



Special Commentary

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Florida Economic Outlook: May 2013

Florida's Recovery is Following Two Distinctly Different Paths

Florida's economic recovery cleared several important milestones this past year and continues to gain momentum. The Sunshine State is once again growing faster than the nation, with our estimate of real GDP expanding at a 3.6 percent pace in 2012, compared to 2.2 percent growth nationwide. Florida's unemployment rate declined twice as fast as the nation's and is now even with the nation. Tourism has soared to new heights, and in-migration is accelerating. Stronger population growth is helping revive the real estate sector, fueling both sales and new construction.

While Florida's economy is once again growing more rapidly than the nation and the unemployment rate is lower, the subpar national economic recovery sets a relatively low bar to beat. Even with three years of job growth, there are 7.0 percent fewer jobs in Florida today than there were prior to the recession. Moreover, the average wage of the jobs being created is considerably less than the average of the jobs that were lost during the recession. The preponderance of low-paying jobs is one reason so few job seekers have returned to the workforce following the recession and helps explain why income growth has remained so sluggish.

Florida's economy is once again growing more rapidly than the nation.

Florida's economic recovery is following two distinct paths. One is being driven by the Fed's extraordinarily easy monetary policy, which has boosted asset prices and fueled higher-end consumer outlays. The same policy has bolstered currencies in Canada and Brazil, which are two of Florida's key trading partners and the source of much of the growth in international tourism.¹ The other path shows fundamentals only gradually improving, with businesses cautiously expanding and a high proportion of new jobs coming from historically lower paying industries.

Figure 1

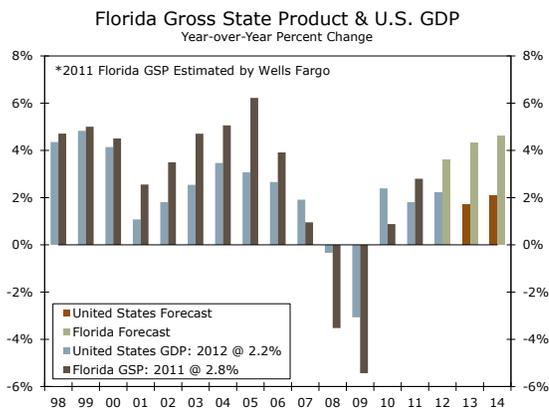
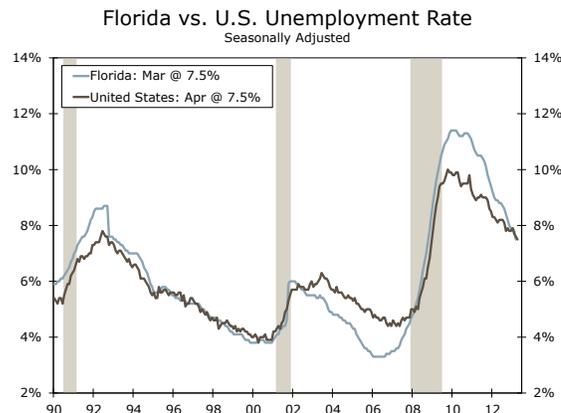


Figure 2



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

¹ Glick, Reuven and Sylvain Leduc. 2013. "The Effects of Unconventional and Conventional U.S. Monetary Policy on the Dollar." Federal Reserve Bank of San Francisco. April 25, 2013.

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Florida's Tale of Two Recoveries

Of the two paths Florida's economic recovery is following, the one being blazed by the Fed's extraordinarily accommodative monetary policy, or quantitative easing (QE), has certainly garnered the most headlines. Hardly a day seems to go by where the newfound strength in the housing numbers is not celebrated. The Florida Association of Realtors shows the median price of a single-family home rising 15.2 percent over the past year and by more than 25 percent in South Florida. Prices are being driven by strong investor buying from foreign and domestic investors, tight supplies of homes available for sale, and extraordinarily low mortgage rates.

The influx of investors is likely responsible for the bulk of the recent surge in home prices.

The influx of investors is likely responsible for the bulk of the recent surge in home prices. Cash buyers accounted for nearly 50 percent of home sales during the first three months of this year. While not all cash buyers are investors, most investors are cash buyers, so the elevated level of cash buyers provides a fairly good indication of just how much the investor influx is influencing home prices. Prices are also up more than 20 percent from the past year in other markets favored by investors, including Tampa, Orlando, Fort Myers, Vero Beach and Port St. Lucie. All have seen institutional and foreign buyers become more active in the market.

While the pop in home prices has certainly garnered attention, the link to the Fed's quantitative easing is less well understood. The Fed's massive securities purchases have pushed interest rates to modern-era lows. With Treasuries yielding less than 2 percent, the 6 percent to 7 percent rental yields projected by private equity funds on pools of rental homes look appealing, particularly when you factor in the prospect of a big rebound in home prices.² Such funds have raised more than \$11 billion to buy homes predominantly in the Sunbelt, where prices collapsed following the housing boom. Institutional investors have accounted for 30 percent of home sales in Miami, 20 percent in home sales Orlando and 15 percent of home sales in Tampa during 2012.³

One way to see the impact institutional investors are having is to compare the homeownership rate, which has been trending down over the past few quarters in Miami and Tampa, and housing prices, which have spiked over the past couple of years. Clearly, the rebound in prices is not being led by rising homeownership. Institutional investors are only partially responsible for the resurgence in home prices. Miami, Tampa and Orlando have also seen a huge increase of international buyers. Some of that buying has no doubt been stoked by quantitative easing, which has helped support currencies of many of Florida's key trading partners, namely Canada and Brazil, which are also Florida's two leading sources of international home buyers.⁴

Figure 3

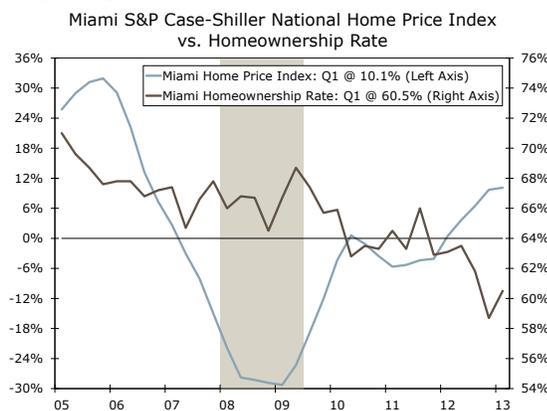
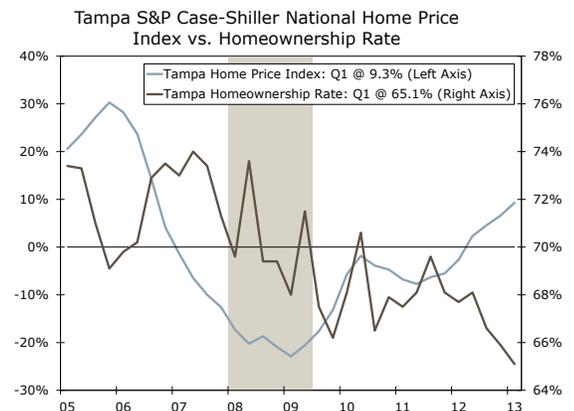


Figure 4



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

² All the Difference in the World. SRC Housing Perspectives. Sylvan Road Capital. November 29, 2012.
³ The Rise of Institutional Investors and Decline of REOs. The MarketPulse. Volume 2, Issue 3. March 18, 2013. Pages 3-5
⁴ Profile of International Home Buyers in Florida – 2012. National Association of Realtors. Washington, D.C. August 2012.

Lower interest rates have also provided a more fundamental boost to the economy by allowing homeowners to refinance at much lower interest rates and reduce their monthly mortgage payments. The HARP 2.0 program has allowed many homeowners to refinance who had previously been unable to, which has produced significant monthly savings. The refinancing boom has boosted consumer spending and provided a lift to the broader economy in many of the areas hardest hit by the housing crisis, including Ocala, Fort Myers and Port St. Lucie.

Quantitative easing has also given the stock market a boost. The S&P 500, which rose approximately 12 percent over the first four months of this year, is up more than 40 percent over the past three years and is up a whopping 139 percent from its recession low back in March 2009. The resurgence in the stock market has been good news for household balance sheets. The value of financial assets has risen 18.7 percent over the past three years. By comparison earnings from wages and salaries are up 11.4 percent over the past three years nationwide, which is when private sector employment bottomed out, and have risen just 7.0 percent over the past three years in Florida, which barely keeps pace with population growth, much less inflation. The sluggish growth in wages and salaries is one of the reasons why nominal median household income has stagnated in recent years at around \$50,000 nationwide and \$45,000 in Florida.

The resurgence in the stock market has been good news for household balance sheets.

Unfortunately, gains in asset prices do not accrue evenly across the economy. Stock ownership tends to be concentrated among the wealthy and in communities where the wealthy tend to live. Metropolitan areas where income from investments accounts for a disproportionately large share of overall income, such as Naples, Sarasota, West Palm Beach, Fort Myers, Stuart and Vero Beach, have seen consumer spending rise faster than the rest of the state during the past three years, particularly in regard to purchases of cars, SUVs and other big-ticket items. These metropolitan statistical areas each derive 40 percent or more of personal income from investments than the national average. By contrast, areas of the state that depend primarily on wages and salaries for the bulk of their income growth and receive relatively little in the way of investment earnings, including Jacksonville, Lakeland, Ocala, Melbourne and Pensacola, have generally seen consumer spending lag slightly behind the rest of the state.

Quantitative easing may have helped stoke the international visitor numbers, particularly earlier in the expansion when domestic visitors were not increasing all that rapidly. Not only are Canada and Brazil the top two sources of international home buyers but they are also the top two origins of Florida's international visitors. As noted earlier, currencies in both countries appear to have received a boost from QE. Florida hosted 3.56 million visitors from Canada in 2012 and 1.6 million visitors from Brazil, both totals were up solidly from the prior year. The top destinations for foreign tourists continue to be Orlando and Miami, and both have seen solid gains in recent years. The influence of overseas visitors is one reason that Orlando and Miami outperformed the rest of the state by such a wide margin during the early years of the recovery.

Figure 5

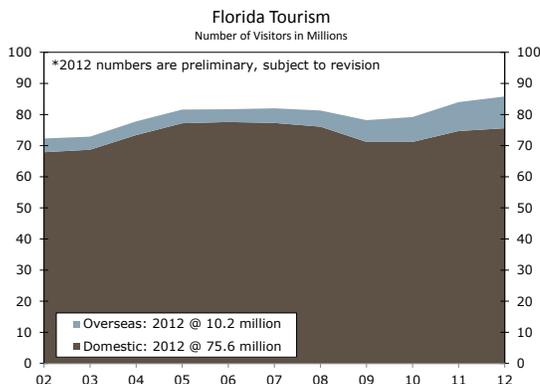
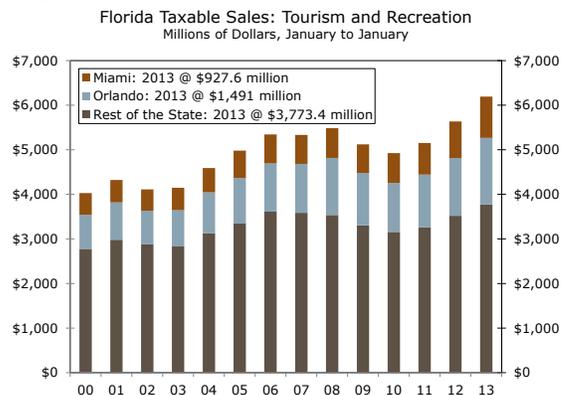


Figure 6



Source: VISIT FLORIDA Research, Florida Department of Revenue and Wells Fargo Securities, LLC

Florida's Labor Market Continues to Gain Momentum

From an employment perspective, Florida's economic recovery is beginning to once again resemble the recoveries seen in the past. Job growth has raced ahead of the nation and, after briefly hovering more than 1.5 percentage points above the national average, Florida's unemployment rate has fallen even with the nation. Nonfarm employment has risen 1.9 percent over the past year, with solid gains in the private sector being partially offset by continued cutbacks in government payrolls. Private sector employment has risen a solid 2.4 percent over the past year, which compares quite favorably with the 1.8 percent gain seen nationwide.

Hiring has picked up across most industries but is clearly being led by gains in Florida's key hospitality sector.

Hiring has picked up across most industries but is clearly being led by gains in Florida's key hospitality sector. Restaurants, hotels and tourist attractions have added 40,500 net new jobs over the past year, with most of the gain coming in the restaurant category. Hiring at restaurants has surged 4.7 percent over the past year, as chains and independents have added 30,400 new positions. Restaurants may be adding more part-time staff in order to minimize the cost of the Affordable Care Act (ACA). Businesses that employ large numbers of part-time workers who work more than 30 hours a week have an incentive to hire more workers and reduce the hours per worker below the 30-hour a week threshold, particularly if many of their employees work hours just above the threshold. Such an explanation seems plausible given that workers in the restaurant industry have been shown to be the most vulnerable to having their hours reduced in order to avoid the penalties in the ACA.⁵

Figure 7

Nonfarm Private Sector Job Growth: 10 Largest States

| | Employment | Present Employment | Percent Change | Absolute Change | Share of Total Change |
|----------------|------------|--------------------|----------------|-----------------|-----------------------|
| | Feb-10 | Mar-13 | | | |
| United States* | 106,011 | 112,570 | 6.2% | 6,559 | - |
| California | 11,407 | 12,221 | 7.1% | 814 | 12.4% |
| Texas | 8,405 | 9,311 | 10.8% | 906 | 13.8% |
| New York | 6,991 | 7,426 | 6.2% | 435 | 6.6% |
| Florida | 6,037 | 6,433 | 6.5% | 395 | 6.0% |
| Illinois | 4,733 | 4,946 | 4.5% | 214 | 3.3% |
| Pennsylvania | 4,810 | 5,025 | 4.5% | 214 | 3.3% |
| Ohio | 4,221 | 4,431 | 5.0% | 210 | 3.2% |
| Michigan | 3,195 | 3,453 | 8.1% | 258 | 3.9% |
| Georgia | 3,139 | 3,340 | 6.4% | 201 | 3.1% |
| North Carolina | 3,123 | 3,333 | 6.7% | 210 | 3.2% |

*Using sum of states data

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

Hiring in the leisure and hospitality sector aside from restaurants has been less robust. Hotels have added 2,900 net new jobs, a 1.8 percent gain. Most of that increase appears to have been in Miami, where several new properties have come on line. Amusement attractions also boosted hiring, with employment at theme parks jumping 6.6 percent, or by 4,200 jobs, and gaming facilities adding 1,400 jobs. Some of this growth may also reflect efforts by larger employers to reduce the impending hit from the new healthcare law as has been noted earlier.

Employment in the retail sector has also perked up. Retailers have hired 31,300 workers over the past year, with most of that gain coming from automotive stores, grocery stores and discount stores. Retailers also employ a large proportion of part time workers and, just like hospitality sector, recent employment trends may reflect efforts to minimize the sting from the ACA. Some of the gain simply reflects ongoing growth in retail sales. Taxable sales are up 10.9 percent over the past year, with some of the strongest growth coming in autos and accessories. Sales in the tourism and recreation sector are up slightly less, climbing 9.9 percent.

⁵ Graham-Squire, Dave and Ken Jacobs. Which workers are most at risk of reduced hours under the Affordable Care Act? Data Brief. University of California Berkeley Labor Center. February 2013.

Although tourism cast a large shadow over Florida’s economy, it is hardly the only game in town. Growth outside of the tourism sector has gained considerable momentum over the past year. Hiring in business and professional services is up 2.4 percent, producing a net gain of 25,100 jobs. The bulk of the increase has been in professional and technical services, which includes some of the growth taking place in the life sciences sector in South Florida and Orlando. Construction activity is also picking up, with homebuilding and commercial construction posting modest gains this past year. Employment in the building trade is up 2.5 percent, which is still fairly modest given the extent of the declines seen in the wake of the housing bust.

While hiring has clearly picked up, the composition of job gains is heavily weighted toward lower-paying industries. Hiring in lower-paying professions rose 2.9 percent over the past year, while employment in the rest of the economy has risen 1.4 percent. Low-wage jobs, which we define as paying 20 percent or more below the average wage, have accounted for 45 percent of the jobs added in Florida over the past year. Nationally, 36 percent of the jobs created over the past year have been in lower-paying industries. The pace of hiring in lower-paying professions appears to have picked up through the first four months of this year in Florida and nationwide.

While hiring has clearly picked up, the composition of job gains is still heavily weighted toward lower paying industries.

With lower paying jobs accounting for a larger proportion of overall job growth, income gains have lagged. Personal income rose just 3.2 percent in Florida during 2012 and earnings from wages and salaries increased just 3.1 percent. Declines in earnings for government workers and sluggish income gains for workers in the financial sector weighed on overall growth, whereas stronger gains for workers in manufacturing, wholesale trade, real estate services and at corporate and regional headquarters tended to more than offset these drags. The mix of growth tended to bolster prospects in the Florida’s large metro areas, particularly Miami, Fort Lauderdale, Tampa and Orlando. By contrast, economic gains in Jacksonville, with its large financial and military sectors, have tended to lag somewhat, although job growth has perked up a bit more recently.

Florida’s unemployment rate fell 1.4 percentage points over the past year, compared to a 0.6 percentage point drop nationwide. Florida’s unemployment rate tumbled despite a larger increase in the civilian labor force, which grew 0.7 percent, compared to a paltry 0.2 percent increase nationwide. While Florida’s faster population growth explains part of that disparity, Florida’s labor force participation rate and employment-population ratio have improved relative to the nation during the past year. The largest declines in the unemployment rate tended to be in areas where housing values and home construction fell the hardest during the crash. The unemployment rate declined 2.6 percentage points in Ocala, 2.4 percentage points in Palm Coast and by 2.2 percentage points in Fort Myers, Daytona Beach, Lakeland, Melbourne and Tampa. Fort Walton Beach, Gainesville and Tallahassee have the lowest unemployment rates in the state, at 4.8 percent, 5.2 percent and 5.9 percent, respectively. The highest unemployment rates are in Miami, Port St. Lucie and Vero Beach, at 9.2 percent, 8.2 percent and 8.1 percent.

Figure 8

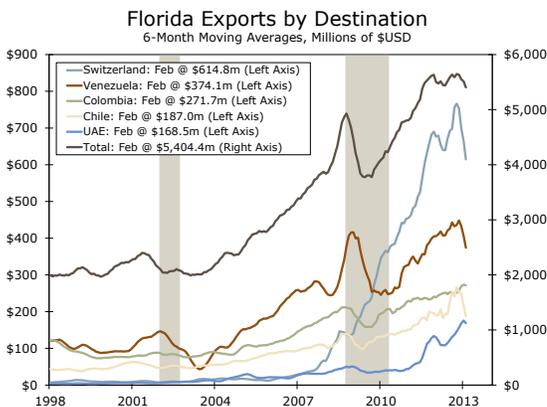
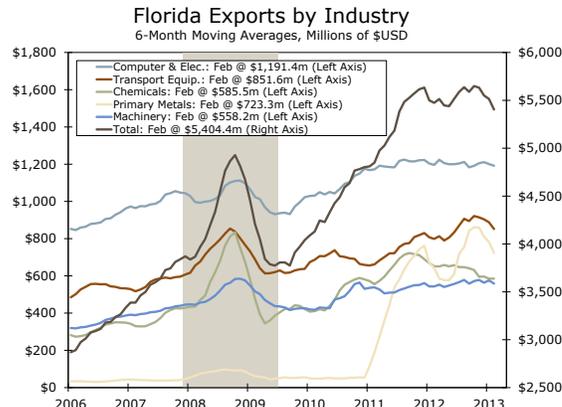


Figure 9



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

Trade (Florida, The Golden State?)

With the exception of the break surrounding the global financial crisis, Florida's exports have been on a solid upward trajectory since 2005. The initial boost to exports was driven largely by rising demand from South America, specifically Venezuela, Colombia, Mexico, and Chile. Exports were previously dominated by computer and electronics, transportation equipment, chemicals, and machinery. Exports fell off following the onset of the global financial crisis but quickly rebounded, thanks in part to Switzerland's rising demand for gold, which trades through Florida.

Gold has become the state's most valuable export over the past two years.

Gold has become the state's most valuable export over the past two years, and Switzerland its largest export market. Gold exports surged from a mere \$21 million in 2009 to just under \$8 billion in 2012. Florida has strong ties with South America and has been importing large amounts of the precious metal as central bankers and global investors drove up the demand and price for gold. The UAE is also purchasing more gold from Florida, which has more than tripled the state's exports to the country in the past two years. In fact, the UAE is now the ninth-largest export market for Florida, after not even cracking the top 25 in 2009. However, both the price and Florida's exports of gold have been slipping since October 2012. The mid-April plunge in gold prices may reduce the dollar value of Florida exports over the next few months.

The second- and third-largest export commodities are civilian aircraft and parts, and mobile phones, respectively. Shipments of these products have a much more profound impact on the state's economy, as many are locally produced. Aircraft exports are supported by manufacturers such as Northrop Grumman and Sikorsky. Exports of both commercial and military equipment have been an important offset to tighter U.S. defense budgets. Even with federal budget pressures, the state has landed a few notable expansions. Northrop Grumman's expansion into Melbourne will add nearly 1,000 employees and may boost exports of aircraft parts.

Florida benefits from its strong ties to rapidly growing economies in Latin America and the Caribbean. About half of Florida's exports are sent to the region. Latin America's rising demand for mobile phones will keep Florida's third-largest export market strengthening. Exports of mobile phones jumped 37 percent from 2011 to 2012. In 2012, Florida's services exports were estimated to be about \$36 billion, or just over one-third of total exports, thanks to the preponderance of Spanish, Portuguese and Creole-speakers able to communicate and collaborate with clients throughout Latin America. South Florida is also an important hub for the entertainment industry and tourism, which helps fuel services exports. Not all of Florida's exports are faring so well, however. The two largest fertilizer categories together dropped about 25 percent in 2012 amid weak global demand.

Figure 10

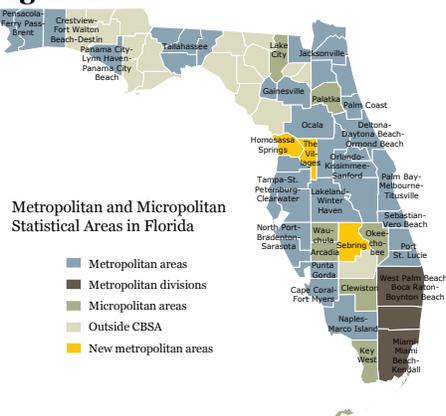
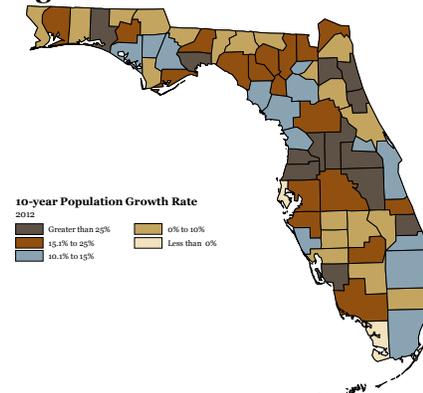


Figure 11



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

Population

Florida's sustained rapid population growth and urbanization have contributed to the creation of three additional metropolitan statistical areas in the state: Homosassa Springs, The Villages, and

Sebring. All three areas were formerly classified as micropolitan statistical areas. Metropolitan and micropolitan statistical areas are defined by their urbanized area and the surrounding counties with strong commuting ties to it. The main difference between the two areas is that urban portions of micropolitan statistical areas have between 10,000 and 50,000 inhabitants, whereas metropolitan statistical areas have at least 50,000 urban residents. Population growth in The Villages was the highest in the state over the past ten years, jumping from 59,539 in 2002 to 101,620 in 2012. By comparison, population growth was more subdued in Homosassa Springs and Sebring, neither of which cracked the top half of counties in the state in terms of 10-year population growth. This indicates that those counties had population migration toward their urban centers, which contributed more to the formation of these two new metropolitan statistical areas than did raw population growth.

The state's population grew 1.3 percent in 2011 and 1.2 percent in 2012, while the U.S. population grew a mere 0.7 percent and 0.8 percent respectively. In 2012, net migration breached 200,000, marking the largest annual gain since 2006, thanks largely to rising international migration, which comes primarily from Latin America. In addition to Sumter County, home to The Villages; Flagler, Osceola, St. Johns, and St. Lucie counties rounded out the top five in terms of percentage growth. Miami-Dade added the largest number of people to its population, followed by Orange, Hillsborough, Lee, Palm Beach, and Broward counties. The Miami, Fort Lauderdale, West Palm Beach metropolitan area accounted for 21.5 percent of the state's population growth.

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Two counties in the state, Monroe and Pinellas, experienced population declines over the past ten years, though both have rebounded some since 2010. Interestingly, Pinellas County, which is part of the Tampa-St.Petersburg-Clearwater metropolitan area, posted a decline even though the overall metropolitan area posted strong gains. Pinellas County is largely built out and new development is more difficult than across the bay in Hillsborough County, home to Tampa, or neighboring Pasco and Hernando counties to the north. The quality of life has clearly improved in Pinellas County in recent years, with amenities like the Dali Museum driving gains in leisure and entertainment. Business development also remains strong.

Citrus Update

Valued at more than \$1.5 billion per year, citrus is Florida's second-largest agricultural product, just behind nursery and greenhouse products. The vast majority of citrus revenue comes from oranges, which are almost entirely sold to make juice and concentrate. Florida accounts for about two-thirds of total U.S. citrus output, and Polk, Highlands, Hendry, and Desoto counties have the highest citrus production in the state.

The 2012-2013 USDA forecast calls for Florida citrus production to total 138 million boxes, or 6 percent less than a year ago. Non-Valencia orange production dropped the most this year, though Valencia oranges are also lower. Weaker production can be attributed to disease, acreage lost to development and natural disasters causing a 10-year slide in fruit-bearing trees and acreage. After spiking in the middle of 2012, Florida orange prices were 13 percent lower in March from a year ago, though they jumped 15 percent from February. Grapefruit prices soared in 2012, but, in March, tumbled 10.1 percent from a year ago and 13.8 percent from the previous month. The weakness in prices further weighs on farmers' incomes during this lower production season.

The disease that worries so many citrus farmers is called huanglongbing (HLB) or greening, which the USDA has said is incurable. HLB is primarily spread by an insect, the Asian Citrus Psyllid, which transports the bacteria from tree to tree. However, HLB was first found in Florida in 2005, years after citrus trees and acreage were past their peak. Even before hurricanes Katrina and Charley devastated citrus farms, acreage and citrus trees were declining, indicating that other factors, such as development and rising opportunity costs, are shrinking citrus farms in Florida.

Farmers are also troubled about the rising costs of pesticides and fertilizers used to combat HLB and other diseases. Total costs per acre more than doubled for farmers implementing the recommended HLB treatments. In addition to spraying costs and tree replacements, farmers are incurring costs associated with new compliance procedures to prevent the spread of disease. These include training for owners and employees, decontamination procedures, and limits on

nursery purchases. Costs associated with HLB are expected to stabilize as prevention and treatment methods, such as aerial spraying, become more routine across regions.

Florida's Housing Market

Florida's housing market was hit particularly hard in the aftermath of the housing bubble and has faced a difficult path to recovery. In the buildup to the bubble, home prices and homebuilding in Florida skyrocketed, and when the economy collapsed, Florida's housing market tumbled right along with it. According to CoreLogic's Home Price Index, prices fell more than 50 percent from their peak in fall 2006. Home prices did not hit bottom until early 2011 and have improved 14 percent since that time. Florida's housing market has finally turned the corner as all major market metrics are showing signs of improvement. Single-family sales are up 9.0 percent over the past year, while median and average home prices have risen around 15 percent.

Cash sales represented nearly 50 percent of sales in March, up 11.9 percent from the previous year.

Although sales and prices are up, investors rather than traditional buyers have been viewed as the predominant force behind the improvement. Cash sales represented nearly 50 percent of sales in March, up 11.9 percent from the previous year. Traditional buyers are likely facing competition from investors in terms of prices and transaction time. Lending standards remain tight, and only borrowers with strong credit histories are able to secure loans. Meanwhile, inventories continue to tighten as sales outpace new listings. The months' supply of inventory has fallen from 8.0 months to 5.3 months over the past year, putting further upward pressure on prices.

Florida's housing market has historically relied on in-migration of retirees and vacation homebuyers for growth, but this activity came to a standstill during the economic downturn. Many would-be buyers lost significant portions of their net worth, which likely caused them to put off investments. With the stock market and home prices seeing gains, these buyers are beginning to come out of the woodwork, especially in traditional vacation and retirement markets.

Home prices have broadly improved across the state, but the strongest gains have been in coastal areas, especially land strapped areas with few property expansion prospects. Although it comes as no surprise that coastal properties are valued higher than inland properties, it is somewhat surprising how the gap between coastal and inland prices is widening. This shift may be partially attributable to the rising investment trend. Home prices along the coast, particularly in South Florida, have likely been propped up by investor purchases despite slow real income and employment growth, while inland home prices, with the exception of Orlando, are rising at a slower pace as they do not hold equivalent investor appeal.

Florida is unique from other states in that it has a large base of international home buyers, who, like investors, typically purchase properties for cash. Buyers have been flocking to the United States over the past few years as depressed prices and a weak U.S. dollar make homes a relative bargain. Although some of these international buyers are also investors, many are more attracted by the state's geographic location and favorable climate than profit. The National Association of Realtors estimates that Florida accounts for approximately one quarter of all U.S. sales to international buyers. The majority of buyers are Canadian (31 percent), although the composition has been gradually shifting to Latin American buyers, which collectively represented an estimated 35 percent of international sales. Western Europe accounts for approximately 22 percent of sales. The rising share of Latin American buyers is likely adding additional upward pressure to home prices in South Florida.

Although conditions are looking up for Florida's housing market, distressed properties remain a serious concern. The share of underwater homeowners has come down, but remains elevated at 40.3 percent in the fourth quarter. Florida recorded 95,000 completed foreclosures, the largest of any state, over the past year, based on February data. The state also tops the list for the highest foreclosure inventory at 9.9 percent versus 2.8 percent for the nation. The success of Florida's housing market is twofold. It relies on the ability to work through distressed properties and the long-term sustainability of home price appreciation. We believe that Florida's housing market will be able to accomplish both of these objectives in the coming years. All indications have pointed to a continued decline in foreclosure inventory and distressed sales, and home prices should continue to rise, although the pace of appreciation may slow somewhat as the market equilibrates.

Figure 12

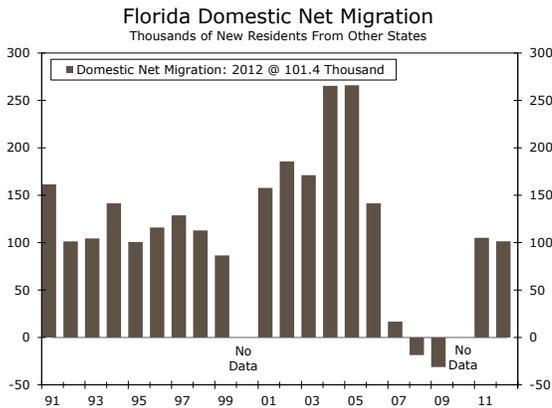
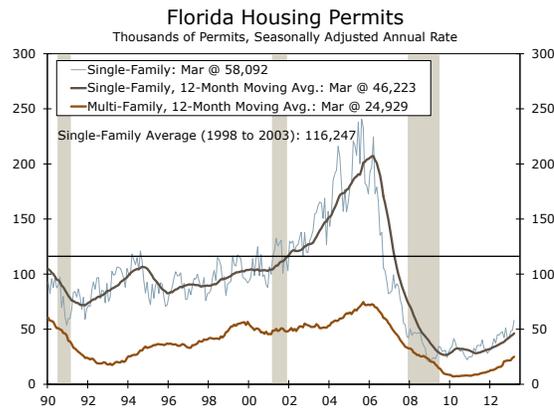


Figure 13



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

Summary & Conclusion

Florida’s economic recovery has been following two distinctly different paths. One has the economy snapping back relatively quickly, while the other sees the recovery playing out at a more measured pace. The faster recovery track is predominantly being driven by the Fed’s unconventional monetary policy. The Fed’s securities purchases have pulled interest rates lower, encouraging homeowners to refinance their mortgages and encouraging a wave of investor purchases. Quantitative easing has also lowered the value of the dollar against many of Florida’s key trading partners, which has helped stoke home purchases from abroad and has given a swift boost to international tourism. The stock market has also benefitted from the unusually low interest rates, which have helped support spending in many of the state’s wealthier metro areas.

Florida’s economic recovery has been following two distinctly different paths.

The second recovery path is decidedly less exciting. Even with stronger job growth than the rest of the country and a sharper drop in the unemployment rate, Florida continues to be bedeviled by sluggish income growth. Part of the problem has to do with the composition of Florida’s economy, with its larger tourist sector and larger retiree population. Tourism accounts for around 10 percent of Florida’s economy and, with 3.3 million residents over age 65, jobs supporting the retiree population account for an outsized portion of employment. While there are some higher-paying jobs in this mix, particularly in healthcare, the overwhelming majority of jobs in the hospitality sector and a surprisingly large number of jobs in the healthcare sector (home healthcare, nursing centers and social assistance) tend to pay relatively low wages. While serious efforts have been made to diversify Florida’s economy, and many have been successful, the growth of higher paying jobs continues to lag behind.

The split in personality of Florida’s economic recovery means there may not be as much genuine improvement in Florida’s economic outlook as recent reports suggest. Without the contribution from investors and international buyers, home sales and home prices would not have risen nearly as much. Tourism may also cool off a bit if the U.S. dollar gains strength against the Canadian dollar and Brazilian real, and the enthusiasm international investors have shown toward Florida home purchases begins to fade. Once investor and international buyer activity cools, sales and price appreciation will likely subside, which might undermine the recovery in consumer confidence. Confidence will also take a hit if the stock market hits a speed bump or two as the end of QE grows nearer. Of course the most likely trigger for a tapering off in the Fed’s securities purchases would be a strengthening in the broader economy. On that front, there are some encouraging signs, including stronger population growth, rising residential and commercial construction and an increase in relocations and expansions, most recently illustrated by the Hertz relocation to Fort Myers and Northrop Grumman’s expansion in Melbourne. While a strengthening in the broader economy might bring higher interest rates along with it, that appears to be a price worth paying if it brings a more Florida-like recovery back to Florida.

Florida Economic Outlook

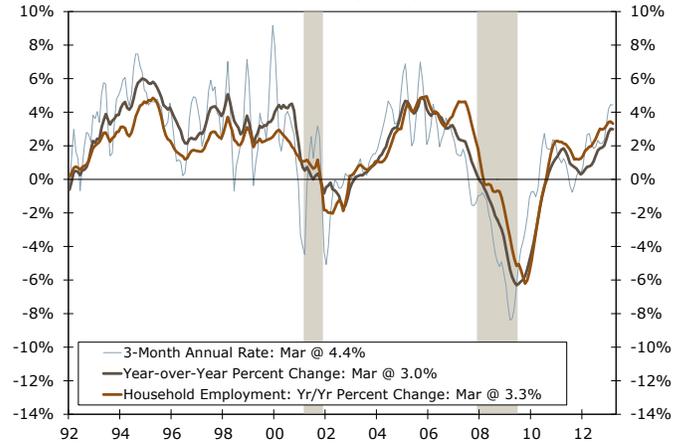
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Real Gross Domestic Product by State, \$ Millions | 714,630.0 | 689,445.0 | 651,982.0 | 657,717.0 | 676,133.1 | 700,473.9 | 729,500.0 | 763,000.0 | 800,000.0 |
| Annual Rate | 1.0 | (3.5) | (5.4) | 0.9 | 2.8 | 3.6 | 4.1 | 4.6 | 4.8 |
| Nominal Personal Income, \$ Millions | 721,051.5 | 740,675.7 | 687,337.4 | 722,368.2 | 755,357.6 | 779,338.8 | 816,700.0 | 858,675.0 | 904,185.0 |
| Nominal Personal Income, Percent Change | 4.5 | 2.7 | (7.2) | 5.1 | 4.6 | 3.2 | 4.8 | 5.1 | 5.3 |
| Population, Thousands | 18,367.8 | 18,527.3 | 18,652.6 | 18,846.0 | 19,082.3 | 19,317.6 | 19,572.0 | 19,850.0 | 20,130.0 |
| Change in thousands | 200.9 | 159.5 | 125.3 | 193.3 | 236.3 | 235.3 | 254.4 | 278.0 | 280.0 |
| Households, Thousands | 7,089.0 | 7,057.3 | 6,987.6 | 7,035.1 | 7,106.3 | 7,216.3 | 7,330.0 | 7,460.0 | 7,610.0 |
| Change in thousands | (17.1) | (31.7) | (69.6) | 47.4 | 71.2 | 100.5 | 113.7 | 130.0 | 150.0 |
| Nonfarm Employment, Thousands | 8,010.8 | 7,727.2 | 7,243.2 | 7,186.1 | 7,266.7 | 7,401.1 | 7,586.1 | 7,786.1 | 7,996.1 |
| Change in thousands | 15.7 | (283.6) | (484.0) | (57.1) | 80.6 | 134.4 | 185.0 | 200.0 | 220.0 |
| Unemployment Rate, Annual Average | 4.0 | 6.3 | 10.4 | 11.3 | 10.3 | 8.6 | 7.4 | 6.6 | 6.0 |
| Total Housing Permits | 105,726 | 62,643 | 36,116 | 38,736 | 43,677 | 63,844 | 90,000 | 112,000 | 125,000 |
| Single-Family Permits | 73,200 | 39,788 | 27,515 | 30,873 | 31,841 | 42,294 | 57,000 | 70,000 | 80,000 |
| Multi-Family Permits | 32,526 | 22,855 | 8,601 | 7,863 | 11,836 | 21,550 | 33,000 | 42,000 | 45,000 |
| FAR Existing Home, Condo, Co-op Sales, Thousar | 171.7 | 159.3 | 218.8 | 248.7 | 288.2 | 306.3 | 330.0 | 350.0 | 380.0 |
| Single-Family | 129.9 | 121.2 | 162.9 | 172.5 | 188.4 | 204.4 | 224.0 | 238.5 | 260.0 |
| Condos | 41.9 | 38.1 | 55.9 | 76.2 | 99.9 | 101.9 | 106.0 | 111.5 | 120.0 |
| FHFA Home Price Index, Percent Change | (2.4) | (16.5) | (13.9) | (9.6) | (7.5) | (0.9) | 2.3 | 2.8 | 3.0 |
| Florida Association of Realtors, Median \$ Price | 234,300 | 187,700 | 142,500 | 135,900 | 133,000 | 145,000 | 163,000 | 175,000 | 184,000 |
| Single-Family Home, Percent Change | (5.2) | (19.9) | (24.1) | (4.6) | (2.1) | 9.0 | 12.4 | 7.4 | 5.1 |
| Taxable Sales, \$ Millions | 329,168.5 | 303,001.0 | 276,339.4 | 283,130.0 | 296,943.7 | 314,951.3 | 340,000.0 | 362,000.0 | 380,000.0 |
| Percent Change | (4.1) | (7.9) | (8.8) | 2.5 | 4.9 | 6.1 | 7.8 | 6.5 | 6.0 |
| New Car/Light Truck Registrations, Thousands | 1,239.6 | 948.6 | 698.6 | 810.8 | 879.5 | 1,006.9 | 1,100.0 | 1,200.0 | 1,280.0 |

Sources: National Association of Realtors, Federal Housing Finance Authority, R.L. Polk & Co, U.S. Department of Commerce, U.S. Department of Labor, U.S. Department of Transportation & Wells Fargo Securities, LLC
Forecast as of: May 8, 2013

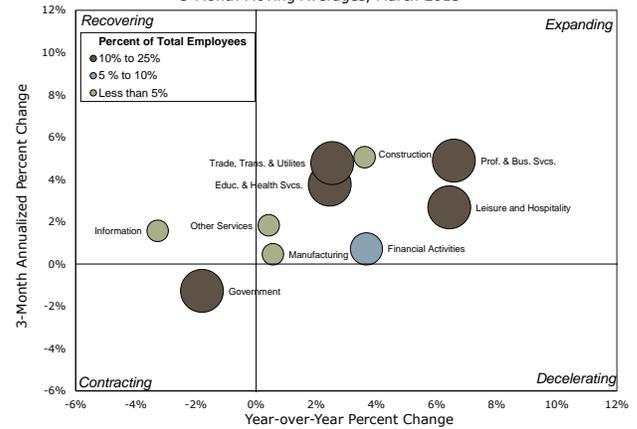
Jacksonville

- Coming off some weakness in early 2012, Jacksonville's recovery appears to be back on track. Nonfarm employment rose 3.1 percent over the past year, the largest year-over-year gain in more than six years. Gains were driven by employment in professional and business services and leisure and hospitality. While the Jacksonville metro area has regained some momentum, the improvement has been uneven across the metro area's five counties. The most recent data from the Quarterly Census of Employment and Wages show that the standout has been St. Johns County, where employment is up 6 percent year-over-year, adding nearly 2,800 jobs, or 25.4 percent of the metro area's total gain.
- While the Jacksonville metro area appears to be improving, the city of Jacksonville has not been the impetus for this growth. Duval County, which is home to Jacksonville, has only seen modest employment and population growth. Duval County is four times the size of St. Johns County in terms of population, yet added only twice the number of jobs, translating to a year-over-year gain of 1.3 percent.
- Jacksonville is home to several military facilities, which have helped bring in millions of dollars in defense contracts to the region over the past few years. In addition, the Navy provides a steady stream of trained workers for new and existing businesses.
- Up until recently, Jacksonville's housing market had been trading water. After a mid-year pickup in 2012, home prices have continued to rise and new construction has perked up in the single- and multifamily sectors. The multifamily sector, which had nearly been at a standstill for two years is finally turning the corner and new construction is in the pipeline. With a median home price at around \$130,000, Jacksonville remains a relative bargain compared to other large Florida metro areas.
- Jacksonville should continue to see modest improvement in the coming year, although St. Johns County will likely be at the center of these gains. Job drivers will likely be in professional and business services and leisure and hospitality sectors. We also expect some acceleration in construction employment as homebuilding picks up.

Jacksonville MSA Nonfarm Employment
 3-Month Moving Averages



Jacksonville, FL Employment Growth by Industry
 3-Month Moving Averages, March 2013



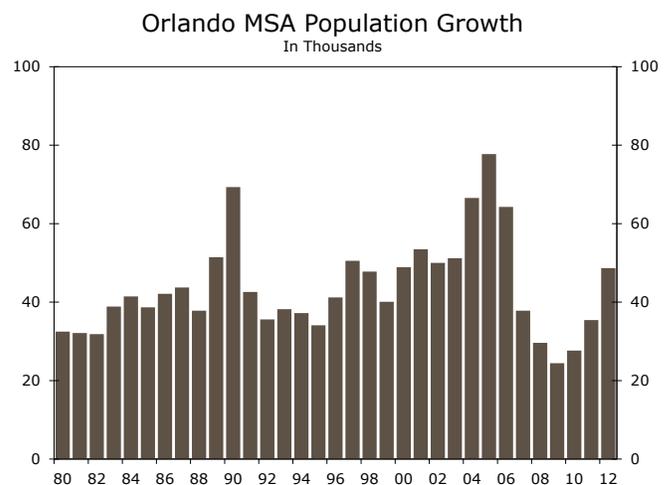
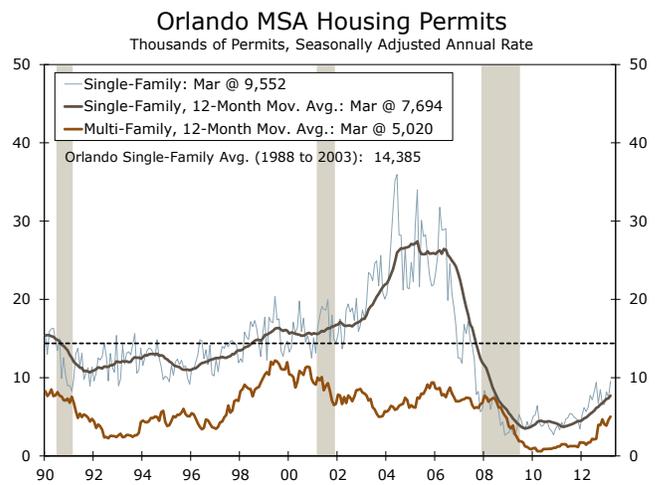
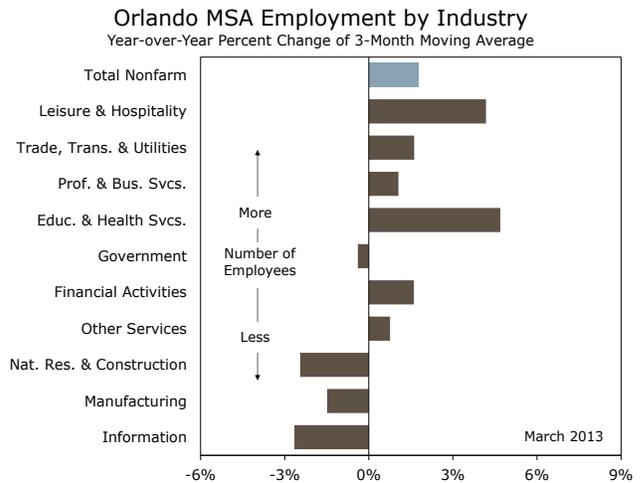
Jacksonville MSA Housing Permits
 Thousands of Permits, Seasonally Adjusted Annual Rate



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

Orlando

- Orlando's employment growth is outpacing that of the state and nation, thanks to strong growth across private services. The metro area added about 20,000 jobs from a year ago, an increase of more than 2 percent. Orlando's most important industry, tourism, is thriving. In addition, healthcare and professional and business services are posting solid employment gains, bringing the unemployment rate down to 7.0 percent, slightly below the state and nation.
- Fortunately, leisure and hospitality payrolls are surging, and tax revenue from hotels is rising solidly. Air travel from abroad jumped 8.3 percent in 2012, though passengers from domestic origins dipped 1.7 percent in the same period. Disney World, Universal Studios and Legoland are expanding, and the Orlando International Airport is making the customs and immigration process easier for foreign tourists.
- The development of Medical City, a community of hospitals, medical universities, and research centers, is diversifying the economy and pushing education and health services employment to record highs. Nemours Children's hospital opened in late 2012 and the VA Medical Center will open in phases beginning this year, adding more to local payrolls. In addition, Orlando is home to Florida Hospital, one of the country's largest and busiest, further solidifying the metro area's role as a regional healthcare hub.
- House prices increased 11.6 percent in March from a year ago, but are still less than half their prerecession peak. Rising prices have lowered the percent of mortgages with negative equity. Orlando's shadow inventory rate has fallen to 26 percent, but remains above the state average. However, the housing market is looking brighter. The \$1.3 billion Sunrail commuter line and a \$1 billion redevelopment of the former Amway Arena site are fueling building activity and providing a boost to construction payrolls.
- Even with all the success at attracting and developing new industry, tourism remains Orlando's dominant industry. Prospects for the region's tourism and convention business remain bright, with stronger U.S. economic growth and expansions of key tourist attractions driving additional visitor growth. The potential for defense cuts presents some near-term risks.

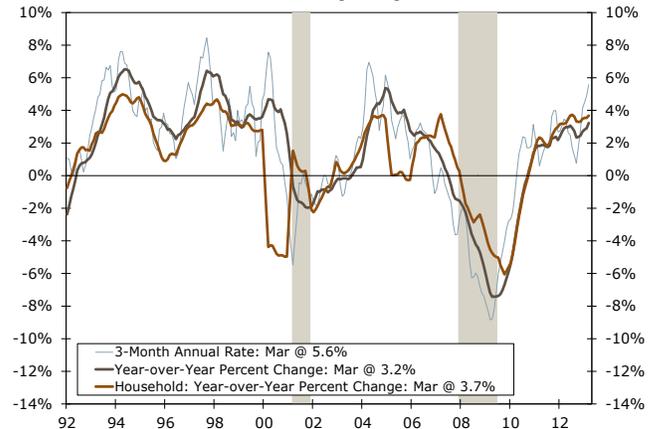


Source: U.S. Department of Commerce, U.S. Department of Labor, and Wells Fargo Securities, LLC

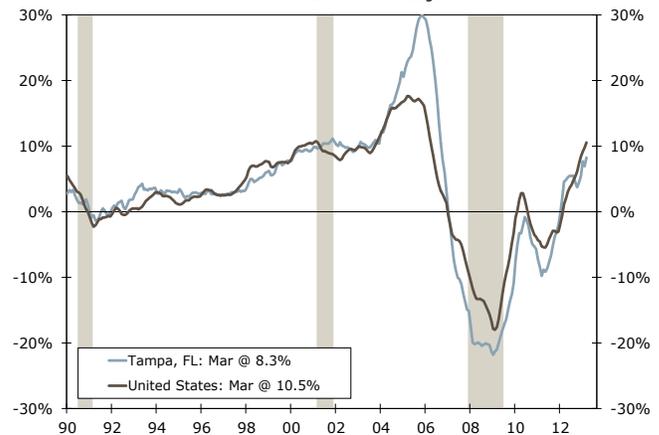
Tampa

- Employment growth in Tampa has been relatively strong and broad-based. Payrolls in leisure and hospitality as well as education and health services are rising much faster than the national average. However, growth in financial activities is slowing and will continue to do so as financial services and insurance firms lay off workers and shutter operations. Furthermore, federal budget cuts and another round of BRAC remain downside risks for the metro area.
- Education and health services payrolls jumped 4.4 percent from a year ago and will continue their upward trajectory, thanks to several recent expansions in the industry. The Moffit Cancer Center broke ground on a new \$74.2 million facility slated to open in 2015, and Humana will add 100 more jobs this year. Employment growth has boosted retail sales. Automobiles contributed the most to the headline number, while building and business investment jumped considerably from a year ago.
- Financial activities and the federal government may weigh on Tampa's growth. Raymond James Financial and Universal Health Care are laying off a combined 915 employees. Banking appears to have turned the corner, however, and may offset these losses. Another potential trouble spot is civilian workers servicing MacDill Air Force Base, some of which may be furloughed as part of the sequester battle.
- The housing market is turning around, but still has far to go. In February, house prices jumped 8.3 percent from a year ago, though Tampa still lags the nation. Shadow inventory fell to 26.5 percent, and the share of mortgages with negative equity dropped to 44.4 percent, though both remain relatively high. On the positive side, homeowner vacancy rates and multifamily permits reached prerecession levels, reflecting strong demand for apartments.
- Tampa faces some headwinds in the short run. Financial services are struggling and federal budget cuts threaten one of the region's largest employers. We expect job growth to hold up relatively well, however, as hiring picks up in business services and construction. Stronger construction activity is also driving growth at the port and in the warehouse and industrial sector. Additionally, tourism is gaining strength and economic development remains solid.

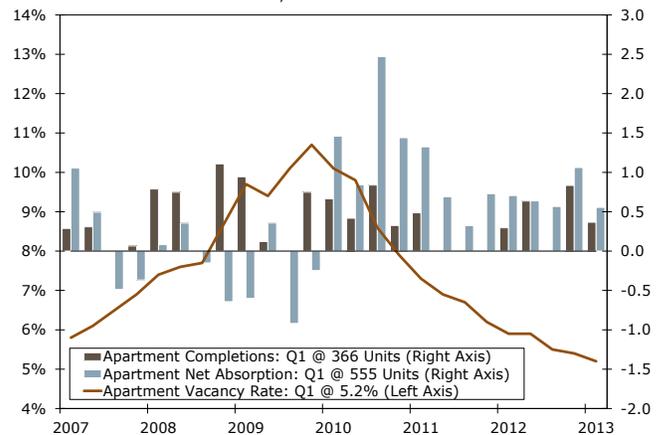
Tampa MSA Nonfarm Private Employment
 3-Month Moving Averages



CoreLogic HPI: Tampa vs. U.S.
 Year-over-Year Percent Change



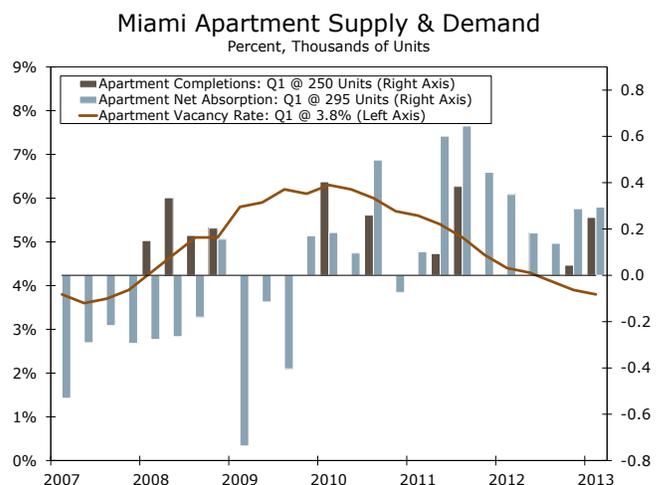
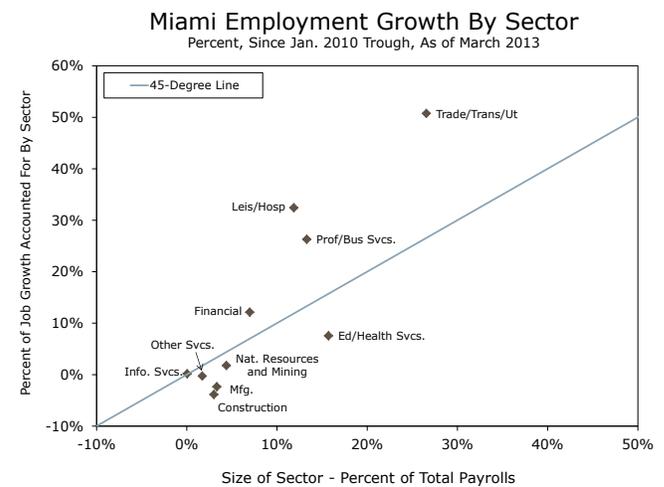
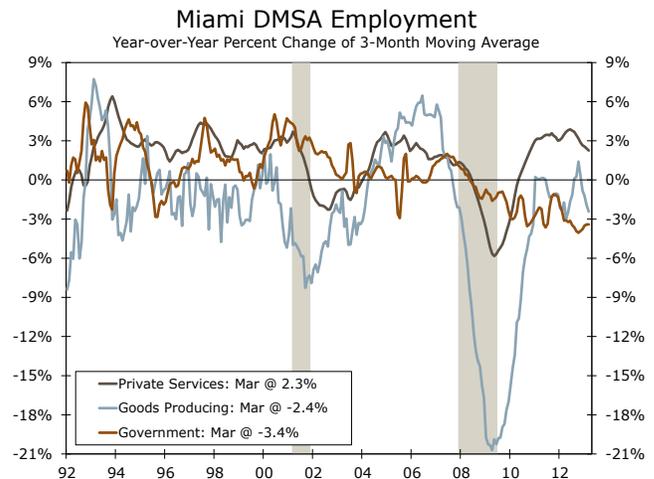
Tampa Apartment Supply & Demand
 Percent, Thousands of Units



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

Miami

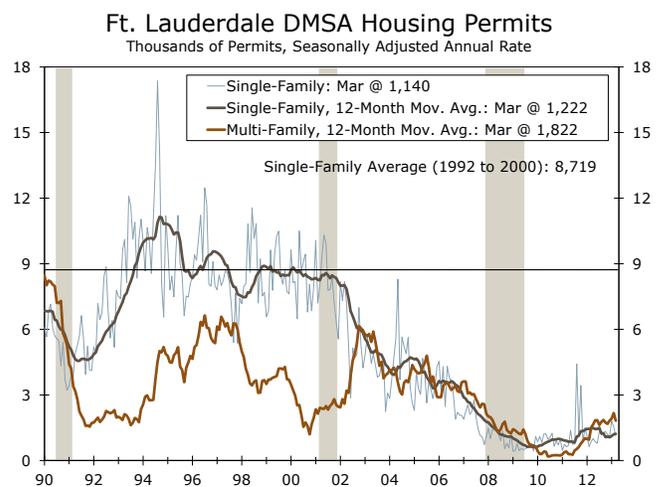
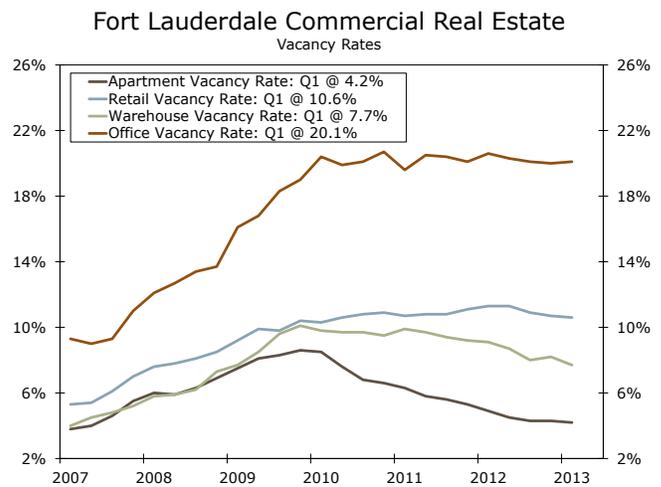
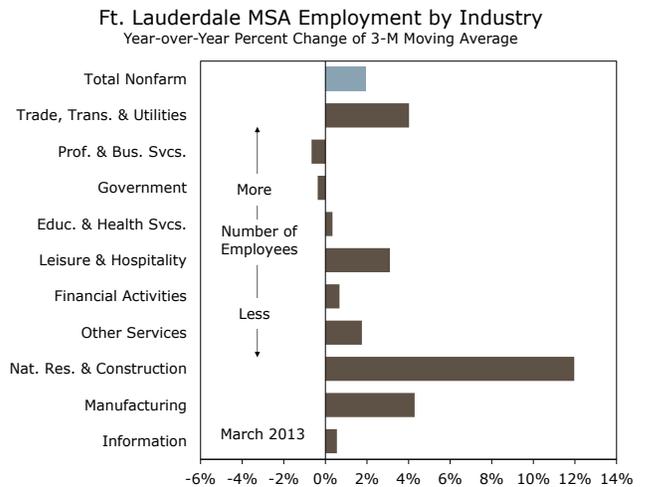
- Miami's nonfarm payroll growth has weakened somewhat but is still outpacing the state and nation. An improving housing market is pushing retail employment to record highs and fueling strong gains in financial services. However, construction and manufacturing employment have yet to rebound, and government payrolls continue to slide downward. At 9.9 percent, the unemployment rate remains high, but the labor force growth rate exceeds the state and national averages, painting a brighter picture.
- Tourism remains one of Miami's most critical industries. Growth in Latin America helped to boost foreign passengers at Miami International Airport in 2012, though traffic slowed in the first two months of 2013. Tourism-related sales are increasing and pushing employment in retail trade and leisure and hospitality higher. The improving labor market has also fueled strong gains in automobile sales.
- Government cutbacks are the principal weight on Miami's economy. State and federal payrolls have remained relatively constant, but local governments have been shedding jobs for years. Jackson Health System, Miami's largest public hospital, eliminated about 1,100 full time employees in 2012 and is still cutting costs due to cost pressures from longer patient stays. Furthermore, the severe drop in house prices during the recession drastically reduced property tax revenue for local governments.
- In March, house prices increased by 8.6 percent from a year ago. The improving job market is helping revive housing demand, and investors piling in to purchase Miami homes at relative bargains are also pulling prices upward. Shadow inventory remains well above what could be considered normal, however. Demand for rental homes has also increased, and the apartment vacancy rate is nearing prerecession levels. Construction-related purchases and housing permits are both on the rise, though construction payrolls remain near historic lows.
- An improving U.S. and Latin American economy will keep tourism growing. Furthermore, an improving housing market should lift property tax revenue and aid local government. Construction activity is poised for stronger growth, with several major projects underway downtown.



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

Fort Lauderdale

- Fort Lauderdale's labor market recovery has slowed recently, but job growth remains strong relative to the state and nation. With the exception of government and professional and business services, employment in all broad industry groups is rising. Leisure and hospitality payrolls have reached record highs, and financial activities posted strong gains in 2012 before stalling some in 2013. As a result, the unemployment rate has fallen to 6.1 percent.
- Several notable public works projects have helped add more than 3,000 construction positions over that last year. An intermodal container transfer facility is being constructed to move containers directly from ships to railcars. Additionally, the airport is adding another runway that will allow for a 50 percent increase in plane traffic and help accommodate the recent growth in tourism. For eight straight months, passenger traffic has risen steadily from year ago levels.
- Office vacancy rates remain elevated, as demand for additional office space is virtually nonexistent. Demand for retail space is slowly trickling back into the market, pushing rents slightly higher and keeping the vacancy rate slightly below its record high. Employment in retail trade increased by 5.4 percent from a year ago, and taxable retail sales jumped considerably.
- The apartment vacancy rate has fallen to prerecession lows, leaving room for more multifamily construction. Consequently, multifamily permits jumped 20.7 percent from a year ago. In addition, the percent of REO sales has dropped by more than half since 2011, pushing house prices 9 percent higher from a year earlier. Although the housing market is improving, it still lags the state and nation. Both shadow inventory and the share of mortgages with negative equity remain relatively high.
- In 2012, Fort Lauderdale's population grew more than twice as fast as it did in the U.S. and bested the state's rate for the third straight year. A growing population fueled by strong immigration will help support local businesses and boost demand for housing. A broader U.S. recovery will keep tourism on its upward trajectory and fuel hiring at the numerous headquarters in the area.

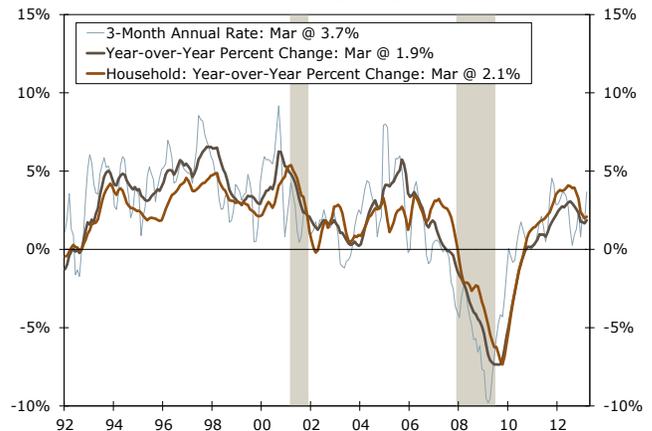


Source: U.S. Department of Commerce, U.S. Department of Labor, Reis, Inc. and Wells Fargo Securities, LLC

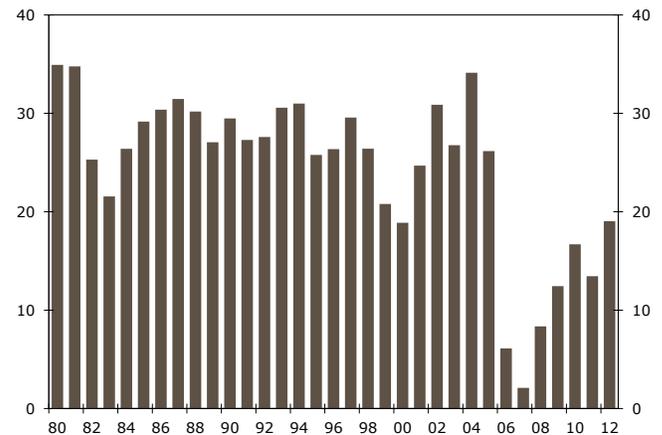
West Palm Beach

- Like Miami and Fort Lauderdale, West Palm Beach's labor market continues to post gains, though at a slower rate than a year ago. Employment in professional and business services has outpaced the state and nation for the last four months and is nearing prerecession levels. Some of the strong growth has come in professional and technical services, which includes the biochemists, geneticists and other researchers at facilities such as the recently opened Max Planck Florida Institute in Jupiter.
- Retirees play a significant role in the area's economy. The percent of the population over the age of 65 in West Palm Beach is among the highest in the nation. Rising asset prices are rebuilding lost wealth and allowing more people to retire on Florida's coast. In 2012, net immigration reached its highest level since 2005. Rising income for retirees bodes well for consumer-driven industries. Retail trade and leisure and hospitality payrolls are improving, though growth has tapered off recently.
- The influx of retirees also fuels demand for the preponderance of hospitals and healthcare companies in the area. Education and health services payrolls have been increasing modestly, but employment should pick up to meet demand from the region's growing population.
- Given the large decline in house prices, it is surprising that local government employment in West Palm Beach has held up so well. The City of West Palm Beach managed a fiscal surplus in both 2011 and 2012 by raising taxes and shedding staff relatively early in the recession. Additionally, Palm Beach County is expecting tax revenue to rise in 2013.
- The housing market is improving, though not as rapidly as in the state or nation. House prices rose 10.1 percent from a year ago, thanks to the steady decline of shadow inventory and return of traditional home buyers. Both multifamily and single-family permits are rising quickly, but growth remains below the national average.
- With the recession now firmly in the rear view mirror, West Palm Beach and Boca Raton are seeing population growth increase, fueling demand for a wide assortment of support services. The region has also seen an influx of hedge funds, as more and more firms recognize the advantages of operating in South Florida.

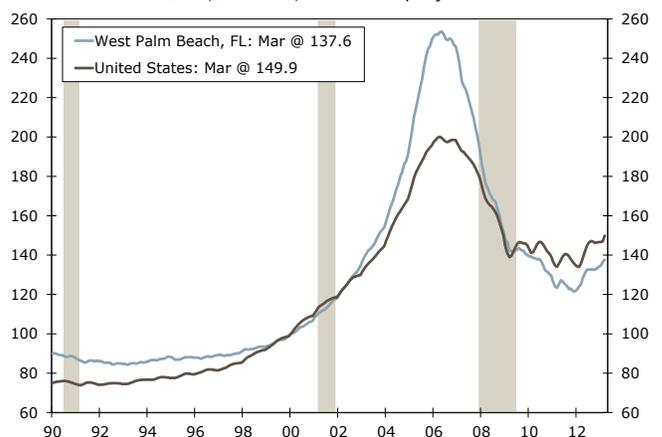
West Palm Beach DMSA Nonfarm Employment
 3-Month Moving Averages



West Palm Beach DMSA Population Growth
 In Thousands



CoreLogic Home Price Index: West Palm Beach, FL
 Index, 2000=100, Not Seasonally Adjusted

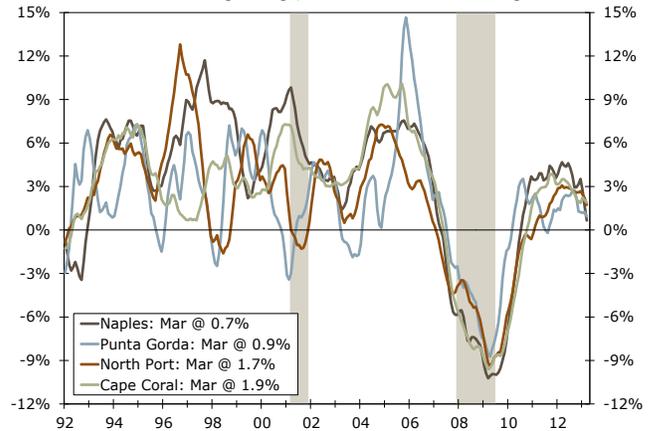


Source: U.S. Department of Commerce, U.S. Department of Labor, CoreLogic and Wells Fargo Securities, LLC

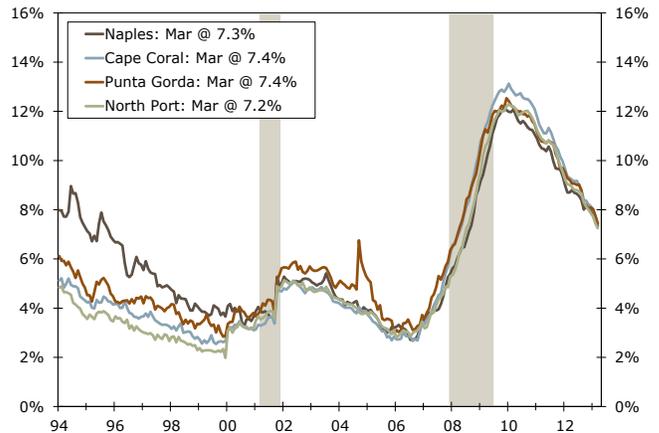
Southwest Florida

- Southwest Florida has been a mixed bag in terms of economic improvement. North Port (aka Sarasota) has seen the strongest employment growth, adding 2,900 jobs over the past year. Looking at the four combined metros, Southwest Florida added 6,100 net jobs in the past year. These four metros account for just over 8 percent of the state's employment, but contributed only 4.4 percent of the state's overall job growth over the past year. Punta Gorda had the poorest performance, as the metro lost 100 jobs. Southwest Florida was hit exceptionally hard during the economic downturn, and it will need more time to fully establish a broad-based recovery.
- Despite lackluster job growth, unemployment has fallen steadily. The jobless rates in North Port, Punta Gorda and Cape Coral all fell more than 1.8 percentage points in the past year. Unfortunately, the bulk of these declines were likely due to a shrinking labor force. Southwest Florida's labor force actually fell over the past year, led by declines in Naples and Punta Gorda.
- Tourism and in-migration of retirees, as well as younger job seekers, are notable contributors to Southwest Florida's economy. Tourism was strong this past winter. Lee County also picked up a new corporate headquarters, with Hertz announcing it would relocate from New Jersey, adding 700 jobs by 2017. The addition of the Fortune 500 firm is the type of marquee development that may encourage other firms to give Southwest Florida a serious look.
- Although Southwest Florida's labor market has yet to gain momentum, the housing market has found solid footing. Home prices appreciated considerably over the past year, as demand for owner-occupied homes increased and investors snatched lower priced distressed properties. With prices rising, the share of homes with negative equity fell in all four metros, though more than 30 percent of homes are underwater.
- Homebuilding is slowly ramping back up, with all four metros seeing double-digit gains in housing permits this past year. These gains, however, are coming off an extraordinarily low base. Housing starts in North Port are currently at levels last seen in late 2006. Even Punta Gorda, the weakest performer in the group, has seen a slight uptick in building activity.

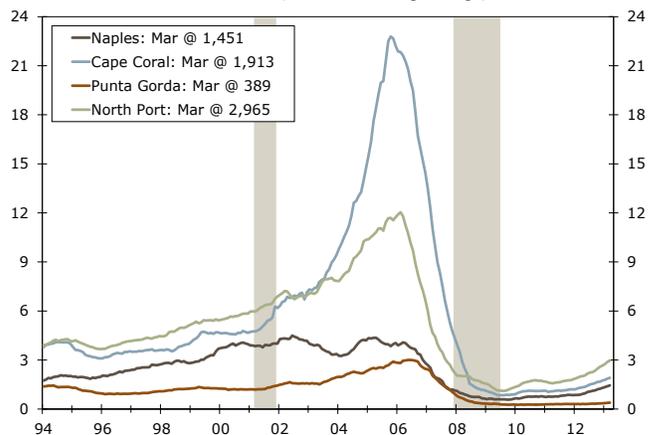
Southwest Florida Private Employment
 3-Month Moving Average, Year-over-Year Percent Change



Southwest Florida Unemployment
 Percent



Southwest Florida Single-family Housing Permits
 Thousands of Permits, 12-Month Moving Average, SAAR

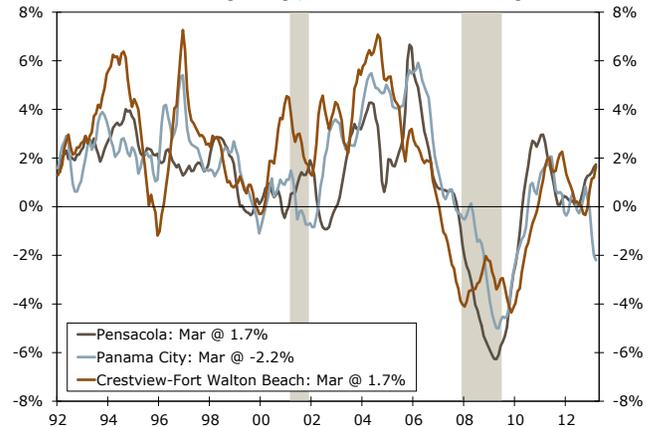


Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

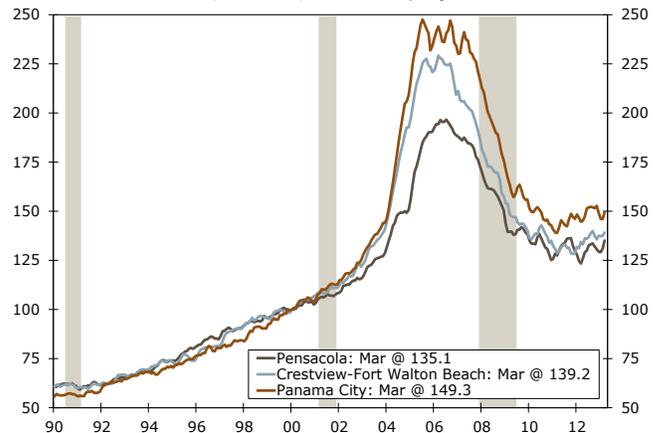
Florida Panhandle

- The Florida Panhandle has entered a period of uncertainty as its economy is centralized around government/defense, trade and leisure and hospitality. The sequestration, whose full effects have yet to be realized, is likely putting some downward pressure on employment growth in the region and at the least has added some anxiety to area businesses. The Panhandle is home to several military locations including the Tyndall Air Force Base (AFB), Eglin AFB, Hurlburt Field and Naval Air Station Pensacola.
- Pensacola and Fort Walton have been resilient, with both posting 1.7 percent year-over-year employment gains. While these metros have picked up some momentum, Panama City has lagged behind, mainly due to weakness in local government payrolls. Panama City has also seen modest declines in its all-important leisure and hospitality sector. On a brighter note, the Panhandle continues to benefit from its growing health sciences industry, which has been an area of strength for the region.
- Geographic location is an inherent advantage to the Panhandle. The region is positioned along the Gulf of Mexico and is equipped with two deep-water ports, access to I-10 and the CSX rail line, making it an attractive hub for trade and convenient location for distribution centers.
- The housing market recovery in the Panhandle has been mixed. Home prices remain below the national average and are only slightly above their recession lows. Panama City saw the largest hit to its home prices in the downturn and has also been the slowest to recover. Pensacola did not experience the same magnitude peak to trough decline, and thus, the recovery has found its stride a bit sooner. Pensacola has been the standout in the region in terms of homebuilding, with single-family permits up nearly 30 percent over the past year.
- The Panhandle will likely face some headwinds for the majority of the year due to the sequestration and the region's heavy reliance on the military. Nonetheless, the region is well positioned to resume its recovery once it pushes through this rough patch. We expect the Panhandle will see modest improvement in the coming year and growth should continue to steadily ramp up in 2014, as more of the excesses in housing are finally cleared.

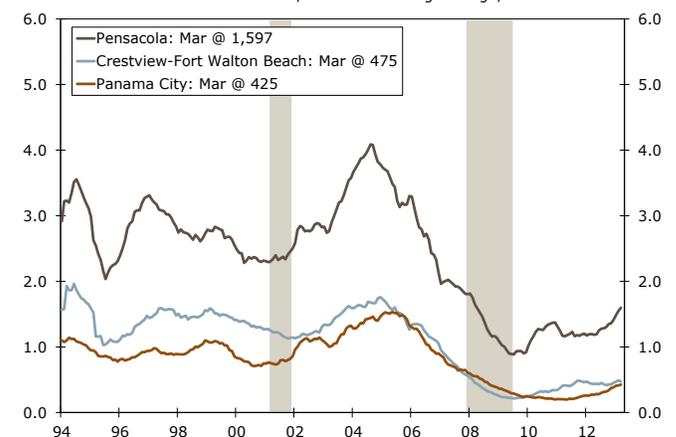
Florida Panhandle Nonfarm Employment
 3-Month Moving Average, Year-over-Year Percent Change



CoreLogic Home Price Index: FL Panhandle
 Index, 2000=100, Not Seasonally Adjusted



Florida Panhandle Single-family Housing Permits
 Thousands of Permits, 12-Month Moving Average, SAAR



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

Wells Fargo Securities, LLC Economics Group

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