

Weekly — February 28, 2025

Weekly Economic & Financial Commentary

United States: Consumer Hibernation

- After a solid finish to 2024, the U.S. consumer rested up in January. Spending fell 0.2% despite solid income growth. The Fed's preferred measure of inflation showed price growth easing a bit further on trend, but confidence data out this week show consumers anxious about future inflation as talk of higher tariffs continues to dominate headlines.
- **Next week:** ISM Manufacturing & Services (Mon. & Wed.), Trade Balance (Thu.), Employment (Fri.)

International: Global GDP Growth Data Galore

- This week saw the release of a variety of GDP growth data from global economies. Canada reported very solid fourth quarter GDP figures, in our view, affirming our forecast for a Bank of Canada rate pause in March. India's economy improved in the fourth quarter, Sweden's economy grew by more than expected and Switzerland's economy grew generally as expected.
- **Next week:** China PMIs (Sat.), European Central Bank Policy Rate (Thu.), Mexico CPI (Fri.)

Interest Rate Watch: Fed Speak Points to Extended Pause Amid Rising Uncertainty

- The Federal Reserve communication channel was full this week. Generally, officials expressed the desire to hold rates steady on account of stalled inflation and increased uncertainty. All told, recent Fed speak supports our view that mounting upside inflation risks will keep the FOMC on hold over the next several meetings.

Credit Market Insights: Student Loans Showing Signs of Borrower Struggle

- Student loan debt continued to rise through the fourth quarter, according to the New York Fed's Q4-2024 Household Debt and Credit Report released earlier this month. Evidence is now emerging that delinquent student loan payments are starting to weigh on some consumers' credit reports.

Topic of the Week: How Will Shrinking the Federal Workforce Impact the Labor Market?

- Amid the flurry of actions taken by the Trump administration in its first month in office has been an effort to shrink the federal workforce. To what extent will these efforts weigh on payroll growth in the months ahead?

Wells Fargo U.S. Economic Forecast												
	Actual 2024				Forecast 2025				Actual 2023		Forecast 2026	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product ¹	1.6	3.0	3.1	2.3	2.9	1.9	1.2	1.3	2.9	2.8	2.3	2.2
Personal Consumption	1.9	2.8	3.7	4.2	2.8	2.1	1.8	1.6	2.5	2.8	2.8	2.3
Consumer Price Index ²	3.2	3.2	2.7	2.7	2.9	2.9	3.2	3.1	4.1	3.0	3.0	2.7
"Core" Consumer Price Index ²	3.8	3.4	3.3	3.3	3.2	3.2	3.4	3.2	4.8	3.4	3.2	2.9
Quarter-End Interest Rates ³												
Federal Funds Target Rate ⁴	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.00	5.23	5.27	4.31	4.00
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	7.10	6.90	6.65	6.50	6.80	6.72	6.79	6.50
10 Year Note	4.20	4.36	3.81	4.58	4.70	4.55	4.35	4.25	3.96	4.21	4.46	4.36

Forecast as of: February 13, 2025

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Year-over-Year Percentage Change

³ Quarterly Data - Period End; Annual Data - Annual Averages

⁴ Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

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

U.S. Review

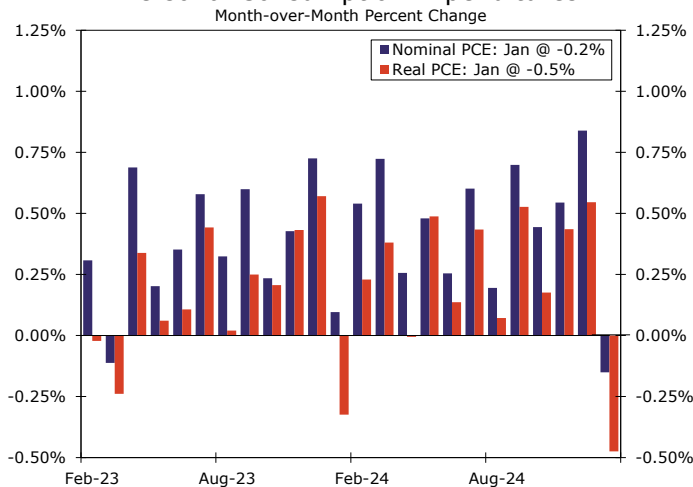
Consumer Hibernation

After a solid finish to 2024, the U.S. consumer rested up in January. Spending fell 0.2% over the month, coming in short of already-temperate expectations. The drop in spending was concentrated among goods (-1.2%) after we suspect some purchases were pulled forward at the end of last year. Services spending continued to advance, albeit by the slowest pace since June of last year. Notably, the pullback in spending did not come from a squeeze on income last month. Household income popped by 0.9% at the start of the year. Some of the gain looks due to the usual one-off adjustments at the start of the year, such as cost-of-living adjustments that boosted income from government benefits by 1.8%. Rental income and asset income also rose over 1% last month. Yet, wages & salaries, the driver of the typical household's spending, rose a respectable 0.4% in January.

A reversal of January's soft spending in the near term does not look assured with consumers feeling down of late. The February Consumer Confidence survey echoed the growing pessimism of the separately reported sentiment survey published by the University of Michigan last week. Consumer Confidence posted its largest single-month drop in February since 2021 to land at an eight-month low. The dizzying rate of policy announcements appears to have jarred consumers, with the survey noting "comments on the current Administration and its policies dominated the responses." Talk of tariffs in particular seems to be worrying consumers with inflation uncomfortably high. Like in the Consumer Sentiment survey released last week, expectations for inflation over the next 12 months catapulted to levels unseen in more than a year ([chart](#)).

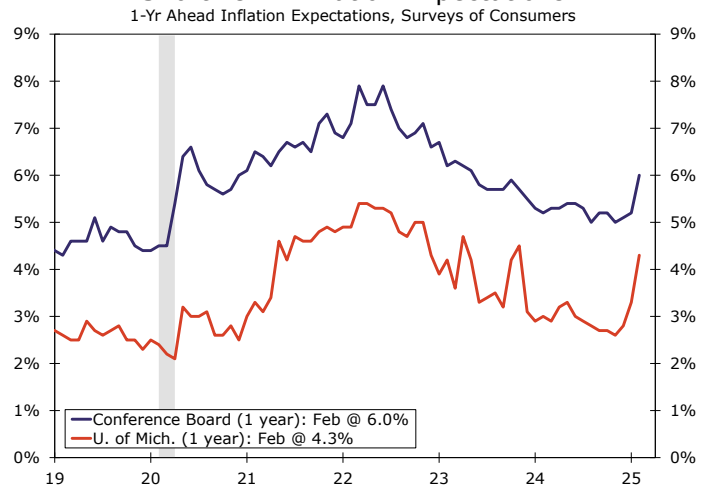
While consumers continue to fret about the future of inflation, the latest reading from the PCE price index showed price growth has continued to gradually cool on trend. Both headline and core PCE price growth picked up over the month of January, but eased on a year-ago basis. The core PCE index slipped to 2.6% year-over-year, matching the cycle-low registered last June. Yet, we anticipate little to no further progress by this measure in the coming months. Signs of a reversal in goods deflation are under way even ahead of the announcement of additional tariffs on Chinese goods, which stand to offset the ongoing slowdown in services inflation. When measured on a 12-month basis, the PCE index for core goods prices posted its first increase since late 2023 in January, while housing and non-housing services inflation registered the smallest increases in more than three years.

Personal Consumption Expenditures



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

Short-Term Inflation Expectations



Source: University of Michigan, Conference Board and Wells Fargo Economics

While angst about inflation lingers, so do the housing market's challenges. This week's data added to growing evidence that the housing market sputtered at the start of 2025. New home sales slipped 10.5% during January, putting the measure 1.1% lower relative to a year ago. High mortgage rates were likely the primary factor behind January's weakness; despite the Federal Reserve easing monetary policy, mortgage rates have barely budged and hovered around 7% in January. Meanwhile, home prices continue to rise, worsening affordability conditions for buyers. Amid the headwinds, inventory levels remain elevated with the total count of unsold homes increasing to 495K during the month, the most

since 2008. The lofty inventory-to-sales ratio likely means builders will act conservatively in the year ahead, and indeed, building permits started the year down 0.6% over the month. All told, the pressures that have plagued the housing market for years remain at large. ([Return to Summary](#))

U.S. Outlook

Weekly Indicator Forecasts

Domestic					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
3-Mar	ISM Manufacturing Index	Feb	50.5	50.4	50.9
3-Mar	Construction Spending (MoM)	Jan	-0.1%	0.0%	0.5%
3-Mar	Total Vehicle Sales	Feb	15.9M	15.9M	15.6M
5-Mar	Factory Orders (MoM)	Jan	1.40%	1.7%	-0.90%
5-Mar	ISM Services Index	Feb	53	53.2	52.8
6-Mar	Trade Balance	Jan	-\$91.3B	-\$129.4B	-\$98.4B
6-Mar	Nonfarm Productivity (QoQ)	Q4	1.2%	1.2%	1.2%
6-Mar	Unit Labor Costs (QoQ)	Q4	3.0%	3.0%	3.0%
7-Mar	Nonfarm Payrolls	Feb	158K	170K	143K
7-Mar	Unemployment Rate	Feb	4.00%	4.1%	4.00%
7-Mar	Average Hourly Earnings (MoM)	Feb	0.3%	0.3%	0.5%

Forecast as of February 28, 2025

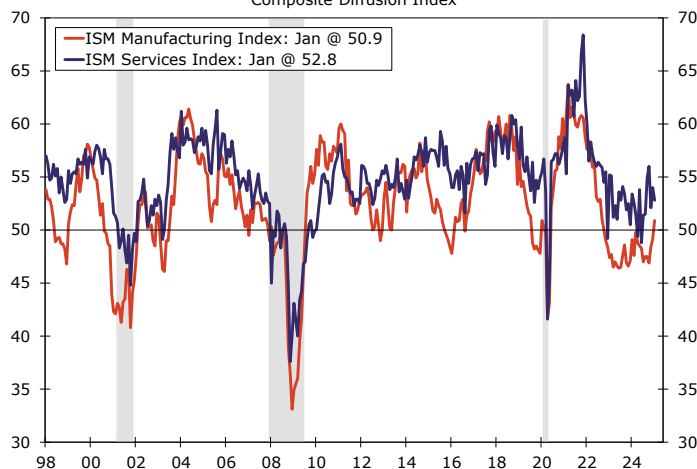
Source: Bloomberg Finance L.P. and Wells Fargo Economics

ISM Manufacturing and Services • Monday and Wednesday

Purchasing manager surveys have shown some conflicting signals over the past few years. The ISM Services Index has floated in expansionary territory since mid-2024, while the ISM Manufacturing Index broke above the 50 breakeven level for the first time since 2022 in January. The divergence reflects ongoing pressure on interest-rate-sensitive sectors and sluggish global demand, which has weighed on domestic manufacturing more than the service sector.

The effect of heightened tariffs across the service and manufacturing sectors will be varied, as input cost pressures could squeeze profit margins but also help to encourage domestic production. The prices paid components of both the ISM indices are already in expansionary territory, providing evidence that inflationary pressures following the pandemic have yet to be entirely quelled and complicating the Federal Reserve's calculus when layering in tariff-related shocks. We look for the services index to edge up to 53.2 and the manufacturing index to edge down to 50.4 in February.

ISM Manufacturing & Services
Composite Diffusion Index

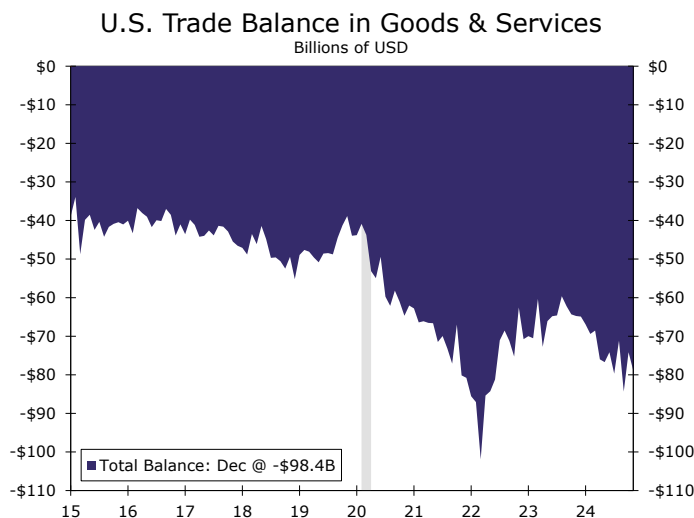


Source: Institute for Supply Management and Wells Fargo Economics

Trade Balance • Thursday

International trade flows have risen in prominence amid all of the tariff talk. The U.S. trade deficit widened sharply in December to -\$98.4 billion, as imports surged and exports collapsed. For the year as a whole, the deficit was 17% larger in 2024 than in 2023.

Advanced data on merchandise trade point to an even wider deficit at the start of 2025. Exports of goods rose a respectable 2% over the month, but the gain paled in comparison to the 12% jump in imports. Inflows of industrial supplies surged 33% and consumer goods rose 8%. The strength is likely tied to domestic companies pulling forward orders to get ahead of raised duties. We look for the U.S. trade balance to clock -\$129.4 billion in January, which if realized, would be the widest on records going back to 1992. While the sharp widening is likely temporary, tariff policy is set to disrupt trade flows over the course of the year.



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

Employment • Friday

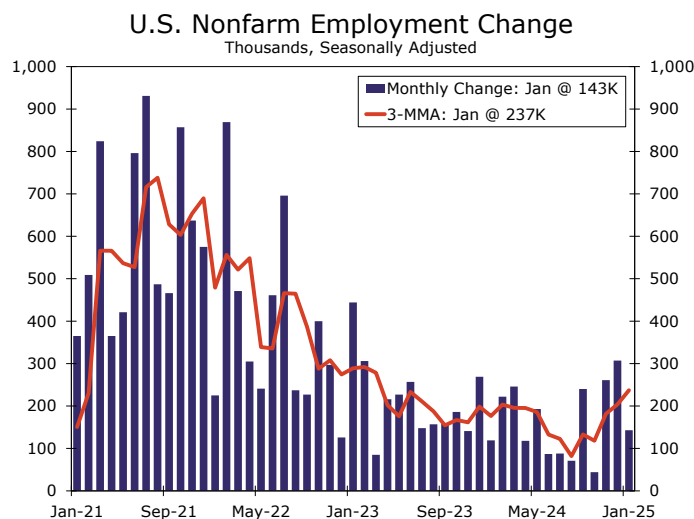
Nonfarm payrolls rose a weaker-than-expected 143K in January as severe winter storms and the Los Angeles wildfires held back hiring during the month. Despite the soft outturn, upward revisions to prior months' data showed hiring having more clearly firmed after wobbling this past summer, with the three-month moving average of net job creation up to 237K.

We suspect the recent pace of job growth overstates underlying labor demand and supply today. The net share of small businesses planning to hire slipped in January, regional Federal Reserve Bank surveys show employment in the service sector was essentially unchanged in February, and job postings remain near multiyear lows. Consumer confidence in the labor market also has resumed its deterioration recently, evident in the labor differential falling to a four-month low in February. Taken together, these data point to a slower trend in hiring.

We estimate nonfarm employment increased by 170K in February. Among industries, federal government payrolls are expected to slip by 5-10K amid ongoing efforts to shrink the workforce; see the [Topic of the Week](#) for more detail. The anticipated moderation in job growth leaves some scope for unemployment to rise. We look for the unemployment rate to tick up a tenth to 4.1%. These looser conditions favor a cooling in wage growth, which was unexpectedly hot in January. We forecast average hourly earnings to rise 0.3% in February, a few tenths softer than its 0.5% increase the prior month.

Beyond February, we expect slower labor supply growth to limit a continued rise in the unemployment rate this year. Reduced immigration flows and population aging are set to constrain the pool of available workers. Even as employment growth moderates, slower labor force growth would counterbalance the pullback and leave the unemployment rate near 4%. The dearth of workers is poised to limit further easing in labor compensation growth this year.

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

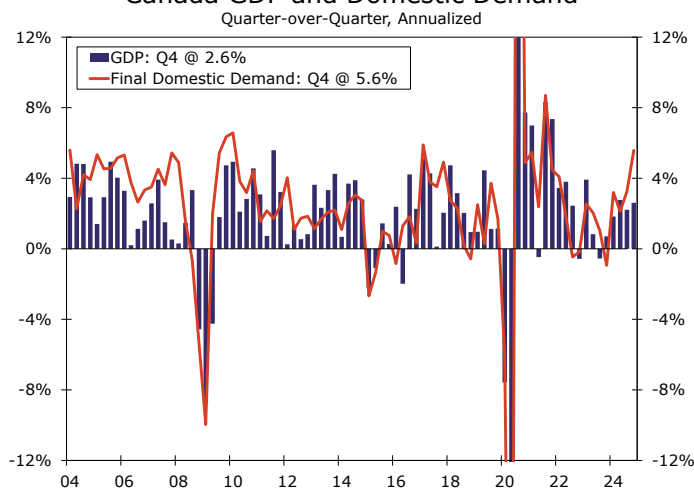
International Review

Global GDP Growth Data Galore

Canada reported very solid fourth quarter GDP figures, even if special factors helped the result to some extent. GDP rose 2.6% quarter-over-quarter annualized in Q4, beating the consensus forecast for a 1.7% gain. Meanwhile, Q3 GDP was revised sharply higher to a 2.2% growth pace. Looking at the details, consumer spending grew at a 5.6% pace, helped by a temporary sales tax holiday. Business fixed investment and exports also reported strong growth, the latter likely to some extent reflecting a front-loading of shipments as companies look to beat the threat of higher U.S. tariffs. In isolation, these strong GDP figures and recent upside surprises to core inflation would, in our view, be very supportive of our base case for Bank of Canada to pause at the March monetary policy announcement, holding its policy rate steady at 3.00%. Of course, the threat of higher tariffs from the United States still looms. Even if those tariffs go into effect in the near term, we still lean toward the Bank of Canada holding rates steady in March, albeit with noticeably less conviction.

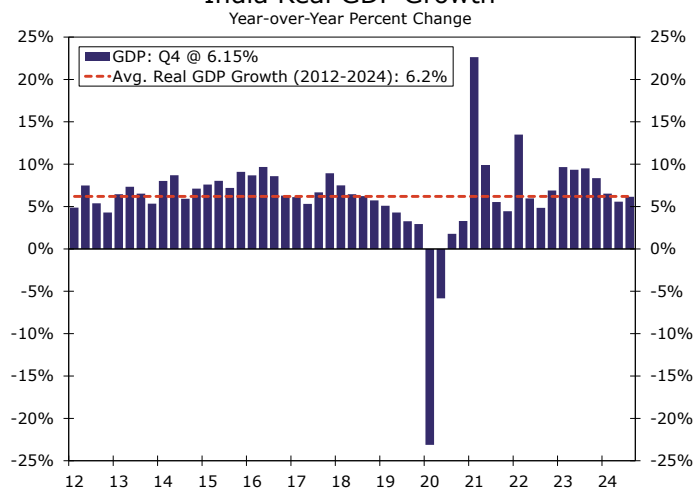
In India, fourth quarter GDP figures came in line with the consensus expectation. The economy expanded 6.2% year-over-year, signaling a modest recovery from the previous quarter's 5.6% pace. Within the details, it appears that the headline growth may have been driven notably by an acceleration in government spending, though consumer spending did improve from the previous quarter as well. In terms of monetary policy implications, these GDP figures have not led us to make any changes to our forecast for gradual Reserve Bank of India (RBI) monetary easing over the next couple of meetings at this time. We see RBI policymakers cutting rates only gradually in light of lingering inflation concerns; in our view, one key concern among officials is that easing too much or too quickly could contribute to rupee depreciation, which could in turn renew price pressures. In addition, the potential for global tariffs under the new U.S. administration injects a level of uncertainty into the outlook that we believe will contribute to RBI policymakers taking a cautious stance. Overall, we see the RBI lowering its policy rate by 25 bps at each of the second quarter meetings, to reach a policy rate of 5.75%.

Canada GDP and Domestic Demand



Source: Datastream and Wells Fargo Economics

India Real GDP Growth



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

Sweden released fourth quarter GDP figures this week that generally showed that the economy held up better than expected. The economy expanded 0.8% quarter-over-quarter, more than double the consensus expectation, and the year-over-year figure of 2.4% growth also sailed past expectations. Within the details, household consumption grew, as did fixed capital formation, while government spending was subdued. Perhaps tempering some of the optimism on the Swedish economy that may have arisen from the GDP report was the January retail sales report also released Friday morning, which showed a month-over-month contraction of 0.7%. We also got a read on economic sentiment in Sweden this week. The Economic Tendency Survey gathers responses from both companies and households in order to gauge business and consumer sentiment. In February, the measure eased to 97.1. While the headline reading has crept up over the past year or so, it has failed to come in above the 90-99 range—which is consistent with an economy that is weaker than normal—since late 2022. In addition, the measure of consumer confidence meaningfully contracted by over three points to

95.0. Overall, given this week's mix of stronger-than-expected GDP growth data, we acknowledge that our forecast for one more 25 bps rate cut from the Riksbank in Q2 is somewhat at risk. However, given the softness in retail sales and sentiment, we maintain our view for that rate cut to be delivered. We will monitor the forthcoming economic data releases from Sweden and continue to reevaluate our forecasts; stay tuned.

In Switzerland, the economy grew 0.2% quarter-over-quarter in the fourth quarter of 2024, as expected by economists, and 1.5% year-over-year, a tick lower than expected. The previous year-over-year figure from the third quarter was also revised a notch slower. Looking into the details, domestic demand was reasonably steady—including growth in consumer, investment and government spending—while net exports also supported top-line growth. We do see one more rate cut from the Swiss National Bank (SNB), bringing the policy rate to 0.25% at its March meeting, given steady economic growth and price pressures that have eased significantly. Headline CPI inflation has been below the midpoint of the SNB's 0%-2% inflation target for five months now, and core CPI inflation has been below that midpoint for four months.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
Feb-29	China Manufacturing PMI	Feb	49.9	—	49.1
Feb-29	China Nonmanufacturing PMI	Feb	50.4	—	50.2
6-Mar	European Central Bank Deposit Rate	6-Mar	2.50%	2.50%	2.75%

Forecast as of February 28, 2025

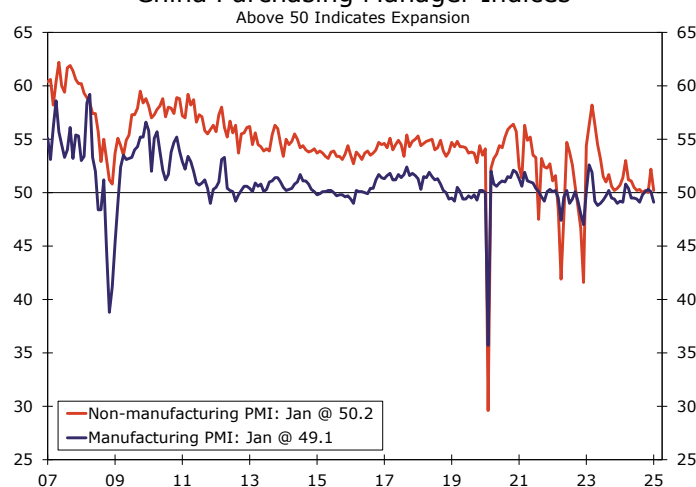
Source: Bloomberg Finance L.P. and Wells Fargo Economics

China PMIs • Saturday

This weekend, market participants will receive a timely update as to the state of China's economy in the form of the February PMI figures. Economic growth surprised to the upside in the fourth quarter of last year, but we remain wary of the economy's prospects going forward. This wariness has only grown in the face of changes to global trade policy: President Trump has already imposed a 10% tariff on all Chinese exports to the United States, and we are assuming that U.S. tariffs on China rise to 25% starting in Q2-2025. In turn, we forecast China will retaliate with its own 25% tariff on U.S. goods exports. This increase in trade tensions spells trouble for China's export-dependent economy, in our view.

Looking at the figures being released this weekend, the consensus forecast from economists is for the manufacturing PMI to rise to 49.9 from 49.1 previously, and for the services PMI to tick up to 50.4 from 50.2. However, if realized, these readings would generally still be subdued by historical standards and would mark slight increases from the January figures, which came in much lower than expected. We believe the February PMI outcomes will still be consistent with our view for a slowing in Chinese GDP growth this year to 4.5%.

China Purchasing Manager Indices



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

European Central Bank Policy Rate • Thursday

The European Central Bank (ECB) announces its latest monetary policy decision next week at which we and consensus economists expect the central bank to lower its Deposit Rate by 25 bps to 2.50%.

Underpinning the case for a rate cut at this meeting and beyond, in our view, is both the growth and inflation outlook for the Eurozone. The region's economy barely grew in the fourth quarter of last year, while the two largest Eurozone economies—France and Germany—shrank. In addition, the manufacturing and services PMI surveys as of late have been consistent with an only mild pace of positive economic growth. As for inflation, while price pressures ticked up in January, there was a slight easing in core inflation, and the softer growth backdrop should be consistent with easing price pressures going forward, in our view. Meanwhile, both the ECB's Wage Tracker and the Indicator of Negotiated Wages appear consistent with slower wage growth and ultimately softer underlying inflation pressures ahead. Given the relatively muted economic environment, we continue to expect European Central Bank rate cuts at the March, April, June and September meetings, which would see the ECB's Deposit Rate reach a low 1.75% by late this year. Among the other elements of the announcement, we will be paying attention to whether the ECB continues to describe monetary policy as "restrictive," while also watching for any changes in the ECB's medium-term inflation forecasts.

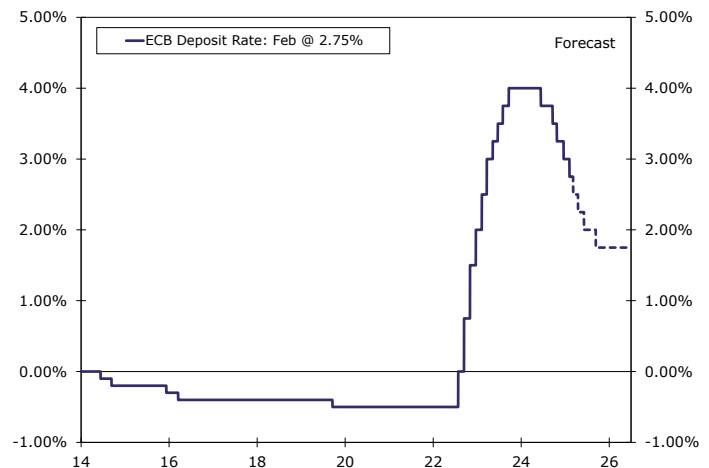
Mexico CPI • Friday

Next week will welcome the release of the February CPI report for Mexico. Our expectation is for headline inflation to tick slightly higher, but for core inflation to remain broadly steady. If these forecasts are realized, we believe this would support our view for a meaningful amount of further easing from Mexico's central bank.

We have recently updated our outlook for Banxico to include a more aggressive pace of monetary easing than previously. This forecast adjustment was driven by observing slowing inflation as well as a relative degree of stability in the Mexican peso, and our perception that recession risks for Mexico are rising. We forecast a 50 bps cut in March, and we now believe Banxico will also deliver 50 bps of easing in May, before downshifting to 25 bps cuts through August. Accordingly, our Banxico terminal rate forecast is lower than previously, and we now believe the overnight rate will fall to 8.00% by Q3-2025. For now, we see the risks to our Banxico rate as balanced. On one hand, a "deal" that avoids tariffs—which could support stability in the peso—could lead policymakers to ease more rapidly. On the other hand, if tariffs are imposed and the peso comes under pressure, policymakers are likely to drift in a more cautious direction. Our base case forecast for Banxico splits that risk.

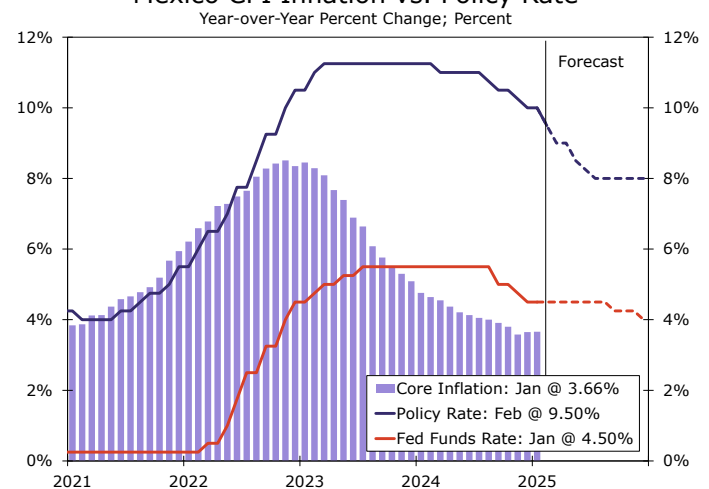
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ECB Deposit Rate



Source: Datastream and Wells Fargo Economics

Mexico CPI Inflation vs. Policy Rate



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

Interest Rate Watch

Fed Speak Points to Extended Pause Amid Rising Uncertainty

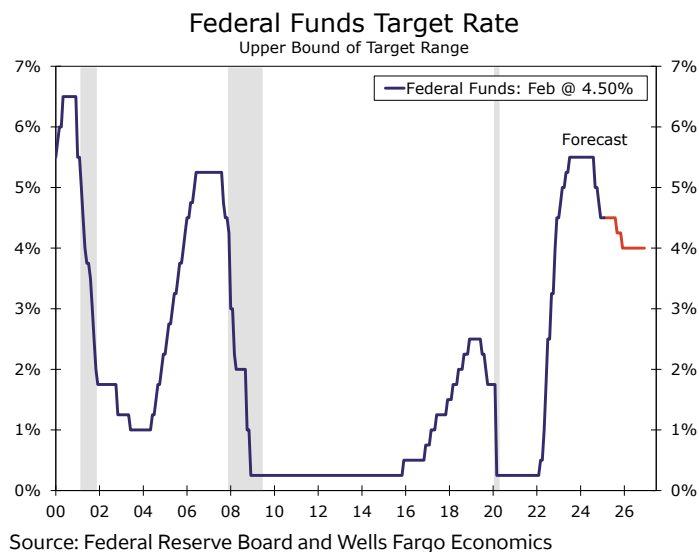
The Federal Reserve communication channel was full this week. On balance, the tone from Fed officials skewed hawkish, with many voicing the desire to hold rates steady on account of stalled inflation and increased uncertainty. Chicago Fed President Austan Goolsbee, who is an FOMC voting member, expressed the view that a “wait-and-see” approach would be appropriate moving forward until more clarity on tariffs, immigration, cuts to federal spending and other economic policies arrives. President Goolsbee did not take additional rate reductions completely off the table, but wants to see uncertainty, or “dust in the air” as he put it, diminish before going back to cutting rates. Jeffrey Schmid, Kansas City Fed president and FOMC hawk, also brought up the potential for less policy clarity to keep inflation sticky and weigh on economic growth. President Schmid highlighted that, in recent weeks, he has grown “more cautious on the downward path of inflation,” mentioning the recent uptick in expectations for consumer price inflation as a notable development.

Meanwhile, Richmond Fed President Tom Barkin seems aligned with his colleagues on the FOMC. “It’s hard to make significant monetary policy changes amid such uncertainty. So, I prefer to wait and see how this uncertainty plays out and how the economy responds.” Similarly, Philadelphia Fed President Patrick Harker said that changing policies in Washington and around the world are adding uncertainty to inflation dynamics and that “right now, it’s very difficult to forecast. There’s so much uncertainty.” Bank of Cleveland President Beth Hammack stated that inflation expectations still appear anchored, though an extended pause might be prudent. “I believe that monetary policy has the luxury of being patient as we assess the path forward. This will likely mean holding the federal funds rate steady for some time.”

Speaking at conference on Wednesday, Atlanta Fed President Raphael said “you can say that we’re hitting our employment mandate, and now we have to get the price stability mandate under control” and that “we need to stay where we are.” He also mentioned that there is now more uncertainty around his baseline forecast for two more rate cuts this year.

Elsewhere, several other Fed officials provided commentary less focused on the current stance of monetary policy. Bank of Dallas President Lorie Logan called for eventually buying more short-term assets to allow the balance sheet to reach a neutral allocation once purchases resume. In his final days as Vice Chair of Supervision, Governor Michael Barr stated that monetary policy and financial stability are inextricably linked and noted the importance of Fed independence and strong regulation. Governor Michelle Bowman called for a better regulatory fit for community banks based on their size and business scope.

All told, the Fed speak this week provided additional support for our view that the FOMC will remain in a holding pattern over the next several meetings as upside risks to inflation mount alongside rising economic policy uncertainty. Against this backdrop, we still expect that a few more rates are in the cards, though not until the second half of 2025. ([Return to Summary](#))



Credit Market Insights

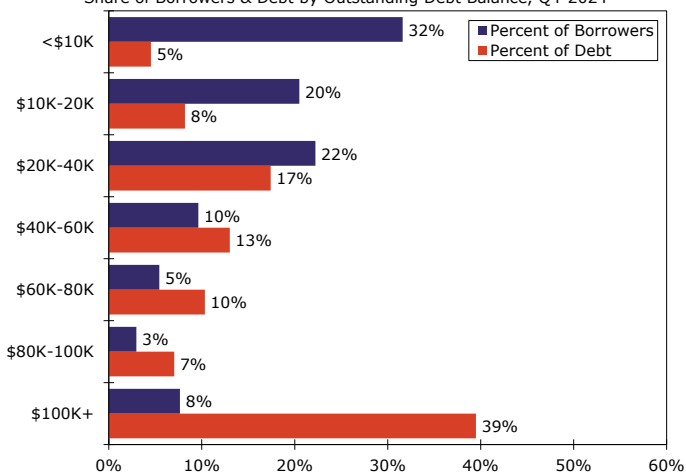
Student Loans Showing Signs of Borrower Struggle

Student loans have been the fastest growing category of household debt over the past 20 years, having risen from the smallest category of household liabilities to the third largest (behind mortgages and credit cards) through the fourth quarter of 2024. Student loan debt continued to rise through the fourth quarter, according to the New York Fed’s Q4-2024 Household Debt and Credit (HHD&C) report released earlier this month. Total outstanding student debt now stands at \$1.62 trillion, a fresh high in data going back to 2003.

The overall profile of federal borrowers has been largely consistent over the past year, with more than half of borrowers having an outstanding balance below \$20K, though together their debt accounts for only about 13% of outstanding balances. In fact, there is only a little group of big borrowers at the top of the distribution. These 8% of borrowers represent nearly 40% of the outstanding balance ([chart](#)). In addition, most borrowers continue to be concentrated in younger cohorts, with about 60% under the age of 40.

Direct Loan Student Debt Outstanding

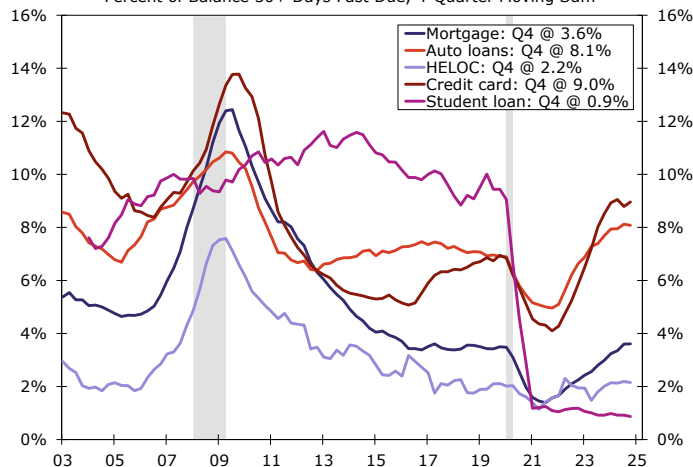
Share of Borrowers & Debt by Outstanding Debt Balance, Q4-2024



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

Transition into Delinquency by Loan Type

Percent of Balance 30+ Days Past Due, 4-Quarter Moving Sum



Source: New York Fed Consumer Credit Panel, Equifax and Wells Fargo Economics

Transitions into early delinquency on student loans remained below 1% through Q4, but this is not an accurate representation of borrower health ([chart](#)). Following the resumption of student loan payments in September 2023, the Biden administration implemented a 12-month “on-ramp period” in which interest would again accrue on the loans, but borrowers who missed payments in this grace period would not be reported as delinquent.

With the grace period having ended five months ago, signs of borrower distress have yet to materialize in the HHD&C report. A note in the latest release remarked that “missed federal loan payments will likely begin appearing on reports beginning in [Q1-2025].” A true read of student loan delinquencies will then not be available until mid-May with the Q1-2025 release of the HHD&C report. Yet, the *Wall Street Journal* has reported evidence is starting to emerge on the individual level that some borrowers are receiving negative marks on their credit reports from missed payments. With delinquent student loan payments weighing on credit reports, these missed payments will start to impede some borrowers’ access to and cost of credit for other consumer loans such as mortgages and auto loans.

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Topic of the Week

How Will Shrinking the Federal Workforce Impact the Labor Market?

Amid the flurry of actions taken by the Trump administration in its first month in office has been an effort to shrink the federal workforce. The policy changes—which include a hiring freeze, employee buyouts, and layoffs—have been head-turning, but we see the steps taken thus far as exerting only a modest dampening effect on payrolls in the coming months.

One of President Trump's first actions in office was to order a 90-day federal hiring freeze. A hiring freeze can lead to a decline in federal employment when new hiring stops but natural attrition continues, eroding the *net* change in employment. Over the past year, federal agencies have hired an average of ~36K gross new workers per month. However, the hit to payroll growth is unlikely to be at that magnitude. Like the hiring freeze instituted at the beginning of the first Trump administration, the order exempts a number of positions (such as those related to immigration enforcement, public safety, security, etc.). Over 2017, gross hiring in the federal government slowed modestly and the sector swung from *adding* to total payroll employment by roughly 3K jobs per month to *subtracting* about 2K jobs per month. We think the impact from the hiring freeze this go-around is poised to be somewhat larger, but still well short of 36K-per-month declines.

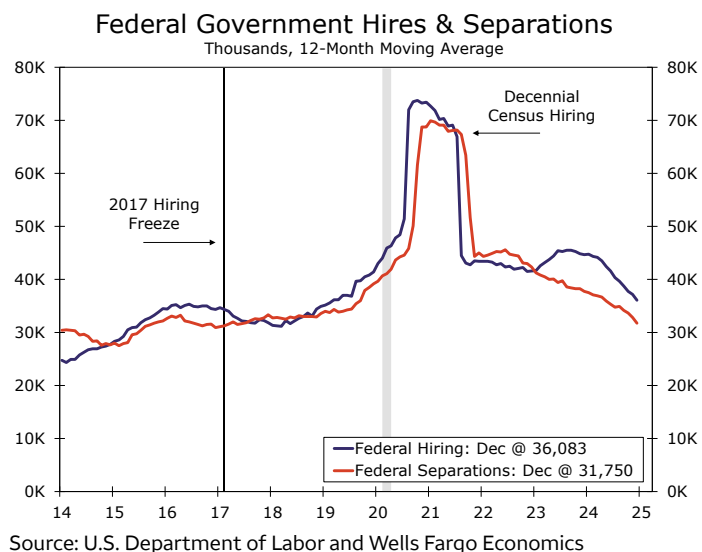
The administration has also offered deferred resignation "buyouts" to increase voluntary attrition. About 75K workers reportedly accepted the offer, maintaining pay and benefits through September 30, 2025, while under no obligation to work. As a result, nonfarm payrolls could be artificially boosted through September by federal workers still being counted on the payroll despite switching to private sector jobs or retiring early/stepping out of the labor force altogether. But come the October jobs report (released November 7), we would expect to see a large decline of ~75K when workers officially roll off the federal payroll.

On the layoff side, we are unaware of official government data tracking the number of federal employees who have been displaced. Given a combination of reporting, agency press releases and the count of "probationary" employees (~200K) who are particularly at risk, our sense is that the decline in federal government employment from layoffs is measured in the tens of thousands. We would be surprised if it were less than 10K, and we would be even more surprised if it were over 100K. Between the hiring freeze and *currently* announced layoffs (though additional dismissals do [appear to be in the pipeline](#)), a decline of federal employment in the realm of 25K-50K spread over the next few months seems reasonable.

There is, of course, significant uncertainty around these numbers, but from what we know now the reductions in the size of the federal workforce will not alter the overall trajectory of the labor market over this year. Even considering the noise and near-term headwinds to job growth, we would stress that federal civilian employment makes up a small portion of total payrolls (1.5%) in the United States. Furthermore, we were already expecting slower hiring and modest upward movement in the unemployment rate this year as labor demand remains tepid and labor force growth slows.

For more detail, including a discussion of pressure to the unemployment rate from the efforts to shrink the size of the federal workforce, see our [full report](#).

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 2/28/2025	1 Week Ago	1 Year Ago
SOFR	4.36	4.33	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.29	4.30	5.39
1-Year Treasury	4.10	4.25	5.03
2-Year Treasury	4.00	4.20	4.64
5-Year Treasury	4.02	4.27	4.26
10-Year Treasury	4.23	4.43	4.26
30-Year Treasury	4.52	4.68	4.40
Bond Buyer Index	4.15	4.25	3.54

Foreign Exchange Rates

	Friday 2/28/2025	1 Week Ago	1 Year Ago
Euro (\$/€)	1.040	1.046	1.081
British Pound (\$/£)	1.259	1.263	1.263
British Pound (£/€)	0.827	0.828	0.856
Japanese Yen (¥/\$)	150.360	149.270	149.980
Canadian Dollar (C\$/)\$)	1.443	1.422	1.358
Swiss Franc (CHF/\$)	0.902	0.898	0.885
Australian Dollar (US\$/A\$)	0.621	0.636	0.650
Mexican Peso (MXN/\$)	20.523	20.423	17.054
Chinese Yuan (CNY/\$)	7.279	7.252	7.189
Indian Rupee (INR/\$)	87.513	86.713	82.914
Brazilian Real (BRL/\$)	5.875	5.731	4.971
U.S. Dollar Index	107.296	106.612	104.156

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

Foreign Interest Rates

	Friday 2/28/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.23	2.25	3.74
3-Month U.K. Govt Bill Yield	4.46	4.45	5.24
3-Month Canadian Govt Bill Yield	2.82	2.87	4.96
3-Month Japanese Govt Bill Yield	0.31	0.30	-0.11
2-Year German Note Yield	2.02	2.11	2.92
2-Year U.K. Note Yield	4.16	4.23	4.34
2-Year Canadian Note Yield	2.57	2.73	4.20
2-Year Japanese Note Yield	0.81	0.82	0.17
10-Year German Bond Yield	2.39	2.47	2.46
10-Year U.K. Bond Yield	4.46	4.57	4.19
10-Year Canadian Bond Yield	2.91	3.11	3.52
10-Year Japanese Bond Yield	1.38	1.43	0.70

Commodity Prices

	Friday 2/28/2025	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	69.63	70.40	78.26
Brent Crude (\$/Barrel)	73.15	74.43	83.62
Gold (\$/Ounce)	2847.94	2936.05	2044.30
Hot-Rolled Steel (\$/S.Ton)	912.00	778.00	795.00
Copper (¢/Pound)	449.45	456.00	383.45
Soybeans (\$/Bushel)	10.18	10.35	11.39
Natural Gas (\$/MMBTU)	3.86	4.23	1.86
Nickel (\$/Metric Ton)	15,658	15,453	17,226
CRB Spot Inds.	562.72	567.46	547.50

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