Economics

Weekly — February 23, 2024

Weekly Economic & Financial Commentary

United States: **Stowin' Away the Time**

- The economic calendar was quiet the past few days, so market participants continued to digest last week's slew of data. Stronger-than-expected inflation, underpinned by the mildly hawkish minutes from the January FOMC meeting, drove a move higher in mortgage rates. We currently forecast the first rate cut to take place in May, but the timing of that cut is at risk of slipping further into the summer.
- Next week: New Home Sales (Mon.), Durable Goods (Tue.), Personal Income (Thu.)

International: **European February PMIs Show Modestly Firmer Growth, Persisting Price Pressures**

- European February PMI surveys were mildly encouraging: The Eurozone services PMI rose more than expected, and the U.K. services PMI remained steady and comfortably in growth territory. Those same surveys showed persisting cost and price pressures across Europe. The reports increase the risk that the European Central Bank will wait until June (rather than April) to cut interest rates, while we expect the Bank of England to start lowering interest rates in June as well.
- Next week: Canada GDP (Thu.), China PMIs (Fri.), Eurozone CPI (Fri.)

Interest Rate Watch: **Why Put Off Until Tomorrow What Can Be Put Off Until the Next Day?**

- In the seven months since the Fed's last rate hike in July, Chair Powell has cautioned the best policy prescription might be to keep rates higher for longer and that any policy decision would be dependent upon the data. Financial markets have not always taken that at face value. We unpack how the expected timing of cuts has changed.

Topic of the Week: **Personal Food Expenditure: Eating Out Taking a Bigger Bite of What's Coming In**

- Consumer outlays on food as a share of disposable personal income have shifted higher over the past two years. Digging down, consumer spending on eating out as a share of income has come back with a vengeance from its brief decline during the pandemic, and it has been the biggest driver of food taking a bigger bite out of consumers' wallets.

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

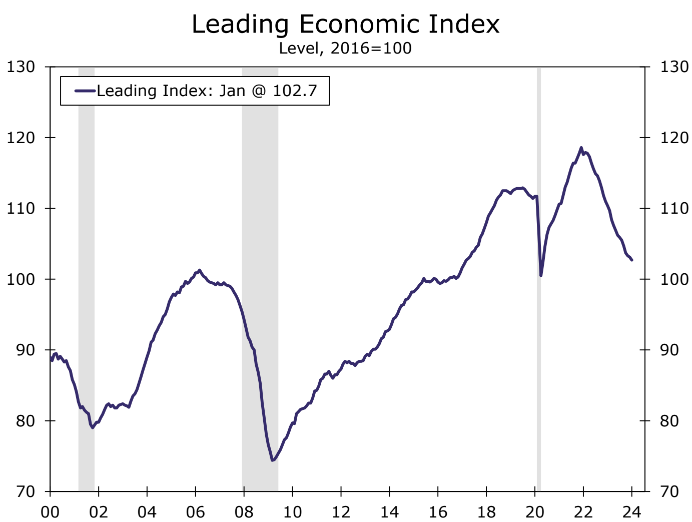
Please see our full U.S. Economic Forecast.

U.S. Review

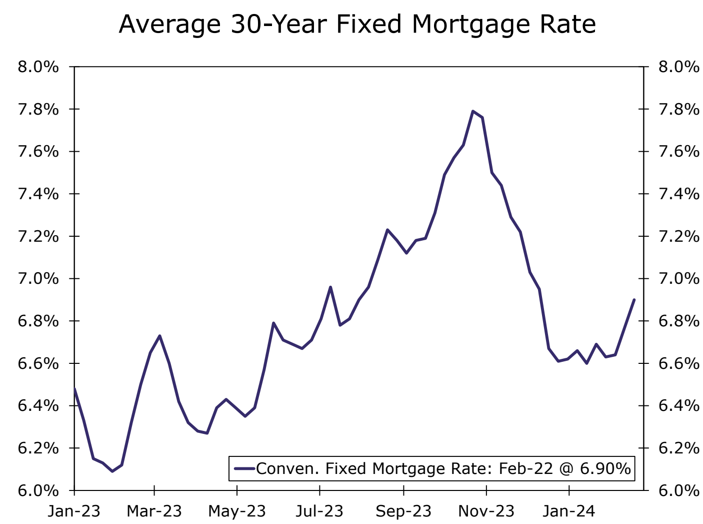
Stowin' Away the Time

The economic calendar was quiet the past few days, so market participants continued to digest last week's slew of data. Retail sales, manufacturing production and residential construction all came in weaker than expected in January, while consumer and producer price inflation were stronger than expected. The combination of slowing output amid persistently elevated price growth puts the Federal Open Market Committee (FOMC) in a tough position in terms of fine-tuning monetary policy, but some of the softness in activity can be chalked up to seasonality. We suspect the Committee will stand pat at its next meeting in March to allow for more data to come through.

The economic reports released this week were mixed, but they largely leave the narrative unchanged, in our view. The Leading Economic Index (LEI) came in slightly under expectations, falling 0.4% in January. Even though consumer expectations and the new orders component of the ISM manufacturing index jumped at the beginning of the year, sentiment is rebounding from low levels after spending much of 2023 in the doldrums. Average weekly hours in the manufacturing sector nosedived in January and the yield curve remained deeply inverted. As these components are heavily weighted in the index, the monthly outturn was negative. The LEI now stands just two points above its April 2020 low (chart), which underscores the magnitude of its out-of-sync recession signal.



Source: The Conference Board and Wells Fargo Economics



Source: Freddie Mac and Wells Fargo Economics

While the LEI continues to gesture toward tough waters ahead, the home resale market finally caught a tailwind. Existing home sales rose 3.1% in January to a 4.0 million-unit annual sales pace. The increase was widely expected as pending home sales and mortgage purchase applications perked up in December amid declining mortgage rates. The sales rebound may prove to be short-lived, however. The average 30-year fixed mortgage rate crept up 30 bps over the past few weeks to 6.9% (chart), as recent inflation data have added credence to a “higher for longer” interest rate environment.

Underpinning the move higher in mortgage rates, the minutes of the FOMC's January meeting were mildly hawkish. The Committee held its benchmark interest rate steady last month and signaled that it would not lower rates “until it has gained greater confidence that inflation is moving sustainably toward 2 percent.” In support of that stance, the minutes revealed that “most participants noted the risks of moving too quickly to ease the stance of policy and emphasized the importance of carefully assessing incoming data in judging whether inflation is moving down sustainably to 2 percent.”

While we look for the core PCE deflator, the Fed's preferred measure of inflation, to have edged down in January on a year-ago basis—see U.S. Outlook for more detail—the upside surprise in the CPI is not a confidence booster in the campaign to get inflation back down to 2% on a sustainable basis. We currently forecast the first rate cut to take place in May, but the timing of that cut is at risk of slipping further into the summer.

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U.S. Outlook

Weekly Indicator Forecasts					
Domestic					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
26-Feb	New Home Sales (SAAR)	Jan	684K	684K	664K
27-Feb	Durable Goods Orders (MoM)	Jan	-4.5%	-6.3%	0.0%
27-Feb	Durables Ex Transportation (MoM)	Jan	0.2%	0.2%	0.5%
27-Feb	Consumer Confidence	Feb	114.8	115.7	114.8
28-Feb	GDP Annualized (QoQ)	Q4	3.3%	3.2%	3.3%
28-Feb	Personal Consumption (QoQ)	Q4	2.7%	2.8%	2.8%
29-Feb	Personal Income (MoM)	Jan	0.5%	0.3%	0.3%
29-Feb	Personal Spending (MoM)	Jan	0.2%	0.4%	0.7%
29-Feb	PCE Deflator (MoM)	Jan	0.3%	0.3%	0.2%
29-Feb	PCE Deflator (YoY)	Jan	2.4%	2.4%	2.6%
29-Feb	Core PCE Deflator (MoM)	Jan	0.4%	0.4%	0.2%
29-Feb	Core PCE Deflator (YoY)	Jan	2.8%	2.8%	2.9%
1-Mar	ISM Manufacturing Index	Feb	49.5	49.3	49.1
1-Mar	Construction Spending (MoM)	Jan	0.2%	0.6%	0.9%
1-Mar	Total Vehicle Sales	Feb	15.45M	15.1M	15.0M

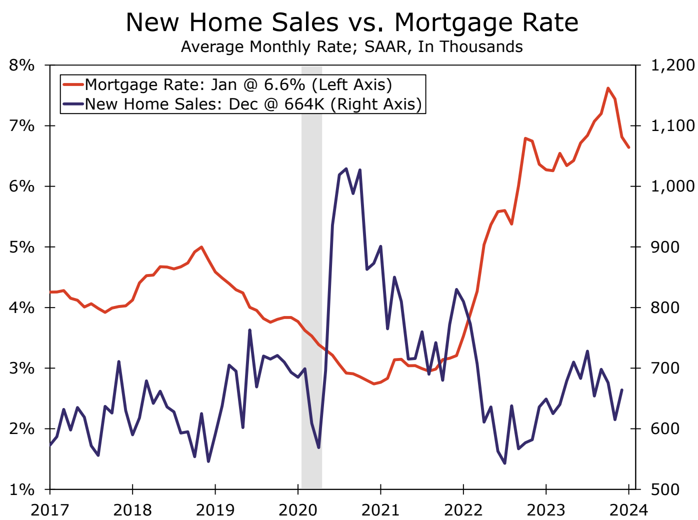
Forecast as of February 23, 2024

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

New Home Sales • Monday

The housing market is showing signs of improvement despite persistent challenges. New home sales in particular have shown resilience in the face of the broader housing market slump over the past year. Overall, new home sales averaged a 668K-unit pace in 2023, up from a 641K-unit pace in 2022. We suspect momentum continued into January and forecast new home sales rose to a 684K-unit annual pace. A recent upturn in home buyer sentiment and mortgage applications for purchase suggest rising optimism. Lower mortgage rates have also helped boost resales at the start of the year. Existing home sales rose 3.1% in January amid a rise in single-family sales. But the resale market remains constrained by low levels of available homes, which is keeping pressure on overall prices and keeps would-be buyers very sensitive to mortgage rates. Inventory of new homes are more plentiful and suggests we'll continue to see more activity in this side of the market. We also anticipate construction outlays to remain strong this year amid lower interest rates and sturdy economic growth, and we forecast construction spending advanced 0.6% in January (released Friday).

Over the course of the year, we expect residential spending to drive most construction spending as mortgage rates move lower in anticipation of Fed easing, while the lagged impact of reduced credit access may cause a moderation in nonresidential outlays. Overall housing demand should remain supported by favorable demographics, low inventories generally and a falling rate environment this year.

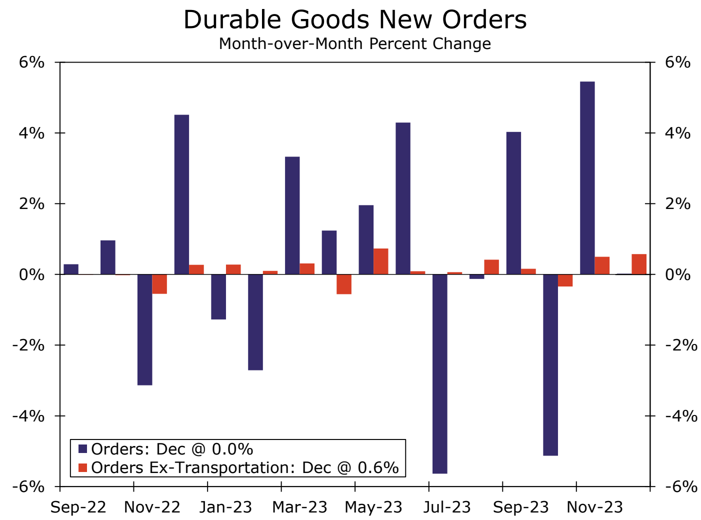


Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics

Durable Goods Orders • Tuesday

Manufacturing activity is gearing up for recovery. Durable goods orders ended 2023 on a solid note and when excluding the volatile transportation sector; orders ticked up 0.6% in December. There were also upward revisions to prior data, and November and December mark two of the three largest monthly increases for the full year in durables ex-transportation. Demand may be picking up, but recent shipments data remain consistent with the less-pleasant current reality. Nondefense capital goods shipments slipped 0.7% in December. In short, while things are starting to look up, we're likely a few months yet away from the start of recovery.

Separately released data confirm this notion. The January ISM manufacturing index rose to its highest level in 15 months, but at 49.1 remains in contraction. The S&P composite PMI data were favorable for February, and we'll get the updated ISM on Friday. We look for the February ISM to again punch higher (to 49.3) but to not break through that 50 threshold designating expansion from contraction. January industrial production data also continued to show manufacturing in stall speed amid uncertainty over the timing of rate cuts weighing on current investment decisions.

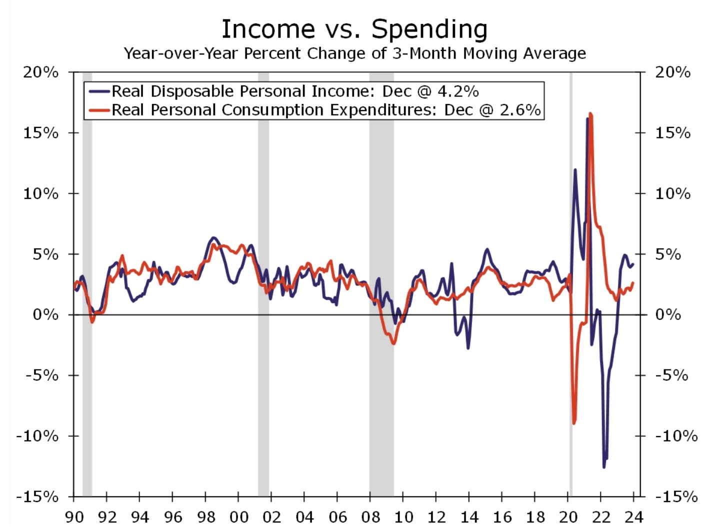


Source: U.S. Department of Commerce and Wells Fargo Economics

We expect another favorable orders report for January, but we'll again have to look beyond transportation. We forecast overall durable goods orders plunged 6.3% in January, but excluding transportation, we anticipate orders *rose* 0.2%. Company data released from Boeing suggest weak orders for aircraft, which we expect to be the primary culprit for the drop in total durables in January.

Personal Income & Spending • Thursday

Next week's personal income & spending release deserves your attention for a few reasons. First, it includes the Fed's preferred inflation gauge, the PCE deflator. We look for the headline deflator to slip to a year-ago rate of 2.4% and the core measure to fall further to 2.8%. However, the hot January CPI and PPI data suggest firmer monthly prints for both the headline and core (0.3% and 0.4%, respectively), driven by broad-based strength in services. We expect services less energy, food and housing to rise 0.6% in January, lifting the three-month annualized rate to 4.2%. Given services remain key to getting inflation on a sustained trajectory lower, it will likely prevent imminent rate cuts from the Fed.



Second, the January retail sales data suggest the consumer lost some momentum at the start of the year. Overall sales slipped 0.8% amid broad-based weakness among retailers. There were also some modest downward revisions to the past two months of data, which leads us to expect the second estimate of Q4-2023 real PCE data (out Wednesday) to be revised modestly lower (to a 2.6% annualized rate, down from 2.8% in the prior estimate).

But even as we expect to see spending moderate this year, the January pullback in retail sakes likely overstates the extent of near-term weakness. We expect the broader spending data released Thursday held up better. The lone area of retail strength was food & drinking places, where sales rose 0.7%. This is the only services category in the release and feeds into the BEA's calculation of personal spending. We anticipate resilient services spending thus helped offset weak goods outlays and forecast personal spending rose 0.4% in January, or 0.1% in real terms once adjusting for inflation.

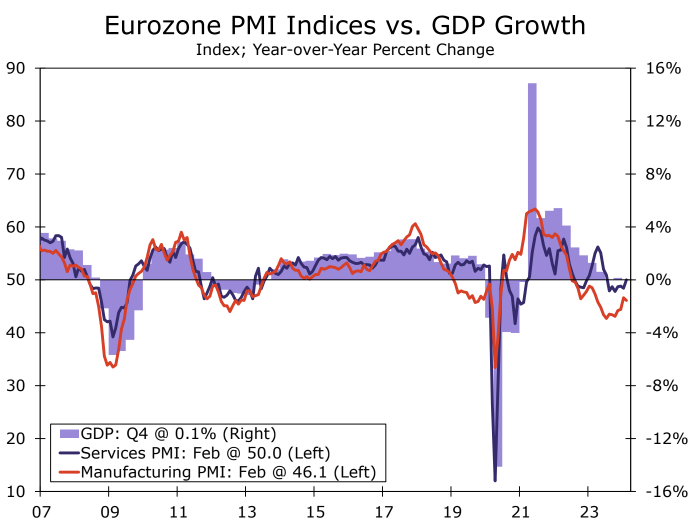
Finally, we're monitoring the personal income data much more closely. As pandemic-era support factors of excess savings and easy access to credit have faded, personal income has again claimed its seat as the main driver of spending. Strong hiring and average hourly earnings figures in January suggest spending remained supported by income last month. We forecast personal income rose 0.3% in January. But signs of labor market moderation suggest we may see more of a slowdown in wage growth this year, which will cap the extent of continued growth in consumption. (Return to Summary)

International Review

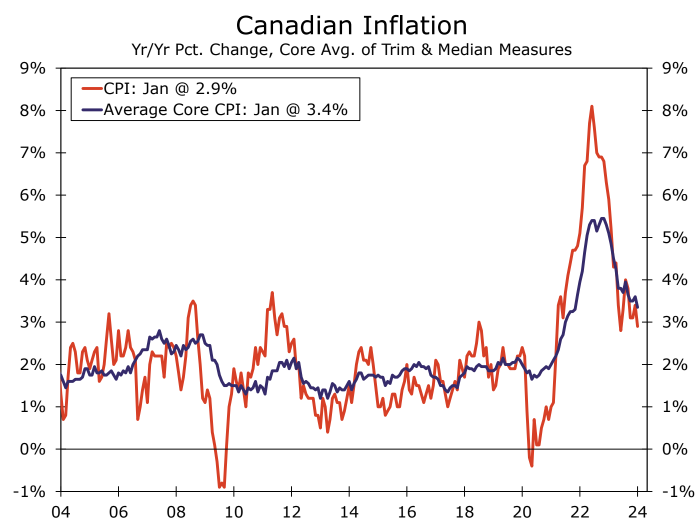
European February PMIs Show Modestly Firmer Growth, Persisting Price Pressures

This week, February PMI data from the Eurozone and United Kingdom provided market participants with timely insight into European economic activity. In the Eurozone, the divergence between the manufacturing and services sectors continued. The manufacturing index fell to 46.1 against expectations for a modest increase, but the services index surpassed expectations and narrowly exited contraction territory with a 50.0 reading. Developments in the services index are more pertinent, in our view, as services make up a larger part of the Eurozone economy. The manufacturing index's drop was led by Germany (the Eurozone's largest economy), where the manufacturing sector slipped noticeably deeper into contractionary territory. France (the region's second-largest economy) saw more encouraging PMI readings with upside surprises in both manufacturing and services. In the details of the headline indices for the Eurozone as a whole, we see evidence of the divergence between the manufacturing and service sectors. The employment component fell for manufacturing but improved for the services sector. The sharp fall in new goods orders also illustrates manufacturing weakness. For the price components, input cost and selling price inflation generally accelerated in February. Input cost inflation for the services sector rose to a nine-month high, which squares with the current picture of elevated wage growth. The selling price component for services also rose, though selling prices for goods fell. Overall, we take away from these PMI data that there are signs economic activity may improve as 2024 progresses and that price pressures remain elevated for the time being. While for now we maintain a base case for the European Central Bank (ECB) to deliver an initial 25 bps rate cut in April, these data tilt the risks a bit more toward an initial June move. We will be closely watching next week's Eurozone February CPI release, where an upside surprise could tip the balance of risks further in the June direction.

Turning to the U.K., the February PMIs were mildly favorable overall, hinting at some recovery in growth after the economy experienced a technical recession in the second half of last year. The February manufacturing PMI rose, albeit by less than expected, to 47.1. Meanwhile, the services PMI was an upside surprise, holding steady at 54.3. Taken together, that saw the composite (or economy-wide) PMI rise further to 53.3 in February, comfortably in expansion territory. The details of the report showed mixed trends for future business, as the new orders component of the manufacturing PMI fell, but the new business component of the services PMI rose. The report also indicated that average cost burdens increased in February at the fastest pace in six months, pushed up by higher labor costs as well as rising freight costs for manufacturers linked to the Red Sea crisis. Overall, given hints of an improving economy along with continued cost pressures, we remain comfortable with our outlook for an initial Bank of England rate cut to come in June.



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



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

In terms of other G10 economic data releases, Canada's CPI data for January were somewhat encouraging. Headline inflation slowed more than expected to 2.9% year-over-year, from 3.4%, and core inflation also slowed more than forecast. However, some other measures of underlying price pressures showed some persistence, with shelter costs rising 6.2% and services inflation remaining elevated at 4.2%. In addition, the three-month annualized gain in the average core CPI—an important metric that is closely followed by the Bank of Canada—rose at a 3.2% pace. That was down from the 3.6% reading in December but still above the central bank's 2% inflation target. Developments in inflation remain of the utmost importance to Bank of Canada (BoC) policymakers, as they noted an awareness of inflation risks in their January monetary policy statement and said that the central bank "wants to see further and sustained easing in core inflation." Against that backdrop, we think it is still too early for the BoC to begin its easing cycle, and we forecast an initial 25 bps rate cut not to come until its June meeting. We believe the BoC will be more comfortable considering rate cuts if core inflation is trending more convincingly in a 2.5%-3.0% range and once wage growth slows further. In our view, it is most likely that these conditions will fall into place by June.

In China, this week saw a larger-than-expected reduction to an important reference rate for mortgages. The Five-Year Loan Prime Rate was lowered by 25 bps to 3.95%. This was much larger than the consensus forecast for a 10 bps reduction and was the largest cut to the rate since it was rolled out in its current form in 2019. In contrast, the One-Year Loan Prime Rate was held steady at 3.45%. The moves elicited only a modest reaction from China's equity, bond and foreign exchange markets and, rather than providing a significant boost to growth, may simply serve to highlight authorities' ongoing concerns about the state of the economy. In South Korea, the central bank held its policy rate steady at 3.50%. The central bank kept its forecasts for headline inflation unchanged, while slightly lowering its core CPI forecast. While Governor Rhee pushed back against the idea of early rate cuts and said a reduction in the first half of this year was unlikely, one policymaker indicated an openness to near-term monetary easing, hinting that rate cuts may be coming closer into view. Turkey's central bank held its policy rate at 45.00%, marking the first time it has held rates steady since May, and the first meeting under a new central bank governor who took over earlier this month. Turkey's central bank did deliver some hawkish comments alongside that decision, saying it will tighten policy "in case a significant and persistent deterioration in the inflation outlook is anticipated." (Return to Summary)

International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
29-Feb	Canada GDP (QoQ, Annualized)	Q4	1.0%	1.2%	-1.1%
1-Mar	China Manufacturing PMI	Feb	49.1	–	49.2
1-Mar	China Services PMI	Feb	50.8	–	50.7
1-Mar	Eurozone CPI (YoY)	Feb	2.5%	–	2.8%
1-Mar	Eurozone Core CPI (YoY)	Feb	2.9%	–	3.3%

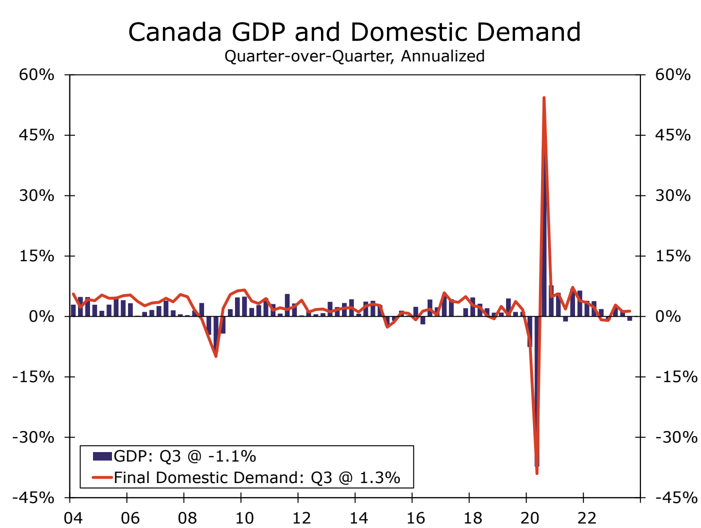
Forecast as of February 23, 2024

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

Canada GDP • Thursday

Canada's Q4 GDP report is due next week and is expected to show some rebound in activity after the economy contracted in the third quarter. The expected recovery in the economy is based on monthly GDP figures, which showed a 0.2% month-over-month increase in November and an advance estimate for a 0.3% gain in December. As a result, the consensus forecast is for Canada's Q4 GDP to grow by 1.0% quarter-over-quarter annualized, which would essentially reverse the Q3 decline.

In addition to the overall headline GDP growth figure, the composition of that growth will also be of interest. Growth in consumer spending was barely positive in Q3, rising by just 0.1% quarter-over-quarter annualized, while business investment shrank at a 2.0% pace. Even if headline GDP growth recovers, any perceptible weakness in domestic spending would still be consistent with other signs of a softening in the economy, such as subdued business sentiment and a loosening in labor market conditions. Evidence of underlying economic weakness as well as receding inflation are both relevant for Bank of Canada policymakers as they

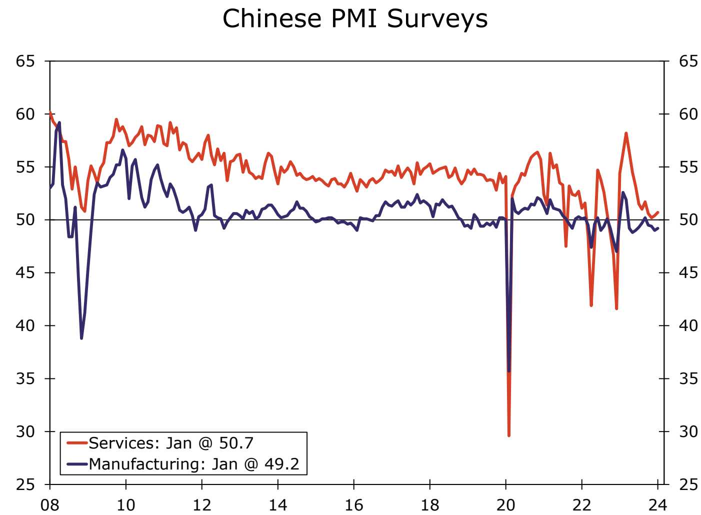


Source: Datastream and Wells Fargo Economics consider whether to start lowering their policy interest rate in June (our base case), or perhaps even earlier, at their April monetary policy meeting.

China PMIs • Friday

China's Purchasing Managers Indices for February will be released next week and may show some stabilization after a modest firming last month. The official manufacturing and service sector PMIs both improved in January to 49.2 and 50.7, respectively. For February, the consensus forecast is for broad stability, rather than further strength. The manufacturing PMI is expected to ease very slightly to 49.1, while the service PMI is forecast to edge higher to 50.8.

In part, the apparent modest improvement seen over the first two months of this year stems from some easing in policy by authorities, including a cut in the Reserve Requirement Ratio, reductions in benchmark interest rates (the latest of which was a 25 bps cut in the Five-Year Loan Prime Rate), as well as other targeted measures. There are also indications that economic activity was quite strong surrounding the Chinese New Year holiday. That said, we still expect the firming in activity seen so far this year to be relatively short-lived. Growth headwinds from a declining working age population and a heavily leveraged property sector persist, while the continued easing of policy by authorities indicates ongoing concern about the state of China's economy. We expect growth to ebb as 2024 progresses and forecast GDP growth of 4.7% this year, down from 5.2% in 2023.

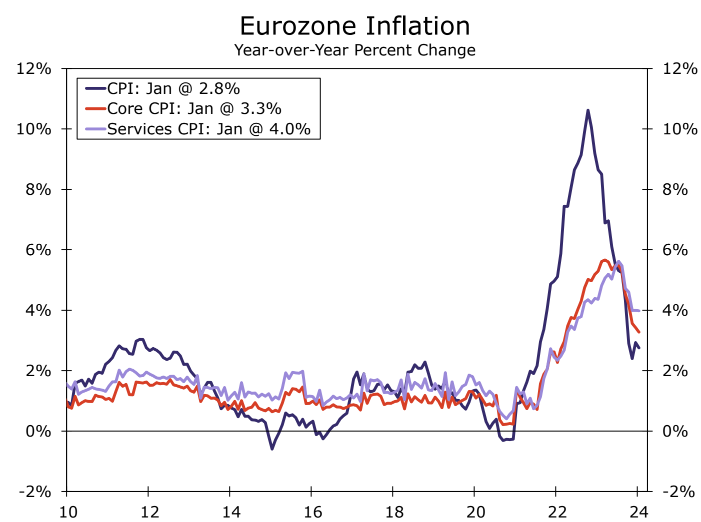


Source: Datastream and Wells Fargo Economics

Eurozone CPI • Friday

Next week's Eurozone CPI for February shapes up as a key data release ahead of the European Central Bank's (ECB) next monetary policy announcement. Against a backdrop of stagnant economic growth and receding inflation, ECB policymakers have started to entertain the idea of rate cuts later this year. At the same time, with wage pressures still elevated, several policymakers have also warned against easing monetary policy too early.

Against that backdrop, February inflation figures could be influential as to whether the ECB lowers interest rates as early as April or takes a more patient approach by waiting until its June meeting. The February CPI is expected to deliver more good inflation news, with base effects likely to see headline inflation slow further to 2.5% year-over-year, while core inflation is also forecast to slow to 2.9%. There will also be interest surrounding whether services inflation slows from its current 4.0% pace. Should Eurozone CPI inflation decelerate as forecast, or even deliver a downside surprise, it would keep the possibility of an April rate cut alive. However, an upside surprise that sees an interruption to the disinflation trend would be supportive of some of the more hawkish ECB policymakers' views and would potentially take the chance of an April rate cut off the table.



Source: Datastream and Wells Fargo Economics

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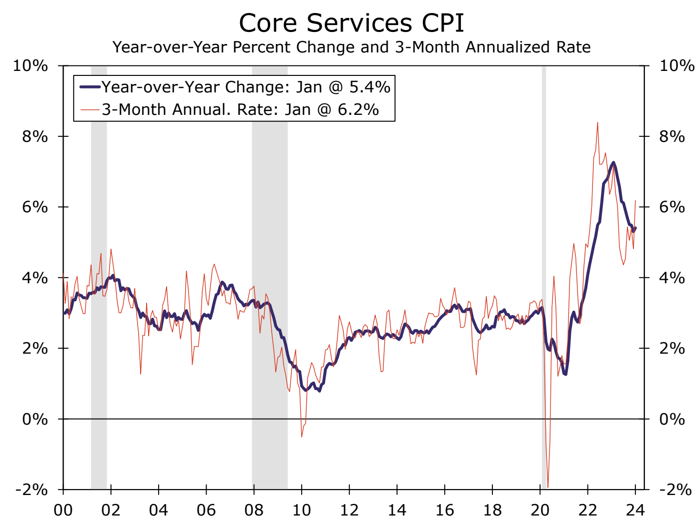
Interest Rate Watch

"What's the Rush?"

In the seven months since the Fed's most recent rate hike in July 2023, Chair Powell and other members of the FOMC have cautioned that the best policy prescription might be to keep rates higher for longer and that any policy decision would be dependent upon the data. Financial markets have not always taken that at face value.

At the start of this year, even as recently as the start of February, most economic indicators were broadly supportive of the Fed's "Mission Impossible" task of bringing down inflation without breaking the economy. Hopes for an eventual easing morphed into widespread expectations for rate cuts. Whether speaking with hopeful CFOs eager to see a lower cost of capital or looking at Fed Funds futures at the start of February, which were then pricing in rate cuts as early as March, the question was not whether the Fed would lower rates, but simply how soon and by how much.

The sense of expectation about imminent easing was easy to justify. Both headline and core inflation came down on trend throughout 2023, even as the job market slowed in an orderly fashion, allowing consumer spending to hold up remarkably well. It was a dreamlike scenario in which the hottest inflation since the early 1980s was brought to heel by aggressive rate cuts without the nasty recessions that accompanied such tightening in that earlier period. The January CPI broke the spell.



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

Even before the January CPI report, Fed policymakers stressed the importance of watching whether the rise in core service were slowing. That category was one of the more unpleasant CPI surprises. Core services advanced 0.7% in January, the largest monthly gain in 16 months. As we observed at the time, shelter costs were a standout, rising 0.6% with some price pressure coming from the volatile lodging away from home category (+1.8%), but the report also showed growth in owners' equivalent rent (OER) up 0.6%. "One month does not a trend make" and some of January's strength in OER could be reversed in the coming months; we do not think shelter disinflation has run its course. To that point, primary rent continued to cool over the month with the smallest monthly gain since the summer of 2021 for that category. Meanwhile, Zillow's measure of rent price growth continues to come down as well. These nuances have not prevented a shift in rate expectations toward later in the year, however.

This may have to do with more than just the data; it may also be the relentless messaging from various Fed speakers in recent weeks is getting through. The latest of these was Federal Reserve Governor Christopher Waller who cited the January CPI report as warranting caution when deciding when to cut rates this year. Waller offered a litany of descriptive words to describe the future path for the Fed "patient, careful, methodical, deliberative—pick your favorite synonym," before adding "Whatever word you pick...What's the rush?"

Waller's comments piled on to other messaging with a similar vibe from Vice Chair Philip Jefferson and fellow Governor Lisa Cook who both essentially stressed the need for greater confidence in the progress on prices before easing too soon.

We have maintained that the May FOMC meeting would be the likeliest one for the Fed to deliver the first rate cut of this cycle. We have characterized the risk around that initial cut by saying that if we are off by a meeting, June looks more likely than March. Recent economic data and Fed statements essentially increase our conviction in that risk assessment.

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Topic of the Week

Personal Food Expenditure: Eating Out Taking a Bigger Bite of What's Coming In

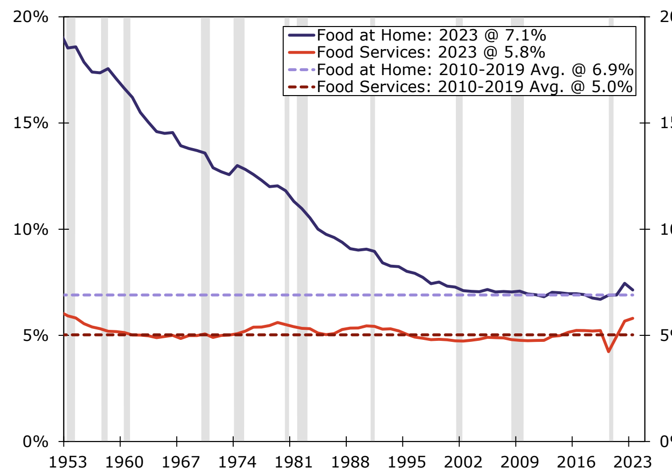
Consumer outlays on food as a share of disposable personal income have shifted higher over the past two years. Between 2010 and 2019, consumer spending on food services (think restaurants & bars, this includes purchased meals and beverages as well as food furnished to employees) and food & beverages purchased for off-premises consumption (think grocery stores) averaged 11.9% of annual disposable personal income. As the pandemic limited eating out in 2020, spending on food as a share of disposable income dropped to 11.1% before recovering and reaching its highest share since the mid-1990s in 2022 and 2023. While this in part reflects elevated food prices gobbling up more of consumers' wallets, it also reflects changing priorities for where consumers spend their hard-earned dollars.

Digging into the details, both food services and food at home outlays as a share of disposable personal income have increased from their average during the economic expansion of the 2010s. The share of disposable personal income spent on food at home, which includes household groceries and spending on alcoholic beverages, averaged 6.9% during the 2010s, and it has increased slightly to 7.1% through 2023. However, the bulk of the growth in food expenditures has come from food services, which is primarily composed of eating out at restaurants. Spending at restaurants expanded to a 5.8% share of income in 2023, indicating strong growth in this segment from the average of 5.0% that prevailed during the 2010s. In fact, 2023 marked the highest share in this measure since 1954, a nearly 70-year high (chart).

This growth in eating out is in line with the structural shift in consumer behavior to dedicating a higher share of spending on services at the expense of goods that has been under way over the past several decades. In addition, the personal consumption expenditures category of food services & accommodations, which includes spending on eating out as well as hotel services, has been a major driver of the growth in discretionary spending in recent months, coming in second in terms of its percentage point contribution to discretionary spending growth only to that of recreational goods. Indeed, consumer spending on eating out as a share of disposable income has come back with a vengeance from its brief decline during the pandemic, and it has been the biggest driver of the overall category of food taking a bigger bite out of consumers' wallets.

(Return to Summary)

Food Outlays as Share of Disposable Personal Income



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

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 2/23/2024	1 Week Ago	1 Year Ago
SOFR	5.30	5.31	4.55
Effective Fed Funds Rate	5.33	5.33	4.58
3-Month T-Bill	5.39	5.37	4.81
1-Year Treasury	4.95	4.88	4.98
2-Year Treasury	4.70	4.64	4.70
5-Year Treasury	4.30	4.27	4.11
10-Year Treasury	4.28	4.28	3.88
30-Year Treasury	4.40	4.44	3.88
Bond Buyer Index	3.54	3.54	3.75

Foreign Exchange Rates

	Friday 2/23/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.082	1.078	1.060
British Pound ($/£)	1.267	1.260	1.201
British Pound (£/€)	0.854	0.855	0.882
Japanese Yen (¥/$)	150.420	150.210	134.700
Canadian Dollar (C$/$)	1.351	1.349	1.355
Swiss Franc (CHF/$)	0.882	0.881	0.934
Australian Dollar (US$/A$)	0.656	0.653	0.681
Mexican Peso (MXN/$)	17.142	17.056	18.386
Chinese Yuan (CNY/$)	7.197	7.194	6.908
Indian Rupee (INR/$)	82.950	83.016	82.743
Brazilian Real (BRL/$)	4.987	4.966	5.132
U.S. Dollar Index	103.981	104.296	104.598

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

Foreign Interest Rates

	Friday 2/23/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.73	3.76	2.58
3-Month U.K. Govt Bill Yield	5.27	5.23	3.89
3-Month Canadian Govt Bill Yield	4.97	4.98	4.53
3-Month Japanese Govt Bill Yield	-0.09	-0.12	-0.15
2-Year German Note Yield	2.86	2.82	2.91
2-Year U.K. Note Yield	4.55	4.62	3.92
2-Year Canadian Note Yield	4.20	4.30	4.20
2-Year Japanese Note Yield	0.17	0.15	-0.02
10-Year German Bond Yield	2.37	2.40	2.48
10-Year U.K. Bond Yield	4.05	4.11	3.59
10-Year Canadian Bond Yield	3.49	3.59	3.34
10-Year Japanese Bond Yield	0.72	0.74	0.51

Commodity Prices

	Friday 2/23/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	77.26	78.03	75.39
Brent Crude ($/Barrel)	82.37	83.47	82.21
Gold ($/Ounce)	2034.17	2013.59	1822.28
Hot-Rolled Steel ($/S.Ton)	922.00	926.00	962.00
Copper (¢/Pound)	386.25	375.80	405.90
Soybeans ($/Bushel)	11.55	11.80	15.42
Natural Gas ($/MMBTU)	1.62	1.58	2.31
Nickel ($/Metric Ton)	17,166	16,007	26,219
CRB Spot Inds.	545.84	546.13	568.99

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