Weekly — October 17, 2025

Weekly Economic & Financial Commentary

United States: **Put on Pause**

- As the federal government shutdown approaches its third full week, no end appears to be in sight. While the economic and financial market impact of the shutdown has been muted so far, it is not costless, and there is not much precedent for such a full shutdown lasting longer than a few weeks.
- Next week: Existing Home Sales (Thu.), CPI (Fri.)

International: **Soft Signals in a Shifting Landscape**

- In a relatively light week for international economic data, UK monthly GDP grew modestly, but last month's figure was revised into contraction, offsetting recent gains. Wage and labor market data painted a mixed picture of the British economy. Australia's employment report disappointed, while inflation in India fell below the central bank's target.
- Next week: China GDP (Mon.), Canada CPI (Tue.), Eurozone PMIs (Fri.)

Topic of the Week: **Tensions Rising in U.S.-China Trade Relations**

- We unpack the rising tensions brewing in the U.S.-China trade spat this week following export curbs out of China on rare earth minerals and magnets and the U.S. threatening an additional 100% tariff on imports from the country. The 90-day pause on higher reciprocal rates also ends mid-November, though Trump has said these high rates are unsustainable and a fair deal must be met.

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)	-0.6	3.8	3.5	0.9	1.6	2.7	2.7	2.3	2.8	2.0	2.3	2.3
Personal Consumption	0.6	2.5	3.0	1.1	1.9	2.6	2.4	2.2	2.9	2.5	2.1	2.3
Consumer Price Index (b)	2.7	2.5	2.9	2.9	2.7	3.0	2.9	2.7	3.0	2.8	2.8	2.5
"Core" Consumer Price Index	3.1	2.8	3.1	3.0	3.0	3.2	3.0	2.8	3.4	3.0	3.0	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	6.35	6.30	6.20	6.20	6.25	6.25	6.72	6.53	6.23	6.30
10 Year Note	4.23	4.24	4.16	4.00	3.95	4.00	4.10	4.15	4.21	4.16	4.05	4.20

Forecast as of: October 8, 2025
Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Data - Period End; Annual Data - Annual Averages
(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

Please find our full U.S. Economic Forecast here.

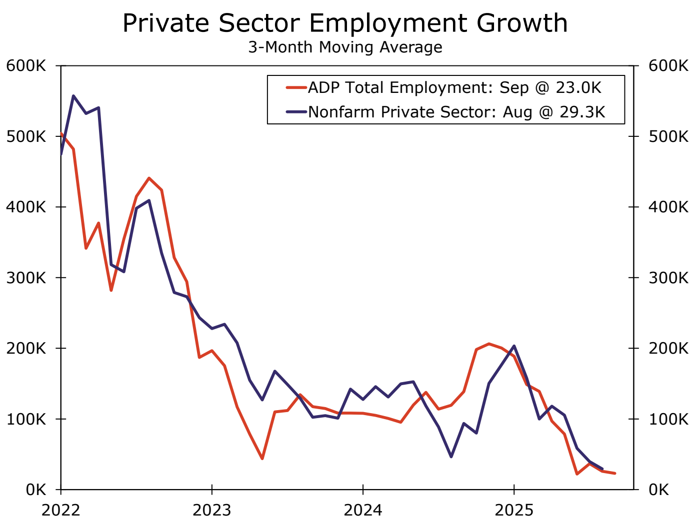
U.S. Review

Put on Pause

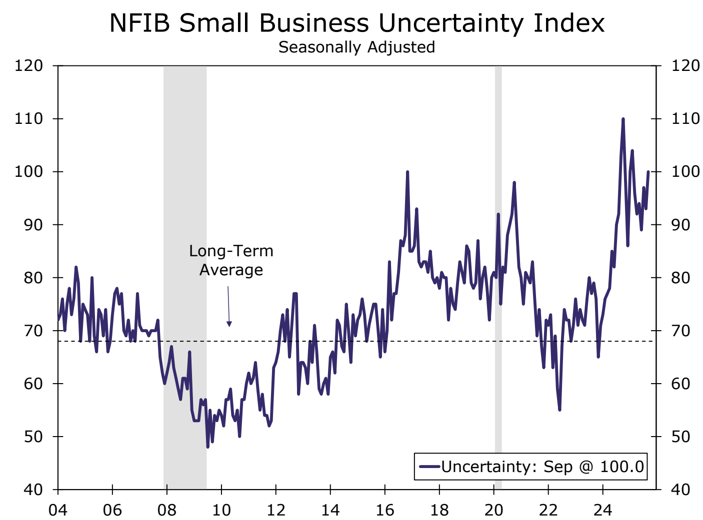
As the federal government shutdown approaches its third full week, no end appears to be in sight. The list of unreleased indicators grew further this week to include data for retail sales, the Producer Price Index, housing starts and industrial production, among others. The September CPI report was also slated to be released this week, but has been pushed back to October 24 due to the shutdown. The Bureau of Labor Statistics (BLS) announced it would call back its staff to release the inflation report to ensure that the Social Security Administration would have the data it needs to implement its annual cost-of-living adjustment for beneficiaries. While the economic and financial market impact of the shutdown has been muted so far, it is not costless, and there is not much precedent for such a full shutdown lasting longer than a few weeks. The near-term outlook for the economic data in particular looks troubled. As we wrote in a report released this week, a longer shutdown could affect data collection for the month of October. Data delays are already starting to mount, and if statistical agencies are unable to collect robust samples for key indicators such as the CPI or unemployment rate, the October data slate may be severely curtailed rather than merely delayed.

There were a few indicators released this week that help inform our view of recent economic activity. The NFIB Small Business Optimism Index fell to 98.8 in September, reversing the gains posted over the previous two months. The NFIB Uncertainty Index jumped seven points over the month, most likely reflecting expectations for a federal government shutdown. Hiring plans and current sales continued to improve, though firms lowered their expectations for future sales and fewer reported now as a good time to expand. While expectations are still generally positive, persistent uncertainty and ongoing macro challenges may weigh on the index in the near term.

On the housing front, lower mortgage rates boosted builder sentiment, with the NAHB Housing Market Index jumping five points in October to 37. According to Freddie Mac, 30-year fixed rate mortgage rates hit 6.26% during the week of September 18 and have remained close to 6.3% since, which is 40 bps-50 bps lower than the rates seen for most of this year. However, builders remain fairly pessimistic overall, making it unlikely that residential construction will materially improve in the near term. The headline index of 37 is well below the 2015-2019 average of 64, and although affordability conditions are improving somewhat, housing market conditions are likely to remain unfavorable as long as mortgage rates stay elevated. Though we did not receive housing starts data this week, we expect elevated inventory to act as a headwind against incentives for new construction. The New York Fed's Empire State Manufacturing survey for October was generally upbeat, with new orders, employment and prices all picking up.



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



Source: NFIB and Wells Fargo Economics

Though the data calendar was lighter than usual this week, several FOMC members were on the tape, most notably Chair Powell, who spoke on the state of the Federal Reserve's balance sheet. Since mid-2022, the Fed has been passively reducing its holdings of Treasury securities and mortgage-backed securities, which had peaked at nearly $8.5T as part of its pandemic-era stimulus efforts.

Powell indicated in his speech that the end of the Fed's quantitative tightening campaign may be near. While he noted that bank reserves "remain abundant," Powell emphasized that Fed officials are closely monitoring a wide range of indicators to determine the appropriate stopping point for runoff. Powell also provided brief remarks on the outlook for monetary policy, stating "the outlook for employment and inflation does not appear to have changed much since our September meeting four weeks ago." He left the door open for further rate cuts at the remaining two FOMC meetings this year, citing signs of labor market weakness against a backdrop of rising inflation. Governor Christopher Waller echoed concerns about labor market risks in his own remarks this week. He advocated for another 25 bps cut at the October meeting but stressed the need for further data analysis before making decisions about policy beyond that.

Given minimal new data are available due to the shutdown, we believe most FOMC participants have maintained their views on the economy relative to one month ago and remain supportive of another 25 bps rate cut in October. That said, once the government reopens, the deluge of new information will be impactful ahead of the December meeting. FOMC members could receive up to three employment reports and two CPI prints between the October and December meetings. Our forecast remains for another 25 bps rate cut at the December meeting, but if a pause or pivot is coming from the FOMC, we think it is much more likely to occur at the December meeting rather than the October one, given how the data calendar is shaping up through the remainder of the year.

(Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
23-Oct	Existing Home Sales (SAAR)	Sep	4.06M	4.11M	4.00M
24-Oct	CPI (MoM)	Sep	0.4%	0.4%	0.4%
24-Oct	CPI (YoY)	Sep	3.1%	3.1%	2.9%
24-Oct	Core CPI (MoM)	Sep	0.3%	0.3%	0.3%
24-Oct	Core CPI (YoY)	Sep	3.1%	3.1%	3.1%
24-Oct	CPI Index NSA	Sep	325.007	325.010	323.970
24-Oct	New Home Sales (SAAR)	Sep	710K	764K	800K

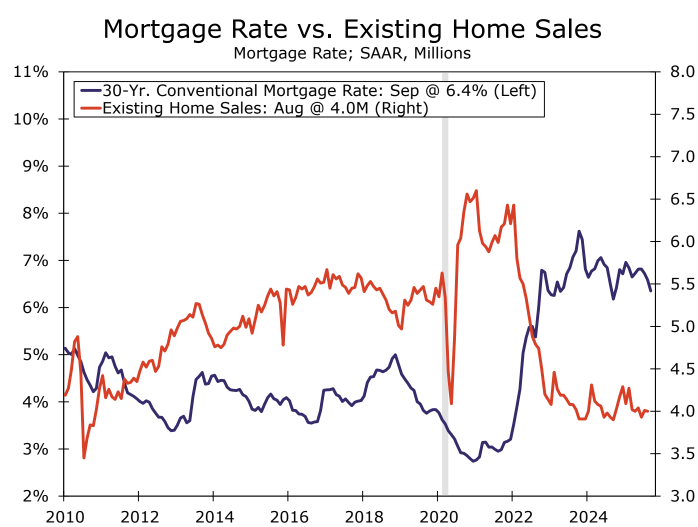
Forecast as of October 17, 2025

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

Existing Home Sales • Thursday

Existing home sales have been essentially flat since March, stuck roughly 25% below the 2015-2019 average pace before the pandemic. Poor affordability conditions have been the main pressure point. Elevated mortgage rates, a cumulative run-up in home prices and rising home insurance costs have pushed home buying out of reach for many. Yet, recent progress has been made on the affordability front. Mortgage rates have dropped by 48 bps since mid-July, with the 30-year fixed rate most recently hitting 6.27%, according to Freddie Mac. Slowly increasing housing supply and soft buyer demand have also alleviated some of the momentum behind home price appreciation. Although affordability is still poor, these incremental improvements should promote a modest uptick in sales in the months ahead.

Existing home sales are a lagging indicator. September sales reflect deals signed in July and August, which capture only the beginning of the recent descent in mortgage rates. The average 30-year fixed rate remained elevated at 6.6% on average in August, albeit lower than June's 6.8%. We expect buyers took advantage of these somewhat lower rates and forecast that existing home sales rose 2.75% in September to a 4.11 million annualized pace. Although still fairly tepid, this would mark the strongest sales pace since February.



Source: Freddie Mac, NAR and Wells Fargo Economics

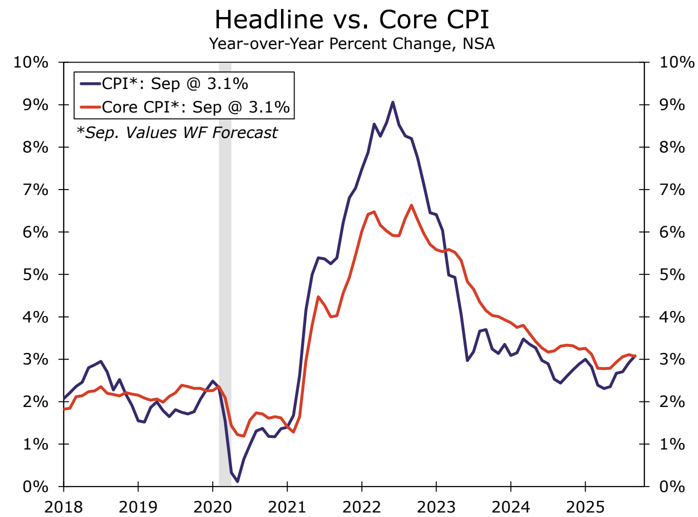
Consumer Price Index • Friday

The September Consumer Price Index will be released next Friday, October 24, nine days after it was originally scheduled. This report may be the only fresh, federal government data that FOMC members will get to digest before their meeting at the end of this month. Although the BLS is running on an exceptionally lean staff, we are not concerned about the data quality of this upcoming report. Data for September were likely collected in full before the government shutdown began on October 1. That said, if the shutdown drags on, subsequent reports may either be based on partial data or skipped entirely, depending on data quality.

Nevertheless, inflation pressures persist. CPI rose at a 2.9% annual rate in August, the fastest pace since January. An acceleration in core goods inflation kept core CPI even hotter at 3.1%. We expect these underlying trends remained intact in September and next week's report will underscore stalled progress on inflation. We estimate the headline CPI advanced 0.4% over the month, which would push the year-over-year rate to a 16-month high of 3.1%. Similarly, we forecast the core CPI rose by 0.3% for the third consecutive month amid the ongoing transmission of tariff-related cost pressures. If realized, this uptick would hold the year-over-year core rate steady at 3.1%.

See our latest CPI preview for more detail.

(Return to Summary)



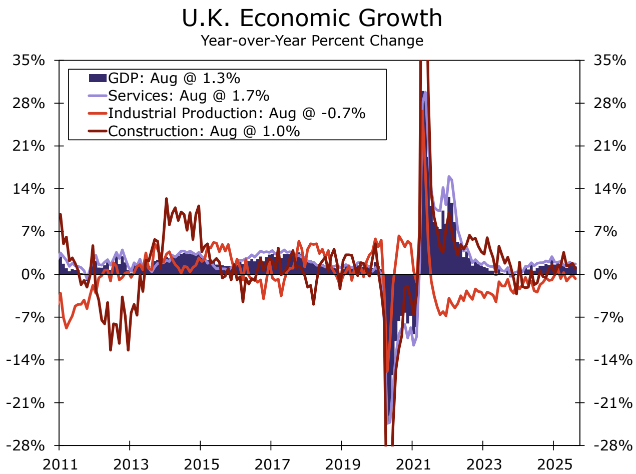
Source: U.S. Department of Labor and Wells Fargo Economics

International Review

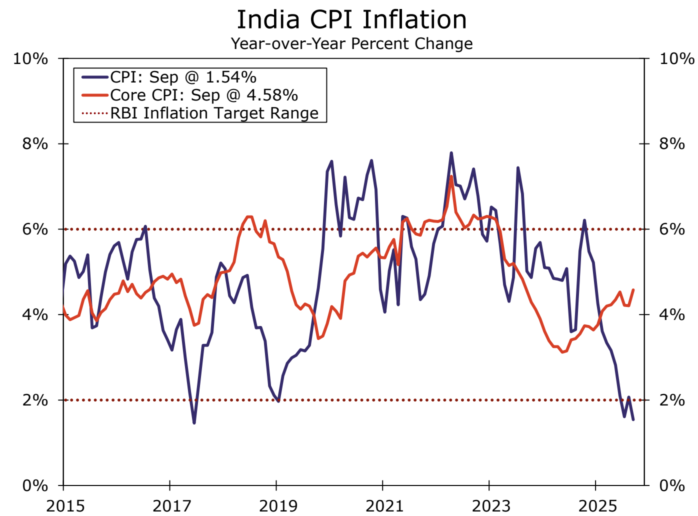
Soft Signals in a Shifting Landscape

U.K. GDP data for August depict an economy that remains largely stagnant. While GDP grew modestly by 0.1% month-over-month, in line with consensus expectations, the rebound was overshadowed by a downward revision to July's data, which now shows a 0.1% contraction during that month. Breaking down the sector components, industrial output rose 0.4% in August, recovering from a 0.4% decline in July and serving as the primary driver of growth over the month. In contrast, services activity remained flat for the second consecutive month and construction fell by 0.3%. These data align with the softening seen in September's sentiment indicators, pointing to slower growth ahead as households and businesses grow increasingly cautious amid concerns over potential tax hikes in the lead-up to the Autumn Budget announcement in November. In other economic releases, U.K. wage and labor market data presented a mixed picture. While headline earnings rose 5.0% year-over-year, weekly earnings excluding bonuses slowed to 4.7%. Regular pay growth in the private sector—the metric most closely watched by the Bank of England (BoE)—also eased to 4.4% in the three months to August, from 4.7% in July. Meanwhile, the unemployment rate edged up to 4.8% in August. Against this backdrop of subdued growth and mixed labor market signals, we continue to expect the BoE to hold its policy rate steady through both the November and December meetings.

Down under, Australia's labor market report for September delivered disappointing results. Employment rose by just 14,900—below economists' expectations for a 20K gain. August's already weak labor data were revised downward, now showing a decline of 11.9K compared to the initially reported 5.4K drop. The breakdown of September's employment gains was relatively balanced, with part-time jobs increasing by 8.7K and full-time positions by 6.3K. However, the unemployment rate jumped to 4.5%, exceeding consensus forecasts for a modest rise to 4.3%. This increase was primarily driven by a higher labor force participation rate, which edged up to 67.0% from 66.9% in August. This week's data reinforces our base case for the Reserve Bank of Australia (RBA) to maintain its quarterly pace of easing, with a 25 bps rate cut expected in November, followed by another in February 2026. However, the Q3 inflation print will be the key determinant ahead of the November meeting.



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



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

Turning to emerging markets, India's headline inflation eased in September to 1.54% year-over-year—slightly above expectations but still marking a decline and falling back below the central bank's 2% target range for the second time this year. The first dip occurred in July, with inflation briefly ticking up in August before retreating again. Food prices entered deflation, falling 1.37% year-over-year after a marginal 0.05% increase in August. The sharper-than-expected cooling was driven by deflation across key food categories, favorable base effects and surplus rainfall, which accelerated the decline in prices. Core inflation, however, rose to 4.58% year-over-year, driven by higher gold prices and a notable increase in housing rents. We continue to expect the Reserve Bank of India (RBI) to deliver a 25 bps rate cut at its December meeting, bringing the Repurchase Rate down to 5.25%; however, the balance of risk remains tilted toward an extended RBI pause and possibly additional easing in early 2026.

(Return to Summary)

International Outlook

Date	Indicator	Period	Consensus	Wells Fargo	Prior
Weekly International Indicator Forecasts					
20-Oct	China GDP (YoY)	Q3	4.7%	—	5.2%
20-Oct	China Industrial Production (YoY)	Sep	5.0%	—	5.2%
20-Oct	China Retail Sales (YoY)	Sep	3.0%	—	3.4%
21-Oct	Canada CPI (YoY)	Sep	2.1%	—	1.9%
24-Oct	Eurozone Manufacturing PMI	Oct	50.0	—	49.8
24-Oct	Eurozone Services PMI	Oct	51.2	—	51.3

Forecast as of October 17, 2025

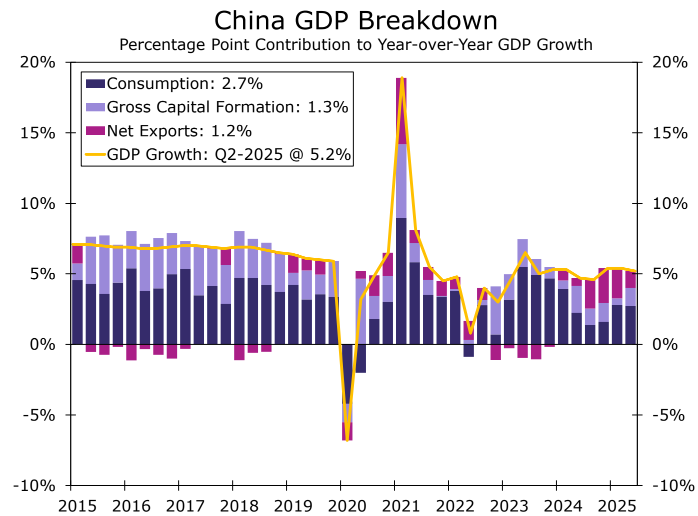
Source: Bloomberg Finance L.P. and Wells Fargo Economics

China GDP • Monday

Next week will bring the release of highly anticipated GDP growth and monthly activity data for China. Market participants will be closely watching the release of the Q3 GDP growth, September industrial production and retail sales figures for clues into the state of China's economy amid ongoing trade uncertainty.

Consensus expectations point to a 4.7% year-over-year increase in GDP, down from 5.2% in Q2. This would align with the downward trend observed in July and August activity data, which have consistently softened. For September activity data, consensus economists expect further deceleration in both industrial production and retail sales, with expected year-over-year growth of 5.0% and 3.0%, respectively. Despite a series of stimulus measures aimed at supporting the economy, many have been short term in nature—such as trade-in subsidy programs—which have led to temporary boosts in consumption. As these programs expire, retail sales have slowed, highlighting the limitations of short-term stimulus when not paired with long-term structural reforms.

Looking ahead, we continue to expect Chinese GDP growth to slow to 4.8% in 2025, followed by a further moderation to 4.5% in 2026. However, with policy support still largely reliant on short-term measures, risks to our baseline outlook remain tilted to the downside.



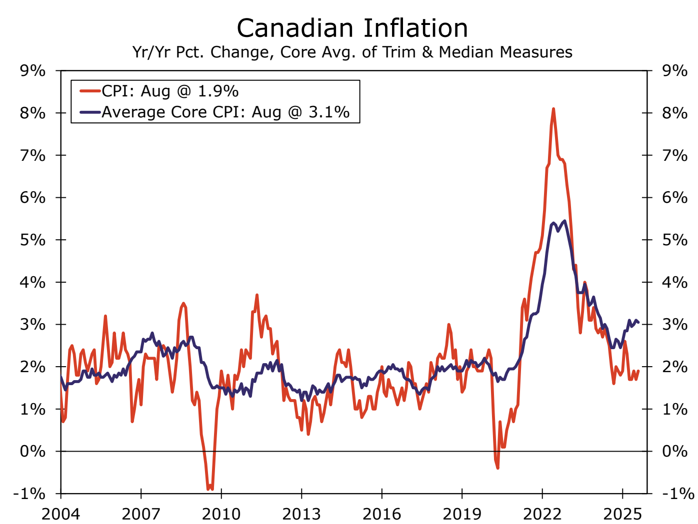
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Canada CPI • Tuesday

Next week, Canada's October CPI inflation data will be released, offering market participants insight into how the Bank of Canada's (BoC) monetary policy path may evolve at its final two meetings of the year and into 2026.

Inflation pressures increased less than expected in August, with headline CPI rising just 1.9% year-over-year. Combined with weak growth and soft labor market data, this likely contributed to the BoC's decision to cut rates by 25 bps last month. Meanwhile, average core inflation held steady at 3.1% year-over-year, unchanged from the previous month. For September, consensus forecasts suggest a slight uptick in headline inflation to 2.1% year-over-year, alongside a modest decline in average core inflation to 3.0%.

Last week's employment report supports our view that the BoC may hold rates steady at its upcoming meeting, with the next 25 bps cut likely coming in December—bringing the policy rate to 2.25% by year-end.



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

That said, next week's inflation print will be a key focus for the central bank and could shift the balance of risks toward earlier easing. If data confirm a continued decline in inflation and easing price pressures, the BoC could cut rates sooner than expected, especially if the Q3 Business Outlook Survey, which is scheduled for release a day before the CPI report, is soft.

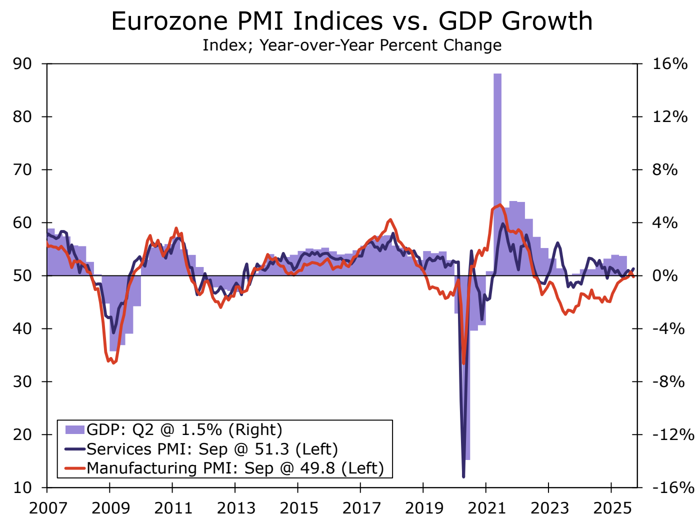
Eurozone PMIs • Friday

Next week's October Eurozone PMIs will be closely watched by market participants for timely insight into the region's economic momentum and whether pockets of resilience observed in recent months have extended into the start of Q4.

In September, the Eurozone remained on a modest growth path. The composite PMI edged up to 51.2, a 16-month high, but this headline improvement masked underlying weakness. Manufacturing PMI slipped back into contraction territory at 49.8, while services PMI rose to 51.3. Consensus forecasts suggest little change in October, with manufacturing expected to tick up to 49.9 and services remain unchanged at 51.3. Recent data on industrial production and retail sales for August also pointed to a softening trend, raising further questions about the sustainability of growth. Much of the growth in H1 2025 was driven by tariff front-running earlier in the year, with limited momentum expected to carry into early 2026.

As for monetary policy, we do not anticipate easing from the European Central Bank (ECB) at its upcoming meeting later this month. However, we maintain our expectation for a 25 bps rate cut in December, bringing the policy rate down to 1.75%. This view is contingent on factors such as euro appreciation or faster-than-expected disinflation by year-end. That said, risks remain tilted toward a potential delay of the cut into 2026.

(Return to Summary)



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

Topic of the Week

Tensions Rising in U.S.-China Trade Relations

Earlier this year, President Trump imposed a 10% universal tariff and an *additional* 20% tariff on all goods imported from China. Come Liberation Day, Trump lifted that 10% tariff to 34% on all Chinese exports, which was further raised twice to 84% and 125%, effective April 10. About a month later, Trump announced a pause reducing the rate from 125% to 10% for 90 days. Before expiring in August, that pause was extended to November 10.

Recent days have brought a fresh wave of escalation. Late last Friday, President Trump threatened an *additional* 100% tariff on all imports from China, and on Wednesday of this week, Trump said he might stop trade in cooking oil after China refused to buy American soybeans. The latest escalation comes after the Chinese government announced new export restrictions that effectively ban use of China-sourced rare earths in foreign manufacturing of military equipment, creating compliance headaches even for international civilian users, given that China is the biggest supplier and accounts for around 70% of the rare earth market.

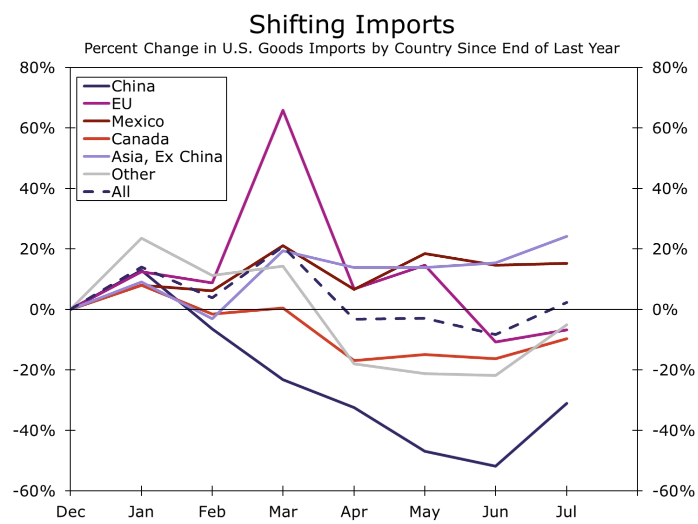
Under currently imposed policy, we estimate imports from China are exposed to around a 40% effective tariff rate, reflecting any sector-level exposure from tariffs on things like autos, steel, aluminum, etc., the 10% universal levy on all other goods, the additional 20% on all goods, and all previously-imposed tariffs from the first trade spat in 2017.

If the administration follows through with the additional 100% tariff, we estimate that the average effective tariff on Chinese imports would be between 94% and 122%, depending on the scope of the threat. In his announcement, Trump declared the new tariffs to be "over and above any Tariff that they are currently paying," leaving it unclear whether the 100% stacks on sector tariffs as well as the current universal tariff. Items covered under sector tariffs have tended to be exempt from blanket universal rates.

The new levies would raise between $241 billion and $361 billion in *additional* revenue per year and push the global average effective tariff rate to between 26% and 29%, according to our estimates.

But come Nov. 10, if the pause is no longer extended and no deal is reached, the tariff rate on China could go as high as 188%, lifting the global average effective tariff rate to just under 40%.

To date, the U.S. has generated about $144 billion in tariff revenue through August, about 40% of which has been paid on imports from China. That's occurred even as imports from China are down since the start of the year. As seen in the nearby chart, we've seen a shift in trade flows with imports from China down 30% from the end of last year. At the same time, imports from other parts of Asia have risen the most.



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

It's too soon to conclude how businesses will alter their supply chains in the wake of tariffs, and where rates ultimately land will be a key factor. The prospect of high rates on the horizon may lead businesses to pull forward demand for Chinese products before higher rates bite, but these sky-high tariffs may never come to fruition. Just this morning, President Trump said that these high threatened tariffs on China are not sustainable and that he and Chinese President Xi need to reach a fair deal. The two are set to meet later this month in South Korea at the Asia-Pacific Economic Cooperation summit.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates	Friday 10/17/2025	1 Week Ago	1 Year Ago
SOFR	4.30	4.13	4.86
Effective Fed Funds Rate	4.11	4.10	4.83
3-Month T-Bill	3.92	3.94	4.64
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.46	3.50	3.97
5-Year Treasury	3.58	3.62	3.90
10-Year Treasury	4.00	4.03	4.09
30-Year Treasury	4.60	4.62	4.39
Bond Buyer Index	4.78	4.83	3.92

Foreign Exchange Rates	Friday 10/17/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.168	1.162	1.083
British Pound ($/£)	1.343	1.336	1.301
British Pound (£/€)	0.870	0.870	0.832
Japanese Yen (¥/$)	150.400	151.190	150.210
Canadian Dollar (C$/$)	1.404	1.401	1.380
Swiss Franc (CHF/$)	0.792	0.800	0.866
Australian Dollar (US$/A$)	0.649	0.647	0.670
Mexican Peso (MXN/$)	18.393	18.588	19.842
Chinese Yuan (CNY/$)	7.127	7.135	7.123
Indian Rupee (INR/$)	87.973	88.698	84.070
Brazilian Real (BRL/$)	5.415	5.521	5.655
U.S. Dollar Index	98.393	98.978	103.825

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

Foreign Interest Rates	Friday 10/17/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.67	1.67	2.94
3-Month U.K. Govt Bill Yield	4.05	4.07	4.78
3-Month Canadian Govt Bill Yield	2.36	2.39	3.69
3-Month Japanese Govt Bill Yield	0.44	0.46	0.02
2-Year German Note Yield	1.91	1.96	2.15
2-Year U.K. Note Yield	3.88	3.96	4.03
2-Year Canadian Note Yield	2.39	2.47	3.02
2-Year Japanese Note Yield	0.91	0.92	0.44
10-Year German Bond Yield	2.58	2.64	2.21
10-Year U.K. Bond Yield	4.53	4.68	4.09
10-Year Canadian Bond Yield	3.09	3.17	3.16
10-Year Japanese Bond Yield	1.63	1.69	0.97

Commodity Prices	Friday 10/17/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	57.49	58.90	70.67
Brent Crude ($/Barrel)	61.13	62.73	74.45
Gold ($/Ounce)	4224.25	4017.79	2692.71
Hot-Rolled Steel ($/S.Ton)	815.00	813.00	705.00
Copper (¢/Pound)	497.00	489.40	432.50
Soybeans ($/Bushel)	10.05	9.90	9.64
Natural Gas ($/MMBTU)	3.00	3.11	2.35
Nickel ($/Metric Ton)	15,061	15,320	17,020
CRB Spot Inds.	572.88	577.60	553.25

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@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

Required Disclosures