Economics

Weekly — December 15, 2023

Weekly Economic & Financial Commentary

United States: **Consumers Maintain Spending Power Amid Slowing Price Growth**

- Data released this week revealed that gradually easing price pressures are promoting consumer resilience, while high financing costs continue to bite producers. Although core CPI remained elevated in November at a 4.0% annual rate, a string of slower monthly prints suggests that disinflation has more room to run.
- Next week: Existing Home Sales (Wed.), LEI (Thu.), Personal Income & Spending (Fri.)

International: **G10 Central Bank Focus Shifting from Rate Hikes to Rate Cuts**

- G10 central banks are in the process of transitioning from rate hikes to rate cuts, with the European Central Bank, Bank of England and the Swiss National Bank holding rates steady this week. In Japan, a relatively sturdy Q4 Tankan survey pointed to a resumption in economic growth. Last, China's latest economic data suggest its economy will end the year on a stable note rather than a strong one.
- Next week: Bank of Japan Policy Rate (Tue.), Colombia Overnight Lending Rate (Tue.), U.K. Consumer Price Index (Wed.)

Interest Rate Watch: **A Win for the Doves**

- As widely expected, the FOMC left the fed funds target range unchanged at 5.25%-5.50% in a unanimous vote. The decision marked the third consecutive meeting that the Committee held policy steady. While the rate decision came as no surprise, this week's meeting shaped up to be one of the clearest messages yet that the torrid hiking cycle that began in March 2022 has come to an end.

Topic of the Week: **The Fiscal Tailwinds Are Still Blowing**

- Government hiring and output have accelerated this year even as indicators of private sector economic activity have shown some signs of slowing. In a report published earlier this week, we examined the recent pickup in public sector payroll and production growth and analyzed the outlook for this sector of the economy in 2024 and beyond.

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

Wells Fargo U.S. Economic Forecast

	Actual			Forecast					Actual	Forecast		
	2023				2024				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	2.2	2.1	5.2	0.8	1.0	-0.3	-1.5	0.4	1.9	2.4	0.9	1.5
Personal Consumption	3.8	0.8	3.6	2.0	0.8	0.1	-1.5	-0.5	2.5	2.2	0.9	0.8
Consumer Price Index [2]	5.8	4.1	3.6	3.2	3.0	2.7	2.2	2.2	8.0	4.1	2.5	2.4
"Core" Consumer Price Index [2]	5.6	5.2	4.4	4.0	3.6	3.1	3.0	2.7	6.1	4.8	3.1	2.3
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.00	5.25	5.50	5.50	5.50	5.25	4.25	3.50	2.02	5.31	4.63	3.25
Conventional Mortgage Rate	6.54	6.71	7.20	7.15	6.85	6.60	6.30	6.00	5.38	6.90	6.44	5.79
10 Year Note	3.48	3.81	4.59	4.25	4.00	3.80	3.60	3.50	2.95	4.03	3.73	3.49

Forecast as of: December 14, 2023 [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

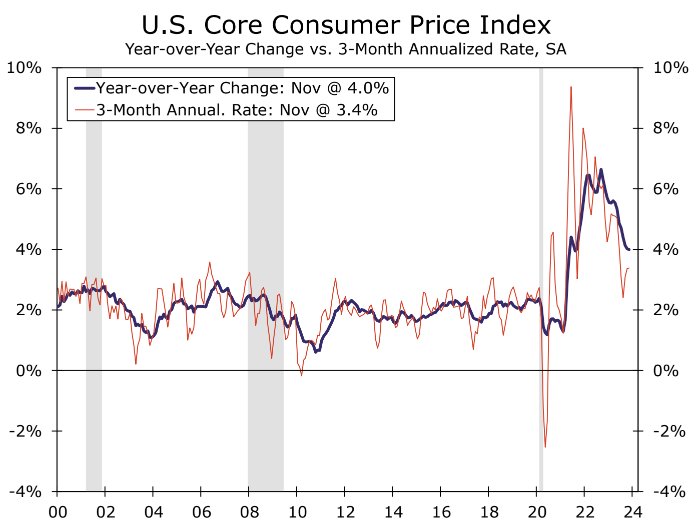
Please see our full U.S. Economic Forecast.

U.S. Review

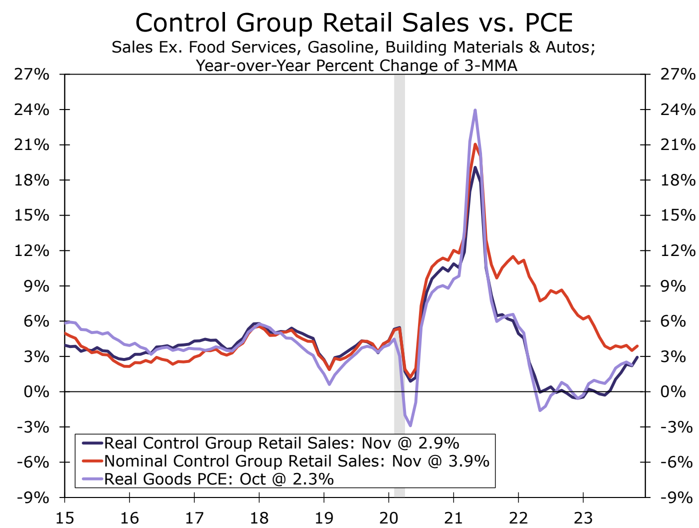
Consumers Maintain Spending Power Amid Slowing Price Growth

Macroeconomic data released this week reveal that gradually easing price pressures are promoting consumer resilience, while high financing costs continue to bite producers. The Consumer Price Index (CPI) rose just 0.1% in November, amounting to a 3.1% year-to-year upswing. The headline print was muted by a downdraft in gasoline prices and ongoing moderation in food costs. In contrast, firmer services prices continue to prop up core inflation. A 0.3% monthly uptick in core prices translated to a 4.0% annual gain in November, unchanged from October's rate.

Despite core CPI seemingly stuck at double the Fed's inflation target, there are encouraging signs of more progress to come. A recent streak of softer prints brought the three-month annualized core rate to 3.4% through November, suggesting that disinflation has more room to run in the coming months. Gradually cooling labor costs should also help to keep a lid on services inflation, while stalling wholesale prices reduce the risk of price reacceleration. That said, price pressures have not completely abated. This week, we also received the latest NFIB Small Business Economic Trends Survey. In November, the net share of small businesses expecting to raise prices in the coming months reached its highest reading in one year (34%), consistent with a bump in plans to raise compensation.



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



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

Nevertheless, inflation expectations are adjusting lower. A survey from the New York Fed found that consumers anticipate a 3.4% annual increase in prices over the next year, the softest expectation since April 2021. A solid string of slower inflation readings also led FOMC members to take down their own forecasts, supporting their decision to hold rates steady for the third straight meeting in December. In the latest Summary of Economic Projections (SEP), the median FOMC participant expected core PCE inflation to print at 3.2% this year, down from 3.7% in the September SEP. These adjustments give a nod to ongoing progress on inflation, while acknowledging that price growth is likely to proceed above target. See Interest Rate Watch for more insight into how these developments affect our outlook for Federal Reserve policy.

Receding inflation appears to be bolstering consumer staying power. Retail sales rose 0.3% in November, outshining expectations of a slight decline. Based on our estimates, sales mounted a more impressive 0.9% increase on an inflation-adjusted basis, the fastest pace since last January. In addition to demonstrating enduring consumer resilience, November's print also signals a solid holiday shopping season this year. Holiday sales are now on track to grow just under 5.0% on an annual basis. If realized, this spending pace would be a downshift from post-pandemic norms while still remaining above the longer-term average. Finally, a 0.9% real increase in control group sales in November set up GDP to advance a touch faster than we currently expect in Q4.

Although weaker price growth is acting as a tailwind, high interest rates look to be crunching consumers' capacity to spend. We are wary that recent consumer momentum can be sustained amid mounting credit card debt and rising delinquencies. High financing costs also continue to challenge U.S.

producers. Industrial production fell short of expectations in November, which was compounded by downward revisions to prior data. Even accounting for a 0.3% uptick in manufacturing output over the month, it has slipped 0.8% over the past year. Through the pandemic volatility, manufacturing output appears to be stalling at a level it was at six years ago.

(Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
20-Dec	Existing Home Sales	Nov	3.77M	3.77M	3.79M
21-Dec	Leading Index (MoM)	Nov	-0.4%	-0.4%	-0.8%
22-Dec	Personal Income (MoM)	Nov	0.4%	0.4%	0.2%
22-Dec	Personal Spending (MoM)	Nov	0.2%	0.2%	0.2%

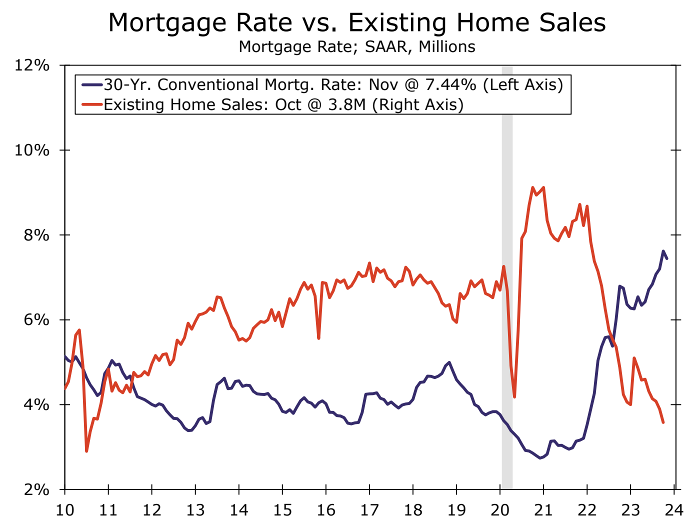
Forecast as of December 15, 2023

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

Existing Home Sales • Wednesday

The resale market took another step back in October as sales fell 4.1% over the month. Existing home sales are down roughly 15% over the year as high mortgage rates stemming from the Fed's policy tightening campaign has worsened affordability. On top of high financing costs, a dearth of resale inventory has placed upward pressure on prices. Although buying conditions remain largely unfavorable, prospective buyers have gotten some relief on the mortgage rate front. Since peaking at 7.8% in October, the 30-year average mortgage rate has fallen for seven straight weeks, and this week fell below 7% for the first time since August.

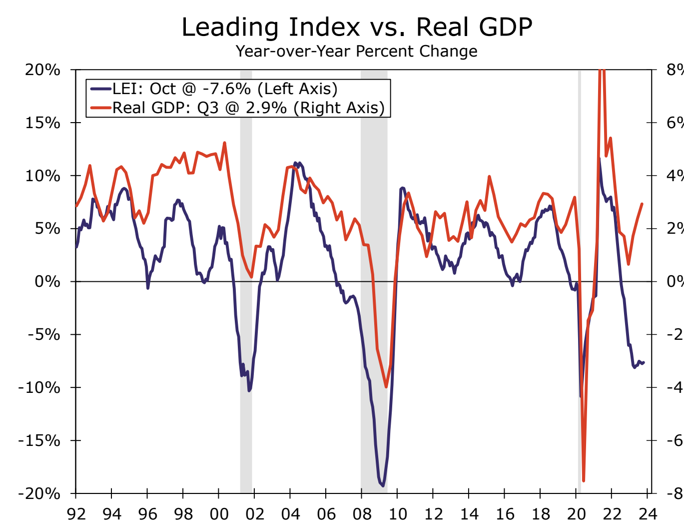
It will likely be some time before the improvement in financing costs becomes apparent in the sales data, as the majority of transactions that are counted in existing home sales are reported when the contract is closed. Most of these transactions take 30 to 60 days to close once the mortgage rate is locked in, so November sales will reflect rates in September and October. We expect existing home sales fell by a milder 0.5% in November as easing mortgage rates helped cushion the fall.



Source: NAR, Freddie Mac and Wells Fargo Economics

LEI • Thursday

The Leading Economic Index (LEI) has signaled recession for more than a year and a half, even as the broader economy continues to impress. The composite fell 0.8% in October, weighed down by weakness in interest rate-sensitive manufacturing and financial components. The ongoing slide in LEI is at odds with the prevailing strength of the economy, particularly when measured against resilient consumer spending and steady labor market gains. That said, LEI and GDP have diverged in the past, instances of which we detailed in our October LEI report (link). In addition, the uptick in continuing jobless claims is indicative of a cooling labor market, which may weigh further on the index. Overall, the long slide in the LEI can't be completely waved off as an anomaly as underlying weakness is apparent across multiple fronts. We forecast LEI fell for the 20th consecutive month in November, sliding by 0.4%.

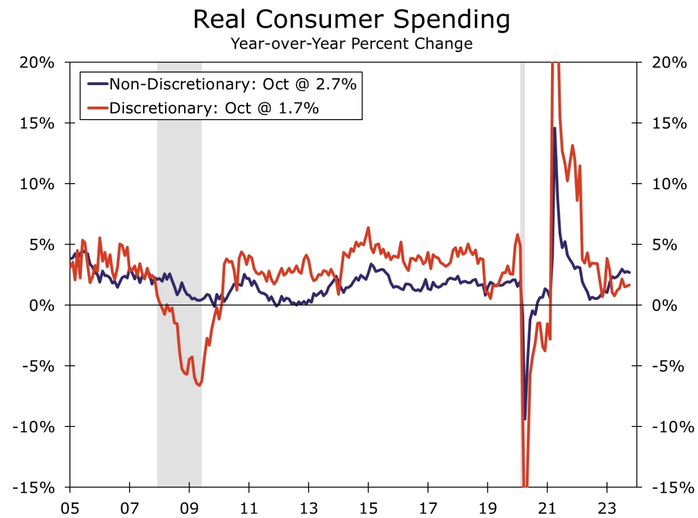


Source: The Conference Board, U.S. Department of Commerce and Wells Fargo Economics

Personal Income & Spending • Friday

The October income and spending report reflected a moderation in consumer outlays, suggesting a more budget-conscious mindset is taking hold even as income growth continues to improve. Real income growth has helped to sustain spending so far this year, but a softening jobs market hailed a slowdown for consumer income. Indeed, real disposable income growth appeared to be weakening before unexpectedly rising in October. On top of that, Q3 data were revised higher, suggesting consumers have more dry powder leading into the holidays than previously thought. To add to the pile, average hourly earnings surprised to the upside in November.

Although income growth remains solid, consumers are shifting more of their spending away from discretionary and more toward non-discretionary spending, indicating early signs of moderation in overall spend. The last time this happened on a sustained basis was at the start of the 2008 recession, not including the period immediately following the pandemic. We expect personal income continued to grow at a steady clip in November, rising 0.4% over the month. We see spending growth moderating slightly, rising just 0.2% over the period.



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

(Return to Summary)

International Review

G10 Central Bank Focus Shifting from Rate Hikes to Rate Cuts

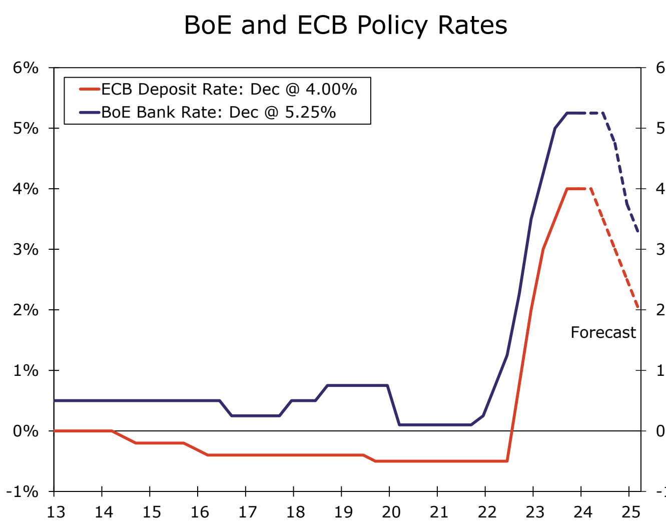
The European Central Bank (ECB) delivered a mixed monetary policy announcement, acknowledging slower economic growth and inflation across the Eurozone, but holding the line on its monetary policy stance for now. With respect to its economic projections, the ECB cut its GDP forecasts to 0.6% for 2023, 0.8% for 2024 and 1.5% in 2025. Overall inflation was also revised lower to 5.4% in 2023, 2.7% in 2024 and 2.1% in 2025, while excluding food and energy, inflation forecasts were nudged lower to 5.0% in 2023, 2.7% in 2024 and 2.3% in 2025. Essentially, the ECB sees inflation getting close to target by 2025. ECB President Lagarde cited both upside and downside risks to inflation while saying risks to economic growth were tilted to the downside.

Despite acknowledging that inflation is expected to gradually decline, the ECB held the line on its monetary policy stance. The ECB kept its Deposit Rate at 4.00% and repeated that it "considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution" to ensuring inflation returns to its 2% target in a timely manner. Finally, and in what was a slightly hawkish element, the ECB said it would phase out reinvestments under the Pandemic Emergency Purchase Program (PEPP). The ECB said it would continue reinvestments for the first half of 2024, but that over the second half of 2024, it intends to reduce the PEPP portfolio by €7.5B per month on average. The ECB intends to discontinue reinvestments at the end of 2024. Although the ECB held the line on its monetary policy stance, we expect a weak economy and the significant improvement in inflation in recent months could see the ECB cut rates earlier than previously envisaged. We now anticipate an initial 25 bps ECB Deposit Rate cut to 3.75% at the April 2024 meeting.

The Bank of England (BoE) delivered a monetary policy announcement that was, on balance, hawkish in tone. The BoE acknowledged some softening in the labor market and slightly downgraded its GDP forecast for the fourth quarter. However, the central bank also said key indicators of inflation persistence remain elevated and cited upside risks to wage and price growth. Policymakers voted 6-3 to hold rates steady, with three policymakers continuing to dissent in favor of a rate increase. Against this backdrop, the BoE repeated that "monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term." Given the announcement, our prior forecast for an initial BoE rate cut in May 2024 now appears a touch early to us. How much later the Bank of England will ease will depend on how activity and price data evolve, although our base case is now for an initial rate cut at the August 2024 meeting. The Bank of England's monetary policy announcement comes even as this week's U.K. data were softer in tone. The economy started the fourth quarter on a weak note as October GDP fell 0.3% month-over-month, more than the expected 0.1% decline. Services activity fell by 0.2% over the month, while industrial output fell 0.8%. October also saw some indication of decelerating wage growth as average weekly earnings slowed to 7.2% year-over-year for the three months to October, although for now the pace of wage growth remains too high for the Bank of England to contemplate rate cuts.

In other central bank announcements, the Swiss National Bank (SNB) held its policy rate at 1.75% and delivered overall dovish comments. SNB President Jordan said the inflation forecast was now within the central bank's target range and that monetary conditions are appropriate. The SNB also said it is no longer focused on foreign currency sales (and thus buying the Swiss franc). Finally, the Norges Bank—Norway's central bank—also modestly surprised market participants by raising its Deposit Rate 25 bps to 4.50% and signaled its policy rate would remain around that level until fall 2024.

In Japan, a relatively sturdy Q4 Tankan survey pointed to a resumption of economic growth following the decline in GDP in the third quarter. The large manufacturers' diffusion index rose more than expected by three points to +12, the highest level since Q1-2022. Perhaps more notably, the large non-manufacturers' diffusion index also (unexpectedly) rose by three points to +30, the highest level since 1991. Capital spending plans for large firms across all industries were broadly unchanged, anticipating an increase of 13.5% for the current fiscal year. While we don't expect the upbeat survey to prompt a Bank of Japan policy shift next week, we do suspect the central bank could raise interest rates by April next year.



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

Source: Datastream and Wells Fargo Economics

China's Economy Ending 2023 Steady Rather Than Strong

This week's latest batch of data from China was mixed and suggested the economy was ending the year on a stable note rather than a strong one. To be sure, growth in retail sales and industrial output both accelerated in November although the gains were helped by base effects from very weak activity in November 2022. Thus, even though growth in retail sales firmed to 10.1% year-over-year, that was still below the consensus forecast for a 12.5% gain. Meanwhile, industrial output rose 6.6%, which was better than the expected gain of 5.7%. The mixed figures suggest steady growth rather than sturdy growth as the year comes to an end. Given structural challenges facing China's economy, we still forecast a slowdown in GDP growth in 2024, to 4.5%.

In Brazil, the central bank cut its Selic Rate by 50 bps to 11.75%, matching the consensus forecast. Central bank policymakers said inflation is continuing to slow down and that measures of core inflation are closer to target. As a result, Brazil's Central Bank (BCB) signaled that if "the scenario evolves as expected, the Committee members unanimously anticipate further reductions of the same magnitude in the next meetings," repeating guidance it has given at previous meetings. We expect BCB to continue with 50 bps rate cut increments at its early 2024 monetary policy meetings.

(Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
19-Dec	Bank of Japan Policy Rate	19-Dec	-0.10%	-0.10%	-0.10%
19-Dec	Colombia Overnight Lending Rate	19-Dec	13.25%	13.25%	13.25%
20-Dec	U.K. CPI (YoY)	Nov	4.3%	4.4%	4.6%

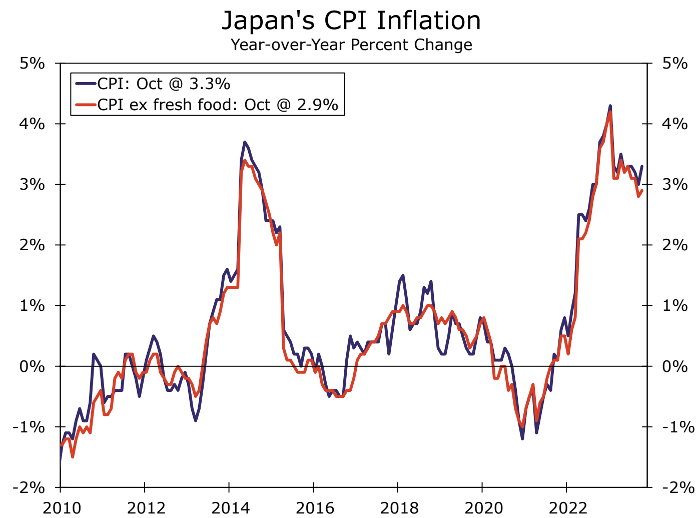
Forecast as of December 15, 2023

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

Bank of Japan Policy Rate • Tuesday

Next week, the Bank of Japan (BoJ) will deliver its latest monetary policy decision. Although speculation of a December rate hike flurried recently after remarks from BoJ Governor Kazuo Ueda, our base case remains for the central bank's policy rate to remain negative until the April 2024 meeting, when we forecast a 10 bps hike to 0.00%.

Discussions surrounding the possibility of a rate hike next week have died down as market participants return their focus to economic conditions in Japan, and consider what developments would need to take shape in order to make policy normalization appropriate. In our view, Japan needs to see stronger GDP growth, with strength specifically flowing from domestic components such as consumer spending and business investment. Third quarter GDP disappointed in both of those categories. Another important factor, and one that has been repeatedly commented on by BoJ officials, is the outcome of next year's spring wage negotiations. BoJ officials have highlighted the need to see stronger wage growth that would contribute to an entrenchment of on-target inflation. As we do not see these elements coming together just yet, we continue to call for an April hike, though a Q1-2024 move can not be completely ruled out.

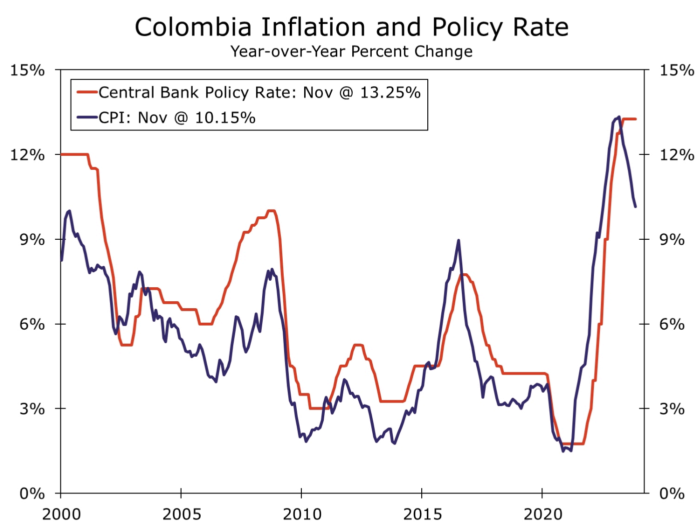


Source: Datastream and Wells Fargo Economics

Colombia Overnight Lending Rate • Tuesday

Colombia's central bank will meet next week to assess monetary policy, with the key decision being whether to initiate an easing cycle or keep settings unchanged. Colombia is one of the few Latin American countries for which the central bank has not started lowering policy rates. Elevated inflation, particularly core inflation, has kept policymakers on the sidelines this year. And while the peso has performed well, currency volatility has likely also contributed to policymakers' decision to leave rates unchanged. Consensus economists are split on whether BanRep policymakers will indeed start cutting interest rates next week or if they will keep rates on hold for another month.

In our view, we believe underlying price pressures are still too high for policymakers to pivot to more accommodative policy settings. In November, core inflation surprised to the upside, mildly disrupting the disinflation process. With economic activity broadly decelerating, policymakers may have justification for a cut; however, bringing inflation back to target is still likely to be the priority at next week's meeting. We believe the Overnight Lending Rate will be kept at 13.25% next week, and the easing cycle will likely begin in Q1-2024. Over time, as the Fed begins to lower rates, BanRep policymakers could pick up the pace of easing and eventually take the lending rate sharply lower in 2024.



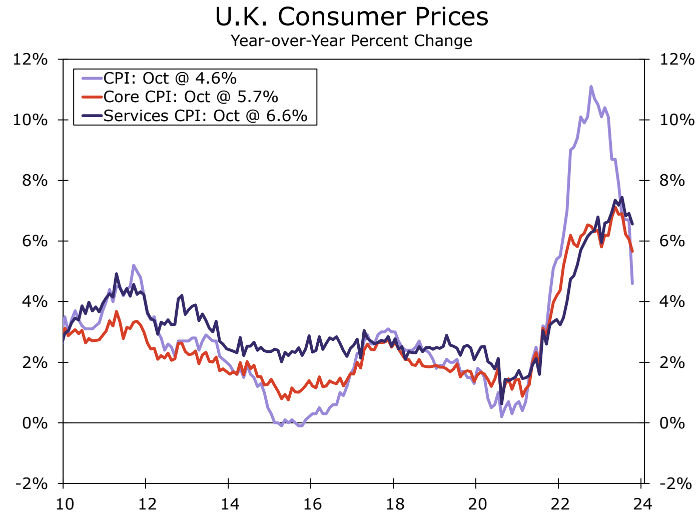
Source: Bloomberg Finance L.P. and Wells Fargo Economics

U.K. Consumer Price Index • Wednesday

Next week's U.K. consumer price index will be closely watched as market participants seek to garner insight into the extent to which persistent inflation pressures are ebbing. The Bank of England (BoE) held its policy rate at 5.25% at its December meeting, but also said key indicators of inflation persistence remain elevated. As a result, the BoE repeated monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation toward target over time.

We doubt the November CPI will show enough progress on the inflation front to significantly alter the Bank of England policy outlook. After the sharp October slowdown helped by base effects, the consensus forecast is for headline inflation to ease only modestly further to 4.3% year-over-year in November. Meanwhile, slower wage growth could also see a marginal slowing in services and core inflation, with the consensus forecast for core CPI inflation to soften to 5.5% year-over-year. That said, in our view both headline and core inflation remain high enough to dissuade the Bank of England from contemplating monetary easing for now. Depending on how the inflation data evolve through early next year, it's possible an initial Bank of England rate cut may not come until as late as the August 2024 meeting.

(Return to Summary)



Source: Datastream and Wells Fargo Economics

Interest Rate Watch

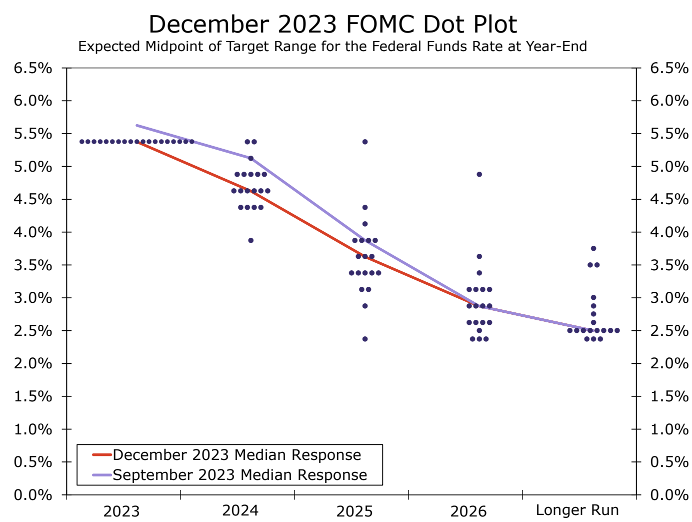
A Win for the Doves

As widely expected, the FOMC left the fed funds target range unchanged at 5.25%-5.50% in a unanimous vote. The decision marked the third consecutive meeting that the Committee held policy steady. While the rate decision came as no surprise, this week's meeting shaped up to be one of the clearest messages yet that the torrid hiking cycle that began in March 2022 has come to an end.

The meeting statement noted the FOMC would continue to take into account the cumulative amount of tightening undertaken, policy lags and economic and financial conditions when determining “any additional policy firming.” This phrasing suggests to us that, in the near term, the Committee's bias for future policy adjustments remains toward higher rather than lower. That message was reiterated by Chair Powell in the post-meeting press conference when he stated that the policy rate is “likely at or near its peak” and that the FOMC is “prepared to tighten policy further, if appropriate.”

Yet, tweaks to the statement indicated that while further tightening remains possible, it is growing less probable. The FOMC seemed less convinced that an additional hike would be necessary, noting that it was determining "the extent of *any* additional policy firming" rather than "the extent *of* additional firming" (emphasis ours). Powell confirmed in the press conference that the Committee discussed potential paths for bringing down rates, suggesting a pivot in its policy stance.

The dovish guidance comes as the FOMC seems a bit more encouraged by inflation's progress back toward 2%. Core PCE inflation has slowed to a 2.4% annualized pace over the past three months, suggesting the year-over-year rate has further to fall in the coming months. In the Committee's assessment of current economic conditions, it noted that inflation “has eased over the past year” even as it continues to recognize that inflation “remains elevated.” The only other adjustment to the statement was a slight downgrade to recent economic growth, noting it had slowed from its strong pace in the third quarter.



Source: Federal Reserve Board and Wells Fargo Economics

As is customary, the FOMC updated its Summary of Economic Projections (SEP) at this meeting. The dot plot, which shows the participants' expectations for the midpoint of the federal funds rate's target range at year's-end, had a median projection of 4.625% for 2024, implying 75 bps of easing next year (chart). The median dot for 2025 was 3.625%, down 25 bps from the September projections and signaling another 100 bps of easing in 2025. Both of these forecasts were 25 bps lower than what we anticipated and were the first time the dots have fallen since June 2020.

The lower projected path for the fed funds rate was mirrored by a more benign outlook for inflation. As expected, the median forecasts for headline and core PCE inflation in 2023 were revised down, reflecting the recent run of slower inflation readings. The Committee's median participant expects PCE inflation to register 2.8% this year and 3.2% when excluding food and energy prices. In the September SEP, these projections were 3.3% and 3.7%, respectively. The median projections for inflation in 2024 and 2025 also came down, though by less than 2023.

The revisions to the Committee's projections for economic growth and unemployment were modest and consistent with a soft landing for the U.S. economy. The median projection for 2024 real GDP growth was 1.4%, a touch lower than the 1.5% from the September SEP but still not far from the Committee's longer run estimate of 1.8%. Similarly, the median projection for the unemployment rate at year-end 2024 is 4.1%, in line with its longer-run estimate.

In sum, the job is not yet finished on the inflation fight, and the Committee wants to see additional data to confirm that the recent deceleration in prices is firmly entrenched. That trend does appear to be in place, and we expect the incoming data to confirm that inflation is gradually returning to 2%. After a period of nearly two years of rapid monetary policy tightening, a pivot to cuts next year is the most probable outcome, in our view. We expect the first rate cut at the June FOMC meeting in 2024.

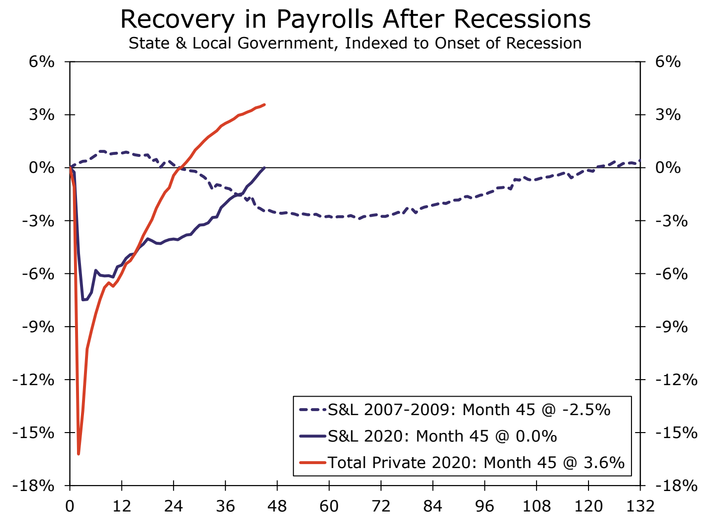
(Return to Summary)

Topic of the Week

The Fiscal Tailwinds Are Still Blowing

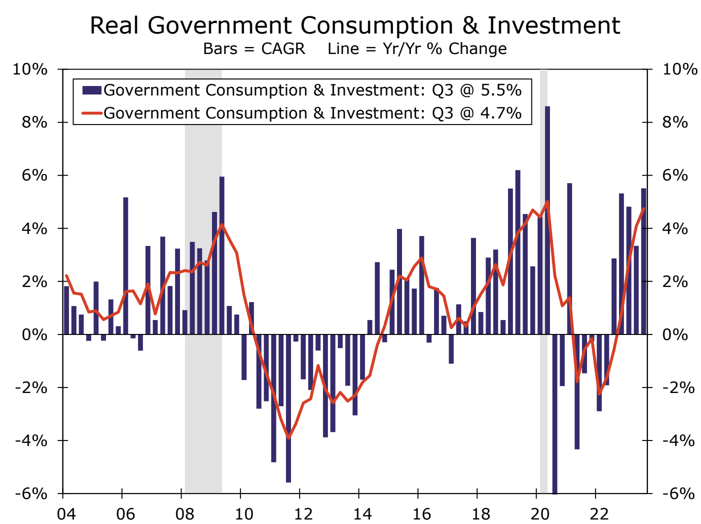
The U.S. economy has shown remarkable resilience in 2023 despite restrictive monetary policy, and real GDP looks to have grown about 2.5% over the year. Throughout the year, we have written about the numerous factors that have contributed to this resilience, and earlier this week, we published a report highlighting fiscal policy's role. Aside from the indirect ways in which fiscal policy can impact the economy (i.e., via taxes or transfer payments), the government also directly affects economic growth through public sector hiring and production, both of which have accelerated this year even as indicators of private sector economic activity have shown some signs of slowing.

Government payroll growth has constituted an outsized quarter of the 2.6 million jobs added in the U.S. year-to-date. Much of this strength can be attributed to catch-up from the pandemic; while private nonfarm payrolls surpassed its pre-pandemic level back in the spring of 2022, government employment only just eclipsed this threshold in October (chart). The vast majority (nearly 90%) of public sector workers are employed by state and local (S&L) governments, so it is not surprising that the lion's share of gains have been at the state (+218K) and local (+345K) levels. S&L education employment is still lagging, but public education hiring has recovered ground more recently as campus activity is firmly back in swing and labor supply has rebounded.



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

On the output side, an acceleration in investment has significantly contributed to the 4.7% year-over-year growth for the government component of GDP (chart). In inflation adjusted-terms, S&L government spending on structures is growing at the fastest pace in two decades, while equipment investment has also grown at a double-digit pace over the past year. Within the federal government, nondefense investment has risen nearly 8% over the past year amid a pickup in software and R&D. Investment spending on national defense also has quickened and now accounts for nearly a quarter of defense outlays.



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

How is the government funding this increase in output and hiring? S&L coffers were boosted by historically strong tax revenue growth and surging federal aid in 2021 and 2022. On the federal side of the equation, more allocated spending on infrastructure, national defense, veterans and other government operations have further fueled government output growth.

We believe the solid growth in government hiring and output will continue in the near term. The catch-up momentum in hiring still has room to run, and S&L finances are on firm footing with pandemic-related federal aid not yet fully exhausted. Federal government spending from the Infrastructure Investment and Jobs Act is just now ramping up, and the peak impact likely will not be seen for a couple of years.

However, over the longer run, we expect this momentum to fade. Federal aid to S&L governments will eventually be depleted, and tax receipt growth is unlikely to match the double-digit rates of 2021 and 2022 going forward. At the federal level, fiscal austerity may be slowly coming back into vogue amid a period of high inflation, elevated federal debt levels and rising interest costs. On balance, the fiscal tailwinds are still blowing, but they are not as strong as they once were. We believe they will keep fading as we get closer to 2025 and beyond.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 12/15/2023	1 Week Ago	1 Year Ago
SOFR	5.31	5.32	3.80
Effective Fed Funds Rate	5.33	5.33	3.83
3-Month T-Bill	5.38	5.37	4.29
1-Year Treasury	4.52	4.76	4.57
2-Year Treasury	4.41	4.72	4.24
5-Year Treasury	3.91	4.24	3.62
10-Year Treasury	3.92	4.23	3.45
30-Year Treasury	4.03	4.30	3.49
Bond Buyer Index	3.46	3.41	3.59

Foreign Exchange Rates

	Friday 12/15/2023	1 Week Ago	1 Year Ago
Euro ($/€)	1.091	1.076	1.063
British Pound ($/£)	1.269	1.255	1.218
British Pound (£/€)	0.860	0.858	0.873
Japanese Yen (¥/$)	141.770	144.950	137.780
Canadian Dollar (C$/$)	1.337	1.358	1.366
Swiss Franc (CHF/$)	0.868	0.880	0.928
Australian Dollar (US$/A$)	0.672	0.658	0.670
Mexican Peso (MXN/$)	17.199	17.347	19.760
Chinese Yuan (CNY/$)	7.118	7.170	6.974
Indian Rupee (INR/$)	83.001	83.386	82.754
Brazilian Real (BRL/$)	4.946	4.930	5.314
U.S. Dollar Index	102.481	104.010	104.558

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

Foreign Interest Rates

	Friday 12/15/2023	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.66	3.65	1.58
3-Month U.K. Govt Bill Yield	5.26	5.28	3.16
3-Month Canadian Govt Bill Yield	5.02	5.02	4.17
3-Month Japanese Govt Bill Yield	-0.13	-0.13	-0.18
2-Year German Note Yield	2.50	2.69	2.39
2-Year U.K. Note Yield	4.29	4.59	3.40
2-Year Canadian Note Yield	3.90	4.15	3.69
2-Year Japanese Note Yield	0.08	0.09	-0.01
10-Year German Bond Yield	2.02	2.28	2.08
10-Year U.K. Bond Yield	3.69	4.04	3.24
10-Year Canadian Bond Yield	3.13	3.37	2.78
10-Year Japanese Bond Yield	0.70	0.77	0.26

Commodity Prices

	Friday 12/15/2023	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	71.12	71.23	76.11
Brent Crude ($/Barrel)	76.17	75.84	81.21
Gold ($/Ounce)	2034.72	2004.67	1776.85
Hot-Rolled Steel ($/S.Ton)	1068.00	1070.00	670.00
Copper (¢/Pound)	388.05	382.00	376.30
Soybeans ($/Bushel)	13.02	12.92	14.60
Natural Gas ($/MMBTU)	2.48	2.58	6.97
Nickel ($/Metric Ton)	16,762	16,306	28,143
CRB Spot Inds.	542.10	537.37	572.49

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures