WELLS FARGO

Weekly — March 1, 2024

Weekly Economic & Financial Commentary

United States: **Economic Growth Continues Despite Downbeat Data**

- Economic data were downbeat this week, as downward revisions took some of the shine out of the marquee headline numbers. Durable goods orders declined, consumer confidence took a dip and the PCE deflator accelerated, bringing real personal spending into the red. Despite the somewhat weak start to Q1, economic growth continues to trek along.
- Next week: ISM Services (Tue.), Trade Balance (Thu.), Employment (Fri.)

International: **Eurozone Inflation Stays Sticky**

- Eurozone disinflation continued in February; however, CPI surprised to the upside last month, leaving markets questioning when the ECB will shift to rate cuts. Sticky inflation and elevated wage growth, in our view, is now likely to keep the ECB on the sidelines until the middle of 2024.
- Next week: Bank of Canada (Wed.), European Central Bank (Thu.), Mexico CPI (Thu.)

Credit Market Insights: **Mostly Good in the Neighborhood**

- Earlier this month, the Federal Reserve Bank of New York released its Quarterly Report on Household Debt and Credit encompassing the fourth quarter of 2023. The level of household debt outstanding sits $3.4 trillion above where it stood prior to the COVID-19 pandemic, or about 24% higher. Households have by and large been able to service their debt obligations even as the Fed's tightening cycle has raised interest expenses on households.

Topic of the Week: **"Super Core": The Inflation Measure du Jour**

- For much of this cycle, "super core" inflation was the talk of the town. Since its introduction, however, attention on the "super core" from Fed officials, analysts and market participants has seemed to dwindle. Why did "super core" ascend into the limelight and then fade from view? This week, we chronicle the rise and fall of interest in the "super core" and provide an update to its current run-rate.

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	3.2	2.4	1.3	1.0	1.1	1.9	2.5	2.4	1.7
Personal Consumption	3.8	0.8	3.1	3.0	2.9	1.5	1.1	1.4	2.5	2.2	2.2	1.7
Consumer Price Index [2]	5.7	4.0	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]	5.5	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

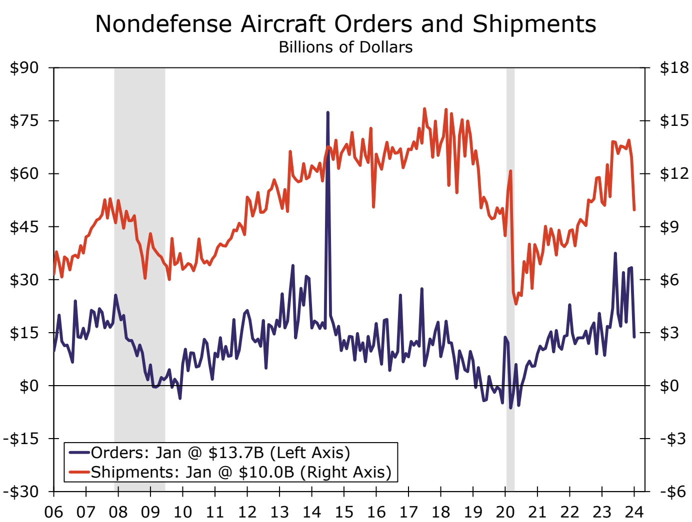
Please see our full U.S. Economic Forecast.

U.S. Review

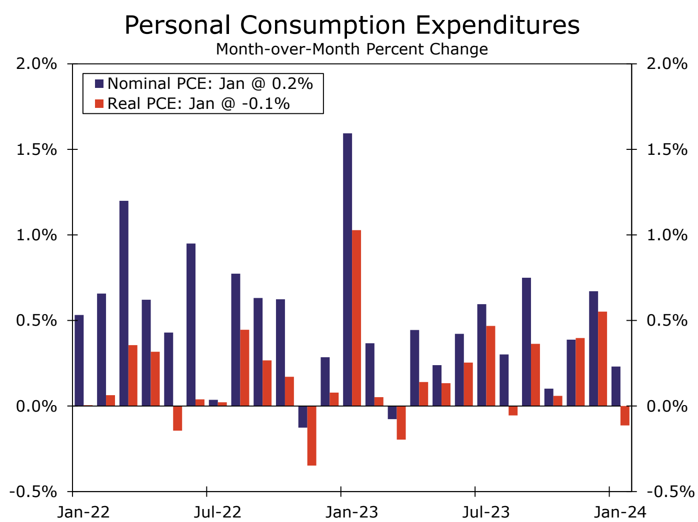
Economic Growth Continues Despite Downbeat Data

Economic data were downbeat this week, as downward revisions took some of the shine out of the marquee headline numbers. New home sales started the year off in the green, with the headline figure rising 1.5% in January. However, downward revisions to fourth quarter data take the shine out of the gain, as January's 661K-unit sales pace was lower than December's initially reported reading of 664K. The average 30-year mortgage rate moderated to 6.6% in January from its peak of 7.8% in late October 2023. Despite the high mortgage rate environment over this period, new home sales grew 1.8% on a year-over-year basis. High inventories have been supportive of sales growth in the market, and new home inventories improved for a sixth-straight month in January. Abundant supply has led price dynamics to remain favorable for buyers in the new home market compared to the existing home market. The median price for new homes is down 2.6% through January, while the median price for resales on the other hand have risen 5.0%. Although the new home market has been a bright spot, the larger size of the existing market in the U.S. and dearth of available supply continues to broadly constrain activity.

We also got some fresh manufacturing data this week. New orders for durable goods plunged 6.1% in January, though looking past the ever-volatile transportation sector, orders declined a more modest 0.3%. A precipitous 58.9% drop in nondefense aircraft orders were the primary driver of weakness in the headline figure, making for the largest one-month decline in the category since May 2020, when the pandemic had the airline industry in a state of panic. Core capital goods orders (nondefense ex-aircraft) eked out a 0.1% gain on the month, aided by strong orders for computers & related products as well as orders for electrical equipment, appliances & components, and signal some early signs of recovery in the underlying orders trend. Similarly, shipments of nondefense capital goods excluding aircraft were up a solid 0.8%, indicating a decent pace of underlying activity, though aircraft weakness will show up in Q1 equipment investment. Shipment trends are therefore less supportive of first quarter real equipment investment, while downward revisions to Q4-2023 equipment spending suggest a weaker outturn at the end of last year. Separately released Q4 GDP revisions brought equipment investment down to a -1.7% annualized rate from +1.0% in the advance reading.



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



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

Elsewhere, consumer confidence wavered in February; the index declined to 106.7 from 110.9 in January, surprising widespread forecaster expectations for an increase. Equity values rose to start the year, and a strong stock market is typically supportive of consumer confidence. Yet, consumers have looked past their portfolios in February, and their attention has shifted to the labor market, where they are becoming less optimistic. The labor market differential, of those viewing jobs as "plentiful" less those viewing jobs are "hard to get," declined to 27.8% from 31.7% in January. As inflation has slowed over the past year, consumers are increasingly becoming more sensitive to perceived weakness in the jobs market, with income again the primary source of their spending. Indeed, deteriorating consumer perceptions of the labor market could spell trouble for an already slowing pace of consumer spending.

Crummy confidence weighed on consumer spending in January as real personal spending fell for the first time in five months. Even as nominal spending rising 0.2% on the month, the largest monthly increase in the PCE deflator since September (0.3%) brought real personal spending down 0.1%. The core PCE deflator rose 0.4% in January and now sits at 2.8% year-over-year. Inflation continues to be a challenge, and price gains have given households less flexibility in their spending patterns. The balance in consumer spending priorities is again shifting, and consumers' year-over-year rate of discretionary spending growth fell to 0.8%, or the slowest pace of annual growth since early 2023. Non-discretionary outlays have grown 3.1% over the past year, and they are now again outpacing discretionary outlays.

Perhaps one of the most eye-catching data points this week was the 1.0% pop in January personal income. Growth in wages, rental income and receipts on assets all contributed heartily to the gain, but some of the strength can be chalked up to adjustments for income components, such as the Social Security cost-of-living adjustment (COLA). The COLA increased Social Security income by 3.5% in January, accounting for 20% of the monthly gain by itself despite only comprising about 6% of total income. Yet even with these strong nominal income gains, real disposable income came in flat on the month due to the previously mentioned large increase in the PCE deflator, as well as some accounting methodology of the BEA leading to an increase in taxes paid. Rising prices have continued to dent household purchasing power, and the last mile on the Fed's inflation front is still a crucially important one for the health of household balance sheets and for the economy more broadly. For a deeper look at prices and "super core" PCE inflation, please see Topic of the Week.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
5-Mar	Factory Orders (MoM)	Jan	-2.2%	-2.9%	0.2%
5-Mar	ISM Services Index	Feb	52.9	53.2	53.4
7-Mar	Trade Balance	Jan	-$62.5B	-$63.3B	-$62.2B
7-Mar	Nonfarm Productivity (QoQ)	Q4	3.1%	3.1%	3.2%
7-Mar	Unit Labor Costs (QoQ)	Q4	0.7%	0.7%	0.5%
8-Mar	Nonfarm Payrolls	Feb	190K	195K	353K
8-Mar	Unemployment Rate	Feb	3.7%	3.7%	3.7%
8-Mar	Average Hourly Earnings (MoM)	Feb	0.3%	0.2%	0.6%

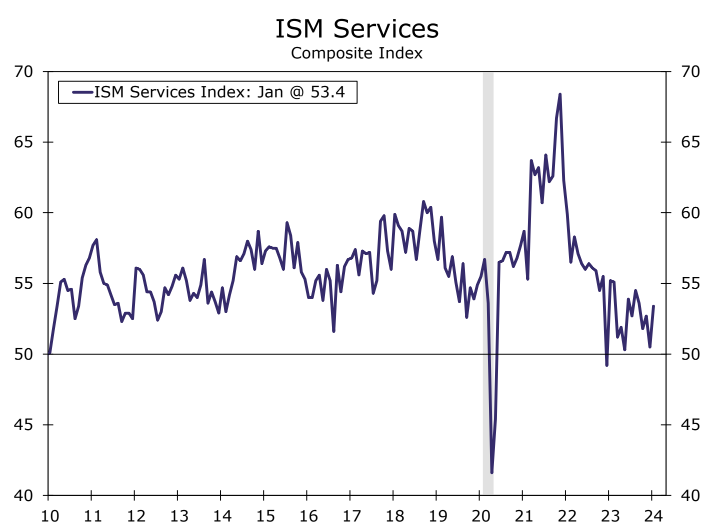
Forecast as of March 01, 2024

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

ISM Services • Tuesday

Services activity started off the year on a high note. The ISM services index jumped to 53.4 in January, the highest reading since September 2023. Most of the major sub-indexes ticked higher during the month, with the new orders and employment components rising notably. Although January's headline improvement was the latest indication that overall economic growth is still running at a solid pace, a pronounced increase in the prices paid index served as a reminder that price pressures have not fully dissipated.

Given January's sharp rise, a great deal of attention is likely to be paid to how the prices paid index moves in February. With respect to the broader headline ISM services index, the improvement in the forward-looking new orders component of January's ISM services suggests a solid pace of activity in the months ahead, although some moderation may be on the horizon. Both the S&P Global Services PMI and the New York Fed's Services Business Activity survey declined during February. As such, we estimate that February's ISM services index slipped to 53.2.

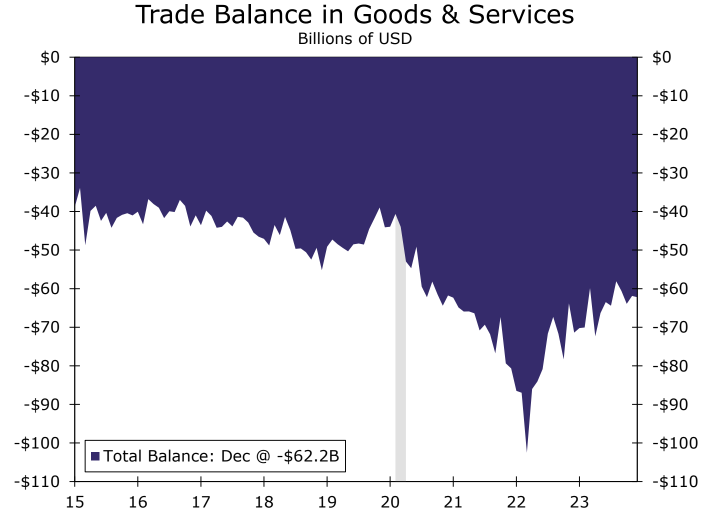


Source: Institute for Supply Management and Wells Fargo Economics

Trade Balance • Thursday

The United States trade balance printed largely as expected and fell to -$62.2 billion in December. Exports rose by almost $4 billion, slightly slower than the $4.2 billion gain in imports. For last year as a whole, a shrinking goods deficit and growing services surplus led to narrowing of the trade deficit over the course of 2023, reversing the substantial widening that occurred in 2022. Consequently, net exports were supportive of GDP growth in 2023.

Looking ahead, net exports are setting up to be more of a neutral factor for economic growth in 2024. Trade flows largely have normalized, even though the trade deficit has not yet returned to pre-pandemic levels. Global economic growth is moderate, which should bring about a slower pace of exports. Meanwhile, a solid pace of domestic consumer spending should allow the pace of imports to stabilize further. That noted, the advance trade in goods report for January published earlier this week indicates that the trade deficit for goods widened during the month. With that in mind, we expect the overall trade balance widened slightly to -$63.3 billion in January.

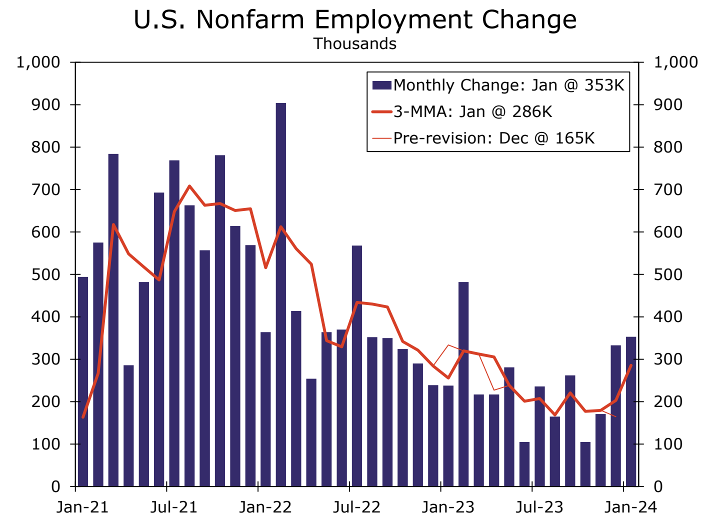


Source: U.S. Department of Commerce and Wells Fargo Economics

Employment • Friday

All eyes will be on the employment report on Friday. During January, nonfarm payrolls surprised to the upside and rose by 353K net new jobs. The unemployment rate held steady at 3.7%, while average hourly earnings came in on the hot side and jumped 0.6% during the month, twice the rate expected by the consensus. All told, January's sizzling employment report shows that the labor market, although cooling, is holding up remarkably well despite tighter monetary policy.

What's more, upward revisions to prior months' data indicate a stronger pace of payroll growth over the past few months than what was previously reported. In our view, however, the past two months of robust monthly gains over 300K are not likely to be repeated in February. Initial jobless claims and continuing claims remain low, yet on balance, have ticked slightly higher in recent weeks. The rise in claims indicates the labor market may have lost a bit of momentum in February. That said, the pace of hiring still appears to be on solid ground, and we anticipate payrolls rose by 195K during February, just slightly above the current consensus. Furthermore, we look for the unemployment rate to remain unchanged at 3.7% and for average hourly earnings to ease to 0.2% during the month alongside normalizing supply and demand for workers.



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

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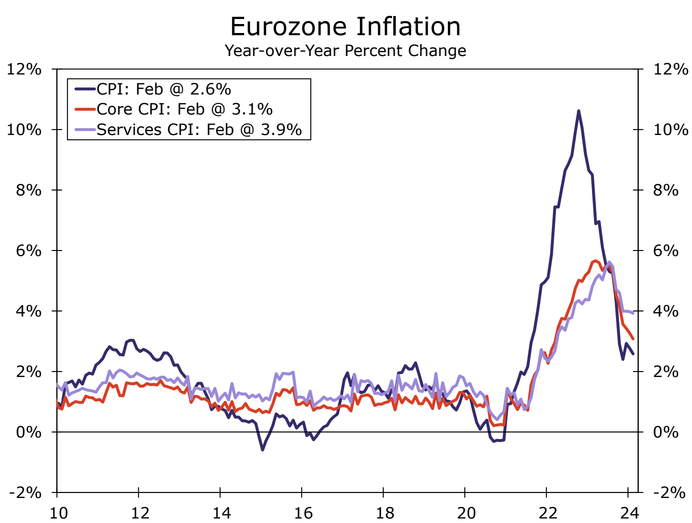
International Review

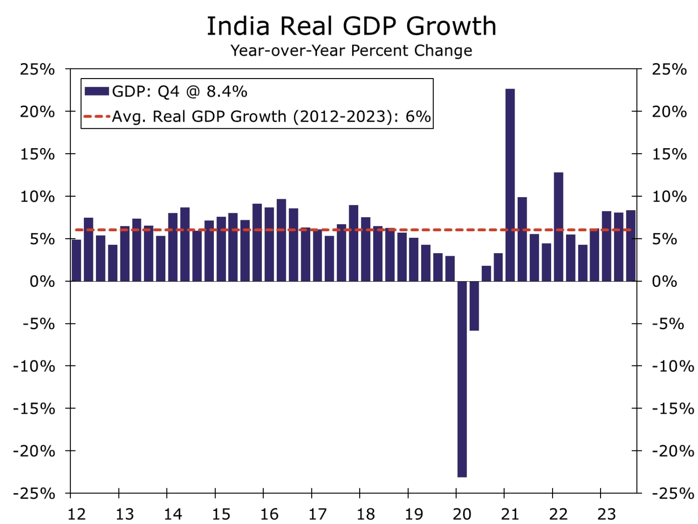
Eurozone Inflation Stays Sticky

Significant progress has been made on the Eurozone inflation front. From peaking at 10.7% year-over-year in October 2022, Eurozone price growth receded to 2.6% in February. A lot of the Eurozone disinflation process can be attributed to European Central Bank (ECB) monetary tightening as well as lower natural gas prices following the initial spike after Russia's invasion of Ukraine. February inflation data confirmed the disinflation process is still intact; however, the softening in the Eurozone CPI did not match consensus estimates, and price growth proved to be a bit stickier than expected last month. To that point, consensus forecasts expected headline inflation to slip to 2.5% year-over-year. Actual headline inflation softened to just 2.6%. Core inflation was slightly more persistent. While core price growth did recede further, from 3.3% year-over-year to 3.1%, it came in slightly higher relative to consensus estimates of 2.9%. February data indicate that Eurozone services prices remain quite persistent and are arguably one of the key rationales for inflation missing consensus estimates. In that sense, services-related price growth softened very modestly to 3.9% year-over-year, from 4% in January. Above-consensus inflation should have an impact on when the ECB delivers an initial interest rate cut. To date, ECB policymakers have proceeded cautiously when approaching and considering easing monetary policy so as to defend against renewing inflationary pressures. In our view, today's data should act as another input into the ECB maintaining a relatively cautious stance on shifting to interest rate cuts.

Another reservation regarding the inflation outlook, and one cited by several ECB policymakers, is the still-elevated pace of wage growth. The most up-to-date wage figure available is the ECB's indicator of negotiated wages. The negotiated wage index decelerated slightly to 4.5% year-over-year in Q4 from 4.7% in Q3 but, at least for now, suggests wage growth is at a level probably still too high to achieve the 2% inflation target on a sustained basis. The fact that the unemployment rate is at a record low perhaps reinforces concerns that wage growth may decelerate only gradually. It is against this backdrop, and despite the improving inflation trends of the past several months, that ECB policymakers have been wary of moving too aggressively in lowering interest rates, and have indicated an increasingly clear preference to see wage trends from early 2024 before making a decision to adjust interest rates. Those wage data for early 2024 will only be available in time for the ECB's June monetary policy announcement, and *not* for the ECB's April monetary policy announcement. Taking February inflation data together with wage growth data, we believe an ECB rate cut in April is increasingly unlikely. More likely, in our view, is for the ECB to deliver a rate cut in June. Keeping policy settings on hold into the summer months allows the ECB to assess further progress on inflation and how Eurozone activity and growth is evolving. For further reading on this topic, please see our recent Eurozone report.



Source: Datastream and Wells Fargo Economics



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

India's Economy Humming Along

Our 2024 International Economic Outlook highlighted how we expect India to be one of the fastest growing major economies in the world this year. We noted how we forecast India's economy to expand 7% on a calendar-year basis in 2024, a quicker pace of growth relative to peer economies such as China. The same publication also suggested that India could contribute meaningfully to the overall global economic growth rate this year. Two months into this year, our robust 2024 outlook for India remains in place. In fact, recent GDP data reinforce our view that India is not only still on pace to experience robust growth this year, but also to potentially outperform relative to our already ambitious expectations. To that point, Q4-2023 GDP data were released this week, with the headline 8.4% growth beating our—as well as broader economist consensus—expectations and now growing at an above-average rate for the past four quarters (chart). Q4 data—which we will seasonally adjust and incorporate into our GDP estimates—will raise our estimate for 2023 and 2024 calendar-year GDP growth, which we will officially publish in our March forecast update. Details of the latest GDP data are also encouraging. Early estimates suggest private consumption improved on a year-over-year basis. Consumption represents the largest component of India's economy, leaving consumer spending as an important driver of India's strong growth in Q4. Also, private investment was robust at the end of 2023. Data indicate India is still an attractive destination for investment, which has been true for some time, but is especially relevant now as India becomes an increasing alternative to replace China in the global supply chain.

Economic outperformance should also have implications for Reserve Bank of India (RBI) monetary policy. For a little over a year, RBI policymakers have kept interest rates on hold and maintained an official policy stance of “withdrawing accommodation.” Solid economic activity combined with a cautious approach toward inflation has been justification for keeping interest rates at restrictive levels, and Q4 GDP data are unlikely to provide policymakers with rationale to materially adjust their stance. Also, in January, despite core CPI inflation softening to within the RBI's target range, policymakers were explicit in their views that risks around inflation are still tilted to the upside and that a cautious stance when considering a pivot toward rate cuts should be maintained. In response to policymaker commentary, we adjusted our outlook for RBI monetary policy and pushed back the timing of when we expect India's central bank to begin easing monetary policy. We now expect the RBI to deliver an initial rate cut in Q3-2024 as opposed to Q2, and recent GDP data give us slightly more conviction that policymakers will indeed be more patient in shifting to interest rate cuts. Relative to major emerging market central banks, the Reserve Bank of India could be one of the last to initiate an easing cycle, while we also expect the RBI easing cycle to be one of the more shallow rate cut cycles in the emerging markets. To that point, we believe the RBI will begin easing with a 25 bps cut in Q3, move forward with 50 bps of additional easing in Q4 and deliver one last 25 bps cut in Q1-2025. 100 bps of cumulative easing will take India's repurchase rate to 5.50% by Q1-2025. 100 bps of rate cuts is also a much shallower easing cycle relative to institutions in Latin America and EMEA, and will likely be in line with easing from emerging Asia central banks by early 2025.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
6-Mar	Bank of Canada Policy Rate	6-Mar	5.00%	5.00%	5.00%
7-Mar	European Central Bank Deposit Rate	7-Mar	4.00%	4.00%	4.00%
7-Mar	Mexico CPI (YoY)	Feb	4.42%	--	4.88%

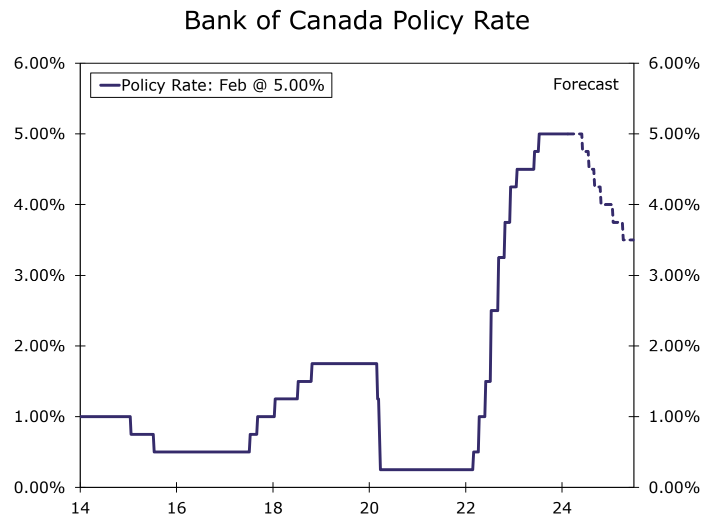
Forecast as of March 01, 2024

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

Bank of Canada • Wednesday

Growth and inflation trends in Canada have been less than stellar lately, and in our view, the Bank of Canada (BoC) could be one of the first major G10 central banks to deliver rate cuts this year. This week, December month GDP data were rather underwhelming. On a year-over-year basis, Canada's economy fell short of consensus forecasts, and growth was essentially unchanged month-over-month. While Q4 GDP on an annualized basis held up, more recent indicators of activity suggest a slowdown in economic momentum heading into the early months of 2024.

On the inflation side, price growth has trended lower. As of January, headline CPI fell to 2.9% on a year-over-year basis. While still above the BoC's target for CPI, price trends are heading in the right direction at a sustainable pace. We do not expect BoC policymakers to deliver a rate cut next week; however, we do believe policymakers may start to lay the initial groundwork for a shift to rate cuts by the middle of this year. BoC policymakers have expressed caution lately, but with growth slowing rather quickly and inflation receding, BoC cuts by June are looking like a higher probability event.

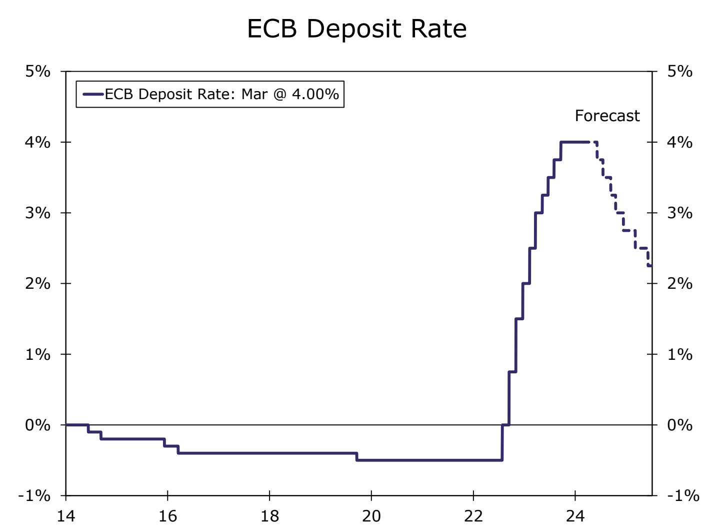


Source: Bloomberg Finance L.P. and Wells Fargo Economics

European Central Bank • Thursday

As mentioned in International Review, we believe ECB policymakers will continue to express a level of caution when assessing monetary policy. In that sense, we do not believe ECB policymakers are ready to make a pivot to rate cuts at this time, and we also believe the timing of an initial rate cut will now be pushed back until the middle of this year. While the Eurozone economy is on the verge of recession and experiencing no growth, inflation that is still above the ECB's target and wage growth that is likely still too high to achieve that target, should keep the ECB on hold next week and for the next few months.

In our view, inflation is still the primary focus of ECB policymakers, and the latest February inflation data and Q4 wage growth numbers should keep policymakers on hold until the June meeting. In June, we expect the ECB to deliver an initial 25 bps rate cut and communicate a still-cautious approach to rate cuts. In that sense, we believe rates will be lowered 25 bps at each meeting after June, but a cautious tone may exist in official statements and communications from ECB President Lagarde and other ECB members. Delayed easing should keep economic prospects from surging for the time being; however, recent sentiment data at least suggest the Eurozone economy may be on a path towards recovery.



Source: Datastream and Wells Fargo Economics

Mexico Inflation • Thursday

Persistent inflation has also been a concern in Mexico and has prevented the Central Bank of Mexico (Banxico) from delivering interest rate cuts as well. Inflation has come down in Mexico over time, although headline CPI has ticked higher over the past few months. Policymaker rhetoric also suggests central bankers in Mexico are still concerned about risks to inflation and that the CPI could remain above Banxico's target for an extended period of time. At the same time, mid-February inflation came down more than expected, an encouraging sign that headline inflation may start to roll back over. Next week, we will get insight into whether the headline disinflation process will progress and whether risks to the inflation outlook are still present.

Renewed progress on the inflation front, in our view, should lead to Banxico easing starting in March. With that said, we think policymakers will still express a degree of caution when considering easing. That caution should be expressed by maintaining a relatively hawkish stance on interest rates despite Banxico lowering the Overnight Rate. We also expect policymakers to warn market participants that easing could stop should inflation tick higher and/ or if inflation expectations start to rise.

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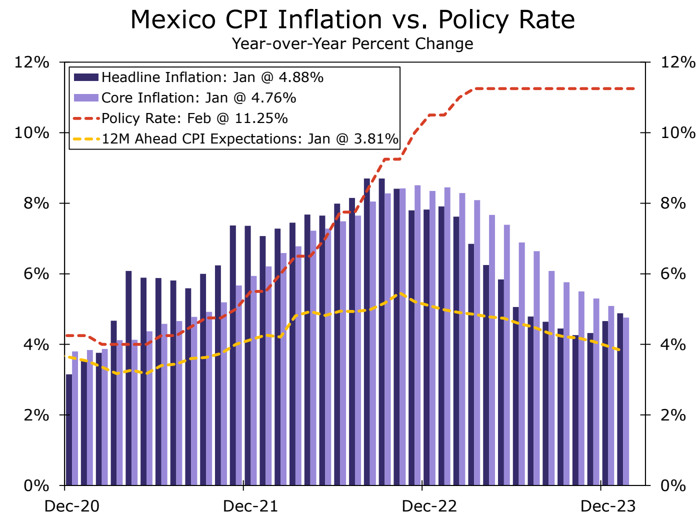


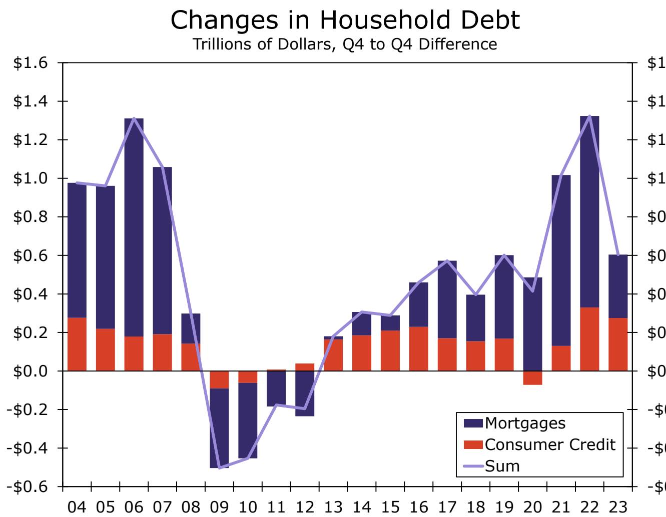
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Credit Market Insights

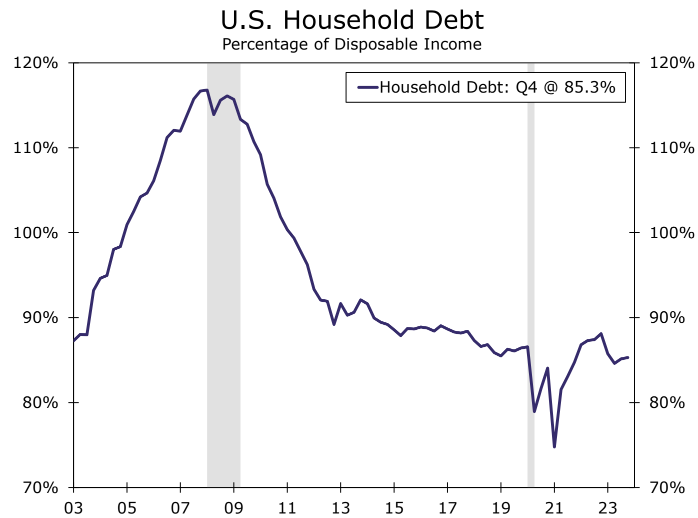
Mostly Good in the Neighborhood

Earlier this month, the Federal Reserve Bank of New York released its Quarterly Report on Household Debt and Credit encompassing the fourth quarter of 2023. The report found U.S. aggregate household debt balances rose by $212 billion in Q4 to reach $17.5 trillion in total. Quarter-over-quarter growth amounted to 1.2%, a touch below the previous quarter's growth pace. Broken down by category, credit card balances rose by $50 billion (a 4.6% quarterly gain), mortgage balances advanced by $112B (+0.9%), home equity lines of credit (HELOC) increased by $11B (+3.2%) and auto loans rose by $12B (+0.8%). Student loan balances were essentially flat over the quarter.

By year's end, household debt balances rose by $604 billion in 2023, translating to 3.6% year-over-year growth. Debt growth has cooled considerably from the torrid pace of the past two years. Indeed, looking at dollar volume, household debt growth in 2023 was in line with 2019 on a Q4-to-Q4 basis (chart). Yet the level of household debt outstanding sits $3.4 trillion above where it stood prior to the COVID-19 pandemic, or about 24% higher. Such rapid debt growth has not been witnessed since the run-up to the global financial crisis, raising the question, "is the household sector heading for the same debt-induced debacle that befell it 15 years ago?"



Source: Federal Reserve Bank of New York, Equifax and Wells Fargo Economics



Source: Federal Reserve Bank of New York, Equifax, U.S. Department of Commerce and Wells Fargo Economics

We address this question directly in Part II of our recent debt series in which we conclude "the financial position of the household sector, in aggregate, appears to be generally solid at present," and "a debt-induced retrenchment in aggregate consumer spending in the foreseeable future does not look very likely, in our view." The evidence underpinning our assertion is that households are considerably less leveraged today than they were in 2008. Rather than looking at the absolute level of household debt, we analyze the ratio of debt to disposable income (i.e., income less taxes) to determine how leveraged households are. Once accounting for disposable income growth, household leverage rests just below pre-pandemic levels, and well below pre-global financial crisis levels (chart).

Households have by and large been able to service their debt obligations even as the Fed's tightening cycle has raised interest expenses on households. Residential mortgages, which account for 70% of total household debt, lay at the heart of this ability. The vast majority of existing home mortgage debt originated at fixed rates, and lending standards are considerably more stringent today compared to the lead-up to the housing bubble. On top of that, the downward trend in mortgage rates between 2008 and 2021 induced many households to refinance at lower rates, resulting in the effective rate on mortgage debt outstanding to be just 3.8% as of Q4-2023. Consequently, the Fed's rate hike campaign has had less of a pass-through effect on household cashflows, and the delinquency rate on mortgage debt remains in line with pre-pandemic levels.

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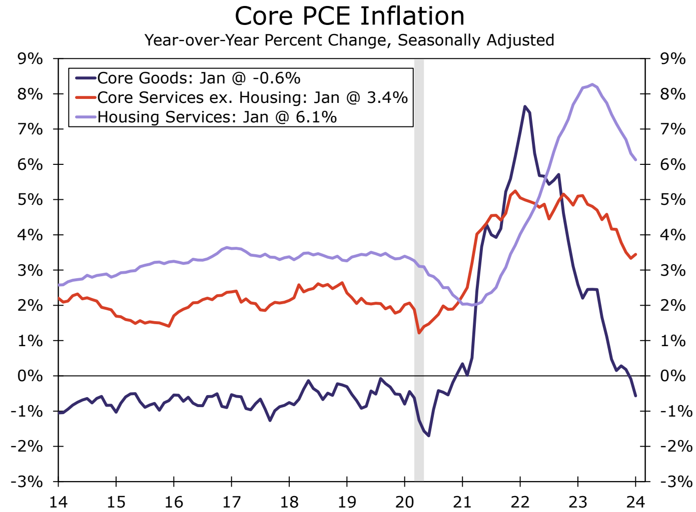
Topic of the Week

"Super Core": The Inflation Measure du Jour

After inflation took off this cycle, "super core" inflation (i.e., core services ex-housing) became the talk of the town. Since its introduction, however, attention from Fed officials, analysts and market participants has seemed to dwindle. Why did "super core" ascend into the limelight and then fade from view? And is the reduced focus on the "super core" premature with inflation yet to return to 2% for the long haul?

The strongest bout of inflation in four decades unsurprisingly sparked interest in fresh ways of looking to understand price growth. During the past economic cycle, interest grew in median or trimmed mean measures of inflation as a way to view the trend in price growth without necessarily excluding food and energy—volatile but vital categories to the overall cost of living. This cycle has brought more focus on component-oriented views of inflation. Given the extreme moves in categories closely tied to the supply chain snarls and housing rush of the pandemic-era economy, not to mention the added volatility in food and energy prices from Russia's invasion of Ukraine, understanding the major movers of overall price growth became instrumental in thinking about the future path of inflation.

Monetary policymakers also looked toward component-based lenses to view price growth. In a speech in November 2022, Fed Chair Powell discussed PCE inflation excluding food and energy through the lens of goods, housing services and services ex-housing. With supply chain strains at the time beginning to ease, Powell seemed cautiously optimistic that the nascent trend in core goods disinflation would continue, as it indeed has (chart). Powell also viewed the long lag between official measures of shelter costs and private measures of rent as an indication that housing inflation would soon start to turn lower, which also came to pass.



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

Powell was less confident in what lay ahead for core services less housing—a wide-ranging group of services including everything from health care to haircuts—given its primarily sideways movement throughout 2022. Most of the services included in the "super core" are closely related to wages and the labor market, which was exceptionally tight at the time.With services less housing accounting for roughly half the core PCE index and seeming to be a large area of uncertainty for the Fed, the "super core" soon became the inflation measure du jour.

Since its introduction, however, attention on the "super core" has seemed to fade. The index started to moderate not long after Powell drew attention to it, suggesting this swath of inflation may not be as intractable as Fed officials feared. After fluctuating around a 5% annual run-rate for roughly a year and a half, the measure trended down over 2023 (though remaining elevated at 3.4% year-over-year at present).

At the same time, the cooling of the labor market from its white-hot state in 2022 also has allayed fears that services ex-housing could drive another leg up in inflation and catalyze a wage-price spiral. More broadly, with the traditional core PCE falling back to the Fed's 2% target on an annualized basis in the second half of last year, helped by outright goods deflation and moderation in housing inflation, the need for the "super core" to cool off was less pressing.

Moving forward, we expect "super core's" popularity to experience a bit of a comeback. In January, the "super core" registered its largest monthly gain in two years. Some of that strength seems attributable to seasonal factors not fully capturing start-of-the-year price hikes and expecting price increases to be more dispersed through the calendar year after the price-hiking frenzy of the past few years. Nearly a third of the monthly gain (19 bps of the 0.58% increase) was also attributable to financial services & insurance by our estimates, a category driven by swings in financial markets more than by labor conditions. But strength in the "super core" was broad-based enough to underscore that the Fed cannot yet rest peacefully in its effort to get inflation back to 2% on a sustained and timely basis. With the drag from goods deflation likely to lessen this year after the initial improvement in supply chains and housing inflation proving slow to normalize, progress on the "super core" portion of inflation is likely to garner more attention over the coming months.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 3/1/2024	1 Week Ago	1 Year Ago
SOFR	5.32	5.30	4.55
Effective Fed Funds Rate	5.33	5.33	4.57
3-Month T-Bill	5.37	5.40	4.85
1-Year Treasury	4.98	4.95	5.04
2-Year Treasury	4.55	4.69	4.88
5-Year Treasury	4.19	4.28	4.26
10-Year Treasury	4.21	4.25	3.99
30-Year Treasury	4.35	4.37	3.95
Bond Buyer Index	3.54	3.54	3.75

Foreign Exchange Rates

	Friday 3/1/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.083	1.082	1.067
British Pound ($/£)	1.264	1.267	1.203
British Pound (£/€)	0.857	0.854	0.887
Japanese Yen (¥/$)	150.210	150.510	136.190
Canadian Dollar (C$/$)	1.356	1.351	1.359
Swiss Franc (CHF/$)	0.885	0.881	0.940
Australian Dollar (US$/A$)	0.653	0.656	0.676
Mexican Peso (MXN/$)	17.019	17.117	18.115
Chinese Yuan (CNY/$)	7.197	7.196	6.870
Indian Rupee (INR/$)	82.905	82.950	82.506
Brazilian Real (BRL/$)	4.950	4.994	5.181
U.S. Dollar Index	103.918	103.936	104.483

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

Foreign Interest Rates

	Friday 3/1/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.75	3.73	2.65
3-Month U.K. Govt Bill Yield	5.25	5.23	3.89
3-Month Canadian Govt Bill Yield	4.95	4.97	4.53
3-Month Japanese Govt Bill Yield	-0.11	-0.12	-0.18
2-Year German Note Yield	2.89	2.85	3.20
2-Year U.K. Note Yield	4.28	4.54	3.66
2-Year Canadian Note Yield	4.12	4.17	4.27
2-Year Japanese Note Yield	0.19	0.17	-0.03
10-Year German Bond Yield	2.41	2.36	2.71
10-Year U.K. Bond Yield	4.11	4.04	3.84
10-Year Canadian Bond Yield	3.45	3.46	3.41
10-Year Japanese Bond Yield	0.72	0.72	0.51

Commodity Prices

	Friday 3/1/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	80.59	76.49	77.69
Brent Crude ($/Barrel)	83.96	81.62	84.31
Gold ($/Ounce)	2074.71	2035.40	1836.72
Hot-Rolled Steel ($/S.Ton)	791.00	922.00	1028.00
Copper (¢/Pound)	385.15	388.00	416.80
Soybeans ($/Bushel)	11.37	11.41	15.12
Natural Gas ($/MMBTU)	1.83	1.60	2.81
Nickel ($/Metric Ton)	17,670	17,166	24,591
CRB Spot Inds.	547.87	545.84	566.40

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