

Weekly — December 19, 2025

Weekly Economic & Financial Commentary

United States: **More Data, More Questions**

- The latest employment and inflation data don't materially change the economic narrative, though they do bring some questions on data quality. Ultimately, the jobs market continues to steadily moderate, and consumer inflation is softening, just not to the degree that the November data suggest. We continue to expect the Fed will hold in January.
- Next week: GDP (Dec 23), Productivity (Jan 8), Employment (Jan 9)

International: **Global Central Banks Make Final Rate Calls of 2025**

- As 2025 winds down, global central banks remain far from idle. This week, the Bank of Japan raised rates, while the Bank of England and Banxico cut theirs. Most others—including the European Central Bank, Riksbank and Norges Bank—kept rates unchanged.
- Next week: Canada GDP (Dec 23), China PMIs (Dec 31)

Topic of the Week: **Federal Employment Nosedives in 2025**

- Coming into 2025, there were major questions about how much the incoming Trump administration would reduce the federal workforce. Through November, federal civilian employment has shrunk by 271K since the start of the year, a 10% decline. This represents one of the largest reductions in federal employment in recent memory, and it has reduced nonfarm payroll growth by roughly 23K per month this year.

Wells Fargo U.S. Economic Forecast

| | Actual | | | | Forecast | | | | Actual | | | |
|---------------------------------|--------|------|------|------|----------|------|------|------|--------|------|------|------|
| | 2025 | | | | 2026 | | | | 2024 | | | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 2024 | 2025 | 2026 | 2027 |
| Real Gross Domestic Product (a) | -0.6 | 3.8 | 3.7 | -0.1 | 3.4 | 2.2 | 2.5 | 2.0 | 2.8 | 2.0 | 2.3 | 2.2 |
| Personal Consumption | 0.6 | 2.5 | 3.0 | 1.0 | 1.8 | 2.3 | 2.2 | 2.2 | 2.9 | 2.5 | 2.0 | 2.1 |
| Consumer Price Index (b) | 2.7 | 2.5 | 2.9 | 2.9 | 2.6 | 2.9 | 2.8 | 2.7 | 3.0 | 2.7 | 2.7 | 2.4 |
| "Core" Consumer Price Index | 3.1 | 2.8 | 3.1 | 3.0 | 2.9 | 3.1 | 2.9 | 2.7 | 3.4 | 3.0 | 2.9 | 2.4 |
| 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 | 6.25 | 6.15 | 6.15 | 6.20 | 6.20 | 6.72 | 6.52 | 6.18 | 6.25 |
| 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: November 19, 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

Please note this will be our last *Weekly Economic & Financial Commentary* of the year. Have a great holiday season and see you in 2026!

U.S. Review

More Data, More Questions

The post-government shutdown data dump continued this week. We got employment data for October *and* November, CPI for November but not October, and retail sales for October. There's one last batch of data ahead of the Christmas holiday next Tuesday, and then we'll be nearly back to regular scheduled data programming at the start of next year.

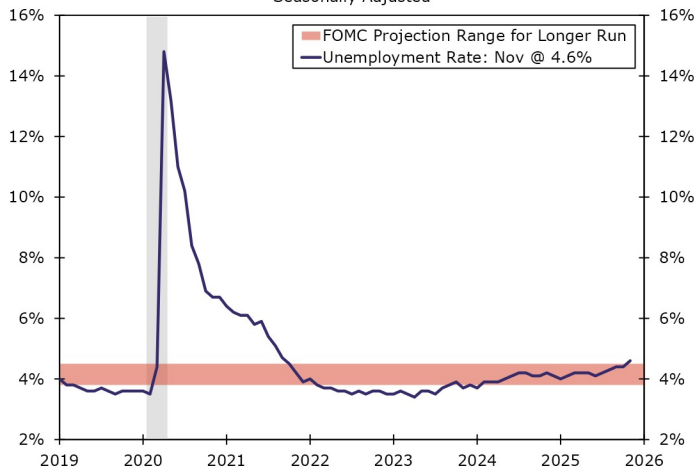
The economic narrative has not shifted materially in the wake of the latest data. Hiring remains constrained with firms adding just 64,000 net new jobs in November. The economy shed jobs in October, but that was due to a collapse in federal employment (-162K) reflecting workers who accepted the government's deferred registration offer earlier in the year finally rolling off the payroll. Yet even discounting that, job growth remains soft. Hiring averaged just 22,000 jobs over the past three months.

The shutdown prevented the BLS from collecting the household employment survey in October, which showed the unemployment rate at 4.6%, up from 4.4% in September (there was a larger standard error reported for November). As seen in the nearby [chart](#), the rate is now above even the highest estimate among FOMC participants of longer-run unemployment. That said, weekly jobless claims are still low relative to recent ranges, signaling it is the lack of hiring that is the real problem today.

The pricing picture was also suspicious. The latest data suggest the core Consumer Price Index (CPI) fell to the lowest annual run-rate in four years, 2.6%, and the annual change in headline prices hit 2.7%. We expect inflation is slowing, but not to this degree. Consumer prices were not collected in October due to the shutdown, and the BLS did not start collecting November prices until halfway through the month, leaving us to believe the data *underestimate* the current run-rate of CPI. Consider the *two-month* percent change in headline and core CPI were 0.20% and 0.16%—that's compared to an average of 0.69% and 0.57%, respectively, from July to September. The latest data add to our conviction that the FOMC will be on hold at its January meeting as it awaits more reliable data.

U.S. Unemployment Rate

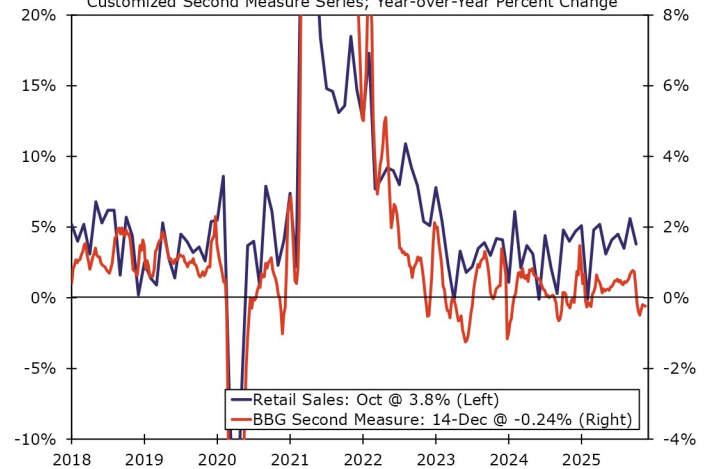
Seasonally Adjusted



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

U.S. Retail Sales Growth

Monthly Census Bureau vs. 28-Day Trailing Weekly Bloomberg Customized Second Measure Series; Year-over-Year Percent Change



Source: U.S. Department of Commerce, Bloomberg Finance L.P. and Wells Fargo Economics

Consumers kept spending at least through October, according to the delayed retail sales report. Overall sales were flat, but that was due entirely to a drop in auto sales as a pull-forward earlier this year ahead of tariffs and expiring tax credits. Excluding autos, sales were positive and the control group measure, which tracks well with broader goods consumption, rose 0.9%, the most in four months, signaling a solid start to Q4 spending. High-frequency data, however, suggest some slowdown through mid-December ([chart](#)), leaving us cautious on how the consumer crosses the finish line. The steady moderation in the jobs market plus the compounding nature of price gains is weighing on households' ability to spend, particularly those toward the lower end of the income spectrum. Next year should bring some reprieve amid more favorable household tax policy and the lagged effects of easier monetary policy. See you then. ([Return to Summary](#))

U.S. Outlook

| Weekly Domestic Indicator Forecasts | | | | | |
|-------------------------------------|-----------------------------------|--------|-----------|-------------|-------|
| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
| 23-Dec | GDP Annualized (QoQ) | Q3 | 3.2% | 3.6% | 3.8% |
| 23-Dec | Personal Consumption | Q3 | - | 3.1% | 2.5% |
| 23-Dec | Durable Goods(MoM) | Oct | -1.5% | -2.5% | 0.5% |
| 23-Dec | Durable Goods ex Transp. (MoM) | Oct | 0.3% | 0.1% | 0.6% |
| 23-Dec | Industrial Production (MoM) (Oct) | Oct | - | -0.4% | 0.1% |
| 23-Dec | Industrial Production (MoM) (Nov) | Nov | 0.1% | -0.4% | 0.1% |
| 23-Dec | Capacity Utilization (Oct) | Oct | - | 75.9% | 75.9% |
| 23-Dec | Capacity Utilization (Nov) | Nov | 75.9% | 75.9% | 75.9% |
| 23-Dec | Consumer Confidence | Dec | 91.7 | 93.3 | 88.7 |

Forecast as of December 19, 2025

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

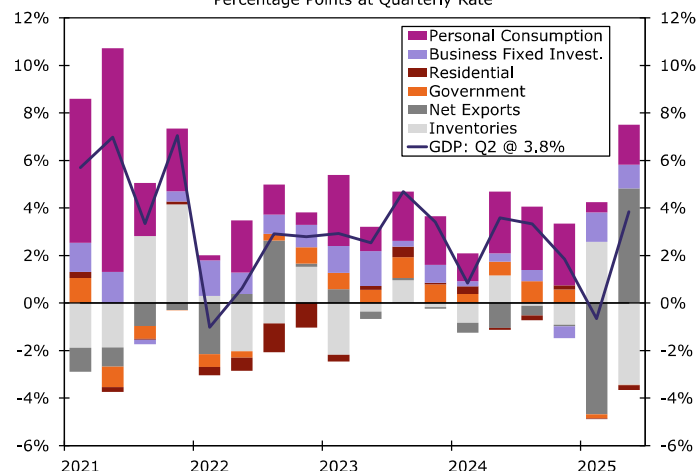
GDP • December 23

The long-awaited Q3 GDP report will print just in time for the holidays. It seems a bit stale at this point, given that we are rounding the corner on Q4. However, the details should provide worthwhile information on the recent drivers of economic activity.

Available data suggest that the economy maintained robust momentum in the third quarter. We forecast real GDP expanded at a 3.6% annualized rate, only two-tenths below Q2's "rebound" pace of 3.8% lifted by a fallback in imports. Consumers came back with a vengeance in the second half of the year, increasing real outlays by 0.4% and 0.3% in July and August, respectively. Although spending was essentially flat in September, these gains off of a lull in Q2 equate to solid consumer spending growth in Q3. Capex also seemed to hum along, revealing firm business demand for not only computers & intellectual property but also more traditional forms of equipment investment. Real estate-adjacent sectors likely remained a drag. We look for negative contributions from both residential and nonresidential structures, which continued to face pressure from weak construction starts and elevated interest rates. We expect trade to be a more neutral force. The trade deficit did narrow in Q3, but a surge in non-monetary gold exports played an outsized role, a category which is excluded from the calculation of GDP.

Contributions to U.S. Real GDP

Percentage Points at Quarterly Rate



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

Productivity • January 8

Greater productivity is a key driver of the U.S. economy's recent strength. Productivity measures how much output each worker produces on average, defining how fast the economy can expand. Annual productivity growth has averaged 1.8% since Q4 2019, above the 1.5% average last cycle and closer to its historical average of 2.1%. As we detailed in [a recent report](#), “total factor productivity” appears to be this cycle's secret sauce. Unlike traditional contributions from labor and capital, TFP captures gains from new technology and processes. We are still in the early days to capture the full effects of AI. However, increased AI utilization at work and the ongoing data center investment boom are likely playing at least some role in boosting productivity.

Higher productivity growth is also an important force keeping inflation in check. If businesses can produce more output with fewer workers, it limits their need to raise wages to attract talent. We acknowledge that this week's lower-than-expected inflation data was dubious at best, but solid productivity has undoubtedly contributed to inflationary pressures easing since the pandemic. Given our estimate of 3.6% GDP growth in Q3 amid a slowdown in hiring, the recent strength in U.S. productivity likely carried over into the second half of this year.

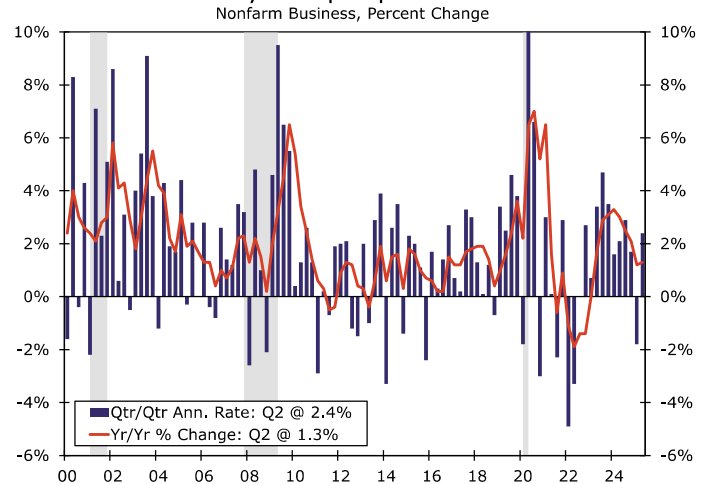
Employment • January 9

The labor market is still trading water. The U.S. economy shed a net 41K payrolls from September to November, bringing the three-month average job gain to just 22K. For context, the run rate was 111K in the first three months of the year. Although much of the recent weakness can be attributed to workers participating in the federal government's deferred resignation program being removed from the payroll in October, private sector hiring outside of healthcare & social assistance has also slowed to a crawl. Perhaps more concerning, the unemployment rate hit 4.6%, rising above the Fed's estimate of the longer-run neutral rate. The lag in data collection during the shutdown increases the standard of error around these estimates. However, climbing unemployment over the past few months would be consistent with concurrent trends in the quits rate, continuing jobless claims and the Conference Board's labor differential.

The next jobs report will be released on schedule on Jan. 9. The BLS's regular statistical methodology will resume with the December release, giving more reliable insight into the state of the labor market. We expect the challenges suppressing labor demand and supply to keep hiring weak compared to historical norms, but we do not foresee significantly more slack building in the labor market. One trend likely to remain is softer wage growth, which should keep a lid on labor-induced inflation pressures.

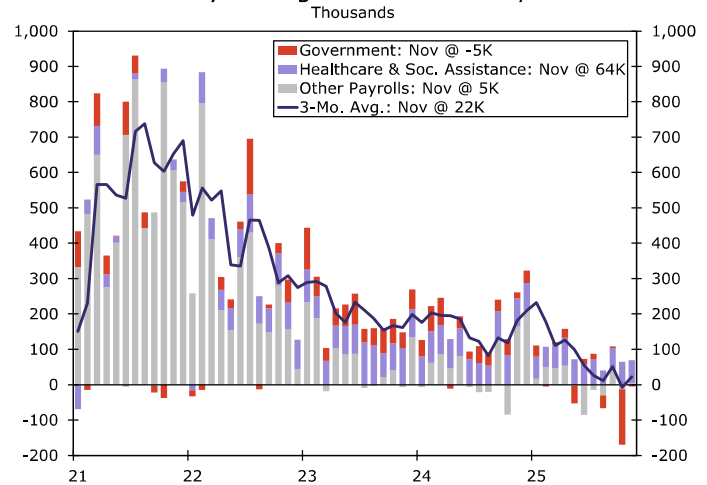
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Productivity: Output per Hour Worked



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

Monthly Change in Nonfarm Payrolls



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

International Review

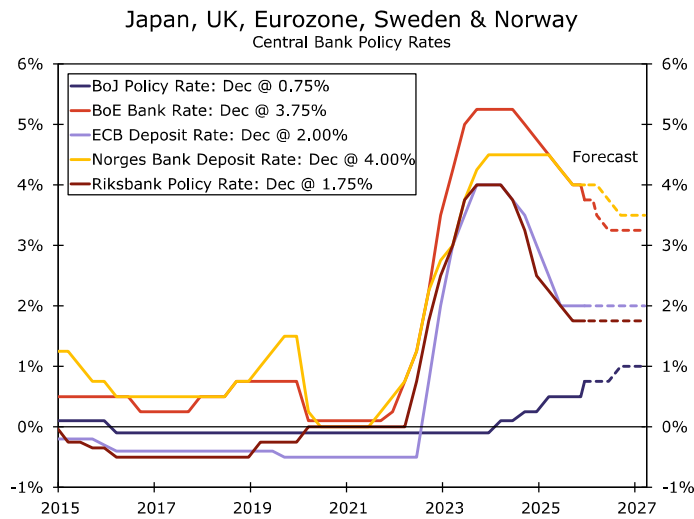
Global Central Banks Make Final Rate Calls of 2025

The final weeks of 2025 are proving just as active for global monetary policy as the rest of the year. To start, the Bank of Japan (BoJ) unanimously raised its Target Rate by 25 bps to 0.75%, ending the year as it began—with a hike. The move was widely anticipated, so focus shifted to forward guidance and the timing of the next hike. While the statement struck a hawkish tone, reaffirming strong wage momentum, clarity on timing of the next hike was limited. Policymakers reiterated that if the outlook aligns with October forecasts, they will “continue to raise the policy interest rate and adjust the degree of monetary accommodation.” In the press conference that followed the announcement, Governor Ueda noted there is “some distance to the bottom of our estimated range of neutral” and confirmed plans to produce new estimates; however, he maintained the central bank’s data-dependent approach. Given the outlook for wages, inflation and growth—and reduced trade uncertainty with the U.S.—we expect another hike as early as Q3-2026, lifting the Target Rate to 1.00%.

In other G10 moves, the Bank of England (BoE) cut its Bank Rate by 25 bps to 3.75%, with five of nine Monetary Policy Committee members voting for the reduction. The rationale behind the decision was driven by disinflation remaining on track and diminished upside inflation risks since the previous meeting in November. Since then, headline and core inflation have slowed to 3.2% year-over-year, while services inflation eased to 4.4% from 4.5%, continuing a downward trend. Forward guidance maintained an easing bias, noting that “on the basis of the current evidence, Bank Rate is likely to continue on a gradual downward path.” With growth soft, wages and inflation trending lower and unemployment edging up, we expect a continued quarterly pace of rate cuts into Q2-2026, reaching a terminal rate of 3.25%.

The European Central Bank (ECB) kept the Deposit Rate unchanged at 2.00%, maintaining its “data-dependent” and “meeting-by-meeting” approach. President Lagarde emphasized that there were “no discussions on rate cuts or hikes today.” While inflation projections were unchanged for 2025, there were upward revisions for 2026, with sticky services inflation a key concern and citing expectations for services inflation to decline more slowly. Growth projections were revised higher on stronger domestic demand, now at 1.4%, 1.2% and 1.4% for 2025, 2026 and 2027, respectively—up from previous estimates of 1.2%, 1.0% and 1.3%. Overall, given the inflation and growth outlook, we expect the Deposit Rate to remain at 2.00% through 2026.

Riksbank and Norges Bank also held their policy rates at 1.75% and 4.00%, respectively. For Sweden’s Riksbank, stronger growth and economic activity—Q3 GDP at 2.5% year-over-year and 1.1% quarter-over-quarter—supported the decision, with the outlook improving and the rate expected to remain at this level “for some time to come.” Inflation has fluctuated but continues trending toward the 2% target. Given lingering uncertainty around household consumption and the impact of next year’s more expansionary fiscal policy, we expect the Riksbank to keep rates steady at 1.75% through 2026. For Norges Bank, inflation remains above the 3% target, prompting policymakers to hold the Deposit Rate at 4.00% and signal they are not “in a hurry” to cut. While inflation is still above target, it has eased from its peak of 3.6% year-over-year in September. With growth weaker than expected and unemployment set to rise, we can see room for some easing in the next year. We expect the easing cycle to resume gradually, with two 25 bps cuts in Q2 and Q3, bringing the terminal rate to 3.50% by year-end 2026.

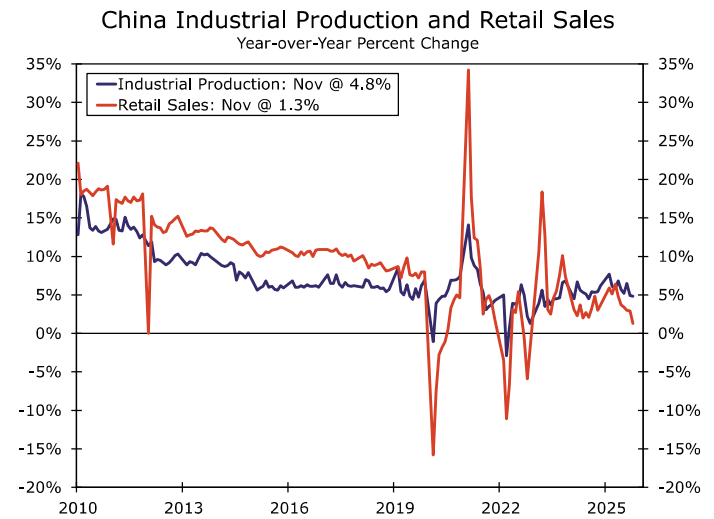


Source: Bloomberg Finance L.P. and Wells Fargo Economics

In emerging markets, Mexico's Banxico cut the Overnight Rate by 25 bps to 7.00%, an expected move despite November's hotter-than-expected inflation print—headline at 3.8% year-over-year and core at 4.43%, highlighting persistent price pressures away from the 3% target. We anticipated a hawkish tone, so the 4-1 split vote, with Jonathan Heath again dissenting, signaled a more dovish stance than expected. Forward guidance shifted slightly, with the board now set to evaluate “additional reference rate adjustments” rather than “reducing the reference rate,” suggesting a potential pause at the next meeting. While near-term inflation projections were revised upward, the longer-term outlook remains unchanged. Despite the mixed messages, we maintain our view policymakers will keep rates unchanged at 7.00% through the end of 2026, though risks tilt toward additional easing.

Outside of central bank announcements, China's November economic activity data delivered another disappointing update. Both industrial production and retail sales missed consensus expectations at 4.8% and 1.3% year-over-year, respectively, with retail sales growth softening to lows seen only a handful of times during times of crisis. Household appliances continued to drag, underscoring the ineffectiveness of short-term policy measures. Industrial production was slightly better but still below expectations, while year-to-date fixed asset investment contracted further to -2.6% year-over-year. These trends highlight the need for a more accommodative policy mix, and we expect easier monetary conditions to be delivered early next year to attempt to revive domestic demand. That said, we maintain our GDP growth forecast of 4.9% for 2025 and for China's economy to slow to 4.3% in 2026.

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

International Outlook

Weekly International Indicator Forecasts

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|--------|-----------------------------|--------|-----------|-------------|-------|
| 23-Dec | Canada GDP (YoY) | Oct | — | — | 1.0% |
| 23-Dec | Canada GDP (MoM) | Oct | -0.3% | — | 0.2% |
| 31-Dec | China Manufacturing PMI | 31-Dec | 49.2 | — | 49.2 |
| 31-Dec | China Non-manufacturing PMI | 31-Dec | 49.6 | — | 49.5 |

Forecast as of December 19, 2025

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

Canada GDP • December 23

Canada's October GDP, due next week, will offer insight into the economy's trajectory on first month of the final quarter. September GDP rose 0.2% month-over-month, with goods-producing industries up 0.6% and services-producing industries up 0.1%. Consensus expectations for October GDP is for a contraction by 0.3%, signaling a weak start to the end of 2025. An October contraction would be consistent with the Bank of Canada's (BoC) recent monetary policy meeting where policymakers stated that despite recent data showing resilience, it had not changed the bank's view that growth momentum is still sluggish.

Meanwhile, inflationary pressures remain contained—November CPI showed core inflation easing to 2.8% year-over-year, below consensus expectations. This could give the BoC some flexibility to ease monetary policy again, especially if growth deteriorates, though we expect the easing cycle is over and see no cuts in 2026. At the same time, risks are balanced, and we could craft a story for additional cuts or for hikes later in the year instead.

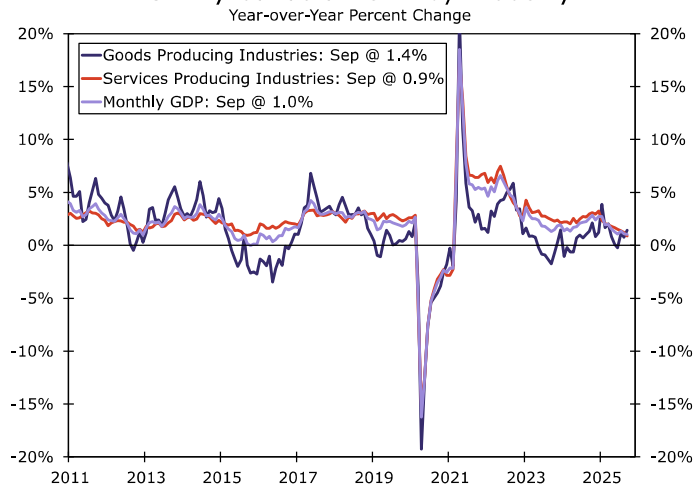
China PMIs • December 31

The Chinese economy has shown more resilience than expected in 2025, but recent activity—as noted in our [review](#) section—has been subdued, tempering expectations for upcoming data and the broader growth outlook. Market participants will closely watch December PMI figures for clues on how the final quarter may shape up. November sentiment indicators were mixed: the manufacturing PMI ticked up to 49.2 but stayed below the 50 break-even level for the eighth straight month, while the official non-manufacturing PMI fell to 49.5—the first drop below 50 this year and the first since reopening post-pandemic, aligning with the weak retail sales data released this week.

Consensus expectations are for December PMIs to broadly remain below the 50 break-even level, with manufacturing PMIs unchanged at 49.2 and non-manufacturing PMIs edging up slightly to 49.6. A further deceleration would signal deeper challenges ahead and increase pressure on the government to shift from short-term measures to more proactive policy support.

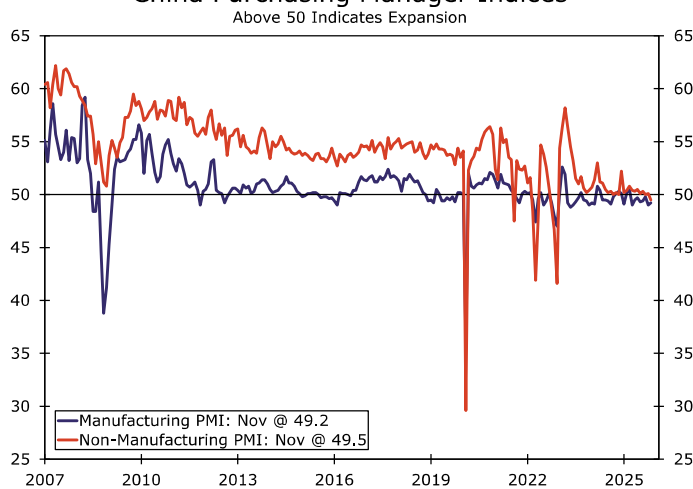
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Monthly Canadian GDP by Industry



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

China Purchasing Manager Indices



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

Topic of the Week

Federal Employment Nosedives in 2025

Coming into 2025, there were major questions about how much the incoming Trump administration would reduce the federal workforce. The Trump administration set up the Department of Government Efficiency (DOGE) early in the year, and efforts to cut federal government headcount have been ongoing all year. Through November, federal civilian employment has shrunk by 271K since the start of the year, a 10% decline ([chart](#)). This represents one of the largest reductions in federal employment in recent memory, and it has reduced nonfarm payroll growth by roughly 23K per month this year.

It is difficult to say precisely how much money this will save the federal government if these new employment levels hold. In FY 2024, the federal government spent approximately \$380 billion on pay and benefits, so a 10% decline in federal employment might roughly translate to \$40 billion of annual savings. Tariff revenues, which have increased by roughly \$300 billion on an annualized basis this year, represent a much larger fiscal consolidation effort from the federal government. That said, a sizable chunk of those new revenues are under legal threat, and furthermore the One Big Beautiful Bill will increase the federal budget deficit by \$250 billion-\$300 billion in 2026 on a current policy baseline, offsetting much of the deficit-reduction from tariffs and government job cuts.

Looking ahead, we suspect federal employment will stop contracting in 2026 and level off modestly below its current size. Future cuts will be more difficult to achieve, given the already sizable reductions that have been implemented, and the administration will start to ramp up hiring in select, priority areas, such as border security, law enforcement and air traffic controllers. Federal hiring may not be much of a boost to economic growth and the labor market in 2026, but it should not be as much of a drag as it was this year.

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Federal Government Civilian Employment



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

Market Data • Mid-Day Friday

| U.S. Interest Rates | | | |
|--------------------------|----------------------|---------------|---------------|
| | Friday 12/19/2025 | 1 Week Ago | 1 Year Ago |
| SOFR | 3.66 | 3.66 | 4.57 |
| Effective Fed Funds Rate | 3.64 | 3.64 | 4.58 |
| 3-Month T-Bill | 3.60 | 3.61 | 4.33 |
| 1-Year Treasury | 3.85 | 3.85 | 5.24 |
| 2-Year Treasury | 3.48 | 3.52 | 4.32 |
| 5-Year Treasury | 3.68 | 3.74 | 4.42 |
| 10-Year Treasury | 4.13 | 4.18 | 4.56 |
| 30-Year Treasury | 4.81 | 4.84 | 4.74 |
| Bond Buyer Index | 4.83 | 4.81 | 4.10 |

| Foreign Exchange Rates | | | |
|------------------------------|----------------------|---------------|---------------|
| | Friday 12/19/2025 | 1 Week Ago | 1 Year Ago |
| Euro (\$/€) | 1.172 | 1.174 | 1.036 |
| British Pound (\$/£) | 1.336 | 1.337 | 1.250 |
| British Pound (£/€) | 0.877 | 0.878 | 0.829 |
| Japanese Yen (¥/\$) | 157.480 | 155.810 | 157.440 |
| Canadian Dollar (C\$/ \$) | 1.377 | 1.377 | 1.440 |
| Swiss Franc (CHF/\$) | 0.796 | 0.796 | 0.899 |
| Australian Dollar (US\$/A\$) | 0.662 | 0.665 | 0.624 |
| Mexican Peso (MXN/\$) | 18.007 | 18.012 | 20.314 |
| Chinese Yuan (CNY/\$) | 7.041 | 7.055 | 7.296 |
| Indian Rupee (INR/\$) | 89.653 | 90.420 | 85.078 |
| Brazilian Real (BRL/\$) | 5.506 | 5.418 | 6.140 |
| U.S. Dollar Index | 98.651 | 98.399 | 108.408 |

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

| Foreign Interest Rates | | | |
|----------------------------------|----------------------|---------------|---------------|
| | Friday 12/19/2025 | 1 Week Ago | 1 Year Ago |
| 3-Month German Govt Bill Yield | 1.97 | 1.92 | 2.42 |
| 3-Month U.K. Govt Bill Yield | 3.86 | 3.88 | 4.70 |
| 3-Month Canadian Govt Bill Yield | 2.16 | 2.19 | 3.13 |
| 3-Month Japanese Govt Bill Yield | 0.66 | 0.62 | 0.11 |
| 2-Year German Note Yield | 2.15 | 2.15 | 2.05 |
| 2-Year U.K. Note Yield | 3.74 | 3.75 | 4.42 |
| 2-Year Canadian Note Yield | 2.61 | 2.61 | 3.09 |
| 2-Year Japanese Note Yield | 1.10 | 1.07 | 0.60 |
| 10-Year German Bond Yield | 2.89 | 2.86 | 2.31 |
| 10-Year U.K. Bond Yield | 4.52 | 4.52 | 4.58 |
| 10-Year Canadian Bond Yield | 3.47 | 3.44 | 3.35 |
| 10-Year Japanese Bond Yield | 2.02 | 1.95 | 1.08 |

| Commodity Prices | | | |
|-----------------------------|----------------------|---------------|---------------|
| | Friday 12/19/2025 | 1 Week Ago | 1 Year Ago |
| WTI Crude (\$/Barrel) | 56.42 | 57.44 | 69.91 |
| Brent Crude (\$/Barrel) | 60.12 | 61.12 | 72.88 |
| Gold (\$/Ounce) | 4341.75 | 4299.63 | 2594.01 |
| Hot-Rolled Steel (\$/S.Ton) | 907.00 | 907.00 | 680.00 |
| Copper (¢/Pound) | 546.50 | 528.35 | 402.05 |
| Soybeans (\$/Bushel) | 10.52 | 10.77 | 9.57 |
| Natural Gas (\$/MMBTU) | 3.94 | 4.11 | 3.58 |
| Nickel (\$/Metric Ton) | 14,451 | 14,439 | 15,274 |
| CRB Spot Inds. | 589.87 | 593.09 | 541.95 |

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