

Wells Fargo Economics

The Financial Crisis and Its Effects on the U.S. and World Economies

WELLS
FARGO

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Kern Economic Development Corporation Economic Summit

Welch, MN

Wednesday, March 24th, 2010

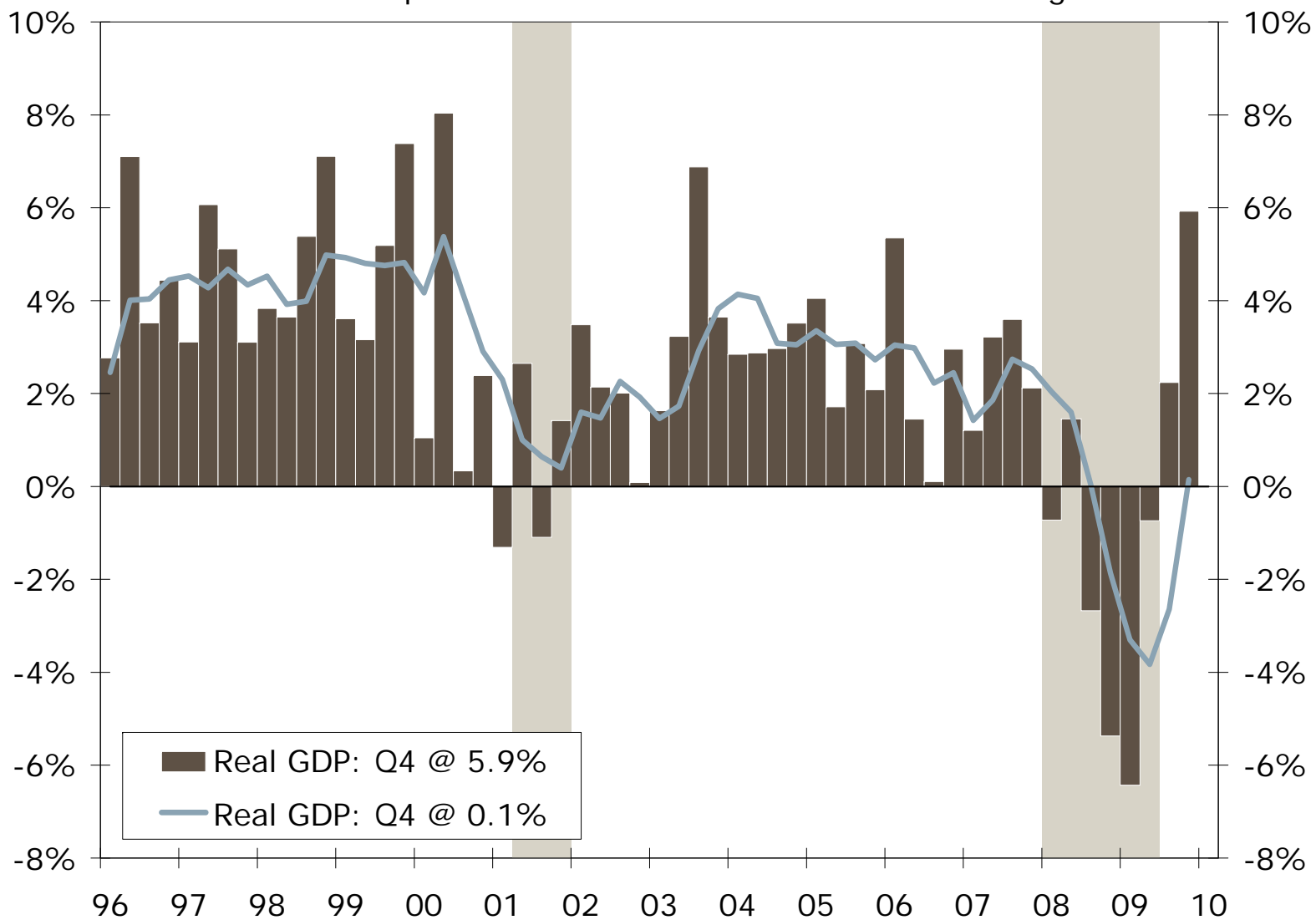
Together we'll go far



U.S. Economic Growth

Real GDP

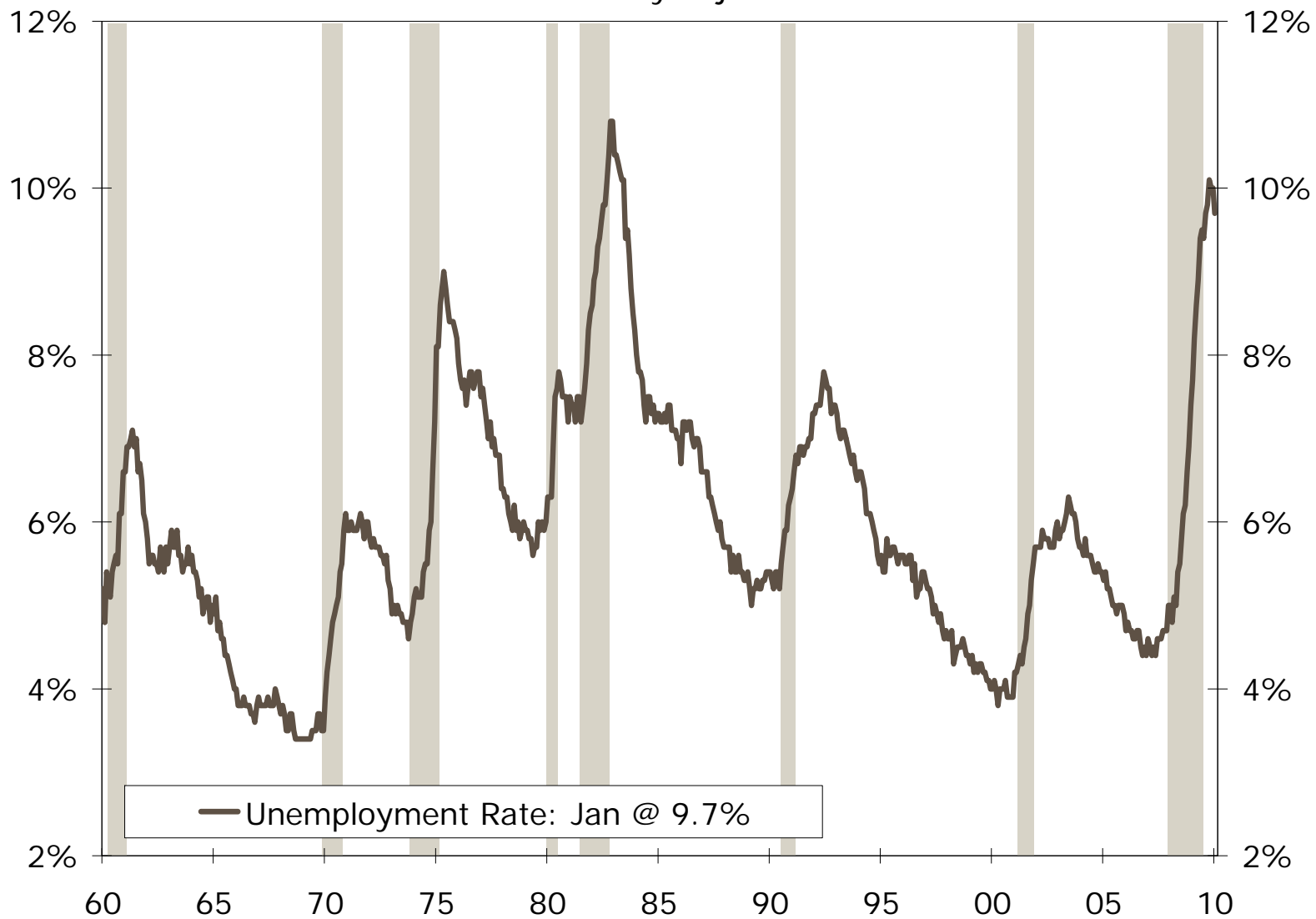
Bars = Compound Annual Rate Line = Yr/Yr % Change



**The Labor Market
Unemployment is
currently at 9.7%**

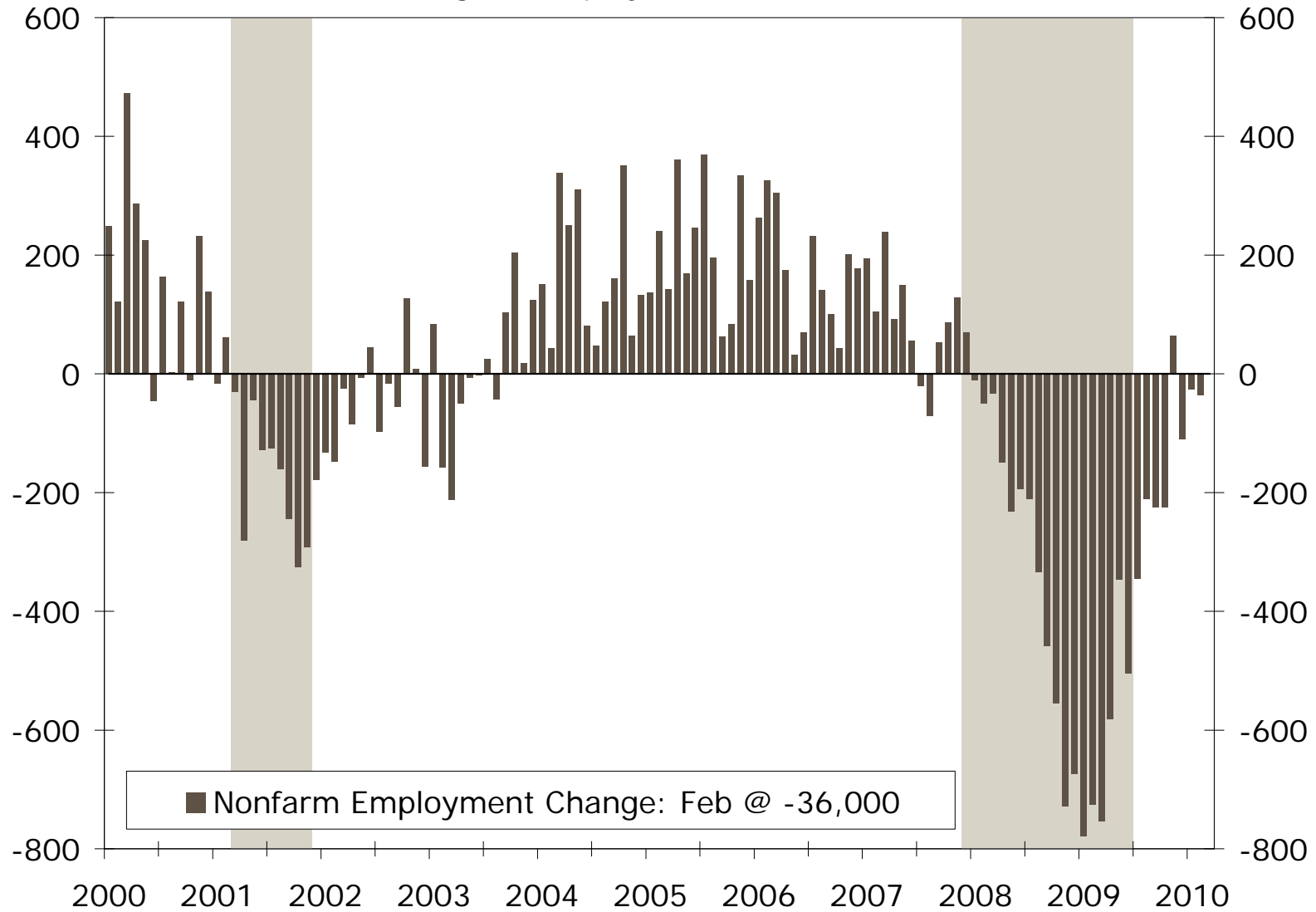
Unemployment Rate

Seasonally Adjusted



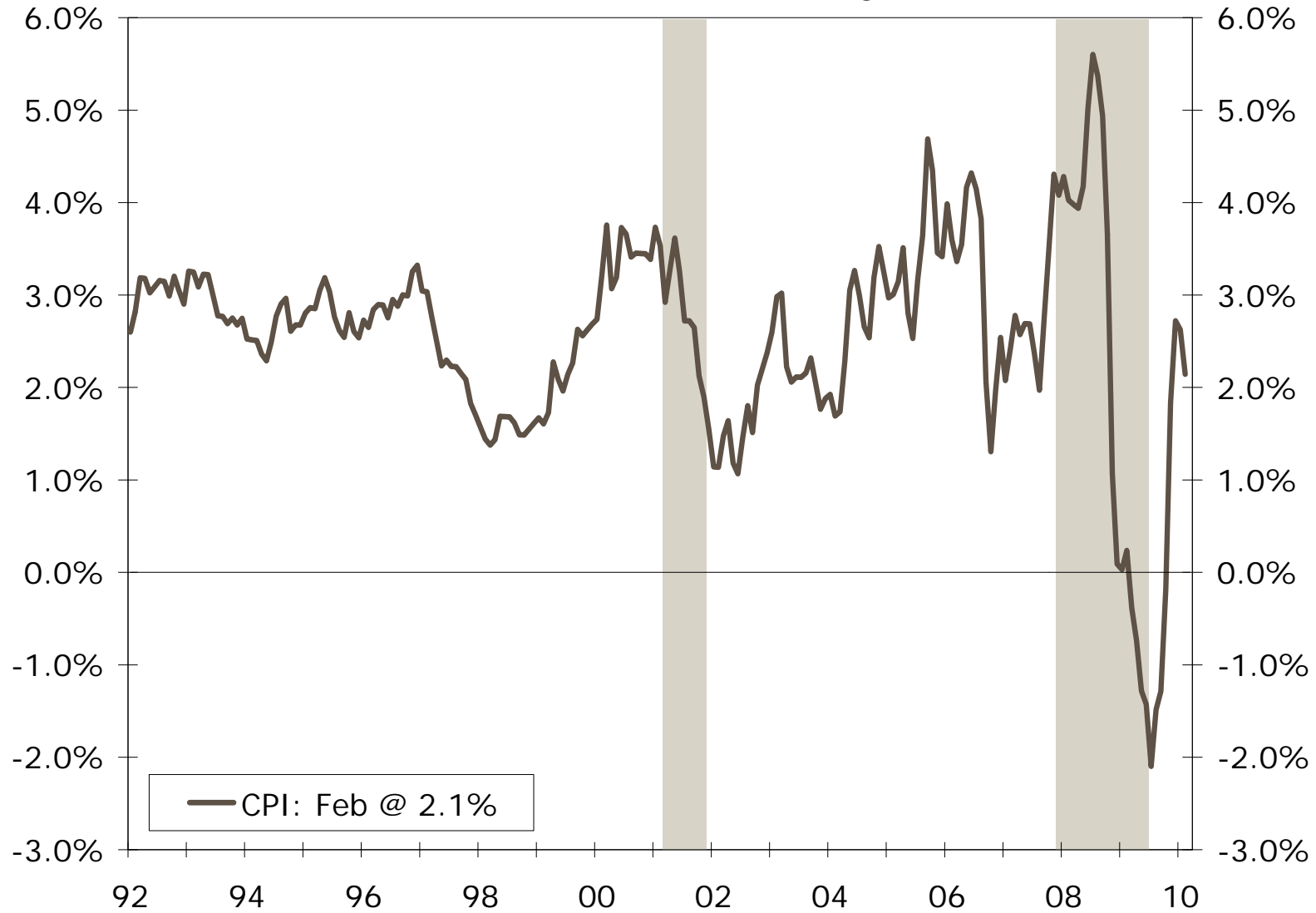
Nonfarm Employment Change

Change in Employment, In Thousands



U.S. Consumer Price Index

Year-over-Year Percent Change



The Rescue Plan?

Form
EZ-CASH**Application for the
Federal Bail Out Program, 2008-2009**

OMB No. 1545-0074



Dear Corporate Scion:

Thank you for your interest in the new, improved, Federal Bail Out Program. In order to facilitate this process, we've designed this short, one-page application. It's so simple, and easy to use that even Skadden Arps should bill no more \$2.7 million to review it. Upon completion, please return this form to the Department of the Treasury, c/o Hank Paulson, via fax, email, or Fed-Ex. And again, thanks for your interest in "US Taxpayer Cash."

| | | |
|--|---|---|
| Section One: Tell us a little something about yourself. (Please Print) | | |
| Your name: | Name of Company: | |
| What business are you in? <input type="checkbox"/> Automotive <input type="checkbox"/> Financial Services <input type="checkbox"/> Other (Not Sure) | | |
| Number of employees: _____ | Your annual compensation: \$ _____ (Please round to the nearest \$10 million) | Most recent closing stock price: \$ _____ Year high/year low: \$ _____ \$ _____ |
| Is your company presently bankrupt? <input type="checkbox"/> Yes <input type="checkbox"/> No | Is bankruptcy an option? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Are you kidding me? | Number of Years, Months, (or weeks) you've held your current position: |
| Section Two: Tell us a little something about your finances. (Please Print) | | |
| So, like, how much money do you need? (Please round off to the nearest Billion.) \$ _____ | | |
| Do you have a business plan for spending this money? <input type="checkbox"/> Yes. <input type="checkbox"/> No. <input type="checkbox"/> Let me get back to you on that. | | |
| In the unlikely event we don't approve this transaction, please tick-off the box that best describes the consequences for the American economy: <input type="checkbox"/> Dire. <input type="checkbox"/> Catastrophic. <input type="checkbox"/> Apocalyptic. <input type="checkbox"/> Frogs and Fish will rain from the sky, and it will be the end of America as we know it. | | |
| Section Three: Tell us a little more about your business/industry. (Please tick-off best description) | | |
| <input type="checkbox"/> Hey! We're GM! We've made products people don't want to buy, made sure that it's a miserable experience to buy them, and now we want the US people to pay for arrogance and ineptitude. But we're trying. Besides, it's all Toyota's fault. | | |
| <input type="checkbox"/> We're Chrysler. Our products aren't bad. But in our CEO Bob Nardelli's previous job, he ran Home Depot into the ground. | | |
| <input type="checkbox"/> We're a bank or a financial institution. We knew we shouldn't have been making all those idiot loans, but – hey - what the hell - we had the bonus pool to think of. | | |
| <input type="checkbox"/> We're in some other business. But we the way we figure it, free money is free money, right? | | |
| Section Four: Administrivia – the legal stuff. | | |
| Once your funds are approved, please indicate how you would like to receive them: | | |
| <input type="checkbox"/> No worries. I'll just drop by and pick 'em up with my Gulfstream. | | |
| <input type="checkbox"/> Unmarked bills, non-consecutively numbered. There'll be getaway car waiting outside the Treasury Dept. | | |
| <input type="checkbox"/> Just wire the funds to our LLC, c/o Bank Suisse, the Grand Cayman Islands. | | |
| <input type="checkbox"/> Write a check directly to the Four Seasons Resort and Spa Complex, Laguna Hills, CA. attention "Charlene." | | |
| Your signature: | Date: | Presidential Election Campaign Fund: Please check here if you would like \$3.00 of your bail out money to go to this fund. <input type="checkbox"/> |

Form EZ-CASH. Dept of the Treasury, 1500 Pennsylvania Avenue, NW Washington, D.C. 20220 (202) 622-2000 Rev 6, 11/08

Section One: Tell us a little something about yourself. (Please Print)

Your name:

Name of Company:

What business are you in? Automotive Financial Services Other (Not Sure)

Number of employees: _____

Your annual compensation: \$ _____
(Please round to the nearest \$10 million)

Most recent closing stock price: \$ _____

Year high/year low: \$ _____ \$ _____

Is your company presently bankrupt?

Yes No

Is bankruptcy an option?

Yes No Are you kidding me?

Number of Years, Months, (or weeks) you've held your current position:

Section Two: Tell us a little something about your finances. (Please Print)

So, like, how much money do you need? (Please round off to the nearest Billion.) \$ _____

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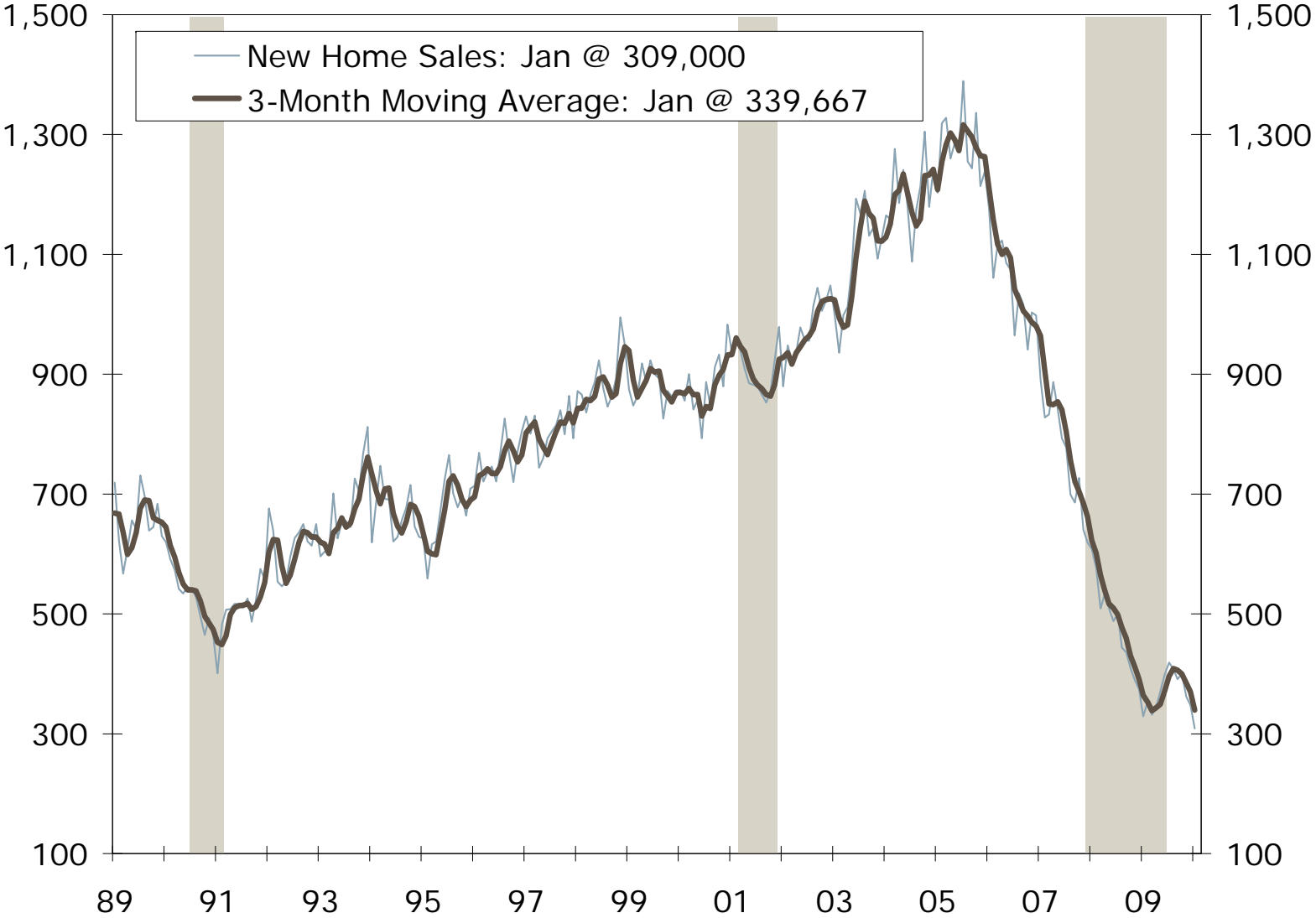
The “Real” Rescue Plan!

| | Committed | Spent/Invested |
|------------------------------|------------------------|------------------------|
| New initiatives | \$127.2 billion | n/a |
| TARP total | \$700 billion | \$394.2 billion |
| Fed total | \$6.4 trillion | \$1.5 trillion |
| Stimulus total | \$1.2 trillion | \$571.8 billion |
| AIG total | \$182 billion | \$118.9 billion |
| FDIC total | | \$40.4 billion |
| Other financial total | \$1.7 trillion | \$366.4 billion |
| Other housing total | \$745 billion | \$104.9 billion |
| Total | \$11 trillion | \$3.0 trillion |

The Housing Market!

New Home Sales

Seasonally Adjusted Annual Rate - In Thousands



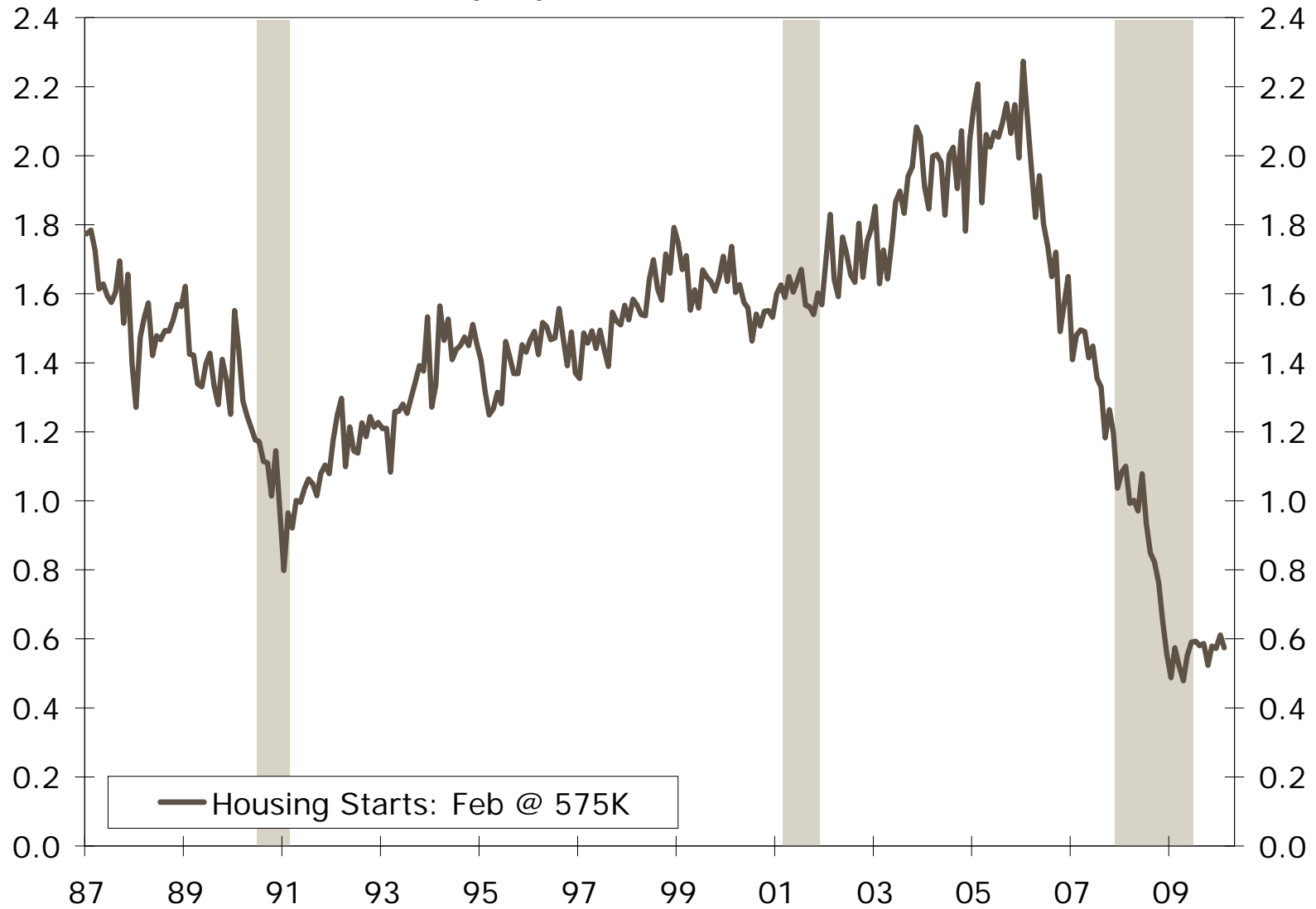
Months' Supply of New Homes

Seasonally Adjusted



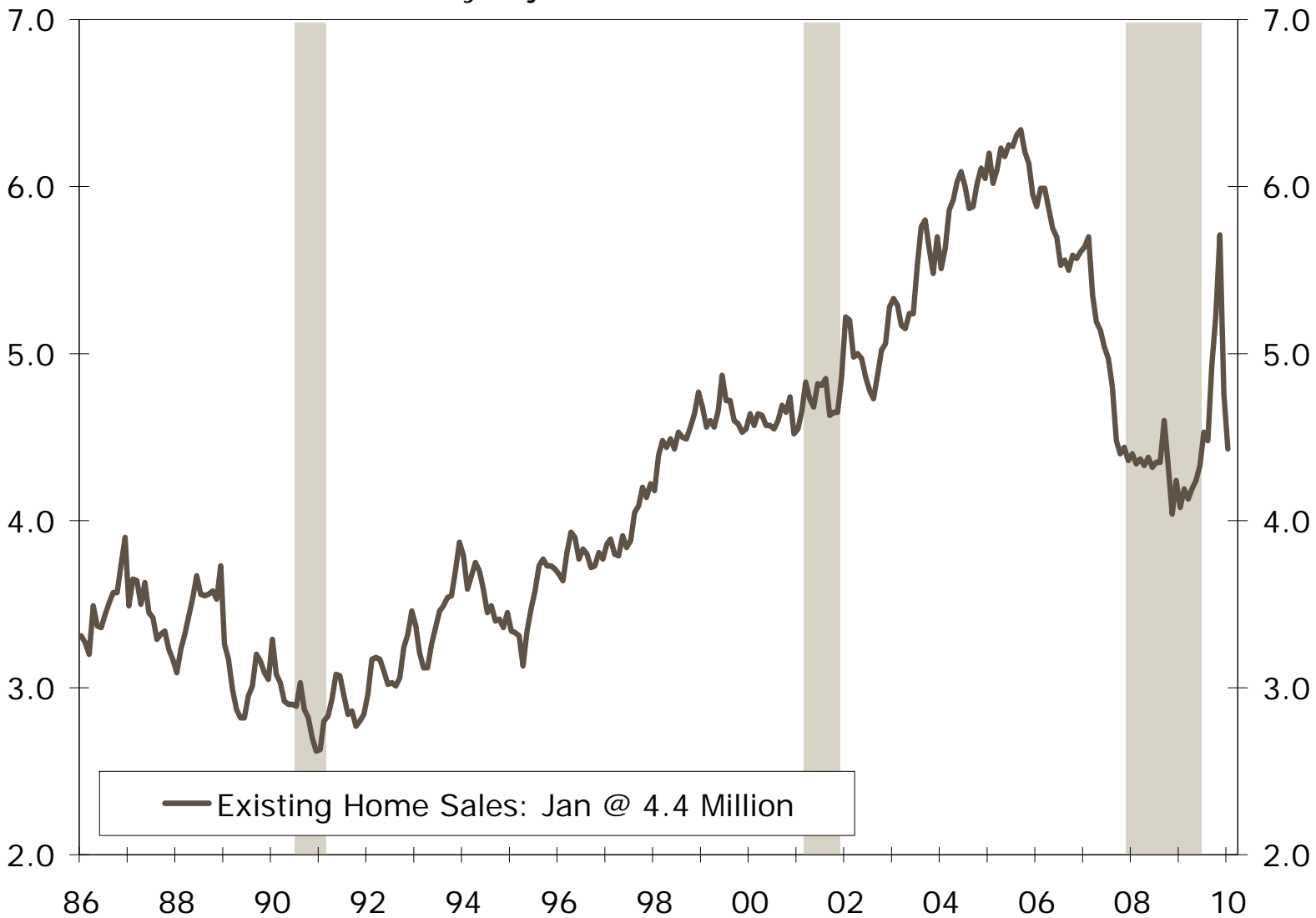
Housing Starts

Seasonally Adjusted Annual Rate, In Millions



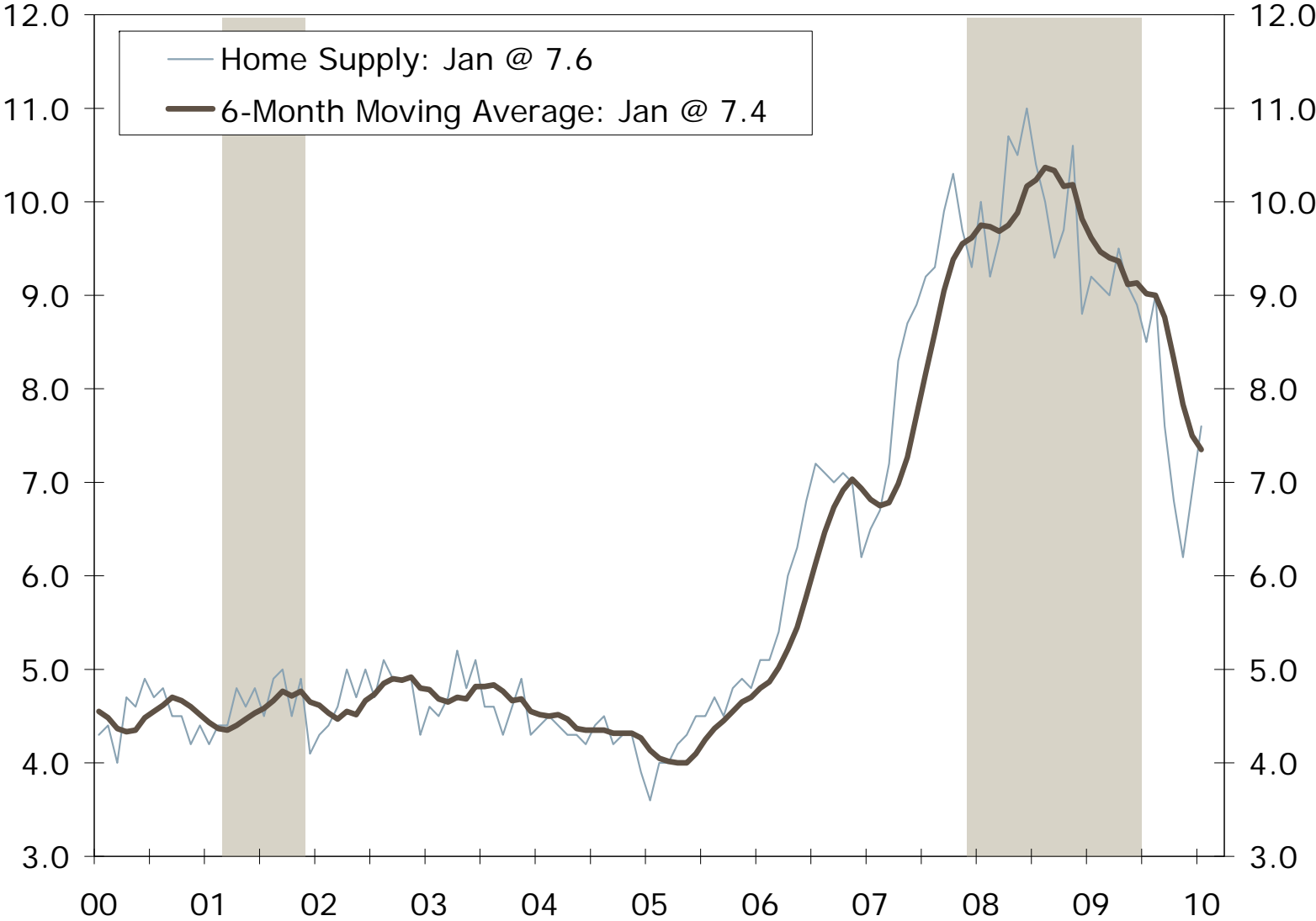
Existing Single-Family Home Resales

Seasonally Adjusted Annual Rate - In Millions



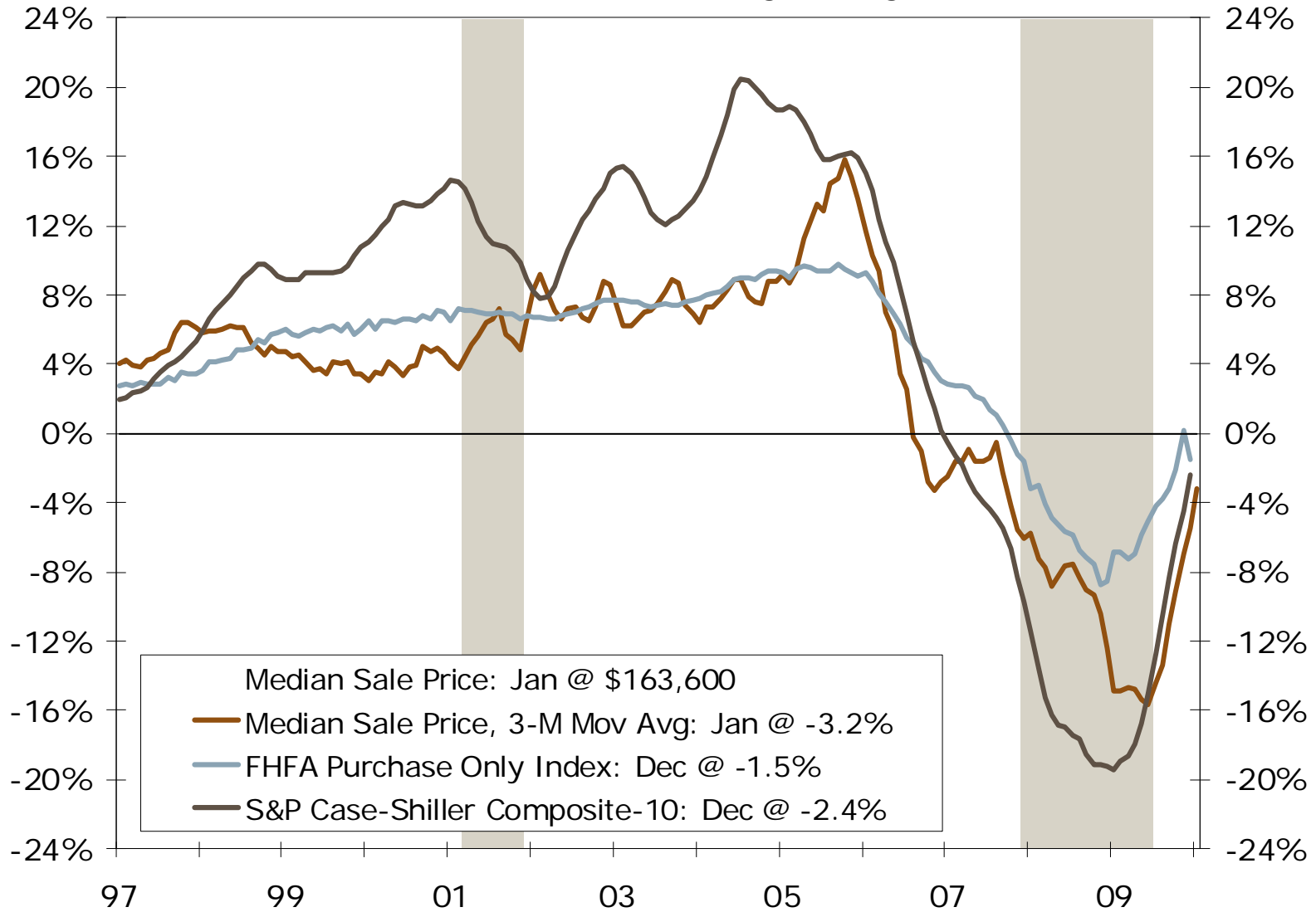
Existing Single-Family Home Supply

In Months, Seasonally Adjusted



Home Prices

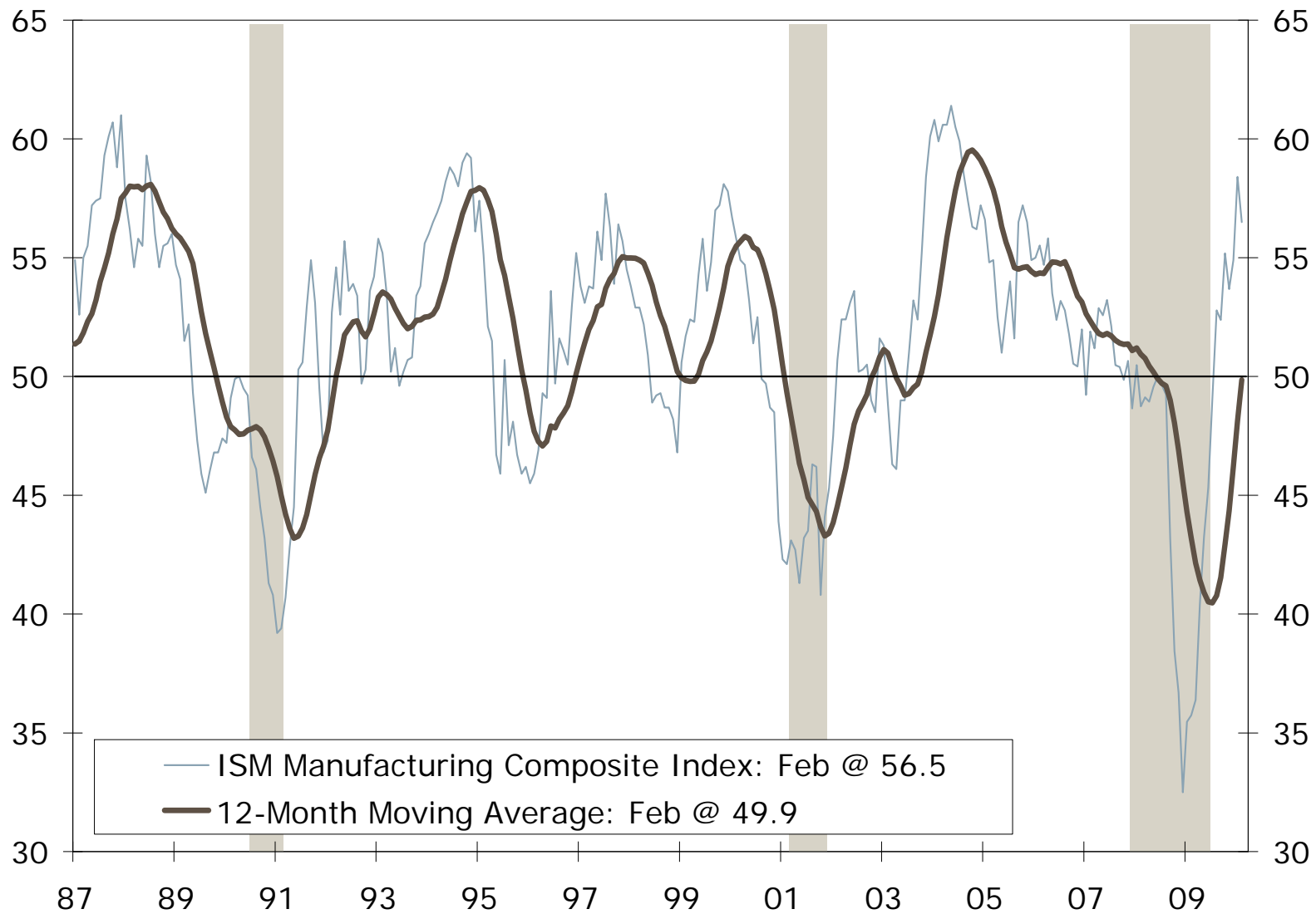
Year-over-Year Percentage Change



The Rest of the Economy

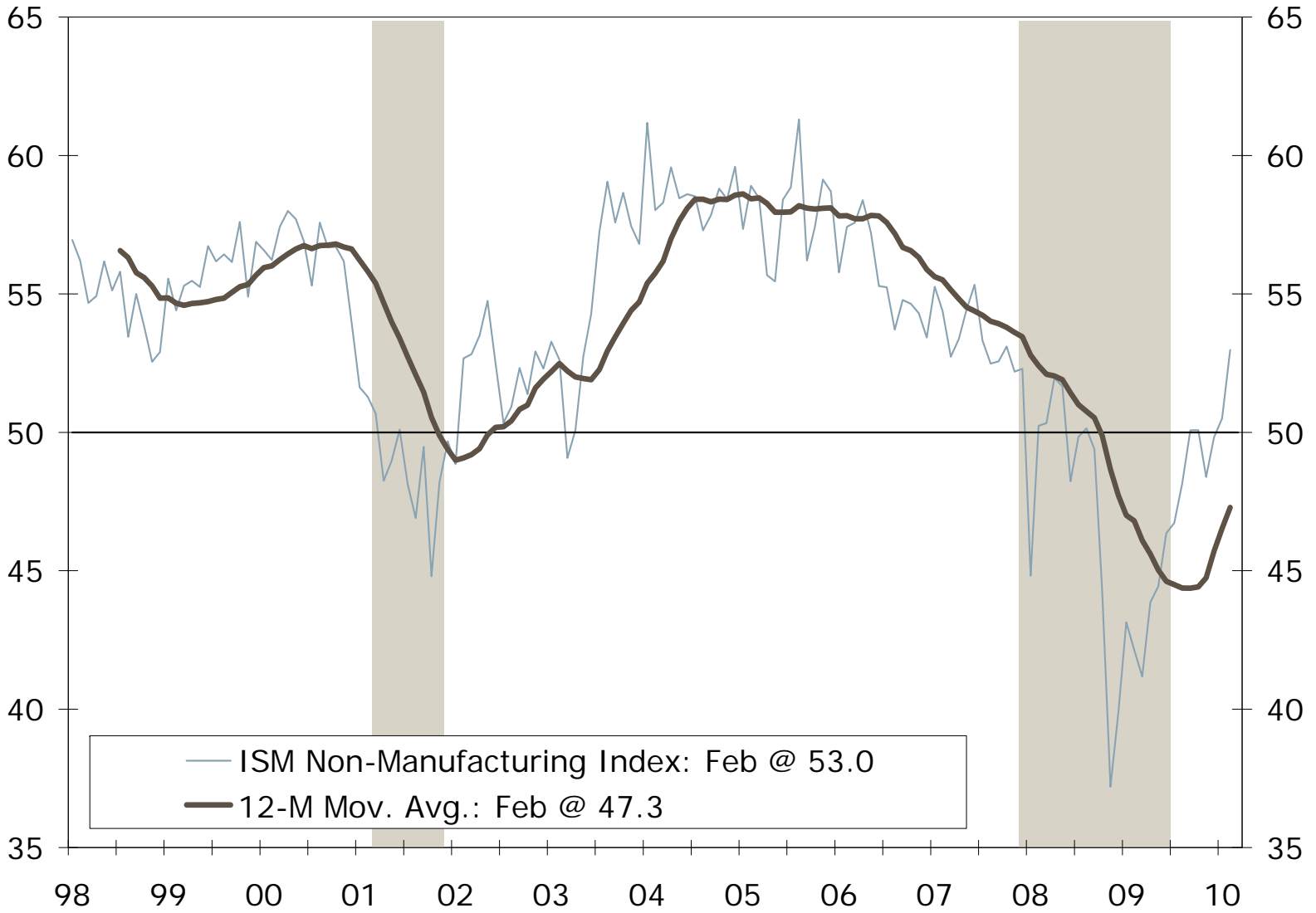
ISM Manufacturing Composite Index

Diffusion Index



ISM Non-Manufacturing Index (NMI)

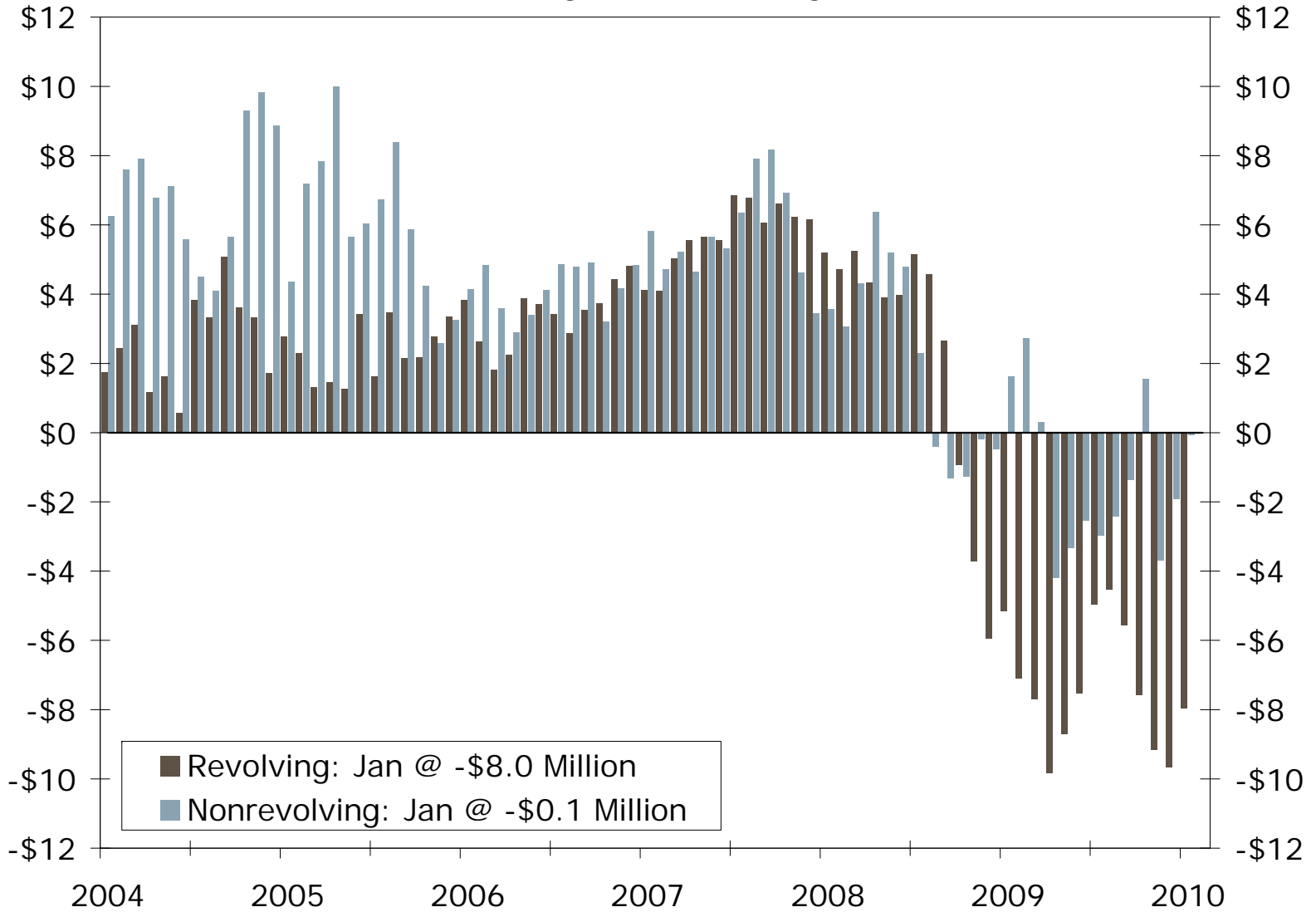
Index



The U.S. Consumer

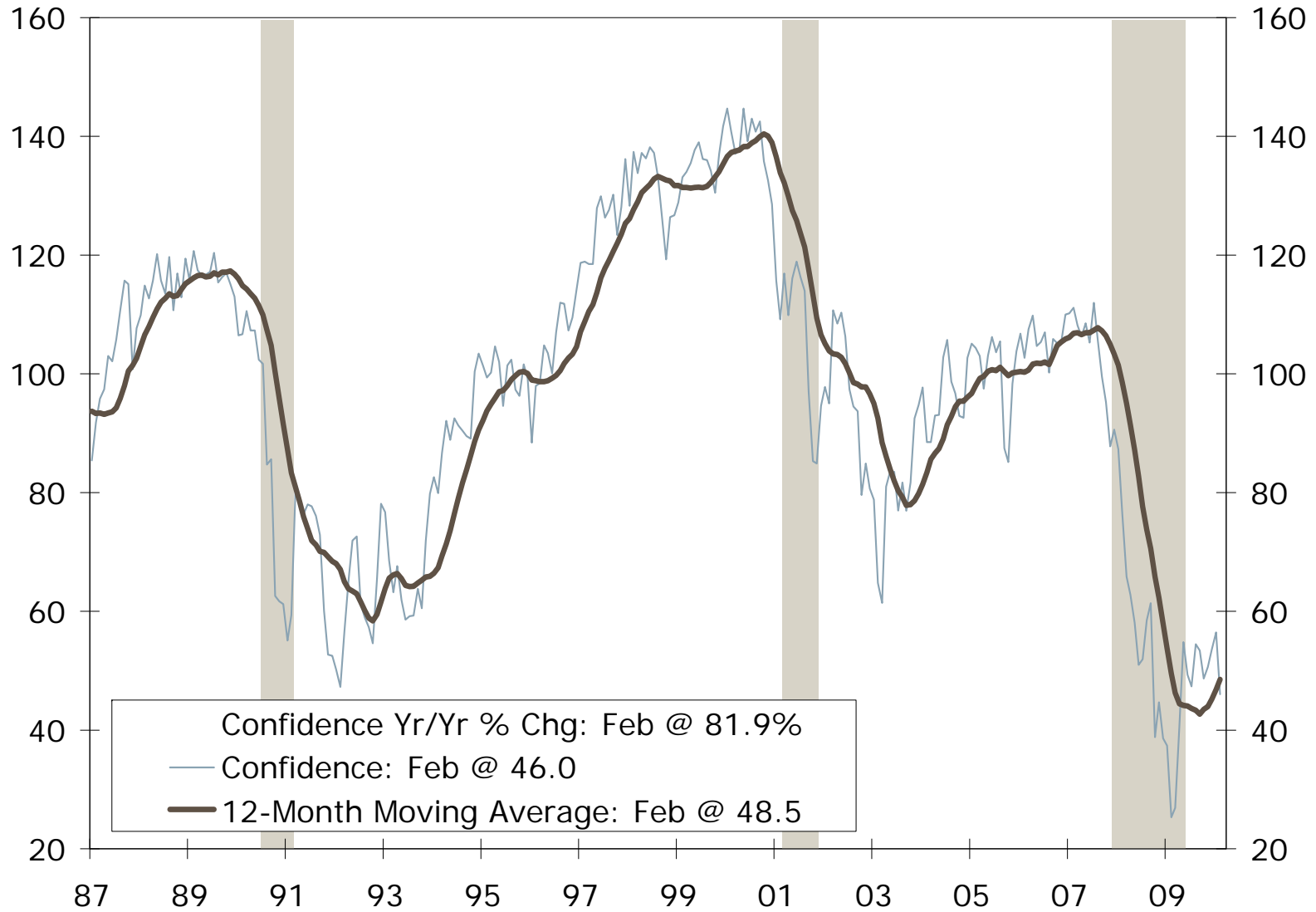
Revolving & Nonrevolving Debt

Month-over-Month Change; 3-M Mov. Avg., Millions of Dollars



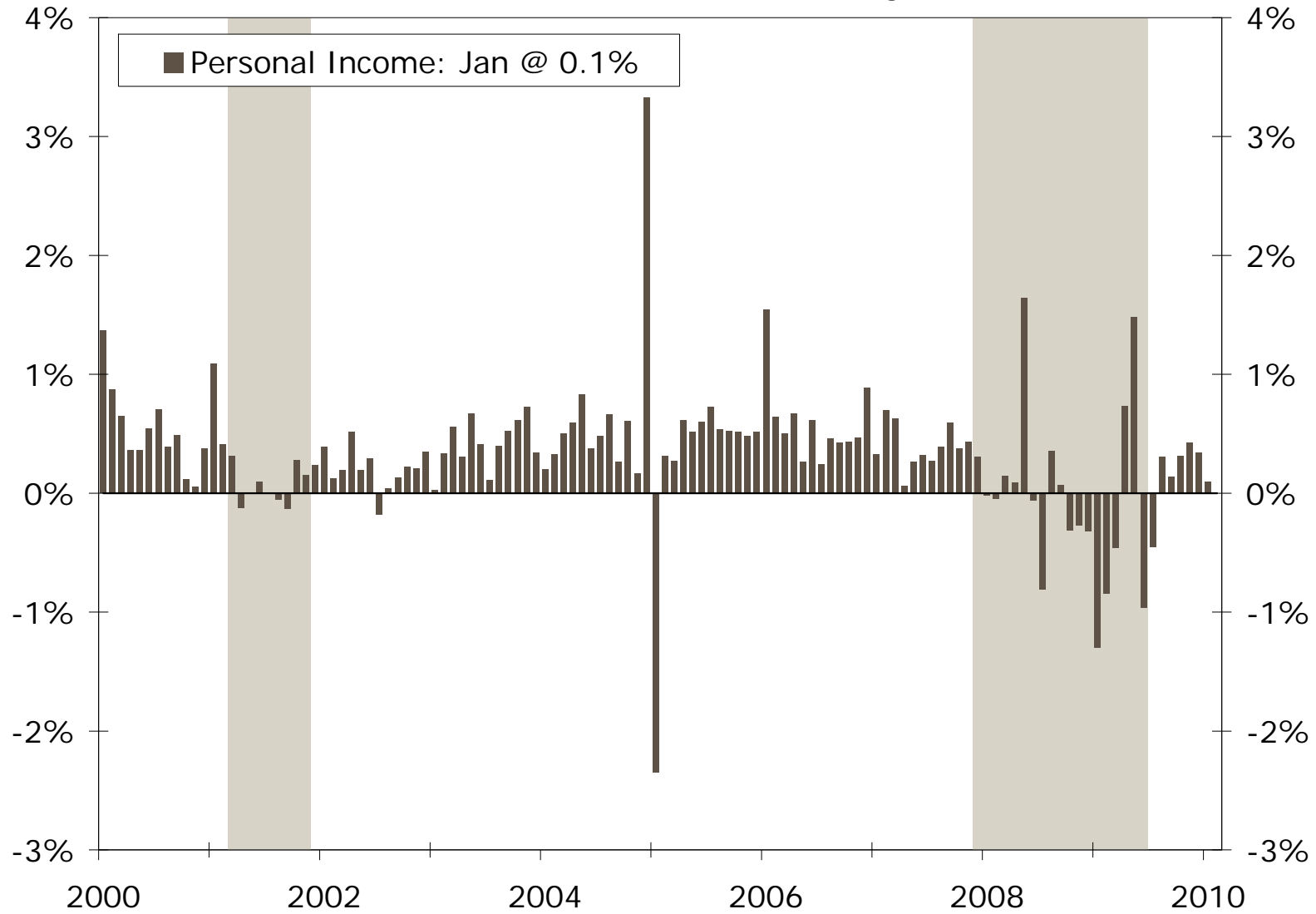
Consumer Confidence Index

Conference Board



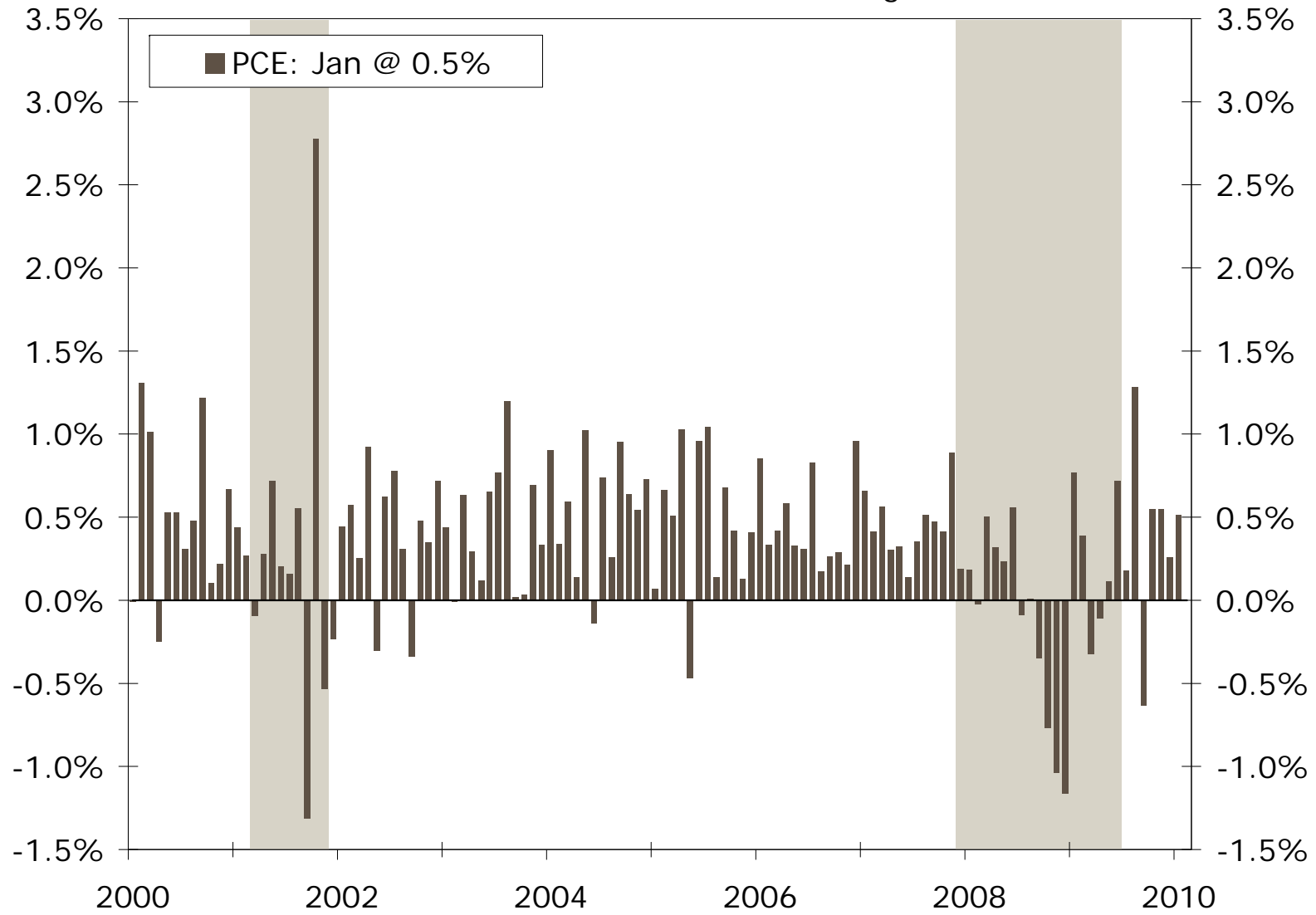
Personal Income

Month-over-Month Percent Change



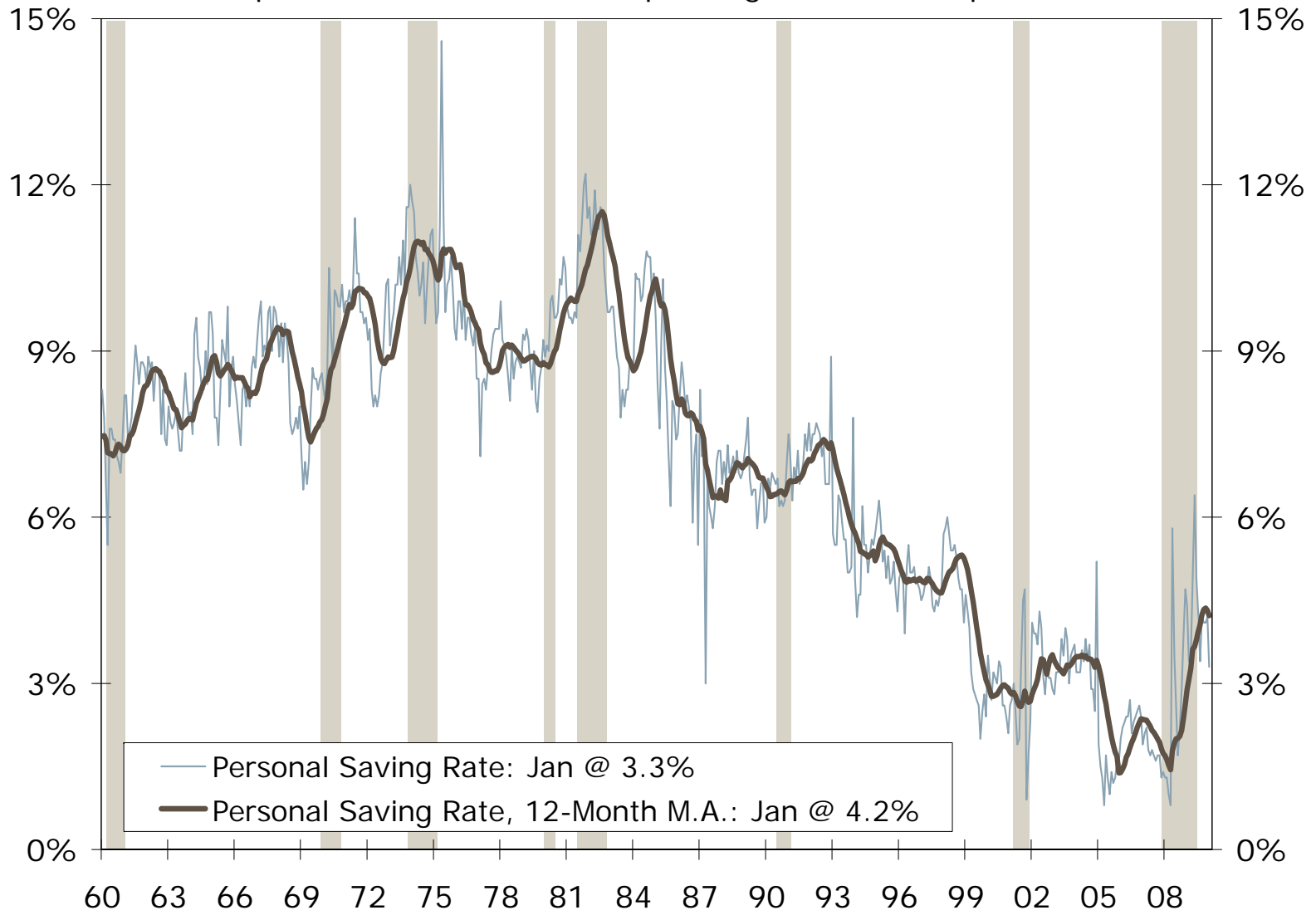
Personal Consumption Expenditures

Month-over-Month Percent Change



Personal Saving Rate

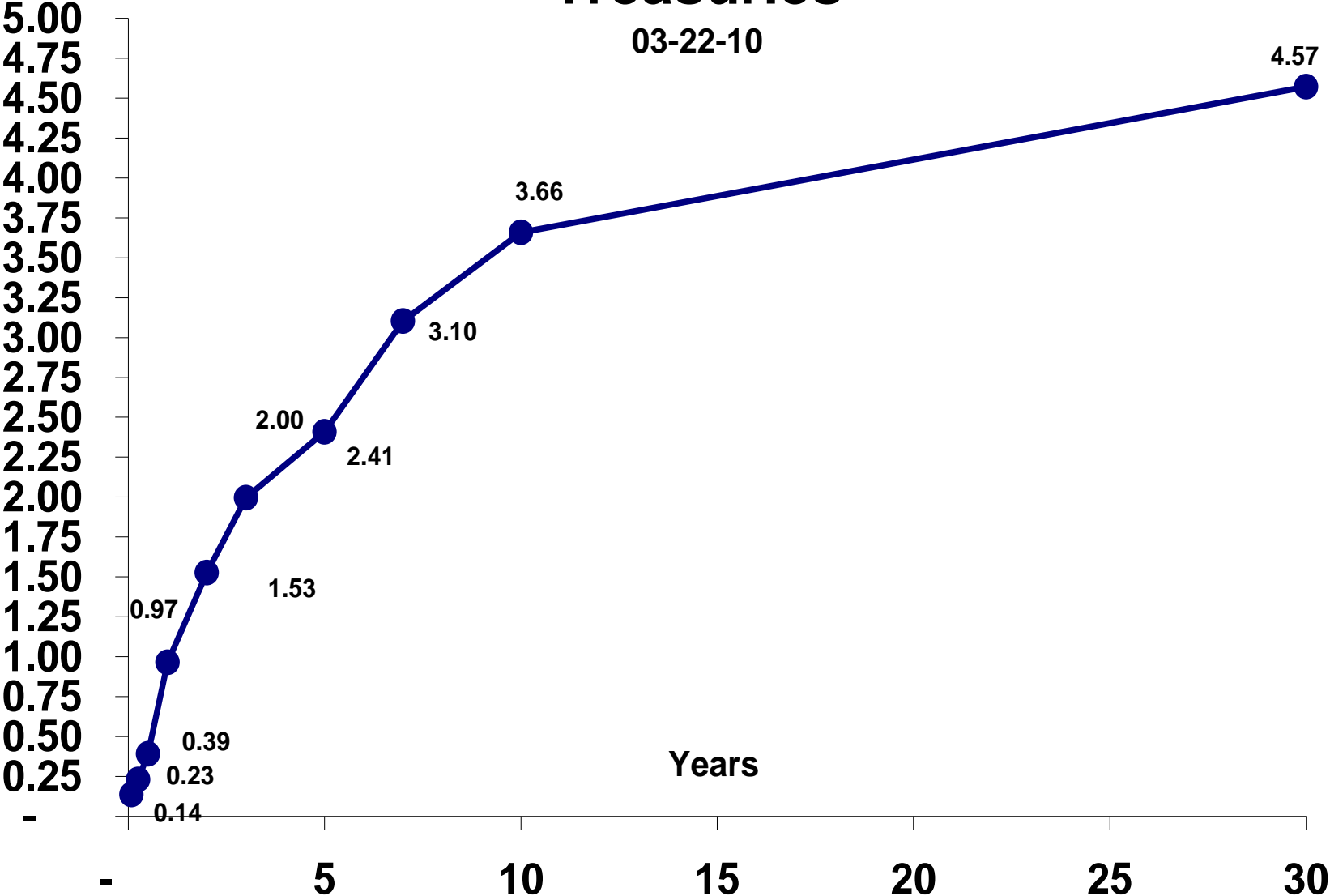
Disp. Personal Income Less Spending as a % of Disp. Income

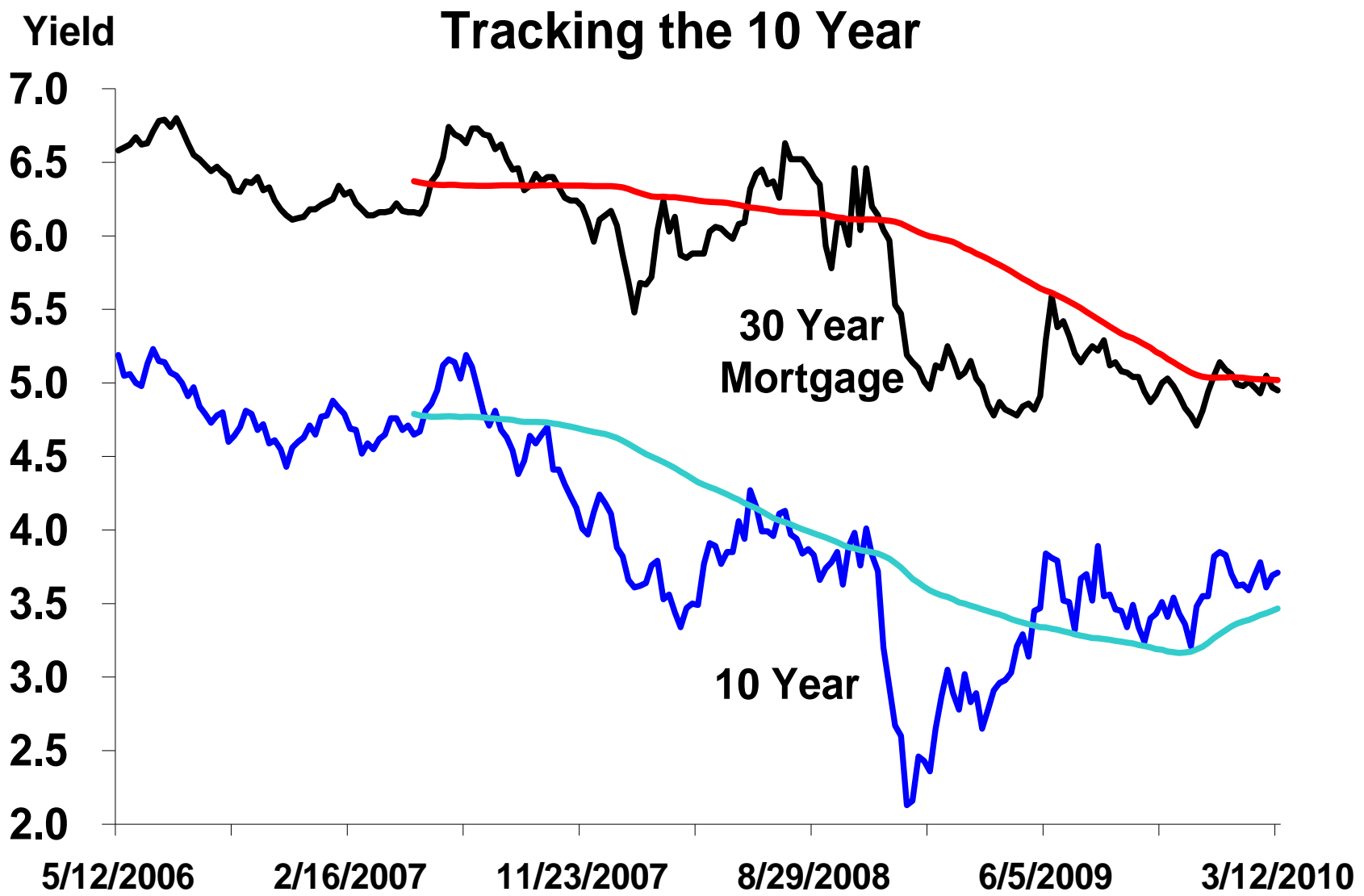


The Financial Market

Treasuries

03-22-10



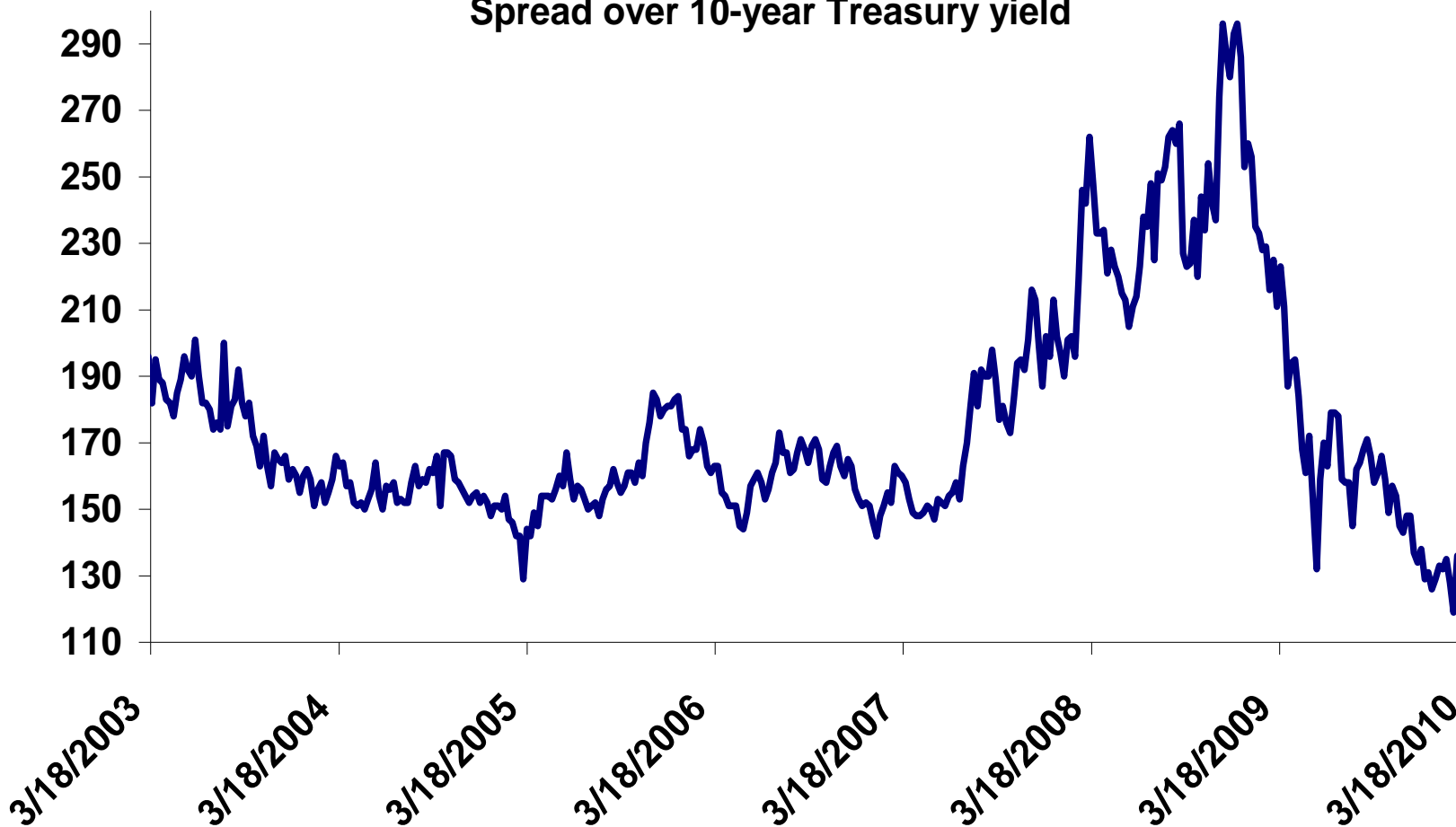


Source: Federal Reserve, Freddie Mac

Basis
points

30-Year Mortgage vs. 10-Year Treasury

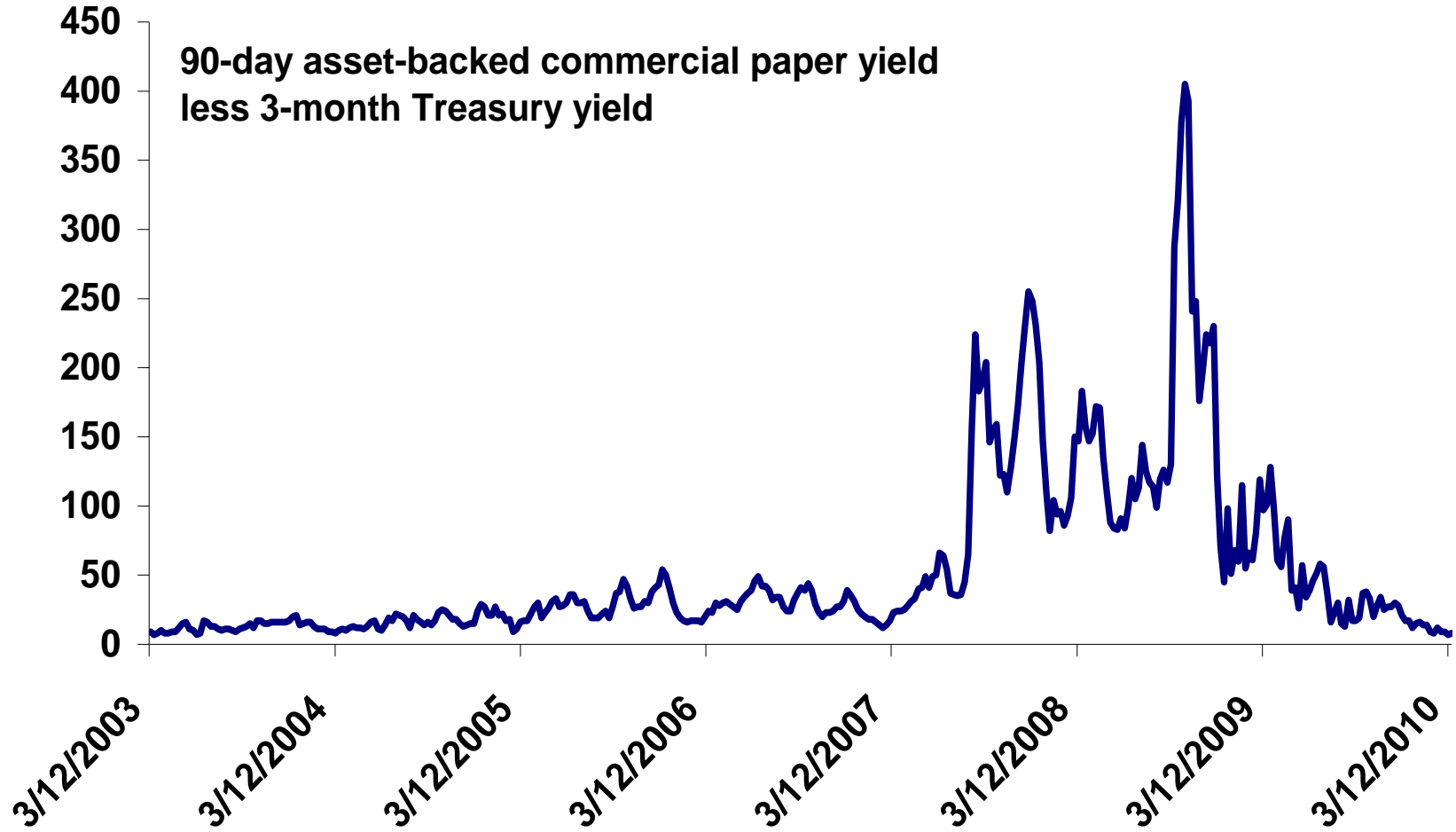
Spread over 10-year Treasury yield



Source: Federal Reserve; Freddie

Commercial Paper Spread

Basis points

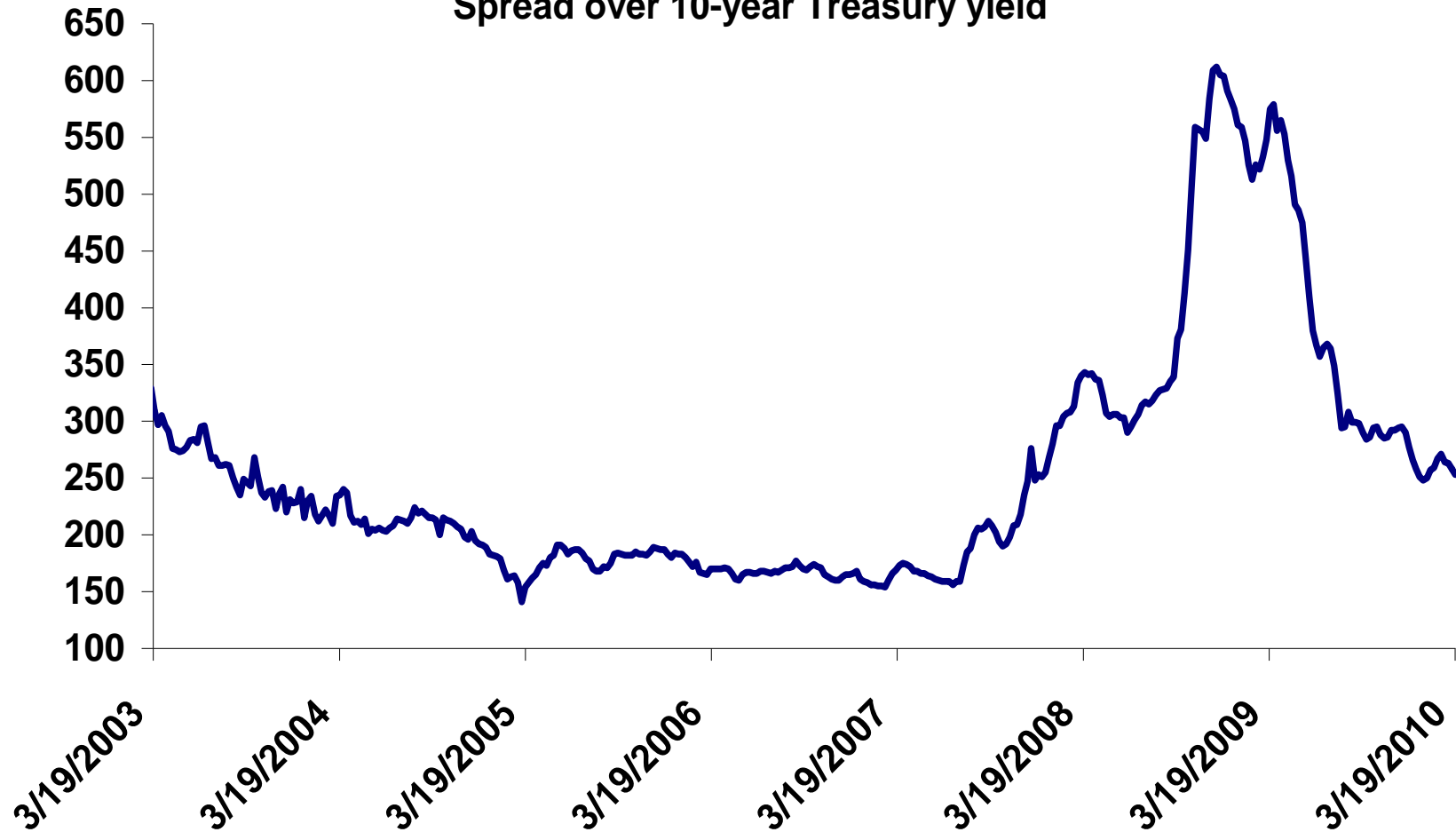


Source: Bloomberg

Moody's Baa Corporate Bonds

Spread over 10-year Treasury yield

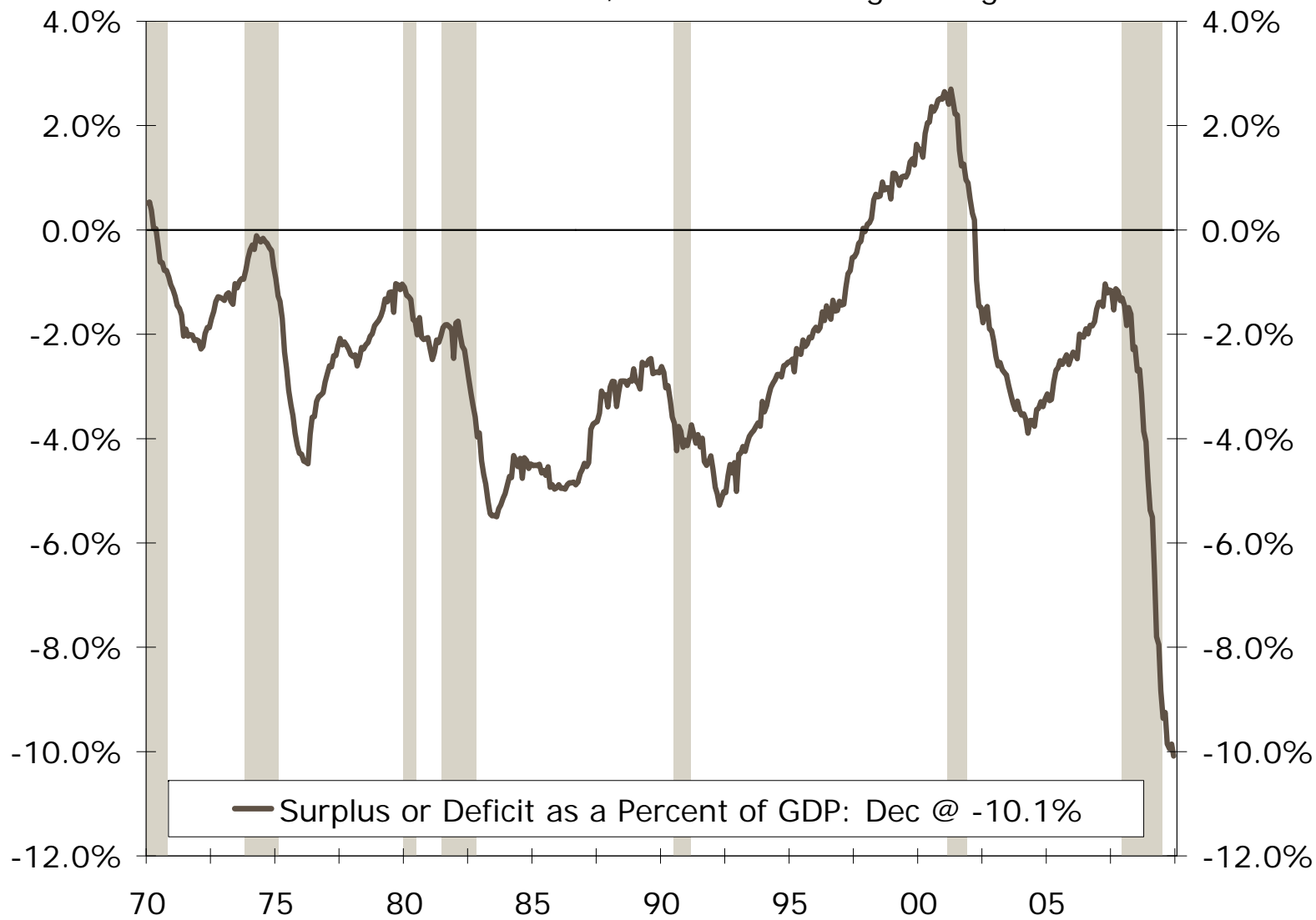
Basis points



Source: Bloomberg; Federal Reserve

Federal Budget Surplus or Deficit

As a Percent of GDP, 12-Month Moving Average



Trade Weighted Dollar

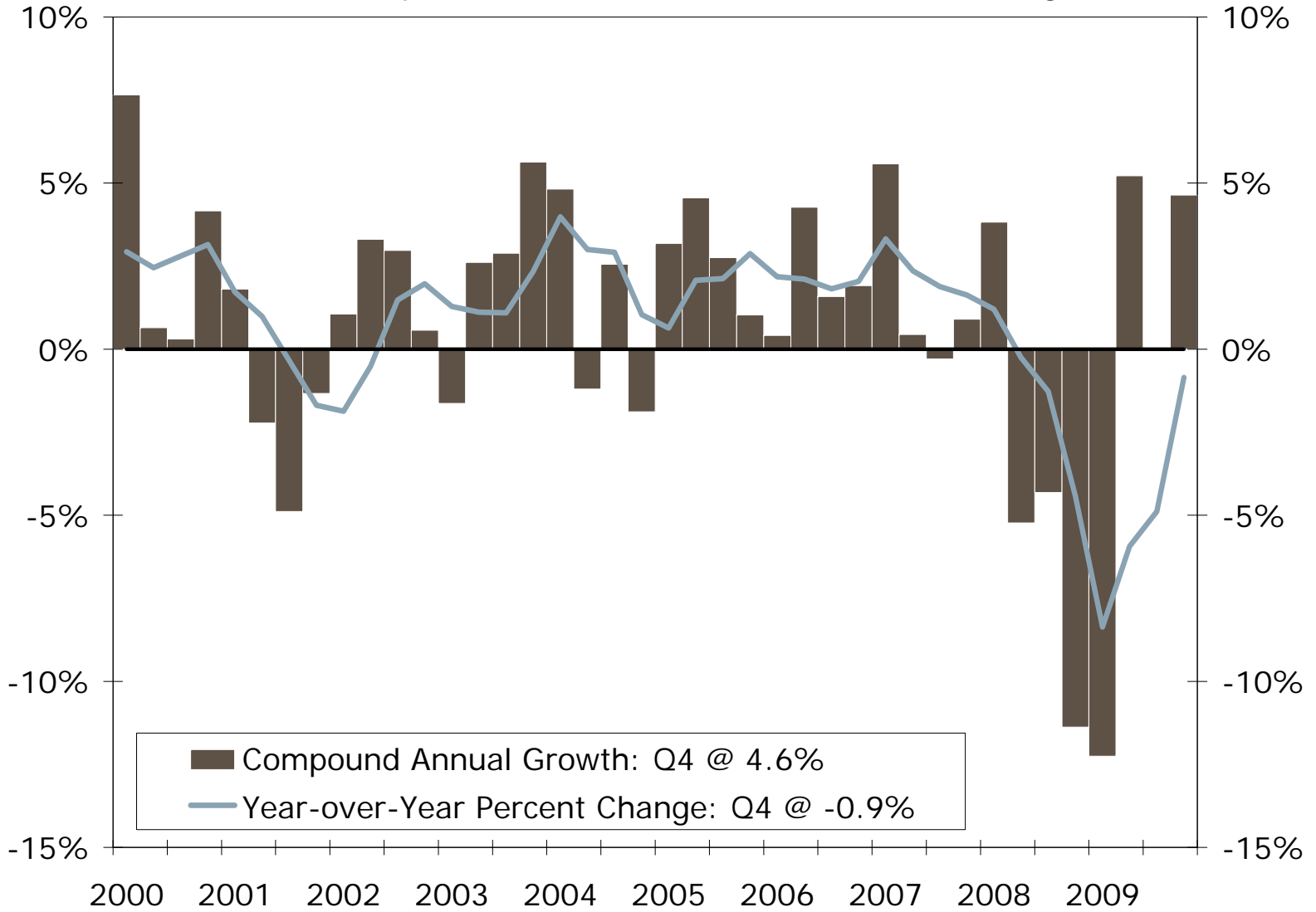
March 1973 = 100



The Rest of the World

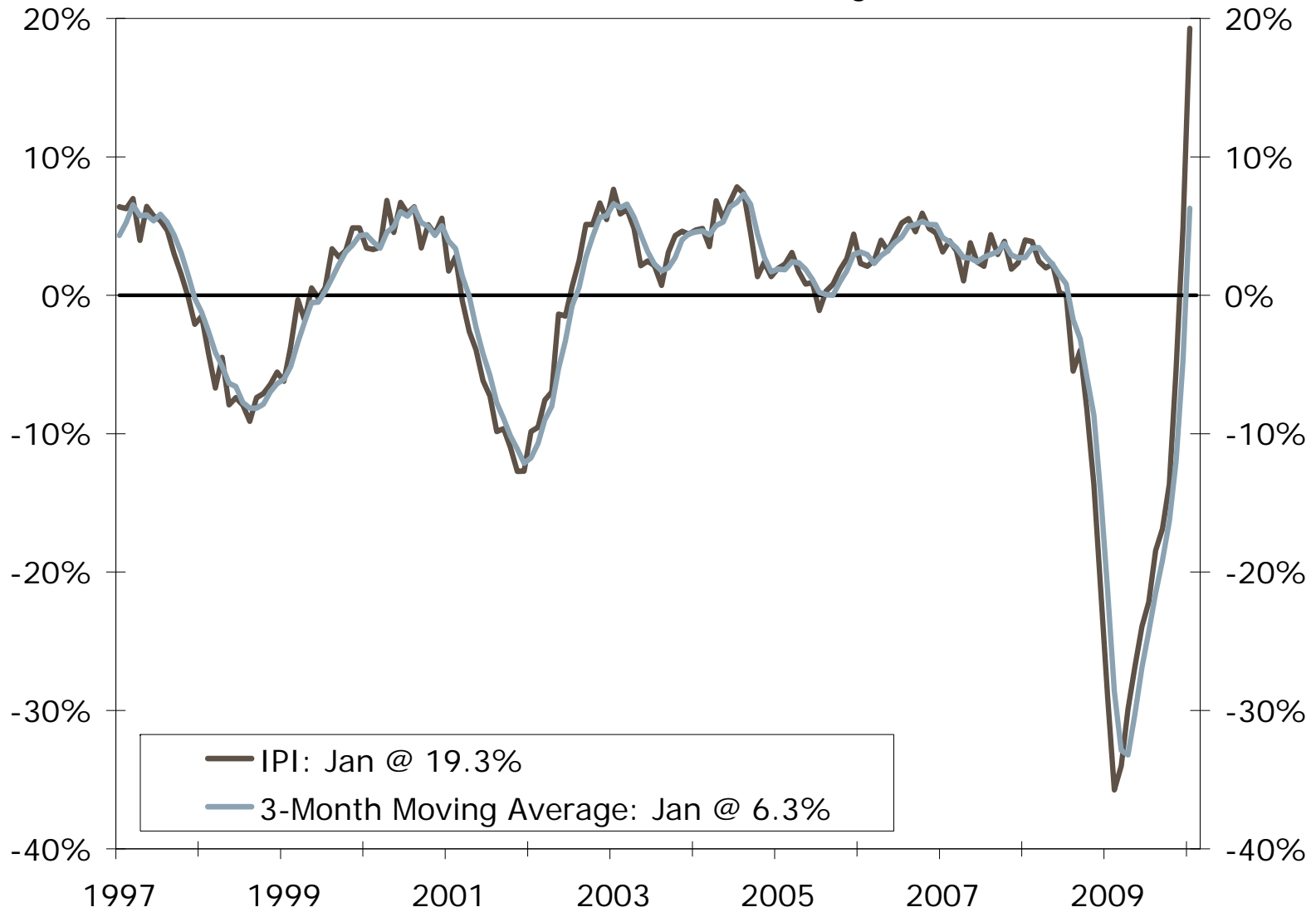
Japanese Real GDP

Bars = Compound Annual Rate Line = Yr/Yr % Change



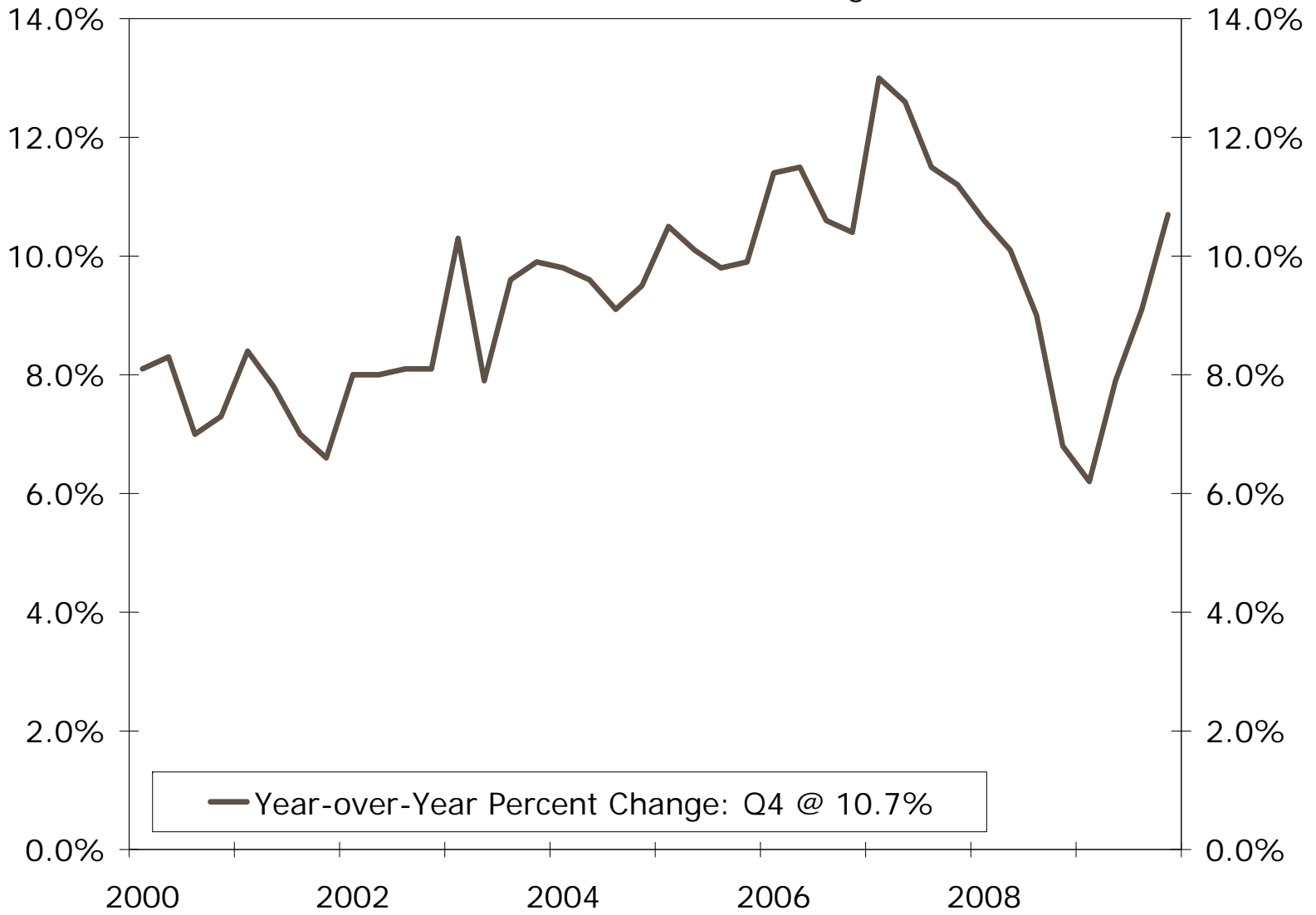
Japanese Industrial Production Index

Year-over-Year Percent Change



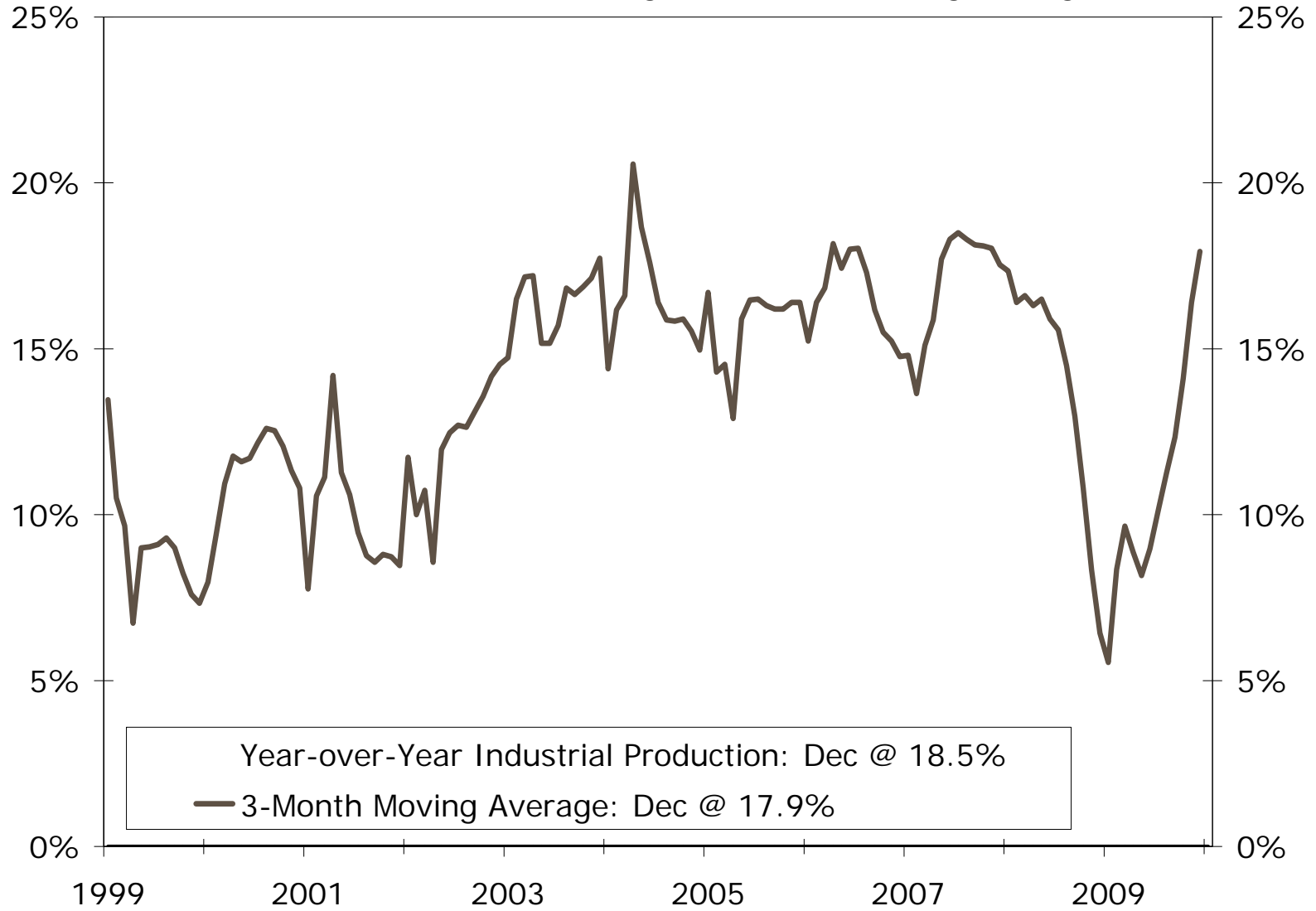
Chinese Real GDP

Year-over-Year Percent Change



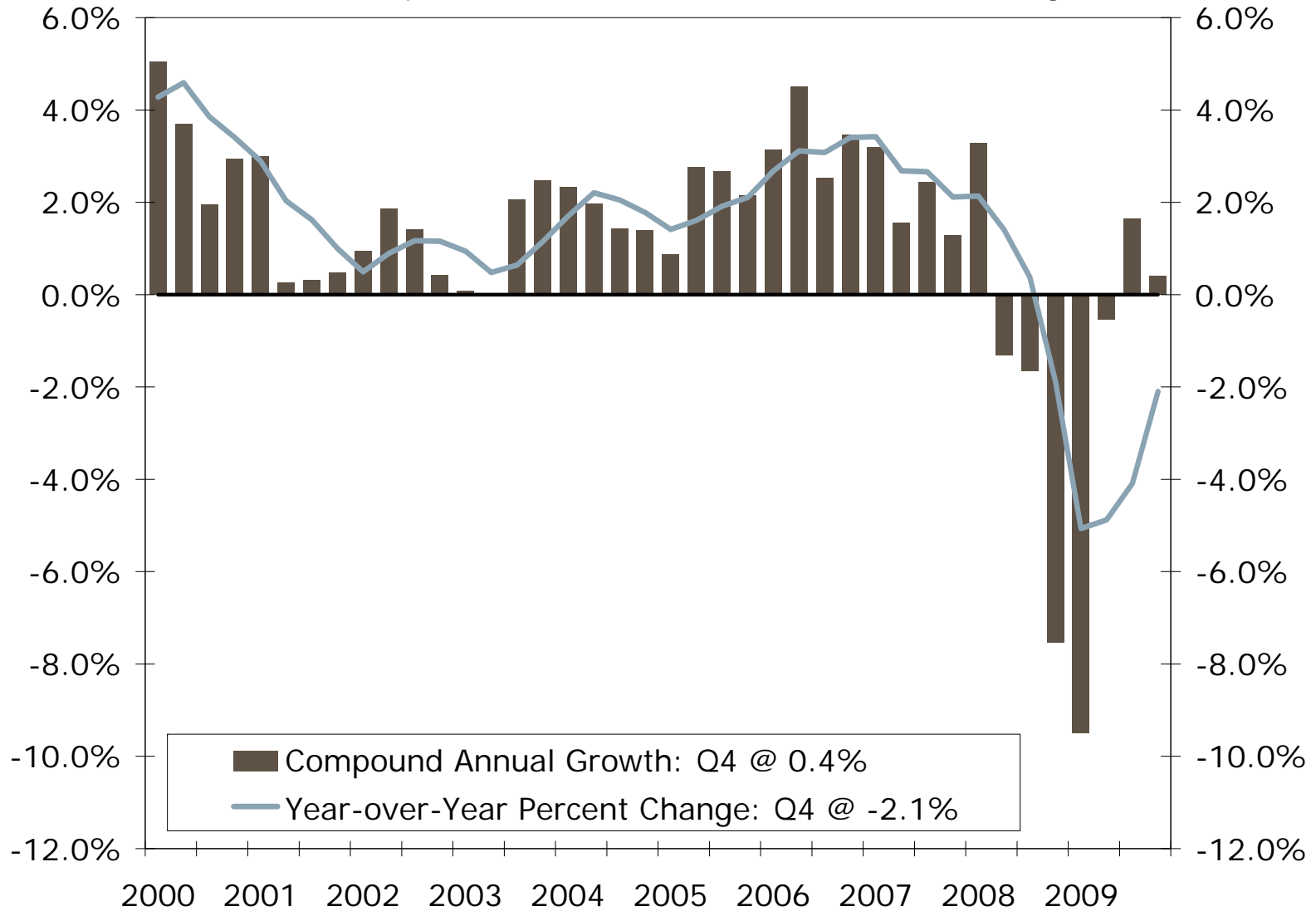
Chinese Industrial Production Index

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



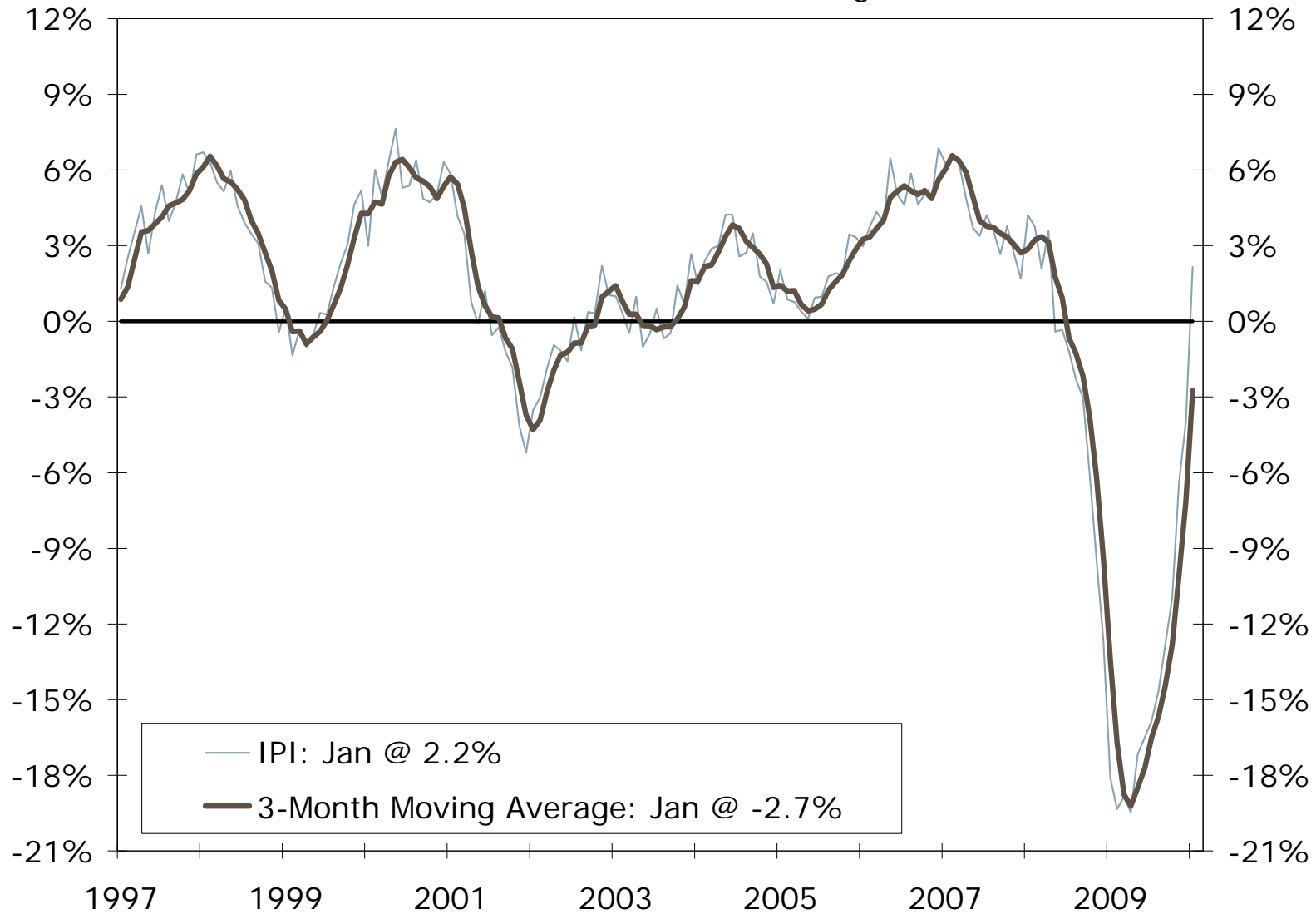
Euro-zone Real GDP

Bars = Compound Annual Rate Line = Yr/Yr % Change



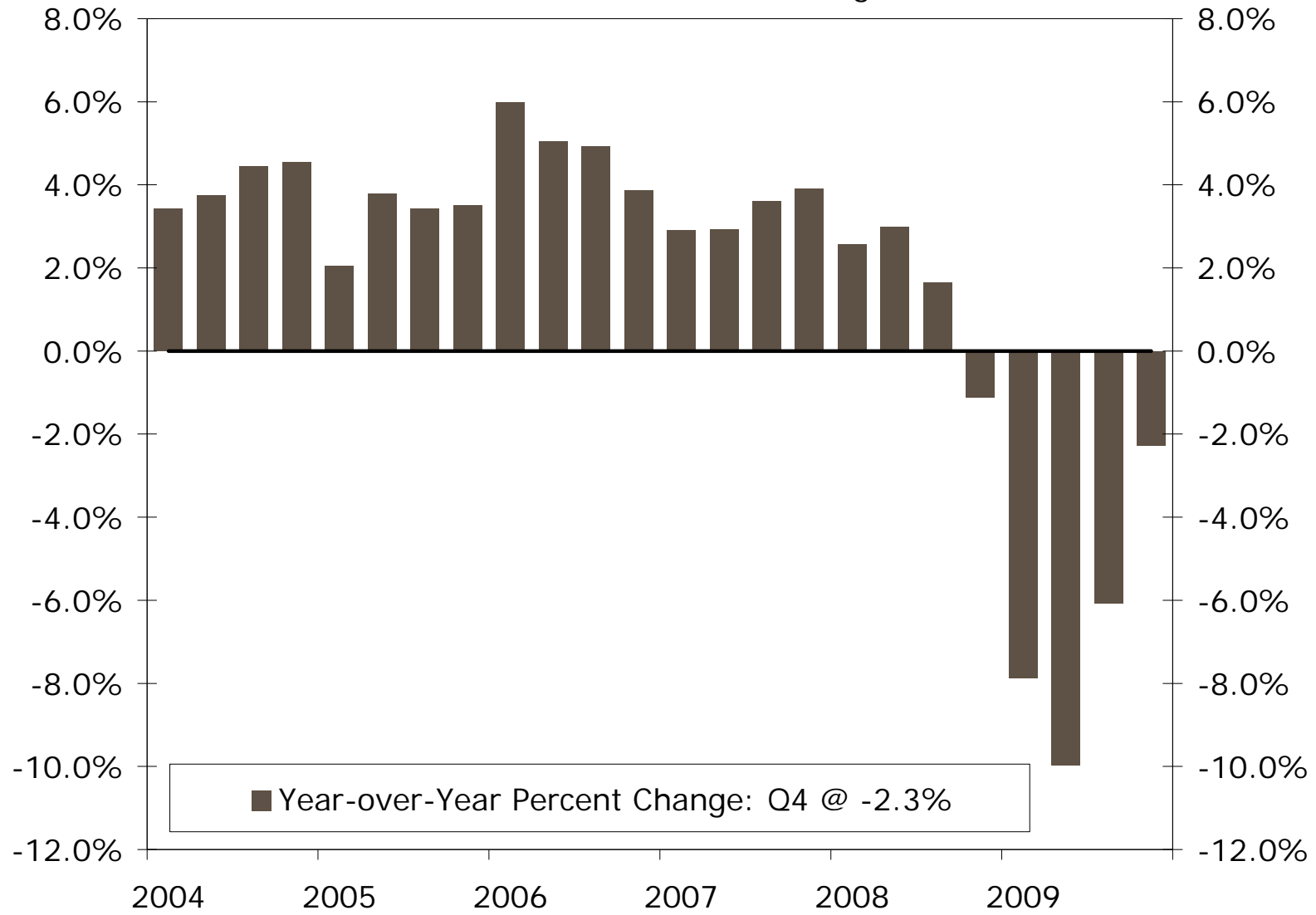
Euro-zone Industrial Production Index

Year-over-Year Percent Change



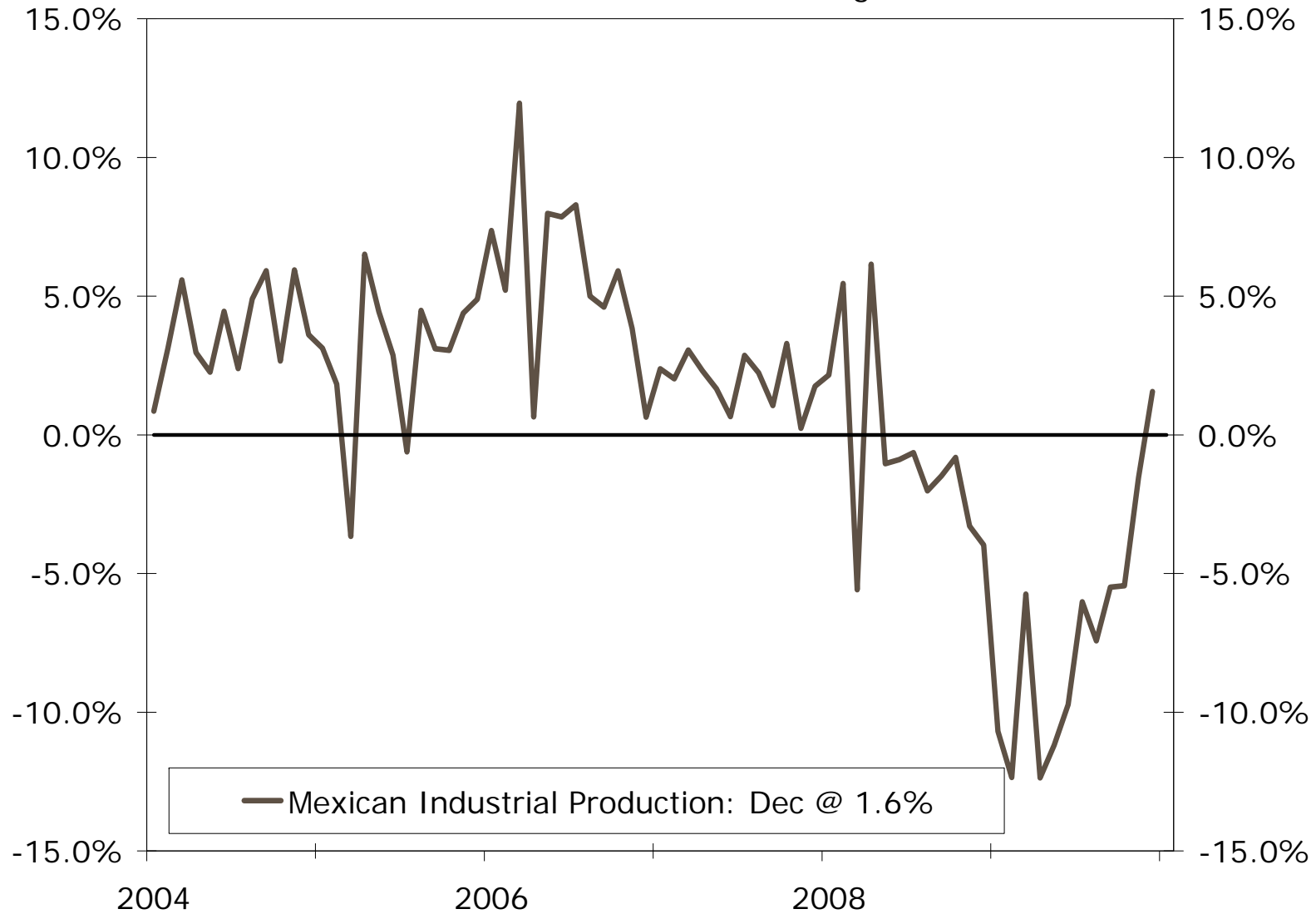
Mexican Real GDP

Year-over-Year Percent Change



Mexican Industrial Production Index

Year-over-Year Percent Change



Summary & Conclusions

- **Housing market has bottomed, but...**
- **The U.S. economy and the World economy are recovering from the recession**
- **The probability of a double-dip remains high**
- **Inflation remains a medium to long-term concern**
- **The financial system is starting to work but it is still limiting the effectiveness of monetary policy**
- **Fiscal policy is the only alternative to get out of this recession, but it will be VERY EXPENSIVE**

Thanks!
Wells Fargo Economics

Eugenio J. Alemán,
Senior Economist & VP

March 2010

Together we'll go far

