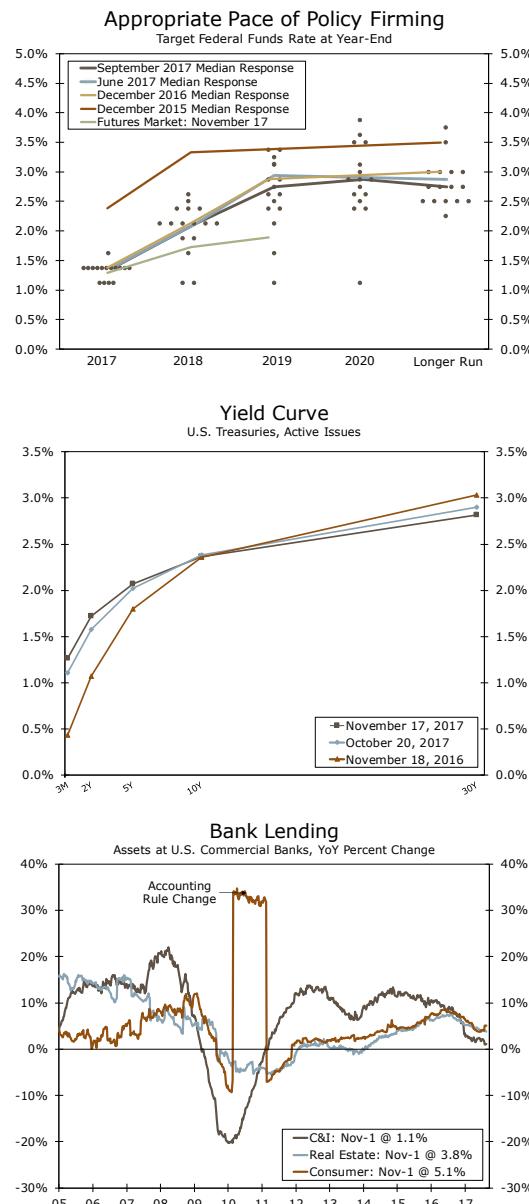
Most Fed officials have viewed the weakening primarily as the result of a few “idiosyncratic” factors, like cheaper cell phone plans, and consequently pushed ahead with higher interest rates and balance sheet normalization. Yet without signs of an inflation rebound, the Fed’s plans for three rate hikes in 2018 has looked to be in jeopardy (top graph).

CPI data this week suggest that the slowdown in inflation since the start of the year is temporary. Headline inflation in October was held down by lower energy prices, but core inflation posted a solid gain. Over the past three months, core CPI has risen at a 2.4 percent annualized rate and suggests the year-over-year rate (1.8 percent) will soon be headed higher.

While many components of the CPI feed into the estimates of the Fed’s preferred measure of inflation, the PCE deflator, one noteworthy exception is healthcare. Since only about a quarter of healthcare costs are paid directly by consumers (versus employers or the government), initial monthly estimates are derived from the PPI report. An 18-month low in healthcare inflation by this measure suggests that even with the unwinding of one-offs, core PCE’s rebound is likely to be slow.

Good Enough for the FOMC?

Along with the FOMC, we expect core inflation to move higher in the coming year. However, this year’s stumble has led some FOMC members to become increasingly uncomfortable with inflation’s persistent shortfall. Chicago Fed President Charles Evans, for example, spoke this week about the committee’s symmetric target and the need for inflation to average 2 percent over time. So while there are signs that inflation is back on track, the slow recovery still poses risks to derailing the Fed’s plans to raise the fed funds rate three times next year.



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

Credit Market Insights

Auto Loan Delinquencies on the Rise

Data from the New York Fed’s quarterly report on Household Debt and Credit released earlier this week showed increases in household debt across the majority of categories in Q3. Overall household debt increased 4.9 percent on a year-ago basis, with the largest jumps year-over-year seen in credit cards and auto loans, up 8.2 percent and 6.9 percent, respectively.

Additional analysis from the New York Fed noted potential concern regarding the auto loan component of the report. Auto loan originations reached their second highest level post-recession, with the total volume now at \$150.6 billion in Q3. Of specific concern are auto loans made by auto finance companies such as auto dealers and manufacturers. Delinquency rates on subprime loans from auto finance companies, namely those made to borrowers with a credit score of less than 620, are more than double the rates on subprime loans made by banks and credit unions in Q3. The newest data reinforce a broader trend. Delinquency rates on subprime loans made by banks and credit unions have generally improved post-recession, while those made by auto finance companies have continued to deteriorate.

While we have written recently about an overall positive consumer outlook, the trend in auto loans remains an area to watch. As consumers continue to dip into savings to fuel consumption amid slow wage growth, the current pace of household debt growth is likely unsustainable.

Credit Market Data

Mortgage Rates	Current	Week	4 Weeks	Year
		Ago	Ago	Ago
30-Yr Fixed	3.95%	3.90%	3.94%	3.94%
15-Yr Fixed	3.31%	3.24%	3.25%	3.14%
5/1 ARM	3.21%	3.22%	3.21%	3.07%

Bank Lending	Current Assets (Billions)	1-Week	4-Week	Year-Ago Change
		Change (SAAR)	Change (SAAR)	Change
Commercial & Industrial	\$2,125.2	-1.83%	-3.92%	1.07%
Revolving Home Equity	\$380.6	-15.29%	-9.78%	-7.27%
Residential Mortgages	\$1,810.5	-8.53%	4.17%	3.93%
Commercial Real Estate	\$2,066.6	-4.58%	4.94%	6.03%
Consumer	\$1,415.3	13.25%	20.10%	5.15%

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

Topic of the Week

Comparing the House and Senate Tax Plans

Yesterday the House of Representatives passed its version of a tax package, while the Senate Finance Committee approved an amended version of its plan. The Senate package will now require a full vote on the Senate floor, which lawmakers hope to hold the week of November 27. The two plans contain some key differences that we summarize here and discuss in more detail in a longer [report](#) available on our website.

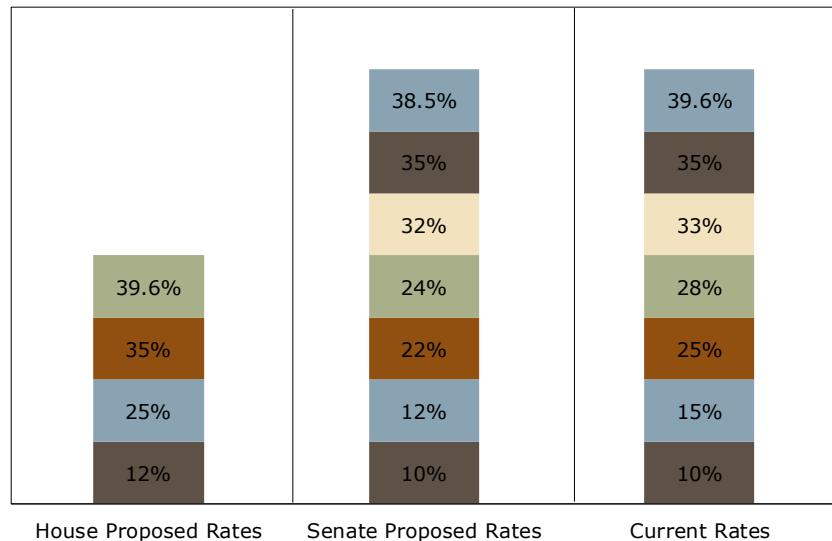
On the individual side, the Senate plan completely eliminates the state and local tax deduction (SALT), while the House plan repeals SALT for income and sales taxes but caps property tax deductions at \$10,000. This difference will likely become an issue for lawmakers from high-tax states as the two plans are reconciled. The Senate plan preserves the estate tax, while the House bill repeals this provision after 2024. The Senate's initial markup this week also added a repeal of the Affordable Care Act's (ACA) individual mandate, setting up the potential for a tense debate seen with prior ACA repeal efforts. Notably, individual provisions in the Senate plan sunset after 2025, while corporate changes remain permanent. Sunset provisions are needed to keep budget deficits within the confines of reconciliation rules that allow passage in the Senate with only 51 votes.

On the corporate side, both plans lower the top corporate statutory rate to 20 percent from 35 percent, although the Senate delays implementation until January 2019. Both plans also include full business expensing and deemed repatriation of offshore profits.

At this point in the process, the Senate must first pass its version of the bill with a full vote. Assuming this occurs, unless the House accepts the Senate's plan as is, the two chambers must go to conference committee to reconcile the differences between the two bills. This process will likely take longer than the timeline currently envisioned by Republicans. Subsequently, we maintain our call for final passage of a tax package in Q1-2018.

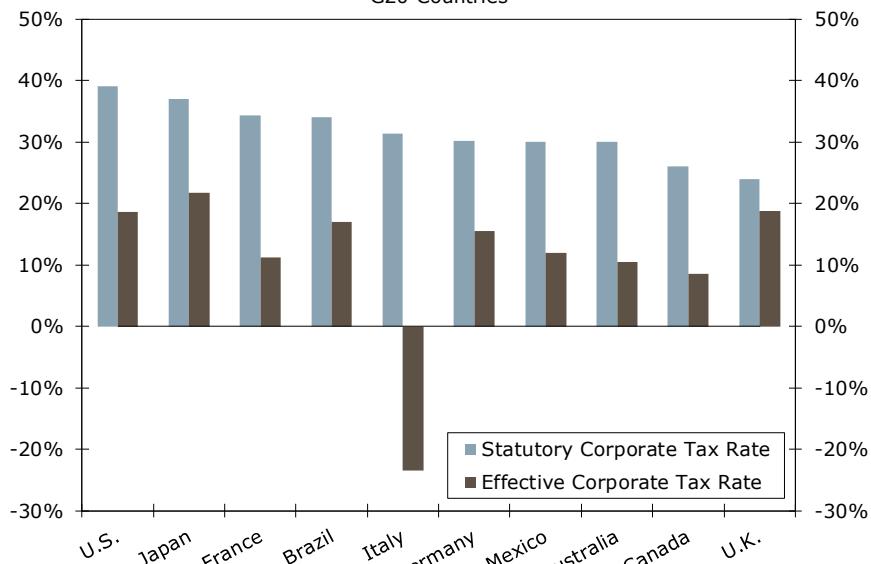
Individual Income Tax Rates

Comparison of Current and Proposed Rates



Corporate Tax Rates

G20 Countries



Source: Joint Committee on Taxation, Congressional Budget Office and Wells Fargo Securities

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 11/17/2017	1 Week Ago	1 Year Ago
1-Month LIBOR	1.28	1.24	0.55
3-Month LIBOR	1.44	1.41	0.91
3-Month T-Bill	1.26	1.22	0.43
1-Year Treasury	1.58	1.46	0.87
2-Year Treasury	1.71	1.65	1.05
5-Year Treasury	2.05	2.05	1.74
10-Year Treasury	2.34	2.40	2.30
30-Year Treasury	2.78	2.88	3.01
Bond Buyer Index	3.52	3.49	3.75

Foreign Interest Rates

	Friday 11/17/2017	1 Week Ago	1 Year Ago
3-Month Euro LIBOR		-0.38	-0.38
3-Month Sterling LIBOR		0.53	0.53
3-Month Canada Banker's Acceptance		1.40	1.40
3-Month Yen LIBOR		-0.03	-0.05
2-Year German		-0.71	-0.75
2-Year U.K.		0.48	0.49
2-Year Canadian		1.46	1.46
2-Year Japanese		-0.20	-0.18
10-Year German		0.36	0.41
10-Year U.K.		1.29	1.34
10-Year Canadian		1.94	1.97
10-Year Japanese		0.04	0.04
		0.01	

Foreign Exchange Rates

	Friday 11/17/2017	1 Week Ago	1 Year Ago
Euro (\$/€)	1.180	1.167	1.063
British Pound (\$/£)	1.322	1.320	1.242
British Pound (£/€)	0.892	0.884	0.856
Japanese Yen (¥/\$)	112.000	113.530	110.120
Canadian Dollar (C\$/ \$)	1.279	1.268	1.352
Swiss Franc (CHF/\$)	0.988	0.996	1.007
Australian Dollar (US\$/A\$)	0.756	0.766	0.741
Mexican Peso (MXN/\$)	18.941	19.102	20.429
Chinese Yuan (CNY/\$)	6.627	6.641	6.878
Indian Rupee (INR/\$)	65.015	65.166	67.828
Brazilian Real (BRL/\$)	3.265	3.284	3.421
U.S. Dollar Index	93.696	94.391	100.890

Commodity Prices

	Friday 11/17/2017	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)		56.34	56.74
Brent Crude (\$/Barrel)		62.46	63.52
Gold (\$/Ounce)		1290.25	1275.47
Hot-Rolled Steel (\$/S.Ton)		611.00	610.00
Copper (¢/Pound)		306.10	307.60
Soybeans (\$/Bushel)		9.40	9.50
Natural Gas (\$/MMBTU)		3.10	3.21
Nickel (\$/Metric Ton)		11,294	12,247
CRB Spot Inds.		498.05	498.24
		486.59	

Source: Bloomberg LP and Wells Fargo Securities

Next Week's Economic Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
U.S. Data	Global Data			
Leading Economic Index	Existing Home Sales	Durable Goods		
September -0.2%	September 5.39M	September 2.0%		
October 1.0% (W)	October 5.38M (W)	October 0.1% (W)		
		Eurozone	Eurozone	
		Consumer Confidence	Composite PMI	
		October -1.0	August 56.0	
			Canada	
			Retail Sales (MoM)	
			September -0.3%	

Note: (W) = Wells Fargo Estimate (C) = Consensus Estimate

Source: Bloomberg LP and Wells Fargo Securities

Wells Fargo Securities Economics Group

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