Economics

WELLS FARGO

Weekly — June 21, 2024

Weekly Economic & Financial Commentary

United States: **Economic Data More Rice & Beans than Steak & Eggs**

- Markets chewed on an array of economic data this week, and what was served was mostly gristle. A weak retail sales print suggests that consumers may finally be feeling some spending fatigue. Markets also received a three-course housing market update which painted the picture of a sector that remains rocked by higher interest rates. Much of the week's disappointing data were concentrated in interest-rate sensitive sectors, and the wider economy remains healthy on balance even as softening becomes increasingly evident.
- Next week: New Home Sales (Wed.), Durable Goods Orders (Thu.), Personal Income & Spending (Fri.)

International: **Global Central Bank Decisions Galore**

- It was a busy week for global central banks. The Reserve Bank of Australia (RBA) held its policy rate at 4.35% and offered hawkish commentary; we have pushed out our forecast for an initial RBA rate cut to February 2025. The Bank of England held rates steady and communicated a more dovish-leaning tone, affirming our outlook for an August rate cut. The Swiss National Bank cut its policy rate by 25 bps, Norway's central bank delivered a hawkish hold, while in emerging markets the Chilean Central Bank opted for a 25 bps rate cut while Brazil's central bank held steady.
- Next week: Canada Inflation (Tue.), Riksbank Policy Rate (Thu.), Banxico Policy Rate (Thu.)

Credit Market Insights: **Households Feeling Greater Squeeze**

- Earlier this month, the New York Fed released May data for its Survey of Consumer Expectations (SCE). While perceptions of financial well-being improved, gauges of credit standards and availability saw no improvement over the month.

Topic of the Week: **CBO Budget Projections Reaffirm Challenged Fiscal Outlook**

- The Congressional Budget Office released an update to its 10-year budget projections this week, reaffirming an already challenged fiscal outlook. CBO boosted its fiscal year 2024 U.S. budget deficit estimate to $1.9 trillion, up from $1.5 trillion in previous projections from February.

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Wells Fargo U.S. Economic Forecast

	Actual 2023				Forecast 2024				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023	2024	2025
Real Gross Domestic Product [1]	2.2	2.1	4.9	3.4	1.3	1.9	1.8	1.5	1.9	2.5	2.3	1.9
Personal Consumption	3.8	0.8	3.1	3.3	2.0	1.9	1.6	1.7	2.5	2.2	2.2	1.8
Consumer Price Index [2]	5.7	4.0	3.6	3.2	3.2	3.3	3.0	3.0	8.0	4.1	3.1	2.6
"Core" Consumer Price Index [2]	5.5	5.2	4.4	4.0	3.8	3.5	3.5	3.5	6.2	4.8	3.6	2.9
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.00	5.25	5.50	5.50	5.50	5.50	5.25	5.00	2.02	5.23	5.31	4.38
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.82	7.00	6.75	6.50	5.38	6.80	6.77	6.09
10 Year Note	3.48	3.81	4.59	3.88	4.20	4.35	4.15	4.00	2.95	3.96	4.18	3.83

Forecast as of: June 14, 2024 [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

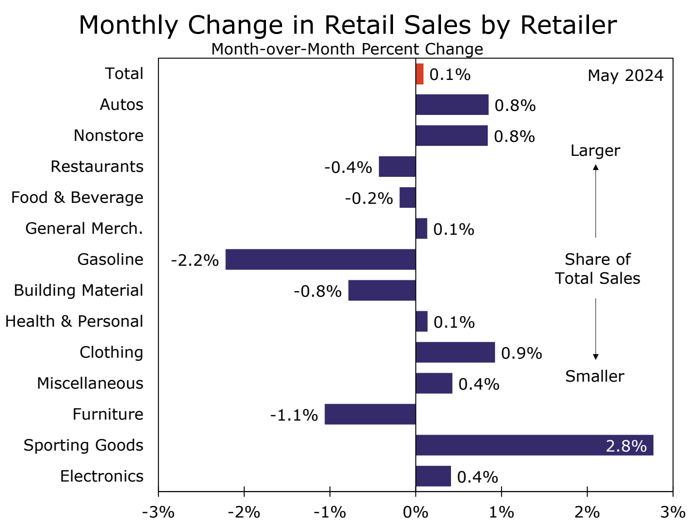
Please see our full U.S. Economic Forecast.

U.S. Review

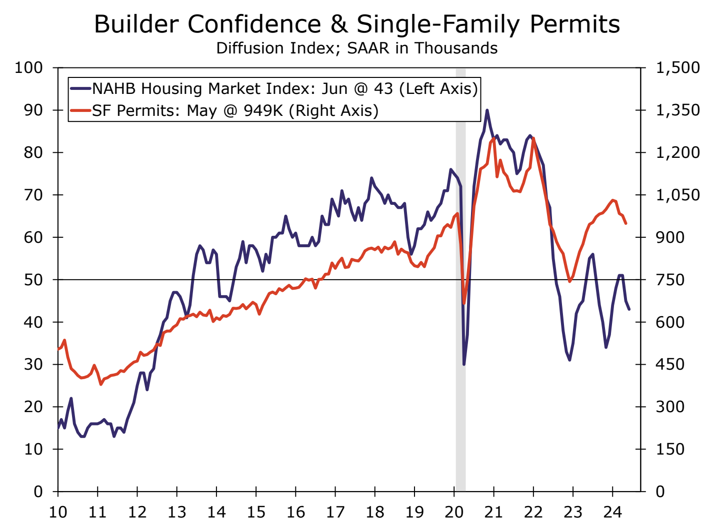
Economic Data More Rice & Beans than Steak & Eggs

Markets chewed on an array of economic data this week, and what was served was mostly gristle. Starting off the week was May retail sales data, which were consistent with a gradual moderation in consumer spending. Retail sales rose just 0.1% over the month, falling short of consensus and suggesting that consumers may finally be feeling some spending fatigue. Downward revisions to past months' data further support this development, but May's print does somewhat overstate consumer weakness. Part of May's weakness can be tied to declining goods prices, meaning "inflation-adjusted" sales were likely higher. On the other hand, consumer spending appears to be turning more selective, as we've seen growth in non-discretionary purchases begin to outpace discretionary. An example of that can be seen in flagging sales for restaurants, indicating softening in the leisure-side of the economy. Consumers are gradually losing their step, but we believe it will take further moderation in the labor market and in income growth to slow the pace of consumption.

A pop in industrial production provided a pleasant palate cleanser, but it came with an asterisk. Industrial production rose 0.9% over the month, besting market expectations. Strength was broad-based with each major sector expanding over the month, but it was a surge in manufacturing output that won the day. Although a favorable development for the industrial sector, it is likely not the beginning of a sustained upswing. High interest rates remain the primary headwind for the sector, and credit conditions remain restrictive overall. Uncertainty surrounding Fed policy, the upcoming U.S. election and the macro trajectory are also curbing capex intentions of many firms. Overall, headwinds in the sector remain prohibitive in the near-term, but future tailwinds stemming from the recent manufacturing construction boom and expected rate cuts later this year provide a source of optimism.



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



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

Markets also received a three-course housing market update with the release of housing starts, existing home sales and builder sentiment data. Weakness was broad-based across indicators as the housing sector remains rocked by higher interest rates. Total housing starts fell 5.5% in May to the slowest annualized pace in four years. The forward-looking permit activity was also soft, suggesting builders have become less optimistic about prospective demand given persistent inflation and the higher-for-longer interest rate environment. To that point, the NAHB Housing Market Index (HMI) fell a further two points in June to 43, the lowest reading since December 2023. Home builders have stepped up their usage of price cuts and incentives to attract buyers, but high mortgage rates and elevated financing costs continue to feed into overall builder pessimism.

Rounding third, existing home sales slipped 0.7% to a 4.11 million-unit pace in May. Tight inventory remains a challenge in the resale market, and the dearth of homes for sale is placing upward pressure on prices. The national median existing home price rose to an all-time high of $419,300 according to the National Association of Realtors. Prospective buyers are facing an affordability battle on two fronts, outflanked by rising home prices and high prevailing mortgage rates. According to the NAR, "the mortgage payment for a typical home today is more than double that of homes purchased before 2020." Rising supply should help bring some relief on the price front, but we do not see a meaningful rebound in home sales until the Fed initiates a rate cutting cycle, which we look for later this year.

The Leading Economic Index continued its long descent, falling 0.5% in May. The LEI is now just a touch above its pandemic low, at odds with an economy that continues to expand. Consumer expectations and the new orders component of the ISM manufacturing index together pulled the LEI's monthly change down 0.4 percentage points. A recent rally in stock prices and an increase in working hours helped soften the blow, but by and large the LEI continues to wave a red flag. Despite this week's parade of disappointing data, much of it was concentrated in interest-rate sensitive sectors, and the wider economy remains healthy on balance even as softening becomes increasingly evident.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
25-Jun	Consumer Confidence	Jun	100.0	100.2	102.0
26-Jun	New Home Sales (SAAR)	May	650K	645K	634K
27-Jun	GDP Annualized (QoQ)	Q1 T	1.4%	1.3%	1.3%
27-Jun	Personal Consumption (QoQ)	Q1 T	—	2.0%	2.0%
27-Jun	Durable Goods Orders (MoM)	May	0.1%	-1.6%	0.6%
27-Jun	Durables Ex Transportation (MoM)	May	0.2%	0.1%	0.4%
28-Jun	Personal Income (MoM)	May	0.4%	0.4%	0.3%
28-Jun	Personal Spending (MoM)	May	0.3%	0.3%	0.2%
28-Jun	PCE Deflator (MoM)	May	0.0%	0.1%	0.3%
28-Jun	PCE Deflator (YoY)	May	2.6%	2.6%	2.7%
28-Jun	Core PCE Deflator (MoM)	May	0.1%	0.2%	0.2%
28-Jun	Core PCE Deflator (YoY)	May	2.6%	2.6%	2.8%

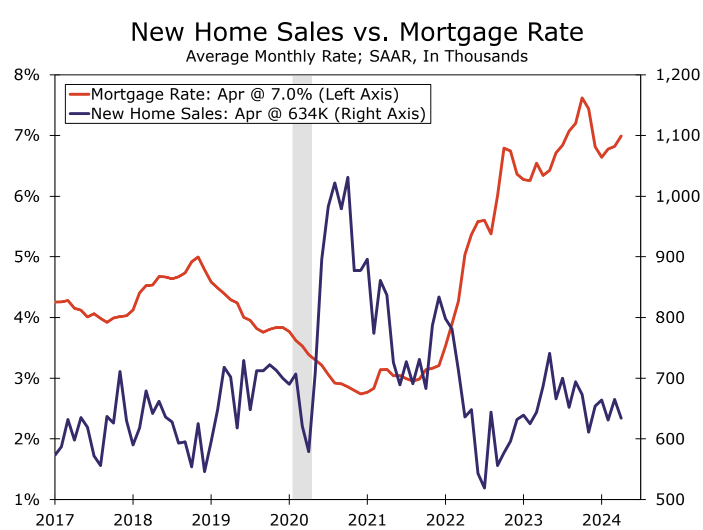
Forecast as of June 21, 2024

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

New Home Sales • Wednesday

Housing demand has stalled so far this year as elevated rates crimp affordability. Sales activity has certainly been sensitive to movement in mortgage rates. We saw new home sales drop nearly 5% in April as the average 30-year fixed mortgage rate approached levels not seen in five months. The move lower in mortgage rate in May likely helped support a modest rebound in sales activity, and we expect sales rose 1.7% last month.

In addition to rates, rising inventories in the resale market are also weighing on new home sales as buyers have more options. That said, builders still have many levers to pull that are likely to support new home sales this year. Although slightly improved, existing home inventories remain historically low, which should continue to push buyers into the new home market where inventories remain plentiful. Builders also appear willing to reduce prices and offer incentives to stabilize demand. Builders surveyed by NAHB stepped up their use of price cuts and mortgage rate buydowns in May, which could potentially help to bring buyers back from the sidelines.



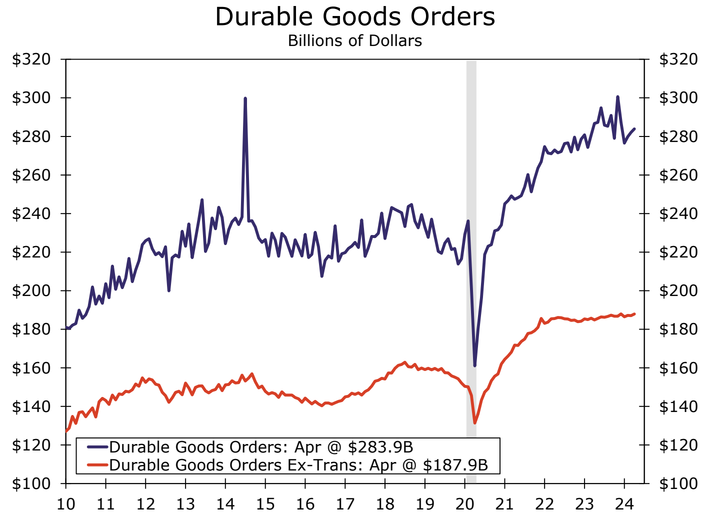
Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics

Durable Goods Orders • Thursday

Business investment spending has stabilized in recent months, yet a sustained recovery likely remains some time away. Orders for new durable goods were up in each of the past three months, yet the level is still off about 1.2% since the start of the year. The transportation sector, specifically aircraft, is certainly causing some disruption, but even when excluding it, orders are still flat this year.

While manufacturing production bounced in May, the second-lowest reading of the year for the ISM manufacturing index demonstrates the sector still faces headwinds. Demand for goods is constrained by restrictive credit conditions and heightened uncertainty around Fed policy, the U.S. presidential election and macro trajectory generally—all of which is curbing the capex intentions of many businesses.

We ultimately expect durable goods orders slipped 1.6% in May, but overall orders were likely somewhat held back by aircraft last month. Separately released data from Boeing showed the company secured just four new gross orders last month, which is well below the historical average of close to 50 new orders placed in the month of May, and a touch softer than the seven new orders placed in April. Excluding transportation, we look for total durable goods orders to post a modest gain of 0.1%.



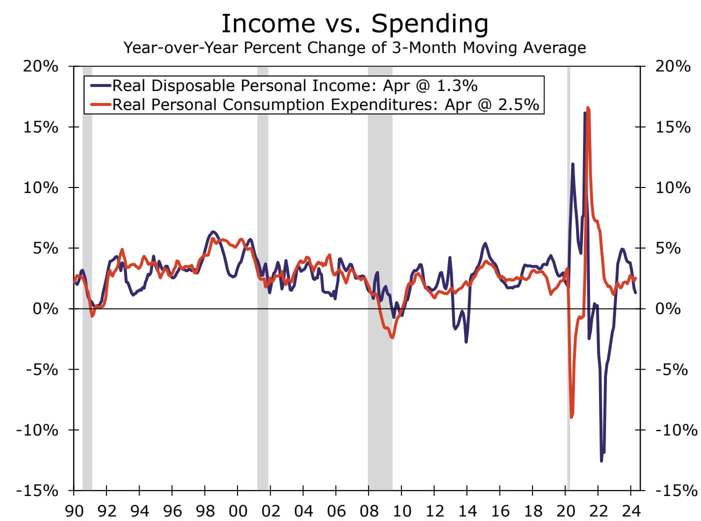
Source: U.S. Department of Commerce and Wells Fargo Economics

Personal Income & Spending • Friday

There are some indications that the unrelenting consumer that characterized the past four years is showing signs of abating. The latest of which being the soft May retail sales data that brought with it downward revisions to prior months' data. But we expect broad real personal spending to advance 0.3% in May. This isn't to say the consumer isn't losing its swagger, but as we noted, part of the retail weakness was attributed to lower prices, and the control group measure of sales, which is a solid indication of broader consumer spending, rose at a decent pace.

Income growth has once again become the primary source of purchasing power for households as the period of extra liquidity and cheap credit is now behind us. Strong hiring and wage growth in May position for a solid gain in income—we forecast personal income rose 0.4% last month, helping to prop up spending. The personal saving rate will thus likely remain anchored close to 3.6% for another month.

The main event in next week's release, however, will likely come from the PCE deflator, the Fed's preferred measure of consumer inflation. Based on the soft May Consumer Price Index and Producer Price Index, we look for the PCE deflator to rise just 0.1% in May, which would translate to a 2.6% annual rate. If realized, this will be another step in the right direction in terms of the fight against inflation, but the Fed will ultimately need to see a bit more progress before it begins to ease policy.



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

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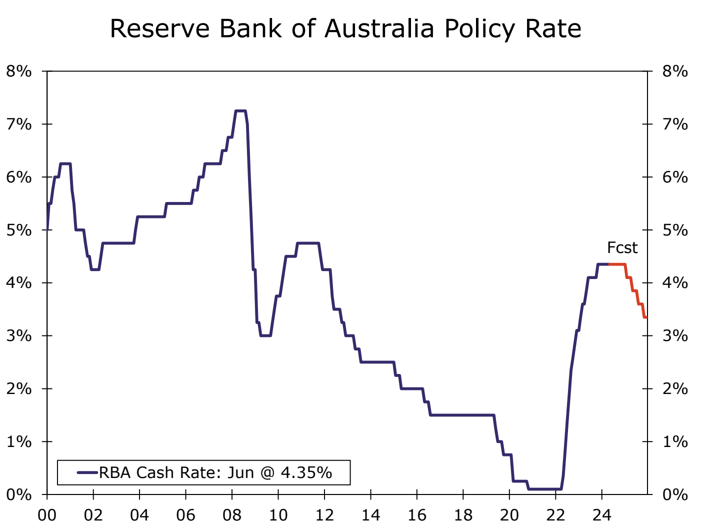
International Review

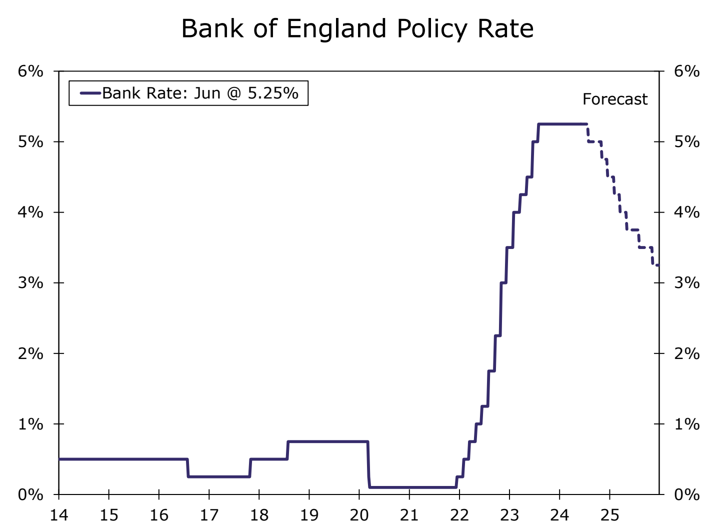
Global Central Bank Decisions Galore

This week marked the release of several monetary policy announcements across G10 and emerging economies. First up, the Reserve Bank of Australia (RBA) held its policy interest rate steady at 4.35% at this week's meeting, and its accompanying statement was generally hawkish in tone as it highlighted ongoing inflation concerns. The RBA said that inflation remains above target and is proving persistent, and that the Board expects that it will be some time yet before inflation returns sustainably to the 2%-3% target range. In terms of recent economic activity, policymakers noted that output growth has been subdued while the labor market, though easing, is still "tighter than is consistent" with on-target inflation. While some recent economic data have been mixed, officials noted that the data "have reinforced the need to remain vigilant to upside risks to inflation." At the conclusion of the statement, policymakers stated that they are "not ruling anything in or out" with respect to the path of the policy rate. In her post-meeting press conference, Governor Michele Bullock reinforced a hawkish-leaning tone, saying that policymakers had discussed the case for a rate hike at this meeting but had not considered a rate cut. While our base case is for the next RBA policy rate change to be a cut rather than a hike, we believe it may be some time before the central bank delivers such a change.

In consideration of the RBA's hawkish leaning stance and our own assessment of economic conditions in Australia, we have pushed back our expected timing for an initial 25 bps RBA rate cut to February 2025, from November 2024 previously. While recent economic growth data have been somewhat underwhelming, the labor market has remained solid. Inflation remains elevated and is decelerating only slowly, and wage growth is also only easing gradually. Taken all together, we doubt policymakers will be in any rush to lower interest rates. As we wrote in a recent report, we now expect the RBA to deliver 25 bps rate cuts once per quarter in 2025 at the February, May, August and November meetings.



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



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

The Bank of England (BoE) also met this week. Policymakers voted 7-2 to maintain the policy rate at 5.25% with two members preferring a 25 bps cut. The accompanying announcement offered a generally dovish-leaning tone, and overall, we believe the BoE is still on course for an initial 25 bps rate cut in August. Officials touched on recent inflation developments, noting that headline CPI inflation for May eased to 2.0% year-over-year, though that it is expected to pick up slightly in the second half of this year due to energy-related base effects. Services inflation has also been top- of mind for BoE policymakers, and while they acknowledged that it was slightly faster than anticipated at 5.7% year-over-year in May, they also pointed out that this strength partly reflects some volatile components. In our view, BoE policymakers appear to be moving closer to a sense of confidence that inflation will sustainably return to the 2% target in the medium term. We maintain our base case for an initial 25 bps BoE rate cut in August, and it seems that market participants are increasingly looking for an August rate move as well. Expectations for such a move have nearly doubled since the BoE decision.

Beyond August, we believe that BoE policymakers will take a cautious approach to monetary easing due to still-elevated services inflation and wage growth.

In other advanced economy central bank news, the Swiss National Bank (SNB) lowered its policy rate by 25 bps this week to 1.25% and highlighted the continued slowdown in underlying inflationary pressures. Policymakers noted that headline inflation has risen slightly in recent months, though at 1.4% year-over-year in May, is still within the SNB's target range (positive price growth that is below 2% per year). The SNB also offered updated inflation forecasts. The central bank's forecasts for inflation in 2024, 2025 and 2026 were each revised down slightly to 1.3%, 1.1% and 1.0%. respectively. The statement also noted that Swiss GDP growth is expected to remain moderate in the coming quarters and to improve gradually over the medium term. We maintain our view for the favorable inflationary environment in the Swiss economy to prompt SNB policymakers to deliver another 25 bps rate cut to 1.00% in September. Elsewhere on the more hawkish side, Norway's central bank, the Norges Bank, held its policy rate steady at 4.50% this week and stated that “if the economy evolves as we currently envisage, we will keep the policy rate at 4.5 percent to the end of the year before a gradual easing of monetary policy can begin.” Norges Bank policymakers remain firmly committed to the continuing fight against lingering inflationary pressures from growth in services prices and wages.

In terms of emerging market central banks, the Chilean Central Bank (BCCh) further slowed its pace of monetary easing with the delivery of a 25 bps policy rate cut to 5.75%. BCCh policymakers left the door open to further rate cuts this year, though it signaled that the second half of this year may bring about a smaller magnitude of rate cuts than the amount seen in the first half of 2024. We expect a gradual pace of BCCh rate cuts throughout the rest of 2024 before a policy rate pause beginning in Q4-2024. The Brazilian Central Bank (BCB) held its policy rate steady at 10.50% and cited resilient economic activity, an increase in the central bank's inflation projections and deanchored expectations as reasons behind the extended pause in the monetary easing cycle. We maintain our view for no more BCB rate cuts through Q3-2025 in light of concerns around inflation, slippage in the government's fiscal discipline and local currency weakness.

In other economic news this week, China's economic activity data for May painted a mixed picture. Industrial production surprised to the downside, growing only 5.6% year-over-year after expanding 6.7% in April. On the other hand, retail sales surpassed consensus expectations, growing 3.7% after April's 2.3%. However, the several-days-long May Day holiday at the start of the month may have boosted the retail sales figure. With incoming activity and sentiment data remaining mixed, we continue to look for a slowing in Chinese growth as the year progresses.We expect China's economy to grow 5.1% in 2024 before slowing to 4.3% growth in 2025.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
25-Jun	Canada CPI Inflation (YoY)	May	2.6%	–	2.7%
27-Jun	Riksbank Policy Rate	27-Jun	3.75%	3.75%	3.75%
27-Jun	Banxico Policy Rate	27-Jun	11.00%	11.00%	11.00%

Forecast as of June 21, 2024

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

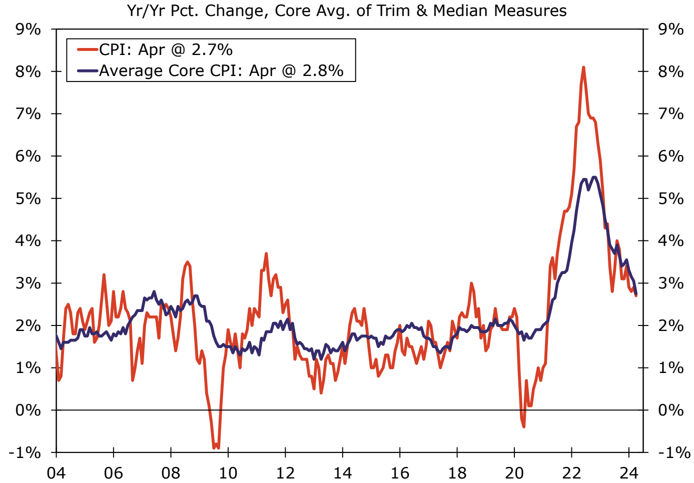
Canada Inflation • Tuesday

Next week will mark the release of Canadian inflation data for May. Consensus economists expect headline inflation growth slowed further to 2.6% year-over-year and that the average of core measures of inflation also continued to ease, to 2.7%.

Well-behaved inflation data in recent months prompted the Bank of Canada (BoC) to deliver an initial 25 bps policy rate cut to 4.75% in early June, and if inflation continues to slow, we expect the BoC to also lower its policy rate by 25 bps in July. In its early June monetary policy announcement, the BoC highlighted a general trend of a slowing in headline and underlying price pressures. Policymakers agreed that it was appropriate to lower the policy rate thanks to continued evidence that underlying inflation is easing. In our view, as long as this trend continues, we expect the BoC to deliver further 25 bps cuts to the policy rate in July, September and October. If next week's inflation data deliver a meaningful upside surprise, this could increase the risk that the BoC takes a more gradual approach to monetary easing and opts to pause at either the September or October meeting.

Canadian Inflation

Yr/Yr Pct. Change, Core Avg. of Trim & Median Measures



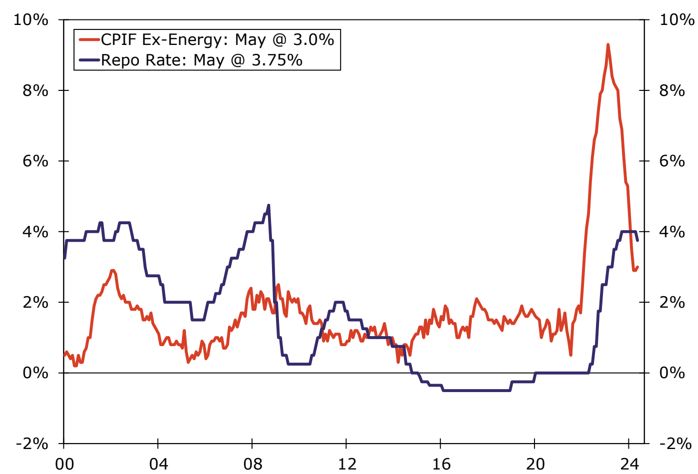
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Riksbank Policy Rate • Thursday

Sweden's central bank, the Riksbank, will deliver its monetary policy decision next week. We, as well as consensus economists, believe the central bank will opt to hold rates steady at 3.75%, marking a pause in the easing cycle it began in early May with an initial 25 bps rate cut. This meeting will also mark the release of the Riksbank's updated economic projections, which market participants will eagerly scrutinize for any potential insights into the future path of the policy rate. Market participants will also be focused on forward guidance from the Riksbank; in the previous May statement, policymakers noted that, so long as the inflation outlook remains well-behaved, they expect to cut the policy rate two more times during the second half of the year.

In our view, recent inflation data in Sweden have been consistent with our outlook for the Riksbank to deliver a rate pause in June, though we do expect three more 25 bps policy rate cuts in 2024 as opposed to the Riksbank's previously signaled two. Since their latest meeting, inflation data have been somewhat mixed. Year-over-year CPIF inflation picked up by less than expected in April, to 2.3%, but surprised to the upside in May, holding steady at 2.3%. CPIF excluding energy inflation also followed a similar pattern of surprising to the downside in April, then to the upside in May. While this mix of inflation data would support a gradual approach to monetary easing in the near term—with our outlook for a June pause and one 25 bps cut in Q3—we believe that as inflation converges closer to target later this year, the Riksbank can deliver two more 25 bps rate cuts in Q4.

Swedish Policy Rate vs. CPIF Ex-Energy 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. We expect Banxico to hold its policy rate steady at 11.00% amid lingering inflation concerns, a weaker Mexican peso and policy uncertainty following the results of the early June election. Market participants will be closely scrutinizing the statement and inflation projections for insight into the potential future path of policy rate cuts.

We believe that this combination of inflation concerns, a weaker local currency and policy uncertainty will put Banxico on hold from further rate cuts until Q4-2024. In Banxico's latest monetary policy announcement for May, policymakers noted that the risks to the inflation outlook remained biased to the upside and lifted its inflation forecasts through Q3-2025. Lingering concerns around the inflation outlook is somewhat warranted, in our view. While headline and core inflation surprised to the downside in May, both measures remain elevated at 4.69% and 4.21% year-over-year, respectively. We also believe that policy uncertainty following the early June election—in which president-elect Claudia Sheinbaum's Morena party secured an effective congressional supermajority—will reinforce the case for Banxico caution. The currency has weakened roughly 4% since the early June election and almost 8% year-to-date against the U.S. dollar, potentially adding to inflationary pressures. A weaker peso, in our view, is yet another reason for Banxico to take a cautious approach to monetary policy easing.

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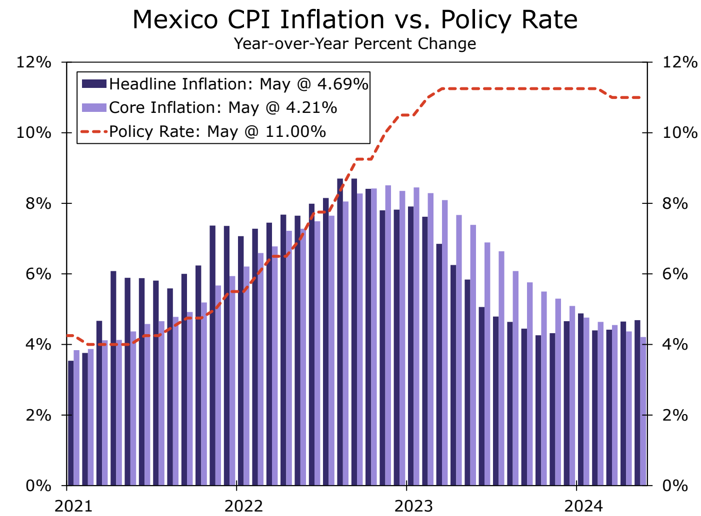


Source: Bloomberg Finance L.P. and Wells Fargo Economics

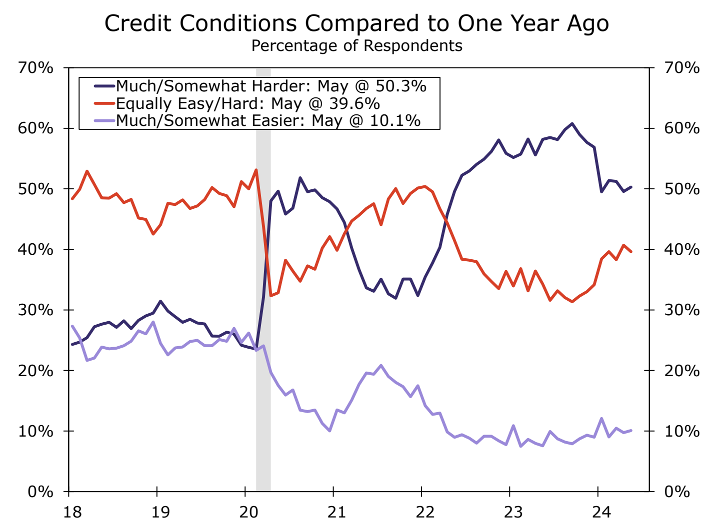
Credit Market Insights

Households Feeling Greater Squeeze

Earlier this month, the New York Fed released May data for its Survey of Consumer Expectations (SCE). Overall, the data were a mixed bag. Perceptions about households' current and future financial situations improved: a smaller share of participants reported being worse off compared to a year ago, and 78.1% of respondents expected to be financially the same or better off a year from now, the highest share since June 2021. When households were asked about the likelihood of missing a minimum debt payment over the next three months, the average probability fell to 12%, a level comparable to those seen before the pandemic.

While perceptions of financial well-being improved, gauges of credit standards and availability saw no improvement over the month. The share of households reporting tighter credit conditions has steadily climbed in the post-pandemic era (chart). From 2013-2019, an average of roughly 34% of participants reported credit being much or somewhat harder to access compared to a year ago. In May, that share stood at 50%. A similar trend can be seen in expectations for future credit accessibility: before the pandemic, an average of approximately 34% of participants expected credit conditions to be tighter in 12 months, whereas the share in May stood at 45%.

The SCE results are underpinned by recent data that show greater financial strain among consumers. This week, retail sales came in weaker than expected. The softer pace of growth, combined with downward revisions to the prior month's data, point to a slightly weaker spending environment in the second quarter (for more information, see Domestic Review). The uptake in revolving credit has slowed recently, and we have seen a rise in delinquencies, suggesting households may be beginning to exhaust their borrowing capacity. Indeed, data from the Federal Reserve Board's quarterly Flow of Funds release showed that the level of consumer credit rose only 2% over the year in the first quarter of 2024, which is the slowest growth since January 2021. Additionally, non-discretionary purchases have begun to outpace discretionary purchases in an indication of a more choosy consumer. In short, the slower growth in consumer credit, gradual moderation in consumer spending and increased consumer pessimism point to signs of greater financial stress.



Source: Federal Reserve Bank of New York and Wells Fargo Economics

We do not anticipate households' expectations for credit conditions to improve in the near future. Recent data have shown diminished demand for goods, iffy confidence and rising delinquency rates, suggesting that the long and variable lag of monetary policy may be affecting the consumer at last. We expect the Federal Open Market Committee to begin reducing the federal funds rate before the year is out, with our base case looking for a 25 bps rate cut in September and December. Until then, households are likely to experience greater financial strain and worsening perceptions about credit conditions.

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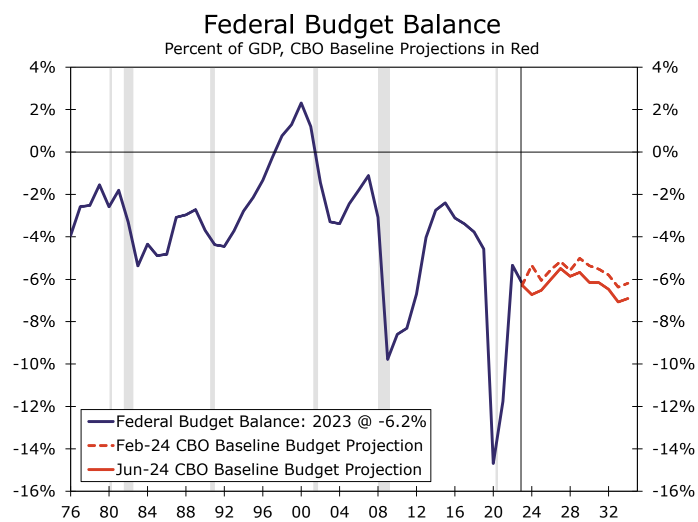
Topic of the Week

CBO Budget Projections Reaffirm Challenged Fiscal Outlook

The Congressional Budget Office (CBO) released an update to its 10-year budget projections this week, reaffirming an already challenged fiscal outlook. In the short term, CBO boosted its fiscal year 2024 U.S. budget deficit estimate to $1.9 trillion, up from $1.5 trillion in CBO's previous projections from February. The increase in the 2024 deficit forecast was larger than anticipated, with about $145B in student loan forgiveness and program changes, slower recovery of FDIC payments made during the bank failures of 2023 and 2024 and a faster pace of distribution of fiscal aid to Israel, Ukraine and Indo-Pacific countries driving a majority of the forecast revisions. As a share of GDP, these projections increased outlays by an additional one percentage point of GDP compared to the February projections, while projections for revenue decreased by an additional 0.34 percentage points of GDP compared to previous projections. The result is that, in the short-term, the June estimate for the federal budget deficit as a share of GDP has now increased almost 1.4 percentage points since the February estimates, to -6.7% from -5.3%.

The 10-year outlook also appears to be further challenged. While the largest revisions to outlays were for 2024, every individual year between 2024 and 2034 also received boosted projections for outlays. The increased outlays are now $983 billion higher from 2025 to 2029 and $1.2 trillion higher from 2030 to 2034. Revenue projections increased by $219 billion from 2025 to 2029 and declined by $53 billion from 2030 to 2034. If CBO's projections prove correct, the federal budget deficit will be 5.5% of GDP or larger throughout the entire next decade. The federal budget deficit has never been this large for this long. Over the last 50 years, the next highest number of consecutive years when the deficit was larger than 5.5% was from 2009 to 2012 during the Great Recession.



Source: Congressional Budget Office, U.S. Department of Commerce, U.S. Department of the Treasury and Wells Fargo Economics

This comes at a time when revenues as a share of GDP are roughly in line with their long-term historical average, with net receipts at 16.5% of GDP through 2023 compared to an average annual share of 16.8% during the two decades between 2000 and 2019. Spending, in contrast, has increased at a rapid clip in recent years. Net outlays were 22.7% of GDP through 2023. Though a significant drop off in spending from the annual averages of about 30% that prevailed during the immediate onset of the pandemic, the recent pace of outlays is still well above the long run 20.3% annual average that prevailed during the first two decades of the millennium. With the forecast for outlays further increasing, the June CBO projections released this week served to reaffirm the outlook of large imbalances between revenues and outlays.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 6/21/2024	1 Week Ago	1 Year Ago
SOFR	5.32	5.31	5.05
Effective Fed Funds Rate	5.33	5.33	5.07
3-Month T-Bill	5.36	5.38	5.28
1-Year Treasury	5.02	4.98	5.00
2-Year Treasury	4.74	4.70	4.72
5-Year Treasury	4.28	4.24	3.96
10-Year Treasury	4.27	4.22	3.72
30-Year Treasury	4.41	4.35	3.81
Bond Buyer Index	3.90	3.94	3.65

Foreign Exchange Rates

	Friday 6/21/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.068	1.070	1.099
British Pound ($/£)	1.263	1.269	1.277
British Pound (£/€)	0.846	0.844	0.860
Japanese Yen (¥/$)	159.520	157.400	141.880
Canadian Dollar (C$/$)	1.370	1.373	1.316
Swiss Franc (CHF/$)	0.894	0.891	0.893
Australian Dollar (US$/A$)	0.664	0.662	0.680
Mexican Peso (MXN/$)	18.206	18.461	17.120
Chinese Yuan (CNY/$)	7.261	7.256	7.179
Indian Rupee (INR/$)	83.540	83.561	82.035
Brazilian Real (BRL/$)	5.442	5.376	4.764
U.S. Dollar Index	105.852	105.196	102.071

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

Foreign Interest Rates

	Friday 6/21/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.34	3.51	3.28
3-Month U.K. Govt Bill Yield	5.22	5.24	3.89
3-Month Canadian Govt Bill Yield	4.63	4.66	4.90
3-Month Japanese Govt Bill Yield	0.02	0.02	-0.12
2-Year German Note Yield	2.79	2.76	3.13
2-Year U.K. Note Yield	4.17	4.17	5.05
2-Year Canadian Note Yield	3.91	3.84	4.64
2-Year Japanese Note Yield	0.31	0.31	-0.07
10-Year German Bond Yield	2.41	2.36	2.44
10-Year U.K. Bond Yield	4.08	4.06	4.41
10-Year Canadian Bond Yield	3.36	3.28	3.39
10-Year Japanese Bond Yield	0.98	0.94	0.38

Commodity Prices

	Friday 6/21/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	81.68	78.62	72.53
Brent Crude ($/Barrel)	86.13	82.62	77.12
Gold ($/Ounce)	2330.89	2333.04	1932.55
Hot-Rolled Steel ($/S.Ton)	721.00	735.00	912.00
Copper (¢/Pound)	444.60	448.15	391.35
Soybeans ($/Bushel)	11.63	11.87	14.90
Natural Gas ($/MMBTU)	2.71	2.96	2.60
Nickel ($/Metric Ton)	17,164	17,396	21,919
CRB Spot Inds.	553.99	552.45	552.53

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