

WELLS  
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# The Global Economic Outlook

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Michael T. Wolf, Economist

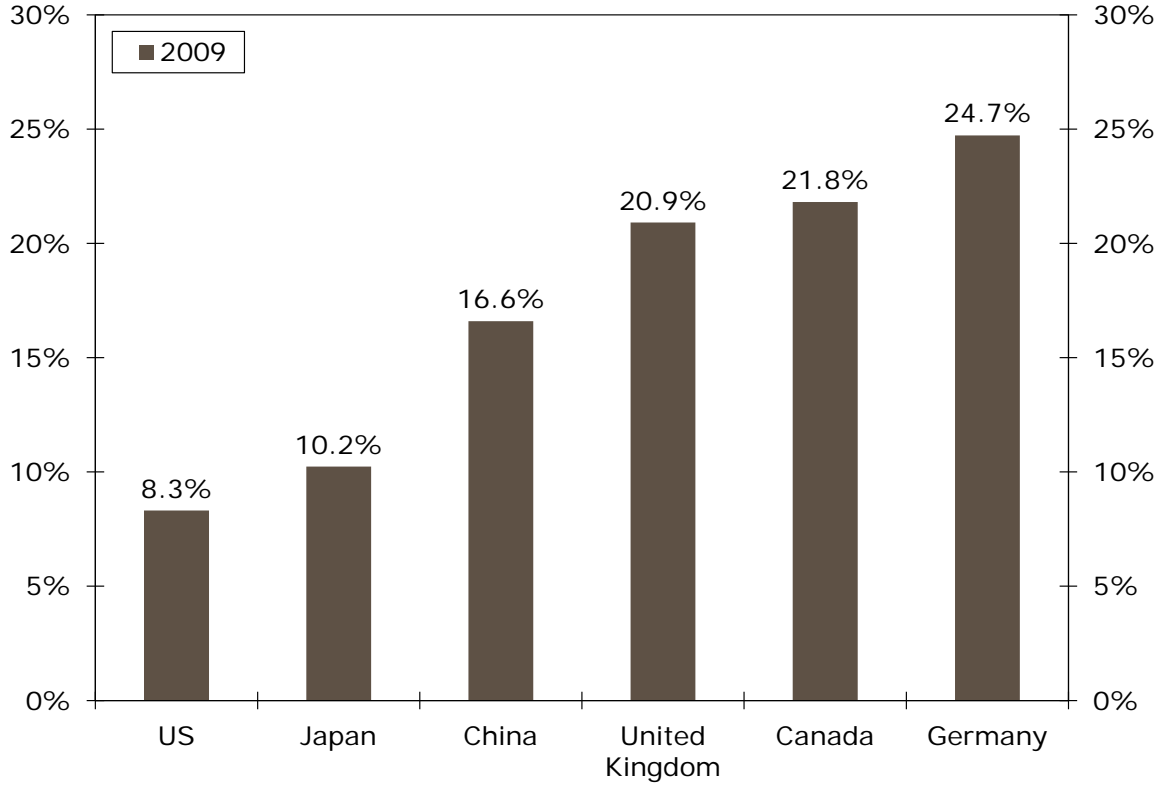
December 16, 2014

Together we'll go far



The U.S. economy has low exposure to the rest of the world

### Value-Added Embodied in FDD Percent of Total Value-Added



Source: Organisation for Economic Cooperation and Development and Wells Fargo Securities, LLC

It would take a sharp downturn in the rest of the world to have a meaningful effect on U.S. economic growth

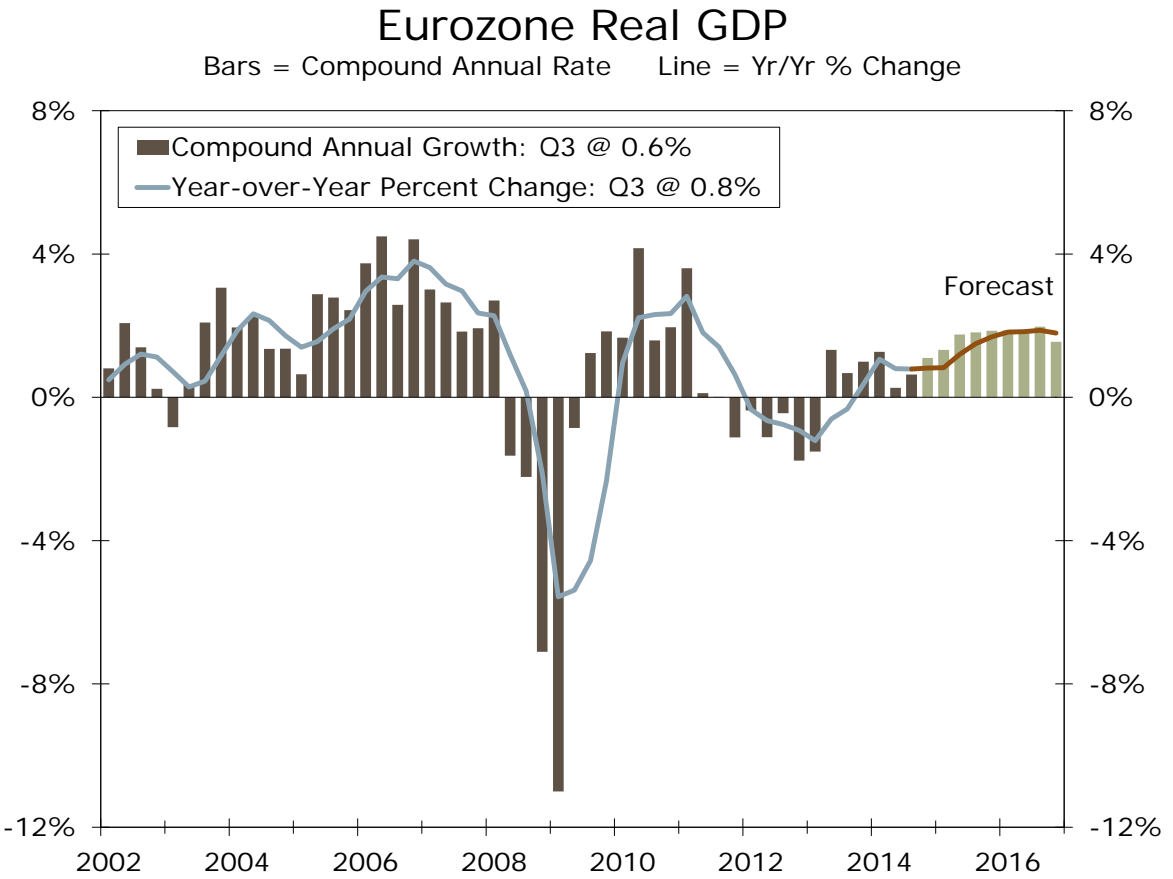
### Global Economic Indicators

Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

Real GDP growth in the Eurozone is very weak at present, although it should slowly strengthen

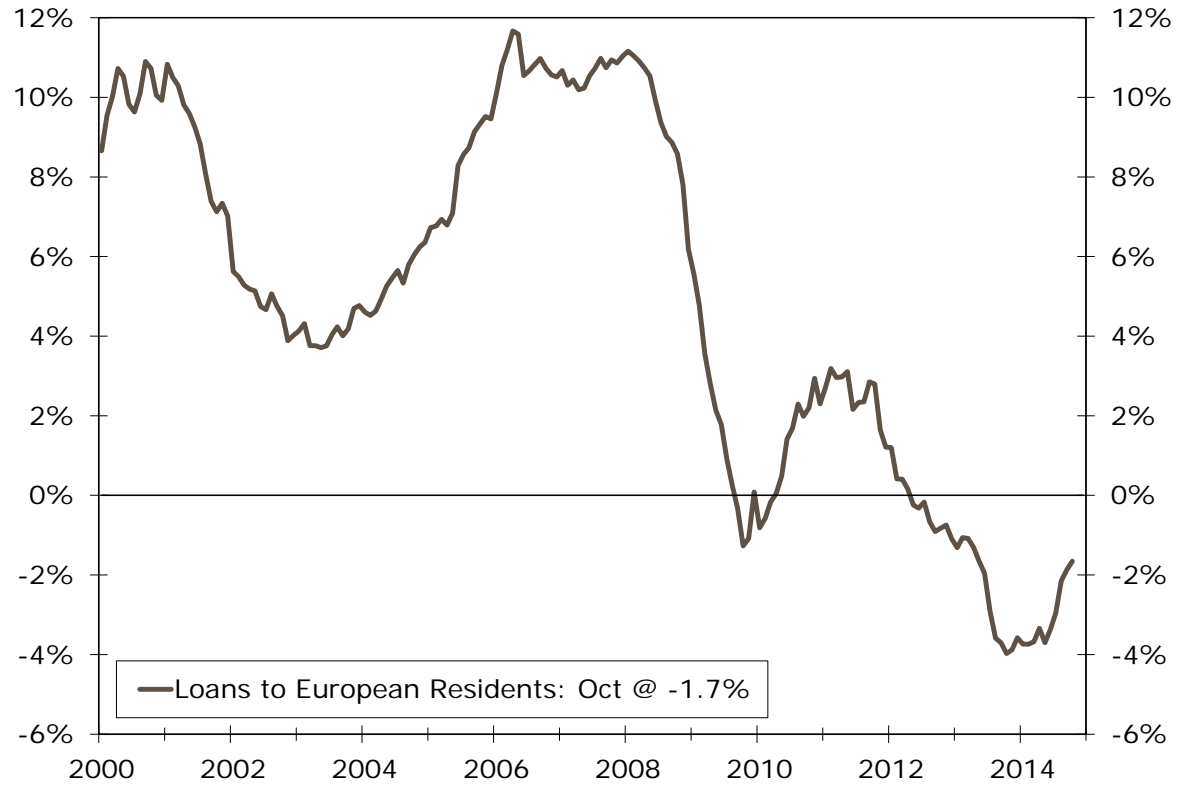


Source: IHS Global Insight and Wells Fargo Securities, LLC

It's difficult to grow strongly if bank lending is contracting

### Eurozone Loan Growth

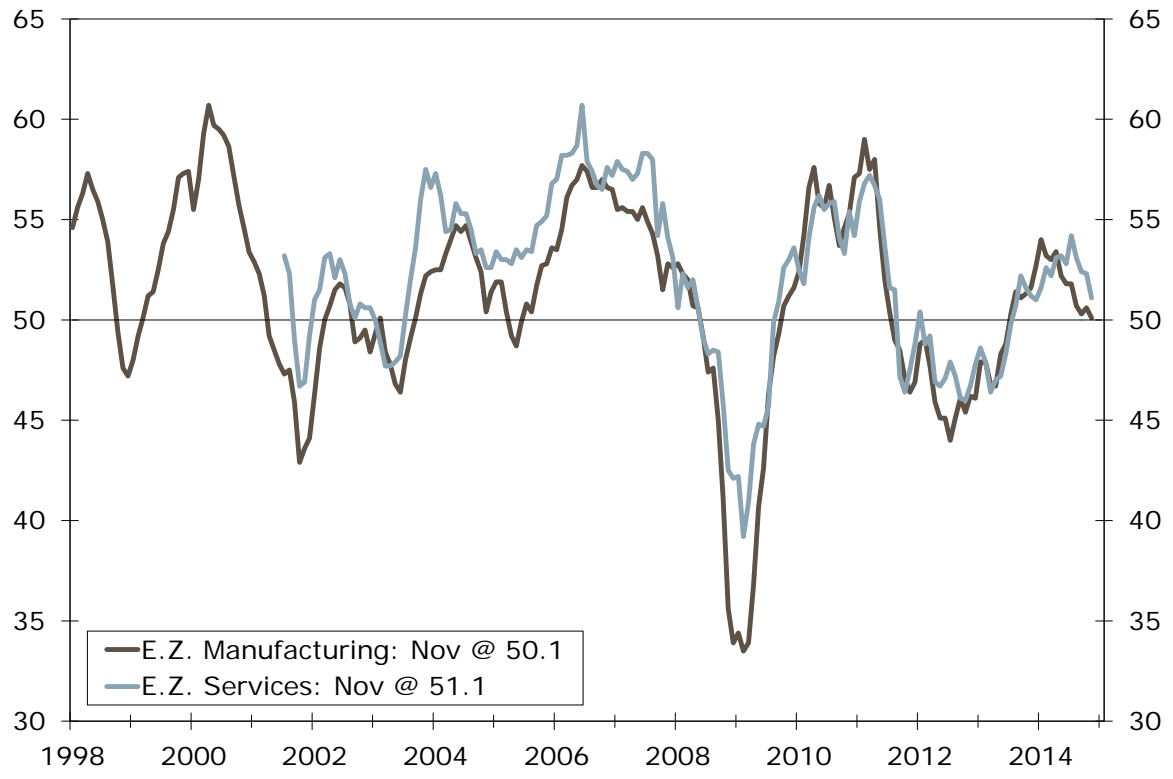
Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

The purchasing managers' indices skating on thin ice

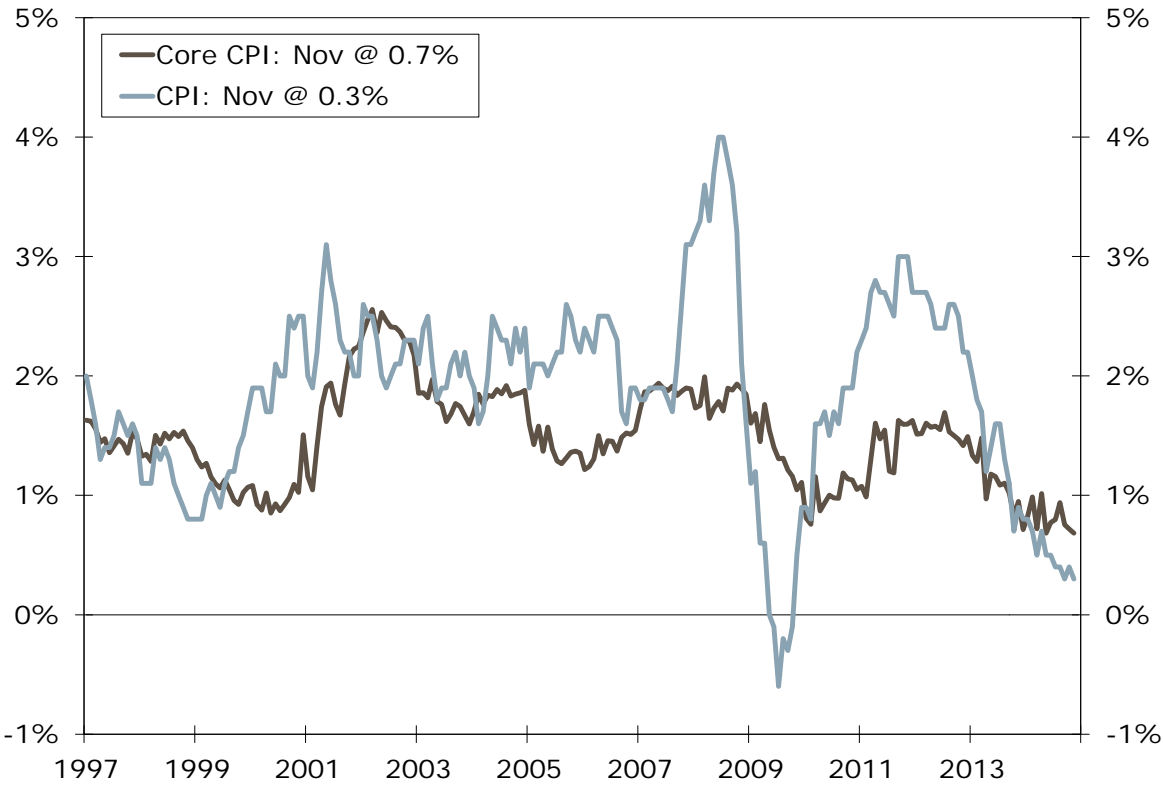
Eurozone Purchasing Managers' Indices  
Index



Source: Bloomberg LP and Wells Fargo Securities, LLC

The euro area is dangerously close to a mild deflationary situation

Eurozone Consumer Price Inflation  
Year-over-Year Percent Change

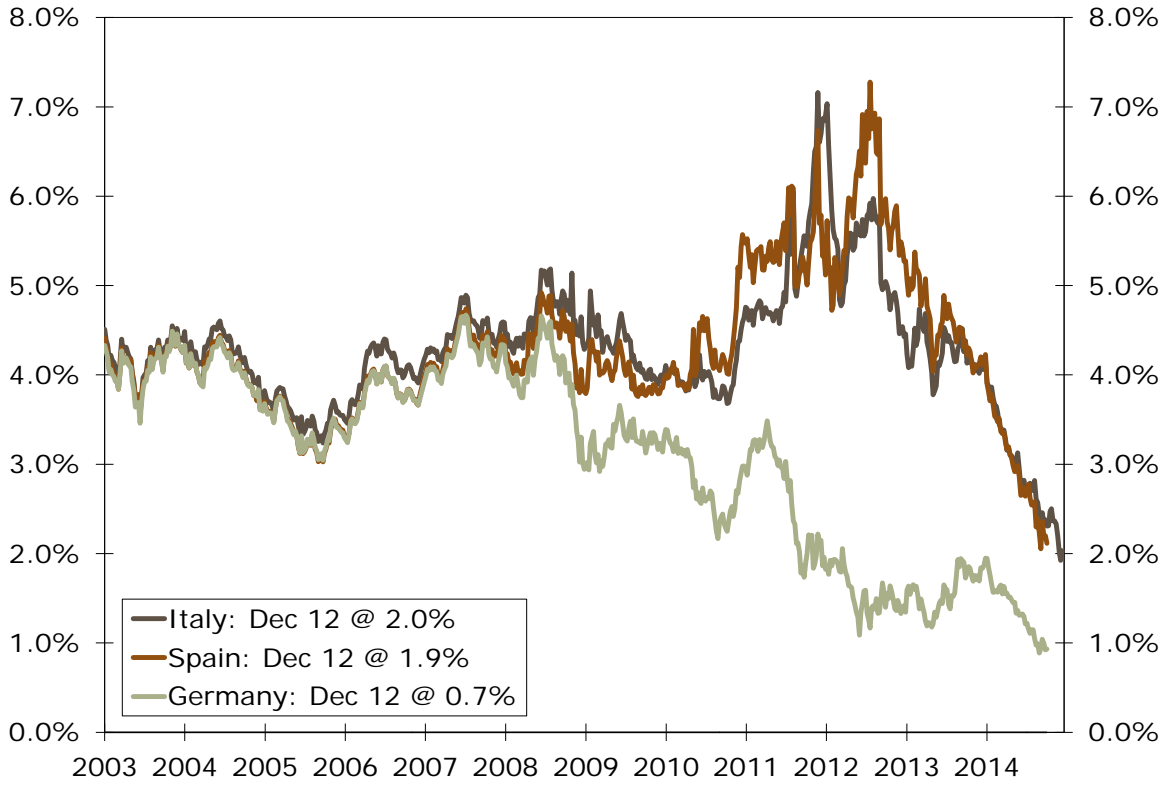


Source: IHS Global Insight and Wells Fargo Securities, LLC

Financial market tensions in Europe have eased, but Europe is not “fixed” yet

## 10-Year Government Bond Yields

Percent



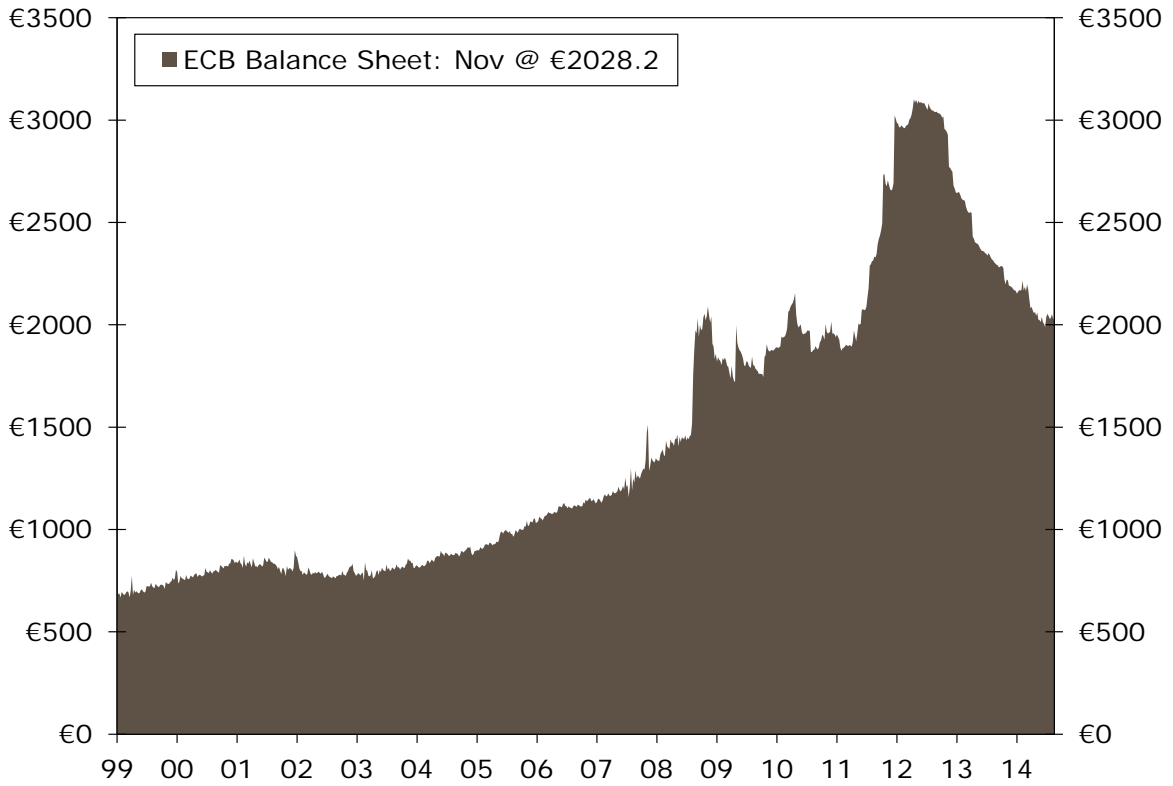
Source: IHS Global Insight and Wells Fargo Securities, LLC



Will the ECB need to purchase sovereign bonds to hit its balance sheet target?

### ECB Balance Sheet

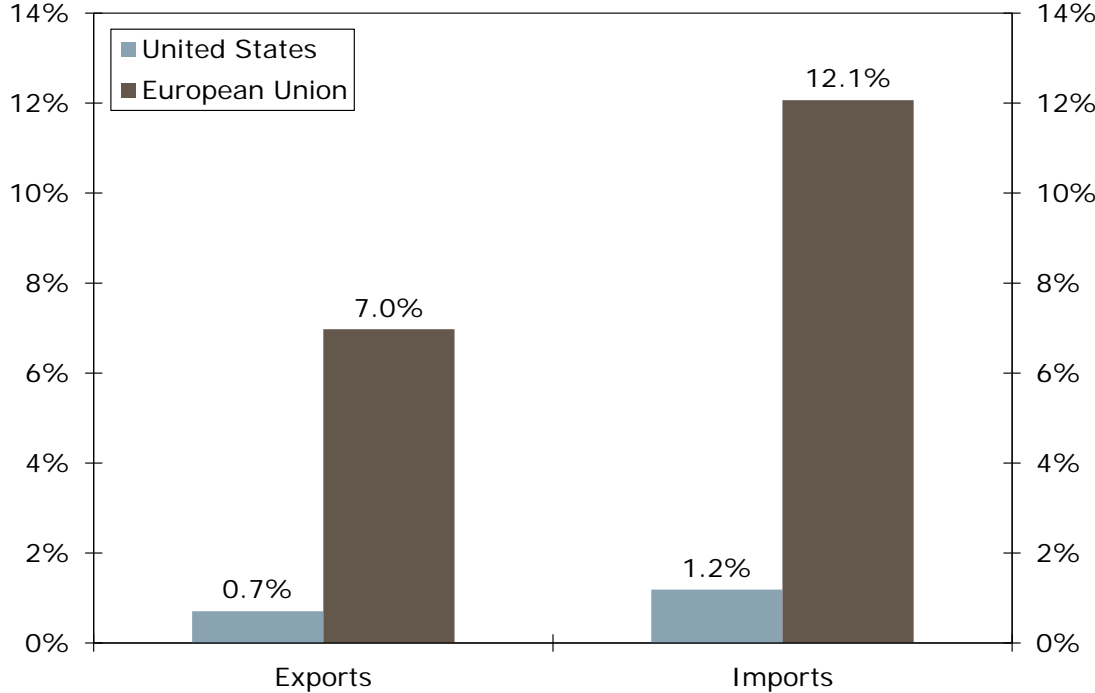
Billions of Euros



Source: Bloomberg LP and Wells Fargo Securities, LLC

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

U.S. and E.U. Trade with Russia  
Percent of Total, 2013

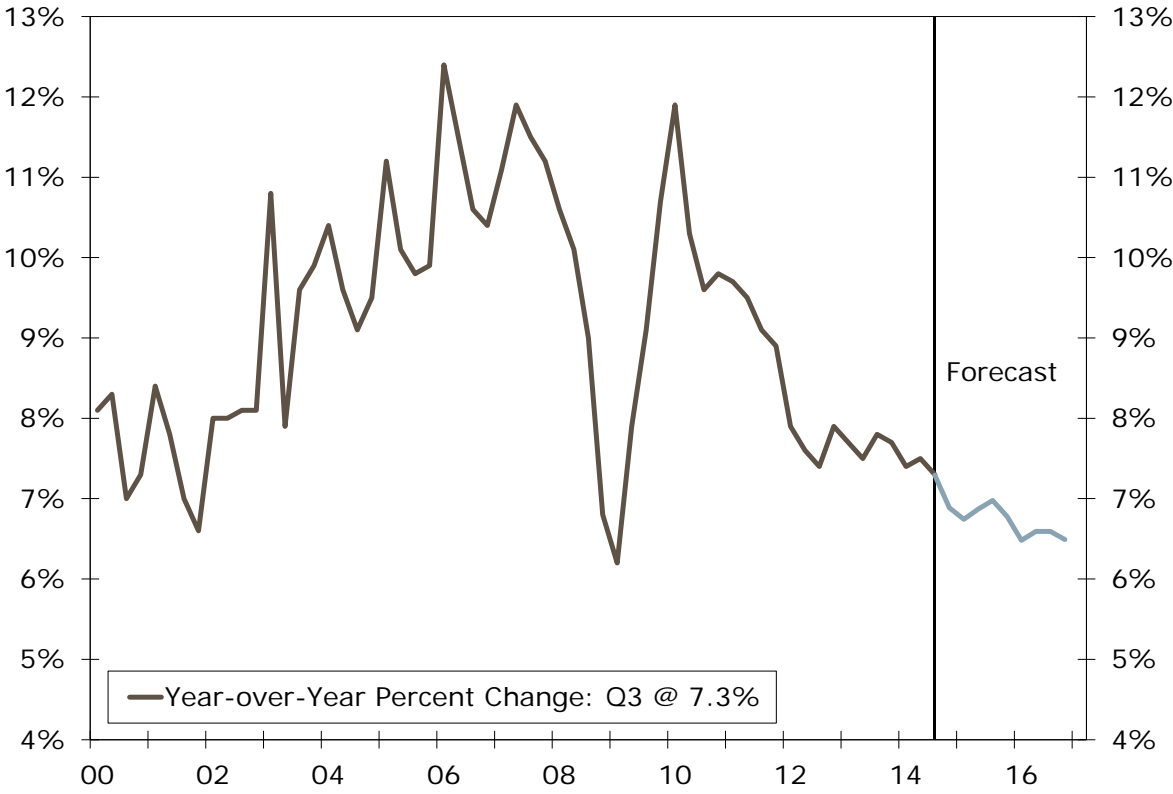


Source: International Monetary Fund and Wells Fargo Securities, LLC

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

### Chinese Real GDP Forecast

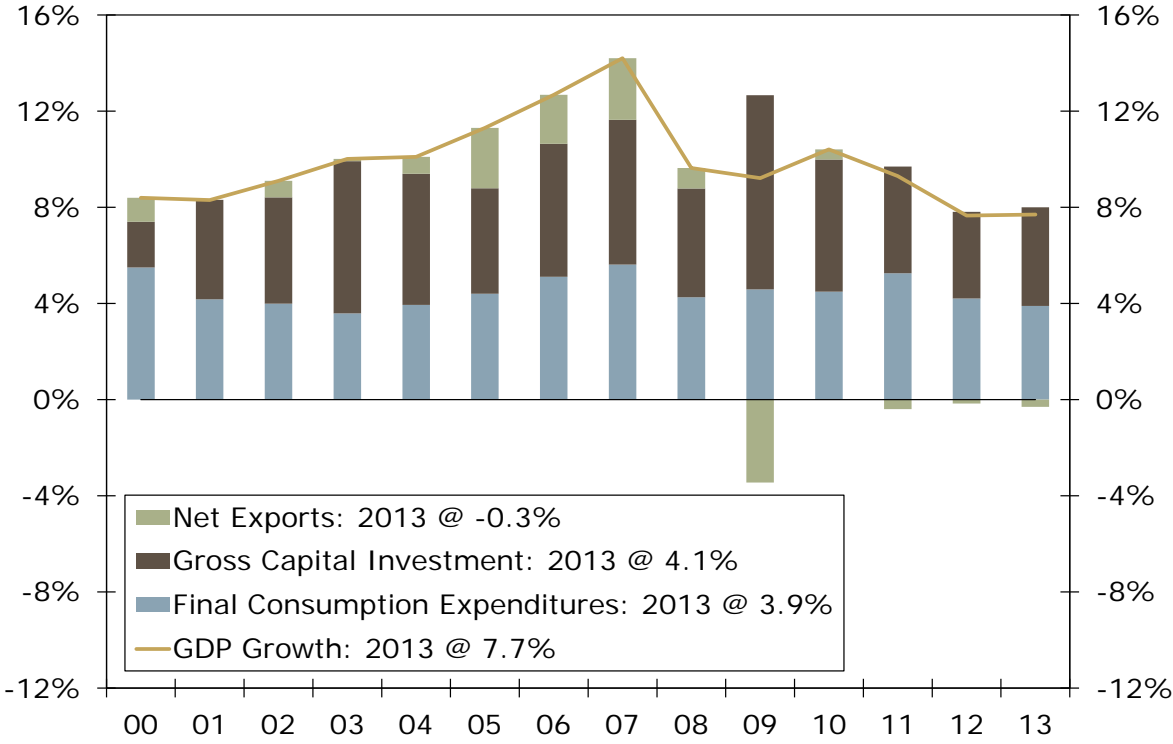
Year-over-Year Percent Change



Source: Bloomberg LP and Wells Fargo Securities, LLC

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

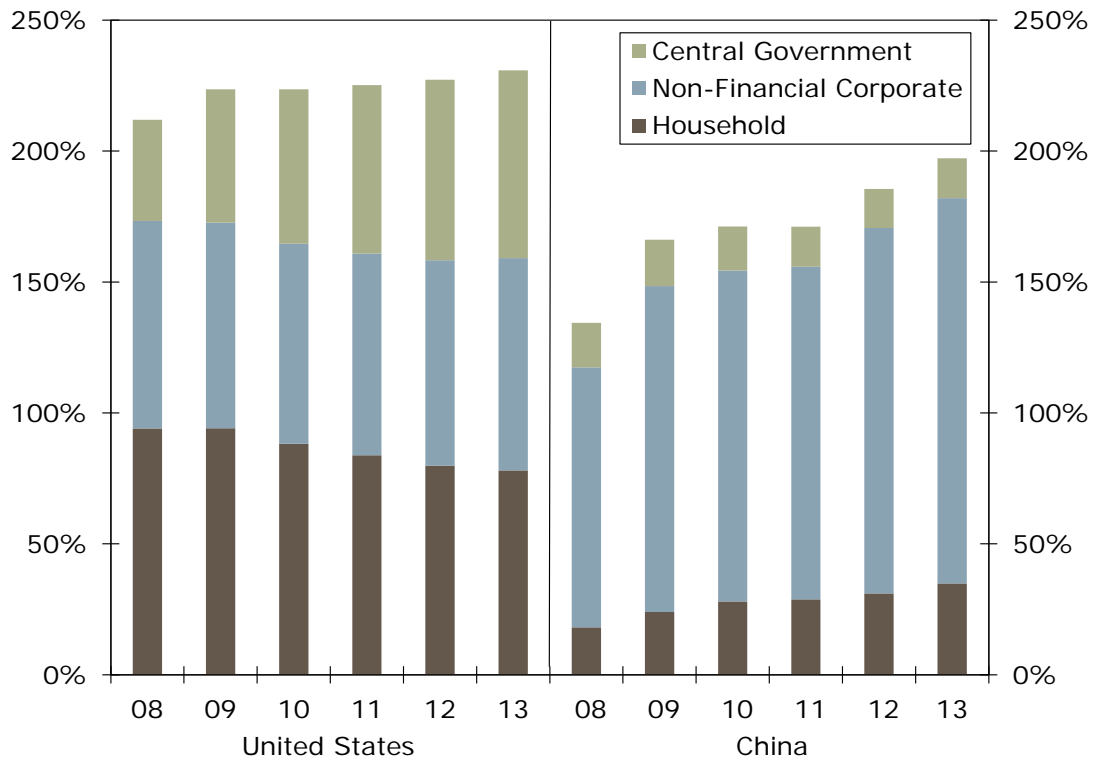
Contributions to Chinese Real GDP Growth



Source: CEIC and Wells Fargo Securities, LLC

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

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

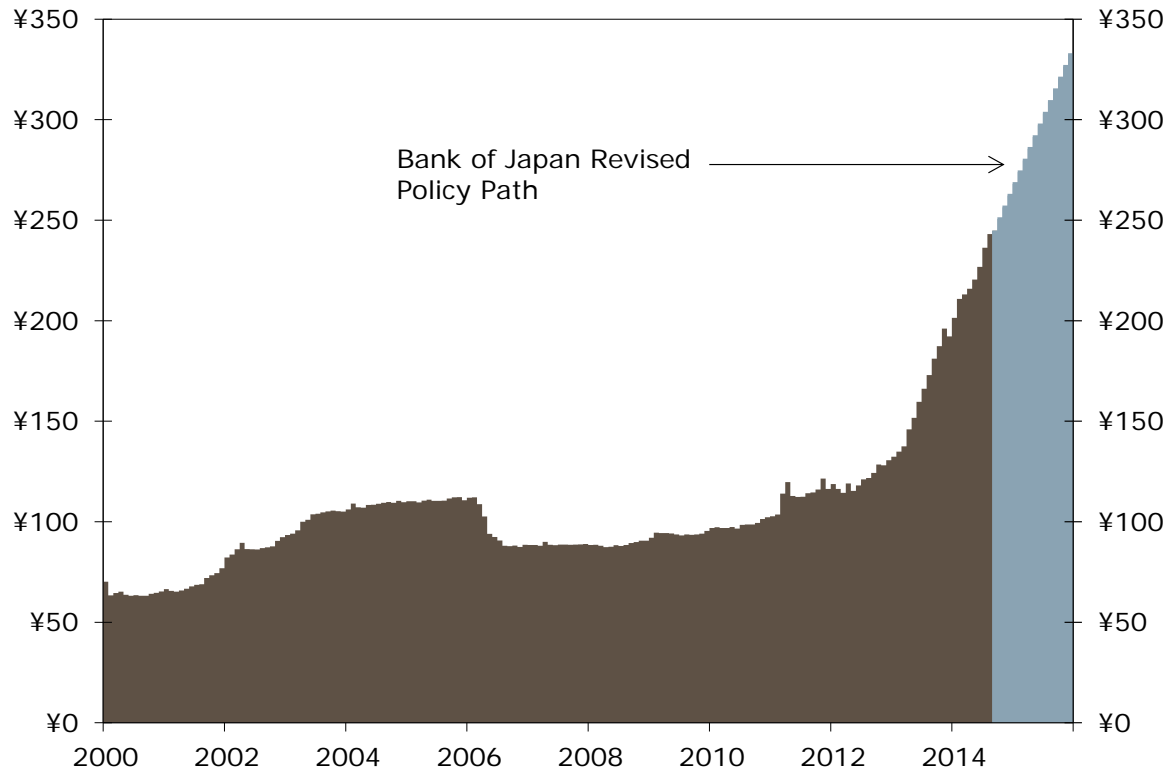


Source: CEIC, BIS and Wells Fargo Securities, LLC

The expansion of the monetary base will expand the size of the BoJ's balance sheet considerably

## Japan's Monetary Base

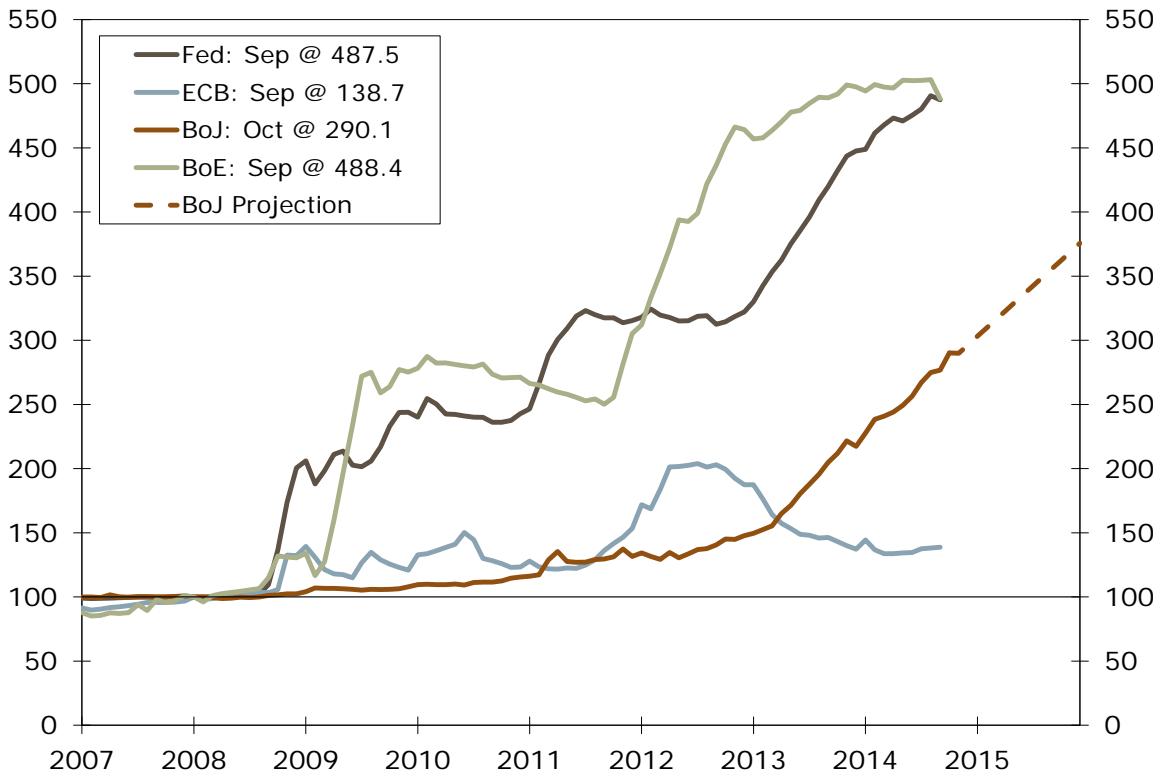
Trillions of Yen



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

The planned expansion of the monetary base in Japan is really just playing catch-up ball with the Fed and BoE

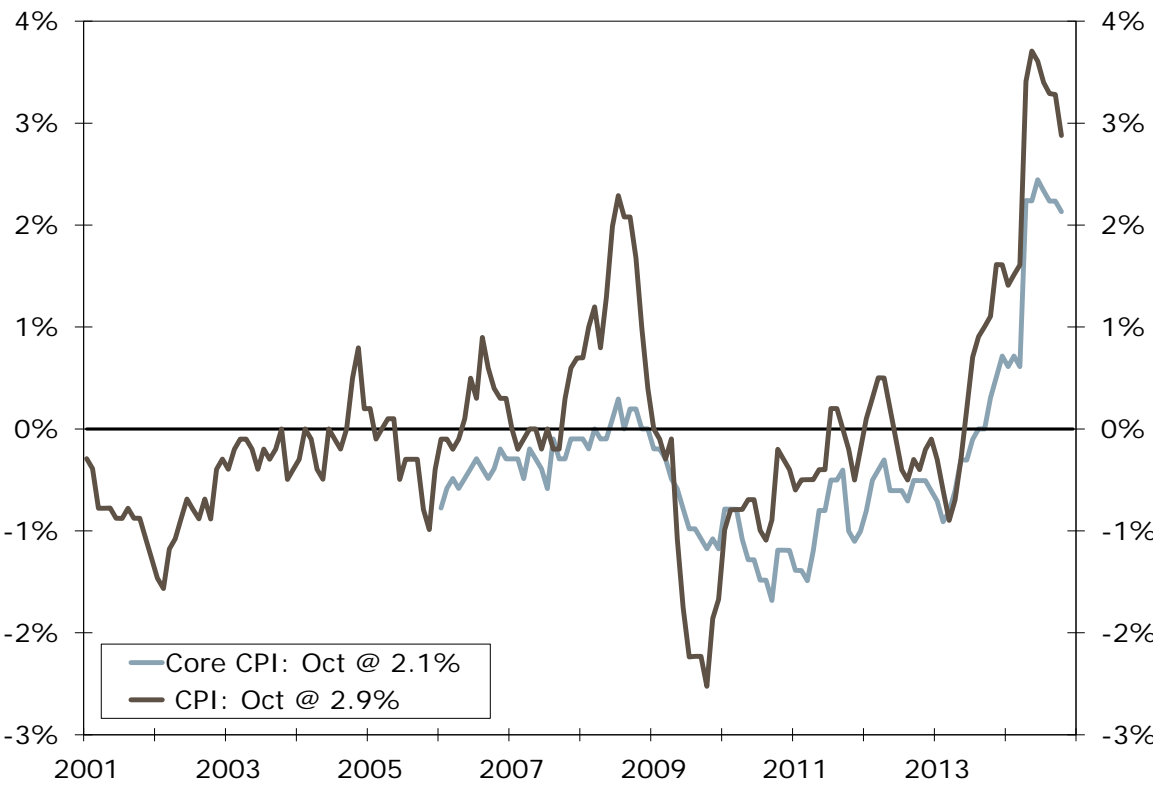
### Central Bank Monetary Base January 2008 = 100



Source: Bank of Japan, Bloomberg LP and Wells Fargo Securities, LLC

Early signs of success

### Japanese Consumer Price Index Year-over-Year Percent Change



Source: Bank of Japan, Bloomberg LP and Wells Fargo Securities, LLC



Global GDP growth should return to its long-run average over the next two years

## Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2014	2015	2016	2014	2015	2016
Global (PPP weights)	3.3%	3.4%	3.7%	3.7%	3.5%	3.7%
Global (Market Exchange Rates)	2.7%	2.9%	3.2%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	1.9%	2.3%	2.6%	1.4%	1.3%	1.8%
United States	2.2%	2.8%	3.0%	1.7%	1.7%	2.4%
Eurozone	0.9%	1.3%	1.8%	0.5%	0.6%	1.2%
United Kingdom	3.0%	2.7%	2.3%	1.5%	1.3%	2.1%
Japan	0.4%	1.1%	1.9%	2.8%	1.4%	1.5%
Korea	3.4%	3.6%	3.6%	1.3%	1.2%	2.3%
Canada	2.5%	3.1%	2.7%	2.0%	1.6%	2.1%
Developing Economies <sup>1</sup>	4.5%	4.5%	4.7%	5.8%	5.6%	5.5%
China	7.4%	6.8%	6.5%	2.0%	2.0%	2.3%
India <sup>2</sup>	5.4%	5.8%	6.2%	6.7%	6.0%	5.7%
Mexico	2.1%	2.8%	3.2%	4.0%	4.0%	4.2%
Brazil	0.1%	0.7%	1.6%	6.3%	5.6%	5.5%
Russia	0.5%	-0.3%	1.3%	7.6%	8.5%	5.7%

Forecast as of: December 10, 2014

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

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

Source: Wells Fargo Securities, LLC

## Global Head of Research and Economics

Diane Schumaker-Krieg [diane.schumaker@wellsfargo.com](mailto:diane.schumaker@wellsfargo.com)  
*Global Head of Research & Economics*

## Chief Economist

John E. Silvia [john.silvia@wellsfargo.com](mailto:john.silvia@wellsfargo.com)

## Senior Economists

Mark Vitner, Senior Economist [mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com)

Jay H. Bryson, Global Economist [jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com)

Sam Bullard, Senior Economist [sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com)

Nick Bennenbroek, Currency Strategist [nicholas.bennenbroek@wellsfargo.com](mailto:nicholas.bennenbroek@wellsfargo.com)

Eugenio J. Alemán, Senior Economist [eugenio.j.aleman@wellsfargo.com](mailto:eugenio.j.aleman@wellsfargo.com)

Anika R. Khan, Senior Economist [anika.khan@wellsfargo.com](mailto:anika.khan@wellsfargo.com)

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## Economists

Azhar Iqbal, Econometrician [azhar.iqbal@wellsfargo.com](mailto:azhar.iqbal@wellsfargo.com)

Tim Quinlan, Economist [tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com)

Eric J. Viloría, Currency Strategist [eric.viloria@wellsfargo.com](mailto:eric.viloria@wellsfargo.com)

Sarah Watt House, Economist [sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com)

Michael A. Brown, Economist [michael.a.brown@wellsfargo.com](mailto:michael.a.brown@wellsfargo.com)

Michael T. Wolf, Economist [michael.t.wolf@wellsfargo.com](mailto:michael.t.wolf@wellsfargo.com)

## Economic Analysts

Zachary Griffiths, Economic Analyst [zachary.griffiths@wellsfargo.com](mailto:zachary.griffiths@wellsfargo.com)

Mackenzie Miller, Economic Analyst [mackenzie.miller@wellsfargo.com](mailto:mackenzie.miller@wellsfargo.com)

Erik Nelson, Economic Analyst [erik.f.nelson@wellsfargo.com](mailto:erik.f.nelson@wellsfargo.com)

Alex Moehring, Economic Analyst [alex.v.moehring@wellsfargo.com](mailto:alex.v.moehring@wellsfargo.com)

## Administrative Assistants

Donna LaFleur, Executive Assistant [donna.lafleur@wellsfargo.com](mailto:donna.lafleur@wellsfargo.com)

Cyndi Burris, Senior Administrative Assistant [cyndi.burris@wellsfargo.com](mailto:cyndi.burris@wellsfargo.com)