WELLS FARGO

Weekly — May 6, 2022

Weekly Economic & Financial Commentary

United States: **'Til the Medicine Takes**

- The latest economic data suggest supply challenges worsened in April. Delivery times lengthened, and while employers continued to add jobs at a solid pace, the supply of labor weakened. Price pressure has remained elevated as a result. The FOMC raised its federal funds rate 50 bps this week at the conclusion of its policy meeting, and the incoming data for April reinforce our expectation for another 50 bp hike in June.
- Next week: NFIB Small Business Optimism (Tues), CPI (Wed), U. of Mich. Consumer Sentiment (Fri)

International: **Reserve Bank of Australia Delivers Initial Rate Hike, BoE & BCB Continue Tightening**

- Faced with concerns about high inflation, multiple central banks around the world tightened monetary policy this week. Notably, the Reserve Bank of Australia (RBA) raised its Cash Rate by 25 bps to 0.35%, citing a resilient economy with inflation that has accelerated faster and higher than previously expected, as well as progress toward full employment and wage growth. The Bank of England and Brazilian Central Bank also delivered rate hikes this week.
- Next week: Mexico CPI/Banxico Rate Decision (Mon/Thu), U.K. GDP (Thu), Russia CPI (Fri)

Interest Rate Watch: **The First 50 bps Rate Hike from the FOMC in 22 Years**

- At the conclusion of its meeting this week, the FOMC increased the target range for the federal funds rate by 50 bps to 0.75%-1.00%. The move was widely anticipated by financial market participants, but that does not diminish the fact that it was the first 50 bps rate hike from the Federal Reserve in 22 years.

Credit Market Insights: **Monetary Policy Is Impacting Mortgages, Including Refinancing**

- Freddie Mac reported on Thursday that 30-year mortgage rates reached 5.27%, 17 bps higher than the previous week and the highest level since 2009. After more than a decade of sub-5.0% mortgage rates, the past few months of expectation setting and quantitative tightening have already affected the mortgage market.

Topic of the Week: **Shining a Light on the Rising Economic Potential of AAPI Small Business**

- In commemoration of AAPI Heritage Month and Small Business Month, we highlighted some economic contributions of the Asian American and Pacific Islander community with a focus on AAPI-owned small businesses in a recent report.

Wells Fargo U.S. Economic Forecast

	Actual 2021				Forecast 2022				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2020	2021	2022	2023
Real Gross Domestic Product [1]	6.3	6.7	2.3	6.9	-1.4	1.2	2.3	2.2	-3.4	5.7	2.8	2.1
Personal Consumption	11.4	12.0	2.0	2.5	2.7	0.1	1.9	1.7	-3.8	7.9	2.5	1.6
Consumer Price Index [2]	1.9	4.8	5.3	6.7	8.0	7.9	7.3	6.3	1.2	4.7	7.4	2.9
"Core" Consumer Price Index [2]	1.4	3.7	4.1	5.0	6.3	5.7	5.7	5.2	1.7	3.6	5.7	3.2
Quarter-End Interest Rates [3]												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.50	2.00	2.50	0.50	0.25	1.63	3.19
Conventional Mortgage Rate	3.17	3.02	2.88	3.11	4.42	4.65	4.70	4.70	3.12	2.95	4.62	4.54
10 Year Note	1.74	1.45	1.52	1.52	2.32	2.60	2.70	2.75	0.89	1.45	2.59	2.70

Forecast as of: April 07, 2022

[1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change [3] Annual Numbers Represent Average

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Please see our full U.S. Economic Forecast and our updated Consumer Dashboard and Pressure Gauge.

All estimates/forecasts are as of 5/6/2022 unless otherwise stated. 5/6/2022 11:45:08 EDT. **This report is available on Bloomberg WFRE**

U.S. Review

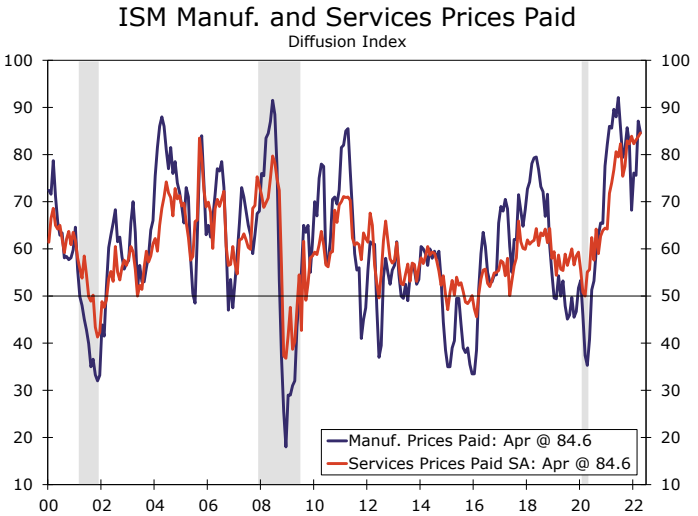
'Til the Medicine Takes

At the conclusion of its monetary policy meeting this week, the FOMC lifted its federal funds rate 50 bps to a range of 0.75%-1.00% and announced it would commence shrinking the balance sheet at the start of June. See this week's *Interest Rate Watch* section for more detail on the Fed's recent announcement, but in short, the outcome was largely expected and consistent with our forecast.

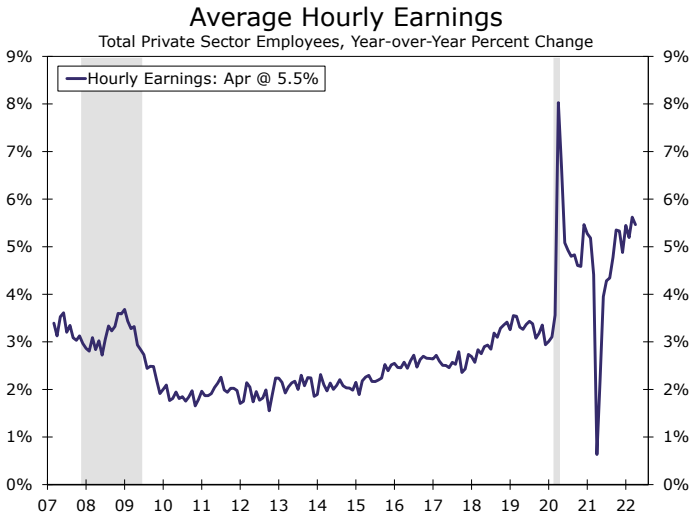
The Fed has its work cut out for it in terms of bringing down inflation by pumping the breaks on the economy, without causing it to slip into recession. It's a tough balance. The labor market is extremely tight and the broader imbalance between demand and supply continues to limit the pace of production in the economy and add upward pressure to inflation.

The main takeaway from the latest ISM purchasing manager surveys for April was that progress in bottlenecks has paused, if not reversed, amid the war in Ukraine and lockdowns in China. After showing signs of improvement, supplier delivery times inched higher again last month, indicating longer lead times for manufacturers and service-providers alike. Prolonged deliveries continue to put upward pressure on prices. The prices paid components of the ISM rose for both sectors in April and reached an all-time high for the services sector specifically.

Now the Fed's actions cannot do much to *directly* relieve inflation related to supply chain pressure, but a tighter policy environment could slow broader activity and allow producers to catch up. The fact that the second quarter marked the third-largest build on record for inventories combined with households transitioning their purchases away from goods should alleviate some supply pressure. But ultimately, we are unlikely to see meaningful reprieve on price growth until supply chains move more smoothly.



Source: Institute for Supply Management and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Climb to Safety

The labor market is also an important consideration. Employers continued to hire at a solid pace in April by adding 428K jobs, which was slightly above what was expected by the consensus. The underlying details of the report continued to demonstrate a tight labor market with supply challenges worsening. According to the household survey, hiring *declined* by 353K jobs, which caused the unemployment rate to hold steady at 3.6% and the labor force participation rate to tick lower to 62.2%. The lack of qualified labor also continues to bid up wage costs, and average hourly earnings rose 0.3% in April with upward revisions to March.

We still expect wage growth to moderate ahead as workers continue to stream back into the labor market. Slower labor demand could also help moderate labor cost pressure, and there have been some signs of easing from small business compensation plans and the Fed's latest Beige Book. Another potential outlet is if the economy sees a productivity growth boom. If workers are more productive, companies can afford to pay them more without pressuring profits or fueling a wage-price spiral. But the latest productivity figures present little chance of a boom helping tamp down current inflation. The

trend in unit labor costs is running more than double the Fed's inflation goal of 2%, signaling inflation pressures persist as the U.S. labor market remains exceptionally tight. Overall, the solid jobs report for April and continued signs of persistent price pressure reinforce our belief that the FOMC will execute another 50 bps rate hike at its next policy meeting in June. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

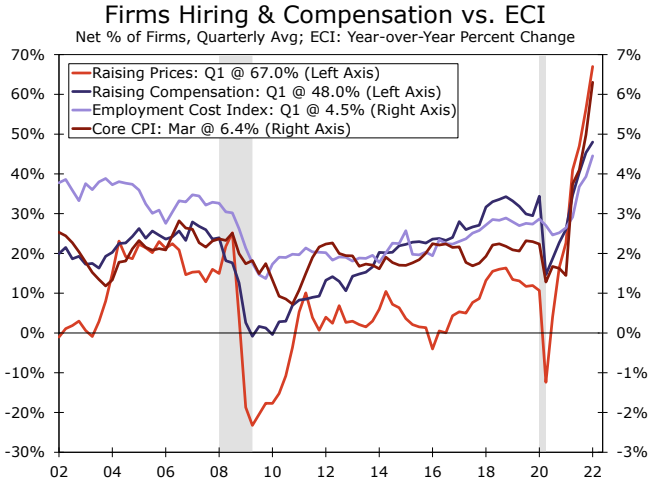
Date	Indicator	Period	Consensus	Wells Fargo	Prior
10-May	NFIB Small Business Optimism	Apr	92.9	--	93.2
11-May	CPI (MoM)	Apr	0.2%	0.4%	1.2%
11-May	CPI (YoY)	Apr	8.1%	8.3%	8.5%
11-May	Core CPI (MoM)	Apr	0.4%	0.5%	0.3%
11-May	Core CPI (YoY)	Apr	5.9%	6.1%	6.5%
12-May	PPI Final Demand (MoM)	Apr	0.5%	0.5%	1.4%
12-May	PPI Final Demand (YoY)	Apr	10.7%	10.7%	11.2%
13-May	U. of Mich. Consumer Sentiment	May	63.5	--	65.2

Forecast as of May 06, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

NFIB Small Business Optimism • Tuesday

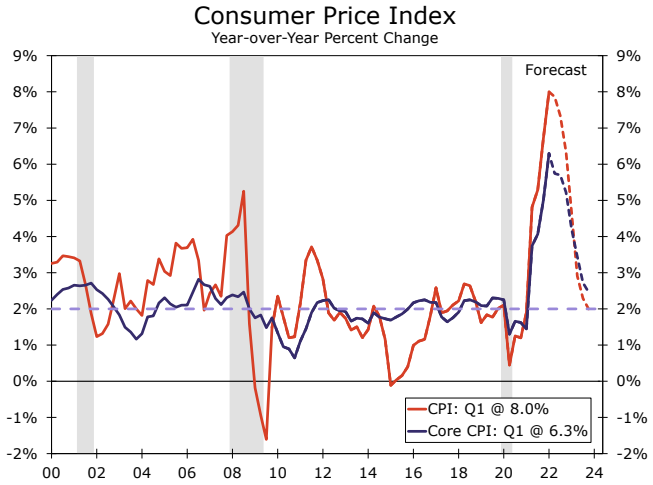
Small business confidence has slipped recently amid supply chain disruptions, labor shortages and Russia's invasion of Ukraine. March's 93.2 reading was the worst since April 2020 and was in line with the 2010-2015 average and the aftermath of the 2008-2009 downturn. Like many economic surveys, the overarching themes of inflation and the tight labor market have been standouts, and likely persisted in April. Hard-to-fill positions have come down since peaking last fall but remain historically high with 47% of firms reporting hiring troubles in March. To attract talent, 49% of firms reported raising compensation and another 28% reported plans to raise compensation, both up from February. As firms relay these costs to consumers, the share of businesses raising prices also increased to 72%, a new series high, while those planning to raise prices over the next three months also increased. The harsh reality of the expensive, tight labor market and inflation chipping away at purchasing power led to a large drop in businesses' assessment of the economic outlook. The net share of firms expecting the economy to improve fell to -49%, the lowest in almost 50 years.



Source: NFIB, U.S. Department of Labor and Wells Fargo Economics

CPI • Wednesday

The consumer price index will be the hot topic of next week as we will see if price growth has finally started to roll over after surging 1.2% in March and 8.5% over the year. In April, we expect CPI rose 0.4% month-over-month, which would lead the year-over-year rate to drop to 8.3%, the first decline since July 2021. Energy prices were to blame for around 70% of March's hefty increase and Russia's invasion of Ukraine sent food prices higher over the month. But April's likely moderation can also be tied to longer-term transitions. We have finally seen goods inflation start to let up as consumers transition toward services. Core goods inflation fell by the most since April 2020 in March due to some reprieve in auto prices, while core services inflation continued to gather steam. Some services prices may continue to be pushed higher by pent-up demand, such as that for airfare and lodging, but we expect less room for catch-up in the fall as real incomes have lessened businesses' ability to pass along costs. We expect core CPI to advance 0.5% over the month in April and fall to 6.1% over the year (previously 6.5%).



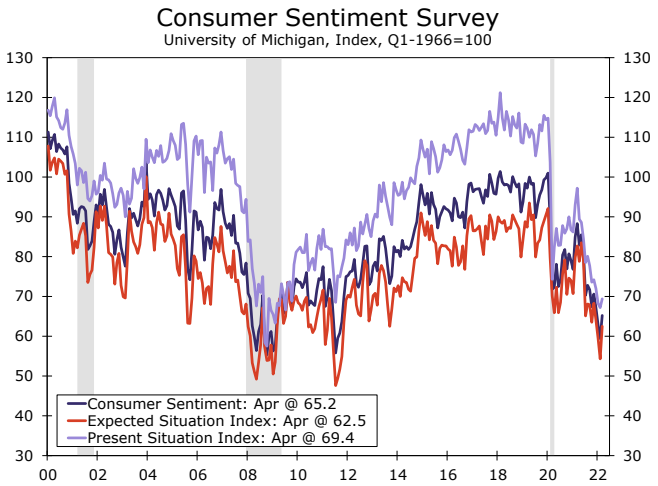
Source: U.S. Department of Labor and Wells Fargo Economics

This first sign of relief in months should provide some comfort that prices are beginning to subside, but it is hard to ignore just how broad-based inflation has become. Russia's invasion of Ukraine put further pressure on necessities such as gas and grocery prices, which were up 10% over the year in March, a 41-year record. Even with the transition from goods to services, potential supply disruptions remain a risk, particularly in China, which has adopted a zero-COVID policy. In response to the imminent economic threat of inflation, FOMC officials have set out on a more aggressive monetary policy path that should help quell inflation come 2023. However, even with expedited tightening, it is going to be a long climb down. We expect headline CPI to still be around 6% on a year-ago basis in the fourth quarter this year, with the quarterly annualized rate still uncomfortably high at around 4% (chart).

University of Michigan Consumer Sentiment • Friday

After surprising to the upside in April and rising almost six points to 65.2, May's consumer sentiment release should provide more information on whether consumers' recent optimism has any legs. To be fair, the index remains historically low compared to the past decade. However, the current index rose slightly last month to 69.4 and expectations rebounded to 62.5, fully recovering March's dip. Some relief from the prior month when it came to prices at the pump led the index measuring expectations for gas prices over the next 12 months to fall to almost half of its March level. So far in May, gas prices have again risen to a monthly average of around $4.20 a gallon and are unlikely to offer the same boost as in April.

Another bright spot in April's report was the over 10-point climb in the index measuring whether consumers will have good times over the next year to 62. Although this is historically low and was revised down from last month's first estimate of 66, we will be monitoring whether consumers change their tune when it comes to how they see the economy evolving. The FOMC raised the fed funds target range by 50 bps at its May meeting in a bid to tamp down inflation, which puts the spotlight on consumers' opinions of buying conditions this month. Inflation already sent perceived buying conditions for major purchases to near-record lows, but we have yet to see consumers noticeably act on their thoughts that it is a bad time to buy, as spending has remained robust. With the cost of borrowing increasing, it is unclear how much consumers will actually pare back their purchases. (Return to Summary)



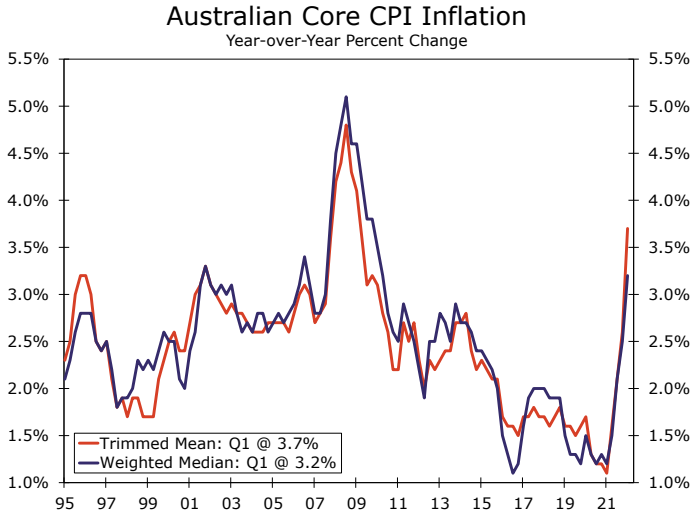
Source: University of Michigan and Wells Fargo Economics

International Review

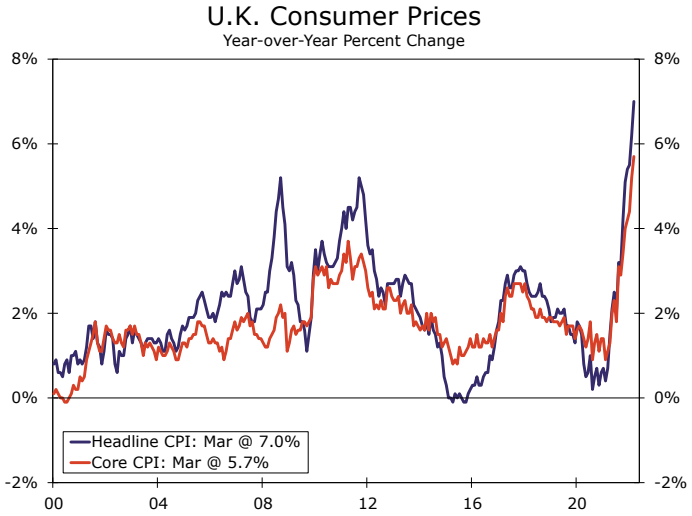
Reserve Bank of Australia Delivers Initial Rate Hike

Faced with concerns about high inflation, multiple central banks around the world tightened monetary policy this week. Notably, the Reserve Bank of Australia (RBA) raised its Cash Rate by 25 bps to 0.35%, citing a resilient economy with inflation that has risen faster and higher than previously expected, as well as progress toward full employment and wage growth. The move surprised some market participants, given the consensus forecast for a hike of only 15 bps. At its April meeting, RBA policymakers dropped the "patient" language from the official statement and indicated that the timing of monetary tightening would be data dependent with regard to underlying (core) inflation and labor costs. In Q1, measures of underlying inflation came in above the RBA's medium-term target of the midpoint between 2%-3%. Specifically, the trimmed mean and weighted median CPI accelerated to 3.7% and 3.2% year-over-year in Q1, up from 2.6% and 2.5% in Q4, respectively. Given solid growth trends, we expect these underlying measures of inflation to remain persistently elevated in the coming quarters. With regard to labor costs, the RBA indicated that it has begun to see evidence of a pickup in wage growth, although we will get a better sense when Q1 wage price index data are released mid-May.

In addition to its initial 25 bps rate hike, the RBA signaled further monetary tightening to come. It noted that it has an "open mind" and will be "flexible on the pace of rate hikes ahead." As for quantitative tightening, the RBA noted that it is not currently planning to sell government bonds purchased during the pandemic nor reinvest the proceeds of maturing bonds, which should see the RBA's balance sheet decline significantly over the next few years. Last, the central bank upwardly revised its inflation forecasts to show headline and core CPI quickening to 6% and 4.75%, respectively, in 2022, with both slowing to around 3% by mid-2024. In addition, the RBA expects GDP to grow 4.25% in 2022 before slowing to 2% in 2023.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of England Raises Rates and Foreshadows Double-Digit Inflation

The Bank of England (BoE) delivered a 25 bps hike at its May monetary policy meeting, bringing the Bank Rate to 1.00%. The Monetary Policy Committee was split on the decision, with three out of nine members dissenting in favor of a larger 50 bps hike. The central bank stated that global inflationary pressures have intensified following supply chain disruptions, developments in the Russia-Ukraine war and COVID restrictions in China. Indeed, March headline inflation surprised to the upside and is currently running at 7.0% year-over-year. In our view, high energy prices may be starting to weigh more heavily on economic growth as well.

The BoE's updated forecasts show inflation reaching double-digit territory stagnation in growth and an elevated risk of recession. In particular, the central bank sees inflation peaking slightly above 10% in Q4-2022 due to a projected surge in household energy prices. As for growth, the BoE projects close to a 1% fall in output in Q4-2022, as well as a 0.25% drop in annual GDP in 2023. Based on these

updated projections, most committee members are of the opinion that "some degree of further tightening in monetary policy may still be appropriate in the coming months," a slight dovish shift from its previous wording of "some further modest tightening." We forecast 25 bps increases in both August and November, which would see the policy rate finish 2022 at 1.50%. In addition to commentary on rate hikes, the BoE said it would "consider beginning the process of selling UK government bonds held in the Asset Purchase Facility" depending on economic and market conditions, and that sales would be done in a "gradual and predictable manner." An update on bond sales will be provided at its August meeting.

Brazilian Central Bank Keeps the Door Open for More Monetary Tightening

In the emerging markets, the Brazilian Central Bank (BCB) announced a 100 bps rate hike at its May monetary policy meeting, bringing the Selic rate to 12.75%. The BCB has embarked on one of the most aggressive monetary tightening schedules in the world, and has now raised rates by a cumulative 1,075 bps. While inflation in Brazil is elevated—with the headline reading in March surprising to the upside at 11.3% year-over-year—economic growth has been sluggish. Thus, market participants were closely watching to see if the BCB would signal the end of its rate hike cycle or communicate further tightening ahead. In the end, the central bank left the door open for more rate hikes, signaling a hike of a smaller magnitude at its upcoming June meeting. The committee indicated it would continue with this strategy "until the disinflation process consolidates and anchors expectations around its targets." While a smaller rate hike could suggest the end of monetary tightening in the coming months, it is still possible the central bank will opt to continue hiking rates to battle high inflation. (Return to Summary)

International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
9-May	Mexico CPI YoY	Apr	7.73%	--	7.45%
9-May	Mexico CPI Core YoY	Apr	7.15%	--	6.78%
12-May	Central Bank of Mexico Overnight Rate	12-May	7.00%	7.00%	6.50%
12-May	U.K. GDP QoQ	1Q P	1.0%	--	1.3%
13-May	Russia CPI YoY	Apr	18.1%	--	16.7%
13-May	Russia CPI Core YoY	Apr	20.5%	--	18.7%

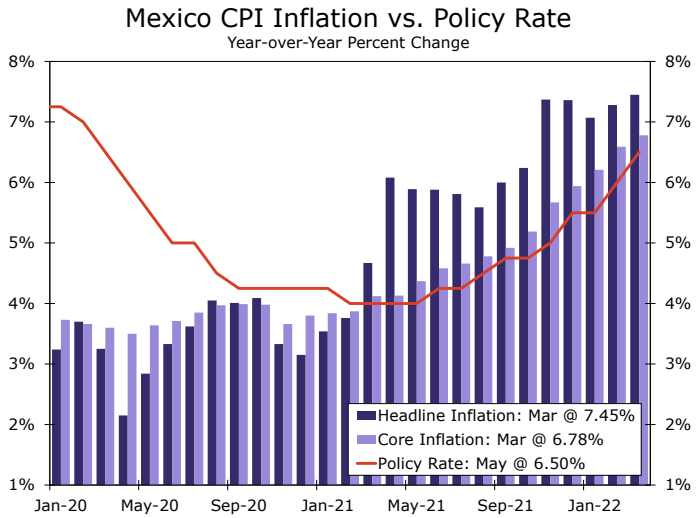
Forecast as of May 06, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Mexico CPI/Banxico Rate Decision • Monday/Thursday

Mexico's April CPI release next Monday should show that inflation pressures within the country remain elevated and have not shown any signs of slowing yet. In March, headline and core CPI accelerated more than expected to 7.45% and 6.78% year-over-year, respectively. Unlike many other countries, Mexico has been somewhat less affected by price increases for energy—instead, inflation has been largely driven by food and agriculture prices. The consensus calls for April headline CPI to quicken to 7.73% and core CPI to rise to 7.15% year-over-year. Overall, we expect inflation in Mexico to average 6.6% in 2022.

In addition to the CPI print next Monday, the Central Bank of Mexico will release its monetary policy decision on Thursday. Elevated prices may place additional pressure on Banxico policymakers to tighten monetary policy more aggressively than is currently expected. In our view, with markets pricing in more aggressive Fed rate hikes in the coming months, we believe the Central Bank of Mexico will also deliver multiple 50 bps hikes at its upcoming meetings. Specifically, at its May meeting we expect Banxico to raise the Overnight Rate to 7.00% from 6.50%. However, we acknowledge that a 75 bps rate hike is not completely out of the question.

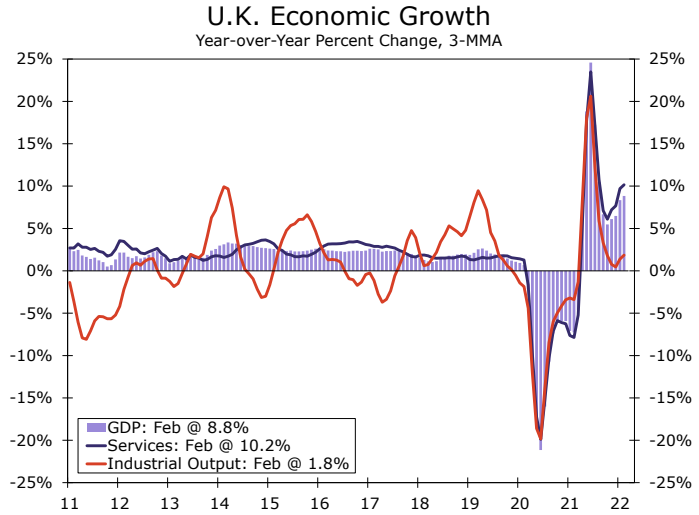


Source: Bloomberg Finance L.P., IMF and Wells Fargo Economics

U.K. GDP • Thursday

First quarter GDP figures from the United Kingdom are expected to paint a picture of slower economic growth. While the U.K. economy has been resilient so far this year, we see the potential for elevated energy prices to weigh on activity and squeeze consumer purchasing power. Hints of slower growth appeared in February, as GDP inched up by only 0.1% month-over-month. Slumping services activity has also contributed to the outlook for slower growth. March retail sales fell 1.4% month-over-month, the second decline in a row, and the April services PMI also declined. In addition, the 35,000 increase in payrolls in March was much less than expected, further suggesting the economy may be decelerating.

For Q1-2022, the consensus expects GDP growth to have slowed to 1.0% quarter-over-quarter, after advancing 1.3% in Q4-2021. Taking a closer look at individual sectors, private consumption is expected to be resilient, growing 1.0% quarter-over-quarter, while government spending and business investment are expected to slow slightly to 1.2% and 0.8%, respectively. The consensus also expects to see some slowing from the previous month in industrial and manufacturing production, as well as in the services sector.

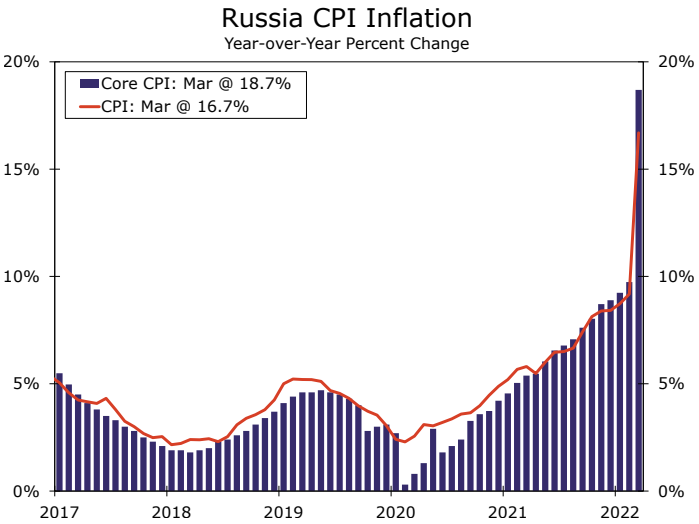


Source: Datastream and Wells Fargo Economics

Russia CPI • Friday

Friday's April CPI inflation data release for Russia should reveal elevated price pressures in the country. In March, headline CPI inflation spiked up to 16.7% year-over-year from 9.2% in February. In the same period, core inflation nearly doubled, rising to 18.7% from 9.7%. Inflation is more concentrated in the goods sector (up 19.2%), driven by price increases in food, electronics, building materials and cleaning supplies. We suspect that as shocks from the war with Ukraine continue to reverberate throughout Russia's economy, price pressures will continue to build. Consensus expectations are for headline CPI to quicken further to 18.1%, while core CPI is expected to accelerate to 20.5%.

While we do expect inflation to cool somewhat in the coming months, we anticipate that elevated prices will still weigh on local economic activity. Given the ongoing war, we expect the economy's growth prospects to likely be under pressure for the foreseeable future. According to the IMF, Russia's economy could contract 8.5% this year and experience an overall decline in 2023 as well. (Return to Summary)



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Interest Rate Watch

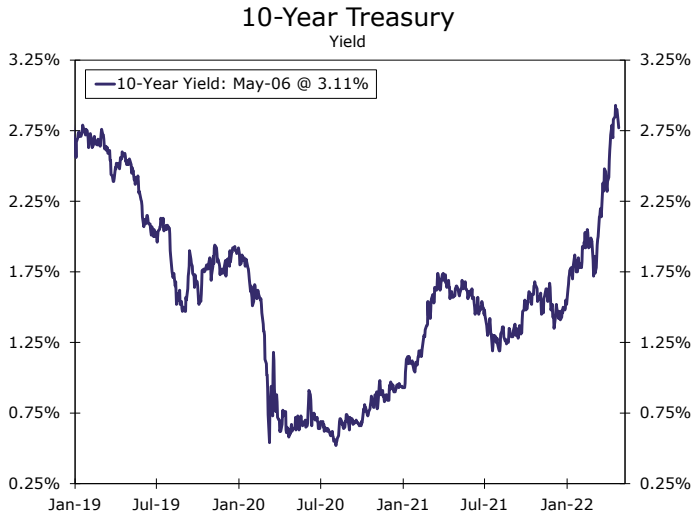
The First 50 bps Rate Hike from the FOMC in 22 Years

At the conclusion of its meeting this week, the Federal Open Market Committee (FOMC) increased the target range for the federal funds rate by 50 bps to 0.75%-1.00%. The move was widely anticipated by financial market participants, but that does not diminish the fact that it was the first 50 bps rate hike from the Federal Reserve in 22 years.

The committee also announced steps to start reducing the size of the Fed's balance sheet, which currently stands at $8.9 trillion. Starting on June 1, the Federal Reserve will allow up to $30 billion worth of Treasury securities to roll off the central bank's balance sheet for the following three months. The Fed will also allow up to $17.5 billion worth of agency mortgage-backed securities to roll off the balance sheet for the same time frame. The FOMC's plan is then to increase the size of the monthly caps to $60 billion and $35 billion, respectively, beginning in September, and to maintain the monthly caps at those levels for an indefinite period of time.

A 50 bps rate hike and the start of balance sheet runoff occurring simultaneously would have been nearly unthinkable in the 2010s expansion. But, today's economy is much different from the one that prevailed in the previous decade. Inflation has shown signs of peaking but remains well-above the central bank's 2% target. The post-meeting statement made clear that the committee is resolute in its aim to bring down inflation, noting it is "highly attentive to inflation risks." In addition, the labor market has tightened significantly faster in this recovery than it did in the 2010s. After climbing to 14.7% in April 2020, the highest unemployment rate since the Great Depression, the rate is now just 3.6%, more or less the same reading that prevailed before the pandemic.

Perhaps unsurprising, financial market conditions continued to tighten this week as investors digested the economic outlook. As of this writing, the S&P 500 was down 7.8% compared to one month ago and the 10-year Treasury yield increased 18 bps over the past week. Another 50 bps rate hike at the June 14-15 FOMC meeting appears likely, but it remains highly uncertain how many rate hikes it will take to bring inflation back in line with the central bank's target. The market is currently priced for the federal funds rate to peak around 3.25% in mid-2023, modestly above our most recent forecast. However, we believe the confidence interval around this forecast is wider than usual, and this is a recipe for the kind of financial market volatility seen this week. (Return to Summary)



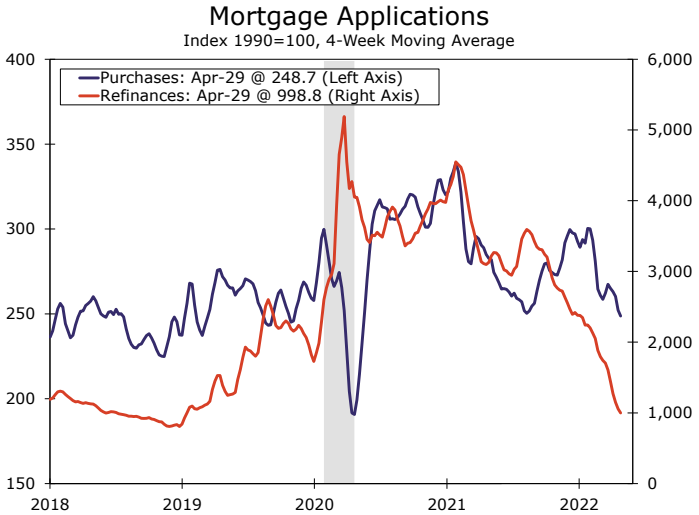
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Credit Market Insights

Monetary Policy Is Impacting Mortgages, Including Refinancing

After the Federal Reserve hiked the federal funds rate target by 50 bps on Wednesday, Freddie Mac reported on Thursday that 30-year mortgage rates reached 5.27%, 17 bps higher than the previous week and the highest level since 2009. Mortgage rates have increased 111 bps in the weeks since the Fed first began quantitative tightening at its March meeting. After more than a decade of sub-5.0% mortgage rates, the past few months of expectation setting and quantitative tightening has already affected the mortgage market.

The most recent reading of mortgage applications from the Mortgage Bankers Association shows applications for mortgage purchases and refinances have weakened. This coincides with the ongoing climb in mortgage rates that began in late 2021, as markets priced in near-future quantitative tightening. While refinance applications are only at a low last seen in 2019, this previous low was reached after nearly 10 years of homeowners having ample opportunity to take advantage of historically low rates.



Source: Mortgage Banker's Association and Wells Fargo Economics

After mortgage rates fell more than 50 bps in the first six months of 2020, a surge in refinances bumped the index back up. Even homeowners who refinanced when the federal funds rate was at the zero lower bound after the Great Recession may have had another opportunity to lower their monthly payments and interest rate through refinancing.

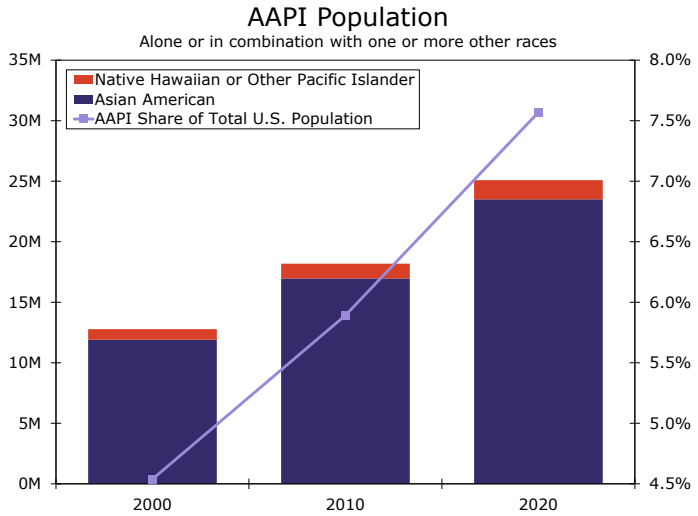
However, the refi boom appears to have come to an end. With the Fed expected to raise rates at each of its forthcoming meetings as well as rolling off its holdings of mortgage-backed securities, rates are elevated once more, and refinancing is no longer the good deal it was to many homeowners. Typical refinancers will have a hard time getting lower monthly payments, even if their incomes are declining. At the same time, those who were planning on a cash-out refinance, in which equity in a home is cashed out for a lump sum while the value of the home is refinanced as a new mortgage, may now no longer find that an attractive proposition, due to higher prospective monthly payments and eroding purchasing power amid inflation at a 40-year high. All of this, in turn, hurts the pocketbooks of homeowners after an advantageous time of low rates, ample financing opportunities and significant home price appreciation. (Return to Summary)

Topic of the Week

Shining a Light on the Rising Economic Potential of AAPI Small Business

In commemoration of AAPI Heritage Month and Small Business Month, we highlighted some economic contributions of the Asian American and Pacific Islander community with a focus on AAPI-owned small businesses in a recent report. First, taking a look at the demographic trends of the AAPI community underscores its potent economic force. According to the decennial census, AAPI individuals accounted for an astounding 30% of the country's total population growth between 2010 and 2020. The 25 million individuals who identify as Asian American or Native Hawaiian or other Pacific Islander (NHPI) represent nearly 8% of the U.S. population, up from 5.9% in 2010.

Strong population growth has underpinned solid business formation throughout the AAPI community. Despite the many structural challenges facing minority-owned businesses, the pace of growth in new AAPI business ownership exceeded the national average before the pandemic. Between 2017 and 2019, the number of AAPI firms increased 4.6%, faster than the 0.5% rise in total employer firms. In 2019, there were 588,531 AAPI-owned firms in the United States, amounting to 10.2% of all employer firms. That proportion represents the second-largest share among major demographic subgroups, behind White (83.5%) and followed by Black or African American (2.3%) and American Indian and Alaska Native (0.5%). In terms of nonemployer firms, AAPI individuals owned 2.36 million businesses in 2018, which equates to 8.3% of the 28.56 million total nonemployer firms.



Source: U.S. Census Bureau and Wells Fargo Economics

AAPI businesses operate within a wide variety of industries. The majority of AAPI employer firms, however, are concentrated in just three major industries: accommodation & food services (24%), retail trade (18%) and healthcare & social assistance (14%). The high prevalence in these industries, which generally require frequent in-person contact, in part explains why AAPI businesses have experienced among the slowest recoveries in terms of business formation following the onset of the pandemic. Researchers at the University of California, Santa Cruz approximate that the number of active Asian business owners was just 1% above pre-pandemic levels in September 2021. By comparison, the number of Black- or African American- and Latinx-owned businesses have risen 29% and 17%, respectively.

The preponderance of AAPI firms likely explains, in part, why the AAPI community averages lower rates of unemployment and higher rates of labor force participation. As of April 2022, the unemployment rate for Asian individuals was 3.1%, lower than the 3.6% national rate. (The Bureau of Labor Statistics does not currently track labor force data for NHPI workers). Furthermore, individuals who identify as Asian comprised 6.5% of the national labor force in 2021. Despite a relatively small share, much of the overall growth in the national labor force can be tied to an increase in the Asian workforce. Asian Americans accounted for 42% of the nation's labor force growth over the past 10 years. Over the coming years, stronger AAPI population growth will likely bolster overall labor force growth, which is one of the key ingredients for productivity and overall economic growth in the United States.

Looking ahead, the Asian American and Pacific Islander community is poised to continue to grow rapidly. The number of Asian Americans is expected to top 46 million by 2060, and Asian Americans are projected to be the nation's largest immigrant group by the middle of the century. The growing number of AAPI individuals will be a powerful economic driver for the nation, driving small business growth and overall labor force growth. The impact will be increasingly felt in the housing market as well, with homeownership expected to rise rapidly in coming decades. The Urban Institute projects that the net growth in homeowners over the next 20 years will be entirely driven by people of color, namely Hispanic homeowners, followed by Asian and Black homeowners. (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 5/6/2022	1 Week Ago	1 Year Ago
SOFR	0.79	0.28	0.01
3-Month LIBOR	1.37	1.29	0.17
3-Month T-Bill	0.81	0.82	0.01
1-Year Treasury	2.03	2.00	0.01
2-Year Treasury	2.69	2.71	0.15
5-Year Treasury	3.04	2.95	0.80
10-Year Treasury	3.11	2.93	1.57
30-Year Treasury	3.20	3.00	2.24
Bond Buyer Index	3.27	3.21	2.25

Foreign Exchange Rates

	Friday 5/6/2022	1 Week Ago	1 Year Ago
Euro ($/€)	1.058	1.055	1.207
British Pound ($/£)	1.236	1.257	1.389
British Pound (£/€)	0.856	0.839	0.868
Japanese Yen (¥/$)	130.360	129.700	109.090
Canadian Dollar (C$/$)	1.287	1.285	1.215
Swiss Franc (CHF/$)	0.985	0.972	0.907
Australian Dollar (US$/A$)	0.711	0.706	0.778
Mexican Peso (MXN/$)	20.101	20.428	20.118
Chinese Yuan (CNY/$)	6.668	6.609	6.464
Indian Rupee (INR/$)	76.930	76.433	73.761
Brazilian Real (BRL/$)	5.045	4.972	5.278
U.S. Dollar Index	103.379	102.959	90.951

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates

	Friday 5/6/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	1.26	1.21	0.08
3-Month Canada Banker's Acceptance	1.88	1.78	0.44
3-Month Yen LIBOR	-0.02	-0.02	-0.09
2-Year German	0.34	0.26	-0.69
2-Year U.K.	1.53	1.59	0.04
2-Year Canadian	2.69	2.62	0.31
2-Year Japanese	-0.04	-0.05	-0.12
10-Year German	1.15	0.94	-0.23
10-Year U.K.	2.02	1.91	0.79
10-Year Canadian	3.08	2.87	1.51
10-Year Japanese	0.24	0.23	0.09

Commodity Prices

	Friday 5/6/2022	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	110.54	104.69	64.71
Brent Crude ($/Barrel)	113.10	109.34	68.09
Gold ($/Ounce)	1886.58	1896.93	1815.22
Hot-Rolled Steel ($/S.Ton)	1381.00	1400.00	1519.00
Copper (¢/Pound)	426.35	439.50	461.90
Soybeans ($/Bushel)	16.65	17.06	15.80
Natural Gas ($/MMBTU)	8.44	7.24	2.93
Nickel ($/Metric Ton)	30,014	33,281	17,873
CRB Spot Inds.	679.06	679.87	583.02

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