

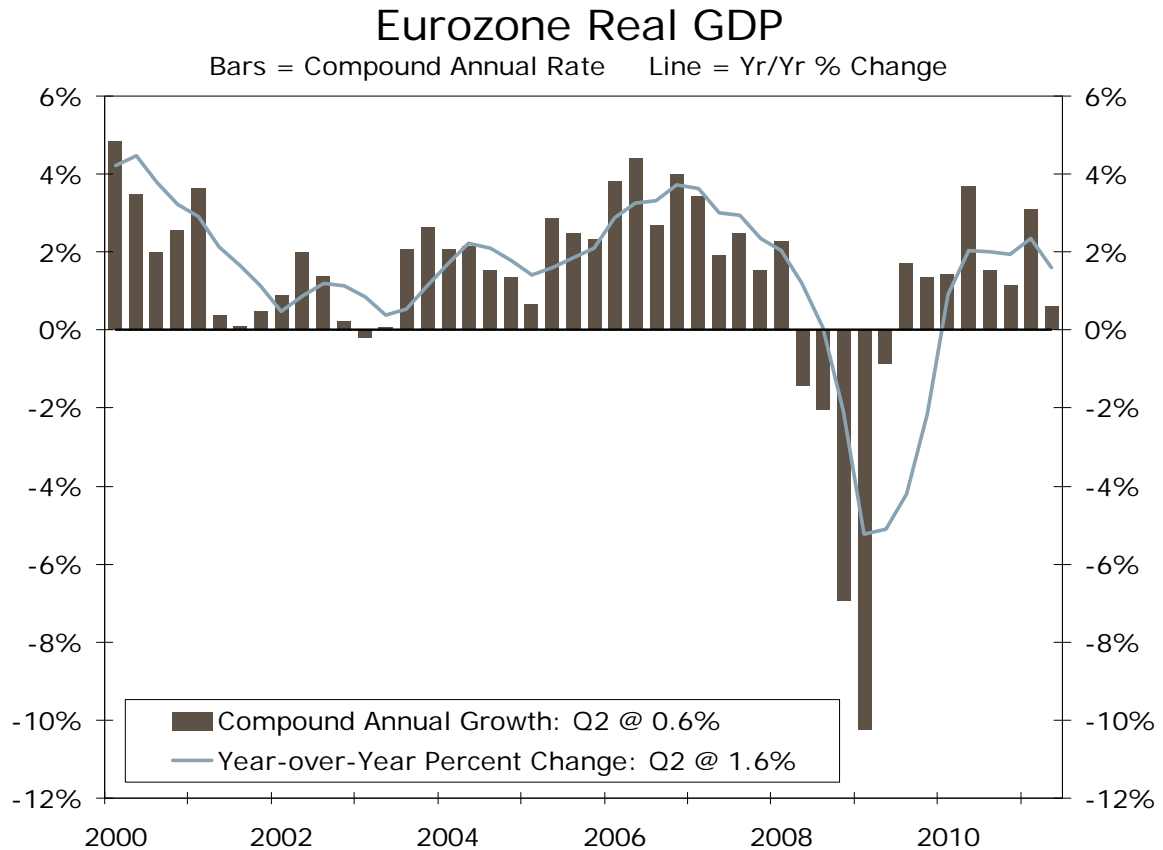
The European Sovereign Debt Crisis: Implications for the U.S. Economy

Jay H. Bryson, Managing Director and Global Economist
November 8, 2011

Together we'll go far

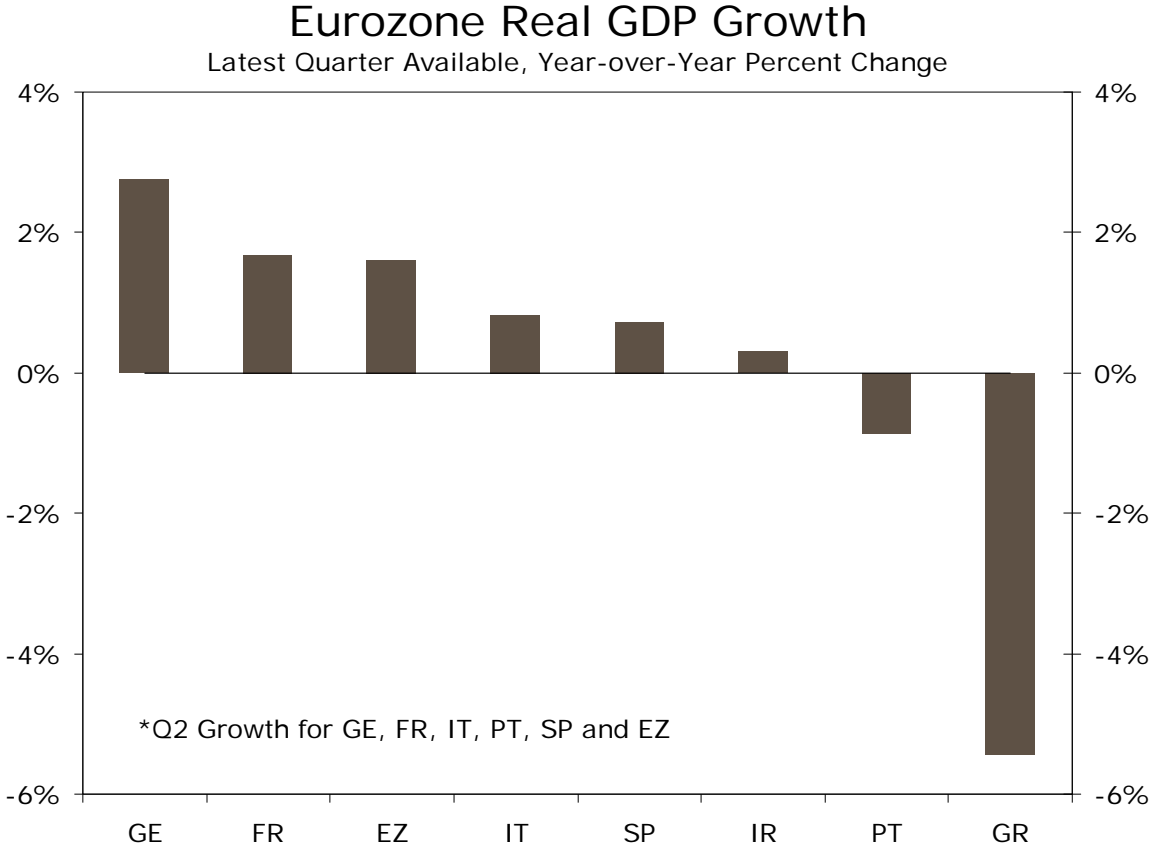


Economic growth in the Eurozone has also slowed recently



Source: IHS Global Insight and Wells Fargo Securities, LLC

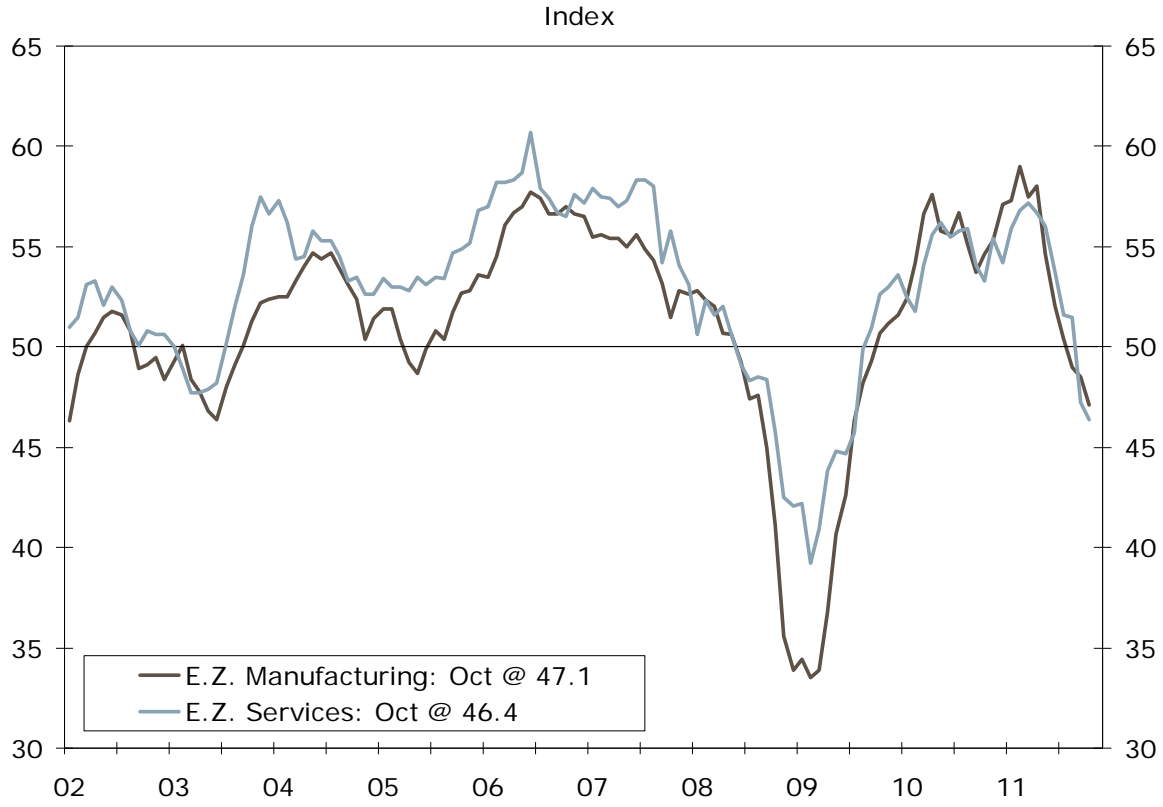
Growth has been uneven across the Eurozone



Source: IHS Global Insight and Wells Fargo Securities, LLC

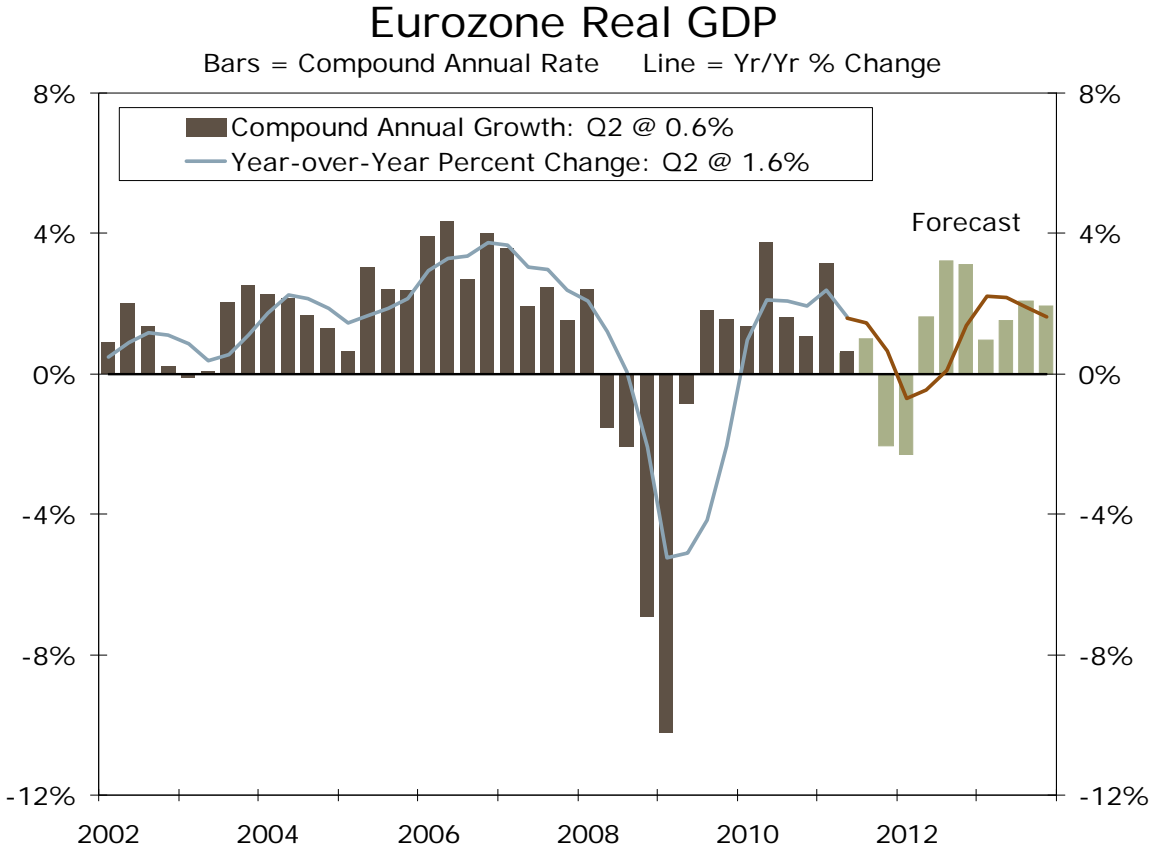
Purchasing managers' indices suggest that economic activity is now contracting

Eurozone Purchasing Managers' Indices



Source: Bloomberg LP and Wells Fargo Securities, LLC

Even if Europe does not “blow up”, we believe that the overall Eurozone will experience a modest recession

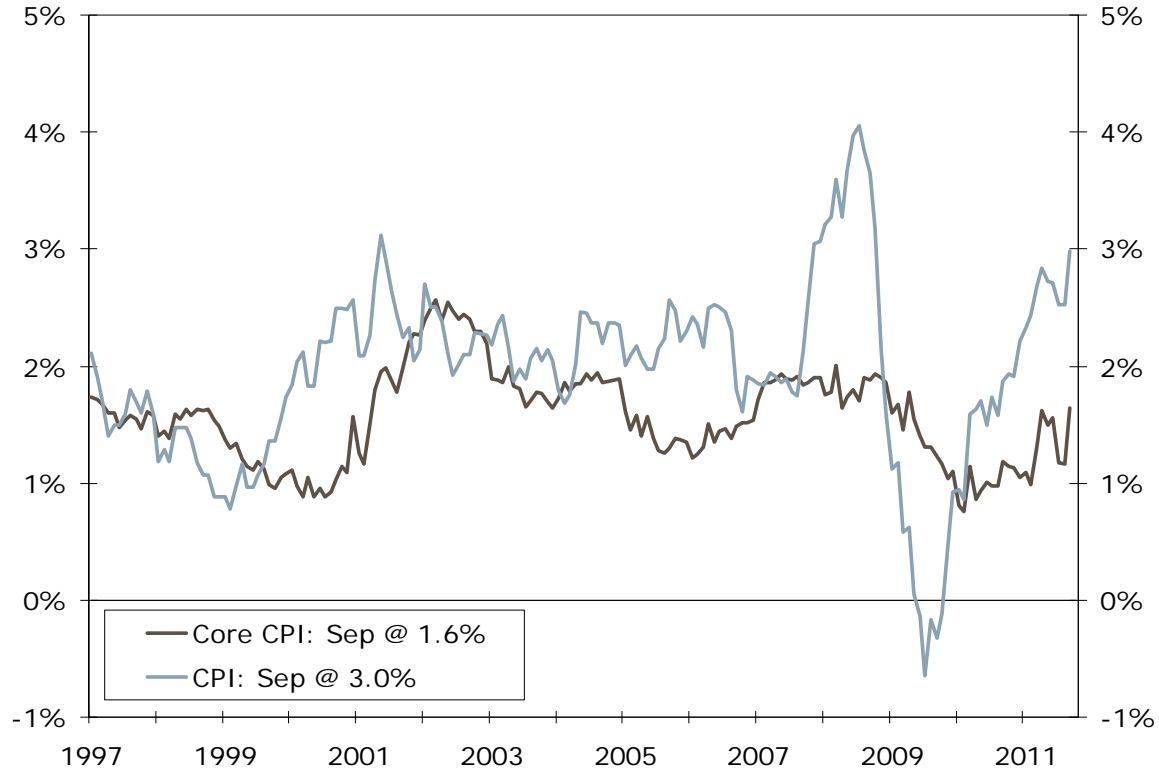


Source: IHS Global Insight and Wells Fargo Securities, LLC

Inflation should soon recede, which should give the ECB scope to ease policy

Eurozone Consumer Price Inflation

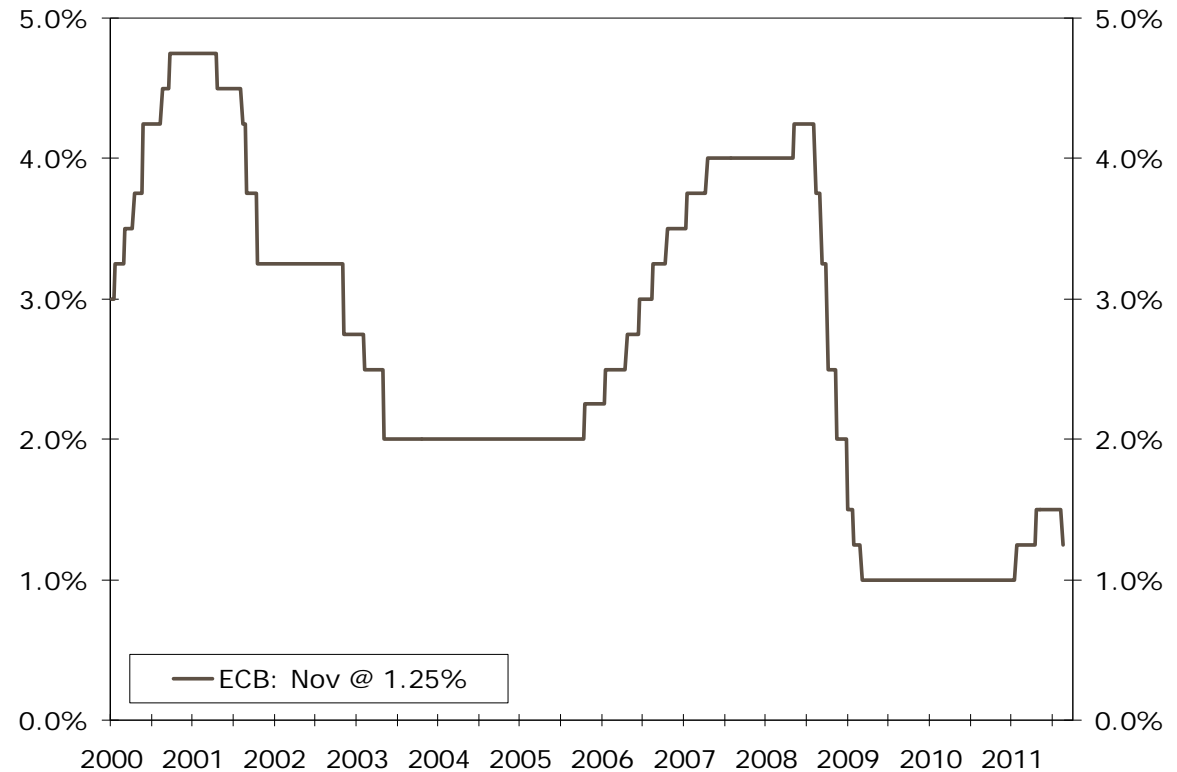
Year-over-Year Percent Change



Source: IHS Global Insight and Wells Fargo Securities, LLC

We look for the ECB to cut rates by 75 bps by spring 2012

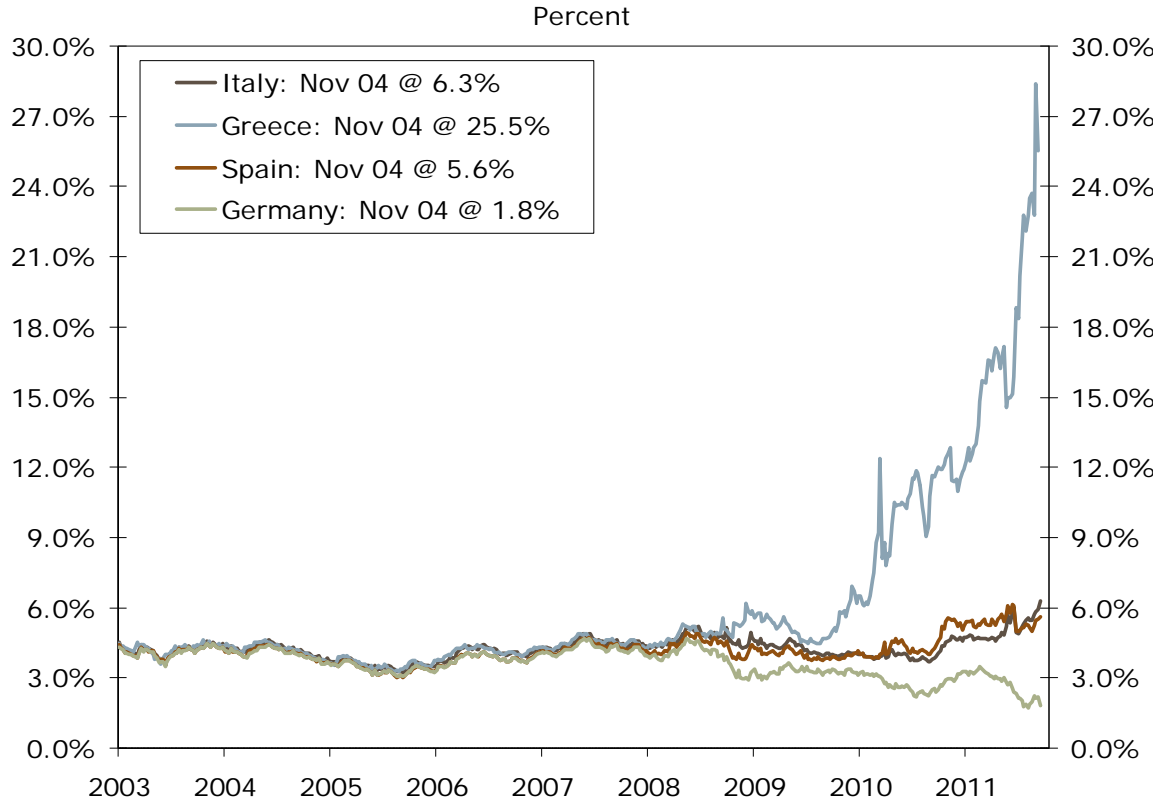
European Central Bank Policy Rate



Source: Bloomberg LP and Wells Fargo Securities, LLC

The sovereign debt crisis in Europe has spread to some larger countries lately

10-Year Government Bond Yields

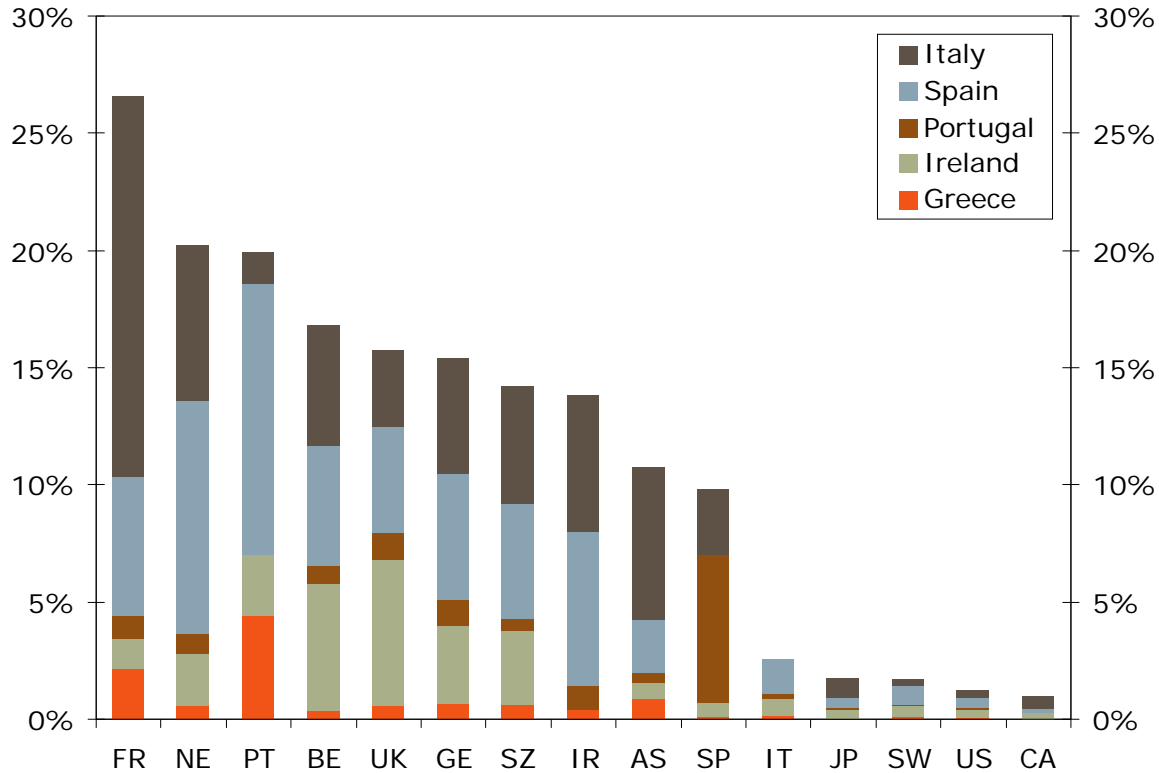


Source: IHS Global Insight and Wells Fargo Securities, LLC

Many European countries have significant exposure to sovereign debt in peripheral European countries

Bank Exposure to Peripheral Europe

Percent of GDP, December 2011

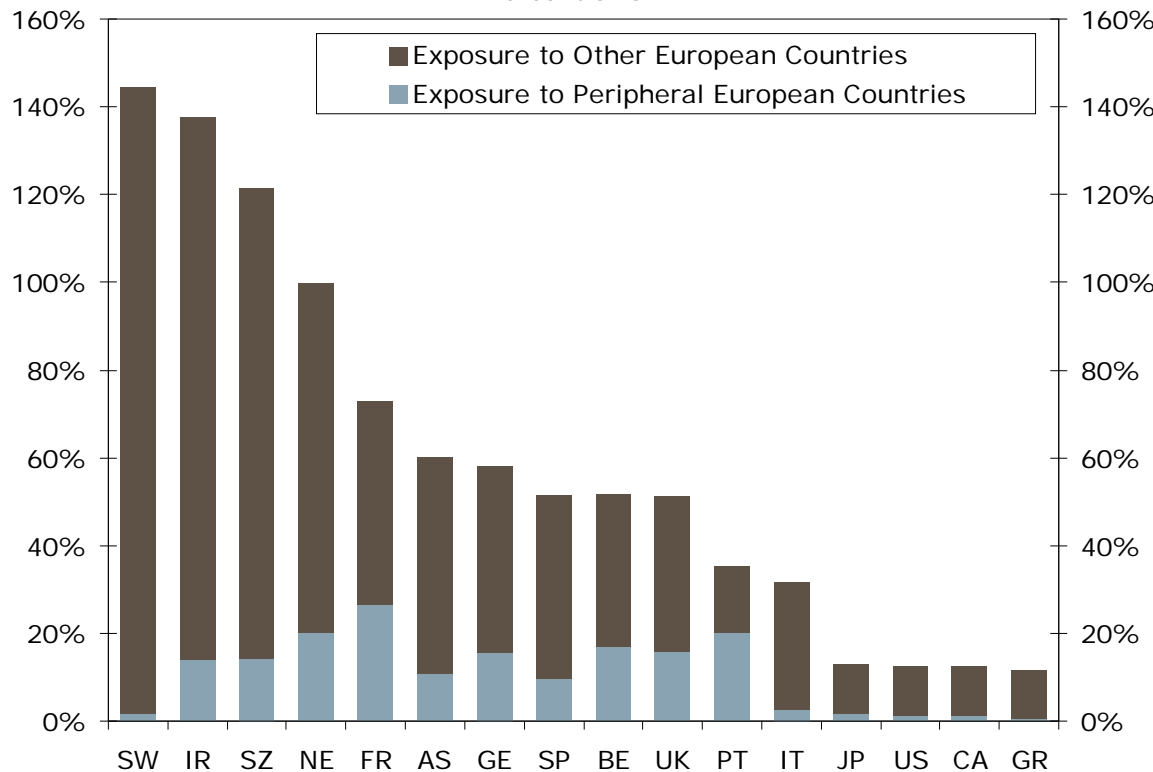


Source: Bank for International Settlements and Wells Fargo Securities, LLC

The financial linkages within the European banking system are very extensive

Bank Exposure to European Countries

Percent of GDP



Source: Bank for International Settlements and Wells Fargo Securities, LLC

LIBOR could spike again if a generalized financial crisis were to hit the Eurozone



Source: IHS Global Insight and Wells Fargo Securities, LLC

Is the Sovereign Debt Crisis “Solved” Now?

Recent Steps to “Solve” the Sovereign Debt Crisis

- The European Union has agreed to a bank recapitalization scheme worth about €100 billion.
 - Is it enough?
 - IMF suggested €200 billion.
- Private sector will “voluntarily” take 50 percent haircut on outstanding Greek government debt.
 - Important details still lacking.
- EFSF will be leveraged from €440 billion to more than €1 trillion.
 - Important details still lacking.
- Crisis will not truly be solved until indebted countries, especially Italy, enact policies to enable them to grow again.

The Greek government is clearly insolvent

Debt Stabilization Scenarios: Greece				
Growth Rates	Interest Rates			
	5.00%	8.00%	11.25%	22.00%
7.5%	-3.3%	0.7%	5.0%	19.3%
3.8%	1.7%	5.8%	10.3%	25.1%
1.5%	4.9%	9.1%	13.7%	28.8%
0.0%	7.1%	11.4%	16.1%	31.4%

Source: Wells Fargo Securities, LLC

It may be very difficult for the Portuguese government to stabilize its debt-to-GDP ratio

Debt Stabilization Scenarios: Portugal				
Growth Rates	Interest Rates			
	4.00%	5.00%	8.00%	17.00%
4.5%	-0.4%	0.4%	3.1%	11.1%
2.3%	1.6%	2.5%	5.2%	13.4%
1.0%	2.8%	3.7%	6.4%	14.7%
0.0%	3.7%	4.7%	7.4%	15.8%

Source: Wells Fargo Securities, LLC

Ireland is growing again, which increases the likelihood that it will be able to remain solvent

Debt Stabilization Scenarios: Ireland				
Growth Rates	Interest Rates			
	4.00%	5.00%	9.00%	16.00%
8.8%	-4.2%	-3.3%	0.2%	6.4%
4.5%	-0.5%	0.5%	4.1%	10.6%
2.8%	1.2%	2.1%	5.9%	12.4%
0.0%	3.8%	4.8%	8.7%	15.4%

Source: Wells Fargo Securities, LLC

Under most scenarios, the Spanish government should be able to stabilize its debt-to-GDP ratio

Debt Stabilization Scenarios: Spain				
Growth Rates	Interest Rates			
	4.00%	5.00%	6.00%	8.00%
7.3%	-1.8%	-1.3%	-0.7%	0.4%
3.8%	0.1%	0.7%	1.3%	2.5%
3.0%	0.6%	1.2%	1.8%	2.9%
0.0%	2.4%	3.0%	3.6%	4.8%

Source: Wells Fargo Securities, LLC

If the Italian economy stagnates, the government surely will become insolvent

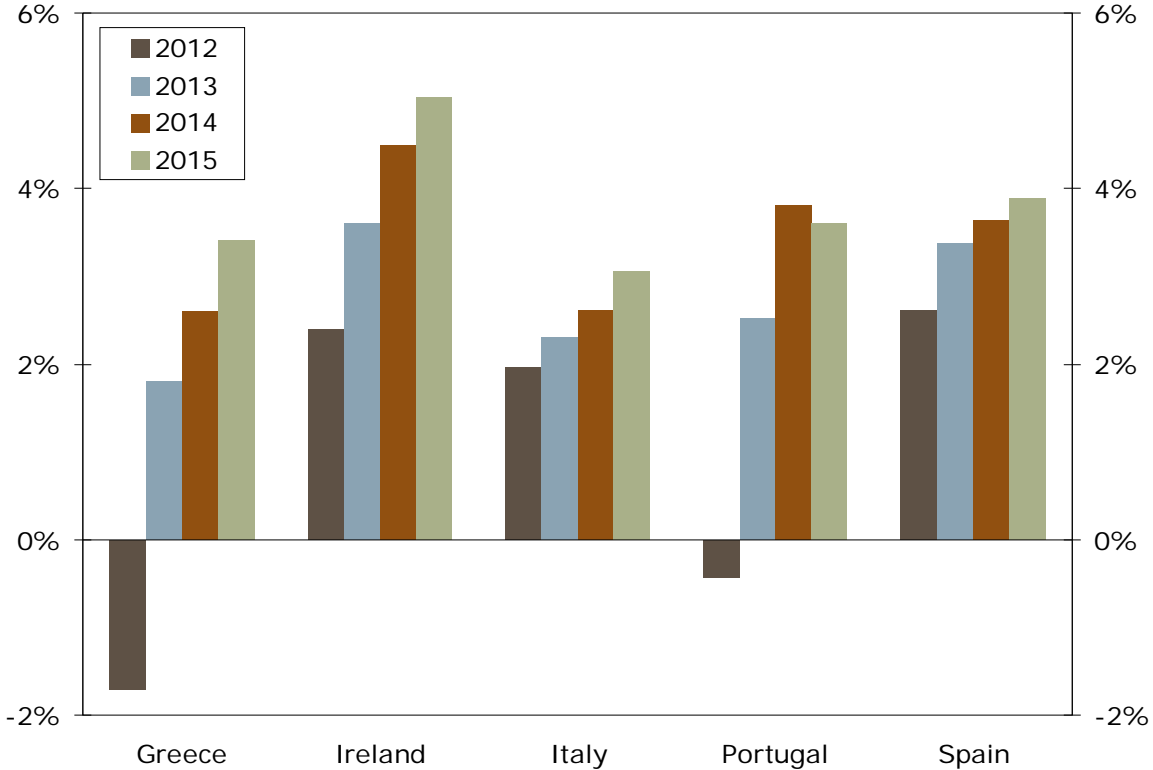
Debt Stabilization Scenario: Italy				
Growth Rates	Interest Rates			
	3.75%	4.25%	5.00%	6.00%
3.8%	0.0%	0.6%	1.4%	2.6%
3.0%	0.9%	1.4%	2.3%	3.5%
1.8%	2.3%	2.9%	3.8%	5.0%
0.0%	4.5%	5.1%	6.0%	7.1%

Source: Wells Fargo Securities, LLC

Nominal growth rates are expected to remain weak in many economies

Nominal GDP Growth Rates

Year-over-Year Percent Change

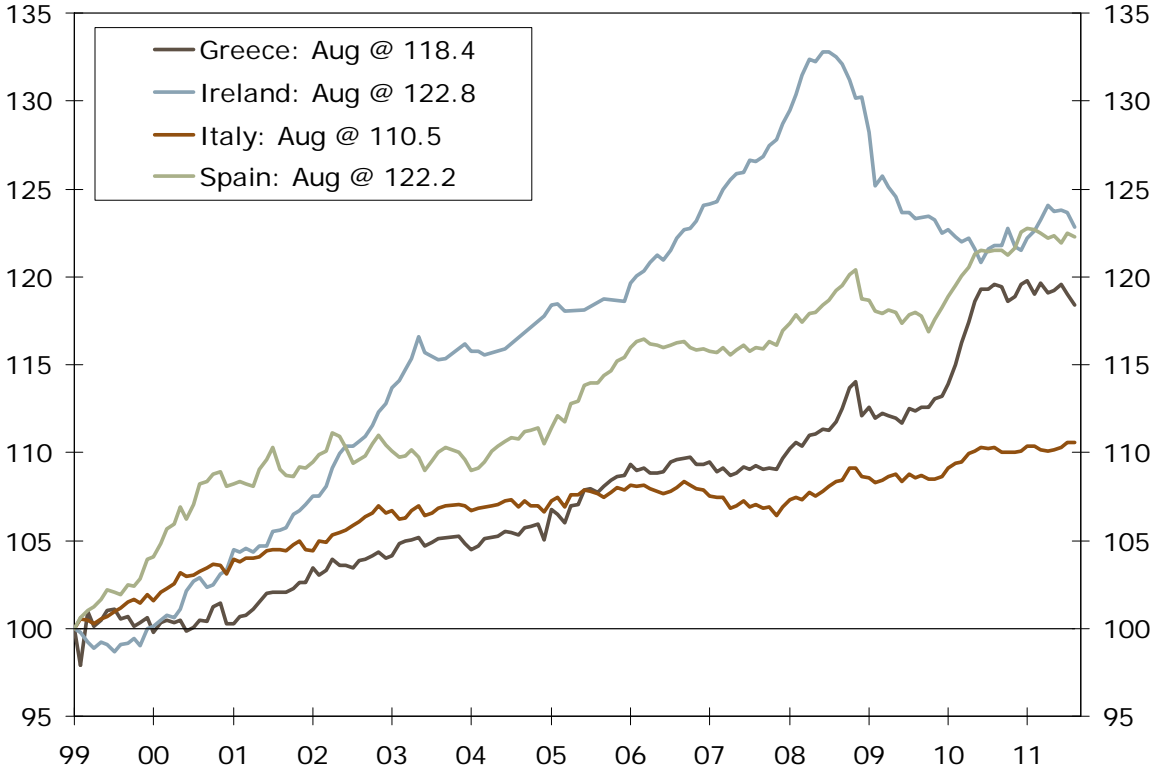


Source: International Monetary Fund and Wells Fargo Securities, LLC

The highly indebted economies have experienced a loss of competitiveness vis-à-vis Germany

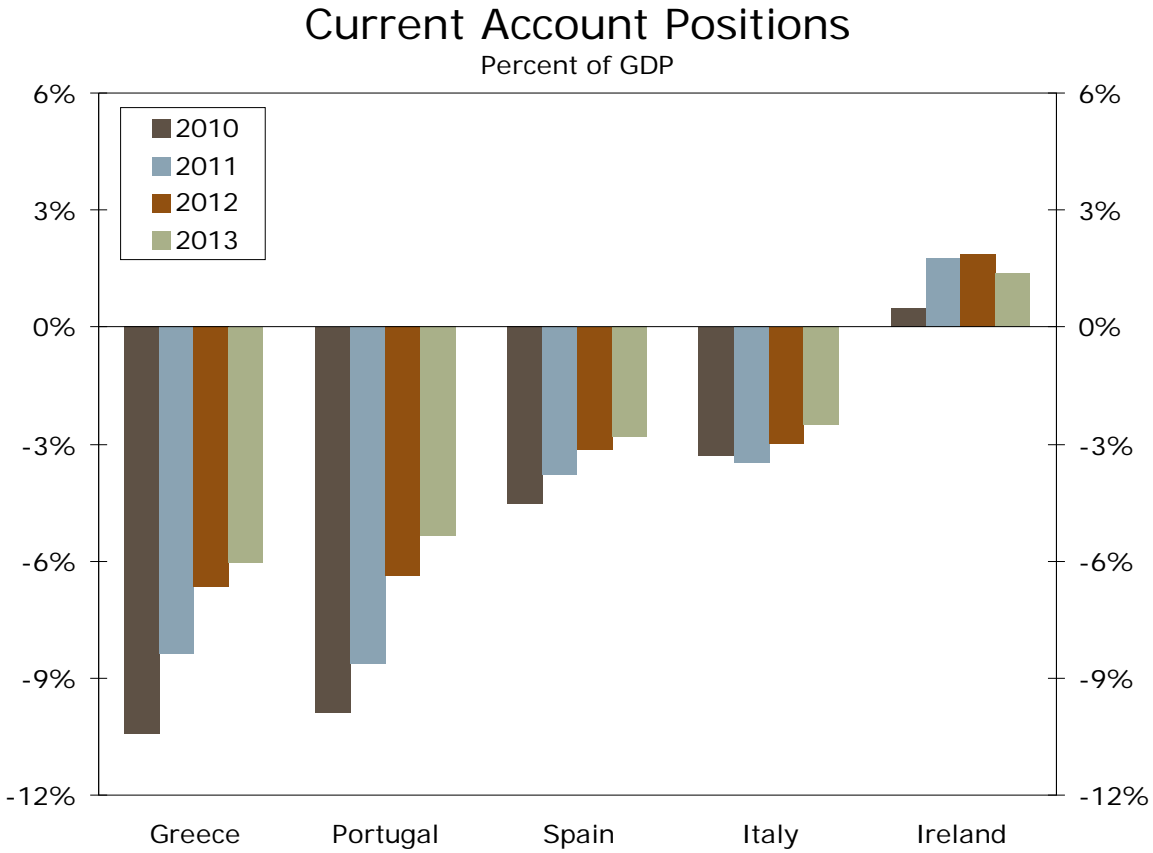
Real Exchange Rates Relative to Germany

Index, January 1999=100



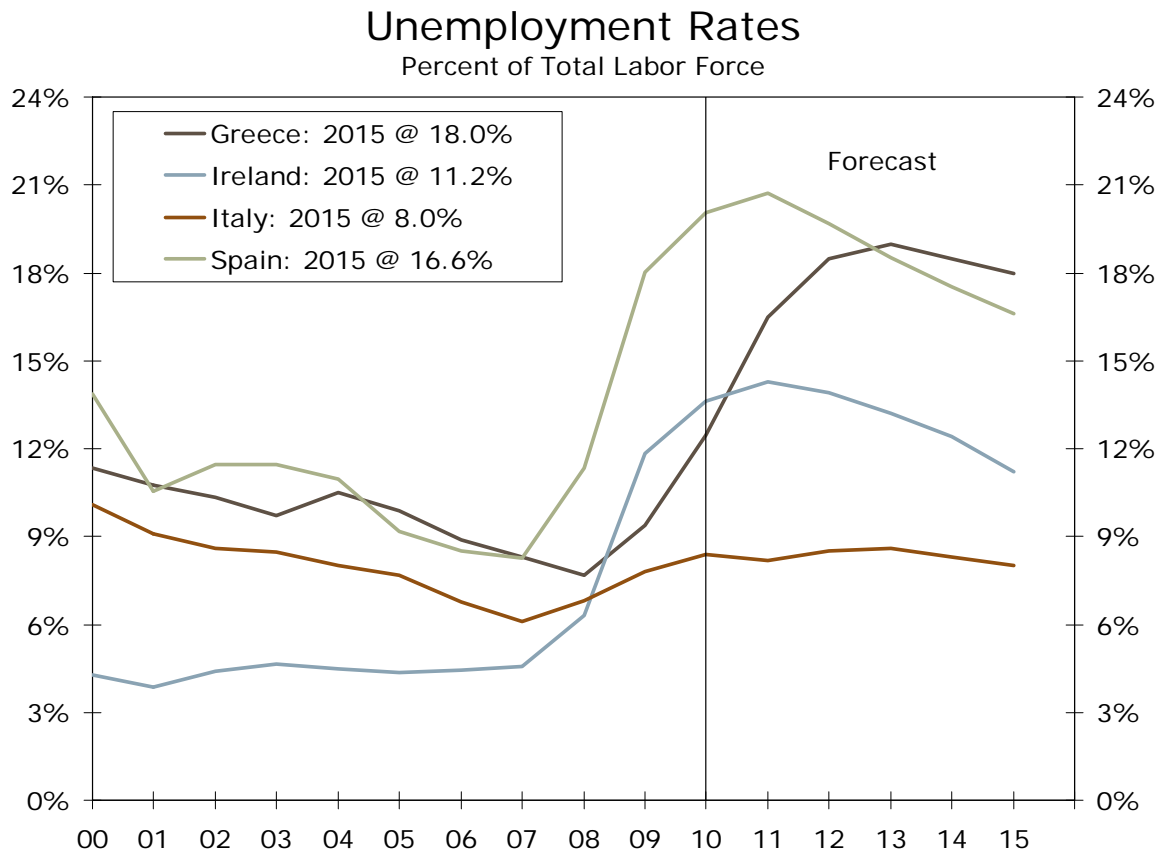
Source: International Monetary Fund and Wells Fargo Securities, LLC

Most highly indebted countries will continue to need outside financing



Source: International Monetary Fund and Wells Fargo Securities, LLC

Unemployment rates in most countries are projected to remain elevated for years



Source: International Monetary Fund and Wells Fargo Securities, LLC

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Together we'll go far



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