Economics

WELLS FARGO

Weekly — February 16, 2024

Weekly Economic & Financial Commentary

United States: **Little Love in January Data**

- Economic data were stuck in the doldrums this week, highlighted by a hot January CPI print. The out-of-consensus start to the year for economic data continued with a slip in retail sales and industrial production followed by a startling 14.8% drop in housing starts during January.
- Next week: LEI (Tue.), Existing Home Sales (Thu.)

International: **International Data Deliver Downside Surprises**

- This week in international data, U.K. Q4 GDP fell 0.3% quarter-over-quarter, and January inflation was slower than forecasted, holding steady at 4.0%. Japan's GDP was also weak, reporting an unexpected decline. Australia's January labor market report was disappointing, with employment virtually unchanged, while the jobless rate rose more than forecast to 4.1%.
- Next week: Canada CPI (Tue.), Eurozone PMIs (Thu.)

Interest Rate Watch: **Central Banks on Hold for Longer?**

- We explain why we think the FOMC is still on pace to cut rates by 25 bps at its May 1 meeting despite this week's higher-than-expected print on CPI inflation in January. We look for the European Central Bank to reduce its policy rate by 25 bps on April 11. That said, we readily acknowledge that both central banks could wait longer to ease policy than we currently anticipate.

Credit Market Insights: **Housing Affordability Update**

- The affordability of the U.S. housing market continues to be bifurcated across prospective and existing homeowners as the differential between rates for new mortgages and the average existing mortgage widens. Purchase affordability has reached its lowest level in close to 40 years. Meantime, existing homeowners have yet to directly feel the pinch of higher mortgage rates.

Topic of the Week: **Slow to Find Shelter from Inflation**

- The strengthening in January's CPI for owners' equivalent rent (OER) stood in contrast to leading measures of shelter inflation and moderation in rent of primary residences (RPR). We expect to see some payback next month, but January's gap between OER and RPR growth hints at a firmer path for OER ahead as the single-family rental market remains tight amid low purchase affordability.

Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.

Wells Fargo U.S. Economic Forecast

	Actual 2023				Forecast 2024				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023	2024	2025
Real Gross Domestic Product [1]	2.2	2.1	4.9	3.3	2.4	1.3	1.0	1.1	1.9	2.5	2.4	1.7
Personal Consumption	3.8	0.8	3.1	2.8	2.9	1.5	1.1	1.4	2.5	2.2	2.2	1.7
Consumer Price Index [2]	5.8	4.1	3.6	3.2	2.9	2.8	2.4	2.3	8.0	4.1	2.6	2.2
"Core" Consumer Price Index [2]	5.6	5.2	4.4	4.0	3.6	3.2	3.1	2.8	6.1	4.8	3.2	2.4
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.25	2.02	5.23	4.81	3.63
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.80	6.60	6.35	6.05	5.38	6.80	6.45	5.76
10 Year Note	3.48	3.81	4.59	3.88	4.00	3.85	3.70	3.60	2.95	3.96	3.79	3.51

Forecast as of: February 08, 2024 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

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.

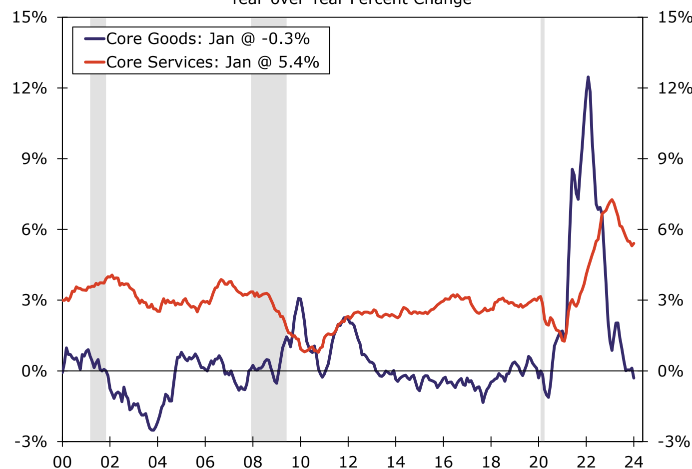
U.S. Review

Little Love in January Data

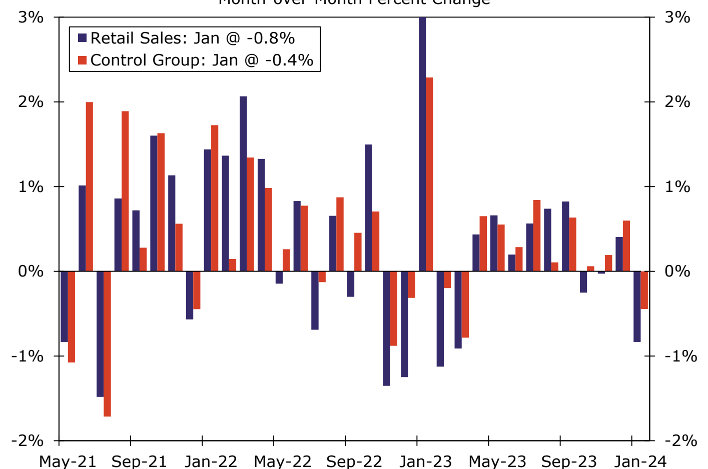
Economic data were stuck in the doldrums this week, highlighted by the latest bump in the road back toward 2% inflation. January CPI data came in hotter than expected, propelled in part by an outsized jump in energy services and food prices. Excluding food and energy, core CPI rose 0.4% in the month, also eclipsing consensus estimates. Peeling back the layers, core goods prices declined over the month alongside a fall in used car prices. Core goods inflation is now largely back to its pre-pandemic pace. By contrast, core services inflation continues to be elevated. Core services prices advanced 0.7% over the month, the largest gain in 16 months. At the center of the monthly gain was a move higher in price growth for owners' equivalent rent, medical care services and travel services, such as airfares and hotels. Despite the hot reading, we believe core services inflation will continue to trend down in the months ahead. Primary shelter prices, which we cover more in-depth in Topic of the Week, have room to decelerate based on leading indicators for this series, and the jump in travel-related prices is unlikely to be sustained.

All of that being said, January's hot CPI report marked the second month in a row inflation exceeded expectations and is a reminder that despite a trend decline in inflation over the past year, the battle is not yet over. Indeed, the run rate of core CPI inflation has trended upward over the past five months. Since bottoming out at 2.6% in August of last year, the three-month annualized rate of core CPI growth has risen to 4.0% through January. Such developments are not likely to lower the FOMC's confidence that inflation is completely under control. Our base case is for the FOMC to commence its rate-cutting cycle at its May meeting. However, there remain two more CPI reports between now and the May FOMC meeting, as well as a host of other economic data. If the downward trend in inflation continues to stall, we acknowledge that the first rate cut could slip into the summer.

Retail sales surprised to the downside to start 2024. Overall retail sales slipped 0.8% over the month, the largest drop in 10 months. January spending is typically affected by a post-holiday pullback and colder weather, subjecting it to considerable seasonal adjustment. With those factors in mind, the disappointing report implies that unadjusted sales were even weaker last month. Even when controlling for volatile components such as autos and food services, monthly sales still slumped. Weak spending was broad-based across retailers, implying a general pullback in consumer spending rather than selective cutbacks. One bright spot in the data was a boost to food services & drinking places sales, suggesting service-sector activity held up to start the year. Although eye-catching, January's drop in retail sales likely does not indicate that a sustained pullback in consumption is forthcoming. Households continue to benefit from real income gains, and a sturdy labor market should continue to support consumer spending.



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



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

Less sturdy was the manufacturing sector, which continued to fly at stall speed in January. Industrial production ticked down 0.1% over the month as high rates have kept the sector in a holding pattern over the past year. Weakness was concentrated in manufacturing and mining output, which comprise about 90% of the total industrial production index. A jump in utilities production helped offset declines in other categories, but overall industrial activity continues to be constrained by economic uncertainty and higher financing costs crimping capex investment. We look for production to firm up in the second half of 2024 as the Federal Reserve eventually eases monetary policy.

Housing Starts Plunged in January Alongside Harsh Weather

The out-of-consensus start to the year for economic data continued with a startling 14.8% drop in housing starts during January. The drop occurred in both single-family and multifamily starts. Here, the weather appears mostly to blame. During January, wide swaths of the nation experienced cold temperatures, snow, heavy rainfall and flooding, conditions which are hardly conducive to construction. Through the monthly volatility, however, the diverging trend between single-family construction and weakening multifamily development remained in place. Single-family permits rose 1.6% during January, and they have steadily risen over the course of the past year and are now up nearly 36% since reaching a bottom in January 2023. The improvement reflects builders becoming more confident in future sales on account of eroding resale affordability and their ability to boost demand through price discounts, mortgage rate buy-downs and other sales incentives. A solid gain in February's NAHB Housing Market Index indicates that lower mortgage rates recently are further lifting the spirits of home builders. By contrast, a 7.9% decline in multifamily permits is the latest sign that apartment and condo development is moving into a lower gear alongside deteriorating apartment market conditions, largely stemming from the wave of recently delivered projects as well as a robust pipeline of under-construction units.

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U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
20-Feb	Leading Economic Index (MoM)	Jan	-0.3%	-0.3%	-0.1%
22-Feb	Existing Home Sales (SAAR)	Jan	3.97M	4.0M	3.78M

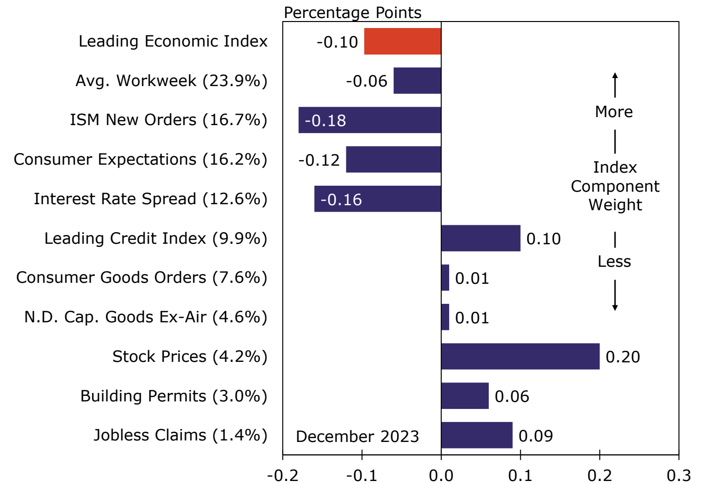
Forecast as of February 16, 2024

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

Leading Economic Index • Tuesday

While many economists no longer look for recession in the near term, some time-honored recession indicators, such as the inverted yield curve and Leading Economic Index (LEI), are still blinking red. At the end of 2023, the LEI posted its 22nd consecutive decline and stood only three points higher than it did in April 2020.

We suspect the index continued to fall in January and look for a 0.3% decrease. Stock prices marched higher over the month, consumer expectations jumped, the new orders component of the ISM manufacturing index broke into expansionary territory and initial jobless claims were essentially flat. Despite these positive developments, consumer sentiment and manufacturing new orders are rebounding from low levels, and the interest rate spread remains deeply inverted. Since these components are heavily weighted in the LEI, the monthly outturn is likely to be modestly negative. Should sentiment continue to strengthen in the coming months, the LEI may finally post an increase this year.



Source: The Conference Board and Wells Fargo Economics

Existing Home Sales • Thursday

The for-sale home market has seen better days. Existing home sales moderated to a 3.78 million-unit annual pace in December —the slowest since 2010. Most of the contracts that closed in December were likely locked in at the above-7% rates that prevailed in late October and November. The average 30-year fixed mortgage rate has edged lower since then and was hovering around 6.6% in late December and throughout January, per Freddie Mac. The move appeared to support the 8% jump seen in both pending home sales and mortgage purchase applications in December. As these series tend to lead existing home sales by one to two months, their rebounds suggest resales perked up at the beginning of the year. We forecast existing home sales increased just under 6% to a 4.0 million-unit annual sales pace in January. If realized, that would mark the strongest run-rate since August 2023.

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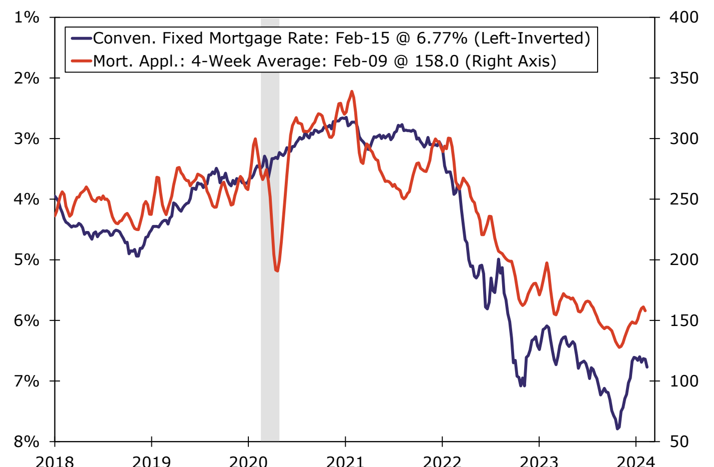


Source: Freddie Mac, Mortgage Bankers Association and Wells Fargo Economics

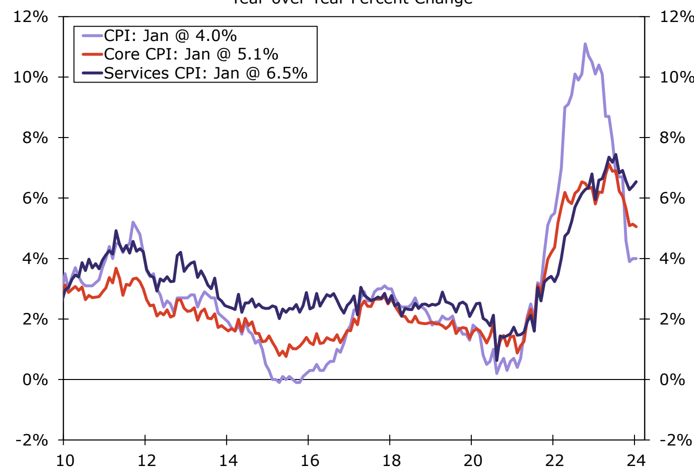
International Review

Mix of United Kingdom Data Delivers Some Downside Surprises

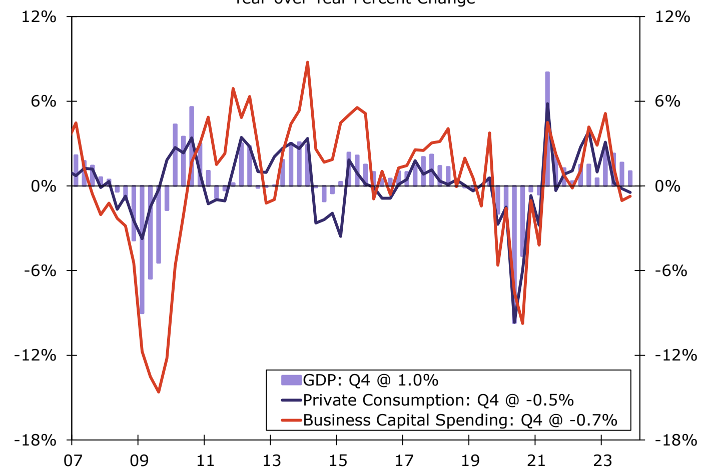
This week saw a slew of important data from the United Kingdom. It kicked off on Tuesday, with December labor market data showing that wage growth slowed but by less than expected, and unemployment ticked down. Average weekly earnings—measured as a comparison between the three months to December in 2023 and 2022—eased to 5.8%, versus expectations for a slowing to 5.6%. Bank of England (BoE) policymakers are also especially interested in regular pay for private sector employees, which slowed to 6.2%, whereas the central bank's forecast was 6.0%. Turning to other labor market metrics, the unemployment rate ticked down to 3.8%, though questions remain about the quality of the data released by the Office for National Statistics (ONS) amid concerns around low survey responses. BoE governor Andrew Bailey noted these concerns in a Wednesday speech.

In contrast to the upside surprises in wages, the January CPI delivered some downside surprises, creating a somewhat mixed picture for recent wage and price developments. Both remain top of mind for market participants and policymakers alike as potential rate cuts loom on the horizon. Headline and core year-over-year inflation held steady at 4.0% and 5.1%, respectively, against expectations for each to tick slightly higher. Digging into the details, the housing and household services as well as transportation components exerted the most upward pressure on the headline figure, while furniture and household goods as well as food and non-alcoholic beverages dragged it down. Services inflation—which is closely watched as one measure of underlying price pressures—inched higher to 6.5%, though this move was modest in light of consensus expectations for a quickening to 6.8%. Looking ahead, the current outlook is for inflation to resume its downward trend over the coming months; the central bank forecasts headline and services inflation to ease further through June.

In addition to wage and price data, this week also saw the release of U.K GDP growth data, another relevant factor for the Bank of England monetary policy outlook. Q4 GDP was weaker than expected, falling 0.3% quarter-over-quarter and 0.2% year-over-year. That was the second quarterly decline in GDP in a row, meaning that the U.K. fell into technical recession during the second half of last year. The details of the report were a bit mixed, as consumer spending fell 0.1% quarter-over-quarter, but business investment rose 1.5%. The quarter also ended on a mildly soft note, as December GDP fell 0.1% month-over-month, with services activity also down 0.1%. However, despite weak Q4 economic activity, we still think the U.K. economy can stage a gradual recovery as 2024 progresses. Real employee compensation firmed modestly to 1.4% year-over-year in Q4—a potentially supportive factor for consumer spending moving forward—and the manufacturing and service PMIs have also improved in recent months. Taken all together, we think the mixed wage and price data and moderately soft growth figures remain consistent with our view for an initial 25 bps rate cut in June. While growth has remained subdued, we believe the BoE is still firmly committed to returning inflation to target and, as a result, do not believe this week's batch of data has significantly altered the expected timing of an initial Bank of England rate cut.



Source: Datastream and Wells Fargo Economics



Source: Datastream and Wells Fargo Economics

Speaking of Downside Surprises

The United Kingdom was not the only country to report a technical recession this week, as Japan's Q4 GDP surprised market participants with an unexpected decline. Q4 GDP fell by 0.4% quarter-over-quarter annualized, on top of a downwardly revised 3.3% decline in Q3. The details of the Q4 report were also weak, as private consumption shrank at a 0.9% pace, while capital spending shrank at a 0.3% pace. The second straight decline in Japan's GDP will no doubt raise some concerns for Bank of Japan (BoJ) policymakers about the economy achieving a sustainable growth trajectory. In that context, and in terms of the outlook for BoJ monetary policy, we believe the incoming monthly earnings data and the outcome of the ongoing Spring wage talks take on even greater importance. We view stronger wage growth as important for two reasons. First, it would boost growth in real household incomes, which would be a key factor supporting growth in consumer spending and overall GDP. Second, stronger wage growth would also increase the likelihood of the central bank sustainably achieving its 2% inflation target. In our view, the disappointing Q4 GDP report takes the possibility of a March rate hike off the table. We believe an April rate increase is still possible, and indeed remains our base case, but that will be heavily dependent on the results of the wage talks. Should the outcome of the wage negotiations disappoint, or monthly earnings data remain subdued, the risks of a later Bank of Japan move would come more clearly into view.

Continuing the theme of weak data, the Australia January labor market report was also softer than expected. January employment rose by just 500 persons, compared to the forecast for a 25,000 increase, while the unemployment rate also rose a bit more than expected to 4.1%. There was also a large fall in aggregate hours worked in January. However, the mix of employment growth was slightly more encouraging, as full-time employment rose by 11,100, offsetting the 10,600 fall in part-time employment. While we believe Australia's labor market is clearly softening, the Australian Bureau of Statistics suggested the weakness in the January report may have been exaggerated by statistical factors. Looking at the bigger picture, some softening in the labor market would be in line with the Reserve Bank of Australia's (RBA) overall outlook as it considers a gradual easing of monetary policy over time. Against that backdrop, we still think RBA monetary easing is some way away and remain comfortable with our forecast for an initial rate cut to occur in August, or later.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
20-Feb	Canada CPI (YoY)	Jan	3.2%	–	3.4%
22-Feb	Eurozone Manufacturing PMI	Feb	47.0	–	46.6
22-Feb	Eurozone Services PMI	Feb	48.8	–	48.4

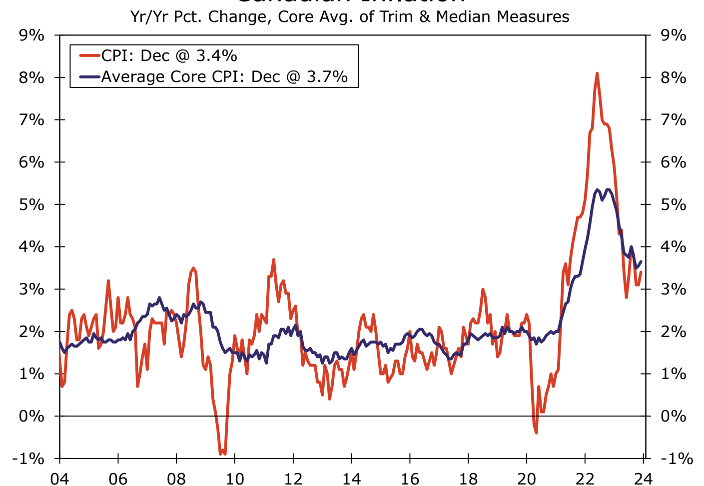
Forecast as of February 16, 2024

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

Canada CPI • Tuesday

At its January monetary policy announcement, the Bank of Canada acknowledged there has been some progress on the disinflation front, but that it is still concerned about the persistence of underlying inflation and inflation risks. In that context, the central bank indicated a shift in focus from whether the policy rate is restrictive enough, to how long the policy rate will need to stay at the current level.

For the January CPI, market participants will be watching for whether there are any hints of decelerating inflation pressures, which could hasten Bank of Canada rate cuts. So far, services inflation (including rent) has been persistent, contributing to only a gradual slowing of underlying inflation trends. In fact, both headline and core inflation ticked higher in December, to 3.4% and 3.7% on a year-ago basis, respectively. For January, headline inflation is expected to tick only modestly lower to 3.2%, while core inflation is also expected to ease only slightly. Moreover, if these forecasts are realized, both headline and core inflation would remain some distance above the central bank's 2% inflation. Against that backdrop, we don't expect the Bank of Canada to be in a rush to lower interest rates, and our view remains that the central bank won't deliver an initial 25 bps rate cut until its June monetary policy announcement.

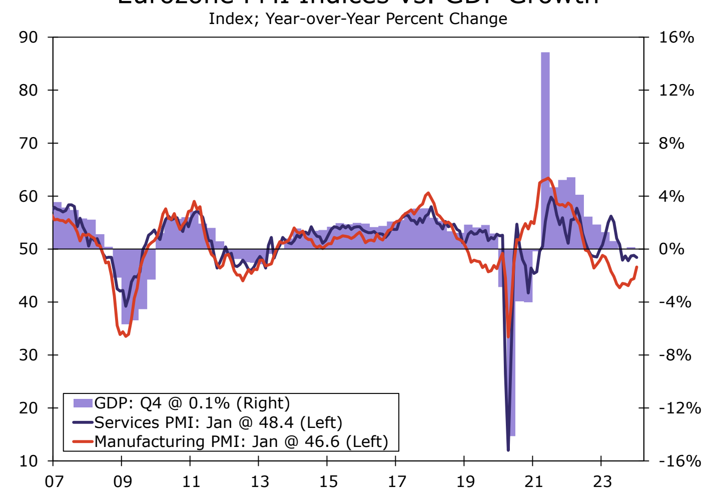


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Eurozone PMIs • Thursday

Next week's Eurozone PMIs for February should offer timely insights into the state of the region's economy as the European Central Bank (ECB) considers when to begin lowering interest rates.Stagnant growth and improving inflation trends have the ECB on course to start cutting rates in Q2-2024 in our view, and market participants will be watching the release of Feburary PMIs for clues to what an appropriate rate cut path could look like.

The Eurozone PMIs have shown overall improvement in recent months, with the January manufacturing PMI printing at 46.6 and the services PMI printing at 48.4. That said, the services PMI did slip in a bit in January, and with both indices below the breakeven 50 level, they are still at levels historically consistent with contraction. The consensus forecast is for some moderate improvement in February, with the manufacturing PMI expected to rise to 47.0 and the services PMI expected to rise to 48.8, although that would still leave both indices in contraction territory. The other components that will be especially closely watched are the input costs and supplier delivery components (for signs of supply chain and shipping disruptions) and selling prices (for signs of costs being passed through). For now, we expect an initial ECB cut to come in April. However, an especially sharp rise in the PMIs close to or above the



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

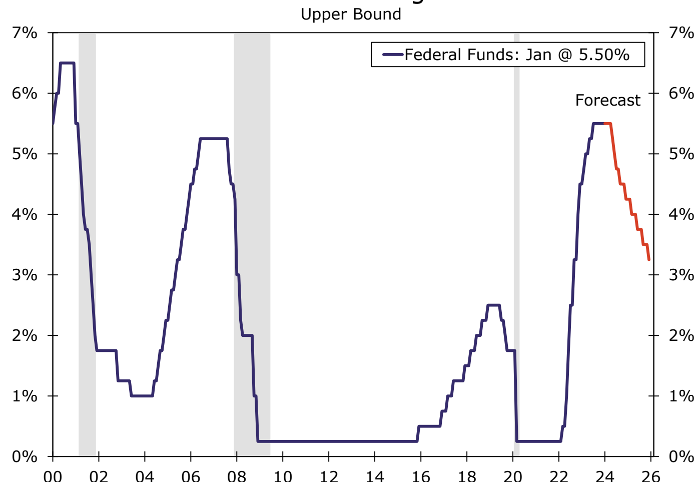
50 level, or a spike in the price components, could tilt the risks for that initial rate cut toward June. (Return to Summary)

Interest Rate Watch

Central Banks on Hold for Longer?

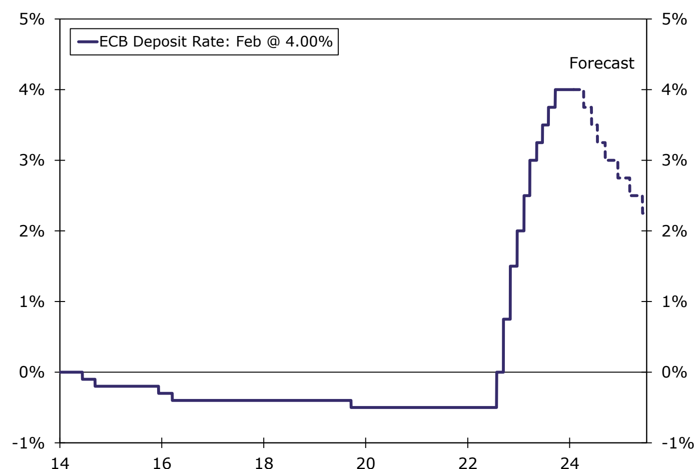
As we discussed in the U.S. Review section, the rise in consumer prices in January that was reported this week was higher than most market participants had expected. To recap, the overall CPI rose 0.3% in January relative to the previous month, while the consensus forecast had anticipated an increase of only 0.2%. Excluding food and energy, consumer prices jumped 0.4% versus an expectation of 0.3%. Heading into the data print, market pricing implied a 51% probability of a 25 bps cut in rates at the May 1 FOMC meeting. When the smoke had cleared at the end of the day on Tuesday (the day the CPI data printed), the implied probability had nosedived to only 27%.

Despite the higher-than-expected CPI print, we have not made any changes to our forecast for Fed policy. For starters, Fed officials focus more closely on changes in the personal consumption expenditures (PCE) deflator than on changes in the consumer price index (CPI), because they believe the former is a better measure of consumer price inflation than the latter. The two indices tend to be highly correlated, but they can differ because they use different methodologies and weightings. In that regard, the year-over-year rate of core CPI inflation remained unchanged at 3.9% between December and January. In contrast, the core PCE deflator was up only 2.9% in December (January data will be released on February 29). Moreover, we will get three more PCE prints between now and May 1. We look for PCE inflation to recede further in coming months, which we think will induce the FOMC to cut its target range for the federal funds rate by 25 bps on May 1 (chart). That said, we readily acknowledge that the risks to our Fed view are skewed toward remaining on hold for longer than we forecast if PCE inflation does not recede as much as we currently anticipate.



Source: Federal Reserve Board and Wells Fargo Economics

As we discussed in more detail in our February 2 weekly report, the "advance" estimate showed that real GDP in the Eurozone was flat on a sequential basis in Q4-2023 and up only 0.1% on a year-ago basis. (These numbers were confirmed by revised data that were released this week.) In addition, the core rate of CPI inflation edged down from 3.4% in December to 3.3% in January, continuing the process of disinflation that has been in train in the Eurozone since early 2023. In our view, this combination of sluggish growth and receding inflation will induce the Governing Council of the European Central Bank to reduce its main policy interest rate by 25 bps at its April 11 meeting (chart). That noted, ECB President Christine Lagarde said this week that the ECB will not make a "hasty" decision in easing policy. Therefore, like our view on Fed policy, we readily acknowledge that our forecast for commencement of ECB rate cuts is skewed toward meetings after April 11.



Source: Datastream and Wells Fargo Economics

As noted in the International Review section, real GDP in the United Kingdom contracted for the second consecutive quarter in Q4-2023, indicating that the U.K. economy has slipped into a technical recession. The weakness in economic activity in conjunction with progress on bringing inflation back to the target rate of 2% keeps alive our expectation of a 25 bps rate cut by the Bank of England's Monetary Policy Committee at its June 20 meeting.

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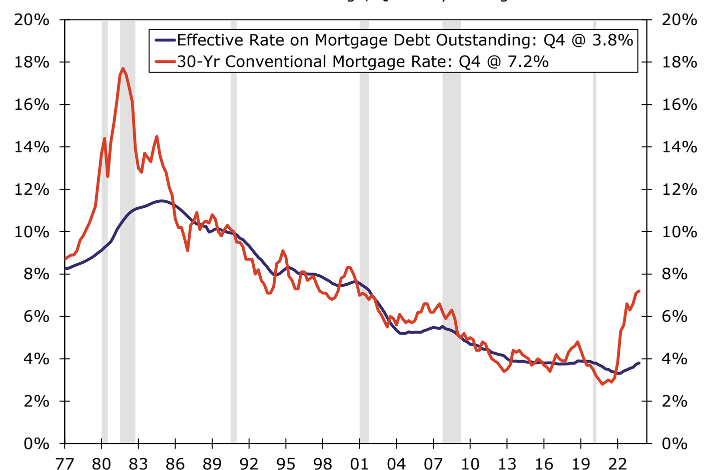
Credit Market Insights

Housing Affordability Update

The affordability of the U.S. housing market continues to be bifurcated across prospective and existing homeowners as the differential between rates for new mortgages and the average existing mortgage widens (chart). At 6.8%, mortgage rates remain elevated relative to the 4% rate averaged over the 2010s and 3% averaged in 2020-2021. That said, as the prospects for fed funds rate cuts emerged late last year, mortgage rates have dropped over a percentage point from the recent highs that pushed 7.8% in October alongside a similar fall in the 10-year Treasury yield. However, the downward momentum in both long-term rates has been quelled in 2024 thus far as the market readjusts to a 'higher for longer' policy environment. Markets were pricing in an 81.5% chance for a 25 bps rate cut in the March 2024 meeting on January 1; today, there is only a 10.6% chance. As higher rates persist, prospective home buyers face little reprieve on the affordability of purchasing a home.

Higher rates are not the only factor squeezing affordability. The structural shortage of single-family homes and its upward pressure on prices is discussed in more detail in Topic of the Week, but the upshot is that the single-family housing market remains supply-constrained. With limited options for resale, home prices are up roughly 45% over past three years, with the bulk of the gains occurring in 2021-2022, adding a double whammy of unaffordability to prospective buyers. According to the National Association of Realtors (NAR), housing affordability is currently hovering near its lowest levels since 1985. The NAR's Housing Affordability Composite Index dropped below 100 in Q2-2023 and has been sub-100 since. This indicates that a family with the median income does not have the funds necessary to purchase a median-priced, existing single-family home using conventional financing. Even with the recent turn lower in mortgage rates spurring demand for new mortgages, the level of purchase applications is significantly below that which prevailed pre-pandemic (see chart from our U.S. Outlook).



Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics

On the other hand, most existing homeowners have yet to directly feel the pinch of higher mortgage rates. Since many homeowners took advantage of the low rates immediately after the pandemic to refinance their mortgages, the effective rate on mortgage debt outstanding is just 3.8% as of Q4-2023. The low effective mortgage rate has helped put household mortgage debt service as a percentage of disposable income slightly below its pre-pandemic ratio. Most households are not strained to afford their monthly payments, and the transition into delinquency on mortgage loans is still below the pre-pandemic rate at just 3.0%.

The dichotomy in housing affordability should moderate as rates fall, but it likely isn't disappearing anytime soon. Lower rates will improve credit conditions for builders to increase construction, and if mortgage rates fall further as we currently expect, we suspect the homeowners who have been delaying their moves and sitting tight on low mortgage costs could free up inventory in the existing housing market by selling their homes. Nevertheless, the housing market will still face the music from years of muted residential construction and an unmet demand for single-family homes from the tide of younger buyers. The combination of an under-built housing market and higher structural demand from demographic factors should continue to bolster home prices and limit affordability even as Fed policy turns to easing this year.

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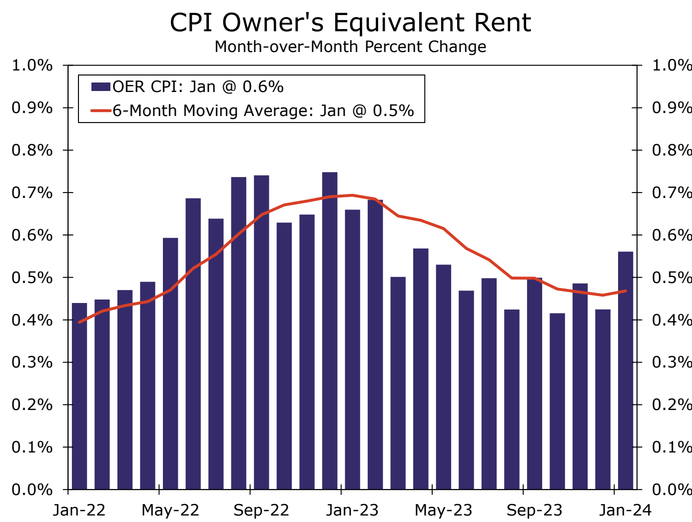
Topic of the Week

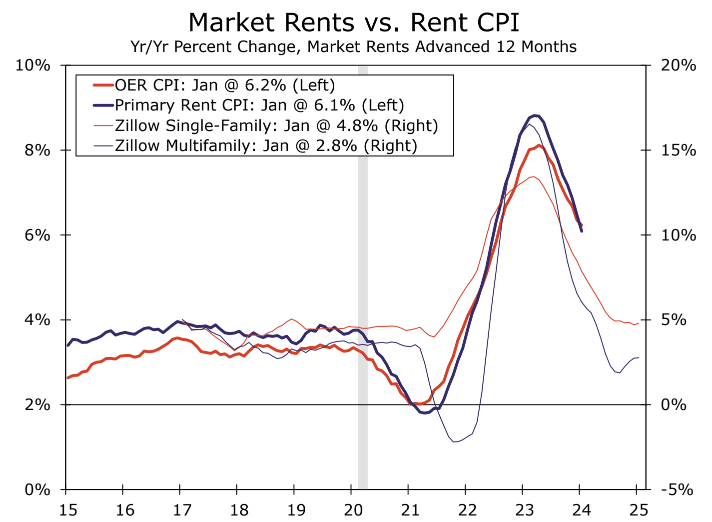
Slow to Find Shelter from Inflation

A hot CPI print early in the week was a reminder that inflation's way back to the Fed's target won't be an entirely smooth ride. Shelter inflation was a notable standout, rising 0.6% in January after increasing 0.4% in December. A fraction of the strengthening can be chalked up to the volatile lodging away from home category (+1.8%), but more eye-catching was the pickup in owners' equivalent rent (OER), which accounts for just over one-quarter of the CPI. OER increased 0.56% in January, the largest monthly gain since last April and a step up from the 0.42% rise in December (chart).

The direction, but more so the magnitude, of January's monthly change in OER came as a surprise, given that leading indicators of shelter inflation point to the cooling trend that began in early 2023 remaining in train (chart). Rental costs for single-family properties as measured by the CoreLogic Single-Family Rent Index or the Zillow Observed Rent Index for single-family residences over the past year have risen at a pace similar to before the pandemic. This suggests OER growth should continue to slow on trend in the months ahead as leases come up for renewal and more recent contract changes are captured in the CPI's sample (units are sampled on a rotating basis every six months due to the infrequent nature of rent changes, leading to the CPI measure of OER lagging "spot" rental rates).



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



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

Nevertheless, as the earlier chart showed, month-to-month moves in OER can be choppy as different units are sampled. We thus expect the monthly rate of OER growth to weaken in February. Notably, the monthly change in rent of primary residences moderated further in January. The CPI rent of primary residences (RPR) index posted the smallest monthly gain (0.36%) in more than two years and continues to follow the private sector measures of apartment rent growth lower (chart).

While some payback for January's strength in OER seems likely, the widest gap between the monthly rise in OER and RPR since 1995 seen last month hints at somewhat divergent paths ahead for the two primary shelter categories. Both categories are based on rented housing units, but units included in the rent of primary residence component are skewed more toward multifamily dwellings. The OER index, in contrast, gives greater weight to single-family rental units, as they tend to be more representative of the owner-occupied stock of housing.

Apartment rents have cooled considerably over the past two years, in no small part due to the strongest rate of deliveries relative to existing inventory in more than 20 years, according to CoStar Data. Single-family construction growth, however, has been more muted. In the second half of 2023, single-family dwellings accounted for just under 40% of housing units under construction, the smallest share in 53 years.

The relative dearth of new single-family construction comes at a time when many Millennials have reached an age where single-family living has become desirable, but Baby Boomers are aging in place, keeping home prices lofty. Along with elevated mortgage rates, purchase affordability has reached

its lowest level in close to 40 years as we discussed in Credit Market Insights. Many would-be home buyers have stayed renters as a result—some in apartments but many in single-family homes. Single-family houses as a percent of all vacant housing units for rent fell to 32% in 2023, the smallest share outside the pandemic since 2009. We look for both OER and RPR inflation to continue to slow on a year-over-year basis over the coming year, but a tighter market for single-family rental units suggests OER will be slower to recede than the smaller RPR category. This dynamic will likely keep CPI inflation elevated this year and running unusually high compared to the PCE deflator, the Fed's preferred measure of inflation, which weights OER less heavily (roughly 12% of the index versus 27% in the CPI).

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 2/16/2024	1 Week Ago	1 Year Ago
SOFR	5.31	5.31	4.55
Effective Fed Funds Rate	5.33	5.33	4.58
3-Month T-Bill	5.38	5.37	4.78
1-Year Treasury	4.88	4.75	4.95
2-Year Treasury	4.68	4.48	4.64
5-Year Treasury	4.31	4.14	4.07
10-Year Treasury	4.31	4.18	3.86
30-Year Treasury	4.46	4.37	3.91
Bond Buyer Index	3.54	3.49	3.65

Foreign Exchange Rates

	Friday 2/16/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.077	1.078	1.067
British Pound ($/£)	1.259	1.263	1.199
British Pound (£/€)	0.855	0.854	0.890
Japanese Yen (¥/$)	150.300	149.290	133.940
Canadian Dollar (C$/$)	1.347	1.346	1.346
Swiss Franc (CHF/$)	0.881	0.875	0.926
Australian Dollar (US$/A$)	0.653	0.652	0.688
Mexican Peso (MXN/$)	17.064	17.088	18.524
Chinese Yuan (CNY/$)	7.194	7.194	6.786
Indian Rupee (INR/$)	83.016	83.033	82.721
Brazilian Real (BRL/$)	4.969	4.954	5.220
U.S. Dollar Index	104.307	104.111	103.856

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

Foreign Interest Rates

	Friday 2/16/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.76	3.78	2.59
3-Month U.K. Govt Bill Yield	5.23	5.23	3.89
3-Month Canadian Govt Bill Yield	4.98	4.99	4.54
3-Month Japanese Govt Bill Yield	-0.12	-0.13	-0.18
2-Year German Note Yield	2.82	2.72	2.88
2-Year U.K. Note Yield	4.62	4.60	3.80
2-Year Canadian Note Yield	4.31	4.21	4.14
2-Year Japanese Note Yield	0.15	0.11	-0.04
10-Year German Bond Yield	2.40	2.38	2.48
10-Year U.K. Bond Yield	4.10	4.09	3.50
10-Year Canadian Bond Yield	3.60	3.54	3.29
10-Year Japanese Bond Yield	0.74	0.73	0.51

Commodity Prices

	Friday 2/16/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	78.48	76.84	78.49
Brent Crude ($/Barrel)	83.20	82.19	85.14
Gold ($/Ounce)	2009.38	2024.26	1836.36
Hot-Rolled Steel ($/S.Ton)	929.00	945.00	802.00
Copper (¢/Pound)	384.05	368.15	413.55
Soybeans ($/Bushel)	11.70	11.91	15.28
Natural Gas ($/MMBTU)	1.63	1.85	2.39
Nickel ($/Metric Ton)	16,007	15,754	25,908
CRB Spot Inds.	546.13	538.89	565.81

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