Economics

Weekly — May 23, 2025

Weekly Economic & Financial Commentary

United States: The Old versus the New

- The challenges facing the housing market have yet to meaningfully abate. Our expectation for mortgage rates to soften slightly alongside Federal Reserve rate cuts could help improve affordability, but the prospects for such a move in the near term have dimmed.
- Next week: Durable Goods (Tue.), Consumer Confidence (Tue.), Personal Income and Spending (Fri.)

International: International Data Show Mixed Growth and Lingering Inflation

- This week brought a range of data and events from foreign economies. On the policy front, the Reserve Bank of Australia delivered a widely expected rate cut. Sentiment surveys from the Eurozone and the United Kingdom underwhelmed, providing further evidence of an uncertain outlook. On the price front, the U.K.'s and Japan's overall inflation increased, while Canadian inflation eased on the back of the carbon tax removal. In China, industrial production and retail sales figures were mixed.
- Next week: Brazil GDP (Fri.), Canada GDP (Fri.), China PMIs (Sat.)

Interest Rate Watch: Moody's Downgrade Spotlights Fiscal Reality

- Late in the afternoon on Friday, May 16, Moody's downgraded the sovereign credit rating of the United States to AA+, one notch below the top rating of AAA. This decision by Moody's, in conjunction with the House-passed budget reconciliation bill this week, has brought U.S. fiscal policy back into the spotlight for financial markets.

Topic of the Week: Will Tariffs Spur a Resurgence of U.S. Manufacturing Jobs?

- The goals of the administration's trade regime changes are varied, but a resurgence of American manufacturing jobs is certainly a priority. Could higher trade barriers spur a rebound in U.S. manufacturing employment?

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2024				2025							
	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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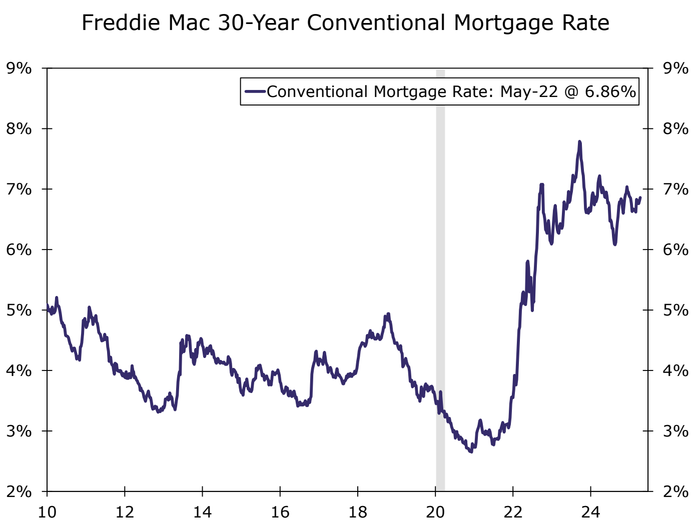
U.S. Review

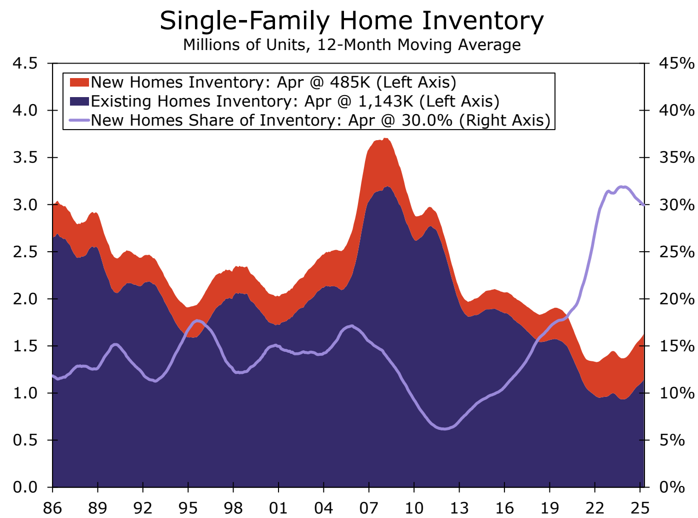
The Old versus the New

The economic indicator calendar was light heading into the Memorial Day weekend. Initial jobless claims continue to move sideways, illustrative of firms' reluctance to let go of existing workers, and home sales remain weak. The dearth of data helped keep the spotlight on the budget reconciliation bill making its way through Congress, passing the House on Thursday morning. Longer-term Treasury yields have risen in reaction, as the bill will likely increase federal budget deficits over the next few years—see Interest Rate Watch for more detail.

The rise in Treasury yields, if sustained, could send mortgage rates higher. According to Freddie Mac, the average 30-year fixed mortgage rate inched up to 6.86% this week. While technically down relative to a year ago, mortgage rates have been hovering close to 7% since 2023, which is a far cry from the roughly 4% average in the business cycle preceding the pandemic (chart). The level shift has suppressed home sales and contributed to housing affordability challenges. In April, existing home sales unexpectedly slipped 0.5% to a 4.00 million-unit annual pace. The decline left sales down 2.2% year-to-date and down nearly 40% from their 2021 peak.



Source: Freddie Mac and Wells Fargo Economics



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

The sharp pullback in sales has coincided with ongoing home price growth. The price of the median existing single-family home was $418K in April, up 1.7% year-over-year. How can prices still be rising when demand is faltering? Although resale inventories are gradually improving, they remain historically tight. There were 1.3 million existing single-family homes listed for sale in April, down 22% from April 2019. Many existing homeowners have mortgages with fixed rates below 4% and are reluctant to trade into a more expensive contract, effectively locking up existing home inventories.

High mortgage rates also pose a challenge to builders. New home sales jumped 10.9% in April, but this follows a hefty downward revision to March's sales pace. Through the noise, new home sales are down 1.9% year-to-date. The median sale price declined 2.0% year-over-year, reflecting increased use of price cuts by builders. Although new home sales have been relatively more resilient than existing home sales on account of these incentives, recent macro headwinds have reduced builder confidence and slashed sales expectations.

New home inventory remains highly elevated. There were 504K new homes available for sale at the end of April, the highest count since October 2007. The leg up in new home inventory amid restrained existing home inventory has weighed on the pace of new construction, leading single-family starts and permits to each trail lower over the past few months. It has also underpinned a compositional shift in the options available to prospective buyers. New homes account for about 30% of all homes available for sale today, bucking its trend from the past few decades (chart).

All told, the challenges facing the housing market have yet to meaningfully abate. Our expectation for mortgage rates to soften slightly alongside Federal Reserve rate cuts could help improve affordability, but the prospects for such a move in the near term have dimmed. On Friday, Chicago Fed President

Austan Goolsbee said "Everything is always on the table, but I feel like the bar for me is a little higher for action in any direction while we're waiting to get some clarity." With the FOMC likely on hold through the summer, mortgage rates are unlikely to break below their current range.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
27-May	Durable Goods Orders (MoM)	Apr	-8.2%	-7.8%	7.5%
27-May	Durables Ex Transportation (MoM)	Apr	0.0%	0.2%	-0.4%
27-May	Consumer Confidence	May	87.0	87.3	86.0
29-May	GDP Annualized (QoQ)	Q1	-0.3%	-0.5%	-0.3%
29-May	Personal Consumption (QoQ)	Q1	—	1.6%	1.8%
30-May	Personal Income (MoM)	Apr	0.3%	0.3%	0.5%
30-May	Personal Spending (MoM)	Apr	0.2%	0.2%	0.7%
30-May	PCE Price Index (MoM)	Apr	0.1%	0.1%	0.0%
30-May	PCE Price Index (YoY)	Apr	2.2%	2.2%	2.3%
30-May	Core PCE Price Index (MoM)	Apr	0.1%	0.1%	0.0%
30-May	Core PCE Price Index (YoY)	Apr	2.5%	2.6%	2.6%

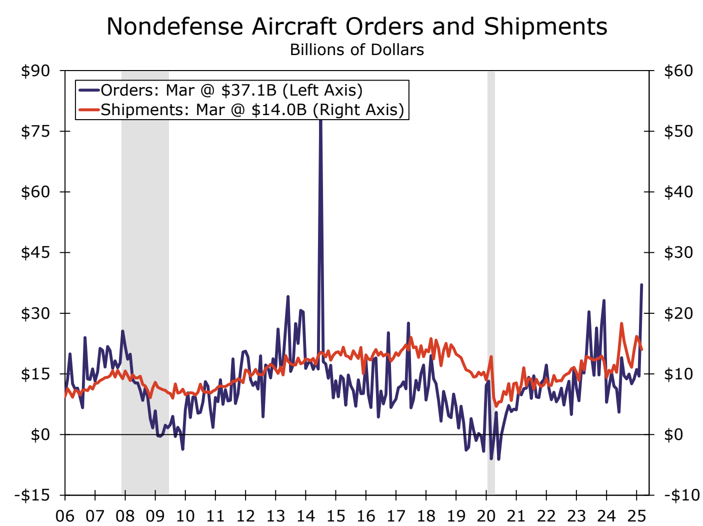
Forecast as of May 23, 2025

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

Durable Goods • Tuesday

Durable goods orders surged 7.5% in March, driven almost entirely by a $23 billion (157%) spike in nondefense aircraft orders. Auto orders posted a solid 0.3% gain on the heels of a 2.3% gain in February, likely reflecting some pre-tariff demand pull-forward following a soft trend late last year. Stripping out transportation, the underlying trend was weak. Orders excluding transportation were down 0.4%, and core capital goods orders fell 0.2%. Shipments softened slightly to a 0.2% gain in March, and core capital goods shipments experienced a 1.5% decline. Despite the first look at GDP showing solid Q1 equipment investment—nearly a 23% annualized pace—businesses remain cautious. The strength in Q1 looks to be short-lived as elevated borrowing costs and trade policy uncertainty are likely to weigh on capex plans through the rest of the year.

Looking to April, businesses are likely to remain in a holding pattern. Outside of autos and aircraft, there has been little evidence of a broad rush to place orders ahead of tariff hikes. Data from Boeing indicate aircraft orders were also weak in April, weighing on transportation orders. We estimate headline durable good orders fell 7.8%, though we forecast durable good orders excluding transportation rose 0.2%.

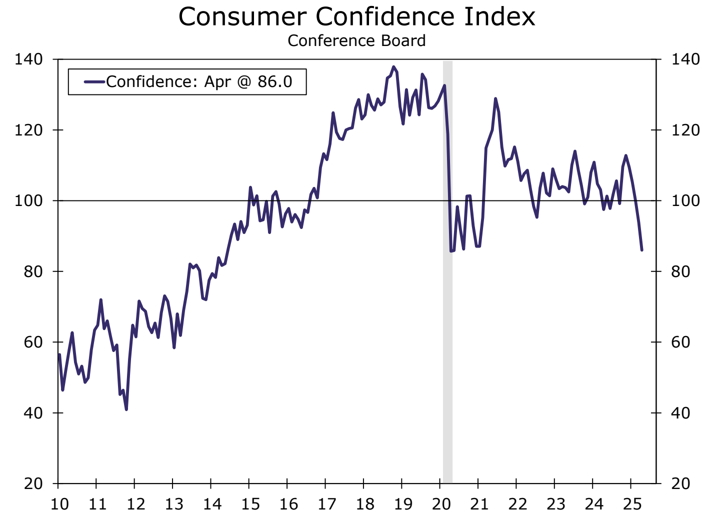


Source: U.S. Department of Commerce and Wells Fargo Economics

Consumer Confidence • Tuesday

Consumer confidence declined for the fifth straight month in April, with the Conference Board's index falling to 86.0, near pandemic-era lows. While the Current Conditions Index is holding in, the Expectations Index has sharply deteriorated, dropping to 54.4 and signaling rising anxiety about the outlook. More households now anticipate worsening business conditions (34.8%) and declining incomes (18.2%) over the next six months. Notably, this is the first time since July 2022 that more consumers expect incomes to fall rather than rise over the next six months. The labor market remained a chief concern of households, as evidenced by the drop in the labor differential to a seven-month low of 15.1%. Furthermore, the share of consumers expecting fewer jobs over the next six months hit 32.1%, the highest since 2009. Although layoffs remain low, fears about inflation and trade policy are weighing heavily on the consumer psyche.

We estimate the Consumer Confidence Index rose a touch to 87.3 in May, as the 90-day pause on the sky-high "reciprocal" tariff on China provided relief. Recent announcements proposing hiked tariffs on the European Union and Apple were made after the survey cutoff.

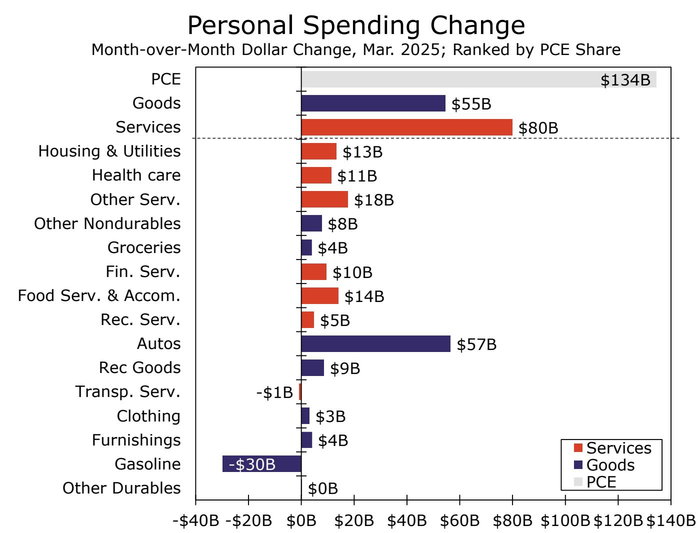


Source: The Conference Board and Wells Fargo Economics

Personal Income and Spending • Friday

Consumer spending surged in March, with real personal consumption up 0.7%, driven largely by a spike in auto sales as buyers rushed to beat looming tariffs. The $57 billion increase in motor vehicles and parts significantly surpassed gains in other categories. But the rise wasn't all pre-tariff panic: spending in services also jumped, including both essentials like healthcare and discretionary items such as food services and accommodations. Despite softening confidence and inflation concerns, consumers still increased spending on recreational goods and services, suggesting their spending habits and depressed confidence levels are not fully in lock step.

Ultimately, the ability for consumers to keep spending at a strong clip hinges on continued income growth, which held firm in March. Real disposable income rose 0.5%, the strongest gain in more than a year, supported by steady wage growth. This strong gain in real income was bolstered by a soft month for inflation in March. Both the headline and core PCE deflators came in flat on the month, bringing the year-over-year rates to 2.3% and 2.6%, respectively. For the time being, we estimate that inflation remained in check in April with the headline PCE deflator up 0.1% on the month, bringing the year-over-year rate to 2.2%. Furthermore, we estimate the core PCE deflator rose 0.1% in April, bringing the year-over-year rate to 2.6%. We look for personal income growth to register a 0.3% gain, and personal spending to rise 0.2%.



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

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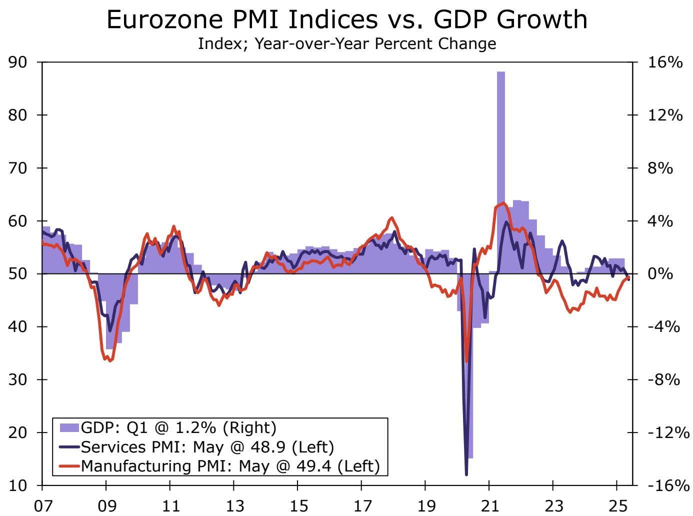
International Review

International Data Show Mixed Growth and Lingering Inflation

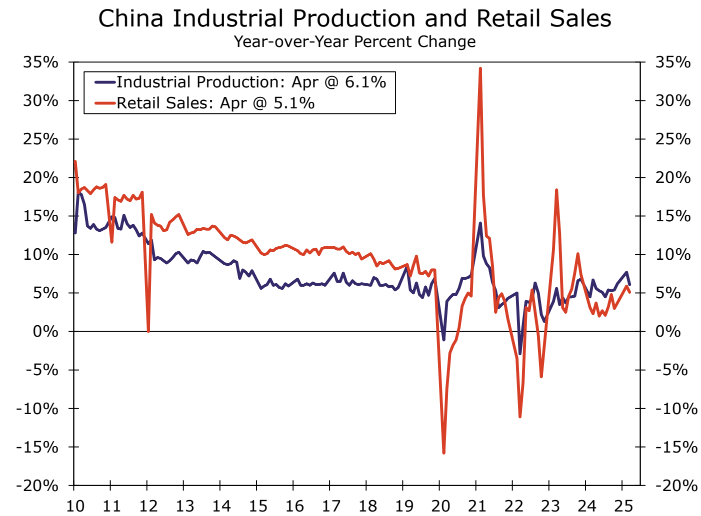
This week brought a range of data and events from across the G10 economies. Starting off with monetary policy announcements, the Reserve Bank of Australia (RBA) delivered a widely expected 25 bps rate cut at this week's meeting, its second rate cut this year, bringing its Cash Rate to 3.85%. While the move itself was expected, the accompanying policy statement and press conference took on a notably more dovish tone than market participants had anticipated. In explaining the reasons for the rate cut, the RBA expressed more confidence in inflation's sustainable return to the 2%-3% target range and put forth a moderately softer growth outlook and an expectation for a moderation in the labor market through year-end. In its updated economic projections, the central bank lowered several of its GDP growth and headline and underlying inflation forecasts. While the announcement was clearly dovish in tone, and consistent with RBA rate cuts, we, for now, maintain our view for monetary easing to continue at only a gradual pace. We expect a pause in June and look for 25 bps rate reductions at the August and November meetings of this year, which would see the policy rate reach a low of 3.35%.

Turning from monetary policy to sentiment surveys, recent PMI data across the Eurozone and the United Kingdom provide further evidence of an uncertain economic outlook. The Eurozone May PMI figures support our view of a broadly stagnating economy, with the overall composite PMI falling into contraction territory at 49.5, below expectations of 50.6. While May's manufacturing PMI figures slightly outperformed expectations—coming in at 49.4 versus expectations of 49.2— it remains in contraction territory. Both France and Germany showed modest improvements in their manufacturing sectors. However, the most notable surprise was the sharp decline in services PMI to 48.9, marking its first dip into contraction this year. This was primarily driven by Germany, while France saw little change.Tariff-related uncertainty appears to be filtering through multiple sectors, weighing on sentiment and activity across the region. In the United Kingdom, the May composite PMI also remained in contraction even as it rose to 49.4, from 48.5 in April. The manufacturing PMI unexpectedly fell to 45.1 while services PMIs rose more than expected to 50.2, moving back into expansion after April's decline. Overall, while there are some signs of resilience, sluggish sentiment across key sectors along with policy uncertainty suggests that the broader recovery remains tentative, even after a solid start for the U.K. at the beginning of the year.

This week's news of the price front was mixed. U.K. April CPI inflation surprised market participants by coming in higher than expected. While consensus expectations had headline inflation quickening to 3.3% year-over-year, the actual figure came in higher at 3.5%. Core and services inflation also ticked higher to 3.8% and 5.4%, respectively. These increases were largely driven by seasonal factors around the Easter holiday, as well as one-off effects such as the rise in employer national insurance contributions and minimum wage increases announced in the latest budget. A closer look at the data shows large increases in energy prices as the electricity price cap was raised, as well as an outsized increase in water prices. Housing and transport costs also contributed the quickening of inflation. Combined with the solid GDP data released last week, we view the inflation figures as consistent with the Bank of England remaining cautious with the pace of its monetary easing. We expect the central bank to hold rates steady in June, before delivering a 25 bps rate cut at its August meeting. Japan's April CPI also saw upside surprises for both headline inflation and CPI less fresh food at 3.6% and 3.5%, respectively. The uptick was largely fueled by elevated food and energy prices, with rice prices soaring by 98.4% year-over-year. Despite last week's underwhelming GDP figures, we view the CPI data as supporting Bank of Japan's monetary tightening trajectory. We expect another 25 bps rate hike at the October monetary policy announcement. In Canada, on the other hand, headline inflation eased more than expected to 1.7% year-over-year—the slowest pace since September—largely due to the removal of the consumer carbon tax and lower oil prices. However, average core inflation quickened to 3.2%, above expectations for it to remain steady at March's level of 2.9%. A closer examination of the data points to rising rent, food prices and household goods as key drivers. Considering the firming in underlying inflation, and our expectation of a milder economic slowdown on the back of reduced tariffs, we expect slightly later and less aggressive monetary easing than previously forecast. We now expect 25 bps rate cuts at the July and October announcements.



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



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

Turning to emerging economies, China's April activity data reflected the negative impact of U.S. trade tensions. Industrial production surprised to the upside, rising 6.1% year-over-year compared to consensus expectations of 5.7%, though still slower than the 7.7% increase in March. Moreover, retail sales were softer, growing just 5.1% and falling short of expectations for a 5.8% increase. The increase in industrial production was largely driven by increases in transport equipment, electric machinery and communication equipment—some of China's key export categories—suggesting some resilience in activity as higher tariffs were implemented. On the consumer side, retail weakness was led by a sharp drop in car sales, though sales of household appliances held up, supported by a government-backed subsidy aimed at encouraging the replacement of older household goods. Looking ahead, activity in May could rebound, supported by the current trade truce between the U.S. and China, and recent government monetary policy easing measures, while hinting at further policy adjustments ahead. Considering these developments, we have revised our 2025 GDP growth forecast for China upward to 4.7% from 4.1%, increasing the likelihood that the economy meets its 5% growth target.

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International Outlook

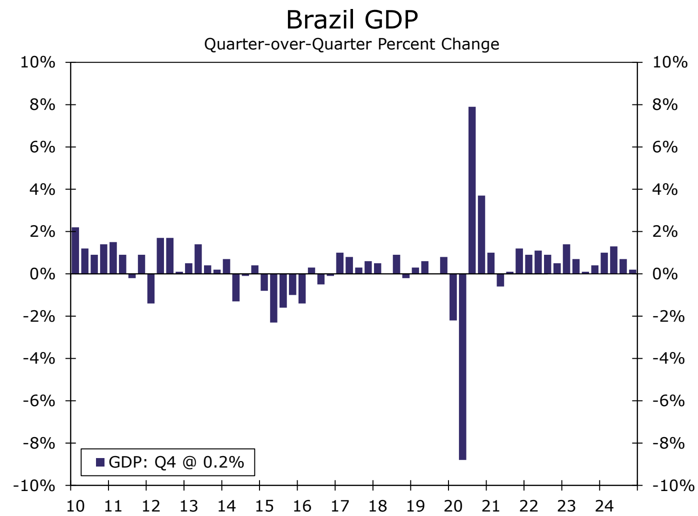
Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
30-May	Brazil GDP (QoQ)	Q1	1.0%	–	0.2%
30-May	Canada GDP (QoQ, Annualized)	Q1	1.8%	–	2.6%
31-May	China Manufacturing PMI	May	49.5	–	49.0
31-May	China Nonmanufacturing PMI	May	50.6	–	50.4

Forecast as of May 23, 2025

Brazil GDP • Friday

First quarter GDP figures for Brazil will be released next Friday. Economic activity in Brazil has displayed a degree of resiliency for some time; year-over-year growth averaged ~2.5% from 2000-2019, whereas GDP growth averaged almost a full percentage point higher over 2024. The consensus forecast is for the Brazilian economy to have expanded 1.0% quarter-over-quarter, or 3.0% year-over-year in the first quarter of 2025.

Resilient economic growth has helped to keep Brazilian Central Bank (BCB) policymakers in a generally hawkish stance, having raised the Selic rate by 425 bps since last summer. The primary contributing factor to this hiking cycle, in our view, has been persistently elevated inflation and concerns around de-anchored inflation expectations. In the latest inflation report for April, prices grew 5.53% year-over-year, above the upper bound of the BCB's target of 3.00% with a tolerance band of 1.50 percentage points on either side. On the less hawkish side recently, however, the minutes from the BCB's early May meeting included the expression of a desire to have "greater caution" toward the conduct of monetary policy due to "greater global uncertainty" and "more abrupt exchange rate movements." In addition, officials expect to see a moderation in economic activity this year. Overall, in terms of our outlook for the BCB, we see the central bank delivering a 25 bps rate hike at its next meeting in June due to lingering inflationary pressures as well as concerns around fiscal slippage (for more detail, see our recent report). Beyond June, we see officials holding the Selic rate at this peak of 15.00% through the end of the year instead of hiking further, due to the less hawkish-leaning elements policymakers alluded to in the recently-released meeting minutes. We then see the BCB beginning rate cuts in 2026.

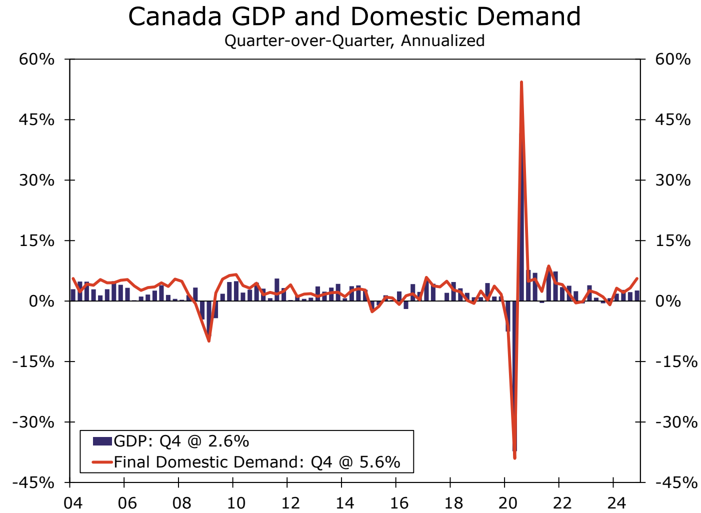


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Canada GDP • Friday

Next week will see the release of first quarter GDP figures for Canada. Market participants will be watching the data closely, as they could meaningfully influence the Bank of Canada's (BoC) upcoming monetary policy decision on June 4. The consensus view among economists is that the economy grew by 1.8% on a quarter-over-quarter annualized basis. The monthly GDP growth figures being released at the same time will also provide insight into what type of momentum the country's economy had in March, which may suggest how second quarter growth could shape up.

In terms of our own outlook for the Bank of Canada, we have shifted in a somewhat less dovish direction than previously. Given a less aggressive global tariff environment than in the immediate aftermath of "Liberation Day," we now do not expect as sharp a slowdown in the Canadian economy this year. In addition, inflation trends as of late have been somewhat mixed, with headline inflation generally having softened, but underlying price pressures rebounding slightly. As such, we now look for the BoC to hold its policy rate steady at 2.75% at its June meeting. With this being said, if next week's GDP figures come in softer than expected and/or point to the possibility of weaker momentum or a contraction in the second quarter, this, in our view, would tilt the risks toward a rate cut in June. Beyond June, we look for two more 25 bps rate cuts this year, in July and October, which would see the central bank's policy rate reach a low of 2.25%.

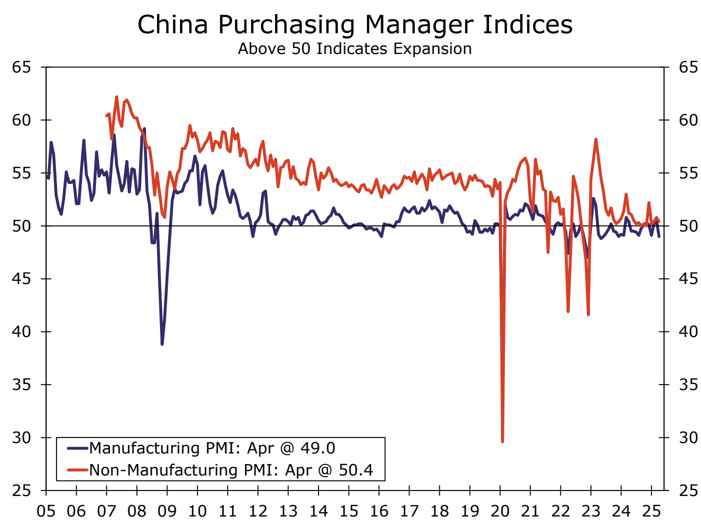


Source: Datastream and Wells Fargo Economics

China PMIs • Saturday

Market participants will be tuned into the upcoming release of the official China PMIs for May, which will offer timely insight into the state of an economy that is facing many challenges, as well as a recent significant change in trade and tariff policy with the United States. The consensus view among economists is for the manufacturing PMI to rise to 49.5 and for the non-manufacturing PMI to tick up to 50.6.

Our view of China's economic prospects has been less-than-optimistic for quite some time due to domestic economic challenges and the introduction of sharply elevated tariffs from the United States around Liberation Day. With that being said, the United States and China recently reached an agreement for a 90-day tariff rate reduction—during which U.S. tariffs on China have fallen to 30% and China tariffs on the U.S. dropped to 10%—which, in our view, has the potential to boost Chinese economic growth prospects. We have upgraded our China GDP growth forecast for this year to 4.7% from 4.1% previously in light of these developments, which is meaningfully closer to the official growth target of 5%. After the generally underwhelming PMI readings from recent months, we will be watching this upcoming PMI release for indications of improving sentiment in the second quarter, which would be consistent with our view of more resilient growth prospects for 2025.



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

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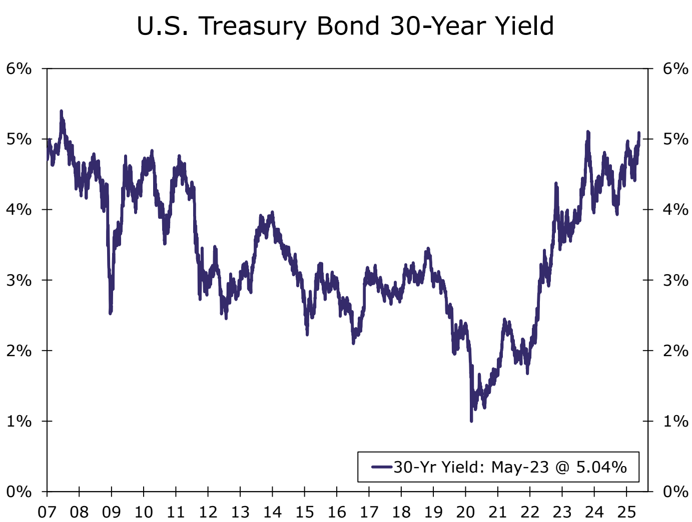
Interest Rate Watch

Moody's Downgrade Spotlights Fiscal Reality

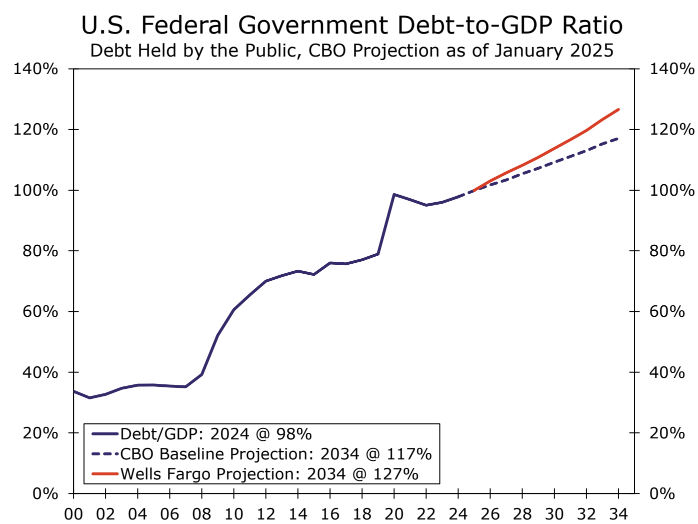
Late in the afternoon on Friday, May 16, Moody's downgraded the sovereign credit rating of the United States to AA+, one notch below the top rating of AAA. Of the three major rating agencies, Moody's was the last to have the federal government with a AAA rating. S&P downgraded the United States in 2011, and Fitch followed suit in 2023. This decision by Moody's, in conjunction with the House-passed budget reconciliation bill this week, has brought U.S. fiscal policy back into the spotlight for financial markets.

Large federal budget deficits are not a completely new phenomenon in the United States, but the fiscal outlook has deteriorated markedly over the past decade. In fiscal year (FY) 2015, the U.S. federal budget deficit was 2.4% of GDP, the second year in a row that the budget deficit came in below the 3% mark that is widely viewed as a very rough benchmark for long-fun fiscal sustainability. By FY 2019, this metric had deteriorated to 4.6% of GDP, and it exploded to a peak of 15% of GDP in FY 2020 due to the economic damage wrought by the pandemic and the robust federal response to the crisis. Although the federal budget deficit has narrowed from its COVID high watermark, at 6.0%-6.5% of GDP the deficit remains unusually wide for a country that is at full employment and is not engaged in a war.

Financial markets have taken notice. The yield on the longest-dated U.S. Treasury security, the 30-year bond, has been rising steadily over the past few years and is currently at levels not seen since 2007 (chart). We do not contribute this rise solely to the deterioration in the U.S. fiscal outlook. Other factors, such as the outlook for U.S. economic growth, inflation and Federal Reserve monetary policy also play important roles. But we suspect the increasingly grim long-run fiscal outlook in the United States is contributing to the increase in longer-term Treasury yields.



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



Source: Congressional Budget Office, Joint Committee on Taxation and Wells Fargo Economics

We do not think the budget reconciliation bill that passed the House of Representatives this week will improve the fiscal outlook. In the near term, we estimate that the bill will increase federal budget deficits by 0.5-1.0 percentage point of GDP over the next few years relative to current policy. Over the medium to longer term, the deficit impact is highly conditional on the decisions made by future policymakers. If the new temporary tax cuts expire as scheduled and the planned spending cuts occur in the years ahead, then the bill's fiscal cost over the longer run is reined in considerably. That said, the general track record of Congress in recent years has been to extend expiring tax cuts and punt on spending cuts. As a result, we think the market will assign at least some positive probability that the temporary new tax cuts will end up being permanent, thus further increasing the cost of the bill. Using our own economic and fiscal assumptions, we project that the federal debt-to-GDP ratio will continue to rise in the years ahead (chart).

Fortunately, the United States' ability to finance these deficits is supported by the world's largest economy, which generates $30 trillion of GDP annually and possesses over $160 trillion of household net worth. The U.S. dollar remains the world's reserve currency with no obvious alternatives in sight, and the market for U.S. Treasuries is the world's deepest, most liquid bond market. These factors seem unlikely to change anytime soon, in our view, and they signal a robust ability to finance the national debt. But, without major changes to the current trajectory, the sizable medium- to longer-run fiscal imbalance poses a potential structural headwind for the U.S. economy and is a source of persistent upward pressure on long-term interest rates.

For further reading on the House reconciliation bill, see our recent special report.

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Topic of the Week

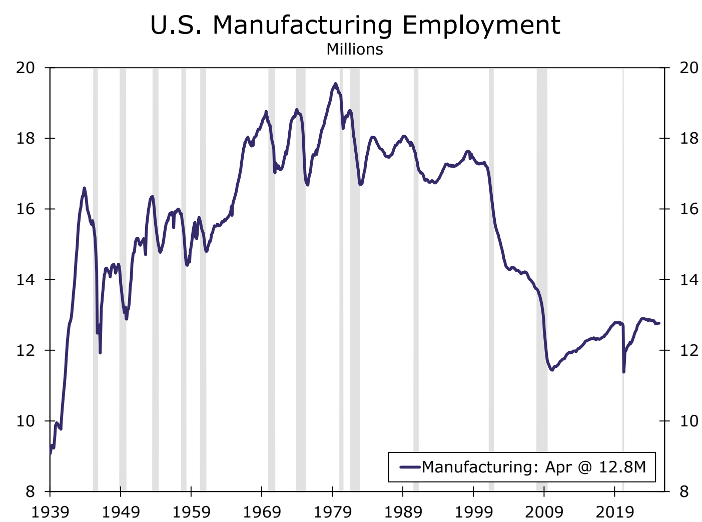
If You Build It, Will Workers Come?

The goals of the administration's trade regime changes are varied, but a resurgence of American manufacturing jobs is certainly a priority. Today, manufacturing employment totals 12.8 million, 6.7 million fewer jobs than its 1979 peak. By raising the cost of imported goods, tariffs encourage the consumption and production of made-in-the-U.S.A. goods and, therefore, encourage hiring in those industries. Could higher trade barriers spur a rebound in U.S. manufacturing employment?

In the near term, efforts to increase manufacturing employment are likely to be stymied by higher input prices and policy uncertainty. Further out, significant capital investment would be required to return manufacturing employment to its historic peak of ~20 million jobs. But even if investment in U.S. manufacturing becomes turbo-charged by the administration's changes to trade policy, will there be enough workers to staff the factories?

The pool of available workers is scant, and manufacturers are already having difficulty filling jobs. In the National Association of Manufacturers' Outlook Survey, attracting and/or retaining a quality workforce was cited as the number one issue facing producers from late 2020 to early 2024. An already tight labor market for production workers coincides with slower labor force growth more broadly as lower fertility rates and, more recently, a reduction in immigration weigh on population growth. The Congressional Budget Office projects the U.S. labor force will expand by 11 million by 2035. All else equal, 60% of those additional workers would need to go into manufacturing to get the sector's payroll back to its peak.

Prospective employees are likely to be deterred by the sector's lagging compensation. Whereas the average manufacturing worker used to receive a slight wage premium relative to all industries, the compensation has become less competitive since the 1990s, making it more difficult to attract workers. Population aging, negative perceptions and skill mismatches also underpin workforce concerns.



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

The good news for producers plagued by the skill gap is that enrollment in post-secondary vocational programs is on the rise. Still, these training programs will need to keep up with the evolving nature of manufacturing; to the extent manufacturing jobs do rise in the coming years, they will likely be different from those previously lost. Over the next decade, the Bureau of Labor Statistics projects the fastest growing production occupations will be those that require scientific, computer & information technology, leadership and "soft" interpersonal skills. Job growth is expected to slow or decline in more traditional manufacturing roles that rely on fine motor skills and mechanical knowledge of machines.

All told, a meaningful increase in the number of factory jobs, while possible, is likely to be an uphill battle, requiring not only large levels of capital investment, but also initiatives and training to pull in new workers. For more detail, please see our full report: Will Tariffs Spur a Resurgence of U.S. Manufacturing Jobs? (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 5/23/2025	1 Week Ago	1 Year Ago
SOFR	4.26	4.31	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.33	4.34	5.40
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.97	4.00	4.94
5-Year Treasury	4.07	4.09	4.53
10-Year Treasury	4.51	4.48	4.48
30-Year Treasury	5.04	4.94	4.58
Bond Buyer Index	5.27	5.20	4.00

Foreign Exchange Rates

	Friday 5/23/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.133	1.116	1.082
British Pound ($/£)	1.350	1.328	1.270
British Pound (£/€)	0.840	0.840	0.852
Japanese Yen (¥/$)	142.770	145.700	156.930
Canadian Dollar (C$/$)	1.376	1.397	1.373
Swiss Franc (CHF/$)	0.822	0.838	0.914
Australian Dollar (US$/A$)	0.647	0.641	0.661
Mexican Peso (MXN/$)	19.274	19.471	16.720
Chinese Yuan (CNY/$)	7.181	7.214	7.243
Indian Rupee (INR/$)	85.219	85.519	83.280
Brazilian Real (BRL/$)	5.678	5.665	5.145
U.S. Dollar Index	99.316	101.092	105.108

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

Foreign Interest Rates

	Friday 5/23/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.86	1.69	3.57
3-Month U.K. Govt Bill Yield	4.27	4.28	5.27
3-Month Canadian Govt Bill Yield	2.64	2.59	4.82
3-Month Japanese Govt Bill Yield	0.38	0.37	0.09
2-Year German Note Yield	1.76	1.86	3.08
2-Year U.K. Note Yield	4.00	4.01	4.50
2-Year Canadian Note Yield	2.68	2.53	4.21
2-Year Japanese Note Yield	0.73	0.72	0.35
10-Year German Bond Yield	2.57	2.59	2.60
10-Year U.K. Bond Yield	4.69	4.65	4.26
10-Year Canadian Bond Yield	3.33	3.17	3.62
10-Year Japanese Bond Yield	1.54	1.46	1.00

Commodity Prices

	Friday 5/23/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	61.62	62.49	76.87
Brent Crude ($/Barrel)	64.78	65.41	81.36
Gold ($/Ounce)	3357.08	3203.65	2329.27
Hot-Rolled Steel ($/S.Ton)	903.00	895.00	789.00
Copper (¢/Pound)	474.45	455.55	481.65
Soybeans ($/Bushel)	10.76	10.58	12.52
Natural Gas ($/MMBTU)	3.32	3.33	2.66
Nickel ($/Metric Ton)	15,301	15,607	20,101
CRB Spot Inds.	561.41	561.39	562.10

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