

Weekly — August 22, 2025

Weekly Economic & Financial Commentary

United States: Is the Housing Drag Intensifying?

- Housing was the focus of attention this week as markets prepared for Chair Powell's speech at Jackson Hole. All told, upside surprises in existing home sales and housing starts during July conceal a weakening trend in residential activity.
- Next week:** New Home Sales (Mon.), Durable Goods Orders (Tue.), Personal Income & Spending (Fri.)

International: Easing Bias and Uneven Global Data

- This week saw a mix of monetary policy decisions and economic data across G10 economies. The Reserve Bank of New Zealand delivered a dovish rate cut, while Sweden's Riksbank held rates steady. In Canada, July CPI came in softer than expected, while UK inflation surprised to the upside. Meanwhile, Eurozone and UK PMIs showed modest improvement and Norway's Q2 GDP pointed to strengthening momentum.
- Next week:** Canada GDP (Fri.), India GDP (Fri.)

Interest Rate Watch: Powell Keeps Options Open for September Rate Cut

- With upside risks to inflation and downside risks to employment keeping the FOMC's dual mandate in tension, Chair Powell was careful not to pre-commit to a policy change at Jackson Hole. However, he kept the prospects for a September rate cut alive and reconfirmed the Committee's existing bias for rate cuts later this year.

Credit Market Insights: Hope Meets Headwinds

- Last month, the NFIB Small Business Optimism Index rose 1.7 points to 100.3, hitting just above the historical average of 98. While the headline suggests improved sentiment, elevated uncertainty weighs on small businesses.

Topic of the Week: The Forces Behind Stronger Productivity Growth

- Productivity growth is firming, driven less by labor shifts and more by technology, innovation and capital investment. Generative AI and R&D could lift it further, though trade policy and immigration constraints pose risks to sustaining long-term economic potential growth.

Wells Fargo U.S. Economic Forecast												
	Actual				Forecast				Actual		Forecast	
	2024				2025				2023		2024	
	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	3.0	1.2	0.7	2.9	2.8	1.6	1.9
Personal Consumption	1.9	2.8	3.7	4.0	0.5	1.4	0.7	0.5	2.5	2.8	1.9	1.8
Consumer Price Index ²	3.2	3.2	2.7	2.7	2.7	2.5	2.8	2.8	4.1	3.0	2.7	2.8
"Core" Consumer Price Index ²	3.8	3.4	3.3	3.3	3.1	2.8	3.0	3.0	4.8	3.4	3.0	2.9
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: August 06, 2025

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Quarterly Data - Period End; Annual Data - Annual Averages⁴ 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

Submit a question to our ["Ask Our Economists"](#) podcast at askoureconomists@wellsfargo.com.

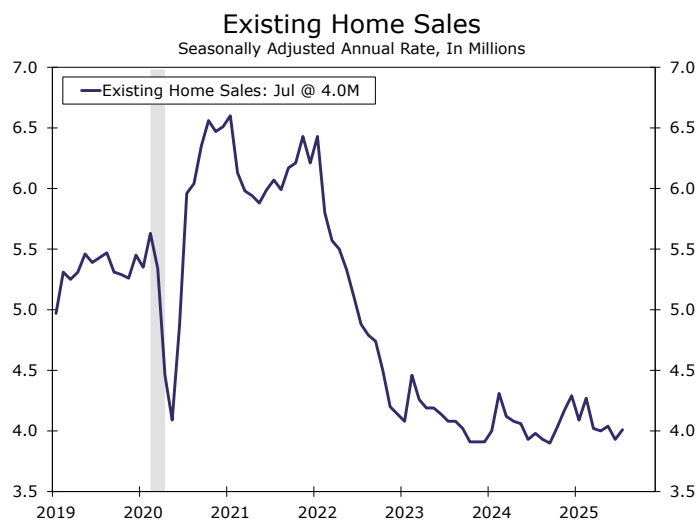
U.S. Review

Is the Housing Drag Intensifying?

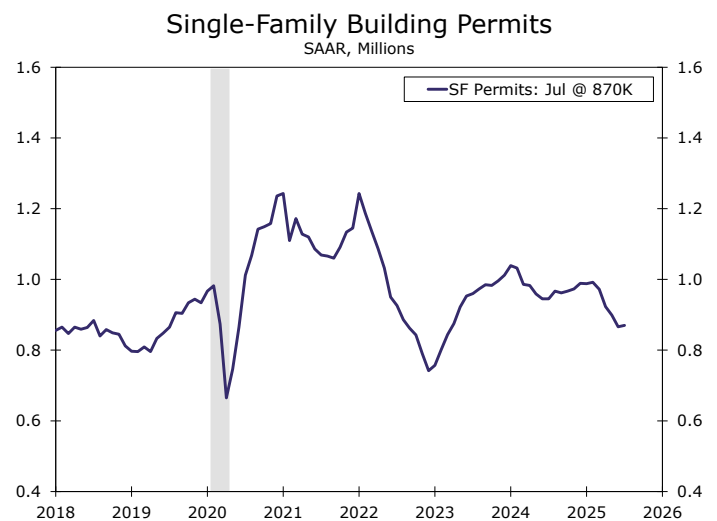
Let's go to the tape. This week delivered the latest look on existing home sales. During July, total resales rebounded 2.0%, essentially erasing the decline registered in June. Although the bounce-back was an encouraging sign that activity is not collapsing, the trend in sales has essentially been flat so far in 2025. July sales amounted to a seasonally-adjusted 4.0 million-unit pace, which, as displayed in the following chart, is on par with the average pace registered since January. Stepping back, unfavorable affordability conditions from elevated mortgage rates and high home prices continue to keep existing home sales running well below historical norms.

The sideways trend in sales this year hides some important changes going on below the surface of the housing market. For one, the supply of homes for sale has climbed higher over the past year. In July, inventory hit 1.36 million units, the most since 2020. We recently outlined in a [special report](#) some of the factors contributing to increased supply. What it all boils down to, however, is that persistently weak buyer demand is allowing supply to grow. The results are not surprising. The build-up in supply closer to pre-pandemic levels is now exerting downward pressure on home price appreciation. The median single-family home was up only 0.3% on a year-over-year basis in July. Although prices are still rising, appreciation has cooled to its slowest pace in two years.

Meanwhile, single-family construction is starting to pull back. During July, total housing starts surprised to the upside and jumped 5.2% as both new single-family and multifamily starts improved. Through the monthly volatility, however, a downdraft in single-family projects has emerged, with starts down by about 6% since January and permits 12% lower. The key thing to remember is that single-family construction has been remarkably resilient over the past several years, largely because new home sales generally have been sturdy. More recently, builder incentives and scarce resale supply, which have been two major support factors for new home sales, have not been as effective in driving demand. Consequently, sales have not kept up with new deliveries. Perhaps the best illustration of the softening state of the new home market comes from the NAHB Housing Market Index (HMI), which tracks builder sentiment. In August, the HMI fell back to a level essentially on par with the low reached during the throes of the pandemic.



Source: NAR and Wells Fargo Economics



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

With all this in mind, builders seem poised to further scale back production, and overall residential investment looks like it will remain a drag on economic growth. Residential fixed investment, i.e., the contribution of residential construction and home sales to total GDP growth, contracted in the first half of 2025. The potential for additional declines on the horizon is catching the attention of the Federal Reserve. According to the minutes from the July FOMC meeting released this week, growing downside risks to the economy from the housing sector were discussed at length at the most recent policy meeting. Several officials pointed to sluggish demand and slowing home price appreciation,

with the potential for a more substantial deterioration should the stance of monetary policy remain unchanged.

While residential fixed investment constitutes only about 4% of total GDP, a continued downswing in housing activity stands to indirectly transmit through the economy via other channels. For instance, there is a strong relationship between home buying and retail sales at building material and furniture stores. A possible flow-through to consumer spending could also occur via the wealth effect from easing home price appreciation. What's more, reduced housing-related employment, e.g., residential construction employment, could weigh on overall employment growth.

Why this matters is that evidence continues to accumulate, showing that consumer spending and other heretofore resilient segments of the economy are now losing momentum. Most notably, the labor market appears to be shifting to a lower gear. Initial jobless claims ticked up in the week ended Aug. 16. New claims have drifted slightly higher over the past several weeks, although they remain generally low at a level consistent with layoffs staying localized and not becoming widespread. That noted, continuing claims also continue to climb, implying that finding a new job is increasingly challenging for those without employment. As discussed in the Topic of the Week, the deterioration in the labor market was emphasized in Chair Powell's highly anticipated keynote speech at Jackson Hole.

In our view, the growing downside risk stemming from the labor market and housing sector means that the FOMC will resume easing monetary policy at the upcoming September meeting. And while reductions to the federal funds rate may not significantly move the needle for buyer financing rates, lower short-term rates should help bolster the labor market, boost economic growth and give buyers more confidence to move forward with the purchase of a home.

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U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
25-Aug	New Home Sales	Jul	635K	638K	627K
26-Aug	Durable Goods Orders	Jul	-4.0%	-1.5%	-9.4%
26-Aug	Durables Ex Transportation	Jul	0.2%	0.2%	0.2%
26-Aug	Consumer Confidence	Aug	96.2	97.0	97.2
28-Aug	GDP Annualized (QoQ)	Q2	3.1%	3.0%	3.0%
28-Aug	Personal Consumption (QoQ)	Q2	1.6%	1.4%	1.4%
29-Aug	Personal Income	Jul	0.4%	0.5%	0.3%
29-Aug	Personal Spending	Jul	0.5%	0.5%	0.3%
29-Aug	PCE Price Index (MoM)	Jul	0.2%	0.2%	0.3%
29-Aug	PCE Price Index (YoY)	Jul	2.6%	2.6%	2.6%
29-Aug	Core PCE Price Index (MoM)	Jul	0.3%	0.3%	0.3%
29-Aug	Core PCE Price Index (YoY)	Jul	2.9%	2.9%	2.8%

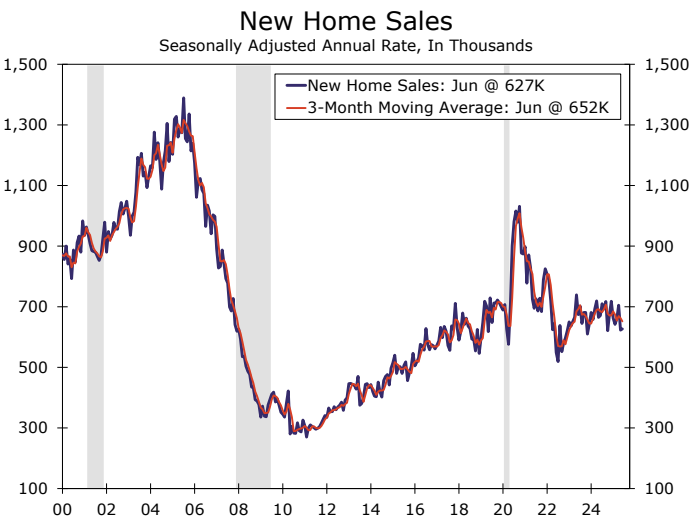
Forecast as of August 22, 2025

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

New Home Sales • Monday

The housing market remains under pressure. Builders are offering incentives to entice sidelined buyers, such as mortgage rate buy downs, closing cost assistance, price cuts and various upgrades. Yet even with the sweeteners, high mortgage rates continue to make homeownership unaffordable for many and have crimped buyer traffic.

We look for new home sales to edge up to a 638K-unit annual pace in July, up from a 627K pace in June. Although the macroeconomic backdrop is unfavorable for home sales, the leg up in single-family housing starts in July points to a modest increase in sales that month. A new home can be sold at any stage of construction, and roughly 35% of new homes sold year-to-date were still under construction at the time of sale. While we look for a slight boost in the near term, our forecast implies new home sales are still running 7% slower than their 2024 pace.

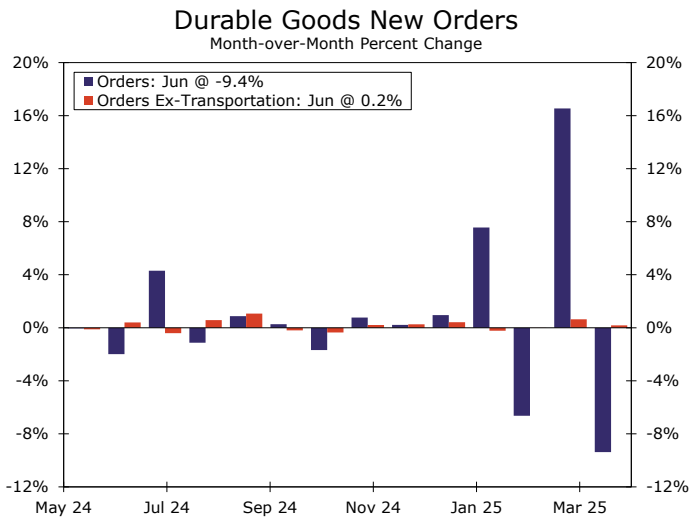


Source: U.S. Department of Commerce and Wells Fargo Economics

Durable Goods Orders • Tuesday

Restrictive borrowing costs and elevated uncertainty have weighed on capital expenditures. We look for durable goods orders to decline 1.5% in July. Data from Boeing show its orders retreating over the month, suggesting non-defense aircraft will be a key driver of the headline decline.

Excluding transportation, we forecast a 0.2% rise in July, which would leave the value of durable goods orders up 1% from the beginning of the year. When coupled with the fact that producer prices for private capital equipment have risen roughly 2% over the same timeframe, demand for capital goods is weak in inflation-adjusted terms. Businesses ultimately have little incentive to make large capital expenditures in today's environment, especially as tariff rates remain a moving target and costs are headed higher. We expect business equipment investment to contract in the second half of the year as a result.



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

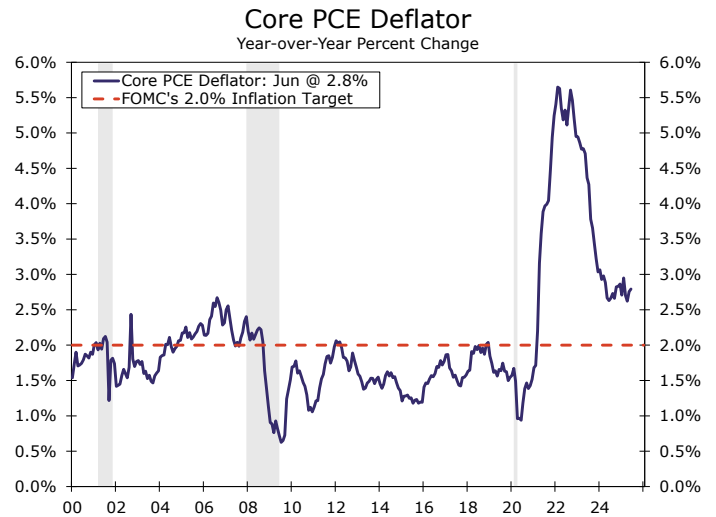
Personal Income & Spending • Friday

Consumers continue to spend, but they have grown choosier. Outlays on discretionary services were down 0.7% year-over-year in June, and a decline in restaurant sales in July suggests consumers are still cautious. That said, the recent 0.5% rise in "control group" retail sales (excluding auto, gas, building material and restaurant sales) points to some stabilization in goods consumption. We expect overall personal spending to rise 0.5% in July, which would be the strongest monthly gain since March.

The rise in spending is likely to be paired with a rise in income. We forecast personal income to increase 0.5% in July. Average hourly earnings growth modestly strengthened over the month alongside a rebound in aggregate hours worked. Taken together, these data suggest aggregate wages and salaries picked up.

The increases in nominal income and spending will be tempered by firming inflation. We look for the core PCE deflator to rise 0.3% in July, which would boost the year-over-year rate to 2.9%, or its highest since February. Tariff-related price pressures are broadening across the goods sector and appear to be spilling over into the services sector. We ultimately expect core PCE inflation to peak slightly above 3% by the end of the year. With inflation drifting in the wrong direction and the labor market losing momentum, the Federal Reserve faces difficult trade-offs in balancing its dual mandate.

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International Review

Easing Bias and Uneven Global Data

The Reserve Bank of New Zealand (RBNZ) lowered its Official Cash Rate (OCR) by 25 bps to 3.00% this week, in a 4-2 vote with dissenters that opted for a larger 50 bps cut. This move marks a notable shift from July, when the debate was between holding steady or a 25 bps cut. Furthermore, forward guidance was distinctly dovish, with updated projections showing the OCR falling to a low of 2.55% by Q1 2026—45 bps lower than current levels and below the 2.85% trough forecast in May. Policymakers highlighted that inflation, while still within the 1%-3% target range, remains elevated in the near term due to rising administered and food prices but is expected to ease toward the 2% target midpoint by mid-2026. Growth forecasts were revised lower, with GDP now expected to grow just 1.6% in 2025, compared to 1.8% previously. Labor market conditions were also noted to be deteriorating, with employment and wage growth slowing and unemployment projected to peak at 5.3% in Q3 2025 before moderating. Governor Christian Hawkesby underscored the existence of substantial spare capacity, noting that the rare cut was required after the economy stalled in the second quarter. Overall, recent economic data from New Zealand certainly align with a dovish RBNZ, in our view. Against this backdrop, we continue to expect an additional 25 bps rate cut in November, bringing the OCR down to 2.75%. However, given both the subdued growth outlook and the RBNZ's acknowledgment that the neutral rate may be lower than previously thought, the balance of risk is tilted toward more easing.

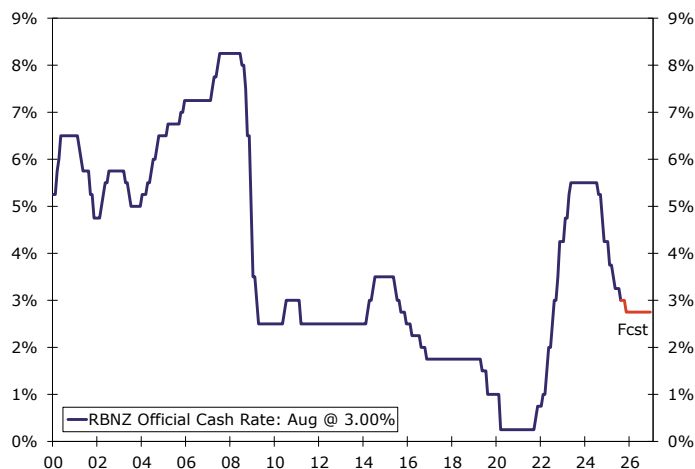
In Sweden, Riksbank policymakers held the policy rate steady at 2.00% this week, in line with consensus expectations, while maintaining a dovish tone on the outlook. Policymakers noted that there is “still some probability of a further interest rate cut this year” and kept the door open to additional easing if economic conditions warrant. The decision reflects persistent economic weakness. Statistics Sweden's Q2 GDP indicator (which is different from the official GDP and provides an early picture development) rose just 0.1% quarter-over-quarter. Business surveys show uneven momentum. Labor market conditions remain subdued with unemployment still elevated. On inflation, CPI ex-energy rose more than expected in June and July, but officials attributed it to seasonal factors. Wage growth remains moderate and underlying inflation is expected to continue easing, though policymakers cautioned that the unexpectedly high summer readings “call for vigilance.” The Riksbank also flagged external risks, citing U.S. economic policy, the war in Ukraine and developments in the Middle East. Together with weak economic data, these factors support a dovish policy stance. While they held rates steady this week, we continue to expect a rate cut in Q3 2025, potentially as early as the next September meeting. The timing will depend on upcoming inflation prints and confirmation of weak growth in Q2.

On the price front in G10 economies, Canada's CPI data for July came in softer than expected. Headline inflation slowed to 1.7% year-over-year, below consensus expectations and down from 1.9%. Average core inflation held at 3.1%, with last month's figure revised down to 3.0%. July's reading marked the weakest pace of inflation since September 2024 and remained comfortably within the BoC's 1%-3% target range. The deceleration was led by a sharp 16.1% year-over-year drop in gasoline prices, driven by the removal of the consumer carbon tax. Excluding gasoline, CPI rose 2.5%, unchanged from May and June, indicating underlying price pressures remain contained. Goods inflation was nearly absent at just 0.3% year-over-year, while services inflation slowed to 2.8%, down from 3.0% the previous month. While July's CPI opens the door to rate cuts in September, we think that the Bank of Canada (BoC) will need confirmation from weak GDP, soft labor market data and another benign inflation report before acting at the Sept. 17 meeting. We continue to expect a more gradual easing path, with a 25 bps cut in October followed by another 25 bps cut at the BoC's first meeting of 2026, bringing the policy rate to a low of 2.25%.

In the U.K., inflation surprised to the upside in July. Headline CPI accelerated to 3.8% year-over-year, above June's 3.6% and consensus expectations for a modest rise to 3.7%. Core inflation also quickened to 3.8%, while services inflation—a key concern for central bank policymakers—climbed to 5.0% from 4.7%. Transport costs were the largest contributor, with airfares seeing their steepest July increase since 2001, likely due to the timing of school holidays. While the July data broadly aligns with the Bank of England's (BoE) latest projections published in the August meeting, they underscore the risk that inflation could remain elevated for longer than policymakers anticipate. The prospect of cutting rates with inflation near 4% is politically and economically challenging. Even small upside surprises could keep policymakers on hold until clearer signs of disinflation emerges. For now, our base case remains for two more 25 bps cuts—one in November and another in February—bringing the policy rate to 3.50% by early next year. Still, persistent inflation or labor market strength could shift the balance

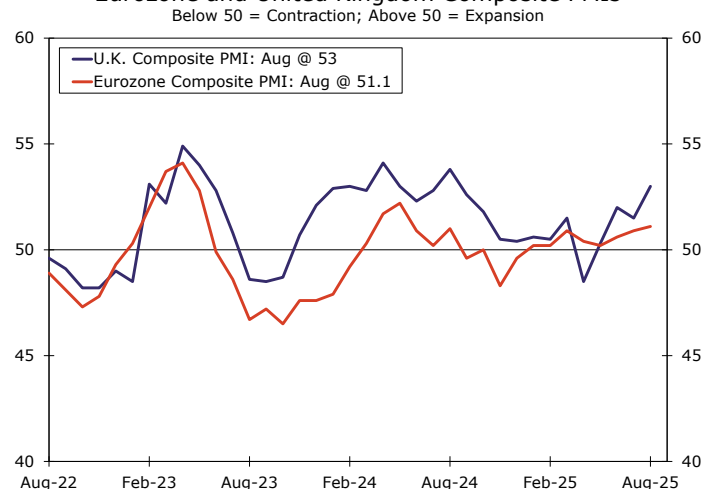
toward a longer pause. Compounding the challenge for the BoE, August's PMIs offered a mixed picture of economic activity. The composite PMIs climbed to 53.0—the fastest pace of growth in a year—with services PMIs leading the upturn, jumping to 53.6 from 51.8. Manufacturing PMIs remained weak, slipping to 47.3. The strength in services suggests inflationary pressures stay elevated for longer. Hawkish policymakers may view the PMI rebound as evidence that the economy is regaining momentum, reducing the urgency for near-term cuts. While recent rate cuts have supported growth, the combination of stronger activity and sticky inflation lowers the odds of further easing this year. The BoE will likely wait for clearer signs of disinflation before moving again.

Reserve Bank of New Zealand Policy Rate



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

Eurozone and United Kingdom Composite PMIs



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

Across the Channel, the Eurozone's August PMIs offered a more constructive picture. The composite PMI rose to 51.1, beating consensus expectations and improving on July's 50.9. Manufacturing returned to expansion territory for the first time in over a year at 50.5, while services edged slightly lower to 50.7 (still remaining above the 50 threshold.) Germany's manufacturing nearly hit expansion at 49.9, though services softened to 50.1. France showed broader improvement across both sectors. The data suggest the Eurozone economy continues to weather global headwinds, helped in part by the recent EU-U.S. trade deal. While confidence remains subdued, the upward trend in PMIs supports our view that the European Central Bank will hold rates steady at 2.00% until December.

Looking north, Norway's Q2 GDP figures showed a firmer recovery than expected. Mainland GDP rose 0.6% quarter-over-quarter, above consensus expectations for a slowdown to 0.3% and marking a notable rebound after a prolonged period of subdued growth. Year-over-year growth stood at a solid 2.0%. The pickup was broad-based. Dwelling investment—typically highly sensitive to interest rates—showed signs of life, while broader fixed investment grew for the first time since mid-2023. Manufacturing, retail trade and fishing and aquaculture provided the biggest boost, though electricity supply was a significant drag. With growth surprising to the upside and inflation still elevated, Norges Bank is likely to stick with its cautious normalization stance. While this raises the risk that a September rate cut could be delayed, we continue to expect a quarterly cadence of rate cuts into the first quarter of 2026.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
29-Aug	Canada GDP (QoQ, Annualized)	Q2	-0.3%	—	2.2%
29-Aug	India GDP (YoY)	Q2	6.6%	—	7.4%

Forecast as of August 22, 2025

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

Canada GDP • Friday

Canada's Q2 GDP figures, due next week, are expected to confirm a slowdown in the economy. After a solid Q1 performance where GDP grew 2.2% quarter-over-quarter annualized, consensus expectations are for a contraction of -0.3%. Preliminary data point to soft domestic demand, a deteriorating trade balance and inventory destocking. Tariffs and trade uncertainty remain a key drag on growth, with exports set to contract in Q2. Still, resilience in the housing market has helped offset some of the weakness, while consumer spending has held up better than expected. That said, retail sales are likely to remain under pressure following a soft second quarter, despite June's upside surprise.

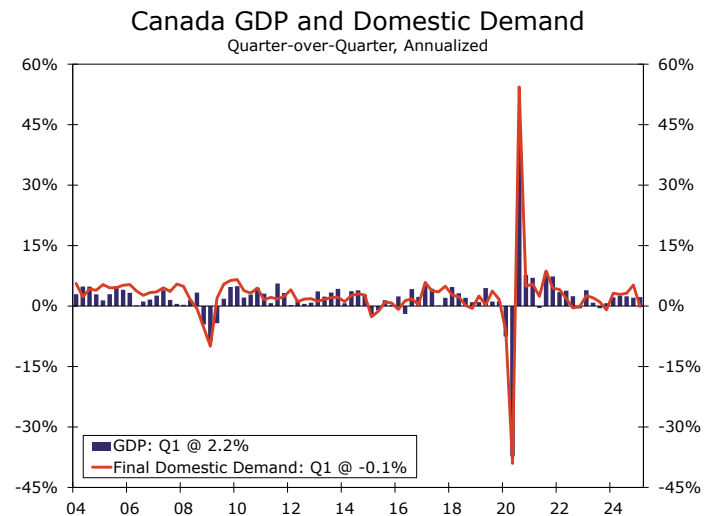
The Bank of Canada (BoC) has already projected subdued growth, with GDP expected to contract by 1.5% quarter-over-quarter annualized and a modest 1.0% pace in Q3 as trade shocks begin to fade. While inflation has moderated, policymakers appear reluctant to rush into further easing, preferring to wait for clearer signs of slowing demand and sustained disinflation—especially given how dovish their current growth projections already are. If Q2 GDP growth comes in even weaker than projected and incoming inflation data continue to soften, a rate cut in September could be on the table. For now, we maintain our view of a gradual easing path, with a 25 bps cut in October followed by another 25 bps cut at the BoC's first meeting of 2026, bringing the policy rate to a low of 2.25%.

India GDP • Friday

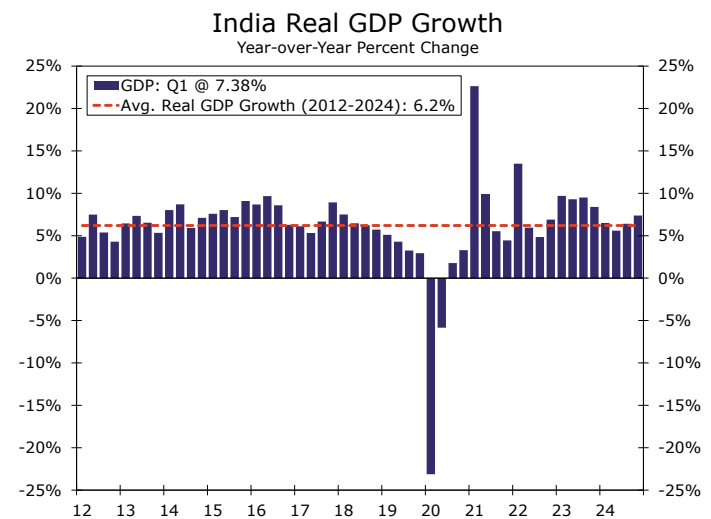
India's Q2 GDP data is due next week and is expected to show a modest slowdown after Q1's upside surprise. GDP firmed to 7.4% year-over-year in Q1, driven by a strong rebound in fixed investment and robust services sector activity even as private consumption softened slightly. For Q2, consensus expectations are for a 6.6% year-over-year growth rate. While a decline in net taxes is expected to contribute to the deceleration, the slowdown also reflects a broader normalization in momentum following Q1's strength.

Even with a slowdown in Q2, indicators still point to underlying strength in India's economy. August PMIs showed services activity surging to a record 65.6, while manufacturing PMIs held near 60 on firm domestic demand. However, recent export growth was flat and external headwinds, including higher U.S. tariffs and ongoing trade frictions, cloud the outlook going forward. The Reserve Bank of India (RBI) projects 6.5% year-over-year growth for 2026. While the RBI recently paused its easing cycle, the decision to hold was likely influenced by the need to limit further rupee weakness, especially amid rising geopolitical tensions. Lingering threats of new U.S. tariffs in response to oil imports from Russia added a layer of complexity to the RBI's policy calculus. Still, one additional rate cut cannot be ruled out if growth slows more sharply than expected. This would be in line with our current forecast for Q3, which would bring the policy rate down to 5.25%.

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Source: Datastream and Wells Fargo Economics



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

Interest Rate Watch

Powell Keeps Options Open for September Rate Cut

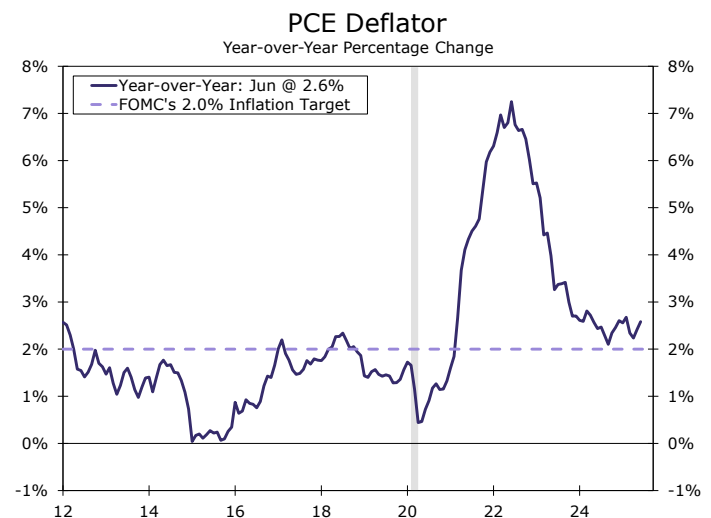
Market participants had their eyes on Jackson Hole, Wyo., this week as monetary policymakers gathered at the Kansas City Fed's annual Economic Policy Symposium. The event has become widely anticipated over the years due to a history of FOMC Chairs using the forum to signal shifts in policy. For example, just last year, Powell foreshadowed the start of a series of rate reductions by declaring that the FOMC does "not seek or welcome further cooling in labor market conditions." The Committee went on to cut the fed funds rate by 50 bps at its next meeting in September after having held the policy rate steady for a full year.

This year's speech was also highly anticipated due to the challenging macroeconomic backdrop. As illustrated by two dissents at the July FOMC meeting, the Committee is divided to an unusual degree as it tries to balance its inflation and employment objectives. Inflation is moving up again and remains closer to 3% than the Committee's 2% target, while the jobs market has shown further signs of softening that could quickly upset its current balance. Amid the tension between its two mandates and another round of data before the Committee's next meeting on September 17, Powell was careful not to pre-commit to a policy change and kept the FOMC's options open. However, he did keep prospects for a September rate cut on the table and reconfirmed the Committee's existing bias for rate cuts later this year (indicated in the June dot-plot) by noting that downside risks to employment are rising and "the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." Markets viewed these comments as more dovish than expected, with the pricing of a 25 bps cut at the September meeting rising from around 70% before Powell spoke to 86% when we went to print.

In addition to offering his take on the near-term policy outlook, Powell revealed changes to the FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy made as a result of its five-year framework review. The last update to the framework was made in August 2020. It reflected the dominant challenges of the prior cycle and early months of the pandemic: below-target inflation, excess labor slack and the constraints of the zero-lower bound. The shock of the pandemic led to a wildly different economic environment, however, with inflation soaring to a four-decade high due in part to an excessively tight jobs market, and concerns about the zero lower bound falling to the wayside.

The changes to the framework announced by Powell reflect the more symmetric risks to the FOMC's inflation and employment objectives since 2020. Specifically, the FOMC retired Flexible Average Inflation Targeting (FAIT) under which it tolerated inflation running "moderately" above 2% after periods of undershoots, but not vice versa. New to the statement is that it is prepared to "act forcefully" to ensure longer-term inflation expectations remain anchored—actions that could be taken to address threats to inflation expectations in either direction. Notably, the Committee's 2% inflation target was not part of framework review and was left unchanged.

The new policy statement also removed the reference to mitigating "shortfalls" from its maximum employment goal. Powell noted that the term was never meant to suggest the Committee would ignore labor market tightness, but rather was meant to communicate that policy may not *need to be* tightened in response to a strong labor market if inflationary pressures are absent. The new statement clarifies this dynamic by tying the maximum employment objective more closely to the inflation objective by noting that it is "the highest level of employment that can be achieved on a sustained basis in the context of price stability." In other words, assessments of how close the FOMC is to achieving maximum employment will be informed by how far inflation is from the FOMC's 2% target.



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

Practically speaking, the FOMC has already been operating under the updated framework and the changes today merely codify this shift. Questions about how much of an overshoot of inflation the Fed would be willing to tolerate were quickly answered in 2022 when the Fed embarked on a series of 75 bps hikes, and Chair Powell acknowledged some "pain" would likely occur to households and businesses in response to tighter policy. Therefore, what could be viewed as a more "hawkish" policy framework than what was previously published does not alter the near-term course of policy, in our view. We continue to look for the FOMC to reduce the fed funds rate by 25 bps at its September, October and December meetings, with no further adjustments in 2026. That said, the more symmetric approach to risks around the Committee's inflation and employment objectives could lead to more preemptive tightening in the next bout of inflation than what occurred in this most recent cycle.

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Credit Market Insights

Hope Meets Headwinds

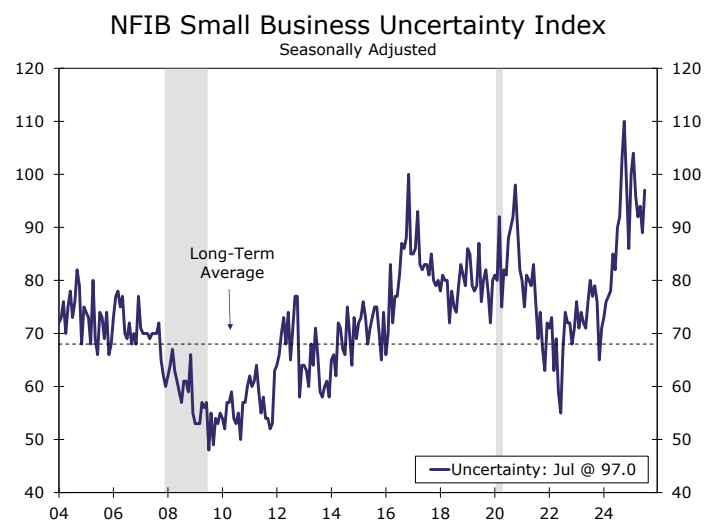
Despite recent economic headwinds, small business sentiment showed modest improvement last month. The [NFIB Small Business Optimism Index](#) ticked up by 1.7 points to 100.3 in July, rising above the historical average of 98. The economic outlook index, which measures the share of firms expecting the economy to improve, jumped 14 percentage points to 36% in July, a shift likely driven by the passage of the One Big Beautiful Bill Act (OBBBA). While confidence may be elevated, economic uncertainty continues to cloud over small business sentiment. The uncertainty index, which measures the sum of respondents who answer "don't know" or "uncertain" to a selection of questions in the survey, surged to 97 in July from 89 in June. While small businesses are generally optimistic, the eight-point jump in uncertainty is notable: Policy volatility is weighing on the outlook.

In a different survey by the [Kansas City Fed](#), small businesses report that obtaining new forms of credit remain difficult. In the first quarter, business owners reported tighter credit standards for the 14th consecutive quarter. With stricter lending standards and tariff-related uncertainty, the NFIB's gauge of recent loan availability has been on a downward trend since March and fell one percentage point to a net share of -4% in July, suggesting more business owners are finding it difficult to access credit than those who find it easier. The deterioration is consistent with the net share of firms expecting easier credit conditions moving sideways at -4% for three consecutive months.

Eroding credit quality has underpinned the pullback in loan availability. The Kansas Fed's overall small business credit quality index slid to a net share of -9%, marking the 12th consecutive quarter of decline. With access to new loans curtailed, small firms are tapping their credit lines for support. In the first quarter, banks reported an increase of a net 12% in credit line usage for the sixth consecutive quarter. Owners are increasingly showing a higher dependence on credit lines to operate their businesses.

While optimism persists among small business owners, a restrictive borrowing and monetary policy backdrop leave a cloudy road ahead. However, some modest relief may be on the horizon. As the Fed continues to balance between inflationary pressures and a cooling labor market, we forecast the FOMC will resume its easing cycle at the September meeting with a 25 bps cut, followed by two more 25 bps cuts at the October and December meetings, respectively. Until then, elevated uncertainty and tight credit standards are likely to weigh on small business owners.

[\(Return to Summary\)](#)



Source: NFIB and Wells Fargo Economics

Topic of the Week

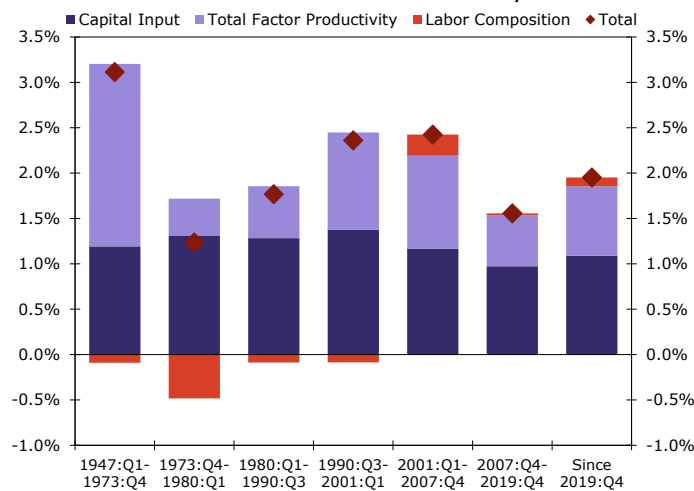
The Forces Behind Stronger Productivity Growth

Productivity growth has emerged as a critical determinant of the U.S. economy's trajectory, particularly as labor force growth slows under the weight of population aging and stricter immigration policy. Rising productivity not only supports higher potential output, but also enables firms to absorb costs, reinvest in the business and drive real per capita income growth. Recent data show that productivity growth has firmed this cycle, averaging 1.8% annually since the end of 2019 compared to 1.5% in the prior cycle, edging closer to its historical average of 2.1%.

Labor productivity, measured as output per hour worked, derives from three sources: labor composition, capital input and total factor productivity (TFP). Labor composition, reflecting worker's skills and experience, has offered only marginal contributions, with temporary boosts during downturns which are often unwound as sidelined workers re-enter the labor market. Capital deepening, by contrast, has been a consistent contributor, adding roughly 1.08 percentage points to productivity growth since 2019, similar to the previous cycle. Investment, however, has shifted in character: Firms now allocate more toward software, research & development and data infrastructure, reflecting advances in automation, artificial intelligence and federally supported "high-tech" reshoring.

The distinguishing factor this cycle has been stronger TFP growth, averaging 0.7% annually versus 0.5% in the prior cycle. Though inherently difficult to measure, several drivers are evident. Remote work has reshaped productivity dynamics, though its net effect remains contested. More clearly, elevated job switching and labor market churn post-pandemic improved job matches and invigorated innovation, while a surge in business formation has enhanced dynamism.

Business Sector Labor Productivity Growth

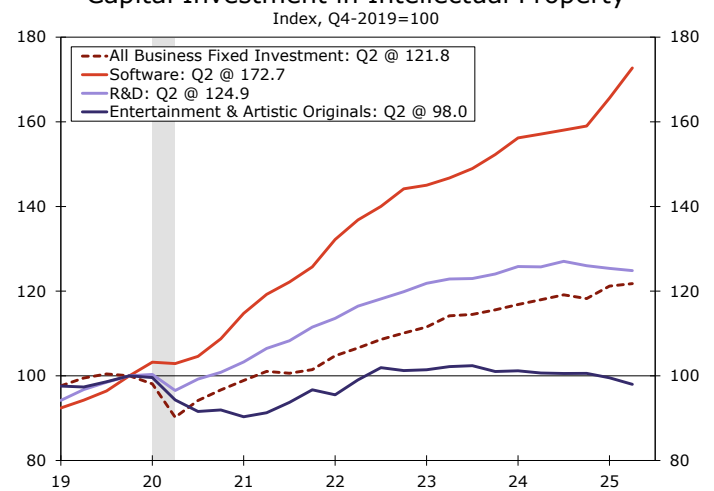


Source: Federal Reserve Bank of San Francisco and Wells Fargo Economics

Looking ahead, generative AI stands as the most promising catalyst for further productivity gains. Investment in software and R&D has accelerated amid experimentation with AI applications. While adoption remains limited—with only about 9% of firms reporting using AI in production—the low barriers to entry suggest diffusion may be faster than previous technological waves. The eventual integration of AI into workplace processes should not only deepen capital but also enhance efficiency, fueling long-term TFP growth.

Yet, headwinds soften the near-term outlook. Heightened trade policy uncertainty has disrupted production flows and delayed investment, while slower sales growth threatens small business survival and broader entrepreneurship. Meanwhile, reduced immigration, especially of high-skilled workers, could dampen innovation and limit knowledge spillovers. Higher tariffs may further weaken incentives for firms to pursue efficiency gains, even as growth in high-productivity sectors such as manufacturing provides a partial offset. We project a firmer pace of productivity, closer to the historical 2.1% trend, given gradual AI adoption and sustained capital investment. For more, please read our recent [special report](#) on productivity growth. ([Return to Summary](#))

Capital Investment in Intellectual Property



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

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 8/22/2025	1 Week Ago	1 Year Ago
SOFR	4.32	4.34	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.19	4.21	5.16
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.68	3.75	4.00
5-Year Treasury	3.75	3.84	3.72
10-Year Treasury	4.25	4.32	3.85
30-Year Treasury	4.87	4.92	4.13
Bond Buyer Index	5.25	5.21	3.88

Foreign Exchange Rates

	Friday 8/22/2025	1 Week Ago	1 Year Ago
Euro (\$/€)	1.172	1.170	1.111
British Pound (\$/£)	1.354	1.355	1.309
British Pound (£/€)	0.866	0.864	0.849
Japanese Yen (¥/\$)	146.680	147.190	146.290
Canadian Dollar (C\$/ \$)	1.383	1.382	1.362
Swiss Franc (CHF/\$)	0.801	0.807	0.852
Australian Dollar (US\$/A\$)	0.649	0.651	0.671
Mexican Peso (MXN/\$)	18.594	18.760	19.524
Chinese Yuan (CNY/\$)	7.164	7.185	7.147
Indian Rupee (INR/\$)	87.528	87.565	83.951
Brazilian Real (BRL/\$)	5.419	5.401	5.584
U.S. Dollar Index	97.630	97.852	101.508

Foreign Interest Rates

	Friday 8/22/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.60	1.78	3.22
3-Month U.K. Govt Bill Yield	4.10	4.05	5.01
3-Month Canadian Govt Bill Yield	2.65	2.65	4.22
3-Month Japanese Govt Bill Yield	0.44	0.44	0.12
2-Year German Note Yield	1.95	1.97	2.40
2-Year U.K. Note Yield	3.94	3.93	3.72
2-Year Canadian Note Yield	2.68	2.72	3.30
2-Year Japanese Note Yield	0.87	0.83	0.36
10-Year German Bond Yield	2.72	2.79	2.24
10-Year U.K. Bond Yield	4.69	4.70	3.96
10-Year Canadian Bond Yield	3.42	3.45	3.07
10-Year Japanese Bond Yield	1.63	1.57	0.88

Commodity Prices

	Friday 8/22/2025	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	63.53	62.80	73.01
Brent Crude (\$/Barrel)	67.62	65.85	77.22
Gold (\$/Ounce)	3376.92	3336.19	2484.75
Hot-Rolled Steel (\$/S.Ton)	832.00	832.00	672.00
Copper (\$/Pound)	447.45	449.25	414.80
Soybeans (\$/Bushel)	10.48	10.39	10.00
Natural Gas (\$/MMBTU)	2.73	2.92	2.05
Nickel (\$/Metric Ton)	14,742	14,820	16,666
CRB Spot Inds.	570.02	571.61	548.39

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

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