

Weekly — September 19, 2025

## Weekly Economic & Financial Commentary

### United States: The Balance of Risks Has Shifted

- The steadiness in consumer spending has helped prevent widespread layoffs, but rising tariff-related costs have limited firms' ability to expand payrolls or undertake major capital investments. These crosscurrents have curtailed job creation and kept inflation elevated. The FOMC responded this week by cutting its policy rate 25 bps, signaling that a deteriorating jobs market has overshadowed concerns about stubborn inflation.
- [Next week](#): New Home Sales (Tue.), Durable Goods (Thu.), Personal Income and Spending (Fri.)

### International: Central Bank Bonanza: Cuts, Holds and Surprises

- Central banks were in the spotlight this week—not only the Federal Reserve, but also counterparts across advanced and emerging markets. Rate cuts came from central banks in Canada, Norway and Indonesia, while the U.K., Japan and Brazil held rates steady—and there were plenty of surprises along the way.
- [Next week](#): Eurozone PMIs (Tue.), Riksbank Policy Rate (Tue.), Banxico Policy Rate (Thu.)

### Interest Rate Watch: A "Risk Management" Cut

- The FOMC cut the fed funds rate by 25 bps to 4.00%-4.25%, citing rising risks to employment despite persistent inflation, with most members signaling further easing ahead. Chair Powell emphasized a cautious, data-dependent approach, suggesting additional rate reductions are still likely but not guaranteed.

### Credit Market Insights: Cautious Households Moderate Credit Card Spending

- Credit card spending growth has moderated as households faced scant income gains in 2024, with most increases concentrated among top earners. Lower credit uptake, combined with reduced discretionary outlays and rising delinquencies, reflects mounting financial pressure on consumers.

### Topic of the Week: From Bipolar to Tripolar?

- We explore how global trade fragmentation could evolve beyond a U.S.-China split into a three-bloc system including the EU. Such a tripolar world would impose far greater costs on global growth.

Wells Fargo U.S. Economic Forecast												
	Actual				Forecast				Actual	Forecast		
	2025				2026				2024	2025	2026	2027
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product (a)	-0.5	3.3	2.0	0.7	1.4	2.9	2.8	2.4	2.8	1.8	2.0	2.3
Personal Consumption	0.5	1.6	1.5	0.5	2.0	2.7	2.4	2.2	2.8	2.0	1.8	2.2
Consumer Price Index (b)	2.7	2.5	2.8	2.8	2.7	3.0	2.9	2.7	3.0	2.7	2.8	2.4
"Core" Consumer Price Index	3.1	2.8	3.0	3.0	2.9	3.1	2.9	2.8	3.4	3.0	2.9	2.5
Quarter-End Interest Rates (c)												
Federal Funds Target Rate (d)	4.50	4.50	4.25	3.75	3.50	3.25	3.25	3.25	5.27	4.25	3.31	3.25
Conventional Mortgage Rate	6.65	6.82	6.40	6.30	6.20	6.20	6.25	6.25	6.72	6.54	6.23	6.30
10 Year Note	4.23	4.24	4.05	4.00	3.95	4.00	4.10	4.15	4.21	4.13	4.05	4.20

Forecast as of: September 10, 2025

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter  
(c) Quarterly Data - Period End; Annual Data - Annual Averages(b) Year-over-Year Percentage Change  
(d) 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

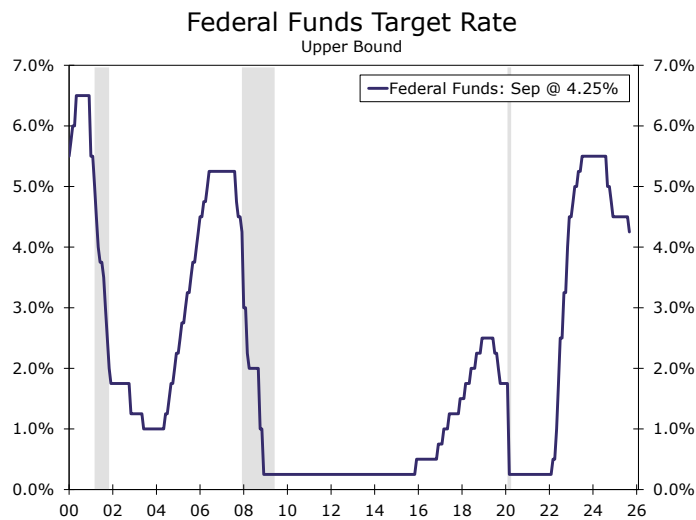
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## U.S. Review

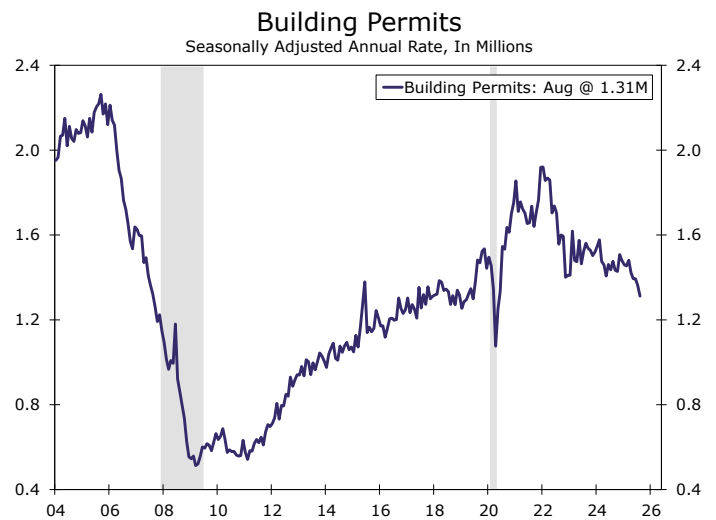
### The Balance of Risks Has Shifted

The U.S. economy continued to show signs of a "curious" balance this week. Retail sales came in stronger than expected, signaling that consumer demand remains resilient. At the same time, cyclically sensitive sectors, such as industrial production and residential construction, remain in the doldrums. The steadiness in consumer spending has helped prevent widespread layoffs, but rising tariff-related costs have limited firms' ability to expand payrolls or undertake major capital expenditures. These crosscurrents have curtailed job creation and kept inflation elevated, leaving the labor market vulnerable and price growth above the FOMC's target.

As discussed in [Interest Rate Watch](#), the FOMC responded to these opposing forces by lowering the target range of the federal funds rate 25 bps to 4.00%-4.25% on Wednesday ([chart](#)). The move marks the first policy rate adjustment since December 2024 and suggests that the recent deterioration in the jobs market has overshadowed the Committee's concerns about stubborn inflation. The Summary of Economic Projections continued to imply the FOMC has an easing bias, evident in the median projection for the fed funds rate falling to 3.625% for year-end, down from 3.875% in June, implying two more rate cuts before the year is out.



Source: Federal Reserve Board and Wells Fargo Economics



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

Further easing in monetary policy should help rekindle labor demand. Today's "no hire, no fire" labor market has weighed on household confidence and underpinned a more cautious pattern in consumer spending over the first half of the year. Yet, with layoffs remaining at bay, aggregate income growth remains supportive of spending. Retail sales rose a stronger-than-expected 0.6% in August. Some of the increase can be attributed to rising prices, as sales are reported nominally. But even when adjusting for inflation, sales volume edged higher with the support of solid e-commerce and auto spending.

The firmness in vehicle demand partially reflects a rush to cash in on federal tax credits for electric vehicles that will expire at the end of this month. Tariff front-running is still likely at play as well, as dealers typically turn their inventory to newer models in the fall. In preparation for that turn, domestic auto manufacturing has increased for nine months straight and helped prop up overall industrial production in August. That said, growth in the factory sector is being driven by only a handful of industries—chiefly, motor vehicles & parts, computers & electronics, chemicals and aerospace. Elevated interest rates, rising input costs and tariff uncertainty are likely to keep manufacturing activity muted and mostly dedicated to high-tech areas.

A similar dynamic has weighed on residential construction. Housing starts fell 8.5% in August, driven by declines in both single-family and multifamily starts. The downdraft in single-family starts reflects elevated inventories and weak demand, while the slide in multifamily starts coincided with a drop in units under construction to the lowest level since August 2021. Housing permits, a leading indicator of starts, fell for the fifth consecutive month in August, down 3.7% to an annualized pace of 1.3 million

units ([chart](#)). The softness in both permits and starts suggests residential construction is likely to trail even lower in the months ahead.

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## U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
24-Sep	New Home Sales	Aug	650K	648K	652K
25-Sep	GDP Annualized (QoQ)	Q2	3.3%	3.5%	3.3%
25-Sep	Personal Consumption (QoQ)	Q2	1.7%	2.0%	1.6%
25-Sep	Durable Goods Orders	Aug	-0.5%	0.6%	-2.8%
25-Sep	Durables Ex Transportation	Aug	-0.2%	-0.2%	1.0%
25-Sep	Existing Home Sales	Aug	3.97M	3.95M	4.01M
26-Sep	Personal Income	Aug	0.3%	0.3%	0.4%
26-Sep	Personal Spending	Aug	0.5%	0.5%	0.5%
26-Sep	PCE Price Index (MoM)	Aug	0.3%	0.3%	0.2%
26-Sep	PCE Price Index (YoY)	Aug	2.7%	2.7%	2.6%
26-Sep	Core PCE Price Index (MoM)	Aug	0.2%	0.2%	0.3%
26-Sep	Core PCE Price Index (YoY)	Aug	2.9%	2.9%	2.9%

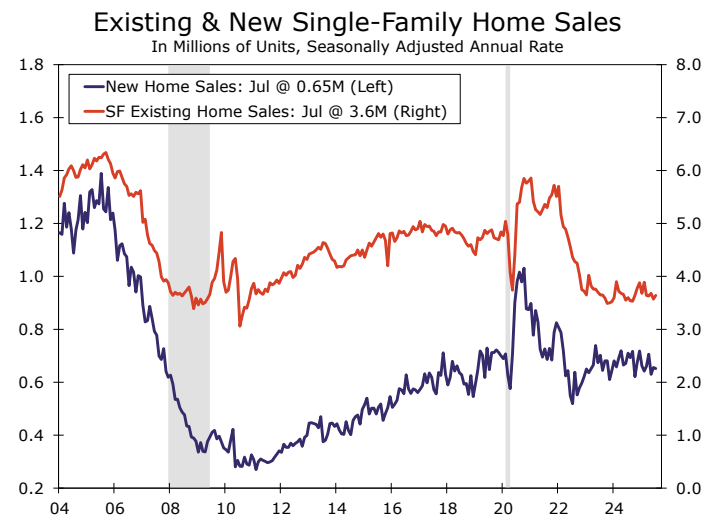
Forecast as of September 19, 2025

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

### New & Existing Home Sales • Tuesday & Wednesday

The housing market is essentially frozen. Home sales are stuck at a very low level, set back by weak buyer demand amid high mortgage rates and a softening labor market. Existing home sales perked up slightly in July (+2.0%) but have essentially moved sideways through the noise, up only 0.8% year-over-year. New home sales descended 0.6% in July, marking a more substantial 8.2% year-over-year downturn. New home builders had previously been able to offset poor affordability conditions with incentives like price cuts and mortgage rate buy-downs, but these incentives seem to be losing effectiveness.

Mortgage rates are currently sitting at an 11-month low (6.26%), according to Freddie Mac. However, this reduction is unlikely to make a meaningful mark on home sales in August. Existing home sales count deal closings based on mortgage rates set in the months immediately prior. The average 30-year mortgage rate in June and July was still bounded between 6.7%-6.8%. New home sales are a bit different, measured at the time of contract signings. While new home buyers may have been able to secure a somewhat more favorable mortgage rate in August, rates were still elevated at 6.6% on average and rising unemployment was likely an offsetting headwind. We forecast that new home sales slipped by 0.6% in August to an annualized rate of 648K. We similarly expect existing home sales fell by 1.5% to an annualized pace of 3.95 million.



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

### Durable Goods • Thursday

The domestic manufacturing sector remains under pressure. Durables demand has perked up a bit and manufacturing production is up this year, but growth is concentrated in only a few industries and purchasing manager sentiment is down. Continued uncertainty around the policy environment is keeping many in a holding pattern when it comes to new capital initiatives. The lone bright spot has really been in areas that support a high-tech future, like software and computers, where the payoffs are thought to be longer-lasting and perhaps less influenced by near-term policy shifts. We expect overall new orders for durables advanced 0.6% in August, though a good portion of that growth is likely due to transportation equipment specifically. Separately released data from Boeing suggests a decent pace of aircraft orders last month, and after two months of decline, we expect a rebound in nondefense aircraft, while auto orders may have moved higher last month as well. Excluding transportation, we expect new durable goods orders slipped 0.2% last month.

We'll be watching the shipments data for the latest read on how equipment investment is shaping up in the third quarter. We are bracing for a bit of payback in the underlying nondefense capital goods shipments component after a 3.3% pop in July, which was partially aircraft induced. Core nondefense capital goods shipments (*excluding aircraft*) have been a bit more stable and we expect further growth there to remain supportive of a decent outturn for Q3 real equipment investment spending.

### Personal Income & Spending • Friday

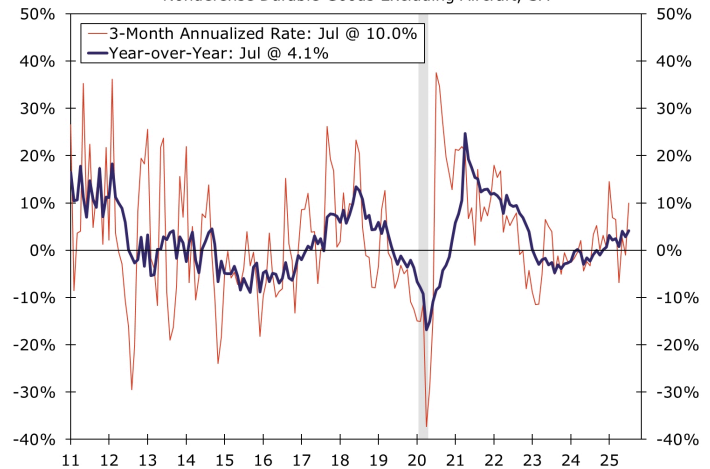
Consumer spending has been volatile but resilient thus far this year. Inflation-adjusted spending advanced 0.3% in July and the 1.6% annualized rate of growth registered for the second quarter looks to be revised up on stronger services-spending revenue when we get the third estimate of real GDP growth on Thursday. We expect real personal spending advanced another 0.2% in August. Retail sales were up more-than-expected during the month, in part lifted by an upside surprise in auto sales, which may be short-lived to the extent it is being propped up by a pull-forward in electric vehicle sales ahead of the expiration of tax credits in September. But sales at nonstore retailers were the main bright spot, signaling resilience and perhaps consumers hunt for value today.

Households are facing their fair share of challenges from higher realized prices for many necessities, fears of future price gains stemming from tariffs and a jobs market that's growing tighter and tighter. Income growth has slowed and is running below its pre-pandemic pace on a year-ago basis, but remains supportive of underlying spending. We project income growth rose 0.3% in nominal terms, or was flat when adjusted for inflation last month. While households means and willingness to spend is being called into question, we expect households to keep spending. Headwinds suggest a slowing pace of consumption through year-end, but more favorable tax policy should provide some offset as the calendar flips to 2026.

In terms of inflation, we aren't expecting many surprises from the PCE deflator, or the Fed's preferred measure of consumer prices. Previously released Consumer Price Index and Producer Price Index data for August suggest the PCE deflator will rise 0.3% and the core

### Core Capital Goods Orders

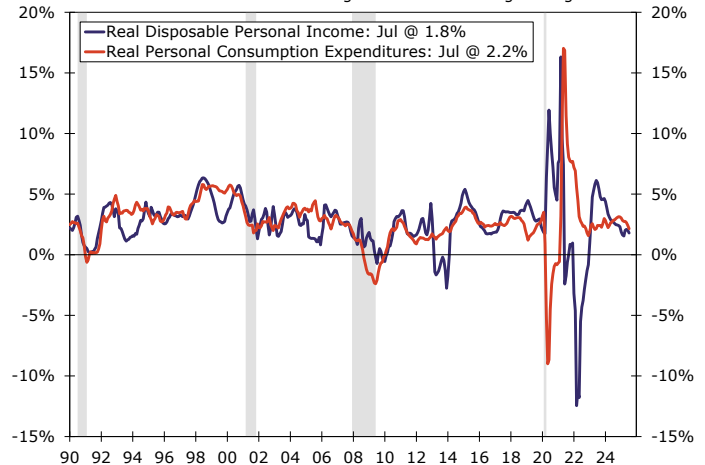
Nondefense Durable Goods Excluding Aircraft, SA



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

### Income vs. Spending

Year-over-Year Percent Change of 3-Month Moving Average



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

measure will rise a more modest 0.2%, keeping the annual rate on core inflation at an elevated 2.9%.

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## International Review

### Central Bank Bonanza: Cuts, Holds and Surprises

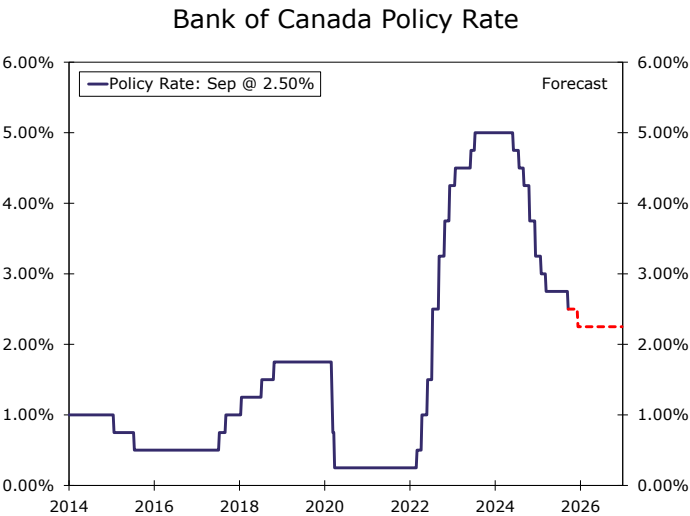
Central banks were in the spotlight this week—not just the Federal Reserve, but foreign central banks across both advanced and emerging economies. To start, the Bank of Canada (BoC) resumed its monetary easing at this week's announcement, lowering its policy rate by 25 bps to 2.50%. The rate cut was widely expected by market participants, although we had leaned toward the BoC extending its monetary policy pause until October. In deciding to lower interest rates, BoC policymakers noted both softening growth and diminishing upside inflation risks. In contrast to the July announcement, the BoC did not offer an explicit signal of a possible further reduction in interest rates. For now, we lean against the central bank delivering back-to-back rate cuts with another move at its October announcement and expect the next 25 bps rate cut to come at the BoC December announcement, which would take the BoC's policy rate to a cycle low of 2.25%. Norway's central bank, Norges Bank, also met this week and delivered a 25 bps rate cut, lowering its key deposit rate to 4.00%, in line with consensus expectations. What surprised markets, however, was the hawkish tone in its monetary policy report and press release. The bank stated that "a somewhat higher policy rate will likely be needed ahead compared with the outlook in June," and Governor Ida Wolden Bache emphasized that the central bank "will probably not reduce the policy rate ahead as quickly as envisaged before summer." While Norges Bank resumed easing, it maintained a cautious normalization stance, signaling a slower pace of cuts—roughly one per year over the next three years, rather than a quarterly cadence. With Q2 GDP surprising to the upside and inflation still above target, we view the cautious stance as appropriate. Our baseline had been for another cut in Q4-2025, but we now expect that move to be delayed into 2026, with the policy rate likely to remain steady at 4.00% through year-end.

However, not all central banks opted to lower interest rates this week. The Bank of England (BoE) held its policy rate steady at 4.00%, signaling a cautious approach to future adjustments. Policymakers continued to emphasize changes would be "gradual and careful," contingent on the extent to which underlying disinflationary pressures continue to ease. Policymakers voted 7-2 to keep rates unchanged, with two members favoring a 25 bps cut. August inflation data, released this week, showed some moderation in underlying price pressures, though headline inflation remains elevated and is expected by BoE to edge up in September. Meanwhile, average weekly earnings excluding bonuses decelerated to 4.8% year-over-year. Given this backdrop, and in combination with subdued GDP growth, we maintain our outlook for one more 25 bps rate cut in November. However, risks are tilted toward a delay into next year as policymakers await further clarity on the trajectory of wages, inflation and broader economic activity.

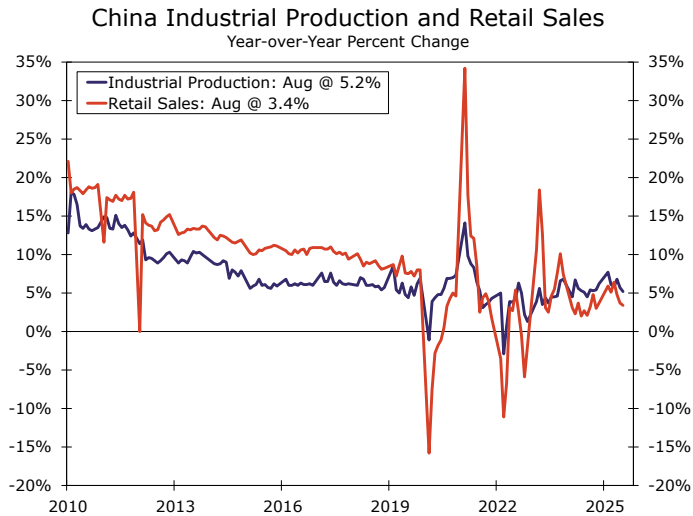
While the Bank of Japan (BoJ) held rates steady at this week's announcement, its accompanying actions and activities have arguably put a near-term rate hike back on the table. First, there was a 7-2 vote to hold rates steady, with two policymakers actually voting for a rate hike at this week's meeting. Second, in what was at least a symbolically important step, the central bank announced plans for sales of its equity ETFs and Real Estate Investment Trusts. Governor Ueda said the U.S.-Japan trade agreement had reduced uncertainty, while still acknowledging that some tariff-related downside risk remains. Ueda also said that he believed underlying inflation was covering toward 2% and would be consistent with the price stability target over the second half of its forecast target. Ueda repeated that as long as the BoJ's outlook is realized, the central bank intends to raise rates further. Even with political uncertainties, the BoJ appears inclined to raise rates further. In terms of upcoming data, as long as the Q3 Tankan survey remains upbeat, wages reasonably firm and inflation reasonably elevated, there is a good chance that the BoJ could raise rates as early as its October meeting.

In emerging markets, the Brazilian Central Bank (BCB) unanimously voted to keep its benchmark Selic rate unchanged at 15.00% for the second consecutive meeting, in line with consensus expectations. The central bank's hawkish guidance remained intact, emphasizing its readiness to resume the rate hike cycle if deemed necessary though with subdued GDP growth, that is unlikely. With inflation remaining above the central bank's target range and high-frequency economic activity indicators pointing to continued moderation for GDP growth in Q3-2025, we expect the BCB to hold rates steady through 2025—with the first rate cut to occur in Q1-2026. Finally, in Asia, Bank Indonesia (BI) surprised financial markets for the third consecutive meeting by lowering its benchmark interest rate

by 25 bps to 5.00%. The accompanying statement and press conference indicated that BI intends to continue easing this year, provided that inflation remains subdued and the exchange rate is stable.



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



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

In a week jam-packed with central bank announcements, the most notable batch of data was the latest round of economic figures from China, where August activity figures disappointed across the board. Retail sales grew 3.4% year-over-year, marking the third consecutive month of slower-than-expected growth. Looking into the details, the most significant decelerations were seen in household appliances & audio-visuals (AV) and communications equipment—all categories covered by the trade-in-subsidy programs. Industrial production rose 5.2% year-over-year, slowing for the second straight month. While sectors driving industrial production growth—such as transport, communications and electric machinery—remain in expansion, their pace of growth has slowed considerably. Adding to signs of weakness, August fixed asset investment grew only 0.5% year-to-date, its lowest non-pandemic reading on record. We continue to expect Chinese GDP growth to slow to 4.8% in 2025, followed by further moderation to 4.5% in 2026. However, with policy support continuing to come only in the form of short-term stimulus, risks to our baseline outlook remain skewed to the downside.

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International Outlook

Weekly International Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
23-Sep	Eurozone Manufacturing PMI	Sep	50.8	—	50.7
23-Sep	Eurozone Services PMI	Sep	50.5	—	50.5
23-Sep	Riksbank Policy Rate	23-Sep	2.00%	1.75%	2.00%
25-Sep	Banxico Policy Rate	25-Sep	7.50%	7.50%	7.75%

Forecast as of September 19, 2025

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

### Eurozone PMIs • Tuesday

Next week's Eurozone PMIs will offer timely insight into the region's economic momentum as the third quarter draws to a close. In August, the Eurozone composite PMI rose to 51.0, with manufacturing PMIs returning to expansion territory at 50.7, while services PMIs edged slightly lower to 50.5. For September, consensus expectations point for a modest uptick in manufacturing PMIs to 50.8 and for services PMIs to hold steady at 50.5. Recent economic activity data provides some context for the upcoming sentiment surveys. Industrial production has been volatile but overall remained resilient, rising 1.8% year-over-year in July, while retail sales slowed to 2.2%, broadly aligning with the mixed signals reflected in the PMI data. Political uncertainty in France—where services PMIs were the only ones to rise last month—adds another layer of complexity, especially as tensions could influence sentiment readings this month. While the EU-U.S. trade deal has likely helped sentiment in recent months, we nonetheless remain cognizant of any lingering tariff-related concerns.

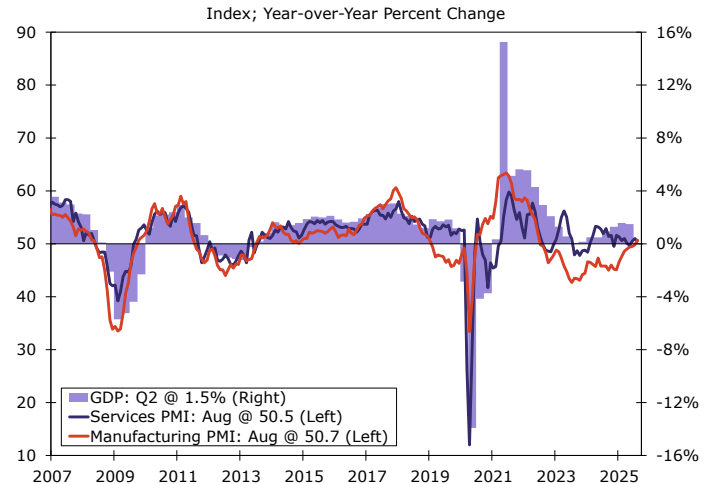
At its latest meeting, the European Central Bank (ECB) held its Deposit Rate steady at 2.00%, marking the second consecutive pause in its policy cycle. If incoming data continue to show subdued momentum, we believe the ECB could still move forward with one final rate cut, bringing the Deposit Rate down to 1.75%.

### Riksbank Policy Rate • Tuesday

Next week, Sweden's central bank, the Riksbank, will deliver its latest monetary policy decision. We expect the central bank to cut its policy rate by 25 bps to 1.75%, while consensus expectations lean toward holding rates steady. At its August meeting, the Riksbank decided to leave the policy rate unchanged while maintaining a dovish tone on the outlook. Policymakers noted there was "still some probability of a further interest rate cut this year," leaving the door open to additional action should economic conditions warrant it. Since then, incoming data have been mixed but, in our view, broadly supportive of a rate cut. Sweden's economy expanded in the second quarter of 2025, with GDP rising 0.5% quarter-over-quarter and 1.4% year-over-year. Inflation data for August showed tentative signs of moderating price pressures. While headline CPIF inflation came in slightly above expectations, CPIF ex-energy slowed more than forecast to 2.9% year-over-year, reflecting a deceleration in temporary price pressures that the Riksbank has been particularly concerned about. Labor market data released this week showed the unemployment rate holding steady at 8.8% in August, slightly above expectations. However, sentiment surveys have pointed to a gradual improvement in business and consumer confidence.

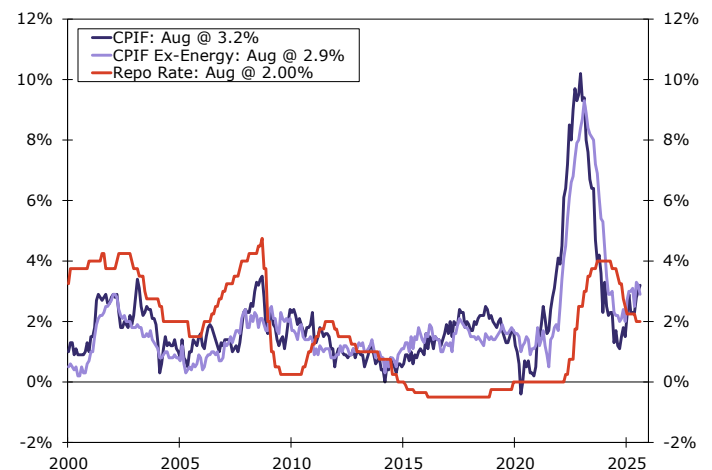
In our view, the recent mix of data releases since the last meeting combined with the central bank's previous dovish guidance give us enough reason to expect the Riksbank to cut its policy rate by 25 bps to 1.75% at its monetary policy meeting next week.

### Eurozone PMI Indices vs. GDP Growth



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

### Swedish Policy Rate vs. Inflation



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

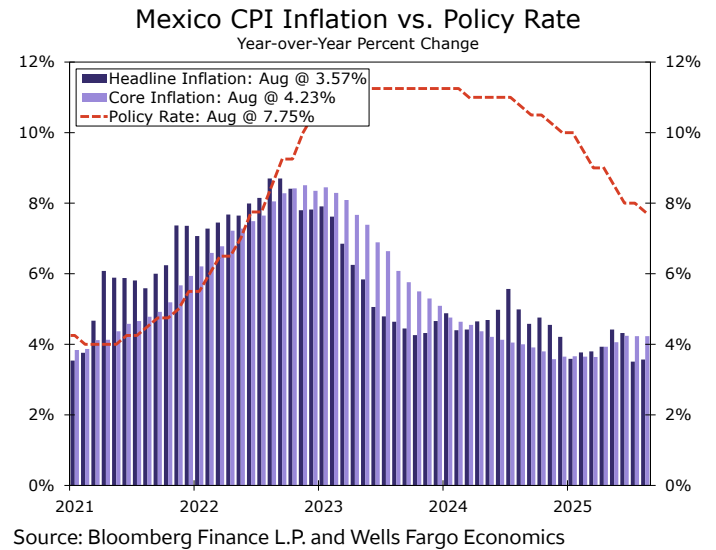
### Banxico Policy Rate • Thursday

Next week, Mexico's central bank, Banxico, will deliver its latest monetary policy decision. At its most recent meeting in August, the central bank cut its policy rate by 25 bps to 7.75%, while offering limited forward guidance. One board member opposed further easing, citing persistently high core inflation as a key concern. Despite that caution, we expect the central bank to cut rates by 25 bps next week, bringing its Overnight Rate down to 7.50%.

August inflation data showed headline inflation ticking up slightly to 3.57% year-over-year, ending a three-month streak of slowing down. Core inflation remained steady at 4.23%—still elevated and above the central bank's 2%-4% target range. With core inflation proving sticky, economic activity holding up and the interest rate differential with the Fed having narrowed over the past several months, we believe Banxico is nearing the end of its easing cycle.

That said, we still forecast a 25 bps cut in September, which could mark the final move in the current cycle.

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## Interest Rate Watch

### A "Risk Management" Cut

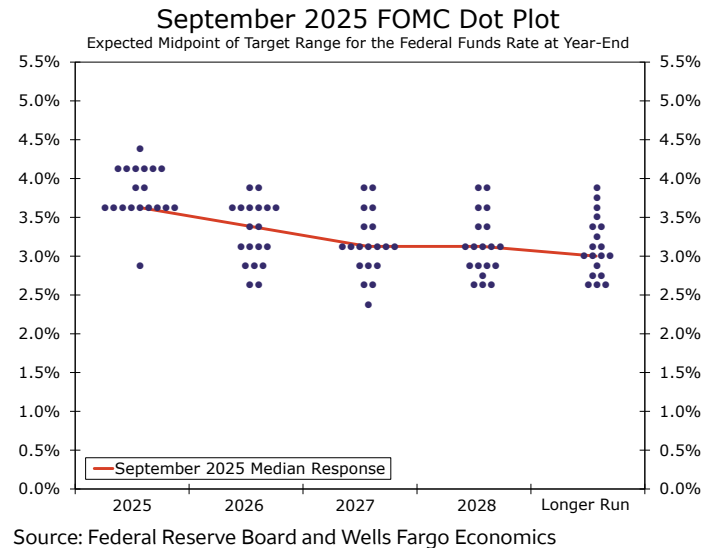
The FOMC delivered a widely anticipated 25 bps rate cut at its September meeting, lowering the fed funds target range to 4.00%-4.25%. This marked the first policy rate adjustment since December and reflected a shift in the Committee's assessment of risks between its dual mandates. While inflation remains elevated—core PCE is still running about a percentage point above target—the deterioration in labor market conditions took precedence. The Committee acknowledged the slowdown in job growth and the rise in unemployment, noting that “downside risks to employment have risen.” The decision to ease was accompanied by a reaffirmation of the ongoing pace of balance sheet runoff.

The vote was not unanimous, but it revealed a more unified Committee than expected. Newly confirmed Governor Stephan Miran dissented, favoring a 50 bps cut, while Governors Waller and Bowman, who dissented in July, voted with the majority. No participants dissented in a more hawkish direction. The Summary of Economic Projections (SEP) showed a dovish tilt, with the median fed funds rate forecast for year-end revised down to 3.625%, implying two more 25 bps cuts this year. The 2026 median projection edged down to 3.375%, though dispersion among participants suggests further downside risk. The longer-run neutral rate held steady at 3.0%, reinforcing the view that policy remains restrictive today.

The Committee's economic outlook improved modestly from June, with upward revisions to GDP growth in 2025 and 2026 and a slightly lower unemployment projection for 2026. However, inflation forecasts for 2026 rose by 0.2 percentage points, reflecting the lingering impact of tariffs, stronger growth expectations and anticipated fiscal and monetary stimulus. Notably, the median participant does not expect inflation to return to the 2.0% target until 2028.

Chair Powell's post-meeting press conference struck a mildly hawkish tone, in our view. He emphasized that the Committee is not yet ready to move policy all the way to neutral and framed the rate cut as a “risk management” move. He reiterated that the near-term policy path remains a “meeting-by-meeting situation,” signaling that while further easing is likely, it is not guaranteed. We expect the FOMC to prioritize employment and deliver two more 25 bps cuts this year, followed by two additional cuts in early 2026. This would bring the terminal fed funds rate to 3.00%-3.25%, with a long hold thereafter.

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## Credit Market Insights

### Cautious Households Moderate Credit Card Spending

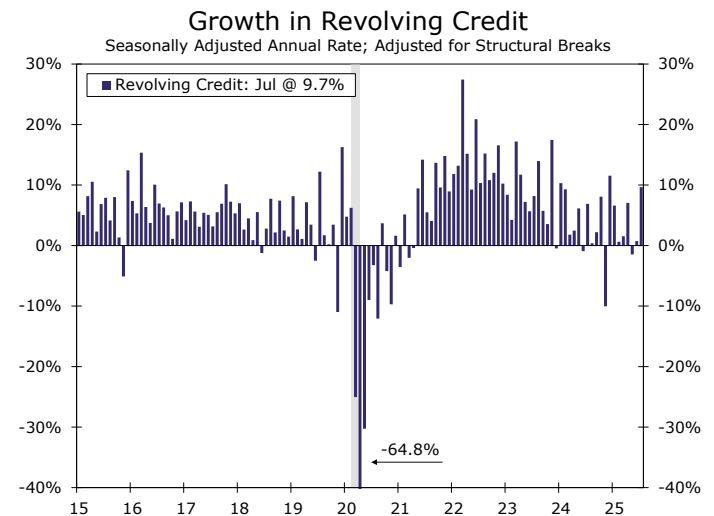
U.S. consumer credit outstanding increased \$16.3 billion in June and now totals over \$5 trillion, which is equivalent to the size of about 17% of the U.S. economy. This increase pushed the seasonally adjusted annual growth rate to 3.8%; however, the breakdown between revolving and non-revolving credit is more telling. Non-revolving credit grew at just a 1.8% seasonally adjusted annual rate, while growth in revolving credit, which mostly covers credit card spending, shot to 9.7%, the highest rate since December 2024.

Despite the bump, the nearby [chart](#) shows growth in revolving credit has been slower in the past 12 months than in the previous two years, perhaps reflecting consumers who are struggling to justify continued outlays on discretionary spending categories. Discretionary services, for instance, contracted in each of the past eight months. Some households have also struggled to stay current on previous outstanding credit card debt, as reflected in transition into delinquency data from the NY Fed, likely preventing them from taking on more debt today.

Consumers' dial-back comes on the heels of scant income gains in 2024: the Census Bureau estimates that median household income was \$83,730 in 2024, which is not statistically different from \$82,690 in 2023. Furthermore, the income growth that did occur was concentrated only among top earners. Households at the 90th percentile saw their incomes rise by 4.2% in 2024; incomes did not change significantly for those with low or middle incomes.

In context of moderating income growth, even spikes in credit growth can be viewed as an effort by beleaguered consumers to maintain the heady spending of the past several years. August's stronger-than-expected retail sales increase of 0.6% month-over-month offers solace that consumers are maintaining their pace of spending despite lower income growth and a souring labor market. Further evidence comes next Friday with personal income and spending data—we expect incomes grew by 0.3% and spending by 0.5% month-over-month. For more detail, revisit [Domestic Outlook](#).

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



Source: Federal Reserve Board and Wells Fargo Economics

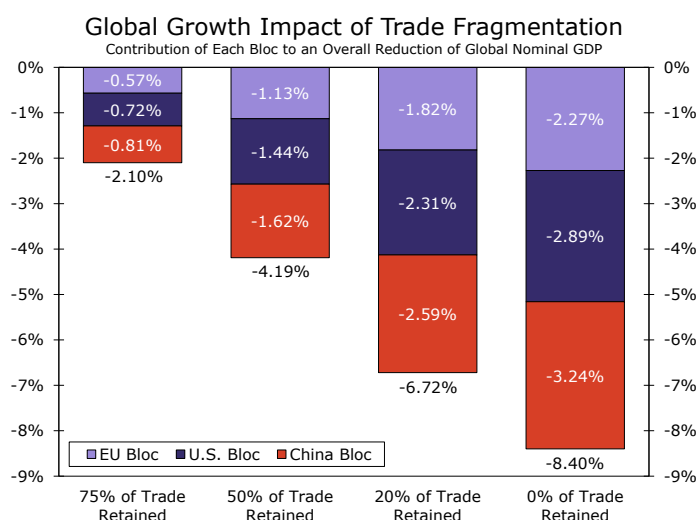
## Topic of the Week

### From Bipolar to Tripolar?

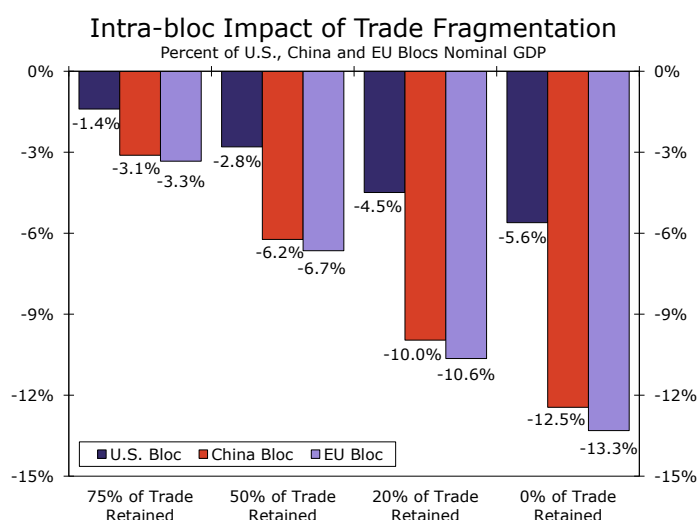
We recently explored the economic consequences of a world divided into two blocs: one bloc led by and aligned with the United States and the other aligned with China. Our analysis demonstrated that such a bipolar world would lead to substantial costs for global economic output, particularly for China and its aligned economies. However, we extended our analysis to consider a scenario in which the European Union splits from both the U.S. and China blocs to form a third, independent economic sphere. While we view this tripolar outcome as less likely than a simple U.S.-China split, we believe it is entirely plausible and, importantly, far more damaging to the global economy.

To construct this scenario, we assume all 27 EU member states align as a distinct bloc, reducing or ceasing trade with both the U.S. and China and aligned nations. Other alignments follow our prior bipolar framework, with most advanced economies outside the EU joining the U.S. bloc, a concentration of emerging markets aligning with China, and a limited number of nations remaining neutral. With this framework, we assess the consequences of complete trade severance between blocs, absent any substitution through domestic production or redirected intra-bloc trade.

The results highlight that further fragmentation slows global economic growth more than in our less-fragmented bipolar analysis. Our bipolar simulation indicated global GDP would slow 5.5% relative to its baseline scenario under the worst-case fragmentation, and the tripolar scenario produces an even steeper decline of 8.4%. This outcome reflects nearly three additional percentage points of lost nominal output, underscoring the amplified costs to further fragmentation.



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



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Looking at the individual blocs, our analysis finds that China continues to be heavily affected, contributing 3.24 percentage points to global output loss, followed by the U.S. at 2.89 percentage points. The EU faces the largest contraction with our worst-case scenario pointing to a 13.3% decline in output, surpassing even the 12.5% decline estimated for the China bloc in a purely bipolar world. The U.S. in these scenarios remains the most resilient with smaller overall declines.

This asymmetry reflects the central role of the U.S. economy in global demand. Our analysis shows that China's losses stem primarily from losing access to U.S. and U.S.-aligned markets, which account for 9.2 percentage points of its 12.5% contraction. Similarly, the EU's losses are largely tied to severed U.S. trade, which explains 10 percentage points of its 13.3% contraction. By comparison, the loss of China-linked markets imposes a limited burden. These dynamics illustrate why both China and the EU have prioritized resolving trade tensions with the U.S. While the U.S. also benefits from trade with both blocs, the reverse is far more consequential. Although we continue to see a bipolar world as the more probable trajectory, risks to a tripolar paradigm are rising. Regardless of whether fragmentation evolves into a bipolar or tripolar world, we maintain that deglobalization is set to persist, with long-term implications for growth, trade policy and geopolitical stability. For further reading on our tripolar assessment, please read our [report](#). ([Return to Summary](#))

## Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 9/19/2025	1 Week Ago	1 Year Ago
SOFR	4.14	4.41	5.33
Effective Fed Funds Rate	4.08	4.33	5.33
3-Month T-Bill	3.97	4.02	4.71
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.57	3.56	3.58
5-Year Treasury	3.68	3.63	3.48
10-Year Treasury	4.12	4.06	3.71
30-Year Treasury	4.74	4.68	4.05
Bond Buyer Index	4.88	4.94	3.81

Foreign Exchange Rates			
	Friday 9/19/2025	1 Week Ago	1 Year Ago
Euro (\$/€)	1.176	1.173	1.116
British Pound (\$/£)	1.349	1.356	1.328
British Pound (£/€)	0.871	0.865	0.840
Japanese Yen (¥/\$)	147.890	147.680	142.630
Canadian Dollar (C\$/ \$)	1.380	1.384	1.356
Swiss Franc (CHF/\$)	0.795	0.797	0.848
Australian Dollar (US\$/A\$)	0.659	0.665	0.681
Mexican Peso (MXN/\$)	18.383	18.439	19.320
Chinese Yuan (CNY/\$)	7.117	7.125	7.063
Indian Rupee (INR/\$)	88.103	88.279	83.689
Brazilian Real (BRL/\$)	5.327	5.354	5.426
U.S. Dollar Index	97.543	97.550	100.614

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

Foreign Interest Rates			
	Friday 9/19/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.76	1.66	3.09
3-Month U.K. Govt Bill Yield	4.08	4.07	4.94
3-Month Canadian Govt Bill Yield	2.42	2.46	4.03
3-Month Japanese Govt Bill Yield	0.45	0.43	0.08
2-Year German Note Yield	2.02	2.02	2.22
2-Year U.K. Note Yield	3.96	3.98	3.92
2-Year Canadian Note Yield	2.47	2.51	2.90
2-Year Japanese Note Yield	0.92	0.87	0.39
10-Year German Bond Yield	2.74	2.72	2.20
10-Year U.K. Bond Yield	4.70	4.67	3.89
10-Year Canadian Bond Yield	3.19	3.19	2.93
10-Year Japanese Bond Yield	1.65	1.59	0.85

Commodity Prices			
	Friday 9/19/2025	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	63.18	62.69	71.95
Brent Crude (\$/Barrel)	67.02	66.99	74.88
Gold (\$/Ounce)	3657.73	3643.14	2586.74
Hot-Rolled Steel (\$/S.Ton)	813.00	810.00	703.00
Copper (\$/Pound)	454.40	458.85	428.60
Soybeans (\$/Bushel)	10.12	10.23	9.88
Natural Gas (\$/MMBTU)	2.91	2.94	2.35
Nickel (\$/Metric Ton)	15,094	14,976	15,981
CRB Spot Inds.	574.53	575.45	550.01

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**Economics Group**

Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

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