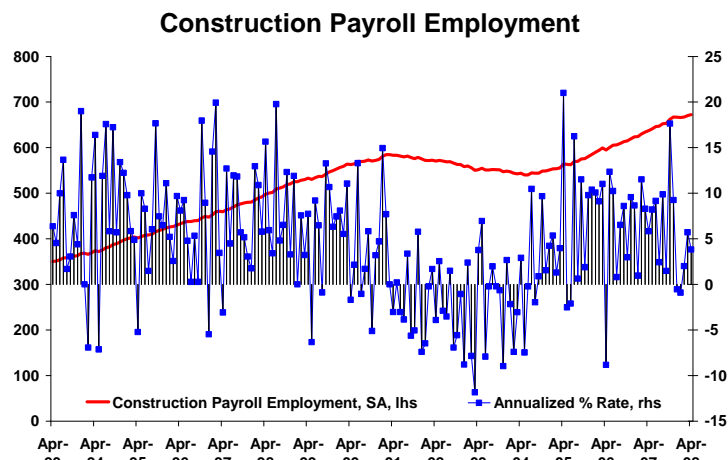


Economic Overview

While the outlook for the Texas economy remains positive for the rest of the year, the state has not been able to avoid paying, indirectly, for the national economic mess created by the bursting of the housing bubble and the ensuing sub-prime and credit market crises. I say indirectly because the credit crisis has had some effects on the state's housing market even though the Texas housing market did not exhibit the problems (i.e., bubble) that affected other U.S. metropolitan areas. This means that the Texas economy should remain on a good footing for the rest of this year. This does not mean that the economy is not going to weaken further, especially if U.S. consumer demand continues to slow down. However, the Texas economy has much better fundamentals than other regions of the U.S., especially because the sector that is providing almost all the growth on a national level, exports, is one of the most important sectors in the state of Texas.

On the other hand, another one of the sectors that keeps on making the news almost every day – the petroleum sector – is a major contributing factor to the strength of the state's economy and particularly of the Houston economy. In fact, while employment creation is negative to almost nonexistent in the U.S., Texas employment has continued to post important



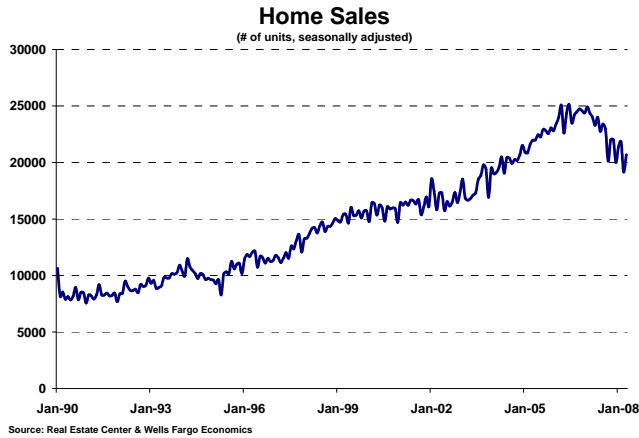
rates of growth during this year. It is true that employment is weaker this year than last year; however, Texas employment growth continues to outpace the nations'. In fact, Texas employment grew by a 3.0% average rate during the first four months of this year compared to the same period a year earlier. This is slightly down from a year-earlier growth of 3.1% during the whole of 2007. The major sectors contributing to this impressive performance during the first four months of the year were employment in natural resources with a growth of 8.1% and up compared to the 2.8% year-earlier growth reported in 2007; construction, posting an impressive growth of 6.0% compared to a year-over-year growth of 2.4% in 2007 and professional and business services, posting a growth rate of 4.7% during the first four months of the

year and up from a 1.6% rate during 2007. Education and health services employment grew by 3.6% compared to a 1.4% growth rate during 2007 while leisure and hospitality grew at a rate of 4.3% compared to a 1.4% rate during the twelve months of 2007. Thus, growth in the services sector in Texas is stronger today in the first four months of this year than what it was during the whole of last year. Thus, even under the current conditions of the housing market, the credit crisis and the slowdown in domestic consumption, Texas employment growth continues to surprise on the upside. Of course, not all of the sectors improved their performance with respect to last year. In fact, financial sector employment remained weak, posting a 0.7% growth in employment during the first four months of the year but still up from a meager 0.5% year-earlier growth in 2007. Meanwhile, the manufacturing sector was one of the worst performers, with a decrease of 0.2% in employment during the first four months of the year compared to the same period a year earlier.

While we remain positive on the Texas economy during the rest of the year, the risks for deterioration in employment growth during the second half of the year remain high. We do expect employment to weaken during the second half of the year even if the national economy does not go into a recession. However, even if the U.S. economy enters a recession, we remain confident that the Texas economy will be able to avoid one this year. And the more important reason for this is that the Texas economy has been able to weather the national storm because of solid fundamentals, which includes the state of its construction industry, the trade sector, and the more-than-important petroleum sector. All of these sectors, together with the strong performance of the professional services, leisure, and health services sector, will remain strong for the rest of the year and will prevent the Texas economy from falling prey to the national economy's woes.

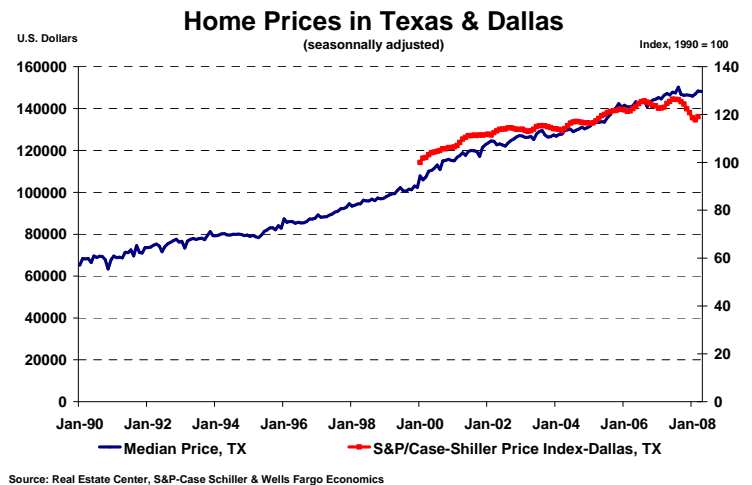
After defying the national trend since July of last year, the Texas manufacturing sector has fallen prey to the slowdown in activity in the rest of the country. However, while manufacturing production in the U.S. has been declining since

February of this year, Texas's manufacturing activity was flat in April on a seasonally adjusted basis. Nevertheless, the Texas industrial production index managed to post a positive rate of growth during April (0.8% annualized) due to the performance of the utilities and mining component of the index, which grew by 3.8% and 0.8%, respectively and at an annualized rate. Furthermore, the prospects of the Texas manufacturing sector should remain positive for the rest of the year, as the U.S. dollar is expected to remain weak and exports will continue to grow. The biggest risk for the Texas manufacturing sector today is the state of the U.S. automobile industry. If U.S. demand for automobiles, especially large SUVs and trucks, continues to drop due to the high price of gasoline, then all the bets are off for the U.S. manufacturing sector, and the Texas manufacturing industry will continue to post relatively weak rates of growth during the rest of the year.



While Texas home prices have increased during the last decade as the graph shows, the comparatively low level of home prices has kept Texas as one of the premier destinations for homebuyers and firms in the U.S., and we expect this trend to continue in the foreseeable future.

Meanwhile, the Texas housing market seems to be replicating the housing market in the rest of the U.S., going down even though the Texas housing market behaved very differently than the rest of the U.S. housing market going up. For starters, home prices in Texas are still way below the level of many of the regions of the U.S., especially the east and west coast.



According to the Texas Real Estate Center of Texas A&M, median home prices in Texas are, at worst, flat month over month as well as year-over-year. However, the S&P/Case-Shiller home price index for Dallas was down by 3.3% in March compared to the same month a year earlier, while the national (largest 20 metropolitan areas) was down by 14.4% during the same period of time. Thus, even in the housing market, the Texas economy is in better shape than the rest of the country.

by Eugenio J. Alemán

	Texas						
	2003	2004	2005	2006	2007f	2008f	2009f
Gross State Product, C\$B	771.0	808.1	831.8	867.9	897.5	920.0	957.5
Gross State Product, % chg.	1.4	4.8	2.9	4.3	3.4	2.5	4.1
Employment (ths.)	9,370	9,497	9,740	10,066	10,360	10,519	10,734
Employment growth, % chg.	-0.5	1.4	2.6	3.5	3.1	1.5	2.0
Unemployment, %	6.7	6.0	5.4	4.9	4.3	4.8	4.9
Personal Income growth, % chg.	3.6	7.1	9.3	8.4	8.1	4.1	5.4
Population (ths.)	22,086	22,455	22,844	23,408	23,904	24,242	24,633
Population growth, % chg.	1.5	1.7	1.7	2.5	2.1	1.4	1.6
Net migration (ths.)	137.8	140.8	385.9	198.7	131.7	113.2	140.4
House Price Index (1980Q1 = 100)	185.3	190.5	199.4	212.0	225.5	233.1	238.8
(Percent change in home prices)	3.2	2.9	4.6	6.3	6.4	3.4	2.5
Housing Permits, # (ths.)	177.2	188.8	210.6	216.6	174.5	132.9	173.3
Single-family, # (ths.)	134.2	149.1	166.2	162.8	116.2	94.8	134.7
Multi-family, # (ths.)	43.0	39.8	44.4	53.9	58.3	38.0	38.7
United States							
Employment growth, % chg.	-0.3	1.1	1.7	1.8	1.1	0.1	0.4
Unemployment rate, %	6.0	5.5	5.1	4.6	4.6	5.4	5.7
Personal Income growth, % chg.	3.2	6.2	5.9	6.6	6.2	4.1	4.6

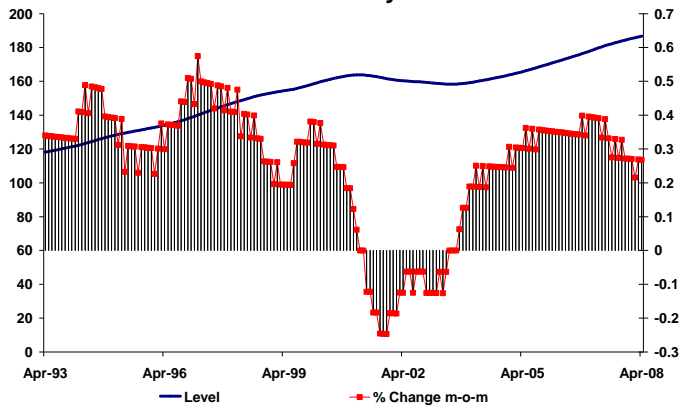
Sources: BLS, BEA, Federal Reserve Bank of Dallas, Census Bureau, Economy.com, and Wells Fargo Economics

Wells Fargo provides this information to you with no express or implied warranty or guarantee. Wells Fargo has obtained this information from sources believed to be reliable. Before acting on such information you should consult with your own professional advisors. Information is subject to change without notice.



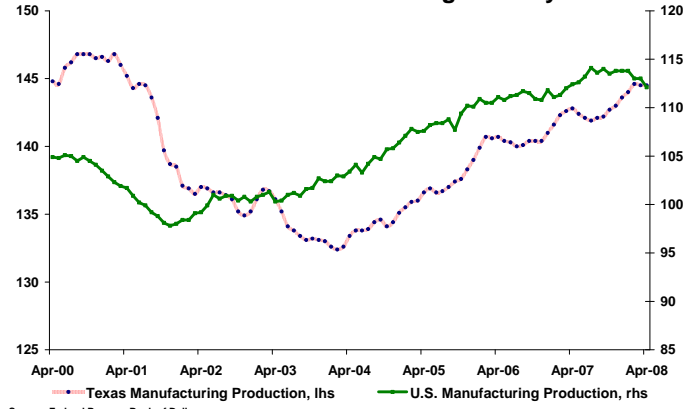
Wells Fargo Economics
State of Texas

Texas Business Cycle Index



Source: Federal Reserve Bank of Dallas

U.S. & Texas Manufacturing Industry

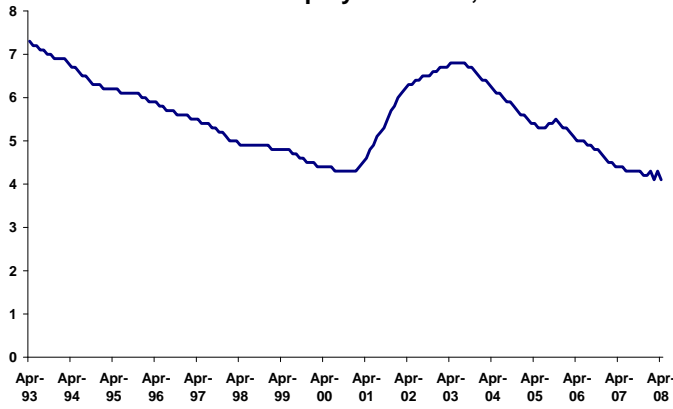


Source: Federal Reserve Bank of Dallas

The Texas economy has remained resilient as the rest of the U.S. economy continues to struggle with the effects of the housing and credit crisis.

Texas manufacturing slowed down early in 2008 after a strong 2007 performance. We expect the manufacturing sector to recover somewhat during the rest of the year.

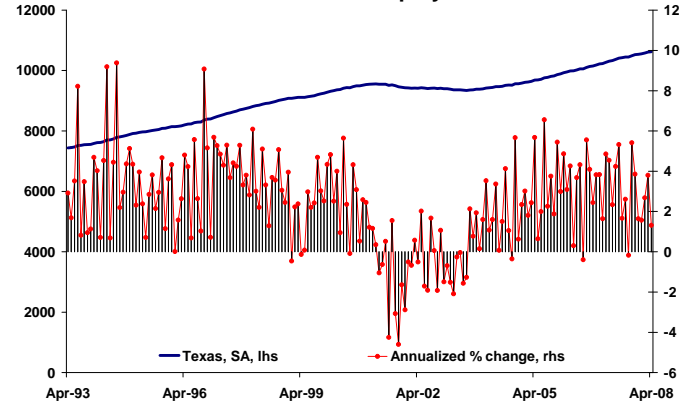
Texas Unemployment Rate, SA



Source: Federal Reserve Bank of Dallas

The rate of unemployment in Texas has remained low as the state's economy has continued to create plenty of jobs for a growing labor force.

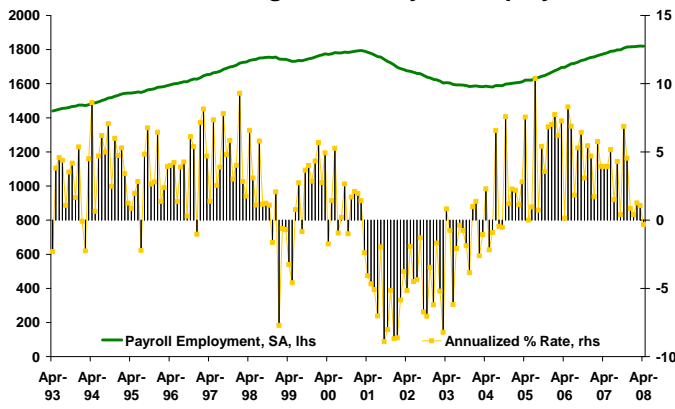
Texas Nonfarm Employment



Source: Federal Reserve Bank of Dallas

Overall employment creation has remained strong even though there are some sectors, especially the goods-producing sectors, that have slowed down considerably.

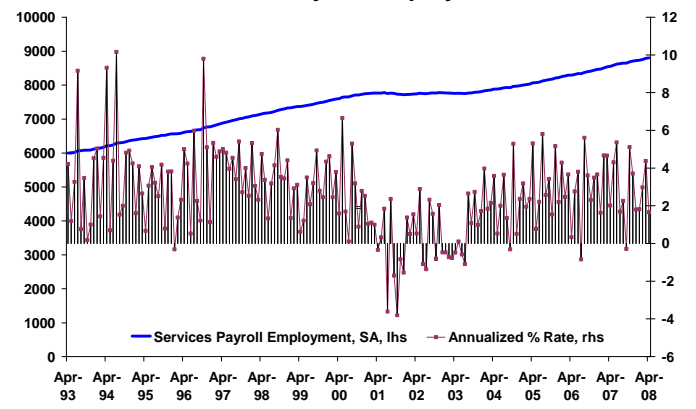
Goods Producing Sector: Payroll Employment



Source: Federal Reserve Bank of Dallas

The Texas goods-producing sector's ability to create jobs has come to a standstill during the last several months as the manufacturing sector weakened.

Services Payroll Employment



Source: Federal Reserve Bank of Dallas

Employment creation in the service sector has remained very strong and is providing the lifeline that will allow the Texas economy to avoid a recession during 2008.