Economics

Weekly — May 9, 2025

Weekly Economic & Financial Commentary

United States: **Risks Have Risen (but Haven't Materialized Yet)**

- The trade deficit blew a hole in Q1 productivity growth, and tariffs are anecdotally increasing price pressures in the services sector. But beyond temporary trade-related distortions, tariffs have yet to meaningfully impact the economic data. We anticipate that tariffs will be negotiated down from current levels but still create a stagflationary environment by year-end.
- Next week: Federal Budget Balance (Mon.), CPI (Tue.), Retail Sales (Thu.)

International: **Foreign Central Banks in Focus**

- It was a busy week for foreign central bank announcements. The People's Bank of China, Central Bank of Poland, Czech National Bank and the Bank of England all lowered their central bank policy rates. Sweden's and Norway's central banks held rates steady and kept the door open for more cuts later in the year, while Brazil's central bank raised its Selic rate by 50 bps and signaled the possibility of more tightening going forward.
- Next week: India CPI (Tue.), Australia Employment (Wed.), Japan GDP (Thu.)

Interest Rate Watch: **FOMC's Holding Pattern Continues**

- As universally expected, the Federal Open Market Committee decided to keep the target range for the federal funds rate unchanged at 4.25%-4.50% this week. After cutting rates by 100 bps last year, the Committee has now been on hold for three consecutive meetings.

Topic of the Week: **What's the Deal?**

- President Trump and U.K. Prime Minister Keir Starmer announced a U.S.-U.K. trade deal on Thursday. While this marks the first agreement since President Trump reignited the trade war earlier this year, the few details disclosed at this point don't necessarily set the precedent that other agreements will be quickly forthcoming or extensive in nature.

Wells Fargo U.S. Economic Forecast

	Actual 2024				Forecast 2025				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	3.1	2.4	-0.3	1.6	-1.5	0.3	2.9	2.8	1.1	1.1
Personal Consumption	1.9	2.8	3.7	4.0	1.8	1.9	-0.4	0.1	2.5	2.8	2.1	1.5
Consumer Price Index [2]	3.2	3.2	2.7	2.7	2.7	2.6	2.9	3.0	4.1	3.0	2.7	2.8
"Core" Consumer Price Index [2]	3.8	3.4	3.3	3.3	3.1	3.3	3.7	3.8	4.8	3.4	3.5	3.2
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.50	4.50	4.00	3.50	5.23	5.27	4.13	3.50
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.60	6.45	6.30	6.80	6.72	6.50	6.35
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.20	4.10	4.00	3.96	4.21	4.13	4.16

Forecast as of: May 08, 2025 [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

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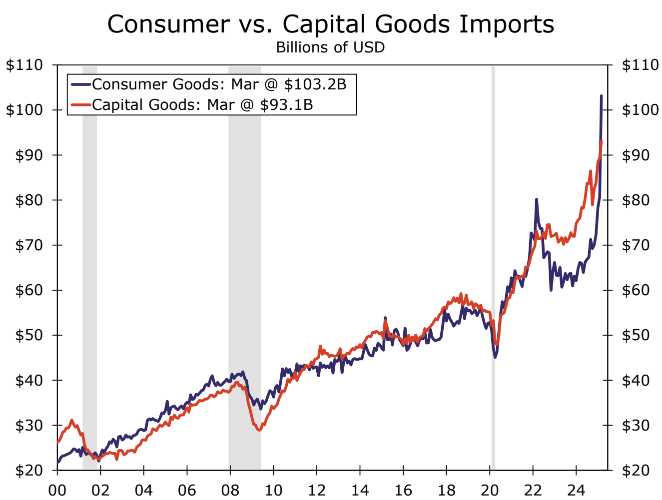
U.S. Review

Risks Have Risen (but Haven't Materialized Yet)

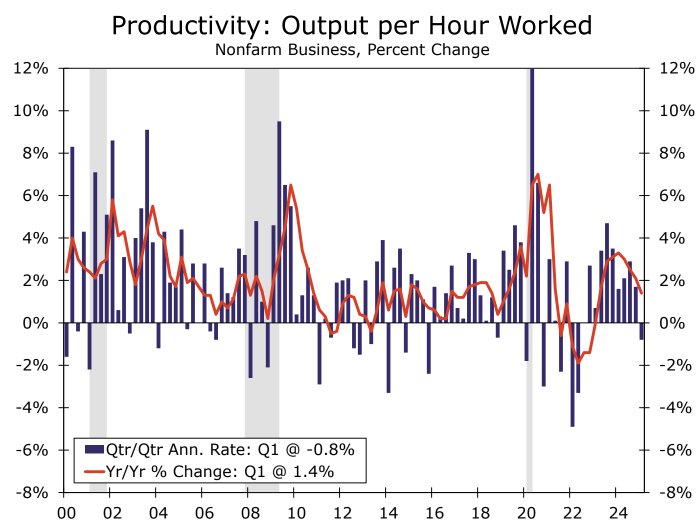
This week was fairly light on the data front. The few prints we did receive were distorted by tariff front-running, which will likely be reversed in the coming months. In this season of uncertainty, it was encouraging to hear Federal Reserve Chair Jerome Powell characterize the economy as "resilient and in good shape." He was transparent about looming economic threats but acknowledged that the magnitude of risks depends on where tariffs ultimately land pending the outcome of trade negotiations. In his words, "the risks of higher unemployment and higher inflation have risen. But they haven't materialized yet."

In that vein, the president unveiled his first trade deal on Thursday with the U.K., the details of which are outlined in Topic of the Week. In sum, the U.S. agreed to lower tariffs on select imports from the U.K. in exchange for fewer nontariff barriers against U.S. exports. This outcome is far from the sub-3% tariff rate that the U.S. previously enjoyed. However, it strikes us as likely that the administration will reach additional trade deals in the weeks ahead. Treasury Secretary Scott Bessent disclosed that the U.S. is in negotiations with 17 countries at present, excluding China. Talks with China are due to begin this coming Saturday when Secretary Bessent and USTR Greer meet with Chinese officials in Geneva. Assuming that these negotiations yield a lower tariff level on U.S. imports and potentially widen market access for U.S. exports, the economy may not face as much downside risk as current tariff rates suggest. As we discussed in our latest Monthly Economic Outlook, the likelihood of lower-negotiated tariffs and labor market resilience to date prompt us to expect slightly less Federal Reserve easing this year than in our previous forecast.

Fresh trade details from March offer insight into the stockpiling efforts that drove the U.S. trade deficit to its widest point on record. Businesses poured resources into foreign-made computers, semiconductors and telecommunications equipment in March, contributing to the swell in equipment investment in Q1's GDP print. Imports of consumer goods were also pulled forward. A surge in pharmaceuticals drove most of the increase, but furniture, clothing and most other categories of consumer goods also moved higher. Tariff front-loading in the first three months of the year will likely give way to softer imports over the next few months. We've already seen trade shipments from China drop off as businesses shy away from the 145% tax. Assuming no change in overall consumer spending, weaker imports would support faster GDP growth in Q2, all else equal.



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



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

The hike in imports blew a hole in productivity. Nonfarm labor productivity, measured as output per hour, contracted at a 0.8% annualized rate in Q1. This miss can be attributed to a combination of weak GDP growth and solid hiring in the first quarter. Mechanically, the contraction in productivity led to a surge in unit labor costs (ULCs), which are essentially the productivity-adjusted costs of labor. But through the noise, labor productivity is up by a solid 1.4% year-over-year and ULCs are growing at a rate that is beneath the Fed's 2% inflation goal. Put another way, productivity growth remains strong, and the labor market is not a significant source of inflation pressure at present.

Tariffs have yet to meaningfully impact the hard economic data outside these trade-related distortions. But price pressures are starting to build, at least anecdotally. Seventeen out of the 18 industries represented in the ISM Services Survey reported paying higher prices for inputs in April, the month of Liberation Day tariffs. The pressure wave brought the prices paid subindex to its highest reading since January 2023. Yet, the 51.6 headline indicated that the services sector continued to expand. This resilience is reminiscent of the split between manufacturing and services that has been on display over the past few years. But a new dichotomy is emerging *within* the services sector based on varying degrees of trade exposure. Although 11 out of 17 industries reported growth in April, highly trade-dependent industries like agriculture and construction contracted. We continue to suspect that tariffs will weigh on consumer spending, hiring and investment, creating a stagflationary environment later this year.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
12-May	Federal Budget Statement	Apr	—	$256B	-$160.5B
13-May	CPI (MoM)	Apr	0.3%	0.2%	-0.1%
13-May	CPI (YoY)	Apr	2.4%	2.3%	2.4%
13-May	Core CPI (MoM)	Apr	0.3%	0.3%	0.1%
13-May	Core CPI (YoY)	Apr	2.8%	2.8%	2.8%
13-May	CPI Index NSA	Apr	320.880	320.883	319.799
15-May	Retail Sales (MoM)	Apr	0.0%	0.1%	1.5%
15-May	Retail Sales Ex Auto (MoM)	Apr	—	0.3%	0.6%
15-May	PPI Final Demand (MoM)	Apr	0.3%	0.2%	-0.4%
15-May	PPI Final Demand (YoY)	Apr	—	2.5%	2.7%
15-May	Core PPI (MoM)	Apr	0.3%	0.2%	-0.1%
15-May	Core PPI (YoY)	Apr	—	3.0%	3.3%
15-May	Industrial Production (MoM)	Apr	0.3%	0.2%	-0.3%
15-May	Capacity Utilization	Apr	77.9%	77.9%	77.8%
15-May	Business Inventories (MoM)	Mar	0.2%	0.2%	0.2%
16-May	Housing Starts (SAAR)	Apr	1368K	1365K	1324K
16-May	Import Price Index (MoM)	Apr	-0.4%	-0.5%	-0.1%
16-May	Import Price Index (YoY)	Apr	—	-0.5%	0.9%

Forecast as of May 09, 2025

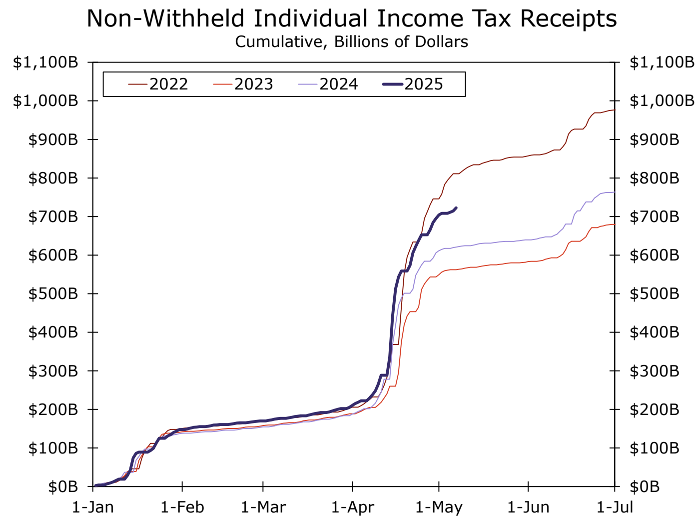
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Federal Budget Balance • Monday

The April Monthly Treasury Statement (MTS) will set the tone for FY 2025 revenues and, accordingly, for the federal deficit and debt ceiling "X date." Roughly 15% of federal government revenues for each fiscal year are collected in April amid tax filing season. Furthermore, April's revenue data will be the first to reflect "Liberation Day" trade policy changes. Tax receipts from the Daily Treasury Statement show robust individual income tax collections (chart), and the Congressional Budget Office estimates that individual income and payroll taxes through April are up $144 billion (+6%) fiscal year-to-date compared to FY 2024. Meantime, receipts from customs duties are tracking $14 billion higher (+32%) FYTD as a result of tariffs.

Even as federal government revenue growth has been solid, spending is also up on the year (~7% FYTD). Some evidence of DOGE-related spending cuts will likely show up in the line items of the MTS, but increased expenses for net interest (+$58 billion), Medicare (+$40B) and Social Security (+$70B) mean the overall trajectory of spending growth will be difficult to alter if these programs are left unchanged. We are forecasting a fiscal year deficit roughly on par with last year's as a result.

Given our present expectations for federal revenues and outlays in the next few months, our base case is that the "X date", or date to which the Treasury will remain solvent, will fall in early September. That said, there remains a tail risk that Treasury may be unable to meet all of its obligations as soon as late July.



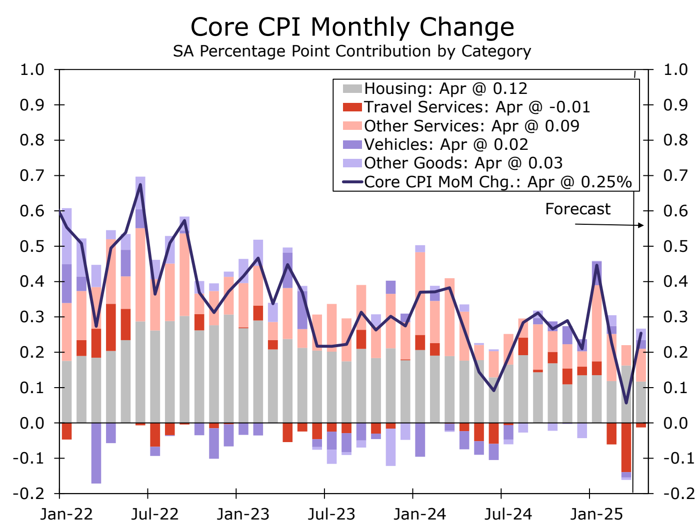
Source: U.S. Department of the Treasury and Wells Fargo Economics

CPI • Tuesday

After an unexpected slide in March, the monthly change in the CPI in April is likely to rebound to its six-month trend. March's tame reading could be traced back to weakness in the more dynamic components of the CPI; amid the flurry of federal government cost-cutting efforts and looming "Liberation Day" announcement of tariffs, concerns about the economy sent oil prices, airline fares and hotel prices sharply lower. Though uncertainty and recession fears bled into April, seasonal factors should be less favorable in tamping down price growth, and the reality of tariffs will likely have started to influence pricing decisions (especially in autos).

Still, despite the actualization of tariffs we do not expect April to be a light-switch moment in goods inflation. The pull-forward of imports, efforts not to alienate customers and general confusion over policy changes are likely to result in a more incremental strengthening in prices. We have penciled in a 0.24% increase in core goods prices for April but expect the monthly pace to be double that by the summer if current trade policy remains in place.

Overall, we look for the headline CPI to rise 0.2% in April, leading the year-ago rate to dip to a four-year low of 2.3%. We would not be shocked to see a 0.3% rise if some components bounce back more than expected. Excluding food and energy, we forecast the core CPI to rise 0.25%, keeping the annual rate unchanged at 2.8%. For more detail, please see our full April CPI Preview report.



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

Retail Sales • Thursday

Strong retail sales in March reflected more than just a front-running of tariffs. Yes, households tried to get major purchases (such as cars) in before tariffs were implemented, leading to a 5.3% surge in auto sales over the month. But at the same time, spending at restaurants—which should be unrelated to getting ahead of tariffs—rose 1.8%, and the overall control group measure—which is a closer measure of what is factored into GDP calculations—rose a trend-like 0.4% in March. Even if some of the first quarter's strong consumer spending numbers reflect a pull-forward in demand, consumers' actions do not yet seem to be matching a souring in sentiment.

How consumers act in these next couple of months will be telling. To the extent recent strength is due to a conscious pull-forward in demand, we may be due for some serious payback. A household that bought a car in March ahead of tariffs likely isn't buying another one in May. In fact, the new car payment might curtail spending in other categories. From what we know now though, auto sales looked to remain strong in April despite tariff implementation as price hikes take time to materialize, which should push the timing of a large payback at least one month down the line. Taking into account some giveback from a surge in goods-related spending ahead of tariffs, we expect retail sales were up a tick in April. When excluding autos, we look for sales to have grown a solid 0.3%.

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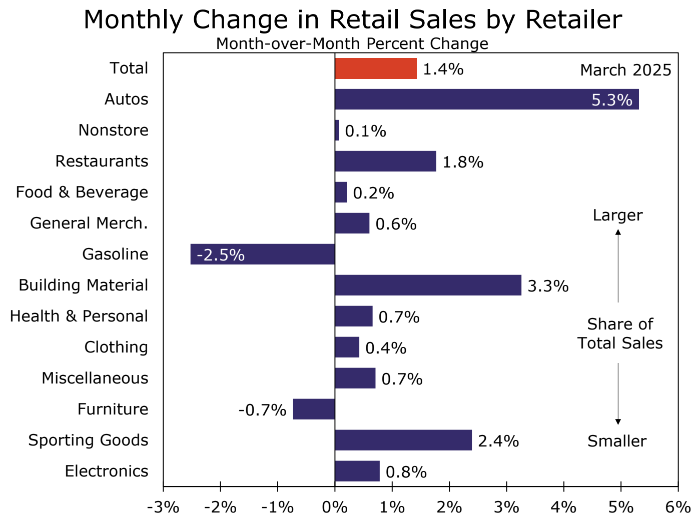


Source: U.S. Department of Commerce and Wells Fargo Economics

International Review

Foreign Central Banks in Focus

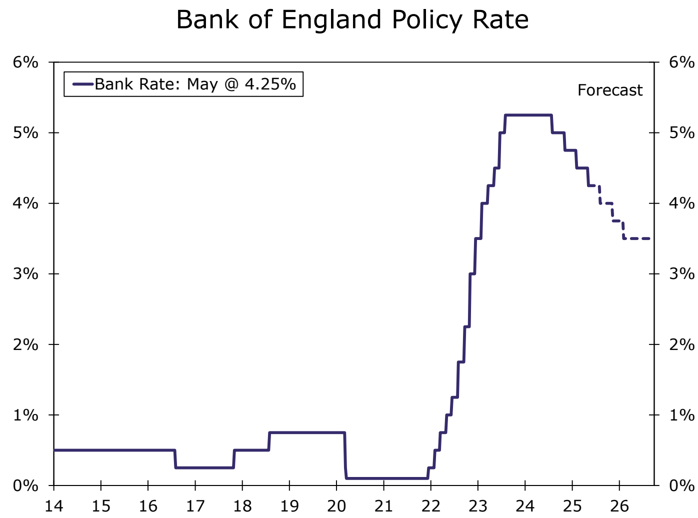
The People's Bank of China (PBoC) was one of many central banks to make a monetary policy announcement this week. In one of the more aggressive rounds of monetary easing seen since last September, the PBoC announced a 50 bps cut in the Reserve Requirement Ratio, which lowers it to 9.00% for major banks. The central bank also announced a 10 bps cut in the seven-day reverse repo rate, to 1.40%. Chinese authorities also announced several stimulus measures aimed at supporting the housing sector, small businesses and the stock market. The measures also came amid news of U.S.-China trade talks aimed at deescalating tensions, talks that are starting this weekend. While the policy actions announced this week provided a boost to sentiment and will support liquidity, fiscal policy changes were notably absent, and unless there is also broad and large-scale fiscal stimulus, we think it's unlikely that these decisions will significantly impact the economy and shield it from the effects of current tariffs. Among the other emerging market central banks to ease this week were Poland's central bank, which cut rates 50 bps to 5.25%, and the Czech central bank, which cut rates 25 bps to 3.50%.

In contrast to many other emerging economy institutions, the Brazilian Central Bank (BCB) moved in the opposite direction and tightened policy. In a widely anticipated move, BCB policymakers unanimously raised rates to 14.75% from 14.25%. In their monetary policy statement, policymakers wrote that the "current scenario continues to be marked by deanchored inflation expectations, and high inflation projections." With the latest April year-over-year inflation reading at 5.53%, clearly above their inflation target of 3%, they reiterated their commitment to slowing inflation down. In terms of forward guidance beyond the next meeting, policymakers communicated a data-dependent approach. That said, amid heightened geopolitical tensions and trade uncertainties, they kept the door open for further tightening at their next meeting. Overall, our forecast looks for the central bank to deliver another 50 bps rate hike at its June meeting, to reach a peak policy rate of 15.25%.

Turning to advanced economies, the Bank of England (BoE) delivered a widely anticipated 25 bps rate cut, bringing the policy rate down to 4.25%. The decision, however, was split in that five policymakers voted for the 25 bps rate reduction, two policymakers voted for a larger 50 bps cut and two voted for no change. In comments accompanying the decision, BoE Governor Andrew Bailey stated that inflationary pressures easing was what allowed them to cut rates, but that given how unpredictable the global economy can be, it was important to stick to a "gradual and careful approach." This meeting also included updated economic forecasts that incorporated the recent tariff announcements from the United States. The central bank lowered its forecasts for CPI inflation for end-2025, end-2026 and end-2027 to 3.25%, 2% and 1.75%, respectively (from 3.5%, 2.5% and 2% previously), while it raised its full-year GDP growth forecast for 2025 to 1%, lowered its 2026 forecast to 1.25%, and kept its 2027 forecast the same at 1.5%. Overall, we maintain our view for a once-per-quarter BoE rate cut pace through Q1-2026. We see 25 bps rate cuts in August, November and February, with the policy rate expected to reach a low of 3.50% by early next year.

Elsewhere this week, Sweden's Riksbank and Norway's Norges bank both decided to leave rates unchanged at 2.25% and 4.50%, respectively. They both stated considerable global uncertainty being higher than usual as a major reason for holding rates steady. Since these meetings are considered "interim" for both central banks, no new forecasts accompanied the announcements. Swedish policymakers signaled at the potential for lowering rates at a future meeting, and that even though uncertainty is significant, they "assess that it is somewhat more probable that inflation will be lower than higher," suggesting "a slight easing of monetary policy going forward." Norges bank, on the other hand, was less dovish and signaled that cuts may come later in the year. It maintained that "restrictive monetary policy is still needed to bring inflation down to target within a reasonable time horizon."

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



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

This week also saw some varied developments on the political front. In Germany, Friedrich Merz initially failed to secure parliamentary backing as the new chancellor, getting 310 votes, fewer than the required 316 out of 630 lawmakers. While that injected some temporary uncertainty, Merz subsequently secured the required support on the second ballot. The unexpected stumble could raise some questions as to how forceful proposed German fiscal stimulus could be. In Australia, the Labor Party led by Prime Minister Anthony Albanese secured an increased majority. Both of the major parties pledged increased spending during the campaign, with inflation, housing, energy costs and healthcare likely to be potential areas of focus for the returning government. We anticipate a shift toward more fiscal stimulus in the quarters ahead, a development that could see the Reserve Bank of Australia continue easing monetary policy at a gradual pace. In another relatively smooth election, Singapore's People's Action Party was re-elected, winning 87 of 97 seats.

Finally, on the policy front, in perhaps a partially anticipated but still noteworthy development, OPEC + countries agreed to increase output by 411,000 barrels per day starting from June. The move adds to the same-sized increase that was announced in April and is taking effect in May, and is aimed at punishing “over producing” members of the oil producing group. Still, the large production increases also come amid the backdrop of an uncertain global outlook and the prospect of slower global growth, a combination that with the supply increases, has contributed to sharply lower oil prices since early April.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
13-May	India CPI (YoY)	April	3.20%	–	3.34%
14-May	Australia Employment Change	April	20.0K	–	32.2K
15-May	Japan GDP (QoQ, Annualized)	Q1	-0.30%	-0.40%	2.20%

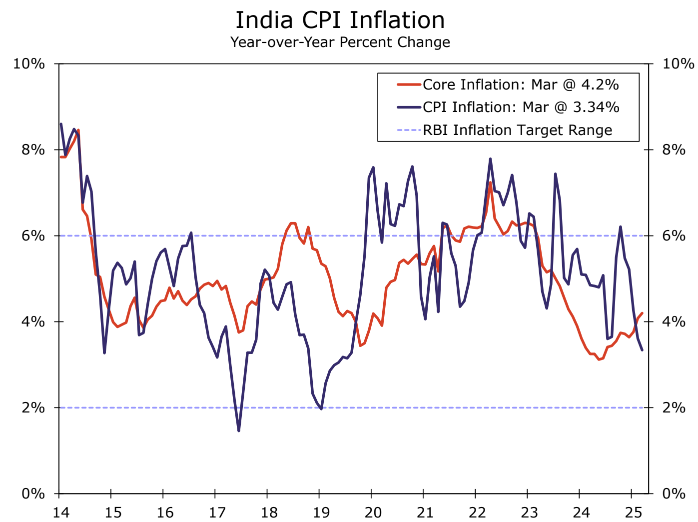
Forecast as of May 09, 2025

Source: Bloomberg Finance L.P and Wells Fargo Economics

India CPI • Tuesday

India's April inflation reading is due for release next week. Price growth in India has been declining since October of last year, remaining comfortably within the Reserve Bank of India's (RBI) target range. In March, headline inflation slowed further to 3.34% year-over-year, the lowest it has been since August 2019. In the details, we did see an uptick in core inflation that was partially driven by gold prices—a trend we expect could continue in this month's data, given the continuing increase in gold prices. That said, to the extent that the increases in gold prices and core inflation proves temporary, policymakers may be willing to look through it.

As long as inflation remains contained, the Reserve Bank of India (RBI) should feel comfortable continuing its monetary policy easing path, as it had signaled in its April meeting when the bank shifted its policy stance to 'accommodative' from 'neutral.' The consensus forecast is for April headline inflation to slow further to 3.20% year-over-year, an outcome we would view as consistent with a 25 bps Repurchase Rate cut to 5.75% at its next meeting in June.

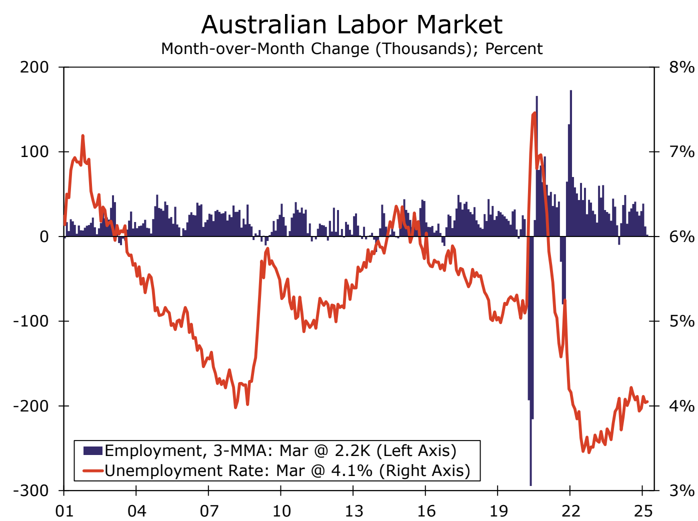


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Australia Employment • Wednesday

Next week will see the release of the updated Australian employment data for April. March employment was stronger than expected, rising by 32.2K (after the unexpected February drop of 57.5K), driven by gains in both full- and part-time jobs. That said, employment growth has shown an overall moderating trend in recent months, with an average monthly gain of just 2.2K during Q1. We, in line with the consensus, expect employment to slow modestly to 20K in April, and the consensus forecast is for the unemployment rate to remain steady at 4.1%. In other data to be released next week, the consensus forecast is for wage growth to remain relatively subdued. Economists expect the Q1 Wage Price Index to rise 0.8% quarter-over-quarter and to remain steady at 3.2% year-over-year.

The labor market remains an important focus for the Reserve Bank of Australia (RBA) when considering its policy decisions. In April, the RBA left its Cash Rate unchanged at 4.10% after lowering rates in February from 4.35%—a rate it held from November 2023. The labor market remains tight even as employment grows moderately and with the jobless rate still reasonably low. As a result and with underlying inflation also slowing at a measured pace, we expect the RBA to continue with a gradual pace of rate cuts of once per quarter. Our base case envisages a 25 bps rate cut at its next meeting this month, followed by a 25 bps reduction in August and November as well.



Source: Datastream and Wells Fargo Economics

Japan GDP • Thursday

Japan releases its first quarter GDP figures next week, which are expected to show that the economy began the year on a subdued note. After steady and at times strong growth during the prior three quarters, the consensus forecast is for Q1 GDP to contract by 0.3% quarter-over-quarter annualized. Even if realized, however, we would not be unduly concerned by a brief pause to Japan's economic expansion. Even though the consensus forecast is for a slight contraction in overall GDP, domestic activity is expected to hold up somewhat better. The consensus forecast is for a small gain in consumer spending, and a somewhat larger gain in business capital spending. Instead, the weakness should be mainly focused in the export sector, which is expected to contribute negatively to growth.

To be sure, the export outlook could remain uncertain amid a backdrop of higher U.S. tariffs and slower global growth. Solid business sentiment, most notably the Q1 Tankan survey, also hints at ongoing expansion for the overall economy going forward. With growth expected to continue—even if at a reduced pace—some resilience in domestic activity, and still-elevated inflation, our view remains for modest further tightening from the Bank of Japan. We forecast a final 25 bps policy rate hike from the central bank, to 0.75%, at its October monetary policy announcement.

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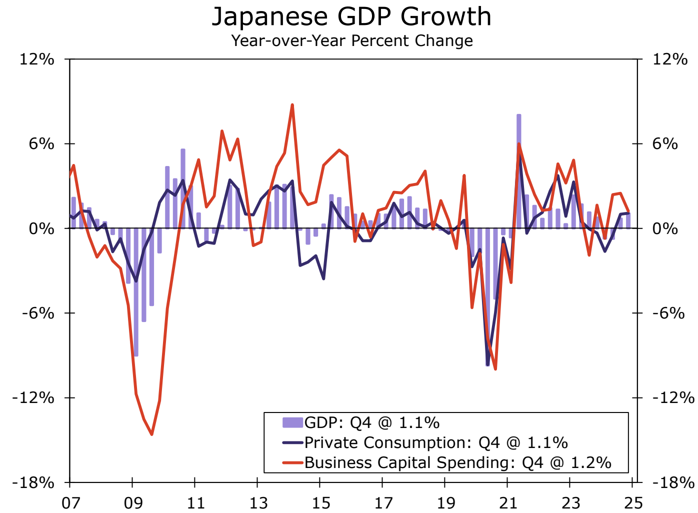


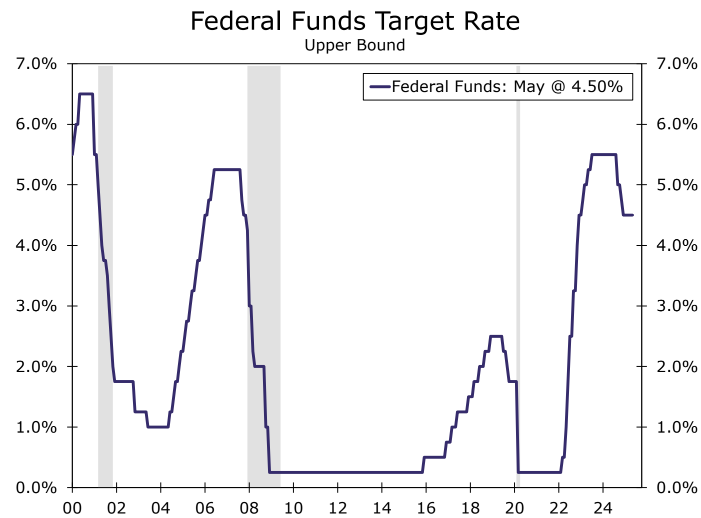
Source: Datastream and Wells Fargo Economics

Interest Rate Watch

FOMC's Holding Pattern Continues

As universally expected, the Federal Open Market Committee (FOMC) decided to keep the target range for the federal funds rate unchanged at 4.25%-4.50% this week. After cutting rates by 100 bps last year, the Committee has now been on hold for three consecutive meetings. The decision to keep policy unchanged was unanimously supported by all 12 voting members.

In the absence of a Summary of Economic Projections (SEP), the Committee's primary avenue for forward guidance was its post-meeting statement. Yet, the statement was noncommittal. The Committee tacked "further" on to the end of a sentence from its March statement: "uncertainty around the economic outlook has increased." The addition nods to President Trump's announcement of "Liberation Day" tariffs that were much higher than expected. The FOMC also noted that "the risks of higher unemployment and higher inflation have risen," more explicitly gesturing to the potential stagflationary shock generated by tariffs.



Source: Federal Reserve Board and Wells Fargo Economics

The effective tariff rate stands at roughly 25% today by our estimates, which is the highest in more than a century. While a return to the 2% rate of 2024 is highly unlikely, we think tariffs will recede somewhat as the Trump Administration finalizes some deals. For the purposes of our forecast, we assume the effective tariff rate will fall to 15%.

Nevertheless, the rise in the effective tariff rate will cause inflation and the unemployment rate to move higher in the coming months. On one hand, the FOMC would want to ease policy as the jobless rate rises. On the other hand, rising inflation would encourage monetary policymakers to refrain from easing policy, if not tighten it. In other words, the Fed's dual mandate (i.e., "price stability" and "full employment") will likely be in tension.

The best course of action for the FOMC may simply be to wait for more clarity. Indeed, Chair Powell reiterated during his press conference that "we don't think we need to be in a hurry to adjust rates." Given the underlying solid nature of the economy, Powell said that "the costs of waiting are fairly low."

In view of the economy's sustained momentum recently, we now expect the FOMC to keep policy unchanged through the summer. Specifically, we look for the Committee to resume its easing cycle with a 50 bps rate cut at the September meeting followed by two 25 bps rate reductions at the October and December meetings. After that, we suspect the Committee will hold the target range for the federal funds rate steady at 3.25%-3.50% through 2026. For more detail, please see our recently published U.S. Economic Outlook.

We readily acknowledge that uncertainty around our economic outlook remains greater than normal. Our forecast hinges on our expectation for the Fed to “look through” the price level increase caused by tariffs, especially as long-term measures of inflation expectations remain anchored. However, if inflation were to show signs of becoming more entrenched, then the FOMC may be less inclined to ease policy.

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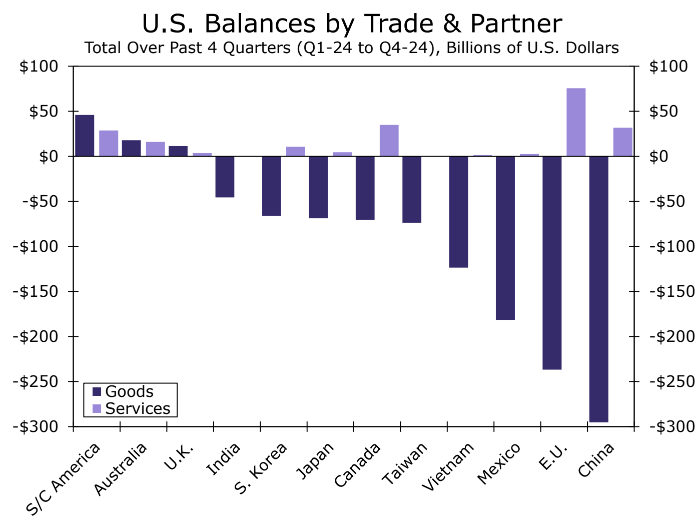
Topic of the Week

What's the Deal?

President Trump and U.K. Prime Minister Keir Starmer announced a new U.S.-U.K. trade deal on Thursday, in what is the first agreement made since President Trump reignited the trade war earlier this year. While the full details of the deal are still in the works and set to be further negotiated and detailed by late May, the administration said the agreement would include the following:

- The U.S. will eliminate or reduce tariffs on certain U.K. goods. Imports of U.K. steel and aluminum as well as some other products like Rolls-Royce engines (which are used in the production of Boeing aircraft) will be duty free and auto tariffs will be reduced from 27.5% to 10% subject to a quota.
- The U.K. will reduce tariffs and barriers on U.S. agricultural products (like beef and ethanol) allowing for greater U.S. exports to the country.
- The 10% baseline tariff remains on most British goods.

Despite the progress this signifies in being the first step to future pacts, the few details disclosed don't necessarily pave the way for other agreements to come together quickly nor be too extensive. President Trump has made mention of ongoing negotiations with other countries, though the timing and degree of agreements remain highly uncertain. Talks with Canada this week did not lead to much result, and Commerce Secretary Howard Lutnick said deals with South Korea and Japan will take more time to complete than this deal did with the U.K. Furthermore, while this marks a deescalation in tariff policy, U.S. tariffs are set to remain historically high on the U.K. The upholding of the 10% baseline tariff rate also speaks to the fact that tariffs are unlikely to be fully walked back to levels seen prior to this year's escalation even if more agreements materialize. The U.S. also runs a trade *surplus* with Britain, which raises the question of whether it will be more challenging to come to agreements with countries where we run large trade deficits and have stricter protectionist policy in place, like China.



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

To that end, trade data from China this week showed a plunge in exports to the United States. Overall, Chinese exports rose 8.1% in April, but shipments to the U.S. fell 21% compared to year-ago levels as trade flows have effectively come to a halt with tariff rates north of 100%. Fewer vessels are reportedly departing between Shanghai and Los Angeles, and high-frequency data suggest container shipping rates are starting to fall, reaching their lowest level since early 2024 in the first week of May.

Talks are reportedly getting under way there as well with Treasury Secretary Scott Bessent and U.S. Trade Representative Jamieson Greer joining Chinese Vice President He Lifeng in Switzerland to begin talks this weekend. In announcing the U.S.-U.K. trade agreement on Thursday, President Trump was asked about China to which he responded with "You can't get any higher. It's at 145, so we know it's coming down." Yet, even if tariffs are rolled back at scale in the coming weeks or months, tariff rates will likely remain higher than in recent memory and act as a headwind to U.S. economic growth.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 5/9/2025	1 Week Ago	1 Year Ago
SOFR	4.29	4.39	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.32	4.31	5.39
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.85	3.82	4.82
5-Year Treasury	3.95	3.92	4.47
10-Year Treasury	4.35	4.31	4.45
30-Year Treasury	4.83	4.79	4.61
Bond Buyer Index	5.16	5.14	3.93

Foreign Exchange Rates

	Friday 5/9/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.128	1.130	1.078
British Pound ($/£)	1.331	1.327	1.252
British Pound (£/€)	0.847	0.852	0.861
Japanese Yen (¥/$)	145.010	144.960	155.480
Canadian Dollar (C$/$)	1.393	1.381	1.368
Swiss Franc (CHF/$)	0.829	0.827	0.906
Australian Dollar (US$/A$)	0.642	0.643	0.662
Mexican Peso (MXN/$)	19.485	19.587	16.785
Chinese Yuan (CNY/$)	7.237	7.271	7.220
Indian Rupee (INR/$)	85.375	84.561	83.511
Brazilian Real (BRL/$)	5.652	5.657	5.142
U.S. Dollar Index	100.154	100.030	105.227

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

Foreign Interest Rates

	Friday 5/9/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.84	1.89	3.64
3-Month U.K. Govt Bill Yield	4.32	4.26	5.22
3-Month Canadian Govt Bill Yield	2.61	2.65	4.89
3-Month Japanese Govt Bill Yield	0.39	0.41	0.05
2-Year German Note Yield	1.78	1.76	2.94
2-Year U.K. Note Yield	3.89	3.86	4.28
2-Year Canadian Note Yield	2.53	2.56	4.21
2-Year Japanese Note Yield	0.65	0.61	0.31
10-Year German Bond Yield	2.55	2.53	2.50
10-Year U.K. Bond Yield	4.56	4.51	4.14
10-Year Canadian Bond Yield	3.15	3.18	3.63
10-Year Japanese Bond Yield	1.37	1.26	0.92

Commodity Prices

	Friday 5/9/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	60.42	58.29	79.26
Brent Crude ($/Barrel)	63.36	61.29	83.88
Gold ($/Ounce)	3339.65	3240.49	2346.33
Hot-Rolled Steel ($/S.Ton)	889.00	874.00	785.00
Copper (¢/Pound)	462.40	462.75	460.75
Soybeans ($/Bushel)	10.57	10.71	12.32
Natural Gas ($/MMBTU)	3.78	3.63	2.30
Nickel ($/Metric Ton)	15,363	15,219	18,697
CRB Spot Inds.	562.45	558.19	555.96

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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
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

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