Weekly — July 25, 2025

Weekly Economic & Financial Commentary

United States: Housing Market Enters an Early Winter

- This week's data highlighted the mounting challenges facing home buyers, sellers and builders. Both existing and new home sales came in below market expectations in June. High rates and economic uncertainty also continued to exert pressure on durable goods orders, which set the stage for a weaker equipment spending print in Q2.
- Next week: GDP (Wed.), Employment (Fri.), ISM Manufacturing (Fri.)

International: European Central Bank Pauses, and So Do Europe's Economies

- The European Central Bank (ECB) held its Deposit Rate steady at 2.00% this week. In the U.K., July PMI data showed modest improvement in the Eurozone. Meanwhile, data reinforced expectations for a 25 bps Bank of England rate cut in August. Finally, Turkey surprised markets with a larger-than-expected 300 bps cut to 43.00%.
- Next week: Australia CPI (Wed.), Bank of Canada Policy Rate (Wed.), Bank of Japan Policy Rate (Thu.)

Interest Rate Watch: How to Finance President Trump's Agenda?

- We do not expect any major policy shifts at the upcoming quarterly refunding announcement from the U.S. Treasury. In our view, Treasury's current coupon auction schedule is well-suited to meet its financing needs for the next few quarters, and any unexpected swings in the government's financing needs can be met by an expansion or contraction in the supply of Treasury bills.

Credit Market Insights: Lending Hesitation Remains but Financial Conditions Ease

- The July Beige Book revealed that credit markets remain subdued, with most Federal Reserve districts reporting flat or modest loan growth. Lending has been affected, as borrowers delay activity in response to elevated risk. Despite these headwinds, financial conditions have eased from their post-tariff lows, suggesting some resilience in the broader economy.

Topic of the Week: If Your Friends Slashed Rates, Wouldn't You?

- Slowing economic growth and softer inflation reports have led many major G10 central banks to ease monetary policy. The Federal Reserve isn't following the same pace, partly due to relatively firmer upside pressures amid more resilient growth and uncertainty over the inflationary impulse of higher tariffs.

Wells Fargo U.S. Economic Forecast

	Actual 2024				Actual / 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	-0.5	1.8	0.9	1.0	2.9	2.8	1.4	1.9
Personal Consumption	1.9	2.8	3.7	4.0	0.5	1.3	0.6	0.4	2.5	2.8	1.8	1.7
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	3.0
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	5.23	5.27	4.25	3.75
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.65	6.55	6.80	6.72	6.67	6.51
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.30	4.25	3.96	4.21	4.26	4.33

Forecast as of: July 10, 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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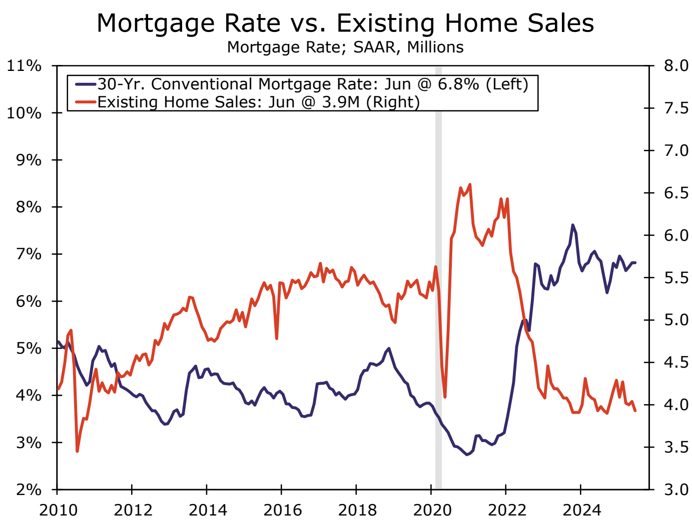
U.S. Review

Housing Market Enters an Early Winter

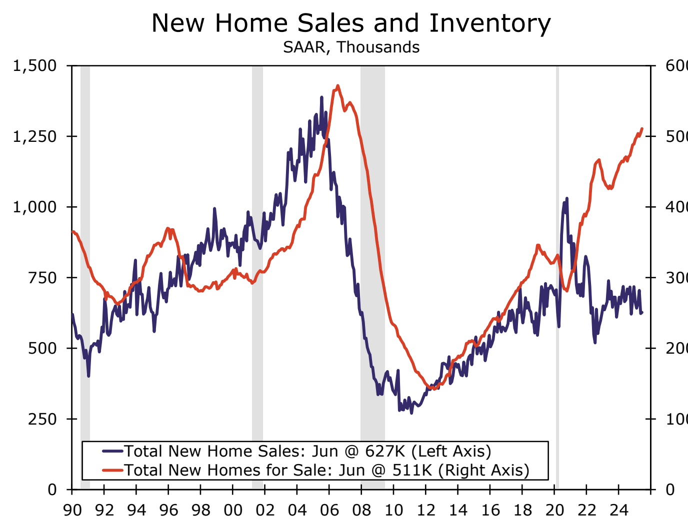
In a fairly light data week, this week's releases highlighted the mounting challenges facing home buyers, sellers and builders. Both existing and new home sales came in below market expectations in June. Building permits were revised lower, and the average 30-year fixed mortgage rate barely budged at 6.74%, according to Freddie Mac. Together, these prints showcase how poor affordability conditions and heightened economic uncertainty are freezing the housing market and putting pressure on residential construction.

The annual pace of existing home sales retrenched 2.7% in June to a 10-month low of 3.93 million. This slip marked the fourth pullback in the past six months, a product of elevated 10-year Treasury yields keeping a near-7.0% floor under mortgage rates. High rates are not the only pressure point, however. The median existing home price reached a historical high of $435K. Home prices generally rise over time, so the importance of this figure should not be overinflated. However, additional price growth over already elevated valuations nudges affordability even further out of reach.

Improving resale supply is one positive development from ongoing weakness in buyer demand. Over the past few years, high mortgage rates have suppressed housing supply by discouraging existing owners from trading up to a higher rate. This mortgage rate "lock-in effect" has eased somewhat as first-time home buyers skew the average mortgage rate higher and a portion of existing owners relocate due to personal or work reasons. Single-family resale inventory has increased 15.5% over the past 12 months, reaching its highest level since May 2020. This supply expansion is apt to put downward pressure on price growth. The nationally observed 2.0% annual increase in the median resale price in June was less than half the 4.4% annual average increase in 2024. Prices have even started to decline year-over-year in metros like San Francisco, Austin and Tampa.



Source: Freddie Mac, NAR and Wells Fargo Economics



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

New home sales have also started to stumble. Sales of new construction rose a modest 0.6% in June following a sharp decline in May. The uptick was likely aided by a modest reduction in mortgage rates over the course of the month. However, it essentially amounted to a sideways movement that sank the pace of sales 4.3% year-to-date. The recent softness in transactions is a trend shift from the new home market's relative resilience over the past few years. It appears that builder incentives like price cuts are proving less effective in an environment of strained affordability, increasing resale supply and economic uncertainty.

Aside from weak buyer traffic, a rising inventory-to-sales ratio is another factor deflating builder confidence and disincentivizing new construction. The number of new single-family homes for sale rose to 511K in June, the highest count since September 2007. Inventory growth has been geographically widespread, with every region recording an increase in new home listings over the past year. However, growing inventory in the South accounts for 44% of the nationwide expansion. This upturn brought new home listings in the South to their highest level on record in June, surpassing the pre-Great Recession peak set in August 2006.

A directionally softening labor market may be another dynamic at play suppressing home demand. This week, initial jobless claims fell to 217K, its lowest reading in three months. However, continuing claims remained elevated, up 5% over the past year. In other words: layoffs are low, but those who are laid off are having increasing difficulty finding new employment. Next week, we'll get a look at hiring in July, which we expect decelerated to 110K payrolls on net.

This morning's drop in durable goods was a reminder that the economic uncertainty associated with ever-changing tariffs is a recipe for weaker business investment. June's 9.3% headline plunge was largely a product of aircraft orders, which are highly volatile and not too revealing about the underlying state of business demand. However, core capital goods orders (excluding defense and aircraft) declined by a greater-than expected 0.7%. Perhaps even more telling, nondefense capital goods shipments slipped by 0.9%, implying a much slower pace of equipment spending in Q2 than Q1. We'll see the full details once Q2's GDP print is released next Wednesday, so stay tuned.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
29-Jul	Consumer Confidence	Jul	95.9	96.8	93.0
30-Jul	GDP Annualized (QoQ)	Q2	2.5%	1.8%	-0.5%
30-Jul	Personal Consumption (QoQ)	Q2	—	1.3%	0.5%
30-Jul	FOMC Rate Decision (Upper Bound)	30-Jul	4.50%	4.50%	4.50%
31-Jul	Personal Income (MoM)	Jun	0.2%	0.3%	-0.4%
31-Jul	Personal Spending (MoM)	Jun	0.4%	0.4%	-0.1%
31-Jul	PCE Price Index (MoM)	Jun	0.3%	0.3%	0.1%
31-Jul	PCE Price Index (YoY)	Jun	2.5%	2.5%	2.3%
31-Jul	Core PCE Price Index (MoM)	Jun	0.3%	0.3%	0.2%
31-Jul	Core PCE Price Index (YoY)	Jun	2.7%	2.7%	2.7%
31-Jul	Employment Cost Index (QoQ)	Q2	0.8%	0.8%	0.9%
1-Aug	Nonfarm Payrolls	Jul	101K	110K	147K
1-Aug	Unemployment Rate	Jul	4.2%	4.2%	4.1%
1-Aug	Average Hourly Earnings (MoM)	Jul	0.3%	0.2%	0.2%
1-Aug	ISM Manufacturing Index	Jul	49.5	49.7	49.0
1-Aug	Construction Spending (MoM)	Jun	0.1%	0.0%	-0.3%
1-Aug	Total Vehicle Sales	Jul	15.5M	15.6M	15.34M

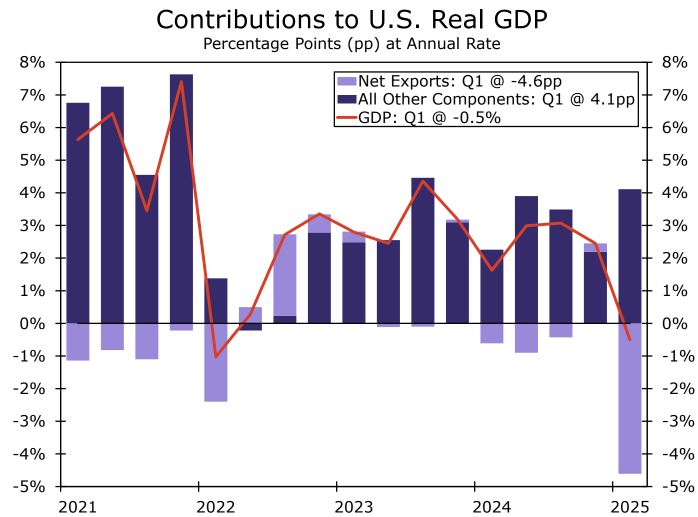
Forecast as of July 25, 2025

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

GDP • Wednesday

The 0.5% annualized decline in Q1 GDP growth understated the strength of the U.S. economy at the start of the year, but we expect the script to be flipped for Q2. We estimate GDP expanded at a 1.8% annualized clip last quarter. While that looks fairly respectable in the context of the economy's potential rate of growth, the second quarter's gain is set to be flattened by the unwinding of tariff front-running in Q1. The advanced trade report for June, due Tuesday, will help dial in our estimates, but we currently calculate that net exports contributed about 4 percentage points to Q2 GDP growth, roughly the inverse of the 4.6 percentage point drag from trade in Q1.

Amid the unusually large swings in trade and inventories ushered in by the recent changes to trade policy, we have been focusing in on final private sales to domestic purchasers. This cut of the data boils down to private consumption and fixed investment, and can be used as a barometer of underlying growth in the U.S. economy. Policy uncertainty combined with still-elevated borrowing rates looks to have gotten the best of investment spending in Q2; we estimate both business and residential investment contracted last quarter. Real consumer spending, after increasing at just a 0.5% clip in Q1, looks to have gained some traction in Q2 but is still not firing on all cylinders. We estimate real consumer spending rose 1.3% annualized in Q2, as households remain cautious in their discretionary spending.



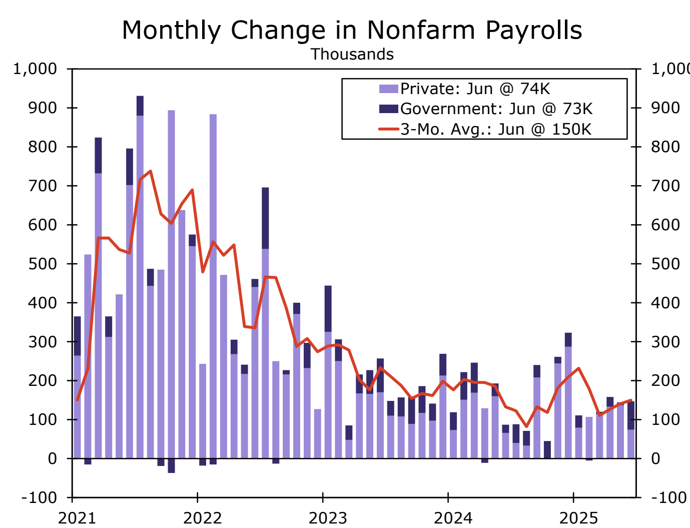
Source: U.S. Department of Commerce and Wells Fargo Economics

Details on how consumer spending ended the quarter will be filled in with Thursday's personal income and spending report. June's retail sales report suggests households were more willing to shell out for goods and restaurant meals, but the slower growth in hours worked and average hourly earnings indicated by the June jobs report is expected to restrain nominal income growth (+0.3%). When combined with our expectations for PCE inflation to pickup in June (+0.3%), the subdued rate of income growth leaves real consumer spending up against a challenging backdrop for at least another couple more months.

Employment • Friday

Despite the headline numbers from the June jobs report handily beating expectations, the labor market has still lost some luster. Cautious expectations for the economy ahead and slower growth in the labor supply are holding back private sector hiring, while the federal government's hiring freeze has been extended through October. Overall demand for workers remains tepid, with fewer than half of all industries having added jobs in June. The poorer job prospects for workers are evident by continuing jobless claims and the ranks of permanent job losers continuing to trend up despite the unemployment rate edging down to a four-month low of 4.1% in June.

Yet, the hiring backdrop at least does not look to have worsened in July. Businesses appear to be learning to live with a higher tariff environment and elevated policy uncertainty more generally. Initial jobless claims have moved lower in recent weeks, while the July PMI employment readings continue to hover near the dividing line between expansion and contraction territory. We estimate nonfarm payrolls rose by 110K, softer than June's increase of 147K. The expected stepdown comes amid a relatively short hiring period (the July survey week fell as early as possible) and view that state & local government hiring returned to Earth, rather than a further deceleration in private sector hiring.



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

The unemployment rate likely edged back up to 4.2% in July. Lower labor force participation, particularly among foreign-born workers, has helped to keep a lid on the unemployment rate the past few months, but we would not be surprised to see a modest rebound in participation in July following the steep declines of the past two months. We expect labor force growth to continue to slow on trend this year, however, amid tighter immigration policy. This should lead to the unemployment rate drifting only a few tenths higher even as labor demand softens further over the coming months.

Average hourly earnings growth is likely to be little changed due to the crosscurrents of weaker labor demand and slower labor supply growth. We look for average hourly earnings to have risen 0.2% in July and 3.7% over the past year. The second quarter Employment Cost Index, released on Thursday, will offer a more comprehensive look at labor cost pressures. We estimate employment costs rose 0.8% in Q2 and 3.5% year-over-year.

ISM Manufacturing • Friday

Purchasing managers' indices from the various Federal Reserve Banks indicate manufacturing activity improved in July, but remains tepid overall. While the effects of higher tariffs continue to ripple through the supply chain, less whipsawing in the rates of import duties seems to be helping settle conditions. According to the Fed PMIs, supplier delivery times rose at a more modest pace in July, even as shipments picked up. While firms remain cautious to commit to new purchases, new orders are not falling as sharply as they have the past few months.

We see the modest improvement in July manufacturing conditions more as normalization after the shock of the administration's April 2 tariff announcements, rather than the start of a material upswing in growth. Manufacturers are still grappling with higher input costs and testing the extent to which they can raise prices on customers. With tariff rates for various products and countries still in flux, we expect the transitioning trade environment is to keep U.S. factory activity struggling in the months ahead.

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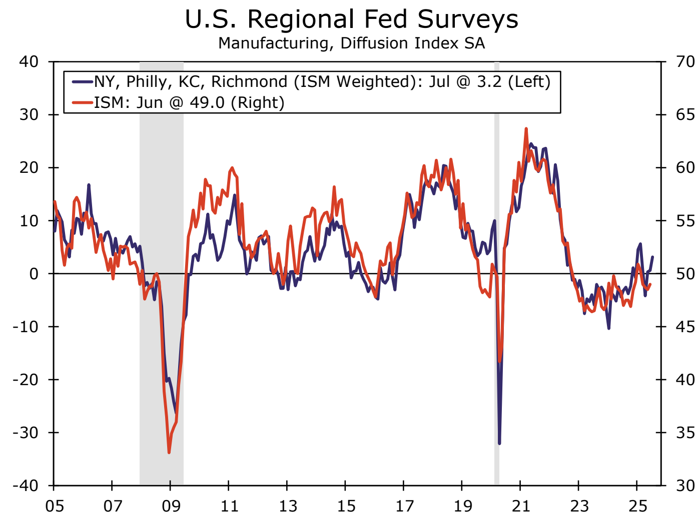


Source: Federal Reserve System, Institute for Supply Management and Wells Fargo Economics

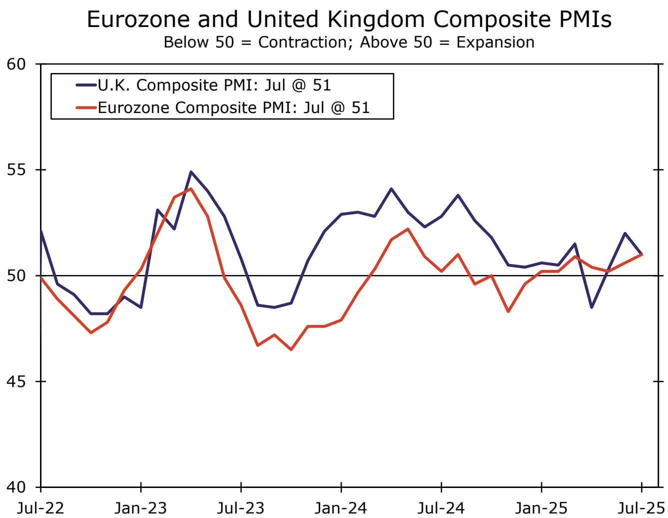
International Review

European Central Bank Pauses, and So Do Europe's Economies

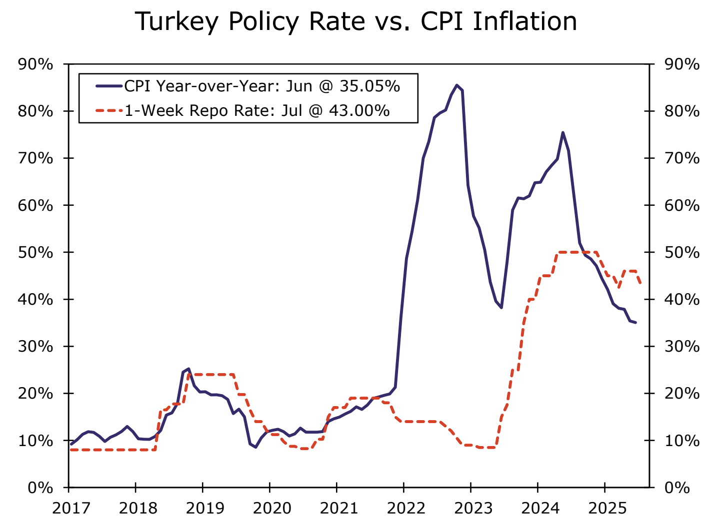
The European Central Bank (ECB), in a widely expected move, held its Deposit Rate steady at 2.00% at this week's monetary policy meeting, marking its first pause in more than a year. The accompanying statement was neutral in tone and offered no forward guidance on future policy moves. The ECB noted that the economy remains resilient, partly due to past rate cuts, but flagged elevated uncertainty, particularly stemming from trade tensions. ECB President Lagarde reiterated the central bank's "data-dependent, meeting-by-meeting approach," while also emphasizing that the central bank is "not pre-committing to a particular rate path." Post-meeting news reports suggested a somewhat challenging path to further easing. That said, we continue to expect one final 25 bps rate cut to 1.75%, likely in September or December, as we expect a perceptible softening in Eurozone data in the months ahead. Slowing wage growth, softening fundamentals and trade-related risks support the case for further easing. However, the timing will depend on the cadence of that data and the outcome of EU-U.S. trade negotiations, which could materially affect the growth outlook.
Against this backdrop of cautious policymaking, the latest PMI readings provide timely insight into how the Eurozone economy is faring early in the third quarter. The Eurozone PMI surveys showed modest improvement early in Q3, with the composite index rising to 51.0, slightly above consensus expectations of 50.7. The services PMI also surprised to the upside at 51.2, marking the strongest expansion since January, while the manufacturing PMI edged up to 49.8, in line with expectations and still below the expansion threshold. Among the region's largest economies, Germany saw both its services and manufacturing PMIs improve. Services moved into expansion territory at 50.1 for the first time since March, and manufacturing rose to 49.2, the highest reading since July 2022, though still below the expansion mark. In France, both PMIs remained in contraction but showed incremental gains, with services ticking up to 49.7 and manufacturing to 48.4. Overall, the data suggest a modest

and marginal expansion, with German steadiness offsetting France's continued weakness. However, the tepid pace of improvement compared to historical norms could support expectations for another ECB rate cut in September if activity data continue to disappoint.

In contrast to the modest improvement seen in the Eurozone, the UK's July PMI readings were broadly disappointing, suggesting that the sluggish growth seen earlier in the year has extended into the second half. The composite index fell to 51.0, below both consensus expectations of 51.8 and the prior month's 52.0 reading. The services PMI, critical given its large share of UK output, declined to 51.2 from 52.8. The manufacturing PMI, on the other hand, edged up slightly to 48.2, remaining in contraction but continuing a gradual recovery trend that began in March. These figures underscore a fragile economic environment, particularly when viewed alongside early signs of labor market softening and lingering inflation concerns reflected in recent data. Hawkish policymakers may want to see clearer evidence that price pressures are slowing more meaningfully before committing to further easing. Still, the weak PMI momentum aligns with our expectations for the Bank of England (BoE) to maintain its current quarterly cadence of easing, including cutting rates by 25 bps to 4.00% in their upcoming August meeting.



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



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

Finally, in Turkey, the Central Bank of the Republic of Turkey (CBRT) cut its one-week repo rate by 300 bps to 43.00%, a larger-than-expected move versus the 43.50% consensus. The decision reflects growing confidence in the disinflation process, with annual inflation easing to 35.05% in June from 40% earlier this year. The accompanying statement was dovish, citing stronger disinflationary effects from demand and acknowledging downside risks from inflation expectations and geopolitical developments. While the central bank pledged to maintain a tight stance until price stability is achieved, the dovish press release could be interpreted as a signal that easing could continue through year-end. Overall, the decision marks a return to a normalization path, with further rate cuts likely if inflation continues to moderate and external risks remain contained.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
30-Jul	Australia CPI (YoY)	Q2	2.2%	—	2.4%
30-Jul	Australia CPI Trimmed Mean (YoY)	Q2	2.7%	—	2.9%
30-Jul	Australia CPI Weighted Median (YoY)	Q2	2.7%	—	3.0%
30-Jul	Bank of Canada Policy Rate Decision	30-Jul	2.75%	2.75%	2.75%
31-Jul	Bank of Japan Policy Rate Decision	31-Jul	0.50%	0.50%	0.50%

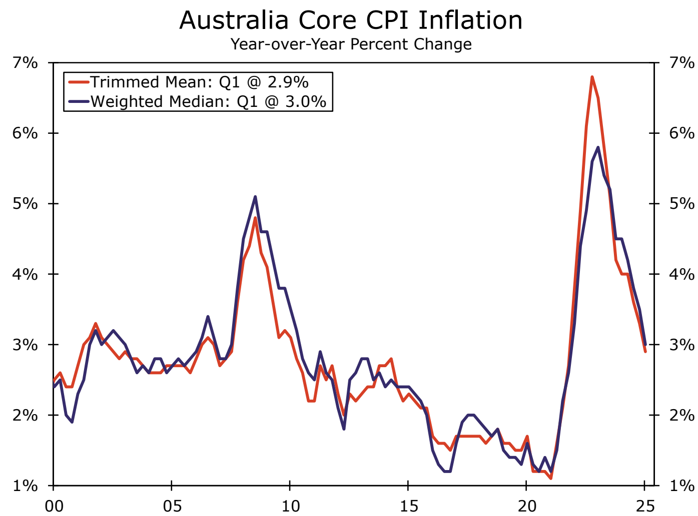
Forecast as of July 25, 2025

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

Australia CPI • Wednesday

Australia's Q2 CPI, due next week, is expected to show a further moderation in inflation, likely easing closer to the lower end of the Reserve Bank of Australia's (RBA) 2%-3% target. The consensus expectation for Q2 CPI is for headline inflation to ease to 2.2% from 2.4%, while trimmed mean CPI—the figure most closely watched by policymakers—is expected to ease to 2.7% from 2.9%. Although the RBA has access to monthly trimmed mean CPI data, which showed a decline to 2.4% year-over-year in May from 2.8% in April, the central bank has cautioned repeatedly that these figures are somewhat volatile in nature. Indeed, the May print was described as being "slightly stronger than expected" at the margin.

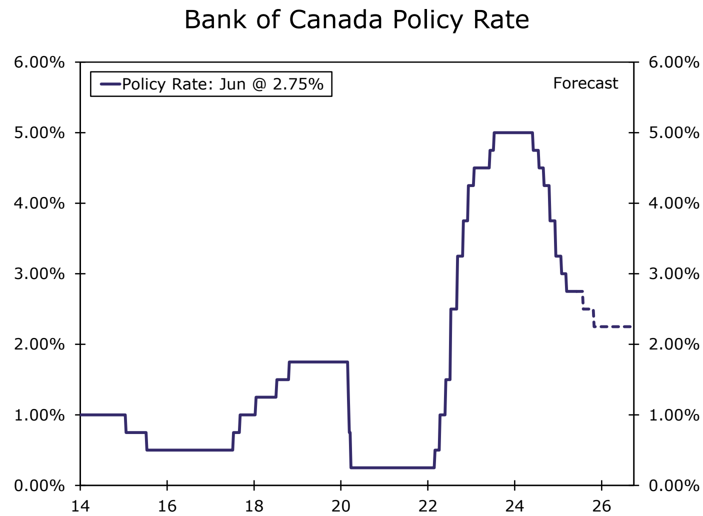
In July, the RBA surprised markets by holding its policy rate steady at 3.85%, citing persistent inflation, resilient household spending and a still-tight labor market. However, June's labor market data, which showed the unemployment rate rising to 4.3%, may help ease some of the RBA's concerns and support a move toward rate cuts. Governor Michelle Bullock's recent remarks on the RBA's dual mandate leaned slightly hawkish. She noted that since Australia's rate hikes were not as aggressive as in other economies, the path of rate cuts may also be more measured. Still, the RBA appears to be in wait-and-see mode, emphasizing a "gradual and measured" approach. Should inflation continue to ease as expected—particularly with next week's quarterly trimmed mean CPI being the key print to watch—we expect 25 bps rate cuts in August, November and February, bringing the policy rate to 3.10% by early 2026.



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

Bank of Canada Policy Rate • Wednesday

The Bank of Canada (BoC) announces its latest monetary policy decision next week and consensus expectations are for the policy rate to remain steady at 2.75%. June headline inflation rose to 1.9% year-over-year, its first increase in four months, while underlying price pressures remained firm, with average core inflation edging up to 3.1%. The June employment report added to the hawkish tone, with a blowout gain of 83,100 jobs and a modest decline in the unemployment rate. Although the unemployment rate remains elevated compared to pre-pandemic levels, the strength of recent hiring and still-elevated core inflation reduce the urgency for an imminent rate cut.The BoC's Q2 Business Outlook Survey offered a mixed picture. While tariff and trade tensions continue to weigh on sentiment, firms have moderated their expectations for how negative the tariff impacts might be. Household and business spending plans remain cautious, but the Canadian economy has shown resilience. Statistics Canada's early estimate for June retail sales points to a 1.6% increase, which would represent the fastest monthly growth this year if confirmed and suggest a more optimistic outlook for the second half of 2025.
However, risks to the outlook remain. President Trump's July 10 letter to Canada announced an increase in U.S. tariffs to 35% effective Aug. 1, adding uncertainty to the trade environment. While our prior forecast anticipated rate cuts in July and October, we now expect the BoC to hold rates steady at its upcoming July meeting. A 25 bps rate cut is likely in September, with a possible follow-up cut in December, though the latter remains contingent on the pace of economic growth and core inflation softening.

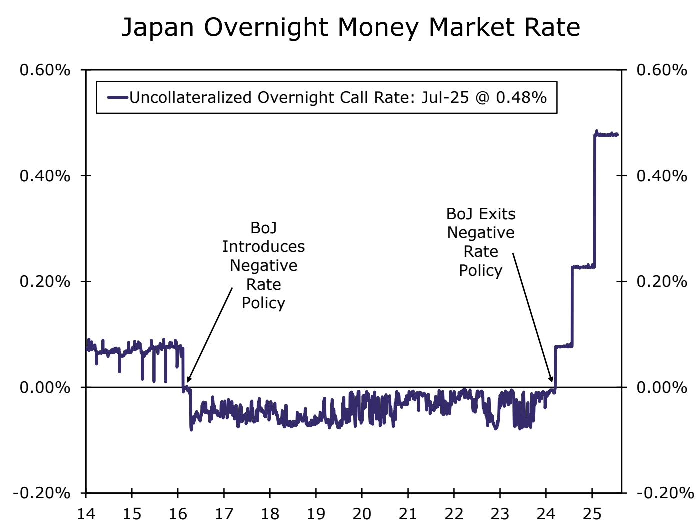


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of Japan Policy Rate • Thursday

The Bank of Japan (BoJ) offers its latest monetary policy assessment next week, where we expect the central bank to hold its policy rate at 0.50%, in line with the consensus forecast. While we do not expect any adjustment to central bank's monetary policy stance at next week's announcement, there will be significant interest in the BoJ's policy guidance and updated economic projections.

Japan's economic trends have been somewhat mixed in 2026, with sentiment surveys generally constructive and inflation elevated above the central bank's target, while wage trends have been subdued. Recent developments have also been mixed. The recently agreed trade arrangement with the U.S. could lessen the extent of growth headwinds, an argument in favor of BoJ tightening, though an unsettled political environment and rise in Japan's government bond yields are arguments against BoJ tightening. Balancing these economic trends and recent developments, we still lean toward the BoJ hiking rates 25 bps to 0.75% at its October meeting, although we acknowledge the risk BoJ tightening could be delayed until next year. In that context, we will be paying close attention to the BoJ's views on the U.S./Japan tariff agreement and subdued recent wage trends. Should the BoJ appear relatively comfortable with the trade deal, translating to little change in its GDP growth forecasts and medium-term core inflation forecasts that remain close to or above 2%, we would be inclined to keep our view for an October rate increase intact.



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

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Interest Rate Watch

How to Finance President Trump's Agenda?

Financing roughly $29 trillion of debt is not an easy task. It involves making important choices about how much to borrow, when to borrow it, how to structure the borrowing across the yield curve and a whole host of other decisions. Once a quarter, the U.S. Treasury announces changes to its debt management policy through the quarterly refunding process. Going into the quarterly refunding, Treasury solicits feedback and analysis from private sector financial institutions. These views, which range from inquires about the economic and fiscal outlook to feedback about conditions in the Treasury market, are then used as input into Treasury's debt management process.

As we look ahead to the next quarterly refunding, which will occur next Wednesday, there is more clarity on the federal budget deficit outlook than there has been in some time. We project a federal budget deficit of $1.75 trillion in FY 2025, $2.00 trillion in FY 2026 and $2.10 trillion in FY 2027. A substantial increase in tariff revenues should help offset the near-term deficit widening from the One Big Beautiful Bill and keep budget deficits as a share of GDP near 6.5% over the next few years (chart).

The Federal Reserve's balance sheet runoff also seems to be close to coming to an end. Our base case is that quantitative tightening will run through year-end, at which point the Fed will keep the aggregate size of its balance sheet unchanged through mid-2026. This also will help keep growth in Treasury's financing needs in check in the near term.

As a result, we do not expect any major policy shifts at the upcoming quarterly refunding announcement from the U.S. Treasury. In our view, Treasury's current coupon auction schedule is well-suited to meet its financing needs for the next few quarters, and any unexpected swings in the government's financing needs can be met by an expansion or contraction in the supply of Treasury bills. The Treasury eventually will need to issue more notes & bonds to finance the growing federal budget deficit and rising wall of maturing debt, but we do not expect that to happen until early 2027.

Thus, with the One Big Beautiful Bill behind us and with no major increase in Treasury coupon debt issuance for the foreseeable future, a sharp, negative market reaction due to a "fiscal blowout" type scenario strikes us as increasingly unlikely in the near term. Longer-term yields may grind higher in the face of structurally large budget deficits, but we do not see an obvious fiscal-related event on the horizon that might spark a blowout in yields.

For further reading on what to expect in next week's Treasury refunding announcement, see our recent report.

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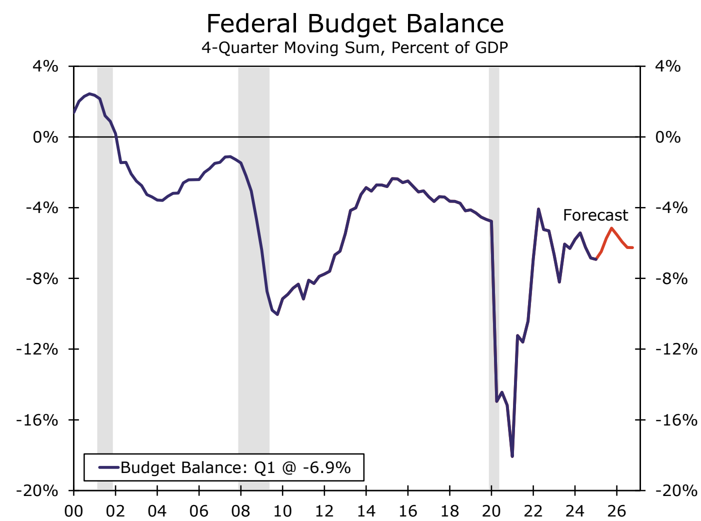


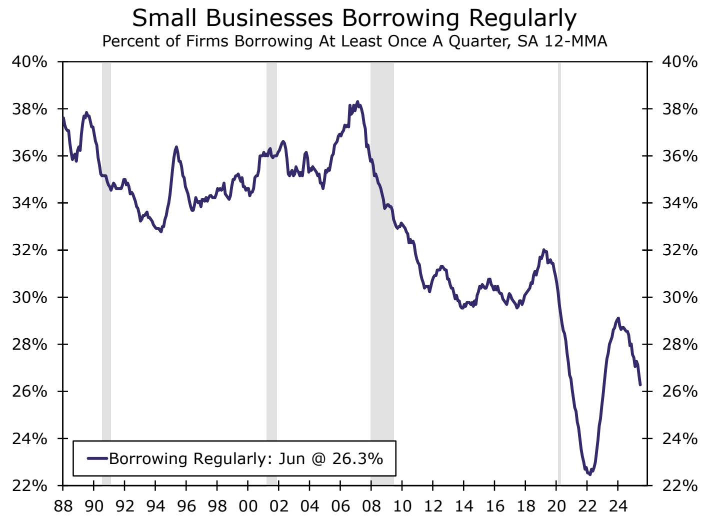
Source: U.S. Department of the Treasury, U.S. Department of Commerce and Wells Fargo Economics

Credit Market Insights

Lending Hesitation Remains but Financial Conditions Ease

The Beige Book is a report published eight times a year by the Federal Reserve, offering a snapshot of current economic conditions across the 12 Federal Reserve Districts. It compiles anecdotal information on economic conditions gathered from each district's business contacts. In the July edition that came out last week, 10 out of the 12 districts included a section that highlighted their credit market. Across the board, their reports indicated that the volume of bank lending either held stable or very moderately increased. Many banks attributed the weak growth to economic uncertainty and higher interests rates deterring demand from both businesses and consumers.

On the commercial and industrial side, many banks reported that businesses are currently putting their larger projects or expansions on pause as economic uncertainty is prompting them to wait on taking out their next loan. The uncertainty, compounded with higher rates, has made loans unaffordable for small businesses in particular. As shown in the nearby chart, the percent of small businesses regularly borrowing has been on a consistent decline over the past year (chart). On the consumer lending side, many banks reported a decline in demand, dragged down by a decrease in auto purchases after the pre-tariff surge. Mortgages have been notably impacted, as high rates and rising home prices continue to increase housing market affordability challenges.



Source: NFIB and Wells Fargo Economics

The Senior Loan Officer Opinion Survey (SLOOS) revealed a tightening on the supply side of loans as well. According to the latest report, banks tightened credit standards for commercial & industrial loans in Q1 by implementing stricter terms such as smaller credit lines, higher risk premiums and more frequent use of rate floors. As economic uncertainty presents increased risk for lenders, the net percent of banks tightening standards rose to 18.5% for large and medium firms, and 15.9% for small firms. The Kansas City branch also reported modest growth in their contacts' Allowance for Credit Losses (ACL), which is a key indicator that economic uncertainty might be leading banks to hold more savings in case of weakened credit.

Despite the ongoing impact of uncertainty on the credit market, it's important to note that financial conditions have loosened from when uncertainty peaked around "Liberation Day." Following President Trump's tariff announcements on April 2, financial conditions tightened sharply but have since recovered to March levels. Though uncertainty continues to weigh on both the supply and demand sides of the credit market, the recent improvements in financial conditions suggest a degree of resilience in the broader economy. This recovery may offer some optimism for future lending activity, provided that rates stabilize and confidence continues to return.

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Topic of the Week

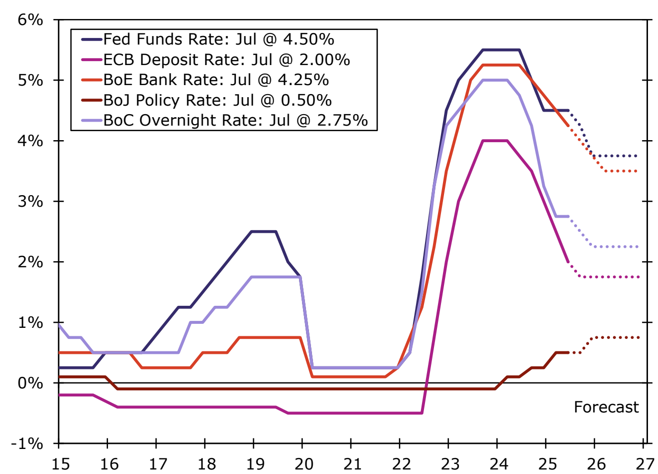
If Your Friends Slashed Rates, Wouldn't You?

High inflation during and after the COVID-19 pandemic led most major G10 central banks to implement restrictive monetary policy. More recently, slowing economic growth and softer inflation reports have led many of those same central banks to ease policy rates. The Bank of Canada (BoC) and the European Central Bank (ECB) started the easing cycle in June 2024, when both announced a 25 bps rate cut to their policy rates. In the following months, most of the remaining central banks followed suit (chart), with the exception of the Bank of Japan (BoJ).

The Federal Reserve has followed the global rate cut trend, but at a much slower pace. Since the FOMC first cut the fed funds rate in September 2024, the Fed has reduced its policy rate by a total of 100 bps to 4.25%-4.50%. As we detailed in our July Fed Flashlight, the Fed is expected to hold rates steady at its meeting next week, as the Committee currently views the labor market as "solid" and inflation as "somewhat elevated." The data over the inter-meeting period gives little reason to alter this characterization. Most Committee members are adopting a more "wait-and-see" approach, as indicated by recent Fed speak. But this "wait-and-see" approach is adding to the political pressure on the Federal Reserve to resume rate cuts.

As discussed further in the July Fed Flashlight, public pressure from the Trump administration for the FOMC to lower rates has intensified over the past few weeks, bringing the question of the central bank's independence into the spotlight. Part of the pressure stems from the growing prevalence of international central bank monetary policy easing. As mentioned previously, the FOMC has followed the global trend of rate cuts, albeit at a slower pace. This lag is attributable to relatively firmer upside pressures in the U.S. amid more resilient growth and uncertainty over the inflationary impulse of higher tariffs compared to its peers. In May, U.S. core PCE inflation was 70 bps above the central bank's target rate of 2%. The UK is similar in that inflation remains 1.6 percentage points above target. The Federal Reserve and the Bank of England (BOE) have each eased by 100 bps. Comparatively, the ECB has eased by 200 bps and the BoC has eased by 225 bps, but each has already reached its 2% inflation target. Despite different outcomes on the inflation front, it is clear that the new U.S. administration would like the FOMC to follow its Canadian and European peers and cut rates again. However, foreign developments have seemingly not affected U.S. monetary policy decision-making, with little mention of international influence in recent Fed speak.

Major G10 Central Bank Policy Rates



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

For the remainder of 2025, we anticipate most G10 central banks will proceed cautiously regarding the pace of rate cuts, given that most foreign central banks are near "neutral" on their policy rates. We anticipate a gradual pace of rate cuts, but in most cases, we believe G10 central banks may already be at or nearing the end of their monetary easing cycles. For more information regarding G10 monetary policy, we would refer readers to the July International Monthly. Regarding U.S. monetary policy, we forecast three 25 bps rate cuts by year-end. If realized, the federal funds rate would still be higher than the main policy rate in most other G10 nations, leading to a strengthening of the U.S. dollar.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 7/25/2025	1 Week Ago	1 Year Ago
SOFR	4.30	4.34	5.34
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.35	4.33	5.31
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.92	3.87	4.43
5-Year Treasury	3.97	3.95	4.13
10-Year Treasury	4.41	4.42	4.24
30-Year Treasury	4.95	4.99	4.48
Bond Buyer Index	5.29	5.30	3.94

Foreign Exchange Rates

	Friday 7/25/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.173	1.163	1.085
British Pound ($/£)	1.343	1.342	1.285
British Pound (£/€)	0.873	0.867	0.844
Japanese Yen (¥/$)	147.760	148.810	153.940
Canadian Dollar (C$/$)	1.371	1.373	1.383
Swiss Franc (CHF/$)	0.797	0.801	0.882
Australian Dollar (US$/A$)	0.656	0.651	0.654
Mexican Peso (MXN/$)	18.570	18.748	18.453
Chinese Yuan (CNY/$)	7.169	7.175	7.247
Indian Rupee (INR/$)	86.520	86.159	83.706
Brazilian Real (BRL/$)	5.559	5.580	5.645
U.S. Dollar Index	97.761	98.482	104.355

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

Foreign Interest Rates

	Friday 7/25/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.82	1.79	3.35
3-Month U.K. Govt Bill Yield	4.12	4.13	5.15
3-Month Canadian Govt Bill Yield	2.68	2.67	4.42
3-Month Japanese Govt Bill Yield	0.41	0.39	0.04
2-Year German Note Yield	1.95	1.87	2.63
2-Year U.K. Note Yield	3.89	3.90	3.95
2-Year Canadian Note Yield	2.82	2.82	3.63
2-Year Japanese Note Yield	0.86	0.77	0.39
10-Year German Bond Yield	2.72	2.70	2.42
10-Year U.K. Bond Yield	4.64	4.67	4.13
10-Year Canadian Bond Yield	3.53	3.57	3.37
10-Year Japanese Bond Yield	1.61	1.54	1.06

Commodity Prices

	Friday 7/25/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	65.36	67.34	78.28
Brent Crude ($/Barrel)	68.61	69.28	82.37
Gold ($/Ounce)	3328.35	3349.94	2364.56
Hot-Rolled Steel ($/S.Ton)	871.00	875.00	664.00
Copper (¢/Pound)	577.50	557.80	411.25
Soybeans ($/Bushel)	10.25	10.41	11.43
Natural Gas ($/MMBTU)	3.12	3.57	2.04
Nickel ($/Metric Ton)	15,263	14,898	15,556
CRB Spot Inds.	583.40	575.47	543.61

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