Economics

WELLS FARGO

Weekly — November 4, 2022

Weekly Economic & Financial Commentary

United States: **FOMC Still Has Cover to Focus on Inflation**

- Employers continued to add jobs at a steady clip in October, demonstrating the labor market remains tight and the FOMC will continue to tighten policy. The size of the December rate hike depends on the incoming data. October payrolls do not move the needle much toward a 75 bps hike, and they give the Fed cover to continue to focus on inflation.
- Next week: Small Business Optimism (Tue), CPI (Thu), Consumer Sentiment (Fri)

International: **Bank of England Hints at a Slowdown**

- The Bank of England (BoE) raised its policy rate aggressively at this week's monetary policy announcement, raising its Bank Rate by 75 bps to 3.00%. The increase matched the consensus forecast; however, there were also signals from the BoE that the pace of tightening will likely slow going forward.
- Next week: Brazil CPI (Thu), Mexico Rate Decision (Thu), UK GDP (Fri)

Interest Rate Watch: **Will the FOMC Slow the Pace of Tightening in Coming Months?**

- For the first time in this rate hiking cycle, the FOMC said that it would take into account the cumulative amount of tightening when deciding future monetary policy moves. Does a slower pace of tightening lie ahead?

Credit Market Insights: **Raising the Bar: EU Lending Standards Tighten in Q3**

- Last week, the European Central Bank (ECB) released its Bank Lending Survey for Q3-2022. Bank participants in the survey indicated that there was a net tightening of credit lending standards in the face of decades-high inflation and recession fears, with standards tightening for enterprises, home purchases and consumer credit.

Topic of the Week: **Homeownership Rises Over the Year, but Affordability Challenges Persist**

- The latest *Quarterly Residential Vacancies and Homeownership* report was released on Wednesday. The report shows that the U.S. homeownership rate was 66.0% in the third quarter, up 0.6 percentage points over the year.

Wells Fargo U.S. Economic Forecast

	Actual			Forecast					Actual	Forecast		
	2022				2023				2021	2022	2023	2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	-1.6	-0.6	2.6	1.1	0.4	-2.1	-1.8	-0.9	5.9	1.9	-0.1	0.9
Personal Consumption	1.3	2.0	1.4	1.0	0.5	-1.3	-1.8	-0.7	8.3	2.5	0.0	0.6
Consumer Price Index [2]	8.0	8.6	8.3	7.8	6.5	4.5	3.7	2.9	4.7	8.2	4.4	2.4
"Core" Consumer Price Index [2]	6.3	6.0	6.3	6.4	5.9	5.1	4.2	3.5	3.6	6.2	4.6	2.8
Quarter-End Interest Rates [3]												
Federal Funds Target Rate	0.50	1.75	3.25	4.50	5.00	5.00	5.00	4.50	0.25	2.50	4.88	3.00
Conventional Mortgage Rate	4.42	5.81	6.70	6.65	6.55	6.35	6.15	5.60	2.95	5.90	6.16	5.16
10 Year Note	2.32	2.98	3.83	4.05	4.05	3.90	3.75	3.25	1.45	3.30	3.74	2.95

Forecast as of: October 21, 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 Pressure Gauge.

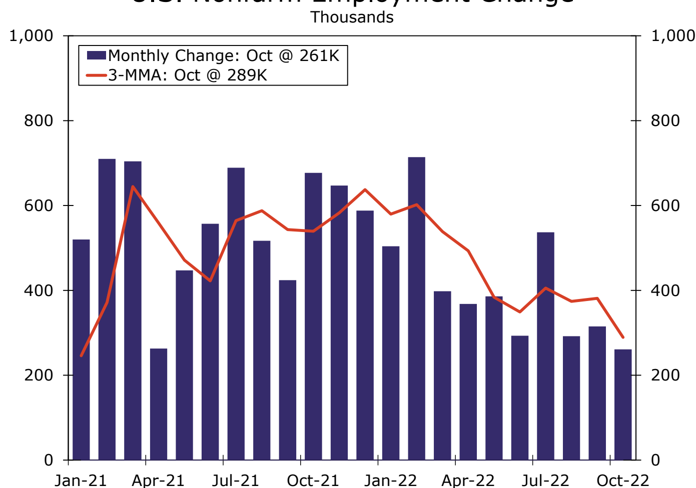
U.S. Review

Still-Tight Labor Market Continues to Give FOMC Cover to Focus on Inflation

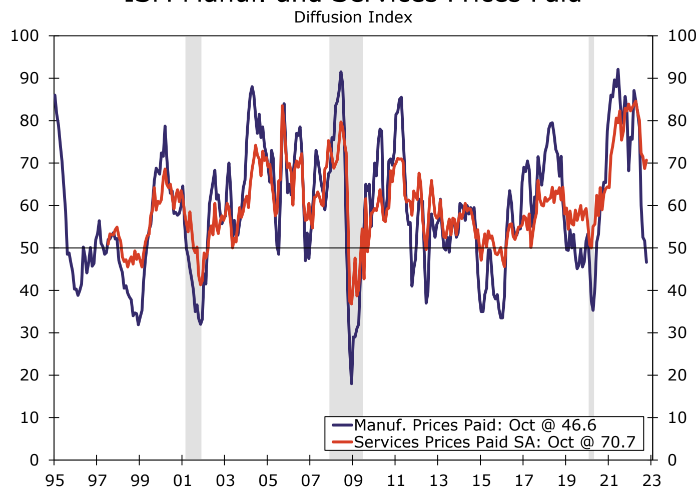
In what was a widely anticipated decision, the FOMC elected to lift the target range for the federal funds rate 75 bps at the conclusion of its November policy meeting this week to a range of 3.75%-4.00%. We analyze the meeting in more detail in this week's Interest Rate Watch section. In short, we think the FOMC is prepared to slow the pace of tightening at future meetings, though it is not done tightening yet. The risk of not tightening enough and inflation becoming entrenched outweighs the risk of over-tightening. We still anticipate the FOMC will deliver a 50 bps rate hike in December, though the size of the hike depends largely on the incoming data. Specifically, the November employment report and two CPI reports released before the next policy meeting on December 14.

The October employment report closed out the week and showed employers continued to add workers at a rapid clip. Employers added 261K net new jobs in October, beating the consensus expectation for a 195K gain (chart). This also came on top of some upward revisions to past data, but the fever still looks to be breaking on hiring with the three-month average pace of hiring falling to the slowest pace since the start of 2021. Job gains were fairly broad-based across sectors, and the report is still consistent with a tight labor market, which we think reinforces the idea the FOMC will keep tightening policy.

We look for job growth to moderate further over the coming months. Job openings pressed higher in September, though month-to-month movements tend to be volatile. Most measures, including the job opening rate, hiring plans and the PMI employment sub-components, indicate demand for labor is topping out. But with hiring still solid to date, the FOMC continues to largely have cover to focus primarily on inflation. We'll get the consumer price data for October next Thursday and expect prices rose 0.6% over the month. Please see our Domestic Outlook section for more detail on our expectations for next week's release.



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



Source: Institute for Supply Management and Wells Fargo Economics

The ISM surveys were a bit of a mixed bag in October. Both the ISM Manufacturing Index and ISM Services Index fell, though still above the 50-point level that is consistent with expansion. The report on manufacturing conditions indicated a slowdown in new demand, but that price pressure was starting to abate in the sector. Specifically, the prices paid component slipped below the 50 threshold, designating expansion from contraction. This stands in contrast to what we saw in the services sector, where providers are not seeing the same price relief as manufacturing producers (chart). Wholesale trade was the only "services" industry out of the 18 included in the report to cite a decrease in prices paid last month. The services report broadly suggests activity is holding up slightly better than in manufacturing, though selected comments from purchasing managers and a contractionary read on the employment component suggest firms are growing concerned of coming economic conditions, and that is weighing on activity. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
10-Nov	CPI (MoM)	Oct	0.7%	0.6%	0.4%
10-Nov	CPI (YoY)	Oct	8.0%	8.0%	8.2%
10-Nov	Core CPI (MoM)	Oct	0.5%	0.5%	0.6%
10-Nov	Core CPI (YoY)	Oct	6.6%	6.5%	6.6%

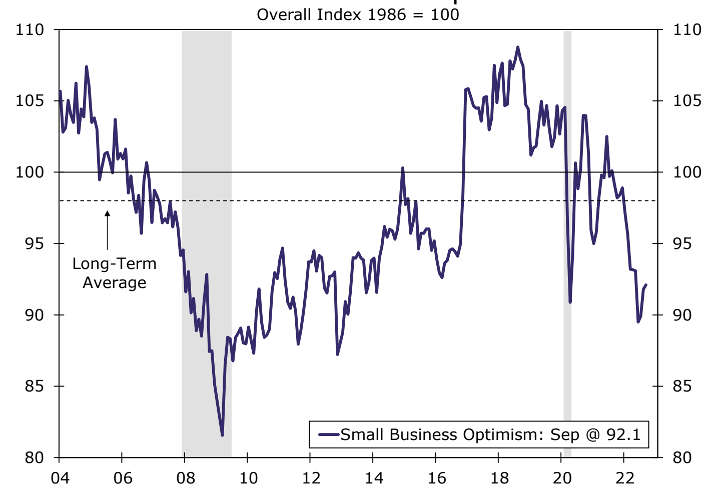
Forecast as of November 04, 2022

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

NFIB Small Business Optimism • Tuesday

After October's 261K gain in payrolls, the next useful indicator we get on the pulse of the economy is the October NFIB report on Tuesday. Over the past few months, small business optimism has dissipated, with rising inflation and labor market issues crowding out sales as the top problem facing owners today. Despite the decline in optimism, a large net percentage of business owners still plan to hire workers, a sign that labor market tightness persists with elevated labor demand. Business owners may be fearing inflation, having under-qualified workers or not being able to hire workers altogether, but the concerns around their demand outlook today are not the same as the drivers of flagging demand that characterized this survey in the first half of the post-Great Recession expansion. Demand is still there, even if storm clouds are coming in.

That said, the consensus expects the headline optimism index to dip slightly to 91.5. Should that happen, it will be interesting to pick apart whether it is hiring difficulties, inflation or something else that is the culprit amid the stormy outlook. With a net -44% of firms expecting the economy to improve in the next six months in September, next week's NFIB survey may very well reflect a majority of the respondents preparing for a downturn.



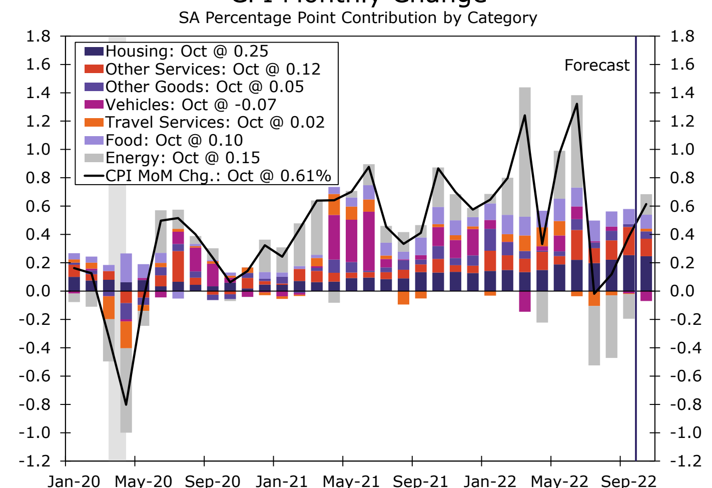
Source: NFIB and Wells Fargo Economics

CPI • Thursday

The CPI looks set to make waves again in October. While the headline index is expected to slip to 8.0% year-over-year, we look for the monthly gain to strengthen to 0.6%. We expect to see a rebound in the price of gasoline and a still-high, albeit moderating, rate of food inflation drive the headline increase.

Core inflation is likely to slow a touch, but remain uncomfortably high with a 0.5% monthly increase. We anticipate September's core goods inflation slowdown continued in October with a 0.1% monthly drop in prices, led by a decline in used vehicle prices. Furthermore, inventory rebuilding among retailers suggests that the basis for sustained goods inflation is limited. However, core services inflation appears set to remain strong. Price increases in labor-intensive services have lagged increases in the cost of labor, providing scope for continued growth in services inflation.

While softer core inflation in October, if realized, would indicate that inflation is at least no longer worsening, a return to the Fed's 2% target remains a long way off and will keep the Fed in tightening mode for some time.

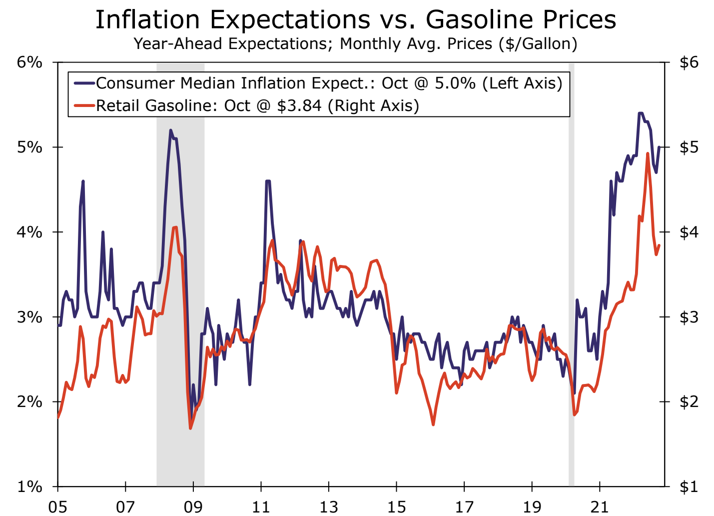


Source: U.S. Department of Labor and Wells Fargo Economics

Consumer Sentiment • Friday

Consumer sentiment will wrap up the week, providing early insight on November, as it is released just 11 days into the month. Last month saw an upside surprise to the headline sentiment index, with a modest increase in optimism. This report may be similar to last month's increase, a bright ray of cheapening gas amid the storm of an economy going toward a recession. The consensus forecast is for a slight 0.3 decrease, leaving sentiment at a historically low 59.6.

Inflation expectations are the most closely watched subcomponent of this release, as they allow the Fed to assess if inflation is becoming engrained in the mindset of households. This will be the first of two readings the Fed will see before the December FOMC meeting. Chair Powell focused on expectations in his August 2022 speech at Jackson Hole, and again pointed to these expectations during the Q&A portion of the November FOMC post-meeting press conference. Notably, medium-term inflation expectations are of greater importance for the Fed. The measure of median 5-10 year inflation expectations has returned to 2.9% after a period earlier this year above 3.0%, while the year-ahead median expectation rose back up to 5.0% from 4.7% the proceeding month. The Federal Reserve will be watching these indicators for evidence that its four consecutive 75 bps hikes are affecting consumers and dampening their inflation concerns. (Return to Summary)



Source: University of Michigan, Bloomberg Finance L.P. and Wells Fargo Economics

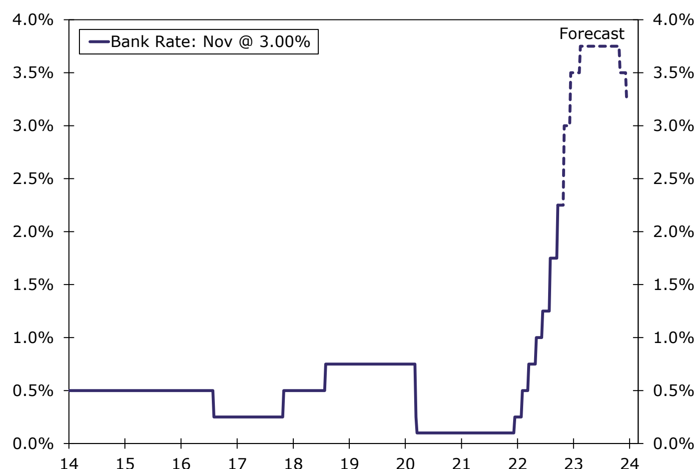
International Review

Bank of England Hints at a Slowdown

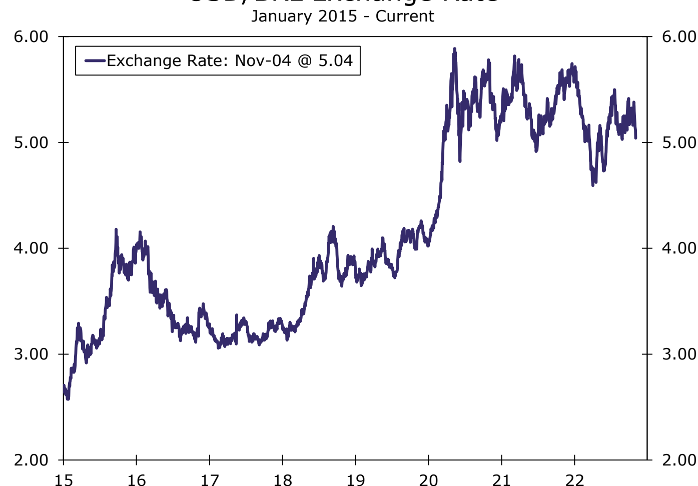
The Bank of England (BoE) raised its policy rate aggressively at this week's monetary policy announcement, raising its Bank Rate by 75 bps to 3.00%. The increase matched the consensus forecast; however, there were also signals from the BoE that the pace of tightening will likely slow going forward. First, while all policymakers voted to raise interest rates, the size of the rate hike was not unanimous. Seven policymakers voted for the 75 bps increase, while one voted for 50 bps and one voted for 25 bps. Second, the BoE offered updated economic projections conditioned on the market's interest rate expectations as of late October, which at the time saw a peak policy rate of around 5.25% by Q3-2023. In addition to raising interest rates and specifically referring to that 5.25% peak rate, the BoE said

"Should the economy evolve broadly in line with the latest Monetary Policy Report projections, further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets."

The central bank's updated economic projections do not make for such a pleasant reading, and offer a clear indication as to why the BoE believes interest rates could rise at a less rapid pace than previously. Higher mortgage rates and tighter financial conditions are expected to weigh on economic activity. And even though an energy price cap policy means inflation should peak at a lower rate than previously, elevated inflation is still expected to weigh on incomes and growth for an extended period. Against this backdrop, the BoE's central projections anticipate U.K. GDP declining for eight consecutive quarters, with a peak-to-trough decline of almost 3%. The BoE forecasts full-year 2023 GDP growth at -1.6%, and full-year 2024 GDP growth at -0.9%. Thus, while the BoE remains concerned about inflation, we ultimately believe a sharp economic downturn will be the key factor that brings the central bank's policy rate increases to an early end, likely during the initial months of 2023. That would particularly be the case if CPI inflation shows signs of having peaked, or if there is a significant and sustained decline in wholesale energy prices. And with the prospect of further fiscal consolidation to be announced shortly, less fiscal impulse could also rein in the extent of Bank of England tightening. In fact, following this week's announcement we now forecast slightly less tightening from the Bank of England than previously. We expect a 50 bps rate increase in December, and a final 25 bps increase in February next year. That would see the policy rate peak at 3.75%, which is still well below the peak of around 4.65% forecast by market participants.



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



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

Lula's Back in Brazil

This past weekend, Lula da SIlva (Lula) officially completed his return and will be president of Brazil again. Opinion polls indicated strong support for Lula from the onset of the election cycle, and while the race was closer than polls suggested, Lula secured his third term in office and a return to politics that was once deemed impossible. Lula's win completes Latin America's second “Pink Tide”—a term once used to describe a wave of left-leaning political candidates that won presidential elections across the region in the 1990s and 2000s. In the aftermath of COVID, this “Pink Tide” theme has unfolded again, especially in the larger Latin American countries. Left-leaning and/or unorthodox candidates have secured the presidency in countries such as Peru, Chile and Colombia, and the election of Lula firmly integrates Brazil as part of this theme. But with Lula now formally elected and the second Pink Tide complete, along with incumbent President Bolsonaro seemingly not willing to challenge the outcome of the vote, the focus will shift to Lula's cabinet member selections.

First, Lula's cabinet member selections and who he chooses as advisors will be of particular importance to market participants. On the campaign trail, Lula preached fiscal moderation, which he followed through on by selecting Geraldo Alckmin, the former governor of São Paulo and a fiscally prudent center-right politician, as vice president. Alckmin is certainly an indication of fiscal moderation; however, market participants will be keenly focused on who Lula chooses as finance minister and economy minister in the lead up to inauguration. Hints from the incoming administration suggest Henrique Meirelles, a former central bank chief and ex-finance minister known for his technocratic and pragmatic policies, could be at the top of the list for the job. Should Meirelles indeed be named finance minister, markets would take this selection positively, as Meirelles would be viewed as another step toward fiscal prudence by Lula. In addition to cabinet choices, Lula's comments will be scrutinized carefully by the international investment community, especially language related to Brazil's constitutional spending cap. Lula is suggesting repealing the current spending limitations and implementing a new set of fiscal spending laws, although details around a new spending cap are unavailable as of now. More centrist cabinet members would suggest new spending limitations; however, Lula promised to increase social spending and enhance conditional cash transfers during the election cycle. If Lula reiterates those promises without a clear and cohesive funding plan, the international investment community could become concerned rather quickly and Brazilian financial markets could come under pressure ahead of Lula's inauguration.

However, over the longer term, we believe the outlook for Brazil's currency could be noticeably brighter. Most valuation methodologies suggest the Brazilian real is undervalued, while the underlying fundamentals of Brazil's economy are relatively strong on a forward-looking basis. Political risk tends to hover over the Brazilian real, but our assumption for fiscal prudence from the incoming Lula administration should lift a significant amount of political risk off the currency. With political risk set to ease and valuations attractive, the Brazilian real could be in position to experience a prolonged rally over the second half of 2023 and into 2024. To that point, we forecast the USD/BRL exchange rate to reach BRL5.00 by early 2024 and eventually trend below BRL5.00 over the course of 2024. We will certainly be paying attention to Lula's fiscal plans, and if our fiscal assumptions need to be adjusted, we will stay flexible and adjust our longer-term outlook for the Brazilian currency. But until then, we believe the Brazilian real may be nearing a period of long-term outperformance, especially within the Latin American currency complex. (Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
10-Nov	Brazil CPI (YoY)	Oct	--	--	7.17%
10-Nov	Central Bank of Mexico Rate Decision	10-Nov	10.00%	10.00%	9.25%
11-Nov	United Kingdom GDP (QoQ)	Q3	-0.4%	-0.5%	0.2%
11-Nov	United Kingdom GDP (YoY)	Q3	2.2%	2.1%	4.4%

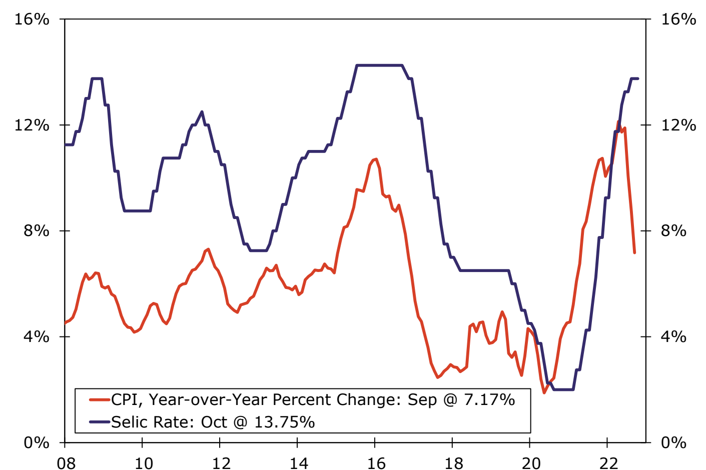
Forecast as of November 04, 2022

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

Brazil Inflation • Thursday

CPI in Brazil has trended lower over the past few months, and we expect October year-over-year inflation data to soften further. The recent drop in local inflation can be attributed to policy set under outgoing President Bolsonaro. In an effort to rally support ahead of the election, Bolsonaro implemented policy to lift taxes on energy purchases. With energy a sizable component of Brazil's CPI basket, this policy reduced the cost of oil and gas significantly and had an immediate positive impact on the direction of inflation.

With energy tax policy still in place and broader commodity prices trending lower in October, we would expect inflation to continue to soften when data are released next week. In addition, the Brazilian real has strengthened over the course of this year, which has contributed to declining inflation pressures. And with Bolsonaro not challenging the outcome of the election, the currency should remain stable and continue to contribute to positive inflation dynamics. Over the past few months, we have adjusted our annual inflation forecast lower multiple times. While the Brazilian economy is likely to slip into recession in 2023, lower inflation and increased purchasing power should result in a mild downturn.

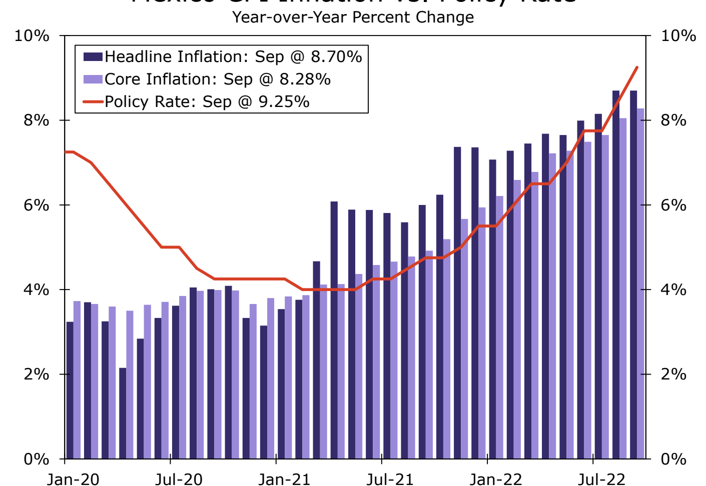


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Central Bank of Mexico • Thursday

With the Federal Reserve maintaining its hawkish stance on monetary policy and lifting interest rates 75 bps, we believe the Central Bank of Mexico will match that pace of tightening next week. Historically, Banxico has followed Fed interest rate decisions, and we do not think a decoupling will materialize next week. For what it's worth, Mexican policymakers have commented that a decoupling could be warranted if conditions change. However, with Mexico inflation still running above target and the economy relatively resilient, conditions have yet to change, and a 75 bps hike is likely to be delivered by Banxico members next week.

A 75 bps rate hike would leave Banxico as one of the last Latin American central banks that have not pivoted to a less aggressive stance on monetary policy. Peer central banks have started communicating a slowdown in their respective tightening cycles, although Mexico policymakers have yet to take their feet off the brakes. This hawkish posture has supported the Mexican peso over the course of this year and has resulted in the peso being one of the few currencies to strengthen against the dollar in 2022.

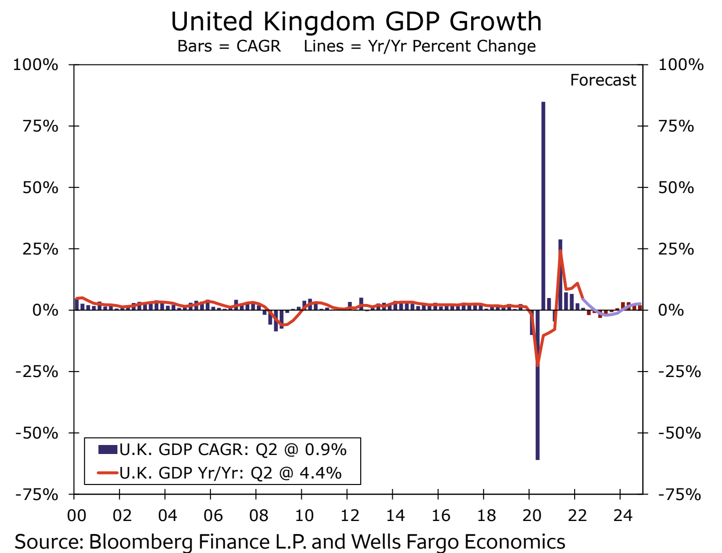


Source: Bloomberg Finance L.P. and Wells Fargo Economics

U.K. Q3 GDP • Friday

The U.K. economy is not in a very good place at the moment. Bank of England revised forecasts indicate the economy is likely in recession at the current juncture, and that recessionary conditions are set to last through 2024. With Q3-2022 GDP data set to be released next week, actual data could reveal that the recession is indeed under way. And with inflation spiking and additional interest rate hikes yet to be delivered, the U.K. recession could be one of the more severe recessions to materialize in the coming years.

Consensus forecasts believe the U.K. economy contracted 0.4% quarter-over-quarter in Q3. As far as our forecast, we are a bit more pessimistic and believe the U.K. economy declined 0.5% quarter-over-quarter. In our view, the U.K. recession has started, and we agree with the Bank of England's outlook that the economic downturn will last for an extended period of time. With an economic outlook that is quite dire, we also believe BoE policymakers will probably not deliver on the amount of tightening currently priced by markets. In that sense, as markets adjust to a more gradual pace of tightening, depreciation pressures on the pound are likely to persist going forward. (Return to Summary)



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

Interest Rate Watch

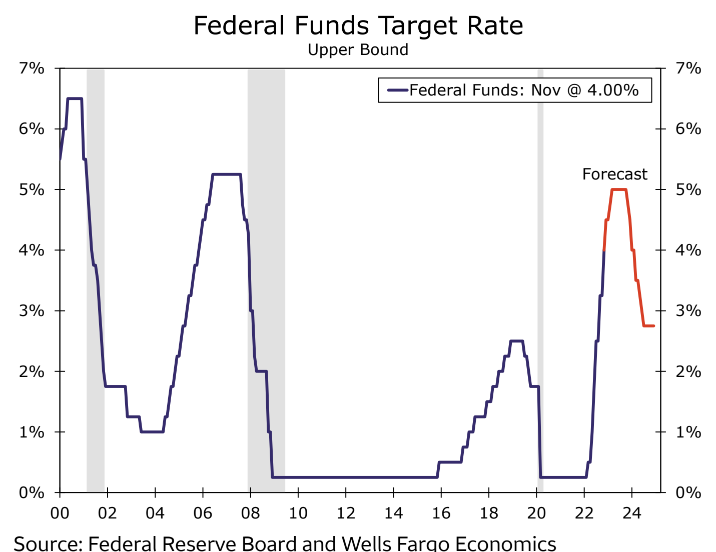
Will the FOMC Slow the Pace of Tightening in Coming Months?

As universally expected, the Federal Open Market Committee (FOMC) hiked rates by another 75 bps at its meeting on November 2, bringing the target range for the federal funds rate to 3.75%-4.00%. The Committee has increased the target range by 375 bps since March, the fastest pace of tightening since the early 1980s when, much as today, inflation was viewed as Public Enemy No. 1. Furthermore, the FOMC made it clear that further tightening lies ahead by stating "ongoing increases in the target range will be appropriate."

But the FOMC noted in its statement, for the first time in this tightening cycle, that "the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." We interpret this as a signal that the FOMC is *prepared* to slow the pace of tightening at future meetings.

In that regard, incoming data will be crucial in determining the whether the Committee actually slows the pace of tightening or not. As discussed in more detail in the U.S. Review, nonfarm payrolls rose by 261K in October. Viewed in isolation, this still-sizzling rate of job creation likely would induce another 75 bps rate hike at the next FOMC meeting on December 14. But the unemployment rate rose to 3.7% in October from 3.5% in September, and the year-over-year rate of increase in average hourly earnings edged down to 4.7% from 5.0%. These indicators would argue for a rate hike of "only" 50 bps on December 14. But there is a significant amount of data that are scheduled to be released between now and the December FOMC meeting, including another employment report (December 2) and two more CPI reports (November 10 and December 13). The decision that the FOMC makes on December 14 will be determined by the incoming data.

As we wrote in a report that we published immediately after the FOMC's announcement on November 2, we think the bar is currently high for a 75 bps rate hike on December 14. But to be clear, further tightening clearly lies ahead, unless something dramatic were to happen in coming weeks. We currently forecast that the FOMC will hike rates by 50 bps on December 14, with another 25 bps on February 1 and a final 25 bps on March 22 (chart). Chair Powell noted in his post-meeting press conference that the FOMC still has "some ways to go" on tightening policy. Furthermore, he indicated that the terminal fed funds rate may be higher than the 4.50%-4.75% target range that the Committee thought was appropriate at the time of the September FOMC meeting. Therefore, we would judge that the risks to our current forecast are skewed, at present, in the direction of more tightening rather than less. Stay tuned. (Return to Summary)



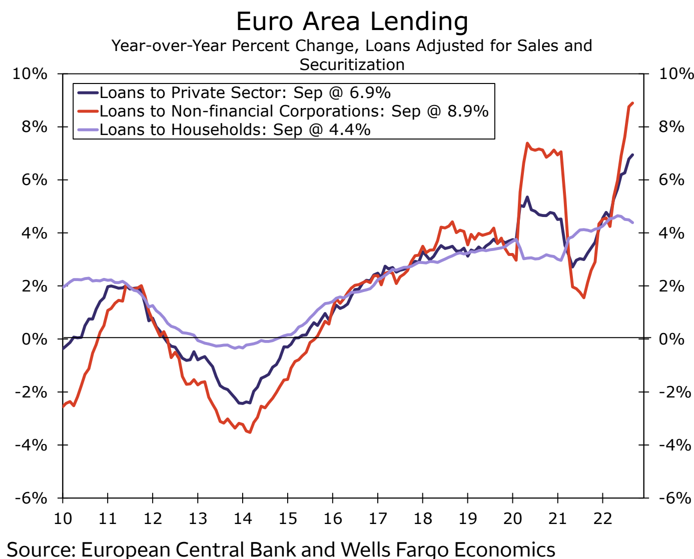
Source: Federal Reserve Board and Wells Fargo Economics

Credit Market Insights

Raising the Bar: EU Lending Standards Tighten in Q3

Last week, the European Central Bank (ECB) released its quarterly Bank Lending Survey for Q3-2022. Bank participants in the survey indicated that there was a net tightening of credit lending standards in the face of decades-high inflation and recession fears, with standards tightening for enterprises, home purchases and consumer credit. Even as borrowers experienced tightening standards, loan demand remained solid throughout the quarter, with the notable exception of mortgage demand.

Banks seemed wary of lending to firms, with a net 19% of banks reporting a tightening of standards. Net tightening in the Eurozone for these loans has surpassed the COVID-era peak of 14% for the past two quarters and is now at the highest reported level since the fourth quarter of 2011, when the bloc was in the thralls of a sovereign debt crisis. In addition to recession concerns weighing on credit standards, banks also noted collateral demand risks as having a moderate effect on tightening standards. However, demand for the loans weathered the storm with a net 13% of participants noting loan demand grew during the quarter, well above the survey's long-run average of 0%. Credit standards for those looking to finance a home purchase did not look optimistic, but neither did the demand for financing these purchases. This loan sector in particular reported the highest net tightening since the fourth quarter of 2008. Participants noted higher risk perceptions in the economy and lower risk tolerance, but cost of funds and balance sheet constraints also weighed on housing lending standards. Demand for housing loans decreased significantly, while consumer credit demand experienced a moderate increase in the quarter. Banks expect to significantly tighten standards in the fourth quarter of 2022 and expect loan demand to decline moderately.



Source: European Central Bank and Wells Fargo Economics

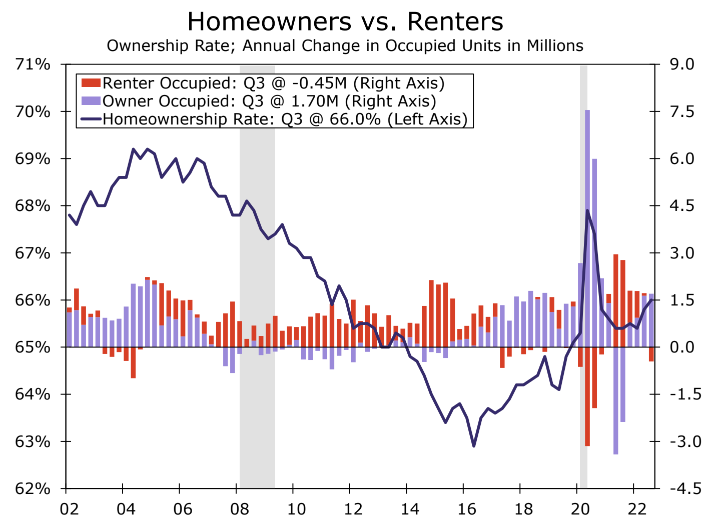
Insights on loan demand from the Bank Lending Survey are corroborated by the ECB's money and credit aggregates. Those data show loans to non-financial corporations and the private sector grew 8.9% and 6.9% respectively year-over-year in September, both experiencing the highest growth in over 10 years (chart). Loans for households also experienced solid growth at 4.4%; however, these loans have been slowly declining for the past several months.

Tighter lending standards should come as no surprise, as the Eurozone reported inflation was up 10.7% year-over-year in October. Price growth varies across the bloc, but Germany in particular is being crushed by strong price growth driven in large part by energy imbalances. The Russia-Ukraine conflict and the ECB's recent 75 bps hike in its Deposit Rate may put continued pressure on lending standards for the region. The results of the ECB's Q3 Bank Lending Survey in both review of the Q3 landscape and the outlook for Q4 are largely consistent with our view that the Eurozone is on the cusp of economic recession. (Return to Summary)

Topic of the Week

Homeownership Rises Over the Year, but Affordability Challenges Persist

The latest *Quarterly Residential Vacancies and Homeownership* report was released on Wednesday. The report shows that the U.S. homeownership rate was 66% in the third quarter, up 0.6 percentage points over the year. Household formation growth, measured by the annual change in total occupied housing units, softened to a 1.25 million-unit pace in Q3, down from 1.72 million-unit pace in Q2. Owner occupied units drove the entirety of annual household growth, with 1.7 million new units added over the year. Meanwhile, renter occupied units declined by 454,000 (chart).

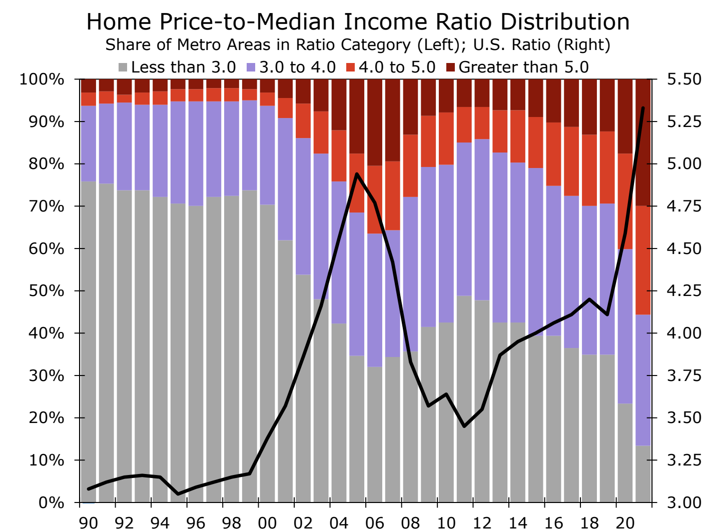


Source: U.S. Census Bureau and Wells Fargo Economics

The moderation in renter occupied units squares with separate data from CoStar, which tracks professionally managed apartments. According to Costar's preliminary estimates for Q3, apartment net absorption has moderated this year. Overall net new rental demand has not matched the pace of new completions for four consecutive quarters. The mismatch has pushed the apartment vacancy rate up to 5.6%, the highest since Q1-2021. The Census Bureau's estimate for the vacancy rate of rental properties with five or more units, which includes mom-and-pop apartments, was 6.8% in Q3.

Rising vacancies in the multifamily market are likely to put downward pressure on asking rent growth. On a quarter-over-quarter basis, CoStar estimates national apartment asking rents slipped 0.4% in Q3—the first quarterly decline since 2020. Further down the road, the large number of apartment units currently under construction are likely to damper rent growth once they deliver to the market over the next few years.

While the multifamily market is arriving at a turning point, apartment demand came into the year with plenty of momentum. Many potential home buyers have been priced out of the single-family market amid elevated prices, low inventory and rising mortgage rates. Across the country, the affordability crunch has been evident in the increasing share of metropolitan areas with a home price-to-median income ratio of 5.0 or greater (chart). For context, the national home price-to-income ratio averaged just 3.1 in the 1990s, 4.1 in the 2000s and 3.9 in 2010s, according to the Harvard Joint Center for Housing Studies (JCHS). Last year, the national ratio rose to a record-setting 5.3, up from 4.6 in 2020.



Source: Harvard JCHS and Wells Fargo Economics

More recent, the stark ascent in mortgage rates has halted home buying activity. In September, sales of new and existing homes were each running 27% below the annualized paces seen in January 2022. Since then, the average 30-year fixed-rate surpassed 7% in late October. Home price growth has started to decline on a month-to-month basis, but the level of prices remains 6% higher than the beginning of the year through August, according to the S&P CoreLogic Case-Shiller National Home Price Index.

Despite the severity and breadth of housing affordability challenges, underlying demand remains strong, especially among the large cohort of younger individuals who are reaching the age when they live on their own or buy a home for the first time. This group is more price-sensitive, however, and is at a greater risk of job loss during a recession. Should the U.S. economy tip into recession next year as we expect, household formation growth likely has more room to moderate. (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 11/4/2022	1 Week Ago	1 Year Ago
SOFR	3.80	3.04	0.05
3-Month LIBOR	4.51	4.37	0.15
3-Month T-Bill	4.12	4.05	0.03
1-Year Treasury	4.62	4.31	0.15
2-Year Treasury	4.71	4.41	0.42
5-Year Treasury	4.36	4.18	1.11
10-Year Treasury	4.16	4.01	1.53
30-Year Treasury	4.24	4.14	1.96
Bond Buyer Index	4.06	4.16	2.10

Foreign Exchange Rates

	Friday 11/4/2022	1 Week Ago	1 Year Ago
Euro ($/€)	0.990	0.997	1.155
British Pound ($/£)	1.128	1.162	1.350
British Pound (£/€)	0.877	0.858	0.856
Japanese Yen (¥/$)	147.240	147.600	113.760
Canadian Dollar (C$/$)	1.353	1.360	1.246
Swiss Franc (CHF/$)	0.998	0.996	0.913
Australian Dollar (US$/A$)	0.643	0.641	0.740
Mexican Peso (MXN/$)	19.527	19.796	20.544
Chinese Yuan (CNY/$)	7.185	7.252	6.397
Indian Rupee (INR/$)	82.435	82.471	74.460
Brazilian Real (BRL/$)	5.044	5.295	5.604
U.S. Dollar Index	111.379	110.752	94.347

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

Foreign Interest Rates

	Friday 11/4/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	3.36	3.37	0.23
3-Month Canada Banker's Acceptance	4.59	4.55	0.48
3-Month Yen LIBOR	-0.03	-0.03	-0.08
2-Year German	2.14	1.94	-0.71
2-Year U.K.	3.09	3.26	0.50
2-Year Canadian	4.13	3.85	0.98
2-Year Japanese	-0.04	-0.05	-0.10
10-Year German	2.30	2.10	-0.22
10-Year U.K.	3.55	3.48	0.94
10-Year Canadian	3.49	3.24	1.66
10-Year Japanese	0.26	0.25	0.07

Commodity Prices

	Friday 11/4/2022	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	91.35	87.90	78.81
Brent Crude ($/Barrel)	97.58	95.77	80.54
Gold ($/Ounce)	1671.02	1644.86	1792.04
Hot-Rolled Steel ($/S.Ton)	678.00	710.00	1790.00
Copper (¢/Pound)	367.55	342.90	432.05
Soybeans ($/Bushel)	14.19	13.83	12.40
Natural Gas ($/MMBTU)	6.16	5.68	5.72
Nickel ($/Metric Ton)	22,703	22,274	19,263
CRB Spot Inds.	553.17	557.30	646.04

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